Financial Accounting 12th edition Thomas Solutions Manual

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Chapter 2

Transaction Analysis

Ethics Check

(5-10 min.) EC 2-1

a. Due care

b. Due care

c. Objectivity and independence

d. Integrity

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Short Exercises

(5 min.) S 2-1

a. Yes
b. Yes
c. No (no dollars involved yet)
d. Yes
e. No (no dollars involved)
f. Yes
g. No (no dollars involved yet)
h. Yes

(5 min.) S 2-2

a. L
b. A
c. L
d. L
e. E
f. E
g. A
h. A
i. E
j. A

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(5 min.) S 2-3

Crater's payment was *not* an expense.

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

(5 min.) S 2-4

a. **Purchase of asset for cash**
Sale of asset for cash
Collection of an account receivable

b. **Issuance of stock**
Revenue transaction (ex: provided services on account or for cash)

c. **Purchase of asset on account**
Borrow money

d. **Declaration and payment of dividends to owners**
Expense transaction (ex: received and paid utility bill)

e. **Pay a liability**
Return an asset purchased on account

(Answers may vary.)

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(5-10 min.) S 2-5

	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

(5 min.) S 2-6

a. $10,500 ($8,000 + $2,500 + $7,200 − $7,200)

b. $ 2,500

(5-10 min.) S 2-7

Reqs. 1, 2

Cash	
200,000	

Computer Equipment	
56,000	

Accounts Payable	
	56,000

Common Stock	
	200,000

Req. 3

Total debits = $256,000 ($200,000 + $56,000)

Total credits = $256,000 ($56,000 + $200,000)

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(5-10 min.) S 2-8

Cash			
Jul 1	26,000	Jul 3	5,500
Jul 6	8,500		
Bal.	29,000		

(10 min.) S 2-9

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
July	15	Cash	64,000	
		Note Payable		64,000
		Borrowed money from the bank.		
	22	Accounts Receivable	17,300	
		Service Revenue		17,300
		Performed service on account.		
	28	Cash	16,000	
		Accounts Receivable		16,000
		Received cash on account.		
	29	Utilities Expense	1,800	
		Cash		1,800
		Paid utility bill.		
	31	Salary Expense	10,000	
		Cash		10,000
		Paid salary expense.		

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(10-15 min.) S 2-10

Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies	4,300	
	Accounts Payable		4,300
	Purchased supplies on account.		
	Accounts Payable	3,450	
	Cash		3,450
	Paid cash on account.		

Req. 2

Accounts Payable

3,450		4,300
	Bal.	850

Req. 3

The business owes $850, as shown in the Accounts Payable account.

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Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable	4,600	
	Service Revenue.....		4,600
	Performed service on account.		
	Cash	2,100	
	Accounts Receivable		2,100
	Received cash on account.		

Req. 2

Cash			Accounts Receivable			Service Revenue		
	2,100			4,600	2,100			4,600
Bal.	2,100		Bal.	2,500			Bal.	4,600

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(15-20 min.) S 2-12

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
July	1	Cash	13,000	
		Common Stock		13,000
		Issued stock to owner.		
	5	Accounts Receivable	8,000	
		Service Revenue		8,000
		Provided (sold) services on account.		
	9	Office Supplies	600	
		Accounts Payable		600
		Purchased supplies on account.		
	10	Cash	3,100	
		Service Revenue		3,100
		Provided (sold) services for cash.		
	12	Cash	8,000	
		Accounts Receivable		8,000
		Collected cash on account.		
	24	Accounts Payable	600	
		Cash		600
		Paid on account.		
	25	Utilities Expense	450	
		Cash		450
		Paid expenses.		
	30	Office Furniture	2,500	
		Note Payable		2,500
		Purchased furniture with note payable.		
	31	Salary Expense	3,100	
		Cash		3,100
		Paid payroll.		

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(10 min.) S 2-13

Harbor Marine Company
Trial Balance
December 31, 2018

ACCOUNT	DEBIT	CREDIT
	Millions	
Cash	$ 4	
Other assets	20	
Accounts payable		$ 6
Other liabilities		2
Stockholders' equity		5
Revenues		37
Expenses	26	
Total	$50	$50

Harbor Marine Company's net income: $11 million ($37 − $26)

(10 min.) S 2-14

1. **Total assets** = $101,500 ($4,500 + $28,000 + $5,000 + $45,000 + $19,000)
2. **Total liabilities** = $61,000 ($39,000 + $22,000)
3. **Net income (loss)** = $17,500 ($56,000 − $27,000 − $10,000 − $1,500)

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(10 min.) S 2-15

1. Total debits = $ 99,500 ($140,000 + $4,500 − $45,000)
Total credits = $140,000
Difference = $ 40,500 ($140,000 − $99,500);
$40,500 / 9 = $4,500 (an integer), which suggests either a transposition or a slide.

2. Total debits = $194,000 ($140,000 + $82,000 − $28,000)
Total credits = $140,000
Difference = $ 54,000 ($194,000 − $140,000);
$54,000 / 9 = $6,000 (an integer), which suggests either a transposition or a slide.

3. Total debits = $112,000 ($140,000 − $28,000)
Total credits = $168,000 ($140,000 + $28,000)
Difference = $ 56,000 ($168,000 − $112,000)
$56,000 / 2 = $28,000 (original amount of accounts receivable).

(10 min.) S 2-16

E	**1. Posting**	**B**	**7. Receivable**
A	**2. Expense**	**D**	**8. Chart of accounts**
K	**3. Debit**	**I**	**9. Payable**
H	**4. Trial balance**	**J**	**10. Journal**
F	**5. Equity**	**C**	**11. Normal balance**
G	**6. Net income**	**L**	**12. Ledger**

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Exercises

(15-20 min.) E 2-17A

Req. 1

In order to qualify as a financial transaction, there must be an event that has a financial impact on a business and can be measured reliably. Thus, the May events that *do not* meet these criteria include May 8 and May 18.

Req. 2

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
May	1	Cash	100,000	
		Ticket Revenue		100,000
		Sold admission tickets.		
	3	Inventory	5,000	
		Accounts Payable		5,000
		Purchased merchandise inventory on account.		
	6	Cash	500	
		Rental Revenue		500
		Rented lockers to guests.		
	15	Salary Expense	75,000	
		Cash		75,000
		Paid employees.		
	20	Cash	200,000	
		Note Payable		200,000
		Borrowed money from bank.		

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Req. 3

	Assets		Liabilities		Stk. Equity	
	Incr	Decr	Incr	Decr	Incr	Decr
May 1	X				X	
May 3	X		X			
May 6	X				X	
May 15		X				X
May 20	X		X			

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Cash			
(a)	25,500	(b)	1,500
		(d)	2,900
		(e)	250
		(g)	2,000
Bal.	18,850		

Accounts Receivable			
(f)	11,000		
Bal.	11,000		

Office Supplies			
(c)	700		
Bal.	700		

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

Accounts Payable			
(e)	250	(c)	700
		Bal.	450

Common Stock			
		(a)	34,900
		Bal.	34,900

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

Service Revenue			
		(f)	11,000
		Bal.	11,000

Salary Expense			
(d)	2,900		
Bal.	2,900		

Rent Expense			
(b)	1,500		
Bal.	1,500		

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a. Decreased assets. (Cash)

b. No effect on total assets. Increase in land offsets the decrease in cash.

c. No effect on total assets. Increase in cash offsets the decrease in land.

d. No effect on total assets. Increase in cash offsets the decrease in accounts receivable.

e. Increased assets. (Equipment)

f. No effect. (A personal transaction)

g. Decreased assets. (Cash)

h. Increased assets. (Office supplies)

i. Increased assets. (Cash)

j. Increased assets. (Cash)

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Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES		+ STOCKHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable +	Medical Supplies +	Land	=	Accounts Payable +	Note Payable +	Common Stock +	Retained Earnings	Type of Stockholders' Equity Transaction
Dec. 6	150,000							150,000		Issued stock
9	(64,000)			64,000						
12			2,400			2,400				
15	Not a transaction of the business.									
15-31	4,900	4,900							9,800	Service revenue
15-31	(3,600)								(3,600)	Salary expense
	(900)								(900)	Rent expense
	(400)								(400)	Utilities expense
31	1,000		(1,000)							
31	34,000						34,000			
31	(1,300)					(1,300)				
Bal.	119,700	4,900	1,400	64,000		1,100	34,000	150,000	4,900	

$190,000 = $190,000

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Req. 2

a. $190,000

b. $4,900

c. $35,100 ($1,100 + $34,000)

d. $154,900 ($190,000 − $35,100, or $150,000 + $4,900)

e. $4,900 (Revenue, $9,800 minus expenses, $4,900 equals net income, $4,900.)

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Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Dec. 6	Cash	150,000	
	Common Stock		150,000
	Issued stock to owner.		
9	Land	64,000	
	Cash		64,000
	Purchased land.		
12	Medical Supplies	2,400	
	Accounts Payable		2,400
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash	4,900	
	Accounts Receivable	4,900	
	Service Revenue		9,800
	Performed services for cash and on account.		
15-31	Salary Expense	3,600	
	Rent Expense	900	
	Utilities Expense	400	
	Cash		4,900
	Paid expenses.		
31	Cash	1,000	
	Medical Supplies		1,000
	Sold supplies.		
31	Cash	34,000	
	Note Payable		34,000
	Borrowed money.		
31	Accounts Payable	1,300	
	Cash		1,300
	Paid on account.		

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(20-30 min.) E 2-22A

Req. 1

Cash

Dec.	6	150,000	Dec.	9	64,000
	15-31	4,900		15-31	4,900
	31	1,000		31	1,300
	31	34,000			
Bal.		119,700			

Accounts Receivable

Dec. 15-31	4,900	
Bal.	4,900	

Medical Supplies

Dec.	12	2,400	Dec. 31	1,000
Bal.		1,400		

Land

Dec.	9	64,000	
Bal.		64,000	

Accounts Payable

Dec.	31	1,300	Dec.	12	2,400
			Bal.		1,100

Note Payable

			Dec.	31	34,000
			Bal.		34,000

Common Stock

			Dec.	6	150,000
			Bal.		150,000

Service Revenue

			Dec.	15-31	9,800
			Bal.		9,800

Salary Expense

Dec. 15-31	3,600	
Bal.	3,600	

Rent Expense

Dec. 15-31	900	
Bal.	900	

Utilities Expense

Dec. 15-31	400	
Bal.	400	

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Req. 2

Dr. Helen Samoa, P.C.
Trial Balance
December 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$119,700	
Accounts receivable	4,900	
Medical supplies	1,400	
Land	64,000	
Accounts payable		$ 1,100
Note payable		34,000
Common stock		150,000
Service revenue		9,800
Salary expense	3,600	
Rent expense	900	
Utilities expense	400	
Total	$194,900	$194,900

Req. 3

Total assets ($119,700 + $4,900 + $1,400 + $64,000)	$190,000
Total liabilities ($1,100 + $34,000)	(35,100)
Total stockholders' equity ($150,000 + $4,900*)	$154,900

*Net income = $4,900 ($9,800 – $3,600 – $900 – $400)

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(10-15 min.) E 2-23A

Req. 1

Journal

	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash	8,500	
	Common Stock		8,500
	Issued common stock.		
2.	Cash	9,000	
	Note Payable		9,000
	Borrowed money; signed note payable.		
3.	Supplies	800	
	Accounts Payable		800
	Purchased supplies on account.		
4.	Land	38,000	
	Cash		13,000
	Note Payable		25,000
	Purchased land by paying cash and signing a note payable.		
5.	Cash	45	
	Supplies		45
	Sold supplies for cash.		
6.	Accounts Payable	310	
	Cash		310
	Paid cash on account.		
7.	Equipment	3,900	
	Cash		3,900
	Paid cash for equipment.		

Cash balance = $335 ($8,500 + $9,000 − $13,000 + $45 − $310 − $3,900)

Company owes $34,490 ($9,000 + $800 + $25,000 − $310)

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Cash

(1)	8,500	(4)	13,000
(2)	9,000	(6)	310
(5)	45	(7)	3,900
Bal.	335		

Supplies

(3)	800	(5)	45
Bal.	755		

Land

(4)	38,000		
Bal.	38,000		

Equipment

(7)	3,900		
Bal.	3,900		

Accounts Payable

(6)	310	(3)	800
		Bal.	490

Note Payable

		(2)	9,000
		(4)	25,000
		Bal.	34,000

Common Stock

		(1)	8,500
		Bal.	8,500

Account	Ending Balance
Cash	$335
Supplies	755
Land	38,000
Equipment	3,900
Accounts Payable	490
Notes Payable	34,000
Common Stock	8,500

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Req. 1

Deluxe Patio Service, Inc.
Trial Balance
April 30, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$19,300	
Accounts receivable	5,900	
Equipment	30,600	
Accounts payable		$ 4,600
Note payable		21,500
Common stock		16,700
Retained earnings		6,300
Dividends	3,300	
Service revenue		20,700
Salary expense	8,300	
Utilities expense	2,100	
Delivery expense	300	
Total	$69,800	$69,800

Req. 2

Deluxe Patio Service, Inc.
Income Statement
For the Month Ended April 30, 2018

Service revenue		$20,700
Salary expense	$8,300	
Utilities expense	2,100	
Delivery expense	300	
Total expenses		10,700
Net income		$10,000

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Req. 1

Addison, Inc.
Trial Balance
September 30, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$14,800*	
Accounts receivable	12,000*	
Inventory	16,900	
Supplies	800	
Land	59,000	
Accounts payable		$13,600*
Common stock		47,300*
Sales revenue		49,700
Insurance expense	3,400*	
Salary expense	2,000	
Rent expense	1,000	
Utilities expense	700*	
Total	$110,600	$110,600

*Computations:

Cash: $14,100 + $700 = $14,800
Accounts Receivable: $12,700 − $700 = $12,000
Accounts Payable: $12,300 + $1,000 − $100 + $400 = $13,600
Common Stock: $47,100 + $200 = $47,300
Insurance Expense: $0 + $3,400 = $3,400
Utilities Expense: $300 + $400 = $700

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(15-20 min.) E 2-26A

Req. 1

(amounts in millions)

Cash (X) + Other assets (23) = Accounts payable (8) + Other liabilities (2) + S/E (6) + Revenues (33) – Expenses (21)

Cash (X) = 5

Req. 2

(amounts in millions)

Old Center Company
Trial Balance
September 30, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 5	
Other assets	23	
Accounts payable		$ 8
Other liabilities		2
Stockholders' equity		6
Revenues		33
Expenses	21	
Total	$49	$49

Net income is $12 ($33 – $21)

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(15-20 min.) E 2-27B

Req. 1

In order to qualify as a financial transaction, there must be an event that has a financial impact on a business and can be measured reliably. Thus, the May events that *do not* meet these criteria include May 8 and May 18.

Req. 2

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
May	1	Cash	150,000	
		Ticket Revenue		150,000
		Sold admission tickets.		
	3	Inventory	9,000	
		Accounts Payable		9,000
		Purchased merchandise inventory on account.		
	6	Cash	700	
		Rental Revenue		700
		Rented lockers to guests.		
	15	Salary Expense	92,000	
		Cash		92,000
		Paid employees.		
	20	Cash	400,000	
		Note Payable		400,000
		Borrowed money from bank.		

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Req. 3

	Assets		Liabilities		Stk. Equity	
	Incr	Decr	Incr	Decr	Incr	Decr
May 1	X				X	
May 3	X		X			
May 6	X				X	
May 15		X				X
May 20	X		X			

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Cash			
(a)	23,500	(b)	1,100
		(d)	2,800
		(e)	200
		(g)	2,900
Bal.	16,500		

Accounts Receivable			
(f)	10,700		
Bal.	10,700		

Office Supplies			
(c)	800		
Bal.	800		

Office Furniture			
(a)	8,600		
Bal.	8,600		

Accounts Payable			
(e)	200	(c)	800
		Bal.	600

Common Stock			
		(a)	32,100
		Bal.	32,100

Dividends			
(g)	2,900		
Bal.	2,900		

Service Revenue			
		(f)	10,700
		Bal.	10,700

Salary Expense			
(d)	2,800		
Bal.	2,800		

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

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(10-15 min.) E 2-29B

a. No effect on total assets. Increase in notes receivable offsets the decrease in land.

b. No effect on total assets. Increase in equipment offsets the decrease in cash.

c. No effect. (A personal transaction)

d. Increased assets. (Land)

e. Increased assets. (Cash)

f. Increased assets. (Accounts receivable)

g. Decreased assets. (Cash)

h. Decreased assets. (Cash)

i. Increased assets. (Cash)

j. Increased assets. (Supplies)

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Req. 1

Analysis of Transactions

		ASSETS				=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
Date		Cash	+ Accounts Receivable	+ Medical Supplies	+ Land	= Accounts Payable	+ Note Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction		
July	6	155,000						155,000		Issued stock		
	9	(62,000)			62,000							
	12			1,500		1,500						
	15	Not a transaction of the business.										
	15-31	4,550	4,550						9,100	Service revenue		
	15-31	(3,300)							(3,300)	Salary expense		
		(1,400)							(1,400)	Rent expense		
		(400)							(400)	Utilities expense		
	31	500		(500)								
	31	33,000					33,000					
	31	(600)				(600)						
Bal.		125,350	4,550	1,000	62,000	900	33,000	155,000	4,000			
		$192,900				$192,900						

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Req. 2

a. $192,900

b. $4,550

c. $33,900 ($900 + $33,000)

d. $159,000 ($192,900 − $33,900, or $155,000 + $4,000)

e. $4,000 (Revenue, $9,100 minus expenses, $5,100, equals net income, $4,000)

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Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
July 6	Cash	155,000	
	Common Stock		155,000
	Issued stock to owner.		
9	Land	62,000	
	Cash		62,000
	Purchased land.		
12	Medical Supplies	1,500	
	Accounts Payable		1,500
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash	4,550	
	Accounts Receivable	4,550	
	Service Revenue		9,100
	Performed services for cash and on account.		
15-31	Salary Expense	3,300	
	Rent Expense	1,400	
	Utilities Expense	400	
	Cash		5,100
	Paid expenses.		
31	Cash	500	
	Medical Supplies		500
	Sold supplies.		
31	Cash	33,000	
	Note Payable		33,000
	Borrowed money.		
31	Accounts Payable	600	
	Cash		600
	Paid on account.		

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(20-30 min.) E 2-32B

Req. 1

Cash

July	6	155,000	July	9	62,000
	15-31	4,550		15-31	5,100
	31	500		31	600
	31	33,000			
Bal.		125,350			

Accounts Receivable

July 15-31	4,550	
Bal.	4,550	

Medical Supplies

July	12	1,500	July 31	500
Bal.		1,000		

Land

July	9	62,000	
Bal.		62,000	

Accounts Payable

July	31	600	July	12	1,500
			Bal.		900

Note Payable

		July 31	33,000
		Bal.	33,000

Common Stock

		July 6	155,000
		Bal.	155,000

Service Revenue

		July 15-31	9,100
		Bal.	9,100

Salary Expense

July 15-31	3,300	
Bal.	3,300	

Rent Expense

July 15-31	1,400	
Bal.	1,400	

Utilities Expense

July 15-31	400	
Bal.	400	

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Req. 2

Dr. Char Morin, P.C.
Trial Balance
July 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$125,350	
Accounts receivable	4,550	
Medical supplies	1,000	
Land	62,000	
Accounts payable		$ 900
Note payable		33,000
Common stock		155,000
Service revenue		9,100
Salary expense	3,300	
Rent expense	1,400	
Utilities expense	400	
Total	$198,000	$198,000

Req. 3

Total assets ($125,350 + $4,550 + $1,000 + $62,000)	$192,900
Total liabilities ($900 + $33,000)	(33,900)
Total stockholders' equity ($155,000 + $4,000*)	$159,000

*Net income = $4,000 ($9,100 − $3,300 − $1,400 − $400)

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(10-15 min.) E 2-33B

Req. 1

Journal

	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash	8,800	
	Common Stock		8,800
	Issued common stock.		
2.	Cash	8,500	
	Note Payable		8,500
	Borrowed money; signed note payable.		
3.	Supplies	900	
	Accounts Payable		900
	Purchased supplies on account.		
4.	Land	34,000	
	Cash		11,000
	Note Payable		23,000
	Purchased land by paying cash and signing a note payable.		
5.	Cash.	90	
	Supplies		90
	Sold supplies for cash.		
6.	Accounts Payable	290	
	Cash		290
	Paid cash on account.		
7.	Equipment	4,000	
	Cash		4,000
	Paid cash for equipment.		

Cash balance = $2,100 ($8,800 + $8,500 − $11,000 + $90 − $290 − $4,000)

Company owes $32,110 ($8,500 + $900 + $23,000 − $290)

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Cash

(1)	8,800	(4)	11,000
(2)	8,500	(6)	290
(5)	90	(7)	4,000
Bal.	2,100		

Supplies

(3)	900	(5)	90
Bal.	810		

Land

(4)	34,000		
Bal.	34,000		

Equipment

(7)	4,000		
Bal.	4,000		

Accounts Payable

(6)	290	(3)	900
		Bal.	610

Note Payable

		(2)	8,500
		(4)	23,000
		Bal.	31,500

Common Stock

		(1)	8,800
		Bal.	8,800

Account	Ending Balance
Cash	$2,100
Supplies	810
Land	34,000
Equipment	4,000
Accounts Payable	610
Notes Payable	31,500
Common Stock	8,800

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(10-20 min.) E 2-34B

Req. 1

Specialty Deck Service, Inc.
Trial Balance
April 30, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$19,200	
Accounts receivable	5,300	
Equipment	30,800	
Accounts payable		$ 4,300
Note payable		21,000
Common stock		16,200
Retained earnings		7,800
Dividends	3,100	
Service revenue		20,500
Salary expense	8,400	
Utilities expense	2,300	
Delivery expense	700	
Total	$69,800	$69,800

Req. 2

Specialty Deck Service, Inc.
Income Statement
For the Month Ended April 30, 2018

Service revenue		$20,500
Salary expense	$8,400	
Utilities expense	2,300	
Delivery expense	700	
Total expenses		11,400
Net income		$ 9,100

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Req. 1

St. James, Inc.
Trial Balance
September 30, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 14,800*	
Accounts receivable	12,900*	
Inventory	17,500	
Supplies	300	
Land	55,600	
Accounts payable		$ 15,700*
Common stock		48,300*
Sales revenue		46,400
Insurance expense	5,400*	
Salary expense	1,900	
Utilities expense	1,700*	
Rent expense	300	
Total	$110,400	$110,400

*Computations:
Cash: $14,400 + $400 = $14,800
Accounts Receivable: $13,300 − $400 = $12,900
Accounts Payable: $11,500 + $4,000 − $400 + $600 = $15,700
Common Stock: $47,900 + $400 = $48,300
Insurance Expense: $0 + $5,400 = $5,400
Utilities Expense: $1,100 + $600 = $1,700

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(15-20 min.) E 2-36B

Req. 1

(amounts in millions)

Cash (X) + Other assets (21) = Accounts payable (5) + Other liabilities (1) + S/E (4) + Revenues (33) – Expenses (16)

Cash (X) = 6

Req. 2

(amounts in millions)

All Towne Company
Trial Balance
September 30, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 6	
Other assets	21	
Accounts payable		$ 5
Other liabilities		1
Stockholders' equity		4
Revenues		33
Expenses	16	
Total	$43	$43

Net income is $17 ($33 – $16)

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Serial Exercise

(20-30 min.) E 2-37

Req. 1

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
May	2	Cash	12,000	
		Common Stock		12,000
	2	Rent Expense	500	
		Cash		500
	3	Equipment	1,800	
		Cash		1,800
	4	Furniture	6,000	
		Accounts Payable		6,000
	5	Supplies	900	
		Accounts Payable		900
	9	Cash	600	
		Service Revenue		600
	12	Utilities Expense	750	
		Cash		750
	18	Accounts Receivable	3,100	
		Service Revenue		3,100

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Req. 2

Cash

May 2	12,000	May 2	500
9	600	3	1,800
		12	750
Bal.	9,550		

Accounts Receivable

May 18	3,100		
Bal.	3,100		

Supplies

May 5	900		
Bal.	900		

Equipment

May 3	1,800		
Bal.	1,800		

Furniture

May 4	6,000		
Bal.	6,000		

Accounts Payable

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

Common Stock

		May 2	12,000
		Bal.	12,000

Service Revenue

		May 9	600
		18	3,100
		Bal.	3,700

Rent Expense

May 2	500		
Bal.	500		

Utilities Expense

May 12	750		
Bal.	750		

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Req. 3

Olivia Matthews, Certified Public Accountant, P.C.
Trial Balance
May 18, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 9,550	
Accounts receivable	3,100	
Supplies	900	
Equipment	1,800	
Furniture	6,000	
Accounts payable		$ 6,900
Common stock		12,000
Dividends	—	
Service revenue		3,700
Utilities expense	750	
Rent expense	500	
Salary expense	—	
Total	$22,600	$22,600

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Quiz

Q2-38	**d**	
Q2-39	**d**	
Q2-40	**b**	
Q2-41	**d**	
Q2-42	**a**	
Q2-43	**d**	
Q2-44	**a**	
Q2-45	**d**	
Q2-46	**d**	
Q2-47	**a**	**($55,000 + $30,000 + $25,000) = $110,000**
Q2-48	**b**	
Q2-49	**d**	
Q2-50	**d**	
Q2-51	**b**	
Q2-52	**c**	
Q2-53	**d**	
Q2-54	**c**	
Q2-55	**b**	
Q2-56	**a**	
Q2-57	**c**	

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Problems

(15-30 min.) P 2-58A

Req. 1

Dear Veronica,

This trial balance lists the accounts of the company, along with their balances at December 31, 2018. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Baker Specialties reports:

a. Total assets = $395,000 ($13,000 + $49,000 + $5,000 + $103,000 + $225,000)

b. Total liabilities = $144,400 ($50,400 + $94,000)

c. Net income = $31,000 ($160,000 − $55,000 − $3,000 − $64,000 − $7,000)

Student responses may vary but should include these amounts.

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(45-60 min.) P 2-59A

Req. 1

Analysis of Transactions

	ASSETS				= LIABILITIES	+ STOCKHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Supplies	+Equipment	= Accounts Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
Bal.	2,500	3,250		12,200	8,300	6,300	3,350	
a)	3,700					3,700		Issued stock
b)	6,700						6,700	Service revenue
c)	(4,700)				(4,700)			
d)			800		800			
e)	1,300	(1,300)						
f)		4,700					4,700	Service revenue
g)	(1,900)						(1,900)	Rent expense
	(500)						(500)	Advertising expense
h)	(3,400)						(3,400)	Dividends
Bal.	3,700	6,650	800	12,200	4,400	10,000	8,950	

$23,350 $23,350

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Req. 2

Grueser Computing, Inc.
Income Statement
Month Ended October 31, 2018

Revenues:		
Service revenue ($6,700 + $4,700)		**$11,400**
Expenses:		
Rent expense	**$1,900**	
Advertising expense	**500**	
Total expenses		**2,400**
Net income		**$9,000**

Req. 3

Grueser Computing, Inc.
Statement of Retained Earnings
Month Ended October 31, 2018

Retained earnings, October 1, 2018	**$ 3,350**
Add: Net income	**9,000**
Subtotal	**12,350**
Less: Dividends declared	**(3,400)**
Retained earnings, October 31, 2018	**$ 8,950**

Req. 4

Grueser Computing, Inc.
Balance Sheet
October 31, 2018

ASSETS		**LIABILITIES**	
Cash	**$ 3,700**	**Accounts payable**	**$ 4,400**
Accounts receivable	**6,650**	**STOCKHOLDERS'**	
Supplies	**800**	**EQUITY**	
Equipment	**12,200**	**Common stock**	**10,000**
		Retained earnings	**8,950**
		Total stockholders' equity	**18,950**
		Total liabilities and	
Total assets	**$23,350**	**stockholders' equity**	**$23,350**

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(30-40 min.) P 2-60A

Req. 1

Journal

	ACCOUNT TITLES	DEBIT	CREDIT
a.	Cash	3,700	
	Common Stock		3,700
b.	Cash	6,700	
	Service Revenue		6,700
c.	Accounts Payable	4,700	
	Cash		4,700
d.	Supplies	800	
	Accounts Payable		800
e.	Cash	1,300	
	Accounts Receivable		1,300
f.	Accounts Receivable	4,700	
	Service Revenue		4,700
g.	Rent Expense	1,900	
	Advertising Expense	500	
	Cash		2,400
h.	Dividends	3,400	
	Cash		3,400

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Reqs. 2 and 3

Cash	
2,500	4,700
3,700	2,400
6,700	3,400
1,300	
3,700	

Accounts Receivable	
3,250	1,300
4,700	
6,650	

Supplies	
800	
800	

Equipment	
12,200	
12,200	

Accounts Payable	
4,700	8,300
	800
	4,400

Common Stock	
	6,300
	3,700
	10,000

Retained Earnings	
	3,350
	3,350

Dividends	
3,400	
3,400	

Service Revenue	
	6,700
	4,700
	11,400

Rent Expense	
1,900	
1,900	

Advertising Expense	
500	
500	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-59A.

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(50-60 min.) P 2-61A

Req. 1

Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Aug. 2	Cash	69,000	
	Common Stock		69,000
3	Supplies	500	
	Equipment	11,800	
	Accounts Payable		12,300
4	Cash	5,600	
	Service Revenue		5,600
7	Land	33,000	
	Cash		33,000
11	Accounts Receivable	3,300	
	Service Revenue		3,300
16	Accounts Payable	11,800	
	Cash		11,800
17	Advertising Expense	560	
	Cash		560
18	Cash	1,200	
	Accounts Receivable		1,200
22	Utilities Expenses	390	
	Cash		390
29	Cash	3,000	
	Service Revenue		3,000
31	Salary Expense	2,500	
	Cash		2,500
31	Dividends	2,000	
	Cash		2,000

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Req. 2

Cash

Aug. 2	69,000	Aug. 7	33,000
4	5,600	16	11,800
18	1,200	17	560
29	3,000	22	390
		31	2,500
		31	2,000
Bal.	28,550		

Accounts Receivable

Aug. 11	3,300	Aug. 18	1,200
Bal.	2,100		

Supplies

Aug. 3	500		
Bal.	500		

Land

Aug. 7	33,000		
Bal.	33,000		

Equipment

Aug. 3	11,800		
Bal.	11,800		

Accounts Payable

Aug. 16	11,800	Aug. 3	12,300
		Bal.	500

Common Stock

		Aug. 2	69,000
		Bal.	69,000

Dividends

Aug. 31	2,000		
Bal.	2,000		

Service Revenue

		Aug. 4	5,600
		11	3,300
		29	3,000
		Bal.	11,900

Salary Expense

Aug. 31	2,500		
Bal.	2,500		

Advertising Expense

Aug. 17	560		
Bal.	560		

Utilities Expense

Aug. 22	390		
Bal.	390		

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Req. 3

Cloutier Services, Inc.
Trial Balance
August 31, 20XX

ACCOUNT	DEBIT	CREDIT
Cash	$28,550	
Accounts receivable	2,100	
Supplies	500	
Land	33,000	
Equipment	11,800	
Accounts payable		$ 500
Common stock		69,000
Dividends	2,000	
Service revenue		11,900
Salary expense	2,500	
Advertising expense	560	
Utilities expense	390	
Total	$81,400	$81,400

Req. 4

Total resources (assets)	= $75,950	($28,550 + $2,100 + $500 + $33,000 + $11,800)
Amount owed (total liabilities)	= $500	
Profit (net income)	= $8,450	($11,900 − $2,500 − $560 – $390)

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Req. 1

Cash			
(a)	41,000	(c)	46,000
(b)	61,000	(e)	6,300
(f)	3,700	(h)	200
(j)	1,500	(k)	1,800
Bal.	52,900		

Accounts Receivable			
(g)	12,800	(j)	1,500
Bal.	11,300		

Supplies			
(d)	340		
Bal.	340		

Building			
(a)	110,000		
Bal.	110,000		

Music Equipment			
(c)	46,000		
Bal.	46,000		

Accounts Payable			
(h)	200	(d)	340
		(i)	800
		Bal.	940

Note Payable			
		(b)	61,000
		Bal.	61,000

Common Stock			
		(a)	151,000
		Bal.	151,000

Service Revenue			
		(f)	3,700
		(g)	12,800
		Bal.	16,500

Salary Expense			
(e)	6,300		
Bal.	6,300		

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

Advertising Expense			
(k)	800		
Bal.	800		

Utilities Expense			
(i)	800		
Bal.	800		

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Req. 2

Samuels Music Services Corporation
Trial Balance
January 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 52,900	
Accounts receivable	11,300	
Supplies	340	
Building	110,000	
Music equipment	46,000	
Accounts payable		$ 940
Note payable…		61,000
Common stock		151,000
Service revenue		16,500
Salary expense	6,300	
Rent expense…	1,000	
Utilities expense	800	
Advertising expense	800	
Total	$229,440	$229,440

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(15-30 min.) P 2-63B

Req. 1

Dear Clara,

This trial balance lists the accounts of the company, along with their balances at December 31, 2018. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Colby Design reports:

a. Total assets = $413,500 ($13,000 + $55,000 + $6,500 + $104,000 + $235,000)

b. Total liabilities = $144,300 ($50,300 + $94,000)

c. Net income = $76,000 ($200,000 − $28,000 − $6,000 − $85,000 − $5,000)

Student responses may vary but should include these calculations.

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(45-60 min.) P 2-64B

Req. 1

Analysis of Transactions

	ASSETS				= LIABILITIES	+ STOCKHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
Bal.	2,400	3,450		11,700	7,900	5,500	4,150	
a)	3,500					3,500		Issued stock
b)	6,500						6,500	Service revenue
c)	(4,400)				(4,400)			
d)			1,200		1,200			
e)	1,700	(1,700)						
f)		4,700					4,700	Service revenue
g)	(1,800)						(1,800)	Rent expense
	(550)						(550)	Advertising expense
h)	(2,700)						(2,700)	Dividends
Bal.	4,650	6,450	1,200	11,700	4,700	9,000	10,300	

$24,000 $24,000

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Req. 2

Davis Computing, Inc.
Income Statement
Month Ended October 31, 2018

Revenues:		
Service revenue ($6,500 + $4,700)		**$11,200**
Expenses:		
Rent expense	**$1,800**	
Advertising expense	**550**	
Total expenses		**2,350**
Net income		**$ 8,850**

Req. 3

Davis Computing, Inc.
Statement of Retained Earnings
For the Month Ended October 31, 2018

Retained earnings, October 1, 2018	**$ 4,150**
Add: Net income	**8,850**
Subtotal	**13,000**
Less: Dividends declared	**(2,700)**
Retained earnings, October 31, 2018	**$10,300**

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Req. 4

Davis Computing, Inc.
Balance Sheet
October 31, 2018

ASSETS		LIABILITIES	
Cash	$ 4,650	Accounts payable	$ 4,700
Accounts receivable	6,450	STOCKHOLDERS'	
Supplies	1,200	EQUITY	
Equipment	11,700	Common stock	9,000
		Retained earnings	10,300
		Total stockholders' equity	19,300
		Total liabilities and	
Total assets	$24,000	stockholders' equity	$24,000

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(30-40 min.) P 2-65B

Req. 1

Journal

	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
a.	Cash	3,500	
	Common Stock		3,500
b.	Cash	6,500	
	Service Revenue		6,500
c.	Accounts Payable	4,400	
	Cash		4,400
d.	Supplies	1,200	
	Accounts Payable		1,200
e.	Cash	1,700	
	Accounts Receivable…		1,700
f.	Accounts Receivable	4,700	
	Service Revenue		4,700
g.	Rent Expense	1,800	
	Advertising Expense	550	
	Cash		2,350
h.	Dividends	2,700	
	Cash		2,700

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Reqs. 2 and 3

Cash	
2,400	4,400
3,500	2,350
6,500	2,700
1,700	
4,650	

Accounts Receivable	
3,450	1,700
4,700	
6,450	

Supplies	
1,200	
1,200	

Equipment	
11,700	
11,700	

Accounts Payable	
4,400	7,900
	1,200
	4,700

Common Stock	
	5,500
	3,500
	9,000

Retained Earnings	
	4,150
	4,150

Dividends	
2,700	
2,700	

Service Revenue	
	6,500
	4,700
	11,200

Rent Expense	
1,800	
1,800	

Advertising Expense	
550	
550	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-64B.

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(50-60 min.) P 2-66B

Req. 1

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
Mar.	2	Cash	68,000	
		Common Stock		68,000
	3	Supplies	900	
		Equipment	12,000	
		Accounts Payable		12,900
	4	Cash	5,600	
		Service Revenue		5,600
	7	Land	32,000	
		Cash		32,000
	11	Accounts Receivable	4,700	
		Service Revenue		4,700
	16	Accounts Payable	12,000	
		Cash		12,000
	17	Advertising Expense	540	
		Cash		540
	18	Cash	2,600	
		Accounts Receivable		2,600
	22	Utilities Expense	370	
		Cash		370
	29	Cash	3,000	
		Service Revenue		3,000
	31	Salary Expense	2,500	
		Cash		2,500
	31	Dividends	2,200	
		Cash		2,200

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Req. 2

Cash

Mar.	2	68,000	Mar. 7		32,000
	4	5,600	16		12,000
	18	2,600	17		540
	29	3,000	22		370
			31		2,500
			31		2,200
Bal.		29,590			

Accounts Receivable

Mar.	11	4,700	Mar.	18	2,600
Bal.		2,100			

Supplies

Mar.	3	900			
Bal.		900			

Land

Mar.	7	32,000			
Bal.		32,000			

Equipment

Mar.	3	12,000			
Bal.		12,000			

Accounts Payable

Mar.	16	12,000	Mar.	3	12,900
			Bal.		900

Common Stock

			Mar.	2	68,000
			Bal.		68,000

Dividends

Mar.	31	2,200			
Bal.		2,200			

Service Revenue

			Mar.	4	5,600
				11	4,700
				29	3,000
			Bal.		13,300

Salary Expense

Mar.	31	2,500			
Bal.		2,500			

Advertising Expense

Mar.	17	540			
Bal.		540			

Utilities Expense

Mar.	22	370			
Bal.		370			

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Req. 3

Augusta Services, Inc.
Trial Balance
March 31, 20XX

ACCOUNT	DEBIT	CREDIT
Cash	$29,590	
Accounts receivable	2,100	
Supplies	900	
Land	32,000	
Equipment	12,000	
Accounts payable		$ 900
Common stock		68,000
Dividends	2,200	
Service revenue		13,300
Salary expense	2,500	
Advertising expense	540	
Utilities expense	370	
Total	$82,200	$82,200

Req. 4

Total resources (assets)	= $76,590	($29,590 + $2,100 + $900 + $32,000 + $12,000)
Amount owed (total liabilities)	= $900	
Profit (net income)	= $9,890	($13,300 − $2,500 − $540 – $370)

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(40-50 min.) P 2-67B

Req. 1

Cash			
(a)	46,000	(c)	47,000
(b)	60,000	(e)	5,700
(f)	3,710	(h)	300
(j)	1,200	(k)	1,900
Bal.	56,010		

Building	
(a)	106,000
Bal.	106,000

Note Payable		
	(b)	60,000
	Bal.	60,000

Common Stock		
	(a)	152,000
	Bal.	152,000

Service Revenue		
	(f)	3,710
	(g)	12,900
	Bal.	16,610

Advertising Expense	
(k)	800
Bal.	800

Accounts Receivable			
(g)	12,900	(j)	1,200
Bal.	11,700		

Supplies	
(d)	530
Bal.	530

Music Equipment	
(c)	47,000
Bal.	47,000

Accounts Payable			
(h)	300	(d)	530
		(i)	700
		Bal.	930

Salary Expense	
(e)	5,700
Bal.	5,700

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

Utilities Expense	
(i)	700
Bal.	700

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Req. 2

Shreve Music Corporation
Trial Balance
May 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 56,010	
Accounts receivable	11,700	
Supplies	530	
Building	106,000	
Music equipment	47,000	
Accounts payable		$ 930
Note payable		60,000
Common stock		152,000
Service revenue		16,610
Salary expense	5,700	
Rent expense	1,100	
Advertising expense	800	
Utilities expense	700	
Total	$229,540	$229,540

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Challenge Exercises and Problem

(20-40 min.) E 2-68

Req. 1

a. Total cash paid during December:

Cash				
Nov. 30 Bal.	14,500			
Dec. receipts	99,000	Dec. payments	X	= $106,250
Dec. 31 Bal.	7,250			

$14,500 + $99,000 − X = $ 7,250
X = $106,250

b. Cash collections from customers during December:

Accounts Receivable				
Nov 30 Bal.	29,000			
Dec. sales on account	49,000	Dec. collections	X	= $51,000
Dec. 31 Bal.	27,000			

$29,000 + $49,000 − X = $27,000
X = $51,000

c. Cash paid on notes payable during December:

	Notes Payable		
		Nov. 30 Bal.	15,500
X = $20,000	Dec. note payments X	Dec. new borrowing	28,000
		Dec. 31 Bal.	23,500

$15,500 + $28,000 − X = $23,500
X = $20,000

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Req. 1

Jubilee, Inc.
Trial Balance
October 31, 2018

Cash.....	$ 4,100	
Accounts receivable.....	7,300	
Land.....	31,700	
Accounts payable.....		$ 6,700
Note payable.....		5,400
Common stock.....		23,900
Retained earnings.....		1,200
Service revenue.....		9,800
Salary expense.....	2,500	
Advertising expense.....	1,200	
Totals.....	$46,800	$47,000

Out of balance by $200

The correct balance of Accounts Receivable is $7,500* ($7,300 + $200). After this correction, total debits will be $47,000 ($46,800 + $200), the same as total credits.

Req. 2

a. Total assets	=	$43,300	($4,100 + $7,500* + $31,700)
b. Total liabilities	=	$12,100	($6,700 + $5,400)
c. Net income	=	$ 6,100	($9,800 − $2,500 − $1,200)

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(10-15 min.) E 2-70

Req. 1

Marion Co.:

Income statement	November	December
Employee medical exp. .	$48,000	$ -0-

Balance sheet	Nov. 30	Dec. 31
Cash	$51,000	$18,000*
Accounts payable.....	48,000	15,000**

Ashland Hospital:

Income statement	November	December
Service revenue.....	$48,000	$ -0-

Balance sheet	Nov. 30	Dec. 31
Cash	$ -0-	$33,000
Accounts receivable.....	48,000	15,000**

Req. 2

Explanation:

Marion's $48,000 expense is Ashland's revenue of $48,000.
Marion's $33,000 cash payment is Ashland's cash receipt of $33,000.
Marion's $15,000 account payable is Ashland's account receivable of $15,000.
Marion's $48,000 account payable is Ashland's account receivable of $48,000.

***$51,000 − $33,000 = $18,000**
****$48,000 − $33,000 = $15,000**

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(20 min.) E 2-71

Req. 1

Date	Effect on Cash	Effect on Total Assets	Effect on Net Income
May 1	Understated $1,700	Overstated $1,700	Overstated $1,700
2	Understated $3,600	Understated $3,600	Understated $3,600
5	Correct	Understated $3,400	Understated $3,400
10	Correct	Correct	Correct
16	Correct	Correct	Overstated $5,500
25	Correct	Overstated $3,900	Correct

Req. 2

Correct cash balance, $11,600 ($6,300 + $1,700 + $3,600)

Req. 3

Correct total assets, $21,400 ($20,000 – $1,700 + $3,600 + $3,400 – $3,900)

Req. 4

Correct net income, $8,800 ($9,000 – $1,700 + $3,600 + $3,400 – $5,500)

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Cases

(20-30 min) C2-72

Req. 1

Feb. 1	**Cash**	**15,000**	
	Sales Revenue		**15,000**
2	**Inventory**	**11,000**	
	Accounts Payable		**11,000**
8	**Advertising Expense**	**2,000**	
	Cash		**2,000**
11	**Salary Expense**	**75,000**	
	Cash		**75,000**
12	**Cash**	**80,000**	
	Note Payable		**80,000**
15	**Utilities Expense**	**1,500**	
	Cash		**1,500**
19	**Accounts Payable**	**11,000**	
	Cash		**11,000**
20	**Cash**	**1,000**	
	Unearned Gift Card Revenue		**1,000**
27	**Rent Expense**	**3,500**	
	Cash		**3,500**

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Req. 2

Feb. 1 Assets increase $15,000
Equity increases $15,000

2 Assets increase $11,000
Liabilities increase $11,000

8 Equity decreases $2,000
Assets decrease $2,000

11 Equity decreases $75,000
Assets decrease $75,000

12 Assets increase $80,000
Liabilities increase $80,000

15 Equity decreases $1,500
Assets decrease $1,500

19 Liabilities decrease $11,000
Assets decrease $11,000

20 Assets increase $1,000
Liabilities increase $1,000

27 Equity decreases $3,500
Assets decrease $3,500

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Decision Cases

(40-50 min.) C2-73

Reqs. 1 and 2

Cash			
(a)	7,000	(c)	1,300
(b)	6,000	(d)	1,800
(h)	2,500	(f)	2,000
(i)	1,200	(f)	1,200
		(j)	1,000
Bal.	9,400		

Accounts Receivable			
(g)	8,000	(i)	1,200
Bal.	6,800		

Supplies			
(c)	1,300		

Furniture			
(e)	5,400		

Accounts Payable			
(j)	1,000	(e)	5,400
		Bal.	4,400

Notes Payable			
		(b)	6,000

Common Stock			
		(a)	7,000

Service Revenue			
		(g)	8,000
		(h)	2,500
		Bal.	10,500

Salary Expense			
(f)	2,000		

Advertising Expense			
(d)	1,800		

Rent Expense			
(f)	1,200		

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Req. 3

Blast Networks, Inc.
Trial Balance
Current Date

ACCOUNT	DEBIT	CREDIT
Cash	$ 9,400	
Accounts receivable	6,800	
Supplies	1,300	
Furniture	5,400	
Accounts payable		$ 4,400
Notes payable		6,000
Common stock		7,000
Service revenue		10,500
Salary expense	2,000	
Advertising expense	1,800	
Rent expense	1,200	
Total	$27,900	$27,900

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

Revenues:		
Service revenue		$10,500
Expenses:		
Salary expense	$2,000	
Advertising expense	1,800	
Rent expense	1,200	
Total expenses		5,000
Net income for month		$5,500

Recommendation: **Barton's criteria for remaining in operation was to earn net income of $5,000. His actual result was just over this goal. Yes, I would recommend that he stay in business.**

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(20-30 min.) C2-74

Romano Castle, Inc.
Income Statement
Month Ended December 31, 2018

Sales revenue	$42,000
Expenses:	
Cost of sales (expense)	22,000
Rent expense	6,000
Advertising expense	5,000
Total expenses	33,000
Net income	$ 9,000

Romano Castle, Inc.
Balance Sheet
December 31, 2018

ASSETS		LIABILITIES	
Cash	$ 12,000	Accounts payable	$ 8,000
Food inventory	5,000	STOCKHOLDERS' EQUITY	
Furniture	10,000	Common stock	10,000
		Retained earnings	9,000*
		Total stockholders' equity	19,000
		Total liabilities	
Total assets	$27,000	and stockholders' equity	$27,000

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

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

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1. **The ethical issue is whether these alternatives of financing the business are proper from an economic, legal, and ethical standpoint.**
2. **The stakeholders are Shabby Fitch, the bank, potential new and existing creditors, and the friend who may become a stockholder. Consequences to the creditors are the inability of the company to pay interest and the loan. Consequences to the investors are the inability of the company to pay dividends and the possibility of loss of investment if the company goes bankrupt.**
3.

Option 1:	**Cash**	**200,000**	
	Common Stock		**200,000**
Option 2:	**Land**	**200,000**	
	Common Stock		**200,000**
	Common Stock	**200,000**	
	Land		**200,000**

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

Option 2 represents "window dressing" (making the company look like an entity that it is not). Although it might be legal in the strictest sense of the word (and it might not), this option does not faithfully represent economic reality. Thus, it is not in accordance with GAAP, which is a substitute for the legal criterion. This option is also unethical because the receipt of the land by the business is not a real transaction. The transfer of the land back to

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Fitch means that the business never actually has the land for its use. It violates the rights of the bank and future creditors to give them information that is inaccurate and that does not faithfully represent economic reality.

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

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Part a.

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

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

4. Student opinions will vary on this part.

Part b.

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

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

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

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

Part c.

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

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Focus on Financials: Apple Inc.

(20-30 min.)

Reqs. 1 and 3

(All amounts in millions)

Cash			
	0		
b.	216,734	e.	129,355
g.	1,348	f.	24,239
		h.	15,685
		i.	3,335
		j.	4,539
	40,929		

Inventories			
	2,349	d.	131,376
c.	131,159		
	2,132		

Property, Plant and Equipment, net			
	22,471		
j.	4,539		
	27,010		

Cost of Sales			
d.	131,376		
	131,376		

Other Income/(Expense), net			
		g.	1,348
			1,348

Accounts Receivable, net			
	16,849	b.	216,734
a.	215,639		
	15,754		

Other Non-Current Assets			
	5,422		
i.	3,335		
	8,757		

Accounts Payable			
e.	129,355		35,490
		c.	131,159
			37,294

Net Sales			
		a.	215,639
			215,639

Operating Expenses			
f.	24,239		
	24,239		

Provision for Income Taxes			
h.	15,685		
	15,685		

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Req. 2

		(Millions)	
a.	Accounts Receivable, net	215,639	
	Net Sales (Revenue)		215,639
b.	Cash	216,734	
	Accounts Receivable, net		216,734
c.	Inventories	131,159	
	Accounts Payable		131,159
d.	Cost of Sales	131,376	
	Inventories		131,376
e.	Accounts Payable	129,355	
	Cash		129,355
f.	Operating Expenses	24,239	
	Cash		24,239
g.	Cash	1,348	
	Other Income/(Expense), net		1,348
h.	Provision for Income Taxes	15,685	
	Cash		15,685
i.	Other Non-Current Assets	3,335	
	Cash		3,335
j.	Property, Plant, and Equipment, net	4,539	
	Cash		4,539

Req. 4

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

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Req. 5

		(Millions)
Revenue:		
Net sales	$215,639	
Other Income/(Expense), net	1,348	
Total revenue		216,987
Expenses:		
Cost of sales	$131,376	
Operating expenses	24,239	
Provision for income taxes	15,685	
Total expenses		171,300
Net Income		$ 45,687

The net income of $45,687 million equals the net income reported on Apple's income statement.

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Focus on Analysis: Under Armour, Inc.

(20-30 min.)

Req. 1

During fiscal 2016, Under Armour, Inc. had more net revenues than cash collections. This is determined by analyzing net receivables, as follows:

Net receivables:

		(Thousands)
	Balance at the end of fiscal 2015	$ 433,638
+	Net revenues during fiscal 2016 (from consolidated statements of income)	4,825,335
−	Collections from customers during fiscal 2016	(X)
=	Balance at the end of fiscal 2016	$ 622,685

Solving for X, collections were $4,636,288 ($433,638 + $4,825,335 – $622,685). Another way to express this relationship is that when accounts receivable increase during the year, revenues must exceed cash collections. If accounts receivable decrease during the year, cash collections must exceed revenues.

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Req. 2

Net revenues increased overall, however the percentage change is less (21.75%) in 2016, compared to the 2015 percentage change (28.50%). Net income increased overall, however the percentage change is less in 2016 (10.49%) compared to the 2015 percentage change (11.79%).

Net revenues grew (increased) faster than net income for the period examined. More factors affect net income than net revenues, so it is more likely that net income would increase at a slower rate than net revenues. In the fiscal year 2016, the company's two largest expenses increased substantially, and dragged down net income. Cost of Goods Sold increased 25.61% and Selling/General/Administrative Expenses increased 21.79%.

	2016	2015	2014
Net revenues (thousands)	$4,825,335	$3,963,313	$3,084,370
$ change	862,022	878,943	
Percentage change	21.75%	28.50%	
	($862,022 ÷ $3,963,313)	($878,943 ÷ $3,084,370)	
Net income (thousands)	$256,979	$232,573	$208,042
$ change	24,406	24,531	
Percentage change	10.49%	11.79%	
	($24,406 ÷ $232,573)	($24,531 ÷ $208,042)	

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Group Projects

Student responses will vary.

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Ethics Check
(5-10 min.)

For each of the situations listed, identify which of three principles (integrity, objectivity and independence, or due care) from the AICPA Code of Professional Conduct is violated. Assume all persons listed in the situations are members of the AICPA.

Solution:

a.	Due care
b.	Due care
c.	Objectivity and independence
d.	Integrity

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S2-1
(5 min.)

Indicate whether each item would be considered to be a transaction at Gerbig Pet Grooming Corporation.

Solution:

a.	Yes
b.	Yes
c.	No (no dollars involved yet)
d.	Yes
e.	No (no dollars involved)
f.	Yes
g.	No (no dollars involved yet)
h.	Yes

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S2-2
(5 min.)

Identify whether each item is an asset, liability, or equity account.

Solution:

a.	L
b.	A
c.	L
d.	L
e.	E
f.	E
g.	A
h.	A
i.	E
j.	A

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S2-3
(5 min.)

Dan Crater opened a software consulting firm that immediately paid $28,000 for a computer system. Was Crater's computer system an expense of the business? If not, explain.

Solution:

Crater's payment was not an expense.

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

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S2-4
(5 min.)

For each of the following items, give an example of a transaction that has the described effect on Dazzle's accounting equation.

Solution:

a.	Purchase of asset for cash Sale of asset for cash Collection of an account receivable
b.	Issuance of stock Revenue transaction (ex: provided services on account or for cash)
c.	Purchase of asset on account Borrow money
d.	Declaration and payment of dividends to owners Expense transaction (ex: received and paid utility bill)
e.	Pay a liability Return an asset purchased on account

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S2-5
(5-10 min.)

Requirements

Complete the following chart to show the impact on the accounting equation from each transaction.

Solution:

	Assets		Liabilities		Stockholders' Equity	
Date	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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S2-6
(5 min.)

a. How much in total assets does Ford have?
b. How much in liabilities does Ford owe?

Solution:

a.	$10,500 ($8,000 + $2,500 + $7,200 - $7,200)
b.	$ 2,500

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S2-7
(5-10 min.)

1. Set up the following T-accounts of Fourth Investments, Inc.: Cash, Computer Equipment, Accounts Payable, and Common Stock.
2. Record the first two transactions of the business directly in the T- accounts without using a journal.
3. Show that total debits equal total credits.

Solution:

Reqs 1, 2

Cash	
200,000	

Computer Equipment	
56,000	

Accounts Payable	
	56,000

Common Stock	
	200,000

Req 3

Total debits = $256,000 ($200,000 + $56,000)

Total credits = $256,000 ($56,000 + $200,000)

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S2-8
(5-10 min.)

After these transactions, how much cash does the business have to work with? Use a T-account to show your answer.

Solution:

Cash		
Jul. 1	26,000	5,500
Jul. 6	8,500	
Bal.	29,000	

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S2-9
(10 min.)

Journalize the transactions of Donovan Freeman, Architect. Include an explanation with each journal entry.

Solution:

Journal			
DATE	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
July 15	Cash	64,000	
	Note Payable		64,000
	Borrowed money from the bank.		
22	Accounts Receivable	17,300	
	Service Revenue		17,300
	Performed service on account.		
28	Cash	16,000	
	Accounts Receivable		16,000
	Received cash on account.		
29	Utilities Expense	1,800	
	Cash		1,800
	Paid utility bill.		
31	Salary Expense	10,000	
	Cash		10,000
	Paid salary expense.		

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S2-10
(10-15 min.)

1. Journalize the two transactions on the books of Mary Gervais, Consultant. Include an explanation for each transaction.
2. Open a T-account for Accounts Payable and post to Accounts Payable. Compute the balance and denote it as Bal.
3. How much does the business owe after both transactions? In which account does this amount appear?

Solution:

Req. 1

Journal			
DATE	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
	Supplies	4,300	
	Accounts Payable		4,300
	Purchased supplies on account.		
	Accounts Payable	3,450	
	Cash		3,450
	Paid cash on account.		

Req. 2

Accounts Payable		
3,450		4,300
	Bal.	850

Req. 3

The business owes $850, as shown in the Accounts Payable account.

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S2-11
(10-15 min.)

1. Record the two transactions on the books of Orman Consulting. Include an explanation for each transaction.
2. Post to these T-accounts: Cash, Accounts Receivable, and Service Revenue. Compute each account balance and denote it as Bal.

Solution:

Req. 1

Journal			
DATE	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
	Accounts Receivable	4,600	
	Service Revenue		4,600
	Performed service on account.		
	Cash	2,100	
	Accounts Receivable		2,100
	Received cash on account.		

Req. 2

Cash		
	2,100	
Bal.	2,100	

Accounts Receivable		
	4,600	2,100
Bal.	2,500	

Service Revenue		
		4,600
	Bal.	4,600

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S2-12
(15 - 20 min.)

Journalize the following transactions. Include dates and a brief explanation for each journal entry.

Solution:

Journal			
DATE	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
July 1	Cash	13,000	
	Common Stock		13,000
	Issued stock to owner.		
5	Accounts Receivable	8,000	
	Service Revenue		8,000
	Provided (sold) services on account.		
9	Office Supplies	600	
	Accounts Payable		600
	Purchased supplies on account.		
10	Cash	3,100	
	Service Revenue		3,100
	Provided (sold) services for cash.		
12	Cash	8,000	
	Accounts Receivable		8,000
	Collected cash on account.		
24	Accounts Payable	600	
	Cash		600
	Paid on account.		
25	Utilities Expense	450	
	Cash		450
	Paid expenses.		
30	Office Furniture	2,500	
	Note Payable		2,500
	Purchased furniture with note payable.		
31	Salary Expense	3,100	
	Cash		3,100
	Paid payroll.		

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S2-13
(10 min.)

Prepare the trial balance of Harbor Marine Company at December 31, 2018. List the accounts in their proper order. How much was the company's net income or net loss?

Solution:

Harbor Marine Company **Trial Balance** **December 31, 2018**		
ACCOUNT	**DEBIT**	**CREDIT**
	Millions	
Cash	$ 4	
Other assets	20	
Accounts payable		$ 6
Other liabilities		2
Stockholders' equity		5
Revenues		37
Expenses	26	
Total	$ 50	$ 50

Harbor Marine Company's net income: $11 million ($37 − $26)

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S2-14
(10 min.)

Calculate these amounts for the business:
1. Total assets
2. Total liabilities
3. Net income or net loss during December

Solution:

1.	Total assets	= $101,500 ($4,500 + $28,000 + $5,000 + $45,000 + $19,000)
2.	Total liabilities	= $61,000 ($39,000 + $22,000)
3.	Net income (loss)	= $17,500 ($56,000 − $27,000 − $10,000 − $1,500)

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S2-15
(10 min.)

The purpose of this exercise is to help you learn how to correct three common accounting errors.

Solution:

Error 1.

Total debits = $99,500 ($140,000 + $4,500 − $45,000)
Total credits = $140,000
Difference = $40,500 ($140,000 − $99,500);
$40,500 / 9 = $4,500 (an integer), which suggests either a transposition or a slide.

Error 2.

Total debits = $194,000 ($140,000 + $82,000 − $28,000)
Total credits = $140,000
Difference = $54,000 ($194,000 − $140,000);
$54,000 / 9 = $6,000 (an integer), which suggests either a transposition or a slide.

Error 3.

Total debits = $112,000 ($140,000 − $28,000)
Total credits = $168,000 ($140,000 + $28,000)
Difference = $56,000 ($168,000 − $112,000)
$56,000 / 2 = $28,000 (original amount of accounts receivable).

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S2-16
(10 min.)

Match the accounting terms with the corresponding definition.
or meaning at the right.

Solution:

E	1. Posting
A	2. Expense
K	3. Debit
H	4. Trial Balance
F	5. Equity
G	6. Net income
B	7. Receivable
D	8. Chart of accounts
I	9. Payable
J	10. Journal
C	11. Normal balance
L	12. Ledger

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E2-17A
(15-20 min.)

Requirements

1. What criteria does an event have to meet to qualify as a financial transaction? Identify which of the listed events are financial transactions.
2. Journalize each of the transactions.
3. Indicate how the company's assets, liabilities, and equity would be impacted by each transaction.

Solution:

Req. 1

In order to qualify as a financial transaction, there must be an event that has a financial
impact on a business and can be measured reliably. Thus, the May events that do not meet these criteria include May 8 and May 18.

Req. 2

Journal			
DATE	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
May 1	Cash	100,000	
	Ticket Revenue		100,000
	Sold admission tickets.		
3	Inventory	5,000	
	Accounts Payable		5,000
	Purchased merchandise inventory on account.		
6	Cash	500	
	Rental Revenue		500
	Rented lockers to guests.		
15	Salary Expense	75,000	
	Cash		75,000
	Paid employees.		
20	Cash	200,000	
	Note Payable		200,000
	Borrowed money from bank.		

Req. 3

	Assets		Liabilities		Stk. Equity	
Date	Incr	Decr	Incr	Decr	Incr	Decr
May 1	X				X	
May 3	X		X			
May 6	X				X	
May 15		X				X
May 20	X		X			

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E2-18A
(10-15 min.)

Requirements

Set up the following T-accounts: Cash, Accounts Receivable, Office Supplies, Office Furniture, Accounts Payable, Common Stock, Dividends, Service Revenue, Salary Expense, and Rent Expense. Record the transactions directly in the T-accounts without using a journal. Determine the ending balance in each account.

Solution:

Cash			
(a)	25,500	(b)	1,500
		(d)	2,900
		(e)	250
		(g)	2,000
Bal.	18,850		

Accounts Receivable			
(f)	11,000		
Bal.	11,000		

Office Supplies			
(c)	700		
Bal.	700		

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

Accounts Payable			
(e)	250	(c)	700
		Bal.	450

Common Stock			
		(a)	34,900
		Bal.	34,900

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

Service Revenue			
		(f)	11,000
		Bal.	11,000

Salary Expense			
(d)	2,900		
Bal.	2,900		

Rent Expense			
(b)	1,500		
Bal.	1,500		

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E2-19A
(10-15 min.)

State whether each event (1) increased, (2) decreased, or (3) had no effect on the total assets of the business. Identify any specific asset affected.

Solution:

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

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E2-20A
(15-20 min.)

Requirements

1. Analyze the effects of these events on the accounting equation of the medical practice of Dr. Helen Samoa, P.C.
2. After completing the analysis, answer these questions about the business.
a. How much are total assets?
b. How much does the business expect to collect from patients?
c. How much does the business owe in total?
d. How much of the business's assets does Samoa really own?
e. How much net income or net loss did the business experience during its first month of operations?

Solution:

Req. 1

Analysis of Transactions										
	ASSETS =				LIABILITIES + STOCKHOLDERS' EQUITY					
Date	Cash	+ Accounts Receivable	+ Medical Supplies	+ Land	= Accounts payable	+ Note Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
Dec 6	150,000						150,000		Issued stock
9	(64,000)			64,000					
12			2,400		2,400				
15	Not a transaction of the business.								
15-31	4,900	4,900						9,800	Service revenue
15-31	(3,600)							(3,600)	Salary expense
	(900)							(900)	Rent expense
	(400)							(400)	Utilities expense
31	1,000		(1,000)						
31	34,000					34,000			
31	(1,300)				(1,300)				
Bal.	119,700	4,900	1,400	64,000	1,100	34,000	150,000	4,900	

Req. 2

a.	$ 190,000
b.	$ 4,900
c.	$35,100 ($1,100 + $34,000)
d.	$154,900 ($190,000 − $35,100, or $150,000 + $4,900)
e.	$4,900 (Revenue, $9,800 minus expenses, $4,900 equals net income, $4,900.)

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E2-21A
(10-15 min.)

Requirement

1. Record the transactions in the journal of Dr. Helen Samoa, P.C. List the transactions by date and give an explanation for each transaction.

Solution:

Journal			
DATE	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
Dec. 6	Cash	150,000	
	Common Stock		150,000
	Issued stock to owner.		
9	Land	64,000	
	Cash		64,000
	Purchased land.		
12	Medical Supplies	2,400	
	Accounts Payable		2,400
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash	4,900	
	Accounts Receivable	4,900	
	Service Revenue		9,800
	Performed service for cash and on account.		
15-31	Salary Expense	3,600	
	Rent Expense	900	
	Utilities Expense	400	
	Cash		4,900
	Paid expenses.		
31	Cash	1,000	
	Medical Supplies		1000
	Sold supplies.		
31	Cash	34,000	
	Note Payable		34,000
	Borrowed money.		
31	Accounts Payable	1,300	
	Cash		1,300
	Paid on account.		

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E2-22A
(20-30 min.)

Requirements

1. After journalizing the transactions of Exercise 2-20A, post the entries to the ledger, using T-accounts. Key transactions by date. Determine the ending balance in each account.
2. Prepare the trial balance of Dr. Helen Samoa, P.C., at December 31, 2018.
3. From the trial balance, determine total assets, total liabilities, and total stockholders' equity on December 31.

Solution:

Cash			
Dec. 6	150,000	Dec. 9	64,000
15-31	4,900	15-31	4,900
31	1,000	31	1,300
31	34,000		
Bal.	119,700		

Accounts Receivable			
Dec 15-31	4,900		
Bal.	4,900		

Medical Supplies			
Dec. 12	2,400	Dec. 31	1,000
Bal.	1,400		

Land			
Dec. 9	64,000		
Bal.	64,000		

Accounts Payable			
Dec. 31	1,300	Dec. 12	2,400
		Bal.	1,100

Note Payable			
		Dec. 31	34,000
		Bal.	34,000

Common Stock			
		Dec. 6	150,000
		Bal.	150,000

Service Revenue			
		Dec. 15-31	9,800
		Bal.	9,800

Salary Expense			
Dec. 15-31	3,600		
Bal.	3,600		

Rent Expense			
Dec. 15-31	900		
Bal.	900		

Utilities Expense			
Dec. 15-31	400		
Bal.	400		

Dr. Helen Samoa, P.C.
Trial Balance
December 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 119,700	
Accounts receivable	4,900	
Medical supplies	1,400	
Land	64,000	
Accounts payable		$ 1,100
Note payable		34,000
Common stock		150,000
Service revenue		9,800
Salary expense	3,600	
Rent expense	900	
Utilities expense	400	
Total	$ 194,900	$ 194,900

Req. 3

Total assets ($119,700 + $4,900 + $1,400 + $64,000)	$ 190,000
Total liabilities ($1,100 + $34,000)	(35,100)
Total stockholders' equity ($150,000 + $4,900*)	$ 154,900

*Net income = $4,900 ($9,800 – $3,600 – $900 – $400)

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E2-23A
(10-15 min.)

Requirements

Prepare the journal entries that served as the sources for the seven transactions. Include an explanation for each entry. Determine the ending balance in each account. As Frontier moves into the next period, how much cash does the business have? How much does Frontier owe in total liabilities?

Solution:

Req. 1

Journal			
	ACCOUNT TITLES AND EXPLANATION	**DEBIT**	**CREDIT**
1.	Cash	8,500	
	Common Stock		8,500
	Issued common stock.		
2.	Cash	9,000	
	Note Payable		9,000
	Borrowed money; signed note payable.		
3.	Supplies	800	
	Accounts Payable		800
	Purchased supplies on account.		
4.	Land	38,000	
	Cash		13,000
	Note Payable		25,000
	Purchased land by paying cash and signing a note payable.		
5.	Cash	45	
	Supplies		45
	Sold supplies for cash.		
6.	Accounts Payable	310	
	Cash		310
	Paid cash on account.		
7.	Equipment	3,900	
	Cash		3,900
	Paid cash for equipment.		

Cash balance = $335 ($8,500 + $9,000 − $13,000 + $45 − $310 − $3,900)
Company owes $34,490 ($9,000 + $800 + $25,000 − $310)

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E2-24A
(10-20 min.)

Requirements

1. Prepare the company's trial balance at April 30, 2018, listing accounts in proper sequence, as illustrated in the chapter. For example, Accounts Receivable comes before Equipment. List the expense with the largest balance first, the expense with the next largest balance second, and so on.
2. Prepare the financial statement for the month ended April 30, 2018, which will show the company the results of operations for the month.

Solution:

Req 1.

Deluxe Patio Service, Inc. Trial Balance April 30, 2018		
ACCOUNT	**DEBIT**	**CREDIT**
Cash	$19,300	
Accounts receivable	5,900	
Equipment	30,600	
Accounts payable		$4,600
Note payable		21,500
Common stock		16,700
Retained earnings		6,300
Dividends	3,300	
Service revenue		20,700
Salary expense	8,300	
Utilities expense	2,100	
Delivery expense	300	
Total	$ 69,800	$ 69,800

Req 2.

Deluxe Patio Service, Inc. Income Statement For the Month Ended April 30, 2018		
Service revenue		$ 20,700
Salary expense	$8,300	
Utilities expense	2,100	
Delivery expense	300	
Total expenses		10,700
Net income		$10,000

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E2-25A
(15-25 min.)

Requirement

1. Prepare the correct trial balance at September 30, 2018, complete with a heading. Journal entries are not required.

Solution:

Addison, Inc. Trial Balance September 30, 2018		
ACCOUNT	**DEBIT**	**CREDIT**
Cash	$ 14,800	
Accounts receivable	12,000	
Inventory	16,900	
Supplies	800	
Land	59,000	
Accounts payable		$ 13,600
Common stock		47,300
Sales revenue		49,700
Insurance expense	3,400	
Salary expense	2,000	
Rent expense	1,000	
Utilities expense	700	
Total	$ 110,600	$ 110,600

Computations:
Cash: $14,100 + $700 = $14,800
Accounts Receivable: $12,700 − $700 = $12,000
Accounts Payable: $12,300 + $1,000 − $100 + $400 = $13,600
Common Stock: $47,100 + $200 = $47,300
Insurance Expense: $0 + $3,400 = $3,400
Utilities Expense: $300 + $400 = $700

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E2-26A
(15-20 min.)

1. Solve for Cash.
2. Prepare the trial balance of Old Center at September 30, 2018. List the accounts in their proper order. How much was Old Center Company's net income or net loss?

Solution:

Req. 1

(amounts in millions)

Cash (X) + Other assets (23) = Accounts payable (8) + Other liabilities (2) + S/E (6) + Revenues (33) – Expenses (21)
Cash (X) = 5

Req. 2

Old Center Company
Trial Balance
September 30, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$5	
Other assets	23	
Accounts payable		$8
Other liabilities		2
Stockholders' Equity		6
Revenues		33
Expenses	21	
Total	$49	$49

Net income is $12 ($33 – $21)

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E2-27B
(15-20 min.)

Requirements

1. What criteria does an event have to meet to qualify as a financial transaction? Identify which of the listed events are financial transactions.
2. Journalize each of the transactions.
3. Indicate how the company's assets, liabilities, and equity would be impacted by each transaction.

Solution:

Req. 1

In order to qualify as a financial transaction, there must be an event that has a financial impact on a business and can be measured reliably. Thus, the May events that do not meet these criteria include May 8 and May 18.

Req. 2

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
May 1	Cash	150,000	
	Ticket Revenue		150,000
	Sold admission tickets.		
3	Inventory	9,000	
	Accounts Payable		9,000
	Purchased merchandise inventory on account.		
6	Cash	700	
	Rental Revenue		700
	Rented lockers to guests.		
15	Salary Expense	92,000	
	Cash		92,000
	Paid employees.		
20	Cash	400,000	
	Note Payable		400,000
	Borrowed money from bank.		

Req. 3

	Assets		Liabilities		Stk. Equity	
Date	Incr	Decr	Incr	Decr	Incr	Decr
May 1	X				X	
May 3	X		X			
May 6	X				X	
May 15		X				X
May 20	X		X			

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E2-28B
(10-15 min.)

Record the following transactions directly in the T-accounts without using a journal. Use the letters to identify the transactions. Determine the ending balance in each account.

Solution:

Cash			
(a)	23,500	(b)	1,100
		(d)	2,800
		(e)	200
		(g)	2,900
Bal.	16,500		

Accounts Receivable			
(f)	10,700		
Bal.	10,700		

Office Supplies			
(c)	800		
Bal.	800		

Office Furniture			
(a)	8,600		
Bal.	8,600		

Accounts Payable			
(e)	200	(c)	800
		Bal.	600

Common Stock			
		(a)	32,100
		Bal.	32,100

Dividends			
(g)	2,900		
Bal.	2,900		

Service Revenue			
		(f)	10,700
		Bal.	10,700

Salary Expense			
(b)	2,800		
Bal.	2,800		

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

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E2-29B
(10-15 min.)

State whether each event (1) increased, (2) decreased, or (3) had no effect on the total assets of the business. Identify any specific asset affected.

Solution:

a.	No effect on total assets. Increase in notes receivable offsets the decrease in land.
b.	No effect on total assets. Increase in equipment offsets the decrease in cash.
c.	No effect. (A personal transaction)
d.	Increased assets. (Land)
e.	Increased assets. (Cash)
f.	Increased assets. (Accounts receivable)
g.	Decreased assets. (Cash)
h.	Decreased assets. (Cash)
i.	Increased assets. (Cash)
j.	Increased assets (Supplies)

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E2-30B
(10-20 min.)

Requirements

1. Analyze the effects of these events on the accounting equation of the medical practice of Dr. Char Morin, P.C.
2. After completing the analysis, answer these questions about the business.
a. How much are total assets?
b. How much does the business expect to collect from patients?
c. How much does the business owe in total?
d. How much of the business's assets does Morin really own?
e. How much net income or net loss did the business experience during its first month of operations?

Solution:

Req. 1

Analysis of Transactions									
	ASSETS =				LIABILITIES + STOCKHOLDERS' EQUITY				
Date	Cash	+ Accounts Receivable	+ Medical Supplies	+ Land	= Accounts payable	+ Note Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
July 6	155,000						155,000		Issued stock
9	(62,000)			62,000					
12			1,500		1,500				
15	Not a transaction of the business.								
15-31	4,550	4,550						9,100	Service revenue
15-31	(3,300)							(3,300)	Salary expense
	(1,400)							(1,400)	Rent expense
	(400)							(400)	Utilities expense
31	500		(500)						
31	33,000					33,000			
31	(600)				(600)				
Bal.	125,350	4,550	1,000	62,000	900	33,000	155,000	4,000	

Req. 2

a.	$ 192,900
b.	$ 4,550
c.	$33,900 ($900 + $33,000)
d.	$159,000 ($192,900 − $33,900, or $155,000 + $4,000)
e.	$4,000 (Revenue, $9,100 minus expenses, $5,100, equals net income, $4,000)

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E2-31B
(10-15 min.)

Requirement

1. Record the transactions in the journal of Dr. Char Morin, P.C. List the transactions by date and give an explanation for each transaction.

Solution:

Journal			
DATE	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
July 6	Cash	155,000	
	Common Stock		155,000
	Issued stock to owner.		
9	Land	62,000	
	Cash		62,000
	Purchased land.		
12	Medical Supplies	1,500	
	Accounts Payable		1,500
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash	4,550	
	Accounts Receivable	4,550	
	Service Revenue		9,100
	Performed service for cash and on account.		
15-31	Salary Expense	3,300	
	Rent Expense	1,400	
	Utilities Expense	400	
	Cash		5,100
	Paid expenses.		
31	Cash	500	
	Medical Supplies		500
	Sold supplies.		
31	Cash	33,000	
	Note Payable		33,000
	Borrowed money.		
31	Accounts Payable	600	
	Cash		600
	Paid on account.		

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E2-32B
(20-30 min.)

Requirements

1. Post the entries to the ledger, using T-accounts. Key transactions by date. Determine the ending balance in each account.
2. Prepare the trial balance of Dr. Char Morin, P.C., at July 31, 2018.
3. From the trial balance, determine total assets, total liabilities, and total stockholders' equity on July 31.

Solution:

Cash			
July 6	155,000	July 9	62,000
15-31	4,550	15-31	5,100
31	500	31	600
31	33,000		
Bal.	125,350		

Accounts Receivable			
July 15-31	4,550		
Bal.	4,550		

Medical Supplies			
July 12	1,500	July 31	500
Bal.	1,000		

Land			
July 9	62,000		
Bal.	62,000		

Accounts Payable			
July 31	600	July 12	1,500
		Bal.	900

Note Payable			
		July 31	33,000
		Bal.	33,000

Common Stock			
		July 6	155,000
		Bal.	155,000

Service Revenue			
		July 15-31	9,100
		Bal.	9,100

Salary Expense			
July 15-31	3,300		
Bal.	3,300		

Rent Expense			
July 15-31	1,400		
Bal.	1,400		

Utilities Expense			
July 15-31	400		
Bal.	400		

Dr. Char Morin, P.C.
Trial Balance
July 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 125,350	
Accounts receivable	4,550	
Medical supplies	1,000	
Land	62,000	
Accounts payable		$ 900
Note payable		33,000
Common stock		155,000
Service revenue		9,100
Salary expense	3,300	
Rent expense	1,400	
Utilities expense	400	
Total	$ 198,000	$ 198,000

Req. 3

Total assets ($125,350 + $4,550 + $1,000 + $62,000)	$ 192,900
Total liabilities ($900 + $33,000)	(33,900)
Total stockholders' equity ($155,000 + $4,000*)	$ 159,000

*Net income = $4,000 ($9,100 − $3,300 − $1,400 − $400)

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E2-33B
(10-15 min.)

Requirements

1. Prepare the journal entries that served as the sources for the seven transactions. Include an explanation for each entry. Determine the ending balance in each account. As Gallagher moves into the next period, how much cash does the business have? How much does Gallagher owe in total liabilities?

Solution:

Req. 1

Journal			
	ACCOUNT TITLES AND EXPLANATION	**DEBIT**	**CREDIT**
1.	Cash	8,800	
	Common Stock		8,800
	Issued common stock.		
2.	Cash	8,500	
	Note Payable		8,500
	Borrowed money; signed note payable.		
3.	Supplies	900	
	Accounts Payable		900
	Purchased supplies on account.		
4.	Land	34,000	
	Cash		11,000
	Note Payable		23,000
	Purchased land by paying cash and signing a note payable.		
5.	Cash	90	
	Supplies		90
	Sold supplies for cash.		
6.	Accounts Payable	290	
	Cash		290
	Paid cash on account.		
7.	Equipment	4,000	
	Cash		4,000
	Paid cash for equipment.		

Cash balance = $2,100 ($8,800 + $8,500 − $11,000 + $90 − $290 − $4,000)
Company owes $32,110 ($8,500 + $900 + $23,000 − $290)

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E2-34B
(10-20 min.)

Requirements

1. Prepare the company's trial balance at April 30, 2018, listing accounts in proper sequence, as illustrated in the chapter. For example, Accounts Receivable comes before Equipment. List the expense with the largest balance first, the expense with the next largest balance second, and so on.
2. Prepare the financial statement for the month ended April 30, 2018, which will show the company the results of operations for the month.

Solution:

Req 1.

Specialty Deck Service, Inc. Trial Balance April 30, 2018		
ACCOUNT	**DEBIT**	**CREDIT**
Cash	$19,200	
Accounts receivable	5,300	
Equipment	30,800	
Accounts payable		$4,300
Note payable		21,000
Common stock		16,200
Retained earnings		7,800
Dividends	3,100	
Service revenue		20,500
Salary expense	8,400	
Utilities expense	2,300	
Delivery expense	700	
Total	$ 69,800	$ 69,800

Req 2.

Specialty Deck Service, Inc. Income Statement For the Month Ended April 30, 2018		
Service revenue		$ 20,500
Salary expense	$8,400	
Utilities expense	2,300	
Delivery expense	700	
Total expenses		11,400
Net income		$9,100

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E2-35B
(15-25 min.)

Requirement

1. Prepare the corrected trial balance at September 30, 2018, complete with a heading. Journal entries are not required.

Solution:

St. James, Inc. Trial Balance September 30, 2018		
ACCOUNT	**DEBIT**	**CREDIT**
Cash	$14,800	
Accounts receivable	12,900	
Inventory	17,500	
Supplies	300	
Land	55,600	
Accounts payable		$15,700
Common stock		48,300
Sales revenue		46,400
Insurance expense	5,400	
Salary expense	1,900	
Utilities expense	1,700	
Rent expense	300	
Total	$ 110,400	$ 110,400

Computations:
Cash: $14,400 + $400 = $14,800
Accounts Receivable: $13,300 − $400 = $12,900
Accounts Payable: $11,500 + $4,000 − $400 + $600 = $15,700
Common Stock: $47,900 + $400 = $48,300
Insurance Expense: $0 + $5,400 = $5,400
Utilities Expense: $1,100 + $600 = $1,700

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E2-36B
(15-20 min.)

1. Solve for Cash.
2. Prepare the trial balance of All Towne at September 30, 2018. List the accounts in their proper order. How much was All Towne Company's net income or net loss?

Solution:

Req. 1

(amounts in millions)

Cash (X) + Other assets (21) = Accounts payable (5) + Other liabilities (1) + S/E (4) + Revenues (33) – Expenses (16)
Cash (X) = 6

Req. 2

All Towne Company
Trial Balance
September 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$6	
Other assets	21	
Accounts payable		$5
Other liabilities		1
Stockholders' Equity		4
Revenues		33
Expenses	16	
Total	$43	$43

Net income is $17 ($33 – $16)

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Serial Exercise
(20-30 min.)

Requirements

1. Journalize the transactions for Olivia Matthews, Certified Public Accountant. Explanations are not required.
2. Post to the T-accounts. Key all items by date and determine the ending balance in each account. Denote an account balance on May 18, 2018, as Bal.
3. Prepare a trial balance at May 18, 2018. In the Serial Exercise of Chapter 3, we add transactions for the remainder of May and will require a trial balance at May 31.

Solution:

Req. 1

Journal			
Date	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
May 2	Cash	12,000	
	Common Stock		12,000
2	Rent Expense	500	
	Cash		500
3	Equipment	1,800	
	Cash		1,800
4	Furniture	6,000	
	Accounts Payable		6,000
5	Supplies	900	
	Accounts Payable		900
9	Cash	600	
	Service Revenue		600
12	Utilities Expense	750	
	Cash		750
18	Accounts Receivable	3,100	
	Service Revenue		3,100

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Req. 2

Cash					
May	2	12,000	May	2	500
	9	600		3	1,800
				12	750
Bal.		9,550			

Accounts Receivable		
May	18	3,100
Bal.		3,100

Supplies		
May	5	900
Bal.		900

Equipment		
May	3	1,800
Bal.		1,800

Furniture		
May	4	6,000
Bal.		6,000

Accounts Payable			
		May	4	6,000
			5	900
		Bal.		6,900

Common Stock			
		May	2	12,000
		Bal.		12,000

Service Revenue			
		May	9	600
			18	3,100
		Bal.		3,700

Rent Expense		
May	2	500
Bal.		500

Utilities Expense		
May	12	750
Bal.		750

Req. 3

Olivia Matthews, Certified Public Accountant, P.C.
Trial Balance
May 18, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 9,550	
Accounts receivable	3,100	
Supplies	900	
Equipment	1,800	
Furniture	6,000	
Accounts payable		$6,900
Common stock		12,000
Dividends	-	
Service revenue		3,700
Utilities expense	750	
Rent expense	500	
Salary expense	-	
Total	$ 22,600	$ 22,600

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Quiz

Q2-38	d
Q2-39	d
Q2-40	b
Q2-41	d
Q2-42	a
Q2-43	d
Q2-44	a
Q2-45	d
Q2-46	d

Q2-47	a	($55,000 + $30,000 + $25,000) = $110,000

Q2-48	b
Q2-49	d
Q2-50	d
Q2-51	b
Q2-52	c
Q2-53	d
Q2-54	c
Q2-55	b
Q2-56	a
Q2-57	c

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P2-58A
(15-30 min.)

Requirement

1. Write a short note to answer Veronica's questions. In your note, state the amounts of Baker's total assets, total liabilities, and net income or net loss for the year. Also show how you computed each amount.

Solution:

Dear Veronica,

This trial balance lists the accounts of the company, along with their balances at December 31, 2018. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Baker Specialties reports:
a. Total assets = $395,000 ($13,000 + $49,000 + $5,000 + $103,000 + $225,000)
b. Total liabilities = $144,400 ($50,400 + $94,000)
c. Net income = $31,000 ($160,000 − $55,000 − $3,000 − $64,000 − $7,000)

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P2-59A
(45-60 min.)

Requirements

1. Analyze the effects of the preceding transactions on the accounting equation of Grueser Computing, Inc.
2. Prepare the income statement of Grueser Computing, Inc., for the month ended October 31, 2018.
List expenses in decreasing order by amount.
3. Prepare the entity's statement of retained earnings for the month ended October 31, 2018.
4. Prepare the balance sheet of Grueser Computing, Inc., at October 31, 2018.

Solution:

Req. 1

Analysis of Transactions										
	ASSETS =				LIABILITIES + STOCKHOLDERS' EQUITY					
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts payable	+ Common Stock	+ Retained Earnings	+ Type of Stockholders' Equity Transaction		
Bal.	2,500	3,250		12,200	8,300	6,300	3,350			
a)	3,700					3,700		Issued stock		
b)	6,700						6,700	Service revenue		
c)	(4,700)				(4,700)					
d)			800		800					
e)	1,300	(1,300)								
f)		4,700					4,700	Service revenue		
g)	(1,900)						(1,900)	Rent expense		
	(500)						(500)	Advertising expense		
h)	(3,400)						(3,400)	Dividends		
Bal.	3,700	6,650	800	12,200	4,400	- 10,000	8,950			

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Req. 2

Grueser Computing, Inc. Income Statement Month Ended October 31, 2018		
Revenues:		
Service revenue ($6,700 + $4,700)		$ 11,400
Expenses:		
Rent expense	$ 1,900	
Advertising expense	500	
Total expenses		2,400
Net income		$ 9,000

Req. 3

Grueser Computing, Inc. Statement of Retained Earnings Month Ended October 31, 2018	
Retained earnings, October 1, 2018	$ 3,350
Add: Net income	9,000
Subtotal	12,350
Less: Dividends declared	(3,400)
Retained earnings, October 31, 2018	$ 8,950

Req. 4

Grueser Computing, Inc. Balance Sheet October 31, 2018			
ASSETS		**LIABILITIES**	
Cash	$ 3,700	Accounts payable	$ 4,400
Accounts receivable	6,650		
Supplies	800	**STOCKHOLDERS' EQUITY**	
Equipment	12,200	Common stock	10,000
		Retained earnings	8,950
		Total stockholders' equity	18,950
		Total liabilities and	
Total assets	$ 23,350	stockholders' equity	$ 23,350

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P2-60A
(30-40 min.)

Requirements

1. Journalize the transactions of Grueser Computing, Inc. Explanations are not required.
2. Prepare a T-Account for each account. Insert in each T-account its September 30 Balance as given (example: Cash $2,500). Then, post the October transactions to the T-accounts.
3. Compute the balance in each account.

Solution:

Req. 1

Journal			
	ACCOUNT	**DEBIT**	**CREDIT**
a.	Cash	3,700	
	Common Stock		3,700
b.	Cash	6,700	
	Service Revenue		6,700
c.	Accounts Payable	4,700	
	Cash		4,700
d.	Supplies	800	
	Accounts Payable		800
e.	Cash	1,300	
	Accounts Receivable		1,300
f.	Accounts Receivable	4,700	
	Service Revenue		4,700
g.	Rent Expense	1,900	
	Advertising Expense	500	
	Cash		2,400
h.	Dividends	3,400	
	Cash		3,400

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Reqs. 2 and 3

Cash	
2,500	4,700
3,700	2,400
6,700	3,400
1,300	
3,700	

Accounts Receivable	
3,250	1,300
4,700	
6,650	

Supplies	
800	
800	

Equipment	
12,200	
12,200	

Accounts Payable	
4,700	8,300
	800
	4,400

Common Stock	
	6,300
	3,700
	10,000

Retained Earnings	
	3,350
	3,350

Dividends	
3,400	
3,400	

Service Revenue	
	6,700
	4,700
	11,400

Rent Expense	
1,900	
1,900	

Advertising Expense	
500	
500	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-59A.

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P2-61A
(50-60 min.)

Requirements

1. Record each transaction in the journal. Be sure to record the date in each entry. Explanations are not required.
2. Post the transactions to the T-accounts, using transaction dates as posting references. Determine the ending balance in each account.
3. Prepare the trial balance of Cloutier Services, Inc., at August 31 of the current year.
4. Michael Cloutier, the manager, asks you how much in total resources the business has to work with, how much it owes, and whether August was profitable (and by how much).

Solution:

Req. 1

Journal				
DATE		**ACCOUNT TITLES**	**DEBIT**	**CREDIT**
Aug.	2	Cash	69,000	
		Common Stock		69,000
	3	Supplies	500	
		Equipment	11,800	
		Accounts Payable		12,300
	4	Cash	5,600	
		Service Revenue		5,600
	7	Land	33,000	
		Cash		33,000
	11	Accounts Receivable	3,300	
		Service Revenue		3,300
	16	Accounts Payable	11,800	
		Cash		11,800
	17	Advertising Expense	560	
		Cash		560
	18	Cash	1,200	
		Accounts Receivable		1,200
	22	Utilities Expense	390	
		Cash		390
	29	Cash	3,000	
		Service Revenue		3,000
	31	Salary Expense	2,500	
		Cash		2,500
	31	Dividends	2,000	
		Cash		2,000

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Req. 2

Cash			
Aug. 2	69,000	Aug. 7	33,000
4	5,600	16	11,800
18	1,200	17	560
29	3,000	22	390
		31	2,500
		31	2,000
Bal.	28,550		

Accounts Receivable			
Aug. 11	3,300	Aug. 18	1,200
Bal.	2,100		

Equipment			
Aug. 3	11,800		
Bal.	11,800		

Supplies			
Aug. 3	500		
Bal.	500		

Accounts Payable			
Aug. 16	11,800	Aug. 3	12,300
		Bal.	500

Land			
Aug. 7	33,000		
Bal.	33,000		

Dividends			
Aug. 31	2,000		
Bal.	2,000		

Common Stock			
		Aug. 2	69,000
		Bal.	69,000

Salary Expense			
Aug. 31	2,500		
Bal.	2,500		

Service Revenue			
		Aug. 4	5,600
		11	3,300
		29	3,000
		Bal.	11,900

Utilities Expense			
Aug. 22	390		
Bal.	390		

Advertising Expense			
Aug. 17	560		
Bal.	560		

Req. 3

Cloutier Service, Inc.
Trial Balance
August 31, 20XX

ACCOUNT	DEBIT	CREDIT
Cash	$ 28,550	
Accounts receivable	2,100	
Supplies	500	
Land	33,000	
Equipment	11,800	
Accounts payable		$ 500
Common stock		69,000
Dividends	2,000	
Service revenue		11,900
Salary expense	2,500	
Advertising expense	560	
Utilities expense	390	
Total	$ 81,400	$ 81,400

Req. 4

Total resources (assets) = $75,950 ($28,550 + $2,100 + $500 + $33,000 + $11,800)

Amount owed (total liabilities) = $500

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P2-62A
40-50 min.)

Requirements

1. Record each transaction directly in the T-accounts without using a journal. Use the letters to identify the transactions. Determine the ending balance in each account.
2. Prepare the trial balance of Samuels Music Services Corporation at January 31, 2018.

Solution:

Req. 1

Cash			
(a)	41,000	(c)	46,000
(b)	61,000	(e)	6,300
(f)	3,700	(h)	200
(j)	1,500	(k)	1,800
Bal.	52,900		

Accounts Receivable			
(g)	12,800	(j)	1,500
Bal.	11,300		

Supplies			
(d)	340		
Bal.	340		

Music Equipment			
(c)	46,000		
Bal.	46,000		

Building			
(a)	110,000		
Bal.	110,000		

Accounts Payable			
(h)	200	(d)	340
		(i)	800
		Bal.	940

Note Payable			
		(b)	61,000
		Bal.	61,000

Common Stock			
		(a)	151,000
		Bal.	151,000

Service Revenue			
		(f)	3,700
		(g)	12,800
		Bal.	16,500

Salary Expense			
(e)	6,300		
Bal.	6,300		

Advertising Expense			
(k)	800		
Bal.	800		

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

Utilities Expense			
(i)	800		
Bal.	800		

Req. 2

Samuels Music Services Corporation
Trial Balance
January 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 52,900	
Accounts receivable	11,300	
Supplies	340	
Building	110,000	
Music equipment	46,000	
Accounts payable		$ 940
Note payable		61,000
Common stock		151,000
Service revenue		16,500
Salary expense	6,300	
Rent expense	1,000	
Utilities expense	800	
Advertising expense	800	
Total	$ 229,440	$ 229,440

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P2-63B
(15-30 min.)

Requirement

1. Write a short note to answer Clara's questions. In your note, state the amounts of Colby Design's total assets, total liabilities, and net income or net loss for the year. Also show how you computed each amount.

Solution:

Dear Clara,

This trial balance lists the accounts of the company, along with their balances at December 31, 2018. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Colby Design reports:
a. Total assets = $413,500 ($13,000 + $55,000 + $6,500 + $104,000 + $235,000)
b. Total liabilities = $144,300 ($50,300 + $94,000)
c. Net income = $76,000 ($200,000 − $28,000 − $6,000 − $85,000 − $5,000)

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P2-64B
(45-60 min.)

Requirements

1. Analyze the effects of the preceding transactions on the accounting equation of Davis Computing, Inc.
2. Prepare the income statement of Davis Computing, Inc., for the month ended October 31, 2018. List expenses in decreasing order by amount.
3. Prepare the statement of retained earnings of Davis Computing, Inc., for the month ended October 31, 2018.
4. Prepare the balance sheet of Davis Computing, Inc., at October 31, 2018.

Solution:

Req. 1

Analysis of Transactions									
	ASSETS =				LIABILITIES +	STOCKHOLDERS' EQUITY			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts payable	+ Common Stock	+ Retained Earnings	+ Type of Stockholders' Equity Transaction	
Bal.	2,400	3,450		11,700	7,900	5,500	4,150		
a)	3,500					3,500		Issued stock	
b)	6,500						6,500	Service revenue	
c)	(4,400)				(4,400)				
d)			1,200		1,200				
e)	1,700	(1,700)							
f)		4,700					4,700	Service revenue	
g)	(1,800)						(1,800)	Rent expense	
	(550)						(550)	Advertising expense	
h)	(2,700)						(2,700)	Dividends	
Bal.	4,650	6,450	1,200	11,700	4,700	9,000	10,300		

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Req. 2

Davis Computing, Inc. Income Statement Month Ended October 31, 2018		
Revenues:		
Service revenue ($6,500 + $4,700)		$ 11,200
Expenses:		
Rent expense	$ 1,800	
Advertising expense	550	
Total expenses		2,350
Net income		$ 8,850

Req. 3

Davis Computing, Inc. Statement of Retained Earnings For the Month Ended October 31, 2018	
Retained earnings, October 1, 2018	$ 4,150
Add: Net income	8,850
Subtotal	13,000
Less: Dividends declared	(2,700)
Retained earnings, October 31, 2018	$ 10,300

Req. 4

Davis Computing, Inc. Balance Sheet October 31, 2018			
ASSETS		**LIABILITIES**	
Cash	$ 4,650	Accounts payable	$ 4,700
Accounts receivable	6,450		
Supplies	1,200	**STOCKHOLDERS' EQUITY**	
Equipment	11,700	Common stock	9,000
		Retained earnings	10,300
		Total stockholders' equity	19,300
		Total liabilities and	
Total assets	$ 24,000	stockholders' equity	$ 24,000

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P2-65B
(30-40 min.)

Requirements

1. Journalize the transactions of Davis Computing, Inc. Explanations are not required.
2. Prepare a T-account for each account. Insert in each T-account its September 30 balance as given (example: Cash $2,400). Then, post the October transactions to the T-accounts.
3. Compute the balance in each account.

Solution:

Req. 1

Journal			
	ACCOUNT	**DEBIT**	**CREDIT**
a.	Cash	3,500	
	Common Stock		3,500
b.	Cash	6,500	
	Service Revenue		6,500
c.	Accounts Payable	4,400	
	Cash		4,400
d.	Supplies	1,200	
	Accounts Payable		1,200
e.	Cash	1,700	
	Accounts Receivable		1,700
f.	Accounts Receivable	4,700	
	Service Revenue		4,700
g.	Rent Expense	1,800	
	Advertising Expense	550	
	Cash		2,350
h.	Dividends	2,700	
	Cash		2,700

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Reqs. 2 and 3

Cash	
2,400	4,400
3,500	2,350
6,500	2,700
1,700	
4,650	

Accounts Receivable	
3,450	1,700
4,700	
6,450	

Supplies	
1,200	
1,200	

Equipment	
11,700	
11,700	

Accounts Payable	
4,400	7,900
	1,200
	4,700

Common Stock	
	5,500
	3,500
	9,000

Retained Earnings	
	4,150
	4,150

Dividends	
2,700	
2,700	

Service Revenue	
	6,500
	4,700
	11,200

Rent Expense	
1,800	
1,800	

Advertising Expense	
550	
550	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-64B.

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P2-66B
(50-60 min.)

Requirements

1. Record each transaction in the journal. Be sure to record the date in each entry. Explanations are not required.
2. Post the transactions to the T-accounts, using transaction dates as posting references. Determine the ending balance in each account.
3. Prepare the trial balance of Augusta Services, Inc., at March 31 of the current year.
4. Lauren Augusta, the manager, asks you how much in total resources the business has to work with, how much it owes, and whether March was profitable (and by how much).

Solution:

Req. 1

Journal				
DATE		**ACCOUNT TITLES**	**DEBIT**	**CREDIT**
Mar.	2	Cash	68,000	
		Common Stock		68,000
	3	Supplies	900	
		Equipment	12,000	
		Accounts Payable		12,900
	4	Cash	5,600	
		Service Revenue		5,600
	7	Land	32,000	
		Cash		32,000
	11	Accounts Receivable	4,700	
		Service Revenue		4,700
	16	Accounts Payable	12,000	
		Cash		12,000
	17	Advertising Expense	540	
		Cash		540
	18	Cash	2,600	
		Accounts Receivable		2,600
	22	Utilities Expense	370	
		Cash		370
	29	Cash	3,000	
		Service Revenue		3,000
	31	Salary Expense	2,500	
		Cash		2,500
	31	Dividends	2,200	
		Cash		2,200

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Req. 2

Cash			
Mar. 2	68,000	Mar. 7	32,000
4	5,600	16	12,000
18	2,600	17	540
29	3,000	22	370
		31	2,500
		31	2,200
Bal.	29,590		

Accounts Receivable			
Mar. 11	4,700	Mar. 18	2,600
Bal.	2,100		

Equipment			
Mar. 3	12,000		
Bal.	12,000		

Supplies			
Mar. 3	900		
Bal.	900		

Accounts Payable			
Mar. 16	12,000	Mar. 3	12,900
		Bal.	900

Land			
Mar. 7	32,000		
Bal.	32,000		

Dividends			
Mar. 31	2,000		
Bal.	2,000		

Common Stock			
		Mar. 2	68,000
		Bal.	68,000

Salary Expense			
Mar. 31	2,500		
Bal.	2,500		

Service Revenue			
		Mar. 4	5,600
		11	4,700
		29	3,000
		Bal.	13,300

Utilities Expense			
Mar. 22	370		
Bal.	370		

Advertising Expense			
Mar. 17	540		
Bal.	540		

Req. 3

Augusta Services, Inc.
Trial Balance
March 31, 20XX

ACCOUNT	DEBIT	CREDIT
Cash	$ 29,590	
Accounts receivable	2,100	
Supplies	900	
Land	32,000	
Equipment	12,000	
Accounts payable		$900
Common stock		68,000
Dividends	2,200	
Service revenue		13,300
Salary expense	2,500	
Advertising expense	540	
Utilities expense	370	
Total	$ 82,200	$ 82,200

Req. 4

Total resources (assets) = $76,590 ($29,590 + $2,100 + $900 + $32,000 + $12,000)

Amount owed (total liabilities) = $900

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P2-67B
(40-50 min.)

Requirements

1. Record each transaction directly in the T-accounts without using a journal. Use the letters to identify the transactions. Determine the ending balance in each account.
2. Prepare the trial balance of Shreve Music Corporation at May 31, 2018.

Solution:

Req. 1

Cash			
(a)	46,000	(c)	47,000
(b)	60,000	(e)	5,700
(f)	3,710	(h)	300
(j)	1,200	(k)	1,900
Bal.	56,010		

Accounts Receivable			
(g)	12,900	(j)	1,200
Bal.	11,700		

Supplies			
(d)	530		
Bal.	530		

Music Equipment			
(c)	47,000		
Bal.	47,000		

Building			
(a)	106,000		
Bal.	106,000		

Note Payable			
		(b)	60,000
		Bal.	60,000

Accounts Payable			
(h)	300	(d)	530
		(i)	700
		Bal.	930

Common Stock			
		(a)	152,000
		Bal.	152,000

Salary Expense			
(e)	5,700		
Bal.	5,700		

Service Revenue			
		(f)	3,710
		(g)	12,900
		Bal.	16,610

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

Advertising Expense			
(k)	800		
Bal.	800		

Utilities Expense			
(i)	700		
Bal.	700		

Req. 2

Shreve Music Corporation
Trial Balance
May 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$56,010	
Accounts receivable	11,700	
Supplies	530	
Building	106,000	
Music equipment	47,000	
Accounts payable		$930
Note payable		60,000
Common stock		152,000
Service revenue		16,610
Salary expense	5,700	
Rent expense	1,100	
Advertising expense	800	
Utilities expense	700	
Total	$229,540	$229,540

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E2-68
(20-40 min.)

Requirement

1. Prepare a T-account to compute each amount, a through c.

Solution:

a. Total cash paid during December:

Cash			
Nov. 30 Bal.	14,500		
Dec. receipts	99,000	Dec. payments X=	106,250
Dec. 31 Bal.	7,250		

$14,500 + $99,000 − X = $ 7,250
X = $106,250

b. Cash collections from customers during December:

Accounts Receivable			
Nov 30 Bal.	29,000		
Dec. sales on account	49,000	Dec. collections X=	51,000
Dec. 31 Bal.	27,000		

$29,000 + $49,000 − X = $27,000
X = $51,000

c. Cash paid on notes payable during December:

Notes Payable			
X=		Nov. 30 Bal.	15,500
Dec. note payments	20,000	Dec. new borrowing	28,000
		Dec. 31 Bal.	23,500

$15,500 + $28,000 − X = $23,500
X = $20,000

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E2-69
(20-30 min.)

Requirements

1. Prepare a trial balance for the ledger accounts of Jubilee, Inc., as of October 31, 2018.
2. Determine the out-of-balance amount. The error lies in the Accounts Receivable account. Add the out-of-balance amount to, or subtract it from, Accounts Receivable to determine the correct balance of Accounts Receivable. After correcting Accounts Receivable, advise the top management of Jubilee, Inc., on the company's
a. total assets.
b. total liabilities.
c. net income or net loss for October.

Solution:

Req. 1

Jubilee, Inc. Trial Balance October 31, 2018		
Cash……..	4,100	
Accounts receivable……..	7,300	
Land……..	31,700	
Accounts payable……..		$ 6,700
Note payable……		5,400
Common stock……		23,900
Retained earnings……..		1,200
Service revenue……..		9,800
Salary expense……	2,500	
Advertising expense…….	1,200	
Totals……	$ 46,800	$ 47,000

Out of balance by $200

The correct balance of Accounts Receivable is $7,500* ($7,300 + $200). After this correction, total debits will be $47,000 ($46,800 + $200), the same as total credits.

Req. 2

a.	Total assets	=	$43,300 ($4,100 + $7,500* + $31,700)
b.	Total liabilities	=	$12,100 ($6,700 + $5,400)
c.	Net income	=	$ 6,100 ($9,800 − $2,500 − $1,200)

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E2-70
(10-15 min.)

Requirements

1. For this situation, show everything that both Marion and Ashland will report on their November and December income statements and on their balance sheets at November 30 and December 31.
2. After showing what each company should report, briefly explain how the Marion and Ashland data relate to each other.

Solution:

Req. 1

Marion Co.: Income statement	**November**	**December**	
Employee medical exp.	$ 48,000	$ -0-	
Balance sheet	Nov. 30	Dec. 31	
Cash	$ 51,000	$ 18,000	*
Accounts payable	48,000	15,000	**
Ashland Hospital: Income statement	**November**	**December**	
Service revenue	$ 48,000	$ -0-	
Balance sheet	Nov. 30	Dec. 31	
Cash	$ -0-	$ 33,000	
Accounts receivable	48,000	15,000	**

Req. 2

Explanation:
Marion's $48,000 expense is Ashland's revenue of $48,000.
Marion's $33,000 cash payment is Ashland's cash receipt of $33,000.
Marion's $15,000 account payable is Ashland's account receivable of $15,000.
Marion's $48,000 account payable is Ashland's account receivable of $48,000.

*$51,000 − $33,000 = $18,000
**$48,000 − $33,000 = $15,000

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P2-71
(20 min.)

Requirements

1. For each of the preceding entries, indicate the effect of the error on cash, total assets, and net income. The answer for the first transaction has been provided as an example.

Date	Effect on Cash	Effect on Total Assets	Effect on Net Income
May 1	Understated $1,700	Overstated $1,700	Overstated $1,700

2. What is the correct balance of cash if the balance of cash on the books before correcting the preceding transactions was $6,300?
3. What is the correct amount of total assets if the total assets on the books before correcting the preceding transactions was $20,000?
4. What is the correct net income for May if the reported income before correcting the preceding transactions was $9,000?

Solution:

Req. 1

Date		Effect on Cash	Effect on Total Assets	Effect on Net Income
May	1	Understated $1,700	Overstated $1,700	Overstated $1,700
	2	Understated $3,600	Understated $3,600	Understated $3,600
	5	Correct	Understated $3,400	Understated $3,400
	10	Correct	Correct	Correct
	16	Correct	Correct	Overstated $5,600
	25	Correct	Overstated $3,900	Correct

Req. 2

Correct cash balance, $11,600 ($6,300 + $1,700 + $3,600)

Req. 3

Correct total assets, $21,400 ($20,000 + $1,700 - $3,600 + $3,400 - $3,900)

Req. 4

Correct net income, $8,800 ($9,000 - $1,700 + $3,600 - $3,400 + $5,500)

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Serial Case
(20-30 min.)

Requirements

1. What would be the journal entry for each of the listed transactions?
2. For each listed transaction, how would Cheesecake Factory's assets, liabilities, and equity be impacted?

Solution:

Req. 1

Journal			
Date	**ACCOUNT TITLES AND EXPLANATION**	**DEBIT**	**CREDIT**
Feb 1	Cash	15,000	
	Sales Revenue		15,000
2	Inventory	11,000	
	Accounts Payable		11,000
8	Advertising Expense	2,000	
	Cash		2,000
11	Salary Expense	75,000	
	Cash		75,000
12	Cash	80,000	
	Note Payable		80,000
15	Utilities Expense	1,500	
	Cash		1,500
19	Accounts Payable	11,000	
	Cash		11,000
20	Cash	1,000	
	Unearned Gift Card Revenue		1,000
27	Rent Expense	3,500	
	Cash		3,500

Req. 2

Date	**Effect**
Feb. 1	Assets increase $15,000 Equity increases $15,000
2	Assets increase $11,000 Liabilities increase $11,000
8	Equity decreases $2,000 Assets decrease $2,000
11	Equity decreases $75,000 Assets decrease $75,000
12	Assets increase $80,000 Liabilities increase $80,000
15	Equity decreases $1,500 Assets decrease $1,500
19	Liabilities decrease $11,000 Assets decrease $11,000
20	Assets increase $1,000 Liabilities increase $1,000
27	Equity decreases $3,500 Assets decrease $3,500

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Decision Case 1
(40-50 min.)

Requirements

1. Set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Accounts Payable, Notes Payable, Common Stock, Service Revenue, Salary Expense, Advertising Expense, and Rent Expense.
2. Record the transactions directly in the accounts without using a journal. Key each transaction by letter. Determine the ending balance in each account.
3. Construct a trial balance for Blast Networks, Inc., at the current date. List expenses with the largest amount first, the next largest amount second, and so on.
4. Compute the amount of net income or net loss for this first month of operations. Why or why not would you recommend that Barlow continue in business?

Solution:

Reqs. 1 and 2

Cash			
(a)	7,000	(c)	1,300
(b)	6,000	(d)	1,800
(h)	2,500	(f)	2,000
(i)	1,200	(f)	1,200
		(j)	1,000
Bal.	9,400		

Accounts Receivable			
(g)	8,000	(i)	1,200
Bal.	6,800		

Supplies			
(c)	1,300		

Furniture			
(e)	5,400		
Bal.			

Notes Payable			
		(b)	6,000

Accounts Payable			
(j)	1,000	(e)	5,400
		Bal.	4,400

Service Revenue			
		(g)	8,000
		(h)	2,500
		Bal.	10,500

Common Stock			
		(a)	7,000

Salary Expense			
(f)	2,000		

Advertising Expense			
(d)	1,800		

Rent Expense			
(f)	1,200		

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Req. 3

Blast Networks, Inc. Trial Balance Current Date		
ACCOUNT	**DEBIT**	**CREDIT**
Cash	$ 9,400	
Accounts receivable	6,800	
Supplies	1,300	
Furniture	5,400	
Accounts payable		$ 4,400
Notes payable		6,000
Common stock		7,000
Service revenue		10,500
Salary expense	2,000	
Advertising expense	1,800	
Rent expense	1,200	
Total	$ 27,900	$ 27,900

Req. 4

(net income or loss for first month of operations)

Revenues:		
Service revenue		$ 10,500
Expenses:		
Salary expense	$ 2,000	
Advertising expense	1,800	
Rent expense	1,200	
Total expenses		5,000
Net income for month		$ 5,500

Recommendation: Barton's criteria for remaining in operation was to earn net income of $5,000. His actual result was just over this goal. Yes, I would recommend that he stay in business.

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Decision Case 2
(20-30 min.)

Requirement

1. Joe Ferritto has asked whether he should expand the restaurant. His banker says Ferritto may be wise to expand if (a) net income for the first month reached $10,000 and (b) total assets are at least $35,000. It appears that the business has reached these milestones, but Ferritto doubts whether his financial statements tell the true story. He needs your help in making this decision. Prepare a corrected income statement and balance sheet. (Remember that Retained Earnings, which was omitted from the balance sheet, should equal net income for the first month; there were no dividends.) After preparing the statements, give Joe Ferritto your recommendation as to whether he should expand the restaurant.

Solution:

Romano Castle, Inc. Income Statement Month Ended December 31, 2018	
Sales revenue	$ 42,000
Cost of sales (expense)	22,000
Rent expense	6,000
Advertising expense	5,000
Total expenses	33,000
Net income	$ 9,000

Romano Castle, Inc. Balance Sheet December 31, 2018			
ASSETS		**LIABILITIES**	
Cash	$ 12,000	Accounts payable	$ 8,000
Food inventory	5,000	**STOCKHOLDERS' EQUITY**	
Furniture	10,000	Common stock	10,000
		Retained earnings	9,000
		Total stockholders' equity	19,000
Total assets	$ 27,000	Total liabilities and stockholders' equity	$ 27,000

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

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Ethical Issues 1

Requirements

Use the ethical decision model in Chapter 1 to answer the following questions:

1. What is the ethical issue?
2. Who are the stakeholders? What are the possible consequences to each?
3. Analyze the alternatives from the following standpoints: (a) economic, (b) legal, and (c) ethical.
4. What would you do? How would you justify your decision? How would your decision make you feel afterward?

Solution:

1.	The ethical issue is whether these alternatives of financing the business are proper from an economic, legal, and ethical standpoint.

2.	The stakeholders are Shabby Fitch, the bank, potential new creditors, and the friend who may become a stockholder. Consequences to the creditors are the inability of the company to pay interest and the loan. Consequences to the investors are the inability of the company to pay dividends and the possibility of loss of investment if the company goes bankrupt.

3.	Option 1:	Cash	200,000	
		Common Stock		200,000
	Option 2:	Land	200,000	
		Common Stock		200,000
		Common Stock	200,000	
		Land		200,000

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

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

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

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Ethical Issue 2

Part A.
Requirements

1. What is the ethical issue?
2. Who are the stakeholders? What are the possible consequences to each?
3. Analyze the alternatives from the following standpoints: (a) economic, (b) legal, and (c) ethical.
4. What would you do? How would you justify your decision? How would it make you feel afterward?

Solution:

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

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

4.	Student opinions will vary on this part.

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Part B.
Requirements

1. What is the ethical issue?
2. Who are the stakeholders and what are the consequences to each?
3. Analyze the alternatives from the following standpoints: (a) economic, (b) legal, and (c) ethical.
4. What would you do? How would you justify your decision? How would it make you feel?

Solution:

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

2,3.	Like part a, the stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead to an upward adjustment. This could have positive economic consequences (i.e., perhaps keeping a scholarship). Like part a, the ethical consequence of this action is generally positive on all concerned, as it leads to clarification of the true grade.

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

Part C.

How is this situation like a financial accounting misstatement? How is it different?

Solution:

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

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Apple, Inc.
(20-30 min.)

1. Set up T-accounts for beginning balances of Cash ($0* balance); Accounts Receivable, net (debit balance of $16,849 million); Inventories (debit balance of $2,349 million); Property, Plant, and Equipment, net (debit balance of $22,471 million); Other Non-Current Assets (debit balance of $ 5,422 million); Accounts Payable (credit balance of $35,490 million); Net Sales ($0 balance); Cost of Sales ($0 balance); Operating Expenses ($0 balance); Other Income/(Expense), net ($0 balance); Provision for Income Taxes ($0 balance).
2. Journalize Apple's transactions a-j. Explanations are not required.
3. Post to the T-accounts, and compute the balance for each account. Key postings by transaction letters a–j.
4. For each of the following accounts, compare your computed balance to Apple's actual balance as shown on its 2016 Consolidated Statement of Operations or Consolidated Balance Sheet in Appendix A at the end of the book. . Your amounts should agree with the actual figures.
a. Accounts Receivable, net
b. Inventories
c. Property, Plant, and Equipment, net (assume no other activity in these assets than given in the problem)
d. Other Non-Current Assets
e. Accounts Payable
f. Net Sales
g. Cost of Sales
h. Operating Expenses
i. Other Income/(Expense), net
i. Provision for Income Taxes
5. Use the relevant accounts from requirement 4 to prepare a summary, single-step income statement for Apple for 2016. Compare the net income (loss) you computed to Apple's actual net income (loss). The two amounts should be equal.

Solution:

Reqs. 1 and 3

Cash			
	0	e.	129,355
b.	216,734	f.	24,239
g.	1,348	h.	15,685
		i.	3,335
		j.	4,539
	40,929		

Accounts Receivable, net			
	16,849	b.	216,734
a.	215,639		
	15,754		

Inventories			
	2,349	d.	131,376
c.	131,159		
	2,132		

Other Non-Current Assets			
	5,422		
i.	3,335		
	8,757		

Property and Equipment, net			
	22,471		
j.	4,539		
	27,010		

Accounts Payable			
e.	129,355		35,490
		c.	131,159
			37,294

Cost of Sales			
d.	131,376		
	131,376		

Net Sales			
		a.	215,639
			215,639

Other Income (Expense), net			
		g.	1,348
			1,348

Operating Expenses			
f.	24,239		
	24,239		

Provision for Income Taxes			
h.	13,973		
	13,973		

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Req. 2

		(Millions)	
a.	Accounts Receivable, net and other	215,639	
	Net Sales (Revenue)		215,639
b.	Cash	216,374	
	Accounts Receivable, net		216,374
c.	Inventories	131,159	
	Accounts Payable.		131,159
d.	Cost of Sales	131,376	
	Inventories		131,376
e.	Accounts Payable	129,355	
	Cash		129,355
f.	Operating Expenses	24,239	
	Cash		24,239
g.	Cash	1,348	
	Other Income (Expense), net		1,348
h.	Provision for Income Taxes	15,685	
	Cash		15,685
i.	Other Non-Current Assets	3,335	
	Cash		3,335
j.	Property, Plant, and Equipment, net	4,539	
	Cash		4,539

Req. 4

All the selected account balances agree with Apple, Inc.'s actual figures on the income statement or the balance sheet.

Req. 5

Revenue:	(Millions)	
Net sales	$ 215,639	
Other Income (Expense), net	1,348	
Total revenue		$ 216,987
Expenses:		
Cost of sales	$ 131,376	
Operating expenses	24,239	
Provision for income taxes	15,685	
Total expenses		171,300
Net Income		$ 45,687

The net income of $45,687 million equals the net income reported on Apple's income statement.

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Under Armour, Inc.
(20-30 min.)

1. Which was larger for Under Armour, Inc. during 2016: (1) net revenues, or (2) cash collected from customers? Why? Show computation. Assume all revenues are on credit.
2. Investors are vitally interested in a company's sales and profits and its trends of sales and profits over time. Consider Under Armour's net revenues and net income (net loss) during the period from 2014 through 2016. Compute the percentage increase or decrease in net sales and also in net income (net loss) from 2014 to 2016. Which item grew faster during this two-year period—net sales or net income (net loss)? Can you offer a possible explanation for these changes?

Solution:

Req. 1

During fiscal 2016, Under Armour, Inc. had more net revenues than cash collections. This is determined by analyzing net receivables, as follows:

	Net receivables:	(Thousands)
	Balance at the end of fiscal 2015	$ 433,638
+	Sales during fiscal 2016 (from consolidated statements of income)	4,825,335
-	Collections from customers during fiscal 2016	(X)
=	Balance at the end of fiscal 2016	$ 622,685

Solving for X, collections were $4,636,288 ($433,638 + $4,825,335 – $622,685). Another way to express this relationship is that when accounts receivable increase during the year, revenues must exceed cash collections. If accounts receivable decrease during the year, cash collections must exceed revenues.

Req. 2

Net revenues increased overall, however the percentage change is less (21.75%) in 2016, compared to the 2015 percentage change (28.50%). Net income increased overall, however the percentage change is less in 2016. (10.49%) compared to the 2015 percentage change (11.79%).
Net revenues grew (increased) faster than net income for the period examined. More factors affect net income than net revenues, so it is more likely that net income would increase at a slower rate than net revenues. In the fiscal year 2016, the company's two largest expenses increased substantially, and dragged down net income. Cost of Goods Sold increased 25.61% and Selling/General/Administrative Expenses increased 21.79%.

	2016	2015	2014
Net revenues (thousands)	$ 4,825,335	$ 3,963,313	$ 3,084,370
$ change	862,022	878,943	
Percentage change	21.75% ($862,022 ÷ $3,963,313)	28.50% ($878,943 ÷ $3,084,370)	
Net income (thousands)	$ 256,979	$ 232,573	$ 208,042
$ change	24,406	24,531	
Percentage change	10.49% ($24,406 ÷ $232,573)	11.79% ($24,531 ÷ $208,042)	

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Group project 1

Requirements

1. Make a detailed list of 10 factors you must consider as you establish the business.
2. Describe 10 of the items your business must arrange to promote and stage the concert.
3. Identify the transactions that your business can undertake to organize, promote, and stage the concert. Journalize the transactions, and post to the relevant T-accounts. Set up the accounts you need for your business ledger.
4. Prepare the income statement, statement of retained earnings, and balance sheet immediately after the rock concert—that is, before you have had time to pay all the business bills and to collect all receivables.
5. Assume that you will continue to promote rock concerts if the venture is successful. If it is unsuccessful, you will terminate the business within three months after the concert. Discuss how to evaluate the success of your venture and how to decide whether to continue in business.

Solution:

Student responses will vary.

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Group project 2

Requirements

1. Obtain a copy of the business's chart of accounts.
2. Prepare the company's financial statements for the most recent month, quarter, or year. You may use either made-up account balances or balances supplied by the owner.

Solution:

Student responses will vary.

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Chapter 2: Transaction Analysis

Learning Objectives

1. **Recognize** a business transaction and the various types of accounts in which it can be recorded
2. **Analyze** the impact of business transactions on the accounting equation
3. **Analyze** the impact of business transactions on accounts
4. **Journalize** transactions and post journal entries to the ledger
5. **Construct** a trial balance

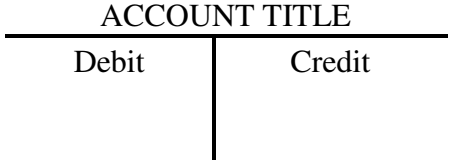
Chapter Outline

I. A Business Transaction
   - A. Any event that has a financial impact on the business and can be measured reliably
   - B. Something is given
   - C. Something is received in return

II. Account
   - A. Record of all the changes in a particular asset, liability, or stockholders' equity during a period
   - B. Categories
     1. Assets (Examples: Cash, Accounts Receivable, Notes Receivable, Inventory, Prepaid Expenses, Film and Television Costs, Investments, Parks, Resorts, and Other Property)
     2. Liabilities (Examples: Accounts Payable, Notes Payable, Accrued Liabilities)
     3. Stockholders' (Owners') Equity (Examples: Common Stock, Retained Earnings, Dividends, Revenues, Expenses)

III. Transaction Examples
   - A. Impact on the accounting equation (the equation always stays in balance)
   - B. Impact on the financial statements

IV. Impact of Business Transactions on Accounts
   - A. Double-entry accounting system
   - B. T-account:



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1. Debit – "left or left-hand side"
2. Credit – "right or right-hand side"

C. Rules of debit and credit
1. Debit – Increases in assets, expenses, and dividends; decreases in liabilities, stockholders' equity, and revenues
2. Credit – Increases in liabilities, stockholders' equity, and revenues; decreases in assets, expenses, and dividends

D. Balance = amount remaining in an account

E. Revenues (Examples: Sales Revenue, Legal Fees Earned, Service Revenue)

F. Expenses (Examples: Cost of Goods Sold, Salaries Expense, Utilities Expense)

V. Journalize Transactions and Post Journal Entries to the Ledger

A. Journal – A chronological record of transactions

B. Journalizing example:

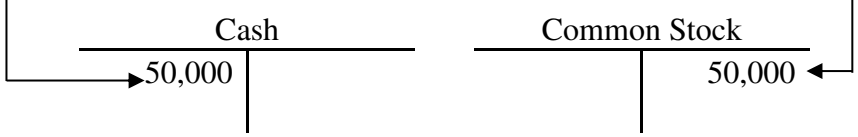
Account and Explanation	Debit	Credit
Cash	50,000	
Common Stock		50,000
Issued common stock		

C. Ledger – Grouping of all the T-accounts, with their balances

D. Posting – Data must be copied from the journal to the ledger

E. Posting example:

Account and Explanation	Debit	Credit
Cash	50,000	
Common Stock		50,000
Issued common stock		



F. Flow of accounting data

VI. Construct and Use a Trial Balance

A. Analyzing accounts

B. Correcting accounting errors

C. Chart of accounts

D. Normal account balances:

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Account Type	Normal Balance	Increase	Decrease
Asset	Debit	Debit	Credit
Liability	Credit	Credit	Debit
Stockholders' Equity	Credit	Credit	Debit
Revenue	Credit	Credit	Debit
Expense	Debit	Debit	Credit
Common Stock	Credit	Credit	Debit
Retained Earnings	Credit	Credit	Debit
Dividends	Debit	Debit	Credit

E. Account formats
F. How to analyze transactions from T-accounts

Chapter Activities

1. Chapter Opener

Chapter 2 spotlight continues with the Walt Disney Company discussion from Chapter 1 and discusses the sources of some of the millions of transactions that Disney records each year, resulting in billions of dollars of revenues. Throughout the chapter, references are made to the accounts and transactions that Disney reports in their financial statements. Again, have the students review the Walt Disney website at https://thewaltdisneycompany.com, and study the financial statements, focusing on the consolidated statements of income (found in the annual report), and discuss what items might make up the company's revenues. Additionally, discuss the items that could be included in the expense figures for Disney. This could lead to a discussion about how a company determines its net income or net loss. Lead students in a discussion of how revenues and expenses differ from assets and liabilities.

2. Transactions Activity

Use the game Monopoly as an example of a business that would engage in transactions for a particular period. Examples of transactions that a player of the game might encounter include:

1) Receive $1,500 in cash to be used as capital investment
2) Bank pays you a dividend of $50
3) Purchase Park Place for $35
4) Pay poor tax of $15
5) Purchase house for property on Park Place for $200
6) Pay rent on Baltic Avenue of $4

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7) Receive for services $25
8) From sale of common stock, you get $45
9) Pay school tax of $150
10) Collect rent on Park Place of $175
11) Pay rent on Pennsylvania Railroad of $25
12) Pay Water Works $60
13) Mortgage Park Place for $175

Place the students into groups and use the chart of accounts below. Have the students put each of the transactions in journal entry form.

Cash
Dividend Revenue
Common Stock
House
Investment Revenue
Land
Mortgage Payable
Rent Expense
Rent Revenue
Tax Expense
Service Revenue
Utilities Expense

Difficult Topics

- Rules of debit and credit

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Chapter 2: Assignment Grid

					(Will have an X if available)	
Assignment	**Topic(s)**	**L.O.**	**Estimated Time (minutes)**	**Level of Difficulty**	**Excel Projects**	**General Ledger Templates**
S2-1	Identify transactions	1	5	Easy		
S2-2	Differentiate between different types of accounts	1	5	Easy		
S2-3	Differentiate between different types of accounts	1	5	Easy		
S2-4	Show the impact of transactions on the accounting equation	2	5-10	Easy		
S2-5	Show the impact of transactions on the accounting equation	2	5	Medium		
S2-6	Analyze the impact of business transactions on accounts	3	5	Easy		
S2-7	Analyze the impact of business transactions on accounts	3	5-10	Easy		
S2-8	Analyze the impact of business transactions on accounts	3	5-10	Easy		
S2-9	Journalize transactions	4	10	Medium		
S2-10	Journalize and post transactions	4	10-15	Easy		
S2-11	Journalize and post transactions	4	10-15	Easy		
S2-12	Journalize transactions	4	15-20	Medium		
S2-13	Construct a trial balance	5	10	Medium	**X**	
S2-14	Use a trial balance	5	10	Easy		
S2-15	Use a trial balance	5	10	Medium		
S2-16	Define accounting terms	1,2,3, 4,5	10	Easy		
E2-17A	Identify transactions, analyze impact on accounting equation, journalize transactions	1,2,4	15-20	Medium		

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Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Projects	General Ledger Templates
E2-18A	Analyze the impact of business transactions on accounts	3	10-15	Easy		
E2-19A	Analyze the impact of business transactions on accounts	3	10-15	Medium		
E2-20A	Show the impact of business transactions on the accounting equation	2	15-20	Medium	**X**	
E2-21A	Journalize transactions in the books	4	10-15	Medium		**X**
E2-22A	Post journal entries and prepare a trial balance	4,5	20-30	Medium		**X**
E2-23A	Journalize entries and calculate ending balances	4	10-15	Medium		
E2-24A	Construct and use a trial balance	5	10-20	Medium		
E2-25A	Correct errors and prepare a trial balance	5	15-25	Medium		
E2-26A	Solve for cash and construct a trial balance	5	15-20	Medium		
E2-27B	Identify transactions, analyze impact on accounting equation, journalize transactions	1,2,4	15-20	Medium		
E2-28B	Analyze the impact of business transactions on accounts	3	10-15	Easy		
E2-29B	Analyze the impact of business transactions on accounts	3	10-15	Medium		
E2-30B	Show the impact of business transactions on the accounting equation	2	15-20	Medium		
E2-31B	Journalize transactions in the books	4	10-15	Medium		

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Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Projects	General Ledger Templates
E2-32B	Post journal entries and prepare a trial balance	4,5	20-30	Medium		
E2-33B	Journalize entries and calculate ending balances	4	10-15	Medium		
E2-34B	Construct and use a trial balance	5	10-20	Medium		
E2-35B	Correct errors and prepare a trial balance	5	15-25	Medium		
E2-36B	Solve for cash and construct a trial balance	5	15-20	Medium		
E2-37	Journalize and post transactions; construct and use a trial balance	4,5	20-30	Medium	**X**	
Q2-38 to Q2-57	Quiz questions	All	30-50	Medium		
P2-58A	Construct and use a trial balance	5	15-30	Medium		
P2-59A	Analyze the impact of business transactions on the accounting equation and accounts	2,3	45-60	Medium		
P2-60A	Journalize transactions and calculate account balances	4	30-40	Medium		
P2-61A	Journalize and post transactions; prepare a trial balance	4,5	50-60	Medium	**X**	
P2-62A	Analyze the impact of business transactions on accounts; construct a trial balance	3,5	40-50	Medium		
P2-63B	Construct and use a trial balance	5	15-30	Medium		
P2-64B	Analyze the impact of business transactions on the accounting equation and accounts	2,3	45-60	Medium		

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Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Projects	General Ledger Templates
P2-65B	Journalize transactions and calculate account balances	4	30-40	Medium		
P2-66B	Journalize and post transactions; prepare a trial balance	4,5	50-60	Medium		
P2-67B	Analyze the impact of business transactions on accounts and construct a trial balance	3,5	40-50	Medium		
E2-68	Analyzing accounts	5	20-40	Difficult		
E2-69	Analyze the impact of business transactions on accounts; construct and use a trial balance	3,5	20-30	Medium		
E2-70	Analyze the impact of business transactions on account	3	10-15	Medium		
P2-71	Analyze the impact of business transactions; analyze the impact of errors and compute correct amounts; journalize and post transactions in the books	2,3,4	20-30	Difficult		
C2-72 The Cheesecake Factory	Journalize transactions; analyze their impact on the accounting equation	2,4	20-30	Medium		
C2-73 Decision Case 1	Analyze the impact of transactions on business accounts; construct a trial balance; measure net income or loss; decide whether to continue a business	3,5	40-50	Medium		

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Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Projects	General Ledger Templates
C2-74 Decision Case 2	Analyze the impact of transactions on accounts; correct erroneous financial statements; decide whether to expand a business	3	20-30	Medium		
C2-75 Ethical Issue 1	Shabby's Bar & Grill	All	20-30	Medium		
C2-76 Ethical Issue 2	Academic honesty	All	20	Medium		
Focus on Financials– Apple Inc.	Record transactions; compute net income	4,5	20-30	Medium		
Focus on Analysis– Under Armour, Inc.	Analyze financial statements	5	20-30	Medium		
Group Project 1	Concert	All	45-60	Difficult		
Group Project 2	Local business	All	45-60	Difficult		

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Answer Key to Chapter 2 Quiz (Quiz on following pages)

1. A
2. C
3. C
4. B
5. D
6. D
7. A
8. B
9. A
10. C

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Name_____ Date_____
Section_____

CHAPTER 2
10-MINUTE QUIZ

Circle the letter of the best response.

1. Which of the following accounts is increased with a debit?
   A. Accounts Receivable
   B. Accounts Payable
   C. Rent Revenue
   D. Common Stock

2. The journal is:
   A. A listing of all open accounts and their balances.
   B. A listing of all accounts used to record the business transactions.
   C. A chronological record of transactions.
   D. Not necessary to record transactions.

3. The ledger is:
   A. Always expected to have a debit balance.
   B. An event that has an economic impact on the business.
   C. A grouping of all T-accounts, with their balances.
   D. A chronological record of the business's transactions.

4. Which of the following accounts is decreased with a credit?
   A. Accounts Payable
   B. Equipment
   C. Notes Payable
   D. Service Revenue

5. The Richardson Company did work for a customer on account for $3,600. The entry to record this transaction is:

A. Revenue	3,600	
Accounts Receivable		3,600
B. Cash	3,600	
Accounts Payable		3,600
C. Revenue	3,600	
Cash		3,600
D. Accounts Receivable	3,600	
Revenue		3,600

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6. In analyzing a transaction using the accounting equation, which account is included in the Asset section?
   A. Accounts Payable
   B. Revenue
   C. Paid-in Capital
   D. Cash

7. Cash at the beginning of March was $9,670. During the month, cash receipts totaled $80,990. Ending cash at March 31 was $3,340. Cash disbursements during March must have been:
   A. $87,320
   B. $74,660
   C. $67,980
   D. Cannot be determined from the information given.

8. A trial balance:
   A. Requires that every transaction affect at least two accounts.
   B. Lists all accounts with their balances.
   C. Mandates that the dollar sum of the debits equal that of the credits for each transaction.
   D. None of the above

9. When a company buys merchandise, but does not pay for it immediately, it should:
   A. Credit Accounts Payable.
   B. Make no entry.
   C. Credit Accounts Receivable.
   D. Debit Accounts Receivable.

10. A revenue:
   A. Has the same normal balance as cash.
   B. Is the decrease in liabilities as a result of providing goods or services.
   C. Is the increase in stockholders' equity as a result of providing goods or services.
   D. Is the decrease in stockholders' equity as a result of providing goods or services.

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Chapter 2: Locating an annual report/Form 10-K

Initial posting

In this discussion, you will use information you find in a company's Form 10-K, which is the annual report that publicly-held companies file with the Securities & Exchange Commission (SEC.)

The first thing you need to do is find a recent 10-K (issued within the past twelve months) for a publicly-held company in which you are interested.

To find a Form 10-K, you will use the SEC Edgar database. Search online for "SEC Edgar." If you know what company you are interested in, you might also be able to go to that company's Investor Relations website and locate its Form 10-K there. You can also view a short video about how to locate a Form 10-K on the SEC EDGAR site at http://youtu.be/MPgvGua9-RM.

In your first posting for this discussion, describe the company you selected for the Form 10-K. Give the company's full official name. Give the URL for the direct download of the company's 10-K that you are referencing. You will want to talk about what this company does and the products it sells. What is the company's year end (date)? Also tell why you selected this company. Why does this company interest you? Is this somewhere you might be interested in working at some day? Are you passionate about the company's products?

Your posting should be 100 – 300 words. Do not copy phrases from the Form 10-K; write your post in your own words. You can include information from the financial statements or Note 1 as well. Include one item in your paragraph that you found particularly interesting or surprising. You also need to post (in that same initial posting) a question about something in the 10-K (the parts described above only) that puzzles you; some question you have from reading the parts described.

Follow-up posting

For your follow-up posting(s) for the week (the one(s) due by Saturday), you will reply to someone's question(s). Use your textbook as your reference. Have reasons (facts) behind your answer (please note: Wikipedia is not an appropriate source, nor are many websites you find.) Do try to answer the question and provide rationale for your answer (again, your textbook is the best source in most cases).

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