

**SOLUTIONS****Learning Goal 7****Multiple Choice**

1. b
2. c
3. c
4. b
5. b
6. a
7. b
8. d Whatever the beginning balance was in the Prepaid Insurance account, plus the insurance that was purchased during the period, are all debits to the Prepaid Insurance account and represent the cost of the total insurance coverage available. By the end of the period, some of this insurance coverage has been used up, but the total amount available will still be showing in the unadjusted trial balance. The adjustments column will record how much of this balance has been used up during the period.
9. a
10. a
11. d Journal entries are prepared **from** the worksheet, not before the worksheet is done.
12. d
13. d
14. c If this seems unclear, draw the row of the worksheet that these would appear on, and fill in the blanks, like this:

	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Unearned Revenue		750	?	?		200

Answer:

	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Unearned Revenue		750	<b>550</b>	—		200

15. d When a number is placed on the wrong side of a column, the difference in the totals is double the amount of the number. Remember, it is *very important* to total each column as you finish it before moving across the worksheet to new columns.
16. a
17. c The retained earnings balance to use on the balance sheet is the final balance from the statement of retained earnings. The retained earnings balance showing on the worksheet does not include the net income (or loss) and any dividends.
18. d There are several types of transactions that can affect retained earnings, although here we only discuss net income/loss and dividends. The safest procedure is to look at the beginning ledger account balance for retained earnings.
19. a Very often, the totals of the balance sheet columns on the worksheet will not be the same totals that appear on the balance sheet. This is because on the balance sheet certain items are offset or subtracted resulting in a smaller net amount. Examples: Accumulated depreciation is offset against the cost of the assets; the dividends are subtracted from the retained earnings account. This is not done on the worksheet.

## **SOLUTIONS**

### **Learning Goal 7**

#### **Multiple Choice, continued**

- 20.** a
  - 21.** d If the worksheet is correct, then all the adjustments on the worksheet must be correct.
  - 22.** c The primary purpose of the worksheet is to organize the financial information to show the correct amounts for the income statement, balance sheet and statement of retained earnings. Financial statements have a time value and stakeholders usually want to see them as quickly as possible. The financial statements have first priority. The adjusting entries, the closing entries, and then the post-closing trial balance can easily be done later. (See Learning Goal 8 for an explanation of closing entries.)
  - 23.** b
  - 24.** c
  - 25.** a
  - 26.** b
  - 27.** d
  - 28.** a
  - 29.** c Their importance in paying current liabilities is the main reason current assets are shown first as a separate classification.
  - 30.** b
  - 31.** d
  - 32.** a
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**SOLUTIONS****Learning Goal 7, continued****Reinforcement Problems****LG 7-1.**

Winslow Tennis Club, Inc.										
Worksheet										
For the Month Ended June 30, 2017										
	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	45,750				45,750				45,750	
Dues Receivable	2,800				2,800				2,800	
Office Supplies	1,100			(a) 1,050	50				50	
Tennis Supplies	2,002			(b) 1,787	215				215	
Notes Receivable	12,000				12,000				12,000	
Prepaid Insurance	600			(e) 100	500				500	
Office Equipment	14,520				14,520				14,520	
Accum. Dep'n.—										
Office Equipment		11,616		(d) 242		11,858				11,858
Building	345,000				345,000				345,000	
Accum. Dep'n.—										
Building		19,500		(d) 600		20,100				20,100
Accounts Payable		855				855				855
Notes Payable		275,000				275,000				275,000
Common Stock		5,000				5,000				5,000
Retained Earnings		82,161				82,161				82,161
Dividends	1,880				1,880				1,880	
Tennis Instruction										
Fees		9,500	(g) 1,000			8,500		8,500		
Dues Revenue		28,500				28,500		28,500		
Salaries Expense	4,100				4,100		4,100			
Equipment Rent										
Expense	1,750				1,750		1,750			
Utilities Expense	280				280		280			
Insurance Expense	100		(e) 100		200		200			
Maintenance Expense	250		(h) 500		750		750			
Totals	<u>432,132</u>	<u>432,132</u>								

## SOLUTIONS

## Learning Goal 7, continued

## LG 7-1, continued

Winslow Tennis Club, Inc.										
Worksheet (continued)										
For the Month Ended June 30, 2017										
	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Unearned Tennis Fees				(g) 1,000		1,000				1,000
Office Supplies										
Expense			(a) 1,050		1,050		1,050			
Tennis Supplies										
Expense			(b) 1,787		1,787		1,787			
Depreciation Expense			(d) 842		842		842			
Salaries/Wages										
Payable				(h) 500		500				500
Interest Expense			(f) 1,375		1,375		1,375			
Interest Receivable			(c) 80		80				80	
Interest Earned				(c) 80		80		80		
Interest Payable				(f) 1,375		1,375				1,375
Totals			<u>6,734</u>	<u>6,734</u>	<u>434,929</u>	<u>434,929</u>	12,134	37,080	422,795	397,849
							24,946			24,946
							<u>37,080</u>	<u>37,080</u>	<u>422,795</u>	<u>422,795</u>

**SOLUTIONS****Learning Goal 7, continued****LG 7-2.**

Leeward Swimming Pool Service, Inc.										
Worksheet										
For the Year Ended November 30, 2017										
	Trial Balance		Adjustments		Adjusted		Income		Balance	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	71,050				71,050				71,050	
Accounts Receivable	7,200		(e) 750		7,950				7,950	
Office Supplies	750			(a) 550	200				200	
Prepaid Insurance	4,200			(b) 1,400	2,800				2,800	
Tools and Equipment	244,500				244,500				244,500	
Accum. Dep'n.— Tools and Equip.		12,500		(c) 3,500		16,000				16,000
Office Equipment	15,000				15,000				15,000	
Accum. Dep'n.— Office Equipment		3,700		(c) 1,500		5,200				5,200
Common Stock		25,000				25,000				25,000
Retained Earnings		287,500				287,500				287,500
Dividends	50,000				50,000				50,000	
Fees Earned		205,000		(e) 750		205,750		205,750		
Salaries Expense	110,000		(d) 1,100		111,100		111,100			
Rentals Expense	28,200				28,200		28,200			
Utility Expense	2,800				2,800		2,800			
Totals	<u>533,700</u>	<u>533,700</u>								
Office Supplies Expense			(a) 550		550		550			
Depreciation Expense			(c) 5,000		5,000		5,000			
Insurance Expense			(b) 1,400		1,400		1,400			
Salaries Payable				(d) 1,100		1,100				1,100
Totals			<u>8,800</u>	<u>8,800</u>	<u>540,550</u>	<u>540,550</u>	149,050	205,750	391,500	334,800
Net Income							56,700			56,700
Totals							<u>205,750</u>	<u>205,750</u>	<u>391,500</u>	<u>391,500</u>

## SOLUTIONS

## Learning Goal 7, continued

## LG 7-3.

Damon's Car Wash, Inc.										
Worksheet										
For the Year Ended December 31, 2017										
	Trial Balance		Adjustments		Adjusted		Income		Balance	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	43,900				43,900				43,900	
Marketable Securities	101,250				101,250				101,250	
Accounts Receivable	1,200		(a) 150		1,350				1,350	
Office Supplies	520			(c) 410	110				110	
Cleaning/Washing Supplies	2,800			(f) 1,500	1,300				1,300	
Prepaid Insurance	4,600				4,600				4,600	
Prepaid Rent	1,200			(d) 900	300				300	
Office Equipment	15,000				15,000				15,000	
Accum. Dep'n—Off. Equip.		6,000		(h) 3,000		9,000				9,000
Wash Equipment	225,700				225,700				225,700	
Accum. Dep'n—Wash Equip.		38,500		(h) 25,000		63,500				63,500
Accounts Payable		3,700		(g) 750		4,450				4,450
Unearned Revenue		650	(b) 300			350				350
Notes Payable—Long Term		50,000				50,000				50,000
Common Stock		30,000				30,000				30,000
Retained Earnings		133,650				133,650				133,650
Dividends	3,500				3,500				3,500	
Services Revenue		305,200		(a) 150		305,650		305,650		
				(b) 300						
Wages Expense	114,500				114,500		114,500			
Washing Supplies Expense	7,630		(f) 1,500		9,130		9,130			
Advertising Expense	12,000		(g) 750		12,750		12,750			
Utilities Expense	28,500				28,500		28,500			
Dep'n. Exp.—Off. Equip.			(h) 3,000		3,000		3,000			
Dep'n. Exp.—Wash. Equip.			(h) 25,000		25,000		25,000			
Office Supplies Expense			(c) 410		410		410			
Rental Equipment Expense			(d) 900		900		900			
Insurance Expense	5,000				5,000		5,000			
Miscellaneous Expense	400				400		400			
Interest Expense			(e) 650		650		650			
Interest Payable				(e) 650		650				650
Totals	567,700	567,700	32,660	32,660	597,250	597,250	200,240	305,650	397,010	291,600
Net Income							105,410			105,410
							305,650			397,010

**SOLUTIONS****Learning Goal 7, continued****Reinforcement Problems****LG 7-4.**

Maui Quick Print Services, Inc.										
Work Sheet										
For the Year Ended December 31, 2017										
	Trial Balance		Adjustments		Adjusted		Income		Balance	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	28,300				28,300				28,300	
Accounts Receivable	4,200				4,200				4,200	
Printing Supplies	800			<b>a</b> 600	200				200	
Prepaid Insurance	1,800			<b>b</b> 1,350	450				450	
Office Equipment	7,500				7,500				7,500	
Accum. Dep'n. —										
Office Equip.		1,000		<b>c</b> 750		1,750				1,750
Printing/Copying Equipment	35,500				35,500				35,500	
Accum. Dep'n. — Print/										
Copy Equip.		14,500		<b>c</b> 7,000		21,500				21,500
Accounts Payable		1,400				1,400				1,400
Unearned Revenue		3,500	<b>d</b> 3,500							
Notes Payable		36,000				36,000				36,000
Common Stock		10,000				10,000				10,000
Retained Earnings		25,550				25,550				25,550
Dividends	12,000				12,000				12,000	
Services Revenue		108,700		<b>d</b> 3,500		112,200		112,200		
Salaries Expense	57,300		<b>e</b> 500		57,800		57,800			
Office Supplies Expense	1,300				1,300		1,300			
Rent Expense	36,000				36,000		36,000			
Travel Expense	3,250				3,250		3,250			
Printing Supplies Expense	4,200		<b>a</b> 600		4,800		4,800			
Interest Expense	3,300		<b>f</b> 300		3,600		3,600			
Utilities Expense	5,200				5,200		5,200			
Depreciation Expense			<b>c</b> 7,750		7,750		7,750			
Insurance Expense			<b>b</b> 1,350		1,350		1,350			
Salaries Payable				<b>e</b> 500		500				500
Interest Payable				<b>f</b> 300		300				300
Total	200,650	200,650	14,000	14,000	209,200	209,200	121,050	112,200	88,150	97,000
Net income							121,050	8,850	97,000	97,000

**SOLUTIONS****Learning Goal 7, continued****LG 7-4, continued**

*Adjustments information:* The prepaid insurance is \$150 per month for nine months ( $\$1,800/12 \times 12 = \$1,350$ ). The interest expense is \$300 per month, but 11 months of it is already on the trial balance (Interest Expense), so only a \$300 accrual is needed for the last month. Remember: *always check the trial balance amount before making the adjustment.*

**Maui Quick Print Services, Inc.  
Income Statement  
For the Year Ended December 31, 2017**

Services revenue .....		\$ 112,200
Expenses		
Salaries expense .....	\$ 57,800	
Rent expense .....	36,000	
Depreciation expense .....	7,750	
Utilities expense .....	5,200	
Printing supplies expense .....	4,800	
Interest expense .....	3,600	
Travel expense .....	3,250	
Insurance expense .....	1,350	
Office supplies expense .....	<u>1,300</u>	
Total expenses .....		<u>121,050</u>
Net income .....		<u>(\$8,850)</u>

**Maui Quick Print Services, Inc.  
Statement of Retained Earnings  
For the Year Ended December 31, 2017**

Retained earnings, January 1 .....	\$ 25,550
Less: net loss .....	(8,850)
Less: dividends .....	<u>(12,000)</u>
Retained earnings, December 31 .....	<u>\$ 4,700</u>



**SOLUTIONS****Learning Goal 7, continued****LG 7-4, continued****Maui Quick Print Services, Inc.****Balance Sheet  
December 31, 2017**

<b>Assets</b>		<b>Liabilities and Stockholders' Equity</b>	
Current assets		Current liabilities	
Cash	\$28,300	Notes payable	\$36,000
Accounts receivable	4,200	Salaries payable	500
Printing supplies	200	Accounts payable	1,400
Prepaid insurance	<u>450</u>	Interest payable	<u>300</u>
Total current assets	\$ 33,150	Total liabilities	\$ 38,200
Property, plant, and equipment		Stockholders' equity	
Office equipment	7,500	Paid-in capital	
Less: accumulated depreciation	(1,750) 5,750	Common stock	10,000
Printing/copying equipment	35,500	Retained earnings	<u>4,700</u>
Less: accumulated depreciation	<u>(21,500)</u> <u>14,000</u>	Total stockholders' equity	\$ 14,700
Total property, plant, & equipment	19,750		
Total assets	<u>\$ 52,900</u>	Total liabilities and stockholders' equity	<u>\$ 52,900</u>

**SOLUTIONS****Learning Goal 7, continued****LG 7-4, continued**

	(a)		
Dec. 31	Supplies Expense	600	
	Printing Supplies		600
	(To record month-end supplies balance)		
	(b)		
	Insurance Expense	1,350	
	Prepaid Insurance		1,350
	(To record insurance expense)		
	(c)		
	Depreciation Expense	7,750	
	Accumulated Depreciation—Office Equipment		750
	Accumulated Depreciation—Printing/Copying Equipment		7,000
	(To record annual depreciation expense)		
	(d)		
	Unearned Revenue	3,500	
	Service Revenue		3,500
	(To record unearned revenue earned)		
	(e)		
	Salaries Expense	500	
	Salaries Payable		500
	(To accrue unpaid salaries)		
	(f)		
	Interest Expense	300	
	Interest Payable		300
	(To accrue unpaid interest)		

**SOLUTIONS****Learning Goal 7, continued****LG 7-5.**

Anaheim Estate Appraisal Services, Inc.										
Work Sheet										
For the Month Ended November 30, 2017										
					Adjusted Trial		Income		Balance	
	Trial Balance		Adjustments		Balance		Statement		Sheet	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	61,350				61,350				61,350	
Short Term Investments	15,200				15,200				15,200	
Accounts Receivable	34,800		(a) 2,500		37,300				37,300	
Office Supplies	700			(b) 220	480				480	
Prepaid Insurance	900			(e) 600	300				300	
Prepaid Airline Tickets	3,750			(c) 1,250	2,500				2,500	
Office Equipment	18,400				18,400				18,400	
Accum. Dep'n.—										
Office Equipment		9,150		(d) 290		9,440				9,440
Automotive Equipment	28,000				28,000				28,000	
Accum. Dep'n.—										
Automotive Equipment		5,000		(d) 415		5,415				5,415
Accounts Payable		4,850				4,850				4,850
Unearned Revenue		6,280	(f) 3,280			3,000				3,000
Notes Payable (long term)		41,000				41,000				41,000
Common Stock		30,000				30,000				30,000
Retained Earnings		52,280				52,280				52,280
Dividends	2,000				2,000				2,000	
Appraisal Revenue		39,300		(a), (f) 5,780		45,080		45,080		
Wages Expense	11,900				11,900		11,900			
Rent Expense	2,150				2,150		2,150			
Auto and Gas Expense	260				260		260			
Travel Expense	4,500		(c) 1,250		5,750		5,750			
Advertising Expense	3,600				3,600		3,600			
Utilities Expense	350				350		350			
Office Supplies Expense			(b) 220		220		220			
Depreciation Expense—										
Office			(d) 290		290		290			
Depreciation Expense—Auto			(d) 415		415		415			
Insurance Expense			(e) 600		600		600			
Interest Expense			(f) 330		330		330			
Interest Payable				(f) 330		330				330
Totals	<u>187,860</u>	<u>187,860</u>	<u>8,885</u>	<u>8,885</u>	<u>191,395</u>	<u>191,395</u>	25,865	45,080	165,530	146,315
Net income							19,215			19,215
							<u>45,080</u>	<u>45,080</u>	<u>165,530</u>	<u>165,530</u>

**SOLUTIONS****Learning Goal 7, continued****LG 7-5, continued**

**Anaheim Estate Appraisal Services, Inc.**  
**Income Statement**  
**For the Month Ended November 30, 2017**

Revenues		
Appraisal revenue .....		\$ 45,080
Expenses .....		
Wages expense .....	\$ 11,900	
Travel expense .....	5,750	
Advertising expense .....	3,600	
Rent expense .....	2,150	
Insurance expense .....	600	
Depreciation expense -auto .....	415	
Depreciation expense -equipment .....	290	
Utilities expense .....	350	
Interest expense .....	330	
Auto expense .....	260	
Office supplies expense .....	220	
Total expenses .....		<u>25,865</u>
Net income .....		<u>\$19,215</u>

**Anaheim Estate Appraisal Services, Inc.**  
**Statement of Retained Earnings**  
**For the Month Ended November 30, 2017**

Retained earnings, November 1 .....	\$ 52,280
Add: net income .....	19,215
Less: dividends .....	<u>(2,000)</u>
Retained earnings, November 30 .....	<u>\$ 69,495</u>

**SOLUTIONS****Learning Goal 7, continued****LG 7-5, continued**

**Anaheim Estate Appraisal Services, Inc.**  
**Balance Sheet**  
**November 30, 2017**

**Assets****Current assets**

Cash .....	\$ 61,350	
Short-term investments .....	15,200	
Accounts receivable .....	37,300	
Office supplies .....	480	
Prepaid insurance .....	300	
Prepaid travel .....	<u>2,500</u>	
Total current assets .....		\$ 117,130

**Property, plant, and equipment**

Office equipment .....	18,400	
Less: accumulated depreciation .....	(9,440)	8,960
Automotive equipment .....	28,000	
Less: accumulated depreciation .....	(5,415)	<u>22,585</u>
Total property, plant, and equipment .....		<u>31,545</u>
Total assets .....		<u>\$ 148,675</u>

**Liabilities and Stockholders' Equity****Current liabilities**

Accounts payable .....	\$4,850	
Interest payable .....	330	
Unearned revenue .....	<u>3,000</u>	
Total current liabilities .....		\$ 8,180

**Long-term liabilities**

Notes payable .....		<u>41,000</u>
Total liabilities .....		49,180

**Stockholders' equity**

Paid-in capital		
Common stock .....	30,000	
Retained earnings .....	<u>69,495</u>	
Total stockholders' equity .....		<u>99,495</u>
Total liabilities and stockholder's equity .....		<u>\$ 148,675</u>

## SOLUTIONS

## Learning Goal 7, continued

## LG 7-6.

Item	\$ Amount	Current Asset	Long-Term Investment	Property, Plant, and Equipment	Current Liability	Long-Term Liability	Stockholders' Equity
Cash	\$10,000	\$10,000					
Accounts Payable	\$1,600				\$1,600		
Land used in operations	\$20,000			\$20,000			
Fees Earned	\$35,000	NOT A BALANCE SHEET ITEM					
10-year note payable	\$20,000					\$20,000	
Prepaid Insurance	\$2,000	\$2,000					
Unearned Revenue	\$4,000				\$4,000		
Wages Payable	\$3,500				\$3,500		
Office Supplies	\$500	\$500					
3-month U.S. treasury bill investment	\$2,500	\$2,500					
Common Stock	\$7,500						\$7,500
Merchandise Inventory	\$3,000	\$3,000					
Wages Expense	\$3,000	NOT A BALANCE SHEET ITEM					
Building	\$120,000			\$120,000			
Accum. Dep'n.—							
Building	\$30,000			(\$30,000)			
Land held for future use	\$20,000		\$20,000				
Current portion of							
long-term debt	\$900				\$900		
<b>Totals</b>		<b><u>\$18,000</u></b>	<b><u>\$20,000</u></b>	<b><u>\$110,000</u></b>	<b><u>\$10,000</u></b>	<b><u>\$20,000</u></b>	<b><u>\$7,500</u></b>

**SOLUTIONS****Learning Goal 7, continued****LG 7-7.**

a)

Tacoma Company, Inc. Balance Sheet June 30, 2017				
Assets				
Current assets				
Cash .....			\$36,250	
Short-term investments .....			25,900	
Accounts receivable .....			37,850	
Notes receivable .....			10,000	
Merchandise inventory .....			85,000	
Office supplies .....			1,350	
Prepaid insurance .....			11,500	
Prepaid rent .....			<u>8,500</u>	
Total current assets .....				\$216,350
Long-term investments .....				20,000
Property, plant, and equipment				
Machinery .....	115,600			
Less: Accumulated depreciation .....	(35,500)		80,100	
Automobiles .....	145,000			
Less: Accumulated depreciation .....	(101,000)		<u>44,000</u>	
Total property, plant, and equipment .....				124,100
Intangible assets				
Patent .....			35,000	
Trademark .....			<u>4,800</u>	
Total intangible assets .....				<u>39,800</u>
Total assets .....				<u>\$400,250</u>
Liabilities and Stockholders' Equity				
Current liabilities				
Wages payable .....			\$14,500	
Accounts payable .....			32,600	
Notes payable .....			47,300	
Unearned revenue .....			22,150	
Current portion of long-term debt .....			<u>3,900</u>	
Total current liabilities .....				\$120,450
Long-term liabilities				
Notes payable .....			75,000	
Less: current portion of long-term debt .....			<u>(3,900)</u>	
Total long-term liabilities .....				<u>71,100</u>
Total liabilities .....				191,550
Stockholders' equity				
Paid-in capital				
Common stock .....			50,000	
Retained earnings .....			<u>158,700</u>	
Total stockholders' equity .....				<u>208,700</u>
Total liabilities and stockholder's equity .....				<u>\$400,250</u>

## SOLUTIONS

## Learning Goal 7, continued

## LG 7-7, continued

b)

Tacoma Company, Inc.					
Balance Sheet					
June 30, 2017					
Assets			Liabilities and Stockholders' Equity		
Current assets			Current liabilities		
Cash	\$ 36,250		Wages payable	\$ 14,500	
Short-term investments	25,900		Accounts payable	32,600	
Accounts receivable	37,850		Notes payable	47,300	
Notes receivable	10,000		Unearned revenue	22,150	
Merchandise inventory	85,000		Current portion of		
Office supplies	1,350		long-term debt	<u>3,900</u>	
Prepaid insurance	11,500		Total current liabilities		\$ 120,450
Prepaid rent	<u>8,500</u>				
Total current assets		\$ 216,350	Long-term liabilities		
Long-term investments		20,000	Notes payable	75,000	
			Less: current portion	<u>(3,900)</u>	
Property, plant, and equipment			Total long-term liabilities		<u>71,100</u>
Machinery	115,600	80,100	Total liabilities		191,550
Less: accumulated depreciation	(35,500)		Stockholders' equity		
Automobiles	145,000		Paid-in capital		
Less: accumulated depreciation	<u>(101,000)</u>	<u>44,000</u>	Common stock	50,000	
Total property, plant,		124,100	Retained earnings	<u>158,700</u>	
& equipment			Total Stockholders' equity		208,700
Intangible assets					
Patent	35,000				
Trademark	<u>4,800</u>				
Total intangible assets		<u>39,800</u>	Total liabilities and		
Total assets		<u>\$ 400,250</u>	Stockholders' equity		<u>\$ 400,250</u>

Comments: a) To calculate retained earnings, calculate total stockholders' equity by subtracting total liabilities from total assets. Then subtract common stock from total stockholders' equity. b) The dividends account does not appear on the balance sheet; rather, the retained earnings account will be a lower amount because the dividends will have reduced cash. (Think of the account equation:  $A = L \downarrow + SE \downarrow$ ). The asset cash decreased and retained earnings in stockholders' equity decreased.