**PA2-1 Determining Financial Statement Effects of Various Transactions**

Mallard Incorporated (MI) is a small manufacturing company that makes model trains to sell to

toy stores. It has a small service department that repairs customers’ trains for a fee. The company

has been in business for five years. At the end of the most recent year, 2005, the accounting

records reflected total assets of $500,000 and total liabilities of $200,000. During the current year,

2006, the following summarized events occurred:

*a.* Issued additional shares of stock for $100,000 cash.

*b.* Borrowed $120,000 cash from the bank and signed a 10-year note.

*c.* Built an addition on the factory for $200,000 and paid cash to the contractor.

*d.* Purchased equipment for the new addition for $30,000, paying $3,000 in cash and signing a

note due in six months for the balance.

*e.* Returned a $3,000 piece of equipment, from *d,* because it proved to be defective; received a

reduction of the note payable.

*f.* Purchased a delivery truck (equipment) for $10,000; paid $5,000 cash and signed a ninemonth

note for the remainder.

*g.* At the end of 2006, lent $2,000 cash to the company president, Jennifer Mallard, who signed

a note due in one year.

*h.* A stockholder sold $5,000 of his capital stock in Mallard Incorporated to his neighbor.

***Required:***

**1.** Complete the spreadsheet that follows, using plus (\_) for increases and minus (\_) for

decreases for each account. The first transaction is used as an example.

**Assets** \_ **Liabilities** \_ **Stockholders’ Equity**

**Notes Notes Contributed Retained**

**Cash Receivable Equipment Building Payable Capital Earnings**

(*a*) \_ 100,000 \_ \_100,000

**2.** Did you include event *h* in the spreadsheet? Why or why not?

**3.** Based on beginning balances plus the completed spreadsheet, provide the following amounts

(show computations):

*a.* Total assets at the end of the year.

*b.* Total liabilities at the end of the year.

*c.* Total stockholders’ equity at the end of the year.

**4.** As of December 31, 2006, has the financing for MI’s investment in assets primarily come from

liabilities or stockholders’ equity?