

# Chapter 2

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## Transaction Analysis

### Ethics Check

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(5-10 min.) EC 2-1

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

## Short Exercises

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**(5 min.) S 2-1**

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

**(5 min.) S 2-2**

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

**(10 min.) S 2-3**

- G** 1. Debit
- A** 2. Expense
- F** 3. Net income
- C** 4. Ledger
- D** 5. Posting
- I** 6. Normal balance
- J** 7. Payable
- E** 8. Journal
- H** 9. Receivable
- B** 10. Owners' equity

**(5 min.) S 2-4**

Anderson's payment was *not* an expense.

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

(5 min.) S 2-5

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

(Answers may vary.)

(5 min.) S 2-6

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

(5 min.) S 2-7

- a. \$19,200 (\$17,000 + \$2,200 + \$4,600 – \$4,600)
- b. \$ 2,200

(5-10 min.) S 2-8

*Reqs. 1, 2*

<b>Cash</b>		<b>Computer Equipment</b>	
250,000		106,000	
<b>Accounts Payable</b>		<b>Common Stock</b>	
	106,000		250,000

*Req. 3*

Total debits = \$356,000 (\$250,000 + \$106,000)

Total credits = \$356,000 (\$106,000 + \$250,000)

(5-10 min.) S 2-9

<b>Cash</b>	
29,000	4,000
7,100	
<b>Bal.</b>	<b>32,100</b>

**Journal**

<b>DATE</b>	<b>ACCOUNT TITLES AND EXPLANATION</b>	<b>DEBIT</b>	<b>CREDIT</b>
<b>Jan. 15</b>	<b>Cash</b>	<b>31,000</b>	
	<b>    Note Payable</b>		<b>31,000</b>
	<b>Borrowed money from the bank.</b>		
<b>22</b>	<b>Accounts Receivable</b>	<b>16,800</b>	
	<b>    Service Revenue</b>		<b>16,800</b>
	<b>Performed service on account.</b>		
<b>28</b>	<b>Cash</b>	<b>12,000</b>	
	<b>    Accounts Receivable</b>		<b>12,000</b>
	<b>Received cash on account.</b>		
<b>29</b>	<b>Utilities Expense</b>	<b>1,400</b>	
	<b>    Cash</b>		<b>1,400</b>
	<b>Paid utility bill.</b>		
<b>31</b>	<b>Salary Expense</b>	<b>9,000</b>	
	<b>    Cash</b>		<b>9,000</b>
	<b>Paid salary expense.</b>		

**Req. 1**

Journal			
DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies	5,200	
	Accounts Payable		5,200
	Purchased supplies on account.		
	Accounts Payable	1,750	
	Cash		1,750
	Paid cash on account.		

**Req. 2**

Accounts Payable	
1,750	5,200
Bal.	3,450

**Req. 3**

The business owes \$3,450, as shown in the Accounts Payable account.

**Req. 1**

Journal			
DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable	4,900	
	Service Revenue		4,900
	Performed service on account.		
	Cash	2,300	
	Accounts Receivable		2,300
	Received cash on account.		

**Req. 2**

Cash		Accounts Receivable		Service Revenue	
	2,300	4,900	2,300		4,900
Bal.	2,300	Bal.	2,600		Bal. 4,900



Journal				
DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
July	1	Cash Common Stock Issued stock to owner.	10,000	10,000
	5	Accounts Receivable Service Revenue Provided (sold) services on account.	5,000	5,000
	9	Office Supplies Accounts Payable Purchased supplies on account.	500	500
	10	Cash Service Revenue Provided (sold) services for cash.	2,100	2,100
	12	Cash Accounts Receivable Collected cash on account.	5,000	5,000
	24	Accounts Payable Cash Paid on account.	500	500
	25	Utilities Expense Cash Paid expenses.	200	200
	30	Office Furniture Note Payable Purchased furniture with note payable.	3,500	3,500
	31	Salary Expense Cash Paid payroll.	3,000	3,000

(10 min.) S 2-14

**Navy Port Company  
Trial Balance  
December 31, 2016**

<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
	<i>Millions</i>	
Cash	\$ 4	
Other assets	23	
Accounts payable		\$ 5
Other liabilities		1
Stockholders' equity		6
Revenues		39
Expenses	<u>24</u>	<u>      </u>
Total	<u>\$51</u>	<u>\$51</u>

Navy Port Company's net income: \$15 million (\$39 – \$24)

(10 min.) S 2-15

1. Total assets = \$94,000 (\$4,000 + \$14,000 + \$1,000 + \$48,000 + \$27,000)
2. Total liabilities = \$80,000 (\$54,000 + \$26,000)
3. Net income (loss) = (\$8,000) (\$31,600 – \$29,000 – \$9,000 – \$1,600)

1. Total debits = \$ 90,400 (\$133,600 + \$4,800 – \$48,000)

Total credits = \$133,600

Difference = \$ 43,200 (\$133,600 – \$90,400);

\$43,200 / 9 = \$4,800 (an integer), which suggests either a transposition or a slide.

2. Total debits = \$160,600 (\$133,600 + \$41,000 – \$14,000)

Total credits = \$133,600

Difference = \$ 27,000 (\$160,600 – \$133,600);

\$27,000 / 9 = \$3,000 (an integer), which suggests either a transposition or a slide.

3. Total debits = \$119,600 (\$133,600 – \$14,000)

Total credits = \$147,600 (\$133,600 + \$14,000)

Difference = \$ 28,000 (\$147,600 – \$119,600)

\$28,000 / 2 = \$14,000 (original amount of accounts receivable).

## Exercises

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(10-15 min.) E 2-17A

TO: Home Office

FROM: Laura Sprague, Store Manager

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During the first week, I used the store's beginning cash to purchase equipment and supplies. I signed a note payable to buy land and a building. After all these transactions, the store's balance sheet appears as follows:

**Designs Unlimited  
Columbus Store  
Balance Sheet  
Date**

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ASSETS		LIABILITIES	
Cash	\$ 55,400	Note payable*	\$275,000
Supplies	6,600		
Land	76,000	STOCKHOLDERS' EQUITY	
Building	199,000	Common stock	<u>98,000</u>
Equipment	<u>36,000</u>	Total liabilities and	
Total assets	<u><u>\$373,000</u></u>	stockholders' equity	<u><u>\$373,000</u></u>

\*\$76,000 + \$199,000 = \$275,000

Cash	
98,000	36,000
	6,600
55,400	

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

**Req. 1****Analysis of Transactions**

ASSETS					=	LIABILITIES	+	STOCKHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Medical Supplies	+ Land	=	Accounts Payable	+ Note Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
July 6	148,000							148,000		Issued stock
9	(66,000)			66,000						
12			2,000			2,000				
15	Not a transaction of the business.									
15-31	4,600	4,600							9,200	Service revenue
15-31	(2,900)								(2,900)	Salary expense
	(1,500)								(1,500)	Rent expense
	(700)								(700)	Utilities expense
31	600		(600)							
31	36,000						36,000			
31	<u>(1,500)</u>					<u>(1,500)</u>				
Bal.	<u>116,600</u>	<u>4,600</u>	<u>1,400</u>	<u>66,000</u>	=	<u>500</u>	<u>36,000</u>	<u>148,000</u>	<u>4,100</u>	
										
\$188,600					=	\$188,600				

**Req. 2**

- a.     \$188,600**
- b.     \$4,600**
- c.     \$36,500 (\$500 + \$36,000)**
- d.     \$152,100 (\$188,600 – \$36,500, or \$148,000 + \$4,100)**
- e.     \$4,100 (Revenue, \$9,200 minus expenses, \$5,100 equals net income, \$4,100.)**

**Req. 1****Journal**

<b>DATE</b>	<b>ACCOUNT TITLES AND EXPLANATION</b>	<b>DEBIT</b>	<b>CREDIT</b>
<b>July 6</b>	<b>Cash</b>	<b>148,000</b>	
	<b>Common Stock</b>		<b>148,000</b>
	<b>Issued stock to owner.</b>		
<b>9</b>	<b>Land</b>	<b>66,000</b>	
	<b>Cash</b>		<b>66,000</b>
	<b>Purchased land.</b>		
<b>12</b>	<b>Medical Supplies</b>	<b>2,000</b>	
	<b>Accounts Payable</b>		<b>2,000</b>
	<b>Purchased supplies on account.</b>		
<b>15</b>	<b>Not a transaction of the business.</b>		
<b>15-31</b>	<b>Cash</b>	<b>4,600</b>	
	<b>Accounts Receivable</b>	<b>4,600</b>	
	<b>Service Revenue</b>		<b>9,200</b>
	<b>Performed service for cash and on account.</b>		
<b>15-31</b>	<b>Salary Expense</b>	<b>2,900</b>	
	<b>Rent Expense</b>	<b>1,500</b>	
	<b>Utilities Expense</b>	<b>700</b>	
	<b>Cash</b>		<b>5,100</b>
	<b>Paid expenses.</b>		
<b>31</b>	<b>Cash</b>	<b>600</b>	
	<b>Medical Supplies</b>		<b>600</b>
	<b>Sold supplies.</b>		
<b>31</b>	<b>Cash</b>	<b>36,000</b>	
	<b>Note Payable</b>		<b>36,000</b>
	<b>Borrowed money.</b>		
<b>31</b>	<b>Accounts Payable</b>	<b>1,500</b>	
	<b>Cash</b>		<b>1,500</b>
	<b>Paid on account.</b>		



**Req. 1****Cash**

July 6	148,000	July 9	66,000
15-31	4,600	15-31	5,100
31	600	31	1,500
31	36,000		
Bal.	116,600		

**Accounts Receivable**

July 15-31	4,600	
Bal.	4,600	

**Medical Supplies**

July 12	2,000	July 31	600
Bal.	1,400		

**Land**

July 9	66,000	
Bal.	66,000	

**Accounts Payable**

July 31	1,500	July 12	2,000
		Bal.	500

**Note Payable**

	July 31	36,000
	Bal.	36,000

**Common Stock**

	July 6	148,000
	Bal.	148,000

**Service Revenue**

	July 15-31	9,200
	Bal.	9,200

**Salary Expense**

July 15-31	2,900	
Bal.	2,900	

**Rent Expense**

July 15-31	1,500	
Bal.	1,500	

**Utilities Expense**

July 15-31	700	
Bal.	700	

**Req. 2**

**Dr. Kristine Cohen, P.C.**  
**Trial Balance**  
**July 31, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$116,600	
Accounts receivable	4,600	
Medical supplies	1,400	
Land	66,000	
Accounts payable		\$ 500
Note payable		36,000
Common stock		148,000
Service revenue		9,200
Salary expense	2,900	
Rent expense	1,500	
Utilities expense	<u>700</u>	
<b>Total</b>	<b><u>\$193,700</u></b>	<b><u>\$193,700</u></b>

**Req. 3**

<b>Total assets (\$116,600 + \$4,600 + \$1,400 + \$66,000).....</b>	<b>\$188,600</b>
<b>Total liabilities (\$500 + \$36,000).....</b>	<b><u>(36,500)</u></b>
<b>Total stockholders' equity (\$148,000 + \$4,100*).....</b>	<b><u>\$152,100</u></b>

**\*Net income = \$4,100 (\$9,200 – \$2,900 – \$1,500 – \$700)**

**Req. 1**

<b>Journal</b>			
	<b>ACCOUNT TITLES AND EXPLANATION</b>	<b>DEBIT</b>	<b>CREDIT</b>
<b>1</b>	<b>Cash</b>	<b>8,900</b>	
<b>.</b>	<b>Common Stock</b>		<b>8,900</b>
	<b>Issued common stock.</b>		
<b>2</b>	<b>Cash</b>	<b>10,000</b>	
<b>.</b>	<b>Note Payable</b>		<b>10,000</b>
	<b>Borrowed money; signed note payable.</b>		
<b>3</b>	<b>Supplies</b>	<b>1,000</b>	
<b>.</b>	<b>Accounts Payable</b>		<b>1,000</b>
	<b>Purchased supplies on account.</b>		
<b>4</b>	<b>Land</b>	<b>36,000</b>	
<b>.</b>	<b>Cash</b>		<b>12,000</b>
	<b>Note Payable</b>		<b>24,000</b>
	<b>Purchased land by paying cash and signing a note payable.</b>		
<b>5</b>	<b>Cash</b>	<b>75</b>	
<b>.</b>	<b>Supplies</b>		<b>75</b>
	<b>Sold supplies for cash.</b>		
<b>6</b>	<b>Accounts Payable</b>	<b>300</b>	
<b>.</b>	<b>Cash</b>		<b>300</b>
	<b>Paid cash on account.</b>		
<b>7</b>	<b>Equipment</b>	<b>3,700</b>	
<b>.</b>	<b>Cash</b>		<b>3,700</b>
	<b>Paid cash for equipment.</b>		

**Cash balance = \$2,975 (\$8,900 + \$10,000 – \$12,000 + \$75 – \$300 – \$3,700)**

**Company owes \$34,700 (\$10,000 + \$1,000 + \$24,000 – \$300)**

**Req. 1**

**Custom Patio Service, Inc.**  
**Trial Balance**  
**April 30, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$18,700	
Accounts receivable	5,100	
Equipment	30,400	
Accounts payable		\$ 4,900
Note payable		24,000
Common stock		16,800
Retained earnings		2,400
Dividends	3,400	
Service revenue		21,100
Salary expense	8,800	
Utilities expense	2,200	
Delivery expense	<u>600</u>	
Total	<u>\$69,200</u>	<u>\$69,200</u>

**Req. 2**

**Custom Patio Service, Inc.**  
**Income Statement**  
**For the Month Ended April 30, 2016**

Service revenue	\$21,100
Salary expense	\$8,800
Utilities expense	2,200
Delivery expense	<u>600</u>
Total expenses	<u>11,600</u>
Net income	<u>\$ 9,500</u>

**Req. 1**

**Harper, Inc.**  
**Trial Balance**  
**September 30, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$15,000*	
Accounts receivable	12,100*	
Inventory	16,800	
Supplies	200	
Land	50,000	
Accounts payable		\$14,940*
Common stock		47,200*
Sales revenue		40,000
Insurance expense	3,700*	
Salary expense	2,400	
Utilities expense	1,040*	
Rent expense	<u>900</u>	<u>          </u>
<b>Total</b>	<b><u>\$102,140</u></b>	<b><u>\$102,140</u></b>

**\*Computations:**

Cash:  $\$14,500 + \$500 = \$15,000$

Accounts Receivable:  $\$12,600 - \$500 = \$12,100$

Accounts Payable:  $\$12,000 + \$3,000 - \$300 + \$240 = \$14,940$

Common Stock:  $\$47,100 + \$100 = \$47,200$

Insurance Expense:  $\$0 + \$3,700 = \$3,700$

Utilities Expense:  $\$800 + \$240 = \$1,040$

Cash			
(a)	22,500	(b)	1,600
		(d)	3,300
		(e)	850
		(g)	2,300
Bal.	14,450		

Accounts Receivable			
(f)	10,100		
Bal.	10,100		

Office Supplies			
(c)	1,400		
Bal.	1,400		

Office Furniture			
(a)	9,000		
Bal.	9,000		

Accounts Payable			
(e)	850	(c)	1,400
		Bal.	550

Common Stock			
		(a)	31,500
		Bal.	31,500

Dividends			
(g)	2,300		
Bal.	2,300		

Service Revenue			
		(f)	10,100
		Bal.	10,100

Salary Expense			
(d)	3,300		
Bal.	3,300		

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

**Req. 1**

**Leigh Hampton, Attorney  
Trial Balance  
January 31, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$14,450	
Accounts receivable	10,100	
Office supplies	1,400	
Office furniture	9,000	
Accounts payable		\$ 550
Common stock		31,500
Dividends	2,300	
Service revenue		10,100
Salary expense	3,300	
Rent expense	<u>1,600</u>	
Total	<u>\$42,150</u>	<u>\$42,150</u>

**Req. 2**

The business performed well during January. The result of operations was net income of \$5,200, as shown by the income statement accounts:

Service revenue.....	\$ 10,100
Salary expense.....	\$3,300
Rent expense.....	<u>1,600</u>
Total expenses.....	<u>(4,900)</u>
Net income.....	<u>\$ 5,200</u>



**Req. 1**

*(amounts in millions)*

$$\begin{aligned} \text{Cash (X) + Other assets (21)} &= \text{Accounts payable (7) + Other} \\ &\quad \text{liabilities (6) + S/E (5) + Revenues (37)} \\ &\quad - \text{Expenses (30)} \end{aligned}$$

$$\text{Cash (X)} = \underline{4}$$

**Req. 2**

*(amounts in millions)*

**New Towne Company  
Trial Balance  
September 30, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 4	
Other assets	21	
Accounts payable		\$ 7
Other liabilities		6
Stockholders' equity		5
Revenues		37
Expenses	<u>30</u>	
Total	<u>\$55</u>	<u>\$55</u>

Net income is \$7 (\$37 – \$30)

(10-15 min.) E 2-28B

TO: Home Office

FROM: Gary Breen, Store Manager

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During the first week, I used the store's beginning cash to purchase equipment and supplies. I signed a note payable to buy land and a building. After all these transactions, the store's balance sheet appears as follows:

**Summertime Fashions  
Orlando Store  
Balance Sheet  
Date**

ASSETS		LIABILITIES	
Cash	\$ 60,300	Note payable*	\$279,000
Supplies	5,700		

Land	79,000
Building	200,000
Equipment	<u>42,000</u>
Total assets	<u><u>\$387,000</u></u>

STOCKHOLDERS' EQUITY	
Common stock	<u>108,000</u>
Total liabilities and stockholders' equity	<u><u>\$387,000</u></u>

\*( $\$79,000 + \$200,000$ ) =  $\$279,000$

Cash	
108,000	42,000
	5,700
60,300	

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

## Req. 1

## Analysis of Transactions

ASSETS					=	LIABILITIES		+	STOCKHOLDERS' EQUITY							
Date	Cash	+	Accounts Receivable	+	Medical Supplies	+	Land	=	Accounts Payable	+	Note Payable	+	Common Stock	+	Retained Earnings	Type of Stockholders' Equity Transaction
May 6	148,000												148,000			Issued stock
9	(59,000)						59,000									
12					1,700				1,700							
15	Not a transaction of the business.															
15-31	4,500		4,500												9,000	Service revenue
15-31	(3,200)														(3,200)	Salary expense
	(1,100)														(1,100)	Rent expense
	(1,200)														(1,200)	Utilities expense
31	300				(300)											
31	32,000										32,000					
31	<u>(1,300)</u>								<u>(1,300)</u>							
Bal.	<u>119,000</u>		<u>4,500</u>		<u>1,400</u>		<u>59,000</u>		<u>400</u>		<u>32,000</u>		<u>148,000</u>		<u>3,500</u>	

**Req. 2**

- a.     **\$183,900**
- b.     **\$4,500**
- c.     **\$32,400 (\$400 + \$32,000)**
- d.     **\$151,500 (\$183,900 – \$32,400, or \$148,000 + \$3,500)**
- e.     **\$3,500 (Revenue, \$9,000 minus expenses, \$5,500, equals net income, \$3,500)**

**Req. 1****Journal**

<b>DATE</b>	<b>ACCOUNT TITLES AND EXPLANATION</b>	<b>DEBIT</b>	<b>CREDIT</b>
<b>May 6</b>	<b>Cash</b>	<b>148,000</b>	
	<b>Common Stock</b>		<b>148,000</b>
	<b>Issued stock to owner.</b>		
<b>9</b>	<b>Land</b>	<b>59,000</b>	
	<b>Cash</b>		<b>59,000</b>
	<b>Purchased land.</b>		
<b>12</b>	<b>Medical Supplies</b>	<b>1,700</b>	
	<b>Accounts Payable</b>		<b>1,700</b>
	<b>Purchased supplies on account.</b>		
<b>15</b>	<b>Not a transaction of the business.</b>		
<b>15-31</b>	<b>Cash</b>	<b>4,500</b>	
	<b>Accounts Receivable</b>	<b>4,500</b>	
	<b>Service Revenue</b>		<b>9,000</b>
	<b>Performed service for cash and on account.</b>		
<b>15-31</b>	<b>Salary Expense</b>	<b>3,200</b>	
	<b>Rent Expense</b>	<b>1,100</b>	
	<b>Utilities Expense</b>	<b>1,200</b>	
	<b>Cash</b>		<b>5,500</b>
	<b>Paid expenses.</b>		
<b>31</b>	<b>Cash</b>	<b>300</b>	
	<b>Medical Supplies</b>		<b>300</b>
	<b>Sold supplies.</b>		
<b>31</b>	<b>Cash</b>	<b>32,000</b>	
	<b>Note Payable</b>		<b>32,000</b>
	<b>Borrowed money.</b>		
<b>31</b>	<b>Accounts Payable</b>	<b>1,300</b>	
	<b>Cash</b>		<b>1,300</b>
	<b>Paid on account.</b>		

**Req. 1****Cash**

May 6	148,000	May 9	59,000
15-31	4,500	15-31	5,500
31	300	31	1,300
31	32,000		
Bal.	119,000		

**Accounts Receivable**

May 15-31	4,500	
Bal.	4,500	

**Medical Supplies**

May 12	1,700	May 31	300
Bal.	1,400		

**Land**

May 9	59,000	
Bal.	59,000	

**Accounts Payable**

May 31	1,300	May 12	1,700
		Bal.	400

**Note Payable**

	May 31	32,000
	Bal.	32,000

**Common Stock**

	May 6	148,000
	Bal.	148,000

**Service Revenue**

	May 15-31	9,000
	Bal.	9,000

**Salary Expense**

May 15-31	3,200	
Bal.	3,200	

**Rent Expense**

May 15-31	1,100	
Bal.	1,100	

**Utilities Expense**

May 15-31	1,200	
Bal.	1,200	



**Req. 2**

**Dr. Sue Smith, P.C.  
Trial Balance  
May 31, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$119,000	
Accounts receivable	4,500	
Medical supplies	1,400	
Land	59,000	
Accounts payable		\$ 400
Note payable		32,000
Common stock		148,000
Service revenue		9,000
Salary expense	3,200	
Utilities expense	1,200	
Rent expense	<u>1,100</u>	
<b>Total</b>	<b><u>\$189,400</u></b>	<b><u>\$189,400</u></b>

**Req. 3**

Total assets (\$119,000 + \$4,500 + \$1,400 + \$59,000).....	\$183,900
Total liabilities (\$400 + \$32,000).....	<u>(32,400)</u>
Total stockholders' equity (\$148,000 + \$3,500*).....	<u>\$151,500</u>

**\*Net income = \$3,500 (\$9,000 – \$3,200 – \$1,200 – \$1,100)**

**Req. 1**

<b>Journal</b>		
<b>ACCOUNT TITLES AND EXPLANATION</b>	<b>DEBIT</b>	<b>CREDIT</b>
1. Cash	8,600	
Common Stock		8,600
Issued common stock.		
2. Cash	7,500	
Note Payable		7,500
Borrowed money; signed note payable.		
3. Supplies	800	
Accounts Payable		800
Purchased supplies on account.		
4. Land	36,000	
Cash		7,000
Note Payable		29,000
Purchased land by paying cash and signing a note payable.		
5. Cash.	70	
Supplies		70
Sold supplies for cash.		
6. Accounts Payable	230	
Cash		230
Paid cash on account.		
7. Equipment	3,500	
Cash		3,500
Paid cash for equipment.		

Cash balance = \$5,440 (\$8,600 + \$7,500 – \$7,000 + \$70 – \$230 – \$3,500)

Company owes \$37,070 (\$7,500 + \$800 + \$29,000 – \$230)

**Req. 1**

**Deluxe Deck Service, Inc.**  
**Trial Balance**  
**April 30, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$18,500	
Accounts receivable	5,800	
Equipment	30,000	
Accounts payable		\$ 4,900
Note payable		22,500
Common stock		16,800
Retained earnings		3,450
Dividends	3,900	
Service revenue		21,200
Salary expense	8,500	
Utilities expense	1,400	
Delivery expense	<u>750</u>	
<b>Total</b>	<b><u>\$68,850</u></b>	<b><u>\$68,850</u></b>

**Req. 2**

**Deluxe Deck Service, Inc.**  
**Income Statement**  
**For the Month Ended April 30, 2016**

Service revenue		\$21,200
Salary expense	\$8,500	
Utilities expense	1,400	
Delivery expense	<u>750</u>	
<b>Total expenses</b>		<b><u>10,650</u></b>
<b>Net income</b>		<b><u>\$10,550</u></b>

**Req. 1**

**Carver, Inc.**  
**Trial Balance**  
**September 30, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 14,300*	
Accounts receivable	12,400*	
Inventory	17,200	
Supplies	800	
Land	52,000	
Accounts payable		\$ 14,550*
Common stock		47,900*
Sales revenue		41,000
Insurance expense	3,300*	
Salary expense	2,100	
Utilities expense	850*	
Rent expense	500	
<b>Total</b>	<b><u>\$103,450</u></b>	<b><u>\$103,450</u></b>

**\*Computations:**

Cash:  $\$14,100 + \$200 = \$14,300$

Accounts Receivable:  $\$12,600 - \$200 = \$12,400$

Accounts Payable:  $\$12,100 + \$2,000 - \$200 + \$650 = \$14,550$

Common Stock:  $\$47,600 + \$300 = \$47,900$

Insurance Expense:  $\$0 + \$3,300 = \$3,300$

Utilities Expense:  $\$200 + \$650 = \$850$

Cash			
(a)	23,000	(b)	1,000
		(d)	2,500
		(e)	150
		(g)	2,000
Bal.	17,350		

Accounts Receivable			
(f)	10,900		
Bal.	10,900		

Office Supplies			
(c)	700		
Bal.	700		

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

Accounts Payable			
(e)	150	(c)	700
		Bal.	550

Common Stock			
		(a)	32,400
		Bal.	32,400

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

Service Revenue			
		(f)	10,900
		Bal.	10,900

Salary Expense			
(d)	2,500		
Bal.	2,500		

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

**Req. 1**

**Eric Newton, Attorney  
Trial Balance  
December 31, 2016**

<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 17,350	
Accounts receivable	10,900	
Office supplies	700	
Office furniture	9,400	
Accounts payable		\$ 550
Common stock		32,400
Dividends	2,000	
Service revenue		10,900
Salary expense	2,500	
Rent expense	<u>1,000</u>	
Total	<u>\$43,850</u>	<u>\$43,850</u>

**Req. 2**

The business performed well during December. The result of operations was net income of \$7,400, as shown by the income statement accounts:

Service revenue.....	\$10,900
Salary expense.....	\$2,500
Rent expense.....	<u>1,000</u>
Total expenses.....	<u>(3,500)</u>
Net income.....	<u>\$ 7,400</u>

**Req. 1**

*(amounts in millions)*

$$\begin{aligned} \text{Cash (X) + Other assets (20)} &= \text{Accounts payable (7) + Other} \\ &\quad \text{liabilities (3) + S/E (6) + Revenues (38)} \\ &\quad - \text{Expenses (25)} \end{aligned}$$

$$\text{Cash (X)} = \underline{\underline{9}}$$

**Req. 2**

*(amounts in millions)*

**Wolf Products Company**  
**Trial Balance**  
**May 31, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 9	
Other assets	20	
Accounts payable		\$ 7
Other liabilities		3
Stockholders' equity		6
Revenues		38
Expenses	<u>25</u>	
Total	<u>\$54</u>	<u>\$54</u>

Net income is \$13 (\$38 – \$25)

**Serial Exercise**

(20-30 min.) E 2-39

**Req. 1**

**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Aug. 2	Cash	10,000	
	Common Stock		10,000
2	Rent Expense	600	
	Cash		600
3	Equipment	2,700	
	Cash		2,700
4	Furniture	4,500	
	Accounts Payable		4,500



<b>5</b>	<b>Supplies</b>	<b>800</b>	
	<b>    Accounts Payable</b>		<b>800</b>
<b>9</b>	<b>Cash</b>	<b>1,400</b>	
	<b>    Service Revenue</b>		<b>1,400</b>
<b>12</b>	<b>Utilities Expense</b>	<b>300</b>	
	<b>    Cash</b>		<b>300</b>
<b>18</b>	<b>Accounts Receivable</b>	<b>1,900</b>	
	<b>    Service Revenue</b>		<b>1,900</b>

**Req. 2****Cash**

Aug. 2	10,000	Aug. 2	600
9	1,400	3	2,700
		12	300
Bal.	7,800		

**Accounts Receivable**

Aug. 18	1,900	
Bal.	1,900	

**Supplies**

Aug. 5	800	
Bal.	800	

**Equipment**

Aug. 3	2,700	
Bal.	2,700	

**Furniture**

Aug. 4	4,500	
Bal.	4,500	

**Accounts Payable**

	Aug. 4	4,500
	5	800
	Bal.	5,300

**Common Stock**

	Aug. 2	10,000
	Bal.	10,000

**Service Revenue**

	Aug. 9	1,400
	18	1,900
	Bal.	3,300

**Rent Expense**

Aug. 2	600	
Bal.	600	

**Utilities Expense**

Aug. 12	300	
Bal.	300	

**Req. 3**

**Barbara Miracle, Certified Public Accountant, P.C.**  
**Trial Balance**  
**August 18, 2016**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 7,800	
Accounts receivable	1,900	
Supplies	800	
Equipment	2,700	
Furniture	4,500	
Accounts payable		\$ 5,300
Common stock		10,000
Dividends	—	
Service revenue		3,300
Rent expense	600	
Utilities expense	300	
Salary expense	—	
<b>Total</b>	<b><u>\$18,600</u></b>	<b><u>\$18,600</u></b>

## Quiz

---

Q2-40	a	
Q2-41	d	
Q2-42	d	
Q2-43	b	
Q2-44	c	
Q2-45	b	
Q2-46	a	
Q2-47	d	
Q2-48	a	
Q2-49	c	
Q2-50	d	
Q2-51	a	
Q2-52	a	
Q2-53	d	
Q2-54	a	
Q2-55	d	
Q2-56	d	
Q2-57	d	
Q2-58	c	
Q2-59	b	$(\$51,000 + \$30,000 + \$22,000) = \$103,000$

## Problems

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(15-30 min.) P 2-60A

### **Req. 1**

Dear Vicki,



This trial balance lists the accounts of the company, along with their balances at December 31, 2016. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Amusement Specialties reports:

- a. Total assets = \$393,500 (\$14,000 + \$40,000 + \$4,500 + \$96,000 + \$239,000)
- b. Total liabilities = \$147,300 (\$51,300 + \$96,000)
- c. Net income = \$139,000 (\$270,000 – \$47,000 – \$2,000 – \$79,000 – \$3,000)

Student responses may vary but should include these amounts.

**Req. 1**

Analysis of Transactions									
ASSETS					= LIABILITIES + STOCKHOLDERS' EQUITY				
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction	
Bal.	2,200	3,600		12,000	7,700	6,200	3,900		
a)	3,800					3,800		Issued stock	
b)	6,000						6,000	Service revenue	
c)	(4,300)				(4,300)				
d)			500		500				
e)	2,000	(2,000)							
f)		4,000					4,000	Service revenue	
g)	(1,300)						(1,300)	Rent expense	
	(700)						(700)	Advertising expense	
h)	(2,800)						(2,800)	Dividends	
Bal.	<u>4,900</u>	<u>5,600</u>	<u>500</u>	<u>12,000</u>	<u>3,900</u>	<u>10,000</u>	<u>9,100</u>		
									
\$23,000					\$23,000				

**Req. 2**

**Rodriguez Computing, Inc.  
Income Statement  
Month Ended October 31, 2016**

<b>Revenues:</b>		
Service revenue (\$6,000 + \$4,000)		<b>\$10,000</b>
<b>Expenses:</b>		
Rent expense	<b>\$1,300</b>	
Advertising expense	<u><b>700</b></u>	
Total expenses		<u><b>2,000</b></u>
Net income		<u><b>\$8,000</b></u>

**Req. 3**

**Rodriguez Computing, Inc.  
Statement of Retained Earnings  
Month Ended October 31, 2016**

Retained earnings, October 1, 2016	<b>\$ 3,900</b>
Add: Net income	<u><b>8,000</b></u>
Subtotal	<b>11,900</b>
Less: Dividends declared	<u><b>(2,800)</b></u>
Retained earnings, October 31, 2016	<u><b>\$ 9,100</b></u>

**Req. 4**

**Rodriguez Computing, Inc.  
Balance Sheet  
October 31, 2016**

<b>ASSETS</b>		<b>LIABILITIES</b>	
Cash	<b>\$ 4,900</b>	Accounts payable	<b>\$ 3,900</b>
Accounts receivable	<b>5,600</b>	<b>STOCKHOLDERS'</b>	
Supplies	<b>500</b>	<b>EQUITY</b>	
Equipment	<b>12,000</b>	Common stock	<b>10,000</b>
		Retained earnings	<u><b>9,100</b></u>
		Total stockholders' equity	<b>19,100</b>
		Total liabilities and	
Total assets	<u><b>\$23,000</b></u>	stockholders' equity	<u><b>\$23,000</b></u>

**Req. 1**

		Journal	
ACCOUNT TITLES		DEBIT	CREDIT
a.	Cash	3,800	
	Common Stock		3,800
b.	Cash	6,000	
	Service Revenue		6,000
c.	Accounts Payable	4,300	
	Cash		4,300
d.	Supplies	500	
	Accounts Payable		500
e.	Cash	2,000	
	Accounts Receivable		2,000
f.	Accounts Receivable	4,000	
	Service Revenue		4,000
g.	Rent Expense	1,300	
	Advertising Expense	700	
	Cash		2,000
h.	Dividends	2,800	
	Cash		2,800



**Reqs. 2 and 3**

Cash		Accounts Receivable		Supplies		Equipment	
2,200	4,300	3,600	2,000	500		12,000	
3,800	2,000	4,000					
6,000	2,800	5,600		500		12,000	
2,000							
4,900							

Accounts Payable		Common Stock		Retained Earnings		Dividends	
4,300	7,700		6,200		3,900	2,800	
	500		3,800				
	3,900		10,000		3,900	2,800	

Service Revenue		Rent Expense		Advertising Expense	
	6,000	1,300		700	
	4,000				
	10,000	1,300		700	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-61A.

**Req. 1****Journal**

<b>DATE</b>	<b>ACCOUNT TITLES</b>	<b>DEBIT</b>	<b>CREDIT</b>
May 2	Cash	65,000	
	Common Stock		65,000
3	Supplies	600	
	Equipment	11,700	
	Accounts Payable		12,300
4	Cash	5,600	
	Service Revenue		5,600
7	Land	37,000	
	Cash		37,000
11	Accounts Receivable	2,900	
	Service Revenue		2,900
16	Accounts Payable	11,700	
	Cash		11,700
17	Advertising Expense	610	
	Cash		610
18	Cash	800	
	Accounts Receivable		800
22	Utilities Expenses	440	
	Cash		440
29	Cash	2,500	
	Service Revenue		2,500
31	Salary Expense	2,400	
	Cash		2,400
31	Dividends	2,000	
	Cash		2,000

## Req. 2

Cash				Accounts Receivable			
May 2	65,000	May 7	37,000	May 11	2,900	May 18	800
	0		0				
4	5,600	16	11,700	Bal.	2,100		
			0				
18	800	17	610				
29	2,500	22	440				
		31	2,400				
		31	2,000				
Bal.	19,750						
	0						
Equipment				Supplies			
May 3	11,700			May 3	600		
	0						
Bal.	11,700			Bal.	600		
	0						
Land				Common Stock			
May 7	37,000				May 2	65,000	
Bal.	37,000				Bal.	65,000	
Accounts Payable				Service Revenue			
May 16	11,700	May 3	12,300		May 4	5,600	
	0		0		11	2,900	
		Bal.	600		29	2,500	
					Bal.	11,000	
Dividends				Advertising Expense			
May 31	2,000			May 17	610		
Bal.	2,000						
				Bal.	610		
Salary Expense				Utilities Expense			
May 31	2,400			May 22	440		
Bal.	2,400						
				Bal.	440		

**Req. 3**

**Martinson Services, Inc.**  
**Trial Balance**  
**May 31, 20XX**

ACCOUNT	DEBIT	CREDIT
Cash	\$19,750	
Accounts receivable	2,100	
Supplies	600	
Land	37,000	
Equipment	11,700	
Accounts payable		\$ 600
Common stock		65,000
Dividends	2,000	
Service revenue		11,000
Salary expense	2,400	
Advertising expense	610	
Utilities expense	<u>440</u>	
Total	<u>\$76,600</u>	<u>\$76,600</u>

**Req. 4**

**Total resources (assets) = \$71,150 (\$19,750 + \$2,100 + \$600 + \$37,000 + \$11,700)**

**Amount owed (total liabilities) = \$600**

**Profit (net income) = \$7,550 (\$11,000 – \$2,400 – \$610 – \$440)**

**Req. 1**

Cash			
(a)	44,000	(c)	49,000
(b)	63,000	(e)	6,000
(f)	3,710	(h)	100
(j)	1,200	(k)	1,800
Bal.	55,010		

Supplies	
(d)	230
Bal.	230

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

Note Payable	
	(b) 63,000
	Bal. 63,000

Service Revenue	
	(f) 3,710
	(g) 13,300
	Bal. 17,010

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

Utilities Expense	
(i)	800
Bal.	800

Accounts Receivable			
(g)	13,300	(j)	1,200
Bal.	12,100		

Music Equipment	
(c)	49,000
Bal.	49,000

Accounts Payable			
(h)	100	(d)	230
		(i)	800
		Bal.	930

Common Stock	
	(a) 150,000
	Bal. 150,000

Salary Expense	
(e)	6,000
Bal.	6,000

Advertising Expense	
(k)	700
Bal.	700

**Req. 2**

**Stein Music Services Corporation**  
**Trial Balance**  
**April 30, 2016**

<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 55,010	
Accounts receivable	12,100	
Supplies	230	
Building	106,000	
Music equipment	49,000	
Accounts payable		\$ 930
Note payable...		63,000
Common stock		150,000
Service revenue		17,010
Salary expense	6,000	
Rent expense...	1,100	
Utilities expense	800	
Advertising expense	<u>700</u>	
<b>Total</b>	<b><u>\$230,940</u></b>	<b><u>\$230,940</u></b>

**Req. 1**

Dear Amy,

This trial balance lists the accounts of the company, along with their balances at December 31, 2016. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Larrabee Design reports:

- a. Total assets = \$392,500 (\$13,000 + \$47,000 + \$5,500 + \$103,000 + \$224,000)
- b. Total liabilities = \$148,400 (\$50,400 + \$98,000)
- c. Net income = \$91,000 (\$220,000 – \$33,000 – \$15,000 – \$79,000 – \$2,000)

Student responses may vary but should include these calculations.

**Req. 1****Analysis of Transactions**

	<b>ASSETS</b>				=	<b>LIABILITIES</b>		+	<b>STOCKHOLDERS' EQUITY</b>		
	Cash	Accounts + Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+	Common Stock	+	Retained Earnings	Type of Stockholders' Equity Transaction
Bal.	2,100	3,400		12,400	=	7,500		5,600		4,800	
a)	3,900							3,900			Issued stock
b)	6,000									6,000	Service revenue
c)	(4,800)					(4,800)					
d)			900			900					
e)	1,100	(1,100)									
f)		4,500								4,500	Service revenue
g)	(1,700)									(1,700)	Rent expense
	(1,300)									(1,300)	Advertising expense
h)	(2,300)									(2,300)	Dividends
Bal.	<u>3,000</u>	<u>6,800</u>	<u>900</u>	<u>12,400</u>		<u>3,600</u>		<u>9,500</u>		<u>10,000</u>	
	\$23,100					\$23,100					



**Req. 2**

**Willis Computing, Inc.**  
**Income Statement**  
**Month Ended November 30, 2016**

---

<b>Revenues:</b>	
Service revenue (\$6,000 + \$4,500)	<b>\$10,500</b>
<b>Expenses:</b>	
Rent expense	<b>\$1,700</b>
Advertising expense	<u><b>1,300</b></u>
Total expenses	<u><b>3,000</b></u>
Net income	<u><b>\$ 7,500</b></u>

**Req. 3**

**Willis Computing, Inc.**  
**Statement of Retained Earnings**  
**For the Month Ended November 30, 2016**

---

Retained earnings, October 31, 2016	<b>\$ 4,800</b>
Add: Net income	<u><b>7,500</b></u>
Subtotal	<b>12,300</b>
Less: Dividends declared	<u><b>(2,300)</b></u>
Retained earnings, November 30, 2016	<u><b>\$10,000</b></u>

**Req. 4**

**Willis Computing, Inc.**  
**Balance Sheet**  
**November 30, 2016**

---

<b>ASSETS</b>		<b>LIABILITIES</b>	
Cash	\$ 3,000	Accounts payable	\$ 3,600
Accounts receivable	6,800	<b>STOCKHOLDERS'</b>	
Supplies	900	<b>EQUITY</b>	
Equipment	12,400	Common stock	9,500
		Retained earnings	<u>10,000</u>
		Total stockholders' equity	19,500
		Total liabilities and	
Total assets	<u>\$23,100</u>	stockholders' equity	<u>\$23,100</u>

**Req. 1**

<b>Journal</b>			
	<b>ACCOUNT TITLES AND EXPLANATION</b>	<b>DEBIT</b>	<b>CREDIT</b>
a.	Cash Common Stock	3,900	3,900
b.	Cash Service Revenue	6,000	6,000
c.	Accounts Payable Cash	4,800	4,800
d.	Supplies Accounts Payable	900	900
e.	Cash Accounts Receivable...	1,100	1,100
f.	Accounts Receivable Service Revenue	4,500	4,500
g.	Rent Expense Advertising Expense Cash	1,700 1,300	3,000
h.	Dividends Cash	2,300	2,300

**Reqs. 2 and 3**

<b>Cash</b>		<b>Accounts Receivable</b>		<b>Supplies</b>		<b>Equipment</b>	
2,100	4,800	3,400	1,100	900		12,400	
3,900	3,000	4,500					
6,000	2,300	6,800		900		12,400	
1,100							
3,000							

<b>Accounts Payable</b>		<b>Common Stock</b>		<b>Retained Earnings</b>		<b>Dividends</b>	
4,800	7,500		5,600		4,800	2,300	
	900		3,900				
	3,600		9,500		4,800	2,300	

<b>Service Revenue</b>		<b>Rent Expense</b>		<b>Advertising Expense</b>	
	6,000	1,700		1,300	
	4,500				
	10,500	1,700		1,300	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-66B.

**Req. 1**

		<b>Journal</b>			
<b>DATE</b>		<b>ACCOUNT TITLES</b>	<b>DEBIT</b>	<b>CREDIT</b>	
July	2	Cash	62,000		
		Common Stock		62,000	
	3	Supplies	800		
		Equipment	12,100		
		Accounts Payable		12,900	
	4	Cash	5,600		
		Service Revenue		5,600	
	7	Land	39,000		
		Cash		39,000	
	11	Accounts Receivable	2,900		
		Service Revenue		2,900	
	16	Accounts Payable	12,100		
		Cash		12,100	
	17	Utilities Expense	590		
		Cash		590	
	18	Cash	800		
		Accounts Receivable		800	
	22	Utilities Expense	420		
		Cash		420	
	29	Cash	2,300		
		Service Revenue		2,300	
	30	Salary Expense	2,500		
		Cash		2,500	
	30	Dividends	2,000		
		Cash		2,000	

**Req. 2**

Cash			
July 2	62,000	July 7	39,000
4	5,600	16	12,100
18	800	17	590
29	2,300	22	420
		30	2,500
		30	2,000
Bal.	14,090		

Equipment		
July 3	12,100	
Bal.	12,100	

Accounts Payable			
July 16	12,100	July 3	12,900
		Bal.	800

Dividends		
July 30	2,000	
Bal.	2,000	

Salary Expense		
July 30	2,500	
Bal.	2,500	

Accounts Receivable			
July 11	2,900	July 18	800
Bal.	2,100		

Supplies		
July 3	800	
Bal.	800	

Land		
July 7	39,000	
Bal.	39,000	

Common Stock			
	July 2	62,000	
	Bal.	62,000	

Service Revenue			
	July 4	5,600	
	11	2,900	
	29	2,300	
	Bal.	10,800	

Utilities Expense		
July 17	590	
22	420	
Bal.	1,010	

**Req. 3**

**Gagne Services, Inc.**  
**Trial Balance**  
**July 31, 20XX**

ACCOUNT	DEBIT	CREDIT
Cash	\$14,090	
Accounts receivable	2,100	
Supplies	800	
Land	39,000	
Equipment	12,100	
Accounts payable		\$ 800
Common stock		62,000
Dividends	2,000	
Service revenue		10,800
Salary expense	2,500	
Utilities expense	<u>1,010</u>	
Total	<u>\$73,600</u>	<u>\$73,600</u>

**Req. 4**

**Total resources (assets)** = \$68,090 (\$14,090 + \$2,100 + \$800 + \$39,000 + \$12,100)

**Amount owed (total liabilities)** = \$800

**Profit (net income)** = \$7,290 (\$10,800 – \$2,500 – \$1,010)

**Req. 1****Cash**

(a)	50,000	(c)	44,000
(b)	63,000	(e)	5,900
(f)	3,700	(h)	200
(j)	1,700	(k)	1,500
Bal.	66,800		

**Music Equipment**

(c)	44,000		
Bal.	44,000		

**Note Payable**

	(b)	63,000	
	Bal.	63,000	

**Common Stock**

	(a)	156,000	
	Bal.	156,000	

**Service Revenue**

	(f)	3,700	
	(g)	13,100	
	Bal.	16,800	

**Advertising Expense**

(k)	300		
Bal.	300		

**Accounts Receivable**

(g)	13,100	(j)	1,700
Bal.	11,400		

**Supplies**

(d)	210		
Bal.	210		

**Building**

(a)	106,000		
Bal.	106,000		

**Accounts Payable**

(h)	200	(d)	210
		(i)	600
		Bal.	610

**Salary Expense**

(e)	5,900		
Bal.	5,900		

**Rent Expense**

(k)	1,200		
Bal.	1,200		

**Utilities Expense**

(i)	600		
Bal.	600		



**Req. 2**

**Spahr Music Corporation**  
**Trial Balance**  
**May 31, 2016**

<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 66,800	
Accounts receivable	11,400	
Supplies	210	
Building	106,000	
Music equipment	44,000	
Accounts payable		\$ 610
Note payable		63,000
Common stock		156,000
Service revenue		16,800
Salary expense	5,900	
Rent expense	1,200	
Utilities expense	600	
Advertising expense	<u>300</u>	
<b>Total</b>	<b><u>\$236,410</u></b>	<b><u>\$236,410</u></b>

## Challenge Exercises and Problem

(20-40 min.) E 2-70

### Req. 1

- a. Total cash paid during December:

Cash			
Nov. 30 Bal.	16,500		
Dec. receipts	91,000	Dec. payments	X = \$99,250
Dec. 31 Bal.	8,250		

$$\begin{aligned} \$16,500 + \$91,000 - X &= \$8,250 \\ X &= \$99,250 \end{aligned}$$

- b. Cash collections from customers during December:

Accounts Receivable			
Nov 30 Bal.	23,000		
Dec. sales			
on account	42,000	Dec. collections	X = \$44,000
Dec. 31 Bal.	21,000		

$$\begin{aligned} \$23,000 + \$42,000 - X &= \$21,000 \\ X &= \$44,000 \end{aligned}$$

- c. Cash paid on notes payable during December:

Notes Payable			
		Nov. 30 Bal.	11,500
X = \$23,000	Dec. note payments	X	Dec. new borrowing
			31,000
		Dec. 31 Bal.	19,500

$$\begin{aligned} \$11,500 + \$31,000 - X &= \$19,500 \\ X &= \$23,000 \end{aligned}$$

**Req. 1**

**4AC, Inc.**  
**Trial Balance**  
**October 31, 2016**

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

Out of balance by \$1,900

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

**Req. 2**

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

**Req. 1****Henderson Co.:**

Income statement		November	December
Employee medical exp.		\$38,000	\$ -0-
Balance sheet		Nov. 30	Dec. 31
Cash		\$57,000	\$30,000*
Accounts payable		38,000	11,000**

**Goodland Hospital:**

Income statement		November	December
Service revenue		\$38,000	\$ -0-
Balance sheet		Nov. 30	Dec. 31
Cash		\$ -0-	\$27,000
Accounts receivable		38,000	11,000**

**Req. 2****Explanation:**

Henderson's \$38,000 expense is Goodland's revenue.

Henderson's \$27,000 cash payment is Goodland's cash receipt.

Henderson's \$11,000 account payable is Goodland's account receivable.

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$$*\$57,000 - \$27,000 = \$30,000$$

$$**\$38,000 - \$27,000 = \$11,000$$

**Req. 1**

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

**Req. 2**

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

**Req. 3**

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

**Req. 4**

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

## Decision Cases

### (40-50 min.) Decision Case 1

#### Reqs. 1 and 2

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

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

Supplies			
(c)	1,300		

Furniture			
(e)	5,400		

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

Notes Payable			
		(b)	6,000

Common Stock			
		(a)	7,000

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

Salary Expense			
(f)	2,000		

Advertising Expense			
(d)	1,800		

Rent Expense			
(f)	1,200		

**Req. 3**

Barlow Networks, Inc.  
Trial Balance  
Current Date

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

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

Service revenue	\$10,500
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**Expenses:**

Salary expense	\$2,000
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Advertising expense	1,800
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Rent expense	<u>1,200</u>
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Total expenses	<u>5,000</u>
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Net income for month	<u>\$5,500</u>
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**Recommendation:** Barlow's criteria for remaining in operation was to earn net income of \$5,000. His actual result was just over this goal. Yes, I would recommend that he stay in business.

(20-30 min.) Decision Case 2

Little Italy, Inc.  
Income Statement  
Month Ended December 31, 2016

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

Little Italy, Inc.  
Balance Sheet  
December 31, 2016

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

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

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



## Ethical Issue 1

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

3.

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

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

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

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

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

## **Ethical Issue 2**

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### **Part a.**

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

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

4. Student opinions will vary on this part.

### **Part b.**

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

2, 3. Like part a, the stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of

discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead

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

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

Part c.

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

## Focus on Financials: Apple Inc.

(20-30 min.)

**Reqs. 1 and 3**

*(All amounts in millions)*

Cash	
	0
b. 178,437	e. 104,776
g. 980	f. 18,034
i. 1,382	h. 13,973
	j. 4,027
39,989	
Inventories	
1,764	d. 112,258
c. 112,605	
2,111	
Property, Plant and Equipment, net	
16,597	
j. 4,027	
20,624	
Cost of Sales	
d. 112,258	
112,258	
Other Income/(Expense), net	
	g. 980
	980

Accounts Receivable, net	
13,102	b. 178,437
a. 182,795	
17,460	
Other Assets	
5,146	
	i. 1,382
3,764	
Accounts Payable	
e. 104,776	22,367
	c. 112,605
	30,196
Net Sales	
	a. 182,795
	182,795
Operating Expenses	
f. 18,034	
18,034	
Provision for Income Taxes	
h. 13,973	
13,973	

**Req. 2**

		<i>(Millions)</i>	
a.	Accounts Receivable, net	182,795	
	Net Sales (Revenue)		182,795
b.	Cash	178,437	
	Accounts Receivable, net		178,437
c.	Inventories	112,605	
	Accounts Payable		112,605
d.	Cost of Sales	112,258	
	Inventories		112,258
e.	Accounts Payable	104,776	
	Cash		104,776
f.	Operating Expenses	18,034	
	Cash		18,034
g.	Cash	980	
	Other Income/(Expense), net		980
h.	Provision for Income Taxes	13,973	
	Cash		13,973
i.	Cash	1,382	
	Other Assets		1,382
j.	Property, Plant, and Equipment, net	4,027	
	Cash		4,027

**Req. 4**

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

(continued) Apple Inc.

**Req. 5**

<b>Revenue:</b>	<b>(Millions)</b>	
Net sales	\$182,795	
Other Income/(Expense), net	<u>980</u>	
<b>Total revenue</b>		<b>183,775</b>
<b>Expenses:</b>		
Cost of sales	\$112,258	
Operating expenses	18,034	
Provision for income taxes	<u>13,973</u>	
<b>Total expenses</b>		<b><u>144,265</u></b>
<b>Net Income</b>		<b><u>\$ 39,510</u></b>

The net income of \$39,510 million equals the net income reported on Apple's income statement.

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## Focus on Analysis: Under Armour, Inc.

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(20-30 min.)

### Req. 1

During fiscal 2014, Under Armour, Inc. had more net revenues than cash collections. This is determined by analyzing net receivables, as follows:

Net receivables:

	<i>(Thousands)</i>
Balance at the end of fiscal 2013	\$ 209,952
+ Net revenues during fiscal 2014 (from consolidated statements of income)	3,084,370
– Collections from customers during fiscal 2014	_____ (X)
= Balance at the end of fiscal 2014	<u>\$ 279,835</u>

Solving for X, collections were \$3,014,487 ( $\$209,952 + \$3,084,370 - \$279,835$ ). Another way to express this relationship is that when accounts receivable increase during the year, revenues must exceed cash collections. If accounts receivable decrease during the year, cash collections must exceed revenues.

**Req. 2**

Net revenues increased 32.26% in 2014, which is better than in 2013 (27.09%) perhaps due to a better strategic alignment. Net income increased more in 2014 (28.16%) than in 2013 (26.05%). Net income grew slower than net revenues during the two year period due to a larger tax bill and additional sources of expenses due to expansion. For example, interest expense increased 81.90% in 2014 and selling, general and administrative expenses increased 32.89% in 2014.

	2014	2013	2012
Net revenues (thousands)	\$3,084,370	\$2,332,051	\$1,834,921
\$ change	752,319	497,130	
Percentage change	32.26%	27.09%	
Net income (thousands)	\$208,042	\$162,330	\$128,778
\$ change	45,712	33,552	
Percentage change	28.16%	26.05%	

## **Group Projects**

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**Student responses will vary.**