

Chapter 2

Transaction Analysis

Short Exercises

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

Horton's payment was *not* an expense.

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

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

a. \$14,800 (\$13,000 + \$1,800 + \$4,000 – \$4,000)

b. \$ 1,800

(5-10 min.) S 2-3

Cash		
	31,000	3,000
	2,000	
Bal.	30,000	

(5 min.) S 2-4

**Increased total assets: August 1 (Cash)
August 1 (Medical supplies)
August 3 (Cash, Accounts Receivable)**

(5-10 min.) S 2-5

- a. Purchase of asset for cash
Sale of asset for cash
Collection of an account receivable**
- b. Payment of dividends to owners
Expense transaction**
- c. Pay a liability**
- d. Issuance of stock
Revenue transaction**
- e. Purchase of asset on account
Borrow money**

(Answers may vary.)

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Jul. 15	Cash.....	34,000	
	 Note Payable.....		34,000
	Borrowed money from the bank.		
22	Accounts Receivable.....	8,500	
	 Service Revenue.....		8,500
	Performed service on account.		
28	Cash.....	6,500	
	 Accounts Receivable.....		6,500
	Received cash on account.		
29	Utilities Expense.....	700	
	 Accounts Payable.....		700
	Received utility bill.		
31	Salary Expense.....	3,100	
	 Cash.....		3,100
	Paid salary expense.		

Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies.....	2,000	
	Accounts Payable.....		2,000
	Purchased supplies on account.		
	Accounts Payable.....	500	
	Cash.....		500
	Paid cash on account.		

Req. 2

Accounts Payable	
500	2,000
	Bal. 1,500

Req. 3

The business owes \$1,500, as shown in the Accounts Payable account.

Req. 1**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable.....	5,200	
	Service Revenue.....		5,200
	Performed service on account.		
	Cash.....	2,400	
	Accounts Receivable.....		2,400
	Received cash on account.		

Req. 2

Cash		Accounts Receivable		Service Revenue	
2,400		5,200	2,400		5,200
Bal. 2,400		Bal. 2,800			Bal. 5,200

(10 min.) S 2-9

**Old Boardwalk
Trial Balance
December 31, 2010**

ACCOUNT	DEBIT	CREDIT
	<i>Millions</i>	
Cash.....	\$ 6	
Other assets.....	13	
Accounts payable.....		\$ 1
Other liabilities.....		5
Stockholders' equity.....		3
Revenues.....		37
Expenses.....	<u>27</u>	
Total.....	<u>\$46</u>	<u>\$46</u>

Old Boardwalk's net income: \$10 million (\$37 – \$27)

(10 min.) S 2-10

- 1. Total assets = \$100,500 (\$7,500 + \$12,000 + \$5,000 + \$24,000 + \$52,000)**
- 2. Total liabilities = \$53,000 (\$21,000 + \$32,000)**
- 3. Net income = \$31,500 (\$63,000 – \$23,000 – \$7,500 – \$1,000)**

1. Total debits = \$ 85,200 (\$132,000 + \$5,200 – \$52,000)

Total credits = \$132,000

Difference = \$ 45,000 (\$132,000 – \$85,200)

\$46,800 / 9 = \$5,200 (an integer), which suggests either a transposition or a slide.

2. Total debits = \$141,000 (\$132,000 + \$21,000 – \$12,000)

Total credits = \$132,000

Difference = \$ 9,000 (\$141,000 – \$132,000)

\$9,000 / 9 = \$1,000 (an integer), which suggests either a transposition or a slide.

3. Total debits = \$120,000 (\$132,000 – \$12,000)

Total credits = \$144,000 (\$132,000 + \$12,000)

Difference = \$ 24,000 (\$144,000 – \$120,000)

\$24,000 / 2 = \$12,000 (original amount of accounts receivable).

- | | |
|------------------------------------|--|
| <u>H</u> 1. Debit | A. The cost of operating a business; decrease in stockholders' equity |
| <u>A</u> 2. Expense | |
| <u>C</u> 3. Net income | B. Always a liability |
| <u>D</u> 4. Ledger | C. Revenues – Expenses |
| <u>J</u> 5. Posting | D. Grouping of accounts |
| <u>I</u> 6. Normal balance | E. Assets – Liabilities |
| <u>B</u> 7. Payable | F. Record of transactions |
| <u>F</u> 8. Journal | G. Always an asset |
| <u>G</u> 9. Receivable | H. Left side of an account |
| <u>E</u> 10. Owners' equity | I. Side of an account where increases are recorded |
| | J. Copying data from the journal to the ledger |

(5 min.) S 2-13

Cash		Computer Equipment	
140,000		100,000	
Accounts Payable		Common Stock	
	100,000		140,000

Total debits = \$240,000 (\$140,000 + \$100,000)

Total credits = \$240,000 (\$100,000 + \$140,000)

Exercises

Group A

(10-15 min.) **E 2-14A**

TO: Home Office

FROM: Store Manager

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

**M. Crew
Dallas Store
Balance Sheet
Date**

ASSETS		LIABILITIES	
Cash	\$ 26,000*	Note payable	
Supplies	8,000	(\$88,000 + \$123,000)	\$211,000
Equipment	60,000		
Land	88,000	STOCKHOLDERS' EQUITY	
Building	123,000	Common stock	94,000
Total assets	<u>\$305,000</u>	Total liabilities and stockholders' equity	<u>\$305,000</u>

* $94,000 - 8,000 - 60,000 = 26,000$

Cash

94,000	60,000
26,000	8,000

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

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

Req. 1

Analysis of Transactions

ASSETS					=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Medical Supplies	+ Land	=	Accounts Payable	+ Note Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction	
Mar. 6	42,000							42,000		Issued stock	
9	(25,000)			25,000							
12			16,000			16,000					
15	Not a transaction of the business.										
15-31	3,850	3,850							7,700	Service revenue	
15-31	(900)								(900)	Salary expense	
	(900)								(900)	Rent expense	
	(200)								(200)	Utilities expense	
31	200		(200)								
31	18,000						18,000				
31	(1,100)					(1,100)					
Bal.	<u>35,950</u>	<u>3,850</u>	<u>15,800</u>	<u>25,000</u>		<u>14,900</u>	<u>18,000</u>	<u>42,000</u>	<u>5,700</u>		
<div></div> 80,600						<div></div> 80,600					

Req. 2

- a. \$80,600**
- b. \$3,850**
- c. \$32,900 (\$14,900 + \$18,000)**
- d. \$47,700 (\$80,600 – \$32,900, or \$42,000 + \$5,700)**
- e. \$5,700 (Revenue, \$7,700 minus total expenses of \$2,000, equals net income, \$5,700.)**

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Mar. 6	Cash.....	42,000	
	Common Stock.....		42,000
	Issued stock to owner.		
9	Land.....	25,000	
	Cash.....		25,000
	Purchased land.		
12	Medical Supplies.....	16,000	
	Accounts Payable.....		16,000
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash.....	3,850	
	Accounts Receivable.....	3,850	
	Service Revenue.....		7,700
	Performed service for cash and on account.		
15-31	Salary Expense.....	900	
	Rent Expense.....	900	
	Utilities Expense.....	200	
	Cash.....		2,000
	Paid expenses.		
31	Cash.....	200	
	Medical Supplies.....		200
	Sold supplies.		
31	Cash.....	18,000	
	Note Payable.....		18,000
	Borrowed money.		
31	Accounts Payable.....	1,100	
	Cash.....		1,100
	Paid on account.		

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Apr. 1	Cash..... Common Stock..... Issued common stock to owner.	19,100	19,100
2	Office Supplies..... Accounts Payable..... Purchased office supplies on account.	300	300
4	Land..... Cash..... Paid cash for land.	14,700	14,700
6	Cash..... Service Revenue..... Performed services for cash.	2,700	2,700
9	Accounts Payable..... Cash..... Paid cash on account.	200	200
17	Accounts Receivable..... Service Revenue..... Performed service on account.	1,000	1,000
23	Cash..... Accounts Receivable..... Received cash on account.	200	200
30	Salary Expense..... Rent Expense..... Cash..... Paid cash expenses.	1,300 500	1,800

Req. 1

Cash

Apr. 1	19,100	Apr. 4	14,700
6	2,700	9	200
23	200	30	1,800
Bal.	5,300		

Accounts Receivable

Apr. 17	1,000	Apr. 23	200
Bal.	800		

Office Supplies

Apr. 2	300		
Bal.	300		

Land

Apr. 4	14,700		
Bal.	14,700		

Accounts Payable

Apr. 9	200	Apr. 2	300
		Bal.	100

Common Stock

	Apr. 1	19,100
	Bal.	19,100

Service Revenue

	Apr. 6	2,700
	17	1,000
	Bal.	3,700

Salary Expense

Apr. 30	1,300	
Bal.	1,300	

Rent Expense

Apr. 30	500	
Bal.	500	

Req. 2

Harris Tree Cellular, Inc.
Trial Balance
April 30, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 5,300	
Accounts receivable.....	800	
Office supplies.....	300	
Land.....	14,700	
Accounts payable.....		\$ 100
Common stock.....		19,100
Service revenue.....		3,700
Salary expense.....	1,300	
Rent expense.....	500	
Total.....	<u>\$22,900</u>	<u>\$22,900</u>

Req. 3

Total assets (\$5,300 + \$800 + 300 + \$14,700).....	\$21,100
Total liabilities.....	<u>(100)</u>
Total stockholders' equity (\$19,100 + \$1,900).....	<u>21,000</u>

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash.....	10,200	
	Common Stock.....		10,200
	Issued common stock.		
2.	Cash.....	6,900	
	Note Payable.....		6,900
	Borrowed money; signed note payable.		
3.	Land.....	30,000	
	Cash.....		6,000
	Note Payable.....		24000
	Purchased land by paying cash and signing a note payable.		
4.	Supplies.....	500	
	Accounts Payable.....		500
	Purchased supplies on account.		
5.	Cash.....	150	
	Supplies.....		150
	Sold supplies for cash.		
6.	Equipment.....	5,100	
	Cash.....		5,100
	Paid cash for equipment.		
7.	Accounts Payable.....	100	
	Cash.....		100
	Paid cash on account.		

Cash balance = \$6,050 (\$10,200 + \$6,900 - \$6,000 + \$150 - \$5,100 - \$100)

Company owes \$31,300 (\$6,900 + \$24,000 + \$500 - \$100)

Req. 1

Deluxe Pool Service, Inc.
Trial Balance
June 30, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 8,500	
Accounts receivable.....	15,900	
Land.....	29,800	
Accounts payable.....		\$ 4,400
Note payable.....		10,500
Common stock.....		8,400
Retained earnings.....		25,600
Dividends.....	6,100	
Service revenue.....		22,400
Salary expense.....	8,200	
Utilities expense.....	2,100	
Delivery expense.....	700	
Total.....	<u>\$71,300</u>	<u>\$71,300</u>

Req. 2

**Deluxe Pool Service, Inc.
Income Statement
Month Ended June 30, 2010**

Service revenue.....		\$22,400
Salary expense.....	\$8,200	
Utilities expense.....	2,100	
Delivery expense.....	<u>700</u>	
Total expenses.....		<u>11,000</u>
Net income.....		<u><u>\$11,400</u></u>

Carver, Inc.
Trial Balance
September 30, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 4,900*	
Accounts receivable.....	12,700*	
Inventory.....	16,600	
Supplies.....	200	
Land.....	52,000	
Accounts payable.....		\$15,100*
Common stock.....		48,000*
Sales revenue.....		30,500
Salary expense.....	1,700	
Insurance expense.....	3,000*	
Rent expense.....	1,100	
Utilities expense.....	<u>1,400*</u>	
Total.....	<u>\$93,600</u>	<u>\$93,600</u>

***Explanations:**

Cash: \$4,500 + \$400 = \$4,900

Accounts Receivable: \$13,100 – \$400 = \$12,700

Accounts Payable: \$11,900 + \$3,000 – \$300 + \$500 = \$15,100

Common Stock: \$47,500 + \$500 = \$48,000

Insurance Expense: \$0 + \$3,000 = \$3,000

Utilities Expense: \$900 + \$500 = 1,400

(5-15 min.) E 2-23A

Cash

(a)	12,000	(b)	1,000
		(d)	2,000
		(e)	300
		(g)	2,900
Bal.	5,800		

Accounts Receivable

(f)	8,100	
Bal.	8,100	

Office Supplies

(c)	700	
Bal.	700	

Office Furniture

(a)	8,600	
Bal.	8,600	

Accounts Payable

(e)	300	(c)	700
		Bal.	400

Common Stock

	(a)	20,600
	Bal.	20,600

Dividends

(g)	2,900	
Bal.	2,900	

Service Revenue

	(f)	8,100
	Bal.	8,100

Salary Expense

(d)	2,000	
Bal.	2,000	

Rent Expense

(b)	1,000	
Bal.	1,000	

Req. 1

Linda Oxford, Attorney
Trial Balance
May 31, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 5,800	
Accounts receivable.....	8,100	
Office supplies.....	700	
Office furniture.....	8,600	
Accounts payable.....		\$ 400
Common stock.....		20,600
Dividends.....	2,900	
Service revenue.....		8,100
Salary expense.....	2,000	
Rent expense.....	1,000	
Total.....	<u>\$29,100</u>	<u>\$29,100</u>

Req. 2

The business performed well during May. The result of operations was net income of \$5,100, as shown by the income statement accounts:

Service revenue.....	\$ 8,100
Salary expense.....	\$2,000
Rent expense.....	<u>1,000</u>
Total expenses.....	<u>(3,000)</u>
Net income.....	<u>\$ 5,100</u>

Exercises

Group B

(10-15 min.) E 2-25B

TO: Home Office

FROM: Store Manager

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

**T. Crew
San Diego Store
Balance Sheet
Date**

ASSETS		LIABILITIES	
Cash	\$ 15,000*	Note payable	
Supplies	13,000	(\$91,000 + \$120,000)	\$211,000
Equipment	62,000		
Land	91,000	STOCKHOLDERS' EQUITY	
Building	120,000	Common stock	90,000
Total assets	<u>\$301,000</u>	Total liabilities and stockholders' equity	<u>\$301,000</u>

*90,000 – 13,000 – 62,000 = 15,000

Cash

90,000	62,000
	13,000
15,000	

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

Req. 1**Analysis of Transactions**

ASSETS					=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Medical Supplies	+ Land	=	Accounts Payable	+ Note Payable	+	Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
Mar. 6	44,000								44,000		Issued stock
9	(31,000)			31,000							
12			1,700			1,700					
15	Not a transaction of the business.										
15-31	3,800	3,800								7,600	Service revenue
15-31	(800)									(800)	Salary expense
	(800)									(800)	Rent expense
	(300)									(300)	Utilities expense
31	400		(400)								
31	16,000						16,000				
31	<u>(700)</u>	<u>—</u>	<u>—</u>	<u>—</u>		<u>(700)</u>	<u>—</u>		<u>—</u>	<u>—</u>	
Bal.	<u>30,600</u>	<u>3,800</u>	<u>1,300</u>	<u>31,000</u>		<u>1,000</u>	<u>16,000</u>		<u>44,000</u>	<u>5,700</u>	

Req. 2

a. \$66,700

b. \$3,800

c. \$17,000 (\$1,000 + \$16,000)

d. \$49,700 (\$66,700 – \$17,000, or \$44,000 + \$5,700)

e. \$5,700 (Revenue, \$7,600 minus total expenses of \$1,900, equals net income, \$5,700.)

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Mar. 6	Cash.....	44,000	
	Common Stock.....		44,000
	Issued stock to owner.		
9	Land.....	31,000	
	Cash.....		31,000
	Purchased land.		
12	Medical Supplies.....	1,700	
	Accounts Payable.....		1,700
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash.....	3,800	
	Accounts Receivable.....	3,800	
	Service Revenue.....		7,600
	Performed service for cash and on account.		
15-31	Salary Expense.....	800	
	Rent Expense.....	800	
	Utilities Expense.....	300	
	Cash.....		1,900
	Paid expenses.		
31	Cash.....	400	
	Medical Supplies.....		400
	Sold supplies.		
31	Cash.....	16,000	
	Note Payable.....		16,000
	Borrowed money.		
31	Accounts Payable.....	700	
	Cash.....		700
	Paid on account.		

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Apr. 1	Cash..... Common Stock..... Issued common stock to owner.	19,600	19,600
2	Office Supplies..... Accounts Payable..... Purchased office supplies on account.	900	900
4	Land..... Cash..... Paid cash for land.	14,600	14,600
6	Cash..... Service Revenue..... Performed services for cash.	2,500	2,500
9	Accounts Payable..... Cash..... Paid cash on account.	200	200
17	Accounts Receivable..... Service Revenue..... Performed service on account.	1,200	1,200
23	Cash..... Accounts Receivable..... Received cash on account.	900	900
30	Salary Expense..... Rent Expense..... Cash..... Paid cash expenses.	1,900 1,400	3,300

Req. 1

Cash

Apr. 1	19,600	Apr. 4	14,600
6	2,500	9	200
23	900	30	3,300
Bal.	4,900		

Accounts Receivable

Apr. 17	1,200	Apr. 23	900
Bal.	300		

Office Supplies

Apr. 2	900		
Bal.	900		

Land

Apr. 4	14,600		
Bal.	14,600		

Accounts Payable

Apr. 9	200	Apr. 2	900
		Bal.	700

Common Stock

	Apr. 1	19,600
	Bal.	19,600

Service Revenue

	Apr. 6	2,500
	17	1,200
	Bal.	3,700

Salary Expense

Apr. 30	1,900	
Bal.	1,900	

Rent Expense

Apr. 30	1,400	
Bal.	1,400	

Req. 2

Green Tree Cellular, Inc.
Trial Balance
April 30, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 4,900	
Accounts receivable.....	300	
Office supplies.....	900	
Land.....	14,600	
Accounts payable.....		\$ 700
Common stock.....		19,600
Service revenue.....		3,700
Salary expense.....	1,900	
Rent expense.....	1,400	
Total.....	<u>\$24,000</u>	<u>24,000</u>

Req. 3

Total assets (\$4,900 + \$300 + 900 + \$14,600).....	\$20,700
Total liabilities.....	<u>(700)</u>
Total stockholders' equity (\$19,600 + \$400).....	<u>\$20,000</u>

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash.....	9,700	
	Common Stock.....		9,700
	Issued common stock.		
2.	Cash.....	6,700	
	Note Payable.....		6,700
	Borrowed money; signed note payable.		
3.	Land.....	30,000	
	Cash.....		5,000
	Note Payable.....		25,000
	Purchased land by paying cash and signing a note payable.		
4.	Supplies.....	500	
	Accounts Payable.....		500
	Purchased supplies on account.		
5.	Cash.....	80	
	Supplies.....		80
	Sold supplies for cash.		
6.	Equipment.....	6,000	
	Cash.....		6,000
	Paid cash for equipment.		
7.	Accounts Payable.....	90	
	Cash.....		90
	Paid cash on account.		

Cash balance = \$5,390 (\$9,700 + \$6,700 - \$5,000 + \$80 - \$6,000 - \$90)

Company owes \$32,100 (\$6,700 + \$25,000 + \$500 - \$90)

Req. 1

Grand Pool Service, Inc.
Trial Balance
June 30, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	9,400	
Accounts receivable.....	15,300	
Land.....	29,400	
Accounts payable.....		\$ 4,500
Note payable.....		10,500
Common stock.....		8,000
Retained earnings.....		24,600
Dividends.....	6,300	
Service revenue.....		22,800
Salary expense.....	8,200	
Utilities expense.....	1,600	
Delivery expense.....	200	
Total.....	<u>\$70,400</u>	<u>\$70,400</u>

Req. 2

Grand Pool Service, Inc.
Income Statement
Month Ended June 30, 2010

Service revenue.....		\$22,800
Salary expense.....	\$8,200	
Utilities expense.....	1,600	
Delivery expense.....	<u>200</u>	
Total expenses.....		<u>10,000</u>
Net income.....		<u>\$12,800</u>

Farris, Inc.
Trial Balance
June 30, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 4,300*	
Accounts receivable.....	13,100*	
Inventory.....	16,500	
Supplies.....	700	
Land.....	53,000	
Accounts payable.....		\$14,500*
Common stock.....		47,900*
Sales revenue.....		31,900
Salary expense.....	2,200	
Insurance expense.....	3,300*	
Rent expense.....	600	
Utilities expense.....	600*	
Total.....	<u>\$94,300</u>	<u>\$94,300</u>

***Explanations:**

Cash: $\$4,100 + \$200 = \$4,300$

Accounts Receivable: $\$13,300 - \$200 = \$13,100$

Accounts Payable: $\$12,400 + \$2,000 - \$200 + \$300 = \$14,500$

Common Stock: $\$47,800 + \$100 = \$47,900$

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

Utilities Expense: $\$300 + \$300 = 600$

(5-15 min.) E 2-34B

Cash			
(a)	11,000	(b)	1,200
		(d)	2,200
		(e)	300
		(g)	2,100
Bal.	5,200		

Accounts Receivable			
(f)	8,300		
Bal.	8,300		

Office Supplies			
(c)	700		
Bal.	700		

Office Furniture			
(a)	9,100		
Bal.	9,100		

Accounts Payable			
(e)	300	(c)	700
		Bal.	400

Common Stock			
		(a)	20,100
		Bal.	20,100

Dividends			
(g)	2,100		
Bal.	2,100		

Service Revenue			
		(f)	8,300
		Bal.	8,300

Salary Expense			
(d)	2,200		
Bal.	2,200		

Rent Expense			
(b)	1,200		
Bal.	1,200		

Req. 1

**Linda Conway, Attorney
Trial Balance
January 31, 2010**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 5,200	
Accounts receivable.....	8,300	
Office supplies.....	700	
Office furniture.....	9,100	
Accounts payable.....		\$ 400
Common stock.....		20,100
Dividends.....	2,100	
Service revenue.....		8,300
Salary expense.....	2,200	
Rent expense.....	1,200	
Total.....	<u>\$28,800</u>	<u>\$28,800</u>

Req. 2

The business performed well during January. The result of operations was net income of \$4,900, as shown by the income statement accounts:

Service revenue.....	\$ 8,300
Salary expense.....	\$2,200
Rent expense.....	<u>1,200</u>
Total expenses.....	<u>(3,400)</u>
Net income.....	<u>\$ 4,900</u>

Serial Exercise

(20-30 min.) E 2-36

Reqs. 1 and 3

Cash			
Mar. 2	7,000	Mar. 2	600
9	1,200	3	2,400
		12	300
Bal.	4,900		

Accounts Receivable			
Mar. 18	2,100		

Supplies			
Mar. 5	500		

Equipment			
Mar. 3	2,400		

Furniture			
Mar. 4	7,500		

Accounts Payable			
		Mar. 4	7,500
		5	500
		Bal.	8,000

Common Stock			
		Mar. 2	7,000

Dividends			

Service Revenue			
		Mar. 9	1,200
		18	2,100
		Bal.	3,300

Rent Expense			
Mar. 2	600		

Utilities Expense			
Mar. 12	300		

Req. 2**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Mar. 2	Cash.....	7,000	
	Common Stock.....		7,000
2	Rent Expense.....	600	
	Cash.....		600
3	Equipment.....	2,400	
	Cash.....		2,400
4	Furniture.....	7,500	
	Accounts Payable.....		7,500
5	Supplies.....	500	
	Accounts Payable.....		500
9	Cash.....	1,200	
	Service Revenue.....		1,200
12	Utilities Expense.....	300	
	Cash.....		300
18	Accounts Receivable.....	2,100	
	Service Revenue.....		2,100

Req. 3

Jerome Smith, Certified Public Accountant, P.C.
Trial Balance
March 18, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 4,900	
Accounts receivable.....	2,100	
Supplies.....	500	
Equipment.....	2,400	
Furniture.....	7,500	
Accounts payable.....		\$ 8,000
Common stock.....		7,000
Dividends.....	—	
Service revenue.....		3,300
Rent expense.....	600	
Utilities expense.....	300	
Salary expense.....	—	
Total.....	<u>\$18,300</u>	<u>\$18,300</u>

Challenge Exercises

(20-40 min.) E 2-37

a. Total cash paid during October:

Cash			
Sept. 30 Bal.	11,000		
Oct. receipts	83,000	Oct. payments	X = \$88,000
Oct. 31 Bal.	6,000		

$$\$11,000 + \$83,000 - X = \$ 6,000$$

$$X = \$88,000$$

b. Cash collections from customers during March:

Accounts Receivable			
Sept 30 Bal.	28,000		
Oct. sales on account	47,000	Oct. collections	X = \$49,000
Mar. 31 Bal.	26,000		

$$\$28,000 + \$47,000 - X = \$26,000$$

$$X = \$49,000$$

c. Cash paid on notes payable during March:

Notes Payable			
		Sept. 30 Bal.	15,000
March		March	
X = 16,000	payments on notes	X	new borrowing 24,000
		Mar. 31 Bal.	23,000

$$\$15,000 + \$24,000 - X = \$23,000$$

$$X = \$16,000$$

Req. 1

**Circle 360, Inc.
Trial Balance
October 31, 2010**

Cash.....	\$ 4,400	
Accounts receivable.....	6,800	
Land.....	34,000	
Accounts payable.....		\$ 6,300
Note payable.....		5,400
Common stock.....		20,700
Retained earnings.....		7,800
Service revenue.....		9,000
Salary expense.....	3,200	
Advertising expense.....	<u>1,000</u>	
Totals.....	<u>\$49,400</u>	<u>\$49,200</u>

Out of balance
by \$200

The correct balance of Accounts Receivable is \$6,600(\$6,800 – \$200). After this correction, total debits will be \$47,200 (\$49,400 – \$200), the same as total credits.

Req. 2

a. Total assets = \$45,000 (\$4,400 + \$6,600* + \$34,000)

b. Total liabilities = \$11,700 (\$6,300 + \$5,400)

c. Net income = \$ 4,800 (\$9,000 – \$3,200 – \$1,000)

*** \$6,800 – \$200 = \$6,600 (Req. 1)**

Nashua Co.:

Income statement	September	October
Medical expense.....	\$46,000	\$ -0-
Balance sheet	Sept. 30	Oct. 31
Cash.....	\$57,000	\$23,000*
Accounts payable.....	46,000	12,000**

Ditka Hospital:

Income statement	September	October
Service revenue.....	\$46,000	\$ -0-
Balance sheet	Sept. 30	Oct 31
Cash.....	\$ -0-	\$34,000
Accounts receivable.....	46,000	12,000**

Explanation:

Nashua's expense is Ditka's revenue.

Nashua's cash payment is Ditka's cash receipt.

Nashua's account payable is Ditka's account receivable.

$$*\$57,000 - \$34,000 = \$23,000$$

$$**\$46,000 - \$34,000 = \$12,000$$

Quiz



Q2-40	d
Q2-41	d
Q2-42	d
Q2-43	d
Q2-44	c
Q2-45	a
Q2-46	d
Q2-47	d
Q2-48	c
Q2-49	a
Q2-50	d
Q2-51	d
Q2-52	b
Q2-53	a
Q2-54	b
Q2-55	c
Q2-56	d
Q2-57	a
Q2-58	a
Q2-59	c

$$(\$54,000 + \$27,000 + \$15,000) = \$96,000$$

(45-60 min.) P 2-61A

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES		+	STOCKHOLDERS' EQUITY					
	Cash	+	Accounts Receivable	+	Supplies	+	Land	=	Accounts Payable	+	Common Stock	+	Retained Earnings	Type of Stockholders' Equity Transaction
Bal.	1,150		1,350				11,900		7,600		4,400		2,400	
a)	9,200										9,200			Issued stock
b)	6,700												6,700	Service revenue
c)	(4,500)								(4,500)					
d)					600				600					
e)	700		(700)											
f)			2,900										2,900	Service revenue
g)	(1,100)												(1,100)	Rent expense
	(1,000)												(1,000)	Advertising expense
h)	(1,500)												(1,500)	Dividends
Bal.	<u>9,650</u>		<u>3,550</u>		<u>600</u>		<u>11,900</u>		<u>3,700</u>		<u>13,600</u>		<u>8,400</u>	
														
	\$25,700								\$25,700					

Req. 2

**Mason Resources, Inc.
Income Statement
Month Ended May 31, 2010**

Revenues:		
Service revenue (\$6,700 + \$2,900)...		\$9,600
Expenses:		
Rent expense.....	\$1,100	
Advertising expense.....	1,000	
Total expenses.....		<u>2,100</u>
Net income.....		<u>\$7,500</u>

Req. 3

**Mason Resources, Inc.
Statement of Retained Earnings
Month Ended May 31, 2010**

Retained earnings, May 1, 2010.....	\$ 2,400
Add: Net income.....	<u>7,500</u>
	9,900
Less: Dividends.....	<u>(1,500)</u>
Retained earnings, May 31, 2010.....	<u>\$ 8,400</u>

Req. 4

Mason Resources, Inc.
Balance Sheet
May 31, 2010

ASSETS		LIABILITIES	
Cash.....	\$9,650	Accounts payable.....	\$ 3,700
Accounts receivable.....	3,550	STOCKHOLDERS'	
Supplies.....	600	EQUITY	
Land.....	11,900	Common stock.....	13,600
		Retained earnings.....	<u>8,400</u>
		Total stockholders' equity.	22,000
		Total liabilities and	
Total assets.....	<u>\$25,700</u>	stockholders' equity.....	<u>\$25,700</u>

Req. 1**Journal**

	ACCOUNT TITLES	DEBIT	CREDIT
a.	Cash.....	9,200	
	Common Stock.....		9,200
b.	Cash.....	6,700	
	Service Revenue.....		6,700
c.	Accounts Payable.....	4,500	
	Cash.....		4,500
d.	Supplies.....	600	
	Accounts Payable.....		600
e.	Cash.....	700	
	Accounts Receivable.....		700
f.	Accounts Receivable.....	2,900	
	Service Revenue.....		2,900
g.	Rent Expense.....	1,100	
	Advertising Expense.....	1,000	
	Cash.....		2,100
h.	Dividends.....	1,500	
	Cash.....		1,500

Reqs. 2 and 3

Cash		Accounts Receivable		Supplies		Land	
1,150	4,500	1,350	700	600		11,900	
9,200	2,100	2,900					
6,700	1,500	3,550					
700							
9,650							

Accounts Payable		Common Stock		Retained Earnings		Dividends	
4,500	7,600		4,400		2,400	1,500	
	600		9,200				
	3,700		13,600				

Service Revenue		Rent Expense		Advertising Expense	
	6,700	1,100		1,000	
	2,900				
	9,600				

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

Req. 1

Classification of Transactions

Nov.	4	b
	5	c
	6	c
	7	c
	10	b
	11	b
	12	a
	18	c
	21	c
	25	c
	30	c

(continued) P 2-63A

Req. 2

Analysis of Transactions

ASSETS					=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Supplies	+ Office Equipment	=	Accounts Payable	+	Common Stock	+	Retained Earnings	Type of Stockholders' Equity Transaction
Nov. 4*											
5	57,000							57,000			Issued stock
6	(600)		600								
7	(12,000)			20,000		8,000					
10*											
11*											
12*											
18		3,500								3,500	Service revenue
21	(4,000)					(4,000)					
25	(1,300)									(1,300)	Rent expense
30	(1,900)									(1,900)	Dividends
Bal.	<u>37,200</u>	<u>3,500</u>	<u>600</u>	<u>20,000</u>		<u>4,000</u>		<u>57,000</u>		<u>300</u>	

Req. 3**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Nov. 5	Cash.....	57,000	
	Common Stock.....		57,000
	Issued stock to owner.		
6	Supplies.....	600	
	Cash.....		600
	Purchased supplies.		
7	Office Equipment.....	20,000	
	Cash.....		12,000
	Accounts Payable.....		8,000
	Purchased equipment.		
18	Accounts Receivable.....	3,500	
	Service Revenue.....		3,500
	Performed service on account.		
21	Accounts Payable.....	4,000	
	Cash.....		4,000
	Paid on account.		
25	Rent Expense.....	1,300	
	Cash.....		1,300
	Paid rent.		
30	Dividends.....	1,900	
	Cash.....		1,900
	Paid dividend.		

Req. 1**Journal**

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Dec. 1	Cash.....	26,000	
	Common Stock.....		26,000
5	Rent Expense.....	1,100	
	Cash.....		1,100
9	Land.....	38,500	
	Cash.....		8,500
	Notes Payable.....		30,000
10	Supplies.....	1,700	
	Accounts Payable.....		1,700
19	Accounts Payable.....	600	
	Cash.....		600
22	Cash.....	20,000	
	Notes Payable.....		20,000
31	Cash.....	12,000	
	Accounts Receivable.....	8,000	
	Service Revenue.....		20,000
31	Salary Expense.....	2,400	
	Advertising Expense.....	1,500	
	Utilities Expense.....	1,400	
	Cash.....		5,300
31	Dividends.....	6,500	
	Cash.....		6,500

Req. 2

Cash	
26,000	1,100
20,000	8,500
12,000	600
	5,300
	6,500
36,000	

Accounts Payable	
600	1,700
	1,100

Notes Payable	
	30,000
	20,000
	50,000

Req. 3

Cash: \$36,000

Total amount owed: \$51,100 (\$1,100 + \$50,000)

Req. 1**Journal**

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Jan. 2	Cash.....	39,000	
	Common Stock.....		39,000
3	Supplies.....	200	
	Equipment.....	3,100	
	Accounts Payable.....		3,300
4	Cash.....	1,600	
	Service Revenue.....		1,600
7	Land.....	27,000	
	Cash.....		27,000
11	Accounts Receivable.....	900	
	Service Revenue.....		900
16	Accounts Payable.....	3,100	
	Cash.....		3,100
17	Utilities Expense.....	170	
	Cash.....		170
18	Cash.....	450	
	Accounts Receivable.....		450

Req. 1**Journal**

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Jan. 22	Utilities Expense.....	190	
	Cash.....		190
29	Cash.....	1,400	
	Service Revenue.....		1,400
31	Salary Expense.....	2,400	
	Cash.....		2,400
31	Dividends.....	3,000	
	Cash.....		3,000

Req. 2**Cash**

Jan. 2	39,000	Jan. 7	27,000
4	1,600	16	3,100
18	450	17	170
29	1,400	22	190
		31	2,400
		31	3,000
Bal.	6,590		

Accounts Receivable

Jan. 11	900	Jan. 18	450
Bal.	450		

Supplies

Jan. 3	200		
Bal.	200		

Equipment

Jan. 3	3,100		
Bal.	3,100		

Land

Jan. 7	27,000		
Bal.	27,000		

Accounts Payable

Jan. 16	3,100	Jan. 3	3,300
		Bal.	200

Common Stock

	Jan. 2	39,000
	Bal.	39,000

Dividends

Jan. 31	3,000	
	3,000	

Service Revenue

	Jan. 4	1,600
	11	900
	29	1,400
	Bal.	3,900

Salary Expense

Jan. 31	2,400	
Bal.	2,400	

Utilities Expense

Jan. 17	170	
22	190	
Bal.	360	

Req. 3

Simmons Heating and Air Conditioning, Inc.
Trial Balance
January 31, 2009

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 6,590	
Accounts receivable.....	450	
Supplies.....	200	
Equipment.....	3,100	
Land.....	27,000	
Accounts payable.....		\$ 200
Common stock.....		39,000
Dividends.....	3,000	
Service revenue.....		3,900
Salary expense.....	2,400	
Utilities expense.....	360	
Total.....	<u>\$43,100</u>	<u>\$43,100</u>

Req. 4

Total resources (assets) = \$37,340 (\$6,590 + \$450 + \$200 + \$3,100 + \$27,000)

Amount owed (total liabilities) = \$200

Profit (net income) = \$1,140 (\$3,900 – \$2,400 – \$360)

Reqs. 1 and 2

Cash

(a)	28,000	(c)	33,000
(b)	37,300	(e)	2,500
(f)	1,600	(h)	100
(j)	1,200	(k)	1,900
Bal.	30,600		

Accounts Receivable

(g)	3,200	(j)	1,200
Bal.	2,000		

Supplies

(d)	500	
Bal.	500	

Music Equipment

(c)	33,000	
Bal.	33,000	

Building

(a)	52,000	
Bal.	52,000	

Accounts Payable

(h)	100	(d)	500
		(i)	800
		Bal.	1,200

Note Payable

	(b)	37,300
	Bal.	37,300

Common Stock

	(a)	80,000
	Bal.	80,000

Service Revenue

	(f)	1,600
	(g)	3,200
	Bal.	4,800

(continued) **P 2-66A**

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

Rent Expense		
(k)	1,200	
Bal.	1,200	

Advertising Expense		
(k)	700	
Bal.	700	

Utilities Expense		
(i)	800	
Bal.	800	

Req. 3

Stein Services Corporation
Trial Balance
November 30, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 30,600	
Accounts receivable.....	2,000	
Supplies.....	500	
Music equipment.....	33,000	
Building.....	52,000	
Accounts payable.....		\$ 1,200
Note payable.....		37,300
Common stock.....		80,000
Service revenue.....		4,800
Salary expense.....	2,500	
Rent expense.....	1,200	
Advertising expense.....	700	
Utilities expense.....	800	
Total.....	<u>\$123,300</u>	<u>\$123,300</u>

Problems

Group B

(15-30 min.) **P 2-67B**

Dear Friend,

This trial balance lists the accounts of the company, along with their balances at December 31, 2010. The trial balance provides the data to prepare a balance sheet and an income statement.

Advantage Specialties' *balance-sheet* accounts are

Cash	Accounts payable
Accounts receivable	Note payable
Prepaid expenses	Common stocks
Equipment	Retained earnings
Building	

Advantage Specialties' *income-statement* accounts are

Service revenue	Supplies expense
Wage expense	Advertising expense
Rent expense	

During 2010, Advantage Specialties earned net income of \$151,000 [service revenue of \$252,000 minus total expenses of \$101,000 (\$25,000 + \$4,000 + \$65,000 + \$7,000)].

Student responses may vary.

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES	+	STOCKHOLDERS' EQUITY	
	Cash	+ Accounts Receivable	+ Supplies	+ Land	=	Accounts Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
Bal.	1,450	1,650		11,500		7,800	4,000	2,800	
a)	8,600						8,600		Issued stock
b)	6,500							6,500	Service revenue
c)	(4,700)					(4,700)			
d)			600			600			
e)	200	(200)							
f)		2,700						2,700	Service revenue
g)	(900)							(900)	Rent expense
	(800)							(800)	Advertising expense
i)	<u>(2,300)</u>							<u>(2,300)</u>	Dividends
Bal.	<u>8,050</u>	<u>4,150</u>	<u>600</u>	<u>11,500</u>		<u>3,700</u>	<u>12,600</u>	<u>8,000</u>	

Req. 2

Rodriguez Resources, Inc.
Income Statement
Month Ended May 31, 2010

Revenues:	
Service revenue (\$6,500 + \$2,700)....	9,200
Expenses:	
Rent expense.....	\$900
Advertising expense.....	<u>800</u>
Total expenses.....	<u>1,700</u>
Net income.....	<u><u>\$7,500</u></u>

Req. 3

Rodriguez Resources, Inc.
Statement of Retained Earnings
Month Ended May 31, 2010

Retained earnings, May 1, 2010.....	\$2,800
Add: Net income.....	<u>7,500</u>
	10,300
Less: Dividends.....	<u>(2,300)</u>
Retained earnings, May 31, 2010.....	<u><u>\$8,000</u></u>

Req. 4

Rodriguez Resources, Inc.
Balance Sheet
May 31, 2010

ASSETS		LIABILITIES	
Cash.....	\$8,050	Accounts payable.....	\$ 3,700
Accounts receivable...	4,150	STOCKHOLDERS'	
Supplies.....	600	EQUITY	
Land.....	11,500	Common stock.....	12,600
		Retained earnings.....	<u>8,000</u>
		Total stockholders' equity.	20,800
		Total liabilities and	
Total assets.....	<u>\$24,300</u>	stockholders' equity.....	<u>\$24,300</u>

Req. 1**Journal**

	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
a.	Cash.....	8,600	
	Common Stock.....		8,600
b.	Cash.....	6,500	
	Service Revenue.....		6,500
c.	Accounts Payable	4,700	
	Cash.....		4,700
d.	Supplies	600	
	Accounts Payable.....		600
e.	Cash.....	200	
	Accounts Receivable.....		200
f.	Accounts Receivable.....	2,700	
	Service Revenue.....		2,700
g.	Rent Expense.....	900	
	Advertising Expense.....	800	
	Cash.....		1,700
i.	Dividends.....	2,300	
	Cash.....		2,300

Reqs. 2 and 3

Cash		Accounts Receivable		Supplies		Land	
1,450	4,700	1,650	200	600		11,500	
8,600	900	2,700					
6,500	800	4,150					
200	2,300						
8,050							

Accounts Payable		Common Stock		Retained Earnings		Dividends	
4,700	7,800		4,000		2,800	2,300	
	600		8,600				
	3,700		12,600				

Service Revenue		Rent Expense		Advertising Expense	
	6,500	900		800	
	2,700				
	9,200				

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-68B.

Req. 1

Classification of Transactions

Nov	4	b
	5	c
	6	c
	7	c
	10	b
	11	b
	12	a
	18	c
	21	c
	25	c
	30	c

(continued) P 2-70B

Req. 2

Analysis of Transactions

ASSETS					=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable	+ Supplies	+ Office Equipment	=	Accounts Payable	+	Common Stock	+	Retained Earnings	Type of Stockholders' Equity Transaction
Nov. 4*											
5	59,000							59,000			Issued stock
6	(500)		500								
7	(12,000)			20,500		8,500					
10*											
11*											
12*											
18		3,000								3,000	Service revenue
21	(4,250)					(4,250)					
25	(500)									(500)	Rent expense
30	(1,700)									(1,700)	Dividend
Bal.	<u>40,050</u>	<u>3,000</u>	<u>500</u>	<u>20,500</u>		<u>4,250</u>		<u>59,000</u>		<u>800</u>	

*Not a transaction of the business.

Req. 3**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Nov. 5	Cash.....	59,000	
	Common Stock.....		59,000
	Issued stock to owner.		
7	Supplies.....	500	
	Cash.....		500
	Purchased supplies.		
9	Office Furniture.....	20,500	
	Cash.....		12,000
	Accounts Payable.....		8,500
	Purchased furniture.		
23	Accounts Receivable.....	3,000	
	Service Revenue.....		3,000
	Performed service on account.		
29	Accounts Payable.....	4,250	
	Cash.....		4,250
	Paid on account.		
30	Rent Expense.....	500	
	Cash.....		500
	Paid rent.		
31	Dividends.....	1,700	
	Cash.....		1,700
	Paid dividend.		

Req. 1**Journal**

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Dec 1	Cash.....	28,000	
	Common Stock.....		28,000
5	Rent Expense.....	2,000	
	Cash.....		2,000
9	Land.....	44,500	
	Cash.....		11,500
	Notes Payable.....		33,000
10	Supplies.....	1,700	
	Accounts Payable.....		1,700
19	Accounts Payable.....	800	
	Cash.....		800
22	Cash.....	18,500	
	Notes Payable.....		18,500
31	Cash.....	14,500	
	Accounts Receivable.....	4,500	
	Service Revenue.....		19,000
31	Salary Expense.....	2,100	
	Advertising Expense.....	1,000	
	Cash.....		3,100
30	Dividends.....	2,000	
	Cash.....		2,000

Req. 2

Cash	
28,000	2,000
18,500	11,500
14,500	800
	2,100
	1,000
	2,000
41,600	

Accounts Payable	
800	1,700
	900

Notes Payable	
	33,000
	18,500
	51,500

Req. 3

Cash: \$41,600

Total amount owed: \$52,400 (\$900 + \$51,500)

Req. 1**Journal**

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Jan. 2	Cash.....	33,000	
	Common Stock.....		33,000
3	Supplies.....	400	
	Equipment.....	2,900	
	Accounts Payable.....		3,300
4	Cash.....	1,700	
	Service Revenue.....		1,700
7	Land.....	22,000	
	Cash.....		22,000
11	Accounts Receivable.....	1,100	
	Service Revenue.....		1,100
16	Accounts Payable.....	2,900	
	Cash.....		2,900
17	Utilities Expense.....	130	
	Cash.....		1300
18	Cash.....	550	
	Accounts Receivable.....		550

Req. 1**Journal**

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Jan. 22	Utilities Expense.....	150	
	Cash.....		150
29	Cash.....	1,100	
	Service Revenue.....		1,100
31	Salary Expense.....	2,300	
	Cash.....		2,300
31	Dividends.....	2,900	
	Cash.....		2,900

(continued) P 2-72B

Req. 2

Cash

Jan. 2	33,000	Jan. 7	22,000
4	1,700	16	2,900
18	550	17	130
29	1,100	22	150
		31	2,300
		31	2,900
Bal.	5,970		

Accounts Receivable

Jan. 11	1,100	Jan. 18	550
Bal.	550		

Supplies

Sept. 3	400		
Bal.	400		

Equipment

Jan. 3	2,900		
Bal.	2,900		

Land

Jan. 7	22,000		
Bal.	22,000		

Accounts Payable

Jan. 16	2,900	Jan. 3	3,300
		Bal.	400

Common Stock

	Jan. 2	33,000
	Bal.	33,000

Dividends

Jan. 31	2,900		
Bal.	2,900		

Service Revenue

	Jan. 4	1,700
	11	1,100
	29	1,100
	Bal.	3,900

Req. 2

Salary Expense		
Jan. 31	2,300	
Bal.	2,300	

Utilities Expense		
Jan. 17	130	
22	150	
Bal.	280	

Req. 3

O'Shea Plumbing, Inc.
Trial Balance
January 31, 2009

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 5,970	
Accounts receivable.....	550	
Supplies.....	400	
Equipment.....	2,900	
Land.....	22,000	
Accounts payable.....		\$ 400
Common stock.....		33,000
Dividends.....	2,900	
Service revenue.....		3,900
Salary expense.....	2,300	
Utilities expense.....	280	
Total.....	<u>\$37,300</u>	<u>\$37,300</u>

Req. 4

Total resources (assets) = \$31,820 (\$5,970 + \$550 + \$400 + \$2,900 + \$22,000)

Amount owed (total liabilities) = \$400

Profit (net income) = \$1,320 (\$3,900 – \$2,300 – \$280)

Reqs. 1 and 2

Cash			
(a)	32,000	(c)	32,000
(b)	35,800	(e)	2,300
(f)	1,700	(h)	100
(j)	1,600	(k)	2,000
Bal.	34,700		

Accounts Receivable			
(g)	2,800	(j)	1,600
Bal.	1,200		

Supplies			
(d)	200		
Bal.	200		

Music Equipment			
(c)	32,000		
Bal.	32,000		

Building			
(a)	52,000		
Bal.	52,000		

Accounts Payable			
(h)	100	(d)	200
		(i)	900
		Bal.	1,000

Note Payable			
	(b)	35,800	
	Bal.	35,800	

Common Stock			
	(a)	84,000	
	Bal.	84,000	

Service Revenue			
	(f)	1,700	
	(g)	2,800	
	Bal.	4,500	

(continued) P 2-73B

Salary Expense

(e)	2,300	
Bal.	2,300	

Advertising Expense

(i)	900	
(k)	800	
Bal.	1,700	

Rent Expense

(k)	1,200	
Bal.	1,200	

Utilities Expense

Req. 3

Silver Entertainment Corporation
Trial Balance
March 31, 2010

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 34,700	
Accounts receivable.....	1,200	
Supplies.....	200	
Music equipment.....	32,000	
Building.....	52,000	
Accounts payable.....		\$ 1,000
Note payable.....		35,800
Common stock.....		84,000
Service revenue.....		4,500
Salary expense.....	2,300	
Advertising expense.....	1,700	
Rent expense.....	1,200	
Utilities expense.....		
Total.....	<u>\$125,300</u>	<u>\$125,300</u>

Decision Cases

(40-50 min.) Decision Case 1

Reqs. 1 and 2

Cash			
(a)	5,000	(c)	1,300
(b)	5,000	(d)	1,800
(h)	2,500	(f)	2,000
(i)	1,200	(f)	1,200
		(j)	1,000
Bal.	6,400		

Accounts Receivable			
(g)	7,000	(i)	1,200
Bal.	5,800		

Supplies			
(c)	1,300		

Furniture			
(e)	4,400		

Accounts Payable			
(j)	1,000	(e)	4,400
		Bal.	3,400

Notes Payable			
		(b)	5,000

Common Stock			
		(a)	5,000

Service Revenue			
		(g)	7,000
		(h)	2,500
		Bal.	9,500

Salary Expense			
(f)	2,000		

Advertising Expense			
(d)	1,800		

Rent Expense			
(f)	1,200		

Req. 3

Barlow Networks, Inc.
Trial Balance
Current Date

ACCOUNT	DEBIT	CREDIT
Cash.....	\$6,400	
Accounts receivable.....	5,800	
Supplies.....	1,300	
Furniture.....	4,400	
Accounts payable.....		\$ 3,400
Notes payable.....		5,000
Common stock.....		5,000
Service revenue.....		9,500
Salary expense.....	2,000	
Advertising expense.....	1,800	
Rent expense.....	1,200	
Total.....	<u>\$22,900</u>	<u>\$22,900</u>

(continued) Decision Case 1

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

Revenues:		
Service revenue.....		\$9,500
Expenses:		
Salary expense.....	\$2,000	
Advertising expense.....	1,800	
Rent expense.....	<u>1,200</u>	
Total expenses.....		<u>5,000</u>
Net income for month.....		<u><u>\$4,400</u></u>

Recommendation: Barlow may want to review his criteria for keeping the business open. His criteria for remaining in operation was net income of \$5,000. His actual result was close to his goal. Perhaps he was unrealistic in his expectations. Most businesses, large and small, incur losses in their first months of operation. Barlow Networks actually earned a profit! The author suggests that Barlow stick it out for another few months, at least.

(20-30 min.) Decision Case 2

**Little Italy, Inc.
Income Statement
Month Ended December 31, 2011**

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

**Little Italy, Inc.
Balance Sheet
December 31, 2011**

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

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

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

Ethical Issue 1

1. The ethical issue is whether these alternatives of financing the business are proper from an economic, legal, and ethical standpoint.
2. The stakeholders are Scruffy Murphy, the bank, potential new creditors, and the friend who may become a stockholder.

Option 1:	Cash.....	100,000	
	Common Stock.....		100,000
Option 2:	Land.....	100,000	
	Common Stock.....		100,000
	Common Stock.....	100,000	
	Land.....		100,000

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

Option 2 represents “window dressing” (making the company look like an entity that it is not). Although it might be legal in the strictest sense of the word (and it might not), this option

does not faithfully represent economic reality. Thus, it is not in accordance with GAAP, which is a substitute for the legal criterion. This option is also unethical because the receipt of the land by the business is not a real transaction. The transfer of the land back to Murphy means that the business never actually has the land for its use. It violates the rights of the bank and future creditors to give them information that is inaccurate and that does not faithfully represent economic reality.

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

Ethical Issue 2

Part A.

- 1. The ethical issue is whether you should question your grade, which is higher than you expected. Your choices are (a) discuss the grade with the professor; and (b) do not discuss the grade with the professor.**
- 2, 3. Stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead to a downward adjustment. While this could possibly have adverse economic consequences (i.e., perhaps loss of scholarship if the is substantially lowered), it is unlikely that a letter-grade drop in one course would have such an impact on grade point average as to cause loss of a scholarship. There is no legal consequence to reporting a grade that is too high. The ethical consequence is generally positive on all concerned, as it leads to clarification of the true grade.**
- 4. Student opinions will vary on this part.**

Part B.

- 1. The ethical issue in this case is whether you should question your grade, which is now lower than you expected.**

Your choices are (a) discuss the grade with the professor; and (b) do not discuss the grade with the professor.

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

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

Part C.

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

Focus on Financials: Amazon.com, Inc.

(20-30 min.)

Reqs. 1 and 3

(All amounts in millions)

Cash		Accounts Rec./other		Inventories	
2,539	(c) 15,095	705		1,200	
(b) 19,044	(e) 3,428	(a) 19,166	(b) 19,044	(c) 15,095	(d) 14,896
(f) 59	(g) 247	827		1,399	
	(i) 103				
2,769					

Other Assets		Net Sales (Revenue)		Cost of Sales	
(i) 103	(h) 9		(a) 19,166	(d) 14,896	

Non-operating income (net)		Operating Expenses	
	(f) 59	(e) 3,428	

Provision for Income Taxes	
(g) 247	

Equity method investment activity (net)	
(h) 9	

Req. 2

	(Millions)	
a. Accounts receivable, net	19,166	
Net Sales (Revenue).....		19,166
b. Cash.....	19,044	
Accounts receivable, net.....		19,044
c. Inventories.....	15,095	
Cash.....		15,095
d. Cost of Sales.....	14,896	
Inventories.....		14,896
e. Operating Expenses.....	3,428	
Cash.....		3,428
f. Cash.....	59	
Non-operating income.....		59
g. Provision for income taxes.....	247	
Cash.....		247
h. Equity method investment activity, net	9	
Other assets.....		9
i. Other assets.....	103	
Cash.....		103

(continued) Focus on Financials: Amazon.com, Inc.

Req. 4

All the selected account balances except other assets agree with Amazon.com, Inc.'s actual figures on the income statement or the balance sheet.

Req. 5

	<i>(Millions)</i>
Net sales	\$19,166
Cost of sales.....	<u>14,896</u>
Gross Profit.....	\$4,270
Operating (expenses).....	<u>(3,428)</u>
Income from operations.....	842
Non-operating income, net.....	<u>59</u>
Income before income taxes	901
Provision for income taxes.....	(247)
Equity method investment activity, net....	<u>(9)</u>
Net income	\$645

Focus on Analysis: Foot Locker, Inc.

(20-30 min.)

Req. 1

Foot Locker, Inc. does not list accounts receivable separately in the body of its balance sheet because it is not individually material. As of the end of fiscal 2007, total current assets were \$2,064 million, and net receivables were only \$50 million (only 2.4 percent of the balance). Therefore, Foot Locker, Inc. combined net receivables with other current assets such as prepaid expenses.

During fiscal 2007, Foot Locker, Inc. had more cash collections than sales. This is determined by analyzing net receivables, as follows:

Net receivables (from Note 8):

	(Millions)
Balance at the end of fiscal 2006	\$ 59
+ Sales during fiscal 2007...(from consolidated statement of operations)	5,437
– Collections from customers during fiscal 2007 ...	<u>(X)</u>
= Balance at the end of fiscal 2007.....	<u>\$ 50</u>

Solving for X, collections were \$5,446 ($59 + 5,437 - 50$). Another way to express this relationship is that when accounts receivable decrease during the year, collections must exceed sales. If accounts receivable increase during the year, sales must exceed collections..

(continued) Focus on Analysis: Foot Locker, Inc.

Req. 2

Sales increased slightly in 2006 but fell off substantially in 2007. Net income declined more dramatically each year.

	2007	2006	2005
Net sales (millions)	\$5,437	\$5,750	\$5,653
\$ change	(\$313)	\$97	
Percentage change	(5.4%)	1.7%	
Net income (millions)	\$51	\$251	\$264
\$ change	(\$200)	(\$13)	
Percentage change	(79.7%)	(4.9%)	

Group Projects

Student responses will vary.