

***College Accounting 1st edition Weygandt Solutions
Manual***

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CHAPTER 2

The Accounting Equation and Transaction Analysis

ANSWERS TO QUESTIONS

1. The basic accounting equation is $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.

LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

2. Assets are resources owned by a business. Liabilities are creditor claims against total assets. Put more simply, liabilities are existing debts and obligations. Owner's equity is the owner's claim against total assets.

LO1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

3. Owner's equity is affected by owner's investments, drawings, revenues, and expenses.

LO1,3 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

4. The liabilities are: (b) Accounts Payable and (g) Salaries and Wages Payable.

LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting

5. Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the Equipment account which is offset by a decrease in the Cash account is a specific example.

LO2 BT: C Difficulty: Medium TOT: 3 min. AACSB: None AICPA FC: Reporting

6. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic accounting equation.

- (a) The death of the owner of the company is not a business transaction as it does not affect the basic accounting equation.
- (b) Supplies purchased on account is a business transaction as it affects the basic accounting equation.
- (c) An employee being fired is not a business transaction as it does not affect the basic accounting equation.
- (d) A withdrawal of cash from the business is a business transaction as it affects the basic accounting equation.

LO2 BT: C Difficulty: Medium TOT: 4 min. AACSB: None AICPA FC: Reporting

7.
 - (a) Decrease assets and decrease owner's equity.
 - (b) Increase assets and decrease assets.
 - (c) Increase assets and increase owner's equity.
 - (d) Decrease assets and decrease liabilities.

LO2 BT: C Difficulty: Medium TOT: 3 min. AACSB: None AICPA FC: Reporting

8. No, this treatment is not proper. While the transaction does involve a receipt of cash, it does not represent revenues. Revenues increase owner's equity as a result of business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by the owner in the business.

LO3 BT: C Difficulty: Medium TOT: 3 min. AACSB: None AICPA FC: Reporting

9. (a) Revenue. (d) Asset.
 (b) Asset. (e) Owner's equity.
 (c) Expense. (f) Liability.

LO4 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

10. (a) Ending Owner's Equity = Beginning Owner's Equity + Owner's Capital – Owner's Drawings
 + Revenues – Expenses
 With Revenues indicated by X:
 $\$198,000 = \$168,000 + \$0 - \$0 + X - \$20,000$
 Solving for X: $\$198,000 - \$168,000 + \$20,000 = \$50,000$
 Revenues = \$50,000
- (b) Ending Owner's Equity = Beginning Owner's Equity + Owner's Capital – Owner's Drawings
 + Revenues – Expenses
 With Revenues indicated by X:
 $\$198,000 = \$168,000 + \$13,000 - \$0 + X - \$20,000$
 Solving for X: $\$198,000 - \$168,000 - \$13,000 + \$20,000 = \$37,000$
 Revenues = \$37,000

LO4 BT: AP Difficulty: Medium TOT: 4 min. AACSB: Analytic AICPA FC: Measurement

11. (a) Total revenues (\$20,000 + \$70,000) \$90,000
 (\$20,000 + \$70,000)
 (Cash rev. + Rev. on acct.)
- (b) Total expenses (\$26,000 + \$40,000)..... \$66,000
 (\$26,000 + \$40,000)
 (Cash exp. + Exp. on acct.)
- (c) Total revenues \$90,000
 Total expenses..... 66,000
 Net income..... \$24,000
 (\$90,000 - \$66,000)
 (Tot. rev. – Tot. exp.)

LO4 BT: AN Difficulty: Medium TOT: 4 min. AACSB: Analytic AICPA FC: Measurement

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2.1

(a) $\$90,000 - \$50,000 = \$40,000$ (Owner's equity).

$(\$90,000 - \$50,000 = \$40,000)$

(Assets – Liabl. = Owner's equity)

(b) $\$44,000 + \$70,000 = \$114,000$ (Assets).

$(\$44,000 + \$70,000 = \$114,000)$

(Liabl. + Owner's equity = Assets)

(c) $\$94,000 - \$53,000 = \$41,000$ (Liabilities).

$(\$94,000 - \$53,000 = \$41,000)$

(Assets – Owner's equity = Liabl.)

LO1 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Measurement

BRIEF EXERCISE 2.2

(a) $\$120,000 + \$232,000 = \$352,000$ (Total assets).

$(\$120,000 + \$232,000 = \$352,000)$

(Liabl. + Owner's equity = Assets)

(b) $\$190,000 - \$91,000 = \$99,000$ (Total liabilities).

$(\$190,000 - \$91,000 = \$99,000)$

(Assets – Owner's equity = Liabl.)

(c) $\$800,000 - 0.5(\$800,000) = \$400,000$ (Owner's equity).

$[\$800,000 - (\$800,000 \times .5) = \$400,000]$

[Assets – (Assets $\times$.5) = Owner's equity]

LO1 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Measurement

BRIEF EXERCISE 2.3

**(a) $(\$800,000 + \$150,000) - (\$300,000 - \$60,000) = \$710,000$
(Owner's equity).**

$[(\$800,000 + \$150,000) - (\$300,000 - \$60,000) = \$710,000]$

[(Beg. assets + Incr. in assets) – (Beg. liabl. – Decr. in liabl.) = End. owner's equity]

**(b) $(\$300,000 + \$100,000) + (\$800,000 - \$300,000 - \$70,000) = \$830,000$
(Assets).**

$[(\$300,000 + \$100,000) + (\$800,000 - \$300,000 - \$70,000) = \$830,000]$

[(Beg. liabl. + Incr. in liabl.) + (Beg. assets – Beg. liabl. – Decr. in owner's equity) = End. assets]

**(c) $(\$800,000 - \$80,000) - (\$800,000 - \$300,000 + \$120,000) = \$100,000$
(Liabilities).**

$[(\$800,000 - \$80,000) - (\$800,000 - \$300,000 + \$120,000) = \$100,000]$

[(Beg. assets – Decr. in assets) – (Beg. assets – Beg. liabl. + Incr. in owner's equity) = End. liabl.]

LO1 BT: AP Difficulty: Medium TOT: 4 min. AACSB: Analytic AICPA FC: Measurement

BRIEF EXERCISE 2.4

<u>A</u>	(a) Accounts Receivable	<u>A</u>	(d) Supplies
<u>L</u>	(b) Salaries and Wages Payable	<u>OE</u>	(e) Owner's Capital
<u>A</u>	(c) Equipment	<u>L</u>	(f) Notes Payable

LO2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.5

(a) Purchase cleaning supplies on account. Yes, purchasing cleaning supplies increases assets for the supplies, and increases liabilities for the amount paid on account.

(b) Visit customer's house to provide an estimate. No, providing an estimate to a customer does affect assets, liabilities, or owner's equity. This may lead to a transaction in the future when service is performed for the customer.

(c) Pay for phone bill. Yes, paying a phone bill decreases assets for cash paid and may decrease liabilities for the bill that is paid.

(d) Hire a new employee. No, hiring an employee does not affect assets, liabilities, or owner's equity. This will lead to a transaction in the future once the employee has worked and is paid cash.

LO2 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.6

1. Increase in assets and increase in owner's equity.
2. Increase in assets and decrease in assets.
3. Increase in assets and increase in liabilities.

LO2 BT: AN Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.7

<u>E</u>	(a) Advertising Expense	<u>D</u>	(e) Owner's Drawings
<u>R</u>	(b) Service Revenue	<u>R</u>	(f) Rent Revenue
<u>E</u>	(c) Insurance Expense	<u>E</u>	(g) Utilities Expense
<u>E</u>	(d) Salaries and Wages Expense		

LO3 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.8

<u>L</u>	(a) Notes Payable	<u>A</u>	(d) Cash
<u>E</u>	(b) Advertising Expense	<u>R</u>	(e) Service Revenue
<u>OE</u>	(c) Owner's Capital		

LO3 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.9

<u>R</u>	(a) Received cash for services performed.
<u>NOE</u>	(b) Paid cash to purchase equipment.
<u>E</u>	(c) Paid employee salaries.

LO3 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.10

				Owner's Equity			
	Assets	=	Liabilities	+	Owner's Capital	-	Owner's Drawings + Revenues - Expenses
(a)	X	=	\$90,000	+	\$150,000	-	\$40,000 + \$450,000 - \$320,000
	X	=	\$90,000	+	\$240,000		
	X	=	<u>\$330,000</u>				

(Assets = \$90,000 + \$150,000 - \$40,000 + \$450,000 - \$320,000)

(Assets = Liabl. + Owner's Cap. - Owner's Draw. + Rev. - Exp.)

(b)	\$57,000	=	X	+	\$25,000	-	\$7,000 + \$52,000 - \$35,000
	\$57,000	=	X	+	\$35,000		
	X	=	<u>\$22,000</u>				(\$57,000 - \$35,000)

(\$57,000 = Liabl. + \$25,000 - \$7,000 + \$52,000 - \$35,000)

(Assets = Liabl. + Owner's Cap. - Owner's Draw. + Rev. - Exp.)

(c)	\$600,000	=	(\$600,000 x 2/3) + X (Owner's equity)
	\$600,000	=	\$400,000 + X
	X	=	<u>\$200,000</u>

[\$600,000 = (\$600,000 x 2/3) + Owner's equity]

[Assets = (Assets x 2/3) + Owner's equity]

LO4 BT: AN Difficulty: **Medium** TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

BRIEF EXERCISE 2.11

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	+	+	NE
(b)	+	NE	+
(c)	–	NE	–

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement

BRIEF EXERCISE 2.12

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	+	NE	+
(b)	–	NE	–
(c)	NE*	NE	NE

*One asset increase (Cash) and another asset decrease (Accounts Receivable)

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement

SOLUTIONS FOR DO IT! EXERCISES

DO IT! 2.1

(a) $\$800,000 - \$300,000 = \$500,000$ (Owner's equity).

[$\$800,000 - \$300,000 = \$500,000$]

[Assets – Liabl = Owner's equity]

(b) $\$220,000 + \$680,000 = \$900,000$ (Total assets).

($\$220,000 + \$680,000 = \$900,000$)

(Liabl. + Owner's equity = Assets)

(c) $\$200,000 - \$60,000 = \$140,000$ (Total liabilities).

($\$200,000 - \$60,000 = \$140,000$)

(Assets – Owner's equity = Liabl.)

(d) (a) $\$700,000 - 0.5(\$700,000) = \$350,000$ (Owner's equity).

[$\$700,000 - (\$700,000 \times .5) = \$350,000$]

[Assets – (Assets $\times$.5) = Owner's equity]

LO1 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Measurement

DO IT! 2.2

Trans- action	Assets			=	Liabilities		+	Owner's Equity
	Cash	+ Supplies	+ Equipment	=	Accounts Payable	+ Notes Payable	+	Owner's Capital
(1)	+ \$50,000	+	+					+ \$50,000
(2)			+ \$9,000		+ \$9,000			
(3)	+ 10,000					+ \$10,000		
(4)	□□□□□□ □	□□□□□□ □□						
	<u>\$58,000</u>	+ <u>\$2,000</u>	+ <u>\$9,000</u>	=	<u>\$9,000</u>	+ <u>\$10,000</u>	+	<u>\$50,000</u>

LO2 BT: AP Difficulty: Easy TOT: 6 min. ACSB: None AICPA FC: Measurement

DO IT! 2.3

- Drawings is owner's drawings (D); it decreases owner's equity.
- Rent Revenue is revenue (R); it increases owner's equity.
- Advertising Expense is an expense (E); it decreases owner's equity.
- When the owner puts personal assets into the business, it is investment by owner (I); it increases owner's equity.
- Service Revenue is revenue (R); it increases owner's equity.
- Rent Expense is an expense (E); it decreases owner's equity.

LO3 BT: C Difficulty: Easy TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

DO IT! 2.4

Assets		=	Liabilities	+	Owner's Equity		
Cash	Accounts Receivable	=	Accounts Payable	+	Owner's Capital	Owner's Drawings	Revenues - Expenses
(1)	+\$20,000						+\$20,000
(2) +\$20,000	-20,000						
(3)			+\$2,300				-\$2,300
(4) -3,600						-\$3,600	

LO4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

SOLUTIONS TO EXERCISES

EXERCISE 2.1

Asset	Liability	Owner's Equity
Cash	Accounts Payable	Owner's Capital
Equipment	Utilities Payable	
Supplies	Notes Payable	
Accounts Receivable	Salaries and Wages Payable	
	Sales Taxes Payable	

LO1 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting

EXERCISE 2.2

1. Increase in assets and increase in owner's equity.
2. Increase in assets and decrease in assets.
3. Increase in assets, decrease in assets, and increase in liabilities.
4. Increase in assets and increase in liabilities.

LO2 BT: AP Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

EXERCISE 2.3

1. Increase in assets and increase in owner's equity.
2. Decrease in assets and decrease in owner's equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in owner's equity.
5. Decrease in assets and decrease in owner's equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in owner's equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in owner's equity.

LO2,3 BT: AP Difficulty: Easy TOT: 7 min. AACSB: None AICPA FC: Measurement

EXERCISE 2.4

- | | |
|--------|--------|
| 1. (c) | 5. (d) |
| 2. (d) | 6. (b) |
| 3. (a) | 7. (e) |
| 4. (b) | 8. (f) |

LO4 BT: AP Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

EXERCISE 2.5

(a) Ending Owner's Equity 12/31/2022 = Beginning Owner's Equity 1/1/2022 +

Owner's Capital – Owner's Drawings + Revenues – Expenses

With Revenues indicated by X:

(12/31/2022 Assets – Liabilities: \$400,000 - \$250,000) = \$100,000 + 0 – \$15,000

+ X - \$5,000

Solving for X: \$150,000 - \$100,000 + \$15,000 + \$5,000 = \$70,000

Revenues = \$70,000

(b) Ending Owner's Equity 12/31/2023 = Beginning Owner's Equity 12/31/2022

+ Owner's Capital – Owner's Drawings + Revenues – Expenses

With Revenues indicated by X:

(12/31/2023 Assets – Liabilities: \$460,000 - \$300,000) = [12/31/2022 Ending

OE per part (a) \$150,000] + \$45,000 – 0 + X - \$55,000

Solving for X: \$160,000 - \$150,000 - \$45,000 + \$55,000 = \$20,000

Revenues = \$20,000

(c) Ending Owner's Equity 12/31/2024 = Beginning Owner's Equity 12/31/2023

+ Owner's Capital – Owner's Drawings + Revenues – Expenses

With Revenues indicated by X:

(12/31/2024 Assets – Liabilities: \$590,000 - \$400,000) = [12/31/2023 Ending

OE per part (b) \$160,000] + \$15,000 – \$25,000 + X - \$15,000

Solving for X: \$190,000 - \$160,000 - \$15,000 + \$25,000 + \$15,000 = \$55,000

Revenues = \$55,000

LO4 BT: AP Difficulty: Medium TOT: 18 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.6

(a) Total assets (beginning of year)	\$110,000
Less: Total liabilities (beginning of year)	<u>85,000</u>
Total owner's equity (beginning of year)	<u>\$ 25,000</u>

(\$110,000 - \$85,000 = \$25,000)

(Beg. tot. assets – Beg. tot. liabl. = Beg. owner's equity)

(b) Total owner's equity (end of year)	\$ 40,000
Less: Total owner's equity (beginning of year)	<u>25,000</u>
Increase in owner's equity	<u>\$ 15,000</u>
Total revenues	\$220,000
Total expenses	<u>175,000</u>
Net income	<u>\$ 45,000</u>

Increase in owner's equity		\$ 15,000
Less: Net income	\$45,000	
Add: Drawings	<u>37,000</u>	<u>(8,000)</u>
Additional investment		<u>\$ 7,000</u>

(\$40,000 - \$25,000 = \$15,000); (\$220,000 - \$175,000 = \$45,000); [\$15,000 – (\$45,000 - \$37,000) = \$7,000]

(End. tot. owner's equity – Beg. tot. owner's equity = Incr. in owner's equity); (Tot. rev. – Tot. exp. = Net inc.);

[Incr. in owner's equity – (Net inc. – Owner's draw.) = Addl. Invest.]

(c) Total assets (beginning of year)	\$129,000
Less: Total owner's equity (beginning of year)	<u>80,000</u>
Total liabilities (beginning of year)	<u>\$ 49,000</u>

(\$129,000 - \$80,000 = \$49,000)

(Beg. tot. assets – Beg. tot. owner's equity = Beg. tot. liabl.)

(d) Total owner's equity (end of year)	\$130,000
Less: Total owner's equity (beginning of year)	<u>80,000</u>
Increase in owner's equity	<u>\$ 50,000</u>

Total revenues	\$100,000
Total expenses	<u>60,000</u>
Net income	<u>\$ 40,000</u>

Increase in owner's equity		\$ 50,000
Less: Net income	\$(40,000)	
Additional investment	<u>(25,000)</u>	<u>(65,000)</u>
Drawings		<u>\$ 15,000</u>

(\$130,000 - \$80,000 = \$50,000); (\$100,000 - \$60,000 = \$40,000); [\$50,000 – (\$40,000 + \$25,000) = \$15,000]

(End. owner's equity – Beg. owner's equity = Incr. in owner's equity); (Tot. rev. – Tot. exp. = Net inc.); (Incr. in owner's equity – (Net inc. + Addl. Invest.) = Owner's draw.)

EXERCISE 2.7

(a) Camping fee revenues	\$140,000
General store revenues	65,000
Total revenue	205,000
Expenses	150,000
Net income	<u>\$ 55,000</u>

[(\$140,000 + \$65,000) - \$150,000 = Net inc.]

[(Camp. fee rev. + Gen. store rev.) - Exp. = Net inc.]

(b)

Assets

Cash	\$ 23,000
Accounts Receivable	17,500
Equipment	105,500
Total assets	<u>\$146,000</u>

(c)

Liabilities

Notes Payable	\$ 60,000
Accounts Payable	11,000
Total liabilities	<u>\$ 71,000</u>

LO4 BT: AP Difficulty: **Easy** TOT: 10 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.8

Revenues

Service Revenue	\$550,000
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Expenses

Salaries and Wages Expense	\$185,000
Maintenance and Repairs Expense	85,000
Advertising Expense	10,000
Utilities Expense	16,000
Total expenses	<u>296,000</u>

Net income	<u>\$254,000</u>
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[\$550,000 - (\$185,000 + \$85,000 + \$10,000 + \$16,000) = \$254,000]

[Service rev. - (Sal. & wages exp. + Maint. & repairs exp. + Advert. exp. + Util. exp.) = Net inc.]

LO4 BT: AP Difficulty: **Easy** TOT: 6 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.9

(a) Assets, January 1, 2022.....	\$102,000
Less: Liabilities, January 1, 2022.....	<u>85,000</u>
Owner's Equity, January 1, 2022	<u>\$ 17,000</u>

Assets, December 31, 2022	\$168,000
less: Liabilities, December 31, 2022	<u>105,000</u>
Owner's Equity, December 31, 2022.....	<u>\$ 63,000</u>

(b) Owner's equity, January 1, 2022	\$ 17,000
Add: Net income (Rev. \$425,000 – Exp. \$195,000)	<u>230,000</u>
	247,000
Less: Owner's Drawings	<u>X</u>
Owner's equity, December 31, 2022.....	<u>\$ 63,000</u>

Solve for X: \$247,000 - \$63,000 = \$184,000 Drawings

$$[(\$102,000 - \$85,000) + (\$425,000 - \$195,000) - \$184,000 = \$63,000]$$

$$[(\text{Beg. assets} - \text{Beg. liabl.}) + (\text{Serv. rev.} - \text{Tot. exp.}) - \text{Owner's draw.} = \text{End. owner's cap.}]$$

LO 4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.10

<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Owner's Equity</u>				
<u>Cash</u>	<u>Accounts Receivable</u>	=	<u>Accounts Payable</u>	+	<u>Owner's Capital</u>	-	<u>Owner's Drawings</u>	<u>+ Revenues</u>	<u>- Expenses</u>
(1)	+\$35,000							+\$35,000	
(2)	+\$15,000		-15,000						
(3)					+\$5,400				-\$5,400
(4)	-2,200						-\$2,200		

LO 4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

PROBLEM 2.1

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PROBLEM 2.1 (Continued)**(b) Revenues in August**

Service Revenue	\$7,500
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Expenses in August

Salaries and Wages Expense	\$2,500
Rent Expense	900
Advertising Expense	400
Utilities Expense	<u>270</u>
Total expenses	<u>\$ 4,070</u>

(c)**Assets at August 31**

Cash	\$ 3,500
Accounts Receivable	4,800
Supplies	500
Equipment	<u>8,000</u>
Total assets	<u>\$16,800</u>

Liabilities at August 31

Notes Payable	\$ 2,000
Accounts Payable	<u>3,270</u>
Total liabilities	<u>\$ 5,270</u>

Owner's equity, August 1	\$ 8,800
Add: Net income (Revenues \$7,500 – Expenses \$4,070) ..	<u>3,430</u>
	12,230
Less: Owner's Drawings	<u>700</u>
Owner's equity, August 31	<u>\$11,530</u>

LO 1, 2, 3, 4 BT: AP Difficulty: Medium TOT: 55 min. AACSB: Analytic AICPA FC: Measurement, Reporting

(a)

TAYLOR ROOFING																	
Trans. #	Assets					=	Liabilities	+	Owner's Equity								
	Cash	+	Accounts Receivable	+	Prepaid Insurance	+	Equipment	=	Accounts Payable	+	Owner's Capital	-	Owner's Drawings	+	Revenues	-	Expenses
Bal.	\$9,000		\$2,000				\$8,000		\$4,000		\$15,000						
1	+1,000		-1,000														
2	-1,200				+\$1,200												
3	-3,200								-3,200								
4	+4,000														+\$4,000		
5	-500						+5,000		+4,500								
6	-200																-\$200
7									+500								-500
8	<u>-800</u>		<u></u>		<u></u>		<u></u>		<u></u>		<u></u>		<u>-800</u>		<u></u>		<u></u>
	<u>\$8,100</u>	+	<u>\$1,000</u>	+	<u>\$1,200</u>	+	<u>\$13,000</u>	=	<u>\$5,800</u>	+	<u>\$15,000</u>	-	<u>\$800</u>	+	<u>\$4,000</u>	-	<u>\$700</u>
	<u>\$23,300</u>								<u>\$23,300</u>								

PROBLEM 2.2 (Continued)

(b) Revenues in April

Service Revenue	\$4,000
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Expenses in April

Advertising Expense.....	\$200
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Utilities Expense	<u>500</u>
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Total expenses.....	<u>\$ 700</u>
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(c)

Assets at April 30

Cash.....	\$ 8,100
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Accounts Receivable.....	1,000
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Prepaid Insurance.....	1,200
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Equipment.....	<u>13,000</u>
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Total assets	<u>\$23,300</u>
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Liabilities at April 30

Accounts Payable.....	<u>5,800</u>
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Total liabilities	<u>\$ 5,800</u>
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Owner's equity, April 1	\$ 15,000
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Add: Net income (Revenues \$4,000 – Expenses \$700).....	<u>3,300</u>
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18,300

Less: Owner's Drawings	<u>800</u>
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Owner's equity, April 30	<u>\$17,500</u>
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LO 1, 2, 3, 4 BT: AP Difficulty: Medium TOT: 55 min. AACSB: Analytic AICPA FC: Measurement, Reporting

(a)

MATRIX CONSULTING

Assets					=	Liabilities		+	Owner's Equity			
Date	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Notes Payable	+ Accounts Payable	+	Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
May 1	+\$7,000								+\$7,000			
2	-900											-\$900
3			+\$600				+\$600					
5	-125											-125
9	+4,000										+\$4,000	
12	-1,000									-\$1,000		
15		+\$5,400									+\$5,400	
17	-2,500											-2,500
20	-600						-600					
23	+4,000	-4,000										
26	+5,000					+\$5,000						
29				+\$4,200			+\$4,200					
30	-275											-275
	<u>\$14,600</u>	<u>+ \$1,400</u>	<u>+ \$600</u>	<u>+ \$4,200</u>	=	<u>\$5,000</u>	<u>+ \$4,200</u>	<u>+ \$7,000</u>	<u>- \$1,000</u>	<u>+ \$9,400</u>	<u>- \$3,800</u>	
	\$20,800					\$20,800						

PROBLEM 2.3

PROBLEM 2.3 (Continued)

(b)

Revenues for May

Service Revenue (\$4,000 + \$5,400).....	\$9,400
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Expenses for May

Salaries and Wages Expense	\$2,500	
Rent Expense	900	
Utilities Expense.....	275	
Advertising Expense.....	<u>125</u>	
Total expenses.....		<u>\$ 3,800</u>

(c)

Assets at May 31

Cash.....	\$14,600
Accounts Receivable.....	1,400
Supplies.....	600
Equipment	<u>4,200</u>
Total assets	<u>\$20,800</u>

Liabilities at May 31

Notes Payable	\$ 5,000
Accounts Payable	<u>4,200</u>
Total liabilities	<u>\$ 9,200</u>

Owner's equity, May 1	\$ 0
Add: Net income (Revenues \$9,400 – Expenses \$3,800) ..	5,600
Owner Investment	<u>7,000</u>
	12,600
Less: Owner's Drawings	<u>1,000</u>
Owner's Capital, May 31	<u>\$11,600</u>

LO 1, 2, 3, 4 BT: AP Difficulty: Medium TOT: 45 min. AACSB: Analytic AICPA FC: Reporting

COACH JULIA											
Date	Assets					=	Liabilities	+	Owner's Equity		
	Cash	+ Accounts Receivable	+ Supplies	+ Prepaid Insurance	+ Equipment	=	Accounts Payable	+	Owner's Capital	− Owner's Drawings	+ Revenues − Expenses
Sep. 1	+\$4,000								+\$4,000		
2	−400				+\$400						
3			+\$150				+\$150				
4	−600			+\$600							
6	−100										−\$100
10	+200									+\$200	
15	−300									−\$300	
17		+500								+\$500	
21	−150						−150				
22	+125	−125									
30	−375										−375
	<u>\$2,400</u>	<u>+</u> <u>\$375</u>	<u>+</u> <u>\$150</u>	<u>+</u> <u>\$600</u>	<u>+</u> <u>\$400</u>	=	<u>0</u>	<u>+</u> <u>\$4,000</u>	<u>−</u> <u>\$300</u>	<u>+</u> <u>\$700</u>	<u>−</u> <u>\$475</u>
	\$3,925						\$3,925				

PROBLEM 2.4

PROBLEM 2.4 (Continued)**(b)**

Revenues for September		
Service Revenue (\$200+\$500)		\$700
Expenses for September		
Advertising Expense	\$100	
Utilities Expense	<u>375</u>	
Total expenses		<u>\$ 475</u>

(c)**Assets at September 30**

Cash	\$2,400
Accounts Receivable	375
Supplies	150
Prepaid Insurance	600
Equipment	<u>400</u>
Total assets	<u>\$3,925</u>

Liabilities at September 30

Accounts Payable	<u>0</u>
Total liabilities	<u>\$ 0</u>

Owner's equity, September 1	\$ 0
Add: Owner Investment	<u>4,000</u>
Add: Net income (Revenues \$700– Expenses \$475)	<u>225</u>
	4,225
Less: Owner's Drawings	<u>300</u>
Owner's Capital, September 30	<u>\$3,925</u>

LO 1, 2, 3, 4 BT: AP Difficulty: Medium TOT: 45 min. AACSB: Analytic AICPA FC: Reporting

PROBLEM 2.5

(a)	Alpha Company	Beta Company	Psi Company	Omega Company
	(a) \$ 39,000	(d) \$50,000	(g) \$129,000	(j) \$ 60,000
	(b) 110,000	(e) 40,000	(h) 88,000	(k) 251,000
	(c) 9,000	(f) 33,000	(i) 385,000	(l) 444,000

- (a) $(\$80,000 - \$41,000 = \$39,000)$; $(1/1/22 \text{ Assets} - 1/1/22 \text{ Liabl.} = 1/1/22 \text{ Owner's equity})$
 (b) $(\$60,000 + \$50,000 = \$110,000)$; $(12/31/22 \text{ Liabl.} + 12/31/22 \text{ Owner's equity} = 12/31/22 \text{ Assets})$
 (c) $[\$50,000 - (\$39,000 + (\$350,000 - \$333,000) - \$15,000) = \$9,000]$; $[\text{End. owner's equity} - (\text{Beg. owner's equity} + (\text{Rev.} - \text{Exp.}) - \text{Owner's Draw.} = \text{Add'l. invest.})]$
 (d) $(\$90,000 - \$40,000 = \$50,000)$; $(1/1/22 \text{ Assets} - 1/1/22 \text{ Owner's equity} = 1/1/22 \text{ Liabl.})$
 (e) $(\$112,000 - \$72,000 = \$40,000)$; $(12/31/22 \text{ Assets} - 12/31/22 \text{ Liabl.} = 12/31/22 \text{ Owner's equity})$
 (f) $[\$40,000 - (\$40,000 + (\$410,000 - \$385,000) + \$8,000) = \$33,000]$; $[(12/31/22 \text{ Owner's equity} - (\text{Beg. owner's equity} + (\text{Rev.} - \text{Exp.}) + \text{Invest.}) = \text{Owner's Draw.})]$
 (g) $(\$80,000 + \$49,000 = \$129,000)$; $(1/1/22 \text{ Liabl.} + 1/1/22 \text{ Owner's equity} = 1/1/22 \text{ Assets})$
 (h) $(\$170,000 - \$82,000 = \$88,000)$; $(12/31/22 \text{ Assets} - 12/31/22 \text{ Owner's equity} = 12/31/22 \text{ Liabl.})$
 (i) $[(\$82,000 - \$49,000) + \$350,000 - \$10,000 + \$12,000 = \$385,000]$; $[(12/31/22 \text{ Owner's equity} - 1/1/22 \text{ Owner's equity}) + \text{Exp.} - \text{Add'l. invest.} + \text{Owner's Draw.} = \text{Rev.}]$
 (j) $(\$150,000 - \$90,000 = \$60,000)$; $(1/1/22 \text{ Assets} - 1/1/22 \text{ Owner's equity} = 1/1/22 \text{ Liabl.})$
 (k) $(\$100,000 + \$151,000 = \$251,000)$; $(12/31/22 \text{ Liabl.} + 12/31/22 \text{ Owner's equity} = 12/31/22 \text{ Assets})$
 (l) $(\$90,000 - \$151,000 + \$15,000 - \$10,000 + \$500,000 = \$444,000)$; $(1/1/22 \text{ Owner's equity} - 12/31/22 \text{ Owner's equity} + \text{Add'l. invest.} - \text{Owner's Draw.} + \text{Rev.} = \text{Exp.})$

(b) The accounting equation must always be in balance. On the left side of the equation are assets. On the right side of the equation are liabilities and owner's equity. Owner's equity is increased by owner's capital investments and revenues, and it is decreased by owner's drawings and expenses. The expanded accounting equation is stated as follows:
Assets = Liabilities + Owner's Capital – Owner's Drawings + Revenues – Expenses.

Owner's equity is computed by starting with the balance of owner's capital at the beginning of the year. Add to that the owner's capital investments and net income, and subtract owner's drawings. The result is owner's capital at the end of the year.

PROBLEM 2.5 (Continued)

(c) Computation of owner's capital at December 31 for Alpha Company:

Owner's capital, January 1	\$39,000
Add: Investment	9,000
Net income (\$350,000 - \$333,000)	<u>17,000</u>
	65,000
Less: Owner's Drawings	<u>15,000</u>
Owner's capital, December 31	<u><u>\$50,000</u></u>

[\$39,000 + (\$9,000 + \$17,000) - \$15,000 = \$50,000]

[Beg. owner's cap. + (Invest. + Net inc.) – Owner's Draw. = End. owner's cap.]

LO 1, 2, 3, 4 BT: AN Difficulty: Medium TOT: 35 min. AACSB: Analytic AICPA FC: Reporting AICPA PC: Communication

- (a) The estimate of the \$6,100 loss was based on the difference between the \$25,000 invested in the driving range and the bank balance of \$18,900 at March 31. This is not a valid basis for determining income because it only shows the change in cash between two points in time.
- (b) The assets, liabilities, owner's equity at March 31 are as follows:

Assets

Cash.....	\$18,900
Buildings	8,000
Equipment.....	<u>800</u>
Total assets	<u>\$27,700</u>

Liabilities

Accounts Payable (\$100 + \$120)	<u>\$ 220</u>
Owner's equity	
Owner's Capital (\$27,700 – \$220)	<u>\$ 27,480</u>

$$[(\$18,900 + \$8,000 + \$800) = (\$100 + \$120) + (\$27,700 - \$220)]$$

$$[(\text{Cash} + \text{Bldgs.} + \text{Equip.}) = \text{Accts. pay.} + \text{Owner's cap.}]$$

As shown, the owner's capital at March 31 is \$27,480. The estimate of \$2,480 of net income is the difference between the initial investment of \$25,000 and \$27,480. This was not a valid basis for determining net income because changes in owner's equity between two points in time may have been caused by factors unrelated to net income. For example, there may be drawings and/or additional capital investments by the owner(s).

CT 2.1 (Continued)

- (c) Actual net income for March can be determined by adding owner's drawings to the change in owner's capital during the month as shown below:

Owner's Capital, March 31, per balance sheet.....	\$27,480
Less: Owner's Capital, March 1	<u>25,000</u>
Increase in Owner's Capital	2,480
Add: Owner's Drawings.....	<u>1,000</u>
Net income	<u>\$ 3,480</u>

(\$27,480 - \$25,000 + \$1,000 = \$3,480)

(End. Owner's Cap. – Beg. Owner's Cap. + Owner's Draw. = Net inc.)

Alternatively, net income can be found by determining the revenues earned (described below) and subtracting expenses.

Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, \$1,000; Wages, \$500; Advertising, \$750; and Utilities, \$120 for a total of \$2,370. Revenues earned, therefore, were \$5,850 (\$2,370 + \$3,480). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:

Beginning cash balance	\$25,000
Less: Cash payments	
Caddy shack	\$8,000
Golf balls and clubs.....	800
Rent	1,000
Advertising.....	650
Wages.....	500
Drawings	<u>1,000</u>
Cash balance before revenues	<u>11,950</u>
Cash balance before revenues	13,050
Cash balance, March 31	<u>18,900</u>
Revenues earned	<u>\$ 5,850</u>

[\$25,000 – (\$8,000 + \$800 + \$1,000 + \$650 + \$500 + \$1,000) = \$13,050]; (\$18,900 - \$13,050 = \$5,850)

[Beg. Cash bal. – (Caddy shack + Golf balls & clubs + Rent + Advert. + Wages + Drawings) = Cash bal. before rev.]; (End. Cash bal. – Cash bal. before rev. = Rev. earned)

LO4 BT: AN Difficulty: Medium TOT: 20 min. AACSB: Analytic, Communication AICPA FC: Reporting AICPA PC: Communication

To: Sandi Alcon
From: Student

I have received the computations of assets, liabilities and owner's equity of New York Company. A number of items are not properly reported. They are:

- 1. Accounts Receivable should be shown as an asset, not a liability.**
- 2. Accounts Payable should be shown as a liability, not an asset.**
- 3. The Owner's Drawings account is not reported as its own line item but is subtracted from Owner's Capital to arrive at owner's equity at the end of the period.**

LO1 BT: AN Difficulty: Medium TOT: 10 min. AACSB: Reporting, Communication AICPA FC: Reporting
AICPA PC: Communication

- (a) Answers to the following will vary depending on students' opinions.
- (1) This does not represent the hiding of assets, but rather a choice as to the order of use of assets. This would seem to be ethical.
 - (2) This does not represent the hiding of assets, but rather is a change in the nature of assets. Since the expenditure was necessary, although perhaps accelerated, it would seem to be ethical.
 - (3) This represents an intentional attempt to deceive the financial aid office. It would therefore appear to be both unethical and potentially illegal.
 - (4) This is a difficult issue. By taking the leave, actual net income would be reduced. The form asks the applicant to report actual net income. However, it is potentially deceptive since you do not intend on taking unpaid absences in the future, thus future income would be higher than reported income.
- (b) Companies might want to overstate net income in order to potentially increase the stock price by improving investors' perceptions of the company. Also, a higher net income would make it easier to receive debt financing. Finally, managers would want a higher net income to increase the size of their bonuses.
- (c) Sometimes companies want to report a lower income if they are negotiating with employees. For example, professional sports teams frequently argue that they can not increase salaries because they aren't making enough money. This also occurs in negotiations with unions. For tax accounting (as opposed to the financial accounting in this course) companies frequently try to minimize the amount of reported taxable income.
- (d) Unfortunately many times people who are otherwise very ethical will make unethical decisions regarding financial reporting. They might be driven to do this because of greed. Frequently it is because their superiors have put pressure on them to take an unethical action, and they are afraid to not follow directions because they might lose their job. Also, in some instances top managers will tell subordinates that they should be a team player, and do the action because it would help the company, and therefore would help fellow employees.

CT 2.4

ALL ABOUT YOU

Responses will vary by student. Sample responses are provided.

- (a) I took my car to the car wash, and I observed that that the car wash was performing a service for me.**
- (b) I paid cash for this service. For the car wash, Cash (asset) increased, and Service Revenue (equity) increased.**
- (c) Yes, accounting transactions are all around us every day. Every transaction has to affect at least two accounts in order for the basic accounting equation to stay in balance.**
- (d) I noticed that companies must use accounting to stay organized and to keep track of the many transactions with which they are involved each day.**

LO N/A BT: E Difficulty: Easy TOT: 10 min. AACSB: Communication AICPA FC: Reporting AICPA PC: Communication