Fundamental Accounting Principles 24th edition Wild Solutions Manual

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CHAPTER 2
ANALYZING AND RECORDING TRANSACTIONS

Related Assignment Materials

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

See additional information on next page that pertains to these quick studies, exercises, and problems.
SP refers to the Serial Problem
AA refers to Accounting Analysis

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BTN refers to Beyond the Numbers
GL refers to General Ledger Problems
Questions with Guided Example videos

Additional Information on Related Assignment Material

See Chapter 1 of the Instructor's Resource Manual for more information on materials for this text available in Connect.

Connect

Available on the instructor's course-specific website, Connect:

- All numerical Quick Studies, all Exercises and Problems Set A.
  - Connect also provides algorithmic versions for Quick Study, Exercises, and Problems.
- General Ledger Problems
- Excel Simulations
- LearnSmart/SmartBook

Hints/Guided Examples

Please note that the Guided Examples are labeled as "Hints" in Connect assignments. The animated PowerPoints without the video and audio functions for the Guided Examples are also available in the Connect Instructor Library and Exercise Presentations. **These are indicated in the Related Assignment Materials grid on page 1 in blue bold font.**

Need-to-Know Videos

LO	Need-to-Know	Title	Time
C1, C2, C3	2-1	Classifying Accounts	1:34
C4	2-2	Normal Account Balance	2:54
P1, A1	2-3	Recording Transactions	1:54
P2	2-4	Preparing Trial Balance	2:01

Concept Overview Videos

Each video is paired with a Knowledge Check question.

LO	Title	Time
C1	Explain the steps in processing transactions and the role of source documents.	
	Source Documents	0:58
C2	Describe an account and its use in recording transactions.	
	Types of Accounts	0:52
	Asset Accounts	3:48
	Liability Accounts	2:35
	Equity Accounts	1:29
	Decision Insights	0:14
C3	Describe a ledger and a chart of accounts.	
	Chart of Accounts	1:45
	Ledger	0:25
C4	Define *debits* and *credits* and explain double-entry accounting.	
	T-accounts	0:54

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	Double-Entry Accounting	0:47
	Normal Balance Rules	1:33
	Normal Balance - Equity	0:43
A1	Analyze the impact of transactions on accounts and financial statements.	
	Receive Investment by Owner	1:00
	Purchase Equipment for Cash	0:46
	Purchase Supplies for Cash	0:32
	Providing Services for Cash	0:32
	Payment of Expense on Credit	0:34
	Payment of Accounts Payable	0:43
A2	Compute the debt ratio and describe its use in analyzing financial condition.	
	Financial Statement Data	1:25
	Debt Ratio	1:13
P1	Record transactions in a journal and post entries to a ledger.	
	Accounting Process	0:20
	Journalizing Transactions	1:30
	Posting Journal Entries to Ledger Accounts: General Procedures	1:37
	Post Entries to Ledger Accounts: Four step Process	0:48
P2	Prepare and explain the use of a trial balance.	
	Trial Balance	1:33
	Trial Balance – Searching for Errors	1:04
P3	Prepare financial statements from business transactions.	
	Preparing Financial Statements	2:01
	How Financial Statements Link	1:10

Synopsis of Chapter Revisions

NEW opener—Fitbit and entrepreneurial assignment.
New visual for process to get from transactions to financial statements.
New layout on four types of accounts that determine equity.
Improved presentation of "Double-Entry System" section.
Updated Apple data for NTK 2-4.
Updated debt ratio analysis using Costco and Walmart.
New Cheat Sheet reinforces chapter content.
Added four new Quick Studies.
Added three new Exercises.
Added new analysis assignments: Company Analysis, Comparative Analysis, and Global Analysis.

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Chapter Outline

I. Basis of Financial Statements—process to go from transactions and events to financial statements includes the following:

1. Identify each transaction and event from source documents, which identify and describe transactions and events entering the accounting process.
2. Analyze each transaction and event using the accounting equation.
3. Record relevant transactions and events in a journal.
4. Post journal information to ledger accounts.
5. Prepare and analyze the trial balance and financial statements.
   a. Source Documents—identify and describe transactions and events entering the accounting system.

II. The "Account" Underlying Financial Statements

An *account* is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense. Account categories include:

1. *Assets*—resources owned or controlled by a company that have future economic benefit. Examples include Cash, Accounts Receivable, Note Receivable, Prepaid Expenses, Prepaid Insurance, Supplies, Store Supplies, Equipment, Buildings, and Land.
   a. Accounts Receivable – promises of payment from customers.
   b. Prepaid accounts – assets from prepayments of future expenses expected to be incurred in future accounting periods.
2. *Liabilities*—claims (by creditors) against assets, which means they are obligations to transfer assets or provide products or services to others. Examples include Accounts Payable, Note Payable, Unearned Revenues, and Accrued Liabilities.
   a. Accounts Payable—promises to pay later usually arising from purchase of inventory or other assets.
   b. Notes Payable—written promissory note to pay a future amount.
   c. Unearned revenue—revenue collected before it is earned/ before services or goods are provided.
   d. Accrued liabilities—amounts owed that are not yet paid.
3. *Equity*—an owner's claim on a company's assets is called *equity* or *owner's equity*. Examples include owner's capital, owner's withdrawals (decreases equity), Revenues from providing goods or services; i.e., Sales, Fees Earned, (increases equity), and Expenses from assets or services used in operation; i.e., Supplies Expense, (decreases equity).

III. Ledger and Chart of Accounts

1. The *general ledger* or *ledger* (referred to as the *books*) is a collection of all accounts and their balances for an accounting system.
2. The *chart of accounts* is a list of all accounts in the ledger with their identification numbers.

IV. Double-Entry Accounting

Double-entry accounting demands the accounting equation remain in balance. This means that for each transaction (1) at least two accounts are involved with at least one debit and one credit and (2) total amount debited must equal the total amount credited.

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A. Debits and Credit

1. A *T-account* represents a ledger account and is used to understand the effects of one or more transactions. It is shaped like the letter T with the account title on top.
2. The *left* side of an account is called the *debit* side. A debit is an entry on the left side of an account.
3. The *right* side of an account is called the *credit* side. A credit is an entry on the right side of an account.
4. Accounts are *assigned balance sides* based on their classification or type.
5. To *increase* an account, an amount is placed on the *balance side,* and to *decrease* an account, the amount is placed on the *side opposite its assigned balance side*.
6. The *account balance* is the difference between the total debits and the total credits recorded in that account. When total debits exceed total credits, the account has a *debit balance*. When total credits exceed total debits, the account has a *credit balance*. When total debits equal total credits, the account has a *zero balance*.

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

1. The assignment of balance sides (debit or credit) follows the accounting equation.
   a. *Assets* are on the *left side* of the equation; therefore, the left, or *debit,* side is the normal balance for assets.
   b. *Liabilities and equities* are on the *right side;* therefore, the right, or *credit*, side is the normal balance for liabilities and equity.
   c. *Withdrawals, revenues, and expenses* really are changes in equity, but it is necessary to set up temporary accounts for each of these items to accumulate data for statements. Withdrawals and expense accounts really represent decreases in equity; therefore, they are assigned debit balances. *Revenue* accounts really represent increases in equity; therefore, they are assigned credit balances.

V. Analyzing and Processing Transactions

A. Journalizing and Posting Transactions

Four steps in processing transactions are as follows:

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

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Note: Refer to the 16 basic transactions in the textbook for an illustration of analyzing, journalizing, and posting.

VI. Trial Balance

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

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

C. Preparing a Trial Balance: three steps to prepare a trial balance are as follows:

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

D. Searching for Errors: when a trial balance does not balance, an error has occurred and must be corrected. Follow these steps:

1. Verify that the trial balance columns are correctly added.
2. Verify that account balances are accurately entered from the ledger.
3. See whether a debit (or credit) balance is mistakenly listed in the trial balance as a credit (or debit).
4. Recompute each account balance in the ledger.
5. Verify that each journal entry is properly posted.
6. Verify that the original journal entry has equal debits and credits.

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

D. Presentation Issues

1. Dollar signs are not used in journals and ledgers, but do appear in financial statements and other reports such as trial balances.
2. Usual practice on statements is to put dollar signs before only the first and last numbers in each column.
3. Commas are optional except for financial reports, where they are always used.
4. Companies commonly round amounts in reports to the nearest dollar, or even to a higher level.
5. Double rule the final total(s) on the financial statements.

VI. Decision Analysis—Debt Ratio

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

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

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

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

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Chapter 2 Alternate Demonstration Problem

Record the following transactions of Speedy Computer Service, owned by Bill Smith, for the month of March 2019.

Mar 1. Bill Smith invested $3,000 cash to start the business.

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

16. Purchased supplies on account, $100.

17. Paid for gas and oil, $800.

18. Paid salaries, $5,000.

21. Provided service on credit, $600.

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

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

30. Bill Smith withdrew cash of $2,000 for his personal use.

Required:

1. **Record the above transactions in general journal form.**
2. **Prepare a trial balance after posting the entries to T-accounts (you can make your own T-accounts).**
3. **Prepare an income statement from trial balance.**
4. **Prepare a statement of owner's equity from the trial balance and income statement.**
5. **Prepare a balance sheet using the trial balance totals and the statement of owner's equity.**
6. **Explain why the company's cash balance does not agree with net income.**

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Chapter 2 Solution: Alternate Demonstration Problem

GENERAL JOURNAL

DATE	ACCOUNT TITLES AND EXPLANATION	PR	DEBIT			CREDIT		
March 1	Cash		3	0 0 0	00			
	B. Smith, Capital					3	0 0 0	00
15	Cash		5	4 0 0	00			
	Service Fees Earned					5	4 0 0	00
16	Supplies			1 0 0	00			
	Accounts Payable						1 0 0	00
17	Gas and Oil Expense			8 0 0	00			
	Cash						8 0 0	00
18	Salaries Expense		5	0 0 0	00			
	Cash					5	0 0 0	00
21	Accounts Receivable			6 0 0	00			
	Service Fees Earned						6 0 0	00
28	Cash		6	0 0 0	00			
	Service Fees Earned					6	0 0 0	00
29	Equipment Rental Expense		2	5 0 0	00			
	Cash					2	5 0 0	00
30	B.Smith, Withdrawals		2	0 0 0	00			
	Cash					2	0 0 0	00

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Speedy Computer Service
Trial Balance
March 31, 2019

	Cash	4	1 0 0	00			
	Accounts Receivable		6 0 0	00			
	Supplies		1 0 0	00			
	Accounts Payable					1 0 0	00
	B.Smith, Capital				3	0 0 0	00
	B.Smith, Withdrawals	2	0 0 0	00			
	Service Fees Earned				1 2	0 0 0	00
	Gas & Oil Expense		8 0 0	00			
	Equipment Rental Expense	2	5 0 0	00			
	Salaries Expense	5	0 0 0	00			
	Totals	1 5	1 0 0	00	1 5	1 0 0	00

3.

Speedy Computer Service
Income Statement
For the month ended March 31, 2019

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

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4.

Speedy Computer Service
Statement of Owner's Equity
For the month ended March 31, 2019

Beginning Owner's Equity	$0
Add: Investments by Owner	3,000
Add: Net Income	3,700
Total	6,700
Less: Withdrawals by Owner	2,000
Ending Owner's Equity	$4,700

5.

Speedy Computer Service
Balance Sheet
March 31, 2019

Assets		Liabilities and Owner's Equity	
Cash	$4,100	Accounts payable	$ 100
Accts Receivable	600	Ending Owner's Equity..	4,700
Supplies	100	Total liabilities and equity	$4,800
Total Assets.....	$4,800		

6. **First, note that the owner investment ($3,000) and cash withdrawals ($2,000) affect the cash balance but do not affect the amount of net income earned during the period. Also, revenues in the amount of $600 (March 21) are reflected in net income, but have not yet been collected. As such, these revenues did not impact the cash balance.**

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Chapter 2

Analyzing and Recording Transactions

QUESTIONS

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

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

   c. Common equity accounts: owner, capital and owner, withdrawals.

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

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

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

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

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

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

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

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

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10. The four financial statements are: income statement, balance sheet, statement of 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.

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; Vendor non-trade receivables; Other current assets; Long-term marketable securities; Property, plant and equipment, net; Goodwill; Acquired intangible assets, net; Other non-current assets.

Credit balance accounts on the Apple balance sheet include: Accounts payable; Accrued expenses; Deferred revenue; Commercial paper; Current portion of long-term debt; Deferred revenue, non-current; Long-term debt; Other non-current liabilities; Common stock; Retained earnings; Accumulated other comprehensive income (current year abnormal debit balance).

17. The asset accounts with *receivable* in its account title are: Accounts receivable, net; Income taxes receivable, net. The liabilities with *payable* in the account title are: Accounts payable; Income taxes payable, net; Income taxes payable, non-current.

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

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

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QUICK STUDIES

Quick Study 2-1 (10 minutes)

The likely source documents include:

a. Sales receipt e. Invoice from supplier
h. Bank statement
i. Telephone bill

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	169
e.	L	Liability	201
f.	A	Asset	161
g.	L	Liability	245
h.	EQ	Equity	301
i.	E	Expense	690

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Quick Study 2-4 (10 minutes)

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

Quick Study 2-5 (10 minutes)

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

Quick Study 2-6 (15 minutes)

a.

1) Analyze:

Assets			=	Liabilities	+	Equity
Cash		Equipment				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
	Owner invests cash & equipment.			

3) Post

Cash 101	
7,000	

Equipment 167	
3,000	

D. Tyler, Capital 301	
	10,000

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Quick Study 2-6 (Continued)

b.

1) Analyze:

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

2) Record:

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

3) Post

Office Supplies 124	
500	

Accounts Payable 201	
	500

c.

1) Analyze:

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

2) Record:

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

3) Post

Cash 101	
4,000	

Landscaping Revenue 403	
	4,000

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Quick Study 2-6 (Continued)

d.

1) Analyze:

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

2) Record:

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

3) Post

Cash 101	
1,000	

Unearned Landscaping Revenue 236	
	1,000

Quick Study 2-7 (10 minutes)

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

Quick Study 2-8 (10 minutes)

The correct answer is a.

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

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Quick Study 2-9 (10 minutes)

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

Quick Study 2-10 (10 minutes)

a.

Cash	
100	50
300	60
20	
Bal. 310	

b.

Accounts Payable	
2,000	8,000
2,700	
	Bal. 3,300

c.

Supplies	
10,000	3,800
1,100	
Bal. 7,300	

d.

Accounts Receivable	
600	150
	150
	150
	100
Bal. 50	

e.

Wages Payable	
	700
700	
	Bal. 0

f.

Cash	
11,000	4,500
800	6,000
100	1,300
Bal. 100	

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Quick Study 2-11 (15 minutes)

May 1	Accounts Receivable	2,000	
	Consulting Revenue		2,000
	Billed customer for services provided.		
3	Supplies	300	
	Accounts Payable		300
	Purchased supplies on credit.		
9	Cash	500	
	Accounts Receivable		500
	Received cash toward an account receivable.		
20	Accounts Payable	300	
	Cash		300
	Made payment toward account payable.		
31	Utilities Expense	100	
	Cash		100
	Paid for May utilities.		

Quick Study 2-12 (15 minutes)

LAWSON CONSULTING
Income Statement
For Month Ended June 30

Revenues		
Service revenue		$ 12,000
Expenses		
Wages expense	$ 6,000	
Rent expense	2,000	
Total expenses		8,000
Net income		$ 4,000

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Quick Study 2-13 (15 minutes)

LAWSON CONSULTING
Statement of Owner's Equity
For Month Ended June 30

L. Zhang, Capital, June 1	$ 0
Add: Investment by owner	10,000
Net income (from QS 2-12).....	4,000
	14,000
Less: Withdrawals by owner	1,500
L. Zhang, Capital, June 30	$12,500

Quick Study 2-14 (15 minutes)

LAWSON CONSULTING
Balance Sheet
June 30

Assets		Liabilities	
Cash.....	$ 5,000	Accounts payable.....	$ 3,500
Accounts receivable	4,500	**Equity**	
Equipment.....	6,500	L. Zhang, Capital*.....	12,500
Total assets.....	$16,000	Total liabilities & equity	$16,000

* Amount from Quick Study 2-13.

Quick Study 2-15 (10 minutes)

Debt ratio = Total liabilities / Total assets = $38,633 mil / $42,966 mil = 89.9%

***Interpretation*: Its debt ratio of 89.9% exceeds the 60% of its competitors. Home Depot's financial leverage, and accordingly its riskiness, can be judged as above average based on the debt ratio.**

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EXERCISES

Exercise 2-1 (10 minutes)

__4__ a. Prepare and analyze the trial balance.

__1__ b. Analyze each transaction from source documents.

__2__ c. Record relevant transactions in a journal.

__3__ d. Post journal information to ledger accounts.

Exercise 2-2 (10 minutes)

a. 5 "Three"

b. 2 "Equity"

c. 4 "Liability"

d. 1 "Asset"

e. 3 "Account"

Exercise 2-3 (5 minutes)

a. 1 "Chart"

b. 2 "General ledger"

c. 5 "Source document"

d. 4 "Account"

e. 3 "Journal"

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Exercise 2-4 (15 minutes)

	Account	Type of Account	Normal Balance	Increase (Dr. or Cr.)
a.	Land	asset	debit	debit
b.	Cash	asset	debit	debit
c.	Legal Expense	expense	debit	debit
d.	Prepaid Insurance	asset	debit	debit
e.	Accounts Receivable	asset	debit	debit
f.	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)

a. Analyze:

Assets			=	Liabilities	+	Equity
Cash		Equipment		Note Payable		Revenue
10,000	+	80,000	=	28,000	+	62,000

b. Record:

Account Titles and Explanation	PR	Debit	Credit
Cash	101	10,000	
Equipment	167	80,000	
Note Payable	245		28,000
Revenue	404		62,000
Services given in return for assets and a liability.			

c. Post

Cash 101	
10,000	

Note Payable 245	
	28,000

Equipment 167	
80,000	

Revenue 404	
	62,000

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Exercise 2-6 (15 minutes)

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

Exercise 2-7 (25 minutes)

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

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Exercise 2-8 (30 minutes)

Part 1

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

Office Supplies			
Aug. 5	880		

Prepaid Insurance			
Aug. 2	2,100		

Photography Equipment			
Aug. 1	33,500		

M. Harris, Capital			
		Aug. 1	40,000

Photography Fees Earned			
		Aug. 20	3,331

Utilities Expense			
Aug. 31	675		

Part 2

POSE-FOR-PICS
Trial Balance
August 31

	Debit	*Credit*
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	675	
Totals	$43,331	$43,331

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Exercise 2-9 (30 minutes)

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

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Exercise 2-9 (concluded)

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

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

K. Spade, Capital			
		(a)	100,750
		Balance	100,750

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

K. Spade, Withdrawals			
(i)	10,000		
Balance	10,000		

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

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

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

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

Exercise 2-10 (15 minutes)

SPADE COMPANY
Trial Balance
May 31

	Debit	*Credit*
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	1,225	
Totals	$118,950	$118,950

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Exercise 2-11 (20 minutes)

1.

a.	**Account Payable**	**2,000**	
	Cash		**2,000**
	Paid amount owed.		
b.	**Salaries Expense**	**1,200**	
	Cash		**1,200**
	Paid salary of receptionist.		
c.	**Equipment**	**39,000**	
	Cash		**39,000**
	Paid for equipment purchase.		
d.	**Utilities Expense**	**800**	
	Cash		**800**
	Paid utilities for the office.		
e.	**B. Valdez, Withdrawals**	**4,500**	
	Cash		**4,500**
	Paid for owner withdrawal.		

2. Transactions a, c, and e did not yield an expense for the following reasons:

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

a **This transaction decreased cash in settlement of a previously existing liability (equity did not change). Supplies expense is recorded when assets are used, not necessarily when cash is paid.**

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

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Exercise 2-12 (20 minutes)

1.

a.	**Cash**	**20,000**	
	B. Valdez, Capital		**20,000**
	Cash received from owner investment.		
b.	**Cash**	**900**	
	Services Revenue		**900**
	Provided services for cash.		
c.	**Cash**	**10,000**	
	Unearned Services Revenue		**10,000**
	Cash received for future services.		
d.	**Cash**	**3,500**	
	Accounts Receivable		**3,500**
	Cash received toward accounts receivable.		
e.	**Cash**	**5,000**	
	Note Payable		**5,000**
	Cash received for note payable to bank.		

2. Transactions a, c, d, and e did not yield revenue for the following reasons:

d This transaction changed the form of an asset from receivable to cash. Total assets were not increased (revenue was recognized when the services were originally provided).

e This transaction brought in cash (increased assets), and it also increased a liability by the same amount (represented by the signing of a note to repay the amount).

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

c This transaction brought in cash, but it created a liability to provide services to the client in the next year.

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Exercise 2-13 (25 minutes)

Cash	
(1) 6,000	**(2)** 4,800
(5) 4,500	**(4)** 800
	(6) 900
	(7) 3,400

Supplies	
(3) 900	

Prepaid Insurance	
(2) 4,800	

Equipment	
(1) 7,600	
(7) 3,400	

Web Servers	
(1) 12,000	

Accounts Payable	
(6) 900	**(3)** 900

D. Belle, Capital	
	(1) 25,600

Services Revenue	
	(5) 4,500

Selling Expenses	
(4) 800	

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Exercise 2-14 (30 minutes)

1.	Cash	6,000	
	Equipment	7,600	
	Web Servers	12,000	
	D. Belle, Capital		25,600
	Owner investment in company.		
2.	Prepaid Insurance	4,800	
	Cash		4,800
	Purchased insurance coverage.		
3.	Supplies	900	
	Accounts Payable		900
	Purchased supplies on credit.		
4.	Selling Expenses	800	
	Cash		800
	Paid cash for selling expenses.		
5.	Cash	4,500	
	Services Revenue		4,500
	Received cash for services provided.		
6.	Accounts Payable	900	
	Cash		900
	Made payment on accounts payable.		
7.	Equipment	3,400	
	Cash		3,400
	Paid cash for equipment.		

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Exercise 2-15 (20 minutes)

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

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

a.

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

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.)	(15,000)
Change in equity	$29,000

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	(0)
Change in equity	$29,000

Net Loss = $26,000

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

d.

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

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.

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Exercise 2-16 (15 minutes)

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

Exercise 2-17 (15 minutes)

HELP TODAY Statement of Owner's Equity For Month Ended August 31	
C. Camry, Capital, August 1	$ 0
Add: Investment by owner	102,000
Net income (from Exercise 2-16)	10,470
	112,470
Less: Withdrawals by owner	6,000
C. Camry, Capital, August 31	$106,470

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Exercise 2-18 (15 minutes)

HELP TODAY
Balance Sheet
August 31

Assets		Liabilities	
Cash	$ 25,360	Accounts payable	$ 10,500
Accounts receivable	22,360		
Office supplies	5,250	**Equity**	
Office equipment	20,000	C. Camry, Capital*	106,470
Land	44,000		
Total assets	$116,970	Total liabilities & equity	$116,970

* Amount from Exercise 2-17.

Exercise 2-19 (15 minutes)

	CBS	ABC	CNN	NBC
Answers	$(28,000)	$42,000	$73,000	$(45,000)
Computations:				
Equity, beginning of year	$ 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)	22,000	90,000	(4,000)	(45,000)
Equity, end of year	$104,000	$85,000	$73,000	$110,000

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Exercise 2-20 (20 minutes)

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

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Exercise 2-21 (15 minutes)

	Overstated, Understated, or Correctly-Stated	Amount
a.	Correctly-stated. The debit column is correctly stated because the erroneous debit (to Accounts Payable) is deducted from an account with a (larger assumed) credit balance.	$0
b.	Understated. The credit column is understated by $37,900 because Accounts Payable was debited — it should have been credited.	$37,900
c.	Correctly-stated. The Automobiles account balance is correctly stated.	$0
d.	Understated. 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.	$37,900
e.	The credit column is $37,900 less than the debit column, or $162,100 in total ($200,000 - $37,900).	

Exercise 2-22 (15 minutes)a.

Company	Liabilities	/	Assets	=	Debt Ratio
Dreamworks	$ 30,000		$ 40,000		0.75
Pixar	147,000		150,000		0.98
Universal	17,000		68,000		0.25

b. Pixar has the largest financial leverage because it has the larger debt ratio in comparison to both Dreamworks and Universal.

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Exercise 2-23 (25 minutes)

June 1	Cash	11,000	
	T. James, Capital		11,000
	Owner invests cash in business.		
2	Furniture	4,000	
	Accounts Payable		4,000
	Purchased furniture on credit.		
3	Prepaid Insurance	600	
	Cash		600
	Paid premium in advance for insurance.		
4	Accounts Receivable	3,000	
	Fees Earned		3,000
	Billed customer for services provided.		
12	Accounts Payable	4,000	
	Cash		4,000
	Made payment toward account payable.		
20	Cash	3,000	
	Accounts Receivable		3,000
	Received cash toward account receivable.		
21	Cash	10,000	
	T. James, Capital		10,000
	Owner invests cash in business.		
30	Cash	5,000	
	Unearned Revenue		5,000
	Cash received in advance for future services.		

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PROBLEM SET A

Problem 2-1A (90 minutes)

Part 1

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

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

Cash — **Acct. No. 101**

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

Accounts Receivable — **Acct. No. 106**

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

Office Supplies — **Acct. No. 124**

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

Prepaid Insurance — **Acct. No. 128**

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

Prepaid Rent — **Acct. No. 131**

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

Office Equipment — **Acct. No. 163**

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

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Problem 2-1A *(Continued)*

Accounts Payable **Acct. No. 201**

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

K. Tanner, Capital **Acct. No. 301**

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

K. Tanner, Withdrawals **Acct. No. 302**

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

Services Revenue **Acct. No. 403**

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

Utilities Expense **Acct. No. 690**

Date		Explanation	PR	Debit	Credit	Balance
April	30		G1	435		435

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

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

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Problem 2-2A (90 minutes)
Part 1

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

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

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

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

Cash				No. 101
Date	PR	Debit	Credit	Balance
(a)		100,000		100,000
(b)			6,300	93,700
(c)			55,000	38,700
(d)			3,000	35,700
(e)		6,200		41,900
(f)			9,500	32,400
(k)		7,000		39,400
(l)			1,200	38,200
(m)			1,150	37,050
(n)			925	36,125
(o)			9,480	26,645
(p)			1,200	25,445
(q)			2,500	22,945

Accounts Receivable				No. 106
Date	PR	Debit	Credit	Balance
(g)		14,000		14,000
(i)		22,000		36,000
(k)			7,000	29,000

Prepaid Insurance				No. 108
Date	PR	Debit	Credit	Balance
(d)		3,000		3,000

Office Equipment				No. 163
Date	PR	Debit	Credit	Balance
(a)		5,000		5,000
(h)		1,150		6,150

Drafting Equipment				No. 164
Date	PR	Debit	Credit	Balance
(a)		60,000		60,000
(f)		20,000		80,000

Building				No. 170
Date	PR	Debit	Credit	Balance
(c)		55,000		55,000

Land				No. 172
Date	PR	Debit	Credit	Balance
(b)		49,000		49,000

Accounts Payable				No. 201
Date	PR	Debit	Credit	Balance
(h)			1,150	1,150
(j)			1,333	2,483
(m)		1,150		1,333

Notes Payable				No. 250
Date	PR	Debit	Credit	Balance
(b)			42,700	42,700
(f)			10,500	53,200

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

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

ARACEL ENGINEERING Trial Balance June 30	*Debit*	*Credit*
Cash	$ 22,945	
Accounts receivable	29,000	
Prepaid insurance	3,000	
Office equipment	6,150	
Drafting equipment	80,000	
Building	55,000	
Land	49,000	
Accounts payable		$ 1,333
Notes payable		53,200
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	
Totals	$261,733	$261,733

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Problem 2-3A (90 minutes)

Part 1

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

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Problem 2-3A (Continued)
Part 2

Cash — **Acct. No. 101**

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

Accounts Receivable — **Acct. No. 106**

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

Office Supplies — **Acct. No. 124**

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

Prepaid Insurance — **Acct. No. 128**

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

Prepaid Rent — **Acct. No. 131**

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

Office Equipment — **Acct. No. 163**

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

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Problem 2-3A *(Continued)*

Part 2 *(Continued)*

Accounts Payable **Acct. No. 201**

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

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

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Problem 2-3A *(Concluded)*

Part 3

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

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Problem 2-4A (90 minutes)
Part 1

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

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

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

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

Cash No. 101

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

Accounts Receivable No. 106

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

Office Supplies No. 108

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

Office Equipment No. 163

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

Automobiles No. 164

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

Building No. 170

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

Land No. 172

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

Accounts Payable No. 201

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

Notes Payable No. 250

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

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

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

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

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Problem 2-5A (90 minutes)

Part 1

NETTLE DISTRIBUTION
Balance Sheet
December 31, 2018

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

NETTLE DISTRIBUTION
Balance Sheet
December 31, 2019

Assets		Liabilities	
Cash	$ 15,640	Accounts payable	$ 33,500
Accounts receivable	19,100	Note payable	40,000
Office supplies	1,960	Total liabilities	73,500
Trucks	157,000		
Office equipment	44,000		
Building	80,000	**Equity**	
Land	60,000	Total equity	304,200
Total assets	$377,700	Total liabilities and equity	$377,700

Part 2

Computation of 2019 net income:

Owner investment	35,000
Add net income	?
Deduct withdrawals by owner	(19,000)
Increase in equity during the year	$ 22,000*

Thus, net income = ($22,000 + $19,000 - $35,000) = $ 6,000

* Computation of 2019 equity increase:

Equity, December 31, 2018	$282,200
Equity, December 31, 2019	(304,200)
Increase in equity during 2019	$ 22,000

Part 3

Debt Ratio = $73,500 / $377,700 = 19.5%

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Problem 2-6A (35 minutes)

Part 1

MIN ENGINEERING Trial Balance May 31	Debit	Credit
Cash	$37,600	
Office supplies	890	
Prepaid insurance	4,600	
Office equipment	12,900	
Accounts payable		$12,900
Y. Min, Capital		18,000
Y. Min, Withdrawals	3,370	
Engineering fees earned		36,000
Rent expense	7,540	
Totals	$66,900	$66,900

Part 2

Cash			
(a)	18,000	(b)	7,540
(f)	36,000	(c)	4,600
		(d)	890
		(g)	3,370
Balance	37,600		

Transactions *a* through *g* coded in T-account:

(a) Yi Min invested $18,000 cash in the business.
(b) Paid $7,540 cash for May's monthly rent expense.
(c) Paid $4,600 cash for this year's insurance premium beginning immediately.
(d) Purchased office supplies for $890 cash.
(e) Purchased $12,900 of office equipment on credit (with accounts payable).
(f) Received $36,000 cash for engineering services provided in May.
(g) Yi Min withdrew $3,370 cash for personal use.

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Problem 2-7A (40 minutes)

Part 1

METRIX Income Statement For Month Ended March 31		
Revenues		
Consulting revenue	$12,000	
Rental revenue	500	
Total revenues		$12,500
Expenses		
Salaries expense	3,000	
Rent expense	2,000	
Advertising expense	400	
Utilities expense	200	
Total expenses		5,600
Net income		$ 6,900

Part 2

METRIX Statement of Owner's Equity For Month Ended March 31	
A. Lopez, Capital, March 1	$ 0
Add: Investment by owner	11,600
Net income (from Income Statement)	6,900
	18,500
Less: Withdrawals by owner	2,000
A. Lopez, Capital, March 31	$16,500

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Problem 2-7A *(Concluded)*

Part 3

METRIX
Balance Sheet
March 31

Assets		Liabilities	
Cash	$ 8,000	Accounts payable	$ 1,300
Accounts receivable	3,500	Note payable	2,400
Prepaid insurance	1,000	Unearned revenue	300
Office supplies	1,500	Total liabilities	4,000
Equipment	4,000	**Equity**	
Note receivable	2,500	A. Lopez, Capital*	16,500
Total assets	$20,500	Total liabilities & equity	$20,500

* Amount from Statement of Owner's Equity.

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PROBLEM SET B

Problem 2-1B (90 minutes)

Part 1

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

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

Cash — **Acct. No. 101**

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

Accounts Receivable — **Acct. No. 106**

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

Office Supplies — **Acct. No. 124**

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

Prepaid Insurance — **Acct. No. 128**

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

Prepaid Rent — **Acct. No. 131**

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

Office Equipment — **Acct. No. 163**

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

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Problem 2-1B *(Continued)*

Accounts Payable **Acct. No. 201**

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

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

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Problem 2-1B *(Concluded)*

Part 3

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

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Problem 2-2B (90 minutes)

Part 1

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

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

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

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

Cash No. 101

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

Accounts Receivable No. 106

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

Prepaid Insurance No. 108

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

Office Equipment No. 163

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

Computer Equipment No. 164

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

Building No. 170

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

Land No. 172

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

Accounts Payable No. 201

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

Notes Payable No. 250

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

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

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Problem 2-2B *(Concluded)*

Part 3

SOFTWORKS Trial Balance April 30	Debit	Credit
Cash	$ 17,262	
Accounts receivable	9,350	
Prepaid insurance	5,000	
Office equipment	6,700	
Computer equipment	34,500	
Building	34,500	
Land	22,000	
Accounts payable		$ 580
Notes payable		20,700
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	
Totals	$141,080	$141,080

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Problem 2-3B (90 minutes)

Part 1

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

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

Cash — **Acct. No. 101**

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

Accounts Receivable — **Acct. No. 106**

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

Office Supplies — **Acct. No. 124**

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

Prepaid Insurance — **Acct. No. 128**

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

Prepaid Rent — **Acct. No. 131**

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

Office Equipment — **Acct. No. 163**

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

Accounts Payable — **Acct. No. 201**

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

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Problem 2-3B *(Continued)*

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	831	
Totals	$60,599	$60,599

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Problem 2-4B (90 minutes)

Part 1

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

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Problem 2-4B

Part 1—Concluded

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

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

Cash No. 101

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

Accounts Receivable No. 106

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

Office Supplies No. 108

Date	PR	Debit	Credit	Balance
(c)		500		500

Office Equipment No. 163

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

Automobiles No. 164

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

Building No. 170

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

Land No. 172

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

Accounts Payable No. 201

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

Notes Payable No. 250

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

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

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Problem 2-4B *(Concluded)*

Part 3

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

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Problem 2-5B (60 minutes)

Part 1

TAMA CO.
Balance Sheet
December 31, 2018

Assets		Liabilities	
Cash	$ 30,000	Accounts payable	$ 4,000
Accounts receivable	35,000		
Office supplies	8,000		
Office equipment	40,000	**Equity**	
Machinery	28,000	Total equity	137,000
Total assets	$141,000	Total liabilities & equity	$141,000

TAMA CO.
Balance Sheet
December 31, 2019

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

Part 2

Computation of 2019 net income:

Owner investment	5,000
Add net income	?
Deduct withdrawals by owner	(3,000)
Increase in equity during the year	$ 13,000*

Thus, net income = ($13,000 + $3,000 - $5,000) = $ 11,000

* Computation of 2019 equity increase:

Equity, December 31, 2018	$137,000
Equity, December 31, 2019	(150,000)
Increase in equity during 2019	$ 13,000

Part 3

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

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Problem 2-6B (35 minutes)

Part 1

GOULD SOLUTIONS Trial Balance April 30	Debit	Credit
Cash	$20,000	
Office supplies	750	
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
Miscellaneous expenses	7,650	
Totals	$47,650	$47,650

Part 2

Cash			
(a)	15,000	(b)	1,800
(f)	20,400	(c)	7,650
		(d)	750
		(g)	5,200
Balance	20,000		

Transactions *a* through *g* coded in T-account:

(a) R.Gould, the owner, invested $15,000 cash in the business.
(b) Paid $1,800 cash in advance for next month's rent expense.
(c) Paid $7,650 cash for miscellaneous expenses.
(d) Purchased office supplies for $750 cash.
(e) Purchased $12,250 of office equipment on credit (with accounts payable).
(f) Received $20,400 cash for consulting services provided in April.
(g) R.Gould, the owner, withdrew $5,200 cash for personal use.

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Problem 2-7B (40 minutes)

Part 1

PRISEK
Income Statement
For Month Ended July 31

Revenues		
Consulting revenue	$36,000	
Rental revenue	1,500	
Total revenues		$37,500
Expenses		
Salaries expense	9,000	
Rent expense	6,000	
Advertising expense	1,200	
Utilities expense	600	
Total expenses		16,800
Net income		$20,700

Part 2

PRISEK
Statement of Owner's Equity
For Month Ended July 31

V. Rivera, Capital, July 1	$ 0
Add: Investment by owner	34,800
Net income (from Income Statement)	20,700
	55,500
Less: Withdrawals by owner	6,000
V. Rivera, Capital, July 31	$49,500

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Problem 2-7B *(Concluded)*

Part 3

PRISEK
Balance Sheet
July 31

Assets		Liabilities	
Cash	$24,000	Accounts payable	$ 3,900
Accounts receivable	10,500	Note payable	7,200
Prepaid insurance	3,000	Unearned revenue	900
Office supplies	4,500	Total liabilities	12,000
Equipment	12,000	**Equity**	
Note receivable	7,500	V. Rivera, Capital*	49,500
Total assets	$61,500	Total liabilities & equity	$61,500

* Amount from Statement of Owner's Equity.

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Serial Problem — SP 2

Part 1 (120 minutes) Serial Problem, Business Solutions

2019					
Oct. 1	Cash	101	45,000	
	Office Equipment	163	8,000	
	Computer Equipment	167	20,000	
	S. Rey, Capital	301		73,000
	Owner invests cash and equipment.			
2	Prepaid Rent	131	3,300	
	Cash	101		3,300
	Paid four months' rent in advance.			
3	Computer Supplies	126	1,420	
	Accounts Payable	201		1,420
	Purchased supplies on credit.			
5	Prepaid Insurance	128	2,220	
	Cash	101		2,220
	Paid 12 months' premium in advance.			
6	Accounts Receivable	106	4,800	
	Computer Services Revenue	403		4,800
	Billed customer for services.			
8	Accounts Payable	201	1,420	
	Cash	101		1,420
	Paid balance due on account payable.			
10	*No entry necessary in the journal.*			
12	Accounts Receivable	106	1,400	
	Computer Services Revenue	403		1,400
	Billed customer for services.			
15	Cash	101	4,800	
	Accounts Receivable	106		4,800
	Collected accounts receivable.			
17	Repairs Expense—Computer	684	805	
	Cash	101		805
	Paid for computer repairs.			
20	Advertising Expense	655	1,728	
	Cash	101		1,728
	Purchased ads in local newspaper.			
22	Cash	101	1,400	
	Accounts Receivable	106		1,400
	Collected accounts receivable.			

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Serial Problem, Business Solutions *(Continued)*

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

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Serial Problem, Business Solutions *(Continued)*

Part 2

General Ledger accounts

Cash — **Acct. No. 101**

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

Accounts Receivable — **Acct. No.106**

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

Computer Supplies — **Acct. No. 126**

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

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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

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Serial Problem, Business Solutions *(Concluded)*

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

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

Wages Expense — **Acct. No. 623**

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

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

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

Mileage Expense — **Acct. No. 676**

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

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

Date	Explanation	PR	Debit	Credit	Balance
Nov. 22			250		250

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

Date	Explanation	PR	Debit	Credit	Balance
Oct. 17			805		805

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Serial Problem, Business Solutions *(Continued)*

Part 3

BUSINESS SOLUTIONS
Trial Balance
November 30

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

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Company Analysis — AA 2-1 (20 minutes)

$ millions

1. (a) $241,272
   (b) $193,437

2. (a) $375,319
   (b) $321,686

3. (a) $241,272 / $375,319 = 64.3%
   (b) $193,437 / $321,686 = 60.1%

4. 2017
   Explanation: Apple has greater financial leverage when a greater proportion of its assets are financed by liabilities. Additionally, Apple's financing structure is more risky when it utilizes more leverage.

Comparative Analysis — AA 2-2 (25 minutes)

$ millions

1. Apple

   Current year debt ratio: $241,272/$375,319 = 64.3%

   Prior year debt ratio: $193,437/$321,686 = 60.1%

2. Google

   Current year debt ratio: $44,793/$197,295 = 22.7%

   Prior year debt ratio: $28,461/$167,497 = 17.0%

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

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Global Analysis — AA 2-3 (20 minutes)

₩ and $ in millions

1. Samsung

Current year debt ratio: ₩87,260,662 / ₩301,752,090 = 28.9%

Prior year debt ratio: ₩69,211,291 / ₩262,174,324 = 26.4%

2. Increased financial leverage

3. (a) Less Risky ***Explanation*****: Samsung's debt ratio of 28.9% is lower than Apple's debt ratio of 64.3% ($241,272/$375,319).**

(b) More Risky ***Explanation*****: Samsung's debt ratio of 28.9% is higher than Google's debt ratio of 22.7% ($44,793/$197,295).**

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Ethics Challenge — BTN 2-1

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

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

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

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

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Communicating in Practice — BTN 2-2

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.**
- ***Balance sheet*** **describes a company's financial position (assets, liabilities, and equity) at a point in 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.**

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.

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Taking It to the Net — BTN 2-3

1. **The prior three years' net income or (loss) for Amazon are ($ millions):**
   2016 = $2,371 2015 = $596 2014 = $(241)

2. **The three years net cash *provided* by operations follows ($ millions):**
   2016 = $16,443 2015 = $11,920 2014 = $6,842

3. **The reason its cash balance only increased by $3,444 million in 2016 was because of net cash outflows of $9,876 million for its investing activities and $2,911 million for its financing activities (and further reduced by $212 million related to foreign currency effects). Those uses of cash absorbed much of the cash generated by its operating activities.**

Teamwork in Action — BTN 2-4

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

The following <u>sample solution</u> 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.

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Entrepreneurial Decision — BTN 2-5

There are several issues that ownership should consider. Those considerations include the following three issues (among others).

- **If ownership chooses to contribute personal funds for the expansion, ownership money will be at risk (not business loans); in this case, the business will not have the expense of interest payments, nor will the business have the risk of the inability to repay a loan.**
- **If ownership chooses to have the business borrow the money, the business will have interest <u>and</u> loan payments to make, and the business will have more risk (as reflected in the company's debt ratio).**
- **If the business can pay the interest and loan payments, it can be to the business's advantage to borrow, as long as the return on assets is high enough (that is, higher than the rate of interest on the borrowing).**

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Entrepreneurial Decision — BTN 2-6

1.

MARTIN MUSIC SERVICES
Balance Sheet
December 31

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

2.

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

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

***Ending balance is used per instructions ("assume average assets equal its ending balance").**

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

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

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

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

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Hitting the Road — BTN 2-7

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.

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Analyzing and Recording Transactions

Chapter 2

Wild and Shaw

Fundamental Accounting Principles

24th Edition

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Chapter 2 Learning Objectives

CONCEPTUAL

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

ANALYTICAL

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

PROCEDURAL

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

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Learning Objective C1

Explain the steps in processing transactions and the role of source documents.

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Basics of Financial Statements

Business transactions and events are the starting points of financial statements. Process from transactions to financial statements is as follows:

- Identify each transaction and event from source documents.
- Analyze each transaction and event using the accounting equation.
- Record relevant transactions and events in a journal.
- Post journal information to ledger accounts.
- Prepare and analyze the trial balance and financial statements.

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

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Source Documents

Source documents identify and describe transactions entering the accounting system. Examples:

- Bills from suppliers
- Sales receipts
- Checks
- Purchase orders
- Payroll records
- Bank statements

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

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Learning Objective C2

Describe an account and its use in recording transactions.

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The Account Underlying Financial Statements

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

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

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

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The Account and Its Analysis

Exhibit 2.1

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

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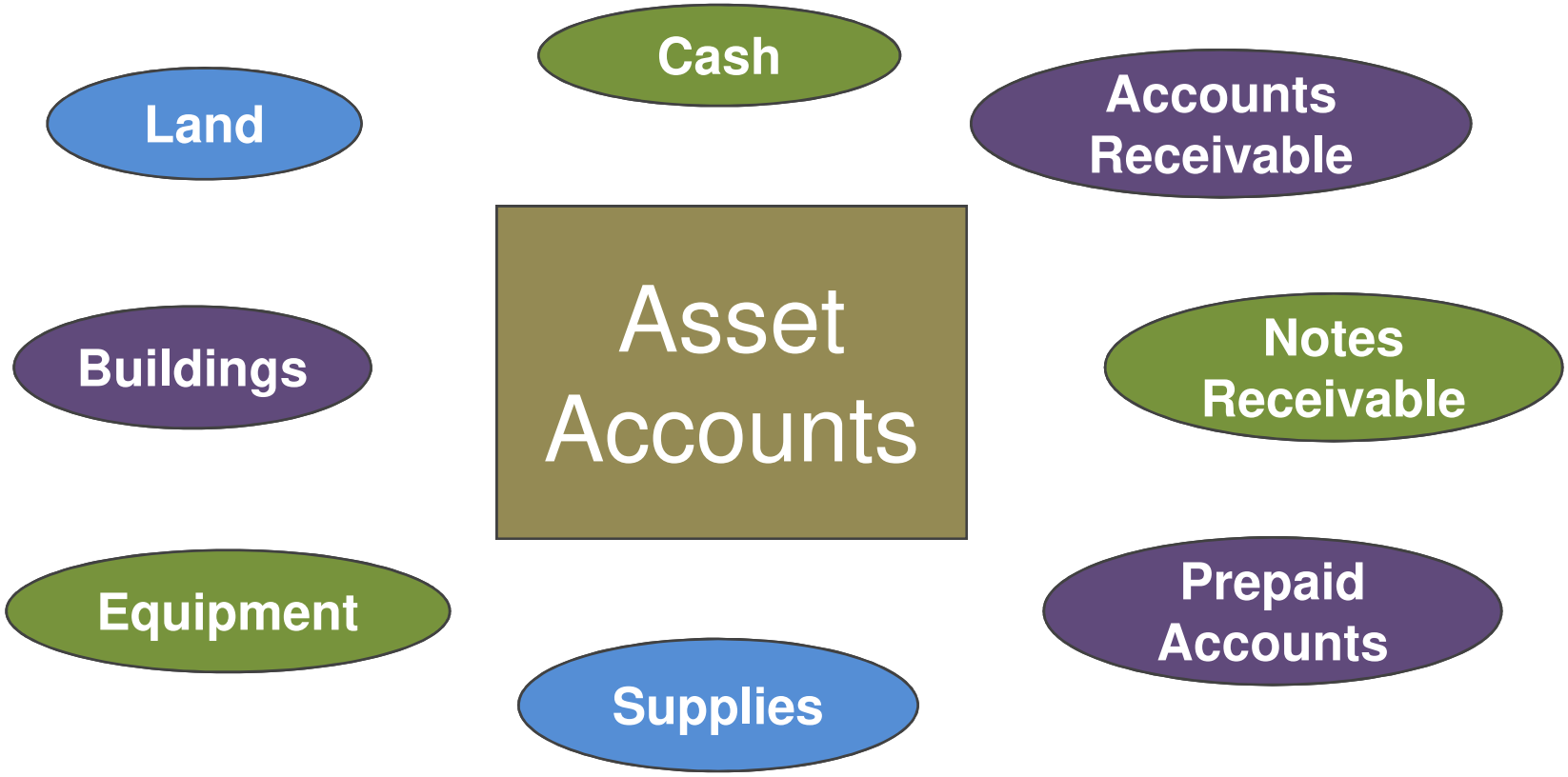
Asset Accounts



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

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Liability Accounts

Accounts Payable

Notes Payable

Liability Accounts

Accrued Liabilities

Unearned Revenue

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

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Equity Accounts

+
Owner capital

–
Owner withdrawals

Equity Accounts

+
Revenues

–
Expenses

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

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Expanded Accounting Equation

Revenues and Owner capital increases equity.
Expenses and Owner withrawals decrease equity.

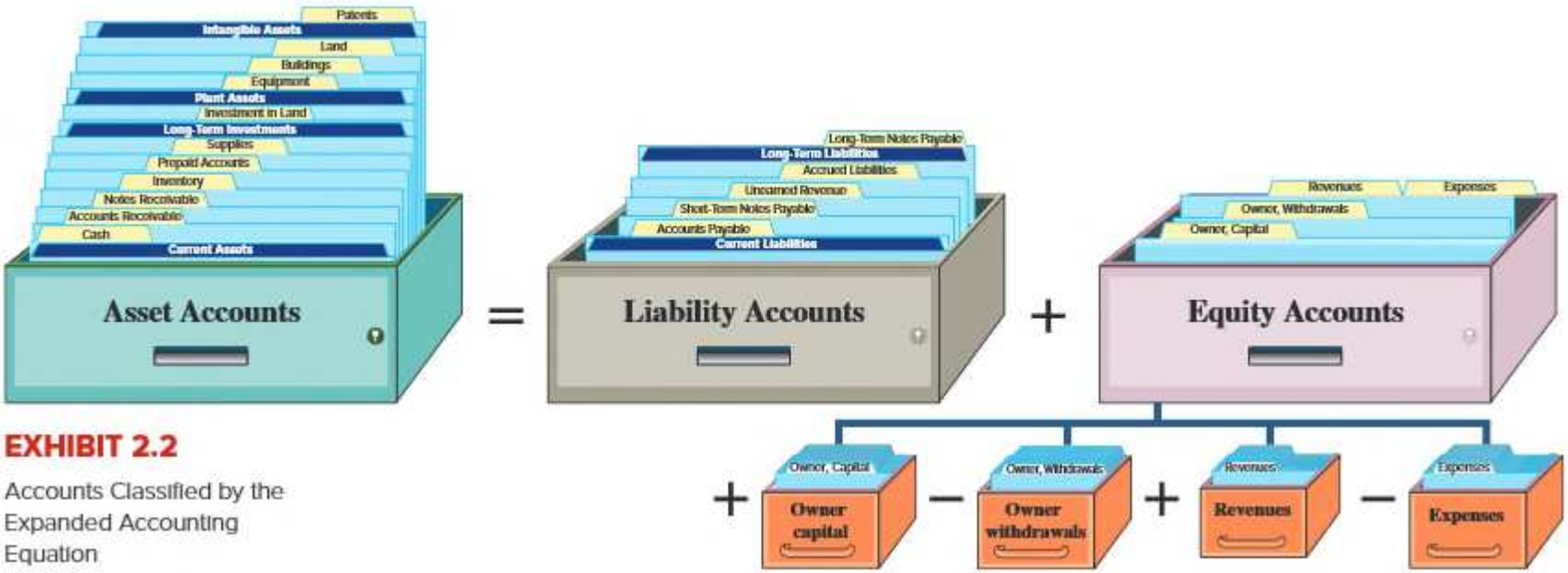

EXHIBIT 2.2

Accounts Classified by the Expanded Accounting Equation

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

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Learning Objective C3

Describe a ledger and chart of accounts.

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Ledger and Chart of Accounts

The ledger is a collection of all accounts and their balances for an accounting system. A company's size and diversity of operations affect the number of accounts needed.

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

Exhibit 2.4

Chart of Accounts

Assets		Liabilities		Equity					
						Revenues		Expenses	
101	Cash	201	Accounts payable	301	C. Taylor, Capital	403	Consulting revenue	622	Salaries expense
106	Accounts receivable	236	Unearned consulting revenue	302	C. Taylor, Withdrawals	406	Rental revenue	637	Insurance expense
126	Supplies							640	Rent expense
128	Prepaid insurance							652	Supplies expense
167	Equipment							690	Utilities expense

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

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Learning Objective C4

Define debits and credits and explain double-entry accounting.

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Debits and Credits

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

Account Title	
(Left side) **Debit**	(Right side) **Credit**

Exhibit 2.5

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

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Double-Entry Accounting

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

Exhibit 2.6

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

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

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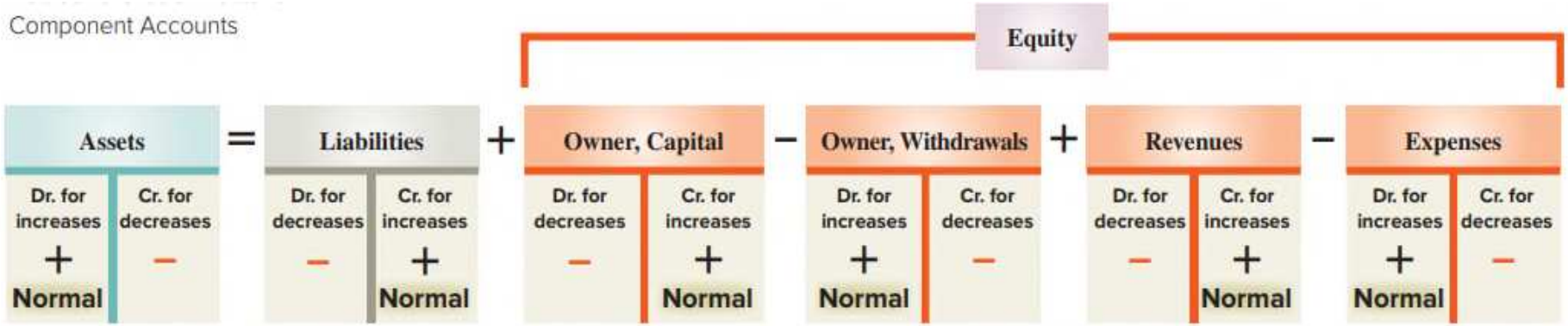
Double-Entry Accounting: Expanded Accounting Equation

Here is the expanded accounting equation showing the equity section.

Exhibit 2.7



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

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Double-Entry Accounting: Account Balance

An account balance is the difference between the increases and decreases in an account. Notice the T-Account of Cash has an account balance of $4,800.

Cash

36,100	Receive investment by owner	30,000	Purchase of supplies	2,500	31,300
	Consulting services revenue earned	4,200	Purchase of equipment	26,000	
	Collection of account receivable	1,900	Payment of rent	1,000	
			Payment of salary	700	
			Payment of account payable	900	
			Withdrawal by owner	200	
	Balance	4,800			

36,100 – 31,300

Exhibit 2.8

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

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Learning Objective P1

Record transactions in a journal and post entries to a ledger.

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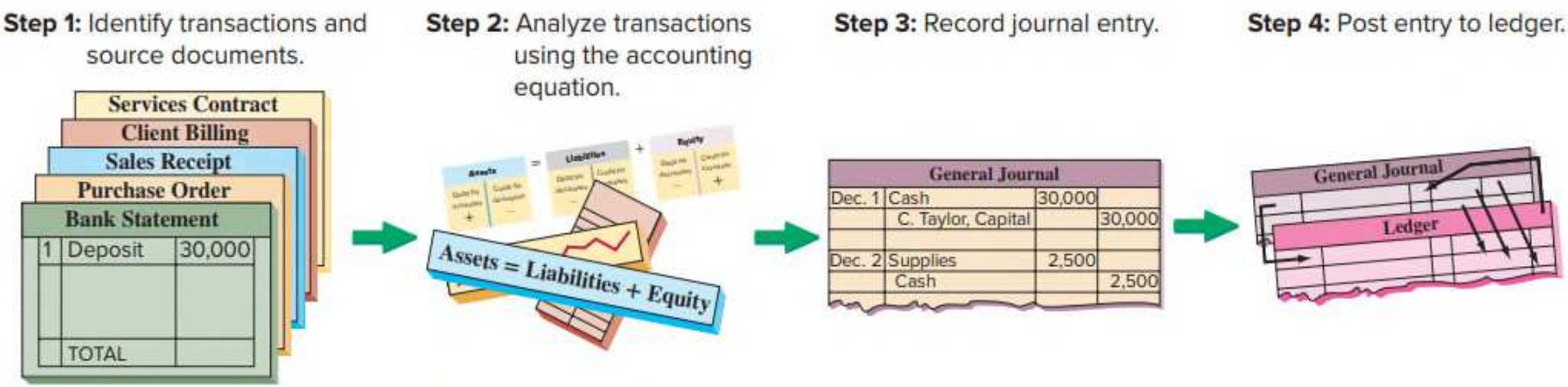
Journalizing and Posting Transactions

Exhibit 2.9



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

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Journalizing Transactions

a. Transaction Date

b. Titles of Affected Accounts

Exhibit 2.10

General Journal

Date	Account Titles and Explanation	PR	Debit	Credit
2019 (a) Dec. 1	(b) Cash		30,000	(c)
	C. Taylor, Capital			30,000
	Receive investment by owner. (d)			
Dec. 2	Supplies		2,500	
	Cash			2,500
	Purchase supplies for cash.			

d. Transaction explanation

c. Dollar amount of debits and credits

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

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Balance Account Column

Exhibit 2.11

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

General Ledger					
Cash					Account No. 101
Date	Explanation	PR	Debit	Credit	Balance
2019 Dec. 1		G1	30,000		30,000
Dec. 2		G1		2,500	27,500
Dec. 3		G1		26,000	1,500
Dec. 10		G1	4,200		5,700

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

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Posting Journal Entries

Exhibit 2.12

General Journal

Date	Account Titles and Explanation	PR	Debit	Credit
2019 Dec. 1	Cash	101	30,000	
	C. Taylor, Capital	301		30,000
	Receive investment by owner			

General Ledger

Cash — Account No. 101

Date	Explanation	PR	Debit	Credit	Balance
2019 Dec. 1		G1	30,000		30,000

C. Taylor, Capital — Account No. 301

Date	Explanation	PR	Debit	Credit	Balance
2019 Dec. 1		G1		30,000	30,000

Key:

(A) Identify debit account in ledger: enter date, journal page, amount, and balance (red line).

(B) Enter the debit account number from the ledger in the PR column of the journal (blue line).

(C) Identify credit account in ledger: enter date, journal page, amount, and balance (gold line).

(D) Enter the credit account number from the ledger in the PR column of the journal (green line).

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

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Learning Objective A1

Analyze the impact of transactions on accounts and financial statements.

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Processing Transactions

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

Step 1 Identify the transaction and any source documents.

Step 2 Analyze the transaction using the accounting equation.

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

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

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Processing Transactions #1

1. Receive Investment by Owner

1 IDENTIFY FastForward receives $30,000 cash from Chas Taylor as an owner contribution.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash				C. Taylor, Capital
+30,000	=	0		+30,000

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(1)	Cash	101	30,000	
	C. Taylor, Capital	301		30,000

4 POST

Cash		101
(1) 30,000		

C. Taylor, Capital		301
	(1)	30,000

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Processing Transactions #2

2. Purchase Supplies for Cash

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

2 ANALYZE

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

Changes the composition of assets but not the total.

3 RECORD

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

4 POST

Supplies		126
(2) 2,500		

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

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

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Processing Transactions #3

3. Purchase Equipment for Cash

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

2 ANALYZE

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

Changes the composition of assets but not the total.

3 RECORD

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

4 POST

Equipment		167
(3) 26,000		

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

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Processing Transactions #4

4. Purchase Supplies on Credit

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

2 ANALYZE

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

3 RECORD

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

4 POST

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

Accounts Payable		201
	(4)	7,100

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

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Processing Transactions #5

5. Provide Services for Cash

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

2 ANALYZE

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

3 RECORD

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

4 POST

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

Consulting Revenue		403	
		(5)	4,200

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Processing Transactions #6

6. Payment of Expense in Cash

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

2 ANALYZE

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

3 RECORD

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

4 POST

Rent Expense		640
(6) 1,000		

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

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Processing Transactions #7

7. Payment of Expense in Cash

1 Identify FastForward pays $700 cash for employee salary.

2 Analyze

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

3 Record

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

4 Post

Salaries Expense		622
(7) 700		

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

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Processing Transactions #8

8. Provide Consulting and Rental Services on Credit

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

2 ANALYZE

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

3 RECORD

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

4 POST

Accounts Receivable		106
(8) 1,900		

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

Rental Revenue		406
	(8)	300

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Processing Transactions #9

9. Receipt of Cash on Account

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

2 Analyze

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

3 Record

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

4 Post

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

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

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Processing Transactions #10

10. Partial Payment of Accounts Payable

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

2 ANALYZE

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

3 RECORD

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

4 POST

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

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

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Processing Transactions #11

11. Withdrawal of Cash by Owner

1 IDENTIFY Chas Taylor withdraws $200 cash from FastForward for personal use.

2 ANALYZE

Assets	=	Liabilities	+	Equity
				C. Taylor, Withdrawals
Cash				
−200	=	0		−200

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(11)	C. Taylor, Withdrawals	302	200	
	Cash	101		200

4 POST

C. Taylor, Withdrawals		302
(11) 200		

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

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Processing Transactions #12

12. Receipt of Cash for Future Services

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

2 ANALYZE

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

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

3 RECORD

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

4 POST

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

Unearned Consulting Revenue		236	
		(12)	3,000

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Processing Transactions #13

13. Pay Cash for Future Insurance Coverage

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

2 ANALYZE

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

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

3 RECORD

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

4 POST

Prepaid Insurance		128
(13)	2,400	

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

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Processing Transactions #14

14. Purchase Supplies for Cash

1 IDENTIFY FastForward pays $120 cash for supplies.

2 ANALYZE

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

3 RECORD

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

4 POST

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

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

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Processing Transactions #15

15. Payment of Expense in Cash

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

2 ANALYZE

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

3 RECORD

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

4 POST

Utilities Expense		690
(15) 305		

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

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Processing Transactions #16

16. Payment of Expense in Cash

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

2 ANALYZE

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

3 RECORD

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

4 POST

Salaries Expense		622
(7)	700	
(16)	700	

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

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Summarizing Transactions in a Ledger

Exhibit 2.13

General Ledger

Assets = Liabilities + Equity

Cash		101	
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200
		(13)	2,400
		(14)	120
		(15)	305
		(16)	700
Balance	**4,275**		

Accounts Receivable		106	
(8)	1,900	(9)	1,900
Balance	**0**		

Supplies		126	
(2)	2,500		
(4)	7,100		
(14)	120		
Balance	**9,720**		

Prepaid Insurance		128	
(13)	**2,400**		

Equipment		167	
(3)	**26,000**		

Accounts Payable		201	
(10)	900	(4)	7,100
		Balance	**6,200**

Unearned Consulting Revenue		236	
		(12)	**3,000**

C. Taylor, Capital		301	
		(1)	**30,000**

C. Taylor, Withdrawals		302	
(11)	**200**		

Consulting Revenue		403	
		(5)	4,200
		(8)	1,600
		Balance	**5,800**

Rental Revenue		406	
		(8)	**300**

Salaries Expense		622	
(7)	700		
(16)	700		
Balance	**1,400**		

Rent Expense		640	
(6)	**1,000**		

Utilities Expense		690	
(15)	**305**		

Accounts in this white area are on the income statement.

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

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

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Learning Objective P2

Prepare and explain the use of a trial balance.

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Preparing a Trial Balance

Preparing a trial balance has three steps:

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

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

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FastForward's Trial Balance

Exhibit 2.14

FASTFORWARD
Trial Balance
December 31, 2019

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

The trial balance lists all ledger accounts and their balances at a point in time. If the books are in balance, the total debits will equal the total credits.

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

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Searching for Errors

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

❶ Make sure the trial balance columns are correctly added.

❷ Make sure account balances are correctly entered from the ledger.

❸ See if debit or credit accounts are mistakenly placed on the trial balance.

❹ Recompute each account balance in the ledger.

❺ Verify that each journal entry is posted correctly.

❻ Verify that each original journal entry has equal debits and credits.

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

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Learning Objective P3

Prepare financial statements from business transactions.

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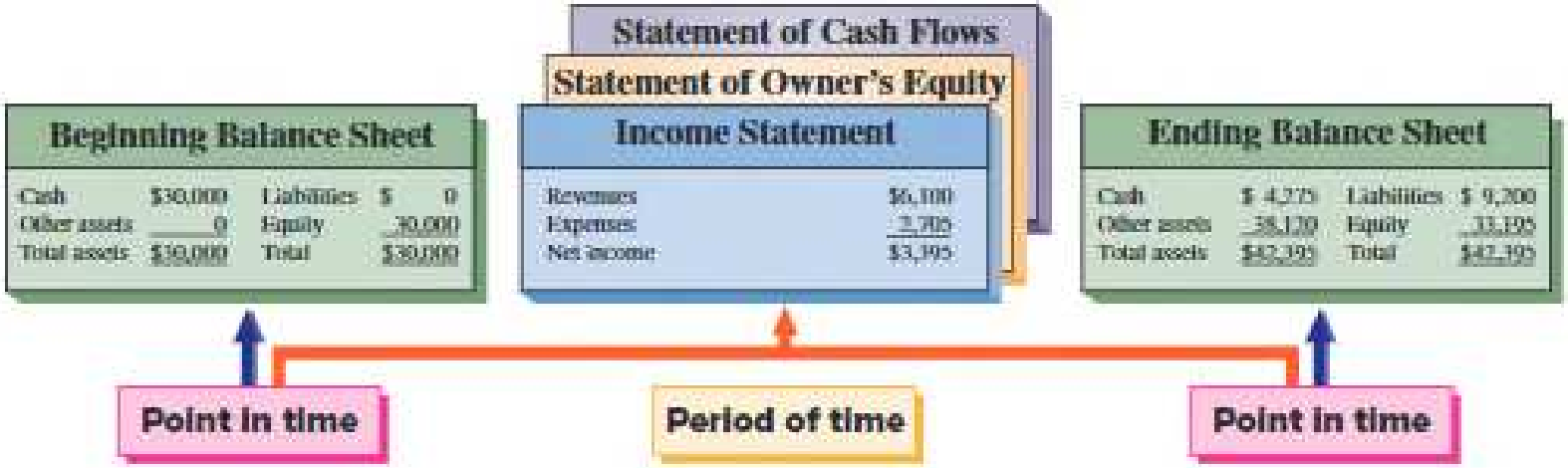
Financial Statements Prepared from Trial Balance

Exhibit 2.15



Learning Objective P3: Prepare financial statements from business transactions.

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Financial Statements

The four financial statements and their purposes are:

1. Income statement — reports revenues less expenses incurred by a business over a period of time.
2. Statement of owner's equity — reports how equity changes over the reporting period from net income (or loss) and from any owner investments and withdrawals over a period of time.
3. Balance sheet — reports the financial position (types and amounts of assets, liabilities, and equity) at a point in time.
4. Statement of Cash Flows — The statement of cash flows lists the cash inflows and cash outflows for the period.
For simplicity, we do not show the statement of cash flows for FastForward in this chapter, but we do return to this statement in the next chapter.

Learning Objective P3: Prepare financial statements from business transactions.

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Income Statement

Exhibit 2.16

FASTFORWARD
Income Statement
For Month Ended December 31, 2019

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

Learning Objective P3: Prepare financial statements from business transactions.

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Statement of Owner's Equity

Exhibit 2.16

FASTFORWARD
Income Statement
For Month Ended December 31, 2019

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

FASTFORWARD
Statement of Owner's Equity
For Month Ended December 31, 2019

C. Taylor, Capital, December 1, 2019		$ 0
Plus: Investments by owner	$30,000	
Net income	3,395	33,395
		33,395
Less: Withdrawals by owner		200
C. Taylor, Capital, December 31, 2019		$33,195

Learning Objective P3: Prepare financial statements from business transactions.

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Balance Sheet

Exhibit 2.16

FASTFORWARD
Statement of Owner's Equity
For Month Ended December 31, 2019

C. Taylor, Capital, December 1, 2019		$ 0
Plus: Investments by owner	$30,000	
Net income	3,395	33,395
		33,395
Less: Withdrawals by owner		200
C. Taylor, Capital, December 31, 2019		$33,195

FASTFORWARD
Balance Sheet
December 31, 2019

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

Learning Objective P3: Prepare financial statements from business transactions.

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Presentation Issues

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

Learning Objective P3: Prepare financial statements from business transactions.

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Learning Objective A2

Compute the debt ratio and describe its use in analyzing financial condition.

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Debt Ratio - Equation

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

Evaluates the level of debt risk.

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

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

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Debt Ratio - Computation

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

$ millions	Current Year	1 Year Ago	2 Years Ago
Total liabilities	$25,268	$20,831	$22,174
Total assets	$36,347	$33,163	$33,017
Debt ratio	**0.70**	**0.63**	**0.67**
Walmart debt ratio	0.59	0.58	0.58

Exhibit 2.18

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

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End of Chapter 2

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