

CHAPTER 2

The Recording Process

ASSIGNMENT CLASSIFICATION TABLE

| <u>Learning Objectives</u> | <u>Questions</u> | <u>Brief Exercises</u> | <u>Do It!</u> | <u>Exercises</u> | <u>A Problems</u> |
|---|-----------------------------------|------------------------|---------------|------------------------|-------------------|
| 1. Indicate how accounts, debits, and credits are used to record business transactions. | 1, 2, 3, 4, 5, 6, 7, 8, 9, 19, 21 | 1, 2, 5 | 1 | 1, 2, 4, 6, 7, 14 | 1A, 2A, 3A, 5A |
| 2. Indicate how a journal is used in the recording process. | 10, 11, 12, 13, 14, 16 | 3, 4, 6 | 2 | 3, 5, 6, 7, 10, 11, 12 | 1A, 2A, 3A, 5A |
| 3. Explain how a ledger and posting help in the recording process. | 15, 17 | 7, 8 | 3 | 8, 9, 12 | 2A, 3A, 5A |
| 4. Prepare a trial balance. | 18, 20 | 9, 10 | 4 | 9, 10, 11, 13, 14 | 2A, 3A, 4A, 5A |

ASSIGNMENT CHARACTERISTICS TABLE

| Problem Number | Description | Difficulty Level | Time Allotted (min.) |
|-----------------------|---|-------------------------|-----------------------------|
| 1A | Journalize a series of transactions. | Simple | 20–30 |
| 2A | Journalize transactions, post, and prepare a trial balance. | Simple | 30–40 |
| 3A | Journalize transactions, post, and prepare a trial balance. | Moderate | 40–50 |
| 4A | Prepare a correct trial balance. | Moderate | 30–40 |
| 5A | Journalize transactions, post, and prepare a trial balance. | Moderate | 40–50 |

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THE RECORDING PROCESS

| Number | LO | BT | Difficulty | Time (min.) |
|---------------|-----------|-----------|-------------------|--------------------|
| BE1 | 1 | C | Simple | 6–8 |
| BE2 | 1 | C | Simple | 4–6 |
| BE3 | 2 | AP | Simple | 4–6 |
| BE4 | 2 | C | Moderate | 4–6 |
| BE5 | 1 | C | Simple | 6–8 |
| BE6 | 2 | AP | Simple | 4–6 |
| BE7 | 3 | AP | Simple | 4–6 |
| BE8 | 3 | AP | Simple | 4–6 |
| BE9 | 4 | AP | Simple | 4–6 |
| BE10 | 4 | AN | Moderate | 6–8 |
| DI1 | 1 | C | Simple | 3–5 |
| DI2 | 2 | AP | Simple | 3–5 |
| DI3 | 3 | AP | Simple | 2–4 |
| DI4 | 4 | AP | Simple | 6–8 |
| EX1 | 1 | K | Simple | 2–4 |
| EX2 | 1 | C | Simple | 10–15 |
| EX3 | 2 | AP | Simple | 8–10 |
| EX4 | 1 | C | Simple | 6–8 |
| EX5 | 2 | AP | Simple | 6–8 |
| EX6 | 1, 2 | AP | Simple | 6–8 |
| EX7 | 1, 2 | AP | Simple | 8–10 |
| EX8 | 3 | K | Simple | 2–4 |
| EX9 | 3, 4 | AP | Simple | 10–12 |
| EX10 | 2, 4 | AP | Moderate | 10–12 |
| EX11 | 2, 4 | AP | Moderate | 12–15 |
| EX12 | 2, 3 | AP | Moderate | 12–15 |
| EX13 | 4 | AN | Moderate | 6–8 |
| EX14 | 1, 4 | AP | Simple | 8–10 |

THE RECORDING PROCESS (Continued)

| Number | LO | BT | Difficulty | Time (min.) |
|---------------|------------|-----------|-------------------|--------------------|
| P1A | 1, 2 | AP | Simple | 20–30 |
| P2A | 1, 2, 3, 4 | AP | Simple | 30–40 |
| P3A | 1, 2, 3, 4 | AP | Moderate | 40–50 |
| P4A | 4 | AN | Moderate | 30–40 |
| P5A | 1, 2, 3, 4 | AP | Moderate | 40–50 |
| BYP1 | 1 | C | Simple | 8–10 |
| BYP2 | 1, 2 | AN | Simple | 8–10 |
| BYP3 | — | AP | Simple | 15–20 |
| BYP4 | — | AP, S | Simple | 15–20 |
| BYP5 | 3, 4 | AP, S | Moderate | 20–30 |
| BYP6 | 4 | AN, E | Moderate | 10–15 |
| BYP7 | — | E | Moderate | 10–15 |
| BYP8 | — | E | Moderate | 15–20 |
| BYP9 | — | E | Moderate | 15–20 |
| BYP10 | — | E | Moderate | 20–30 |

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

| Learning Objective | Knowledge | Comprehension | Application | Analysis | Synthesis | Evaluation |
|---|-----------------------|--|---|---|---|--|
| 1. Describe how accounts, debits, and credits are used to record business transactions. | Q2-1 Q2-21 E2-1 | Q2-2 Q2-8 DI2-1 Q2-3 Q2-9 E2-2 Q2-4 Q2-19 E2-4 Q2-5 BE2-1 Q2-6 BE2-2 Q2-7 BE2-5 | E2-6 P2-1A P2-5A E2-7 P2-2A E2-14 P2-3A | | | |
| 2. Indicate how a journal is used in the recording process. | Q2-10 Q2-12 | Q2-11 Q2-13 Q2-14 BE2-4 | Q2-16 E2-5 E2-12 BE2-3 E2-6 P2-1A BE2-6 E2-7 P2-2A DI2-2 E2-10 P2-3A E2-3 E2-11 P2-5A | | | |
| 3. Explain how a ledger and posting help in the recording process. | E2-8 | Q2-15 Q2-17 | BE2-7 E2-9 P2-3A BE2-8 E2-12 P2-5A DI2-3 P2-2A | | | |
| 4. Prepare a trial balance. | | Q2-18 Q2-20 | BE2-9 E2-10 P2-2A DI2-4 E2-11 P2-3A E2-9 E2-14 P2-5A | BE2-10 E2-13 P2-4A | | |
| Broadening Your Perspective | | Financial Reporting | Real-World Focus | Comparative Analysis Ethics Case | Communication Decision Making Across the Organization Real-World Focus | All About You Ethics Case Considering P, P, and P |

ANSWERS TO QUESTIONS

1. A T account has the following parts: (a) the title, (b) the left or debit side, and (c) the right or credit side.
2. Disagree. The terms debit and credit mean left and right respectively.
3. Heath is incorrect. The double-entry system merely records the dual effect of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once, with a dual effect.
4. Erica is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favorable nor unfavorable.
5.
 - (a) Asset accounts are increased by debits and decreased by credits.
 - (b) Liability accounts are decreased by debits and increased by credits.
 - (c) Revenues and owner's capital are increased by credits and decreased by debits. Expenses and owner's drawing are increased by debits and decreased by credits.
6.
 - (a) Accounts Receivable—debit balance.
 - (b) Cash—debit balance.
 - (c) Owner's Drawings—debit balance.
 - (d) Accounts Payable—credit balance.
 - (e) Service Revenue—credit balance.
 - (f) Salaries and Wages Expense—debit balance.
 - (g) Owner's Capital—credit balance.
7.
 - (a) Accounts Receivable—asset—debit balance.
 - (b) Accounts Payable—liability—credit balance
 - (c) Equipment—asset—debit balance.
 - (d) Owner's Drawings—owner's equity—debit balance.
 - (e) Supplies—asset—debit balance.
8.
 - (a) Debit Supplies and credit Accounts Payable.
 - (b) Debit Cash and credit Notes Payable.
 - (c) Debit Salaries and Wages Expense and credit Cash.
9.
 - (1) Cash—both debit and credit entries.
 - (2) Accounts Receivable—both debit and credit entries.
 - (3) Owner's Drawings—debit entries only.
 - (4) Accounts Payable—both debit and credit entries.
 - (5) Salaries and Wages Expense—debit entries only.
 - (6) Service Revenue—credit entries only.
10. The basic steps in the recording process are:
 - (1) Analyze each transaction for its effect on the accounts.
 - (2) Enter the transaction information in a journal.
 - (3) Transfer the journal information to the appropriate accounts in the ledger.

Questions Chapter 2 (Continued)

11. The advantages of using the journal in the recording process are:
 - (1) It discloses in one place the complete effects of a transaction.
 - (2) It provides a chronological record of all transactions.
 - (3) It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
12. (a) The debit should be entered first.
(b) The credit should be indented.
13. When three or more accounts are required in one journal entry, the entry is referred to as a compound entry. An example of a compound entry is the purchase of equipment, part of which is paid for with cash and the remainder is on account.
14. (a) No, debits and credits should not be recorded directly in the ledger.
(b) The advantages of using the journal are:
 1. It discloses in one place the complete effects of a transaction.
 2. It provides a chronological record of all transactions.
 3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
15. The advantage of the last step in the posting process is to indicate that the item has been posted.
16. (a)

| | | |
|---------------------------------|-------|-------|
| Cash..... | 9,000 | |
| Owner's Capital..... | | 9,000 |
| (Invested cash in the business) | | |

 (b)

| | | |
|----------------------------------|-----|-----|
| Prepaid Insurance..... | 800 | |
| Cash..... | | 800 |
| (Paid one-year insurance policy) | | |

 (c)

| | | |
|---------------------------------|-------|-------|
| Supplies..... | 2,000 | |
| Accounts Payable..... | | 2,000 |
| (Purchased supplies on account) | | |

 (d)

| | | |
|--|-------|-------|
| Cash..... | 7,500 | |
| Service Revenue..... | | 7,500 |
| (Received cash for services performed) | | |
17. (a) The entire group of accounts maintained by a company, including all the asset, liability, and owner's equity accounts, is referred to collectively as the ledger.
(b) A chart of accounts is a list of accounts and the account numbers that identify their location in the ledger. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and define the level of detail that a company desires in its accounting system.

Questions Chapter 2 (Continued)

- 18.** A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove (check) that the debits equal the credits after posting. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.
- 19.** No, Victor is not correct. The proper sequence is as follows:
- (b) Business transaction occurs.
 - (c) Information entered in the journal.
 - (a) Debits and credits posted to the ledger.
 - (e) Trial balance is prepared.
 - (d) Financial statements are prepared.
- 20.** (a) The trial balance would balance.
(b) The trial balance would not balance.
- 21.** The normal balances are Cash debit, Accounts Payable credit, and Interest Expense debit.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2-1

| | (a) Debit Effect | (b) Credit Effect | (c) Normal Balance |
|------------------------|------------------------|-------------------------|--------------------------|
| 1. Accounts Payable | Decrease | Increase | Credit |
| 2. Advertising Expense | Increase | Decrease | Debit |
| 3. Service Revenue | Decrease | Increase | Credit |
| 4. Accounts Receivable | Increase | Decrease | Debit |
| 5. Owner's Capital | Decrease | Increase | Credit |
| 6. Owner's Drawings | Increase | Decrease | Debit |

BRIEF EXERCISE 2-2

| | <u>Account Debited</u> | <u>Account Credited</u> |
|--------|------------------------|-------------------------|
| June 1 | Cash | Owner's Capital |
| 2 | Equipment | Accounts Payable |
| 3 | Rent Expense | Cash |
| 12 | Accounts Receivable | Service Revenue |

BRIEF EXERCISE 2-3

| | | | |
|--------|--------------------------|-------|-------|
| June 1 | Cash..... | 5,000 | |
| | Owner's Capital..... | | 5,000 |
| 2 | Equipment..... | 2,400 | |
| | Accounts Payable..... | | 2,400 |
| 3 | Rent Expense..... | 800 | |
| | Cash..... | | 800 |
| 12 | Accounts Receivable..... | 300 | |
| | Service Revenue..... | | 300 |

BRIEF EXERCISE 2-4

The basic steps in the recording process are:

1. Analyze each transaction. In this step, business documents are examined to determine the effects of the transaction on the accounts.
2. Enter each transaction in a journal. This step is called journalizing and it results in making a chronological record of the transactions.
3. Transfer journal information to ledger accounts. This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.

BRIEF EXERCISE 2-5

| | (a) <u>Effect on Accounting Equation</u> | (b) <u>Debit-Credit Analysis</u> |
|--------|---|--|
| Aug. 1 | The asset Cash is increased; the owner's equity account Owner's Capital is increased. | Debits increase assets: debit Cash \$8,000. Credits increase owner's equity: credit Owner's Capital \$8,000. |
| 4 | The asset Prepaid Insurance is increased; the asset Cash is decreased. | Debits increase assets: debit Prepaid Insurance \$1,800. Credits decrease assets: credit Cash \$1,800. |
| 16 | The asset Cash is increased; the revenue Service Revenue is increased. | Debits increase assets: debit Cash \$3,600. Credits increase revenues: credit Service Revenue \$3,600. |
| 27 | The expense Salaries and Wages Expense is increased; the asset Cash is decreased. | Debits increase expenses: debit Salaries and Wages Expense \$1,000. Credits decrease assets: credit Cash \$1,000. |

BRIEF EXERCISE 2-6

| | | | |
|--------|---------------------------------|-------|-------|
| Aug. 1 | Cash..... | 8,000 | |
| | Owner's Capital..... | | 8,000 |
| 4 | Prepaid Insurance..... | 1,800 | |
| | Cash..... | | 1,800 |
| 16 | Cash..... | 3,600 | |
| | Service Revenue..... | | 3,600 |
| 27 | Salaries and Wages Expense..... | 1,000 | |
| | Cash..... | | 1,000 |

BRIEF EXERCISE 2-7

| Cash | | | Service Revenue | | |
|-------------|-------|--|-----------------|-------------|-------|
| 5/12 | 2,400 | | | 5/5 | 4,400 |
| 5/15 | 3,000 | | | 5/15 | 3,000 |
| Ending Bal. | 5,400 | | | Ending Bal. | 7,400 |

| Accounts Receivable | | | |
|---------------------|-------|------|-------|
| 5/5 | 4,400 | 5/12 | 2,400 |
| Ending Bal. | 2,000 | | |

BRIEF EXERCISE 2-8

| Cash | | | | | |
|--------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| May 12 | | J1 | 2,400 | | 2,400 |
| 15 | | J1 | 3,000 | | 5,400 |

BRIEF EXERCISE 2-8 (Continued)

Accounts Receivable

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------|-------------|------|-------|--------|---------|
| May 5 | | J1 | 4,400 | | 4,400 |
| 12 | | J1 | | 2,400 | 2,000 |

Service Revenue

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------|-------------|------|-------|--------|---------|
| May 5 | | J1 | | 4,400 | 4,400 |
| 15 | | J1 | | 3,000 | 7,400 |

BRIEF EXERCISE 2-9

AMARO COMPANY Trial Balance June 30, 2017

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------|-----------------|-----------------|
| Cash..... | \$ 5,800 | |
| Accounts Receivable..... | 3,000 | |
| Equipment..... | 17,000 | |
| Accounts Payable..... | | \$ 8,100 |
| Owner's Capital..... | | 15,000 |
| Owner's Drawings..... | 1,200 | |
| Service Revenue..... | | 10,000 |
| Salaries and Wages Expense..... | 5,100 | |
| Rent Expense..... | 1,000 | |
| | <u>\$33,100</u> | <u>\$33,100</u> |

BRIEF EXERCISE 2-10

CAPPSHAW COMPANY Trial Balance December 31, 2017

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------|-----------------|-----------------|
| Cash..... | \$10,800 | |
| Prepaid Insurance..... | 3,500 | |
| Accounts Payable..... | | \$ 3,000 |
| Unearned Service Revenue..... | | 2,200 |
| Owner's Capital..... | | 9,000 |
| Owner's Drawings..... | 4,500 | |
| Service Revenue..... | | 25,600 |
| Salaries and Wages Expense..... | 18,600 | |
| Rent Expense..... | 2,400 | |
| | <u>\$39,800</u> | <u>\$39,800</u> |

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 2-1

Tom would likely need the following accounts in which to record the transactions necessary to ready his photography studio for opening day:

| | |
|--------------------------------|-----------------------------------|
| Cash (debit balance) | Equipment (debit balance) |
| Supplies (debit balance) | Accounts Payable (credit balance) |
| Notes Payable (credit balance) | Owner's Capital (credit balance) |

DO IT! 2-2

Each transaction that is recorded is entered in the general journal. The three activities would be recorded as follows:

- | | | |
|----------------------|-------|-------|
| Cash..... | 6,300 | |
| Owner's Capital..... | | 6,300 |
- | | | |
|-----------------------|-------|-----|
| Supplies..... | 1,100 | |
| Cash..... | | 400 |
| Accounts Payable..... | | 700 |
- No entry because no transaction has occurred.

DO IT! 2-3

| Cash | | | |
|------|-------|------|-----|
| 4/1 | 1,600 | 4/16 | 700 |
| 4/3 | 3,400 | 4/20 | 250 |
| 4/30 | 4,050 | | |

DO IT! 2-4

CARLAND COMPANY Trial Balance December 31, 2017

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------|------------------|------------------|
| Cash..... | \$ 6,000 | |
| Accounts Receivable..... | 8,000 | |
| Supplies..... | 6,000 | |
| Equipment..... | 80,000 | |
| Notes Payable..... | | \$ 20,000 |
| Accounts Payable..... | | 11,000 |
| Salaries and Wages Payable..... | | 3,000 |
| Owner's Capital..... | | 28,000 |
| Owner's Drawings..... | 8,000 | |
| Service Revenue..... | | 88,000 |
| Rent Expense..... | 4,000 | |
| Salaries and Wages Expense..... | 38,000 | |
| | <u>\$150,000</u> | <u>\$150,000</u> |

SOLUTIONS TO EXERCISES

EXERCISE 2-1

1. **False.** An account is an accounting record of a specific asset, liability, *or owner's equity item*.
2. **False.** An account shows *increases and decreases* in the item it relates to.
3. **False.** Each asset, liability, and *owner's equity item has a separate account*.
4. **False.** An account has a left, or *debit* side, and a right, or *credit* side.
5. **True.**

EXERCISE 2-2

| <u>Transaction</u> | <u>Account Debited</u> | | | | <u>Account Credited</u> | | | |
|--------------------|-------------------------------|-------------------------------------|-----------------------|-----------------------------------|-------------------------------|-------------------------------------|-----------------------|-----------------------------------|
| | <u>(a) Basic Type</u> | <u>(b) Specific Account</u> | <u>(c) Effect</u> | <u>(d) Normal Balance</u> | <u>(a) Basic Type</u> | <u>(b) Specific Account</u> | <u>(c) Effect</u> | <u>(d) Normal Balance</u> |
| Jan. 2 | Asset | Cash | Increase | Debit | Owner's Equity | Owner's Capital | Increase | Credit |
| 3 | Asset | Equipment | Increase | Debit | Asset | Cash | Decrease | Debit |
| 9 | Asset | Supplies | Increase | Debit | Liability | Accounts Payable | Increase | Credit |
| 11 | Asset | Accounts Receivable | Increase | Debit | Owner's Equity | Service Revenue | Increase | Credit |
| 16 | Owner's Equity | Advertising Expense | Increase | Debit | Asset | Cash | Decrease | Debit |
| 20 | Asset | Cash | Increase | Debit | Asset | Accounts Receivable | Decrease | Debit |
| 23 | Liability | Accounts Payable | Decrease | Credit | Asset | Cash | Decrease | Debit |
| 28 | Owner's Equity | Owner's Drawings | Increase | Debit | Asset | Cash | Decrease | Debit |

EXERCISE 2-3

| General Journal | | | | J1 |
|-----------------|--|------|--------|--------|
| Date | Account Titles and Explanation | Ref. | Debit | Credit |
| Jan. 2 | Cash..... Owner's Capital..... | | 10,000 | 10,000 |
| 3 | Equipment..... Cash..... | | 3,000 | 3,000 |
| 9 | Supplies..... Accounts Payable..... | | 500 | 500 |
| 11 | Accounts Receivable..... Service Revenue..... | | 2,400 | 2,400 |
| 16 | Advertising Expense..... Cash..... | | 350 | 350 |
| 20 | Cash..... Accounts Receivable..... | | 700 | 700 |
| 23 | Accounts Payable..... Cash..... | | 300 | 300 |
| 28 | Owner's Drawings..... Cash..... | | 1,000 | 1,000 |

EXERCISE 2-4

- Oct. 1 Debits increase assets: debit Cash \$15,000.
 Credits increase owner's equity: credit Owner's Capital \$15,000.
- 2 No transaction.
- 3 Debits increase assets: debit Equipment \$1,900.
 Credits increase liabilities: credit Accounts Payable \$1,900.

EXERCISE 2-4 (Continued)

- Oct. 6 Debits increase assets: debit Accounts Receivable \$3,800.
 Credits increase revenues: credit Service Revenue \$3,800.
- 27 Debits decrease liabilities: debit Accounts Payable \$1,100.
 Credits decrease assets: credit Cash \$1,100.
- 30 Debits increase expenses: debit Salaries and Wages Expense \$2,500.
 Credits decrease assets: credit Cash \$2,500.

EXERCISE 2-5

| General Journal | | | | |
|-----------------|---------------------------------|------|--------|--------|
| Date | Account Titles and Explanation | Ref. | Debits | Credit |
| Oct. 1 | Cash..... | | 15,000 | |
| | Owner's Capital..... | | | 15,000 |
| 2 | No entry. | | | |
| 3 | Equipment..... | | 1,900 | |
| | Accounts Payable..... | | | 1,900 |
| 6 | Accounts Receivable..... | | 3,800 | |
| | Service Revenue..... | | | 3,800 |
| 27 | Accounts Payable..... | | 1,100 | |
| | Cash..... | | | 1,100 |
| 30 | Salaries and Wages Expense..... | | 2,500 | |
| | Cash..... | | | 2,500 |

EXERCISE 2-6

- (a) 1. Increase the asset Cash, increase the liability Notes Payable.
 2. Increase the asset Equipment, decrease the asset Cash.
 3. Increase the asset Supplies, increase the liability Accounts Payable.
- (b)
- | | | | |
|----|-----------------------|-------|-------|
| 1. | Cash..... | 5,000 | |
| | Notes Payable..... | | 5,000 |
| 2. | Equipment..... | 3,100 | |
| | Cash..... | | 3,100 |
| 3. | Supplies..... | 850 | |
| | Accounts Payable..... | | 850 |

EXERCISE 2-7

- (a) **Assets = Liabilities + Owner's Equity**
- | | | | |
|----|---|---|--------------|
| 1. | + | + | (Investment) |
| 2. | - | - | (Expense) |
| 3. | + | + | (Revenue) |
| 4. | - | - | (Drawings) |
- (b)
- | | | | |
|----|--------------------------|-------|-------|
| 1. | Cash..... | 4,000 | |
| | Owner's Capital..... | | 4,000 |
| 2. | Rent Expense..... | 840 | |
| | Cash..... | | 840 |
| 3. | Accounts Receivable..... | 5,200 | |
| | Service Revenue..... | | 5,200 |
| 4. | Owner's Drawings..... | 750 | |
| | Cash..... | | 750 |

EXERCISE 2-8

- False. The general ledger contains all the asset, liability, *and owner's equity* accounts.
- True.
- False. The accounts in the general ledger are arranged in *financial statement order*: first the assets, then the liabilities, owner's capital, owner's drawings, revenues, and expenses.
- True.
- False. The general ledger is not a book of original entry; transactions are first recorded in the general journal, then in the general ledger.

EXERCISE 2-9

(a)

| Cash | | | |
|--------|-------|---------|-------|
| Aug. 1 | 5,000 | Aug. 12 | 2,300 |
| 10 | 2,600 | | |
| 31 | 900 | | |
| Bal. | 6,200 | | |

| Accounts Receivable | | | |
|---------------------|-------|---------|-----|
| Aug. 25 | 1,700 | Aug. 31 | 900 |
| Bal. | 800 | | |

| Equipment | | | |
|---------------|-------|---------|-------|
| Aug. 12 | 5,000 | | |
| Notes Payable | | | |
| | | Aug. 12 | 2,700 |

| Owner's Capital | | | |
|-----------------|--|--------|-------|
| | | Aug. 1 | 5,000 |

| Service Revenue | | | |
|-----------------|--|---------|-------|
| | | Aug. 10 | 2,600 |
| | | 25 | 1,700 |
| | | Bal. | 4,300 |

(b)

JUNE FELDMAN, INVESTMENT BROKER
Trial Balance
August 31, 2017

| | <u>Debit</u> | <u>Credit</u> |
|--------------------------|-----------------|-----------------|
| Cash..... | \$ 6,200 | |
| Accounts Receivable..... | 800 | |
| Equipment..... | 5,000 | |
| Notes Payable..... | | \$ 2,700 |
| Owner's Capital..... | | 5,000 |
| Service Revenue..... | | 4,300 |
| | <u>\$12,000</u> | <u>\$12,000</u> |

EXERCISE 2-10**(a)****General Journal**

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|---------------|---|-------------|---------------|---------------|
| Apr. 1 | Cash..... | | 12,000 | |
| | Owner's Capital..... | | | 12,000 |
| | (Owner's investment of cash in business) | | | |
| 12 | Cash..... | | 900 | |
| | Service Revenue..... | | | 900 |
| | (Received cash for services performed) | | | |
| 15 | Salaries and Wages Expense..... | | 1,300 | |
| | Cash..... | | | 1,300 |
| | (Paid salaries to date) | | | |
| 25 | Accounts Payable..... | | 1,500 | |
| | Cash..... | | | 1,500 |
| | (Paid creditors on account) | | | |
| 29 | Cash..... | | 400 | |
| | Accounts Receivable..... | | | 400 |
| | (Received cash in payment of account) | | | |
| 30 | Cash..... | | 1,000 | |
| | Unearned Service Revenue..... | | | 1,000 |
| | (Received cash for future services) | | | |

EXERCISE 2-10 (Continued)

(b) **DAGGETT LANDSCAPING COMPANY**
Trial Balance
April 30, 2017

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------|-----------------|-----------------|
| Cash..... | \$11,500 | |
| Accounts Receivable..... | 2,800 | |
| Supplies..... | 1,800 | |
| Accounts Payable..... | | \$ 300 |
| Unearned Service Revenue..... | | 1,000 |
| Owner's Capital..... | | 12,000 |
| Service Revenue..... | | 4,100 |
| Salaries and Wages Expense..... | 1,300 | |
| | <u>\$17,400</u> | <u>\$17,400</u> |

EXERCISE 2-11

| | | | |
|------------|--|-------|-------|
| (a) Oct. 1 | Cash..... | 3,000 | |
| | Owner's Capital..... | | 3,000 |
| | (Owner's investment of cash in business) | | |
| 10 | Cash..... | 750 | |
| | Service Revenue..... | | 750 |
| | (Received cash for services performed) | | |
| 10 | Cash..... | 4,000 | |
| | Notes Payable..... | | 4,000 |
| | (Obtained loan from bank) | | |
| 20 | Cash..... | 500 | |
| | Accounts Receivable..... | | 500 |
| | (Received cash in payment of account) | | |
| 20 | Accounts Receivable..... | 940 | |
| | Service Revenue..... | | 940 |

**(Billed clients for services
performed)**

EXERCISE 2-11 (Continued)

(b)

SHUMWAY CO. Trial Balance October 31, 2017

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------|-----------------|-----------------|
| Cash..... | \$ 7,200 | |
| Accounts Receivable..... | 1,240 | |
| Supplies..... | 400 | |
| Equipment..... | 2,000 | |
| Notes Payable..... | | \$ 4,000 |
| Accounts Payable..... | | 500 |
| Owner's Capital..... | | 5,000 |
| Owner's Drawings..... | 300 | |
| Service Revenue..... | | 2,490 |
| Salaries and Wages Expense..... | 500 | |
| Rent Expense..... | 350 | |
| | <u>\$11,990</u> | <u>\$11,990</u> |

EXERCISE 2-12

(a)

| General Journal | | | | J1 |
|-----------------|--------------------------------|------|--------|--------|
| Date | Account Titles and Explanation | Ref. | Debit | Credit |
| Sept. 1 | Cash..... | 101 | 10,000 | |
| | Owner's Capital..... | 301 | | 10,000 |
| 5 | Equipment..... | 157 | 12,000 | |
| | Cash..... | 101 | | 4,000 |
| | Accounts Payable..... | 201 | | 8,000 |
| 25 | Accounts Payable..... | 201 | 3,000 | |
| | Cash..... | 101 | | 3,000 |
| 30 | Owner's Drawings..... | 306 | 700 | |
| | Cash..... | 101 | | 700 |

EXERCISE 2-12 (Continued)**(b)****Cash** **No. 101**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|---------------|---------------|----------------|
| Sept. 1 | | J1 | 10,000 | | 10,000 |
| 5 | | J1 | | 4,000 | 6,000 |
| 25 | | J1 | | 3,000 | 3,000 |
| 30 | | J1 | | 700 | 2,300 |

Equipment **No. 157**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|---------------|---------------|----------------|
| Sept. 5 | | J1 | 12,000 | | 12,000 |

Accounts Payable **No. 201**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 5 | | J1 | | 8,000 | 8,000 |
| 25 | | J1 | 3,000 | | 5,000 |

Owner's Capital **No. 301**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 1 | | J1 | | 10,000 | 10,000 |

Owner's Drawings **No. 306**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-----------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 30 | | J1 | 700 | | 700 |

EXERCISE 2-13

| <u>Error</u> | <u>(a) In Balance</u> | <u>(b) Difference</u> | <u>(c) Larger Column</u> |
|--------------|---------------------------|---------------------------|------------------------------|
| 1. | No | \$525 | Debit |
| 2. | Yes | — | — |
| 3. | Yes | — | — |
| 4. | No | 415 | Credit |
| 5. | Yes | — | — |
| 6. | No | 27 | Debit |

EXERCISE 2-14

OVERNITE DELIVERY SERVICE

Trial Balance
July 31, 2017

| | <u>Debit</u> | <u>Credit</u> |
|---|-----------------|-----------------|
| Cash (\$78,821 – Debit total without Cash \$66,340)..... | \$12,481 | |
| Accounts Receivable..... | 7,642 | |
| Prepaid Insurance..... | 1,968 | |
| Equipment..... | 49,360 | |
| Notes Payable..... | | \$17,000 |
| Accounts Payable..... | | 8,396 |
| Salaries and Wages Payable..... | | 815 |
| Owner's Capital..... | | 42,000 |
| Owner's Drawings..... | 700 | |
| Service Revenue..... | | 10,610 |
| Salaries and Wages Expense..... | 4,428 | |
| Maintenance and Repairs Expense..... | 961 | |
| Gasoline Expense..... | 758 | |
| Utilities Expense..... | 523 | |
| | <u>\$78,821</u> | <u>\$78,821</u> |

SOLUTIONS TO PROBLEMS

PROBLEM 2-1A

J1

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|-------------|---|-------------|--------------|---------------|
| Mar. 1 | Cash..... | | 20,000 | |
| | Owner's Capital..... | | | 20,000 |
| | (Owner's investment of cash in business) | | | |
| 3 | Land..... | | 12,000 | |
| | Buildings..... | | 2,000 | |
| | Equipment..... | | 1,000 | |
| | Cash..... | | | 15,000 |
| | (Purchased Rainbow's Golf Land) | | | |
| 5 | Advertising Expense..... | | 900 | |
| | Cash..... | | | 900 |
| | (Paid for advertising) | | | |
| 6 | Prepaid Insurance..... | | 600 | |
| | Cash..... | | | 600 |
| | (Paid for one-year insurance policy) | | | |
| 10 | Equipment..... | | 1,050 | |
| | Accounts Payable..... | | | 1,050 |
| | (Purchased equipment on account) | | | |
| 18 | Cash..... | | 1,100 | |
| | Service Revenue..... | | | 1,100 |
| | (Received cash for services performed) | | | |
| 19 | Cash..... | | 1,500 | |
| | Unearned Service Revenue..... | | | 1,500 |
| | (Received cash for coupon books sold) | | | |

PROBLEM 2-1A (Continued)

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|----------------|---|-------------|--------------|---------------|
| Mar. 25 | Owner's Drawings..... | | 800 | |
| | Cash..... | | | 800 |
| | (Withdrew cash for personal use) | | | |
| 30 | Salaries and Wages Expense..... | | 250 | |
| | Cash..... | | | 250 |
| | (Paid salaries) | | | |
| 30 | Accounts Payable..... | | 1,050 | |
| | Cash..... | | | 1,050 |
| | (Paid creditor on account) | | | |
| 31 | Cash..... | | 2,700 | |
| | Service Revenue..... | | | 2,700 |
| | (Received cash for services performed) | | | |

| |
|--------------|
| PROBLEM 2-2A |
|--------------|

(a)

J1

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|--------|--|------|--------|--------|
| Apr. 1 | Cash..... | 101 | 20,000 | |
| | Owner's Capital..... | 301 | | 20,000 |
| | (Owner's investment of cash in business) | | | |
| 1 | No entry—not a transaction. | | | |
| 2 | Rent Expense..... | 729 | 1,100 | |
| | Cash..... | 101 | | 1,100 |
| | (Paid monthly office rent) | | | |
| 3 | Supplies..... | 126 | 4,000 | |
| | Accounts Payable..... | 201 | | 4,000 |
| | (Purchased supplies on account from Dazzle Company) | | | |
| 10 | Accounts Receivable..... | 112 | 5,100 | |
| | Service Revenue..... | 400 | | 5,100 |
| | (Billed clients for services performed) | | | |
| 11 | Cash..... | 101 | 1,000 | |
| | Unearned Service Revenue..... | 209 | | 1,000 |
| | (Received cash for future service) | | | |
| 20 | Cash..... | 101 | 2,100 | |
| | Service Revenue..... | 400 | | 2,100 |
| | (Received cash for services performed) | | | |
| 30 | Salaries and Wages Expense..... | 726 | 2,800 | |
| | Cash..... | 101 | | 2,800 |

(Paid monthly salary)

PROBLEM 2-2A (Continued)

| Date | Account Titles and Explanation | Ref. | Debits | Credit |
|---------|----------------------------------|------|--------|--------|
| Apr. 30 | Accounts Payable..... | 201 | 2,400 | |
| | Cash..... | 101 | | 2,400 |
| | (Paid Dazzle Company on account) | | | |

(b)**Cash** **No. 101**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|--------|--------|---------|
| Apr. 1 | | J1 | 20,000 | | 20,000 |
| 2 | | J1 | | 1,100 | 18,900 |
| 11 | | J1 | 1,000 | | 19,900 |
| 20 | | J1 | 2,100 | | 22,000 |
| 30 | | J1 | | 2,800 | 19,200 |
| 30 | | J1 | | 2,400 | 16,800 |

Accounts Receivable **No. 112**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| Apr. 10 | | J1 | 5,100 | | 5,100 |

Supplies **No. 126**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| Apr. 3 | | J1 | 4,000 | | 4,000 |

Accounts Payable **No. 201**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| Apr. 3 | | J1 | | 4,000 | 4,000 |
| 30 | | J1 | 2,400 | | 1,600 |

Unearned Service Revenue **No. 209**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| Apr. 11 | | J1 | | 1,000 | 1,000 |

PROBLEM 2-2A (Continued)

Owner's Capital No. 301

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| Apr. 1 | | J1 | | 20,000 | 20,000 |

Service Revenue No. 400

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| Apr. 10 | | J1 | | 5,100 | 5,100 |
| 20 | | J1 | | 2,100 | 7,200 |

Salaries and Wages Expense No. 726

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| Apr. 30 | | J1 | 2,800 | | 2,800 |

Rent Expense No. 729

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| Apr. 2 | | J1 | 1,100 | | 1,100 |

(c) **EMILY VALLEY, DENTIST**
Trial Balance
April 30, 2017

| | Debit | Credit |
|---------------------------------|-----------------|-----------------|
| Cash..... | \$16,800 | |
| Accounts Receivable..... | 5,100 | |
| Supplies..... | 4,000 | |
| Accounts Payable..... | | \$ 1,600 |
| Unearned Service Revenue..... | | 1,000 |
| Owner's Capital..... | | 20,000 |
| Service Revenue..... | | 7,200 |
| Salaries and Wages Expense..... | 2,800 | |
| Rent Expense..... | 1,100 | |
| | <u>\$29,800</u> | <u>\$29,800</u> |

| |
|--------------|
| PROBLEM 2-3A |
|--------------|

(a)

| Trans. | Account Titles and Explanation | Debit | Credit |
|--------|--------------------------------|--------|--------|
| 1. | Cash..... | 40,000 | |
| | Owner's Capital..... | | 40,000 |
| 2. | No entry—Not a transaction. | | |
| 3. | Prepaid Rent..... | 24,000 | |
| | Cash..... | | 24,000 |
| 4. | Equipment..... | 30,000 | |
| | Cash..... | | 10,000 |
| | Accounts Payable..... | | 20,000 |
| 5. | Prepaid Insurance..... | 1,800 | |
| | Cash..... | | 1,800 |
| 6. | Supplies..... | 420 | |
| | Cash..... | | 420 |
| 7. | Supplies..... | 1,500 | |
| | Accounts Payable..... | | 1,500 |
| 8. | Cash..... | 8,000 | |
| | Accounts Receivable..... | 12,000 | |
| | Service Revenue..... | | 20,000 |
| 9. | Accounts Payable..... | 400 | |
| | Cash..... | | 400 |
| 10. | Cash..... | 3,000 | |
| | Accounts Receivable..... | | 3,000 |
| 11. | Utilities Expense..... | 380 | |
| | Accounts Payable..... | | 380 |

PROBLEM 2-3A (Continued)

| Trans. | Account Titles and Explanation | Debit | Credit |
|--------|---------------------------------|-------|--------|
| 12. | Salaries and Wages Expense..... | 6,100 | |
| | Cash..... | | 6,100 |

(b)

| Cash | |
|------|------------|
| (1) | 40,000 |
| | (3) 24,000 |
| | (4) 10,000 |
| | (5) 1,800 |
| | (6) 420 |
| (8) | 8,000 |
| | (9) 400 |
| (10) | 3,000 |
| | (12) 6,100 |
| | 8,280 |

| Accounts Receivable | |
|---------------------|------------|
| (8) | 12,000 |
| | (10) 3,000 |
| | 9,000 |

| Supplies | |
|----------|-------|
| (6) | 420 |
| (7) | 1,500 |
| | 1,920 |

| Prepaid Insurance | |
|-------------------|-------|
| (5) | 1,800 |
| | 1,800 |

| Prepaid Rent | |
|--------------|--------|
| (3) | 24,000 |
| | 24,000 |

| Equipment | |
|-----------|--------|
| (4) | 30,000 |
| | 30,000 |

| Accounts Payable | |
|------------------|------------|
| | (4) 20,000 |
| | (7) 1,500 |
| (9) | 400 |
| | (11) 380 |
| | 21,480 |

| Owner's Capital | |
|-----------------|------------|
| | (1) 40,000 |
| | 40,000 |

| Service Revenue | |
|-----------------|------------|
| | (8) 20,000 |
| | 20,000 |

| Salaries and Wages Expense | |
|----------------------------|-------|
| (12) | 6,100 |
| | 6,100 |

| Utilities Expense | |
|-------------------|-----|
| (11) | 380 |
| | 380 |

PROBLEM 2-3A (Continued)

(c)

**MAQUOKETA SERVICES
Trial Balance
May 31, 2017**

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------|-----------------|-----------------|
| Cash..... | \$ 8,280 | |
| Accounts Receivable..... | 9,000 | |
| Supplies..... | 1,920 | |
| Prepaid Insurance..... | 1,800 | |
| Prepaid Rent..... | 24,000 | |
| Equipment..... | 30,000 | |
| Accounts Payable..... | | \$21,480 |
| Owner's Capital..... | | 40,000 |
| Service Revenue..... | | 20,000 |
| Salaries and Wages Expense..... | 6,100 | |
| Utilities Expense..... | 380 | |
| | <u>\$81,480</u> | <u>\$81,480</u> |

| |
|---------------------|
| PROBLEM 2-4A |
|---------------------|

AVTAR SANDHU CO.
Trial Balance
June 30, 2017

| | <u>Debit</u> | <u>Credit</u> |
|---|-----------------|-----------------|
| Cash (\$3,340 + \$270)..... | \$ 3,610 | |
| Accounts Receivable (\$2,812 – \$270)..... | 2,542 | |
| Supplies (\$1,200 – \$710)..... | 490 | |
| Equipment (\$2,600 + \$710)..... | 3,310 | |
| Accounts Payable (\$3,666 – \$306 – \$360)..... | | \$ 3,000 |
| Unearned Service Revenue..... | | 1,100 |
| Owner’s Capital..... | | 8,000 |
| Owner’s Drawings (\$800 + \$600)..... | 1,400 | |
| Service Revenue (\$2,480 + \$882)..... | | 3,362 |
| Salaries and Wages Expense | | |
| (\$3,200 + \$700 – \$600)..... | 3,300 | |
| Utilities Expense..... | 810 | |
| | <u>\$15,462</u> | <u>\$15,462</u> |

| |
|---------------------|
| PROBLEM 2-5A |
|---------------------|

(a) & (c)

| Cash | | | | | No. 101 |
|--------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| Mar. 1 | Balance | ✓ | | | 3,000 |
| 2 | | J1 | | 1,500 | 1,500 |
| 9 | | J1 | 4,300 | | 5,800 |
| 10 | | J1 | | 4,100 | 1,700 |
| 12 | | J1 | | 900 | 800 |
| 20 | | J1 | 5,000 | | 5,800 |
| 20 | | J1 | | 2,000 | 3,800 |
| 31 | | J1 | | 3,100 | 700 |
| 31 | | J1 | 450 | | 1,150 |
| 31 | | J1 | 9,000 | | 10,150 |

| Accounts Receivable | | | | | No. 112 |
|---------------------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| Mar. 31 | | J1 | 450 | | 450 |

| Land | | | | | No. 140 |
|--------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| Mar. 1 | Balance | ✓ | | | 24,000 |

| Buildings | | | | | No. 145 |
|-----------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| Mar. 1 | Balance | ✓ | | | 10,000 |

| Equipment | | | | | No. 157 |
|-----------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| Mar. 1 | Balance | ✓ | | | 10,000 |

PROBLEM 2-5A (Continued)**Accounts Payable** **No. 201**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Mar. 1 | Balance | ✓ | | | 7,000 |
| 2 | | J1 | | 2,000 | 9,000 |
| 10 | | J1 | 4,100 | | 4,900 |

Owner's Capital **No. 301**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Mar. 1 | Balance | ✓ | | | 40,000 |

Service Revenue **No. 400**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Mar. 9 | | J1 | | 4,300 | 4,300 |
| 20 | | J1 | | 5,000 | 9,300 |
| 31 | | J1 | | 9,000 | 18,300 |

Rent Revenue **No. 429**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Mar.31 | | J1 | | 900 | 900 |

Advertising Expense **No. 610**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Mar.12 | | J1 | 900 | | 900 |

Salaries and Wages Expense **No. 726**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Mar. 31 | | J1 | 3,100 | | 3,100 |

PROBLEM 2-5A (Continued)

| Rent Expense | | | | | No. 729 |
|--------------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| Mar. 2 | | J1 | 3,500 | | 3,500 |
| 20 | | J1 | 2,000 | | 5,500 |

(b)

| | | | | | J1 |
|--------|---|------|-------|--------|----|
| Date | Account Titles and Explanation | Ref. | Debit | Credit | |
| Mar. 2 | Rent Expense..... | 729 | 3,500 | | |
| | Accounts Payable..... | 201 | | 2,000 | |
| | Cash..... | 101 | | 1,500 | |
| | (Rented films for cash and on account) | | | | |
| 3 | No entry. | | | | |
| 9 | Cash..... | 101 | 4,300 | | |
| | Service Revenue..... | 400 | | 4,300 | |
| | (Received cash for services performed) | | | | |
| 10 | Accounts Payable (\$2,000 + \$2,100)..... | 201 | 4,100 | | |
| | Cash..... | 101 | | 4,100 | |
| | (Paid creditors on account) | | | | |
| 11 | No entry. | | | | |
| 12 | Advertising Expense..... | 610 | 900 | | |
| | Cash..... | 101 | | 900 | |
| | (Paid advertising expense) | | | | |
| 20 | Cash..... | 101 | 5,000 | | |
| | Service Revenue..... | 400 | | 5,000 | |
| | (Received cash for services performed) | | | | |
| 20 | Rent Expense..... | 729 | 2,000 | | |
| | Cash..... | 101 | | 2,000 | |
| | (Paid film rental) | | | | |

PROBLEM 2-5A (Continued)

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|----------------|---|-------------|--------------|---------------|
| Mar. 31 | Salaries and Wages Expense..... | 726 | 3,100 | |
| | Cash..... | 101 | | 3,100 |
| | (Paid salaries expense) | | | |
| 31 | Cash..... | 101 | 450 | |
| | Accounts Receivable..... | 112 | 450 | |
| | Rent Revenue..... | 429 | | 900 |
| | (15% X \$6,000) | | | |
| | (Received cash and balance | | | |
| | on account for rent | | | |
| | revenue) | | | |
| 31 | Cash..... | 101 | 9,000 | |
| | Service Revenue..... | 400 | | 9,000 |
| | (Received cash for services | | | |
| | performed) | | | |

(d) STARR THEATER
Trial Balance
March 31, 2017

| | Debit | Credit |
|--|------------------------|------------------------|
| Cash..... | \$10,150 | |
| Accounts Receivable..... | 450 | |
| Land..... | 24,000 | |
| Buildings..... | 10,000 | |
| Equipment..... | 10,000 | |
| Accounts Payable..... | | \$ 4,900 |
| Owner's Capital..... | | 40,000 |
| Service Revenue..... | | 18,300 |
| Rent Revenue..... | | 900 |
| Advertising Expense..... | 900 | |
| Salaries and Wages Expense..... | 3,100 | |
| Rent Expense..... | 5,500 | |
| | <u>\$64,100</u> | <u>\$64,100</u> |

| (a) | | GENERAL JOURNAL | J1 | |
|------|----|--|-------|--------|
| | | Account Titles and Explanation | Debit | Credit |
| Nov. | 8 | No entry required for cashing U.S. Savings Bonds—this is a personal transaction. | | |
| | 8 | Cash..... | 500 | |
| | | Owner's Capital..... | | 500 |
| | 11 | Advertising Expense..... | 65 | |
| | | Cash..... | | 65 |
| | 13 | Supplies..... | 125 | |
| | | Cash..... | | 125 |
| | 14 | Equipment..... | 300 | |
| | | Owner's Capital..... | | 300 |
| | 16 | Cash..... | 2,000 | |
| | | Notes Payable..... | | 2,000 |
| | 17 | Equipment..... | 900 | |
| | | Cash..... | | 900 |
| | 20 | Cash..... | 125 | |
| | | Service Revenue..... | | 125 |
| | 25 | Cash..... | 30 | |
| | | Unearned Service Revenue..... | | 30 |
| | 30 | Prepaid Insurance..... | 1,320 | |
| | | Cash..... | | 1,320 |

CC2 (Continued)**(b)**

| Cash | | | | | |
|--------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 8 | | J1 | 500 | | 500 |
| 11 | | J1 | | 65 | 435 |
| 13 | | J1 | | 125 | 310 |
| 16 | | J1 | 2,000 | | 2,310 |
| 17 | | J1 | | 900 | 1,410 |
| 20 | | J1 | 125 | | 1,535 |
| 25 | | J1 | 30 | | 1,565 |
| 30 | | J1 | | 1,320 | 245 |

| Supplies | | | | | |
|----------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 13 | | J1 | 125 | | 125 |

| Prepaid Insurance | | | | | |
|-------------------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 30 | | J1 | 1,320 | | 1,320 |

| Equipment | | | | | |
|-----------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 14 | | J1 | 300 | | 300 |
| 17 | | J1 | 900 | | 1,200 |

| Unearned Service Revenue | | | | | |
|--------------------------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 25 | | J1 | | 30 | 30 |

CC2 (Continued)**(b) (Continued)**

| Notes Payable | | | | | |
|---------------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 16 | | J1 | | 2,000 | 2,000 |

| Owner's Capital | | | | | |
|-----------------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 8 | | J1 | | 500 | 500 |
| 14 | | J1 | | 300 | 800 |

| Service Revenue | | | | | |
|-----------------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 20 | | J1 | | 125 | 125 |

| Advertising Expense | | | | | |
|---------------------|-------------|------|--------|---------|---------|
| Date | Explanation | Ref. | Debits | Credits | Balance |
| Nov. 11 | | J1 | 65 | | 65 |

CC2 (Continued)

(c)

COOKIE CREATIONS
Trial Balance
November 30, 2016

| | <u>Debit</u> | <u>Credit</u> |
|-------------------------------|----------------|----------------|
| Cash..... | \$ 245 | |
| Supplies..... | 125 | |
| Prepaid Insurance..... | 1,320 | |
| Equipment..... | 1,200 | |
| Unearned Service Revenue..... | | \$ 30 |
| Notes Payable..... | | 2,000 |
| Owner's Capital..... | | 800 |
| Service Revenue..... | | 125 |
| Advertising Expense..... | 65 | |
| | <u>\$2,955</u> | <u>\$2,955</u> |

Note to instructors: Because the notes payable is not due for 24 months, it follows Unearned Service Revenue in the accounts and the trial balance.

| (a) | (1) | (1) | (2) |
|---|--------------------------|--------------------------|---------------------------|
| Account | Increase Side | Decrease Side | Normal Balance |
| Accounts Payable | Credit | Debit | Credit |
| Accounts Receivable | Debit | Credit | Debit |
| Property, Plant, and Equipment | Debit | Credit | Debit |
| Cash and Cash Equivalents | Debit | Credit | Debit |
| Research and Development Expense | Debit | Credit | Debit |
| Inventories | Debit | Credit | Debit |

- (b)**
- 1. Cash is increased.**
 - 2. Cash is decreased.**
 - 3. Cash is decreased or Accounts Payable is increased.**

- (c)**
- 1. Cash is decreased.**
 - 2. Cash is decreased or Notes or Mortgage Payable is increased.**

| | <u>PepsiCo</u> | | <u>Coca-Cola</u> | |
|-----|---------------------------------|--------|---------------------------------|--------|
| (a) | 1. Inventory: | debit | 1. Accounts Receivable: | debit |
| | 2. Property, Plant & Equipment: | debit | 2. Cash and Cash Equivalents: | debit |
| | 3. Accounts Payable: | credit | 3. Cost of Goods Sold(expense): | debit |
| | Interest Expense: | debit | 4. Sales (revenue) | credit |

(b)

1. Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).
2. Decrease in Salaries and Wages Payable: Cash is decreased (credited).
3. Increase in Property, Plant and Equipment: Cash is decreased (credited) and Accounts Payable or Notes payable is increased (credited).
4. Increase in Interest Expense: Cash is decreased (credited).

| | <u>Amazon</u> | | <u>Wal-Mart</u> | |
|-----|----------------------------------|--------|--------------------------|--------|
| (a) | 1. Interest Expense: | debit | 1. Net Product Revenues: | credit |
| | 2. Cash and Cash Equivalents: | debit | 2. Inventories: | debit |
| | 3. Accounts Payable: | credit | 3. Cost of Sales: | debit |

(b) The following other accounts are ordinarily involved:

1. Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).
2. Increase in Interest Expense: Cash is decreased (credited).
3. Decrease in Salaries and Wages Payable: Cash is decreased (credited).
4. Increase in Service Revenue: Cash or Accounts Receivable is increased (debited).

The answer is dependent upon the company selected by the student.

- (a) The reason the Green Bay Packers' issue an annual report is because they are a publicly owned, nonprofit company. They issue the report to the more than 100,000 shareholders who hold shares. None of the other teams are publicly owned, so they have no obligation to make their financial information available except to their small group of owners.**
- (b) At the time that the article was written the owners of the NFL teams and the players' labor union were negotiating a new contract. Knowing how profitable the NFL teams are would be useful information for the players to know so that they would have a better sense of how much the teams could afford to pay. The Packers are obviously a "small market" team, they are not necessarily representative of teams in general. However, the Packers' annual report does give the players some sense of the profitability of other teams.**
- (c) Since some of the cost of the stadium that the Packers play in is covered by taxpayers, the county and state government has an interest in the team's finances.**
- (d) The Packers' revenues increased during recent years. However, because the cost of players' salaries increased at a faster rate than revenues, the Packers' operating profit actually declined.**

Date: May 25, 2017

To: Accounting Instructor

From: Student

In the first transaction, bills totaling \$6,000 were sent to customers for services performed. Therefore, the asset Accounts Receivable is increased \$6,000 and the revenue Service Revenue is increased \$6,000. Debits increase assets and credits increase revenues, so the journal entry is:

| | | |
|---|-------|-------|
| Accounts Receivable..... | 6,000 | |
| Service Revenue..... | | 6,000 |
| (Billed customers for services performed) | | |

The \$6,000 amount is then posted to the debit side of the general ledger account Accounts Receivable and to the credit side of the general ledger account Service Revenue.

In the second transaction, \$2,000 was paid in salaries to employees. Therefore, the expense Salaries and Wages Expense is increased \$2,000 and the asset Cash is decreased \$2,000. Debits increase expenses and credits decrease assets, so the journal entry is:

| | | |
|---------------------------------|-------|-------|
| Salaries and Wages Expense..... | 2,000 | |
| Cash..... | | 2,000 |
| (Salaries and wages paid) | | |

The \$2,000 amount is then posted to the debit side of the general ledger account Salaries and Wages Expense and to the credit side of the general ledger account Cash.

(a) The stakeholders in this situation are:

- ☐ Ellynn Kole, assistant chief accountant.
- ☐ Users of the company's financial statements.
- ☐ The Doman Company.

(b) By adding \$1,000 to the Equipment account, that account total is intentionally misstated. By not locating the error causing the imbalance, some other account may also be misstated by \$1,000. If the amount of \$1,000 is determined to be immaterial, and the intent is not to commit fraud (cover up an embezzlement or other misappropriation of assets), Ellynn's action might not be considered unethical in the preparation of interim financial statements. However, if Ellynn is violating a company accounting policy by her action, then she is acting unethically.

(c) Ellynn's alternatives are:

- 1. Miss the deadline but find the error causing the imbalance.**
- 2. Tell her supervisor of the imbalance and suffer the consequences.**
- 3. Do as she did and locate the error later, making the adjustment in the next quarter.**

The decision whether to fire Mr. Edmondson was the responsibility of Radio Shack's board of directors, which is elected by the company's shareholders to oversee management. The board initially announced its support for the CEO. After further investigation, the board encouraged Mr. Edmondson to resign, which he did. In contrast, when Bausch & Lomb's CEO offered to resign in a similar situation, the company's board refused to accept his resignation. Board members stated that they felt he was still the best person for the position.

Radio Shack says that although it did a reference check at the time of Mr. Edmondson's hiring, it did not check his educational credentials. Under the Sarbanes-Oxley Act, companies must now perform thorough background checks as part of a check of internal controls. The bottom line: Your résumé must be a fair and accurate depiction of your past.

- (a) Students' responses to this question will vary. It is important that the steps that they identify be as specific as possible, and clearly directed toward achieving their goal. You may wish to ask a follow-up question asking them to explain how each step will assist them in achieving their goal.
- (b) There are many sites on the Internet that provide information about preparing a résumé. For example, you can find extensive resources at: <http://www.rileyguide.com/resprep.html>. Many schools also have resources in their placement centers or writing labs. The Writing Center at Rensselaer Polytechnic Institute provides useful, concise information on its website at <http://www.ccp.rpi.edu/resources/careers-and-graduate-school/resumes>. A wide variety of sample résumés can be found. For example, Monster.com provides samples for a wide variety of professions and situations at <http://www.career-advice.monster.com/resumes-cover-letters/careers.aspx>.
- (c) It is important to provide accurate and complete documentation of all relevant training, education, and employment experiences so as to provide assurance to the potential employer, and also to enable that employer to do follow-up work. If you say you have certain skills, such as computer skills, try to substantiate the claim with recognized proof of proficiency. Make sure that all addresses and phone numbers are accurate and up-to-date. Also, ensure that the people you use as references have a copy of your résumé and cover letter, and that they are informed that you are interviewing so they know to expect a call.
- (d) See the sample résumés provided in the websites above for various format options. You might also mention to students that there are electronic résumé templates available on the Internet.

- (a) The existence of three different forms of certification would most likely create confusion for coffee purchasers. It would be difficult to know what aspects of the coffee growing process each certification covered. Similarly, if there were multiple groups that certified financial statements, each with different criteria, it would be difficult for financial statement users to know what each certification promised.**
- (b) The Starbucks certification appears to be the most common in that area. It has the advantage of having a direct link to the Starbucks coffee market. Although it does not guarantee that Starbucks will buy its coffee, it is a requirement that must be met before Starbucks will buy somebody's coffee. Note that the article states that the Starbucks certification "incorporates elements of social responsibility and environmental leadership, but quality of coffee is the first criteria." The Smithsonian Bird Friendly is considered to have the strictest requirements and, as a result, appears to be the least common.**
- (c) The certifications have multiple objectives including organic farming as a means to protect bird species, biodiversity and wildlife habitat. Some included requirements are to improve workers' living conditions, such as providing running water in worker housing, child labor regulations and education requirements. As mentioned above, the Starbucks certification has the potential financial benefit of making Starbucks a potential customer, which can stabilize farmers' earnings. Certifications can also be financially beneficial because companies can benefit from the positive public relations effects of either producing or buying coffee produced using sustainable practices.**

| Account | Financial Statement | Position in Financial Statement |
|---|--------------------------------------|--|
| Other operating income and expense | Consolidated Income Statement | After gross profit and before operating profit |
| Cash and cash equivalents | Consolidated Balance Sheet | Current assets |
| Trade accounts payable | Consolidated Balance Sheet | Current liabilities |
| Cost of net financial debt | Consolidated Income Statement | After operating profit and before profit from continuing operations before taxes. |