Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

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Chapter 2

Financial Statements and the Accounting System

QUESTIONS

1. a. Common asset accounts: cash, accounts receivable, notes receivable, prepaid expenses (rent, insurance, etc.), office supplies, store supplies, equipment, building, and land.

   b. Common liability accounts: accounts payable, notes payable, and unearned revenue, wages payable, and taxes payable.

   c. Common equity accounts: common stock and dividends.

2. A note payable is formal promise, usually denoted by signing a promissory note to pay a future amount. A note payable can be short-term or long-term, depending on when it is due. An account payable also references an amount owed to an entity. An account payable can be oral or implied, and often arises from the purchase of inventory, supplies, or services. An account payable is usually short-term.

3. There are several steps in processing transactions: (1) Identify and analyze the transaction or event, including the source document(s), (2) apply double-entry accounting, (3) record the transaction or event in a journal, and (4) post the journal entry to the ledger. These steps would be followed by preparation of a trial balance and then with the reporting of financial statements.

4. A general journal can be used to record any business transaction or event.

5. Debited accounts are commonly recorded first. The credited accounts are commonly indented.

6. A transaction is first recorded in a journal to create a complete record of the transaction in one place. (The journal is often referred to as the book of original entry.) This process reduces the likelihood of errors in ledger accounts.

7. Expense accounts have debit balances because they are decreases to equity (and equity has a credit balance).

8. The recordkeeper prepares a trial balance to summarize the contents of the ledger and to verify the equality of total debits and total credits. The trial balance also serves as a helpful internal document for preparing financial statements and other reports.

9. The error should be corrected with a separate (subsequent) correcting entry. The entry's explanation should describe why the correction is necessary.

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10. **The four financial statements are: income statement, balance sheet, statement of retained earnings, and statement of cash flows.**

11. **The balance sheet provides information that helps users understand a company's financial position at a point in time. Accordingly, it is often called the statement of financial position. The balance sheet lists the types and dollar amounts of assets, liabilities, and equity of the business.**

12. **The income statement lists the types and amounts of revenues and expenses, and reports whether the business earned a net income (also called profit or earnings) or a net loss.**

13. **An income statement user must know what time period is covered to judge whether the company's performance is satisfactory. For example, a statement user would not be able to assess whether the amounts of revenue and net income are satisfactory without knowing whether they were earned over a week, a month, a quarter, or a year.**

14. **(a) Assets are probable future economic benefits obtained or controlled by a specific entity as a result of past transactions or events. (b) Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. (c) Equity is the residual interest in the assets of an entity that remains after deducting its liabilities. (d) Net assets refer to equity.**

15. **The balance sheet is sometimes referred to as the statement of financial position.**

16. **Debit balance accounts on the Apple balance sheet include: Cash and cash equivalents; Short-term marketable securities; Accounts receivable; Inventories; Deferred tax assets; Vendor non-trade receivables; Other current assets; Long-term marketable securities; Property, plant and equipment, net; Goodwill; Acquired intangible assets, net; Goodwill; Acquired intangible assets, net; Other assets.**

    Credit balance accounts on the Apple balance sheet include: Accounts Payable; Accrued expenses; Deferred revenue; Commercial paper; Deferred revenue–non-current; Long-term debt; Other non-current liabilities; Common stock; Retained earnings; Accumulated other comprehensive income.

17. **The asset accounts with *receivable* in its account title are: Accounts receivable, net; Receivable under reverse repurchase agreements; Income taxes receivable, net. The liabilities with *payable* in the account title are: Accounts payable; Securities lending payable; Income taxes payable, net; Income taxes payable, non-current.**

18. **Samsung's balance sheet lists the following current liabilities: Trade and other payables; Short-term borrowings; Other payables; Advances received; Withholdings; Accrued expenses; Income tax payable; Current portion of long-term borrowings and debentures; Provisions; Other current liabilities; Liabilities held for sale.**

    Samsung's balance sheet lists the following noncurrent liabilities: Debentures; Long-term borrowings; Long-term other payables; Net defined benefit liabilities; Deferred income tax liabilities; Provisions; Other non-current liabilities.

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QUICK STUDIES

Quick Study 2-1 (10 minutes)

The likely source documents include:

a. Sales ticket
d. Telephone bill
e. Invoice from supplier
h. Bank statement

Quick Study 2-2 (5 minutes)

a.	**A**	**Asset**
b.	**A**	**Asset**
c.	**A**	**Asset**
d.	**A**	**Asset**
e.	**A**	**Asset**
f.	**EQ**	**Equity**
g.	**L**	**Liability**
h.	**L**	**Liability**
i.	**EQ**	**Equity**

Quick Study 2-3 (5 minutes)

a.	**E**	**Expense**	**655**
b.	**R**	**Revenue**	**406**
c.	**A**	**Asset**	**110**
d.	**A**	**Asset**	**191**
e.	**L**	**Liability**	**208**
f.	**A**	**Asset**	**161**
g.	**L**	**Liability**	**245**
h.	**EQ**	**Equity**	**307**
i.	**E**	**Expense**	**690**

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Quick Study 2-4 (10 minutes)

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

Quick Study 2-5 (10 minutes)

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

Quick Study 2-6 (15 minutes)

a.

1) Analyze:

Assets			=	Liabilities	+	Equity
Cash		Equipment				Common Stock
7,000	+	3,000	=	0	+	10,000

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 15	Cash	101	7,000	
	Equipment	167	3,000	
	Common Stock	307		10,000
	Owner invests cash & equipment for stock.			

3) Post

Cash 101	
7,000	

Equipment 167	
3,000	

Common Stock 307	
	10,000

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Quick Study 2-6 (Continued)

b.

1) Analyze:

Assets	=	Liabilities	+	Equity
Office Supplies		Accounts Payable		
500	=	500	+	0

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 21	Office Supplies	124	500	
	Accounts Payable	201		500
	Purchased office supplies on credit.			

3) Post

Office Supplies 124	
500	

Accounts Payable 201	
	500

c.

1) Analyze:

Assets	=	Liabilities	+	Equity
Cash				Landscaping Revenue
4,000	=	0	+	4,000

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 25	Cash	101	4,000	
	Landscaping Revenue	403		4,000
	Received cash for landscaping services.			

3) Post

Cash 101	
4,000	

Landscaping Revenue 403	
	4,000

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Quick Study 2-6 (Continued)

d.

1) Analyze:

Assets	=	Liabilities	+	Equity
Cash		Unearned Landscaping Revenue		
1,000	=	1,000	+	0

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 30	Cash	101	1,000	
	Unearned Landscaping Revenue	236		1,000
	Received cash in advance for landscaping services.			

3) Post

Cash		101
1,000		

Unearned Landscaping Revenue		236
		1,000

Quick Study 2-7 (10 minutes)

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

Quick Study 2-8 (10 minutes)

The correct answer is a.

Explanation: **If a $2,250 debit to Utilities Expense is incorrectly posted as a credit, the effect is to understate the Utilities Expense debit balance by $4,500. This causes the Debit column total on the trial balance to be $4,500 less than the Credit column total.**

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Quick Study 2-9 (10 minutes)

a.	I	e.	B	i.	E
b.	B	f.	B	j.	B
c.	B	g.	B	k.	I
d.	I	h.	I	l.	I

Quick Study 2-10 (10 minutes)

a. Accounting under IFRS follows the same debit and credit system as under US GAAP.

b. The same four basic financial statements are prepared under IFRS and US GAAP: income statement, balance sheet, statement of changes in equity, and statement of cash flows. Although some variations from these titles exist within both systems, the four basic statements are present.

c. Accounting reports under both IFRS and US GAAP are likely different depending on the extent of accounting controls and enforcement. For example, the absence of controls and enforcement increase the possibility of fraudulent transactions and misleading financial statements. Without controls and enforcement, all accounting systems run the risk of abuse and manipulation.

Quick Study 2-11 (10 minutes)

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} = \frac{\$30{,}624 \text{ mil}}{\$39{,}946 \text{ mil}} = 76.7\%$$

Interpretation: Its debt ratio of 76.7% exceeds the 60% of its competitors. Home Depot's financial leverage, and accordingly its riskiness, can be judged as above average based on the debt ratio.

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EXERCISES

Exercise 2-1 (10 minutes)

4 a. Prepare and analyze the trial balance.

1 b. Analyze each transaction from source documents.

2 c. Record relevant transactions in a journal.

3 d. Post journal information to ledger accounts.

Exercise 2-2 (10 minutes)

a. 5 "Three"

b. 2 "Equity"

c. 4 "Liability"

d. 1 "Asset"

e. 3 "Account"

Exercise 2-3 (5 minutes)

a. 1 "Chart"

b. 2 "General Ledger"

Exercise 2-4 (15 minutes)

	Account	Type of Account	Normal Balance	Increase (Dr. or Cr.)
a.	Land	asset	debit	debit
b.	Cash	asset	debit	debit
c.	Legal Expense	expense	debit	debit
d.	Prepaid Insurance	asset	debit	debit
e.	Accounts Receivable	asset	debit	debit
f.	Dividends	equity	debit	debit
g.	License Fee Revenue	revenue	credit	credit
h.	Unearned Revenue	liability	credit	credit
i.	Fees Earned	revenue	credit	credit
j.	Equipment	asset	debit	debit
k.	Notes Payable	liability	credit	credit
l.	Common Stock	equity	credit	credit

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Exercise 2-5 (15 minutes)

Of the items listed, the following effects should be included:

a. $28,000 increase in a liability account.

b. $10,000 increase in the Cash account.

e. $62,000 increase in a revenue account.

Explanation: This transaction created $62,000 in revenue, which is the value of the service provided. Payment is received in the form of a $10,000 increase in cash, an $80,000 increase in computer equipment, and a $28,000 increase in its liabilities. The net value received by the company is $62,000.

Exercise 2-6 (15 minutes)

a.	**Beginning accounts payable (credit)**	**$152,000**
	Purchases on account in October (credits)	**281,000**
	Payments on accounts in October (debits)	**(?)**
	Ending accounts payable (credit)	**$132,500**
	Payments on accounts in October (debits)	**$300,500**
b.	**Beginning accounts receivable (debit)**	**$102,500**
	Sales on account in October (debits)	**?**
	Collections on account in October (credits)	**(102,890)**
	Ending accounts receivable (debit)	**$ 89,000**
	Sales on account in October (debits)	**$ 89,390**
c.	**Beginning cash balance (debit)**	**$?**
	Cash received in October (debits)	**102,500**
	Cash disbursed in October (credits)	**(103,150)**
	Ending cash balance (debit)	**$ 18,600**
	Beginning cash balance (debit)	**$ 19,250**

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Exercise 2-7 (25 minutes)

Aug. 1	Cash	6,500	
	Photography Equipment	33,500	
	Common Stock		40,000
	Owner investment in business for stock.		
2	Prepaid Insurance	2,100	
	Cash		2,100
	Acquired 2 years of insurance coverage.		
5	Office Supplies	880	
	Cash		880
	Purchased office supplies.		
20	Cash	3,331	
	Photography Fees Earned		3,331
	Collected photography fees.		
31	Utilities Expense	675	
	Cash		675
	Paid for August utilities.		

Exercise 2-8 (30 minutes)

Cash

Aug. 1	6,500	Aug. 2	2,100
20	3,331	5	880
		31	675
Balance	6,176		

Photography Equipment

Aug. 1	33,500		

Common Stock

		Aug. 1	40,000

Office Supplies

Aug. 5	880		

Photography Fees Earned

		Aug. 20	3,331

Prepaid Insurance

Aug. 2	2,100		

Utilities Expense

Aug. 31	675		

POSE-FOR-PICS
Trial Balance
August 31

	Debit	*Credit*
Cash	$ 6,176	
Office supplies	880	
Prepaid insurance	2,100	
Photography equipment	33,500	
Common stock		$40,000
Photography fees earned		3,331
Utilities expense	675	
Totals	$43,331	$43,331

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Exercise 2-9 (30 minutes)

a.	Cash	100,750	
	Common Stock		100,750
	Owner invested in the business for stock.		
b.	Office Supplies	1,250	
	Cash		1,250
	Purchased supplies with cash.		
c.	Office Equipment	10,050	
	Accounts Payable		10,050
	Purchased office equipment on credit.		
d.	Cash	15,500	
	Fees Earned		15,500
	Received cash from customer for services.		
e.	Accounts Payable	10,050	
	Cash		10,050
	Made payment toward account payable.		
f.	Accounts Receivable	2,700	
	Fees Earned		2,700
	Billed customer for services provided.		
g.	Rent Expense	1,225	
	Cash		1,225
	Paid for this period's rental charge.		
h.	Cash	1,125	
	Accounts Receivable		1,125
	Received cash toward an account receivable.		
i.	Dividends	10,000	
	Cash		10,000
	Paid cash dividends.		

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Exercise 2-9 (concluded)

Cash			
(a)	100,750	(b)	1,250
(d)	15,500	(e)	10,050
(h)	1,125	(g)	1,225
		(i)	10,000
Balance	94,850		

Accounts Payable			
(e)	10,050	(c)	10,050
		Balance	0

Common Stock			
		(a)	100,750
		Balance	100,750

Accounts Receivable			
(f)	2,700	(h)	1,125
Balance	1,575		

Dividends			
(i)	10,000		
Balance	10,000		

Office Supplies			
(b)	1,250		
Balance	1,250		

Fees Earned			
		(d)	15,500
		(f)	2,700
		Balance	18,200

Office Equipment			
(c)	10,050		
Balance	10,050		

Rent Expense			
(g)	1,225		
Balance	1,225		

Exercise 2-10 (15 minutes)

SPADE COMPANY Trial Balance May 31, 2016	*Debit*	*Credit*
Cash	$ 94,850	
Accounts receivable	1,575	
Office supplies	1,250	
Office equipment	10,050	
Accounts payable		$ 0
Common stock		100,750
Dividends	10,000	
Fees earned		18,200
Rent expense	1,225	
Totals	$118,950	$118,950

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Exercise 2-11 (20 minutes)

Transactions that created expenses:

b.	**Salaries Expense**	**1,233**	
	Cash		**1,233**
	Paid salary of receptionist.		
d.	**Utilities Expense**	**870**	
	Cash		**870**
	Paid utilities for the office.		

[Note: Expenses are outflows or using up of assets (or the creation of liabilities) that occur in the process of providing goods or services to customers.]

Transactions a, c, and e are not expenses for the following reasons:

a. This transaction decreased assets in settlement of a previously existing liability, and equity did not change. Cash payment does not mean the same as using up of assets (expense is recorded when the supplies are used).

c. This transaction involves the purchase of an asset. The form of the company's assets changed, but total assets did not change, and the equity did not decrease.

e. This transaction is a distribution of cash to the owner. Even though equity decreased, the decrease did not occur in the process of providing goods or services to customers.

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Exercise 2-12 (20 minutes)

Transactions that created revenues:

b.	Accounts Receivable	2,300	
	Services Revenue		2,300
	Provided services on credit.		
c.	Cash	875	
	Services Revenue		875
	Provided services for cash.		

[Note: Revenues are inflows of assets (or decreases in liabilities) received in exchange for goods or services provided to customers.]

Transactions that did not create revenues along with the reasons are:

a. This transaction brought in cash, but this is an owner investment.

d. This transaction brought in cash, but it created a liability because the services have not yet been provided to the client.

e. This transaction changed the form of the asset from accounts receivable to cash. Total assets were not increased (revenue was recognized when the receivable was originally recorded).

f. This transaction brought in cash and increased assets, but it also increased a liability by the same amount (no goods or services were provided to generate revenue).

Exercise 2-13 (25 minutes)

a. Belle created a new business and invested $6,000 cash, $7,600 of equipment, and $12,000 in automobiles in exchange for stock.

b. Paid $4,800 cash in advance for insurance coverage.

c. Paid $900 cash for office supplies.

d. Purchased $300 of office supplies and $9,700 of equipment on credit.

e. Received $4,500 cash for delivery services provided.

f. Paid $1,600 cash towards accounts payable.

g. Paid $820 cash for gas and oil expenses.

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Exercise 2-14 (30 minutes)

a.	Cash	6,000	
	Equipment	7,600	
	Automobiles	12,000	
	Common Stock		25,600
	Owner investment in company for stock.		
b.	Prepaid Insurance	4,800	
	Cash		4,800
	Purchased insurance coverage.		
c.	Office Supplies	900	
	Cash		900
	Purchased supplies with cash.		
d.	Office Supplies	300	
	Equipment	9,700	
	Accounts Payable		10,000
	Purchased supplies and equipment on credit.		
e.	Cash	4,500	
	Delivery Services Revenue		4,500
	Received cash from customer for services provided.		
f.	Accounts Payable	1,600	
	Cash		1,600
	Made payment on payables.		
g.	Gas and Oil Expense	820	
	Cash		820
	Paid for gas and oil.		

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Exercise 2-15 (20 minutes)

Calculation of change in equity for *part a* through *part d*

	Assets	-	Liabilities	=	Equity
Beginning of the year	$ 60,000	-	$20,000	=	$40,000
End of the year	105,000	-	36,000	=	69,000
Net increase in equity					$29,000

a.

Net income	$?
Plus owner investments	0
Less dividends	(0)
Change in equity	$29,000

Net Income = $29,000

Since there were no additional investments or dividends, the net income for the year equals the net increase in equity.

b.

Net income	$?
Plus owner investments	0
Less dividends ($1,250/mo. x 12 mo.)	(15,000)
Change in equity	$29,000

Net Income = $44,000

The dividends were added back because they reduced equity without reducing net income.

c.

Net income	$?
Plus owner investment	55,000
Less dividends	(0)
Change in equity	$29,000

Net Loss = $26,000

The investment was deducted because it increased equity without creating net income.

d.

Net income	$?
Plus owner investment	35,000
Less dividends ($1,250/mo. X 12 mo.)	(15,000)
Change in equity	$29,000

Net Income = $9,000

The dividends were added back because they reduced equity without reducing net income and the investments were deducted because they increased equity without creating net income.

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Exercise 2-16 (15 minutes)

HELP TODAY Income Statement For Month Ended August 31		
Revenues		
Consulting fees earned		$ 27,000
Expenses		
Rent expense	$ 9,550	
Salaries expense	5,600	
Telephone expense	860	
Miscellaneous expenses	520	
Total expenses		16,530
Net income		$ 10,470

Exercise 2-17 (15 minutes)

HELP TODAY Statement of Retained Earnings For Month Ended August 31	
Retained earnings, July 31	$ 0
Add: Net income (from Exercise 2-16)	10,470
	10,470
Less: Dividends	6,000
Retained earnings, August 31	$ 4,470

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Exercise 2-18 (15 minutes)

HELP TODAY
Balance Sheet
August 31

Assets		*Liabilities*	
Cash	$ 25,360	Accounts payable	$ 10,500
Accounts receivable	22,360		
Office supplies	5,250	*Equity*	
Office equipment	20,000	Common stock	102,000
Land	44,000	Retained earnings*	4,470
Total assets	$116,970	Total liabilities & equity	$116,970

* Amount from Exercise 2-17.

Exercise 2-19 (15 minutes)

	(a)	(b)	(c)	(d)
Answers	$(28,000)	$42,000	$73,000	$(45,000)
Computations:				
Equity, Dec. 31, 2015	$ 0	$ 0	$ 0	$ 0
Owner's investments	110,000	42,000	87,000	210,000
Dividends	(28,000)	(47,000)	(10,000)	(55,000)
Net income (loss)	22,000	90,000	(4,000)	(45,000)
Equity, Dec. 31, 2016	$104,000	$85,000	$73,000	$110,000

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Exercise 2-20 (20 minutes)

	Description	(1) Difference between Debit and Credit Columns	(2) Column with the Larger Total	(3) Identify account(s) incorrectly stated	(4) Amount that account(s) is overstated or understated
a.	$3,600 debit to Rent Expense is posted as a $1,340 debit.	$2,260	Credit	Rent Expense	Rent Expense is understated by $2,260
b.	$6,500 credit to Cash is posted twice as two credits to Cash.	$6,500	Credit	Cash	Cash is understated by $6,500
c.	$10,900 debit to the Dividends account is debited to Common Stock	$0	—	Common Stock Dividends	Common Stock is understated by $10,900 Dividends is understated by $10,900
d.	$2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense.	$0	—	Prepaid Insurance Insurance Expense	Prepaid Insurance is understated by $2,050 Insurance Expense is overstated by $2,050
e.	$38,000 debit to Machinery is posted as a debit to Accounts Payable.	$0	—	Machinery Accounts Payable	Machinery is understated by $38,000 Accounts Payable is understated by $38,000
f.	$5,850 credit to Services Revenue is posted as a $585 credit.	$5,265	Debit	Services Revenue	Services Revenue is understated by $5,265
g.	$1,390 debit to Store Supplies is not posted.	$1,390	Credit	Store Supplies	Store Supplies is understated by $1,390

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Exercise 2-21 (15 minutes)

a. The debit column is correctly stated because the erroneous debit (to Accounts Payable) is deducted from an account with a (larger assumed) credit balance.

b. The credit column is understated by $37,900 because Accounts Payable was debited — it should have been credited.

c. The Automobiles account balance is correctly stated.

d. The Accounts Payable account balance is understated by $37,900. It should have been increased (credited) by $18,950 but the posting error decreased (debited) it by $18,950.

e. The credit column is $37,900 less than the debit column, or $162,100 in total ($200,000 - $37,900).

Exercise 2-22 (10 minutes)

HEINEKEN N.V.
Balance Sheet (in Euro millions)
December 31, 2014

Assets		Equity and liabilities	
Noncurrent assets	€ 28,744	Total equity	€ 13,452
Current assets	6,086	Noncurrent liabilities	12,846
		Current liabilities	8,532
Total assets	€ 34,830	Total equity and liabilities	€ 34,830

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Exercise 2-23 (15 minutes)

a.

Co.	Liabilities	/	Assets	=	Debt Ratio	Net Income	/	Average Assets	=	ROA
1	$11,765		$ 90,500		0.13	$20,000		$100,000		0.200
2	46,720		64,000		0.73	3,800		40,000		0.095
3	26,650		32,500		0.82	650		50,000		0.013
4	55,860		147,000		0.38	21,000		200,000		0.105
5	31,280		92,000		0.34	7,520		40,000		0.188
6	52,250		104,500		0.50	12,000		80,000		0.150

b. Company 3 relies most heavily on creditor (non-owner) financing with 82% of its assets financed by liabilities.

c. Company 1 relies least on creditor (non-owner) financing at only 13%. This implies that 87% of the assets are financed by equity (owners).

d. The companies with the highest debt ratios indicate the greatest risk. The two companies with the highest debt ratios are 2 and 3.

e. Company 1 yields the highest return on assets at 20%; followed by Company 5 at 18.8%.

f. As an investor, one prefers high returns at low risk. Company 1 is the preferred investment since it yields the lowest risk (debt ratio is 13%) and highest return on assets (20%).

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PROBLEM SET A

Problem 2-1A (90 minutes)

Part 1

April 1	Cash	101	80,000	
	Office Equipment	163	26,000	
	Common Stock	307		106,000
	Owner invested cash and equipment for stock.			
2	Prepaid Rent	131	9,000	
	Cash	101		9,000
	Prepaid twelve months' rent.			
3	Office Equipment	163	8,000	
	Office Supplies	124	3,600	
	Accounts Payable	201		11,600
	Purchased equip. & supplies on credit.			
6	Cash	101	4,000	
	Services Revenue	403		4,000
	Received cash for services.			
9	Accounts Receivable	106	6,000	
	Services Revenue	403		6,000
	Billed client for completed work.			
13	Accounts Payable	201	11,600	
	Cash	101		11,600
	Paid balance due on account.			
19	Prepaid Insurance	128	2,400	
	Cash	101		2,400
	Paid premium for insurance.			
22	Cash	101	4,400	
	Accounts Receivable	106		4,400
	Collected part of amount owed by client.			
25	Accounts Receivable	106	2,890	
	Services Revenue	403		2,890
	Billed client for completed work.			
28	Dividends	319	5,500	
	Cash	101		5,500
	Paid cash dividends.			
29	Office Supplies	124	600	
	Accounts Payable	201		600
	Purchased supplies on account.			
30	Utilities Expense	690	435	
	Cash	101		435
	Paid monthly utility bill.			

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Problem 2-1A *(Continued)*
Part 2

Cash **Acct. No. 101**

Date		Explanation	PR	Debit	Credit	Balance
April	1		G1	80,000		80,000
	2		G1		9,000	71,000
	6		G1	4,000		75,000
	13		G1		11,600	63,400
	19		G1		2,400	61,000
	22		G1	4,400		65,400
	28		G1		5,500	59,900
	30		G1		435	59,465

Accounts Receivable **Acct. No. 106**

Date		Explanation	PR	Debit	Credit	Balance
April	9		G1	6,000		6,000
	22		G1		4,400	1,600
	25		G1	2,890		4,490

Office Supplies **Acct. No. 124**

Date		Explanation	PR	Debit	Credit	Balance
April	3		G1	3,600		3,600
	29		G1	600		4,200

Prepaid Insurance **Acct. No. 128**

Date		Explanation	PR	Debit	Credit	Balance
April	19		G1	2,400		2,400

Prepaid Rent **Acct. No. 131**

Date		Explanation	PR	Debit	Credit	Balance
April	2		G1	9,000		9,000

Office Equipment **Acct. No. 163**

Date		Explanation	PR	Debit	Credit	Balance
April	1		G1	26,000		26,000
	3		G1	8,000		34,000

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Problem 2-1A *(Continued)*

Accounts Payable **Acct. No. 201**

Date		Explanation	PR	Debit	Credit	Balance
April	3		G1		11,600	11,600
	13		G1	11,600		0
	29		G1		600	600

Common Stock **Acct. No. 307**

Date		Explanation	PR	Debit	Credit	Balance
April	1		G1		106,000	106,000

Dividends **Acct. No. 319**

Date		Explanation	PR	Debit	Credit	Balance
April	28		G1	5,500		5,500

Services Revenue **Acct. No. 403**

Date		Explanation	PR	Debit	Credit	Balance
April	6		G1		4,000	4,000
	9		G1		6,000	10,000
	25		G1		2,890	12,890

Utilities Expense **Acct. No. 690**

Date		Explanation	PR	Debit	Credit	Balance
April	30		G1	435		435

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Problem 2-1A *(Continued)*
Part 3

LINKWORKS Trial Balance April 30	Debit	Credit
Cash	$ 59,465	
Accounts receivable	4,490	
Office supplies	4,200	
Prepaid insurance	2,400	
Prepaid rent	9,000	
Office equipment	34,000	
Accounts payable		$ 600
Common stock		106,000
Dividends	5,500	
Services revenue		12,890
Utilities expense	435	
Total	$119,490	$119,490

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Problem 2-2A (90 minutes)
Part 1

a.	**Cash**	**101**	**100,000**	
	Office Equipment	**163**	**5,000**	
	Drafting Equipment	**164**	**60,000**	
	Common Stock	**307**		**165,000**
	Owner invested cash and equipment for stock.			
b.	**Land**	**172**	**49,000**	
	Cash	**101**		**6,300**
	Notes Payable	**250**		**42,700**
	Purchased land with cash and note payable.			
c.	**Building**	**170**	**55,000**	
	Cash	**101**		**55,000**
	Purchased building.			
d.	**Prepaid Insurance**	**108**	**3,000**	
	Cash	**101**		**3,000**
	Purchased 18-month insurance policy.			
e.	**Cash**	**101**	**6,200**	
	Engineering Fees Earned	**402**		**6,200**
	Collected cash for completed work.			
f.	**Drafting Equipment**	**164**	**20,000**	
	Cash	**101**		**9,500**
	Notes Payable	**250**		**10,500**
	Purchased equipment with cash and note payable.			
g.	**Accounts Receivable**	**106**	**14,000**	
	Engineering Fees Earned	**402**		**14,000**
	Completed services for client.			
h.	**Office Equipment**	**163**	**1,150**	
	Accounts Payable	**201**		**1,150**
	Purchased equipment on credit.			

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Problem 2-2A ***(Part 1 Continued)***

i.	**Accounts Receivable**	**106**	**22,000**	
	Engineering Fees Earned	**402**		**22,000**
	Billed client for completed work.			
j.	**Equipment Rental Expense**	**602**	**1,333**	
	Accounts Payable	**201**		**1,333**
	Incurred equipment rental expense.			
k.	**Cash**	**101**	**7,000**	
	Accounts Receivable	**106**		**7,000**
	Collected cash on account.			
l.	**Wages Expense**	**601**	**1,200**	
	Cash	**101**		**1,200**
	Paid assistant's wages.			
m.	**Accounts Payable**	**201**	**1,150**	
	Cash	**101**		**1,150**
	Paid amount due on account.			
n.	**Repairs Expense**	**604**	**925**	
	Cash	**101**		**925**
	Paid for repair of equipment.			
o.	**Dividends**	**319**	**9,480**	
	Cash	**101**		**9,480**
	Paid cash dividends.			
p.	**Wages Expense**	**601**	**1,200**	
	Cash	**101**		**1,200**
	Paid assistant's wages.			
q.	**Advertising Expense**	**603**	**2,500**	
	Cash	**101**		**2,500**
	Paid for advertising expense.			

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Problem 2-2A *(Continued)*
Part 2

Cash — No. 101

Date	PR	Debit	Credit	Balance
(a)		100,000		100,000
(b)			6,300	93,700
(c)			55,000	38,700
(d)			3,000	35,700
(e)		6,200		41,900
(f)			9,500	32,400
(k)		7,000		39,400
(l)			1,200	38,200
(m)			1,150	37,050
(n)			925	36,125
(o)			9,480	26,645
(p)			1,200	25,445
(q)			2,500	22,945

Accounts Receivable — No. 106

Date	PR	Debit	Credit	Balance
(g)		14,000		14,000
(i)		22,000		36,000
(k)			7,000	29,000

Prepaid Insurance — No. 108

Date	PR	Debit	Credit	Balance
(d)		3,000		3,000

Office Equipment — No. 163

Date	PR	Debit	Credit	Balance
(a)		5,000		5,000
(h)		1,150		6,150

Drafting Equipment — No. 164

Date	PR	Debit	Credit	Balance
(a)		60,000		60,000
(f)		20,000		80,000

Building — No. 170

Date	PR	Debit	Credit	Balance
(c)		55,000		55,000

Land — No. 172

Date	PR	Debit	Credit	Balance
(b)		49,000		49,000

Accounts Payable — No. 201

Date	PR	Debit	Credit	Balance
(h)			1,150	1,150
(j)			1,333	2,483
(m)		1,150		1,333

Notes Payable — No. 250

Date	PR	Debit	Credit	Balance
(b)			42,700	42,700
(f)			10,500	53,200

Common Stock — No. 307

Date	PR	Debit	Credit	Balance
(a)			165,000	165,000

Dividends — No. 319

Date	PR	Debit	Credit	Balance
(o)		9,480		9,480

Engineering Fees Earned — No. 402

Date	PR	Debit	Credit	Balance
(e)			6,200	6,200
(g)			14,000	20,200
(i)			22,000	42,200

Wages Expense — No. 601

Date	PR	Debit	Credit	Balance
(l)		1,200		1,200
(p)		1,200		2,400

Equipment Rental Expense — No. 602

Date	PR	Debit	Credit	Balance
(j)		1,333		1,333

Advertising Expense — No. 603

Date	PR	Debit	Credit	Balance
(q)		2,500		2,500

Repairs Expense — No. 604

Date	PR	Debit	Credit	Balance
(n)		925		925

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Problem 2-2A *(Concluded)*
Part 3

ARACEL ENGINEERING Trial Balance June 30	*Debit*	*Credit*
Cash	$ 22,945	
Accounts receivable	29,000	
Prepaid insurance	3,000	
Office equipment	6,150	
Drafting equipment	80,000	
Building	55,000	
Land	49,000	
Accounts payable		$ 1,333
Notes payable		53,200
Common stock		165,000
Dividends	9,480	
Engineering fees earned		42,200
Wages expense	2,400	
Equipment rental expense	1,333	
Advertising expense	2,500	
Repairs expense	925	
Totals	$261,733	$261,733

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Problem 2-3A (90 minutes)

Part 1

Mar. 1	Cash	101	150,000	
	Office Equipment	163	22,000	
	Common Stock	307		172,000
	Owner invested cash and equipment for stock.			
2	Prepaid Rent	131	6,000	
	Cash	101		6,000
	Prepaid six months' rent.			
3	Office Equipment	163	3,000	
	Office Supplies	124	1,200	
	Accounts Payable	201		4,200
	Purchased equipment and supplies on credit.			
6	Cash	101	4,000	
	Services Revenue	403		4,000
	Received cash for services.			
9	Accounts Receivable	106	7,500	
	Services Revenue	403		7,500
	Billed client for completed work.			
12	Accounts Payable	201	4,200	
	Cash	101		4,200
	Paid balance due on account.			
19	Prepaid Insurance	128	5,000	
	Cash	101		5,000
	Paid premium for insurance.			
22	Cash	101	3,500	
	Accounts Receivable	106		3,500
	Collected part of amount owed by client.			
25	Accounts Receivable	106	3,820	
	Services Revenue	403		3,820
	Billed client for completed work.			
29	Dividends	319	5,100	
	Cash	101		5,100
	Paid cash dividends.			
30	Office Supplies	124	600	
	Accounts Payable	201		600
	Purchased supplies on account.			
31	Utilities Expense	690	500	
	Cash	101		500
	Paid monthly utility bill.			

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Problem 2-3A (Continued)
Part 2

Cash **Acct. No. 101**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	1		G1	150,000		150,000
	2		G1		6,000	144,000
	6		G1	4,000		148,000
	12		G1		4,200	143,800
	19		G1		5,000	138,800
	22		G1	3,500		142,300
	29		G1		5,100	137,200
	31		G1		500	136,700

Accounts Receivable **Acct. No. 106**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	9		G1	7,500		7,500
	22		G1		3,500	4,000
	25		G1	3,820		7,820

Office Supplies **Acct. No. 124**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	3		G1	1,200		1,200
	30		G1	600		1,800

Prepaid Insurance **Acct. No. 128**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	19		G1	5,000		5,000

Prepaid Rent **Acct. No. 131**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	2		G1	6,000		6,000

Office Equipment **Acct. No. 163**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	1		G1	22,000		22,000
	3		G1	3,000		25,000

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Problem 2-3A *(Continued)*

Part 2 *(Continued)*

Accounts Payable **Acct. No. 201**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	3		G1		4,200	4,200
	12		G1	4,200		0
	30		G1		600	600

Common Stock **Acct. No. 307**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	1		G1		172,000	172,000

Dividends **Acct. No. 319**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	29		G1	5,100		5,100

Services Revenue **Acct. No. 403**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	6		G1		4,000	4,000
	9		G1		7,500	11,500
	25		G1		3,820	15,320

Utilities Expense **Acct. No. 690**

Date		Explanation	PR	Debit	Credit	Balance
Mar.	31		G1	500		500

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Problem 2-3A *(Concluded)*

Part 3

VENTURE CONSULTANTS Trial Balance March 31	Debit	Credit
Cash	$136,700	
Accounts receivable	7,820	
Office supplies	1,800	
Prepaid insurance	5,000	
Prepaid rent	6,000	
Office equipment	25,000	
Accounts payable		$ 600
Common stock		172,000
Dividends	5,100	
Services revenue		15,320
Utilities expense	500	
Totals	$187,920	$187,920

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Problem 2-4A (90 minutes)
Part 1

a.	**Cash**	**101**	**60,000**	
	Office Equipment	**163**	**25,000**	
	Common Stock	**307**		**85,000**
	Owner invested cash and equipment for stock.			
b.	**Land**	**172**	**40,000**	
	Building	**170**	**160,000**	
	Cash	**101**		**30,000**
	Notes Payable	**250**		**170,000**
	Purchased land and building with cash and note payable.			
c.	**Office Supplies**	**108**	**2,000**	
	Accounts Payable	**201**		**2,000**
	Purchased office supplies on account.			
d.	**Automobiles**	**164**	**16,500**	
	Common Stock	**307**		**16,500**
	Owner contributed automobile to business for stock.			
e.	**Office Equipment**	**163**	**5,600**	
	Accounts Payable	**201**		**5,600**
	Purchased office equipment on account.			
f.	**Salaries Expense**	**601**	**1,800**	
	Cash	**101**		**1,800**
	Paid assistant's salary.			
g.	**Cash**	**101**	**8,000**	
	Fees Earned	**402**		**8,000**
	Provided services for cash.			
h.	**Utilities Expense**	**602**	**635**	
	Cash	**101**		**635**
	Paid cash for utilities.			

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Problem 2-4A ***(Part 1 Continued)***

i.	**Accounts Payable**	**201**	**2,000**	
	Cash	**101**		**2,000**
	Paid cash on account.			
j.	**Office Equipment**	**163**	**20,300**	
	Cash	**101**		**20,300**
	Purchased new equipment with cash.			
k.	**Accounts Receivable**	**106**	**6,250**	
	Fees Earned	**402**		**6,250**
	Provided services on account.			
l.	**Salaries Expense**	**601**	**1,800**	
	Cash	**101**		**1,800**
	Paid assistant's salary.			
m.	**Cash**	**101**	**4,000**	
	Accounts Receivable	**106**		**4,000**
	Received cash due on account.			
n.	**Dividends**	**319**	**2,800**	
	Cash	**101**		**2,800**
	Paid cash dividends.			

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Problem 2-4A *(Continued)*
Part 2

Cash No. 101

Date	PR	Debit	Credit	Balance
(a)		60,000		60,000
(b)			30,000	30,000
(f)			1,800	28,200
(g)		8,000		36,200
(h)			635	35,565
(i)			2,000	33,565
(j)			20,300	13,265
(l)			1,800	11,465
(m)		4,000		15,465
(n)			2,800	12,665

Accounts Receivable No. 106

Date	PR	Debit	Credit	Balance
(k)		6,250		6,250
(m)			4,000	2,250

Office Supplies No. 108

Date	PR	Debit	Credit	Balance
(c)		2,000		2,000

Office Equipment No. 163

Date	PR	Debit	Credit	Balance
(a)		25,000		25,000
(e)		5,600		30,600
(j)		20,300		50,900

Automobiles No. 164

Date	PR	Debit	Credit	Balance
(d)		16,500		16,500

Building No. 170

Date	PR	Debit	Credit	Balance
(b)		160,000		160,000

Land No. 172

Date	PR	Debit	Credit	Balance
(b)		40,000		40,000

Accounts Payable No. 201

Date	PR	Debit	Credit	Balance
(c)			2,000	2,000
(e)			5,600	7,600
(i)		2,000		5,600

Notes Payable No. 250

Date	PR	Debit	Credit	Balance
(b)			170,000	170,000

Common Stock No. 307

Date	PR	Debit	Credit	Balance
(a)			85,000	85,000
(d)			16,500	101,500

Dividends No. 319

Date	PR	Debit	Credit	Balance
(n)		2,800		2,800

Fees Earned No. 402

Date	PR	Debit	Credit	Balance
(g)			8,000	8,000
(k)			6,250	14,250

Salaries Expense No. 601

Date	PR	Debit	Credit	Balance
(f)		1,800		1,800
(l)		1,800		3,600

Utilities Expense No. 602

Date	PR	Debit	Credit	Balance
(h)		635		635

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Problem 2-4A *(Concluded)*
Part 3

HV CONSULTING Trial Balance September 30	Debit	Credit
Cash	$ 12,665	
Accounts receivable	2,250	
Office supplies	2,000	
Office equipment	50,900	
Automobiles	16,500	
Building	160,000	
Land	40,000	
Accounts payable		$ 5,600
Notes payable		170,000
Common stock		101,500
Dividends	2,800	
Fees earned		14,250
Salaries expense	3,600	
Utilities expense	635	
Total	$291,350	$291,350

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Problem 2-5A (90 minutes)

Part 1

NETTLE DISTRIBUTION Balance Sheet December 31, 2015			
Assets		***Liabilities***	
Cash	$ 64,300	Accounts payable	$ 3,500
Accounts receivable	26,240		
Office supplies	3,160		
Trucks	148,000	***Equity***	
Office equipment	44,000	Total equity	282,200
Total assets	$285,700	Total liabilities and equity	$285,700

NETTLE DISTRIBUTION Balance Sheet December 31, 2016			
Assets		***Liabilities***	
Cash	$ 15,640	Accounts payable	$ 33,500
Accounts receivable	19,390	Note payable	40,000
Office supplies	1,960	Total liabilities	73,500
Trucks	157,000		
Office equipment	44,000		
Building	80,000	***Equity***	
Land	60,000	Total equity	304,490
Total assets	$377,990	Total liabilities and equity	$377,990

Part 2

Computation of 2016 net income:

Equity, December 31, 2015	$282,200
Equity, December 31, 2016	(304,490)
Increase in equity during 2016	$ 22,290
Owner investment	35,000
Add net income	?
Deduct dividends ($3,000 x 12)	(36,000)
Increase in equity during 2016	$ 22,290

Therefore, net income must equal ($22,290+$36,000- $35,000) = $ 23,290

Part 3

Debt Ratio = $73,500 / $377,990 = 19.4%

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Problem 2-6A (35 minutes)

Part 1

MIN ENGINEERING Trial Balance May 31	Debit	Credit
Cash	$37,641	
Office supplies	890	
Prepaid insurance	4,600	
Office equipment	12,900	
Accounts payable		$12,900
Common stock		18,000
Dividends	3,329	
Engineering fees earned		36,000
Rent expense	7,540	
Totals	$66,900	$66,900

Part 2: **Likely transactions (following order of trial balance).**

1. Purchased $890 of office supplies for cash.
2. Paid $4,600 insurance premium in advance.
3. Purchased $12,900 of office equipment on credit (with account payable).
4. Yi Min invested $18,000 cash in the business in exchange for stock.
5. Paid $3,329 cash for dividends.
6. Earned $36,000 cash for engineering services.
7. Paid $7,540 cash for rent expense.

Part 3

Report of Cash Received and Paid		
Cash received		
Owner investment	$18,000	
Engineering fees	36,000	
Total cash received		$54,000
Cash paid		
Office supplies	890	
Insurance premium	4,600	
Dividends	3,329	
Rent	7,540	
Total cash paid		16,359
Ending balance		$37,641

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PROBLEM SET B

Problem 2-1B (90 minutes)

Part 1

Sept. 1	Cash	101	38,000	
	Office Equipment	163	15,000	
	Common Stock	307		53,000
	Owner invested in the business for stock.			
2	Prepaid Rent	131	9,000	
	Cash	101		9,000
	Prepaid twelve months' rent.			
4	Office Equipment	163	8,000	
	Office Supplies	124	2,400	
	Accounts Payable	201		10,400
	Purchased equipment and supplies on credit.			
8	Cash	101	3,280	
	Services Revenue	401		3,280
	Received cash for services.			
12	Accounts Receivable	106	15,400	
	Services Revenue	401		15,400
	Billed client for completed work.			
13	Accounts Payable	201	10,400	
	Cash	101		10,400
	Paid balance due on account.			
19	Prepaid Insurance	128	1,900	
	Cash	101		1,900
	Paid premium for insurance.			
22	Cash	101	7,700	
	Accounts Receivable	106		7,700
	Collected part of amount owed by client.			
24	Accounts Receivable	106	2,100	
	Services Revenue	401		2,100
	Billed client for completed work.			
28	Dividends	319	5,300	
	Cash	101		5,300
	Paid cash for dividends.			
29	Office Supplies	124	550	
	Accounts Payable	201		550
	Purchased supplies on account.			
30	Utilities Expense	690	860	
	Cash	101		860
	Paid monthly utility bill.			

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Problem 2-1B *(Continued)*
Part 2

Cash **Acct. No. 101**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	1		G1	38,000		38,000
	2		G1		9,000	29,000
	8		G1	3,280		32,280
	13		G1		10,400	21,880
	19		G1		1,900	19,980
	22		G1	7,700		27,680
	28		G1		5,300	22,380
	30		G1		860	21,520

Accounts Receivable **Acct. No. 106**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	12		G1	15,400		15,400
	22		G1		7,700	7,700
	24		G1	2,100		9,800

Office Supplies **Acct. No. 124**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	4		G1	2,400		2,400
	29		G1	550		2,950

Prepaid Insurance **Acct. No. 128**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	19		G1	1,900		1,900

Prepaid Rent **Acct. No. 131**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	2		G1	9,000		9,000

Office Equipment **Acct. No. 163**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	1		G1	15,000		15,000
	4		G1	8,000		23,000

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Problem 2-1B *(Continued)*

Accounts Payable **Acct. No. 201**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	4		G1		10,400	10,400
	13		G1	10,400		0
	29		G1		550	550

Common Stock **Acct. No. 307**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	1		G1		53,000	53,000

Dividends **Acct. No. 319**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	28		G1	5,300		5,300

Services Revenue **Acct. No. 401**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	8		G1		3,280	3,280
	12		G1		15,400	18,680
	24		G1		2,100	20,780

Utilities Expense **Acct. No. 690**

Date		Explanation	PR	Debit	Credit	Balance
Sept.	30		G1	860		860

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Problem 2-1B *(Concluded)*

Part 3

HUMBLE MANAGEMENT SERVICES Trial Balance September 30	Debit	Credit
Cash	$21,520	
Accounts receivable	9,800	
Office supplies	2,950	
Prepaid insurance	1,900	
Prepaid rent	9,000	
Office equipment	23,000	
Accounts payable		$ 550
Common stock		53,000
Dividends	5,300	
Services revenue		20,780
Utilities expense	860	
Totals	$74,330	$74,330

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Problem 2-2B (90 minutes)

Part 1

a.	**Cash**	**101**	**65,000**	
	Office Equipment	**163**	**5,750**	
	Computer Equipment	**164**	**30,000**	
	Common Stock	**307**		**100,750**
	Owner invested cash and equipment for stock.			
b.	**Land**	**172**	**22,000**	
	Cash	**101**		**5,000**
	Notes Payable	**250**		**17,000**
	Purchased land with cash and note payable.			
c.	**Building**	**170**	**34,500**	
	Cash	**101**		**34,500**
	Purchased building.			
d.	**Prepaid Insurance**	**108**	**5,000**	
	Cash	**101**		**5,000**
	Purchased 24-month insurance policy.			
e.	**Cash**	**101**	**4,600**	
	Fees Earned	**402**		**4,600**
	Collected cash for completed work.			
f.	**Computer Equipment**	**164**	**4,500**	
	Cash	**101**		**800**
	Notes Payable	**250**		**3,700**
	Purchased equipment with cash and note payable.			
g.	**Accounts Receivable**	**106**	**4,250**	
	Fees Earned	**402**		**4,250**
	Completed services for client.			
h.	**Office Equipment**	**163**	**950**	
	Accounts Payable	**201**		**950**
	Purchased equipment on credit.			

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Problem 2-2B *(Part 1 Continued)*

i.	Accounts Receivable 106	10,200		
	Fees Earned 402			10,200
	Billed client for completed work.			
j.	Computer Rental Expense.....602	580		
	Accounts Payable.....201			580
	Incurred computer rental expense.			
k.	Cash.....101	5,100		
	Accounts Receivable 106			5,100
	Collected cash on account.			
l.	Wages Expense.....601	1,800		
	Cash.....101			1,800
	Paid assistant's wages.			
m.	Accounts Payable 201	950		
	Cash.....101			950
	Paid amount due on account.			
n.	Repairs Expense 604	608		
	Cash.....101			608
	Paid for repair of equipment.			
o.	Dividends 319	6,230		
	Cash.....101			6,230
	Paid cash for dividends.			
p.	Wages Expense.....601	1,800		
	Cash.....101			1,800
	Paid assistant's wages.			
q.	Advertising Expense.....603	750		
	Cash.....101			750
	Paid for advertising expense.			

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Problem 2-2B *(Continued)*
Part 2

Cash No. 101

Date	PR	Debit	Credit	Balance
(a)		65,000		65,000
(b)			5,000	60,000
(c)			34,500	25,500
(d)			5,000	20,500
(e)		4,600		25,100
(f)			800	24,300
(k)		5,100		29,400
(l)			1,800	27,600
(m)			950	26,650
(n)			608	26,042
(o)			6,230	19,812
(p)			1,800	18,012
(q)			750	17,262

Accounts Receivable No. 106

Date	PR	Debit	Credit	Balance
(g)		4,250		4,250
(i)		10,200		14,450
(k)			5,100	9,350

Prepaid Insurance No. 108

Date	PR	Debit	Credit	Balance
(d)		5,000		5,000

Office Equipment No. 163

Date	PR	Debit	Credit	Balance
(a)		5,750		5,750
(h)		950		6,700

Computer Equipment No. 164

Date	PR	Debit	Credit	Balance
(a)		30,000		30,000
(f)		4,500		34,500

Building No. 170

Date	PR	Debit	Credit	Balance
(c)		34,500		34,500

Land No. 172

Date	PR	Debit	Credit	Balance
(b)		22,000		22,000

Accounts Payable No. 201

Date	PR	Debit	Credit	Balance
(h)			950	950
(j)			580	1,530
(m)		950		580

Notes Payable No. 250

Date	PR	Debit	Credit	Balance
(b)			17,000	17,000
(f)			3,700	20,700

Common Stock No. 307

Date	PR	Debit	Credit	Balance
(a)			100,750	100,750

Dividends No. 319

Date	PR	Debit	Credit	Balance
(o)		6,230		6,230

Fees Earned No. 402

Date	PR	Debit	Credit	Balance
(e)			4,600	4,600
(g)			4,250	8,850
(i)			10,200	19,050

Wages Expense No. 601

Date	PR	Debit	Credit	Balance
(l)		1,800		1,800
(p)		1,800		3,600

Computer Rental Expense No. 602

Date	PR	Debit	Credit	Balance
(j)		580		580

Advertising Expense No. 603

Date	PR	Debit	Credit	Balance
(q)		750		750

Repairs Expense No. 604

Date	PR	Debit	Credit	Balance
(n)		608		608

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Problem 2-2B *(Concluded)*

Part 3

SOFTWORKS Trial Balance April 30	Debit	Credit
Cash	$ 17,262	
Accounts receivable	9,350	
Prepaid insurance	5,000	
Office equipment	6,700	
Computer equipment	34,500	
Building	34,500	
Land	22,000	
Accounts payable		$ 580
Notes payable		20,700
Common stock		100,750
Dividends	6,230	
Fees earned		19,050
Wages expense	3,600	
Computer rental expense	580	
Advertising expense	750	
Repairs expense	608	
Totals	$141,080	$141,080

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Problem 2-3B (90 minutes)

Part 1

Nov. 1	Cash	101	30,000	
	Office Equipment	163	15,000	
	Common Stock	307		45,000
	Owner invested cash and equipment for stock.			
2	Prepaid Rent	131	4,500	
	Cash	101		4,500
	Prepaid six months' rent.			
4	Office Equipment	163	2,500	
	Office Supplies	124	600	
	Accounts Payable	201		3,100
	Purchased equipment and supplies on credit.			
8	Cash	101	3,400	
	Services Revenue	403		3,400
	Received cash for services.			
12	Accounts Receivable	106	10,200	
	Services Revenue	403		10,200
	Billed client for completed work.			
13	Accounts Payable	201	3,100	
	Cash	101		3,100
	Paid balance due on account.			
19	Prepaid Insurance	128	1,800	
	Cash	101		1,800
	Paid premium for 24 months of insurance.			
22	Cash	101	5,200	
	Accounts Receivable	106		5,200
	Collected part of amount owed by client.			
24	Accounts Receivable	106	1,750	
	Services Revenue	403		1,750
	Billed client for completed work.			
28	Dividends	319	5,300	
	Cash	101		5,300
	Paid cash for dividends.			
29	Office Supplies	124	249	
	Accounts Payable	201		249
	Purchased supplies on account.			
30	Utilities Expense	690	831	
	Cash	101		831
	Paid monthly utility bill.			

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Problem 2-3B *(Continued)*
Part 2

Cash **Acct. No. 101**

Date		Explanation	PR	Debit	Credit	Balance
Nov.	1		G1	30,000		30,000
	2		G1		4,500	25,500
	8		G1	3,400		28,900
	13		G1		3,100	25,800
	19		G1		1,800	24,000
	22		G1	5,200		29,200
	28		G1		5,300	23,900
	30		G1		831	23,069

Accounts Receivable **Acct. No. 106**

Date		Explanation	PR	Debit	Credit	Balance
Nov.	12		G1	10,200		10,200
	22		G1		5,200	5,000
	24		G1	1,750		6,750

Office Supplies **Acct. No. 124**

Date		Explanation	PR	Debit	Credit	Balance
Nov.	4		G1	600		600
	29		G1	249		849

Prepaid Insurance **Acct. No. 128**

Date		Explanation	PR	Debit	Credit	Balance
Nov.	19		G1	1,800		1,800

Prepaid Rent **Acct. No. 131**

Date		Explanation	PR	Debit	Credit	Balance
Nov.	2		G1	4,500		4,500

Office Equipment **Acct. No. 163**

Date		Explanation	PR	Debit	Credit	Balance
Nov.	1		G1	15,000		15,000
	4		G1	2,500		17,500

Accounts Payable **Acct. No. 201**

Date		Explanation	PR	Debit	Credit	Balance
Nov.	4		G1		3,100	3,100
	13		G1	3,100		0
	29		G1		249	249

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Problem 2-3B ***(Continued)***

Common Stock **Acct. No. 307**

Date	Explanation	PR	Debit	Credit	Balance
Nov. 1		G1		45,000	45,000

Dividends **Acct. No. 319**

Date	Explanation	PR	Debit	Credit	Balance
Nov. 28		G1	5,300		5,300

Services Revenue **Acct. No. 403**

Date	Explanation	PR	Debit	Credit	Balance
Nov. 8		G1		3,400	3,400
12		G1		10,200	13,600
24		G1		1,750	15,350

Utilities Expense **Acct. No. 690**

Date	Explanation	PR	Debit	Credit	Balance
Nov. 30		G1	831		831

Part 3

ZUCKER MANAGEMENT SERVICES
Trial Balance
November 30

	Debit	Credit
Cash	$23,069	
Accounts receivable	6,750	
Office supplies	849	
Prepaid insurance	1,800	
Prepaid rent	4,500	
Office equipment	17,500	
Accounts payable		$ 249
Common stock		45,000
Dividends	5,300	
Services revenue		15,350
Utilities expense	831	
Totals	$60,599	$60,599

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Problem 2-4B (90 minutes)

Part 1

a.	Cash	101	35,000	
	Office Equipment	163	11,000	
	Common Stock	307		46,000
	Owner invested cash and equipment for stock.			
b.	Land	172	7,500	
	Building	170	40,000	
	Cash	101		15,000
	Notes Payable	250		32,500
	Purchased land and building with cash and note payable.			
c.	Office Supplies	108	500	
	Accounts Payable	201		500
	Purchased office supplies on account.			
d.	Automobiles	164	8,000	
	Common Stock	307		8,000
	Owner contributed automobile to business for stock.			
e.	Office Equipment	163	1,200	
	Accounts Payable	201		1,200
	Purchased office equipment on account.			
f.	Salaries Expense	601	1,000	
	Cash	101		1,000
	Paid assistant's salary.			
g.	Cash	101	3,200	
	Fees Earned	402		3,200
	Provided services for cash.			
h.	Utilities Expense	602	540	
	Cash	101		540
	Paid cash for utilities.			

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Problem 2-4B *(Part 1 Continued)*

i.	Accounts Payable	201	500	
	Cash	101		500
	Paid cash on account.			
j.	Office Equipment	163	3,400	
	Cash	101		3,400
	Purchased equipment for cash.			
k.	Accounts Receivable	106	4,200	
	Fees Earned	402		4,200
	Provided services on account.			
l.	Salaries Expense	601	1,000	
	Cash	101		1,000
	Paid assistant's salary.			
m.	Cash	101	2,200	
	Accounts Receivable	106		2,200
	Received cash due on account.			
n.	Dividends	319	1,100	
	Cash	101		1,100
	Paid cash for dividends.			

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Problem 2-4B *(Continued) Part 2*

Cash No. 101

Date	PR	Debit	Credit	Balance
(a)		35,000		35,000
(b)			15,000	20,000
(f)			1,000	19,000
(g)		3,200		22,200
(h)			540	21,660
(i)			500	21,160
(j)			3,400	17,760
(l)			1,000	16,760
(m)		2,200		18,960
(n)			1,100	17,860

Accounts Receivable No. 106

Date	PR	Debit	Credit	Balance
(k)		4,200		4,200
(m)			2,200	2,000

Office Supplies No. 108

Date	PR	Debit	Credit	Balance
(c)		500		500

Office Equipment No. 163

Date	PR	Debit	Credit	Balance
(a)		11,000		11,000
(e)		1,200		12,200
(j)		3,400		15,600

Automobiles No. 164

Date	PR	Debit	Credit	Balance
(d)		8,000		8,000

Building No. 170

Date	PR	Debit	Credit	Balance
(b)		40,000		40,000

Land No. 172

Date	PR	Debit	Credit	Balance
(b)		7,500		7,500

Accounts Payable No. 201

Date	PR	Debit	Credit	Balance
(c)			500	500
(e)			1,200	1,700
(i)		500		1,200

Notes Payable No. 250

Date	PR	Debit	Credit	Balance
(b)			32,500	32,500

Common Stock No. 307

Date	PR	Debit	Credit	Balance
(a)			46,000	46,000
(d)			8,000	54,000

Dividends No. 319

Date	PR	Debit	Credit	Balance
(n)		1,100		1,100

Fees Earned No. 402

Date	PR	Debit	Credit	Balance
(g)			3,200	3,200
(k)			4,200	7,400

Salaries Expense No. 601

Date	PR	Debit	Credit	Balance
(f)		1,000		1,000
(l)		1,000		2,000

Utilities Expense No. 602

Date	PR	Debit	Credit	Balance
(h)		540		540

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Problem 2-4B *(Concluded)*

Part 3

NUNCIO CONSULTING Trial Balance June 30	Debit	Credit
Cash	$17,860	
Accounts receivable	2,000	
Office supplies	500	
Office equipment	15,600	
Automobiles	8,000	
Building	40,000	
Land	7,500	
Accounts payable		$ 1,200
Notes payable		32,500
Common stock		54,000
Dividends	1,100	
Fees earned		7,400
Salaries expense	2,000	
Utilities expense	540	
Total	$95,100	$95,100

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Problem 2-5B (60 minutes)

Part 1

TAMA CO. Balance Sheet December 31, 2015			
Assets		***Liabilities***	
Cash	$ 20,000	Accounts payable	$ 4,000
Accounts receivable	35,000		
Office supplies	8,000		
Office equipment	40,000	***Equity***	
Machinery	28,500	Total equity	127,500
Total assets	$131,500	Total liabilities & equity	$131,500

TAMA CO. Balance Sheet December 31, 2016			
Assets		***Liabilities***	
Cash	$ 5,000	Accounts payable	$ 12,000
Accounts receivable	25,000	Note payable	250,000
Office supplies	13,500	Total liabilities	262,000
Office equipment	40,000		
Machinery	28,500		
Building	250,000	***Equity***	
Land	50,000	Total equity	150,000
Total assets	$412,000	Total liabilities & equity	$412,000

Part 2

Calculation of 2016 net income:

Equity, December 31, 2015	$127,500
Equity, December 31, 2016	(150,000)
Increase in equity during 2016	$ 22,500
Owner investment during 2016	$ 15,000
2016 Net income	?
Dividends during 2016 ($250 x 12)	(3,000)
Increase in equity during 2016	$ 22,500

Therefore, 2016 income must equal ($22,500+ $3,000- $15,000) = $ 10,500

Part 3

Debt ratio = $262,000 / $412,000 = 63.6%

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Problem 2-6B (35 minutes)

Part 1

GOULD SOLUTIONS Trial Balance April 30	Debit	Credit
Cash	$19,982	
Office supplies	760	
Prepaid rent	1,800	
Office equipment	12,250	
Accounts payable		$12,250
Common stock		15,000
Dividends	5,200	
Consulting fees earned		20,400
Operating expenses	7,658	
Totals	$47,650	$47,650

Part 2: **Likely transactions (following order of trial balance).**

1. Purchased $760 of office supplies for cash.
2. Paid $1,800 cash for prepaid rent.
3. Purchased $12,250 office equipment on credit.
4. Gould invested $15,000 cash in the business in exchange for stock.
5. Paid $5,200 cash for dividends.
6. Earned $20,400 cash in consulting fees.
7. Paid $7,658 cash for operating expenses.

Part 3

Report of Cash Received and Paid		
Cash received		
Owner investment	$15,000	
Consulting fees	20,400	
Total cash received		$35,400
Cash paid		
Office supplies	760	
Prepaid rent	1,800	
Dividends	5,200	
Operating expenses	7,658	
Total cash paid		15,418
Ending balance		$19,982

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Serial Problem — SP 2

Part 1 (120 minutes) Serial Problem, Business Solutions

2016					
Oct.	1	Cash	101	45,000	
		Office Equipment	163	8,000	
		Computer Equipment	167	20,000	
		Common Stock	307		73,000
		Owner invests cash and equipment for stock.			
	2	Prepaid Rent	131	3,300	
		Cash	101		3,300
		Paid four months' rent in advance.			
	3	Computer Supplies	126	1,420	
		Accounts Payable	201		1,420
		Purchased supplies on credit.			
	5	Prepaid Insurance	128	2,220	
		Cash	101		2,220
		Paid 12 months' premium in advance.			
	6	Accounts Receivable	106	4,800	
		Computer Services Revenue	403		4,800
		Billed customer for services.			
	8	Accounts Payable	201	1,420	
		Cash	101		1,420
		Paid balance due on account payable.			
	10	*No entry necessary in the journal.*			
	12	Accounts Receivable	106	1,400	
		Computer Services Revenue	403		1,400
		Billed customer for services.			
	15	Cash	101	4,800	
		Accounts Receivable	106		4,800
		Collected accounts receivable.			
	17	Repairs Expense—Computer	684	805	
		Cash	101		805
		Paid for computer repairs.			
	20	Advertising Expense	655	1,728	
		Cash	101		1,728
		Purchased ads in local newspaper.			
	22	Cash	101	1,400	
		Accounts Receivable	106		1,400
		Collected accounts receivable.			

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Serial Problem, Business Solutions *(Continued)*

	28	Accounts Receivable	106	5,208	
		Computer Services Revenue	403		5,208
		Billed customer for services.			
	31	Wages Expense	623	875	
		Cash	101		875
		Paid employee for part-time work.			
	31	Dividends	319	3,600	
		Cash	101		3,600
		Paid cash for dividends.			
Nov.	1	Mileage Expense	676	320	
		Cash	101		320
		Reimbursed Rey for mileage.			
	2	Cash	101	4,633	
		Computer Services Revenue	403		4,633
		Collected cash revenue from client.			
	5	Computer Supplies	126	1,125	
		Cash	101		1,125
		Purchased computer supplies for cash.			
	8	Accounts Receivable	106	5,668	
		Computer Services Revenue	403		5,668
		Billed customer for services.			
	13	*No entry necessary. (No revenue recognized until work performed.)*			
	18	Cash	101	2,208	
		Accounts Receivable	106		2,208
		Collected accounts receivable.			
	22	Miscellaneous Expenses	677	250	
		Cash	101		250
		Record donation. (Some companies use a Donations account.)			
	24	Accounts Receivable	106	3,950	
		Computer Services Revenue	403		3,950
		Billed customer for services.			
	25	*No entry necessary.*			
	28	Mileage Expense	676	384	
		Cash	101		384
		Reimbursed Rey for mileage.			
	30	Wages Expense	623	1,750	
		Cash	101		1,750
		Paid employee for part-time work.			
	30	Dividends	319	2,000	
		Cash	101		2,000
		Paid cash for dividends.			

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Serial Problem, Business Solutions *(Continued)*

Part 2

General Ledger accounts

Cash **Acct. No. 101**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 1			45,000		45,000
2				3,300	41,700
5				2,220	39,480
8				1,420	38,060
15			4,800		42,860
17				805	42,055
20				1,728	40,327
22			1,400		41,727
31				875	40,852
31				3,600	37,252
Nov. 1				320	36,932
2			4,633		41,565
5				1,125	40,440
18			2,208		42,648
22				250	42,398
28				384	42,014
30				1,750	40,264
30				2,000	38,264

Accounts Receivable **Acct. No.106**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 6			4,800		4,800
12			1,400		6,200
15				4,800	1,400
22				1,400	0
28			5,208		5,208
Nov. 8			5,668		10,876
18				2,208	8,668
24			3,950		12,618

Computer Supplies **Acct. No. 126**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 3			1,420		1,420
Nov. 5			1,125		2,545

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Prepaid Insurance **Acct. No. 128**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 5			2,220		2,220

Prepaid Rent **Acct. No. 131**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 2			3,300		3,300

Office Equipment **Acct. No. 163**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 1			8,000		8,000

Computer Equipment **Acct. No. 167**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 1			20,000		20,000

Accounts Payable **Acct. No. 201**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 3				1,420	1,420
8			1,420		0

Common Stock **Acct. No. 307**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 1				73,000	73,000

Dividends **Acct. No. 319**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 31			3,600		3,600
Nov. 30			2,000		5,600

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Serial Problem, Business Solutions *(Continued)*

Computer Services Revenue — **Acct. No. 403**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 6				4,800	4,800
12				1,400	6,200
28				5,208	11,408
Nov. 2				4,633	16,041
8				5,668	21,709
24				3,950	25,659

Wages Expense — **Acct. No. 623**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 31			875		875
Nov. 30			1,750		2,625

Advertising Expense — **Acct. No. 655**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 20			1,728		1,728

Mileage Expense — **Acct. No. 676**

Date	Explanation	PR	Debit	Credit	Balance
Nov. 1			320		320
28			384		704

Miscellaneous Expenses — **Acct. No. 677**

Date	Explanation	PR	Debit	Credit	Balance
Nov. 22			250		250

Repairs Expense—Computer — **Acct. No. 684**

Date	Explanation	PR	Debit	Credit	Balance
Oct. 17			805		805

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Serial Problem, Business Solutions *(Concluded)*

Part 3

BUSINESS SOLUTIONS
Trial Balance
November 30

	Debit	Credit
Cash	$38,264	
Accounts receivable	12,618	
Computer supplies	2,545	
Prepaid insurance	2,220	
Prepaid rent	3,300	
Office equipment	8,000	
Computer equipment	20,000	
Accounts payable		$ 0
Common stock		73,000
Dividends	5,600	
Computer services revenue		25,659
Wages expense	2,625	
Advertising expense	1,728	
Mileage expense	704	
Miscellaneous expense	250	
Repairs expense—Computer	805	
Totals	$98,659	$98,659

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Reporting in Action — BTN 2-1

1. Apple reports ($ millions):
   $120,292 in liabilities at September 27, 2014.
   $83,451 in liabilities at September 28, 2013.
   $57,854 in liabilities at September 29, 2012.

2. Apple reports ($ millions):
   $231,839 in assets at September 27, 2014.
   $207,000 in assets at September 28, 2013.
   $176,064 in assets at September 29, 2012.

3. ($ millions):

As of September 27, 2014 Debt Ratio	= $120,292/$231,839	= 51.9%
As of September 28, 2013 Debt Ratio	= $83,451/$207,000	= 40.3%
As of September 29, 2012 Debt Ratio	= $57,854/$176,064	= 32.9%

4. Apple employed more financial leverage as of September 27, 2014, when 51.9% of its assets were financed by debt, relative to September 28, 2013, when 40.3% of its assets were financed by debt. Consequently, its financing structure was more risky in its fiscal 2014 in comparison to its fiscal 2013.

5. Solution depends on the financial statements accessed.

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Comparative Analysis — BTN 2-2

1. **Apple ($ millions)**

Current year debt ratio:	$120,292/$231,839	= 51.9%
One-year Prior debt ratio:	$83,451/$207,000	= 40.3%
Two-year Prior debt ratio:	$57,854/$176,064	= 32.9%

2. **Google ($ millions)**

Current year debt ratio:	$26,633/$131,133	= 20.3%
One-year Prior debt ratio:	$23,611/$110,920	= 21.3%
Two-year Prior debt ratio:	$22,083/$93,798	= 23.5%

3. **Apple has the higher degree of financial leverage. Apple's debt ratio is markedly higher for the current year than that of Google (51.9% vs. 20.3%). This indicates that Apple carries more debt financing than Google. This also implies that Apple is attempting to use nonowner financing to make more money for its owners. This is fine provided Apple's return does not decline below that of what it pays nonowners for use of that money— this is the main source of financing risk.**

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Ethics Challenge — BTN 2-3

This case involves a conflict between the need for efficiency and the need for control. While it makes sense to take and process lunch orders quickly, this efficiency is being accomplished by a shortcut that greatly weakens control over cash receipts. Cash could be received and lost or stolen because there would be no initial record of how much was received.

The assistant manager's explanation about the head manager not arriving until 3 o'clock suggests that the head manager doesn't know about the proposed shortcut. Thus, the new employee is faced with the dilemma of deciding whether to accept the assistant manager's instructions, suggest to the assistant manager that the shortcut seems wrong, or to ask the head manager to confirm the instructions. Each of these alternatives involves personal risk.

It is possible that the assistant manager does not understand the potential for fraud and abuse if this shortcut is used. If the relationship between you and the assistant manager is such that you feel you can do so, you should explain your understanding of how the shortcut could lead to the problems of inaccurate records for tax purposes, gathering inaccurate marketing information, and abuse by other employees who might not be as honest as you and the assistant manager.

If the assistant manager insists, you may want to work as instructed to get an idea of whether the shortcut is being abused by the assistant manager and perhaps to find out discreetly whether the head manager knows about it. (Although, this behavior does involve personal risk of perceived collusion with the assistant manager.) If you conclude that the assistant manager is committing fraud, you should report the situation to the head manager as quickly as possible.

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Communicating in Practice — BTN 2-4

MEMORANDUM

To: Lila Corentine
From: _____
Subject: Financial statements explanation
Date: _____

The four major financial statements and their purposes are:

- ***Income statement*** **describes a company's revenues and expenses along with the resulting net income or loss over a period of time. It helps explain how equity changes during a period due to earnings activities.**
- ***Statement of retained earnings*** **explains changes in retained earnings due to net income (or net loss) and any dividends over a period of time.**
- ***Statement of cash flows*** **identifies cash inflows (receipts) and outflows (payments) over a period of time. It also explains how the cash balance on the balance sheet changed from the beginning to the end of a period.**
- ***Balance sheet*** **describes a company's financial position (assets, liabilities, and equity) at a point in time.**

These financial statements are linked to each other across time. Specifically, a balance sheet reports an organization's financial position at a *point in time*. The income statement, statement of retained earnings, and statement of cash flows report on performance over a *period of time.* These three statements link balance sheets from the beginning to the end of a reporting period. That is, they explain how the financial position of an organization changes from one point to another.

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Taking It to the Net — BTN 2-5

1. The prior three years' net income or (loss) for Amazon are ($ millions):
   2014 = $ (241) 2013 = $ 274 2012 = $ (39)

2. The three years net cash *provided* by operations follows ($ millions):
   2014 = $6,842 2013 = $5,475 2012 = $4,180

3. In 2014, Amazon had net loss of $(241) million and operating cash flows of $6,842 million; and, in that same year, total net cash increased by only $5,899 million (see its statement of cash flows).

   The reason its cash balance only increased by $5,899 million in 2014 was because of cash outflows of $5,065 million for its investing activities (and further reduced by $310 million related to foreign currency effects). Those uses of cash absorbed much of the cash generated by its operating activities. A large part of those cash outflows was tied to its investments in securities and its other purchases and acquisitions.

Teamwork in Action — BTN 2-6

<Instructor note: There is no specific solution to this activity.>

The following sample solution gives a summary outline of what a minimum report needs to include. Assume a team member selects assets:

Category: Assets

a. Increases (decreases) in assets are debits (credits) to asset accounts. Debit means left side, credit means right side. The normal side of an account refers to the side where increases are recorded. For assets, this is the debit, or left, side.

b. Owner investment of $10,000 cash in business in exchange for stock.

c. Assets = Liabilities + Common Stock – Dividends + Revenues – Expenses
   + $10,000 = $0 + $10,000 – $0 + $0 – $0
   Owner investments have no effect on the income statement, but they do increase the cash flows from financing by $10,000 on the statement of cash flows (this increases its net cash flow).

d. Paid rent expense with $2,000 cash.

e. Assets = Liabilities + Common Stock – Dividends + Revenues – Expenses
   - $2,000 = $0 + $0 – $0 + $0 – $2,000
   An expense paid in cash will decrease net income on the income statement and decrease operating cash flows on the statement of cash flows.

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Entrepreneurial Decision — BTN 2-7

There are several issues that this entrepreneurial owner should consider. Those considerations include the following three issues (among others):

- **If he chooses to contribute personal funds for the expansion, he will be risking personal money, but he will not have the expense of interest payments, nor will he have the risk of the inability to repay a loan.**
- **If he chooses to borrow, he will have interest and loan payments to make, and he will have more risk (as reflected in the company's debt ratio).**
- **If he can pay the interest and loan payments, it can be an advantage to borrow, as long as the return on assets is high enough (that is, higher than the rate of interest on the borrowings).**

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Entrepreneurial Decision — BTN 2-8

1.

MARTIN MUSIC SERVICES
Balance Sheet
December 31, 2016

Assets		*Liabilities*	
Cash	$ 3,600	Accounts payable	$ 2,200
Accounts receivable	9,600	Unearned lesson fees	15,600
Prepaid insurance	1,500	Total liabilities	17,800
Prepaid rent	9,400		
Store supplies	6,600	*Equity*	
Equipment	50,000	Total equity	62,900
Total assets	$80,700	Total liabilities and equity	$80,700

2.

Debt ratio = Total liabilities / Total assets = $17,800 / $80,700 = 22.1%

Return on assets = Net income/Average assets = $40,000/$80,700*= 49.6%

***Ending balance is used per instructions.**

3. The prospects of a bank loan are likely to be good. (i) The debt ratio indicates that 78% of the company's funding is from equity. Also, there are no debt obligations requiring periodic payments. This implies low risk. (ii) The level of return on assets is very high. This implies good return.

Overall, given the information and the assumption that current performance will continue into the future, the prospects of a bank loan are good.

Note: The loan does carry some risk—fueling this risk are (i) poor recordkeeping, (ii) lack of information on growth potential, and (iii) a much higher pro forma debt ratio—that is, if the loan is granted, the debt ratio will jump to 43%, computed as:

($17,800 + $30,000) / ($80,700 + $30,000).

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Hitting the Road — BTN 2-9

Findings will vary. It is advisable that the instructor obtain a few classified sections from newspapers that were published over the period of the assignment. If student reports lack responses for question 2, it is informative and motivating to bring these (accounting-related job opportunities) sections to class when discussing or returning student reports as many students are not accounting majors.

Global Decision — BTN 2-10

1. **An analysis of return on assets suggests that Apple (18.0%) yields the greatest return on assets, followed by Google (11.9%) and then Samsung (10.5%), which yields the lowest return.**

2. **An analysis of the debt ratio suggests that Apple (at 51.9%) presents the greatest risk, followed by Samsung (27.1%) and then Google (20.3%) with the least risk. That is, Apple carries the most debt and debt must be repaid with interest and principal. The lower debt levels of Google and Samsung result in less risk in that their contractually required payments are less as a percent of their respective asset bases.**

3. **In this case, there is no clear answer based on these two ratios alone. Apple has a relatively higher return on assets but also the highest debt ratio. Google has the middle-level return (slightly higher return on assets compared to Samsung and substantially lower than that for Apple), but it has the lowest debt ratio. Samsung has the lowest return and the middle-level debt ratio. Overall, based on return on assets, Apple would warrant additional consideration for expanded investment; however, based on the debt ratio, Google would warrant additional consideration. Therefore, in this analysis of these three companies, we get a mixed inference from these two ratios (and further analysis is warranted, which we will illustrate over the next several chapters).**

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CHAPTER 2
FINANCIAL STATEMENTS AND THE ACCOUNTING SYSTEM

Related Assignment Materials

Student Learning Objectives	*Questions*	*Quick Studies**	*Exercises**	*Problems**	*Beyond the Numbers*
Conceptual objectives:					
C1. Explain the steps in processing transactions and the role of source documents.	3, 6, 9	2-1	2-1	2-6	2-3, 2-4, 2-6, 2-9
C2. Describe an account and its use in recording transactions.	1, 2, 14	2-2	2-2	2-5	2-4, 2-6
C3. Describe a ledger and a chart of accounts.		2-3	2-3, 2-16	2-1, 2-2, 2-3, 2-4, 2-6, GL 2-4	
C4. Define *debits* and *credits* and explain double-entry accounting.	7	2-4, 2-5, 2-10	2-4	2-1, 2-2, 2-3, GL 2-4	2-6
Analytical objectives:					
A1. Analyze the impact of transactions on accounts and financial statements. .		2-7	2-5, 2-6, 2-9, 2-11, 2-12, 2-13, 2-15, 2-20, 2-21	2-1, 2-2, 2-3, 2-4, 2-5, 2-6, SP 2, GL 2-1,GL 2-2, GL 2-3, GL 2-4	2-1, 2-2, 2-4, 2-5, 2-6, 2-7, 2-8
A2. Compute the debt ratio and describe its use in analyzing financial condition.		2-11	2-23	2-5	2-1, 2-2, 2-7, 2-8, 2-10
Procedural objectives:					
P1. Record transactions in a journal and post entries to a ledger.	3, 4, 5	2-6	2-7, 2-11, 2-12, 2-14 2-19	2-1, 2-2, 2-3, 2-4, SP 2, GL 2-1,GL 2-3, GL 2-4	
P2. Prepare and explain the use of a trial balance.	8	2-8	2-8, 2-10, 2-20, 2-21	2-1, 2-2, 2-3, 2-4, 2-6, SP 2, GL 2-1, GL 2-4	
P3. Prepare financial statements from business transactions.	10, 11, 12, 13,15, 16, 17, 18	2-9	2-16, 2-17, 2-18, 2-19, 2-22	2-5, GL 2-1	2-4, 2-7, 2-8

See additional information on next page that pertains to these quick studies, exercises and problems.
*** SP refers to the Serial Problem***
****GL refers to the General Ledger problems***

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Additional Information on Related Assignment Material

Connect

Available on the instructor's course-specific website) repeats all numerical Quick Studies, all Exercises and Problems Set A. ***Connect*** also provides algorithmic versions for Quick Study, Exercises and Problems. It allows instructors to monitor, promote, and assess student learning. It can be used in practice, homework, or exam mode**.**

Connect Insight

The first and only analytics tool of its kind, Connect Insight is a series of visual data displays that are each framed by an intuitive question and provide at-a-glance information regarding how an instructor's class is performing. Connect Insight is available through Connect titles.

The Serial Problem for *Success Systems* continues in this chapter.

General Ledger

Assignable within Connect, General Ledger (GL) problems offer students the ability to see how transactions post from the general journal all the way through the financial statements. Critical thinking and analysis components are added to each GL problem to ensure understanding of the entire process. GL problems are auto-graded and provide instant feedback to the student.

Excel Simulations

Assignable within Connect, Excel Simulations allow students to practice their Excel skills—such as basic formulas and formatting—within the context of accounting. These questions feature animated, narrated Help and Show Me tutorials (when enabled). Excel Simulations are auto-graded and provide instant feedback to the student.

Synopsis of Chapter Revisions

- NEW opener—Twitter
- Simplified discussion on analyzing and recording process.
- Streamlined discussion of classified vs unclassified balance sheet.
- Updated the **SPANX** insight box.
- Enhanced Exhibit 2.3 on expanded accounting equation.
- Changed selected numbers for FastForward transactions.
- Enhanced Exhibit 2.15 on financial links across time.
- New layout for Exhibit 2.16 showing financial statements drawn from trial balance.
- Updated **Piaggio's** (IFRS) balance sheet.
- Updated 'Data Quality' box with new fraud information from KPMG.
- New sustainability section for Twitter's environmental efforts.
- Updated **Skechers's** ratio analyses.

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Chapter Outline

Notes

I. Using Financial Statements

A. Analyzing Financial Statements. Used by internal and external users. Evaluate company performance and financial condition.

B. Assessing Company Results. Use standards including intracompany (across two or more periods), intercompany (competitors), industry and guidelines or rules of thumb.

C. Using Ratios to Analyze Financial Statements. Widely used tools which express a mathematical relation between two quantities.

D. Building Blocks of Analysis include:

1. Liquidity and efficiency – availability of resources to meet short-term cash requirements. Includes current ratio.
2. Solvency – company's long-run financial viability and its ability to over long-term obligations. Includes debt ratio.
3. Profitability – company's ability to use its assets to produce profits. Includes profit margin.
4. Market prospects – useful for analyzing companies with publicly traded stock. Includes price-to-earnings ratio.

II. Basis of Financial Statements

A. Identify transaction from source document which identifies and describes transactions and events entering the accounting process.

B. Analyze transaction using the accounting equation.

C. Record relevant transactions and events in a journal.

D. Post journal information to ledger accounts.

E. Prepare and analyze trial balance and financial statements.

F. An *account* is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.

G. Accounts are arranged into three basic categories based on the accounting equation. Categories are:

1. *Assets*—resources owned or controlled by a company that have future economic benefit. Examples include Cash, Accounts Receivable, Note Receivable, Prepaid Expenses, Prepaid Insurance, Supplies, Store Supplies, Equipment, Buildings, and Land.
2. *Liabilities*—claims (by creditors) against assets, which means they are obligations to transfer assets or provide products or services to others. Examples include Accounts Payable, Note Payable, Unearned Revenues, and Accrued Liabilities.
   a. Accounts Payable—verbal or implied promise to pay later usually arising from purchase of inventory or other assets.
   b. Notes Payable—formal promise to pay usually denoted by signing a promissory note, to pay a future amount.
   c. Unearned revenue—revenue collected before it is earned; before services or goods are provided.
   d. Accrued liabilities—amounts owed that are not yet paid.

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Chapter Outline

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3. *Equity*—owner's claim on company's assets is called *equity* or *owner's equity*. Examples include Owner's Capital, Owner's Withdrawals (decreases in equity). Revenues (results from providing goods or services; i.e. Sales, Fees Earned) increases equity. Expenses (results from assets or services used in operation; i.e. Supplies Expense) decreases equity.

III. Analyzing and Processing Transactions

A. The *general ledger* or *ledger* (referred to as the *books*) is a record containing all the accounts a company uses.

B. The *chart of accounts* is a list of all accounts in the ledger with their identification numbers.

C. A *T-account* represents a ledger account and is a tool used to understand the effects of one or more transactions. Has shape like the letter T with account title on top.

IV. Debits and Credits

A. The *left* side of an account is called the *debit* side. A debit is an entry on the left side of an account.

B. The *right* side of an account is called the *credit* side. A credit is an entry on the right side of an account.

C. Accounts are *assigned balance sides* based on their classification or type.

D. To *increase* an account, an amount is placed on the *balance side,* and to *decrease* an account, the amount is placed on the *side opposite its assigned balance side*.

E. The *account balance* is the difference between the total debits and the total credits recorded in that account. When total debits exceed total credits the account has a debit balance. When total credits exceed total debits the account has a credit balance. When two sides are equal the account has a zero balance.

V. Double-Entry Accounting—requires that each transaction affect, and be recorded in, at least two accounts. The total debits must equal total credits for each transaction.

A. The assignment of balance sides (debit or credit) follows the accounting equation.

1. *Assets* are on the *left side* of the equation; therefore, the left, or *debit,* side is the normal balance for assets.

2. *Liabilities and equities* are on the *right side;* therefore, the right, or credit, side is the normal balance for liabilities and equity.

3. *Withdrawals, revenues, and expenses* really are changes in equity, but it is necessary to set up temporary accounts for each of these items to accumulate data for statements. Withdrawals and expense accounts really represent decreases in equity; therefore, they are assigned debit balances. *Revenue* accounts really represent increases in equity; therefore, they are assigned credit balances.

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Chapter Outline

Notes

B. Three important rules for recording transactions in a double-entry accounting system are:

1. Increases to assets are debits to the asset accounts. Decreases to assets are credits to the asset accounts.
2. Increases to liabilities are credits to the liability accounts. Decreases to liabilities are debits to the liability accounts.
3. Increases to equity are credits to the equity accounts. Decreases to equity are debits to the equity accounts.

VI. Journalizing and Posting Transactions

A. Four steps in processing transactions are as follows:

Journalizing--The process of recording each transaction in a journal.

1. Identify transaction and source documents.
2. Analyze using the accounting equation. Apply double entry accounting to determine account to be debited and credited.
3. Record journal entry—recorded chronologically (A journal gives us a complete record of each transaction in one place.)
   a. A *General Journal* is the most flexible type of journal because it can be used to record any type of transaction.
   b. When a transaction is recorded in the General Journal, it is called a *journal entry*. A journal entry that affects more than two accounts is called a compound journal entry.
   c. Each journal entry must contain equal debits and credits.
4. Posting Journal entries—transfer (or *post*) each entry from journal to ledger.
   a. Debits are posted as debit, and credits as credits to the accounts identified in the journal entry.
   b. Actual accounting systems use *balance column accounts* rather than T-accounts in the ledger.
   c. A *balance column account* has debit and credit columns for recording entries and a third column for showing the balance of the account after each entry is posted.

Note: To see an illustration of analyzing, journalizing and posting of 16 basic transactions refer to pages 64-70 of the textbook.

VII. Trial Balance

A. A *trial balance* is a list of accounts and their balances at a point in time. Account balances are reported in their appropriate debit or credit columns of the trial balance.

B. The trial balance tests for the equality of the debit and credit account balances as required by double-entry accounting.

C. Three steps to prepare a trial balance are as follows:

1. List each account and its amount (from the ledger).
2. Compute the total debit balances and the total credit balances.
3. Verify (prove) total debit balances equal total credit balances.

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Chapter Outline

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D. When a trial balance does not balance (the columns are not equal), an error has occurred in one of the following steps:

1. Preparing the journal entries.
2. Posting the journal entries to the ledger.
3. Calculating account balances.
4. Copying account balances to the trial balance.
5. Totaling the trial balance columns.

(***Note*:** Any errors must be located and corrected before preparing the financial statements. Financial Statements prepared from the trial balance are actually *unadjusted* statements. The purpose, content and format for each statement was presented in Chapter 1. The next chapter will address adjustments)

E. Searching for and Correcting Errors

1. Approach to correcting errors depends on the kind of error and when it is discovered.
2. Correcting entries may be necessary.

F. Using a Trial Balance to Prepare Financial Statements

1. Income statement reports revenues earned less expenses incurred over a period of time.
2. Statement of retained earnings conveys how retained earnings change over the reporting period. Net income (or net loss) is added (subtracted) from the beginning balance of retained earnings and dividends are subtracted.
3. Balance sheet shows the financial position at a point in time and includes assets, liabilities and ending retained earnings balance.

G. Presentations Issues

1. Dollar signs are not used in journals and ledgers but are used in financial statements and trial balance.
2. Usual practice on statements is to put dollar signs before the first and last number in each column.
3. Commas are optional except for financial reports were they are always used.
4. Companies commonly round to the nearest dollar, or even higher levels.
5. Double rule the final total(s) on the financial statements.

VIII. Global View—Compares U.S.GAAP to IFRS

A. Analyzing and recording transactions—all transactions in this chapter are accounted for identically under both systems.

B. Financial Statements—both systems require the same 4 basic statement but there are some differences in the presentation sequence with a given statement.

C. Accounting controls and assurance—SOX strengthened U.S. control procedures that insure proper principle application; global standards for control and enforcement are diverse. This can yield different outcomes.

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Chapter Outline

Notes

IX. Decision Analysis—Debt Ratio:

A. Companies finance their assets with either liabilities or equity.

B. A company that finances a relatively large portion of its assets with liabilities has a high degree of financial leverage.(greater risk)

C. The debt ratio describes the relationship between a company's liabilities and assets. It is calculated as total liabilities divided by total assets.

D. The debt ratio tells us how much (what percentage) of the assets are financed by creditors (non-owners), or liability financing. The higher this ratio, the more risk a company faces, because liabilities must be repaid and often require regular interest payments.

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VISUAL #2-1

THREE PARTS OF AN ACCOUNT

(1) ACCOUNT TITLE	
Left Side called (2) DEBIT	Right Side called (3) CREDIT

Rules for using accounts

Accounts are assigned balance sides (Debit or Credit).

To increase any account, use the balance side.

To decrease any account, use the side opposite the balance.

Finding account balances

If total debits = total credits, the account balance is zero.

If total debits are greater than total credits, the account has a debit balance equal to the difference of the two totals.

If total credits are greater than total debits, the account has a credit balance equal to the difference of the two totals.

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VISUAL #2-2

REAL ACCOUNTS

ALL ACCOUNTS ARE ASSIGNED BALANCE SIDES

BALANCE SIDES FOR ASSETS, LIABILITIES, AND EQUITY ACCOUNTS ARE ASSIGNED BASED ON SIDE OF EQUATION THEY ARE ON.

ASSETS	=	LIABILITIES + EQUITY
↓		↓
are on the left side of the equation therefore they are		are on the right side of the equation therefore they are
ASSIGNED LEFT SIDE BALANCE		ASSIGNED RIGHT SIDE BALANCE
DEBIT BALANCE		CREDIT BALANCE
↓		↓

All Asset Accts		All Liability Accts		All Equity Accts	
Normal Debit Balance			Normal Credit Balance		Normal Credit Balance
+ side	- side	- side	+ side	- side	+ side

*In a sole proprietorship, there is only one equity account, which is called capital. For that reason, the terms equity and capital are often used interchangeably. (When corporations are discussed in detail, you will learn many stockholders' equity accounts.) Equity is an account classification like assets. Owner's Name, Capital, is the account title.

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VISUAL #2-3

TEMPORARY ACCOUNTS

Temporary accounts are established to facilitate efficient accumulation of data for statements. Temporary accounts are established for withdrawals, each revenue, and each expense. ***Temporary accounts are assigned balances based on how they affect equity.***

(Equity Account)

Owner's Name, Capital

Debit	Credit Balance
- side	+ side

Temporary Accounts	Effect on equity? ↑E or ↓E
Owner, Withdrawals*	↓ E = Dr
Revenues	↑ E = Cr
Expenses	↓ E = Dr

All Withdrawal Accts	
Normal Debit Balance	
+ side	- side

All Revenue Accts	
	Normal Credit Balance
Debit	+ side
- side	

All Expense Accts	
Normal Debit Balance	
+ side	Credit - side

Note:
Transactions during the period always increase the balances of these temporary accounts since the transaction represent additional withdrawals, revenues, and expenses. We will later learn how to move these amounts back to the real account they affect → CAPITAL. At the end of the accounting period, transferring withdrawals, revenues, and expenses back to capital is the main use for the decrease side of the temporary accounts.

*The "Owner's Name, Withdrawals" is the account title and the classification of account is a contra-equity.

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VISUAL #2-4

USING ACCOUNTS - SUMMARY

Real Accounts

All Asset Accts		All Liability Accts		All Equity Accts	
Debit + Balance	—	—	Credit + Balance	—	Credit + Balance

RULE REVIEW

Transaction analysis rules

- Each transaction affects at least 2 accounts.
- Each transaction must have equal debits and credits.

General account use rules

- To increase any account, use balance side.
- To decrease any account, use side opposite the balance

Temporary Accounts

All Withdrawal Accounts	
Debit + Balance	—

All Revenue Accounts	
—	Credit + Balance

All Expense Accounts	
Debit + Balance	—

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Alternate Demonstration Problem
Chapter Two

Record the following transactions of Speedy Computer Service for the month of March 2017.

March 1. Speedy Computer Service received $3,000 cash from Bill Smith in exchange for common stock.

15. Provided services and received cash amounting to $5,400 from customers.

16. Purchased supplies on account, $100.

17. Paid for gas and oil, $800.

18. Paid salaries, 5,000.

21. Provided service on credit, $600.

28. Provided services and received cash amounting to $6,000.

29. Paid for truck and equipment rental, $2,500.

30. Paid $2,000 cash dividends.

Required:

1. **Record the above transactions in general journal form.**
2. **Prepare a trial balance after posting the entries to t-accounts (you can make your own t-accounts).**
3. **Prepare an income statement from trial balance.**
4. **Prepare a statement of retained earnings from the trial balance and income statement.**
5. **Prepare a balance sheet using the trial balance totals and the statement of retained earnings.**

Explain why the company's cash balance does not agree with net income.

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Solution: Alternate Demonstration Problem

Chapter Two

GENERAL JOURNAL

DATE	ACCOUNT TITLES AND EXPLANATION	P.R.	DEBIT	CREDIT
March 1	Cash		3 0 0 0 00	
	Common Stock			3 0 0 0 00
15	Cash		5 4 0 0 00	
	Service Fees Earned			5 4 0 0 00
16	Supplies		1 0 0 00	
	Accounts Payable			1 0 0 00
17	Gas and Oil Expense		8 0 0 00	
	Cash			8 0 0 00
18	Salaries Expense		5 0 0 0 00	
	Cash			5 0 0 0 00
21	Accounts Receivable		6 0 0 00	
	Service Fees Earned			6 0 0 00
28	Cash		6 0 0 0 00	
	Service Fees Earned			6 0 0 0 00
29	Equipment Rental Expense		2 5 0 0 00	
	Cash			2 5 0 0 00
30	Dividends		2 0 0 0 00	
	Cash			2 0 0 0 00

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Speedy Computer Service
Trial Balance
March 31, 2017

	Cash				4	1	0	0	00											
	Accounts Receivable					6	0	0	00											
	Supplies					1	0	0	00											
	Accounts Payable															1	0	0	00	
	Common Stock												3	0	0	0	00			
	Dividends				2	0	0	0	00											
	Service Fees Earned									1	2	0	0	0	00					
	Gas & Oil Expense					8	0	0	00											
	Equipment Rental Expense				2	5	0	0	00											
	Salaries Expense				5	0	0	0	00											
	Totals		1	5	1	0	0	0	00	1	5	1	0	0	00					

3.

Speedy Computer Service
Income Statement
For the month ended March 31, 2017

Fees Earned		**$12,000**
Expenses:		
Equipment Rental Expense	$2,500	
Gas & Oil Expense	800	
Salary Expense	5,000	
Total expenses		8,300
Net income		$ 3,700

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4.

Speedy Computer Service
Statement of Retained Earnings
For the month ended March 31, 2017

Retained Earnings, Mar 1, 2017		$0
Plus: Net Income	3,700	3,700
		3,700
Less: Dividends		2,000
Retained earnings, Mar 31, 2017		$1,700

5.

Speedy Computer Service
Balance Sheet
March 31, 2017

Assets		Liabilities and Owner's Equity	
Cash	$4,100	Accounts payable	$ 100
Accts Receivable	600	Common stock	3,000
Supplies	100	Retained earnings	1,700
		Total liabilities and	
Total Assets	$4,800	owner's equity	$4,800

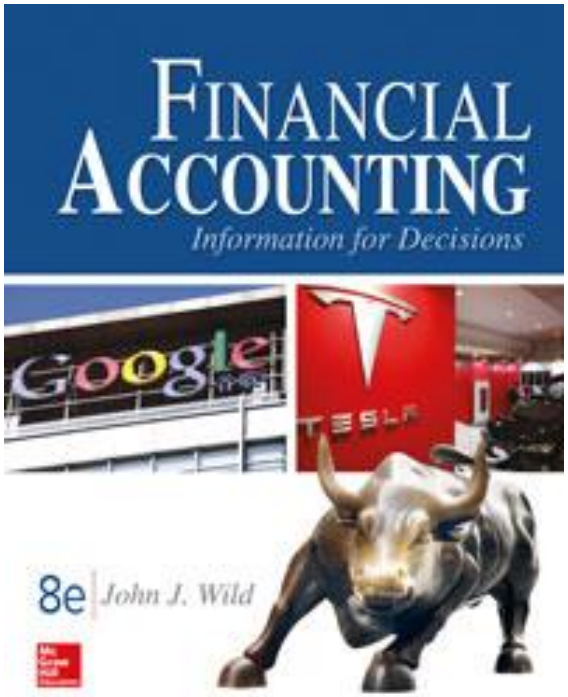
6. First, note that the cash investment ($2,000) and cash dividends ($2,000) affect the cash balance but do not affect the amount of net income earned during the period. Also, revenues in the amount of $600 (March 21) are reflected in the net income figure, but have not yet been collected. As such, these revenues did not impact the cash balance.

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Financial Statements and the Accounting System

Chapter 2



John J. Wild

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Chapter 2 Learning Objectives

CONCEPTUAL

C1 Explain the steps in processing transactions and the role of source documents.
C2 Describe an account and its use in recording transactions.
C3 Describe a ledger and a chart of accounts.
C4 Define *debits* and *credits* and explain double-entry accounting.

ANALYTICAL

A1 Analyze the impact of transactions on accounts and financial statements.
A2 Compute the debt ratio and describe its use in analyzing financial condition.

PROCEDURAL

P1 Record transactions in a journal and post entries to a ledger.
P2 Prepare and explain the use of a trial balance.
P3 Prepare financial statements from business transactions.

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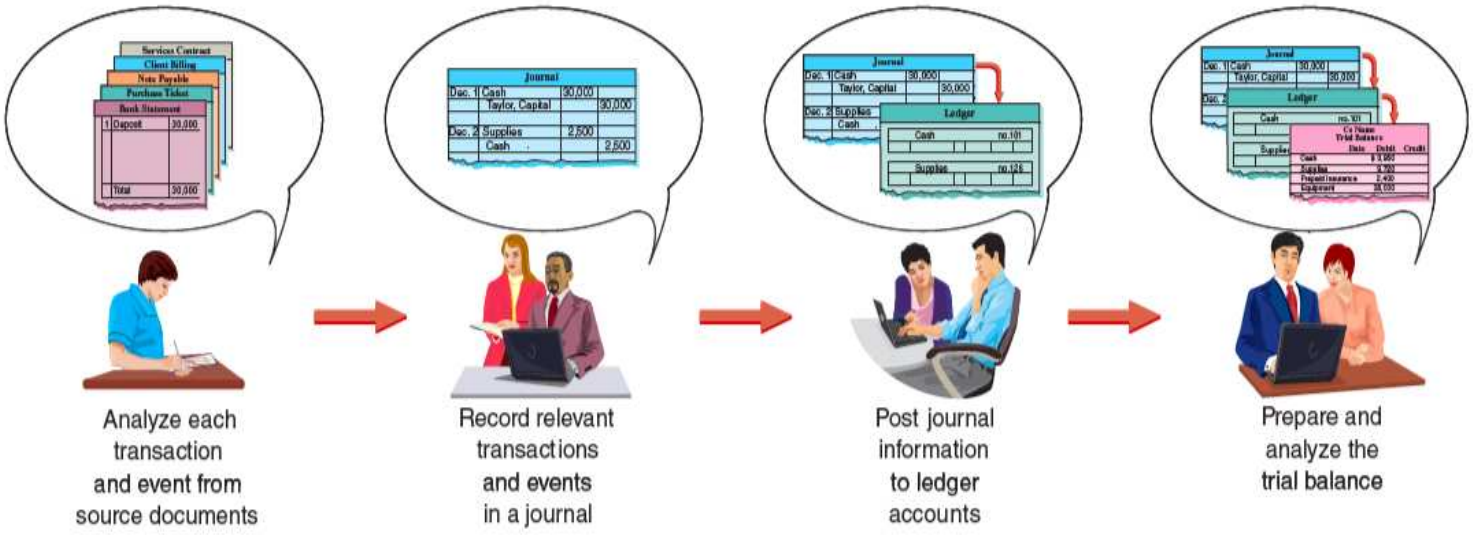
Learning Objective

02-C1:
Explain the steps in processing transactions and the role of source documents.

Basis of Financial Statements

The accounting process:

- Identifies business transactions and events
- Analyzes transactions using the accounting equation
- Records transactions and events in a journal
- Posts journal information to ledger accounts
- Prepares and analyzes the trial balance and financial statements

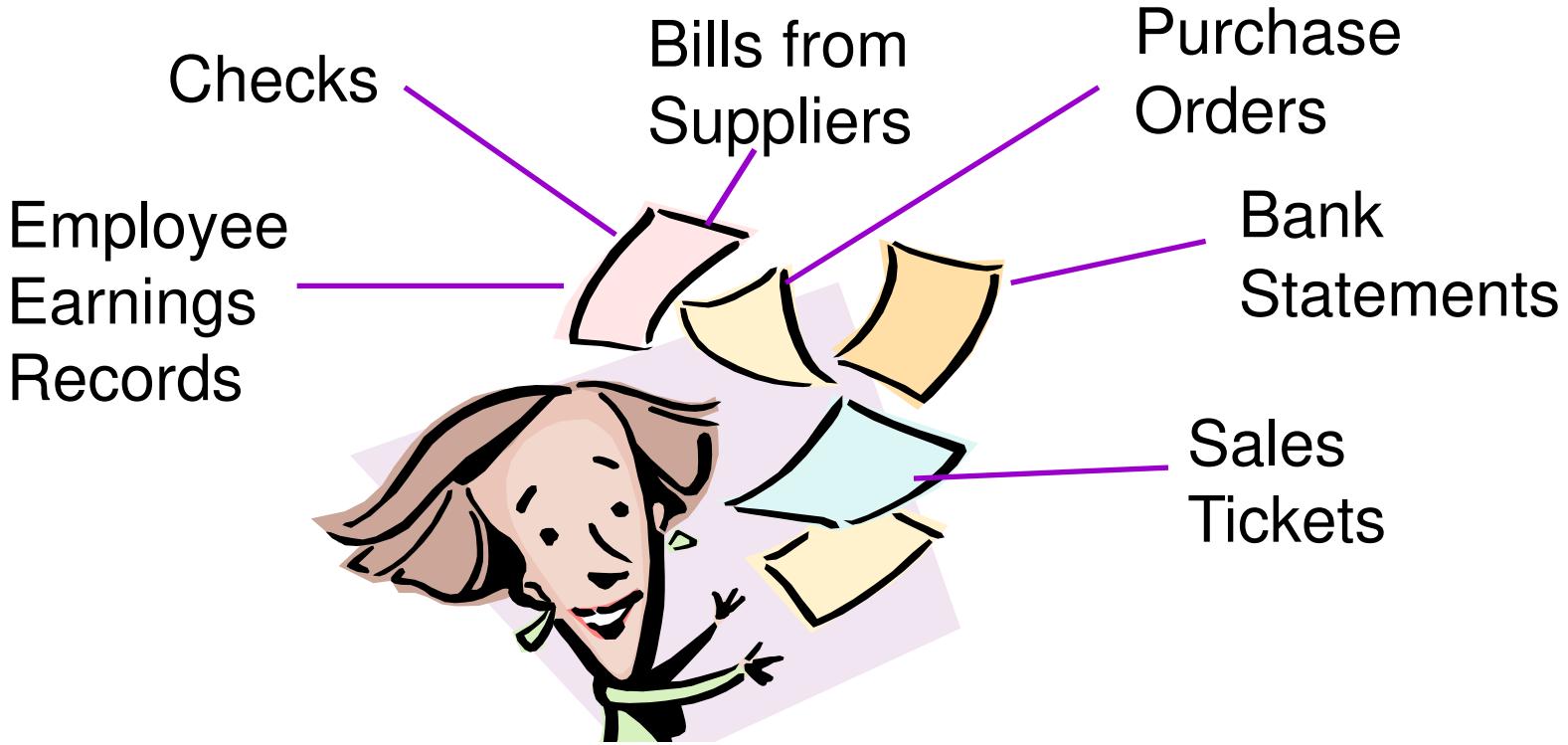


Learning Objective 02-C1: Explain the steps in processing transactions and the role of source documents.

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Source Documents

- Identify and describe transactions and events in the accounting process
- May be in hard copy or electronic form
- Examples include:



Learning Objective

02-C2:
Describe an account and its use in recording transactions.

The Account and Its Analysis

An account is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.

The general ledger is a record containing all accounts used by the company.

Learning Objective 02-C2: Describe an account and its use in recording transactions.

The Account and Its Analysis

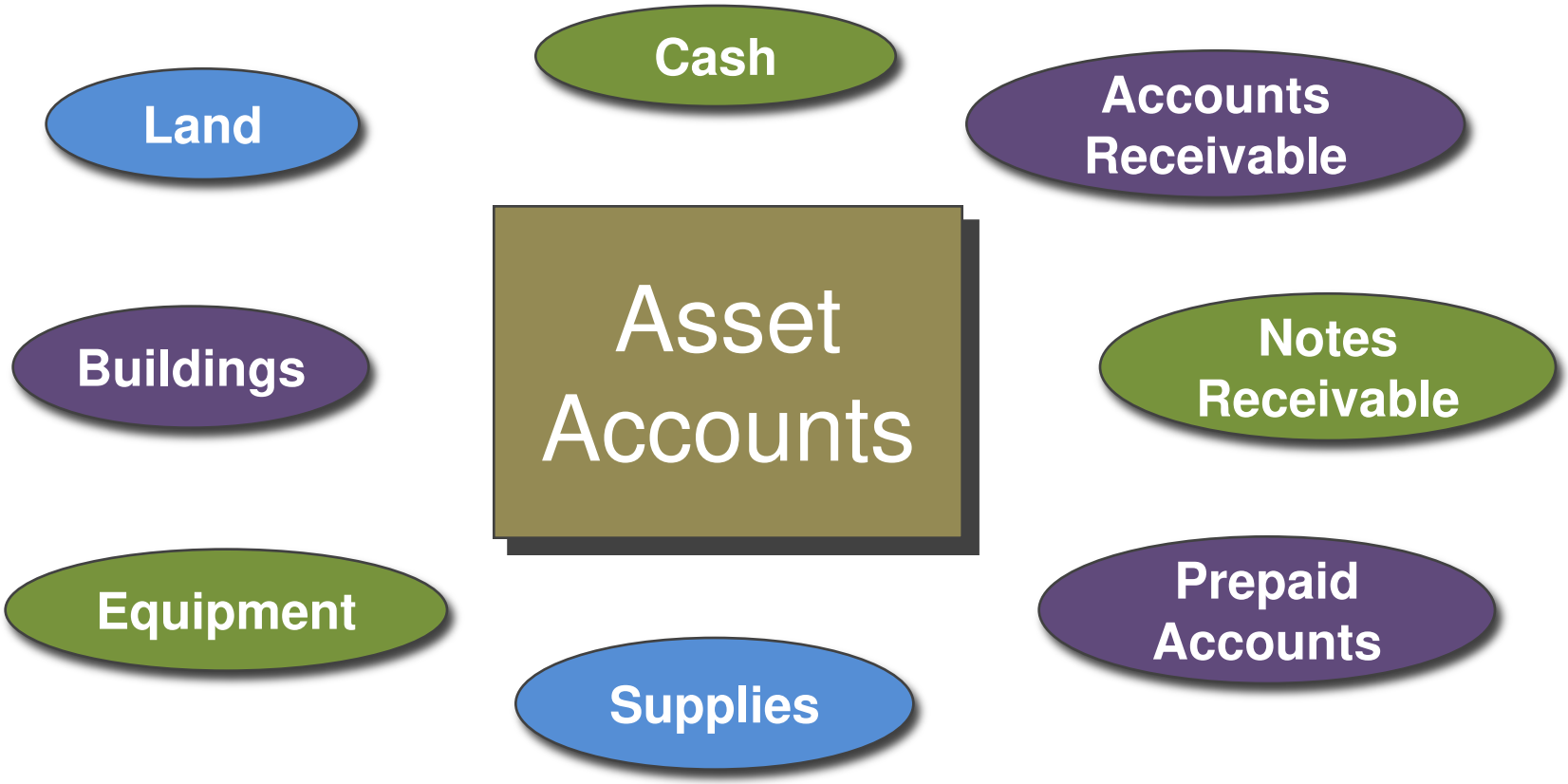
Exhibit 2.1



Learning Objective 02-C2: Describe an account and its use in recording transactions.

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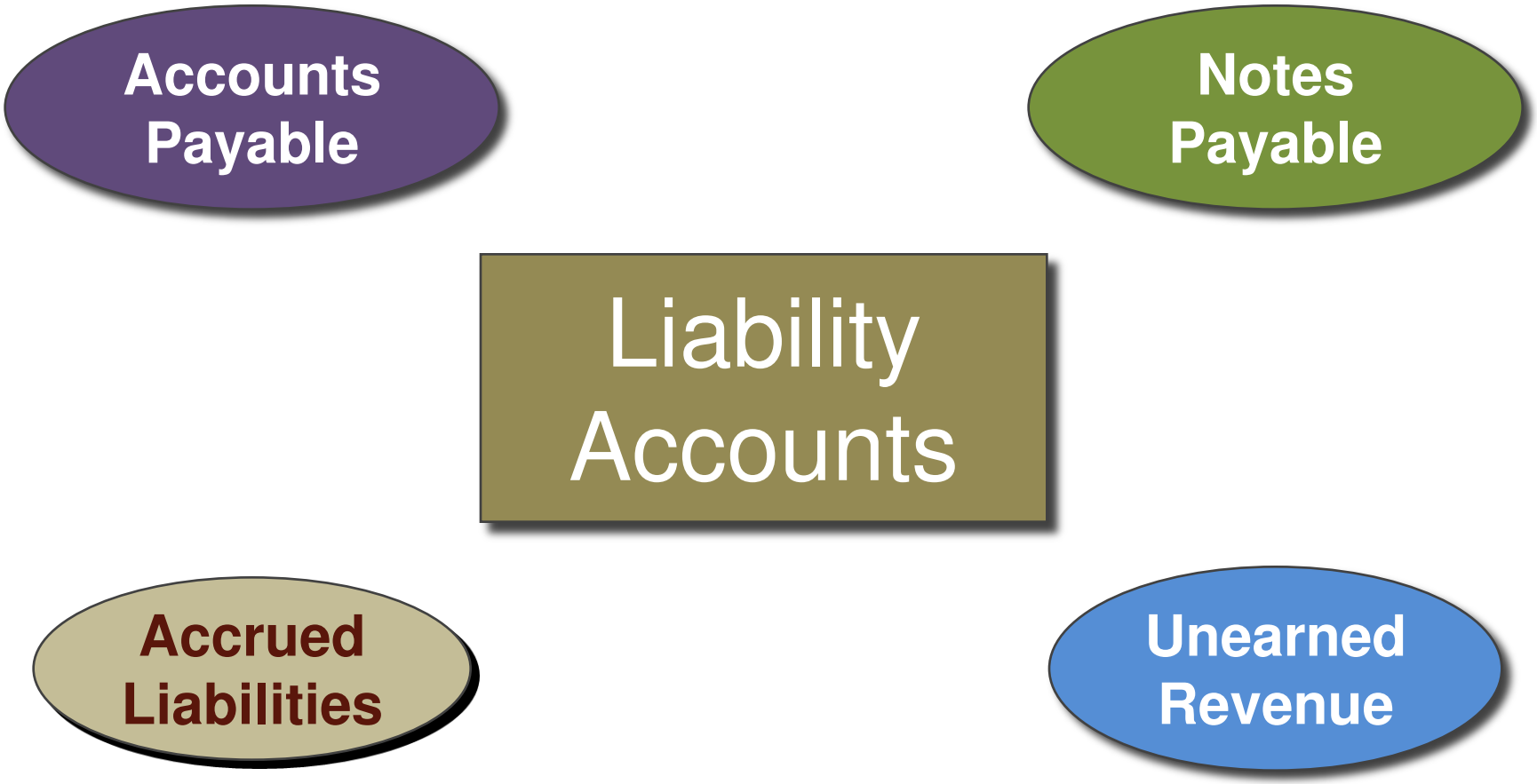
Asset Accounts



Learning Objective 02-C2: Describe an account and its use in recording transactions.

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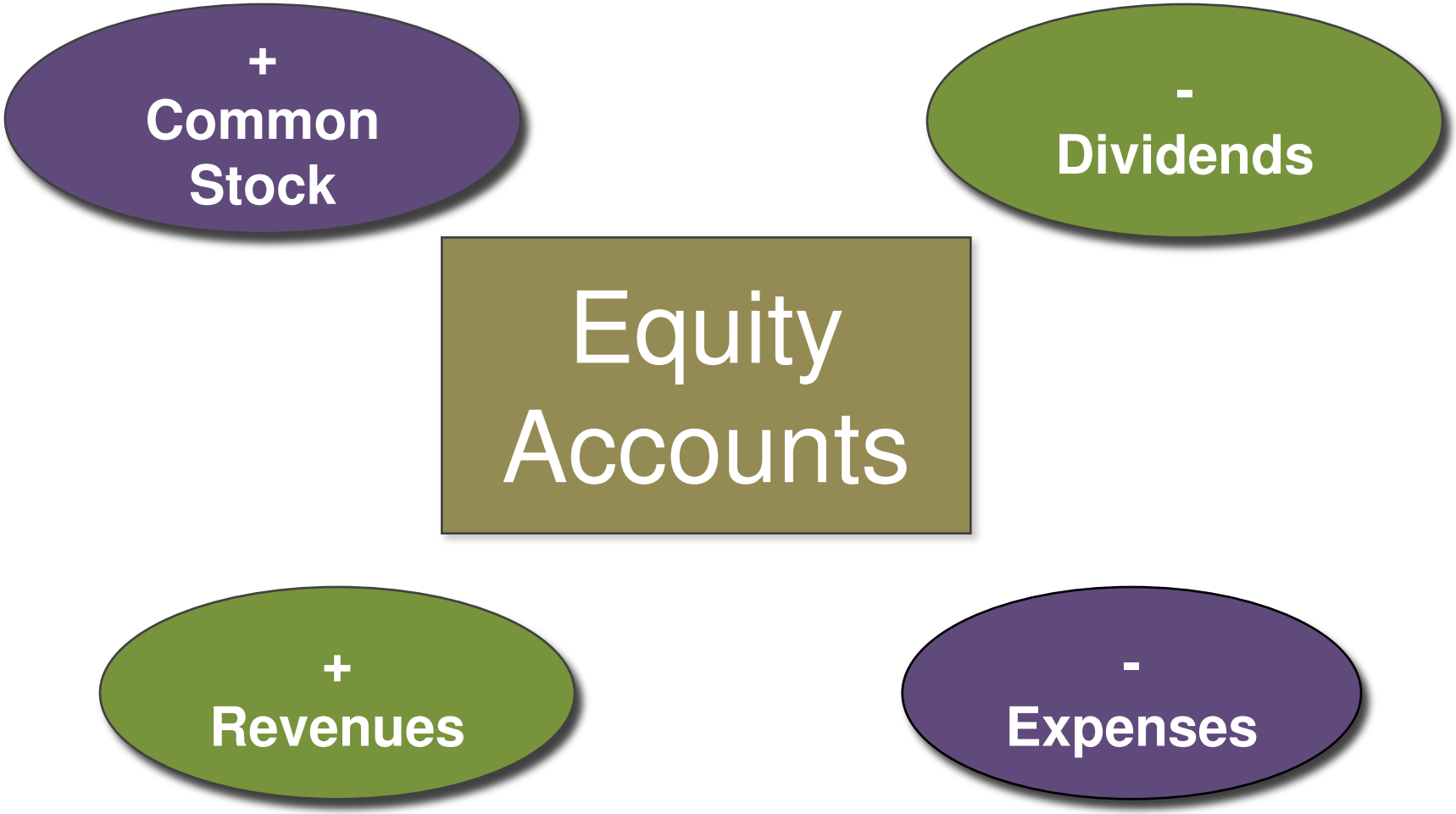
Liability Accounts



Learning Objective 02-C2: Describe an account and its use in recording transactions.

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Equity Accounts



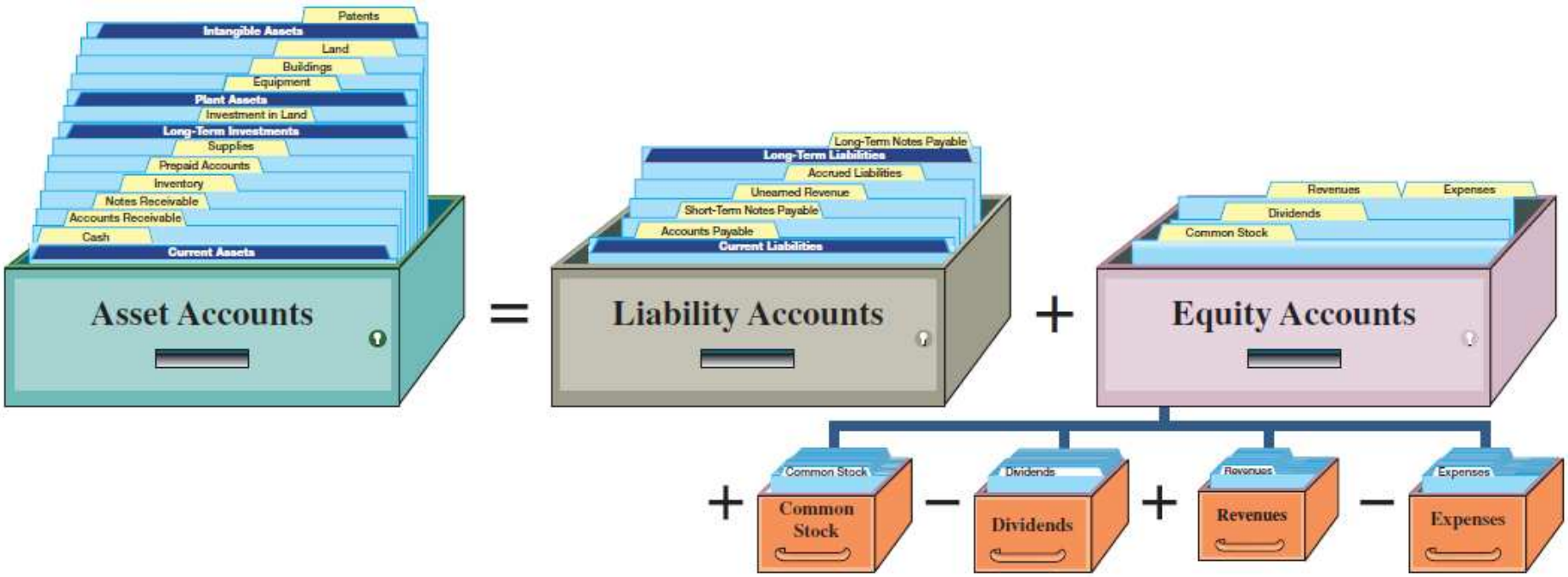
Learning Objective 02-C2: Describe an account and its use in recording transactions.

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The Account and Its Analysis

Exhibit 2.2

Revenues and Common Stock increase equity.
Expenses and Dividends decrease equity.



Learning Objective 02-C2: Describe an account and its use in recording transactions.

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NEED-TO-KNOW 2-1

Classify each of the following as assets (A), liabilities (L), or equity (EQ).

1)	(A) Asset	Prepaid Rent
2)	(EQ) Equity	Common Stock
3)	(A) Asset	Note Receivable
4)	(L) Liability	Accounts Payable
5)	(A) Asset	Accounts Receivable
6)	(A) Asset	Equipment
7)	(L) Liability	Interest Payable
8)	(L) Liability	Unearned Revenue
9)	(A) Asset	Land
10)	(A) Asset	Prepaid Insurance
11)	(L) Liability	Wages Payable
12)	(L) Liability	Taxes Payable

Assets – Things of value owned by the company.
Liabilities – Amounts owed to creditors.
Equity – The residual interest (Assets – Liabilities)

Key words to look for in account titles:

Prepaid	Always an asset
Receivable	Always an asset
Payable	Always a liability
Unearned	Always a liability

Learning Objective

02-C3:
Describe a ledger and chart of accounts

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Ledger and Chart of Accounts

A ledger is a collection of all accounts for a company
Company's size and diversity of operations affect the number of accounts needed.

The chart of accounts is a list of all accounts and includes an identifying number for each account.

Chart of Accounts

Acct. No.	Account Name	Acct. No.	Account Name	Acct. No.	Account Name
101	Cash	236	Unearned consulting revenue	406	Rental revenue
106	Accounts receivable	307	Common stock	622	Salaries expense
126	Supplies	318	Retained earnings	637	Insurance expense
128	Prepaid insurance	319	Dividends	640	Rent expense
167	Equipment	403	Consulting revenue	652	Supplies expense
201	Accounts payable			690	Utilities expense

Exhibit 2.4

Learning Objective 02-C3: Describe a ledger and chart of accounts.

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Learning Objective

02-C4:
Define debits and credits and explain double-entry accounting.

Debits and Credits

A T-account represents a ledger account and is a tool used to understand the effects of one or more transactions.

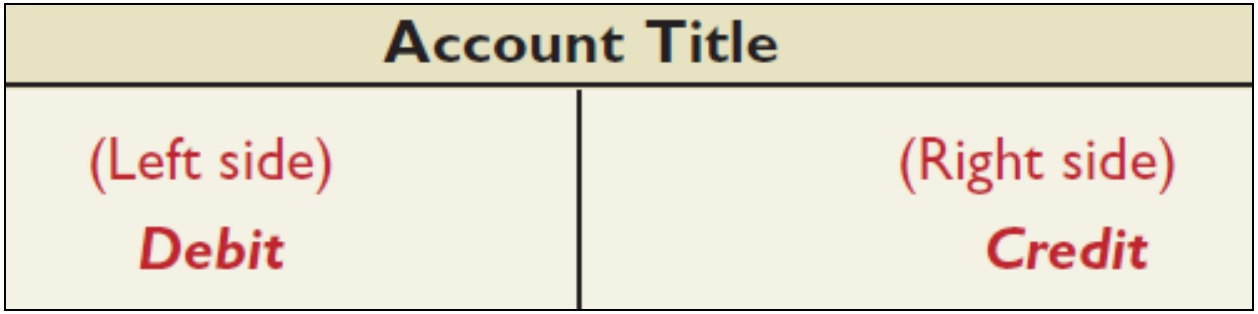


Exhibit 2.5

Double-Entry Accounting

Assets = **Liabilities** + **Equity**

Exhibit 2.6

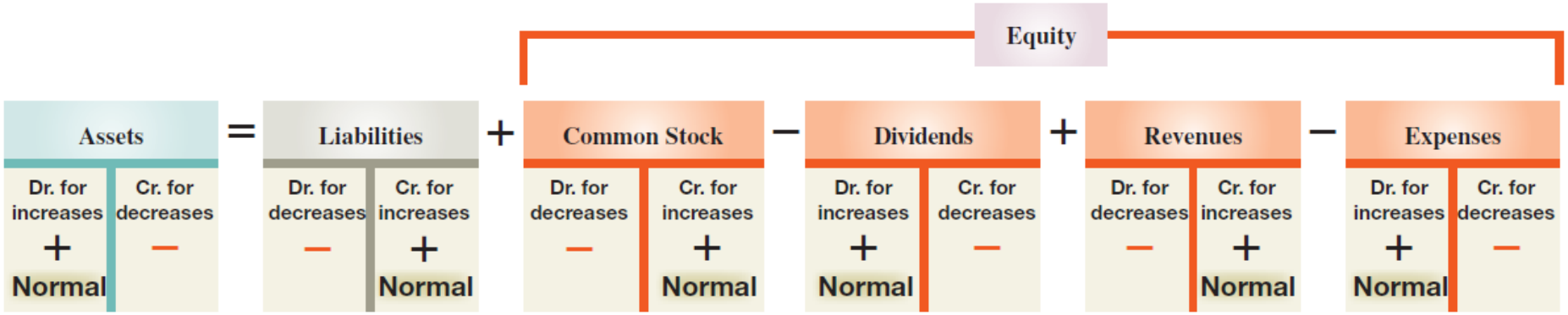
Assets		Liabilities		Equity	
Debit for increases	Credit for decreases	Debit for decreases	Credit for increases	Debit for decreases	Credit for increases
+	−	−	+	−	+
Normal			Normal		Normal

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Double-Entry Accounting

Here is the expanded accounting equation showing the equity section.

Exhibit 2.7



Learning Objective 02-C4: Define debits and credits and explain double-entry accounting.

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Computing Balance in T-Account

An account balance is the difference between the increases and decreases in an account. Notice the Cash T-Account.

Exhibit 2.8

Cash			
Receive investment by owner for stock	30,000	Purchase of supplies	2,500
Consulting services revenue earned	4,200	Purchase of equipment	26,000
Collection of account receivable	1,900	Payment of rent	1,000
		Payment of salary	700
		Payment of account payable	900
		Payment of cash dividend	200
Balance	4,800		

NEED-TO-KNOW 2-2

Identify the normal balance (debit [Dr] or credit [Cr]) for each of the following accounts.

1)	Dr. Debit	Prepaid Rent
2)	Cr. Credit	Common Stock
3)	Dr. Debit	Note Receivable
4)	Cr. Credit	Accounts Payable
5)	Dr. Debit	Accounts Receivable
6)	Dr. Debit	Equipment
7)	Cr. Credit	Interest Payable
8)	Cr. Credit	Unearned Revenue
9)	Dr. Debit	Land
10)	Dr. Debit	Prepaid Insurance
11)	Dr. Debit	Dividends

Assets		=	Liabilities		+	Equity	
Increase Debits	Decrease Credits		Decrease Debits	Increase Credits		Decrease Debits	Increase Credits
						Dividends Expenses	Common Stock Revenues
Normal				**Normal**			

Dividends	Common Stock
↓ Equity	↑ Equity
Dividends	Common Stock
Normal	**Normal**

Expenses	Revenues
↓ Equity	↑ Equity
Expenses	Revenues
Normal	**Normal**

Learning Objective 02-C4: Define debits and credits and explain double-entry accounting.

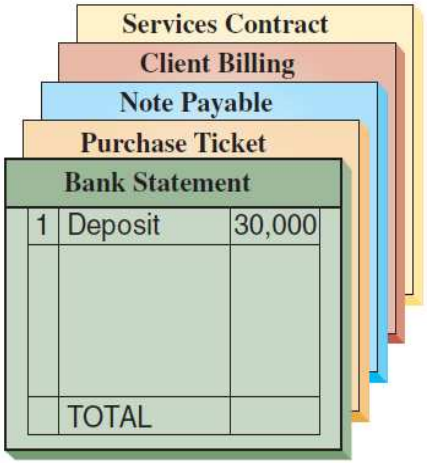
Learning Objective

02-P1:
Record transactions in a journal and post entries to a ledger.

Journalizing and Posting Transactions

Exhibit 2.9

Step 1: Identify transactions and source documents.



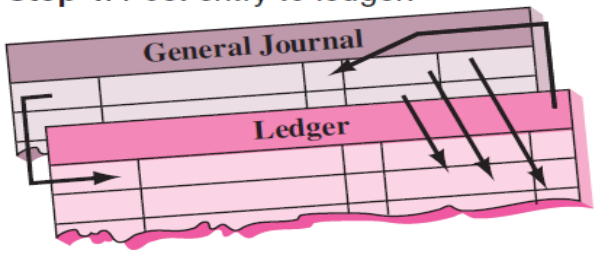
Step 2: Analyze transactions using the accounting equation.



Step 3: Record journal entry.

General Journal			
Dec. 1	Cash	30,000	
	Taylor, Capital		30,000
Dec. 2	Supplies	2,500	
	Cash		2,500

Step 4: Post entry to ledger.



Learning Objective 02-P1: Record transactions in a journal and post entries to a ledger.

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Journalizing Transactions

Exhibit 2.10

a. Transaction Date

b. Titles of Affected Accounts

Date	Account Titles and Explanation	PR	Debit	Credit
2016 (a) Dec. 1	(b) Cash		30,000	
	Common Stock			(c) 30,000
	Receive investment by owner. (d)			
Dec. 2	Supplies		2,500	
	Cash			2,500
	Purchase supplies for cash.			

d. Transaction explanation

c. Dollar amount of debits and credits

Learning Objective 02-P1: Record transactions in a journal and post entries to a ledger.

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Balance Account Column

Exhibit 2.11

T-accounts are useful illustrations, but balance column ledger accounts are used in practice.

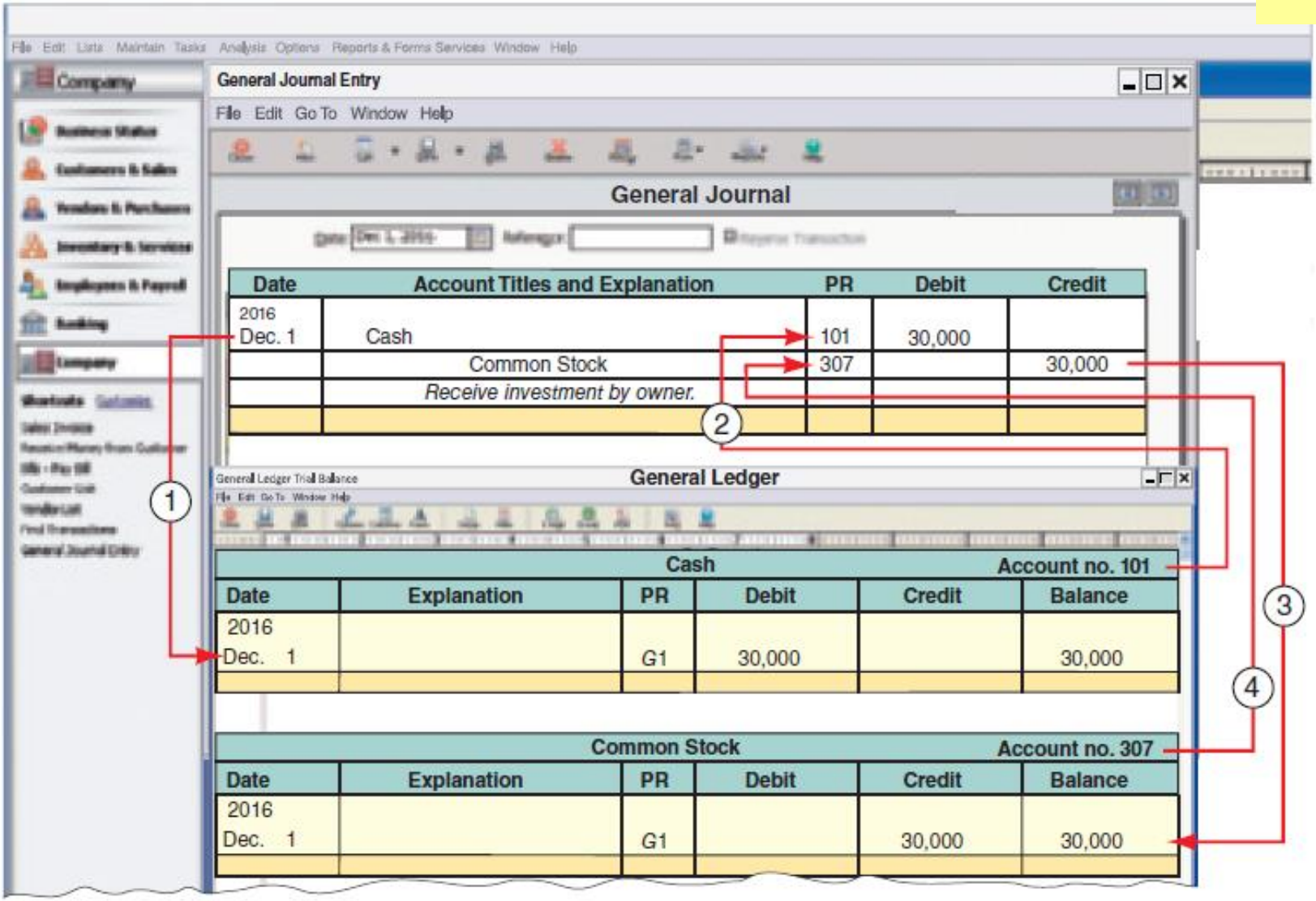
General Ledger					
Cash					Account No. 101
Date	Explanation	PR	Debit	Credit	Balance
2016 Dec. 1		G1	30,000		30,000
Dec. 2		G1		2,500	27,500
Dec. 3		G1		26,000	1,500
Dec. 10		G1	4,200		5,700

Learning Objective 02-P1: Record transactions in a journal and post entries to a ledger.

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Posting Journal Entries

Exhibit 2.12



Learning Objective 02-P1: Record transactions in a journal and post entries to a ledger.

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Learning Objective

02-A1:
Analyze the impact of transactions on accounts and financial statements

Analyzing Transactions

Double-entry accounting is useful in analyzing and processing transactions. Analysis of each transaction follows these four steps.

Step 1 Identify the transaction and any source documents.

Step 2 Analyze the transaction using the accounting equation.

Step 3 Record the transaction in journal entry form applying double-entry accounting.

Step 4 Post the entry (for simplicity, we use T-accounts to represent ledger accounts).

Analyzing Transactions

1. Receive Investment by Owner

1 IDENTIFY FastForward receives $30,000 cash from Chas Taylor in exchange for common stock.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Common Stock
+30,000	=	0		+30,000

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(1)	Cash	101	30,000	
	Common Stock	307		30,000

4 POST

Cash		101
(1)	30,000	

Common Stock		307
	(1)	30,000

Learning Objective 02-A1: Analyze the impact of transactions on accounts and financial statements

Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

Analyzing Transactions

2. Purchase Supplies for Cash

1 IDENTIFY FastForward pays $2,500 cash for supplies.

2 ANALYZE

Assets		=	Liabilities	+	Equity
Cash	Supplies				
−2,500	+2,500	=	0	+	0

Changes the composition of assets but not the total.

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(2)	Supplies	126	2,500	
	Cash	101		2,500

4 POST

Supplies			126
(2)	2,500		

Cash			101
(1)	30,000	(2)	2,500

Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

Analyzing Transactions

3. Purchase Equipment for Cash

1 IDENTIFY FastForward pays $26,000 cash for equipment.

2 ANALYZE

Assets		=	Liabilities	+	Equity
Cash	Equipment				
−26,000	+26,000	=	0	+	0

Changes the composition of assets but not the total.

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(3)	Equipment	167	26,000	
	Cash	101		26,000

4 POST

Equipment			167
(3)	26,000		

Cash			101
(1)	30,000	(2)	2,500
		(3)	26,000

Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

Analyzing Transactions

4. Purchase Supplies on Credit

1 IDENTIFY FastForward purchases $7,100 of supplies on credit from a supplier.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Supplies		Accounts Payable		
+7,100	=	+7,100	+	0

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(4)	Supplies	126	7,100	
	Accounts Payable	201		7,100

4 POST

Supplies		126
(2)	2,500	
(4)	7,100	

Accounts Payable		201
	(4)	7,100

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Analyzing Transactions

5. Provide Services for Cash

1 IDENTIFY FastForward provides consulting services and immediately collects $4,200 cash.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Consulting Revenue
+4,200	=	0		+4,200

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(5)	Cash	101	4,200	
	Consulting Revenue	403		4,200

4 POST

Cash			101
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000

Consulting Revenue			403
		(5)	4,200

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Analyzing Transactions

6. Payment of Expense in Cash

1 IDENTIFY FastForward pays $1,000 cash for December rent.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Rent Expense
−1,000	=	0		−1,000

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(6)	Rent Expense	640	1,000	
	Cash	101		1,000

4 POST

Rent Expense			640
(6)	1,000		

Cash			101
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
		(6)	1,000

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Analyzing Transactions

7. Payment of Expense in Cash

1 IDENTIFY FastForward pays $700 cash for employee salary.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Salaries Expense
−700	=	0		−700

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(7)	Salaries Expense	622	700	
	Cash	101		700

4 POST

Salaries Expense 622

(7)	700		

Cash 101

(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
		(6)	1,000
		(7)	700

Learning Objective 02-A1: Analyze the impact of transactions on accounts and financial statements

Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

Analyzing Transactions

8. Provide Consulting and Rental Services on Credit

1 IDENTIFY FastForward provides consulting services of $1,600 and rents its test facilities for $300. The customer is billed $1,900 for these services.

2 ANALYZE

Assets	=	Liabilities	+	Equity	
Accounts Receivable				Consulting Revenue	Rental Revenue
+1,900	=	0		+1,600	+300

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(8)	Accounts Receivable	106	1,900	
	Consulting Revenue	403		1,600
	Rental Revenue	406		300

4 POST

Accounts Receivable		106
(8) 1,900		

Consulting Revenue		403
	(5)	4,200
	(8)	1,600

Rental Revenue		406
	(8)	300

Learning Objective 02-A1: Analyze the impact of transactions on accounts and financial statements

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Analyzing Transactions

9. Receipt of Cash on Account

1 IDENTIFY FastForward receives $1,900 cash from the client billed in transaction 8.

2 ANALYZE

Assets			=	Liabilities	+	Equity
Cash		Accounts Receivable				
+1,900		−1,900	=	0	+	0

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(9)	Cash	101	1,900	
	Accounts Receivable	106		1,900

4 POST

Cash			101
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
		(7)	700

Accounts Receivable			106
(8)	1,900	(9)	1,900

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Analyzing Transactions

10. Partial Payment of Accounts Payable

1 IDENTIFY FastForward pays CalTech Supply $900 cash toward the payable of transaction 4.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash		Accounts Payable		
−900	=	−900	+	0

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(10)	Accounts Payable	201	900	
	Cash	101		900

4 POST

Accounts Payable			201
(10)	900	(4)	7,100

Cash			101
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
		(7)	700
		(10)	900

Analyzing Transactions

11. Payment of Cash Dividend

1 IDENTIFY FastForward pays $200 cash for dividends.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Dividends
−200	=	0		−200

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(11)	Dividends	319	200	
	Cash	101		200

4 POST

Dividends			319
(11)	200		

Cash			101
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
		(7)	700
		(10)	900
		(11)	200

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Analyzing Transactions

12. Receipt of Cash for Future Services

1 IDENTIFY FastForward receives $3,000 cash in advance of providing consulting services to a customer.

2 ANALYZE

Assets	=	Liabilities	+	Equity
		Unearned Consulting Revenue		
Cash				
+3,000	=	+3,000	+	0

Accepting $3,000 cash obligates FastForward to perform future services and is a liability. No revenue is earned until services are provided.

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(12)	Cash	101	3,000	
	Unearned Consulting Revenue	236		3,000

4 POST

Cash			101
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200

Unearned Consulting Revenue			236
		(12)	3,000

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Analyzing Transactions

13. Pay Cash for Future Insurance Coverage

1 IDENTIFY FastForward pays $2,400 cash (insurance premium) for a 24-month insurance policy. Coverage begins on December 1.

2 ANALYZE

Assets			=	Liabilities	+	Equity
Cash		Prepaid Insurance				
−2,400		+2,400	=	0	+	0

Changes the composition of assets from cash to prepaid insurance. Expense is incurred as insurance coverage expires.

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(13)	Prepaid Insurance	128	2,400	
	Cash	101		2,400

4 POST

Prepaid Insurance		128
(13)	2,400	

Cash		101	
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200
		(13)	2,400

Learning Objective 02-A1: Analyze the impact of transactions on accounts and financial statements

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Analyzing Transactions

14. Purchase Supplies for Cash

1 IDENTIFY FastForward pays $120 cash for supplies.

2 ANALYZE

Assets		=	Liabilities	+	Equity
Cash	Supplies				
−120	+120	=	0	+	0

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(14)	Supplies	126	120	
	Cash	101		120

4 POST

Supplies			126
(2)	2,500		
(4)	7,100		
(14)	120		

Cash			101
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200
		(13)	2,400
		(14)	120

Learning Objective 02-A1: Analyze the impact of transactions on accounts and financial statements

Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

Analyzing Transactions

15. Payment of Expense in Cash

1 IDENTIFY FastForward pays $305 cash for December utilities expense.

2 ANALYZE

Assets	=	Liabilities	+	Equity
				Utilities Expense
Cash				
−305	=	0		−305

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(15)	Utilities Expense	690	305	
	Cash	101		305

4 POST

Utilities Expense 690

(15)	305		

Cash 101

(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200
		(13)	2,400
		(14)	120
		(15)	305

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Analyzing Transactions

16. Payment of Expense in Cash

1 IDENTIFY FastForward pays $700 cash in employee salary for work performed in the latter part of December.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				Salaries Expense
−700	=	0		−700

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(16)	Salaries Expense	622	700	
	Cash	101		700

4 POST

Salaries Expense			622
(7)	700		
(16)	700		

Cash			101
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200
		(13)	2,400
		(14)	120
		(15)	305
		(16)	700

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Debit and Credit Rules

Exhibit 2.13

General Ledger

Assets = **Liabilities** + **Equity**

Cash 101

(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200
		(13)	2,400
		(14)	120
		(15)	305
		(16)	700
Balance	4,275		

Accounts Receivable 106

(8)	1,900	(9)	1,900
Balance	0		

Supplies 126

(2)	2,500
(4)	7,100
(14)	120
Balance	9,720

Prepaid Insurance 128

(13)	2,400

Equipment 167

(3)	26,000

Accounts Payable 201

(10)	900	(4)	7,100
		Balance	6,200

Unearned Consulting Revenue 236

		(12)	3,000

Common Stock 307

		(1)	30,000

Dividends 319

(11)	200

Consulting Revenue 403

		(5)	4,200
		(8)	1,600
		Balance	5,800

Rental Revenue 406

		(8)	300

Salaries Expense 622

(7)	700
(16)	700
Balance	1,400

Rent Expense 640

(6)	1,000

Utilities Expense 690

(15)	305

Accounts in this white area reflect those reported on the income statement.

$42,395 = $9,200 + $33,195

Learning Objective 02-A1: Analyze the impact of transactions on accounts and financial statements

Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

NEED-TO-KNOW 2-3

Assume Tata began operations on January 1 and completed the following transactions during its first month of operations.

Jan. 1 Jamsetji invested $4,000 cash in the Tata company in exchange for its common stock.
Jan. 5 The company purchased $2,000 of equipment on credit.
Jan. 14 The company provided $540 of services for a client on credit.

For each transaction, (a) analyze the transaction using the accounting equation, (b) record the transaction in journal entry form, and c) post the entry using T-accounts to represent the general ledger accounts.

NEED-TO-KNOW 2-3

Jan. 1 Jamsetji invested $4,000 cash in the Tata company in exchange for common stock.

a) Analyze

Assets	=	Liabilities	+	Equity
+ $4,000				+ $4,000

b) Record

Date	General Journal	Debit	Credit
Jan. 1	Cash	4,000	
	Common Stock		4,000

c) Post

Cash	
Jan. 1 4,000	

Common Stock	
	Jan. 1 4,000

Assets		=	Liabilities		+	Equity	
Increase Debits	Decrease Credits		Decrease Debits	Increase Credits		Decrease Debits	Increase Credits
						Dividends	Common stock
Normal				Normal		Expenses	Revenues

Learning Objective 02-A1: Analyze the impact of transactions on accounts and financial statements

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NEED-TO-KNOW 2-3 SOLUTION

Jan. 5 The company purchased $2,000 of equipment on credit.

a) Analyze

Assets =	Liabilities +	Equity
+ $2,000	+ $2,000	

b) Record

Date	General Journal	Debit	Credit
Jan. 5	Equipment	2,000	
	Accounts Payable		2,000

c) Post

Equipment	
Jan. 5 2,000	

Accounts Payable	
	Jan. 5 2,000

Assets		=	Liabilities		+	Equity	
Increase Debits	Decrease Credits		Decrease Debits	Increase Credits		Decrease Debits	Increase Credits
						Dividends	Common Stock
Normal				**Normal**		Expenses	Revenues

NEED-TO-KNOW 2-3 SOLUTION

Jan. 14 The company provided $540 of services for a client on credit.

a) Analyze

Assets	=	Liabilities	+	Equity
+ $540				+ $540

b) Record

Date	General Journal	Debit	Credit
Jan. 14	Accounts receivable	540	
	Services revenue		540

c) Post

Accounts receivable	
Jan. 14	540

Services revenue	
	Jan. 14 540

Assets		=	Liabilities		+	Equity	
Increase Debits	Decrease Credits		Decrease Debits	Increase Credits		Decrease Debits	Increase Credits
						Dividends	Common Stock
						Expenses	Revenues
Normal				**Normal**			

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Learning Objective

02-P2:
Prepare and explain the use of a trial balance

Preparing the Trial Balance

Preparing a trial balance involves three steps:

1. List each account title and its amount (from ledger) in the trial balance. If an account has a zero balance, list it with a zero in the normal balance column (or omit it).
2. Compute the total of debit balances and the total of credit balances.
3. Verify (prove) total debit balances equal total credit balances.

Learning Objective 02-P2: Prepare and explain the use of a trial balance.

After processing its remaining transactions for December, FastForward's Trial Balance is prepared.

Exhibit 2.14

FASTFORWARD
Trial Balance
December 31, 2016

	Debit	Credit
Cash	$ 4,275	
Accounts receivable	0	
Supplies	9,720	
Prepaid insurance	2,400	
Equipment	26,000	
Accounts payable		$ 6,200
Unearned consulting revenue		3,000
Common stock		30,000
Dividends	200	
Consulting revenue		5,800
Rental revenue		300
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	305	
Totals	$ 45,300	$ 45,300

The trial balance lists all account balances in the general ledger. If the books are in balance, the total debits will equal the total credits.

Learning Objective 02-P2: Prepare and explain the use of a trial balance.

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Searching for and Correcting Errors

If the trial balance does not balance, the error(s) must be found and corrected.

1. **Make sure the trial balance columns are correctly added.**
2. **Make sure account balances are correctly entered from the ledger.**
3. **See if debit or credit accounts are mistakenly placed on the trial balance.**
4. **Re-compute each account balance in the ledger.**
5. **Verify that each journal entry is posted correctly.**
6. **Verify that each original journal entry has equal debits and credits.**

Learning Objective 02-P2: Prepare and explain the use of a trial balance.

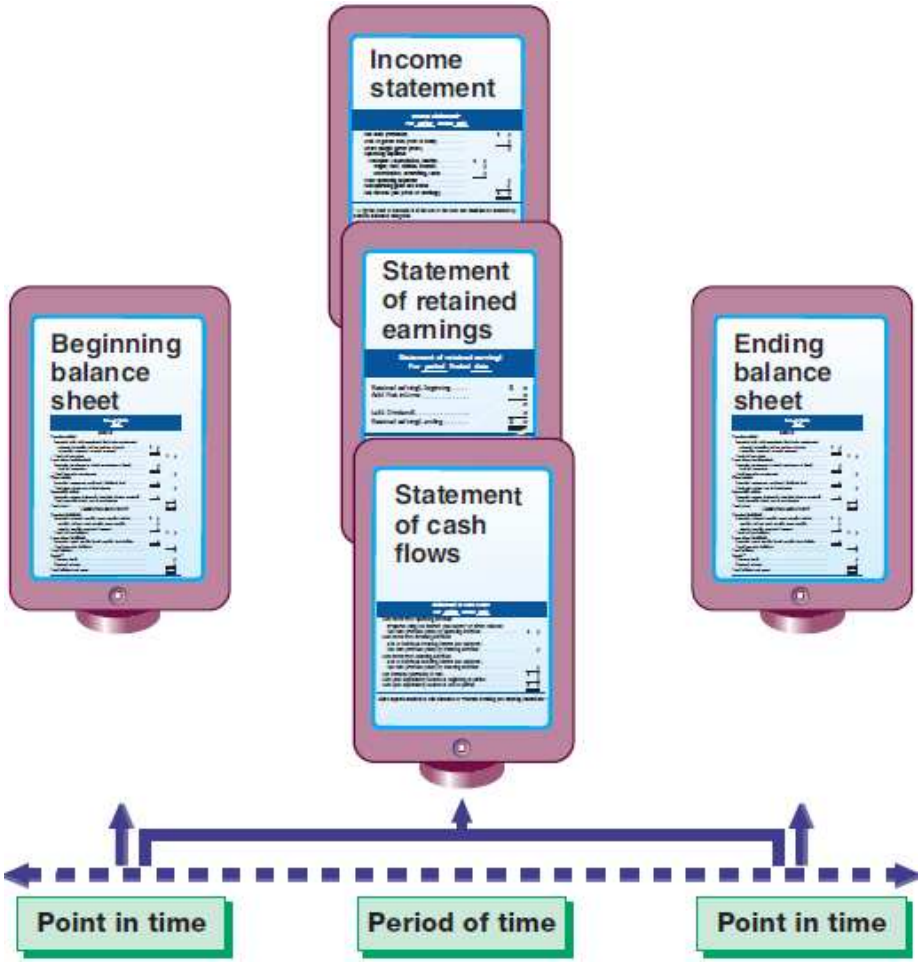
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Learning Objective

02-P3:
Prepare financial statements from business transactions.

Using a Trial Balance to Prepare Financial Statements

Exhibit 2.15



Learning Objective 02-P3: Prepare financial statements from business transactions.

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Financial Statements

The four financial statements and their purposes are:

1. Income statement — describes a company's revenues and expenses along with the resulting net income or loss over a period of time due to earnings activities.

2. Statement of retained earnings— explains changes in the retained earnings from net income (or loss) and from any dividends declared over a period of time.

3. Balance sheet — describes a company's financial position (types and amounts of assets, liabilities, and equity) at a point in time.

4. Statement of cash flows —identifies cash inflows (receipts) and cash outflows (payments) over a period of time.

Learning Objective 02-P3: Prepare financial statements from business transactions.

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Income Statement

Exhibit 2.16

FASTFORWARD
Income Statement
For Month Ended December 31, 2016

Revenues		
Consulting revenue ($4,200 + $1,600)	$ 5,800	
Rental revenue	300	
Total revenues		$ 6,100
Expenses		
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	305	
Total expenses		2,705
Net income		$ 3,395

Learning Objective 02-P3: Prepare financial statements from business transactions.

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Statement of Retained Earnings

Exhibit 2.16

FASTFORWARD
Income Statement
For Month Ended December 31, 2016

Revenues		
Consulting revenue ($4,200 + $1,600)	$ 5,800	
Rental revenue	300	
Total revenues		$ 6,100
Expenses		
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	305	
Total expenses		2,705
Net income		$ 3,395

FASTFORWARD
Statement of Retained Earnings
For Month Ended December 31, 2016

Retained earnings, December 1, 2016	$ 0
Plus: Net income	3,395
	3,395
Less: Cash dividends	200
Retained earnings, December 31, 2016	$ 3,195

Learning Objective 02-P3: Prepare financial statements from business transactions.

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Balance Sheet

Exhibit 2.16

FASTFORWARD
Statement of Retained Earnings
For Month Ended December 31, 2016

Retained earnings, December 1, 2016	$ 0
Plus: Net income	3,395
	3,395
Less: Cash dividends	200
Retained earnings, December 31, 2016	$ 3,195

FASTFORWARD
Balance Sheet
December 31, 2016

Assets		Liabilities	
Cash	$ 4,275	Accounts payable	$ 6,200
Supplies	9,720	Unearned consult. revenue	3,000
Prepaid insurance	2,400	Total liabilities	9,200
Equipment	26,000	**Equity**	
		Common stock	30,000
		Retained earnings	3,195
		Total equity	33,195
Total assets	$42,395	Total liabilities and equity	$42,395

Learning Objective 02-P3: Prepare financial statements from business transactions.

Presentation Issues

1. Dollar signs are not used in journals and ledgers.
2. Dollar signs appear in financial statements and other reports such as trial balances. The usual practice is to put dollar signs beside only the first and last numbers in a column.
3. When amounts are entered in the journal, ledger, or trial balance, commas are optional to indicate thousands, millions, and so forth.
4. Commas are always used in financial statements.
5. Companies commonly round amounts in reports to the nearest dollar, or even to a higher level.

NEED-TO-KNOW 2-4

Prepare a trial balance for Apple using the following condensed data from its fiscal year-ended September 27, 2014.

Common stock	$23,313	Investments and other assets	$179,911
Accounts payable	30,196	Land and equipment (net)	20,624
Other liabilities	90,096	Selling and other expense	17,054
Cost of sales (expense)	126,231	Accounts receivable	17,460
Cash	13,844	Retained earnings	59,939
Revenues	182,795		
Dividends	11,215		

APPLE
Trial Balance
September 27, 2014

	Debit	Credit
Assets	Normal	
Liabilities		Normal
Common Stock		Normal
Retained Earnings		Normal
Dividends	Normal	
Revenues		Normal
Expenses	Normal	
Totals	Debits =	Credits

Learning Objective 02-P2: Prepare and explain the use of a trial balance.

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NEED-TO-KNOW 2-4 SOLUTION

Prepare a trial balance for Apple using the following condensed data from its fiscal year-ended September 27, 2014.

Common stock	$23,313	Investments and other assets	$179,911
Accounts payable	30,196	Land and equipment (net)	20,624
Other liabilities	90,096	Selling and other expense	17,054
Cost of sales (expense)	126,231	Accounts receivable	17,460
Cash	13,844	Retained earnings	59,939
Revenues	182,795		
Dividends	11,215		

APPLE
Trial Balance
September 27, 2014

	Debit	Credit
Cash	$13,844	
Accounts receivable	17,460	
Land and equipment (net)	20,624	
Investments and other assets	179,911	
Accounts payable		$30,196
Other liabilities		90,096
Common stock		23,313
Retained earnings		59,939
Dividends	11,215	
Revenues		182,795
Cost of sales (expense)	126,231	
Selling and other expense	17,054	
Totals	$386,339	$386,339

Learning Objective 02-P2: Prepare and explain the use of a trial balance.

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Global View

Financial Statements

Both U.S. GAAP and IFRS prepare the same four basic financial statements. A few differences are found within each statement, but over time these differences are likely to be eliminated. Here is a typical IFRS balance sheet presentation.

PIAGGIO
Balance Sheet (in thousands of Euros)
December 31, 2014

Assets		Equity and Liabilities	
Noncurrent assets	€1,079,117	Total equity	€ 413,069
Current assets	477,491	Noncurrent liabilities	581,366
		Current liabilities	562,173
Total assets	€1,556,608	Total equity and liabilities	€1,556,608

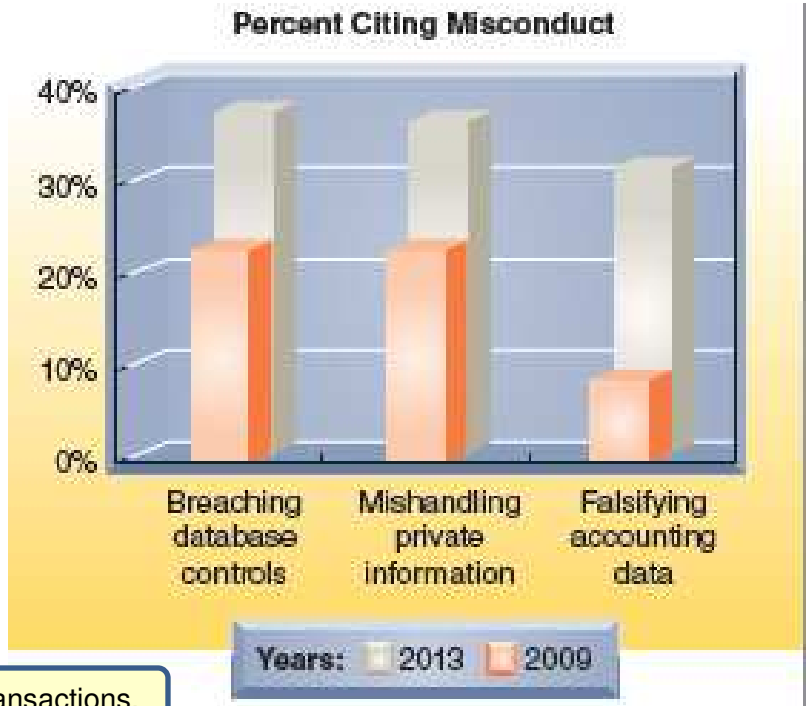
Learning Objective 02-P3: Prepare financial statements from business transactions.

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Accounting Controls and Assurance

Accounting systems depend on control procedures that assure the proper principles were applied in processing accounting information. The passage of SOX legislation strengthened U.S. control procedures in recent years.

The graph here shows the percentage of employees in information technology who report observing specific types of misconduct and the increased risk of such misconduct in recent years (Source: KPMG 2013)



Learning Objective

02-A2:
Compute the debt ratio and describe its use in analyzing financial condition.

Debt Ratio

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Evaluates the level of debt risk.

A higher ratio indicates that there is a greater probability that a company will not be able to pay its debt in the future.

Learning Objective 02-A2: Compute the debt ratio and describe its use in analyzing financial condition.

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Debt Ratio

Exhibit 2.18

Skechers's debt ratio at each year-end from 2014 to 2010.

$ in millions	2014	2013	2012	2011	2010
Total liabilities	$ 541	$ 429	$ 421	$ 389	$ 359
Total assets	$1,675	$1,409	$1,340	$1,282	$1,305
Debt ratio	**0.32**	**0.30**	**0.31**	**0.30**	**0.28**
Industry debt ratio	0.49	0.47	0.46	0.47	0.49

Learning Objective 02-A2: Compute the debt ratio and describe its use in analyzing financial condition.

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End of Chapter 2

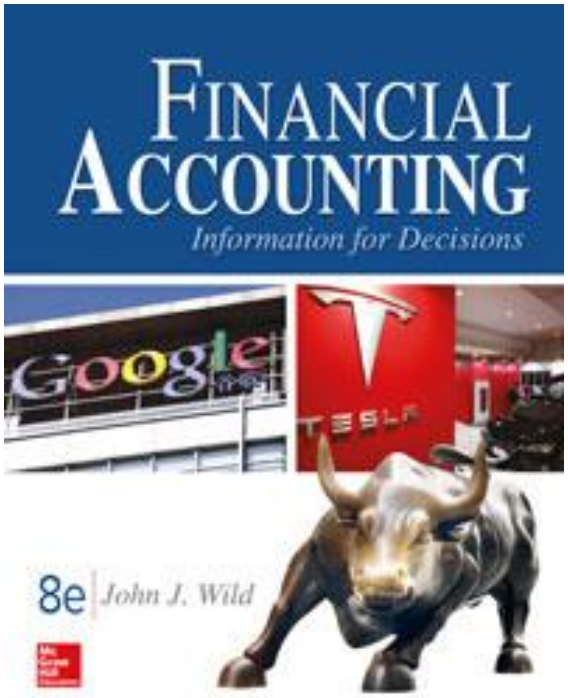
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Financial Statements and the Accounting System

Chapter 2

Exercise Presentation

PowerPoint



John J. Wild

Financial Accounting: Information for Decisions

8th Edition

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Chapter 2 – Financial Statements and the Accounting System

		Click on links	
Exercise 2-6 page 83	Analyzing Account Entries and Balances	Exercise 2-6	Exercise 2-6 Alt.
Exercise 2-7 page 83	Prepare Journal entries	Exercise 2-7	Exercise 2-7 Alt.
Exercise 2-8 page 83	Prepare T-accounts	Exercise 2-8	Exercise 2-8 Alt.
Exercise 2-9 page 83	Record Transactions in T-accounts	Exercise 2-9	Exercise 2-9 Alt.
Exercise 2-10 page 84	Prepare a Trial Balance	Exercise 2-10	Exercise 2-10 Alt.
Exercise 2-15 page 85	Computing Net Income	Exercise 2-15	Exercise 2-15 Alt.
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Exercise 2-17 page 85	Prepare a Statement of Retained Earnings	Exercise 2-17	Exercise 2-17 Alt.
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Exercise 2-19 page 85	Analyze Changes in Equity	Exercise 2-19	Exercise 2-19 Alt.
Exercise 2-20 page 86	Analyzing Posting Errors – Trial Balance	Exercise 2-20	Exercise 2-20 Alt.
Exercise 2-21 page 86	Analyzing Errors – Trial Balance	Exercise 2-21	Exercise 2-21 Alt.

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Exercise 2-6 page 83

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Use the information in each of the following separate cases.

a.	Payments on accounts in October	$300,500
b.	Sales on account in October	$89,390
c.	Cash balance on September 30	$19,250

a. Corentine Co. had $152,000 of accounts payable on September 30 and $132,500 on October 31. Total purchases on account during October were $281,000. Determine how much cash was paid on accounts payable during October.

b. On September 30, Valerian Co. had a $102,500 balance in Accounts Receivable. During October, the company collected $102,890 from its credit customers. The October 31 balance in Accounts Receivable was $89,000. Determine the amount of sales on account that occurred in October.

c. During October, Alameda Company had $102,500 of cash receipts and $103,150 of cash disbursements. The October 31 Cash balance was $18,600 Determine how much cash the company had at the close of business on September 30.

Use the information in each of the following separate cases.

a.	Payments on accounts in October	$300,500
b.	Sales on account in October	
c.	Cash balance on September 30	

a. Corentine Co. had $152,000 of accounts payable on September 30 and $132,500 on October 31. Total purchases on account during October were $281,000. Determine how much cash was paid on accounts payable during October.

Accounts Payable			
		Sept. 30	152,000
Cash paid	300,500	Purch. on a/c	281,000
		Balance	132,500

Use the information in each of the following separate cases.

a.	Payments on accounts in October	$300,500
b.	Sales on account in October	$89,390
c.	Cash balance on September 30	

b. On September 30, Valerian Co. had a $102,500 balance in Accounts Receivable. During October, the company collected $102,890 from its credit customers. The October 31 balance in Accounts Receivable was $89,000. Determine the amount of sales on account that occurred in October.

Accounts Receivable			
Sept. 30	102,500		
Sales on a/c	89,390	Collections	102,890
Balance	89,000		

Use the information in each of the following separate cases.

a.	Payments on accounts in October	$300,500
b.	Sales on account in October	$89,390
c.	Cash balance on September 30	$19,250

c. During October, Alameda Company had $102,500 of cash receipts and $103,150 of cash disbursements. The October 31 Cash balance was $18,600. Determine how much cash the company had at the close of business on September 30.

Cash			
Sept. 30	19,250		
Receipts	102,500	Disbursements	103,150
Balance	18,600		

Use the information in each of the following separate cases.

a.	Payments on accounts in October	$249,800
b.	Sales on account in October	
c.	Cash balance on September 30	

a. Corentine Co. had $150,000 of accounts payable on September 30 and $140,200 on October 31. Total purchases on account during October were $240,000. Determine how much cash was paid on accounts payable during October.

Accounts Payable			
		Sept. 30	150,000
Cash paid	249,800	Purch. on a/c	240,000
		Balance	140,200

Use the information in each of the following separate cases.

a.	Payments on accounts in October	$249,800
b.	Sales on account in October	$75,000
c.	Cash balance on September 30	

b. On September 30, Valerian Co. had a $120,000 balance in Accounts Receivable. During October, the company collected $106,000 from its credit customers. The October 31 balance in Accounts Receivable was $89,000. Determine the amount of sales on account that occurred in October.

Accounts Receivable			
Sept. 30	120,000		
Sales on a/c	75,000	Collections	106,000
Balance	89,000		

Use the information in each of the following separate cases.

a.	Payments on accounts in October	$249,800
b.	Sales on account in October	$75,000
c.	Cash balance on September 30	$36,000

c. During October, Alameda Company had $135,000 of cash receipts and $120,000 of cash disbursements. The October 31 Cash balance was $51,000. Determine how much cash the company had at the close of business on September 30.

Cash			
Sept. 30	36,000		
Receipts	135,000	Disbursements	120,000
Balance	51,000		

Exercise 2-7 page 83

Prepare general journal entries for the following transactions of a new company called Pose for Pics.

Aug. 1 Madison Harris, the owner, invested $6,500 cash and $33,500 of photography equipment in the Company in exchange for common stock.
2 The company paid $2,100 cash for an insurance policy covering the next 24 months.
5 The company purchased office supplies for $880 cash.
20 The company received $3,331 cash in photography fees earned.
31 The company paid $675 cash for August utilities.



Date	General Journal	Debit	Credit
Aug 01	Cash	6,500	
	Photography equipment	33,500	
	Common Stock		40,000
Aug 02	Prepaid insurance	2,100	
	Cash		2,100
Aug 05	Office supplies	880	
	Cash		880
Aug 20	Cash	3,331	
	Photography fees earned		3,331
Aug 31	Utilities expense	675	
	Cash		675

Prepare general journal entries for the following transactions of a new company called Pose for Pics.

Aug. 1 Madison Harris, the owner, invested $10,700 cash and $46,300 of photography equipment in the Company in exchange for common stock.
2 The company paid $3,800 cash for an insurance policy covering the next 24 months.
5 The company purchased office supplies for $2,400 cash.
20 The company received $3,300 cash in photography fees earned.
31 The company paid $600 cash for August utilities.



Date	General Journal	Debit	Credit
Aug 01	Cash	10,700	
	Photography equipment	46,300	
	Common stock		57,000
Aug 02	Prepaid insurance	3,800	
	Cash		3,800
Aug 05	Office supplies	2,400	
	Cash		2,400
Aug 20	Cash	3,300	
	Photography fees earned		3,300
Aug 31	Utilities expense	600	
	Cash		600

Exercise 2-8 page 83

Use the information below to prepare an August 31 trial balance for Pose for Pics. Begin by opening these T-accounts: Cash; Office Supplies; Prepaid Insurance; Photography Equipment; Common, Stock; Photography Fees Earned; and Utilities Expense. Then, post the general journal entries to these T-accounts (which will serve as the ledger), and prepare the trial balance.

Date	General Journal	Debit	Credit
Aug 01	Cash	6,500	
	Photography equipment	33,500	
	Common stock		40,000
Aug 02	Prepaid insurance	2,100	
	Cash		2,100
Aug 05	Office supplies	880	
	Cash		880
Aug 20	Cash	3,331	
	Photography fees earned		3,331
Aug 31	Utilities expense	675	
	Cash		675

Date	General Journal	Debit	Credit
Aug 01	Cash	6,500	
	Photography equipment	33,500	
	Common stock		40,000
Aug 02	Prepaid insurance	2,100	
	Cash		2,100
Aug 05	Office supplies	880	
	Cash		880
Aug 20	Cash	3,331	
	Photography fees earned		3,331
Aug 31	Utilities expense	675	
	Cash		675

Cash

Aug. 01	6,500	Aug. 02	2,100
		Aug. 05	880
Aug. 20	3,331		
		Aug. 31	675
Balance	6,176		

Photography equipment

Aug. 01	33,500		
Balance	33,500		

Office supplies

Aug. 05	880		
Balance	880		

Common stock

		Aug. 01	40,000
		Balance	40,000

Photography fees earned

		Aug. 20	3,331
		Balance	3,331

Prepaid insurance

Aug. 02	2,100		
Balance	2,100		

Utilities expense

Aug. 31	675		
Balance	675		

Pose for Pics Trial Balance August 31		
	Debit	**Credit**
Cash	$ 6,176	
Office supplies	880	
Prepaid insurance	2,100	
Photography equipment	33,500	
Common stock		$ 40,000
Photography fees earned		3,331
Utilities expense	675	
Total	$ 43,331	$ 43,331

Cash

Aug. 01	6,500		
		Aug. 02	2,100
		Aug. 05	880
Aug. 20	3,331		
		Aug. 31	675
Balance	6,176		

Photography equipment

Aug. 01	33,500		
Balance	33,500		

Office supplies

Aug. 05	880		
Balance	880		

Common stock

		Aug. 01	40,000
		Balance	40,000

Photography fees earned

		Aug. 20	3,331
		Balance	3,331

Prepaid insurance

Aug. 02	2,100		
Balance	2,100		

Utilities expense

Aug. 31	675		
Balance	675		

Use the information below to prepare an August 31 trial balance for Pose for Pics. Begin by opening these T-accounts: Cash; Office Supplies; Prepaid Insurance; Photography Equipment; Common Stock; Photography Fees Earned; and Utilities Expense. Then, post the general journal entries to these T-accounts (which will serve as the ledger), and prepare the trial balance.

Date	General Journal	Debit	Credit
Aug 01	Cash	10,700	
	Photography equipment	46,300	
	Common stock		57,000
Aug 02	Prepaid insurance	3,800	
	Cash		3,800
Aug 05	Office supplies	2,400	
	Cash		2,400
Aug 20	Cash	3,300	
	Photography fees earned		3,300
Aug 31	Utilities expense	600	
	Cash		600

Date	General Journal	Debit	Credit
Aug 01	Cash	10,700	
	Photography equipment	46,300	
	Common stock		57,000
Aug 02	Prepaid insurance	3,800	
	Cash		3,800
Aug 05	Office supplies	2,400	
	Cash		2,400
Aug 20	Cash	3,300	
	Photography fees earned		3,300
Aug 31	Utilities expense	600	
	Cash		600

Cash

Aug. 01	10,700	Aug. 02	3,800
		Aug. 05	2,400
Aug. 20	3,300		
		Aug. 31	600

Photography Equipment

Aug. 01	46,300		

Common Stock

		Aug. 01	57,000

Prepaid Insurance

Aug. 02	3,800		

Office Supplies

Aug. 05	2,400		

Photography Fees Earned

		Aug. 20	3,300

Utilities Expense

Aug. 31	600		

Type	Normal	Why?
Asset	Debit	Assets are on left-hand side of equation
Liability	Credit	Liabilities are on right-hand side of equation
Equity	4 subsets	Equity is on the right-hand side of equation
Common stock	Credit	Increase equity with credits
Dividends	Debit	Decrease equity with debits
Revenues	Credits	Increase equity with credits
Expenses	Debit	Decrease equity with debits

Cash			
Aug. 01	10,700	Aug. 02	3,800
		Aug. 05	2,400
Aug. 20	3,300		
		Aug. 31	600
Balance	7,200		

Photography Equipment			
Aug. 01	46,300		
Balance	46,300		

Common Stock			
		Aug. 01	57,000
		Balance	57,000

Prepaid Insurance			
Aug. 02	3,800		
Balance	3,800		

Office Supplies			
Aug. 05	2,400		
Balance	2,400		

Photography Fees Earned			
		Aug. 20	3,300
		Balance	3,300

Utilities Expense			
Aug. 31	600		
Balance	600		

Pose for Pics Trial Balance August 31		
Account Title	**Debit**	**Credit**
Cash	$ 7,200	
Office Supplies	2,400	
Prepaid Insurance	3,800	
Photography Equipment	46,300	
Common Stock		$ 57,000
Photography Fees Earned		3,300
Utilities Expense	600	
Total	$ 60,300	$ 60,300

Cash

Aug. 01	10,700	Aug. 02	3,800
		Aug. 05	2,400
Aug. 20	3,300		
		Aug. 31	600
Balance	7,200		

Photography Equipment

Aug. 01	46,300		
Balance	46,300		

Common Stock

		Aug. 01	57,000
		Balance	57,000

Prepaid Insurance

Aug. 02	3,800		
Balance	3,800		

Office Supplies

Aug. 05	2,400		
Balance	2,400		

Photography Fees Earned

		Aug. 20	3,300
		Balance	3,300

Utilities Expense

Aug. 31	600		
Balance	600		

Exercise 2-9 page 83

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Prepare general journal entries to record the transactions below for Spade Company by using the following accounts: Cash; Accounts Receivable; Office Supplies; Office Equipment; Accounts Payable; Common stock; Dividends; Fees Earned; and Rent Expense. Use the letters beside each transaction to identify entries. After recording the transactions, post them to T-accounts, which serves as the general ledger for this assignment. Determine the ending balance of each T-account.

The transactions of Spade Company:

a. Kacy Spade, owner, invested $100,750 cash in the company in exchange for common stock
b. The company purchased office supplies for $1,250 cash.
c. The company purchased $10,050 of office equipment on credit.
d. The company received $15,000 cash as fees for services provided to a customer.
e. The company paid $10,050 cash to settle the payable for the office equipment purchased in transaction c.
f. The company billed a customer $2,700 as fees for services provided.
g. The company paid $1,225 cash for the monthly rent.
h. The company collected $1,125 cash as partial payment for the account receivable created in transaction f.
i. The company paid $10,000 cash to Spade (sole shareholder).

a. Kacy Spade, owner, invested $100,750 cash in the company in exchange for common stock.

Date	General Journal	Debit	Credit
a.	Cash	100,750	
	Common stock		100,750

Cash	
a. 100,750	

Common stock	
	a. 100,750

b. The company purchased office supplies for $1,250 cash.

Date	General Journal	Debit	Credit
b.	Office Supplies	1,250	
	Cash		1,250

Office Supplies	
b. 1,250	

Cash	
a. 100,750	b. 1,250

c. The company purchased $10,050 of office equipment on credit.

Date	General Journal	Debit	Credit
c.	Office Equipment	10,050	
	Accounts Payable		10,050

Office Equipment			
c.	10,050		

Accounts Payable			
		c.	10,050

d. The company received $15,000 cash as fees for services provided to a customer.

Date	General Journal	Debit	Credit
d.	Cash	15,000	
	Fees Earned		15,000

Cash			
a.	100,750	b.	1,250
d.	15,000		

Fees Earned			
		d.	15,000

e. The company paid $10,050 cash to settle the payable for the office equipment purchased in transaction c.

Date	General Journal	Debit	Credit
e.	Accounts Payable	10,050	
	Cash		10,050

Accounts Payable			
		c.	10,050
e.	10,050		

Cash			
a.	100,750		
		b.	1,250
d.	15,000		
		e.	10,050

f. The company billed a customer $2,700 as fees for services provided.

Date	General Journal	Debit	Credit
f.	Accounts Receivable	2,700	
	Fees Earned		2,700

Accounts Receivable			
f.	2,700		

Fees Earned			
		d.	15,000
		f.	2,700

g. The company paid $1,225 cash for the monthly rent.

Date	General Journal	Debit	Credit
g.	Rent Expense	1,225	
	Cash		1,225

Rent Expense	
g.	1,225

Cash			
a.	100,750	b.	1,250
d.	15,000	e.	10,050
		g.	1,225

h. The company collected $1,125 cash as partial payment for the account receivable created in transaction f.

Date	General Journal	Debit	Credit
h.	Cash	1,125	
	Accounts Receivable		1,125

Cash			
a.	100,750	b.	1,250
d.	15,000	e.	10,050
h.	1,125	g.	1,225

Accounts Receivable			
f.	2,700	h.	1,125

i. The company paid $10,000 cash in dividends to Spade (sole shareholder).

Date	General Journal	Debit	Credit
i.	Dividends	10,000	
	Cash		10,000

Dividends	
i. 10,000	

Cash	
a. 100,750	b. 1,250
d. 15,000	e. 10,050
h. 1,125	g. 1,225
	i. 10,000

Cash			
a.	100,750	b.	1,250
d.	15,000	e.	10,050
h.	1,125	g.	1,225
		i.	10,000
Balance	94,350		

Common stock			
		a.	100,750
		Balance	100,750

Office Supplies			
b.	1,250		
Balance	1,250		

Office Equipment			
c.	10,050		
Balance	10,050		

Accounts Payable			
		c.	10,050
e.	10,050		

Fees Earned			
		d.	15,000
		f.	2,700
		Balance	17,700

Accounts Receivable			
f.	2,700	h.	1,125
Balance	1,575		

Rent Expense			
g.	1,225		
Balance	1,225		

Dividends			
i.	10,000		
Balance	10,000		

Prepare general journal entries to record the transactions below for Spade Company by using the following accounts: Cash; Accounts Receivable; Office Supplies; Office Equipment; Accounts Payable; Common stock; Dividends; Fees Earned; and Rent Expense. Use the letters beside each transaction to identify entries. After recording the transactions, post them to T-accounts, which serves as the general ledger for this assignment. Determine the ending balance of each T-account.

a. Kacy Spade, owner, invested $11,250 cash in the company in exchange for common stock..
b. The company purchased office supplies for $300 cash.
c. The company purchased $6,200 of office equipment on credit.
d. The company received $1,300 cash as fees for services provided to a customer.
e. The company paid $6,200 cash to settle the payable for the office equipment purchased in transaction c.
f. The company billed a customer $2,300 as fees for services provided.
g. The company paid $500 cash for the monthly rent.
h. The company collected $1,000 cash as partial payment for the account receivable created in transaction f.
i. The company paid $3,000 cash in dividends to Spade (sole shareholder).

a. Kacy Spade, owner, invested $11,250 cash in the company in exchange for common stock..

Date	General Journal	Debit	Credit
a.	Cash	11,250	
	Common stock		11,250

Cash			
a.	11,250		

Common stock			
		a.	11,250

b. The company purchased office supplies for $300 cash.

Date	General Journal	Debit	Credit
b.	Office Supplies	300	
	Cash		300

Office Supplies	
b. 300	

Cash	
a. 11,250	b. 300

c. The company purchased $6,200 of office equipment on credit.

Date	General Journal	Debit	Credit
c.	Office Equipment	6,200	
	Accounts Payable		6,200

Office Equipment	
c. 6,200	

Accounts Payable	
	c. 6,200

d. The company received $1,300 cash as fees for services provided to a customer.

Date	General Journal	Debit	Credit
d.	Cash	1,300	
	Fees Earned		1,300

Cash			
a.	11,250	b.	300
d.	1,300		

Fees Earned			
		d.	1,300

e. The company paid $6,200 cash to settle the payable for the office equipment purchased in transaction c.

Date	General Journal	Debit	Credit
e.	Accounts Payable	6,200	
	Cash		6,200

Accounts Payable			
		c.	6,200
e.	6,200		

Cash			
a.	11,250		
		b.	300
d.	1,300		
		e.	6,200

f. The company billed a customer $2,300 as fees for services provided.

Date	General Journal	Debit	Credit
f.	Accounts Receivable	2,300	
	Fees Earned		2,300

Accounts Receivable	
f.	2,300

Fees Earned	
	d. 1,300
	f. 2,300

g. The company paid $500 cash for the monthly rent.

Date	General Journal	Debit	Credit
g.	Rent Expense	500	
	Cash		500

Rent Expense	
g.	500

Cash	
a.	11,250
	b. 300
d.	1,300
	e. 6,200
	g. 500

h. The company collected $1,000 cash as partial payment for the account receivable created in transaction f.

Date	General Journal	Debit	Credit
h.	Cash	1,000	
	Accounts Receivable		1,000

Cash			
a.	11,250	b.	300
d.	1,300	e.	6,200
		g.	500
h.	1,000		

Accounts Receivable			
f.	2,300	h.	1,000

i. The company paid $3,000 cash in dividends to Spade (sole shareholder).

Date	General Journal	Debit	Credit
i.	Dividends	3,000	
	Cash		3,000

Dividends	
i.	3,000

Cash			
a.	11,250	b.	300
d.	1,300	e.	6,200
h.	1,000	g.	500
		i.	3,000

Cash			
a.	11,250	b.	300
d.	1,300	e.	6,200
h.	1,000	g.	500
		i.	3,000
Balance	3,550		

Common stock			
		a.	11,250
		Balance	11,250

Office Supplies			
b.	300		
Balance	300		

Office Equipment			
c.	6,200		
Balance	6,200		

Accounts Payable			
		c.	6,200
e.	6,200		

Fees Earned			
		d.	1,300
		f.	2,300
		Balance	3,600

Accounts Receivable			
f.	2,300		
		h.	1,000
Balance	1,300		

Rent Expense			
g.	500		
Balance	500		

Dividends			
i.	3,000		
Balance	3,000		

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Spade Company Trial Balance May 31		
Account Title	**Debit**	**Credit**
Cash	$ 94,350	
Accounts Receivable	1,575	
Office Supplies	1,250	
Office Equipment	10,050	
Accounts Payable		
Common stock		$ 100,750
Dividends	10,000	
Fees Earned		17,700
Rent Expense	1,225	
Total	$ 118,450	$ 118,450

Cash

a.	100,750	b.	1,250
d.	15,000	e.	10,050
h.	1,125	g.	1,225
		i.	10,000
Balance	94,350		

Common stock

		a.	100,750
		Balance	100,750

Office Supplies

b.	1,250		
Balance	1,250		

Office Equipment

c.	10,050		
Balance	10,050		

Accounts Payable

		c.	10,050
e.	10,050		

Fees Earned

		d.	15,000
		f.	2,700
		Balance	17,700

Accounts Receivable

f.	2,700	h.	1,125
Balance	1,575		

Rent Expense

g.	1,225		
Balance	1,225		

Dividends

i.	10,000		
Balance	10,000		

After recording the transactions of Exercise 2-9 in T-accounts and calculating the balance of each account, prepare a trial balance. Use May 31, as its report date.

Cash			
a.	11,250	b.	300
d.	1,300	e.	6,200
h.	1,000	g.	500
		i.	3,000
Balance	3,550		

Common stock			
		a.	11,250
		Balance	11,250

Fees Earned			
		d.	1,300
		f.	2,300
		Balance	3,600

Office Supplies			
b.	300		
Balance	300		

Office Equipment			
c.	6,200		
Balance	6,200		

Rent Expense			
g.	500		
Balance	500		

Accounts Payable			
		c.	6,200
e.	6,200		

Accounts Receivable			
f.	2,300		
		h.	1,000
Balance	1,300		

Dividends			
i.	3,000		
Balance	3,000		

Cash			
a.	11,250	b.	300
d.	1,300	e.	6,200
h.	1,000	g.	500
		i.	3,000
Balance	3,550		

Common stock			
		a.	11,250
		Balance	11,250

Fees Earned			
		d.	1,300
		f.	2,300
		Balance	3,600

Rent Expense			
g.	500		
Balance	500		

Office Supplies			
b.	300		
Balance	300		

Office Equipment			
c.	6,200		
Balance	6,200		

Accounts Payable			
		c.	6,200
e.	6,200		

Accounts Receivable			
f.	2,300	h.	1,000
Balance	1,300		

Dividends			
i.	3,000		
Balance	3,000		

Spade Company
Trial Balance
May 31

Account Title	Debit	Credit
Cash	$ 3,550	
Accounts Receivable	1,300	
Office Supplies	300	
Office Equipment	6,200	
Accounts Payable		$ -
Common stock		11,250
Dividends	3,000	
Fees Earned		3,600
Rent Expense	500	
Total	$ 14,850	$ 14,850

Exercise 2-15 page 85

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A corporation had the following assets and liabilities at the beginning and end of this year.

	Assets	Liabilities
Beginning of the year	$ 60,000	$ 20,000
End of the year	105,000	36,000

Determine the net income earned or net loss incurred by the business during the year for each of the following separate cases:

a. Owner made no investments in the business and no dividends were paid during the year.
b. Owner made no investments in the business but dividends were $1,250 cash per month.
c. No dividends were paid during the year, but the owner did invest an additional $55,000 cash in exchange for common stock.
d. Dividends were $1,250 cash per month for and the owner invested an additional $35,000 cash in exchange for common stock.

	a.	b.	c.	d.
Beginning of the year equity	$40,000	$40,000	$40,000	$40,000
Investments by stockholder	0	0	55,000	35,000
Dividends	0	(15,000)	0	(15,000)
Net income (loss)	29,000	44,000	(26,000)	9,000
End of the year equity	$69,000	$69,000	$69,000	$69,000

A corporation had the following assets and liabilities at the beginning and end of this year.

	Assets	Liabilities
Beginning of the year	$ 85,000	$ 35,000
End of the year	130,000	50,000

Determine the net income earned or net loss incurred by the business during the year for each of the following separate cases:

a. Owner made no investments in the business and no dividends were paid during the year.
b. Owner made no investments in the business but dividends were $2,000 cash per month.
c. No dividends were paid during the year, but the owner did invest an additional $45,000 cash in exchange for common stock.
d. Dividends were $2,000 cash per month and the owner invested an additional $35,000 cash in exchange for common stock.

	a.	b.	c.	d.
Beginning of the year equity	$50,000	$50,000	$50,000	$50,000
Investments by stockholder	0	0	45,000	35,000
Dividends	0	(24,000)	0	(24,000)
Net income (loss)	30,000	54,000	(15,000)	19,000
End of the year equity	$80,000	$80,000	$80,000	$80,000

Exercise 2-16 page 85

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Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August income statement for the business.

Dividends are reported on the Statement of Retained Earnings

Cash	$ 25,360	Dividends	$ 6,000
Accounts receivable	22,360	Consulting fees earned	27,000
Office supplies	5,250	Rent expense	9,550
Land	44,000	Salaries expense	5,600
Office equipment	20,000	Telephone expense	860
Accounts payable	10,500	Miscellaneous expenses	520
Common stock	102,000		

Help Today Income Statement For Month Ended August 31		
Revenues:		
Consulting fees earned		$ 27,000
Expenses:		
Rent expense	$ 9,550	
Salaries expense	5,600	
Telephone expense	860	
Miscellaneous expenses	520	
Total expenses		16,530
Net income (loss)		$ 10,470

To Statement of Retained Earnings

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August income statement for the business.

Dividends are reported on the Statement of Retained Earnings

Cash	$ 25,000	Dividends	$ 15,000
Accounts receivable	16,000	Consulting fees earned	32,000
Office supplies	4,200	Rent expense	3,000
Land	43,000	Salaries expense	9,000
Office equipment	34,000	Telephone expense	500
Accounts payable	9,500	Miscellaneous expenses	1,800
Common stock	110,000		

Help Today Income Statement For Month Ended August 31		
Revenues:		
Consulting fees earned		$ 32,000
Expenses:		
Rent expense	$ 3,000	
Salaries expense	9,000	
Telephone expense	500	
Miscellaneous expenses	1,800	
Total expenses		14,300
Net income (loss)		$ 17,700

To Statement of Retained Earnings

Exercise 2-17 page 85

Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August statement of retained earnings for the business.

Cash	$	25,360
Accounts receivable		22,360
Office supplies		5,250
Land		44,000
Office equipment		20,000
Accounts payable		10,500
Common stock		102,000

Dividends	$	6,000
Consulting fees earned		27,000
Rent expense		9,550
Salaries expense		5,600
Telephone expense		860
Miscellaneous expenses		520

Help Today Statement of Retained Earnings For Month Ended August 31		
Retained earnings, August 1		$ 0
Add: Net income		10,470
Less: Dividends		
		6,000
Retained earnings, August 31		$4,470

To Balance Sheet

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August statement of retained earnings for the business.

Cash	$	25,000
Accounts receivable		16,000
Office supplies		4,200
Land		43,000
Office equipment		34,000
Accounts payable		9,500
Common stock		110,000

Dividends	$	15,000
Consulting fees earned		32,000
Rent expense		3,000
Salaries expense		9,000
Telephone expense		500
Miscellaneous expenses		1,800

Help Today Statement of Retained Earnings For Month Ended August 31		
Retained earnings, August 1		$ 0
Add: Net income		17,700
Less: Dividends		15,000
Retained earnings, August 31		$2,700

To Balance Sheet

Exercise 2-18 page 85

Financial Accounting Information for Decisions 8th edition John Wild Solutions Manual

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August 31 Balance Sheet for the business.

Cash	$ 25,360
Accounts receivable	22,360
Office supplies	5,250
Land	44,000
Office equipment	20,000
Accounts payable	10,500
Common stock	102,000

Dividends	$ 6,000
Consulting fees earned	27,000
Rent expense	9,550
Salaries expense	5,600
Telephone expense	860
Miscellaneous expenses	520

Help Today
Balance Sheet
August 31

Assets		**Liabilities**	
Cash	$ 25,360	Accounts payable	$ 10,500
Accounts receivable	22,360		
Office supplies	5,250		
Land	44,000	**Equity**	
Office equipment	20,000	Common stock	102,000
		Retained Earnings	4,470
Total assets	$ 116,970	Total liabilities & equity	$ 116,970

From Statement of Retained Earnings

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August 31 Balance Sheet for the business.

Cash	$	25,360	Dividends	$	6,000
Accounts receivable		22,360	Consulting fees earned		27,000
Office supplies		5,250	Rent expense		9,550
Land		44,000	Salaries expense		5,600
Office equipment		20,000	Telephone expense		860
Accounts payable		10,500	Miscellaneous expenses		520
Common stock		102,000			

Help Today Income Statement For Month Ended August 31		
Revenues:		
Consulting fees earned		$ 27,000
Expenses:		
Rent expense	$ 9,550	
Salaries expense	5,600	
Telephone expense	860	
Miscellaneous expenses	520	
Total expenses		16,530
Net income (loss)		$ 10,470

Help Today Statement of Retained Earnings For Month Ended August 31		
Retained earnings, August 1		$ 0
Add: Net income		10,470
Less: Dividends		
		6,000
Retained earnings, August 31		$4,470

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August 31 Balance Sheet for the business.

Cash	$ 25,000	Dividends	$ 15,000
Accounts receivable	16,000	Consulting fees earned	32,000
Office supplies	4,200	Rent expense	3,000
Land	43,000	Salaries expense	9,000
Office equipment	34,000	Telephone expense	500
Accounts payable	9,500	Miscellaneous expenses	1,800
Common stock	110,000		

Help Today
Balance Sheet
August 31

Assets		**Liabilities**	
Cash	$ 25,000	Accounts payable	$ 9,500
Accounts receivable	16,000		
Office supplies	4,200		
Land	43,000	**Equity**	
Office equipment	34,000	Common stock	110,000
		Retained earnings	2,700
Total assets	$ 122,200	Total liabilities and equity	$ 122,200

From Statement of Retained Earnings

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August 31 Balance Sheet for the business.

Cash	$ 25,000	Dividends	$ 15,000
Accounts receivable	16,000	Consulting fees earned	32,000
Office supplies	4,200	Rent expense	3,000
Land	43,000	Salaries expense	9,000
Office equipment	34,000	Telephone expense	500
Accounts payable	9,500	Miscellaneous expenses	1,800
Common stock	110,000		

Help Today Income Statement For Month Ended August 31		
Revenues:		
Consulting fees earned		$ 32,000
Expenses:		
Rent expense	$ 3,000	
Salaries expense	9,000	
Telephone expense	500	
Miscellaneous expense	1,800	
Total expenses		14,300
Net income (loss)		$ 17,700

Help Today Statement of Retained Earnings For Month Ended August 31		
Retained earnings, August 1		$ -
Add: Net income		17,700
Less: Dividends		(15,000)
Retained Earnings, August 31		$ 2,700

Exercise 2-19 page 85

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Compute the missing amount for each of the following separate companies a through d

	a.	b.	c.	d.
Beginning of the year equity	$0	$0	$0	$0
Owner investments for stock	110,000	42,000	87,000	210,000
Dividends during the year	(28,000)	(47,000)	(10,000)	(55,000)
Net income (loss)	22,000	90,000	(4,000)	(45,000)
End of the year equity	$104,000	$85,000	$73,000	$110,000

Compute the missing amount for each of the following separate companies a through d

	a.	b.	c.	d.
Beginning of the year equity	$0	$0	$0	$0
Owner investments for stock	91,000	100,000	84,215	200,000
Dividends during the year	(85,000)	(50,000)	(9,000)	(55,000)
Net income (loss)	87,000	40,000	(5,000)	(45,000)
End of the year equity	$93,000	$90,000	$70,215	$100,000

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Posting errors are identified in the following table. In column (1), enter the amount of the difference between the two trial balance columns (debit and credit) due to the error. In column (2), identify the trial balance column (debit or credit) with the larger amount if they are not equal. In column (3), identify the account(s) affected by the error. In column (4), indicate the amount by which the account(s) in column (3) is under- or overstated. Item (a) is completed as an example.

Description of Posting Error	(1) Difference between Debit and Credit Columns	(2) Column with the Larger Total	(3) Identify Account(s) Incorrectly Stated	(4) Amount that Account(s) is Over-or Understated
a. $3,600 debit to Rent Expense is posted as a $1,340 debit				
b. $6,500 credit to Cash is posted twice as two credits to Cash				
c. $10,900 debit to the Dividends account is debited to Common Stock.				
d. $2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense.				
e. $38,000 debit to Machinery is posted as a debit to Accounts Payable.				
f. $5,850 credit to Services Revenue is posted as a $585 credit.				
g. $1,390 debit to Store Supplies is not posted.				

Description of Posting Error	(1) Difference between Debit and Credit Columns	(2) Column with the Larger Total	(3) Identify Account(s) Incorrectly Stated	(4) Amount that Account(s) is Over-or Understated
a. $3,600 debit to Rent Expense is posted as a $1,340 debit	$2,260	Credit	Rent Expense	Understated by $2,260
b. $6,500 credit to Cash is posted twice as two credits to Cash	$6,500	Credit	Cash	Understated by $6,500
c. $10,900 debit to the Dividends account is debited to Common Stock.	$0	N/A	Common Stock	Understated by $10,900
			Dividends	Understated by $10,900
d. $2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense.	$0	N/A	Prepaid Insurance	Understated by $2,050
			Insurance Expense	Overstated by $2,050
e. $38,000 debit to Machinery is posted as a debit to Accounts Payable.	$0	N/A	Machinery	Understated by $38,000
			Accounts Payable	Understated by $38,000
f. $5,850 credit to Services Revenue is posted as a $585 credit.	$5,265	Debit	Service Revenue	Understated by $5,265
g. $1,390 debit to Store Supplies is not posted.	$1,390	Credit	Store Supplies	Understated by $1,390

Posting errors are identified in the following table. In column (1), enter the amount of the difference between the two trial balance columns (debit and credit) due to the error. In column (2), identify the trial balance column (debit or credit) with the larger amount if they are not equal. In column (3), identify the account(s) affected by the error. In column (4), indicate the amount by which the account(s) in column (3) is under- or overstated. Item (a) is completed as an example.

Description of Posting Error	(1) Difference between Debit and Credit Columns	(2) Column with the Larger Total	(3) Identify Account(s) Incorrectly Stated	(4) Amount that Account(s) is Over-or Understated
a. $4,300 debit to Rent Expense is posted as a $1,360 debit				
b. $5,800 credit to Cash is posted twice as two credits to Cash				
c. $12,000 debit to the Dividends account is debited to Common Stock.				
d. $3,100 debit to Prepaid Insurance is posted as a debit to Insurance Expense.				
e. $20,000 debit to Machinery is posted as a debit to Accounts Payable.				
f. $9,500 credit to Services Revenue is posted as a $950 credit.				
g. $1,900 debit to Store Supplies is not posted.				

Description of Posting Error	(1) Difference between Debit and Credit Columns	(2) Column with the Larger Total	(3) Identify Account(s) Incorrectly Stated	(4) Amount that Account(s) is Over-or Understated
a. $4,300 debit to Rent Expense is posted as a $1,360 debit	$2,940	Credit	Rent Expense	Understated $2,940
b. $5,800 credit to Cash is posted twice as two credits to Cash	$5,800	Credit	Cash	Understated by $5,800
c. $12,000 debit to the Dividends account is debited to Common Stock.	$0	N/A	Common Stock	Understated by $12,000
			Dividends	Understated by $12,000
d. $3,100 debit to Prepaid Insurance is posted as a debit to Insurance Expense.	$0	N/A	Prepaid Insurance	Understated by $3,100
			Insurance Expense	Overstated by $3,100
e. $20,000 debit to Machinery is posted as a debit to Accounts Payable.	$0	N/A	Machinery	Understated by $20,000
			Accounts Payable	Understated by $20,000
f. $9,500 credit to Services Revenue is posted as a $950 credit.	$8,550	Debit	Service Revenue	Understated by $8,550
g. $1,900 debit to Store Supplies is not posted.	$1,900	Credit	Store Supplies	Understated by $1,900

Exercise 2-21 page 86

You are told the column totals in a trial balance are not equal. After careful analysis, you discover only one error. Specifically, a correctly journalized credit purchase of an automobile for $18,950 is posted from the journal to the ledger with a $18,950 debit to Automobiles and another $18,950 debit to Accounts Payable. The Automobiles account has a debit balance of $37,100 on the trial balance. Answer each of the following questions and compute the dollar amount of any misstatement.

Automobiles	
Balance 37,100	

a. Is the debit column total of the trial balance overstated, understated, or correctly stated?
b. Is the credit column total of the trial balance overstated, understated, or correctly stated?
c. Is the Automobiles account balance overstated, understated, or correctly stated in the trial balance?
d. Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance?
e. If the debit column total of the trial balance is $200,000 before correcting the error, what is the total of the credit column before correction?

	General Journal	Debit	Credit
	Automobiles	18,950	
	Accounts Payable		18,950

Assume Accounts payable related to all other items is $55,000.

Should have been:

Automobiles			Accounts Payable		
	18,150				55,000
	18,950				18,950
Balance	37,100			Balance	73,950

With error:

Automobiles			Accounts Payable		
	18,150				55,000
	18,950		18,950		
Balance	37,100			Balance	36,050

a. Is the debit column total of the trial balance overstated, understated, or correctly stated? **Correctly Stated**
b. Is the credit column total of the trial balance overstated, understated, or correctly stated? **Understated by $37,900**
c. Is the Automobiles account balance overstated, understated, or correctly stated in the trial balance? **Correctly Stated**
d. Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance? **Understated by $37,900**

e. If the debit column total of the trial balance is $200,000 before correcting the error, what is the total of the credit column before correction? **$162,100**

You are told the column totals in a trial balance are not equal. After careful analysis, you discover only one error. Specifically, a correctly journalized credit purchase of an automobile for $20,000 is posted from the journal to the ledger with a $20,000 debit to Automobiles and another $20,000 debit to Accounts Payable. The Automobiles account has a debit balance of $57,000 on the trial balance. Answer each of the following questions and compute the dollar amount of any misstatement.

Automobiles	
Balance 57,000	

a. Is the debit column total of the trial balance overstated, understated, or correctly stated?
b. Is the credit column total of the trial balance overstated, understated, or correctly stated?
c. Is the Automobiles account balance overstated, understated, or correctly stated in the trial balance?
d. Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance?
e. If the debit column total of the trial balance is $260,000 before correcting the error, what is the total of the credit column before correction?

	General Journal	Debit	Credit
	Automobiles	20,000	
	Accounts Payable		20,000

Assume Accounts payable related to all other items is $55,000.

Should have been:

Automobiles			Accounts Payable		
	37,000				55,000
	20,000				20,000
Balance	57,000			Balance	75,000

With error:

Automobiles			Accounts Payable		
	37,000				55,000
	20,000		20,000		
Balance	57,000			Balance	35,000

a. Is the debit column total of the trial balance overstated, understated, or correctly stated? **Correctly Stated**
b. Is the credit column total of the trial balance overstated, understated, or correctly stated? **Understated by $40,000**
c. Is the Automobiles account balance overstated, understated, or correctly stated in the trial balance? **Correctly Stated**
d. Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance? **Understated by $40,000**

e. If the debit column total of the trial balance is $260,000 before correcting the error, what is the total of the credit column before correction? **$220,000**