

Chapter 2 (week 2 lecture)

Tutorial question (E2-3, E2-10)

E2-3 Green Wave Company plans to own and operate a storage rental facility. For the first month of operations, the company had the following transactions.

1. Issue 10,000 shares of common stock in exchange for \$32,000 in cash.
2. Purchase land for \$19,000. A note payable is signed for the full amount.
3. Purchase storage container equipment for \$8,000 cash.
4. Hire three employees for \$2,000 per month.
5. Receive cash of \$12,000 in rental fees for the current month.
6. Purchase office supplies for \$2,000 on account.
7. Pay employees \$6,000 for the first month's salaries.

Required:

For each transaction, describe the dual effect on the accounting equation. For example, in the first transaction, (1) assets increase and (2) stockholders' equity increases.

E2-10 Sun Devil Hair Design has the following transactions during the month of February.

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|--------|---|
| Feb 2 | Pay \$700 for radio advertising for February. |
| Feb 7 | Purchase beauty supplies of \$1,300 on account. |
| Feb 14 | Provide beauty services of \$2,900 to customers and receive cash. |
| Feb 15 | Pay employee salaries for the current month of \$900. |
| Feb 25 | Provide beauty services of \$1,000 to customers on account. |
| Feb 28 | Pay utility bill for the current month of \$300. |

Required:

Record each transaction. Sun Devil uses the following accounts: Cash, Accounts Receivable, Supplies, Accounts Payable, Service Revenue, Advertising Expense, Salaries Expense, and Utilities Expense.

Take-home questions (E2-4, E2-8, E2-11, RWP2-6)

E2-4 Boilermaker House Painting Company incurs the following transactions for September.

1. Paint houses in the current month for \$15,000 on account.
2. Purchase painting equipment for \$16,000 cash.
3. Purchase office supplies on account for \$2,500.
4. Pay employee salaries of \$3,200 for the current month.
5. Purchase advertising to appear in the current month, \$1,200.
6. Pay office rent of \$4,400 for the current month.
7. Receive \$10,000 from customers in (1) above.
8. Receive cash of \$5,000 in advance from a customer who plans to have his house painted in the following month.

Required:

For each transaction, describe the dual effect on the accounting equation. For example, for the first transaction, (1) assets increase and (2) stockholders' equity increases.

E2-8 Terapin Company engages in the following external transactions for November.

1. Purchase equipment in exchange for cash of \$23,400.
2. Provide services to customers and receive cash of \$6,800.
3. Pay the current month's rent of \$1,300.
4. Purchase office supplies on account for \$1,000.
5. Pay employee salaries of \$2,100 for the current month.

Required:

Record the transactions. Terapin uses the following accounts: Cash, Supplies, Equipment, Accounts Payable, Service Revenue, Rent Expense, and Salaries Expense.

E2–11 Bearcat Construction begins operations in March and has the following transactions.

- March 1 Issue common stock for \$21,000.
- March 5 Obtain \$9,000 loan from the bank by signing a note.
- March 10 Purchase construction equipment for \$25,000 cash.
- March 15 Purchase advertising for the current month for \$1,100 cash.
- March 22 Provide construction services for \$18,000 on account.
- March 27 Receive \$13,000 cash on account from March 22 services.
- March 28 Pay salaries for the current month of \$6,000.

Required:

Record each transaction. Bearcat uses the following accounts: Cash, Accounts Receivable, Equipment, Notes Payable, Common Stock, Service Revenue, Advertising Expense, and Salaries Expense.

Ethics

RWP2-6 Larry has been the chief financial officer (CFO) of Maxima Auto Service for the past 10 years. The company has reported profits each year it's been in business. However, this year has been a tough one. Increased competition and the rising costs of labor have reduced the company's profits. On December 30, Larry informs Robert, the company's president and Larry's closest friend for the past 10 years, that it looks like the company will report a net loss (total expenses will be greater than total revenues) of about \$50,000 this year.

The next day, December 31, while Larry is preparing the year-end reports, Robert stops by Larry's office to tell him that an additional \$75,000 of revenues needs to be reported and that the company can now report a profit. When Larry asks about the source of the \$75,000, Robert tells him, "Earlier in the month some customers paid for auto services with cash, and with this cash I bought additional assets for the company. That's why the \$75,000 never showed up in the bank statement. I just forgot to tell you about this earlier." When Larry asks for more specifics about these transactions, Robert mumbles, "I can't recall where I placed the customer sales invoices or the purchase receipts for the assets, but don't worry; I know they're here somewhere. We've been friends for a lot of years and you can trust me. Now, let's hurry and finish those reports and I'll treat you to dinner tonight at the restaurant of your choice."

Required:

1. Understand the reporting effect: What effect does reporting additional revenue have on reported profit?
2. Specify the options: If the additional revenue is not reported, do both Robert and Larry potentially lose benefits?
3. Identify the impact: Does reporting the additional revenue strengthen the company's financial appearance to those outside the company?
4. Make a decision: Should Larry report the additional revenue without source documents?