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Course	**Financial Reporting and Statement Analysis**
Topic	**Double entry frame and the balance sheet**
Faculty	**Prof. Nandan Prabhu**

Double entry framework and the balance sheet

Learning Objectives

At the end of this session, you will be able to:

- Learning Objective 1: Identify financial effects of common business activities that affect the balance sheet.
- Learning Objective 2: Apply transaction analysis to accounting transactions.
- Learning Objective 3: Use journal entries and T-accounts to show how transactions affect the balance sheet.
- Learning Objective 4: Prepare a trial balance and a classified balance sheet.
- Learning Objective 5: Interpret the balance sheet using the current ratio and an understandingof related concepts.

Double entry framework and the balance sheet

Solved Exercises

S2-1
S2-2
S2-3
S2-4
S2-5
S2-6

Chapter 2 Solved Exercises: S2-1, S2-2, S2-3, S2-4, S2-5, S2-6

Double entry framework and the balance sheet

SEGMENT 2

S2-1 Identifying Transactions and Preparing Journal Entries

J.K. Builders was incorporated on July 1. Prepare journal entries for the following events from the first month of business. If the event is not a transaction, write "no transaction."

a. Received $70,000 cash invested by owners and issued stock.
b. Bought an unused field from a local farmer by paying $60,000 cash. As a construction site for smaller projects it is estimated to be worth $65,000 to J.K. Builders.
c. A lumber supplier delivered lumber supplies to J.K. Builders for future use. The lumber supplies would have cost $10,000, but the supplier gave J.K. Builders a 10% discount. J.K. Builders has not received the $9,000 bill from the supplier.

a. Cash (+A)	70,000	
Common Stock (+SE)		70,000
b. Land (+A)	60,000	
Cash (-A)		60,000
c. Supplies (+A)	9,000	
Accounts Payable (+L)		9,000

$10,000 × 10% = $1,000; $10,000 - $1,000 = $9,000

Part I

J.K. Builders was incorporated on July 1. Prepare journal entries for the following events from the first month of business. If the event is not a transaction, write "no transaction."

a. Received $70,000 cash invested by owners and issued stock.

b. Bought an unused field from a local farmer by paying $60,000 cash. As a construction site for smaller projects it is estimated to be worth $65,000 to J.K. Builders.

c. A lumber supplier delivered lumber supplies to J.K. Builders for future use. The lumber supplies would have normally sold for $10,000, but the supplier gave J.K. Builders a 10% discount. J.K. Builders has not received the $9,000 bill from the supplier.

Part II

For part (a) we begin by debiting, or increasing the asset account Cash for $70,000.

Part III

The second part of the entry is to credit, or increase, the stockholders' equity account Common Stock for $70,000.

Part IV

For part (b) or the problem, we begin with a debit, or increase, in the asset account Land for $60,000.

Part V

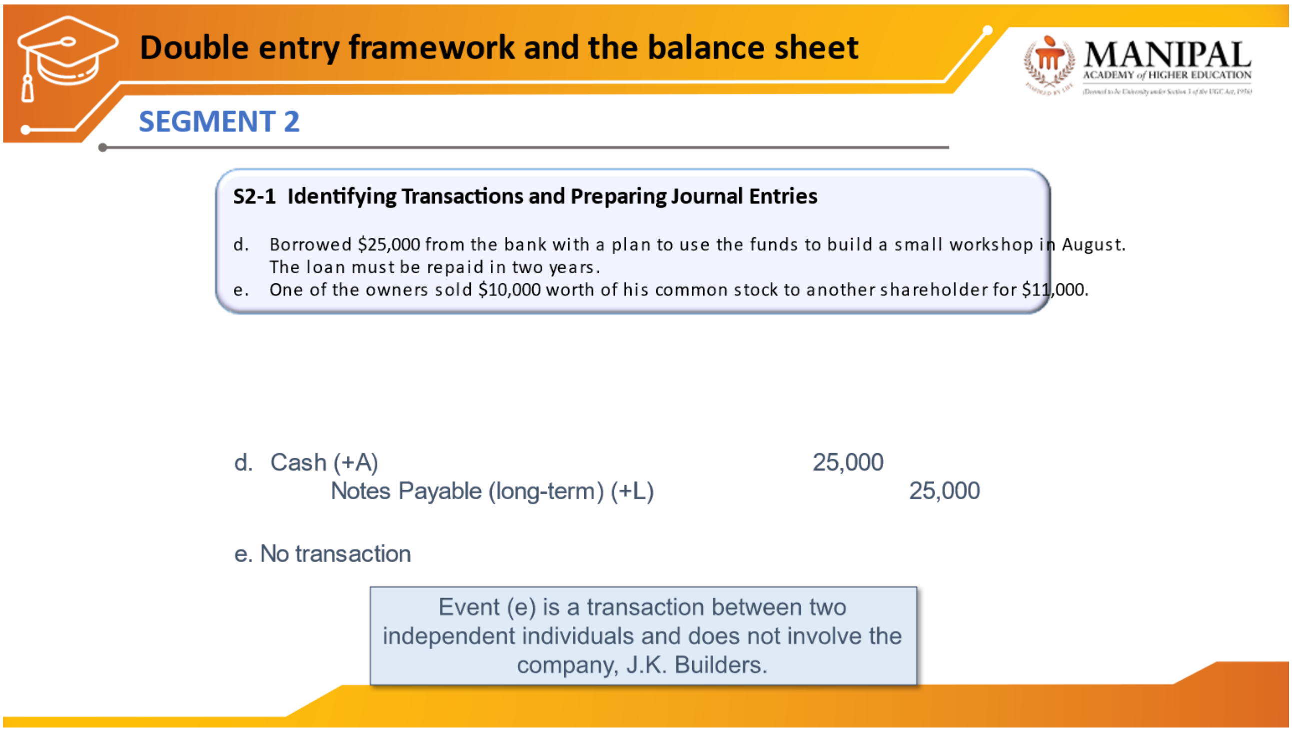
The final part of the entry is to credit, or decrease, the asset account Cash for $60,000.

Part VI

For part (c) of the problem, we begin with a debit, or increase, in the asset account Supplies for $9,000.

Part VII

We complete the entry with a credit, or increase, in the liability account Accounts Payable for $9,000. You can see that the $9,000 is calculated by subtracting the $1,000 discount from the gross amount of $10,000, to arrive at the net amount due of $9,000.



Part I

This is a continuation of the problem we started on the previous screen.

d. Borrowed $25,000 from the bank with a plan to use the funds to build a small workshop in August. The loan must be repaid in two years.

e. One of the owners sold $10,000 worth of his common stock to another shareholder for $11,000.

Part II

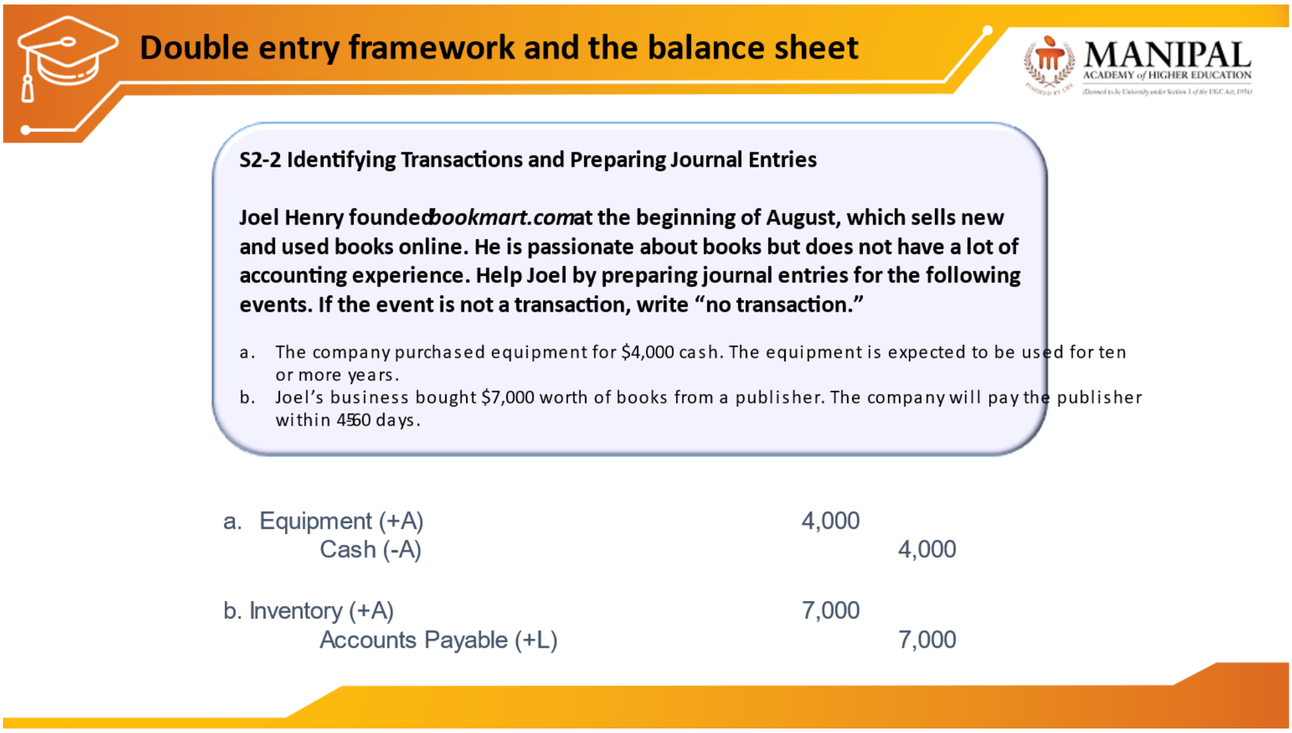
We begin recording transaction (d) with a debit, or increase, in the asset account Cash for $25,000.

Part III

We complete the recording with a credit, or increase, to the liability account Notes Payable (long-term) for $25,000.

Part IV

Section (e) of the problem is really not a transaction between the company and an outside party. Rather it is a transaction between two individuals and does not impact the records of J. K. Builders.



Part I

Joel Henry founded *bookmart.com* at the beginning of August, which sells new and used books online. He is passionate about books but does not have a lot of accounting experience. Help Joel by preparing journal entries for the following events. If the event is not a transaction, write “no transaction.”

a. The company purchased equipment for $4,000 cash. The equipment is expected to be used for ten or more years.

b. Joel’s business bought $7,000 worth of books from a publisher. The company will pay the publisher within 45-60 days.

Part II

Let's begin by recording transaction (a). We begin with a debit, or increase, in the asset account Equipment for $4,000.

Part III

The entry is completed with a credit, or decrease, to the asset account Cash in the amount of $4,000.

Part IV

For transaction (b), we begin with a debit, or increase, in the asset account Inventory for $7,000. Inventory represents items purchased for resale.

Part V

We complete transaction (b) with a credit, or increase, in the liability account Accounts Payable for $7,000.

Double entry framework and the balance sheet

MANIPAL ACADEMY of HIGHER EDUCATION

SEGMENT 2

S2-2 Identifying Transactions and Preparing Journal Entries

c. Joel's friend Sam lent $4,000 to the business. Sam had Joel write a note promising that bookmart.com would repay the $4,000 in four months. Because they are good friends, Sam is not going to charge Joel interest.
d. The company paid $1,500 cash, for books purchased on account earlier in the month.
e. Bookmart.com repaid the $4,000 loan established in c.

c.	Cash (+A)	4,000	
	Notes Payable (short -term) (+L)		4,000
d.	Accounts Payable (-L)	1,500	
	Cash (-A)		1,500
e.	Notes Payable (short -term) (-L)	4,000	
	Cash (-A)		4,000

Part I

This is a continuation of the problem we started on the previous slide.

c. Joel's friend Sam lent $4,000 to the business. Sam had Joel write a note promising that bookmart.com would repay the $4,000 in four months. Because they are good friends, Sam is not going to charge Joel interest.

d. The company paid $1,500 cash, for books purchased on account earlier in the month.

e. Bookmart.com repaid the $4,000 loan established in c.

Part II

For transaction (c) we begin with a debit, or increase, to the asset account Cash for $4,000.

Part III

We complete the entry with a credit, or increase in the liability account Notes Payable (short-term) for $4,000.

Part IV

For transaction (d) we begin with a debit, or decrease in the liability account Accounts Payable for $1,500.

Part V

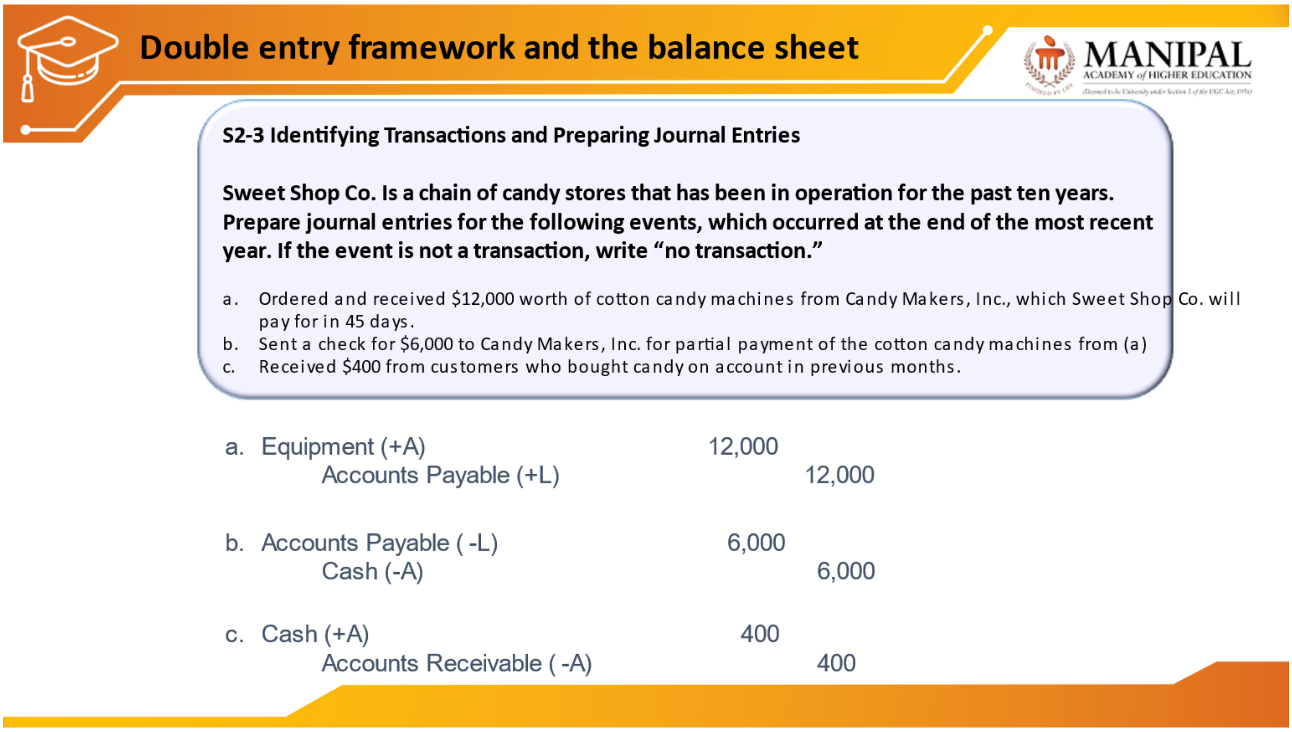
Transaction (d) is completed with a credit, or decrease in the asset account Cash for $1,500.

Part VI

Finally, on transaction (e), we begin with a debit, or decrease, to the liability account Notes Payable (short-term) for $4,000.

Part VII

The entry is completed with a credit, or decrease, in the asset account Cash for $4,000.



Part I

Sweet Shop Co. Is a chain of candy stores that has been in operation for the past ten years. Prepare journal entries for the following events, which occurred at the end of the most recent year. If the event is not a transaction, write "no transaction."

a. Ordered and received $12,000 worth of cotton candy machines from Candy Makers, Inc., which Sweet Shop Co. will pay for in 45 days.

b. Sent a check for $6,000 to Candy Makers, Inc. for the cotton candy machines from (a)

c. Received $400 from customers who bought candy on account in previous months.

Part II

We record transaction (a) with a debit, or increase, to the asset account Equipment for $12,000.

Part III

The entry is completed with a credit, or increase, in the liability account Accounts Payable for $12,000.

Part IV

For transaction (b) we begin with a debit, or decrease, in the liability account Accounts Payable for $6,000.

Part V

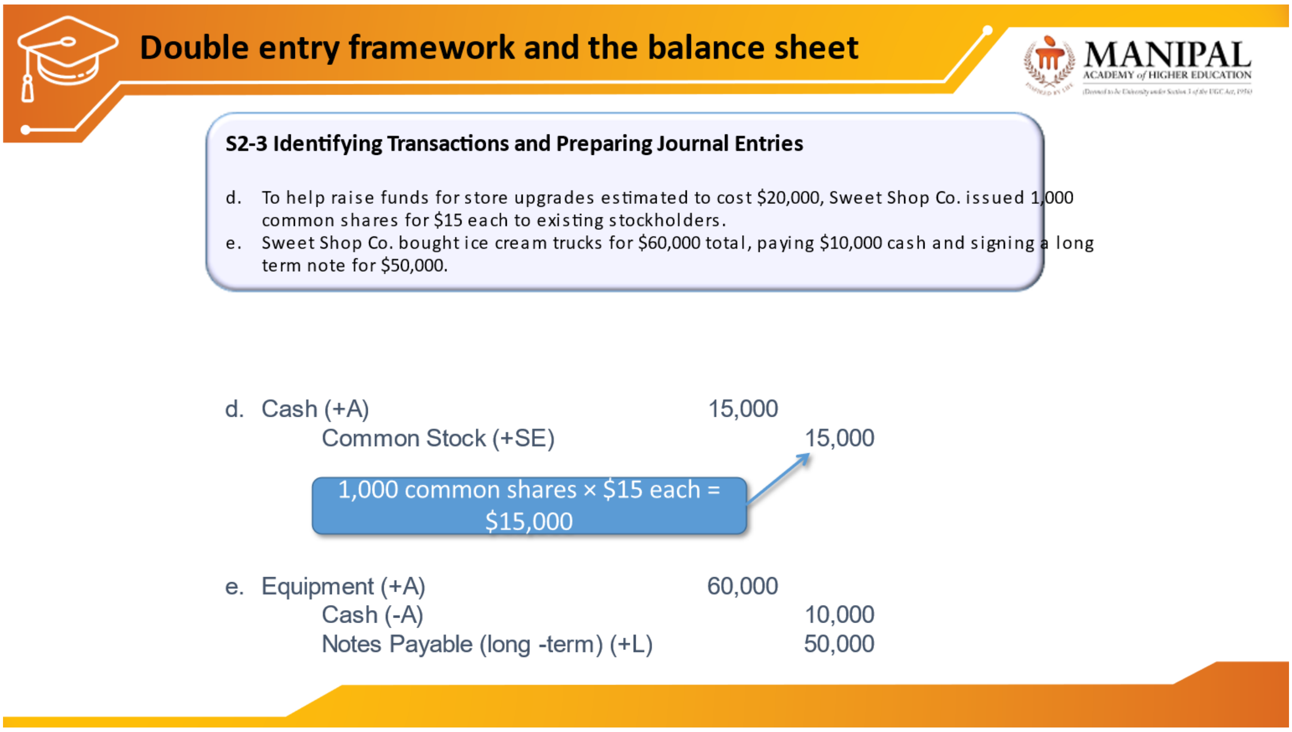
Finally, we complete the entry with a credit, or decrease, in the asset account Cash for $6,000.

Part VI

For transaction (c) we begin with a debit, or increase, in the asset account Cash for $400.

Part VII

We complete the entry with a credit, or decrease, in the asset account Accounts Receivable for $400.



Part I

This is a continuation of the problem started on the previous slide.

d. To help raise funds for store upgrades estimated to cost $20,000, Sweet Shop Co. issued 1,000 common shares for $15 each to existing stockholders.

e. Sweet Shop Co. bought ice cream trucks for $60,000 total, paying $10,000 cash and signing a long-term note for $50,000.

Part II

For transaction (d), we begin with a debit, or increase, to the asset account Cash for $15,000.

Part III

The entry is completed with a credit, or increase, in the stockholders' equity account Common Stock for $15,000. As you can see, the $15,000 is determine by multiplying the number of common shares issued, 1,000, times the selling price of each share, $15.

Part IV

For the last transaction, we begin with a debit, or increase, in the asset account Equipment for $60,000.

Part V

Next, we decrease, or credit, the asset account Cash for $10,000, the amount of the cash paid to acquire the truck.

Part VI

The last part of the entry is to credit, or increase, the liability account Notes Payable (long-term) for $50,000, the amount of money borrowed.