

# Solution Manual for Financial Accounting Information for Decisions 7th Edition by Wild ISBN 0078025893 9780078025891

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## 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:** common stock and dividends.
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 normal 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.**

10. The four financial statements are: income statement, balance sheet, statement of retained earnings, 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. (d) Net assets refer to equity.
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; Deferred tax assets; Vendor non-trade receivables; Other current assets; Long-term marketable securities; Property, plant and equipment, net; Goodwill; Acquired intangible assets, net; Other assets.

Credit balance accounts on the Apple balance sheet include: Accounts Payable; Accrued expenses; Deferred revenue; Deferred revenue – non-current; Other non-current liabilities; Common stock; Retained earnings; Accumulated other comprehensive income.

17. The asset accounts with *receivable* in its account title are: Accounts receivable, net and Receivable under reverse repurchase agreements. The liabilities with *payable* in the account title are: Accounts payable, Securities lending payable, and Income taxes payable, net.
18. Samsung's balance sheet lists the following current liabilities: Trade and other payables; Short-term borrowings; Advance received; Withholdings; Accrued expense; Income tax payable; Current portion of long-term borrowings and debentures; Provisions; Other current liabilities.

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

19. Current ratio:  $\text{Current assets} / \text{Current liabilities} = \$60,454 / \$14,337 = 4.22$   
Debt ratio:  $\text{Total liabilities} / \text{Total assets} = \$22,083 / \$93,798 = 0.24$   
Profit margin:  $\text{Net income} / \text{Net sales} = \$10,737 / \$50,175 = 0.21$   
Price-to-Earnings:  $\text{Price per share} / \text{Earnings per share} = \$707.38 / \$32.97 = 21.46$   
(some students will use \$32.81 as EPS, which is fine at this early stage)

## QUICK STUDIES

### Quick Study 2-1 (10 minutes)

The likely source documents include:

- a. Sales ticket
- d. Telephone bill
- e. Invoice from supplier
- i. Bank statement

### Quick Study 2-2 (5 minutes)

- a. A Asset
- b. EQ Equity
- c. EQ Equity
- d. A Asset
- e. A Asset
- f. A Asset
- g. A Asset
- h. L Liability
- i. L Liability

### Quick Study 2-3 (5 minutes)

- a. E Expense
- b. R Revenue
- c. A Asset
- d. A Asset
- e. L Liability
- f. A Asset
- g. L Liability
- h. EQ Equity
- i. E Expense

**Quick Study 2-4 (10 minutes)**

- |    |        |    |       |    |        |
|----|--------|----|-------|----|--------|
| a. | Debit  | d. | Debit | g. | Credit |
| b. | Debit  | e. | Debit | h. | Debit  |
| c. | Credit | 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 (10 minutes)**

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

**Quick Study 2-7 (15 minutes)**

a. 1) Analyze:

Assets	=	Liabilities	+	Equity
Cash Equipment				Common Stock
70,000 + 30,000	=	0	+	100,000

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 15	Cash	101	70,000	
	Equipment	167	30,000	
	Common Stock	307		100,000
	<i>Owner invests cash &amp; equipment for stock.</i>			

3) Post

Cash	101
70,000	

Equipment	167
30,000	

Common Stock	307
	100,000

**Quick Study 2-7 (Continued)**

**b. 1) Analyze:**

Assets	=	Liabilities	+	Equity
Office Supplies		Accounts Payable		
280	=	280	+	0

**2) Record:**

Accounts Payable 201				
		280		
Date	Account Titles and Explanation	PR	Debit	Credit
May 21	Office Supplies	124	280	
	Accounts Payable	201		280
	<i>Purchased office supplies on credit.</i>			

**3) Post**

Office Supplies 124
280

**c. 1) Analyze:**

Assets	=	Liabilities	+	Equity
Cash				Landscaping Revenue
7,800	=	0	+	7,800

**2) Record:**

Date	Account Titles and Explanation	PR	Debit	Credit
May 25	Cash	101	7,800	
	Landscaping Revenue	403		7,800
	<i>Received cash for landscaping services.</i>			

**3) Post**

Cash 101
7,800

<b>Landscaping Revenue</b>	<b>403</b>
	<b>7,800</b>

**Quick Study 2-7 (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
	<i>Received cash in advance for landscaping services.</i>			

3) Post

Cash	101
1,000	

Unearned Landscaping Revenue	236
	1,000

**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.



**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. **Accounting under IFRS follows the same debit and credit system as under US GAAP.**
- b. **The same four basic financial statements are prepared under IFRS and US GAAP: income statement, balance sheet, statement of changes in equity, and statement of cash flows. Although some variations from these titles exist within both systems, the four basic statements are present.**
- c. **Accounting reports under both IFRS and US GAAP are likely different depending on the extent of accounting controls and enforcement. For example, the absence of controls and enforcement increase the possibility of fraudulent transactions and misleading financial statements. Without controls and enforcement, all accounting systems run the risk of abuse and manipulation.**

## EXERCISES

### Exercise 2-1 (10 minutes)

- 1 a. Analyze each transaction from source documents.
- 4 b. Prepare and analyze the trial balance.
- 2 c. Record relevant transactions in a journal.
- 3 d. Post journal information to ledger accounts.

### Exercise 2-2 (10 minutes)

- a. 3
- b. 4
- c. 1
- d. 5
- e. 2

### Exercise 2-3 (5 minutes)

- a. 2
- b. 1

**Exercise 2-4 (15 minutes)**

	<b>Account</b>	<b>Type of Account</b>	<b>Normal Balance</b>	<b>Increase (Dr. or Cr.)</b>
a.	<b>Cash</b> .....	<b>asset</b>	<b>debit</b>	<b>debit</b>
b.	<b>Legal Expense</b> .....	<b>expense</b>	<b>debit</b>	<b>debit</b>
c.	<b>Prepaid Insurance</b> .....	<b>asset</b>	<b>debit</b>	<b>debit</b>
d.	<b>Land</b> ..... .....	<b>asset</b>	<b>debit</b>	<b>debit</b>
e.	<b>Accounts Receivable</b> .....	<b>asset</b>	<b>debit</b>	<b>debit</b>
f.	<b>Dividends</b> .....	<b>equity</b>	<b>debit</b>	<b>debit</b>
g.	<b>License Fee Revenue</b> .....	<b>revenue</b>	<b>credit</b>	<b>credit</b>
h.	<b>Unearned Revenue</b> .....	<b>liability</b>	<b>credit</b>	<b>credit</b>
i.	<b>Fees Earned</b> .....	<b>revenue</b>	<b>credit</b>	<b>credit</b>
j.	<b>Equipment</b> .....	<b>asset</b>	<b>debit</b>	<b>debit</b>
k.	<b>Notes Payable</b> .....	<b>liability</b>	<b>credit</b>	<b>credit</b>
l.	<b>Common Stock</b> .....	<b>equity</b>	<b>credit</b>	<b>credit</b>

**Exercise 2-5 (15 minutes)**

a.	<b>Beginning accounts payable (credit) .....</b>	<b>\$152,000</b>
	<b>Purchases on account in October (credits).....</b>	<b>281,000</b>

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

**Exercise 2-6 (15 minutes)**

Of the items listed, the following effects should be included:

- a. \$28,000 increase in a liability account.
- b. \$10,000 increase in the Cash account.
- e. \$62,000 increase in a revenue account.

**Explanation:** This transaction created \$62,000 in revenue, which is the value of the service provided. Payment is received in the form of a \$10,000 increase in cash, an \$80,000 increase in computer equipment, and a \$28,000 increase in its liabilities. The net value received by the company is \$62,000.

**Exercise 2-7 (25 minutes)**

Aug. 1	Cash.....	6,500	
	Photography Equipment.....	33,500	
	Common Stock .....		40,000
	<i>Owner investment in business for stock.</i>		
2	Prepaid Insurance.....	2,100	
	Cash.....		2,100
	<i>Acquired 2 years of insurance coverage.</i>		
5	Office Supplies.....	880	
	Cash.....		880
	<i>Purchased office supplies.</i>		
20	Cash .....	3,331	
	Photography Fees Earned .....		3,331
	<i>Collected photography fees.</i>		
31	UtilitiesExpense .....	675	
	Cash.....		675
	<i>Paid for August utilities.</i>		

**Exercise 2-8 (30 minutes)**

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

Photography Equipment			
Aug. 1	33,500		

  

Common Stock			
		Aug. 1	40,000

Office Supplies			
Aug. 5	880		

Photography Fees Earned			
		Aug. 20	3,331

Prepaid Insurance				Utilities Expense			
Aug. 2	2,100			Aug. 31	675		

POSE-FOR-PICS Trial Balance August 31			
	<i>Debit</i>	<i>Credit</i>	
Cash.....	\$ 6,176		
Office supplies.....	880		
Prepaid insurance .....	2,100		
Photography equipment .....	33,500		
Common stock .....		\$40,000	
Photography fees earned .....		3,331	
Utilities expense .....	<u>675</u>		<u>        </u>
Totals .....	<u>\$43,331</u>	<u>\$43,331</u>	

**Exercise 2-9 (30 minutes)**

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

**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
<b>Balance</b> 94,850	

Accounts Payable	
(e) 10,050	(c) 10,050
	<b>Balance</b> 0

Common Stock	
	(a) 100,750
	<b>Balance</b> 100,750

Accounts Receivable	
(f) 2,700	(h) 1,125
<b>Balance</b> 1,575	

Dividends	
(i) 10,000	
<b>Balance</b> 10,000	

Office Supplies	
(b) 1,250	
<b>Balance</b> 1,250	

Fees Earned	
	(d) 15,500
	(f) 2,700
	<b>Balance</b> 18,200

Office Equipment	
(c) 10,050	
<b>Balance</b> 10,050	

Rent Expense	
(g) 1,225	
<b>Balance</b> 1,225	

**Exercise 2-10 (15 minutes)**

SPADE COMPANY Trial Balance May 31, 2013		
	<i>Debit</i>	<i>Credit</i>
Cash.....	\$ 94,850	
Accounts receivable.....	1,575	
Office supplies .....	1,250	
Office equipment .....	10,050	
Accounts payable .....		\$ 0
Common stock.....		100,750
Dividends .....	10,000	
Fees earned.....		18,200
Rent expense .....	1,225	
<b>Totals .....</b>	<b><u>\$118,950</u></b>	<b><u>\$118,950</u></b>



**Exercise 2-11 (20 minutes)**

**Transactions that created revenues:**

<b>b.</b>	<b>Accounts Receivable .....</b>	<b>2,300</b>	
	<b>    Services Revenue .....</b>		<b>2,300</b>
	<i>Provided services on credit.</i>		
<b>c.</b>	<b>Cash .....</b>	<b>875</b>	
	<b>    Services Revenue .....</b>		<b>875</b>
	<i>Provided services for cash.</i>		

**[Note: Revenues are inflows of assets (or decreases in liabilities) received in exchange for goods or services provided to customers.]**

**Transactions that did not create revenues along with the reasons are:**

- a. This transaction brought in cash, but this is an owner investment.**
- d. This transaction brought in cash, but it created a liability because the services have not yet been provided to the client.**
- e. This transaction changed the form of the asset from accounts receivable to cash. Total assets were not increased (revenue was recognized when the receivable was originally recorded).**
- f. This transaction brought in cash and increased assets, but it also increased a liability by the same amount (no goods or services were provided to generate revenue).**

**Exercise 2-12 (20 minutes)**

**Transactions that created expenses:**

b.	Salaries Expense.....	1,233	
	Cash.....		1,233
	<i>Paid salary of receptionist.</i>		
d.	Utilities Expense .....	870	
	Cash .....		870
	<i>Paid utilities for the office.</i>		

[Note: Expenses are outflows or using up of assets (or the creation of liabilities) that occur in the process of providing goods or services to customers.]

**Transactions a, c, and e are not expenses for the following reasons:**

- a. This transaction decreased assets in settlement of a previously existing liability, and equity did not change. Cash payment does not mean the same as using up of assets (expense is recorded when the supplies are used).
- c. This transaction involves the purchase of an asset. The form of the company's assets changed, but total assets did not change, and the equity did not decrease.
- e. This transaction is a distribution of cash to the owner. Even though equity decreased, the decrease did not occur in the process of providing goods or services to customers.

**Exercise 2-13 (15 minutes)**

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

**Exercise 2-14 (15 minutes)**

<b>HELP TODAY</b>	
<b>Statement of Retained Earning</b>	
<b>For Month Ended August 31</b>	
Retained earnings, July 31 .....	\$ 0
Add: Net income (from Exercise 2-13).....	<u>10,470</u>
	10,470
Less: Dividends.....	<u>6,000</u>
Retained earnings, August 31.....	<u>\$ 4,470</u>

**Exercise 2-15 (15 minutes)**

<b>HELP TODAY</b>			
<b>Balance Sheet</b>			
<b>August 31</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$ 25,360	Accounts payable.....	\$ 10,500
Accounts receivable ....	22,360		
Office supplies.....	5,250	<b>Equity</b>	
Office equipment .....	20,000	Common stock .....	102,000
Land.....	<u>44,000</u>	Retained earnings* .....	<u>4,470</u>
Total assets.....	<u>\$116,970</u>	Total liabilities & equity .....	<u>\$116,970</u>

\* Amount from Exercise 2-14.

**Exercise 2-16 (15 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		<u>69,000</u>
Net increase in equity .....					<u>\$29,000</u>

a. Net income.....	\$	?
Plus owner investments.....		0
Less dividends .....		<u>(0)</u>
Change in equity.....		<u>\$29,000</u>

**Net Income = \$29,000**

Since there were no additional investments or dividends, the net income for the year equals the net increase in equity.

b. Net income.....	\$	?
Plus owner investments.....		0
Less dividends (\$1,250/mo. x 12 mo.).....		<u>(15,000)</u>
Change in equity.....		<u>\$29,000</u>

**Net Income = \$44,000**

The dividends were added back because they reduced equity without reducing net income.

c. Net income.....	\$	?
Plus owner investment.....		55,000
Less dividends.....		<u>(0)</u>
Change in equity.....		<u>\$29,000</u>

**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 dividends (\$1,250/mo. X 12 mo.) .....		<u>(15,000)</u>
Change in equity.....		<u>\$29,000</u>

**Net Income = \$9,000**

The dividends were added back because they reduced equity without reducing net income and the investments were deducted because they increased equity without creating net income.

**Exercise 2-17 (15 minutes)**

	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	<u>(d)</u>
<b><u>Answers</u></b>	<b>\$(28,000)</b>	<b>\$42,000</b>	<b>\$73,000</b>	<b>\$(45,000)</b>

**Computations:**

Equity, Dec. 31, 2012 ...	\$ 0	\$ 0	\$ 0	\$ 0
Owner's investments...	110,000	42,000	87,000	210,000
Dividends.....	(28,000)	(47,000)	(10,000)	(55,000)
Net income (loss).....	<u>22,000</u>	<u>90,000</u>	<u>(4,000)</u>	<u>(45,000)</u>
Equity, Dec. 31, 2013 ...	<u>\$104,000</u>	<u>\$85,000</u>	<u>\$73,000</u>	<u>\$110,000</u>

**Exercise 2-18 (25 minutes)**

- a. Belle created a new business and invested \$6,000 cash, \$7,600 of equipment, and \$12,000 in automobiles, all in exchange for stock.
- b. Paid \$4,800 cash in advance for insurance coverage.
- c. Paid \$900 cash for office supplies.
- d. Purchased \$300 of office supplies and \$9,700 of equipment on credit.
- e. Received \$4,500 cash for delivery services provided.
- f. Paid \$1,600 cash towards accounts payable.
- g. Paid \$820 cash for gas and oil expenses.

**Exercise 2-19 (20 minutes)**

a.	Cash .....	6,000	
	Equipment .....	7,600	
	Automobiles.....	12,000	
	Common Stock.....		25,600
	<i>Owner investment in exchange for stock.</i>		
b.	Prepaid Insurance.....	4,800	
	Cash.....		4,800
	<i>Purchased insurance coverage.</i>		
c.	Office Supplies.....	900	
	Cash.....		900
	<i>Purchased supplies with cash.</i>		
d.	Office Supplies.....	300	
	Equipment .....	9,700	
	Accounts Payable .....		10,000
	<i>Purchased supplies and equipment on credit.</i>		
e.	Cash.....	4,500	
	Delivery Services Revenue.....		4,500
	<i>Received cash from customer for services provided.</i>		
f.	Accounts Payable.....	1,600	
	Cash.....		1,600
	<i>Made payment on payables.</i>		
g.	Gas and OilExpense .....	820	
	Cash.....		820
	<i>Paid for gas and oil.</i>		

**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 Dividends account is debited to Common Stock	\$0	—	Common Stock Dividends	Common Stock is understated by \$10,900 Dividends 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

**Exercise 2-21 (20 minutes)**

- a. The debit column is correctly stated because the erroneous debit (to Accounts Payable) is deducted from an account with a (larger assumed) credit balance.
- b. The credit column is understated by \$37,900 because Accounts Payable was debited — it should have been credited.
- c. The Automobiles account balance is correctly stated.
- d. 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.
- 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.

Co.	Liabilities	/	Assets	=	Debt Ratio	Net Income	/	Average Assets	=	ROA
1	\$11,765		\$ 90,500		0.13	\$20,000		\$100,000		0.200
2	46,720		64,000		0.73	3,800		40,000		0.095
3	26,650		32,500		0.82	650		50,000		0.013
4	55,860		147,000		0.38	21,000		200,000		0.105
5	31,280		92,000		0.34	7,520		40,000		0.188
6	52,250		104,500		0.50	12,000		80,000		0.150

- b. Company 3 relies most heavily on creditor (nonowner) financing with 82% of its assets financed by liabilities.
- c. Company 1 relies least on creditor (nonowner) financing at only 13%. This implies that 87% of the assets are financed by equity (owners).
- d. The companies with the highest debt ratios indicate the greatest risk. The two companies with the highest debt ratios are 2 and 3.
- e. Company 1 yields the highest return on assets at 20%; followed by Company 5 at 18.8%.
- f. As an investor, one prefers high returns at low risk. Company 1 is the preferred investment since it yields the lowest risk (debt ratio is 13%) and highest return on assets (20%).



**Exercise 2-23 (10 minutes)**

<b>BMW</b> <b>Balance Sheet (in Euro millions)</b> <b>December 31, 2011</b>			
<b>Assets</b>		<b>Equity and liabilities</b>	
Noncurrent assets.....	€ 9,826	Total equity .....	€ 8,222
Current assets .....	17,682	Noncurrent liabilities.....	7,767
		Current liabilities .....	<u>11,519</u>
Total assets.....	<u>€27,508</u>	Total equity and liabilities ..	<u>€27,508</u>

## PROBLEM SET A

### Problem 2-1A (90 minutes)

#### Part 1

a.	Cash ..... 101    100,000 Office Equipment ..... 163    5,000 Drafting Equipment..... 164    60,000 Common Stock..... 307            165,000 <i>Owner invested cash and equipment for stock.</i>	
b.	Land..... 172    49,000 Cash..... 101            6,300 Notes Payable..... 250            42,700 <i>Purchased land with cash and notes payable.</i>	
c.	Building..... 170    55,000 Cash..... 101            55,000 <i>Purchased building.</i>	
d.	Prepaid Insurance ..... 108    3,000 Cash..... 101            3,000 <i>Purchased 18-month insurance policy.</i>	
e.	Cash..... 101    6,200 Engineering Fees Earned ..... 402            6,200 <i>Collected cash for completed work.</i>	
f.	Drafting Equipment ..... 164    20,000 Cash..... 101            9,500 Notes Payable..... 250            10,500 <i>Purchased equipment with cash and notes.</i>	
g.	Accounts Receivable ..... 106    14,000 Engineering Fees Earned ..... 402            14,000 <i>Completed services for client.</i>	
h.	Office Equipment..... 163    1,150 Accounts Payable..... 201            1,150 <i>Purchased equipment on credit.</i>	

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

i.	Accounts Receivable .....106	22,000	
	Engineering Fees Earned .....402		22,000
	<i>Billed client for completed work.</i>		
j.	Equipment Rental Expense.....602	1,333	
	Accounts Payable.....201		1,333
	<i>Incurred equipment rental expense.</i>		
k.	Cash.....101	7,000	
	Accounts Receivable .....106		7,000
	<i>Collected cash on account.</i>		
l.	Wages Expense .....601	1,200	
	Cash.....101		1,200
	<i>Paid assistant's wages.</i>		
m.	Accounts Payable .....201	1,150	
	Cash ..... 101		1,150
	<i>Paid amount due on account.</i>		
n.	Repairs Expense .....604	925	
	Cash ..... 101		925
	<i>Paid for repair of equipment.</i>		
o.	Dividends .....319	9,480	
	Cash.....101		9,480
	<i>Paid cash dividends.</i>		
p.	Wages Expense .....601	1,200	
	Cash.....101		1,200
	<i>Paid assistant's wages.</i>		
q.	Advertising Expense.....603	2,500	
	Cash.....101		2,500
	<i>Paid for advertising expense.</i>		

**Problem 2-1A (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

Common Stock				No. 307
Date	PR	Debit	Credit	Balance
(a)			165,000	165,000

Dividends				No. 319
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

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

<b>ARACEL ENGINEERING</b>		
<b>Trial Balance</b>		
<b>June 30</b>		
	<i>Debit</i>	<i>Credit</i>
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
Common stock .....		165,000
Dividends .....	9,480	
Engineering fees earned.....		42,200
Wages expense .....	2,400	
Equipment rental expense.....	1,333	
Advertising expense .....	2,500	
Repairs expense.....	<u>925</u>	
Totals.....	<u>\$261,733</u>	<u>\$261,733</u>

**Problem 2-2A (90 minutes)**

**Part 1**

Mar. 1	Cash .....	101	150,000	
	Office Equipment .....	163	22,000	
	Common Stock .....	307		172,000
	<i>Owner invested cash and equipment for stock.</i>			
2	Prepaid Rent .....	131	6,000	
	Cash .....	101		6,000
	<i>Prepaid six months' rent.</i>			
3	Office Equipment .....	163	3,000	
	Office Supplies .....	124	1,200	
	Accounts Payable .....	201		4,200
	<i>Purchased equipment and supplies on credit.</i>			
6	Cash .....	101	4,000	
	Services Revenue .....	403		4,000
	<i>Received cash for services.</i>			
9	Accounts Receivable .....	106	7,500	
	Services Revenue .....	403		7,500
	<i>Billed client for completed work.</i>			
12	Accounts Payable .....	201	4,200	
	Cash .....	101		4,200
	<i>Paid balance due on account.</i>			
19	Prepaid Insurance .....	128	5,000	
	Cash .....	101		5,000
	<i>Paid premium for insurance.</i>			
22	Cash .....	101	3,500	
	Accounts Receivable .....	106		3,500
	<i>Collected part of amount owed by client.</i>			
25	Accounts Receivable .....	106	3,820	
	Services Revenue .....	403		3,820
	<i>Billed client for completed work.</i>			
29	Dividends .....	319	5,100	
	Cash .....	101		5,100
	<i>Paid cash dividends.</i>			
30	Office Supplies .....	124	600	
	Accounts Payable .....	201		600
	<i>Purchased supplies on account.</i>			
31	Utilities Expense .....	690	500	
	Cash .....	101		500
	<i>Paid monthly utility bill.</i>			

**Problem 2-2A (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

**Problem 2-2A (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

Common Stock				Acct. No. 307	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 1		G1		172,000	172,000

Dividends				Acct. No. 319	
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



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

<b>VENTURE CONSULTANTS</b>		
<b>Trial Balance</b>		
<b>March 31</b>		
	<b>Debit</b>	<b>Credit</b>
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
Common stock .....		172,000
Dividends .....	5,100	
Services revenue.....		15,320
Utilities expense.....	<u>500</u>	
<b>Totals.....</b>	<b><u>\$187,920</u></b>	<b><u>\$187,920</u></b>

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**Problem 2-3A (90 minutes)**

**Part 1**

April 1	Cash .....	101	80,000	
	Office Equipment .....	163	26,000	
	Common Stock.....	307		106,000
	<i>Owner invested cash and equipment for stock.</i>			
2	Prepaid Rent .....	131	9,000	
	Cash.....	101		9,000
	<i>Prepaid twelve months' rent.</i>			
3	Office Equipment .....	163	8,000	
	Office Supplies .....	124	3,600	
	Accounts Payable. ....	201		11,600
	<i>Purchased equip. &amp; supplies on credit.</i>			
6	Cash .....	101	4,000	
	Services Revenue.....	403		4,000
	<i>Received cash for services.</i>			
9	Accounts Receivable .....	106	6,000	
	Services Revenue.....	403		6,000
	<i>Billed client for completed work.</i>			
13	Accounts Payable .....	201	11,600	
	Cash.....	101		11,600
	<i>Paid balance due on account.</i>			
19	Prepaid Insurance .....	128	2,400	
	Cash.....	101		2,400
	<i>Paid premium for insurance.</i>			
22	Cash .....	101	4,400	
	Accounts Receivable .....	106		4,400
	<i>Collected part of amount owed by client.</i>			
25	Accounts Receivable .....	106	2,890	
	Services Revenue.....	403		2,890
	<i>Billed client for completed work.</i>			
28	Dividends .....	319	5,500	
	Cash.....	101		5,500
	<i>Paid cash dividends.</i>			
29	Office Supplies .....	124	600	
	Accounts Payable. ....	201		600
	<i>Purchased supplies on account.</i>			
30	Utilities Expense .....	690	435	
	Cash.....	101		435
	<i>Paid monthly utility bill.</i>			

