(3) Used supplies on hand to produce revenue.
(4) Paid cash in advance for insurance.
(5) Recognized accrued salaries.

Exercise 2-15A *Prepaid items on financial statements*

Life, Inc., experienced the following events in 2016, its first year of operation:

1. Performed counseling services for $36,000 cash.
2. On February 1, 2016, paid $18,000 cash to rent office space for the coming year.
3. Adjusted the accounts to reflect the amount of rent used during the year.

Required

Based on this information alone:

a. Record the events under an accounting equation.
b. Prepare an income statement, balance sheet, and statement of cash flows for the 2016 accounting period.
c. Ignoring all other future events, what is the amount of rent expense that would be recognized in 2017?

Exercise 2-16A *Effect of an error on financial statements*

On April 1, 2016, Maine Corporation paid $18,000 cash in advance for a one-year lease on an office building. Assume that Maine records the prepaid rent as an asset and that the books are closed on December 31.

Required

a. Show the payment for the one-year lease and the related adjusting entry to recognize rent expense in the accounting equation.
b. Assume that Maine Corporation failed to record the adjusting entry to reflect using the office building. How would the error affect the company's 2016 income statement and balance sheet?

Exercise 2-17A *Unearned items on financial statements*

Yard Designs (YD) experienced the following events in 2016, its first year of operation:

1. On October 1, 2016, YD collected $54,000 for consulting services it agreed to provide during the coming year.
2. Adjusted the accounts to reflect the amount of consulting service revenue recognized in 2016.

Required

Based on this information alone,

a. Record the events under an accounting equation.
b. Prepare an income statement, balance sheet, and statement of cash flows for the 2016 accounting period.
c. Ignoring all other future events, what is the amount of service revenue that would be recognized in 2017?

Exercise 2-18A *Unearned revenue defined as a liability*

Lan, an accounting major, and Pat, a marketing major, are watching a *Matlock* rerun on late-night TV. Of course, there is a murder and the suspect wants to hire Matlock as the defense attorney. Matlock will take the case but requires an advance payment of $150,000. Pat remarks that Matlock has earned a cool $150,000 without lifting a finger. Lan tells Pat that Matlock has not earned anything but has a $150,000 liability. Pat asks, "How can that be?"

Required

Assume you are Lan. Explain to Pat why Matlock has a liability and when Matlock would actually earn the $150,000.

Exercise 2-19A ***Supplies, unearned revenue, and the financial statements model***

Hart, Attorney at Law, experienced the following transactions in 2016, the first year of operations:

1. Accepted $36,000 on April 1, 2016, as a retainer for services to be performed evenly over the next 12 months.
2. Performed legal services for cash of $54,000.
3. Purchased $2,800 of office supplies on account.
4. Paid $2,400 of the amount due on accounts payable.
5. Paid a cash dividend to the stockholders of $5,000.
6. Paid cash for operating expenses of $31,000.
7. Determined that at the end of the accounting period $200 of office supplies remained on hand.
8. On December 31, 2016, recognized the revenue that had been earned for services performed in accordance with Transaction 1.

Required

Show the effects of the events on the financial statements using a horizontal statements model like the following one. In the Cash Flows column, use the initials OA to designate operating activity, IA for investing activity, FA for financing activity, and NC for net change in cash. Use NA to indicate accounts not affected by the event. The first event has been recorded as an example.

Event No.	Assets			=	Liabilities			+	Stk. Equity						Cash Flow
	Cash	+	Supplies	=	Accts. Pay	+	Unearn. Rev.	+	Ret. Earn.	Rev.	−	Exp.	=	Net Inc.	
1.	36,000	+	NA	=	NA	+	36,000	+	NA	NA	−	NA	=	NA	36,000 OA

Exercise 2-20A ***Unearned revenue and the financial statements model*** LO 2-7

Clark Bell started a personal financial planning business when he accepted $36,000 cash as advance payment for managing the financial assets of a large estate. Bell agreed to manage the estate for a one-year period beginning June 1, 2016.

Required

a. Show the effects of the advance payment and revenue recognition on the 2016 financial statements using a horizontal statements model like the following one. In the Cash Flows column, use OA to designate operating activity, IA for investing activity, FA for financing activity, and NC for net change in cash. Use NA if the account is not affected.

Event	Assets	=	Liab.	+	Stockholders' Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flows
	Cash	=	Unearn. Rev.	+	Ret. Earn.						

b. How much revenue would Bell recognize on the 2017 income statement?
c. What is the amount of cash flow from operating activities in 2017?

Exercise 2-21A ***Prepaid vs. unearned, the entity concept*** LO 2-6, 2-7

On October 1, 2016, Josh Smith, attorney, accepted an $10,800 cash advance from his client, James Company, for services to be performed over the next six months.

Required

a. Record the deferral and the related December 31, 2016, adjustment for Josh Smith in an accounting equation.
b. Record the deferral and the related December 31, 2016, adjustment for James Company in an accounting equation.

9. Paid $1,200 cash for supplies to be used in the future.
10. Recognized $3,100 of accrued salaries expense.

Required

a. Classify the cash flows from these transactions as operating activities (OA), investing activities (IA), or financing activities (FA). Use NA for transactions that do not affect the statement of cash flows.
b. Prepare a statement of cash flows. (There is no beginning cash balance.)

Exercise 2-26A *Relationship of accounts to financial statements*

LO 2-8

Required

Identify whether each of the following items would appear on the income statement (IS), statement of changes in stockholders' equity (SE), balance sheet (BS), or statement of cash flows (CF). Some items may appear on more than one statement; if so, identify all applicable statements. If an item would not appear on any financial statement, label it NA.

a. BS
z. CF

a. Supplies
b. Cash Flow from Financing Activities
c. "As of" Date Notation
d. Ending Retained Earnings
e. Net Income
f. Dividends
g. Net Change in Cash
h. "For the Period Ended"
i. Land
j. Ending Common Stock
k. Salaries Expense
l. Prepaid Rent
m. Accounts Payable
n. Total Assets
o. Salaries Payable
p. Insurance Expense
q. Notes Payable
r. Accounts Receivable
s. Interest Receivable
t. Interest Revenue
u. Rent Expense
v. Price/Earnings Ratio
w. Taxes Payable
x. Unearned Revenue
y. Service Revenue
z. Cash Flow from Investing Activities
aa. Consulting Revenue
bb. Utilities Expense
cc. Ending Common Stock
dd. Total Liabilities
ee. Operating Cycle
ff. Cash Flow from Operating Activities
gg. Operating Expenses
hh. Supplies Expense
ii. Beginning Retained Earnings
jj. Beginning Common Stock
kk. Prepaid Insurance
ll. Salary Expense
mm. Beginning Cash Balance
nn. Ending Cash Balance

Exercise 2-27A *Effect of accounting events on the income statement and statement of cash flows*

LO 2-3

Required

Explain how each of the following events or series of events and the related adjusting entry will affect the amount of *net income* and the amount of *cash flow from operating activities* reported on the year-end financial statements. Identify the direction of change (increase, decrease, or NA) and the amount of the change. Organize your answers according to the following table. The first event is recorded as an example. If an event does not have a related adjusting entry, record only the effects of the event.

	Net Income		Cash Flows from Operating Activities	
Event/ Adjustment	Direction of Change	Amount of Change	Direction of Change	Amount of Change
a	NA	NA	Decrease	$9,000
Adj	Decrease	$2,250	NA	NA

Exercise 2-27A (Cont.)

a. Paid $9,000 cash on October 1 to purchase a one-year insurance policy.
b. Purchased $2,000 of supplies on account. Paid $500 cash on accounts payable. The ending balance in the Supplies account, after adjustment, was $300.
c. Provided services for $10,000 cash.
d. Collected $2,400 in advance for services to be performed in the future. The contract called for services to start on May 1 and to continue for one year.
e. Accrued salaries amounting to $5,600.
f. Sold land that cost $3,000 for $3,000 cash.
g. Acquired $15,000 cash from the issue of common stock.
h. Earned $12,000 of revenue on account. Collected $8,000 cash from accounts receivable.
i. Paid cash operating expenses of $4,500.

LO 2-8, 2-9

Exercise 2-28A *Transactions that affect the elements of financial statements*

Required

Give an example of a transaction that will do the following:

a. Increase an asset and increase equity (asset source event).
b. Decrease an asset and decrease equity (asset use event).
c. Increase an asset and decrease another asset (asset exchange event).
d. Decrease a liability and increase equity (claims exchange event).
e. Increase a liability and decrease equity (claims exchange event).
f. Increase an asset and increase a liability (asset source event).
g. Decrease an asset and decrease a liability (asset use event).

LO 2-9

Exercise 2-29A *Identifying source, use, and exchange transactions*

Required

Indicate whether each of the following transactions is an asset source (AS), asset use (AU), asset exchange (AE), or claims exchange (CE) transaction.

a. Acquired cash from the issue of stock.
b. Paid a cash dividend to the stockholders.
c. Paid cash on accounts payable.
d. Incurred other operating expenses on account.
e. Paid cash for rent expense.
f. Performed services for cash.
g. Performed services for clients on account.
h. Collected cash from accounts receivable.
i. Received cash for services to be performed in the future.
j. Purchased land with cash.

LO 2-9

Exercise 2-30A *Identifying asset source, use, and exchange transactions*

Required

a. Name an asset use transaction that will *not* affect the income statement.
b. Name an asset exchange transaction that will affect the statement of cash flows.
c. Name an asset source transaction that will *not* affect the income statement.
d. Name an asset source transaction that will *not* affect the statement of cash flows.
e. Name an asset source transaction that will affect the income statement.

LO 2-8, 2-9

Exercise 2-31A *Identifying transaction type and effect on the financial statements*

Required

Identify whether each of the following transactions is an asset source (AS), asset use (AU), asset exchange (AE), or claims exchange (CE). Also show the effects of the events on the financial statements using the horizontal statements model. Indicate whether the event increases (I),