Corporate Financial Accounting 17th edition Warren Solutions Manual

SKU: 9780357929629-SOLUTIONS

CHAPTER 2
ANALYZING TRANSACTIONS

DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, stockholders' equity, revenue, or expense. A ledger is a group of related accounts.

2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset, expense, and dividends accounts but a decrease in liability, common stock, retained earnings, and revenue accounts.

3. **a.** Assuming no errors have occurred, the credit balance in the cash account resulted from writing checks for $1,850 in excess of the amount of cash on deposit.

b. The $1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.

4. **a.** The revenue was earned in October.

b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.

(2) Debit Cash and credit Accounts Receivable in November.

5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.

6. The listing of $9,800 is a transposition; the listing of $100 is a slide.

7. **a.** No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.

b. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by $90.

8. **a.** The equality of the trial balance would not be affected.

b. On the income statement, total operating expenses (salary expense) would be overstated by $7,500, and net income would be understated by $7,500. On the statement of stockholders' equity, the beginning and ending retained earnings would be correct. However, net income and dividends would be understated by $7,500. These understatements offset one another, and thus, ending retained earnings is correct. The balance sheet is not affected by the error.

9. **a.** The equality of the trial balance would not be affected.

b. On the income statement, revenues (fees earned) would be overstated by $300,000, and net income would be overstated by $300,000. On the statement of stockholders' equity, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by $300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by $300,000, and stockholders' equity (retained earnings) is overstated by $300,000. The understatement of liabilities is offset by the overstatement of stockholders' equity (retained earnings), and thus, total liabilities and stockholders' equity is correct.

10. **a.** From the viewpoint of Surety Storage, the balance of the checking account represents an asset.

b. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

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BASIC EXERCISES

BE 2–1

1. **Debit and credit entries, normal debit balance**
2. **Credit entries only, normal credit balance**
3. **Debit entries only, normal debit balance**
4. **Debit and credit entries, normal credit balance**
5. **Debit entries only, normal debit balance**
6. **Credit entries only, normal credit balance**

BE 2–2

Jan.	9	Supplies	2,500	
		Cash		1,000
		Accounts Payable		1,500

BE 2–3

Mar.	31	Cash	15,500	
		Fees Earned		15,500

BE 2–4

July	1	Dividends	18,000	
		Cash		18,000

BE 2–5

Using the following T account, solve for the amount of supplies expense (indicated by ? below).

Supplies

Oct. 1 Bal.	3,675	?	Supplies expense
Supplies purchased	1,180		
Oct. 31 Bal.	2,950		

$2,950 = $3,675 + $1,180 – Supplies expense
Supplies expense = $3,675 + $1,180 – $2,950 = $1,905

BE 2–6

a. **The totals are unequal. The credit total is higher by $900 ($3,200 – $2,300).**
b. **The totals are unequal. The credit total is higher by $4,050 ($4,500 – $450).**
c. **The totals are equal because both the debit and credit entries were journalized and posted for $7,850.**

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BE 2–7

a.

Journal Entry That Was Made in Error			Journal Entry That Should Have Been Made		
Accounts Payable	5,000		Cash	5,000	
Fees Earned		5,000	Fees Earned		5,000

Comparison

Cash instead of Accounts Payable should have been debited. The debit and credit amount of $5,000 is correct.

Correcting Journal Entry

Cash	5,000	
Accounts Payable		5,000

b.

Journal Entry That Was Made in Error			Journal Entry That Should Have Been Made		
Miscellaneous Expense	8,000		Office Equipment	8,000	
Cash		8,000	Accounts Payable		8,000

Comparison

Office Equipment instead of Miscellaneous Expense should have been debited. Accounts Payable instead of Cash should have been credited. The debit and credit amount of $8,000 is correct.

Correcting Journal Entries

Cash	8,000	
Miscellaneous Expense		8,000
Office Equipment	8,000	
Accounts Payable		8,000

Note: **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

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BE 2–8

Paragon Company Income Statements For the Years Ended December 31				
			Increase/(Decrease)	
	20Y7	20Y6	Amount	Percent
Fees earned	$ 1,416,000	$1,200,000	$216,000	18.0%
Expenses	(1,044,000)	(900,000)	144,000	16.0%
Net income	$ 372,000	$ 300,000	$ 72,000	24.0%

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EXERCISES

Ex. 2–1

Balance Sheet Accounts	Income Statement Accounts
Assets	**Revenues**
Advanced Payments for Equipment[a]	Cargo Revenue
Cash	Passenger Revenue
Flight Equipment	
Fuel Inventory	**Expenses**
Parts and Supplies Inventories	Aircraft Fuel (Expense)
Prepaid Expenses	Aircraft Maintenance (Expense)
	Aircraft Rent (Expense)
Liabilities	Contract Carrier Arrangements (Expense)[d]
Accounts Payable	Landing Fees (Expense)[e]
Air Traffic Liability[b]	Passenger Commissions (Expense)[f]
Frequent Flyer (Obligations)[c]	
Taxes Payable	

Stockholders' Equity

None

[a] Advance payments (deposits) on aircraft to be delivered in the future
[b] Passenger ticket sales for future flights
[c] Obligations to provide frequent flyers future travel and other benefits
[d] Payments to other airlines for passenger travel under Delta tickets
[e] Fees paid to airports for landing rights
[f] Commissions paid to travel agents for passenger bookings

Ex. 2–2

Account	Account Number
Accounts Payable	21
Accounts Receivable	12
Cash	11
Common Stock	31
Dividends	33
Fees Earned	41
Land	13
Miscellaneous Expense	53
Retained Earnings	32
Supplies Expense	52
Wages Expense	51

Note: **Expense accounts are normally listed in order of magnitude from largest to smallest with Miscellaneous Expense always listed last. Since Wages Expense is normally larger than Supplies Expense, Wages Expense is listed as account number 51 and Supplies Expense as account number 52.**

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Ex. 2–3

Balance Sheet Accounts	Income Statement Accounts
1. Assets	**4. Revenue**
11 Cash	41 Fees Earned
12 Accounts Receivable	
13 Supplies	**5. Expenses**
14 Prepaid Insurance	51 Wages Expense
15 Equipment	52 Rent Expense
	53 Supplies Expense
2. Liabilities	59 Miscellaneous Expense
21 Accounts Payable	
22 Unearned Rent	
3. Stockholders' Equity	
31 Common Stock	
32 Retained Earnings	
33 Dividends	

Note: **The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14, accounts 21–22, and accounts 51–53. In a new business, the order of magnitude of balances in such accounts is not determinable in advance. The magnitude may also vary from period to period.**

Ex. 2–4

a.	Credit	g.	Debit
b.	Debit	h.	Credit
c.	Credit	i.	Debit
d.	Credit	j.	Credit
e.	Credit	k.	Debit
f.	Credit	l.	Debit

Ex. 2–5

1. debit and credit entries (c)
2. debit and credit entries (c)
3. debit and credit entries (c)
4. credit entries only (b)
5. credit entries only (b)
6. debit entries only (a)
7. debit entries only (a)

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Ex. 2–6

a. Liability—credit
b. Asset—debit
c. Asset—debit
d. Stockholders' equity (Common Stock)—credit
e. Stockholders' equity (Dividends)—debit
f. Revenue—credit
g. Asset—debit
h. Expense—debit
i. Stockholders' equity (Retained Earnings)—credit
j. Liability—credit

Ex. 2–7

20Y2				
Aug.	1	Rent Expense	6,500	
		Cash		6,500
	4	Advertising Expense	11,250	
		Cash		11,250
	5	Supplies	1,800	
		Cash		1,800
	6	Office Equipment	16,800	
		Accounts Payable		16,800
	12	Cash	30,300	
		Accounts Receivable		30,300
	20	Accounts Payable	7,500	
		Cash		7,500
	27	Miscellaneous Expense	700	
		Cash		700
	30	Utilities Expense	610	
		Cash		610
	31	Accounts Receivable	61,900	
		Fees Earned		61,900
	31	Utilities Expense	900	
		Cash		900
	31	Dividends	4,000	
		Cash		4,000

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Ex. 2–8

a.

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Date		Description	Post. Ref.	Debit	Credit
20Y9					
Feb.	11	Supplies	15	2,250	
		Accounts Payable	21		2,250
		Purchased supplies on account.			

b., c., d.

Account: Supplies Account No. 15

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Feb.	1	Balance	✓			400	
	11		73	2,250		2,650	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Feb.	1	Balance	✓				18,300
	11		73		2,250		20,550

e. Yes, the rules of debit and credit apply to all companies.

Ex. 2–9

a.

(1)	Accounts Receivable	48,250	
	Fees Earned		48,250
(2)	Supplies	3,000	
	Accounts Payable		3,000
(3)	Cash	33,100	
	Accounts Receivable		33,100
(4)	Accounts Payable	2,300	
	Cash		2,300

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Ex. 2–9 (Concluded)

b.

Cash			
(3)	33,100	(4)	2,300

Accounts Payable			
(4)	2,300	(2)	3,000

Supplies			
(2)	3,000		

Fees Earned			
		(1)	48,250

Accounts Receivable			
(1)	48,250	(3)	33,100

c. **No, an error may not have necessarily occurred. A credit balance in Accounts Receivable could occur if a customer overpaid his or her account. Regardless, the credit balance should be investigated to verify that an error has not occurred.**

Ex. 2–10

a. **The increase of $270,800 ($1,245,000 – $974,200) in the cash account does not indicate net income of that amount. Net income is the net change in all assets and liabilities from operating (revenue and expense) transactions.**

b. **$150,200 ($421,000 – $270,800)**

or

Cash	
X	974,200
1,245,000	
421,000	

X + $1,245,000 – $974,200 = $421,000
X = $421,000 – $1,245,000 + $974,200
X = $150,200

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Ex. 2–11

a.

Accounts Payable			
		Feb. 1	X
	186,500		201,400
		Feb. 28	59,900

X + $201,400 – $186,500 = $59,900
X = $59,900 + $186,500 – $201,400
X = $45,000

b.

Accounts Receivable			
Oct. 1	115,800		449,600
	X		
Oct. 31	130,770		

$115,800 + X – $449,600 = $130,770
X = $130,770 + $449,600 – $115,800
X = $464,570

c.

Cash			
Apr. 1	46,220		X
	248,600		
Apr. 30	56,770		

$46,220 + $248,600 – X = $56,770
X = $46,220 + $248,600 – $56,770
X = $238,050

Ex. 2–12

a. **Debit (negative) balance of $16,000 ($314,000 – $10,000 – $320,000). This negative balance means that the liabilities of the business exceed the assets.**

b. **Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the "Stockholders' Equity" section as a debit (negative) balance of $16,000.**

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Ex. 2–13

a. and b.

	Account Debited		Account Credited	
Transaction	Type	Effect	Type	Effect
(1)	asset	+	stockholders' equity	+
(2)	asset	+	asset	–
(3)	asset	+	asset	–
			liability	+
(4)	expense	+	asset	–
(5)	asset	+	revenue	+
(6)	liability	–	asset	–
(7)	asset	+	asset	–
(8)	expense	+	asset	–
(9)	dividend	+	asset	–

Ex. 2–14

(1)	Cash	50,000	
	Common Stock		50,000
(2)	Supplies	4,000	
	Cash		4,000
(3)	Equipment	30,000	
	Accounts Payable		20,000
	Cash		10,000
(4)	Operating Expenses	6,175	
	Cash		6,175
(5)	Accounts Receivable	20,500	
	Service Revenue		20,500
(6)	Accounts Payable	6,000	
	Cash		6,000
(7)	Cash	13,100	
	Accounts Receivable		13,100
(8)	Operating Expenses	2,200	
	Supplies		2,200
(9)	Dividends	1,500	
	Cash		1,500

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Ex. 2–15

a.

Crazy Mountain Tours Co. Unadjusted Trial Balance May 31, 20Y2		
	Debit Balances	Credit Balances
Cash	35,425	
Accounts Receivable	7,400	
Supplies	1,800	
Equipment	30,000	
Accounts Payable		14,000
Common Stock		50,000
Dividends	1,500	
Service Revenue		20,500
Operating Expenses	8,375	
	84,500	84,500

b. **Net income, $12,125 ($20,500 – $8,375)**

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Ex. 2–16

Seaside Furniture Company Unadjusted Trial Balance August 31, 20Y5		
	Debit Balances	Credit Balances
Cash	426,800	
Accounts Receivable	660,500	
Supplies	11,200	
Prepaid Insurance	21,600	
Land	1,850,000	
Accounts Payable		118,600
Unearned Rent		12,000
Notes Payable		75,000
Common Stock		150,000
Retained Earnings		1,814,400
Dividends	36,000	
Fees Earned		4,330,000
Wages Expense	2,950,000	
Rent Expense	390,000	
Utilities Expense	82,000	
Supplies Expense	23,700	
Insurance Expense	18,000	
Miscellaneous Expense	30,200	
	6,500,000	6,500,000

Cash = $6,500,000 – $30,200 – $18,000 – $23,700 – $82,000 – $390,000 – $2,950,000 – $36,000 – $1,850,000 – $21,600 – $11,200 – $660,500 = $426,800

Ex. 2–17

Inequality of trial balance totals would be caused by errors described in (c) and (e). For (c), the debit total would exceed the credit total by $9,900 ($4,950 + $4,950). For (e), the credit total would exceed the debit total by $17,100 ($19,000 – $1,900).

Errors (b), (c), (d), and (e) would require correcting entries. Although it is not a correcting entry, the entry that was not made in (a) should also be entered in the journal.

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Ex. 2–18

Ranger Co. Unadjusted Trial Balance August 31, 20Y1		
	Debit Balances	Credit Balances
Cash	15,500	
Accounts Receivable	46,750	
Prepaid Insurance	12,000	
Equipment	190,000	
Accounts Payable		24,600
Unearned Rent		5,400
Common Stock		40,000
Retained Earnings		70,000
Dividends	13,000	
Service Revenue		385,000
Wages Expense	213,000	
Advertising Expense	16,350	
Miscellaneous Expense	18,400	
	525,000	525,000

Ex. 2–19

Error	(a) Out of Balance	(b) Difference	(c) Larger Total
1.	yes	$6,000	debit
2.	no	—	—
3.	yes	5,400	credit
4.	yes	480	debit
5.	no	—	—
6.	yes	90	credit
7.	yes	360	credit

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Ex. 2–20

a. 1. The Debit column total is added incorrectly. The sum is $1,098,500 rather than $1,801,500.

2. The trial balance should be dated "December 31, 20Y8," not "For the Year Ending December 31, 20Y8."

3. The Accounts Receivable balance should be in the Debit column.

4. The Accounts Payable balance should be in the Credit column.

5. The Dividends balance should be in the Debit column.

6. The Advertising Expense balance should be in the Debit column.

b. A corrected unadjusted trial balance would be as follows:

Ensemble Co. Unadjusted Trial Balance December 31, 20Y8		
	Debit Balances	Credit Balances
Cash	42,900	
Accounts Receivable	123,500	
Prepaid Insurance	27,000	
Equipment	300,000	
Accounts Payable		52,000
Salaries Payable		4,800
Common Stock		40,000
Retained Earnings		137,200
Dividends	5,000	
Service Revenue		1,216,000
Salary Expense	660,000	
Advertising Expense	275,000	
Miscellaneous Expense	16,600	
	1,450,000	1,450,000

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Ex. 2–21

a.

Journal Entry That Was Made in Error			Journal Entry That Should Have Been Made		
Insurance Expense	12,000		Prepaid Insurance	12,000	
Prepaid Insurance		12,000	Cash		12,000

Comparison

Prepaid Insurance instead of Insurance Expense should have been debited. Cash instead of Prepaid Insurance should have been credited. The debit and credit amount of $12,000 is correct.

Correcting Journal Entries

Prepaid Insurance	12,000	
Insurance Expense		12,000
Prepaid Insurance	12,000	
Cash		12,000

Note: **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

b.

Journal Entry That Was Made in Error			Journal Entry That Should Have Been Made		
Wages Expense	8,000		Dividends	8,000	
Cash		8,000	Cash		8,000

Comparison

Dividends instead of Wages Expense should have been debited. The debit and credit amount of $8,000 is correct.

Correcting Journal Entry

Dividends	8,000	
Wages Expense		8,000

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Ex. 2–22

a.

Journal Entry That Was Made in Error			Journal Entry That Should Have Been Made		
Fees Earned	7,550		Cash	7,550	
Cash		7,550	Accounts Receivable		7,550

Comparison

Cash instead of Fees Earned should have been debited. Accounts Receivable instead of Cash should have been credited. The debit and credit amount of $7,550 is correct.

Correcting Journal Entries

Cash	7,550	
Fees Earned		7,550
Cash	7,550	
Accounts Receivable		7,550

Note: **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

b.

Journal Entry That Was Made in Error			Journal Entry That Should Have Been Made		
Supplies Expense	1,350		Supplies	1,350	
Accounts Payable		1,350	Cash		1,350

Comparison

Supplies instead of Supplies Expense should have been debited. Cash instead of Accounts Payable should have been credited. The debit and credit amount of $1,350 is correct.

Correcting Journal Entries

Accounts Payable	1,350	
Supplies Expense		1,350
Supplies	1,350	
Cash		1,350

Note: **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

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PROBLEMS

Prob. 2–1A

1. and 2.

Cash

(a)	50,000	(b)	4,000
(g)	15,000	(c)	8,000
		(e)	1,800
		(f)	3,600
		(h)	1,500
		(i)	5,000
		(j)	600
		(m)	8,000
		(n)	350
Bal.	32,150		

Accounts Receivable

(l)	24,000		

Supplies

(e)	1,800		

Prepaid Insurance

(f)	3,600		

Automobiles

(c)	40,000		

Equipment

(d)	13,000		

Notes Payable

(j)	600	(c)	32,000
		Bal.	31,400

Accounts Payable

(i)	5,000	(d)	13,000
		(k)	6,600
		Bal.	14,600

Common Stock

		(a)	50,000

Professional Fees

		(g)	15,000
		(l)	24,000
		Bal.	39,000

Salary Expense

(m)	8,000		

Blueprint Expense

(k)	6,600		

Rent Expense

(b)	4,000		

Automobile Expense

(n)	350		

Miscellaneous Expense

(h)	1,500		

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Prob. 2–1A (Concluded)

3.

Signature Designs Unadjusted Trial Balance January 31, 20Y4		
	Debit Balances	Credit Balances
Cash	32,150	
Accounts Receivable	24,000	
Supplies	1,800	
Prepaid Insurance	3,600	
Automobiles	40,000	
Equipment	13,000	
Notes Payable		31,400
Accounts Payable		14,600
Common Stock		50,000
Professional Fees		39,000
Salary Expense	8,000	
Blueprint Expense	6,600	
Rent Expense	4,000	
Automobile Expense	350	
Miscellaneous Expense	1,500	
	135,000	135,000

4. **Net income, $18,550 ($39,000 – $8,000 – $6,600 – $4,000 – $350 – $1,500)**

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Prob. 2–2A

1. (a)

Cash	30,000	
Common Stock		30,000

(b)

Rent Expense	3,500	
Cash		3,500

(c)

Supplies	1,400	
Accounts Payable		1,400

(d)

Accounts Payable	750	
Cash		750

(e)

Cash	17,800	
Sales Commissions		17,800

(f)

Automobile Expense	1,200	
Miscellaneous Expense	500	
Cash		1,700

(g)

Office Salaries Expense	2,500	
Cash		2,500

(h)

Supplies Expense	800	
Supplies		800

(i)

Dividends	1,000	
Cash		1,000

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Prob. 2–2A (Continued)

2.

Cash			
(a)	30,000	(b)	3,500
(e)	17,800	(d)	750
		(f)	1,700
		(g)	2,500
		(i)	1,000
Bal.	38,350		

Sales Commissions			
		(e)	17,800

Rent Expense			
(b)	3,500		

Supplies			
(c)	1,400	(h)	800
Bal.	600		

Office Salaries Expense			
(g)	2,500		

Accounts Payable			
(d)	750	(c)	1,400
		Bal.	650

Automobile Expense			
(f)	1,200		

Common Stock			
		(a)	30,000

Supplies Expense			
(h)	800		

Dividends			
(i)	1,000		

Miscellaneous Expense			
(f)	500		

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Prob. 2–2A (Concluded)

3.

Panda Realty Unadjusted Trial Balance March 31, 20Y6		
	Debit Balances	Credit Balances
Cash	38,350	
Supplies	600	
Accounts Payable		650
Common Stock		30,000
Dividends	1,000	
Sales Commissions		17,800
Rent Expense	3,500	
Office Salaries Expense	2,500	
Automobile Expense	1,200	
Supplies Expense	800	
Miscellaneous Expense	500	
	48,450	48,450

4. a. $17,800
b. $8,500 ($3,500 + $2,500 + $1,200 + $800 + $500)
c. $9,300 ($17,800 – $8,500)

5. $8,300, which is the excess of net income of $9,300 over the dividends of $1,000.

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Prob. 2–3A

1.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
20Y9					
Nov.	1	Cash	11	50,000	
		Common Stock	31		50,000
	1	Rent Expense	53	4,000	
		Cash	11		4,000
	6	Equipment	16	15,000	
		Accounts Payable	22		15,000
	8	Truck	18	38,500	
		Cash	11		5,000
		Notes Payable	21		33,500
	10	Supplies	13	1,750	
		Cash	11		1,750
	12	Cash	11	11,500	
		Fees Earned	41		11,500
	15	Prepaid Insurance	14	2,400	
		Cash	11		2,400
	23	Accounts Receivable	12	22,300	
		Fees Earned	41		22,300
	24	Truck Expense	55	1,250	
		Accounts Payable	22		1,250

JOURNAL Page 2

Date		Description	Post. Ref.	Debit	Credit
20Y9					
Nov.	29	Utilities Expense	54	4,500	
		Cash	11		4,500
	29	Miscellaneous Expense	59	1,000	
		Cash	11		1,000

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Prob. 2–3A (Continued)

^^

	30	Cash	11	9,000	
		Accounts Receivable	12		9,000
	30	Wages Expense	51	6,800	
		Cash	11		6,800
	30	Accounts Payable	22	3,000	
		Cash	11		3,000
	30	Dividends	33	2,500	
		Cash	11		2,500

2.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	1		1	50,000		50,000	
	1		1		4,000	46,000	
	8		1		5,000	41,000	
	10		1		1,750	39,250	
	12		1	11,500		50,750	
	15		1		2,400	48,350	
	29		2		4,500	43,850	
	29		2		1,000	42,850	
	30		2	9,000		51,850	
	30		2		6,800	45,050	
	30		2		3,000	42,050	
	30		2		2,500	39,550	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	23		1	22,300		22,300	
	30		2		9,000	13,300	

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Prob. 2–3A (Continued)

Account: Supplies **Account No. 13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	10		1	1,750		1,750	

Account: Prepaid Insurance **Account No. 14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	15		1	2,400		2,400	

Account: Equipment **Account No. 16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	6		1	15,000		15,000	

Account: Truck **Account No. 18**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	8		1	38,500		38,500	

Account: Notes Payable **Account No. 21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	8		1		33,500		33,500

Account: Accounts Payable **Account No. 22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	6		1		15,000		15,000
	24		1		1,250		16,250
	30		2	3,000			13,250

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Prob. 2–3A (Continued)

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	1		1		50,000		50,000

Account: Dividends Account No. 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	30		2	2,500		2,500	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	12		1		11,500		11,500
	23		1		22,300		33,800

Account: Wages Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	30		2	6,800		6,800	

Account: Rent Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	1		1	4,000		4,000	

Account: Utilities Expense Account No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	29		2	4,500		4,500	

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Prob. 2–3A (Continued)

Account: Truck Expense **Account No.** 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Nov.	24		1	1,250		1,250	

Account: Miscellaneous Expense **Account No.** 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Nov.	29		2	1,000		1,000	

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Prob. 2–3A (Concluded)

3.

Heritage Designs
Unadjusted Trial Balance
November 30, 20Y9

	Account No.	Debit Balances	Credit Balances
Cash	11	39,550	
Accounts Receivable	12	13,300	
Supplies	13	1,750	
Prepaid Insurance	14	2,400	
Equipment	16	15,000	
Truck	18	38,500	
Notes Payable	21		33,500
Accounts Payable	22		13,250
Common Stock	31		50,000
Dividends	33	2,500	
Fees Earned	41		33,800
Wages Expense	51	6,800	
Rent Expense	53	4,000	
Utilities Expense	54	4,500	
Truck Expense	55	1,250	
Miscellaneous Expense	59	1,000	
		130,550	130,550

4. **$16,250 ($33,800 – $6,800 – $4,000 – $4,500 – $1,250 – $1,000)**

5. **Some supplies may have been used during November, but no supplies expense has been recorded.**

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Heritage Designs.

Note to Instructors: **At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.**

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Prob. 2–4A

2. and 3.

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	1	Rent Expense	52	6,500	
		Cash	11		6,500
	2	Office Supplies	14	2,300	
		Accounts Payable	21		2,300
	5	Prepaid Insurance	13	6,000	
		Cash	11		6,000
	10	Cash	11	52,300	
		Accounts Receivable	12		52,300
	15	Land	16	200,000	
		Cash	11		30,000
		Notes Payable	23		170,000
	17	Accounts Payable	21	6,450	
		Cash	11		6,450
	20	Accounts Payable	21	325	
		Office Supplies	14		325
	23	Advertising Expense	53	4,300	
		Cash	11		4,300

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	27	Cash	11	2,500	
		Salary and Commission Expense	51		2,500
	28	Automobile Expense	54	1,500	
		Cash	11		1,500
	29	Miscellaneous Expense	59	1,400	
		Cash	11		1,400

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Prob. 2–4A (Continued)

	30	Accounts Receivable	12	57,000	
		Fees Earned	41		57,000
	30	Salary and Commission Expense	51	11,900	
		Cash	11		11,900
	30	Dividends	33	4,000	
		Cash	11		4,000
	30	Cash	11	10,000	
		Unearned Rent	22		10,000

1. and 3.

GENERAL LEDGER

Account: Cash Account No. 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			26,300	
	1		18		6,500	19,800	
	5		18		6,000	13,800	
	10		18	52,300		66,100	
	15		18		30,000	36,100	
	17		18		6,450	29,650	
	23		18		4,300	25,350	
	27		19	2,500		27,850	
	28		19		1,500	26,350	
	29		19		1,400	24,950	
	30		19		11,900	13,050	
	30		19		4,000	9,050	
	30		19	10,000		19,050	

Account: Accounts Receivable Account No. 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			61,500	
	10		18		52,300	9,200	
	30		19	57,000		66,200	

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Prob. 2–4A (Continued)

Account: Prepaid Insurance **Account No.** 13

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			3,000	
	5		18	6,000		9,000	

Account: Office Supplies **Account No.** 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			1,800	
	2		18	2,300		4,100	
	20		18		325	3,775	

Account: Land **Account No.** 16

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	15		18	200,000		200,000	

Account: Accounts Payable **Account No.** 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				14,000
	2		18		2,300		16,300
	17		18	6,450			9,850
	20		18	325			9,525

Account: Unearned Rent **Account No.** 22

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	30		19		10,000		10,000

Account: Notes Payable **Account No.** 23

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	15		18		170,000		170,000

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Prob. 2–4A (Continued)

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				10,000

Account: Retained Earnings Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				36,000

Account: Dividends Account No. 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			2,000	
	30		19	4,000		6,000	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				240,000
	30		19		57,000		297,000

Account: Salary and Commission Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			148,200	
	27		19		2,500	145,700	
	30		19	11,900		157,600	

Account: Rent Expense Account No. 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			30,000	
	1		18	6,500		36,500	

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Prob. 2–4A (Continued)

Account: Advertising Expense **Account No. 53**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			17,800	
	23		18	4,300		22,100	

Account: Automobile Expense **Account No. 54**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			5,500	
	28		19	1,500		7,000	

Account: Miscellaneous Expense **Account No. 59**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			3,900	
	29		19	1,400		5,300	

4.

Elite Realty
Unadjusted Trial Balance
April 30, 20Y3

	Account No.	Debit Balances	Credit Balances
Cash	11	19,050	
Accounts Receivable	12	66,200	
Prepaid Insurance	13	9,000	
Office Supplies	14	3,775	
Land	16	200,000	
Accounts Payable	21		9,525
Unearned Rent	22		10,000
Notes Payable	23		170,000
Common Stock	31		10,000
Retained Earnings	32		36,000
Dividends	33	6,000	
Fees Earned	41		297,000
Salary and Commission Expense	51	157,600	
Rent Expense	52	36,500	
Advertising Expense	53	22,100	
Automobile Expense	54	7,000	
Miscellaneous Expense	59	5,300	
		532,525	532,525

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Prob. 2–4A (Concluded)

5. (a) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(b) The correcting entry for $7,200 ($19,100 – $11,900) would be as follows:

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	30	Salary and Commission Expense	51	7,200	
		Cash	11		7,200

(c) Transposition

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Prob. 2–5A

1.

The Lexington Group Unadjusted Trial Balance May 31, 20Y6		
	Debit Balances	Credit Balances
Cash	18,750	
Accounts Receivable	53,500	
Supplies	2,225	
Prepaid Insurance	7,400	
Equipment	171,175	
Notes Payable		45,000
Accounts Payable		36,000
Common Stock		50,000
Retained Earnings		89,150
Dividends	20,000	
Fees Earned		429,850
Wages Expense	270,000	
Rent Expense	60,300	
Advertising Expense	25,200	
Gas, Electricity, and Water Expense	16,350	
Miscellaneous Expense	5,100	
	650,000	650,000

Cash = $20,350 – $7,000 (a) + $5,400 (b) = $18,750

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

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Prob. 2–1B

1. and 2.

Cash

(a)	18,000	(b)	2,500
(g)	12,000	(c)	3,150
		(d)	1,450
		(f)	2,400
		(h)	1,800
		(i)	375
		(l)	2,800
		(m)	200
		(n)	300
		(o)	550
Bal.	14,475		

Accounts Receivable

(k)	15,650

Supplies

(d)	1,450

Prepaid Insurance

(f)	2,400

Automobiles

(b)	19,500

Equipment

(e)	6,500

Notes Payable

(n)	300	(b)	17,000
		Bal.	16,700

Accounts Payable

(h)	1,800	(e)	6,500
		(j)	2,500
		Bal.	7,200

Common Stock

		(a)	18,000

Professional Fees

		(g)	12,000
		(k)	15,650
		Bal.	27,650

Rent Expense

(c)	3,150

Salary Expense

(l)	2,800

Blueprint Expense

(j)	2,500

Automobile Expense

(o)	550

Miscellaneous Expense

(i)	375
(m)	200
Bal.	575

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Prob. 2–1B (Concluded)

3.

Jones Architects Unadjusted Trial Balance April 30, 20Y2		
	Debit Balances	Credit Balances
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Notes Payable		16,700
Accounts Payable		7,200
Common Stock		18,000
Professional Fees		27,650
Rent Expense	3,150	
Salary Expense	2,800	
Blueprint Expense	2,500	
Automobile Expense	550	
Miscellaneous Expense	575	
	69,550	69,550

4. Net income, $18,075 ($27,650 – $3,150 – $2,800 – $2,500 – $550 – $575)

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Prob. 2–2B

1.

(a)	Cash	17,500	
	Common Stock		17,500
(b)	Supplies	2,300	
	Accounts Payable		2,300
(c)	Cash	13,300	
	Sales Commissions		13,300
(d)	Rent Expense	3,000	
	Cash		3,000
(e)	Accounts Payable	1,150	
	Cash		1,150
(f)	Dividends	1,800	
	Cash		1,800
(g)	Automobile Expense	1,500	
	Miscellaneous Expense	400	
	Cash		1,900
(h)	Office Salaries Expense	2,800	
	Cash		2,800
(i)	Supplies Expense	1,050	
	Supplies		1,050

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Prob. 2–2B (Continued)

2.

Cash			
(a)	17,500	(d)	3,000
(c)	13,300	(e)	1,150
		(f)	1,800
		(g)	1,900
		(h)	2,800
Bal.	20,150		

Sales Commissions			
		(c)	13,300

Rent Expense			
(d)	3,000		

Supplies			
(b)	2,300	(i)	1,050
Bal.	1,250		

Office Salaries Expense			
(h)	2,800		

Accounts Payable			
(e)	1,150	(b)	2,300
		Bal.	1,150

Automobile Expense			
(g)	1,500		

Common Stock			
		(a)	17,500

Supplies Expense			
(i)	1,050		

Dividends			
(f)	1,800		

Miscellaneous Expense			
(g)	400		

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Prob. 2–2B (Concluded)

3.

Planet Realty Unadjusted Trial Balance August 31, 20Y7		
	Debit Balances	Credit Balances
Cash	20,150	
Supplies	1,250	
Accounts Payable		1,150
Common Stock		17,500
Dividends	1,800	
Sales Commissions		13,300
Rent Expense	3,000	
Office Salaries Expense	2,800	
Automobile Expense	1,500	
Supplies Expense	1,050	
Miscellaneous Expense	400	
	31,950	31,950

4. a. $13,300
b. $8,750 ($3,000 + $2,800 + $1,500 + $1,050 + $400)
c. $4,550 ($13,300 – $8,750)

5. $2,750, which is the excess of net income of $4,550 over the dividends of $1,800.

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Prob. 2–3B

1.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
20Y4					
Oct.	1	Cash	11	18,000	
		Common Stock	31		18,000
	4	Rent Expense	53	3,000	
		Cash	11		3,000
	10	Truck	18	23,750	
		Cash	11		3,750
		Notes Payable	21		20,000
	13	Equipment	16	10,500	
		Accounts Payable	22		10,500
	14	Supplies	13	2,100	
		Cash	11		2,100
	15	Prepaid Insurance	14	3,600	
		Cash	11		3,600
	15	Cash	11	8,950	
		Fees Earned	41		8,950

JOURNAL Page 2

Date		Description	Post. Ref.	Debit	Credit
20Y4					
Oct.	21	Accounts Payable	22	2,000	
		Cash	11		2,000
	24	Accounts Receivable	12	14,150	
		Fees Earned	41		14,150
	26	Truck Expense	55	700	
		Accounts Payable	22		700
	27	Utilities Expense	54	2,240	
		Cash	11		2,240

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Prob. 2–3B (Continued)

^^

	27	Miscellaneous Expense	59	1,100	
		Cash	11		1,100
	29	Cash	11	7,600	
		Accounts Receivable	12		7,600
	30	Wages Expense	51	4,800	
		Cash	11		4,800
	31	Dividends	33	3,500	
		Cash	11		3,500

2.

GENERAL LEDGER

Account: Cash — Account No. 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	1		1	18,000		18,000	
	4		1		3,000	15,000	
	10		1		3,750	11,250	
	14		1		2,100	9,150	
	15		1		3,600	5,550	
	15		1	8,950		14,500	
	21		2		2,000	12,500	
	27		2		2,240	10,260	
	27		2		1,100	9,160	
	29		2	7,600		16,760	
	30		2		4,800	11,960	
	31		2		3,500	8,460	

Account: Accounts Receivable — Account No. 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	24		2	14,150		14,150	
	29		2		7,600	6,550	

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Prob. 2–3B (Continued)

Account: Supplies **Account No.** 13

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	14		1	2,100		2,100	

Account: Prepaid Insurance **Account No.** 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	15		1	3,600		3,600	

Account: Equipment **Account No.** 16

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	13		1	10,500		10,500	

Account: Truck **Account No.** 18

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	10		1	23,750		23,750	

Account: Notes Payable **Account No.** 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	10		1		20,000		20,000

Account: Accounts Payable **Account No.** 22

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	13		1		10,500		10,500
	21		2	2,000			8,500
	26		2		700		9,200

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Prob. 2–3B (Continued)

Account: Common Stock **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	1		1		18,000		18,000

Account: Dividends **Account No.** 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	31		2	3,500		3,500	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	15		1		8,950		8,950
	24		2		14,150		23,100

Account: Wages Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	30		2	4,800		4,800	

Account: Rent Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	4		1	3,000		3,000	

Account: Utilities Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	27		2	2,240		2,240	

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Prob. 2–3B (Continued)

Account: Truck Expense **Account No.** 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y4							
Oct.	26		2	700		700	

Account: Miscellaneous Expense **Account No.** 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y4							
Oct.	27		2	1,100		1,100	

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Prob. 2–3B (Concluded)

3.

Pioneer Designs
Unadjusted Trial Balance
October 31, 20Y4

	Account No.	Debit Balances	Credit Balances
Cash	11	8,460	
Accounts Receivable	12	6,550	
Supplies	13	2,100	
Prepaid Insurance	14	3,600	
Equipment	16	10,500	
Truck	18	23,750	
Notes Payable	21		20,000
Accounts Payable	22		9,200
Common Stock	31		18,000
Dividends	33	3,500	
Fees Earned	41		23,100
Wages Expense	51	4,800	
Rent Expense	53	3,000	
Utilities Expense	54	2,240	
Truck Expense	55	700	
Miscellaneous Expense	59	1,100	
		70,300	70,300

4. **$11,260 ($23,100 – $4,800 – $3,000 – $2,240 – $700 – $1,100)**

5. **Some supplies may have been used during October, but no supplies expense has been recorded.**

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Pioneer Designs.

Note to Instructors: **At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.**

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Prob. 2–4B

2. and 3.

JOURNAL Page 18

Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	1	Office Supplies	14	3,150	
		Accounts Payable	21		3,150
	2	Rent Expense	52	7,200	
		Cash	11		7,200
	3	Cash	11	83,900	
		Accounts Receivable	12		83,900
	5	Prepaid Insurance	13	12,000	
		Cash	11		12,000
	9	Accounts Payable	21	400	
		Office Supplies	14		400
	17	Advertising Expense	53	8,000	
		Cash	11		8,000
	23	Accounts Payable	21	13,750	
		Cash	11		13,750

JOURNAL Page 19

Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	29	Miscellaneous Expense	59	1,700	
		Cash	11		1,700
	30	Automobile Expense	54	2,500	
		Cash	11		2,500
	31	Cash	11	2,000	
		Salary and Commission Expense	51		2,000
	31	Salary and Commission Expense	51	53,000	
		Cash	11		53,000

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Prob. 2–4B (Continued)

	31	Accounts Receivable	12	183,500	
		Fees Earned	41		183,500
	31	Land	16	75,000	
		Cash	11		7,500
		Notes Payable	23		67,500
	31	Dividends	33	1,000	
		Cash	11		1,000
	31	Cash	11	5,000	
		Unearned Rent	22		5,000

1. and 3.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			52,500	
	2		18		7,200	45,300	
	3		18	83,900		129,200	
	5		18		12,000	117,200	
	17		18		8,000	109,200	
	23		18		13,750	95,450	
	29		19		1,700	93,750	
	30		19		2,500	91,250	
	31		19	2,000		93,250	
	31		19		53,000	40,250	
	31		19		7,500	32,750	
	31		19		1,000	31,750	
	31		19	5,000		36,750	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			100,100	
	3		18		83,900	16,200	
	31		19	183,500		199,700	

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Prob. 2–4B (Continued)

Account: Prepaid Insurance Account No. 13

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			12,600	
	5		18	12,000		24,600	

Account: Office Supplies Account No. 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			2,800	
	1		18	3,150		5,950	
	9		18		400	5,550	

Account: Land Account No. 16

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19	75,000		75,000	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				21,000
	1		18		3,150		24,150
	9		18	400			23,750
	23		18	13,750			10,000

Account: Unearned Rent Account No. 22

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19		5,000		5,000

Account: Notes Payable Account No. 23

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19		67,500		67,500

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Prob. 2–4B (Continued)

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				17,500

Account: Retained Earnings Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				70,000

Account: Dividends Account No. 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			44,800	
	31		19	1,000		45,800	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				591,500
	31		19		183,500		775,000

Account: Salary and Commission Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			385,000	
	31		19		2,000	383,000	
	31		19	53,000		436,000	

Account: Rent Expense Account No. 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			49,000	
	2		18	7,200		56,200	

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Prob. 2–4B (Continued)

Account: Advertising Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y8							
Aug.	1	Balance	✓			32,200	
	17		18	8,000		40,200	

Account: Automobile Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y8							
Aug.	1	Balance	✓			15,750	
	30		19	2,500		18,250	

Account: Miscellaneous Expense **Account No.** 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y8							
Aug.	1	Balance	✓			5,250	
	29		19	1,700		6,950	

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Prob. 2–4B (Concluded)

4.

Valley Realty Unadjusted Trial Balance August 31, 20Y8			
	Account No.	Debit Balances	Credit Balances
Cash	11	36,750	
Accounts Receivable	12	199,700	
Prepaid Insurance	13	24,600	
Office Supplies	14	5,550	
Land	16	75,000	
Accounts Payable	21		10,000
Unearned Rent	22		5,000
Notes Payable	23		67,500
Common Stock	31		17,500
Retained Earnings	32		70,000
Dividends	33	45,800	
Fees Earned	41		775,000
Salary and Commission Expense	51	436,000	
Rent Expense	52	56,200	
Advertising Expense	53	40,200	
Automobile Expense	54	18,250	
Miscellaneous Expense	59	6,950	
		945,000	945,000

5. (a) **The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.**

(b) **The correcting entry for $9,000 ($10,000 – $1,000) would be as follows:**

JOURNAL **Page 19**

Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	31	Dividends	33	9,000	
		Cash	11		9,000

(c) **Slide**

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Prob. 2–5B

1.

Tech Support Services Unadjusted Trial Balance January 31, 20Y5		
	Debit Balances	Credit Balances
Cash	20,250	
Accounts Receivable	56,400	
Supplies	6,750	
Prepaid Insurance	9,600	
Equipment	162,000	
Notes Payable		54,000
Accounts Payable		16,650
Common Stock		18,000
Retained Earnings		89,850
Dividends	39,000	
Fees Earned		534,000
Wages Expense	306,000	
Rent Expense	62,550	
Advertising Expense	28,350	
Gas, Electricity, and Water Expense	17,000	
Miscellaneous Expense	4,600	
	712,500	712,500

Cash = $25,550 – $8,000 (a) + $2,700 (b)

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

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CONTINUING PROBLEM

2. and 3.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
20Y5					
July	1	Cash	11	5,000	
		Common Stock	31		5,000
	1	Office Rent Expense	51	1,750	
		Cash	11		1,750
	1	Prepaid Insurance	15	2,700	
		Cash	11		2,700
	2	Cash	11	1,000	
		Accounts Receivable	12		1,000
	3	Cash	11	7,200	
		Unearned Revenue	23		7,200
	3	Accounts Payable	21	250	
		Cash	11		250
	4	Miscellaneous Expense	59	900	
		Cash	11		900
	5	Office Equipment	17	7,500	
		Accounts Payable	21		7,500
	8	Advertising Expense	55	200	
		Cash	11		200
	11	Cash	11	1,000	
		Fees Earned	41		1,000
	13	Equipment Rent Expense	52	700	
		Cash	11		700
	14	Wages Expense	50	1,200	
		Cash	11		1,200

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Continuing Problem (Continued)

2. and 3.

JOURNAL Page 2

Date		Description	Post. Ref.	Debit	Credit
20Y5					
July	16	Cash	11	2,000	
		Fees Earned	41		2,000
	18	Supplies	14	850	
		Accounts Payable	21		850
	21	Music Expense	54	620	
		Cash	11		620
	22	Advertising Expense	55	800	
		Cash	11		800
	23	Cash	11	750	
		Accounts Receivable	12	1,750	
		Fees Earned	41		2,500
	27	Utilities Expense	53	915	
		Cash	11		915
	28	Wages Expense	50	1,200	
		Cash	11		1,200
	29	Miscellaneous Expense	59	540	
		Cash	11		540
	30	Cash	11	500	
		Accounts Receivable	12	1,000	
		Fees Earned	41		1,500
	31	Cash	11	3,000	
		Fees Earned	41		3,000
	31	Music Expense	54	1,400	
		Cash	11		1,400
	31	Dividends	33	1,250	
		Cash	11		1,250

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Continuing Problem (Continued)

1. and 3.

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y5							
July	1	Balance	✓			3,920	
	1		1	5,000		8,920	
	1		1		1,750	7,170	
	1		1		2,700	4,470	
	2		1	1,000		5,470	
	3		1	7,200		12,670	
	3		1		250	12,420	
	4		1		900	11,520	
	8		1		200	11,320	
	11		1	1,000		12,320	
	13		1		700	11,620	
	14		1		1,200	10,420	
	16		2	2,000		12,420	
	21		2		620	11,800	
	22		2		800	11,000	
	23		2	750		11,750	
	27		2		915	10,835	
	28		2		1,200	9,635	
	29		2		540	9,095	
	30		2	500		9,595	
	31		2	3,000		12,595	
	31		2		1,400	11,195	
	31		2		1,250	9,945	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y5							
July	1	Balance	✓			1,000	
	2		1		1,000	—	—
	23		2	1,750		1,750	
	30		2	1,000		2,750	

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Continuing Problem (Continued)

Account: Supplies **Account No.** 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			170	
	18		2	850		1,020	

Account: Prepaid Insurance **Account No.** 15

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1		1	2,700		2,700	

Account: Office Equipment **Account No.** 17

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	5		1	7,500		7,500	

Account: Accounts Payable **Account No.** 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓				250
	3		1	250		—	—
	5		1		7,500		7,500
	18		2		850		8,350

Account: Unearned Revenue **Account No.** 23

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	3		1		7,200		7,200

Account: Common Stock **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓				4,000
	1		1		5,000		9,000

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Continuing Problem (Continued)

Account: Dividends **Account No.** 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			500	
	31		2	1,250		1,750	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓				6,200
	11		1		1,000		7,200
	16		2		2,000		9,200
	23		2		2,500		11,700
	30		2		1,500		13,200
	31		2		3,000		16,200

Account: Wages Expense **Account No.** 50

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			400	
	14		1	1,200		1,600	
	28		2	1,200		2,800	

Account: Office Rent Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			800	
	1		1	1,750		2,550	

Account: Equipment Rent Expense **Account No.** 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			675	
	13		1	700		1,375	

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Continuing Problem (Continued)

Account: Utilities Expense **Account No. 53**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			300	
	27		2	915		1,215	

Account: Music Expense **Account No. 54**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			1,590	
	21		2	620		2,210	
	31		2	1,400		3,610	

Account: Advertising Expense **Account No. 55**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			500	
	8		1	200		700	
	22		2	800		1,500	

Account: Supplies Expense **Account No. 56**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			180	

Account: Miscellaneous Expense **Account No. 59**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			415	
	4		1	900		1,315	
	29		2	540		1,855	

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Continuing Problem (Concluded)

4.

PS Music
Unadjusted Trial Balance
July 31, 20Y5

	Account No.	Debit Balances	Credit Balances
Cash	11	9,945	
Accounts Receivable	12	2,750	
Supplies	14	1,020	
Prepaid Insurance	15	2,700	
Office Equipment	17	7,500	
Accounts Payable	21		8,350
Unearned Revenue	23		7,200
Common Stock	31		9,000
Dividends	33	1,750	
Fees Earned	41		16,200
Wages Expense	50	2,800	
Office Rent Expense	51	2,550	
Equipment Rent Expense	52	1,375	
Utilities Expense	53	1,215	
Music Expense	54	3,610	
Advertising Expense	55	1,500	
Supplies Expense	56	180	
Miscellaneous Expense	59	1,855	
		40,750	40,750

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MAKE A DECISION

MAD 2–1

a.

Amazon.com, Inc. Operating Income For the Years Ended December 31 (in millions)				
	Year 2	Year 1	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Revenues:				
Product sales	$ 241,787	$ 215,915	$25,872	12.0%
Service sales	228,035	170,149	57,886	34.0%
Total revenues	$ 469,822	$ 386,064	$83,758	21.7%
Operating expenses:				
Cost of sales	$(272,344)	$(233,307)	$39,037	16.7%
Fulfillment	(75,111)	(58,517)	16,594	28.4%
Technology and content	(56,052)	(42,740)	13,312	31.1%
Marketing	(32,551)	(22,008)	10,543	47.9%
General and administrative	(8,823)	(6,668)	2,155	32.3%
Other operating expense (income), net	(62)	75	137	(182.7)%
Total operating expenses	$(444,943)	$(363,165)	$81,778	22.5%
Operating income	$ 24,879	$ 22,899	$ 1,980	8.6%

b. The horizontal analysis shows that total revenues increased by 21.7% between the two years, with a strong increase in service sales. Service sales are revenues earned from Amazon's Web hosting, Web design, and order fulfillment services provided for other businesses. This part of Amazon apparently has been growing rapidly. Total operating expenses have grown by 22.5% between the two years, indicating that expenses are growing slightly more than revenues. The expense growth appears to be occurring across all of the major expense categories except for other operating expense, which is relatively minor. The overall result is an increase in operating income between the two years of 8.6%.

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MAD 2–2

a.

Chipotle Mexican Grill, Inc. Operating Income For the Years Ended December 31 (in thousands)				
			Increase/(Decrease)	
	Year 2	Year 1	Amount	Percent
Revenues:				
Food and beverage	$ 7,457,169	$ 5,920,545	$1,536,624	26.0%
Delivery service	89,892	64,089	25,803	40.3%
Total revenues	$ 7,547,061	$ 5,984,634	$1,562,427	26.1%
Expenses:				
Food, beverage, packing	$(2,308,631)	$(1,932,766)	$ 375,865	19.4%
Labor	(1,917,761)	(1,593,013)	324,748	20.4%
Rent (occupancy)	(416,606)	(387,762)	28,844	7.4%
General and administrative	(606,854)	(466,291)	140,563	30.1%
Other	(1,492,266)	(1,314,638)	177,628	13.5%
Total expenses	$(6,742,118)	$(5,694,470)	$1,047,648	18.4%
Operating income	$ 804,943	$ 290,164	$ 514,779	177.4%

b. Total revenues increased by 26.1% in Year 2. Delivery service revenue increased by 40.3%, which is over 1½ times that of food and beverage revenue. Chipotle is obviously expanding its delivery service option to its customers. Total expenses increased by 18.4%. Food, beverage, and packing expenses and labor expense increased by 19.4% and 20.4%, respectively. General and administrative expenses increased 30.1%, while rent and other expenses increased 7.4% and 13.5%, respectively. Since the increase in total operating expenses of 18.4% was less than the increase in revenues of 26.1%, operating income increased dramatically by 177.4%. Overall, Year 2 operating results were a significant improvement over Year 1.

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MAD 2–3

a.

Vera Bradley, Inc. Operating Income For the Years Ended January 31 (in thousands)				
			Increase/(Decrease)	
	Year 2	Year 1	Amount	Percent
Revenue	$ 540,453	$ 468,272	$72,181	15.4%
Expenses:				
Cost of merchandise sold	$(252,510)	$(202,754)	$49,756	24.5%
Selling, general, admin. exp. (net)	(261,032)	(252,453)	8,579	3.4%
Total expenses	$(513,542)	$(455,207)	$58,335	12.8%
Operating income	$ 26,911	$ 13,065	$13,846	106.0%

b. Revenue increased by 15.4% in Year 2. This is a significant increase and would be viewed favorably by stockholders. Total expenses increased by 12.8% with selling, general, and administrative expenses remaining approximately the same with an increase of only 3.4%. Cost of merchandise sold increased by 24.5%, which was larger than the percentage increase in revenue of 15.4%. However, since cost of merchandise sold is 46.7% ($252,510 ÷ $540,453) of revenue, cost of merchandise sold increased by only $49,756 in Year 2 compared to the increase in revenue of $72,181. As a result, operating income increased by 106.0%.

MAD 2–4

a. 1. Revenue: $106,005 – $93,561 = $12,444

$$\frac{\$12,444}{\$93,561} = 13.3\%$$

2. Operating expenses: $97,059 – $87,022 = $10,037

$$\frac{\$10,037}{\$87,022} = 11.5\%$$

3. Operating income: $8,946 – $6,539 = $2,407

$$\frac{\$2,407}{\$6,539} = 36.8\%$$

b. The revenue increased by 13.3% between the two years, while the operating expenses grew by 11.5%. Thus, expenses grew less than revenue. As a result, operating income increased 36.8% in Year 2.

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MAD 2–5

a. 1. Revenue: $572,754 – $559,191 = $13,563

$$\frac{\$13,563}{\$559,191} = 2.4\%$$

2. Operating expenses: $546,812 – $536,643 = $10,169

$$\frac{\$10,169}{\$536,643} = 1.9\%$$

3. Operating income: $25,942 – $22,548 = $3,394

$$\frac{\$3,394}{\$22,548} = 15.1\%$$

b. Revenue increased by 2.4%, while operating expenses increased 1.9%. As a result, operating income increased by 15.1%, which is a favorable change in Year 2.

MAD 2–6

Target's revenue increased by 13.3% while its expenses increased by only 11.5%, which is 1.8% (13.3% – 11.5%) less than the increase in revenue. In contrast, Walmart's revenue increased by 2.4% while its expenses increased by 1.9%, which is 0.5% (2.4% – 1.9%) less than the increase in revenue. Both companies increased their revenue by more than the percentage increase in their expenses. However, Target's difference between the percentage increase in revenue and expenses was 1.3% (1.8% – 0.5%) more than Walmart's. As result, Target's operating income increased by 36.8%, while Walmart's operating income increased by 15.1%. Overall, Target had better operating results in Year 2 than Walmart.

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TAKE IT FURTHER

TIF 2–1

1. **No. For financial accounting information to be useful, it must accurately reflect an entity's business transactions and economic activity. For this to happen, each account must reflect the increases or decreases that result from each transaction. If the trial balance does not balance, it means that a transaction has not been accurately recorded in the accounts. By knowingly submitting a trial balance that does not accurately reflect the transactions in the accounts, Buddy is demonstrating a failure of individual character and is acting unethically.**

2. **The users of the financial information who rely upon this information will be affected, as the information will not be a faithful representation of the entity's economic activity.**

3. **Buddy should have discussed the issue with his supervisor and asked for more time to find the error.**

TIF 2–2

A sample solution based on Apple Inc.'s Form 10-K for the fiscal year ended September 24, 2022, follows:

1. **$352,755 million**
2. **$302,083 million**
3. **$50,672 million ($352,755 million total assets – $302,083 million total liabilities)**
4. **3**
5. **2**
6. **The income statement reports a summary of revenues and expenses for a specific period of time, such as a month or a year. The balance sheet reports a list of assets, liabilities, and stockholders' equity as of a specific date, usually at the close of the last day of a month or a year.**

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TIF 2–3

Note to Instructors: **The purpose of this activity is to familiarize students with the job opportunities available in accounting, and allow them to demonstrate their ability to communicate the role of accounting in the context of a specific position that requires knowledge of accounting. An example of an advertisement for such a position is shown below. Individual student answers will vary depending on the specific scenario they select.**

ABOUT THE COMPANY

Our client is looking to add a Financial Analyst. With a large and growing finance team, there is significant opportunity for growth and advancement within the department. The company boasts a team-oriented culture and provides its employees with the tools and training necessary to perform. Our client is looking to bring on more of a junior-level candidate who is looking to gain experience in his or her field of study. There will be hands-on training for the role that will evolve from a data analyst into a financial analyst and will be reporting to the director of finance. Our client is in the consumer goods industry and is an international company that has multiple opportunities for growth.

RESPONSIBILITIES OF THE FINANCIAL ANALYST

The Financial Analyst will:

- **Conduct special studies to analyze complex financial actions and prepare recommendations for policy, procedure, control, or action.**
- **Analyze financial information to determine present and future financial performance.**
- **Evaluate complex profit plans, operating records, and financial statements.**
- **Direct preparation of studies, reports, analyses, and recommendations in areas such as budgets, forecasts, financial plans, statistical reports, and business forecasts.**
- **Coordinate with all levels of management to gather, analyze, summarize, and prepare recommendations regarding financial plans, trended future requirements, and operating forecasts.**

Source: CareerBuilder.com

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TIF 2–4

The following general journal entry should be used to record the receipt of tuition payments received in advance of classes:

Cash	**XXX**	
Unearned Tuition Deposits		**XXX**

Cash is an asset account, and Unearned Tuition Deposits is a liability account. As the classes are taught throughout the term, the unearned tuition deposits become earned revenue.

TIF 2–5

The journal is called the book of original entry. It provides a time-ordered history of the transactions that have occurred for the firm. This time-ordered history is very important because it allows one to trace ledger account balances back to the original transactions that created those balances. This is called an "audit trail." If the firm recorded transactions by posting to ledgers directly, it would be nearly impossible to reconstruct actual transactions. The debits and credits would all be separated and accumulated into the ledger balances. Once the transactions become part of the ledger balances, the original transactions would be lost. That is, there would be no audit trail, and any errors that might occur in recording transactions would be almost impossible to trace. Thus, firms first record transaction debits and credits in a journal. These transactions are then posted to the ledger to update the account balances. The journal and ledger are linked using posting references. This allows an analyst to trace the transaction flow forward or backward, depending on the need.

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TIF 2–6

1. **The rules of debit and credit must be memorized. Dot is correct in that the rules of debit and credit could be reversed as long as everyone accepted and abided by the rules. However, the important point is that everyone accepts the rules as the way in which transactions should be recorded. This generates uniformity across the accounting profession and reduces errors and confusion. Because the current rules of debit and credit have been used for centuries, Dot should adapt to the current rules of debit and credit, rather than devise her own.**

   The primary reason that all accounts do not have the same rules for increases and decreases is for control of the recording process. The double-entry accounting system, which includes both (1) the rules of debit and credit and (2) the accounting equation, guarantees that (1) debits always equal credits and (2) assets always equal liabilities plus owner's equity. If all increases in the account were recorded by debits, then the control that debits always equal credits would be removed. In addition, the control that the normal balance of assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

   Dot is correct that we could call the left and right sides of an account different terms, such as "LE" or "RE." Again, centuries of tradition dictate the current terminology used. One might note, however, that in Latin, *debere* (debit) means left and *credere* (credit) means right.

2. **The accounting system may be designed to capture information about the buying habits of various customers or vendors, such as the quantity normally ordered, average amount ordered, number of returns, etc. Thus, in a sense, there can be other "sides" of (information about) a transaction that are recorded by the accounting system. Such information would be viewed as supplemental to the basic double-entry accounting system.**

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TIF 2–7 Excel

Sum of Amount	Column Label						
Row Labels	7/14/2022	7/15/2022	7/18/2022	7/19/2022	7/20/2022	7/21/2022	7/22/2022
Credit							
Debit	7,894.43	0.00	-7,894.43	3,541.78	-2,359.55	0.00	1,182.23

1. **The debits and credits do not match. This is shown by the fact that the sum of the values in the table for each date do not equal zero.**
2. **Errors appear to exist on the following dates. A review of the date revealed the cause of the error:**

   7/14: A debit was recorded with no corresponding credit (Entry No. 234257).
   7/18: Two credits were recorded (Entry No.'s 234265 and 234266) with no corresponding debit.
   7/19: The credit (Entry No. 234299) appeared to be recorded on a different date than the other related debits and credits.
   7/20: Two errors occurred. First, there is a credit entry (Entry No. 234299) recorded on a date different than its other associated debits and credits. Second, a debit (Entry No. 2343218) is recorded without an associated credit.
   7/22: A debit (Entry No.'s 234350 and 234351) is recorded twice. One of these should be a credit.
3. **Within the raw data, we are also given Authorization codes. It would be helpful to understand what these authorization codes mean and if they are tied to specific employees. This information could be used to see if any particular employee is the root cause of the entry errors.**

TIF 2–7 Tableau

Debit Credit Balance

	Day of Date						
Entry Type	July 14, 2022	July 15, 2022	July 18, 2022	July 19, 2022	July 20, 2022	July 21, 2022	July 22, 2022
Credit							
Debit	7,894	0	-7,894	3,542	-2,360	0	1,182

Difference in Amount broken down by Date Day vs. Entry Type.

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Instructor Manual

Warren, Corporate Financial Accounting, 17e, 2025, 9780357929629; Chapter 1: Introduction to Accounting and Business

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Purpose and Perspective of the Chapter

The purpose of this chapter is to introduce students to business and accounting. For many students, Chapter 1 of *Corporate Financial Accounting* is their first taste of the business or accounting disciplines. The teaching challenge is to get students to understand and accept the importance of learning business and accounting concepts. This will make the course more than just another requirement that students must complete to graduate. Because this chapter will set the tone for the entire course and the students' business careers, avoid the temptation to rush through the material.

Chapter 1 begins with a discussion of the nature of business and accounting and the different types of businesses (service, merchandising, and manufacturing). Next, the chapter describes the role of accounting in business. The chapter then moves on to business ethics and discusses how individual character, firm culture, and laws and enforcement affect ethics as well as examples of accounting/business fraud. Opportunities in accounting professions/careers are discussed. Following this introductory information, the text explains generally accepted accounting principles (GAAP), the characteristics of financial information, and the assumptions that form the basis of GAAP. The forms of business entities (proprietorships, partnerships, corporations, and limited liability companies) are described. The four principles of financial accounting (measurement, historical cost, revenue recognition, and expense recognition) are defined. The accounting equation is introduced, and then the discussion of how business transactions affect accounts in the accounting equation begins. When transactions are analyzed, changes in assets, liabilities, and stockholders' equity are stated as "increases" or "decreases"; the terms *debit* and *credit* are not introduced until Chapter 2. The components of the accounting equation are discussed using several transactions for a business called NetSolutions. Next are examples of how to prepare the four primary financial statements using the accounting equation information and explanations of how the four financial statements are interrelated. The chapter ends with an explanation of the ratio of liabilities to stockholders' equity and how it is particularly important to creditors.

Chapter Objectives

The following objectives are addressed in this chapter:

Obj. 1 Describe the nature of business and the role of accounting and ethics in business.

Obj. 2 Describe generally accepted accounting principles, including the underlying assumptions and principles.

Obj. 3 State the accounting equation and define each element of the equation.

Obj. 4 Describe and illustrate how business transactions can be recorded in terms of the resulting change in the elements of the accounting equation.

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Obj. 5 Describe the financial statements of a corporation and explain how they interrelate.

Obj. 6 Describe and illustrate the use of the ratio of liabilities to stockholders' equity in evaluating a company's financial condition.

Complete List of Chapter Activities and Assessments

The following table organizes activities and assessments by objective, so that you can see how all this content relates to objectives and make decisions about which content you would like to emphasize in your class based on your objectives. For additional guidance, refer to the Teaching Online Guide.

Chapter Objective	Activity/Assessment	Source (i.e., PPT slide, Workbook)
Obj. 1	Knowledge Check Activity 1	PPT Slides 5–6
Obj. 2	Discussion Activity 1	PPT Slides 22–23
Obj. 3	Discussion Activity 2	PPT Slides 25–26
Obj. 4	Knowledge Check Activity 2	PPT Slides 41–42
Obj. 5	Knowledge Check Activity 3	PPT Slides 54–55

[return to top]

Key Terms

Account payable: The liability created by a purchase on account.

Account receivable: An asset, which is a claim against the customer created by selling merchandise or services on credit.

Accounting: An information system that measures, records, and reports financial information about a company that assists and supports user decision making.

Accounting assumptions: Assumptions that provide the framework upon which accounting standards are constructed.

Accounting equation: The equation that shows the relationship among assets, liabilities, and equity; expressed as Assets = Liabilities + Equity.

Accounting principles: Principles that provide the framework upon which accounting standards are constructed.

Accounting standards: The rules that determine the accounting for individual business transactions.

Accounting Standards Codification: An electronic database maintained by the Financial Accounting Standards Board (FASB) that contains all of the accounting standards that make up the generally accepted accounting principles (GAAP).

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Accounting Standards Updates: Published changes to accounting standards that are the source of updates to the Accounting Standards Codification.

Arm's-length transactions: Transactions between two independent parties.

Assets: The resources owned by a business.

Balance sheet: A list of the assets, liabilities, and stockholders' equity as of a specific date, usually at the close of the last day of a month or a year.

Business: An organization in which basic resources (inputs), such as materials and labor, are assembled and processed to provide goods or services (outputs) to customers.

Business entity assumption: A concept of accounting that limits the economic data in the accounting system to data related directly to the activities of the business.

Business transaction: An economic event or condition that directly changes an entity's financial condition or directly affects its results of operations.

Certified Public Accountants (CPAs): Public accountants who have met a state's education, experience, and examination requirements.

Common stock: Certificates issued by a corporation to investors as proof of their ownership rights; an account representing the ownership rights of investors in a corporation; a class of stock issued by a corporation that bears no preference rights.

Comparability: A secondary characteristic of financial information; comparability includes consistent reporting, that allows users to identify similarities and differences among reported items.

Corporation: A business organized under state or federal statutes as a separate legal entity.

Cost principle: A concept of accounting that states that an asset should be recorded and maintained in the accounting records at its initial transaction price.

Data analytics: The science of analyzing raw data to discover patterns, identify anomalies, or gain other useful insights.

Dividends: Distributions of earnings to stockholders; an account representing the distribution of a corporation's earnings to stockholders.

Earnings: The amount by which revenues exceed expenses.

Equity: The rights of the owners of a business.

Ethics: Moral principles that guide the conduct of individuals.

Expense recognition principle: A principle, sometimes called the matching principle, that requires expenses to be recorded in the same period as the related revenue; a concept of accounting in which expenses are matched with the revenue generated during a period by those expenses.

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Expenses: Amounts used to generate revenue; assets used up or services consumed in the process of generating revenues.

Faithful representation: A characteristic of financial reports that pertains to information accurately reflecting an entity's economic activity or condition.

Fees earned: Revenue from providing services.

Financial accounting: The branch of accounting that is concerned with recording transactions using generally accepted accounting principles (GAAP) for a business or other economic unit and with a periodic preparation of various statements from such records.

Financial Accounting Standards Board (FASB): The authoritative body that has the primary responsibility for developing accounting principles.

Financial statements: Financial reports that summarize the effects of events on a business.

Financing activities: Activities by which a company obtains funds to start and operate the company.

Fiscal year: The annual accounting period adopted by a business.

Generally accepted accounting principles (GAAP): A collection of accounting standards, principles, and assumptions that define how financial information should be reported.

General-purpose financial statements: A type of financial accounting report that is distributed to external users. The term "general purpose" refers to the wide range of decision-making needs that the reports are designed to serve.

Going concern assumption: An assumption that requires that financial reports be prepared assuming that the entity will continue operating in the future.

Historical cost principle: A concept of accounting that states that an asset should be recorded and maintained in the accounting records at its initial transaction price.

Income statement: A summary of the revenue and expenses for a specific period of time, such as a month or a year.

Interest revenue: Earnings received for interest.

International Accounting Standards Board (IASB): An organization that issues International Financial Reporting Standards for many countries outside the United States.

Investing activities: Activities by which a company acquires long-term assets for use in the operating activities of the company.

Liabilities: The rights of creditors that represent debts of the business.

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Limited liability company (LLC): A business form consisting of one or more persons or entities filing an operating agreement with a state to conduct business with limited liability to the owners, yet treated as a partnership for tax purposes.

Managerial (or management) accounting: The branch of accounting that uses both historical and estimated data in providing internal users (management) with information relevant to decision making.

Manufacturing business: A type of business that changes basic inputs into products that are sold to customers.

Measurement principle: A principle that requires that amounts be objective and verifiable.

Monetary unit assumption: An accounting assumption that requires that financial reports be expressed in a single monetary unit, or currency.

Natural business year: A fiscal year that ends when business activities have reached the lowest point in an annual operating cycle.

Net income (or net profit): The amount by which revenues exceed expenses.

Net loss: The amount by which expenses exceed revenues.

Operating activities: Activities by which a company generates revenues from customers.

Owner's equity: The equity for a proprietorship, partnership, or a limited liability company.

Partnership: An unincorporated business form consisting of two or more persons conducting business as co-owners for profit.

Prepaid expenses: Assets created by making advanced payments for expense items, such as insurance premiums or supplies, that will be used in the business in the future.

Private accounting: The field of accounting whereby accountants are employed by a business firm or a not-for-profit organization.

Profit: The difference between the amounts received from customers for goods or services provided and the amounts paid for the inputs used to provide the goods or services.

Proprietorship: A business owned by one individual.

Public accounting: The field of accounting where accountants and their staff provide services on a fee basis.

Public Company Accounting Oversight Board (PCAOB): A new oversight body for the accounting profession that was established by the Sarbanes-Oxley Act.

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Ratio of liabilities to stockholders' equity: A comprehensive leverage ratio that measures the relationship of the claims of creditors to stockholders' equity; a solvency ratio that measures how much of the company is financed by debt and equity, computed as total liabilities divided by total stockholders' equity.

Relevant: A characteristic of financial reports that pertains to information having the potential to impact decision making.

Rent revenue: Earnings from property that is leased to others for use.

Report form: A form of balance sheet with the "Liabilities" and "Stockholders' Equity" sections presented below the "Assets" section.

Retained earnings: The stockholders' equity created from business operations through revenue and expense transactions; an account representing the net income retained in a corporation.

Retained earnings statement: A summary of the changes in the retained earnings in a corporation that have occurred during a specific period of time, such as a month or a year.

Revenue: Increases in owner's equity as a result of providing services or selling goods to customers.

Revenue recognition principle: A concept of accounting that states that revenues are recorded when earned, which is when the services have been performed or products have been delivered to customers.

Sales: How revenue from the sale of merchandise is recorded; the total amount charged customers for merchandise sold, including cash sales and sales on account.

Sarbanes-Oxley Act (SOX): An act passed by Congress to restore public confidence and trust in the financial statements of companies.

Securities and Exchange Commission (SEC): An agency of the U.S. government that has authority over the accounting and financial disclosures for companies whose shares of ownership (stock) are traded and sold to the public.

Service business: A business providing services rather than products to customers.

Statement of cash flows: A summary of the cash receipts and cash payments for a specific period of time, such as a month or a year.

Statement of stockholders' equity: A summary of the changes in the stockholders' equity in a corporation that have occurred during a specific period of time, such as a month or a year.

Stockholders' equity: The ownership rights of stockholders in a corporation; the stockholders' rights to the assets in a corporation after all liabilities have been paid.

Timeliness: A secondary characteristic of financial information that requires distribution of financial reports in time to influence a user's decision.

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Time period assumption: An accounting assumption that allows a company to report its economic activities on a regular basis for a specific period of time.

Understandability: A secondary characteristic of financial information that requires clear and concise financial reports that facilitate user interpretation and analysis.

Verifiability: A secondary characteristic of financial information that allows users to agree on the meaning of reported items.

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WHAT'S NEW IN THIS CHAPTER

See the Transition Guide for a list of improvements in this chapter from the previous edition.

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CHAPTER OUTLINE

The following outline organizes activities (including any existing discussion questions in PowerPoints or other supplements) and assessments by chapter (and therefore by topic), so that you can see how all the content relates to the topics covered in the text.

I. Nature of Business and Accounting (1-1, PPT Slides 3-13, BUSPROG: Analytic, AICPA: FN-Research)

   a. The first objective starts with a list of the three types of businesses: service, merchandising, and manufacturing. It defines each type of business and gives examples.
   b. **Knowledge Check Activity 1:** *Which of the following businesses would be considered a service business?* (Slides 5-6)
      - Southwest Airlines would be considered a service business.
      - Walmart and Starbucks would be considered merchandising businesses, and Ford Motor Company would be a manufacturer.
   c. Businesses engage in three types of activities: operating, investing, and financing. Exhibit 1 (PPT Slide 7) summarizes these three activities.
   d. The role of accounting in business is discussed along with the two types of users: internal and external.
   e. Accounting can be defined as an information system that provides reports to internal and external users about the economic activities and condition of a business as shown in Exhibit 2 (PPT Slide 9).
   f. Internal users require information from managerial accounting, while external users require information from financial accounting. To be useful, accounting information must be relevant, timely, and trustworthy.

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g. The failure of individual character and a culture of corporate greed and ethical indifference led to accounting and business frauds as shown in Exhibit 3 (PPT Slide 11). The Sarbanes-Oxley Act (SOX) was enacted in 2002 as a countermeasure to the fraud that was being committed. One of the many regulations that SOX established was a new oversight body for the accounting profession called the Public Company Accounting Oversight Board (PCAOB).
h. Opportunities for accountants are increasing as regulations increase, and people are beginning to realize the importance and value of accounting information. Exhibit 4 (PPT Slides 12 and 13) provides a list of accounting career paths and salaries.

II. Generally Accepted Accounting Principles (GAAP) (1-2, PPT Slides 14–23, BUSPROG: Analytic, AICPA: FN-Measurement)

a. Generally accepted accounting principles (GAAP) are used to prepare financial reports. This allows users to compare one company to another. In the United States, these principles are the responsibility of the Financial Accounting Standards Board (FASB). Companies that are publicly traded are also guided by the Securities and Exchange Commission (SEC).
b. The FASB works with the International Accounting Standards Board (IASB) to reduce differences between international and U.S. standards. This helps make global investment and business easier. Financial accounting and GAAP are based on assumptions regarding the monetary unit, time period, business entity, and going concern.
c. This chapter also introduces the four forms of business entities: sole proprietorship, partnership, corporation, and limited liability company (LLC). Exhibit 5 (PPT Slides 19 and 20) lists the types of business entities and the characteristics and advantages of each.
d. Financial accounting relies on principles regarding measurement, historical cost, revenue recognition, and expense recognition.
e. **Discussion Activity 1:** *In the following scenarios, which form of business entity do you think would be the best choice? Explain your reasons.* (Slides 22–23)
   - A group of three dentists opening a full-service dental office
   - A graphic design artist specializing in digital marketing
   - Five entrepreneurs opening a chain of hair salons
     - There are advantages and disadvantages for each type of business formation. Small businesses often select a sole proprietorship, although it does expose them to liability issues, including potential lawsuits.
     - For each of these scenarios, the answers may vary. Legal and medical professionals often select a form of partnership or LLC. An individual, such as the graphic artist, may choose to be a sole proprietor. When there are more people involved and the potential exists for shares to be issued, a corporation would be the best choice (likely for the hair salons).
     - What did you choose for each, and why? If you opened a business, which would you choose?

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f. More companies are relying on data analytics, which is the science of analyzing raw data to discover patterns, identify anomalies, or gain other useful insights. Because of accounting's role in providing useful information, accountants are increasingly using data analytics to help businesses make better decisions.

III. The Accounting Equation (1-3, PPT Slides 24–26, BUSPROG: Analytic, AICPA: FN-Measurement)

a. This objective defines assets, liabilities, and stockholders' equity and uses the accounting equation (Assets = Liabilities + Equity) to explain their relationship.
b. **Discussion Activity 2:** *Give an example of what a company might have as an asset and a liability. Then consider what an individual would have as an asset and a liability.* (Slides 25–26)
   - How would an asset differ from a business compared to an individual?
   - How would a liability differ from a business compared to an individual?
   - Can an individual calculate their net worth using the same accounting equation as a business?

IV. Business Transactions and the Accounting Equation (1-4, PPT Slides 27–42, BUSPROG: Analytic, AICPA: FN-Measurement)

a. Using a sample company called NetSolutions, this objective demonstrates how business transactions affect a company's financial condition.
b. Transactions, such as depositing cash, purchasing assets, selling services, and paying bills, affect the accounting equation. This shows students that through each transaction the two sides of the accounting equation must always be equal.
c. **Knowledge Check Activity 2:** *Hampshire Havens buys an adjoining piece of land to expand its golf course. It pays $89,000 in cash to acquire this land. Based on the accounting equation, what would be the effect of this transaction?* (Slides 41–42)
   - Cash would decrease by $89,000, and Land would increase by $89,000.

V. Financial Statements (1-5, PPT Slides 43–55, BUSPROG: Analytic, AICPA: FN-Reporting)

a. This objective shows the income statement, statement of stockholders' equity, balance sheet, and statement of cash flows. Exhibit 8 (PPT Slide 44) shows the order in which the financial statements are prepared.
b. Using the same NetSolutions example as the previous objective, the order, preparation, and relationship among the four financial statements is demonstrated. Each statement is prepared for a specific period of time, except the balance sheet; it is prepared for a point in time.
c. The income statement is the first one prepared: revenue minus expenses is known as net income; if expenses are greater than revenue, the excess is a net loss. The statement of stockholders' equity reports

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the changes in common stock and retained earnings; the balance sheet reports the amount of assets, liabilities, and stockholders' equity and must follow the accounting equation. The statement of cash flows has three sections: operating, investing, and financing activities. Exhibit 9 (PPT Slides 45 and 46) shows the four financial statements for NetSolutions. Exhibit 10 (PPT Slides 51 and 52) explains the interrelationships between the financial statements. The balance sheet is the connecting link between the financial statements, and this is shown in Exhibit 11 (PPT Slide 53).

d. **Knowledge Check Activity 3:** *Which financial statement would a stockholder want to review if they are interested in the company's sales and expenses?* (Slides 54–55)
    - The income statement would list a company's sales, expenses, and net income or net loss.

VI. Analysis for Decision Making: Ratio of Liabilities to Stockholders' Equity (1-6, PPT Slides 56–58, BUSPROG: Analytic, AICPA: FN-Measurement)

a. Using the financial statements prepared in the previous objective, the use of the ratio of liabilities to stockholders' equity is examined. The total liabilities amount is divided by the total stockholders' equity amount to calculate this ratio.
b. Because creditors have rights to a business's assets before the owner, this ratio is important to both owners and creditors. This ratio can affect how a business pays its creditors and foretells how well a business will do in poor economic conditions. As this ratio increases, the creditors and the business become more at risk. Examples of the ratio for Alphabet and Meta Platforms are shown on PPT Slides 57 and 58.

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Additional Discussion Questions

The following are discussion questions that do not appear in the text, PPTs, or courseware – they are for you to use as you wish. You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. Discussion: Importance of Accounting (Nature of Business and Accounting, 1-1, PPT Slide 8) Duration 10 minutes.
    a. The role of accounting is to provide information to businesses about their activities, including operating, investing, and financing. Why is "accounting" so important?
        i. Answer: Accounting is the language of business. Without an organized system that provides information to users about the economic activities and condition of a business, there would no guarantee of a company being profitable or continuing in existence.

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b. Why do I need to know about accounting if I am not going to be an accountant?
    i. Answer: Any business professional needs to be aware of the functions and information provided by an accounting system. Without these vital data, such as information on sales, expenses, assets, liabilities, and equity, a business cannot survive, nor can its owners be assured of its profitability. Basic financial statements, such as the income statement and balance sheet, provide useful information for all users, internal and external, regarding a business. For example, if you are a marketing manager, it is important to know the expenses of the company's product or service to ensure the items are sold at a price that will provide a profit. Every employee of a business has a responsibility to uphold the company's mission to attain and sustain profitability.

2. Discussion: Recording Financial Transactions (Business Transactions and the Accounting Equation, 1-4) Duration 10 minutes.
    a. Why can't I just use a computer program to do all my accounting? Isn't that what technology is for?
        i. Answer: Technology and software are extremely useful tools in all areas of business. Today's accounting software allows companies to record and process transactions very quickly and has lots of safeguards to protect against errors such as incorrect account numbers, math mistakes, unbalanced journal entries, and confusion in creating financial statements. However, financial and accounting systems are maintained by humans who need to provide directions and "rules" within the software programs. Accounting rules can change, and in certain areas, such as payroll processing, they vary from year to year or even more often—think of tax rate changes and employment laws. So while technology and accounting software are superb tools, it is important for trained employees to monitor the input and output carefully and to know how accounting works to use their judgment in processing data.

3. Discussion: Items Listed on Financial Statements (Financial Statements, 1-5, PPT Slides 47 and 49) Duration 15 minutes.
    a. The accounting system classifies different items into categories to help group similar items together for reporting and analysis. What is the difference between revenues and assets? Give examples of these items.
        i. Answer: Revenues are income derived from the sales of a company's products or services. These will change over time as the company grows or has seasonal activity. For example, a company such as Hershey's Food Corporation has increased sales prior to major holidays. A company's assets are resources that a company owns to provide the ability to earn revenues. For example, FedEx owns many delivery trucks and planes to earn revenues from delivering packages. Examples

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of assets include property, plant, and equipment, as well as cash, accounts receivable, and inventory.

b. What is the difference between expenses and liabilities? Give examples of these items.
    i. Answer: Expenses are costs incurred by a company to make a product or provide a service. Examples of expenses include rent, payroll costs, raw materials, shipping, travel, and many others. Liabilities are amounts owed by the company to another entity. Examples of liabilities include mortgages, accounts payable to vendors, bond interest payable to bondholders, etc.

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ADDITIONAL RESOURCES

The following are activities and assignments developed by Cengage but not included in the text, PPTs, or courseware – they are for you to use if you wish.

1. **Class Discussion Activity:** *Types of Businesses* (Reflective Thinking, Critical Thinking, 1-1, PPT Slide 4) Duration 15 minutes.
    a. Have the class provide the names of businesses they have patronized in the past week. Include places they have shopped, eating establishments, products they use every day, and services they have used. When listing products, name the manufacturer; for iPod, for example, the manufacturer would be Apple. List these on the board or overhead.
        i. Answer: Student answers will vary.
    b. Have the students identify each listed business as service, manufacturing, or manufacturing. Some will cross over categories. Nike, for example, manufactures products and owns retail outlets.
        i. Answer: Student answers will vary.
2. **Class Discussion Activity:** *Role of Ethics in Accounting and Business* (Reflective Thinking, Critical Thinking, 1-1, PPT Slide 10) Duration 20 minutes.
    a. Lauren Smith is the controller for Sports Central, a chain of sporting goods stores. She has been asked to recommend a site for a new store. Lauren has an uncle who owns a shopping plaza in the area of town where the new store is to be located, so she decides to contact her uncle about leasing space in his plaza. Lauren also contacted several other shopping plazas and malls, but her uncle's store turned out to be the most economical place to lease. Therefore, Lauren recommended locating the new store in her uncle's shopping plaza. In making her recommendation to management, she did not disclose that her uncle owns the shopping plaza. Discuss whether or not the accountant acted ethically.
        i. Answer: Lauren has a conflict of interest in recommending her uncle's shopping plaza as a site for the new store. After reviewing the data, management at Sports Central may agree with Lauren that her uncle's plaza is the most economical

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place to lease; however, Lauren should not make that recommendation without disclosing the family relationship. By hiding the conflict of interest, Lauren appears to lack integrity.

b. John Jones is the chief accountant for the southwest district office of Security Life Insurance Company. While preparing the fourth-quarter sales report, John overheard the company president say that he would close Security's Phoenix office if it did not meet its fourth-quarter sales quota. John's best friend from college works at the Phoenix office. Anxious to find out whether the office was in jeopardy, John immediately finished the Phoenix office's report, only to find that it showed sales 25% below the quota. Later that afternoon, the company president called John for Phoenix's sales results. John told the president that he had not finished preparing the sales report for the Phoenix office. John wanted time to compile data that might convince the president to continue operations in Phoenix, despite lagging sales. Discuss whether or not the accountant acted ethically.
    i. Answer: Management accountants must communicate all information, both good and bad, fairly and objectively. It is not ethical to mislead management by withholding available information.

3. **Writing Exercises Activity:** *Business Entity and Cost Concept* (Reflective Thinking, Measurement, 1-2, PPT Slide 18) Duration 20 minutes.
    a. Sally Vertrees purchased a personal computer for use at home. Sally owns a dental practice. She occasionally uses the computer for a task related to her dental practice; however, the computer is used primarily by Sally's children. Can the computer be recorded as an asset in the accounting records of Sally's dental office? Why or why not?
        i. Answer: This is not the proper use of the business entity assumption. Purchasing items for personal use from business funds will affect the reporting of how successful or unsuccessful a business purports to be for a financial period.
    b. Jason Thompson purchased an office building 10 years ago for $780,000. The building was just appraised at $1.25 million. What value should be used for the building in Jason's accounting records? Support your answer.
        i. Answer: This is a clear example of the cost principle. Assets are recorded at cost and remain on the business books at cost until they are disposed of. Future economic conditions may change this appraised value; therefore, no adjustment is made until the asset is sold.
4. **Class Discussion and Online Activity:** *Types of Business Organizations* (Reflective Thinking, Critical Thinking, 1-2, PPT Slides 19 and 20) Duration 20 minutes.
    a. Ask students to name examples of businesses in the business entity categories of proprietorship, partnership, corporation, and limited liability corporation. Explain that they will be learning about accounting concepts related to businesses organized as corporations. Have them look online to find examples of each type.
        i. Answer: Student answers will vary. It may be a challenge to find businesses that fall under the category of limited liability

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corporation. Ask students what the advantages would be for each category.

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