

SOLUTIONS**Learning Goal 10****Multiple Choice**

1. a
2. d
3. b
4. a
5. b
6. c
7. c
8. d
9. a
10. b
11. d
12. c

SOLUTIONS

Learning Goal 10, continued

Reinforcement Problems

LG 10-1.

Event	R	Assets Affected?		Liabilities Affected?		Owner's Equity Affected?	
		C	V	C	V	C	V
a. On April 30, a count of supplies shows \$400 of supplies used up.	April 30	Supplies	(400)			Supplies Expense	(400)
b. The owner invested \$5,000 in his business on May 7.	May 7	Cash	5,000 +			Owner's equity	5,000 +
c. \$500 was collected from accounts receivable on October 12.	Oct. 12	Cash Acct. Rec.	500 + (500)				
d. On June 1, received \$2,700 from a tenant for 3 months office rent beginning on June 1.	June 1	Cash	2,700 +	Unearned Revenue	2,700 +		
e. On December 31, purchased \$1,900 of supplies and will pay later.	Dec. 31	Supplies	1,900 +	Accounts Payable	1,900 +		
f. Provided \$750 services to customer on December 31. Customer will pay later.	Dec. 31	Acct. Rec.	750 +			Service Revenue	750 +
g. On August 3, purchased \$9,500 of equipment by paying \$3,000 cash and signing a 2-month note payable.	Aug. 3	Cash Equipment	(3,000) 9,500 +	Notes Payable	6,500 +		
h. On January 5, received \$300 bill from the telephone company for <i>telephone services up to December 31</i> .	Dec. 31			Accounts Payable	300 +	Telephone Expense	(300)
i. The owner wrote a \$2,500 check to himself from the business checking account on November 23.	Nov. 23	Cash	(2,500)			Withdrawal	(2,500)
j. It is now June 30, the end of the first month after item "d" above.	June 30			Unearned Revenue	(900)	Rent Revenue	900 +
k. On October 3, borrowed \$6,500 on a new long-term note and used the money to pay off the note in "g."	Oct. 3			Notes Payable	(6,500) 6,500 +		

SOLUTIONS**Learning Goal 10, continued****LG 10-1, continued**

Comments: (1) Event h: Did you find this one to be a little tricky? This example shows that the timing for the recognition date is not always obvious. Because the bill was for telephone services up to end of December (not for January!), the item should be recorded with a December 31 date. We will study this timing issue much more in Volume 2. (2) Event j: A timing and valuation issue, because one-third of the rent revenue has been earned by the end of June. This means that one-third of the revenue should be recorded in June. (3) Event k: The Total Notes Payable does not change because the new note payable replaces the old one for the same amount.

LG 10-2.

Event	Classification	Valuation	Timing
a. On March 11, the owner invested \$10,000 cash and \$2,000 of supplies in her business.	Cash ↑ Supplies ↑ Owner's Equity ↑	\$ 10,000 \$ 2,000 \$12,000	March 11
b. On December 31, a business counts the supplies inventory and determines that the amount of supplies have decreased by \$900 during the last quarter. Financial statements are quarterly.	Supplies ↓ Owner's Equity ↓	\$900 \$900	Dec. 31
c. On September 4, a business performs \$3,000 of services and sends the bill to the customer. No cash is received.	Accounts Receivable ↑ Owner's Equity ↑	\$3,000 \$3,000	Sept. 4
d. On November 12, a business pays \$5,000 cash to buy some computer equipment. The invoice is not received until November 23.	Equipment ↑ Cash ↓	\$5,000 \$5,000	Nov. 12
e. On May 3, a commercial trade school receives a donation of 20 computers. Although the school can use the computers, it would be difficult to sell them because they are obsolete.	Computer Equip. ↑ Owner's Equity ↑	Unknown— need to determine value, if any	May 3
f. On January 23, the local bank calls and offers to loan our business \$25,000 no later than 7 days from today.	None—no transaction	None—no transaction	None—no transaction
g. A computer that had cost \$1,500 suddenly stops functioning on June 23. It is not worth repairing.	Computer Equip. ↓ Owner's Equity ↓	\$1,500 \$1,500	June 23
h. On October 27, \$50,000 of merchandise inventory is destroyed by a fire.	Merchandise Inventory ↓ Owner's Equity ↓	\$50,000 \$50,000	Oct. 27
i. On November 23, a business hires a new employee at a salary of \$80,000 per year.	None—no transaction	None—no transaction	None—no transaction
j. On July 16, the owner of business withdraws \$5,000 cash from the business.	Cash ↓ Owner's Equity ↓	\$5,000 \$5,000	July 16
k. On August 9, our business used a consulting service and incurred \$2,000 of consulting expense. A bill arrived, but we will pay it later.	Owner's Equity ↓ Accounts Payable ↑	\$2,000 \$2,000	Aug. 9

LG 10-3. “Mr. Clavati” refers to the three essential elements for analyzing an event—to determine if or how the event will affect a business: **Classification**, **Valuation**, and **Timing**.