

Group Projects – Chapter 2: Recording Business Transactions

Contact a local business and arrange with the owner to learn what accounts the business uses.

Required

1. Obtain a copy of the business's chart of accounts.
2. Prepare the business's financial statements for the most recent month, quarter, or year.
You may use either made-up account balances or balances supplied by the owner.

If the business has a large number of accounts within a category, combine related accounts and report a single amount on the financial statements. For example, the company may have several cash accounts. Combine all cash amounts and report a single Cash amount on the balance sheet.

You will probably encounter numerous accounts that you have not yet learned. Deal with these as best you can. The chart of accounts given in Appendix B of your text will be helpful.

Keep in mind that the financial statements report the balances of the accounts listed in the company's chart of accounts. Therefore, the financial statements must be consistent with the chart of accounts.

Solutions to Group Projects – Chapter 2: Recording Business Transactions

Contact a local business and arrange with the owner to learn what accounts the business uses.

Required

1. Obtain a copy of the business's chart of accounts.

Student answers will vary widely, as the various groups use the charts of accounts of different businesses. The financial statements that the students prepare should be consistent with the business's chart of accounts.

2. Prepare the business's financial statements for the most recent month, quarter, or year. You may use either made-up account balances or balances supplied by the owner.

Because the students will be using the annual reports of real companies, the answers to this problem will vary widely.

If the business has a large number of accounts within a category, combine related accounts and report a single amount on the financial statements. For example, the company may have several cash accounts. Combine all cash amounts and report a single Cash amount on the balance sheet.

You will probably encounter numerous accounts that you have not yet learned. Deal with these as best you can. The chart of accounts given in Appendix B of your text will be helpful.

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Chapter 2

Recording Business Transactions

Questions

1. The basic shortcut device of accounting is the *T-account*. It resembles the letter T, and its left side is called the debit side and its right side the credit side.
2. The statement is false because debit means left and credit means right. Debits and credits are used to record increases and decreases in accounts, so debits can be increases or decreases depending on the type of account involved and likewise for credits.
3. Debits are on the left-hand side and credits are on the right-hand side. Depending upon which side of the equation you are on, debits will either increase or decrease an accounting equation item.

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Dr Cr		Dr Cr		Dr Cr
+ -		- +		- +
				<u>Capital</u>
				Dr Cr
				- +
				<u>Revenues</u>
				Dr Cr
				- +
				<u>Expenses</u>
				Dr Cr
				+ -
				<u>Withdrawals</u>
				Dr Cr
				+ -

4. The three basic types of accounts are ASSETS, LIABILITIES, and OWNER'S EQUITY. Two additional types of accounts are REVENUES and EXPENSES. They are part of owner's equity; revenues increase owner's equity and expenses decrease owner's equity.
5. The dual effects of an owner's investment in her business are (1) an increase in the entity's cash and (2) an increase in the owner's equity.
- 6.

- | Business Transaction | → | Entry in | → | Posting to | → | Unadjusted Trial |
|-------------------------|---|----------|---|------------|---|------------------|
| Creates Source Document | | Journal | | Ledger | | Balance |
7. The normal balance of an account is the side of the account—debit or credit—that records increases. Also, an account's normal balance is the side of the account that usually has the account's balance.
 8.

<i>Account Type</i>	<i>Normal Balance</i>
Assets	<u>Debit</u>
Liabilities	<u>Credit</u>
Owner's equity	<u>Credit</u>
Revenues	<u>Credit</u>
Expenses	<u>Debit</u>
 9. Posting transfers amounts from the journal to the ledger. This is important because the transaction entries in the journal do not accumulate all the information related to each account. The accounts in the ledger hold that information. The ledger groups together transactions that are similar. For example, all cash transaction from the journal are grouped together in the ledger. Therefore, the transfer of data to the accounts in the ledger—that is, posting from the journal to the ledger—makes it possible to determine the balance in each account. Posting comes after journalizing.
 10.

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

- | | |
|---------------------|----------------------|
| 12. Cash | Sam Westman, Capital |
| Accounts Receivable | Sales Revenue |
| Note Payable | Salary Expense |
13. "Accounts Payable has a credit balance of \$2,800" means that the entity owes \$2,800 to its creditors on a debt that is not evidenced by a formal note payable.
14. The two business transactions are (1) Spiffy Cleaners providing laundry service and earning revenue and (2) Bobby Ng paying cash to Spiffy Cleaners. The business's earning of the revenue increases the owner's equity in the company, and Ng's payment of cash increases the business's cash.
15. The *ledger* is the group of actual accounts in use that contain a record of activity in those accounts. The *chart of accounts* is a list of all the accounts set up in the ledger with their account numbers.
16. Accountants prepare a trial balance to check the accuracy of postings to accounts and determine whether the total debits equal the total credits. It is a useful summary of all the accounts and their balances and serves as an early error-detection tool.
17. A compound journal entry is one that affects more than two accounts.
18. This error does *not* cause the trial balance to be out of balance because both the total debits and the total credits are overstated by the same amount, \$5,400 (\$6,000 – \$600).
19. Collecting cash on account has no effect on total assets because the increase in cash, which increases total assets, is offset by the decrease in accounts receivable, which decreases total assets.
20. Both systems depend on the accuracy of the initial analysis of the transaction and require that the journal entry be recorded correctly. Thereafter, a number of errors could occur in a manual system (such as slides, transpositions, errors in calculating account balances); these errors will affect a manual trial balance. Most computerized systems will not allow you to post a journal entry if it does not balance. Once the journal entry has been correctly recorded, the computerized accounting system performs much the same actions as accountants do in a manual system. These routine tasks are accomplished faster and with less risk of error with a computer. The computer does not recognize debits and credits, only increases and decreases by account type.

Starters

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

- a. 11
- b. 7
- c. 1
- d. 4
- e. 6
- f. 3
- g. 5
- h. 9
- i. 8
- j. 10
- k. 2

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

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

(10 min.) **S 2-3**

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

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

Credits are *increases* in these types of accounts:

- Liabilities
- Capital
- Revenues

Credits are *decreases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *increases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *decreases* in these types of accounts:

- Liabilities
- Capital
- Revenues

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

- | | |
|--|---|
| a. To decrease Accounts Payable: debit | e. To increase Equipment: debit |
| b. To increase Cash: debit | f. To increase Accounts Payable: credit |
| c. To increase Notes Payable: credit | g. To increase Land: debit |
| d. To increase Office Supplies: debit | h. To increase Owner, Capital: credit |

(5 min.) **S 2-6**

Normal Balances are:

- a. Accounts Payable – credit
- b. Withdrawals – debit
- c. Utilities Expense – debit
- d. Cash – debit
- e. Service Revenue – credit
- f. Rent Expense – debit
- g. Accounts Receivable – debit

(5 min.) **S 2-7**

	Debit	Credit
a.	Cash	Capital
b.	Supplies	Cash
c.	Cash	Service revenue
d.	Equipment	Note payable
e.	Supplies	Accounts payable
f.	Accounts receivable	Service revenue
g.	Cash	Accounts receivable
h.	Accounts payable	Cash

(10 min.) **S 2-8**

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sep.	1	Cash		29,000	
		Lochlan Mystrie, Capital			29,000
		Received investment from owner.			
	2	Decorating Supplies		9,500	
		Accounts Payable			9,500
		Purchased supplies on account.			
	2	Rent Expense		4,100	
		Cash			4,100
		Paid office rent for September.			
	3	Accounts Receivable		6,800	
		Service Revenue			6800
		Performed service for clients on account.			

(10 min.) **S 2-9**

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sep.	22	Accounts Receivable		6,000	
		Service Revenue			6,000
		Performed services for clients on account.			
	30	Cash		4,500	
		Accounts Receivable			4,500
		Received cash on account.			
	31	Telephone Expense		150	
		Accounts Payable			150
		Received telephone bill.			
	31	Advertising Expense		900	
		Cash			900
		Paid advertising expense.			
	31	Salary Expense		3,900	
		Cash			3,900
		Paid salary expense for the month.			

(10 min.) S 2-10

Cash		Medical Supplies		Accounts Payable	
32,000	4,100	9,500		2,700	9,500
6,800	2,700				
Bal. 32,000		Bal. 9,500			Bal. 6,800

Taylor Moffat, Capital		Service Revenue		Rent Expense	
	32,000		6,800	4,100	
	Bal. 32,000		Bal. 6,800	Bal. 4,100	

(10-15 min.) S 2-11**Req. 1**

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sep.	8	Supplies		10,000	
		Accounts Payable			10,000
		Purchased supplies on account.			
Sep.	22	Accounts Payable		5,000	
		Cash			5,000
		Paid cash on account. (\$10,000 × ½)			

Req. 2

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

(10-15 min.) **S 2-12****Req. 1**

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Oct.	5	Accounts Receivable		12,000	
		Service Revenue			12,000
		Performed service on account.			
Nov.	18	Cash		5,500	
		Accounts Receivable			5,500
		Received cash on account.			

Req. 2

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

Req. 3

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

(10 min.) S 2-13

$$\text{Accounts Receivable} = 2,700 + 5,800 + 4,900 - 2,700 - 1,100 - 850 - 4,090 = \$4,660$$

$$\text{Cash} = 67,500 + 16,800 - 4,200 - 12,300 = \$67,800$$

$$\text{Accounts Payable} = 4,600 + 700 - 1,100 = \$4,200$$

(10 min.) S 2-14

R. Glennie, Capital

$$X + 56,000 + 15,000 - 22,000 = 73,000$$

$$X = 73,000 - 56,000 - 15,000 + 22,000$$

$$X = 24,000$$

Accounts Receivable

$$21,800 + 55,100 - X = 47,000$$

$$X = 47,000 - 21,800 - 55,100$$

$$X = 29,900$$

(10-15 min.) S 2-15

Balzy Indoor Tennis Club			
Trial Balance			
November 30, 2017			
NUMBER	ACCOUNT	DEBIT	CREDIT
10002	Cash	\$23,040	
17500	Furniture	5,500	
20001	Accounts payable		\$ 3,740
30001	Stan Balzy, capital		27,000
30002	Stan Balzy, withdrawals	1,200	
40001	Sales revenue		5,500
51200	Supplies expense	2,500	
53200	Rent expense	<u>4,000</u>	<u> </u>
	Total	<u>\$36,240</u>	<u>\$36,240</u>

(10 min.) S 2-16

Redwing Floor Covering		
Trial Balance		
December 31, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 6,000	
Equipment	43,000	
Accounts payable		\$ 1,000
Other liabilities		17,000
Capital		25,000
Revenue		32,000
Expenses	<u>26,000</u>	<u> </u>
Total	<u>\$75,000</u>	<u>\$75,000</u>

(10 min.) **S 2-17**

Incorrect Unadjusted Trial Balance

Hunter Environmental Consulting Unadjusted Trial Balance April 30, 2016			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$172,000	
1200	Accounts receivable	10,000	
1400	Office supplies	7,000	
1900	Land	100,000	
2100	Accounts payable		\$ 2,000
3000	Lisa Hunter, capital	250,000*	
3100	Lisa Hunter, withdrawals	6,000	
4000	Service revenue		55,000
5100	Rent expense	4,000	
5200	Salary expense	6,500	
5300	Utilities expense	<u>1,500</u>	<u> </u>
	Total	<u>\$557,000</u>	<u>\$57,000</u>

*Incorrect; should be listed as a credit.

To correct this error:

1. Take the difference between total debits and total credits:
 $\$557,000 - \$57,000 = \$500,000$
2. Divide the error by 2:
 $\$500,000 \div 2 = \$250,000$
3. Locate \$250,000 on the trial balance. This matched the balance in the Capital account. The Capital account should have a credit balance.

(10 min.) **S 2-18**

Incorrect Unadjusted Trial Balance

Hunter Environmental Consulting Unadjusted Trial Balance April 30, 2016			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$172,000	
1200	Accounts receivable	10,000	
1400	Office supplies	7,000	
1900	Land	100,000	
2100	Accounts payable		\$ 2,000
3000	Lisa Hunter capital		250,000
3100	Lisa Hunter, withdrawals	6,000	
4000	Service revenue		55,000
5100	Rent expense	4,000	
5200	Salary expense	6,500	
5300	Utilities expense	<u>150*</u>	<u> </u>
	Total	<u>\$305,650</u>	<u>\$307,000</u>

*Incorrect; should be listed as \$1,500.

To correct this error:

1. Take the difference between total debits and total credits:
 $\$305,650 - \$307,000 = \$1,350$
2. Divide the error by 9:
 $\$1,350 \div 9 = \150
3. Locate \$150 on the trial balance. Utilities expense shows as \$150. This is the wrong amount, because if you look at the ledger the amount is actually \$1,500.

Exercises

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

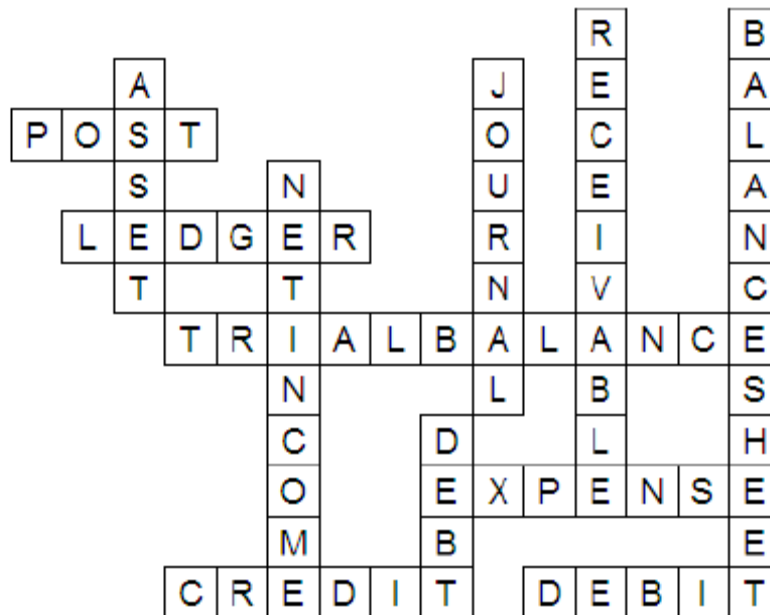
TO: Office Manager

FROM: Student Name

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

Instructional Note: Student responses may vary considerably.

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



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

Req. 1

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

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

Req. 2

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

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

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

Req. 3

John Cassiar withdrew \$1,800 during the month.

Withdrawals are a *debit* amount.

(continued) **E 2-3****Req. 4**

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

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

The type of account and its normal balance for each of these accounts is as follows:

- Interest Revenue - revenue – credit
- Accounts Payable - liability – credit
- Chapman Li, Capital – equity – credit
- Office Supplies – asset – debit
- Advertising Expense – expense – debit
- Service Revenue – revenue – credit
- Chapman Li, Withdrawals – equity – debit

(15-20 min.) **E 2-5**

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jul.	2	Cash		<u>10,000</u>	
		B. London, Capital			10,000
		Investment by owner.			
	4	Utilities Expense		400	
		Cash			400
		Paid utilities expense.			
	5	Equipment		2,100	
		Accounts Payable			2,100
		Purchased equipment on account.			
	10	Accounts Receivable		2,000	
		Service Revenue			2,000
		Performed services for client on account.			
	12	Cash		7,000	
		Notes Payable			7,000
		Received cash in return for signing a notes payable.			
	19	B. London, Withdrawal		500	
		Cash			500
		Owner took cash from the business.			
	21	Office Supplies		800	
		Cash			800
		Paid cash for office supplies.			
	27	Accounts Payable		2,100	
		Cash			2,100
		Paid off the liability incurred on July 5 th .			

(10-20 min.) **E 2-6**

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

(10-25 min.) **E 2-7**

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	1	Cash		15,000	
		Yula Gregore, Capital			15,000
		Investment by owner.			
	1	Rent Expense		4,000	
		Cash			4,000
		Paid rent for yoga studio.			
	4	Studio Supplies		4,000	
		Accounts Payable			4,000
		Purchased studio supplies on account.			
	6	Cash		3,000	
		Service Revenue			3,000
		Performed services for cash.			
	9	Accounts Payable		1,000	
		Cash			1,000
		Paid cash on account.			
	17	Accounts Receivable		800	
		Service Revenue			800
		Performed service on account.			

(10-20 min.) **E 2-8**

Journal				
	ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a)	Cash		2,500	
	Liam Deresh, Capital			2,500
	Owner invested cash in the business.			
b)	Rent Expense		1,100	
	Cash			1,100
	Paid one month's rent for equipment.			
c)	Accounts Receivable		1,700	
	Service Revenue			1,700
	Performed DJ services on account.			
d)	Equipment		600	
	Cash			600
	Purchased equipment for cash.			
e)	Liam Deresh, Withdrawals		500	
	Cash			500
	Owner withdrew cash for personal use.			
f)	Supplies		40	
	Cash			40
	Purchased supplies for cash.			

(10-20 min.) **E 2-9**

Lin's Tai Chi Retreat

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Apr.	30	Cash		7,500	
		S. Lin, Capital			7,500
		Received initial investment from owner.			
	30	Supplies		275	
		Accounts Payable			275
		Purchase of supplies on account.			
	30	Land		5,250	
		Cash			5,250
		Paid cash for land.			
	30	Cash		1,375	
		Note Payable			1,375
		Borrowed money; signed note payable.			
	30	Exercise Equipment		1,500	
		Cash			1,500
		Paid cash for equipment.			

Req. 1

(20-30 min.) **E 2-10**
2016

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

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

(continued) **E 2-10**

Journal					Page
DATE 2016		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jul.	2	Cash	1000	5,600	
		Tomas Misheal, Capital	3000		5,600
	9	Supplies	1400	54	
		Accounts Payable	2000		54
	11	Accounts Receivable	1200	1,620	
		Service Revenue	4000		1,620
	14	Rent Expense	5600	1,400	
		Cash	1000		1,400
	22	Cash	1000	280	
		Accounts Receivable	1200		280
	25	Advertising Expense	5100	590	
		Cash	1000		590
	27	Accounts Payable	2000	54	
		Cash	1000		54
	31	Fuel Expense	5800	564	
		Accounts Payable	2000		564

Req. 2 and 3
(continued) E 2-10

Cash			1000
Jul. 2	5,600	Jul. 14	1,400
22	280	25	590
		27	54
Bal.	3,836		

Supplies			1400
Jul. 9	54		
Bal.	54		

Tomas Misheal, Capital			3000
		Jul. 2	5,600
		Bal.	5,600

Advertising Expense			5100
Jul. 25	590		
Bal.	590		

Fuel Expense			5800
Jul. 31	564		
Bal.	564		

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

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

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

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

(10-15 min.) **E 2-11****Req. 1**

Journal					Page 5
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jul.	2	Accounts Receivable		4,000	
		Service Revenue			4,000
		Performed energy audit on account.			
	14	Cash		4,000	
		Accounts Receivable			4,000
		Received payment for July 2 transaction.			

Req. 2

ACCOUNT		ACCOUNTS RECEIVABLE			ACCOUNT NO. 12001	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Jul.	2			4,000		4,000
	14				4,000	0

(20-25 min.) **E 2-12**
Yarrow Strategic Consulting

Journal						Page 9
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
May	2	Cash	1100	39,200		
		Office Furniture	1800	16,200		
		Florence Yarrow, Capital	3100		55,400	
		Received investment from owner.				
	2	Rent Expense	5500	2,500		
		Cash	1100		2,500	
		Paid monthly rent.				
	2	Office Supplies	1500	1,800		
		Accounts Payable	2100		1,800	
		Purchased supplies on account.				
	15	Salary Expense	5600	4,000		
		Cash	1100		4,000	
		Paid salary expense.				
	17	Accounts Payable	2100	1,200		
		Cash	1100		1,200	
		Paid on account.				
	19	Accounts Receivable	1300	69,000		
		Consulting Revenue	4100		69,000	
		Performed service on account.				
	30	Florence Yarrow, Withdrawals	3200	8,000		
		Cash	1100		8,000	
		Withdrawal by owner.				

(continued) **E 2-12**

ACCOUNT		CASH			ACCOUNT NO. 1100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	39,200		39,200 Dr
	2		J9		2,500	36,700 Dr
	15		J9		4,000	32,700 Dr
	17		J9		1,200	31,500 Dr
	30		J9		8,000	23,500 Dr

ACCOUNT		ACCOUNTS RECEIVABLE			ACCOUNT NO. 1300	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	19		J9	69,000		69,000 Dr

ACCOUNT		OFFICE SUPPLIES			ACCOUNT NO. 1500	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	1,800		1,800 Dr

ACCOUNT		OFFICE FURNITURE			ACCOUNT NO. 1800	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	16,200		16,200 Dr

(continued) **E 2-12**

ACCOUNT		ACCOUNTS PAYABLE			ACCOUNT NO. 2100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9		1,800	1,800 Cr
	17		J9	1,200		600 Cr

ACCOUNT		FLORENCE YARROW, CAPITAL			ACCOUNT NO. 3100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9		55,400	55,400 Cr

ACCOUNT		FLORENCE YARROW, WITHDRAWALS			ACCOUNT NO. 3200	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	30		J9	8,000		8,000 Dr

ACCOUNT		CONSULTING REVENUE			ACCOUNT NO. 4100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	19		J9		69,000	69,000 Cr

ACCOUNT		RENT EXPENSE			ACCOUNT NO. 5500	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	2,500		2,500 Dr

ACCOUNT		SALARY EXPENSE			ACCOUNT NO. 5600	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	15		J9	4,000		4,000 Dr

Req. 1**(20-30 min.) E 2-13**
Yula's Yoga

Cash					
Mar.	1	15,000	Mar.	1	4,000
	6	3,000		9	1,000
Mar.	31	13,000			

Accounts Receivable				
Mar.	17	800		
Mar.	31	800		

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

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

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

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

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

(continued) **E 2-13****Req. 2**

Yula's Yoga

Yula's Yoga		
Unadjusted Trial Balance		
March 31, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$13,000	
Accounts receivable	800	
Studio supplies	4,000	
Accounts payable		\$3,000
Yula Gregore, capital		15,000
Service revenue		3,800
Rent expense	<u>4,000</u>	<u> </u>
Total	<u>\$21,800</u>	<u>\$21,800</u>

(10-20 min.) **E 2-14**

Lin's Tai Chi Retreat

Lin's Tai Chi Retreat		
Unadjusted Trial Balance		
April 30, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$2,125	
Supplies	275	
Exercise equipment	1,500	
Land	5,250	
Accounts payable		\$ 275
Note payable		1,375
S. Lin, capital	<u> </u>	<u>7,500</u>
Total	<u>\$9,150</u>	<u>\$9,150</u>

(10-20 min.) **E 2-15**

Boots Consulting

Boots Consulting		
Trial Balance		
October 31, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 30,000	
Accounts receivable	35,000	
Supplies	1,500	
Building	390,000	
Land	174,000	
Accounts payable		\$ 33,800
Notes payable		270,000
M. Boots, capital		252,800
M. Boots, withdrawals	36,000	
Services revenue		164,000
Advertising expense	9,900	
Computer rental expense	2,000	
Salary expense	36,000	
Supplies expense	3,800	
Utilities expense	<u>2,400</u>	<u> </u>
Total	<u>\$720,600</u>	<u>\$720,600</u>

(10-20 min.) **E 2-16**

Yarrow Strategic Consulting

Yarrow Strategic Consulting			
Unadjusted Trial Balance			
May 31, 2017			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 23,500	
1300	Accounts receivable	69,000	
1500	Office supplies	1,800	
1800	Office furniture	16,200	
2100	Accounts payable		\$ 600
3100	Florence Yarrow, capital		55,400
3200	Florence Yarrow, withdrawals	8,000	
4100	Consulting revenue		69,000
5500	Rent expense	2,500	
5600	Salary expense	<u>4,000</u>	<u> </u>
	Total	<u>\$125,000</u>	<u>\$125,000</u>

(15-25 min.) **E 2-17**

Mia's Memories

Mia's Memories		
Trial Balance		
February 28, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 3,500*	
Accounts receivable	1,500*	
Supplies	700	
Land	26,100	
Accounts payable		\$13,700*
M. Mia, capital		12,000
Service revenue		9600
Rent expense	900	
Salary expense	1600	
Utilities expense	<u>1,000*</u>	<u> </u>
Total	<u>\$35,300</u>	<u>\$35,300</u>

* Explanations:

Cash: $\$3,100 + \$400 = \$3,500$ Accounts receivable: $\$1,900 - \$400 = \$1,500$ Accounts payable: $\$11,400 + \$2,000 - \$200 + \$500 = \$13,700$ M. Mia, capital: $\$11,900 + \$100 = \$12,000$ Utilities expense: $\$500 + \$500 = \$1,000$

Req. 1 and 3**(20-30 min.) E 2-18**

Lee Management Consulting

Cash					
Jun.	2	25,000	Jun.	2	3,000
	18	2,000		3	1,000
	21	2,000		12	250
	26	1,500		23	500
				28	2,000
Bal.		23,750			

Accounts Receivable					
Jun.	9	3,000	Jun.	26	1,500
Bal.		1,500			

Supplies		
Jun.	5	500
Bal.		500

Equipment		
Jun.	3	1,000
Bal.		1,000

Furniture		
Jun.	4	5,000
Bal.		5,000

Accounts Payable					
Jun.	23	500	Jun.	4	5,000
				5	500
			Bal.		5,000

Unearned Revenue				
	Jun.	21	2,000	
	Bal.		2,000	

Michael Lee, Capital				
	Jun.	2	25,000	
	Bal.		25,000	

Michael Lee, Withdrawals				
Jun.	28	2,000		
Bal.		2,000		

Service Revenue				
	Jun.	9	3,000	
		18	2,000	
	Bal.		5,000	

Rent Expense				
Jun.	2	3,000		
Bal.		3,000		

Salaries Expense				
Bal.		0		

Utilities Expense				
Jun.	12	250		
Bal.		250		

Req. 2

(continued) **E 2-18**

Journal						Page 1
DATE 2016		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
Jun.	2	Cash		25,000		
		Michael Lee, Capital			25,000	
	2	Rent Expense		3,000		
		Cash			3,000	
	3	Equipment		1,000		
		Cash			1,000	
	4	Furniture		5,000		
		Accounts Payable			5,000	
	5	Supplies		500		
		Accounts Payable			500	
	9	Accounts Receivable		3,000		
		Service Revenue			3,000	
	12	Utilities Expense		250		
		Cash			250	
	18	Cash		2,000		
		Service Revenue			2,000	
	21	Cash		2,000		
		Unearned Revenue			2,000	
	22	No entry required – not a transaction				
	23	Accounts Payable		500		
		Cash			500	
	26	Cash		1,500		
		Accounts Receivable			1,500	
	28	Michael Lee, Withdrawals		2,000		
		Cash			2,000	

Req. 4

(continued) **E 2-18**

Lee Management Consulting		
Unadjusted Trial Balance		
June 30, 2016		
ACCOUNT	DEBIT	CREDIT
Cash	\$23,750	
Accounts receivable	1,500	
Supplies	500	
Equipment	1,000	
Furniture	5,000	
Accounts payable		\$5,000
Unearned revenue		2,000
Michael Lee, capital		25,000
Michael Lee, withdrawals	2,000	
Service revenue		5,000
Rent expense	3,000	
Utilities expense	<u>250</u>	<u> </u>
Total	<u>\$37,000</u>	<u>\$37,000</u>

Challenge Exercises

(30-50 min.) **E 2-19**

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

B. Fergus, Capital			
March Withdrawals	640	Feb. 28 Bal.	1,440
		March Net Income	X
		Mar. 31 Bal.	2,400
			= \$1,600

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

- b. Total cash paid during March:

Cash			
Feb. 28 Bal.	1,800		
March Receipts	10,720	March Payments	X
Mar. 31 Bal.	1,640		
			= \$10,880

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

(continued) **E 2-19**

c. Cash collections from customers during March:

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

= \$9,840

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

d. Payments on account during March:

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

X = \$28

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

Req. 1 and 2**(20-30 min.) E 2-20**

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

Instructional Note: Presentation of answers may vary.

Beyond the Numbers

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

Balance Sheet Accounts

ASSETS	LIABILITIES	
	Cash	Accounts payable
	Accounts receivable	Note payable
	Food supplies	
	Office supplies	
	Baking equipment	
	Accumulated amortization— baking equipment	
	Office equipment	OWNER'S EQUITY
	Accumulated amortization— office equipment	Stan Raza, capital
		Stan Raza, withdrawals

Income Statement Accounts

REVENUES	EXPENSES	
	Service revenue—cupcakes	Advertising expense
	Service revenue—office catering	Amortization expense— office equipment
	Service revenue—weddings	Amortization expense— baking equipment
		Insurance expense
		Office supplies expense
		Food supplies expense
		Rent expense
		Salary expense
		Utilities expense

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

Ethical Issue

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

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

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

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

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

Steps used to analyze ethical dilemmas:

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

Problems

Group A

Req. 1 (transaction analysis)

(20-30 min.) **P 2-1A**
Baycrest Cinema Company

<u>Date</u>	<u>Analysis of Transactions</u>
2016	
Nov. 1	Given in the problem; not required for Nov. 1 transaction.
1	The expense Rent Expense is increased. Increases in expenses are recorded by debits; therefore, debit Rent Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
2	The asset Land is increased. Increases in assets are recorded by debits; therefore, debit Land. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
5	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The liability Notes Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Notes Payable.
10	The asset Supplies is increased. Increases in assets are recorded by debits; therefore, debit Supplies. The liability Accounts Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Accounts Payable.
16	The expense Salaries Expense is increased. Increases in expenses are recorded by debits; therefore, debit Salaries Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
22	The liability Accounts Payable is decreased. Decreases in liabilities are recorded by debits; therefore, debit Accounts Payable. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
28	The owner's equity of the business is decreased. Decreases in owner's equity are recorded by debits. Decreases due to withdrawals are debited to the withdrawals account; therefore, debit Darrell Palusky, Withdrawals. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.

(continued) **P 2-1A**

- 29 The expense Property Tax Expense is increased. Increases in expenses are recorded by debits; therefore, debit Property Tax Expense.
The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
- 30 The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash.
The revenue Service Revenue is increased. Increases in revenues are recorded by credits; therefore, credit Service Revenue.

(continued) **P 2-1A****Req. 2 (journal entries)**

Baycrest Cinema Company

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Nov.	1	Cash		350,000	
		Darrell Palusky, Capital			350,000
		Investment in the business by the owner.			
	1	Rent Expense		6,000	
		Cash			6,000
		Paid November rent on a theatre building.			
	2	Land		320,000	
		Cash			320,000
		Purchased land for a theatre site.			
	5	Cash		220,000	
		Notes Payable			220,000
		Borrowed from the bank on a note payable.			
	10	Supplies		1,000	
		Accounts Payable			1,000
		Purchased theatre supplies on account.			
	16	Salaries Expense		2,900	
		Cash			2,900
		Paid cash for salaries.			
	22	Accounts Payable		600	
		Cash			600
		Made payment on account.			
	28	Darrell Palusky, Withdrawals		8,000	
		Cash			8,000
		Owner withdrew cash from the company.			
	29	Property Tax Expense		1,400	
		Cash			1,400
		Paid property tax on the land for the new theatre.			
	30	Cash		20,000	
		Service Revenue			20,000
		Receive cash for services provided.			

(40-50 min.) **P 2-2A**
WeReDolt Construction

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sep.	3	Cash		72,000	
		Z. Slipewicz, Capital			72,000
		Owner deposited a cheque to start the business.			
	4	Supplies		600	
		Furniture		4,400	
		Accounts Payable			5,000
		Purchased supplies and furniture on account.			
	5	Rent Expense		1,500	
		Cash			1,500
		Paid rent for September.			
	6	Cash		2,400	
		Service Revenue			2,400
		Performed design services and received cash.			
	7	Land		44,000	
		Cash			44,000
		Purchased land for future office site.			
	10	Accounts Receivable		5,800	
		Service Revenue			5,800
		Designed a bathroom, billed it on account.			
	14	Accounts Payable		4,400	
		Cash			4,400
		Paid for September 4 furniture purchase.			
	15	Salary Expense		940	
		Cash			940
		Paid assistant's salary.			
	17	Cash		3,400	
		Accounts Receivable			3,400
		Received cash on account.			
	22	Cash		5,000	
		Service Revenue			5,000
		Received cash for cottage renovation.			

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

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sep.	25	Accounts Receivable		1,600	
		Service Revenue			1,600
		Prepared a design for a customer on account.			
	30	Salary Expense		940	
		Cash			940
		Paid assistant's salary.			
	30	Z. Slipewicz, Withdrawals		5,600	
		Cash			5,600
		Owner withdrawal of cash from the company.			

Req. 1 (journal entries)

(45-60 min.) **P 2-3A**

Thomson Engineering

Journal					
PAGE 3					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	4	Cash	1100	600	
		Accounts Receivable	1200		600
		Received cash on account.			
	8	Accounts Receivable	1200	580	
		Service Revenue	5000		580
		Performed service on account.			
	13	Accounts Payable	2000	320	
		Cash	1100		320
		Paid on account.			
	18	Supplies	1300	120	
		Accounts Payable	2000		120
		Purchased supplies on account.			
	20	R. Thomson, Withdrawals	3100	200	
		Cash	1100		200
		Withdrawal for personal use.			
	21	Verbal promise only; not a transaction of the business.			
	22	Cash	1100	620	
		Service Revenue	5000		620
		Performed service for cash.			
	31	Salary Expense	6200	1,300	
		Cash	1100		1,300
		Paid employee salaries.			

Req. 2 and 3 (ledger accounts)**(continued) P 2-3A**

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			4,000 (Dr)
Mar.	4		J.3	600		4,600 (Dr)
	13		J.3		320	4,280 (Dr)
	20		J.3		200	4,080 (Dr)
	22		J.3	620		4,700 (Dr)
	31		J.3		1,300	3,400 (Dr)

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1200
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			16,000 (Dr)
Mar.	4		J.3		600	15,400 (Dr)
	8		J.3	580		15,980 (Dr)

ACCOUNT		SUPPLIES				ACCOUNT NO. 1300
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			3,600 (Dr)
Mar.	18		J.3	120		3,720 (Dr)

ACCOUNT		AUTOMOBILE				ACCOUNT NO. 1600
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			37,200 (Dr)

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 2000
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			8,000 (Cr)
Mar.	13		J.3	320		7,680 (Cr)
	18		J.3		120	7,800 (Cr)

Req. 2 and 3 (ledger accounts)**(continued) P 2-3A**

ACCOUNT		R. THOMSON, CAPITAL				ACCOUNT NO. 3000
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			50,000 (Cr)

ACCOUNT		R. THOMSON, WITHDRAWALS				ACCOUNT NO. 3100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			4,400 (Dr)
Mar.	20		J.3	200		4,600 (Dr)

ACCOUNT		SERVICE REVENUE				ACCOUNT NO. 5000
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			16,400 (Cr)
Mar.	8		J.3		580	16,980 (Cr)
	22		J.3		620	17,600 (Cr)

ACCOUNT		RENT EXPENSE				ACCOUNT NO. 6100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			2,000 (Dr)

ACCOUNT		SALARY EXPENSE				ACCOUNT NO. 6200
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			7,200 (Dr)
Mar.	31		J.3	1,300		8,500 (Dr)

Req. 1

(40-50 min.) **P 2-4A**
Vaillancourt Management

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a.	Cash	1100	20,000	
		Land	1800	60,000	
		Building	1700	120,000	
		Sophie Vaillancourt, Capital	3100		200,000
		Received investment by owner.			
	b.	Office Supplies	1400	2,600	
		Accounts Payable	2100		2,600
		Purchased supplies on account.			
	c.	Office Furniture	1500	15,000	
		Cash	1100		15,000
		Purchased furniture.			
	d.	Salary Expenses	5500	2,200	
		Cash	1100		2,200
		Paid salary.			
	e.	Accounts Receivable	1300	12,100	
		Service Revenue	4100		12,100
		Performed service on account.			
	f.	Accounts Payable	2100	800	
		Cash	1100		800
		Paid on account			
	g.	Advertising Expense	5100	2,000	
		Accounts Payable	2100		2,000
		Received advertising bill.			
	h.	Cash	1100	5,600	
		Service Revenue	4100		5,600
		Performed services and received cash.			

Req. 1

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

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	i.	Cash	1100	2,400	
		Accounts Receivable	1300		2,400
		Collected cash on account.			
	j.	Equipment Rental Expense	5300	1,700	
		Utilities Expense	5700	400	
		Cash	1100		2,100
		Paid expenses.			
	k.	Sophie Vaillancourt, Withdrawals	3200	6,500	
		Cash	1100		6,500
		Withdrawal by owner.			

Reqs. 2 and 3

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

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				20,000		20,000 Dr
c.					15,000	5,000 Dr
d.					2,200	2,800 Dr
f.					800	2,000 Dr
h.				5,600		7,600 Dr
i.				2,400		10,000 Dr
j.					2,100	7,900 Dr
k.					6,500	1,400Dr

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1300
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.				12,100		12,100 Dr
i.					2,400	9,700 Dr

ACCOUNT		OFFICE SUPPLIES				ACCOUNT NO. 1400
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
b.				2,600		2,600 Dr

ACCOUNT		OFFICE FURNITURE				ACCOUNT NO. 1500
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.				15,000		15,000 Dr

Reqs. 2 and 3

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

ACCOUNT		BUILDING				ACCOUNT NO. 1700	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
a.				120,000		120,000 Dr	

ACCOUNT		LAND				ACCOUNT NO. 1800	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
a.				60,000		60,000 Dr	

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 2100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
b.					2,600	2,600 Cr	
f.				800		1,800 Cr	
g.					2,000	3,800 Cr	

ACCOUNT		SOPHIE VAILLANCOURT, CAPITAL				ACCOUNT NO. 3100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
a.					200,000	200,000 Cr	

ACCOUNT		SOPHIE VAILLANCOURT, WITHDRAWALS				ACCOUNT NO. 3200	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
k.				6,500		6,500 Dr	

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

ACCOUNT		SERVICE REVENUE			ACCOUNT NO. 4100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.					12,100	12,100 Cr
h.					5,600	17,700 Cr

ACCOUNT		ADVERTISING EXPENSE			ACCOUNT NO. 5100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
g.				2,000		2,000 Dr

ACCOUNT		EQUIPMENT RENTAL EXPENSE			ACCOUNT NO. 5300	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				1,700		1,700 Dr

ACCOUNT		SALARY EXPENSE			ACCOUNT NO. 5500	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
d.				2,200		2,200 Dr

ACCOUNT		UTILITIES EXPENSE			ACCOUNT NO. 5700	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				400		400 Dr

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

Vaillancourt Management

Vaillancourt Management			
Unadjusted Trial Balance			
June 30, 2017			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 1,400	
1300	Accounts receivable	9,700	
1400	Office supplies	2,600	
1500	Office furniture	15,000	
1700	Building	120,000	
1800	Land	60,000	
2100	Accounts payable		\$ 3,800
3100	Sophie Vaillancourt, capital		200,000
3200	Sophie Vaillancourt, withdrawals	6,500	
4100	Service revenue		17,700
5100	Advertising expense	2,000	
5300	Equipment rental expense	1,700	
5500	Salary expense	2,200	
5700	Utilities expense	<u>400</u>	<u> </u>
	Total	<u>\$221,500</u>	<u>\$221,500</u>

(15-30 min.) P 2-5A

Dear Friend,

This trial balance lists the accounts of Archer Communications, along with their balances at December 31, 2017. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and potential investors for decision making.

The fact that the trial balance is in balance does not mean that Archer Communications is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business.

To compute Archer Communications' net income or net loss for the current period, subtract total expenses from service revenue. In this instance, Archer Communications earned net income of \$55,000 [sales revenue of \$151,000 minus total expenses of \$96,000 (\$4,500 + \$39,000 + \$10,500 + \$42,000)].

Instructional Note: Student responses may vary considerably.

(15-20 min.) **P 2-6A**

Minter Landscape Consulting

Minter Landscape Consulting		
Trial Balance		
June 30, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 2,900	
Accounts receivable	10,270	
Supplies	1,300	
Office furniture	3,600	
Land	44,600	
Accounts payable		\$ 4,200
Notes payable		23,000
R. Minter, capital		32,500
R. Minter, withdrawals	2,900	
Consulting service revenue		10,300
Advertising expense	600	
Rent expense	1,400	
Salary expense	2,100	
Utilities expense	<u>330</u>	<u> </u>
Total	<u>\$70,000</u>	<u>\$70,000</u>

Explanations:

Cash: $\$1,600 + \$1,300 = \$2,900$ Accounts receivable: $\$10,000 - \$30 + \$300 = \$10,270$ Supplies: $\$900 + \$400 = \$1,300$

Land: \$44,600 (amount given)

Accounts payable: $\$3,800 + \$400 = \$4,200$ R. Minter, capital: $\$31,600 + \$900 = \$32,500$ R. Minter, withdrawals: $\$2,000 + \$900 = \$2,900$ Consulting service revenue: $\$7,300 + \$3,000 = \$10,300$

Advertising expense: \$600 (amount given)

Rent expense: $\$1,000 + \$200 + \$200 = \$1,400$ Utilities expense: $\$410 - \$80 = \$330$

(45-50 min.) **P 2-7A**
CrossCountry Movers

Req. 1

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	17	Accounts Receivable		4,600	
		Moving Fees Income			4,000
		Storage Fees Income			600
		Earned moving fees and one month's storage fees on account.			
	18	Cash		16,800	
		Notes Receivable			15,000
		Interest Income			1,800
		Collected a note receivable and the related interest income.			
	19	H. Martinez, Withdrawals		400	
		Cash			400
		To record payment of hydro bill belonging to H. Martinez.			
	21	Storage Equipment		12,000	
		Cash			3,600
		Moving Fees Income			1,500
		Accounts Payable			6,900
		Purchased storage racks and paid for them partly with cash, moving fees provided, and the remainder on Accounts Payable.			
	23	Cash		3,000	
		Accounts Receivable			2,600
		Storage Fees Income			400
		To record cash collected on account and for storage fees.			
	24	Mortgage Payable		18,000	
		Cash			18,000
		To record cash payment on the mortgage.			
	27	H. Martinez, Withdrawals		5,000	
		Cash			5,000
		To record owner withdrawal of cash.			

(continued) **P 2-7A**
CrossCountry Movers

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	29	Cash		1,500	
		Legal Expense		900	
		Moving Fees Income			2,400
		Moving services provided for cash and \$900 of legal work.			
	31	No Entry			

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

(continued) **P 2-7A**
CrossCountry Movers

Req. 2

Cash				
Dec.	15	17,200	Dec.	19 400
	18	16,800		21 3,600
	23	3,000		24 18,000
	29	1,500		27 5,000
Bal.		11,500		

Accounts Receivable				
Dec.	15	17,400	Dec.	23 2,600
	17	4,600		
Bal.		19,400		

Notes Receivable				
Dec.	15	45,000	Dec.	18 15,000
Bal.		30,000		

Office Supplies				
Dec.	15	9,600		

Office Equipment				
Dec.	15	12,300		

Moving Equipment				
Dec.	15	132,200		

Storage Equipment				
Dec.	15	12,000		

Accounts Payable				
			Dec.	15 33,000
				21 6,900
			Bal.	39,900

Mortgage Payable				
Dec.	14	18,000	Dec.	15 39,000
			Bal.	21,000

H. Martinez, Capital				
			Dec.	15 63,000

H. Martinez, Withdrawals				
Dec.	19	400		
	27	5,000		
Bal.		5,400		

Moving Fees Income				
			Dec.	15 259,800*
				17 4,000
				21 1,500
				29 2,400
			Bal.	267,700

*Corrected for error on Dec. 16

Storage Fees Income				
			Dec.	15 57,900
				17 600
				23 400
			Bal.	58,900

Interest Income				
			Dec.	18 1,800

(continued) **P 2-7A**
CrossCountry Movers

Req. 2 (continued)

Insurance Expense			
Dec.	15	6,300	

Legal Expense			
Dec.	29	900	

Office Supplies Expense			
Dec.	15	2,100	

Rent Expense			
Dec.	15	47,100	

Salaries Expense			
Dec.	15	161,100	

Utilities Expense			
Dec.	15	2,400	

(continued) **P 2-7A****Req. 3**

Cross Country Movers		
Unadjusted Trial Balance		
December 31, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 11,500	
Accounts receivable	19,400	
Notes receivable	30,000	
Office supplies	9,600	
Office equipment	12,300	
Moving equipment	132,200	
Storage equipment	12,000	
Accounts payable		\$ 39,900
Mortgage payable		21,000
H. Martinez, capital		63,000
H. Martinez, withdrawals	5,400	
Moving fees income		267,700
Storage fees income		58,900
Interest earned		1,800
Insurance expense	6,300	
Legal expense	900	
Office supplies expense	2,100	
Rent expense	47,100	
Salaries expense	161,100	
Utilities expense	<u>2,400</u>	<u> </u>
Total	<u>\$452,300</u>	<u>\$452,300</u>

Problems

Group B

Req. 1 (transaction analysis)

(20-30 min.) **P 2-1B**

Yuan Research

<u>Date</u>	<u>Analysis of Transactions</u>
2017	
Apr. 1	Given in the problem; not required for Apr. 1 transaction.
5	The expense Office Rent Expense is increased. Increases in expenses are recorded by debits; therefore, debit Office Rent Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
10	The asset Supplies is increased. Increases in assets are recorded by debits; therefore, debit Supplies. The liability Accounts Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Accounts Payable.
19	The liability Accounts Payable is decreased. Decreases in liabilities are recorded by debits; therefore, debit Accounts Payable. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
21	The asset Land is increased. Increases in assets are recorded by debits; therefore, debit Land. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
22	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The liability Notes Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Notes Payable.
30	The expenses Salaries Expense and Utilities Expense are increased. Increases in expenses are recorded by debits; therefore, debit Salaries Expense and Utilities Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash for the sum of the three debit amounts.
30	The assets Cash and Accounts Receivable are increased. Increases in assets are recorded by debits; therefore, debit Cash and Accounts Receivable. The revenue Service Revenue is increased. Increases in revenues are recorded by credits; therefore, credit Service Revenue for the sum of the debits to Cash and Accounts Receivable.

(continued) **P 2-1B**

- 30 The owner's equity of the business is decreased. Decreases in owner's equity are recorded by debits. Decreases due to withdrawals by the owner are debited to the owner, withdrawals account; therefore, debit G. Yuan, Withdrawals.
- The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.

Req. 2 (journal entries)

(continued) **P 2-1B**

Journal						Page 1
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
Apr.	1	Cash		40,000		
		G. Yuan, Capital			40,000	
		Initial investment by owner in the business.				
	5	Office Rent Expense		400		
		Cash			400	
		Paid the month's rental for shared office space.				
	10	Supplies		600		
		Accounts Payable			600	
		Purchased supplies on account.				
	19	Accounts Payable		100		
		Cash			100	
		Paid for some of the supplies purchased on April 10.				
	22	Land		25,000		
		Cash			25,000	
		Purchased land for an office site.				
	22	Cash		15,000		
		Notes Payable			15,000	
		Borrowed from the bank with a note payable.				
	30	Salaries Expense		3,500		
		Utilities Expense		350		
		Cash			3,850	
		Paid expenses with cash.				
	30	Cash		1,300		
		Accounts Receivable		2,400		
		Service Revenue			3,700	
		Revenues earned during the month.				
	30	G. Yuan, Withdrawals		1,200		
		Cash			1,200	
		Cash withdrawal by owner.				

Jameson Translation Service

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

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	2	Cash		60,000	
		Scott Jameson, Capital			60,000
		Initial investment in business by the owner.			
	3	Supplies		750	
		Furniture		2,800	
		Accounts Payable			3,550
		Purchased supplies and furniture on account.			
	3	Rent Expense		1,100	
		Cash			1,100
		Paid rent for January.			
	4	Cash		2,250	
		Translation Revenue			2,250
		Performed translation services for cash.			
	7	Land		38,000	
		Cash			38,000
		Acquired land for future office site.			
	11	Accounts Receivable		1,200	
		Translation Revenue			1,200
		Performed translation services on account.			
	15	Salary Expense		975	
		Cash			975
		Paid salary of secretary.			
	16	Accounts Payable		2,800	
		Cash			2,800
		Paid for furniture purchased on January 3.			
	18	Cash		600	
		Accounts Receivable			600
		Received partial payment on client account.			
	19	Accounts Receivable		11,350	
		Translation Revenue			11,350
		Performed translation services on account.			
	22	Utilities Expense		300	
		Cash			300
		Paid water and electricity bills.			

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

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	29	Cash		2,700	
		Translation Revenue			2,700
		Performed translation services for cash.			
	31	Salary Expense		975	
		Cash			975
		Paid secretary's salary.			
	31	Scott Jameson, Withdrawals		12,000	
		Cash			12,000
		Owner withdrew cash for personal use.			

Req. 1 (journal entries)

(45-60 min.) **P 2-3B**

Sunshine Publishing

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Nov.	16	Cash	1100	6,000	
		Accounts Receivable	1200		6,000
		Received on account.			
	17	Accounts Receivable	1200	2,100	
		Service Revenue	5000		2,100
		Performed services on account.			
	21	Accounts Payable	2100	2,600	
		Cash	1100		2,600
		Paid on account.			
	22	Supplies	1300	4,600	
		Accounts Payable	2100		4,600
		Purchased supplies on account.			
	23	B. Singh, Withdrawals	4100	2,100	
		Cash	1100		2,100
		Withdrew funds for personal use.			
	24	Not a business transaction.			
	26	Cash	1100	11,900	
		Service Revenue	5000		11,900
		Performed service for cash.			
	30	Salaries Expense	6100	2,700	
		Cash	1100		2,700
		Paid employee salaries.			

Req. 2 (ledger accounts)

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

ACCOUNT		CASH			ACCOUNT NO. 1100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			16,000 (Dr)
	16		J.6	6,000		22,000 (Dr)
	21		J.6		2,600	19,400 (Dr)
	23		J.6		2,100	17,300 (Dr)
	26		J.6	11,900		29,200 (Dr)
	30		J.6		2,700	26,500 (Dr)

ACCOUNT		ACCOUNTS RECEIVABLE			ACCOUNT NO. 1200	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			16,000 (Dr)
	16		J.6		6,000	10,000 (Dr)
	17		J.6	2,100		12,100 (Dr)

ACCOUNT		SUPPLIES			ACCOUNT NO. 1300	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			1,200 (Dr)
	22		J.6	4,600		5,800 (Dr)

ACCOUNT		EQUIPMENT			ACCOUNT NO. 1900	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			70,000 (Dr)

ACCOUNT		ACCOUNTS PAYABLE			ACCOUNT NO. 2100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			9,200 (Cr)
	21		J.6	2,600		6,600 (Cr)
	22		J.6		4,600	11,200 (Cr)

Req. 2 (ledger accounts)

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

ACCOUNT		B. SINGH, CAPITAL			ACCOUNT NO. 4000	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			90,000 (Cr)

ACCOUNT		B. SINGH, WITHDRAWALS			ACCOUNT NO. 4100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			4,600 (Dr)
	23		J.6	2,100		6,700 (Dr)

ACCOUNT		SERVICE REVENUE			ACCOUNT NO. 5000	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			14,200 (Cr)
	17		J.6		2,100	16,300 (Cr)
	26		J.6		11,900	28,200 (Cr)

ACCOUNT		RENT EXPENSE			ACCOUNT NO. 6000	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			2,000 (Dr)

ACCOUNT		SALARIES EXPENSE			ACCOUNT NO. 6100	
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			3,600 (Dr)
	30		J.6	2,700		6,300(Dr)

Req. 1

(40-50 min.) **P 2-4B**

Blue Ribbon Catering

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a.	Cash	1100	50,000	
		Automobile	1700	26,000	
		B. Ronalds, Capital	3100		76,000
		Received investment by owner.			
	b.	Food Service Equipment	1600	8,000	
		Cash	1100		8,000
		Purchased equipment.			
	c.	Supplies	1500	14,800	
		Accounts Payable	2100		14,800
		Purchased supplies on account.			
	d.	Salary Expense	5800	12,600	
		Cash	1100		12,600
		Paid salary.			
	e.	Cash	1100	4,000	
		Service Revenue	4100		4,000
		Performed service and received cash.			
	f.	Accounts Receivable	1300	8,600	
		Service Revenue	4100		8,600
		Performed service on account.			
	g.	Accounts Payable	2100	12,000	
		Cash	1100		12,000
		Paid on account.			
	h.	Advertising Expense	5100	1,600	
		Accounts Payable	2100		1,600
		Received advertising bill.			

Req. 1

(continued) **P 2-4B**
Blue Ribbon Catering

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	i.	Cash	1100	2,200	
		Accounts Receivable	1300		2,200
		Collected cash on account.			
	j.	Rent Expense	5700	3,000	
		Insurance Expense	5500	1,600	
		Cash	1100		4,600
		Paid expenses.			
	k.	B. Ronalds, Withdrawals	3200	12,000	
		Cash	1100		12,000
		Withdrawal by owner.			

Reqs. 2 and 3

(continued) **P 2-4B**
Blue Ribbon Catering

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				50,000		50,000 Dr
b.					8,000	42,000 Dr
d.					12,600	29,400 Dr
e.				4,000		33,400 Dr
g.					12,000	21,400 Dr
i.				2,200		23,600 Dr
j.					4,600	19,000 Dr
k.					12,000	7,000 Dr

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1300
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
f.				8,600		8,600 Dr
i.					2,200	6,400 Dr

ACCOUNT		SUPPLIES				ACCOUNT NO. 1500
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.				14,800		14,800 Dr

ACCOUNT		FOOD SERVICE EQUIPMENT				ACCOUNT NO. 1600
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
b.				8,000		8,000 Dr

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

ACCOUNT		AUTOMOBILE				ACCOUNT NO. 1700
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				26,000		26,000 Dr

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 2100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.					14,800	14,800 Cr
g.				12,000		2,800 Cr
h.					1,600	4,400 Cr

ACCOUNT		B. RONALDS, CAPITAL				ACCOUNT NO. 3100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.					76,000	76,000 Cr

ACCOUNT		B. RONALDS, WITHDRAWALS				ACCOUNT NO. 3200
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
k.				12,000		12,000 Dr

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

ACCOUNT		SERVICE REVENUE				ACCOUNT NO. 4100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.					4,000	4,000 Cr
f.					8,600	12,600 Cr

ACCOUNT		ADVERTISING EXPENSE				ACCOUNT NO. 5100
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
h.				1,600		1,600 Dr

ACCOUNT		INSURANCE EXPENSE				ACCOUNT NO. 5500
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				1,600		1,600 Dr

ACCOUNT		RENT EXPENSE				ACCOUNT NO. 5700
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				3,000		3,000 Dr

ACCOUNT		SALARY EXPENSE				ACCOUNT NO. 5800
DATE 2017		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
d.				12,600		12,600 Dr

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

Blue Ribbon Catering

Blue Ribbon Catering			
Unadjusted Trial Balance			
January 31, 2017			
ACTT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 7,000	
1300	Accounts receivable	6,400	
1500	Supplies	14,800	
1600	Food service equipment	8,000	
1700	Automobile	26,000	
2100	Accounts payable		\$ 4,400
3100	B. Ronalds, capital		76,000
3200	B. Ronalds, withdrawals	12,000	
4100	Service revenue		12,600
5100	Advertising expense	1,600	
5500	Insurance expense	1,600	
5700	Rent expense	3,000	
5800	Salary expense	<u>12,600</u>	<u> </u>
	Total	<u>\$93,000</u>	<u>\$93,000</u>

(15-30 min.) **P 2-5B**

Dear Friend,

This trial balance lists the accounts of Online Designs, along with their balances at December 31, 2017. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and potential investors for decision making.

The fact that the trial balance is in balance does not mean that Online Designs is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute Online Designs' net income or net loss for the current period, subtract total expenses from service revenue. As a matter of fact, Online Designs has experienced a net loss of \$34,000 [service revenue of \$130,000 minus total expenses of \$154,000 (\$26,000 + \$24,000 + \$18,000 + \$96,000)].

Instructional Note: Student responses may vary considerably.

(15-20 min.) **P 2-6B**

Mackle Fitness

Mackle Fitness		
Trial Balance		
July 31, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 41,000	
Accounts receivable	38,100	
Supplies	9,000	
Office furniture	19,500	
Fitness equipment	600,000	
Accounts payable		\$ 31,500
Notes payable		194,500
G. Mackle, capital		462,000
G. Mackle, withdrawals	75,000	
Service revenue		160,500
Advertising expense	4,500	
Rent expense	15,000	
Salary expense	42,500	
Utilities expense	<u>3,900</u>	<u> </u>
Total	<u>\$848,500</u>	<u>\$848,500</u>

Explanations:

Cash: $\$47,000 - \$6,000 = \$41,000$ Accounts receivable: $\$30,000 - \$900 + \$9,000 = \$38,100$ Supplies: $\$7,500 + \$1,500 = \$9,000$

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

Accounts payable: $\$30,000 + \$1,500 = \$31,500$ G. Mackle, capital: $\$442,500 + \$19,500 = \$462,000$ G. Mackle, withdrawals: $\$55,500 + \$19,500 = \$75,000$ Service revenue: $\$73,500 + \$87,000 = \$160,500$

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

Rent expense: $\$9,000 + \$3,000 + \$3,000 = \$15,000$ Utilities expense: $\$3,000 + \$900 = \$3,900$

(45-50 min.) **P 2-7B**
Maquina Lodge

Req. 1

Journal					
DATE 2017		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	17	Cash		1,550	
		Guest Revenue			1,550
		Paid cash for rental to the end of December.			
	18	Cash		20,400	
		Notes Receivable			18,000
		Interest Earned			2,400
		Collected an \$18,000 note and related interest.			
	21	Boating Equipment		14,000	
		Cash			5,000
		Guest Revenue			1,600
		Accounts Payable			7,400
		Purchased boating equipment.			
	23	Cash		2,800	
		Guest Revenue			2,800
		Guest revenue earned from a conference.			
	24	Mortgage Payable		2,000	
		Cash			2,000
		Made a payment to reduce the mortgage.			
	27	B. Palmiter, Withdrawals		14,000	
		Cash			14,000
		Owner withdrew cash for personal use.			
	29	Cash		1,100	
		Legal Expense		900	
		Guest Revenue			2,000
		Meeting rooms paid for in cash and in legal work.			

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

(continued) **P 2-7B**
Maquina Lodge

Req. 2

Cash					
Dec.	15	3,800	Dec.	21	5,000
	17	1,550		24	2,000
	18	20,400		27	14,000
	23	2,800			
	29	1,100			
Bal.		8,650			

Accounts Receivable				
Dec.	15	8,800		

Notes Receivable					
Dec.	15	26,000	Dec.	18	18,000
Bal.		8,000			

Supplies Inventory				
Dec.	15	5,800		

Office Equipment				
Dec.	15	10,200		

Boating Equipment				
Dec.	15	96,800		
	21	14,000		
Bal.		110,800		

Furniture				
Dec.	15	57,800		

Building				
Dec.	15	200,000		

Land				
Dec.	15	30,000		

Accounts Payable				
	Dec.	15	12,000	
		21	7,400	
	Bal.		19,400	

Mortgage Payable					
Dec.	24	2,000	Dec.	15	30,000
			Bal.		28,000

B. Palmiter, Capital				
	Dec.	15	209,800	

B. Palmiter, Withdrawals				
Dec.	27	14,000		

Guest Revenue				
	Dec.	15	310,800*	
		17	1,550	
		21	1,600	
		23	2,800	
		29	2,000	
	Bal.		318,750	

*adjusted for Dec 16 note

(continued) **P 2-7B**
Maquina Lodge

Interest Earned			
	Dec.	18	2,400

Equipment Rental Expense			
	Dec.	15	11,800

Insurance Expense			
Dec.	15	6,800	

Legal Expense			
Dec.	29	900	

Salaries Expense			
Dec.	15	81,000	

Supplies Expense			
Dec.	15	2,800	

Utilities Expense			
Dec.	15	21,000	

(continued) **P 2-7B**
Maquina Lodge

Req. 3

Maquina Lodge		
Unadjusted Trial Balance		
December 31, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$8,650	
Accounts receivable	8,800	
Notes receivable	8,000	
Supplies inventory	5,800	
Office equipment	10,200	
Boating equipment	110,800	
Furniture	57,800	
Building	200,000	
Land	30,000	
Accounts payable		\$ 19,400
Mortgage payable		28,000
B. Palmiter, capital		209,800
B. Palmiter, withdrawals	14,000	
Guest revenue		318,750
Interest earned		2,400
Equipment rental expense	11,800	
Insurance expense	6,800	
Legal expense	900	
Salaries expense	81,000	
Supplies expense	2,800	
Utilities expense	<u>21,000</u>	<u> </u>
Total	<u>\$578,350</u>	<u>\$578,350</u>

Challenge Problems

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

Req. 1

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

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

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

Req. 2

Note – no additional owner's investments have occurred.

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

$$\begin{array}{ccccccc} \text{Beg OE} & + & \text{Investment} & - & \text{Withdrawals} & \pm & \text{Net income} & = & \text{End OE} \\ 8,000 & & 0 & & 0 & & X & & ? \end{array}$$

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

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

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

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

(20-30 min.) **P 2-3C**

Req. 1

a. Cash	180	
Accounts Receivable		180
b. Equipment	350	
Supplies		350
c. Ledger should be corrected by increasing Fees Income by \$801		
d. Ledger corrected by debiting Salaries Expense by \$900.		
e. Ledger for Accounts Payable must be corrected by debiting the account for \$466 (\$206 + \$260).		
f. K. Kala, Withdrawals	600	
Salaries Expense		600

Req. 2

Kala's Kabinet Konnection		
Trial Balance		
December 31, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$3,020 ^a	
Accounts receivable	3,151 ^b	
Supplies	450 ^c	
Equipment	3,350 ^d	
Accounts payable		2,200 ^e
Notes payable		1,200
K. Kala, capital		8,400 ^h
K. Kala, withdrawals	400	
Fees income		3,181 ^f
Salaries expense	3,700 ^g	
Office expense	910	
Total	<u>\$14,981</u>	<u>\$14,981</u>

Explanations:

- $\$2,840 + \$180 = \$3,020$
- $\$3,331 - \$180 = \$3,151$
- $\$800 - \$350 = \$450$
- $\$3,000 + \$350 = \$3,350$
- $\$2,666 - (\$206 + \$260) = \$2,200$
- $\$2,380 + \$801 = \$3,181$
- $\$3,400 + \$900 - \$600 = \$3,700$
- This is the "plug" figure to balance the trial balance.

Decision Problems

Req. 1 and 2

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

Cash			
(a)	50,000	(d)	1,600
(b)	8,000	(e)	1,200
(h)	7,500	(f)	15,000
(i)	2,400	(c)	27,000
Bal.	23,100		

Accounts Receivable			
(g)	20,600	(i)	2,400
Bal.	18,200		

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

Vehicle			
(c)	27,000		
Bal.	27,000		

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

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

Advertising Revenue			
		(g)	20,600
		(h)	7,500
		Bal.	28,100

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

Interest Expense			
(f)	200		
Bal.	200		

Rent Expense			
(f)	800		
Bal.	800		

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

Utilities Expense			
(f)	600		
Bal.	600		

Gas Expense			
(f)	1,000		
Bal.	1,000		

(continued) **Decision Problem 1**

Req. 3

Car Finders

Car Finders		
Unadjusted Trial Balance		
March 31, 2017		
ACCOUNT	DEBIT	CREDIT
Cash	\$23,100	
Accounts receivable	18,200	
Supplies	1,600	
Vehicle	27,000	
Notes payable		\$ 8,000
Amin Akmal, capital		50,000
Advising revenue		28,100
Advertising expense	1,200	
Commission expense	12,400	
Gas expense	1,000	
Interest expense	200	
Rent expense	800	
Utilities expense	<u>600</u>	
Total	<u>\$86,100</u>	<u>\$86,100</u>

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

Car Finders

Car Finders		
Income Statement		
For the Month Ended March 31, 2017		
Revenue:		
Advising revenue		\$28,100
Expenses:		
Advertising expense	\$1,200	
Commission expense	12,400	
Gas expense	1,000	
Interest expense	200	
Rent expense	800	
Utilities expense	<u>600</u>	
Total expenses		<u>16,200</u>
Net income		<u>\$11,900</u>

Recommendations: Continue the business because expected net income exceeds the target amount. Consideration should be given for the fact that the income is not very high.

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

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

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

Financial Statement Cases

(10-15 min.) **Financial Statement Case 1**

1. Indigo Books & Music Inc. presents its financial statements in Canadian Dollars. This is called the “functional currency.”
2. Amounts are recorded in thousands of dollars.
3. March 29, 2014 is the date of the most recent financial statement. In 2013 it was dated March 30.
4. Yes. The current financial statements follow Canadian generally accepted accounting principles for publicly accountable enterprises. Indigo is a publicly traded company so it must follow IFRS for all statements for fiscal years that start after January 1, 2011. It states so in Note 3. Basis of Preparation.

(20-30 min.) **Financial Statement Case 2****Req. 2**

All amounts in millions of dollars

Journal					
DATE 2013		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	a.	Accounts Receivable		950	
		Service Revenue			950
	b.	Goods and Services Purchased		1,100	
		Cash			1,100
	c.	Financing Costs		447	
		Cash			447
	d.	Cash		2,100	
		Accounts Receivable			2,100
	e.	Prepaid Expenses		24	
		Cash			24
	f.	Property, Plant and Equipment		550	
		Accounts Payable and Accrued Liabilities			550
	g.	Goods and Services Purchased		1,800	
		Cash			1,800

(continued) **Financial Statement Case 2****Req. 1, 3, 4**

Partial list of accounts – all amounts in millions of dollars

Cash		Accounts Receivable	
Bal.	1,607	Bal.	2,611
d.	2,100	a.	950
			1,461
	336		
b.	1,100	d.	2,100
c.	447		
e.	24		
g.	1,800		

Prepaid Expenses		Property, Plant, and Equipment	
Bal.	144	Bal.	7,878
f.	24	f.	550
	168	Bal.	8,428

Accounts Payable and Accrued Liabilities		Service Revenue	
	Bal.	Bal.	9,651
	f.	a.	950
	1,735		10,601

Goods and Services Purchased		Financing Costs	
Bal.	2,062	c.	447
b.	1,100		
g.	1,800		
	4,962		

Req. 5

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

- a) Property, plant and equipment:
Land, buildings, machinery, equipment, automobiles, computer equipment.
- b) Accounts payable and accrued liabilities:
Utilities payable, rent payable, income tax payable, interest payable.
- c) General and administration expenses:
Advertising expense, telephone expense, utilities expense, rent expense

EXERCISE 2-7

Name _____
Section _____

Date	Accounts and Explanation	Debit	Credit
2017			
March			
1	Cash	15,000	
	Yula Gregore, Capital		15,000
	Investment by owner		
1	Account Title	Amount	
	Account Title		Amount
4	Account Title	Amount	
	Account Title		Amount
6	Account Title	Amount	
	Account Title		Amount
9	Account Title	Amount	
	Account Title		Amount
17	Account Title	Amount	
	Account Title		Amount

End of Problem

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