Financial Accounting (Canadian) 6th edition Harrison Solutions Manual

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Chapter 2

Recording Business Transactions

Short Exercises

(5 min.) S 2-1

The transaction had a financial impact on the business and should be recorded. The payment for the computer was not an expense.

The payment related to the purchase of an asset, "Equipment," because the computer is an economic resource of the business. The computer will provide benefit over more than one fiscal period.

(5 min.) S 2-2

a. $12,000 (Cash $10,000–$5,000; Supplies $2,000, Computer $5,000)

b. $2,000 Accounts Payable

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(5-10 min.) S 2-3

Cash	
25,000	4,000
2,000	
Bal. 23,000	

Accounts Receivable	
6,000	

Supplies	
9,000	

Accounts Payable	
	9,000

Rent	
4,000	

Service Revenue	
	8,000

Common Shares	
	25,000

(5 min.) S 2-4

Increased total assets: May 1 (Cash)
May 1 (Medical supplies)
May 3 (Cash, Accounts receivable)

Decreased total assets: May 2 (Cash)

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(10 min.) S 2-5

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
June	15	Cash.....	25,000	
		Note Payable		25,000
		Borrowed money from the bank.		
	22	Accounts Receivable.....	9,000	
		Service Revenue		9,000
		Delivered portrait to be paid on account.		
	28	Cash	5,000	
		Accounts Receivable.....		5,000
		Received cash on account.		
	29	Utilities Expense	600	
		Accounts Payable		600
		Received utility bill.		
	30	Salary Expense	2,500	
		Cash		2,500
		Paid salary.		

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(10-15 min.) S 2-6

Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies……..	5,000	
	Accounts Payable……		5,000
	Purchased supplies on account.		
	Accounts Payable……	3,000	
	Cash……		3,000
	Paid cash on account.		

Req. 2

Accounts Payable

3,000		5,000
	Bal.	2,000

Req. 3

Biaggi's business owes $2,000, as shown in the Accounts Payable account.

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(10-15 min.) S 2-7

Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable.....	500	
	Service Revenue		500
	Performed service on account.		
	Cash	100	
	Accounts Receivable.....		100
	Received cash on account.		

Req. 2

Cash			Accounts Receivable			Service Revenue		
	100			500	100			500
Bal.	100		Bal.	400			Bal.	500

Req. 3

a. The Centre earned $500: Service Revenue

b. Total assets $500:

Cash.....	$100
Accounts receivable.	400
Total assets.....	$500

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(10 min.) S 2-8

Lululemon Athletica Inc.
Trial Balance
December 31, 2017

ACCOUNT	DEBIT	CREDIT
	(Millions)	
Cash & other current assets	$ 53	
Other assets	101	
Accounts payable		$ 5
Other liabilities		38
Shareholders' equity		80
Revenues		275
Expenses	244	
Total	$398	$398

Lululemon's net income: $31 million ($275 – $244)

(10 min.) S 2-9

1. Total assets = $95,000 ($6,000 + $13,000 + $4,000 + $22,000 + $50,000)
2. Total liabilities = $39,000 ($19,000 + $20,000)
3. Net income = *$38,000 ($70,000 – $21,000 – $10,000 – $1,000)
4. Total shareholders' equity = $56,000 ($10,000 + $8,000 + $38,000*)

Alternate solution = $56,000 ($95,000 - $39,000)

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Custom Pool Service, Inc.
Trial Balance
June 30, 2017

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

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H	1. Debit	A.	The cost of operating a business; a decrease in shareholders' equity
A	2. Expense		
C	3. Net income	B.	Always a liability
D	4. Ledger	C.	Revenues – Expenses
J	5. Posting	D.	Grouping of accounts
I	6. Normal balance	E.	Assets – Liabilities
B	7. Payable	F.	Record of transactions
F	8. Journal	G.	Always an asset
G	9. Receivable	H.	Left side of an account
E	10. Owners' equity	I.	Side of an account where increases are recorded
		J.	Copying data from the journal to the ledger

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(5 min.) S 2-12

Cash	
100,000	

Computer Equipment	
60,000	

Accounts Payable	
	60,000

Common Shares	
	100,000

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

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

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Exercises

(10-15 min.) E 2-13

TO: Home Office

FROM: Store Manager

During the first week, I borrowed $170,000 on a note payable. I used the store's beginning cash plus the borrowed money to purchase land, a building, copy equipment, and supplies. After all these transactions, the store's balance sheet appears as follows:

The Gap
Ottawa Store
Balance Sheet
Date

ASSETS		LIABILITIES	
Cash	$ 10,000	Note payable	$170,000
Inventory	40,000		
Store fixtures	50,000	SHAREHOLDERS' EQUITY	
Land	40,000	Common shares	100,000
Building	130,000	Total liabilities and	
Total assets	$270,000	shareholders' equity	$270,000

Cash

100,000	50,000
	40,000
10,000	

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(5-10 min.) E 2-14

a. Purchase of asset for cash
   Sale of asset for cash
   Collection of an account receivable
b. Payment of dividends to shareholders
   Expense transaction
c. Pay a liability
   Return of asset purchased on account
d. Issuance of shares
   Revenue transaction
e. Purchase of asset on account
   Borrow money
   (Answers may vary.)

(5 min.) E 2-15

	Assets		Liabilities		Stk. Equity	
	Incr	Decr	Incr	Decr	Incr	Decr
Jan 2	X		X			
Jan 4	X				X	
Jan 10	X				X	
Jan 15		X		X		
Jan 18	X				X	
Jan 21	X	X				
Jan 31		X		X		

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(10-15 min.) E 2-16

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 (supplies)
j. Decreased assets (cash)

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(10-20 min.) E 2-17

Req. 1

Analysis of Transactions

	ASSETS				= LIABILITIES +		SHAREHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable +	Dental Supplies +	Land =	Accounts Payable +	Note Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction
Mar. 6	50,000						50,000		Issued shares
9	(30,000)			30,000					
12			3,000		3,000				
15	Not a transaction of the business.								
15-31	5,000	5,000						10,000	Service revenue
15-31	(1,400)							(1,400)	Salary expense
	(1,000)							(1,000)	Rent expense
	(300)							(300)	Utilities expense
31			(250)					(250)	Supplies Expense
31	10,000					10,000			
31	(2,000)				(2,000)				
Bal.	30,300	5,000	2,750	30,000	1,000	10,000	50,000	7,050	

$68,050 $68,050

NOTE: The supplies had been paid for in the $3,000 purchase, therefore not a debit to cash.

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Req. 2

a. $68,050

b. $5,000

c. $11,000 ($1,000 + $10,000)

d. $57,050 ($68,050 – $11,000, or $50,000 + $7,050)

e. $7,050 (Revenue, $10,000 minus total expenses of $2,950, equals net income, $7,050.)

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(10-15 min.) E 2-18

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
March 6	Cash	50,000	
	Common Shares		50,000
	Issued shares to owner.		
9	Land	30,000	
	Cash		30,000
	Purchased land.		
12	Dental Supplies	3,000	
	Accounts Payable		3,000
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash	5,000	
	Accounts Receivable	5,000	
	Service Revenue		10,000
	Performed service for cash and on account.		
15-31	Salary Expense	1,400	
	Rent Expense	1,000	
	Utilities Expense	300	
	Cash		2,700
	Paid expenses.		
31	Supplies Expense	250	
	Dental Supplies		250
	Used dental supplies.		
31	Cash	10,000	
	Note Payable		10,000
	Borrowed money.		
31	Accounts Payable	2,000	
	Cash		2,000
	Paid on account.		

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(10-20 min.) E 2-19

Req. 1 (journal entries)

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Oct. 1	Cash	25,000	
	Common Shares		25,000
	Issued common shares to owner.		
2	Office Supplies	800	
	Accounts Payable		800
	Purchased office supplies on account.		
4	Land	20,000	
	Cash		20,000
	Paid cash for land.		
6	Cash	5,000	
	Service Revenue		5,000
	Performed services for cash.		
9	Accounts Payable	100	
	Cash		100
	Paid cash on account.		
17	Accounts Receivable	1,500	
	Service Revenue		1,500
	Performed service on account.		
23	Cash	1,000	
	Accounts Receivable		1,000
	Received cash on account.		
31	Salary Expense	1,000	
	Rent Expense	500	
	Cash		1,500
	Paid cash expenses.		

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(20-30 min.) E 2-20

Req. 1

Cash

Oct.	1	25,000	Oct.	4	20,000
	6	5,000		9	100
	23	1,000		31	1,500
Oct.	31	9,400			

Accounts Receivable

Oct.	17	1,500	Oct.	23	1,000
Oct.	31	500			

Office Supplies

Oct.	2	800			
Oct.	31	800			

Land

Oct.	4	20,000			
Oct.	31	20,000			

Accounts Payable

Oct.	9	100	Oct.	2	800
			Oct.	31	700

Common Shares

			Oct.	1	25,000
			Oct.	31	25,000

Service Revenue

			Oct.	6	5,000
				17	1,500
			Oct.	31	6,500

Salary Expense

Oct.	31	1,000			
Oct.	31	1,000			

Rent Expense

Oct.	31	500			
Oct.	31	500			

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Req. 2

Perfect Printers, Inc.
Trial Balance
October 31, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 9,400	
Accounts receivable	500	
Office supplies	800	
Land	20,000	
Accounts payable		$ 700
Common shares		25,000
Service revenue		6,500
Salary expense	1,000	
Rent expense	500	
Total	$32,200	$32,200

Req. 3

Total assets ($9,400 + $500 + $800 + $20,000)…..	$30,700
Total liabilities……	(700)
Total shareholders' equity ($25,000 + $6,500 – $1,000 – $500)……	$30,000

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(10-15 min.) E 2-21

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash	20,000	
	Common Shares		20,000
	Issued common shares.		
2.	Cash	7,000	
	Note Payable		7,000
	Borrowed money; signed note payable.		
3.	Land	31,000	
	Cash		8,000
	Note Payable		23,000
	Purchased land by paying cash and signing a note payable.		
4.	Supplies	1,000	
	Accounts Payable		1,000
	Purchased supplies on account.		
5.	Cash	100	
	Supplies		100
	Sold supplies for cash.		
6.	Equipment	8,000	
	Cash		8,000
	Paid cash for equipment.		
7.	Accounts Payable	400	
	Cash		400
	Paid cash on account.		

Cash balance = $10,700 ($20,000 + $7,000 – $8,000 + $100 – $8,000 – $400)
Company owes $30,600 ($7,000 + $23,000 + $1,000 – $400)

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(10-20 min.) E 2-22

Req. 1

Victoria Garden Care Ltd.
Trial Balance
Sept. 30, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 9,000	
Accounts receivable	17,500	
Equipment	29,000	
Accounts payable		$ 4,300
Note payable		13,000
Common shares		8,500
Retained earnings		21,400
Dividends	6,000	
Service revenue		24,000
Salary expense	8,000	
Utilities expense	1,400	
Delivery expense	300	
Total	$71,200	$71,200

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Req. 2

Victoria Garden Care Ltd.
Income Statement
For the Month Ended Sept. 30, 2017

Service revenue		$24,000
Salary expense.....	$8,000	
Utilities expense	1,400	
Delivery expense	300	
Total expenses.....		9,700
Net income		$14,300

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(15-25 min.) E 2-23

Sam's Deli Inc.
Trial Balance
October 31, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 5,200*	
Accounts receivable	12,000*	
Inventory	17,000	
Supplies	600	
Land	55,000	
Accounts payable		$13,100*
Share capital		49,000*
Sales revenue		32,100
Salary expense	1,700	
Insurance expense	1,000	
Utilities expense	900*	
Rent expense	800	
Total	$94,200	$94,200

*Explanations:

Cash: $4,200 + $1,000 = $5,200
Accounts Receivable: $13,000 – $1,000 = $12,000
Accounts Payable: $12,000 + $1,000 – $100 + $200 = $13,100
Share Capital: $47,900 + $1,100 = $49,000
Utilities Expense: $700 + $200 = $900

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(5-15 min.) E 2-24

Cash			
(a)	10,000	(b)	1,600
		(d)	2,000
		(e)	200
		(g)	2,000
Bal.	4,200		

Accounts Receivable			
(f)	12,100		
Bal.	12,100		

Office Supplies			
(c)	600		
Bal.	600		

Office Furniture			
(a)	5,000		
Bal.	5,000		

Accounts Payable			
(e)	200	(c)	600
		Bal.	400

Common Shares			
		(a)	15,000
		Bal.	15,000

Dividends			
(g)	2,000		
Bal.	2,000		

Service Revenue			
		(f)	12,100
		Bal.	12,100

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

Rent Expense			
(b)	1,600		
Bal.	1,600		

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(10-20 min.) E 2-25

Req. 1

Sonia Rothesay, Accountant
Trial Balance
May 31, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 4,200	
Accounts receivable	12,100	
Office supplies	600	
Office furniture	5,000	
Accounts payable		$ 400
Common shares		15,000
Dividends	2,000	
Service revenue		12,100
Salary expense	2,000	
Rent expense	1,600	
Total	$27,500	$27,500

Req. 2

The business performed well during May. The result of operations was net income of $8,500, as shown by the income statement accounts:

Service revenue		$12,100
Salary expense	$2,000	
Rent expense	1,600	
Total expenses		(3,600)
Net income		$ 8,500

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(20-30 min.) E 2-26

Req. 1

4AC, Inc.
Trial Balance
October 31, 2017

Cash……..	$ 3,900	
Accounts receivable……..	7,100	
Land……..	30,100	
Accounts payable……..		$ 6,200
Note payable……		5,900
Common stock……		24,100
Retained earnings……..		1,700
Service revenue……..		9,400
Salary expense……	2,900	
Advertising expense…….	1,400	
Totals…….	$45,400	$47,300

Out of balance by $1,900

The correct balance of Accounts Receivable is $9,000* ($7,100 + $1,900). After this correction, total debits will be $47,300 ($45,400 + $1,900), the same as total credits.

Req. 2

a. Total assets = $43,000 ($3,900 + $9,000* + $30,100)
b. Total liabilities = $12,100 ($6,200 + $5,900)
c. Net income = $ 5,100 ($9,400 − $2,900 − $1,400)

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(20 min.) E 2-27

Req. 1

Date	Effect on Cash	Effect on Total Assets	Effect on Net Income
May 1	Understated $100	Overstated $100	Overstated $100
2	Understated $18,000	Understated $18,000	Understated $18,000
5	Correct	Understated $2,800	Understated $2,800
10	Correct	Correct	Correct
16	Correct	Correct	Overstated $5,600
25	Correct	Overstated $5,400	Correct

Req. 2

Correct cash balance, $24,500 ($6,400 + $100 + $18,000)

Req. 3

Correct total assets, $43,300 ($28,000 + $18,000 - $5,400 + $2,800 - $100)

Req. 4

Correct net income, $23,100 ($8,000 - $100 + $2,800 - $5,600 + $18,000)

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(20-30 min.) E 2-28

Reqs. 1 and 3

Cash

Jan. 2	5,000	Jan. 2	500
9	800	3	3,000
		12	200
Bal.	2,100		

Accounts Receivable

Jan. 18	1,700		

Supplies

Jan. 5	900		

Equipment

Jan. 3	3,000		

Furniture

Jan. 4	6,000		

Accounts Payable

		Jan. 4	6,000
		5	900
		Bal.	6,900

Common Shares

		Jan. 2	5,000

Dividends

Service Revenue

		Jan. 9	800
		18	1,700
		Bal.	2,500

Rent Expense

Jan. 2	500		

Utilities Expense

Jan. 12	200		

Salary Expense

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Req. 2

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Jan. 2	Cash	5,000	
	Common Shares		5,000
2	Rent Expense	500	
	Cash		500
3	Equipment	3,000	
	Cash		3,000
4	Furniture	6,000	
	Accounts Payable		6,000
5	Supplies	900	
	Accounts Payable		900
9	Cash	800	
	Service Revenue		800
12	Utilities Expense	200	
	Cash		200
18	Accounts Receivable	1,700	
	Service Revenue		1,700

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Req. 4

Web Marketing Services Inc.
Trial Balance
January 18, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 2,100	
Accounts receivable	1,700	
Supplies	900	
Equipment	3,000	
Furniture	6,000	
Accounts payable		$ 6,900
Common shares		5,000
Dividends	—	
Service revenue		2,500
Rent expense	500	
Utilities expense	200	
Salary expense	—	
Total	$14,400	$14,400

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a. Total cash paid during March:

Cash			
Feb. 28 Bal.	10,000		
March receipts	80,000	March cash payments	X = $85,000
Mar. 31 Bal.	5,000		

$10,000 + $80,000 – X = $ 5,000
X = $85,000

b. Cash collections from customers during March:

Accounts Receivable			
Feb. 28 Bal.	26,000		
March sales on account	50,000	March collections	X = $52,000
Mar. 31 Bal.	24,000		

$26,000 + $50,000 – X = $24,000
X = $52,000

c. Cash paid on a note payable during March:

	Note Payable		
		Feb. 28 Bal.	13,000
X =17,000	March payments on note X	March new borrowing	25,000
		Mar. 31 Bal.	21,000

$13,000 + $25,000 – X = $21,000
X = $17,000

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(20-30 min.) E 2-30

Req. 1

You Build Inc.
Trial Balance
December 31, 2017

Cash	$ 3,900	
Accounts receivable	7,200	
Land	34,000	
Accounts payable		$ 5,800
Note payable		5,000
Common shares		20,000
Retained earnings		7,300
Service revenue		9,100
Salary expense	3,400	
Advertising expense	900	
Totals	$49,400	$47,200

Out of balance by $2,200

The correct balance of Accounts Receivable is $5,000 ($7,200 – $2,200). After this correction, total debits will be $47,200 ($49,400 – $2,200), the same as total credits.

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Req. 2

You Build Inc.
Trial Balance
December 31, 2017

Cash ($3,900 – $1,400)	$ 2,500	
Accounts receivable ($7,200 – $2,200 + $10,000)	15,000	
Land ($34,000 + $60,000)	94,000	
Accounts payable ($5,800 + $1,000)		$ 6,800
Note payable ($5,000 + $60,000)		65,000
Common shares		20,000
Retained earnings		7,300
Service revenue ($9,100 + $10,000)		19,100
Salary expense ($3,400 + $1,400)	4,800	
Advertising expense ($900 + $1,000)	1,900	
Totals	$118,200	$118,200

Req. 3

a. Total assets = $111,500 ($2,500 + $15,000 + $94,000)

b. Total liabilities = $71,800 ($6,800 + $65,000)

c. Net income = $12,400 ($19,100 – $4,800 – $1,900)

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(10-15 min.) E 2-31

City of Regina:

Income statement	August	September
Medical expense	$30,000	$ -0-

Balance sheet	August 31	September 30
Cash	$50,000	$25,000*
Accounts payable	30,000	5,000**

PHO:

Income statement	August	September
Service revenue	$30,000	$ -0-

Balance sheet	August 31	September 30
Cash	$ -0-	$25,000
Accounts receivable	30,000	5,000**

Explanation:

Regina's expense is PHO's revenue.
Regina's cash payment is PHO's cash receipt.
Regina's account payable is PHO's account receivable.

*$50,000 – $25,000 = $25,000
**$30,000 – $25,000 = $ 5,000

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Problems

Group A

(15-30 min.) P 2-32A

Dear Sue,

This trial balance lists the accounts of Amusement Specialties, Inc., along with its balances at December 31, 2017. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The fact that the trial balance is in balance does not mean that Amusement Specialties is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute Amusement Specialties' total assets add the asset account balances (Cash $14,000 + Accounts receivable $11,000 + Prepaid expenses $4,000 + Equipment $171,000 + Building $100,000 = $300,000); For total liabilities add the liability account balances (Accounts payable $30,000 + Note payable $120,000 = $150,000).Net income or net loss for the current period is computed by subtracting total expenses from total revenue. During the current period, Amusement Specialties earned a net income of $30,000 [service revenue of $86,000 minus total expenses of $56,000 ($14,000 + $3,000 + $32,000 + $7,000)].
Student responses may vary.

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(45-60 min.) P 2-33A

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES	+	SHAREHOLDERS' EQUITY	
	Cash +	Accounts Receivable +	Supplies +	Land	=	Accounts Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction
Bal.	1,300	1,000		12,000		8,000	4,000	2,300	
a)	5,000						5,000		Issued shares
b)	7,600							7,600	Service revenue
c)	(4,000)					(4,000)			
d)			1,500			1,500			
e)	1,000	(1,000)							
f)		2,500						2,500	Service revenue
g)	(900)							(900)	Rent expense
	(300)							(300)	Advertising expense
h)	(2,000)							(2,000)	Dividends
Bal.	7,700	2,500	1,500	12,000		5,500	9,000	9,200	

$23,700 $23,700

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Req. 2

Blythe Spirit Consulting, Inc.
Income Statement
For the Month Ended June 30, 2017

Revenues:		
Service revenue ($7,600 + $2,500)		**$10,100**
Expenses:		
Rent expense	**$900**	
Advertising expense	**300**	
Total expenses		**1,200**
Net income		**$ 8,900**

Req. 3

Blythe Spirit Consulting, Inc.
Statement of Retained Earnings
For the Month Ended June 30, 2017

Retained earnings, May 31, 2017	**$2,300**
Add: Net income for the month	**8,900**
	11,200
Less: Dividends	**(2,000)**
Retained earnings, June 30, 2017	**$9,200**

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Req. 4

Blythe Spirit Consulting, Inc.
Balance Sheet
June 30, 2017

ASSETS		LIABILITIES	
Cash	$ 7,700	Accounts payable	$ 5,500
Accounts receivable	2,500	SHAREHOLDERS' EQUITY	
Supplies	1,500		
Land	12,000	Common shares	9,000
		Retained earnings	9,200
		Total shareholders' equity	18,200
		Total liabilities and	
Total assets	$23,700	shareholders' equity	$23,700

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(30-40 min.) P 2-34A

Req. 1

Journal

	ACCOUNT TITLES	DEBIT	CREDIT
a.	Cash	5,000	
	Common Shares		5,000
b.	Cash	7,600	
	Service Revenue		7,600
c.	Accounts Payable	4,000	
	Cash		4,000
d.	Supplies	1,500	
	Accounts Payable		1,500
e.	Cash	1,000	
	Accounts Receivable		1,000
f.	Accounts Receivable	2,500	
	Service Revenue		2,500
g.	Rent Expense	900	
	Advertising Expense	300	
	Cash		1,200
h.	Dividends	2,000	
	Cash		2,000

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Reqs. 2 and 3

Cash	
1,300	4,000
5,000	1,200
7,600	2,000
1,000	
7,700	

Accounts Receivable	
1,000	1,000
2,500	
2,500	

Supplies	
1,500	
1,500	

Land	
12,000	
12,000	

Accounts Payable	
4,000	8,000
	1,500
	5,500

Common Shares	
	4,000
	5,000
	9,000

Retained Earnings	
	2,300
	2,300

Dividends	
2,000	
2,000	

Service Revenue	
	7,600
	2,500
	10,100

Rent Expense	
900	
900	

Advertising Expense	
300	
300	

The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-33A.

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(40-50 min.) P 2-35A

Req. 1

Classification of Transactions

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

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Req. 2

Analysis of Transactions

	ASSETS				=	LIABILITIES	+	SHAREHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Supplies	+ Office Furniture	=	Accounts Payable	+ Common Shares	+ Retained Earnings		Type of Shareholders' Equity Transaction
Sept. 4*										
5	50,000						50,000			Issued shares
6	(300)		300							
7	(20,000)			25,000		5,000				
10*										
11*										
12**										
18		10,000						10,000		Service revenue
21	(2,500)					(2,500)				
25	(4,000)							(4,000)		Rent expense
28	(2,000)							(2,000)		Dividends
Bal.	21,200	10,000	300	25,000		2,500	50,000	4,000		
			$56,500				$56,500			

*Not a transaction of the business.
** A business-related event, but not a transaction to be recorded.

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Req. 3

a. The business has $21,200 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from the issuance of shares. Share issuances go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, holds the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no relationship between cash and retained earnings.

b. The business's total resources (total assets) are $56,500 ($21,200 + $10,000 + $300 + $25,000). The business owes total liabilities of $2,500, so the shareholder's ownership interest in the assets of the business is $54,000 ($56,500 – $2,500, or $50,000 + $4,000).

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Req. 4

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Sept. 5	Cash	50,000	
	Common Shares		50,000
	Issued shares to shareholder.		
6	Supplies	300	
	Cash		300
	Purchased supplies.		
7	Office Furniture	25,000	
	Cash		20,000
	Accounts Payable		5,000
	Purchased furniture.		
18	Accounts Receivable	10,000	
	Service Revenue		10,000
	Performed service on account.		
21	Accounts Payable	2,500	
	Cash		2,500
	Paid on account.		
25	Rent Expense	4,000	
	Cash		4,000
	Paid rent.		
28	Dividends	2,000	
	Cash		2,000
	Paid dividend.		

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(15-20 min.) P 2-36A

Req. 1 (journal entries; explanations not required)

Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Oct. 1	Cash	8,000	
	Common shares		8,000
5	Rent Expense	1,000	
	Cash		1,000
9	Land	30,000	
	Cash		5,000
	Notes Payable		25,000
10	Supplies	1,200	
	Accounts Payable		1,200
19	Accounts Payable	600	
	Cash		600
22	Cash	10,000	
	Notes Payable		10,000
31	Cash	7,000	
	Accounts Receivable	5,000	
	Service Revenue		12,000
31	Salary Expense	2,000	
	Advertising Expense	1,500	
	Utilities Expense	1,100	
	Cash		4,600
31	Dividends	3,000	
	Cash		3,000

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Req. 2

Cash	
8,000	1,000
	5,000
10,000	600
7,000	4,600
	3,000
Bal. 10,800	

Accounts Payable	
600	1,200
	Bal. 600

Notes Payable	
	25,000
	10,000
	Bal. 35,000

Req. 3

Cash: $10,800 ($8,000 – $1,000 – $5,000 – $600 + $10,000 + $7,000 – $4,600 – $3,000)

Total amount owed:
$35,600 ($25,000 + $1,200 – $600 + $10,000)

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(50-60 min.) P 2-37A

Req. 1 (journal entries; explanations not required)

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
May	2	Cash	30,000	
		Common shares		30,000
	3	Supplies	1,000	
		Equipment	2,600	
		Accounts Payable		3,600
	4	Cash	1,500	
		Service Revenue		1,500
	7	Land	22,000	
		Cash		22,000
	11	Accounts Receivable	500	
		Service Revenue		500
	16	Accounts Payable	2,600	
		Cash		2,600
	17	Utilities Expense	95	
		Cash		95
	18	Cash	250	
		Accounts Receivable		250

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Req. 1 (journal entries; explanations not required)

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
May	22	Utilities Expense	400	
		Cash		400
	29	Cash	2,000	
		Service Revenue		2,000
	31	Salary Expense	1,300	
		Cash		1,300
	31	Dividends	1,500	
		Cash		1,500

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Req. 2 (ledger accounts)

Cash

May 2	30,000	May 7	22,000
4	1,500	16	2,600
18	250	17	95
29	2,000	22	400
		31	1,300
		31	1,500
Bal.	5,855		

Accounts Receivable

May 11	500	May 18	250
Bal.	250		

Supplies

May 3	1,000		
Bal.	1,000		

Equipment

May 3	2,600		
Bal.	2,600		

Land

May 7	22,000		
Bal.	22,000		

Accounts Payable

May 16	2,600	May 3	3,600
		Bal.	1,000

Common shares

		May 2	30,000
		Bal.	30,000

Dividends

May 31	1,500		
Bal.	1,500		

Service Revenue

		May 4	1,500
		11	500
		29	2,000
		Bal.	4,000

Salary Expense

May 31	1,300		
Bal.	1,300		

Utilities Expense

May 17	95		
22	400		
Bal.	495		

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Req. 3

New Pane Windows Inc.
Trial Balance
May 31, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 5,855	
Accounts receivable	250	
Supplies	1,000	
Equipment	2,600	
Land	22,000	
Accounts payable		$ 1,000
Common shares		30,000
Dividends	1,500	
Service revenue		4,000
Salary expense	1,300	
Utilities expense	495	
Total	$35,000	$35,000

Req. 4

Total resources (assets) = $31,705 ($5,855 + $250 + $1,000 + $2,600 + $22,000)

Amount owed (total liabilities) = $1,000

Profit (net income) = $2,205 ($4,000 – $1,300 – $495)

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(40-50 min.) P 2-38A

Reqs. 1 and 2

Cash			
(a)	10,000	(c)	60,000
(b)	50,000	(e)	1,500
(f)	800	(h)	100
(j)	3,100	(k)	1,800
Bal.	500		

Accounts Receivable			
(g)	4,500	(j)	3,100
Bal.	1,400		

Office Supplies	
(d)	1,000
Bal.	1,000

Music Equipment	
(c)	60,000
Bal.	60,000

Building	
(a)	50,000
Bal.	50,000

Accounts Payable			
(h)	100	(d)	1,000
		(i)	600
		Bal.	1,500

Note Payable		
	(b)	50,000
	Bal.	50,000

Common Shares		
	(a)	60,000
	Bal.	60,000

Service Revenue		
	(f)	800
	(g)	4,500
	Bal.	5,300

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Salary Expense		
(e)	1,500	
Bal.	1,500	

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

Advertising Expense		
(k)	800	
Bal.	800	

Utilities Expense		
(i)	600	
Bal.	600	

Req. 3

Music Services Ltd.
Trial Balance
January 31, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 500	
Accounts receivable	1,400	
Office supplies	1,000	
Music equipment	60,000	
Building	50,000	
Accounts payable		$ 1,500
Note payable		50,000
Common shares		60,000
Service revenue		5,300
Salary expense	1,500	
Rent expense	1,000	
Advertising expense	800	
Utilities expense	600	
Total	$116,800	$116,800

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Req. 4

Total assets = $112,900 ($500 + $1,400 + $1,000 + $60,000 + $50,000)

Total liabilities = $51,500 ($1,500 + $50,000)

Net income = $1,400 ($5,300 – $1,500 – $1,000 – $800 – $600)

The bank manager's concerns are answered by the above information.

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Problems

Group B

(15-30 min.) P 2-39B

Dear Friend,

This trial balance lists all the accounts of Opera Tours Inc., along with their balances at December 31, 2017. The trial balance is an internal document used by accountants. It is not the same as a balance sheet and an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The Balance Sheet is made up of the Asset, Liability and Shareholders' Equity accounts. These accounts make up the accounting equation; Assets = Liabilities + Shareholder's Equity.

The balance sheet accounts of Opera Tours Inc. are as follows:

Assets		Liabilities	
Cash	$ 12,000	Accounts payable	$105,000
Accounts receivable	45,000	Note payable	92,000
Prepaid expenses	4,000		197,000
Equipment	231,000	Equity	
	$292,000	Common shares	30,000
		Retained earnings	65,000*
			95,000
			$292,000

*(32,000 + 33,000)

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The Income Statement is made up of Revenue and Expense Accounts. Revenue less Expenses equal Net Income (Loss). The income statement accounts of Opera Tours Inc. are as follows:

Service Revenue	**$139,000**
Expenses	
Salary expense	**69,000**
Tour expenses	**26,000**
Rent expense	**7,000**
Advertising expense	**4,000**
	106,000
Net income	**$ 33,000**

The fact that the trial balance is in balance does not mean that Opera Tours Inc. is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. In this instance, Opera Tours Inc. had a net income of $33,000 as per the Income Statement outlined above.

Student responses may vary.

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(45-60 min.) P 2-40B

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES	+	SHAREHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Supplies	+ Land	=	Accounts Payable	+ Common Shares	+ Retained Earnings	Type of Shareholders' Equity Transaction
Bal.	1,700	2,200		24,100		5,400	10,000	12,600	
a)	30,000						30,000		Issued shares
b)	(1,000)					(1,000)			
c)	5,100							5,100	Service revenue
d)	700	(700)							
e)			800			800			
f)		15,000						15,000	Service revenue
g)	1,700						1,700		Issued shares
h)	(2,100)							(2,100)	Rent expense
	(1,600)							(1,600)	Advertising expense
i)	(2,000)							(2,000)	Dividends
Bal.	32,500	16,500	800	24,100		5,200	41,700	27,000	

$73,900 $73,900

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Req. 2

DH Designers, Inc.
Income Statement
For the Month Ended May 31, 2017

Revenues:		
Service revenue ($5,100 + $15,000)		**$20,100**
Expenses:		
Rent expense	**$2,100**	
Advertising expense	**1,600**	
Total expenses		**3,700**
Net income		**$16,400**

Req. 3

DH Designers, Inc.
Statement of Retained Earnings
For the Month Ended May 31, 2017

Retained earnings, April 30, 2017	**$12,600**
Add: Net income for the month	**16,400**
	29,000
Less: Dividends	**(2,000)**
Retained earnings, May 31, 2017	**$27,000**

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Req. 4

DH Designers, Inc.
Balance Sheet
May 31, 2017

ASSETS		LIABILITIES	
Cash	$32,500	Accounts payable	$ 5,200
Accounts receivable	16,500	SHAREHOLDERS' EQUITY	
Supplies	800		
Land	24,100	Common shares	41,700
		Retained earnings	27,000
		Total shareholders' equity	68,700
		Total liabilities and shareholders' equity	
Total assets	$73,900		$73,900

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(30-40 min.) P 2-41B

Req. 1

Journal

	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
a.	Cash	30,000	
	Common Shares		30,000
b.	Accounts Payable	1,000	
	Cash		1,000
c.	Cash	5,100	
	Service Revenue		5,100
d.	Cash	700	
	Accounts Receivable		700
e.	Supplies	800	
	Accounts Payable		800
f.	Accounts Receivable	15,000	
	Service Revenue		15,000
g.	Cash	1,700	
	Common Shares		1,700
h.	Rent Expense	2,100	
	Advertising Expense	1,600	
	Cash		3,700
i.	Dividends	2,000	
	Cash		2,000

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Reqs. 2 and 3

Cash	
1,700	1,000
30,000	3,700
5,100	2,000
700	
1,700	
32,500	

Accounts Receivable	
2,200	700
15,000	
16,500	

Supplies	
800	
800	

Land	
24,100	
24,100	

Accounts Payable	
1,000	5,400
	800
	5,200

Common Shares	
	10,000
	30,000
	1,700
	41,700

Retained Earnings	
	12,600
	12,600

Dividends	
2,000	
2,000	

Service Revenue	
	5,100
	15,000
	20,100

Rent Expense	
2,100	
2,100	

Advertising Expense	
1,600	
1,600	

The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-57B.

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(40-50 min.) P 2-42B

Req. 1

Classification of Transactions

March	**1**	**a**
	2	**a**
	3	**a**
	5	**b**
	6	**c**
	7	**b**
	9	**b**
	23	**b**
	29	**b**
	30	**b**
	31	**b**

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Req. 2

Analysis of Transactions

	ASSETS				= LIABILITIES	+ SHAREHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable +	Supplies +	Office Furniture =	Accounts Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction
March 1*								
2*								
3*								
5	50,000					50,000		Issued shares
6**								
7	(450)		450					
9	(5,000)			15,500	10,500			
23		4,000					4,000	Service revenue
29	(5,000)				(5,000)			
30	(2,100)						(2,100)	Rent expense
31	(1,000)						(1,000)	Dividend
Bal.	36,450	4,000	450	15,500	5,500	50,000	900	
			$56,400			$56,400		

*Not a transaction of the business.

** A business-related event, but not a transaction to be recorded.

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Req. 3

a. The business has $36,450 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from issuing shares. Issuances of shares go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, records the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no direct relationship between cash and retained earnings.

b. The business's total resources (total assets) are $56,400 ($36,450 + $4,000 + $450 + $15,500). The business owes total liabilities of $5,500, so Kohler's ownership interest in the assets of the business is $50,900 ($56,400 – $5,500, or $50,000 + $900).

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Req. 4

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
March 5	Cash	50,000	
	Common Shares		50,000
	Issued shares to shareholder.		
7	Supplies	450	
	Cash		450
	Purchased supplies.		
9	Office Furniture	15,500	
	Cash		5,000
	Accounts Payable		10,500
	Purchased furniture.		
23	Accounts Receivable	4,000	
	Service Revenue		4,000
	Provided service on account.		
29	Accounts Payable	5,000	
	Cash		5,000
	Paid on account.		
30	Rent Expense	2,100	
	Cash		2,100
	Paid rent.		
31	Dividends	1,000	
	Cash		1,000
	Paid dividend.		

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(15-20 min.) P 2-43B

Req. 1 (journal entries; explanations not required)

Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
June 1	Cash	25,000	
	Common Shares		25,000
2	Land	40,000	
	Cash		10,000
	Note Payable		30,000
7	Cash	20,000	
	Sales Revenue		20,000
10	Supplies	1,000	
	Accounts Payable		1,000
15	Salary Expense	2,800	
	Rent Expense	1,800	
	Cash		4,600
15	Advertising Expense	1,100	
	Cash		1,100
16	Accounts Payable	1,000	
	Cash		1,000
17	Dividends	2,000	
	Cash		2,000

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Req. 2

Cash	
25,000	10,000
20,000	4,600
	1,100
	1,000
	2,000
26,300	

Accounts Payable	
1,000	1,000
0	

Notes Payable	
	30,000
	30,000

Req. 3

Cash: $26,300 ($25,000 – $10,000 + $20,000 – $4,600 – $1,100 – $1,000 – $2,000)

Total amount owed: $30,000 ($30,000 + $1,000 – $1,000)

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(50-60 min.) P 2-44B

Req. 1 (journal entries; explanations not required)

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
Oct.	3	Cash	20,000	
		Common Shares		20,000
	4	Cash	5,000	
		Service Revenue		5,000
	6	Supplies	300	
		Furniture	2,500	
		Accounts Payable		2,800
	7	Land	15,000	
		Cash		15,000
	7	Accounts Receivable	1,500	
		Service Revenue		1,500
	16	Cash	500	
		Accounts Receivable		500
	24	Utilities Expense	110	
		Cash		110
	24	Utilities Expense	400	
		Cash		400
	28	Cash	2,500	
		Service Revenue		2,500
	31	Salary Expense	1,200	
		Cash		1,200
	31	Accounts Payable	2,500	
		Cash		2,500
	31	Dividends	2,400	
		Cash		2,400

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Req. 2 (ledger accounts)

Cash

Oct. 3	20,000	Oct. 7	15,000
4	5,000	24	110
16	500	24	400
28	2,500	31	2,500
		31	1,200
		31	2,400
Bal.	6,390		

Accounts Receivable

Oct. 7	1,500	Oct. 16	500
Bal.	1,000		

Supplies

Oct. 6	300		
Bal.	300		

Furniture

Oct. 6	2,500		
Bal.	2,500		

Land

Oct. 7	15,000		
Bal.	15,000		

Accounts Payable

Oct. 31	2,500	Oct. 6	2,800
		Bal.	300

Common Shares

		Oct. 3	20,000
		Bal.	20,000

Dividends

Oct. 31	2,400		
Bal.	2,400		

Service Revenue

		Oct. 4	5,000
		7	1,500
		28	2,500
		Bal.	9,000

Req. 2 (ledger accounts)

Salary Expense

Oct. 31	1,200		
Bal.	1,200		

Utilities Expense

Oct. 24	110		
24	400		
Bal.	510		

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Req. 3

Barron Environmental Services Inc.
Trial Balance
October 31, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 6,390	
Accounts receivable	1,000	
Supplies	300	
Furniture	2,500	
Land	15,000	
Accounts payable		$ 300
Common shares		20,000
Dividends	2,400	
Service revenue		9,000
Salary expense	1,200	
Utilities expense	510	
Total	$29,300	$29,300

Req. 4

Total resources (assets) = $25,190 ($6,390 + $1,000 + $300 + $2,500 + $15,000)

Amount owed (total liabilities) = $300

Profit (net income) = $7,290 ($9,000 – $1,200 – $510)

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(40-50 min.) P 2-45B

Reqs. 1 and 2

Cash

(a)	20,000	(c)	35,000
(b)	90,000	(g)	800
(f)	1,200	(j)	2,200
(i)	1,100	(k)	1,100
Bal.	73,200		

Accounts Receivable

(e)	2,500	(f)	1,200
Bal.	1,300		

Office Supplies

(d)	1,300		
Bal.	1,300		

Computer Equipment

(c)	35,000		
Bal.	35,000		

Building

(a)	60,000		
Bal.	60,000		

Accounts Payable

(g)	800	(d)	1,300
		(h)	500
		Bal.	1,000

Note Payable

		(b)	90,000
		Bal.	90,000

Common Shares

		(a)	80,000
		Bal.	80,000

Service Revenue

		(e)	2,500
		(i)	1,100
		Bal.	3,600

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Salary Expense		
(j)	2,200	
Bal.	2,200	

Advertising Expense		
(h)	500	
Bal.	500	

Rent Expense		
(k)	700	
Bal.	700	

Utilities Expense		
(k)	400	
Bal.	400	

Req. 3

SchulichGraphics Service Inc.
Trial Balance
June 30, 2017

ACCOUNT	DEBIT	CREDIT
Cash	$ 73,200	
Accounts receivable	1,300	
Office supplies	1,300	
Computer equipment	35,000	
Building	60,000	
Accounts payable		$ 1,000
Note payable		90,000
Common shares		80,000
Service revenue		3,600
Salary expense	2,200	
Rent expense	700	
Advertising expense	500	
Utilities expense	400	
Total	$174,600	$174,600

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Decision Cases

(40-50 min.) Decision Case 1

Reqs. 1 and 2

Cash			
(a)	10,000	(b)	300
(e)	5,000	(f)	2,300
(i)	2,500	(h)	1,000
(g)	1,200	(j)	800
Bal.	14,300		

Accounts Receivable			
(d)	7,000	(g)	1200
Bal.	5,800		

Supplies			
(b)	300		
Bal.	300		

Furniture			
(c)	4,400		
Bal.	4,400		

Accounts Payable			
(h)	1,000	(c)	4,400
		Bal.	3,400

Notes Payable			
		(e)	5,000
		Bal.	5,000

Common Shares			
		(a)	10,000
		Bal.	10,000

Service Revenue			
		(d)	7,000
		(i)	2,500
		Bal.	9,500

Salary Expense			
(f)	1,700		
Bal.	1,700		

Advertising Expense			
(j)	800		
Bal.	800		

Rent Expense			
(f)	600		
Bal.	600		

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Req. 3

Tipple Networks, Inc.
Trial Balance
Current Date

ACCOUNT	DEBIT	CREDIT
Cash	$14,300	
Accounts receivable	5,800	
Supplies	300	
Furniture	4,400	
Accounts payable		$ 3,400
Notes payable		5,000
Common shares		10,000
Service revenue		9,500
Salary expense	1,700	
Advertising expense	800	
Rent expense	600	
Total	$27,900	$27,900

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

Revenues:		
Service revenue		**$9,500**
Expenses:		
Salary expense	**$1,700**	
Advertising expense	**800**	
Rent expense	**600**	
Total expenses		**3,100**
Net income for month		**$6,400**

***Recommendation*: Continue the business. Even though first-month net income falls below the target amount, the business should grow and should be able to earn monthly net income of $10,000. Business startups require focus on non-revenue generating issues which will *not* continue into future months. Tipple needs to focus on generating revenue of at least $13,100 per month.**

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(20-30 min.) Decision Case 2

Barbara Boland Blossoms, Inc.
Income Statement
For the Quarter Ended December 31, 2017

Sales revenue	$36,000
Cost of goods sold	22,000
Rent expense	6,000
Advertising expense	5,000
Total expenses	33,000
Net income	$ 3,000

Barbara Boland Blossoms, Inc.
Balance Sheet
December 31, 2017

ASSETS		LIABILITIES	
Cash	$ 6,000	Accounts payable	$ 8,000
Flower inventory	5,000	SHAREHOLDERS' EQUITY	
Store fixtures	10,000	Common shares	10,000
		Retained earnings	3,000
		Total owners' equity	13,000
		Total liabilities	
Total assets	$21,000	and equity	$21,000

Recommendation: **Do not expand because both net income and total assets do not reach the target amounts. Boland's cousin made some mistakes, which will affect the decision to expand the business. One issue is the high cost of goods sold (61% = 22,000/36,000). If this expense could be reduced the profit target would be achievable.**

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Ethical Issue 1

Req. 1

Option 1:

Cash.....……	**100,000**	
Common shares		**100,000**

Option 2:

Transaction to record land transfer and issue of shares

Land	**100,000**	
Common shares ……..		**100,000**

Transaction to cancel shares and transfer land back to Murphy

Common shares	**100,000**	
Land		**100,000**

Issue	**$100,000 common shares for cash**	**Transfer personal land to company**
Is this a valid business transaction?	**Yes. An investment of $100,000 has been made in the business.**	**No, if the intent is to transfer the land back to the shareholder during term of the loan. Questionable. Is the land worth $100,000? Will the land be used in the business?**
Who are stake-holders?	**Bank who advances loan. Murphy, owner of the business. Friend who invested in business. Loan officer.**	**Bank who advances loan. Murphy, owner of the business. Loan officer.**
Alternatives/impacts on stakeholders	**Murphy, owner of the business will receive loan based on value of shareholder equity. Friend who invested in business could increase value of investment if business expands. Bank who advances loan receives interest. Loan officer builds client relationship.**	**Murphy, owner of the business will violate bank covenant when land is transferred back to personal use and common shares are cancelled during term of loan. Bank risk on loan is increased as assets were overstated on loan application. Loan officer could be held accountable for bad risk loan.**
Decision	**This option would be ethical in the circumstances.**	**This option is misleading and unethical in the circumstances.**

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Ethical Issue 2

Issue	**Is Beatrice Grand making decisions that take advantage of (abuse) the standing agreement between Community Charities (CC) and the Royal Bank of Canada (RBC)?**
Stakeholders	**Royal Bank of Canada (RBC) is the key stakeholder as its funds are being used.** **RBC Client representative who will determine whether bank can continue on this basis.** **Community charities is increasing overdraft position.** **Beatrice Grand, President, is expanding operations and initiating fundraising for CC.**
Alternatives/Impact on stakeholders	**RBC could be misled re Beatrice Grand's decisions that lead to the increasing overdraft of Community Charities' cash balance.** **RBC Client representative will be held accountable if ongoing negative bank balance is abuse of agreement with Community Charities.** **Community Charities may benefit from expansion and fundraising efforts; however, the organization's overdraft is also increasing.** **Beatrice Grand is making decisions on behalf of Community Charities which could have positive or negative consequences.**
Decision	**If RBC is aware of CC's expansion plans, the situation is ethically appropriate. This assumes RBC and CC are communicating openly.** **If RBC is unaware of Beatrice Grand's decisions, CC is abusing agreement with RBC. In this case, the situation is unethical.**

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Focus on Financials

(20-30 min.) Canadian Tire Corporation

Reqs. 1 and 3

(All amounts in millions)

Cash & Cash Equiv.				Trade Receivables				Merch. Inventories			
	643.2	(d)	7,695.9		758.5				1,481.0	(e)	7,553.1
		(g)	3,911.2	(a)	3,101	(c)	2,979.3	(d)	7,695.9		
		(h)	207.5								
		(i)	227								
(b)	9,361.9										
(c)	2,979.3				880.2				1,623.8		
	942.8										

Long-Term debt				Trade payables			
(h)	207.5			(g)	3,911.2		1,817.4
			2,339.1			(f)	4,055
			2,131.6				1,961.2

Prop & Equip			Revenue			Cost of Prod. Rev.		
	3,516.1			(a)	3,101	(e)	7,553.1	
(i)	227			(b)	9,361.9			
	3,743.1				12,462.9		7,553.1	

Sell., Gen. & Admin.		
	(f)	4,055.0
		4,055.0

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Req. 2

		(Millions)	
a.	Trade Receivables	3,101	
	Revenue		3,101
b.	Cash	9,361.9	
	Revenue		9,361.9
c.	Cash	2,979.3	
	Trade Receivables		2,979.3
d.	Merch. Inventories	7,695.9	
	Cash		7,695.9
e.	Cost of Producing Revenue	7,553.1	
	Merch. Inventories		7,553.1
f.	Selling, Gen and Admin Expenses	4,055	
	Accounts Payable		4,055
g.	Trade Payables	4,113	
	Cash		4,113
h.	Long–term debt	207.5	
	Cash		207.5
i.	Property and Equipment	227	
	Cash		227

Req. 4

All the selected account balances agree with Canadian Tire's actual figures on the income statement or the balance sheet.

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Focus on Analysis

(20-30 min.) Canadian Tire Corporation

Req. 1

During 2014, Canadian Tire had more credit sales than it collected in cash from customers. This is determined by analyzing Trade and Other Receivables, as follows:

		(Millions)
	Balance at the end of 2013.....	$758.5
+	Sales during 2014	S
–	Collections from customers during	(C)
=	Balance at the end of 2014.....	$880.2

Sales (S) must have exceeded Collections (C) because the total receivable balance increased during the year.

Req. 2

	(Millions)
Long-term debt:	
At end of 2013 (including current portion)	$ 2,611.3
At end of 2014 (including current portion)	2,719.1
Increase in long-term debt during 2014.....	$ 107.8

Long–term debt increased during 2014, so Canadian Tire must have taken on more long-term debt than it repaid during the year.

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Req. 3

	2014	2013
Revenues (millions)	**$12,462.9**	**$11,785.6**
	Increase = $677.3	
	5.7%	
Net Income (millions)	**$639.3**	**$564.4**
	Increase = $74.9	
	13.3%	

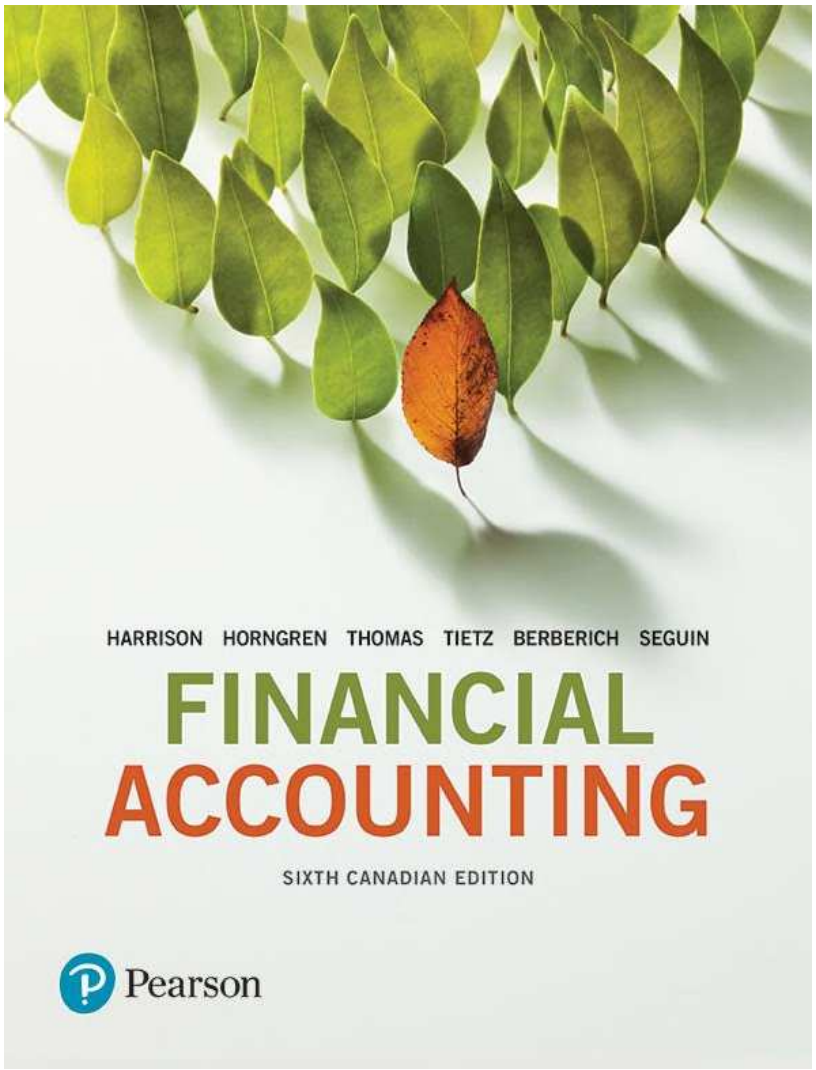
Net Income increased more than Revenues by a healthy percentage. Most investors prefer this outcome because it means that a company was able to increase its revenues while holding the increase in expenses to a lower rate of increase compared to the increase in sales. In other words, the company was able to keep a higher percentage of its revenues in 2014 than it did in 2013.

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Financial Accounting

Sixth Canadian Edition



Chapter 2

Recording Business Transactions

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Learning Objective One

Describe common types of accounts

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The Account

Assets = Liabilities + Shareholders'Equity

- Account is a record of each asset, liability, and shareholders' equity element
  - Basic summary device of accounting

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Assets (1 of 2)

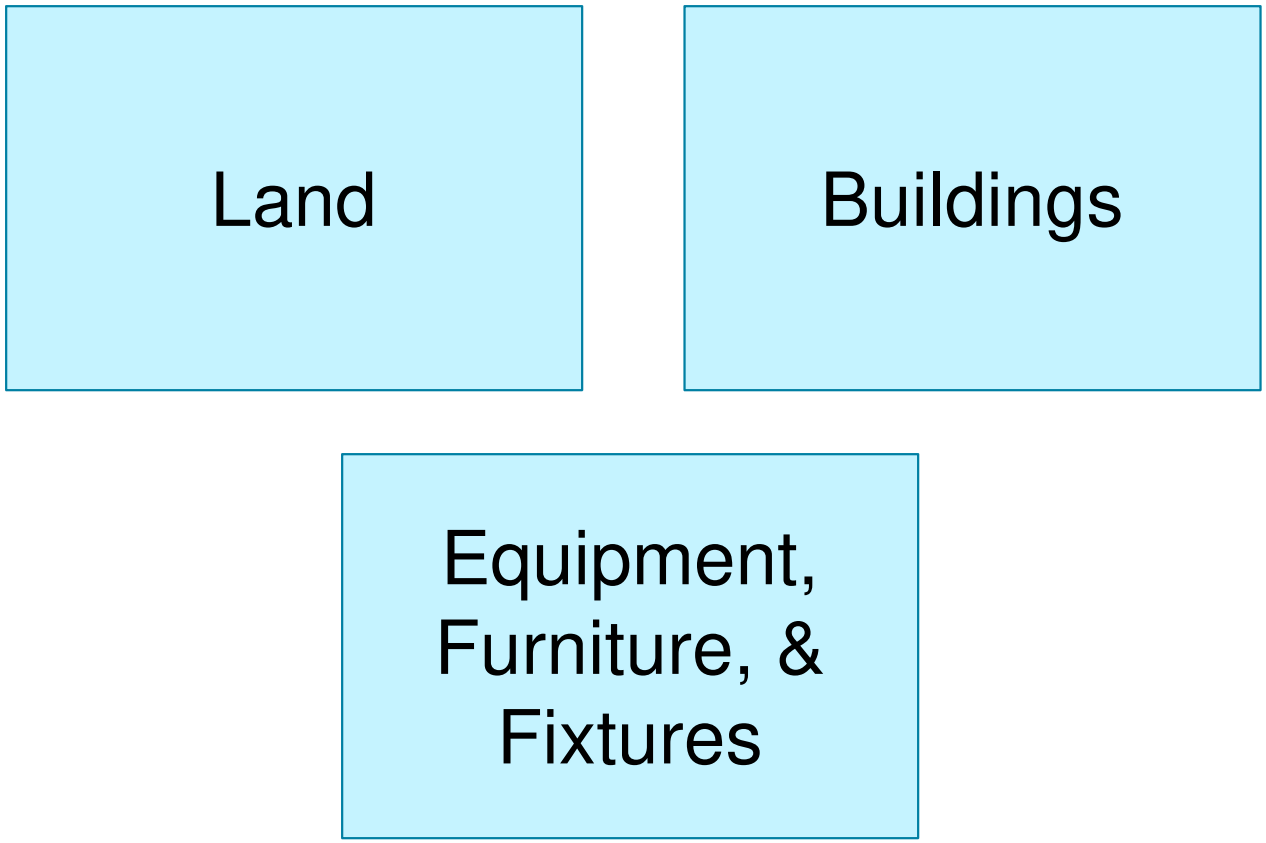
Economic resources that provide future benefit

- Cash
- Accounts Receivable
- Prepaid Expenses
- Inventory

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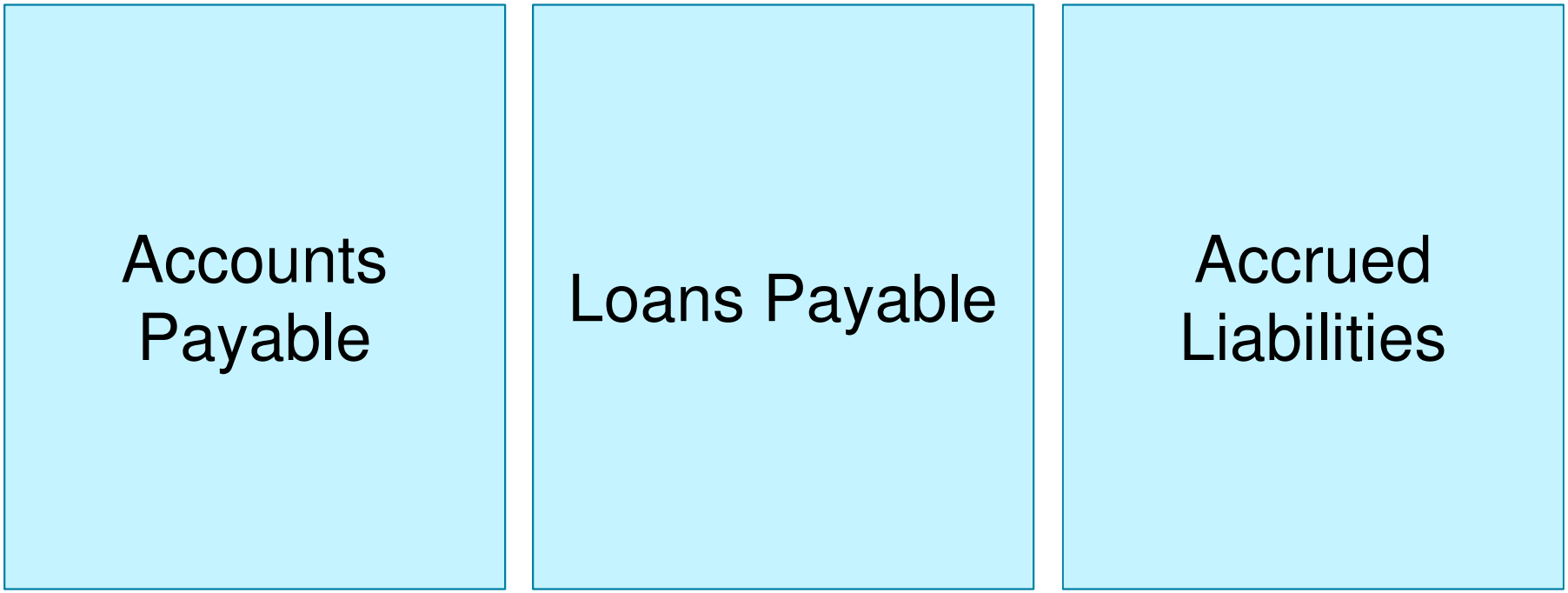
Assets (2 of 2)



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Liabilities



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Shareholders' Equity

Owners' claim to assets

Share Capital	Retained earnings	Dividends
Revenue and Expenses	Gains and Losses	

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Shareholders' Equity Accounts

Share capital	Owners' investment in the company
Retained earnings	Cumulative net income (loss) less dividends
Dividends	Distributions to owners
Revenues	Income from providing goods and services
Gains	Income outside the company' s normal operations
Expenses	Costs of operating a business
Losses	Expenses outside the company' s normal operations

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Learning Objective Two

Illustrate the impact of business transactions on the accounting equation

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Accounting for Business Transactions (1 of 14)

A *transaction* is an event that both affects the financial position of the business entity and can be reliably recorded.

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Accounting for Business Transactions (2 of 14)

Transaction 1:

Students invest $50,000 to begin Tara Inc., and the business issues share capital.

	ASSETS	=	LIABILITIES	+	SHAREHOLDERS' EQUITY	TYPE OF SHAREHOLDERS' EQUITY TRANSACTION
	Cash				Share Capital	
(1)	+ 50,000				+50,000	Issued common shares

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Accounting for Business Transactions (3 of 14)

Transaction 2:

Tara Inc. purchases land and
pays $40,000 in cash.

	ASSETS			=	LIABILITIES	+	SHAREHOLDERS' EQUITY
	Cash	+	Land				Share Capital
Balance	50,000						50,000
(2)	−40,000		+ 40,000				
Bal.	10,000		40,000				50,000
	50,000						50,000

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Accounting for Business Transactions (4 of 14)

Transaction 3:

The business buys stationery and other office supplies on account agreeing to pay $3700 within 30 days.

	ASSETS					=	LIABILITIES	+	SHAREHOLDERS' EQUITY
	Cash	+	Office Supplies	+	Land		Accounts Payable	+	Share Capital
Bal.	10,000				40,000				50,000
(3)			+3700				+3,700		
Bal.	10,000		3,700		40,000		3,700		50,000
			53,700				53,700		

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Accounting for Business Transactions (5 of 14)

Transaction 4:

Tara Inc. earns service revenue of $7,000 and collects this amount in cash.

	ASSETS						LIABILITIES	+	SHAREHOLDERS' EQUITY		
	Cash	+	Office Supplies	+	Land	=	Accounts Payable	+	Share Capital	+	Retained Earnings
Bal.	10,000		3,700		40,000		3,700		50,000		
(4)	+ 7,000										7,000
Bal.	17,000		3,700		40,000		3,700		50,000		7,000
			60,700						60,700		

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Accounting for Business Transactions (6 of 14)

Transaction 5:

Tara Inc., performs service
and earns $3,000 on account.

	ASSETS							=	LIABILITIES	+	SHAREHOLDERS' EQUITY		
	Cash	+	Accounts Receivable	+	Office Supplies	+	Land		Accounts Payable	+	Share Capital	+	Retained Earnings
Bal.	17,000				3,700		40,000		3,700		50,000		7,000
(5)			+ 3,000										+3,000
Bal.	17,000		3,000		3,700		40,000		3,700		50,000		10,000
	63,700								63,700				

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Accounting for Business Transactions (7 of 14)

Transaction 6:

Tara Inc. pays $2,700 for the following expenses:
office rent $1,100, employee salary $1,200
and utilities $400

	ASSETS					LIABILITIES	+	SHAREHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Office Supplies	+ Land	=	Accounts Payable	+	Share Capital	+	Retained Earnings
Bal.	17,000	3,000	3,700	40,000		3,700		50,000		10,000
(6)	–1,100									–1,100
	–1,200									–1,200
	– 400									– 400
Bal.	14,300	3,000	3,700	40,000		3,700		50,000		7,300
	61,000					61,000				

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Accounting for Business Transactions (8 of 14)

Transaction 7:

Tara pays $1,900 on account for supplies purchased in Transaction 3.

	ASSETS					LIABILITIES		SHAREHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Office Supplies	+ Land	=	Accounts Payable	+ Share Capital	+ Retained Earnings		
Bal.	14,300	3,000	3,700	40,000	=	3,700	50,000	7,300		
(7)	–1,900					–1,900				
Bal.	12,400	3,000	3,700	40,000	=	1,800	50,000	7,300		
	59,100				=	59,100				

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Accounting for Business Transactions (9 of 14)

Transaction 8:

The owner pays for the re-modeling of his home at a cost of $30,000.

This event is a transaction of the *personal entity*, not the business entity.

No transaction is recorded for Tara Inc.

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Accounting for Business Transactions (10 of 14)

Transaction 9:

The business collects $1,000 from a customer on account.

	ASSETS					LIABILITIES		SHAREHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Office Supplies	+ Land	=	Accounts Payable	+	Share Capital	+	Retained Earnings
Bal.	12,400	3,000	3,700	40,000	=	1,800		50,000		7,300
(9)	+1,900	–1,000								
Bal.	13,400	2,000	3,700	40,000	=	1,800		50,000		7,300
	59,100				=	59,100				

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Accounting for Business Transactions (11 of 14)

Transaction 10:

Tara Inc. sells part of the land purchased in Transaction 2 for $22,000 in cash.

	ASSETS							LIABILITIES		SHAREHOLDERS' EQUITY		
	Cash	+	Accounts Receivable	+	Office Supplies	+	Land	Accounts Payable	+	Share Capital	+	Retained Earnings
Bal.	13,400		2,000		3,700		40,000	1,800		50,000		7,300
(10)	+22,000						–22,000					
Bal.	35,400		2,000		3,700		18,000	1,800		50,000		7,300
	59,100							59,100				

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Accounting for Business Transactions (12 of 14)

Transaction 11:

The corporation declares a dividend and pays $2,100 cash to the shareholders.

	ASSETS							=	LIABILITIES	+	SHAREHOLDERS' EQUITY		
	Cash	+	Accounts Receivable	+	Office Supplies	+	Land		Accounts Payable	+	Share Capital	+	Retained Earnings
Bal.	35,400		2,000		3,700		18,000		1,800		50,000		7,300
(11)	–22,000												–2,100
Bal.	33,300		2,000		3,700		18,000		1,800		50,000		5,200
	57,000								57,000				

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Accounting for Business Transactions (13 of 14)

Assets				
Trans	**Cash**	**AR**	**Supplies**	**Land**
1	50,000			
2	(40,000)			40,000
3			3,700	
4	7,000			
5		3,000		
6	(2,700)			
7	(1,900)			
9	1,000	(1,000)		
10	22,000			(22,000)
11	(2,100)			
Bal	33,300	2,000	3,700	18,000
Totals		57,000		

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Accounting for Business Transactions (14 of 14)

= Liabilities + Shareholders' Equity			
	AP	C Shares	RE
		50,000	
	3,700		
			7,000
			3,000
			(1,100)
			(1,200)
			(400)
	(1,900)		
			(2,100)
	1,800	50,000	5,200
		57,000	

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Transactions and Financial Statements

Income Statement data appear as revenues and expenses under Retained Earnings. The revenues increase retained earnings; the expenses decrease retained earnings.

Balance Sheet data are composed of the ending balances of the assets, liabilities, and shareholders' equity

Statement of Retained Earnings repeats net income (or net loss) from the income statement. Dividends are subtracted. Ending retained earnings is the final result.

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Income Statement

Tara Inc. Income Statement Month Ended April 30, 2017		
Revenues		
Service revenue ($7,000 + $3,000)		$ 10,000
Expenses		
Salary expense	$ 1,200	
Rent expense	1,100	
Utilities expense	400	
Total expenses		2,700
Net income		$ 7,300

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Statement of Retained Earnings

Tara Inc. Statement of Retained Earnings Month Ended April 30, 2017		
Retained earnings, April 1, 2017		$ 0
Add: Net income for the month		7,300
Subtotal		7,300
Less: Dividends declared		(2,100)
Retained earnings, April 30, 2017		$5,200

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Balance Sheet

Tara Inc. Balance Sheet April 30, 2017			
Assets		**Liabilities**	
Cash	$ 33,300	Accounts payable	$ 1,800
Accounts receivable	2,000	**Shareholders' Equity**	
Office supplies	3,700	Common shares	50,000
Land	18,000	Retained earnings	5,200
		Total shareholders' equity	55,200
Total assets	$ 57,000	Total liabilities and shareholders' equity	$ 57,000

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Learning Objective Three

Analyze business transactions using T-accounts

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Tara Inc.
Chart of Accounts

BALANCE SHEET ACCOUNTS:		
Assets	***Liabilities***	***Shareholders' Equity***
101 Cash	201 Accounts Payable	301 Share Capital
111 Accounts Receivable	231 Notes Payable	311 Dividends
141 Office Supplies		312 Retained Earnings
151 Office Furniture		
191 Land		

INCOME STATEMENT ACCOUNTS (PART OF SHAREHOLDERS' EQUITY):	
Revenues	***Expenses***
401 Service Revenue	501 Rent Expense
	502 Salary Expense
	503 Utilities Expense

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Double-Entry Accounting

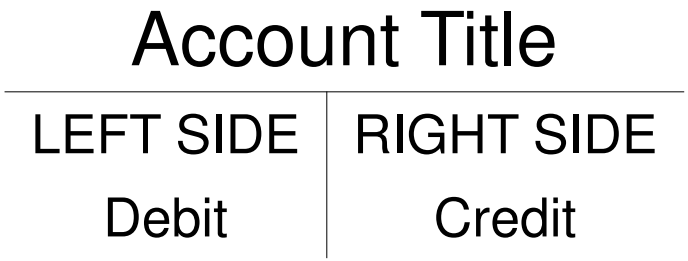
Double-entry system of accounting uses debits and credits to record the dual effects of each business transaction.

Assets = Liabilities + Shareholders' Equity

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The T-Account



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The Rule of Debit & Credit

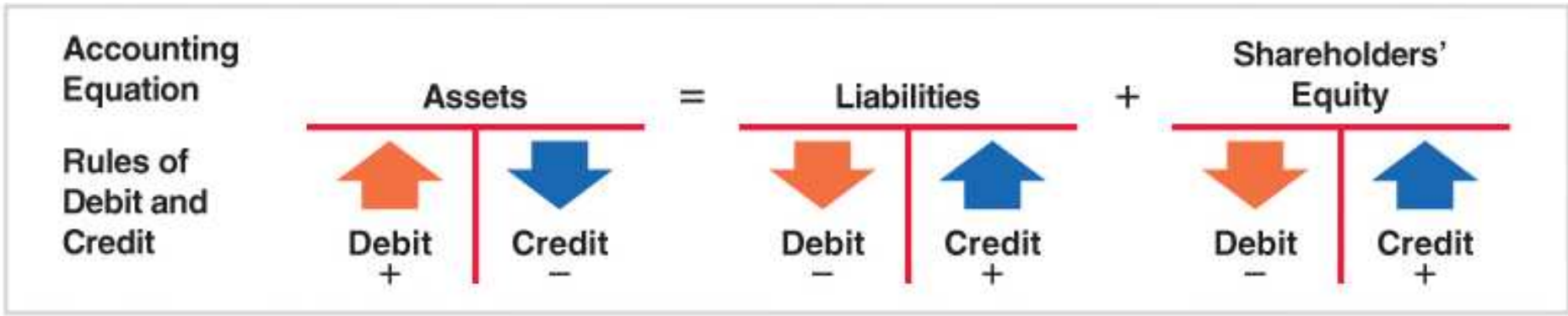
Debits	=	Credits
(Left side)		(Right side)

Assets = Liabilities + Shareholders' Equity

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Increases and Decreases in the Accounts



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Rules of Debit and Credit

Assets = Liabilities + Shareholders' Equity

Assets	
Debit	Credit
+	−

Liabilities	
Debit	Credit
−	+

Shareholders' Equity

Share Capital	
Debit	Credit
−	+

Retained Earnings	
Debit	Credit
−	+

Revenue	
Debit	Credit
−	+

Dividends	
Debit	Credit
+	−

Expenses	
Debit	Credit
+	−

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Normal Balances of Accounts

Assets	Debit	
Liabilities		Credit
Shareholders' Equity—overall		Credit
Share capital		Credit
Retained earnings		Credit
Dividends	Debit	
Revenues		Credit
Expenses	Debit	

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Rules of Debit and Credit (1 of 2)

Tara Inc. received $50,000 and issued shares.

Assets = Liabilities + Shareholders' Equity

Cash	
Debit for Increase, 50,000	

Share Capital	
	Credit for Increase, 50,000

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Rules of Debit and Credit (2 of 2)

Tara Inc. purchases land for $40,000 cash.

Assets = Liabilities + Shareholders' Equity

Cash

Bal. 50,000	Credit for Decrease, 40,000

Land

Debit for Increase, 40,000	

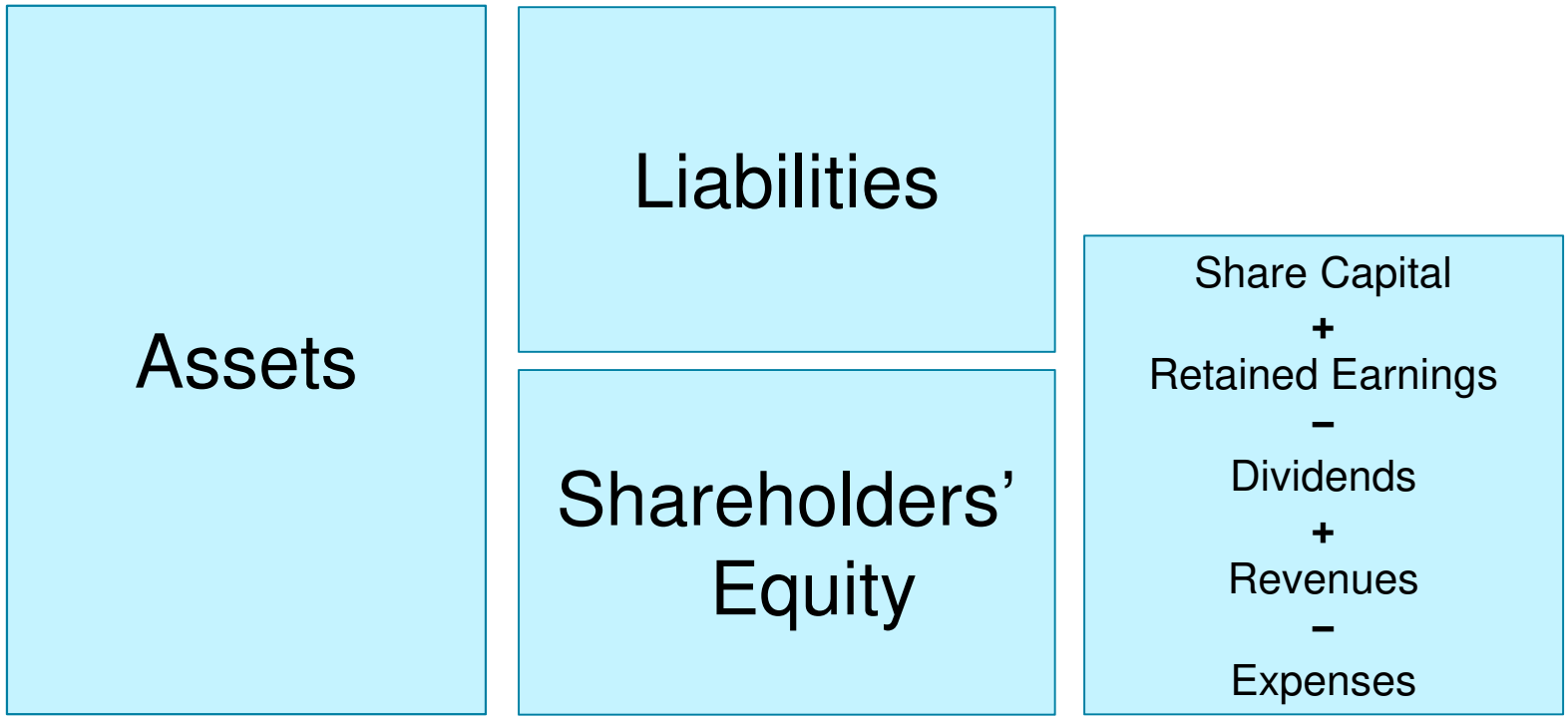
Share Capital

	Bal. 50,000

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Additional Shareholders' Equity Accounts: Revenues, Expenses and Dividends



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Learning Objective Four

Record business transactions in the journal and post them to the ledger

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The Journal

- Chronological record of transactions
- Three steps
  - Specify each account affected by the transaction
  - Determine if each account is increased or decreased
    - Use debit credit rules
  - Record in journal

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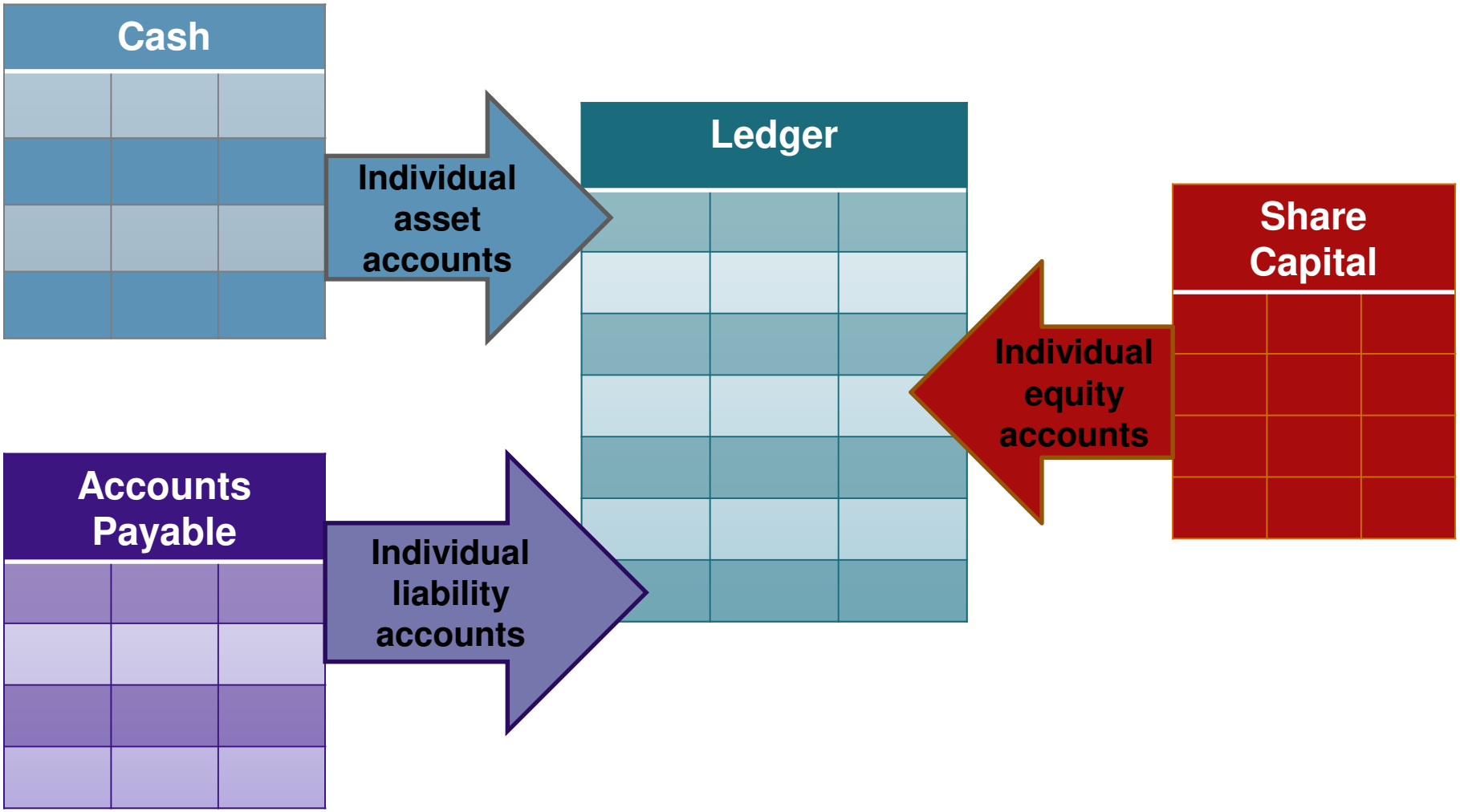
Journal Entry

JOURNAL			
Date	Accounts and explanation	Debit	Credit
Apr. 2	Cash	50,000	
	Share Capital		50,000
	Issued common share		

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The Ledger

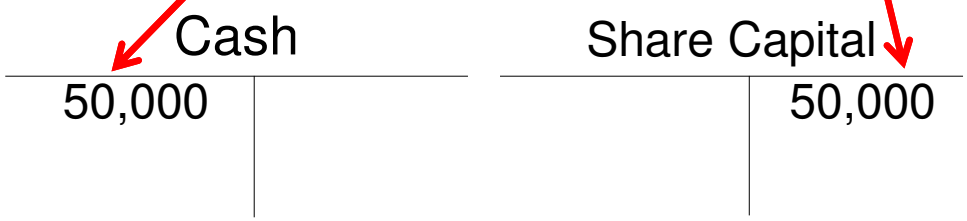


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Copying Information (Posting) from the Journal to the Ledger

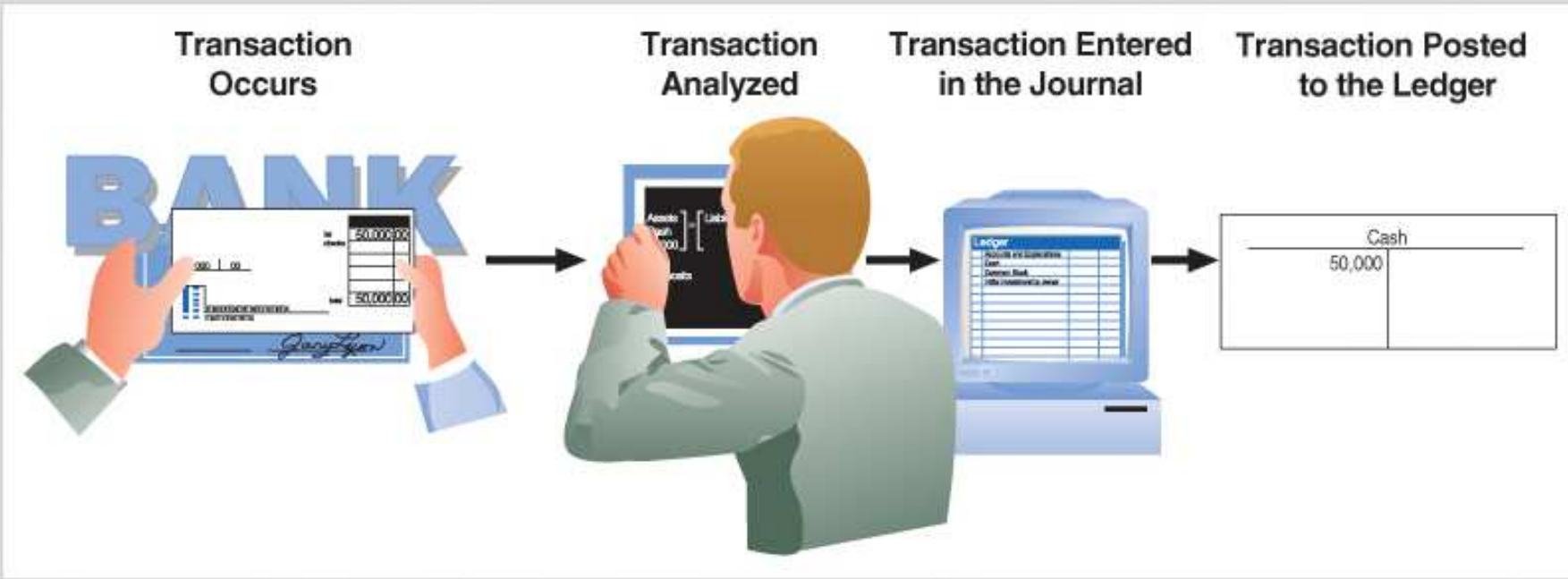
JOURNAL			
Date	Accounts and explanation	Debit	Credit
Apr. 2	Cash	50,000	
	Share Capital		50,000
	Issued common share		



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Flow of Accounting Data



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Accounts After Posting (1 of 2)

Assets = Liabilities

Cash

(1) 50,000	(2) 40,000
(4) 7,000	(6) 2,700
(9) 1,000	(7) 1,900
(10) 22,000	(11) 2,100
Bal. 33,300	

Accounts Receivable

(5) 3,000	(9) 1,000
Bal. 2,000	

Office Supplies

(3) 3,700	
Bal. 3,700	

Land

(2) 40,000	(10) 22,000
Bal. 18,000	

Accounts Payable

(7) 1,900	(3) 3,700
	Bal. 1,800

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Accounts After Posting (2 of 2)

+ **Shareholders' Equity**

Share Capital

	(1) 50,000
	Bal. 50,000

Dividends

(11) 2,100	
Bal. 2,100	

REVENUE
Service Revenue

	(4) 7,000
	(5) 3,000
	Bal. 10,000

EXPENSES
Rent Expense

(6) 1,100	
Bal. 1,100	

Salary Expense

(6) 1,200	
Bal. 1,200	

Utilities Expense

(6) 400	
Bal. 400	

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Learning Objective Five

Prepare and use a trial balance

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Trial Balance

- Lists all accounts with their balances
- Assets listed first, then liabilities and shareholders' equity
- Shows that debits equal credits
- Usually prepared at the end of the period
- Facilitates preparation of the financial statements

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Tara Inc.
Trial Balance

Tara Inc. Trial Balance April 30, 2017		
	Balance	
Account Title	**Debit**	**Credit**
Cash	$33,300	
Accounts receivable	2,000	
Supplies	3,700	
Land	18,000	
Accounts payable		$1,800
Common shares		50,000
Dividends	2,100	
Service revenue		10,000
Rent expense	1,100	
Salary expense	1,200	
Utilities expense	400	
Total	$61,800	$61,800

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End of Chapter Two

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