College Accounting A CONTEMPORARY APPROACH Haddock Price Farina

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.** Assets = Liabilities + 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. <u>\$19,375</u>
2. <u>\$15,275</u>

3. \$2,500

4. _ \$35,250

5. **\$8,350**

EXERCISE 2.2

Assets \$122,700

Liabilities \$22,750

Owner's Equity \$99,950

EXERCISE 2.3

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

EXERCISE 2.4

Transaction	Assets	=	Liabilities	+	Owner's Equity
1	+	=		+	+
2	+	=	+		
3	+/-	=			
4		=		_	
5		=			+
6		=			<u> </u>
8.		= =			+
9.				+ _	
		=		+ _	-
10	-	=	_	+	

EXERCISE 2.5

			Assets			=	Liabilities	+		О	wner's Equity	
	Cash	+	Accounts Receivable	+	Equipment	=	Accounts Payable	+	Amos Rober Capital		Revenue -	Expenses
1.	+ \$50,000	-						-	+ \$50,000			
2.		-			+ \$17,000		+ \$17,000	-				
3.		_						-			+ \$2,100	
4.	\$3,600	-			+ \$3,600			-				
5.		-	+ \$4,550					-			+ \$4,550	
6.	<u> </u>	-						-				+ \$3,950
7.		_	\$2,200					-				
8.		_					<u> </u>	-				
Totals	\$37,750	+	\$2,350	+	\$20,600	=	\$8,000	+	\$50,000	+	<u>\$6,650</u> –	\$3,950
Revenu R Expens	epair Fees							_	\$5,30	00		\$45,150
	alaries Expens							_	18,10			
	elephone Expe								65			
	tilities Expens							_	<u>1,1(</u>	<u> </u>		
	otal Expenses							_				\$25,150
_ <u>N</u>	let Income							_				\$20,000
EXER	CISE 2.7											
1. <u> </u>	ervices were p	erfo	ormed for cas	h.								
2. <u>E</u>	quipment was	purc	chased for ca	sh.								
3. <u>A</u>	payment was	mad	le on the amo	un	t owed to a cı	red	itor.					
4. <u>A</u>	ın expense wa	s pa	id in cash.									
5. <u>C</u>	ash was recei	ved	from charge (cus	tomer.							
6. <u> </u> S	ervices were p	erfo	ormed on cred	lit.								

7. An expense was paid in cash.

EXERCISE 2.8

Nat		-1	\$950
Net	เกรร	nτ	Synii

Revenue

Service Revenue		\$4,800
<u>penses</u>		
Advertising Expense	\$2,600	
Telephone Expense	700	
Salaries Expense	2,100	
Cleaning Expense	350	
Total Expense		<u>\$5,750</u>
Net Loss		(\$950

EXERCISE 2.9

Parker Investment Services

Income Statement

Month Ended September 30, 2010

Revenue		\bot
Fees Income		72 8 0 0
Expenses		
Advertising Expense	5 5 0 0 0)
Salaries Expense	15 0 0 0 0)
Telephone Expense	7 0 0 0) <u> </u>
Total Expenses		21 2 0 0
Net Income		51 6 0 0
		11 1111

Parker Investment Services Statement of Owner's Equity Month Ended September 30, 2010

Alexander Parker, Capital, September 1, 2010					2	5	7 (0 0	00	\prod
Net Income for September	51	6 0	0	00						\parallel
Less Withdrawals for September	8	0 0	0	00						Ш
Increase in Capital					4	3 6	6 (<u>o o</u>	00	Ш
Alexander Parker, Capital, September 30, 2010					6	9 :	3 (0 0	00	
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Parker Investment Services Balance Sheet September 30, 2010

Assets				Ι		Liabilities				I	
Cash	32	1	0 0	0	0	Accounts Payable	4	7	0 0) ()0
Accounts Receivable	3	0	0 0	0	0						
Office Supplies	2	4	0 0	0	0	Owner's Equity					
Office Equipment	36	5	0 0	0	0	Alexander Parker, Capital	69	3	0 0) ()0
Total Assets	74	0	0 0	0	0	Total Liabilities and Owner's Equity	74	0	0 0) ()0
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		Ц		╽						1	╝
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		Ц		\perp						1	

PROBLEM 2.1A

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

Analyze: Total assets equal \$145,530.

PROBLEM 2.2A

											Owner's
			A	sse	ts			=	Liabilities	+	Equity
	_		Accounts						Accounts		Owner's
	Cash	+	Receivable	+	Supplies	_ +	Equipment	_ = .	Payable	. + .	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
9.	+ \$2,500		- \$2,500			-					
10.	\$5,460				+ \$5,460	_					
11.						-					- \$8,000
Totals	\$80,690	+	\$1,800	+	\$5,460	+	\$31,150	_ = _	\$1,600	+	\$117,500

Analyze:	The ending balance in the Cash account is \$80,690.
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PROBLEM 2.3A

West Cleaning Service Income Statement

Month Ended May 31, 2010

Revenue							Ш		\perp	
Fees Income	$\perp \parallel \perp$						7	2	8 0)
Expenses							Ш		\perp	
Utilities Expense		8	8	0	00					
Salaries Expense		8 4	0	0	00				╧	
Telephone Expense		3	0	4	00					
Total Expenses							9	5	8 4	1
Net Loss						(2	3	0 4	ļ
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West Cleaning Service

Statement of Owner's Equity

Month Ended May 31, 2010

Carol West, Capital, May 1, 2010		Ш				\parallel	47	6	0	0	00
Net Loss for May		2	3 () 4	00)					
Less Withdrawals for May		2	0 (0	00						
Decrease in Capital							(4	3	0	4 (00
Carol West, Capital, May 31, 2010							43	2	9	6	00
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PROBLEM 2.3A

West Cleaning Service
Balance Sheet
May 31, 2010

Assets						bracket	Liabilities					
Cash	5	6	9	6	00	╝	Accounts Payable	4	1 4	1 0	0	00
Accounts Receivable	4	4	0	0	00	Ш						
Supplies	4	8	0	0	00	Ш	Owner's Equity					
Equipment	32	8	0	0	00	Ш	Carol West, Capital	43	3 2	2 9	6	00
Total Assets	47	6	9	6	00	Ш	Total Liabilities and Owner's Equity	47	<u> 6</u>	9	6	00
						1			T			
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Analyze:	The amount of \$43,296 (Carol West, Capital) was transferred to the balance sheet.
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PROBLEM 2.4A

Valdez Equipment Repair

Balance Sheet

February 28, 2010

Assets						Liabilities					
Cash	33	3	0 0	0	00	Accounts Payable	23	0	0	0 0	00
Supplies	5	3	8 0	0	00						\perp
Accounts Receivable	12	2	0 0	0	00	Owner's Equity					
Equipment	77	0	0 0	0	00	Francisco Valdez, Capital	104	8	8	0 (00
Total Assets	127	8	8 0	0 0	00	Total Liabilities and Owner's Equity	127	8	8	0 0	00
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Analyze:	Owner's equity is \$104,880 at February 28, 2010.
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PROBLEM 2.1B

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

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

PROBLEM 2.2B

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

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

Linda Carter, Attorney and Counselor of Law Statement of Owner's Equity

Month Ended August 31, 2010

Linda Carter, Capital, August 1, 2010	Ш				\parallel	23	2	0	0	00
Net Income for August	4	2 (0	00						
Less Withdrawals for August	1	2 (0	00						
ncrease in Capital						3	0	0	0	0
Linda Carter, Capital, August 31, 2010						26	2	0	0	0
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LII	iua varter,					and Counselor of Law Sheet					
						31, 2010					
Assets			T		Ī	Liabilities				1	_
Cash	4	8 0	0	00		Accounts Payable		6	0	0	00
Accounts Receivable		6 0			ш	•					
Supplies	5	4 0	0	00		Owner's Equity					
Equipment	10	0 0	0	00		Linda Carter, Capital	26	2	0	0	00
Total Assets	26	8 0	0	00		Total Liabilities and Owner's Equity	26	8	0	0	00
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				L	-					4	L
alyze: Net income of \$4,200 was to	nansferred	fro	m 1	the	- -	ncome statement.		_			_

Taylor's Tax Service
Balance Sheet
December 1, 2010

Assets		Γ				Liabilities				I	
Cash	24	0	0	0	00						
Furniture	8	0	0	0	00			L			
Equipment	9	6	0	0	00	Owner's Equity					
		L				David Taylor, Capital	41	6	0	0 0	00
Total Assets	41	6	0	0	00	Total Liabilities and Owner's Equity	41	6	0	0 0	00
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		Γ	Γ							T	
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Analyze: The amount reported on the balance sheet for owner's equity would be \$33,600.

CRITICAL THINKING PROBLEM 2.1

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

Assets	= Liabilities +	Owner's Equity
Accounts	Accounts K. Carter	K. Carter
Cash + Receivable + Machine	y= 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:

35,600 (Total Assets) = 6,400 (Accounts Payable) - 2,400 (Drawing) + 19,000 (Revenue) - 10,000 (Expenses) + X

\$35,600 = \$13,000 + X \$35,600 - \$13,000 = \$13,000 - \$13,000 + X\$22,600 = X

Kawonza Carter, Capital, April 1, 2010, = \$22,660Advertising Expense \$ 1,800

Maintenance Expense 2,200

Salaries Expense 6,000

Total Expenses \$10,000

Kawonza Carter, Certified Public Accountant

Income Statement

Month Ender	1 April 30, 2010						_	_	
Revenue								\Box	
Fees Earned					19	0	0	0	00
Expenses							Ш		
Advertising Expense		0	0	00			Ш		
Maintenance Expense	2 2	2 0	0	00					
Salaries Expense	6	0	0	00					
Total Expenses					10	0	0	0	00
Net Income					9	0	0	0	00
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			П			Π	П	\exists	

CRITICAL THINKING PROBLEM 2.1 (continued)

<u>Kawo</u>	Statement of O	ied Public Accour	itant								
	Month Ended	• •									
Kawonza Carter, Capital, April 1, 2010								22	6 (0 0	00
Net Income for April				9	0 0	0	00				
Less Withdrawals for April				2	4 0	0	00				
Increase in Capital								6	6 (0 0	00
Kawonza Carter, Capital, April 30, 2010								29	2 (0 0	0(
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Kawo		ied Public Accour	<u>itant</u>								
<u>Kawo</u>	Balance	Sheet	ntant								
Kawo		Sheet	ntant								
Kawo Assets	Balance), 2010	bilities						4 (_

Assets						Liabilities					
Cash	13	0	0	0	00	Accounts Payable		4	0	0	00
Accounts Receivable	5	6	0	0	00	Owner's Equity					
Equipment	17	0	0	0	00	Kawonza Carter, Capital		2	0	0	00
Total Assets	35	6	0	0	00	Total Liabilities and Owner's Equity		6	0	0	00
				T							

Analyze: The increase in owner's equity was \$6,600.

CRITICAL THINKING PROBLEM 2.2

Body Builders Fitness Center Income Statement Month Ended November 30, 2010 Revenue 9 7 6 0 00 **Fees Earned** Expenses 8 0 0 0 00 **Rent Expense** 2 1 0 0 00 **Cleaning Expense** 8 0 0 00 **Advertising Expense** 10 9 0 0 00 **Total Expenses** (1 1 4 0 00) **Net Loss**

Some students may include the warm-up suits as a business expense. If the suits are a type of uniform, their
inclusion is appropriate; if they are to be worn at home and at work, their cost is not a business expense.
The parking ticket is a personal expense. The cleaning of the studio and the printing of the flyers are business
expenses. Payment of expenses with the owner's personal credit card would be considered an additional
investment by the owner.
It is not unusual for new businesses to operate at a loss. James should project his income and expenses for
the next several months to determine how much new business he will need to earn an income. Students'
suggestions for improving the accounting system might include opening a business checking account, not using
a personal credit card for business expenses, setting up a filing system for business records, and purchasing a
computer to maintain financial records.

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

decrease) and Cash (increase). Full charge boo	okkeeper would use accounts	Cash (increase and decrease),
Bank Charges (increase) and Miscellaneous a	ccount (increase), Interest Inc	ome (increase), Interest Expense
(increase). Accurate numbers are developed w	hen it is determined that all t	ransactions have been entered.
•		
Internet Connection:		
Macy's, Bloomingdales, and now May is include	-	• •
home page. To record an online sale it must de	<u>bit a credit card receivable ar</u>	nd credit sales. A general job
announcement and requirements are given at t	he site.	
Chanter 2 Practic	ce Test Answer Key	
Onapter 2 i raction	oc lost Allswel Rey	
Part A True-False	Part B Matching	Part C Completion
1. F	1. d	1. asset or property
2. T	2. h	2. assets
3. F	3. f	3. reduced or decreased
4. T	4. b	4. credit or on account
5. F	5. e	5. profit
6. T	6. c	6. equal
7. T 8. T	7. g 8. a	accounts payable or liability
9. F	0. a	8. analyze
10. T		•