

# CHAPTER 2—Solutions

## ANALYZING AND RECORDING BUSINESS TRANSACTIONS

### Discussion Questions

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

## Short Exercises

### SE1. Classification of Accounts

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

### SE2. Recognition, Valuation, and Classification

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

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

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

### SE3. Recognition

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

### SE4. Normal Balances

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

### SE5. Transaction Analysis

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

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

**SE8. Recording Transactions in the General Journal**

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

**SE9. Posting to the Ledger Accounts**

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

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

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

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

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

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

|  |    |  |                  |         |                     |   |                         |   |                 |   |              |
|--|----|--|------------------|---------|---------------------|---|-------------------------|---|-----------------|---|--------------|
| Exercises: Set A   |    |  |                  |         |                     |   |                         |   |                 |   |              |
| E1A. Recognition   |    |  |                  |         |                     |   |                         |   |                 |   |              |
| Jan.   | 15 | Not recorded. An offer is not a completed transaction.                                   |                  |         |                     |   |                         |   |                 |   |              |
| Feb.   | 2  | Not recorded. Notice of a price increase is not a transaction.                           |                  |         |                     |   |                         |   |                 |   |              |
| Mar.   | 29 | Recorded. The utilities expense has been incurred, and the liability for payment exists. |                  |         |                     |   |                         |   |                 |   |              |
| June   | 10 | Not recorded. An order does not constitute a recognition point.                          |                  |         |                     |   |                         |   |                 |   |              |
| July   | 6  | Recorded. Abril Company now records the office equipment, and a liability to pay exists. |                  |         |                     |   |                         |   |                 |   |              |
| E2A. T Accounts, Normal Balance, and the Accounting Equation |    |  |                  |         |                     |   |                         |   |                 |   |              |
| Assets   |    | =  | Liabilities      | +       | Owner's Equity      |   |                         |   |                 |   |              |
|  |    |  |                  |         | T. Captain, Capital | - | T. Captain, Withdrawals | + | Revenues        | - | Expenses     |
| Cash   |    |  | Accounts Payable |         | T. Captain, Capital |   | T. Captain, Withdrawals |   | Service Revenue |   | Rent Expense |
| 3,450  |    |  | 1,200            |         | 2,400               |   | 750                     |   | 1,500           |   | 900          |
| \$3,450  | =  | \$1,200  | +                | \$2,250 |                     |   |                         |   |                 |   |              |
| \$3,450  | =  | \$3,450  |                  |         |                     |   |                         |   |                 |   |              |

**E3A. Classification of Accounts**

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

| E4A. Transaction Analysis |  |
|---------------------------|--|
| a.                        | The asset account Cash was increased. Increases in assets are recorded by debits. Debit Cash \$2,400. A component of Owner's Equity, M. Faubert, Capital, was increased. Increases in owner's capital are recorded by credits. Credit M. Faubert, Capital \$2,400. |
| b.                        | The asset Prepaid Rent was increased. Increases in assets are recorded by debits. Debit Prepaid Rent \$1,680. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$1,680.  |
| c.                        | The asset Supplies was increased. Increases in assets are recorded by debits. Debit Supplies \$120. The liability Accounts Payable was increased. Increases in liabilities are recorded by credits. Credit Accounts Payable \$120.                                 |
| d.                        | The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash \$600. The revenue Fees Earned was increased. Increases in revenues are recorded by credits. Credit Fees Earned \$600.  |
| e.                        | The liability Accounts Payable was decreased. Decreases in liabilities are recorded by debits. Debit Accounts Payable \$120. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$120.   |
| f.                        | The expense Utilities Expense was increased. Increases in expenses are recorded by debits. Debit Utilities Expense \$72. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$72.  |
| g.                        | The owner's equity component, M. Faubert, Withdrawals, was increased. Increases in withdrawals are recorded by debits. Debit M. Faubert, Withdrawals \$100. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$100.          |
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| E5A. Transaction Analysis |  |
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| E6A. Recording Transactions in T Accounts |  |    |       |                           |       |      |        |
|---|--|----|-------|---------------------------|-------|------|--------|
| Cash                                      |  |    |       | Accounts Payable          |       |      |        |
| a.  | 8,600  | b. | 800   | f.                        | 400   | c.   | 1,000  |
| g.  | 3,720  | d. | 600   |                           |       | Bal. | 600    |
|   |  | e. | 900   | C. Ferdinand, Capital     |       |      |        |
|   |  | f. | 400   |                           |       | a.   | 11,800 |
|   |  | h. | 1,200 | C. Ferdinand, Withdrawals |       |      |        |
|   | 12,320   |    | 3,900 | h.                        | 1,200 |      |        |
| Bal.                                      | 8,420  |    |       | Repair Fees Earned        |       |      |        |
| Repair Supplies                           |  |    |       |                           |       | g.   | 3,720  |
| c.  | 1,000  |    |       | Salaries Expense          |       |      |        |
| Repair Equipment                          |  |    |       | e.                        | 900   |      |        |
| a.  | 3,200  |    |       | Rent Expense              |       |      |        |
| d.  | 600  |    |       | b.                        | 800   |      |        |
| Bal.                                      | 3,800  |    |       |                           |       |      |        |
|   |  |    |       |                           |       |      |        |
| E7A. Analysis of Transactions             |  |    |       |                           |       |      |        |
| a.  | F. Mills, owner, invested \$10,000 in the company. |    |       |                           |       |      |        |
| b.  | Purchased equipment with cash, \$3,750.            |    |       |                           |       |      |        |
| c.  | Billed customer for services rendered, \$2,000.    |    |       |                           |       |      |        |
| d.  | Purchased equipment on account, \$2,250.           |    |       |                           |       |      |        |
| e.  | Paid wages with cash, \$900.                       |    |       |                           |       |      |        |
| f.  | Paid cash owed on account, \$1,125.                |    |       |                           |       |      |        |
| g.  | Received cash on account, \$375.                   |    |       |                           |       |      |        |
| h.  | Sold equipment (at cost) for cash, \$225.          |    |       |                           |       |      |        |

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

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

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

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

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

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

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

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

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

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

## Problems

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

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



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

### P3. Transaction Analysis, T Accounts, and Trial Balance

1 and 2.

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

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

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

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

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

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

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

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

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

|           |  |
|-----------|--|
| <b>4.</b> | <p>April 3 and 10 are the recognition points for these transactions. April 3 is the recognition point for the purchase of supplies, because it is on April 3 when the title to the supplies passes and there is an obligation to pay. April 10 is the recognition point for the cleaning work because this is when the cleaning is done and there is an obligation to pay for it.</p> <p>Both transactions are recorded at cost, the amount that the company is obligated to pay.</p> <p>The supplies purchased on April 3 are classified as an asset, Supplies, because the supplies are not used immediately but will be used up in the future. The purchase of cleaning work is classified as owner's equity, Maintenance Expense, because it is necessary now in the current period for the company to continue running. Also the purchase of supplies is classified as Accounts Payable, a liability, because the supplies are to be paid for in the future. Conversely, the payment to a maintenance person is classified as Cash, an asset, because the cleaning work is paid for on the day of purchase.</p> |
|-----------|--|

| P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance |    |   |               |       |         |
|---|----|---|---------------|-------|---------|
| 3. (Requirements 1, 2, 4, and 5 follow)                                       |    |   |               |       |         |
| General Journal   |    |   |               |       | Page 22 |
| Date  |    | Description                                     | Post.<br>Ref. | Debit | Credit  |
| 2014  |    |   |               |       |         |
| Sept.   | 2  | Rent Expense                                    | 514           | 650   |         |
|   |    | Cash  | 111           |       | 650     |
|   |    | To pay September rent                           |               |       |         |
|   | 3  | Cash  | 111           | 2,300 |         |
|   |    | Accounts Receivable                             | 113           |       | 2,300   |
|   |    | To record receipt of cash on account            |               |       |         |
|   | 7  | No entry  |               |       |         |
|   | 10 | Accounts Receivable                             | 113           | 2,800 |         |
|   |    | Marketing Fees                                  | 411           |       | 2,800   |
|   |    | To bill customers for services                  |               |       |         |
|   | 12 | Accounts Payable                                | 212           | 1,300 |         |
|   |    | Cash  | 111           |       | 1,300   |
|   |    | To pay on account                               |               |       |         |
|   | 14 | Office Supplies                                 | 116           | 380   |         |
|   |    | Accounts Payable                                | 212           |       | 380     |
|   |    | To purchase supplies on credit                  |               |       |         |
|   | 17 | Accounts Payable                                | 212           | 80    |         |
|   |    | Office Supplies                                 | 116           |       | 80      |
|   |    | To return supplies for credit                   |               |       |         |
|   | 19 | Cash  | 111           | 4,800 |         |
|   |    | Marketing Fees                                  | 411           |       | 4,800   |
|   |    | To record receipt of payment for services       |               |       |         |
|   | 24 | Utilities Expense                               | 512           | 250   |         |
|   |    | Cash  | 111           |       | 250     |
|   |    | To pay September utility bill                   |               |       |         |
|   | 26 | Advertising Expense                             | 516           | 700   |         |
|   |    | Accounts Payable                                | 212           |       | 700     |
|   |    | To record receipt of September advertising bill |               |       |         |
|   | 29 | Accounts Receivable                             | 113           | 2,700 |         |
|   |    | Marketing Fees                                  | 411           |       | 2,700   |
|   |    | To bill customer for services                   |               |       |         |
|   | 30 | Salaries Expense                                | 511           | 3,800 |         |
|   |    | Cash  | 111           |       | 3,800   |
|   |    | To pay salaries for September                   |               |       |         |
|   | 30 | D. Guetta, Withdrawals                          | 313           | 1,200 |         |
|   |    | Cash  | 111           |       | 1,200   |
|   |    | To record a withdrawal                          |               |       |         |

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



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

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

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

**P7. Transaction Analysis**

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

|           |  |               |               |
|-----------|--|---------------|---------------|
| <b>5.</b> | <b>Mount Prospect Nursery School Company</b> |               |               |
|           | <b>Trial Balance</b>                         |               |               |
|           | <b>February 28, 2014</b>                     |               |               |
|           | Cash   | 1,940         |               |
|           | Accounts Receivable                          | 700           |               |
|           | Supplies                                     | 85            |               |
|           | Equipment                                    | 2,330         |               |
|           | Buses  | 17,400        |               |
|           | Notes Payable                                |               | 15,000        |
|           | Accounts Payable                             |               | 2,085         |
|           | J. Ziden, Capital                            |               | 5,370         |
|           | J. Ziden, Withdrawals                        | 110           |               |
|           | Service Revenue                              |               | 1,350         |
|           | Rent Expense                                 | 270           |               |
|           | Gas and Oil Expense                          | 365           |               |
|           | Wages Expense                                | 460           |               |
|           | Utilities Expense                            | 145           |               |
|           |  | <u>23,805</u> | <u>23,805</u> |

- 6.** Revenues were earned on February 3 (\$650) and February 10 (\$700) for a total of \$1,350. Cash was received on account on February 9 from last month (\$1,200) and February 22 (\$500) for a total of \$1,700. Revenues and cash received do not correspond when a company sells on credit.
- The main business issue that arises from this situation is that the company may need to arrange for a loan or other financing to pay expenses until the accounts receivable are collected.

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

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

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

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

**C4. Interpreting Financial Statements: Cash Flows**

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

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

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



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

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