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.

c. Borrowed $10,000 cash from a bank.

d. Loaned $800 to an employee who signed a note due in six months.

e. Purchased $13,000 of land; paid $4,000 in cash and signed a note for the balance.

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.								
c.								
d.								
e.								

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.			
c.			
d.			
e.			

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.
c. Collected $1,419 cash on a note receivable.
d. Borrowed $4,291 from banks, signing long-term notes.
e. Sold short-term investments at their cost of $73,959.
f. Received equipment ordered in (b); paid cash.
g. Repurchased its common stock for $4,846 cash.
h. Repaid $4,377 cash on bank borrowings (ignore interest).

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. ______

b. ______

c. ______

d. ______

e. ______

f. ______

g. ______

h. ______

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	
End.	

Short-Term Investments	
Beg. 2,500	
End.	

Property & Equipment	
Beg. 3,000	
End.	

Liabilities:

Short-Term Notes Payable	
	2,200 Beg.
	End.

Long-Term Notes Payable	
	800 Beg.
	End.

Stockholders' Equity:

Common Stock	
	500 Beg.
	End.

Additional Paid-in Capital	
	4,000 Beg.
	End.

Retained Earnings	
	3,000 Beg.
	End.

Required:

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

   Assets $_____= Liabilities $_____+ Stockholders' Equity $____

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 $800 in cash dividends to stockholders.
   (e) Paid dividends to stockholders.

(a) ____________________________________ __________ __________

(b)

(c)

(d)

(e)

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.

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

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?