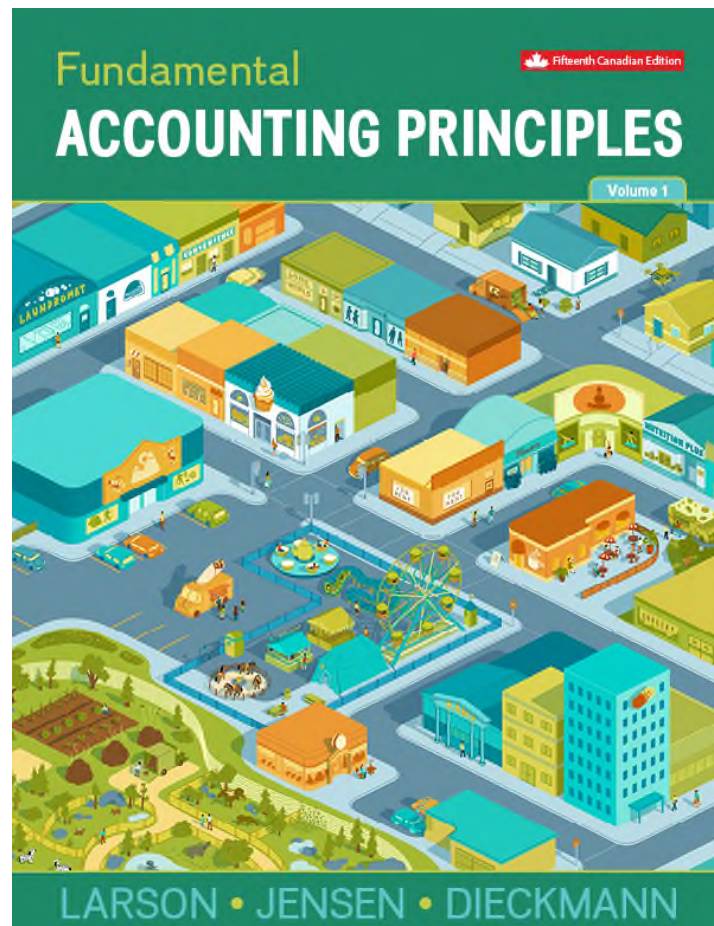


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SOLUTIONS MANUAL
to accompany
Fundamental Accounting Principles
15th Canadian Edition
by Larson/Jensen/Dieckmann



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Chapter 2 Analyzing and Recording Transactions

Chapter Opening Critical Thinking Challenge Questions*

Alexandre Bilodeau experienced a huge setback in achieving his goal of winning gold in the 2006 Olympics. In the face of this challenge, he reflected on the experience, set his personal goal and had a daily action plan to achieve it. These same steps can be applied to your life. For instance, you may experience a setback in this accounting course. For instance, you may not perform as well on a homework assignment or exam as you would have liked. Like Alexandre Bilodeau, take a moment to understand why you may have experience this setback, commit to a personal goal and have a detailed action plan to achieve it. This may include reading the chapters before class, setting aside a few hours each day to work on the homework, meeting up with a friend once a week to discuss challenging topics and going to office hours. You can also learn from Alexandre Bilodeau's determination in pursuing your career and in facing challenges in the workplace.

Concept Review Questions

1. Welcome to Lululemon! We are happy to have you as a co-op student. The fundamental steps in the accounting process are those involved in the accounting cycle: Analyze transactions to determine if an economic exchange has taken place and, if so, journalize and post the transaction. An unadjusted trial balance is then prepared to help identify potential adjustments. Appropriate adjusting entries are journalized and posted and an adjusted trial balance is generated from which the financial statements are prepared. Closing entries are then journalized and posted. Finally, a post-closing trial balance is prepared.

The accounting cycle helps Lululemon keep track of its business activities. These business transactions include buying fabric, selling yoga clothing and paying employees. The accounting cycle helps produce financial statements which provide Lululemon the information to make good business decisions.

2. An account receivable is an amount due to a company, but the amount can be increased by the customer (debtor) by making additional purchases. An account receivable is not a single document but represents the result of several written, oral, or implied promises to pay the creditor. A note receivable is a formal document that specifies the fixed amount due to a company on a fixed date or on demand.
3. Four different asset accounts would include any of the following from Danier's June 28, 2014 balance sheet: Cash, Accounts receivable, Income taxes recoverable, Inventories, Prepaid expenses, Property and equipment, Computer software and Deferred income tax asset. Three different liability accounts would include any of the following: Payables and accruals (same as Accounts payable and accrued liabilities), Deferred revenue, Sales return provision and Deferred lease inducements and rent liability.
4. A debit will decrease and a credit will increase the following accounts: Accounts Payable, Owner's capital and Revenue. Answers will vary, but can include liability (accounts payable, notes payable, unearned revenue and bank loan), owner's capital and revenue accounts.
5. Three debit balance accounts from WestJet's December 31, 2014 balance sheet might include any of the following: Cash and cash equivalents; Restricted cash; Accounts receivable; Prepaid expenses, deposits and other; Inventory; Assets held for sale; Property and equipment; Intangible assets; or Other assets. Three credit balance accounts might include any of the following: Accounts payable and accrued liabilities; Advance ticket sales; Non-refundable guest credits; Current portion of maintenance provisions; Current portion of long-term debt; Maintenance provisions; Long-term debt; Other liabilities; Deferred income tax; Share capital; Equity reserves; Hedge reserves; or Retained earnings.

6. When a company sells services or goods, they will exchange their service or good for cash. When the company sells services or goods, they earn revenue. In the account equation, Cash (Asset) increases and Revenue (Equity) increases. If the customer does not pay today, the company records an accounts receivable instead of cash. Accounts receivable holds value for the company because it is a promise from the customer to pay in the future. When the customer pays cash, the company no longer has an accounts receivable. With the accounting equation, Accounts receivable (Asset) increases and Revenue (Equity) increases.

Account	(1) Type of account	(2) Normal Balance	(3) Financial statement	(4) Time period
Accounts receivable	Asset	Debit	Balance Sheet	A specific point in time
Revenue	Equity	Credit	Income Statement	Period of time

7. Owner's withdrawals are when a business owner takes out money that was earned in the business for personal use. An example is when an owner needs to take out money for a personal vacation. An expense occurs when a cost is needed to run the normal operations of the business. An example is that a business needs to pay its employees for selling clothes at a retail store.

Account	(5) Type of account	(6) Normal Balance	(7) Financial statement
Owner's withdrawals	Equity	Debit	Statement of Changes in Equity
Expense	Equity	Debit	Income Statement

8. Debited accounts are recorded first. The credited accounts are indented.
9. A transaction should first be recorded in a journal to create a complete record of the transaction in one place. Then the transaction is posted to the ledger where entries are summarized by type, i.e., cash, accounts payable, interest expense, etc., to enable analysis by account. This arrangement also means that fewer errors will be made in the accounts.
10. Accounting software is a tool that makes recording accounting transactions easier. You are still the "brain" behind the accounting. You will need to decide when to record a transaction, how to record the transaction, how to interpret the financial statements and what business decisions to make. Knowing how to record accounting manually will help you understand the entire accounting process and what happens behind the software. There are errors in software programs. Over relying on a software program can result in large errors. When you are writing a report using the computer, you still need to know how to write paragraphs and how to explain your content. Just like accounting software, the computer is only a tool.
11. Not preparing a trial balance can cause errors in the financial statements. The trial balance helps to identify and correct errors. If the debits do not equal the credits in the trial balance, this is a clue that errors need to be corrected.

12. The title of the financial statements must have the 1) company name, 2) the name of the financial statement and 3) the date. Dollar signs are used beside the first number in each column and on the total. Some numbers are indented to show a list of similar numbers in a category. For instance, all expenses are indented. This formatting makes the financial statements easier to read. Indentations do not represent debits and credits. The financial statements do not have debits and credits like the trial balance.

QUICK STUDY

Quick Study 2-1

Answer	Answer Detail	Account
A	Asset	1. Buildings
E	Expenses (Equity)	2. Building Repair Expense
E	Expenses (Equity)	3. Wages Expense
L	Liability	4. Wages Payable
A	Asset	5. Notes Receivable
L	Liability	6. Notes Payable
A	Asset	7. Prepaid Advertising
E	Expenses (Equity)	8. Advertising Expense
L	Liability	9. Advertising Payable
L	Liability	10. Unearned Advertising
R	Revenues (Equity)	11. Advertising Revenue
R	Revenues (Equity)	12. Interest income
E	Expenses (Equity)	13. Interest Expense
L	Liability	14. Interest Payable
R	Revenues (Equity)	15. Subscription Revenue
L	Liability	16. Unearned Subscription Revenue
A	Asset	17. Prepaid Subscription Fees
A	Asset	18. Supplies
E	Expenses (Equity)	19. Supplies Expense
R	Revenues (Equity)	20. Rent Revenue
L	Liability	21. Unearned Rent Revenue
A	Asset	22. Prepaid Rent
L	Liability	23. Rent Payable
R	Revenues (Equity)	24. Service Revenue
W	Owner's Withdrawals (Equity)	25. Jessica Vuong, Withdrawals
OE	Owner's Capital (Equity)	26. Jessican Vuong, Capital
E	Expenses (Equity)	27. Salaries Expense
L	Liability	28. Salaries Payable
A	Asset	29. Furniture
A	Asset	30. Equipment

Quick Study 2-2

- | | | |
|----|------------------------------|--------|
| a. | Equipment | Debit |
| b. | Land | Debit |
| c. | Amrit Sandhu, Withdrawals .. | Debit |
| d. | Rent Expense | Debit |
| e. | Interest income | Credit |
| f. | Prepaid Rent | Debit |
| g. | Accounts Receivable..... | Debit |
| h. | Office Supplies | Debit |
| i. | Notes Receivable | Debit |
| j. | Notes Payable | Credit |
| k. | Amrit Sandhu, Capital | Credit |
| l. | Rent Revenue..... | Credit |
| m. | Rent Payable | Credit |
| n. | Interest Expense | Debit |
| o. | Interest Payable | Credit |

Quick Study 2-3

- | | | |
|-----------|-----------|-----------|
| a. Credit | f. Credit | k. Debit |
| b. Credit | g. Debit | l. Credit |
| c. Credit | h. Credit | m. Debit |
| d. Debit | i. Debit | n. Debit |
| e. Credit | j. Debit | o. Debit |

Quick Study 2-4

- | | | |
|-----------|-----------|-----------|
| a. Credit | f. Debit | k. Credit |
| b. Debit | g. Credit | l. Debit |
| c. Credit | h. Credit | m. Debit |
| d. Debit | i. Credit | n. Credit |
| e. Credit | j. Debit | o. Credit |

Quick Study 2-5

Note: Students could choose any account number within the specified range.

- | | | |
|--------|--------|--------|
| a. 173 | f. 203 | k. 629 |
| b. 409 | g. 106 | l. 219 |
| c. 302 | h. 622 | m. 222 |
| d. 301 | i. 124 | n. 170 |
| e. 128 | j. 403 | o. 115 |

Quick Study 2-6

a.	Analysis	Assets increase. Assets decrease.
	Journal entry analysis	Debit the furniture account for \$400. Credit the cash account for \$400.
b.	Analysis	No transaction required.
	Journal entry analysis	
c.	Analysis	Assets increase. Equity increases.
	Journal entry analysis	Debit the Accounts Receivable account for \$600. Credit the Revenue account for \$600.
d.	Analysis	Liabilities increase. Equity decreases.
	Journal entry analysis	Debit the Cleaning Expense account for \$300. Credit the Accounts Payable account for \$300.
e.	Analysis	Assets increase. Equity increases.
	Journal entry analysis	Debit the Cash account for \$25,000. Credit the Douglas Malone, Capital account for \$25,000.

Quick Study 2-7

	Date	Account Titles and Explanation	Debit	Credit
a.	Aug. 1	Furniture	400	
		Cash		400
		<i>Purchase of furniture for cash.....</i>		
b.	Aug. 7	No transaction required.		
c.	Aug. 13	Accounts Receivable	600	
		Revenue		600
		<i>Provided services on credit.</i>		
d.	Aug. 14	Cleaning Expense	300	
		Accounts Payable		300
		<i>Purchased cleaning services on credit.</i>		
e.	Aug. 31	Cash	25,000	
		Douglas Malone, Capital		25,000
		<i>Investment by owner.....</i>		

Quick Study 2-8

1 & 2.

Cash				Accounts Receivable				Furniture				Accounts Payable			
Jul 31	25,000	400	Aug 1	Jul 31	1,500			Jul 31	5,000				500	Jul 31	
Aug 31	25,000			Aug 13	600			Aug 1	400				300	Aug 14	
				Bal.	2,100			Bal.	5,400				800	Bal.	
Bal.	49,600														
Douglas Malone, Capital				Revenue				Cleaning Expense							
	28,000	Jul 31			4,500	Jul 31		Jul 31	1,500						
	25,000	Aug 31			600	Aug 13		Aug 14	300						
	53,000	Bal.			5,100	Bal.		Bal.	1,800						

3. The account balance for each T-account is shown above. The accounting equation (Assets = Liabilities + Equity) is proved as follows: $\$57,100 = \$800 + \$56,300$

Quick Study 2-9

May 2	Analysis	Assets increase. Equity increases.			
	Journal entry analysis	Debit the Car account for \$8,000. Credit the Dee Bell, Capital account for \$8,000.			
	Journal Entry				
	Date	Account Titles and Explanation		Debit	Credit
	May 2	Car		8,000	
		Dee Bell, Capital			8,000
		<i>Investment by owner.</i>			
May 10	Analysis	Assets increase. Equity increases.			
	Journal entry analysis	Debit the Accounts receivable account for \$4,000. Credit the Revenue account for \$4,000.			
	Journal Entry				
	Date	Account Titles and Explanation		Debit	Credit
	May 10	Accounts receivable		4,000	
		Revenue			4,000
		<i>Billed customer for work performed.</i>			
May 12	Analysis	Assets increase. Liabilities increase.			
	Journal entry analysis	Debit the Cash account by \$10,000. Credit the Unearned Revenue account by \$10,000.			
	Journal Entry				
	Date	Account Titles and Explanation		Debit	Credit
	May 12	Cash		10,000	
		Unearned Revenue			10,000
		<i>Collected cash for future services.</i>			

Quick Study 2-9 (Continued)				
May 15	Analysis	Assets decrease. Equity decreases.		
	Journal entry analysis	Debit the Wages Expense account for \$6,000. Credit the Cash account for \$6,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	May 15	Wages Expense	6,000	
		Cash		6,000
		<i>Paid for wages.</i>		
May 16	Analysis	Assets increase. Assets decrease.		
	Journal entry analysis	Debit the Cash account for \$4,000. Credit the Accounts Receivable account for \$4,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	May 16	Cash	4,000	
		Accounts Receivable		4,000
		<i>Collection of cash from customer.</i>		
May 22	Analysis	Assets decrease. Liabilities decrease.		
	Journal entry analysis	Debit the Accounts Payable account by \$3,000. Credit the Cash account by \$5,400.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	May 22	Accounts Payable	3,000	
		Cash		3,000
		<i>Paid for outstanding accounts payable.</i>		

Quick Study 2-10

1 & 2.

Cash 101				Accounts Receivable 106				Car 150				Accounts Payable 202			
Apr 30	15,000	6,000	May 15	Apr 30	3,200	4,000	May 16	May 2	8,000			May 22	3,000	6,000	Apr 30
May 12	10,000	3,000	May 22	May 10	4,000			Bal.	8,000					3,000	Bal.
May 16	4,000			Bal.	3,200										
Bal.	20,000														
Unearned Revenue 205				Dee Bell, Capital 301				Revenue 410				Wages Expense 650			
	1,800	Apr 30			8,900	Apr 30			3,000	Apr 30		Apr 30	1,500		
	10,000	May 12			8,000	May 2			4,000	May 10		May 15	6,000		
	11,800	Bal.			16,900	Bal.			7,000	Bal.		Bal.	7,500		

3. The account balance for each T-account is shown above. The accounting equation (Assets = Liabilities + Equity) is proved as follows: $\$31,200 = \$14,800 + \$16,400$

Quick Study 2-11

Accounts Receivable		Accounts Payable		Service Revenue	
1,000	650	250	250		13,000
400	920	900	1,800		2,500
920	1,500	650	1,400		810
3,000			650		3,500
Bal. 2,250			2,300 Bal.		19,810 Bal.

Utilities Expense		Cash		Notes Payable	
610		3,900	2,400	4,000	50,000
520		17,800	3,900	8,000	
390		14,500	21,800		38,000 Bal.
275		340			
Bal. 1,795		Bal. 8,440			

Quick Study 2-12

		General Journal		Page 1	
Date		Account Titles and Explanation	Debit	Credit	
2017					
May	1	Equipment	500		
		Accounts Payable		500	
		<i>Purchased equipment on account.</i>			
	2	Accounts Payable	500		
		Cash		500	
		<i>Paid for the equipment purchased May 1.</i>			
	3	Supplies	100		
		Cash		100	
		<i>Purchased supplies for cash.</i>			
	4	Wages Expense	2,000		
		Cash		2,000	
		<i>Paid wages to employees.</i>			
	5	Cash	750		
		Service Revenue		750	
		<i>Performed services for a client for cash.</i>			
	6	Accounts Receivable	2,500		
		Service Revenue		2,500	
		<i>Did work for a customer on credit.</i>			
	7	Cash	2,500		
		Accounts Receivable		2,500	
		<i>Collected May 6 customer account.</i>			

Quick Study 2-13

		General Journal		Page 1	
Date		Account Titles and Explanation	Debit		Credit
2017					
Jan.	3	Cash	60,000		
		Equipment	40,000		
		Stan Adams, Capital		100,000	
		<i>Investment by owner.</i>			
	4	Office Supplies	340		
		Accounts Payable		340	
		<i>Purchased office supplies on credit.</i>			
	6	Cash	5,200		
		Landscaping Services Revenue		5,200	
		<i>Received cash for landscaping services.</i>			
	15	Accounts Payable	200		
		Cash		200	
		<i>Paid part of the January 4 credit purchase.</i>			
	16	Office Supplies	700		
		Accounts Payable		700	
		<i>Purchased supplies on account.</i>			
	30	Accounts Payable	140		
		Cash		140	
		<i>Paid the balance owing re January 4 credit purchase; 340 – 200 paid on Jan. 15 = 140.</i>			

Quick Study 2-14

Cash			Account No. 101		
Date	Explanation	PR	Debit	Credit	Balance
2017					
Jan. 3			60,000		60,000
6			5,200		65,200
15				200	65,000
30				140	64,860

Office Supplies			Account No. 124		
Date	Explanation	PR	Debit	Credit	Balance
2017					
Jan. 4			340		340
16			700		1,040

Equipment			Account No. 163		
Date	Explanation	PR	Debit	Credit	Balance
2017					
Jan. 3			40,000		40,000

Accounts Payable			Account No. 201		
Date	Explanation	PR	Debit	Credit	Balance
2017					
Jan. 4				340	340
15			200		140
16				700	840
30			140		700

Stan Adams, Capital			Account No. 301		
Date	Explanation	PR	Debit	Credit	Balance
2017					
Jan. 3				100,000	100,000

Landscaping Services Revenue			Account No. 403		
Date	Explanation	PR	Debit	Credit	Balance
2017					
Jan. 6				5,200	5,200

Quick Study 2-15

**Vahn Landscaping
Trial Balance
January 31, 2017**

Acct. No.	Account	Debit	Credit
101	Cash.....	\$ 7,000	
163	Equipment.....	9,000	
233	Unearned revenue.....		\$ 2,000
301	Brea Vahn, capital.....		14,000
302	Brea Vahn, withdrawals.....	1,000	
401	Revenue.....		11,000
640	Rent expense	6,000	
690	Utilities expense	4,000	
	Totals.....	<u>\$27,000</u>	<u>\$27,000</u>

Quick Study 2-16

The correct answer is c. If a \$2,250 debit to Rent Expense is incorrectly posted as a credit, the effect is to understate the Rent Expense debit balance by \$4,500. This causes the Debit column total on the trial balance to be \$4,500 less than the Credit column total.

Quick Study 2-17

1. Subtract total debits in the trial balance from total credits
 $24,250 - 21,550 = 2,700$
2. Divide the difference by 9
 $2,700 \div 9 = 300$
3. The quotient equals the difference between the two transposed numbers.
 300 is the difference between the two transposed numbers.
4. The number of digits in the quotient tells us the location of the transposition
 Look for a difference of 3 between the third number from the right and the fourth number from the right.

Through a process of elimination, the incorrect value is Rent Expense for \$4,100. The correct value must be \$1,400.

Proof: Recalculate the trial balance replacing \$1,400 for the incorrect \$4,100 and the trial balance now balances at \$21,550.

Quick Study 2-18

1. Subtract total debits in the trial balance from total credits

$$728 - 503 = 225$$

2. Divide the difference by 9

$$225 \div 9 = 25$$

The quotient equals the incorrect number.

Through a review of the values in the trial balance, the incorrect value is Notes Payable for \$25. The correct value must be \$250.

Proof: Recalculate the trial balance replacing \$250 for the incorrect \$25 and the trial balance now balances at \$728.

EXERCISES**Exercise 2-1 (30 minutes)**

		(a) Basic Account	(b) Financial Statement	(c) Normal Balance	(d) Effect of a Debit	(e) Effect of a Credit
a.	Cash	Asset	Balance Sheet	Debit	Increase	Decrease
b.	Supplies	Asset	Balance Sheet	Debit	Increase	Decrease
c.	Accounts Payable	Liability	Balance Sheet	Credit	Decrease	Increase
d.	Yoojin Chang, Capital Account	Owner's Capital	Balance Sheet and The Statement of Changes in Equity	Credit	Decrease	Increase
e.	Yoojin Chang, Withdrawals	Withdrawals	The Statement of Changes in Equity	Debit	Increase	Decrease
f.	Design Revenue	Revenue	Income Statement	Credit	Decrease	Increase
g.	Salaries Expense	Expense	Income Statement	Debit	Increase	Decrease
h.	Accounts Receivable	Asset	Balance Sheet	Debit	Increase	Decrease
i.	Notes Payable	Liability	Balance Sheet	Credit	Decrease	Increase
j.	Prepaid insurance	Asset	Balance Sheet	Debit	Increase	Decrease

Exercise 2-2

a.	Analysis	Assets increase. Equity increases.
	Journal entry analysis	Debit the cash account for \$15,000. Credit the Christina Reis, Capital account in equity for \$15,000
b.	Analysis	Assets increase. Liabilities increase.
	Journal entry analysis	Debit the Equipment account for \$2,000. Credit the Accounts Payable account for \$2,000.
c.	Analysis	Assets increase. Assets decrease.
	Journal entry analysis	Debit the Equipment account for \$500. Credit the Cash account for \$500.
d.	Analysis	Assets increase. Equity increases from Revenue.
	Journal entry analysis	Debit the Cash account for \$1,000. Credit the Revenue account for \$1,000.
e.	Analysis	Assets increase. Equity increases from Revenue.
	Journal entry analysis	Debit the Accounts Receivable account for \$700. Credit the Revenue account for \$700.
f.	Analysis	Assets decrease. Liabilities decrease.
	Journal entry analysis	Debit the Accounts Payable account for \$1,000. Credit the Cash account for \$1,000.
g.	Analysis	Assets increase. Assets decrease.
	Journal entry analysis	Debit the Cash account for \$300. Credit the Accounts Receivable account for \$300.

Exercise 2-3

	Date		Account Titles and Explanation	Debit	Credit
a.	Sept.	1	Cash.....	15,000	
			Christina Reis, Capital		15,000
			<i>Investment by owner.....</i>		
b.	Sept.	12	Equipment	2,000	
			Accounts Payable		2,000
			<i>Purchased equipment on credit.</i>		
c.	Sept.	13	Equipment	500	
			Cash		500
			<i>Purchased equipment with cash.</i>		
d.	Sept.	18	Cash.....	1,000	
			Revenue		1,000
			<i>Provided service for cash.</i>		
e.	Sept.	21	Accounts receivable	700	
			Revenue		700
			<i>Provided service on account.....</i>		
f.	Sept.	26	Accounts payable	1,000	
			Cash		1,000
			<i>Payment for Equipment.</i>		
g.	Sept.	29	Cash.....	300	
			Accounts receivable		300
			<i>Collection of cash from customer</i>		

Exercise 2-4

1 and 2.

Cash 101		Accounts Receivable 106		Equipment 161	
(a) 15,000	500 (c)	(e) 700	300 (g)	(b) 2,000	
(d) 1,000	1,000 (f)			(c) 500	
(g) 300					
Bal. 14,800		Bal. 400		Bal. 2,500	

Accounts Payable 201		Christina Reis, Capital 301		Revenue 403	
(f) 1,000	2,000 (b)		15,000 (a)		1,000 (d)
					700 (e)
	1,000 Bal.		15,000 Bal.		1,700 Bal.

3. The account balance for each T-account is shown above. The accounting equation (Assets = Liabilities + Equity) is proved as follows: \$17,700 = \$1,000 + \$16,700

Exercise 2-5 (30 minutes)

a.	Analysis	Assets increase. Equity increases.		
	Journal entry analysis	Debit the Cash account for \$32,600. Credit the William Curtis, Capital account for \$32,600.		
	Journal Entry			
	Date	Account Description	Debit	Credit
	Oct. 2	Cash	32,600	
		William Curtis, Capital		32,600
		<i>Investment by owner.</i>		
b.	Analysis	Assets increase. Assets decrease.		
	Journal entry analysis	Debit the Supplies account for \$925. Credit the Cash account for \$925.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Oct. 4	Office Supplies	925	
		Cash		925
		<i>Purchased supplies for cash.</i>		

Exercise 2-5 (Continued)				
c.	Analysis	Assets increase. Liabilities increase.		
	Journal entry analysis	Debit the Office Equipment account by \$13,600. Credit the Accounts Payable account by \$13,600.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Oct. 6	Office Equipment	13,600	
		Accounts payable		13,600
		<i>Purchased office equipment on credit.</i>		
d.	Analysis	Assets increase. Equity increases.		
	Journal entry analysis	Debit the Cash account for \$3,000. Credit the Revenue account for \$3,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Oct. 10	Cash	3,000	
		Revenue		3,000
		<i>Cash collected for services provided.</i>		
e.	Analysis	Assets decrease. Liabilities decrease.		
	Journal entry analysis	Debit the Accounts Payable account for \$13,600. Credit the Cash account for \$13,600.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Oct. 12	Accounts Payable	13,600	
		Cash		13,600
		<i>Paid office equipment with cash.</i>		

Exercise 2-5 (Continued)				
f.	Analysis	Assets increase. Equity increases.		
	Journal entry analysis	Debit the Accounts Receivable account by \$5,400. Credit the Revenue account by \$5,400.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Oct. 16	Accounts Receivable	5,400	
		Revenue		5,400
		<i>Customer billed for services provided.</i>		
g.	Analysis	Assets decrease. Equity decreases.		
	Journal entry analysis	Debit the Rent Expense account for \$3,500. Credit the Cash account for \$3,500.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Oct. 18	Rent Expense	3,500	
		Cash		3,500
		<i>Paid October rent with cash.</i>		
h.	Analysis	Assets increase. Assets decrease.		
	Journal entry analysis	Debit the Cash account for \$5,400. Credit the Accounts Receivable account for \$5,400.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Oct. 26	Cash	5,400	
		Accounts Receivable		5,400
		<i>Collected amounts owing on account.</i>		

Exercise 2-5 (Concluded)				
i.	Analysis	Assets decrease. Equity decreases.		
	Journal entry analysis	Debit the William Curtis, Withdrawal account for \$5,000. Credit the Cash account for \$5,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Oct. 31	William Curtis, Withdrawals	5,000	
		Cash		5,000
		Withdrawal of cash by owner.		

Exercise 2-6 (20 minutes)

Cash			
(a)	32,600	925	(b)
(d)	3,000	13,600	(e)
(h)	5,400	3,500	(g)
		5,000	(i)
Balance	17,975		

Accounts Receivable			
(f)	5,400	5,400	(h)
Balance	0		

Office Supplies		
(b)	925	
Balance	925	

Office Equipment		
(c)	13,600	
Balance	13,600	

Accounts Payable			
(e)	13,600	13,600	(c)
		0	Balance

William Curtis, Capital			
		32,600	(a)
		32,600	Balance

William Curtis, Withdrawals			
(i)	5,000		
Balance	5,000		

Revenue			
		3,000	(d)
		5,400	(f)
		8,400	Balance

Rent Expense			
(g)	3,500		
Balance	3,500		

Exercise 2-7 (20 minutes)

b.	Accounts Receivable	2,700	
	Services Revenue		2,700
	<i>Provided services on credit.</i>		
c.	Cash	3,150	
	Services Revenue		3,150
	<i>Provided services for cash.</i>		

Revenues are inflows of assets (or decreases in liabilities) received in exchange for goods or services provided to customers. The other transactions did not create revenues for the following reasons:

- a. This transaction brought in cash, but it was an owner investment in the company.
- d. This transaction brought in cash, but it also created a liability because the services have not yet been provided to the client.
- e. This transaction changed the form of the asset from accounts receivable to cash. Total assets were not increased. Revenue was not generated.
- f. This transaction brought cash into the company and increased assets, but it also increased a liability by the same amount.

Exercise 2-8 (20 minutes)

b.	Salaries Expense	1,125	
	Cash		1,125
	<i>Paid the salary of the receptionist.</i>		
d.	Utilities Expense	930	
	Cash		930
	<i>Paid the utilities bill for the office.</i>		

Expenses are outflows or using up of assets (or the creation of liabilities) that occur in the process of providing goods or services to customers. The transactions labelled a, c, and e were not expenses for the following reasons:

- a. This transaction decreased assets in settlement of a previously existing liability. Thus, the using up of assets did not reduce equity.
- c. This transaction was the purchase of an asset. The form of the company's assets changed, but total assets did not change, and the equity did not decrease.
- e. This transaction was a distribution of cash to the owner. Even though equity decreased, the decrease did not occur in the process of providing goods or services to customers.

Exercise 2-9 (45 minutes)**Part 2**

GENERAL JOURNAL					Page 1
Date		Account Titles and Explanation	PR	Debit	Credit
2017					
July	1	Cash.....	101	5,000	
		Manny Gill, Capital.....	301		5,000
		<i>To record investment by owner.</i>			
	10	Equipment	150	2,500	
		Accounts Payable	201		2,500
		<i>Purchased equipment on credit.</i>			
	12	Cash.....	101	10,000	
		Revenue.....	401		10,000
		<i>Performed services for cash.</i>			
	14	Expenses	501	3,500	
		Cash.....	101		3,500
		<i>Paid expenses.</i>			
	15	Accounts Receivable	106	1,500	
		Revenue.....	401		1,500
		<i>Completed services on account.</i>			
	31	Manny Gill, Withdrawals	302	250	
		Cash.....	101		250
		<i>Owner withdrew cash.</i>			

Note: The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Part 3 of this exercise.

Exercise 2-9 (continued)

***Note:** The student could use T-accounts or balance column format accounts as their general ledger. Both are shown in this solution.

Part 1 and 3

Cash		101
July 1	5,000	3,500
12	10,000	250
Balance	11,250	

Accts. Receivable		106
July 15	1,500	

Equipment		150
July 10	2,500	

Accounts Payable		201
	2,500	July 10

Manny Gill, Capital		301
	5,000	July 1

Manny Gill, Withdrawals		302
July 31	250	

Revenue		401
	10,000	July 12
	1,500	15
	11,500	Balance

Expenses		501
July 14	3,500	

Exercise 2-9 (continued)**Part 1 and 3**

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
July 1		G1	5,000		5,000
12		G1	10,000		15,000
14		G1		3,500	11,500
31		G1		250	11,250

Accounts Receivable				Account No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2017					
July 15		G1	1,500		1,500

Equipment				Account No. 150	
Date	Explanation	PR	Debit	Credit	Balance
2017					
July 10		G1	2,500		2,500

Accounts Payable				Account No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2017					
July 10		G1		2,500	2,500

Manny Gill, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2017					
July 1		G1		5,000	5,000

Manny Gill, Withdrawals				Account No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2017					
July 31		G1	250		250

Revenue				Account No. 401	
Date	Explanation	PR	Debit	Credit	Balance
2017					
July 12		G1		10,000	10,000
15		G1		1,500	11,500

Expenses				Account No. 501	
Date	Explanation	PR	Debit	Credit	Balance
2017					

July 14	G1	3,500	3,500
---------	----	-------	-------

Exercise 2-9 (continued)

Part 4

**Wild West Secure
Trial Balance
July 31, 2017**

Acct. No.	Account Title	Debit	Credit
101	Cash	\$11,250	
106	Accounts receivable	1,500	
150	Equipment.....	2,500	
201	Accounts payable.....		\$ 2,500
301	Manny Gill, capital.....		5,000
302	Manny Gill, withdrawals.....	250	
401	Revenue		11,500
501	Expenses	<u>3,500</u>	
	Totals.....	<u>\$19,000</u>	<u>\$19,000</u>

Exercise 2-9 (concluded)**Part 5**

**Wild West Secure
Income Statement
For Month Ended July 31, 2017**

Revenue	\$11,500
Expenses	<u>3,500</u>
Profit.....	<u>\$ 8,000</u>

**Wild West Secure
Statement of Changes in Equity
For Month Ended July 31, 2017**

Manny Gill, capital, July 1	\$ 0
Add: Investments by owner	\$5,000
Profit.....	<u>8,000</u>
Total	<u>13,000</u>
Less: Withdrawals by owner	<u>250</u>
Manny Gill, capital, July 31	<u>\$12,750</u>

*The arrows are
imaginary but
emphasize the
link between
statements.*

**Wild West Secure
Balance Sheet
July 31, 2017**

Assets		Liabilities	
Cash.....	\$11,250	Accounts payable	\$ 2,500
Accounts receivable	1,500		
Equipment	<u>2,500</u>		
		Equity	
		Manny Gill, capital.....	<u>12,750</u>
		Total liabilities and	
Total assets	<u>\$15,250</u>	equity	<u>\$15,250</u>

Analysis component:

Accounts receivable result from credit sales to customers (debit accounts receivable and credit a revenue). Sales, or revenue, is part of equity. As revenues on account are recorded, assets on the left side of the accounting equation increase and equity on the opposite side of the accounting equation also increases. Therefore, accounts receivable are financed by, or created by, an equity transaction.

Exercise 2-10 (10 minutes)

Note: Students could choose any account number within the specified range.

Account Number	Account Name
101	Cash
115	Accounts Receivable
160	Office Equipment
210	Accounts Payable
215	Unearned Revenue
310	Aaron Paquette, Capital
320	Aaron Paquette, Withdrawals
410	Consulting Revenues
510	Salaries Expense
520	Rent Expense
530	Utilities Expense

Exercise 2-11 (30 minutes)

1.		General Journal			Page G1	
Date		Account Titles and Explanation	PR	Debit	Credit	
2017						
Feb.	1	Cash	101	8,500		
		Consulting Revenues	410		8,500	
		<i>Performed work for cash.</i>				
	5	Accounts Payable	210	5,000		
		Cash	101		5,000	
		<i>Paid account.</i>				
	10	Cash	101	3,600		
		Unearned Revenue.....	215		3,600	
		<i>Received cash in advance.</i>				
	12	No entry.				
	17	Aaron Paquette, Withdrawals.....	320	3,000		
		Cash	101		3,000	
		<i>Owner withdrew cash.</i>				
	28	Salaries Expense.....	510	10,000		
		Cash	101		10,000	
		<i>Paid salaries.</i>				

Note: The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Part 2 of this exercise.

Exercise 2-11 (Continued)

2.

Cash 101				Accounts Receivable 115				Office Equipment 160				Accounts Payable 210			
Bal	15,000	5,000	Feb 5	Bal	3,800			Bal	22,500			Feb 5	5,000	8,000	Bal
Feb 1	8,500	3,000	17											3,000	Bal
10	3,600	10,000	28												
Bal	9,100														
Unearned Revenue 215				Aaron Paquette, Capital 310				Aaron Paquette, Withdrawals 320				Consulting Revenues 410			
		2,600	Bal			9,500	Bal	Bal	2,000					41,700	Bal
		3,600	Feb 10					Feb 17	3,000					8,500	Feb 1
		6,200	Bal					Bal	5,000					50,200	Bal
Salaries Expense 510				Rent Expense 520				Utilities Expense 530							
Bal	10,000			Bal	7,500			Bal	1,000						
Feb 28	10,000														
Bal	20,000														

Exercise 2-11 (Continued)**3.**

**Paquette Advisors
Trial Balance
February 28, 2017**

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 9,100	
115	Accounts receivable	3,800	
160	Office equipment.....	22,500	
210	Accounts payable		\$ 3,000
215	Unearned revenue.....		6,200
310	Aaron Paquette, capital		9,500
320	Aaron Paquette, withdrawals	5,000	
410	Consulting revenues.....		50,200
510	Salaries expense.....	20,000	
520	Rent expense	7,500	
530	Utilities expense.....	1,000	
	Totals	<u>\$68,900</u>	<u>\$68,900</u>

Exercise 2-11 (Concluded)

4.

Paquette Advisors
Income Statement
For Two Months Ended February 28, 2017

Revenues:

Consulting revenues \$50,200

Operating expenses:

Salaries expense \$20,000

Rent expense 7,500

Utilities expense 1,000

Total operating expenses 28,500

Profit..... \$21,700

*The arrows are imaginary
but emphasize the link
between statements.*

5.

Paquette Advisors
Statement of Changes in Equity
For Two Months Ended February 28, 2017

Aaron Paquette, capital, March 1 \$ 0

Add: Investments by owner \$ 9,500

Profit..... 21,700 31,200

Total \$31,200

Less: Withdrawals by owner 5,000

Aaron Paquette, capital, February 28..... \$26,200

6.

Paquette Advisors
Balance Sheet
February 28, 2017

Assets

Cash..... \$ 9,100

Accounts receivable 3,800

Office equipment..... 22,500

Total assets \$35,400

Liabilities

Accounts payable \$ 3,000

Unearned revenue..... 6,200

Total liabilities \$ 9,200

Equity

Aaron Paquette, capital 26,200

Total liabilities and equity \$35,400

Analysis component:

Unearned revenue occurs when cash is received from a customer in advance of the work being done. The collection is not recorded as revenue because it has not been earned until the work is done. Unearned revenue is therefore a liability because the business owes the customer a service (or work). For example, WestJet receives cash from customers in advance of the customer actually flying and records it as advance ticket revenue, a type of unearned revenue. These cash collections are recorded as advance ticket revenue, a liability, because the cash doesn't belong to WestJet until they have earned it which occurs when the customer takes their flight.

Exercise 2-12 (30 minutes)

a.	Cash	7,000	
	Equipment.....	5,600	
	Automobiles	11,000	
	Jerry Steiner, Capital.....		23,600
	<i>The owner invested cash, an automobile, and equipment.</i>		
b.	Prepaid Insurance	3,600	
	Cash		3,600
	<i>Purchased insurance coverage in advance.</i>		
c.	Office Supplies	600	
	Cash		600
	<i>Purchased supplies with cash.</i>		
d.	Office Supplies	200	
	Equipment.....	9,400	
	Accounts Payable.....		9,600
	<i>Purchased supplies and equipment on credit.</i>		
e.	Cash	2,500	
	Delivery Services Revenue		2,500
	<i>Received cash from customer for work done.</i>		
f.	Accounts Payable	2,400	
	Cash		2,400
	<i>Made payment on payables.</i>		
g.	Gas and Oil Expense.....	700	
	Cash		700
	<i>Paid for gas and oil.</i>		

Exercise 2-13 (20 minutes)**2017**

April 5	Cash.....	4,600	
	Surgical Revenues.....		4,600
	<i>Performed surgery and collected cash.</i>		
8	Supplies.....	19,000	
	Accounts Payable.....		19,000
	<i>Purchased surgical supplies on credit.</i>		
15	Salaries Expense	41,000	
	Cash		41,000
	<i>Paid salaries.</i>		
20	Accounts Payable	19,000	
	Cash		19,000
	<i>Paid for the credit purchase of April 8.</i>		
21	No entry.		
22	Accounts Receivable.....	22,800	
	Surgical Revenues.....		22,800
	<i>Performed six surgeries on credit;</i>		
	<i>\$3,800 x 6 = \$22,800</i>		
29	Cash.....	15,200	
	Accounts Receivable.....		15,200
	<i>Collection from four credit customers of April 22;</i>		
	<i>\$3,800 x 4 = \$15,200.</i>		
30	Utilities Expense	1,800	
	Cash		1,800
	<i>Paid the April utilities.</i>		

Exercise 2-14 (25 minutes)**Parts a and b:**

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2016					
Dec. 31	Beginning balance				850
2017					
Jan. 1		G1	3,500		4,350
20		G1		2,000	2,350
31		G1	5,000		7,350
31		G1		3,000	4,350
31		G1		750	3,600

Accounts Receivable				Account No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2016					
Dec. 31	Beginning balance				300
2017					
Jan. 12		G1	9,000		9,300
31		G1		5,000	4,300

Equipment				Account No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2016					
Dec. 31	Beginning balance				1,500
2017					
Jan. 20		G1	12,000		13,500

Accounts Payable				Account No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2016					
Dec. 31	Beginning balance				325
2017					
Jan. 20		G1		10,000	10,325

Toshi Sato, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2016					
Dec. 31	Beginning balance				2,325
2017					
Jan. 1		G1		3,500	5,825

Exercise 2-14 (Parts a and b continued)

Toshi Sato, Withdrawals				Account No. 302	
Date		Explanation	PR	Debit	Credit Balance
2016					
Dec. 31		Beginning balance			300
2017					
Jan. 31			G1	750	1,050

Revenue				Account No. 401	
Date		Explanation	PR	Debit	Credit Balance
2016					
Dec. 31		Beginning balance			1,800
2017					
Jan. 12			G1		9,000 10,800

Salaries Expense				Account No. 622	
Date		Explanation	PR	Debit	Credit Balance
2016					
Dec. 31		Beginning balance			1,500
2017					
Jan. 31			G1	3,000	4,500

Exercise 2-14 (Parts a and b continued)

Note: After posting the journal entries, the PR column in the General Journal would appear as follows:

General Journal					Page 1
Date	Account Titles and Explanation	PR	Debit		Credit
2017					
Jan. 1	Cash.....	101	3,500		
	Toshi Sato, Capital	301			3,500
	<i>Additional owner investment.</i>				
12	Accounts Receivable.....	106	9,000		
	Revenue	401			9,000
	<i>Performed work for a customer on account.</i>				
20	Equipment.....	167	12,000		
	Cash	101			2,000
	Accounts Payable.....	201			10,000
	<i>Purchased equipment by paying cash and the balance on credit.</i>				
31	Cash.....	101	5,000		
	Accounts Receivable.....	106			5,000
	<i>Collected cash from credit customer.</i>				
31	Salaries Expense	622	3,000		
	Cash	101			3,000
	<i>Paid month-end salaries.</i>				
31	Toshi Sato, Withdrawals.....	302	750		
	Cash	101			750
	<i>Toshi Sato withdrew cash for personal use.</i>				

Analysis component:

All of the details regarding a transaction, such as serial numbers or invoice numbers, form part of the journal entry recorded in the journal and provide a chronological picture of what has happened in the business. The general ledger does not accommodate these kinds of very necessary details. Therefore, we need to journalize to ensure important details are readily available.

The general ledger summarizes by account all of the transactions recorded in the journal. For example, without the ledger, we would not be able to determine the balance in cash without going through the journal and adding/subtracting all of the individual transactions. The ledger allows us to have account balance information.

In summary, although it appears that journalizing and posting are recording the same information twice, the journal and ledger each serve different and important functions in the accounting system.

Exercise 2-15 (25 minutes)

General Journal					Page G1
Date	Account Titles and Explanation	PR	Debit		Credit
2017					
Aug. 1	Cash	101	20,000		
	Photography Equipment	167	42,000		
	Joseph Eetok, Capital	301		62,000	
	<i>Investment by owner.</i>				
1	Prepaid Rent	131	12,000		
	Cash	101		12,000	
	<i>Rented studio space.</i>				
5	Office Supplies	124	1,800		
	Cash	101		1,800	
	<i>Purchased office supplies.</i>				
20	Cash	101	9,200		
	Photography Revenue	401		9,200	
	<i>Collected cash in advance for photography services.</i>				
31	Utilities Expense	690	1,400		
	Cash	101		1,400	
	<i>Paid for August utilities.</i>				

Note: The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Exercise 2-16.

Exercise 2-16 (30 minutes)

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Aug. 1		G1	20,000		20,000
1		G1		12,000	8,000
5		G1		1,800	6,200
20		G1	9,200		15,400
31		G1		1,400	14,000

Office Supplies				Account No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Aug. 5		G1	1,800		1,800

Prepaid Rent				Account No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Aug. 1		G1	12,000		12,000

Photography Equipment				Account No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Aug. 1		G1	42,000		42,000

Joseph Eetok, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Aug. 1		G1		62,000	62,000

Photography Revenue				Account No. 401	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Aug. 20		G1		9,200	9,200

Utilities Expense				Account No. 690	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Aug. 31		G1	1,400		1,400

Exercise 2-16 (concluded)

THE PIXEL SHOP
Trial Balance
August 31, 2017

Acct No.	Account Title	Debit	Credit
101	Cash	\$ 14,000	
124	Office supplies	1,800	
131	Prepaid rent	12,000	
167	Photography equipment	42,000	
301	Joseph Eetok, capital.....		\$62,000
401	Photography revenue.....		9,200
690	Utilities expense	<u>1,400</u>	
	Totals	<u>\$71,200</u>	<u>\$71,200</u>

Analysis component:

The trial balance is not a financial statement; it is an internal working paper used to verify that debits and credits in the general ledger are equal and to review account balances. The trial balance format does not readily communicate information such as financial performance and financial position, information that is desired by external decision makers. Financial statements are used for external reporting because the formats of these communicate information desired by external users. For example, the income statement reports financial performance while the balance sheet reports financial position.

Exercise 2-17 (20 minutes)

Cash 101				Office Supplies 124		Prepaid Rent 131	
Aug. 1	20,000	12,000	Aug. 1	Aug. 5	1,800	Aug. 1	12,000
20	9,200	1,800	5				
		1,400	31				
Bal	14,000						

Photography Equipment 167		Joseph Eetok, Capital 301	
Aug. 1	42,000	62,000	Aug. 1

Photography Revenue 401		Utilities Expense 690	
	9,200 Aug. 20	Aug. 31	1,400

THE PIXEL SHOP
Trial Balance
August 31, 2017

Acct. No.	Account Title	Debit	Credit
101	Cash	\$14,000	
124	Office supplies.....	1,800	
131	Prepaid rent	12,000	
167	Photography equipment	42,000	
301	Joseph Eetok, capital.....		\$62,000
401	Photography revenue.....		9,200
690	Utilities expense	1,400	
	Totals	<u>\$71,200</u>	<u>\$71,200</u>

Exercise 2-17 (Concluded)

Analysis component:

The trial balance is an internal working paper used to verify that debits and credits in the general ledger are equal and to review account balances. The trial balance format does not readily communicate information such as financial performance and financial position, information that is desired by external decision makers. Financial statements are used for external reporting because the formats of these communicate information desired by external users. For example, the income statement reports financial performance while the balance sheet reports financial position

Exercise 2-18 (20 minutes)

Extreme Hockey
Income Statement
For Year Ended December 31, 2017

Revenues:		
Consulting revenue		\$18,000
Operating expenses:		
Wages expense	\$29,000	
Rent expense	<u>8,000</u>	
Total operating expenses		<u>37,000</u>
Loss		<u>\$19,000</u>

Extreme Hockey
Statement of Changes in Equity
For Year Ended December 31, 2017

Ryan Roy, capital, January 1	\$ 0
Add: Investments by owner	<u>50,000</u>
Total	<u>\$50,000</u>
Less: Withdrawals by owner	\$2,000
Loss	<u>19,000</u>
Ryan Roy, capital, December 31	<u>\$29,000</u>

The arrows are imaginary
but emphasize the link
between statements.

Extreme Hockey
Balance Sheet
December 31, 2017

Assets		Liabilities	
Cash	\$18,000	Accounts payable	\$ 17,300
Accounts receivable	5,200	Notes payable	<u>47,000</u>
Prepaid rent	13,000	Total liabilities	<u>\$ 64,300</u>
Machinery	<u>57,100</u>	Equity	
		Ryan Roy, capital	<u>29,000</u>
		Total liabilities and	
Total assets	<u>\$93,300</u>	equity	<u>\$ 93,300</u>

Analysis component:

Losses cause equity to decrease. If equity decreases, either assets have to decrease and/or liabilities must increase to keep the balance sheet in balance. Therefore, if Extreme Hockey's Consulting continues to experience losses, there are two short-term alternatives available to prevent a decrease in assets. First, the business could borrow which would increase liabilities and temporarily increase assets until payments had to be made. Second, Ryan Roy, the owner, could invest additional assets into the business which would increase equity and assets. However, for the long-term, the owner does not want to support the business through continual investments; the business must be able to support itself through positive performance (profit).

Exercise 2-19 (20 minutes)

JenCo
Income Statement
For Month Ended March 31, 2017

Revenues:		
Service revenue.....		\$1,650
Operating expenses:		
Salaries expense.....	\$ 800	
Interest expense.....	<u>10</u>	
Total operating expenses		<u>810</u>
Profit.....		<u>\$ 840</u>

JenCo
Statement of Changes in Equity
For Month Ended March 31, 2017

Marie Jensen, capital, March 1	\$ 0
Add: Investment by owner.....	\$2,050
Profit.....	<u>840</u>
Total	<u>2,890</u>
Less: Withdrawal by owner	<u>1,500</u>
Marie Jensen, capital, March 31	<u>\$1,390</u>

JenCo
Balance Sheet
March 31, 2017

Assets		Liabilities	
Cash	\$ 500	Accounts payable	\$ 500
Accounts receivable	1,950	Unearned service revenue.....	460
Prepaid insurance	300	Notes payable.....	<u>1,100</u>
Equipment	<u>700</u>	Total liabilities	<u>\$2,060</u>
Total assets		Equity	
	<u>\$3,450</u>	Marie Jensen, capital	<u>1,390</u>
		Total liabilities and equity	<u>\$3,450</u>

The arrows are imaginary but emphasize the link between statements.

Exercise 2-20 (20 minutes)

**Media Marketing Services
Income Statement
For Month Ended March 31, 2017**

Revenues:	
Revenue	\$126,000
Operating expenses:	
Wages expense	\$146,000
Office supplies expense	<u>7,000</u>
Total operating expenses	<u>153,000</u>
Loss	<u>\$ 27,000</u>

**Media Marketing Services
Statement of Changes in Equity
For Month Ended March 31, 2017**

Sam Smith, capital, March 1	\$87,000*
Add: Investment by owner	<u>35,000</u>
Total	\$122,000
Less: Withdrawal by owner	\$ 18,000
Loss	<u>27,000</u>
Sam Smith, capital, March 31	<u>\$77,000</u>

**Media Marketing Services
Balance Sheet
March 31, 2017**

<i>Assets</i>		<i>Liabilities</i>	
Cash	\$ 17,000	Accounts payable	\$ 46,000
Accounts receivable ...	3,000	Notes payable	<u>114,000</u>
Office supplies	3,000	Total liabilities	\$ 160,000
Building	80,000		
Land	84,000	<i>Equity</i>	
Machinery	<u>50,000</u>	Sam Smith, capital	<u>77,000</u>
Total assets	<u>\$237,000</u>	Total liabilities and equity	<u>\$237,000</u>

*The arrows are imaginary
but emphasize the link
between statements.*

***\$122,000 March 31/14 Balance - \$35,000 invested in March = \$87,000 March 1/14 Balance**

Exercise 2-21 (20 minutes)

	(1) Difference Between Debit and Credit Columns	(2) Column With the Larger Total	(3) Identify Account(s) Incorrectly Stated	(4) Amount That Account(s) is Overstated or Understated
Description				
a. A \$2,400 debit to Rent Expense was posted as a \$1,590 debit.	\$810	Credit	Rent Expense	Rent Expense is understated by \$810
b. A \$42,000 debit to Machinery was posted as a debit to Accounts Payable.	\$0	—	Machinery Accounts Payable	Machinery is understated by \$42,000 and Accounts Payable is understated by \$42,000
c. A \$4,950 credit to Services Revenue was posted as a \$495 credit.	\$4,455	Debit	Services Revenue	Services Revenue is understated by \$4,455
d. A \$1,440 debit to Store Supplies was not posted at all.	\$1,440	Credit	Store Supplies	Store Supplies is understated by \$1,440
e. A \$2,250 debit to Prepaid Insurance was posted as a debit to Insurance Expense.	\$0	—	Prepaid Insurance Insurance Expense	Prepaid Insurance is understated by \$2,250 and Insurance Expense is overstated by \$2,250
f. A \$4,050 credit to Cash was posted twice as two credits to the Cash account.	\$4,050	Credit	Cash	Cash is understated by \$4,050
g. A \$9,900 debit to the owner's withdrawals account was debited to the owner's capital account.	\$0	—	Owner's Capital Owner's Withdrawals	Owner's Capital account is understated by \$9,900 Owner's Withdrawals is understated by \$9,900

Exercise 2-22 (15 minutes)

- a. 1. Dr = Cr
2. Accounts Receivable is understated (too low) by \$3,500 and Revenue is understated by \$3,500.
- b. 1. Dr = Cr
2. Accounts Payable is overstated (too high) by \$600 and Cash is overstated by \$600.
- c. 1. Dr ≠ Cr
2. Cash is overstated by \$180.
- d. 1. Dr ≠ Cr
2. Accounts Receivable is overstated by \$750.
- e. 1. Dr = Cr
2. Accounts Payable is understated by \$2,000 and Equipment is understated by \$2,000.

Exercise 2-23 (15 minutes)

Case A:

- 1. Subtract total debits in the trial balance from total credits
 $5,010 - 4,290 = 720$
- 2. Divide the difference by 9
 $720 \div 9 = 80$
- 3. The quotient equals the difference between the two transposed numbers.
80 is the difference between the two transposed numbers.
- 4. The number of digits in the quotient tells us the location of the transposition.
Look for a difference of 8 between the second number from the right and the third number from the right.

Through a process of elimination, the incorrect value is Accounts Payable of \$190. The correct value must be \$910.

Proof: Recalculate the trial balance replacing \$910 for the incorrect \$190 and the trial balance now balances at \$5,010.

Exercise 2-23 (*concluded*)

Case B:

1. Subtract total debits in the trial balance from total credits
 $34,400 - 28,100 = 6,300$
2. Divide the difference by 9 to reveal a slide error
 $6,300 \div 9 = 700$
3. The quotient identifies a slide error and equals the correct value.

Through a process of elimination, the incorrect value is Withdrawals for \$7,000. The correct value must be \$700.

Proof: Recalculate the trial balance replacing \$700 for the incorrect \$7,000 and the trial balance now balances at \$28,100.

Case C:

1. Subtract total debits in the trial balance from total credits
 $942 - 906 = 36$
2. Divide the difference by 9
 $36 \div 9 = 4$
3. The quotient equals the difference between the two transposed numbers.
4 is the difference between the two transposed numbers.
4. The number of digits in the quotient tells us the location of the transposition.
Look for a difference of 4 between the first number from the right and the second number from the right.

Through a process of elimination, the incorrect value is Cash for \$59. The correct value must be \$95.

Proof: Recalculate the trial balance replacing \$95 for the incorrect \$59 and the trial balance now balances at \$942.

PROBLEMS

Problem 2-1A (30 minutes)

Nov 1	Analysis	Assets increase. Equity increases.		
	Journal entry analysis	Debit the Cash account for \$200,000. Debit the Aircraft Equipment account for \$50,000. Credit the Tobias Eaden, Capital account for \$250,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 1	Cash	200,000	
		Aircraft Equipment	50,000	
		Tobias Eaden, Capital		250,000
		<i>Owner investment of cash and equipment.</i>		
Nov 3	Analysis	Assets increase and assets decrease. Liabilities increase.		
	Journal entry analysis	Debit the Land account for \$400,000. Debit the Building account for \$100,000. Credit the Cash account for \$125,000. Credit the Long-Term Notes Payable account for 375,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 3	Land	400,000	
		Building	100,000	
		Cash		125,000
		Long-Term Notes Payable		375,000
		<i>Purchased Land and Building with Cash and a long-term Notes Payable.</i>		

Problem 2-1A (Continued)				
Nov 7	Analysis	Assets increase. Equity increase.		
	Journal entry analysis	Debit the Airplane account for \$200,000. Credit the Tobias Eaden account for \$200,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 7	Airplane	200,000	
		Tobias Eaden, Capital		200,000
		<i>Owner investment of asset.</i>		
Nov 9	Analysis	Assets increase. Liabilities increase.		
	Journal entry analysis	Debit the Supplies account for \$5,000. Credit the Accounts Payable account for \$5,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 9	Supplies	5,000	
		Accounts Payable		5,000
		<i>Purchased supplies on credit.</i>		
Nov 13	Analysis	Assets increase. Equity increases.		
	Journal entry analysis	Debit the Accounts Receivable account for \$16,000. Credit the Revenue account for \$16,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 13	Accounts Receivable	16,000	
		Revenue		16,000
		<i>Billed customer for services provided.</i>		

Problem 2-1A (Continued)				
Nov 17	Analysis	Assets decrease. Equity decreases.		
	Journal entry analysis	Debit the Wages Expense account for \$3,000. Credit the Cash account for \$3,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 17	Wages Expense	3,000	
		Cash		3,000
		<i>Paid wages.</i>		
Nov 21	Analysis	No Transaction required.		
	Journal entry analysis			
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
		No Transaction required.		
Nov 23	Analysis	Assets decrease. Liabilities decrease.		
	Journal entry analysis	Debit the Liabilities account for \$2,500. Credit the Cash account for \$2,500.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 23	Accounts Payable	2,500	
		Cash		2,500
		<i>Paid accounts payable.</i>		

Problem 2-1A (Concluded)				
Nov 27	Analysis	Assets increase. Assets decrease.		
	Journal entry analysis	Debit the Aircraft equipment (new) account for \$20,000. Credit the Cash account for \$15,000. Credit the Aircraft equipment (old) account for \$5,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 27	Aircraft equipment (new)	20,000	
		Cash		15,000
		Aircraft equipment (old)		5,000
		Purchase of aircraft equipment.		
Nov 30	Analysis	Assets decrease. Equity decreases.		
	Journal entry analysis	Debit the Tobias Eaden, Withdrawal account for \$3,200. Credit the Cash account for \$3,200.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Nov 30	Tobias Eaden, Withdrawals	3,200	
		Cash		3,200
		Withdrawal of cash by owner.		

Problem 2-2A (30 minutes) Parts 1 and 2

Cash			
Nov 1	200,000	125,000	Nov 3
		3,000	Nov 17
		2,500	Nov 23
		15,000	Nov 27
		3,200	Nov 30
Bal	51,300		

Accounts Receivable	
Nov 13	16,000
Bal	16,000

Supplies	
Nov 9	5,000

Airplane	
Nov 7	200,000

Aircraft Equipment			
Nov 1	50,000	5,000	Nov 27
Nov 27	20,000		
Bal.	65,000		

Building	
Nov 3	100,000

Land	
Nov 3	400,000

Accounts Payable			
Nov 23	2,500	5,000	Nov 9
		2,500	Bal

Long-Term Notes Payable	
	375,000 Nov 3

Tobias Eaden, Capital		
	250,000	Nov 1
	200,000	Nov 7
	450,000	Bal.

Tobias Eaden, Withdrawals	
Nov 30	3,200

Revenue		
	16,000	Nov 13
	16,000	Bal

Wages Expense		
Nov 17	3,000	
Bal	3,000	

Note: There is no entry for November 27 since it is not a transaction.

Problem 2-2A Continued (5 minutes)**Part 3**

Assets (\$837,300) = Liabilities (\$377,500) + Equity (\$459,800)

Problem 2-3A (30 minutes)

		General Journal		Page 1	
Date	Account Titles and Explanation	Debit		Credit	
2017					
May 1	Equipment	46,000			
	Cash			14,000	
	Notes Payable			32,000	
	<i>Purchased new equipment paying cash and signing a 90-day note payable.</i>				
2	Prepaid Insurance	24,000			
	Cash			24,000	
	<i>Purchased 12 months of insurance to begin May 2.</i>				
3	Cash	6,000			
	Design Revenue			6,000	
	<i>Completed a fitness contract for a group of customers and collected cash.</i>				
4	Office Supplies	3,750			
	Accounts Payable			3,750	
	<i>Purchased office supplies on account.</i>				
6	Accounts Payable	750			
	Office Supplies			750	
	<i>Returned defective supplies to supplier.</i>				
10	Accounts Receivable	11,500			
	Fitness Contract Revenue			11,500	
	<i>Did work for a client today on account.</i>				
15	Accounts Payable	3,000			
	Cash			3,000	
	<i>Paid for the May 4 purchase less the return of May 6; \$3,750 - \$750 return = \$3,000.</i>				
20	Cash	11,500			
	Accounts Receivable			11,500	
	<i>Received payment from the client of May 10.</i>				

Problem 2-3A (concluded)

May 25	Cash.....	2,500	
	 Unearned Revenue		2,500
	 Received cash for work to be done in June.		
31	Salaries Expense	47,000	
	 Cash		47,000
	 Paid month-end salaries.		
31	Telephone Expense	2,250	
	 Cash		2,250
	 Paid the May telephone bill.		
31	Utilities Expense	3,100	
	 Accounts Payable (or Utilities Payable).....		3,100
	 May electrical bill to be paid June 15.		

Note: Assume that all entries were journalized on Page 1 of the General Journal.

Problem 2-4A (90 minutes)

		General Journal			Page 1
Date		Account Titles and Explanation	PR	Debit	Credit
2017					
Mar.	1	Cash.....	101	50,000	
		Office Equipment	163	12,000	
		Abe Factor, Capital	301		62,000
		<i>Invested cash and equipment to start the business.</i>			
	1	Prepaid Rent.....	131	9,000	
		Cash.....	101		9,000
		<i>Prepaid three months' rent.</i>			
	3	Office Equipment	163	6,000	
		Office Supplies.....	124	1,200	
		Accounts Payable	201		7,200
		<i>Purchased equipment and supplies on credit.</i>			
	5	Cash.....	101	6,200	
		Accounting Revenue	401		6,200
		<i>Received cash from client for completed work.</i>			
	9	Accounts Receivable	106	4,000	
		Accounting Revenue	401		4,000
		<i>Billed client for completed work.</i>			
	11	Accounts Payable	201	7,200	
		Cash.....	101		7,200
		<i>Paid balance due on accounts payable.</i>			
	15	Prepaid Insurance.....	128	3,000	
		Cash.....	101		3,000
		<i>Paid annual premium for insurance.</i>			
	20	Cash.....	101	1,500	
		Accounts Receivable.....	106		1,500
		<i>Collected part of the amount owed by a client.</i>			

Problem 2-4A (concluded)

Mar. 22 No entry.

23	Accounts Receivable	106	2,850	
	Accounting Revenue	401		2,850
	<i>Billed client for completed work.</i>			
27	Abe Factor, Withdrawals	302	3,600	
	Cash.....	101		3,600
	<i>Owner's withdrawal of cash.</i>			
30	Office Supplies.....	124	650	
	Accounts Payable	201		650
	<i>Purchased supplies.</i>			
31	Utilities Expense	690	860	
	Cash.....	101		860
	<i>Paid monthly utility bill.</i>			

Note: The account numbers in the PR column above would be included only when these journal entries are being posted in Problem 3-4A. Assume that all entries were journalized on Page 1 of the General Journal.

Problem 2-5A (45 minutes)**Parts 1 and 2**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 1		G1	50,000		50,000
1		G1		9,000	41,000
5		G1	6,200		47,200
11		G1		7,200	40,000
15		G1		3,000	37,000
20		G1	1,500		38,500
27		G1		3,600	34,900
31		G1		860	34,040

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 9		G1	4,000		4,000
20		G1		1,500	2,500
23		G1	2,850		5,350

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 3		G1	1,200		1,200
30		G1	650		1,850

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 15		G1	3,000		3,000

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 1		G1	9,000		9,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 1		G1	12,000		12,000
3		G1	6,000		18,000

Problem 2-5A (continued)

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 3		G1		7,200	7,200
11		G1	7,200		0
30		G1		650	650

Abe Factor, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 1		G1		62,000	62,000

Abe Factor, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 27		G1	3,600		3,600

Accounting Revenue					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 5		G1		6,200	6,200
9		G1		4,000	10,200
23		G1		2,850	13,050

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2017					
Mar. 31		G1	860		860

Problem 2-5A (concluded)

Part 3

X-FACTOR ACCOUNTING

Trial Balance

March 31, 2017

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$34,040	
106	Accounts receivable.....	5,350	
124	Office supplies.....	1,850	
128	Prepaid insurance.....	3,000	
131	Prepaid rent.....	9,000	
163	Office equipment	18,000	
201	Accounts payable		\$ 650
301	Abe Factor, capital.....		62,000
302	Abe Factor, withdrawals.....	3,600	
401	Accounting revenue		13,050
690	Utilities expense	860	
	Totals.....	<u>\$75,700</u>	<u>\$75,700</u>

Problem 2-7A (90 minutes)**Part 1**

General Journal				Page 1
Date	Account Titles and Explanation	PR	Debit	Credit
2017				
May 1	Cash.....	101	75,000	
	Office Equipment	163	48,000	
	Elizabeth Wong, Capital.....	301		123,000
	<i>Invested cash and equipment to start the business.</i>			
1	Prepaid Rent.....	131	14,400	
	Cash	101		14,400
	<i>Prepaid three months' rent.</i>			
2	Office Equipment	163	24,000	
	Office Supplies.....	124	4,800	
	Accounts Payable	201		28,800
	<i>Purchased equipment and supplies on credit.</i>			
6	Cash.....	101	8,000	
	Services Revenue	403		8,000
	<i>Received cash from client for services performed.</i>			
9	Accounts Receivable.....	106	16,000	
	Services Revenue	403		16,000
	<i>Billed client for completed work.</i>			
10	Accounts Payable	201	14,400	
	Cash	101		14,400
	<i>Paid one-half of balance due on accounts payable.</i>			
19	Prepaid Insurance.....	128	7,500	
	Cash	101		7,500
	<i>Paid annual premium for insurance.</i>			
22	Cash.....	101	12,800	
	Accounts Receivable	106		12,800
	<i>Collected part of the amount owed by a client.</i>			
25	Accounts Receivable.....	106	5,280	
	Services Revenue	403		5,280
	<i>Billed client for completed work.</i>			
25	Wages expense.....	623	34,000	
	Cash	101		34,000
	<i>Paid wage expense.</i>			

Problem2-7A, Part 1 (continued)

May	31	Elizabeth Wong, Withdrawals	302	5,000	
		Cash	101		5,000
		<i>Owner withdrew cash.</i>			
	31	Office Supplies.....	124	1,600	
		Accounts Payable	201		1,600
		<i>Purchased supplies on credit.</i>			
	31	Utilities Expense	690	1,400	
		Cash	101		1,400
		<i>Paid monthly utility bill.</i>			

Note: Assume that all entries were journalized on Page 1 of the General Journal.

Parts 2 and 3

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
May 1		G1	75,000		75,000
1		G1		14,400	60,600
6		G1	8,000		68,600
10		G1		14,400	54,200
19		G1		7,500	46,700
22		G1	12,800		59,500
25		G1		34,000	25,500
31		G1		5,000	20,500
31		G1		1,400	19,100

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2017					
May 9		G1	16,000		16,000
22		G1		12,800	3,200
25		G1	5,280		8,480

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2017					
May 2		G1	4,800		4,800
31		G1	1,600		6,400

Problem 2-7A (continued) Parts 2 and 3

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2017 May 19		G1	7,500		7,500

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2017 May 1		G1	14,400		14,400

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2017 May 1		G1	48,000		48,000
2		G1	24,000		72,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2017 May 2		G1		28,800	28,800
10		G1	14,400		14,400
31		G1		1,600	16,000

Elizabeth Wong, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2017 May 1		G1		123,000	123,000

Elizabeth Wong, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2017 May 31		G1	5,000		5,000

Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2017 May 6		G1		8,000	8,000
9		G1		16,000	24,000
25		G1		5,280	29,280

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2017 May 25		G1	34,000		34,000

Problem 2-7A (continued) Parts 2 and 3

Utilities Expense				Acct. No. 690	
Date	Explanation	PR	Debit	Credit	Balance
2017					
May 31		G1	1,400		1,400

Part 4

**HR Solutions
Trial Balance
May 31, 2017**

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 19,100	
106	Accounts receivable.....	8,480	
124	Office supplies.....	6,400	
128	Prepaid insurance	7,500	
131	Prepaid rent	14,400	
163	Office equipment	72,000	
201	Accounts payable.....		\$ 16,000
301	Elizabeth Wong, capital		123,000
302	Elizabeth Wong, withdrawals	5,000	
403	Services revenue		29,280
623	Wages expense.....	34,000	
690	Utilities expense	1,400	
	Totals	<u>\$168,280</u>	<u>\$168,280</u>

Analysis component:

Equity represents how much of HR Solutions' assets belong to the owner, Elizabeth Wong. Services Revenue is an equity account because as revenues are realized, the business's net worth (assets – liabilities, or equity) increases either through the receipt of an asset (cash or accounts receivable) or satisfying a liability (unearned revenues). Utilities Expense is an equity account because as expenses are realized, net worth (what belongs to the owner) decreases either through the use of an asset (such as prepaid insurance) or increase in a liability (such as rent payable). Elizabeth Wong, Withdrawals is an equity account because as the owner withdraws assets, Elizabeth Wong's equity in the business (what belongs to the owner) decreases. The owner's objective is for the business to generate sufficient revenues to cover all expenses, provide sufficient assets for the purpose of withdrawals, and at the same time maintain or preferably increase equity (because excess revenues remained after deducting expenses and withdrawals).

Problem 2-8A

HR Solutions
Income Statement
For Month Ended May 31, 2017

Revenues:		
Service revenue		\$29,280
Operating expenses:		
Wages expense	\$34,000	
Utilities expense	<u>1,400</u>	
Total operating expenses		<u>35,400</u>
Loss		<u>\$ 6,120</u>

HR Solutions
Statement of Changes in Equity
For Month Ended May 31, 2017

Elizabeth Wong, capital, May 1	\$ 0
Add: Investments by owner	123,000
Less: Withdrawals by owner	\$5,000
Loss	<u>6,120</u>
Elizabeth Wong, capital, May 31	<u>11,120</u>
	<u>\$111,880</u>

The arrows are imaginary
but emphasize the link
between statements.

HR Solutions
Balance Sheet
May 31, 2017

Assets		Liabilities	
Cash	\$ 19,100	Accounts payable	\$ 16,000
Accounts receivable	8,480		
Office supplies	6,400		
Prepaid insurance	7,500		
Prepaid rent	14,400		
Office equipment	<u>72,000</u>		
Total assets	<u>\$127,880</u>		
		Equity	
		Elizabeth Wong, capital	<u>111,880</u>
		Total liabilities and equity	<u>\$127,880</u>

Problem 2-9A (25 minutes)

Hipster Optical
Income Statement
For Month Ended May 31, 2017

Revenues:	
Service revenue.....	\$25,280
Operating expenses:	
Wages expense	\$15,000
Rent expense	4,300
Utilities expense	<u>1,400</u>
Total operating expenses	<u>20,700</u>
Profit.....	<u>\$ 4,580</u>

Hipster Optical
Statement of Changes in Equity
For Month Ended May 31, 2017

Peeta Black, capital, May 1	\$ -0-
Add: Owner investment	\$ 56,300
Profit.....	<u>4,580</u>
Total	<u>60,880</u>
Less: Withdrawals by owner	<u>1,480</u>
Peeta Black, capital, May 31	<u>\$59,400</u>

*The arrows are imaginary
but emphasize the link
between statements.*

Hipster Optical
Balance Sheet
May 31, 2017

Assets		Liabilities	
Cash.....	\$18,500	Accounts payable	\$ 1,600
Accounts receivable	8,480	Unearned service revenue.....	<u>7,800</u>
Office supplies	6,400	Total liabilities	\$ 9,400
Prepaid insurance.....	9,820		
Office equipment.....	<u>25,600</u>		
		Equity	
		Peeta Black, capital.....	<u>59,400</u>
		Total liabilities and	
Total assets	<u>\$68,800</u>	equity	<u>\$68,800</u>

Problem 2-9A (Concluded)**Analysis component:****2017**

May	31	Utilities Expense	1,400	
		Cash		1,400
		<i>Paid the May utilities.</i>		
	31	Utilities Expense	1,400	
		Accounts Payable		1,400
		<i>Received the May utility bill which will be paid next month.</i>		

Problem 2-10A (90 minutes)**Part 1**

General Journal				Page 1	
Date		Account Titles and Explanation	PR	Debit	Credit
2017					
July	1	Cash	101	300,000	
		Office Equipment	163	12,000	
		Drafting Equipment.....	167	90,000	
		Bishr Binbutti, Capital	301		402,000
		<i>Investment by owner.</i>			
	2	Land	183	108,000	
		Cash.....	101		10,800
		Long-Term Notes Payable	251		97,200
		<i>Purchased land.</i>			
	3	Building	173	150,000	
		Cash.....	101		150,000
		<i>Purchased a building.</i>			
	5	Prepaid Insurance	128	12,000	
		Cash.....	101		12,000
		<i>Purchased two one-year insurance policies.</i>			
	7	Cash	101	1,400	
		Engineering Revenue	401		1,400
		<i>Completed services for cash.</i>			
	9	Drafting Equipment.....	167	45,000	
		Cash.....	101		21,000
		Long-Term Notes Payable	251		24,000
		<i>Purchased drafting equipment.</i>			
	10	Accounts Receivable	106	4,000	
		Engineering Revenue	401		4,000
		<i>Completed services on credit.</i>			

Problem 2-10A (continued)

July	12	Office Equipment	163	4,500	
		Accounts Payable	201		4,500
		<i>Purchased office equipment on credit.</i>			
	15	Accounts Receivable	106	7,000	
		Engineering Revenue	401		7,000
		<i>Completed services on credit.</i>			
	16	Equipment Rental Expense	645	13,800	
		Accounts Payable	201		13,800
		<i>Equipment rental to be paid in 30 days.</i>			
	17	Cash	101	400	
		Accounts Receivable	106		400
		<i>Collection from credit customer.</i>			
	19	Wages Expense	623	12,000	
		Cash	101		12,000
		<i>Paid drafting assistants.</i>			
	22	Accounts Payable	201	4,500	
		Cash	101		4,500
		<i>Paid July 12 transaction.</i>			
	25	Repairs Expense	684	1,350	
		Cash	101		1,350
		<i>Paid for repairs on drafting equipment.</i>			
	26	Bishr Binbutti, Withdrawals	302	800	
		Cash	101		800
		<i>Owner withdrawal.</i>			
	30	Wages Expense	623	12,000	
		Cash	101		12,000
		<i>Paid drafting assistants.</i>			
	31	Advertising Expense	655	6,000	
		Cash	101		6,000
		<i>Paid for advertising in local newspaper.</i>			

Note: Assume all entries were journalized on Page 1 of the General Journal.

Problem 2-10A (continued)**Parts 2 and 3**

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				26,000
July 1		G1	300,000		326,000
2		G1		10,800	315,200
3		G1		150,000	165,200
5		G1		12,000	153,200
7		G1	1,400		154,600
9		G1		21,000	133,600
17		G1	400		134,000
19		G1		12,000	122,000
22		G1		4,500	117,500
25		G1		1,350	116,150
26		G1		800	115,350
30		G1		12,000	103,350
31		G1		6,000	97,350

Accounts Receivable				Account No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				3,000
July 10		G1	4,000		7,000
15		G1	7,000		14,000
17		G1		400	13,600

Prepaid Insurance				Account No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				500
July 5		G1	12,000		12,500

Office Equipment				Account No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				1,700
July 1		G1	12,000		13,700
12		G1	4,500		18,200

Problem 2-10A (continued)**Parts 2 and 3 (continued)**

Drafting Equipment					Account No. 167
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				1,200
July 1		G1	90,000		91,200
9		G1	45,000		136,200

Building					Account No. 173
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				42,000
July 3		G1	150,000		192,000

Land					Account No. 183
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				28,000
July 2		G1	108,000		136,000

Accounts Payable					Account No. 201
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				1,740
July 12		G1		4,500	6,240
16		G1		13,800	20,040
22		G1	4,500		15,540

Long-Term Notes Payable					Account No. 251
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				24,000
July 2		G1		97,200	121,200
9		G1		24,000	145,200

Bishr Binbutti, Capital					Account No. 301
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				54,000
July 1		G1		402,000	456,000

Problem 2-10A (continued)**Parts 2 and 3 (continued)**

Bishr Binbutti, Withdrawals					Account No. 302
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				1,000
July 26		G1	800		1,800

Engineering Revenue					Account No. 401
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				29,600
July 7		G1		1,400	31,000
10		G1		4,000	35,000
15		G1		7,000	42,000

Wages Expense					Account No. 623
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				4,000
July 19		G1	12,000		16,000
30		G1	12,000		28,000

Equipment Rental Expense					Account No. 645
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				1,000
July 16		G1	13,800		14,800

Advertising Expense					Account No. 655
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				640
July 31		G1	6,000		6,640

Repairs Expense					Account No. 684
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				300
July 25		G1	1,350		1,650

Problem 2-10A (concluded)**Part 4**

BINBUTTI ENGINEERING
Trial Balance
July 31, 2017

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 97,350	
106	Accounts receivable	13,600	
128	Prepaid insurance.....	12,500	
163	Office equipment.....	18,200	
167	Drafting equipment	136,200	
173	Building	192,000	
183	Land	136,000	
201	Accounts payable		\$ 15,540
251	Long-term notes payable		145,200
301	Bishr Binbutti, capital		456,000
302	Bishr Binbutti, withdrawals.....	1,800	
401	Engineering revenue		42,000
623	Wages expense	28,000	
645	Equipment rental expense	14,800	
655	Advertising expense.....	6,640	
684	Repairs expense	1,650	
	Totals	<u>\$658,740</u>	<u>\$658,740</u>

Problem 2-11A (25 minutes)

BINBUTTI ENGINEERING
Income Statement
For Three Months Ended July 31, 2017

Revenues:		
Engineering revenue		\$42,000
Operating expenses:		
Wages expense	\$28,000	
Equipment rental expense	14,800	
Advertising expense	6,640	
Repairs expense	<u>1,650</u>	
Total operating expenses		<u>51,090</u>
Loss		<u>\$ 9,090</u>

BINBUTTI ENGINEERING		
Statement of Changes in Equity		
For Three Months Ended July 31, 2017		
Bishr Binbutti, capital, May 1		\$ 0
Add: Investments by owner		<u>456,000</u>
Total		456,000
Less: Withdrawals by owner	\$1,800	
Loss	<u>9,090</u>	<u>10,890</u>
Bishr Binbutti, capital, July 31		<u>\$445,110</u>

*The arrows are
imaginary but
emphasize the
link between
statements.*

BINBUTTI ENGINEERING
Balance Sheet
July 31, 2017

Assets		Liabilities	
Cash	\$ 97,350	Accounts payable	\$ 15,540
Accounts receivable	13,600	Long-term notes payable	<u>145,200</u>
Prepaid insurance	12,500	Total liabilities	160,740
Office equipment	18,200		
Drafting equipment	136,200		
Building	192,000		
Land	<u>136,000</u>		
Total assets	<u>\$605,850</u>		
		Equity	
		Bishr Binbutti, capital	<u>445,110</u>
		Total liabilities and equity	<u>\$605,850</u>

Problem 2-12A (45 minutes) Part 1

		General Journal			Page 1
Date		Account Titles and Explanation	PR	Debit	Credit
2017					
July	1	Supplies.....	126	100	
		 Accounts Payable	201		100
		<i>Purchased supplies on credit.</i>			
	2	Cash.....	101	4,000	
		 Unearned Teaching Revenue	233		4,000
		<i>Collected cash for teaching services in August.</i>			
	3	Cash.....	101	2,000	
		 Teaching Revenue.....	401		2,000
		<i>Collected cash for teaching services in July.</i>			
	4	Rent Expense	640	3,000	
		 Cash.....	101		3,000
		<i>Paid July rent.</i>			
	5	Accounts Payable	201	500	
		 Cash	101		500
		<i>Paid for supplies purchased on account.</i>			
	15	Taylor Smith, Withdrawals	302	500	
		 Cash.....	101		500
		<i>The owner withdrew cash.</i>			
	20	Wages Expense.....	623	1,300	
		 Cash	101		1,300
		<i>Paid wages.</i>			
	31	Equipment	161	300	
		 Accounts Payable	201		300
		<i>Purchased equipment on credit.</i>			

Problem 2-12A (continued)

Parts 2 and 3

Cash 101		Supplies 126		Equipment 161		Accounts Payable 201	
Bal. 6,000		Bal. 950		Bal. 8,000		1,500 Bal.	
Jul. 2 4,000	3,000 Jul. 4	Jul. 1 100		Jul. 31 300		Jul. 5 500	100 Jul. 1
3 2,000	500 Jul. 5	Bal. 1,050		Bal. 8,300			300 Jul. 31
	500 Jul. 15						1,400 Bal.
	1,300 Jul. 20						
Bal. 6,700							

Unearned Teaching Rev 233		Taylor Smith, Capital 301		Taylor Smith, Withdrawals 302		Teaching Revenue 401	
	9,800 Bal.		3,000 Bal.	Bal. 13,000			46,000 Bal.
	4,000 Jul. 2			Jul. 15 500			2,000 Jul. 3
	13,800 Bal.			Bal. 13,500			48,000 Bal.

Wages Expense 623		Rent Expense 640	
Bal. 26,350		Bal. 6,000	
Jul. 20 1,300		Jul. 4 3,000	
Bal. 27,650		Bal. 9,000	

Problem 2-12A (continued)**Part 4**

Glitter and Gold Studio
Trial Balance
July 31, 2017

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 6,700	
126	Supplies	1,050	
161	Furniture.....	8,300	
201	Accounts payable		\$ 1,400
233	Unearned teaching revenue		13,800
301	Taylor Smith, capital.....		3,000
302	Taylor Smith, withdrawals.....	13,500	
401	Teaching revenue		48,000
623	Wages expense.....	27,650	
640	Rent expense	9,000	
	Totals.....	<u>\$66,200</u>	<u>\$66,200</u>

Problem 2-12A (concluded)**Part 5**

Glitter and Gold Studio
Income Statement
For Three Months Ended July 31, 2017

Teaching revenue.....		\$48,000
Operating expenses:		
Wages expense	\$27,650	
Rent expense.....	<u>9,000</u>	
Total operating expenses		<u>36,650</u>
Profit.....		<u>\$11,350</u>

Glitter and Gold Studio
Statement of Changes in Equity
For Three Months Ended July 31, 2017

Taylor Smith, capital, May 1		\$ 3,000-
Add: Owner investment	\$ 0	
Profit.....	<u>11,350</u>	
Total		<u>11,350</u>
Less: Withdrawals by owner		<u>\$14,350</u>
Taylor Smith, capital, July 31		<u>13,500</u>
		<u>\$ 850</u>

*The arrows are imaginary
but emphasize the link
between statements.*

Glitter and Gold Studio
Balance Sheet
July 31, 2017

Assets		Liabilities	
Cash.....	\$ 6,700	Accounts payable	\$ 1,400
Supplies.....	1,050	Unearned teaching revenue	<u>13,800</u>
Furniture	<u>8,300</u>	Total liabilities	<u>\$15,200</u>
		Equity	
		Taylor Smith, capital	<u>850</u>
		Total liabilities and	
Total assets	<u>\$16,050</u>	equity	<u>\$16,050</u>

Problem 2-13A (25 minutes)

FELINE PET CARE
Income Statement
For Year Ended July 31, 2017

Revenues:	
Revenue	\$117,000
Operating expenses:	
Wages expense	\$58,000
Equipment rental expense	34,000
Pet food expense	17,800
Advertising expense	<u>9,200</u>
Total operating expenses	<u>119,000</u>
Loss	<u>\$ 2,000</u>

FELINE PET CARE
Statement of Changes in Equity
For Year Ended July 31, 2017

Betty Lark, capital, August 1	\$ 0
Add: Investments by owner	<u>292,760</u>
Total	292,760
Less: Withdrawals by owner	\$ 5,000
Loss	<u>2,000</u>
Betty Lark, capital, July 31	<u>285,760</u>

The arrows are
imaginary but
emphasize the link
between
statements.

FELINE PET CARE
Balance Sheet
July 31, 2017

Assets		Liabilities	
Cash	\$ 23,000	Accounts payable	\$ 15,540
Accounts receivable	11,600	Unearned revenue	<u>92,000</u>
Prepaid insurance	12,500	Total liabilities	107,540
Equipment	18,200		
Building	192,000		
Land	<u>136,000</u>		
Total assets	<u>\$393,300</u>		
		Equity	
		Betty Lark, capital	<u>285,760</u>
		Total liabilities and equity	<u>\$393,300</u>

Problem 2-13A (concluded)**Analysis component:****2017**

July	31	Cash	117,000	
		Revenue		117,000
		<i>Received cash for completing work for clients.</i>		
	31	Accounts Receivable	117,000	
		Revenue		117,000
		<i>Completed work for clients on account.</i>		

Problem 2-14A (15 minutes)

Wilm's Window Washing Services
Trial Balance
January 31, 2017

	Debit	Credit
Cash ($11,600 + 2,800^b - 4,400^d$)	\$ 10,000	
Accounts receivable ($9,240 - 2,800^b + 3,600^c$)	10,040	
Prepaid insurance	2,400	
Equipment ($24,000 + 4,000^a$)	28,000	
Accounts payable ($5,400 + 4,000^a$)		\$ 9,400
Wilm Schmidt, capital		45,000
Wilm Schmidt, withdrawals	8,960	
Service revenues ($60,400 + 3,600^e$)		64,000
Salaries expense	32,000	
Insurance expense	5,200	
Maintenance expense ($13,000 + 3,600^e$)	16,600	
Utilities expense	5,200	
Totals	<u>\$118,400</u>	<u>\$118,400</u>

Note: The superscripts (a) to (e) are references to items (a) to (e) listed in Problem 2-13A.

ALTERNATE PROBLEMS

Problem 2-1B (30 minutes)

June 2	Analysis	Assets increase. Equity increases.		
	Journal entry analysis	Debit the Cash account for \$46,000. Debit the Office Equipment account for \$24,000. Credit the Trevor Peeters, Capital account for \$70,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Jun 2	Cash	46,000	
		Office Equipment	24,000	
		Trevor Peeters, Capital		70,000
		<i>Owner investment of cash and equipment.</i>		
Jun 4	Analysis	Assets increase and assets decrease. Liabilities increase.		
	Journal entry analysis	Debit the Land account for \$268,000. Debit the Building account for \$66,000. Credit the Cash account for \$30,000. Credit the Long-Term Notes Payable account for 304,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Jun 4	Land	268,000	
		Building	66,000	
		Cash		30,000
		Long-Term Notes Payable		304,000
		<i>Purchased Land and Building with Cash and a Long-Term Notes Payable.</i>		
Jun 8	Analysis	Assets increase. Equity increase.		
	Journal entry analysis	Debit the Vehicle account for \$7,000. Credit the Trevor Peeters, Capital account for \$7,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Jun 8	Vehicle	7,000	
		Trevor Peeters, Capital		7,000

		Owner investment of asset.			
Problem 2-1B (Continued)					
Jun 10	Analysis	Assets increase. Liabilities increase.			
	Journal entry analysis	Debit the Supplies account for \$600. Credit the Accounts Payable account for \$600.			
	Journal Entry				
	Date	Account Titles and Explanation		Debit	Credit
	Jun 10	Supplies		600	
		Accounts Payable			600
		<i>Purchased supplies on credit.</i>			
Jun 14	Analysis	Assets increase. Equity increases.			
	Journal entry analysis	Debit the Accounts Receivable account for \$2,400. Credit the Revenue account for \$2,400.			
	Journal Entry				
	Date	Account Description		Debit	Credit
	Jun 14	Accounts Receivable		2,400	
		Revenue			2,400
		<i>Billed customer for services provided.</i>			
Jun 18	Analysis	Assets decrease. Equity decreases.			
	Journal entry analysis	Debit the Salaries Expense account for \$1,800. Credit the Cash account for \$1,800.			
	Journal Entry				
	Date	Account Titles and Explanation		Debit	Credit
	Jun 18	Salaries Expense		1,800	
		Cash			1,800
		<i>Paid salary.</i>			

Problem 2-1B (Continued)				
Jun 22	Analysis	Assets decrease. Liabilities decrease.		
	Journal entry analysis	Debit the Liabilities account for \$600. Credit the Cash account for \$600.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Jun 22	Accounts Payable	600	
		Cash		600
		<i>Paid accounts payable.</i>		
Jun 24	Analysis	Assets increase. Assets decrease.		
	Journal entry analysis	Debit the Office Equipment (new) account for \$4,000. Credit the Cash account for \$2,400. Credit the Office Equipment (old) account for \$1,600.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Jun 24	Office Equipment (new)	4,000	
		Cash		2,400
		Equipment (old)		1,600
		<i>Purchase of office equipment.</i>		
Jun 28	Analysis	Assets increase. Assets decrease.		
	Journal entry analysis	Debit the Cash account for \$1,000. Credit the Accounts Receivable account for \$1,000.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Jun 28	Cash	1,000	
		Accounts Receivable		1,000
		<i>Collected cash from a customer.</i>		

Problem 2-1B (Concluded)				
Jun 30	Analysis	Assets decrease. Equity decreases.		
	Journal entry analysis	Debit the Trevor Peeters, Withdrawal account for \$1,050. Credit the Cash account for \$1,050.		
	Journal Entry			
	Date	Account Titles and Explanation	Debit	Credit
	Jun 30	Trevor Peeters, Withdrawals	1,050	
		Cash		1,050
		Withdrawal of cash by owner.		

Problem 2-2B (30 minutes) Part 1 and 2

Cash			
Jun 2	46,000	30,000	Jun 4
Jun 28	1,000	1,800	Jun 18
		600	Jun 22
		2,400	Jun 24
		1,050	Jun 30
Balance	11,150		

Accounts Receivable			
Jun 14	2,400	1,000	Jun 28
Balance	1,400		

Office Supplies		
Jun 10	600	

Vehicle		
Jun 8	7,000	

Office Equipment			
Jun 2	24,000	1,600	Jun 24
Jun 24	4,000		
Balance	26,400		

Building		
Jun 4	66,000	

Land		
Jun 4	268,000	

Accounts Payable			
Jun 22	600	600	Jun 10
		0	Balance

Long-Term Notes Payable		
	304,000	Jun 4

Trevor Peeters, Capital		
	70,000	Jun 2
	7,000	Jun 8
	77,000	Balance

Trevor Peeters, Withdrawals		
Jun 30	1,050	

Revenue		
	2,400	Jun 14
	2,400	Balance

Salaries Expense		
Jun 18	1,800	
Balance	1,800	

Part 3

Assets (\$380,550) = Liabilities (\$304,000) + Equity (\$76,550)

Problem 2-3B

		General Journal		Page 1	
Date		Accounts Titles and Explanations	Debit	Credit	
2017					
March	1	Building.....	375,000		
		Cash.....		75,000	
		Note Payable		300,000	
		<i>Purchased new portable building paying cash and signing a five-year note payable.</i>			
	1	Prepaid Insurance	5,700		
		Cash.....		5,700	
		<i>Purchased six months of insurance to begin March 1.</i>			
	2	No entry.			
	4	Cleaning Supplies	450		
		Accounts Payable		450	
		<i>Purchased cleaning supplies on account.</i>			
	15	Accounts Payable	450		
		Cash.....		450	
		<i>Paid for the March 4 purchase.</i>			
	19	Accounts Receivable	35,000		
		Advertising Revenue (or other revenue account).....		35,000	
		<i>Performed work for a client on account.</i>			
	20	Cash	8,000		
		Unearned Revenue.....		8,000	
		<i>Collected cash from a customer for work to be done in April.</i>			
	28	Hotel Expense or Travel Expense	240		
		Cash		240	
		<i>Paid for a hotel regarding a business meeting.</i>			

Problem 2-3B (concluded)

March	29	Cash	5,000	
		Advertising Revenue (or other revenue account)		5,000
		<i>Provided advertising services and collected cash.</i>		
	30	Salaries Expense	25,600	
		Cash		25,600
		<i>Paid month-end salaries.</i>		
	30	Telephone Expense	1,300	
		Accounts Payable		1,300
		<i>March telephone bill to be paid on April 14.</i>		
	30	Cash	17,500	
		Accounts Receivable		17,500
		<i>Collected half of the amount owed by the customer of March 19.</i>		

Note: Assume all entries were journalized on Page 1 of the General Journal.

Problem 2-4B (60 minutes)

		General Journal			Page 1
Date		Account Titles and Explanation	PR	Debit	Credit
2017					
Sept.	1	Cash	101	20,000	
		Office Equipment	163	9,200	
		Susan Hurley, Capital	301		29,200
		<i>Investment by owner.</i>			
	1	Prepaid Rent	131	5,600	
		Cash	101		5,600
		<i>Paid two months' rent.</i>			
	2	Office Supplies	124	1,380	
		Office Equipment	163	3,800	
		Accounts Payable	201		5,180
		<i>Purchased items on credit.</i>			
	4	Cash	101	2,900	
		Accounting Revenue	401		2,900
		<i>Sold accounting services for cash.</i>			
	8	Accounts Receivable	106	5,080	
		Accounting Revenue	401		5,080
		<i>Sold accounting services on credit.</i>			
	10	Accounts Payable	201	5,180	
		Cash	101		5,180
		<i>Paid for credit purchase.</i>			
	14	Prepaid Insurance	128	3,300	
		Cash	101		3,300
		<i>Paid insurance premium.</i>			
	15	Professional Development Expense	680	1,250	
		Cash	101		1,250
		<i>Paid for seminar.</i>			

Problem 2-4B (concluded)

Sept.	18	Cash.....	101	5,080	
		Accounts Receivable.....	106		5,080
		<i>Received cash from credit customer.</i>			
	20	No entry.			
	24	Accounts Receivable.....	106	5,000	
		Accounting Revenue	401		5,000
		<i>Sold accounting services on credit.</i>			
	28	Susan Hurley, Withdrawals	302	2,500	
		Cash.....	101		2,500
		<i>Owner withdrew cash.</i>			
	29	Office Supplies.....	124	450	
		Accounts Payable	201		450
		<i>Purchased supplies on credit.</i>			
	30	Utilities Expense	690	1,750	
		Cash.....	101		1,750
		<i>Paid utilities bill.</i>			

Note: The account numbers in the PR column above would be included only when these journal entries are being posted in Problem 2-4B. Assume that all entries were journalized on Page 1 of the General Journal.

Problem 2-5B**Parts 1 and 2**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 1		G1	20,000		20,000
1		G1		5,600	14,400
4		G1	2,900		17,300
10		G1		5,180	12,120
14		G1		3,300	8,820
15		G1		1,250	7,570
18		G1	5,080		12,650
28		G1		2,500	10,150
30		G1		1,750	8,400

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 8		G1	5,080		5,080
18		G1		5,080	0
24		G1	5,000		5,000

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 2		G1	1,380		1,380
29		G1	450		1,830

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 14		G1	3,300		3,300

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 1		G1	5,600		5,600

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 1		G1	9,200		9,200
2		G1	3,800		13,000

Problem 2-5B (continued)**Parts 1 and 2**

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 2		G1		5,180	5,180
10		G1	5,180		0
29		G1		450	450

Susan Hurley, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 1		G1		29,200	29,200

Susan Hurley, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 28		G1	2,500		2,500

Accounting Revenue					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 4		G1		2,900	2,900
8		G1		5,080	7,980
24		G1		5,000	12,980

Professional Development Expense					Acct. No. 680
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 15		G1	1,250		1,250

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2017					
Sept. 30		G1	1,750		1,750

Problem 2-5B (concluded)

Part 3

**SUSAN HURLEY, PUBLIC ACCOUNTANT
Trial Balance
September 30, 2017**

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 8,400	
106	Accounts receivable.....	5,000	
124	Office supplies.....	1,830	
128	Prepaid insurance.....	3,300	
131	Prepaid rent.....	5,600	
163	Office equipment	13,000	
201	Accounts payable		\$ 450
301	Susan Hurley, capital.....		29,200
302	Susan Hurley, withdrawals	2,500	
401	Accounting revenue		12,980
680	Professional development expense	1,250	
690	Utilities expense	1,750	
	Totals.....	<u>\$42,630</u>	<u>\$42,630</u>

Problem 2-6B (25 minutes)

SUSAN HURLEY, PUBLIC ACCOUNTANT
Income Statement
For Month Ended September 30, 2017

Revenues:		
Accounting revenue.....		\$12,980
Operating expenses:		
Utilities expense.....	\$1,750	
Professional development expense.....	<u>1,250</u>	
Total operating expenses		<u>3,000</u>
Profit.....		<u>\$ 9,980</u>

SUSAN HURLEY, PUBLIC ACCOUNTANT
Statement of Changes in Equity
For Month Ended September 30, 2017

Susan Hurley, capital, September 1		\$ 0
Add: Investments by owner.....	\$29,200	
Profit.....	<u>9,980</u>	
Total		<u>39,180</u>
Less: Withdrawals by owner		<u>2,500</u>
Susan Hurley, capital, September 30		<u>\$36,680</u>

The arrows are
imaginary but
emphasize the
link between
statements.

SUSAN HURLEY, PUBLIC ACCOUNTANT
Balance Sheet
September 30, 2017

Assets		Liabilities	
Cash.....	\$ 8,400	Accounts payable	\$ 450
Accounts receivable	5,000		
Office supplies	1,830		
Prepaid insurance.....	3,300		
Prepaid rent.....	5,600		
Office equipment.....	<u>13,000</u>		
Total assets	<u>\$37,130</u>		
		Equity	
		Susan Hurley, capital	<u>36,680</u>
		Total liabilities and	
		equity	<u>\$37,130</u>

Problem 2-7B (90 minutes)**Part 1**

		General Journal		Page 1	
Date		Account Titles and Explanation	Debit	Credit	
2017					
Nov.	1	Cash..... 101	62,000		
		Office Equipment 163	19,000		
		Tait Unger, Capital..... 301		81,000	
		<i>Owner invested in the business.</i>			
	2	Prepaid Rent..... 131	21,000		
		Cash 101		21,000	
		<i>Prepaid three months' rent.</i>			
	4	Office Equipment 163	9,000		
		Office Supplies..... 124	1,650		
		Accounts Payable 201		10,650	
		<i>Purchased equipment and supplies on credit.</i>			
	8	Cash..... 101	5,200		
		Service Revenue 401		5,200	
		<i>Received cash from client for completed work.</i>			
	12	Accounts Receivable 106	4,800		
		Service Revenue 401		4,800	
		<i>Billed client for completed work.</i>			
	13	Accounts Payable 201	10,650		
		Cash 101		10,650	
		<i>Paid balance due on accounts payable.</i>			
	19	Prepaid Insurance..... 128	3,750		
		Cash 101		3,750	
		<i>Paid annual premium for insurance.</i>			
	22	Cash..... 101	2,000		
		Accounts Receivable 106		2,000	
		<i>Collected part of the amount owed by a client.</i>			
	24	Accounts Receivable 106	3,600		
		Service Revenue 401		3,600	
		<i>Billed client for completed work.</i>			

Problem 2-7B (continued)

Part 1

Nov.	28	Tait Unger, Withdrawals	302	5,300	
		Cash	101		5,300
		<i>Owner withdrew cash for personal use.</i>			
	29	Office Supplies.....	124	1,700	
		Accounts Payable	201		1,700
		<i>Purchased supplies on credit.</i>			
	30	Wages Expense.....	680	19,000	
		Cash	101		19,000
		<i>Paid wages.</i>			
	30	Utilities Expense	690	1,650	
		Cash	101		1,650
		<i>Paid monthly utility bill.</i>			

Note: Assume all entries were journalized on Page 1 of the General Journal.

Problem 2-7B (continued)**Parts 2 and 3**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 1		G1	62,000		62,000
2		G1		21,000	41,000
8		G1	5,200		46,200
13		G1		10,650	35,550
19		G1		3,750	31,800
22		G1	2,000		33,800
28		G1		5,300	28,500
30		G1		19,000	9,500
30		G1		1,650	7,850

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 12		G1	4,800		4,800
22		G1		2,000	2,800
24		G1	3,600		6,400

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 4		G1	1,650		1,650
29		G1	1,700		3,350

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 19		G1	3,750		3,750

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 2		G1	21,000		21,000

Problem 2-7B (continued)**Parts 2 and 3**

Office Equipment					Acct. No. 163
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 1		G1	19,000		19,000
4		G1	9,000		28,000

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 4		G1		10,650	10,650
13		G1	10,650		0
29		G1		1,700	1,700

Tait Unger, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 1		G1		81,000	81,000

Tait Unger, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 28		G1	5,300		5,300

Service Revenue					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 8		G1		5,200	5,200
12		G1		4,800	10,000
24		G1		3,600	13,600

Wages Expense					Acct. No. 680
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 30		G1	19,000		19,000

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 30		G1	1,650		1,650

Problem 2-7B (concluded)**Part 4**

WiCOM SERVICING
Trial Balance
November 30, 2017

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 7,850	
106	Accounts receivable.....	6,400	
124	Office supplies.....	3,350	
128	Prepaid insurance	3,750	
131	Prepaid rent	21,000	
163	Office equipment	28,000	
201	Accounts payable.....		\$ 1,700
301	Tait Unger, capital		81,000
302	Tait Unger, withdrawals	5,300	
401	Service revenue		13,600
680	Wages expense	19,000	
690	Utilities expense	1,650	
	Totals	<u>\$96,300</u>	<u>\$96,300</u>

Analysis component:

The November 29 purchase of office supplies is recorded as a debit to an asset account because they have not yet been used. Assets are economic resources held by the business. The supplies will remain on the books as an asset until they are used. Once used, the supplies will become an expense.

Problem 2-9B (concluded)

Analysis component:

2017

Nov.	30	Accounts Receivable	XXX	
		Service Revenue.....		XXX
		<i>Did work for a customer on account.</i>		
	30	Cash	XXX	
		Accounts Receivable		XXX
		<i>Collected an amount owing from a credit customer.</i>		

Problem 2-10B (90 minutes)**Part 1**

General Journal					Page 1
Date	Account Titles and Explanation	PR	Debit		Credit
2017					
July					
1	Office Equipment	163	9,000		
	Trucks	153	56,000		
	Long-Term Notes Payable	251			65,000
	<i>Purchased assets on credit.</i>				
2	Land	183	124,000		
	Cash	101			40,800
	Long-Term Notes Payable	251			83,200
	<i>Purchased land.</i>				
3	Building	173	21,000		
	Cash	101			21,000
	<i>Purchased a building.</i>				
5	Prepaid Insurance	128	9,600		
	Cash	101			9,600
	<i>Purchased two one-year insurance policies.</i>				
9	Cash	101	3,200		
	Revenue	401			3,200
	<i>Performed services for cash.</i>				
12	Office Equipment	163	6,500		
	Cash	101			700
	Long-Term Notes Payable	251			5,800
	<i>Purchased office equipment.</i>				
15	Accounts Receivable	106	3,750		
	Revenue	401			3,750
	<i>Performed services on credit.</i>				
20	Accounts Receivable	106	9,200		
	Revenue	401			9,200
	<i>Performed services on credit.</i>				

Problem 2-10B (continued)**Part 1**

General Journal					Page 2
Date	Account Titles and Explanation	PR	Debit		Credit
2017					
July 21	Truck Rental Expense.....	645	1,300		
	Accounts Payable	201			1,300
	<i>Rented truck on credit.</i>				
22	Cash.....	101	5,000		
	Accounts Receivable.....	106			5,000
	<i>Collected cash from credit customer.</i>				
23	Wages Expense.....	623	1,600		
	Cash.....	101			1,600
	<i>Paid wages to assistant.</i>				
24	Accounts Payable	201	1,300		
	Cash.....	101			1,300
	<i>Paid for July 21 rental on account.</i>				
25	Repairs Expense	684	1,425		
	Cash.....	101			1,425
	<i>Paid for truck repairs.</i>				
26	Brett Wilson, Withdrawals	302	3,875		
	Cash.....	101			3,875
	<i>Owner withdrawal.</i>				
27	Wages Expense.....	623	1,600		
	Cash.....	101			1,600
	<i>Paid wages to assistant.</i>				
28	Advertising Expense.....	655	800		
	Cash.....	101			800
	<i>Paid for advertising in local newspaper.</i>				
29	Cash.....	101	1,400		
	Unearned Revenue	233			1,400
	<i>Received cash for services to be performed in August.</i>				

Problem 2-10B (continued)**Parts 2 and 3**

Cash				Account No. 101	
Date		Explanation	PR	Debit	Credit Balance
2017					
June	30	Beginning balance			75,000
July	2		G1		40,800 34,200
	3		G1		21,000 13,200
	5		G1		9,600 3,600
	9		G1	3,200	6,800
	12		G1	700	6,100
	22		G2	5,000	11,100
	23		G2	1,600	9,500
	24		G2	1,300	8,200
	25		G2	1,425	6,775
	26		G2	3,875	2,900
	27		G2	1,600	1,300
	28		G2	800	500
	29		G2	1,400	1,900

Accounts Receivable				Account No. 106	
Date		Explanation	PR	Debit	Credit Balance
2017					
June	30	Beginning balance			950
July	15		G1	3,750	4,700
	20		G1	9,200	13,900
	22		G2		5,000 8,900

Prepaid Insurance				Account No. 128	
Date		Explanation	PR	Debit	Credit Balance
2017					
June	30	Beginning balance			275
July	5		G1	9,600	9,875

Trucks				Account No. 153	
Date		Explanation	PR	Debit	Credit Balance
2017					
June	30	Beginning balance			20,800
July	1		G1	56,000	76,800

Problem 2-10B (continued)**Parts 2 and 3**

Office Equipment				Account No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				1,200
July 1		G1	9,000		10,200
12		G1	6,500		16,700

Building				Account No. 173	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				-0-
July 3		G1	21,000		21,000

Land				Account No. 183	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				-0-
July 2		G1	124,000		124,000

Accounts Payable				Account No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				725
July 21		G1		1,300	2,025
24		G2	1,300		725

Unearned Revenue				Account No. 233	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				0
July 29		G2		1,400	1,400

Long-Term Notes Payable				Account No. 251	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				7,000
July 1		G1		65,000	72,000
2		G1		83,200	155,200
12		G1		5,800	161,000

Problem 2-10B (continued)**Parts 2 and 3**

Brett Wilson, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				83,825

Brett Wilson, Withdrawals				Account No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				600
July 26		G2	3,875		4,475

Revenue				Account No. 401	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				8,400
July 9		G1		3,200	11,600
15		G1		3,750	15,350
20		G1		9,200	24,550

Wages Expense				Account No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				780
July 23		G2	1,600		2,380
27		G2	1,600		3,980

Truck Rental Expense				Account No. 645	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				230
July 21		G2	1,300		1,530

Advertising Expense				Account No. 655	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				75
July 28		G2	800		875

Repairs Expense				Account No. 684	
Date	Explanation	PR	Debit	Credit	Balance
2017					
June 30	Beginning balance				40

July	25		G2		1,425		1,465
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Problem 2-10B (concluded)**Part 4**

FROG BOX COMPANY
Trial Balance
July 31, 2017

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 1,900	
106	Accounts receivable	8,900	
128	Prepaid insurance.....	9,875	
153	Trucks.....	76,800	
163	Office equipment	16,700	
173	Building	21,000	
183	Land.....	124,000	
201	Accounts payable		\$ 725
233	Unearned revenue.....		1,400
251	Long-term notes payable		161,000
301	Brett Wilson, capital		83,825
302	Brett Wilson, withdrawals	4,475	
401	Revenue.....		24,550
623	Wages expense.....	3,980	
645	Truck rental expense	1,530	
655	Advertising expense.....	875	
684	Repairs expense	1,465	
	Totals.....	<u>\$271,500</u>	<u>\$271,500</u>

Problem 2-12B (45 minutes)**Part 1**

General Journal					Page 1
Date	Account Titles and Explanation	PR	Debit		Credit
2017					
Nov. 1	Accounts Payable	201	10,000		
	Cash	101			10,000
	<i>Paid for purchase made on account.</i>				
2	Office Equipment	163	34,000		
	Cash	101			6,000
	Notes Payable.....	205			28,000
	<i>Purchased a photocopier.</i>				
3	Office Supplies.....	124	800		
	Cash	101			800
	<i>Purchased supplies for cash.</i>				
14	Wages Expense.....	623	6,000		
	Cash.....	101			6,000
	<i>Paid wages.</i>				
20	Cash	101	14,000		
	Travel Revenue.....	401			14,000
	<i>Collected cash for November travel.</i>				
25	Ike Petrov, Withdrawals	302	2,000		
	Cash.....	101			2,000
	<i>The owner withdrew cash.</i>				
30	Interest Expense	633	150		
	Cash	101			150
	<i>Paid interest on notes payable.</i>				

Note: There is no entry to record for November 4 as this does not represent an economic exchange.

Problem 2-12B (continued)

Parts 2 and 3

Cash 101				Office Supplies 124				Office Equipment 163				Accounts Payable 201			
Bal.	26,000	10,000	Nov. 1	Bal.	900			Bal.	36,000			Nov. 1	10,000	43,000	Bal.
Nov. 20	14,000	6,000	2	Nov. 3	800			Nov. 2	34,000						
		800	3												
		6,000	14												
		2,000	25												
		150	30												
Bal.	15,050			Bal.	1,700			Bal.	70,000					33,000	Bal.

Notes Payable 205				Ike Petrov, Capital 301				Ike Petrov, Withdrawals 302				Travel Revenue 401			
		20,000	Bal.			8,000	Bal.	Bal.	4,000					34,000	Bal.
		28,000	Nov. 2					Nov. 25	2,000					14,000	Nov. 20
		48,000	Bal.					Bal.	6,000					48,000	Bal.

Wages Expense 623				Interest Expense 633			
Bal.	38,000			Bal.	100		
Nov. 14	6,000			Nov. 30	150		
Bal.	44,000			Bal.	250		

Problem 2-12B (continued)

Part 4

**TOUR-ALONG
Trial Balance
November 30, 2017**

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 15,050	
124	Office supplies	1,700	
163	Office equipment	70,000	
201	Accounts payable		\$ 33,000
205	Notes payable		48,000
301	Ike Petrov, capital		8,000
302	Ike Petrov, withdrawals	6,000	
401	Travel revenue		48,000
623	Wages expense.....	44,000	
633	Interest expense	250	
	Totals.....	<u>\$137,000</u>	<u>\$137,000</u>

Problem 2-12B (continued)

Part 5

TOUR-ALONG
Income Statement
For Two Months Ended November 30, 2017

Travel revenue		\$48,000
Operating expenses:		
Wages expense	\$44,000	
Interest expense	<u>250</u>	
Total operating expenses		<u>44,250</u>
Profit.....		<u>\$ 3,750</u>

TOUR-ALONG
Statement of Changes in Equity
For Two Months Ended November 30, 2017

Ike Petrov, capital, October 1		\$ -0-
Add: Owner investment	\$8,000	
Profit.....	<u>3,750</u>	<u>11,750</u>
Total		\$11,750
Less: Withdrawals by owner		<u>6,000</u>
Ike Petrov, capital, November 30.....		<u>\$ 5,750</u>

The arrows are imaginary
but emphasize the link
between statements.

TOUR-ALONG
Balance Sheet
November 30, 2017

Assets		Liabilities	
Cash	\$15,050	Accounts payable.....	\$33,000
Office supplies	1,700	Notes payable	<u>48,000</u>
Office equipment.....	<u>70,000</u>	Total liabilities	\$81,000
		Equity	
		Ike Petrov, capital.....	<u>5,750</u>
		Total liabilities and	
Total assets	<u>\$86,750</u>	equity	<u>\$86,750</u>

Analysis component:

The \$8,000 October 31 balance in Ike Petrov, Capital represents investments made by the owner, Ike Petrov, into the business.

Problem 2-13B

LINCOLN LANDSCAPING
Income Statement
For Three Months Ended July 31, 2017

Revenues:	
Revenue	\$29,100
Operating expenses:	
Wages expense	\$59,000
Advertising expense	1,750
Rental expense	1,100
Repairs expense	<u>930</u>
Total operating expenses	<u>62,780</u>
Loss	<u>\$33,680</u>

LINCOLN LANDSCAPING
Statement of Changes in Equity
For Three Months Ended July 31, 2017

Brielle Lincoln, capital, May 1	\$ 0
Add: Investments by owner	<u>65,000</u>
Total	65,000
Less: Withdrawals by owner	\$ 8,950
Loss	<u>33,680</u>
Brielle Lincoln, capital, July 31	<u>\$22,370</u>

The arrows are
imaginary but
emphasize the link
between
statements.

LINCOLN LANDSCAPING
Balance Sheet
July 31, 2017

Assets		Liabilities	
Cash	\$ 23,720	Accounts payable	\$ 37,500
Accounts receivable	18,600	Unearned revenue	2,800
Prepaid insurance	13,750	Long-term notes payable	<u>58,000</u>
Equipment	<u>64,600</u>	Total liabilities	<u>\$98,300</u>
		Equity	
		Brielle Lincoln, capital	<u>22,370</u>
		Total liabilities and	
Total assets	<u>\$120,670</u>	equity	<u>\$120,670</u>

Analysis component:

- a) Assets financed by debt = $(\$98,300 / \$120,670) \times 100 = 81.5\%$
- b) Assets financed by equity = $(\$22,370 / \$120,670) \times 100 = 18.5\%$

Problem 2-14B

**Wicked Dance
Trial Balance
December 31, 2017**

Account Title	Debit	Credit
Cash (\$37,175 ^a - \$30,540 ^a)	\$ 6,635	
Accounts receivable (\$7,900 - \$275 ^b).....	7,625	
Office supplies (\$2,650 + 400 ^c).....	3,050	
Office equipment.....	20,500	
Accounts payable (\$9,465 + 400 ^c)		\$ 9,865
Paula Fernandes, capital (a credit balance account)..		16,745
Services revenue (\$23,250 ^d not \$22,350).....		23,250
Wages expense (a debit balance account).....	6,000	
Rent expense (a debit balance account)	4,800	
Advertising expense (a debit balance account).....	<u>1,250</u>	
Totals	<u>\$49,860</u>	<u>\$49,860</u>

Note: The superscripts (a) to (d) are references to items (a) to (d) listed in Problem 2-13B.

ANALYTICAL AND REVIEW PROBLEMS**A&R Problem 2-1 (35 minutes)**

YOUNG ENGINEERING
Trial Balance
March 31, 2017

Account Title	Debit	Credit
Cash.....	\$26,660	
Office supplies	660	
Prepaid insurance.....	3,200	
Office equipment.....	16,500	
Accounts payable		\$16,500
Carlos Young, capital		17,000
Carlos Young, withdrawals	3,740	
Consulting revenue.....		24,000
Rent expense.....	6,740	
Totals	<u>\$57,500</u>	<u>\$57,500</u>

1. Purchased \$660 of office supplies for cash.
2. Paid \$3,200 insurance premium in advance.
3. Purchased \$16,500 office equipment on credit.
4. Carlos Young invested \$17,000 cash in the business.
5. Carlos Young withdrew \$3,740 cash from the business for personal use.
6. Earned \$24,000 in consulting services and was paid in cash.
7. Paid \$6,740 rent expense with cash.

A&R 2-2 (30 minutes)

Designer Drycleaning
Statement of Changes in Equity
For Months Ended

	April 30, 2017	March 31, 2017
Christopher Dior, capital, beginning.....	\$ 34,400	\$ 0
Add: Investment by owner	0	10,000
Profit.....	<u>48,500⁴</u>	<u>25,400³</u>
Total	\$ 82,900	\$35,400
Less: Withdrawals by owner	<u>25,100</u>	<u>1,000</u>
Christopher Dior, capital, ending	<u>\$57,800</u>	<u>\$34,400</u>

Designer Drycleaning
Balance Sheet

	April 30, 2017	March 31, 2017		April 30, 2017	March 31, 2017
Assets			Liabilities		
Cash.....	\$ 7,000	\$ 3,000	Accounts payable.....	\$ 700	\$ 500
Cleaning supplies	3,500	900	Notes payable	<u>40,000</u>	<u>15,000</u>
Prepaid rent.....	12,000	16,000	Total liabilities	\$40,700	\$15,500
Equipment	<u>76,000</u>	<u>30,000</u>	Equity		
			Christopher Dior, capital.....	<u>57,800²</u>	<u>34,400¹</u>
			Total liabilities and equity	<u>\$98,500</u>	<u>\$49,900</u>
Total assets	<u>\$98,500</u>	<u>\$49,900</u>			

Calculations:

1. $49,900 - 15,500 = 34,400$
2. $98,500 - 40,700 = 57,800$
3. $34,400 + 1,000 - 10,000 = 25,400$
4. $57,800 + 25,100 - 34,400 = 48,500$

Analysis component:

- a. Liabilities increased because of the \$200 increase in accounts payable and the \$25,000 increase in notes payable used, most probably, to finance the purchase of equipment (equipment increased by \$46,000).
- b. Equity increased by a larger amount in March than April because the owner invested \$10,000 during March and nothing during April. Also, during April, the owner made a withdrawal of \$25,100 and only \$1,000 in March. Profit in April was almost twice as much as that reported for March but the large withdrawal and no investments during April caused equity to increase by a smaller amount than in March.

ETHICS CHALLENGE

This problem emphasizes the importance of source documents.

1. There are advantages to the process proposed by the manager. They include improved customer service, less delays, and less work for you. However, you should have serious concerns about the potential for fraud. In particular, there is no control over the possibility of embezzlement by the manager because there are no source documents* being prepared at the time of sale. The manager could steal cash and simply prepare sales receipts to match the remaining cash.

This case involves a conflict between the need for efficiency and the need for control in the form of source documents*. While it makes sense to take and process sales receipts quickly, this efficiency is being accomplished by a shortcut that greatly weakens control over cash receipts. That is, cash could be received and lost because there would be no source documents to verify the sales and cash received.

**Recall from Chapter 1 that source documents identify and describe transactions entering the accounting process and are the source of accounting information, whether in paper or electronic form.*

2. The manager's explanation that the owner does not arrive until 3:00 p.m. suggests that the owner does not know about the proposed shortcut. Thus, the new employee is faced with the dilemma of deciding whether to accept the manager's instructions, to confront the manager with the argument that the shortcut seems wrong, or to ask the owner to confirm the instructions. Each of these alternatives involves personal risk.

Initially, the best thing may be to simply work as instructed for a while in order to get an idea of whether the shortcut is being abused by the manager and perhaps to find out discreetly whether the owner knows about it. The relationship that develops between you and the manager may be of a nature that will allow you to explain your concern and convince the manager that the shortcut should be avoided. Even if the manager is not abusing this shortcut, there are other reasons for doing away with it, such as maintaining accurate records for tax reports and gathering marketing information. Also, the shortcut may result in fraud by other employees who might not be as honest as you and the manager.

If you conclude that the manager is committing fraud, you should report the situation to the owner as quickly as possible.

FFS 2-1

McALLISTER SURVEYING
Income Statement
For Month Ended May 31, 2017

Revenue:		
Surveying fees earned		\$18,000
Operating expenses:		
Advertising expense	\$3,200	
Rent expense.....	3,100	
Salaries expense	3,000	
Insurance expense	900	
Telephone expense	600	
Utilities expense	<u>300</u>	
Total operating expenses		<u>11,100</u>
Profit		<u>\$ 6,900</u>

McALLISTER SURVEYING
Statement of Changes in Equity
For Month Ended May 31, 2017

Travis McAllister, capital, May 1		\$75,000
Add: Investments by owner	\$3,000	
Profit	<u>6,900</u>	<u>9,900</u>
Total		\$84,900
Less: Withdrawals by owner		<u>6,000</u>
Travis McAllister, capital, May 31		<u>\$78,900</u>

McALLISTER SURVEYING
Balance Sheet
May 31, 2017

Assets		Liabilities	
Cash.....	\$ 3,900	Accounts payable	\$ 2,400
Accounts receivable	2,700	Unearned surveying fees	6,000
Office supplies	300	Short-term notes payable.....	<u>48,000</u>
Prepaid insurance.....	1,800	Total liabilities	\$ 56,400
Prepaid rent.....	4,200		
Surveying equipment	5,400		
Buildings	81,000	Equity	
Land.....	<u>36,000</u>	Travis McAllister, capital.....	<u>78,900</u>
Total assets	<u>\$135,300</u>	Total liabilities and equity	<u>\$135,300</u>

Analysis component:

Withdrawals are how an owner takes assets out of the business for personal use.

McAllister Surveying realized a \$6,900 profit during the month which caused equity to

increase. It is reasonable for the owner to benefit from that profit by making a withdrawal even though withdrawals cause equity to decrease.

FFS 2-2

1(a)(i)

Accounts Receivable	XXX	
Guest Revenues		XXX
<i>Provided services to customers on account.</i>		
Cash	XXX	
Guest Revenues		XXX
<i>Provided services to customers for cash.</i>		

1(a)(ii) Revenues affect the balance sheet because they cause equity to increase.

1(a)(iii) The Revenue Recognition Principle assures us that revenues on the income statement are for the year ended December 31, 2014.

1(b)(i)

Interest Expense	XXX	
Cash		XXX
<i>Paid interest expense..</i>		

1(b)(ii) Yes, expenses affect the balance sheet because they cause equity to decrease.

2(a) *Advance ticket sales* represent airline tickets sold in advance to customers.

2(b)

Cash	XXX	
Advance Ticket Sales		XXX
<i>Cash received in advance from customers for airline tickets sold</i>		

Critical Thinking Question

CT 2-1

Note to instructor: *Student responses will vary and therefore the answer here is only suggested and not inclusive of all possibilities; it is presented in point form for brevity.*

Problem(s):

- information that is available does not provide adequate detail to enable analysis and resulting decision making (from the Western Canadian Sales Division Manager's perspective; from the perspective of the sales and admin staff, the limited detail would make recording information very straightforward/easy since there are only 2 accounts — 1 revenue and 1 expense)

Goal(s)*:

- Sales Division Manager would want to maximize sales, minimize costs, and at the same time accurately record and report with sufficient detail to assist decision making process

Assumption(s)/Principle(s):

- division results have been deteriorating but because of a lack of detail, appropriate questions were not being asked and consequently inappropriate decisions were likely being made
- the disclosure principle (introduced in Chapter 6) requires that appropriate detail be provided and the materiality principle (introduced in Chapter 7) suggests that anything of significance be disclosed/reported

Facts:

- as presented in the sales reports
- by converting the dollars to percentages, we see that from July to September, although profit is increasing in total dollars, expenses are increasing as a percentage of sales causing profit to shrink as a percentage of sales which is unfavourable

Prairie Insurance – Western Canadian Division Sales Report Month Ended						
	Sept. 30, 2017	%	Aug. 31, 2017	%	July 31, 2017	%
Sales revenue	\$680,000	100	\$510,000	100	\$440,000	100
Expenses	544,000	80	382,500	75	321,200	73
Profit	\$136,000	20	\$127,500	25	\$118,800	27

CT 2-1 (*concluded*)

Conclusion(s)/Consequence(s):

- more revenue and expense accounts are required to provide sufficient detail to allow appropriate monitoring/questions and resulting decisions; this will require a restructuring of the accounting including submission of expense reports which requires resources including expertise

***The goal is highly dependent on “perspective.”**

Cumulative Problem, Echo Systems (120 minutes) Part A**2.**

				General	
Journal		Page 1			
Date		Account Titles and Explanation	PR	Debit	Credit
2017					
Oct.	1	Cash.....	101	90,000	
		Office Equipment	163	18,000	
		Computer Equipment.....	167	36,000	
		Mary Graham, Capital	301		144,000
		<i>Owner invested in the business.</i>			
	2	Prepaid Rent.....	131	9,000	
		Cash	101		9,000
		<i>Paid rent in advance.</i>			
	3	Computer Supplies	126	2,640	
		Accounts Payable	201		2,640
		<i>Purchased supplies on credit.</i>			
	5	Prepaid Insurance	128	4,320	
		Cash	101		4,320
		<i>Paid 12 months' premium in advance.</i>			
	6	Accounts Receivable	106	6,600	
		Computer Services Revenue	403		6,600
		<i>Billed customer for services.</i>			
	8	Accounts Payable	201	2,640	
		Cash	101		2,640
		<i>Paid balance due on account payable.</i>			
	10	<i>No entry recorded in the journal.</i>			
	12	Accounts Receivable	106	2,400	
		Computer Services Revenue	403		2,400
		<i>Billed customer for services.</i>			
	15	Cash.....	101	6,600	
		Accounts Receivable	106		6,600
		<i>Collected accounts receivable.</i>			
	17	Repairs Expense, Computer	684	1,410	
		Cash	101		1,410
		<i>Paid for computer repairs.</i>			
	20	Advertising Expense	655	3,720	
		Cash	101		3,720
		<i>Purchased ad in local newspaper.</i>			
	22	Cash.....	101	2,400	
		Accounts Receivable	106		2,400
		<i>Collected accounts receivable.</i>			

Cumulative Problem, Echo Systems (continued)**Part A**

General Journal					Page 2
Date	Account Titles and Explanation	PR	Debit		Credit
2017					
Oct. 28	Accounts Receivable.....	106	6,450		
	Computer Services Revenue.....	403			6,450
	<i>Billed customer for services.</i>				
31	Wages Expense.....	623	1,400		
	Cash.....	101			1,400
	<i>Paid employee for part-time work.</i>				
31	Mary Graham, Withdrawals.....	302	7,200		
	Cash.....	101			7,200
	<i>Owner withdrew cash.</i>				

1 and 3.

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 1		G1	90,000		90,000
2		G1		9,000	81,000
5		G1		4,320	76,680
8		G1		2,640	74,040
15		G1	6,600		80,640
17		G1		1,410	79,230
20		G1		3,720	75,510
22		G1	2,400		77,910
31		G2		1,400	76,510
31		G2		7,200	69,310

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 6		G1	6,600		6,600
12		G1	2,400		9,000
15		G1		6,600	2,400
22		G1		2,400	0
28		G2	6,450		6,450

Cumulative Problem, Echo Systems (continued)**Part A**

Computer Supplies				Acct. No. 126	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 3		G1	2,640		2,640

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 5		G1	4,320		4,320

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 2		G1	9,000		9,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 1		G1	18,000		18,000

Computer Equipment				Acct. No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 1		G1	36,000		36,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 3		G1		2,640	2,640
8		G1	2,640		0

Mary Graham, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 1		G1		144,000	144,000

Mary Graham, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 31		G2	7,200		7,200

Cumulative Problem, Echo Systems (continued)**Part A**

Computer Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 6		G1		6,600	6,600
12		G1		2,400	9,000
28		G2		6,450	15,450

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 31		G2	1,400		1,400

Advertising Expense				Acct. No. 655	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 20		G1	3,720		3,720

Mileage Expense				Acct. No. 676	
Date	Explanation	PR	Debit	Credit	Balance
2017					

Repairs Expense, Computer				Acct. No. 684	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 17		G1	1,410		1,410

Charitable Donations Expense				Acct. No. 699	
Date	Explanation	PR	Debit	Credit	Balance
2017					

Cumulative Problem, Echo Systems (continued)**Part A****4.**

ECHO SYSTEMS
Trial Balance
October 31, 2017

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 69,310	
106	Accounts receivable	6,450	
126	Computer supplies	2,640	
128	Prepaid insurance.....	4,320	
131	Prepaid rent.....	9,000	
163	Office equipment	18,000	
167	Computer equipment.....	36,000	
201	Accounts payable		\$ -0-
301	Mary Graham, capital.....		144,000
302	Mary Graham, withdrawals.....	7,200	
403	Computer services revenue		15,450
623	Wages expense.....	1,400	
655	Advertising expense.....	3,720	
676	Mileage expense	-0-	
684	Repairs expense, computer	1,410	
699	Charitable donations expense	-0-	
	Totals	<u>\$159,450</u>	<u>\$159,450</u>

NOTE: Accounts with zero balance may be omitted.

Cumulative Problem, Echo Systems (continued)

Part A

5.

ECHO SYSTEMS
Income Statement
For Month Ended October 31, 2017

Revenues:	
Computer services revenue	\$15,450
Operating expenses:	
Advertising expense	\$3,720
Repairs expense, computer.....	1,410
Wages expense	<u>1,400</u>
Total operating expenses	<u>6,530</u>
Profit.....	<u>\$ 8,920</u>

ECHO SYSTEMS
Statement of Changes in Equity
For Month Ended October 31, 2017

Mary Graham, capital, October 1.....	\$ 0
Add: Investments by owner	\$144,000
Profit.....	<u>8,920</u>
Total	<u>152,920</u>
Less: Withdrawals by owner	<u>7,200</u>
Mary Graham, capital, October 31.....	<u>\$145,720</u>

The arrows are
imaginary but
emphasize the link
between
statements.

ECHO SYSTEMS
Balance Sheet
October 31, 2017

Assets		Liabilities	
Cash.....	\$ 69,310	Accounts payable	\$ -0-
Accounts receivable	6,450		
Computer supplies.....	2,640		
Prepaid insurance.....	4,320		
Prepaid rent.....	9,000		
Office equipment.....	18,000		
Computer equipment.....	<u>36,000</u>		
Total assets	<u>\$ 145,720</u>		
		Equity	
		Mary Graham, capital.....	<u>145,720</u>
		Total liabilities and equity	<u>\$145,720</u>

Cumulative Problem, Echo Systems (continued)**Part B****6.****2017**

Nov.	1	Mileage Expense	676	1,000	
		Cash	101		1,000
		<i>Reimbursed Mary Graham for business usage.</i>			
	2	Cash	101	9,300	
		Computer Services Revenue	403		9,300
		<i>Collected cash revenue from customer.</i>			
	5	Computer Supplies	126	1,920	
		Cash	101		1,920
		<i>Purchased computer supplies for cash.</i>			
	8	Accounts Receivable	106	8,700	
		Computer Services Revenue	403		8,700
		<i>Billed customer for services.</i>			
	13	No entry recorded in the journal.			
	18	Cash	101	3,750	
		Accounts Receivable	106		3,750
		<i>Collected accounts receivable.</i>			
	22	Charitable Donations Expense	699	1,500	
		Cash	101		1,500
		<i>Made a donation.</i>			
	24	Accounts Receivable	106	7,500	
		Computer Services Revenue	403		7,500
		<i>Billed customer for services.</i>			
	25	No entry recorded in the journal.			
	28	Mileage Expense	676	1,200	
		Cash	101		1,200
		<i>Reimbursed Mary Graham for business usage.</i>			
	30	Wages Expense	623	2,800	
		Cash	101		2,800
		<i>Paid employee for part-time work.</i>			
	30	Mary Graham, Withdrawals	302	3,600	
		Cash	101		3,600
		<i>Owner withdrew cash.</i>			

Cumulative Problem, Echo Systems (continued)**Part B****7.****General Ledger accounts:**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 1		G1	90,000		90,000
2		G1		9,000	81,000
5		G1		4,320	76,680
8		G1		2,640	74,040
15		G1	6,600		80,640
17		G1		1,410	79,230
20		G1		3,720	75,510
22		G1	2,400		77,910
31		G2		1,400	76,510
31		G2		7,200	69,310
Nov. 1		G2		1,000	68,310
2		G2	9,300		77,610
5		G2		1,920	75,690
18		G2	3,750		79,440
22		G2		1,500	77,940
28		G2		1,200	76,740
30		G2		2,800	73,940
30		G2		3,600	70,340

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 6		G1	6,600		6,600
12		G1	2,400		9,000
15		G1		6,600	2,400
22		G1		2,400	0
28		G2	6,450		6,450
Nov. 8		G2	8,700		15,150
18		G2		3,750	11,400
24		G2	7,500		18,900

Cumulative Problem, Echo Systems (continued) Part B

Computer Supplies				Acct. No. 126	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 3		G1	2,640		2,640
Nov. 5		G2	1,920		4,560

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 5		G1	4,320		4,320

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 2		G1	9,000		9,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 1		G1	18,000		18,000

Computer Equipment				Acct. No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 1		G1	36,000		36,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 3		G1		2,640	2,640
8		G1	2,640		0

Mary Graham, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 1		G1		144,000	144,000

Mary Graham, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 31		G2	7,200		7,200
Nov. 30		G3	3,600		10,800

Cumulative Problem, Echo Systems (continued)**Part B**

Computer Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 6		G1		6,600	6,600
12		G1		2,400	9,000
28		G2		6,450	15,450
Nov. 2		G2		9,300	24,750
8		G2		8,700	33,450
24		G2		7,500	40,950

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 31		G2	1,400		1,400
Nov. 30		G2	2,800		4,200

Advertising Expense				Acct. No. 655	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 20		G1	3,720		3,720

Mileage Expense				Acct. No. 676	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 1		G2	1,000		1,000
28		G2	1,200		2,200

Repairs Expense, Computer				Acct. No. 684	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Oct. 17		G1	1,410		1,410

Charitable Donations Expense				Acct. No. 699	
Date	Explanation	PR	Debit	Credit	Balance
2017					
Nov. 22		G2	1,500		1,500

Cumulative Problem, Echo Systems (continued)**Part B****8.**

ECHO SYSTEMS
Trial Balance
November 30, 2017

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 70,340	
106	Accounts receivable	18,900	
126	Computer supplies	4,560	
128	Prepaid insurance.....	4,320	
131	Prepaid rent.....	9,000	
163	Office equipment	18,000	
167	Computer equipment.....	36,000	
201	Accounts payable		\$ -0-
301	Mary Graham, capital.....		144,000
302	Mary Graham, withdrawals.....	10,800	
403	Computer services revenue		40,950
623	Wages expense.....	4,200	
655	Advertising expense.....	3,720	
676	Mileage expense	2,200	
684	Repairs expense, computer	1,410	
699	Charitable donations expense	1,500	
	Totals	<u>\$184,950</u>	<u>\$184,950</u>

Cumulative Problem, Echo Systems (concluded)**Part B**

9.

ECHO SYSTEMS
Income Statement
For Two Months Ended November 30, 2017

Computer services revenue		\$40,950
Operating expenses:		
Wages expense	\$4,200	
Advertising expense	3,720	
Mileage expense	2,200	
Charitable donations expense	1,500	
Repairs expense, computer	<u>1,410</u>	
Total operating expenses		<u>13,030</u>
Profit		<u>\$27,920</u>

ECHO SYSTEMS
Statement of Changes in Equity
For Two Months Ended November 30, 2017

Mary Graham, capital, October 1		\$ -0-
Add: Investments by owner	\$144,000	
Profit	<u>27,920</u>	<u>171,920</u>
Total		\$171,920
Less: Withdrawals by owner		<u>10,800</u>
Mary Graham, capital, November 30		<u>\$161,120</u>

ECHO SYSTEMS
Balance Sheet
November 30, 2017

Assets		Liabilities	
Cash	\$ 70,340	Accounts payable	\$ -0-
Accounts receivable	18,900		
Computer supplies	4,560		
Prepaid insurance	4,320		
Prepaid rent	9,000		
Office equipment	18,000		
Computer equipment	<u>36,000</u>		
Total assets	<u>\$161,120</u>		
		Equity	
		Mary Graham, capital	<u>161,120</u>
		Total liabilities and	
		equity	<u>\$161,120</u>

CHAPTER 2

ANALYZING AND RECORDING TRANSACTIONS

<u>Related Assignment Materials</u>			
<i>Student Learning Objectives</i>	<i>Quick Studies</i>	<i>Exercises</i>	<i>Problems</i>
1. Explain the accounting cycle.			2-12A, 2-12B
2. Describe an account, its use, and its relationship to the ledger.	2-1	2-1	
3. Define debits and credits and explain their role in double-entry accounting.	2-2, 2-3, 2-4, 2-12, 2-13, 2-16	2-1, 2-2, 2-5, 2-6, 2-7, 2-8, 2-9, 2-11, 2-12, 2-13, 2-15, 2-16, 2-17, 2-21, 2-22	2-1A, 2-3A, 2-4A, 2-7A, 2-10A, 2-12A, 2-14A, 2-1B, 2-3B, 2-4B, 2-7B, 2-10B, 2-12B, 2-14B
4. Describe a chart of accounts and its relationship to the ledger.	2-5	2-10	2-5A, 2-7A, 2-10A, 2-12A, 2-5B, 2-7B, 2-10B, 2-12B
5. Analyze the impact of transactions on accounts	2-6, 2-7, 2-8, 2-9, 2-10, 2-11, 2-12, 2-13, 2-14, 2-16	2-2, 2-3, 2-4, 2-5, 2-6, 2-7, 2-8, 2-9, 2-11, 2-12, 2-13, 2-14, 2-15, 2-16, 2-17, 2-21, 2-22	2-1A, 2-2A, 2-3A, 2-4A, 2-5A, 2-7A, 2-10A, 2-12A, 2-14A, 2-1B, 2-2B, 2-3B, 2-4B, 2-7B, 2-10B, 2-12B, 2-14B
6. Record transactions in a journal and post entries to a ledger.	2-15, 2-16, 2-17, 2-18	2-9, 2-11, 2-16, 2-17, 2-18, 2-19, 2-20, 2-21, 2-22, 2-23	2-5A, 2-6A, 2-7A, 2-8A, 2-9A, 2-10A, 2-11A, 2-12A, 2-13A, 2-14A, 2-5B, 2-6B, 2-7B, 2-8B, 2-9B, 2-10B, 2-11B, 2-12B, 2-13B, 2-14B

Note: The Cumulative Comprehension Problem, for Echo Systems, a computer service business, covers many of these learning objectives. This problem can be solved manually or with an accounting software package. The problem will continue in Chapters 3, 4, and 5.

Note: Various other Analytical & Review Problems may be assigned for student enrichment.

Chapter Outline

I. The Accounting Cycle (LO1)

The steps followed in preparing financial statements. Emphasize that this is a process which is

Chapter Outline

consistently followed.

II. Accounts and the Chart of Accounts (LO2 and LO4)

An *account* is a detailed record of increases and decreases in a specific asset, liability, equity, revenue or expense item. A ledger is a record containing all accounts used by a business.

There should be a separate account for each item on the income statement and balance sheet.

The major types of accounts are:

1. *Asset accounts* are resources controlled by an organization that have current and future benefits. Includes the following: Cash, Accounts Receivable, Notes Receivable, Prepaid Expenses, Supplies, Equipment, Buildings, and Land.
2. *Liability accounts* are obligations to transfer assets or provide services to other entities. Accounts Payable, Notes Payable, Mortgage Payable are examples.
Unearned Revenues are another form of liability which results when customers pay in advance for products or services.
Other Liabilities include wages payable, taxes payable and interest payable.
3. *Equity Accounts* include Owner Capital, Owner Withdrawals, and a separate account for each type of Revenue and Expense. The owner capital account will be used for owner investments only. Students often try to keep using this account at this point. It should be pointed out that this account's transactions will be very few in comparison with the revenue and expense accounts. Owner withdrawals is also a new concept for students at this point.

The chart of accounts is a list of all the accounts.

III. Debits and Credits (LO3)

A T-account is a helpful learning tool representing all accounts in the ledger. It shows the effects of transactions and events on specific accounts.

1. The *left* side of an account is called the *debit* side. A debit is an entry on the left side of an account.
2. The *right* side of an account is called the *credit* side. A credit is an entry on the right side of an account.
3. An account balance is the difference between the increases and decreases recorded in an account. Otherwise explained, the account balance is the difference between the increases (including the beginning balance) and decreases recorded in an account

Assets are on the *left side* of the fundamental accounting equation. Therefore the left or *debit* side of the T-account is the normal balance for assets.

Liabilities and equity are on the *right side* therefore the right or the credit side is the normal balance for liabilities and equity.

Withdrawals, revenues, and expenses are essentially changes in owner's equity but it is necessary to set-up temporary accounts for each of these items to accumulate data for statements. Withdrawals and expense accounts represent decreases in owner's equity therefore they are assigned debit balances. *Revenue* accounts represent increases in owner's equity and therefore they are assigned credit balances.

Double-entry accounting is an accounting system that records the effects of transactions and other events in at least two accounts with equal debts and credits. The total amount

Chapter Outline

debited must equal the total amount credited. Therefore, the sum of the debit account balances in the ledger must equal the sum of the credit account balances. (Note: It is extremely important for students to practice analyzing each of the basic transactions into debits and credits.)

Note: It is crucial that students understand basic debit-credit theory. After introducing the rules, illustrative transactions can be presented by:

- Analyzing the transaction
- Determining the types of accounts affected (asset, liability, equity, revenue, expense)
- Determining which accounts increase and/or decrease
- Converting the increase/decrease to debit/credit.

Note: Students often try to identify debit with decrease and credit with increase.

Try to keep them on task by saying that debit only means LEFT and credit only means RIGHT at this point.

IV. Recording and Posting Transactions (LO5)

To help avoid errors, accounting systems first record transactions in a journal. The process of recording the transactions in a journal is called *journalizing*.

A *General Journal* is the most flexible type of journal because it can be used to record any type of transaction. Each journal entry must contain equal debits and credits.

A general journal entry will include:

1. Date of the transaction
2. Titles of affected accounts
3. Dollar amount of each debit and credit
4. Explanation

Posting is the process of copying journal entry information from the journal to the accounts in the ledger. Actual accounting systems use balance column accounts rather than T-accounts in the ledger. A balance column account has debit and credit columns for recording entries and a third column for showing the balance of the account after each entry is posted. It is possible for accounts to have abnormal balances. It is helpful to stress to students that the entering of the Posting Reference information should be the last step. In this way, it is easy to see where one left off if posting is interrupted. Exhibit 2.13 is very helpful, however, usually requires some explanation before students are able to see what is being done with the posting process.

The posting process is commonly done using a computer program in today's business environment.

The Trial Balance (LO6)

- A. A trial balance is a summary of the ledger that lists the accounts and their balances. The total debit balances should equal the total credit balances. Two columns are used, one for debit balances and one for credit balances.
- B. One purpose for preparing a trial balance is to test for the equality of the debit and credit account balances. Another reason is to simplify the task of preparing the financial statements.

Chapter Outline

- C. When a trial balance does not balance (the columns are not equal), an error has occurred in one of the following steps:
1. Preparing the journal entries
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 4. Copying account balances to the trial balance.
 5. Totaling the trial balance columns.
- Any errors must be located and corrected before preparing the financial statements.

Note: Correcting errors

1. Errors must be corrected. Do not erase journal entries or postings in accounts. This may indicate an effort to conceal something.
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Note: Formatting conventions

1. Commas to indicate thousands of dollars and decimal points to separate dollars and cents are not necessary except on unruled paper.
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I. VISUAL #2-1

THREE PARTS OF AN ACCOUNT

(1) ACCOUNT TITLE	
Left Side	Right Side
Called	Called
(2) DEBIT	(3) CREDIT

Rules for using accounts

Accounts are assigned balance sides (Debit or Credit)

To increase any account, use the balance side

To decrease any account, use the side opposite the balance

Finding account balances

If total debits = total credits, the account balance is zero.

If total debits are greater than total credits, the account has a debit balance equal to the difference of the two totals.

If total credits are greater than total debits, the account has a credit balance equal to the difference of the two totals.

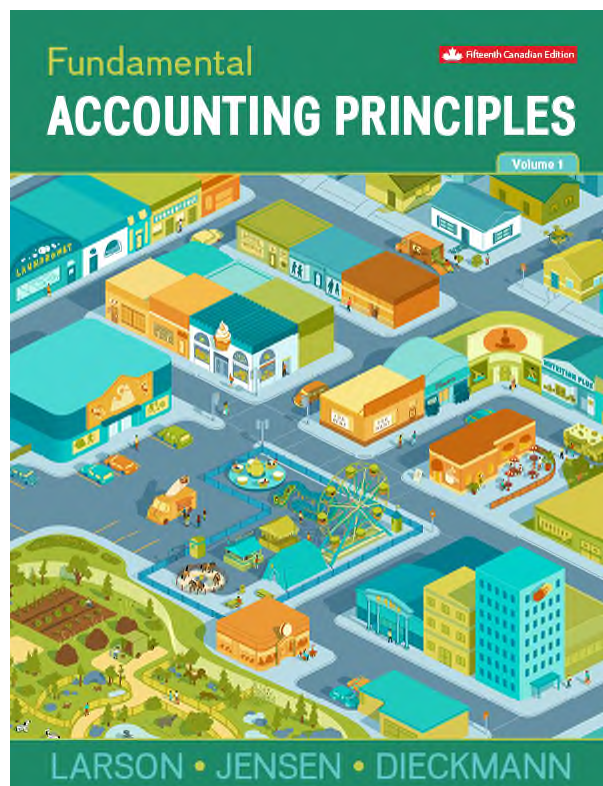
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All Revenue Accounts	
—	Credit +
	Balance

All Expense Accounts	
Debit +	—
Balance	

Instructor's Manual
to accompany
Fundamental Accounting Principles,
Chapter 2,
15th Edition,
By Larson/Jensen/Dieckmann



Prepared by:
Denise Cook, CPA, CA, Durham College

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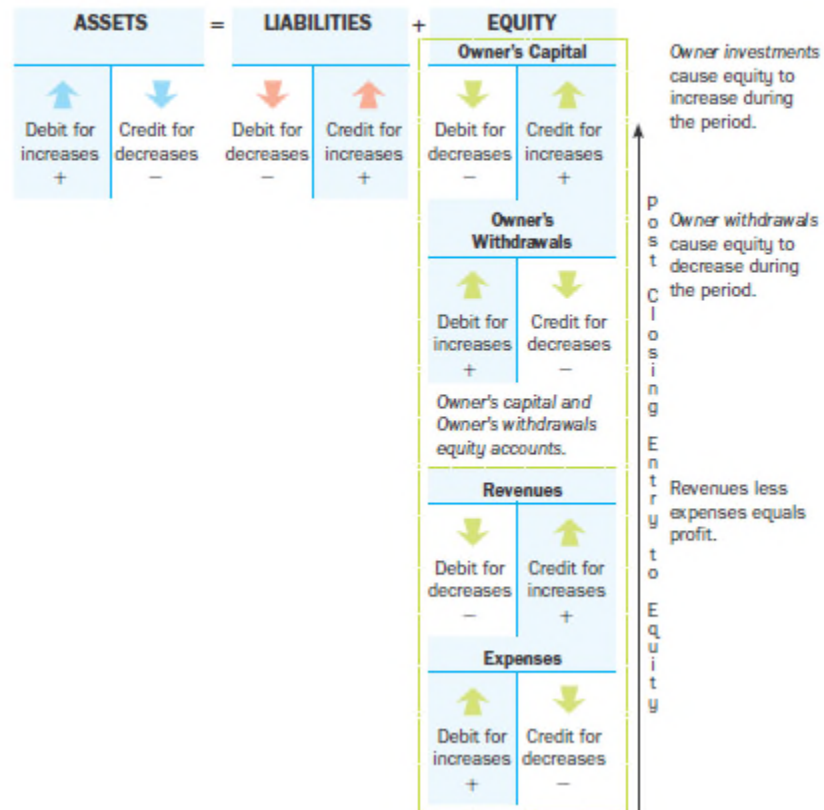
All Revenue Accounts	
—	Credit + Balance

All Expense Accounts	
Debit + Balance	—

This chart summarizes the rules of debit and credit in a very small space. I usually recommend students refer to this illustration as a way of pulling all of this information together. .

EXHIBIT 2.8

Debit and Credit Effects for Accounts



Fundamental ACCOUNTING PRINCIPLES

Fifteenth Canadian Edition

Volume 1



LARSON • JENSEN • DIECKMANN

Analyzing and Recording Transactions

CHAPTER

2

PowerPoint Slides to accompany
Fundamental Accounting Principles, 15ce
Prepared by
Betty Young, Red River College

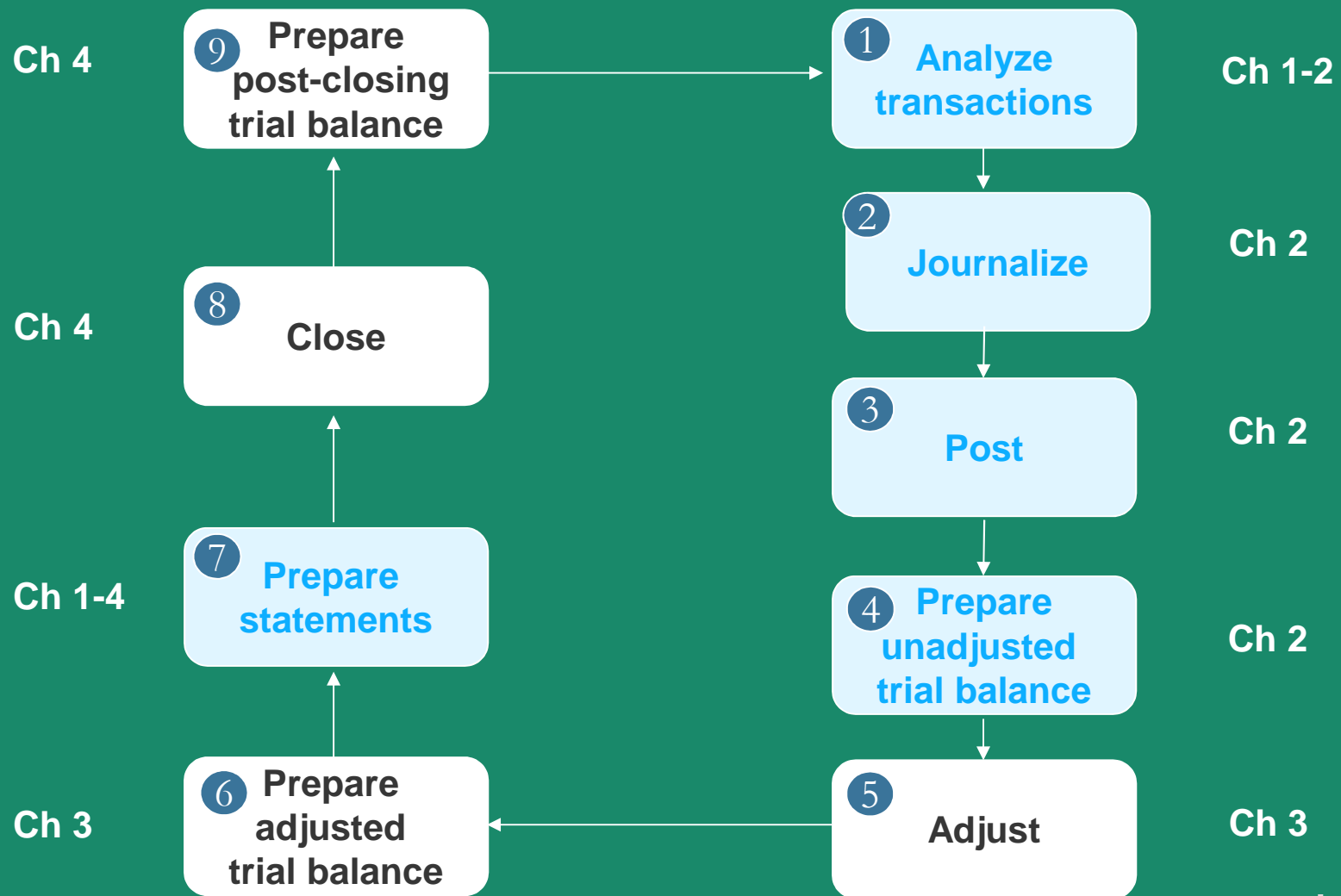
Learning Objectives

1. Explain the accounting cycle. (LO¹)
2. Describe an account, its use, and its relationship to the ledger. (LO²)
3. Define debits and credits and explain their role in double-entry accounting. (LO³)
4. Describe a chart of accounts and its relationship to the ledger. (LO⁴)

Learning Objectives

5. Analyze the impact of transactions on accounts, record transactions in a journal and post entries to a ledger(LO5)
6. Prepare and explain the use of a trial balance.(LO6)

The Accounting Cycle



The Account

A detailed record of increases and decreases in a specific asset, liability, or equity item.

Assets

=

Liabilities

+

Equity

Examples:

Cash

Notes Receivable

Supplies

Furniture

Accounts Payable

Notes Payable

H.Walker, Capital

H.Walker, Withdrawals

Service Revenue

Salaries Expense

The Ledger

- A record containing all accounts used by a business.
- May be computerized or maintained manually.
- Each company has its own unique set of accounts.

The T Account

- Represents an account in the ledger.
- Used as a learning tool.
- The difference between the debit side and credit side is the balance.

Account Title	
(Left side)/Debit	(Right side)/Credit
Debit balance	Credit balance

Calculating the Account Balance

Example:

Cash			
Cash sale	500	325	Paid salary
Owner's investment	<u>1000</u>	<u>450</u>	Paid rent
Total debits	① <u>1500</u>	<u>775</u>	Total credits
balance	③ 725	②	

Steps:

1. Add the amounts on the debit side.
2. Add the amounts on the credit side.
3. Calculate the difference between the debits and credits.

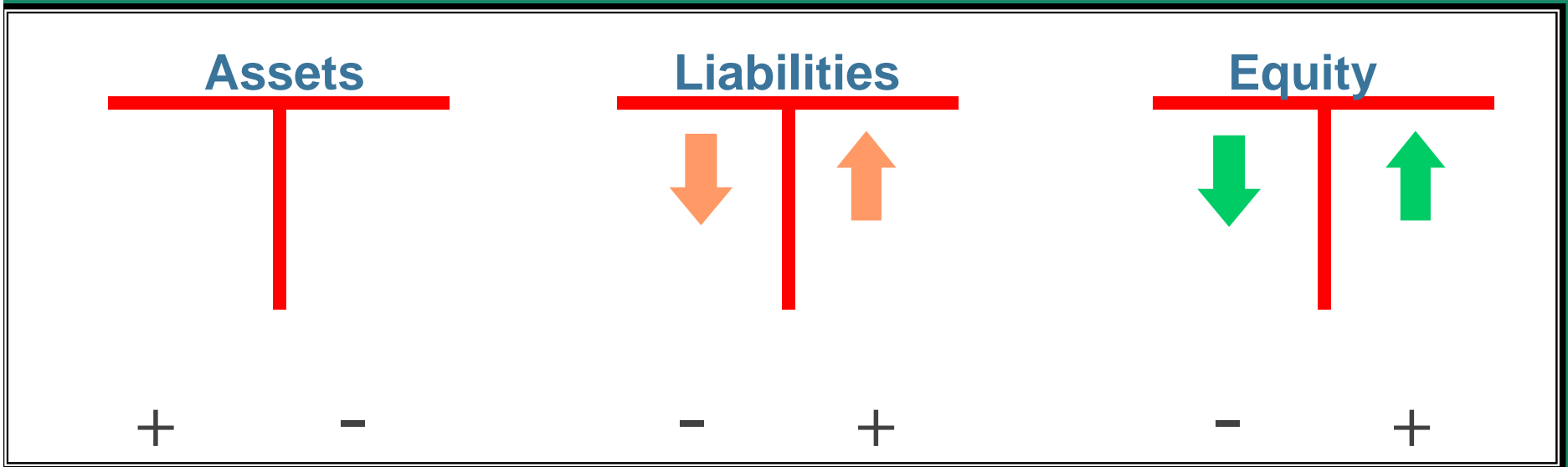
Double-Entry Accounting

- Transactions are recorded using debits and credits.
- Every transaction affects at least two accounts.
- Equal debits and credits will keep the accounting equation in balance.

**Debits = Credits
Always !**

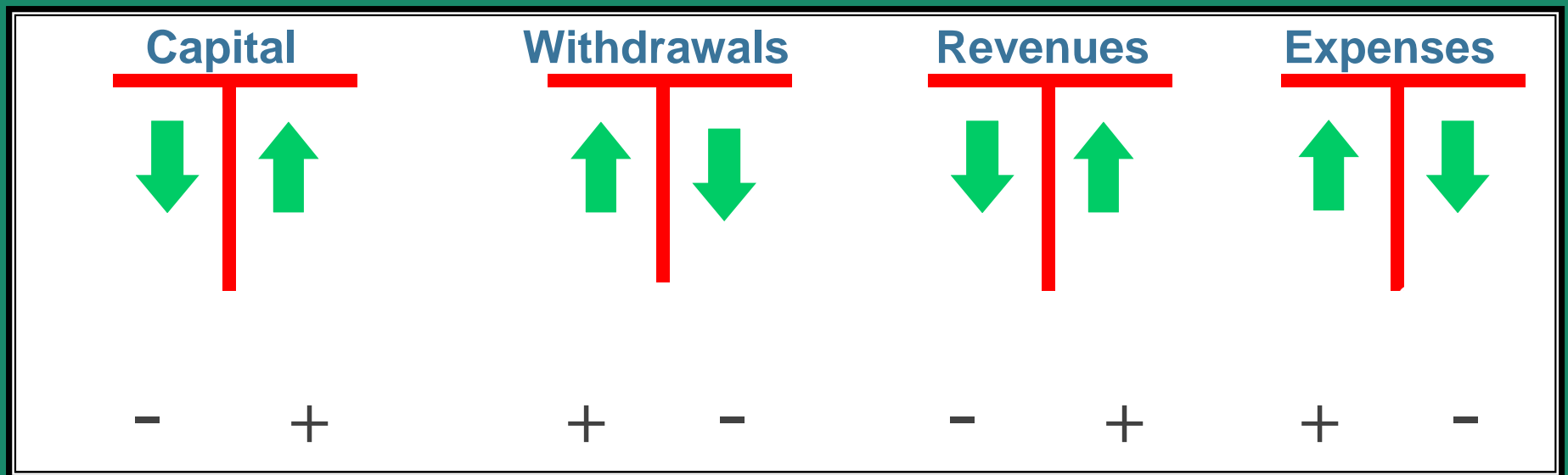
Double-Entry Accounting

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$



Double-Entry Accounting

Equity Accounts



Normal Balances

An account's normal balance is the debit or credit side where increases are recorded.

Assets

=

Liabilities

+

Equity

Assets	
Debit for increase Normal balance	Credit for decrease

Liabilities	
Debit for decrease	Credit for increase Normal balance

Owner's Capital	
Debit for decrease	Credit for increase Normal Balance

Remembering Debits and Credits

ALCREW

Account Type
A ssets
L iabilities
C apital
R evenue
E xpenses
W ithdrawals

Step 1

Write down the account types using ALCREW.

Remembering Debits and Credits

ALCREW

Account Type	Normal Balance
Assets	
Liabilities	
Capital	
Revenue	
Expenses	
Withdrawals	

Step 2

Write down the normal balance (debit) of A,E,W. The others are credits.

Remembering Debits and Credits

ALCREW

Account Type	Normal Balance
Assets	Dr
Liabilities	
Capital	
Revenue	
Expenses	Dr
Withdrawals	Dr

Step 2

Write down the normal balance, debit, of A,E,W. The others are credits.

Remembering Debits and Credits

ALCREW

Account Type	Normal Balance
Assets	Dr
Liabilities	Cr
Capital	Cr
Revenue	Cr
Expenses	Dr
Withdrawals	Dr

Step 2

Write down the normal balance, debit, of A,E,W. The others are credits.

Remembering Debits and Credits

ALCREW

Account Type	Normal Balance	To ↑ Balance	To ↓ Balance
Assets	Dr	Dr	
Liabilities	Cr	Cr	
Capital	Cr	Cr	
Revenue	Cr	Cr	
Expenses	Dr		
Withdrawals	Dr		

Step 3

Remember, increases are the same as the normal balances, decreases are the opposite.

Remembering Debits and Credits

ALCREW

Account Type	Normal Balance	To ↑ Balance	To ↓ Balance
Assets	Dr	Dr	Cr
Liabilities	Cr	Cr	Dr
Capital	Cr	Cr	Dr
Revenue	Cr	Cr	Dr
Expenses	Dr		
Withdrawals	Dr		

Step 3

Remember, increases are the same as the normal balances, decreases are the opposite.

Remembering Debits and Credits

ALCREW

Account Type	Normal Balance	To ↑ Balance	To ↓ Balance
Assets	Dr	Dr	Cr
Liabilities	Cr	Cr	Dr
Capital	Cr	Cr	Dr
Revenue	Cr	Cr	Dr
Expenses	Dr	Dr	Cr
Withdrawals	Dr	Dr	Cr

Summary – Debit and Credit Normal Account Balances

DEBIT AND CREDIT SUMMARY	
DEBITS RECORD	CREDITS RECORD
ASSETS	LIABILITIES
EXPENSES/LOSSES	REVENUES/PROFIT
WITHDRAWALS	OWNER'S CAPITAL ⇒ INVESTMENTS
DEBITS DECREASE:	CREDITS DECREASE:
EXISTING LIABILITIES	EXISTING ASSETS

NORMAL ACCOUNT BALANCES	
DEBIT	CREDIT
ASSETS	LIABILITIES
WITHDRAWALS	OWNER'S CAPITAL
EXPENSES	REVENUE

Mini-Quiz

Indicate whether a debit or credit is needed to:

- Increase Rent Expense **Debit**
- Decrease Accounts Payable **Debit**
- Decrease Accounts Receivable **Credit**
- Decrease Cash **Credit**
- Increase Withdrawals **Debit**

Chart of Accounts

- A list of all accounts used in the ledger by a company.
- Unique for each company.
- Accounts are usually numbered.

Analyzing Transactions

Steps:

1. Determine which accounts are being affected.
2. Determine if account balances are increasing or decreasing.
3. Apply rules of debits and credits.

Analyzing Transactions

Example #1:

The owner invests \$10,000 cash in the business.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit

Analyzing Transactions

Example #1:

The owner invests \$10,000 cash in the business.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Cash		
H.Walker, capital		

Analyzing Transactions

Example #1:

The owner invests \$10,000 cash in the business.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Cash	Increase	
H.Walker, capital	Increase	

Analyzing Transactions

Example #1:

The owner invests \$10,000 cash in the business.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Cash	Increase	Debit
H. Walker, capital	Increase	Credit

Analyzing Transactions

Example #1:

The owner invests \$10,000 cash in the business.

- Debit cash for \$10,000
- Credit H. Walker, capital for \$10,000

Cash	
10,000	

H. Walker, Capital	
	10,000

Analyzing Transactions

Example #2:

The company purchases supplies by paying \$2,500 cash.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit

Analyzing Transactions

Example #2:

The company purchases supplies by paying \$2,500 cash.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Supplies		
Cash		

Analyzing Transactions

Example #2:

The company purchases supplies by paying \$2,500 cash.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Supplies	Increase	
Cash	Decrease	

Analyzing Transactions

Example #2:

The company purchases supplies by paying \$2,500 cash.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Supplies	Increase	Debit
Cash	Decrease	Credit

Analyzing Transactions

Example #2:

The company purchases supplies by paying \$2,500 cash.

- Debit supplies for \$2,500
- Credit cash for \$2,500

Supplies	
2,500	

Cash	
	2,500

Analyzing Transactions

Example #3:

The company purchases supplies for \$1,100 on credit.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit

Analyzing Transactions

Example #3:

The company purchases supplies for \$1,100 on credit.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Supplies		
Accounts Payable		

Analyzing Transactions

Example #3:

The company purchases supplies for \$1,100 on credit.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Supplies	Increase	
Accounts Payable	Increase	

Analyzing Transactions

Example #3:

The company purchases supplies for \$1,100 on credit.

1 Accounts affected	2 Increase/Decrease	3 Debit/Credit
Supplies	Increase	Debit
Accounts Payable	Increase	Credit

Analyzing Transactions

Example #3 (a)

The company purchases supplies for \$1,100 on credit.

- Debit supplies for \$1,100
- Credit accounts payable for \$1,100

Supplies	
1,100	

Accounts Payable	
	1,100

Analyzing Transactions

Example #3 (b): The company purchases Equipment for \$6,000 on credit.

- Debit Equipment for \$6,000
- Credit accounts payable for \$6,000

Equipment	
6,000	

Notes Payable	
	6,000

The General Journal

Entries are originally recorded in the General Journal. This process is called journalizing.

GENERAL JOURNAL					Page 1				
Date		Account Titles and Explanation	PR	Debit			Credit		
2017									
Jan.	1	Cash		10	000				
		H. Walker, Capital					10	000	
		Investment by owner							
Jan.	1	Supplies		2	500				
		Cash					2	500	
		Purchased store supplies for cash							
Jan.	1	Supplies		1	100				
		Equipment		6	000				
		Accounts payable					1	100	
		Notes payable					6	000	
		Purchased supplies and equip. on credit							

Posting Journal Entries

- General Journal information is transferred to the General Ledger.
- Account balances are updated.
- This process is called posting.

The Posting Process

General journal information is transferred to the ledger

GENERAL JOURNAL					Page 1				
Date		Account Titles and Explanation	PR	Debit			Credit		
Jan.	1	Cash	101	10	000				
		Hailey Walker, Capital	301				10	000	
		Investment by owner							

LEDGER					ACCOUNT NO. 101				
Cash									
DATE		EXPLANATION	PR	DEBIT			CREDIT		
Jan.	1		G1	10	000				10 000

Hailey Walker, Capital					ACCOUNT NO. 301				
EXPLANATION			PR	DEBIT			CREDIT		
			G1				10	000	10 000

Steps:

1. Identify the account.
2. Enter date
3. Enter journal page
4. Post the amount
5. Enter account balance
6. Enter account number

Trial Balance

- A list of accounts and their balances at a point in time.
- Used to determine if total debits equals total credits.
- Also used to prepare financial statements.

Trial Balance

Organico Trial Balance March 31, 2017

	<u>Debits</u>	<u>Credits</u>
Cash	\$ 8,070	
Accounts receivable	-	
Supplies	3,600	
Prepaid insurance	2,400	
Equipment	6,000	
Accounts payable		\$ 200
Unearned food services revenue		3,000
Notes payable		6,000
Hailey Walker, capital		10,000
Hailey Walker, withdrawals	600	
Food Services revenue		3,800
Teaching revenue		300
Salaries expense	1,400	
Rent expense	1,000	
Communications expense	230	
Total	\$ 23,300	\$ 23,300

Review

- What is journalizing?
- What is posting?
- What is the purpose of a trial balance?

Summary Chapter 2

1. Explain the accounting cycle - *All steps required in preparing financial statements*
2. Describe an account, its use, and its relationship to the ledger – *Detailed record of increases and decreases in specific assets, liabilities, or equity*
3. Define debits and credits and explain their role in double-entry accounting.

Summary Chapter 2

4. Describe a chart of accounts and its relationship to the ledger –*Contains all financial accounts used by a company*
5. Analyze the impact of transactions on accounts, record transactions in a journal and post entries to a ledger
6. Prepare and explain the use of a trial balance.

End of Chapter 2