

M2-2
L01, 2, 3, 4 **Matching Definitions with Terms**

Match each definition with its related term by entering the appropriate letter in the space provided. There should be only one definition per term (that is, there are more definitions than terms).

Term	Definition
___ (1) Journal entry	A. Accounting model.
___ (2) $A = L + SE$, and Debits = Credits	B. Four periodic financial statements.
___ (3) $Assets = Liabilities +$ Stockholders' Equity	C. The two equalities in accounting that aid in providing accuracy.
___ (4) Liabilities	D. The results of transaction analysis in accounting format.
___ (5) Income statement, balance sheet, statement of retained earnings, and statement of cash flows	E. The account that is debited when money is borrowed from a bank.
	F. Probable future economic benefits owned by an entity.
	G. Cumulative earnings of a company that are not distributed to the owners.
	H. Every transaction has at least two effects.
	I. Probable debts or obligations to be paid with assets or services.

M2-3
L02 **Identifying Events as Accounting Transactions**

For each of the following events, which ones result in an exchange transaction for Dittman Company (Y for yes and N for no)?

- ___ (1) Dittman Company purchased a machine that it paid for by signing a note payable.
- ___ (2) The founding owner, Megan Dittman, purchased additional stock in another company.
- ___ (3) The company borrowed \$1,000,000 from a local bank.
- ___ (4) Six investors in Dittman Company sold their stock to another investor.
- ___ (5) The company lent \$150,000 to a member of the board of directors.
- ___ (6) Dittman Company ordered supplies from Staples to be delivered next week.

M2-4
L02 **Classifying Accounts on a Balance Sheet**

The following are accounts of Rosa-Perez Company:

- | | |
|-------------------------------|---|
| ___ (1) Accounts Payable | ___ (9) Long-Term Investments |
| ___ (2) Accounts Receivable | ___ (10) Notes Payable (due in three years) |
| ___ (3) Buildings | ___ (11) Notes Receivable (due in six months) |
| ___ (4) Cash | ___ (12) Prepaid Rent |
| ___ (5) Contributed Capital | ___ (13) Retained Earnings |
| ___ (6) Land | ___ (14) Supplies |
| ___ (7) Merchandise Inventory | ___ (15) Utilities Payable |
| ___ (8) Income Taxes Payable | ___ (16) Wages Payable |

In the space provided, classify each as it would be reported on a balance sheet. Use:

CA for current asset CL for current liability SE for stockholders' equity
NCA for noncurrent asset NCL for noncurrent liability

M2-5
L03

Determining Financial Statement Effects of Several Transactions

For each of the following transactions of Pitt Inc. for the month of January 2012, indicate the accounts, amounts, and direction of the effects on the accounting equation. A sample is provided.

- a. (Sample) Borrowed \$20,000 from a local bank.
- b. Lent \$7,000 to an affiliate; accepted a note due in one year.
- c. Sold additional stock to investors for \$1,000 cash.
- d. Purchased \$15,000 of equipment, paying \$6,000 cash and the rest on a note due in one year.
- e. Declared and paid \$2,000 in dividends to stockholders.

Assets	=	Liabilities	+	Stockholders' Equity
• Sample: Cash +20,000		Notes Payable +20,000		

Identifying Increase and Decrease Effects on Balance Sheet Elements

Complete the following table by entering either the word *increases* or *decreases* in each column.

M2-6
L04

	Debit	Credit
Assets	_____	_____
Liabilities	_____	_____
Stockholders' equity	_____	_____

Identifying Debit and Credit Effects on Balance Sheet Elements

Complete the following table by entering either the word *debit* or *credit* in each column.

M2-7
L04

	Increase	Decrease
Assets	_____	_____
Liabilities	_____	_____
Stockholder's equity	_____	_____

Recording Simple Transactions

For each transaction in M2-5 (including the sample), write the journal entry in the proper form.

M2-8
L04

Completing T-Accounts

For each transaction in M2-5 (including the sample), post the effects to the appropriate T-accounts and determine ending account balances. Beginning balances are provided.

M2-9
L04

Cash	Notes Receivable	Equipment
Beg. bal. 800	Beg. bal. 900	Beg. bal. 15,000
=====	=====	=====
Notes Payable	Contributed Capital	Retained Earnings
Beg. bal. 2,700	Beg. bal. 5,000	Beg. bal. 9,000
=====	=====	=====

Preparing a Simple Classified Balance Sheet

Starting with the beginning balances in M2-9 and given the transactions in M2-5 (including the sample), prepare a balance sheet for Pitt Inc. as of January 31, 2012, classified into current and noncurrent assets and liabilities.

M2-10
L05

Computing and Interpreting the Current Ratio

Calculate the current ratio for Sal's Pizza Company at the end of 2007 and 2008, based on the following data:

M2-11
L05

	Current Assets	Current Liabilities
End of 2007	\$240,000	\$160,000
End of 2008	\$260,000	\$220,000



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. Use the following headings:

Event	Assets	=	Liabilities	+	Stockholders' Equity
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E2-5
LO3

**Determining Financial Statement Effects of Several Transactions**

Nike, Inc., with headquarters in Beaverton, Oregon, is one of the world's leading manufacturers of athletic shoes and sports apparel. The following activities occurred during a recent year. The amounts are rounded to millions of dollars.

- a. Purchased additional buildings for \$212 and equipment for \$30.4; paid \$43.2 in cash and signed a long-term note for the rest.
- b. Issued \$186.6 in additional stock for cash.
- c. Declared \$121.4 in dividends to be paid in the following year.
- d. Purchased additional short-term investments for \$2,908.7 cash.
- e. Several Nike investors sold their own stock to other investors on the stock exchange for \$53.
- f. Sold \$2,390 in short-term investments for cash.

Required:

1. For each of the events (a) through (f), perform transaction analysis and indicate the account, amount, and direction of the effect on the accounting equation. Check that the accounting equation remains in balance after each transaction. Use the following headings:

Event	Assets	=	Liabilities	+	Stockholders' Equity
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2. Explain your response to event (e).

E2-6 Recording Investing and Financing Activities

LO4

Refer to E2-4.

Required:

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

E2-7 Recording Investing and Financing Activities

LO4

Refer to E2-5.

Required:

1. For each of the events (a) through (f) in E2-5, prepare journal entries, checking that debits equal credits.
2. Explain your response to event (e).

**E2-8 Analyzing the Effects of Transactions in T-Accounts**

LO4

Granger Service Company, Inc., was organized by Ted Granger and five other investors. The following activities occurred during the year:

- a. Received \$63,000 cash from the investors; each was issued 1,400 shares of capital stock.
- b. Purchased equipment for use in the business at a cost of \$20,000; one-fourth was paid in cash and the company signed a note for the balance (due in six months).
- c. Signed an agreement with a cleaning service to pay \$120 per week for cleaning the corporate offices.
- d. Received an additional contribution from investors who provided \$4,000 in cash and land valued at \$13,000 in exchange for stock in the company.
- e. Lent \$2,500 to one of the investors who signed a note due in six months.
- f. Ted Granger borrowed \$10,000 for personal use from a local bank, signing a one-year note.

Required:

1. Create T-accounts for the following accounts: Cash, Note Receivable, Equipment, Land, Note Payable, and Contributed Capital. Beginning balances are \$0. For each of the preceding transactions,