Solution Manual for Financial Accounting An Introduction to Concepts Methods and Uses 14th Edition by Weil ISBN 1111823456 9781111823450

CHAPTER 2

THE BASICS OF RECORD KEEPING AND FINANCIAL STATEMENT PREPARATION: BALANCE SHEET

Questions, Exercises, and Problems: Answers and Solutions

See the text or the glossary at the end of the book.

Accounting is governed by the balance sheet equation, which shows the equality of assets with liabilities plus shareholders' equity:

Assets = Liabilities + Shareholders' Equity

To maintain this equality, it is necessary to report every event and transaction in a dual manner. If a transaction results in an increase on the left-hand side (Assets), dual transactions recording requires that one of the following must occur to maintain the balance sheet equation: decrease another asset; increase a liability; increase shareholders' equity. Similarly, if a transaction results in an increase in a Liability account, then one of the following must occur to maintain the balance sheet equation: decrease another liability; decrease shareholders' equity; increase an asset.

Typically, the accountant records journal entries before transferring the amounts to T-accounts. A T-account is used to record the effects of events and transactions that affect a specific asset, liability, shareholders' equity, revenue, or expense account (which the text has not yet introduced). It captures both increases and decreases in that specific account, without reference to the effects on other accounts. It also shows the beginning and ending balances of balance sheet accounts. A journal entry shows all the accounts affected by a single event or transaction; each debit and each credit in a journal entrywill affect a specific T-account. Journal entries providea record of transactions, and T-accounts summarize the effects of transactions on specific accounts.

The distinction is based on time. Current assets are expected to be converted to cash (or used) within a year; for example, Accounts Receivable, converted to cash (or Advances for Insurance, used). Noncurrent assets are expected to be converted to cash over longer periods.

Contra accounts provide disaggregated information concerning the net amount of an asset, liability, or shareholders' equity item. For example, the account Property, Plant, and Equipment Net of Accumulated Depreciation does not indicate separately the acquisition cost of fixed assets and the portion of that acquisition cost written off as depreciation since acquisition. If the firm used a contra account, it would have such information. The alternative to using contra accounts is to debit or credit directly the principal account involved (for example, Property, Plant, and Equipment). This alternative procedure, however, does not permit computation of disaggregated information about the net balance in the account. Note that the use of contra accounts does not affect the total of assets, or liabilities, or shareholders' equity, but only the balances in various accounts that comprise the totals for these items.

(Fresh Foods Group; dual effects on balance sheet equation.) (amounts in millions of euros [€])

Transaction	Assets	=	Liabilities +	Shareholders' Equity
(1)	+ €678		+ €678	
(2)	– € 45		– € 45	
(3)	– €633		– €633	

2.7 (Cement Plus; dual effects on balance sheet equation.) (amounts in millions of US$)

Transaction	Assets	=	Liabilities +	Shareholders' Equity
(1)	+ $14,300			
	– $ 2,300		+ $12,000	
(2)	+ $ 3,000			
	– $ 3,000			
(3)	+ $ 6,500			+ $ 6,500
(4)			– $12,000	+ $12,000

2.8 (Balance sheet classification.)

a. L	f. L	k. A
b. SE	g. A	l. A (if purchased from another firm)
c. A	h. L	N/A (if created by the firm)
d. N/A	i. N/A	m. N/A
e. A	j. L	n. SE

2.9 (Balance sheet classification.)

a. SE	h. L
b. A	i. A
c. N/A	j. L
d. A	k. L
e. SE	l. A
f. A	m. L
g. A (if purchased from another firm) N/A (if created by the firm)	n. SE (contra; subtract)

2.10 (Bullseye Corporation; dual effects of transactions on balance sheet equation and journal entries.) (amounts in millions of US$)

a. Transaction

Number		**Assets**	**=**	**Liabilities**	**+**	**Shareholders' Equity**
(1)		+ $ 960			+	+ $ 960
	Subtotal	$ 960	=			$ 960
(2)		+ 1,500		+ $1,500		
	Subtotal	$2,460	=	$1,500	+	$ 960
(3)		+ 3,200 + 930 − 4,130				
	Subtotal	$2,460	=	$1,500	+	$ 960
(4)		+ 860	=	+ 860		
	Subtotal	$3,320	=	$2,360	+	$ 960
(5)		− 1,500		− 1,500		
	Subtotal	$1,820	=	$ 860	+	$ 960
(6)		− 430		− 860	+	+ 430
	Total	$1,390	=	0	+	$1,390

2.10 continued.

b. (1) Cash 960.0

Common Stock 1.7

Additional Paid-In Capital 958.3

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+960.0				+1.7	ContriCap
				+958.3	ContriCap

Issue 20 million shares of $0.0833 par value common stock for $960 million. Different rounding convention might yield a different, correct answer.

(2) Merchandise Inventory 1,500

Accounts Payable 1,500

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+1,500		+1,500			

Purchase $1,500 million of inventory on account.

(3) Building 3,200

Land 930

Cash 4,130

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+3,200					
+930					
-4,130					

Acquires building costing $3,200 million and land costing $930 million, and pays in cash.

(4) Building Fixtures 860

Accounts Payable 860

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+860		+860			

Acquires building fixtures costing $860 million on account.

b. continued.

(5) Accounts Payable	1,500	
Cash		1,500

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
-1,500		-1,500			

Pays suppliers in Transaction (2).

(6) Accounts Payable	860.0	
Cash		430.0
Common Stock		0.7
Additional Paid-In Capital		429.3

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
-430.0		-860.0		+0.7	ContriCap
				+429.3	ContriCap

Pays suppliers of fixtures cash of $430 million in shares of common stock. Bullseye Corporation shares are trading at $50 per share, so it gave the supplier 8.6 million shares of common stock (= $430 million/$50 per share).

(Inheritance Brands; dual effects of transactions on balance sheet equation and journal entries.) (amounts in millions of US$)

a.

Transaction Number		**Assets**	**=**	**Liabilities**	**+**	**Shareholders' Equity**
(1)		+ $ 550			+	+ $ 550
	Subtotal	$ 550	=			$ 550
(2)		− 400				
		+ 1,150		+ $ 750		
	Subtotal	$1,300	=	$ 750	+	$ 550
(3)		− 30				
		+ 30				
	Subtotal	$1,300	=	$ 750	+	$ 550
(4)		+ 400	=	+ 400		
	Subtotal	$1,700	=	$1,150	+	$ 550
(5)		− 400		− 400		
	Total	$1,300	=	$ 750	+	$ 550

2.11 continued.

b. (1) Cash 550.0

Common Stock 31.25

Additional Paid-In Capital 518.75

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+550.0				+31.25	ContriCap
				+518.75	ContriCap

Issue 10 million shares of $3.125 par value common stock for $55 per share.

(2) Land 250

Building 900

Cash 400

Notes Payable 750

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+250		+750			
+900					
–400					

Gives $400 million in cash and promises to pay the remainder in Year 15 for land costing $250 million and a building costing $900 million.

(3) Prepaid Insurance 30

Cash 30

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+30					
–30					

Pays $30 million in advance to insurance company for coverage beginning next month.

b. continued.

(4) Merchandise Inventory	400	
Accounts Payable		400

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+400		+400			

Purchases merchandise costing $400 million on account.

(5) Accounts Payable	400	
Cash		400

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
-400		-400			

Pays cash to suppliers for merchandise on account.

(Winkle Grocery Store; journal entries for various transactions.) (amounts in US$)

(1) Cash	30,000	
Common Stock		30,000

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+30,000				+30,000	ContriCap

(2) Cash	5,000	
Notes Payable		5,000

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+5,000		+5,000			

(3) Prepaid Rent	12,000	
Cash		12,000

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+12,000					
-12,000					

continued.

(4) Equipment 8,000
Cash 8,000

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+8,000					
-8,000					

(5) Merchandise Inventory 25,000
Cash 12,000
Accounts Payable 13,000

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+25,000		+13,000			
-12,000					

(6) Cash 4,000
Advances from Customers 4,000

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+4,000		+4,000			

(7) Prepaid Insurance 1,200
Cash 1,200

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+1,200					
-1,200					

(8) Prepaid Advertising 600
Cash 600

Assets	=	Liabilities	+	Shareholders' Equity	(Class.)
+600					
-600					

(9) The placing of an order does not give rise to a journal entry because it represents a mutually unexecuted contract.

(Moulton Corporation; recording transactions and preparing a balance sheet.) (amounts in US$)

a. T-accounts.

Cash (A)

(1) 800,000	500,000 (2)
(6) 300,000	245,000 (4)
	12,000 (5)
343,000	

Merchandise Inventory (A)

(3) 280,000	5,000 (4)
275,000	

Prepaid Insurance (A)

(5) 12,000	
12,000	

Land (A)

(2) 50,000	
50,000	

Building (A)

(2) 450,000	
450,000	

Equipment (A)

(7) 80,000	
80,000	

Accounts Payable (L)

(4) 250,000	280,000 (3)
	30,000

Note Payable (L)

	80,000 (7)
	80,000

Loan

	300,000 (6)
	300,000

Common Stock (SE)

	800,000 (1)
	800,000

continued.

b. **MOULTON CORPORATION**
Balance Sheet
December 31, Year 12

Assets

Current Assets:		
Cash		$ 343,000
Merchandise Inventories	275,000	
Prepaid Insurance	12,000	
Total Current Assets		$ 630,000
Noncurrent Assets:		
Land		$ 50,000
Building		450,000
Equipment	80,000	
Total Noncurrent Assets		$ 580,000
Total Assets		$ 1,210,000

Liabilities and Shareholders' Equity

Current Liabilities:		
Accounts Payable		$ 30,000
Note Payable	80,000	
Total Current Liabilities		$ 110,000
Noncurrent Liabilities:		
Loan Payable		$ 300,000
Total Liabilities		$ 410,000
Shareholders' Equity:		
Common Stock		$ 800,000
Retained Earnings		0
Total Shareholders' Equity		$ 800,000
Total Liabilities and Shareholders' Equity		$ 1,210,000

(Patterson Corporation; recording transactions and preparing a balance sheet.) (amounts in US$)

a. T-accounts.

Cash (A)

(1) 210,000	5,400 (5)
(11) 4,500	350 (6)
	1,400 (8)
	58,200 (9)
	7,000 (12)
	95,000 (14)
47,150	

Marketable Securities (A)

(14) 95,000	
95,000	

Receivable from Supplier (A)

(13) 1,455	
1,455	

Merchandise Inventory (A)

(4) 75,000	800 (7)
	1,800 (9)
	1,455 (13)
70,945	

Prepaid Rent (A)

(8) 1,400	
1,400	

Land (A)

(2) 80,000	
80,000	

Buildings (A)

(2) 220,000	
(12) 60,000	
280,000	

Equipment (A)

(2) 92,000	
(5) 5,400	
(6) 350	
97,750	

Patent (A)

(3) 28,000	
28,000	

Accounts Payable (L)

(7) 800	75,000 (4)
(9) 60,000	
	14,200

Adva ces from Customers (L)

	4,500 (11)
	4,500

Mortg

	53,000 (12)
	53,000

2.14 a. continued.

Common Stock Par Value (SE)		Addit onal Paid-In Capital (SE)	
	150,000 (1)		60,000 (1)
	280,000 (2)		112,000 (2)
	20,000 (3)		8,000 (3)
	450,000		180,000

(10) Because no insurance coverage has yet been provided and no cash has changed hands, the principle ofmutual exchange suggests that no asset and no liability be recorded.

b.

PATTERSON CORPORATION
Balance Sheet
January 31, Year 13

Assets

Current Assets:		
Cash	$ 47,150	
Marketable Securities	95,000	
Receivable from Supplier	1,455	
Merchandise Inventory	70,945	
Prepaid Rent	1,400	
Total Current Assets		$ 215,950
Property, Plant, and Equipment (at Acquisition Cost):		
Land	$ 80,000	
Buildings	280,000	
Equipment	97,750	
Total Property, Plant, and Equipment		457,750
Intangibles:		
Patent		28,000
Total Assets		$ 701,700

b. continued.

Liabilities and Shareholders' Equity

Current Liabilities:		
Accounts Payable	$ 14,200	
Advances from Customers............	4,500	
.....TotalCurrentLiabilities		$ 18,700
Long-Term Debt:		
Mortgage Payable		53,000
............TotalLiabilities		$ 71,700
Shareholders' Equity:		
Common Stock—$10 Par Value	$450,000	
Additional Paid-In Capital	180,000	
....TotalShareholders'Equity		630,000
Total Liabilities and Shareholders' Equity		$ 701,700

(Regaldo Department Store; recording transactions in T- accounts and preparing a balance sheet.) (amounts in thousands of Mexican pesos [$])

a. T-accounts.

Cash (A)

(1) 500,000	20,000 (2)
	4,000 (2)
	60,000 (4)
	156,800 (7)
	12,000 (8)
247,200	

Merchandise Inventory (A)

(5) 200,000	8,000 (6)
	3,200 (7)
188,800	

Prepaid Rent (A)

(4) 60,000	
60,000	

Prepaid Insurance (A)

(8) 12,000	
12,000	

Patent (A)

(2) 20,000	
(2) 4,000	
24,000	

Accounts Payable (L)

(6) 8,000	200,000 (5)
(7) 160,000	
	32,000

Common Stock (SE)

	500,000 (1)
	500,000

continued.

b. **REGALDO DEPARTMENT STORES**
Balance Sheet
January 31, Year 8

Assets

Current Assets:	
Cash	$ 247,200
Merchandise Inventory	188,800
Prepaid Rent	60,000
Prepaid Insurance	12,000
..................TotalCurrentAssets	$ 508,000
Patent	24,000
.........................TotalAssets	$ 532,000
Liabilities and Shareholders' Equity	
Current Liabilities:	
Accounts Payable	$ 32,000
.............TotalCurrentLiabilities	$ 32,000
Shareholders' Equity:	
Common Stock	$ 500,000
Retained Earnings	0
............TotalShareholders'Equity	$ 500,000
Total Liabilities and Shareholders' Equity	$ 532,000

(Whitley Products Corporation; recording transactions and preparing a balance sheet) (amounts in US$)

a. T-accounts.

Cash (A)		Raw Materials (A)		Prepaid Insurance (A)	
(1)375,000	50,000 (2)	(10) 60,000	8,000 (11)	(6) 12,000	
(7) 1,500	125,000 (3)		1,040 (12		
	2,800 (4)				
	3,200 (5)				
	12,000 (6)				
	50,960 (12)				
132,540		50,960		12,000	

2.16 a. continued.

Land (A)	
(2) 25,000	
25,000	

Buildings (A)	
(2) 275,000	
275,000	

Equipment (A)	
(3) 125,000	
(4) 2,800	
(5) 3,200	
131,000	

Note Payable (L)	
	250,000 (2)
	250,000

Accounts Payable (L)	
(11) 8,000	60,000 (10)
(12) 52,000	
	0

Advances from Customers (L)	
	1,500 (7)
	1,500

Common Stock (SE)	
	250,000 (1)
	250,000

Additional Paid-In Capital (SE)	
	125,000 (1)
	125,000

b.

WHITLEY PRODUCTS CORPORATION
Balance Sheet
April 30

Assets

Current Assets:		
Cash	$ 132,540	
Raw Materials Inventory	50,960	
Prepaid Insurance	12,000	
Total Current Assets		$ 195,500
Property, Plant, and Equipment:		
Land	$ 25,000	
Buildings	275,000	
Equipment	131,000	
Total Property, Plant, and Equipment		431,000
Total Assets		$ 626,500

b. continued.

Liabilities and Shareholders' Equity

Current Liabilities:		
Advances from Customers	$ 1,500	
Total Current Liabilities		$ 1,500
Noncurrent Liabilities:		
Note Payable	$ 250,000	
Total Noncurrent Liabilities ..		250,000
Total Liabilities		$ 251,500
Shareholders' Equity:		
Common Stock—$10 Par Value	$ 250,000	
Additional Paid-In Capital	125,000	
Total Shareholders' Equity		375,000
Total Liabilities and Shareholders' Equity		$ 626,500

(Effect of recording errors on the balance sheet equation.) (amounts in US$)

Transaction Number	Assets	=	Liabilities	Shareholders' +Equity
(1)	No		No	No
(2)	O/S $ 9,000		O/S $ 9,000	No
(3)	U/S $16,000		U/S $16,000	No
(4)	No[a]		No	No
(5)	U/S $ 1,500		U/S $ 1,500	No
(6)	U/S $12,000		No	U/S $12,000
(7)	No		No	No

[a] Also acceptable to show both O/S and U/S by $1,800, as one asset is overstated and another, understated.

(Effect of recording errors on the balance sheet equation.) (amounts in US$)

Transaction Number	Assets	=	Liabilities	Shareholders' +Equity
(1)	U/S $8,000		U/S $ 8,000	No
(2)	O/S $3,000		O/S $ 3,000	No
(3)	U/S $ 800		U/S $ 800	No
(4)	O/S $1,000		O/S $ 1,000	No
(5)	U/S $2,500		No	U/S $2,500
(6)	O/S $4,900[a] U/S $4,900[a]		No	No

[a] The response —No‖ is also acceptable here.