CHAPTER 2

QUESTIONS

1. The accounting system generates a variety of reports for use by various decision makers. Among the most common are general-purpose financial statements, management reports, tax returns, and other reports prepared for government agencies such as the SEC.

2. A manual and an automated accounting system are similar in that both are designed to serve the same information-gathering and processing functions. Both systems also use the same underlying accounting concepts and principles. The differences between a manual and an automated accounting system involve some mechanical aspects, time requirements, and the appearance of records and reports. Due to advanced technology and reduced prices, today almost all successful businesses of any size use computers to assist in the various accounting functions.

3. The accounting process involves certain procedures used by businesses to produce financial statement data. The *recording phase* of the accounting process consists of those procedures used in the continuing activity of analyzing, recording, and classifying business transactions in the various books of record (journals and ledgers) during the fiscal period. The *reporting phase* of the accounting process consists of those procedures used at the end of the fiscal period to update and summarize data collected during the recording phase. Financial statements are prepared from the updated and summarized data.

4. The accounting process includes the following steps:

(1) *Business documents are analyzed.* Business documents provide detailed information concerning each transaction and establish support for the data recorded in the books of original entry.

(2) *Transactions are recorded in chronological order in books of original entry—the journals.* Transactions are analyzed in terms of their effects on the various asset, liability, owners' equity, revenue, and expense accounts of the business unit.

(3) *Transactions are posted to the appropriate accounts in the general and subsidiary ledgers.* The ledger accounts classify and summarize the full effect of all transactions recorded in the journals and can be used in the preparation of financial statements.

(4) *A trial balance may be prepared showing the account balances in the general ledger and reconciling subsidiary ledger balances with respective control account balances.* The trial balance provides a summary of the information as classified and summarized in the ledgers as well as a verification of the accuracy of recording and posting.

(5) *Adjustments are made to bring the accounts up to date.* Adjustments are necessary to record all accounting information that has not yet been recorded and to properly recognize all revenues and expenses on an accrual basis. If a spreadsheet is used (an optional step in the cycle), adjustments may be journalized and posted any time prior to closing. If statements are prepared directly from ledger balances, however, adjustments must be recorded at this point.

(6) *Financial statements are prepared.* Financial statements report the results of operations and cash flows for a period of time and show the financial condition of the business unit as of a certain date.

(7) *Closing entries are journalized and posted.* Balances in nominal accounts are closed into Retained Earnings. Operating results as determined in the summary accounts are finally transferred to Retained Earnings.

(8) *A post-closing trial balance may be prepared as an optional step in the cycle.* A post-closing trial balance is prepared to check the equality of the debits and credits after posting the adjusting and closing entries.

The steps in the accounting process are necessary to transform transaction data into useful information as summarized in the financial statements and other accounting reports. Some steps are optional, such as preparing a trial balance and preparing a post-closing trial balance. These steps help verify or facilitate the accounting process but are not essential.

5. Under double-entry accounting, assets, expenses, and dividends are increased by debits and decreased by credits. Liabilities, owners' equity accounts, and revenues are increased by credits and decreased by debits.

6. **a.** *Real accounts* are balance sheet accounts not closed to a zero balance in the closing process. *Nominal accounts* are income statement or temporary owners' equity accounts closed out in the process of arriving at the net increase or decrease in owners' equity for a period.

b. A *general journal* is the most flexible book of original entry. It may be used to record all business transactions or simply those that cannot be recorded in one of the special journals. S*pecial journals* are designed to facilitate the recording of some particular type of frequently occurring transaction, such as sales, purchases, cash receipts, and cash disbursements.

c. The *general ledger* carries summaries of all accounts appearing on the financial statements. *Subsidiary ledgers* afford additional detail in support of certain general ledger balances. Thus, accounts payable appear in total in the general ledger, but individual accounts with each creditor are provided in the accounts payable subsidiary ledger.

7. **a.** *Adjusting entries* are made at the end of an accounting period to update balance sheet accounts and to record accrued expenses and accrued revenues. Frequently, adjusting entries are first made on a work sheet and then are recorded in the general journal from which they are posted to the ledger accounts.

b. *Closing entries* are made after the adjusting entries have been posted. They transfer all nominal account balances to Retained Earnings.

8. The company accountant is disregarding the periodic summary process and jeopardizing the company's audit trail by not entering the adjusting entries in the general journal. Adjusting entries are made at the end of the period to bring accounts up to date. These entries must be entered first in the general journal and then posted directly to the general ledger. If the adjusting entries are not entered first in the general journal, the journals will be incomplete and will not provide the support necessary for an adequate accounting system.

9. Examples of contra accounts include Allowance for Bad Debts, Accumulated Depreciation, Discount on Notes Receivable, Discount on Notes Payable, and Discount on Bonds Payable. Contra accounts are subtracted from related accounts. Hence, they are sometimes referred to as *offset accounts*. Contra accounts are used to adjust accounts when the original balance needs to be preserved. For example, adequate disclosure in financial reports requires disclosure of both the original cost and the depreciated cost of assets. A contra account, Accumulated Depreciation, is used for this purpose.

10. Both methods, if properly applied, result in the same account balances. The entries that would be required on December 31 for (a) and (b), assuming that $400 was paid for insurance for one year beginning April 1, are as follows:

a. Original entry:

Insurance Expense	400	
Cash		400

Adjusting entry:

Prepaid Insurance	100	
Insurance Expense ..		100

b. Original entry:

Prepaid Insurance	400	
Cash		400

Adjusting entry:

Insurance Expense	300	
Prepaid Insurance....		300

11. A *work sheet* is a multicolumn form designed to facilitate the summarization and organization of accounting data needed to prepare the financial statements. The number of columns and the headings used may vary, depending on the needs of a particular business. While the work sheet is an optional step in the accounting process, it is a valuable aid in completing the trial balance and adjustment procedures. A work sheet is also called a spreadsheet.

12. When a work sheet is used as a basis for statement preparation, the adjustments can be formally recorded in the journals and posted to the ledger accounts at any time prior to closing the books. However, if a work sheet is not used, financial statements must be prepared directly from the accounts; thus, the adjustments must be recorded and posted prior to statement preparation.

13. Only the following accounts would be closed, generally with the following debit/credit entries:

Rent Expense	Credit
Depreciation Expense	Credit
Sales...............................	Debit
Interest Revenue	Debit
Advertising Expense.......	Credit
Dividends........................	Credit

14. *Accrual accounting* recognizes revenues and expenses when they are earned and incurred, not necessarily when cash is received or paid. *Cash-basis accounting* recognizes revenues and expenses as cash is received or disbursed, regardless of the earnings process or the matching concept. Generally accepted accounting principles require the use of accrual accounting.

15. The use of double-entry accrual accounting is more accurate than a cash-basis accounting system primarily because

(a) The likelihood of errors and omissions is greatly increased in the absence of double-entry analysis and a trial balance to test the accuracy of the analysis and recording process.
(b) Recording events under an accrual system as they occur more accurately reflects the effects and timing of an event than does a system that records the events when cash is received or paid, regardless of the earnings process and the matching concept.

16. The major advantages offered by computers as compared with manual processing of accounting data are as follows:

(a) Computers process large amounts of accounting data at great speeds, thus providing information for decision making on a more timely basis than a manual system would.
(b) Computers process information accurately with less chance of human error than a manual processing system.
(c) Computers require computer-oriented business papers and accounting records that promote clerical organization and efficiency.
(d) Computers usually require a general centralization of all accounting activities and thus increase the efficiency and cost-effectiveness of the accounting system.
(e) Computers can process accounting data and transmit such data in direct correspondence with customers and creditors in the form of online billings, invoices, payments, and so forth.

17. The function of the computer is limited to arithmetical and clerical functions. It can follow instructions that are provided on a programmed step-by-step basis, but unlike a human, it cannot think for itself. While it can serve effectively in recording activities, it cannot replace the accountant, who must still determine what principles are applicable in arriving at financial statements that present fairly the company's financial position and results of operations.

PRACTICE EXERCISES

PRACTICE 2–1 JOURNALIZING

Cash	4,000	
Accounts Receivable	18,000	
Sales		22,000
Cost of Goods Sold	14,000	
Inventory		14,000

PRACTICE 2–2 JOURNALIZING

Equipment	100,000	
Cash		10,000
Short-Term Notes Payable		20,000
Long-Term Notes Payable		70,000

PRACTICE 2–3 JOURNALIZING

Cash	40,000	
Equipment	90,000	
Gain on Sale of Land		80,000
Land		50,000

PRACTICE 2–4 JOURNALIZING

Dividends (or Retained Earnings)	12,000	
Cash		12,000

PRACTICE 2–5 JOURNALIZING

Wages Expense	52,000	
Land		52,000

PRACTICE 2–6 POSTING

Cash

Beg. Bal.	10,000		
a.	2,775	1,500	b.
d.	4,100	6,200	c.
End. Bal.	9,175		

PRACTICE 2–7 POSTING

Accounts Payable

		8,000	Beg. Bal.	
b.	6,500	2,700		a.
c.	200	2,550		d.
		6,550	End. Bal.	

PRACTICE 2–8 TRIAL BALANCE

	Debit	Credit
Cash	$ 750	
Inventory	4,000	
Accounts Payable		$ 1,450
Paid-In Capital		2,000
Retained Earnings (beginning)		1,000
Dividends	700	
Sales		10,000
Cost of Goods Sold	9,000	
Totals	$14,450	$14,450

PRACTICE 2–9 TRIAL BALANCE

	Debit	Credit
Cash	$ 3,500	
Prepaid Rent Expense	5,000	
Unearned Service Revenue		$ 1,600
Paid-In Capital		3,000
Retained Earnings (beginning)		1,200
Service Revenue		32,000
Salary Expense	24,000	
Rent Expense	5,300	
Totals	$37,800	$37,800

PRACTICE 2–10 INCOME STATEMENT

From Practice 2–8:

Sales	$10,000
Cost of goods sold	9,000
Net income	$ 1,000

PRACTICE 2–10 (Concluded)

From Practice 2–9:

Service revenue		$32,000
Salary expense	$24,000	
Rent expense	5,300	29,300
Net income		$ 2,700

PRACTICE 2–11 BALANCE SHEET

From Practice 2–8:

Assets	
Cash	$ 750
Inventory	4,000
Total assets	$4,750
Liabilities	
Accounts payable	$1,450
Stockholders' Equity	
Paid-in capital	$2,000
Retained earnings (ending)	1,300
Total liabilities and stockholders' equity	$4,750

Computation of ending Retained Earnings:
$1,000 + ($10,000 – $9,000) – $700 = $1,300

From Practice 2–9:

Assets	
Cash	$3,500
Prepaid rent expense	5,000
Total assets	$8,500
Liabilities	
Unearned service revenue	$1,600
Stockholders' Equity	
Paid-in capital	$3,000
Retained earnings (ending)	3,900
Total liabilities and stockholders' equity	$8,500

Computation of ending Retained Earnings:
$1,200 + ($32,000 – $24,000 – $5,300) = $3,900

PRACTICE 2–12 ADJUSTING ENTRIES

Depreciation Expense	5,500	
Accumulated Depreciation		5,500

PRACTICE 2–13 ADJUSTING ENTRIES

Bad Debt Expense	1,200	
Allowance for Bad Debts		1,200

PRACTICE 2–14 ADJUSTING ENTRIES

Interest Expense	333	
Interest Payable		333

$10,000 $\times$ 0.08 $\times$ 5/12 = $333

PRACTICE 2–15 ADJUSTING ENTRIES

Rent Expense	1,500	
Prepaid Rent		1,500

$3,600/12 = $300 per month; amount used = $300 $\times$ 5 months = $1,500

PRACTICE 2–16 ADJUSTING ENTRIES

Unearned Service Revenue	5,600	
Service Revenue		5,600

$9,600/12 = $800 per month; amount earned = $800 $\times$ 7 months = $5,600

PRACTICE 2–17 CLOSING ENTRIES

Sales	11,000	
Retained Earnings		11,000
Retained Earnings	7,000	
Cost of Goods Sold		7,000
Retained Earnings	900	
Dividends		900

Balance sheet accounts are not closed.

PRACTICE 2–18 CLOSING ENTRIES

Service Revenue	**20,000**	
Retained Earnings		**20,000**
Retained Earnings	**24,400**	
Salary Expense		**18,000**
Rent Expense		**6,400**

Balance sheet accounts are not closed.

EXERCISES

2–19. 1. and 2.

Cash

Bal.	150,000	(15)	22,000
(7)	11,760	(18)	8,600
		(27)	62,500
Bal.	68,660		

Accounts Receivable

Bal.	21,540	(7)	12,000
(1)	12,000		
Bal.	21,540		

Inventory

Bal.	32,680	(1)	6,850
(5)	10,250		
Bal.	36,080		

Land

Bal.	15,400		
(27)	58,333*		
Bal.	73,733		

Building

Bal.	14,000		
(27)	116,667*		
Bal.	130,667		

Machinery

(18)	8,600		
Bal.	8,600		

*($75,000/$225,000 × $175,000) *($150,000/$225,000 × $175,000)

Accounts Payable

		Bal.	9,190
		(5)	10,250
		Bal.	19,440

Dividends Payable

		(22)	20,250
		Bal.	20,250

Mortgage Payable

		Bal.	23,700
		(27)	112,500
		Bal.	136,200

Common Stock

		Bal.	140,000

Retained Earnings

		Bal.	60,730

Cost of Goods Sold

(1)	6,850		
Bal.	6,850		

Sales

		(1)	12,000
		Bal.	12,000

Sales Discounts

(7)	240		
Bal.	240		

Wages Expense

(15)	22,000		
Bal.	22,000		

Dividends

(22)	20,250*		
Bal.	20,250		

*($0.45 × 45,000)

2–19. (Concluded)

3.

Georgia Supply Corporation
Trial Balance
October 31, 2013

	Debit	Credit
Cash	$ 68,660	
Accounts Receivable	21,540	
Inventory	36,080	
Land	73,733	
Building	130,667	
Machinery	8,600	
Accounts Payable		$ 19,440
Dividends Payable		20,250
Mortgage Payable		136,200
Dividends	20,250	
Sales		12,000
Sales Discounts	240	
Cost of Goods Sold	6,850	
Wages Expense	22,000	
Common Stock		140,000
Retained Earnings		60,730
Totals	$388,620	$388,620

2–20. **1. Adjusting Entries**

		Debit	Credit
(a)	Insurance Expense	1,500	
	Prepaid Insurance		1,500
	($6,000 ÷ 24 mo. = $250 × 6 mo. = $1,500)		
(b)	Rent Revenue	2,700	
	Unearned Rent Revenue		2,700
	($9,450 ÷ 7 mo. = $1,350 × 2 mo. = $2,700)		
(c)	Advertising Materials	500	
	Advertising Expense		500
(d)	Prepaid Rent	2,800	
	Rent Expense		2,800
	($4,200 ÷ 6 mo. = $700 × 4 mo. = $2,800)		
(e)	Office Supplies	125	
	Miscellaneous Office Expense		125
(f)	Interest Expense	534	
	Interest Payable		534

2–20. (Concluded)

2. Sources of Information

   (a) The insurance register; the insurance policy
   (b) The journal entry or other original data from which the posting was made to the rental revenue account; the rental contract
   (c) The physical count of advertising materials on hand
   (d) The cash disbursements journal or vouchers payable record; the rental contract
   (e) The physical count of supplies on hand
   (f) The notes payable register; the note itself

2–21. Adjusting and Correcting Entries on December 31, 2013

		Debit	Credit
(a)	Allowance for Bad Debts	640	
	Accounts Receivable—Hatch Realty		640
(b)	Loss on Damages from Breach of Contract	3,500	
	Lawsuit Payable—E. F. Bowcutt Co.		3,500
(c)	Receivable from Insurance Company	7,000	
	Accumulated Depreciation—Furniture and Fixtures	4,100	
	Loss from Fire	1,200	
	Furniture and Fixtures		12,300
(d)	Advances to Salespersons	950	
	Sales Salaries Expense		950
(e)	Repairs Expense	760	
	Machinery		760
	Depreciation Expense—Machinery	1,735*	
	Accumulated Depreciation—Machinery		1,735*

*Depreciation: ($19,960 − $4,460) × 0.10 = $1,550
($4,460 − $760) × 0.05 = 185
$1,735

2–22.

1. Insurance Expense	500	
Prepaid Insurance		500
($3,600 + $1,200 – $4,300 = $500)		
2. Depreciation Expense	8,100	
Accumulated Depreciation		8,100
[$103,400 – ($10,700 – $5,300) – $106,100 = $8,100]		
3. Unearned Rent	10,000	
Rent Revenue		10,000
($12,000 + $6,000 – $8,000 = $10,000)		
4. Salaries Expense	7,060	
Salaries Payable		7,060
($36,540 – $29,480 = $7,060)		

2–23. 1. Adjusting Entries

Prepaid Operating Expenses	4,000	
General Operating Expenses		4,000
Sales Commissions	5,900	
Sales Commissions Payable		5,900
Investment Revenue Receivable	1,000	
Investment Revenue		1,000
General Operating Expenses	4,500	
Accumulated Depreciation—Buildings		4,500
General Operating Expenses	5,000	
Accumulated Depreciation—Machinery		5,000
Income Tax Expense	18,100	
Income Taxes Payable		18,100

Closing Entries

Sales	590,000	
Investment Revenue	6,000	
Retained Earnings		596,000
Retained Earnings	560,500	
General Operating Expenses		106,500
Sales Commissions		205,900
Cost of Goods Sold		230,000
Income Tax Expense		18,100

2–23. (Concluded)

2. **Pioneer Heating Corporation**
Post-Closing Trial Balance

	Debit	Credit
Cash	$ 39,000	
Investments	50,000	
Investment Revenue Receivable	1,000	
Inventory	50,000	
Prepaid Operating Expenses	4,000	
Land	70,000	
Buildings	180,000	
Accumulated Depreciation—Buildings		$ 4,500
Machinery	100,000	
Accumulated Depreciation—Machinery		5,000
Accounts Payable		65,000
Income Taxes Payable		18,100
Sales Commissions Payable		5,900
Common Stock		320,000
Additional Paid-In Capital		40,000
Retained Earnings		35,500
Totals	$494,000	$494,000

2–24. 1. Adjusting Entries

		Debit	Credit
(a)	No adjustment necessary.		
(b)	Selling, General, and Administrative Expenses	4,000	
	Prepaid Expenses		4,000
(c)	Unearned Revenue	31,500	
	Rent Revenue		31,500
(d)	Selling, General, and Administrative Expenses	15,000	
	Plant and Equipment		15,000
(e)	Selling, General, and Administrative Expenses	2,800	
	Other Assets		2,800
(f)	Other Assets	13,000	
	Selling, General, and Administrative Expenses		13,000
(g)	Accounts Payable	7,500	
	Inventory		7,500

2–24. (Concluded)

2. Closing Entries

Sales	2,762,000	
Interest Revenue	29,000	
Rent Revenue	31,500	
Retained Earnings		2,822,500
Retained Earnings	2,475,800	
Cost of Goods Sold		1,565,000
Selling, General, and Administrative Expenses		623,800
Interest Expense		82,000
Income Tax Expense*		205,000
Retained Earnings	211,000	
Dividends		211,000

*Assume that the adjustments do not affect Income Tax Expense.

3. Boudreaux Company
Post-Closing Trial Balance
December 31, 20XX

	Debit	Credit
Cash	$ 72,000	
Accounts Receivable	365,000	
Inventory	44,500	
Prepaid Expenses	32,000	
Land	70,000	
Plant and Equipment	1,239,000	
Other Assets	1,285,200	
Accounts Payable		$ 146,500
Wages, Interest, and Taxes Payable		218,000
Unearned Revenue		10,500
Long-Term Debt		1,190,000
Other Liabilities		297,000
Common Stock		195,000
Retained Earnings		1,050,700
Totals	$3,107,700	$3,107,700

2–25.

1. **Received $300 cash as payment on customer accounts.**
2. **Recorded return of inventory purchased on account for $400 using the perpetual method.**
3. **Borrowed $5,000 cash.**
4. **Sold inventory costing $550 for $200 cash and $700 on account.**
5. **Paid $200 cash for prepaid insurance policy.**
6. **Declared dividends of $250.**
7. **Closed Dividends to Retained Earnings at the end of the period. Dividends for the period totaled $1,000.**
8. **Used up $50 worth of the prepaid insurance policy.**
9. **Purchased inventory for $150 cash and $450 on account.**
10. **Wrote off a bad debt of $46.**
11. **Recorded accrued interest payable of $125.**
12. **Paid wages of $205—$75 related to wages for the current period and $130 was for wages for the prior period.**
13. **Paid account totaling $500. Because the payment was made within the discount period, a $10 purchase discount was taken.**

2–26.

Adjusting Entries

(a)	Depreciation Expense	4,800	
	Accumulated Depreciation—Equipment		4,800
	($52,000 – $4,000 = $48,000; $48,000/10 = $4,800/year)		
(b)	Prepaid Selling Expense	1,500	
	Selling Expense		1,500
(c)	Interest Receivable	800	
	Interest Revenue		800
(d)	Advertising Expense	440	
	Selling Expense		440

2–27.

Adjusting Entries

		Debit	Credit
(a)	Prepaid Insurance	5,025*	
	Insurance Expense		5,025
	*A, $5,400 × 21/24		$ 4,725
	B, $2,700 × 2/6		900
	C, $18,000 × 27/36		13,500
	Prepaid amount		$19,125
	Account balance		14,100
	Adjustment		$ 5,025
(b)	Subscription Revenue	3,900†	
	Unearned Subscription Revenue		3,900
	†July, $27,000 × 3/12		$ 6,750
	October, $22,200 × 6/12		11,100
	January, $28,800 × 9/12		21,600
	April, $20,700 × 12/12		20,700
	Unearned amount		$60,150
	Account balance		56,250
	Adjustment		$ 3,900
(c)	Interest Payable	450	
	Interest Expense		450
	[$825 – ($45,000 × 0.10 × 1/12)]		
(d)	Supplies Expense	780	
	Supplies		780
	($2,190 – $1,410)		
(e)	Salaries Payable	5,250	
	Salaries Expense		5,250
	[$9,750 – ($11,250 × 2/5)]		

2–28. 1. Adjusting Entries

Rent Expense	15,700	
Prepaid Rent		15,700
Salaries and Wages Expense	2,600	
Salaries and Wages Payable		2,600
Unearned Consulting Fees	122,400	
Consulting Fees Revenue		122,400
Interest Receivable	1,300	
Interest Revenue		1,300

2. Rent Expense = $5,100 + $14,000 – $3,400 = $15,700
Salaries and Wages Expense = $40,000 – $2,100 + $4,700 = $42,600
Consulting Fees Revenue = $18,200 + $112,000 – $7,800 = $122,400
Interest Revenue = $3,200 – $800 + $2,100 = $4,500

2–29. 1.

Account	Balance Carried Forward	Balance Closed by Debiting	Balance Closed by Crediting
(a) Cash	X		
(b) Sales		X	
(c) Dividends			X
(d) Inventory	X		
(e) Selling Expenses			X
(f) Capital Stock	X		
(g) Wages Expense			X
(h) Dividends Payable	X		
(i) Cost of Goods Sold			X
(j) Accounts Payable	X		
(k) Accounts Receivable	X		
(l) Prepaid Insurance	X		
(m) Interest Receivable	X		
(n) Sales Discounts			X
(o) Interest Revenue		X	
(p) Supplies	X		
(q) Retained Earnings	X		
(r) Accumulated Depreciation	X		
(s) Depreciation Expense			X

2–29. (Concluded)

2. Closing Entries

Sales	75,000	
Interest Revenue	6,500	
Retained Earnings		81,500
Retained Earnings	54,800	
Selling Expenses		7,900
Wages Expense		14,400
Cost of Goods Sold		26,500
Sales Discounts		4,200
Depreciation Expense		1,800
Retained Earnings	3,500	
Dividends		3,500

3. $26,700 net income ($81,500 – $54,800 = $26,700)

2–30.

Closing Entries

Revenues	142,300	
Retained Earnings		142,300
Retained Earnings	91,500	
Expenses		91,500
Retained Earnings	29,200	
Dividends		29,200

2–31.

Changes in Account Balances	Debit	Credit
Cash	$ 21,300	
Accounts receivable		$ 5,000
Inventory	14,000	
Equipment	58,000	
Accounts payable		2,000
Loans payable		40,000
Interest payable		2,000
Contributed capital ($32,000 + $15,000)		47,000
Retained earnings (or Dividends)	20,000	
	$113,300	$ 96,000
Increase in net assets or net income		17,300
	$113,300	$113,300

2–32.

Impact of error correction on net income

	2011	2012	2013
Accrued salaries:			
2011 error	$(21,000)	$ 21,000	
2012 error		(17,500)	$ 17,500
2013 error			(26,000)
Interest receivable:			
2011 error	8,500	(8,500)	
2012 error		11,400	(11,400)
2013 error			12,100
Net income increase (decrease)	$(12,500)	$ 6,400	$ (7,800)

PROBLEMS

2–33.

1. May	1	Cash	40,000	
		Capital Stock		40,000
	3	Inventory	8,000	
		Accounts Payable		8,000
	4	Office Supplies	500	
		Cash		500
	4	No entry.		
	5	Accounts Receivable	14,000	
		Sales		14,000
		Cost of Goods Sold	7,500	
		Inventory		7,500
	8	Wages Expense	2,450	
		Cash		2,000
		Employee Income Taxes Payable		450
	9	No entry.		
	9	Advertising Expense	1,500	
		Cash		1,500
	10	Cash	13,580	
		Sales Discounts	420	
		Accounts Receivable		14,000
	12	Machinery	6,400	
		Cash		6,400
	15	Dividends	25,000	
		Dividends Payable		25,000
	18	Accounts Receivable	21,000	
		Cash	3,000	
		Sales		24,000
		Cost of Goods Sold	13,000	
		Inventory		13,000
	19	Accounts Payable	8,000	
		Cash		8,000
	22	No entry.		
	23	No entry.		
	25	Building	150,000	
		Cash		15,000
		Mortgage Payable		135,000
	29	Dividends Payable	25,000	
		Cash		25,000

2–33. (Concluded)

2. **The single most important event was the free, favorable publicity in the national newsmagazine on May 22, which undoubtedly led to the large increase in market value the following day. However, since no transaction occurred (i.e., there was no exchange of goods or services), no journal entry was made. Because the accounting records include only transactions, some economically relevant events are not recorded.**

2–34.

	Account Title	(1) B/S I/S N	(2) A, L, OE, R, E, O	(3) Real or Nominal	(4) Closed or Open	(5) Debit (Dr.) or Credit (Cr.)
(a)	Unearned Rent Revenue	B/S	L	Real	Open	Cr.
(b)	Accounts Receivable	B/S	A	Real	Open	Dr.
(c)	Inventory	B/S	A	Real	Open	Dr.
(d)	Accounts Payable	B/S	L	Real	Open	Cr.
(e)	Prepaid Rent	B/S	A	Real	Open	Dr.
(f)	Mortgage Payable	B/S	L	Real	Open	Cr.
(g)	Sales	I/S	R	Nominal	Closed	Cr.
(h)	Cost of Goods Sold	I/S	E	Nominal	Closed	Dr.
(i)	Dividends	N	O	Nominal	Closed	Dr.
(j)	Dividends Payable	B/S	L	Real	Open	Cr.
(k)	Interest Receivable	B/S	A	Real	Open	Dr.
(l)	Wages Expense	I/S	E	Nominal	Closed	Dr.
(m)	Interest Revenue	I/S	R	Nominal	Closed	Cr.
(n)	Supplies	B/S	A	Real	Open	Dr.
(o)	Accumulated Depreciation	B/S	A*	Real	Open	Cr.
(p)	Retained Earnings	B/S	OE	Real	Open	Cr.
(q)	Discount on Bonds Payable	B/S	L*	Real	Open	Dr.
(r)	Goodwill	B/S	A	Real	Open	Dr.
(s)	Additional Paid-In Capital	B/S	OE	Real	Open	Cr.

*Contra.

2–35.

1. **Adjusting Entries on 12/31/11:**

(a)	Accounts Payable	4,300	
	Cash		4,300
(b)	Depreciation Expense	4,700	
	Accumulated Depreciation—Building		4,700
	($141,000 × 1/30 = $4,700)		
(c)	Bad Debt Expense	4,740	
	Allowance for Bad Debts		4,740
	[$1,100 + (0.07 × $52,000) = $4,740]		
(d)	Interest Receivable	2,933	
	Interest Revenue		2,933
	($80,000 × 0.11 × 4/12 = $2,933)		
(e)	Sales Revenue	12,160	
	Unearned Sales Revenue		12,160
	($15,200 × 0.80 = $12,160)		
(f)	Discount on Notes Payable	150	
	Interest Expense		150
	($300 × 30/60 = $150)		

2. **Net Change in Income:**

Add:	Interest revenue not recorded	$ 2,933	
	Overstatement of interest expense	150	$ 3,083
Deduct:	Depreciation expense	$ 4,700	
	Bad debt expense	4,740	
	Overstatement of sales revenue	12,160	(21,600)
Net reduction in reported net income			$(18,517)

2–36.

	2013			
(a)	Oct. 1	Rent Expense	2,400	
		Cash		2,400
		($1,800 ÷ 9/12 = $2,400 annual expense)		
(b)	June 1	Advertising Expense	4,080	
		Cash		4,080
		($1,700 ÷ 5/12 = $4,080 annual expense)		
(c)	Mar. 1	Cash	5,400	
		Rent Revenue		5,400
		($900 ÷ 2/12 = $5,400 annual revenue)		

2–36. (Concluded)

(d) July 1	Office Supplies Expense	2,000	
	Cash...		2,000
	($1,000 ÷ 6/12 = $2,000 annual expense)		
(e) Aug. 1	Insurance Expense	1,800	
	Cash...		1,800
	($1,050 ÷ 7/12 = $1,800 annual expense)		

2–37.

(a) Bad Debt Expense...	2,220	
Allowance for Bad Debts.............................		2,220
(b) Interest Receivable..	700	
Interest Revenue..		700
(c) Discount on Notes Payable	900	
Interest Expense..		900
(d) No adjustment required.		
(e) Salaries and Wages Expense	700	
Salaries and Wages Payable........................		700
(f) Discount on Notes Receivable	500	
Interest Revenue..		500
(g) Unearned Rent Revenue	5,200	
Rent Revenue..		5,200

COMPUTATIONS:

(a) Estimated uncollectibles: 0.04 × $123,000 = $4,920
Required increase in allowance account balance:
$4,920 – $2,700 = $2,220

(b) Required increase in accrued interest on investments balance:
$3,900 – $3,200 = $700

(c) Required increase in discount on notes payable balance:
$1,200 – $300 = $900

(e) Required increase in accrued salaries and wages balance:
$8,300 – $7,600 = $700

(f) Required reduction in discount on notes receivable balance:
$1,800 – $1,300 = $500

(g) Required reduction in unearned rent revenue balance:
$5,200 – 0 = $5,200

2–38. 1.

(a) Accounts Receivable	28,000	
Bad Debt Expense	3,000	
Sales		28,000
Allowance for Bad Debts		3,000
(b) Salaries Expense	11,000	
Salaries Payable		11,000
(c) Prepaid Rent	9,000	
Rent Expense		9,000
(d) Utilities Expense	2,700	
Accrued Liabilities (or Utilities Payable)		2,700
(e) Depreciation Expense	6,000	
Accumulated Depreciation—Equipment		6,000
($30,000/5 years)		
(f) Commission Expense	3,750	
Commission Payable		3,750
($25,000 $\times$ 0.15. No commission on uncollectible accounts)		
(g) Prepaid Insurance	3,000	
Insurance Expense		3,000
($6,000 $\times$ 6/12)		
(h) Interest Expense	1,000	
Interest Payable		1,000
($50,000 $\times$ 0.12 $\times$ 2/12)		
(i) Income Tax Expense	30,060	
Income Taxes Payable		30,060
[$75,150 $\times$ 0.40; see (2).]		

2–38. (Concluded)

2.

Gee Enterprises
Income Statement—Accrual Basis
For the Year Ended December 31, 2013

Sales		$289,400
Selling and administrative expenses:		
Salaries expense	$89,000	
Commission expense	41,550	
Rent expense	36,000	
Utilities expense	31,700	
Depreciation expense	6,000	
Interest expense	4,000	
Insurance expense	3,000	
Bad debt expense	3,000	214,250
Income before income taxes		$ 75,150
Income taxes (0.40)		30,060
Net income		$ 45,090

2–39. 1. **Although not required, a work sheet is provided as an answer to (1) and as support for other parts of this problem.**

Builders' Supply Corporation
Work Sheet
December 31, 2013

Account Title	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Cash	24,000						24,000	
Accounts Receivable	72,000						72,000	
Allowance for Bad Debts		1,380		(a) 1,620				3,000
Inventory	87,570						87,570	
Long-Term Investments	15,400						15,400	
Land	69,600						69,600	
Buildings	72,000						72,000	
Accumulated Depreciation—Buildings		19,800		(b) 3,600				23,400
Accounts Payable		35,000						35,000
Mortgage Payable		68,800						68,800
Capital Stock, $10 par		180,000						180,000
Retained Earnings, December 31, 2012		14,840						14,840
Dividends	13,400						13,400	
Sales		246,000				246,000		
Sales Returns	4,360				4,360			
Sales Discounts	5,400				5,400			
Cost of Goods Sold	114,370				114,370			
Selling Expenses	49,440		(c) 3,840		53,280			
Office Expenses	21,680				21,680			
Insurance Expense	1,440			(e) 720	720			
Supplies Expense	5,200			(d) 780	4,420			
Taxes—Real Estate and Payroll	7,980		(g) 900		8,880			
Interest Revenue		660		(f) 240		900		
Interest Expense	2,640		(h) 480		3,120			
Bad Debt Expense			(a) 1,620		1,620			
Depreciation Expense—Buildings (5% of $72,000)			(b) 3,600		3,600			
Selling Expenses Payable				(c) 3,840				3,840
Supplies			(d) 780				780	
Prepaid Insurance			(e) 720				720	
Interest Receivable			(f) 240				240	
Real Estate and Payroll Taxes Payable				(g) 900				900
Interest Payable				(h) 480				480
Income Tax Expense			(i) 7,635		7,635			
Income Taxes Payable (30% of $25,450)				(i) 7,635				7,635
	566,480	566,480	19,815	19,815				
					229,085	246,900	355,710	337,895
Net Income					17,815			17,815
					246,900	246,900	355,710	355,710

2–39. (Continued)

2. Adjusting Entries

(a)	Bad Debt Expense	1,620	
	Allowance for Bad Debts		1,620
(b)	Depreciation Expense—Buildings	3,600	
	Accumulated Depreciation—Buildings		3,600
(c)	Selling Expenses	3,840	
	Selling Expenses Payable		3,840
(d)	Supplies	780	
	Supplies Expense		780
(e)	Prepaid Insurance	720	
	Insurance Expense		720
(f)	Interest Receivable	240	
	Interest Revenue		240
(g)	Taxes—Real Estate and Payroll	900	
	Real Estate and Payroll Taxes Payable		900
(h)	Interest Expense	480	
	Interest Payable		480
(i)	Income Tax Expense	7,635	
	Income Taxes Payable		7,635

3. Closing Entries

Sales	246,000	
Interest Revenue	900	
Retained Earnings		246,900
Retained Earnings	229,085	
Sales Returns		4,360
Sales Discounts		5,400
Selling Expenses		53,280
Office Expenses		21,680
Insurance Expense		720
Supplies Expense		4,420
Taxes—Real Estate and Payroll		8,880
Interest Expense		3,120
Bad Debt Expense		1,620
Cost of Goods Sold		114,370
Depreciation Expense—Buildings		3,600
Income Tax Expense		7,635
Retained Earnings	13,400	
Dividends		13,400

2–39. (Concluded)

4.

Builders' Supply Corporation
Post-Closing Trial Balance
December 31, 2013

	Debit	Credit
Cash	$ 24,000	
Accounts Receivable	72,000	
Allowance for Bad Debts		$ 3,000
Interest Receivable	240	
Inventory	87,570	
Supplies	780	
Prepaid Insurance	720	
Long-Term Investments	15,400	
Land	69,600	
Buildings	72,000	
Accumulated Depreciation—Buildings		23,400
Accounts Payable		35,000
Interest Payable		480
Selling Expenses Payable		3,840
Income Taxes Payable		7,635
Real Estate and Payroll Taxes Payable		900
Mortgage Payable		68,800
Capital Stock, $10 par		180,000
Retained Earnings		19,255
Totals	$342,310	$342,310

2–40.

1. **Adjusting Entries**

(a)	No adjustment needed.		
(b)	Bad Debt Expense	500	
	Allowance for Bad Debts		500
(c)	Depreciation Expense—Equipment	32,000	
	Accumulated Depreciation—Equipment		32,000
(d)	Inventory	5,600	
	Cost of Goods Sold		5,600
	Sales Revenue	8,200	
	Accounts Receivable		8,200
(e)	Interest Expense	7,000	
	Interest Payable		7,000
(f)	Prepaid Insurance	2,250	
	Insurance Expense		2,250
(g)	Dividends	7,800	
	Dividends Payable		7,800

2. **Closing Entries**

Sales Revenue	301,800	
Interest Revenue	12,000	
Retained Earnings		313,800
Retained Earnings	306,300	
Cost of Goods Sold		199,650
Wages Expense		45,000
Interest Expense		10,200
Utilities Expense		6,000
Depreciation Expense—Equipment		32,000
Insurance Expense		750
Advertising Expense		5,000
Income Tax Expense		7,200
Bad Debt Expense		500
Retained Earnings	7,800	
Dividends		7,800

2–40. (Concluded)

3.

Taipei International Corporation
Post-Closing Trial Balance
December 31, 2013

	Debit	Credit
Cash	$ 31,500	
Accounts Receivable	16,800	
Allowance for Bad Debts		$ 750
Inventory	47,300	
Prepaid Insurance	2,250	
Equipment	190,000	
Accumulated Depreciation—Equipment		83,000
Accounts Payable		31,000
Notes Payable		70,000
Interest Payable		7,000
Wages Payable		8,000
Income Taxes Payable		6,500
Dividends Payable		7,800
Common Stock		40,000
Retained Earnings		33,800
Totals	$287,850	$287,850

4. Dividends are not restricted to the amount of net income in any given year. Therefore, it is possible for dividends to be paid in a year in which there is a net loss. However, contracts with lenders will sometimes restrict the payment of dividends in years when net income is below a certain amount.

   Also, it is possible for a company to owe income taxes in a year in which it reports a loss on its income statement. Recall that financial accounting net income (to be reported to the shareholders) and taxable income (to be reported to the IRS) are computed according to two different sets of rules and will almost never be the same.

2–41.

High Flying Logistics Co.
Work Sheet
December 31, 2013

Account	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Cash	42,000						42,000	
Accounts Receivable	86,000						86,000	
Allowance for Bad Debts		2,400		(a) 2,200				4,600
Inventory	97,000						97,000	
Long-Term Investments	31,500						31,500	
Land	62,300						62,300	
Buildings	142,500						142,500	
Accumulated Depreciation—Bldg.		32,560		(b) 13,500				46,060
Accounts Payable		51,800						51,800
Mortgage Payable		122,500						122,500
Capital Stock, $5 par		200,000						200,000
Retained Earnings, Dec. 31, 2012		26,950						26,950
Dividends	40,540						40,540	
Sales		431,000				431,000		
Sales Returns	9,560				9,560			
Sales Discounts	8,440				8,440			
Cost of Goods Sold	203,420				203,420			
Selling Expenses	58,300		(c) 9,300		67,600			
Office Expenses	44,200				44,200			
Insurance Expense	12,000			(e) 3,800	8,200			
Supplies Expense	5,100			(d) 850	4,250			
Taxes—Real Estate and Payroll	15,800		(g) 3,550		19,350			
Interest Revenue		750		(f) 1,150		1,900		
Interest Expense	9,300		(h) 1,980		11,280			
Bad Debt Expense			(a) 2,200		2,200			
Depreciation Expense—Buildings			(b) 13,500		13,500			
Selling Expenses Payable				(c) 9,300				9,300
Supplies			(d) 850				850	
Prepaid Insurance			(e) 3,800				3,800	
Interest Receivable			(f) 1,150				1,150	
Real Estate and Payroll Taxes Payable				(g) 3,550				3,550
Interest Payable				(h) 1,980				1,980
Income Taxes Payable				(i) 16,360				16,360
Income Tax Expense			(i) 16,360		16,360			
	867,960	867,960	52,690	52,690	408,360	432,900	507,640	483,100
Net Income					24,540			24,540
					432,900	432,900	507,640	507,640

2–42. 1.

Whitni Corporation
Work Sheet
December 31, 2013

Account Title	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Cash	40,250						40,250	
Notes Receivable	16,500						16,500	
Accounts Receivable	63,000						63,000	
Allowance for Bad Debts		650		(c) 1,850				2,500
Inventory, December 31, 2013	94,700						94,700	
Land	80,000						80,000	
Buildings	247,600						247,600	
Accumulated Depreciation—Buildings		18,000		(a2) 6,904				24,904
Furniture and Fixtures	15,000						15,000	
Accumulated Depreciation—Furniture and Fixtures		9,000		(a1) 1,500				10,500
Notes Payable		18,000						18,000
Accounts Payable		72,700						72,700
Common Stock, $100 par		240,000						240,000
Retained Earnings		129,125	(g1) 3,600					125,525
Sales		760,000				760,000		
Sales Returns and Allowances	17,000				17,000			
Cost of Goods Sold	465,800				465,800			
Utilities Expense	16,700				16,700			
Property Tax Expense	10,200		(d3) 6,000		16,200			
Salaries and Wages Expense	89,000				89,000			
Sales Commissions Expense	73,925		(d1) 700		74,625			
Insurance Expense	18,000			(e) 3,200	14,800			
Interest Revenue		2,600		(f) 750		3,350		
Interest Expense	2,400		(d2) 45		2,445			
Depreciation Expense—Buildings			(a2) 6,904		6,904			
Depreciation Expense—Furniture and Fixtures			(a1) 1,500		1,500			
Bad Debt Expense			(c) 1,850		1,850			
Sales Commissions Payable				(d1) 700				700
Interest Payable				(d2) 45				45
Property Taxes Payable				(d3) 6,000				6,000
Prepaid Insurance			(e) 3,200				3,200	
Interest Receivable			(f) 750				750	
Dividends Payable				(g1) 3,600				3,600
Income Tax Expense			(g2) 15,000		15,000			
Income Taxes Payable				(g2) 15,000				15,000
	1,250,075	1,250,075	39,549	39,549	721,824	763,350	561,000	519,474
Net Income					41,526			41,526
					763,350	763,350	561,000	561,000

2–42. (Continued)

2. Adjusting Entries

(a1)	Depreciation Expense—Furniture and Fixtures	1,500	
	Accumulated Depreciation—Furniture and Fixtures		1,500
	($15,000 × 0.10 = $1,500)		
(a2)	Depreciation Expense—Buildings	6,904	
	Accumulated Depreciation—Buildings		6,904
	[($97,600 × 0.04) + ($150,000 × 0.04 × 6/12) = $6,904)]		
(c)	Bad Debt Expense	1,850	
	Allowance for Bad Debts		1,850
	($2,500 – $650 = $1,850)		
(d1)	Sales Commissions Expense	700	
	Sales Commissions Payable		700
(d2)	Interest Expense	45	
	Interest Payable		45
(d3)	Property Tax Expense	6,000	
	Property Taxes Payable		6,000
(e)	Prepaid Insurance	3,200	
	Insurance Expense		3,200
(f)	Interest Receivable	750	
	Interest Revenue		750
(g1)	Retained Earnings	3,600	
	Dividends Payable		3,600
	($1.50 × 2,400 shares = $3,600)		
(g2)	Income Tax Expense	15,000	
	Income Taxes Payable		15,000

2–42. (Concluded)

Closing Entries

Sales	760,000	
Interest Revenue	3,350	
Retained Earnings		763,350
Retained Earnings	721,824	
Sales Returns and Allowances		17,000
Cost of Goods Sold		465,800
Utilities Expense		16,700
Property Tax Expense		16,200
Salaries and Wages Expense		89,000
Sales Commissions Expense		74,625
Insurance Expense		14,800
Interest Expense		2,445
Depreciation Expense—Buildings		6,904
Depreciation Expense—Furniture and Fixtures		1,500
Bad Debt Expense		1,850
Income Tax Expense		15,000

CASES

Discussion Case 2–43

First of all, many businesses do not survive, and poor bookkeeping is a contributor to the demise of many of them. Poor bookkeeping leads to a host of problems: trouble collecting accounts, difficulties with suppliers over late payments, problems getting bank loans because of the inability to prove profitability, inability to assemble reliable cost and revenue data in order to make pricing decisions, and general inefficient use of time. In addition, poor bookkeeping is often a symptom of a more fundamental laxness that adversely affects all aspects of the business.

Secondly, some businesses do well in spite of their bookkeeping inefficiencies because their fundamental business is doing so well that the inefficiencies stemming from bad recordkeeping only reduce profits instead of eliminating them altogether. This often occurs when a business occupies a specialized market niche that competitors have not yet entered.

Discussion Case 2–44

Recall that journal entries are made to record transactions and that *transactions* are defined as events that involve the transfer or exchange of goods or services between two or more entities. Each of the events listed in this case has potential economic significance. However, none of them involve an exchange of goods or services between the business and an outside entity. Accordingly, no journal entries are required.

Discussion Case 2–45

This case provides an opportunity to discuss with students the impact computers have had on accounting activities. Accounting systems have undergone significant changes as new technology has made it possible to produce a variety of reports in a timely and comprehensive manner not previously practical. In many companies, several information systems exist side by side, each producing information for a narrow use. The use of more generalized databases that can be queried by different users to meet their needs is increasingly used. Accountants must be willing to work with such systems if they are going to introduce the controls necessary to ensure the integrity of the data. Jim's worry is a real one; however, avoidance of the issue will not make the problem go away. If accountants do not play an active role in streamlining the system, other professionals with expertise in computer technology will and accountants will be forced to use what they are given.

Discussion Case 2–46

The cash basis and the accrual basis yield quite different pictures of a firm's operating performance when levels of assets or liabilities change dramatically from beginning of period to end of period. This would be the case, for example, in a growing company. In such a company, cash needs would exceed net income because of the need to increase working capital and the fixed assets of the company.

The cash basis and the accrual basis show similar pictures when the levels of assets and liabilities do not change significantly from beginning of period to end of period. For example, in a firm that has been in existence for quite some time and that has reached a steady state, the levels of receivables, inventory, and payables are often constant. Capital expenditures to replace fixed assets in any given year approximate depreciation expense for the year. In such a circumstance, cash flow and net income are approximately the same.

Discussion Case 2–47

The possibilities include the following:

1. The financial statements may be augmented by more extensive electronic disclosure. This would allow companies to provide much more information and allow investors to analyze the information more easily. It has been suggested that the importance of accounting method choice would diminish because users would be able to generate reports based on any set of accounting assumptions. Lenders, for example, might choose a more conservative set of assumptions than a potential corporate raider. Dissemination of more detailed data would allow all users to generate tailor-made financial statements.
2. Ultimately, it might someday be possible for an outsider to track the performance of a firm on an ongoing basis by tapping directly into the firm's accounting computer system. There would be no need for periodic financial statements; users could generate financial statements for any interval they choose. Accounting software firms would arise with competing software to best analyze and summarize the raw data available from company accounting records.

Discussion Case 2–48

Companies are usually very sensitive to requests of their stockholders. This concern should be expressed in replying to Julie's request. The company policy in distributing quarterly reports could be conveyed in the reply, along with the latest report. The chief accountant could assure Julie that the quarterly reports are prepared using the same generally accepted accounting principles as the annual reports and that the company auditors do review the quarterlies for consistency and overall reasonableness.

The idea of direct access to company records is one that has been suggested by several futurists. Certainly, the technology is available to do some of this. However, companies must also be concerned about premature disclosure of information that might be detrimental to the long-term interest of the company as an entity. As chief accountant, you might consider establishing an online system that would be updated weekly and that would provide data to interested stockholders such as Julie. The use of online databases to access previously unavailable information is certainly going to occur. Those companies in the forefront will be perceived as forward looking and will likely be popular with stockholders.

Case 2–49

Lockheed Martin Corporation
Adjusted Trial Balance
December 31, 2009
(dollars in millions)

	Debit	Credit
Cash and Cash Equivalents	$ 2,391	
Receivables	6,061	
Inventories	2,183	
Deferred Income Taxes, Current	815	
Other Current Assets	1,027	
Property, Plant and Equipment, Net	4,520	
Goodwill	9,948	
Purchased Intangibles, Net	311	
Prepaid Pension Asset	160	
Deferred Income Taxes	3,779	
Other Assets	3,916	
Accounts Payable		$ 2,030
Customer Advances and Amounts in Excess of Costs Incurred		5,049
Salaries, Benefits and Payroll Taxes		1,648
Other Current Liabilities		1,976
Long-term Debt, Net		5,052
Accrued Pension Liabilities		10,823
Other Postretirement Benefit Liabilities		1,308
Other Liabilities		3,096
Common Stock		373
Retained Earnings		11,621
Accumulated Other Comprehensive Loss	8,595	
Dividends	2,294	
Total Net Sales		45,189
Cost of Sales	40,965	
Other Income and Expenses, Net		242
Interest Expense	305	
Other Non-operating Income		123
Income Tax Expense	1,260	
Totals	$88,530	$88,530

Remember that the retained earnings balance on the December 31, 2009, balance sheet reflects the fact that all nominal accounts have been closed. To prepare a trial balance that includes nominal accounts, net income for the period must be subtracted and dividends must be added (obtained from the statement of stockholders' equity) from the end-of-year balance to arrive at the beginning-of-year balance.

Case 2–50

Students should consider the following points in their assignment:

1. An understanding of how information from a transaction is entered into the accounting system, processed by the system, and accumulated into a report will aid accountants and others as they use the information.
2. If an error occurs in the accounting system, an understanding of how the system works will facilitate the correction of the error.
3. An understanding of the mechanics enables individuals to better understand the concepts. For example, the journal entries associated with a perpetual inventory system assist one in understanding how goods flow through a business.
4. Journal entries force individuals to be concise and precise in their thinking. One cannot be sloppy when it comes to journal entries. Thus, another benefit of journal entries and T-accounts is that they assist the individual in becoming a better thinker.

Case 2–51

It should be apparent to students that the adjusting process requires significant judgment on the part of an accountant. Few guidelines exist to dictate the appropriateness of estimates. However, users of financial information require unbiased information with which to make quality decisions. If accounting information is biased so as to not reflect the economic realities of a business, poor resource allocation decisions can be made.

The accountant must exercise caution in ensuring that estimates are reasonable. While incentives may exist that cause the accountant to consider using overly optimistic estimates, incentives also exist to ensure that the accountant remains unbiased. For example, if an investor or creditor suffers a loss as a result of relying on information contained in the financial statements of a company, accountants may find themselves in a court of law trying to justify their estimates.

Accounting is one part science and one part art. While the mechanics of accounting may seem relatively straightforward, such is not the case. Bookkeeping is straightforward and requires little judgment; accounting requires significant judgment.

Case 2–52

Solutions to this problem can be found on the Instructor's Resource CD-ROM or downloaded from the Web at www.cengage.com/accounting/stice.