CHAPTER 2

The Recording Process

ASSIGNMENT CLASSIFICATION TABLE

Study Objectives	Questions	Brief Exercises	Exercises	Problems Set A	Problems Set B
1. Define debits and credits and illustrate how they are used to record transactions.	1, 2, 3, 4, 5, 6, 7	1, 2, 3, 4, 5, 6, 8	1, 2, 3, 4	1, 2	1, 2
2. Explain the recording process and analyze, journalize, and post transactions.	8, 9, 10, 11, 12, 13, 14, 15	7, 8, 9, 10, 11, 12	1, 4, 5, 6, 7, 8, 9, 10, 11	2, 3, 4, 5, 6, 7, 9	2, 3, 4, 5, 6, 7, 9
3. Explain the purpose of a trial balance, and prepare one.	16, 17, 18, 19, 20, 21	13, 14	1, 9, 10, 11, 12, 13, 14	4, 5, 6, 7, 8, 9, 10, 11, 12, 13	4, 5, 6, 7, 8, 9, 10, 11, 12, 13

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Identify type of account, financial statement, normal balances,and debits and credits.	Simple	15-20
2A	Perform transaction analysis and journalize transactions.	Simple	15-20
3A	Journalize transactions.	Simple	20-30
4A	Journalize transactions, post,and prepare trial balance.	Moderate	40-50
5A	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
6A	Journalize transactions, post,and prepare trial balance.	Moderate	55-65
7A	Journalize transactions, post,and prepare trial balance.	Moderate	55-65
8A	Prepare financial statements.	Simple	25-35
9A	Journalize transactions, post,and prepare trial balance.	Moderate	65-75
10A	Prepare financial statements.	Simple	25-35
11A	Prepare trial balance and financial statements.	Simple	35-45
12A	Analyze errors and effects on trial balance.	Moderate	25-35
13A	Prepare correct trial balance.	Complex	30-40
1B	Identify type of account, financial statement, normal balances,and debits and credits.	Simple	15-20
2B	Perform transaction analysis and journalize transactions.	Simple	15-20
3B	Journalize transactions.	Simple	20-30
4B	Journalize transactions, post,and prepare trial balance.	Moderate	40-50
5B	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
6B	Journalize transactions, post,and prepare trial balance.	Moderate	55-65
7B	Journalize transactions, post,and prepare trial balance.	Moderate	55-65
8B	Prepare financial statements.	Simple	25-35
9B	Journalize transactions, post,and prepare trial balance.	Moderate	65-75
10B	Prepare financial statements.	Simple	25-35

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
11B	Prepare trial balance and financial statements.	Simple	35-45
12B	Analyze errors and effects on trial balance.	Moderate	25-35
13B	Prepare correct trial balance.	Complex	30-40

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Study Objectives and End-of-Chapter Material

Study Objective	Knowledge	Comprehension	Application		Analysis	Syn-thesis	Evalu-ation
1. Define debits and credits and illustrate how they are used to record transactions.	Q2-2 Q2-3 BE2-2 BE2-3 BE2-4 E2-1 P2-1A P2-1B	Q2-1 Q2-4 Q2-5 Q2-6 Q2-7 BE2-5 BE2-6 E2-2 E2-3	BE2-1 BE2-8 E2-4 P2-2A P2-2B				
2. Explain the recording process and analyze, journalize, and post transactions.	Q2-10 Q2-11 E2-1	Q2-8 Q2-9 Q2-12 Q2-13 Q2-14 Q2-15	BE2-7 BE2-9 BE2-11 E2-4 E2-6 E2-8 E2-10 P2-2A P2-3A P2-4A P2-5A P2-6A P2-7A P2-9A	BE2-8 BE2-10 BE2-12 E2-5 E2-7 E2-9 E2-11 P2-2B P2-3B P2-4B P2-5B P2-6B P2-7B P2-9B			
3. Explain the purpose of a trial balance, and prepare one.	Q2-16 E2-1	Q2-17 Q2-18 Q2-19	Q2-21 E2-9 E2-10 E2-14 P2-4A P2-5A P2-6A P2-7A P2-8A P2-9A P2-10A P2-11A	BE2-13 BE2-14 E2-11 E2-12 P2-4B P2-5B P2-6B P2-7B P2-8B P2-9B P2-10B P2-11B	Q2-20 E2-13 P2-12A P2-13A P2-12B P2-13B		
Broadening Your Perspective		BYP2-1 BYP2-4	BYP2-2 BYP2-3 BYP2-6			BYP2-5	

ANSWERS TO QUESTIONS

1. An account is an accounting record of increases and decreases in a specific asset, liability, or owner's equity item. A company will need, at a minimum, two accounts to represent an asset account and either a liability or owner's equity account. However, companies usually have many accounts since they will have different types of assets, liabilities, and owner's equity items, including drawings, revenues, and expenses.

2. Debiting an account refers to the practice of entering an amount on the debit (or left) side of an account. Crediting an account signifies entering an amount on the credit (or right) side of an account.

3. Assets are on the left side of the basic accounting equation and liabilities and owner's equity are on the right side of the basic accounting equation. Since debits are on the left side, and assets are also on the left side, the normal balance of an asset is a debit balance.

   Since credits are on the right side and liabilities are on the right side, the normal balance of a liability is a credit balance. The same is also true for owner's equity. Revenues increase owner's equity and therefore also have a normal credit balance. But expenses and drawings are decreases to owner's equity and thus have a normal debit balance.

4. Kim is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Whether a debit or credit balance is favourable or unfavourable depends on the type of account being considered. For example, a credit balance would be considered to be favourable for a revenue account and unfavourable for a Cash (asset) account.

5. Dmitri is incorrect because debit and credit don't mean increase or decrease. Debit means left side and credit means right side. Different types of accounts will increase with debits versus credits. Accounts on the left side of the accounting equation (assets) will increase with debits. Accounts on the right side of the accounting equation (liabilities and owner's equity) will increase with credits except for expenses and drawings which are decreases to owner's equity and therefore are increased with debits. Thisway the accounting equation remains in balance.

6. The normal balance of owner's capital is a credit. The account is increased by credits and decreased by debits. Both drawings and expenses reduce owner's equity. Because of this, their normal balance is a debit. These two accounts are increased by debits, which end up reducing owner's equity.

QUESTIONS (Continued)

7. Jermyn is incorrect. The double-entry system merely records the effect of a transaction on the two (or more) accounts affected. A transaction is not recorded twice; it is recorded once, with a dual (or multiple) effect on the accounting equation.

8. An event or transaction is recorded only if it causes the company's financial position (assets, liabilities, and/or owner's equity) to change. In some events, nothing is currently obtained nor given up so nothing is recorded. The event may lead to a future transaction that changes the company's financial position but is not recorded until that time. An example of an event that is not currently recorded but will result in a future transaction is the signing of a lease.

9. After it is determined that a transaction should be recorded because it does cause the company's financial position to change, analyzing a business transaction involves: identifying (1) the type of accounts involved, (2) whether the accounts are increased or decreased, and (3) whether the accounts need to be debited or credited.

10. A simple journal entry refers to an entry that affects only two accounts, a debit to one account and a credit to another account. A compound entry refers to an entry that affects three or more accounts. To ensure the accounting equation remains balanced, the total of the debit and credit amounts must be equal.

11. The steps in the recording process are the same whether they are performed manually or by a computerized system. The first two steps, the analysis and entering of each transaction, must be done by a person even when a computerized system is used. The first step involves determining what accounts are affected by the transaction and for what amount – this step does not change whether the system is manual or computerized. The second step, entering or journalizing the transaction, must be done by a person. However, in some computerized systems, errors can be prevented by ensuring that both the debit and credit sides of the entry balance before the transaction is accepted by the system. The third step, posting to ledger accounts, can be done automatically by a computerized system. This substantially reduces the possibility of making mistakes, since the accounts identified in the second step are adjusted automatically by the computerized system and for the same amount as recorded. When done manually, this step can lead to errors in posting the amount, posting the amount to the wrong side of the account, posting the amount to the wrong account, or not posting part of a transaction.

QUESTIONS (Continued)

12. The accounts that could be credited are Revenue, Accounts Receivable and Unearned Revenue. Revenue would be credited for a cash sale. Accounts Receivable would be credited when a customer makes a payment on account for revenue that was previously earned and recorded. Unearned Revenue would be credited when a customer pays in advance.

13. Debits and credits could be recorded directly in the ledger; however, this is not the recommended practice. The advantages of using the journal are:
    1. It discloses in one place the complete effect of a transaction.
    2. It provides a chronological record of all transactions.
    3. It helps to prevent or locate errors, because the debit and credit amounts for each entry can be readily compared.

    The advantage of the last step in the posting process is to indicate that the item has been posted, and to provide a cross-reference.

14. The T account is often used in accounting textbooks for illustrative purposes. It shows only the debit and credit side of a ledger account. It is faster to create and more efficient for analyzing the impact of specific transactions Businesses however usually use a “standard” form of account. This form shows a debit and credit column but also include additional information such as the balance of the account (to show the account balance after every transaction), the date, explanation and reference. This additional information is useful in preventing and detecting errors.

15. The entire group of accounts maintained by a company, including all the asset, liability, and owners' equity accounts, is referred to collectively as the ledger. A chart of accounts lists the account names and account numbers that identify their location in the ledger. The numbering system used to identify the accounts usually starts with the balance sheet accounts and follows with the income statement accounts. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and identify their location in the ledger.

16. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove the mathematical equality of debits and credits, after all journalized transactions have been posted. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.

QUESTIONS (Continued)

17. Since accounts are given an account number in the chart of accounts, the trial balance is prepared in numerical order. Accounts are generally listed and assigned account numbers in the chart of accounts using the following numerical sequence: assets, liabilities, owner's equity, drawings, revenues and lastly expenses. This convention makes is easy for anyone to find an account either in the chart of accounts or in a trial balance.

18. The sequence in which the first four steps in the accounting process does matter in properly accounting for transactions. Unless business transactions are first analyzed, it is possible for the transaction to be misinterpreted or omitted from the accounting process. Once analyzed, the transactions need to be journalized in a journal, after which the transactions are posted to the general ledger in order to arrive at updated balances which then appear in a trial balance.

19. The company should use "December 31" on its trial balance. The trial balance simply shows the balance in the accounts at a specific point in time.

20. (a) The trial balance would not balance, because there were two debits for $750 and no credits. The debits do not equal the credits. Accounts Payable should have been credited, not debited, for $750.
    (b) The trial balance would balance, because the debits ($1,000) and credits ($1,000) are equal. But both the Service Revenue and the Accounts Receivable balances would be incorrect as the credit should have been recorded as a credit to Accounts Receivable not Service Revenue.
    (c) The trial balance would not balance, because the debit to Rent Expense for $650 is not equal to the credit to Cash for $560. The debit side of the trial balance is overstated by $90, because either the Rent Expense is overstated by $90 (Rent Expense should have been debited for $560), or cash is overstated by $90 (the payment should have been credited for $650).

21. The following are three types of errors that could cause the trial balance to not balance, in spite of the fact that the ledger accounts have correct balances.
    1. When transcribing amounts from the ledger to the trial balance, an account balance was recorded at an incorrect amount or omitted.
    2. Balances in the trial balance did not appear in the correct column.
    3. The addition of the trial balance columns was not done correctly.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2-1

(a) $7,500 + $16,700 – $15,400 = $8,800

(b) $8,800 + $13,100 – $4,700 = $17,200

(c) $3,800 – $6,400 + $6,800 = $4,200

(d) $3,800 + $7,700 – $5,900 = $5,600

(e) $100,000 – $24,000 + $45,000 = $121,000

(f) $149,000 – $121,000 + $27,000 = $55,000

BRIEF EXERCISE 2-2

Account	(a) Type of Account	(b) Normal Balance
1. Accounts Receivable	Asset	Debit
2. Accounts Payable	Liability	Credit
3. Equipment	Asset	Debit
4. Rent Expense	Owner's Equity	Debit
4. B. Damji, Drawings	Owner's Equity	Debit
6. Supplies	Asset	Debit
7. Unearned Revenue	Liability	Credit
8. Cash	Asset	Debit
9. Service Revenue	Owner's Equity	Credit
10. Prepaid Insurance	Asset	Debit
11. Utilities Expense	Owner's Equity	Debit
12. Notes Payable	Liability	Credit

BRIEF EXERCISE 2-3

		(a) Normal Balance	(b) Debit Effect	(c) Credit Effect
1.	Accounts Payable	Credit	Decrease	Increase
2.	Accounts Receivable	Debit	Increase	Decrease
3.	Cash	Debit	Increase	Decrease
4.	Supplies	Debit	Increase	Decrease
5.	J. Takamoto, Capital	Credit	Decrease	Increase
6.	J. Takamoto, Drawings	Debit	Increase	Decrease
7.	Prepaid Rent	Debit	Increase	Decrease
8.	Rent Expense	Debit	Increase	Decrease
9.	Service Revenue	Credit	Decrease	Increase
10.	Unearned Revenue	Credit	Decrease	Increase

BRIEF EXERCISE 2-4

	(a) Account	(b) Change with
1. Increase in D. Parmelee, Capital	Owner's Equity	Credit
2. Decrease in Cash	Asset	Credit
3. Decrease in Notes Payable	Liability	Debit
4. Increase in Rent Expense	Owner's Equity	Debit
5. Increase in D. Parmelee, Drawings	Owner's Equity	Debit
6. Increase in Equipment	Asset	Debit
7. Increase in Accounts Payable	Liability	Credit
8. Increase in Service Revenue	Owner's Equity	Credit

BRIEF EXERCISE 2-5

Transaction 1:

Basic Analysis	**The asset account Cash is decreased by $445. The asset account Supplies is increased by $445.**
Debit/Credit Analysis	**Debits increase assets: debit Supplies $445. Credits decrease assets: credit Cash $445.**

Transaction 2:

Basic Analysis	**The asset account Accounts Receivable is increased by $1,500. The revenue account Service Revenue is increased by $1,500.**
Debit/Credit Analysis	**Debits increase assets: debit Accounts Receivable $1,500. Credits increase revenues: credit Service Revenue $1,500.**

Transaction 3:

Basic Analysis	**The asset account Equipment is increased by $2,500. The liability account Accounts Payable is increased by $2,500.**
Debit/Credit Analysis	**Debits increase assets: debit Equipment $2,500. Credits increase liabilities: credit Accounts Payable $2,500.**

Transaction 4:

Basic Analysis	**The expense account Utilities Expense is increased by $225. The asset account Cash is decreased by $225.**
Debit/Credit Analysis	**Debits increase expenses: debit Utilities Expense $225. Credits decrease assets: credit Cash $225.**

BRIEF EXERCISE 2-5 (Continued)

Transaction 5:

Basic Analysis	**The asset account Cash is increased by $500. The revenue account Service Revenue is increased by $500.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $500. Credits increase revenues: credit Service Revenue $500.**

Transaction 6:

Basic Analysis	**The owner's equity account R. Levine, Drawings is increased by $800. The asset account Cash is decreased by $800.**
Debit/Credit Analysis	**Debits increase drawings: debit R. Levine, Drawings $800. Credits decrease assets: credit Cash $800.**

Transaction 7:

Basic Analysis	**The expense account Salaries Expense is increased by $2,200. The asset account Cash is decreased by $2,200.**
Debit/Credit Analysis	**Debits increase expenses: debit Salaries Expense $2,200. Credits decrease assets: credit Cash $2,200.**

Transaction 8:

Basic Analysis	**The asset account Cash is increased by $750. The liability account Unearned Revenue is increased by $750.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $750. Credits increase liabilities: credit Unearned Revenue $750.**

BRIEF EXERCISE 2-6

	Account Debited			Account Credited		
Trans-action	(a) Basic Type	(b) Specific Account	(c) Effect	(a) Basic Type	(b) Specific Account	(c) Effect
Aug. 1	Asset	Cash	+ $16,750	Owner's Equity	B. Fleming, Capital	+ $16,750
4	Asset	Prepaid Rent	+ $3,900	Asset	Cash	– $3,900
5	Asset	Supplies	+ $645	Liability	Accounts Payable	+ $645
6	Asset	Cash	+ $950	Owner's Equity	Service Revenue	+ $950
17	Asset	Accounts Receivable	+ $1,500	Owner's Equity	Service Revenue	+ $1,500
27	Owner's Equity	Salaries Expense	+ $875	Asset	Cash	– $875
29	Owner's Equity	B. Fleming, Drawings	+ $700	Asset	Cash	– $700

BRIEF EXERCISE 2-7

(1) This transaction should be recorded. The asset account Accounts Receivable is increased and the revenue account Service Revenue is also increased. Revenue is recorded when the service is performed, regardless of when the cash is received.

(2) This transaction should be recorded. The asset account Cash is increased and the asset account Accounts Receivable is decreased. This transaction represents an exchange of assets. Service Revenue is not recorded again since it was recorded when the service was performed.

(3) This transaction is not recorded. No asset, liability, owner's equity, revenue or expense account is affected. The balance owing by the customer, Accounts Receivable, was recorded when the service was performed.

BRIEF EXERCISE 2-8

Basic Analysis	**The asset account Cash is increased by $9,500. The owner's equity account T. Pridham, Capital is increased by $9,500.**
Debit/Credit Analysis	**Debits increase assets: debit Cash 9,500. Credits increase owner's equity: credit T. Pridham, Capital $9,500.**
Journal Entry	**June 1 Cash 9,500 T. Pridham, Capital 9,500 Invested cash in business.**

Basic Analysis	**The asset account Equipment is increased by $3,000. The liability account Accounts Payable is increased by $3,000.**
Debit/Credit Analysis	**Debits increase assets: debit Equipment $3,000. Credits increase liabilities: credit Accounts Payable $3,000.**
Journal Entry	**June 2 Equipment 3,000 Accounts Payable 3,000 Purchased equipment on account.**

Basic Analysis	**June 5: An accounting transaction has not occurred. A debit/credit analysis is not needed because there is no accounting entry.**

BRIEF EXERCISE 2-8 (Continued)

Basic Analysis	**The asset account Accounts Receivable is increased by $1,975. The revenue account Service Revenue is increased by $1,975.**
Debit/Credit Analysis	**Debits increase assets: debit Accounts Receivable $1,975. Credits increase revenues: credit Service Revenue $1,975.**
Journal Entry	**June 17 Accounts Receivable 1,975 Service Revenue 1,975 Performed services on account for R. Windl.**

Basic Analysis	**The asset account Cash is increased by $1,000. The asset account Accounts Receivable is decreased by $1,000.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $1,000. Credits decrease assets: credit Accounts Receivable $1,000.**
Journal Entry	**June 27 Cash 1,000 Accounts Receivable 1,000 Collected cash on account from R. Windl.**

Basic Analysis	**The liability account Accounts Payable is decreased by $3,000. The asset account Cash is decreased by $3,000.**
Debit/Credit Analysis	**Debits decrease liabilities: debit Accounts Payable $3,000. Credits decrease assets: credit Cash $3,000.**
Journal Entry	**June 29 Accounts Payable 3,000 Cash 3,000 Paid for equipment purchased on June 2.**

Basic Analysis	**The expense account Salaries Expense is increased by $1,800. The asset account Cash is decreased by $1,800.**
Debit/Credit Analysis	**Debits increase expenses: debit Salaries Expense $1,800. Credits decrease assets: credit Cash $1,800.**
Journal Entry	**June 30 Salaries Expense 1,800 Cash 1,800 Paid employee for one-half of a a month's work**

BRIEF EXERCISE 2-9

Aug	31	Supplies	445	
		Cash		445
	31	Accounts Receivable	1,500	
		Service Revenue		1,500
	31	Equipment	2,500	
		Accounts Payable		2,500
	31	Utilities Expense	225	
		Cash		225
	31	Cash	500	
		Service Revenue		500
	31	R. Levine, Drawings	800	
		Cash		800
	31	Salaries Expense	2,200	
		Cash		2,200
	31	Cash	750	
		Unearned Revenue		750

BRIEF EXERCISE 2-10

Aug	1	Cash	16,750	
		B. Fleming, Capital		16,750
	4	Prepaid Rent	3,900	
		Cash		3,900
	5	Supplies	645	
		Accounts Payable		645
	6	Cash	950	
		Service Revenue		950
	17	Accounts Receivable	1,500	
		Service Revenue		1,500
	27	Salaries Expense	875	
		Cash		875
	29	B. Fleming, Drawings	700	
		Cash		700

BRIEF EXERCISE 2-11

Cash

Aug. 1	16,750	Aug. 4	3,900
6	950	27	875
		29	700
Bal.	12,225		

B. Fleming, Capital

		Aug. 1	16,750
		Bal.	16,750

Accounts Receivable

Aug. 17	1,500		
Bal.	1,500		

B. Fleming, Drawings

Aug. 29	700		
Bal.	700		

Prepaid Rent

Aug. 4	3,900		
Bal.	3,900		

Service Revenue

		Aug. 6	950
		17	1,500
		Bal.	2,450

Supplies

Aug. 5	645		
Bal.	645		

Salaries Expense

Aug. 27	875		
Bal.	875		

Accounts Payable

		Aug. 5	645
		Bal.	645

BRIEF EXERCISE 2-12

Cash

Sept.10	1,050	Sept.14	95
28	1,325	15	850
		30	450
Sept. 30	Bal. 980		

Accounts Payable

Sept. 30	450	Sept. 4	750
		Sept. 30 Bal.	300

Accounts Receivable

Sept. 2	2,275	Sept. 28	1,325
Sept.30	Bal. 950		

Service Revenue

		Sept. 2	2,275
		10	1,050
		Sept.30	Bal.3,325

Supplies

Sept. 4	750		
Sept. 30	Bal. 750		

Salaries Expense

Sept. 15	850		
Sept. 30	Bal. 850		

Utilities Expense

Sept. 14	95		
Bal.	95		

BRIEF EXERCISE 2-13

PETTIPAS COMPANY
Trial Balance
April 30, 2014

	Debit	Credit
Cash	$6,400	
Accounts receivable	5,000	
Supplies	650	
Prepaid rent	800	
Equipment	14,600	
Accounts payable		$ 3,300
Unearned revenue		250
C. Pettipas, capital		22,500
C. Pettipas, drawings	1,100	
Service revenue		8,000
Rent expense	4,500	
Salaries expense	1,000	
	$34,050	$34,050

BRIEF EXERCISE 2-14

1. The Prepaid Insurance balance was in the wrong column. Assets have a normal debit balance. When this account is moved to the debit column, the new total in the debit column will be $46,200 ($42,700 + $3,500) and the new total in the credit column will be $47,100 ($50,600 – $3,500).

2. The trial balance is now out of balance by $900 ($46,200 – $47,100). The transposition error in L. Bourque, Capital account is the cause of the $900 difference. If the $15,400 balance in that account is transposed to $14,500 this will reduce the total credits by $900 and the trial balance will now balance. See revised trial balance below:

BOURQUE COMPANY
Trial Balance
December 31, 2014

	Debit	Credit
Cash	$15,000	
Accounts receivable	1,800	
Prepaid insurance	3,500	
Accounts payable		$ 2,000
Unearned revenue		2,200
L. Bourque, capital		14,500
L. Bourque, drawings	4,900	
Service revenue		27,500
Rent expense	2,400	
Salaries expense	18,600	
	$46,200	$46,200

SOLUTIONS TO EXERCISES

EXERCISE 2-1

(a) 4. Credit
(b) 2. Analyzing transactions
(c) 9. Posting
(d) 1. Account
(e) 5. Debit
(f) 7. Journalizing
(g) 10. Trial balance
(h) 4. Credit
(i) 3. Chart of accounts
(j) 6. Journal

EXERCISE 2-2

(a)

Account	(1) Type of Account	(2) Financial Statement	(3) Normal Balance
Cash	Asset	Balance Sheet	Debit
M. Kobayashi, Capital	Owner's Capital	Balance Sheet and Statement of Owner's Equity	Credit
Accounts Payable	Liability	Balance Sheet	Credit
Building	Asset	Balance Sheet	Debit
Fees Earned	Revenue	Income Statement	Credit
Insurance Expense	Expense	Income Statement	Debit
Interest Revenue	Revenue	Income Statement	Credit
M. Kobayashi, Drawings	Drawings	Statement of Owner's Equity	Debit
Notes Receivable	Asset	Balance Sheet	Debit
Prepaid Insurance	Asset	Balance Sheet	Debit
Rent Expense	Expense	Income Statement	Debit
Supplies	Asset	Balance Sheet	Debit

(b)

Assets are on the left side of the basic accounting equation and liabilities and owner's equity are on the right side of the basic accounting equation. Since debits are on the left side, and assets are also on the left side, the normal balance of an asset is a debit balance.

Since credits are on the right side and liabilities are on the right side, the normal balance of a liability is a credit balance. The same is also true for owner's equity. Revenues increase owner's equity and therefore also have a normal credit balance. But expenses and drawings are decreases to owner's equity and thus have a normal debit balance.

EXERCISE 2-3

	Account Debited			Account Credited		
Trans-action	(a) Basic Type	(b) Specific Account	(c) Effect	(a) Basic Type	(b) Specific Account	(c) Effect
Mar. 3	Asset	Cash	+ $10,000	Owner's Equity	J. MacKenzie, Capital	+$10,000
4	Asset	Cash	+ $10,000	Liability	Notes Payable	+$10,000
6	Asset	Vehicles	+ $9,500	Asset	Cash	– $9,500
7	Asset	Supplies	+ $1,500	Liability	Accounts Payable	+ $1,500
12	Asset	Accounts Receivable	+ $2,100	Owner's Equity	Service Revenue	+ $2,100
21	Owner's Equity	Advertising Expense	+ $525	Asset	Cash	– $525
25	Asset	Cash	+ $1,200	Asset	Accounts Receivable	– $1,200
28	Liability	Accounts Payable	– $1,500	Asset	Cash	– $1,500
30	Asset	Cash	+ $750	Liability	Unearned Revenue	+ $750
31	Owner's Equity	J. MacKenzie, Drawings	+ $1,400	Asset	Cash	– $1,400

EXERCISE 2-4

Basic Analysis	**The expense account Rent Expense is increased by $550. The asset account Cash is decreased by $550.**
Debit/Credit Analysis	**Debits increase expenses: debit Rent Expense $550. Credits decrease assets: credit Cash $550.**
Journal Entry	**June 1 Rent Expense 550 Cash 550 Paid June rent.**

Basic Analysis	**The expense account Insurance Expense is increased by $175. The asset account Cash is decreased by $175.**
Debit/Credit Analysis	**Debits increase expenses: debit Insurance Expense $175. Credits decrease assets: credit Cash $175.**
Journal Entry	**June 2 Insurance Expense 175 Cash 175 Paid one month ofinsurance.**

Basic Analysis	**The asset account Cash is increased by $1,255. The asset account Accounts Receivable is decreased by $1,255.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $1,255. Credits decrease assets: credit Accounts Receivable $1,255.**
Journal Entry	**June 5 Cash 1,255 Accounts Receivable 1,255 Collected cash on account.**

EXERCISE 2-4 (Continued)

Basic Analysis	**June 9: An accounting transaction has not occurred. A debit/credit analysis is not needed because there is no accounting entry.**

Basic Analysis	**The liability account Accounts Payable is decreased by $675. The asset account Cash is decreased by $675.**
Debit/Credit Analysis	**Debits decrease liabilities: debit Accounts Payable $675.** **Credits decrease assets: credit Cash $675.**
Journal Entry	**June 14 Accounts Payable 675** **Cash 675** **Paid cash on account.**

Basic Analysis	**The asset account Accounts Receivable is increased by $1,420. The revenue account Service Revenue is increased by $1,420.**
Debit/Credit Analysis	**Debits increase assets: debit Accounts Receivable $1,420.** **Credits increase revenues: credit Service Revenue $1,420.**
Journal Entry	**June 17 Accounts Receivable 1,420** **Service Revenue 1,420** **Performed services on account for Rudy Holland.**

EXERCISE 2-4 (Continued)

Basic Analysis	**The asset account Cash is increased by $1,000. The liability account Unearned Revenue is increased by $1,000.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $1,000. Credits increase liabilities: credit Unearned Revenue $1,000.**
Journal Entry	**June 19 Cash 1,000** **Unearned Revenue 1,000** **Received advance from J. Dupuis for future services.**

Basic Analysis	**The asset account Equipment is increased by $1,575. The liability account Accounts Payable is increased by $1,575.**
Debit/Credit Analysis	**Debits increase assets: debit Equipment $1,575. Credits increase liabilities: credit Accounts Payable $1,575.**
Journal Entry	**June 29 Equipment 1,575** **Accounts Payable 1,575** **Purchased equipment on account.**

Basic Analysis	**The expense account Salaries Expense is increased by $850. The asset account Cash is decreased by $850.**
Debit/Credit Analysis	**Debits increase expenses: debit Salaries Expense $850.** **Credits decrease assets: credit Cash $850.**
Journal Entry	**June 30 Salaries Expense 850** **Cash 850** **Paid employee.**

EXERCISE 2-4 (Continued)

Basic Analysis	**The owner's equity account D. Bratt, Drawings is increased by $1,250. The asset account Cash is decreased by $1,250.**
Debit/Credit Analysis	**Debits increase drawings: debit D. Bratt, Drawings $1,250.** **Credits decrease assets: credit Cash $1,250.**
Journal Entry	**June 30 D. Bratt, Drawings 1,250** **Cash 1,250** **Paid D. Bratt, the company owner.**

EXERCISE 2-5

GENERAL JOURNAL				J1
Date		**Account Titles and Explanation**	**Debit**	**Credit**
Mar.	3	Cash	10,000	
		J. MacKenzie, Capital		10,000
	4	Cash	10,000	
		Notes Payable		10,000
	6	Vehicles	9,500	
		Cash		9,500
	7	Supplies	1,500	
		Accounts Payable		1,500
	12	Accounts Receivable	2,100	
		Service Revenue		2,100
	21	Advertising Expense	525	
		Cash		525
	25	Cash	1,200	
		Accounts Receivable		1,200
	28	Accounts Payable	1,500	
		Cash		1,500
	30	Cash	750	
		Unearned Revenue		750
	31	J. MacKenzie, Drawings	1,400	
		Cash		1,400

EXERCISE 2-6

GENERAL JOURNAL

Trans.	Account Titles and Explanation	Ref.	Debit	Credit
(a) and (b)				
1.	Cash		1,785	
	Service Revenue			1,785
	Revenues increase owner's equity.			
2.	Rent Expense		965	
	Cash			965
	Expenses decrease owner's equity.			
3.	Supplies		480	
	Accounts Payable			480
	Owner's equity is not affected by this transaction.			
4.	Accounts Receivable		2,160	
	Service Revenue			2,160
	Revenues increase owner's equity.			
5.	Cash		1,000	
	Accounts Receivable			1,000
	Owner's equity is not affected by this transaction.			
6.	Cash		5,000	
	Notes payable			5,000
	Owner's equity is not affected by this transaction.			

EXERCISE 2-6 (Continued)

(a) and (b) (Continued)

7.	Equipment	5,000	
	Cash		5,000

Owner's equity is not affected by this transaction.

8.	Cash	800	
	Unearned Revenue		800

Owner's equity is not affected by this transaction.

9.	Prepaid Advertising	850	
	Cash		850

Owner's equity is not affected by this transaction.

10.	Accounts Payable	480	
	Cash		480

Owner's equity is not affected by this transaction.

11.	S. Beaulieu, Drawings	1,565	
	Cash		1,565

Drawings reduce owner's equity.

(c)

Owner's equity, beginning balance	$8,050
Transaction 1, revenue	1,785
Transaction 2, expenses	(965)
Transaction 4, revenue	2,160
Transaction 11, drawings	(1,565)
Owner's equity, ending balance	$9,465

EXERCISE 2-7

GENERAL JOURNAL

Date		Account Titles and Explanation	Ref.	Debit	Credit
Oct.	1	Cash		14,000	
		Equipment		3,000	
		S. Polland, Capital			17,000
	2	Prepaid Insurance		1,200	
		Cash			1,200
	3	Equipment		4,450	
		Cash			850
		Notes Payable			3,600
	10	Cash		350	
		Service Revenue			350
	16	Accounts Receivable		7,500	
		Service Revenue			7,500
	27	Advertising Expense		700	
		Cash			700
	29	Telephone Expense		95	
		Accounts Payable			95
	30	Salaries Expense		2,000	
		Cash			2,000
	31	Cash		7,500	
		Accounts Receivable			7,500

EXERCISE 2-8

Cash

Oct. 1 14,000	Oct.2 1,200
10 350	3 850
31 7,500	27 700
	30 2,000
Oct.31Bal.17,100	

S.Polland, Capital

	Oct. 1 17,000
	Oct. 31Bal. 17,000

Accounts Receivable

Oct. 16 7,500	Oct. 31 7,500
Oct. 31 Bal. 0	

Service Revenue

	Oct. 10 350
	16 7,500
	Oct. 31 Bal. 7,850

Prepaid Insurance

Oct. 2 1,200	
Oct.31Bal. 1,200	

Equipment

Oct. 1 3,000	
3 4,450	
Oct.31 Bal. 7,450	

Salaries Expense

Oct. 30 2,000	
Oct.31Bal.2,000	

Notes Payable

	Oct. 3 3,600
	Oct.31 Bal 3,600

Advertising Expense

Oct. 27 700	
Oct. 31 Bal. 700	

Accounts Payable

	Oct. 29 95
	Oct.31 Bal. 95

Telephone Expense

Oct. 29 95	
Oct. 31 Bal. 95	

EXERCISE 2-9

(a) GENERAL JOURNAL J1

Date		Account Titles and Explanation	Debit	Credit
Oct.	1	Cash	1,200	
		A. Fortin, Capital		1,200
		Invested cash in business.		
	3	Equipment	5,400	
		Cash		400
		Notes Payable		5,000
		Purchased equipment and issued a note.		
	4	Supplies	800	
		Accounts Payable		800
		Purchased supplies on account.		
	6	Accounts Receivable	1,000	
		Service Revenue		1,000
		Performed services on credit.		
	10	Cash	650	
		Service Revenue		650
		Performed services for cash.		
	12	Accounts Payable	500	
		Cash		500
		Paid cash on account.		
	15	Cash	3,000	
		Service Revenue		3,000
		Performed services for cash.		
	20	Accounts Receivable	940	
		Service Revenue		940
		Performed services for credit.		

EXERCISE 2-9 (Continued)

(a) (Continued)

GENERAL JOURNAL **J1**

Date	Account Titles and Explanation	Debit	Credit
20	Cash	800	
	Accounts Receivable		800
	Received cash on account.		
25	Cash	2,000	
	A. Fortin, Capital		2,000
	Invested cash in business.		
28	Advertising Expense	400	
	Accounts Payable		400
	Purchased advertising on account.		
30	A. Fortin, Drawings	600	
	Cash		600
	Withdrew cash for personal use.		
31	Rent Expense	250	
	Cash		250
	Paid rent.		
31	Salaries Expense	500	
	Cash		500
	Paid salaries.		

EXERCISE 2-9 (Continued)

(b)

FORTIN CO.
Trial Balance
October 31, 2014

	Debit	Credit
Cash	$ 5,400	
Accounts receivable	1,140	
Supplies	800	
Equipment	5,400	
Notes payable		$ 5,000
Accounts payable		700
A. Fortin, capital		3,200
A. Fortin, drawings	600	
Service revenue		5,590
Advertising expense	400	
Rent expense	250	
Salaries expense	500	
	$14,490	$14,490

EXERCISE 2-10

(a) and (b)

Cash

Aug. 1	8,800	Aug. 1	1,200
12	2,400	10	420
31	5,910	25	2,250
		30	540
		31	4,770
Aug.31 Bal.	7,930		

L. Meche, Capital

		Aug. 1	15,000
		Aug. 31 Bal.	15,000

Accounts Receivable

Aug. 1	2,750	Aug. 12	2,400
31	2,550		
Aug. 31 Bal.	2,900		

L. Meche, Drawings

Aug. 1	5,125		
31	4,770		
Aug.31 Bal.	9,895		

Supplies

Aug. 1	585		
Aug. 31 Bal.	585		

Fees Earned

		Aug. 1	10,410
		31	8,460
		Aug.31 Bal.	18,870

Equipment

Aug. 1	15,550		
Aug.31 Bal.	15,550		

Rent Expense

Aug. 1	1,200		
1	1,200		
Aug.31 Bal.	2,400		

Notes Payable

Aug. 30	500	Aug. 1	10,000
		Aug. 31 Bal.	9,500

Salaries Expense

Aug. 1	2,250		
25	2,250		
Aug.31 Bal.	4,500		

Accounts Payable

Aug. 10	420	Aug. 1	850
		Aug. 31 Bal.	430

Interest Expense

Aug.30	40		
Aug.31 Bal.	40		

EXERCISE 2-10 (Continued)

(c)

LEE MECHE, MD
Trial Balance
August 31, 2014

	Debit	Credit
Cash	$7,930	
Accounts receivable	2,900	
Supplies	585	
Equipment	15,550	
Notes payable		$9,500
Accounts payable		430
L. Meche, capital		15,000
L. Meche, drawings	9,895	
Fees earned		18,870
Interest expense	40	
Rent expense	2,400	
Salaries expense	4,500	
	$43,800	$43,800

EXERCISE 2-11

(a)

GENERAL JOURNAL J1

Date		Account Titles and Explanation	Debit	Credit
May	2	Rent Expense	1,200	
		Cash		1,200
	4	Supplies	700	
		Accounts Payable		700
	15	Accounts Payable	800	
		Cash		800
	31	Salary expense	1,800	
		Cash		1,800
	31	Cash	9,500	
		Accounts Receivable	500	
		Service Revenue		10,000

(b)

Cash

May 1	6,000	May 2	1,200
31	9,500	15	800
		31	1,800
May31 Bal.	11,700		

Accounts Payable

		May 1	800
		May 4	700
May 15	800		
		May 31	Bal.700

Accounts Receivable

May 31	500		
May 31 Bal.	500		

Notes Payable

		May 1	50,000
		May 31Bal.	50,000

EXERCISE 2-11 (Continued)

(b) (Continued)

Supplies

May 1 1,000	
May 4700	
May 31 Bal. 1,700	

S. Ahuja, Capital

	May 1 21,200
	May31Bal. 21,200

Equipment

May 1 65,000	
May31Bal. 65,000	

Service Revenue

	May 3110,000
	May 31Bal.10,000

Rent Expense

May 2 1,200	
May31Bal. 1,200	

Salaries Expense

May 31 1,800	
May31Bal.1,800	

(c)

AHUJA DENTAL SERVICES
Trial Balance
May 31, 2014

	Debit	Credit
Cash	$11,700	
Accounts receivable	500	
Supplies	1,700	
Equipment	65,000	
Notes payable		$50,000
Accounts payable		700
S. Ahuja, capital		21,200
Service revenue		10,000
Rent expense	1,200	
Salaries expense	1,800	
	$81,900	$81,900

EXERCISE 2-11 (Continued)

(d)

AHUJA DENTAL SERVICES
Income Statement
Month Ended May 31, 2014

Revenues		
Service revenue		$10,000
Expenses		
Rent expense	$1,200	
Salaries expense	1,800	
Total expenses		3,000
Profit		$7,000

AHUJA DENTAL SERVICES
Statement of Owner's Equity
Month Ended May 31, 2014

S. Ahuja, capital, May 1, 2014	$21,200
Add: Profit	7,000
S. Ahuja, capital, May 31, 2014	$28,200

EXERCISE 2-11 (Continued)

(d) (Continued)

AHUJA DENTAL SERVICES
Balance Sheet
May 31, 2014

Assets

Cash	$11,700
Accounts receivable	500
Supplies	1,700
Equipment	65,000
Total assets	$78,900

Liabilities and Owner's Equity

Liabilities	
Notes payable	$50,000
Accounts payable	700
Total liabilities	50,700
Owner's Equity	
S. Ahuja, capital	28,200
Total liabilities and owner's equity	$78,900

EXERCISE 2-12

(a)

O'NEILL'S PHYCHOLOGICAL SERVICES
Trial Balance
July 31, 2014

	Debit	Credit
Cash	$6,470	
Accounts receivable	7,340	
Supplies	790	
Equipment	58,900	
Notes payable		$22,960
Accounts payable		9,030
Unearned revenue		1,350
T. O'Neill, capital		64,340
T. O'Neill, drawings	57,980	
Service revenue		96,180
Rent expense	10,880	
Salaries expense	45,540	
Supplies expense	5,960	
	$193,860	$193,860

EXERCISE 2-12 (Continued)

(b)

O'NEILL'S PSYCHOLOGICAL SERVICES
Income Statement
Year Ended July 31, 2014

Revenues		
Service revenue		$96,180
Expenses		
Rent expense	$10,880	
Salaries expense	45,540	
Supplies expense	5,960	
Total expenses		62,380
Profit		$33,800

O'NEILL'S PSYCHOLOGICAL SERVICES
Statement of Owner's Equity
Year Ended July 31, 2014

T. O'Neill, capital, Aug. 1, 2013	$64,340
Add: Profit	33,800
	98,140
Less: Drawings	57,980
T. O'Neill, capital, July 31, 2014	$40,160

EXERCISE 2-12 (Continued)

(b) (Continued)

O'NEILL'S PSYCHOLOGICAL SERVICES
Balance Sheet
July 31, 2014

Assets

Cash	$ 6,470
Accounts receivable	7,340
Supplies	790
Equipment	58,900
Total assets	$73,500

Liabilities and Owner's Equity

Liabilities	
Notes payable	$22,960
Accounts payable	9,030
Unearned revenue	1,350
Total liabilities	33,340
Owner's Equity	
T. O'Neill, capital	40,160
Total liabilities and owner's equity	$73,500

EXERCISE 2-13

Error	(a) In Balance	(b) Difference	(c) Larger Column	(d) Incorrect Accounts
1.	No	$400	Debit	Accounts Payable
2.	Yes	$0	None	Rent Expense Prepaid Rent
3.	Yes	$0	None	Accounts Receivable Service Revenue
4.	No	$500	Credit	Accounts Payable
5.	Yes	$0	None	Supplies Cash
6.	No	$18	Credit	Advertising Expense
7.	Yes	$0	None	Cash Salaries Expense

EXERCISE 2-14

ROYALMOUNTAIN TOURS
Trial Balance
March 31, 2014

	Debit	Credit
Cash ($12,800+ $400 – [$240 × 2])	$12,720	
Accounts receivable ($4,090 + $900 + $770)	5,760	
Supplies	840	
Equipment	7,350	
Accounts payable ($2,500 + 400)		$ 2,900
T. Zelinski, capital		24,000
T. Zelinski, drawings	3,650	
Service revenue ($6,750 + $770)		7,520
Advertising expense	3,700	
Salaries expense	400	
Totals	$34,420	$34,420

SOLUTIONS TO PROBLEMS

PROBLEM 2-1A

Account	(a) Type of Account	(b) Financial Statement	(c) Normal Balance	(d) Increase	(e) Decrease
Accounts Payable	Liability	Balance Sheet	Credit	Credit	Debit
Accounts Receivable	Asset	Balance Sheet	Debit	Debit	Credit
Building	Asset	Balance Sheet	Debit	Debit	Credit
Cash	Asset	Balance Sheet	Debit	Debit	Credit
Equipment	Asset	Balance Sheet	Debit	Debit	Credit
Insurance Expense	Expense	Income Statement	Debit	Debit	Credit
Interest Revenue	Revenue	Income Statement	Credit	Credit	Debit
Land	Asset	Balance Sheet	Debit	Debit	Credit
Fees Earned	Revenue	Income Statement	Credit	Credit	Debit
M. Brock, Capital	Owner’s Capital	Balance Sheet and Statement of Owner’s Equity	Credit	Credit	Debit
M. Brock, Drawings	Drawings	Statement of Owner’s Equity	Debit	Debit	Credit
Notes Receivable	Asset	Balance Sheet	Debit	Debit	Credit
Prepaid Insurance	Asset	Balance Sheet	Debit	Debit	Credit
Rent Expense	Expense	Income Statement	Debit	Debit	Credit

PROBLEM 2-1A (Continued)

Account	(a) Type of Account	(b) Financial Statement	(c) Normal Balance	(d) Increase	(e) Decrease
Rent Revenue	Revenue	Income Statement	Credit	Credit	Debit
Salaries Expense	Expense	Income Statement	Debit	Debit	Credit
Salaries Payable	Liability	Balance Sheet	Credit	Credit	Debit
Supplies	Asset	Balance Sheet	Debit	Debit	Credit
Supplies Expense	Expense	Income Statement	Debit	Debit	Credit
Unearned Revenue	Liability	Balance Sheet	Credit	Credit	Debit

Taking It Further

The term debit indicates left and the term credit indicates right. The normal balance of the account represents its position in the accounting equation. Assets have a normal debit balance because they represent the left side of the accounting equation. Therefore transactions that increase assets are reflected by an increase (a debit) to an asset account. Conversely, liabilities and owner’s equity accounts have a normal credit balance because they represent the right side of the accounting equation.

Revenues and expenses represent changes in the owner’s equity account. Revenues increase owner’s equity and therefore increase the right side of the accounting equation; revenues have a normal credit balance. Expenses reduce owner’s equity and increases in expenses reduce the right side of the accounting equation; expenses have a normal debit balance.

PROBLEM 2-2A

(a)

	Account Debited			Account Credited		
Trans-action	(1) Basic Type	(2) Specific Account	(3) Effect	(1) Basic Type	(2) Specific Account	(3) Effect
Apr. 1	Asset	Cash	+ $13,500	Owner's Equity	J. Barr, Capital	+ $13,500
2	Owner's Equity	Insurance Expense	+ $115	Asset	Cash	– $115
2	Asset	Equipment	+ $5,000	Liability	Accounts Payable	+$5,000
3	Asset	Supplies	+ $435	Asset	Cash	– $435
7	Owner's Equity	Advertising Expense	+ $870	Asset	Cash	– $870
8	Asset	Cash	+ $750	Owner's Equity	Service Revenue	+ $750
10	No transaction at this point in time (see Apr. 25).					

PROBLEM 2-2A (Continued)

(a) (Continued)

	Account Debited			Account Credited		
	(1)	(2)	(3)	(1)	(2)	(3)
Trans-action	Basic Type	Specific Account	Effect	Basic Type	Specific Account	Effect
25	Asset	Cash	+ $1,500	Owner's Equity	Service Revenue	+ $1,500
28	Owner's Equity	J. Barr, Drawings	+ $975	Asset	Cash	– $975
29	Asset	Cash	+ $1,250	Liability	Unearned Revenue	+ $1,250
30	Liability	Accounts Payable	– $5,000	Asset	Cash	– $5,000

PROBLEM 2-2A (Continued)

(b) GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Apr.	1	Cash	13,500	
		J. Barr, Capital		13,500
	2	Insurance Expense	115	
		Cash		115
	2	Equipment	5,000	
		Accounts Payable		5,000
	3	Supplies	435	
		Cash		435
	7	Advertising Expense	870	
		Cash		870
	8	Cash	750	
		Service Revenue		750
	10	No transaction at this time.		
	25	Cash	1,500	
		Service Revenue		1,500
	28	J. Barr, Drawings	975	
		Cash		975
	29	Cash	1,250	
		Unearned Revenue		1,250
	30	Accounts Payable	5,000	
		Cash		5,000

PROBLEM 2-2A (Continued)

Taking It Further

The investment by the owner increases cash, an asset. Assets are on the left (or debit) side of the accounting equation. The same transaction also increases the right (or credit) side of the accounting equation and increases the owner's capital. Since both the left and right side of the accounting equation must remain in balance, a transaction must have both a debit and a credit.

PROBLEM 2-3A

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
May	1	Cash	75,000	
		A. Mawani, Capital		75,000
	2	Land	120,000	
		Building	80,000	
		Equipment	50,000	
		Cash		60,000
		Notes Payable ($250,000 – $60,000)		190,000
	4	Equipment	16,000	
		Accounts Payable		16,000
	5	No entry required.		
	6	Prepaid Insurance	2,760	
		Cash		2,760
	15	Cash	2,000	
		Fees Earned		2,000
	19	Accounts Payable	5,000	
		Cash		5,000
	20	Cash	500	
		Accounts Receivable	1,000	
		Fees Earned		1,500
	30	Cash	1,000	
		Accounts Receivable		1,000

PROBLEM 2-3A (Continued)

Date	Account Titles and Explanation	Debit	Credit
May 31	Cash	4,000	
	Fees Earned		4,000
31	Salaries Expense	2,480	
	Cash		2,480
31	Interest Expense	715	
	Cash		715
31	A. Mawani, Drawings	1,750	
	Cash		1,750

Taking It Further

The purpose of the journal entries is to show the debit and credit effects of each transaction on specific accounts. This helps to prevent and locate errors because the debit and credit amounts in the entry have to balance. The journal entries also provide a chronological record of transactions, give an explanation of the transaction, and identify source documents.

The next step in the recording process is to transfer the information to the ledger by posting the transactions to specific ledger accounts. Amin should find the information generated by this next step more useful since posting transactions to the ledger will update the ledger account balances. Once this step is completed, a trial balance can be prepared from the ledger accounts as well as financial statements.

PROBLEM 2-4A

(a) **GENERAL JOURNAL**

Date		Account Titles and Explanation	Ref.	Debit	Credit
Sept.	1	Cash	101	9,000	
		G. Rodewald, Capital	301		9,000
	1	Rent Expense	726	650	
		Cash	101		650
	2	Prepaid Insurance	130	720	
		Cash	101		720
	3	Equipment	151	2,500	
		Accounts Payable	201		2,500
	6	Advertising Expense	610	450	
		Cash	101		450
	15	Cash	101	500	
		Service Revenue	400		500
	19	Accounts Receivable	112	700	
		Service Revenue	400		700
	24	Cash	101	500	
		Accounts Receivable	112		500
	25	Utilities Expense	737	175	
		Cash	101		175
	26	Accounts Payable	201	1,500	
		Cash	101		1,500

PROBLEM 2-4A (Continued)

(a) (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Sept. 29	Cash	101	850	
	Unearned Revenue	209		850
30	Cash	101	975	
	Service Revenue	400		975
30	G. Rodewald, Drawings	306	1,350	
	Cash	101		1,350

(b)

Cash — No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1	9,000		9,000
1		J1		650	8,350
2		J1		720	7,630
6		J1		450	7,180
15		J1	500		7,680
24		J1	500		8,180
25		J1		175	8,005
26		J1		1,500	6,505
29		J1	850		7,355
30		J1	975		8,330
30		J1		1,350	6,980

Accounts Receivable — No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 19		J1	700		700
24		J1		500	200

PROBLEM 2-4A (Continued)

(b) (Continued)

Prepaid Insurance **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 2		J1	720		720

Equipment **No. 151**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 3		J1	2,500		2,500

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 3		J1		2,500	2,500
26		J1	1,500		1,000

Unearned Revenue **No. 209**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 29		J1		850	850

G. Rodewald, Capital **No. 301**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1		9,000	9,000

G. Rodewald, Drawings **No. 306**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30		J1	1,350		1,350

PROBLEM 2-4A (Continued)

(b) (Continued)

Service Revenue — No. 400

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 15		J1		500	500
20		J1		700	1,200
30		J1		975	2,175

Advertising Expense — No. 610

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 6		J1	450		450

Rent Expense — No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1	650		650

Utilities Expense — No. 737

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 25		J1	175		175

PROBLEM 2-4A (Continued)

(c)

GRETE KANINES
Trial Balance
September 30, 2014

	Debit	Credit
Cash	$6,980	
Accounts receivable	200	
Prepaid insurance	720	
Equipment	2,500	
Accounts payable		$1,000
Unearned revenue		850
G. Rodewald, capital		9,000
G. Rodewald, drawings	1,350	
Service revenue		2,175
Advertising expense	450	
Rent expense	650	
Utilities expense	175	
	$13,025	$13,025

Taking It Further

While Grete is correct in making the connection that transactions recorded to the investments, drawings, revenue and expense accounts ultimately have a direct impact on the owner's capital account, there remains a need for these separate accounts. Without them, a business is unable to report the revenues and expenses on the income statement, and the investments and drawings by the owner on the statement of owner's equity. This detail information is relevant and necessary to the users of the financial statement.

PROBLEM 2-5A

(a) **GENERAL JOURNAL**

Date		Account Titles and Explanation	Debit	Credit
May	1	Cash	40,000	
		Equipment	10,000	
		J. Abramson, Capital		50,000
	1	No entry—not a transaction.		
	2	Prepaid Insurance	3,300	
		Cash		3,300
	5	Rent Expense	2,400	
		Prepaid Rent	2,400	
		Cash		4,800
	8	Equipment	17,000	
		Cash		7,000
		Notes Payable		10,000
	9	Supplies	500	
		Cash		500
	15	Supplies	750	
		Accounts Payable		750
	17	Accounts Receivable	3,000	
		Service Revenue		3,000
	22	Telephone Expense	250	
		Cash		250
	25	Cash	1,100	
		Service Revenue		1,100

PROBLEM 2-5A (Continued)

(a) (Continued)

Date		Account Titles and Explanation	Debit	Credit
May	26	J. Abramson, Drawings	1,600	
		Cash		1,600
	28	Cash	2,500	
		Accounts Receivable		2,500
	30	Accounts Payable	750	
		Cash		750
	30	Interest Expense	50	
		Cash		50
	31	Cash	500	
		Unearned Revenue		500
	31	Salaries Expense	2,475	
		Cash		2,475

(b)

Cash

		May	
May 1	40,000	2	3,300
25	1,100	5	4,800
28	2,500	8	7,000
31	500	9	500
		22	250
		26	1,600
		30	750
		30	50
		31	2,475
Bal.	23,375		

Accounts Receivable

May 17	3,000	May 28	2,500
Bal.	500		

PROBLEM 2-5A (Continued)

(b) (Continued)

Supplies

May 9	500		
15	750		
Bal.	1,250		

J. Abramson, capital

		May 1	50,000
		Bal.	50,000

Prepaid Insurance

May 2	3,300		
Bal.	3,300		

J. Abramson, drawings

May 26	1,600		
Bal.	1,600		

Prepaid Rent

May 5	2,400		
Bal.	2,400		

Service Revenue

		May 17	3,000
		25	1,100
		Bal.	4,100

Equipment

May 1	10,000		
8	17,000		
Bal.	27,000		

Interest Expense

May 30	50		
Bal.	50		

Unearned revenue

		May 31	500
		Bal.	500

Rent Expense

May 5	2,400		
Bal.	2,400		

Notes payable

		May 8	10,000
		Bal.	10,000

Salaries Expense

May 31	2,475		
Bal.	2,475		

Account Payable

May 30	750	May 15	750
		Bal.	0

Telephone Expense

May 22	250		
Bal.	250		

PROBLEM 2-5A (Continued)

(c)

ABRAMSON FINANCIAL SERVICES
Trial Balance
May 31, 2014

	Debit	Credit
Cash	$23,375	
Accounts receivable	500	
Supplies	1,250	
Prepaid insurance	3,300	
Prepaid rent	2,400	
Equipment	27,000	
Unearned revenue		$ 500
Notes payable		10,000
J. Abramson, capital		50,000
J. Abramson, drawings	1,600	
Service revenue		4,100
Interest expense	50	
Rent expense	2,400	
Salaries expense	2,475	
Telephone expense	250	
	$64,600	$64,600

PROBLEM 2-5A (Continued)

Taking It Further

This is not true. The cash account shows an increase of $23,375 during the month of May, whereas the company shows a loss of $1,075 for the month ($4,100 – $50 – $2,400 – $2,475 – $250). The change in the cash account does not reflect profit or loss because not all transactions that changed cash represent increases in revenues or expenses. One of the major sources of cash during the month is an investment by the owner of $40,000. This increases owner's equity, but is not a source of revenue for the company. The company received cash in advance of doing work (unearned revenue of $500) and performed services in advance of payment (accounts receivable of $500), as well as making non-expense payments for services in advance (prepaid rent and insurance), payments for equipment and for owner drawings. The statement of cash flows reconciles the changes in the cash account to its various uses and sources.

PROBLEM 2-6A

(a)

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
July	1	Film Rental Expense	25,000	
		Cash		10,000
		Accounts Payable		15,000
	2	No entry—not a transaction.		
	3	Advertising Expense	1,150	
		Cash		1,150
	14	Cash	35,600	
		Admission Revenue		35,600
	15	Accounts Payable	15,000	
		Cash		15,000
	16	Film Rental Expense	30,000	
		Cash		15,000
		Accounts Payable		15,000
	27	Accounts Payable	5,000	
		Cash		5,000
	30	Salaries Expense	6,200	
		Cash		6,200

PROBLEM 2-6A (Continued)

(a) (Continued)

Date		Account Titles and Explanation	Debit	Credit
July	31	Cash	2,500	
		Accounts Receivable	1,595	
		Concession Revenue		4,095
	31	Cash	42,400	
		Admission Revenue		42,400
	31	Mortgage Payable	1,250	
		Interest Expense	475	
		Cash		1,725

(b) and (c)

Cash

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			17,000
	1				10,000	7,000
	3				1,150	5,850
	14			35,600		41,450
	15				15,000	26,450
	16				15,000	11,450
	27				5,000	6,450
	30				6,200	250
	31			2,500		2,750
	31			42,400		45,150
	31				1,725	43,425

Accounts Receivable

Date		Explanation	Ref.	Debit	Credit	Balance
July	31			1,595		1,595

PROBLEM 2-6A (Continued)

(b) and (c) (Continued)

Land

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			80,000

Buildings

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			70,000

Equipment

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			20,000

Accounts Payable

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			5,000
	1				15,000	20,000
	15			15,000		5,000
	16				15,000	20,000
	27			5,000		15,000

Mortgage Payable

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			118,000
	31			1,250		116,750

N. Fedkovych, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			64,000

PROBLEM 2-6A (Continued)

(b) and (c) (Continued)

Admission Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
July	14				35,600	35,600
	31				42,400	78,000

Concession Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
July	31				4,095	4,095

Advertising Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	3			1,150		1,150

Film Rental Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	1			25,000		25,000
	16			30,000		55,000

Interest Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31			475		475

Salaries Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	30			6,200		6,200

PROBLEM 2-6A (Continued)

(d)

SEQUEL THEATRE
Trial Balance
July 31, 2014

	Debit	Credit
Cash	$43,425	
Accounts receivable	1,595	
Land	80,000	
Buildings	70,000	
Equipment	20,000	
Accounts payable		$15,000
Mortgage payable		116,750
N. Fedkovych, capital		64,000
Admission revenue		78,000
Concession revenue		4,095
Advertising expense	1,150	
Film rental expense	55,000	
Interest expense	475	
Salaries expense	6,200	
	$277,845	$277,845

Taking It Further

The revenues less the expense in the trial balance show a profit for the month of July of $19,270 ($78,000 + $4,095– $1,150 – $55,000 – $475 – $6,200). Although a positive profit is a good indication of the company's profitability, it is not sufficient information to determine whether Sequel Theatre is a sound business. One month's transactions do not indicate a pattern of profitability in particular for businesses such as theatres where revenues tend to be seasonal. The financial results for the entire year should be examined, along with comparative amounts for previous years, to determine if the company has a trend of profitability.

PROBLEM 2-7A

(b) GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Dec.	1	Rent Expense	475	
		Cash		475
	1	Equipment	3,500	
		Cash		1,500
		Accounts Payable		2,000
	3	Cash	2,500	
		Notes Payable		2,500
	4	Accounts Payable	2,000	
		Cash		2,000
	4	Cash	1,800	
		Accounts Receivable		1,800
	7	Insurance Expense	310	
		Cash		310
	8	Supplies	150	
		Cash		150
	10	Accounts Payable	2,130	
		Cash		2,130
	15	Unearned Revenue	825	
		Fees Earned		825
	20	Cash	3,300	
		Fees Earned		3,300

PROBLEM 2-7A (Continued)

(b) (Continued)

Dec.	21	Telephone Expense	135	
		Cash		135
	22	Accounts Receivable	2,250	
		Fees Earned		2,250
	24	A. Zhawaki, Drawings	3,000	
		Cash		3,000
	29	Cash	525	
		Unearned Revenue		525
	30	Travel Expense	695	
		Cash		695
	31	Notes Payable	200	
		Interest Expense	10	
		Cash		210

(a) and (c)

Cash

Dec.	1	2,965	Dec.	1	475
	3	2,500		1	1,500
	4	1,800		4	2,000
	20	3,300		7	310
	29	525		8	150
				10	2,130
				21	135
				24	3,000
				30	695
				31	210
Bal.		485			

Dec.	1	2,200	Dec.	4	1,800
	22	2,250			
Bal.		2,650			

Supplies

Dec.	1	1,450	
	15	150	
Bal.		1,600	

Accounts Receivable

PROBLEM 2-7A (Continued)

(a) and (c) (Continued)

Equipment

Dec. 1	17,500		
1	3,500		
Bal.	21,000		

Notes Payable

Dec. 31	200	Dec. 3	2,500
		Bal.	2,300

Accounts Payable

Dec. 4	2,000	Dec. 1	4,235
10	2,130	1	2,000
		Bal.	2,105

Unearned Revenue

Dec. 15	825	Dec. 1	825
		29	525
		Bal.	525

A. Zhawaki, Capital

		Dec. 1	19,500

A. Zhawaki, Drawings

Dec. 1	31,350		
24	3,000		
Bal.	34,350		

Fees Earned

		Dec. 1	47,075
		15	825
		20	3,300
		22	2,250
		Bal.	53,450

Insurance Expense

Dec. 1	3,410		
7	310		
Bal.	3,720		

Rent Expense

Dec. 1	5,225		
1	475		
Bal.	5,700		

Telephone Expense

Dec. 1	1,485		
21	135		
Bal.	1,620		

Travel Expense

Dec. 1	6,050		
30	695		
Bal.	6,745		

Interest Expense

Dec. 31	10		
Bal.	10		

PROBLEM 2-7A (Continued)

(d)

A TO Z MUSIC
Trial Balance
December 31, 2014

	Debit	Credit
Cash	$ 485	
Accounts receivable	2,650	
Supplies	1,600	
Equipment	21,000	
Notes payable		$ 2,300
Accounts payable		2,105
Unearned revenue		525
A. Zhawaki, capital		19,500
A. Zhawaki, drawings	34,350	
Fees earned		53,450
Insurance expense	3,720	
Rent expense	5,700	
Telephone expense	1,620	
Travel expense	6,745	
Interest expense	10	
	$77,880	$77,880

Taking It Further

The cash balance has decreased from $2,965 to $485 during the month of December. This is a substantial decrease from the opening balance and exposes the company to the possibility of not being able to pay its outstanding liabilities. The company borrowed $2,500 at the beginning of December and used this cash to purchase used equipment for $3,500. Had the company not borrowed or purchased the additional equipment, the cash balance for the month would have been $1,695 ($485 + $3,500 – $2,500 + $210 payment on the note payable). This still represents a substantial decrease from the November ending balance and is cause for concern.

PROBLEM 2-7A (Continued)

Taking It Further (Continued)

During the month of January, the company should collect outstanding receivables as quickly as possible (in particular those amounts still outstanding from November) and reduce owner drawings. The company will also need to ensure the additional used equipment generates additional cash as soon as possible.

PROBLEM 2-8A

(a)

ABRAMSON FINANCIAL SERVICES
Income Statement
Month Ended May 31, 2014

Revenues		
Service revenue		$4,100
Expenses		
Interest expense	$ 50	
Rent expense	2,400	
Salaries expense	2,475	
Telephone expense	250	
Total expenses		5,175
Loss		$(1,075)

(b)

ABRAMSON FINANCIAL SERVICES
Statement of Owner's Equity
Month Ended May 31, 2014

J. Abramson, capital, May 1, 2014		$ 0
Add: Investment		50,000
		50,000
Less: Loss	$1,075	
Drawings	1,600	2,675
J. Abramson, capital, May 31, 2014		$47,325

PROBLEM 2-8A (Continued)

(c)

ABRAMSON FINANCIAL SERVICES
Balance Sheet
May 31, 2014

Assets

Cash	$23,375
Accounts receivable	500
Supplies	1,250
Prepaid insurance	3,300
Prepaid rent	2,400
Equipment	27,000
Total assets	$57,825

Liabilities and Owner's Equity

Liabilities	
Notes payable	$10,000
Unearned service revenue	500
	10,500
Owner's Equity	
J. Abramson, Capital	47,325
Total liabilities and owner's equity	$57,825

Taking It Further

In its first month of operations Abramson Financial Services incurred more expenses than it generated in revenues resulting in a loss of $1,075. Since this is a new business, it may take a few months for revenues to reach and exceed the level of expenses. Jacob will need to monitor the revenues generated as compared to expenses incurred to ensure the company reaches profitability as soon as possible.

PROBLEM 2-9A

(a) **GENERAL JOURNAL**

Date	Account Titles and Explanation	Debit	Credit
Feb. 1	Advertising Expense	430	
	Cash		430
2	Rent Expense	1,050	
	Cash		1,050
3	Cash	4,240	
	Fees Earned		4,240
4	Cash	720	
	Accounts Receivable		720
6	Accounts Payable	970	
	Cash		970
14	Salaries Expense	400	
	Cash		400
15	Rent Expense	1,050	
	Cash		1,050
23	Accounts Receivable	1,475	
	Fees Earned		1,475
26	Internet Expense	185	
	Cash		185
27	Cash	2,830	
	Unearned Revenue		2,830

PROBLEM 2-9A (Continued)

(a) (Continued)

27	D. Scoffin, Drawings	575	
	Cash..		575
28	Salaries Expense.................................	400	
	Cash..		400
28	Prepaid rent	1,050	
	Cash..		1,050

(b) and (c)

Cash

Feb. 1	2,100	Feb. 1	430
3	4,240	2	1,050
4	720	6	970
		14	400
		15	1,050
27	2,830	26	185
		27	575
		28	400
		28	1,050
Bal.	3,780		

Accounts Receivable

Feb. 1	720	Feb.3720	
23	1,475		
Bal.	1,475		

Prepaid Rent

Feb.28	1,050		
Bal.	1,050		

Equipment

Feb. 1	12,400		
Bal.	12,400		

Accounts Payable

		Feb. 1	1,470
Feb. 6	970		
		Bal.	500

Unearned Revenue

		Feb. 27	2,830
		Bal.	2,830

D. Scoffin, Capital

		Feb. 1	13,750
		Bal.	13,750

D. Scoffin, Drawings

Feb. 27	575		
Bal.	575		

PROBLEM 2-9A (Continued)

(d)

YH CURLING SCHOOL
Trial Balance
February 28, 2014

	Debit	Credit
Cash	$ 3,780	
Accounts receivable	1,475	
Prepaid rent	1,050	
Equipment	12,400	
Accounts payable		$ 500
Unearned revenue		2,830
D. Scoffin, capital		13,750
D. Scoffin, drawings	575	
Fees earned		5,715
Advertising expense	430	
Internet expense	185	
Rent expense	2,100	
Salaries expense	800	
	$22,795	$22,795

Taking It Further

The payments to YH Curling Club for February ice rental are an expense as they are a cost of the month to have a rink available to deliver the services performed by the school during the month. They are not an asset because there is no future benefit beyond the end of the month. However, the February 28 ice rental payment is for March ice rental, and thus has not been used yet, therefore it is an asset as it has future benefit.

PROBLEM 2-10A

(a)

YH CURLING SCHOOL
Income Statement
Month Ended February 28, 2014

Revenues		
Fees earned		$5,715
Expenses		
Advertising expense	$ 430	
Internet expense	185	
Rent expense	2,100	
Salaries expense	800	
Total expenses		3,515
Profit		$2,200

(b)

YH CURLING SCHOOL
Statement of Owner's Equity
Month Ended February28, 2014

D. Scoffin, capital, February 1, 2014	$13,750
Add: Profit	2,200
	15,950
Less: Drawings	575
D. Scoffin, capital, February28, 2014	$15,375

PROBLEM 2-10A (Continued)

(c)

YH CURLING SCHOOL
Balance Sheet
February 28, 2014

Assets

Cash	$ 3,780
Accounts receivable	1,475
Prepaid rent	1,050
Equipment	12,400
Total assets	$18,705

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 500
Unearned revenue	2,830
Total liabilities	3,330
Owner's Equity	
D. Scoffin, capital	15,375
Total liabilities and owner's equity	$18,705

Taking It Further

There is a difference between cash collected from customers and revenue in any specific month. Although the school has earned revenue, it has not necessarily collected all of the cash from providing the services. In addition, the school has received cash in advance of providing the services so this amount is not yet included in fees earned.

PROBLEM 2-11A

(a)

SUPER DELIVERY SERVICE
Trial Balance
August 31, 2014

	Debit	Credit
Cash (to balance debits = credits*)	$ 6,765	
Accounts receivable	4,275	
Supplies	265	
Prepaid insurance	405	
Equipment	49,720	
Notes payable		$19,500
Accounts payable		3,235
Salaries payable		925
Unearned revenue		675
J. Rowe, capital		48,750
J. Rowe, drawings	24,400	
Service revenue		37,780
Gas and oil expense	12,145	
Insurance expense	2,020	
Interest expense	975	
Repairs expense	1,580	
Salaries expense	5,665	
Supplies expense	2,650	
	$110,865	$110,865

* Total debits without cash = $104,100
$110,865 – $104,100 = $6,765

PROBLEM 2-11A (Continued)

(b)

SUPER DELIVERY SERVICE
Income Statement
Year Ended August 31, 2014

Revenues		
Service revenue		$37,780
Expenses		
Gas and oil expense	$12,145	
Insurance expense	2,020	
Interest expense	975	
Repairs expense	1,580	
Salaries expense	5,665	
Supplies expense	2,650	
Total expenses		25,035
Profit		$12,745

SUPER DELIVERY SERVICE
Statement of Owner's Equity
Year Ended August 31, 2014

J. Rowe, capital, August 31, 2013	$48,750
Plus: Profit	12,745
	61,495
Less: Drawings	24,400
J. Rowe, capital, August 31, 2014	$37,095

PROBLEM 2-11A (Continued)

(b) (Continued)

SUPER DELIVERY SERVICE
Balance Sheet
August 31, 2014

Assets

Cash	$ 6,765
Accounts receivable	4,275
Supplies	265
Prepaid insurance	405
Equipment	49,720
Total assets	$61,430

Liabilities and Owner's Equity

Liabilities	
Notes payable	$19,500
Accounts payable	3,235
Salaries payable	925
Unearned revenue	675
Total liabilities	24,335
Owner's Equity	
J. Rowe, capital	37,095
Total liabilities and owner's equity	$61,430

PROBLEM 2-11A (Continued)

Taking It Further

Jan Rowe has withdrawn more cash than profit. This has resulted in a net decrease to the owner's capital account. Jan's drawings have left the company with a low level of liquid assets (Cash of $6,765 + Accounts receivable of $4,275 = $11,040) to pay off liabilities (Notes payable of $19,500 + Accounts payable of $3,235 + Salaries payable of $925 = $23,660). Jan's drawings should be based on her cash budget for the coming year and leave the company with sufficient cash to meet its liabilities and to be able to grow.

PROBLEM 2-12A

(a)
1. Correct
2. Correct
3. Incorrect
4. Incorrect
5. Incorrect
6. Incorrect
7. Incorrect
8. Incorrect
9. Incorrect
10. Incorrect

(b)

	1	2	3	4	5
1					
				Yes	

		Drawings	**Understated $1,000**		
		Service Revenue	**Understated $325**		
	No		**Understated $1,540**		

		Salaries Payable			

			Overstated $495		

PROBLEM 2-12A (Continued)

(b) (Continued)

	1	2	3	4	5
9					
			Understated		

		Accounts Payable	**$650**		

Taking It Further

Disagree. Even though the trial balance is balanced, uncorrected errors misstate the financial position of the company.

For example:

4. **This error overstates Salary Expense and thereby lowers profit on the income statement.**
8. **This error shows higher liabilities by overstating Salaries Payable and higher assets by overstating Cash.**
10. **This error understates Utilities Expense and understates Accounts Payable. It results in a higher profit on the income statement because of the unrecorded expense that was consumed in generating the profits.**

PROBLEM 2-13A

(a)

WINTER CO.
Trial Balance
June 30, 2014

	Debit	Credit
Cash ($2,835 + $570 - $750)	$ 2,655	
Accounts receivable ($1,861 + $750 – $570 + $980 – $98)	2,923	
Prepaid insurance (correct balance provided)	655	
Supplies ($500 + $360)	860	
Equipment ($7,900 – $360)	7,540	
Accounts payable ($2,695 + $608– $806)		$ 2,497
Unearned fees (correct balance provided)		1,855
F. Winter, capital (correct balance provided)		11,231
F. Winter, drawings ($800 + $400)	1,200	
Service revenue ($3,460– $3,460 + $4,360)		4,360
Office expense ($1,010 + $500)	1,510	
Salaries expense ($3,000 – $400)	2,600	
	$19,943	$19,943

Taking It Further

There could still be errors after correcting the items identified. The errors could be counter-balancing errors that affect both the debit and credit side equally, such as a transposition error in recording a journal entry that affects both the debit and credit sides, or errors that counter-balance on the debit side, or on the credit side, of the trial balance (items #1, 2 and 6). The trial balance could also be in balance and not show transactions that have been omitted but that should have been recorded.

PROBLEM 2-1B

Account	(a) Type of Account	(b) Financial Statement	(c) Normal Balance	(d) Increase	(e) Decrease
Salaries Payable	Liability	Balance Sheet	Credit	Credit	Debit
Salaries Expense	Expense	Income Statement	Debit	Debit	Credit
W. Isaacson, Drawings	Drawings	Statement of Owner's Equity	Debit	Debit	Credit
W. Isaacson, Capital	Owner's Capital	Balance Sheet and Statement of Owner's Equity	Credit	Credit	Debit
Unearned Revenue	Liability	Balance Sheet	Credit	Credit	Debit
Rent Revenue	Revenue	Income Statement	Credit	Credit	Debit
Rent Expense	Expense	Income Statement	Debit	Debit	Credit
Prepaid Rent	Asset	Balance Sheet	Debit	Debit	Credit
Supplies Expense	Expense	Income Statement	Debit	Debit	Credit
Supplies	Asset	Balance Sheet	Debit	Debit	Credit
Equipment	Asset	Balance Sheet	Debit	Debit	Credit
Notes Payable	Liability	Balance Sheet	Credit	Credit	Debit
Fees Earned	Revenue	Income Statement	Credit	Credit	Debit
Interest Expense	Expense	Income Statement	Debit	Debit	Credit
Insurance Expense	Expense	Income Statement	Debit	Debit	Credit

PROBLEM 2-1B (Continued)

Account	(a) Type of Account	(b) Financial Statement	(c) Normal Balance	(d) Increase	(e) Decrease
Land	Asset	Balance Sheet	Debit	Debit	Credit
Building	Asset	Balance Sheet	Debit	Debit	Credit
Cash	Asset	Balance Sheet	Debit	Debit	Credit
Accounts Receivable	Asset	Balance Sheet	Debit	Debit	Credit
Accounts Payable	Liability	Balance Sheet	Credit	Credit	Debit

Taking It Further

The term debit indicates left and the term credit indicates right. The normal balance of the account represents its position in the accounting equation. Assets have a normal debit balance because they represent the left side of the accounting equation. Therefore, transactions that increase assets are reflected by an increase (a debit) to an asset account. Conversely, liabilities and owner's equity accounts have a normal credit balance because they represent the right side of the accounting equation.

Revenues and expenses represent changes in the owner's equity account. Revenues increase owner's equity and therefore increase the right side of the accounting equation; revenues have a normal credit balance. Expenses reduce owner's equity and increases in expenses reduce the right side of the accounting equation; expenses have a normal debit balance.

PROBLEM 2-2B

(a)

	Account Debited			Account Credited		
	(1)	(2)	(3)	(1)	(2)	(3)
Trans-action	Basic Type	Specific Account	Effect	Basic Type	Specific Account	Effect
Jan.2	Owner's Equity	Rent Expense	+ $475	Asset	Cash	– $475
4	Asset	Cash	+ $975	Owner's Equity	Service Revenue	+ $975
5	Asset	Supplies	+ $250	Liability	Accounts Payable	+ $250
7	No transaction at this point in time (see Jan. 18).					
10	Asset	Cash	+ $500	Liability	Unearned Revenue	+ $500
12	Owner's Equity	K. Battistella, Drawings	+ $700	Asset	Cash	– $700
18	Asset	Accounts Receivable	+ $885	Owner's Equity	Service Revenue	+ $885
25	Liability	Accounts Payable	– $250	Asset	Cash	– $250
27	Asset	Cash	+ $885	Asset	Accounts Receivable	– $885
28	Asset	Cash	+ $2,000	Liability	Notes Payable	+ $2,000
29	Asset	Equipment	+ $1,950	Asset	Cash	– $1,950

PROBLEM 2-2B (Continued)

(b)

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Jan.	2	Rent Expense	475	
		Cash		475
	2	Cash	975	
		Service Revenue		975
	5	Supplies	250	
		Accounts Payable		250
	7	No transaction at this time.		
	10	Cash	500	
		Unearned Revenue		500
	12	K. Battistella, Drawings	700	
		Cash		700
	18	Accounts Receivable	885	
		Service Revenue		885
	25	Accounts Payable	250	
		Cash		250
	27	Cash	885	
		Accounts Receivable		885
	28	Cash	2,000	
		Notes Payable		2,000
	29	Equipment	1,950	
		Cash		1,950

PROBLEM 2-2B (Continued)

Taking It Further

From the perspective of the bank, their customer's bank account represents a liability of the bank. The bank owes Battistella Couture & Design Co. the amount of cash that it holds in the bank account. Liabilities increase with credits. Consequently, when Karen deposits money in the business account, the bank credits the account, as the bank's liability has increased.

From the perspective of Battistella Couture & Design Co., the bank account (Cash) is an asset. Debits increase assets and credits decrease assets. Therefore when the cash account is decreased a credit is used by the company.

The bank follows the same debit and credit rules, it just has the opposite perspective on what is an asset and what is a liability.

PROBLEM 2-3B

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
May	1	Cash	50,000	
		D. Tanner, Capital		50,000
	3	Land	225,000	
		Building	75,000	
		Equipment	55,000	
		Cash		35,000
		Notes Payable		320,000
	3	Insurance Expense	458	
		Cash		458
	8	Advertising Expense	1,950	
		Cash		1,950
	15	Cash	2,200	
		Admissions Revenue		2,200
	16	Salaries Expense	1,800	
		Cash		1,800
	20	Cash	500	
		Accounts Receivable	1,000	
		Admissions Revenue		1,500
	22	No entry required		
	29	Cash	1,000	
		Accounts Receivable		1,000

PROBLEM 2-3B (Continued)

Date		Account Titles and Explanation	Ref.	Debit	Credit
May	30	Cash		4,800	
		Admissions Revenue			4,800
	31	Interest Expense		1,300	
		Notes Payable		2,500	
		Cash			3,800
	31	D. Tanner, Drawings		800	
		Cash			800
	31	Salaries Expense		1,800	
		Cash			1,800

Taking It Further

The purpose of the journal entries is to show the debit and credit effects of each transaction on specific accounts. This helps to prevent and locate errors because the debit and credit amounts in the entry have to balance. The journal entries also provide a chronological record of transactions, give an explanation of the transaction, and identify source documents.

The next step in the recording process is to transfer the information to the ledger by posting the transactions to specific ledger accounts. Dustin should find the information generated by this next step more useful since posting transactions to the ledger will update the ledger account balances. Once this step is completed, a trial balance can be prepared from the ledger accounts as well as financial statements.

PROBLEM 2-4B

(a)

GENERAL JOURNAL

Date		Account Titles and Explanation	Ref.	Debit	Credit
Aug.	1	Cash	101	25,000	
		T. Nguyen, Capital	301		25,000
	1	Rent Expense	726	750	
		Cash	101		750
	2	Utilities Expense	737	250	
		Cash	101		250
	3	Equipment	151	5,250	
		Cash	101		5,250
	5	Supplies	126	675	
		Accounts Payable	201		675
	8	Accounts Receivable	112	1,270	
		Service Revenue	400		1,270
	12	Advertising Expense	610	945	
		Cash	101		945
	20	Cash	101	1,320	
		Service Revenue	400		1,320
	24	Cash	101	2,500	
		Unearned Revenue	209		2,500
	25	Accounts Payable	201	675	
		Cash	101		675

PROBLEM 2-4B (Continued)

(a) (Continued)

Aug.	28	Cash	101	970	
		Accounts Receivable	112		970
	29	T. Nguyen, Drawings	306	1,225	
		Cash	101		1,225
	31	Utilities Expense	737	225	
		Accounts Payable	201		225

(b)

CASH — No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	1		J1	25,000		25,000
	1		J1		750	24,250
	2		J1		250	24,000
	3		J1		5,250	18,750
	12		J1		945	17,805
	20		J1	1,320		19,125
	24		J1	2,500		21,625
	25		J1		675	20,950
	28		J1	970		21,920
	29		J1		1,225	20,695

ACCOUNTS RECEIVABLE — No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	8		J1	1,270		1,270
	28		J1		970	300

PROBLEM 2-4B (Continued)

(b) (Continued)

SUPPLIES No. 126

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	5		J1	675		675

EQUIPMENT No. 151

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	3		J1	5,250		5,250

ACCOUNTS PAYABLE No. 201

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	5		J1		675	675
	25		J1	675		0
	31		J1		225	225

UNEARNED REVENUE No. 209

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	24		J1		2,500	2,500

T. NGUYEN, CAPITAL No. 301

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	1		J1		25,000	25,000

PROBLEM 2-4B (Continued)

(b) (Continued)

T. NGUYEN, DRAWINGS — No. 306

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	30		J1	1,225		1,225

SERVICE REVENUE — No. 400

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	8		J1		1,270	1,270
	20		J1		1,320	2,590

ADVERTISING EXPENSE — No. 610

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	12		J1	945		945

RENT EXPENSE — No. 726

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	1		J1	750		750

UTILITIES EXPENSE — No. 737

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	2		J1	250		250
	31		J1	225		475

PROBLEM 2-4B (Continued)

(c)

NGUYEN IMPORT SERVICES
Trial Balance
August 31, 2014

	Debit	Credit
Cash	$20,695	
Accounts receivable	300	
Supplies	675	
Equipment	5,250	
Accounts payable		$ 225
Unearned revenue		2,500
T. Nguyen, capital		25,000
T. Nguyen, drawings	1,225	
Service revenue		2,590
Advertising expense	945	
Rent expense	750	
Utilities expense	475	
	$30,315	$30,315

Taking It Further

While Thanh is correct in making the connection that transactions recorded to the drawings, revenue and expense accounts ultimately have a direct impact on the owner's capital account, there remains a need for these separate accounts. Without them, a business is unable to report the revenues and expenses on the income statement, and the drawing by the owner as reported on the statement of owner's equity. This detailed information is relevant and necessary to the users of the financial statement.

PROBLEM 2-5B

(a) GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Nov.	1	Cash	35,000	
		Equipment	12,000	
		H. Kiersted, Capital		47,000
	2	No entry—not a transaction.		
	3	Rent Expense	2,140	
		Prepaid Rent	2,140	
		Cash		4,280
	4	Insurance Expense	395	
		Cash ($4,740 ÷ 12)		395
	5	Equipment	18,000	
		Cash		6,000
		Notes Payable		12,000
	6	Supplies	1,550	
		Accounts Payable		1,550
	7	Supplies	475	
		Cash		475
	16	Cash	990	
		Service Revenue		990
	20	Accounts Receivable	4,500	
		Service Revenue		4,500
	26	Accounts Payable	1,000	
		Cash		1,000

PROBLEM 2-5B (Continued)

(a) (Continued)

Date	Account Titles and Explanation	Debit	Credit
Nov. 27	Telephone Expense	220	
	Accounts Payable		220
27	Cash	750	
	Unearned Revenue		750
29	Cash	2,800	
	Accounts Receivable		2,800
30	Interest Expense	60	
	Cash		60
30	Salaries Expense	2,825	
	Cash		2,825
30	H. Kiersted, Drawings	700	
	Cash		700
30	H. Kiersted, Drawings	1,150	
	Cash		1,150

(b)

Cash

Nov. 1	35,000	Nov3	4,280
16	990	4	395
27	750	5	6,000
29	2,800	7	475
		26	1,000
		30	60
		30	2,825
		30	700
		30	1,150
Bal.	22,655		

Accounts Receivable

Nov.20	4,500	Nov 29	2,800
Bal.	1,700		

PROBLEM 2-5B (Continued)

(b) (Continued)

Supplies

Nov.6	1,550		
7	475		
Bal.	2,025		

H. Kiersted, Drawings

Nov.30	700		
Nov. 30	1,150		
Bal.	1,850		

Prepaid Rent

Nov.3	2,140		
Bal.	2,140		

Service Revenue

		Nov.16	990
		20	4,500
		Bal.	5,490

Equipment

Nov. 1	12,000		
5	18,000		
Bal.	30,000		

Insurance Expense

Nov. 4	395		
Bal.	395		

Accounts Payable

Nov26	1,000	Nov 6	1,550
		Nov 27	220
		Bal.	770

Interest Expense

Nov. 30	60		
Bal.	60		

Unearned Revenue

		Nov27	750
		Bal.	750

Rent Expense

Nov. 3	2,140		
Bal.	2,140		

Notes Payable

		Nov.5	12,000
		Bal.	12,000

Salaries Expense

Nov 30	2,825		
Bal.	2,825		

H. Kiersted, Capital

		Nov. 1	47,000
		Bal.	47,000

Telephone Expense

Nov. 27	220		
Bal.	220		

PROBLEM 2-5B (Continued)

(c)

KIERSTED FINANCIAL SERVICES
Trial Balance
November 30, 2014

	Debit	Credit
Cash	$22,655	
Accounts receivable	1,700	
Supplies	2,025	
Prepaid rent	2,140	
Equipment	30,000	
Accounts payable		$ 770
Unearned revenue		750
Notes payable		12,000
H. Kiersted, capital		47,000
H. Kiersted, drawings	1,850	
Service revenue		5,490
Insurance expense	395	
Interest expense	60	
Rent expense	2,140	
Salaries expense	2,825	
Telephone expense	220	
	$66,010	$66,010

PROBLEM 2-5B (Continued)

Taking It Further

This is not true. The cash account shows an increase of $22,655 during the month of November, whereas the company shows a loss of $150 for the month ($5,490 – $395 – $60 – $2,140 – $2,825 – $220). The change in the cash account does not reflect profit or loss because not all transactions represent increases in revenues or expenses. One of the major sources of cash during the month is an investment by the owner of $35,000. This increases owner's equity, but is not a source of revenue for the company. The company received cash in advance of doing work (unearned service revenue of $750) and performed services in advance of payment (accounts receivable of $1,700), as well as making non-expense payments for services in advance (prepaid rent), payments for equipment and for owner drawings. The statement of cash flows reconciles the changes in the cash account to its various uses and sources.

PROBLEM 2-6B

(a) **GENERAL JOURNAL**

Date		Account Titles and Explanation	Debit	Credit
July	2	Film Rental Expense	800	
		Cash		800
	2	Advertising Expense	620	
		Cash		620
	3	No entry—not a transaction.		
	5	No entry—not a transaction.		
	10	Cash	1,950	
		Admissions Revenue		1,950
	11	Mortgage Payable	2,000	
		Interest Expense	500	
		Cash		2,500
	12	Repairs Expense	350	
		Cash		350
	16	Accounts Payable	2,800	
		Cash		2,800
	19	Film Rental Expense	750	
		Accounts Payable		750
	29	Cash	3,500	
		Admissions Revenue		3,500

PROBLEM 2-6B (Continued)

(a) (Continued)

July	30	F. Ferguson, Drawings........................	1,200	
		Cash..		1,200
	30	Prepaid Film Rental............................	700	
		Cash..		700
	31	Salaries Expense.................................	1,900	
		Cash..		1,900
	31	Cash	260	
		Accounts Receivable	260	
		Concession Revenue......................		520

(b) and (c)

Cash

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			6,000
	2		J1		800	5,200
	2		J1		620	4,580
	10		J1	1,950		6,530
	11		J1		2,500	4,030
	12		J1		350	3,680
	16		J1		2,800	880
	29		J1	3,500		4,380
	30		J1		1,200	3,180
	30		J1		700	2,480
	31		J1		1,900	580
	31		J1	260		840

PROBLEM 2-6B (Continued)

(b) and (c) (Continued)

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	260		260

Prepaid Film Rentals

Date	Explanation	Ref.	Debit	Credit	Balance
July 30		J1	700		700

Land

Date	Explanation	Ref.	Debit	Credit	Balance
July 1	Balance	✓			100,000

Buildings

Date	Explanation	Ref.	Debit	Credit	Balance
July 1	Balance	✓			80,000

Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
July 1	Balance	✓			25,000

PROBLEM 2-6B (Continued)

(b) and (c) (Continued)

Accounts Payable

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			5,000
	16		J1	2,800		2,200
	19		J1		750	2,950

Mortgage Payable

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			125,000
	11		J1	2,000		123,000

F. Ferguson, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
July	1	Balance	✓			81,000

F. Ferguson, Drawings

Date		Explanation	Ref.	Debit	Credit	Balance
July	30		J1	1,200		1,200

Admissions Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
July	10		J1		1,950	1,950
	29		J1		3,500	5,450

PROBLEM 2-6B (Continued)

(b) and (c) (Continued)

Concession Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1		520	520

Advertising Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 2		J1	620		620

Film Rental Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 2		J1	800		800
19		J1	750		1,550

Interest Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 11		J1	500		500

Repairs Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1	350		350

PROBLEM 2-6B (Continued)

(b) and (c) (Continued)

Salaries Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	1,900		1,900

(d)

HIGHLAND THEATRE
Trial Balance
July 31, 2014

	Debit	Credit
Cash	$840	
Accounts receivable	260	
Prepaid rentals	700	
Land	100,000	
Buildings	80,000	
Equipment	25,000	
Accounts payable		$ 2,950
Mortgage payable		123,000
F. Ferguson, capital		81,000
F. Ferguson, drawings	1,200	
Admissions revenue		5,450
Concession revenue		520
Advertising expense	620	
Film rental expense	1,550	
Interest expense	500	
Repairs expense	350	
Salaries expense	1,900	
	$212,920	$212,920

PROBLEM 2-6B (Continued)

Taking It Further

The revenue and expense accounts in the trial balance show a profit for the month of July of $1,050 ($5,450 + $520 – $620– $1,550 – $500 – $350 – $1,900). Although a positive profit is a good indication of the company's profitability, it is not sufficient information to determine whether Highland Theatre is a sound business. One month's transactions do not indicate a pattern of profitability, in particular for businesses such as theatres where revenues tend to be seasonal. The financial results for the entire year should be examined, along with comparative amounts for previous years, to determine if the company has a trend of profitability.

PROBLEM 2-7B

(b) **GENERAL JOURNAL** J1

Date		Account Titles and Explanation	Debit	Credit
Dec.	1	Rent Expense	750	
		Cash		750
	1	Equipment	3,500	
		Cash		1,500
		Notes Payable		2,000
	4	Cash	2,850	
		Accounts Receivable		2,850
	7	Insurance Expense	285	
		Cash		285
	8	Supplies	315	
		Accounts Payable		315
	10	Accounts Payable	5,660	
		Cash		5,660
	12	Unearned Revenue	1,370	
		Service Revenue		1,370
	20	Cash	3,055	
		Service Revenue		3,055
	21	Advertising Expense	325	
		Cash		325
	24	L. Kuznetsova, Drawings	2,650	
		Cash		2,650

PROBLEM 2-7B (Continued)

(b) (Continued)

Dec.	**28**	**Accounts Receivable**	**2,250**	
		Service Revenue		**2,250**
	29	**Cash**	**925**	
		Unearned Revenue		**925**
	30	**Salaries Expense**	**960**	
		Cash		**960**
	31	**Notes Payable**	**160**	
		Interest Expense	**10**	
		Cash		**170**

PROBLEM 2-7B (Continued)

(a) and (c)

Cash

Dec. 1	7,315	Dec. 1	750
		1	1,500
4	2,850		
		7	285
		10	5,660
20	3,055	21	325
29	925	24	2,650
		30	960
		31	170
Bal.	1,845		

Accounts Receivable

Dec. 1	4,020	Dec. 4	2,850
28	2,250		
Bal.	3,420		

Supplies

Dec. 1	1,805		
8	315		
Bal.	2,120		

Equipment

Dec. 1	21,500		
3	3,500		
Bal.	25,000		

Notes Payable

Dec.31	160	Dec. 1	2,000
		Bal.	1,840

Accounts Payable

Dec. 10	5,660	Dec. 1	8,660
		8	315
		Bal.	3,315

Unearned Revenue

Dec. 12	1,370	Dec. 1	1,370
		29	925
		Bal.	925

L. Kuznetsova, Capital

		Dec. 1	29,130

L. Kuznetsova, Drawings

Dec. 1	34,200		
24	2,650		
Bal.	36,850		

PROBLEM 2-7B (Continued)

(a) and (c) (Continued)

Service Revenue

		Dec. 1	55,175
		12	1,370
		20	3,055
		28	2,250
		Bal.	61,850

Advertising Expense

Dec. 1	3,550		
21	325		
Bal.	3,875		

Insurance Expense

Dec. 1	3,135		
7	285		
Bal.	3,420		

Rent Expense

Dec. 1	8,250		
2	750		
Bal.	9,000		

Salaries Expense

Dec. 1	10,560		
30	960		
Bal.	11,520		

Interest Expense

Dec. 31	10		

PROBLEM 2-7B (Continued)

(d)

LVK COACHING SERVICES
Trial Balance
December 31, 2014

	Debit	Credit
Cash	$ 1,845	
Accounts receivable	3,420	
Supplies	2,120	
Equipment	25,000	
Accounts payable		$ 3,315
Notes payable		1,840
Unearned revenue		925
L. Kuznetsova, capital		29,130
L. Kuznetsova, drawings	36,850	
Service revenue		61,850
Advertising expense	3,875	
Insurance expense	3,420	
Rent expense	9,000	
Salaries expense	11,520	
Interest expense	10	
	$97,060	$97,060

PROBLEM 2-7B (Continued)

Taking It Further

The cash balance has decreased from $7,315 to $1,845 or $5,470 during the month of December. This is a substantial decrease from the opening balance and exposes the company to the possibility of not being able to pay its outstanding liabilities. The company borrowed $2,000 at the beginning of December to purchase equipment. Had the company not purchased the additional equipment, the cash balance for the month would have been $3,515 ($1,845 + $1,500 + $170 payment on the note payable). This still represents a large decrease from the December ending balance. Depending on the timing of the repayment of the note payable, the company may be able to generate sufficient cash from the collection of its account receivable to be able to honour its commitments on its liabilities. During the month of January, the company should collect outstanding receivables as quickly as possible (in particular those amounts still outstanding from November) and reduce owner drawings. The company will also need to ensure the new equipment generates additional cash as soon as possible.

PROBLEM 2-8B

(a)

KIERSTED FINANCIAL SERVICES
Income Statement
Month Ended November 30, 2014

Revenues		
Service revenue		$ 5,490
Expenses		
Insurance expense	$ 395	
Interest expense	60	
Rent expense	2,140	
Salaries expense	2,825	
Telephone expense	220	
Total expenses		5,640
Loss		$ (150)

(b)

KIERSTED FINANCIAL SERVICES
Statement of Owner's Equity
Month Ended November 30, 2014

H. Kiersted, capital, November 1, 2014		$ 0
Add: Investment		47,000
		47,000
Less: Loss	$ 150	
Drawings	1,850	2,000
H. Kiersted, capital, November 30, 2014		$45,000

PROBLEM 2-8B (Continued)

(c)

KIERSTED FINANCIAL SERVICES
Balance Sheet
November 30, 2014

Assets

Cash	$22,655
Accounts receivable	1,700
Supplies	2,025
Prepaid rent	2,140
Equipment	30,000
Total assets	$58,520

Liabilities and Owner's Equity

Liabilities	
Notes payable	$12,000
Accounts payable	770
Unearned service revenue	750
Total liabilities	13,520
Owner's Equity	
H. Kiersted, capital	45,000
Total liabilities and owner's equity	$58,520

Taking It Further

In its first month of operations, Kiersted Financial Services incurred more expenses than it generated in revenues resulting in a loss of $150. Since this is a new business, it may take a few months for revenues to reach and exceed the level of expenses. Haakon will need to monitor the revenues generated as compared to expenses incurred to ensure the company reaches profitability as soon as possible.

PROBLEM 2-9B

(a) **GENERAL JOURNAL**

		Account Titles and Explanation	Debit	Credit
Mar.	1	Cash	12,000	
		Notes Payable		12,000
	2	Accounts Payable	13,000	
		Cash		13,000
	3	Insurance Expense	145	
		Cash		145
	10	Advertising Expense	550	
		Cash		550
	16	Cash	8,000	
		Accounts Receivable		8,000
	18	Accounts Payable	5,000	
		Cash		5,000
	30	Miscellaneous Expense	580	
		Cash		580
	31	Cash	2,000	
		Accounts Receivable	5,000	
		Service Revenue		7,000
	31	Salaries Expense	1,650	
		Cash		1,650

PROBLEM 2-9B (Continued)

(a) (Continued)

Mar.	31	Interest Expense	55	
		Notes Payable	500	
		Cash		555
	31	Rent Expense	950	
		Prepaid Rent	950	
		Cash		1,900
	31	H. Nolan, Drawings	1,000	
		Cash		1,000

(b) and (c)

Cash

Mar.1	3,500	2	13,000
1	12,000	3	145
16	8,000	10	550
		18	5,000
		30	580
31	2,000	31	1,650
		31	555
		31	1,900
		31	1,000
Bal.	1,120		

Mar. 1	14,450		
		16	8,000
31	5,000		
Bal.	11,450		

Prepaid Rent

Mar.31	950		

Accounts Receivable

PROBLEM 2-9B (Continued)

(b) and (c) (Continued)

Equipment

Mar.1	15,100		

Accounts Payable

		Mar. 1	18,750
Mar. 2	13,000		
18	5,000		
		Bal.	750

Notes Payable

Mar. 30	500	Mar. 1	12,000
		Bal.	11,500

H. Nolan, Capital

		Mar. 1	14,300

H. Nolan, Drawings

Mar. 31	1,000		

Service Revenue

		Mar. 31	7,000

Advertising Expense

Mar. 10	550		

Interest Expense

Mar. 31	55		

Miscellaneous Expense

Mar. 30	580		

Rent Expense

Mar. 31	950		

Insurance Expense

Mar. 31	45		

Salaries Expense

Mar. 31	1,650		

PROBLEM 2-9B (Continued)

(d)

HN HR CONSULTING
Trial Balance
March 31, 2014

	Debit	Credit
Cash	$1,120	
Accounts receivable	11,450	
Prepaid rent	950	
Equipment	15,100	
Accounts payable		$750
Notes payable		11,500
H. Nolan, capital		14,300
H. Nolan, drawings	1,000	
Service revenue		7,000
Advertising expense	550	
Interest expense	55	
Miscellaneous expense	580	
Rent expense	950	
Insurance expense	145	
Salaries expense	1,650	
	$33,550	$33,550

Taking It Further

The March rent payment of $1,900 is half asset and half expense. The asset portion of $950 is for the rent for April and the expense portion of $950 is for the March rent. April's rent is a future benefit at March 31, and thus is an asset. Whereas, March's rent has been used by March 31 and thus is an expense.

PROBLEM 2-10B

(a)

HN HR CONSULTING
Income Statement
Month Ended March 31, 2014

Revenues		
Service revenue		$ 7,000
Expenses		
Advertising expense	$ 550	
Insurance expense	145	
Interest expense	55	
Miscellaneous expense	580	
Rent expense	950	
Salaries expense	1,650	
Total expenses		3,930
Profit		$3,070

(b)

HN HR CONSULTING
Statement of Owner's Equity
Month Ended March 31, 2014

H. Nolan, capital, March 1, 2014	$14,300
Add: Profit	3,070
	17,370
Less: Drawings	1,000
H. Nolan, capital, March 31, 2014	$16,370

PROBLEM 2-10B (Continued)

(c)

HN HR CONSULTING
Balance Sheet
March 31, 2014

Assets

Cash	$ 1,120
Accounts receivable	11,450
Prepaid rent	950
Equipment	15,100
Total assets	$28,620

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 750
Notes payable	11,500
Total liabilities	12,250
Owner's Equity	
H. Nolan, capital	16,370
Total liabilities and owner's equity	$28,620

Taking It Further

Hobson would not be able to retire and take out cash from the business in an amount equal to his capital account balance of $16,370. The cash balance is only $1,120. All other assets would need to be converted to cash, and the debts paid first. Hobson would have the right to whatever cash remained.

PROBLEM 2-11B

(a)

LAZDOWSKI MARKETING SERVICES
Trial Balance
October 31, 2014

	Debit	Credit
Cash	$ 4,930	
Accounts receivable	6,010	
Supplies	1,240	
Prepaid rent	975	
Furniture	56,685	
Equipment	25,970	
Notes payable		$48,850
Accounts payable		4,430
Unearned revenue		3,555
I. Lazdowski, capital		57,410
I. Lazdowski, drawings	75,775	
Fees earned (to balance*)		114,020
Advertising expense	14,970	
Insurance expense	2,020	
Interest expense	2,445	
Supplies expense	5,000	
Rent expense	11,700	
Salaries expense	20,545	
	$228,265	$228,265

***Total credits without fees earned = $114,245**
$228,265 – $114,245=$114,020

PROBLEM 2-11B (Continued)

(b)

LAZDOWSKI MARKETING SERVICES
Income Statement
Year Ended October 31, 2014

Revenues		
Fees earned		$114,020
Expenses		
Advertising expense	$14,970	
Insurance expense	2,020	
Interest expense	2,445	
Supplies expense	5,000	
Rent expense	11,700	
Salariesexpense	20,545	
Total expenses		56,680
Profit		$57,340

LAZDOWSKI MARKETING SERVICES
Statement of Owner's Equity
Year Ended October 31, 2014

I. Lazdowski, capital, November 1, 2013	$57,410
Add: Profit	57,340
	114,750
Less: Drawings	75,775
I. Lazdowski, capital, October 31, 2014	$38,975

PROBLEM 2-11B (Continued)

(b) (Continued)

LAZDOWSKI MARKETING SERVICES
Balance Sheet
October 31, 2014

Assets

Cash	$ 4,930
Accounts receivable	6,010
Supplies	1,240
Prepaid rent	975
Furniture	56,685
Equipment	25,970
Total assets	$95,810

Liabilities and Owner's Equity

Liabilities	
Notes payable	$48,850
Accounts payable	4,430
Unearned revenue	3,555
Total liabilities	56,835
Owner's Equity	
I. Lazdowski, capital	38,975
Total liabilities and owner's equity	$95,810

PROBLEM 2-11B (Continued)

Taking It Further

Inga Lazdowski has withdrawn more cash than profit. This has resulted in a net decrease to the owner's capital account. Inga's drawings have left the company with a low level of liquid assets (Cash of $4,930 + Accounts receivable of $6,010 = $10,940) to pay off liabilities (Notes payable of $48,850 + Accounts payable of $4,430 = $53,280). Inga's drawings should be based on her cash budget for the coming year and leave the company with sufficient cash to able to meet its liabilities and grow.

PROBLEM 2-12B

(a)
1. **Incorrect**
2. **Incorrect**
3. **Correct**
4. **Incorrect**
5. **Incorrect**
6. **Incorrect**
7. **Incorrect**
8. **Incorrect**
9. **Incorrect**
10. **Incorrect**

(b)

Trans	1	2	3	4	5
1					
2					

		Accounts Payable	**Understated $500**		
3					
4			**Understated $1,200**		
5					

6		**Salaries Expense**	**Overstated $1,200**		

PROBLEM 2-12B (Continued)

(b) (Continued)

Trans	1	2	3	4	5
7		Service Revenue	Overstated $400		
8					

			($375×2)		
9		**Cash** **Accounts Payable**	**Overstated $8,600** **Understated $6,800**		
10					

		Service Revenue			

PROBLEM 2-12B (Continued)

Taking It Further

1. Disagree. Even though the trial balance is balanced, uncorrected errors misstate the financial position of the company.
2. This error understates Accounts Receivable and Accounts Payable. It may lead to liabilities being unpaid and receivables being uncollected.
4. This error may lead to Salaries to employees not being paid since the transaction was posted as a credit to Cash. It would show as already being paid. The error would also understate the company's liabilities.
6. This error overstates Salaries Expense. It results in lower profits on the income statement because of the additional expense.
7. This error shows lower liabilities by understating Unearned Revenue. It results in higher profit on the income statement because of the overstated Service Revenue.
9. This error shows lower liabilities by understating Accounts Payable and higher assets by overstating Equipment and Cash. It may lead to the supplier not being paid since the transaction shows the equipment as already paid.
10. This error understates the asset Accounts Receivable and understates Service Revenue. It results in a lower profit on the income statement because of the unrecorded revenue.

PROBLEM 2-13B

SHAWNEE SLOPES COMPANY
Trial Balance
June 30, 2014

	Debit	Credit
Cash ($5,875 + $210 – $120 +$650)	$ 6,615	
Accounts receivable ($3,620 – $385– $385)......	2,850	
Supplies ($0 + $650)...	650	
Equipment ($14,020 – $650 + $2,000)................	15,370	
Notes payable ($0 + $2,000)..............................		$ 2,000
Accounts payable ($5,290 – $165– $165 +$650)		5,610
Property taxes payable ($500 – $500)...............		0
A. Shawnee, capital ($17,900 + $750)................		18,650
A. Shawnee, drawings ($0 + $750)	750	
Service revenue ($7,027– $560 + $650).............		7,117
Advertising expense ($1,132 – $210 + $120)	1,042	
Property tax expense ($1,100 + $500)...............	1,600	
Salaries expense ($4,150 + $350)	4,500	
	$33,377	$33,377

Taking It Further

There could still be errors after correcting the items identified. The errors could be counter-balancing errors that affect both the debit and credit side equally, such as a transposition error in recording a journal entry that affects both the debit and credit sides (item #6), or errors that counter-balance on the debit side, or on the credit side, of the trial balance. The trial balance could also be in balance and not show transactions that have been omitted but that should have been recorded.

CONTINUING COOKIE CHRONICLE

(a) GENERAL JOURNAL J1

		Account Titles and Explanation	Debit	Credit
Nov.	12	No entry required for cashing Canada Savings Bonds—this is a personal transaction.		
	12	Cash	900	
		N. Koebel, Capital		900
	18	Advertising Expense	325	
		Cash		325
	20	Supplies	198	
		Cash		198
	25	Equipment	550	
		N. Koebel, Capital		550
	26	Account Receivable	300	
		Fees Earned		300
	27	Telephone Expense	98	
		Accounts Payable		98
	29	Cash	3,000	
		Notes Payable		3,000
Dec.	2	Cash	250	
		Fees Earned		250
	3	Equipment	1,000	
		Cash		1,000

CONTINUING COOKIE CHRONICLE (Continued)

(a) (Continued)

GENERAL JOURNAL J1

		Account Titles and Explanation	Debit	Credit
Dec.	9	Cash	125	
		Unearned Revenue		125
	13	Accounts Payable	98	
		Cash		98
	16	Cash	300	
		Accounts Receivable		300
	17	Accounts Receivable	500	
		Fees Earned		500
	30	Telephone Expense	76	
		Accounts Payable		76

(b)

Cash

Nov.12	900	Nov.18	325
29	3,000	20	198
Dec. 2	250	Dec. 3	1,000
9	125	13	98
16	300		
Bal.	2,954		

Accounts Receivable

Nov.26	300	Dec. 16	300
Dec. 17	500		
Bal.	500		

Supplies

Nov.20	198		

Equipment

Nov.25	550		
Dec. 3	1,000		
Bal.	1,550		

CONTINUING COOKIE CHRONICLE (Continued)

(b) (Continued)

Accounts Payable

Dec. 13	98	Nov.27	98
		Dec. 30	76
		Bal.	76

Unearned Revenue

		Dec. 9	125

Notes Payable

		Nov.28	3,000

N. Koebel, Capital

		Nov.12	900
		25	550
		Bal.	1,450

Fees Earned

		Nov.26	300
		Dec. 2	250
		17	500
		Bal.	1,050

Advertising Expense

Nov. 18	325		

Telephone Expense

Nov. 27	98		
30	76		
Bal.	174		

CONTINUING COOKIE CHRONICLE (Continued)

(c)

COOKIE CREATIONS
Trial Balance
December 31, 2013

	Debit	Credit
Cash	$2,954	
Accounts receivable	500	
Supplies	198	
Equipment	1,550	
Accounts payable		$ 76
Unearned revenue		125
Notes payable		3,000
N. Koebel, capital		1,450
Fees earned		1,050
Advertising expense	325	
Telephone expense	174	
	$5,701	$5,701

BYP 2-1 FINANCIAL REPORTING PROBLEM

(a)

Account	(1) Financial Statement	(2) Account	(3) Normal Balance	(3) Increase Side	(4) Decrease Side
Administrative expenses	Income Statement	Expense	Debit	Debit	Credit
Cash and cash equivalents	Balance Sheet	Asset	Debit	Debit	Credit
Finance costs	Income Statement	Expense	Debit	Debit	Credit
Inventories	Balance Sheet	Asset	Debit	Debit	Credit
Long-term debt	Balance Sheet	Liability	Credit	Credit	Debit
Prepaid expenses	Balance Sheet	Asset	Debit	Debit	Credit
Sales	Income Statement	Revenue	Credit	Credit	Debit
Trade and other payables	Balance Sheet	Liability	Credit	Credit	Debit

BYP 2-1 (Continued)

(b)

1. **Cash is decreased.**
2. **Cash is increased.**
3. **Cash and/or Accounts Receivable are increased.**
4. **Accounts Payable is increased or Cash is decreased.**
5. **Cash is decreased.**

BYP 2-2 INTERPRETING FINANCIAL STATEMENTS

(a)

1. **Deferred income tax liability.**
2. **Income tax expense.**
3. **Also in a corporation the owners are called shareholders. So the final two amounts listed would only exist in a corporation and not in a proprietorship.**

BYP 2-2 (Continued)

(b)

WEST AIRLINES LTD.
Trial Balance
December 31, 2011

Cash	$1,291,946	
Accounts receivable	34,122	
Inventory	31,695	
Prepaid expenses and deposits	66,936	
Property and equipment	1,911,227	
Intangible and other assets	137,752	
Accounts payable and accrued liabilities		$ 307,279
Advance ticket sale liability		432,186
Non-refundable guest credits liability		43,485
Maintenance provisions liability		151,645
Other liabilities		13,698
Deferred income tax liability		326,456
Long-term debt		828,712
Shareholders' (owners) equity, January 1, 2011		1,304,233
Shareholders' (owners) "drawings"	82,718	
Guest revenues		2,790,299
Other revenues		281,241
Aircraft fuel, leasing, and maintenance expense	1,227,709	
Airport operations expense	421,561	
Flight operations and navigational charges	483,920	
Sales and distribution expense	273,364	
Marketing, general, and administration expense	209,880	
Depreciation and amortization expense	174,751	
Employee profit share expense	23,804	
Non-operating expenses	48,545	
Income tax expense	59,304	
	$6,479,234	$6,479,234

BYP 2-2 (Continued)

(c) Items have been grouped on the WestJet income statement based on the nature of the expenses such as expenses related to marketing, general, and administrative. Preparing a more condensed statement of income is preferable for large organizations such as WestJet as the users of the financial statements are generally investors who are not interested in any greater detail concerning expenses than what has been presented by management.

(d) Most customers using WestJet services book their flights well in advance of their trip. The customers also pay for their tickets before the flight. The cash obtained by WestJet represents unearned revenue until the service of the flight has been delivered to the customer.

WestJet has used two main accounts for unearned revenue: Advance Ticket Sales Liability and Non-refundable Guest Credits Liability.

BYP 2-3 COLLABORATIVE LEARNING ACTIVITY

All of the material supplementing the collaborative learning activity, including a suggested solution, can be found in the Collaborative Learning section of the Instructor Resources site accompanying this textbook.

BYP 2-4 COMMUNICATION ACTIVITY

e-mail:

Hello instructor,

As requested, following is an explanation and illustration of the steps in the recording process as they relate to the March 15 transactions for White Glove Company:

(1) In the first example, a transaction has not yet taken place. White Glove's financial position (assets, liabilities, and owner's equity) is not changed as a result of the contract. There has been no exchange between the parties involved in the event.

(2) In the second example, bills totalling $6,000 were sent to customers for services performed. First, we analyze the transaction to determine the accounts involved and the debits/credits required. We determine that the asset Accounts Receivable is increased $6,000 and Service Revenue is increased $6,000. Debits increase assets and credits increase revenues, so the next step is preparing the journal entry:

Accounts Receivable	**6,000**	
Service Revenue		**6,000**
Billed customer for services performed.		

The third step is posting the entry. The $6,000 amount is then posted to the debit side of the general ledger account Accounts Receivable and to the credit side of the general ledger accounts Service Revenue.

BYP 2-4 (Continued)

(3) In the third example, $2,000 was paid in salaries to employees. First we analyze the transaction to determine the accounts involved and the debits/credits required. We determine that the expense Salaries Expense is increased $2,000 and the asset Cash is decreased $2,000. Debits increase expenses and credits decrease assets, so the next step is preparing the journal entry:

Salaries Expense...	**2,000**	
Cash..		**2,000**
Paid salaries.		

The third step is posting the entry. The $2,000 amount is then posted to the debit side of the general ledger account Salaries Expense and to the credit side of the general ledger account Cash.

I trust that the foregoing is satisfactory. Please let me know if anything further is required.

BYP 2-5 ETHICS CASE

(a) The stakeholders in this situation are:

Vu Hung, assistant chief accountant.
Users of the company's financial statements
- **internal – managers or company owner**
- **external – Lim Company's bank or other creditors**

Vu's supervisor (the chief accountant, who evaluates her).

(b) By adding $1,000 to the Equipment account, the account total is intentionally misstated. By not locating the error causing the imbalance, some other account(s) may also be misstated. If the amount of $1,000 is determined to be immaterial, and the intent is not to commit fraud (cover up an embezzlement or other misappropriation of assets), Vu's action might <u>not</u> be considered unethical in the preparation of interim financial statements. However, she should disclose what she has done. Otherwise, if Vu is violating a company accounting policy by her action, then she is acting unethically. Even if the $1,000 is considered immaterial, the source of the error should be determined, as it may be made up of more than one error, and the sum of the errors (net effect of the errors in total) may be immaterial, but each individual error could have a material effect on the financial statements.

(c) Vu's alternatives are:

1. **Miss the deadline but find the error causing the imbalance.**

2. **Tell her supervisor of the imbalance and suffer the consequences.**

3. **Do as she did and locate the error later, making the adjustment (if any) in the next quarter.**

BYP 2-6 “All About You” Activity

(a) On September 1, 2014, my personal equity would be as follows:

Cash ($4,000 + $14,000)	$18,000
Clothes	1,000
Cell phone	200
Total assets	19,200
Less Student loan	(14,000)
Personal equity, Sept. 1, 2014	$5,200

(b)

Personal Trial Balance
December 15, 2014

	Debit	Credit
Cash	$6,000	
Clothes ($1,000 + $1,500)	2,500	
Cell phone	200	
Computer	1,000	
Damage deposit on apartment	400	
Unused bus pass	250	
Student loan		$14,000
Personal equity		5,200
Rent expense	1,600	
Groceries expense	1,200	
Tuition for September to December	2,800	
Textbooks for September to December	600	
Entertainment expense	1,500	
Cell phone expense	250	
Cable TV and internet expense	200	
Bus pass expense	250	
Airfare	450	
	$19,200	$19,200

BYP 2-6 (Continued)

(b) (Continued)

Errors in the Trial Balance:

- **The cash amount should be the amount in the bank account at December 15th.**
- **The computer was recorded at $100 rather than the actual cost of $1,000.**
- **Rent expense of $2,000 should be split between the actual expense of $1,600 ($400 per month for September to December inclusive) and the damage deposit on the apartment which is an asset and not an expense.**
- **Groceries are an expense and should be listed in the debit column.**
- **Bus pass expense of $500 should be split between the amount used for September through December $250 and the amount of the bus pass that represents an asset as of the end of December 2013 of $250.**
- **The airfare is $450, not $540.**

(c)

Personal equity, September 1	**$5,200**
Net loss *	**(8,850)**
Personal equity (deficit), December 15th	**$(3,650)**

Rent expense	**$1,600**
Groceries expense	**1,200**
Tuition for September to December	**2,800**
Textbooks for September to December	**600**
Entertainment expense	**1,500**
Cell phone expense	**250**
Cable TV and internet expense	**200**
Bus pass for September to December	**250**
Airfare expense	**450**
***Net loss**	**$8,850**

BYP 2-6 (Continued)

(d)

Personal Balance Sheet
December 15, 2014

Assets	
Cash	$6,000
Clothes	2,500
Cell phone	200
Damage deposit on apartment	400
Unused bus pass	250
Computer	1,000
Total assets	$10,350
Liability and Deficit	
Liability	
Student loan	$14,000
Personal equity (deficit)	(3,650)
Total liabilities and owner's equity	$10,350

(e) The amount of expenses in the September to December semester totalled $8,850. Of this amount, it will not be necessary to use cash to pay for the $250 bus pass next semester as it has already been purchased. If the other expenses are kept at the same level, I will need $8,600 ($8,850 – $250) of cash which exceeds my current cash balance of $6,000 by $2,600. The cash balance is inadequate.

(f) Expenses that can be avoided in the second semester include entertainment expenses of $1,500 and the airfare of $450. Another expense that can be reduced substantially but not eliminated is the cell phone expense.

(g) Additional cash expenditures that could occur in the second semester may possibly include repair to the computer or the loss of the damage deposit and additional payments to the landlord for damage to the apartment.

BYP 2-6 (Continued)

(h) Unless I get a part-time job, or cut expenses in addition to the entertainment and airfare expenses mentioned in (f), it will be necessary to ask for more money from my parents.

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CHAPTER 2

20-MINUTE QUIZ #1

Circle the correct answer.

True/False

1. Assets and liabilities are both decreased by credits.	True	False
2. The owner's capital account is increased by credits.	True	False
3. An account will have a credit balance if the total debit amounts exceed the total credit amounts.	True	False
4. The ledger is also known as the book of original entry.	True	False
5. The basic steps in the recording process are (1) analyze each transaction, (2) enter the transaction in a journal, and (3) transfer the journal information to the appropriate ledger accounts.	True	False
6. The posting phase of the recording process makes it possible to accumulate the effects of journalized transactions in individual accounts.	True	False
7. Assets = Liabilities + Owner's Capital – Drawings + Revenues – Expenses is a correct form of the expanded basic accounting equation.	True	False
8. Owner's equity is increased by owner's investments and revenues.	True	False
9. When the columns of the trial balance equal each other, it proves no errors occurred in recording and posting.	True	False
10. Debits should be listed before credits in journal entries.	True	False

20-MINUTE QUIZ #1 (continued)

Multiple Choice

1. Transactions are initially recorded in the:

   a. general ledger.
   b. general journal.
   c. trial balance.
   d. balance sheet.

2. The right side of an account is referred to as the:

   a. negative side.
   b. positive side.
   c. debit side.
   d. credit side.

3. A purchase of office equipment for cash requires a credit to:

   a. Office Equipment.
   b. Cash.
   c. Accounts Payable.
   d. Owner's Equity.

4. The equality of the accounting equation can be proven by preparing a:

   a. trial balance.
   b. journal.
   c. general ledger.
   d. T account.

5. Which of the following accounts would be increased with a debit?

   a. Rent Payable
   b. Owner's Capital
   c. Fees Earned
   d. Owner's Drawings

ANSWERS TO 20-MINUTE QUIZ #1

True/False

1. False	6. True
2. True	7. True
3. False	8. True
4. False	9. False
5. True	10. True

Multiple Choice

1. b.
2. d.
3. b.
4. a.
5. d.

20-MINUTE QUIZ #2

1. Fill in the blanks with **debit** or **credit** to complete the following sentences correctly.
   a. Assets are increased by a _______________.
   b. Liabilities are increased by a ______________.
   c. The normal balance of a revenue account is a _______________.
   d. A ______________ would decrease a liability account.
   e. The normal balance of the drawings account is a ______________.
   f. A ______________ would increase an expense account.

2. Prepare journal entries in good form for each of the following transactions concerning the business J. Morris, Architect.
   a. On July 5, Morris prepared a set of drawings for a customer and billed the customer $1,500.
   b. On July 10, bought $300 of drafting supplies for cash.
   c. On July 15, paid $800 in salaries for the assistant.
   d. On July 18, collected $900 from the July 5 transaction.
   e. On July 20, paid $600 for a one-year insurance policy in advance.
   f. On July 22, a cash advance of $800 is received from a client for services to be performed in August.
   .

a.	July 5			
b.	July 10			
c.	July 15			
d.	July 18			
e.	July 20			
f.	July 22			

3. Should the following transactions be recorded and why?
    a. The owner of a company purchases a computer for personal use
    b. A company provides services to one of its customers on account.
    c. A company purchases a machine and pays with cash.
    d. A company places an order with one of its supplier for inventory to be shipped next month.

4. What is the primary purpose of the trial balance?

5. Give examples of errors that would not be detected by the preparation of a trial balance.

ANSWERS TO 20-MINUTE QUIZ #2

1. Fill in the blanks with **debit** or **credit** to complete the following sentences correctly.
   a. debit
   b. credit
   c. credit
   d. debit
   e. debit
   f. debit

2. Prepare journal entries in good form for each of the following transactions concerning the business J. Morris, Architect.

a.	July 5	Accounts Receivable	1,500	
		Service Revenue		1,500
		Invoiced customer for architect drawings.		
b.	July 10	Drafting Supplies	300	
		Cash		300
		Purchased supplies.		
c.	July 15	Salaries Expense	800	
		Cash		800
		Paid the assistant.		
d.	July 18	Cash	900	
		Accounts Receivable		900
		Received cash on account.		
e.	July 20	Prepaid Insurance	600	
		Cash		600
		Paid for insurance in advance		
f.	July 22	Cash	800	
		Unearned Revenue		800
		Received cash in advance from a client.		

3.
   a. Assuming the owner purchased the computer with her own funds this is not a transaction of the company as it is a personal transaction of the owner.
   b. This is a business transaction and should be recorded since an asset has increased (accounts receivable) and revenue has been earned.
   c. This is a business transaction and should be recorded since an asset (machine) is purchased in exchange for another asset (Cash).
   d. This is not a business transaction and should not be recorded. An order was placed but no purchase has occurred.

4. The primary purpose of the trial balance is to prove that the debits equal the credits after posting.

5. A variety of answers are acceptable here, such as:
   - a transaction was not journalized
   - an entry was not posted
   - an entry was posted twice
   - the incorrect amount was recorded for both the debit and credit

CHAPTER 2

The Recording Process

LECTURE OUTLINE

1. **The Account**

1.1 An account is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item.

1.2 An account consists of three parts:

1.2.1 The name of the account.

1.2.2 A left or debit side.

1.2.3 A right or credit side.

TEACHING TIP

Use **ILLUSTRATION 2-1** to explain the concept of an account. Emphasize that a T account is used frequently in the classroom because it can be constructed quickly and it contains the three major parts of an account: name, debit side and credit side.

2. **Debits and Credits**

2.1 The term **debit** means left and the term **credit** means right. Entering an amount on the left side of an account is called debiting the account and entering an amount on the right side of an account is called crediting the account.

2.2 The system of using debits and credits is based on the accounting equation.

2.3 Since assets are on the left side of the accounting equation, the normal balance of an asset is on the left or debit side of the account. Assets are increased by debits and decreased by credits.

2.4 Since liabilities and owner's equity are on the right side of the accounting equation, the normal balance of a liability or equity account is on the right or credit side of the account. Liabilities and owner's equity are increased by credits and decreased by debits.

2.5 Owner's investments are credited to the owner's capital account because it increases owner's equity. Owner's withdrawals are debited since they decrease owner's equity.

2.6 Revenues are recorded as credits since revenues increase owner's equity. Expenses are recorded as debits since expenses decrease owner's equity.

TEACHING TIP

ILLUSTRATION 2-3 can be used to explain the debit and credit rules for increasing and decreasing accounts. Emphasize that the normal balance of an account is the same as the increase side. The asset side increases with a debit and therefore has a normal debit balance. The liabilities and equity side increases with a credit and therefore has a normal credit balance. Think of the difference between the asset side and the liabilities /equity side as looking in a mirror i.e. things are always reversed in a mirror.

3. Double-Entry Accounting

3.1 As was explained in Chapter 1, each transaction must affect two or more accounts to keep the accounting equation in balance. This is known as the double-entry accounting system.

3.2 For each transaction, debits must equal credits.

3.3 Since every transaction must is recorded with equal debits and credits, the total debits will equal the total credits and therefore the accounting equation stays in balance.

4. The Accounting Cycle and Steps in the Recording Process

4.1 The accounting cycle is a series of steps followed in preparing financial statements.

4.2 The procedures used in analyzing and recording transactions are the first three steps and is known as the recording process.

4.3 The basic steps in the recording process are:

4.3.1 Analyze each transaction in terms of its effect on the accounts.

4.3.2 Enter the transaction information in a journal (book of original entry).

4.3.3 Transfer the journal information to the appropriate accounts in the ledger (book of accounts).

TEACHING TIP

ILLUSTRATION 2-4 can be used to explain that the steps in the recording process are the first three steps in the accounting cycle. Emphasize that the remaining steps in the accounting cycle will be taught later in chapter 2, in chapter 3 and chapter 4.

5. **The Journal**

5.1 Transactions are first recorded in chronological (date) order in a journal.

5.2 Entering transaction data in the general journal is called journalizing.

5.3 The general journal:

5.3.1 Discloses in one place the complete effect of a transaction.

5.3.2 Provides a chronological record of transactions.

5.3.3 Helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.

5.3.4 Provides an explanation of the transaction and, where applicable, identifies the source document.

5.4 Separate journal entries are made for each transaction and include the following:

5.4.1 The date of the transaction including the year, month and day.

5.4.2 The accounts and the amounts that are to be debited and credited. Record debit accounts on the first line and at the left margin of the column headed Account Titles and Explanation. Credit accounts are recorded on the next line and are indented from the left margin to distinguish them from the debit accounts.

5.4.3 The amounts for the debits are recorded in the Debit (left) column and the amounts for the credits are recorded in the Credit (right) column.

5.4.4 A brief explanation of the transaction is given on the line below the credit account title.

5.4.5 Leave one blank space between each entry for ease of reading.

5.4.6 The Ref (Reference) column is left blank until the entry is posted to the ledger at which time the account number will be placed in the Ref column.

TEACHING TIP

Page 64 provides an example of recording two transactions in the General Journal. It would be useful to compare the journal entries in this example with the tabular summary learned in Chapter 1. Emphasize to the students that what was learned in Chapter 1 is a simplistic way of recording transactions. It is useful to think of whether accounts have increased or decreased and translate that into whether the accounts need to be debited or credited. Explain to the students that it is acceptable to determine the account (s) that needs to be credited first and to record the credit account first. However, they should leave enough space to add the accounts to be debited.

5.4.7 A simple journal entry involves only two accounts (one debit and one credit) whereas a compound journal entry involves three or more accounts (for example: two debits and one credit).

6. **The General Ledger**

6.1 The general ledger is the entire group of accounts maintained by a company, including all assets, liabilities, equity, revenues and expenses.

6.1.1 The general ledger provides information about changes in specific account balances for a company.

6.1.2 The general ledger should be arranged in this order: assets, liabilities, owner's capital, owner's drawings, revenues, and expenses.

7. **Posting / Chart of Accounts**

7.1 Posting is the procedure of transferring journal entries to the ledger accounts. Posting accumulates the effects of journalized transactions in the individual accounts.

7.2 Posting involves the following steps:

7.2.1 In the ledger enter the date, journal page number, and debit or credit amount shown in the journal in the correct columns of each affected account.

7.2.2 In the reference column of the journal, write the account number to which the debit or credit amount was posted.

TEACHING TIP

ILLUSTRATION 2-5 demonstrates the posting process of a general journal entry to the appropriate general ledger accounts. By posting from the general journal to the general ledger we are able to see at a glance individual account balances. We can determine what our cash account balance is; if our account receivables account balance seems unusually high or our accounts payable account balance is high. While both the journal and the ledger have similarities, the main difference is that the general ledger focuses on the account whereas the general journal focuses on the transaction.

7.3 A chart of accounts is a listing of the account names and account numbers, which identify their location in the ledger. Accounts are usually numbered starting with the balance sheet accounts followed by income statement accounts.

TEACHING TIP

ILLUSTRATION 2-6 illustrates a typical chart of accounts for a service company. You may wish to inform students that a sample chart of accounts is available on the student resource website. This chart is also helpful for students who don't know what name to give to accounts in journal entries.

8. **The Recording Process Illustrated**

8.1 The purpose of transaction analysis is first to identify if the transaction should be recorded or not. The first step in transaction analysis is to decide whether a transaction has occurred to determine if a transaction should be recorded. If it should be recorded then determine how to record it, i.e. the type of account involved, second whether it is increased or decreased, and third whether it needs to be debited or credited.

8.2 Every journal entry affects one or more of the following items: assets, liabilities, owner's equity, revenues, expenses, or drawings.

TEACHING TIP

Refer the students to the 13 transactions presented in the chapter showing the basic steps in the recording process for common business transactions. **Refer back to Illustration 2-4** and have the students get into the habit of using the three steps to recording each transaction. Point out to students that not all events require recording. If a transaction has occurred and needs to be recorded, then the student should think about the accounts that have been affected and whether the accounts have gone up or have gone down. Then with this information the student should determine whether the accounts need to be debited or credited. Once this has been determined, the journal entry will be prepared in proper journal entry format. Emphasize to the students that what was learned in Chapter 1 is useful when following the debit and credit rules learned in Chapter 2.

Also, refer the students to the **Summary illustration of journalizing and posting** presented in the chapter.

9. **Trial Balance**

9.1 A trial balance is a list of accounts in the ledger and their balances at a specific time.

9.1.1 Its primary purpose is to prove (check) that the debits equal the credits after posting.

9.1.2 It uncovers some errors in journalizing and posting.

9.1.3 It is useful in the preparation of financial statements.

9.2 The procedure for preparing a trial balance is as follows:

9.2.1 List account titles and balances in same order as the chart of accounts.

9.2.2 Total the debit and credit columns.

9.2.3 Ensure the totals of both columns are equal.

9.3 A trial balance has limitations and there still may be errors even if the debit and credit columns balance. Some reasons the trial balance may balance but include errors are:

9.3.1 a transaction is not journalized

9.3.2 a correct journal entry is not posted

9.3.3 a journal entry is posted twice

9.3.4 incorrect accounts are used in journalizing or posting, or

9.3.5 errors that hide each other (off-setting errors) are made in recording the amount of the transaction.

9.4. If there is a difference between the two columns, use the following steps to help find the error.

9.4.1 If the difference is in the amount of $1, $100 or $1,000, recalculate the account balances and re-add the trial balance.

9.4.2 If the difference can be divided by two, a balance equal to half the error could have been entered in the wrong column.

9.4.3 If the difference is divisible by nine, an amount on the trial balance could have been copied incorrectly from the ledger. That is, there could have been a transposition error.

9.4.4 If the error cannot be evenly divided by two or nine, an account balance in the amount or the error could have been omitted or a posting in the amount of the error could have been omitted.

10. **Process Explanations**

10.1 Cents are always used when recording a transaction in a journal and posting to the ledger. However, when preparing financial statements, account balances are rounded to nearest dollar.

10.2 Dollars signs are not used in journals or ledgers. Dollar signs are only used in the trial balance and financial statements.

10.3 In practice, companies use account names and account numbers.

TEACHING TIPS

Explain to the students that cents are not recorded in the textbook but in a company all transactions are recorded and rounded to the nearest cent.

In the textbook, sales taxes are ignored to simplify the recording process but in a company sales taxes would be accounted for.

Explain to the students when and how items need to be underlined or double underlined in the Financial Statements. This can be difficult for the students to fully grasp.

HIGHLIGHTS OF IFRS CHANGES

The recording process is the same under International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE).

CHAPTER 2

THE RECORDING PROCESS

ONE-MINUTE CHAPTER QUESTIONS

TEACHING TIP

The purpose of chapter questions is to encourage students to read the chapter material before coming to class. They are normally given in the first few minutes of the class before the lecture begins and can count for ½ to 1 mark of a student's grade.

Question 1:

To debit an account, an amount is entered on the __________ side.

To credit an account, an amount is entered on the __________ side.

Question 2:
What are the normal balances of the following type of accounts?

Type of Account	Normal Balance (Debit or Credit)
Liability	__________________
Asset	__________________
Owner's Equity	__________________
Expense	__________________
Revenue	__________________

Suggested solutions:

Question 1:

To debit an account, an amount is entered on the **left** side.

To credit an account, an amount is entered on the **right** side.

Question 2:

Type of Account	Normal Balance (Debit or Credit?)
Liability	Credit
Asset	Debit
Owner's Equity	Credit
Expense	Debit
Revenue	Credit