

E2-1

a. Assets = Liabilities + Equities

\$10,000 = 0 + Equities, therefore Equities = \$10,000.

Common stock is the only equity in Holdstock, therefore Common stock = \$10,000.

b. \$5,000. One-half the cash is worth \$1,000, and one-half the marketable securities is worth \$4,000. Their total is: \$1,000 + \$4,000 = \$5,000.

E2-2

a. Land is accounted for at historical cost, which is \$8,000. Therefore, Holdland's total assets are: \$2,000 + \$8,000 = \$10,000.

b. Assets = Liabilities + Equities

\$10,000 = 0 + Equities, therefore Equities = \$10,000.

Common stock is the only equity in Holdland, therefore Common stock = \$10,000.

c. \$9,000. One-half the cash is worth \$1,000, and one-half the land is worth \$8,000. Their total is: \$1,000 + \$8,000 = \$9,000.

E2-3

a. Equity

b. Cash would increase by \$80,000 and the equity account, Stock options, would increase by \$80,000.

c.	Cash	80,000	
	Stock options		80,000

E2-4

a. Liability

b. Cash would increase by \$80,000 and Bonds payable would increase by \$80,000.

c.	Cash	80,000	
	Bonds payable		80,000

E2-5

a. Asset

b. Cash would decrease by \$100,000 and Catalogs would increase by

\$100,000.

c.	Catalogs	100,000	
	Cash		100,000

E2-6

a. These are assets whose benefits will be consumed over the lives of the projects. They have future benefits, in that they enable Newman Properties to earn fees over the lives of the contracts. They are controlled by Newman. They arose from past transactions.

b. An asset, Up-front costs, is increased by \$1.55 million, and cash is decreased by \$1.55 million.

c.	Up-front costs	1,550,000	
	Cash		1,550,000

E2-7

a.

Cash	
BB	0
1	20,000 5,000 3
2	40,000 3,000 4
	52,000

Prepaid rent	
BB	0
4	3,000
	3,000

Land	
BB	0
3	5,000
EB	5,000

Bank loan	
	0 BB
	40,000 2
	40,000 EB

Common stock	
	0 BB
	20,000 1
	20,000 EB

Sellit, Inc. Balance Sheet as of 12/31/2004

Cash	\$52,000	Bank loan	\$40,000
Prepaid rent	3,000	Common stock	20,000
Land	5,000		

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Total assets	<u>\$60,000</u>	Total liabilities + equity	<u>\$60,000</u>
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b. The shareholders would very probably receive somewhere between \$12,000 and \$20,000. The final amount depends on how much the land could be sold for and whether they could cancel the rent prepayment or find another renter for the building. (Note: It is unlikely, although possible, that they could get more than \$5,000 for the land or \$3,000 for the rental services of the building. Otherwise, they should not have been able to purchase these items for the amounts they did.)

c. Sellit, Inc., has \$52,000 in cash, so it could pay a dividend of \$52,000. The managers and owners of Loanit Bank would be upset, as there would be no assets left to repay the loan. A lawsuit (and criminal charges) would likely follow.