E2-4. Determining Financial Statement Effects of Several Transactions

The following events occurred for Johnson Company:

a. Received investment of cash by organizers and distributed to them 1,000 shares of $1 par value common stock with a market price of $40 per share.

b. Leased $15,000 of equipment, paying $3,000 in cash and signing a long-term right-of-use lease for the rest owed…..

Required:

For each of the events (a) through (e), perform transaction analysis and indicate the account, amount, and Direction of the effect (+ for increase and - for decrease) on the accounting equation. Check that the Accounting equation remains in balance after each transaction.

Event	Assets		=	Liabilities		+	Stockholders' Equity	
a.	Cash	+40,000					Common stock	+1,000
							Additional paid-in capital	+39,000
b.	Right-of-use asset	+15,000		Lease Liability	+12,000			
	Cash	-3,000						
c.	Cash	+10,000		Notes payable	+10,000			
d.	Note receivable	+800						
	Cash	-800						
e.	Land	+13,000		Mortgage notes payable	+9,000			
	Cash	-4,000						

E2-6. Recording Investing and Financing Activities

(Refer to E2-4)

Required:

For each of the events (a) through (e) in E2-4, prepare journal entries, checking that debits equal credits.

a.	Cash (+A)	40,000	
	Common stock (+SE)		1,000
	Additional paid-in capital (+SE)		39,000
b.	Right-of-use asset	15,000	
	Lease Liability		3,000
	Cash		12,000
c.	Cash (+A)	10,000	
	Notes payable (+L)		10,000
d.	Notes receivable (+A)	800	
	Cash (–A)		800
e.	Land (+A)	13,000	
	Cash (–A)		4,000
	Mortgage notes payable (+L)		9,000

E2-14. Recording Journal Entries

Alphabet Inc. is the parent company for a collection of businesses—the largest of which is Google. The following activities were adapted from a recent annual report of Alphabet Inc. Dollars are in millions; shares are as shown.

a. Issued 8,000 shares of $0.001 par value stock for $202.
b. Ordered $6,540 of equipment…

Required:
Prepare journal entries for transactions (a) through (h). Show your answers in millions of dollars. Be sure to use good referencing and categorize each account as an asset (A), liability (L), or stockholders' equity (SE) item. If a transaction does not require a journal entry, explain the reason.

a.	Cash (+A)	202	
	Common stock (+SE)		8
	Additional paid-in capital (+SE)		194
b.	No transaction has occurred because there has been no exchange or receipt of cash, goods, or services.		
c.	Cash (+A)	1,419	
	Notes receivable (-A)		1,419
d.	Cash (+A)	4,291	
	Notes payable (+L)		4,291
e.	Cash (+A)	73,959	
	Investments (-A)		73,959
f.	Equipment (+A)	6,540	
	Cash (-A)		6,540
g.	Treasury stock (-SE)	4,846	
	Cash (-A)		4,846
h.	Notes payable (-L)	4,377	
	Cash (-A)		4,377

E2-15. Analyzing the Effects of Transactions Using T-Accounts and Interpreting the Current Ratio As a Manager of the Company

Higgins Company began operations last year. You are a member of the management team investigating expansion ideas that will require borrowing funds from banks. At the start of the current year, Higgins's T-account balances were as follows:

Assets:

Cash

Beg.	5,000		
(a)	4,000		
(b)	1,500		
(c)	1,500	800	(e)
End.	11,200		

Short-Term Investments

Beg.	2,500		
		1,500	(b)
End.	1,000		

Property & Equipment

Beg.	3,000		
		1,500	(c)
End.	1,500		

Liabilities:

Short-Term Notes Payable

		2,200	Beg.
		2,200	End.

Long-Term Notes Payable

		800	Beg.
		4,000	(a)
		4,800	End.

Dividends Payable

		0	Beg.
		800	(d)
(e)	800		
		0	End

Stockholders' Equity:

Common Stock

		500	Beg.
		500	End.

Additional Paid-in Capital

		4,000	Beg.
		4,000	End.

Retained Earnings

		3,000	Beg.
(d)	800		
		2,200	End.

Required:

1. Using the data from these T-accounts, determine the amounts for the following on January 1 of the Current year:

   Assets $ 10,500 = Liabilities $ 3,000 + Stockholders' Equity $ 7,500

2. Prepare journal entries for transactions (a) through (e) for the current year. Be sure to use good r erencing and categorize each account as an asset (A), a liability (L), or a stockholders' equity (SE) account. If the transaction does not require a journal entry, explain the reason.

(a) Borrowed $4,000 from a local bank, signing a note due in three years.
(b) Sold $1,500 of the investments for $1,500 cash.
(c) Sold one-half of the property and equipment for $1,500 in cash.
(d) Declared and paid $800 in cash dividends to stockholders.
(e) Paid dividends to stockholders.

		Debit	Credit
(a)	Cash (+A)	4,000	
	Long-Term Notes Payable (+L)		4,000
(b)	Cash (+A)	1,500	
	Short-Term Investments (-A)		1,500
(c)	Cash (+A)	1,500	
	Property & Equipment (-A)		1,500
(d)	Retained Earnings (-SE)	800	
	Dividends Payable (+L)		800
(e)	Dividends Payable (-L)	800	
	Cash (-A)		800

3. Enter the effects of the transactions in 2. above in the T-accounts. You will need to create a new T-account for Dividends Payable as well, with a $0 beginning balance. Be sure to use good referencing.

4. Prepare a trial balance at December 31.

Higgins Company -- Trial Balance
December 31, 2023

	Debit	Credit
Cash	11,200	
Short-term investments	1,000	
Property & Equipment	1,500	
Short-term Notes Payable		2,200
Long-Term Notes Payable		4,800
Dividends Payable		0
Common Stock		500
Additional Paid-in Capital		4,000
Retained Earnings		2,200
Total	13,700	13,700

5. Prepare a classified balance sheet at December 31 of the current year in good form.

Higgins Company
Consolidated Balance Sheets
December 31, 2023
(in millions of dollars, except per share data)

Assets	
Current Assests:	
Cash	$11,200
Short-term investments	1,000
Total current assets	12,200
Property and Equipment	1,500
Total assets	**$13,700**
Liabilities and stockholders' equity	
Current Liabilities:	
Short-Term Notes Payable	2,200
Dividend Payable	0
Total current liabilities	2,200
Long-Term Notes Payable	4,800
Total liabilities	7,000
Stockholders' Equity:	
Common stock	500
Additional Paid-in Capital	4,000
Retained Earnings	2,200
Total Stockholders' Equity	6,700
Total liabilities and stockholders' equity	**$13,700**

6. Calculate the current ratio at December 31 of the current year. If the industry average for the current ratio is 1.50, what does your computation suggest to you about Higgins Company? Would you suggest that Higgins Company increase its short-term liabilities? Why or why not?

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$11{,}200+\$1{,}000}{\$2{,}200} = \frac{\$12{,}200}{\$2{,}200} = 5.55$$

This ratio indicates that, for every $1 of current liabilities, Higgins maintains $5.55 of current assets. Higgins' ratio is higher than the industry average of 1.50, indicating that Higgins maintains a lower level of short-term debt and has higher liquidity. However, maintaining such a high current ratio also suggests that the company may not be using its resources efficiently. Increasing short-term obligations would lower Higgins' current ratio, but this strategy alone would not help its efficiency. Higgins should consider investing more of its cash in order to generate future returns.