# SOLUTIONS Learning Goal 10

## Multiple Choice

1. a
2. d
3. b
4. a
5. b
6. c
7. c
8. d
9. a
10. b
11. d
12. c

## Reinforcement Problems

### LG 10-1.

| Description | Type of Organization |
|---|---|
| 1. A business with one owner, and that does not issue shares of stock. | Proprietorship |
| 2. A business with one or more owners and that does issue shares of stock. | Corporation |
| 3. A type of business with one or more owners that combines certain legal and tax advantages of a partnership and a corporation. | Limited liability company (LLC) |
| 4. A business with two more owners that act together as partners. | Partnership |
| 5. A corporation that is organization for charitable purposes. | Non-profit corporation |

## SOLUTIONS Learning Goal 10, continued

### LG 10-2.

| Description | Item |
|---|---|
| 1. A six-month advance payment to an insurance company. | Prepaid expense (asset) |
| 2. The legal right to collect money from a bill sent to a customer | Account receivable (asset) |
| 3. Using advertising services, and owner's equity decreases | Expense (owner's equity decrease) |
| 4. Providing consulting services to a client, and owner's equity increases | Revenue (owner's equity increase) |
| 5. Owner makes a deposit to the business bank account from her own personal funds | Owner investment (owner's equity increase) |
| 6. An advance payment received from a customer before services are provided. | Unearned revenue (liability) |
| 7. On December 31, the total amount of owner's equity for a business owned by Mary Yee. | Capital |
| 8. The legal obligation to pay money as a result of signing a formal promise to pay a specific amount on a certain date. | Note payable (liability) |
| 9. Mark Andersen, the owner, wrote himself a check on the business checking account. | Withdrawal (owner's equity decrease) |
| 10. The legal obligation to pay money as pay money as a result fo receiving a bill from a supplier. | Account payable (liability) |
| 11. The combined total of a beginning capital balance with current period revenues, expenses, and owner drawing. | Capital |
| 12. Consuming resources in order to operate the business and make sales. | Expense (owner's equity decrease) |

### LG 10-3.

| | Total Assets = | Total Liabilities + | Owner's Equity |
|---|---|---|---|
| a. Mohawk Company | $251,000 | $200,000 | **$51,000** |
| b. Nez Perce Company | **40,700** | 18,500 | 22,200 |
| c. Lakota Company | 50,000 | **15,000** | 35,000 |
| d. Modoc Company | **225,000** | 45,000 | 180,000 |
| e. Cherokee Company | 200,000 | 251,000 | (**51,000**) |
| f. Seminole Company | 815,000 | **170,000** | 645,000 |

Situation "e": Negative owner's equity occurs when the amount of losses incurred cause assets to decrease, while liabilities are not reduced an equal amount. In a proprietorship, the owner has personal liability (in this case, $51,000) to pay the debts when they are due, if the business does not have sufficient assets.

# SOLUTIONS Learning Goal 10, continued

## LG 10-4.

| Event | R | Assets Affected? C | Assets Affected? V | Liabilities Affected? C | Liabilities Affected? V | Owner's Equity Affected? C | Owner's Equity Affected? V |
|---|---|---|---|---|---|---|---|
| a. On April 30, a count of supplies shows $400 of supplies used up. | April 30 | Supplies | (400) | | | Supplies Expense | (400) |
| b. The owner invested $5,000 in his business on May 7. | May 7 | Cash | 5,000 + | | | Owner's equity | 5,000 + |
| c. $500 was collected from accounts receivable on October 12. | Oct. 12 | Cash<br>Acct. Rec. | 500 +<br>(500) | | | | |
| d. On June 1, received $2,700 from a tenant for 3 months office rent beginning on June 1. | June 1 | Cash | 2,700 + | Unearned Revenue | 2,700 + | | |
| e. On December 31, purchased $1,900 of supplies and will pay later. | Dec. 31 | Supplies | 1,900 + | Accounts Payable | 1,900 + | | |
| f. Provided $750 services to customer on December 31. Customer will pay later. | Dec. 31 | Acct. Rec. | 750 + | | | Service Revenue | 750 + |
| g. On August 3, purchased $9,500 of equipment by paying $3,000 cash and signing a 2-month note payable. | Aug. 3 | Cash<br>Equipment | (3,000)<br>9,500 + | Notes Payable | 6,500 + | | |
| h. On January 5, received $300 bill from the telephone company for *telephone services up to December 31*. | Dec. 31 | | | Accounts Payable | 300 + | Telephone Expense | (300) |
| i. The owner wrote a $2,500 check to himself from the business checking account on November 23. | Nov. 23 | Cash | (2,500) | | | With-drawal | (2,500) |
| j. It is now June 30, the end of the first month after item "d" above. | June 30 | | | Unearned Revenue | (900) | Rent Revenue | 900 + |
| k. On October 3, borrowed $6,500 on a new long-term note and used the money to pay off the note in "g." | Oct. 3 | | | Notes Payable | (6,500)<br>6,500 + | | |

## SOLUTIONS Learning Goal 10, continued

### LG 10-4, *continued*

**Comments:** (1) Event h: Did you find this one to be a little tricky? This example shows that the timing for the recognition date is not always obvious. Because the bill was for telephone services up to end of December (not for January!), the item should be recorded with a December 31 date. We will study this timing issue much more in Volume 2. (2) Event j: A timing and valuation issue, because one-third of the rent revenue has been earned by the end of June. This means that one-third of the revenue should be recorded in June. (3) Event k: The Total Notes Payable does not change because the new note payable replaces the old one for the same amount.

### LG 10-5.

| Event | Classification | Valuation | Timing |
|---|---|---|---|
| a. On March 11, the owner invested $10,000 cash and $2,000 of supplies in her business. | Cash ↑<br>Supplies ↑<br>Owner's Equity ↑ | $ 10,000<br>$ 2,000<br>$12,000 | March 11 |
| b. On December 31, a business counts the supplies inventory and determines that the amount of supplies have decreased by $900 during the last quarter. Financial statements are quarterly. | Supplies ↓<br>Owner's Equity ↓ | $900<br>$900 | Dec. 31 |
| c. On September 4, a business performs $3,000 of services and sends the bill to the customer. No cash is received. | Accounts Receivable ↑<br>Owner's Equity ↑ | $3,000<br>$3,000 | Sept. 4 |
| d. On November 12, a business pays $5,000 cash to buy some computer equipment. The invoice is not received until November 23. | Equipment ↑<br>Cash ↓ | $5,000<br>$5,000 | Nov. 12 |
| e. On May 3, a commercial trade school receives a donation of 20 computers. Although the school can use the computers, it would be difficult to sell them because they are obsolete. | Computer Equip. ↑<br>Owner's Equity ↑ | **Unknown—need to determine value, if any** | May 3 |
| f. On January 23, the local bank calls and offers to loan our business $25,000 no later than 7 days from today. | **None—no transaction** | **None—no transaction** | **None—no transaction** |
| g. A computer that had cost $1,500 suddenly stops functioning on June 23. It is not worth repairing. | Computer Equip. ↓<br>Owner's Equity ↓ | $1,500<br>$1,500 | June 23 |
| h. On October 27, $50,000 of merchandise inventory is destroyed by a fire. | Merchandise Inventory ↓<br>Owner's Equity ↓ | $50,000<br>$50,000 | Oct. 27 |
| i. On November 23, a business hires a new employee at a salary of $80,000 per year. | **None—no transaction** | **None—no transaction** | **None—no transaction** |
| j. On July 16, the owner of business withdraws $5,000 cash from the business. | Cash ↓<br>Owner's Equity ↓ | $5,000<br>$5,000 | July 16 |
| k. On August 9, our business used a consulting service and incurred $2,000 of consulting expense. A bill arrived, but we will pay it later. | Owner's Equity ↓<br>Accounts Payable ↑ | $2,000<br>$2,000 | Aug. 9 |

## SOLUTIONS Learning Goal 10, continued

### LG 10-6.

| | Mary Jones, Capital, May 1, 2017 | Revenue | Investments | Expense | Withdrawals | Mary Jones, Capital, May 31, 2017 |
|---|---|---|---|---|---|---|
| #1 | $100,000 | $23,000 | $ -0- | $19,000 | $1,000 | **$103,000** |
| #2 | 207,000 | 84,000 | 20,000 | 120,000 | -0- | **191,000** |
| #3 | 45,000 | 26,000 | 14,000 | 21,000 | 5,000 | **59,000** |
| #4 | 125,000 | 52,000 | 3,000 | 44,000 | 1,000 | 135,000 |
| #5 | 139,000 | 57,000 | -0- | 63,000 | 3,000 | 130,000 |
| #6 | **466,000** | 138,000 | 5,000 | 112,000 | 2,000 | 495,000 |

One useful approach is to use a simple equation and enter the amounts. Then solve for the missing item. The equation would be:

Beginning bal. + Revenue + Investments – Expense – Withdrawals = Ending bal.

**LG 10-7.** "Mr. Clavati" refers to the three essential elements for analyzing an event—to determine if or how the event will affect a business: **Cla**ssification, **Va**luation, and **Ti**ming.