

## 2

## T Accounts, Debits and Credits, Trial Balance, and Financial Statements

### TEACHING TIPS:

#### New to this edition:

This edition will provide students an opportunity to learn QuickBooks Online while they learn Accounting. QuickBooks Online topics covered in the QuickBooks Online Appendix for this chapter include, (1) establishing company settings, (2) modifying the chart of accounts, and (3) adding new customers, vendors, and employees.

#### Suggested in-class problems:

- Exercise 2-2 (debit and credit, normal balance)
- Exercise 2-3 (transaction analysis)
- Exercise 2-6 (financial statements)
- Demonstration Problem

#### Suggested homework:

- Problem 2-4 (transaction analysis and financial statements)
- Problem 2-5 (financial statements)

#### Suggested additional activities:

Active Learning: Create a set of two note cards for each student. Label them “Debit” and “Credit.” Call out different account effects and ask students to raise the correct note card. For example, if you call out “Increase to Prepaid Insurance,” the students should raise the note card labeled “Debit.”

Game: Have students play the DR/CR memory game. Based upon the childhood game Memory, this game tests students’ memory of the rules of debits and credits. For more information, see the Instructor’s companion site.

#### QuickBooks Online Activities:

- Complete the QuickBooks Online Appendix, *Accounting with QuickBooks Online*, Chapter 2, Setting Up a New Company.

The QuickBooks Online Appendix is available on the Cengage Learning companion site at [CengageBrain.com](http://CengageBrain.com)

### LEARNING OBJECTIVES

1. Determine balances of T accounts.
2. Present the fundamental accounting equation using the T account form, and label the plus and minus sides.
3. Present the fundamental accounting equation using the T account form, and label the debit and credit sides.
4. Record directly in T accounts a group of business transactions involving changes in asset, liability, owner’s equity, revenue, and expense accounts for a service business.
5. Prepare a trial balance.
6. Prepare (a) an income statement, (b) a statement of owner’s equity, and (c) a balance sheet.
7. Recognize the effect of errors on account balances.

## ACCOUNTING LANGUAGE

Balance sheet	Normal balance
Compound entry	PDF (portable document format)
Credit	Profit and loss statement
Debit	Report form
Financial position	Slide
Financial statement	Statement of owner's equity
Footings	T account form
Income statement	Transposition
Net income	Trial balance
Net loss	

## KEY POINTS

1. The T account form is compared with the column arrangement.
2. In the T account form of the fundamental accounting equation, plus (+) and minus (−) signs should be inserted on the correct side of each of the classifications of accounts.
3. The normal balance of an account is on the plus side.
4. The debit side of any T account is the left side.
5. The credit side of any T account is the right side.
6. In the recording of every transaction, the amount placed on the left, or debit, side of an account or accounts must equal the amount placed on the right, or credit, side of another account or other accounts.
7. A trial balance proves the equality of debits and credits.
8. The income statement shows the results of operations for a period of time.
9. The statement of owner's equity shows the activity in the Capital account for a period of time.
10. The balance sheet shows the position or condition of the business at a point in time.

**LECTURE OUTLINE**

- I. The T account form: an account form shaped like the letter *T*.
  - A. Comparison of the column form with the T account form. Look at the illustration of the Cash account and the T account form in the text (page 50).
  - B. There are two sides to the T account form. One side is used for increases (+) in an account, and the other side is used for decreases in an account (–).
  - C. Footings: the totals of the amounts listed on both sides of a T account.
  - D. Balance: The balance of an account is determined after a group of transactions has been recorded over a period of time. Subtract the smaller footing on one side from the larger footing on the other side. Record the balance on the side having the larger footing. The normal balance is the increase (plus) side of any T account.
- II. Developing the full fundamental accounting equation in T account form. The T account for each of the classifications of accounts has an increase (+) and a decrease (–) side.
  - A. Assets, liabilities, owner's equity, revenue, and expenses.
    1. In Chapter 1, we introduced the equation  

$$\text{Assets} = \text{Liabilities} + \text{Capital} - \text{Drawing} + \text{Revenue} - \text{Expenses}$$
    2. T account forms: In T account form, each classification needs to have a plus and a minus side.
      - a. Assets: As a starter, the plus side for assets is placed on the left, and the minus side is placed on the right.

Assets	
+	–

- b. Liabilities and owner's equity: Because these classifications are placed on the opposite side of the equals sign, the plus and minus signs are also placed on the opposite sides (switched around).

Liabilities	
–	+

Owner's Equity	
–	+

3. Asset, liability, and owner's equity classifications together.

Assets		=		Liabilities		+	Owner's Equity	
+	–			–	+		–	+

As shown later, we switch the plus and minus signs on the other side of the equals sign so that we can carry out double-entry accounting.

- B. Capital and Drawing: Show Capital and Drawing being placed under the umbrella of Owner's Equity.
    - C. Revenue and expenses: Show revenue and expenses being placed under the umbrella of owner's equity. Note that transactions involving revenue and expenses are usually increases in the accounts, which will be recorded on the plus sides.

- III. Recording transactions involving the account classifications using the concepts of debit and credit. Initially, stress that the left side of an account is called the debit side and the right side is called the credit side. Another word for *left* is *debit*, and another word for *right* is *credit*.
  - A. Show the fundamental accounting equation with debits and credits.
  - B. Review the rules of debit and credit.
  - C. Abbreviations: Traditionally, accountants use *Dr.* and *Cr.*
  - D. Explain the steps for recording business transactions in T accounts.
    1. What accounts are involved?
    2. What are the classifications of the accounts involved?
    3. Are the accounts increased or decreased?
    4. Write the transaction as a debit to one account (or accounts) and a credit to another account (or accounts).
    5. Is the equation in balance?
- IV. The trial balance.
  - A. Emphasize that the trial balance is used as a check to ensure that in recording transactions, the total of the amounts placed on the left, or debit, sides of T accounts equals the total of the amounts placed on the right, or credit, sides of T accounts.
  - B. Prepare a trial balance using account balances. Show how a trial balance is prepared from T accounts.
- V. Major financial statements.
  - A. Emphasize that the income statement is the first major financial statement prepared and that it shows the results of operations for a period of time.
  - B. The statement of owner's equity is the second major financial statement prepared. It shows the activity in the Capital account for a period of time. The net income from the income statement is required to complete the statement of owner's equity.
  - C. The balance sheet is the third major financial statement prepared. It shows the condition of a business at a point in time. The ending capital amount is brought from the statement of owner's equity.
- VI. Errors exposed by the trial balance: Discuss the causes for errors listed in the text.
  - A. The procedure for locating and correcting errors is to do everything in reverse.
    1. Transpositions: The digits of an amount have been transposed, or switched around.
    2. Slides: The decimal point in an amount has been misplaced.
    3. Divide by 2 the difference between two trial balance totals. See if the result matches a transaction amount.
  - B. Errors divisible by 9: If an error exists and the amount of difference between the totals of the trial balance is evenly divisible by 9, the error consists of either a transposition or a slide or both.

**DEMONSTRATION PROBLEM**

Dr. Christy Rene maintains an office for the practice of veterinary medicine. The account balances as of September 1 follow. All are normal balances.

<b>Assets</b>		<b>Revenue</b>	
Cash	\$ 2,459	Professional Fees	\$72,118
Accounts Receivable	18,120		
Supplies	840	<b>Expenses</b>	
Prepaid Insurance	980	Salary Expense	14,380
Automobile	20,650	Rent Expense	10,320
Furniture and Equipment	5,963	Automobile Expense	859
		Utilities Expense	1,213
<b>Liabilities</b>			
Accounts Payable	1,590		
<b>Owner's Equity</b>			
C. Rene, Capital	42,076		
C. Rene, Drawing	40,000		

The following transactions occurred during September of this year.

- Paid rent for the month, \$1,290.
- Paid \$1,800 for one year's coverage of liability insurance.
- Bought medical equipment on account from Bennett Surgical Supply, \$849, paying \$200 down with the balance due in 30 days.
- Billed patients for services performed, \$9,015.
- Paid employee salaries, \$1,797.
- Received and paid gas and electric bill, \$112.
- Received cash from patients previously billed, \$11,060.
- Received bill for gasoline for car, used only in the professional practice, from Garza Fuel Company, \$116.
- Paid creditors on account, \$1,590.
- Dr. Rene withdrew cash for personal use, \$5,000.

**Instructions**

- Correctly place plus and minus signs under each T account and label the sides of the T accounts as debit or credit in the fundamental accounting equation. Record the account balances as of September 1.
- Record the September transactions in the T accounts. Key each transaction to the letter that identifies the transaction.
- Foot the columns and determine the balance in the T accounts.
- Prepare a trial balance dated September 30, 20--.
- Prepare an income statement for two months ended September 30, 20--.
- Prepare a statement of owner's equity for two months ended September 30, 20--.
- Prepare a balance sheet as of September 30, 20--.

## SOLUTION

[illegible]

**SOLUTION (concluded)**

<i>Dr. Christy Rene</i>			
<i>Income Statement</i>			
<i>For Two Months Ended September 30, 20--</i>			
<i>Revenue:</i>			
<i>Professional Fees</i>			\$81,133
<i>Expenses:</i>			
<i>Salary Expense</i>	\$16,177		
<i>Rent Expense</i>	11,610		
<i>Automobile Expense</i>	975		
<i>Utilities Expense</i>	1,325		
<i>Total Expenses</i>			30,087
<i>Net Income</i>			\$51,046

<i>Dr. Christy Rene</i>			
<i>Statement of Owner's Equity</i>			
<i>For Two Months Ended September 30, 20--</i>			
<i>C. Rene, Capital, September 1, 20--</i>			\$42,076
<i>Investments during August and September</i>	\$ 0		
<i>Net Income for August and September</i>	51,046		
<i>Subtotal</i>	\$51,046		
<i>Less Withdrawals for August and September</i>	45,000		
<i>Increase in Capital</i>			6,046
<i>C. Rene, Capital, September 30, 20--</i>			\$48,122

<i>Dr. Christy Rene</i>			
<i>Balance Sheet</i>			
<i>September 30, 20--</i>			
<i>Assets</i>			
<i>Cash</i>	\$ 1,730		
<i>Accounts Receivable</i>	16,075		
<i>Supplies</i>	840		
<i>Prepaid Insurance</i>	2,780		
<i>Automobile</i>	20,650		
<i>Furniture and Equipment</i>	6,812		
<i>Total Assets</i>			\$48,887
<i>Liabilities</i>			
<i>Accounts Payable</i>			\$ 765
<i>Owner's Equity</i>			
<i>C. Rene, Capital</i>			48,122
<i>Total Liabilities and Owner's Equity</i>			\$48,887

## DISCUSSION QUESTIONS

### Suggested Responses

1. A trial balance is a list of all account balances. It is used to prove that the total of all of the debit balances equals the total of all of the credit balances. A balance sheet shows only the balances of the asset, liability, and owner's capital accounts.
2. *Debit* means "increase" for asset accounts, the owner's drawing account, and expense accounts; however, *debit* means "decrease" for liability accounts, the owner's capital account, and revenue accounts. *Credit* means "decrease" for asset accounts, the owner's drawing account, and expense accounts; however, *credit* means "increase" for liability accounts, the owner's capital account, and revenue accounts. Debit refers to the left side of a T account, and credit refers to the right side.
3. Footings are the totals of each side of a T account.
4. The net income or net loss from the income statement flows to the statement of owner's equity, which produces the ending capital balance. The ending capital from the statement of owner's equity flows to the balance sheet owner's equity section.
5. A compound entry is a transaction that involves more than one debit and/or more than one credit.
6. The trial balance might not balance because half of a transaction was omitted or because the transaction debits do not equal its credits. The trial balance will not reveal that transactions were omitted or repeated or that an incorrect amount was used for a transaction.
7. *Slide*: \$890 for \$89. *Transposition*: \$327 for \$723. You can determine whether there has been a slide or a transposition by dividing the difference between the two balances by 9. If the difference is evenly divisible, the error is due to either a slide or a transposition.
8. Capital and drawing accounts are under the umbrella of owner's equity because if an owner invests capital, there is an increase in owner's equity and if an owner withdraws (drawing) capital, there is a decrease in owner's equity. Likewise, revenue and expense accounts are under the umbrella of owner's equity because if a business earns revenue, there is an increase in owner's equity, and if a business incurs expenses, there is a decrease in owner's equity.



## SOLUTIONS TO EXERCISES AND PROBLEMS

## Exercise 2-1

Assets		=	Liabilities		+	Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash			Accounts Payable			J. Davie, Capital			J. Davie, Drawing			Income from Repairs			Salary Expense	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Accounts Receivable															Rent Expense	
+	-														+	-
Debit	Credit														Debit	Credit
Supplies															Utilities Expense	
+	-														+	-
Debit	Credit														Debit	Credit
Equipment															Miscellaneous Expense	
+	-														+	-
Debit	Credit														Debit	Credit

## Exercise 2-2

ACCOUNT	CLASSIFICATION	INCREASE SIDE	NORMAL BALANCE SIDE	DECREASE SIDE
0. Cash	A	Debit	Debit	Credit
1. Salary Expense	E	Debit	Debit	Credit
2. Office Equipment	A	Debit	Debit	Credit
3. J. Samuels, Capital	OE	Credit	Credit	Debit
4. Service Revenue	R	Credit	Credit	Debit
5. J. Samuels, Drawing	OE	Debit	Debit	Credit
6. Accounts Receivable	A	Debit	Debit	Credit
7. Insurance Expense	E	Debit	Debit	Credit
8. Fees Earned	R	Credit	Credit	Debit
9. Accounts Payable	L	Credit	Credit	Debit

**Exercise 2-3**

a.	<table><tr><th colspan="2">Utilities Expense</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>175</td><td></td></tr></table>	Utilities Expense		+	–	Debit	Credit	175		<table><tr><th colspan="2">Cash</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>175</td></tr></table>	Cash		+	–	Debit	Credit		175	f.	<table><tr><th colspan="2">Accounts Receivable</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>1,375</td><td></td></tr></table>	Accounts Receivable		+	–	Debit	Credit	1,375		<table><tr><th colspan="2">Income from Tours</th></tr><tr><td>–</td><td>+</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>1,375</td></tr></table>	Income from Tours		–	+	Debit	Credit		1,375
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Debit	Credit																																				
175																																					
Cash																																					
+	–																																				
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–	+																																				
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b.	<table><tr><th colspan="2">Supplies</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>135</td><td></td></tr></table>	Supplies		+	–	Debit	Credit	135		<table><tr><th colspan="2">Accounts Payable</th></tr><tr><td>–</td><td>+</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>135</td></tr></table>	Accounts Payable		–	+	Debit	Credit		135	g.	<table><tr><th colspan="2">Gas Expense</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>130</td><td></td></tr></table>	Gas Expense		+	–	Debit	Credit	130		<table><tr><th colspan="2">Cash</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>130</td></tr></table>	Cash		+	–	Debit	Credit		130
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c.	<table><tr><th colspan="2">Prepaid Insurance</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>580</td><td></td></tr></table>	Prepaid Insurance		+	–	Debit	Credit	580		<table><tr><th colspan="2">Cash</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>580</td></tr></table>	Cash		+	–	Debit	Credit		580	h.	<table><tr><th colspan="2">Cash</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>1,458</td><td></td></tr></table>	Cash		+	–	Debit	Credit	1,458		<table><tr><th colspan="2">Accounts Receivable</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>1,458</td></tr></table>	Accounts Receivable		+	–	Debit	Credit		1,458
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	1,458																																				
d.	<table><tr><th colspan="2">Accounts Payable</th></tr><tr><td>–</td><td>+</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>65</td><td></td></tr></table>	Accounts Payable		–	+	Debit	Credit	65		<table><tr><th colspan="2">Cash</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>65</td></tr></table>	Cash		+	–	Debit	Credit		65	i.	<table><tr><th colspan="2">R. Dalberg, Drawing</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>700</td><td></td></tr></table>	R. Dalberg, Drawing		+	–	Debit	Credit	700		<table><tr><th colspan="2">Cash</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>700</td></tr></table>	Cash		+	–	Debit	Credit		700
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e.	<table><tr><th colspan="2">Utilities Expense</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td>186</td><td></td></tr></table>	Utilities Expense		+	–	Debit	Credit	186		<table><tr><th colspan="2">Cash</th></tr><tr><td>+</td><td>–</td></tr><tr><td>Debit</td><td>Credit</td></tr><tr><td></td><td>186</td></tr></table>	Cash		+	–	Debit	Credit		186																			
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**Exercise 2-4**

- a. The owner invested \$5,000 cash in the business.
- b. Paid the rent for the current month, \$600.
- c. Received and paid the advertising bill, \$100.
- d. Bought supplies on account, \$720.
- e. Received and paid the bill for a miscellaneous expense, \$50.
- f. The owner invested personal equipment with a fair market value of \$4,000 in the business.
- g. Bought equipment for \$1,500, paying \$500 in cash and placing the balance on account.
- h. Sold services on account, \$1,015.
- i. Received and paid the utility bill, \$250.
- j. The owner withdrew \$750 in cash for personal use.
- k. Sold services for cash, \$2,025.

**Exercise 2-5****Speedy Sewing Services****Trial Balance****December 31, 20--**

ACCOUNT NAME	DEBIT	CREDIT
<b>Cash</b>	<b>3,200</b>	
<b>Accounts Receivable</b>	<b>10,700</b>	
<b>Supplies</b>	<b>1,800</b>	
<b>Prepaid Insurance</b>	<b>1,300</b>	
<b>Equipment</b>	<b>24,000</b>	
<b>Accounts Payable</b>		<b>9,500</b>
<b>T. Nguyen, Capital</b>		<b>22,800</b>
<b>T. Nguyen, Drawing</b>	<b>1,900</b>	
<b>Income from Services</b>		<b>36,000</b>
<b>Wages Expense</b>	<b>17,500</b>	
<b>Rent Expense</b>	<b>4,500</b>	
<b>Utilities Expense</b>	<b>3,400</b>	
	<b>68,300</b>	<b>68,300</b>

**Exercise 2-6**

<i>Cash</i>	
(a) 8,200	(b) 350
(c) 8,400	(d) 1,600
(i) 7,580	(f) 175
<b>24,180</b>	(g) 3,400
	(h) 2,200
	<b>7,725</b>
<b>Bal. 16,455</b>	

<i>Accounts Payable</i>	
	(k) 2,800
	(j) 82
<b>Bal. 2,882</b>	

<i>Salary Expense</i>	
(g) 3,400	
<b>Bal. 3,400</b>	

<i>Rent Expense</i>	
(d) 1,600	
<b>Bal. 1,600</b>	

<i>Accounts Receivable</i>	
(e) 2,600	
<b>Bal. 2,600</b>	

<i>R. Landish, Capital</i>	
	(a) 8,200
<b>Bal. 8,200</b>	

<i>Utilities Expense</i>	
(f) 175	
<b>Bal. 175</b>	

<i>Supplies</i>	
(j) 82	
<b>Bal. 82</b>	

<i>R. Landish, Drawing</i>	
(h) 2,200	
<b>Bal. 2,200</b>	

<i>Office Furniture</i>	
(b) 350	
<b>Bal. 350</b>	

<i>Modeling Fees</i>	
	(c) 8,400
	(e) 2,600
	(i) 7,580
<b>Bal. 18,580</b>	

<i>Office Equipment</i>	
(k) 2,800	
<b>Bal. 2,800</b>	

**Landish Modeling Agency****Trial Balance****March 31, 20--**

ACCOUNT NAME	DEBIT	CREDIT
<b>Cash</b>	<b>16,455</b>	
<b>Accounts Receivable</b>	<b>2,600</b>	
<b>Supplies</b>	<b>82</b>	
<b>Office Furniture</b>	<b>350</b>	
<b>Office Equipment</b>	<b>2,800</b>	
<b>Accounts Payable</b>		<b>2,882</b>
<b>R. Landish, Capital</b>		<b>8,200</b>
<b>R. Landish, Drawing</b>	<b>2,200</b>	
<b>Modeling Fees</b>		<b>18,580</b>
<b>Salary Expense</b>	<b>3,400</b>	
<b>Rent Expense</b>	<b>1,600</b>	
<b>Utilities Expense</b>	<b>175</b>	
	<b>29,662</b>	<b>29,662</b>

**Exercise 2-6 (concluded)**

Landish Modeling Agency			
Income Statement			
For Month Ended March 31, 20--			
Revenue:			
Modeling Fees			\$18,580
Expenses:			
Salary Expense	\$3,400		
Rent Expense	1,600		
Utilities Expense	175		
Total Expenses			5,175
Net Income			\$13,405

Landish Modeling Agency			
Statement of Owner's Equity			
For Month Ended March 31, 20--			
R. Landish, Capital, March 1, 20--		\$ 0	
Investment during March	\$ 8,200		
Net Income for March	13,405		
Subtotal	\$21,605		
Less Withdrawals for March	2,200		
Increase in Capital		19,405	
R. Landish, Capital, March 31, 20--		\$19,405	

Landish Modeling Agency			
Balance Sheet			
March 31, 20--			
<b>Assets</b>			
Cash	\$16,455		
Accounts Receivable	2,600		
Supplies	82		
Office Furniture	350		
Office Equipment	2,800		
Total Assets			\$22,287
<b>Liabilities</b>			
Accounts Payable			\$ 2,882
<b>Owner's Equity</b>			
R. Landish, Capital			19,405
Total Liabilities and Owner's Equity			\$22,287

**Exercise 2-7**

DESCRIPTION	AMOUNT OF DIFFERENCE	DEBIT OR CREDIT COLUMN OF TRIAL BALANCE UNDERSTATED OR OVERSTATED
0. <i>Example: A \$149 debit to Accounts Receivable was not recorded.</i>	<i>\$149</i>	<i>Debit column understated</i>
a. A \$42 debit to Supplies was recorded as \$420.	<b>378</b>	<b>Debit column overstated</b>
b. A \$155 debit to Accounts Receivable was recorded twice.	<b>155</b>	<b>Debit column overstated</b>
c. A \$179 debit to Prepaid Insurance was not recorded.	<b>179</b>	<b>Debit column understated</b>
d. A \$65 credit to Cash was not recorded.	<b>65</b>	<b>Debit column overstated</b>
e. A \$190 debit to Equipment was recorded twice.	<b>190</b>	<b>Debit column overstated</b>
f. A \$57 debit to Utilities Expense was recorded as \$75.	<b>18</b>	<b>Debit column overstated</b>

**Exercise 2-8**

- Equal totals in the trial balance because \$38 was debited to Office Equipment and \$38 was credited to Cash. Because the correct amount is \$380, Office Equipment is understated by \$342 and Cash is overstated by \$342.
- Equal totals in the trial balance because \$280 was debited to Accounts Receivable and \$280 was credited to Cash. Because the \$280 should have been debited to Accounts Payable, not Accounts Receivable, the error caused Accounts Receivable to be overstated by \$280 and Accounts Payable to be overstated by \$280.
- Equal totals in the trial balance because \$245 was debited to Equipment and \$245 was credited to Cash. Because the \$245 should have been debited to Supplies, not Equipment, the error caused Equipment to be overstated by \$245 and Supplies to be understated by \$245.
- Unequal totals in the trial balance because \$76 was debited correctly to Accounts Payable but the credit to Cash was transposed as \$67. The error caused Cash to be overstated by \$9.

## Problem 2-1A

Assets		=		Liabilities		+		Capital		+		Drawing		+		Revenue		-		Expenses	
Debit	Credit			Debit	Credit			Debit	Credit			Debit	Credit			Debit	Credit	Debit	Credit	Debit	Credit
<i>Cash</i>				<i>Accounts Payable</i>				<i>G. Elden, Capital</i>				<i>Income from Services</i>				<i>Advertising Expense</i>					
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(a) 35,000	(b) 8,150	(g) 200	(c) 105	(a) 35,000				(f) 1,200		(h) 800		(c) 105				(c) 105					
(h) 800	(g) 200		(d) 790																		
35,800	8,350		(e) 185																		
Bal. 27,450			1,080					Bal. 36,200													
			Bal. 880																		
<i>Exercise Equipment</i>																					
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(b) 8,150																					
(f) 1,200																					
Bal. 9,350																					
<i>Store Equipment</i>																					
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(d) 790																					
Bal. 790																					
<i>Office Equipment</i>																					
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(e) 185																					
Bal. 185																					

## Problem 2-2A

Assets		Liabilities		Capital		Drawing		Revenue		Expenses	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
<b>Cash</b>		<b>Accounts Payable</b>		<b>B. Kelso, Capital</b>		<b>B. Kelso, Drawing</b>		<b>Income from Services</b>		<b>Wages Expense</b>	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(a) 45,000	(b) 1,800	(j) 285	(d) 1,000	(a) 45,000	(h) 1,245	(n) 850	(k) 1,450	(l) 925			
(h) 1,245	(c) 790	(e) 1,350	(g) 365	(f) 600	Bal. 45,600	Bal. 850	Bal. 2,695	Bal. 925			
(k) 1,450	(d) 1,700	(o) 115	2,830								
47,695	(i) 345	(n) 850	Bal. 2,545								
	(j) 285										
	(l) 925										
	(m) 75										
	(n) 850										
Bal. 40,925	6,770										
<b>Supplies</b>		<b>Computer Software</b>		<b>Office Equipment</b>		<b>Neon Sign</b>					
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit				
(o) 115		(f) 600		(c) 790		(e) 1,350					
Bal. 115		Bal. 600		(d) 2,700		Bal. 1,350					
				Bal. 3,490							
<b>Rent Expense</b>		<b>Advertising Expense</b>		<b>Utilities Expense</b>		<b>Miscellaneous Expense</b>					
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit				
(b) 1,800		(g) 365		(i) 345		(m) 75					
Bal. 1,800		Bal. 365		Bal. 345		Bal. 75					



**Problem 2-2A** (concluded)**Computer Wizards****Trial Balance****November 30, 20--**

ACCOUNT NAME	DEBIT	CREDIT
<b>Cash</b>	<b>40,925</b>	
<b>Supplies</b>	<b>115</b>	
<b>Computer Software</b>	<b>600</b>	
<b>Office Equipment</b>	<b>3,490</b>	
<b>Neon Sign</b>	<b>1,350</b>	
<b>Accounts Payable</b>		<b>2,545</b>
<b>B. Kelso, Capital</b>		<b>45,600</b>
<b>B. Kelso, Drawing</b>	<b>850</b>	
<b>Income from Services</b>		<b>2,695</b>
<b>Wages Expense</b>	<b>925</b>	
<b>Rent Expense</b>	<b>1,800</b>	
<b>Advertising Expense</b>	<b>365</b>	
<b>Utilities Expense</b>	<b>345</b>	
<b>Miscellaneous Expense</b>	<b>75</b>	
	<b>50,840</b>	<b>50,840</b>

## Problem 2-3A

Assets		Liabilities		Capital		Drawing		Revenue		Expenses	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
<b>Cash</b>		<b>Accounts Payable</b>		<b>S. Myers, Capital</b>		<b>S. Myers, Drawing</b>		<b>Professional Fees</b>		<b>Salary Expense</b>	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(a) 40,000	(c) 200	(j) 300	(b) 1,330	(a) 40,000		(m) 800		(f) 1,484		(l) 880	
(l) 2,575	(e) 155	(c) 395	(d) 375	Bal. 40,000		Bal. 800		(l) 2,575		Bal. 880	
(n) 885	(g) 190										
43,460	(h) 450	Bal. 1,800									
	(i) 300										
	(k) 940										
	(l) 880										
	(m) 800										
Bal. 39,545	3,915										
<b>Accounts Receivable</b>		<b>Office Equipment</b>		<b>Office Furniture</b>		<b>Utilities Expense</b>		<b>Miscellaneous Expense</b>			
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit		
(f) 1,484	(n) 885	(c) 595		(b) 1,330		(e) 155		(h) 450			
Bal. 599		(d) 375		Bal. 1,330		(g) 190		Bal. 450			
		Bal. 970				Bal. 345		Bal. 450			

## Problem 2-3A (continued)

## Myers Clinic

## Trial Balance

June 30, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	39,545	
Accounts Receivable	599	
Office Equipment	970	
Office Furniture	1,330	
Accounts Payable		1,800
S. Myers, Capital		40,000
S. Myers, Drawing	800	
Professional Fees		4,059
Salary Expense	880	
Rent Expense	940	
Utilities Expense	345	
Miscellaneous Expense	450	
	45,859	45,859

## Myers Clinic

## Income Statement

For Month Ended June 30, 20--

Revenue:		
Professional Fees		\$ 4,059
Expenses:		
Salary Expense	\$880	
Rent Expense	940	
Utilities Expense	345	
Miscellaneous Expense	450	
Total Expenses		2,615
Net Income		\$ 1,444

## Myers Clinic

## Statement of Owner's Equity

For Month Ended June 30, 20--

S. Myers, Capital, June 1, 20--		\$ 0
Investments during June	\$40,000	
Net Income for June	1,444	
Subtotal	\$41,444	
Less Withdrawals for June	800	
Increase in Capital		40,644
S. Myers, Capital, June 30, 20--		\$40,644

**Problem 2-3A** (concluded)

<b>Myers Clinic</b>			
<b>Balance Sheet</b>			
<b>June 30, 20--</b>			
	<b>Assets</b>		
	Cash	\$39,545	
	Accounts Receivable	599	
	Office Equipment	970	
	Office Furniture	1,330	
	Total Assets		\$42,444
	<b>Liabilities</b>		
	Accounts Payable		\$ 1,800
	<b>Owner's Equity</b>		
	S. Myers, Capital		40,644
	Total Liabilities and Owner's Equity		\$42,444



**Problem 2-4A** (continued)**Self-Wash Laundry****Trial Balance****May 31, 20--**

ACCOUNT NAME	DEBIT	CREDIT
<b>Cash</b>	<b>26,525</b>	
<b>Supplies</b>	<b>225</b>	
<b>Prepaid Insurance</b>	<b>1,560</b>	
<b>Equipment</b>	<b>12,500</b>	
<b>Furniture and Fixtures</b>	<b>1,870</b>	
<b>Accounts Payable</b>		<b>7,100</b>
<b>B. Bangle, Capital</b>		<b>35,000</b>
<b>B. Bangle, Drawing</b>	<b>800</b>	
<b>Laundry Revenue</b>		<b>3,760</b>
<b>Wages Expense</b>	<b>940</b>	
<b>Rent Expense</b>	<b>875</b>	
<b>Utilities Expense</b>	<b>285</b>	
<b>Miscellaneous Expense</b>	<b>280</b>	
	<b>45,860</b>	<b>45,860</b>

**Self-Wash Laundry****Income Statement****For Month Ended May 31, 20--**

<b>Revenue:</b>		
<b>Laundry Revenue</b>		<b>\$3,760</b>
<b>Expenses:</b>		
<b>Wages Expense</b>	<b>\$940</b>	
<b>Rent Expense</b>	<b>875</b>	
<b>Utilities Expense</b>	<b>285</b>	
<b>Miscellaneous Expense</b>	<b>280</b>	
<b>Total Expenses</b>		<b>2,380</b>
<b>Net Income</b>		<b>\$1,380</b>

**Problem 2-4A** (concluded)

<b>Self-Wash Laundry</b>			
<b>Statement of Owner's Equity</b>			
<b>For Month Ended May 31, 20--</b>			
<b>B. Bangle, Capital, May 1, 20--</b>		<b>\$ 0</b>	
<b>Investments during May</b>	<b>\$35,000</b>		
<b>Plus Net Income for May</b>	<b>1,380</b>		
<b>Subtotal</b>	<b>\$36,380</b>		
<b>Withdrawals for May</b>	<b>800</b>		
<b>Increase in Capital</b>		<b>35,580</b>	
<b>B. Bangle, Capital, May 31, 20--</b>		<b>\$35,580</b>	

<b>Self-Wash Laundry</b>			
<b>Balance Sheet</b>			
<b>May 31, 20--</b>			
<b>Assets</b>			
<b>Cash</b>	<b>\$26,525</b>		
<b>Supplies</b>	<b>225</b>		
<b>Prepaid Insurance</b>	<b>1,560</b>		
<b>Equipment</b>	<b>12,500</b>		
<b>Furniture and Fixtures</b>	<b>1,870</b>		
<b>Total Assets</b>		<b>\$42,680</b>	
<b>Liabilities</b>			
<b>Accounts Payable</b>		<b>\$ 7,100</b>	
<b>Owner's Equity</b>			
<b>B. Bangle, Capital</b>		<b>35,580</b>	
<b>Total Liabilities and Owner's Equity</b>		<b>\$42,680</b>	

**Problem 2-5A**

- (a) For Month Ended October 31, 20--
- (b) 5,250
- (c) Daniels' Custom Haircuts
- (d) For Month Ended October 31, 20--
- (e) 10,000
- (f) 19,750
- (g) 25,750
- (h) October 31, 20--
- (i) 36,400
- (j) 25,750
- (k) 36,400

**Problem 2-1B**

Assets		=		Liabilities		+		Capital		-		Drawing		+		Revenue		-		Expenses	
Debit	Credit			Debit	Credit			Debit	Credit			Debit	Credit			Debit	Credit			Debit	Credit
<i>Cash</i>				<i>Accounts Payable</i>				<i>H. Rose, Capital</i>						<i>Income from Services</i>				<i>Advertising Expense</i>			
(a) 25,000	(b) 1,525			(f) 750	(c) 325			(a) 25,000						(h) 250		(c) 325					
(h) 250	(e) 225				(d) 750			(g) 800						Bal. 250		Bal. 325					
25,250	(f) 750				(e) 400			Bal. 25,800													
	2,500				1,475																
Bal. 22,750				Bal. 725																	
<i>Shop Equipment</i>																					
Debit	Credit																				
(b) 1,525																					
(g) 800																					
Bal. 2,325																					
<i>Store Equipment</i>																					
Debit	Credit																				
(d) 750																					
Bal. 750																					
<i>Office Equipment</i>																					
Debit	Credit																				
(e) 625																					
Bal. 625																					





**Problem 2-2B** (concluded)**Carrie's Photo Tours****Trial Balance****June 30, 20--**

ACCOUNT NAME	DEBIT	CREDIT
<b>Cash</b>	<b>29,034</b>	
<b>Supplies</b>	<b>460</b>	
<b>Computer Software</b>	<b>640</b>	
<b>Office Equipment</b>	<b>2,850</b>	
<b>Neon Sign</b>	<b>1,335</b>	
<b>Accounts Payable</b>		<b>1,850</b>
<b>J. Carrie, Capital</b>		<b>31,000</b>
<b>J. Carrie, Drawing</b>	<b>800</b>	
<b>Income from Services</b>		<b>5,049</b>
<b>Wages Expense</b>	<b>930</b>	
<b>Rent Expense</b>	<b>950</b>	
<b>Advertising Expense</b>	<b>445</b>	
<b>Utilities Expense</b>	<b>380</b>	
<b>Miscellaneous Expense</b>	<b>75</b>	
	<b>37,899</b>	<b>37,899</b>

## Problem 2-3B

Assets		Liabilities		Capital		Drawing		Revenue		Expenses	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
<b>Cash</b>		<b>Accounts Payable</b>		<b>D. Johnston, Capital</b>		<b>D. Johnston, Drawing</b>		<b>Professional Fees</b>		<b>Salary Expense</b>	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(a) 35,000	(c) 835	(j) 250	(b) 560	(a) 35,000		(n) 1,200		(f) 2,255		(m) 960	
(i) 1,940	(d) 250	(d) 400		Bal. 35,000		Bal. 1,200		(l) 1,950		Bal. 960	
(l) 1,950	(e) 185										
38,890	(g) 445	Bal. 710									
	(h) 335										
	(i) 250										
	(k) 1,245										
	(m) 960										
	(n) 1,200										
Bal. 33,185	5,705										
<b>Accounts Receivable</b>		<b>Office Equipment</b>		<b>Office Furniture</b>		<b>Utilities Expense</b>		<b>Miscellaneous Expense</b>			
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit		
(f) 2,255	(l) 1,940	(b) 560		(c) 835		(e) 185		(g) 445			
Bal. 315		(d) 650		Bal. 835		(h) 335		Bal. 445			
		Bal. 1,210		Bal. 835		Bal. 520		Bal. 445			

**Problem 2-3B** (continued)**Johnston's Clinic****Trial Balance****July 31, 20--**

ACCOUNT NAME	DEBIT	CREDIT
Cash	33,185	
Accounts Receivable	315	
Office Equipment	1,210	
Office Furniture	835	
Accounts Payable		710
D. Johnston, Capital		35,000
D. Johnston, Drawing	1,200	
Professional Fees		4,205
Salary Expense	960	
Rent Expense	1,245	
Utilities Expense	520	
Miscellaneous Expense	445	
	39,915	39,915

**Johnston's Clinic****Income Statement****For Month Ended July 31, 20--**

Revenue:		
Professional Fees		\$4,205
Expenses:		
Salary Expense	\$ 960	
Rent Expense	1,245	
Utilities Expense	520	
Miscellaneous Expense	445	
Total Expenses		3,170
Net Income		\$1,035

**Johnston's Clinic****Statement of Owner's Equity****For Month Ended July 31, 20--**

D. Johnston, Capital, July 1, 20--		\$ 0
Investments during July	\$35,000	
Net Income for July	1,035	
Subtotal	\$36,035	
Less Withdrawals for July	1,200	
Increase in Capital		34,835
D. Johnston, Capital, July 31, 20--		\$34,835

**Problem 2-3B** (concluded)**Johnston's Clinic****Balance Sheet****July 31, 20--**

<b>Assets</b>			
<b>Cash</b>		<b>\$33,185</b>	
<b>Accounts Receivable</b>		<b>315</b>	
<b>Office Equipment</b>		<b>1,210</b>	
<b>Office Furniture</b>		<b>835</b>	
<b>Total Assets</b>			<b>\$35,545</b>
<b>Liabilities</b>			
<b>Accounts Payable</b>			<b>\$ 710</b>
<b>Owner's Equity</b>			
<b>D. Johnston, Capital</b>			<b>34,835</b>
<b>Total Liabilities and Owner's Equity</b>			<b>\$35,545</b>

=	<i>Assets</i>		<i>Liabilities</i>		<i>Capital</i>		<i>Drawing</i>		<i>Revenue</i>		<i>Expenses</i>	
	+	-	-	+	-	+	+	-	+	-	+	-
	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
	<i>Cash</i>											
	+	-	-	+	-	+	+	-	+	-	+	-
	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
	<i>Accounts Payable</i>											
	+	-	-	+	-	+	+	-	+	-	+	-
	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
	(a) 25,000	(b) 725	(h) 700	(d) 11,700	(a) 25,000	(f) 1,742	(n) 700	(f) 1,742	(m) 1,200		(m) 1,200	
	(f) 1,742	(c) 1,750	(j) 315	(e) 535	Bal. 25,000	(k) 820	700	(k) 820	Bal. 1,200		Bal. 1,200	
	(k) 820	(d) 4,000	1,015	12,235				Bal. 2,562				
	27,562	(g) 1,375		Bal. 11,220								
		(h) 700										
		(i) 438										
		(j) 315										
		(l) 75										
		(m) 1,200										
		(n) 700										
	Bal. 16,284	11,278										
	<i>Supplies</i>											
	+	-	-	+	-	+	+	-	+	-	+	-
	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
	(e) 535				(a) 25,000	(f) 1,742	(n) 700	(f) 1,742	(c) 1,750		(m) 1,200	
	Bal. 535				Bal. 25,000			Bal. 2,562	Bal. 1,750		Bal. 1,200	
	<i>Prepaid Insurance</i>											
	+	-	-	+	-	+	+	-	+	-	+	-
	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
	(g) 1,375								(i) 438			
	Bal. 1,375								Bal. 438			
	<i>Equipment</i>											
	+	-	-	+	-	+	+	-	+	-	+	-
	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
	(d) 15,700				(a) 25,000	(f) 1,742	(n) 700	(f) 1,742	(c) 1,750		(m) 1,200	
	Bal. 15,700				Bal. 25,000			Bal. 2,562	Bal. 1,750		Bal. 1,200	
	<i>Furniture and Fixtures</i>											
	+	-	-	+	-	+	+	-	+	-	+	-
	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
	(b) 725				(a) 25,000	(f) 1,742	(n) 700	(f) 1,742	(c) 1,750		(m) 1,200	
	Bal. 725				Bal. 25,000			Bal. 2,562	Bal. 1,750		Bal. 1,200	

## Problem 2-4B (continued)

## Resser's Business Services

## Trial Balance

July 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	16,284	
Supplies	535	
Prepaid Insurance	1,375	
Equipment	15,700	
Furniture and Fixtures	725	
Accounts Payable		11,220
K. Resser, Capital		25,000
K. Resser, Drawing	700	
Business Services Revenue		2,562
Wages Expense	1,200	
Rent Expense	1,750	
Utilities Expense	438	
Miscellaneous Expense	75	
	38,782	38,782

## Resser's Business Services

## Income Statement

For Month Ended July 31, 20--

Revenue:		
Business Services Revenue		\$2,562
Expenses:		
Wages Expense	\$1,200	
Rent Expense	1,750	
Utilities Expense	438	
Miscellaneous Expense	75	
Total Expenses		3,463
Net Loss		\$ (901)

**Problem 2-4B** (concluded)

Resser's Business Services			
Statement of Owner's Equity			
For Month Ended July 31, 20--			
K. Resser, Capital, July 1, 20--		\$	0
Investment during July	\$25,000		
Less Net Loss for July	901		
Subtotal	\$24,099		
Less Withdrawals for July	700		
Increase in Capital			23,399
K. Resser, Capital, July 31, 20--			\$23,399

Resser's Business Services			
Balance Sheet			
July 31, 20--			
<b>Assets</b>			
Cash	\$16,284		
Supplies	535		
Prepaid Insurance	1,375		
Equipment	15,700		
Furniture and Fixtures	725		
Total Assets			\$34,619
<b>Liabilities</b>			
Accounts Payable			\$11,220
<b>Owner's Equity</b>			
K. Resser, Capital			23,399
Total Liabilities and Owner's Equity			\$34,619

**Problem 2-5B**

- (a) For Month Ended April 30, 20--
- (b) 2,440
- (c) Baker Custom Catering
- (d) For Month Ended April 30, 20--
- (e) 5,000
- (f) 9,560
- (g) 13,560
- (h) April 30, 20--
- (i) 14,800
- (j) 13,560
- (k) 14,800



**SOLUTIONS TO ACTIVITIES****WHY DOES IT MATTER?****Suggested Responses**

0. Owner invested cash in the business. Accounts involved: Cash and Capital. Cash is debited, and Capital is credited.
1. Bought rock-climbing equipment on account. Accounts involved: Equipment and Accounts Payable. Equipment is debited, and Accounts Payable is credited.
2. Received and paid the electric bill. Accounts involved: Utilities Expense and Cash. Utilities Expense is debited, and Cash is credited.
3. Paid the salary of employees. Accounts involved: Salary Expense and Cash. Salary Expense is debited, and Cash is credited.
4. Received cash from customers for rock-climbing services. Accounts involved: Cash and Rock-Climbing Fees. Cash is debited, and Rock-Climbing Fees is credited.
5. Owner withdrew cash for personal use. Accounts involved: Drawing and Cash. Drawing is debited, and Cash is credited.

**WHAT WOULD YOU SAY?****Suggested Response**

First, debits must equal credits in a transaction. Second, it is possible to have more than one debit or credit on one side of the equation as long as they offset each other or there are debits or credits on the other side to offset them. In this case, on the left side of the equals sign, there is a \$15,000 debit to Equipment (which is a plus) and a \$5,000 credit to Cash (which is a minus); on the right side of the equals sign, there is a \$10,000 credit to Accounts Payable (which is a plus). Thus, a \$10,000 net increase to the left side of the equation is offset by a \$10,000 increase on the right side of the equation.

$$+ 15,000 - 5,000 = + 10,000$$

**WHAT WOULD YOU DO?****Suggested Response**

The bookkeeper has acted irresponsibly. She should have requested assistance from her supervisor and should not have removed the materials from the business. To further complicate her situation, she has violated the privacy of the business's financial materials by having her uncle attempt to assist her. She could be fired for her unethical behavior. She should make a note of the difference as well as her efforts in attempting to find the errors. Then, she should take this information to her supervisor. Financial materials should never be removed from the business and shared with someone outside the circle of the people who have the right to see them. Additionally, a bookkeeper should never report information that is not correct. This is also unethical behavior and could result in termination.

