

Problem 1-2A (40 minutes)

Part 1

Company A

(a) Equity on December 31, 2016:

| | |
|------------------|-----------------|
| Assets..... | \$55,000 |
| Liabilities..... | <u>(24,500)</u> |
| Equity | <u>\$30,500</u> |

(b) Equity on December 31, 2017:

| | |
|--------------------------------|-----------------|
| Equity, December 31, 2016..... | \$30,500 |
| Plus investment by owner..... | 6,000 |
| Plus net income..... | 8,500 |
| Less withdrawals by owner..... | <u>(3,500)</u> |
| Equity, December 31, 2017..... | <u>\$41,500</u> |

(c) Liabilities on December 31, 2017:

| | |
|------------------|-----------------|
| Assets..... | \$58,000 |
| Equity | <u>(41,500)</u> |
| Liabilities..... | <u>\$16,500</u> |

Part 2

Company B

(a) and (b)

| | | |
|------------------|-------------------|-------------------|
| Equity: | <u>12/31/2016</u> | <u>12/31/2017</u> |
| Assets..... | \$34,000 | \$40,000 |
| Liabilities..... | <u>(21,500)</u> | <u>(26,500)</u> |
| Equity | <u>\$12,500</u> | <u>\$13,500</u> |

(c) Net income for 2017:

| | |
|--------------------------------------|-----------------|
| Equity, December 31, 2016..... | \$12,500 |
| Plus investment by owner..... | 1,400 |
| Plus net income..... | ? |
| Less withdrawals by owner..... | <u>(2,000)</u> |
| Equity, December 31, 2017..... | <u>\$13,500</u> |
| Therefore, net income must have been | <u>\$ 1,600</u> |

Problem 1-2A (Continued)

Part 3

Company C

First, compute the beginning balance of equity:

| | <u>Dec. 31, 2016</u> |
|------------------|----------------------|
| Assets..... | \$24,000 |
| Liabilities..... | <u>(9,000)</u> |
| Equity | <u>\$15,000</u> |

Next, find the ending balance of equity by completing this table:

| | |
|---------------------------------|-----------------|
| Equity, December 31, 2016..... | \$15,000 |
| Plus investment by owner..... | 9,750 |
| Plus net income..... | 8,000 |
| Less withdrawals by owner..... | <u>(5,875)</u> |
| Equity, December 31, 2017 | <u>\$26,875</u> |

Finally, find the ending amount of assets by adding the ending balance of equity to the ending balance of liabilities:

| | <u>Dec. 31, 2017</u> |
|------------------|----------------------|
| Liabilities..... | \$29,000 |
| Equity | <u>26,875</u> |
| Assets..... | <u>\$55,875</u> |

Part 4

Company D

First, compute the beginning and ending equity balances:

| | <u>12/31/2016</u> | <u>12/31/2017</u> |
|------------------|-------------------|-------------------|
| Assets..... | \$60,000 | \$85,000 |
| Liabilities..... | <u>(40,000)</u> | <u>(24,000)</u> |
| Equity | <u>\$20,000</u> | <u>\$61,000</u> |

Then, find the amount of investment by owner during 2017:

| | |
|---------------------------------|-----------------|
| Equity, December 31, 2016..... | \$20,000 |
| Plus investment by owner..... | ? |
| Plus net income..... | 14,000 |
| Less withdrawals by owner..... | <u>0</u> |
| Equity, December 31, 2017 | <u>\$61,000</u> |

Thus, investment by owner must have been \$27,000

Problem 1-2A (Concluded)

Part 5

Company E

First, compute the balance of equity as of December 31, 2017:

| | |
|-------------------|------------------|
| Assets..... | \$113,000 |
| Liabilities | <u>(70,000)</u> |
| Equity | <u>\$ 43,000</u> |

Next, find the beginning balance of equity as follows:

| | |
|---------------------------------|-----------------|
| Equity, December 31, 2016..... | \$? |
| Plus investment by owner | 6,500 |
| Plus net income | 20,000 |
| Less withdrawals by owner..... | <u>(11,000)</u> |
| Equity, December 31, 2017 | <u>\$43,000</u> |

Thus, the beginning balance of equity is: \$27,500

Finally, find the beginning amount of liabilities by subtracting the beginning balance of equity from the beginning balance of assets:

| | |
|-------------------|----------------------|
| | <u>Dec. 31, 2016</u> |
| Assets..... | \$119,000 |
| Equity | <u>(27,500)</u> |
| Liabilities | <u>\$ 91,500</u> |

Problem 1-7A (60 minutes) Part 1

| Assets = Liabilities + Equity | | | | | | | | | | | | | | | |
|-------------------------------|-----------------|---|---------------------|---|------------------|---|------------------|---------|------------------|---|-----------------------|---|-----------------|---|----------------|
| Date | Cash | + | Accounts Receivable | + | Office Equipment | = | Accounts Payable | + | G. Gram, Capital | - | G. Gram, With-drawals | + | Revenues | - | Expenses |
| May 1 | +\$40,000 | | | | | = | | + | \$40,000 | | | | | | |
| 1 | - 2,200 | | | | | = | | | | | | | | - | \$2,200 |
| 3 | | | | + | \$1,890 | = | + | \$1,890 | | | | | | | |
| 5 | - 750 | | | | | = | | | | | | | | - | 750 |
| 8 | + 5,400 | | | | | = | | | | | | + | \$5,400 | | |
| 12 | | + | \$2,500 | | | = | | | | | | + | 2,500 | | |
| 15 | - 750 | | | | | = | | | | | | | | - | 750 |
| 20 | + 2,500 | - | 2,500 | | | = | | | | | | | | | |
| 22 | | + | 3,200 | | | = | | | | | | + | 3,200 | | |
| 25 | + 3,200 | - | 3,200 | | | = | | | | | | | | | |
| 26 | - 1,890 | | | | | = | - | 1,890 | | | | | | | |
| 27 | | | | | | = | + | 80 | | | | | | - | 80 |
| 28 | - 750 | | | | | = | | | | | | | | - | 750 |
| 30 | - 300 | | | | | = | | | | | | | | - | 300 |
| 30 | - 280 | | | | | = | | | | | | | | - | 280 |
| 31 | - 1,400 | | | | | = | | | | - | \$1,400 | | | | |
| | <u>\$42,780</u> | + | <u>\$ 0</u> | + | <u>\$1,890</u> | = | <u>\$ 80</u> | + | <u>\$40,000</u> | - | <u>\$1,400</u> | + | <u>\$11,100</u> | - | <u>\$5,110</u> |

Problem 1-7A (Continued)

Part 2

| The Gram Co. Income Statement For Month Ended May 31 | | |
|--|---------|-----------------|
| Revenues | | |
| Consulting services revenue | | \$11,100 |
| Expenses | | |
| Rent expense..... | \$2,200 | |
| Salaries expense..... | 1,500 | |
| Cleaning expense | 750 | |
| Telephone expense..... | 300 | |
| Utilities expense..... | 280 | |
| Advertising expense..... | 80 | |
| Total expenses | | <u>5,110</u> |
| Net income | | <u>\$ 5,990</u> |

| The Gram Co. Statement of Owner's Equity For Month Ended May 31 | | |
|---|-----------------|---|
| G. Gram, Capital, May 1 | \$ | 0 |
| Add: Investment by owner | 40,000 | |
| Net income..... | <u>5,990</u> | |
| | 45,990 | |
| Less: Withdrawals by owner | <u>1,400</u> | |
| G. Gram, Capital, May 31 | <u>\$44,590</u> | |

| The Gram Co. Balance Sheet May 31 | | | |
|---|-----------------|------------------------------------|-----------------|
| Assets | | Liabilities | |
| Cash..... | \$42,780 | Accounts payable..... | \$ 80 |
| Office equipment | 1,890 | Equity | |
| | | G. Gram, Capital | 44,590 |
| Total assets..... | <u>\$44,670</u> | Total liabilities and equity | <u>\$44,670</u> |

Problem 1-7A (Concluded)

Part 3

| The Gram Co. Statement of Cash Flows For Month Ended May 31 | | |
|--|-----------------------|-------------------------------|
| Cash flows from operating activities | | |
| Cash received from customers..... | \$11,100 | |
| Cash paid for rent | (2,200) | |
| Cash paid for cleaning..... | (750) | |
| Cash paid for telephone | (300) | |
| Cash paid for utilities..... | (280) | |
| Cash paid to employees | <u>(1,500)</u> | |
| Net cash provided by operating activities | | \$ 6,070 |
| Cash flows from investing activities | | |
| Purchase of equipment | <u>(1,890)</u> | |
| Net cash used by investing activities | | (1,890) |
| Cash flows from financing activities | | |
| Investment by owner | 40,000 | |
| Withdrawal by owner | <u>(1,400)</u> | |
| Net cash provided by financing activities | | <u>38,600</u> |
| Net increase in cash | | \$42,780 |
| Cash balance, May 1 | | <u>0</u> |
| Cash balance, May 31 | | <u><u>\$42,780</u></u> |