Chapter 2
The Balance Sheet

ANSWERS TO QUESTIONS

1. (a) An asset is a resource owned by a company that has measurable value and is expected to provide future benefits.

   (b) A current asset is an asset that will be used up or turned into cash within the next 12 months.

   (c) A liability is a debt or obligation arising from past transactions or events, which the company is likely to pay, settle, or fulfill by sacrificing resources in the future.

   (d) A current liability is a debt or obligation that will be paid, settled, or fulfilled within one year.

   (e) Contributed Capital includes the amount of financing (cash and sometimes other assets) provided to the company by shareholders in exchange for shares.

   (f) Retained earnings are the cumulative earnings of a company that are not distributed to the owners and instead are reinvested in the business.

2. A transaction is an exchange or event that has a direct and measurable financial effect on the assets, liabilities, or shareholders' equity of a business. Transactions include two different types of events: (1) external exchanges and (2) internal events. The first situation (1) is exemplified by the sale of goods or services to customers. The second situation (2) is exemplified by the company using up the benefits of assets owned by the company such as equipment.

3. Accounts are used to accumulate and report the effects of different business activities. Accounts are necessary to keep track of all increases and decreases in the basic accounting equation.

4. The basic accounting equation is: Assets = Liabilities + Shareholders' Equity.

5. Debit is the left side of a T-account and credit is the right side of a T-account. A debit is an increase in assets or a decrease in liabilities or shareholders' equity. A credit is the opposite – a decrease in assets or an increase in liabilities or shareholders' equity.

6. Transaction analysis is the process of studying a transaction to determine its financial effect on the business in terms of the basic accounting equation:

   Assets = Liabilities + Shareholders' Equity

   The two principles underlying the process are:
   * Duality of effects: every transaction affects at least two accounts.
   * A=L+SE; the accounting equation must remain in balance after each transaction.

7. The accounting equalities in transaction analysis are:
   (a) Assets = Liabilities + Shareholders' Equity
   (b) Debits = Credits

8. A journal entry is a method for expressing the effects of a transaction on accounts in a debits equal credits format. The title of the account(s) to be debited is (are) listed first. The title of the account(s) to be credited is (are) listed underneath the debited accounts and both account title(s) and amount(s) are indented to the right.

9. T-accounts are a simplified version of the ledger, which summarizes transaction effects for each account. T-accounts show increases on the left (debit) side for assets, which are on the left side of the accounting equation. T-accounts show increases on the right (credit) side for liabilities and shareholders' equity, which are on the right side of the accounting equation. The T-account is a tool for summarizing transaction effects for each account and determining balances.

10. The cost principle requires that assets and liabilities be recorded at their original cost to the company.

11. Because the customer list was not purchased by her salon (it was developed internally), her salon does not report it on the balance sheet. Knowing this, she should be sure to advise her banker that the salon has established a loyal group of customers that holds considerable value for generating future revenues (but is excluded from the balance sheet for accounting reasons).

12. Transaction analysis is expected to be relatively more important under IFRS than ASPE. IFRS have fewer detailed rules, which increases the importance of analyzing transactions to determine their appropriate treatment. However ASPE is also principle based and therefore transaction analysis should not be ignored when using ASPE.

Authors' Recommended Solution Time
(Time in minutes)

Mini-exercises		*Exercises*		*Problems*		*Skills Development Cases**		*Continuing Case*	
No.	*Time*	*No.*	*Time*	*No.*	*Time*	*No.*	*Time*	*No.*	*Time*
1	3	1	6	CP2-1	45	1	15	1	30
2	3	2	10	CP2-2	50	2	15		
3	3	3	5	CP2-3	50	3	45		
4	3	4	5	PA2-1	45	4	20		
5	4	5	3	PA2-2	50	5	20		
6	4	6	5	PA2-3	45	6	10		
7	3	7	3	PA2-4	50	7	35		
8	3	8	10	PA2-5	50				
9	5	9	20	PB2-1	45				
10	6	10	15	PB2-2	50				
11	6	11	25	PB2-3	45				
12	6	12	15	PB2-4	50				
13	6	13	25	PB2-5	50				
14	6	14	10						
15	6	15	15						
16	6	16	25						
17	6								
18	6								
19	6								
20	6								
21	15								
22	10								
23	3								
24	8								

* Due to the nature of cases, it is very difficult to estimate the amount of time students will need to complete them. As with any open-ended project, it is possible for students to devote a large amount of time to these assignments. While students often benefit from the extra effort, we find that some become frustrated by the perceived difficulty of the task. You can reduce student frustration and anxiety by making your expectations clear, and by offering suggestions (about how to research topics or what companies to select). The skills developed by these cases are indicated below.

Case	Financial Analysis	Research	Ethical Reasoning	Critical Thinking	Technology	Writing	Teamwork
1	x						
2	x						
3	x	x			x	x	x
4	x		x	x			
5	x		x	x		x	
6	x			x			
7	x				x		

ANSWERS TO MINI-EXERCISES

M2-1

	Debit	Credit
Assets	*Increases*	*Decreases*
Liabilities	*Decreases*	*Increases*
Stockholders' Equity	*Decreases*	*Increases*

M2-2

	Increase	Decrease
Assets	*Debit*	*Credit*
Liabilities	*Credit*	*Debit*
Stockholders' Equity	*Credit*	*Debit*

M2-3

1. Journal Entry	D
2. A = L + SE; Debit = Credits	C
3. Transaction	A
4. Liabilities	I
5. Assets	F
6. Income statement, balance sheet, statement of retained earnings, and statement of cash flows	B

M2-4

1. Wages payable	CL
2. Accounts Payable	CL
3. Accounts Receivable	CA
4. Buildings	NCA
5. Cash	CA
6. Contributed Capital	SE
7. Land	NCA
8. Income taxes payable	CL
9. Equipment	NCA
10. Notes Payable (due in 6 months)	CL
11. Retained Earnings	SE
12. Supplies	CA
13. Utilities Payable	CL

M2-5

	Req. 1 Category	Req. 2 Normal Balance
1. Accounts Receivable	CA	Debit
2. Short-term Bank Loan	CL	Credit
3. Contributed Capital	SE	Credit
4. Long-term Debt	NCL	Credit
5. Income Taxes Payable	CL	Credit
6. Property, Plant and Equipment	NCA	Debit
7. Retained Earnings	SE	Credit
8. Accounts Payable	CL	Credit
9. Cash	CA	Debit

M2-6

	Req.1 Category	Req.2 Normal Balance
1. Accrued Liabilities	CL	Credit
2. Prepaid rent	CA	Debit
3. Cash	CA	Debit
4. Contributed Capital	SE	Credit
5. Long-Term Debt	NCL	Credit
6. Property and Equipment	NCA	Debit
7. Retained Earnings	SE	Credit
8. Accounts Payable	CL	Credit

M2-7

1) Yes
2) No This is a transaction of the shareholder not the company.
3) Yes
4) No This is just an exchange of promises, nothing to record at this point.
5) No This is a personal transaction of the shareholder and not of the company.
6) Yes

M2-8

1) Yes
2) Yes
3) No – This event involves only a written promise to rent the store space. No exchange of cash, goods, or services has occurred.
4) Yes
5) No

M2-9

	Assets		=	Liabilities		+	Shareholders' Equity	
a.	Cash	+3,940		Notes Payable	+3,940			
b.	Cash	+4,630					Contributed Capital	+4,630
c.	Cash	–190		Notes Payable	+730			
	Equipment	+920						
d.	Cash	–372						
	Supplies	+372						
e.	Supplies	+700		Accounts Payable	+700			

M2-10

a.	*dr* Cash (+A)	3,940	
	cr Notes Payable (+L)		3,940
b.	*dr* Cash (+A)	4,630	
	cr Contributed Capital (+SE)		4,630
c.	*dr* Equipment (+A)	920	
	cr Cash (–A)		190
	cr Notes Payable (+L)		730
d.	*dr* Supplies (+A)	372	
	cr Cash (–A)		372
e.	*dr* Supplies (+A)	700	
	cr Accounts Payable (+L)		700

M2-11

Cash (A)

(a)	3,940	190 (c)
(b)	4,630	372 (d)
	8,008	

Supplies (A)

(d)	372	
(e)	700	
	1,072	

Equipment (A)

(c)	920	
	920	

Accounts Payable (L)

		700 (e)
		700

Notes Payable (L)

		3,940 (a)
		730 (c)
		4,670

Contributed Capital (SE)

		4,630 (b)
		4,630

M2-12

SPOTLIGHTER INC.
Balance Sheet
At January 31, 2014

Assets		*Liabilities*	
Current Assets:		*Current Liabilities:*	
Cash	$ 8,008	Accounts Payable	$ 700
Supplies	1,072	Notes Payable	4,670
Total Current Assets	9,080	*Total Current Liabilities*	5,370
		Shareholders' Equity	
Equipment	920	Contributed Capital	4,630
Total Assets	$ 10,000	Total Liabilities & Shareholders' Equity	$10,000

M2-13

a.			
	dr Cash (+A)	70,000	
	cr Contributed Capital (+SE)		70,000
b.			
	dr Land (+A)	60,000	
	cr Cash (-A)		60,000
c.			
	dr Supplies (+A)	9,000	
	cr Accounts Payable (+L)		9,000
d.			
	dr Cash (+A)	25,000	
	cr Note Payable (long-term) (+L)		25,000
e.			
	No transaction		

M2-14

	Assets		=	Liabilities		+	Shareholders' Equity	
(a	Cash	+ 70,000					Contributed Capital	+ 70,000
(b)	Cash	- 60,000						
	Land	+ 60,000						
(c)	Supplies	+ 9,000		Accounts Payable	+ 9,000			
(d)	Cash	+ 25,000		Note Payable	+ 25,000			
(e)	No transaction							
		104,000			34,000			70,000

M2-15

a.

dr Equipment (+A)	4,000	
cr Cash (-A)		4,000

b.

dr Books (+A)	7,000	
cr Accounts Payable (+L)		7,000

c.

dr Cash (+A)	4,000	
cr Note Payable (short-term) (+L)		4,000

d.

dr Accounts Payable (-L)	1,500	
cr Cash (-A)		1,500

e.

dr Note Payable (short-term) (-L)	4,000	
cr Cash (-A)		4,000

M2-16

	Assets		=	Liabilities		+	Shareholders' Equity
(a)	Cash	- 4,000					
	Equipment	+ 4,000					
(b)	Books	+ 7,000		Accounts Payable	+ 7,000		
(c)	Cash	+ 4,000		Note Payable	+ 4,000		
(d)	Cash	- 1,500		Accounts Payable	- 1,500		
(e)	Cash	- 4,000		Note Payable	- 4,000		
		5,500			5,500		

M2-17

a.

dr Equipment (+A)	12,000	
cr Accounts Payable (+L)		12,000

b.

dr Accounts Payable (-L)	6,000	
cr Cash (-A)		6,000

c.

dr Cash (+A)	400	
cr Accounts Receivable (-A)		400

d.

dr Cash (+A)	15,000	
cr Contributed Capital (+SE)		15,000

e.

dr Equipment (+A)	60,000	
cr Cash (-A)		10,000
cr Note Payable (+L)		50,000

M2-18

	Assets		**=**	**Liabilities**		**+**	**Shareholders' Equity**	
(a)	Equipment	+ 12,000		Accounts Payable	+ 12,000			
(b)	Cash	- 6,000		Accounts Payable	- 6,000			
(c)	Cash	+ 400						
	Accounts Receivable	- 400						
(d)	Cash	+ 15,000					Contributed Capital	+ 15,000
(e)	Cash	- 10,000		Note Payable	+ 50,000			
	Equipment	+ 60,000						
		+ 71,000			+ 56,000			+ 15,000

M2-19

a.

dr Cash (+A)	50	
cr Accounts Receivable (-A)		50

b.

No transaction

c.

dr Accounts Payable (-L)	2,000	
cr Cash (-A)		2,000

d.

dr Note Payable (short-term) (-L)	5,000	
cr Cash (-A)		5,000

e.

dr Equipment (+A)	2,200	
cr Cash (-A)		1,000
cr Note Payable (short-term) (+L)		1,200

M2-20

	Assets		=	Liabilities		+	Shareholders' Equity
(a)	Cash	+ 50					
	Accounts Receivable	- 50					
(b)	No transaction						
(c)	Cash	- 2,000		Accounts Payable	- 2,000		
(d)	Cash	- 5,000		Note Payable (short-term)	- 5,000		
(e)	Cash	- 1,000		Note Payable	+1,200		
	Equipment	+ 2,200		(short-term)			
		- 5,800			- 5,800		

M2-21

CHARLIE'S CRISPY CHICKEN
Balance Sheet
At September 30, 2014

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	$ 1,800	Accounts Payable	$ 2,000
Food Ingredients	400	Wages Payable	200
Kitchen Supplies	1,400	Utilities Payable	300
Total Current Assets	3,600	Total Current Liabilities	2,500
		Bank Loan Payable	10,000
		Note Payable	15,000
		Total Liabilities	27,500
Restaurant Booths	25,000		
Kitchen Equipment	13,000	Shareholders' Equity	
Land	8,900	Contributed Capital	20,000
		Retained Earnings	3,000
		Total Shareholders' Equity	23,000
Total Assets	$ 50,500	Total Liabilities & Shareholders' Equity	$50,500

M2-22

Req. 1

KNIGHT ENTERTAINMENTS RESORTS, INC.
Balance Sheet
At September 30, 2014
(in thousands)

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 88,761	Accounts Payable	$ 58,462
Accounts Receivable	56,777	Salaries Payable	22,082
Other Current Assets	283,692	Other Current Liabilities	115,663
Total Current Assets	429,230	*Total Current Liabilities*	196,207
		Long-term Note Payable	1,835,192
		Total Liabilities	2,031,399
		Shareholders' Equity	
Property and Equipment	1,647,050	Contributed Capital	32
		Retained Earnings	44,849
		Total Shareholders' Equity	44,881
Total Assets	$ 2,076,280	*Total Liabilities & Shareholders' Equity*	$ 2,076,280

Req. 2

As of September 30, 2014, liabilities have provided the primary source of financing for Knight Entertainments Resorts, Inc. The company has financed $2,031,399,000 of its assets with liabilities and only $44,881,000 with shareholders' equity.

M2-23

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Current Ratio} = \frac{\$30{,}000}{\$15{,}000} = 2.0$$

Yes, it is likely that Robust Ribs will be able to pay its current liabilities as they come due. The current ratio of 2.0 indicates that for every dollar in current liabilities, the company has two dollars in current assets. This ratio indicates a good ability to pay.

M2-24

a. Decrease $\dfrac{\$30{,}000 - \$2{,}000}{\$15{,}000 + \$0} = 1.87$

b. Increase $\dfrac{\$30{,}000 + \$5{,}000}{\$15{,}000 + \$0} = 2.33$

c. Increase $\dfrac{\$30{,}000 + \$2{,}000}{\$15{,}000 + \$0} = 2.13$

d. Decrease $\dfrac{\$30{,}000 + \$500}{\$15{,}000 + \$500} = 1.97$

ANSWERS TO EXERCISES

E2-1

1.	Separate Entity Assumption	F
2.	Balance Sheet	B
3.	Current Assets	A
4.	Notes Payable	I
5.	Duality of Effects	K
6.	Retained Earnings	J
7.	Debit	D

E2-2

Req. 1

	Given	Received	
(a)	Note Payable (+L)	Equipment (+A)	*Or Computer Equipment*
(b)	Cash (**–**A)	Equipment (+A)	*Or Delivery Truck*
(c)	—	—	*No exchange transaction*
(d)	Contributed Capital (+SE)	Cash (+A)	
(e)	Cash (**–**A)	Land (+A)	
(f)	—	—	*No company transaction*
(g)	Note Payable (+L)	Cash (+A)	
(h)	Cash (**–**A)	Note Payable (**–**L)	*Reduced its promise to pay*

Req. 2
The truck in (b) would be recorded as an asset of $21,000. The land in (e) would be recorded as an asset of $50,000. These are applications of the cost principle.

Req. 3
The agreement in *(c)* involves no exchange or receipt of cash, goods, or services and thus is not a transaction. Because transaction *(f)* occurs between the owner and others, the separate entity assumption implies this transaction does not affect the business.

E2-3

Account	***Balance Sheet Classification***	***Debit or Credit Balance***
1. Land	NCA	Debit
2. Retained Earnings	SE	Credit
3. Notes Payable (due in 3 years)	NCL	Credit
4. Accounts Receivable	CA	Debit
5. Supplies	CA	Debit
6. Contributed Capital	SE	Credit
7. Equipment	NCA	Debit
8. Accounts Payable	CL	Credit
9. Cash	CA	Debit
10. Taxes Payable	CL	Credit

E2-4

	Assets		=	**Liabilities**		+	**Shareholders' Equity**	
a.	Cash	+10,000	=				Contributed Capital	+10,000
b.	Cash	+7,000	=	Notes Payable	+7,000			
c.	Land	+12,000	=	Notes Payable	+11,000			
	Cash	–1,000						
d.	Equipment	+800	=	Accounts Payable	+800			
e.	Equipment	+3,000	=	Notes Payable	+2,000			
	Cash	–1,000						

E2-5

Req. 1

	Assets		=	**Liabilities**		+	**Shareholders' Equity**	
a.	Equipment	+216	=	Note Payable	+5			
	Cash	–211						
b.	Cash	+21	=				Contributed Capital	+21
c.	*No effect*							
	TOTALS	26	=		5	+		21

Req. 2

The separate entity assumption states that transactions of the business are separate from transactions of the owners. Because transaction *(c)* occurs between the owners and others in the stock market, there is no effect on the business.

Req. 3

The greater increase in shareholders' equity (versus liabilities) indicates that these transactions led NIKE to rely proportionately more on shareholders (versus creditors).

E2-6

a.	*dr* Cash (+A)	10,000	
	cr Contributed Capital (+SE)		10,000
b.	*dr* Cash (+A)	7,000	
	cr Notes Payable (+L)		7,000
c.	*dr* Land (+A)	12,000	
	cr Cash (–A)		1,000
	cr Notes Payable (+L)		11,000
d.	*dr* Equipment (+A)	800	
	cr Accounts Payable (+L)		800
e.	*dr* Equipment (+A)	3,000	
	cr Cash (–A)		1,000
	cr Notes Payable (+L)		2,000

E2-7

Req. 1

a.	*dr* Equipment (+A)	216	
	cr Cash (–A)		211
	cr Note Payable (+L)		5
b.	*dr* Cash (+A)	21	
	cr Contributed Capital (+SE)		21
c.	No journal entry required.		

Req. 2

The separate entity assumption states that transactions of the business are separate from transactions of the owners. Because transaction *(c)* occurs between the owners and others in the stock market, there is no effect on the business.

E2-8

Req. 1

Cash

	Debit	Credit
Beg.	0	
(a)	60,000	3,000 (b)
	57,000	

Equipment

	Debit	Credit
Beg.	0	
(b)	12,000	
	12,000	

Note Payable

Debit	Credit
	0 Beg.
	9,000 (b)
	9,000

Contributed Capital

Debit	Credit
	0 Beg.
	60,000 (a)
	60,000

Req. 2

Assets $ 69,000 = Liabilities $ 9,000 + Shareholders' Equity $ 60,000

Req. 3

The agreement in *(c)* involves no exchange or receipt of cash, goods, or services and thus is not a transaction. Because transaction *(d)* occurs between the owners and others, the separate entity assumption implies this transaction does not affect the business.

E2-9

Req. 1

Transaction	***Brief Explanation***
a.	Issued shares for $12,000 cash.
b.	Borrowed $50,000 cash and signed a note for this amount.
c.	Purchased land for $12,000; paid $4,000 cash and gave an $8,000 note payable for the balance.
d.	Borrowed $4,000 cash and signed a note for this amount.
e.	Purchased equipment for $7,000 cash.
f.	Purchase land for $3,000; paid for by signing a note.

Req. 2

From table:

	Cash	+	Equipment	+	Land	=	Notes Payable	+	Contributed Capital
Ending	55,000	+	7,000	+	15,000	=	65,000	+	12,000

Classified balance sheet:

COSY COMFORT FURNITURE COMPANY
Balance Sheet
At January 7, 2014

Assets		*Liabilities*	
Current Assets			
Cash	$ 55,000	Notes Payable	$ 65,000
Total Current Assets	55,000	*Total Liabilities*	65,000
Noncurrent Assets			
Equipment	7,000	*Shareholders' Equity*	
Land	15,000	Contributed Capital	12,000
		Total Shareholders' Equity	12,000
Total Assets	$ 77,000	*Total Liabilities & Shareholders' Equity*	$ 77,000

Req. 3

As of January 7, 2014, most of Cosy Comfort's financing has come from liabilities. The company has financed $65,000 of its investment in assets with liabilities and only $12,000 with shareholders' equity.

E2-10

Req. 1

Transaction	***Brief Explanation***
a.	Issued shares for $50,000 cash.
b.	Purchased a delivery truck for $25,000; paid $4,000 cash and gave a $21,000 long-term note payable for the balance.
c.	Borrowed $5,000 cash and signed a short-term note for this amount.
d.	Purchased computer equipment for $4,000 cash.

Req. 2

FALLA FASHIONS, INC.
Balance Sheet
At March 31, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 47,000	Short-term Bank Loan	$ 5,000
Total Current Assets	47,000	*Total Current Liabilities*	5,000
		Long-term Notes Payable	21,000
		Total Liabilities	26,000
Noncurrent Assets		*Shareholders' Equity*	
Computer Equipment	4,000	Contributed Capital	50,000
Delivery Truck	25,000	*Total Shareholders' Equity*	50,000
Total Assets	$ 76,000	*Total Liabilities & Shareholders' Equity*	$ 76,000

Req. 3

As of March 31, 2014, most of Falla's financing has come from shareholders' equity. The company has financed $50,000 of its assets with shareholders' equity and only $26,000 with liabilities.

E2-11

Req 1:

	Assets		**=**	**Liabilities**		**+**	**Shareholders' Equity**	
(a)	No transaction - no obligation exists until the supplies are received.							
(b)	Cash	- 10,000		Note Payable (short-term)	+ 20,000			
	Equipment	+ 30,000						
(c)	Cash	+ 5,000		Note Payable (short-term)	+ 5,000			
(d)	No transaction - no obligation exists until the manager has worked.							
(e)	Cash	+ 10,000					Contributed Capital	+10,000
(f)	Supplies	+ 2,000		Accounts Payable	+ 2,000			
		+ 37,000			+ 27,000			+10,000

Req 2:

(a) No transaction

(b)	*dr* Equipment (+A)……………… ………………………	30,000	
	cr Cash (-A)…………………………………………		10,000
	cr Note Payable (short-term) (+L)………………………		20,000
(c)	*dr* Cash (+A)……………………………………………..	5,000	
	cr Note Payable (short-term) (+L)………………………		5,000
(d)	No transaction		
(e)	*dr* Cash (+A)………………………………………………	10,000	
	cr Contributed Capital (+SE)…………………………		10,000
(f)	*dr* Supplies (+A)…………………………………………..	2,000	
	cr Accounts Payable (+L)……………………………..		2,000

E2-11(continued)

Req 3:

Beginning Assets	220,000
Net Change in Assets	+ 37,000
Ending Assets	257,000

E2-12

Req. 1

	Assets		Liabilities			Shareholders' Equity
	Cash	**Equipment**	**Accounts Payable**	**ST Notes Payable**	**LT Notes Payable**	**Contributed Capital**
Beg.	0	0	0	0	0	0
a.	+60,000					+60,000
b.	+20,000				+20,000	
c.	No transaction, therefore no financial effects to record.					
d.	-2,000	+9,000		+7,000		
e.	-8,000	+16,000	+8,000			
End.	70,000	25,000	8,000	7,000	20,000	60,000

Req 2:

a.	*dr* Cash (+A)	60,000	
	cr Contributed Capital (+SE)		60,000
b.	*dr* Cash (+A)	20,000	
	cr Notes Payable (long-term) (+L)		20,000

c. No transaction has occurred because there has been no exchange of cash, goods, or services.

d.	*dr* Equipment (+A)	9,000	
	cr Cash (–A)		2,000
	cr Notes Payable (short-term) (+L)		7,000
e.	*dr* Equipment (+A)	16,000	
	cr Cash (–A)		8,000
	cr Accounts Payable (+L)		8,000

E2-12 (continued)

Req 3:

DOWNER.COM
Balance Sheet
At May 31, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 70,000	Accounts Payable	$ 8,000
		Notes Payable	7,000
Total Current Assets	70,000	*Total Current Liabilities*	15,000
		Note Payable	20,000
Noncurrent Assets		Total Liabilities	35,000
Equipment	25,000	*Shareholders' Equity*	
		Contributed Capital	60,000
		Retained Earnings	0
		Total Shareholders' Equity	60,000
Total Assets	$ 95,000	*Total Liabilities & Shareholders' Equity*	$ 95,000

E2-13

Req. 1

	Assets			=	Liabilities		+	Shareholders' Equity
	Cash	**Equipment**	**Land**		**Accounts Payable**	**Notes Payable**		**Contributed Capital**
(a)	+40,000			=				+40,000
(b)			+12,000	=		+12,000		
(c)	-2,000	+20,000		=		+18,000		
(d)	-2,000	+2,000		=				
(e)		No change*				No change		
	+36,000	+22,000	+12,000	=		+30,000		+40,000

*Event (e) is not considered a transaction of the company because the separate entity assumption (from Chapter 1) states that transactions of the owners are separate from transactions of the business.

E2-13 (continued)

Req. 2

		Debit	Credit
a.	*dr* Cash (+A)	40,000	
	cr Contributed Capital (+SE)		40,000
b.	*dr* Land (+A)	12,000	
	cr Notes Payable (+L)		12,000
c.	*dr* Equipment (+A)	20,000	
	cr Cash (-A)		2,000
	cr Notes Payable (+L)		18,000
d.	*dr* Equipment (+A)	2,000	
	cr Cash (-A)		2,000

e. This is not a transaction of the business, so a journal entry is not needed.

Req. 3

Cash (A)

	Debit	Credit	
Beg.	0		
(a)	40,000	2,000	(c)
		2,000	(d)
End.	36,000		

Equipment (A)

	Debit	Credit
Beg.	0	
(c)	20,000	
(d)	2,000	
End.	22,000	

Land (A)

	Debit	Credit
Beg.	0	
(b)	12,000	
End.	12,000	

Notes Payable (L)

Debit	Credit	
	0	Beg.
	12,000	(b)
	18,000	(c)
	30,000	End.

Contributed Capital (SE)

Debit	Credit	
	0	Beg.
	40,000	(a)
	40,000	End.

E2-13 (continued)

Req. 4

LEE DELIVERY COMPANY, INC.
Balance Sheet
At December 31, 2014

Assets		*Liabilities*	
Current Assets		Notes Payable	$ 30,000
Cash	$36,000	*Total Liabilities*	30,000
Total Current Assets	36,000		
Equipment	22,000	*Shareholders' Equity*	
Land	12,000	Contributed Capital	40,000
Total Assets	$70,000	*Total Liabilities & Shareholders' Equity*	$ 70,000

Req. 5

LDC's assets were financed primarily by shareholders' equity. The shareholders' equity financed $40,000 of the company's assets and liabilities financed $30,000.

E2-14

Transaction	***Brief Explanation***
(a)	Issued shares for $17,000 cash.
(b)	Purchased a building for $50,000; paid $10,000 cash and gave a $40,000 note payable for the balance.
(c)	Used cash to purchase supplies costing $1,500.

E2-15

Req. 1

September 30, 2014	December 31, 2014
Current Ratio = $\frac{\$185,988}{\$35,599}$ = 5.22	Current Ratio = $\frac{\$176,674}{\$29,327}$ = 6.02

Req. 2

The company's current ratio decreased, which implies a reduced ability to pay current liabilities.

Req. 3

Current Ratio = $\frac{\$185,988 – \$10,000}{\$35,599 - \$10,000}$ = 6.87

Paying down Accounts Payable in this case increased the current ratio.

Req. 4

As of September 30, 2014, shareholders' equity has provided the primary source of financing for Delamy Design Ltd. The company has financed $202,808,000 of its assets with shareholders' equity and only $37,308,000 with liabilities.

E2-16

Req. 1

	Assets		=	Liabilities		+	Shareholders' Equity	
1.	Cash	+12,000	=				Contributed Capital	+12,000
2.	Cash	+30,000	=	Note Payable (long-term)	+30,000			
3.	Equipment Cash	+40,000 - 35,000	=	Note Payable (short-term)	+5,000			
4.	Supplies	+900	=	Accounts Payable	+900			

E2-16 (continued)

Req. 2

1.	*dr* Cash (+A)	12,000	
	cr Contributed Capital (+SE)		12,000
2.	*dr* Cash (+A)	30,000	
	cr Note Payable (long-term) (+L)		30,000
3.	*dr* Equipment (+A)	40,000	
	cr Cash (-A)		35,000
	cr Note Payable (short-term) (+L)		5,000
4.	*dr* Supplies (+A)	900	
	cr Accounts Payable (+L)		900

Cash

Beg.	0		
(1)	12,000	35,000	(3)
(2)	30,000		
	7,000		

Supplies

Beg.	0	
(4)	900	
	900	

Equipment

Beg.	0	
(3)	40,000	
	40,000	

Accounts Payable

	0	Beg.
	900	(4)
	900	

Notes Payable

	0	Beg.
	30,000	(2)
	5,000	(3)
	35,000	

Contributed Capital

	0	Beg.
	12,000	(1)
	12,000	

E2-16 (continued)

Req. 3

BUSINESS SIM CORP.
Balance Sheet
At September 30, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 7,000	Accounts Payable	$ 900
Supplies	900	Note Payable	5,000
Total Current Assets	7,900	*Total Current Liabilities*	5,900
		Note Payable	30,000
		Total Liabilities	35,900
		Shareholders' Equity	
Equipment	40,000	Contributed Capital	12,000
		Retained Earnings	0
		Total Shareholders' Equity	12,000
Total Assets	$ 47,900	*Total Liabilities & Shareholders' Equity*	$ 47,900

Req. 4

At September 30, BSC reported $7,900 of current assets and $5,900 of current liabilities, resulting in a current ratio of 1.33 (7,900/5,900). Because this ratio is greater than 1.3, BSC is complying with the loan covenant. (This means that the bank will not be able to demand repayment or renegotiation of the $30,000 note payable until it matures in two years unless BSC is not in compliance at a later date.)

ANSWERS TO COACHED PROBLEMS

CP2-1

Req. 1

Healthcare Services was organized as a corporation. Only a corporation issues shares to its owners in exchange for their investment, as Healthcare Services did in transaction (a).

Req. 2

	Assets					=	Liabilities	+	Shareholders' Equity	
	Cash	**Supplies**	**Land**	**Building**	**Equipment**		**Notes Payable**		**Contributed Capital**	**Retained Earnings**
(a)	+40,000					=			+40,000	
(b)	–13,000		+12,000	+65,000	+16,000	=	+80,000			
(c)	No effect									
(d)	–3,000	+3,000				=			No change	
(e)	+4,000		–4,000			=			No change	
	+28,000	+3,000	+8,000	+65,000	+16,000	=	+80,000		+40,000	

Req. 3

The transaction between the two shareholders (event *c*) was not included in the spreadsheet. Because event *(c)* occurs between the owners and others, the separate entity assumption implies this transaction does not affect the business.

CP2-1 (Continued)

Req. 4

(a) Total assets = $28,000 + $3,000 + $8,000 + $65,000 + $16,000
= $120,000

(b) Total liabilities = $80,000

(c) Total shareholders' equity = Total assets – Total liabilities
= $120,000 – $80,000 = $40,000

(d) Cash balance = $40,000 – $13,000 – $3,000 + $4,000 = $28,000

(e) Total current assets = $28,000 + $3,000 = $31,000

Req. 5

As of January 31, 2014, the financing for HS's assets came primarily from liabilities. For HS, the liabilities financed $80,000 of its assets and shareholders' equity financed $40,000.

CP2-2

Req. 1

Amounts in thousands.

	Assets					=	Liabilities		+	Shareholders' Equity	
	Cash	Supplies	Building	Equip	Land		Accounts Payable	Notes Payable		Contributed Capital	Retained Earnings
	16	5	200	18	100	=	4	17		318	0
a.	+200					=				+200	
b.	+30					=		+30			
c.	-41		+141			=		+100			
d.	-100			+100		=					
e.		+10					+10				
	105	15	341	118	100	=	14	147		518	0

CP2-2 (continued)

Req. 2

a.	*dr* Cash (+A)	200,000	
	cr Contributed Capital (+SE)		200,000
b.	*dr* Cash (+A)	30,000	
	cr Notes Payable (+L)		30,000
c.	*dr* Building (+A)	141,000	
	cr Cash (-A)		41,000
	cr Notes Payable (+L)		100,000
d.	*dr* Equipment (+A)	100,000	
	cr Cash (-A)		100,000
e.	*dr* Supplies (+A)	10,000	
	cr Accounts Payable (+L)		10,000

Req. 3

Cash

	Debit	Credit	
Beg.	16,000		
(a)	200,000	41,000	(c)
(b)	30,000	100,000	(d)
End.	105,000		

Supplies

	Debit	Credit
Beg.	5,000	
(e)	10,000	
End.	15,000	

Equipment

	Debit	Credit
Beg.	18,000	
(d)	100,000	
End.	118,000	

Building

	Debit	Credit
Beg.	200,000	
(c)	141,000	
End.	341,000	

Land

	Debit	Credit
Beg.	100,000	
End.	100,000	

Accounts Payable

Debit	Credit	
	4,000	Beg.
	10,000	(e)
	14,000	End.

Notes Payable

Debit	Credit	
	17,000	Beg.
	30,000	(b)
	100,000	(c)
	147,000	End.

Contributed Capital

Debit	Credit	
	318,000	Beg.
	200,000	(a)
	518,000	End.

Retained Earnings

Debit	Credit	
	0	Beg.
	0	End.

CP2-2 (continued)

Req. 4

ATHLETIC PROFESSIONAL TRAINING COMPANY
Balance Sheet
At July 31, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$105,000	Accounts Payable	$ 14,000
Supplies	15,000	*Total Current Liabilities*	14,000
Total Current Assets	120,000		
		Notes Payable	147,000
		Total Liabilities	161,000
Equipment	118,000	*Shareholders' Equity*	
Building	341,000	Contributed Capital	518,000
Land	100,000	Retained Earnings	0
		Total Shareholders' Equity	518,000
Total Assets	$679,000	*Total Liabilities & Shareholders' Equity*	$ 679,000

Req. 5

As of July 31, 2014, most of APTC's financing has come from shareholders' equity. Shareholders' equity has financed $518,000 of APTC's assets and liabilities financed $161,000.

CP2-3

Req. 1

	Assets		= Liabilities		+ Shareholders' Equity	
a.	Equipment Cash	+21,000 -5,000	Notes Payable	+16,000		
b.	Cash	+20,000			Contributed Capital	+20,000
c.	Cash	+30,000	Notes Payable	+30,000		
d.	Supplies Cash	+4,000 -4,000				
e.	Factory Building Cash	+41,000 -12,000	Notes Payable	+29,000		
f.	No effect (because the president has not yet started working for the company).					

Req. 2

		Debit	Credit
a.	*dr* Equipment (+A)	21,000	
	cr Cash (-A)		5,000
	cr Notes Payable (+L)		16,000
b.	*dr* Cash (+A)	20,000	
	cr Contributed Capital (+SE)		20,000
c.	*dr* Cash (+A)	30,000	
	cr Notes Payable (+L)		30,000
d.	*dr* Supplies (+A)	4,000	
	cr Cash (-A)		4,000
e.	*dr* Factory Building (+A)	41,000	
	cr Cash (-A)		12,000
	cr Notes Payable (+L)		29,000

f. No effect (because the president has not yet started working for the company).

CP2-3 (continued)

Req. 3

Cash

	Debit	Credit	
Beg.	35,000		
(b)	20,000	5,000	(a)
(c)	30,000	4,000	(d)
		12,000	(e)
End.	64,000		

Accounts Receivable

	Debit	Credit	
Beg.	5,000		
End.	5,000		

Inventory

	Debit	Credit	
Beg.	40,000		
End.	40,000		

Supplies

	Debit	Credit	
Beg.	5,000		
(d)	4,000		
End.	9,000		

Equipment

	Debit	Credit	
Beg.	80,000		
(a)	21,000		
End.	101,000		

Factory Building

	Debit	Credit	
Beg.	120,000		
(e)	41,000		
End.	161,000		

Notes Receivable

	Debit	Credit	
Beg.	2,000		
End.	2,000		

Land

	Debit	Credit	
Beg.	30,000		
End.	30,000		

Accounts Payable

	Debit	Credit	
		37,000	Beg.
		37,000	End.

Notes Payable

	Debit	Credit	
		80,000	Beg.
		16,000	(a)
		30,000	(c)
		29,000	(e)
		155,000	End.

Contributed Capital

	Debit	Credit	
		150,000	Beg.
		20,000	(b)
		170,000	End.

Retained Earnings

	Debit	Credit	
		50,000	Beg.
		50,000	End

CP2-3 (continued)

Req. 4

No effect was recorded for event *(f)*. The agreement in *(f)* has not yet involved an exchange or receipt of cash, goods, or services and thus is not a transaction.

Req. 5

PLAUDERE PLASTICS COMPANY
Balance Sheet
At December 31, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 64,000	Accounts Payable	$ 37,000
Accounts Receivable	5,000	*Total Current Liabilities*	37,000
Inventory	40,000		
Supplies	9,000	Notes Payable	155,000
Total Current Assets	118,000	*Total Liabilities*	192,000
Notes Receivable	2,000	*Shareholders' Equity*	
Equipment	101,000	Contributed Capital	170,000
Factory Building	161,000	Retained Earnings	50,000
Land	30,000	*Total Shareholders' Equity*	220,000
Total Assets	$412,000	*Total Liabilities & Shareholders' Equity*	$ 412,000

Req. 6

As of December 31, 2014, most of PPC's financing has come from shareholders' equity. Shareholders' equity has financed $220,000 of PPC's assets and liabilities financed $192,000.

ANSWERS TO GROUP A PROBLEMS

PA2-1

Req. 1

	Assets			=	Liabilities	+	Shareholders' Equity	
	Cash	**Equipment**	**Building**		**Notes Payable**		**Contributed Capital**	**Retained Earnings**
(a)	+100,000			=			+100,000	
(b)	+120,000			=	+120,000			
(c)	–200,000		+200,000	=				
(d)	–3,000	+30,000		=	+27,000			
(e)		–3,000		=	–3,000			
(f)	–5,000	+10,000		=	+5,000			
(g)	No effect			=				
	+12,000	+37,000	+200,000	=	+149,000		+100,000	
Changes	+ $249,000				+ $149,000		+$100,000	

PA2-1 (continued)

Req. 2

The transaction between the shareholder and his neighbor (event *g*) was not included in the spreadsheet. Because event *(g)* occurs between an owner and another person, the separate entity assumption implies this transaction does not affect the business.

Req. 3

(a) Beginning total assets $500,000 + Changes $249,000 = $749,000 Ending total assets

(b) Beginning total liabilities $200,000 + Changes $149,000 = $349,000 Ending total liabilities

(c) Ending total assets $749,000 – Ending total liabilities $349,000 = Ending shareholders' equity $400,000

Req. 4

As of December 31, 2014, Whistle Stop's assets were financed more by shareholders' equity than liabilities. Whistle Stop's shareholders' equity financed $400,000 of the company's total assets and liabilities financed $349,000.

PA2-2

Req. 1

	Assets			=	Liabilities	+	Shareholders' Equity	
	Cash	**Equipment**	**Building**		**Notes Payable**		**Contributed Capital**	**Retained Earnings**
(a)	-5,000			=	-5,000			
(b)		+2,000		=	+2,000			
(c)		No effect		=				
(d)	–1,000	+1,000		=				
(e)	-500			=				-500
(f)	–10,000		+50,000	=	+40,000			
(g)	-5,000			=			-5,000	
	-21,500	+3,000	+50,000	=	+37,000		-5,000	-500
Changes	+$31,500				+$37,000		-$5,500	

PA2-2 (continued)

Req. 2

The transaction has no effect on the financial statements as no cash was received, the asset was fully depreciated leaving no net balance to be removed from Equipment, and therefore no gain or loss on disposal (no effect on retained earnings).

Req. 3

(a) Beginning total assets $100,000 + Changes $31,500 = $131,500 Ending total assets

(b) Beginning total liabilities $25,000 + Changes $37,000 = $62,000 Ending total liabilities

(c) Ending total assets $131,500 – Ending total liabilities $62,000 = Ending shareholders' equity $69,500

Req. 4

As of December 31, 2014, Lex Systems Inc.'s assets were financed less by liabilities than shareholders' equity. Lex System Inc.'s shareholders' equity financed $69,500 of the company's total assets and liabilities financed $62,000.

PA2-3

Req. 1

	Assets		=	Liabilities		+	Shareholders' Equity	
a.	Cash	+400,000					Contributed Capital	+400,000
b.	Cash	+90,000		Notes Payable	+90,000			
c.	Factory Building Cash	+182,000 -82,000		Notes Payable	+100,000			
d.	Equipment Cash	+200,000 -200,000						
e.	Supplies	+30,000		Accounts Payable	+30,000			

PA2-3 (continued)

Req. 2

a.	*dr* Cash (+A)	400,000	
	cr Contributed Capital (+SE)		400,000
b.	*dr* Cash (+A)	90,000	
	cr Notes Payable (+L)		90,000
c.	*dr* Factory Building (+A)	182,000	
	cr Cash (-A)		82,000
	cr Notes Payable (+L)		100,000
d.	*dr* Equipment (+A)	200,000	
	cr Cash (-A)		200,000
e.	*dr* Supplies (+A)	30,000	
	cr Accounts Payable (+L)		30,000

PA2-3 (continued)

Req. 3

Cash

Beg.	26,000		
(a)	400,000	82,000	(c)
(b)	90,000	200,000	(d)
End.	234,000		

Supplies

Beg.	7,000		
(e)	30,000		
End.	37,000		

Equipment

Beg.	118,000		
(d)	200,000		
End.	318,000		

Factory Building

Beg.	100,000		
(c)	182,000		
End.	282,000		

Land

Beg.	200,000		
End.	200,000		

Accounts Payable

		10,000	Beg.
		30,000	(e)
		40,000	End.

Notes Payable

		2,000	Beg.
		90,000	(b)
		100,000	(c)
		192,000	End.

Contributed Capital

		180,000	Beg.
		400,000	(a)
		580,000	End.

Retained Earnings

		259,000	Beg.
		259,000	End.

PA2-3 (continued)

Req. 4

DELIBERATE SPEED CORPORATION
Balance Sheet
At July 31, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 234,000	Accounts Payable	$ 40,000
Supplies	37,000	*Total Current Liabilities*	40,000
Total Current Assets	271,000		
		Notes Payable	192,000
		Total Liabilities	232,000
Equipment	318,000	*Shareholders' Equity*	
Factory Building	282,000	Contributed Capital	580,000
Land	200,000	Retained Earnings	259,000
		Total Shareholders' Equity	839,000
Total Assets	$ 1,071,000	*Total Liabilities & Shareholders' Equity*	$ 1,071,000

PA2-3 (continued)

Req. 5

As of July 31, 2014, most of DSC's financing has come from shareholders' equity. Shareholders' equity has financed $839,000 of DSC's assets and liabilities financed $232,000.

PA2-4

Req. 1

	Assets		=	Liabilities		+	Shareholders' Equity	
a.	Cash	-15,000					Retained Earnings	-15,000
b.	Cash	-10,000		Notes Payable	-10,000			
c.	Cash	+50,000					Contributed Capital	+50,000
d.	Equipment Cash	+30,000 -3,000		Notes Payable	+27,000			
e.	Supplies	+3,000		Accounts Payable	+3,000			

Req. 2

a.	*dr* Retained earnings (-SE)	15,000	
	cr Cash (-A)		15,000
b.	*dr* Notes Payable (-L)	10,000	
	cr Cash (-A)		10,000
c.	*dr* Cash (+A)	50,000	
	cr Contributed Capital (+A)		50,000
d.	*dr* Equipment (+A)	30,000	
	cr Notes Payable (+L)		27,000
	cr Cash (-A)		3,000
e.	*dr* Supplies (+A)	3,000	
	cr Accounts Payable (+L)		3,000

PA2-4 (continued)

Req. 3

Cash

		9,000	Beg.
(c)	50,000	15,000	(a)
		10,000	(b)
		3,000	(d)
End.	13,000		

Supplies

Beg.	3,000	
(e)	3,000	
End.	6,000	

Equipment

Beg.	47,000	
(d)	30,000	
End.	77,000	

Buildings

Beg.	50,000	
End.	50,000	

Land

Beg.	100,000	
End.	100,000	

Accounts Payable

		20,000	Beg.
		3,000	(e)
		23,000	End.

Notes Payable

		22,000	Beg.
(b)	10,000		
		27,000	(d)
		39,000	End.

Contributed Capital

		75,000	Beg.
		50,000	(c)
		125,000	End.

Retained Earnings

		74,000	Beg.
(a)	15,000		
		59,000	End.

PA2-4 (continued)

Req. 4

FRUITOPIA FARMS
Balance Sheet
At February 28, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 13,000	Accounts Payable	$ 23,000
Supplies	6,000	Current portion of note payable	27,000
Total Current Assets	19,000	*Total Current Liabilities*	50,000
		Notes Payable	12,000
		Total Liabilities	62,000
Equipment	77,000	*Shareholders' Equity*	
Buildings	50,000	Contributed Capital	125,000
Land	100,000	Retained Earnings	59,000
		Total Shareholders' Equity	184,000
Total Assets	$ 246,000	*Total Liabilities & Shareholders' Equity*	$ 246,000

Req. 5

As of February 28, 2014, most of Fruitopia Farms' financing has come from shareholders' equity. Shareholders' equity has financed $184,000 of Fruitopia Farms Farms' assets and liabilities financed $62,000.

PA2-5

Req. 1

	Assets		=	Liabilities		+	Shareholders' Equity	
a.	Other Assets Cash	+2 -2						
b.	Cash	+2					Contributed Capital	+2
c.	Property, Plant and Equipment Cash	+11 -2		Long-term Debt	+9			
d.	Cash Other Assets	+1 -1						
e.	*No effect.*							

Req. 2

a.	*dr* Other Assets(+A)	2	
	cr Cash (-A)		2
b.	*dr* Cash (+A)	2	
	cr Contributed Capital (+SE)		2
c.	*dr* Property, Plant, and Equipment (+A)	11	
	cr Cash (–A)		2
	cr Long-term Debt (+L)		9
d.	*dr* Cash (+A)	1	
	cr Other Assets (-A)		1
e.	No effect.		

PA2-5 (continued)

Req. 3

Cash

Beg.	80	
(b)	2	2 (a)
(d)	1	2 (c)
End.	79	

Accounts Receivable

Beg.	12	
End.	12	

Inventories

Beg.	188	
End.	188	

Other Current Assets

Beg.	26	
End.	26	

Property, Plant, and Equipment

Beg.	355	
(c)	11	
End.	366	

Other Assets

Beg.	99	
(a)	2	1 (d)
End.	100	

Accounts Payable

	26 Beg.
	26 End.

Wages and Other Expenses Payable

	111 Beg.
	111 End.

Long-term Debt

	203 Beg.
	9 (c)
	212 End.

Other Long-term Liabilities

	44 Beg.
	44 End.

Contributed Capital

	356 Beg.
	2 (b)
	358 End.

Retained Earnings

	20 Beg.
	20 End.

Req. 4

The negotiations to purchase a sawmill were not included with the transactions. Since event (e) is just at the negotiation stage, it involves no exchange of cash, goods, or services and thus is not a transaction.

PA2-5 (continued)

Req. 5

ALEZANDRAY'S INTERIORS, INC.
Balance Sheet
At December 31, 2014
(in millions of dollars)

Assets	
Current Assets	
Cash	$ 79
Accounts Receivable	12
Inventories	188
Other Current Assets	26
Total Current Assets	305
Property, Plant, and Equipment	366
Other Assets	100
Total Assets	$771
Liabilities	
Current Liabilities	
Accounts Payable	$ 26
Wages and Other Expenses Payable	111
Total Current Liabilities	137
Long-term Debt	212
Other Long-term Liabilities	44
Total Liabilities	393
Shareholders' Equity	
Contributed Capital	358
Retained Earnings	20
Total Shareholders' Equity	378
Total Liabilities and Shareholders' Equity	$771

Req. 6

As of December 31, 2014, the financing for Alezandray's investment in assets has come primarily from liabilities. Liabilities financed $393,000,000 of the company's total assets and shareholders' equity financed $378,000,000.

ANSWERS TO GROUP B PROBLEMS

PB2-1

Req. 1

	Assets			=	Liabilities	+	Shareholders' Equity	
	Cash	Equipment	Building		Notes Payable		Contributed Capital	Retained Earnings
(a)	+109,000			=			+109,000	
(b)	+186,000			=	+186,000			
(c)	No effect			=				
(d)	–200,000		+200,000	=				
(e)	–12,000	+44,000		=	+32,000			
(f)	+4,000	–4,000		=				
	+87,000	+40,000	+200,000	=	+218,000		+109,000	
Changes		+ $327,000			+ $218,000		+$109,000	

Req. 2

The transaction between the shareholder and another investor (event *c*) was not included in the spreadsheet. Because event *(c)* occurs between an owner and another investor, the separate entity assumption implies this transaction does not affect the business.

Req. 3

(a) Beginning total assets $2,255,000 + Changes $327,000 = $2,582,000 Ending total assets

(b) Beginning total liabilities $1,780,000 + Changes $218,000 = $1,998,000 Ending total liabilities

(c) Ending total assets $2,582,000 – Ending total liabilities $1,998,000 = Ending shareholders' equity $584,000

PB2-1 (continued)

Req. 4

As of December 31, 2014, Swiss Watch Corporation's assets were financed primarily by liabilities. Swish Watch Corporation's liabilities financed $1,998,000 of the company's total assets and shareholders' equity financed $584,000.

PB2-2

Req. 1

	Assets			=	**Liabilities**	+	**Shareholders' Equity**	
	Cash	**Equipment**	**Building**		**Notes Payable**		**Contributed Capital**	**Retained Earnings**
(a)	-50,000			=	-50,000			
(b)	-25,000	+25,000		=				
(c)		No effect		=				
(d)	–100,000	+100,000		=				
(e)	–50,000			=				-50,000
(f)	-100,000		+500,000	=	+400,000			
(g)	+100,000			=	+100,000			
	-225,000	+125,000	+500,000	=	+450,000			-50,000
Changes		$400,000			+ $450,000		-$50,000	

Req. 2

The transaction has no effect on the financial statements as no cash was received, the asset was fully depreciated leaving no net balance to be removed from Equipment, and therefore no gain or loss on disposal (no effect on retained earnings).

PB2-2 (continued)

Req. 3

(a) Beginning total assets $746,000 + Changes $400,000 = $1,146,000 Ending total assets

(b) Beginning total liabilities $534,000 + Changes $450,000 = $984,000 Ending total liabilities

(c) Ending total assets $1,146,000 – Ending total liabilities $984,000 = Ending shareholders' equity $162,000

Req. 4

As of December 31, 2014, Blockhead and Sons' assets were financed primarily by liabilities. Blockhead and Sons' liabilities financed $984,000 of the company's total assets and shareholders' equity financed $162,000.

PB2-3

Req. 1

	Assets		=	Liabilities		+	Shareholders' Equity	
a.	Cash	+600,000					Contributed Capital	+600,000
b.	Cash	+60,000		Notes Payable	+60,000			
c.	Factory Building Cash	+166,000 -66,000		Notes Payable	+100,000			
d.	Equipment Cash	+90,000 -90,000						
e.	Supplies	+90,000		Accounts Payable	+90,000			

PB2-3 (continued)

Req. 2

		Debit	Credit
a.	*dr* Cash (+A)	600,000	
	cr Contributed Capital (+SE)		600,000
b.	*dr* Cash (+A)	60,000	
	cr Notes Payable (+L)		60,000
c.	*dr* Factory Building (+A)	166,000	
	cr Cash (-A)		66,000
	cr Notes Payable (+L)		100,000
d.	*dr* Equipment (+A)	90,000	
	cr Cash (-A)		90,000
e.	*dr* Supplies (+A)	90,000	
	cr Accounts Payable (+L)		90,000

Req. 3

Cash

	Debit	Credit	
Beg.	90,000		
(a)	600,000	66,000	(c)
(b)	60,000	90,000	(d)
End.	594,000		

Supplies

	Debit	Credit
Beg.	9,000	
(e)	90,000	
End.	99,000	

Equipment

	Debit	Credit
Beg.	148,000	
(d)	90,000	
End.	238,000	

Factory Building

	Debit	Credit
Beg.	500,000	
(c)	166,000	
End.	666,000	

Land

	Debit	Credit
Beg.	444,000	
End.	444,000	

Accounts Payable

Debit	Credit	
	50,000	Beg.
	90,000	(e)
	140,000	End.

Notes Payable

Debit	Credit	
	5,000	Beg.
	60,000	(b)
	100,000	(c)
	165,000	End.

Contributed Capital

Debit	Credit	
	170,000	Beg.
	600,000	(a)
	770,000	End.

Retained Earnings

Debit	Credit	
	966,000	Beg.
	966,000	End.

PB2-3 (continued)

Req. 4

BEARINGS & BRAKES CORPORATION
Balance Sheet
At July 31, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 594,000	Accounts Payable	$ 140,000
Supplies	99,000	*Total Current Liabilities*	140,000
Total Current Assets	693,000		
		Notes Payable	165,000
		Total Liabilities	305,000
Equipment	238,000	*Shareholders' Equity*	
Factory Building	666,000	Contributed Capital	770,000
Land	444,000	Retained Earnings	966,000
		Total Shareholders' Equity	1,736,000
Total Assets	$ 2,041,000	*Total Liabilities & Shareholders' Equity*	$ 2,041,000

Req. 5

As of July 31, 2014, most of B&B's financing has come from shareholders' equity. Shareholders' equity has financed $1,736,000 of B&B's assets and liabilities financed $305,000.

PB2-4

Req. 1

	Assets		=	Liabilities		+	Shareholders' Equity	
a.	Cash	+150,000		Notes Payable	+150,000			
b.	Cash	-250,000		Notes Payable	-250,000			
c.	Cash	+150,000					Contributed Capital	+150,000
d.	Equipment Cash	+30,000 -3,000		Notes Payable	+27,000			
e.	Supplies	+30,000		Accounts Payable	+30,000			

Req. 2

a.	*dr* Cash (+A)	150,000	
	cr Notes Payable (+L)		150,000
b.	*dr* Notes Payable (-L)	250,000	
	cr Cash (-A)		250,000
c.	*dr* Cash (+A)	150,000	
	cr Contributed Capital (+SE)		150,000
d.	*dr* Equipment (+A)	30,000	
	cr Cash (-A)		3,000
	cr Notes Payable (+L)		27,000
e.	*dr* Supplies (+A)	30,000	
	cr Accounts Payable (+L)		30,000

PB2-4 (continued)

Req. 3

Cash

	Debit	Credit	
Beg.	24,000		
(a)	150,000		
(c)	150,000	250,000	(b)
		3,000	(d)
End.	71,000		

Supplies

	Debit	Credit	
Beg.	99,000		
(e)	30,000		
End.	129,000		

Equipment

	Debit	Credit	
Beg.	208,000		
(d)	30,000		
End.	238,000		

Buildings

	Debit	Credit	
Beg.	500,000		
End.	500,000		

Land

	Debit	Credit	
Beg.	144,000		
End.	144,000		

Accounts Payable

	Debit	Credit	
		156,000	Beg.
		30,000	(e)
		186,000	End.

Notes Payable

	Debit	Credit	
		583,000	Beg.
(b)	250,000	150,000	(a)
		27,000	(c)
		510,000	End.

Contributed Capital

	Debit	Credit	
		170,000	Beg.
		150,000	(c)
		320,000	End.

Retained Earnings

	Debit	Credit	
		66,000	Beg.
		66,000	End.

PB2-4 (continued)

Req. 4

LAKESHORE COTTAGES
Balance Sheet
At February 28, 2014

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 71,000	Accounts Payable	$ 186,000
Supplies	129,000	*Total Current Liabilities*	186,000
Total Current Assets	200,000		
		Notes Payable	510,000
		Total Liabilities	696,000
Equipment	238,000	*Shareholders' Equity*	
Buildings	500,000	Contributed Capital	320,000
Land	144,000	Retained Earnings	66,000
		Total Shareholders' Equity	386,000
Total Assets	$ 1,082,000	*Total Liabilities & Shareholders' Equity*	$ 1,082,000

Req. 5

As of February 28, 2014, most of Lakeshore Cottages' financing has come from liabilities. Shareholders' equity has financed $386,000 of Lakeshore Cottages' assets and liabilities financed $696,000.

PB2-5

Req. 1

	Assets		=	Liabilities		+	Shareholders' Equity	
a.	Other Long-term Assets	+10,000						
	Cash	-10,000						
b.	Cash	+5,100					Contributed Capital	+5,100
c.	Property, Plant and Equipment	+20,700		Long-term Debt	+9,500			
	Cash	-11,200						
d.	Cash	+6,000						
	Other Long-term Assets	-6,000						
e.	*No effect.*							

Req. 2

a.	*dr* Other Long-term Assets (+A)	10,000	
	cr Cash (-A)		10,000
b.	*dr* Cash (+A)	5,100	
	cr Contributed Capital (+SE)		5,100
c.	*dr* Property, Plant, and Equipment (+A)	20,700	
	cr Cash (–A)		11,200
	cr Long-term Debt (+L)		9,500
d.	*dr* Cash (+A)	6,000	
	cr Other Long-term Assets (–A)		6,000

e. No effect.

PB2-5 (continued)

Req. 3

Cash

Beg.	269,800		
(b)	5,100	10,000	(a)
(d)	6,000	11,200	(c)
End.	259,700		

Accounts Receivable

Beg.	329,500		
End.	329,500		

Inventories

Beg.	692,800		
End.	692,800		

Other Current Assets

Beg.	455,900		
End.	455,900		

Property, Plant, and Equipment

Beg.	2,956,400		
(c)	20,700		
End.	2,977,100		

Other Long-term Assets

Beg.	968,200		
(a)	10,000	6,000	(d)
End.	972,200		

Accounts Payable

		324,900	Beg.
		324,900	End.

Short-term Bank Loans

		1,864,800	Beg.
		1,864,800	End.

Long-term Debt

		549,600	Beg.
		9,500	(c)
		559,100	End.

Other Long-term Liabilities

		442,400	Beg.
		442,400	End.

Contributed Capital

		40,100	Beg.
		5,100	(b)
		45,200	End.

Retained Earnings

		2,450,800	Beg.
		2,450,800	End.

Req. 4

The negotiations to purchase a coffee farm were not included in the transactions. Because event (e) involves only negotiations, it does not constitute an exchange of cash, goods, or services and thus is not a transaction.

PB2-5 (continued)

Req. 5

STARBUCKS
Balance Sheet
At December 31, 2014
(in thousands of dollars)

Assets	
Current Assets	
Cash	$ 259,700
Accounts Receivable	329,500
Inventories	692,800
Other Current Assets	455,900
Total Current Assets	1,737,900
Property, Plant, and Equipment	2,977,100
Other Long-term Assets	972,200
Total Assets	$ 5,687,200
Liabilities	
Current Liabilities	
Accounts Payable	$ 324,900
Short-term Bank Loans	1,864,800
Total Current Liabilities	2,189,700
Long-term Debt	559,100
Other Long-term Liabilities	442,400
Total Liabilities	3,191,200
Shareholders' Equity	
Contributed Capital	45,200
Retained Earnings	2,450,800
Total Shareholders' Equity	2,496,000
Total Liabilities and Shareholders' Equity	$ 5,687,200

Req. 6

As of December 31, 2014, financing for Starbucks' assets has come primarily from liabilities. Liabilities financed $3,191,200,000 of the company's total assets and shareholders' equity financed $2,496,000,000.

ANSWERS TO SKILLS DEVELOPMENT CASES

S2-1

Req. 1

The company's fiscal year end for the most recent year is December 29, 2013. This date can be found on the balance sheet (and on the other financial statements). Note that last year's fiscal year end was on December 30. For Rona, the exact date of the fiscal year end varies from year to year, but it always falls near the end of December.

Req. 2

Assets = Liabilities + Shareholders' Equity
$2,342,536,000 = $671,534,000 + $1,671,002,000

Req. 3

The amount in the company's current liabilities is $422,472,000. Yes, current assets are sufficient to cover current liabilities. Current assets are $1,035,790,000 which is greater than current liabilities. In fact, the current ratio is 2.45 ($1,035,790 ÷ $422,472).

Req. 4

Financing for the company's investment in assets has come primarily from shareholders' equity. Rona's shareholders' (owners') equity has financed $1,671,002,000 of the total assets of the company whereas liabilities have financed only $671,534,000.

S2-2

Req. 1

Rona's:
Assets = Liabilities + Shareholders' Equity
$2,342,536,000 = $671,534,000 + $1,671,002,000

The Home Depot:
Assets = Liabilities + Shareholders' Equity
$40,518,000,000 = $27,996,000,000 + $12,522,000,000

The Home Depot is larger in terms of total assets of $40,518,000,000 compared to Rona's assets of $2,342,536,000 .

S2-2 (continued)

Req. 2

Rona's current liabilities of $422,472,000 are less than the $10,749,000,000 reported by The Home Depot.

The Home Depot:
Current Ratio = $\frac{\$15,279}{\$10,749} = 1.42$

Rona's:
Current Ratio = $\frac{\$1,035,790}{\$\ 422,472} = 2.45$

Rona has a larger current ratio, implying better ability to pay liabilities as they come due.

Req. 3

The amount reported for inventories on the balance sheet represents the original cost of the products to The Home Depot, not the expected selling price. The cost principle requires that transactions be recorded at their original cost to the company.

Req. 4

Financing for The Home Depot's investment in assets has come primarily from liabilities. The Home Depot's shareholders' equity has financed $12,522,000,000 of the total assets of the company and liabilities have financed $27,996,000,000.

The more the company has in assets and the less it has in liabilities, the more likely the company will be able to pay all that it owes to creditors, making the company a less risky investment. To predict whether a company is likely to pay all that it owes to creditors and still have something left over to pay out to owners, creditors and investors look at relative amounts of assets, liabilities, and shareholders' equity. To determine the percentage of assets financed by creditors, simply divide total liabilities by total assets and multiply by 100.

Rona $\frac{\text{Total liabilities}}{\text{Total assets}} \times 100 = \frac{671,534,000}{2,342,536,000} \times 100 = 28.7\%$

Home Depot $\frac{\text{Total liabilities}}{\text{Total assets}} \times 100 = \frac{27,996,000,000}{40,518,000,000} \times 100 = 69.1\%$

This places Rona in a less risky financial position for investors because it has a smaller percentage of its assets financed by creditors (or liabilities).

S2-3

The solution to this team project will depend on the companies and/or accounting period selected for analysis.

S2-4

Req. 1

Assets = Liabilities + Shareholders' Equity
$15,000 = $15,000 + 0

Ponzi received $15,000 cash ($5,000 from each of the three lenders) in exchange for a promise to repay that money in 90 days. The 50% interest that Ponzi is paying is not a factor in the accounting equation yet because interest is not owed until time has passed. As of December 27, 1919, the interest is just a promise and so no transaction has occurred.

Req. 2

If two of the lenders are repaid their original loan plus the 50% interest there will be no cash left in the business to repay the third lender. It was possible for Ponzi to remain in "business" for 8 months because he continued to collect more money from new lenders, which was used to repay the other lenders.

Req. 3

With the exception of Ponzi and his first lenders (family and friends), almost everyone who provided funds to him was harmed financially. Beyond that, the credibility of all new businesses and their founders was called into question. Ultimately, schemes like Ponzi's led to the creation of accounting rules and stock regulation, but not until thousands of innocent people lost millions of dollars.

S2-5

Req. 1

The president is concerned with the amount of assets that are reported on the balance sheet because investors and creditors judge the riskiness of the company by comparing the amount of recorded assets to liabilities. The greater the amount of the company's assets for a given amount of liabilities, the less risky the company appears to investors and creditors.

Req. 2

The accounting concept that relates to reporting "Intellectual Abilities" as an asset is measurement and, specifically, the cost principle. In the case of "Intellectual Abilities," the company has not acquired this asset through an identifiable transaction (and there exists no known cost for this asset), so it cannot be reported on the balance sheet as an asset.

Req. 3

The accounting concept that relates to reporting the land is conservatism, which requires that when there is uncertainty about the amount at which assets and liabilities should be reported, the least optimistic measurement should be used. In this case, if the drop in land value is judged to be permanent, conservatism would require that the amount recorded for land be reduced to the lower amount.

Req. 4

Parties that might be hurt by the president's suggestions include investors, lenders, and other creditors. The bank in particular could be hurt because its managers will consider the company's recorded assets as a benchmark for assessing the company's credit risk. Also, if you were to go along with the president's requests, you also could be personally hurt because you might be charged as an accomplice to fraudulent financial reporting.

You should not report the "Intellectual Abilities" on the balance sheet. Also, you should insist that the amount reported for land be reduced to the appraiser's estimates, unless the president can provide evidence that the decline in value is not permanent.

S2-6

The major deficiency in this balance sheet is the inclusion of the owner's personal residence as a business asset. Under the separate entity assumption, each business must be accounted for as a separate organization, apart from its owners. The improper inclusion of this asset as part of Betsey Jordan's business overstates total assets by $300,000; total assets should be $105,000 rather than $405,000, and shareholder's equity should be only $5,000, rather than $305,000. Betsey Jordan's business is far riskier than suggested by this balance sheet.

S2-7

S2-7.xls [Compatibility Mode] - Microsoft Excel

Elizabeth Arden	Assets											
	Cash		Accounts Receivable		Inventories		Other Current Assets		Property and Equipment		Other Noncurrent Assets	
	Debit(+)	Credit(-)	Debit(+)	Credit(-)	Debit(+)	Credit(-)	Debit(+)	Credit(-)	Debit(+)	Credit(-)	Debit(+)	Credit(-)
September 30 Balances	14,300		285,400		199,700		31,600		35,800		224,100	
October Transactions:												
(a)									15,000			
(b)		7,000										
(c)	20,000											
(d)		8,000							8,000			
October 31 Balances	19,300		285,400		199,700		31,600		58,800		224,100	

S2-7.xls [Compatibility Mode] - Microsoft Excel

=	Liabilities										+	Stockholders' Equity			
	Short-Term Notes Payable		Accounts Payable		Other Current Liabilities		Long-Term Debt		Other Long-Term Liabilities			Contributed Capital		Retained Earnings	
	Debit(-)	Credit(+)	Debit(-)	Credit(+)	Debit(-)	Credit(+)	Debit(-)	Credit(+)	Debit(-)	Credit(+)		Debit(-)	Credit(+)	Debit(-)	Credit(+)
		125,000		111,800		75,700		323,600		10,100			101,800		42,900
								15,000							
	7,000														
													20,000		
		118,000		111,800		75,700		338,600		10,100			121,800		42,900

ANSWERS TO CONTINUING CASE

CC-2

Req. 1

a)	*dr*	Cash (+A)	80,000	
		cr Contributed Capital (+SE)		80,000
b)	*dr*	Land (+A)	9,000	
		cr Note Payable (+L)		7,000
		cr Cash (-A)		2,000
c)	This is an exchange of only promises, so it is not a transaction.			
d)	*dr*	Soaps and Aromatherapy Supplies (+A)	1,000	
		cr Accounts Payable (+L)		1,000
e)	*dr*	Equipment (+A)	18,000	
		cr Cash (-A)		18,000
f)	No transaction. Separate entity assumption.			
g)	*dr*	Accounts Payable (-L)	350	
		cr Cash (-A)		350

CC-2 (continued)

Req. 2

Cash

Beg.	0		
(a)	80,000	2,000	(b)
		18,000	(e)
		350	(g)
End.	59,650		

Soaps and Aromatherapy Supplies

Beg.	0	
(d)	1,000	
End.	1,000	

Equipment

Beg.	0	
(e)	18,000	
End.	18,000	

Land

Beg.	0	
(b)	9,000	
End.	9,000	

Accounts Payable

		0	Beg.
(g)	350	1,000	(d)
		650	End.

Note Payable

	0	Beg.
	7,000	(b)
	7,000	End.

Contributed Capital

	0	Beg.
	80,000	(a)
	80,000	End.

CC-2 (Continued)

Req. 3

NICOLE'S GETAWAY SPA
Balance Sheet
At April 30, 2014

Assets	
Current Assets	
Cash	$59,650
Soaps and Aromatherapy Supplies	1,000
Total Current Assets	60,650
Equipment	18,000
Land	9,000
Total Assets	$87,650
Liabilities	
Current Liabilities	
Accounts Payable	$ 650
Total Current Liabilities	650
Notes Payable	7,000
Total Liabilities	7,650
Shareholders' Equity:	
Contributed Capital	80,000
Total Shareholders' Equity	80,000
Total Liabilities and Shareholders' Equity	$87,650

Req. 4

The current ratio indicates the proportion of current assets relative to current liabilities. As of April 30, 2014, NGS has 93.3 times more current assets than current liabilities ($60,650 ÷ $650 = 93.3). Clearly, NGS is presently able to pay its current liabilities with no difficulty. Nevertheless, this is likely to change in the future when some of the initial start-up cash is used to operate the company.