

Chapter 2

Recording Business Transactions

Questions

- The basic summary device of accounting is the *T-account*. It resembles the letter T, and its left side is called the debit side and its right side the credit side.
- The statement is false because debit means left and credit means right. Debits and credits are used to record increases and decreases in accounts, so debits can be increases or decreases depending on the type of account involved and likewise for credits.
- Examples:
 - A *debit* to an asset account indicates an increase in the asset.
 - To record a decrease in a liability, the accountant should record a *debit*.
 - Debit* all asset accounts to record increases in them.
 - The accountant should *debit* Cash to record a receipt of cash.
 - The *debit* side of an account is the left side.
 - It is customary to record the *debit* side of a journal entry before recording the credit side of the entry.
- The three basic types of accounts are ASSETS, LIABILITIES, and OWNER'S EQUITY. Two additional types of accounts are REVENUES and EXPENSES. They are part of owner's equity; revenues increase owner's equity and expenses decrease owner's equity.
- The dual effects of an owner's investment in her business are (1) an increase in the entity's cash and (2) an increase in the owner's equity.
- | | | | | | | |
|--------------------------------|---|-----------------|---|-------------------|---|----------------|
| <i>Business Transaction</i> | → | <i>Entry in</i> | → | <i>Posting to</i> | → | <i>Trial</i> |
| <i>Creates Source Document</i> | | <i>Journal</i> | | <i>Ledger</i> | | <i>Balance</i> |
- The normal balance of an account is the side of the account—debit or credit—that records increases. Also, an account's normal balance is the side of the account that usually has the account's balance.
- | | |
|---------------------|-----------------------|
| <i>Account Type</i> | <i>Normal Balance</i> |
| Assets | <u>Debit</u> |
| Liabilities | <u>Credit</u> |
| Owner's equity | <u>Credit</u> |
| Revenues | <u>Credit</u> |
| Expenses | <u>Debit</u> |
- Posting transfers amounts from the journal to the ledger. This is important because the transaction entries in the journal do not accumulate all the information related to each account. The accounts in the ledger hold that

information. Therefore, the transfer of data to the accounts in the ledger—that is, posting from the journal to the ledger—makes it possible to determine the balance in each account. Posting comes after journalizing.

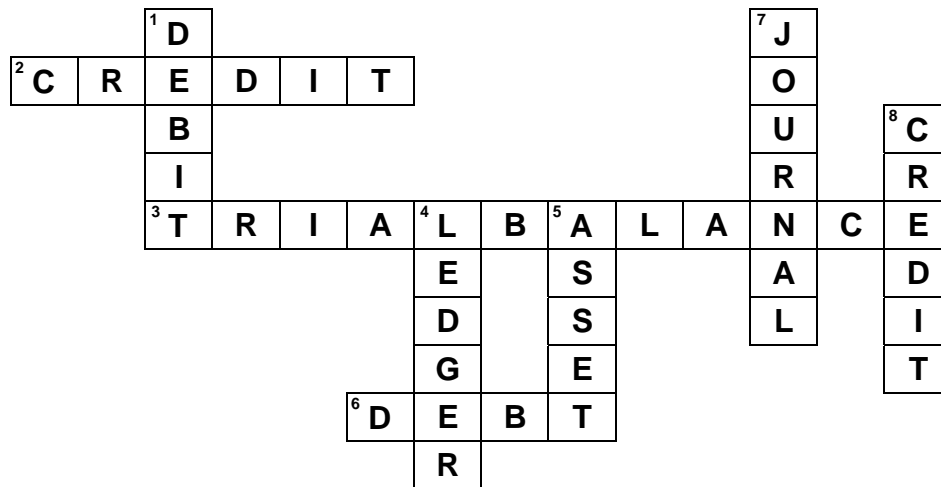
10.

<u>+</u>	a. Investment by owner	<u>0</u>	e. Cash payment on account
<u>+</u>	b. Invoice customer for services	<u>—</u>	f. Withdrawal by owner
<u>0</u>	c. Purchase of supplies on credit	<u>0</u>	g. Borrowing money on a note payable
<u>—</u>	d. Pay expenses	<u>+</u>	h. Sale of services on account
11. Posting's four steps are (1) copy the date of a transaction from the journal to the ledger, (2) copy the journal page number from the journal to the ledger, (3) copy (post) the dollar amounts of the debit and the credit from the journal to the ledger, and (4) copy the account numbers from the ledger back to the journal to indicate that the transaction amount has been posted to the ledger. Step 3, transferring the transaction amount to the account, is the fundamental purpose of posting.
12.

Cash	Jane East, Capital
Accounts Receivable	Sales Revenue
Note Payable	Salary Expense
13. "Accounts Payable has a credit balance of \$1,700" means that the entity owes \$1,700 to its creditors on a debt that is not evidenced by a formal note payable.
14. The two business transactions are (1) the cleaners providing laundry service and earning revenue and (2) Baylor's paying cash to Campus Cleaners. The business's earning of the revenue increases the owner's equity in the company, and Baylor's payment of cash increases the business's cash.
15. The *ledger* is the group of actual accounts in use. The *chart of accounts* is a list of all the accounts set up in the ledger with their account numbers.
16. Accountants prepare a trial balance to check the accuracy of postings and determine whether the total debits equal the total credits. It is a useful summary of all the accounts and their balances and serves as an early error-detection tool.
17. A compound journal entry is one that affects more than two accounts.
18. This error does *not* cause the trial balance to be out of balance because both the total debits and the total credits are overstated by the same amount, \$4,500 (\$5,000 – \$500).
19. Collecting cash on account has no effect on total assets because the increase in cash, which increases total assets, is offset by the decrease in accounts receivable, which decreases total assets.
20. Both systems depend on the accuracy of the initial analysis of the transaction and require that the journal entry be recorded correctly. Thereafter, a number of errors could occur in a manual system (such as slides, transpositions, errors in calculating account balances); these errors will affect a manual trial balance. Most computerized systems will not allow you to post a journal entry if it does not balance. Once the journal entry has been correctly recorded, the computerized accounting system performs much the same actions as accountants do in a manual system. These routine tasks are accomplished faster and with less risk of error with a computer. The computer does not recognize debits and credits, only increases and decreases by account type.

Starters

(10 min.) **S 2-1**



(5 min.) **S 2-2**

“The basic summary device in accounting is the account. The left side is called the debit side, and the right side is called the credit side. We record transactions first in a journal. Then we post (copy the data) to the ledger. It is helpful to list all the accounts with their balances on a trial balance.”

- | | | | |
|----------|-------------------|----|---|
| <u>E</u> | 1. Posting | A. | Record of transactions |
| <u>D</u> | 2. Normal balance | B. | Always an asset |
| <u>G</u> | 3. Payable | C. | Right side of an account |
| <u>A</u> | 4. Journal | D. | Side of an account where increases are recorded |
| <u>B</u> | 5. Receivable | E. | Copying data from the journal to the ledger |
| <u>J</u> | 6. Capital | F. | Increasing equity from providing goods and services |
| <u>C</u> | 7. Credit | G. | Always a liability |
| <u>F</u> | 8. Revenue | H. | Revenues – Expenses (where expenses exceed revenue) |
| <u>H</u> | 9. Net loss | I. | Grouping of accounts |
| <u>I</u> | 10. Ledger | J. | Owner's equity in the business |

(5-10 min.) **S 2-4**

Credits are *increases* in these types of accounts:

- Liabilities
- Capital
- Revenues

Credits are *decreases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *increases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *decreases* in these types of accounts:

- Liabilities
- Capital
- Revenues

(5-10 min.) **S 2-5**

	Normal Balance	
Assets	Debit	
Liabilities		Credit
Owner's Equity—overall		Credit
Capital.....		Credit
Withdrawals	Debit	
Revenues.....		Credit
Expenses	Debit	

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	1	Cash		32,000	
		Liana Garcia, Capital			32,000
		Received investment from owner.			
	2	Medical Supplies		8,000	
		Accounts Payable			8,000
		Purchased supplies on account.			
	2	Rent Expense		4,100	
		Cash			4,100
		Paid office rent.			
	3	Accounts Receivable		6,000	
		Service Revenue			6,000
		Performed service for patients on account.			

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Oct.	22	Accounts Receivable		6,000	
		Service Revenue			6,000
		Performed service on account.			
	30	Cash		3,000	
		Accounts Receivable			3,000
		Received cash on account.			
	31	Utilities Expense		150	
		Accounts Payable			150
		Received utility bill.			
	31	Salary Expense		2,000	
		Cash			2,000
		Paid salary expense.			
	31	Advertising Expense		700	
		Cash			700
		Paid advertising expense.			

Req. 1

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Supplies		10,000	
		Accounts Payable			10,000
		Purchased supplies on account.			
		Accounts Payable		5,000	
		Cash			5,000
		Paid cash on account. (\$10,000 × ½)			

Req. 2

Accounts Payable			
	5,000		10,000
		Bal.	5,000

Req. 1

Journal				
DATE	ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Accounts Receivable		12,000	
	Service Revenue			12,000
	Performed service on account.			
	Cash		5,500	
	Accounts Receivable			5,500
	Received cash on account.			

Req. 2

Cash		Accounts Receivable		Service Revenue	
5,500		12,000	5,500		12,000
Bal. 5,500		Bal. 6,500			Bal. 12,000

Req. 3

a.	The business earned	\$12,000:	Service Revenue	
b.	Total assets	\$12,000:	Cash	\$5,500
			Accounts receivable	<u>6,500</u>
			Total assets	<u>\$12,000</u>

Reqs. 1 and 2

Cash	
32,000	4,100
Bal. 27,900	

Accounts Receivable	
6,000	
Bal. 6,000	

Medical Supplies	
8,000	
Bal. 8,000	

Accounts Payable	
	8,000
	Bal. 8,000

Liana Garcia, Capital	
	32,000
	Bal. 32,000

Service Revenue	
	6,000
	Bal. 6,000

Rent Expense	
4,100	
Bal. 4,100	

Req. 3

Liana Garcia, Veterinarian		
Trial Balance		
September 3, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$27,900	
Accounts receivable	6,000	
Medical supplies	8,000	
Accounts payable		\$8,000
Liana Garcia, capital		32,000
Service revenue		6,000
Rent expense	<u>4,100</u>	<u> </u>
Total	<u>\$46,000</u>	<u>\$46,000</u>

Redwing Floor Covering		
Trial Balance		
December 31, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 6,000	
Equipment	43,000	
Accounts payable		\$ 1,000
Other liabilities		17,000
Capital		25,000
Revenue		32,000
Expenses	<u>26,000</u>	<u> </u>
Total	<u>\$75,000</u>	<u>\$75,000</u>

Incorrect Trial Balance

Ladner Environmental Services Trial Balance April 30, 2010			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$214,000	
1200	Accounts receivable	4,000	
1400	Office supplies	5,000	
1900	Land	50,000	
2100	Accounts payable		\$ 1,000
3000	John Ladner, capital	250,000*	
3100	John Ladner, withdrawals	5,500	
4000	Service revenue		35,000
5100	Rent expense	3,000	
5200	Salary expense	3,500	
5300	Utilities expense	<u>1,000</u>	<u> </u>
	Total	<u>\$536,000</u>	<u>\$36,000</u>

*Incorrect; should be listed as a credit.

To correct this error,

1. Take the difference between total debits and total credits:
 $\$536,000 - \$36,000 = \$500,000$
2. Divide the error by 2:
 $\$500,000 \div 2 = \$250,000$
3. Locate \$250,000 on the trial balance. The Capital account should have a credit balance.

Incorrect Trial Balance

Ladner Environmental Services Trial Balance April 30, 2010			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$214,000	
1200	Accounts receivable	4,000	
1400	Office supplies	5,000	
1900	Land	50,000	
2100	Accounts payable		\$ 1,000
3000	John Ladner, capital		250,000
3100	John Ladner, withdrawals	5,500	
4000	Service revenue		35,000
5100	Rent expense	3,000	
5200	Salary expense	3,500	
5300	Utilities expense	<u>100*</u>	<u> </u>
	Total	<u>\$285,100</u>	<u>\$286,000</u>

*Incorrect; should be listed as \$1,000.

To correct this error,

1. Take the difference between total debits and total credits:
 $\$285,100 - \$286,000 = \$900$
2. Divide the error by 9:
 $\$900 \div 9 = \100
3. Locate \$100 on the trial balance. Utilities expense, at \$100, holds the error. Trace the utilities' balance back to the ledger account, which shows the correct amount.

Exercises

(10-15 min.) **E 2-1**

TO: Office Manager

FROM: Student Name

Each time Prairie Tours received cash, accountants recorded the transaction in the *journal* by *debiting* the Cash account. Accountants recorded cash payments by making a journal entry that included a *credit* to Cash. Debits in the journal were *posted* as debits to the Cash account in the *ledger* and credits were posted as credits. At the end of the period, accountants listed each account, along with its balance, on the *trial balance*. Cash had a balance of \$57,800.

Instructional Note: Student responses may vary considerably.

(10-15 min.) **E 2-2**

[illegible]

(10-15 min.) **E 2-3**

Req. 1

<i>Debit</i>		<i>Credit</i>		<i>Credit</i>
ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
\$75,500	=	\$46,300	+	\$28,500
(\$31,200 + \$4,000				
+ \$300 + \$40,000)		(\$1,300 + \$45,000)		

This accounting equation is out of balance because the complete equity balances are not shown. Net income or loss and withdrawals balances should be included in the equation.

Req. 2

<i>Credit</i>		<i>Debit</i>		<i>Net Credit</i>
REVENUES	–	EXPENSES	=	NET INCOME
\$7,600	–	\$5,100	=	\$2,500
		(\$400 + \$1,500 + \$3,000 + \$200)		

NET INCOME would represent a net *credit* because revenues (*credit* amounts) would exceed expenses (*debit* amounts).

NET LOSS would represent a net *debit* because expenses (*debit* amounts) would exceed revenues (*credit* amounts).

Req. 3

Jim Aylmer withdrew \$1,800 during the month.

Withdrawals are a *debit* amount.

(continued) **E 2-3**

Req. 4

Increase in owner's equity (<i>credit</i> amount)	
Net income	\$2,500
Decrease in owner's equity (<i>debit</i> amount)	
Withdrawals	<u>1,800</u>
Net increase in owner's equity (<i>credit</i> amount)	<u>\$ 700</u>

(10-20 min.) **E 2-4**

<u>Date</u>	<u>Analysis of Transactions and Journal Entries</u>		
Dec.	4	The asset Cash is increased; therefore, debit Cash. The liability Note Payable is increased; therefore, credit Note Payable.	
		Cash	20,000
		Note Payable	20,000
	8	The asset Equipment is increased; therefore, debit Equipment. The liability Accounts Payable is increased; therefore, credit Accounts Payable.	
		Equipment.....	4,000
		Accounts Payable	4,000
	12	The asset Accounts Receivable is increased; therefore, debit Accounts Receivable. The revenue Service Revenue is increased; therefore, credit Service Revenue.	
		Accounts Receivable	6,000
		Service Revenue.....	6,000
	19	The asset Cash is increased; therefore, debit Cash. The asset Land is decreased; therefore, credit Land.	
		Cash	24,000
		Land.....	24,000
	22	The asset Supplies is increased; therefore, debit Supplies. The asset Cash is decreased; therefore, credit Cash.	
		Supplies	1,200
		Cash.....	1,200
	27	The liability Accounts Payable is decreased; therefore, debit Accounts Payable. The asset Cash is decreased; therefore, credit Cash.	
		Accounts Payable	4,000
		Cash.....	4,000

Req. 1 and 2

(10-20 min.) **E 2-5**

Cash			
Dec.	1	6,000	
	4	20,000	
	19	24,000	
Dec.	31	44,600	

Accounts Receivable			
Dec.	12	6,000	

Supplies			
Dec.	22	1,200	

Equipment			
Dec.	8	4,000	

Land			
Dec.	1	24,000	
Dec.	31	0	

Accounts Payable			
Dec.	27	4,000	
	8	4,000	
	31	0	

Notes Payable			
	Dec.	4	20,000

R. Jackson, Capital			
	Dec.	1	30,000

Service Revenue			
	Dec.	12	6,000

Utilities Expense			
Dec.	1	200	

Req. 3

Total debits = Total credits
\$56,000 = \$56,000

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	1	Cash		15,000	
		Yula Gregore, Capital			15,000
		Investment by owner.			
	1	Rent Expense		4,000	
		Cash			4,000
		Paid rent for yoga studio.			
	4	Studio Supplies		4,000	
		Accounts Payable			4,000
		Purchased studio supplies on account.			
	6	Cash		3,000	
		Service Revenue			3,000
		Performed services for cash.			
	9	Accounts Payable		1,000	
		Cash			1,000
		Paid cash on account.			
	17	Accounts Receivable		800	
		Service Revenue			800
		Performed service on account.			
	23	Cash		200	
		Accounts Receivable			200
		Received cash on account.			
	31	Utilities Expense		420	
		Cellphone Expense		150	
		Cash			570
		Paid cash expenses.			

Req. 1

(20-30 min.) **E 2-7**

Cash			
Mar.	1	15,000	
	6	3,000	
	23	200	
Mar.	31	12,630	

Accounts Receivable			
Mar.	17	800	
	23	200	
Mar.	31	600	

Studio Supplies			
Mar.	4	4,000	
Mar.	31	4,000	

Accounts Payable			
Mar.	9	1,000	
	4	4,000	
	31	3,000	

Yula Gregore, Capital			
	Mar.	1	15,000
	Mar.	31	15,000

Service Revenue			
	Mar.	6	3,000
		17	800
	Mar.	31	3,800

Rent Expense			
Mar.	1	4,000	
Mar.	31	4,000	

Utilities Expense			
Mar.	31	420	
Mar.	31	420	

Cellphone Expense			
Mar.	31	150	
Mar.	31	150	

Req. 2

Yula's Yoga

Yula's Yoga		
Trial Balance		
March 31, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$12,630	
Accounts receivable	600	
Studio supplies	4,000	
Accounts payable		\$3,000
Yula Gregore, capital		15,000
Service revenue		3,800
Rent expense	4,000	
Utilities expense	420	
Cellphone expense	<u>150</u>	<u> </u>
Total	<u>\$21,800</u>	<u>\$21,800</u>

Req. 1

(20-30 min.) **E 2-8**2010

- Oct. 2 Cash investment by owner
 9 Purchase of supplies on account (on credit)
 11 Service provided on account
 14 Payment of rent expense
 22 Collection on account
 25 Payment of advertising expense
 27 Payment on account
 31 Receipt of a fuel bill and recording the expense on account

Req. 2 (journal with posting references—not required)

(continued) **E 2-8**

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Oct.	2	Cash	1000	5,600	
		Tom Marshall, Capital	3000		5,600
	9	Supplies	1400	54	
		Accounts Payable	2000		54
	11	Accounts Receivable	1200	1,620	
		Service Revenue	4000		1,620
	14	Rent Expense	5600	1,400	
		Cash	1000		1,400
	22	Cash	1000	280	
		Accounts Receivable	1200		280
	25	Advertising Expense	5100	570	
		Cash	1000		570
	27	Accounts Payable	2000	54	
		Cash	1000		54
	31	Fuel Expense	5800	564	
		Accounts Payable	2000		564

Req. 2 and 3

(continued) **E 2-8**

Cash			1000
Oct.	2	5,600	Oct. 14 1,400
	22	280	25 570
			27 54
Bal.		3,856	

Supplies			1400
Oct.	9	54	
Bal.		54	

Tom Marshall, Capital			3000
			Oct. 2 5,600
			Bal. 5,600

Advertising Expense			5100
Oct.	25	570	
Bal.		570	

Fuel Expense			5800
Oct.	31	564	
Bal.		564	

Accounts Receivable				1200
Oct.	11	1,620	Oct. 22	280
Bal.		1,340		

Accounts Payable				2000
Oct.	27	54	Oct. 9	54
			31	564
			Bal.	564

Service Revenue				4000
			Oct. 11	1,620
			Bal.	1,620

Rent Expense				5600
Oct.	14	1,400		
Bal.		1,400		

Req. 4 (trial balance)

(continued) **E 2-8**

Alert Defensive Driving			
Trial Balance			
October 31, 2010			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1000	Cash	\$3,856	
1200	Accounts receivable	1,340	
1400	Supplies	54	
2000	Accounts payable		\$ 564
3000	Tom Marshall, capital		5,600
4000	Service revenue		1,620
5100	Advertising expense	570	
5600	Rent expense	1,400	
5800	Fuel expense	<u>564</u>	<u> </u>
	Total	<u>\$7,784</u>	<u>\$7,784</u>

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Apr.	30	Cash		7,500	
		D. Carter, Capital			7,500
		Received initial investment from owner.			
	30	Supplies		75	
		Accounts Payable			75
		Purchase of supplies on account.			
	30	Land		5,250	
		Cash			5,250
		Paid cash for land.			
	30	Cash		1,375	
		Note Payable			1,375
		Borrowed money; signed note payable.			
	30	Hockey Equipment		1,500	
		Cash			1,500
		Paid cash for equipment.			

Dash Carter Hockey School		
Trial Balance		
April 30, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$2,125	
Supplies	75	
Hockey equipment	1,500	
Land	5,250	
Accounts payable		\$ 75
Note payable		1,375
D. Carter, capital		<u>7,500</u>
Total	<u>\$8,950</u>	<u>\$8,950</u>

Western Consulting		
Trial Balance		
October 31, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 30,000	
Accounts receivable	35,000	
Supplies	1,500	
Building	390,000	
Land	174,000	
Accounts payable		\$ 33,800
Notes payable		270,000
T. Western, capital		292,800
T. Western, withdrawals	36,000	
Services revenue		164,000
Advertising expense	9,900	
Computer rental expense	42,000	
Salary expense	36,000	
Supplies expense	3,800	
Utilities expense	<u>2,400</u>	<u> </u>
Total	<u>\$760,600</u>	<u>\$760,600</u>

Journal Page 9					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
May	2	Cash	1100	39,200	
		Office Furniture	1800	16,200	
		Florence Yarrow, Capital	3100		55,400
		Received investment from owner.			
	2	Rent Expense	5500	2,500	
		Cash	1100		2,500
		Paid monthly rent.			
	2	Office Supplies	1500	1,800	
		Accounts Payable	2100		1,800
		Purchased supplies on account.			
	15	Salary Expense	5600	4,000	
		Cash	1100		4,000
		Paid salary expense.			
	17	Accounts Payable	2100	1,200	
		Cash	1100		1,200
		Paid on account.			
	19	Accounts Receivable	1300	69,000	
		Consulting Revenue	4100		69,000
		Performed service on account.			
	30	Florence Yarrow, withdrawals	3200	8,000	
		Cash	1100		8,000
		Withdrawal by owner.			

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	39,200		39,200 Dr
	2		J9		2,500	36,700 Dr
	15		J9		4,000	32,700 Dr
	17		J9		1,200	31,500 Dr
	30		J9		8,000	23,500 Dr

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1300
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	19		J9	69,000		69,000 Dr

ACCOUNT		OFFICE SUPPLIES				ACCOUNT NO. 1500
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	1,800		1,800 Dr

ACCOUNT		OFFICE FURNITURE				ACCOUNT NO. 1800
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	16,200		16,200 Dr

ACCOUNT		ACCOUNTS PAYABLE			ACCOUNT NO. 2100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9		1,800	1,800 Cr
	17		J9	1,200		600 Cr

ACCOUNT		FLORENCE YARROW, CAPITAL			ACCOUNT NO. 3100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9		55,400	55,400 Cr

ACCOUNT		FLORENCE YARROW, WITHDRAWALS			ACCOUNT NO. 3200	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	30		J9	8,000		8,000 Dr

ACCOUNT		CONSULTING REVENUE			ACCOUNT NO. 4100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	19		J9		69,000	69,000 Cr

ACCOUNT		RENT EXPENSE			ACCOUNT NO. 5500	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	2,500		2,500 Dr

ACCOUNT		SALARY EXPENSE			ACCOUNT NO. 5600	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	15		J9	4,000		4,000 Dr

(10-20 min.) **E 2-13**
Yarrow Strategic Consulting

Yarrow Strategic Consulting			
Trial Balance			
May 31, 2010			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 23,500	
1300	Accounts receivable	69,000	
1500	Office supplies	1,800	
1800	Office furniture	16,200	
2100	Accounts payable		\$ 600
3100	Florence Yarrow, capital		55,400
3200	Florence Yarrow, withdrawals	8,000	
4100	Consulting revenue		69,000
5500	Rent expense	<u>2,500</u>	<u> </u>
5600	Salary expense	4,000	
	Total	<u>\$125,000</u>	<u>\$125,000</u>

Zoom Travel		
Trial Balance		
February 28, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 3,500*	
Accounts receivable	1,500*	
Supplies	700	
Land	26,100	
Accounts payable		\$13,700*
D. Tudin, capital		12,000
Service revenue		9600
Rent expense	900	
Salary expense	1600	
Utilities expense	<u>1,000*</u>	<u> </u>
Total	<u>\$35,300</u>	<u>\$35,300</u>

- * Explanations:
 Cash: $\$3,100 + \$400 = \$3,500$
 Accounts receivable: $\$1900 - \$400 = \$1500$
 Accounts payable: $\$11,400 + \$2,000 - \$200 + \$500 = \$13,700$
 D. Tudin, capital: $\$11,900 + \$100 = \$12,000$
 Utilities expense: $\$500 + \$500 = \$1,000$

Req. 1 and 3

(20-30 min.) **E 2-15**

Cash					
Dec.	2	10,000	Dec.	2	1,000
	18	800		3	2,000
				12	200
Bal.		7,600			

Accounts Receivable				
Dec.	9	1,700		

Supplies				
Dec.	5	300		

Equipment				
Dec.	3	2,000		

Furniture				
Dec.	4	3,600		

Accounts Payable				
	Dec.	4	3,600	
		5	300	
	Bal.		3,900	

Carl Haupt, Capital				
	Dec.	2	10,000	

Carl Haupt, Withdrawals				

Service Revenue				
	Dec.	9	1,700	
		18	800	
	Bal.		2,500	

Rent Expense				
Dec.	2	1,000		

Salaries Expense				

Utilities Expense				
Dec.	12	200		

Req. 2

(continued) **E 2-15**

Journal						Page 1
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
Dec.	2	Cash		10,000		
		Carl Haupt, Capital			10,000	
	2	Rent Expense		1,000		
		Cash			1,000	
	3	Equipment		2,000		
		Cash			2,000	
	4	Furniture		3,600		
		Accounts Payable			3,600	
	5	Supplies		300		
		Accounts Payable			300	
	9	Accounts Receivable		1,700		
		Service Revenue			1,700	
	12	Utilities Expense		200		
		Cash			200	
	18	Cash		800		
		Service Revenue			800	

Req. 4

(continued) **E 2-15**

Haupt Consulting		
Trial Balance		
December 18, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$7,600	
Accounts receivable	1,700	
Supplies	300	
Equipment	2,000	
Furniture	3,600	
Accounts payable		\$3,900
Carl Haupt, capital		10,000
Carl Haupt, withdrawals	0	
Service revenue		2,500
Rent expense	1,000	
Utilities expense	<u>200</u>	<u> </u>
Total	<u>\$16,400</u>	<u>\$16,400</u>

Challenge Exercises

(30-50 min.) **E 2-16**

- a. Net income for March—Given as follows:

B. Fergus, Capital			
March Withdrawals	640	Feb. 28 Bal.	1,440
		March Net Income	X
		Mar. 31 Bal.	2,400

= \$1,600

$$\begin{aligned} \$1,440 + X - \$640 &= \$2,400 \\ X &= \$1,600 \end{aligned}$$

- b. Total cash paid during March:

Cash			
Feb. 28 Bal.	1,800		
March Receipts	10,720	March Payments	X
Mar. 31 Bal.	1,640		

= \$10,880

$$\begin{aligned} \$1,800 + \$10,720 - X &= \$1,640 \\ X &= \$10,880 \end{aligned}$$

c. Cash collections from customers during March:

Accounts Receivable			
Feb. 28 Bal.	3,840		
March sales on account	12,160	March collections	X
Mar. 31 Bal.	6,160		

= \$9,840

$$\begin{aligned} \$3,840 + \$12,160 - X &= \$6,160 \\ X &= \$9,840 \end{aligned}$$

d. Payments on account during March:

Accounts Payable			
		Feb. 28 Bal.	2,080
March payments on account	X	March purchases on account	508
		Mar. 31 Bal.	2,560

X = \$28

$$\begin{aligned} \$2,080 + \$508 - X &= \$2,560 \\ X &= \$28 \end{aligned}$$

Req. 1 and 2

(20-30 min.) **E 2-17**

EFFECT ON TRIAL BALANCE	ACCOUNT(S) MISSTATED	RELEVANT JOURNAL ENTRIES (NOT REQUIRED)			
a. Total debits > Total credits	Note Payable \$5,000 too low on the trial balance only	Entry made (correct):	Cash Note Payable	5,000	5,000
b. Total debits < Total credits	Utility Expense \$900 too low (\$1,000 – \$100 = \$900)	Entry made (correct):	Utility Expense Cash	1,000	1,000
c. Total debits = Total credits	Supplies \$200 too high	c. Entry made:	Supplies Cash	200	200
	Accounts Payable \$200 too high	Correct entry:	Accounts Payable Cash	200	200
d. Total debits < Total credits	Cash \$450 too low	d. Entry made:	Cash Service Revenue	50	500
		Correct entry:	Cash Service Revenue	500	500
e. Total debits = Total credits	Supplies \$90 too high	e. Entry made:	Supplies Accounts Payable	430	430
	Accounts Payable \$900 too high (\$430 – \$340 = \$90)	Correct entry:	Supplies Accounts Payable	340	340

Instructional Note: Presentation of answers may vary.

Beyond the Numbers

(15-20 min.) **BN 2-1**

Balance Sheet Accounts

ASSETS

Cash
Accounts receivable
Photographic supplies
Office supplies
Photographic equipment
Accumulated amortization—
 photographic equipment
Office equipment
Accumulated amortization—
 office equipment

LIABILITIES

Accounts payable
Note payable

OWNER'S EQUITY

Jake Fissel, capital
Jake Fissel, withdrawals

Income Statement Accounts

REVENUES

Service revenue—portraits
Service revenue—school pictures
Service revenue—weddings

EXPENSES

Advertising expense
Amortization expense—
 office equipment
Amortization expense—
 photographic equipment
Insurance expense
Office supplies expense
Photographic supplies expense
Rent expense
Salary expense
Utilities expense

Instructional Note: Some instructors may wish to use this exercise to introduce the Prepaid Insurance, Accumulated Amortization, Salary Payable, and other liability accounts.

Ethical Issue

Is Associated Charities Inc. taking advantage of the bank's generosity or the other users of the charity?

Students who approve of the Associated Charities action can point out that the bank allows Associated Charities to overdraw its cash balance. In this view, Associated Charities is merely using a privilege the bank has granted. Most banks are civic-minded and are relatively generous with charitable organizations.

Students who disapprove may argue that Associated Charities is using the bank's money and presumably incurring interest charges. In this view, Associated Charities should curtail its spending until it has the money to cover its expenditures and maintain a positive balance. Alternatively, Associated Charities could sign a note payable to borrow the needed money. The related interest is the bank's compensation. By incurring this interest, the charity is essentially using future donations to pay the cost.

The bank is the key player in this case. Whether the bank approves or disapproves of the Associated Charities overdrafts is critical to the ethical decision. Approval by the bank turns the overdrafts into an unsecured loan to Associated Charities. Disapproval by the bank would no doubt be communicated to Mr. Glowa.

The other users (volunteers, recipients, donors, etc.) could also lose if the charity ends up in financial trouble.

Steps used to analyze ethical dilemmas:

1. Recognize an ethical situation and the ethical issues involved.
2. Identify and analyze the principal elements in the situation.
3. Identify the alternatives, and weigh the impact of each alternative on various users.

Problems

Group A

(15-30 min.) **P 2-1A**

Dear Friend,

This trial balance lists the accounts of Archer Communications, along with their balances at December 31, 2010. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and potential investors for decision making.

The fact that the trial balance is in balance does not mean that Archer Communications is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute Archer Communications' net income or net loss for the current period, subtract total expenses from service revenue. In this instance, Archer Communications earned net income of \$55,000 [sales revenue of \$151,000 minus total expenses of \$96,000 (\$4,500 + \$39,000 + \$10,500 + \$42,000)].

Instructional Note: Student responses may vary considerably.

Party Time Amusements Company

<u>Date</u>	<u>Analysis of Transactions</u>
2010	
Nov. 1	Given in the problem; not required for Nov. 1 transaction.
1	The expense Rent Expense is increased. Increases in expenses are recorded by debits; therefore, debit Rent Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
2	The asset Land is increased. Increases in assets are recorded by debits; therefore, debit Land. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
5	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The liability Notes Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Notes Payable.
10	The asset Supplies is increased. Increases in assets are recorded by debits; therefore, debit Supplies. The liability Accounts Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Accounts Payable.
15	The liability Accounts Payable is decreased. Decreases in liabilities are recorded by debits; therefore, debit Accounts Payable. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
15	The expense Property Tax Expense is increased. Increases in expenses are recorded by debits; therefore, debit Property Tax Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
16	The expense Salary Expense is increased. Increases in expenses are recorded by debits; therefore, debit Salary Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
28	The owner's equity of the business is decreased. Decreases in owner's equity are recorded by debits. Decreases due to withdrawals are debited to the withdrawals account; therefore, debit Darrell Palusky, Withdrawals. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
30	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The revenue Service Revenue is increased. Increases in revenues are recorded by credits; therefore, credit Service Revenue.

Req. 2 (journal entries; explanations not required)

Party Time

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Nov.	1	Cash		350,000	
		Darrell Palusky, Capital			350,000
	1	Rent Expense		6,000	
		Cash			6,000
	2	Land		320,000	
		Cash			320,000
	5	Cash		220,000	
		Notes Payable			220,000
	10	Supplies		1,000	
		Accounts Payable			1,000
	15	Accounts Payable		600	
		Cash			600
	15	Property Tax Expense		1,400	
		Cash			1,400
	16	Salary Expense		2,900	
		Cash			2,900
	28	Darrell Palusky, Withdrawals		8,000	
		Cash			8,000
	30	Cash		20,000	
		Service Revenue			20,000

Req. 1 (journal entries; explanations not required)

(40-50 min.) **P 2-3A**

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	3	Cash		36,000	
		Harry Lawson, Capital			36,000
	4	Supplies		300	
		Furniture		2,200	
		Accounts Payable			2,500
	5	Rent Expense		750	
		Cash			750
	6	Cash		1,200	
		Service Revenue			1,200
	7	Land		22,000	
		Cash			22,000
	10	Accounts Receivable		700	
		Service Revenue			700
	14	Accounts Payable		2,200	
		Cash			2,200
	15	Salary Expense		470	
		Cash			470
	17	Cash		700	
		Accounts Receivable			700
	20	Accounts Receivable		800	
		Service Revenue			800
	28	Cash		2,500	
		Service Revenue			2,500
	30	Salary Expense		470	
		Cash			470
	30	Harry Lawson, Withdrawals		2,800	
		Cash			2,800

Req. 2 (ledger accounts)

(continued) **P 2-3A**

Cash			
Sept. 3	36,000	Sept. 5	750
6	1,200	7	22,000
17	700	14	2,200
28	2,500	15	470
		30	470
		30	2,800
Bal.	11,710		

Accounts Receivable			
Sept. 10	700	Sept. 17	700
20	800		
Bal.	800		

Supplies			
Sept. 4	300		
Bal.	300		

Furniture			
Sept. 4	2,200		
Bal.	2,200		

Land			
Sept. 7	22,000		
Bal.	22,000		

Accounts Payable			
Sept. 14	2,200	Sept. 4	2,500
		Bal.	300

Harry Lawson, Capital			
		Sept. 3	36,000
		Bal.	36,000

Harry Lawson, Withdrawals			
Sept. 30	2,800		
Bal.	2,800		

Service Revenue			
		Sept. 6	1,200
		10	700
		20	800
		28	2,500
		Bal.	5,200

Rent Expense			
Sept. 5	750		
Bal.	750		

Salary Expense			
Sept. 15	470		
30	470		
Bal.	940		

Req. 3

Lawson Renovations

Lawson Renovations		
Trial Balance		
September 30, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$11,710	
Accounts receivable	800	
Supplies	300	
Furniture	2,200	
Land	22,000	
Accounts payable		\$ 300
Harry Lawson, capital		36,000
Harry Lawson, withdrawals	2,800	
Service revenue		5,200
Rent expense	750	
Salary expense	<u>940</u>	<u> </u>
Total	<u>\$41,500</u>	<u>\$41,500</u>

Req. 1 (journal entries)

(45-60 min.) **P 2-4A**

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	4	Cash	1100	600	
		Accounts Receivable	1200		600
		Received cash on account.			
	8	Accounts Receivable	1200	580	
		Service Revenue	5000		580
		Performed service on account.			
	13	Accounts Payable	2000	320	
		Cash	1100		320
		Paid on account.			
	18	Supplies	1300	120	
		Accounts Payable	2000		120
		Purchased supplies on account.			
	20	R. Thomson, Withdrawals	3100	200	
		Cash	1100		200
		Withdrawal for personal use.			
	21	Verbal promise only; not a transaction of the business.			
	22	Cash	1100	620	
		Service Revenue	5000		620
		Performed service for cash.			
	31	Salary Expense	6200	1,300	
		Cash	1100		1,300
		Paid employee salaries.			

Req. 2 (ledger accounts)

(continued) **P 2-4A**

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			4,000 (Dr)
Mar.	4		J.3	600		4,600 (Dr)
	13		J.3		320	4,280 (Dr)
	20		J.3		200	4,080 (Dr)
	22		J.3	620		4,700 (Dr)
	31		J.3		1,300	3,400 (Dr)

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1200
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			16,000 (Dr)
Mar.	4		J.3		600	15,400 (Dr)
	8		J.3	580		15,980 (Dr)

ACCOUNT		SUPPLIES				ACCOUNT NO. 1300
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			3,600 (Dr)
Mar.	18		J.3	120		3,720 (Dr)

ACCOUNT		AUTOMOBILE				ACCOUNT NO. 1600
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			37,200 (Dr)

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 2000
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			8,000 (Cr)
Mar.	13		J.3	320		7,680 (Cr)
	18		J.3		120	7,800 (Cr)

Req. 2 (ledger accounts)

(continued) **P 2-4A**

ACCOUNT		R. THOMSON, CAPITAL				ACCOUNT NO. 3000
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			50,000 (Cr)

ACCOUNT		R. THOMSON, WITHDRAWALS				ACCOUNT NO. 3100
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			4,400 (Dr)
Mar.	20		J.3	200		4,600 (Dr)

ACCOUNT		SERVICE REVENUE				ACCOUNT NO. 5000
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			16,400 (Cr)
Mar.	8		J.3		580	16,980 (Cr)
	22		J.3		620	17,600 (Cr)

ACCOUNT		RENT EXPENSE				ACCOUNT NO. 6100
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			2,000 (Dr)

ACCOUNT		SALARY EXPENSE				ACCOUNT NO. 6200
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			7,200 (Dr)
Mar.	31		J.3	1,300		8,500 (Dr)

Req. 3

Thomson Engineering

Thomson Engineering			
Trial Balance			
March 31, 2010			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 3,400	
1200	Accounts receivable	15,980	
1300	Supplies	3,720	
1600	Automobile	37,200	
2000	Accounts payable		\$ 7,800
3000	R. Thomson, capital		50,000
3100	R. Thomson, withdrawals	4,600	
5000	Service revenue		17,600
6100	Rent expense	2,000	
6200	Salary expense	<u>8,500</u>	<u> </u>
	Total	<u>\$75,400</u>	<u>\$75,400</u>

Req. 1

(40-50 min.) **P 2-5A**

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a.	Cash	1100	20,000	
		Land	1800	20,000	
		Building	1700	40,000	
		Jane Frideris, Capital	3100		80,000
		Received investment by owner.			
	b.	Office Supplies	1400	2,600	
		Accounts Payable	2100		2,600
		Purchased supplies on account.			
	c.	Office Furniture	1500	15,000	
		Cash	1100		15,000
		Purchased furniture.			
	d.	Salary Expenses	5500	2,200	
		Cash	1100		2,200
		Paid salary.			
	e.	Accounts Receivable	1300	6,100	
		Service Revenue	4100		6,100
		Performed service on account.			
	f.	Accounts Payable	2100	800	
		Cash	1100		800
		Paid on account			
	g.	Advertising Expense	5100	2,000	
		Accounts Payable	2100		2,000
		Received advertising bill.			
	h.	Cash	1100	5,600	
		Service Revenue	4100		5,600
		Performed services and received cash.			

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	i.	Cash	1100	2,400	
		Accounts Receivable	1300		2,400
		Collected cash on account.			
	j.	Equipment Rental Expense	5300	1,200	
		Utilities Expense	5700	400	
		Cash	1100		1,600
		Paid expenses.			
	k.	Jane Frideris, Withdrawals	3200	2,500	
		Cash	1100		2,500
		Withdrawal by owner.			

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				20,000		20,000 Dr
c.					15,000	5,000 Dr
d.					2,200	2,800 Dr
f.					800	2,000 Dr
h.				5,600		7,600 Dr
i.				2,400		10,000 Dr
j.					1,600	8,400 Dr
k.					2,500	5,900 Dr

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1300
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.				6,100		6,100 Dr
i.					2,400	3,700 Dr

ACCOUNT		OFFICE SUPPLIES				ACCOUNT NO. 1400
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
b.				2,600		2,600 Dr

ACCOUNT		OFFICE FURNITURE				ACCOUNT NO. 1500
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.				15,000		15,000 Dr

Reqs. 2 and 3

(continued) **P 2-5A**

ACCOUNT		BUILDING				ACCOUNT NO. 1700	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
a.				40,000		40,000 Dr	

ACCOUNT		LAND				ACCOUNT NO. 1800	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
a.				20,000		20,000 Dr	

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 2100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
b.					2,600	2,600 Cr	
f.				800		1,800 Cr	
g.					2,000	3,800 Cr	

ACCOUNT		JANE FRIDERIS, CAPITAL				ACCOUNT NO. 3100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
a.					80,000	80,000 Cr	

ACCOUNT		JANE FRIDERIS, WITHDRAWALS				ACCOUNT NO. 3200	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
k.				2,500		2,500 Dr	

(continued) **P 2-5A**

ACCOUNT		SERVICE REVENUE			ACCOUNT NO. 4100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.					6,100	6,100 Cr
h.					5,600	11,700 Cr

ACCOUNT		ADVERTISING EXPENSE			ACCOUNT NO. 5100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
g.				2,000		2,000 Dr

ACCOUNT		EQUIPMENT RENTAL EXPENSE			ACCOUNT NO. 5300	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				1,200		1,200 Dr

ACCOUNT		SALARY EXPENSE			ACCOUNT NO. 5500	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
d.				2,200		2,200 Dr

ACCOUNT		UTILITIES EXPENSE			ACCOUNT NO. 5700	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				400		400 Dr

Req. 4

Frideris Consulting

Frideris Consulting			
Trial Balance			
June 30, 2010			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 5,900	
1300	Accounts receivable	3,700	
1400	Office supplies	2,600	
1500	Office furniture	15,000	
1700	Building	40,000	
1800	Land	20,000	
2100	Accounts payable		\$ 3,800
3100	Jane Frideris, capital		80,000
3200	Jane Frideris, withdrawals	2,500	
4100	Service revenue		11,700
5100	Advertising expense	2,000	
5300	Equipment rental expense	1,200	
5500	Salary expense	2,200	
5700	Utilities expense	<u>400</u>	<u> </u>
	Total	<u>\$95,500</u>	<u>\$95,500</u>

Req. 1

Frideris Consulting

Frideris Consulting		
Income Statement		
For the Month Ended June 30, 2010		
Revenue:		
Service revenue		\$11,700
Expenses:		
Advertising expense	\$2,000	
Equipment rental expense	1,200	
Salary expense	2,200	
Utilities expense	<u>400</u>	
Total expenses		<u>5,800</u>
Net income		<u>\$5,900</u>

Req. 2

Frideris Consulting

Frideris Consulting	
Statement of Owner's Equity	
For the Month Ended June 30, 2010	
Jane Frideris, capital, June 1, 2010	\$ 0
Add: Investment by owner	80,000
Net income for the month	5,900
Less: Owner withdrawals	<u>(2,500)</u>
Jane Frideris, capital, June 30, 2010	<u>\$83,400</u>

Req. 3

Frideris Consulting

Frideris Consulting			
Balance Sheet			
June 30, 2010			
ASSETS		LIABILITIES	
Cash	\$ 5,900	Accounts payable	<u>\$ 3,800</u>
Accounts receivable	3,700	Total liabilities	3,800
Office supplies	2,600		
Office furniture	15,000		
Building	40,000	OWNER'S EQUITY	
Land	<u>20,000</u>	Jane Frideris, capital	<u>\$83,400</u>
		Total liabilities and	
Total assets	<u>\$87,200</u>	owner's equity	<u>\$87,200</u>

Minter Landscape Consulting		
Trial Balance		
June 30, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 2,900	
Accounts receivable	10,270	
Supplies	1,300	
Office furniture	3,600	
Land	44,600	
Accounts payable		\$ 4,200
Notes payable		23,000
R. Minter, capital		32,500
R. Minter, withdrawals	2,900	
Consulting service revenue		10,300
Advertising expense	600	
Rent expense	1,400	
Salary expense	2,100	
Utilities expense	<u>330</u>	<u> </u>
Total	<u>\$70,000</u>	<u>\$70,000</u>

Explanations:

Cash: $\$1,600 + \$1,300 = \$2,900$

Accounts receivable: $\$10,000 - \$30 + \$300 = \$10,270$

Supplies: $\$900 + \$400 = \$1,300$

Land: $\$44,600$ (amount given)

Accounts payable: $\$3,800 + \$400 = \$4,200$

R. Minter, capital: $\$31,600 + \$900 = \$32,500$

R. Minter, withdrawals: $\$2,000 + \$900 = \$2,900$

Consulting service revenue: $\$7,300 + \$3,000 = \$10,300$

Advertising expense: $\$600$ (amount given)

Rent expense: $\$1,000 + \$200 + \$200 = \$1,400$

Utilities expense: $\$410 - \$80 = \$330$

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	1	Cash		15,000	
		Boat		37,500	
		K. Suzuki, Capital			52,500
	3	Boat		36,500	
		Accounts Payable			26,000
		Cash			10,500
	4	Boat Moorage Expense		1,200	
		Cash			1,200
	5	No entry required.			
	9	Cash		1,000	
		Accounts Receivable		950	
		Charter Fees Earned			1,950
	10	Accounts Payable		26,000	
		Cash			2,000
		Notes Payable			24,000
	15	Equipment		2,000	
		Cash			500
		Charter Fees Earned			1,500
	20	Cash		950	
		Accounts Receivable			950
	26	Wages Expense		1,500	
		Cash			1,500
	29	Cash		3,000	
		Repair Parts		3,000	
		Charter Fees Earned			6,000
	30	Boat Operating Expense		800	
		Repair Parts			800

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	17	Accounts Receivable		4,600	
		Moving Fees Earned			4,000
		Storage Fees Earned			600
	18	Cash		16,800	
		Notes Receivable			15,000
		Interest Earned			1,800
	19	H. Martinez, Withdrawals		400	
		Cash			400
	21	Storage Equipment		12,000	
		Cash			3,600
		Moving Fees Earned			1,500
		Accounts Payable			6,900
	23	Cash		3,000	
		Accounts Receivable			2,600
		Storage Fees Earned			400
	24	Mortgage Payable		18,000	
		Cash			18,000
	27	H. Martinez, Withdrawals		5,000	
		Cash			5,000
	29	Cash		1,500	
		Legal Expense		900	
		Moving Fees Earned			2,400
	31	No Entry			

Note: December 16—No entry required. However, the amounts posted must be corrected.

Problems

Group B

(15-30 min.) **P 2-1B**

Dear Friend,

This trial balance lists the accounts of Simpson Designs, along with their balances at December 31, 2010. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and potential investors for decision making.

The fact that the trial balance is in balance does not mean that Simpson Designs is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute Simpson Designs' net income or net loss for the current period, subtract total expenses from service revenue. As a matter of fact, Simpson Designs has experienced a net loss of \$34,000 [service revenue of \$120,000 minus total expenses of \$154,000 (\$16,000 + \$24,000 + \$18,000 + \$96,000)].

Instructional Note: Student responses may vary considerably.

Gladys Yu Consulting

<u>Date</u>	<u>Analysis of Transactions</u>
-------------	---------------------------------

2010

- | | | |
|------|----|--|
| Apr. | 1 | Given in the problem; not required for Apr. 1 transaction. |
| | 5 | <p>The expense Rent Expense is increased. Increases in expenses are recorded by debits; therefore, debit Rent Expense.</p> <p>The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.</p> |
| | 9 | <p>The asset Land is increased. Increases in assets are recorded by debits; therefore, debit Land.</p> <p>The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.</p> |
| | 10 | <p>The asset Supplies is increased. Increases in assets are recorded by debits; therefore, debit Supplies.</p> <p>The liability Accounts Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Accounts Payable.</p> |
| | 19 | <p>The liability Accounts Payable is decreased. Decreases in liabilities are recorded by debits; therefore, debit Accounts Payable.</p> <p>The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.</p> |
| | 22 | <p>The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash.</p> <p>The liability Notes Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Notes Payable.</p> |
| | 30 | <p>The assets Cash and Accounts Receivable are increased. Increases in assets are recorded by debits; therefore, debit Cash and Accounts Receivable.</p> <p>The revenue Service Revenue is increased. Increases in revenues are recorded by credits; therefore, credit Service Revenue for the sum of the debits to Cash and Accounts Receivable.</p> |
| | 30 | <p>The expenses Salaries Expense, Rent Expense, and Utilities Expense are increased. Increases in expenses are recorded by debits; therefore, debit Salaries Expense, Rent Expense, and Utilities Expense.</p> <p>The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash for the sum of the three debit amounts.</p> |
| | 30 | <p>The owner's equity of the business is decreased. Decreases in owner's equity are recorded by debits. Decreases due to withdrawals by the owner are debited to the owner, withdrawals account; therefore, debit Gladys Yu, Withdrawals.</p> <p>The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.</p> |

Req. 2 (journal entries; explanations not required)

(continued) **P 2-2B**

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Apr.	1	Cash		40,000	
		Gladys Yu, Capital			40,000
	5	Rent Expense		200	
		Cash			200
	9	Land		25,000	
		Cash			25,000
	10	Supplies		600	
		Accounts Payable			600
	19	Accounts Payable		100	
		Cash			100
	22	Cash		15,000	
		Notes Payable			15,000
	30	Cash		1,300	
		Accounts Receivable		2,400	
		Service Revenue			3,700
	30	Salaries Expense		2,000	
		Rent Expense		900	
		Utilities Expense		180	
		Cash			3,080
	30	Gladys Yu, Withdrawals		1,200	
		Cash			1,200

Req. 1 (journal entries; explanations not required)

(40-50 min.) **P 2-3B**

Journal						Page 1
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
Jan.	2	Cash		60,000		
		Scott Jameson, Capital			60,000	
	3	Supplies		750		
		Furniture		2,800		
		Accounts Payable			3,550	
	3	Rent Expense		1,100		
		Cash			1,100	
	4	Cash		2,250		
		Translation Revenue			2,250	
	7	Land		38,000		
		Cash			38,000	
	11	Accounts Receivable		1,200		
		Translation Revenue			1,200	
	15	Salary Expense		975		
		Cash			975	
	16	Accounts Payable		2,800		
		Cash			2,800	
	18	Cash		600		
		Accounts Receivable			600	
	19	Accounts Receivable		11,350		
		Translation Revenue			11,350	
	22	Utilities Expense		300		
		Cash			300	

Req. 1 (journal entries; explanations not required)

(continued) **P 2-3B**

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	29	Cash		2,700	
		Translation Revenue			2,700
	31	Salary Expense		975	
		Cash			975
	31	Scott Jameson, Withdrawals		12,000	
		Cash			12,000

Req. 2 (ledger accounts)

(continued) **P 2-3B**

Cash					
Jan.	2	60,000	Jan.	3	1,100
	4	2,250		7	38,000
	18	600		15	975
	29	2,700		16	2,800
				22	300
				31	975
				31	12,000
Bal.		9,400			

Accounts Receivable					
Jan.	11	1,200	Jan.	18	600
	19	11,350			
Bal.		11,950			

Supplies				
Jan.	3	750		
Bal.		750		

Furniture				
Jan.	3	2,800		
Bal.		2,800		

Land				
Jan.	7	38,000		
Bal.		38,000		

Accounts Payable					
Jan.	16	2,800	Jan.	3	3,550
			Bal.		750

Scott Jameson, Capital		
	Jan. 2	60,000
	Bal.	60,000

Scott Jameson, Withdrawals				
Jan.	31	12,000		
Bal.		12,000		

Translation Revenue				
	Jan.	4	2,250	
		11	1,200	
		19	11,350	
		29	2,700	
	Bal.		17,500	

Rent Expense				
Jan.	3	1,100		
Bal.		1,100		

Salary Expense				
Jan.	15	975		
	31	975		
Bal.		1,950		

Utilities Expense				
Jan.	22	300		
Bal.		300		

Req. 3

Jameson Translation Service

Jameson Translation Service		
Trial Balance		
January 31, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$9,400	
Accounts receivable	11,950	
Supplies	750	
Furniture	2,800	
Land	38,000	
Accounts payable		\$ 750
Scott Jameson, capital		60,000
Scott Jameson, withdrawals	12,000	
Translation revenue		17,500
Rent expense	1,100	
Salary expense	1,950	
Utilities expense	<u>300</u>	<u> </u>
Total	<u>\$78,250</u>	<u>\$78,250</u>

Req. 4

The learning from this problem will help a manager

1. Understand the accounting process. Transactions are recorded in the journal and then posted to the ledger. At the end of the period, the account balances are summarized on the trial balance.
2. Use accounting terminology: account, journal, ledger, trial balance, and so on.
3. Take the actual steps in the accounting process that lead to the financial statements.

Instructional Note: Student responses may vary considerably.

Req. 1 (journal entries)

(45-60 min.) **P 2-4B**

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Nov.	16	Cash	1100	4,000	
		Accounts Receivable	1200		4,000
		Received on account.			
	17	Accounts Receivable	1200	2,100	
		Service Revenue	5000		2,100
		Performed services on account.			
	21	Accounts Payable	2100	2,600	
		Cash	1100		2,600
		Paid on account.			
	22	Supplies	1300	10,600	
		Accounts Payable	2100		10,600
		Purchased supplies on account.			
	23	D. Foster, Withdrawals	4100	2,100	
		Cash	1100		2,100
		Withdrew funds for personal use.			
	24	Not a business transaction.			
	26	Cash	1100	11,900	
		Service Revenue	5000		11,900
		Performed service for cash.			
	30	Salaries Expense	6100	2,400	
		Cash	1100		2,400
		Paid employee salaries.			

Req. 2 (ledger accounts)

(continued) **P 2-4B**

ACCOUNT		CASH	ACCOUNT NO. 1100			
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			16,000 (Dr)
	16		J.6	4,000		20,000 (Dr)
	21		J.6		2,600	17,400 (Dr)
	23		J.6		2,100	15,300 (Dr)
	26		J.6	11,900		27,200 (Dr)
	30		J.6		2,400	24,800 (Dr)

ACCOUNT		ACCOUNTS RECEIVABLE	ACCOUNT NO. 1200			
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			16,000 (Dr)
	16		J.6		4,000	12,000 (Dr)
	17		J.6	2,100		14,100 (Dr)

ACCOUNT		SUPPLIES	ACCOUNT NO. 1300			
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			1,200 (Dr)
	22		J.6	10,600		11,800 (Dr)

ACCOUNT		EQUIPMENT	ACCOUNT NO. 1900			
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			70,000 (Dr)

ACCOUNT		ACCOUNTS PAYABLE	ACCOUNT NO. 2100			
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			9,200 (Cr)
	21		J.6	2,600		6,600 (Cr)
	22		J.6		10,600	17,200 (Cr)

Req. 2 (ledger accounts)

(continued) **P 2-4B**

ACCOUNT		D. FOSTER, CAPITAL				ACCOUNT NO. 4000
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			90,000 (Cr)

ACCOUNT		D. FOSTER, WITHDRAWALS				ACCOUNT NO. 4100
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			4,600 (Dr)
	23		J.6	2,100		6,700 (Dr)

ACCOUNT		SERVICE REVENUE				ACCOUNT NO. 5000
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			14,200 (Cr)
	17		J.6		2,100	16,300 (Cr)
	26		J.6		11,900	28,200 (Cr)

ACCOUNT		RENT EXPENSE				ACCOUNT NO. 6000
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			2,000 (Dr)

ACCOUNT		SALARIES EXPENSE				ACCOUNT NO. 6100
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			3,600 (Dr)
	30		J.6	2,400		6,000 (Dr)

Req. 3

Foster Publishing

Foster Publishing			
Trial Balance			
November 30, 2010			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 24,800	
1200	Accounts receivable	14,100	
1300	Supplies	11,800	
1900	Equipment	70,000	
2100	Accounts payable		\$ 17,200
4000	D. Foster, capital		90,000
4100	D. Foster, withdrawals	6,700	
5000	Service revenue		28,200
6000	Rent expense	2,000	
6100	Salary expense	<u>6,000</u>	<u> </u>
	Total	<u>\$135,400</u>	<u>\$135,400</u>

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a.	Cash	1100	50,000	
		Automobile	1700	26,000	
		B. Ronalds, Capital	3100		76,000
		Received investment by owner.			
	b.	Food Service Equipment	1600	8,000	
		Cash	1100		8,000
		Purchased equipment.			
	c.	Supplies	1500	14,800	
		Accounts Payable	2100		14,800
		Purchased supplies on account.			
	d.	Salary Expense	5800	12,600	
		Cash	1100		12,600
		Paid salary.			
	e.	Cash	1100	4,000	
		Service Revenue	4100		4,000
		Performed service and received cash.			
	f.	Accounts Receivable	1300	8,600	
		Service Revenue	4100		8,600
		Performed service on account.			
	g.	Accounts Payable	2100	12,000	
		Cash	1100		12,000
		Paid on account.			
	h.	Advertising Expense	5100	1,600	
		Accounts Payable	2100		1,600
		Received advertising bill.			

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	i.	Cash	1100	2,200	
		Accounts Receivable	1300		2,200
		Collected cash on account.			
	j.	Rent Expense	5700	3,000	
		Insurance Expense	5500	1,600	
		Cash	1100		4,600
		Paid expenses.			
	k.	B. Ronalds, Withdrawals	3200	12,000	
		Cash	1100		12,000
		Withdrawal by owner.			

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				50,000		50,000 Dr
b.					8,000	42,000 Dr
d.					12,600	29,400 Dr
e.				4,000		33,400 Dr
g.					12,000	21,400 Dr
i.				2,200		23,600 Dr
j.					4,600	19,000 Dr
k.					12,000	7,000 Dr

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1300
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
f.				8,600		8,600 Dr
i.					2,200	6,400 Dr

ACCOUNT		SUPPLIES				ACCOUNT NO. 1500
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.				14,800		14,800 Dr

ACCOUNT		FOOD SERVICE EQUIPMENT				ACCOUNT NO. 1600
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
b.				8,000		8,000 Dr

ACCOUNT		AUTOMOBILE			ACCOUNT NO. 1700	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				26,000		26,000 Dr

ACCOUNT		ACCOUNTS PAYABLE			ACCOUNT NO. 2100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.					14,800	14,800 Cr
g.				12,000		2,800 Cr
h.					1,600	4,400 Cr

ACCOUNT		B. RONALDS, CAPITAL			ACCOUNT NO. 3100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.					76,000	76,000 Cr

ACCOUNT		B. RONALDS, WITHDRAWALS			ACCOUNT NO. 3200	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
k.				12,000		12,000 Dr

ACCOUNT		SERVICE REVENUE			ACCOUNT NO. 4100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.					4,000	4,000 Cr
f.					8,600	12,600 Cr

ACCOUNT		ADVERTISING EXPENSE			ACCOUNT NO. 5100	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
h.				1,600		1,600 Dr

ACCOUNT		INSURANCE EXPENSE			ACCOUNT NO. 5500	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				1,600		1,600 Dr

ACCOUNT		RENT EXPENSE			ACCOUNT NO. 5700	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				3,000		3,000 Dr

ACCOUNT		SALARY EXPENSE			ACCOUNT NO. 5800	
DATE 2010		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
d.				12,600		12,600 Dr

Req. 4

Blue Ribbon Catering

		Blue Ribbon Catering	
		Trial Balance	
		January 31, 2010	
ACTT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 7,000	
1300	Accounts receivable	6,400	
1500	Supplies	14,800	
1600	Food service equipment	8,000	
1700	Automobile	26,000	
2100	Accounts payable		\$ 4,400
3100	B. Ronalds, capital		76,000
3200	B. Ronalds, withdrawals	12,000	
4100	Service revenue		12,600
5100	Advertising expense	1,600	
5500	Insurance expense	1,600	
5700	Rent expense	3,000	
5800	Salary expense	<u>12,600</u>	<u> </u>
	Total	<u>\$93,000</u>	<u>\$93,000</u>

Req. 1

Blue Ribbon Catering

Blue Ribbon Catering		
Income Statement		
For the Month Ended January 31, 2010		
Revenue:		
Service revenue		\$12,600
Expenses:		
Advertising expense	\$1,600	
Insurance expense	1,600	
Rent expense	3,000	
Salary expense	<u>12,600</u>	
Total expenses		<u>18,800</u>
Net loss		<u>\$ (6,200)</u>

Req. 2

Blue Ribbon Catering

Blue Ribbon Catering	
Statement of Owner's Equity	
For the Month Ended January 31, 2010	
B. Ronalds, capital, January 1, 2010	\$ 0
Add: Investment by owner	76,000
Net loss for the month	(6,200)
Less: Owner withdrawals	<u>(12,000)</u>
B. Ronalds, capital, January 31, 2010	<u>\$57,800</u>

Req. 3

Blue Ribbon Catering

Blue Ribbon Catering			
Balance Sheet			
January 31, 2010			
ASSETS		LIABILITIES	
Cash	\$ 7,000	Accounts payable	<u>\$ 4,400</u>
Accounts receivable	6,400	Total liabilities	4,400
Supplies	14,800		
Food service equipment	8,000	OWNER'S EQUITY	
Automobile	<u>26,000</u>	B. Ronalds, capital	<u>\$57,800</u>
		Total liabilities and	
Total assets	<u>\$62,200</u>	owner's equity	<u>\$62,200</u>

Delainey Fitness		
Trial Balance		
October 31, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 41,000	
Accounts receivable	38,100	
Supplies	9,000	
Office furniture	19,500	
Fitness equipment	710,000	
Accounts payable		\$ 31,500
Notes payable		294,500
E. Delainey, capital		462,000
E. Delainey, withdrawals	75,000	
Service revenue		160,500
Advertising expense	4,500	
Rent expense	15,000	
Salary expense	32,500	
Utilities expense	<u>3,900</u>	<u> </u>
Total	<u>\$948,500</u>	<u>\$948,500</u>

Explanations:

Cash: $\$47,000 - \$6,000 = \$41,000$

Accounts receivable: $\$30,000 - \$900 + \$9,000 = \$38,100$

Supplies: $\$7,500 + \$1,500 = \$9,000$

Office furniture: \$19,500 (amount given)

Accounts payable: $\$30,000 + \$1,500 = \$31,500$

E. Delainey, capital: $\$442,500 + \$19,500 = \$462,000$

E. Delainey, withdrawals: $\$55,500 + \$19,500 = \$75,000$

Service revenue: $\$73,500 + \$87,000 = \$160,500$

Advertising expense: \$4,500 (amount given)

Rent expense: $\$9,000 + \$3,000 + \$3,000 = \$15,000$

Utilities expense: $\$3,000 + \$900 = \$3,900$

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Aug.	1	Cash		20,000	
		Truck		230,000	
		Trailer		30,000	
		R. Kessler, Capital			280,000
	3	Trailer		30,000	
		Accounts Payable			20,000
		Cash			10,000
	4	Parking Rental Expense		400	
		Cash			400
	5	No Entry Required			
	9	Cash		1,600	
		Accounts Receivable		1,600	
		Transport Revenue			3,200
	10	Accounts Payable		20,000	
		Cash			6,000
		Notes Payable			14,000
	15	R. Kessler, Withdrawals		110	
		Cash			110
	20	Cash		1,600	
		Accounts Receivable			1,600
	26	Wages Expense		2,250	
		Cash			2,250
	29	Repair Parts		6,000	
		Transport Revenue			6,000
	30	Truck Operating Expense		60	
		Repair Parts			60

Journal					
DATE 2010		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	17	Accounts Receivable		3,200	
		Guest Revenue			3,200
	18	Cash		20,400	
		Notes Receivable			18,000
		Interest Earned			2,400
	21	Boating Equipment		14,000	
		Cash			5,000
		Guest Revenue			1,600
		Accounts Payable			7,400
	23	Cash		2,800	
		Guest Revenue			2,800
	24	Mortgage Payable		2,000	
		Cash			2,000
	27	B. Palmiter, Withdrawals		14,000	
		Cash			14,000
	29	Cash		1,100	
		Legal Expense		900	
		Guest Revenue			2,000

Note: December 16—No entry required. However, the amounts posted must be corrected.

Challenge Problems

(15-20 min.) **P 2-1C**

Req. 1

The students may need a hint. Use the statement of Owner's Equity as a model.

$$\begin{array}{ccccccc} \text{Owner's Equity} & + & \text{Owner's} & - & \text{Owner's equity} & = & \text{Income during} \\ \text{at the end of the} & & \text{withdrawals or} & & \text{at the beginning} & & \text{the year} \\ \text{year} & & \text{expenditures} & & \text{of the year} & & \\ \text{(A-L)} & & & & \text{(A-L)} & & \end{array}$$

In other words, Canada Revenue Agency values what Donna has at the end of the year and subtracts what she had at the beginning (\$8,000 in this case) plus an estimate of what she spent on herself during the year; the remainder is the income she must have earned during the year and the amount on which she should be taxed.

Req. 2

Note – no additional owner's investments have occurred.

The accounting concept is the accounting equation restated. Use the statement of Owner's Equity equation.

$$\begin{array}{ccccccccc} \text{Beg OE} & & \text{investment} & & \text{withdrawals} & & \text{net income} & & \text{End OE} \\ 8,000 & + & 0 & - & 0 & \pm & X & = & ? \end{array}$$

(15-20 min.) **P 2-2C**

While Jack Russell may know his income each year, he doesn't know where his income came from (crops? calves? lambs?) nor what expenses he incurred to earn the income. He doesn't know whether each part of his operation is profitable or not. He doesn't know whether he paid too much tax because of missing expenses he could have deducted.

A formal accounting system would allow Jack to keep track of revenues and expenses by product line. In other words, it would provide the details of his income.

It is true that such a system would be more costly in terms of time and money than the present system. Jack would have to assess whether the additional information is worth the additional cost. There are many inexpensive accounting packages available on the market that are easy to use. Continuing using the present system is a questionable decision as the cash basis is not acceptable as an accounting process.

Req. 1

a. Cash	180	
Accounts Receivable		180
b. Equipment	480	
Supplies		480
c. Ledger should be corrected by increasing Fees Earned by \$801		
d. Ledger corrected by debiting Salaries Expense by \$600.		
e. Ledger for Accounts Payable must be corrected by debiting the account for \$466 (\$206 + \$260).		
f. Pete Thomas, Withdrawals	600	
Salaries Expense		600

Req. 2

Thomas Services		
Trial Balance		
December 31, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$3,020 ^a	
Accounts receivable	3,151 ^b	
Supplies	320 ^c	
Equipment	3,480 ^d	
Accounts payable		2,200 ^e
Notes payable		1,200
Pete Thomas, capital		8,100 ^h
Pete Thomas, withdrawals	400	
Fees earned		3,181 ^f
Salaries expense	3,400 ^g	
Office expense	910	
Total	<u>\$14,681</u>	<u>14,681</u>

Explanations:

a. $\$2,840 + \$180 = \$3,020$

b. $\$3,331 - \$180 = \$3,151$

c. $\$800 - \$480 = \$320$

d. $\$3,000 + \$480 = \$3,480$

e. $\$2,666 - (\$206 + \$260) = \$2,200$

f. $\$2,380 + \$801 = \$3,181$

g. $\$3,400 + \$600 - \$600 = \$3,400$

h. This is the “plug” figure to balance the trial balance.

Decision Problems

Req. 1 and 2

(40-50 min.) **Decision Problem 1**

Cash			
(a)	50,000	(c)	1,600
(b)	8,000	(d)	1,200
(g)	7,500	(e)	14,000
(h)	2,400		
Bal.	51,100		

Accounts Receivable			
(f)	20,600	(h)	2,400
Bal.	18,200		

Supplies			
(c)	1,600		
Bal.	1,600		

Notes Payable			
		(b)	8,000
		Bal.	8,000

Amin Akmali, Capital			
		(a)	50,000
		Bal.	50,000

Service Revenue			
		(f)	20,600
		(g)	7,500
		Bal.	28,100

Advertising Expense			
(d)	1,200		
Bal.	1,200		

Interest Expense			
(e)	200		
Bal.	200		

Rent Expense			
(e)	800		
Bal.	800		

Commission Expense			
(e)	12,400		
Bal.	12,400		

Utilities Expense			
(e)	600		
Bal.	600		

(continued) **Decision Problem 1**

Req. 3

Car Finders

Car Finders		
Trial Balance		
March 31, 2010		
ACCOUNT	DEBIT	CREDIT
Cash	\$51,000	
Accounts receivable	18,200	
Supplies	1,600	
Notes payable		\$ 8,000
Amin Akmal, capital		50,000
Service revenue		28,100
Advertising expense	1,200	
Commission expense	12,400	
Interest expense	200	
Rent expense	800	
Utilities expense	<u>600</u>	
Total	<u>\$86,100</u>	<u>\$86,100</u>

Req. 4 (Net income or loss for first month of operations)

Car Finders

Car Finders		
Income Statement		
For the Month Ended March 31, 2010		
Revenue:		
Service revenue		\$28,100
Expenses:		
Advertising expense	\$1,200	
Commission expense	12,400	
Interest expense	200	
Rent expense	800	
Utilities expense	<u>600</u>	
Total expenses		<u>15,200</u>
Net income		<u>\$12,900</u>

Recommendations: Continue the business because expected net income exceeds the target amount.

(15-30 min.) **Decision Problem 2**

1. Double-entry bookkeeping has the advantage that it records both sides (the “giving” side and the “receiving” side) of a business transaction. It is easy to spot errors in a double-entry system because total debits must always equal total credits.
2. The bank is not misusing the term *credit*. When you deposit money in the bank, the bank debits Cash (received from you) and credits Deposits Payable (to you). It is the liability account, Deposits Payable, that is the source of the term *credit*. This is why a bank *credit* is good for the depositor. It means you have more money in the bank.
3. Revenues are credits because they indicate an increase in owner’s equity, which is a credit-balance account. Expenses are debits because they indicate a decrease in owner’s equity. (Confusion arises with these relationships because of the other side of revenue and expense transactions. For example, Cash may be received for a revenue transaction. Cash is debited as Revenue is credited to account for the transaction. Cash may be paid for an expense transaction. Cash is credited as Expense is debited.)*

* *Instructional Note:* Students probably will not include this parenthetical information in their answers.

Financial Statement Cases

(15-20 min.) **Financial Statement Case 1**

1. To a bank, loans are a source of revenue and will provide future economic benefits, so by definition of an asset, they would be treated as such.
2. Liabilities are debts that are payable to outsiders, so by definition the deposits that a bank customer makes are considered an amount owing by the bank. (For student information, the Canada Deposit Insurance Corporation (CDIC) guarantees bank deposits of up to \$100,000; they are insured as soon as you deposit them in an eligible account. To find out more, visit www.cdic.ca.)
3. CWB Group's main source of income is interest income from loans.
4. CWB Group's largest expense is interest expense owing on deposits. For example when a customer receives interest on any accounts or deposits, that becomes an amount owing and an expense to the bank.
5. The same laws of debit and credit apply to the banks but from a customer's point of view, they are reversed. For example, when you deposit cash in the bank, the bank debits Cash and credits Deposits Payable to the customer. This is why a credit on your bank statement is good for you as a customer—the bank owes you your money. On the other hand, if you withdraw cash, the bank debits Deposits Payable and credits Cash. This is why a debit on your bank statement is bad for you as a customer—the bank owes you less money. Students who have worked for a bank or financial institution sometimes find this confusing.

Req. 2

Journal					
DATE 2008		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	a.	Accounts Receivable		4,435	
		Net Sales			4,435
	b.	Selling, General and Administrative Expenses		13,613	
		Cash			13,613
	c.	Interest Expense		879	
		Cash			879
	d.	Cash		7,567	
		Accounts Receivable			7,567
	e.	Inventory		3,330	
		Cash			3,330
	f.	Property, Plant and Equipment		5,000	
		Accounts Payable			5,000
	g.	Selling, General, and Administrative Expenses		15,440	
		Cash			15,440

All amounts in thousands of dollars.

Req. 1, 3, 4

Cash		Accounts Receivable		Inventory	
Bal. 26,320		Bal. 14,962		Bal. 24,448	
	b. 13,613	a. 4,435			
	c. 879				
d. 7,567	e. 3,330		d. 7,567	e. 3,330	
	g. 15,440				
625		11,830		27,778	

Property, Plant and Equipment		Accounts Payable		Sales Revenue	
Bal. 20,130			Bal. 10,229		Bal. 120,933
					a. 4,435
f. 5,000			f. 5,000		
25,130			15,229		125,368

Selling, General and Administrative Expenses		Interest Expense	
	b. 13,613		c. 879
	g. 15,440		
	29,053		

Req. 5

Examples of a few accounts that could be summarized in each category.

- a) Property, plant and equipment:
Land, Buildings, Machinery, Equipment, Automobiles, Computer Equipment.
- b) Accounts payable and accrued liabilities:
Utilities payable, rent payable, income tax payable, interest payable.
- c) Selling, general, and administrative expenses:
Advertising expense, telephone expense, utilities expense, rent expense