

**Solution Manual for Fundamental Accounting Principles 22nd  
Edition by Wild Shaw and Chiappetta ISBN 0077862279  
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# Chapter 2

## Analyzing and Recording Transactions

### QUESTIONS

1.
  - a. Common asset accounts: cash, accounts receivable, notes receivable, prepaid expenses (rent, insurance, etc.), office supplies, store supplies, equipment, building, and land.
  - b. Common liability accounts: accounts payable, notes payable, and unearned revenue, wages payable, and taxes payable.
  - c. Common equity accounts: owner, capital and owner, withdrawals.
2. A note payable is formal promise, usually denoted by signing a promissory note to pay a future amount. A note payable can be short-term or long-term, depending on when it is due. An account payable also references an amount owed to an entity. An account payable can be oral or implied, and often arises from the purchase of inventory, supplies, or services. An account payable is usually short-term.
3. There are several steps in processing transactions: (1) Identify and analyze the transaction or event, including the source document(s), (2) apply double-entry accounting, (3) record the transaction or event in a journal, and (4) post the journal entry to the ledger. These steps would be followed by preparation of a trial balance and then with the reporting of financial statements.
4. A general journal can be used to record any business transaction or event.
5. Debited accounts are commonly recorded first. The credited accounts are commonly indented.

6. **A transaction is first recorded in a journal to create a complete record of the transaction in one place. (The journal is often referred to as the book of original entry.) This process reduces the likelihood of errors in ledger accounts.**
7. **Expense accounts have debit balances because they are decreases to equity (and equity has a credit balance).**
8. **The recordkeeper prepares a trial balance to summarize the contents of the ledger and to verify the equality of total debits and total credits. The trial balance also serves as a helpful internal document for preparing financial statements and other reports.**
9. **The error should be corrected with a separate (subsequent) correcting entry. The entry's explanation should describe why the correction is necessary.**

10. The four financial statements are: income statement, balance sheet, statement of owner's equity, and statement of cash flows.
11. The balance sheet provides information that helps users understand a company's financial position at a point in time. Accordingly, it is often called the statement of financial position. The balance sheet lists the types and dollar amounts of assets, liabilities, and equity of the business.
12. The income statement lists the types and amounts of revenues and expenses, and reports whether the business earned a net income (also called profit or earnings) or a net loss.
13. An income statement user must know what time period is covered to judge whether the company's performance is satisfactory. For example, a statement user would not be able to assess whether the amounts of revenue and net income are satisfactory without knowing whether they were earned over a week, a month, a quarter, or a year.
14. (a) Assets are probable future economic benefits obtained or controlled by a specific entity as a result of past transactions or events. (b) Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. (c) Equity is the residual interest in the assets of an entity that remains after deducting its liabilities. (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; Long-term debt; 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; Advances 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; Net defined benefit liabilities; Deferred income tax liabilities; Provisions; Other non-current liabilities.

## QUICK STUDIES

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

The likely source documents include:

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

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

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

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

a.	E	Expense	655
b.	R	Revenue	406
c.	A	Asset	110
d.	A	Asset	191
e.	L	Liability	208
f.	A	Asset	161
g.	L	Liability	245
h.	EQ	Equity	301
i.	E	Expense	690

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

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

**Quick Study 2-5 (10 minutes)**

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

**Quick Study 2-6 (15 minutes)**

- a.  
1) Analyze:

Assets		=	Liabilities	+	Equity
Cash	Equipment				D. Tyler, Capital
7,000	+ 3,000	=	0	+	10,000

- 2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 15	Cash	101	7,000	
	Equipment	167	3,000	
	D. Tyler, Capital	301		10,000
	<i>Owner invests cash &amp; equipment.</i>			

- 3) Post

Cash 101	Equipment 167	D. Tyler, Capital 301
7,000	3,000	10,000

**Quick Study 2-6 (Continued)**

**b.**

**1) Analyze:**

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

**2) Record:**

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

**3) Post**

Office Supplies 124	Accounts Payable 201
500	500

**c.**

**1) Analyze:**

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

**2) Record:**

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

**3) Post**

Cash 101	Landscaping Revenue 403
4,000	4,000

**Quick Study 2-6 (Continued)**

d.

1) Analyze:

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

2) Record:

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

3) Post

<b>Cash</b>	<b>101</b>	<b>Unearned Landscaping Revenue</b>	<b>236</b>
1,000			1,000

**Quick Study 2-7 (10 minutes)**

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

**Quick Study 2-8 (10 minutes)**

The correct answer is a.

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

**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)

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

### Exercise 2-2 (10 minutes)

- a. 5 "Three"
- b. 2 "Equity"
- c. 4 "Liability"
- d. 1 "Asset"
- e. 3 "Account"

### Exercise 2-3 (5 minutes)

- a. 1 "Chart"
- b. 2 "General Ledger"

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

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

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

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 2-6 (15 minutes)**

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

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

Aug. 1	Cash .....	6,500	
	Photography Equipment .....	33,500	
	M. Harris, Capital .....		40,000
	<i>Owner investment in business.</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	Utilities Expense .....	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
<b>Balance</b>	<b>6,176</b>		

Photography Equipment	
Aug. 1	33,500

M. Harris, Capital	
Aug. 1	40,000

Office Supplies	
Aug. 5	880

Photography Fees Earned	
Aug. 20	3,331

Prepaid Insurance	
Aug. 2	2,100

Utilities Expense	
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	
M. Harris, Capital.....		\$40,000
Photography fees earned.....		3,331
Utilities expense.....	<u>675</u>	
<b>Totals .....</b>	<b><u>\$43,331</u></b>	<b><u>\$43,331</u></b>

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

a.	Cash .....	100,750	
	K. Spade, Capital .....		100,750
	<i>Owner invested in the business.</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.	K. Spade, Withdrawals .....	10,000	
	Cash.....		10,000
	<i>Owner withdrew cash for personal use.</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>	<b>94,850</b>		

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

K. Spade, Capital			
		(a)	100,750
		<b>Balance</b>	<b>100,750</b>

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

K. Spade, Withdrawals			
(i)	10,000		
<b>Balance</b>	<b>10,000</b>		

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

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

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

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

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

SPADE COMPANY Trial Balance May 31, 2015			
	<i>Debit</i>		<i>Credit</i>
Cash .....	\$ 94,850		
Accounts receivable .....	1,575		
Office supplies.....	1,250		
Office equipment .....	10,050		
Accounts payable.....		\$ 0	
K. Spade, Capital .....		100,750	
K. Spade, Withdrawals .....	10,000		
Fees earned .....		18,200	
Rent expense .....	1,225		
<b>Totals.....</b>	<b>\$118,950</b>	<b>\$118,950</b>	

**Exercise 2-11 (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 2-12 (20 minutes)**

**Transactions that created revenues:**

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

[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 2-13 (25 minutes)**

- a. Belle created a new business and invested \$6,000 cash, \$7,600 of equipment, and \$12,000 in automobiles.
- 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 2-14 (30 minutes)**

a.	Cash.....	6,000	
	Equipment.....	7,600	
	Automobiles.....	12,000	
	D. Belle, Capital .....		25,600
	<i>Owner investment in company.</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 Oil Expense .....	820	
	Cash.....		820
	<i>Paid for gas and oil.</i>		

**Exercise 2-15 (20 minutes)**

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

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

a.

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

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

Since there were no additional investments or withdrawals, the net income for the year equals the net increase in owner's equity.

b.

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

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

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

c.

Net income .....	\$	?
Plus owner investment .....		55,000
Less withdrawals by owner .....		<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 owner withdrawals (\$1,250/mo. X 12 mo.) .....		<u>(15,000)</u>
Change in equity .....		<u>\$29,000</u>

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

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

**Exercise 2-16 (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 .....	<b>\$ 9,550</b>	
Salaries expense .....	<b>5,600</b>	
Telephone expense .....	<b>860</b>	
Miscellaneous expenses .....	<b><u>520</u></b>	
Total expenses .....		<b><u>16,530</u></b>
Net income .....		<b><u>\$ 10,470</u></b>

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

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

**Exercise 2-18 (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	C. Camry, Capital*.....	106,470
Land.....	<u>44,000</u>		
<b>Total assets.....</b>	<b><u>\$116,970</u></b>	<b>Total liabilities &amp; equity .....</b>	<b><u>\$116,970</u></b>

\* Amount from Exercise 2-17.

**Exercise 2-19 (15 minutes)**

	(a)	(b)	(c)	(d)
<b><u>Answers</u></b>	<b><u>\$(28,000)</u></b>	<b><u>\$42,000</u></b>	<b><u>\$73,000</u></b>	<b><u>\$(45,000)</u></b>
<b>Computations:</b>				
Equity, Dec. 31, 2014.....	\$ 0	\$ 0	\$ 0	\$ 0
Owner's investments ....	110,000	42,000	87,000	210,000
Owner's withdrawals.....	(28,000)	(47,000)	(10,000)	(55,000)
Net income (loss) .....	<u>22,000</u>	<u>90,000</u>	<u>(4,000)</u>	<u>(45,000)</u>
Equity, Dec. 31, 2015.....	<b><u>\$104,000</u></b>	<b><u>\$85,000</u></b>	<b><u>\$73,000</u></b>	<b><u>\$110,000</u></b>

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

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

**Exercise 2-21 (15 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 (10 minutes)**

HEINEKEN N.V. Balance Sheet (in Euro millions) December 31, 2013			
<b>Assets</b>		<b>Equity and liabilities</b>	
Noncurrent assets .....	€ 27,842	Total equity .....	€ 12,356
Current assets .....	5,495	Noncurrent liabilities.....	12,978
		Current liabilities .....	<u>8,003</u>
<b>Total assets .....</b>	<b>€ 33,337</b>	<b>Total equity and liabilities ..</b>	<b>€ 33,337</b>

**Exercise 2-23 (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 (non-owner) financing with 82% of its assets financed by liabilities.
- c. Company 1 relies least on creditor (non-owner) 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%).

## PROBLEM SET A

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

#### Part 1

April 1	Cash.....	101	80,000	
	Office Equipment.....	163	26,000	
	K. Tanner, Capital .....	301		106,000
	<i>Owner invested cash and equipment.</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	K. Tanner, Withdrawals .....	302	5,500	
	Cash .....	101		5,500
	<i>Owner withdrew cash for personal use.</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>			



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

		Cash		Acct. No. 101		
Date		Explanation	PR	Debit	Credit	Balance
April	1		G1	80,000		80,000
	2		G1		9,000	71,000
	6		G1	4,000		75,000
	13		G1		11,600	63,400
	19		G1		2,400	61,000
	22		G1	4,400		65,400
	28		G1		5,500	59,900
	30		G1		435	59,465

		Accounts Receivable		Acct. No. 106		
Date		Explanation	PR	Debit	Credit	Balance
April	9		G1	6,000		6,000
	22		G1		4,400	1,600
	25		G1	2,890		4,490

		Office Supplies		Acct. No. 124		
Date		Explanation	PR	Debit	Credit	Balance
April	3		G1	3,600		3,600
	29		G1	600		4,200

		Prepaid Insurance		Acct. No. 128		
Date		Explanation	PR	Debit	Credit	Balance
April	19		G1	2,400		2,400

		Prepaid Rent		Acct. No. 131		
Date		Explanation	PR	Debit	Credit	Balance
April	2		G1	9,000		9,000

		Office Equipment		Acct. No. 163		
Date		Explanation	PR	Debit	Credit	Balance
April	1		G1	26,000		26,000
	3		G1	8,000		34,000

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

<b>Accounts Payable</b>				<b>Acct. No. 201</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
April 3		G1		11,600	11,600
13		G1	11,600		0
29		G1		600	600

<b>K. Tanner, Capital</b>				<b>Acct. No. 301</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
April 1		G1		106,000	106,000

<b>K. Tanner, Withdrawals</b>				<b>Acct. No. 302</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
April 28		G1	5,500		5,500

<b>Services Revenue</b>				<b>Acct. No. 403</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
April 6		G1		4,000	4,000
9		G1		6,000	10,000
25		G1		2,890	12,890

<b>Utilities Expense</b>				<b>Acct. No. 690</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
April 30		G1	435		435

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

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

**Problem 2-2A (90 minutes)****Part 1**

a.	Cash.....	101	100,000	
	Office Equipment.....	163	5,000	
	Drafting Equipment .....	164	60,000	
	J. Aracel, Capital.....	301		165,000
	<i>Owner invested cash and equipment.</i>			
b.	Land.....	172	49,000	
	Cash .....	101		6,300
	Notes Payable .....	250		42,700
	<i>Purchased land with cash and note 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 note payable.</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 2-2A (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.	J. Aracel, Withdrawals .....	302	9,480	
	Cash.....	101		9,480
	<i>Owner withdrew cash for personal use.</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 2-2A (Continued)**  
**Part 2**

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

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

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

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

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

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

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

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

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

J. Aracel, Capital				No. 301
Date	PR	Debit	Credit	Balance
(a)			165,000	165,000

J. Aracel, Withdrawals				No. 302
Date	PR	Debit	Credit	Balance
(o)		9,480		9,480

Engineering Fees Earned				No. 402
Date	PR	Debit	Credit	Balance
(e)			6,200	6,200
(g)			14,000	20,200
(i)			22,000	42,200

Wages Expense				No. 601
Date	PR	Debit	Credit	Balance
(l)		1,200		1,200
(p)		1,200		2,400

Equipment Rental Expense				No. 602
Date	PR	Debit	Credit	Balance
(j)		1,333		1,333

Advertising Expense				No. 603
Date	PR	Debit	Credit	Balance
(q)		2,500		2,500

Repairs Expense				No. 604
Date	PR	Debit	Credit	Balance
(n)		925		925

**Problem 2-2A (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
J. Aracel, Capital .....		165,000
J. Aracel, Withdrawals .....	9,480	
Engineering fees earned.....		42,200
Wages expense .....	2,400	
Equipment rental expense.....	1,333	
Advertising expense .....	2,500	
Repairs expense.....	<u>925</u>	
<b>Totals.....</b>	<b><u>\$261,733</u></b>	<b><u>\$261,733</u></b>

**Problem 2-3A (90 minutes)****Part 1**

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



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

<b>Cash</b>				<b>Acct. No. 101</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
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

<b>Accounts Receivable</b>				<b>Acct. No. 106</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 9		G1	7,500		7,500
22		G1		3,500	4,000
25		G1	3,820		7,820

<b>Office Supplies</b>				<b>Acct. No. 124</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 3		G1	1,200		1,200
30		G1	600		1,800

<b>Prepaid Insurance</b>				<b>Acct. No. 128</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 19		G1	5,000		5,000

<b>Prepaid Rent</b>				<b>Acct. No. 131</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 2		G1	6,000		6,000

<b>Office Equipment</b>				<b>Acct. No. 163</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		G1	22,000		22,000
3		G1	3,000		25,000

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

<b>Accounts Payable</b>					<b>Acct. No. 201</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 3		G1		4,200	4,200	
12		G1	4,200		0	
30		G1		600	600	

<b>D. Brooks, Capital</b>					<b>Acct. No. 301</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1		G1		172,000	172,000	

<b>D. Brooks, Withdrawals</b>					<b>Acct. No. 302</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 29		G1	5,100		5,100	

<b>Services Revenue</b>					<b>Acct. No. 403</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 6		G1		4,000	4,000	
9		G1		7,500	11,500	
25		G1		3,820	15,320	

<b>Utilities Expense</b>					<b>Acct. No. 690</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 31		G1	500		500	

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

**Part 3**

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

**Problem 2-4A (90 minutes)**

**Part 1**

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

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

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

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

Cash				No. 101
Date	PR	Debit	Credit	Balance
(a)		60,000		60,000
(b)			30,000	30,000
(f)			1,800	28,200
(g)		8,000		36,200
(h)			635	35,565
(i)			2,000	33,565
(j)			20,300	13,265
(l)			1,800	11,465
(m)		4,000		15,465
(n)			2,800	12,665

Accounts Receivable				No. 106
Date	PR	Debit	Credit	Balance
(k)		6,250		6,250
(m)			4,000	2,250

Office Supplies				No. 108
Date	PR	Debit	Credit	Balance
(c)		2,000		2,000

Office Equipment				No. 163
Date	PR	Debit	Credit	Balance
(a)		25,000		25,000
(e)		5,600		30,600
(j)		20,300		50,900

Automobiles				No. 164
Date	PR	Debit	Credit	Balance
(d)		16,500		16,500

Building				No. 170
Date	PR	Debit	Credit	Balance
(b)		160,000		160,000

Land				No. 172
Date	PR	Debit	Credit	Balance
(b)		40,000		40,000

Accounts Payable				No. 201
Date	PR	Debit	Credit	Balance
(c)			2,000	2,000
(e)			5,600	7,600
(i)		2,000		5,600

Notes Payable				No. 250
Date	PR	Debit	Credit	Balance
(b)			170,000	170,000

H. Venedict, Capital				No. 301
Date	PR	Debit	Credit	Balance
(a)			85,000	85,000
(d)			16,500	101,500

H. Venedict, Withdrawals				No. 302
Date	PR	Debit	Credit	Balance
(n)		2,800		2,800

Fees Earned				No. 402
Date	PR	Debit	Credit	Balance
(g)			8,000	8,000
(k)			6,250	14,250

Salaries Expense				No. 601
Date	PR	Debit	Credit	Balance
(f)		1,800		1,800
(l)		1,800		3,600

Utilities Expense				No. 602
Date	PR	Debit	Credit	Balance
(h)		635		635

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

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

**Problem 2-5A (90 minutes)****Part 1**

<b>NETTLE DISTRIBUTION</b>			
<b>Balance Sheet</b>			
<b>December 31, 2014</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$ 64,300	Accounts payable.....	\$ 3,500
Accounts receivable ....	26,240		
Office supplies.....	3,160		
Trucks.....	148,000		
Office equipment .....	<u>44,000</u>		
<b>Total assets.....</b>	<b><u>\$285,700</u></b>		
		<b>Equity</b>	
		Total equity .....	<u>282,200</u>
		<b>Total liabilities and equity...</b>	<b><u>\$285,700</u></b>

<b>NETTLE DISTRIBUTION</b>			
<b>Balance Sheet</b>			
<b>December 31, 2015</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$ 15,640	Accounts payable .....	\$ 33,500
Accounts receivable ....	19,390	Note payable.....	<u>40,000</u>
Office supplies.....	1,960	Total liabilities.....	73,500
Trucks.....	157,000		
Office equipment .....	44,000		
Building .....	80,000		
Land.....	<u>60,000</u>		
<b>Total assets.....</b>	<b><u>\$377,990</u></b>		
		<b>Equity</b>	
		Total equity.....	<u>304,490</u>
		<b>Total liabilities and equity....</b>	<b><u>\$377,990</u></b>

**Part 2****Computation of 2015 net income:**

Equity, December 31, 2014 .....	\$282,200
Equity, December 31, 2015 .....	<u>(304,490)</u>
Increase in equity during 2015.....	<u>\$ 22,290</u>
Owner investment.....	35,000
Add net income.....	?
Deduct withdrawals by owner (\$3,000 x 12).....	<u>(36,000)</u>
Increase in equity during 2015.....	<u>\$ 22,290</u>

Therefore, net income must equal  $(\$22,290 + \$36,000 - \$35,000) = \underline{\$ 23,290}$

**Part 3**

Debt Ratio =  $\$73,500 / \$377,990 = \underline{19.4\%}$



**Problem 2-6A (35 minutes)**

**Part 1**

<b>MIN ENGINEERING</b>		
<b>Trial Balance</b>		
<b>May 31</b>		
	<b>Debit</b>	<b>Credit</b>
Cash.....	\$37,641	
Office supplies.....	890	
Prepaid insurance .....	4,600	
Office equipment .....	12,900	
Accounts payable.....		\$12,900
Y. Min, Capital.....		18,000
Y. Min, Withdrawals.....	3,329	
Engineering fees earned.....		36,000
Rent expense .....	<u>7,540</u>	
<b>Totals .....</b>	<b><u>\$66,900</u></b>	<b><u>\$66,900</u></b>

**Part 2: Likely transactions (following order of trial balance).**

1. Purchased \$890 of office supplies for cash.
2. Paid \$4,600 insurance premium in advance.
3. Purchased \$12,900 of office equipment on credit (with account payable).
4. Yi Min invested \$18,000 cash in the business.
5. Yi Min withdrew \$3,329 cash for personal use.
6. Earned \$36,000 cash for engineering services.
7. Paid \$7,540 cash for rent expense.

**Part 3**

<b>Report of Cash Received and Paid</b>		
<b>Cash received</b>		
Owner investment .....	\$18,000	
Engineering fees .....	<u>36,000</u>	
<b>Total cash received .....</b>		<b>\$54,000</b>
<b>Cash paid</b>		
Office supplies .....	890	
Insurance premium .....	4,600	
Withdrawals by owner .....	3,329	
Rent .....	<u>7,540</u>	
<b>Total cash paid .....</b>		<b><u>16,359</u></b>
<b>Ending balance .....</b>		<b><u>\$37,641</u></b>

## PROBLEM SET B

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

#### Part 1

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

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

			Cash		Acct. No. 101	
Date		Explanation	PR	Debit	Credit	Balance
Sept.	1		G1	38,000		38,000
	2		G1		9,000	29,000
	8		G1	3,280		32,280
	13		G1		10,400	21,880
	19		G1		1,900	19,980
	22		G1	7,700		27,680
	28		G1		5,300	22,380
	30		G1		860	21,520

			Accounts Receivable		Acct. No. 106	
Date		Explanation	PR	Debit	Credit	Balance
Sept.	12		G1	15,400		15,400
	22		G1		7,700	7,700
	24		G1	2,100		9,800

			Office Supplies		Acct. No. 124	
Date		Explanation	PR	Debit	Credit	Balance
Sept.	4		G1	2,400		2,400
	29		G1	550		2,950

			Prepaid Insurance		Acct. No. 128	
Date		Explanation	PR	Debit	Credit	Balance
Sept.	19		G1	1,900		1,900

			Prepaid Rent		Acct. No. 131	
Date		Explanation	PR	Debit	Credit	Balance
Sept.	2		G1	9,000		9,000

			Office Equipment		Acct. No. 163	
Date		Explanation	PR	Debit	Credit	Balance
Sept.	1		G1	15,000		15,000
	4		G1	8,000		23,000

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

<b>Accounts Payable</b>				<b>Acct. No. 201</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 4		G1		10,400	10,400
13		G1	10,400		0
29		G1		550	550

<b>H. Humble, Capital</b>				<b>Acct. No. 301</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1		G1		53,000	53,000

<b>H. Humble, Withdrawals</b>				<b>Acct. No. 302</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 28		G1	5,300		5,300

<b>Services Revenue</b>				<b>Acct. No. 401</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 8		G1		3,280	3,280
12		G1		15,400	18,680
24		G1		2,100	20,780

<b>Utilities Expense</b>				<b>Acct. No. 690</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 30		G1	860		860

**Problem 2-1B (Concluded)**

**Part 3**

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

**Problem 2-2B (90 minutes) Part 1**

**Part 1**

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

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

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

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

Cash				No. 101
Date	PR	Debit	Credit	Balance
(a)		65,000		65,000
(b)			5,000	60,000
(c)			34,500	25,500
(d)			5,000	20,500
(e)		4,600		25,100
(f)			800	24,300
(k)		5,100		29,400
(l)			1,800	27,600
(m)			950	26,650
(n)			608	26,042
(o)			6,230	19,812
(p)			1,800	18,012
(q)			750	17,262

Accounts Receivable				No. 106
Date	PR	Debit	Credit	Balance
(g)		4,250		4,250
(i)		10,200		14,450
(k)			5,100	9,350

Prepaid Insurance				No. 108
Date	PR	Debit	Credit	Balance
(d)		5,000		5,000

Office Equipment				No. 163
Date	PR	Debit	Credit	Balance
(a)		5,750		5,750
(h)		950		6,700

Computer Equipment				No. 164
Date	PR	Debit	Credit	Balance
(a)		30,000		30,000
(f)		4,500		34,500

Building				No. 170
Date	PR	Debit	Credit	Balance
(c)		34,500		34,500

Land				No. 172
Date	PR	Debit	Credit	Balance
(b)		22,000		22,000

Accounts Payable				No. 201
Date	PR	Debit	Credit	Balance
(h)			950	950
(j)			580	1,530
(m)		950		580

Notes Payable				No. 250
Date	PR	Debit	Credit	Balance
(b)			17,000	17,000
(f)			3,700	20,700

B. Grechus, Capital				No. 301
Date	PR	Debit	Credit	Balance
(a)			100,750	100,750

B. Grechus, Withdrawals				No. 302
Date	PR	Debit	Credit	Balance
(o)		6,230		6,230

Fees Earned				No. 402
Date	PR	Debit	Credit	Balance
(e)			4,600	4,600
(g)			4,250	8,850
(i)			10,200	19,050

Wages Expense				No. 601
Date	PR	Debit	Credit	Balance
(l)		1,800		1,800
(p)		1,800		3,600

Computer Rental Expense				No. 602
Date	PR	Debit	Credit	Balance
(j)		580		580

Advertising Expense				No. 603
Date	PR	Debit	Credit	Balance
(q)		750		750

Repairs Expense				No. 604
Date	PR	Debit	Credit	Balance
(n)		608		608



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

<b>SOFTWORKS</b>			
<b>Trial Balance</b>			
<b>April 30</b>			
		<b>Debit</b>	<b>Credit</b>
<b>Cash</b> .....	<b>\$ 17,262</b>		
<b>Accounts receivable</b> .....	<b>9,350</b>		
<b>Prepaid insurance</b> .....	<b>5,000</b>		
<b>Office equipment</b> .....	<b>6,700</b>		
<b>Computer equipment</b> .....	<b>34,500</b>		
<b>Building</b> .....	<b>34,500</b>		
<b>Land</b> .....	<b>22,000</b>		
<b>Accounts payable</b> .....			<b>\$ 580</b>
<b>Notes payable</b> .....			<b>20,700</b>
<b>B. Grechus, Capital</b> .....			<b>100,750</b>
<b>B. Grechus, Withdrawals</b> .....	<b>6,230</b>		
<b>Fees earned</b> .....			<b>19,050</b>
<b>Wages expense</b> .....	<b>3,600</b>		
<b>Computer rental expense</b> .....	<b>580</b>		
<b>Advertising expense</b> .....	<b>750</b>		
<b>Repairs expense</b> .....	<b>608</b>		
<b>Totals</b> .....	<b>\$141,080</b>	<b>\$141,080</b>	

**Problem 2-3B (90 minutes)****Part 1**

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

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

		Cash			Acct. No. 101	
Date		Explanation	PR	Debit	Credit	Balance
Nov.	1		G1	30,000		30,000
	2		G1		4,500	25,500
	8		G1	3,400		28,900
	13		G1		3,100	25,800
	19		G1		1,800	24,000
	22		G1	5,200		29,200
	28		G1		5,300	23,900
	30		G1		831	23,069

		Accounts Receivable			Acct. No. 106	
Date		Explanation	PR	Debit	Credit	Balance
Nov.	12		G1	10,200		10,200
	22		G1		5,200	5,000
	24		G1	1,750		6,750

		Office Supplies			Acct. No. 124	
Date		Explanation	PR	Debit	Credit	Balance
Nov.	4		G1	600		600
	29		G1	249		849

		Prepaid Insurance			Acct. No. 128	
Date		Explanation	PR	Debit	Credit	Balance
Nov.	19		G1	1,800		1,800

		Prepaid Rent			Acct. No. 131	
Date		Explanation	PR	Debit	Credit	Balance
Nov.	2		G1	4,500		4,500

		Office Equipment			Acct. No. 163	
Date		Explanation	PR	Debit	Credit	Balance
Nov.	1		G1	15,000		15,000
	4		G1	2,500		17,500

		Accounts Payable			Acct. No. 201	
Date		Explanation	PR	Debit	Credit	Balance
Nov.	4		G1		3,100	3,100
	13		G1	3,100		0
	29		G1		249	249

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

M. Zucker, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 1		G1		45,000	45,000

M. Zucker, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 28		G1	5,300		5,300

Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 8		G1		3,400	3,400
12		G1		10,200	13,600
24		G1		1,750	15,350

Utilities Expense				Acct. No. 690	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 30		G1	831		831

**Part 3**

ZUCKER MANAGEMENT SERVICES		
Trial Balance		
November 30		
	Debit	Credit
Cash.....	\$23,069	
Accounts receivable .....	6,750	
Office supplies.....	849	
Prepaid insurance.....	1,800	
Prepaid rent .....	4,500	
Office equipment .....	17,500	
Accounts payable.....		\$ 249
M. Zucker, Capital.....		45,000
M. Zucker, Withdrawals .....	5,300	
Services revenue.....		15,350
Utilities expense.....	<u>831</u>	
Totals.....	<u>\$60,599</u>	<u>\$60,599</u>

**Problem 2-4B (90 minutes)**

**Part 1**

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

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

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

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

Cash				No. 101
Date	PR	Debit	Credit	Balance
(a)		35,000		35,000
(b)			15,000	20,000
(f)			1,000	19,000
(g)		3,200		22,200
(h)			540	21,660
(i)			500	21,160
(j)			3,400	17,760
(l)			1,000	16,760
(m)		2,200		18,960
(n)			1,100	17,860

Accounts Receivable				No. 106
Date	PR	Debit	Credit	Balance
(k)		4,200		4,200
(m)			2,200	2,000

Office Supplies				No. 108
Date	PR	Debit	Credit	Balance
(c)		500		500

Office Equipment				No. 163
Date	PR	Debit	Credit	Balance
(a)		11,000		11,000
(e)		1,200		12,200
(j)		3,400		15,600

Automobiles				No. 164
Date	PR	Debit	Credit	Balance
(d)		8,000		8,000

Building				No. 170
Date	PR	Debit	Credit	Balance
(b)		40,000		40,000

Land				No. 172
Date	PR	Debit	Credit	Balance
(b)		7,500		7,500

Accounts Payable				No. 201
Date	PR	Debit	Credit	Balance
(c)			500	500
(e)			1,200	1,700
(i)		500		1,200

Notes Payable				No. 250
Date	PR	Debit	Credit	Balance
(b)			32,500	32,500

A. Nuncio, Capital				No. 301
Date	PR	Debit	Credit	Balance
(a)			46,000	46,000
(d)			8,000	54,000

A. Nuncio, Withdrawals				No. 302
Date	PR	Debit	Credit	Balance
(n)		1,100		1,100

Fees Earned				No. 402
Date	PR	Debit	Credit	Balance
(g)			3,200	3,200
(k)			4,200	7,400

Salaries Expense				No. 601
Date	PR	Debit	Credit	Balance
(f)		1,000		1,000
(l)		1,000		2,000

Utilities Expense				No. 602
Date	PR	Debit	Credit	Balance
(h)		540		540

**Problem 2-4B (Concluded)**

**Part 3**

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



**Problem 2-5B (60 minutes)**

**Part 1**

TAMA CO. Balance Sheet December 31, 2014			
<i>Assets</i>		<i>Liabilities</i>	
Cash .....	\$ 20,000	Accounts payable .....	\$ 4,000
Accounts receivable .....	35,000		
Office supplies .....	8,000		
Office equipment.....	40,000		
Machinery .....	<u>28,500</u>		
<b>Total assets .....</b>	<b><u>\$131,500</u></b>		
		<i>Equity</i>	
		Total equity.....	<u>127,500</u>
		<b>Total liabilities &amp; equity .....</b>	<b><u>\$131,500</u></b>

TAMA CO. Balance Sheet December 31, 2015			
<i>Assets</i>		<i>Liabilities</i>	
Cash .....	\$ 5,000	Accounts payable .....	\$ 12,000
Accounts receivable .....	25,000	Note payable.....	<u>250,000</u>
Office supplies .....	13,500	Total liabilities.....	262,000
Office equipment.....	40,000		
Machinery .....	28,500		
Building.....	250,000		
Land .....	<u>50,000</u>		
<b>Total assets .....</b>	<b><u>\$412,000</u></b>		
		<i>Equity</i>	
		Total equity .....	<u>150,000</u>
		<b>Total liabilities &amp; equity .....</b>	<b><u>\$412,000</u></b>

**Part 2**

Calculation of 2015 net income:

Equity, December 31, 2014 .....	\$127,500
Equity, December 31, 2015 .....	<u>(150,000)</u>
<b>Increase in equity during 2015 .....</b>	<b><u>\$ 22,500</u></b>
Owner investment during 2015 .....	\$ 15,000
2015 Net income .....	?
Owner withdrawals during 2015 (\$250 x 12) .....	<u>(3,000)</u>
<b>Increase in equity during 2015 .....</b>	<b><u>\$ 22,500</u></b>

Therefore, 2015 income must equal (\$22,500+ \$3,000- \$15,000) = \$ 10,500

**Part 3**

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

**Problem 2-6B (35 minutes)**

**Part 1**

<b>GOULD SOLUTIONS</b>		
<b>Trial Balance</b>		
<b>April 30</b>		
	<b>Debit</b>	<b>Credit</b>
Cash .....	\$19,982	
Office supplies .....	760	
Prepaid rent .....	1,800	
Office equipment .....	12,250	
Accounts payable.....		\$12,250
R. Gould, Capital .....		15,000
R. Gould, Withdrawals .....	5,200	
Consulting fees earned .....		20,400
Operating expenses .....	<u>7,658</u>	
<b>Totals.....</b>	<b><u>\$47,650</u></b>	<b><u>\$47,650</u></b>

**Part 2: Likely transactions (following order of trial balance).**

1. Purchased \$760 of office supplies for cash.
2. Paid \$1,800 cash for prepaid rent.
3. Purchased \$12,250 office equipment on credit.
4. Gould invested \$15,000 cash in the business.
5. Owner withdrew \$5,200 cash for personal use.
6. Earned \$20,400 cash in consulting fees.
7. Paid \$7,658 cash for operating expenses.

**Part 3**

<b>Report of Cash Received and Paid</b>		
<b>Cash received</b>		
Owner investment .....	\$15,000	
Consulting fees .....	<u>20,400</u>	
<b>Total cash received .....</b>		<b>\$35,400</b>
<b>Cash paid</b>		
Office supplies .....	760	
Prepaid rent .....	1,800	
Withdrawals by owner .....	5,200	
Operating expenses .....	<u>7,658</u>	
<b>Total cash paid .....</b>		<b><u>15,418</u></b>
<b>Ending balance.....</b>		<b>\$19,982</b>

## Serial Problem — SP 2

### Part 1 (120 minutes) Serial Problem, Business Solutions

2015

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

**Serial Problem, Business Solutions (Continued)**

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

**Serial Problem, Business Solutions (Continued)****Part 2**

General Ledger accounts					
Cash			Acct. No. 101		
Date	Explanation	PR	Debit	Credit	Balance
Oct. 1			45,000		45,000
2				3,300	41,700
5				2,220	39,480
8				1,420	38,060
15			4,800		42,860
17				805	42,055
20				1,728	40,327
22			1,400		41,727
31				875	40,852
31				3,600	37,252
Nov. 1				320	36,932
2			4,633		41,565
5				1,125	40,440
18			2,208		42,648
22				250	42,398
28				384	42,014
30				1,750	40,264
30				2,000	38,264

Accounts Receivable			Acct. No. 106		
Date	Explanation	PR	Debit	Credit	Balance
Oct. 6			4,800		4,800
12			1,400		6,200
15				4,800	1,400
22				1,400	0
28			5,208		5,208
Nov. 8			5,668		10,876
18				2,208	8,668
24			3,950		12,618

Computer Supplies			Acct. No. 126		
Date	Explanation	PR	Debit	Credit	Balance
Oct. 3			1,420		1,420
Nov. 5			1,125		2,545

**Serial Problem, Business Solutions (Continued)**

<b>Prepaid Insurance</b>				<b>Acct. No. 128</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Oct. 5			2,220		2,220

<b>Prepaid Rent</b>				<b>Acct. No. 131</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Oct. 2			3,300		3,300

<b>Office Equipment</b>				<b>Acct. No. 163</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Oct. 1			8,000		8,000

<b>Computer Equipment</b>				<b>Acct. No. 167</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Oct. 1			20,000		20,000

<b>Accounts Payable</b>				<b>Acct. No. 201</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Oct. 3				1,420	1,420
8			1,420		0

<b>S. Rey, Capital</b>				<b>Acct. No. 301</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Oct. 1				73,000	73,000

<b>S. Rey, Withdrawals</b>				<b>Acct. No. 302</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Oct. 31			3,600		3,600
Nov. 30			2,000		5,600

**Serial Problem, Business Solutions (Concluded)**

<b>Computer Services Revenue</b>				<b>Acct. No. 403</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Oct. 6</b>				<b>4,800</b>	<b>4,800</b>
12				1,400	6,200
28				5,208	11,408
<b>Nov. 2</b>				<b>4,633</b>	<b>16,041</b>
8				5,668	21,709
24				3,950	25,659

<b>Wages Expense</b>				<b>Acct. No. 623</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Oct. 31</b>			<b>875</b>		<b>875</b>
<b>Nov. 30</b>			<b>1,750</b>		<b>2,625</b>

<b>Advertising Expense</b>				<b>Acct. No. 655</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Oct. 20</b>			<b>1,728</b>		<b>1,728</b>

<b>Mileage Expense</b>				<b>Acct. No. 676</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Nov. 1</b>			<b>320</b>		<b>320</b>
28			384		704

<b>Miscellaneous Expenses</b>				<b>Acct. No. 677</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Nov. 22</b>			<b>250</b>		<b>250</b>

<b>Repairs Expense—Computer</b>				<b>Acct. No. 684</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Oct. 17</b>			<b>805</b>		<b>805</b>

**Serial Problem, Business Solutions (Continued)****Part 3**

<b>BUSINESS SOLUTIONS</b>		
<b>Trial Balance</b>		
<b>November 30</b>		
	<b>Debit</b>	<b>Credit</b>
Cash.....	\$38,264	
Accounts receivable .....	12,618	
Computer supplies.....	2,545	
Prepaid insurance .....	2,220	
Prepaid rent .....	3,300	
Office equipment.....	8,000	
Computer equipment .....	20,000	
Accounts payable.....		\$ 0
S. Rey, Capital .....		73,000
S. Rey, Withdrawals.....	5,600	
Computer services revenue .....		25,659
Wages expense .....	2,625	
Advertising expense .....	1,728	
Mileage expense.....	704	
Miscellaneous expense .....	250	
Repairs expense—Computer .....	805	
<b>Totals.....</b>	<b><u>\$98,659</u></b>	<b><u>\$98,659</u></b>



## Reporting in Action — BTN 2-1

1. Apple reports (\$ millions):  
\$83,451 in liabilities at September 28, 2013.  
\$57,854 in liabilities at September 29, 2012.
2. Apple reports (\$ millions):  
\$207,000 in assets at September 28, 2013.  
\$176,064 in assets at September 29, 2012.
3. (\$ millions):  
As of September 28, 2013 Debt Ratio =  $\$83,451/\$207,000$  = 40.3%  
As of September 29, 2012 Debt Ratio =  $\$57,854/\$176,064$  = 32.9%
4. Apple employed more financial leverage as of September 28, 2013, when 40.3% of its assets were financed by debt, relative to September 29, 2012, when 32.9% of its assets were financed by debt. Consequently, its financing structure was more risky in its fiscal 2013 in comparison to its fiscal 2012.
5. Solution depends on the financial statements accessed.

## Comparative Analysis — BTN 2-2

1. Apple (\$ millions)  
Current year debt ratio:  $\$83,451/\$207,000$  = 40.3%  
Prior year debt ratio:  $\$57,854/\$176,064$  = 32.9%
2. Google (\$ millions)  
Current year debt ratio:  $\$23,611/\$110,920$  = 21.3%  
Prior year debt ratio:  $\$22,083/\$93,798$  = 23.5%
3. Apple has the higher degree of financial leverage. Apple's debt ratio is markedly higher for the current year than that of Google (40.3% vs. 21.3%). This indicates that Apple carries more debt financing than Google. This also implies that Apple is attempting to use nonowner financing to make more money for its owners. This is fine provided Apple's return does not decline below that of what it pays nonowners for use of that money— this is the main source of financing risk.

## **Ethics Challenge — BTN 2-3**

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

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

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

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

## Communicating in Practice — BTN 2-4

### MEMORANDUM

To: Lila Corentine  
From: \_\_\_\_\_  
Subject: Financial statements explanation  
Date: \_\_\_\_\_

The four major financial statements and their purposes are:

- ***Income statement*** describes a company's revenues and expenses along with the resulting net income or loss over a period of time. It helps explain how equity changes during a period due to earnings activities.
- ***Statement of owner's equity*** explains changes in equity due to net income (or net loss) and any withdrawals and or owner investments over a period of time.
- ***Statement of cash flows*** identifies cash inflows (receipts) and outflows (payments) over a period of time. It also explains how the cash balance on the balance sheet changed from the beginning to the end of a period.
- ***Balance sheet*** describes a company's financial position (assets, liabilities, and equity) at a point in time.

These financial statements are linked to each other across time. Specifically, a balance sheet reports an organization's financial position at a ***point in time***. The income statement, statement of owner's equity, and statement of cash flows report on performance over a ***period of time***. These three statements link balance sheets from the beginning to the end of a reporting period. That is, they explain how the financial position of an organization changes from one point to another.

## Taking It to the Net — BTN 2-5

1. The prior three years' net income or (loss) for Amazon are (\$ millions):  
     2013 = \$ 274                      2012 = \$ (39)                      2011 = \$ 631
2. The three years net cash *provided* by operations follows (\$ millions):  
     2013 = \$5,475                      2012 = \$4,180                      2011 = \$3,903
3. In 2013, Amazon had net income of \$274 million and operating cash flows of \$5,475 million; and, in that same year, total net cash increased by only \$574 million (see its statement of cash flows).

The reason its cash balance only increased by \$574 million in 2013 was because of cash outflows of \$4,276 million for its investing activities and \$539 million for its financing activities (and further reduced by \$86 million related to foreign currency effects). Those uses of cash absorbed much of the cash generated by its operating activities. A large part of those cash outflows was tied to its investments in securities and its other purchases and acquisitions.

## Teamwork in Action — BTN 2-6

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

The following sample solution gives a summary outline of what a minimum report needs to include. Assume a team member selects assets:

**Category: Assets**

- a. Increases (decreases) in assets are debits (credits) to asset accounts. Debit means left side, credit means right side. The normal side of an account refers to the side where increases are recorded. For assets, this is the debit, or left, side.
- b. Owner investment of \$10,000 cash in business.
- c.    Assets = Liabilities + Owner, Capital – Withdrawals + Revenues – Expenses  
     + \$10,000 =    \$0 +    \$10,000    –    \$0    +    \$0    –    \$0  
     Owner investments have no effect on the income statement, but they do increase the cash flows from financing by \$10,000 on the statement of cash flows (this increases its net cash flow).
- d. Paid rent expense with \$2,000 cash.
- e.    Assets = Liabilities + Owner, Capital – Withdrawals + Revenues – Expenses  
     – \$2,000 =    \$0 +    \$0    –    \$0    +    \$0    –    \$2,000  
     An expense paid in cash will decrease net income on the income statement and decrease operating cash flows on the statement of cash flows.

## **Entrepreneurial Decision — BTN 2-7**

**There are several issues that this entrepreneurial owner should consider. Those considerations include the following three issues (among others):**

- If she chooses to contribute her own funds for the expansion, she will be risking her own money, but she will not have the expense of interest payments, nor will she have the risk of the inability to repay a loan.**
- If she chooses to borrow, she will have interest and loan payments to make, and she will have more risk (as reflected in her company's debt ratio).**
- If she can pay the interest and loan payments, it can be to her advantage to borrow, as long as her return on assets is high enough (that is, higher than the rate of interest on the borrowings).**

**Entrepreneurial Decision — BTN 2-8**

1.

**MARTIN MUSIC SERVICES  
Balance Sheet December  
31, 2015**

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

2.

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

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

\*Ending balance is used per instructions.

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

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

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

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

## Hitting the Road — BTN 2-9

**Findings will vary. It is advisable that the instructor obtain a few classified sections from newspapers that were published over the period of the assignment. If student reports lack responses for question 2, it is informative and motivating to bring these (accounting-related job opportunities) sections to class when discussing or returning student reports as many students are not accounting majors.**

## Global Decision — BTN 2-10

- 1. An analysis of return on assets suggests that Apple (19.3%) yields the greatest return on assets, followed by Samsung (15.4%) and then Google (12.6%), which yields the lowest return.**
- 2. An analysis of the debt ratio suggests that Apple (at 40.3%) presents the greatest risk, followed by Samsung (29.9%) and then Google (21.3%) with the least risk. That is, Apple carries the most debt and debt must be repaid with interest and principal. The lower debt levels of Google and Samsung result in less risk in that their contractually required payments are less as a percent of their respective asset bases.**
- 3. In this case, there is no clear answer based on these two ratios alone. Apple has a relatively higher return on assets but also the highest debt ratio. Google has the lowest return (slightly lower return on assets compared to Samsung and substantially lower than that for Apple), but it has the lowest debt ratio. Samsung is in the middle for its debt ratio and its return on assets. Overall, based on return on assets, Apple would warrant additional consideration for expanded investment; however, based on the debt ratio, Google would warrant additional consideration. Therefore, in this analysis of these three companies, we get a mixed inference from these two ratios (and further analysis is warranted).**