

CHAPTER 2—Solutions

ANALYZING AND RECORDING BUSINESS TRANSACTIONS

Discussion Questions

DQ1.	All equipment needs normal repairs. These are considered an ongoing cost of business and, thus, are expenses. However, it may be argued that if the repair is major, such as a major overhaul that is done every five years, the expenditure will benefit future years and, thus, could be recorded as an asset.
DQ2.	No issue is more important than another. Each must be resolved satisfactorily for a transaction to be recorded correctly.
DQ3.	Owner's Capital is the most likely account to have an abnormal balance. When expenses exceed revenues (net loss) and contributed capital, it will create an abnormal balance (debit) in owner's capital.
DQ4.	A retail company selling promotional products would have an account called inventory.
DQ5.	Assets and expenses are closely related because many assets are expenses that have not yet been used. Examples are prepaid assets and plant and equipment. As a result, debits <i>increase</i> assets and expenses, and credits <i>decrease</i> assets and expenses. They appear on opposite sides of the accounting equation.
DQ6.	With unearned revenues (a liability), cash is <i>received</i> in advance of <i>providing</i> a service. With prepaid expenses (an asset), cash is paid in advance of <i>receiving</i> a service.
DQ7.	The most common violation of the recognition concept is when a revenue is recognized before the earnings process is complete. For instance, the recording of an order as revenue before the service is performed or the product is delivered to the customer would overstate revenues.
DQ8.	To maintain liquidity it can seek more time from creditors, sell long-term investments (e.g., unused equipment), or get a loan from a bank.

Short Exercises

SE1. Classification of Accounts

a.	Liability	e.	Expense
b.	Asset	f.	Asset
c.	None (Owner's Equity)	g.	Liability
d.	Revenue	h.	Asset

SE2. Recognition, Valuation, and Classification

The concept of recognition is applied by recording the transaction at the recognition point on June 1 when the transaction takes place. Supplies are purchased with cash, and the buyer takes title to the supplies.

The concept of valuation is applied by recording the supplies at cost of \$1,000.

The classification concept is applied by reducing the asset Cash and increasing the asset Supplies. Supplies are classified as an asset because they have not been used up and will benefit future operations. If they were used up immediately, they could be classified as Supplies Expense.

SE3. Recognition

Jan.	10	Do not recognize because an order is not a complete transaction. There is no obligation on the part of either party at this point.
Feb.	15	Recognize the purchase. Delivery has been made; there is an obligation to pay.
Mar.	1	Recognize the payment. Cash is paid, and the obligation no longer exists.

SE4. Normal Balances

a.	Credit	e.	Debit
b.	Debit	f.	Debit
c.	Debit	g.	Credit
d.	Credit	h.	Debit

SE5. Transaction Analysis

May	2	Debit Cash; credit S. Michael, Capital
	5	Debit Office Equipment; credit Cash
	7	Debit Supplies; credit Accounts Payable
	19	Debit Cash; credit Programming Service Revenue
	22	Debit Cash; credit Unearned Programming Service Revenue
	25	Debit Rent Expense; credit Cash
	31	Debit Accounts Receivable; credit Programming Service Revenue

SE6. Recording Transactions in T Accounts											
Cash						Unearned Programming Service Revenue					
May	2	10,000	May	5	5,000				May	22	1,200
	19	1,000		25	1,300						
	22	1,200				S. Michael, Capital					
		12,200			6,300				May	2	10,000
Bal.		5,900									
						Programming Service Revenue					
Accounts Receivable											
May	31	500							May	19	1,000
										31	500
Supplies									Bal.		1,500
May	7	600									
						Rent Expense					
Office Equipment						May	25	1,300			
May	5	5,000									
Accounts Payable											
			May	7	600						
SE7. Preparing a Trial Balance											
Michael's Programming Service											
Trial Balance											
May 31, 2014											
Cash									5,900		
Accounts Receivable									500		
Supplies									600		
Office Equipment									5,000		
Accounts Payable										600	
Unearned Programming Service Revenue										1,200	
S. Michael, Capital										10,000	
Programming Service Revenue										1,500	
Rent Expense									1,300		
									13,300	13,300	

SE8. Recording Transactions in the General Journal

General Journal					Page 4
Date	Description	Post. Ref.	Debit	Credit	
Sept. 6	Accounts Receivable		3,800		
	Service Revenue			3,800	
	Billed customer for services performed				
16	Cash		1,800		
	Accounts Receivable			1,800	
	Received cash on account from customer billed on Sept. 6				

SE9. Posting to the Ledger Accounts

Cash					Account No. 111	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Sept. 16		J4	1,800		1,800	

Accounts Receivable					Account No. 113	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Sept. 6		J4	3,800		3,800	
16		J4		1,800	2,000	

Service Revenue					Account No. 411	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Sept. 6		J4		3,800		3,800

Note: At this point, the account numbers would also be posted to the accounts in the general journal in SE8.

Michael's Programming Service		
Trial Balance		
September 30, 2014		
Cash	\$ 7,700	
Accounts Receivable	2,500	
Supplies	600	
Office Equipment	5,000	
Accounts Payable		\$ 600
Unearned Programming Service Revenue		5,000
L. Stoker, Capital		10,000
Programming Service Revenue		1,500
Rent Expense	1,300	
	<u>\$17,100</u>	<u>\$17,100</u>

SE10. Recording Transactions in the General Journal									
General Journal									
Date		Description				Post. Ref.	Debit	Credit	
2014									
May	2	Cash					10,000		
			S. Michael Capital					10,000	
				Owner invested cash to start the business					
	5	Office Equipment					5,000		
			Cash					5,000	
				Purchased a computer for cash					
	7	Supplies					600		
			Accounts Payable					600	
				Purchased supplies on credit					
	19	Cash					1,000		
			Programming Service Revenue					1,000	
				To record receipt of payment for programming service					
	22	Cash					1,200		
			Unearned Programming Service Revenue					1,200	
				Received payment for programming services to be performed					
	25	Rent Expense					1,300		
			Cash					1,300	
				Paid the rent for May					
	31	Accounts Receivable					500		
			Programming Service Revenue					500	
				Billed a customer for services performed					
SE11. Identifying Ethical Transactions									
	1	Recognition: A violation because the revenue from the service was earned in the prior year.							
	2	Valuation: No violation.							
	3	Classification: No violation.							
SE12. Timing and Cash Flows									
		Cash							
		1/2	2,400		1/4	1,400			
The transactions of Jan. 2 and 4 have an immediate impact on cash, whereas the transactions of Jan. 8 and 9 will not impact cash until later when the cash is received or paid.									

Exercises: Set A

E1A. Recognition

Jan.	15	Not recorded. An offer is not a completed transaction.
Feb.	2	Not recorded. Notice of a price increase is not a transaction.
Mar.	29	Recorded. The utilities expense has been incurred, and the liability for payment exists.
June	10	Not recorded. An order does not constitute a recognition point.
July	6	Recorded. Abril Company now records the office equipment, and a liability to pay exists.

E2A. T Accounts, Normal Balance, and the Accounting Equation

Owner's Equity																
Assets		=	Liabilities		+	Owner's Equity										
						T. Captain, Capital		-	T. Captain, Withdrawals		+	Revenues		-	Expenses	
						Accounts Payable			T. Captain, Withdrawals			Service Revenue			Rent Expense	
3,450			1,200			2,400			750			1,500			900	
\$3,450		=	\$1,200		+	\$2,250										
\$3,450		=	\$3,450													

E3A. Classification of Accounts

Item	Type of Account						Normal Balance	
	Asset	Liability	Owner's Equity					
			D. Minimus, Capital	D. Minimus, Withdrawals	Revenue	Expense	Debit	Credit
a.	x						x	
b.						x	x	
c.	x						x	
d.			x					x
e.	x						x	
f.	x						x	
g.		x						x
h.	x						x	
i.					x			x
j.						x	x	
k.	x						x	
l.						x	x	
m.					x			x
n.				x			x	
o.		x						x
p.		x						x
q.	x						x	
r.		x						x
s.	x						x	
t.						x	x	
u.		x						x
v.	x						x	
w.	x						x	
x.						x	x	

E4A. Transaction Analysis		
a.	The asset account Cash was increased. Increases in assets are recorded by debits. Debit Cash \$2,400. A component of Owner's Equity, M. Faubert, Capital, was increased. Increases in owner's capital are recorded by credits. Credit M. Faubert, Capital \$2,400.	
b.	The asset Prepaid Rent was increased. Increases in assets are recorded by debits. Debit Prepaid Rent \$1,680. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$1,680.	
c.	The asset Supplies was increased. Increases in assets are recorded by debits. Debit Supplies \$120. The liability Accounts Payable was increased. Increases in liabilities are recorded by credits. Credit Accounts Payable \$120.	
d.	The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash \$600. The revenue Fees Earned was increased. Increases in revenues are recorded by credits. Credit Fees Earned \$600.	
e.	The liability Accounts Payable was decreased. Decreases in liabilities are recorded by debits. Debit Accounts Payable \$120. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$120.	
f.	The expense Utilities Expense was increased. Increases in expenses are recorded by debits. Debit Utilities Expense \$72. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$72.	
g.	The owner's equity component, M. Faubert, Withdrawals, was increased. Increases in withdrawals are recorded by debits. Debit M. Faubert, Withdrawals \$100. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$100.	
E5A. Transaction Analysis		

E6A. Recording Transactions in T Accounts							
Cash				Accounts Payable			
a.	8,600	b.	800	f.	400	c.	1,000
g.	3,720	d.	600			Bal.	600
		e.	900	C. Ferdinand, Capital			
		f.	400			a.	11,800
		h.	1,200	C. Ferdinand, Withdrawals			
	12,320		3,900	h.	1,200		
Bal.	8,420			Repair Fees Earned			
Repair Supplies						g.	3,720
c.	1,000			Salaries Expense			
Repair Equipment				e.	900		
a.	3,200			Rent Expense			
d.	600			b.	800		
Bal.	3,800						
E7A. Analysis of Transactions							
a.	F. Mills, owner, invested \$10,000 in the company.						
b.	Purchased equipment with cash, \$3,750.						
c.	Billed customer for services rendered, \$2,000.						
d.	Purchased equipment on account, \$2,250.						
e.	Paid wages with cash, \$900.						
f.	Paid cash owed on account, \$1,125.						
g.	Received cash on account, \$375.						
h.	Sold equipment (at cost) for cash, \$225.						

E8A. Analysis of Unfamiliar Transactions				
May	1	Merchandise Inventory	1,200	
		Accounts Payable		1,200
		Purchased merchandise inventory on account		
Note to Instructor: The answer given here assumes the perpetual inventory method because it is most intuitive at this point in the course. The purpose of this exercise is to focus on analytical thinking.				
	2	Marketable Securities	2,800	
		Cash		2,800
		Purchased marketable securities		
	3	Accounts Payable	250	
		Merchandise Inventory		250
		Returned part of merchandise inventory for full credit		
	4	Accounts Receivable	800	
		Sales		800
		Sold merchandise inventory		
Note to Instructor: A full discussion might be held at this point on what should be done to the Merchandise Inventory account.				
	5	Land	100,000	
		Building	200,000	
		Cash		60,000
		Mortgage Payable		240,000
		Purchased land and building with partial payment in cash		
	6	Cash	4,000	
		Advance Deposit or Unearned Revenue		4,000
		Recorded deposit on services of \$12,000 to be provided		

E9A. Trial Balance		
Ferdinand Repair Service Trial Balance June 30, 2014		
Cash	8,420	
Repair Supplies	1,000	
Repair Equipment	3,800	
Accounts Payable		600
C. Ferdinand, Capital		11,800
C. Ferdinand, Withdrawals	1,200	
Repair Fees Earned		3,720
Salaries Expense	900	
Rent Expense	800	
	<u>16,120</u>	<u>16,120</u>
E10A. Preparing a Trial Balance		
Shah Company Trial Balance March 31, 2014		
Cash	5,400	
Accounts Receivable	1,800	
Prepaid Insurance	660	
Land	3,120	
Building	20,400	
Equipment	7,200	
Notes Payable		12,000
Accounts Payable		7,710 *
A. Shah, Capital		18,870
	<u>38,580</u>	<u>38,580</u>
* \$38,580 – (\$12,000 + \$18,870) = \$7,710		
E11A. Effects of Errors on a Trial Balance		
a.	Unequal totals. The total debits would be \$54 more than the total credits.	
b.	Equal balance. However, both Accounts Receivable (an asset account) and Accounts Payable (a liability account) would be overstated by \$300.	
c.	Equal balance. However, both accounts would be incorrect. Cash would be overstated by \$756, and Office Supplies would be understated by \$756.	
d.	Equal balance. However, an error has been made by debiting the wrong asset. Therefore, Supplies would be overstated by \$900, and Equipment would be understated by \$900.	

E12A. Correcting Errors in a Trial Balance		
Hasson Services		
Trial Balance		
July 31, 2014		
Cash	2,030	
Accounts Receivable	2,890	
Supplies	120	
Prepaid Insurance	180	
Equipment	3,700	
Notes Payable		1,200
Accounts Payable		1,930
N. Hasson, Capital		5,280
N. Hasson, Withdrawals	550	
Revenues		2,960
Salaries Expense	1,300	
Rent Expense	300	
Advertising Expense	170	
Utilities Expense	<u>130</u>	<u> </u>
	<u>11,370</u>	<u>11,370</u>

E13A. Recording Transactions in the General Journal				
General Journal				
2014				
	a.	Cash	8,600	
		Repair Equipment	3,200	
		C. Ferdinand, Capital		11,800
		Invested cash and repair equipment in the business		
	b.	Rent Expense	800	
		Cash		800
		Paid current month rent		
	c.	Repair Supplies	1,000	
		Accounts Payable		1,000
		Purchased repair supplies on credit		
	d.	Repair Equipment	600	
		Cash		600
		Purchased additional repair equipment for cash		
	e.	Salaries Expense	900	
		Cash		900
		Paid salary to a helper		
	f.	Accounts Payable	400	
		Cash		400
		Paid \$400 of the amount purchased on credit in transaction c.		
	g.	Cash	3,720	
		Repair Fees Earned		3,720
		Accepted cash for repairs completed		
	h.	C. Ferdinand, Withdrawals	1,200	
		Cash		1,200
		Withdrew cash from the business		

E14A. Recording Transactions in the General Journal and Posting to the Ledger Accounts

General Journal					Page 10
Date		Description	Post. Ref.	Debit	Credit
Dec.	14	Office Equipment	146	12,000	
		Cash	111		4,000
		Accounts Payable	212		8,000
		Purchased equipment; paid one-third			
		in cash			
	28	Accounts Payable	212	6,000	
		Cash	111		6,000
		Paid for part of equipment purchased			
		on credit			

General Ledger	
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Cash						Account No. 111	
			Post.			Balance	
Date		Item	Ref.	Debit	Credit	Debit	Credit
Dec.	13	Balance	✓			16,000	
	14		J10		4,000	12,000	
	28		J10		6,000	6,000	

Office Equipment	Account No. 146
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			Post.			Balance	
Date		Item	Ref.	Debit	Credit	Debit	Credit
Dec.	14		J10	12,000		12,000	

Accounts Payable	Account No. 212
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Date		Item	Post.	Debit	Credit	Balance	
			Ref.			Debit	Credit
Dec.	14		J10		8,000		8,000
	28		J10	6,000			2,000

E15A. Application of Recognition Point									
1. Purchases recognized on date shipped									
Order		Date Shipped		Date Received		Amount			
b		July	10	July	15	\$1,500			
c			16		22	800			
d			23		30	1,200			
e			27	Aug.	1	<u>1,500</u>			
Total July purchases						<u>\$5,000</u>			
2. Purchases recognized on date received									
Order		Date Shipped		Date Received		Amount			
a		June	26	July	5	\$ 600			
b		July	10		15	1,500			
c			16		22	800			
d			23		30	<u>1,200</u>			
Total July purchases						<u>\$4,100</u>			
E16A. Cash Flow Analysis									
Revenues from Services		Cash Sale	Cash		Cash Purchase	Expenses			
	1,500		1,500	1,100		1,100			
	1,800		1,200	700		1,300			
	3,300		2,700	1,800		2,400			
			900						
Credit Sale		Collection on Account			Credit Purchase				
Accounts Receivable				Payment on Account		Accounts Payable			
	1,800	1,200				700	1,300		
	600						600		
The cash balance after these transactions is \$900. The amount still to be received (the balance of Accounts Receivable) is \$600. The amount still to be paid (the balance of Accounts Payable) is \$600.									
Note to Instructor: Solutions for Exercises: Set B are provided separately on the Instructor's Resource CD and website.									

Problems

P1. T Accounts, Normal Balance, and The Accounting Equation

Owner's Equity										
Assets	=	Liabilities	+	R. Mehta, Capital	-	R. Mehta, Withdrawals	+	Revenues	-	Expenses
Cash		Accounts Payable		R. Mehta, Capital		R. Mehta, Withdrawals		Design Revenue		Rent Expense
18,400		6,420		74,000		36,000		210,000		11,880
Accounts Receivable		Loans Payable								Telephone Expense
78,000		10,000								960
Equipment		Unearned Revenue								Wages Expense
49,180		18,000								124,000
Accounting equation without Equipment:										
Equipment	+	\$96,400	=	\$145,580						
			Equipment	=	\$49,180					
Accounting equation in balance:										
\$145,580	=	\$34,420	+	\$111,160						
\$145,580	=	\$145,580								

P2. Transaction Analysis			
		Debit	Credit
a.	Paid for supplies purchased on credit last month.	7	1
b.	Received a bill for repairs.	12	7
c.	Paid the current month's rent.	11	1
d.	Purchased supplies on credit.	3	7
e.	Received cash from customers for services performed but not yet billed.	1	10
f.	Purchased equipment on account.	5	7
g.	Billed customers for services performed.	2	10
h.	Returned part of the equipment purchased in <i>f</i> for a credit.	7	5
i.	Received payments from customers previously billed.	1	2
j.	Paid the bill received in <i>b</i> .	7	1
k.	Received an order for services to be performed.	No entry	
l.	Paid for repairs with cash.	12	1
m.	Made a payment to reduce the principal of the note payable.	6	1
n.	Made a cash withdrawal.	9	1

P3. Transaction Analysis, T Accounts, and Trial Balance

1 and 2.

Cash				Accounts Receivable				Supplies			
a.	5,700	b.	260	f.	1,740	j.	1,080	e.	330		
j.	1,080	c.	190	Bal.	660						
		h.	330								
		i.	40								
		k.	90								
		l.	440								
		m.	300								
	6,780		1,650								
Bal.	5,130										
Computers				Office Equipment				Accounts Payable			
a.	4,300			a.	3,600			h.	330	e.	330
g.	480			g.	380					g.	860
Bal.	4,780			Bal.	3,980				330		1,190
										Bal.	860
J. Lopez, Capital				J. Lopez, Withdrawals				Tuition Revenue			
		a.	13,600	m.	300					f.	1,740
Salaries Expense				Utilities Expense				Rent Expense			
l.	440			k.	90			b.	260		
Repair Expense				Advertising Expense							
i.	40			c.	190						
d.	No entry										

P3. Transaction Analysis, T Accounts, and Trial Balance (Concluded)

3.	Lopez Office Training		
	Trial Balance		
	(Current Date)		
	Cash	5,130	
	Accounts Receivable	660	
	Supplies	330	
	Computers	4,780	
	Office Equipment	3,980	
	Accounts Payable		860
	J. Lopez, Capital		13,600
	J. Lopez, Withdrawals	300	
	Tuition Revenue		1,740
	Salaries Expense	440	
	Utilities Expense	90	
	Rent Expense	260	
	Repair Expense	40	
	Advertising Expense	190	
		<u>16,200</u>	<u>16,200</u>
4.	The revenues were \$1,740, and only \$1,080 of cash was received from those revenues.		
	The company accepts credit sales to accommodate its students and encourage them		
	to enroll. The company must consider the possibility that it will not receive the cash		
	until later and that some students will not be able to pay.		

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance

1.	2014					
	April	2	Cash	14,400		
			S. Patel, Capital		14,400	
			For initial owner investment in Patel Rentals			
		3	Supplies	300		
			Accounts Payable		300	
			To purchase supplies on account			
		4	Bicycles	5,000		
			Cash		2,400	
			Accounts Payable		2,600	
			To purchase bicycles; made partial payment and agreed to pay the rest later			
		5	Shed	5,800		
			Cash		5,800	
			To purchase shed to store bicycles			
		8	Shed	800		
			Cash		800	
			To install shed			
		9	No entry			
		10	Maintenance Expense	150		
			Cash		150	
			To pay for cleanup			
		13	Cash	1,940		
			Rental Revenue		1,940	
			To record rentals made for cash			
		17	Accounts Payable	300		
			Cash		300	
			To pay for supplies purchased on April 3			
		18	Repair Expense	110		
			Cash		110	
			To repair bicycles			
		23	Accounts Receivable	220		
			Rental Revenue		220	
			To bill company for rentals			
		25	Concession Fee Expense	200		
			Cash		200	
			To pay monthly concession fee			
		27	Cash	1,920		
			Rental Revenue		1,920	
			To record rentals made for cash			
		29	Wages Expense	480		
			Cash		480	
			To pay wages of assistant			
		30	S. Patel, Withdrawals	1,000		
			Cash		1,000	
			To disburse a cash withdrawal			

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance (Continued)
2.

Cash				Accounts Receivable				Supplies			
4/2	14,400	4/4	2,400	4/23	220			4/3	300		
4/13	1,940	4/5	5,800								
4/27	1,920	4/8	800								
		4/10	150								
		4/17	300								
		4/18	110								
		4/25	200								
		4/29	480								
		4/30	1,000								
	18,260		11,240								
Bal.	7,020										
Shed				Bicycles				Accounts Payable			
4/5	5,800			4/4	5,000			4/17	300	4/3	300
4/8	800									4/4	2,600
Bal.	6,600								300		2,900
										Bal.	2,600
S. Patel, Capital				S. Patel, Withdrawals				Rental Revenue			
		4/2	14,400	4/30	1,000					4/13	1,940
										4/23	220
										4/27	1,920
										Bal.	4,080
Wages Expense				Maintenance Expense				Repair Expense			
4/29	480			4/10	150			4/18	110		
Concession Fee Expense											
4/25	200										

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance (Concluded)

3.	Patel Rentals		
	Trial Balance		
	April 30, 2014		
	Cash	7,020	
	Accounts Receivable	220	
	Supplies	300	
	Shed	6,600	
	Bicycles	5,000	
	Accounts Payable		2,600
	S. Patel, Capital		14,400
	S. Patel, Withdrawals	1,000	
	Rental Revenue		4,080
	Wages Expense	480	
	Maintenance Expense	150	
	Repair Expense	110	
	Concession Fee Expense	200	
		<u>21,080</u>	<u>21,080</u>

4.	<p>April 3 and 10 are the recognition points for these transactions. April 3 is the recognition point for the purchase of supplies, because it is on April 3 when the title to the supplies passes and there is an obligation to pay. April 10 is the recognition point for the cleaning work because this is when the cleaning is done and there is an obligation to pay for it.</p> <p>Both transactions are recorded at cost, the amount that the company is obligated to pay.</p> <p>The supplies purchased on April 3 are classified as an asset, Supplies, because the supplies are not used immediately but will be used up in the future. The purchase of cleaning work is classified as owner's equity, Maintenance Expense, because it is necessary now in the current period for the company to continue running. Also the purchase of supplies is classified as Accounts Payable, a liability, because the supplies are to be paid for in the future. Conversely, the payment to a maintenance person is classified as Cash, an asset, because the cleaning work is paid for on the day of purchase.</p>
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P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance					
3. (Requirements 1, 2, 4, and 5 follow)					
General Journal					Page 22
Date		Description	Post. Ref.	Debit	Credit
2014					
Sept.	2	Rent Expense	514	650	
		Cash	111		650
		To pay September rent			
	3	Cash	111	2,300	
		Accounts Receivable	113		2,300
		To record receipt of cash on account			
	7	No entry			
	10	Accounts Receivable	113	2,800	
		Marketing Fees	411		2,800
		To bill customers for services			
	12	Accounts Payable	212	1,300	
		Cash	111		1,300
		To pay on account			
	14	Office Supplies	116	380	
		Accounts Payable	212		380
		To purchase supplies on credit			
	17	Accounts Payable	212	80	
		Office Supplies	116		80
		To return supplies for credit			
	19	Cash	111	4,800	
		Marketing Fees	411		4,800
		To record receipt of payment for services			
	24	Utilities Expense	512	250	
		Cash	111		250
		To pay September utility bill			
	26	Advertising Expense	516	700	
		Accounts Payable	212		700
		To record receipt of September advertising bill			
	29	Accounts Receivable	113	2,700	
		Marketing Fees	411		2,700
		To bill customer for services			
	30	Salaries Expense	511	3,800	
		Cash	111		3,800
		To pay salaries for September			
	30	D. Guetta, Withdrawals	313	1,200	
		Cash	111		1,200
		To record a withdrawal			

P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
1, 2, and 4.							
Cash					Account No. 111		
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2014							
Aug.	31	Balance				10,590	
Sept.	2		J22		650	9,940	
	3		J22	2,300		12,240	
	12		J22		1,300	10,940	
	19		J22	4,800		15,740	
	24		J22		250	15,490	
	30		J22		3,800	11,690	
	30		J22		1,200	10,490	
Accounts Receivable					Account No. 113		
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2014							
Aug.	31	Balance				5,500	
Sept.	3		J22		2,300	3,200	
	10		J22	2,800		6,000	
	29		J22	2,700		8,700	
Office Supplies					Account No. 116		
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2014							
Aug.	31	Balance				610	
Sept.	14		J22	380		990	
	17		J22		80	910	
Office Equipment					Account No. 146		
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2014							
Aug.	31	Balance				4,200	

P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
Accounts Payable					Account No. 212		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Aug.	31					2,600	
Sept.	12	J22	1,300			1,300	
	14	J22		380		1,680	
	17	J22	80			1,600	
	26	J22		700		2,300	
D. Guetta, Capital					Account No. 311		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Aug.	31					18,300	
D. Guetta, Withdrawals					Account No. 313		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	30	J22	1,200		1,200		
Marketing Fees					Account No. 411		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	10	J22		2,800		2,800	
	19	J22		4,800		7,600	
	29	J22		2,700		10,300	
Salaries Expense					Account No. 511		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	30	J22	3,800		3,800		
Utilities Expense					Account No. 512		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	24	J22	250		250		

P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
Rent Expense					Account No. 514		
		Post.			Balance		
Date	Item	Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	2	J22	650		650		
Advertising Expense					Account No. 516		
		Post.			Balance		
Date	Item	Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	26	J22	700		700		
5.	Nordtown Company Trial Balance September 30, 2014						
	Cash		10,490				
	Accounts Receivable		8,700				
	Office Supplies		910				
	Office Equipment		4,200				
	Accounts Payable					2,300	
	D. Guetta, Capital					18,300	
	D. Guetta, Withdrawals		1,200				
	Marketing Fees					10,300	
	Salaries Expense		3,800				
	Rent Expense		650				
	Utilities Expense		250				
	Advertising Expense		700				
			30,900			30,900	
6.	The revenues were \$10,300, and only \$4,800 of cash was received from those revenues. Also, the company received \$2,300 of cash for services provided in previous months. Not all customers pay on time, and the company has to finance them. Also, \$5,500 was billed to customers that was not received at September 30.						

Alternate Problems									
P6. T Accounts, Normal Balance, and the Accounting Equation									
Owner's Equity									
Assets	=	Liabilities	+	B. Carlson, Capital	-	B. Carlson, Withdrawals	+	Revenues	- Expenses
Cash		Accounts Payable		B. Carlson, Capital		B. Carlson, Withdrawals		Revenue Earned	Supplies Expense
13,760		3,900		40,000		7,000		17,400	7,200
Accounts Receivable		Notes Payable							Utilities Expense
10,120		20,000							420
Supplies									Wages Expense
6,500									8,800
Equipment									
27,500									
Accounting equation without Cash:									
Cash	+	\$44,120	=	\$57,880					
Cash	=	\$13,760							
Accounting equation in balance:									
\$57,880	=	\$23,900	+	\$33,980					
\$57,880	=	\$57,880							

P7. Transaction Analysis

		Debit	Credit
a.	Paid for supplies purchased on credit last month.	7	1
b.	Billed customers for services performed.	2	10
c.	Paid the current month's rent.	11	1
d.	Purchased supplies on credit.	3	7
e.	Received cash from customers for services performed but not yet billed.	1	10
f.	Purchased equipment on account.	5	7
g.	Received a bill for repairs.	12	7
h.	Returned part of the equipment purchased in <i>f</i> for a credit.	7	5
i.	Received payments from customers previously billed.	1	2
j.	Paid the bill received in <i>g</i> .	7	1
k.	Received an order for services to be performed.	No entry	
l.	Paid for repairs with cash.	12	1
m.	Made a payment to reduce the principal of the note payable.	6	1
n.	Made a cash withdrawal.	9	1

P8. Transaction Analysis, T Accounts, and Trial Balance											
1 and 2.											
Cash				Accounts Receivable				Supplies			
a.	11,400	b.	520	f.	3,480	j.	2,160	e.	660		
j.	2,160	c.	380	Bal.	1,320						
		h.	660								
		i.	80								
		k.	180								
		l.	880								
		m.	600								
	13,560		3,300								
Bal.	10,260										
Computers				Office Equipment				Accounts Payable			
a.	8,600			a.	7,200			h.	660	e.	660
g.	960			g.	760					g.	1,720
Bal.	9,560			Bal.	7,960				660		2,380
										Bal.	1,720
B. Turner, Capital				B. Turner, Withdrawals				Tuition Revenue			
		a.	27,200	m.	600					f.	3,480
Salaries Expense				Utilities Expense				Rent Expense			
l.	880			k.	180			b.	520		
Repair Expense				Advertising Expense							
i.	80			c.	380						
d.	No entry										

P8. Transaction Analysis, T Accounts, and Trial Balance (Concluded)

3.	Blitz Secretarial Training		
	Trial Balance		
	(Current Date)		
	Cash	10,260	
	Accounts Receivable	1,320	
	Supplies	660	
	Computers	9,560	
	Office Equipment	7,960	
	Accounts Payable		1,720
	B. Turner, Capital		27,200
	B. Turner, Withdrawals	600	
	Tuition Revenue		3,480
	Salaries Expense	880	
	Utilities Expense	180	
	Rent Expense	520	
	Repair Expense	80	
	Advertising Expense	380	
		<u>32,400</u>	<u>32,400</u>
4.	The revenues were \$3,480, and only \$2,160 of cash was received from those revenues.		
	The company accepts credit sales to accommodate its students and encourage them		
	to enroll. The company must consider the possibility that it will not receive the cash		
	until later and that some students will not be able to pay.		

P9. Transaction Analysis, T Accounts, and Trial Balances											
1 and 2.											
Cash						Accounts Receivable					
Aug.	1	30,000	Aug.	3	5,600	Aug.	21	2,680	Aug.	27	1,200
	12	1,920		4	2,400	Bal.		1,480			
	27	1,200		9	2,160						
				17	3,000						
				24	160						
				31	1,400						
		33,120			14,720						
Bal.		18,400									
Cleaning Supplies						Prepaid Lease					
Aug.	7	6,000				Aug.	4	2,400			
Cleaning Equipment						Accounts Payable					
Aug.	3	5,600				Aug.	17	3,000	Aug.	7	6,000
									Bal.		3,000
D. Roberts, Capital						D. Roberts, Withdrawals					
			Aug.	1	30,000	Aug.	31	1,400			
Cleaning Revenue						Repair Expense					
			Aug.	12	1,920	Aug.	9	2,160			
				21	2,680		24	160			
			Bal.		4,600	Bal.		2,320			
Aug.	2	No entry									

P9. Transaction Analysis, T Accounts, and Trial Balances (Continued)

3.	Roberts Upholstery Cleaning		
	Trial Balance		
	August 31, 2014		
	Cash	18,400	
	Accounts Receivable	1,480	
	Cleaning Supplies	6,000	
	Prepaid Lease	2,400	
	Cleaning Equipment	5,600	
	Accounts Payable		3,000
	D. Roberts, Capital		30,000
	D. Roberts, Withdrawals	1,400	
	Cleaning Revenue		4,600
	Repair Expense	<u>2,320</u>	<u> </u>
		<u>37,600</u>	<u>37,600</u>

4. August 7 and 9 are the recognition points for these transactions. August 7 is the recognition point for the purchase of supplies rather than August 2 when the supplies were ordered, because it is on August 7 when title to the supplies passes and there is an obligation to pay. August 9 is the recognition point for the repairs because this is when the repairs are done and there is an obligation to pay for them.
- Both transactions are recorded at cost, the amount that the company is obligated to pay.
- The supplies purchased on August 7 are classified as an asset, Supplies, because the supplies are not used immediately but will be used up in the future. On the other hand, the purchase of repairs is classified as Repairs Expense, an owner's equity account, because they are necessary now in the current period for the van to continue running. Also, the purchase of supplies is classified as Accounts Payable, a liability, because the supplies are to be paid for in the future. Conversely, the purchase of repairs is classified as Cash, an asset, because the repairs are paid for on the day of purchase.

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance					
3. (Requirements 1, 2, 4, 5, and 6 follow)					
General Journal					Page 17
Date		Description	Post. Ref.	Debit	Credit
2014					
Feb.	2	Rent Expense	511	270	
		Cash	111		270
		To pay February rent			
	3	Cash	111	650	
		Service Revenue	411		650
		To record receipt of fees for this month's services			
	4	Supplies	115	85	
		Accounts Payable	212		85
		To purchase supplies on account			
	5	Gas and Oil Expense	512	40	
		Cash	111		40
		To reimburse bus driver for gas			
	6	No entry			
	8	Accounts Payable	212	170	
		Cash	111		170
		To make payment to creditors			
	9	Cash	111	1,200	
		Accounts Receivable	113		1,200
		To record receipt of cash on account			
	10	Accounts Receivable	113	700	
		Service Revenue	411		700
		To bill customers for services			
	11	Accounts Payable	212	85	
		Cash	111		85
		To make payment to creditors			
	13	Equipment	141	1,000	
		Cash	111		1,000
		To purchase equipment			
	17	Equipment	141	290	
		Accounts Payable	212		290
		To purchase equipment on account			
	19	Utilities Expense	514	145	
		Cash	111		145
		To pay February utility bill			

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)

General Journal					Page 18
Date		Description	Post. Ref.	Debit	Credit
2014					
Feb.	22	Cash	111	500	
		Accounts Receivable	113		500
		To record receipt of cash on			
		account from customers			
	26	Wages Expense	513	460	
		Cash	111		460
		To pay part-time assistants			
	27	Gas and Oil Expense	512	325	
		Accounts Payable	212		325
		To purchase gas and oil for bus			
		on account			
	28	J. Ziden, Withdrawals	313	110	
		Cash	111		110
		To make a cash withdrawal			

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
1, 2, and 4.							
Cash					Account No. 111		
		Post. Ref.	Debit	Credit	Balance		
Date	Item				Debit	Credit	
2014							
Jan.	31				1,870		
Feb.	2	J17		270	1,600		
	3	J17	650		2,250		
	5	J17		40	2,210		
	8	J17		170	2,040		
	9	J17	1,200		3,240		
	11	J17		85	3,155		
	13	J17		1,000	2,155		
	19	J17		145	2,010		
	22	J18	500		2,510		
	26	J18		460	2,050		
	28	J18		110	1,940		
Accounts Receivable							
Accounts Receivable					Account No. 113		
		Post. Ref.	Debit	Credit	Balance		
Date	Item				Debit	Credit	
2014							
Jan.	31				1,700		
Feb.	9	J17		1,200	500		
	10	J17	700		1,200		
	22	J18		500	700		
Supplies							
Supplies					Account No. 115		
		Post. Ref.	Debit	Credit	Balance		
Date	Item				Debit	Credit	
2014							
Feb.	4	J17	85		85		
Equipment							
Equipment					Account No. 141		
		Post. Ref.	Debit	Credit	Balance		
Date	Item				Debit	Credit	
2014							
Jan.	31				1,040		
Feb.	13	J17	1,000		2,040		
	17	J17	290		2,330		

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
Buses					Account No. 143		
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Jan.	31	Balance			17,400		
Notes Payable					Account No. 211		
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Jan.	31	Balance				15,000	
Accounts Payable					Account No. 212		
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Jan.	31	Balance				1,640	
Feb.	4	J17		85		1,725	
	8	J17	170			1,555	
	11	J17	85			1,470	
	17	J17		290		1,760	
	27	J18		325		2,085	
J. Ziden, Capital					Account No. 311		
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Jan.	31	Balance				5,370	
J. Ziden, Withdrawals					Account No. 313		
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	28	J18	110		110		
Service Revenue					Account No. 411		
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	3	J17		650		650	
	10	J17		700		1,350	

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
Rent Expense					Account No. 511		
				Post.	Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	2	J17	270		270		
Gas and Oil Expense					Account No. 512		
				Post.	Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	5	J17	40		40		
	27	J18	325		365		
Wages Expense					Account No. 513		
				Post.	Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	26	J18	460		460		
Utilities Expense					Account No. 514		
				Post.	Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	19	J17	145		145		

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)

5.	Mount Prospect Nursery School Company		
	Trial Balance		
	February 28, 2014		
	Cash	1,940	
	Accounts Receivable	700	
	Supplies	85	
	Equipment	2,330	
	Buses	17,400	
	Notes Payable		15,000
	Accounts Payable		2,085
	J. Ziden, Capital		5,370
	J. Ziden, Withdrawals	110	
	Service Revenue		1,350
	Rent Expense	270	
	Gas and Oil Expense	365	
	Wages Expense	460	
	Utilities Expense	145	
		<u>23,805</u>	<u>23,805</u>
6.	Revenues were earned on February 3 (\$650) and February 10 (\$700) for a total of		
	\$1,350. Cash was received on account on February 9 from last month (\$1,200) and		
	February 22 (\$500) for a total of \$1,700. Revenues and cash received do not corre-		
	spond when a company sells on credit.		
	The main business issue that arises from this situation is that the company may		
	need to arrange for a loan or other financing to pay expenses until the accounts		
	receivable are collected.		

Cases									
C1. Conceptual Understanding: Valuation and Classification of Business Transactions									
Memorandum									
Date:	Today's date								
To:	Owners								
From:	Student's name								
Re:	Accounting Policy for Delivery Trucks								
<p>You have asked me to record our newly purchased delivery trucks at current market value. However, to do this will not be in accord with the cost principle. This principle holds that assets should be recorded initially at cost because it is a verifiable amount. Market values are more subjective and thus are not as reliable and do not represent the actual cost that we have incurred.</p>									
<p>The entry to record the purchase should be made as follows:</p>									
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%; padding: 5px;">Delivery Trucks</td> <td style="width: 10%; text-align: center; padding: 5px;">xxx</td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding: 5px;">Cash</td> <td></td> <td style="text-align: center; padding: 5px;">xxx</td> </tr> </table>				Delivery Trucks	xxx		Cash		xxx
Delivery Trucks	xxx								
Cash		xxx							
<p>Note that the delivery trucks are an asset on our balance sheet because they will benefit future periods. The fact that we made a bargain purchase will be reflected in increased profits as we allocate a lower expense over the life of the asset.</p>									
C2. Conceptual Understanding: Recording of Rebates									
<p>This case raises classification issues. Rebates, as the SEC says, should not be classified as revenues. They should be classified as a reduction of costs and expenses. Think of it this way: If you buy a product for \$100 with a mail-in rebate of \$30, you would consider its cost to be \$70, not a cost of \$100 and revenue of \$30. The latter would not affect your income, but you would be overstating costs and revenues by the same amount. The same situation applies to the companies. The SEC does not want them to overstate revenues through incorrect classification.</p>									

C3. Interpreting Financial Statements: Interpreting a Bank's Financial Statements

1.	Cash and Due from Banks	Asset
	Loans to Customers	Asset
	Securities Available for Sale	Asset
	Deposits by Customers	Liability

2.		Cash and Due from Banks					
	(b)	2,000		(a)	2,000		
				(c)	5,000		
		Securities Available for Sale					
	(a)	2,000					
		Loans to Customers					
	(c)	5,000					
	Deposits by Customers						
			(b)	2,000			

C4. Interpreting Financial Statements: Cash Flows

Financial statements are prepared on the accrual basis, which will differ from cash flows. In this case, it appears that the company is making sales on credit, which increases accounts receivable and delays the receipt of cash. It is also paying off accounts payable, which uses cash. The company could make more of an effort to collect its accounts receivable and possibly change its credit policies to encourage more cash sales and faster payments. With regard to accounts payable, the company could work with its suppliers to get better terms. Although it cannot be determined from the facts, the company may be increasing inventory or investing in long-term assets, both of which use cash.

C5. Annual Report Case: Recognition, Valuation, and Classification

1.	CVS's notes to the financial statements state that "Advertising costs are expensed when the related advertising takes place."
2.	CVS's notes to the financial statements state that "Inventory is stated at the lower of cost or market."
3.	CVS's notes to the financial statements state that "Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased."

C6. Comparison Analysis: Revenue Recognition
CVS's revenues are \$107,100 million. Southwest's revenues are \$15,658 million.
The way in which these companies earn revenue is quite different. CVS sells mainly to retail customers who pay directly for prescriptions or CVS bills the insurance company and receives payment later after the revenue is recognized when the prescription is filled. Southwest, on the other hand, receives payment from most of its customers in advance as unearned income. These payments do not become revenue until the customer takes the flight.
C7. Ethical Dilemma: Recognition Point and Ethical Considerations
In a normal sale, which this appears to be, title passes when the sale is made. So the transaction was recorded properly as a sale when shipment was made on December 31. But Shah undoubtedly was taking advantage of the company's accounting policy. In some companies, a very liberal return policy is offered to encourage customers to buy. Other companies limit returns, especially of commodities like copier paper, to a small percentage of a sale. We do not know the company's policy in this case, but it is unlikely that an office supply firm would routinely accept such a large return. If a company is in a business in which substantial returns are usual—publishing, for example—it is appropriate to estimate returns in the financial statements.
Opinions will vary about the ethics of Shah's action. Most students will argue that his behavior was not ethical. Others may insist that the action fell within the company's rules and that the conversation with the buyer was simply an aggressive sales tactic. They may claim that the purchaser might very well have kept the large order. However, if both transactions stand, Quality Office Supplies Corporation loses in two ways: First, it must pay Shah a bonus that he did not earn; second, it incurs the costs associated with the return (possibly shipping, insurance, handling, or even damage).
C8: Continuing Case: Annual Report Project
<i>Note to Instructor: Answers will vary depending on the company selected by the students.</i>

Principles of Financial Accounting 12th Edition Needles Solutions Manual

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