

CHAPTER 2

ANALYZING BUSINESS TRANSACTIONS

Chapter Opener: Thinking Critically

How does Southwest keep track of all of these transactions so that it can continue to run its airline profitably?

The individuals in charge of keeping track of these transactions at Southwest as well as in other companies, are known as accountants. When recording the transactions, accountants are required to follow a set of rules and regulations known as GAAP.

For every financial transaction that Southwest has, their accountants determine the accounts that were affected and then they record, report, and then analyze these transactions. By doing so they can, at a specific point in time and over a stipulated period, be able to assess the company's financial performance including profitability of the airline, assets owned by the company, and of course the amount owed to creditors and owners.

Managerial Implications: Thinking Critically

Answers will vary. Students should mention total assets and the type of assets, the liabilities the business would be responsible for, and whether the business is making a profit.

Discussion Questions

Note to instructor: These questions are designed to check students' understanding of new terms, concepts, and procedures presented in the chapter.

1. Inflow of money/assets resulting from sales or use of property
2. Outflow of money/assets for costs used to produce revenue
3. Subtract total expenses from revenue
4. Increases owner's equity
5.
 - a. assets increase, liabilities increase
 - b. assets decrease, owner's equity decreases
 - c. assets increase, owner's equity increases
 - d. assets decrease, liabilities decrease
 - e. no change in total assets, one asset increases and another decreases
 - f. assets increase, owner's equity increases

Discussion Questions (continued)

6. Assets = Liabilities + Owner's Equity
7. Assets: property owned. Liabilities: debts. Owner's equity: owner's financial interest.
8. Assets, liabilities, and owner's equity.
9. Revenue and expenses; net income or loss.
10. Beginning-of-period capital balance, additional investments, net income/loss for period, less withdrawals, and the ending capital balance.
11. Firm name, title of statement, date of statement or the period of time covered.
12. Balance sheet shows position at particular date; income statement is for a period of time.

EXERCISE 2.1

| | |
|-----------------|------------|
| Assets: | \$1,37,800 |
| Liabilities: | \$26,575 |
| Owner's Equity: | \$1,11,225 |

EXERCISE 2.2

1. \$25,630
2. \$22,520
3. \$35,775
4. \$39,576
5. \$24,800

EXERCISE 2.3

| Transaction | Assets | = | Liabilities | + | Owners' Equity | |
|-------------|------------|---|-------------|---|----------------|--|
| 1. | <u>D</u> | | <u></u> | | <u>D</u> | I = Increase (+) D = Decrease (-) |
| 2. | <u>I</u> | | <u></u> | | <u>I</u> | |
| 3. | <u>I/D</u> | | <u></u> | | <u></u> | |
| 4. | <u>D</u> | | <u></u> | | <u>D</u> | |
| 5. | <u>D</u> | | <u>D</u> | | <u></u> | |
| 6. | <u>I</u> | | <u></u> | | <u>I</u> | |
| 7. | <u>I</u> | | <u>I</u> | | <u></u> | |
| 8. | <u>I/D</u> | | <u></u> | | <u></u> | |
| 9. | <u>I/D</u> | | <u></u> | | <u></u> | |
| 10. | <u>I</u> | | <u></u> | | <u>I</u> | |

EXERCISE 2.4

| | Assets | = | Liabilities | + | Owner's Equity |
|----|-------------------------|---|---------------------------|---|-------------------------------|
| 1. | Cash \$15,500 | | Accounts Payable \$27,180 | + | Donna Wells, Capital \$32,520 |
| 2. | Dental Supplies 5,650 | = | <u></u> | + | <u></u> |
| 3. | Dental Equipment 28,550 | = | <u></u> | + | <u></u> |
| 4. | Office Furniture 10,000 | = | <u></u> | + | <u></u> |
| 5. | Total \$59,700 | = | \$27,180 | + | \$32,520 |

EXERCISE 2.5

| | Assets | | = | Liabilities | + | Owner's Equity | | |
|--------|-----------------|-----------------------|---|-----------------|---|------------------|----------------------|----------------------------|
| | Cash | + Accounts Receivable | | + Equipment | = | Accounts Payable | + John Amos, Capital | + Revenue - Expenses |
| 1. | +\$60,000 | | | | | | +\$60,000 | |
| 2. | | | | +22,000 | | +22,000 | | |
| 3. | +3,100 | | | | | | | +3,100 |
| 4. | -4,600 | | | +4,600 | | | | |
| 5. | | +5,050 | | | | | | +5,050 |
| 6. | -4,450 | | | | | | | \$4,450 |
| 7. | +3,200 | -3,200 | | | | | | |
| 8. | -13,000 | | | | | -13,000 | | |
| Totals | <u>\$44,250</u> | <u>+ \$1,850</u> | | <u>\$26,600</u> | = | <u>\$9,000</u> | <u>+ \$60,000</u> | <u>+ \$8,150 - \$4,450</u> |

EXERCISE 2.6

Net income of \$22,140

Revenue

Repair Fees \$53,530

Expenses

Advertising Expense \$8,100

Salaries Expense 20,500

Telephone Expense 1,080

Utilities Expense 1,710

Total Expenses 31,390

Net Income \$22,140

EXERCISE 2.7

1. Services were performed for cash.
2. Equipment was purchased for cash.
3. A payment was made on the amount owed to a creditor.
4. An expense was paid in cash.
5. Cash was received from charge customer.
6. Services were performed on credit.
7. An expense was paid in cash.

EXERCISE 2.8

| Cantu Wealth Management Consulting | | | | | | | | | | |
|---|----|---|---|---|----|------------|----------|----------|----------|-----------|
| Income Statement | | | | | | | | | | |
| Month Ended September 30, 2019 | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Fees Income | | | | | | 155 | 8 | 0 | 0 | 00 |
| Expenses | | | | | | | | | | |
| Advertising Expense | 13 | 0 | 0 | 0 | 00 | | | | | |
| Salaries Expense | 32 | 0 | 0 | 0 | 00 | | | | | |
| Telephone Expense | 1 | 6 | 0 | 0 | 00 | | | | | |
| Total Expenses | | | | | | 46 | 6 | 0 | 0 | 00 |
| Net Income | | | | | | 109 | 2 | 0 | 0 | 00 |
| | | | | | | | | | | |
| | | | | | | | | | | |

EXERCISE 2.9

| | |
|--------------------------|-----------------|
| Net Loss of \$1,150 | |
| Revenue | |
| Service Revenue | \$5,800 |
| Expenses | |
| Advertising Expense..... | \$3,100 |
| Telephone Expense..... | 800 |
| Salaries Expense | 2,600 |
| Cleaning Expense | 450 |
| Total Expense | <u>\$6,950</u> |
| Net Loss | <u>-\$1,150</u> |

EXERCISE 2.10

| Cantu Wealth Management Consulting | | | | | | | | | | |
|---|-----|---|---|---|----|------------|----------|----------|----------|-----------|
| Statement of Owner's Equity | | | | | | | | | | |
| Month Ended September 30, 2019 | | | | | | | | | | |
| Selena Cantu, Capital, September 1, 2019 | | | | | | 53 | 4 | 0 | 0 | 00 |
| Net Income for September | 109 | 2 | 0 | 0 | 00 | | | | | |
| Less Withdrawals for September | 18 | 0 | 0 | 0 | 00 | | | | | |
| Increase in Capital | | | | | | 91 | 2 | 0 | 0 | 00 |
| Selena Cantu, Capital, September 30, 2019 | | | | | | 144 | 6 | 0 | 0 | 00 |
| | | | | | | | | | | |
| | | | | | | | | | | |

| Problem | | Time |
|---------|------|------|
| EX | 2.1 | 5 |
| EX | 2.2 | 5 |
| EX | 2.3 | 10 |
| EX | 2.4 | 10 |
| EX | 2.5 | 10 |
| EX | 2.6 | 10 |
| EX | 2.7 | 10 |
| EX | 2.8 | 10 |
| EX | 2.9 | 10 |
| EX | 2.1 | 15 |
| | | |
| | | |
| PR | 2.1A | 15 |
| PR | 2.2A | 20 |
| PR | 2.3A | 10 |
| PR | 2.4A | 20 |
| | | |
| CT | 2.1 | 25 |
| CT | 2.2 | 20 |

| | | |
|----|---|------------|
| 5 | = | 1-5 min. |
| 10 | = | 6-10 min. |
| 15 | = | 11-15 min. |
| 20 | = | 16-20 min. |
| 25 | = | 21-25 min. |
| 30 | = | 26-30 min. |
| 35 | = | 31-35 min. |
| 40 | = | 36-40 min. |
| 45 | = | 41-45 min. |
| 50 | = | 46-50 min. |
| 55 | = | 51-55 min. |
| 60 | = | 56-60 min. |

EXERCISE 2.10 (continued)

Cantu Wealth Management Consulting

Balance Sheet

September 30, 2019

| Assets | | | | | | Liabilities | | | | | |
|---------------------|------------|----------|----------|----------|-----------|---|------------|----------|----------|----------|-----------|
| Cash | 66 | 2 | 0 | 0 | 00 | Accounts Payable | 11 | 4 | 0 | 0 | 00 |
| Accounts Receivable | 8 | 0 | 0 | 0 | 00 | | | | | | |
| Office Supplies | 6 | 8 | 0 | 0 | 00 | Owner's Equity | | | | | |
| Office Equipment | 75 | 0 | 0 | 0 | 00 | Selena Cantu, Capital | 144 | 6 | 0 | 0 | 00 |
| Total Assets | 156 | 0 | 0 | 0 | 00 | Total Liabilities and Owner's Equity | 156 | 0 | 0 | 0 | 00 |
| | | | | | | | | | | | |
| | | | | | | | | | | | |

PROBLEM 2.1A

| | Assets | | | | = | Liabilities | + | Owner's Equity | | | |
|--------|------------|------------|----------|-----------|-----------|-------------|----------|----------------|---------|---|------------|
| | Cash | Accounts | | Equipment | Payable | Capital | Owner's | | | | |
| | | Receivable | Supplies | | | | Capital | | | | |
| 1. | +\$100,000 | | | | | | | +\$100,000 | | | |
| 2. | -\$20,250 | | | +\$20,250 | | | | | | | |
| 3. | | | | +\$15,200 | +\$15,200 | | | | | | |
| 4. | -\$12,500 | | | | -\$12,500 | | | | | | |
| 5. | +\$25,000 | | | | | | | +\$25,000 | | | |
| 6. | +\$9,750 | | | | | | | +\$9,750 | | | |
| 7. | | +\$7,800 | | | | | | +\$7,800 | | | |
| 8. | -\$6,000 | | | | | | | -\$6,000 | | | |
| 9. | +\$5,500 | -\$5,500 | | | | | | | | | |
| 10. | -\$7,550 | | | +\$7,550 | | | | | | | |
| 11. | -\$12,000 | | | | | | | -\$12,000 | | | |
| Totals | \$81,950 | + | \$2,300 | + | \$7,550 | + | \$35,450 | = | \$2,700 | + | \$1,24,550 |

Analyze: The ending balance in the Cash account is \$81,950.

PROBLEM 2.2A

| | Assets | | | | = | Liabilities | + | Owner's Equity | | | | | | | | |
|--------------------|----------|---------------------|-----------|-------|----------|------------------|-------------------|----------------|----------|---|------------|---|----------|---|----------|-------|
| | Cash | Accounts Receivable | Office | | Auto | Accounts Payable | H. Joseph Capital | Revenue | Expenses | | | | | | | |
| | | | Furniture | | | | | | | | | | | | | |
| Beginning Balances | \$72,000 | + | \$18,500 | + | \$42,500 | + | \$27,500 | = | \$15,300 | + | \$1,07,250 | + | \$65,800 | - | \$27,850 | |
| 1. | | | + | 7,200 | | | | | | | | | | | + | 7,200 |
| New Balances | \$72,000 | + | \$25,700 | + | \$42,500 | + | \$27,500 | = | \$15,300 | + | \$1,07,250 | + | \$73,000 | - | \$27,850 | |
| 2. | -1,820 | | | + | 1,820 | | | | | | | | | | | |
| New Balances | \$70,180 | + | \$25,700 | + | \$44,320 | + | \$27,500 | = | \$15,300 | + | \$1,07,250 | + | \$73,000 | - | \$27,850 | |
| 3. | +13,800 | | | | | | | | | | | | | | | |

PROBLEM 2.2A (continued)

| | Assets | | | | = | Liabilities | + | Owner's Equity | | | | | | | |
|----------|----------|---|------------------------|---|---------------------|-------------|----------|----------------|---------------------|---|----------------------|---|----------|---|----------|
| | Cash | + | Accounts Receivable | + | Office Furniture | + | Auto | = | Accounts Payable | + | H. Joseph Capital | + | Revenue | - | Expenses |
| New | | | | | | | | | | | | | | | |
| Balances | \$83,980 | + | \$11,900 | + | \$44,320 | + | \$27,500 | = | \$15,300 | + | \$1,07,250 | + | \$73,000 | - | \$27,850 |
| 4. | -910 | | | | | | | | | | | | | | +910 |
| New | | | | | | | | | | | | | | | |
| Balances | \$83,070 | + | \$11,900 | + | \$44,320 | + | \$27,500 | = | \$15,300 | + | \$1,07,250 | + | \$73,000 | - | \$28,760 |
| 5. | -5,200 | | | | | | | | -5,200 | | | | | | |
| New | | | | | | | | | | | | | | | |
| Balances | \$77,870 | + | \$11,900 | + | \$44,320 | + | \$27,500 | = | \$10,100 | + | \$1,07,250 | + | \$73,000 | - | \$28,760 |
| 6. | -10,580 | | | | | | | | | | | | | | +10,580 |
| New | | | | | | | | | | | | | | | |
| Balances | \$67,290 | + | \$11,900 | + | \$44,320 | + | \$27,500 | = | \$10,100 | + | \$1,07,250 | + | \$73,000 | - | \$39,340 |
| 7. | -1,285 | | | | | | | | | | | | | | +1,285 |
| New | | | | | | | | | | | | | | | |
| Balances | \$66,005 | + | \$11,900 | + | \$44,320 | + | \$27,500 | = | \$10,100 | + | \$1,07,250 | + | \$73,000 | - | \$40,625 |
| 8. | +12,900 | | | | | | | | | | | | | | +12,900 |
| New | | | | | | | | | | | | | | | |
| Balances | \$78,905 | + | \$11,900 | + | \$44,320 | + | \$27,500 | = | \$10,100 | + | \$1,07,250 | + | \$85,900 | - | \$40,625 |
| 9. | -2,660 | | | | | | | | | | | | | | +2,660 |
| New | | | | | | | | | | | | | | | |
| Balances | \$76,245 | + | \$11,900 | + | \$44,320 | + | \$27,500 | = | \$10,100 | + | \$1,07,250 | + | \$85,900 | - | \$43,285 |
| 10. | | + | +13,800 | | | | | | | | | | | | +13,800 |
| New | | | | | | | | | | | | | | | |
| Balances | \$76,245 | + | \$25,700 | + | \$44,320 | + | \$27,500 | = | \$10,100 | + | \$1,07,250 | + | \$99,700 | - | \$43,285 |

Analyze: Total assets equal \$173,765.

PROBLEM 2.3A

Taylor Equipment Repair Service

Balance Sheet

February 28, 2019

| Assets | | | | | Liabilities | | | | |
|---------------------|-----|---|---|----|--------------------------------------|-----|---|---|----|
| Cash | 68 | 6 | 0 | 00 | Accounts Payable | 48 | 0 | 0 | 00 |
| Supplies | 12 | 7 | 6 | 00 | | | | | |
| Accounts Receivable | 26 | 4 | 0 | 00 | Owner's Equity | | | | |
| Equipment | 156 | 0 | 0 | 00 | Jason Taylor, Capital | 215 | 7 | 6 | 00 |
| Total Assets | 263 | 7 | 6 | 00 | Total Liabilities and Owner's Equity | 263 | 7 | 6 | 00 |
| | | | | | | | | | |
| | | | | | | | | | |

Analyze: Owner's Equity is \$215,760 at February 28, 2019.

PROBLEM 2.4A

Cotton Cleaning Service

Income Statement

Month Ended May 31, 2019

| | | | | | | | | | |
|-------------------|---|---|---|----|-----|---|---|-----|--|
| Revenue | | | | | | | | | |
| Fees Income | | | | | 7 | 8 | 8 | 00 | |
| Expenses | | | | | | | | | |
| Utilities Expense | | 9 | 8 | 00 | | | | | |
| Salaries Expense | 8 | 9 | 0 | 00 | | | | | |
| Telephone Expense | | 3 | 1 | 40 | | | | | |
| Total Expenses | | | | | (10 | 1 | 9 | 40) | |
| Net Loss | | | | | (2 | 3 | 1 | 40) | |
| | | | | | | | | | |
| | | | | | | | | | |

Cotton Cleaning Service

Statement of Owner's Equity

Month Ended May 31, 2019

| | | | | | | | | |
|--------------------------------------|----|---|---|-----|----|---|---|-----|
| Taylor Cotton, Capital, May 1, 2019 | | | | | 50 | 6 | 0 | 00 |
| Net Loss for May | (2 | 3 | 1 | 40) | | | | |
| Less Withdrawal for May | 3 | 0 | 0 | 00) | | | | |
| Decrease in Capital | | | | | (5 | 3 | 1 | 40) |
| Taylor Cotton, Capital, May 31, 2019 | | | | | 45 | 2 | 8 | 60) |
| | | | | | | | | |
| | | | | | | | | |

PROBLEM 2.4A (continued)

Cotton Cleaning Service

Balance Sheet

May 31, 2019

| Assets | | | | | Liabilities | | | | |
|---------------------|----|---|---|------|--------------------------------------|----|---|---|------|
| Cash | 4 | 6 | 8 | 6 00 | Accounts Payable | 4 | 9 | 0 | 0 00 |
| Accounts Receivable | 5 | 9 | 0 | 0 00 | | | | | |
| Supplies | 5 | 8 | 0 | 0 00 | Owner's Equity | | | | |
| Equipment | 33 | 8 | 0 | 0 00 | Taylor Cotton, Capital | 45 | 2 | 8 | 6 00 |
| Total Assets | 50 | 1 | 8 | 6 00 | Total Liabilities and Owner's Equity | 50 | 1 | 8 | 6 00 |
| | | | | | | | | | |

Analyze: The amount of \$45,286 (Taylor Cotton, Capital) was transferred to the balance sheet.

PROBLEM 2.1B

| | Assets | | | | = | Liabilities | + | Owner's Equity |
|--------|-----------|------------|-----------|------------|---|------------------|---|-----------------|
| | Cash | Accounts | | Equipment | = | Accounts Payable | + | Owner's Capital |
| | | Receivable | Supplies | | | | | |
| 1. | +\$36,000 | | | | | | + | \$36,000 |
| 2. | -\$16,000 | | | + \$16,000 | | | | |
| 3. | | | | + \$6,000 | + | \$6,000 | | |
| 4. | -\$3,000 | | | | - | \$3,000 | | |
| 5. | +\$6,000 | | | | | | + | \$6,000 |
| 6. | +\$4,200 | | | | | | + | \$4,200 |
| 7. | | + \$3,650 | | | | | + | \$3,650 |
| 8. | -\$2,600 | | | | | | - | \$2,600 |
| 9. | +\$2,500 | - \$2,500 | | | | | | |
| 10. | -\$3,150 | | + \$3,150 | | | | | |
| 11. | -\$5,000 | | | | | | - | \$5,000 |
| Totals | \$18,950 | + \$1,150 | + \$3,150 | + \$22,000 | = | \$3,000 | + | \$42,250 |

Analyze: Transaction 3 increased the Company's debt by \$6,000.

PROBLEM 2.2B

| | Assets | | | | = | Liabilities | + | Owner's Equity | | | | |
|--------------------|----------|------------|------------|------------------|---|------------------|---|--------------------|---|------------|---|----------|
| | Cash | Accounts | | Office Furniture | = | Accounts Payable | + | R. Johnson Capital | + | Revenue | - | Expenses |
| | | Receivable | Supplies | | | | | | | | | |
| Beginning Balances | \$76,000 | + \$24,000 | + \$25,600 | + \$48,000 | = | \$20,000 | + | \$99,600 | + | \$1,04,000 | - | \$50,000 |
| 1. | | + \$16,000 | | | | | | | + | \$16,000 | | |
| New Balances | \$76,000 | + \$40,000 | + \$25,600 | + \$48,000 | = | \$20,000 | + | \$99,600 | + | \$1,20,000 | - | \$50,000 |
| 2. | -5,760 | | | | | | | | | | + | \$5,760 |
| New Balances | \$70,240 | + \$40,000 | + \$25,600 | + \$48,000 | = | \$20,000 | + | \$99,600 | + | \$1,20,000 | - | \$55,760 |
| 3. | +20,000 | | | | | | | | + | \$20,000 | | |

PROBLEM 2.2B (continued)

| | Assets | | | | | = | Liabilities | + | Owner's Equity | | |
|--------------|----------|-----------------------|------------|--------------------|---|----------|------------------|--------------|--------------------|-----------|------------|
| | Cash | + Accounts Receivable | + Supplies | + Office Furniture | | = | Accounts Payable | + | R. Johnson Capital | + Revenue | - Expenses |
| New Balances | 90,240 | + 40,000 | + 25,600 | + 48,000 | = | 20,000 | + 99,600 | + 1,40,000 | - 55,760 | | |
| 4. | -3,200 | | | | | | | | | + 3,200 | |
| New Balances | 87,040 | + 40,000 | + 25,600 | + 48,000 | = | 20,000 | + 99,600 | + 1,40,000 | - 58,960 | | |
| 5. | -9,600 | | | | | - 9,600 | | | | | |
| New Balances | 77,440 | + 40,000 | + 25,600 | + 48,000 | = | 10,400 | + 99,600 | + 1,40,000 | - 58,960 | | |
| 6. | -3,840 | | | | | | | | + 3,840 | | |
| New Balances | 73,600 | + 40,000 | + 25,600 | + 48,000 | = | 10,400 | + 99,600 | + 1,40,000 | - 62,800 | | |
| 7. | -28,000 | | | | | | | | + 28,000 | | |
| New Balances | 45,600 | + 40,000 | + 25,600 | + 48,000 | = | 10,400 | + 99,600 | + 1,40,000 | - 90,800 | | |
| 8. | +22,400 | | | | | | | + 22,400 | | | |
| New Balances | 68,000 | + 40,000 | + 25,600 | + 48,000 | = | 10,400 | + 99,600 | + 1,62,400 | - 90,800 | | |
| 9. | | | + 4,000 | | | + 4,000 | | | | | |
| New Balances | 68,000 | + 40,000 | + 29,600 | + 48,000 | = | 14,400 | + 99,600 | + 1,62,400 | - 90,800 | | |
| 10. | +12,000 | - 12,000 | | | | | | | | | |
| New Balances | \$80,000 | + \$28,000 | + \$29,600 | + 48,000 | = | \$14,400 | + 99,600 | + \$1,62,400 | - \$90,800 | | |

Analyze: Owner's Equity balance is \$171,200; \$99,600 + (\$162,400 - \$90,800).

PROBLEM 2.3B

Ronald's Tax Service

Balance Sheet

December 1, 2019

| Assets | | | | | Liabilities | | | | |
|--------------|----|---|---|----|--------------------------------------|---|---|----|--|
| Cash | 25 | 0 | 0 | 00 | | | | | |
| Furniture | 7 | 5 | 0 | 00 | | | | | |
| Equipment | 8 | 5 | 0 | 00 | Owner's Equity | | | | |
| | | | | | Ronald Thomas, Capital | | | | |
| Total Assets | 41 | 0 | 0 | 00 | Total Liabilities and Owner's Equity | | | | |
| | | | | | 41 | 0 | 0 | 00 | |
| | | | | | 41 | 0 | 0 | 00 | |

Analyze: The amount reported on the balance sheet for owner's equity would be \$33,000 (\$41,000 - \$8,000).

PROBLEM 2.4B

Kathryn Proctor, Attorney and Counselor of Law

Income Statement

Month Ended August 31, 2019

| | | | | | | | | | |
|-------------------|---|---|---|----|----|---|---|----|--|
| Revenue | | | | | | | | | |
| Fees Income | | | | | 10 | 8 | 0 | 00 | |
| Expenses | | | | | | | | | |
| Utilities Expense | | 6 | 0 | 00 | | | | | |
| Salaries Expense | 5 | 4 | 0 | 00 | | | | | |
| Telephone Expense | | 6 | 0 | 00 | | | | | |
| Total Expenses | | | | | 6 | 6 | 0 | 00 | |
| Net Income | | | | | 4 | 2 | 0 | 00 | |

Kathryn Proctor, Attorney and Counselor of Law

Statement of Owner's Equity

Month Ended August 31, 2019

| | | | | | | | | |
|---|---|---|---|----|----|---|---|----|
| Kathryn Proctor, Capital, Aug. 1, 2019 | | | | | 23 | 2 | 0 | 00 |
| Net Income for August | 4 | 2 | 0 | 00 | | | | |
| Less Withdrawals for August | 1 | 2 | 0 | 00 | | | | |
| Increase in Capital | | | | | 3 | 0 | 0 | 00 |
| Kathryn Proctor, Capital, Aug. 31, 2019 | | | | | 26 | 2 | 0 | 00 |

Analyze: Net Income of \$4,200 was transferred from the income statement.

PROBLEM 2.4B (continued)

Kathryn Proctor, Attorney and Counselor at Law

Balance Sheet

August 31, 2019

| Assets | | | | | | | Liabilities | | | | | | |
|---------------------|----|---|---|---|----|--|--------------------------------------|----|---|---|---|----|--|
| Cash | 4 | 8 | 0 | 0 | 00 | | Accounts Payable | | 6 | 0 | 0 | 00 | |
| Accounts Receivable | 6 | 6 | 0 | 0 | 00 | | | | | | | | |
| Supplies | 5 | 4 | 0 | 0 | 00 | | Owner's Equity | | | | | | |
| Equipment | 10 | 0 | 0 | 0 | 00 | | Kathryn Proctor, Capital | 26 | 2 | 0 | 0 | 00 | |
| Total Assets | 26 | 8 | 0 | 0 | 00 | | Total Liabilities and Owner's Equity | 26 | 8 | 0 | 0 | 00 | |
| | | | | | | | | | | | | | |

Analyze: Net income of \$4,200 was transferred from the income statement.

CRITICAL THINKING PROBLEM 2.1

Determine the balance for William Giese, April 30, 2019.

| Assets | | | | = | Liabilities | + | Owner's Equity | | | | | | | |
|----------|---|---------------------|---|-----------|-------------|------------------|----------------|------------------------|---|------------------------|---|----------|---|----------|
| Cash | + | Accounts Receivable | + | Machinery | = | Accounts Payable | + | William Giese, Capital | - | William Giese, Drawing | + | Revenue | - | Expenses |
| \$60,000 | + | \$24,000 | + | \$42,000 | = | \$26,400 | + | ? | - | \$13,600 | + | \$53,600 | - | \$42,980 |

Let William Giese, Capital = X.

Solving for X:

$$\$126,000 \text{ (Total Assets)} = \$26,400 \text{ (Accounts Payable)} - \$13,600 \text{ (Drawing)} + \$53,600 \text{ (Revenue)} - \$42,980 \text{ (Expenses)} + X$$

$$\begin{aligned}
 & \$1,26,000 - \$23,420 = \$23,420 - \$23,420 + X \\
 & \$1,02,580 = X \\
 \text{William Giese, Capital,} & \quad = \quad \underline{\underline{\$1,02,580}} \\
 \text{April 1, 2016} &
 \end{aligned}$$

| | |
|---------------------|-----------------|
| Advertising Expense | \$7,780 |
| Maintenance Expense | 9,200 |
| Salaries Expense | 26,000 |
| Total Expenses | <u>\$42,980</u> |

CRITICAL THINKING PROBLEM 2.1 (continued)

William Giese, Certified Public Accountant

Income Statement

Month Ended April 30, 2019

| | | | | | | | | | |
|---------------------|----|---|---|---|----|---|---|---|----|
| Revenue | | | | | | | | | |
| Fees Earned | | | | | 53 | 6 | 0 | 0 | 00 |
| Expenses | | | | | | | | | |
| Advertising Expense | 7 | 7 | 8 | 0 | 00 | | | | |
| Maintenance Expense | 9 | 2 | 0 | 0 | 00 | | | | |
| Salaries Expense | 26 | 0 | 0 | 0 | 00 | | | | |
| Total Expenses | | | | | 42 | 9 | 8 | 0 | 00 |
| Net Income | | | | | 10 | 6 | 2 | 0 | 00 |

William Giese, Certified Public Accountant

Statement of Owner's Equity

Month Ended April 30, 2019

| | | | | | | | | | |
|--|----|---|---|---|-----|---|---|---|-----|
| William Giese, Capital, April 1, 2019 | | | | | 102 | 5 | 8 | 0 | 00 |
| Net Income for April | 10 | 6 | 2 | 0 | 00 | | | | |
| Less Withdrawals for April | 13 | 6 | 0 | 0 | 00 | | | | |
| Decrease in Capital | | | | | (2 | 9 | 8 | 0 | 00) |
| William Giese, Capital, April 30, 2019 | | | | | 99 | 6 | 0 | 0 | 00 |

William Giese, Certified Public Accountant

Balance Sheet

April 30, 2019

| Assets | | Liabilities | |
|---------------------|--------------|--------------------------------------|--------------|
| Cash | 60 0 0 0 00 | Accounts Payable | 26 4 0 0 00 |
| Accounts Receivable | 24 0 0 0 00 | Owner's Equity | |
| Machinery | 42 0 0 0 00 | William Giese, Capital | 99 6 0 0 00 |
| Total Assets | 126 0 0 0 00 | Total Liabilities and Owner's Equity | 126 0 0 0 00 |

Analyze: The decrease in owner's equity was \$2,980.

CRITICAL THINKING PROBLEM 2.2

Body Builders Fitness Center

Income Statement

Two Months Ended December 31, 2019

| | | | | | | | | | | |
|---------------------------------|---|---|---|---|----|----|---|---|---|-----|
| Revenue | | | | | | | | | | |
| Fees Earned (\$7,500 + \$3,200) | | | | | | 10 | 7 | 0 | 0 | 00 |
| Expenses | | | | | | | | | | |
| Rent Expense | 9 | 0 | 0 | 0 | 00 | | | | | |
| Cleaning Expense | 2 | 1 | 0 | 0 | 00 | | | | | |
| Advertising Expense | | 6 | 0 | 0 | 00 | | | | | |
| Total Expenses | | | | | | 11 | 7 | 0 | 0 | 00 |
| Net Loss | | | | | | (1 | 0 | 0 | 0 | 00) |
| | | | | | | | | | | |
| | | | | | | | | | | |

Some students may include the warm-up suits as a business expense. If the suits are a type of uniform, their inclusion is appropriate; if they are to be worn at home and at work, their cost is not a business expense.

The parking ticket is a personal expense. The cleaning of the studio and the printing of the flyers are business expenses. Payment of expenses with the owner’s personal credit card would be considered an additional investment by the owner.

It is not unusual for new businesses to operate at a loss. James should project his income and expenses for the next several months to determine how much new business he will need to earn an income. Students’ suggestions for improving the accounting system might include opening a business checking account, not using a personal credit card for business expenses, setting up a filing system for business records, and purchasing a computer to maintain financial records.

SOLUTIONS TO BUSINESS CONNECTIONS

Managerial Focus:

1. Not necessarily. Reinvestments in assets or use of cash to pay debts affect cash. In addition, sales or revenue may have been "on account."
2. No. Early development is expensive, risky, and time consuming. Profits may not be achieved for a year or more.
3. The firm's obligations must be met as they become due.
4. Organized financial information can be used to evaluate operating efficiency and to make decisions about current and future activities.

Ethical Dilemma:

Julia should not record the sale until she receives the purchase order from the customer and the goods are shipped. If she enters the sale and for some reason the customer doesn't make the order or the goods are not available for shipment, Carol would need to pay back the bonus. Julia's job would be in jeopardy.

Financial Statement Analysis:

1. Southwest Airlines Co., Consolidated Statement of Income, Years Ended December 31, 2015 and 2014.
2. Passenger, Freight, Other.
3. Statement of Owner's Equity (Consolidated Statement of Stockholders' Equity).
4. Total operating revenue was \$4.977 million for the quarter ended December 31, 2015.
5. See current topic on website.

Internet Connection:

Macy's, Bloomingdales, and now May is included in the Federated Corporation. Shopping online is on every home page. To record an online sale it must debit a credit card receivable and credit sales. A general job announcement and requirements are given at the site.

Team Work:

Accounts Payable Clerk would use Purchases (Increase), A/P (increase and decrease) and Cash (decrease). Accounts Receivable Clerk would use Sales (increase), A/R (increase and decrease) and Cash (increase). Full charge bookkeeper would use accounts Cash (increase and decrease), Bank Charges (increase) and Miscellaneous account (increase), Interest Income (increase), Interest Expense (increase). Accurate numbers are developed when it is determined that all transactions have been entered and that total assets equal total liabilities plus owner's equity.