

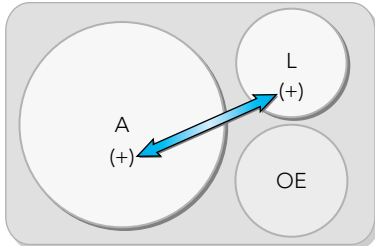
SOLUTIONS

Learning Goal 6

Multiple Choice

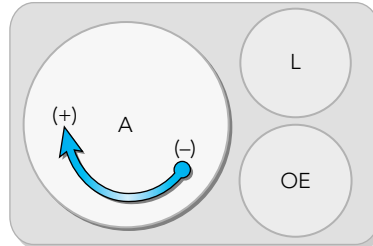
1. b

$$\uparrow A = \uparrow L + OE$$



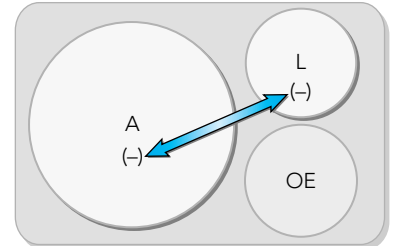
2. d

$$\downarrow \uparrow A = L + OE$$



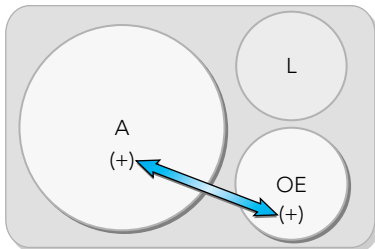
3. d

$$\downarrow A = \downarrow L + OE$$



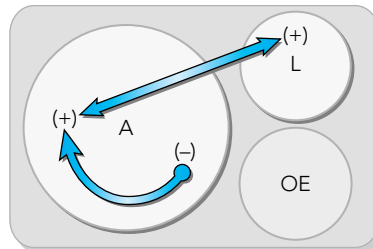
4. c

$$\uparrow A = L + \uparrow OE$$



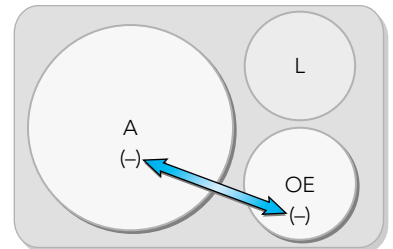
5. c

$$\downarrow \uparrow A = \uparrow L + OE$$



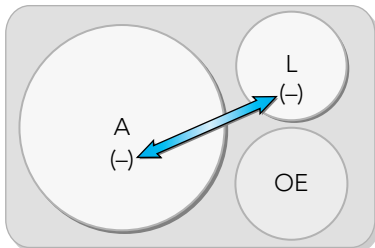
6. c

$$\downarrow A = L + \downarrow OE$$



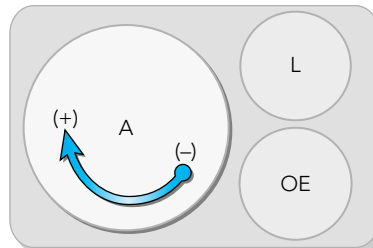
7. c

$$\downarrow A = \downarrow L + OE$$



8. d

$$\downarrow \uparrow A = L + OE$$



Reinforcement Problems

LG 6-1.

- Borrowing money; purchasing assets on credit; receiving a prepayment from a customer.
- Purchasing an asset for cash; using an asset to exchange for a different asset; collecting an account receivable.
- Expense: An asset is used up while operating the business, such as using up supplies; the owner withdraws cash or other assets.
- Not possible. (Notice that the accounting equation would not balance.)
- A bill for services is received but not immediately paid, such as telephone expense; wages are owed to employees.
- A bill is paid; a loan is repaid.
- The business performs services for a customer from whom it had previously received an advance payment.

SOLUTIONS

Learning Goal 6, continued

LG 6-2.

	A	=	L	+	OE
Transaction	Step 1: Are assets affected?		Step 2: Are liabilities affected?		Step 3: Is owner's equity affected?
a. The owner of Ellisville Enterprises invests \$10,000 in his business.	↑ \$10,000		No		↑ \$10,000
b. Senatobia Company borrowed \$5,000.	↑ \$5,000		↑ \$5,000		No
c. Youngstown Service Company earned \$1,000 of revenue that had already been prepaid by a customer last month.	No		↓ \$1,000		↑ \$1,000 (The liability decreases because the business provided services to the customer who had paid in advance, which is a liability (see page 126).)
d. Canton Corporation used \$5,000 of cash to purchase supplies.	↓ \$5,000 ↑ \$5,000		No		No
e. Brownsville Company provided \$2,500 of consulting services to a customer on credit.	↑ \$2,500		No		↑ \$2,500
f. Harlingen Partnership received a telephone bill and paid it at once.	↓ \$\$\$		No		↓ \$\$\$
g. Chula Vista Corporation used \$2,500 of consulting services and did not pay for them immediately.	No		↑ \$2,500		↓ \$2,500
h. Redding Company purchased \$10,000 of equipment by paying \$2,000 cash and borrowing \$8,000.	↑ \$10,000 ↓ \$2,000		↑ \$8,000		No
i. Shasta Company collects \$1,000 owed by a customer on account.	↑ \$1,000 ↓ \$1,000		No		No

LG 6-3.

- The business performed services for a customer from whom it had previously received an advance payment.
- The business paid a debt of some kind.
- The business used up assets as part of operations—an expense.
- The owner withdrew assets for personal use.
- Cash was used to purchase an asset; one asset was exchanged for a different asset; an account receivable was collected.
- A bill for services was received which was not immediately paid—an unpaid expense.
- The business performed services for customers and received cash or accounts receivable, or any other asset.
- The owner made an investment in the business.
- The business borrowed money or purchased assets on credit.
- If there was a transaction, it was one that had nothing to do with the business, so assets, liabilities, and owner's equity were all unaffected.

SOLUTIONS

Learning Goal 6, continued

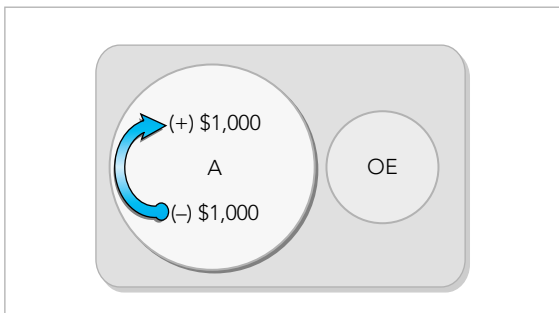
LG 6-4.

- b. Either the owner has invested \$5,000 in the business, or the business has earned \$5,000 of revenue and received cash or another asset.
- c. \$6,000 of liabilities were paid, using up \$6,000 of assets (probably cash).
- d. The business provided services for a customer that had made an advance payment, thereby increasing the owner's equity and eliminating the obligation to the customer.
- e. Assets are decreased either by being used up as part of business operations (an expense) or being withdrawn by the owner (a draw).
- f. Given that there has to be at least one business transaction, then probably an asset was reduced while another was increased, such as using cash to buy supplies. This would keep the total assets unchanged at \$8,000.
- g. \$4,000 worth of services were consumed and not immediately paid for (example: wages owed to employees).

LG 6-5.

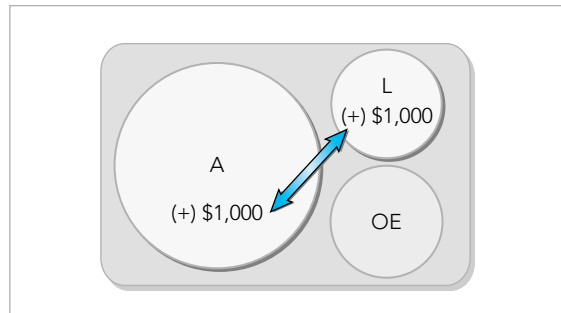
b. **Assets = Liabilities + Owner's Equity**
 - \$1,000
 + \$1,000 \$ _____ \$ _____

Ext,
Ex



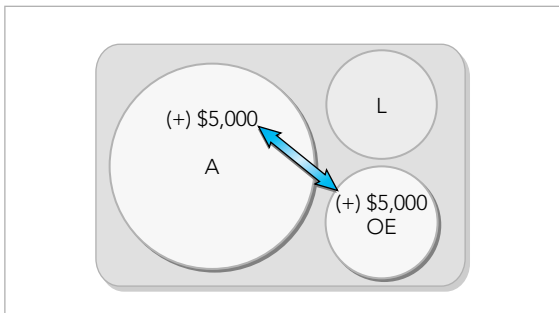
c. **Assets = Liabilities + Owner's Equity**
 + \$1,000 + \$1,000 \$ _____

Ext,
Ex



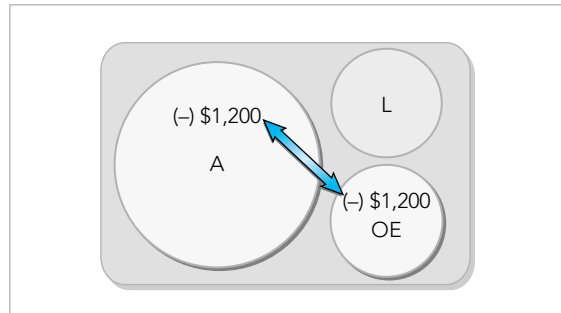
d. **Assets = Liabilities + Owner's Equity**
 + \$5,000 \$ _____ + \$5,000

Ext,
Ex



e. **Assets = Liabilities + Owner's Equity**
 - \$1,200 \$ _____ - \$1,200

Ext,
Ex



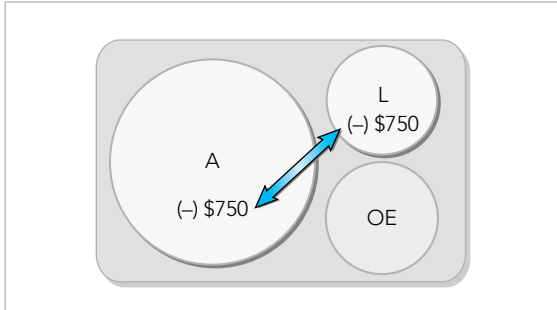
SOLUTIONS

Learning Goal 6, continued

LG 6-5, continued

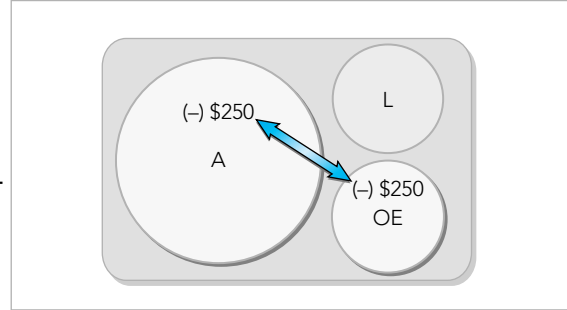
f. **Assets = Liabilities + Owner's Equity**
-\$750 -\$750 \$ _____

Ext,
Ex



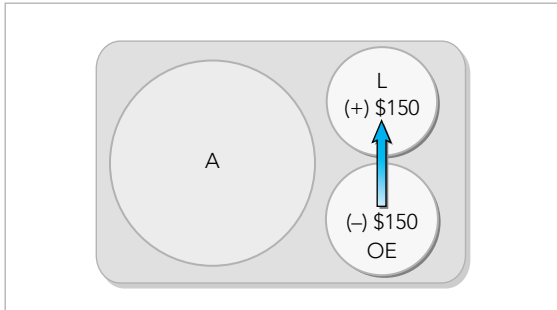
g. **Assets = Liabilities + Owner's Equity**
-\$250 \$ _____ -\$250

Int,
N-Ex



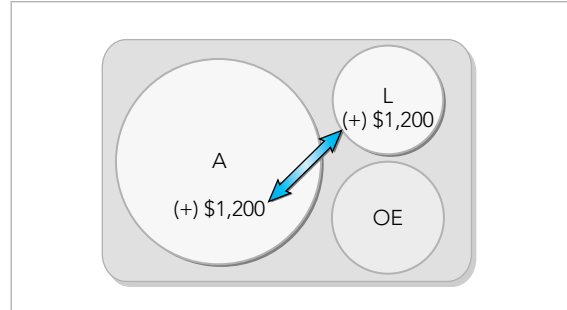
h. **Assets = Liabilities + Owner's Equity**
 \$ _____ +\$150 -\$150

Ext,
Ex



i. **Assets = Liabilities + Owner's Equity**
+\$1,200 +\$1,200 \$ _____

Ext,
Ex



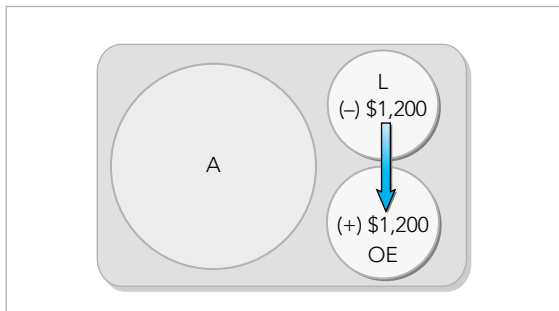
SOLUTIONS

Learning Goal 6, continued

LG 6-5, continued

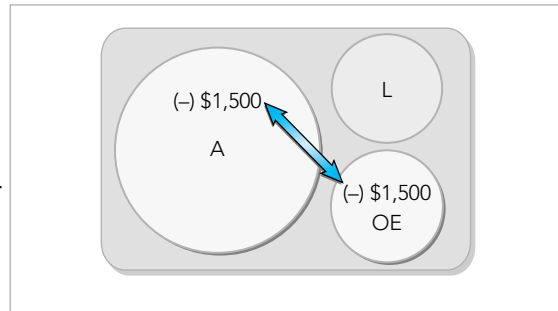
j. **Assets = Liabilities + Owner's Equity**
 \$ _____ - \$1,200 + \$1,200

Ext,
Ex

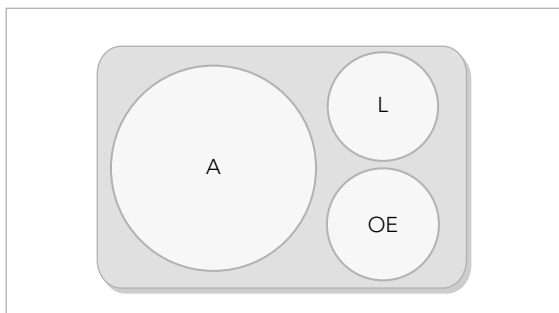


k. **Assets = Liabilities + Owner's Equity**
-\$1,000 \$ _____ - \$1,500

Int,
N-Ex

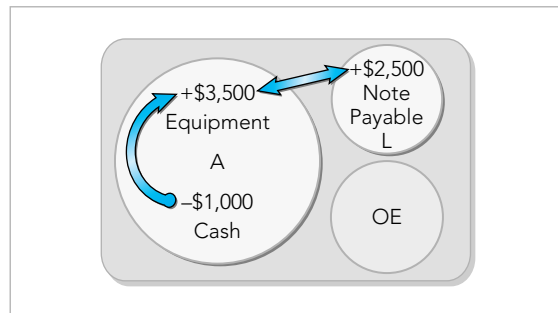


l. **Assets = Liabilities + Owner's Equity**
 \$ _____ \$ _____ \$ _____



m. **Assets = Liabilities + Owner's Equity**
 + \$3,500
-\$1,000 - \$2,500 \$ _____

Ext,
Ex



Note: This is not a Hot Spots transaction. This is a personal expenditure.

SOLUTIONS

Learning Goal 6, continued

LG 6-6. Refer to the six illustrations on page 134.

LG 6-7.

Item	Step 1: Are assets affected?	Step 2: Are liabilities affected?	Step 3: Is owner's equity affected?	Correct Recording in Equation
a.	The asset equipment increases \$8,000 and the asset Cash decreases \$2,000.	A liability increase of \$6,000 occurs.	No	$\begin{array}{r} \uparrow A = \uparrow L + OE \\ 6,000 \quad 6,000 \end{array}$
The recording was incorrect because the equation was not in balance and because assets should have shown a net increase of \$6,000. This was the equipment increase of \$8,000 less the cash decrease of \$2,000.				
b.	Cash increases by \$900 and accounts receivable decrease by \$900.	No	No	$\begin{array}{r} \uparrow \downarrow A = L + OE \\ 900 \quad 900 \end{array}$
The recording was incorrect because the revenue was already earned in a previous period when the account receivable was recorded. Here, the receivable is simply eliminated when the cash is received.				
c.	Office Supplies increase by \$2,000 and cash decreases by \$2,000.	No	No	$\begin{array}{r} \uparrow \downarrow A = L + OE \\ 2,000 \quad 2,000 \end{array}$
The recording was incorrect because there is no expense—one asset (Cash) is being given up to obtain another asset (Office Supplies). An expense would have occurred only if there had been a net decrease in assets because they were used up in the operations.				
d.	Cash decreases by \$750.	Accounts Payable decrease by \$750.	No	$\begin{array}{r} \downarrow A = \downarrow L + OE \\ 750 \quad 750 \end{array}$
The recording was incorrect because there is no expense. Paying a debt is a reduction in a creditor's claim on assets; the cash is not being used in operations, so there is no expense.				
e.	No	Accounts Payable increase.	Owner's equity decreases because of telephone expense.	$\begin{array}{r} A = \uparrow L + \downarrow OE \\ \quad \quad 200 \quad 200 \text{ (expense)} \end{array}$
Not recording the event was incorrect because an expense happens the moment a resource is consumed. In this case, when the telephone service was used the expense occurred and should have been recorded along with a liability, because the company did not immediately pay for the service.				
f.	Cash increases.	Unearned Revenue increases.	No	$\begin{array}{r} \uparrow A = \uparrow L + OE \\ 500 \quad 500 \end{array}$
The recording was incorrect because there is no revenue—the services have not been provided yet. An advance payment from a customer creates a liability to either return the money or perform the services.				

SOLUTIONS

Learning Goal 6, continued

LG 6-8.

Transaction	A	=	L	+	OE
a. The owner invested \$5,000 in her business.	<u>C +</u>		<u> </u>		<u>I +</u>
b. Paid a repair bill immediately upon receipt.	<u>C -</u>		<u> </u>		<u>Exp -</u>
c. Purchased supplies but did not pay the bill immediately.	<u>S +</u>		<u>AP +</u>		<u> </u>
d. Purchase equipment for \$10,000 by making a cash payment of \$4,000 and signing a note payable.	<u>C -</u> <u>Eq +</u>		<u>NP +</u>		<u> </u>
e. Received an advance payment from a customer.	<u>C +</u>		<u>UR +</u>		<u> </u>
f. Received an advertising services bill but did not pay it immediately.	<u> </u>		<u>AP +</u>		<u>Exp -</u>
g. Borrowed money from the bank and signed a note payable.	<u>C +</u>		<u>NP +</u>		<u> </u>
h. Paid the employee wages.	<u>C -</u>		<u> </u>		<u>Exp -</u>
i. Performed consulting services and billed the client who will pay later.	<u>AR +</u>		<u> </u>		<u>Rev +</u>
j. Received payment from the client for the amount owed one month later.	<u>AR -</u> <u>C +</u>		<u> </u>		<u> </u>
k. The owner withdraws \$1,500 cash from the business.	<u>C -</u>		<u> </u>		<u>W -</u>
l. Performed consulting services and collected the amount in full from the client upon completion of the job.	<u>C +</u>		<u> </u>		<u>Rev +</u>