

Solutions Manual for Fundamental Accounting Principles 24th Wild

CHAPTER 2

ANALYZING AND RECORDING TRANSACTIONS

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

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

SP refers to the Serial Problem

AA refers to Accounting Analysis

BTN refers to Beyond the Numbers

GL refers to General Ledger Problems

Questions with Guided Example videos

Additional Information on Related Assignment Material

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

Connect

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

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

Hints/Guided Examples

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

Need-to-Know Videos

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

Concept Overview Videos

Each video is paired with a Knowledge Check question.

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

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

Synopsis of Chapter Revisions

NEW opener—Fitbit and entrepreneurial assignment.

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

New layout on four types of accounts that determine equity.

Improved presentation of “Double-Entry System” section.

Updated Apple data for NTK 2-4.

Updated debt ratio analysis using Costco and Walmart.

New Cheat Sheet reinforces chapter content.

Added four new Quick Studies.

Added three new Exercises.

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

Chapter Outline

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

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

II. The “Account” Underlying Financial Statements

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

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

III. Ledger and Chart of Accounts

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

IV. Double-Entry Accounting

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

A. Debits and Credit

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

V. Analyzing and Processing Transactions

A. Journalizing and Posting Transactions

Four steps in processing transactions are as follows:

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

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

VI. Trial Balance

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

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

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

VI. Decision Analysis—Debt Ratio

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

Chapter 2 Alternate Demonstration Problem

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

Mar 1. Bill Smith invested \$3,000 cash to start the business.

- 15. Bill provided services and received cash amounting to \$5,400 from customers.**
- 16. Purchased supplies on account, \$100.**
- 17. Paid for gas and oil, \$800.**
- 18. Paid salaries, \$5,000.**
- 21. Provided service on credit, \$600.**
- 28. Bill provided services and received cash amounting to \$6,000.**
- 29. Paid for truck and equipment rental, \$2,500.**
- 30. Bill Smith withdrew cash of \$2,000 for his personal use.**

Required:

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

Chapter 2 Solution: Alternate Demonstration Problem

GENERAL JOURNAL

DATE	ACCOUNT TITLES AND EXPLANATION	PR	DEBIT				CREDIT		
March 1	Cash		3	0	0	00			
	B. Smith, Capital						3	0	00
15	Cash		5	4	0	00			
	Service Fees Earned						5	4	00
16	Supplies		1	0	0	00			
	Accounts Payable						1	0	00
17	Gas and Oil Expense		8	0	0	00			
	Cash						8	0	00
18	Salaries Expense		5	0	0	00			
	Cash						5	0	00
21	Accounts Receivable		6	0	0	00			
	Service Fees Earned						6	0	00
28	Cash		6	0	0	00			
	Service Fees Earned						6	0	00
29	Equipment Rental Expense		2	5	0	00			
	Cash						2	5	00
30	B. Smith, Withdrawals		2	0	0	00			
	Cash						2	0	00

Speedy Computer Service

Trial Balance**March 31, 2019**

Cash	41 00 00			
Accounts Receivable	6 00 00			
Supplies	1 00 00			
Accounts Payable			1 00 00	
B.Smith, Capital			3 00 00	
B.Smith, Withdrawals	2 00 00			
Service Fees Earned			1 2 00 00	
Gas & Oil Expense	8 00 00			
Equipment Rental Expense	2 50 00			
Salaries Expense	5 00 00			
Totals	1 51 00 00	1 51 00 00		

3.

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

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

4. **Speedy Computer Service**
Statement of Owner's Equity
For the month ended March 31, 2019

Beginning Owner's Equity	\$0
Add: Investments by Owner	3,000
Add: Net Income	<u>3,700</u>
Total	6,700
Less: Withdrawals by Owner	<u>2,000</u>
Ending Owner's Equity	<u>\$4,700</u>

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

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

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

Chapter 2

Analyzing and Recording 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: owner, capital and owner, withdrawals.
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 owner's equity, and statement of cash flows.
11. The balance sheet provides information that helps users understand a company's financial position at a point in time. Accordingly, it is often called the statement of financial position. The balance sheet lists the types and dollar amounts of assets, liabilities, and equity of the business.
12. The income statement lists the types and amounts of revenues and expenses, and reports whether the business earned a net income (also called profit or earnings) or a net loss.
13. An income statement user must know what time period is covered to judge whether the company's performance is satisfactory. For example, a statement user would not be able to assess whether the amounts of revenue and net income are satisfactory without knowing whether they were earned over a week, a month, a quarter, or a year.
14. (a) Assets are probable future economic benefits obtained or controlled by a specific entity as a result of past transactions or events. (b) Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. (c) Equity is the residual interest in the assets of an entity that remains after deducting its liabilities.
15. The balance sheet is sometimes referred to as the statement of financial position.
16. Debit balance accounts on the Apple balance sheet include: Cash and cash equivalents; Short-term marketable securities; Accounts receivable; Inventories; Vendor non-trade receivables; Other current assets; Long-term marketable securities; Property, plant and equipment, net; Goodwill; Acquired intangible assets, net; Other non-current assets.

Credit balance accounts on the Apple balance sheet include: Accounts payable; Accrued expenses; Deferred revenue; Commercial paper; Current portion of long-term debt; Deferred revenue, non-current; Long-term debt; Other non-current liabilities; Common stock; Retained earnings; Accumulated other comprehensive income (current year abnormal debit balance).
17. The asset accounts with *receivable* in its account title are: Accounts receivable, net; Income taxes receivable, net. The liabilities with *payable* in the account title are: Accounts payable; Income taxes payable, net; Income taxes payable, non-current.
18. Samsung's balance sheet lists the following current liabilities: Trade payables; Short-term borrowings; Other payables; Advances received; Withholdings; Accrued expenses; Income tax payable; Current portion of long-term liabilities; Provisions; Other current liabilities; Liabilities held-for-sale.

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

QUICK STUDIES

Quick Study 2-1 (10 minutes)

The likely source documents include:

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

Quick Study 2-2 (5 minutes)

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

Quick Study 2-3 (5 minutes)

- a. E Expense 655
- b. R Revenue 406
- c. A Asset 110
- d. A Asset 169
- e. L Liability 201
- f. A Asset 161
- g. L Liability 245
- h. EQ Equity 301
- 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				D. Tyler, Capital
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	
	D. Tyler, Capital	301		10,000
	<i>Owner invests cash & equipment.</i>			

3) Post

Cash	101	Equipment	167	D. Tyler, Capital	301
7,000		3,000			10,000

Quick Study 2-6 (Continued)

b.

1) Analyze:

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

2) Record:

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

3) Post

Office Supplies	124	Accounts Payable	201
500			500

c.

1) Analyze:

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

2) Record:

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

3) Post

Cash	101	Landscaping Revenue	403
4,000			4,000

Quick Study 2-6 (Continued)

d.

1) Analyze:

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

2) Record:

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

3) Post

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

Quick Study 2-7 (10 minutes)

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

Quick Study 2-8 (10 minutes)

The correct answer is a.

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

Quick Study 2-9 (10 minutes)

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

Quick Study 2-10 (10 minutes)

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

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

Quick Study 2-11 (15 minutes)

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

Quick Study 2-12 (15 minutes)

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

Quick Study 2-13 (15 minutes)

LAWSON CONSULTING Statement of Owner's Equity For Month Ended June 30	
L. Zhang, Capital, June 1	\$ 0
Add: Investment by owner	10,000
Net income (from QS 2-12)	<u>4,000</u>
	14,000
Less: Withdrawals by owner	<u>1,500</u>
L. Zhang, Capital, June 30	<u>\$12,500</u>

Quick Study 2-14 (15 minutes)

LAWSON CONSULTING Balance Sheet June 30			
Assets		Liabilities	
Cash.....	\$ 5,000	Accounts payable.....	\$ 3,500
Accounts receivable	4,500	Equity	
Equipment.....	<u>6,500</u>	L. Zhang, Capital*	<u>12,500</u>
Total assets.....	<u>\$16,000</u>	Total liabilities & equity	<u>\$16,000</u>

* Amount from Quick Study 2-13.

Quick Study 2-15 (10 minutes)

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

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

EXERCISES

Exercise 2-1 (10 minutes)

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

Exercise 2-2 (10 minutes)

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

Exercise 2-3 (5 minutes)

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

Exercise 2-4 (15 minutes)

Account	Type of Account	Normal Balance	Increase (Dr. or Cr.)
a. Land	asset	debit	debit
b. Cash	asset	debit	debit
c. Legal Expense	expense	debit	debit
d. Prepaid Insurance	asset	debit	debit
e. Accounts Receivable	asset	debit	debit
f. Owner, Withdrawals	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. Owner, Capital	equity	credit	credit

Exercise 2-5 (15 minutes)**a. Analyze:**

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

b. Record:

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

c. Post

Cash	101
10,000	

Note Payable	245
	28,000

Equipment	167
80,000	

Revenue	404
	62,000

Exercise 2-6 (15 minutes)

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

Exercise 2-7 (25 minutes)

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

Exercise 2-8 (30 minutes)**Part 1**

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

Office Supplies	
Aug. 5	880

Prepaid Insurance	
Aug. 2	2,100

Photography Equipment	
Aug. 1	33,500

M. Harris, Capital	
Aug. 1	40,000

Photography Fees Earned	
Aug. 20	3,331

Utilities Expense	
Aug. 31	675

Part 2

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

Exercise 2-9 (30 minutes)

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

Exercise 2-9 (concluded)

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

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

K. Spade, Capital			
		(a)	100,750
		Balance	100,750

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

K. Spade, Withdrawals			
(i)	10,000		
Balance	10,000		

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

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

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

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

Exercise 2-10 (15 minutes)

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

Exercise 2-11 (20 minutes)

1.

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

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

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

Exercise 2-12 (20 minutes)

1.

a.	Cash	20,000	
	B. Valdez, Capital		20,000
	<i>Cash received from owner investment.</i>		
b.	Cash	900	
	Services Revenue		900
	<i>Provided services for cash.</i>		
c.	Cash	10,000	
	Unearned Services Revenue		10,000
	<i>Cash received for future services.</i>		
d.	Cash	3,500	
	Accounts Receivable.....		3,500
	<i>Cash received toward accounts receivable.</i>		
e.	Cash	5,000	
	Note Payable		5,000
	<i>Cash received for note payable to bank.</i>		

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

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

Exercise 2-13 (25 minutes)

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

Supplies	
(3) 900	

Prepaid Insurance	
(2) 4,800	

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

Web Servers	
(1) 12,000	

Accounts Payable	
(6) 900	(3) 900

D. Belle, Capital	
	(1) 25,600

Services Revenue	
	(5) 4,500

Selling Expenses	
(4) 800	

Exercise 2-14 (30 minutes)

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

Exercise 2-15 (20 minutes)

Calculation of change in equity for part a through part d

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

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

Net Income = \$29,000

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

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

Net Income = \$44,000

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

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

Net Loss = \$26,000

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

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

Net Income = \$9,000

The withdrawals 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	<u>520</u>	
Total expenses		<u>16,530</u>
Net income		<u>\$ 10,470</u>

Exercise 2-17 (15 minutes)

HELP TODAY		
Statement of Owner's Equity		
For Month Ended August 31		
C. Camry, Capital, August 1		\$ 0
Add: Investment by owner		102,000
Net income (from Exercise 2-16)		<u>10,470</u>
		112,470
Less: Withdrawals by owner		<u>6,000</u>
C. Camry, Capital, August 31		<u>\$106,470</u>

Exercise 2-18 (15 minutes)

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

* Amount from Exercise 2-17.

Exercise 2-19 (15 minutes)

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

Exercise 2-20 (20 minutes)

	(1) Difference between Debit and Credit Columns	(2) Column with the Larger Total	(3) Identify account(s) incorrectly stated	(4) Amount that account(s) is overstated or understated
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 Withdrawals account is debited to Owner's Capital.	\$0	—	Owner, Capital Owner, Withdrawals	Owner, Capital is understated by \$10,900 Owner, Withdrawals 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.	<u>Correctly-stated.</u> 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.	<u>Understated.</u> The credit column is understated by \$37,900 because Accounts Payable was debited — it should have been credited.	\$37,900
c.	<u>Correctly-stated.</u> The Automobiles account balance is correctly stated.	\$0
d.	<u>Understated.</u> The Accounts Payable account balance is understated by \$37,900. It should have been increased (credited) by \$18,950 but the posting error decreased (debited) it by \$18,950.	\$37,900
e.	The credit column is \$37,900 less than the debit column, or \$162,100 in total (\$200,000 - \$37,900).	

Exercise 2-22 (15 minutes)a.

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

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

Exercise 2-23 (25 minutes)

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

PROBLEM SET A

Problem 2-1A (90 minutes)

Part 1

April 1	Cash.....	101	80,000	
	Office Equipment.....	163	26,000	
	K. Tanner, Capital	301		106,000
	<i>Owner invested cash and equipment.</i>			
2	Prepaid Rent	131	9,000	
	Cash.....	101		9,000
	<i>Prepaid twelve months' rent.</i>			
3	Office Equipment.....	163	8,000	
	Office Supplies	124	3,600	
	Accounts Payable.....	201		11,600
	<i>Purchased equip. & supplies on credit.</i>			
6	Cash.....	101	4,000	
	Services Revenue.....	403		4,000
	<i>Received cash for services.</i>			
9	Accounts Receivable	106	6,000	
	Services Revenue.....	403		6,000
	<i>Billed client for completed work.</i>			
13	Accounts Payable	201	11,600	
	Cash.....	101		11,600
	<i>Paid balance due on account.</i>			
19	Prepaid Insurance	128	2,400	
	Cash.....	101		2,400
	<i>Paid premium for insurance.</i>			
22	Cash.....	101	4,400	
	Accounts Receivable	106		4,400
	<i>Collected part of amount owed by client.</i>			
25	Accounts Receivable	106	2,890	
	Services Revenue.....	403		2,890
	<i>Billed client for completed work.</i>			
28	K. Tanner, Withdrawals.....	302	5,500	
	Cash.....	101		5,500
	<i>Owner withdrew cash for personal use.</i>			
29	Office Supplies	124	600	
	Accounts Payable.....	201		600
	<i>Purchased supplies on account.</i>			
30	Utilities Expense.....	690	435	
	Cash.....	101		435
	<i>Paid monthly utility bill.</i>			

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

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

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

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

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

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

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

Problem 2-1A (Continued)

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

K. Tanner, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
April 1		G1		106,000	106,000

K. Tanner, Withdrawals				Acct. No. 302	
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
K. Tanner, Capital.....		106,000
K. Tanner, Withdrawals.....	5,500	
Services revenue.....		12,890
Utilities expense	<u>435</u>	<u> </u>
Total	<u>\$119,490</u>	<u>\$119,490</u>

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

a.	Cash.....101	100,000	
	Office Equipment.....163	5,000	
	Drafting Equipment.....164	60,000	
	J. Aracel, Capital.....301		165,000
	<i>Owner invested cash and equipment.</i>		
b.	Land.....172	49,000	
	Cash.....101		6,300
	Notes Payable.....250		42,700
	<i>Purchased land with cash and note payable.</i>		
c.	Building.....170	55,000	
	Cash.....101		55,000
	<i>Purchased building.</i>		
d.	Prepaid Insurance.....108	3,000	
	Cash.....101		3,000
	<i>Purchased 18-month insurance policy.</i>		
e.	Cash.....101	6,200	
	Engineering Fees Earned.....402		6,200
	<i>Collected cash for completed work.</i>		
f.	Drafting Equipment.....164	20,000	
	Cash.....101		9,500
	Notes Payable.....250		10,500
	<i>Purchased equipment with cash and note payable.</i>		
g.	Accounts Receivable.....106	14,000	
	Engineering Fees Earned.....402		14,000
	<i>Completed services for client.</i>		
h.	Office Equipment.....163	1,150	
	Accounts Payable.....201		1,150
	<i>Purchased equipment on credit.</i>		

Problem 2-2A (Part 1 Continued)

i.	Accounts Receivable	106	22,000	
	Engineering Fees Earned	402		22,000
	<i>Billed client for completed work.</i>			
j.	Equipment Rental Expense	602	1,333	
	Accounts Payable	201		1,333
	<i>Incurred equipment rental expense.</i>			
k.	Cash	101	7,000	
	Accounts Receivable	106		7,000
	<i>Collected cash on account.</i>			
l.	Wages Expense	601	1,200	
	Cash	101		1,200
	<i>Paid assistant's wages.</i>			
m.	Accounts Payable	201	1,150	
	Cash	101		1,150
	<i>Paid amount due on account.</i>			
n.	Repairs Expense	604	925	
	Cash	101		925
	<i>Paid for repair of equipment.</i>			
o.	J. Aracel, Withdrawals	302	9,480	
	Cash	101		9,480
	<i>Owner withdrew cash for personal use.</i>			
p.	Wages Expense	601	1,200	
	Cash	101		1,200
	<i>Paid assistant's wages.</i>			
q.	Advertising Expense	603	2,500	
	Cash	101		2,500
	<i>Paid for advertising expense.</i>			

Problem 2-2A (Continued)
Part 2

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

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

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

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

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

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

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

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

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

J. Aracel, Capital No. 301				
Date	PR	Debit	Credit	Balance
(a)			165,000	165,000

J. Aracel, Withdrawals No. 302				
Date	PR	Debit	Credit	Balance
(o)		9,480		9,480

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

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

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

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

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

Problem 2-2A (Concluded)
Part 3

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

Problem 2-3A (90 minutes)**Part 1**

Mar. 1	Cash.....101	150,000	
	Office Equipment.....163	22,000	
	D. Brooks, Capital.....301		172,000
	<i>Owner invested cash and equipment.</i>		
2	Prepaid Rent131	6,000	
	Cash.....101		6,000
	<i>Prepaid six months' rent.</i>		
3	Office Equipment.....163	3,000	
	Office Supplies124	1,200	
	Accounts Payable.....201		4,200
	<i>Purchased equipment and supplies on credit.</i>		
6	Cash.....101	4,000	
	Services Revenue.....403		4,000
	<i>Received cash for services.</i>		
9	Accounts Receivable106	7,500	
	Services Revenue.....403		7,500
	<i>Billed client for completed work.</i>		
12	Accounts Payable201	4,200	
	Cash.....101		4,200
	<i>Paid balance due on account.</i>		
19	Prepaid Insurance128	5,000	
	Cash.....101		5,000
	<i>Paid premium for insurance.</i>		
22	Cash.....101	3,500	
	Accounts Receivable106		3,500
	<i>Collected part of amount owed by client.</i>		
25	Accounts Receivable106	3,820	
	Services Revenue.....403		3,820
	<i>Billed client for completed work.</i>		
29	D. Brooks, Withdrawals302	5,100	
	Cash.....101		5,100
	<i>Owner withdrew cash for personal use.</i>		
30	Office Supplies124	600	
	Accounts Payable.....201		600
	<i>Purchased supplies on account.</i>		
31	Utilities Expense.....690	500	
	Cash.....101		500
	<i>Paid monthly utility bill.</i>		

Problem 2-3A (Continued)
Part 2

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

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

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

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

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

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

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

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

D. Brooks, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 1		G1		172,000	172,000

D. Brooks, Withdrawals				Acct. No. 302	
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
D. Brooks, Capital		172,000
D. Brooks, Withdrawals	5,100	
Services revenue.....		15,320
Utilities expense	<u>500</u>	<u></u>
Totals	<u>\$187,920</u>	<u>\$187,920</u>

Problem 2-4A (90 minutes)**Part 1**

a.	Cash.....	101	60,000	
	Office Equipment.....	163	25,000	
	H. Venedict, Capital.....	301		85,000
	<i>Owner invested cash and equipment.</i>			
b.	Land.....	172	40,000	
	Building.....	170	160,000	
	Cash.....	101		30,000
	Notes Payable.....	250		170,000
	<i>Purchased land and building with cash and note payable.</i>			
c.	Office Supplies.....	108	2,000	
	Accounts Payable.....	201		2,000
	<i>Purchased office supplies on account.</i>			
d.	Automobiles.....	164	16,500	
	H. Venedict, Capital.....	301		16,500
	<i>Owner contributed automobile to business.</i>			
e.	Office Equipment.....	163	5,600	
	Accounts Payable.....	201		5,600
	<i>Purchased office equipment on account.</i>			
f.	Salaries Expense.....	601	1,800	
	Cash.....	101		1,800
	<i>Paid assistant's salary.</i>			
g.	Cash.....	101	8,000	
	Fees Earned.....	402		8,000
	<i>Provided services for cash.</i>			
h.	Utilities Expense.....	602	635	
	Cash.....	101		635
	<i>Paid cash for utilities.</i>			

Problem 2-4A (Part 1 Continued)

i.	Accounts Payable	201	2,000	
	Cash	101		2,000
	<i>Paid cash on account.</i>			
j.	Office Equipment.....	163	20,300	
	Cash	101		20,300
	<i>Purchased new equipment with cash.</i>			
k.	Accounts Receivable	106	6,250	
	Fees Earned.....	402		6,250
	<i>Provided services on account.</i>			
l.	Salaries Expense	601	1,800	
	Cash	101		1,800
	<i>Paid assistant's salary.</i>			
m.	Cash.....	101	4,000	
	Accounts Receivable.....	106		4,000
	<i>Received cash due on account.</i>			
n.	H. Venedict, Withdrawals.....	302	2,800	
	Cash	101		2,800
	<i>Owner withdrew cash for personal use.</i>			

Problem 2-4A (Continued)
Part 2

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

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

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

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

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

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

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

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

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

H. Venedict, Capital				No. 301
Date	PR	Debit	Credit	Balance
(a)			85,000	85,000
(d)			16,500	101,500

H. Venedict, Withdrawals				No. 302
Date	PR	Debit	Credit	Balance
(n)		2,800		2,800

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

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

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

Problem 2-4A (Concluded)
Part 3

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

Problem 2-5A (90 minutes)

Part 1

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

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

Part 2

Computation of 2019 net income:

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

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

* Computation of 2019 equity increase:

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

Part 3

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

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

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
Y. Min, Capital		18,000
Y. Min, Withdrawals.....	3,370	
Engineering fees earned.....		36,000
Rent expense	7,540	
Totals	<u>\$66,900</u>	<u>\$66,900</u>

Part 2

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

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

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

Problem 2-7A (40 minutes)**Part 1**

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

Part 2

METRIX		
Statement of Owner's Equity		
For Month Ended March 31		
A. Lopez, Capital, March 1	\$	0
Add: Investment by owner	11,600	
Net income (from Income Statement) ..	<u>6,900</u>	
		18,500
Less: Withdrawals by owner	<u>2,000</u>	
A. Lopez, Capital, March 31		<u>\$16,500</u>

Problem 2-7A (Concluded)**Part 3**

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

* Amount from Statement of Owner's Equity.

PROBLEM SET B

Problem 2-1B (90 minutes)

Part 1

Sept. 1	Cash.....	101	38,000	
	Office Equipment.....	163	15,000	
	H. Humble, Capital	301		53,000
	<i>Owner invested in the business.</i>			
2	Prepaid Rent	131	9,000	
	Cash	101		9,000
	<i>Prepaid twelve months' rent.</i>			
4	Office Equipment.....	163	8,000	
	Office Supplies	124	2,400	
	Accounts Payable	201		10,400
	<i>Purchased equipment and supplies on credit.</i>			
8	Cash.....	101	3,280	
	Services Revenue	401		3,280
	<i>Received cash for services.</i>			
12	Accounts Receivable	106	15,400	
	Services Revenue	401		15,400
	<i>Billed client for completed work.</i>			
13	Accounts Payable	201	10,400	
	Cash	101		10,400
	<i>Paid balance due on account.</i>			
19	Prepaid Insurance	128	1,900	
	Cash	101		1,900
	<i>Paid premium for insurance.</i>			
22	Cash.....	101	7,700	
	Accounts Receivable.....	106		7,700
	<i>Collected part of amount owed by client.</i>			
24	Accounts Receivable.....	106	2,100	
	Services Revenue	401		2,100
	<i>Billed client for completed work.</i>			
28	H. Humble, Withdrawals	302	5,300	
	Cash	101		5,300
	<i>Owner withdrew cash for personal use.</i>			
29	Office Supplies	124	550	
	Accounts Payable	201		550
	<i>Purchased supplies on account.</i>			
30	Utilities Expense.....	690	860	
	Cash	101		860
	<i>Paid monthly utility bill.</i>			

Problem 2-1B (Continued)
Part 2

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

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

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

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

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

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

Problem 2-1B (Continued)

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

H. Humble, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
Sept. 1		G1		53,000	53,000

H. Humble, Withdrawals				Acct. No. 302	
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
H. Humble, Capital.....		53,000
H. Humble, Withdrawals	5,300	
Services revenue		20,780
Utilities expense	<u>860</u>	<u></u>
Totals	<u>\$74,330</u>	<u>\$74,330</u>

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

a.	Cash.....101	65,000	
	Office Equipment.....163	5,750	
	Computer Equipment.....164	30,000	
	B. Grechus, Capital301		100,750
	<i>Owner invested cash and equipment.</i>		
b.	Land.....172	22,000	
	Cash.....101		5,000
	Notes Payable250		17,000
	<i>Purchased land with cash and note payable.</i>		
c.	Building170	34,500	
	Cash.....101		34,500
	<i>Purchased building.</i>		
d.	Prepaid Insurance108	5,000	
	Cash.....101		5,000
	<i>Purchased 24-month insurance policy.</i>		
e.	Cash.....101	4,600	
	Fees Earned402		4,600
	<i>Collected cash for completed work.</i>		
f.	Computer Equipment.....164	4,500	
	Cash.....101		800
	Notes Payable250		3,700
	<i>Purchased equipment with cash and note payable.</i>		
g.	Accounts Receivable106	4,250	
	Fees Earned402		4,250
	<i>Completed services for client.</i>		
h.	Office Equipment.....163	950	
	Accounts Payable.....201		950
	<i>Purchased equipment on credit.</i>		

Problem 2-2B (Part 1 Continued)

i.	Accounts Receivable	106	10,200	
	Fees Earned	402		10,200
	<i>Billed client for completed work.</i>			
j.	Computer Rental Expense.....	602	580	
	Accounts Payable.....	201		580
	<i>Incurred computer rental expense.</i>			
k.	Cash.....	101	5,100	
	Accounts Receivable	106		5,100
	<i>Collected cash on account.</i>			
l.	Wages Expense	601	1,800	
	Cash.....	101		1,800
	<i>Paid assistant's wages.</i>			
m.	Accounts Payable	201	950	
	Cash.....	101		950
	<i>Paid amount due on account.</i>			
n.	Repairs Expense	604	608	
	Cash.....	101		608
	<i>Paid for repair of equipment.</i>			
o.	B. Grechus, Withdrawals	302	6,230	
	Cash.....	101		6,230
	<i>Owner withdrew cash for personal use.</i>			
p.	Wages Expense	601	1,800	
	Cash.....	101		1,800
	<i>Paid assistant's wages.</i>			
q.	Advertising Expense.....	603	750	
	Cash.....	101		750
	<i>Paid for advertising expense.</i>			

Problem 2-2B (Continued)
Part 2

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

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

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

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

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

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

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

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

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

B. Grechus, Capital No. 301				
Date	PR	Debit	Credit	Balance
(a)			100,750	100,750

B. Grechus, Withdrawals No. 302				
Date	PR	Debit	Credit	Balance
(o)		6,230		6,230

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

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

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

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

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

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

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

Problem 2-3B (90 minutes)

Part 1

Nov. 1	Cash.....101	30,000	
	Office Equipment.....163	15,000	
	M. Zucker, Capital.....301		45,000
	<i>Owner invested cash and equipment.</i>		
2	Prepaid Rent131	4,500	
	Cash.....101		4,500
	<i>Prepaid six months' rent.</i>		
4	Office Equipment.....163	2,500	
	Office Supplies124	600	
	Accounts Payable.....201		3,100
	<i>Purchased equipment and supplies on credit.</i>		
8	Cash.....101	3,400	
	Services Revenue.....403		3,400
	<i>Received cash for services.</i>		
12	Accounts Receivable106	10,200	
	Services Revenue.....403		10,200
	<i>Billed client for completed work.</i>		
13	Accounts Payable201	3,100	
	Cash.....101		3,100
	<i>Paid balance due on account.</i>		
19	Prepaid Insurance128	1,800	
	Cash.....101		1,800
	<i>Paid premium for 24 months of insurance.</i>		
22	Cash.....101	5,200	
	Accounts Receivable106		5,200
	<i>Collected part of amount owed by client.</i>		
24	Accounts Receivable106	1,750	
	Services Revenue.....403		1,750
	<i>Billed client for completed work.</i>		
28	M. Zucker, Withdrawals302	5,300	
	Cash.....101		5,300
	<i>Owner withdrew cash for personal use.</i>		
29	Office Supplies124	249	
	Accounts Payable.....201		249
	<i>Purchased supplies on account.</i>		
30	Utilities Expense.....690	831	
	Cash.....101		831
	<i>Paid monthly utility bill.</i>		

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

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

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

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

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

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

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

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

Problem 2-3B (Continued)

M. Zucker, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 1		G1		45,000	45,000

M. Zucker, Withdrawals				Acct. No. 302	
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		
M. Zucker, Capital.....		45,000		
M. Zucker, Withdrawals	5,300			
Services revenue		15,350		
Utilities expense	831			
Totals.....	<u>\$60,599</u>	<u>\$60,599</u>		

Problem 2-4B (90 minutes)**Part 1**

a.	Cash.....	101	35,000	
	Office Equipment.....	163	11,000	
	A. Nuncio, Capital.....	301		46,000
	<i>Owner invested cash and equipment.</i>			
b.	Land.....	172	7,500	
	Building.....	170	40,000	
	Cash.....	101		15,000
	Notes Payable.....	250		32,500
	<i>Purchased land and building with cash and note payable.</i>			
c.	Office Supplies.....	108	500	
	Accounts Payable.....	201		500
	<i>Purchased office supplies on account.</i>			
d.	Automobiles.....	164	8,000	
	A. Nuncio, Capital.....	301		8,000
	<i>Owner contributed automobile to business.</i>			
e.	Office Equipment.....	163	1,200	
	Accounts Payable.....	201		1,200
	<i>Purchased office equipment on account.</i>			
f.	Salaries Expense.....	601	1,000	
	Cash.....	101		1,000
	<i>Paid assistant's salary.</i>			
g.	Cash.....	101	3,200	
	Fees Earned.....	402		3,200
	<i>Provided services for cash.</i>			
h.	Utilities Expense.....	602	540	
	Cash.....	101		540
	<i>Paid cash for utilities.</i>			

Problem 2-4B**Part 1—Concluded**

i.	Accounts Payable	201	500	
	Cash	101		500
	<i>Paid cash on account.</i>			
j.	Office Equipment.....	163	3,400	
	Cash	101		3,400
	<i>Purchased equipment for cash.</i>			
k.	Accounts Receivable	106	4,200	
	Fees Earned.....	402		4,200
	<i>Provided services on account.</i>			
l.	Salaries Expense	601	1,000	
	Cash	101		1,000
	<i>Paid assistant's salary.</i>			
m.	Cash.....	101	2,200	
	Accounts Receivable.....	106		2,200
	<i>Received cash due on account.</i>			
n.	A. Nuncio, Withdrawals	302	1,100	
	Cash	101		1,100
	<i>Owner withdrew cash for personal use.</i>			

Problem 2-4B (Continued) Part 2

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

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

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

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

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

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

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

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

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

A. Nuncio, Capital				No. 301
Date	PR	Debit	Credit	Balance
(a)			46,000	46,000
(d)			8,000	54,000

A. Nuncio, Withdrawals				No. 302
Date	PR	Debit	Credit	Balance
(n)		1,100		1,100

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

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

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

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

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

Problem 2-5B (60 minutes)

Part 1

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

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

Part 2

Computation of 2019 net income:

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

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

* Computation of 2019 equity increase:

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

Part 3

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

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

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

Part 2

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

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

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

Problem 2-7B (40 minutes)**Part 1**

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

Part 2

PRISEK		
Statement of Owner's Equity		
For Month Ended July 31		
V. Rivera, Capital, July 1	\$	0
Add: Investment by owner		34,800
Net income (from Income Statement) ..		<u>20,700</u>
		55,500
Less: Withdrawals by owner		<u>6,000</u>
V. Rivera, Capital, July 31		<u>\$49,500</u>

Problem 2-7B (Concluded)**Part 3**

PRISEK Balance Sheet July 31			
Assets		Liabilities	
Cash.....	\$24,000	Accounts payable.....	\$ 3,900
Accounts receivable	10,500	Note payable	7,200
Prepaid insurance	3,000	Unearned revenue	<u>900</u>
Office supplies.....	4,500	Total liabilities	12,000
Equipment.....	12,000	Equity	
Note receivable.....	<u>7,500</u>	V. Rivera, Capital*	<u>49,500</u>
Total assets.....	<u>\$61,500</u>	Total liabilities & equity	<u>\$61,500</u>
* Amount from Statement of Owner's Equity.			

Serial Problem — SP 2

Part 1 (120 minutes) Serial Problem, Business Solutions

2019

Oct. 1	Cash.....	101	45,000	
	Office Equipment.....	163	8,000	
	Computer Equipment.....	167	20,000	
	S. Rey, Capital	301		73,000
	<i>Owner invests cash and equipment.</i>			
2	Prepaid Rent	131	3,300	
	Cash	101		3,300
	<i>Paid four months' rent in advance.</i>			
3	Computer Supplies	126	1,420	
	Accounts Payable	201		1,420
	<i>Purchased supplies on credit.</i>			
5	Prepaid Insurance	128	2,220	
	Cash	101		2,220
	<i>Paid 12 months' premium in advance.</i>			
6	Accounts Receivable	106	4,800	
	Computer Services Revenue	403		4,800
	<i>Billed customer for services.</i>			
8	Accounts Payable	201	1,420	
	Cash	101		1,420
	<i>Paid balance due on account payable.</i>			
10	<i>No entry necessary in the journal.</i>			
12	Accounts Receivable	106	1,400	
	Computer Services Revenue	403		1,400
	<i>Billed customer for services.</i>			
15	Cash.....	101	4,800	
	Accounts Receivable	106		4,800
	<i>Collected accounts receivable.</i>			
17	Repairs Expense—Computer.....	684	805	
	Cash	101		805
	<i>Paid for computer repairs.</i>			
20	Advertising Expense.....	655	1,728	
	Cash	101		1,728
	<i>Purchased ads in local newspaper.</i>			
22	Cash.....	101	1,400	
	Accounts Receivable	106		1,400
	<i>Collected accounts receivable.</i>			

Serial Problem, Business Solutions (Continued)

28	Accounts Receivable	106	5,208	
	Computer Services Revenue	403		5,208
	<i>Billed customer for services.</i>			
31	Wages Expense	623	875	
	Cash	101		875
	<i>Paid employee for part-time work.</i>			
31	S. Rey, Withdrawals	302	3,600	
	Cash	101		3,600
	<i>Owner withdrew cash.</i>			
Nov. 1	Mileage Expense	676	320	
	Cash	101		320
	<i>Reimbursed Rey for mileage.</i>			
2	Cash.....	101	4,633	
	Computer Services Revenue	403		4,633
	<i>Collected cash revenue from client.</i>			
5	Computer Supplies	126	1,125	
	Cash	101		1,125
	<i>Purchased computer supplies for cash.</i>			
8	Accounts Receivable	106	5,668	
	Computer Services Revenue	403		5,668
	<i>Billed customer for services.</i>			
13	<i>No entry necessary. (No revenue recognized until work performed.)</i>			
18	Cash.....	101	2,208	
	Accounts Receivable.....	106		2,208
	<i>Collected accounts receivable.</i>			
22	Miscellaneous Expenses	677	250	
	Cash	101		250
	<i>Record miscellaneous expenses.</i>			
24	Accounts Receivable	106	3,950	
	Computer Services Revenue	403		3,950
	<i>Billed customer for services.</i>			
25	<i>No entry necessary.</i>			
28	Mileage Expense	676	384	
	Cash	101		384
	<i>Reimbursed Rey for mileage.</i>			
30	Wages Expense	623	1,750	
	Cash	101		1,750
	<i>Paid employee for part-time work.</i>			
30	S. Rey, Withdrawals	302	2,000	
	Cash	101		2,000
	<i>Owner withdrew cash.</i>			

Serial Problem, Business Solutions (*Continued*)

Part 2

General Ledger accounts

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

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

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

Serial Problem, Business Solutions (Continued)

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

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

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

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

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

S. Rey, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 1				73,000	73,000

S. Rey, Withdrawals				Acct. No. 302	
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
S. Rey, Capital		73,000
S. Rey, Withdrawals	5,600	
Computer services revenue		25,659
Wages expense	2,625	
Advertising expense	1,728	
Mileage expense.....	704	
Miscellaneous expense	250	
Repairs expense—Computer	805	
Totals.....	<u>\$98,659</u>	<u>\$98,659</u>

Company Analysis — AA 2-1 (20 minutes)

\$ millions

1. (a) \$241,272
(b) \$193,437
2. (a) \$375,319
(b) \$321,686
3. (a) $\$241,272 / \$375,319 = \underline{64.3\%}$
(b) $\$193,437 / \$321,686 = \underline{60.1\%}$
4. 2017

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

Comparative Analysis — AA 2-2 (25 minutes)

\$ millions

1. **Apple**
Current year debt ratio: $\$241,272 / \$375,319 = \underline{64.3\%}$
Prior year debt ratio: $\$193,437 / \$321,686 = \underline{60.1\%}$
2. **Google**
Current year debt ratio: $\$44,793 / \$197,295 = \underline{22.7\%}$
Prior year debt ratio: $\$28,461 / \$167,497 = \underline{17.0\%}$

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

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

₩ and \$ in millions

1. Samsung

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

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

2. Increased financial leverage

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

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

Ethics Challenge — BTN 2-1

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

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

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

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

Communicating in Practice — BTN 2-2

MEMORANDUM

To: Lila Corentine
 From: _____
 Subject: Financial statements explanation
 Date: _____

The four major financial statements and their purposes are:

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

These financial statements are linked to each other across time.

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

Taking It to the Net — BTN 2-3

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

Teamwork in Action — BTN 2-4

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

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

Category: Assets

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

Entrepreneurial Decision — BTN 2-5

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

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

Entrepreneurial Decision — BTN 2-6

1.

MARTIN MUSIC SERVICES
Balance Sheet
December 31

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

2.

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

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

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

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

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

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

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

Hitting the Road — BTN 2-7

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

Analyzing and Recording Transactions

Chapter 2

Wild and Shaw

Fundamental Accounting Principles

24th Edition

Chapter 2 Learning Objectives

CONCEPTUAL

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

ANALYTICAL

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

PROCEDURAL

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

Learning Objective C1

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

Basics of Financial Statements

Business transactions and events are the starting points of financial statements. Process from transactions to financial statements is as follows:

- Identify each transaction and event from source documents.
- Analyze each transaction and event using the accounting equation.
- Record relevant transactions and events in a journal.
- Post journal information to ledger accounts.
- Prepare and analyze the trial balance and financial statements.

Source Documents

Source documents identify and describe transactions entering the accounting system.

Examples:

- Bills from suppliers
- Sales receipts
- Checks
- Purchase orders
- Payroll records
- Bank statements

Learning Objective C2

Describe an account and its use in recording transactions.

The Account Underlying Financial Statements

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

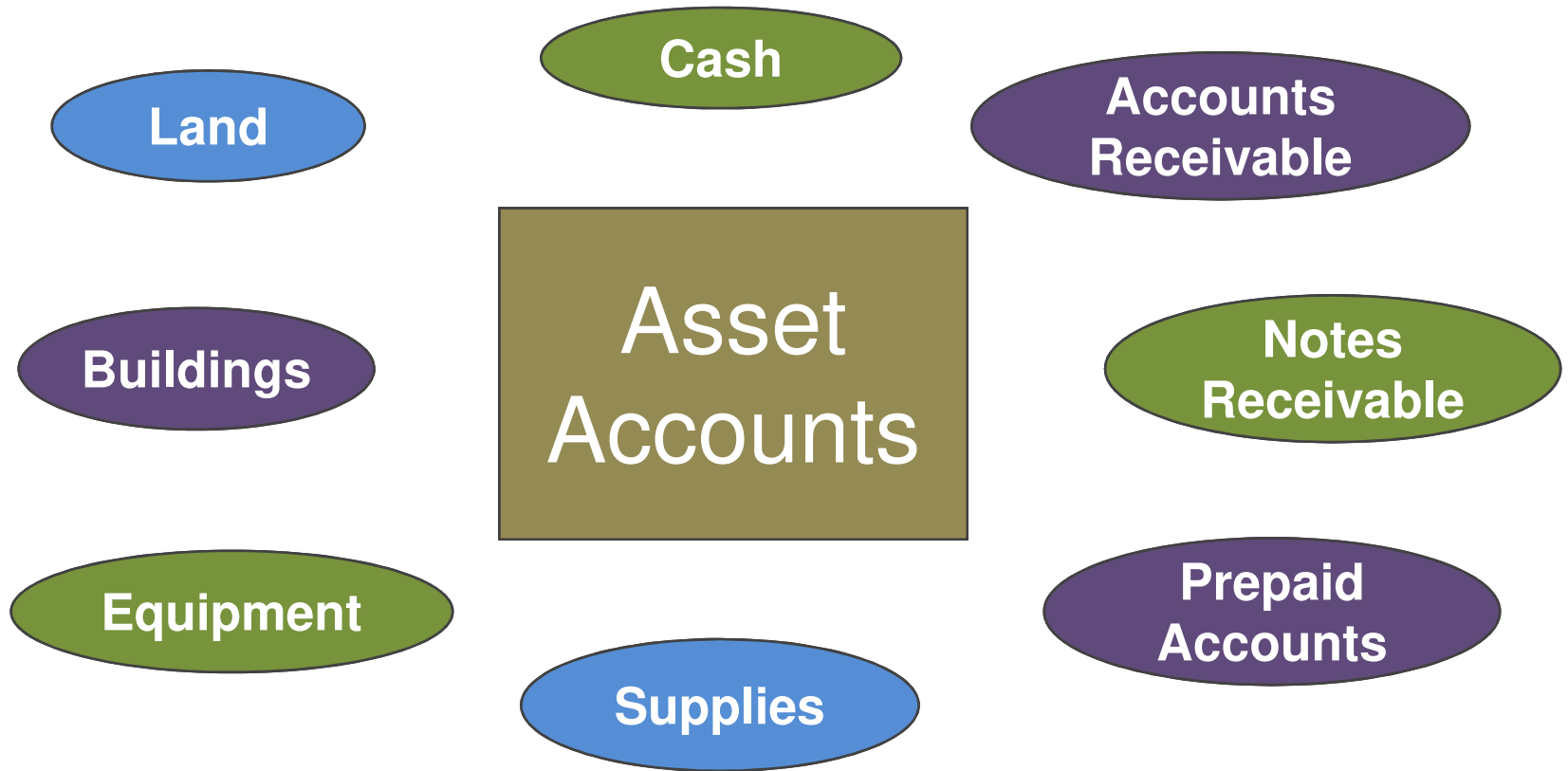
The **general ledger** is a record of all accounts used by the company.

The Account and Its Analysis

Exhibit
2.1



Asset Accounts



Liability Accounts

**Accounts
Payable**

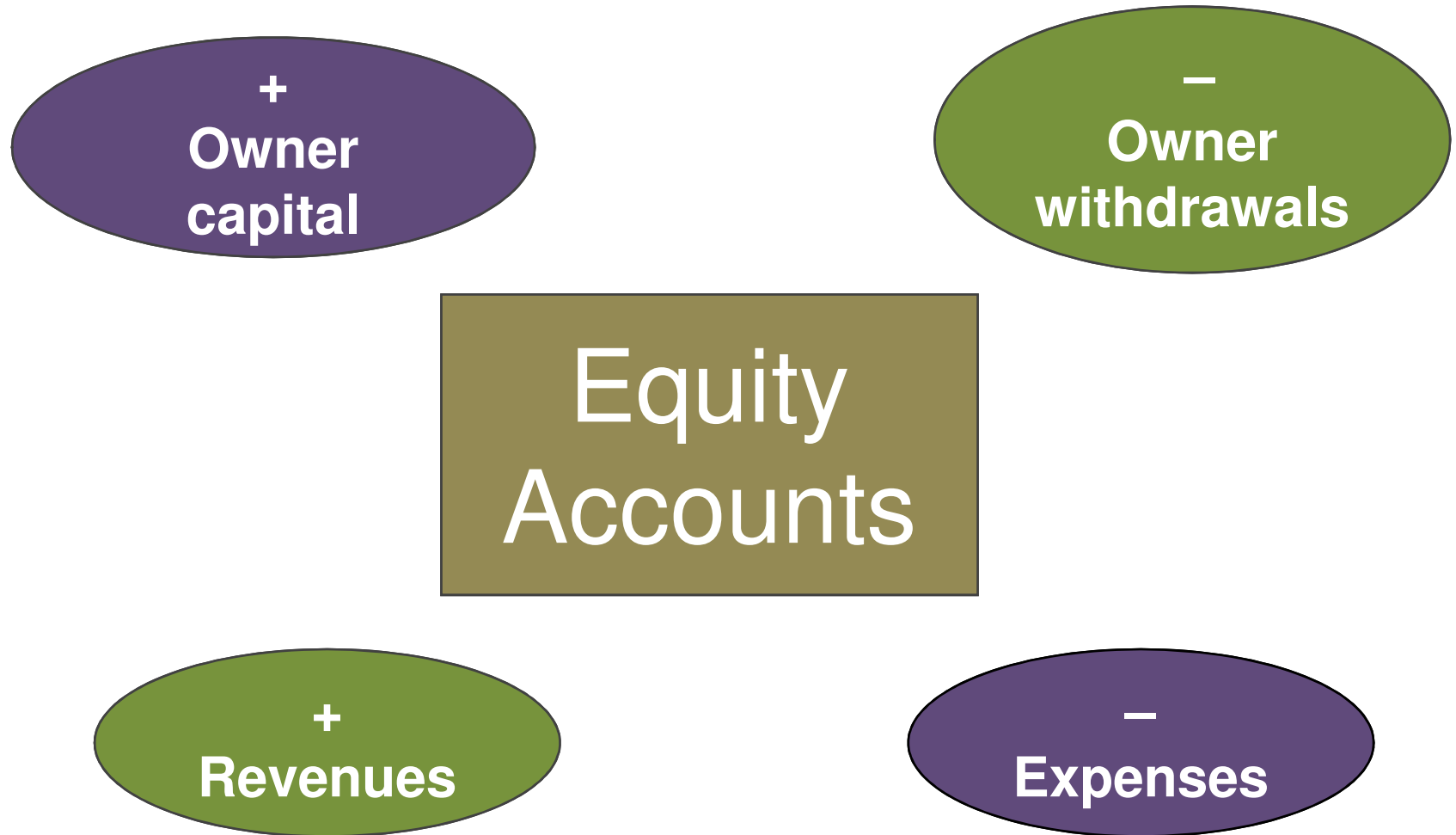
**Notes
Payable**

**Liability
Accounts**

**Accrued
Liabilities**

**Unearned
Revenue**

Equity Accounts



Expanded Accounting Equation

Revenues and Owner capital increases equity.
Expenses and Owner withdrawals decrease equity.

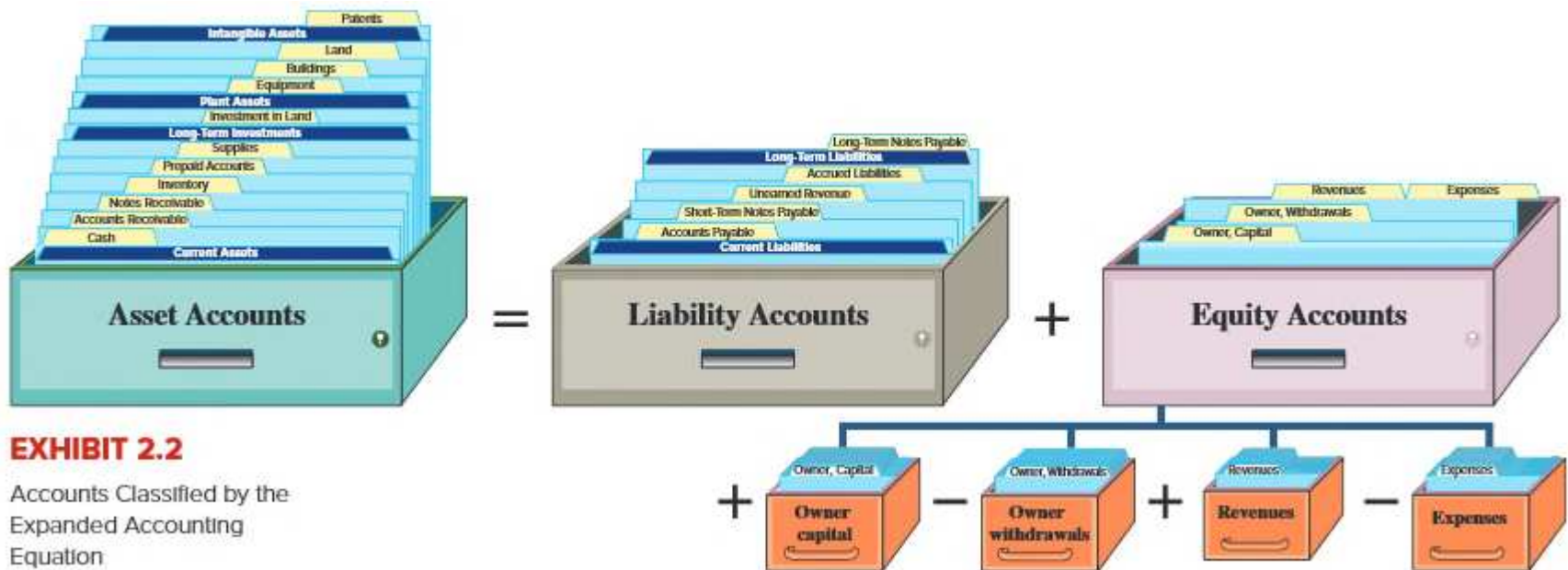


EXHIBIT 2.2

Accounts Classified by the
Expanded Accounting
Equation

Learning Objective C3

Describe a ledger and chart of accounts.

Ledger and Chart of Accounts

The ledger is a collection of all accounts and their balances for an accounting system. A company's size and diversity of operations affect the number of accounts needed.

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

**Exhibit
2.4**

Chart of Accounts					
Assets		Liabilities		Equity	
101	Cash	201	Accounts payable	Revenues	
106	Accounts receivable	236	Unearned consulting revenue	403	Consulting revenue
126	Supplies			406	Rental revenue
128	Prepaid insurance				Expenses
167	Equipment			301	C. Taylor, Capital
				302	C. Taylor, Withdrawals
					622 Salaries expense
					637 Insurance expense
					640 Rent expense
					652 Supplies expense
					690 Utilities expense

Learning Objective C4

Define debits and credits and explain double-entry accounting.

Debits and Credits

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

Account Title	
(Left side) Debit	(Right side) Credit

Exhibit
2.5

Double-Entry Accounting

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

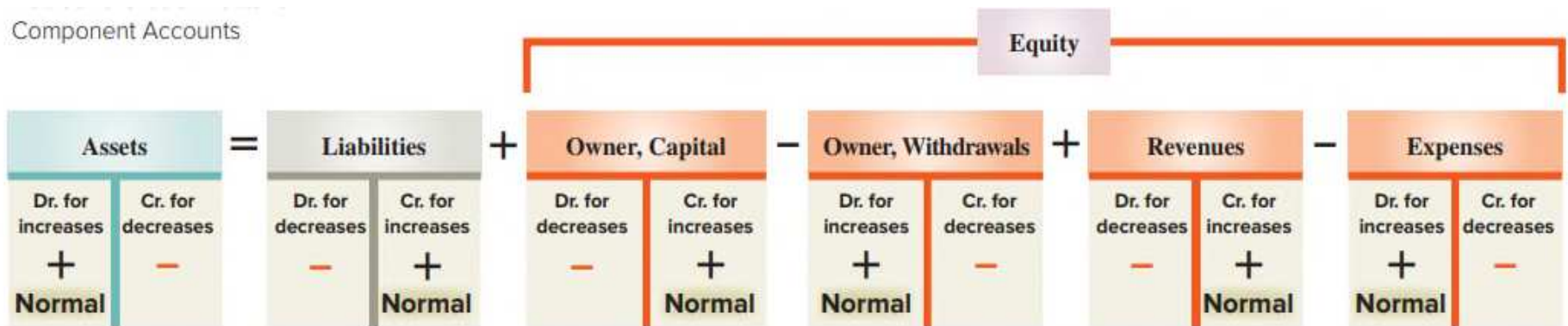
Exhibit
2.6

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

Double-Entry Accounting: Expanded Accounting Equation

Here is the expanded accounting equation showing the equity section.

**Exhibit
2.7**



Double-Entry Accounting:

Account Balance

An account balance is the difference between the increases and decreases in an account. Notice the T-Account of Cash has an account balance of \$4,800.

Cash				
36,100 {	Receive investment by owner	30,000	Purchase of supplies	2,500
	Consulting services revenue earned	4,200	Purchase of equipment	26,000
	Collection of account receivable	1,900	Payment of rent	1,000
			Payment of salary	700
			Payment of account payable	900
			Withdrawal by owner	200
	Balance	4,800		
		36,100 – 31,300		

**Exhibit
2.8**

Learning Objective P1

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

Journalizing and Posting Transactions

Exhibit
2.9

Step 1: Identify transactions and source documents.

Services Contract		
Client Billing		
Sales Receipt		
Purchase Order		
Bank Statement		
1	Deposit	30,000
TOTAL		

Step 2: Analyze transactions using the accounting equation.



Step 3: Record journal entry.

General Journal			
Dec. 1	Cash	30,000	
	C. Taylor, Capital		30,000
Dec. 2	Supplies	2,500	
	Cash		2,500

Step 4: Post entry to ledger.



Journalizing Transactions

a. Transaction Date

b. Titles of Affected Accounts

**Exhibit
2.10**

General Journal

Date	Account Titles and Explanation	PR	Debit	Credit
2019 (a) Dec. 1	(b) Cash		30,000	(c) 30,000
	C. Taylor, Capital			
	Receive investment by owner. (d)			
Dec. 2	Supplies		2,500	
	Cash			2,500
	Purchase supplies for cash.			

d. Transaction explanation

c. Dollar amount of debits and credits

Balance Account Column

Exhibit
2.11

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

General Ledger					
Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2019 Dec. 1		G1	30,000		30,000
Dec. 2		G1		2,500	27,500
Dec. 3		G1		26,000	1,500
Dec. 10		G1	4,200		5,700

Posting Journal Entries

Exhibit
2.12

General Journal

Date	Account Titles and Explanation	PR	Debit	Credit
2019 Dec. 1	Cash	101	30,000	
	C. Taylor, Capital	301		30,000
	Receive investment by owner			

General Ledger

Cash					Account No. 101
Date	Explanation	PR	Debit	Credit	Balance
2019 Dec. 1		G1	30,000		30,000

C. Taylor, Capital					Account No. 301
Date	Explanation	PR	Debit	Credit	Balance
2019 Dec. 1		G1		30,000	30,000

Key:

- (A) Identify debit account in ledger: enter date, journal page, amount, and balance (red line).
- (B) Enter the debit account number from the ledger in the PR column of the journal (blue line).
- (C) Identify credit account in ledger: enter date, journal page, amount, and balance (gold line).
- (D) Enter the credit account number from the ledger in the PR column of the journal (green line).

Learning Objective A1

Analyze the impact of transactions on accounts and financial statements.

Processing Transactions

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

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

Processing Transactions #1

1. Receive Investment by Owner

1 IDENTIFY FastForward receives \$30,000 cash from Chas Taylor as an owner contribution.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				C. Taylor, Capital
+30,000	=	0		+30,000

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(1)	Cash	101	30,000	
	C. Taylor, Capital	301		30,000

4 POST

Cash		101
(1)	30,000	

C. Taylor, Capital		301
	(1)	30,000

Processing Transactions #2

2. Purchase Supplies for Cash

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

2 ANALYZE

Assets		=	Liabilities	+	Equity
Cash	Supplies				
-2,500	+2,500	=	0	+	0

Changes the composition of assets but not the total.

3 RECORD

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

4 POST

Supplies		126
(2)	2,500	

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

Processing Transactions #3

3. Purchase Equipment for Cash

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

2 ANALYZE

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

Changes the composition of assets but not the total.

3 RECORD

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

4 POST

Equipment		167
(3)	26,000	

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

Processing Transactions #4

4. Purchase Supplies on Credit

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

2 ANALYZE

Assets	=	Liabilities	+	Equity
Supplies		Accounts Payable		
+7,100	=	+7,100	+	0

3 RECORD

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

4 POST

Supplies		126
(2)	2,500	
(4)	7,100	

Accounts Payable		201
	(4)	7,100

Processing Transactions #5

5. Provide Services for Cash

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

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Consulting Revenue
+4,200	=	0		+4,200

3 RECORD

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

4 POST

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

Consulting Revenue		403
	(5)	4,200

Processing Transactions #6

6. Payment of Expense in Cash

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

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Rent Expense
-1,000	=	0		-1,000

3 RECORD

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

4 POST

Rent Expense		640
(6)	1,000	

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

Processing Transactions #7

7. Payment of Expense in Cash

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

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Salaries Expense
-700	=	0		-700

3 RECORD

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

4 POST

Salaries Expense		622
(7)	700	

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

Processing Transactions #8

8. Provide Consulting and Rental Services on Credit

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

2 ANALYZE

Assets	=	Liabilities	+	Equity
Accounts Receivable				Consulting Revenue Rental Revenue
+1,900	=	0		+1,600 +300

3 RECORD

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

4 POST

Accounts Receivable 106	
(8)	1,900

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

Rental Revenue 406	
(8)	300

Processing Transactions #9

9. Receipt of Cash on Account

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

2 ANALYZE

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

3 RECORD

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

4 POST

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

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

Processing Transactions #10

10. Partial Payment of Accounts Payable

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

2 ANALYZE

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

3 RECORD

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

4 POST

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

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

Processing Transactions #11

11. Withdrawal of Cash by Owner

1 IDENTIFY Chas Taylor withdraws \$200 cash from FastForward for personal use.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				C. Taylor, Withdrawals
-200	=	0		-200

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(11)	C. Taylor, Withdrawals	302	200	
	Cash	101		200

4 POST

C. Taylor, Withdrawals		302
(11)	200	

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

Processing Transactions #12

12. Receipt of Cash for Future Services

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

2 ANALYZE

Assets	=	Liabilities	+	Equity
		Unearned Consulting Revenue		
Cash				
+3,000	=	+3,000	+	0

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

3 RECORD

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

4 POST

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

Unearned Consulting Revenue		236
	(12)	3,000

Processing Transactions #13

13. Pay Cash for Future Insurance Coverage

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

2 ANALYZE

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

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

3 RECORD

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

4 POST

Prepaid Insurance		128
(13)	2,400	

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

Processing Transactions #14

14. Purchase Supplies for Cash

1 IDENTIFY FastForward pays \$120 cash for supplies.

2 ANALYZE

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

3 RECORD

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

4 POST

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

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

Processing Transactions #15

15. Payment of Expense in Cash

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

2 ANALYZE

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

3 RECORD

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

4 POST

Utilities Expense	690
(15) 305	

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

Processing Transactions #16

16. Payment of Expense in Cash

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

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Salaries Expense
-700	=	0		-700

3 RECORD

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

4 POST

Salaries Expense		622
(7)	700	
(16)	700	

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

Exhibit 2.13

Accounts in this white area are on the income statement.

Learning Objective P2

Prepare and explain the use of a trial balance.

Preparing a Trial Balance

Preparing a trial balance has three steps:

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

FastForward's Trial Balance

Exhibit 2.14

FASTFORWARD Trial Balance December 31, 2019		
	Debit	Credit
Cash.....	\$ 4,275	
Accounts receivable.....	0	
Supplies.....	9,720	
Prepaid insurance.....	2,400	
Equipment.....	26,000	
Accounts payable.....		\$ 6,200
Unearned consulting revenue.....		3,000
C. Taylor, Capital.....		30,000
C. Taylor, Withdrawals.....	200	
Consulting revenue.....		5,800
Rental revenue.....		300
Salaries expense.....	1,400	
Rent expense.....	1,000	
Utilities expense.....	305	
Totals.....	<u>\$45,300</u>	<u>\$45,300</u>

The trial balance lists all ledger accounts and their balances at a point in time. If the books are in balance, the total debits will equal the total credits.

Searching for Errors

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

① Make sure the trial balance columns are correctly added.

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

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

④ Recompute each account balance in the ledger.

⑤ Verify that each journal entry is posted correctly.

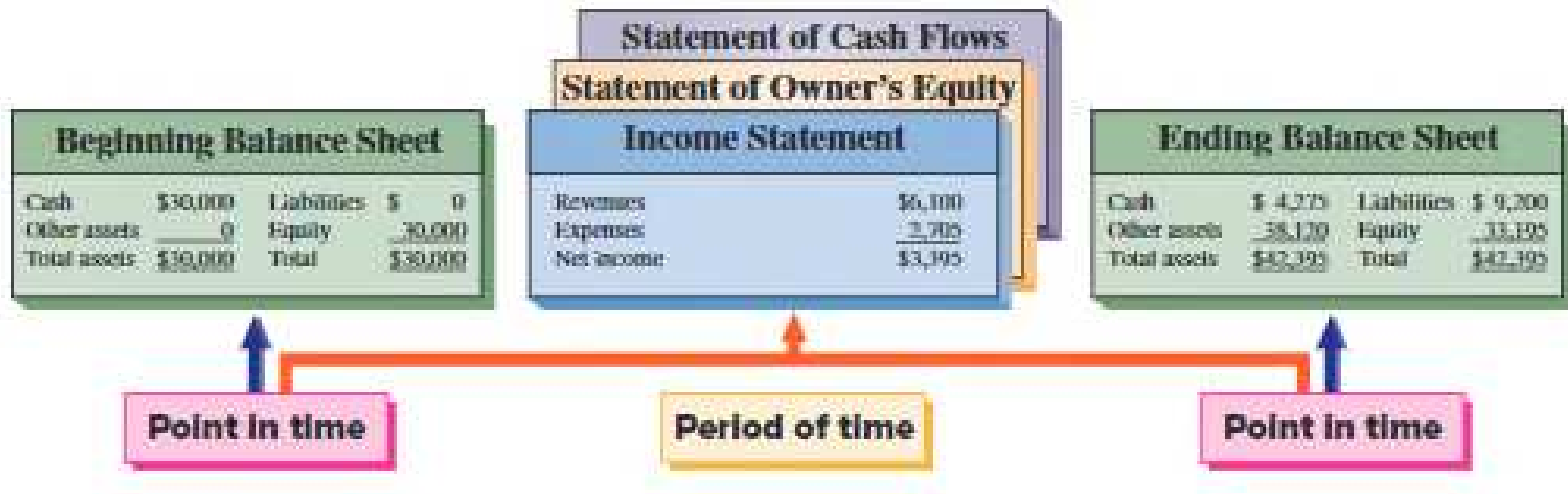
⑥ Verify that each original journal entry has equal debits and credits.

Learning Objective P3

Prepare financial statements
from business transactions.

Financial Statements Prepared from Trial Balance

Exhibit
2.15



Financial Statements

The four financial statements and their purposes are:

- 1. Income statement** — reports revenues less expenses incurred by a business over a period of time.
- 2. Statement of owner's equity** — reports how equity changes over the reporting period from net income (or loss) and from any owner investments and withdrawals over a period of time.
- 3. Balance sheet** — reports the financial position (types and amounts of assets, liabilities, and equity) at a point in time.
- 4. Statement of Cash Flows** — The statement of cash flows lists the cash inflows and cash outflows for the period.

For simplicity, we do not show the statement of cash flows for FastForward in this chapter, but we do return to this statement in the next chapter.

Income Statement

Exhibit
2.16

FASTFORWARD Income Statement For Month Ended December 31, 2019		
Revenues		
Consulting revenue (\$4,200 + \$1,600)	\$ 5,800	
Rental revenue	300	
Total revenues		\$ 6,100
Expenses		
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	305	
Total expenses		2,705
Net income		<u>\$ 3,395</u>

Statement of Owner's Equity

**Exhibit
2.16**

FASTFORWARD Income Statement For Month Ended December 31, 2019		
Revenues		
Consulting revenue (\$4,200 + \$1,600)	\$ 5,800	
Rental revenue	300	
Total revenues		\$ 6,100
Expenses		
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	305	
Total expenses		2,705
Net income		<u><u>\$ 3,395</u></u>

FASTFORWARD Statement of Owner's Equity For Month Ended December 31, 2019		
C. Taylor, Capital, December 1, 2019		\$ 0
Plus: Investments by owner	\$30,000	
Net income	<u>3,395</u>	<u>33,395</u>
		33,395
Less: Withdrawals by owner		200
C. Taylor, Capital, December 31, 2019		<u><u>\$33,195</u></u>

Balance Sheet

**Exhibit
2.16**

FASTFORWARD Statement of Owner's Equity For Month Ended December 31, 2019		
C. Taylor, Capital, December 1, 2019		\$ 0
Plus: Investments by owner	\$30,000	
Net income	<u>3,395</u>	33,395
		<u>33,395</u>
Less: Withdrawals by owner		200
C. Taylor, Capital, December 31, 2019		<u><u>\$33,195</u></u>

FASTFORWARD Balance Sheet December 31, 2019			
Assets		Liabilities	
Cash	\$ 4,275	Accounts payable	\$ 6,200
Supplies	9,720	Unearned consult. revenue	<u>3,000</u>
Prepaid insurance ...	2,400	Total liabilities	9,200
Equipment	26,000	Equity	
		C. Taylor, Capital	<u><u>33,195</u></u>
Total assets	<u><u>\$42,395</u></u>	Total liabilities and equity.....	<u><u>\$ 42,395</u></u>

Presentation Issues

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

Learning Objective A2

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

Debt Ratio - Equation

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

Evaluates the level of debt risk.

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

Debt Ratio - Computation

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

\$ millions	Current Year	1 Year Ago	2 Years Ago
Total liabilities	\$25,268	\$20,831	\$22,174
Total assets	\$36,347	\$33,163	\$33,017
Debt ratio	0.70	0.63	0.67
Walmart debt ratio	0.59	0.58	0.58

**Exhibit
2.18**

End of Chapter 2