

Solution manual for Financial Accounting 9th Edition by Weygandt Kieso Kimmel

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CCC1

CONTINUING COOKIE CHRONICLE

- (a) **Natalie has a choice between a sole proprietorship and a corporation. A partnership is not an option since she is the sole owner of the business.**

A proprietorship is the easiest to create and operate because there are no formal procedures involved in creating the proprietorship. However, if she operates the business as a proprietorship she will personally have unlimited liability for the debts of the business. Operating the business as a corporation would limit her liability to her investment in the business. Natalie will in all likelihood require the services of a lawyer to incorporate. Costs to incorporate as well as additional ongoing costs to administrate and operate the business as a corporation may be costly.

My recommendation is that Natalie choose the corporate form of business organization. If she expands the business after graduation, she can raise additional capital by issuing more stock. In addition, she limits her liability to her investment in the business. If she decides to transfer ownership to another student, she can do so without dissolving the corporation.

CCC1 (Continued)

(b) Yes, Natalie will need accounting information to help her operate her business. She will need information on her cash balance on a daily or weekly basis to help her determine if she can pay her bills. She will need to know the cost of her services so she can establish her prices. She will need to know revenue and expenses so she can report her net income for corporate income tax purposes, on an annual basis. If she borrows money, she will need financial statements so lenders can assess the liquidity, solvency, and profitability of the business. Natalie would also find financial statements useful to better understand her business and identify any financial issues as early as possible. Monthly financial statements would be best because they are more timely, but they are also more work to prepare.

(c) **Assets:** Cash, Accounts Receivable, Supplies, Equipment, Prepaid Insurance

Liabilities: Accounts Payable, Unearned Service Revenue, Notes Payable

Stockholders' Equity: Common Stock, Retained Earnings, Dividends

Revenue: Service Revenue

Expenses: Advertising Expense, Supplies Expense, Utilities Expense, Depreciation Expense

(d) Natalie should have a separate bank account. This will make it easier to prepare financial statements for her business. The business is a separate entity from Natalie and must be accounted for separately.

CCC2 CONTINUING COOKIE CHRONICLE

(a) GENERAL JOURNAL J1

Account Titles and Explanation	Debit	Credit
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Nov. 8 No entry required for cashing U.S.

Savings Bonds—this is a personal transaction.

8	Cash.....	500	
	Common Stock.....		500
11	Advertising Expense	65	
	Cash		65
13	Supplies.....	125	
	Cash		125
14	Equipment	300	
	Common Stock.....		300
16	Cash.....	2,000	
	Notes Payable.....		2,000
17	Equipment	900	
	Cash		900
20	Cash.....	125	
	Service Revenue		125
25	Cash.....	30	
	Unearned Service Revenue		30
30	Prepaid Insurance.....	1,320	
	Cash		1,320

CCC2 (Continued)

(b)

Cash

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 8		J1	500		500
11		J1		65	435
13		J1		125	310
16		J1	2,000		2,310
17		J1		900	1,410
20		J1	125		1,535
25		J1	30		1,565
30		J1		1,320	245

Supplies

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 13		J1	125		125

Prepaid Insurance

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 30		J1	1,320		1,320

Equipment

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 14		J1	300		300
17		J1	900		1,200

CCC2 (Continued)

(b) (Continued)

Unearned Service Revenue

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 25		J1		30	30

Notes Payable

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 16		J1		2,000	2,000

Common Stock

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 8		J1		500	500
14		J1		300	800

Service Revenue

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 20		J1		125	125

Advertising Expense

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 11		J1	65		65

CCC2 (Continued)

(c)

COOKIE CREATIONS

Trial Balance

November 30, 2015

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 245	
Supplies	125	
Prepaid Insurance.....	1,320	
Equipment.....	1,200	
Unearned Service Revenue.....		\$ 30
Notes Payable		2,000
Common Stock		800
Service Revenue		125
Advertising Expense	<u>65</u>	
	<u>\$2,955</u>	<u>\$2,955</u>

Note to instructors: Because the notes payable is not due for 24 months, it follows Unearned Revenue in the accounts and the trial balance.