

Tutorial questions (E2-3, E2-10)

Exercise 2-3 (LO 2-2)

	Dual Effect	
1. Issue 10,000 shares of common stock in exchange for \$32,000 in cash.	Assets increase	Stockholders' equity increases
2. Purchase land for \$19,000. A note payable is signed for the full amount.	Assets increase	Liabilities increase
3. Purchase storage containers for \$8,000.	One asset (containers) increases and another asset (cash) decreases	
4. Hire three employees for \$2,000 per month.	No effect on the accounting equation	
5. Receive cash of \$12,000 in rental fees for the current month.	Assets increase	Stockholders' equity increases
6. Purchase office supplies for \$2,000 on account.	Assets increase	Liabilities increase
7. Pay employees \$6,000 for the first month's salaries.	Assets decrease	Stockholders' equity decreases

Exercise 2-10 (LO 2-4)

<u>February 2</u>	<u>Debit</u>	<u>Credit</u>
Advertising Expense	700	
Cash		700
<i>(Pay advertising for current month)</i>		
 <u>February 7</u>		
Supplies	1,300	
Accounts Payable		1,300
<i>(Purchase beauty supplies on account)</i>		
 <u>February 14</u>		
Cash	2,900	
Service Revenue		2,900
<i>(Provide beauty services for cash)</i>		
 <u>February 15</u>		
Salaries Expense	900	
Cash		900
<i>(Pay salaries for current month)</i>		
 <u>February 25</u>		
Accounts Receivable	1,000	
Service Revenue		1,000
<i>(Provide beauty services on account)</i>		
 <u>February 28</u>		
Utilities Expense	300	
Cash		300
<i>(Pay utilities for current month)</i>		

Take-home questions (E2-4, E2-8, E2-11, AP2-5)

Exercise 2-4 (LO 2-2)

Dual Effect		
1. Paint houses in the current month for \$15,000 on account.	Assets increase	Stockholders' equity increases
2. Purchase painting equipment for \$16,000 cash.	One asset (equipment) increases and another asset (cash) decreases	
3. Purchase office supplies on account for \$2,500.	Assets increase	Liabilities increase
4. Pay employee salaries of \$3,200 for the current month.	Assets decrease	Stockholders' equity decreases
5. Purchase advertising to appear in the current month, \$1,200.	Assets decrease	Stockholders' equity decreases
6. Pay office rent of \$4,400 for the current month.	Assets decrease	Stockholders' equity decreases
7. Receive \$10,000 from customers in (1) above.	One asset (cash) increases and another asset (accounts receivable) decreases	
8. Receive cash of \$5,000 in advance from a customer that plans to have his house painted in the following month.	Assets increase	Liabilities increase

Exercise 2-8 (LO 2-4)

	Debit	Credit
(1)		
Equipment	23,400	
Cash		23,400
<i>(Purchase equipment with cash)</i>		
(2)		
Cash	6,800	
Service Revenue		6,800
<i>(Provide services for cash)</i>		
(3)		
Rent Expense	1,300	
Cash		1,300
<i>(Pay current month's rent)</i>		
(4)		
Supplies	1,000	
Accounts Payable		1,000
<i>(Purchase office supplies on account)</i>		
(5)		
Salaries Expense	2,100	
Cash		2,100
<i>(Pay current month's salaries)</i>		

Exercise 2-11 (LO 2-4)

<u>March 1</u>	<u>Debit</u>	<u>Credit</u>
Cash	21,000	
Common Stock <i>(Issue common stock)</i>		21,000
<u>March 5</u>		
Cash	9,000	
Notes Payable <i>(Obtain bank loan)</i>		9,000
<u>March 10</u>		
Equipment	25,000	
Cash <i>(Purchase construction equipment for cash)</i>		25,000
<u>March 15</u>		
Advertising Expense	1,100	
Cash <i>(Purchase advertising for current month)</i>		1,100
<u>March 22</u>		
Accounts Receivable	18,000	
Service Revenue <i>(Provide construction services on account)</i>		18,000
<u>March 27</u>		
Cash	13,000	
Accounts Receivable <i>(Receive cash on account)</i>		13,000
<u>March 28</u>		
Salaries Expense	6,000	
Cash <i>(Pay salaries for current month)</i>		6,000

Ethics RWP2-6

1. Increases reported profit by \$75,000, from a loss of \$50,000 to a profit of \$25,000 (ignoring any tax effects).

2. Yes.

Robert, the company's president, benefits from false reporting by maintaining the company's profitable appearance. The incentives could be bonus compensation plans, a desire to please stockholders, meeting analysts' earnings forecasts for the company, or maintaining good standing with creditors. Larry benefits from false reporting by keeping his friendship with Robert, keeping his job for the longer-term, and getting a free dinner tonight. However, if the false reporting is discovered by authorities, both parties face legal penalties and suffer reputational damage.

3. Yes.

Outside decisions makers, such as investors and creditors, view companies that report a profit instead of a loss as being more financially stable.

4. No.

As the accountant, Larry should understand that his responsibilities are to accurately record and report the company's activities. Larry must be aware that Robert may have incentives for falsely reporting to Larry about the additional revenue. Without source documents, an important step in the measurement process, Larry should not record any transactions.