

# Chapter 2

## Analyzing and Recording Transactions

### QUESTIONS

- Common asset accounts: cash, accounts receivable, notes receivable, prepaid expenses (rent, insurance, etc.), office supplies, store supplies, equipment, building, and land.**
  - Common liability accounts: accounts payable, notes payable, and unearned revenue, wages payable, and taxes payable.**
  - Common equity accounts: owner, capital and owner, withdrawals.**
- 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.**
- 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.**
- A general journal can be used to record any business transaction or event.**
- Debited accounts are commonly recorded first. The credited accounts are commonly indented.**
- 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.**
- Expense accounts have debit balances because they are decreases to equity (and equity has a credit balance).**
- 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.**
- The error should be corrected with a separate (subsequent) correcting entry. The entry's explanation should describe why the correction is necessary.**

10. The four financial statements are: income statement, balance sheet, statement of owner's equity, 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; Other assets.  
  
Credit balance accounts on the Apple balance sheet include: Accounts Payable; Accrued expenses; Deferred revenue; 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 and Receivable under reverse repurchase agreements. The liabilities with *payable* in the account title are: Accounts payable, Securities lending payable, and Income taxes payable, net.
18. Samsung's balance sheet lists the following current liabilities: Trade and other payables; Short-term borrowings; Advances received; Withholdings; Accrued expense; Income tax payable; Current portion of long-term borrowings and debentures; Provisions; Other current liabilities.  
  
Samsung's balance sheet lists the following noncurrent liabilities: Long-term trade and other payables; Debentures; Long-term borrowings; Net defined benefit liabilities; Deferred income tax liabilities; Provisions; Other non-current liabilities.

## 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 301
- i. E Expense 690

**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:

|               |           |   |                    |   |                   |
|---------------|-----------|---|--------------------|---|-------------------|
| <b>Assets</b> |           | = | <b>Liabilities</b> | + | <b>Equity</b>     |
| Cash          | Equipment |   |                    |   | D. Tyler, Capital |
| 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 |        |
|        | D. Tyler, Capital                          | 301 |       | 10,000 |
|        | <i>Owner invests cash &amp; equipment.</i> |     |       |        |

- 3) Post

|                 |                      |                              |
|-----------------|----------------------|------------------------------|
| <b>Cash</b> 101 | <b>Equipment</b> 167 | <b>D. Tyler, Capital</b> 301 |
| 7,000           | 3,000                | 10,000                       |

**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    |
|        | <i>Purchased office supplies on credit.</i> |     |       |        |

**3) Post**

|                        |                         |
|------------------------|-------------------------|
| Office Supplies    124 | Accounts Payable    201 |
| 500                    | 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  |
|        | <i>Received cash for landscaping services.</i> |     |       |        |

**3) Post**

|             |                            |
|-------------|----------------------------|
| Cash    101 | Landscaping Revenue    403 |
| 4,000       | 4,000                      |

**Quick Study 2-6 (Continued)**

d.

1) Analyze:

|               |   |                              |   |               |
|---------------|---|------------------------------|---|---------------|
| <b>Assets</b> | = | <b>Liabilities</b>           | + | <b>Equity</b> |
| 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  |
|        | <i>Received cash in advance for landscaping services.</i> |     |       |        |

3) Post

|                 |   |
|-----------------|---|
| <b>Cash</b> 101 | <b>Unearned Landscaping Revenue</b> 236 |
| 1,000           | 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.

**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.**

## 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)**

|    | <b>Account</b>            | <b>Type of Account</b> | <b>Normal Balance</b> | <b>Increase (Dr. or Cr.)</b> |
|----|---------------------------|------------------------|-----------------------|------------------------------|
| 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. | Owner Withdrawals.....    | 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. | Owner, Capital.....       | equity                 | credit                | credit                       |

**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).....     | <u>\$300,500</u> |  |
| b. | Beginning accounts receivable (debit).....        | \$102,500        |  |
|    | Sales on account in October (debits) .....        | ?                |  |
|    | Collections on account in October (credits) ..... | <u>(102,890)</u> |  |
|    | Ending accounts receivable (debit) .....          | \$ 89,000        |  |
|    | Sales on account in October (debits) .....        | <u>\$ 89,390</u> |  |
| c. | Beginning cash balance (debit).....               | \$ ?             |  |
|    | Cash received in October (debits) .....           | 102,500          |  |
|    | Cash disbursed in October (credits).....          | <u>(103,150)</u> |  |
|    | Ending cash balance (debit).....                  | \$ 18,600        |  |
|    | Beginning cash balance (debit).....               | <u>\$ 19,250</u> |  |

**Exercise 2-7 (25 minutes)**

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

**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 |

| M. Harris, Capital |        |
|--------------------|--------|
| 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<br>Trial Balance<br>August 31 |                        |                        |
|---|------------------------|------------------------|
|   | <i>Debit</i>           | <i>Credit</i>          |
| Cash .....                                  | \$ 6,176               |                        |
| Office supplies .....                       | 880                    |                        |
| Prepaid insurance .....                     | 2,100                  |                        |
| Photography equipment .....                 | 33,500                 |                        |
| M. Harris, Capital.....                     |                        | \$40,000               |
| Photography fees earned.....                |                        | 3,331                  |
| Utilities expense.....                      | <u>675</u>             |                        |
| <b>Totals .....</b>                         | <b><u>\$43,331</u></b> | <b><u>\$43,331</u></b> |

**Exercise 2-9 (30 minutes)**

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

**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 |
| <b>Balance</b> 94,850 |            |

| Accounts Payable |                  |
|------------------|------------------|
| (e) 10,050       | (c) 10,050       |
|                  | <b>Balance</b> 0 |

| K. Spade, Capital |                        |
|-------------------|------------------------|
|                   | (a) 100,750            |
|                   | <b>Balance</b> 100,750 |

| Accounts Receivable  |           |
|----------------------|-----------|
| (f) 2,700            | (h) 1,125 |
| <b>Balance</b> 1,575 |           |

| K. Spade, Withdrawals |  |
|-----------------------|--|
| (i) 10,000            |  |
| <b>Balance</b> 10,000 |  |

| Office Supplies      |  |
|----------------------|--|
| (b) 1,250            |  |
| <b>Balance</b> 1,250 |  |

| Fees Earned |                       |
|-------------|-----------------------|
|             | (d) 15,500            |
|             | (f) 2,700             |
|             | <b>Balance</b> 18,200 |

| Office Equipment      |  |
|-----------------------|--|
| (c) 10,050            |  |
| <b>Balance</b> 10,050 |  |

| Rent Expense         |  |
|----------------------|--|
| (g) 1,225            |  |
| <b>Balance</b> 1,225 |  |

**Exercise 2-10 (15 minutes)**

| SPADE COMPANY<br>Trial Balance<br>May 31, 2015 |                         |                         |
|--|-------------------------|-------------------------|
|  | <i>Debit</i>            | <i>Credit</i>           |
| Cash .....                                     | \$ 94,850               |                         |
| Accounts receivable .....                      | 1,575                   |                         |
| Office supplies.....                           | 1,250                   |                         |
| Office equipment.....                          | 10,050                  |                         |
| Accounts payable.....                          |                         | \$ 0                    |
| K. Spade, Capital.....                         |                         | 100,750                 |
| K. Spade, Withdrawals.....                     | 10,000                  |                         |
| Fees earned .....                              |                         | 18,200                  |
| Rent expense.....                              | <u>1,225</u>            |                         |
| <b>Totals.....</b>                             | <b><u>\$118,950</u></b> | <b><u>\$118,950</u></b> |

**Exercise 2-11 (20 minutes)**

**Transactions that created expenses:**

|    |                                       |       |       |
|----|---------------------------------------|-------|-------|
| b. | Salaries Expense.....                 | 1,233 |       |
|    | Cash .....                            |       | 1,233 |
|    | <i>Paid salary of receptionist.</i>   |       |       |
| d. | Utilities Expense .....               | 870   |       |
|    | Cash .....                            |       | 870   |
|    | <i>Paid utilities for the office.</i> |       |       |

[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.

**Exercise 2-12 (20 minutes)**

**Transactions that created revenues:**

|    |                                     |       |       |
|----|-------------------------------------|-------|-------|
| b. | Accounts Receivable .....           | 2,300 |       |
|    | Services Revenue .....              |       | 2,300 |
|    | <i>Provided services on credit.</i> |       |       |
| c. | Cash .....                          | 875   |       |
|    | Services Revenue .....              |       | 875   |
|    | <i>Provided services for cash.</i>  |       |       |

**[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.
- 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.

**Exercise 2-14 (30 minutes)**

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



**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      |   | <u>69,000</u>   |
| Net increase in equity ..... |           |   |             |   | <u>\$29,000</u> |

a.

|                              |    |                 |  |
|------------------------------|----|-----------------|--|
| Net income .....             | \$ | ?               |  |
| Plus owner investments ..... |    | 0               |  |
| Less owner withdrawals ..... |    | <u>(0)</u>      |  |
| Change in equity .....       |    | <u>\$29,000</u> |  |

**Net Income = \$29,000**

Since there were no additional investments or withdrawals, the net income for the year equals the net increase in owner's equity.

b.

|   |    |                 |  |
|---|----|-----------------|--|
| Net income .....                                    | \$ | ?               |  |
| Plus owner investments .....                        |    | 0               |  |
| Less owner withdrawals (\$1,250/mo. x 12 mo.) ..... |    | <u>(15,000)</u> |  |
| Change in equity .....                              |    | <u>\$29,000</u> |  |

**Net Income = \$44,000**

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

c.

|                                 |    |                 |  |
|---------------------------------|----|-----------------|--|
| Net income .....                | \$ | ?               |  |
| Plus owner investment .....     |    | 55,000          |  |
| Less withdrawals by owner ..... |    | <u>(0)</u>      |  |
| Change in equity .....          |    | <u>\$29,000</u> |  |

**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 owner withdrawals (\$1,250/mo. X 12 mo.) ..... |    | <u>(15,000)</u> |  |
| Change in equity .....                              |    | <u>\$29,000</u> |  |

**Net Income = \$9,000**

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

**Exercise 2-16 (15 minutes)**

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

**Exercise 2-17 (15 minutes)**

| <b>HELP TODAY</b>                    |                         |
|--------------------------------------|-------------------------|
| <b>Statement of Owner's Equity</b>   |                         |
| <b>For Month Ended August 31</b>     |                         |
| C. Camry, Capital, July 31 .....     | <b>\$ 0</b>             |
| Add: Investment by owner .....       | <b>102,000</b>          |
| Net income (from Exercise 2-16)..... | <b><u>10,470</u></b>    |
|                                      | <b>112,470</b>          |
| Less: Withdrawals by owner .....     | <b><u>6,000</u></b>     |
| C. Camry, Capital, August 31 .....   | <b><u>\$106,470</u></b> |

**Exercise 2-18 (15 minutes)**

| <b>HELP TODAY<br/>Balance Sheet<br/>August 31</b> |                         |   |                         |
|---|-------------------------|---|-------------------------|
| <i>Assets</i>                                     |                         | <i>Liabilities</i>                          |                         |
| Cash.....   | \$ 25,360               | Accounts payable.....                       | \$ 10,500               |
| Accounts receivable ....                          | 22,360                  |   |                         |
| Office supplies.....                              | 5,250                   | <i>Equity</i>                               |                         |
| Office equipment .....                            | 20,000                  | C. Camry, Capital* .....                    | 106,470                 |
| Land .....  | <u>44,000</u>           |   |                         |
| <b>Total assets.....</b>                          | <b><u>\$116,970</u></b> | <b>Total liabilities &amp; equity .....</b> | <b><u>\$116,970</u></b> |

\* Amount from Exercise 2-17.

**Exercise 2-19 (15 minutes)**

| <u>Answers</u>                    | <u>(a)</u>              | <u>(b)</u>             | <u>(c)</u>             | <u>(d)</u>              |
|-----------------------------------|-------------------------|------------------------|------------------------|-------------------------|
|                                   | \$(28,000)              | \$42,000               | \$73,000               | \$(45,000)              |
| <b>Computations:</b>              |                         |                        |                        |                         |
| Equity, Dec. 31, 2014.....        | \$ 0                    | \$ 0                   | \$ 0                   | \$ 0                    |
| Owner's investments .....         | 110,000                 | 42,000                 | 87,000                 | 210,000                 |
| Owner's withdrawals.....          | (28,000)                | (47,000)               | (10,000)               | (55,000)                |
| Net income (loss) .....           | <u>22,000</u>           | <u>90,000</u>          | <u>(4,000)</u>         | <u>(45,000)</u>         |
| <b>Equity, Dec. 31, 2015.....</b> | <b><u>\$104,000</u></b> | <b><u>\$85,000</u></b> | <b><u>\$73,000</u></b> | <b><u>\$110,000</u></b> |

**Exercise 2-20 (20 minutes)**

| Description  | (1)<br>Difference<br>between<br>Debit and<br>Credit<br>Columns | (2)<br>Column<br>with the<br>Larger<br>Total | (3)<br>Identify<br>account(s)<br>incorrectly<br>stated | (4)<br>Amount that account(s)<br>is overstated or<br>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 Withdrawals account is debited to Owner's Capital       | \$0  | —  | Owner,<br>Capital<br><br>Owner,<br>Withdrawals         | Owner, Capital is understated by \$10,900<br><br>Owner, Withdrawals is understated by \$10,900 |
| d. \$2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense. | \$0  | —  | Prepaid<br>Insurance<br><br>Insurance<br>Expense       | Prepaid Insurance is understated by \$2,050<br><br>Insurance Expense is overstated by \$2,050  |
| e. \$38,000 debit to Machinery is posted as a debit to Accounts Payable.         | \$0  | —  | Machinery<br><br>Accounts<br>Payable                   | Machinery is understated by \$38,000<br>Accounts Payable is understated by \$38,000            |
| f. \$5,850 credit to Services Revenue is posted as a \$585 credit.               | \$5,265  | Debit  | Services<br>Revenue                                    | Services Revenue is understated by \$5,265   |
| g. \$1,390 debit to Store Supplies is not posted.                                | \$1,390  | Credit                                       | Store<br>Supplies                                      | Store Supplies is understated by \$1,390   |

**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.<br>Balance Sheet (in Euro millions)<br>December 31, 2013 |          |                                 |          |
|--|----------|---------------------------------|----------|
| <b>Assets</b>  |          | <b>Equity and liabilities</b>   |          |
| Noncurrent assets .....  | € 27,842 | Total equity .....              | € 12,356 |
| Current assets .....   | 5,495    | Noncurrent liabilities.....     | 12,978   |
|  |          | Current liabilities .....       | 8,003    |
| Total assets.....  | € 33,337 | Total equity and liabilities .. | € 33,337 |

**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%).

## PROBLEM SET A

### Problem 2-1A (90 minutes)

#### Part 1

|         |   |        |         |
|---------|---|--------|---------|
| April 1 | Cash.....101                                      | 80,000 |         |
|         | Office Equipment.....163                          | 26,000 |         |
|         | K. Tanner, Capital .....301                       |        | 106,000 |
|         | <i>Owner invested cash and equipment.</i>         |        |         |
| 2       | Prepaid Rent .....131                             | 9,000  |         |
|         | Cash.....101                                      |        | 9,000   |
|         | <i>Prepaid twelve months' rent.</i>               |        |         |
| 3       | Office Equipment.....163                          | 8,000  |         |
|         | Office Supplies .....124                          | 3,600  |         |
|         | Accounts Payable.....201                          |        | 11,600  |
|         | <i>Purchased equip. &amp; supplies on credit.</i> |        |         |
| 6       | Cash.....101                                      | 4,000  |         |
|         | Services Revenue.....403                          |        | 4,000   |
|         | <i>Received cash for services.</i>                |        |         |
| 9       | Accounts Receivable .....106                      | 6,000  |         |
|         | Services Revenue.....403                          |        | 6,000   |
|         | <i>Billed client for completed work.</i>          |        |         |
| 13      | Accounts Payable .....201                         | 11,600 |         |
|         | Cash.....101                                      |        | 11,600  |
|         | <i>Paid balance due on account.</i>               |        |         |
| 19      | Prepaid Insurance .....128                        | 2,400  |         |
|         | Cash.....101                                      |        | 2,400   |
|         | <i>Paid premium for insurance.</i>                |        |         |
| 22      | Cash.....101                                      | 4,400  |         |
|         | Accounts Receivable .....106                      |        | 4,400   |
|         | <i>Collected part of amount owed by client.</i>   |        |         |
| 25      | Accounts Receivable .....106                      | 2,890  |         |
|         | Services Revenue.....403                          |        | 2,890   |
|         | <i>Billed client for completed work.</i>          |        |         |
| 28      | K. Tanner, Withdrawals.....302                    | 5,500  |         |
|         | Cash.....101                                      |        | 5,500   |
|         | <i>Owner withdrew cash for personal use.</i>      |        |         |
| 29      | Office Supplies .....124                          | 600    |         |
|         | Accounts Payable.....201                          |        | 600     |
|         | <i>Purchased supplies on account.</i>             |        |         |
| 30      | Utilities Expense.....690                         | 435    |         |
|         | Cash.....101                                      |        | 435     |
|         | <i>Paid monthly utility bill.</i>                 |        |         |

**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        |



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

| <b>Accounts Payable</b> |                    |           | <b>Acct. No. 201</b> |               |                |
|-------------------------|--------------------|-----------|----------------------|---------------|----------------|
| <b>Date</b>             | <b>Explanation</b> | <b>PR</b> | <b>Debit</b>         | <b>Credit</b> | <b>Balance</b> |
| April 3                 |                    | G1        |                      | 11,600        | 11,600         |
| 13                      |                    | G1        | 11,600               |               | 0              |
| 29                      |                    | G1        |                      | 600           | 600            |

| <b>K. Tanner, Capital</b> |                    |           | <b>Acct. No. 301</b> |               |                |
|---------------------------|--------------------|-----------|----------------------|---------------|----------------|
| <b>Date</b>               | <b>Explanation</b> | <b>PR</b> | <b>Debit</b>         | <b>Credit</b> | <b>Balance</b> |
| April 1                   |                    | G1        |                      | 106,000       | 106,000        |

| <b>K. Tanner, Withdrawals</b> |                    |           | <b>Acct. No. 302</b> |               |                |
|-------------------------------|--------------------|-----------|----------------------|---------------|----------------|
| <b>Date</b>                   | <b>Explanation</b> | <b>PR</b> | <b>Debit</b>         | <b>Credit</b> | <b>Balance</b> |
| April 28                      |                    | G1        | 5,500                |               | 5,500          |

| <b>Services Revenue</b> |                    |           | <b>Acct. No. 403</b> |               |                |
|-------------------------|--------------------|-----------|----------------------|---------------|----------------|
| <b>Date</b>             | <b>Explanation</b> | <b>PR</b> | <b>Debit</b>         | <b>Credit</b> | <b>Balance</b> |
| April 6                 |                    | G1        |                      | 4,000         | 4,000          |
| 9                       |                    | G1        |                      | 6,000         | 10,000         |
| 25                      |                    | G1        |                      | 2,890         | 12,890         |

| <b>Utilities Expense</b> |                    |           | <b>Acct. No. 690</b> |               |                |
|--------------------------|--------------------|-----------|----------------------|---------------|----------------|
| <b>Date</b>              | <b>Explanation</b> | <b>PR</b> | <b>Debit</b>         | <b>Credit</b> | <b>Balance</b> |
| April 30                 |                    | G1        | 435                  |               | 435            |

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

| <b>LINKWORKS</b>                    |                         |                         |  |
|-------------------------------------|-------------------------|-------------------------|--|
| <b>Trial Balance</b>                |                         |                         |  |
| <b>April 30</b>                     |                         |                         |  |
|                                     | <b>Debit</b>            | <b>Credit</b>           |  |
| <b>Cash</b> .....                   | <b>\$ 59,465</b>        |                         |  |
| <b>Accounts receivable</b> .....    | <b>4,490</b>            |                         |  |
| <b>Office supplies</b> .....        | <b>4,200</b>            |                         |  |
| <b>Prepaid insurance</b> .....      | <b>2,400</b>            |                         |  |
| <b>Prepaid rent</b> .....           | <b>9,000</b>            |                         |  |
| <b>Office equipment</b> .....       | <b>34,000</b>           |                         |  |
| <b>Accounts payable</b> .....       |                         | <b>\$ 600</b>           |  |
| <b>K. Tanner, Capital</b> .....     |                         | <b>106,000</b>          |  |
| <b>K. Tanner, Withdrawals</b> ..... | <b>5,500</b>            |                         |  |
| <b>Services revenue</b> .....       |                         | <b>12,890</b>           |  |
| <b>Utilities expense</b> .....      | <b>435</b>              |                         |  |
| <b>Total</b> .....                  | <b><u>\$119,490</u></b> | <b><u>\$119,490</u></b> |  |

**Problem 2-2A (90 minutes)**

**Part 1**

|    |  |     |         |         |
|----|--|-----|---------|---------|
| a. | Cash.....  | 101 | 100,000 |         |
|    | Office Equipment.....                                  | 163 | 5,000   |         |
|    | Drafting Equipment.....                                | 164 | 60,000  |         |
|    | J. Aracel, Capital.....                                | 301 |         | 165,000 |
|    | <i>Owner invested cash and equipment.</i>              |     |         |         |
| b. | Land.....  | 172 | 49,000  |         |
|    | Cash.....  | 101 |         | 6,300   |
|    | Notes Payable.....                                     | 250 |         | 42,700  |
|    | <i>Purchased land with cash and note payable.</i>      |     |         |         |
| c. | Building.....  | 170 | 55,000  |         |
|    | Cash.....  | 101 |         | 55,000  |
|    | <i>Purchased building.</i>                             |     |         |         |
| d. | Prepaid Insurance.....                                 | 108 | 3,000   |         |
|    | Cash.....  | 101 |         | 3,000   |
|    | <i>Purchased 18-month insurance policy.</i>            |     |         |         |
| e. | Cash.....  | 101 | 6,200   |         |
|    | Engineering Fees Earned.....                           | 402 |         | 6,200   |
|    | <i>Collected cash for completed work.</i>              |     |         |         |
| f. | Drafting Equipment.....                                | 164 | 20,000  |         |
|    | Cash.....  | 101 |         | 9,500   |
|    | Notes Payable.....                                     | 250 |         | 10,500  |
|    | <i>Purchased equipment with cash and note payable.</i> |     |         |         |
| g. | Accounts Receivable.....                               | 106 | 14,000  |         |
|    | Engineering Fees Earned.....                           | 402 |         | 14,000  |
|    | <i>Completed services for client.</i>                  |     |         |         |
| h. | Office Equipment.....                                  | 163 | 1,150   |         |
|    | Accounts Payable.....                                  | 201 |         | 1,150   |
|    | <i>Purchased equipment on credit.</i>                  |     |         |         |

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

|    |  |     |        |        |
|----|--|-----|--------|--------|
| i. | Accounts Receivable .....                    | 106 | 22,000 |        |
|    | Engineering Fees Earned .....                | 402 |        | 22,000 |
|    | <i>Billed client for completed work.</i>     |     |        |        |
| j. | Equipment Rental Expense .....               | 602 | 1,333  |        |
|    | Accounts Payable.....                        | 201 |        | 1,333  |
|    | <i>Incurred equipment rental expense.</i>    |     |        |        |
| k. | Cash.....                                    | 101 | 7,000  |        |
|    | Accounts Receivable .....                    | 106 |        | 7,000  |
|    | <i>Collected cash on account.</i>            |     |        |        |
| l. | Wages Expense .....                          | 601 | 1,200  |        |
|    | Cash.....                                    | 101 |        | 1,200  |
|    | <i>Paid assistant's wages.</i>               |     |        |        |
| m. | Accounts Payable .....                       | 201 | 1,150  |        |
|    | Cash .....                                   | 101 |        | 1,150  |
|    | <i>Paid amount due on account.</i>           |     |        |        |
| n. | Repairs Expense .....                        | 604 | 925    |        |
|    | Cash .....                                   | 101 |        | 925    |
|    | <i>Paid for repair of equipment.</i>         |     |        |        |
| o. | J. Aracel, Withdrawals .....                 | 302 | 9,480  |        |
|    | Cash.....                                    | 101 |        | 9,480  |
|    | <i>Owner withdrew cash for personal use.</i> |     |        |        |
| p. | Wages Expense .....                          | 601 | 1,200  |        |
|    | Cash.....                                    | 101 |        | 1,200  |
|    | <i>Paid assistant's wages.</i>               |     |        |        |
| q. | Advertising Expense.....                     | 603 | 2,500  |        |
|    | Cash.....                                    | 101 |        | 2,500  |
|    | <i>Paid for advertising expense.</i>         |     |        |        |

**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  |

| J. Aracel, Capital |    |       |         | No. 301 |
|--------------------|----|-------|---------|---------|
| Date               | PR | Debit | Credit  | Balance |
| (a)                |    |       | 165,000 | 165,000 |

| J. Aracel, Withdrawals |    |       |        | No. 302 |
|------------------------|----|-------|--------|---------|
| 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     |

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

| <b>ARACEL ENGINEERING</b>     |                         |                         |
|-------------------------------|-------------------------|-------------------------|
| <b>Trial Balance</b>          |                         |                         |
| <b>June 30</b>                |                         |                         |
|                               | <i>Debit</i>            | <i>Credit</i>           |
| 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                  |
| J. Aracel, Capital .....      |                         | 165,000                 |
| J. Aracel, Withdrawals .....  | 9,480                   |                         |
| Engineering fees earned.....  |                         | 42,200                  |
| Wages expense .....           | 2,400                   |                         |
| Equipment rental expense..... | 1,333                   |                         |
| Advertising expense .....     | 2,500                   |                         |
| Repairs expense.....          | 925                     |                         |
| <b>Totals .....</b>           | <b><u>\$261,733</u></b> | <b><u>\$261,733</u></b> |

**Problem 2-3A (90 minutes)**

**Part 1**

|        |  |         |         |
|--------|--|---------|---------|
| Mar. 1 | Cash.....101                                       | 150,000 |         |
|        | Office Equipment.....163                           | 22,000  |         |
|        | D. Brooks, Capital.....301                         |         | 172,000 |
|        | <i>Owner invested cash and equipment.</i>          |         |         |
| 2      | Prepaid Rent .....131                              | 6,000   |         |
|        | Cash.....101                                       |         | 6,000   |
|        | <i>Prepaid six months' rent.</i>                   |         |         |
| 3      | Office Equipment.....163                           | 3,000   |         |
|        | Office Supplies .....124                           | 1,200   |         |
|        | Accounts Payable.....201                           |         | 4,200   |
|        | <i>Purchased equipment and supplies on credit.</i> |         |         |
| 6      | Cash.....101                                       | 4,000   |         |
|        | Services Revenue.....403                           |         | 4,000   |
|        | <i>Received cash for services.</i>                 |         |         |
| 9      | Accounts Receivable .....106                       | 7,500   |         |
|        | Services Revenue.....403                           |         | 7,500   |
|        | <i>Billed client for completed work.</i>           |         |         |
| 12     | Accounts Payable .....201                          | 4,200   |         |
|        | Cash.....101                                       |         | 4,200   |
|        | <i>Paid balance due on account.</i>                |         |         |
| 19     | Prepaid Insurance .....128                         | 5,000   |         |
|        | Cash.....101                                       |         | 5,000   |
|        | <i>Paid premium for insurance.</i>                 |         |         |
| 22     | Cash.....101                                       | 3,500   |         |
|        | Accounts Receivable .....106                       |         | 3,500   |
|        | <i>Collected part of amount owed by client.</i>    |         |         |
| 25     | Accounts Receivable .....106                       | 3,820   |         |
|        | Services Revenue.....403                           |         | 3,820   |
|        | <i>Billed client for completed work.</i>           |         |         |
| 29     | D. Brooks, Withdrawals .....302                    | 5,100   |         |
|        | Cash.....101                                       |         | 5,100   |
|        | <i>Owner withdrew cash for personal use.</i>       |         |         |
| 30     | Office Supplies .....124                           | 600     |         |
|        | Accounts Payable.....201                           |         | 600     |
|        | <i>Purchased supplies on account.</i>              |         |         |
| 31     | Utilities Expense.....690                          | 500     |         |
|        | Cash.....101                                       |         | 500     |
|        | <i>Paid monthly utility bill.</i>                  |         |         |

**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  |



**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     |

| D. Brooks, Capital |             |    |       | Acct. No. 301 |         |
|--------------------|-------------|----|-------|---------------|---------|
| Date               | Explanation | PR | Debit | Credit        | Balance |
| Mar. 1             |             | G1 |       | 172,000       | 172,000 |

| D. Brooks, Withdrawals |             |    |       | Acct. No. 302 |         |
|------------------------|-------------|----|-------|---------------|---------|
| 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     |

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

**Part 3**

| <b>VENTURE CONSULTANTS</b>          |                         |                         |
|-------------------------------------|-------------------------|-------------------------|
| <b>Trial Balance</b>                |                         |                         |
| <b>March 31</b>                     |                         |                         |
|                                     | <b>Debit</b>            | <b>Credit</b>           |
| <b>Cash .....</b>                   | <b>\$136,700</b>        |                         |
| <b>Accounts receivable .....</b>    | <b>7,820</b>            |                         |
| <b>Office supplies.....</b>         | <b>1,800</b>            |                         |
| <b>Prepaid insurance .....</b>      | <b>5,000</b>            |                         |
| <b>Prepaid rent .....</b>           | <b>6,000</b>            |                         |
| <b>Office equipment .....</b>       | <b>25,000</b>           |                         |
| <b>Accounts payable.....</b>        |                         | <b>\$ 600</b>           |
| <b>D. Brooks, Capital .....</b>     |                         | <b>172,000</b>          |
| <b>D. Brooks, Withdrawals .....</b> | <b>5,100</b>            |                         |
| <b>Services revenue.....</b>        |                         | <b>15,320</b>           |
| <b>Utilities expense .....</b>      | <b>500</b>              |                         |
| <b>Totals .....</b>                 | <b><u>\$187,920</u></b> | <b><u>\$187,920</u></b> |

**Problem 2-4A (90 minutes)**

**Part 1**

|    |  |     |         |         |
|----|--|-----|---------|---------|
| a. | Cash.....  | 101 | 60,000  |         |
|    | Office Equipment.....  | 163 | 25,000  |         |
|    | H. Venedict, Capital.....                                      | 301 |         | 85,000  |
|    | <i>Owner invested cash and equipment.</i>                      |     |         |         |
| b. | Land.....  | 172 | 40,000  |         |
|    | Building.....  | 170 | 160,000 |         |
|    | Cash.....  | 101 |         | 30,000  |
|    | Notes Payable.....   | 250 |         | 170,000 |
|    | <i>Purchased land and building with cash and note payable.</i> |     |         |         |
| c. | Office Supplies.....   | 108 | 2,000   |         |
|    | Accounts Payable.....  | 201 |         | 2,000   |
|    | <i>Purchased office supplies on account.</i>                   |     |         |         |
| d. | Automobiles.....   | 164 | 16,500  |         |
|    | H. Venedict, Capital.....                                      | 301 |         | 16,500  |
|    | <i>Owner contributed automobile to business.</i>               |     |         |         |
| e. | Office Equipment.....  | 163 | 5,600   |         |
|    | Accounts Payable.....  | 201 |         | 5,600   |
|    | <i>Purchased office equipment on account.</i>                  |     |         |         |
| f. | Salaries Expense.....  | 601 | 1,800   |         |
|    | Cash.....  | 101 |         | 1,800   |
|    | <i>Paid assistant's salary.</i>                                |     |         |         |
| g. | Cash.....  | 101 | 8,000   |         |
|    | Fees Earned.....   | 402 |         | 8,000   |
|    | <i>Provided services for cash.</i>                             |     |         |         |
| h. | Utilities Expense.....   | 602 | 635     |         |
|    | Cash.....  | 101 |         | 635     |
|    | <i>Paid cash for utilities.</i>                                |     |         |         |

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

|    |  |            |               |               |
|----|--|------------|---------------|---------------|
| i. | <b>Accounts Payable .....</b>                | <b>201</b> | <b>2,000</b>  |               |
|    | <b>    Cash .....</b>                        | <b>101</b> |               | <b>2,000</b>  |
|    | <i>Paid cash on account.</i>                 |            |               |               |
| j. | <b>Office Equipment.....</b>                 | <b>163</b> | <b>20,300</b> |               |
|    | <b>    Cash .....</b>                        | <b>101</b> |               | <b>20,300</b> |
|    | <i>Purchased new equipment with cash.</i>    |            |               |               |
| k. | <b>Accounts Receivable .....</b>             | <b>106</b> | <b>6,250</b>  |               |
|    | <b>    Fees Earned.....</b>                  | <b>402</b> |               | <b>6,250</b>  |
|    | <i>Provided services on account.</i>         |            |               |               |
| l. | <b>Salaries Expense.....</b>                 | <b>601</b> | <b>1,800</b>  |               |
|    | <b>    Cash .....</b>                        | <b>101</b> |               | <b>1,800</b>  |
|    | <i>Paid assistant's salary.</i>              |            |               |               |
| m. | <b>Cash.....</b>                             | <b>101</b> | <b>4,000</b>  |               |
|    | <b>    Accounts Receivable.....</b>          | <b>106</b> |               | <b>4,000</b>  |
|    | <i>Received cash due on account.</i>         |            |               |               |
| n. | <b>H. Venedict, Withdrawals.....</b>         | <b>302</b> | <b>2,800</b>  |               |
|    | <b>    Cash .....</b>                        | <b>101</b> |               | <b>2,800</b>  |
|    | <i>Owner withdrew cash for personal use.</i> |            |               |               |

**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 |

| H. Venedict, Capital |    |       |        | No. 301 |
|----------------------|----|-------|--------|---------|
| Date                 | PR | Debit | Credit | Balance |
| (a)                  |    |       | 85,000 | 85,000  |
| (d)                  |    |       | 16,500 | 101,500 |

| H. Venedict, Withdrawals |    |       |        | No. 302 |
|--------------------------|----|-------|--------|---------|
| 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     |

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

| <b>HV CONSULTING</b>                 |                         |                         |
|--------------------------------------|-------------------------|-------------------------|
| <b>Trial Balance</b>                 |                         |                         |
| <b>September 30</b>                  |                         |                         |
|                                      | <b>Debit</b>            | <b>Credit</b>           |
| <b>Cash .....</b>                    | <b>\$ 12,665</b>        |                         |
| <b>Accounts receivable .....</b>     | <b>2,250</b>            |                         |
| <b>Office supplies.....</b>          | <b>2,000</b>            |                         |
| <b>Office equipment .....</b>        | <b>50,900</b>           |                         |
| <b>Automobiles.....</b>              | <b>16,500</b>           |                         |
| <b>Building .....</b>                | <b>160,000</b>          |                         |
| <b>Land .....</b>                    | <b>40,000</b>           |                         |
| <b>Accounts payable.....</b>         |                         | <b>\$ 5,600</b>         |
| <b>Notes payable .....</b>           |                         | <b>170,000</b>          |
| <b>H. Venedict, Capital .....</b>    |                         | <b>101,500</b>          |
| <b>H. Venedict, Withdrawals.....</b> | <b>2,800</b>            |                         |
| <b>Fees earned .....</b>             |                         | <b>14,250</b>           |
| <b>Salaries expense .....</b>        | <b>3,600</b>            |                         |
| <b>Utilities expense .....</b>       | <b>635</b>              |                         |
| <b>Total .....</b>                   | <b><u>\$291,350</u></b> | <b><u>\$291,350</u></b> |

**Problem 2-5A (90 minutes)**

**Part 1**

| <b>NETTLE DISTRIBUTION</b> |                  |                                 |                  |
|----------------------------|------------------|---------------------------------|------------------|
| <b>Balance Sheet</b>       |                  |                                 |                  |
| <b>December 31, 2014</b>   |                  |                                 |                  |
| <i>Assets</i>              |                  | <i>Liabilities</i>              |                  |
| Cash.....                  | \$ 64,300        | Accounts payable.....           | \$ 3,500         |
| Accounts receivable ....   | 26,240           |                                 |                  |
| Office supplies.....       | 3,160            |                                 |                  |
| Trucks.....                | 148,000          | <i>Equity</i>                   |                  |
| Office equipment.....      | <u>44,000</u>    | Total equity .....              | <u>282,200</u>   |
| Total assets.....          | <u>\$285,700</u> | Total liabilities and equity... | <u>\$285,700</u> |

| <b>NETTLE DISTRIBUTION</b> |                  |                                  |                  |
|----------------------------|------------------|----------------------------------|------------------|
| <b>Balance Sheet</b>       |                  |                                  |                  |
| <b>December 31, 2015</b>   |                  |                                  |                  |
| <i>Assets</i>              |                  | <i>Liabilities</i>               |                  |
| Cash.....                  | \$ 15,640        | Accounts payable .....           | \$ 33,500        |
| Accounts receivable ....   | 19,390           | Note payable.....                | <u>40,000</u>    |
| Office supplies.....       | 1,960            | Total liabilities .....          | 73,500           |
| Trucks.....                | 157,000          |                                  |                  |
| Office equipment.....      | 44,000           | <i>Equity</i>                    |                  |
| Building .....             | 80,000           | Total equity.....                | <u>304,490</u>   |
| Land.....                  | <u>60,000</u>    | Total liabilities and equity.... | <u>\$377,990</u> |
| Total assets.....          | <u>\$377,990</u> |                                  |                  |

**Part 2**

Computation of 2015 net income:

|  |                  |
|--|------------------|
| Equity, December 31, 2014.....                                   | \$282,200        |
| Equity, December 31, 2015.....                                   | <u>(304,490)</u> |
| Increase in equity during 2015.....                              | <u>\$ 22,290</u> |
| Owner investment .....   | 35,000           |
| Add net income .....   | ?                |
| Deduct withdrawals by owner (\$3,000 x 12) .....                 | <u>(36,000)</u>  |
| Increase in equity during 2015.....                              | <u>\$ 22,290</u> |
| Therefore, net income must equal (\$22,290+\$36,000- \$35,000) = | <u>\$ 23,290</u> |

**Part 3**

Debt Ratio =  $\$73,500 / \$377,990 = \underline{19.4\%}$

**Problem 2-6A (35 minutes)**

**Part 1**

| <b>MIN ENGINEERING</b>       |                        |                        |
|------------------------------|------------------------|------------------------|
| <b>Trial Balance</b>         |                        |                        |
| <b>May 31</b>                |                        |                        |
|                              | <b>Debit</b>           | <b>Credit</b>          |
| Cash.....                    | \$37,641               |                        |
| Office supplies.....         | 890                    |                        |
| Prepaid insurance .....      | 4,600                  |                        |
| Office equipment .....       | 12,900                 |                        |
| Accounts payable.....        |                        | \$12,900               |
| Y. Min, Capital .....        |                        | 18,000                 |
| Y. Min, Withdrawals.....     | 3,329                  |                        |
| Engineering fees earned..... |                        | 36,000                 |
| Rent expense .....           | <u>7,540</u>           |                        |
| <b>Totals .....</b>          | <b><u>\$66,900</u></b> | <b><u>\$66,900</u></b> |

**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.
5. Yi Min withdrew \$3,329 cash for personal use.
6. Earned \$36,000 cash for engineering services.
7. Paid \$7,540 cash for rent expense.

**Part 3**

| <b>Report of Cash Received and Paid</b> |               |                        |
|---|---------------|------------------------|
| <b>Cash received</b>                    |               |                        |
| Owner investment .....                  | \$18,000      |                        |
| Engineering fees .....                  | <u>36,000</u> |                        |
| <b>Total cash received .....</b>        |               | <b>\$54,000</b>        |
| <b>Cash paid</b>                        |               |                        |
| Office supplies .....                   | 890           |                        |
| Insurance premium .....                 | 4,600         |                        |
| Withdrawals by owner .....              | 3,329         |                        |
| Rent .....                              | <u>7,540</u>  |                        |
| <b>Total cash paid .....</b>            |               | <b><u>16,359</u></b>   |
| <b>Ending balance .....</b>             |               | <b><u>\$37,641</u></b> |



## PROBLEM SET B

### Problem 2-1B (90 minutes)

#### Part 1

|                |   |  |
|----------------|---|--|
| <b>Sept. 1</b> | <b>Cash..... 101</b> <b>38,000</b><br><b>Office Equipment..... 163</b> <b>15,000</b><br><b>    H. Humble, Capital ..... 301</b> <b>53,000</b><br><i>Owner invested in the business.</i>                     |  |
| <b>2</b>       | <b>Prepaid Rent ..... 131</b> <b>9,000</b><br><b>    Cash ..... 101</b> <b>9,000</b><br><i>Prepaid twelve months' rent.</i>   |  |
| <b>4</b>       | <b>Office Equipment..... 163</b> <b>8,000</b><br><b>Office Supplies ..... 124</b> <b>2,400</b><br><b>    Accounts Payable ..... 201</b> <b>10,400</b><br><i>Purchased equipment and supplies on credit.</i> |  |
| <b>8</b>       | <b>Cash..... 101</b> <b>3,280</b><br><b>    Services Revenue ..... 401</b> <b>3,280</b><br><i>Received cash for services.</i>   |  |
| <b>12</b>      | <b>Accounts Receivable ..... 106</b> <b>15,400</b><br><b>    Services Revenue ..... 401</b> <b>15,400</b><br><i>Billed client for completed work.</i>   |  |
| <b>13</b>      | <b>Accounts Payable ..... 201</b> <b>10,400</b><br><b>    Cash ..... 101</b> <b>10,400</b><br><i>Paid balance due on account.</i>   |  |
| <b>19</b>      | <b>Prepaid Insurance ..... 128</b> <b>1,900</b><br><b>    Cash ..... 101</b> <b>1,900</b><br><i>Paid premium for insurance.</i>   |  |
| <b>22</b>      | <b>Cash..... 101</b> <b>7,700</b><br><b>    Accounts Receivable..... 106</b> <b>7,700</b><br><i>Collected part of amount owed by client.</i>  |  |
| <b>24</b>      | <b>Accounts Receivable..... 106</b> <b>2,100</b><br><b>    Services Revenue ..... 401</b> <b>2,100</b><br><i>Billed client for completed work.</i>  |  |
| <b>28</b>      | <b>H. Humble, Withdrawals ..... 302</b> <b>5,300</b><br><b>    Cash ..... 101</b> <b>5,300</b><br><i>Owner withdrew cash for personal use.</i>  |  |
| <b>29</b>      | <b>Office Supplies ..... 124</b> <b>550</b><br><b>    Accounts Payable ..... 201</b> <b>550</b><br><i>Purchased supplies on account.</i>  |  |
| <b>30</b>      | <b>Utilities Expense..... 690</b> <b>860</b><br><b>    Cash ..... 101</b> <b>860</b><br><i>Paid monthly utility bill.</i>   |  |

**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        |

**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     |

| H. Humble, Capital |             |    |       | Acct. No. 301 |         |
|--------------------|-------------|----|-------|---------------|---------|
| Date               | Explanation | PR | Debit | Credit        | Balance |
| Sept. 1            |             | G1 |       | 53,000        | 53,000  |

| H. Humble, Withdrawals |             |    |       | Acct. No. 302 |         |
|------------------------|-------------|----|-------|---------------|---------|
| 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     |

**Problem 2-1B (Concluded)**

**Part 3**

| <b>HUMBLE MANAGEMENT SERVICES</b>   |                        |                        |
|-------------------------------------|------------------------|------------------------|
| <b>Trial Balance</b>                |                        |                        |
| <b>September 30</b>                 |                        |                        |
|                                     | <b>Debit</b>           | <b>Credit</b>          |
| <b>Cash.....</b>                    | <b>\$21,520</b>        |                        |
| <b>Accounts receivable .....</b>    | <b>9,800</b>           |                        |
| <b>Office supplies.....</b>         | <b>2,950</b>           |                        |
| <b>Prepaid insurance .....</b>      | <b>1,900</b>           |                        |
| <b>Prepaid rent .....</b>           | <b>9,000</b>           |                        |
| <b>Office equipment .....</b>       | <b>23,000</b>          |                        |
| <b>Accounts payable.....</b>        |                        | <b>\$ 550</b>          |
| <b>H. Humble, Capital.....</b>      |                        | <b>53,000</b>          |
| <b>H. Humble, Withdrawals .....</b> | <b>5,300</b>           |                        |
| <b>Services revenue.....</b>        |                        | <b>20,780</b>          |
| <b>Utilities expense .....</b>      | <b>860</b>             |                        |
| <b>Totals .....</b>                 | <b><u>\$74,330</u></b> | <b><u>\$74,330</u></b> |

**Problem 2-2B (90 minutes) Part 1**

**Part 1**

|    |  |     |        |         |
|----|--|-----|--------|---------|
| a. | Cash.....  | 101 | 65,000 |         |
|    | Office Equipment.....                                  | 163 | 5,750  |         |
|    | Computer Equipment.....                                | 164 | 30,000 |         |
|    | B. Grechus, Capital .....                              | 301 |        | 100,750 |
|    | <i>Owner invested cash and equipment.</i>              |     |        |         |
| b. | Land.....  | 172 | 22,000 |         |
|    | Cash.....  | 101 |        | 5,000   |
|    | Notes Payable .....                                    | 250 |        | 17,000  |
|    | <i>Purchased land with cash and note payable.</i>      |     |        |         |
| c. | Building .....   | 170 | 34,500 |         |
|    | Cash.....  | 101 |        | 34,500  |
|    | <i>Purchased building.</i>                             |     |        |         |
| d. | Prepaid Insurance .....                                | 108 | 5,000  |         |
|    | Cash.....  | 101 |        | 5,000   |
|    | <i>Purchased 24-month insurance policy.</i>            |     |        |         |
| e. | Cash.....  | 101 | 4,600  |         |
|    | Fees Earned .....                                      | 402 |        | 4,600   |
|    | <i>Collected cash for completed work.</i>              |     |        |         |
| f. | Computer Equipment.....                                | 164 | 4,500  |         |
|    | Cash.....  | 101 |        | 800     |
|    | Notes Payable .....                                    | 250 |        | 3,700   |
|    | <i>Purchased equipment with cash and note payable.</i> |     |        |         |
| g. | Accounts Receivable .....                              | 106 | 4,250  |         |
|    | Fees Earned .....                                      | 402 |        | 4,250   |
|    | <i>Completed services for client.</i>                  |     |        |         |
| h. | Office Equipment.....                                  | 163 | 950    |         |
|    | Accounts Payable.....                                  | 201 |        | 950     |
|    | <i>Purchased equipment on credit.</i>                  |     |        |         |

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

|    |  |     |        |        |
|----|--|-----|--------|--------|
| i. | Accounts Receivable .....                    | 106 | 10,200 |        |
|    | Fees Earned .....                            | 402 |        | 10,200 |
|    | <i>Billed client for completed work.</i>     |     |        |        |
| j. | Computer Rental Expense.....                 | 602 | 580    |        |
|    | Accounts Payable.....                        | 201 |        | 580    |
|    | <i>Incurred computer rental expense.</i>     |     |        |        |
| k. | Cash.....                                    | 101 | 5,100  |        |
|    | Accounts Receivable .....                    | 106 |        | 5,100  |
|    | <i>Collected cash on account.</i>            |     |        |        |
| l. | Wages Expense .....                          | 601 | 1,800  |        |
|    | Cash.....                                    | 101 |        | 1,800  |
|    | <i>Paid assistant's wages.</i>               |     |        |        |
| m. | Accounts Payable .....                       | 201 | 950    |        |
|    | Cash.....                                    | 101 |        | 950    |
|    | <i>Paid amount due on account.</i>           |     |        |        |
| n. | Repairs Expense .....                        | 604 | 608    |        |
|    | Cash.....                                    | 101 |        | 608    |
|    | <i>Paid for repair of equipment.</i>         |     |        |        |
| o. | B. Grechus, Withdrawals .....                | 302 | 6,230  |        |
|    | Cash.....                                    | 101 |        | 6,230  |
|    | <i>Owner withdrew cash for personal use.</i> |     |        |        |
| p. | Wages Expense .....                          | 601 | 1,800  |        |
|    | Cash.....                                    | 101 |        | 1,800  |
|    | <i>Paid assistant's wages.</i>               |     |        |        |
| q. | Advertising Expense.....                     | 603 | 750    |        |
|    | Cash.....                                    | 101 |        | 750    |
|    | <i>Paid for advertising expense.</i>         |     |        |        |

**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  |

| B. Grechus, Capital |    |       |         | No. 301 |
|---------------------|----|-------|---------|---------|
| Date                | PR | Debit | Credit  | Balance |
| (a)                 |    |       | 100,750 | 100,750 |

| B. Grechus, Withdrawals |    |       |        | No. 302 |
|-------------------------|----|-------|--------|---------|
| 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     |

**Problem 2-2B (Concluded)**

**Part 3**

| <b>SOFTWORKS</b>              |                         |                         |
|-------------------------------|-------------------------|-------------------------|
| <b>Trial Balance</b>          |                         |                         |
| <b>April 30</b>               |                         |                         |
|                               | <b>Debit</b>            | <b>Credit</b>           |
| 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                  |
| B. Grechus, Capital.....      |                         | 100,750                 |
| B. Grechus, Withdrawals ..... | 6,230                   |                         |
| Fees earned .....             |                         | 19,050                  |
| Wages expense .....           | 3,600                   |                         |
| Computer rental expense.....  | 580                     |                         |
| Advertising expense.....      | 750                     |                         |
| Repairs expense .....         | 608                     |                         |
| <b>Totals .....</b>           | <b><u>\$141,080</u></b> | <b><u>\$141,080</u></b> |



**Problem 2-3B (90 minutes)**

**Part 1**

|               |  |               |               |
|---------------|--|---------------|---------------|
| <b>Nov. 1</b> | <b>Cash.....101</b>                                | <b>30,000</b> |               |
|               | <b>Office Equipment.....163</b>                    | <b>15,000</b> |               |
|               | <b>    M. Zucker, Capital.....301</b>              |               | <b>45,000</b> |
|               | <i>Owner invested cash and equipment.</i>          |               |               |
| <b>2</b>      | <b>Prepaid Rent .....131</b>                       | <b>4,500</b>  |               |
|               | <b>    Cash.....101</b>                            |               | <b>4,500</b>  |
|               | <i>Prepaid six months' rent.</i>                   |               |               |
| <b>4</b>      | <b>Office Equipment.....163</b>                    | <b>2,500</b>  |               |
|               | <b>Office Supplies .....124</b>                    | <b>600</b>    |               |
|               | <b>    Accounts Payable.....201</b>                |               | <b>3,100</b>  |
|               | <i>Purchased equipment and supplies on credit.</i> |               |               |
| <b>8</b>      | <b>Cash.....101</b>                                | <b>3,400</b>  |               |
|               | <b>    Services Revenue.....403</b>                |               | <b>3,400</b>  |
|               | <i>Received cash for services.</i>                 |               |               |
| <b>12</b>     | <b>Accounts Receivable .....106</b>                | <b>10,200</b> |               |
|               | <b>    Services Revenue.....403</b>                |               | <b>10,200</b> |
|               | <i>Billed client for completed work.</i>           |               |               |
| <b>13</b>     | <b>Accounts Payable .....201</b>                   | <b>3,100</b>  |               |
|               | <b>    Cash.....101</b>                            |               | <b>3,100</b>  |
|               | <i>Paid balance due on account.</i>                |               |               |
| <b>19</b>     | <b>Prepaid Insurance .....128</b>                  | <b>1,800</b>  |               |
|               | <b>    Cash.....101</b>                            |               | <b>1,800</b>  |
|               | <i>Paid premium for 24 months of insurance.</i>    |               |               |
| <b>22</b>     | <b>Cash.....101</b>                                | <b>5,200</b>  |               |
|               | <b>    Accounts Receivable .....106</b>            |               | <b>5,200</b>  |
|               | <i>Collected part of amount owed by client.</i>    |               |               |
| <b>24</b>     | <b>Accounts Receivable .....106</b>                | <b>1,750</b>  |               |
|               | <b>    Services Revenue.....403</b>                |               | <b>1,750</b>  |
|               | <i>Billed client for completed work.</i>           |               |               |
| <b>28</b>     | <b>M. Zucker, Withdrawals .....302</b>             | <b>5,300</b>  |               |
|               | <b>    Cash.....101</b>                            |               | <b>5,300</b>  |
|               | <i>Owner withdrew cash for personal use.</i>       |               |               |
| <b>29</b>     | <b>Office Supplies .....124</b>                    | <b>249</b>    |               |
|               | <b>    Accounts Payable.....201</b>                |               | <b>249</b>    |
|               | <i>Purchased supplies on account.</i>              |               |               |
| <b>30</b>     | <b>Utilities Expense.....690</b>                   | <b>831</b>    |               |
|               | <b>    Cash.....101</b>                            |               | <b>831</b>    |
|               | <i>Paid monthly utility bill.</i>                  |               |               |

**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     |

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

| M. Zucker, Capital |             |    |       | Acct. No. 301 |         |
|--------------------|-------------|----|-------|---------------|---------|
| Date               | Explanation | PR | Debit | Credit        | Balance |
| Nov. 1             |             | G1 |       | 45,000        | 45,000  |

| M. Zucker, Withdrawals |             |    |       | Acct. No. 302 |         |
|------------------------|-------------|----|-------|---------------|---------|
| 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          |
| M. Zucker, Capital.....      |                 | 45,000          |
| M. Zucker, Withdrawals ..... | 5,300           |                 |
| Services revenue .....       |                 | 15,350          |
| Utilities expense .....      | <u>831</u>      |                 |
| Totals.....                  | <u>\$60,599</u> | <u>\$60,599</u> |

**Problem 2-4B (90 minutes)**

**Part 1**

|    |  |     |        |        |
|----|--|-----|--------|--------|
| a. | Cash.....  | 101 | 35,000 |        |
|    | Office Equipment.....  | 163 | 11,000 |        |
|    | A. Nuncio, Capital.....  | 301 |        | 46,000 |
|    | <i>Owner invested cash and equipment.</i>                      |     |        |        |
| b. | Land.....  | 172 | 7,500  |        |
|    | Building.....  | 170 | 40,000 |        |
|    | Cash.....  | 101 |        | 15,000 |
|    | Notes Payable.....   | 250 |        | 32,500 |
|    | <i>Purchased land and building with cash and note payable.</i> |     |        |        |
| c. | Office Supplies.....   | 108 | 500    |        |
|    | Accounts Payable.....  | 201 |        | 500    |
|    | <i>Purchased office supplies on account.</i>                   |     |        |        |
| d. | Automobiles.....   | 164 | 8,000  |        |
|    | A. Nuncio, Capital.....  | 301 |        | 8,000  |
|    | <i>Owner contributed automobile to business.</i>               |     |        |        |
| e. | Office Equipment.....  | 163 | 1,200  |        |
|    | Accounts Payable.....  | 201 |        | 1,200  |
|    | <i>Purchased office equipment on account.</i>                  |     |        |        |
| f. | Salaries Expense.....  | 601 | 1,000  |        |
|    | Cash.....  | 101 |        | 1,000  |
|    | <i>Paid assistant's salary.</i>                                |     |        |        |
| g. | Cash.....  | 101 | 3,200  |        |
|    | Fees Earned.....   | 402 |        | 3,200  |
|    | <i>Provided services for cash.</i>                             |     |        |        |
| h. | Utilities Expense.....   | 602 | 540    |        |
|    | Cash.....  | 101 |        | 540    |
|    | <i>Paid cash for utilities.</i>                                |     |        |        |

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

|    |  |            |              |              |
|----|--|------------|--------------|--------------|
| i. | <b>Accounts Payable .....</b>                | <b>201</b> | <b>500</b>   |              |
|    | <b>    Cash .....</b>                        | <b>101</b> |              | <b>500</b>   |
|    | <i>Paid cash on account.</i>                 |            |              |              |
| j. | <b>Office Equipment.....</b>                 | <b>163</b> | <b>3,400</b> |              |
|    | <b>    Cash .....</b>                        | <b>101</b> |              | <b>3,400</b> |
|    | <i>Purchased equipment for cash.</i>         |            |              |              |
| k. | <b>Accounts Receivable .....</b>             | <b>106</b> | <b>4,200</b> |              |
|    | <b>    Fees Earned.....</b>                  | <b>402</b> |              | <b>4,200</b> |
|    | <i>Provided services on account.</i>         |            |              |              |
| l. | <b>Salaries Expense.....</b>                 | <b>601</b> | <b>1,000</b> |              |
|    | <b>    Cash .....</b>                        | <b>101</b> |              | <b>1,000</b> |
|    | <i>Paid assistant's salary.</i>              |            |              |              |
| m. | <b>Cash.....</b>                             | <b>101</b> | <b>2,200</b> |              |
|    | <b>    Accounts Receivable.....</b>          | <b>106</b> |              | <b>2,200</b> |
|    | <i>Received cash due on account.</i>         |            |              |              |
| n. | <b>A. Nuncio, Withdrawals .....</b>          | <b>302</b> | <b>1,100</b> |              |
|    | <b>    Cash .....</b>                        | <b>101</b> |              | <b>1,100</b> |
|    | <i>Owner withdrew cash for personal use.</i> |            |              |              |

**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  |

| A. Nuncio, Capital |    |       |        | No. 301 |
|--------------------|----|-------|--------|---------|
| Date               | PR | Debit | Credit | Balance |
| (a)                |    |       | 46,000 | 46,000  |
| (d)                |    |       | 8,000  | 54,000  |

| A. Nuncio, Withdrawals |    |       |        | No. 302 |
|------------------------|----|-------|--------|---------|
| 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     |

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

| <b>NUNCIO CONSULTING</b>            |                        |                        |
|-------------------------------------|------------------------|------------------------|
| <b>Trial Balance</b>                |                        |                        |
| <b>June 30</b>                      |                        |                        |
|                                     | <b>Debit</b>           | <b>Credit</b>          |
| <b>Cash .....</b>                   | <b>\$17,860</b>        |                        |
| <b>Accounts receivable .....</b>    | <b>2,000</b>           |                        |
| <b>Office supplies.....</b>         | <b>500</b>             |                        |
| <b>Office equipment.....</b>        | <b>15,600</b>          |                        |
| <b>Automobiles.....</b>             | <b>8,000</b>           |                        |
| <b>Building .....</b>               | <b>40,000</b>          |                        |
| <b>Land.....</b>                    | <b>7,500</b>           |                        |
| <b>Accounts payable.....</b>        |                        | <b>\$ 1,200</b>        |
| <b>Notes payable .....</b>          |                        | <b>32,500</b>          |
| <b>A. Nuncio, Capital.....</b>      |                        | <b>54,000</b>          |
| <b>A. Nuncio, Withdrawals .....</b> | <b>1,100</b>           |                        |
| <b>Fees earned .....</b>            |                        | <b>7,400</b>           |
| <b>Salaries expense .....</b>       | <b>2,000</b>           |                        |
| <b>Utilities expense .....</b>      | <b>540</b>             |                        |
| <b>Total .....</b>                  | <b><u>\$95,100</u></b> | <b><u>\$95,100</u></b> |

**Problem 2-5B (60 minutes)**

**Part 1**

| TAMA CO.<br>Balance Sheet<br>December 31, 2014 |                  |                                |                  |
|--|------------------|--------------------------------|------------------|
| <i>Assets</i>                                  |                  | <i>Liabilities</i>             |                  |
| Cash .....                                     | \$ 20,000        | Accounts payable .....         | \$ 4,000         |
| Accounts receivable .....                      | 35,000           |                                |                  |
| Office supplies .....                          | 8,000            |                                |                  |
| Office equipment.....                          | 40,000           |                                |                  |
| Machinery .....                                | <u>28,500</u>    |                                |                  |
| Total assets .....                             | <u>\$131,500</u> |                                |                  |
|  |                  | <i>Equity</i>                  |                  |
|  |                  | Total equity.....              | <u>127,500</u>   |
|  |                  | Total liabilities & equity.... | <u>\$131,500</u> |

| TAMA CO.<br>Balance Sheet<br>December 31, 2015 |                  |                                |                  |
|--|------------------|--------------------------------|------------------|
| <i>Assets</i>                                  |                  | <i>Liabilities</i>             |                  |
| Cash .....                                     | \$ 5,000         | Accounts payable .....         | \$ 12,000        |
| Accounts receivable .....                      | 25,000           | Note payable.....              | <u>250,000</u>   |
| Office supplies .....                          | 13,500           | Total liabilities .....        | 262,000          |
| Office equipment.....                          | 40,000           |                                |                  |
| Machinery .....                                | 28,500           |                                |                  |
| Building.....                                  | 250,000          |                                |                  |
| Land .....                                     | <u>50,000</u>    |                                |                  |
| Total assets .....                             | <u>\$412,000</u> |                                |                  |
|  |                  | <i>Equity</i>                  |                  |
|  |                  | Total equity.....              | <u>150,000</u>   |
|  |                  | Total liabilities & equity.... | <u>\$412,000</u> |

**Part 2**

Calculation of 2015 net income:

|  |                  |
|--|------------------|
| Equity, December 31, 2014 .....                  | \$127,500        |
| Equity, December 31, 2015 .....                  | <u>(150,000)</u> |
| Increase in equity during 2015 .....             | <u>\$ 22,500</u> |
| Owner investment during 2015 .....               | \$ 15,000        |
| 2015 Net income .....                            | ?                |
| Owner withdrawals during 2015 (\$250 x 12) ..... | <u>(3,000)</u>   |
| Increase in equity during 2015 .....             | <u>\$ 22,500</u> |

Therefore, 2015 income must equal  $(\$22,500 + \$3,000 - \$15,000) = \underline{\underline{\$ 10,500}}$

**Part 3**

Debt ratio =  $\$262,000 / \$412,000 = \underline{\underline{63.6\%}}$



**Problem 2-6B (35 minutes)**

**Part 1**

| <b>GOULD SOLUTIONS</b>       |                 |                 |
|------------------------------|-----------------|-----------------|
| <b>Trial Balance</b>         |                 |                 |
| <b>April 30</b>              |                 |                 |
|                              | Debit           | Credit          |
| Cash .....                   | \$19,982        |                 |
| Office supplies .....        | 760             |                 |
| Prepaid rent .....           | 1,800           |                 |
| Office equipment .....       | 12,250          |                 |
| Accounts payable.....        |                 | \$12,250        |
| R. Gould, Capital .....      |                 | 15,000          |
| R. Gould, Withdrawals .....  | 5,200           |                 |
| Consulting fees earned ..... |                 | 20,400          |
| Operating expenses .....     | <u>7,658</u>    |                 |
| Totals .....                 | <u>\$47,650</u> | <u>\$47,650</u> |

**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.
5. Owner withdrew \$5,200 cash for personal use.
6. Earned \$20,400 cash in consulting fees.
7. Paid \$7,658 cash for operating expenses.

**Part 3**

| <b>Report of Cash Received and Paid</b> |               |                 |
|---|---------------|-----------------|
| <b>Cash received</b>                    |               |                 |
| Owner investment .....                  | \$15,000      |                 |
| Consulting fees .....                   | <u>20,400</u> |                 |
| Total cash received .....               |               | \$35,400        |
| <b>Cash paid</b>                        |               |                 |
| Office supplies .....                   | 760           |                 |
| Prepaid rent .....                      | 1,800         |                 |
| Withdrawals by owner .....              | 5,200         |                 |
| Operating expenses .....                | <u>7,658</u>  |                 |
| Total cash paid .....                   |               | <u>15,418</u>   |
| Ending balance.....                     |               | <u>\$19,982</u> |

## Serial Problem — SP 2

### Part 1 (120 minutes) Serial Problem, Business Solutions

2015

|        |   |     |        |        |
|--------|---|-----|--------|--------|
| Oct. 1 | Cash.....                                   | 101 | 45,000 |        |
|        | Office Equipment.....                       | 163 | 8,000  |        |
|        | Computer Equipment.....                     | 167 | 20,000 |        |
|        | S. Rey, Capital.....                        | 301 |        | 73,000 |
|        | <i>Owner invests cash and equipment.</i>    |     |        |        |
| 2      | Prepaid Rent .....                          | 131 | 3,300  |        |
|        | Cash .....                                  | 101 |        | 3,300  |
|        | <i>Paid four months' rent in advance.</i>   |     |        |        |
| 3      | Computer Supplies .....                     | 126 | 1,420  |        |
|        | Accounts Payable.....                       | 201 |        | 1,420  |
|        | <i>Purchased supplies on credit.</i>        |     |        |        |
| 5      | Prepaid Insurance .....                     | 128 | 2,220  |        |
|        | Cash .....                                  | 101 |        | 2,220  |
|        | <i>Paid 12 months' premium in advance.</i>  |     |        |        |
| 6      | Accounts Receivable .....                   | 106 | 4,800  |        |
|        | Computer Services Revenue .....             | 403 |        | 4,800  |
|        | <i>Billed customer for services.</i>        |     |        |        |
| 8      | Accounts Payable .....                      | 201 | 1,420  |        |
|        | Cash .....                                  | 101 |        | 1,420  |
|        | <i>Paid balance due on account payable.</i> |     |        |        |
| 10     | <i>No entry necessary in the journal.</i>   |     |        |        |
| 12     | Accounts Receivable .....                   | 106 | 1,400  |        |
|        | Computer Services Revenue .....             | 403 |        | 1,400  |
|        | <i>Billed customer for services.</i>        |     |        |        |
| 15     | Cash.....                                   | 101 | 4,800  |        |
|        | Accounts Receivable .....                   | 106 |        | 4,800  |
|        | <i>Collected accounts receivable.</i>       |     |        |        |
| 17     | Repairs Expense—Computer.....               | 684 | 805    |        |
|        | Cash .....                                  | 101 |        | 805    |
|        | <i>Paid for computer repairs.</i>           |     |        |        |
| 20     | Advertising Expense.....                    | 655 | 1,728  |        |
|        | Cash .....                                  | 101 |        | 1,728  |
|        | <i>Purchased ads in local newspaper.</i>    |     |        |        |
| 22     | Cash.....                                   | 101 | 1,400  |        |
|        | Accounts Receivable .....                   | 106 |        | 1,400  |
|        | <i>Collected accounts receivable.</i>       |     |        |        |

**Serial Problem, Business Solutions (Continued)**

|        |  |     |       |       |
|--------|--|-----|-------|-------|
| 28     | Accounts Receivable .....  | 106 | 5,208 |       |
|        | Computer Services Revenue .....  | 403 |       | 5,208 |
|        | <i>Billed customer for services.</i>                                     |     |       |       |
| 31     | Wages Expense .....  | 623 | 875   |       |
|        | Cash .....   | 101 |       | 875   |
|        | <i>Paid employee for part-time work.</i>                                 |     |       |       |
| 31     | S. Rey, Withdrawals .....  | 302 | 3,600 |       |
|        | Cash .....   | 101 |       | 3,600 |
|        | <i>Owner withdrew cash.</i>  |     |       |       |
| Nov. 1 | Mileage Expense .....  | 676 | 320   |       |
|        | Cash .....   | 101 |       | 320   |
|        | <i>Reimbursed Rey for mileage.</i>                                       |     |       |       |
| 2      | Cash.....  | 101 | 4,633 |       |
|        | Computer Services Revenue .....  | 403 |       | 4,633 |
|        | <i>Collected cash revenue from client.</i>                               |     |       |       |
| 5      | Computer Supplies .....  | 126 | 1,125 |       |
|        | Cash .....   | 101 |       | 1,125 |
|        | <i>Purchased computer supplies for cash.</i>                             |     |       |       |
| 8      | Accounts Receivable .....  | 106 | 5,668 |       |
|        | Computer Services Revenue .....  | 403 |       | 5,668 |
|        | <i>Billed customer for services.</i>                                     |     |       |       |
| 13     | <i>No entry necessary. (No revenue recognized until work performed.)</i> |     |       |       |
| 18     | Cash.....  | 101 | 2,208 |       |
|        | Accounts Receivable.....   | 106 |       | 2,208 |
|        | <i>Collected accounts receivable.</i>                                    |     |       |       |
| 22     | Miscellaneous Expenses .....   | 677 | 250   |       |
|        | Cash .....   | 101 |       | 250   |
|        | <i>Record donation. (Some companies use a Donations account.)</i>        |     |       |       |
| 24     | Accounts Receivable .....  | 106 | 3,950 |       |
|        | Computer Services Revenue .....  | 403 |       | 3,950 |
|        | <i>Billed customer for services.</i>                                     |     |       |       |
| 25     | <i>No entry necessary.</i>   |     |       |       |
| 28     | Mileage Expense .....  | 676 | 384   |       |
|        | Cash .....   | 101 |       | 384   |
|        | <i>Reimbursed Rey for mileage.</i>                                       |     |       |       |
| 30     | Wages Expense .....  | 623 | 1,750 |       |
|        | Cash .....   | 101 |       | 1,750 |
|        | <i>Paid employee for part-time work.</i>                                 |     |       |       |
| 30     | S. Rey, Withdrawals .....  | 302 | 2,000 |       |
|        | Cash .....   | 101 |       | 2,000 |
|        | <i>Owner withdrew cash.</i>  |     |       |       |

**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   |

**Serial Problem, Business Solutions (Continued)**

| 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       |

| S. Rey, Capital |             |    |       | Acct. No. 301 |         |
|-----------------|-------------|----|-------|---------------|---------|
| Date            | Explanation | PR | Debit | Credit        | Balance |
| Oct. 1          |             |    |       | 73,000        | 73,000  |

| S. Rey, Withdrawals |             |    |       | Acct. No. 302 |         |
|---------------------|-------------|----|-------|---------------|---------|
| Date                | Explanation | PR | Debit | Credit        | Balance |
| Oct. 31             |             |    | 3,600 |               | 3,600   |
| Nov. 30             |             |    | 2,000 |               | 5,600   |

**Serial Problem, Business Solutions (Concluded)**

| <b>Computer Services Revenue</b> |                    |           |              | <b>Acct. No. 403</b> |                |
|----------------------------------|--------------------|-----------|--------------|----------------------|----------------|
| <b>Date</b>                      | <b>Explanation</b> | <b>PR</b> | <b>Debit</b> | <b>Credit</b>        | <b>Balance</b> |
| 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         |

| <b>Wages Expense</b> |                    |           |              | <b>Acct. No. 623</b> |                |
|----------------------|--------------------|-----------|--------------|----------------------|----------------|
| <b>Date</b>          | <b>Explanation</b> | <b>PR</b> | <b>Debit</b> | <b>Credit</b>        | <b>Balance</b> |
| Oct. 31              |                    |           | 875          |                      | 875            |
| Nov. 30              |                    |           | 1,750        |                      | 2,625          |

| <b>Advertising Expense</b> |                    |           |              | <b>Acct. No. 655</b> |                |
|----------------------------|--------------------|-----------|--------------|----------------------|----------------|
| <b>Date</b>                | <b>Explanation</b> | <b>PR</b> | <b>Debit</b> | <b>Credit</b>        | <b>Balance</b> |
| Oct. 20                    |                    |           | 1,728        |                      | 1,728          |

| <b>Mileage Expense</b> |                    |           |              | <b>Acct. No. 676</b> |                |
|------------------------|--------------------|-----------|--------------|----------------------|----------------|
| <b>Date</b>            | <b>Explanation</b> | <b>PR</b> | <b>Debit</b> | <b>Credit</b>        | <b>Balance</b> |
| Nov. 1                 |                    |           | 320          |                      | 320            |
| 28                     |                    |           | 384          |                      | 704            |

| <b>Miscellaneous Expenses</b> |                    |           |              | <b>Acct. No. 677</b> |                |
|-------------------------------|--------------------|-----------|--------------|----------------------|----------------|
| <b>Date</b>                   | <b>Explanation</b> | <b>PR</b> | <b>Debit</b> | <b>Credit</b>        | <b>Balance</b> |
| Nov. 22                       |                    |           | 250          |                      | 250            |

| <b>Repairs Expense—Computer</b> |                    |           |              | <b>Acct. No. 684</b> |                |
|---------------------------------|--------------------|-----------|--------------|----------------------|----------------|
| <b>Date</b>                     | <b>Explanation</b> | <b>PR</b> | <b>Debit</b> | <b>Credit</b>        | <b>Balance</b> |
| Oct. 17                         |                    |           | 805          |                      | 805            |

**Serial Problem, Business Solutions (Continued)****Part 3**

| <b>BUSINESS SOLUTIONS</b>              |                        |                        |
|--|------------------------|------------------------|
| <b>Trial Balance</b>                   |                        |                        |
| <b>November 30</b>                     |                        |                        |
|  | <b>Debit</b>           | <b>Credit</b>          |
| <b>Cash</b> .....                      | <b>\$38,264</b>        |                        |
| <b>Accounts receivable</b> .....       | <b>12,618</b>          |                        |
| <b>Computer supplies</b> .....         | <b>2,545</b>           |                        |
| <b>Prepaid insurance</b> .....         | <b>2,220</b>           |                        |
| <b>Prepaid rent</b> .....              | <b>3,300</b>           |                        |
| <b>Office equipment</b> .....          | <b>8,000</b>           |                        |
| <b>Computer equipment</b> .....        | <b>20,000</b>          |                        |
| <b>Accounts payable</b> .....          |                        | <b>\$ 0</b>            |
| <b>S. Rey, Capital</b> .....           |                        | <b>73,000</b>          |
| <b>S. Rey, Withdrawals</b> .....       | <b>5,600</b>           |                        |
| <b>Computer services revenue</b> ..... |                        | <b>25,659</b>          |
| <b>Wages expense</b> .....             | <b>2,625</b>           |                        |
| <b>Advertising expense</b> .....       | <b>1,728</b>           |                        |
| <b>Mileage expense</b> .....           | <b>704</b>             |                        |
| <b>Miscellaneous expense</b> .....     | <b>250</b>             |                        |
| <b>Repairs expense—Computer</b> .....  | <b>805</b>             |                        |
| <b>Totals</b> .....                    | <b><u>\$98,659</u></b> | <b><u>\$98,659</u></b> |

## Reporting in Action — BTN 2-1

1. **Apple reports (\$ millions):**  
**\$83,451 in liabilities at September 28, 2013.**  
**\$57,854 in liabilities at September 29, 2012.**
  
2. **Apple reports (\$ millions):**  
**\$207,000 in assets at September 28, 2013.**  
**\$176,064 in assets at September 29, 2012.**
  
3. **(\$ millions):**  
**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 28, 2013, when 40.3% of its assets were financed by debt, relative to September 29, 2012, when 32.9% of its assets were financed by debt. Consequently, its financing structure was more risky in its fiscal 2013 in comparison to its fiscal 2012.**
  
5. **Solution depends on the financial statements accessed.**

## Comparative Analysis — BTN 2-2

1. **Apple (\$ millions)**  
**Current year debt ratio:  $\$83,451/\$207,000$  = 40.3%**  
**Prior year debt ratio:  $\$57,854/\$176,064$  = 32.9%**
  
2. **Google (\$ millions)**  
**Current year debt ratio:  $\$23,611/\$110,920$  = 21.3%**  
**Prior year 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 (40.3% vs. 21.3%). 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.**



## 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.**

## 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 owner's equity*** explains changes in equity due to net income (or net loss) and any withdrawals and or owner investments 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 owner's equity, 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.

## Taking It to the Net — BTN 2-5

1. The prior three years' net income or (loss) for Amazon are (\$ millions):  
     2013 = \$ 274                      2012 = \$ (39)                      2011 = \$ 631
2. The three years net cash *provided* by operations follows (\$ millions):  
     2013 = \$5,475                      2012 = \$4,180                      2011 = \$3,903
3. In 2013, Amazon had net income of \$274 million and operating cash flows of \$5,475 million; and, in that same year, total net cash increased by only \$574 million (see its statement of cash flows).

The reason its cash balance only increased by \$574 million in 2013 was because of cash outflows of \$4,276 million for its investing activities and \$539 million for its financing activities (and further reduced by \$86 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.
- c.    Assets = Liabilities + Owner, Capital – Withdrawals + 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 + Owner, Capital – Withdrawals + 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.

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

|   |
|---|
| <b>Entrepreneurial Decision — BTN 2-8</b> |
|---|

1.

| MARTIN MUSIC SERVICES     |                 |                                    |                    |
|---------------------------|-----------------|------------------------------------|--------------------|
| Balance Sheet             |                 |                                    |                    |
| December 31, 2015         |                 |                                    |                    |
|                           | <i>Assets</i>   |                                    | <i>Liabilities</i> |
| Cash.....                 | \$ 3,600        | Accounts payable.....              | \$ 2,200           |
| Accounts receivable ..... | 9,600           | Unearned lesson fees .....         | <u>15,600</u>      |
| Prepaid insurance .....   | 1,500           | Total liabilities .....            | 17,800             |
| Prepaid rent .....        | 9,400           |                                    |                    |
| Store supplies.....       | 6,600           | <i>Equity</i>                      |                    |
| Equipment .....           | <u>50,000</u>   | Total equity .....                 | <u>62,900</u>      |
| Total assets.....         | <u>\$80,700</u> | Total liabilities and equity ..... | <u>\$80,700</u>    |

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:

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

**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 (19.3%) yields the greatest return on assets, followed by Samsung (15.4%) and then Google (12.6%), which yields the lowest return.
2. An analysis of the debt ratio suggests that Apple (at 40.3%) presents the greatest risk, followed by Samsung (29.9%) and then Google (21.3%) 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 lowest return (slightly lower return on assets compared to Samsung and substantially lower than that for Apple), but it has the lowest debt ratio. Samsung is in the middle for its debt ratio and its return on assets. 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).