

Solution Manual for College Accounting A Contemporary Approach 3rd Edition Haddock Price Farina ISBN 0077639731 9780077639730

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CHAPTER 2 ANALYZING BUSINESS TRANSACTIONS

Chapter Opener: Thinking Critically

The individuals in charge of keeping track of these transactions at Southwest as well as in other companies, are known as accountants. When recording the transactions, accountants are required to follow a set of rules and regulations known as GAAP.

For every financial transaction that Southwest has, their accountants determine the accounts that were affected and then they record, report and then analyze these transactions. By doing so they can, at a specific point in time and over a stipulated period, be able to assess the company's financial performance including profitability of the airline, assets owned by the company and of course the amount owed to creditors and owners.

Fast Facts

- Southwest Airlines opened in 1971 with three planes flying between Houston, Dallas, and San Antonio. Southwest Airlines currently flies over 100 million passengers a year to 97 cities all across the country.
- For the fiscal year 2012, the company's net income was \$421 million while its total operating revenue was \$17.09 billion.
- In 2012 Southwest served 63.3 million cans of soda, juices, and water; 14.1 million alcoholic beverages; 37.2 million bags of pretzels; 88.3 million bags of peanuts; 22.9 million Select-A-Snacks; and 45.5million other snacks.

Managerial Implications: Thinking Critically

Answers will vary. Students should mention total assets and the type of assets, the liabilities the business would be responsible for, and whether the business is making a profit.

Discussion Questions

Note to instructor: These questions are designed to check students' understanding of new terms, concepts, and procedures presented in the chapter.

1. $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$

2. Assets: property owned. Liabilities: debts. Owners' equity: owner's financial interest.
3. Assets, liabilities, and owner's equity.
4. Revenue and expenses; net income or loss
5. Beginning-of-period capital balance, additional investments, net income/loss for period, less **withdrawals ending capital balance.**
6. Firm name, title of statement, date of statement or the period of time covered
7. Balance sheet shows position at particular date; increase of operations for a period of time
8. **Inflow of money/assets resulting from sales or use of property.**
9. Outflow of money/assets for costs used to produce revenue.

Discussion Questions (continued)

10. Subtract total expenses from revenue
11. Increases owner's equity
12.
 - a. assets increase, owner's equity increase
 - b. one asset increase and another decrease; no change in total assets
 - c. assets decrease, liabilities decrease
 - d. assets increase, owner's equity increase
 - e. assets decrease, owner's equity decrease
 - f. assets decrease, owner's equity decrease

EXERCISE 2.1

Assets:	\$125,900
Liabilities:	\$26,225
Owners' Equity	\$99,675

EXERCISE 2.2

1. \$22,240
2. \$19,020
3. \$5,675
4. \$36,725
5. \$8,875

EXERCISE 2.3

Transaction	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owners' Equity</u>	
1.	<u>I</u>				<u>I</u>	I = Increase (-)
2.	<u>I</u>		<u>I</u>			D = Decrease (+)
3.	<u>I/D</u>					
4.	<u>I/D</u>					
5.	<u>I</u>				<u>I</u>	
6.	<u>D</u>				<u>D</u>	
7.	<u>I</u>				<u>I</u>	
8.	<u>I/D</u>					
9.	<u>D</u>				<u>D</u>	
10.	<u>D</u>		<u>D</u>			

EXERCISE 2.4

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1. Cash	\$13,500		<u>Accounts Payable \$23,180</u>	+	<u>David Malone, Capital \$28,520</u>
2. Dental Supplies	3,650	=		+	
3. Dental Equipment	26,550	=		+	
4. Office Furniture	8,000	=		+	
5. Total	<u>\$51,700</u>	=	<u>\$23,180</u>	+	<u>\$28,520</u>

EXERCISE 2.5

	Assets		=	Liabilities	+	Owner's Equity						
	Cash+	Accounts Receivable	+	Equipment	=	Accounts Payable	+	John Amos Capital	+	Revenue	-	Expenses
1.	+\$60,000							+\$60,000				
2.				+22,000		+22,000						
3.	+3,100									+3,100		
4.	-4,600			+4,600								
5.		+5,050								+5,050		
6.	-4,450											4,450
7.	+3,200	-3,200										
8.	-13,000					-13,000						
Totals		\$44,250+\$1,850+		\$26,600	=	\$9,000	+	\$60,000	+	\$8,150	-	\$4,450

EXERCISE 2.6

Net income of \$23,000

Revenue

Repair Fees \$51,150

Expenses

Advertising Expense \$6,300

Salaries Expense 19,100

Telephone Expense 1,150

Utilities Expense 1,600

Total Expenses \$28,150

Net Income \$23,000

EXERCISE 2.7

1. Services were performed for cash.
2. Equipment was purchased for cash.
3. A payment was made on the amount owed to a creditor.
4. An expense was paid in cash.
5. Cash was received from charge customer.
6. Services were performed on credit.
7. An expense was paid in cash.

EXERCISE 2.8

Perez Investment Services
Income Statement

Month Ended September 30, 2016

Revenue										
Fees Income						77	9	0	0	00
Expenses										
Advertising Expense	6	5	0	0	00					
Salaries Expense	16	0	0	0	00					
Telephone Expense		8	0	0	00					
Total Expenses						23	3	0	0	00
Net Income						54	6	0	0	00

EXERCISE 2.9

Net Loss of \$1,150

Revenue

Service Revenue \$5,800

Expenses

Advertising Expense..... \$3,100

Telephone Expense..... 800

Salaries Expense 2,600

Cleaning Expense 450

Total Expense \$6,950

Net Loss -\$1,150

EXERCISE 2.10

Perez Investment Services

Statement of Owner's Equity

Month Ended September 30, 2016

Alexandria Perez, Capital, September 1, 2016										
						26	7	0	0	00
Net Income for September	54	6	0	0	00					
Less Withdrawals for September	9	0	0	0	00					
Increase in Capital						45	6	0	0	00
Alexandria Perez, Capital, September 30, 2016						72	3	0	0	00

EXERCISE 2.10 (continued)

Perez Investment Services

Balance Sheet September

30, 2016

Assets						Liabilities					
Cash	33	1	0	0	00	Accounts Payable	5	7	0	0	00
Accounts Receivable	4	0	0	0	00						
Office Supplies	3	4	0	0	00	Owner's Equity					
Office Equipment	37	5	0	0	00	Alexandria Perez, Capital	72	3	0	0	00
Total Assets	78	0	0	0	00	Total Liabilities and Owner's Equity	78	0	0	0	00

PROBLEM 2.1A

	Assets				=	Liabilities	+	Owner's Equity			
	Accounts				=	Accounts	+	Owner's			
	Cash	+ Receivable	+ Supplies	+ Equipment	=	Payable	+	Capital			
1.	+\$97,000							+\$97,000			
2.	-\$19,750			+\$19,750							
3.				+\$14,400		+\$14,400					
4.	-\$11,800					-\$11,800					
5.	+\$30,000							+\$30,000			
6.	+\$8,200							+\$8,200			
7.		+\$6,300						+\$6,300			
8.	-\$4,000							-\$4,000			
9.	+\$3,500	-\$3,500									
10.	-\$6,460		+\$6,460								
11.	-\$9,000							-\$9,000			
Totals	\$87,690	+	\$2,800	+	\$6,460	+	\$34,150	=	\$2,600	+	\$128,500

Analyze: The ending balance in the Cash account is \$87,690.

PROBLEM 2.2A

	Assets				=	Liabilities	+	Owner's Equity							
	Accounts				=	Accounts	+	M. Dickey							
	Cash	+ Receivable	+ Furniture	+ Auto	=	Payable	+	Capital	+ Revenue - Expenses						
Beginning															
Balances	\$61,000	+	\$16,600	+	\$35,800	+	\$23,500	=	\$11,200	+	\$91,500	+	\$58,600	-	\$24,400
1.			+	6,680										+	6,680
New															
Balances	61,000	+	23,280	+	35,800	+	\$23,500	=	11,200	+	91,500	+	65,280	-	24,400
2.	-1,700			+	1,700										
New															
Balances	59,300	+	23,280	+	37,500	+	\$23,500	=	11,200	+	91,500	+	65,280	-	24,400
3.	+11,200														

PROBLEM 2.2A (continued)

	Assets				=	Liabilities	+	Owner's Equity		
	Cash	+ Accounts Receivable	+ Office Furniture	+ Auto	=	Accounts Payable	+	M. Dickey Capital	+ Revenue	- Expenses
New Balances	70,500	+ 12,080	+ 37,500	+ \$23,500	=	11,200	+	91,500	+ 65,280	- 24,400
4.	-880									+880
New Balances	69,620	+ 12,080	+ 37,500	+ \$23,500	=	11,200	+	91,500	+ 65,280	- 25,280
5.	-4,500					-4,500				
New Balances	65,120	+ 12,080	+ 37,500	+ \$23,500	=	6,700	+	91,500	+ 65,280	- 25,280
6.	-9,700									+9,700
New Balances	55,420	+ 12,080	+ 37,500	+ \$23,500	=	6,700	+	91,500	+ 65,280	- 34,980
7.	-1,120									+1,120
New Balances	54,300	+ 12,080	+ 37,500	+ \$23,500	=	6,700	+	91,500	+ 65,280	- 36,100
8.	+10,500								+10,500	
New Balances	64,800	+ 12,080	+ 37,500	+ \$23,500	=	6,700	+	91,500	+ 75,780	- 36,100
9.	-2,350									+2,350
New Balances	62,450	+ 12,080	+ 37,500	+ \$23,500	=	6,700	+	91,500	+ 75,780	- 38,450
10.		+ 12,500							+12,500	
New Balances	\$62,450	+ \$24,580	+ \$37,500	+ \$23,500	=	\$6,700	+	\$91,500	+ \$88,280	- \$38,450

Analyze: Total assets equal \$148,030.

PROBLEM 2.3A

Brown Equipment Repair Service

Balance Sheet

February 29, 2016

Assets					Liabilities				
Cash	34	3	0	00	Accounts Payable	24	0	0	00
Supplies	6	3	8	00					
Accounts Receivable	13	2	0	00	Owner's Equity				
Equipment	78	0	0	00	James Brown, Capital	107	8	8	00
Total Assets	131	8	8	00	Total Liabilities and Owner's Equity	131	8	8	00

Analyze: Owner's Equity is \$107,880 at February 29, 2016.

PROBLEM 2.4A

Cotton Cleaning Service

Income Statement

Month Ended May 31, 2016

Revenue				
Fees Income				7 8 8 000
Expenses				
Utilities Expense	9	8	000	
Salaries Expense	8	9	000	
Telephone Expense	3	1	400	
Total Expenses				10 1 9 400
Net Loss				(2 3 1 400)

Cotton Cleaning Service

Statement of Owner's Equity

Month Ended May 31, 2016

Taylor Cotton, Capital, May 1, 2016				50	6	0	000
Net Loss for May	(2	3	1	400)			
Less Withdrawal for May	3	0	0	000			
Decrease in Capital				5	3	1	400)
Taylor Cotton, Capital, May 31, 2016				45	2	8	600

PROBLEM 2.4A (continued)

Cotton Cleaning Service

Balance Sheet

May 31, 2016

Assets						Liabilities					
Cash	4	6	8	6	00	Accounts Payable	4	9	0	0	00
Accounts Receivable	5	9	0	0	00						
Supplies	5	8	0	0	00	Owner's Equity					
Equipment	33	8	0	0	00	Taylor Cotton, Capital	45	2	8	6	00
Total Assets	50	1	8	6	00	Total Liabilities and Owner's Equity	50	1	8	6	00

Analyze: The amount of \$45,286 (Taylor Cotton, Capital) was transferred to the balance sheet.

PROBLEM 2.1B

	Assets				=	Liabilities	+	Owner's Equity
	Accounts				=	Accounts	+	Owner's
	Cash	+ Receivable	+ Supplies	+ Equipment	=	Payable	+	Capital
1.	+\$72,000							+\$72,000
2.	-\$32,000			+\$32,000				
3.				+\$12,000	+\$12,000			
4.	-\$6,000				-\$6,000			
5.	+\$12,000							+\$12,000
6.	+\$8,400							+\$8,400
7.		+\$7,300						+\$7,300
8.	-\$5,200							-\$5,200
9.	+\$5,000	-\$5,000						
10.	-\$6,300		+\$6,300					
11.	-\$10,000							-\$10,000
Totals	\$37,900	+\$2,300	+\$6,300	+\$44,000	=	\$6,000	+	\$84,500

Analyze: Transaction 3 increased the Company's debt by \$12,000.

PROBLEM 2.2B

	Assets				=	Liabilities	+	Owner's Equity	
	Accounts				=	Accounts	+	S. Cravens	
	Cash	+ Receivable	+ Supplies	+ Office Furniture	=	Payable	+	Capital	+ Revenue - Expenses
Beginning									
Balances	\$38,000	+\$12,000	+\$12,800	+\$24,000	=	\$10,000	+	\$49,800	+\$52,000 - \$25,000
1.		+8,000							+8,000
New									
Balances	38,000	20,000	12,800	24,000	=	10,000	+	49,800	60,000 - 25,000
2.	-2,880								+2,880
New									
Balances	35,120	20,000	12,800	24,000	=	10,000	+	49,800	60,000 - 27,880
3.	+10,000								+10,000

PROBLEM 2.2B (continued)

	Assets				=	Liabilities	+	Owner's Equity				
	Cash	Accounts Receivable	Supplies	Office Furniture	=	Accounts Payable	+	S. Cravens Capital	+	Revenue	-	Expenses
New												
Balances	45,120	+ 20,000	+ 12,800	+ 24,000	=	10,000	+	49,800	+	70,000	-	27,880
4.	-1,600											+1,600
New												
Balances	43,520	+ 20,000	+ 12,800	+ 24,000	=	10,000	+	49,800	+	70,000	-	29,480
5.	-4,800					-4,800						
New												
Balances	38,720	+ 20,000	+ 12,800	+ 24,000	=	5,200	+	49,800	+	70,000	-	29,480
6.	-1,920											+1,920
New												
Balances	36,800	+ 20,000	+ 12,800	+ 24,000	=	5,200	+	49,800	+	70,000	-	31,400
7.	-14,000											+14,000
New												
Balances	22,800	+ 20,000	+ 12,800	+ 24,000	=	5,200	+	49,800	+	70,000	-	45,400
8.	+11,200											+11,200
New												
Balances	34,000	+ 20,000	+ 12,800	+ 24,000	=	5,200	+	49,800	+	81,200	-	45,400
9.			+2,000			+2,000						
New												
Balances	34,000	+ 20,000	+ 14,800	+ 24,000	=	7,200	+	49,800	+	81,200	-	45,400
10.	+6,000	+ -6,000										
New												
Balances	\$40,000	+ \$14,000	+ \$14,800	+ \$24,000	=	\$7,200	+	\$49,800	+	\$81,200	-	\$45,400

Analyze: Owner's Equity balance is \$85,600; \$49,800 + (\$81,200 - \$45,400).

PROBLEM 2.3B

Smith's Tax Service

Balance Sheet

December 1, 2016

Assets						Liabilities					
Cash	50	0	0	0	00						
Furniture	10	0	0	0	00						
Equipment	12	0	0	0	00	Owner's Equity					
						Douglas Smith, Capital	72	0	0	0	00
Total Assets	72	0	0	0	00	Total Liabilities and Owner's Equity	72	0	0	0	00

Analyze: The amount reported on the balance sheet for owner's equity would be \$56,000.

PROBLEM 2.4B

Kathryn Proctor, Attorney and Counselor of Law

Income Statement

Month Ended August 31, 2016

Revenue											
Fees Income						10	8	0	0	00	
Expenses											
Utilities Expense		6	0	0	00						
Salaries Expense		5	4	0	00						
Telephone Expense		6	0	0	00						
Total Expenses						6	6	0	0	00	
Net Income						4	2	0	0	00	

Kathryn Proctor, Attorney and Counselor of Law

Statement of Owner's Equity

Month Ended August 31, 2016

Kathryn Proctor, Capital, Aug. 1, 2016						23	2	0	0	00
Net Income for August	4	2	0	0	00					
Less Withdrawals for August	1	2	0	0	00					
Increase in Capital						3	0	0	0	00
Kathryn Proctor, Capital, Aug. 31, 2016						26	2	0	0	00

Analyze: Net Income of \$4,200 was transferred from the income statement.

PROBLEM 2.4B (continued)

Kathryn Proctor, Attorney and Counselor at Law

Balance Sheet

August 31, 2016

Assets						Liabilities					
Cash	4	8	0	0	00	Accounts Payable		6	0	0	00
Accounts Receivable	6	6	0	0	00						
Supplies	5	4	0	0	00	Owner's Equity					
Equipment	10	0	0	0	00	Kathryn Proctor, Capital	26	2	0	0	00
Total Assets	26	8	0	0	00	Total Liabilities and Owner's Equity	26	8	0	0	00

Analyze: Net income of \$4,200 was transferred from the income statement.

CRITICAL THINKING PROBLEM 2.1

Determine the balance for Carl Nicholson, April 30, 2016.

Assets			=	Liabilities	+	Owner's Equity								
Cash	Accounts Receivable	Machinery	=	Accounts Payable	+	C. Nicholson Capital	-	C. Nicholson Drawing	+	Revenue	-	Expenses		
\$30,000	+	\$12,000	+	\$21,000	=	\$13,200	+	?	-	\$6,800	+	\$26,800	-	\$21,490

Let Carl Nicholson, Capital = X.

Solving for X:

$$\$63,000 \text{ (Total Assets)} = \$13,200 \text{ (Accounts Payable)} - \$6,800 \text{ (Drawing)} + \$26,800 \text{ (Revenue)} - \$21,490 \text{ (Expenses)} + X$$

$$\begin{aligned}
 & \$63,000 - \$11,710 = \$51,290 = X \\
 \text{Carl Nicholson, Capital,} & \quad = \underline{\underline{\$51,290}} \\
 \text{April 1, 2016} &
 \end{aligned}$$

Advertising Expense	\$3,890
Maintenance Expense	4,600
Salaries Expense	13,000
Total Expenses	<u>\$21,490</u>

CRITICAL THINKING PROBLEM 2.1 (continued)

Carl Nicholson, Certified Public Accountant

Income Statement

Month Ended April 30, 2016

Revenue										
Fees Earned						26	8	0	0	00
Expenses										
Advertising Expense	3	8	9	0	00					
Maintenance Expense	4	6	0	0	00					
Salaries Expense	13	0	0	0	00					
Total Expenses						21	4	9	0	00
Net Income						5	3	1	0	00

Carl Nicholson, Certified Public Accountant

Statement of Owner's Equity

Month Ended April 30, 2016

Carl Nicholson, Capital, April 1, 2016						51	2	9	0	00
Net Income for April	5	3	1	0	00					
Less Withdrawals for April	6	8	0	0	00					
Decrease in Capital						(1	4	9	0	00)
Carl Nicholson, Capital, April 30, 2016						49	8	0	0	00

Carl Nicholson, Certified Public Accountant

Balance Sheet

April 30, 2016

Assets						Liabilities					
Cash	30	0	0	0	00	Accounts Payable	13	2	0	0	00
Accounts Receivable	12	0	0	0	00	Owner's Equity					
Equipment	21	0	0	0	00	Carl Nicholson, Capital	49	8	0	0	00
Total Assets	63	0	0	0	00	Total Liabilities and Owner's Equity	63	0	0	0	00

CRITICAL THINKING PROBLEM 2.2

Body Builders Fitness Center

Income Statement

Two Months Ended December 31, 2016

Revenue									
Fees Earned							9	7	6 000
Expenses									
Rent Expense	8	0	0	0	00				
Cleaning Expense	2	1	0	0	00				
Advertising Expense		8	0	0	00				
Total Expenses						10	9	0 000	
Net Loss						(1	1	4 000)	

Some students may include the warm-up suits as a business expense. If the suits are a type of uniform, their inclusion is appropriate; if they are to be worn at home and at work, their cost is not a business expense.

The parking ticket is a personal expense. The cleaning of the studio and the printing of the flyers are business expenses. Payment of expenses with the owner’s personal credit card would be considered an additional investment by the owner.

It is not unusual for new businesses to operate at a loss. James should project his income and expenses for the next several months to determine how much new business he will need to earn an income. Students’ suggestions for improving the accounting system might include opening a business checking account, not using a personal credit card for business expenses, setting up a filing system for business records, and purchasing a computer to maintain financial records.

SOLUTIONS TO BUSINESS CONNECTIONS

Managerial Focus:

1. Not necessarily. Reinvestments in assets or use of cash to pay debts affect cash. In addition, sales or revenue may have been "on account."
2. No. Early development is expensive, risky, and time consuming. Profits may not be achieved for a year or more.
3. The firm's obligations must be met as they become due.
4. Organized financial information can be used to evaluate operating efficiency and to make decisions about current and future activities.

Ethical Dilemma:

goods are shipped. If she enters the sale and for some reason the customer doesn't make the order or the goods are not available for shipment, Carol would need to pay the bonus back. Julia's job would be in jeopardy.

Financial Statement Analysis:

1. Southwest Airlines Co., Consolidated Statement of Income, Years Ended December 31,
2. Passenger, Freight, Other.
3. Statement of Owner's Equity (Consolidated Statement of Stockholders' Equity).
4. Total operating revenue was \$4.2 billion for the quarter ended December 31, 2012.
5. See current topic on website.

Internet Connection:

Macy's, Bloomingdales, and now May is included in the Federated Corporation. Shopping online is on every home page. To record an online sale it must debit a credit card receivable and credit sales. A general job announcement and requirements are given at the site.

Team Work:

Accounts Payable Clerk would use Purchases (Increase), A/P (increase and decrease) and Cash (decrease). Accounts Receivable Clerk would use Sales (increase), A/R (increase and decrease) and Cash (increase). Full charge bookkeeper would use accounts Cash (increase and decrease), Bank Charges (increase) and Miscellaneous account (increase), Interest Income (increase), Interest Expense (increase). Accurate numbers are developed when it is determined that all transactions have been entered and that total assets equal total liabilities plus owner's equity.

SOLUTIONS TO PRACTICE TEST

Part A True-False

1. TRUE
2. TRUE
3. FALSE
4. TRUE
5. FALSE
6. TRUE
7. FALSE
8. TRUE
9. FALSE
10. TRUE

Part B Matching

1. b
2. f
3. e
4. c
5. h
6. d
7. g
8. a

Part C Completion

1. profit
2. credit or on account
3. reduced or decreased
4. assets
5. asset or property
6. equal
7. accounts payable or liability
8. analyze