

- 2.1. Prepare an income statement based on the following information: Fees Income, \$38,000; Supplies Expense, \$16,000; Salaries Expense, \$12,000. Miscellaneous Expense, \$7,000.


**SOLUTION**

<i>Income Statement</i>		
Fees Income		\$38,000
Expenses		
Supplies Expense	\$16,000	
Salaries Expense	12,000	
Miscellaneous Expense	7,000	
Total Expenses		35,000
Net Income		<u>\$ 3,000</u>

- 2.2. Based on Prob. 2.1, what would the net income or net loss be if, in addition to the listed expenses, there was an additional expense of \$5,000 charged to Rent?


**SOLUTION**

<i>Income Statement</i>		
Fees Income		\$38,000
Expenses		
Supplies Expense	\$16,000	
Salaries Expense	12,000	
Rent Expense	5,000	
Miscellaneous Expense	7,000	
Total Expenses		40,000
Net Loss		<u>\$ 2,000</u>



Fees Income		\$14,000
Expenses		
Rent Expense	\$2,000	
Salaries Expense	5,000	
Miscellaneous Expense	1,000	
Total Expenses		8,000
Net Income		<u>\$ 6,000</u>
Net Income	\$6,000	
Drawing	2,000	
Increase in Capital		<u>\$4,000</u>

- 2.4. Based on the information in Prob. 2.3, if the withdrawal were \$9,000 instead of \$2,000, what would the increase (decrease) become?

**SOLUTION**

If the withdrawal is larger than the net income, a decrease in capital will result.

Net Income	\$6,000
Drawing	<u>9,000</u>
Decrease in Capital	<u>\$3,000</u>

- 2.5. If the Capital account has a balance on January 1 of \$32,000, what will be the balance on December 31 (a) based on Prob. 2.3? (b) based on Prob. 2.4?

**SOLUTION**

(a)	Capital, January 1		\$32,000
	Net Income	\$6,000	
	Less: Drawing	<u>2,000</u>	
	Increase in Capital		<u>4,000</u>
	Capital, December 31		<u>\$36,000</u>
(b)	Capital, January 1		\$32,000
	Net Income	\$6,000	
	Less: Drawing	<u>9,000</u>	
	Decrease in Capital		<u>3,000</u>
	Capital, December 31		<u>\$29,000</u>

- 2.6. Based on the following information, determine the capital as of December 31, 19X8: Net Income for period, \$18,000; Drawing, \$6,000; Capital (January 1, 19X8), \$20,000.


**SOLUTION****ASSETS**

Cash	\$ 6,000
Supplies	400
Equipment	<u>8,000</u>
Total Assets	<u>\$14,400</u>

**LIABILITIES AND OWNER'S EQUITY**

Accounts Payable	\$ 4,500
Notes Payable	<u>2,500</u>
Total Liabilities	\$ 7,000
Capital	<u>7,400*</u>
Total Liabilities and Owner's Equity	<u>\$14,400</u>

\*\$14,400(Assets) – \$7,000(Liabilities) = \$7,400(Owner's Equity).

2.10. Selected accounts of the Ruez Company produced the following balances:

	January 1	January 31
Assets	\$16,000	\$19,000
Liabilities	4,000	3,000

What was the net income of the firm, assuming that there were no withdrawals?

**SOLUTION**

Capital, January 1	\$12,000*
Capital, January 31	<u>16,000**</u>
Increase in Capital	<u>\$ 4,000</u>

Because there was no drawing, \$4,000 must also be the net income, because net income minus drawing equals increase in capital.

\*(\$16,000 – \$4,000). Based on the concept assets – liabilities = owner's equity.

\*\*(\$19,000 – \$3,000). Based on the concept, assets – liabilities = owner's equity.

2.11. Based on the information in Prob. 2.10, determine the net income if \$1,500 was withdrawn from the company.

**SOLUTION**

Capital, January 1	\$12,000
Capital, January 31	<u>16,000</u>
Increase in Capital	<u>\$ 4,000</u>

We know that net income – drawing = increase in capital.

Therefore, net income – \$1,500 = \$4,000. Net income must be \$5,500.

- 2.12. Below are the financial statements for Lucky Dip Ice Cream Consulting. Certain key figures have been left out. Place the correct amount needed in each of the blanks.

<i>Lucky Dip Ice Cream Consulting</i>		
<i>Income Statement</i>		
<i>Year Ended December 31, 19X8</i>		
Fees Income		66,700
Operating Expenses		
Wages Expense	\$31,500	
Rent Expense	7,200	
Supplies Expense	700	
Miscellaneous Expense	900	
Total Operating Expenses		(a)
Net Income		(b)

<i>Lucky Dip Ice Cream Consulting</i>		
<i>Statement of Owner's Equity</i>		
<i>Year Ended December 31, 19X8</i>		
Capital, January 1, 19X8		\$18,000
Net Income for the Year	(c)	
Less: Withdrawals	\$20,000	
Increase in Capital		(d)
Capital, December 31, 19X8		(e)

<i>Lucky Dip Ice Cream Consulting</i>		
<i>Balance Sheet</i>		
<i>December 31, 19X8</i>		
<b>ASSETS</b>		
Current Assets		
Cash	\$11,000	
Accounts Receivable	(f)	
Supplies	5,700	
Total Current Assets		\$29,700
<b>LIABILITIES</b>		
Accounts Payable	\$2,500	
Notes Payable	2,800	
Total Liabilities		(g)
<b>OWNER'S EQUITY</b>		
John Sweet, Capital		(h)
Total Liabilities and Owner's Equity		(i)

2.14. Classify the following accounts by placing a check mark in the appropriate column.

	Current Asset	Fixed Asset	Current Liability	Long-Term Liability
(1) Accounts Receivable				
(2) Accounts Payable				
(3) Notes Payable				
(4) Mortgage Payable				
(5) Cash				
(6) Supplies				
(7) Salaries Payable				
(8) Bonds Payable				
(9) Equipment				
(10) Land				

2.17. Complete the chart by writing in the appropriate column the name of the account group in which the particular account belongs and check the appropriate column for the classification of each balance sheet item.

	Income Statement	Balance Sheet	Current Asset	Fixed Asset	Current Liability	Long-Term Liability
Accounts Payable						
Accounts Receivable						
Advertising Expense						
Cash						
Capital						
Equipment						
Fees Income						
Machinery						
Mortgage Payable						
Notes Receivable						
Other Income						
Salaries Expense						
Supplies						
Supplies Expense						