Financial Accounting 11th Edition Needles Solutions Manual
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Chapter 2: Overview

Analyzing and Recording Business Transactions

The chapter introduces the account and briefly describes specific asset, liability, and stockholders' equity accounts. The concept of double-entry accounting and the rules of debit and credit for assets, liabilities, and stockholders' equity are described. The "T-account" is illustrated. The accounting equation is tied to the rules of debit and credit. Normal balance of accounts is discussed.

The journal is introduced and the process of recording (journalizing) transactions is illustrated. Details of journals, ledgers, and the posting process are presented, including an illustration of a 4-column account with a running balance. The five-step transactional analysis process is described and demonstrated. .A series of transactions are analyzed, journalized, and posted to T-accounts in the ledger. Balancing the accounts is explained.

The trial balance is defined and illustrated. Some errors that would not be revealed by a trial balance are described. The preparation of the financial statements from the trial balance is illustrated.

The chapter concludes with Decision Guidelines that assist the student in understanding the decisions required as transactions are recorded and summarized.

Learning Objectives

After studying Chapter 2, your students should be able to:

1. Define accounts and understand how they are used in accounting.
2. Explain debits, credits, and the double entry system of accounting.
3. Demonstrate the use of the general journal and the general ledger to record business transactions.
4. Use a trial balance to prepare financial statements.

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Teaching Outline

How Are Accounts Used to Keep Business Transactions Organized?

1) Define accounts and understand how they are used in accounting. (LO1)

a. Accounts are the basic summary device of accounting; the detailed record of all the changes in a specific asset, liability, or stockholders' equity item as a result of transactions

b. Organizing (Numbering) Accounts

    i. Helps keep accounts organized.

    ii. Numbers usually have two or more digits with the first digit designating the type of account. Accounts that begin with a:

        1. "1" designates an asset account.
        2. "2" designates a liability account
        3. "3" designates a stockholder's equity account (except revenue or expense)
        4. "4" designates a revenue account.
        5. "5" designates an expense account.

    iii. The second and remaining digits specify the detailed account number.

        1. For example, 101 may be Cash and 131 may be Accounts Receivable.
        2. Multiple digits allow for bigger gaps in the numbering sequence for adding additional accounts at a later date.

            a. For example, 10000 may be the cash account and 12000 may be accounts receivable. Then 10100 may designate checking, 10200 savings, and so on.

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c. Chart of Accounts

    i. The **Chart of Accounts** is a list of all accounts of a business and the numbers assigned to those accounts.

d. The major Account categories are Assets, Liabilities, and Stockholder's Equity

    i. Under these Accounts, there are common accounts that occur in most businesses.

        1. Assets

            a. **Cash** includes bank account balances and cash on hand.

            b. **Accounts Receivable** represents amounts owed to the business by customers.

            c. **Notes Receivable** represents a written promise (promissory note) that the customer or borrower will pay a fixed amount of money by a certain date. Often includes interest charges.

            d. **Prepaid Expenses** are assets of a business because they represent items that have been purchased but will be used later.

                i. Examples include Insurance paid a year in advance.

            e. **Land** is used to track the cost of land a business owns and uses in its operations.

            f. **Buildings** represent the cost of a business's buildings, offices, warehouses, etc.

            g. **Equipment, Furniture and Fixtures** represent items such computer equipment, office equipment, store equipment, and furniture and fixtures. A business will typically have a separate asset account for each type of equipment.

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2. **Liabilities**
    a. **Accounts Payable** reflects how much cash the business must pay to suppliers for goods or services that have already been received.
    b. **Notes Payable** represents amounts the business must pay because it signed a promissory note to borrow money.
    c. **Accrued Liabilities** represents liabilities for expenses that have been incurred but have not yet been paid.
        i. Examples are Taxes Payable, Interest Payable, and Salaries Payable.
3. Stockholders' Equity
    a. **Common Stock** represents the investment of assets, usually cash, the stockholders have invested into a business in exchange for the company's stock.
    b. **Retained Earnings** tracks the cumulative earnings of the business since it began, less any dividends given to stockholders.
    c. **Revenues** are increases in Retained Earnings that represent amounts earned by the company.
    d. **Expenses** are decreases in Retained Earnings from using resources to deliver goods and services to customers.
    e. **Dividends** reflect the amount of earnings that have been distributed to the stockholders. Dividends decrease Retained Earnings.

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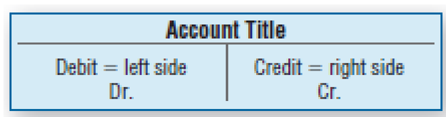
What Is Double-Entry Accounting?

2) **Explain debits, credits, and the double-entry system of accounting. (LO2)**

   a. **Double-Entry** is the rule of accounting that specifies every transaction must involve at least two accounts and is recorded with equal amounts of debits and credits.

   b. **Debit** is the left side of any account; an entry made to the left side of an account.

   c. **Credit** is the right side of any account; an entry made to the right side of an account.



   d. **T-Account** is an informal account form used to summarize transactions where the top of the T holds the account title and the base divides the debit and credit sides of the account. Exhibit 2-1 shows T-accounts along with which side increases/decreases.

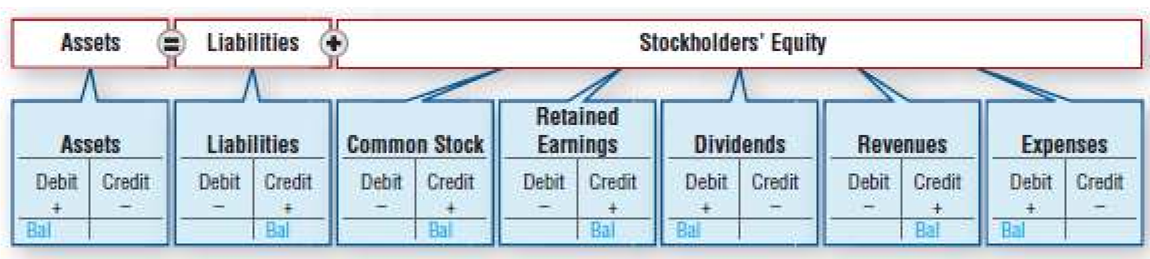


Exhibit 2-1

   e. Whether it is the left side of the T or the right side that increases the account depends on the type of account.

      i. In the acronym **ADE**, **A**ssets, **D**ividends, and **E**xpenses are increased on the debit side. The last two letters (DE) stand for DEBIT.

      ii. In the Acronym **LCR**, **L**iabilities, **C**ommon Stock and **R**etained Earnings/Revenue are increased on the credit side. The last two letters (CR) stand for CREDIT.

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f. The **Normal Balance** is the balance that appears on the side of an account where increases are recorded.
    i. The normal balance is expected to have a positive balance.
    ii. Using the ADE/LCR acronyms to help you with which accounts are increased, you can determine that:
        1. Assets increase on the debit side, so the normal balance of an asset is on the debit side.
        2. Liabilities increase on the credit side, so the normal balance of a liability is on the credit side.
        3. The same principle follows for the remaining accounts.

g. View Exhibit 2-1 to see the relationship between the accounting equation, rules of debit/credit, normal balance and the T-account.

How Are the General Journal and the General Ledger Used to Keep Track of Business Transactions?

3) **Demonstrate the use of the general journal and general ledger to record business transactions. (LO3)**
    a. A **general journal** is a chronological accounting record of the transactions of a business.
        i. The general journal is a place to record events that have affected the business. **Record** means entering a transaction in a journal; also called **journalize.** A **transaction** is an event that has a financial impact on a business entity.
        ii. To record a journal entry:
            1. Record the date.

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2. Record the debit part of the entry by entering the account title and then entering the amount in the debit column.
3. Record the credit part of the entry on the next line by indenting the account title and then entering the amount in the credit column.

iii. Exhibit 2-2 demonstrates how to make a journal entry and post to the General Ledger. The general journal reflects transactions by date, so it does not provide useful information by individual accounts. To see the effect on accounts, these journal entries are posted to the general ledger.

b. A **General Ledger** is the accounting record that summarizes, in accounts, the transactions of a business and shows the resulting ending account balances.

c. **Posting** is copying information from the general journal to accounts in the general ledger.

i. Posting is broken down into 4 steps. (see Exhibit 2-2)

1. Copy transaction date for the journal to the account in the ledger.
2. Copy the journal page number from the journal to the posting reference column in the account. The **posting reference** is a notation in the journal and the ledger that links these two accounting records together.
3. Copy the dollar amount of the debit from the journal as a debit into the account in the ledger.
4. Copy the account number from the account in the ledger back to the posting reference column in the journal.

d. Transaction Analysis: the five steps in analyzing business transactions.

i. Identify the accounts involved.

ii. Determine the type of account for each account involved.

iii. Determine whether the account increases or decreases.

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iv. Debit or Credit the account.

v. Journalize the transaction and post to the ledger.

e. Balance the T-Accounts.

i. After the transactions are recorded and posted to the T-accounts, the balance in each account is calculated. The **balance** is the difference between an account's total debit and total credit accounts; the ending value of an account.

How Is a Trial Balance Prepared and What Is It Used For?

4) **Use a trial balance to prepare financial statements. (LO4)**

a. A **trial balance** is a list of all the accounts of a business and their balances; its purpose is to verify that total debits equal total credits.

i. Not an official financial statement.

ii. Format includes the heading (company name, statement name, date), and columns for the name of each account, the debit column, and the credit column. The debit and credit columns are total to ensure that debits equal credits.

iii. Commonly prepared at the end of the accounting period but can be created any time.

1. The **accounting period** is the time period reflected by a set of financial statements.

a. Usually defined as a month, quarter or year.

iv. Exhibit 2-3 illustrates a Trial Balance.

b. Correcting Errors

i. The method to correct an error depends on the type of error made.

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1. If a journal entry is made to the wrong accounts or for the wrong amount, reverse or undo the incorrect entry. Then create a new entry that records the correct information.
2. To correct an entry that has been made twice, one of the entries should be reversed.
3. If an entry was erroneously omitted, simply create and enter the journal entry.

c. Preparation of Financial Statements

i. Since the Trial Balance lists all of the accounts and their associated balances, it is often used to prepare financial statements.

ii. Prepare the financial statements in the correct order (see Chapter 1).

iii. Make sure that the Balance Sheet is in balance. If not, check to see what you entered for the Retained Earnings account. Is it the beginning Retained Earnings account balance or the ending Retained Earnings balance which represents closing the income and expenses. The answer depends on the type of trial balance used to prepare the balance sheet which will be covered in greater detail in Chapter 3.

iv. Exhibit 2-4 illustrates how the financial statements flow together.

v. The **Accounting Cycle** is the sequence of steps used to record and report business transactions. This cycle is completed for every accounting period and repeated for subsequent accounting periods.

1. See an illustration of the Accounting Cycle on page 72.
2. Chapter 3 covers the remaining steps in the accounting cycle which includes preparing adjusting and closing entries.

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Key Topics

An understanding of Chapter 2 is essential for student success in the remaining financial accounting chapters. Spend adequate time in the beginning with accounting terminology. Accounting is a "foreign" language to many students, and, as true with any real foreign language, you must start with the basics. Students seem to more easily understand assets and liabilities than equity. An asset can be touched, a liability can be confirmed by looking at an invoice, but equity is conceptual. Equity is the stockholders' claims to the business assets—what's left over after liabilities are subtracted from assets. It may be helpful to ask students to attempt to calculate their personal equity. Students may own a car or home that has an outstanding loan or mortgage. The equity for the home would represent the cost of the home (asset) less the amount owed (liability) on the mortgage. Another analogy would explain that the Assets of a business are owned by either the creditors (Liabilities) or the Owners (Stockholder's Equity). You can also ask students if they determine (from a simple standpoint) how much their business would be worth to a potential buyer. Some students might think that the total assets represent a fair sale price. Explain that while the assets represent the value of the business, the creditors still must be paid. To illustrate, take the total assets and minus the amounts owed to the creditors (liabilities) to calculate the worth. Then you can tie this worth (equity) to the Stockholders Equity balance.

Keep it simple when discussing T-accounts and the rules of debit and credit. Debit means left, and credit means right, period. A debit does not mean increase, and a credit does not mean decrease. Increases and decreases depend on the account type. Emphasize that every entry must balance (debits equal credits) and be correct for the accounting system to generate correct and useful information. An incorrect journal entry that is posted to the right accounts will still produce incorrect information.

An account can only have one balance. Debits and credits within the same account are subtracted to determine the account balance, just like positives and negatives from a mathematical standpoint. The normal balance of an account is the side used to record increases in the account.

When discussing the posting process, inform students to be very careful when transferring amounts to the ledger. It is common for students at this point to reverse a posting, recording a debit as a credit, or vice versa. A debit is placed on the left side and a credit is placed on the right side. If the trial balance doesn't balance, it is common for students to have reversed a posting.

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Lastly, it may be helpful for students to view the accounting system from both ends. The natural process is to journalize, post, and prepare a trial balance. However, once the chapter content is discussed, you can also begin with the trial balance and have students trace back to the ledger and journal to find a specific transaction. They can also get experience doing this when correcting a trial balance that doesn't balance.

When assigning homework problems, consider working the alternate problem in class. Both the Exercises and the Problems for each Chapter have a Group A and a Group B. These problems are identical except that the names and dollar amounts change. For example, if you assign P2-33A "Journalizing, posting, and trial balance preparation," then you can work P2-39B in class. These problems are identical except for the business owner name, dates, and amounts. You might also consider the "Error Correction" type problems. Students often have the most trouble with problems that require critical thinking. Assigning the "Error Correction" problems requires the student to think beyond the routine assignments. Problem P2-36A requires students to prepare correcting journal entries and determine if the error would cause net income to be overstated, understated or unchanged. The Group B Problem P2-42B is the alternate problem and can be worked in class as a group assignment.

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Chapter 2: Student Summary Handout

How Are Accounts Used to Keep Business Transactions Organized?

1) **Define accounts and understand how they are used in accounting. (LO1)**
    a. Accounts are the basic summary device of accounting; the detailed record of all the changes in a specific asset, liability, or stockholders' equity item as a result of transactions
    b. Organizing (Numbering) Accounts
        i. Helps keep accounts organized.
        ii. Numbers usually have two or more digits with the first digit designating the type of account. Accounts that begin with a:
            1. "1" designates an asset account.
            2. "2" designates a liability account
            3. "3" designates a stockholder's equity account (except revenue or expense)
            4. "4" designates a revenue account.
            5. "5" designates an expense account.
        iii. The second and remaining digits specify the detailed account number.
            1. For example, 101 may be Cash and 131 may be Accounts Receivable
            2. Multiple digits allow for bigger gaps in the numbering sequence for adding additional accounts at a later date.
                a. For example, 10000 may be the cash account and 12000 may be accounts receivable. Then 10100 may designate checking, 10200 savings, and so on.

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c. Chart of Accounts

    i. The **Chart of Accounts** is a list of all accounts of a business and the numbers assigned to those accounts.

d. The major Account categories are Assets, Liabilities, and Stockholder's Equity

    i. Under these Accounts, there are common accounts that occur in most businesses.

        1. Assets

            a. **Cash** includes bank account balances and cash on hand.

            b. **Accounts Receivable** represents amounts owed to the business by customers.

            c. **Notes Receivable** represents a written promise (promissory note) that the customer or borrower will pay a fixed amount of money by a certain date. Often includes interest charges.

            d. **Prepaid Expenses** are assets of a business because they represent items that have been purchased but will be used later.

                i. Examples include Insurance paid a year in advance.

            e. **Land** is used to track the cost of land a business owns and uses in its operations.

            f. **Buildings** represent the cost of a business's buildings, offices, warehouses, etc.

            g. **Equipment, Furniture and Fixtures** represent items such computer equipment, office equipment, store equipment, and furniture and fixtures. A business will typically have a separate asset account for each type of equipment.

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2. **Liabilities**
    a. **Accounts Payable** reflects how much cash the business must pay to suppliers for goods or services that have already been received.
    b. **Notes Payable** represents amounts the business must pay because it signed a promissory note to borrow money.
    c. **Accrued Liabilities** represents liabilities for expenses that have been incurred but have not yet been paid.
        i. Examples are Taxes Payable, Interest Payable, and Salaries Payable.
3. Stockholders' Equity
    a. **Common Stock** represents the investment of assets, usually cash, the stockholders have invested into a business in exchange for the company's stock.
    b. **Retained Earnings** tracks the cumulative earnings of the business since it began, less any dividends given to stockholders.
    c. **Revenues** are increases in Retained Earnings that represent amounts earned by the company.
    d. **Expenses** are decreases in Retained Earnings from using resources to deliver goods and services to customers.
    e. **Dividends** reflect the amount of earnings that have been distributed to the stockholders. Dividends decrease Retained Earnings.

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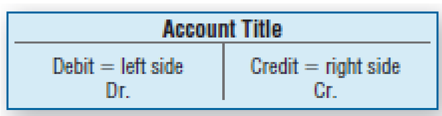
What Is Double-Entry Accounting?

2) **Explain debits, credits, and the double-entry system of accounting. (LO2)**

   a. **Double-Entry** is the rule of accounting that specifies every transaction must involve at least two accounts and is recorded with equal amounts of debits and credits.

   b. **Debit** is the left side of any account; an entry made to the left side of an account.

   c. **Credit** is the right side of any account; an entry made to the right side of an account.



   d. **T-Account** is an informal account form used to summarize transactions where the top of the T holds the account title and the base divides the debit and credit sides of the account. Exhibit 2-1 shows T-accounts along with which side increases/decreases.

Exhibit 2-1

   e. Whether it is the left side of the T or the right side that increases the account depends on the type of account.

      i. In the acronym **ADE**, **A**ssets, **D**ividends, and **E**xpenses are increased on the debit side. The last two letters (DE) stand for DEBIT.

      ii. In the Acronym **LCR**, **L**iabilities, **C**ommon Stock and **R**etained Earnings/Revenue are increased on the credit side. The last two letters (CR) stand for CREDIT.

   f. The **Normal Balance** is the balance that appears on the side of an account where increases are recorded.

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iii. The normal balance is expected to have a positive balance.

iv. Using the ADE/LCR acronyms to helps you with which accounts are increased, you can determine that:

1. Assets increase on the debit side, so the normal balance of an asset is on the debit side.
2. Liabilities increase on the credit side, so the normal balance of a liability is on the credit side.
3. The same principle follows for the remaining accounts.

g. View Exhibit 2-1 to see the relationship between the accounting equation, rules of debit/credit, normal balance and the T-account.

How Are the General Journal and the General Ledger Used to Keep Track of Business Transactions?

3) **Demonstrate the use of the general journal and general ledger to record business transactions. (LO3)**

a. A **general journal** is a chronological accounting record of the transactions of a business.

i. The general journal is a place to record events that have affected the business. **Record** means entering a transaction in a journal; also called **journalize.** A **transaction** is an event that has a financial impact on a business entity.

ii. To record a journal entry:

1. Record the date
2. Record the debit part of the entry by entering the account title and then entering the amount in the debit column
3. Record the credit part of the entry on the next line by indenting the account title and then entering the amount in the credit column.

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iii. Exhibit 2-2 demonstrates how to make a journal entry and post to the General Ledger. The general journal reflects transactions by date, so it does not provide useful information by individual accounts. To see the effect on accounts, these journal entries are posted to the general ledger.

b. A **General Ledger** is the accounting record that summarizes, in accounts, the transactions of a business and shows the resulting ending account balances.

c. **Posting** is copying information from the general journal to accounts in the general ledger.

i. Posting is broken down into 4 steps. (see Exhibit 2-2)

1. Copy transaction date for the journal to the account in the ledger.
2. Copy the journal page number from the journal to the posting reference column in the account. The **posting reference** is a notation in the journal and the ledger that links these two accounting records together.
3. Copy the dollar amount of the debit from the journal as a debit into the account in the ledger.
4. Copy the account number from the account in the ledger back to the posting reference column in the journal.

e. Transaction Analysis: the five steps in analyzing business transactions.

i. Identify the accounts involved

ii. Determine the type of account for each account involved

iii. Determine whether the account increases or decreases

iv. Debit or Credit the account

v. Journalize the transaction and post to the ledger

f. Balance the T-Accounts

i. After the transactions are recorded and posted to the T-accounts, the balance in each account is calculated. The **balance** is the difference between an account's total debit and total credit accounts; the ending value of an account.

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How Is a Trial Balance Prepared and What Is It Used For?

4) **Use a trial balance to prepare financial statements. (LO4)**

   a. A **trial balance** is a list of all the accounts of a business and their balances; its purpose is to verify that total debits equal total credits.

      i. Not an official financial statement.

      ii. Format includes the heading (company name, statement name, date), and columns for the name of each account, the debit column, and the credit column. The debit and credit columns are total to ensure that debits equal credits.

      iii. Commonly prepared at the end of the accounting period but can be created any time.

         1. The **accounting period** is the time period reflected by a set of financial statements.

            a. Usually defined as a month, quarter or year.

      iv. Exhibit 2-3 illustrates a Trial Balance.

   b. Correcting Errors

      i. The method to correct an error depends on the type of error made.

         1. If a journal entry is made to the wrong accounts or for the wrong amount, reverse or undo the incorrect entry. Then create a new entry that records the correct information.

         2. To correct an entry that has been made twice, one of the entries should be reversed.

         3. If an entry was erroneously omitted, simply create and enter the journal entry.

   c. Preparation of Financial Statements

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i. Since the Trial Balance lists all of the accounts and their associated balances, it is often used to prepare financial statements.

ii. Prepare the financial statements in the correct order (see Chapter 1).

iii. Make sure that the Balance Sheet is in balance. If not, check to see what you entered for the Retained Earnings account. Is it the beginning Retained Earnings account balance or the ending Retained Earnings balance which represents closing the income and expenses. The answer depends on the type of trial balance used to prepare the balance sheet which will be covered in greater detail in Chapter 3.

iv. Exhibit 2-4 illustrates how the financial statements flow together.

v. The **Accounting Cycle** is the sequence of steps used to record and report business transactions. This cycle is completed for every accounting period and repeated for subsequent accounting periods.

    1. See an illustration of the Accounting Cycle on page 72.
    2. Chapter 3 covers the remaining steps in the accounting cycle which includes preparing adjusting and closing entries.

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Assignment Grid

Assignment	Topic(s)	Learning Objective(s)	Estimated Time in Minutes	Level of Difficulty
Short Exercises				
S2-1	Accounting terms	1	5-10	Easy
S2-2	Account types	1	5-10	Easy
S2-3	Accounting cycle steps	2, 3, 4	5-10	Easy
S2-4	Account types	1	5-10	Easy
S2-5	Accounting terminology	2, 3, 4	5-10	Easy
S2-6	Effects of debits and credits on accounts	2	5-10	Easy
S2-7	Balancing accounts and normal balances	2	5-10	Easy
S2-8	Types of accounts and effects of debits and credits	2	5-10	Easy
S2-9	Recreating journal entries from T-account postings	2	15-20	Easy
S2-10	Journalizing transactions	3	10-15	Easy
S2-11	Journalizing transactions	3	10-15	Easy
S2-12	Prepare trial balance	4	10-10	Easy
S2-13	Preparation of financial statements from a trial balance	4	5-10	Easy
S2-14	Accounting terminology	1, 2, 3, 4	5-10	Easy
Exercises (Group A)				
E2-15A	Journalizing transactions	2,3	10-15	Easy
E2-16A	Journalizing transactions	3	15-20	Easy
E2-17A	Journalizing transactions	3	15-20	Easy
E2-18A	Balance accounts and prepare trial balance	3, 4	10-15	Easy
E2-19A	Record transactions and prepare a trial balance	3, 4	15-20	Medium
E2-20A	Journalize transactions, prepare a trial balance and balance sheet.	3, 4	20-25	Medium
E2-21A	Journalizing, posting, trial balance, income statement, and balance sheet	3, 4	25-30	Medium
E2-22A	Error correction	4	20-25	Difficult
Exercises (Group B)				
E2-23B	Journalizing transactions	2,3	10-15	Easy
E2-24B	Journalizing transactions	3	15-20	Easy
E2-25B	Journalizing transactions	3	15-20	Easy
E2-26B	Balance accounts and prepare trial balance	2,4	10-15	Easy
E2-27B	Record transactions and prepare a trial balance	3, 4	15-20	Medium

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E2-28B	Journalize transactions, prepare a trial balance and balance sheet	3, 4	20-25	Medium
E2-29B	Journalizing, posting, trial balance, income statement and balance sheet financial statements	3, 4	25-30	Medium
E2-30B	Error correction	4	20-25	Difficult

Exercises (Alternatives 1,2, and 3)
Available at www.myaccountinglab.com

Problems (Group A)

P2-31A	Journalizing transactions	3	15-20	Medium
P2-32A	Journalizing transactions	3	15-20	Medium
P2-33A	Journalizing, posting, and trial balance preparation	3, 4	20-25	Medium
P2-34A	Journalizing, posting, and trial balance preparation	3, 4	25-30	Medium
P2-35A	Prepare a trial balance, income statement, statement of retained earnings, and balance sheet	4	20-25	Medium
P2-36A	Error correction	4	15-20	Difficult

Problems (Group B)

P2-37B	Journalizing transactions	3	15-20	Medium
P2-38B	Journalizing transactions	3	15-20	Medium
P2-39B	Journalizing, posting, and trial balance preparation	3, 4	20-25	Medium
P2-40B	Journalizing, posting, and trial balance preparation	3, 4	25-30	Medium
P2-41B	Prepare a trial balance, income statement, statement of retained earnings, and balance sheet	4	20-25	Medium
P2-42B	Error correction	4	15-20	Difficult

Problems (Alternatives 1,2, and 3))
Available at www.myaccountinglab.com

Continuing Exercise

	Open T-accounts, journalize transactions, Post and prepare trial balance	3, 4	30	Medium

Continuing Problem

	Journalize transactions, open general ledger accounts, post and prepare trial balance	3, 4	50-60	Medium

Continuing Financial Statement Analysis Problem

Utilizing Target Corporation's financial statements to answer a series of questions

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Ethics in Action (2 scenarios)		
Financial Analysis	60	Medium
Industry Analysis	40	Medium
Small Business Analysis	30	Medium
Written Communication		

Assignments Available in Varied Accounting Software Formats:
Excel Templates: E2-18A, P2-41B
QuickBooks: P2-31A, P2-32A, P2-33A, P2-34A, P2-36A, 32-17A
Peachtree: P2-31A, P2-32A, P2-33A, P2-34A, P2-36A, 32-17A
General Ledger: P2-31A, P2-32A

Answer Key to Chapter 2 Quiz (on following pages)

1. C
2. B
3. D
4. B
5. C
6. D
7. A
8. A
9. B
10. D

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Name______________________________Date___________________Section______

CHAPTER 2
TEN-MINUTE QUIZ

Circle the letter of the best response.

1. Which of these is (are) an example of a liability account?
   A. Service Revenue
   B. Rent Expense
   C. Accounts Payable
   D. All of the above

2. Oliver Company collected $2,250 on account. The effect of this transaction on the accounting equation is to:
   A. increase assets and decrease liabilities.
   B. nothing. It has no effect on total assets.
   C. increase assets and increase stockholders' equity.
   D. decrease assets and decrease liabilities.

3. Which of these statements is TRUE?
   A. Decreases in assets and increases in revenues are recorded with a debit.
   B. Increases in liabilities and decreases in stockholders' equity are recorded with a credit.
   C. Increases in both assets and dividends are recorded with a credit.
   D. Decreases in liabilities and increases in expenses are recorded with a debit.

4. Note Payable has a normal beginning balance of $30,000. During the period, new borrowings total $63,000 and the ending balance in Note Payable is $41,000. Determine the payments on loans during the period.
   A. $ 8,000
   B. $ 52,000
   C. $134,000
   D. $ 22,000

5. Which of these statements is NOT correct?
   A. The account is a basic summary device used in accounting.
   B. A business transaction is recorded first in the journal and then posted to the ledger.
   C. The ledger is a chronological listing of all transactions.
   D. The debit entry is recorded first in a journal entry; the credit entry then follows.

6. Which of these accounts has a normal credit balance?
   A. Rent Expense
   B. Common Stock
   C. Service Revenue
   D. Both B and C

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7. The journal entry to record the payment to a supplier of $890 on account is:

A.

Accounts Payable	890	
Cash		890

B.

Cash	890	
Accounts Receivable		890

C.

Cash	890	
Accounts Payable		890

D.

Supplies	890	
Cash		890

8. The ending Cash account balance is $57,600. During the period, debit postings equal $124,300. If credit postings during the period total $135,100, then the beginning Cash amount must have been:
   - A. $ 68,400.
   - B. $ 46,800.
   - C. $181,900.
   - D. $ 10,800.

9. Use the following selected information for the Callie Company to calculate the correct credit column total for a trial balance:

Accounts receivable	$ 7,200
Accounts payable	6,900
Building	179,400
Cash	15,800
Common stock	64,000
Salary expense	56,100
Salary payable	3,600
Service revenue	190,500
Dividends	6,500

   - A. $201,000
   - B. $265,000
   - C. $321,400
   - D. $271,500

10. The INCORRECT trial balance debit column total is $58,700. During the period, a $1,000 debit to Accounts Receivable was posted as $100. What is the trial balance debit column total after this error is corrected?
   - A. $57,600
   - B. $59,800
   - C. $57,800
   - D. $59,600

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Chapter 2: Analyzing and Recording Business Transactions

Discussion Questions: Key Points

1. Assets are listed in order of liquidity, or closeness to cash. Discuss the steps that the business would have to go through in order to convert each asset to cash in the normal course of business.
2. When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although it would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use.
3. Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the retained earnings account.
4. Not all events are transactions. A transaction is an event that has a financial impact on a company. Journal entries are recorded for all transactions.
5. The normal balance of an account is the side that increases the account.
   a. Debit
   b. Debit
   c. Credit
   d. Credit
   e. Debit
6. The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheck, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account).
7. A credit balance in the cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its checking account, it now has a liability to the bank. Rather than showing a credit balance in its cash account, it should show a credit balance in a liability account.
8. Journalizing is the process of recording a transaction in the journal. Posting is the process of transferring the information from the journal to the appropriate accounts in the ledger or to T-accounts.
9. False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to supplies is improperly recorded as a debit to supplies expense, for example, the trial balance will balance but the financial statements will be inaccurate.
10. The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger.

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Short Exercises

(5-10 min.) S 2-1

1.	b
2.	c
3.	e
4.	g
5.	d
6.	f
7.	a

(5-10 min.) S 2-2

1.	Accounts payable	L
2.	Cash	A
3.	Service revenue	R
4.	Prepaid rent	A
5.	Rent expense	E
6.	Common stock	SE

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(5-10 min.) S 2-3

1.	Transactions occur.
5.	Prepare the financial statements
4.	Prepare the trial balance.
3.	Post the transactions from the journal to the ledger.
2.	Record the transactions in the journal.

(5-10 min.) S 2-4

Example	A, 1
1.	R, 4
2.	SE, 3
3.	A, 1
4.	E, 5
5.	L, 2
6.	SE, 3
7.	E ,5

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(5-10 min.) S 2-5

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

(5-10 min.) S 2-6

DR	1.	Rent expense
CR	2.	Accounts payable
CR	3.	Service revenue
DR	4.	Office furniture
CR	5.	Common stock
DR	6.	Land
DR	7.	Dividends

(5-10 min.) S 2-7

Supplies

3/8	250	3/27	400
3/17	800		
Bal.	650		

Note payable

3/20	1,250	3/5	9,500
3/31	4,500		
		Bal.	3,750

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(5-10 min.) S 2-8

Account	Type	↑	↓
Office equipment	Asset	Dr.	Cr.
Dividends	Stockholder's Equity	Dr.	Cr.
Service revenue	Revenue	Cr.	Dr.
Accounts payable	Liability	Cr.	Dr.
Rent expense	Expense	Dr.	Cr.
Cash	Asset	Dr.	Cr.

(15-20 min.) S 2-9

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
(1)	Cash	Asset	Increase	Dr
	Common stock	Stockholders' Equity	Increase	Cr
(2)	Equipment	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
(3)	Supplies	Asset	Increase	Dr
	Accounts payable	Liability	Increase	Cr
(4)	Accounts receivable	Asset	Increase	Dr
	Service revenue	Revenue	Increase	Cr
(5)	Accounts payable	Liability	Decrease	Dr
	Cash	Asset	Decrease	Cr
(6)	Operating expenses	Expense	Increase	Dr

	Cash	Asset	Decrease	Cr
(7)	Dividends	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr

(10-15 min.) S 2-10

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Aug	1	Cash		50,000	
		Common stock			50,000
		Sold stock.			
	5	Dental supplies		6,300	
		Accounts payable			6,300
		Purchased supplies on account.			
	7	Rent Expense		1,000	
		Cash			1,000
		Paid office rent.			
	10	Cash		1,200	
		Accounts receivable		2,600	
		Service revenue			3,800
		Performed service for patients.			

(10-15 min.) S 2-11

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep	3	Cash		35,000	
		Note payable			35,000
		Borrowed money from the bank.			
	9	Accounts receivable		1,250	
		Service revenue			1,250
		Performed service on account.			

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	16	Cash		500	
		Accounts receivable			500
		Received cash on account.			
	22	Utilities expense		380	
		Accounts payable			380
		Received utility bill.			
				2,250	
	30	Salaries expense		2,600	
		Cash			2,250
		Paid salary expense.			
	30	Interest expense		170	
		Cash			170
		Paid interest expense.			

(10-15 min.) S 2-12

Audio Masters, Corp Trial Balance April 30, 2014		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$18,300	
Prepaid rent	750	
Equipment	21,000	
Accounts payable		$ 1,700
Note payable		11,500
Common stock		15,000
Dividends	22,600	
Service revenue		63,000
Rent expense	10,150	
Utilities expense	18,400	
Total	$91,200	$91,200

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(5-10 min.) S 2-13

Mylar, Inc.
Trial Balance
December 31, 2014

	ACCOUNT		DEBIT		CREDIT
BS	Cash		$12,100		
BS	Accounts Receivable		1,900		
BS	Supplies		250		
BS	Equipment		6,000		
BS	Accounts Payable				$1,830
BS	Notes Payable				10,000
BS	Common Stock				8,500
RE	Dividends		700		
IS	Service Revenue				3,500
IS	Salaries Expense		1,740		
IS	Rent Expense		800		
IS	Utilities Expense		340		
	Total		$23,830		$23,830

(5-10 min.) S 2-14

e 1 Posting

d 2 Normal balance

g 3 Payable

a 4 Journal

b 5 Receivable

h 6 Chart of accounts

c 7 Debit

f 8 Trial balance

i 9 Credit

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Exercises

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

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
Jul 1	Advertising expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr
3	Cash	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr
5	Supplies	Asset	Increase	Dr
	Accounts payable	Liability	Increase	Cr
9	Cash	Asset	Increase	Dr
	Accounts receivable	Asset	Decrease	Cr
12	Accounts Payable	Liability	Decrease	Dr
	Cash	Asset	Decrease	Cr
17	Accounts receivable	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr

(15-20 min.) E 2-16A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Apr.	1	Interest expense		380	
		Cash			380
	5	Office furniture		3,200	
		Accounts payable			3,200
	10	Accounts receivable		2,650	
		Service revenue			2,650
	12	Cash		25,000	
		Notes payable			25,000
	19	Cash		53,000	
		Land			53,000
	21	Building		250,000	
		Notes payable			250,000
	27	Accounts Payable		1,800	
		Cash			1,800

(15-20 min.) E 2-17A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Nov.	1	Cash		85,000	
		Common stock			85,000
	3	Supplies		400	
		Accounts Payable			400
	5	Building		40,000	

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		Cash			40,000
	6	Cash		1,600	
		Service revenue			1,600
	11	Accounts payable		350	
		Cash			350
	18	Accounts receivable		2,600	
		Service revenue			2,600
	24	Cash		1,300	
		Accounts receivable			1,300
	30	Salaries expense		700	
		Rent expense		1,800	
		Cash			2,500

(10-15 min.) E 2-18A

Req. 1

Cash

Oct. 1	25,000	Oct. 4	13,500
6	6,700	9	300
23	1,400	29	1,600
Bal.	*17,700*		

Accounts Payable

Oct. 9	300	Oct. 2	450
		Bal.	*150*

Accounts Receivable

Oct. 17	2,300	Oct. 23	1,400
Bal.	*900*		

Common stock

		Oct. 1	25,000
		Bal.	*25,000*

Supplies

Oct. 2	450		
Bal.	*450*		

Service revenue

		Oct. 6	6,700
		17	2,300
		Bal.	*9,000*

Equipment

Oct. 4	13,500		
Bal.	13,500		

Salaries Expense

Oct. 29	1,600		
Bal.	1,600		

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Req. 2

Tiny Tykes Daycare, Inc.		
Trial Balance		
October 31, 2014		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$17,700	
Accounts receivable	900	
Supplies	450	
Equipment	13,500	
Accounts payable		$ 150
Common stock		25,000
Service revenue		9,000
Salaries expense	1,600	
Total	$34,150	$34,150

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(15-20 min.) E 2-19A

Req 1

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Mar.	2	Rent expense		1,000	
		Cash			1,000
	4	Cash		1,100	
		Service revenue			1,100
	8	Supplies		100	
		Accounts payable			100
	11	Cash		2,600	
		Accounts receivable			2,600
	15	Cash		45,000	
		Common stock			45,000
	19	Accounts payable		450	
		Cash			450
	27	Accounts receivable		3,300	
		Service revenue			3,300
	31	Notes payable		6,000	
		Cash			6,000

Req 2 & 3

Cash

Mar 1	5,000	Mar 2	1,000
Mar 4	1,100	Mar 19	450
Mar 11	2,600	Mar 31	6,000
Mar 15	45,000		
Bal.	*46,250*		

Accounts payable

Mar 19	450	Mar 1	400
		Mar 8	100
		Bal.	*50*

Accounts receivable

Mar 1	2,800	Mar 11	2,600

Notes payable

Mar 31	6,000	Mar 1	9,000

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Mar 27	3,300		
Bal.	*3,500*		

		Bal.	*3,000*

Supplies

Mar 1	550		
Mar 8	100		
Bal.	*650*		

Common stock

		Mar 1	30,750
		Mar 15	45,000
		Bal.	*75,750*

Office furniture

Mar 1	2,900		
Bal.	*2,900*		

Service revenue

		Mar 1	2,600
		Mar 4	1,100
		Mar 27	3,300
		Bal.	*7,000*

Building

Mar 1	30,000		
Bal.	*30,000*		

Rent expense

Mar 1	1,500		
Mar 2	1,000		
Bal.	*2,500*		

Req 4

Baily Realty, Inc.		
Trial Balance		
March 31, 2014		
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 46,250	
Accounts receivable	3,500	
Supplies	650	
Office furniture	2,900	
Building	30,000	
Accounts payable		$ 50
Notes payable		3,000
Common stock		75,750
Service revenue		7,000
Rent expense	2,500	
Total	$85,800	$85,800

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(20-25 min.) E 2-20A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep.	1	Cash		53,000	
		Common stock			53,000
		Sold stock.			
	2	Supplies		750	
		Accounts Payable			750
		Purchased supplies on acct.			
	3	Building		140,000	
		Notes payable			140,000
		Purchased building signing note payable.			
	4	Equipment		7,500	
		Cash			7,500
		Paid cash to purchase equipment			
	5	Notes Payable		5,500	
		Cash			5,500
		Made payment on note payable.			
	6	Accounts payable		500	
		Cash			500
		Made payment on account.			

Req. 2

Cash

(1)	53,000	(4)	7,500
		(5)	5,500
		(6)	500
Bal.	*39,500*		

Accounts payable

(6)	500	(2)	750
		Bal.	*250*

Supplies

(2)	750		
Bal.	*750*		

Notes payable

(5)	5,500	(3)	140,000
		Bal.	*134,500*

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Equipment			
	(4)	7,500	
Bal.		*7,500*	

Common stock			
		(1)	53,000
		Bal.	*53,000*

Building			
	(3)	140,000	
Bal.		*140,000*	

Req. 3

Rawlins Equipment, Inc. Trial Balance September 30, 2014		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$39,500	
Supplies	750	
Equipment	7,500	
Building	140,000	
Accounts payable		$ 250
Notes payable		134,500
Common stock		53,000
Total	$187,750	$187,750

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Req. 4

Rawlins Equipment, Inc.			
Balance Sheet			
September 30, 2014			
ASSETS		LIABILITIES	
Cash	$ 39,500	Accounts payable	$ 250
Supplies	750	Notes payable	134,500
Equipment	7,500	Total liabilities	134,750
Building	140,000	STOCKHOLDERS' EQUITY	
		Common stock	53,000
		Total liabilities and	
Total assets	$187,750	stockholder's equity	$187,750

(25-30 min.) E 2-21A

Req. 2

Journal					
DATE		**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
Nov.	2	Cash		80,000	
		Common stock			80,000
	3	Rent expense		1,700	
		Cash			1,700
	6	Equipment		1,800	
		Cash			1,800
	8	Furniture		1,200	
		Accounts payable			1,200
	11	Supplies		400	
		Accounts payable			400
	19	Accounts receivable		2,600	
		Service revenue			2,600
	20	Utility expense		500	
		Cash			500
	28	Cash		1,600	
		Service revenue			1,600

Req. 1, and 3

Cash

Nov. 2	80,000	Nov. 3	1,700
28	1,600	6	1,800
		20	500
Bal.	*77,600*		

Accounts payable

		Nov. 8	1,200
		11	400
		Bal	*1,600*

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Accounts receivable

Debit		Credit	
Nov. 19	2,600		
Bal.	*2,600*		

Common stock

Debit		Credit	
		Nov. 2	80,000
		Bal.	*80,000*

Supplies

Debit		Credit	
Nov. 11	400		
Bal.	*400*		

Service revenue

Debit		Credit	
		Nov. 19	2,600
		28	1,600
		Bal.	*4,200*

Equipment

Debit		Credit	
Nov. 6	1,800		
Bal.	*1,800*		

Rent Expense

Debit		Credit	
Nov. 3	1,700		
Bal.	*1,700*		

Furniture

Debit		Credit	
Nov. 8	1,200		
Bal.	*1,200*		

Utilities expense

Debit		Credit	
Nov 20	500		
Bal.	*500*		

Req. 4

Munro Consulting, Inc.		
Trial Balance		
November 30, 2014		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 77,600	
Accounts receivable	2,600	
Supplies	400	
Equipment	1,800	
Furniture	1,200	
Accounts payable		$ 1,600
Common stock		80,000
Service revenue		4,200
Rent expense	1,700	
Utilities expense	500	
Total	$85,800	$85,800

Req. 5

Munro Consulting, Inc.		
Income Statement		
Month Ended November 30, 2014		
Service revenue		$4,200
Expenses:		
Rent expense	$1,700	
Utilities expense	500	
Total expenses		2,200
Net Income		$2,000

Munro Consulting, Inc.		
Statement of Retained Earnings		
Month Ended November 30, 2014		

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Retained earnings, November 1		$0
Add: Net income		2,000
Retained earnings, November 30		$2,000

Note: There were no dividends during the month of November

Munro Consulting, Inc.			
Balance Sheet			
November 30, 2014			
ASSETS		LIABILITIES	
Cash	$ 77,600	Accounts payable	$ 1,600
Accounts receivable	2,600		
Supplies	400	STOCKHOLDERS' EQUITY	
Equipment	1,800	Common stock	80,000
Furniture	1,200	Retained earnings	2,000
		Total Stockholders' equity	82,000
		Total liabilities and	
Total assets	$83,600	stockholder's equity	$83,600

(20-25 min.) E 2-22A

	Effect on Trial Balance	Account(s) Misstated
a.	Total debits = Total credits	Cash $405 too high Rent expense $405 too low
b.	Total debits = Total credits	Accounts receivable $800 too high Accounts Payable $800 too high
c.	Total debits = Total credits	Cash $180 too high Service revenue $180too high
d.	Total debits = Total credits	Supplies $550 too low Accounts payable $550 too low
e.	Total debits > Total credits	Notes payable $30,000 too low

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(10-15 min.) E 2-23B

Transaction	Account Affected	Type	↑	↓	Dr. or Cr.
Apr. 1	Advertising expense	Stockholders' Equity	Increase		Dr
	Cash	Asset		Decrease	Cr
3	Equipment	Asset	Increase		Dr
	Cash	Asset		Decrease	Cr
5	Cash	Asset	Increase		Dr
	Common stock	Stockholders' Equity	Increase		Cr
9	Cash	Asset	Increase		Dr
	Notes payable	Liability	Increase		Cr
12	Utilities expense	Stockholders' Equity	Increase		Dr
	Cash	Asset		Decrease	Cr
17	Supplies	Asset	Increase		Dr
	Cash	Asset		Decrease	Cr

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(15-20 min.) E 2-24B

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Apr.	1	Interest expense		1,000	
		Cash			1,000
	5	Office furniture		3,000	
		Accounts payable			3,000
	10	Accounts receivable		2,400	
		Service revenue			2,400
	12	Cash		20,000	
		Notes payable			20,000
	19	Cash		75,000	
		Land			75,000
	21	Building		300,000	
		Notes payable			300,000
	27	Accounts Payable		1,500	
		Cash			1,500

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(15-20 min.) E 2-25B

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Dec.	1	Cash		80,000	
		Common stock			80,000
	3	Supplies		160	
		Accounts payable			160
	5	Building		45,000	
		Cash			45,000
	6	Cash		3,700	
		Service revenue			3,700
	11	Accounts payable		120	
		Cash			120
	18	Accounts receivable		2,650	
		Service revenue			2,650
	24	Cash		2,100	
		Accounts receivable			2,100
	31	Salaries expense		1,100	
		Rent expense		1,450	
		Cash			2,550

(10-15 min.) E 2-26B

Req. 1

Cash

May	1	35,000	May. 4		12,700
	6	3,000	9		600
	23	750	29		1,500
Bal.		*23,950*			

Accounts Payable

May	9	600	May 2	900
			Bal.	*300*

Accounts Receivable

May 17	5,100	May 23	750
Bal.	*4,350*		

Common stock

		May 1	35,000
		Bal.	*35,000*

Supplies

May 2	900		
Bal.	*900*		

Service revenue

		May 6	3,000
		17	5,100
		Bal.	*8,100*

Equipment

May 4	12,700		
Bal.	*12,700*		

Salaries Expense

May 29	1,500		
Bal.	*1,500*		

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Req. 2

Fun Time Daycare, Inc.		
Trial Balance		
May 31, 2014		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$23,950	
Accounts receivable	4,350	
Supplies	900	
Equipment	12,700	
Accounts payable		$ 300
Common stock		35,000
Service revenue		8,100
Salaries expense	1,500	
Total	$43,400	$43,400

(15-20 min.) E 2-27B

Req 1

Journal					
DATE		**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
Dec	2	Rent expense		1,600	
		Cash			1,600
	4	Cash		900	
		Service revenue			900
	8	Supplies		225	
		Accounts payable			225
	11	Cash		1,500	
		Accounts receivable			1,500
	15	Cash		5,000	
		Common stock			5,000
	19	Accounts payable		375	
		Cash			375
	27	Accounts receivable		1,640	
		Service revenue			1,640
	28	Notes payable		2,500	
		Cash			2,500

Req 2 & 3

Cash

Dec 1	4,325	Dec 2	1,600
Dec 4	900	Dec 19	375
Dec 11	1,500	Dec 28	2,500
Dec 15	5,000		
Bal.	*7,250*		

Accounts payable

Dec 19	375	Dec 1	875
		Dec 8	225
		Bal.	*725*

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Accounts receivable

Dec 1	2,200	Dec 11	1,500
Dec 27	1,640		
Bal.	*2,340*		

Notes payable

Dec 28	2,500	Dec 1	17,500
		Bal.	*15,000*

Supplies

Dec 1	450		
Dec 8	225		
Bal.	*675*		

Common stock

		Dec 1	30,000
		Dec 15	5,000
		Bal.	*35,000*

Office furniture

Dec 1	3,100		
Bal.	*3,100*		

Service revenue

		Dec 1	5,300
		Dec 4	900
		Dec 27	1,640
		Bal.	*7,840*

Building

Dec 1	42,000		
Bal.	*42,000*		

Rent expense

Dec 1	1,600		
Dec 2	1,600		
Bal.	*3,200*		

Req 4

Going Green, Inc.		
Trial Balance		
December 31, 2014		
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 7,250	
Accounts receivable	2,340	
Supplies	675	
Office furniture	3,100	
Building	42,000	
Accounts payable		$ 725
Notes payable		15,000
Common stock		35,000
Service revenue		7,840
Rent expense	3,200	
Total	$58,565	$58,565

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(20-25 min.) E 2-28B

Req. 1

Journal					
DATE		**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
Jun	1	Cash		28,000	
		Common stock			28,000
		Sold stock.			
	2	Supplies		1,100	
		Accounts Payable			1,100
		Purchased supplies on acct.			
	3	Building		50,000	
		Notes payable			50,000
		Purchased building signing note payable.			
	4	Equipment		9,000	
		Cash			9,000
		Paid cash to purchase equipment			
	5	Notes Payable		2,500	
		Cash			2,500
		Made payment on note payable.			
	6	Accounts payable		500	
		Cash			500
		Made payment on account.			

Req. 2

Cash

(1)	28,000	(4)	9,000
		(5)	2,500
		(6)	500
Bal.	*16,000*		

Accounts payable

(6)	500	(2)	1,100
		Bal.	*600*

Supplies

Notes payable

(2)	1,100		
Bal.	*1,100*		

(5)	2,500	(3)	50,000
		Bal.	*47,500*

Equipment

(4)	9,000		
Bal.	*9,000*		

Common stock

		(1)	28,000
		Bal.	*28,000*

Building

(3)	50,000		
Bal.	*50,000*		

Req. 3

Grinko, Inc.		
Trial Balance		
June 30, 2014		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$16,000	
Supplies	1,100	
Equipment	9,000	
Building	50,000	
Accounts payable		$ 600
Notes payable		47,500
Common stock		28,000
Total	$76,100	$76,100

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Req. 4

Grinko, Inc.			
Balance Sheet			
June 30, 2014			
ASSETS		LIABILITIES	
Cash	$ 16,000	Accounts payable	$ 600
Supplies	1,100	Notes payable	47,500
Equipment	9,000	Total liabilities	48,100
Building	50,000	STOCKHOLDERS' EQUITY	
		Common stock	28,000
		Total liabilities and	
Total assets	$76,100	stockholder's equity	$76,100

(25-30 min.) E 2-29B

Req. 1

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep	2	Cash		50,000	
		Common stock			50,000
	3	Rent expense		1,750	
		Cash			1,750
	6	Equipment		1,400	
		Cash			1,400
	8	Furniture		2,700	
		Accounts payable			2,700
	11	Supplies		225	
		Accounts payable			225
	19	Accounts receivable		1,835	
		Service revenue			1,835
	20	Utility expense		285	
		Cash			285
	28	Cash		975	
		Service revenue			975

Req. 2

Cash

Sep 2	50,000	Sep 3	1,750
28	975	6	1,400
		20	285
Bal.	*47,540*		

Accounts payable

		Sep 8	2,700
		11	225
		Bal	*2,925*

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Accounts receivable

Sep 19	1,835		
Bal.	*1,335*		

Supplies

Sep 11	225		
Bal.	*225*		

Equipment

Sep 6	1,400		
Bal.	*1,400*		

Furniture

Sep 8	2,700		
Bal.	*2,700*		

Common stock

		Sep 2	50,000
		Bal.	*50,000*

Service revenue

		Sep 19	1,835
		28	975
		Bal.	*2,810*

Rent Expense

Sep 3	1,750		
Bal.	*1,750*		

Utilities expense

Sep 20	285		
Bal.	*285*		

Req. 3

Nolan Consulting, Inc.
Trial Balance
September 30, 2014

	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 47,540	
Accounts receivable	1,835	
Supplies	225	
Equipment	1,400	
Furniture	2,700	
Accounts payable		$ 2,925
Common stock		50,000
Service revenue		2,810
Rent expense	1,750	
Utilities expense	285	
Total	$55,735	$55,735

Req. 4

Nolan Consulting, Inc.
Income Statement
Month Ended September 30, 2014

Service revenue		$2,810

Expenses:		
Rent expense	$1,750	
Utilities expense	285	
Total expenses		2,035
Net Income		$775

Nolan Consulting, Inc.		
Statement of Retained Earnings		
Month Ended September 30, 2014		
Retained earnings, September 1, 2014		$0
Add: Net income		775
Retained earnings, September 30, 2014		$775

Note: There were no dividends during the month of September

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Nolan Consulting, Inc.			
Balance Sheet			
September 30, 2014			
ASSETS		LIABILITIES	
Cash	$ 47,540	Accounts payable	$ 2,925
Accounts receivable	1,835		
Supplies	225	STOCKHOLDERS' EQUITY	
Equipment	1,400	Common stock	50,000
Furniture	2,700	Retained earnings	775
		Total Stockholders' equity	50,775
		Total liabilities and	
Total assets	$53,700	stockholder's equity	$53,700

(10-15 min.) E 2-30B

	Effect on Trial Balance	Account(s) Misstated
a.	Total debits = Total credits	Cash $810 too high Rent expense $810 too low
b.	Total debits = Total credits	Accounts receivable $700 too high Accounts Payable $700 too high
c.	Total debits = Total credits	Cash $90 too low Service revenue $90 too low
d.	Total debits = Total credits	Supplies $380 too low Accounts payable $380 too low
e.	Total debits > Total credits	Notes payable $95,000 too low

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Problems

(15-20 min.) P 2-31A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Apr.	1	Cash		40,000	
		Common stock			40,000
	3	Supplies		600	
		Cash			600
	8	Land		28,000	
		Cash			28,000
	12	Office equipment		1,800	
		Accounts payable			1,800
	17	Cash		5,000	
		Notes payable			5,000
	26	Accounts payable		2,600	
		Cash			2,600
	30	Cash		15,000	
		Accounts receivable		27,000	
		Service revenue			42,000
	30	Salaries expense		2,900	
		Rent expense		1,400	
		Utilities expense		700	
		Cash			5,000
	30	Dividends		9,000	
		Cash			9,000

(15-20 min.) P 2-32A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
July	1	Cash		450,000	
		Notes payable			450,000
	3	Building		275,000	
		Cash			275,000
	6	Accounts receivable		21,400	
		Service revenue			21,400
	9	Supplies		875	
		Accounts payable			875
	13	Cash		8,200	
		Service revenue			8,200
	15	Dividends		3,500	
		Cash			3,500
	17	Cash		5,900	
		Accounts Receivable			5,900
	18	Property tax expense		1,140	
		Cash			1,140
	22	Salaries expense		4,300	
		Cash			4,300
	26	Supplies		550	
		Cash			550
	31	Accounts payable		4,700	
		Cash			4,700

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(20-25 min.) P2-33A

Req. 2

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Oct	1	Cash		50,000	
		Common stock			50,000
	3	Supplies		300	
		Furniture		1,300	
		Accounts payable			1,600
	5	Cash		1,800	
		Service revenue			1,800
	8	Land		25,000	
		Cash			25,000
	11	Accounts receivable		2,500	
		Service revenue			2,500
	14	Salaries expense		600	
		Cash			600
	16	Accounts payable		1,300	
		Cash			1,300
	19	Cash		300	
		Service revenue			300
	23	Accounts receivable		1,700	
		Service revenue			1,700
	28	Cash		400	
		Accounts receivable			400
	31	Salaries expense		600	
		Cash			600
	31	Rent expense		1,500	
		Cash			1,500
	31	Dividends		1,800	
		Cash			1,800

Req. 1, 3, and 4

Cash

Oct 1	50,000	Oct 8	25,000
5	1,800	14	600
19	300	16	1,300
28	400	31	600
		31	1,500
		31	1,800
Bal.	*21,700*		

Accounts Payable

Oct 16	1,300	Oct 3	1,600
		Bal	*300*

Common stock

		Oct 1	50,000
		Bal.	*50,000*

Accounts Receivable

Oct 11	2,500	Oct 28	400
23	1,700		
Bal.	*3,800*		

Dividends

Oct 31	1,800		
Bal.	1,800		

Supplies

Oct 3	300		
Bal.	*300*		

Service revenue

		Oct 5	1,800
		11	2,500
		19	300
		23	1,700
		Bal.	*6,300*

Furniture

Oct 3	1,300		
Bal.	*1,300*		

Salaries Expense

Oct 14	600		
31	600		
Bal.	*1,200*		

Land

Oct 8	25,000		
Bal.	*25,000*		

Rent Expense

Oct 31	1,500		
Bal.	*1,500*		

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Req. 5

Stevens & Associates, Inc.		
Trial Balance		
October 31, 2014		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 21,700	
Accounts receivable	3,800	
Supplies	300	
Furniture	1,300	
Land	25,000	
Accounts payable		$ 300
Common stock		50,000
Dividends	1,800	
Service revenue		6,300
Salaries expense	1,200	
Rent expense	1,500	
Total	$56,600	$56,600

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(25-30 min.) P 2-34A

Req. 1

Journal				Page 6	
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep.	16	Cash	110	3,200	
		Accounts receivable	112		3,200
		Received payment on account.			
	18	Accounts receivable	112	2,650	
		Service revenue	411		2,650
		Performed service on account.			
	21	Cash	110	1,150	
		Service revenue	411		1,150
		Performed service for cash.			
	23	Supplies	115	215	
		Accounts Payable	210		215
		Purchased supplies on account.			
	25	Dividends	315	1,500	
		Cash	110		1,500
		Paid dividends.			
	27	Accounts payable	210	1,800	
		Cash	110		1,800
		Made payment on account.			
	29	Cash	110	3,200	
		Service revenue	411		3,200
		Received cash for services performed.			
	30	Rent Expense	515	1,950	
		Cash	110		1,950
		Paid rent.			
	30	Salaries Expense	511	1,400	
		Cash	110		1,400
		Paid employee salaries.			

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Req. 2

CASH							ACCOUNT NO. 110
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			6,530	
	16		J.6	3,200		9,730	
	21		J.6	1,150		10,880	
	25		J.6		1,500	9,380	
	27		J.6		1,800	7,580	
	29		J.6	3,200		10,780	
	30		J.6		1,950	8,830	
	30		J.6		1,400	7,430	

ACCOUNTS RECEIVABLE							ACCOUNT NO. 112
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			7,200	
	16		J.6		3,200	4,000	
	18		J.6	2,650		6,650	

SUPPLIES							ACCOUNT NO. 115
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			310	
	23		J.6	215		525	

EQUIPMENT							ACCOUNT NO. 140
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep	15	Bal.	√			14,300	

ACCOUNTS PAYABLE							ACCOUNT NO. 210
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep	15	Bal.	√				5,100
	23		J.6		215		5,315
	27		J.6	1,800			3,515

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COMMON STOCK						ACCOUNT NO. 311	
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep	15	Bal.	√				23,000

DIVIDENDS						ACCOUNT NO. 315	
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep	15	Bal.	√			2,500	
	25		J.6	1,500		4,000	

SERVICE REVENUE						ACCOUNT NO. 411	
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep	15	Bal.	√				6,940
	18		J.6		2,650		9,590
	21		J.6		1,150		10,740
	29		J.6		3,200		13,940

SALARIES EXPENSE						ACCOUNT NO. 511	
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep	15	Bal.	√			2,800	
	30		J.6	1,400		4,200	

RENT EXPENSE						ACCOUNT NO. 515	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√			1,400	
	30		J.6	1,950		3,350	

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Req. 3

Safe Systems, Inc.			
Trial Balance			
September 30, 2014			
	ACCOUNT	**DEBIT**	**CREDIT**
	Cash	$ 7,430	
	Accounts receivable	6,650	
	Supplies	525	
	Equipment	14,300	
	Accounts payable		$ 3,515
	Common stock		23,000
	Dividends	4,000	
	Service revenue		13,940
	Salaries expense	4,200	
	Rent expense	3,350	
	Total	$40,455	$40,455

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(20-25 min.) P 2-35A

Req. 1

Apex Consulting, Inc.		
Trial Balance		
January 31, 20124		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	$ 7,600	
Accounts receivable	5,500	
Supplies	200	
Building	99,000	
Land	54,000	
Accounts payable		$ 4,500
Notes payable		85,000
Common stock		34,300
Retained earnings		10,400
Dividends	14,000	
Service revenue		126,500
Salaries expense	62,000	
Rent expense	7,500	
Utilities expense	5,400	
Supplies expense	3,500	
Insurance expense	2,000	
Total	$260,700	$260,700

Req. 2

Apex Consulting, Inc.		
Income Statement		
Year Ended January 31, 2014		
Service revenue		$126,500
Expenses		
Salaries expense	$62,000	
Rent expense	7,500	
Utilities expense	5,400	

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Supplies expense	3,500	
Insurance expense	2,000	
Total expenses		80,400
Net Income		$46,100

Apex Consulting , Inc. Statement of Retained Earnings Year Ended January31, 2014	
Retained earnings, Feb. 1, 2013	$10,400
Add: Net income	46,100
Subtotal	56,500
Less: Dividends	14,000
Retained earnings, Jan. 31, 2014	$42,500

Apex Consulting, Inc. Balance Sheet January 31, 2014			
ASSETS		LIABILITIES	
Cash	$ 7,600	Accounts payable	$ 4,500
Accounts receivable	5,500	Notes payable	85,000
Supplies	200	Total liabilities	89,500
Land	54,000	STOCKHOLDERS' EQUITY	
Building	99,000	Common stock	34,300
		Retained earnings	42,500
		Total stockholders' equity	76,800
		Total liabilities and	
Total assets	$166,300	stockholders' equity	$166,300

Req 3

It was a profitable year for Apex Consulting, Inc. from the standpoint that the business generated $46,100 of Net income.

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Req. 1

Journal				Page 3	
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
	a.	Cash		180	
		Service revenue			180
		($420– $240 = $180)			
	b.	Supplies		750	
		Accounts payable			750
		The original entry was recorded "backwards" so an entry for double the amount needs to be made.			
	c.	Cash		12,375	
		Rent expense			12,375
		($13,750 - $1,375 = $12,375)			
	d.	Accounts payable		1,100	
		Accounts receivable			1,1000

Req 2

a. Net income is understated because Service revenue was credited (increased) by only $240 instead of the correct amount of $420.

b. Net income would be unchanged because the entry did not effect a revenue or an expense.

c. Net income would be understated because Rent expense was debited (increased) by $13,750 instead of the correct amount of $1,375.

d. Net income would be unchanged because the entry did not effect a revenue or an expense.

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(15-20 min.) P 2-37B

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep	1	Cash		60,000	
		Common stock			60,000
	3	Supplies		450	
		Cash			450
	8	Land		43,000	
		Cash			43,000
	12	Office equipment		4,300	
		Accounts payable			4,300
	17	Cash		65,000	
		Notes payable			65,000
	26	Accounts payable		2,800	
		Cash			2,800
	30	Cash		12,000	
		Accounts receivable		16,500	
		Service revenue			28,500
	30	Salaries expense		3,240	
		Rent expense		1,800	
		Utilities expense		675	
		Cash			5,715
	30	Dividends		4,300	
		Cash			4,300

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(15-20 min.) P 2-38B

Journal					
DATE		**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
May	1	Cash		150,000	
		Notes payable			150,000
	3	Building		135,000	
		Cash			135,000
	6	Accounts receivable		11,800	
		Service revenue			11,800
	9	Supplies		1,100	
		Accounts payable			1,100
	13	Cash		8,100	
		Service revenue			8,100
	15	Dividends		5,000	
		Cash			5,000
	17	Cash		7,500	
		Accounts Receivable			7,500
	18	Property tax expense		1,250	
		Cash			1,250
	22	Salaries expense		3,350	
		Cash			3,350
	26	Supplies		1,300	
		Cash			1,300
	31	Accounts payable		5,000	
		Cash			5,000

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(20-25 min.) P2-39B

Req. 2

Journal					
DATE		**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
July	1	Cash		100,000	
		Common stock			100,000
	3	Supplies		575	
		Furniture		2,300	
		Accounts payable			2,875
	5	Cash		1,600	
		Service revenue			1,600
	8	Land		28,000	
		Cash			28,000
	11	Accounts receivable		1,850	
		Service revenue			1,850
	14	Salaries expense		575	
		Cash			575
	16	Accounts payable		2,300	
		Cash			2,300
	19	Cash		2,450	
		Service revenue			2,450
	23	Accounts receivable		3,300	
		Service revenue			3,300
	28	Cash		1,450	
		Accounts receivable			1,450
	31	Salaries expense		575	
		Cash			575
	31	Rent expense		1,720	
		Cash			1,720
	31	Dividends		2,500	
		Cash			2,500

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Req. 1, 3, and 4

Cash

Jul 1	100,000	Jul 8	28,000
5	1,600	14	575
19	2,450	16	2,300
28	1,450	31	575
		31	1,720
		31	2,500
Bal.	*69,830*		

Accounts Payable

Jul 16	2,300	Jul 3	2,875
		Bal	*575*

Common stock

		Jul 1	100,000
		Bal.	*100,000*

Accounts Receivable

Jul 11	1,850	Jul 28	1,450
23	3,300		
Bal.	*3,700*		

Dividends

Jul 31	2,500		
Bal.	2,500		

Supplies

Jul 3	575		
Bal.	*575*		

9,200

Service revenue

		Jul 5	1,600
		11	1,850
		19	2,450
		23	3,300
		Bal.	*8,400*

Furniture

Jul 3	2,300		
Bal.	*2,300*		

Salaries Expense

Jul 14	575		
31	575		
Bal.	*1,150*		

Land

Jul 8	28,000		
Bal.	*28,000*		

Rent Expense

Jul 31	1,720		
Bal.	*1,720*		

Req. 5

Slater & Associates, Inc.		
Trial Balance		
July 31, 2014		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 69,830	
Accounts receivable	3,700	
Supplies	575	
Furniture	2,300	
Land	28,000	
Accounts payable		$ 575
Common stock		100,000
Dividends	2,500	
Service revenue		9,200
Salaries expense	1,150	
Rent expense	1,720	
Total	$109,775	$109,775

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(25-30 min.) P 2-40B

Req. 1

Journal				Page 6	
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Jan	16	Cash	110	3,400	
		Accounts receivable	112		3,400
		Received payment on account.			
	18	Accounts receivable	112	1,200	
		Service revenue	411		1,200
		Performed service on account.			
	21	Cash	110	2,700	
		Service revenue	411		2,700
		Performed service for cash.			
	23	Supplies	115	400	
		Accounts Payable	210		400
		Purchased supplies on account.			
	25	Dividends	315	1,400	
		Cash	110		1,400
		Paid dividends.			
	27	Accounts payable	210	2,100	
		Cash	110		2,100
		Made payment on account.			
	29	Cash	110	3,800	
		Service revenue	411		3,800
		Received cash for services performed.			
	30	Rent Expense	515	1,000	
		Cash	110		1,000
		Paid rent.			
	30	Salaries Expense	511	2,400	
		Cash	110		2,400
		Paid employee salaries.			

Req. 2

CASH							ACCOUNT NO. 110
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Jan	15	Bal.	√			2,700	
	16		J.6	3,400		6,100	
	21		J.6	2,700		8,800	
	25		J.6		1,400	7,400	
	27		J.6		2,100	5,300	
	29		J.6	3,800		9,100	
	30		J.6		1,000	8,100	
	30		J.6		2,400	5,700	

ACCOUNTS RECEIVABLE							ACCOUNT NO. 112
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Jan	15	Bal.	√			8,000	
	16		J.6		3,400	4,600	
	18		J.6	1,200		5,800	

SUPPLIES							ACCOUNT NO. 115
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Jan	15	Bal.	√			1,000	
	23		J.6	400		1,400	

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EQUIPMENT						ACCOUNT NO. 140	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan	15	Bal.	√			14,600	

ACCOUNTS PAYABLE						ACCOUNT NO. 210	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan	15	Bal.	√				4,500
	23		J.6		400		4,900
	27		J.6	2,100			2,800

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COMMON STOCK						ACCOUNT NO. 311	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan	15	Bal.	√				21,600

DIVIDENDS						ACCOUNT NO. 315	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan	15	Bal.	√			2,800	
	25		J.6	1,400		4,200	

SERVICE REVENUE						ACCOUNT NO. 411	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan	15	Bal.	√				6,600
	18		J.6		1,200		7,800
	21		J.6		2,700		10,500
	29		J.6		3,800		14,300

SALARIES EXPENSE						ACCOUNT NO. 511	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan	15	Bal.	√			2,300	
	30		J.6	2,400		4,700	

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RENT EXPENSE						ACCOUNT NO. 515	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan	15	Bal.	√			1,300	
	30		J.6	1,000		2,300	

Req. 3

XYZ Systems, Inc.			
Trial Balance			
January 31, 2014			
	ACCOUNT	**DEBIT**	**CREDIT**
	Cash	$ 5,700	
	Accounts receivable	5,800	
	Supplies	1,400	
	Equipment	14,600	
	Accounts payable		$ 2,800
	Common stock		21,600
	Dividends	4,200	
	Service revenue		14,300
	Salaries expense	4,700	
	Rent expense	2,300	
	Total	$38,700	$38,700

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(20-25 min.) P 2-41B

Req. 1

BakerConsulting, Inc.		
Trial Balance		
December 31, 2014		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	9,120	
Accounts receivable	7,370	
Supplies	650	
Building	135,000	
Land	82,000	
Accounts payable		$ 4,100
Notes payable		85,000
Common stock		120,000
Retained earnings		12,320
Dividends	15,000	
Service revenue		101,700
Salaries expense	48,750	
Rent expense	11,340	
Utilities expense	6,750	
Supplies expense	1,840	
Insurance expense	5,300	
Total	$323,120	$323,120

Req. 2

Baker Consulting, Inc.		
Income Statement		
Year Ended December 31, 2014		
Service revenue		$101,700
Expenses		
Salaries expense	$48,750	
Rent expense	11,340	
Utilities expense	6,750	
Insurance expense	5,300	

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Supplies expense	1,840	
Total expenses		73,980
Net Income		$27,720

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Baker Consulting , Inc. Statement of Retained Earnings Year Ended December 31, 2014	
Retained earnings, January 1, 2014	$12,320
Add: Net income	27,720
Subtotal	40,040
Less: Dividends	15,000
Retained earnings, December 31, 2014	$25,040

BakerConsulting, Inc. Balance Sheet December 31, 2014			
ASSETS		LIABILITIES	
Cash	$ 9,120	Accounts payable	$ 4,100
Accounts receivable	7,370	Note payable	85,000
Supplies	650	Total liabilities	89,100
Land	82,000	STOCKHOLDERS' EQUITY	
Building	135,000	Common stock	120,000
		Retained earnings	25,040
		Total stockholders' equity	145,040
		Total liabilities and	
Total assets	$234,140	stockholders' equity	$234,140

Req 3

It was a profitable year for Baker Consulting, Inc. from the standpoint that the business generated $27,720 of Net income.

(15-20 min.) P 2-42B

Req. 1

Journal				Page 3	
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
	a.	Cash		270	
		Service revenue			270
		($740 – $470 = $270)			
	b.	Supplies		450	
		Accounts payable			450
		The original entry was recorded "backwards" so an entry for double the amount needs to be made			
	c.	Cash		10,800	
		Rent expense			10,800
		($12,000 - $1,200 = $10,800)			
	d.	Accounts payable		825	
		Accounts receivable			825

Req 2

a. Net income is understated because Service revenue was credited (increased) by only $470 instead of the correct amount of $740.

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b. Net income would be unchanged because the entry did not effect a revenue or an expense.

c. Net income would be understated because Rent expense was debited (increased) by $12,000 instead of the correct amount of $1,200.

d. Net income would be unchanged because the entry did not effect a revenue or an expense.

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Continuing Exercise

Req 2

4/1	Cash	2,000	
	Common Stock		2,000
4/3	Equipment	1,600	
	Accounts payable		1,600
4/5	Fuel expense	90	
	Cash		90
4/6	Accounts receivable	225	
	Service revenue		225
4/8	Lawn supplies	85	
	Cash		85
4/17	Cash	850	
	Service revenue		850
4/30	Cash	175	
	Accounts receivable		175

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Req. 3

Assets = Liabilities + Stockholders' equity

Cash

4/1	2,000	90	4/5
4/17	850	85	4/8
4/30	175		
Bal.	2,850		

Accounts receivable

4/6	225	175	4/30
Bal.	50		

Lawn supplies

4/8	85		
Bal.	85		

Equipment

4/3	1,600		
Bal.	1,600		

Accounts payable

		1,600	4/3
		1,600	Bal.

Common stock

		2,000	4/1
		2,000	Bal.

Retained earnings

Service revenue

		225	4/6
		850	4/17
		1,075	Bal.

Fuel Expense

4/5	90		
Bal.	90		

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Req 4

Cole's Yard Care, Inc.
Trial Balance
April 30, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$2,850	
Accounts receivable	50	
Lawn supplies	85	
Equipment	1,600	
Accounts payable		$1,600
Common stock		2,000
Service revenue		1,075
Fuel expense	90	.
Total	$4,675	$4,675

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Continuing Problem

Req. 1

DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
		Journal		**Page 6**	
Jun	1	Salaries expense		625	
		Cash			625
	2	Land		25,000	
		Cash			25,000
	3	Rent expense		2,300	
		Cash			2,300
	4	Cash		1,750	
		Service revenue			1,750
	5	Cash		450	
		Accounts receivable			450
	8	Supplies		725	
		Accounts payable			725
	11	Accounts receivable		3,250	
		Sevrice revenue			3,250
	13	Cash		10,000	
		Common stock			10,000
	16	Salaries Expense		625	
		Cash			625
	17	Cash		1,500	
		Service revenue			1,500

	18	Cash		1,025	
		Accounts receivable			1,025
	19	Advertising expense		450	
		Cash			450
	21	Accounts payable		875	
		Cash			875
	22	Office furniture		4,000	
		Accounts payable			4,000
	24	Miscellaneous expense		275	
		Cash			275
	26	Accounts receivable		1,450	
		Service revenue			1,450
	28	Cash		1,800	
		Accounts receivable			1,800
	30	Utilities expense		640	
		Cash			640
	30	Salaries expense		625	
		Cash			625
	30	Dividends		3,500	
		Cash			3,500

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Req. 2

CASH							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
May	31	Bal.				43,325	
Jun	1				625	42,700	
	2				25,000	17,700	
	3				2,300	15,400	
	4			1,750		17,150	
	5			450		17,600	
	13			10,000		27,600	
	16				625	26,975	
	17			1,500		28,475	
	18			1,025		29,500	
	19				450	29,050	
	21				875	28,175	
	24				275	27,900	
	28			1,800		29,700	
	30				640	29,060	
	30				625	28,435	
	30				3,500	24,935	

ACCOUNTS RECEIVABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
May	31	Bal.				2,300	
Jun	5				450	1,850	
	11			3,250		5,100	
	18				1,025	4,075	
	26			1,450		5,525	
	28				1,800	3,725	

SUPPLIES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.				600	
Jun	8			725		1,325	

LAND							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jun	2			25,000		25,000	

OFFICE FURNITURE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jun	22			4,000		4,000	

EQUIPMENT							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.				1,800	

VEHICLES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.				36,200	

ACCOUNTS PAYABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT

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May	31	Bal.					1,040
Jun	8				725		1,765
	21			875			890
	22				4,000		4,890

NOTES PAYABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.					36,200

COMMON STOCK							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.					45,000
Jun	13				10,000		55,000

DIVIDENDS							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.				2,500	
Jun	30			3,500		6,000	

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SERVICE REVENUE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.					5,850
Jun	4				1,750		7,600
	11				3,250		10,850
	17				1,500		12,350
	26				1,450		13,800

SALARIES EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.				625	
Jun	1			625		1,250	
	16			625		1,875	
	30			625		2,500	

RENT EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jun	3			2,300		2,300	

UTILITIES EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.				740	
Jun	30			640		1,380	

ADVERTISING EXPENSE							
			POST.			BALANCE	

DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Jun	19			450		450	

MISCELLANEOUS EXPENSE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Jun	24			275		275	

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Req. 3

Aqua Magic, Inc.			
Trial Balance			
June 30, 2014			
	ACCOUNT	**DEBIT**	**CREDIT**
	Cash	$ 24,935	
	Accounts receivable	3,725	
	Supplies	1,325	
	Land	25,000	
	Office furniture	4,000	
	Equipment	1,800	
	Vehicles	36,200	
	Accounts payable		$ 4,890
	Notes payable		36,200
	Common stock		55,000
	Dividends	6,000	
	Service revenue		13,800
	Salaries expense	2,500	
	Rent expense	2,300	
	Utilities expense	1,380	
	Advertising expense	450	
	Miscellaneous expense	275	
	Total	$109,890	$109,890

Continuing Financial Statement Analysis Problem

a. Cash and cash equivalents would increase by $50 million and unsecured debt and other borrowings would increase by $50 million. This would cause Total assets and Total liabilities and shareholders' investment to each increase by $50 million.

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		$50 million	
	Unsecured debt and other borrowings			$50 million
	Borrowed $50,000,000 in unsecured debt.			

b. There would be no net change in Total assets. Cash would decrease by $50 million and Buildings and improvements would increase by $50 million. This causes Total current assets to decrease by $50 million and Property and equipment, net to increase by $50 million for a net affect on Total assets of zero.

		Post		

Date	Accounts	Ref.	Dr.	Cr.
	Buildings and improvements		$50 million	
	Cash			$50 million
	Purchased building for $50 million.			

c. On the income statement, sales and costs would increase, creating an additional net income of $10 billion. The $10 billion increase in net income would then be added to the previous year's retained earnings, which would increase retained earnings on the balance sheet by $10 billion. Cash would also increase by $10 billion on the balance sheet. This would cause total assets to increase by $10 billion and total liabilities and shareholders' investment to increase by $10 billion.

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		$10 billion	
	Retained Earnings			$10 billion
	To record cash sales.			

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (The Sales and cost accounts are closed to Retained Earnings.)

d. The salary expense increase of $1 billion would cause an increase of $1 billion in selling, general and administrative expenses on the income statement. This would cause net earnings to decrease by $1 billion. Net earnings would then be added to the previous year's retained earnings, which would decrease retained earnings on the balance sheet by $1 billion. Cash would also decrease by $1 billion on the balance sheet. This would cause total assets to decrease by $1 billion and total liabilities and shareholders' investment to decrease by $1 billion.

e.

Date	Accounts	Post Ref.	Dr.	Cr.
	Retained Earnings		$1 billion	
	Cash			$1 billion
	Salaries of $1 billion are paid.			

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (Salaries expense is closed to Retained Earnings.)

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Ethics in Action

Case #1

- Lynne should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was *not* a dividend but rather the payment of an expense.
- It does matter how the $3,800 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.

- Lynne does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the $3,800 expense, Lynne is giving the bank an inaccurate and misleading income statement.

Case #2

- Joe's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.
- There are ethical concerns. Joe has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions in order to provide accurate information; therefore, accountants have an ethical duty to ensure accurate financial reporting.
- As the owner of Lawn Boyz Lawnservice you should have a problem with Joe's actions. You need to have accurate financial information for decision-making purposes. Accordingly, by Joe reducing the actual amount of Wage Expense, you may not be aware of the actual labor costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Joe has not fulfilled his obligation as an accountant.

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Journal			
DATE	**ACCOUNTS**	**Dr.**	**Cr.**
Jan 3	Property, Plant and Equipment	583,000	
	Cash		583,000
7	Cash	27,480,000	
	Net Sales		27,480,000
10	Inventory	31,364,000	
	Accounts Payable		31,364,000
15	Accounts Receivable	703,000	
	Net Sales		703,000
29	Accounts Payable	14,625,000	
	Cash		14,625,000

2. No solution.

Industry Analysis

1. Under Armour is the larger company in terms of revenue, with approximately \$1.83 billion in net revenues for 2012 as compared to approximately \$1.67 billion of net sales for Columbia Sportswear . This information is on the Consolidated Statement of Operations/Income.

2. Columbia Sportswear is the larger of the two in terms of total assets with about \$1.46 billion at December 31, 2012, compared to about \$1.16 billion for Under Armour. This information is on the Consolidated Balance Sheet.

3. Under Armour has more debt at the end of 2012 with around \$340 million at the end of the year. Columbia Sportswear has approximately \$293 million in debt at the end of 2012. This information is also located on the Consolidated Balance Sheet. Note that the terms total liabilities and total debt mean the same thing.

4. Under Armour wins this one with a gross profit percentage of 47.9% as compared to only 42.9% for Columbia Sportswear. In terms of gross profit percentage, the higher the number, the better. This percentage indicates that Under Armour is doing a little better job of making profit from selling their products.

5. Columbia Sportswear paid out more dividends to their stockholders in 2012. They paid \$29,780,000 in dividends. This number can be found on one of two financial statements. It's shown on either the Consolidated Statement of Cash Flows or the Consolidated Statements of Shareholders' Equity. Again note that the terms Stockholder and Shareholder mean the same thing. What about Under Armour? They did not pay out any dividends in any of the years covered by these financial statements.

6. Student's response to this question will obviously vary.

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Small Business Analysis

There are two mistakes here affecting the cash account. The first mistake is the cash transaction utilizing the debit card. When cash is decreased, it must be credited. Your client debited cash for the transaction using the logic that they were using a **debit** card. To correct this transaction, you will need to remove the original transaction and journalize the transaction correctly. These journal entries look the same. They are as follows:

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Supplies		400	
	Cash			400
	To remove the original debit card transaction.			

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Supplies		400	
	Cash			400
	To record purchase of supplies using debit card.			

The next error is that the credit card transaction doesn't have any effect on Cash until the credit card bill is paid. When the original transaction took place, a liability account, such as Credit Card Payable, should have been credited. To correct this, the following entry needs to be made.

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Cash		250	
	Credit Card Payable			250
	Correcting entry—used credit card instead of cash for utility bill.			

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Written Communication

Although student's responses will vary widely, here is a suggested memo to address the two situations.

Dear Client:

I want to address the two concerns you had in your e-mail to me last week. The first one was about the credit balance in your cash account. Even after corrections are made, the cash was still showing a credit balance. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have a credit balance in your cash account if your checking account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your checks unpaid. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

The second situation was concerning the use of debit cards versus credit cards. The terminology does get very confusing. Without going into an accounting lesson on the differences between debits and credits, let me explain what happens when you use the two cards. When you use your debit card, there have to be funds available in whatever account that card is attached to because the use of this card will automatically withdraw that amount of money from the account. The bank "debits" your account which, in banking terms, means they removed the money from your account. On the other hand, you have to credit cash because you are decreasing your cash account.

A credit card transaction, on the other hand, does not automatically remove the cash from your account. It sets up a liability to the credit card company which will have to be paid when you get the credit card statement. So the credit card transaction itself does not affect cash. You are not crediting cash when you use your credit card. You are crediting a liability to the credit card company which means you owe them money.

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