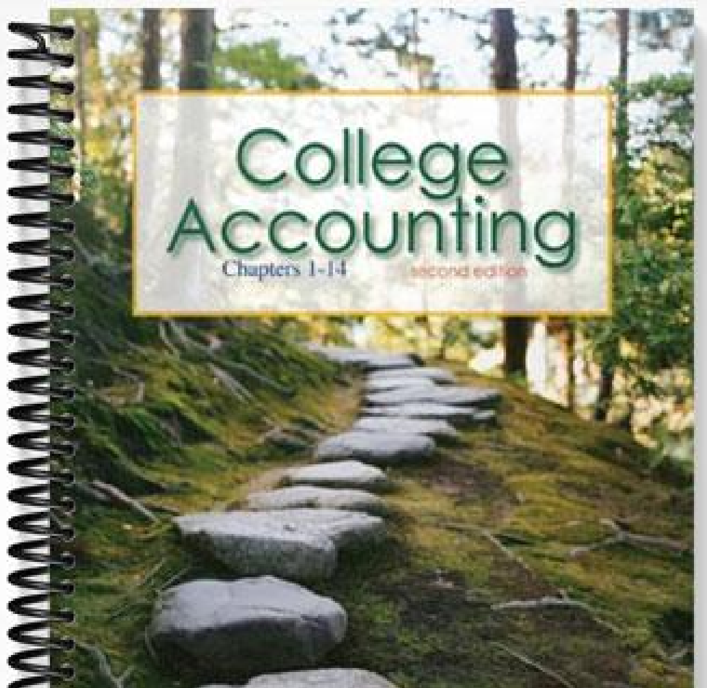
SOLUTIONS MANUAL



Chapter 2

Accounting for Business Transactions

QUESTIONS

1. (a) Assets are resources owned or controlled by a company that are expected to yield future benefits. (b) Liabilities are creditors' claims on assets that reflect obligations to provide assets, products or services to others. (c) Equity is the owner's claim on assets and is equal to assets minus liabilities. (d) Net assets refer to equity.
2. Equity is increased by investments by the owner and also by net income. It is decreased by owner withdrawals and by any net loss (which is the excess of expenses over revenues).
3. Revenue (or sales) is the amount received from selling products and services.
4. Net income (also called income, profit or earnings) equals revenues minus expenses (if revenues exceed expenses). Net income increases equity. If expenses exceed revenues, the company has a net loss. Net loss decreases equity.
5. The three basic financial statements are: income statement, statement of owner's equity, and balance sheet.
6. An income statement reports a company's revenues and expenses along with the resulting net income or loss over a period of time.
7. Rent expense, utilities expense, administrative expenses, advertising and promotion expenses, maintenance expense, and salaries and wages expenses are some examples of business expenses.
8. The statement of owner's equity explains the changes in the owner's capital from net income or loss, and from any owner contributions and/or withdrawals over a period of time.
9. The balance sheet describes a company's financial position (types and amounts of assets, liabilities, and equity) at a point in time.
10. The dollar amounts in Best Buy's financial statements are rounded to the nearest $1,000,000. Best Buy's consolidated statement of earnings (or income statement) covers the fiscal year ending March 1, 2008. Best Buy also reports comparative income statements for the previous two years.
11. RadioShack's most recent balance sheet is dated December 31, 2007. Dollar amounts in RadioShack's financial statements are rounded to the nearest million.

QUICK STUDIES

Quick Study 2-1 (10 minutes)

Assets	=	Liabilities	+	Equity
$700,000		(a) $280,000		$420,000
$500,000		(b) $250,000		(b) $250,000

Quick Study 2-2 (10 minutes)

Assets	=	Liabilities	+	Equity
$75,000		(a) $35,000		$40,000
(b) $95,000		$25,000		$70,000
$85,000		$20,000		(c) $65,000

Quick Study 2-3 (10 minutes)

[*Code: Income statement (I), Balance sheet (B), Statement of owner's equity (E)]*

a.	B	d.	I	g.	B
b.	E	e.	B		
c.	B	f.	I		

Quick Study 2-4 (10 minutes)

a. For December 31, 2007, the account and its dollar amount (in millions) for RadioShack are:

(1)	Assets	=	$1,989.6
(2)	Liabilities	=	$1,219.9
(3)	Equity	=	$769.7

b. Using RadioShack's amounts from (a) we verify that (in millions):

Assets	=	Liabilities	+	Equity
$1,989.6	=	$ 1,219.9	+	$ 769.7

Quick Study 2-5 (5 minutes)

a. Assets (Cash) and Equity (Consulting Revenue) increase by $4,000.
b. Assets (Accounts Receivable) and Equity (Consulting Revenue) increase by $2,800.

Quick Study 2-6 (5 minutes)

a. Assets (Cash) decrease by $1,800. Equity decreases by $1,800 (Wage Expense).
b. Assets (Cash) decrease by $10,000. Assets (Office Equipment) increase by $10,000.

Quick Study 2-7 (5 minutes)

a. Assets (Cash) increase by $50,000. Equity (Owner, Capital) increases by $50,00.
b. Assets (Cash) decrease by $4,000. Equity decreases by $4,000 (Owner, Withdrawals).

Quick Study 2-8 (5 minutes)

a. Assets (Cash) decreases by $1,200. Equity decreases by $1,800 (Wage Expense).
b. Assets (Office Supplies) increase by $2,000. Liabilities (Accounts Payable) increase by $2,000.

EXERCISES

Exercise 2-1 (10 minutes)

Assets	=	Liabilities	+	Equity
(a) $ 65,000	=	$ 20,000	+	$45,000
$100,000	=	$ 34,000	+	(b) $66,000
$154,000	=	(c) $114,000	+	$40,000

Exercise 2-2 (10 minutes)

Account	Classification
1. Accounts Payable	L
2. Loans or (Notes Payable)	L
3. Accounts Receivable	A
4. Cash	A
5. Supplies	A
6. Equipment	A
7. Rod Smith, Capital	E

Exercise 2-3 (15 minutes)

Examples of transactions that fit each case include:

a. Cash withdrawals (or some other asset) paid to the owner of the business; OR, the business incurs an expense paid in cash.

b. Business purchases equipment (or some other asset) on credit.

c. Business signs a note payable to extend the due date on an account payable.

d. Business pays an account payable (or some other liability) with cash (or some other asset).

e. Business purchases office supplies (or some other asset) for cash (or some other asset).

f. Business incurs an expense that is not yet paid (for example, when employees earn wages that are not yet paid).

g. Owner invests cash (or some other asset) in the business; OR, the business earns revenue and accepts cash (or another asset).

Exercise 2-4 (20 minutes)

a. Using the accounting equation:

Assets	=	Liabilities	+	Equity
$123,000	**=**	**$47,000**	**+**	**?**

Thus, Equity = $76,000

b. Using the accounting equation at the *beginning* of the year:

Assets	=	Liabilities	+	Equity
$300,000	**=**	**?**	**+**	**$100,000**

Thus, *beginning* liabilities = $200,000

Using the accounting equation at the *end* of the year:

Assets	=	Liabilities	+	Equity
$300,000 + $80,000	**=**	**$200,000+ $50,000**	**+**	**?**
$380,000	**=**	**$250,000**	**+**	**?**

Thus, *Ending* Equity = $130,000

Alternative approach to solving part (b):
ΔAssets($80,000) = ΔLiabilities($50,000) + ΔEquity(?)
where "Δ" refers to "change in."
***Thus: Ending* Equity = $100,000 + $30,000 = $130,000**

c. Using the accounting equation at the *end* of the year:

Assets	=	Liabilities	+	Equity
$190,000	**=**	**$70,000 - $5,000**	**+**	**?**
$190,000	**=**	**$65,000**	**+**	**$125,000**

Using the accounting equation at the *beginning* of the year:

Assets	=	Liabilities	+	Equity
$190,000 - $60,000	**=**	**$70,000**	**+**	**?**
$130,000	**=**	**$70,000**	**+**	**?**

Thus: *Beginning* Equity = $60,000

Exercise 2-5 (30 minutes)

	Assets					=	Liabilities	+	Equity						
	Cash	+	Accounts Receivable	+	Equipment	=	Accounts Payable	+	Holden, Capital	–	Holden, Withdrawals	+	Revenue	–	Expenses
a.	+$60,000			+	$15,000	=		+	$75,000						
b.	– 1,500													–	$1,500
Bal.	58,500	+		+	15,000	=		+	75,000					–	1,500
c.				+	10,000		+$10,000								
Bal.	58,500	+		+	25,000	=	10,000	+	75,000					–	1,500
d.	+ 2,500											+	$2,500		
Bal.	61,000	+		+	25,000	=	10,000	+	75,000			+	2,500	–	1,500
e.		+	$8,000									+	8,000		
Bal.	61,000	+	8,000	+	25,000	=	10,000	+	75,000			+	10,500	–	1,500
f.	– 6,000			+	6,000										
Bal.	55,000	+	8,000	+	31,000	=	10,000	+	75,000			+	10,500	–	1,500
g.	– 3,000													–	3,000
Bal.	52,000	+	8,000	+	31,000	=	10,000	+	75,000			+	10,500	–	4,500
h.	+ 5,000	-	5,000												
Bal.	57,000	+	3,000	+	31,000	=	10,000	+	75,000			+	10,500	–	4,500
i.	– 10,000						– 10,000								
Bal.	47,000	+	3,000	+	31,000	=	0	+	75,000			+	10,500	–	4,500
j.	– 1,000									–	$1,000				
Bal.	$46,000	+	$3,000	+	$31,000	=	$ 0	+	$75,000	–	$1,000	+	$10,500	–	$4,500

Exercise 2-6 (15 minutes)

a. **Purchased land for $4,000 cash.**

b. **Purchased $1,000 of office supplies on credit.**

c. **Billed a client $1,900 for services provided.**

d. **Paid the $1,000 account payable created by the credit purchase of office supplies in transaction *b*.**

e. **Collected $1,900 cash for the billing in transaction *c*.**

Exercise 2-7 (15 minutes)

REAL ANSWERS
Income Statement
For Month Ended October 31

Revenues		
Consulting fees earned		$14,000
Expenses		
Salaries expense	$5,600	
Rent expense	2,520	
Telephone expense	760	
Miscellaneous expenses	580	
Total expenses		9,460
Net income		$ 4,540

Exercise 2-8 (15 minutes)

REAL ANSWERS
Statement of Owner's Equity
For Month Ended October 31

K. King, Capital, October 1	$ 0
Add: Investments by owner	84,360
Net income (from Exercise 2-7)	4,540
	88,900
Less: Withdrawals by owner	2,000
K. King, Capital, October 31	$86,900

Exercise 2-9 (15 minutes)

REAL ANSWERS
Balance Sheet
October 31

Assets		*Liabilities*	
Cash	$ 11,500	Accounts payable	$ 25,037
Accounts receivable	12,000		
Office supplies	24,437	*Equity*	
Office equipment	18,000		
Land	46,000	K. King, Capital*	86,900
Total assets	$111,937	Total liabilities and equity	$111,937

* For the computation of this amount see Exercise 2-8.

Exercise 2-10 (10 minutes)

Elko Energy Company Income Statement For Year Ended December 31, 2010	
Revenues	$55,000
Expenses	40,000
Net income	$15,000

Exercise 2-11 (10 minutes)

Amity Company Balance Sheet December 31, 2010			
Assets	$90,000	Liabilities	$44,000
		Equity	46,000
Total assets	$90,000	Total liabilities and equity	$90,000

Exercise 2-12 (15 minutes)

Kasio Company Statement of Owner's Equity For Year Ended December 31, 2010	
K. Kasio, Capital, Dec. 31, 2009	$ 7,000
Add: Net income	8,000
	15,000
Less: Withdrawals by owner	(1,000)
K. Casio, Capital, Dec. 31, 2010	$14,000

Exercise 2-13 (15 minutes)

First Act Statement of Owner's Equity For Year Ended December 31, 2010	
I. Firstact, Capital, Dec. 31, 2009	$49,000
Add: Net income	5,000
	54,000
Less: Withdrawals by owner	(7,000)
I. Firstact, Capital, Dec. 31, 2010	$47,000

Exercise 2-14 (15 minutes)

	Assets							= Liabilities	+	Equity
	Cash	+	Office Supplies	+	Office Equipment	+	Building	= Accounts Payable	+	I. Lopez, Capital
a.	+$70,000			+	$10,000					$80,000
b.	- 20,000					+	$20,000		+	
Bal.	50,000			+	10,000	+	20,000	=	+	80,000
c.	- 15,000			+	15,000					
Bal.	35,000			+	25,000	+	20,000	=	+	80,000
d.		+	$1,200	+				+ $1,200		
Bal.	$35,000	+	$1,200	+	$25,000	+	$20,000	= $1,200	+	$80,000

Exercise 2-15 (15 minutes)

1. Net income = Total revenues – Total expenses = $6,800 - $2,300 = $4,500.

BIZ CONSULTING
Statement of Owner's Equity
For Year Ended December 31, 2010

I. Lopez, Capital, January 1	$ 0
Add: Investments by owner...........................	80,000
Net income	4,540
	84,500
Less: Withdrawals by owner..........................	3,275
I. Lopez, Capital, December 31.......................	$81,225

BIZ CONSULTING
Balance Sheet
December 31, 2010

Assets		*Liabilities*	
Cash..............................	$ 34,525	Accounts payable	$ 132,200
Accounts receivable	1,000		
Office supplies.............	1,200	*Equity*	
Office equipment..........	26,700		
Building	150,000	I. Lopez, Capital....................	81,225
Total assets..................	$213,425	Total liabilities and equity....	$213,425

PROBLEM SET A

Problem 2-1A (40 minutes)

Part 1
Company A

(a) Equity on December 31, 2009:

Assets	$55,000
Liabilities	(24,500)
Equity	$30,500

(b) Equity on December 31, 2010:

Equity, December 31, 2009	$30,500
Plus investment by owner	6,000
Plus net income	8,500
Less withdrawals by owner	(3,500)
Equity, December 31, 2010	$41,500

(c) Liabilities on December 31, 2010:

Assets	$58,000
Equity	(41,500)
Liabilities	$16,500

Part 2
Company B

(a) and (b)

Equity:	*12/31/2009*	*12/31/2010*
Assets	$34,000	$40,000
Liabilities	(21,500)	(26,500)
Equity	$12,500	$13,500

(c) Net income for 2010:

Equity, December 31, 2009	$12,500
Plus investment by owner	1,400
Plus net income	?
Less withdrawals by owner	(2,000)
Equity, December 31, 2010	$13,500

Therefore, net income must have been $ 1,600

Problem 2-1A *(Continued)*

Part 3

Company C

First, calculate the beginning balance of equity:

	Dec. 31, 2009
Assets	**$24,000**
Liabilities	**(9,000)**
Equity	**$15,000**

Next, find the ending balance of equity by completing this table:

Equity, December 31, 2009	**$15,000**
Plus investment by owner	**9,750**
Plus net income	**8,000**
Less withdrawals by owner	**(5,875)**
Equity, December 31, 2010	**$26,875**

Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of liabilities:

	Dec. 31, 2010
Liabilities	**$29,000**
Equity	**26,875**
Assets	**$55,875**

Problem 2-1A (*Concluded*)

Part 4

Company D

First, calculate the beginning and ending equity balances:

	12/31/2009	***12/31/2010***
Assets	**$60,000**	**$85,000**
Liabilities	**(40,000)**	**(24,000)**
Equity	**$20,000**	**$61,000**

Then, find the amount of investment by owner during 2010:

Equity, December 31, 2009	**$20,000**
Plus investment by owner	**?**
Plus net income	**14,000**
Less withdrawals by owner	**0**
Equity, December 31, 2010	**$61,000**
Thus, investment by owner must have been	**$27,000**

Part 5

Company E

First, compute the balance of equity as of December 31, 2010:

Assets	**$113,000**
Liabilities	**(70,000)**
Equity	**$ 43,000**

Next, find the beginning balance of equity as follows:

Equity, December 31, 2009	**$?**
Plus investment by owner	**6,500**
Plus net income	**20,000**
Less withdrawals by owner	**(11,000)**
Equity, December 31, 2010	**$43,000**
Thus, the beginning balance of equity is:	**$27,500**

Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of assets:

	Dec. 31, 2009
Assets	**$119,000**
Equity	**(27,500)**
Liabilities	**$ 91,500**

Problem 2-2A (20 minutes)

		Balance Sheet			Income Statement
	Transaction	**Total Assets**	**Total Liab.**	**Total Equity**	**Net Income**
1	Owner invests cash in business	+		+	
2	Receives cash for services provided	+		+	+
3	Pays cash for employee wages	–		–	–
4	Owner withdraws cash	–		–	
5	Provides services on credit	+		+	+
6	Buys office equipment for cash	+/–			
7	Collects cash on receivable from (5)	+/–			

Problem 2-3A (60 minutes) *Parts 1 and 2*

	Assets					=	Liabilities	+	Equity						
Date	**Cash**	+	**Accounts Receivable**	+	**Office Equipment**	=	**Accounts Payable**	+	**H. Graham, Capital**	-	**H. Graham, With-drawals**	+	**Revenues**	-	**Expenses**
May 1	+$40,000					=		+	$40,000						
1	- 2,200					=								-	$2,200
3				+	$1,890	=	+ $1,890								
5	- 750					=								-	750
8	+ 5,400					=						+	$5,400		
12		+	$2,500			=						+	2,500		
15	- 750					=								-	750
20	+ 2,500	-	2,500			=									
22		+	3,200			=						+	3,200		
25	+ 3,200	-	3,200			=									
26	- 1,890					=	- 1,890								
27						=	+ 80							-	80
28	- 750					=								-	750
30	- 300					=								-	300
30	- 280					=								-	280
31	- 1,400					=				-	$1,400				
	$42,780	+	$ 0	+	$1,890	=	$ 80	+	$40,000	-	$1,400	+	$11,100	-	$5,110

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

Graham Company
Income Statement
For Month Ended May 31

Revenues		
Consulting services revenue		$11,100
Expenses		
Rent expense	$2,200	
Salaries expense	1,500	
Advertising expense	80	
Cleaning expense	750	
Telephone expense	300	
Utilities expense	280	
Total expenses		5,110
Net income		$ 5,990

Graham Company
Statement of Owner's Equity
For Month Ended May 31

H. Graham, Capital, May 1	$ 0
Add: Investment by owner	40,000
Net income	5,990
	45,990
Less: Withdrawals by owner	1,400
H. Graham, Capital, May 31	$44,590

Graham Company
Balance Sheet
May 31

Assets		*Liabilities*	
Cash	$42,780	Accounts payable	$ 80
Office equipment	1,890	*Equity*	
		H. Graham, Capital	44,590
Total assets	$44,670	Total liabilities and equity	$44,670

Problem 2-4A (60 minutes) Parts 1 and 2

		Assets									=	Liabilities	+	Equity						
Date		Cash	+	Accounts Receivable	+	Office Supplies	+	Office Equipment	+	Electrical Equipment	=	Accounts Payable	+	H. Ander, Capital	-	H. Ander, With-drawals	+	Revenues	-	Expenses
Dec.	1	+$65,000									=		+	$65,000						
	2	- 1,000																	-	$1,000
Bal.		64,000									=			65,000					-	1,000
	3	- 4,800							+	$13,000		+ $8,200								
Bal.		59,200							+	13,000	=	8,200	+	65,000					-	1,000
	5	- 800			+	$ 800														
Bal.		58,400			+	800			+	13,000	=	8,200	+	65,000					-	1,000
	6	+ 1,200															+	$1,200		
Bal.		59,600			+	800			+	13,000	=	8,200	+	65,000			+	1,200	-	1,000
	8						+	$2,530				+ 2,530								
Bal.		59,600			+	800	+	2,530	+	13,000	=	10,730	+	65,000			+	1,200	-	1,000
	15		+	$5,000													+	5,000		
Bal.		59,600	+	5,000	+	800	+	2,530	+	13,000	=	10,730	+	65,000			+	6,200	-	1,000
	18				+	350						+ 350								
Bal.		59,600	+	5,000	+	1,150	+	2,530	+	13,000	=	11,080	+	65,000			+	6,200	-	1,000
	20	- 2,530										- 2,530								
Bal.		57,070	+	5,000	+	1,150	+	2,530	+	13,000	=	8,550	+	65,000			+	6,200	-	1,000
	24		+	900													+	900		
Bal.		57,070	+	5,900	+	1,150	+	2,530	+	13,000	=	8,550	+	65,000			+	7,100	-	1,000
	28	+ 5,000	-	5,000																
Bal.		62,070	+	900	+	1,150	+	2,530	+	13,000	=	8,550	+	65,000			+	7,100	-	1,000
	29	- 1,400																	-	1,400
Bal.		60,670	+	900	+	1,150	+	2,530	+	13,000	=	8,550	+	65,000			+	7,100	-	2,400
	30	- 540																	-	540
Bal.		60,130	+	900	+	1,150	+	2,530	+	13,000	=	8,550	+	65,000			+	7,100	-	2,940
	31	- 950													-	$950				
Bal.		$59,180	+	$ 900	+	$1,150	+	$2,530	+	$13,000	=	$8,550	+	$65,000	-	$950	+	$7,100	-	$2,940

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

Ander Electric
Income Statement
For Month Ended December 31

Revenues		
Electrical fees earned		$7,100
Expenses		
Rent expense	$1,000	
Salaries expense	1,400	
Utilities expense	540	
Total expenses		2,940
Net income		$4,160

Ander Electric
Statement of Owner's Equity
For Month Ended December 31

H. Ander, Capital, December 1	$ 0
Add: Investment by owner	65,000
Net income	4,160
	69,160
Less: Withdrawals by owner	950
H. Ander, Capital, December 31	$68,210

Ander Electric
Balance Sheet
December 31

Assets		*Liabilities*	
Cash	$59,180	Accounts payable	$ 8,550
Accounts receivable	900		
Office supplies	1,150	*Equity*	
Office equipment	2,530	Ander, Capital	68,210
Electrical equipment	13,000		
Total assets	$76,760	Total liabilities and equity	$76,760

PROBLEM SET B

Problem 2-1B (40 minutes)

Part 1

Company V

(a) and (b)

Calculation of equity:	*12/31/2009*	*12/31/2010*
Assets	$54,000	$59,000
Liabilities	(25,000)	(36,000)
Equity	$29,000	$23,000

(c) Calculation of net income for 2010:

Equity, December 31, 2009	$29,000
Plus investments by owner	5,000
Plus net income	?
Less withdrawals by owner	(5,500)
Equity, December 31, 2010	$23,000

Therefore, the net loss must have been $(5,500).

Part 2

Company W

(a) Calculation of Equity at December 31, 2009:

Assets	$80,000
Liabilities	(60,000)
Equity	$20,000

(b) Calculation of Equity at December 31, 2010:

Equity, December 31, 2009	$20,000
Plus investments by owner	20,000
Plus net income	40,000
Less withdrawals by owner	(2,000)
Equity, December 31, 2010	$78,000

(c) Calculation of the amount of liabilities at December 31, 2009:

Assets	$100,000
Equity	(78,000)
Liabilities	$ 22,000

Problem 2-1B *(Continued)*

Part 3
Company X

First, calculate the beginning and ending equity balances:

	12/31/2009	***12/31/2010***
Assets............................	**$141,500**	**$186,500**
Liabilities........................	**(68,500)**	**(65,800)**
Equity	**$ 73,000**	**$120,700**

Then, find the amount of investments by owner during 2010 as follows:

Equity, December 31, 2009.............................	**$ 73,000**
Plus investments by owner............................	**?**
Plus net income..	**18,500**
Less withdrawals by owner............................	**0**
Equity, December 31, 2010.............................	**$120,700**
Thus, the owner's investments must have been	**$ 29,200**

Part 4
Company Y

First, calculate the beginning balance of equity:

	Dec. 31, 2009
Assets...	**$92,500**
Liabilities...	**51,500**
Equity	**$41,000**

Next, find the ending balance of equity as follows:

Equity, December 31, 2009.......................	**$41,000**
Plus investments by owner.......................	**48,100**
Plus net income..	**24,000**
Less withdrawals by owner.......................	**(20,000)**
Equity, December 31, 2010.......................	**$93,100**

Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of liabilities:

	Dec. 31, 2010
Liabilities...	**$ 42,000**
Equity	**93,100**
Assets...	**$135,100**

Problem 2-1B *(Concluded)*

Part 5
Company Z

First, calculate the balance of equity as of December 31, 2010:

Assets	$170,000
Liabilities	(42,000)
Equity	$128,000

Next, find the beginning balance of equity as follows:

Equity, December 31, 2009	$?
Plus investments by owner	60,000
Plus net income	32,000
Less withdrawals by owner	(8,000)
Equity, December 31, 2010	$128,000

Thus, the beginning balance of equity is $44,000.

Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of assets:

	Dec. 31, 2009
Assets	$144,000
Equity	(44,000)
Liabilities	$100,000

Problem 2-2B (20 minutes)

		Balance Sheet			Income Statement
	Transaction	Total Assets	Total Liab.	Total Equity	Net Income
1	Owner invests cash in business	+		+	
2	Pays cash for salaries incurred	–		–	–
3	Provides services for cash	+		+	+
4	Pays cash for rent	–		–	–
5	Buys store equipment for cash	+/–			
6	Owner withdraws cash	–		–	
7	Provides services on credit	+		+	+
8	Collects cash on receivable from (7)	+/–			

Problem 2-3B (60 minutes) *Parts 1 and 2*

	Assets						=	Liabilities	+	Equity						
Date	Cash	+	Accounts Receivable	+	Equipment	=	Accounts Payable	+	H. Nikolas, Capital	-	H. Nikolas, Withdrawals	+	Revenues	-	Expenses	
June 1	+$130,000					=		+	$130,000							
2	- 6,000					=								-	$6,000	
4				+	$2,400	=	+ $2,400									
6	- 1,150					=								-	1,150	
8	+ 850					=						+	$ 850			
14		+	$7,500			=						+	7,500			
16	- 800					=								-	800	
20	+ 7,500	-	7,500			=										
21		+	7,900			=						+	7,900			
24		+	675			=						+	675			
25	+ 7,900	-	7,900			=										
26	- 2,400					=	- 2,400									
28	- 800					=								-	800	
29	- 4,000					=				-	$4,000					
30	- 150					=								-	150	
30	- 890					=								-	890	
	$130,060	+	$ 675	+	$2,400	=	$ 0	+	$130,000	-	$4,000	+	$16,925	-	$9,790	

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

Holly's Maintenance Co.
Income Statement
For Month Ended June 30

Revenues		
Maintenance services revenue		$16,925
Expenses		
Rent expense	$6,000	
Salaries expense	1,600	
Advertising expense	1,150	
Telephone expense	150	
Utilities expense	890	
Total expenses		9,790
Net income		$ 7,135

Holly's Maintenance Co.
Statement of Owner's Equity
For Month Ended June 30

H. Nikolas, Capital, June 1		$ 0
Add:	Investment by owner	130,000
	Net income	7,135
		137,135
Less:	Withdrawals by owner	4,000
H. Nikolas, Capital, June 30		$133,135

Holly's Maintenance Co.
Balance Sheet
June 30

Assets		*Liabilities*	
Cash	$130,060	Accounts payable	$ 0
Accounts receivable	675	*Equity*	
Equipment	2,400	H. Nikolas, Capital	133,135
Total assets	$133,135	Total liabilities and equity	$133,135

Problem 2-4B (60 minutes) Parts 1 and 2

		Assets					=	Liabilities	+ Equity			
Date		**Cash**	**+ Accounts Receivable**	**+ Office Supplies**	**+ Office Equipment**	**+ Excavating Equipment**	**=**	**Accounts Payable**	**+ R. Truro, Capital**	**- R. Truro, With-drawals**	**+ Reve-nues**	**- Expen-ses**
July	1	+ $80,000					=		+ $80,000			
	2	- 700										- $700
Bal.		79,300					=		80,000			- 700
	3	- 1,000				+ $5,000		+ $4,000				
Bal.		78,300				+ 5,000	=	4,000	+ 80,000			- 700
	6	- 600		+ $ 600								
Bal.		77,700		+ 600		+ 5,000	=	4,000	+ 80,000			- 700
	8	+ 7,600									+ $7,600	
Bal.		85,300		+ 600		+ 5,000	=	4,000	+ 80,000		+ 7,600	- 700
	10				+ $2,300			+ 2,300				
Bal.		85,300		+ 600	+ 2,300	+ 5,000	=	6,300	+ 80,000		+ 7,600	- 700
	15		+ $8,200								+ 8,200	
Bal.		85,300	+ 8,200	+ 600	+ 2,300	+ 5,000	=	6,300	+ 80,000		+ 15,800	- 700
	17			+ 3,100				+ 3,100				
Bal.		85,300	+ 8,200	+ 3,700	+ 2,300	+ 5,000	=	9,400	+ 80,000		+ 15,800	- 700
	23	- 2,300						- 2,300				
Bal.		83,000	+ 8,200	+ 3,700	+ 2,300	+ 5,000	=	7,100	+ 80,000		+ 15,800	- 700
	25		+ 5,000								+ 5,000	
Bal.		83,000	+ 13,200	+ 3,700	+ 2,300	+ 5,000	=	7,100	+ 80,000		+ 20,800	- 700
	28	+ 8,200	- 8,200									
Bal.		91,200	+ 5,000	+ 3,700	+ 2,300	+ 5,000	=	7,100	+ 80,000		+ 20,800	- 700
	30	- 1,560										- 1,560
Bal.		89,640	+ 5,000	+ 3,700	+ 2,300	+ 5,000	=	7,100	+ 80,000		+ 20,800	- 2,260
	31	- 295										- 295
Bal.		89,345	+ 5,000	+ 3,700	+ 2,300	+ 5,000	=	7,100	+ 80,000		+ 20,800	- 2,555
	31	- 1,800								- $1,800		
Bal.		$87,545	+ $ 5,000	+ $3,700	+ $2,300	+ $5,000	=	$7,100	+ $80,000	- $1,800	+ $20,800	- $2,555

Problem 2-4B *(Continued)*
Part 3

Truro Excavating Co.
Income Statement
For Month Ended July 31

Revenues		
Excavating fees earned		$20,800
Expenses		
Rent expense	$ 700	
Salaries expense	1,560	
Utilities expense	295	
Total expenses		2,555
Net income		$18,245

Truro Excavating Co.
Statement of Owner's Equity
For Month Ended July 31

R. Truro, Capital, July 1	$ 0
Add: Investment by owner	80,000
Net income	18,245
	98,245
Less: Withdrawals by owner	1,800
R. Truro, Capital, July 31	$96,445

Truro Excavating Co.
Balance Sheet
July 31

Assets		***Liabilities***	
Cash	$ 87,545	Accounts payable	$ 7,100
Accounts receivable	5,000		
Office supplies	3,700	***Equity***	
Office equipment	2,300	R. Truro, Capital	96,445
Excavating equipment	5,000		
Total assets	$103,545	Total liabilities & equity	$103,545

Serial Problem — SP (Chapter 2) Success Systems

		Assets				= Liabilities	+ Equity			
Date	Cash	+ Accounts Receivable	+ Computer Supplies	+ Computer System	+ Office Equipment	= Accounts Payable	+ A. Lopez, Capital	- A. Lopez. With-drawals	+ Revenues	- Expenses
Oct. 1	+$75,000			$25,000	+ $10,000		+ $110,000			
3			+ $1,600			+ $1,600				
Bal.	75,000		+ 1,600	+ 25,000	+ 10,000	= 1,600	+ 110,000			
6		+ $6,200							+ $ 6,200	
Bal.	75,000	+ 6,200	+ 1,600	+ 25,000	+ 10,000	= 1,600	+ 110,000		+ 6,200	
8	- 1,600					- 1,600				
Bal.	73,400	+ 6,200	+ 1,600	+ 25,000	+ 10,000	= 0	+ 110,000		+ 6,200	
12		+ 1,950							+ 1,950	
Bal.	73,400	+ 8,150	+ 1,600	+ 25,000	+ 10,000	= 0	+ 110,000		+ 8,150	
15	+ 6,200	- 6,200								
Bal.	79,600	+ 1,950	+ 1,600	+ 25,000	+ 10,000	= 0	+ 110,000		+ 8,150	
17	- 900									- $ 900
Bal.	78,700	+ 1,950	+ 1,600	+ 25,000	+ 10,000	= 0	+ 110,000		+ 8,150	- 900
20	- 1,790									- 1,790
Bal.	76,910	+ 1,950	+ 1,600	+ 25,000	+ 10,000	= 0	+ 110,000		+ 8,150	- 2,690
22	+ 1,950	- 1,950								
Bal.	78,860	+ 0	+ 1,600	+ 25,000	+ 10,000	= 0	+ 110,000		+ 8,150	- 2,690
28		+ 7,300							+ 7,300	
Bal.	78,860	+ 7,300	+ 1,600	+ 25,000	+ 10,000	= 0	+ 110,000		+ 15,450	- 2,690
31	- 1,050									- 1,050
Bal.	77,810	+ 7,300	+ 1,600	+ 25,000	+ 10,000	= 0	+ 110,000		+ 15,450	- 3,740
31	- 4,000							- $4,000		
Bal.	$73,810	+ $7,300	+ $1,600	+ $25,000	+ $10,000	= $ 0	+ $110,000	- $4,000	+ $15,450	- $3,740

Reporting in Action — BTN 2-1

1. **An organization's total assets are equal to its total liabilities plus total equity. Since Best Buy's liabilities and equity total $12,758 (in millions), then its amount of assets invested is the same <u>$12,758</u> (in millions).**
2. **We know that net income equals total revenues less total expenses. For Best Buy, we are told net income is $1,407 and revenues are $40,023 (both amounts in millions). Thus, Best Buy's expenses are computed as: $40,023 - Expenses = $1,407. Expenses must equal <u>$38,616</u> (in millions).**

Ethics Challenge — BTN 2-2

1.a. Accounting for an Expense (Assume $1,000)

	Assets						=	Liabilities	+	Equity						
	Cash	+	Accounts Receivable	+	Equip-ment		=	Accounts Payable	+	Owner, Capital	−	Owner, With-drawals	+	Revenue	−	Expenses
a.	- $1,000			+			=								-	$1,000

b. Accounting for an Asset (Assume $1,000)

	Assets						=	Liabilities	+	Equity						
	Cash	+	Accounts Receivable	+	Equip-ment		=	Accounts Payable	+	Owner, Capital	−	Owner, With-drawals	+	Revenue	−	Expenses
b.	- $1,000			+	$1,000		=									

The accounting equation balances in both instances.

2. **If a business accounted for expenses as if they were assets, they would have lower expenses and therefore higher profits. The ethical concern would be that such accounting treatment would deceive the financial statement users into thinking a company is more profitable than it really is. In addition, they would be overstating their assets, perhaps deceiving users that the company's financial position is better than it really is.**

Workplace Communication — BTN 2-3

1. **To see how profitable she has been, Sara should use the income statement to assess what her revenues and expenses have been and how much income she has earned during the last year. The net income figure is the amount earned after subtracting all expenses necessary for the sales of the period. Therefore, the net income figure located at the bottom of the income statement is the best particular number to assess her company's financial performance over the previous year.**

Taking It to the Net — BTN 2-4

(in $ thousands)	2007	2006	2005	2004
Revenues	$31,573	$28,074	$24,524	$21,133
Net income	4,745	4,065	3,317	2,319

1. **Rocky Mountain Chocolate Factory's (RMCF) revenues grew considerably from 2004 through 2007. Each year saw solid growth in its revenues.**

2. **Net income performance for RMCF was impressive over this time period. Its net income actually doubled from 2004 to 2007.**

Teamwork in Action — BTN 2-5

Transactions and accounting equation answers will vary based on game play.

Entrepreneurs in Business — BTN 2-6

There are several issues that Sara Blakely should consider. If she chooses to contribute her own funds for the expansion, she will be risking her own savings, but she will not have the expense of interest payments, nor will she have the risk of the inability to repay her loan. If she chooses to borrow, she will have interest and loan payments to make, and she will have more risk.

You Call It — BTN 2-7

You can use the accounting equation (Assets = Liabilities + Equity) to help identify risky customers to whom you would likely not want to extend credit. A balance sheet provides amounts for each of these key components. The lower a customer's equity is relative to liabilities, the less likely you would extend credit. A low equity means the business has little value that does not already have creditor claims to it.