

SOLUTIONS**Learning Goal 15****Multiple Choice**

1. b
 2. c
 3. a
 4. b
 5. d
 6. a
 7. c Their importance in paying current liabilities is the main reason current assets are shown first as a separate classification.
 8. b
 9. d
 10. a
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SOLUTIONS

Learning Goal 15, continued

LG 15-1.

Digby's Funeral Parlor		
Balance Sheet		
October 31, 2008		
Assets		
Current assets		
Cash	\$ 9,500	
Short-term investments	2,800	
Office supplies	320	
Embalming supplies	350	
Prepaid insurance	850	
Total current assets		\$13,820
 Property, plant, and equipment		
Equipment	\$105,500	
Less: Accumulated depreciation	9,500	
Total property, plant, and equipment		96,000
Total assets		\$109,820
 Liabilities and Owner's Equity		
Current liabilities		
Accounts payable	\$ 5,800	
Unearned revenue	500	
Salaries payable	200	
Interest payable	150	
Total current liabilities		\$ 6,650
 Long-term liabilities		
Notes payable		12,000
Total liabilities		18,650
 Owner's equity		
Wilson Digby, Capital		91,170
Total liabilities and owner's equity		\$109,820

Note: Any investments in a stock brokerage account are considered short-term investments, because under normal circumstances the investments (such as stocks and bonds) can be sold quickly, simply by contacting the broker and ordering a sale of the investments (and they are not held for the purposes of control).

SOLUTIONS

Learning Goal 15, continued

LG 15-2.

Item	\$ Amount	Current Asset	Long-Term Investment	Property, Plant, and Equipment	Current Liability	Long-Term Liability	Owner's Equity
Cash	\$10,000	\$10,000					
Accounts Payable	\$1,600				\$1,600		
Land used in operations	\$20,000			\$20,000			
Fees Earned	\$35,000	NOT A BALANCE SHEET ITEM					
10-year note payable	\$20,000					\$20,000	
Prepaid Insurance	\$2,000	\$2,000					
Unearned Revenue	\$4,000				\$4,000		
Wages Payable	\$3,500				\$3,500		
Office Supplies	\$500	\$500					
3-month U.S. treasury bill investment	\$2,500	\$2,500					
R. J. Dribble, Capital	\$7,500						\$7,500
Merchandise Inventory	\$3,000	\$3,000					
Wages Expense	\$3,000	NOT A BALANCE SHEET ITEM					
Building	\$120,000			\$120,000			
Accum. Dep'n.— Building	\$30,000			(\$30,000)			
Land held for future use	\$20,000		\$20,000				
Interest Payable	\$900				\$900		
Totals		<u>\$18,000</u>	<u>\$20,000</u>	<u>\$110,000</u>	<u>\$10,000</u>	<u>\$20,000</u>	<u>\$7,500</u>

SOLUTIONS

Learning Goal 15, continued

LG 15-3.

Tacoma Company		
Balance Sheet		
June 30, 2008		
Assets		
Current assets		
Cash	\$ 36,250	
Short-term investments	25,900	
Accounts receivable	37,850	
Notes receivable	10,000	
Merchandise inventory	85,000	
Office supplies	1,350	
Prepaid insurance	11,500	
Prepaid rent	<u>8,500</u>	
Total current assets		\$216,350
Property, plant, and equipment		
Machinery and equipment	\$115,600	
Less: Accumulated depreciation	<u>35,500</u>	80,100
Automobiles	215,000	
Less: Accumulated depreciation	<u>191,000</u>	<u>24,000</u>
Total property, plant, and equipment		104,100
Intangible assets		
Patent	55,000	
Trademark	<u>4,800</u>	
		<u>59,800</u>
Total assets		<u><u>\$380,250</u></u>
Liabilities and Owner's Equity		
Current liabilities:		
Wages payable	\$ 14,500	
Accounts payable	32,600	
Notes payable	47,300	
Unearned revenue	22,150	
Current portion of long-term debt	<u>3,900</u>	
Total current liabilities		\$120,450
Long-term liabilities		
Notes payable	75,000	
Less: Current portion (above)	<u>3,900</u>	
		<u>71,100</u>
Total liabilities		191,550
Owner's equity:		
J. Ryan, capital		<u>188,700</u>
Total liabilities and owner's equity		<u><u>\$380,250</u></u>

Comment: The only way to determine the balance in the capital account in this problem is to subtract total liabilities from total assets. (It is not necessary to use the withdrawals balance.)

SOLUTIONS

Learning Goal 15, continued

LG 15-3, *continued*

Tacoma Company			
Balance Sheet			
June 30, 2008			
Assets		Liabilities and Owner's Equity	
Current assets		Current Liabilities	
Cash	\$ 36,250	Wages payable	\$ 14,500
Short-term investments	25,900	Accounts payable	32,600
Accounts receivable	37,850	Notes payable	47,300
Notes receivable	10,000	Unearned revenue	22,150
Merchandise inventory	85,000	Current portion of	
Office supplies	1,350	long-term debt	<u>3,900</u>
Prepaid insurance	11,500	Total current liabilities	\$120,450
Prepaid rent	<u>8,500</u>		
Total current assets	\$216,350		
Property, plant, and equipment		Long-term liabilities	
Machinery and		Notes payable	75,000
equipment	\$115,600	Less: Current portion	
Less: Accumulated		of long-term debt	3,900
depreciation	<u>35,500</u>	Total long-term liabilities	<u>71,100</u>
Automobiles	215,000	Total liabilities	191,550
Less: Accumulated			
depreciation	<u>191,000</u>		
	<u>24,000</u>		
Total property, plant, equipment	104,100		
Intangible Assets		Owner's Equity	
Patent	55,000	J. Ryan, capital	<u>188,700</u>
Trademark	<u>4,800</u>	Total liabilities and	
	<u>59,800</u>	owner's equity	<u>\$380,250</u>
Total assets	<u>\$380,250</u>		

Comment: The only way to determine the balance in the capital account in this problem is to subtract total liabilities from total assets. It is not necessary to use the withdrawals balance.