Chapter 2

The Balance Sheet

ANSWERS TO QUESTIONS

1. (a) An asset is a resource owned by a company that has measurable value and is expected to provide future benefits.

1. A current asset is an asset that will be used up or turned into cash within the next 12 months.
2. A liability is a debt or obligation arising from past transactions or events, which the company is likely to pay, settle, or fulfill by sacrificing resources in the future.
3. A current liability is a debt or obligation that will be paid, settled, or fulfilled within one year.
4. Contributed Capital includes the amount of financing (cash and sometimes other assets) provided to the company by shareholders in exchange for shares.
5. Retained earnings are the cumulative earnings of a company that are not distributed to the owners and instead are reinvested in the business.

2. A transaction is an exchange or event that has a direct and measurable financial effect on the assets, liabilities, or shareholders’ equity of a business. Transactions include two different types of events: (1) external exchanges and (2) internal events. The first situation (1) is exemplified by the sale of goods or services to customers. The second situation (2) is exemplified by the company using up the benefits of assets owned by the company such as equipment.

3. Accounts are used to accumulate and report the effects of different business activities. Accounts are necessary to keep track of all increases and decreases in the basic accounting equation.

4. The basic accounting equation is: Assets = Liabilities + Shareholders’ Equity.

5. Debit is the left side of a T-account and credit is the right side of a T-account. A debit is an increase in assets or a decrease in liabilities or shareholders’ equity. A credit is the opposite – a decrease in assets or an increase in liabilities or shareholders’ equity.

6. Transaction analysis is the process of studying a transaction to determine its financial effect on the business in terms of the basic accounting equation:

##### Assets = Liabilities + Shareholders’ Equity

The two principles underlying the process are:

\* Duality of effects: every transaction affects at least two accounts.

\* A=L+SE; the accounting equation must remain in balance after each

transaction.

7. The accounting equalities in transaction analysis are:

(a) Assets = Liabilities + Shareholders’ Equity

(b) Debits = Credits

8. A journal entry is a method for expressing the effects of a transaction on accounts in a debits equal credits format. The title of the account(s) to be debited is (are) listed first. The title of the account(s) to be credited is (are) listed underneath the debited accounts and both account title(s) and amount(s) are indented to the right.

9. T-accounts are a simplified version of the ledger, which summarizes transaction effects for each account. T-accounts show increases on the left (debit) side for assets, which are on the left side of the accounting equation. T-accounts show increases on the right (credit) side for liabilities and shareholders’ equity, which are on the right side of the accounting equation. The T-account is a tool for summarizing transaction effects for each account and determining balances.

10. The cost principle requires that assets and liabilities be recorded at their original cost to the company.

11. Because the customer list was not purchased by her salon (it was developed internally), her salon does not report it on the balance sheet. Knowing this, she should be sure to advise her banker that the salon has established a loyal group of customers that holds considerable value for generating future revenues (but is excluded from the balance sheet for accounting reasons).

12. Transaction analysis is expected to be relatively more important under IFRS than ASPE. IFRS have fewer detailed rules, which increases the importance of analyzing transactions to determine their appropriate treatment. However ASPE is also principle based and therefore transaction analysis should not be ignored when using ASPE.

**Authors' Recommended Solution Time**

**(Time in minutes)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Mini-exercises* | | *Exercises* | | Problems | | *Skills Development Cases\** | | *Continuing*  *Case* |
| *No.* | *Time* | *No.* | *Time* | *No.* | *Time* | *No.* | *Time* | *No. Time* |
| 1 | 3 | 1 | 6 | CP2-1 | 45 | 1 | 15 | 1 30 |
| 2 | 3 | 2 | 10 | CP2-2 | 50 | 2 | 15 |  |
| 3 | 3 | 3 | 5 | CP2-3 | 50 | 3 | 45 |  |
| 4 | 3 | 4 | 5 | PA2-1 | 45 | 4 | 20 |  |
| 5 | 4 | 5 | 3 | PA2-2 | 50 | 5 | 20 |  |
| 6 | 4 | 6 | 5 | PA2-3 | 45 | 6 | 10 |  |
| 7 | 3 | 7 | 3 | PA2-4 | 50 | 7 | 35 |  |
| 8 | 3 | 8 | 10 | PA2-5 | 50 |  |  |  |
| 9 | 5 | 9 | 20 | PB2-1 | 45 |  |  |  |
| 10 | 6 | 10 | 15 | PB2-2 | 50 |  |  |  |
| 11 | 6 | 11 | 25 | PB2-3 | 45 |  |  |  |
| 12 | 6 | 12 | 15 | PB2-4 | 50 |  |  |  |
| 13 | 6 | 13 | 25 | PB2-5 | 50 |  |  |  |
| 14 | 6 | 14 | 10 |  |  |  |  |  |
| 15 | 6 | 15 | 15 |  |  |  |  |  |
| 16 | 6 | 16 | 25 |  |  |  |  |  |
| 17 | 6 |  |  |  |  |  |  |  |
| 18 | 6 |  |  |  |  |  |  |  |
| 19 | 6 |  |  |  |  |  |  |  |
| 20 | 6 |  |  |  |  |  |  |  |
| 21 | 15 |  |  |  |  |  |  |  |
| 22 | 10 |  |  |  |  |  |  |  |
| 23 | 3 |  |  |  |  |  |  |  |
| 24  25 | 8  ~~8~~ |  |  |  |  |  |  |  |

\* Due to the nature of cases, it is very difficult to estimate the amount of time students will need to complete them. As with any open-ended project, it is possible for students to devote a large amount of time to these assignments. While students often benefit from the extra effort, we find that some become frustrated by the perceived difficulty of the task. You can reduce student frustration and anxiety by making your expectations clear, and by offering suggestions (about how to research topics or what companies to select). The skills developed by these cases are indicated below.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Case | Financial Analysis | Research | Ethical Reasoning | Critical Thinking | Technology | Writing | Teamwork |
| 1 | x |  |  |  |  |  |  |
| 2 | x |  |  |  |  |  |  |
| 3 | x | x |  |  | x | x | x |
| 4 | x |  | x | x |  |  |  |
| 5 | x |  | x | x |  | x |  |
| 6 | x |  |  | x |  |  |  |
| 7 | x |  |  |  | x |  |  |

ANSWERS TO MINI-EXERCISES

**M2-1**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Debit |  | **Credit** |
| **Assets** | Increases |  | *Decreases* |
| **Liabilities** | *Decreases* |  | *Increases* |
| **Shareholders’ Equity** | *Decreases* |  | *Increases* |

**M2-2**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Increase |  | **Decrease** |
| **Assets** | Debit |  | *Credit* |
| **Liabilities** | *Credit* |  | *Debit* |
| **Shareholders’ Equity** | *Credit* |  | *Debit* |

**M2-3**

1. Journal Entry D

2. A = L + SE; Debit = Credits C

3. Transaction A

4. Liabilities I

5. Assets F

6. Income statement, balance sheet,

statement of retained earnings, and

statement of cash flows B

**M2-4**

1. Wages payable CL

2. Accounts Payable CL

3. Accounts Receivable CA

4. Buildings NCA

5. Cash CA

6. Contributed Capital SE

7. Land NCA

8. Income taxes payable CL

9. Equipment NCA

10. Notes Payable (due in 6 months) CL

11. Retained Earnings SE

12. Supplies CA

13. Utilities Payable CL

**M2-5**

|  |  |  |
| --- | --- | --- |
|  | Req. 1 Req. 2 | |
|  | Category | Normal Balance |
| 1. Accounts Receivable | CA | Debit |
| 2. Short-term Bank Loan | CL | Credit |
| 3. Contributed Capital | SE | Credit |
| 4. Long-term Debt | NCL | Credit |
| 5. Income Taxes Payable | CL | Credit |
| 6. Property, Plant, and Equipment | NCA | Debit |
| 7. Retained Earnings | SE | Credit |
| 8. Accounts Payable | CL | Credit |
| 9. Cash | CA | Debit |

**M2-6**

|  |  |  |
| --- | --- | --- |
|  | Req.1 Req.2 | |
|  | Category | Normal Balance |
| 1. Accrued Liabilities | CL | Credit |
| 2. Prepaid rent | CA | Debit |
| 3. Cash | CA | Debit |
| 4. Contributed Capital | SE | Credit |
| 5. Long-Term Debt | NCL | Credit |
| 6. Property and Equipment | NCA | Debit |
| 7. Retained Earnings | SE | Credit |
| 8. Accounts Payable | CL | Credit |

**M2-7**

1. Yes
2. No – This is a transaction of the shareholder, not the company.
3. Yes
4. No – This is just an exchange of promises, nothing to record at this point.
5. No – This is a personal transaction of the shareholder and not of the company.
6. Yes

**M2-8**

1. Yes
2. Yes
3. No – This event involves only a written promise to rent the store space. No exchange of cash, goods, or services has occurred.
4. Yes
5. No

**M2-9**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | **=** | **Liabilities** | | **+** | **Shareholders’ Equity** | |
| a. | Cash | +3,940 |  | Notes Payable | +3,940 |  |  |  |
| b. | Cash | +4,630 |  |  |  |  | Contributed Capital | +4,630 |
| c. | Cash  Equipment | –190  +920 |  | Notes Payable | +730 |  |  |  |
| d. | Cash  Supplies | –372  +372 |  |  |  |  |  |  |
| e. | Supplies | +700 |  | Accounts Payable | +700 |  |  |  |

**M2-10**

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Cash (+A) | 3,940 |  |
|  | *cr* Notes Payable (+L) |  | 3,940 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 4,630 |  |
|  | *cr* Contributed Capital (+SE) |  | 4,630 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Equipment (+A) | 920 |  |
|  | *cr* Cash (−A) |  | 190 |
|  | *cr* Notes Payable (+L) |  | 730 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Supplies (+A) | 372 |  |
|  | *cr* Cash (−A) |  | 372 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Supplies (+A) | 700 |  |
|  | *cr* Accounts Payable (+L) |  | 700 |

**M2-11**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash (A)** | | | |  | **Supplies (A)** | | | |  | **Equipment (A)** | | | |
| (a) | 3,940 | 190 | (c) |  | (d) | 372 |  |  |  | (c) | 920 |  |  |
| (b) | 4,630 | 372 | (d) |  | (e) | 700 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 8,008 |  |  |  |  | 1,072 |  |  |  |  | 920 |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable (L)** | | | |  | **Notes Payable (L)** | | | |  | **Contributed Capital (SE)** | | | |
|  |  | 700 | (e) |  |  |  | 3,940 | (a) |  |  |  | 4,630 | (b) |
|  |  |  |  |  |  |  | 730 | (c) |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 700 |  |  |  |  | 4,670 |  |  |  |  | 4,630 |  |

**M2-12**

Spotlighter Inc.

Balance Sheet

At January 31

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Assets* |  |  | Liabilities |  |
| *Current Assets:* |  |  | *Current Liabilities:* |  |
| Cash | $ 8,008 |  | Accounts Payable | $ 700 |
| Supplies | 1,072 |  | Notes Payable | 4,670 |
| *Total Current Assets* | 9,080 |  | Total Current Liabilities | 5,370 |
|  |  |  | *Shareholders’ Equity* |  |
| Equipment | 920 |  | Contributed Capital | 4,630 |
| Total Assets | $ 10,000 |  | Total Liabilities & Shareholders’ Equity | $10,000 |

**M2-13**

a.

*dr* Cash (+A) 70,000

*cr* Contributed Capital (+SE) 70,000

b.

*dr* Land (+A) 60,000

*cr* Cash (-A) 60,000

c.

*dr* Supplies (+A) 9,000

*cr* Accounts Payable (+L) 9,000

d.

*dr* Cash (+A) 25,000

*cr* Note Payable (long-term) (+L) 25,000

e.

No transaction

**M2-14**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | **=** | **Liabilities** | | **+** | **Shareholders' Equity** | | |
| (a | Cash | + 70,000 |  |  |  | | Contributed  Capital + 70,000 | | |
| (b) | Cash | - 60,000 |  |  |  | |  |  |  |
|  | Land | + 60,000 |  |  |  | |  |  |  |
| (c) | Supplies | + 9,000 |  | Accounts Payable | + 9,000 | |  |  |  |
| (d) | Cash | + 25,000 |  | Note Payable | + 25,000 | |  |  |  |
| (e) | No transaction | |  |  |  | |  |  |  |
|  |  | 104,000 |  |  | 34,000 | |  | 70,000 | |

**M2-15**

a.

*dr* Equipment (+A) 4,000

*cr* Cash (-A) 4,000

b.

*dr* Books (+A) 7,000

*cr* Accounts Payable (+L) 7,000

c.

*dr* Cash (+A) 4,000

*cr* Note Payable (short-term) (+L) 4,000

d.

*dr* Accounts Payable (-L) 1,500

*cr* Cash (-A) 1,500

e.

*dr* Note Payable (short-term) (-L) 4,000

*cr* Cash (-A) 4,000

**M2-16**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | **=** | **Liabilities** | | **+** | **Shareholders' Equity** | |
| (a) | Cash | - 4,000 |  |  |  |  |  |  |
|  | Equipment | + 4,000 |  |  |  |  |  |  |
| (b) | Books | + 7,000 |  | Accounts Payable | + 7,000 |  |  |  |
| (c) | Cash | + 4,000 |  | Note Payable | + 4,000 |  |  |  |
| (d) | Cash | - 1,500 |  | Accounts Payable | - 1,500 |  |  |  |
| (e) | Cash | - 4,000 |  | Note Payable | - 4,000 |  |  |  |
|  |  | 5,500 |  |  | 5,500 |  |  |  |

**M2-17**

a.

*dr* Equipment (+A) 12,000

*cr* Accounts Payable (+L) 12,000

b.

*dr* Accounts Payable (-L) 6,000

*cr* Cash (-A) 6,000

c.

*dr* Cash (+A) 400

*cr* Accounts Receivable (-A) 400

d.

*dr* Cash (+A) 15,000

*cr* Contributed Capital (+SE) 15,000

e.

*dr* Equipment (+A) 60,000

*cr* Cash (-A) 10,000

*cr* Note Payable (+L) 50,000

**M2-18**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | **=** | **Liabilities** | | **+** | **Shareholders' Equity** | |
| (a) | Equipment | + 12,000 |  | Accounts Payable | + 12,000 |  |  |  |
| (b) | Cash | - 6,000 |  | Accounts Payable | - 6,000 |  |  |  |
| (c) | Cash | + 400 |  |  |  |  |  |  |
|  | Accounts Receivable | - 400 |  |  |  |  |  |  |
| (d) | Cash | + 15,000 |  |  |  |  | Contributed Capital | + 15,000 |
| (e) | Cash | - 10,000 |  | Note Payable | + 50,000 |  |  |  |
|  | Equipment | + 60,000 |  |  |  |  |  |  |
|  |  | + 71,000 |  |  | + 56,000 |  |  | + 15,000 |

**M2-19**

a.

*dr* Cash (+A) 50

*cr* Accounts Receivable (-A) 50

b.

No transaction

c.

*dr* Accounts Payable (-L) 2,000

*cr* Cash (-A) 2,000

d.

*dr* Note Payable (short-term) (-L) 5,000

*cr* Cash (-A) 5,000

e.

*dr* Equipment (+A) 2,200

*cr* Cash (-A) 1,000

*cr* Note Payable (short-term) (+L) 1,200

**M2-20**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **Assets** | | **=** | **Liabilities** | | **+** | **Shareholders' Equity** | |
| (a) | Cash | + 50 |  |  |  |  |  |
|  | Accounts Receivable | - 50 |  |  |  |  |  |
| (b) | No transaction |  |  |  |  |  |  |
| (c) | Cash | - 2,000 |  | Accounts Payable | - 2,000 |  |  |
| (d) | Cash | - 5,000 |  | Note Payable (short-term) | - 5,000 |  |  |
| (e) | Cash | - 1,000 |  | Note Payable | +1,200 |  |  |
|  | Equipment | + 2,200 |  | (short-term) |  |  |  |
|  |  | - 5,800 |  |  | - 5,800 |  |  |

**M2-21**

Charlie’s Crispy Chicken

Balance Sheet

At September 30, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets |  |  | Liabilities |  |
| Current Assets |  |  | Current Liabilities |  |
| Cash | $ 1,800 |  | Accounts Payable | $ 2,000 |
| Food Ingredients | 400 |  | Wages Payable | 200 |
| Kitchen Supplies | 1,400 |  | Utilities Payable | 300 |
| Total Current Assets | 3,600 |  | Total Current Liabilities | 2,500 |
|  |  |  | Bank Loan Payable | 10,000 |
|  |  |  | Note Payable | 15,000 |
|  |  |  | Total Liabilities | 27,500 |
| Restaurant Booths | 25,000 |  |  |  |
| Kitchen Equipment | 13,000 |  | Shareholders’ Equity |  |
| Land | 8,900 |  | Contributed Capital | 20,000 |
|  |  |  | Retained Earnings | 3,000 |
|  |  |  | Total Shareholders’ Equity | 23,000 |
| Total Assets | $ 50,500 |  | Total Liabilities & Shareholders’ Equity | $50,500 |

CCC’s current ratio ($3,600/$2,500 = 1.44) suggests the company has enough current assets that could be converted into cash to cover its current liabilities. At September 30, CCC had $1.44 of current assets for each dollar of current liabilities.

**M2-22**

Req. 1

KNIGHT Entertainments Resorts, Inc.

Balance Sheet

At September 30, 2017

(in thousands)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 88,761 |  | Accounts Payable | $ 58,462 |
| Accounts Receivable | 56,777 |  | Salaries Payable | 22,082 |
| Other Current Assets | 283,692 |  | Other Current Liabilities | 115,663 |
| *Total Current Assets* | 429,230 |  | Total Current Liabilities | 196,207 |
|  |  |  | Long-term Note Payable | 1,835,192 |
|  |  |  | Total Liabilities | 2,031,399 |
|  |  |  |  |  |
|  |  |  | Shareholders’ Equity |  |
| Property and Equipment | 1,647,050 |  | Contributed Capital | 32 |
|  |  |  | Retained Earnings | 44,849 |
|  |  |  | Total Shareholders’ Equity | 44,881 |
| *Total Assets* | $ 2,076,280 |  | *Total Liabilities & Shareholders’ Equity* | $ 2,076,280 |

Req. 2

As of September 30, 2017, liabilities have provided the primary source of financing for Knight Entertainments Resorts, Inc. The company has financed $2,031,399,000 of its assets with liabilities and only $44,881,000 with shareholders’ equity.

Req. 3

Knight’s current ratio ($429,230/$196,207 = 2.2) suggests the company has enough current assets that could be converted into cash to cover its current liabilities. Specifically, the current ratio of 2.2 implies that, at September 30, 2017, Knight Entertainments Resorts, Inc. had $2.20 of current assets for each dollar of current liabilities.

**M2-23**

Current Ratio = Current Assets

Current Liabilities

Current Ratio = $30,000 = 2.0

$15,000

Yes, it is likely that Robust Ribs will be able to pay its current liabilities as they come due. The current ratio of 2.0 indicates that for every dollar in current liabilities, the company has two dollars in current assets. This ratio indicates a good ability to pay.

**M2-24**

|  |  |  |  |
| --- | --- | --- | --- |
| a. Decrease | $30,000 - $2,000 | = | 1.87 |
| $15,000 + $0 |
| b. Increase | $30,000 + $5,000 | = | 2.33 |
| $15,000 + $0 |
| c. Increase | $30,000 + $2,000 | = | 2.13 |
| $15,000 + $0 |
| d. Decrease | $30,000 + $500 | = | 1.97 |
| $15,000 + $500 |

**M2-25**

|  |  |  |  |
| --- | --- | --- | --- |
| a. Decrease | $1,000,000 + $20,000 | = | 1.96 |
| $500,000 + $20,000 |
| b. Increase | $1,000,000 – $50,000 | = | 2.11 |
| $500,000 – $50,000 |
| c. Increase | $1,000,000 + $100,000 | = | 2.20 |
| $500,000 + $0 |
| d. Decrease | $1,000,000 + $250,000 | = | 1.67 |
| $500,000 + $250,000 |

**ANSWERS TO EXERCISES**

**E2-1** 1. Separate Entity Assumption E

2. Balance Sheet B

3. Current Assets A

4. Notes Payable I

5. Duality of Effects K

6. Retained Earnings J

7. Debit D

**E2-2**

Req. 1

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Given** | **Received** |  |
| (a) | Note Payable (+L) | Equipment (+A) | *Or Computer Equipment* |
| (b) | Cash (**–**A) | Equipment (+A) | *Or Delivery Truck* |
| (c) | — | — | *No exchange transaction* |
| (d) | Contributed Capital (+SE) | Cash (+A) |  |
| (e) | Cash (**–**A) | Land (+A) |  |
| (f) | — | — | *No company transaction* |
| (g) | Note Payable (+L) | Cash (+A) |  |
| (h) | Cash (**–**A) | Note Payable (**–**L) | *Reduced its promise to pay* |

Req. 2

The truck in (b) would be recorded as an asset of $21,000. The land in (e) would be recorded as an asset of $50,000. These are applications of the cost principle.

Req. 3

The agreement in *(c)* involves no exchange or receipt of cash, goods, or services and thus is not a transaction. Because transaction *(f)* occurs between the owner and others, the separate entity assumption implies this transaction does not affect the business.

**E2-3E**

|  |  |  |
| --- | --- | --- |
| ***Account*** | ***Balance Sheet Classification*** | ***Debit or Credit Balance*** |
| 1. Land | NCA | Debit |
| 2. Retained Earnings | SE | Credit |
| 3. Notes Payable (due in 3 years) | NCL | Credit |
| 4. Accounts Receivable | CA | Debit |
| 5. Supplies | CA | Debit |
| 6. Contributed Capital | SE | Credit |
| 7. Equipment | NCA | Debit |
| 8. Accounts Payable | CL | Credit |
| 9. Cash | CA | Debit |
| 10. Taxes Payable | CL | Credit |

**E2-4**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | **=** | **Liabilities** | | **+** | **Shareholders’ Equity** | |
| a. | Cash | +10,000 | = |  |  |  | Contributed Capital | +10,000 |
| b. | Cash | +7,000 | = | Notes Payable | +7,000 |  |  |  |
| c. | Land  Cash | +12,000  –1,000 | = | Notes Payable | +11,000 |  |  |  |
| d. | Equipment | +800 | = | Accounts Payable | +800 |  |  |  |
| e. | Equipment  Cash | +3,000  –1,000 | = | Notes Payable | +2,000 |  |  |  |

**E2-5**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | **=** | **Liabilities** | | **+** | **Shareholders’ Equity** | |
| a. | Equipment  Cash | +216  –211 | = | Note Payable | +5 |  |  |  |
| b. | Cash | +21 | = |  |  |  | Contributed Capital | +21 |
| c. | *No effect* |  |  |  |  |  |  |  |
|  | TOTALS | 26 | = |  | 5 | + |  | 21 |

Req. 2

The separate entity assumption states that transactions of the business are separate from transactions of the owners. Because transaction *(c)* occurs between the owners and others in the stock market, there is no effect on the business.

Req. 3

The greater increase in shareholders’ equity (versus liabilities) indicates that these transactions led NIKE to rely proportionately more on shareholders (versus creditors).

**E2-6**

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Cash (+A) | 10,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 10,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 7,000 |  |
|  | *cr* Notes Payable (+L) |  | 7,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Land (+A) | 12,000 |  |
|  | *cr* Cash (−A) |  | 1,000 |
|  | *cr* Notes Payable (+L) |  | 11,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Equipment (+A) | 800 |  |
|  | *cr* Accounts Payable (+L) |  | 800 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Equipment (+A) | 3,000 |  |
|  | *cr* Cash (−A) |  | 1,000 |
|  | *cr* Notes Payable (+L) |  | 2,000 |

**E2-7**

Req. 1

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Equipment (+A) | 216 |  |
|  | *cr* Cash (−A) |  | 211 |
|  | *cr* Note Payable (+L) |  | 5 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 21 |  |
|  | *cr* Contributed Capital (+SE) |  | 21 |

c. No journal entry required.

Req. 2

The separate entity assumption states that transactions of the business are separate from transactions of the owners. Because transaction *(c)* occurs between the owners and others in the stock market, there is no effect on the business.

**E2-8**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Equipment** | | | |
| Beg. | 0 |  |  |  | Beg. | 0 |  |  |
| (a) | 60,000 | 3,000 | (b) |  | (b) | 12,000 |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | 57,000 |  |  |  |  | 12,000 |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Note Payable** | | | |  | **Contributed Capital** | | | |
|  |  | 0 | Beg. |  |  |  | 0 | Beg. |
|  |  | 9,000 | (b) |  |  |  | 60,000 | (a) |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  | 9,000 |  |  |  |  | 60,000 |  |

Req. 2

Assets $ 69,000 = Liabilities $ 9,000 + Shareholders’ Equity $ 60,000

Req. 3

The agreement in *(c)* involves no exchange or receipt of cash, goods, or services and thus is not a transaction. Because transaction *(d)* occurs between the owners and others, the separate entity assumption implies this transaction does not affect the business.

**E2-9**

Req. 1

|  |  |
| --- | --- |
| ***Transaction*** | ***Brief Explanation*** |
| a. | Issued shares for $12,000 cash. |
| b. | Borrowed $50,000 cash and signed a note for this amount. |
| c. | Purchased land for $12,000; paid $4,000 cash and gave an $8,000 note payable for the balance. |
| d. | Borrowed $4,000 cash and signed a note for this amount. |
| e. | Purchased equipment for $7,000 cash. |
| f. | Purchase land for $3,000; paid for by signing a note. |

Req. 2

From table:

|  |
| --- |
| Cash + Equipment + Land = Notes Payable + Contributed Capital |
| Ending 55,000 + 7,000 +15,000 = 65,000 + 12,000 |

Classified balance sheet:

COSY Comfort Furniture Company

Balance Sheet

At January 7, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  |  |  |
| Cash | $ 55,000 |  | Notes Payable | $ 65,000 |
| *Total Current Assets* | 55,000 |  | Total Liabilities | 65,000 |
| *Noncurrent Assets* |  |  |  |  |
| Equipment | 7,000 |  | Shareholders’ Equity |  |
| Land | 15,000 |  | Contributed Capital | 12,000 |
|  |  |  | Total Shareholders’ Equity | 12,000 |
| *Total Assets* | $ 77,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 77,000 |

Req. 3

As of January 7, 2017, most of Cosy Comfort’s financing has come from liabilities. The company has financed $65,000 of its investment in assets with liabilities and only $12,000 with shareholders’ equity.**E2-10**

Req. 1

|  |  |
| --- | --- |
| ***Transaction*** | ***Brief Explanation*** |
| a. | Issued shares for $50,000 cash. |
| b. | Purchased a delivery truck for $25,000; paid $4,000 cash and gave a $21,000 long-term note payable for the balance. |
| c. | Borrowed $5,000 cash and signed a short-term note for this amount. |
| d. | Purchased computer equipment for $4,000 cash. |

Req. 2

FaLLA Fashions, Inc.

Balance Sheet

At March 31, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 47,000 |  | Short-term Bank Loan | $ 5,000 |
| *Total Current Assets* | 47,000 |  | Total Current Liabilities | 5,000 |
|  |  |  | Long-term Notes Payable | 21,000 |
|  |  |  | Total Liabilities | 26,000 |
| Noncurrent Assets |  |  | Shareholders’ Equity |  |
| Computer Equipment | 4,000 |  | Contributed Capital | 50,000 |
| Delivery Truck | 25,000 |  | Total Shareholders’ Equity | 50,000 |
| *Total Assets* | $ 76,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 76,000 |

Req. 3

As of March 31, 2017, most of Falla’s financing has come from shareholders’ equity. The company has financed $50,000 of its assets with shareholders’ equity and only $26,000 with liabilities.

**E2-11**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Req 1: | |  |  |  |  | |  | | |  | |  | |
|  | **Assets** | | **=** | **Liabilities** | | **+** | | **Shareholders' Equity** | | | | |
| (a) | No transaction - no obligation exists until the supplies are received. | | | | | | | | |  | |  | |
| (b) | Cash | - 10,000 |  | Note Payable (short-term) | + 20,000 | |  | | |  | |  | |
|  | Equipment | + 30,000 |  |  |  | |  | | |  | |  | |
| (c) | Cash | + 5,000 |  | Note Payable (short-term) | + 5,000 | |  | | |  | |  | |
| (d) | No transaction - no obligation exists until the manager has worked. | | | | | | | | | | |  | |
| (e) | Cash | + 10,000 |  |  |  | |  | | Contributed Capital | | +10,000 | |
| (f) | Supplies | + 2,000 |  | Accounts Payable | + 2,000 | |  | |  | |  | |
|  |  | + 37,000 |  |  | + 27,000 | |  | |  | | +10,000 | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Req 2: | |  |  |  |  |  |
|  |  |  |  |  |  |  |
| (a) | No transaction |  |  |  |  |  |
|  |  |  |  |  |  |  | |
| (b) | *dr* Equipment (+A)……………… ………………………. | | | | 30,000 |  | |
|  | *cr* Cash (-A)*…………………………………………* | | | |  | 10,000 | |
|  | *cr* Note Payable (short-term) (+L)……………………… | | | |  | 20,000 | |
|  |  |  |  |  |  |  | |
| (c) | *dr* Cash (+A)…………………………………………….. | | | | 5,000 |  | |
|  | *cr* Note Payable (short-term) (+L)……………………… | | | |  | 5,000 | |
|  |  |  |  |  |  |  | |
| (d) | No transaction |  |  |  |  |  | |
|  |  |  |  |  |  |  | |
| (e) | *dr* Cash (+A)……………………………………………… | | | | 10,000 |  | |
|  | *cr* Contributed Capital (+SE)………………………… | | | |  | 10,000 | |
|  |  |  |  |  |  |  | |
| (f) | *dr* Supplies (+A)………………………………………….. | | | | 2,000 |  | |
|  | *cr* Accounts Payable (+L)…………………………….. | | | |  | 2,000 | |

**E2-11(continued)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Req 3: | |  |  |  |  |
|  |  |  |  |  |  |
|  | Beginning Assets |  |  |  | 220,000 |
|  | Net Change in Assets |  |  |  | + 37,000 |
|  | Ending Assets |  |  |  | 257,000 |

**E2-12**

Req. 1

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | **Liabilities** | | | **Shareholders’ Equity** |
|  | **Cash** | **Equipment** | **Accounts Payable** | **ST Notes Payable** | **LT Notes Payable** | **Contributed Capital** |
| Beg. | 0 | 0 | 0 | 0 | 0 | 0 |
| a. | +60,000 |  |  |  |  | +60,000 |
| b. | +20,000 |  |  |  | +20,000 |  |
| c. | No transaction, therefore no financial effects to record. | | | | | |
| d. | -2,000 | +9,000 |  | +7,000 |  |  |
| e. | -8,000 | +16,000 | +8,000 |  |  |  |
| End. | 70,000 | 25,000 | 8,000 | 7,000 | 20,000 | 60,000 |

Req 2:

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Cash (+A) | 60,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 60,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 20,000 |  |
|  | *cr* Notes Payable (long-term) (+L) |  | 20,000 |

|  |  |
| --- | --- |
| c. | No transaction has occurred because there has been no exchange of cash, goods, or services. |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Equipment (+A) | 9,000 |  |
|  | *cr* Cash (−A) |  | 2,000 |
|  | *cr* Notes Payable (short-term) (+L) |  | 7,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Equipment (+A) | 16,000 |  |
|  | *cr* Cash (−A) |  | 8,000 |
|  | *cr* Accounts Payable (+L) |  | 8,000 |

**E2-12** **(continued)**

Req 3:

DOWNER.COM

Balance Sheet

At May 31

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 70,000 |  | Accounts Payable  Notes Payable | $ 8,000  7,000 |
| *Total Current Assets* | 70,000 |  | Total Current Liabilities | 15,000 |
|  |  |  | Note Payable | 20,000 |
| *Noncurrent Assets* |  |  | Total Liabilities | 35,000 |
| Equipment | 25,000 |  | Shareholders’ Equity |  |
|  |  |  | Contributed Capital  Retained Earnings | 60,000  0 |
|  |  |  | Total Shareholders’ Equity | 60,000 |
| *Total Assets* | $ 95,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 95,000 |

**E2-13**

Req. 1

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | **=** | **Liabilities** | | | | **+** | | | | **Shareholders' Equity** |
|  | Cash | Equipment | Land |  | | | **Accounts Payable** | | **Notes Payable** | |  | | **Contributed Capital** | |
| (a) | +40,000 |  |  | = | | |  | |  | |  | | +40,000 | |
| (b) |  |  | +12,000 | = | | |  | | +12,000 | |  | |  | |
| (c) | -2,000 | +20,000 |  | = | | |  | | +18,000 | |  | |  | |
| (d) | -2,000 | +2,000 |  | = | | |  | |  | | |  |  | |
| (e) | No change\* | | | |  | | | No change | | | | | | |
|  | +36,000 | +22,000 | +12,000 | = | | |  | | +30,000 | |  | | +40,000 | |

\*Event (e) is not considered a transaction of the company because the separate entity assumption (from Chapter 1) states that transactions of the owners are separate from transactions of the business.

**E2-13 (continued)**

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Cash (+A) | 40,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 40,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Land (+A) | 12,000 |  |
|  | *cr* Notes Payable (+L) |  | 12,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Equipment (+A) | 20,000 |  |
|  | *cr* Cash (-A) |  | 2,000 |
|  | *cr* Notes Payable (+L) |  | 18,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Equipment (+A) | 2,000 |  |
|  | *cr* Cash (-A) |  | 2,000 |

|  |  |
| --- | --- |
| e. | This is not a transaction of the business, so a journal entry is not needed. |

Req. 3

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash (A)** | | | |  | **Equipment (A)** | | | |
| Beg. | 0 |  |  |  | Beg. | 0 |  |  |
| (a) | 40,000 | 2,000 | (c) |  | (c) | 20,000 |  |  |
|  |  | 2,000 | (d) |  | (d) | 2,000 |  |  |
| End. | 36,000 |  |  |  | End. | 22,000 |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | |  | **Land (A)** | | | |
|  |  |  |  |  | Beg. | 0 |  |  |
|  |  |  |  |  | (b) | 12,000 |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | End. | 12,000 |  |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Notes Payable (L)** | | | |  | Contributed Capital (SE) | | |
|  |  | 0 | Beg. |  |  | 0 | Beg. |
|  |  | 12,000 | (b) |  |  | 40,000 | (a) |
|  |  | 18,000 | (c) |  |  |  |  |
|  |  | 30,000 | End. |  |  | 40,000 | End. |

**E2-13 (continued)**

Req. 4

Lee Delivery Company Inc.

Balance Sheet

At December 31, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | Notes Payable | $ 30,000 |
| Cash | $ 36,000 |  | *Total Liabilities* | 30,000 |
| *Total Current Assets* | 36,000 |  |  |  |
| Equipment | 22,000 |  | Shareholders’ Equity |  |
| Land | 12,000 |  | Contributed Capital | 40,000 |
|  |  |  |  |  |
| *Total Assets* | $ 70,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 70,000 |

Req. 5

LDC’s assets were financed primarily by shareholders’ equity. The shareholders’ equity financed $40,000 of the company’s assets and liabilities financed $30,000.

**E2-14**

|  |  |
| --- | --- |
| ***Transaction*** | ***Brief Explanation*** |
| (a) | Issued shares for $17,000 cash. |
| (b) | Purchased a building for $50,000; paid $10,000 cash and gave a $40,000 note payable for the balance. |
| (c) | Used cash to purchase supplies costing $1,500. |

**E2-15**

Req. 1

September 30, 2017 December 31, 2016

Current Ratio = $185,988 = 5.22 Current Ratio = $176,674 = 6.02

$35,599 $29,327

Req. 2

The company’s current ratio decreased, which implies a reduced ability to pay current liabilities.

Req. 3

Current Ratio = $185,988 – $10,000 = 6.87

$35,599 ­– $10,000

Paying down Accounts Payable in this case increased the current ratio.

Req. 4

As of September 30, 2017, shareholders’ equity has provided the primary source of financing for Delamy Design Ltd. The company has financed $202,808,000 of its assets with shareholders’ equity and only $37,308,000 with liabilities.

**E2-16**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | **=** | **Liabilities** | | **+** | **Shareholders’ Equity** | |
| 1. | Cash | +12,000 | = |  |  |  | Contributed Capital | +12,000 |
| 2. | Cash | +30,000 | = | Note Payable (long-term) | +30,000 |  |  |  |
| 3. | Equipment  Cash | +40,000  –35,000 | = | Note Payable (short-term) | +5,000 |  |  |  |
| 4. | Supplies | +900 | = | Accounts Payable | +900 |  |  |  |

**E2-16 (continued)**

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | *dr* Cash (+A) | 12,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 12,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| 2. | *dr* Cash (+A) | 30,000 |  |
|  | *cr* Note Payable (long-term) (+L) |  | 30,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| 3. | *dr* Equipment (+A) | 40,000 |  |
|  | *cr* Cash (–A) |  | 35,000 |
|  | *cr* Note Payable (short-term) (+L) |  | 5,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| 4. | *dr* Supplies (+A) | 900 |  |
|  | *cr* Accounts Payable (+L) |  | 900 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Equipment** | | | |
| Beg. | 0 |  |  |
| (3) | 40,000 |  |  |
|  |  |  |  |
|  |  |  |  |
|  | 40,000 |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Supplies** | | | | |
| Beg. | 0 |  |  |  | Beg. | 0 |  |  |  |
| (1) | 12,000 | 35,000 | (3) |  | (4) | 900 |  |  |  |
| (2) | 30,000 |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | 7,000 |  |  |  |  | 900 |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Contributed Capital** | | | |
|  |  | 0 | Beg. |
|  |  | 12,000 | (1) |
|  |  |  |  |
|  |  |  |  |
|  |  | 12,000 |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | |  | **Notes Payable** | | | | |
|  |  | 0 | Beg. |  |  |  | 0 |  | Beg. |
|  |  | 900 | (4) |  |  |  | 30,000 |  | (2) |
|  |  |  |  |  |  |  | 5,000 |  | (3) |
|  |  |  |  |  |  |  |  |  |  |
|  |  | 900 |  |  |  |  | 35,000 |  |  |

**E2-16 (continued)**

Req. 3

BUSINESS SIM CORP.

Balance Sheet

At September 30, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 7,000 |  | Accounts Payable | $ 900 |
| Supplies | 900 |  | Note Payable | 5,000 |
| *Total Current Assets* | 7,900 |  | Total Current Liabilities | 5,900 |
|  |  |  | Note Payable | 30,000 |
|  |  |  | Total Liabilities | 35,900 |
|  |  |  |  |  |
|  |  |  | Shareholders’ Equity |  |
| Equipment | 40,000 |  | Contributed Capital | 12,000 |
|  |  |  | Retained Earnings | 0 |
|  |  |  | Total Shareholders’ Equity | 12,000 |
| *Total Assets* | $ 47,900 |  | *Total Liabilities & Shareholders’ Equity* | $ 47,900 |

Req. 4

At September 30, BSC reported $7,900 of current assets and $5,900 of current liabilities, resulting in a current ratio of 1.33 (7,900/5,900). Because this ratio is greater than 1.3, BSC is complying with the loan covenant. (This means that the bank will not be able to demand repayment or renegotiation of the $30,000 note payable until it matures in two years unless BSC is not in compliance at a later date.)

**ANSWERS TO COACHED PROBLEMS**

**CP2-1**

Req. 1

Healthcare Services was organized as a corporation. Only a corporation issues shares to its owners in exchange for their investment, as Healthcare Services did in transaction (a).

Req. 2

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | **=** | **Liabilities** | **+** | **Shareholders' Equity** | |
|  | Cash | **Supplies** | Land | **Building** | Equipment |  | **Notes Payable** |  | **Contributed Capital** | **Retained Earnings** |
| (a) | +40,000 |  |  |  |  | = |  |  | +40,000 |  |
| (b) | –13,000 |  | +12,000 | +65,000 | +16,000 | = | +80,000 |  |  |  |
| (c) | No effect |  |  |  |  |  |  |  |  |  |
| (d) | –3,000 | +3,000 |  |  |  | = | No change | | | |
| (e) | +4,000 |  | –4,000 |  |  | = | No change | | | |
|  | +28,000 | +3,000 | +8,000 | +65,000 | +16,000 | = | +80,000 |  | +40,000 |  |

Req. 3

The transaction between the two shareholders (event *c*) was not included in the spreadsheet. Because event *(c)* occurs between the owners and others, the separate entity assumption implies this transaction does not affect the business.

**CP2-1 (continued)**

Req. 4

1. Total assets = $28,000 + $3,000 + $8,000 + $65,000 + $16,000

= $120,000

(b) Total liabilities = $80,000

1. Total shareholders’ equity = Total assets – Total liabilities

= $120,000 – $80,000 = $40,000

(d) Cash balance = $40,000 – $13,000 – $3,000 + $4,000 = $28,000

(e) Total current assets = $28,000 + $3,000 = $31,000

Req. 5

As of January 31, 2017, the financing for HS’s assets came primarily from liabilities. For HS, the liabilities financed $80,000 of its assets and shareholders’ equity financed $40,000.

**CP2-2**

Req. 1

Amounts in thousands.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | = | Liabilities | | + | Shareholders’ Equity | |
|  | Cash | Supplies | Building | Equip | Land |  | Accounts Payable | Notes Payable |  | Contributed Capital | Retained Earnings |
|  | 16 | 5 | 200 | 18 | 100 | = | 4 | 17 |  | 318 | 0 |
| *a.* | +200 |  |  |  |  | = |  |  |  | +200 |  |
| *b.* | +30 |  |  |  |  | = |  | +30 |  |  |  |
| *c.* | –41 |  | +141 |  |  | = |  | +100 |  |  |  |
| *d.* | –100 |  |  | +100 |  | = |  |  |  |  |  |
| *e.* |  | +10 |  |  |  |  | +10 |  |  |  |  |
|  | 105 | 15 | 341 | 118 | 100 | = | 14 | 147 |  | 518 | 0 |

**CP2-2 (continued)**

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Cash (+A) | 200,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 200,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 30,000 |  |
|  | *cr* Notes Payable (+L) |  | 30,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Building (+A) | 141,000 |  |
|  | *cr* Cash (–A) |  | 41,000 |
|  | *cr* Notes Payable (+L) |  | 100,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Equipment (+A) | 100,000 |  |
|  | *cr* Cash (–A) |  | 100,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Supplies (+A) | 10,000 |  |
|  | *cr* Accounts Payable (+L) |  | 10,000 |

Req. 3

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Supplies** | | | |  | **Equipment** | | |
| Beg. | 16,000 |  |  |  | Beg. | 5,000 |  |  |  | Beg. | 18,000 |  | |
| (a) | 200,000 | 41,000 | (c) |  | (e) | 10,000 |  |  |  | (d) | 100,000 |  | |
| (b) | 30,000 | 100,000 | (d) |  |  |  |  |  |  |  |  |  | |
| End. | 105,000 |  |  |  | End. | 15,000 |  |  |  | End. | 118,000 |  | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Building** | | | |  | **Land** | | | |
| Beg. | 200,000 |  |  |  | Beg. | 100,000 |  |  |
| (c) | 141,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| End. | 341,000 |  |  |  | End. | 100,000 |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | |  | Notes Payable | | | | |
|  |  | 4,000 | Beg. |  |  | | |  | 17,000 | Beg. |
|  |  | 10,000 | (e) |  |  | | |  | 30,000 | (b) |
|  |  |  |  |  |  | | |  | 100,000 | (c) |
|  |  | 14,000 | End. |  |  | | |  | 147,000 | End. |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Contributed Capital** | | | |  | **Retained Earnings** | | | |
|  |  | 318,000 | Beg. |  |  |  | 0 | Beg. |
|  |  | 200,000 | (a) |  |  |  |  |  |
|  |  | 518,000 | End. |  |  |  | 0 | End. |

**CP2-2** **(continued)**

Req. 4

Athletic PROFESSIONAL TRAINING Company

Balance Sheet

At July 31, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 105,000 |  | Accounts Payable | $ 14,000 |
| Supplies | 15,000 |  | *Total Current Liabilities* | 14,000 |
| *Total Current Assets* | 120,000 |  |  |  |
|  |  |  | Notes Payable | 147,000 |
|  |  |  | Total Liabilities | 161,000 |
|  |  |  |  |  |
| Equipment | 118,000 |  | Shareholders’ Equity |  |
| Building | 341,000 |  | Contributed Capital | 518,000 |
| Land | 100,000 |  | Retained Earnings | 0 |
|  |  |  | Total Shareholders’ Equity | 518,000 |
| *Total Assets* | $ 679,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 679,000 |

Req. 5

As of July 31, 2017, most of APTC’s financing has come from shareholders’ equity. Shareholders’ equity has financed $518,000 of APTC’s assets and liabilities financed $161,000.

**CP2-3**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | = | Liabilities | | + | Shareholders’ Equity | |
| *a.* | Equipment  Cash | +21,000  –5,000 |  | Notes Payable | +16,000 |  |  |  |
| *b.* | Cash | +20,000 |  |  |  |  | Contributed Capital | +20,000 |
| *c.* | Cash | +30,000 |  | Notes Payable | +30,000 |  |  |  |
| *d.* | Supplies  Cash | +4,000  –4,000 |  |  |  |  |  |  |
| *e.* | Factory Building  Cash | +41,000  –12,000 |  | Notes Payable | +29,000 |  |  |  |
| *f.* | No effect (because the president has not yet started working for the company). | | | | | | | |

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Equipment (+A) | 21,000 |  |
|  | *cr* Cash (–A) |  | 5,000 |
|  | *cr* Notes Payable (+L) |  | 16,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 20,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 20,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Cash (+A) | 30,000 |  |
|  | *cr* Notes Payable (+L) |  | 30,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Supplies (+A) | 4,000 |  |
|  | *cr* Cash (–A) |  | 4,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Factory Building (+A) | 41,000 |  |
|  | *cr* Cash (–A) |  | 12,000 |
|  | *cr* Notes Payable (+L) |  | 29,000 |

|  |  |
| --- | --- |
| f. | No effect (because the president has not yet started working for the company). |

**CP2-3 (continued)**

Req. 3

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Accounts Receivable** | | | |  | **Inventory** | | |
| Beg. | 35,000 |  |  |  | Beg. | 5,000 |  |  |  | Beg. | 40,000 |  | |
| (b) | 20,000 | 5,000 | (a) |  |  |  |  |  |  |  |  |  | |
| (c) | 30,000 | 4,000 | (d) |  |  |  |  |  |  |  |  |  | |
|  |  | 12,000 | (e) |  | End. | 5,000 |  |  |  | End. | 40,000 |  | |
| End. | 64,000 |  |  |  |  |  |  |  |  |  |  |  | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Supplies** | | | |  | **Equipment** | | | |  | **Factory Building** | | |
| Beg. | 5,000 |  |  |  | Beg. | 80,000 |  |  |  | Beg. | 120,000 |  | |
| (d) | 4,000 |  |  |  | (a) | 21,000 |  |  |  | (e) | 41,000 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  | |
| End. | 9,000 |  |  |  | End. | 101,000 |  |  |  | End. | 161,000 |  | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Notes Receivable** | | |  | **Land** | | | |  | Accounts Payable | | | |
| Beg. | 2,000 |  |  | Beg. | 30,000 |  |  |  |  |  | 37,000 | Beg. |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| End. | 2,000 |  |  | End. | 30,000 |  |  |  |  |  | 37,000 | End. |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Notes Payable** | | | |  | **Contributed Capital** | | | |  | **Retained Earnings** | | | |
|  |  | 80,000 | Beg. |  |  |  | 150,000 | Beg. |  |  |  | 50,000 | Beg. |
|  |  | 16,000 | (a) |  |  |  | 20,000 | (b) |  |  |  |  |  |
|  |  | 30,000 | (c) |  |  |  |  |  |  |  |  |  |  |
|  |  | 29,000 | (e) |  |  |  |  |  |  |  |  |  |  |
|  |  | 155,000 | End. |  |  |  | 170,000 | End. |  |  |  | 50,000 | End |

**CP2-3 (continued)**

Req. 4

No effect was recorded for event *(f)*. The agreement in *(f)* has not yet involved an exchange or receipt of cash, goods, or services and thus is not a transaction.

Req. 5

PLAUDERE Plastics Company

Balance Sheet

At December 31, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $64,000 |  | Accounts Payable | $37,000 |
| Accounts Receivable | 5,000 |  | *Total Current Liabilities* | 37,000 |
| Inventory | 40,000 |  |  |  |
| Supplies | 9,000 |  | Notes Payable | 155,000 |
| *Total Current Assets* | 118,000 |  | Total Liabilities | 192,000 |
|  |  |  |  |  |
| Notes Receivable | 2,000 |  | Shareholders’ Equity |  |
| Equipment | 101,000 |  | Contributed Capital | 170,000 |
| Factory Building | 161,000 |  | Retained Earnings | 50,000 |
| Land | 30,000 |  | Total Shareholders’ Equity | 220,000 |
| *Total Assets* | $412,000 |  | *Total Liabilities & Shareholders’ Equity* | $412,000 |

Req. 6

As of December 31, 2017, most of PPC’s financing has come from shareholders’ equity. Shareholders’ equity has financed $220,000 of PPC’s assets and liabilities financed $192,000.

**ANSWERS TO GROUP A PROBLEMS**

**PA2-1**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | **=** | **Liabilities** | **+** | **Shareholders' Equity** | |
|  | **Cash** | **Equipment** | **Building** |  | **Notes Payable** |  | **Contributed Capital** | **Retained Earnings** |
| (a) | +100,000 |  |  | = |  |  | +100,000 |  |
| (b) | +120,000 |  |  | = | +120,000 |  |  |  |
| (c) | –200,000 |  | +200,000 | = |  |  |  |  |
| (d) | –3,000 | +30,000 |  | = | +27,000 |  |  |  |
| (e) |  | –3,000 |  | = | –3,000 |  |  |  |
| (f) | –5,000 | +10,000 |  | = | +5,000 |  |  |  |
| (g) | No effect |  |  | = |  |  |  |  |
|  | +12,000 | +37,000 | +200,000 | = | +149,000 |  | +100,000 |  |

Changes + $249,000 + $149,000 +$100,000

**PA2-1 (continued)**

Req. 2

The transaction between the shareholder and his neighbour (event *g*) was not included in the spreadsheet. Because event *(g)* occurs between an owner and another person, the separate entity assumption implies this transaction does not affect the business.

Req. 3

(a) Beginning total assets $500,000 + Changes $249,000 = $749,000 Ending total assets

(b) Beginning total liabilities $200,000 + Changes $149,000 = $349,000 Ending total liabilities

(c) Ending total assets $749,000 – Ending total liabilities $349,000 = Ending shareholders’ equity $400,000

Req. 4

As of December 31, 2017, Whistle Stop’s assets were financed more by shareholders’ equity than liabilities. Whistle Stop’s shareholders’ equity financed $400,000 of the company’s total assets and liabilities financed $349,000.

**PA2-2**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | **=** | **Liabilities** | **+** | **Shareholders' Equity** | |
|  | **Cash** | **Equipment** | **Building** |  | **Notes Payable** |  | **Contributed Capital** | **Retained Earnings** |
| (a) | -5,000 |  |  | = | -5,000 |  |  |  |
| (b) |  | +2,000 |  | = | +2,000 |  |  |  |
| (c) |  | No effect |  | = |  |  |  |  |
| (d) | –1,000 | +1,000 |  | = |  |  |  |  |
| (e) | -500 |  |  | = |  |  |  | -500 |
| (f) | –10,000 |  | +50,000 | = | +40,000 |  |  |  |
| (g) | -5,000 |  |  | = |  |  | -5,000 |  |
|  | -21,500 | +3,000 | +50,000 | = | +37,000 |  | -5,000 | -500 |

Changes +$31,500 +$37,000 -$5,500

**PA2-2** **(continued)**

Req. 2

The transaction has no effect on the financial statements as no cash was received, the asset was fully depreciated leaving no net balance to be removed from Equipment, and therefore no gain or loss on disposal (no effect on retained earnings).

Req. 3

(a) Beginning total assets $100,000 + Changes $31,500 = $131,500 Ending total assets

(b) Beginning total liabilities $25,000 + Changes $37,000 = $62,000 Ending total liabilities

(c) Ending total assets $131,500 – Ending total liabilities $62,000 = Ending shareholders’ equity $69,500

Req. 4

As of December 31, 2017, Lex Systems Inc.’s assets were financed less by liabilities than shareholders’ equity. Lex System Inc.’s shareholders’ equity financed $69,500 of the company’s total assets and liabilities financed $62,000.

**PA2-3**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | = | Liabilities | | + | Shareholders’ Equity | |
| *a.* | Cash | +400,000 |  |  |  |  | Contributed Capital | +400,000 |
| *b.* | Cash | +90,000 |  | Notes Payable | +90,000 |  |  |  |
| *c.* | Factory Building  Cash | +182,000  -82,000 |  | Notes Payable | +100,000 |  |  |  |
| *d.* | Equipment  Cash | +200,000  -200,000 |  |  |  |  |  |  |
| *e.* | Supplies | +30,000 |  | Accounts Payable | +30,000 |  |  |  |

**PA2-3 (continued)**

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Cash (+A) | 400,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 400,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 90,000 |  |
|  | *cr* Notes Payable (+L) |  | 90,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Factory Building (+A) | 182,000 |  |
|  | *cr* Cash (-A) |  | 82,000 |
|  | *cr* Notes Payable (+L) |  | 100,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Equipment (+A) | 200,000 |  |
|  | *cr* Cash (-A) |  | 200,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Supplies (+A) | 30,000 |  |
|  | *cr* Accounts Payable (+L) |  | 30,000 |

**PA2-3 (continued)**

Req. 3

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Supplies** | | | |  | **Equipment** | | |
| Beg. | 26,000 |  |  |  | Beg. | 7,000 |  |  |  | Beg. | 118,000 |  | |
| (a) | 400,000 | 82,000 | (c) |  | (e) | 30,000 |  |  |  | (d) | 200,000 |  | |
| (b) | 90,000 | 200,000 | (d) |  |  |  |  |  |  |  |  |  | |
| End. | 234,000 |  |  |  | End. | 37,000 |  |  |  | End. | 318,000 |  | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Factory Building** | | | |  | **Land** | | | |
| Beg. | 100,000 |  |  |  | Beg. | 200,000 |  |  |
| (c) | 182,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| End. | 282,000 |  |  |  | End. | 200,000 |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | |  | Notes Payable | | | | |
|  |  | 10,000 | Beg. |  |  | | |  | 2,000 | Beg. |
|  |  | 30,000 | (e) |  |  | | |  | 90,000 | (b) |
|  |  |  |  |  |  | | |  | 100,000 | (c) |
|  |  | 40,000 | End. |  |  | | |  | 192,000 | End. |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Contributed Capital** | | | |  | **Retained Earnings** | | | |
|  |  | 180,000 | Beg. |  |  |  | 259,000 | Beg. |
|  |  | 400,000 | (a) |  |  |  |  |  |
|  |  | 580,000 | End. |  |  |  | 259,000 | End. |

**PA2-3 (continued)**

Req. 4

Deliberate Speed Corporation

Balance Sheet

At July 31, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 234,000 |  | Accounts Payable | $ 40,000 |
| Supplies | 37,000 |  | *Total Current Liabilities* | 40,000 |
| *Total Current Assets* | 271,000 |  |  |  |
|  |  |  | Notes Payable | 192,000 |
|  |  |  | Total Liabilities | 232,000 |
|  |  |  |  |  |
| Equipment | 318,000 |  | Shareholders’ Equity |  |
| Factory Building | 282,000 |  | Contributed Capital | 580,000 |
| Land | 200,000 |  | Retained Earnings | 259,000 |
|  |  |  | Total Shareholders’ Equity | 839,000 |
| *Total Assets* | $ 1,071,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 1,071,000 |

**PA2-3 (continued)**

Req. 5

As of July 31, 2017, most of DSC’s financing has come from shareholders’ equity. Shareholders’ equity has financed $839,000 of DSC’s assets and liabilities financed $232,000.

**PA2-4**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | = | Liabilities | | + | Shareholders’ Equity | |
| *a.* | Cash | -15,000 |  |  |  |  | Retained Earnings | -15,000 |
| *b.* | Cash | -10,000 |  | Notes Payable | -10,000 |  |  |  |
| *c.* | Cash | +50,000 |  |  |  |  | Contributed Capital | +50,000 |
| *d.* | Equipment  Cash | +30,000  -3,000 |  | Notes Payable | +27,000 |  |  |  |
| *e.* | Supplies | +3,000 |  | Accounts Payable | +3,000 |  |  |  |

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Retained earnings (–SE) | 15,000 |  |
|  | *cr* Cash (–A) |  | 15,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Notes Payable (–L) | 10,000 |  |
|  | *cr* Cash (–A) |  | 10,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Cash (+A) | 50,000 |  |
|  | *cr* Contributed Capital (+A) |  | 50,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Equipment (+A) | 30,000 |  |
|  | *cr* Notes Payable (+L) |  | 27,000 |
|  | *cr* Cash (–A) |  | 3,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Supplies (+A) | 3,000 |  |
|  | *cr* Accounts Payable (+L) |  | 3,000 |

**PA2-4 (continued)**

Req. 3

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Supplies** | | | |  | **Equipment** | | |
|  |  | 9,000 | Beg. |  | Beg. | 3,000 |  |  |  | Beg. | 47,000 |  | |
| (c) | 50,000 | 15,000 | (a) |  | (e) | 3,000 |  |  |  | (d) | 30,000 |  | |
|  |  | 10,000 | (b) |  |  |  |  |  |  |  |  |  | |
|  |  | 3,000 | (d) |  |  |  |  |  |  |  |  |  | |
| End. | 13,000 |  |  |  | End. | 6,000 |  |  |  | End. | 77,000 |  | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Buildings** | | | |  | **Land** | | | |
| Beg. | 50,000 |  |  |  | Beg. | 100,000 |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| End. | 50,000 |  |  |  | End. | 100,000 |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | |  | Notes Payable | | | | |
|  |  | 20,000 | Beg. |  |  | | |  | 22,000 | Beg. |
|  |  | 3,000 | (e) |  | (b) | | | 10,000 |  |  |
|  |  |  |  |  |  | | |  | 27,000 | (d) |
|  |  | 23,000 | End. |  |  | | |  | 39,000 | End. |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Contributed Capital** | | | |  | **Retained Earnings** | | | |
|  |  | 75,000 | Beg. |  |  |  | 74,000 | Beg. |
|  |  | 50,000 | (c) |  | (a) | 15,000 |  |  |
|  |  | 125,000 | End. |  |  |  | 59,000 | End. |

**PA2-4 (continued)**

Req. 4

FRUITy FARMS

Balance Sheet

At February 28, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 13,000 |  | Accounts Payable | $ 23,000 |
| Supplies | 6,000 |  | Current portion of note payable | 27,000 |
| *Total Current Assets* | 19,000 |  | *Total Current Liabilities* | 50,000 |
|  |  |  |  |  |
|  |  |  | Notes Payable | 12,000 |
|  |  |  | Total Liabilities | 62,000 |
|  |  |  |  |  |
| Equipment | 77,000 |  | Shareholders’ Equity |  |
| Buildings | 50,000 |  | Contributed Capital | 125,000 |
| Land | 100,000 |  | Retained Earnings | 59,000 |
|  |  |  | Total Shareholders’ Equity | 184,000 |
| *Total Assets* | $ 246,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 246,000 |

Req. 5

As of February 28, 2017, most of Fruity Farms’ financing has come from shareholders’ equity. Shareholders’ equity has financed $184,000 of Fruity Farms’ assets and liabilities financed $62,000.

**PA2-5**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | = | Liabilities | | + | Shareholders’ Equity | |
| *a.* | Other Assets  Cash | +2  -2 |  |  |  |  |  |  |
| *b.* | Cash | +2 |  |  |  |  | Contributed Capital | +2 |
| *c.* | Property, Plant, and Equipment  Cash | +11  -2 |  | Long-term Debt | +9 |  |  |  |
| *d.* | Cash  Other Assets | +1  -1 |  |  |  |  |  |  |
| *e.* | *No effect.* |  |  |  |  |  |  |  |

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Other Assets(+A) | 2 |  |
|  | *cr* Cash (–A) |  | 2 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 2 |  |
|  | *cr* Contributed Capital (+SE) |  | 2 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Property, Plant, and Equipment (+A) | 11 |  |
|  | *cr* Cash (−A) |  | 2 |
|  | *cr* Long-term Debt (+L) |  | 9 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Cash (+A) | 1 |  |
|  | *cr* Other Assets (–A) |  | 1 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | No effect. |  |  |

**PA2-5 (continued)**

Req. 3

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cash | | | |  | **Accounts  Receivable** | | | |  | Inventories | | |
| Beg. | 80 |  |  |  | Beg. | 12 |  |  |  | Beg. | 188 |  |
| (b) | 2 | 2 | (a) |  |  |  |  |  |  |  |  |  |
| (d) | 1 | 2 | (c) |  |  |  |  |  |  |  |  |  |
| End. | 79 |  |  |  | End. | 12 |  |  |  | End. | 188 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Other Current Assets** | | | |  | **Property, Plant, and Equipment** | | | |  | **Other Assets** | | |
| Beg. | 26 |  |  |  | Beg. | 355 |  |  |  | Beg. | 99 |  |
|  |  |  |  |  | (c) | 11 |  |  |  | (a) | 2 | 1 (d) |
| End. | 26 |  |  |  | End. | 366 |  |  |  | End. | 100 |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Accounts Payable | | |  | **Wages and Other Expenses Payable** | | | |
|  | 26 | Beg. |  |  |  | 111 | Beg. |
|  |  |  |  |  |  |  |  |
|  | 26 | End. |  |  |  | 111 | End. |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Long-term Debt** | | |  | **Other Long-term Liabilities** | | | |  | **Contributed Capital** | | | |
|  | 203 | Beg. |  |  |  | 44 | Beg. |  |  |  | 356 | Beg. |
|  | 9 | (c) |  |  |  |  |  |  |  |  | 2 | (b) |
|  | 212 | End. |  |  |  | 44 | End. |  |  |  | 358 | End. |

|  |  |  |  |
| --- | --- | --- | --- |
| **Retained Earnings** | | | |
|  |  | 20 | Beg. |
|  |  |  |  |
|  |  | 20 | End. |

Req. 4

The negotiations to purchase a sawmill were not included with the transactions. Since event (e) is just at the negotiation stage, it involves no exchange of cash, goods, or services and thus is not a transaction.

**PA2-5 (continued)**

Req. 5

ALEZANDRAY’S Interiors, Inc.

Balance Sheet

At December 31, 2017

(in millions of dollars)

|  |  |
| --- | --- |
| Assets |  |
| *Current Assets* |  |
| Cash | $  79 |
| Accounts Receivable | 12 |
| Inventories | 188 |
| Other Current Assets | 26 |
| *Total Current Assets* | 305 |
| Property, Plant, and Equipment | 366 |
| Other Assets | 100 |
| Total Assets | $771 |
| Liabilities |  |
| Current Liabilities |  |
| Accounts Payable | $ 26 |
| Wages and Other Expenses Payable | 111 |
| *Total Current Liabilities* | 137 |
| Long-term Debt | 212 |
| Other Long-term Liabilities | 44 |
| Total Liabilities | 393 |
| Shareholders’ Equity |  |
| Contributed Capital | 358 |
| Retained Earnings | 20 |
| Total Shareholders’ Equity | 378 |
| Total Liabilities and Shareholders’ Equity | $771 |

Req. 6

As of December 31, 2017, the financing for Alezandray’s investment in assets has come primarily from liabilities. Liabilities financed $393,000,000 of the company’s total assets and shareholders’ equity financed $378,000,000.

**ANSWERS TO GROUP B PROBLEMS**

**PB2-1**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | **=** | **Liabilities** | **+** | **Shareholders' Equity** | |
|  | **Cash** | **Equipment** | **Building** |  | **Notes Payable** |  | **Contributed Capital** | **Retained Earnings** |
| (a) | +109,000 |  |  | = |  |  | +109,000 |  |
| (b) | +186,000 |  |  | = | +186,000 |  |  |  |
| (c) | No effect |  |  | = |  |  |  |  |
| (d) | –200,000 |  | +200,000 | = |  |  |  |  |
| (e) | –12,000 | +44,000 |  | = | +32,000 |  |  |  |
| (f) | +4,000 | –4,000 |  | = |  |  |  |  |
|  | +87,000 | +40,000 | +200,000 | = | +218,000 |  | +109,000 |  |

Changes + $327,000 + $218,000 +$109,000

Req. 2

The transaction between the shareholder and another investor (event *c*) was not included in the spreadsheet. Because event *(c)* occurs between an owner and another investor, the separate entity assumption implies this transaction does not affect the business.

Req. 3

(a) Beginning total assets $2,255,000 + Changes $327,000 = $2,582,000 Ending total assets

(b) Beginning total liabilities $1,780,000 + Changes $218,000 = $1,998,000 Ending total liabilities

1. Ending total assets $2,582,000 – Ending total liabilities $1,998,000 = Ending shareholders’ equity $584,000

**PB2-1 (continued)**

Req. 4

As of December 31, 2017, Swiss Watch Corporation’s assets were financed primarily by liabilities. Swish Watch Corporation’s liabilities financed $1,998,000 of the company’s total assets and shareholders’ equity financed $584,000.

**PB2-2**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | | | **=** | **Liabilities** | **+** | **Shareholders' Equity** | |
|  | **Cash** | **Equipment** | **Building** |  | **Notes Payable** |  | **Contributed Capital** | **Retained Earnings** |
| (a) | -50,000 |  |  | = | -50,000 |  |  |  |
| (b) | -25,000 | +25,000 |  | = |  |  |  |  |
| (c) |  | No effect |  | = |  |  |  |  |
| (d) | –100,000 | +100,000 |  | = |  |  |  |  |
| (e) | –50,000 |  |  | = |  |  |  | -50,000 |
| (f) | -100,000 |  | +500,000 | = | +400,000 |  |  |  |
| (g) | +100,000 |  |  | = | +100,000 |  |  |  |
|  | -225,000 | +125,000 | +500,000 | = | +450,000 |  |  | -50,000 |

Changes $400,000 + $450,000 -$50,000

Req. 2

The transaction has no effect on the financial statements as no cash was received, the asset was fully depreciated leaving no net balance to be removed from Equipment, and therefore no gain or loss on disposal (no effect on retained earnings).

**PB2-2 (continued)**

Req. 3

(a) Beginning total assets $746,000 + Changes $400,000 = $1,146,000 Ending total assets

1. Beginning total liabilities $534,000 + Changes $450,000 = $984,000 Ending total liabilities
2. Ending total assets $1,146,000 – Ending total liabilities $984,000 = Ending shareholders’ equity $162,000

Req. 4

As of December 31, 2017, Blockhead and Sons’ assets were financed primarily by liabilities. Blockhead and Sons’ liabilities financed $984,000 of the company’s total assets and shareholders’ equity financed $162,000.

**PB2-3**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | = | Liabilities | | + | Shareholders’ Equity | |
| *a.* | Cash | +600,000 |  |  |  |  | Contributed Capital | +600,000 |
| *b.* | Cash | +60,000 |  | Notes Payable | +60,000 |  |  |  |
| *c.* | Factory Building  Cash | +166,000  -66,000 |  | Notes Payable | +100,000 |  |  |  |
| *d.* | Equipment  Cash | +90,000  -90,000 |  |  |  |  |  |  |
| *e.* | Supplies | +90,000 |  | Accounts Payable | +90,000 |  |  |  |

**PB2-3 (continued)**

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Cash (+A) | 600,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 600,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 60,000 |  |
|  | *cr* Notes Payable (+L) |  | 60,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Factory Building (+A) | 166,000 |  |
|  | *cr* Cash (–A) |  | 66,000 |
|  | *cr* Notes Payable (+L) |  | 100,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Equipment (+A) | 90,000 |  |
|  | *cr* Cash (–A) |  | 90,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Supplies (+A) | 90,000 |  |
|  | *cr* Accounts Payable (+L) |  | 90,000 |

Req. 3

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Supplies** | | | |  | **Equipment** | | |
| Beg. | 90,000 |  |  |  | Beg. | 9,000 |  |  |  | Beg. | 148,000 |  | |
| (a) | 600,000 | 66,000 | (c) |  | (e) | 90,000 |  |  |  | (d) | 90,000 |  | |
| (b) | 60,000 | 90,000 | (d) |  |  |  |  |  |  |  |  |  | |
| End. | 594,000 |  |  |  | End. | 99,000 |  |  |  | End. | 238,000 |  | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Factory Building** | | | |  | **Land** | | | |
| Beg. | 500,000 |  |  |  | Beg. | 444,000 |  |  |
| (c) | 166,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| End. | 666,000 |  |  |  | End. | 444,000 |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | |  | Notes Payable | | | | |
|  |  | 50,000 | Beg. |  |  | | |  | 5,000 | Beg. |
|  |  | 90,000 | (e) |  |  | | |  | 60,000 | (b) |
|  |  |  |  |  |  | | |  | 100,000 | (c) |
|  |  | 140,000 | End. |  |  | | |  | 165,000 | End. |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Contributed Capital** | | | |  | **Retained Earnings** | | | |
|  |  | 170,000 | Beg. |  |  |  | 966,000 | Beg. |
|  |  | 600,000 | (a) |  |  |  |  |  |
|  |  | 770,000 | End. |  |  |  | 966,000 | End. |

**PB2-3 (continued)**

Req. 4

Bearings & Brakes Corporation

Balance Sheet

At July 31, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 594,000 |  | Accounts Payable | $ 140,000 |
| Supplies | 99,000 |  | *Total Current Liabilities* | 140,000 |
| *Total Current Assets* | 693,000 |  |  |  |
|  |  |  | Notes Payable | 165,000 |
|  |  |  | Total Liabilities | 305,000 |
|  |  |  |  |  |
| Equipment | 238,000 |  | Shareholders’ Equity |  |
| Factory Building | 666,000 |  | Contributed Capital | 770,000 |
| Land | 444,000 |  | Retained Earnings | 966,000 |
|  |  |  | Total Shareholders’ Equity | 1,736,000 |
| *Total Assets* | $ 2,041,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 2,041,000 |

Req. 5

As of July 31, 2017, most of B&B’s financing has come from shareholders’ equity. Shareholders’ equity has financed $1,736,000 of B&B’s assets and liabilities financed $305,000.

**PB2-4**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | = | Liabilities | | + | Shareholders’ Equity | |
| *a.* | Cash | +150,000 |  | Notes Payable | +150,000 |  |  |  |
| *b.* | Cash | -250,000 |  | Notes Payable | -250,000 |  |  |  |
| *c.* | Cash | +150,000 |  |  |  |  | Contributed Capital | +150,000 |
| *d.* | Equipment  Cash | +30,000  -3,000 |  | Notes Payable | +27,000 |  |  |  |
| *e.* | Supplies | +30,000 |  | Accounts Payable | +30,000 |  |  |  |

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Cash (+A) | 150,000 |  |
|  | *cr* Notes Payable (+L) |  | 150,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Notes Payable (-L) | 250,000 |  |
|  | *cr* Cash (-A) |  | 250,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Cash (+A) | 150,000 |  |
|  | *cr* Contributed Capital (+SE) |  | 150,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Equipment (+A) | 30,000 |  |
|  | *cr* Cash (-A) |  | 3,000 |
|  | *cr* Notes Payable (+L) |  | 27,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | *dr* Supplies (+A) | 30,000 |  |
|  | *cr* Accounts Payable (+L) |  | 30,000 |

**PB2-4 (continued)**

Req. 3

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Supplies** | | | |  | **Equipment** | | |
| Beg. | 24,000 |  |  |  | Beg. | 99,000 |  |  |  | Beg. | 208,000 |  | |
| (a) | 150,000 |  |  |  | (e) | 30,000 |  |  |  | (d) | 30,000 |  | |
| (c) | 150,000 | 250,000 | (b) |  |  |  |  |  |  |  |  |  | |
|  |  | 3,000 | (d) |  |  |  |  |  |  |  |  |  | |
| End. | 71,000 |  |  |  | End. | 129,000 |  |  |  | End. | 238,000 |  | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Buildings** | | | |  | **Land** | | | |
| Beg. | 500,000 |  |  |  | Beg. | 144,000 |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| End. | 500,000 |  |  |  | End. | 144,000 |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | |  | Notes Payable | | | | |
|  |  | 156,000 | Beg. |  |  | | |  | 583,000 | Beg. |
|  |  | 30,000 | (e) |  | (b) | | | 250,000 | 150,000 | (a) |
|  |  |  |  |  |  | | |  | 27,000 | (c) |
|  |  | 186,000 | End. |  |  | | |  | 510,000 | End. |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Contributed Capital** | | | |  | **Retained Earnings** | | | |
|  |  | 170,000 | Beg. |  |  |  | 66,000 | Beg. |
|  |  | 150,000 | (c) |  |  |  |  |  |
|  |  | 320,000 | End. |  |  |  | 66,000 | End. |

**PB2-4 (continued)**

Req. 4

LAKESHORE COTTAGES

Balance Sheet

At February 28, 2017

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Assets* |  |  | Liabilities |  |
| *Current Assets* |  |  | *Current Liabilities* |  |
| Cash | $ 71,000 |  | Accounts Payable | $ 186,000 |
| Supplies | 129,000 |  | *Total Current Liabilities* | 186,000 |
| *Total Current Assets* | 200,000 |  |  |  |
|  |  |  | Notes Payable | 510,000 |
|  |  |  | Total Liabilities | 696,000 |
|  |  |  |  |  |
| Equipment | 238,000 |  | Shareholders’ Equity |  |
| Buildings | 500,000 |  | Contributed Capital | 320,000 |
| Land | 144,000 |  | Retained Earnings | 66,000 |
|  |  |  | Total Shareholders’ Equity | 386,000 |
| *Total Assets* | $ 1,082,000 |  | *Total Liabilities & Shareholders’ Equity* | $ 1,082,000 |

Req. 5

As of February 28, 2017, most of Lakeshore Cottages’ financing has come from liabilities. Shareholders’ equity has financed $386,000 of Lakeshore Cottages’ assets and liabilities financed $696,000.

**PB2-5**

Req. 1

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | = | Liabilities | | + | Shareholders’ Equity | |
| *a.* | Other Long-term Assets  Cash | +10,000  -10,000 |  |  |  |  |  |  |
| *b.* | Cash | +5,100 |  |  |  |  | Contributed Capital | +5,100 |
| *c.* | Property, Plant and Equipment  Cash | +20,700  -11,200 |  | Long-term Debt | +9,500 |  |  |  |
| *d.* | Cash  Other Long-term Assets | +6,000  -6,000 |  |  |  |  |  |  |
| *e.* | *No effect.* |  |  |  |  |  |  |  |

Req. 2

|  |  |  |  |
| --- | --- | --- | --- |
| a. | *dr* Other Long-term Assets (+A) | 10,000 |  |
|  | *cr* Cash (-A) |  | 10,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| b. | *dr* Cash (+A) | 5,100 |  |
|  | *cr* Contributed Capital (+SE) |  | 5,100 |

|  |  |  |  |
| --- | --- | --- | --- |
| c. | *dr* Property, Plant, and Equipment (+A) | 20,700 |  |
|  | *cr* Cash (−A) |  | 11,200 |
|  | *cr* Long-term Debt (+L) |  | 9,500 |

|  |  |  |  |
| --- | --- | --- | --- |
| d. | *dr* Cash (+A) | 6,000 |  |
|  | *cr* Other Long-term Assets (−A) |  | 6,000 |

|  |  |  |  |
| --- | --- | --- | --- |
| e. | No effect. |  |  |

**PB2-5 (continued)**

Req. 3

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cash | | | |  | **Accounts  Receivable** | | | |  | Inventories | | |
| Beg. | 269,800 |  |  |  | Beg. | 329,500 |  |  |  | Beg. | 692,800 |  | |
| (b) | 5,100 | 10,000 | (a) |  |  |  |  |  |  |  |  |  | |
| (d) | 6,000 | 11,200 | (c) |  |  |  |  |  |  |  |  |  | |
| End. | 259,700 |  |  |  | End. | 329,500 |  |  |  | End. | 692,800 |  | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Other Current Assets | | |  | **Property, Plant, and Equipment** | | | | | |  | Other Long-term Assets | | | |  | |
| Beg. | 455,900 |  |  | | Beg. | 2,956,400 |  |  |  | | Beg. | 968,200 |  |  | |
|  |  |  |  | | (c) | 20,700 |  |  |  | | (a) | 10,000 | 6,000 | (d) | |
| End. | 455,900 |  |  | | End. | 2,977,100 |  |  |  | | End. | 972,200 |  |  | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | |  | | | **Short-term Bank Loans** | | | | | | | | | | | | | |  | | | | **Long-term Debt** | | | | | | | |
|  | | 324,900 | | Beg. | | | | | | | |  | | | |  | 1,864,800 | | | Beg. | | | | | | | |  | | 549,600 | | Beg. | | | |
|  | |  | |  | | | |  | | | |  | | | |  |  | | |  | | | |  | | | |  | | 9,500 | | (c) | | | |
|  | | 324,900 | | End. | | | | | | | |  | | | |  | 1,864,800 | | | End. | | | | | | | |  | | 559,100 | | End. | | | |
|  | | | | | | | | | |  | | | | |  | | | | | | | | | | | | |  |  | | | | | | | |
| **Other Long-term Liabilities** | | | | |  | | | | | | | | **Contributed Capital** | | | | | | | |  | | | | **Retained Earnings** | | | | | | | | |
|  | 442,400 | | Beg. | | | |  | | | |  | | |  | | | | 40,100 | Beg. | | |  | | | |  | | | | | 2,450,800 | | Beg. | | | |
|  |  | |  | | | |  | | | |  | | |  | | | | 5,100 | (b) | | |  | | | |  | | | | |  | |  | | | |
|  | 442,400 | | End. | | | |  | | | |  | | |  | | | | 45,200 | End. | | |  | | | |  | | | | | 2,450,800 | | End. | | | |

Req. 4

The negotiations to purchase a coffee farm were not included in the transactions. Because event (e) involves only negotiations, it does not constitute an exchange of cash, goods, or services and thus is not a transaction.

**PB2-5 (continued)**

Req. 5

Starbucks

Balance Sheet

At December 31, 2017

(in thousands of dollars)

|  |  |
| --- | --- |
| Assets |  |
| *Current Assets* |  |
| Cash | $ 259,700 |
| Accounts Receivable | 329,500 |
| Inventories | 692,800 |
| Other Current Assets | 455,900 |
| *Total Current Assets* | 1,737,900 |
| Property, Plant, and Equipment | 2,977,100 |
| Other Long-term Assets | 972,200 |
| Total Assets | $ 5,687,200 |
| Liabilities |  |
| Current Liabilities |  |
| Accounts Payable | $ 324,900 |
| Short-term Bank Loans | 1,864,800 |
| *Total Current Liabilities* | 2,189,700 |
| Long-term Debt | 559,100 |
| Other Long-term Liabilities | 442,400 |
| Total Liabilities | 3,191,200 |
| Shareholders’ Equity |  |
| Contributed Capital | 45,200 |
| Retained Earnings | 2,450,800 |
| Total Shareholders’ Equity | 2,496,000 |
| Total Liabilities and Shareholders’ Equity | $ 5,687,200 |

Req. 6

As of December 31, 2017, financing for Starbucks’ assets has come primarily from liabilities. Liabilities financed $3,191,200,000 of the company’s total assets and shareholders’ equity financed $2,496,000,000.

**ANSWERS TO SKILLS DEVELOPMENT CASES**

**S2-1**

Req. 1

The company’s fiscal year end for the most recent year is January 29, 2017. This date can be found on the balance sheet (and on the other financial statements). Note that last year’s fiscal year end was on January 31. For The Home Depot, the exact date of the fiscal year end varies from year to year, but it always falls near the end of January.

Req. 2

Assets = Liabilities + Shareholders’ Equity

$42,966,000,000 = $38,633,000,000 + $4,333,000,000

Req. 3

The amount in the company’s current liabilities is $14,133,000,000. Yes, current assets are sufficient to cover current liabilities. Current assets are $17,724,000,000 which is greater than current liabilities. In fact, the current ratio is 1.25 ($17,724,000,000 ÷ $14,133,000,0001).

Req. 4

Financing for the company’s investment in assets has come primarily from liabilities. The Home Depot’s shareholders’ (owners’) equity has financed $4,333,000,000 of the total assets of the company whereas liabilities have financed $38,633,000,000.

**S2-2**

Req. 1

The Home Depot’s:

Assets = Liabilities + Shareholders’ Equity

$42,966,000,000 = $38,633,000,000 + $4,333,000,000

Lowe’s:

Assets = Liabilities + Shareholders’ Equity

$34,408,000,000 = $27,974,000,000 + $6,434,000,000

The Home Depot is larger in terms of total assets of $42,966,000,000 compared to Lowe’s assets of $34,408,000,000 .

**S2-2 (continued)**

Req. 2

Lowe’s current liabilities of $11,974,000,000 are less than the $14,133,000,000 reported by The Home Depot.

The Home Depot: Lowe’s:

Current Ratio = $17,724 = 1.25 Current Ratio = $12,000 = 1.00

$14,133 $11,974

The Home Depot has a larger current ratio, implying better ability to pay liabilities as they come due.

Req. 3

The amount reported for inventories on the balance sheet represents the original cost of the products to Lowe’s Companies, Inc., not the expected selling price. The cost principle requires that transactions be recorded at their original cost to the company.

Req. 4

Financing for Lowe’s Companies Inc.’s investment in assets has come more from liabilities. The Lowe’s Companies Inc.’s shareholders’ equity has financed $6,434,000,000 of the total assets of the company and liabilities have financed $27,974,000,000.

The more the company has in assets and the less it has in liabilities, the more likely the company will be able to pay all that it owes to creditors, making the company a less risky investment. To predict whether a company is likely to pay all that it owes to creditors and still have something left over to pay out to owners, creditors and investors look at relative amounts of assets, liabilities, and shareholders’ equity. To determine the percentage of assets financed by creditors, simply divide total liabilities by total assets and multiply by 100.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Lowe’s | Total liabilities | x 100 = | 27,974 | x 100 = | 81.3% |
|  | Total assets | 34,408 |
|  |  |  |  |  |  |
| Home Depot | Total liabilities | x 100 = | 38,633 | x 100 = | 89.9% |
|  | Total assets | 42,966 |

This places Lowe’s in a less risky financial position for investors because it has a smaller percentage of its assets financed by creditors (or liabilities).

**S2-3**

The solution to this team project will depend on the companies and/or accounting period selected for analysis.

**S2-4**

Req. 1

Assets = Liabilities + Shareholders’ Equity

$15,000 = $15,000 + 0

Ponzi received $15,000 cash ($5,000 from each of the three lenders) in exchange for a promise to repay that money in 90 days. The 50% interest that Ponzi is paying is not a factor in the accounting equation yet because interest is not owed until time has passed. As of December 27, 1919, the interest is just a promise and so no transaction has occurred.

Req. 2

If two of the lenders are repaid their original loan plus the 50% interest there will be no cash left in the business to repay the third lender. It was possible for Ponzi to remain in “business” for 8 months because he continued to collect more money from new lenders, which was used to repay the other lenders.

Req. 3

With the exception of Ponzi and his first lenders (family and friends), almost everyone who provided funds to him was harmed financially. Beyond that, the credibility of all new businesses and their founders was called into question. Ultimately, schemes like Ponzi’s led to the creation of accounting rules and stock regulation, but not until thousands of innocent people lost millions of dollars.

**S2-5**

Req. 1

The president is concerned with the amount of assets that are reported on the balance sheet because investors and creditors judge the riskiness of the company by comparing the amount of recorded assets to liabilities. The greater the amount of the company’s assets for a given amount of liabilities, the less risky the company appears to investors and creditors.

Req. 2

The accounting concept that relates to reporting “Intellectual Abilities” as an asset is measurement and, specifically, the cost principle. In the case of “Intellectual Abilities,” the company has not acquired this asset through an identifiable transaction (and there exists no known cost for this asset), so it cannot be reported on the balance sheet as an asset.

Req. 3

The accounting concept that relates to reporting the land is conservatism, which requires that when there is uncertainty about the amount at which assets and liabilities should be reported, the least optimistic measurement should be used. In this case, if the drop in land value is judged to be permanent, conservatism would require that the amount recorded for land be reduced to the lower amount.

Req. 4

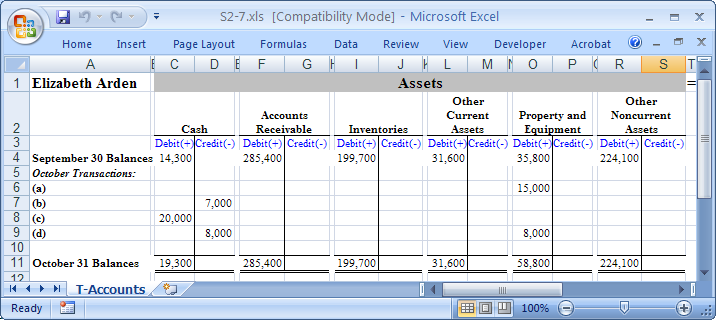
Parties that might be hurt by the president’s suggestions include investors, lenders, and other creditors. The bank in particular could be hurt because its managers will consider the company’s recorded assets as a benchmark for assessing the company’s credit risk. Also, if you were to go along with the president’s requests, you also could be personally hurt because you might be charged as an accomplice to fraudulent financial reporting.

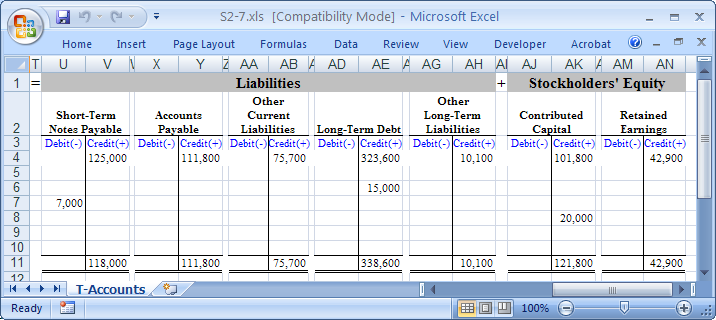
You should not report the “Intellectual Abilities” on the balance sheet. Also, you should insist that the amount reported for land be reduced to the appraiser’s estimates, unless the president can provide evidence that the decline in value is not permanent.

**S2-6**

The major deficiency in this balance sheet is the inclusion of the owner’s personal residence as a business asset. Under the separate entity assumption, each business must be accounted for as a separate organization, apart from its owners. The improper inclusion of this asset as part of Betsey Jordan’s business overstates total assets by $300,000; total assets should be $105,000 rather than $405,000, and shareholder’s equity should be only $5,000, rather than $305,000. Betsey Jordan’s business is far riskier than suggested by this balance sheet.

**S2-7**

****



**ANSWERS TO CONTINUING CASE**

**CC2-1**

Req. 1

|  |  |  |  |
| --- | --- | --- | --- |
| a) | *dr*  Cash (+A)  *cr*  Contributed Capital (+SE) | 80,000 | 80,000 |
| b) | *dr*  Land (+A)  *cr*  Note Payable (+L)  *cr*  Cash (-A) | 9,000 | 7,000  2,000 |
| c) | This is an exchange of only promises, so it is not a transaction. | | |
| d) | *dr*  Soaps and Aromatherapy Supplies (+A)  *cr*  Accounts Payable (+L) | 1,000 | 1,000 |
| e) | *dr*  Equipment (+A)  *cr*  Cash (-A) | 18,000 | 18,000 |
| f) | No transaction. Separate entity assumption. | | |
| g) | *dr*  Accounts Payable (-L)  *cr*  Cash (-A) | 350 | 350 |

**CC2-1 (continued)**

Req. 2

|  |  |
| --- | --- |
| Cash | |
| Beg. 0  (a) 80,000 | 2,000 (b)  18,000 (e)  350 (g) |
| End. 59,650 |  |

|  |  |
| --- | --- |
| Soaps and Aromatherapy Supplies | |
| Beg. 0  (d) 1,000 |  |
| End. 1,000 |  |

|  |  |
| --- | --- |
| Equipment | |
| Beg. 0  (e) 18,000 |  |
| End. 18,000 |  |

|  |  |
| --- | --- |
| Land | |
| Beg. 0  (b) 9,000 |  |
| End. 9,000 |  |

|  |  |
| --- | --- |
| Accounts Payable | |
| (g) 350 | 0 Beg.  1,000 (d) |
|  | 650 End. |

|  |  |
| --- | --- |
| Note Payable | |
|  | 0 Beg.  7,000 (b) |
|  | 7,000 End. |

|  |  |
| --- | --- |
| Contributed Capital | |
|  | 0 Beg.  80,000 (a) |
|  | 80,000 End. |

**CC2-1 (continued)**

Req. 3

|  |  |  |
| --- | --- | --- |
| Nicole’s Getaway Spa  Balance Sheet  At April 30, 2017 | | |
| Assets  *Current Assets*  Cash  Soaps and Aromatherapy Supplies  *Total Current Assets*  Equipment  Land  *Total Assets* |  | $ 59,650  1,000  60,650    18,000  9,000  $87,650 |
| Liabilities  *Current Liabilities*  Accounts Payable  *Total Current Liabilities*  Notes Payable  *Total Liabilities* |  | $ 650  650  7,000  7,650 |
| Shareholders’ Equity:  Contributed Capital  *Total Shareholders’ Equity* |  | 80,000  80,000 |
| *Total Liabilities and Shareholders’ Equity* |  | $ 87,650 |

Req. 4

The current ratio indicates the proportion of current assets relative to current liabilities. As of April 30, 2017, NGS has 93.3 times more current assets than current liabilities ($60,650 ÷ $650 = 93.3). Clearly, NGS is presently able to pay its current liabilities with no difficulty. Nevertheless, this is likely to change in the future when some of the initial start-up cash is used to operate the company.