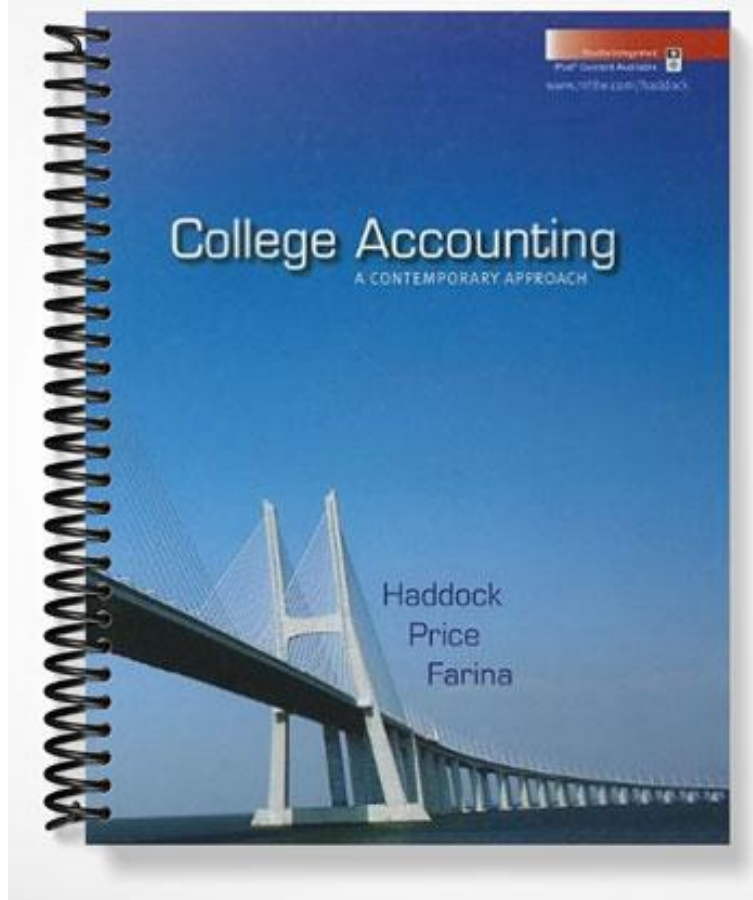


SOLUTIONS MANUAL



CHAPTER 2

Analyzing Business Transactions

Chapter Opener: Thinking Critically

Answers will vary but students should recognize that happy employees are more productive and present a positive image to the company. Happy employees are also loyal which leads to lower employee turnover, and lower training and recruiting expenses. Happy employees are much less likely to steal from the company, and of course, happy employees mean happy customers who become repeat customers.

Fast Facts

- ❑ Southwest Airlines opened in 1971 with three planes flying between Houston, Dallas, and San Antonio. Southwest Airlines currently flies almost 100 million passengers a year to 63 cities all across the country.
- ❑ For the fiscal year 2006, the company's net income was \$499 million while its total operating revenue was \$9.1 billion.
- ❑ In 2006, Southwest served 61.5 million cans of soda, juices, and water; 10.9 million alcoholic beverages; 5 million bags of pretzels; 93.8 million bags of peanuts; 16 million snackpacks; and 35.4 million other snacks.

Managerial Implications: Thinking Critically

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

Discussion Questions

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

1. Outflow of money/assets for costs used to produce revenue
2. Inflow of money/assets resulting from sales or use of property
3. $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
4. Assets, liabilities, and owner's equity.
5. Assets: property owned. Liabilities: debts. Owner's equity: owner's financial interest.
6. Increases owner's equity
7. Beginning-of-period capital balance, additional investments, net income/loss for period, less withdrawal ending capital balance
8. Bal. sheet shows position at particular date; inc. statement shows results of operations for a period of time
9. Firm name, title of statement, date of statement or the period of time covered
10. Subtract total expenses from revenue
11. Revenue and expenses; net income or loss
12. a. assets incr., owner's equity incr. b. one asset incr. and another decr.; no change in total assets; c. assets decr., liabilities decr.; d. assets incr., owner's equity incr.; e. assets decr., owner's equity decr.; f. assets incr., liabilities incr.

EXERCISE 2.1

1. \$19,375
2. \$15,275
3. \$2,500
4. \$35,250
5. \$8,350

EXERCISE 2.2

Assets	<u>\$122,700</u>	
Liabilities	<u>\$22,750</u>	
Owner's Equity	<u>\$99,950</u>	

EXERCISE 2.3

	Assets	=	Liabilities	+	Owner's Equity
1. Cash	\$ 6,500	=	<u>Accounts Payable</u>	+	<u>Dennis Ortiz, Capital</u>
	2,940	=	<u>\$22,350</u>	+	<u>\$18,390</u>
2. Dental Supplies	2,940	=	_____	+	_____
3. Dental Equipment	25,800	=	_____	+	_____
4. Office Furniture	5,500	=	_____	+	_____
5. Total	<u>\$40,740</u>	=	<u>\$22,350</u>	+	<u>\$18,390</u>

EXERCISE 2.4

Transaction	Assets	=	Liabilities	+	Owner's Equity
1.	+	=	_____	+	+
2.	+	=	_____	+	_____
3.	+/-	=	_____	+	_____
4.	+/-	=	_____	+	_____
5.	+	=	_____	+	+
6.	-	=	_____	+	-
7.	+	=	_____	+	+
8.	+/-	=	_____	+	_____
9.	-	=	_____	+	-
10.	-	=	-	+	_____

EXERCISE 2.5

	Assets			=	Liabilities	+	Owner's Equity	
	Cash	+ Accounts Receivable	+ Equipment	=	Accounts Payable	+	Amos Roberts Capital	+ Revenue - Expenses
1.	+ \$50,000						+ \$50,000	
2.			+ \$17,000		+ \$17,000			
3.	+ \$2,100							+ \$2,100
4.	- \$3,600		+ \$3,600					
5.		+ \$4,550						+ \$4,550
6.	- \$3,950							+ \$3,950
7.	+ \$2,200	- \$2,200						
8.	- \$9,000				- \$9,000			
Totals	<u>\$37,750</u>	+ <u>\$2,350</u>	+ <u>\$20,600</u>	=	<u>\$8,000</u>	+ <u>\$50,000</u>	+ <u>\$6,650</u>	- <u>\$3,950</u>

EXERCISE 2.6

Net income of \$20,000

Revenue

<u>Repair Fees</u>		<u>\$45,150</u>
--------------------	--	-----------------

Expenses

<u>Advertising Expense</u>	<u>\$5,300</u>	
<u>Salaries Expense</u>	<u>18,100</u>	
<u>Telephone Expense</u>	<u>650</u>	
<u>Utilities Expense</u>	<u>1,100</u>	
<u>Total Expenses</u>		<u>\$25,150</u>
<u>Net Income</u>		<u>\$20,000</u>

EXERCISE 2.7

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

PROBLEM 2.1A

	Assets				=	Liabilities	+	Owner's Equity		
	Cash	+ Accounts Receivable	+ Office Furniture	+ Auto	=	Accounts Payable	+	A. Wells Capital	+ Revenue	- Expenses
Beginning Balances	<u>\$31,760</u>	+ <u>\$14,400</u>	+ <u>\$33,800</u>	+ <u>\$54,100</u>	=	<u>\$8,200</u>	+	<u>\$101,700</u>	+ <u>\$42,780</u>	- <u>\$18,620</u>
1.		+ <u>5,350</u>							+ <u>5,350</u>	
New Balances	<u>31,760</u>	+ <u>19,750</u>	+ <u>33,800</u>	+ <u>54,100</u>	=	<u>8,200</u>	+	<u>101,700</u>	+ <u>48,130</u>	- <u>18,620</u>
2.	<u>- 1,200</u>		+ <u>1,200</u>							
New Balances	<u>30,560</u>	+ <u>19,750</u>	+ <u>35,000</u>	+ <u>54,100</u>	=	<u>8,200</u>	+	<u>101,700</u>	+ <u>48,130</u>	- <u>18,620</u>
3.	+ <u>5,600</u>	- <u>5,600</u>								
New Balances	<u>36,160</u>	+ <u>14,150</u>	+ <u>35,000</u>	+ <u>54,100</u>	=	<u>8,200</u>	+	<u>101,700</u>	+ <u>48,130</u>	- <u>18,620</u>
4.	- <u>640</u>									+ <u>640</u>
New Balances	<u>35,520</u>	+ <u>14,150</u>	+ <u>35,000</u>	+ <u>54,100</u>	=	<u>8,200</u>	+	<u>101,700</u>	+ <u>48,130</u>	- <u>19,260</u>
5.	- <u>1,500</u>					- <u>1,500</u>				
New Balances	<u>34,020</u>	+ <u>14,150</u>	+ <u>35,000</u>	+ <u>54,100</u>	=	<u>6,700</u>	+	<u>101,700</u>	+ <u>48,130</u>	- <u>19,260</u>
6.	- <u>7,800</u>									+ <u>7,800</u>
New Balances	<u>26,220</u>	+ <u>14,150</u>	+ <u>35,000</u>	+ <u>54,100</u>	=	<u>6,700</u>	+	<u>101,700</u>	+ <u>48,130</u>	- <u>27,060</u>
7.	- <u>700</u>									+ <u>700</u>
New Balances	<u>25,520</u>	+ <u>14,150</u>	+ <u>35,000</u>	+ <u>54,100</u>	=	<u>6,700</u>	+	<u>101,700</u>	+ <u>48,130</u>	- <u>27,760</u>
8.	+ <u>9,700</u>								+ <u>9,700</u>	
New Balances	<u>35,220</u>	+ <u>14,150</u>	+ <u>35,000</u>	+ <u>54,100</u>	=	<u>6,700</u>	+	<u>101,700</u>	+ <u>57,830</u>	- <u>27,760</u>
9.	- <u>1,840</u>									+ <u>1,840</u>
New Balances	<u>33,380</u>	+ <u>14,150</u>	+ <u>35,000</u>	+ <u>54,100</u>	=	<u>6,700</u>	+	<u>101,700</u>	+ <u>57,830</u>	- <u>29,600</u>
10.		+ <u>8,900</u>							+ <u>8,900</u>	
New Balances	<u>\$33,380</u>	+ <u>\$23,050</u>	+ <u>\$35,000</u>	+ <u>\$54,100</u>	=	<u>\$6,700</u>	+	<u>\$101,700</u>	+ <u>\$66,730</u>	- <u>\$29,600</u>

Analyze: Total assets equal \$145,530.

PROBLEM 2.2A

	Assets				=	Liabilities	+	Owner's Equity			
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital
1.	+ \$92,000										+ \$92,000
2.	- \$18,750						+ \$18,750				
3.							+ \$12,400		+ \$12,400		
4.	- \$10,800								- \$10,800		
5.	+ \$25,000										+ \$25,000
6.	+ \$7,200										+ \$7,200
7.			+ \$4,300								+ \$4,300
8.	- \$3,000										- \$3,000
9.	+ \$2,500		- \$2,500								
10.	- \$5,460				+ \$5,460						
11.	- \$8,000										- \$8,000
Totals	<u>\$80,690</u>	+	<u>\$1,800</u>	+	<u>\$5,460</u>	+	<u>\$31,150</u>	=	<u>\$1,600</u>	+	<u>\$117,500</u>

Analyze: The ending balance in the Cash account is \$80,690.

PROBLEM 2.3A

West Cleaning Service											
Balance Sheet											
May 31, 2010											
Assets						Liabilities					
Cash	5	6	9	6	00	Accounts Payable	4	4	0	00	
Accounts Receivable	4	4	0	0	00						
Supplies	4	8	0	0	00	Owner's Equity					
Equipment	32	8	0	0	00	Carol West, Capital	43	2	9	6	00
Total Assets	47	6	9	6	00	Total Liabilities and Owner's Equity	47	6	9	6	00

Analyze: The amount of \$43,296 (Carol West, Capital) was transferred to the balance sheet.

PROBLEM 2.4A

Valdez Equipment Repair											
Balance Sheet											
February 28, 2010											
Assets						Liabilities					
Cash	33	3	0	0	00	Accounts Payable	23	0	0	00	
Supplies	5	3	8	0	00						
Accounts Receivable	12	2	0	0	00	Owner's Equity					
Equipment	77	0	0	0	00	Francisco Valdez, Capital	104	8	8	0	00
Total Assets	127	8	8	0	00	Total Liabilities and Owner's Equity	127	8	8	0	00

Analyze: Owner's equity is \$104,880 at February 28, 2010.

PROBLEM 2.1B

	Assets				=	Liabilities	+	Owner's Equity		
	Cash	+ Accounts Receivable	+ Supplies	+ Office Furniture	=	Accounts Payable	+	R. Johnson Capital	+ Revenue	- Expenses
Beginning Balances	<u>\$19,000</u>	+ <u>\$6,000</u>	+ <u>\$6,400</u>	+ <u>\$12,000</u>	=	<u>\$5,000</u>	+	<u>\$24,900</u>	+ <u>\$26,000</u>	- <u>\$12,500</u>
1.		+ <u>4,000</u>							+ <u>4,000</u>	
New Balances	<u>19,000</u>	+ <u>10,000</u>	+ <u>6,400</u>	+ <u>12,000</u>	=	<u>5,000</u>	+	<u>24,900</u>	+ <u>30,000</u>	- <u>12,500</u>
2.	<u>- 1,440</u>									+ <u>1,440</u>
New Balances	<u>17,560</u>	+ <u>10,000</u>	+ <u>6,400</u>	+ <u>12,000</u>	=	<u>5,000</u>	+	<u>24,900</u>	+ <u>30,000</u>	- <u>13,940</u>
3.	<u>+ 5,000</u>								+ <u>5,000</u>	
New Balances	<u>22,560</u>	+ <u>10,000</u>	+ <u>6,400</u>	+ <u>12,000</u>	=	<u>5,000</u>	+	<u>24,900</u>	+ <u>35,000</u>	- <u>13,940</u>
4.	<u>- 800</u>									+ <u>800</u>
New Balances	<u>21,760</u>	+ <u>10,000</u>	+ <u>6,400</u>	+ <u>12,000</u>	=	<u>5,000</u>	+	<u>24,900</u>	+ <u>35,000</u>	- <u>14,740</u>
5.	<u>- 2,400</u>					<u>- 2,400</u>				
New Balances	<u>19,360</u>	+ <u>10,000</u>	+ <u>6,400</u>	+ <u>12,000</u>	=	<u>2,600</u>	+	<u>24,900</u>	+ <u>35,000</u>	- <u>14,740</u>
6.	<u>- 960</u>									+ <u>960</u>
New Balances	<u>18,400</u>	+ <u>10,000</u>	+ <u>6,400</u>	+ <u>12,000</u>	=	<u>2,600</u>	+	<u>24,900</u>	+ <u>35,000</u>	- <u>15,700</u>
7.	<u>- 7,000</u>									+ <u>7,000</u>
New Balances	<u>11,400</u>	+ <u>10,000</u>	+ <u>6,400</u>	+ <u>12,000</u>	=	<u>2,600</u>	+	<u>24,900</u>	+ <u>35,000</u>	- <u>22,700</u>
8.	<u>+ 5,600</u>								+ <u>5,600</u>	
New Balances	<u>17,000</u>	+ <u>10,000</u>	+ <u>6,400</u>	+ <u>12,000</u>	=	<u>2,600</u>	+	<u>24,900</u>	+ <u>40,600</u>	- <u>22,700</u>
9.			+ <u>1,000</u>			+ <u>1,000</u>				
New Balances	<u>17,000</u>	+ <u>10,000</u>	+ <u>7,400</u>	+ <u>12,000</u>	=	<u>3,600</u>	+	<u>24,900</u>	+ <u>40,600</u>	- <u>22,700</u>
10.	<u>+ 3,000</u>	<u>- 3,000</u>								
New Balances	<u>\$20,000</u>	+ <u>\$7,000</u>	+ <u>\$7,400</u>	+ <u>\$12,000</u>	=	<u>\$3,600</u>	+	<u>\$24,900</u>	+ <u>\$40,600</u>	- <u>\$22,700</u>

Analyze: Owner's Equity balance is \$42,800; \$24,900 + (\$40,600 - \$22,700).

PROBLEM 2.2B

	Assets				=	Liabilities	+	Owner's Equity			
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	Owner's Capital
1.	+ \$18,000										+ \$18,000
2.	- \$8,000						+ \$8,000				
3.							+ \$3,000		+ \$3,000		
4.	- \$1,500								- \$1,500		
5.	+ \$3,000										+ \$3,000
6.	+ \$2,160										+ \$2,160
7.			+ \$1,560								+ \$1,560
8.	- \$1,300										- \$1,300
9.	+ \$1,100		- \$1,100								
10.	- \$1,550				+ \$1,550						
11.	- \$2,000										- \$2,000
Totals	<u>\$9,910</u>	+	<u>\$460</u>	+	<u>\$1,550</u>	+	<u>\$11,000</u>	=	<u>\$1,500</u>	+	<u>\$21,420</u>

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

PROBLEM 2.3B

Linda Carter, Attorney and Counselor of Law

Income Statement

Month Ended August 31, 2010

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

Linda Carter, Attorney and Counselor of Law

Statement of Owner's Equity

Month Ended August 31, 2010

Linda Carter, Capital, August 1, 2010								23	2 0 0 00
Net Income for August			4	2	0	00			
Less Withdrawals for August			1	2	0	00			
Increase in Capital								3	0 0 0 00
Linda Carter, Capital, August 31, 2010								26	2 0 0 00

CRITICAL THINKING PROBLEM 2.1

Determine the balance for Kawonza Carter, April 30, 2010.

Assets			=	Liabilities +		Owner's Equity		
Cash	+ Receivable	+ Machinery	=	Payable	+ Capital	- Drawing	+ Revenue	- Expenses
\$13,000	+ \$5,600	+ \$17,000	=	\$6,400	+ ?	- \$2,400	+ \$19,000	- \$10,000

Let Kawonza Carter, Capital = X.

Solving for X:

$$\begin{aligned} \$35,600 \text{ (Total Assets)} &= \$6,400 \text{ (Accounts Payable)} - \$2,400 \text{ (Drawing)} + \\ &+ \$19,000 \text{ (Revenue)} - \$10,000 \text{ (Expenses)} + X \end{aligned}$$

$$\$35,600 = \$13,000 + X$$

$$\$35,600 - \$13,000 = \$13,000 - \$13,000 + X$$

$$\$22,600 = X$$

Kawonza Carter, Capital, April 1, 2010, = **\$22,660**

Advertising Expense	\$ 1,800
Maintenance Expense	2,200
Salaries Expense	<u>6,000</u>
Total Expenses	<u>\$10,000</u>

Kawonza Carter, Certified Public Accountant

Income Statement

Month Ended April 30, 2010

Revenue									
Fees Earned									19 0 0 0 00
Expenses									
Advertising Expense									1 8 0 0 00
Maintenance Expense									2 2 0 0 00
Salaries Expense									6 0 0 0 00
Total Expenses									10 0 0 0 00
Net Income									9 0 0 0 00

Business Connections

Managerial Focus:

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

Ethical Dilemma:

Sarineh should not record the sale until she receives the purchase order from the customer. If she enters the sale and for some reason the customer doesn't make the order, Joseph would need to pay the bonus back. Sarineh's job would be in jeopardy.

Streetwise:

1. $\$52,263,000,000 = \$27,233,000,000 + \$25,030,000,000$.
2. Fiscal Year Ended January 28, 2007. Net Earnings \$5,761,000,000.

Financial Statement Analysis:

1. Southwest Airlines Co., Consolidated Statement of Income, Years Ended December 31,
2. Passenger, Freight, Other.
3. Statement of Owner's Equity (Consolidated Statement of Stockholders' Equity).
4. \$2,276,000,000.
5. See current topic on website.

Extending the Thought:

Answers will vary. Students may list items such as cars, furniture, a home, cash, or investments as assets. Liabilities might include car loans, home loans, and student loans.

Business Communication:

Outlines will vary, but students should present three major topics: the balance sheet, the income statement, and the statement of owner's equity.

Team Work:

Macy's & Bloomingdale's. Accounts Payable Clerk would use Purchases (Increase), A/P (increase and decrease) and Cash (decrease). Accounts Receivable Clerk would use Sales (increase), A/R (increase and

