

**E2-3.**

<b><u>Account</u></b>	<b><u>Balance Sheet Classification</u></b>	<b><u>Debit or Credit Balance</u></b>
(1) Accounts Receivable	CA	Debit
(2) Retained Earnings	SE	Credit
(3) Accrued Expenses Payable	CL	Credit
(4) Prepaid Expenses	CA	Debit
(5) Common Stock	SE	Credit
(6) Long-Term Investments	NCA	Debit
(7) Plant, Property, and Equipment	NCA	Debit
(8) Accounts Payable	CL	Credit
(9) Short-Term Investments	CA	Debit
(10) Long-Term Debt	NCL	Credit

**E2-5.**

Req. 1 (dollars in millions)

<u>Event</u>	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
a.	Buildings +303		Notes payable		
	Equipment +1,202		(long-term) +1,073		
	Cash - 432				
b.	Cash +695				Common stock +10
					Additional paid-in capital +685
c.			Dividends payable +1,159		Retained earnings -1,159
d.	Short-term investments +5,928				
	Cash -5,928				
e.	No effects				
f.	Cash +2,423				
	Short-term investments -2,423				

Req. 2

The separate entity assumption states that transactions of the business are separate from transactions of the owners. Since transaction (e) occurs between the owners and others in the stock market, there is no effect on the business.

**E2-7.**

Req. 1 (dollars in millions)

a.	Buildings (+A).....	303	
	Equipment (+A) .....	1,202	
	Cash (–A).....		432
	Notes payable (+L) .....		1,073
b.	Cash (+A).....	695	
	Common stock (+SE).....		10
	Additional paid-in capital (+SE) .....		685
c.	Retained earnings (–SE).....	1,159	
	Dividends payable (+L) .....		1,159
d.	Short-term investments (+A) .....	5,928	
	Cash (–A).....		5,928
e.	No journal entry required.		
f.	Cash (+A).....	2,423	
	Short-term investments (–A) .....		2,423

Req. 2

The separate entity assumption states that transactions of the business are separate from transactions of the owners. Since transaction (e) occurs between the owners and others in the stock market, there is no effect on the business.

**E2-9.**

Req. 1

Cash		Notes Receivable		Equipment	
Beg.	0	Beg.	0	Beg.	0
(a)	70,000	(e)	2,500	(b)	18,000
(d)	3,000				
	<u>66,000</u>		<u>2,500</u>		<u>18,000</u>

  

Land		Notes Payable		Common Stock	
Beg.	0		0 Beg.		0 Beg.
(d)	15,000		13,500 (b)		5,040 (a)*
	<u>15,000</u>		<u>13,500</u>		100 (d)
					<u>5,140</u>

  

Additional Paid-in Capital	
	0 Beg.
	64,960 (a)
	17,900 (d)
	<u>82,860</u>

\*6 investors x 8,400 shares each = 50,400 shares issued

50,400 shares issued x \$0.10 par value per share = \$5,040 for common stock

Req. 2

Assets \$ 101,500 = Liabilities \$ 13,500 + Stockholders' Equity \$ 88,000

Req. 3

The agreement in (c) involves no exchange or receipt of cash, goods, or services and thus is not a transaction. Since transaction (f) occurs between the owner and others, there is no effect on the business due to the separate entity assumption.

**E2-13.**

a.	Cash (+A).....	70,000	
	Common stock (+SE).....		5,000
	Additional paid-in capital (+SE).....		65,000
b.	No transaction has occurred because there has been no exchange or receipt of cash, goods, or services.		
c.	Cash (+A).....	18,000	
	Notes payable (long-term) (+L) .....		18,000
d.	Equipment (+A) .....	11,000	
	Cash (–A).....		1,500
	Notes payable (short-term) (+L).....		9,500
e.	Notes receivable (short-term) (+A) .....	2,000	
	Cash (–A).....		2,000
f.	Store fixtures (+A) .....	15,000	
	Cash (–A).....		15,000

**E2-16.**

Req. 1

<b>Cash</b>		<b>Short-Term Notes Receivable</b>		<b>Land</b>	
Beg.	0	Beg.	0	Beg.	0
(a)	40,000	(e)	4,000	(b)	16,000
					4,000 (e)
	<u>35,000</u>		<u>4,000</u>		<u>12,000</u>

  

<b>Equipment</b>		<b>Short-Term Notes Payable</b>		<b>Long-Term Notes Payable</b>	
Beg.	0		0 Beg.		0 Beg.
(c)	20,000		16,000 (b)		16,000 (c)
(d)	1,000				
	<u>21,000</u>		<u>16,000</u>		<u>16,000</u>

  

<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	
	0 Beg.		0 Beg.
	10,000 (a)		30,000 (a)
	<u>10,000</u>		<u>30,000</u>

Req. 2

<b>Bailey Delivery Company, Inc.</b> <b>Trial Balance</b> <b>December 31, 2018</b>		
	<b>Debit</b>	<b>Credit</b>
Cash	\$35,000	
Short-term notes receivable	4,000	
Land	12,000	
Equipment	21,000	
Short-term notes payable		\$16,000
Long-term notes payable		16,000
Common stock		10,000
Additional paid-in capital		30,000
Totals	<u>\$72,000</u>	<u>\$72,000</u>

**E2-16. (continued)**

Req. 3

**Bailey Delivery Company, Inc.**  
**Balance Sheet**  
**At December 31, 2018**

<b>Assets</b>		<b>Liabilities</b>	
<i>Current Assets</i>		<i>Current Liabilities</i>	
Cash	\$35,000	Short-term notes payable	\$16,000
Short-term notes receivable	4,000	<i>Total Current Liabilities</i>	16,000
<i>Total Current Assets</i>	39,000	Long-term notes payable	16,000
		<i>Total Liabilities</i>	32,000
Land	12,000		
Equipment	21,000	<b><i>Stockholders' Equity</i></b>	
		Common stock	10,000
		Additional paid-in capital	30,000
		<i>Total Stockholders' Equity</i>	40,000
<b><i>Total Assets</i></b>	<u>\$72,000</u>	<b><i>Total Liabilities &amp; Stockholders' Equity</i></b>	<u>\$72,000</u>

Req. 4

	<u>Current Assets</u>	÷	<u>Current Liabilities</u>	=	<u>Current Ratio</u>
<b>2018</b>	\$39,000	÷	\$16,000	=	2.44
<b>2019</b>	52,000	÷	23,000	=	2.26
<b>2020</b>	47,000	÷	40,000	=	1.18

The current ratio has decreased over the years, suggesting that the company's liquidity is decreasing. Although the company still maintains sufficient current assets to settle the short-term obligations, this steep decline in the ratio may be of concern – it may be indicative of more efficient use of resources or it may suggest the company is having cash flow problems.

Req. 5

The management of Bailey Delivery Company has already been financing the company's development through additional short-term debt, from \$16,000 in 2018 to \$40,000 in 2020. This suggests the company is taking on increasing risk. Additional lending to the company, particularly short-term, may be too much risk for the bank to absorb. Should the bank lend the \$50,000, Bailey Delivery Company's current ratio would be 1.08 ( 97,000 ÷ 90,000) immediately after the financing. Based solely on the current ratio, the bank's vice president should consider not providing the loan to the company as it currently stands. Of course, additional analysis would provide better information for making a sound decision.