

Solution:

(1)

The stockholders' equity can be calculated by using the balance sheet equation:

$$\text{Stockholders' equity} = \text{Assets} - \text{Liabilities} = \$7 - \$4 = \$3 \text{ million}$$

Thus, the balance sheet is as follows:

Particulars	Amount (in \$)
Assets	7,000,000
Liabilities	4,000,000
Stockholders' Equity	3,000,000
Total liabilities & stockholders' equity	7,000,000

(2)

The effect on the assets and liabilities and owners' equity is as follows:

Assets =	Liabilities +	Stockholders' Equity
+ \$2,000,000 (Increase in cash)	+ \$2,000,000 (Increase in debts payable to Wells)	