

Chapter 2

Transaction Analysis

Short Exercises

(5 min.) S 2-1

Hooper's payment was *not* an expense.

Hooper acquired an *asset*, Equipment, because the computer is an economic resource of the business.

(5 min.) S 2-2

a. \$13,400 ($\$11,000 + \$2,400 + \$5,500 - \$5,500$)

b. \$ 2,400

(5-10 min.) S 2-3

Cash	
27,000	3,500
2,200	
Bal. 25,700	

(5 min.) S 2-4

Increased total assets: April 1 (Cash)
 April 1 (Medical supplies)
 April 3 (Cash, Accounts Receivable)

(5-10 min.) S 2-5

- a. Purchase of asset for cash
Sale of asset for cash
Collection of an account receivable
- b. Payment of dividends to owners
Expense transaction
- c. Pay a liability
Return an asset purchased on account
- d. Issuance of stock
Revenue transaction
- e. Purchase of asset on account
Borrow money

(Answers may vary.)

(10 min.) S 2-6

Journal			
DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Mar. 15	Cash..... Note Payable..... Borrowed money from the bank.	31,000	31,000
22	Accounts Receivable..... Service Revenue..... Performed service on account.	8,900	8,900
28	Cash..... Accounts Receivable..... Received cash on account.	5,600	5,600
29	Utilities Expense..... Accounts Payable..... Received utility bill.	900	900
31	Salary Expense..... Cash..... Paid salary expense.	2,600	2,600

Req. 1

Journal			
DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies.....	1,700	
	 Accounts Payable.....		1,700
	Purchased supplies on account.		
	Accounts Payable.....	425	
	 Cash.....		425
	Paid cash on account.		

Req. 2

Accounts Payable	
425	1,700
Bal.	1,275

Req. 3

The business owes \$1,275, as shown in the Accounts Payable account.

Req. 1

Journal			
DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable	4,700	
	Service Revenue.....		4,700
	Performed service on account.		
	Cash	3,000	
	Accounts Receivable		3,000
	Received cash on account.		

Req. 2

Cash		Accounts Receivable		Service Revenue	
	3,000	4,700	3,000		4,700
Bal.	3,000	Bal.	1,700	Bal.	4,700

**Old Harbor
Trial Balance
December 31, 2012**

ACCOUNT	DEBIT	CREDIT
	<i>Millions</i>	
Cash.....	\$ 4	
Other assets.....	10	
Accounts payable.....		\$ 3
Other liabilities.....		1
Stockholders' equity.....		5
Revenues.....		19
Expenses.....	<u>14</u>	<u> </u>
Total.....	<u>\$28</u>	<u>\$28</u>

Old Harbor's net income: \$5 million (\$19 – \$14)

1. Total assets = \$91,000 (\$4,500 + \$18,000 + \$2,500 + \$21,000 + \$45,000)
2. Total liabilities = \$47,000 (\$25,000 + \$22,000)
3. Net income = \$18,000 (\$53,600 – \$25,000 – \$9,000 – \$1,600)

(10 min.) S 2-11

1. Total debits = \$ 86,100 (\$126,600 + \$4,500 - \$45,000)

Total credits = \$126,600

Difference = \$ 40,500 (\$126,600 - \$86,100);

\$40,500 / 9 = \$4,500 (an integer), which suggests either a transposition or a slide.

2. Total debits = \$189,600 (\$126,600 + \$81,000 - \$18,000)

Total credits = \$126,600

Difference = \$ 63,000 (\$189,600 - \$126,600);

\$63,000 / 9 = \$7,000 (an integer), which suggests either a transposition or a slide.

3. Total debits = \$108,600 (\$126,600 - \$18,000)

Total credits = \$144,600 (\$126,600 + \$18,000)

Difference = \$ 36,000 (\$144,600 - \$108,600)

\$36,000 / 2 = \$18,000 (original amount of accounts receivable).

(10 min.) S 2-12

- I 1. Debit
- D 2. Expense
- G 3. Net income
- E 4. Ledger
- F 5. Posting
- B 6. Normal balance
- H 7. Payable
- C 8. Journal
- A 9. Receivable
- J 10. Owners' equity

(5 min.) S 2-13

Cash	Computer Equipment
100,000	60,000
Accounts Payable	Common Stock
60,000	100,000

Total debits = \$160,000 (\$100,000 + \$60,000)

Total credits = \$160,000 (\$100,000 + \$60,000)

Exercises

(10-15 min.) E 2-14A

TO: Home Office

FROM: Store Manager

During the first week, I used the store’s beginning cash to purchase equipment and supplies. I signed a note payable to buy land and a building. After all these transactions, the store’s balance sheet appears as follows:

**Casual Wear
San Francisco Store
Balance Sheet
Date**

ASSETS		LIABILITIES	
Cash	\$ 25,000*	Note payable*	\$216,000
Supplies	15,000		
Equipment	58,000	STOCKHOLDERS’ EQUITY	
Land	94,000	Common stock	
Building	<u>122,000</u>	Total liabilities and	<u>98,000</u>
Total assets	<u>\$314,000</u>	stockholders’ equity	<u>\$314,000</u>

*\$94,000 + \$122,000 = \$216,000

Cash	
98,000	58,000
25,000	15,000

- a. **No effect on total assets. Increase in cash offsets the decrease in accounts receivable.**
- b. **No effect (a personal transaction)**
- c. **No effect on total assets. Increase in cash offsets the decrease in land.**
- d. **Increased assets (cash)**
- e. **No effect on total assets. Increase in land offsets the decrease in cash.**
- f. **Increased assets (cash)**
- g. **Decreased assets (cash)**
- h. **Increased assets (equipment)**
- i. **Increased assets (merchandise inventory)**
- j. **Decreased assets (cash)**

Req. 1

Analysis of Transactions

		ASSETS				=	LIABILITIES +		STOCKHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Medical Supplies	+ Land	=	Accounts Payable	+ Note Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction	
Aug. 6	39,000				=			39,000		Issued stock	
9	(29,000)			29,000	=						
12			1,700		=	1,700					
15	Not a transaction of the business.										
15-31	3,800	3,800			=				7,600	Service revenue	
15-31	(1,300)				=				(1,300)	Salary expense	
	(700)				=				(700)	Rent expense	
	(500)				=				(500)	Utilities expense	
31	700		(700)		=						
31	12,000				=		12,000				
31	(800)				=	(800)					
Bal.	<u>23,200</u>	<u>3,800</u>	<u>1,000</u>	<u>29,000</u>	=	<u>900</u>	<u>12,000</u>	<u>39,000</u>	<u>5,100</u>		
		57,000				=	57,000				

Req. 2

- a. **\$57,000**
- b. **\$3,800**
- c. **\$12,900 (\$900 + \$12,000)**
- d. **\$44,100 (\$57,000 – \$12,900, or \$39,000 + \$5,100)**
- e. **\$5,100 (Revenue, \$7,600 minus expenses, \$2,500 equals net income, \$5,100.)**

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Aug. 6	Cash..... Common Stock..... Issued stock to owner.	39,000	39,000
9	Land..... Cash..... Purchased land.	29,000	29,000
12	Medical Supplies..... Accounts Payable..... Purchased supplies on account.	1,700	1,700
15	Not a transaction of the business.		
15-31	Cash..... Accounts Receivable..... Service Revenue..... Performed service for cash and on account.	3,800 3,800	7,600
15-31	Salary Expense..... Rent Expense..... Utilities Expense..... Cash..... Paid expenses.	1,300 700 500	2,500
31	Cash..... Medical Supplies..... Sold supplies.	700	700
31	Cash..... Note Payable..... Borrowed money.	12,000	12,000
31	Accounts Payable..... Cash..... Paid on account.	800	800

Journal			
DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Apr. 1	Cash	19,800	
	Common Stock		19,800
	Issued common stock to owner.		
2	Office Supplies	200	
	Accounts Payable.....		200
	Purchased office supplies on account.		
4	Land	14,300	
	Cash		14,300
	Paid cash for land.		
6	Cash	2,600	
	Service Revenue.....		2,600
	Performed services for cash.		
9	Accounts Payable	100	
	Cash		100
	Paid cash on account.		
17	Accounts Receivable	1,900	
	Service Revenue... ..		1,900
	Performed service on account.		
23	Cash	100	
	Accounts Receivable		100
	Received cash on account.		
30	Salary Expense.....	1,900	
	Rent Expense	1,300	
	Cash		3,200
	Paid cash expenses.		

Req. 1

Cash			
Apr. 1	19,800	Apr. 4	14,300
6	2,600	9	100
23	100	30	3,200
Bal.	4,900		

Accounts Receivable			
Apr. 17	1,900	Apr. 23	100
Bal.	1,800		

Office Supplies	
Apr. 2	200
Bal.	200

Land	
Apr. 4	14,300
Bal.	14,300

Accounts Payable			
Apr. 9	100	Apr. 2	200
		Bal.	100

Common Stock			
		Apr. 1	19,800
		Bal.	19,800

Service Revenue		
	Apr. 6	2,600
	17	1,900
	Bal.	4,500

Salary Expense		
Apr. 30	1,900	
Bal.	1,900	

Rent Expense		
Apr. 30	1,300	
Bal.	1,300	

Req. 2

**Doherty Tree Cellular, Inc.
Trial Balance
April 30, 2012**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 4,900	
Accounts receivable.....	1,800	
Office supplies.....	200	
Land.....	14,300	
Accounts payable.....		\$ 100
Common stock.....		19,800
Service revenue.....		4,500
Salary expense.....	1,900	
Rent expense.....	<u>1,300</u>	
Total.....	<u>\$24,400</u>	<u>\$24,400</u>

Req. 3

Total assets (\$4,900 + \$1,800 + 200 + \$14,300)....	\$21,200
Total liabilities.....	<u>(100)</u>
Total stockholders' equity (\$19,800 + \$1,300).....	<u>21,100</u>

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash..... Common Stock..... Issued common stock.	9,800	9,800
2.	Cash..... Note Payable Borrowed money; signed note payable.	7,000	7,000
3.	Land..... Cash..... Note Payable Purchased land by paying cash and signing a note payable.	32,000	4,000 28,000
4.	Supplies..... Accounts Payable Purchased supplies on account.	400	400
5.	Cash..... Supplies..... Sold supplies for cash.	110	110
6.	Equipment..... Cash..... Paid cash for equipment.	5,300	5,300
7.	Accounts Payable..... Cash..... Paid cash on account.	150	150

Cash balance = \$7,460 (\$9,800 + \$7,000 - \$4,000 + \$110 - \$5,300 - \$150)

Company owes \$35,250 (\$7,000 + \$28,000 + \$400 - \$150)

Req. 1

Deluxe Patio Service, Inc.
Trial Balance
June 30, 2012

ACCOUNT	DEBIT	CREDIT
Cash	\$ 9,300	
Accounts receivable.....	15,300	
Land	29,200	
Accounts payable		\$ 4,800
Note payable.....		11,500
Common stock.....		8,800
Retained earnings.....		21,600
Dividends.....	5,500	
Service revenue		22,500
Salary expense.....	7,800	
Utilities expense	1,800	
Delivery expense	<u>300</u>	
Total	<u>\$69,200</u>	<u>\$69,200</u>

Req. 2

Deluxe Patio Service, Inc.
Income Statement
For the Month Ended June 30, 2012

Service revenue		\$22,500
Salary expense.....	\$7,800	
Utilities expense	1,800	
Delivery expense	<u>300</u>	
Total expenses.....		<u>9,900</u>
Net income.....		<u>\$12,600</u>

**Garvey, Inc.
Trial Balance
September 30, 2012**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 4,400*	
Accounts receivable.....	12,600*	
Inventory	17,300	
Supplies	400	
Land.....	51,000	
Accounts payable		\$12,900*
Common stock.....		47,300*
Sales revenue		33,900
Salary expense	3,700	
Insurance expense	2,000*	
Rent expense	1,200	
Utilities expense	<u>1,500*</u>	
Total.....	<u>\$94,100</u>	<u>\$94,100</u>

***Computations:**

Cash: $\$4,300 + \$100 = \$4,400$

Accounts Receivable: $\$12,700 - \$100 = \$12,600$

Accounts Payable: $\$11,500 + \$1,000 - \$100 + \$500 = \$12,900$

Common Stock: $\$47,100 + \$200 = \$47,300$

Insurance Expense: $\$0 + \$2,000 = \$2,000$

Utilities Expense: $\$1,000 + \$500 = \$1,500$

Cash	
(a) 12,500	(b) 1,100
	(d) 1,600
	(e) 500
	(g) 2,200
Bal. 7,100	

Accounts Receivable	
(f) 8,000	
Bal. 8,000	

Office Supplies	
(c) 900	
Bal. 900	

Office Furniture	
(a) 9,400	
Bal. 9,400	

Accounts Payable	
(e) 500	(c) 900
	Bal. 400

Common Stock	
	(a) 21,900
	Bal. 21,900

Dividends	
(g) 2,200	
Bal. 2,200	

Service Revenue	
	(f) 8,000
	Bal. 8,000

Salary Expense	
(d) 1,600	
Bal. 1,600	

Rent Expense	
(b) 1,100	
Bal. 1,100	

Req. 1

**Lynn Dover, Attorney
Trial Balance
May 31, 2012**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 7,100	
Accounts receivable.....	8,000	
Office supplies.....	900	
Office furniture.....	9,400	
Accounts payable.....		\$ 400
Common stock.....		21,900
Dividends.....	2,200	
Service revenue.....		8,000
Salary expense.....	1,600	
Rent expense.....	<u>1,100</u>	
Total.....	<u>\$30,300</u>	<u>\$30,300</u>

Req. 2

The business performed well during May. The result of operations was net income of \$5,300, as shown by the income statement accounts:

Service revenue.....	\$ 8,000
Salary expense.....	\$1,600
Rent expense.....	<u>1,100</u>
Total expenses.....	<u>(2,700)</u>
Net income.....	<u>\$ 5,300</u>

TO: Home Office

FROM: Store Manager

During the first week, I used the store's beginning cash to purchase equipment and supplies. I signed a note payable to buy land and a building. After all these transactions, the store's balance sheet appears as follows:

**M. Crue
San Francisco Store
Balance Sheet
Date**

ASSETS		LIABILITIES	
Cash	\$ 35,000*	Note payable*	\$220,000
Supplies	14,000		
Equipment	55,000	STOCKHOLDERS' EQUITY	
Land	95,000	Common stock	<u>104,000</u>
Building	<u>125,000</u>	Total liabilities and	
Total assets	<u>\$324,000</u>	stockholders' equity	<u>\$324,000</u>

$$(\$91,000 + \$120,000) = \$211,000$$

Cash	
104,000	55,000
	14,000
<u>35,000</u>	

- a. Increased assets (cash)**
- b. No effect on total assets. Increase in equipment offsets the decrease in cash.**
- c. Decreased assets (cash)**
- d. No effect (a personal transaction)**
- e. Increased assets (land)**
- f. Increased assets (cash)**
- g. No effect on total assets. Increase in notes receivable offsets the decrease in land.**
- h. Increased assets (accounts receivable)**
- i. Increased assets (supplies)**
- j. Decreased assets (cash)**

Req. 1

Analysis of Transactions										
ASSETS				=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Medical Supplies	+ Land	=	Accounts Payable	+ Note Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
July 6	41,000							41,000		Issued stock
9	(27,000)			27,000						
12			2,100			2,100				
15	Not a transaction of the business.									
15-31	4,050	4,050							8,100	Service revenue
15-31	(1,500)								(1,500)	Salary expense
	(1,100)								(1,100)	Rent expense
	(1,200)								(1,200)	Utilities expense
31	800		(800)							
31	19,000						19,000			
31	<u>(1,500)</u>	_____	_____	_____		<u>(1,500)</u>	_____	_____	_____	
Bal.	<u>32,550</u>	<u>4,050</u>	<u>1,300</u>	<u>27,000</u>		<u>600</u>	<u>19,000</u>	<u>41,000</u>	<u>4,300</u>	
	64,900					64,900				

Req. 2

- a. **\$64,900**
- b. **\$4,050**
- c. **\$19,600 (\$600 + \$19,000)**
- d. **\$45,300 (\$64,900 – \$19,600, or \$41,000 + \$4,300)**
- e. **\$4,300 (Revenue, \$8,100 minus expenses,\$3,800, equals net income, \$4,300.)**

Journal			
DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Mar. 6	Cash..... Common Stock	41,000	41,000
	Issued stock to owner.		
9	Land	27,000	
	Cash		27,000
	Purchased land.		
12	Medical Supplies	2,100	
	Accounts Payable		2,100
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash.....	4,050	
	Accounts Receivable	4,050	
	Service Revenue		8,100
	Performed service for cash and on account.		
15-31	Salary Expense	1,500	
	Rent Expense	1,100	
	Utilities Expense	1,200	
	Cash		3,800
	Paid expenses.		
31	Cash	800	
	Medical Supplies		800
	Sold supplies.		
31	Cash	19,000	
	Note Payable		19,000
	Borrowed money.		
31	Accounts Payable	1,500	
	Cash		1,500
	Paid on account.		

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Sept. 1	Cash	19,900	
	Common Stock.....		19,900
	Issued common stock to owner.		
2	Office Supplies	400	
	Accounts Payable		400
	Purchased office supplies on account.		
4	Land	14,000	
	Cash		14,000
	Paid cash for land.		
6	Cash	2,900	
	Service Revenue		2,900
	Performed services for cash.		
9	Accounts Payable	300	
	Cash		300
	Paid cash on account.		
17	Accounts Receivable	1,200	
	Service Revenue		1,200
	Performed service on account.		
23	Cash	100	
	Accounts Receivable		100
	Received cash on account.		
30	Salary Expense	1,200	
	Rent Expense	800	
	Cash		2,000
	Paid cash expenses.		

Req. 1

Cash			
Sept. 1	19,900	Sept. 4	14,600
6	2,900	9	300
23	100	30	2,000
Bal.	6,600		

Accounts Receivable			
Sept. 17	1,200	Sept. 23	100
Bal.	1,100		

Office Supplies	
Sept. 2	400
Bal.	400

Land	
Sept. 4	14,000
Bal.	14,000

Accounts Payable			
Sept. 9	300	Sept. 2	400
		Bal.	100

Common Stock		
	Sept. 1	19,900
	Bal.	19,900

Service Revenue		
	Sept. 6	2,900
	17	1,200
	Bal.	4,100

Salary Expense		
Sept. 30	1,200	
Bal.	1,200	

Rent Expense	
Sept. 30	800
Bal.	800

Req. 2

DoubleTree Cellular, Inc.
Trial Balance
September 30, 2012

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 6,600	
Accounts receivable.....	1,100	
Office supplies.....	400	
Land.....	14,000	
Accounts payable.....		\$ 100
Common stock.....		19,900
Service revenue.....		4,100
Salary expense.....	1,200	
Rent expense.....	<u>800</u>	
Total.....	<u>\$24,100</u>	<u>\$24,100</u>

Req. 3

Total assets (\$6,600 + \$1,100 + 400 + \$14,000).....	\$22,100
Total liabilities.....	<u>(100)</u>
Total stockholders' equity (\$19,900 + \$2,100).....	<u>\$22,000</u>

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash..... Common Stock..... Issued common stock.	10,100	10,100
2.	Cash..... Note Payable Borrowed money; signed note payable.	7,300	7,300
3.	Land..... Cash..... Note Payable Purchased land by paying cash and signing a note payable.	35,000	7,000 28,000
4.	Supplies..... Accounts Payable Purchased supplies on account.	800	800
5.	Cash... .. Supplies..... Sold supplies for cash.	130	130
6.	Equipment Cash..... Paid cash for equipment.	5,700	5,700
7.	Accounts Payable Cash..... Paid cash on account.	140	140

Cash balance = \$4,690 (\$10,100 + \$7,300 - \$7,000 + \$130 - \$5,700 - \$140)

Company owes \$35,960 (\$7,300 + \$28,000 + \$800 - \$140)

Req. 1

Custom Pool Service, Inc.
Trial Balance
June 30, 2012

ACCOUNT	DEBIT	CREDIT
Cash.....	9,200	
Accounts receivable	15,200	
Land.....	29,600	
Accounts payable.....		\$ 4,100
Note payable		11,500
Common stock		8,300
Retained earnings		24,700
Dividends	5,800	
Service revenue.....		22,300
Salary expense	8,500	
Utilities expense	1,700	
Delivery expense	<u>900</u>	
Total.....	<u>\$70,900</u>	<u>\$70,900</u>

Req. 2

Custom Pool Service, Inc.
Income Statement
For the Month Ended June 30, 2012

Service revenue.....		\$22,300
Salary expense	\$8,500	
Utilities expense.....	1,700	
Delivery expense.....	<u>900</u>	
Total expenses		<u>11,100</u>
Net income		<u>\$11,200</u>

**Doyle, Inc.
Trial Balance
June 30, 2012**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 5,200*	
Accounts receivable.....	12,600*	
Inventory	17,100	
Supplies.....	800	
Land.....	58,000	
Accounts payable.....		\$15,500*
Common stock.....		47,600*
Sales revenue		38,500
Salary expense	3,400	
Insurance expense	1,900*	
Rent expense	1,100	
Utilities expense	<u>1,500*</u>	
Total.....	<u>\$101,600</u>	<u>\$101,600</u>

***Explanations:**

Cash: $\$4,600 + \$600 = \$5,200$

Accounts Receivable: $\$13,200 - \$600 = \$12,600$

Accounts Payable: $\$12,400 + \$3,000 - \$300 + \$400 = \$15,500$

Common Stock: $\$47,400 + \$200 = \$47,600$

Insurance Expense: $\$0 + \$3,400 = \$3,400$

Utilities Expense: $\$1,100 + \$400 = \$1,500$

Cash			
(a)	13,000	(b)	1,800
		(d)	1,800
		(e)	900
		(g)	2,500
Bal.	6,000		

Accounts Receivable	
(f)	8,700
Bal.	8,700

Office Supplies	
(c)	1,300
Bal.	1,300

Office Furniture	
(a)	8,900
Bal.	8,900

Accounts Payable			
(e)	900	(c)	1,300
		Bal.	400

Common Stock		
	(a)	21,900
	Bal.	21,900

Dividends	
(g)	2,500
Bal.	2,500

Service Revenue		
	(f)	8,700
	Bal.	8,700

Salary Expense	
(d)	1,800
Bal.	1,800

Rent Expense	
(b)	1,800
Bal.	1,800

Req. 1

**Lisa Oxford, Attorney
Trial Balance
March 31, 2012**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 6,000	
Accounts receivable.....	8,700	
Office supplies.....	1,300	
Office furniture.....	8,900	
Accounts payable.....		\$ 400
Common stock.....		21,900
Dividends	2,500	
Service revenue		8,700
Salary expense	1,800	
Rent expense	<u>1,800</u>	
Total.....	<u>\$31,000</u>	<u>\$31,000</u>

Req. 2

The business performed well during March. The result of operations was net income of \$5,100, as shown by the income statement accounts:

Service revenue.....	\$ 8,700
Salary expense	\$1,800
Rent expense.....	<u>1,800</u>
Total expenses.....	<u>(3,600)</u>
Net income.....	<u>\$ 5,100</u>

Serial Exercise

(20-30 min.) E 2-36

Reqs. 1 and 3

Cash			
Jan. 2	11,000	Jan. 2	700
9	1,000	3	3,900
		12	200
Bal.	7,200		

Accounts Receivable			
Jan. 18	1,500		
Bal.	1,500		

Supplies			
Jan. 5	400		
Bal.	400		

Equipment			
Jan. 3	3,900		
Bal.	3,900		

Furniture			
Jan. 4	4,700		
Bal.	4,700		

Accounts Payable			
		Jan. 4	4,700
		5	400
		Bal.	5,100

Common Stock			
		Jan. 2	11,000
		Bal.	11,000

Service Revenue			
		Jan. 9	1,000
		18	1,500
		Bal.	2,500

Rent Expense			
Jan. 2	700		
Bal.	700		

Utilities Expense			
Jan. 12	200		
Bal.	200		

Req. 2

Journal			
DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Jan. 2	Cash	11,000	
	Common Stock		11,000
2	Rent Expense	700	
	Cash		700
3	Equipment	3,900	
	Cash		3,900
4	Furniture	4,700	
	Accounts Payable		4,700
5	Supplies	400	
	Accounts Payable		400
9	Cash	1,000	
	Service Revenue		1,000
12	Utilities Expense	200	
	Cash		200
18	Accounts Receivable	1,500	
	Service Revenue		1,500

Req. 3

Steve Ruiz, Certified Public Accountant, P.C.
Trial Balance
January 18, 2012

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 7,200	
Accounts receivable.....	1,500	
Supplies	400	
Equipment.....	3,900	
Furniture.....	4,700	
Accounts payable		\$ 5,100
Common stock.....		11,000
Dividends	—	
Service revenue		2,500
Rent expense	700	
Utilities expense	200	
Salary expense	—	
Total.....	<u>\$18,600</u>	<u>\$18,600</u>

Quiz

Q2-37	d	
Q2-38	d	
Q2-39	d	
Q2-40	d	
Q2-41	d	
Q2-42	c	
Q2-43	a	
Q2-44	c	
Q2-45	c	
Q2-46	b	
Q2-47	d	
Q2-48	d	
Q2-49	a	
Q2-50	d	
Q2-51	c	
Q2-52	c	
Q2-53	d	
Q2-54	d	
Q2-55	a	
Q2-56	d	$(\\$45,000 + \\$22,000 + \\$11,000) = \\$78,000$

Problems

(15-30 min.) P 2-57A

Dear Abby,

This trial balance lists the accounts of the company, along with their balances at December 31, 2012. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Dorman Specialties

- a. Total assets = \$407,000 (\$20,000 + \$45,000 + \$3,000 + \$235,000 + \$104,000)
- b. Total liabilities = \$184,000 (\$102,000 + \$82,000)
- c. Net income = \$24,000 (\$180,000 - \$59,000 - \$12,000 - \$76,000 - \$9,000)

Student responses may vary.

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES		+	STOCKHOLDERS' EQUITY		Type of Stockholders' Equity Transaction
	Cash	+ Accounts Receivable	+ Supplies	+ Land	=	Accounts Payable	+ Common Stock	+ Retained Earnings			
Bal.	1,400	1,300		11,600	=	8,000	3,500	2,800			
a)	9,000				=		9,000				Issued stock
b)	6,800				=			6,800			Service revenue
c)	(4,700)				=	(4,700)					
d)			1,200		=	1,200					
e)	400	(400)			=						
f)		2,400			=			2,400			Service revenue
g)	(1,400)				=			(1,400)			Rent expense
	(900)				=			(900)			Advertising expense
h)	(1,700)				=			(1,700)			Dividends
Bal.	<u>8,900</u>	<u>3,300</u>	<u>1,200</u>	<u>11,600</u>	=	<u>4,500</u>	<u>12,500</u>	<u>8,000</u>			
	\$25,000					\$25,000					

Req. 2

**Mason Resources, Inc.
Income Statement
Month Ended June 30, 2012**

Revenues:		
Service revenue (\$6,800 + \$2,400)...		\$9,200
Expenses:		
Rent expense.....	\$1,400	
Advertising expense.....	<u>900</u>	
Total expenses.....		<u>2,300</u>
Net income.....		<u>\$6,900</u>

Req. 3

**Martin Resources, Inc.
Statement of Retained Earnings
Month Ended June 30, 2012**

Retained earnings, May 31, 2012.....	\$ 2,800
Add: Net income.....	<u>6,900</u>
	9,700
Less: Dividends.....	<u>(1,700)</u>
Retained earnings, June 30, 2012.....	<u>\$ 8,000</u>

Req. 4

**Martin Resources, Inc.
Balance Sheet
June 30, 2012**

ASSETS		LIABILITIES	
Cash.....	\$8,900	Accounts payable.....	\$ 4,500
Accounts receivable.....	3,300	STOCKHOLDERS'	
Supplies.....	1,200	EQUITY	
Land.....	11,600	Common stock.....	12,500
		Retained earnings.....	<u>8,000</u>
		Total stockholders' equity	20,500
		Total liabilities and	
Total assets.....	<u>\$25,000</u>	stockholders' equity.....	<u>\$25,000</u>

Req. 1

Journal			
	ACCOUNT TITLES	DEBIT	CREDIT
a.	Cash	9,000	
	Common Stock		9,000
b.	Cash	6,800	
	Service Revenue		6,800
c.	Accounts Payable	4,700	
	Cash		4,700
d.	Supplies	1,200	
	Accounts Payable		1,200
e.	Cash	400	
	Accounts Receivable		400
f.	Accounts Receivable	2,400	
	Service Revenue		2,400
g.	Rent Expense	1,400	
	Advertising Expense	900	
	Cash		2,300
h.	Dividends	1,700	
	Cash		1,700

Reqs. 2 and 3

Cash		Accounts Receivable		Supplies		Land	
1,400	4,700	1,300	400	1,200		11,600	
9,00	2,300	2,400					
6,800	1,700	3,300		1,200		11,600	
400							
8,900							

Accounts Payable		Common Stock		Retained Earnings		Dividends	
4,700	8,000		3,500		2,800	1,700	
	1,200		9,000				
	4,500		12,500		2,800	1,700	

Service Revenue		Rent Expense		Advertising Expense	
	6,800	1,400		900	
	2,400				
	9,200	1,400		900	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-58A.

Req. 1

Classification of Transactions

Nov.	4	b
	5	c
	6	c
	7	c
	10	b
	11	b
	12	a
	18	c
	21	c
	25	c
	30	c

Req. 2

Analysis of Transactions									
ASSETS				=	LIABILITIES		+	STOCKHOLDERS' EQUITY	
Date	Cash	+ Accounts Receivable	+ Supplies	+ Office Equipment	=	Accounts Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
Nov. 4*									
5	58,000						58,000		Issued stock
6	(100)		100						
7	(10,000)			16,500		6,500			
10*									
11*									
12*									
18		5,500						5,500	Service revenue
21	(3,250)					(3,250)			
25	(1,400)							(1,400)	Rent expense
30	(2,400)							(2,400)	Dividends
Bal.	<u>40,850</u>	<u>5,500</u>	<u>100</u>	<u>16,500</u>		<u>3,250</u>	<u>58,000</u>	<u>1,700</u>	
	\$62,950					\$62,950			

*Not a transaction of the business.

Req. 3

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Nov. 5	Cash	58,000	
	Common Stock.....		58,000
	Issued stock to owner.		
6	Supplies	100	
	Cash.....		100
	Purchased supplies.		
7	Office Equipment	16,500	
	Cash.....		10,000
	Accounts Payable		6,500
	Purchased equipment.		
18	Accounts Receivable	5,500	
	Service Revenue		5,500
	Performed service on account.		
21	Accounts Payable	3,250	
	Cash.....		3,250
	Paid on account.		
25	Rent Expense	1,400	
	Cash.....		1,400
	Paid rent.		
30	Dividends.....	2,400	
	Cash.....		2,400
	Paid dividend.		

Req. 1

Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Dec. 1	Cash	23,000	
	Common Stock.....		23,000
5	Rent Expense	1,900	
	Cash.....		1,900
9	Land.....	35,000	
	Cash.....		7,000
	Notes Payable		28,000
10	Supplies.....	1,100	
	Accounts Payable.....		1,100
19	Accounts Payable	700	
	Cash.....		700
22	Cash	19,000	
	Notes Payable		19,000
31	Cash	14,000	
	Accounts Receivable	6,000	
	Service Revenue		20,000
31	Salary Expense	2,500	
	Advertising Expense.....	1,300	
	Utilities Expense	1,700	
	Cash.....		5,500
31	Dividends.....	2,500	
	Cash.....		2,500

Req. 2

Cash	
23,000	1,900
19,000	7,000
14,000	700
	5,500
	2,500
38,400	

Accounts Payable	
700	1,100
	400

Notes Payable	
	28,000
	19,000
	47,000

Req. 3

Cash: \$38,400

Total amount owed: \$47,400 (\$400 + \$47,000)

Req. 1

Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Mar. 2	Cash	37,000	
	Common Stock		37,000
3	Supplies... ..	300	
	Equipment.....	3,000	
	Accounts Payable.....		3,300
4	Cash	1,500	
	Service Revenue.....		1,500
7	Land	28,000	
	Cash.....		28,000
11	Accounts Receivable.....	1,100	
	Service Revenue.....		1,100
16	Accounts Payable	3,000	
	Cash.....		3,000
17	Utilities Expense	110	
	Cash.....		110
18	Cash... ..	550	
	Accounts Receivable.....		550
22	Utilities Expense... ..	130	
	Cash.....		130
29	Cash.....	1,000	
	Service Revenue.....		1,000
31	Salary Expense	1,900	
	Cash		1,900
31	Dividends	2,200	
	Cash		2,200

Req. 2

Cash			
Mar. 2	37,000	Mar. 7	28,000
4	1,500	16	3,000
18	550	17	110
29	1,000	22	130
		31	1,900
		31	2,200
Bal.	4,710		

Equipment	
Mar. 3	3,000
Bal.	3,000

Accounts Payable			
Mar. 16	3,000	Mar. 3	3,300
		Bal.	300

Dividends	
Mar. 31	2,200
	2,200

Salary Expense	
Mar. 31	1,900
Bal.	1,900

Accounts Receivable			
Mar. 11	1,100	Mar. 18	550
Bal.	550		

Supplies	
Mar. 3	300
Bal.	300

Land	
Mar. 7	28,000
Bal.	28,000

Common Stock			
		Mar. 2	37,000
		Bal.	37,000

Service Revenue			
		Mar. 4	1,500
		11	1,100
		29	1,000
		Bal.	3,600

Utilities Expense			
Mar. 17	110		
22	130		
Bal.	240		

Req. 3

**Coutier Heating and Air Conditioning, Inc.
Trial Balance
March 31**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 4,710	
Accounts receivable.....	550	
Supplies	300	
Equipment.....	3,000	
Land.....	28,000	
Accounts payable.....		\$ 300
Common stock.....		37,000
Dividends	2,200	
Service revenue		3,600
Salary expense	1,900	
Utilities expense	<u>240</u>	
Total.....	<u>\$40,900</u>	<u>\$40,900</u>

Req. 4

Total resources (assets) = \$36,560 (\$4,710 + \$550 + \$300 + \$3,000 + \$28,000)

Amount owed (total liabilities) = \$300

Profit (net income)= \$1,460 (\$3,600 – \$1,900 – \$240)

Reqs. 1 and 2**Cash**

(a)	25,000	(c)	31,000
(b)	34,300	(e)	2,200
(f)	1,400	(h)	100
(j)	1,900	(k)	1,600
Bal.	27,700		

Accounts Receivable

(g)	2,800	(j)	1,900
Bal.	900		

Supplies

(d)	200		
Bal.	200		

Music Equipment

(c)	31,000		
Bal.	31,000		

Building

(a)	51,000		
Bal.	51,000		

Accounts Payable

(h)	100	(d)	200
		(i)	700
		Bal.	800

Note Payable

		(b)	34,300
		Bal.	34,300

Common Stock

		(a)	76,000
		Bal.	76,000

Service Revenue

		(f)	1,400
		(g)	2,800
		Bal.	4,200

Salary Expense

(e)	2,200		
Bal.	2,200		

Rent Expense

(k)	1,100		
Bal.	1,100		

Advertising Expense

(k)	500		
Bal.	500		

Utilities Expense

(i)	700		
Bal.	700		

Req. 3

**Self Music Services Corporation
Trial Balance
October 31, 2012**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 27,700	
Accounts receivable.....	900	
Supplies	200	
Music equipment	31,000	
Building.....	51,000	
Accounts payable.....		\$ 800
Note payable.....		34,300
Common stock.....		76,000
Service revenue		4,200
Salary expense	2,200	
Rent expense.....	1,100	
Advertising expense.....	500	
Utilities expense	<u>700</u>	
Total.....	<u>\$115,300</u>	<u>\$115,300</u>

Dear Rachael,

This trial balance lists the accounts of the company, along with their balances at December 31, 2012. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Famous Specialties

- a. Total assets = \$409,000 (\$27,000 + \$40,000 + \$6,000 + \$239,000 + \$97,000)
- b. Total liabilities = \$189,000 (\$104,000 + \$85,000)
- c. Net income = \$49,000 (\$160,000 - \$24,000 - \$10,000 - \$73,000 - \$4,000)

Student responses may vary.

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES		+ STOCKHOLDERS' EQUITY		Type of Stockholders' Equity Transaction
	Cash	Accounts Receivable	Supplies	Land		Accounts Payable	Common Stock	Retained Earnings		
Bal.	1,050	1,350		11,700	7,900	3,600	2,600			
a)	8,900					8,900				Issued stock
b)	6,300						6,300			Service revenue
c)	(4,100)				(4,100)					
d)			700		700					
e)	200	(200)								
f)		2,400					2,400			Service revenue
g)	(1,300)						(1,300)			Rent expense
	(1,000)						(1,000)			Advertising expense
i)	(2,000)						(2,000)			Dividends
Bal.	<u>8,050</u>	<u>3,550</u>	<u>700</u>	<u>11,700</u>	<u>4,500</u>	<u>12,500</u>	<u>7,000</u>			
	\$24,000					\$24,000				

Req. 2

**Davis Resources, Inc.
Income Statement
Month Ended June 30, 2012**

Revenues:		
Service revenue (\$6,300 + \$2,300)		\$ 8,700
Expenses:		
Rent expense.....	\$1,300	
Advertising expense.....	<u>1,000</u>	
Total expenses.....		<u>2,300</u>
Net income		<u>\$6,400</u>

Req. 3

**Davis Resources, Inc.
Statement of Retained Earnings
For the Month Ended June 30, 2012**

Retained earnings, May 31, 2012	\$2,600
Add: Net income.....	<u>6,400</u>
	9,000
Less: Dividends	<u>(2,000)</u>
Retained earnings, June 30, 2012.....	<u>\$7,000</u>

Req. 4

Davis Resources, Inc.
Balance Sheet
June 30, 2012

ASSETS		LIABILITIES	
Cash.....	\$8,050	Accounts payable.....	\$ 4,500
Accounts receivable...	3,550	STOCKHOLDERS'	
Supplies.....	700	EQUITY	
Land.....	11,700	Common stock.....	12,500
		Retained earnings.....	<u>7,000</u>
		Total stockholders' equity.	19,500
		Total liabilities and	
Total assets.....	<u>\$24,000</u>	stockholders' equity.	<u>\$24,000</u>

Req. 1**Journal**

ACCOUNT TITLES AND EXPLANATION		DEBIT	CREDIT
a.	Cash	8,900	
	Common Stock.....		8,900
b.	Cash	6,300	
	Service Revenue.....		6,300
c.	Accounts Payable	4,100	
	Cash.....		4,100
d.	Supplies	700	
	Accounts Payable		700
e.	Cash	200	
	Accounts Receivable.....		200
f.	Accounts Receivable	2,400	
	Service Revenue.....		2,400
g.	Rent Expense	1,300	
	Advertising Expense.....	1,000	
	Cash.....		2,300
i.	Dividends.....	2,000	
	Cash		2,000

Reqs. 2 and 3

Cash		Accounts Receivable		Supplies		Land	
1,050	4,100	1,350	200	700		11,700	
8,900	1,300	2,400					
6,300	1,000	3,550		700		11,700	
200	2,000						
8,050							

Accounts Payable		Common Stock		Retained Earnings		Dividends	
4,100	7,900		3,600		2,600	2,000	
	700		8,900				
	4,500		12,500		2,600	2,000	

Service Revenue		Rent Expense		Advertising Expense	
	6,300	1,300		1,000	
	2,400				
	8,700	1,300		1,000	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-65B.

Req. 1

Classification of Transactions

Nov	4	b
	5	c
	6	c
	7	c
	10	b
	11	b
	12	a
	18	c
	21	c
	25	c
	30	c

(continued) P 2-67B

Req. 2

Analysis of Transactions

		ASSETS			=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Supplies	+ Office Equipment	=	Accounts Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction		
Nov. 4*											
5	54,000						54,000		Issued stock		
6	(1,000)		1,000								
7	(9,500)			17,000		7,500					
10*											
11*											
12*											
18		4,500						4,500	Service revenue		
21	(3,750)					(3,750)					
25	(1,000)							(1,000)	Rent expense		
30	(1,800)							(1,800)	Dividend		
Bal.	<u>36,950</u>	<u>4,500</u>	<u>1,000</u>	<u>17,000</u>		<u>3,750</u>	<u>54,000</u>	<u>1,700</u>			
	\$59,450					\$59,450					

*Not a transaction of the business.

Req. 3

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Nov. 5	Cash	54,000	
	Common Stock.....		54,000
	Issued stock to owner.		
7	Supplies	1,000	
	Cash.....		1,000
	Purchased supplies.		
9	Office Equipment.....	17,000	
	Cash.....		9,500
	Accounts Payable.....		7,500
	Purchased furniture.		
23	Accounts Receivable	4,500	
	Service Revenue.....		4,500
	Performed service on account.		
29	Accounts Payable	3,750	
	Cash		3,750
	Paid on account.		
30	Rent Expense	1,000	
	Cash		1,000
	Paid rent.		
31	Dividends... ..	1,800	
	Cash.....		1,800
	Paid dividend.		

Req. 1

Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Dec 1	Cash	25,000	
	Common Stock		25,000
5	Rent Expense	1,600	
	Cash		1,600
9	Land	44,500	
	Cash		8,500
	Notes Payable		36,000
10	Supplies	1,000	
	Accounts Payable		1,000
19	Accounts Payable	650	
	Cash		650
22	Cash	20,000	
	Notes Payable		20,000
31	Cash	13,500	
	Accounts Receivable	5,000	
	Service Revenue		18,500
31	Salary Expense	2,700	
	Advertising Expense	1,700	
	Utilities Expense	1,100	
	Cash		5,500
30	Dividends	4,000	
	Cash		4,000

Req. 2

Cash	
25,000	1,600
20,000	8,500
13,500	650
	2,700
	1,700
	1,100
	4,000
38,250	

Accounts Payable	
650	1,000
	350

Notes Payable	
	36,000
	20,000
	56,000

Req. 3

Cash: \$38,250

Total amount owed: \$56,350 (\$350 + \$56,000)

Req. 1

Journal				
DATE	ACCOUNT TITLES	DEBIT	CREDIT	
Mar. 2	Cash..... Common Stock.....	35,000		35,000
3	Supplies..... Equipment..... Accounts Payable.....	200 3,200		3,400
4	Cash..... Service Revenue.....	1,400		1,400
7	Land..... Cash.....	24,000		24,000
11	Accounts Receivable..... Service Revenue.....	800		800
16	Accounts Payable..... Cash.....	3,200		3,200
17	Utilities Expense..... Cash.....	150		150
18	Cash..... Accounts Receivable.....	400		400
22	Utilities Expense..... Cash.....	170		170
29	Cash..... Service Revenue.....	1,500		1,500
31	Salary Expense..... Cash.....	1,800		1,800
31	Dividends..... Cash.....	2,100		2,100

Req. 3

**Johnson Plumbing, Inc.
Trial Balance
March 31**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 6,880	
Accounts receivable.....	400	
Supplies	200	
Equipment.....	3,200	
Land.....	24,000	
Accounts payable.....		\$ 200
Common stock.....		35,000
Dividends	2,100	
Service revenue		3,700
Salary expense	1,800	
Utilities expense	<u>320</u>	
Total.....	<u>\$38,900</u>	<u>\$38,900</u>

Req. 4

Total resources (assets) = \$34,680 (\$6,880 + \$400 + \$200 + \$3,200 + \$24,000)

Amount owed (total liabilities) = \$200

Profit (net income) = \$1,580 (\$3,700 - \$1,800 - \$320)

Reqs. 1 and 2

Cash			
(a)	19,000	(c)	37,000
(b)	41,100	(e)	2,000
(f)	1,600	(h)	200
(j)	1,100	(k)	1,800
Bal.	21,800		

Supplies	
(d)	300
Bal.	300

Building	
(a)	53,000
Bal.	53,000

Note Payable	
	(b) 41,100
	Bal. 41,100

Salary Expense	
(e)	2,000
Bal.	2,000

Rent Expense	
(k)	1,000
Bal.	1,000

Accounts Receivable			
(g)	2,900	(j)	1,100
Bal.	1,800		

Music Equipment	
(c)	37,000
Bal.	37,000

Accounts Payable			
(h)	200	(d)	300
		(i)	900
		Bal.	1,000

Common Stock	
	(a) 72,000
	Bal. 72,000

Service Revenue	
	(f) 1,600
	(g) 2,900
	Bal. 4,500

Advertising Expense	
(k)	800
Bal.	800

Utilities Expense	
(i)	900
Bal.	900

Req. 3

**Star Entertainment Corporation
Trial Balance
February 29, 2012**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 21,800	
Accounts receivable.....	1,800	
Supplies.....	300	
Music equipment.....	37,000	
Building.....	53,000	
Accounts payable.....		\$ 1,000
Note payable.....		41,100
Common stock.....		72,000
Service revenue.....		4,500
Salary expense.....	2,000	
Advertising expense.....	1,000	
Rent expense.....	900	
Utilities expense.....	<u>800</u>	
Total.....	<u>\$118,600</u>	<u>\$118,600</u>

Challenge Exercises and Problem

(20-40 min.) E 2-71

a. Total cash paid during December:

Cash			
Nov. 30 Bal.	10,000		
Dec. receipts	82,000	Dec. payments	X = \$87,000
Dec. 31 Bal.	5,000		

$$\$10,000 + \$82,000 - X = \$ 5,000$$

$$X = \$87,000$$

b. Cash collections from customers during December:

Accounts Receivable			
Nov 30 Bal.	27,000		
Dec. sales on account	54,000	Dec. collections	X = \$56,000
Dec. 31 Bal.	25,000		

$$\$27,000 + \$54,000 - X = \$25,000$$

$$X = \$56,000$$

c. Cash paid on notes payable during December:

Notes Payable			
		Nov. 30 Bal.	11,000
X = 24,000	Dec. note payments	X	Dec. new borrowing
			32,000
		Dec. 31 Bal.	19,000

$$\$11,000 + \$32,000 - X = \$19,000$$

$$X = \$24,000$$

Req. 1

**Rectangle 120, Inc.
Trial Balance
August 31, 2012**

Cash.....	\$ 3,900	
Accounts receivable.....	7,400	
Land.....	34,400	
Accounts payable.....		\$ 6,000
Note payable.....		5,500
Common stock.....		20,100
Retained earnings.....		7,500
Service revenue.....		9,500
Salary expense.....	3,300	
Advertising expense.....	<u>1,100</u>	
Totals.....	<u>\$50,100</u>	<u>\$48,600</u>

--	--

Out of balance by \$1,500

The correct balance of Accounts Receivable is \$5,900* (\$7,400 - \$1,500). After this correction, total debits will be \$48,600 (\$50,100 - \$1,500), the same as total credits.

Req. 2

- a. Total assets = \$44,200 (\$3,900 + \$5,900* + \$34,400)**
- b. Total liabilities = \$11,500 (\$6,000 + \$5,500)**
- c. Net income = \$ 5,100 (\$9,500 - \$3,300 - \$1,100)**

Burlington Co.:

Income statement	November	December
Medical expense	\$44,000	\$ -0-

Balance sheet	Nov. 30	Dec. 31
Cash	\$53,000	\$23,000*
Accounts payable	44,000	14,000**

Gardner Hospital:

Income statement	November	December
Service revenue	\$44,000	\$ -0-

Balance sheet	Nov. 30	Dec. 31
Cash	\$ -0-	\$30,000
Accounts receivable	44,000	14,000**

Explanation:

Burlington's \$44,000 expense is Gardner's revenue.

Burlington's \$30,000 cash payment is Gardner's cash receipt.

Burlington's \$14,000 account payable is Gardner's account receivable.

$$*\$53,000 - \$30,000 = \$23,000$$

$$**\$44,000 - \$30,000 = \$14,000$$

Req 1.

Date	Effect on Cash	Effect on Total Assets	Effect on Net Income
May 1	Understated \$300	Correct	Overstated \$300
2	Overstated \$4,500	Overstated \$4,500	Correct
5	Correct	Correct	Understated \$1,000
10	Correct	Correct	Correct
16	Correct	Correct	Overstated \$2,000
25	Correct	Overstated \$1,500	Correct

Req. 2.

Correct cash balance, \$1,300 (\$5,500 +\$300 - \$4,500)

Req.3.

Correct total assets, \$19,000 (\$25,000 - \$4,500 - \$1,500)

Req. 4.

Correct net income, \$8,700 (\$10,000 - \$300 +\$1,000 - \$2,000)

Decision Cases

(40-50 min.) Decision Case 1

Reqs. 1 and 2

Cash	
(a) 5,000	(c) 1,300
(b) 5,000	(d) 1,800
(h) 2,500	(f) 2,000
(i) 1,200	(f) 1,200
	(j) 1,000
Bal. 6,400	

Accounts Receivable	
(g) 7,000	(i) 1,200
Bal. 5,800	

Supplies	
(c) 1,300	

Furniture	
(e) 4,400	

Accounts Payable	
(j) 1,000	(e) 4,400
	Bal. 3,400

Notes Payable	
	(b) 5,000

Common Stock	
	(a) 5,000

Service Revenue	
	(g) 7,000
	(h) 2,500
	Bal. 9,500

Salary Expense	
(f) 2,000	

Advertising Expense	
(d) 1,800	

Rent Expense	
(f) 1,200	

Req. 3

Barlow Networks, Inc.
Trial Balance
Current Date

ACCOUNT	DEBIT	CREDIT
Cash.....	\$6,400	
Accounts receivable.....	5,800	
Supplies.....	1,300	
Furniture.....	4,400	
Accounts payable.....		\$ 3,400
Notes payable.....		5,000
Common stock.....		5,000
Service revenue.....		9,500
Salary expense.....	2,000	
Advertising expense.....	1,800	
Rent expense.....	<u>1,200</u>	
Total.....	<u>\$22,900</u>	<u>\$22,900</u>

Req. 4 (net income or loss for first month of operations)

Revenues:

Service revenue	\$9,500
-----------------------	---------

Expenses:

Salary expense.....	\$2,000
---------------------	---------

Advertising expense.....	1,800
--------------------------	-------

Rent expense.....	<u>1,200</u>
-------------------	--------------

Total expenses.....	<u>5,000</u>
---------------------	--------------

Net income for month	<u>\$4,500</u>
----------------------------	----------------

Recommendation: Barlow may want to review his criteria for keeping the business open. His criteria for remaining in operation was net income of \$5,000. His actual result was close to his goal. Perhaps he was unrealistic in his expectations. Most businesses, large and small, incur losses in their first months of operation. Barlow Networks actually earned a profit! The author suggests that Barlow stick it out for another few months, at least.

(20-30 min.) Decision Case 2

Little Italy, Inc.
Income Statement
Month Ended December 31, 2012

Sales revenue.....	\$42,000
Cost of goods sold (expense).....	22,000
Rent expense.....	6,000
Advertising expense.....	<u>5,000</u>
Total expenses.....	<u>33,000</u>
Net income.....	<u>\$ 9,000</u>

Little Italy, Inc.
Balance Sheet
December 31, 2012

ASSETS		LIABILITIES	
Cash.....	\$ 12,000	Accounts payable.....	\$ 8,000
Food inventory.....	5,000	OWNERS' EQUITY	
Furniture.....	<u>10,000</u>	Common stock.....	10,000
		Retained earnings.....	<u>9,000*</u>
		Total owners' equity...	<u>19,000</u>
		Total liabilities	
Total assets.....	<u>\$27,000</u>	and equity.....	<u>\$27,000</u>

*Must solve for this amount. It is also the amount of net income, which is the only change in retained earnings for the month.

Recommendation: Do not expand this month. The business falls short of the goals for both net income and total assets. However, Little Italy, Inc. appears to be profitable, and assets are building toward Sophia's goals. Maybe next month.

Ethical Issue 1

1. The ethical issue is whether these alternatives of financing the business are proper from an economic, legal, and ethical standpoint.
2. The stakeholders are Scruffy Murphy, the bank, potential new creditors, and the friend who may become a stockholder.

Option 1:	Cash.....	100,000	
	Common Stock.....		100,000
Option 2:	Land.....	100,000	
	Common Stock.....		100,000
	Common Stock.....	100,000	
	Land.....		100,000

Option 1 is economically sound, perfectly legal, and also ethical because the sale of the stock is a valid transaction between the business and a stockholder. The consequences of this decision are that Murphy obtains additional financing at a cost (he now shares ownership of the business with his friend). The friend gives up cash in exchange for an ownership interest in the business. The bank and future creditors obtain complete and truthful disclosure of the manner in which the business has been financed.

Option 2 represents “window dressing” (making the company look like an entity that it is not). Although it might be legal in the strictest sense of the word (and it might not), this option does not faithfully represent economic reality. Thus, it is not in accordance with GAAP, which is a substitute for the legal criterion. This option is also unethical because the receipt of the land by the business is not a real transaction. The transfer of the land back to Murphy means that the business never actually has the land for its use. It violates the rights of the bank and future creditors to give them information that is inaccurate and that does not faithfully represent economic reality.

The best option to take is definitely Option 1. The decision maker can walk away from this transaction confident that he or she told the truth.

Ethical Issue 2

Part A.

1. The ethical issue is whether you should question your grade, which is higher than you expected. Your choices are (a) discuss the grade with the professor; and (b) do not discuss the grade with the professor.

2, 3. Stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead to a downward adjustment. While this could possibly have adverse economic consequences (i.e., perhaps loss of scholarship if the is substantially lowered), it is unlikely that a letter-grade drop in one course would have such an impact on grade point average as to cause loss of a scholarship. There is no legal consequence to reporting a grade that is too high. The ethical consequence is generally positive on all concerned, as it leads to clarification of the true grade.

4. Student opinions will vary on this part.

Part B.

1. The ethical issue in this case is whether you should question your grade, which is now lower than you expected. Your choices are (a) discuss the grade with the professor; and (b) do not discuss the grade with the professor.

2, 3. Like part a, the stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead

to an upward adjustment. This could have positive economic consequences (i.e., perhaps keeping a scholarship). Like part a, the ethical consequence of this action is generally positive on all concerned, as it leads to clarification of the true grade.

4. Most students would probably respond “take it to the professor.” But shouldn’t we be just as concerned about knowing the true grade either way? The author recommends discussing the grade with the professor one way or the other.

Part C.

Both course grades and financial statements report results that people use in order to make decisions that can carry both positive and negative consequences. In both situations, it is important that the user receive relevant information, and that the information faithfully represent facts as they actually occurred.

Focus on Financials: Amazon.com, Inc.

(20-30 min.)

Reqs. 1 and 3

(All amounts in millions)

Cash		
3,444	25,146	e
b 33,605	6,237	f
g 91	352	h
	1,628	j
<hr/>		
3,777		

Acc Rec. net and Other		
988	33,605	b
a 34,204		
1,587		

Inventories		
2,171	26,561	d
c 27,592		
3,202		

Fixed Assets, net		
1,290		
j 1,124		
2,414		

Other Assets		
1,474		
i 7		
j 504		
1,985		

Accounts Payable		
e 25,146	5,605	
	27,592	c
	8,051	

Net Sales		
	34,204	a

Cost of Sales		
d 26,561		

Operating Expenses		
f 6,237		

Non-op. Income (net)		
	91	g

Provision for Income Tax		
h 352		

Equity Method Invest.		
	7	i

Req. 2

	<i>(Millions)</i>	
a. Accounts Receivable, net	34,204	
Net Sales (Revenue).....		34,204
b. Cash.....	33,605	
Accounts Receivable, net.....		33,605
c. Inventories.....	27,592	
Accounts Payable.		27,592
d. Cost of Sales	26,561	
Inventories.....		26,561
e. Accounts Payable	25,146	
Cash.....		25,146
f. Operating Expenses	6,237	
Cash.....		6,237
g. Cash.....	91	
Non-operating income		91
h. Provision for income taxes	352	
Cash.....		352
i. Other Assets.....	7	
Equity Method Investment Activity, net		7
j. Fixed Assets.....	1,124	
Other assets	504	
Cash.....		1,628

Req. 4

All the selected account balances except other assets agree with Amazon.com, Inc.'s actual figures on the income statement or the balance sheet.

Req. 5

Revenue:	(Millions)
Net sales	\$34,204
Non-operating income, net	91
Equity method investment activity, net ...	<u>7</u>
Total revenue	34,302
Expenses:	
Cost of sales	\$26,561
Operating (expenses)	6,237
Provision for income taxes	<u>352</u>
Total expenses	<u>33,150</u>
Net income	<u>\$1,152</u>

Focus on Analysis: RadioShack, Corp.

(20-30 min.)

Req. 1

During fiscal 2010, RadioShack, Corp. had more sales than cash collections. This is determined by analyzing net receivables, as follows:

Net receivables (from Note 3):

	<i>(Millions)</i>
Balance at the end of fiscal 2009	\$ 49.1
+ Sales during fiscal 2010...(from consolidated statement of operations)	4,472.7
- Collections from customers during fiscal 2007	<u> (X)</u>
= Balance at the end of fiscal 2010.....	<u>\$ 57.6</u>

Solving for X, collections were \$4,464.2 ($49.1 + 4,472.7 - 57.6$). Another way to express this relationship is that when accounts receivable increase during the year, sales must exceed cash collections. If accounts receivable decrease during the year, cash collections must exceed sales.

Req. 2

Sales increased slightly in 2009 but increase more substantially in 2010 perhaps due to a better economy. Net income increased more dramatically in 2009 and only slightly in 2010 largely due to an increase in Cost of Goods Sold and Selling, General, and Administrative Expenses.

	2010	2009	2008
Net sales (millions)	\$4,472.7	\$4,276.0	\$4,224.5
\$ change	196.7	51.5	
Percentage change	4.60%	1.22%	
Net income (millions)	\$206.1	\$205.0	\$189.4
\$ change	1.1	15.6	
Percentage change	0.54%	8.24%	

Group Projects

Student responses will vary.