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) Common stock includes the amount of financing (cash and sometimes other assets) provided to the company by stockholders in exchange for shares of common stock.

   (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 stockholders' 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 employees using up the benefits of equipment owned by the company.

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 + Stockholders' 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 stockholders' equity. A credit is the opposite – a decrease in assets or an increase in liabilities or stockholders' 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 + Stockholders' 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 + Stockholders' 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. (An optional explanation can be included on the lines following the journal entry; this explanation is omitted in most textbook examples and homework problems because the description of the transaction in the textbook already provides the explanation.)

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 stockholders' 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).

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	2	1	8	CP2-1	45	1	15	1	30
2	2	2	10	CP2-2	50	2	15		
3	4	3	5	CP2-3	50	3	45		
4	4	4	5	PA2-1	45	4	20		
5	4	5	3	PA2-2	50	5	20		
6	4	6	5	PA2-3	50	6	10		
7	3	7	3	PB2-1	45	7	35		
8	3	8	10	PB2-2	50				
9	5	9	5	PB2-3	50				
10	6	10	15						
11	6	11	20						
12	6	12	25						
13	10	13	10						
14	10	14	15						
15	10	15	30						
16	10								
17	10								
18	10								
19	10								
20	10								
21	15								
22	10								
23	3								
24	8								
25	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 in the table on the following page.

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) D (2) C (3) A (4) I (5) F (6) B

M2-4 (1) CL (2) CL (3) CA (4) NCA (5) CA (6) SE (7) NCA
(8) CL (9) NCA (10) CL (11) SE (12) CA

M2-5

	Req. 1 Category	Req. 2 Normal Balance
1)	CA	Debit
2)	CL	Credit
3)	SE	Credit
4)	NCL	Credit
5)	CL	Credit
6)	NCA	Debit
7)	SE	Credit
8)	CL	Credit
9)	CA	Debit

M2-6

	Req.1 Category	Req.2 Normal Balance
1)	CL	Credit
2)	CA	Debit
3)	CA	Debit
4)	SE	Credit
5)	NCL	Credit
6)	NCA	Debit
7)	SE	Credit
8)	CL	Credit

M2-7

1) Yes
2) No
3) Yes
4) No
5) No
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		+	Stockholders' Equity	
a.	Cash	+3,940		Note Payable (short-term)	+3,940			
b.	Cash	+4,630					Common Stock	+4,630
c.	Cash Equipment	–200 +1,000		Note Payable (short-term)	+800			
d.	Cash Supplies	–300 +300						
e.	Supplies	+700		Accounts Payable	+700			

M2-10

a.	Cash (+A)	3,940	
	Note Payable (short-term) (+L)		3,940
b.	Cash (+A)	4,630	
	Common Stock (+SE)		4,630
c.	Equipment (+A)	1,000	
	Cash (-A)		200
	Note Payable (short-term) (+L)		800
d.	Supplies (+A)	300	
	Cash (-A)		300
e.	Supplies (+A)	700	
	Accounts Payable (+L)		700

M2-11

Cash (A)

Beg.	0		
(a)	3,940	200	(c)
(b)	4,630	300	(d)
End.	8,070		

Supplies (A)

Beg.	0	
(d)	300	
(e)	700	
End.	1,000	

Equipment (A)

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

Accounts Payable (L)

	0	Beg.
	700	(e)
	700	End.

Note Payable (short-term) (L)

	0	Beg.
	3,940	(a)
	800	(c)
	4,740	End.

Common Stock (SE)

	0	Beg.
	4,630	(b)
	4,630	End.

M2-12

SPOTLIGHTER INC.
Balance Sheet
At January 31

Assets		*Liabilities*	
Current Assets:		*Current Liabilities:*	
Cash	$ 8,070	Accounts Payable	$ 700
Supplies	1,000	Notes Payable	4,740
Total Current Assets	9,070	*Total Current Liabilities*	5,440
Property, Plant and Equipment	1,000	*Stockholders' Equity*	
		Common Stock	4,630
Total Assets	$ 10,070	*Total Liabilities & Stockholders' Equity*	$10,070

M2-13

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

M2-14

		Assets	=	Liabilities	+	Stockholders' Equity
(a	Cash	+ 70,000				Common Stock + 70,000
(b)	Cash	- 60,000				
	Land	+ 60,000				
(c)	Supplies	+ 9,000	Accounts Payable	+ 9,000		
(d)	Cash	+ 25,000	Note Payable (long-term)	+ 25,000		
(e)	No transaction					
		104,000		34,000		70,000

M2-15

a.	Equipment (+A)	4,000	
	Cash (-A)		4,000
b.	Inventory (+A)	7,000	
	Accounts Payable (+L)		7,000
c.	Cash (+A)	4,000	
	Note Payable (short-term) (+L)		4,000
d.	Accounts Payable (-L)	1,500	
	Cash (-A)		1,500
e.	Note Payable (short-term) (-L)	4,000	
	Cash (-A)		4,000

M2-16

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

M2-17

a.	Equipment (+A)	12,000	
	Accounts Payable (+L)		12,000
b.	Accounts Payable (-L)	6,000	
	Cash (-A)		6,000
c.	Cash (+A)	400	
	Accounts Receivable (-A)		400
d.	Cash (+A)	15,000	
	Common Stock (+SE)		15,000
e.	Equipment(+A)	60,000	
	Cash (-A)		10,000
	Note Payable (long-term) (+L)		50,000

M2-18

	Assets		=	Liabilities		+	Stockholders' 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					Common Stock	+ 15,000
(e)	Cash	- 10,000		Note Payable (long-term)	+ 50,000			
	Equipment	+ 60,000						
		+ 71,000			+ 56,000			+ 15,000

M2-19

a.	Cash (+A)	50	
	Accounts Receivable (-A)		50
b.	No transaction		
c.	Accounts Payable (-L)	2,000	
	Cash (-A)		2,000
d.	Note Payable (short-term) (-L)	5,000	
	Cash (-A)		5,000
e.	Equipment (+A)	2,200	
	Cash (-A)		1,000
	Note Payable (short-term) (+L)		1,200

M2-20

	Assets		=	Liabilities		+	Stockholders' 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

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	$ 1,800	Accounts Payable	$ 2,000
Supplies	1,500	Salaries and Wages Payable	200
Total Current Assets	3,300	Total Current Liabilities	2,200
Equipment	38,000	Note Payable (long-term)	25,000
Land	18,900	**Total Liabilities**	27,200
Total Assets	$60,200		
		Stockholders' Equity	
		Common Stock	30,000
		Retained Earnings	3,000
		Total Stockholders' Equity	33,000
		Total Liabilities & Stockholders' Equity	$60,200

CCC's current ratio (3,300/2,200 = 1.5) suggests the company has enough current assets that could be converted into cash to cover its current liabilities. At September 30, CCC had $1.50 of current assets for each dollar of current liabilities.

M2-22

Req. 1

FACEBOOK, INC.
Balance Sheet
At September 30, 2016

(amounts in millions)

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 6,000	Accounts Payable	$ 2,600
Short Term Investments	20,100	*Total Current Liabilities*	2,600
Accounts Receivable	3,100	Note Payable (long-term)	3,000
Prepaid Rent	1,100	*Total Liabilities*	5,600
Total Current Assets	30,300		
		Stockholders' Equity	
Software	21,500	Common Stock	15,700
Equipment	7,900	Retained Earnings	38,400
Total Non-Current Assets	29,400	Total Stockholders' Equity	54,100
Total Assets	$ 59,700	**Total Liabilities & Stockholders' Equity**	$ 59,700

Req. 2

As of September 30, 2016, stockholders' equity has provided the primary source of financing for Facebook, Inc. The company has financed $54,100 of its assets with stockholders' equity and only $5,600 with liabilities.

Req. 3

Facebook's current ratio ($30,300/$2,600 = 11.65) suggests the company has enough current assets that could be converted into cash to cover its current liabilities. Specifically, the current ratio of 11.65 implies that, at September 30, 2016, Facebook had $11.65 of current assets for each dollar of current liabilities.

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 Mister 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 $\dfrac{\$30{,}000 + \$2{,}000}{\$15{,}000 + \$0} = 2.13$

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

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

M2-25

a. Decrease $\dfrac{\$1{,}000{,}000 + \$20{,}000}{\$500{,}000 + \$20{,}000} = 1.96$

b. Increase $\dfrac{\$1{,}000{,}000 - \$50{,}000}{\$500{,}000 - \$50{,}000} = 2.11$

c. Increase $\dfrac{\$1{,}000{,}000 + \$100{,}000}{\$500{,}000 + \$0} = 2.20$

d. Decrease $\dfrac{\$1{,}000{,}000 + \$250{,}000}{\$500{,}000 + \$250{,}000} = 1.67$

ANSWERS TO EXERCISES

E2-1	(1) E	(2) F	(3) B	(4) N	(5) I
	(6) A	(7) K	(8) M	(9) L	(10) D

E2-2

Req. 1

(a)	Note Payable (short-term)	Equipment	
(b)	Cash	Equipment	
(c)	—	—	*No exchange transaction*
(d)	Common Stock	Cash	
(e)	Cash	Land	
(f)	—	—	*No company transaction*
(g)	Note Payable (short-term)	Cash	
(h)	Cash	Note Payable (long-term)	

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.	Note Payable (3 years)	NCL	Credit
4.	Accounts Receivable	CA	Debit
5.	Supplies	CA	Debit
6.	Common Stock	SE	Credit
7.	Equipment	NCA	Debit
8.	Accounts Payable	CL	Credit
9.	Cash	CA	Debit
10.	Income Taxes Payable	CL	Credit

E2-4

	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Cash	+10,000	=				Common Stock	+10,000
b.	Cash	+7,000	=	Note Payable (short-term)	+7,000			
c.	Equipment	+800	=	Accounts Payable	+800			
d.	Land Cash	+12,000 –1,000	=	Note Payable (long term)	+11,000			
e.	Equipment Cash	+3,000 –1,000	=	Accounts Payable	+2,000			

E2-5

a.	Cash (+A)	10,000	
	Common Stock (+SE)		10,000
b.	Cash (+A)	7,000	
	Note Payable (short-term) (+L)		7,000
c.	Equipment (+A)	800	
	Accounts Payable (+L)		800
d.	Land (+A)	12,000	
	Cash (-A)		1,000
	Note Payable (long-term) (+L)		11,000
e.	Equipment (+A)	3,000	
	Cash (-A)		1,000
	Accounts Payable (+L)		2,000

E2-6

Req. 1

	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Equipment Cash	+216 –211	=	Note Payable (long-term)	+5			
b.	Cash	+21	=				Common Stock	+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 stockholders' equity (versus liabilities) indicates that these transactions led NIKE to rely proportionately more on stockholders (versus creditors).

E2-7

Req. 1

a.	Equipment (+A)	216	
	Cash (-A)		211
	Note Payable (long-term) (+L)		5
b.	Cash (+A)	21	
	Common Stock (+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 (A)

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

Equipment (A)

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

Note Payable (L)

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

Common Stock (SE)

	0	Beg.
	60,000	(a)
	60,000	End.

Req. 2

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

Req. 3

The agreement in *(c)* involves no exchange or receipt of cash, goods, or services and thus is not yet 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*
1	Issued common stock for $12,000 cash.
2	Borrowed $50,000 cash and signed a note for this amount.
3	Purchased equipment for $12,000; paid $4,000 cash and gave an $8,000 Note Payable for the balance.
4	Borrowed $4,000 cash and signed a note for this amount.

Req. 2

From table:

	Cash	+	Equipment	=	Note Payable	+	Common Stock
Ending	62,000	+	12,000	=	62,000	+	12,000

Req. 3

Most of Home Comfort's financing has come from liabilities. The company has financed $62,000 of its investment in assets with liabilities and only $12,000 with stockholders' equity.

E2-10

Req 1:

		Assets		=	Liabilities		+	Stockholders' Equity	
(a)	No transaction - no obligation exists until the supplies are received.								
(b)	Cash		- 10,000		Note Payable	+ 20,000			
	Equipment		+ 30,000		(short-term)				
(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					Common Stock	+10,000
(f)	Supplies		+ 2,000		Accounts Payable	+ 2,000			
			+ 37,000	=		+ 27,000			+10,000

Req 2:

(a)	No transaction		
(b)	Equipment (+A)………….. ………………………	30,000	
	Cash (-A)…………………………………………		10,000
	Note Payable (short-term) (+L)..………………		20,000
(c)	Cash (+A)……………………………………………..	5,000	
	Note Payable (short-term) (+L)…………………		5,000
(d)	No transaction		
(e)	Cash (+A)……………………………………………	10,000	
	Common Stock (+SE)…...………………………		10,000
(f)	Supplies (+A) ……………………………..……..	2,000	
	Accounts Payable(+L) ……………………..…..		2,000

Req 3:

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

E2-11

Req. 1

	Assets		=	Liabilities		+ Stockholders' Equity
	Cash	**Equipment**	**Accounts Payable**	**ST Notes Payable**	**LT Notes Payable**	**Common Stock**
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:

		Debit	Credit
a.	Cash (+A)	60,000	
	Common Stock (+SE)		60,000
b.	Cash (+A)	20,000	
	Note Payable (long-term) (+L)		20,000
c.	No transaction has occurred because there has been no exchange of cash, goods, or services.		
d.	Equipment (+A)	9,000	
	Cash (-A)		2,000
	Note Payable (short-term) (+L)		7,000
e.	Equipment (+A)	16,000	
	Cash (-A)		8,000
	Accounts Payable (+L)		8,000

E2-11 (continued)

Req. 3:

DOWN, INC
Balance Sheet
At May 31

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$70,000	Accounts Payable	$8,000
		Note Payable (short-term)	7,000
Total Current Assets	70,000	*Total Current Liabilities*	15,000
Noncurrent Assets		Note Payable (long-term)	20,000
Equipment	25,000	Total Liabilities	35,000
Total Assets	$95,000	*Stockholders' Equity*	
		Common Stock	60,000
		Retained Earnings	0
		Total Stockholders' Equity	60,000
		Total Liabilities & Stockholders' Equity	$95,000

E2-12

Req. 1

	Assets			=	Liabilities		+	Stockholders' Equity
	Cash	**Equipment**	**Land**		**Accounts Payable**	**Notes Payable (long-term)**		**Common Stock**
(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.

Req. 2

		Debit	Credit
a.	Cash (+A)	40,000	
	Common Stock (+SE)		40,000
b.	Land (+A)	12,000	
	Note Payable (long-term) (+L)		12,000
c.	Equipment (+A)	20,000	
	Cash (-A)		2,000
	Note Payable (long-term) (+L)		18,000
d.	Equipment (+A)	2,000	
	Cash (-A)		2,000

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

E2-12 (continued)

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	

Note Payable (L)

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

Common Stock (SE)

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

Req. 4

LASER DELIVERY SERVICES, INC.
Balance Sheet
At December 31

Assets		*Liabilities*	
Current Assets		Notes Payable (long-term)	$30,000
Cash	$36,000	*Total Liabilities*	30,000
Total Current Assets	36,000		
Equipment	22,000	*Stockholders' Equity*	
Land	12,000	Common Stock	40,000
Total Assets	$70,000	*Total Liabilities & Stockholders' Equity*	$70,000

Req. 5

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

E2-13

Transaction	*Brief Explanation*
(a)	Issued common stock 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.

E2-14

Req. 1

September 30, 2016

Current Ratio = $\frac{\$1,328}{\$333} = 3.99$

December 31, 2015

Current Ratio = $\frac{\$1,249}{\$366} = 3.41$

Req. 2

The company's current ratio increased, which implies an increased ability to pay current liabilities.

Req. 3

Current Ratio = $\frac{\$1,328 - \$10}{\$333 - \$10} = 4.08$

Paying down Accounts Payable in this case (when the current ratio is larger than one) increases the current ratio.

Req. 4

As of September 30, 2016, stockholders' equity has provided the primary source of financing for Columbia Sportswear, Inc. The company has financed $1,521 of its assets with stockholders' equity and only $401 with liabilities.

E2-15

Req. 1

Assets		=	Liabilities		+	Stockholders' Equity	
1. Cash	+12,000	=				Common Stock	+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			

Req. 2

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

E2-15 (continued)

Req. 2 (continued)

Cash (A)

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

Supplies (A)

Beg.	0	
(4)	900	
End.	900	

Equipment (A)

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

Accounts Payable (L)

	0	Beg.
	900	(4)
	900	End.

Notes Payable (short-term) (L)

	0	Beg.
	5,000	(3)
	5,000	End.

Notes Payable (long-term) (L)

	0	Beg.
	30,000	(2)
	30,000	End.

Common Stock (SE)

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

E2-15 (continued)

Req. 3

BUSINESS SIM CORP.
Balance Sheet
At September 30

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
		Stockholders' Equity	
Equipment	40,000	Common Stock	12,000
		Retained Earnings	0
		Total Stockholders' Equity	12,000
Total Assets	$ 47,900	*Total Liabilities & Stockholders' 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 1.34 (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.)

ANSWERS TO COACHED PROBLEMS

CP2-1

Req. 1

Ag BioTech was organized as a corporation. Only a corporation issues shares of stock to its owners in exchange for their investment, as ABT did in transaction (a).

Req. 2

	Assets					=	**Liabilities**	+	**Stockholders' Equity**	
	Cash	**Supplies**	**Land**	**Building**	**Equipment**		**Note Payable (long-term)**		**Common Stock**	**Retained Earnings**
(a)	+40,000					=			+40,000	
(b)	–13,000		+18,000	+65,000	+16,000	=	+86,000			
(c)	No effect									
(d)	–3,000	+3,000				=			No change	
(e)	+6,000		–6,000			=			No change	
	+30,000	+3,000	+12,000	+65,000	+16,000	=	+86,000		+40,000	0

Req. 3

The transaction between the two stockholders (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 = \$30,000 + \$3,000 + \$12,000 + \$65,000 + \$16,000
= \$126,000

(b) Total liabilities = \$86,000

(c) Total stockholders' equity = Total assets – Total liabilities
= \$126,000 – \$86,000 = \$40,000

(d) Cash balance = \$40,000 – \$13,000 – \$3,000 + \$6,000 = \$30,000

(e) Total current assets = \$30,000 + \$3,000 = \$33,000

Req. 5

As of January 31, the financing for ABT's assets came primarily from liabilities. For ABT, the liabilities financed \$86,000 of its assets and stockholders' equity financed \$40,000.

CP2-2

Req. 1

			Assets			=	Liabilities		+ Stockholders' Equity	
	Cash	Supplies	Building	Equip	Land		Accounts Payable	Notes Payable (long-term)	Common Stock	Retained Earnings
	16,000	5,000	200,000	18,000	90,000	=	4,000	17,000	308,000	0
a.	+200,000					=			+200,000	
b.	+30,000					=		+30,000		
c.	-41,000		+141,000			=		+100,000		
d.	-100,000			+100,000		=				
e.		+10,000					+10,000			
	105,000	15,000	341,000	118,000	90,000	=	14,000	147,000	508,000	0

CP2-2 (continued)

Req. 2

a.	Cash (+A)	200,000	
	Common Stock (+SE)		200,000
b.	Cash (+A)	30,000	
	Note Payable (long-term) (+L)		30,000
c.	Building (+A)	141,000	
	Cash (-A)		41,000
	Note Payable (long-term) (+L)		100,000
d.	Equipment (+A)	100,000	
	Cash (-A)		100,000
e.	Supplies (+A)	10,000	
	Accounts Payable (+L)		10,000

Req. 3

Cash (A)

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

Supplies (A)

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

Equipment (A)

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

Building (A)

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

Land (A)

	Debit	Credit
Beg.	90,000	
End.	90,000	

Accounts Payable (L)

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

Notes Payable (long-term) (L)

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

Common Stock (SE)

Debit	Credit	
	308,000	Beg.
	200,000	(a)
	508,000	End.

Retained Earnings (SE)

Debit	Credit	
	0	Beg.
	0	End.

CP2-2 (continued)

Req. 4

ATHLETIC PERFORMANCE COMPANY
Trial Balance
At July 31

	Debits	Credits
Cash	$105,000	
Supplies	15,000	
Equipment	118,000	
Building	341,000	
Land	90,000	
Accounts Payable		$ 14,000
Notes Payable		147,000
Common Stock		508,000
Retained Earnings		0
TOTALS	$669,000	$669,000

Req. 5

ATHLETIC PERFORMANCE COMPANY
Balance Sheet
At July 31

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	*Stockholders' Equity*	
Building	341,000	Common Stock	508,000
Land	90,000	Retained Earnings	0
		Total Stockholders' Equity	508,000
Total Assets	$669,000	*Total Liabilities & Stockholders' Equity*	$669,000

Req. 6

As of July 31, most of APC's financing has come from stockholders' equity. Stockholders' equity has financed $508,000 of APC's assets and liabilities financed $161,000.

CP2-3

Req. 1

	Assets		= Liabilities		+ Stockholders' Equity	
a.	Equipment Cash	+21,000 -5,000	Note Payable (long-term)	+16,000		
b.	Cash	+20,000			Common Stock	+20,000
c.	Cash	+50,000	Note Payable (long-term)	+50,000		
d.	Supplies Cash	+4,000 -4,000				
e.	Buildings Cash	+41,000 -12,000	Note Payable (long-term)	+29,000		
f.	No effect (because the president has not yet started working for the company).					

Req. 2

		Debit	Credit
a.	Equipment (+A)	21,000	
	Cash (-A)		5,000
	Note Payable (long-term) (+L)		16,000
b.	Cash (+A)	20,000	
	Common Stock (+SE)		20,000
c.	Cash (+A)	50,000	
	Note Payable (long-term) (+L)		50,000
d.	Supplies (+A)	4,000	
	Cash (-A)		4,000
e.	Buildings (+A)	41,000	
	Cash (-A)		12,000
	Note Payable (long-term) (+L)		29,000

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

CP2-3 (continued)

Req. 3

Cash (A)

Beg.	35,000		
(b)	20,000	5,000	(a)
(c)	50,000	4,000	(d)
		12,000	(e)
End.	84,000		

Accounts Receivable (A)

Beg.	5,000		
End.	5,000		

Inventory (A)

Beg.	40,000		
End.	40,000		

Supplies (A)

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

Equipment (A)

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

Buildings (A)

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

Notes Receivable (A)

Beg.	2,000		
End.	2,000		

Land (A)

Beg.	30,000		
End.	30,000		

Accounts Payable (L)

		37,000	Beg.
		37,000	End.

Notes Payable (L)

		80,000	Beg.
		16,000	(a)
		50,000	(c)
		29,000	(e)
		175,000	End.

Common Stock (SE)

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

Retained Earnings (SE)

		50,000	Beg.
		50,000	End

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.

CP2-3 (continued)

Req. 5

PERFORMANCE PLASTICS COMPANY
Balance Sheet
At December 31

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 84,000	Accounts Payable	$ 37,000
Accounts Receivable	5,000	*Total Current Liabilities*	37,000
Inventory	40,000		
Supplies	9,000	Notes Payable	175,000
Total Current Assets	138,000	*Total Liabilities*	212,000
Notes Receivable	2,000	*Stockholders' Equity*	
Equipment	101,000	Common Stock	170,000
Buildings	161,000	Retained Earnings	50,000
Land	30,000	*Total Stockholders' Equity*	220,000
Total Assets	$432,000	*Total Liabilities & Stockholders' Equity*	$432,000

Req. 6

As of December 31, more of PPC's financing has come from stockholders' equity. Stockholders' equity has financed $220,000 of PPC's assets and liabilities financed $212,000.

ANSWERS TO GROUP A PROBLEMS

PA2-1

Req. 1

	Assets			=	Liabilities	+	Stockholders' Equity	
	Cash	Equipment	Buildings		Notes Payable (long-term)		Common Stock	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)	–7,000	+10,000		=	+3,000			
(g)	No effect			=				
	+10,000	+37,000	+200,000	=	+147,000		+100,000	
Changes	+ $247,000				+ $147,000		+$100,000	

Req. 2

The transaction between the stockholder 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 $247,000 = $747,000 Ending total assets

(b) Beginning total liabilities $200,000 + Changes $147,000 = $347,000 Ending total liabilities

(c) Ending total assets $747,000 – Ending total liabilities $347,000 = Ending stockholders' equity $400,000

Or, Beginning stockholders' equity $300,000 + Changes in stockholders' equity $100,000 = Ending stockholders' equity $400,000.

PA2-1 (continued)

Req. 4

As of the end of the year, MI's assets were financed by slightly more stockholders' equity than liabilities. MI's stockholders' equity financed $400,000 of the company's total assets and liabilities financed $347,000.

PA2-2

Req. 1

	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Cash	+400,000					Common Stock	+400,000
b.	Cash	+100,000		Note Payable (long-term)	+100,000			
c.	Buildings Cash	+182,000 -82,000		Note Payable (long-term)	+100,000			
d.	Equipment Cash	+200,000 -200,000						
e.	Supplies	+30,000		Accounts Payable	+30,000			

Req. 2

a.	Cash (+A)	400,000	
	Common Stock (+SE)		400,000
b.	Cash (+A)	100,000	
	Note Payable (long-term) (+L)		100,000
c.	Buildings (+A)	182,000	
	Cash (-A)		82,000
	Note Payable (long-term) (+L)		100,000
d.	Equipment (+A)	200,000	
	Cash (-A)		200,000
e.	Supplies (+A)	30,000	
	Accounts Payable (+L)		30,000

PA2-2 (continued)

Req. 3

Cash (A)			
Beg.	36,000		
(a)	400,000	82,000	(c)
(b)	100,000	200,000	(d)
End.	254,000		

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

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

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

Land (A)		
Beg.	200,000	
End.	200,000	

Accounts Payable (L)		
	20,000	Beg.
	30,000	(e)
	50,000	End.

Note Payable (L)		
	2,000	Beg.
	100,000	(b)
	100,000	(c)
	202,000	End.

Common Stock (SE)		
	180,000	Beg.
	400,000	(a)
	580,000	End.

Retained Earnings (SE)		
	259,000	Beg.
	259,000	End.

Req. 4

DELIBERATE SPEED CORPORATION
Trial Balance
At July 31

	Debits	Credits
Cash	$254,000	
Supplies	37,000	
Equipment	318,000	
Buildings	282,000	
Land	200,000	
Accounts Payable		$ 50,000
Notes Payable		202,000
Common Stock		580,000
Retained Earnings		259,000
TOTALS	$1,091,00 0	$1,091,00 0

PA2-2 (continued)

Req. 5

DELIBERATE SPEED CORPORATION
Balance Sheet
At July 31

Assets		*Liabilities*	
Current Assets		*Current Liabilities*	
Cash	$ 254,000	Accounts Payable	$ 50,000
Supplies	37,000	*Total Current Liabilities*	50,000
Total Current Assets	291,000		
		Notes Payable	202,000
		Total Liabilities	252,000
Equipment	318,000	*Stockholders' Equity*	
Buildings	282,000	Common Stock	580,000
Land	200,000	Retained Earnings	259,000
		Total Stockholders' Equity	839,000
Total Assets	$ 1,091,000	*Total Liabilities & Stockholders' Equity*	$ 1,091,000

Req. 6

As of July 31, most of DSC's financing has come from stockholders' equity. Stockholders' equity has financed $839,000 of DSC's assets and liabilities financed $252,000.

PA2-3

Req. 1

As of September 30, 2016, Ethan Allen had $273 of current assets ($79 + 10 + 160 + 24) and $135 of current liabilities ($109 + 23 + 3), yielding a current ratio of 2.02. Although considered a strong level of liquidity, Ethan Allen's ratio is less than the 2.15 for TripAdvisor, so TripAdvisor was in a better position to pay liabilities as they come due in the next year.

Req. 2

	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Inventory Cash	+30 -30						
b.	Cash	+20					Common Stock	+20
c.	Equipment Cash	+170 -60		Note Payable (long-term)	+110			
d.	Cash	+10		Note Payable (short-term)	+10			
e.	*No effect.*							

Req. 3

		Debit	Credit
a.	Inventory (+A)	30	
	Cash (-A)		30
b.	Cash (+A)	20	
	Common Stock (+SE)		20
c.	Equipment (+A)	170	
	Cash (-A)		60
	Note Payable (long-term) (+L)		110
d.	Cash (+A)	10	
	Note Payable (short-term) (+L)		10

e. No effect.

PA2-3 (continued)

Req. 4

Cash (A)

Beg.	79	
(b)	20	30 (a)
(d)	10	60 (c)
End.	19	

Accounts Receivable (A)

Beg.	10	
End.	10	

Inventory (A)

Beg.	160	
(a)	30	
End.	190	

Prepaid Rent (A)

Beg.	24	
End.	24	

Equipment (A)

Beg.	273	
(c)	170	
End.	443	

Software (A)

Beg.	45	
End.	45	

Accounts Payable (L)

	109 Beg.
	109 End.

Salaries and Wages Payable (L)

	23 Beg.
	23 End.

Notes Payable (short-term) (L)

	3 Beg.
	10 (d)
	13 End.

Notes Payable (long-term) (L)

	60 Beg.
	110 (c)
	170 End.

Common Stock (SE)

	376 Beg.
	20 (b)
	396 End.

Retained Earnings (SE)

	20 Beg.
	20 End.

Req. 5

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.

PA2-3 (continued)

Req. 6

ETHAN ALLEN INTERIORS, INC.
Balance Sheet
At December 31, 2016
(in millions of dollars)

Assets	
Current Assets	
Cash	$ 19
Accounts Receivable	10
Inventory	190
Prepaid Rent	24
Total Current Assets	243
Equipment	443
Software	45
Total Assets	$731
Liabilities	
Current Liabilities	
Accounts Payable	$ 109
Salaries and Wages Payable	23
Notes Payable (short-term)	13
Total Current Liabilities	145
Notes Payable (long-term)	170
Total Liabilities	315
Stockholders' Equity	
Common Stock	396
Retained Earnings	20
Total Stockholders' Equity	416
Total Liabilities and Stockholders' Equity	$731

Req. 7

As reported in Requirement 6, Ethan Allen had $243 of current assets and $145 of current liabilities, yielding a current ratio of 1.68. Because a current ratio of 1.68 is less than the current ratio of 2.02 at September 30, it suggests the transactions decreased the company's ability to pay its current liabilities as they come due.

Req. 8

As of December 31, 2016, the financing for Ethan Allen's investment in assets has come primarily from stockholders' equity. Liabilities financed $315,000,000 of the company's total assets and shareholders' equity financed $416,000,000.

ANSWERS TO GROUP B PROBLEMS

PB2-1

Req. 1

	Assets			=	Liabilities	+	Stockholders' Equity	
	Cash	**Equipment**	**Buildings**		**Notes Payable (long-term)**		**Common Stock**	**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 stockholder 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 stockholders’ equity $584,000

Or, Beginning stockholders’ equity $475,000 + Changes in stockholders’ equity $109,000 = Ending stockholders’ equity $584,000.

PB2-1 (continued)

Req. 4

As of December 31, Swish 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 stockholders' equity financed $584,000.

PB2-2

Req. 1

	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Cash	+600,000					Common Stock	+600,000
b.	Cash	+60,000		Note Payable (long-term)	+60,000			
c.	Buildings Cash	+166,000 -66,000		Note Payable (long-term)	+100,000			
d.	Equipment Cash	+90,000 -90,000						
e.	Supplies	+90,000		Accounts Payable	+90,000			

Req. 2

		Debit	Credit
a.	Cash (+A)	600,000	
	Common Stock (+SE)		600,000
b.	Cash (+A)	60,000	
	Note Payable (long-term) (+L)		60,000
c.	Buildings (+A)	166,000	
	Cash (-A)		66,000
	Note Payable (long-term) (+L)		100,000
d.	Equipment (+A)	90,000	
	Cash (-A)		90,000
e.	Supplies (+A)	90,000	
	Accounts Payable (+L)		90,000

PB2-2 (continued)

Req. 3

Cash (A)

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

Supplies (A)

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

Equipment (A)

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

Buildings (A)

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

Land (A)

Beg.	444,000	
End.	444,000	

Accounts Payable (L)

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

Notes Payable (L)

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

Common Stock (SE)

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

Retained Earnings (SE)

	966,000	Beg.
	966,000	End.

Req. 4

BEARINGS & BRAKES CORPORATION
Trial Balance
At July 31

	Debits	Credits
Cash	$594,000	
Supplies	99,000	
Equipment	238,000	
Buildings	666,000	
Land	444,000	
Accounts Payable		$ 140,000
Notes Payable		165,000
Common Stock		770,000
Retained Earnings		966,000
TOTALS	$2,041,00	$2,041,00
	0	0

PB2-2 (continued)

Req. 5

BEARINGS & BRAKES CORPORATION
Balance Sheet
At July 31

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	*Stockholders' Equity*	
Buildings	666,000	Common Stock	770,000
Land	444,000	Retained Earnings	966,000
		Total Stockholders' Equity	1,736,000
Total Assets	$ 2,041,000	*Total Liabilities & Stockholders' Equity*	$ 2,041,000

Req. 6

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

PB2-3
Req. 1

Starbucks	Apple
Current Ratio = $4,760* / $4,550** = 1.05	Current Ratio = $106,869 / $ 79,006 = 1.35

* ($2,130 Cash + $770 AR + $1,380 Inv. + $350 Ppd Rent + $130 S/T Invst = $4,760)
** ($4,150 AP + $400 Short term Note Payable = $4,550)

Apple was in a better position to pay current liabilities because for every dollar of liabilities, Apple had $1.35 of current assets, whereas Starbucks had $1.05 of current assets for every dollar of current liabilities

Req. 2

	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Intangible Assets	+1,000						
	Cash	-1,000						
b.	Cash	+10,000					Common Stock	+10,000
c.	Equipment	+13,500		Note Payable (long-term)	+9,500			
	Cash	-4,000						
d.	Cash	-800		Accounts Payable	-800			
e.	*No effect.*							

Req. 3

		Debit	Credit
a.	Intangible Assets (+A)	1,000	
	Cash (-A)..		1,000
b.	Cash (+A)	10,000	
	Common Stock (+SE)		10,000
c.	Equipment (+A)	13,500	
	Cash (-A)..		4,000
	Note Payable (long-term) (+L)............................		9,500
d.	Accounts Payable (-L)	800	
	Cash (-A)..		800
e.	No effect.		

PB2-3 (continued)

Req. 4

Cash (A)

Beg.	2,130		
(b)	10,000	1,000	(a)
		4,000	(c)
		800	(d)
End.	6,330		

Accounts Receivable (A)

Beg.	770	
End.	770	

Inventory (A)

Beg.	1,380	
End.	1,380	

Short-term Investments (A)

Beg.	130	
End.	130	

Prepaid Rent (A)

Beg.	350	
End.	350	

Equipment (A)

Beg.	4,530	
(c)	13,500	
End.	18,030	

Intangible Assets (A)

Beg.	5,040	
(a)	1,000	
End.	6,040	

Accounts Payable (L)

	4,150	Beg.
(d) 800		
	3,350	End.

Notes Payable (short-term) (L)

	400	Beg.
	400	End.

Notes Payable (long-term) (L)

	3,200	Beg.
	9,500	(c)
	12,700	End.

Common Stock (SE)

	630	Beg.
	10,000	(b)
	10,630	End.

Retained Earnings (SE)

	5,950	Beg.
	5,950	End.

PB2-3 (continued)

Req. 5

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.

Req. 6

STARBUCKS
Balance Sheet
At December 31, 2016
(in millions of dollars)

Assets	
Current Assets	
Cash	$ 6,330
Short-term Investments	130
Accounts Receivable	770
Inventory	1,380
Prepaid Rent	350
Total Current Assets	8,960
Property, Plant, and Equipment	18,030
Intangible Assets	6,040
Total Assets	$33,030
Liabilities	
Current Liabilities	
Accounts Payable	$ 3,350
Notes Payable (short-term)	400
Total Current Liabilities	3,750
Notes Payable (long-term)	12,700
Total Liabilities	16,450
Stockholders' Equity	
Common Stock	10,630
Retained Earnings	5,950
Total Stockholders' Equity	16,580
Total Liabilities and Stockholders' Equity	$ 33,030

Req. 7

With current assets of $8,960 and current liabilities of $3,750, Starbucks' current ratio after the transactions listed in *(a) – (e)* is 2.39. Prior to these transactions, Starbucks' current ratio was calculated at 1.05, so these transactions increased Starbucks' ability to pay current liabilities in the next year.

PB2-3 (continued)

Req. 8

As of December 31, 2016, financing for Starbucks' assets has come primarily from stockholders' equity. Stockholders' equity financed $16,580,000,000 of the company's total assets and liabilities financed $16,450,000,000.

ANSWERS TO SKILLS DEVELOPMENT CASES

S2-1

1. D
2. B
3. B
4. A

S2-2

Req. 1

Lowe's:
Assets = Liabilities + Shareholders' Equity
$34,408,000,000 = $27,974,000,000 + $6,434,000,000

The Home Depot:
Assets = Liabilities + Shareholders' Equity
$42,966,000,000 = $38,633,000,000 + $4,333,000,000

The Home Depot is larger in terms of total assets of $42,966,000,000 compared to Lowe's total assets of $34,408,000,000.

Req. 2

Lowe's current liabilities of $11,974,000,000 are less than the $14,133,000,000 reported by The Home Depot.

The Home Depot:
Current Ratio = $\frac{\$17,724}{\$14,133}$ = 1.25

Lowes:
Current Ratio = $\frac{\$12,000}{\$11,974}$ = 1.00

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

Req. 3

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

S2-2 (continued)

Req. 4

Financing for the Lowe's investment in assets has come more from liabilities than stockholders' equity. Lowe's liabilities have financed $27,974,000,000 of the total assets of the company and stockholders' equity has financed $6,434,000,000.

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 consider the relative amounts of assets, liabilities, and shareholders' equity. To calculate the percentage of assets financed by creditors, simply divide total liabilities by total assets and multiply by 100.

Lowe's $\dfrac{\text{Total liabilities}}{\text{Total assets}} \times 100 = \dfrac{27{,}974{,}000{,}000}{34{,}408{,}000{,}000} \times 100 =$ 81.3%

Home Depot $\dfrac{\text{Total liabilities}}{\text{Total assets}} \times 100 = \dfrac{38{,}633{,}000{,}000}{42{,}966{,}000{,}000} \times 100 =$ 89.9%

This places Lowe's 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 + Stockholders' 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 the cost principle, which requires that nonfinancial investments such as land be reported at cost even if an appraisal suggests it is worth more.

Req. 4

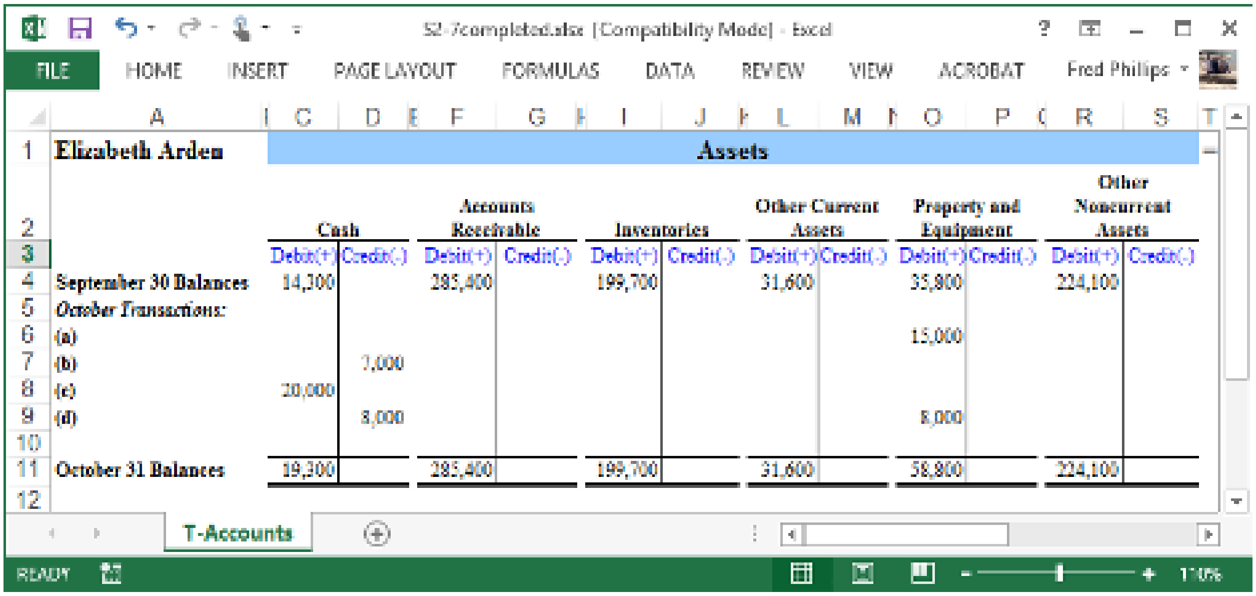
Parties that might be hurt by the president's suggestions include investors, lenders, and other creditors. The bank in particular could be hurt because its managers will consider the company's recorded assets as a benchmark for assessing the company's credit risk. Also, if you were to go along with the 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 reported at cost, following the cost principle.

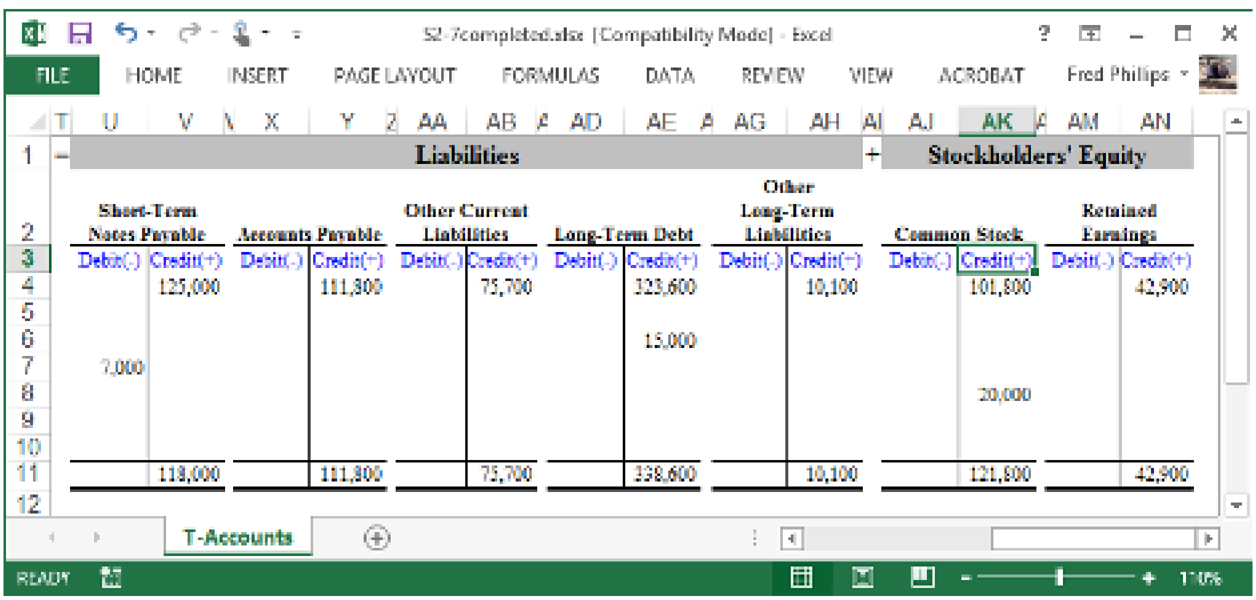
S2-6

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 stockholder'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



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	



	Liabilities										Stockholders' Equity			
	Short-Term Notes Payable		Accounts Payable		Other Current Liabilities		Long-Term Debt		Other Long-Term Liabilities		Common Stock		Retained Earnings	
3	Debit(-)	Credit(+)	Debit(-)	Credit(+)	Debit(-)	Credit(+)	Debit(-)	Credit(+)	Debit(-)	Credit(+)	Debit(-)	Credit(+)	Debit(-)	Credit(+)
4		125,000		111,800		75,700		323,600		10,100		101,800		42,900
5														
6								15,000						
7	7,000													
8												20,000		
9														
11		118,000		111,800		75,700		338,600		10,100		121,800		42,900

ANSWERS TO CONTINUING CASE

CC2-1

Req. 1

		Debit	Credit
a.	Cash (+A)	80,000	
	Common Stock (+SE)		80,000
b.	Land (+A)	9,000	
	Cash (-A)		2,000
	Note Payable (long-term) (+L)		7,000

c. This is an exchange of only promises, so it is not a transaction.

		Debit	Credit
d.	Equipment (+A)	18,000	
	Cash (-A)		18,000
e.	Supplies (+A)	1,000	
	Accounts Payable (+L)		1,000
f.	Accounts Payable (-L)	350	
	Cash (-A)		350

g. No transaction. Separate entity assumption.

Req. 2

Cash (A)

	Debit	Credit	
Beg.	0		
(a)	80,000	2,000	(b)
		18,000	(d)
		350	(f)
End.	59,650		

Supplies (A)

	Debit	Credit
Beg.	0	
(e)	1,000	
End.	1,000	

Equipment (A)

	Debit	Credit
Beg.	0	
(d)	18,000	
End.	18,000	

Land (A)

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

Accounts Payable (L)

	Debit	Credit	
		0	Beg.
(f)	350	1,000	(e)
		650	End.

Notes Payable (long-term) (L)

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

Common Stock (SE)

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

CC2-1 (Continued)

Req. 3

NICOLE'S GETAWAY SPA
Balance Sheet
At April 30

Assets	
Current Assets	
Cash	$ 59,650
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
Stockholders' Equity:	
Common Stock	80,000
Retained Earnings	0
Total Stockholders' Equity	80,000
Total Liabilities and Stockholders' Equity	$ 87,650

Req. 4

The current ratio indicates the proportion of current assets relative to current liabilities. As of April 30, 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.

Student Name: **Instructor**
Class: **McGraw-Hill/Irwin**
Demonstration Case 2

Requirement 1:

	ASSETS								=	LIABILITIES				+	STOCKHOLDERS' EQUITY	
	+ / -	Cash	+ / -	Note Receivable	+ / -	Equipment	+ / -	Land		+ / -	Accounts Payable	+ / -	Notes Payable		+ / -	Common Stock
(a)	+	9,000													+	9,000
(b)	-	200			+	600				+	400					
(c)	N/A											N/A				
(d)	-	5,000					+	5,000				N/A				
(e)					+	4,000						+	4,000			
(f)			+	1,250			-	1,250				N/A				
(g)	N/A											N/A				

Requirement 2:

		Account	Debit	Credit	
(a)	dr	Cash	9,000		<--Correct!
	cr	Common Stock		9,000	<--Correct!
(b)	dr	Equipment	600		<--Correct!
	cr	Cash		200	<--Correct!
		Accounts Payable		400	<--Correct!
(c)	dr	N/A			
	cr				
(d)	dr	Land	5,000		<--Correct!
	cr	Cash		5,000	<--Correct!
(e)	dr	Equipment	4,000		<--Correct!
	cr	Note Payable		4,000	<--Correct!
(f)	dr	Note Receivable	1,250		<--Correct!
	cr	Land		1,250	<--Correct!
(f)	dr	N/A			
	cr				

Requirement 3:

ASSETS = LIABILITIES + STOCKHOLDERS' EQUITY

Cash (A)

	Debit	Credit	
Beg	0		
(a)	9,000	200	(b)
		5,000	(d)
	3,800		

Correct!

Equipment (A)

	Debit	Credit	
Beg	0		
(b)	600		
(e)	4,000		
	4,600		

Correct!

Accounts Payable (L)

	Debit	Credit	
		0	Beg
		400	(b)
		400	

Correct!

STOCKHOLDERS' EQUITY

Common Stock (SE)

	Debit	Credit	
		0	Beg
		9,000	(a)
		9,000	

Correct!

Note Receivable (A)

	Debit	Credit	
Beg	0		
(f)	1,250		
	1,250		

Correct!

Land (A)

	Debit	Credit	
Beg	0		
(d)	5,000	1,250	(f)
	3,750		

Correct!

Note Payable (L)

	Debit	Credit	
		0	Beg
		4,000	(e)
		4,000	

Correct!

Requirement 4:

GOODBYE GRASS CORPORATION
Trial Balance
At April 30, 2018

	Debit	Credit
Cash	$ 3,800	
Notes Receivable	1,250	
Equipment	4,600	
Land	3,750	
Accounts Payable		$ 400
Notes Payable		4,000
Common Stock		9,000
Retained Earnings		-
Total	$ 13,400	$ 13,400
	Correct!	Correct!

GOODBYE GRASS CORPORATION
Balance Sheet
At April 30, 2018

Assets		**Liabilities**	
Current assets		Current liabilities	
Cash	$ 3,800	Accounts Payable	$ 400
Note Receivable	1,250	Note Payable	4,000
Total Current Assets	5,050	Total Current Liabilities	4,400
Equipment	4,600	**Stockholders' Equity**	
Land	3,750	Common Stock	9,000
		Retained Earnings	-
		Total Stockholders' Equity	9,000
Total Assets	$ 13,400	Total Liabilities and Stockholders' Equity	$ 13,400
	Correct!		Correct!

ven Data DC2:

GOODBYE GRASS CORPORATION		
April Transactions:		
(a)Issues stock for cash	$	9,000

Student Name: **Instructor**
Class: **McGraw-Hill/Irwin**
Coached Problem 2-1

Requirement 2:

		ASSETS									=		LIABILITIES	+		STOCKHOLDERS' EQUITY		
	+ -	Cash	+ -	Supplies	+ -	Land	+ -	Building	+ -	Equipment		+ -	Notes Payable		+ -	Common Stock	+ -	Retained Earnings
(a)	+	40,000													+	40,000		
(b)	-	13,000			+	18,000	+	65,000	+	16,000		+	86,000					
(c)	N/A																	
(d)	-	3,000	+	3,000														
(e)	+	6,000			-	6,000												
	+	30,000	+	3,000	+	12,000	+	65,000	+	16,000		+	86,000		+	40,000		
		Correct!		Correct!		Correct!		Correct!		Correct!			Correct!			Correct!		

Requirement 4:

(a)Total Assets:

$ 30,000 + 3,000 + 12,000 + 65,000 + 16,000 = $ 126,000 Correct!

(b)Total Liabilities

$ 86,000 Correct!

(c)Total Stockholders' Equity

$ 40,000 Correct!

(d)Cash Balance

$ 30,000 Correct!

(e)Total Current Assets

$ 30,000 + 3,000 = $ 33,000 Correct!

ven Data CP2-1:

Ag Bio Tech		
Number of investors		4
Amount invested by each investor	$	10,000
Number of shares issues to each investor		8,000
January, 2013 transactions:		
(a) Collected cash investments and issued stock	$	40,000
(b) Purchased fixed assets:		
Building	$	65,000
Equipment	$	16,000
Land	$	18,000
Cash paid for land purchase	$	13,000
15-year note signed for land purchase		?
(c) 500 shares of stock sold by one stockholder to another	$	5,000
(d) Purchases supplies for cash	$	3,000
(e) Sold one acre of land for cash	$	6,000

Student Name: **Instructor**
Class: **McGraw-Hill/Irwin**
Problem A 2-1

Requirement 1:

	ASSETS						=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
	+ -	Cash	+ -	Equipment	+ -	Building		+ -	Notes Payable		+ -	Common Stock	+ -	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)	-	7,000	+	10,000				+	3,000					
(g)	N/A													
	+	10,000	+	37,000	+	200,000		+	147,000		+	100,000		
		Correct!		Correct!		Correct!			Correct!			Correct!		

Requirement 3:

(a)Total Assets at end of Year:

$ 500,000 + 10,000 + 37,000 + 200,000 = $ 747,000 <--Correct!

(b)Total Liabilities at end of Year:

$ 200,000 + 147,000 = $ 347,000 <--Correct!

(c)Total Stockholders' Equity at end of Year:

$ 747,000 - 347,000 = $ 400,000 <--Correct!

ven Data PA 2-1:

MALLARD INCORPORATED		
Previous Year end Total Assets	$	500,000
Previous Year end Total Liabilities	$	200,000
Current Year Transactions		
Issued additional shares of stock	$	100,000
Borrowed from bank on a10-year note	$	120,000
Built a factory addition for cash	$	200,000
Purchased equipment:	$	30,000
Cash payment for equipment	$	3,000
Signed 6-month note for equipment		?
Returned part of above equipment for a note reduction	$	3,000
Purchased delivery truck:	$	10,000
Cash payment for truck	$	7,000
Signed 9-month note for truck		?
Capital stock sold by stockholder to another individual	$	5,000

Student Name: **Instructor**
Class: **McGraw-Hill/Irwin**
Simplify with Spreadsheets 2-7

Elizabeth Arden	**ASSETS**												= **LIABILITIES**										+ **STOCKHOLDERS' EQUITY**			
	Cash		**Accounts Receivable**		**Inventories**		**Other Current Assets**		**Property and Equipment**		**Other Non-current Assets**		**Short-term Notes Payable**		**Accounts Payable**		**Other Current Liabilities**		**Long-term Debt**		**Other Long-term Liabilities**		**Common Stock**		**Retained Earnings**	
	Debit (+)	Credit (-)	Debit (+)	Credit (-)	Debit (+)	Credit (-)	Debit (+)	Credit (-)	Debit (+)	Credit (-)	Debit (+)	Credit (-)	Debit (-)	Credit (+)	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			125,000		111,800		75,700		323,600		10,100		101,800		42,900
(a)									15,000											15,000						
(b)		7,000											7,000													
(c)	20,000																							20,000		
(d)		8,000							8,000																	
October 31 Balances	19,300		285,400		199,700		31,600		58,800		224,100			118,000		111,800		75,700		338,600		10,100		121,800		42,900

ven Data S2-7:

ELIZABETH ARDEN, INC.		
September 30 Account Balances		
Cash	$	14,300
Accounts Receivable		285,400
Inventories		199,700
Other Current Assets		31,600
Property and Equipment		35,800
Other Noncurrent Assets		224,100
Short-term Notes Payable		125,000
Accounts Payable		111,800
Other Current Liabilities		75,700
Long-term Debt		323,600
Other Long-term Liabilities		10,100
Contributed Capital		101,800
Retained Earnings		42,900
October transactions:		
Purchased mfg. facility with 3-year promissory note	$	15,000
Repaid short-term with cash	$	7,000
Issued stock for cash	$	20,000
Purchased land for cash	$	8,000