Solution Manual for Financial Accounting Global Edition 8th Edition by Libby ISBN 0077158954 9780077158958

ANSWERS TO QUESTIONS

1. The primary objective of financial reporting for external users is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. These users are expected to have a reasonable understanding of accounting concepts and procedures. Usually, they are interested in information to assist them in projecting future cash inflows and outflows of a business.

2 (a) An asset is a probable future economic benefit owned or controlled by the entity as a result of past transactions.

(b) A current asset is an asset that will be used or turned into cash within one year; inventory is always considered a current asset regardless of how long it takes to produce and sell the inventory.

(c) A liability is a probable future sacrifice of economic benefits of the entity arising from preset obligations as a result of a past transaction.

(d) A current liability is a liability that will be settled by providing cash, goods, or other services within the coming year.

(e) Additional paid-in capital is the owner-provided financing to the business that represents the excess of the amount received when the commonstock was issued over the par value of the common stock.

(f) Retained earnings are the cumulative earnings of a company that are not distributed to the owners and are reinvested in the business.

3. (a) The separate-entity assumption requires that business transactions are separate from the transactions of the owners. For example, the purchase of a truck by the owner for personal use is not recorded as an asset of the business.

   (b) The stable monetary unit assumption requires information to be reported in the national monetary unit without any adjustment for changes in purchasing power. That means that each business will account for and report its financial results primarily in terms of the national monetary unit, such as Yen in Japan and Australian dollars in Australia.

   (c) Under the continuity or going-concern assumption, businesses are assumed to operate into the foreseeable future. That is, they are not expected to liquidate.

   (d) The historical cost principle requires assets to be recorded at the cash-equivalent cost on the date of the transaction. Cash-equivalent cost is the cash paid plus the dollar value of all noncash considerations.

4. Accounting assumptions are necessary because they reflect the scope of accounting and the expectations that set certain limits on the way accounting information is reported.

5. An account is a standardized format used by organizations to accumulate the dollar effects of transactions on each financial statement item. Accounts are necessary to keep track of all increases and decreases in the fundamental accounting model.

6. The fundamental accounting model is provided by the equation:

   Assets = Liabilities + Stockholders' Equity

7. A business transaction is (a) an exchange of resources (assets) and obligations (debts) between a business and one or more outside parties, and (b) certain events that directly affect the entity such as the use over time of rent that was paid prior to occupying space and the wearing out of equipment used to operate the business. An example of the first situation is (a) the sale of goods or services. An example of the second situation is (b) the use of insurance paid prior to coverage.

8. Debit is the left side of a T-account and credit is the right side of a T-account. A debit is an increase in assets and a decrease in liabilities and stockholders' equity. A credit is the opposite -- a decrease in assets and an increase in liabilities and stockholders' equity.

9. Transaction analysis is the process of studying a transaction to determine its economic effect on the entity in terms of the accounting equation:

Assets = Liabilities + Stockholders' Equity

The two principles underlying the process are:

* every transaction affects at least two accounts.
* the accounting equation must remain in balance after each transaction.

The two steps in transaction analysis are:

(1) identify and classify accounts and the direction and amount of the effects.
(2) determine that the accounting equation (A = L + SE) remains in balance.

10. The equalities in accounting are:

(a) Assets = Liabilities + Stockholders' Equity
(b) Debits = Credits

11. The journal entry is a method for expressing the effects of a transaction on accounts in a debits-equal-credits format. The title of the account(s) to be debited is (are) listed first and the title of the account(s) to be credited is (are) listed underneath the debited accounts. The debited amounts are placed in a left-hand column and the credited amounts are placed in a right-hand column.

12. The T-account is a tool for summarizing transaction effects for each account, determining balances, and drawing inferences about a company's activities. It is a simplified representation of a ledger account with a debit column on the left and a credit column on the right.

13. The current ratio is computed as current assets divided by current liabilities. It measures the ability of the company to pay its short-term obligations with current assets. A ratio above 1.0 normally suggests good liquidity (that is, the company has sufficient current assets to settle short-term obligations). Sophisticated cash management systems allow many companies to minimize funds invested in current assets and have a current ratio below 1.0. However, a ratio that is toohigh in relation to other competitors in the industry may indicate inefficient use of resources.

14. Investing activities on the statement of cash flows include the buying and selling of productive assets and investments. Financing activities include borrowing and repaying debt, issuing and repurchasing stock, and paying dividends.

MULTIPLE CHOICE

1. d	6. c
2. d	7. a
3. a	8. d
4. a	9. b
5. d	10. a

(Time in minutes)

Mini-exercises		*Exercises*		*Problems*		*Alternate Problems*		*Cases and Projects*	
No.	*Time*	*No.*	*Time*	*No.*	*Time*	*No.*	*Time*	*No.*	*Time*
1	3	1	8	1	20	1	20	1	15
2	3	2	15	2	25	2	25	2	15
3	4	3	8	3	40	3	40	3	15
4	4	4	10	4	15	4	15	4	20
5	5	5	10	5	40			5	15
6	3	6	10	6	20			6	20
7	3	7	10					7	30
8	6	8	15					8	20
9	6	9	20					9	*
10	6	10	20						
11	6	11	15						
12	4	12	20					*Continuing Case*	
13	4	13	20						
		14	20					1	40
		15	20						
		16	15						
		17	10						
		18	10						
		19	10						
		20	10						

* Due to the nature of these cases and projects, it is very difficult to estimate the amount of time students will need to complete the assignment. As with any open- ended project, it is possible for students to devote a large amount of time to these assignments. While students often benefit from the extra effort, we find that some become frustrated by the perceived difficulty of the task. You can reduce student frustration and anxiety by making your expectations clear. For example, when our goalis to sharpen research skills, we devote class time discussing research strategies. When we want the students to focus on a real accounting issue, we offer suggestions about possible companies or industries.

MINI-EXERCISES

M2–1.

F (1) Continuity assumption

H (2) Historical cost principle

G (3) Credits

A (4) Assets

I (5) Account

M2–2.

D (1) Journal entry

C (2) A = L + SE, and Debits = Credits

A (3) Assets = Liabilities + Stockholders' Equity

I (4) Liabilities

B (5) Income statement, balance sheet, statement of stockholders' equity, and statement of cash flows

M2–3.

(1) N

(2) N

(3) Y

(4) Y

(5) Y

(6) N

M2–4.

CL (1) Accounts Payable

CA (2) Accounts Receivable

NCA (3) Buildings

CA (4) Cash

SE (5) Common Stock

NCA (6) Land

CA (7) Merchandise Inventory CL

(8) Income Taxes Payable NCA (9)

Long-Term Investments

NCL (10) Notes Payable (due in three years)

CA (11) Notes Receivable (due in six months)

CA (12) Prepaid Rent

SE (13) Retained Earnings

CA (14) Supplies

CL (15) Utilities Payable

CL (16) Wages Payable

M2–5.

	Assets		= Liabilities		+ Stockholders' Equity	
a.	Cash	+30,000	Notes payable	+30,000		
b.	Cash	-10,000				
	Notes receivable	+10,000				
c.	Cash	+500			Common stock	+10
					Additional paid-in capital	+490
d.	Cash	-5,000	Notes payable	+10,000		
	Equipment	+15,000				
e.	Cash	-2,000			Retained earnings	-2,000

M2–6.

	Debit	**Credit**
Assets	*Increases*	*Decreases*
Liabilities	*Decreases*	*Increases*
Stockholders' equity	*Decreases*	*Increases*

M2–7.

	Increase	**Decrease**
Assets	*Debit*	*Credit*
Liabilities	*Credit*	*Debit*
Stockholders' equity	*Credit*	*Debit*

M2–8.

a.	Cash (+A)	30,000	
	Notes Payable (+L)		30,000
b.	Notes Receivable (+A)	10,000	
	Cash (–A)		10,000
c.	Cash (+A)	500	
	Common Stock (+SE)		10
	Additional Paid-in Capital (+SE)		490
d.	Equipment (+A)	15,000	
	Cash (–A)		5,000
	Notes Payable (+L)		10,000
e.	Retained Earnings (–SE)	2,000	
	Cash (–A)		2,000

M2–9.

Cash

Beg.	900		
(a)	30,000	10,000	(b)
(c)	500	5,000	(d)
		2,000	(e)
	14,400		

Notes Receivable

Beg.	1,000	
(b)	10,000	
	11,000	

Equipment

Beg.	15,100	
(d)	15,000	
	30,100	

Notes Payable

	3,000	Beg.
	30,000	(a)
	10,000	(d)
	43,000	

Common Stock

	1,000	Beg.
	10	(c)
	1,010	

Additional Paid-in Capital

	3,000	Beg.
	490	(c)
	3,490	

Retained Earnings

		10,000	Beg.
(e)	2,000		
		8,000	

M2-10.

Dennen, Inc. Trial Balance January 31, 2015		
	Debit	**Credit**
Cash	$14,400	
Notes receivable	11,000	
Equipment	30,100	
Notes payable		$43,000
Common stock		1,010
Additional paid-in capital		3,490
Retained earnings		8,000
Totals	$55,500	$55,500

M2–11.

Dennen Inc.
Balance Sheet
At January 31, 2015

Assets		***Liabilities***	
Current assets:		*Current liabilities:*	
Cash	$ 14,400	Notes payable	$ 43,000
Notes receivable	11,000	Total current liabilities	43,000
Total current assets	25,400	***Stockholders' Equity***	
		Common stock	1,010
Equipment	30,100	Additional paid-in capital	3,490
		Retained earnings	8,000
		Total stockholders' equity	12,500
Total Assets	$55,500	***Total Liabilities & Stockholders' Equity***	$55,500

M2–12.

Current Ratio =

	Current Assets	÷ Current Liabilities	
2011	280,000 ÷	155,000	= 1.806
2012	270,000 ÷	250,000	= 1.080

This ratio indicates that Sal's Taco Company has sufficient current assets to settle current liabilities, but that the ratio has also decreased between 2011 and 2012 by .726 (40%). Sal's Taco Company ratio is lower than Chipotle's 2011 ratio (of 3.182), indicating that Sal's Taco Company appears to have weaker liquidity than Chipotle; Sal's has less liquidity to withstand an economic downturn.

M2–13.

(a) F

(b) I

(c) F

(d) I

(e) F

EXERCISES

E2–1.

E	(1) Transaction
F	(2) Continuity assumption
B	(3) Balance sheet
P	(4) Liabilities
K	(5) Assets = Liabilities + Stockholders' Equity
M	(6) Notes payable
L	(7) Common stock
H	(8) Historical cost principle
I	(9) Account
Q	(10) Dual effects
O	(11) Retained earnings
A	(12) Current assets
C	(13) Separate-entity assumption
X	(14) Par value
D	(15) Debits
J	(16) Accounts receivable
N	(17) Stable monetary unit assumption
W	(18) Faithful representation
T	(19) Relevance
R	(20) Stockholders' Equity

E2–2.

Req. 1

	Received	**Given**
(a)	Cash (A)	Common stock and Additional paid-in capital (SE)
(b)	Equipment (A) *[or Delivery truck]*	Cash (A)
(c)	*No exchange transaction*	—
(d)	Equipment (A) *[or Computer equipment]*	Notes payable (L)
(e)	Building (A) *[or Construction in progress]*	Cash (A)
(f)	Intangibles (A) *[or Copyright]*	Cash (A)
(g)	Retained earnings (SE) *[Received a reduction in the amount available for payment to stockholders]*	Cash (A)
(h)	Land (A)	Cash (A)
(i)	Intangibles (A) *[or Patents]*	Cash (A) and Notes payable (L)
(j)	*No exchange transaction*	—
(k)	Investments (A)	Cash (A)
(l)	Cash (A)	Short-term notes payable (L)
(m)	Note payable (L) *[Received a reduction in its promise to pay]*	Cash (A)

Req. 2
The truck in (b) would be recorded as an asset of $20,800. The land in (h) would be recorded as an asset of $75,500. These are applications of the historical cost principle.

Req. 3
The agreement in (c) involves no exchange or receipt of cash, goods, or services and thus is not a transaction. Since transaction (j) occurs between the owner and others, there is no effect on the business because of the separate-entity assumption.

E2–3.

Account	***Balance Sheet Categorization***	***Debit or Credit Balance***
(1) Accounts Receivable	CA	Debit
(2) Retained Earnings	SE	Credit
(3) Taxes Payable	CL	Credit
(4) Prepaid Expenses	CA	Debit
(5) Common Stock	SE	Credit
(6) Long-Term Investments	NCA	Debit
(7) Plant, Property, and Equipment	NCA	Debit
(8) Accounts Payable	CL	Credit
(9) Short-Term Investments	CA	Debit
(10) Long-Term Debt	NCL	Credit

E2–4.

Event	**Assets**		**=** **Liabilities**		**+ Stockholders' Equity**	
a.	Cash	+40,000			Common stock	+1,000
					Additional paid-in capital	+39,000
b.	Equipment	+15,000	Notes payable	+12,000		
	Cash	–3,000				
c.	Cash	+10,000	Notes payable	+10,000		
d.	Note receivable	+800				
	Cash	–800				
e.	Land	+13,000	Mortgage notes payable	+9,000		
	Cash	–4,000				

E2–5.

Req. 1

Event	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Buildings	+172		Notes payable (long-term)	+10			
	Equipment	+270						
	Cash	–432						
b.	Cash	+345					Common stock	+200
							Additional paid-in capital	+145
c.				Dividends payable	+145		Retained earnings	145
d.	Short-term Investments	+7,616						
	Cash	-7,616						
e.	No effects							
f.	Cash	+4,313						
	Short-term Investments	–4,313						

Req. 2

The separate-entity assumption states that transactions of the business are separate from transactions of the owners. Since transaction *(e)* occurs between the owners and others in the stock market, there is no effect on the business.

E2–6.

		Debit	Credit
a.	Cash (+A)	40,000	
	Common stock (+SE)		1,000
	Additional paid-in capital (+SE)		39,000
b.	Equipment (+A)	15,000	
	Cash (–A)		3,000
	Notes payable (+L)		12,000
c.	Cash (+A)	10,000	
	Notes payable (+L)		10,000
d.	Notes receivable (+A)	800	
	Cash (–A)		800
e.	Land (+A)	13,000	
	Cash (–A)		4,000
	Mortgage notes payable (+L)		9,000

E2–7.

Req. 1

a.	Buildings (+A)	172	
	Equipment (+A)	270	
	Cash (–A)		432
	Notes payable (+L)		10
b.	Cash (+A)	345	
	Common stock (+SE)		200
	Additional paid-in capital (+SE)		145
c.	Retained earnings (–SE)	145	
	Dividends payable (+L)		145
d.	Short-term investments (+A)	7,616	
	Cash (–A)		7,616
e.	No journal entry required.		
f.	Cash (+A)	4,313	
	Short-term investments (–A)		4,313

Req. 2

The separate-entity assumption states that transactions of the business are separate from transactions of the owners. Since transaction *(e)* occurs between the owners and others in the stock market, there is no effect on the business.

E2–8.

Req. 1

Cash

Beg.			
(a)	80,000	7,000	(b)
(d)	4,000	3,500	(e)
	73,500		

Notes Receivable

Beg.	0		
(e)	3,500		
	3,500		

Equipment

Beg.	0		
(b)	28,000		
	28,000		

Land

Beg.	0		
(d)	25,000		
	25,000		

Notes Payable

		0	Beg.
		21,000	(b)
		21,000	

Common Stock

		0	Beg.
		5,640	(a)
		200	(d)
		5,840	

Additional Paid-in Capital

		0	Beg.
		74,360	(a)
		28,800	(d)
		103,160	

Req. 2

Assets $ 130,000 = Liabilities $ 21,000 + Stockholders' Equity $ 109,000

Req. 3

The agreement in (c) involves no exchange or receipt of cash, goods, or services and thus is not a transaction. Since transaction (f) occurs between the owner and others, there is no effect on the business due to the separate-entity assumption.

E2–9.

Req. 1

Transaction	***Brief Explanation***
1	Issued common stock to shareholders for $15,000 cash. (FastTrack Sports Inc. is a corporation because it issues stock. Par value of the stock was $0.10 per share because $1,500 common stock amount divided by 15,000 shares issued equals $0.10 per share).
2	Borrowed $75,000 cash and signed a short-term note for this amount.
3	Purchased land for $16,000; paid $5,000 cash and gave an $11,000 short-term note payable for the balance.
4	Loaned $4,000 cash; borrower signed a short-term note for this amount (Note Receivable).
5	Purchased store fixtures for $9,500 cash.
6	Purchased land for $4,000, paid for by signing a short-term note.

Req. 2

FastTrack Sports Inc.
Balance Sheet
At January 7, 2014

Assets		***Liabilities***	
Current Assets		*Current Liabilities*	
Cash	$71,500	Note payable	$90,000
Note receivable	4,000	*Total Current Liabilities*	90,000
Total Current Assets	75,500		
		Stockholders' Equity	
Store fixtures	9,500	Common stock	1,500
Land	20,000	Additional paid-in capital	13,500
		Total Stockholders' Equity	15,000
Total Assets	$105,000	***Total Liabilities & Stockholders' Equity***	$105,000

E2–10.

Req. 1

Transaction	***Brief Explanation***
1	Issued common stock to shareholders for $45,000 cash. (Volz Cleaning is a corporation because it issues stock. Par value is $2.00 per share $6,000 common stock amount divided by 3,000 shares issued equals $2.00 per share).
2	Purchased a delivery truck for $35,000; paid $8,000 cash and gave a $27,000 long-term note payable for the balance.
3	Loaned $2,000 cash; borrower signed a short-term note for this amount.
4	Purchased short-term investments for $7,000 cash.
5	Sold short-term investments at cost for $3,000 cash.
6	Purchased computer equipment for $4,000 cash.

Req. 2

Volz Cleaning, Inc.
Balance Sheet
At March 31, 2014

Assets		***Liabilities***	
Current Assets		Notes payable	$27,000
Cash	$27,000	*Total Liabilities*	27,000
Investments	4,000		
Note receivable	2,000		
Total Current Assets	33,000	***Stockholders' Equity***	
		Common stock	6,000
Computer equipment	4,000	Additional paid-in capital	39,000
Delivery truck	35,000	*Total Stockholders' Equity*	45,000
Total Assets	$72,000	***Total Liabilities & Stockholders' Equity***	$72,000

E2–11.

a.	Cash (+A)	55,000	
	Common stock (+SE)		5,000
	Additional paid-incapital		50,000
b.	No transaction has occurred because there has been no exchange or receipt of cash, goods, or services.		
c.	Cash (+A)	16,000	
	Notes payable (long-term) (+L)		16,000
d.	Equipment (+A)	20,700	
	Cash (–A)		2,070
	Notes payable (short-term) (+L)		18,630
e.	Notes receivable (short-term) (+A)	5,800	
	Cash (–A)		5,800
f.	Store fixtures (+A)	21,200	
	Cash (–A)		21,200

E2–12.

a.	Retained earnings (–SE)	1,508	
	Dividends payable (+L)		1,508
b.	No transaction has occurred because there has been no exchange or receipt of cash, goods, or services.		
c.	Dividends payable (–L)	852	
	Cash (–A)		852
d.	Cash (+A)	5,899	
	Notes payable (+L)		5,899
e.	Cash (+A)	53	
	Equipment (–A)		53
f.	Equipment (+A)	2,598	
	Cash (–A)		2,250
	Notes payable (+L)		348
g.	Investments (+A)	2,616	
	Cash (–A)		2,616

E2–13.

Req. 1

Assets $ 10,500 = Liabilities $ 3,000 + Stockholders' Equity $ 7,500

Req. 2

Cash

Beg.	5,000	
(a)	4,000	
(b)	1,500	
(c)	1,500	800 (d)
End.	11,200	

Short-Term Investments

Beg.	2,500	
		1,500 (b)
End.	1,000	

Property & Equipment

Beg.	3,000	
		1,500 (c)
End.	1,500	

Short-Term Notes Payable

	2,200 Beg.
	2,200 End.

Long-Term Notes ayable

	800 Beg.
	4,000 (a)
	4,800 End.

Common Stock

	500 Beg.
	500

Additional Paid-in Capital

	4,000 Beg.
	4,000

Retained Earnings

		3,000 Beg.
(d)	800	
		2,200

Req. 3

Assets $ 13,700 = Liabilities $ 7,000 + Stockholders' Equity $ 6,700

Req. 4

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$11{,}200+\$1{,}000}{\$2{,}200} = \frac{\$12{,}200}{\$2{,}200} = 5.55$$

This ratio indicates that, for every $1 of current liabilities, Higgins maintains $5.55 of current assets. Higgins' ratio is higher than the industry average of 1.50, indicating that Higgins maintains a lower level of short-term debt and has higher liquidity. However, maintaining such a high current ratio also suggests that the company may not be using its resources efficiently. Increasing short-term obligations would lower Higgins' current ratio, but this strategy alone would not help its efficiency. Higgins should consider investing more of its cash in order to generate future returns.

E2–14.

Higgins Company
Balance Sheet
At December 31, 2015

Assets	
Current Assets	
Cash	$ 11,200
Short-term investments	1,000
Total Current Assets	12,200
Property and equipment	1,500
Total Assets	$13,700

Liabilities	
Current Liabilities	
Short-term notes payable	$ 2,200
Total Current Liabilities	2,200
Long-term notes payable	4,800
Total Liabilities	7,000
Stockholders' Equity	
Common stock	500
Additional paid-in capital	4,000
Retained earnings	2,200
Total Stockholders' Equity	6,700
Total Liabilities & Stockholders' Equity	$13,700

E2–15.

Req. 1

Cash

Beg.	0	
(a)	40,000	4,000 (c)
		1,000 (d)
	35,000	

Short-Term Notes Receivable

Beg.	0	
(e)	4,000	
	4,000	

Land

Beg.	0	
(b)	16,000	4,000 (e)
	12,000	

Equipment

Beg.	0	
(c)	20,000	
(d)	1,000	
	21,000	

Short-Term Notes Payable

	0 Beg.
	16,000 (b)
	16,000

Long-Term Notes Payable

	0 Beg.
	16,000 (c)
	16,000

Common Stock

	0 Beg.
	10,000 (a)
	10,000

Additional Paid-in Capital

	0 Beg.
	30,000 (a)
	30,000

E2–15. (continued)

Req. 2

Strauderman Delivery Company, Inc. Trial Balance December 31, 2014		
	Debit	**Credit**
Cash	$35,000	
Short-term notes receivable	4,000	
Land	12,000	
Equipment	21,000	
Short-term notes payable		$16,000
Long-term notes payable		16,000
Common stock		10,000
Additional paid-in capital		30,000
Totals	$72,000	$72,000

E2–15. (continued)

Req. 3

Strauderman Delivery Company, Inc.
Balance Sheet
At December 31, 2014

Assets		***Liabilities***	
Current Assets		*Current Liabilities*	
Cash	$35,000	Short-term notes payable	$16,000
Short-term note receivable	4,000	*Total Current Liabilities*	16,000
Total Current Assets	39,000	Long-term notes payable	16,000
		Total Liabilities	32,000
Land	12,000		
Equipment	21,000	***Stockholders' Equity***	
		Common stock	10,000
		Additional paid-in capital	30,000
		Total Stockholders' Equity	40,000
Total Assets	$72,000	***Total Liabilities & Stockholders' Equity***	$72,000

Req. 4

	Current Assets	÷	Current Liabilities	=	Current Ratio
2014	$39,000	÷	$16,000	=	2.44
2015	52,000	÷	23,000	=	2.26
2016	47,000	÷	40,000	=	1.18

The current ratio has decreased over the years, suggesting that the company's liquidity is decreasing. Although the company still maintains sufficient current assets to settle the short-term obligations, this steep decline in the ratio may be of concern – it may be indicative of more efficient use of resources or it may suggest the company is having cash flow problems.

Req. 5

The management of Strauderman Delivery Company has already been financing the company's development through additional short-term debt, from $16,000 in 2014 to $40,000 in 2016. This suggests the company is taking on increasing risk. Additional lending, particularly short-term, to the company may be too much risk for the bank to absorb. Based solely on the current ratio, the bank's vice president should consider not providing the loan to the company as it currently stands. Of course, additional analysis would provide better information for making a sound decision.

E2–16.

Transaction	***Brief Explanation***
(a)	Issued 100,000 shares of common stock (par value $0.02 per share) to shareholders in exchange for $20,000 cash and $5,000 tools and equipment.
(b)	Loaned $1,800 cash; borrower signed a note receivable for this amount.
(c)	Purchased a building for $40,000; paid $10,000 cash and signed a $30,000 note payable for the balance.
(d)	Sold tools and equipment for $900 cash (their original cost).

E2–17.

Req. 1

	Increases with…	**Decreases with…**
Equipment	Purchases of equipment	Sales of equipment
Notes receivable	Additional loans to others	Collection of loans
Notes payable	Additional borrowings	Payments of debt

Req. 2

Equipment

1/1	500	
	250	~~650~~
12/31	100	

Notes Receivable

1/1	150	
	$\boxed{245}$	225
12/31	170	

Notes Payable

	100	1/1
	170	
$\boxed{110}$		
	160	12/31

	Beginning balance	+	¯+‖	–	¯–‖	=	Ending balance
Equipment	$500	+	250	–	?	=	$100
					?	=	650
Notes receivable	150	+	?	–	225	=	170
					?	=	245
Notes payable	100	+	170	–	?	=	160
					?	=	110

E2–18.

Activity	Type of Activity	Effect on Cash
(a) Reduction of long-term debt	F	–
(b) Sale of short-term investments	I	+
(c) Issuance of common stock	F	+
(d) Capital expenditures (for property, plant, and equipment)	I	–
(e) Dividends paid on common stock.	F	–

E2–19.

Activity	Type of Activity	Effect on Cash
(a) Additional borrowing from banks	F	+
(b) Purchase of investments	I	–
(c) Sale of assets and investments (assume sold at cost)	I	+
(d) Issuance of stock	F	+
(e) Purchase and renovation of properties	I	–
(f) Payment of debt principal	F	–
(g) Receipt of principal payment on a note receivable	I	+

E2–20.

1. Current assets	In the asset section of a classified balance sheet.
2. Debt principal repaid	In the financing activities section of the statement of cash flows.
3. Significant accounting policies	Usually the first note after the financial statements.
4. Cash received on sale of noncurrent assets	In the investing activities section of the statement of cash flows.
5. Dividends paid	In the financing activities section of the statement of cash flows.
6. Short-term obligations	In the current liabilities section of a classified balance sheet.
7. Date of the statement of financial position.	In the heading of the balance sheet.

PROBLEMS

P2–1.

		Balance Sheet Classification	Debit or Credit Balance
(1)	Notes and Loans Payable (short-term)	CL	Credit
(2)	Materials and Supplies	CA	Debit
(3)	Common Stock	SE	Credit
(4)	Patents (an intangible asset)	NCA	Debit
(5)	Income Taxes Payable	CL	Credit
(6)	Long-Term Debt	NCL	Credit
(7)	Marketable Securities (short-term)	CA	Debit
(8)	Property, Plant, and Equipment	NCA	Debit
(9)	Retained Earnings	SE	Credit
(10)	Notes and Accounts Receivable (short-term)	CA	Debit
(11)	Investments (long-term)	NCA	Debit
(12)	Cash and Cash Equivalents	CA	Debit
(13)	Accounts Payable	CL	Credit
(14)	Crude Oil Products and Merchandise	CA	Debit
(15)	Additional Paid-in Capital	SE	Credit

P2–2.

Req. 1

East Hill Home Healthcare Services was organized as a corporation. Only a corporation issues shares of capital stock to its owners in exchange for their investment, as in transaction (a).

Req. 2 (On next page)

Req. 3

The transaction between the two stockholders (Event *e*) was not included in the tabulation. Since the transaction in *(e)* occurs between the owners, there is no effect on the business due to the separate-entity assumption.

Req. 4

(a) Total assets = \$111,500 + \$18,000 + \$5,000 + \$510,500 + \$160,000 + \$65,000
= \$870,000

(b) Total liabilities = \$100,000 + \$180,000
= \$280,000

(c) Total stockholders' equity = Total assets – Total liabilities
= \$870,000 – \$280,000 = \$590,000

(d) Cash balance = \$50,000 + \$90,000 – \$9,000 + \$3,500 – \$18,000 – \$5,000
= \$111,500

(e) Total current assets = Cash \$111,500 + Short-Term Investments \$18,000 + Notes Receivable \$5,000 = \$134,500

Req. 5

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$111{,}500+\$18{,}000+\$5{,}000}{\$100{,}000} = \frac{\$134{,}500}{100{,}000} = 1.35$$

This suggests that for every \$1 in current liabilities, East Hill maintains \$1.35 in current assets. The ratio suggests that East Hill is likely maintaining adequate liquidity and using resources efficiently.

P2–2. (continued)

Req. 2

	Assets						=	Liabilities		+	Stockholders' Equity		
	Cash	Short-Term Investments	Notes Receivable	Land	Buildings	Equipment		ST Notes Payable	LT Notes Payable		Common Stock	Additional Paid-in Capital	Retained Earnings
Beg.	50,000			500,000	100,000	50,000	=	100,000	100,000		20,000	80,000	400,000
(a)	+90,000						=				+9,000	+81,000	
(b)	–9,000			+14,000	+60,000	+15,000	=		+80,000				
(c)	+3,500			–3,500			=						
(d)	–18,000	+18,000					=						
(e)	No effect												
(f)	–5,000		+5,000				=						
	+111,500	+18,000	+5,000	+510,500	+160,000	+65,000	=	+100,000	+180,000		+29,000	+161,000	+400,000

$\underbrace{\text{Assets}}_{\$870,000}$ = $\underbrace{\text{Liabilities}}_{\$280,000}$ + $\underbrace{\text{Stockholders' Equity}}_{\$590,000}$