

## CHAPTER 2

### The Recording Process

#### ASSIGNMENT CLASSIFICATION TABLE

<u>Study Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Exercises</u>	<u>Problems Set A</u>	<u>Problems Set B</u>
1. Define debits and credits and illustrate how they are used to record transactions.	1, 2, 3, 4, 5, 6, 7	1, 2, 3, 4, 5, 6, 8	1, 2, 3, 4	1, 2	1, 2
2. Explain the recording process and analyze, journalize, and post transactions.	8, 9, 10, 11, 12, 13, 14, 15	7, 8, 9, 10, 11, 12	1, 4, 5, 6, 7, 8, 9, 10, 11	2, 3, 4, 5, 6, 7, 9	2, 3, 4, 5, 6, 7, 9
3. Explain the purpose of a trial balance, and prepare one.	16, 17, 18, 19, 20, 21	13, 14	1, 9, 10, 11, 12, 13, 14	4, 5, 6, 7, 8, 9, 10, 11, 12, 13	4, 5, 6, 7, 8, 9, 10, 11, 12, 13

## ASSIGNMENT CHARACTERISTICS TABLE

<u>Problem Number</u>	<u>Description</u>	<u>Difficulty Level</u>	<u>Time Allotted (min.)</u>
1A	Identify type of account, financial statement, normal balances, and debits and credits.	Simple	15-20
2A	Perform transaction analysis and journalize transactions.	Simple	15-20
3A	Journalize transactions.	Simple	20-30
4A	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
5A	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
6A	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
7A	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
8A	Prepare financial statements.	Simple	25-35
9A	Journalize transactions, post, and prepare trial balance.	Moderate	65-75
10A	Prepare financial statements.	Simple	25-35
11A	Prepare trial balance and financial statements.	Simple	35-45
12A	Analyze errors and effects on trial balance.	Moderate	25-35
13A	Prepare correct trial balance.	Complex	30-40
1B	Identify type of account, financial statement, normal balances, and debits and credits.	Simple	15-20
2B	Perform transaction analysis and journalize transactions.	Simple	15-20
3B	Journalize transactions.	Simple	20-30
4B	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
5B	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
6B	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
7B	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
8B	Prepare financial statements.	Simple	25-35
9B	Journalize transactions, post, and prepare trial balance.	Moderate	65-75
10B	Prepare financial statements.	Simple	25-35

**ASSIGNMENT CHARACTERISTICS TABLE**

<u>Problem Number</u>	<u>Description</u>	<u>Difficulty Level</u>	<u>Time Allotted (min.)</u>
11B	Prepare trial balance and financial statements.	Simple	35-45
12B	Analyze errors and effects on trial balance.	Moderate	25-35
13B	Prepare correct trial balance.	Complex	30-40

## BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Study Objectives and End-of-Chapter Material

Study Objective	Knowledge	Comprehension	Application		Analysis	Syn-thesis	Evalu-ation
1. Define debits and credits and illustrate how they are used to record transactions.	Q2-2 Q2-3 BE2-2 BE2-3 BE2-4 E2-1 P2-1A P2-1B	Q2-1 Q2-4 Q2-5 Q2-6 Q2-7 BE2-5 BE2-6 E2-2 E2-3	BE2-1 BE2-8 E2-4 P2-2A P2-2B				
2. Explain the recording process and analyze, journalize, and post transactions.	Q2-10 Q2-11 E2-1	Q2-8 Q2-9 Q2-12 Q2-13 Q2-14 Q2-15	BE2-7 BE2-9 BE2-11 E2-4 E2-6 E2-8 E2-10 P2-2A P2-3A P2-4A P2-5A P2-6A P2-7A P2-9A	BE2-8 BE2-10 BE2-12 E2-5 E2-7 E2-9 E2-11 P2-2B P2-3B P2-4B P2-5B P2-6B P2-7B P2-9B			
3. Explain the purpose of a trial balance, and prepare one.	Q2-16 E2-1	Q2-17 Q2-18 Q2-19	Q2-21 E2-9 E2-10 E2-14 P2-4A P2-5A P2-6A P2-7A P2-8A P2-9A P2-10A P2-11A	BE2-13 BE2-14 E2-11 E2-12 P2-4B P2-5B P2-6B P2-7B P2-8B P2-9B P2-10B P2-11B	Q2-20 E2-13 P2-12A P2-13A P2-12B P2-13B		
Broadening Your Perspective		BYP2-1 BYP2-4	BYP2-2 BYP2-3 BYP2-6			BYP2-5	

## ANSWERS TO QUESTIONS

1. An account is an accounting record of increases and decreases in a specific asset, liability, or owner's equity item. A company will need, at a minimum, two accounts to represent an asset account and either a liability or owner's equity account. However, companies usually have many accounts since they will have different types of assets, liabilities, and owner's equity items, including drawings, revenues, and expenses.
2. Debiting an account refers to the practice of entering an amount on the debit (or left) side of an account. Crediting an account signifies entering an amount on the credit (or right) side of an account.
3. Assets are on the left side of the basic accounting equation and liabilities and owner's equity are on the right side of the basic accounting equation. Since debits are on the left side, and assets are also on the left side, the normal balance of an asset is a debit balance.

Since credits are on the right side and liabilities are on the right side, the normal balance of a liability is a credit balance. The same is also true for owner's equity. Revenues increase owner's equity and therefore also have a normal credit balance. But expenses and drawings are decreases to owner's equity and thus have a normal debit balance.

4. Kim 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. Whether a debit or credit balance is favourable or unfavourable depends on the type of account being considered. For example, a credit balance would be considered to be favourable for a revenue account and unfavourable for a Cash (asset) account.
5. Dmitri is incorrect because debit and credit don't mean increase or decrease. Debit means left side and credit means right side. Different types of accounts will increase with debits versus credits. Accounts on the left side of the accounting equation (assets) will increase with debits. Accounts on the right side of the accounting equation (liabilities and owner's equity) will increase with credits except for expenses and drawings which are decreases to owner's equity and therefore are increased with debits. Thisway the accounting equation remains in balance.
6. The normal balance of owner's capital is a credit. The account is increased by credits and decreased by debits. Both drawings and expenses reduce owner's equity. Because of this, their normal balance is a debit. These two accounts are increased by debits, which end up reducing owner's equity.

## QUESTIONS (Continued)

7. Jermyn is incorrect. The double-entry system merely records the effect of a transaction on the two (or more) accounts affected. A transaction is not recorded twice; it is recorded once, with a dual (or multiple) effect on the accounting equation.
8. An event or transaction is recorded only if it causes the company's financial position (assets, liabilities, and/or owner's equity) to change. In some events, nothing is currently obtained nor given up so nothing is recorded. The event may lead to a future transaction that changes the company's financial position but is not recorded until that time. An example of an event that is not currently recorded but will result in a future transaction is the signing of a lease.
9. After it is determined that a transaction should be recorded because it does cause the company's financial position to change, analyzing a business transaction involves: identifying (1) the type of accounts involved, (2) whether the accounts are increased or decreased, and (3) whether the accounts need to be debited or credited.
10. A simple journal entry refers to an entry that affects only two accounts, a debit to one account and a credit to another account. A compound entry refers to an entry that affects three or more accounts. To ensure the accounting equation remains balanced, the total of the debit and credit amounts must be equal.
11. The steps in the recording process are the same whether they are performed manually or by a computerized system. The first two steps, the analysis and entering of each transaction, must be done by a person even when a computerized system is used. The first step involves determining what accounts are affected by the transaction and for what amount – this step does not change whether the system is manual or computerized. The second step, entering or journalizing the transaction, must be done by a person. However, in some computerized systems, errors can be prevented by ensuring that both the debit and credit sides of the entry balance before the transaction is accepted by the system. The third step, posting to ledger accounts, can be done automatically by a computerized system. This substantially reduces the possibility of making mistakes, since the accounts identified in the second step are adjusted automatically by the computerized system and for the same amount as recorded. When done manually, this step can lead to errors in posting the amount, posting the amount to the wrong side of the account, posting the amount to the wrong account, or not posting part of a transaction.

## QUESTIONS (Continued)

12. The accounts that could be credited are Revenue, Accounts Receivable and Unearned Revenue. Revenue would be credited for a cash sale. Accounts Receivable would be credited when a customer makes a payment on account for revenue that was previously earned and recorded. Unearned Revenue would be credited when a customer pays in advance.
13. Debits and credits could be recorded directly in the ledger; however, this is not the recommended practice. The advantages of using the journal are:
1. It discloses in one place the complete effect 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 readily compared.
- The advantage of the last step in the posting process is to indicate that the item has been posted, and to provide a cross-reference.
14. The T account is often used in accounting textbooks for illustrative purposes. It shows only the debit and credit side of a ledger account. It is faster to create and more efficient for analyzing the impact of specific transactions. Businesses however usually use a "standard" form of account. This form shows a debit and credit column but also include additional information such as the balance of the account (to show the account balance after every transaction), the date, explanation and reference. This additional information is useful in preventing and detecting errors.
15. The entire group of accounts maintained by a company, including all the asset, liability, and owners' equity accounts, is referred to collectively as the ledger. A chart of accounts lists the account names and account numbers that identify their location in the ledger. The numbering system used to identify the accounts usually starts with the balance sheet accounts and follows with the income statement accounts. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and identify their location in the ledger.
16. 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 the mathematical equality of debits and credits, after all journalized transactions have been posted. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.

## QUESTIONS (Continued)

17. Since accounts are given an account number in the chart of accounts, the trial balance is prepared in numerical order. Accounts are generally listed and assigned account numbers in the chart of accounts using the following numerical sequence: assets, liabilities, owner's equity, drawings, revenues and lastly expenses. This convention makes it easy for anyone to find an account either in the chart of accounts or in a trial balance.
18. The sequence in which the first four steps in the accounting process does matter in properly accounting for transactions. Unless business transactions are first analyzed, it is possible for the transaction to be misinterpreted or omitted from the accounting process. Once analyzed, the transactions need to be journalized in a journal, after which the transactions are posted to the general ledger in order to arrive at updated balances which then appear in a trial balance.
19. The company should use "December 31" on its trial balance. The trial balance simply shows the balance in the accounts at a specific point in time.
20. (a) The trial balance would not balance, because there were two debits for \$750 and no credits. The debits do not equal the credits. Accounts Payable should have been credited, not debited, for \$750.
- (b) The trial balance would balance, because the debits (\$1,000) and credits (\$1,000) are equal. But both the Service Revenue and the Accounts Receivable balances would be incorrect as the credit should have been recorded as a credit to Accounts Receivable not Service Revenue.
- (c) The trial balance would not balance, because the debit to Rent Expense for \$650 is not equal to the credit to Cash for \$560. The debit side of the trial balance is overstated by \$90, because either the Rent Expense is overstated by \$90 (Rent Expense should have been debited for \$560), or cash is overstated by \$90 (the payment should have been credited for \$650).
21. The following are three types of errors that could cause the trial balance to not balance, in spite of the fact that the ledger accounts have correct balances.
1. When transcribing amounts from the ledger to the trial balance, an account balance was recorded at an incorrect amount or omitted.
  2. Balances in the trial balance did not appear in the correct column.
  3. The addition of the trial balance columns was not done correctly.



## SOLUTIONS TO BRIEF EXERCISES

### BRIEF EXERCISE 2-1

(a)  $\$7,500 + \$16,700 - \$15,400 = \$8,800$

(b)  $\$8,800 + \$13,100 - \$4,700 = \$17,200$

(c)  $\$3,800 - \$6,400 + \$6,800 = \$4,200$

(d)  $\$3,800 + \$7,700 - \$5,900 = \$5,600$

(e)  $\$100,000 - \$24,000 + \$45,000 = \$121,000$

(f)  $\$149,000 - \$121,000 + \$27,000 = \$55,000$

### BRIEF EXERCISE 2-2

Account	(a) Type of Account	(b) Normal Balance
1. Accounts Receivable	Asset	Debit
2. Accounts Payable	Liability	Credit
3. Equipment	Asset	Debit
4. Rent Expense	Owner's Equity	Debit
4. B. Damji, Drawings	Owner's Equity	Debit
6. Supplies	Asset	Debit
7. Unearned Revenue	Liability	Credit
8. Cash	Asset	Debit
9. Service Revenue	Owner's Equity	Credit
10. Prepaid Insurance	Asset	Debit
11. Utilities Expense	Owner's Equity	Debit
12. Notes Payable	Liability	Credit

**BRIEF EXERCISE 2-3**

	(a) <b><u>Normal Balance</u></b>	(b) <b><u>Debit Effect</u></b>	(c) <b><u>Credit Effect</u></b>
1. Accounts Payable	Credit	Decrease	Increase
2. Accounts Receivable	Debit	Increase	Decrease
3. Cash	Debit	Increase	Decrease
4. Supplies	Debit	Increase	Decrease
5. J. Takamoto, Capital	Credit	Decrease	Increase
6. J. Takamoto, Drawings	Debit	Increase	Decrease
7. Prepaid Rent	Debit	Increase	Decrease
8. Rent Expense	Debit	Increase	Decrease
9. Service Revenue	Credit	Decrease	Increase
10. Unearned Revenue	Credit	Decrease	Increase

**BRIEF EXERCISE 2-4**

	(a)	(b)
	<u>Account</u>	<u>Change</u>
	<u>Owner's</u>	<u>with</u>
	<u>Equity</u>	<u>Credit</u>
1. Increase in D. Parmelee, Capital	Owner's Equity	Credit
2. Decrease in Cash	Asset	Credit
3. Decrease in Notes Payable	Liability	Debit
4. Increase in Rent Expense	Owner's Equity	Debit
5. Increase in D. Parmelee, Drawings	Owner's Equity	Debit
6. Increase in Equipment	Asset	Debit
7. Increase in Accounts Payable	Liability	Credit
8. Increase in Service Revenue	Owner's Equity	Credit

## BRIEF EXERCISE 2-5

### Transaction 1:

<b>Basic Analysis</b>	<b>The asset account Cash is decreased by \$445. The asset account Supplies is increased by \$445.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Supplies \$445. Credits decrease assets: credit Cash \$445.</b>

### Transaction 2:

<b>Basic Analysis</b>	<b>The asset account Accounts Receivable is increased by \$1,500. The revenue account Service Revenue is increased by \$1,500.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Accounts Receivable \$1,500. Credits increase revenues: credit Service Revenue \$1,500.</b>

### Transaction 3:

<b>Basic Analysis</b>	<b>The asset account Equipment is increased by \$2,500. The liability account Accounts Payable is increased by \$2,500.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Equipment \$2,500. Credits increase liabilities: credit Accounts Payable \$2,500.</b>

### Transaction 4:

<b>Basic Analysis</b>	<b>The expense account Utilities Expense is increased by \$225. The asset account Cash is decreased by \$225.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase expenses: debit Utilities Expense \$225. Credits decrease assets: credit Cash \$225.</b>

**BRIEF EXERCISE 2-5 (Continued)****Transaction 5:**

<b>Basic Analysis</b>	<b>The asset account Cash is increased by \$500. The revenue account Service Revenue is increased by \$500.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Cash \$500. Credits increase revenues: credit Service Revenue \$500.</b>

**Transaction 6:**

<b>Basic Analysis</b>	<b>The owner's equity account R. Levine, Drawings is increased by \$800. The asset account Cash is decreased by \$800.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase drawings: debit R. Levine, Drawings \$800. Credits decrease assets: credit Cash \$800.</b>

**Transaction 7:**

<b>Basic Analysis</b>	<b>The expense account Salaries Expense is increased by \$2,200. The asset account Cash is decreased by \$2,200.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase expenses: debit Salaries Expense \$2,200. Credits decrease assets: credit Cash \$2,200.</b>

**Transaction 8:**

<b>Basic Analysis</b>	<b>The asset account Cash is increased by \$750. The liability account Unearned Revenue is increased by \$750.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Cash \$750. Credits increase liabilities: credit Unearned Revenue \$750.</b>

**BRIEF EXERCISE 2-6**

<b>Account Debited</b>				<b>Account Credited</b>		
<b>Trans- action</b>	<b>(a) Basic Type</b>	<b>(b) Specific Account</b>	<b>(c) Effect</b>	<b>(a) Basic Type</b>	<b>(b) Specific Account</b>	<b>(c) Effect</b>
<b>Aug. 1</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$16,750</b>	<b>Owner's Equity</b>	<b>B. Fleming, Capital</b>	<b>+ \$16,750</b>
<b>4</b>	<b>Asset</b>	<b>Prepaid Rent</b>	<b>+ \$3,900</b>	<b>Asset</b>	<b>Cash</b>	<b>– \$3,900</b>
<b>5</b>	<b>Asset</b>	<b>Supplies</b>	<b>+ \$645</b>	<b>Liability</b>	<b>Accounts Payable</b>	<b>+ \$645</b>
<b>6</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$950</b>	<b>Owner's Equity</b>	<b>Service Revenue</b>	<b>+ \$950</b>
<b>17</b>	<b>Asset</b>	<b>Accounts Receivable</b>	<b>+ \$1,500</b>	<b>Owner's Equity</b>	<b>Service Revenue</b>	<b>+ \$1,500</b>
<b>27</b>	<b>Owner's Equity</b>	<b>Salaries Expense</b>	<b>+ \$875</b>	<b>Asset</b>	<b>Cash</b>	<b>– \$875</b>
<b>29</b>	<b>Owner's Equity</b>	<b>B. Fleming, Drawings</b>	<b>+ \$700</b>	<b>Asset</b>	<b>Cash</b>	<b>– \$700</b>

## **BRIEF EXERCISE 2-7**

- (1) This transaction should be recorded. The asset account Accounts Receivable is increased and the revenue account Service Revenue is also increased. Revenue is recorded when the service is performed, regardless of when the cash is received.**
- (2) This transaction should be recorded. The asset account Cash is increased and the asset account Accounts Receivable is decreased. This transaction represents an exchange of assets. Service Revenue is not recorded again since it was recorded when the service was performed.**
- (3) This transaction is not recorded. No asset, liability, owner's equity, revenue or expense account is affected. The balance owing by the customer, Accounts Receivable, was recorded when the service was performed.**

## BRIEF EXERCISE 2-8

<b>Basic Analysis</b>	The asset account Cash is increased by \$9,500. The owner's equity account T. Pridham, Capital is increased by \$9,500.
<b>Debit/Credit Analysis</b>	Debits increase assets: debit Cash 9,500. Credits increase owner's equity: credit T. Pridham, Capital \$9,500.
<b>Journal Entry</b>	<div> <div>June 1</div> <div> <div>Cash</div> <div>9,500</div> </div> <div> <div>T. Pridham, Capital</div> <div>9,500</div> </div> <div>Invested cash in business.</div> </div>

<b>Basic Analysis</b>	The asset account Equipment is increased by \$3,000. The liability account Accounts Payable is increased by \$3,000.				
<b>Debit/Credit Analysis</b>	Debits increase assets: debit Equipment \$3,000. Credits increase liabilities: credit Accounts Payable \$3,000.				
<b>Journal Entry</b>	<div> <div>June 2</div> <table> <tr> <td>Equipment</td> <td>3,000</td> </tr> <tr> <td>Accounts Payable</td> <td>3,000</td> </tr> </table> <div>Purchased equipment on account.</div> </div>	Equipment	3,000	Accounts Payable	3,000
Equipment	3,000				
Accounts Payable	3,000				

<b>Basic Analysis</b>	<b>June 5: An accounting transaction has not occurred. A debit/credit analysis is not needed because there is no accounting entry.</b>
-----------------------	--



**BRIEF EXERCISE 2-8 (Continued)**

<b>Basic Analysis</b>	The asset account <b>Accounts Receivable</b> is increased by \$1,975. The revenue account <b>Service Revenue</b> is increased by \$1,975.
<b>Debit/Credit Analysis</b>	Debits increase assets: debit <b>Accounts Receivable</b> \$1,975. Credits increase revenues: credit <b>Service Revenue</b> \$1,975.
<b>Journal Entry</b>	<div> June 17 Accounts Receivable 1,975 Service Revenue 1,975 </div> Performed services on account for R. Windl.

<b>Basic Analysis</b>	The asset account <b>Cash</b> is increased by \$1,000. The asset account <b>Accounts Receivable</b> is decreased by \$1,000.
<b>Debit/Credit Analysis</b>	Debits increase assets: debit <b>Cash</b> \$1,000. Credits decrease assets: credit <b>Accounts Receivable</b> \$1,000.
<b>Journal Entry</b>	<div> June 27 Cash 1,000 Accounts Receivable 1,000 </div> Collected cash on account from R. Windl.

<b>Basic Analysis</b>	The liability account <b>Accounts Payable</b> is decreased by \$3,000. The asset account <b>Cash</b> is decreased by \$3,000.
<b>Debit/Credit Analysis</b>	Debits decrease liabilities: debit <b>Accounts Payable</b> \$3,000. Credits decrease assets: credit <b>Cash</b> \$3,000.
<b>Journal Entry</b>	<div> June 29 Accounts Payable 3,000 Cash 3,000 </div> Paid for equipment purchased on June 2.

Basic Analysis	The expense account Salaries Expense is increased by \$1,800. The asset account Cash is decreased by \$1,800.		
Debit/Credit Analysis	Debits increase expenses: debit Salaries Expense \$1,800. Credits decrease assets: credit Cash \$1,800.		
Journal Entry	June 30	Salaries Expense	1,800
		Cash	1,800
		Paid employee for one-half of a month's work	

**BRIEF EXERCISE 2-9**

<b>Aug</b>	<b>31</b>	<b>Supplies .....</b>	<b>445</b>	
		<b>Cash .....</b>		<b>445</b>
	<b>31</b>	<b>Accounts Receivable .....</b>	<b>1,500</b>	
		<b>Service Revenue .....</b>		<b>1,500</b>
	<b>31</b>	<b>Equipment .....</b>	<b>2,500</b>	
		<b>Accounts Payable .....</b>		<b>2,500</b>
	<b>31</b>	<b>Utilities Expense .....</b>	<b>225</b>	
		<b>Cash .....</b>		<b>225</b>
	<b>31</b>	<b>Cash .....</b>	<b>500</b>	
		<b>Service Revenue .....</b>		<b>500</b>
	<b>31</b>	<b>R. Levine, Drawings .....</b>	<b>800</b>	
		<b>Cash .....</b>		<b>800</b>
	<b>31</b>	<b>Salaries Expense .....</b>	<b>2,200</b>	
		<b>Cash .....</b>		<b>2,200</b>
	<b>31</b>	<b>Cash .....</b>	<b>750</b>	
		<b>Unearned Revenue .....</b>		<b>750</b>

**BRIEF EXERCISE 2-10**

<b>Aug</b>	<b>1</b>	<b>Cash .....</b>	<b>16,750</b>	
		<b>B. Fleming, Capital .....</b>		<b>16,750</b>
	<b>4</b>	<b>Prepaid Rent.....</b>	<b>3,900</b>	
		<b>Cash .....</b>		<b>3,900</b>
	<b>5</b>	<b>Supplies.....</b>	<b>645</b>	
		<b>Accounts Payable.....</b>		<b>645</b>
	<b>6</b>	<b>Cash .....</b>	<b>950</b>	
		<b>Service Revenue.....</b>		<b>950</b>
	<b>17</b>	<b>Accounts Receivable .....</b>	<b>1,500</b>	
		<b>Service Revenue.....</b>		<b>1,500</b>
	<b>27</b>	<b>Salaries Expense.....</b>	<b>875</b>	
		<b>Cash .....</b>		<b>875</b>
	<b>29</b>	<b>B. Fleming, Drawings.....</b>	<b>700</b>	
		<b>Cash .....</b>		<b>700</b>

**BRIEF EXERCISE 2-11****Cash**

Aug. 1	16,750	Aug. 4	3,900
6	950	27	875
		29	700
Bal.	12,225		

**B. Fleming, Capital**

	Aug. 1	16,750
Bal.		16,750

**Accounts Receivable**

Aug. 17	1,500	
Bal.	1,500	

**B. Fleming, Drawings**

Aug. 29	700	
Bal.	700	

**Prepaid Rent**

Aug. 4	3,900	
Bal.	3,900	

**Service Revenue**

	Aug. 6	950
	17	1,500
Bal.		2,450

**Supplies**

Aug. 5	645	
Bal.	645	

**Salaries Expense**

Aug. 27	875	
Bal.	875	

**Accounts Payable**

	Aug. 5	645
	Bal.	645

**BRIEF EXERCISE 2-12**

<b>Cash</b>			
Sept. 10	1,050	Sept. 14	95
28	1,325	15	850
		30	450
Sept. 30	Bal. 980		

<b>Accounts Payable</b>			
Sept. 30	450	Sept. 4	750
		Sept. 30	Bal. 300

<b>Accounts Receivable</b>			
Sept. 2	2,275	Sept. 28	1,325
Sept. 30	Bal. 950		

<b>Service Revenue</b>			
		Sept. 2	2,275
		10	1,050
		Sept. 30	Bal. 3,325

<b>Supplies</b>			
Sept. 4	750		
Sept. 30	Bal. 750		

<b>Salaries Expense</b>			
Sept. 15	850		
Sept. 30	Bal. 850		

<b>Utilities Expense</b>			
Sept. 14	95		
Bal.	95		

**BRIEF EXERCISE 2-13**

**PETTIPAS COMPANY**  
**Trial Balance**  
**April 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$6,400	
Accounts receivable .....	5,000	
Supplies .....	650	
Prepaid rent .....	800	
Equipment .....	14,600	
Accounts payable.....		\$ 3,300
Unearned revenue .....		250
C. Pettipas, capital .....		22,500
C. Pettipas, drawings .....	1,100	
Service revenue.....		8,000
Rent expense.....	4,500	
Salaries expense .....	1,000	
	<u>\$34,050</u>	<u>\$34,050</u>

## BRIEF EXERCISE 2-14

1. The Prepaid Insurance balance was in the wrong column. Assets have a normal debit balance. When this account is moved to the debit column, the new total in the debit column will be \$46,200 (\$42,700 + \$3,500) and the new total in the credit column will be \$47,100 (\$50,600 – \$3,500).
2. The trial balance is now out of balance by \$900 (\$46,200 – \$47,100). The transposition error in L. Bourque, Capital account is the cause of the \$900 difference. If the \$15,400 balance in that account is transposed to \$14,500 this will reduce the total credits by \$900 and the trial balance will now balance. See revised trial balance below:

**BOURQUE COMPANY**  
**Trial Balance**  
**December 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$15,000	
Accounts receivable .....	1,800	
Prepaid insurance .....	3,500	
Accounts payable.....		\$ 2,000
Unearned revenue .....		2,200
L. Bourque, capital .....		14,500
L. Bourque, drawings.....	4,900	
Service revenue.....		27,500
Rent expense.....	2,400	
Salaries expense .....	18,600	
	<u>\$46,200</u>	<u>\$46,200</u>



## **SOLUTIONS TO EXERCISES**

### **EXERCISE 2-1**

- (a) 4. Credit**
- (b) 2. Analyzing transactions**
- (c) 9. Posting**
- (d) 1. Account**
- (e) 5. Debit**
- (f) 7. Journalizing**
- (g) 10. Trial balance**
- (h) 4. Credit**
- (i) 3. Chart of accounts**
- (j) 6. Journal**

## EXERCISE 2-2

(a)

<b>Account</b>	<b>(1) Type of Account</b>	<b>(2) Financial Statement</b>	<b>(3) Normal Balance</b>
Cash	Asset	Balance Sheet	Debit
M. Kobayashi, Capital	Owner's Capital	Balance Sheet and Statement of Owner's Equity	Credit
Accounts Payable	Liability	Balance Sheet	Credit
Building	Asset	Balance Sheet	Debit
Fees Earned	Revenue	Income Statement	Credit
Insurance Expense	Expense	Income Statement	Debit
Interest Revenue	Revenue	Income Statement	Credit
M. Kobayashi, Drawings	Drawings	Statement of Owner's Equity	Debit
Notes Receivable	Asset	Balance Sheet	Debit
Prepaid Insurance	Asset	Balance Sheet	Debit
Rent Expense	Expense	Income Statement	Debit
Supplies	Asset	Balance Sheet	Debit

(b)

Assets are on the left side of the basic accounting equation and liabilities and owner's equity are on the right side of the basic accounting equation. Since debits are on the left side, and assets are also on the left side, the normal balance of an asset is a debit balance.

Since credits are on the right side and liabilities are on the right side, the normal balance of a liability is a credit balance. The same is also true for owner's equity. Revenues increase owner's equity and therefore also have a normal credit balance. But expenses and drawings are decreases to owner's equity and thus have a normal debit balance.

**EXERCISE 2-3**

Account Debited				Account Credited		
Trans- action	(a) Basic Type	(b) Specific Account	(c) Effect	(a) Basic Type	(b) Specific Account	(c) Effect
Mar. 3	Asset	Cash	+ \$10,000	Owner's Equity	J. MacKenzie, Capital	+\$10,000
4	Asset	Cash	+ \$10,000	Liability	Notes Payable	+\$10,000
6	Asset	Vehicles	+ \$9,500	Asset	Cash	– \$9,500
7	Asset	Supplies	+ \$1,500	Liability	Accounts Payable	+ \$1,500
12	Asset	Accounts Receivable	+ \$2,100	Owner's Equity	Service Revenue	+ \$2,100
21	Owner's Equity	Advertising Expense	+ \$525	Asset	Cash	– \$525
25	Asset	Cash	+ \$1,200	Asset	Accounts Receivable	– \$1,200
28	Liability	Accounts Payable	– \$1,500	Asset	Cash	– \$1,500
30	Asset	Cash	+ \$750	Liability	Unearned Revenue	+ \$750
31	Owner's Equity	J. MacKenzie, Drawings	+ \$1,400	Asset	Cash	– \$1,400

**EXERCISE 2-4**

<b>Basic Analysis</b>	The expense account Rent Expense is increased by \$550. The asset account Cash is decreased by \$550.		
<b>Debit/Credit Analysis</b>	Debits increase expenses: debit Rent Expense \$550. Credits decrease assets: credit Cash \$550.		
<b>Journal Entry</b>	June 1	<div style="display: flex; justify-content: space-between;"> <div>Rent Expense</div> <div>550</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Cash</div> <div>550</div> </div>	
		Paid June rent.	

<b>Basic Analysis</b>	The expense account Insurance Expense is increased by \$175. The asset account Cash is decreased by \$175.		
<b>Debit/Credit Analysis</b>	Debits increase expenses: debit Insurance Expense \$175. Credits decrease assets: credit Cash \$175.		
<b>Journal Entry</b>	June 2	<div style="display: flex; justify-content: space-between;"> <div>Insurance Expense</div> <div>175</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Cash</div> <div>175</div> </div>	
		Paid one month of insurance.	

<b>Basic Analysis</b>	The asset account Cash is increased by \$1,255. The asset account Accounts Receivable is decreased by \$1,255.		
<b>Debit/Credit Analysis</b>	Debits increase assets: debit Cash \$1,255. Credits decrease assets: credit Accounts Receivable \$1,255.		
<b>Journal Entry</b>	June 5	<div style="display: flex; justify-content: space-between;"> <div>Cash</div> <div>1,255</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Accounts Receivable</div> <div>1,255</div> </div>	
		Collected cash on account.	

**EXERCISE 2-4 (Continued)**

<b>Basic Analysis</b>	<b>June 9: An accounting transaction has not occurred. A debit/credit analysis is not needed because there is no accounting entry.</b>
-----------------------	--

Basic Analysis	The liability account Accounts Payable is decreased by \$675. The asset account Cash is decreased by \$675.
Debit/Credit Analysis	Debits decrease liabilities: debit Accounts Payable \$675. Credits decrease assets: credit Cash \$675.
Journal Entry	June 14 Accounts Payable 675 Cash 675 Paid cash on account.

Basic Analysis	The asset account Accounts Receivable is increased by \$1,420. The revenue account Service Revenue is increased by \$1,420.		
Debit/Credit Analysis	Debits increase assets: debit Accounts Receivable \$1,420. Credits increase revenues: credit Service Revenue \$1,420.		
Journal Entry	June 17	Accounts Receivable	1,420
		Service Revenue	1,420
	Performed services on account for Rudy Holland.		

**EXERCISE 2-4 (Continued)**

<b>Basic Analysis</b>	The asset account Cash is increased by \$1,000. The liability account Unearned Revenue is increased by \$1,000.
<b>Debit/Credit Analysis</b>	Debits increase assets: debit Cash \$1,000. Credits increase liabilities: credit Unearned Revenue \$1,000.
<b>Journal Entry</b>	<div style="display: flex; justify-content: space-between;"> <div>June 19 Cash</div> <div>1,000</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Unearned Revenue</div> <div>1,000</div> </div> <p style="text-align: center;">Received advance from J. Dupuis for future services.</p>

<b>Basic Analysis</b>	The asset account Equipment is increased by \$1,575. The liability account Accounts Payable is increased by \$1,575.
<b>Debit/Credit Analysis</b>	Debits increase assets: debit Equipment \$1,575. Credits increase liabilities: credit Accounts Payable \$1,575.
<b>Journal Entry</b>	<div style="display: flex; justify-content: space-between;"> <div>June 29 Equipment</div> <div>1,575</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Accounts Payable</div> <div>1,575</div> </div> <p style="text-align: center;">Purchased equipment on account.</p>

<b>Basic Analysis</b>	The expense account Salaries Expense is increased by \$850. The asset account Cash is decreased by \$850.
<b>Debit/Credit Analysis</b>	Debits increase expenses: debit Salaries Expense \$850. Credits decrease assets: credit Cash \$850.
<b>Journal Entry</b>	<div style="display: flex; justify-content: space-between;"> <div>June 30 Salaries Expense</div> <div>850</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Cash</div> <div>850</div> </div> <p style="text-align: center;">Paid employee.</p>

**EXERCISE 2-4 (Continued)**

<b>Basic Analysis</b>	The owner's equity account D. Bratt, Drawings is increased by \$1,250. The asset account Cash is decreased by \$1,250.
<b>Debit/Credit Analysis</b>	Debits increase drawings: debit D. Bratt, Drawings \$1,250. Credits decrease assets: credit Cash \$1,250.
<b>Journal Entry</b>	<div> June 30 D. Bratt, Drawings 1,250  Cash 1,250  Paid D. Bratt, the company owner. </div>

**EXERCISE 2-5**

<b>GENERAL JOURNAL</b>			<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>Mar. 3</b>	<b>Cash .....</b>	<b>10,000</b>	
	<b>J. MacKenzie, Capital .....</b>		<b>10,000</b>
<b>4</b>	<b>Cash .....</b>	<b>10,000</b>	
	<b>Notes Payable .....</b>		<b>10,000</b>
<b>6</b>	<b>Vehicles.....</b>	<b>9,500</b>	
	<b>Cash.....</b>		<b>9,500</b>
<b>7</b>	<b>Supplies .....</b>	<b>1,500</b>	
	<b>Accounts Payable .....</b>		<b>1,500</b>
<b>12</b>	<b>Accounts Receivable .....</b>	<b>2,100</b>	
	<b>Service Revenue .....</b>		<b>2,100</b>
<b>21</b>	<b>Advertising Expense .....</b>	<b>525</b>	
	<b>Cash.....</b>		<b>525</b>
<b>25</b>	<b>Cash .....</b>	<b>1,200</b>	
	<b>Accounts Receivable.....</b>		<b>1,200</b>
<b>28</b>	<b>Accounts Payable .....</b>	<b>1,500</b>	
	<b>Cash.....</b>		<b>1,500</b>
<b>30</b>	<b>Cash .....</b>	<b>750</b>	
	<b>Unearned Revenue .....</b>		<b>750</b>
<b>31</b>	<b>J. MacKenzie, Drawings.....</b>	<b>1,400</b>	
	<b>Cash.....</b>		<b>1,400</b>



**EXERCISE 2-6****GENERAL JOURNAL**

<b>Trans.</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>(a) and (b)</b>				
1.	Cash .....		1,785	
	Service Revenue .....			1,785
	Revenues increase owner's equity.			
2.	Rent Expense .....		965	
	Cash .....			965
	Expenses decrease owner's equity.			
3.	Supplies .....		480	
	Accounts Payable .....			480
	Owner's equity is not affected by this transaction.			
4.	Accounts Receivable .....		2,160	
	Service Revenue .....			2,160
	Revenues increase owner's equity.			
5.	Cash .....		1,000	
	Accounts Receivable .....			1,000
	Owner's equity is not affected by this transaction.			
6.	Cash .....		5,000	
	Notes payable .....			5,000
	Owner's equity is not affected by this transaction.			

**EXERCISE 2-6 (Continued)****(a) and (b) (Continued)**

7.	Equipment.....	5,000	
	Cash.....		5,000

Owner's equity is not affected by this transaction.

8.	Cash .....	800	
	Unearned Revenue .....		800

Owner's equity is not affected by this transaction.

9.	Prepaid Advertising .....	850	
	Cash.....		850

Owner's equity is not affected by this transaction.

10.	Accounts Payable .....	480	
	Cash.....		480

Owner's equity is not affected by this transaction.

11.	S. Beaulieu, Drawings .....	1,565	
	Cash.....		1,565

Drawings reduce owner's equity.

**(c)**

Owner's equity, beginning balance .....	\$8,050
Transaction 1, revenue.....	1,785
Transaction 2, expenses .....	(965)
Transaction 4, revenue.....	2,160
Transaction 11, drawings.....	<u>(1,565)</u>
Owner's equity, ending balance .....	<u>\$9,465</u>

**EXERCISE 2-7****GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Oct. 1</b>	<b>Cash .....</b>		<b>14,000</b>	
	<b>Equipment.....</b>		<b>3,000</b>	
	<b>    S. Polland, Capital .....</b>			<b>17,000</b>
<b>2</b>	<b>Prepaid Insurance .....</b>		<b>1,200</b>	
	<b>    Cash.....</b>			<b>1,200</b>
<b>3</b>	<b>Equipment.....</b>		<b>4,450</b>	
	<b>    Cash.....</b>			<b>850</b>
	<b>    Notes Payable .....</b>			<b>3,600</b>
<b>10</b>	<b>Cash .....</b>		<b>350</b>	
	<b>    Service Revenue .....</b>			<b>350</b>
<b>16</b>	<b>Accounts Receivable .....</b>		<b>7,500</b>	
	<b>    Service Revenue .....</b>			<b>7,500</b>
<b>27</b>	<b>Advertising Expense.....</b>		<b>700</b>	
	<b>    Cash.....</b>			<b>700</b>
<b>29</b>	<b>Telephone Expense.....</b>		<b>95</b>	
	<b>    Accounts Payable.....</b>			<b>95</b>
<b>30</b>	<b>Salaries Expense.....</b>		<b>2,000</b>	
	<b>    Cash.....</b>			<b>2,000</b>
<b>31</b>	<b>Cash .....</b>		<b>7,500</b>	
	<b>    Accounts Receivable.....</b>			<b>7,500</b>

**EXERCISE 2-8**

Cash				S.Polland, Capital				
Oct.	1	14,000	Oct.2	1,200		Oct.	1	17,000
	10	350		3	850			
	31	7,500		27	700			
				30	2,000			
Oct.31Bal.17,100						Oct. 31Bal. 17,000		

Accounts Receivable				Service Revenue			
Oct. 16	7,500	Oct. 31	7,500		Oct. 10	350	
					16	7,500	
Oct. 31 Bal.	0				Oct. 31	Bal.	7,850

<b>Prepaid Insurance</b>		
Oct. 2	1,200	
Oct. 31 Bal.	1,200	

<b>Equipment</b>			<b>Salaries Expense</b>		
Oct. 1	3,000		Oct. 30	2,000	
3	4,450				
Oct. 31 Bal.	7,450		Oct. 31 Bal.	2,000	

<b>Notes Payable</b>			<b>Advertising Expense</b>		
	Oct. 3	3,600	Oct. 27	700	
	Oct. 31 Bal.	3,600	Oct. 31 Bal.	700	

<b>Accounts Payable</b>			<b>Telephone Expense</b>		
	Oct. 29	95	Oct. 29	95	
	Oct. 31 Bal.	95	Oct. 31 Bal.	95	

**EXERCISE 2-9**

<b>(a)</b>		<b>GENERAL JOURNAL</b>		<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>	
Oct. 1	Cash .....	1,200		
	A. Fortin, Capital .....		1,200	
	Invested cash in business.			
3	Equipment.....	5,400		
	Cash.....		400	
	Notes Payable .....		5,000	
	Purchased equipment and issued a note.			
4	Supplies .....	800		
	Accounts Payable.....		800	
	Purchased supplies on account.			
6	Accounts Receivable .....	1,000		
	Service Revenue .....		1,000	
	Performed services on credit.			
10	Cash .....	650		
	Service Revenue .....		650	
	Performed services for cash.			
12	Accounts Payable .....	500		
	Cash.....		500	
	Paid cash on account.			
15	Cash .....	3,000		
	Service Revenue .....		3,000	
	Performed services for cash.			
20	Accounts Receivable .....	940		
	Service Revenue .....		940	
	Performed services for credit.			

**EXERCISE 2-9 (Continued)****(a) (Continued)**

<b>GENERAL JOURNAL</b>			<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>20</b>	<b>Cash .....</b>	<b>800</b>	
	<b>    Accounts Receivable.....</b>		<b>800</b>
	<b>        Received cash on account.</b>		
<b>25</b>	<b>Cash .....</b>	<b>2,000</b>	
	<b>    A. Fortin, Capital .....</b>		<b>2,000</b>
	<b>        Invested cash in business.</b>		
<b>28</b>	<b>Advertising Expense .....</b>	<b>400</b>	
	<b>    Accounts Payable .....</b>		<b>400</b>
	<b>        Purchased advertising on account.</b>		
<b>30</b>	<b>A. Fortin, Drawings .....</b>	<b>600</b>	
	<b>    Cash.....</b>		<b>600</b>
	<b>        Withdrew cash for personal use.</b>		
<b>31</b>	<b>Rent Expense .....</b>	<b>250</b>	
	<b>    Cash.....</b>		<b>250</b>
	<b>        Paid rent.</b>		
<b>31</b>	<b>Salaries Expense.....</b>	<b>500</b>	
	<b>    Cash.....</b>		<b>500</b>
	<b>        Paid salaries.</b>		

**EXERCISE 2-9 (Continued)****(b)**

**FORTIN CO.**  
**Trial Balance**  
**October 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 5,400	
Accounts receivable .....	1,140	
Supplies .....	800	
Equipment.....	5,400	
Notes payable.....		\$ 5,000
Accounts payable.....		700
A. Fortin, capital .....		3,200
A. Fortin, drawings.....	600	
Service revenue.....		5,590
Advertising expense .....	400	
Rent expense.....	250	
Salaries expense .....	500	
	<u>\$14,490</u>	<u>\$14,490</u>

**EXERCISE 2-10**

(a) and (b)

Cash		L. Meche, Capital	
Aug. 1	8,800	Aug. 1	15,000
12	2,400		
31	5,910		
Aug.31 Bal.	7,930	Aug. 31 Bal.	15,000

  

Accounts Receivable		L. Meche, Drawings	
Aug. 1	2,750	Aug. 1	5,125
31	2,550	31	4,770
Aug. 31 Bal.	2,900	Aug.31 Bal.	9,895

  

Supplies		Fees Earned	
Aug. 1	585	Aug. 1	10,410
		31	8,460
Aug.31	Bal. 585	Aug.31	Bal.18,870

  

Equipment		Rent Expense	
Aug. 1	15,550	Aug. 1	1,200
		1	1,200
Aug.31 Bal.	15,550	Aug.31 Bal.	2,400

  

Notes Payable		Salaries Expense	
Aug. 30	500	Aug. 1	2,250
		25	2,250
	Aug. 31 Bal. 9,500	Aug.31 Bal.	4,500

  

Accounts Payable		Interest Expense	
Aug. 10	420	Aug.30	40
	Aug. 31 Bal. 430	Aug.31	Bal. 40



**EXERCISE 2-10 (Continued)****(c)**

**LEE MECHE, MD**  
**Trial Balance**  
**August 31, 2014**

---

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$7,930	
Accounts receivable .....	2,900	
Supplies .....	585	
Equipment.....	15,550	
Notes payable.....		\$9,500
Accounts payable.....		430
L. Meche, capital.....		15,000
L. Meche, drawings .....	9,895	
Fees earned .....		18,870
Interest expense.....	40	
Rent expense.....	2,400	
Salaries expense .....	4,500	
	<u>\$43,800</u>	<u>\$43,800</u>

**EXERCISE 2-11**

(a)

<b>GENERAL JOURNAL</b>				<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>	
<b>May 2</b>	<b>Rent Expense .....</b>	<b>1,200</b>		
	<b>Cash.....</b>		<b>1,200</b>	
<b>4</b>	<b>Supplies .....</b>	<b>700</b>		
	<b>Accounts Payable .....</b>		<b>700</b>	
<b>15</b>	<b>Accounts Payable .....</b>	<b>800</b>		
	<b>Cash.....</b>		<b>800</b>	
<b>31</b>	<b>Salary expense .....</b>	<b>1,800</b>		
	<b>Cash.....</b>		<b>1,800</b>	
<b>31</b>	<b>Cash .....</b>	<b>9,500</b>		
	<b>Accounts Receivable .....</b>	<b>500</b>		
	<b>Service Revenue .....</b>		<b>10,000</b>	

(b)

<b>Cash</b>			<b>Accounts Payable</b>		
<b>May 1</b>	<b>6,000</b>		<b>May 2</b>	<b>1,200</b>	
<b>31</b>	<b>9,500</b>			<b>15 800</b>	
			<b>31 1,800</b>		
<b>May 31 Bal.</b>	<b>11,700</b>		<b>May 15</b>	<b>800</b>	
				<b>May 31 Bal.</b>	<b>700</b>

  

<b>Accounts Receivable</b>			<b>Notes Payable</b>		
<b>May 31</b>	<b>500</b>			<b>May 1</b>	<b>50,000</b>
<b>May 31 Bal.</b>	<b>500</b>			<b>May 31 Bal.</b>	<b>50,000</b>

**EXERCISE 2-11 (Continued)****(b) (Continued)**

<b>Supplies</b>		<b>S. Ahuja, Capital</b>	
May 1	1,000		May 1 21,200
May	4700		
May 31 Bal.	1,700		May31Bal. 21,200

  

<b>Equipment</b>		<b>Service Revenue</b>	
May 1	65,000		May 3110,000
May31Bal.	65,000		May 31Bal.10,000

  

<b>Rent Expense</b>		<b>Salaries Expense</b>	
May 2	1,200	May 31	1,800
May31Bal.	1,200	May31Bal.	1,800

**(c)**

**AHUJA DENTAL SERVICES**  
**Trial Balance**  
**May 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$11,700	
Accounts receivable .....	500	
Supplies .....	1,700	
Equipment.....	65,000	
Notes payable.....		\$50,000
Accounts payable.....		700
S. Ahuja, capital.....		21,200
Service revenue.....		10,000
Rent expense.....	1,200	
Salaries expense .....	1,800	
	<u>\$81,900</u>	<u>\$81,900</u>

**EXERCISE 2-11 (Continued)****(d)**

**AHUJA DENTAL SERVICES**  
**Income Statement**  
**Month Ended May 31, 2014**

---

<b>Revenues</b>	
Service revenue .....	<b>\$10,000</b>
<b>Expenses</b>	
Rent expense .....	<b>\$1,200</b>
Salaries expense.....	<b><u>1,800</u></b>
Total expenses .....	<b><u>3,000</u></b>
<b>Profit .....</b>	<b><u><u>\$7,000</u></u></b>

**AHUJA DENTAL SERVICES**  
**Statement of Owner's Equity**  
**Month Ended May 31, 2014**

---

S. Ahuja, capital, May 1, 2014 .....	<b>\$21,200</b>
Add: Profit .....	<b><u>7,000</u></b>
S. Ahuja, capital, May 31, 2014 .....	<b><u><u>\$28,200</u></u></b>

**EXERCISE 2-11 (Continued)****(d) (Continued)**

**AHUJA DENTAL SERVICES**  
**Balance Sheet**  
**May 31, 2014**

---

<u><b>Assets</b></u>	
Cash .....	\$11,700
Accounts receivable .....	500
Supplies .....	1,700
Equipment.....	<u>65,000</u>
<b>Total assets</b> .....	<b><u>\$78,900</u></b>
<u><b>Liabilities and Owner's Equity</b></u>	
<b>Liabilities</b>	
Notes payable .....	\$50,000
Accounts payable .....	<u>700</u>
<b>Total liabilities</b> .....	<b>50,700</b>
<b>Owner's Equity</b>	
S. Ahuja, capital .....	<u>28,200</u>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$78,900</u></b>

**EXERCISE 2-12****(a)**

**O'NEILL'S PSYCHOLOGICAL SERVICES**  
**Trial Balance**  
**July 31, 2014**

---

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$6,470	
Accounts receivable .....	7,340	
Supplies .....	790	
Equipment.....	58,900	
Notes payable.....		\$22,960
Accounts payable.....		9,030
Unearned revenue .....		1,350
T. O'Neill, capital .....		64,340
T. O'Neill, drawings .....	57,980	
Service revenue.....		96,180
Rent expense.....	10,880	
Salaries expense .....	45,540	
Supplies expense .....	5,960	
	<u>\$193,860</u>	<u>\$193,860</u>

**EXERCISE 2-12 (Continued)****(b)**

**O'NEILL'S PSYCHOLOGICAL SERVICES**  
**Income Statement**  
**Year Ended July 31, 2014**

---

<b>Revenues</b>	
Service revenue .....	<b>\$96,180</b>
<b>Expenses</b>	
Rent expense .....	<b>\$10,880</b>
Salaries expense.....	<b>45,540</b>
Supplies expense .....	<b><u>5,960</u></b>
Total expenses .....	<b><u>62,380</u></b>
<b>Profit .....</b>	<b><u>\$33,800</u></b>

**O'NEILL'S PSYCHOLOGICAL SERVICES**  
**Statement of Owner's Equity**  
**Year Ended July 31, 2014**

---

T. O'Neill, capital, Aug. 1, 2013.....	<b>\$64,340</b>
Add: Profit .....	<b><u>33,800</u></b>
	<b>98,140</b>
Less: Drawings.....	<b><u>57,980</u></b>
T. O'Neill, capital, July 31, 2014.....	<b><u>\$40,160</u></b>

**EXERCISE 2-12 (Continued)****(b) (Continued)**

**O'NEILL'S PSYCHOLOGICAL SERVICES**  
**Balance Sheet**  
**July 31, 2014**

---

<u><b>Assets</b></u>	
Cash .....	\$ 6,470
Accounts receivable .....	7,340
Supplies .....	790
Equipment.....	<u>58,900</u>
<b>Total assets</b> .....	<b><u>\$73,500</u></b>
 <u><b>Liabilities and Owner's Equity</b></u>  	
<b>Liabilities</b>	
Notes payable .....	\$22,960
Accounts payable .....	9,030
Unearned revenue .....	<u>1,350</u>
<b>Total liabilities</b> .....	<b>33,340</b>
<b>Owner's Equity</b>	
T. O'Neill, capital.....	<u>40,160</u>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$73,500</u></b>



**EXERCISE 2-13**

<b><u>Error</u></b>	<b>(a) In <u>Balance</u></b>	<b>(b) <u>Difference</u></b>	<b>(c) Larger <u>Column</u></b>	<b>(d) <u>Incorrect Accounts</u></b>
<b>1.</b>	<b>No</b>	<b>\$400</b>	<b>Debit</b>	<b>Accounts Payable</b>
<b>2.</b>	<b>Yes</b>	<b>\$0</b>	<b>None</b>	<b>Rent Expense Prepaid Rent</b>
<b>3.</b>	<b>Yes</b>	<b>\$0</b>	<b>None</b>	<b>Accounts Receivable Service Revenue</b>
<b>4.</b>	<b>No</b>	<b>\$500</b>	<b>Credit</b>	<b>Accounts Payable</b>
<b>5.</b>	<b>Yes</b>	<b>\$0</b>	<b>None</b>	<b>Supplies Cash</b>
<b>6.</b>	<b>No</b>	<b>\$18</b>	<b>Credit</b>	<b>Advertising Expense</b>
<b>7.</b>	<b>Yes</b>	<b>\$0</b>	<b>None</b>	<b>Cash Salaries Expense</b>

**EXERCISE 2-14**

**ROYALMOUNTAIN TOURS**  
**Trial Balance**  
**March 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash ( $\$12,800 + \$400 - [\$240 \times 2]$ ) .....	\$12,720	
Accounts receivable ( $\$4,090 + \$900 + \$770$ ).....	5,760	
Supplies .....	840	
Equipment.....	7,350	
Accounts payable ( $\$2,500 + 400$ ) .....		\$ 2,900
T. Zelinski, capital .....		24,000
T. Zelinski, drawings .....	3,650	
Service revenue ( $\$6,750 + \$770$ ).....		7,520
Advertising expense .....	3,700	
Salaries expense .....	400	
Totals	<u>\$34,420</u>	<u>\$34,420</u>

## SOLUTIONS TO PROBLEMS

### PROBLEM 2-1A

<u>Account</u>	(a) <u>Type of Account</u>	(b) <u>Financial Statement</u>	(c) <u>Normal Balance</u>	(d) <u>Increase</u>	(e) <u>Decrease</u>
Accounts Payable	Liability	Balance Sheet	Credit	Credit	Debit
Accounts Receivable	Asset	Balance Sheet	Debit	Debit	Credit
Building	Asset	Balance Sheet	Debit	Debit	Credit
Cash	Asset	Balance Sheet	Debit	Debit	Credit
Equipment	Asset	Balance Sheet	Debit	Debit	Credit
Insurance Expense	Expense	Income Statement	Debit	Debit	Credit
Interest Revenue	Revenue	Income Statement	Credit	Credit	Debit
Land	Asset	Balance Sheet	Debit	Debit	Credit
Fees Earned	Revenue	Income Statement	Credit	Credit	Debit
M. Brock, Capital	Owner's Capital	Balance Sheet and Statement of Owner's Equity	Credit	Credit	Debit
M. Brock, Drawings	Drawings	Statement of Owner's Equity	Debit	Debit	Credit
Notes Receivable	Asset	Balance Sheet	Debit	Debit	Credit
Prepaid Insurance	Asset	Balance Sheet	Debit	Debit	Credit
Rent Expense	Expense	Income Statement	Debit	Debit	Credit

**PROBLEM 2-1A (Continued)**

	(a)	(b)	(c)	(d)	(e)
<u>Account</u>	<u>Type of Account</u>	<u>Financial Statement</u>	<u>Normal Balance</u>	<u>Increase</u>	<u>Decrease</u>
Rent Revenue	Revenue	Income Statement	Credit	Credit	Debit
Salaries Expense	Expense	Income Statement	Debit	Debit	Credit
Salaries Payable	Liability	Balance Sheet	Credit	Credit	Debit
Supplies	Asset	Balance Sheet	Debit	Debit	Credit
Supplies Expense	Expense	Income Statement	Debit	Debit	Credit
Unearned Revenue	Liability	Balance Sheet	Credit	Credit	Debit

**Taking It Further**

The term debit indicates left and the term credit indicates right. The normal balance of the account represents its position in the accounting equation. Assets have a normal debit balance because they represent the left side of the accounting equation. Therefore transactions that increase assets are reflected by an increase (a debit) to an asset account. Conversely, liabilities and owner's equity accounts have a normal credit balance because they represent the right side of the accounting equation.

Revenues and expenses represent changes in the owner's equity account. Revenues increase owner's equity and therefore increase the right side of the accounting equation; revenues have a normal credit balance. Expenses reduce owner's equity and increases in expenses reduce the right side of the accounting equation; expenses have a normal debit balance.

<b>PROBLEM 2-2A</b>
---------------------

(a)

Trans- action	Account Debited			Account Credited		
	(1) <u>Basic Type</u>	(2) <u>Specific Account</u>	(3) <u>Effect</u>	(1) <u>Basic Type</u>	(2) <u>Specific Account</u>	(3) <u>Effect</u>
Apr. 1	Asset	Cash	+ \$13,500	Owner's Equity Asset	J. Barr, Capital Cash	+ \$13,500
2	Owner's Equity Asset	Insurance Expense Equipment	+ \$115		Cash	– \$115
2	Asset	Equipment	+ \$5,000	Liability	Accounts Payable	+\$5,000
3	Asset	Supplies	+ \$435	Asset	Cash	– \$435
7	Owner's Equity Asset	Advertising Expense	+ \$870	Asset	Cash	– \$870
8	Asset	Cash	+ \$750	Owner's Equity	Service Revenue	+ \$750
10	No transaction at this point in time (see Apr. 25).					

**PROBLEM 2-2A (Continued)****(a) (Continued)**

<b>Trans- action</b>	<b>Account Debited</b>			<b>Account Credited</b>		
	<b>(1) <u>Basic Type</u></b>	<b>(2) <u>Specific Account</u></b>	<b>(3) <u>Effect</u></b>	<b>(1) <u>Basic Type</u></b>	<b>(2) <u>Specific Account</u></b>	<b>(3) <u>Effect</u></b>
<b>25</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$1,500</b>	<b>Owner's Equity</b>	<b>Service Revenue</b>	<b>+ \$1,500</b>
<b>28</b>	<b>Owner's Equity</b>	<b>J. Barr, Drawings</b>	<b>+ \$975</b>	<b>Asset</b>	<b>Cash</b>	<b>– \$975</b>
<b>29</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$1,250</b>	<b>Liability</b>	<b>Unearned Revenue</b>	<b>+ \$1,250</b>
<b>30</b>	<b>Liability</b>	<b>Accounts Payable</b>	<b>– \$5,000</b>	<b>Asset</b>	<b>Cash</b>	<b>– \$5,000</b>

**PROBLEM 2-2A (Continued)****(b) GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 1</b>	<b>Cash .....</b>	<b>13,500</b>	
	<b>    J. Barr, Capital .....</b>		<b>13,500</b>
<b>2</b>	<b>Insurance Expense.....</b>	<b>115</b>	
	<b>    Cash.....</b>		<b>115</b>
<b>2</b>	<b>Equipment.....</b>	<b>5,000</b>	
	<b>    Accounts Payable .....</b>		<b>5,000</b>
<b>3</b>	<b>Supplies .....</b>	<b>435</b>	
	<b>    Cash.....</b>		<b>435</b>
<b>7</b>	<b>Advertising Expense.....</b>	<b>870</b>	
	<b>    Cash.....</b>		<b>870</b>
<b>8</b>	<b>Cash .....</b>	<b>750</b>	
	<b>    Service Revenue .....</b>		<b>750</b>
<b>10</b>	<b>No transaction at this time.</b>		
<b>25</b>	<b>Cash .....</b>	<b>1,500</b>	
	<b>    Service Revenue .....</b>		<b>1,500</b>
<b>28</b>	<b>J. Barr, Drawings.....</b>	<b>975</b>	
	<b>    Cash.....</b>		<b>975</b>
<b>29</b>	<b>Cash .....</b>	<b>1,250</b>	
	<b>    Unearned Revenue .....</b>		<b>1,250</b>
<b>30</b>	<b>Accounts Payable .....</b>	<b>5,000</b>	
	<b>    Cash.....</b>		<b>5,000</b>

## **PROBLEM 2-2A (Continued)**

### **Taking It Further**

**The investment by the owner increases cash, an asset. Assets are on the left (or debit) side of the accounting equation. The same transaction also increases the right (or credit) side of the accounting equation and increases the owner's capital. Since both the left and right side of the accounting equation must remain in balance, a transaction must have both a debit and a credit.**



<b>PROBLEM 2-3A</b>
---------------------

**GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>May 1</b>	<b>Cash .....</b>	<b>75,000</b>	
	<b>    A. Mawani, Capital .....</b>		<b>75,000</b>
<b>2</b>	<b>Land .....</b>	<b>120,000</b>	
	<b>    Building.....</b>	<b>80,000</b>	
	<b>    Equipment.....</b>	<b>50,000</b>	
	<b>        Cash.....</b>		<b>60,000</b>
	<b>        Notes Payable (\$250,000 – \$60,000)</b>		<b>190,000</b>
<b>4</b>	<b>Equipment.....</b>	<b>16,000</b>	
	<b>    Accounts Payable .....</b>		<b>16,000</b>
<b>5</b>	<b>No entry required.</b>		
<b>6</b>	<b>Prepaid Insurance .....</b>	<b>2,760</b>	
	<b>    Cash.....</b>		<b>2,760</b>
<b>15</b>	<b>Cash .....</b>	<b>2,000</b>	
	<b>    Fees Earned .....</b>		<b>2,000</b>
<b>19</b>	<b>Accounts Payable .....</b>	<b>5,000</b>	
	<b>    Cash.....</b>		<b>5,000</b>
<b>20</b>	<b>Cash .....</b>	<b>500</b>	
	<b>    Accounts Receivable .....</b>	<b>1,000</b>	
	<b>        Fees Earned .....</b>		<b>1,500</b>
<b>30</b>	<b>Cash .....</b>	<b>1,000</b>	
	<b>    Accounts Receivable.....</b>		<b>1,000</b>

**PROBLEM 2-3A (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>May 31</b>	<b>Cash .....</b>	<b>4,000</b>	
	<b>    Fees Earned .....</b>		<b>4,000</b>
<b>31</b>	<b>Salaries Expense.....</b>	<b>2,480</b>	
	<b>    Cash.....</b>		<b>2,480</b>
<b>31</b>	<b>Interest Expense.....</b>	<b>715</b>	
	<b>    Cash.....</b>		<b>715</b>
<b>31</b>	<b>A. Mawani, Drawings.....</b>	<b>1,750</b>	
	<b>    Cash.....</b>		<b>1,750</b>

**Taking It Further**

The purpose of the journal entries is to show the debit and credit effects of each transaction on specific accounts. This helps to prevent and locate errors because the debit and credit amounts in the entry have to balance. The journal entries also provide a chronological record of transactions, give an explanation of the transaction, and identify source documents.

The next step in the recording process is to transfer the information to the ledger by posting the transactions to specific ledger accounts. Amin should find the information generated by this next step more useful since posting transactions to the ledger will update the ledger account balances. Once this step is completed, a trial balance can be prepared from the ledger accounts as well as financial statements.

<b>PROBLEM 2-4A</b>
---------------------

**(a) GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Sept. 1</b>	<b>Cash .....</b>	<b>101</b>	<b>9,000</b>	
	<b>    G. Rodewald, Capital .....</b>	<b>301</b>		<b>9,000</b>
<b>1</b>	<b>Rent Expense .....</b>	<b>726</b>	<b>650</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>650</b>
<b>2</b>	<b>Prepaid Insurance .....</b>	<b>130</b>	<b>720</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>720</b>
<b>3</b>	<b>Equipment.....</b>	<b>151</b>	<b>2,500</b>	
	<b>    Accounts Payable.....</b>	<b>201</b>		<b>2,500</b>
<b>6</b>	<b>Advertising Expense.....</b>	<b>610</b>	<b>450</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>450</b>
<b>15</b>	<b>Cash .....</b>	<b>101</b>	<b>500</b>	
	<b>    Service Revenue .....</b>	<b>400</b>		<b>500</b>
<b>19</b>	<b>Accounts Receivable .....</b>	<b>112</b>	<b>700</b>	
	<b>    Service Revenue .....</b>	<b>400</b>		<b>700</b>
<b>24</b>	<b>Cash .....</b>	<b>101</b>	<b>500</b>	
	<b>    Accounts Receivable.....</b>	<b>112</b>		<b>500</b>
<b>25</b>	<b>Utilities Expense.....</b>	<b>737</b>	<b>175</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>175</b>
<b>26</b>	<b>Accounts Payable .....</b>	<b>201</b>	<b>1,500</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>1,500</b>

**PROBLEM 2-4A (Continued)****(a) (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Sept. 29</b>	<b>Cash .....</b>	<b>101</b>	<b>850</b>	
	<b>Unearned Revenue .....</b>	<b>209</b>		<b>850</b>
<b>30</b>	<b>Cash .....</b>	<b>101</b>	<b>975</b>	
	<b>Service Revenue .....</b>	<b>400</b>		<b>975</b>
<b>30</b>	<b>G. Rodewald, Drawings.....</b>	<b>306</b>	<b>1,350</b>	
	<b>Cash.....</b>	<b>101</b>		<b>1,350</b>

**(b)**

<b>Cash</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 1</b>		<b>J1</b>	<b>9,000</b>		<b>9,000</b>
<b>1</b>		<b>J1</b>		<b>650</b>	<b>8,350</b>
<b>2</b>		<b>J1</b>		<b>720</b>	<b>7,630</b>
<b>6</b>		<b>J1</b>		<b>450</b>	<b>7,180</b>
<b>15</b>		<b>J1</b>	<b>500</b>		<b>7,680</b>
<b>24</b>		<b>J1</b>	<b>500</b>		<b>8,180</b>
<b>25</b>		<b>J1</b>		<b>175</b>	<b>8,005</b>
<b>26</b>		<b>J1</b>		<b>1,500</b>	<b>6,505</b>
<b>29</b>		<b>J1</b>	<b>850</b>		<b>7,355</b>
<b>30</b>		<b>J1</b>	<b>975</b>		<b>8,330</b>
<b>30</b>		<b>J1</b>		<b>1,350</b>	<b>6,980</b>

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 19</b>		<b>J1</b>	<b>700</b>		<b>700</b>
<b>24</b>		<b>J1</b>		<b>500</b>	<b>200</b>

**PROBLEM 2-4A (Continued)**

**(b) (Continued)**

<b>Prepaid Insurance</b>					<b>No. 130</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 2</b>		<b>J1</b>	<b>720</b>		<b>720</b>

<b>Equipment</b>					<b>No. 151</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 3</b>		<b>J1</b>	<b>2,500</b>		<b>2,500</b>

<b>Accounts Payable</b>					<b>No. 201</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 3</b>		<b>J1</b>		<b>2,500</b>	<b>2,500</b>
<b>26</b>		<b>J1</b>	<b>1,500</b>		<b>1,000</b>

<b>Unearned Revenue</b>					<b>No. 209</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 29</b>		<b>J1</b>		<b>850</b>	<b>850</b>

<b>G. Rodewald, Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 1</b>		<b>J1</b>		<b>9,000</b>	<b>9,000</b>

<b>G. Rodewald, Drawings</b>					<b>No. 306</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 30</b>		<b>J1</b>	<b>1,350</b>		<b>1,350</b>

**PROBLEM 2-4A (Continued)****(b) (Continued)**

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 15</b>		<b>J1</b>		<b>500</b>	<b>500</b>
<b>20</b>		<b>J1</b>		<b>700</b>	<b>1,200</b>
<b>30</b>		<b>J1</b>		<b>975</b>	<b>2,175</b>

<b>Advertising Expense</b>					<b>No. 610</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 6</b>		<b>J1</b>	<b>450</b>		<b>450</b>

<b>Rent Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 1</b>		<b>J1</b>	<b>650</b>		<b>650</b>

<b>Utilities Expense</b>					<b>No. 737</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 25</b>		<b>J1</b>	<b>175</b>		<b>175</b>

**PROBLEM 2-4A (Continued)****(c)**

**GRETE KANINES**  
**Trial Balance**  
**September 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$6,980	
Accounts receivable.....	200	
Prepaid insurance.....	720	
Equipment.....	2,500	
Accounts payable.....		\$1,000
Unearned revenue .....		850
G. Rodewald, capital.....		9,000
G. Rodewald, drawings .....	1,350	
Service revenue .....		2,175
Advertising expense.....	450	
Rent expense .....	650	
Utilities expense .....	175	
	<u>\$13,025</u>	<u>\$13,025</u>

**Taking It Further**

While Grete is correct in making the connection that transactions recorded to the investments, drawings, revenue and expense accounts ultimately have a direct impact on the owner's capital account, there remains a need for these separate accounts. Without them, a business is unable to report the revenues and expenses on the income statement, and the investments and drawings by the owner on the statement of owner's equity. This detail information is relevant and necessary to the users of the financial statement.

<b>PROBLEM 2-5A</b>
---------------------

**(a) GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>May 1</b>	<b>Cash .....</b>	<b>40,000</b>	
	<b>Equipment.....</b>	<b>10,000</b>	
	<b>J. Abramson, Capital .....</b>		<b>50,000</b>
<b>1</b>	<b>No entry—not a transaction.</b>		
<b>2</b>	<b>Prepaid Insurance .....</b>	<b>3,300</b>	
	<b>Cash.....</b>		<b>3,300</b>
<b>5</b>	<b>Rent Expense .....</b>	<b>2,400</b>	
	<b>Prepaid Rent .....</b>	<b>2,400</b>	
	<b>Cash.....</b>		<b>4,800</b>
<b>8</b>	<b>Equipment.....</b>	<b>17,000</b>	
	<b>Cash.....</b>		<b>7,000</b>
	<b>Notes Payable .....</b>		<b>10,000</b>
<b>9</b>	<b>Supplies .....</b>	<b>500</b>	
	<b>Cash.....</b>		<b>500</b>
<b>15</b>	<b>Supplies .....</b>	<b>750</b>	
	<b>Accounts Payable.....</b>		<b>750</b>
<b>17</b>	<b>Accounts Receivable .....</b>	<b>3,000</b>	
	<b>Service Revenue .....</b>		<b>3,000</b>
<b>22</b>	<b>Telephone Expense.....</b>	<b>250</b>	
	<b>Cash.....</b>		<b>250</b>
<b>25</b>	<b>Cash .....</b>	<b>1,100</b>	
	<b>Service Revenue .....</b>		<b>1,100</b>



**PROBLEM 2-5A (Continued)****(a) (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>May 26</b>	<b>J. Abramson, Drawings.....</b>	<b>1,600</b>	
	<b>Cash.....</b>		<b>1,600</b>
<b>28</b>	<b>Cash .....</b>	<b>2,500</b>	
	<b>Accounts Receivable.....</b>		<b>2,500</b>
<b>30</b>	<b>Accounts Payable .....</b>	<b>750</b>	
	<b>Cash.....</b>		<b>750</b>
<b>30</b>	<b>Interest Expense.....</b>	<b>50</b>	
	<b>Cash.....</b>		<b>50</b>
<b>31</b>	<b>Cash .....</b>	<b>500</b>	
	<b>Unearned Revenue .....</b>		<b>500</b>
<b>31</b>	<b>Salaries Expense.....</b>	<b>2,475</b>	
	<b>Cash.....</b>		<b>2,475</b>

**(b)**

<b>Cash</b>				<b>Accounts Receivable</b>			
		<b>May</b>		<b>May 17</b>	<b>3,000</b>	<b>May 28</b>	<b>2,500</b>
<b>May 1</b>	<b>40,000</b>	<b>2</b>	<b>3,300</b>				
<b>25</b>	<b>1,100</b>	<b>5</b>	<b>4,800</b>				
<b>28</b>	<b>2,500</b>	<b>8</b>	<b>7,000</b>	<b>Bal.</b>	<b>500</b>		
<b>31</b>	<b>500</b>	<b>9</b>	<b>500</b>				
		<b>22</b>	<b>250</b>				
		<b>26</b>	<b>1,600</b>				
		<b>30</b>	<b>750</b>				
		<b>30</b>	<b>50</b>				
		<b>31</b>	<b>2,475</b>				
<b>Bal.</b>	<b>23,375</b>						

**PROBLEM 2-5A (Continued)****(b) (Continued)**

Supplies		
May 9	500	
15	750	
Bal.	1,250	

J. Abramson, capital		
	May 1	50,000
	Bal.	50,000

Prepaid Insurance		
May 2	3,300	
Bal.	3,300	

J. Abramson, drawings		
May 26	1,600	
Bal.	1,600	

Prepaid Rent		
May 5	2,400	
Bal.	2,400	

Service Revenue		
	May 17	3,000
	25	1,100
	Bal.	4,100

Equipment		
May 1	10,000	
8	17,000	
Bal.	27,000	

Interest Expense		
May 30	50	
Bal.	50	

Unearned revenue		
	May 31	500
	Bal.	500

Rent Expense		
May 5	2,400	
Bal.	2,400	

Notes payable		
	May 8	10,000
	Bal.	10,000

Salaries Expense		
May 31	2,475	
Bal.	2,475	

Account Payable		
May 30	750	May 15 750
	Bal.	0

Telephone Expense		
May 22	250	
Bal.	250	

**PROBLEM 2-5A (Continued)****(c)**

**ABRAMSON FINANCIAL SERVICES**  
**Trial Balance**  
**May 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$23,375	
Accounts receivable.....	500	
Supplies .....	1,250	
Prepaid insurance.....	3,300	
Prepaid rent.....	2,400	
Equipment .....	27,000	
Unearned revenue .....		\$ 500
Notes payable .....		10,000
J. Abramson, capital.....		50,000
J. Abramson, drawings .....	1,600	
Service revenue .....		4,100
Interest expense .....	50	
Rent expense .....	2,400	
Salaries expense.....	2,475	
Telephone expense .....	250	
	<u>\$64,600</u>	<u>\$64,600</u>

**PROBLEM 2-5A (Continued)****Taking It Further**

**This is not true. The cash account shows an increase of \$23,375 during the month of May, whereas the company shows a loss of \$1,075 for the month ( $\$4,100 - \$50 - \$2,400 - \$2,475 - \$250$ ). The change in the cash account does not reflect profit or loss because not all transactions that changed cash represent increases in revenues or expenses. One of the major sources of cash during the month is an investment by the owner of \$40,000. This increases owner's equity, but is not a source of revenue for the company. The company received cash in advance of doing work (unearned revenue of \$500) and performed services in advance of payment (accounts receivable of \$500), as well as making non-expense payments for services in advance (prepaid rent and insurance), payments for equipment and for owner drawings. The statement of cash flows reconciles the changes in the cash account to its various uses and sources.**

<b>PROBLEM 2-6A</b>
---------------------

(a)

**GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>July 1</b>	<b>Film Rental Expense .....</b>	<b>25,000</b>	
	<b>    Cash.....</b>		<b>10,000</b>
	<b>    Accounts Payable.....</b>		<b>15,000</b>
<b>2</b>	<b>No entry—not a transaction.</b>		
<b>3</b>	<b>Advertising Expense.....</b>	<b>1,150</b>	
	<b>    Cash.....</b>		<b>1,150</b>
<b>14</b>	<b>Cash .....</b>	<b>35,600</b>	
	<b>    Admission Revenue .....</b>		<b>35,600</b>
<b>15</b>	<b>Accounts Payable .....</b>	<b>15,000</b>	
	<b>    Cash.....</b>		<b>15,000</b>
<b>16</b>	<b>Film Rental Expense .....</b>	<b>30,000</b>	
	<b>    Cash.....</b>		<b>15,000</b>
	<b>    Accounts Payable.....</b>		<b>15,000</b>
<b>27</b>	<b>Accounts Payable .....</b>	<b>5,000</b>	
	<b>    Cash.....</b>		<b>5,000</b>
<b>30</b>	<b>Salaries Expense.....</b>	<b>6,200</b>	
	<b>    Cash.....</b>		<b>6,200</b>

**PROBLEM 2-6A (Continued)****(a) (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>July 31</b>	<b>Cash .....</b>	<b>2,500</b>	
	<b>Accounts Receivable .....</b>	<b>1,595</b>	
	<b>Concession Revenue .....</b>		<b>4,095</b>
<b>31</b>	<b>Cash .....</b>	<b>42,400</b>	
	<b>Admission Revenue .....</b>		<b>42,400</b>
<b>31</b>	<b>Mortgage Payable .....</b>	<b>1,250</b>	
	<b>Interest Expense .....</b>	<b>475</b>	
	<b>Cash.....</b>		<b>1,725</b>

**(b) and (c)****Cash**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>July 1</b>	<b>Balance</b>	✓			<b>17,000</b>
<b>1</b>				<b>10,000</b>	<b>7,000</b>
<b>3</b>				<b>1,150</b>	<b>5,850</b>
<b>14</b>			<b>35,600</b>		<b>41,450</b>
<b>15</b>				<b>15,000</b>	<b>26,450</b>
<b>16</b>				<b>15,000</b>	<b>11,450</b>
<b>27</b>				<b>5,000</b>	<b>6,450</b>
<b>30</b>				<b>6,200</b>	<b>250</b>
<b>31</b>			<b>2,500</b>		<b>2,750</b>
<b>31</b>			<b>42,400</b>		<b>45,150</b>
<b>31</b>				<b>1,725</b>	<b>43,425</b>

**Accounts Receivable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>July 31</b>			<b>1,595</b>		<b>1,595</b>

**PROBLEM 2-6A (Continued)****(b) and (c) (Continued)****Land**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			80,000

**Buildings**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			70,000

**Equipment**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			20,000

**Accounts Payable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			5,000
1				15,000	20,000
15			15,000		5,000
16				15,000	20,000
27			5,000		15,000

**Mortgage Payable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			118,000
31			1,250		116,750

**N. Fedkovych, Capital**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			64,000

**PROBLEM 2-6A (Continued)****(b) and (c) (Continued)****Admission Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 14				35,600	35,600
31				42,400	78,000

**Concession Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31				4,095	4,095

**Advertising Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 3			1,150		1,150

**Film Rental Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1			25,000		25,000
16			30,000		55,000

**Interest Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31			475		475

**Salaries Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 30			6,200		6,200



**PROBLEM 2-6A (Continued)****(d)**

**SEQUEL THEATRE**  
**Trial Balance**  
**July 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$43,425	
Accounts receivable .....	1,595	
Land.....	80,000	
Buildings .....	70,000	
Equipment.....	20,000	
Accounts payable .....		\$15,000
Mortgage payable .....		116,750
N. Fedkovych, capital .....		64,000
Admission revenue.....		78,000
Concession revenue.....		4,095
Advertising expense.....	1,150	
Film rental expense .....	55,000	
Interest expense .....	475	
Salaries expense .....	6,200	
	<u>\$277,845</u>	<u>\$277,845</u>

**Taking It Further**

The revenues less the expense in the trial balance show a profit for the month of July of \$19,270 (\$78,000 + \$4,095– \$1,150 – \$55,000 – \$475 – \$6,200). Although a positive profit is a good indication of the company's profitability, it is not sufficient information to determine whether Sequel Theatre is a sound business. One month's transactions do not indicate a pattern of profitability in particular for businesses such as theatres where revenues tend to be seasonal. The financial results for the entire year should be examined, along with comparative amounts for previous years, to determine if the company has a trend of profitability.

**PROBLEM 2-7A**
**(b) GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>Dec. 1</b>	<b>Rent Expense .....</b>	<b>475</b>	
	<b>Cash.....</b>		<b>475</b>
<b>1</b>	<b>Equipment.....</b>	<b>3,500</b>	
	<b>Cash.....</b>		<b>1,500</b>
	<b>Accounts Payable.....</b>		<b>2,000</b>
<b>3</b>	<b>Cash .....</b>	<b>2,500</b>	
	<b>Notes Payable .....</b>		<b>2,500</b>
<b>4</b>	<b>Accounts Payable .....</b>	<b>2,000</b>	
	<b>Cash.....</b>		<b>2,000</b>
<b>4</b>	<b>Cash .....</b>	<b>1,800</b>	
	<b>Accounts Receivable.....</b>		<b>1,800</b>
<b>7</b>	<b>Insurance Expense.....</b>	<b>310</b>	
	<b>Cash.....</b>		<b>310</b>
<b>8</b>	<b>Supplies .....</b>	<b>150</b>	
	<b>Cash.....</b>		<b>150</b>
<b>10</b>	<b>Accounts Payable .....</b>	<b>2,130</b>	
	<b>Cash.....</b>		<b>2,130</b>
<b>15</b>	<b>Unearned Revenue.....</b>	<b>825</b>	
	<b>Fees Earned .....</b>		<b>825</b>
<b>20</b>	<b>Cash .....</b>	<b>3,300</b>	
	<b>Fees Earned .....</b>		<b>3,300</b>

**PROBLEM 2-7A (Continued)****(b) (Continued)**

<b>Dec. 21</b>	<b>Telephone Expense.....</b>	<b>135</b>	
	<b>Cash.....</b>		<b>135</b>
<b>22</b>	<b>Accounts Receivable .....</b>	<b>2,250</b>	
	<b>Fees Earned .....</b>		<b>2,250</b>
<b>24</b>	<b>A. Zhawaki, Drawings.....</b>	<b>3,000</b>	
	<b>Cash.....</b>		<b>3,000</b>
<b>29</b>	<b>Cash .....</b>	<b>525</b>	
	<b>Unearned Revenue .....</b>		<b>525</b>
<b>30</b>	<b>Travel Expense.....</b>	<b>695</b>	
	<b>Cash.....</b>		<b>695</b>
<b>31</b>	<b>Notes Payable.....</b>	<b>200</b>	
	<b>Interest Expense.....</b>	<b>10</b>	
	<b>Cash.....</b>		<b>210</b>

**(a) and (c)**

<b>Cash</b>				<b>Dec. 1 2,200</b>		<b>Dec. 4 1,800</b>	
<b>Dec. 1</b>	<b>2,965</b>	<b>Dec. 1</b>	<b>475</b>	<b>22</b>	<b>2,250</b>		
<b>3</b>	<b>2,500</b>	<b>1</b>	<b>1,500</b>	<b>Bal.</b>	<b>2,650</b>		
<b>4</b>	<b>1,800</b>	<b>4</b>	<b>2,000</b>				
<b>20</b>	<b>3,300</b>	<b>7</b>	<b>310</b>				
<b>29</b>	<b>525</b>	<b>8</b>	<b>150</b>				
		<b>10</b>	<b>2,130</b>				
		<b>21</b>	<b>135</b>				
		<b>24</b>	<b>3,000</b>				
		<b>30</b>	<b>695</b>				
		<b>31</b>	<b>210</b>				
<b>Bal.</b>	<b>485</b>						

  

<b>Supplies</b>				<b>Dec. 1 1,450</b>			
		<b>15</b>	<b>150</b>	<b>Bal.</b>	<b>1,600</b>		

**Accounts Receivable**

**PROBLEM 2-7A (Continued)****(a) and (c) (Continued)**

Equipment	
Dec. 1	17,500
1	3,500
Bal.	21,000

Notes Payable	
Dec. 31	200
Dec. 3	2,500
Bal.	2,300

Accounts Payable	
Dec. 4	2,000
10	2,130
Dec. 1	4,235
1	2,000
Bal.	2,105

Unearned Revenue	
Dec. 15	825
Dec. 1	825
29	525
Bal.	525

A. Zhawaki, Capital	
Dec. 1	19,500

A. Zhawaki, Drawings	
Dec. 1	31,350
24	3,000
Bal.	34,350

Fees Earned	
Dec. 1	47,075
15	825
20	3,300
22	2,250
Bal.	53,450

Insurance Expense	
Dec. 1	3,410
7	310
Bal.	3,720

Rent Expense	
Dec. 1	5,225
1	475
Bal.	5,700

Telephone Expense	
Dec. 1	1,485
21	135
Bal.	1,620

Travel Expense	
Dec. 1	6,050
30	695
Bal.	6,745

Interest Expense	
Dec. 31	10
Bal.	10

**PROBLEM 2-7A (Continued)****(d)**

**A TO Z MUSIC**  
**Trial Balance**  
**December 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 485	
Accounts receivable.....	2,650	
Supplies .....	1,600	
Equipment.....	21,000	
Notes payable .....		\$ 2,300
Accounts payable .....		2,105
Unearned revenue .....		525
A. Zhawaki, capital.....		19,500
A. Zhawaki, drawings .....	34,350	
Fees earned.....		53,450
Insurance expense .....	3,720	
Rent expense .....	5,700	
Telephone expense .....	1,620	
Travel expense.....	6,745	
Interest expense .....	10	
	<u>\$77,880</u>	<u>\$77,880</u>

**Taking It Further**

The cash balance has decreased from \$2,965 to \$485 during the month of December. This is a substantial decrease from the opening balance and exposes the company to the possibility of not being able to pay its outstanding liabilities. The company borrowed \$2,500 at the beginning of December and used this cash to purchase used equipment for \$3,500. Had the company not borrowed or purchased the additional equipment, the cash balance for the month would have been \$1,695 (\$485 + \$3,500 – \$2,500 + \$210 payment on the note payable). This still represents a substantial decrease from the November ending balance and is cause for concern.

## **PROBLEM 2-7A (Continued)**

### **Taking It Further (Continued)**

**During the month of January, the company should collect outstanding receivables as quickly as possible (in particular those amounts still outstanding from November) and reduce owner drawings. The company will also need to ensure the additional used equipment generates additional cash as soon as possible.**

<b>PROBLEM 2-8A</b>
---------------------

(a)

**ABRAMSON FINANCIAL SERVICES**  
**Income Statement**  
**Month Ended May 31, 2014**

---

<b>Revenues</b>	
Service revenue .....	<b>\$4,100</b>
<b>Expenses</b>	
Interest expense .....	\$ 50
Rent expense .....	2,400
Salaries expense.....	2,475
Telephone expense .....	<u>250</u>
Total expenses .....	<u>5,175</u>
<b>Loss .....</b>	<b><u><u>\$(1,075)</u></u></b>

(b)

**ABRAMSON FINANCIAL SERVICES**  
**Statement of Owner's Equity**  
**Month Ended May 31, 2014**

---

J. Abramson, capital, May 1, 2014.....	\$ 0
Add: Investment .....	<u>50,000</u>
	50,000
Less: Loss .....	\$1,075
Drawings.....	<u>1,600</u>
J. Abramson, capital, May 31, 2014.....	<u><u>2,675</u></u>
	<b><u><u>\$47,325</u></u></b>

**PROBLEM 2-8A (Continued)****(c)****ABRAMSON FINANCIAL SERVICES****Balance Sheet****May 31, 2014**


---

<u><b>Assets</b></u>	
Cash .....	\$23,375
Accounts receivable .....	500
Supplies .....	1,250
Prepaid insurance .....	3,300
Prepaid rent .....	2,400
Equipment .....	<u>27,000</u>
<b>Total assets</b> .....	<u><b>\$57,825</b></u>
 <u><b>Liabilities and Owner's Equity</b></u>	
<b>Liabilities</b>	
Notes payable .....	\$10,000
Unearned service revenue .....	<u>500</u>
	10,500
<b>Owner's Equity</b>	
J. Abramson, Capital .....	<u>47,325</u>
<b>Total liabilities and owner's equity</b> .....	<u><b>\$57,825</b></u>

**Taking It Further**

In its first month of operations Abramson Financial Services incurred more expenses than it generated in revenues resulting in a loss of \$1,075. Since this is a new business, it may take a few months for revenues to reach and exceed the level of expenses. Jacob will need to monitor the revenues generated as compared to expenses incurred to ensure the company reaches profitability as soon as possible.



<b>PROBLEM 2-9A</b>
---------------------

**(a) GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>Feb. 1</b>	<b>Advertising Expense.....</b>	<b>430</b>	
	<b>Cash.....</b>		<b>430</b>
<b>2</b>	<b>Rent Expense .....</b>	<b>1,050</b>	
	<b>Cash.....</b>		<b>1,050</b>
<b>3</b>	<b>Cash .....</b>	<b>4,240</b>	
	<b>Fees Earned .....</b>		<b>4,240</b>
<b>4</b>	<b>Cash .....</b>	<b>720</b>	
	<b>Accounts Receivable.....</b>		<b>720</b>
<b>6</b>	<b>Accounts Payable .....</b>	<b>970</b>	
	<b>Cash.....</b>		<b>970</b>
<b>14</b>	<b>Salaries Expense.....</b>	<b>400</b>	
	<b>Cash.....</b>		<b>400</b>
<b>15</b>	<b>Rent Expense .....</b>	<b>1,050</b>	
	<b>Cash.....</b>		<b>1,050</b>
<b>23</b>	<b>Accounts Receivable .....</b>	<b>1,475</b>	
	<b>Fees Earned .....</b>		<b>1,475</b>
<b>26</b>	<b>Internet Expense .....</b>	<b>185</b>	
	<b>Cash.....</b>		<b>185</b>
<b>27</b>	<b>Cash .....</b>	<b>2,830</b>	
	<b>Unearned Revenue .....</b>		<b>2,830</b>

**PROBLEM 2-9A (Continued)****(a) (Continued)**

27	D. Scoffin, Drawings .....	575	
	Cash.....		575
28	Salaries Expense.....	400	
	Cash.....		400
28	Prepaid rent .....	1,050	
	Cash.....		1,050

**(b) and (c)**

Cash			
Feb. 1	2,100	Feb. 1	430
3	4,240	2	1,050
4	720	6	970
		14	400
		15	1,050
27	2,830	26	185
		27	575
		28	400
		28	1,050
Bal.	3,780		

Accounts Receivable			
Feb. 1	720	Feb.	3720
23	1,475		
Bal.	1,475		

Prepaid Rent			
Feb. 28	1,050		
Bal.	1,050		

Equipment			
Feb. 1	12,400		

Bal.	12,400	
------	--------	--

Accounts Payable			
		Feb. 1	1,470
Feb. 6	970		
		Bal.	500

Unearned Revenue			
		Feb. 27	2,830
		Bal.	2,830

D. Scoffin, Capital			
		Feb. 1	13,750
		Bal.	13,750

D. Scoffin, Drawings			
Feb. 27	575		
Bal.	575		

**PROBLEM 2-9A (Continued)****(d)**

**YH CURLING SCHOOL**  
**Trial Balance**  
**February 28, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 3,780	
Accounts receivable .....	1,475	
Prepaid rent .....	1,050	
Equipment .....	12,400	
Accounts payable .....		\$ 500
Unearned revenue .....		2,830
D. Scoffin, capital .....		13,750
D. Scoffin, drawings .....	575	
Fees earned .....		5,715
Advertising expense .....	430	
Internet expense .....	185	
Rent expense .....	2,100	
Salaries expense .....	800	
	<u>\$22,795</u>	<u>\$22,795</u>

**Taking It Further**

The payments to YH Curling Club for February ice rental are an expense as they are a cost of the month to have a rink available to deliver the services performed by the school during the month. They are not an asset because there is no future benefit beyond the end of the month. However, the February 28 ice rental payment is for March ice rental, and thus has not been used yet, therefore it is an asset as it has future benefit.

<b>PROBLEM 2-10A</b>
----------------------

(a)

**YH CURLING SCHOOL**  
**Income Statement**  
**Month Ended February 28, 2014**

---

<b>Revenues</b>		
Fees earned.....		<b>\$5,715</b>
<b>Expenses</b>		
Advertising expense.....	<b>\$ 430</b>	
Internet expense .....	<b>185</b>	
Rent expense .....	<b>2,100</b>	
Salaries expense .....	<b><u>800</u></b>	
Total expenses .....		<b><u>3,515</u></b>
<b>Profit .....</b>		<b><u><u>\$2,200</u></u></b>

(b)

**YH CURLING SCHOOL**  
**Statement of Owner's Equity**  
**Month Ended February 28, 2014**

---

<b>D. Scoffin, capital, February 1, 2014 .....</b>	<b>\$13,750</b>
<b>Add: Profit .....</b>	<b><u>2,200</u></b>
	<b>15,950</b>
<b>Less: Drawings.....</b>	<b><u>575</u></b>
<b>D. Scoffin, capital, February 28, 2014 .....</b>	<b><u><u>\$15,375</u></u></b>

**PROBLEM 2-10A (Continued)****(c)**

**YH CURLING SCHOOL**  
**Balance Sheet**  
**February 28, 2014**

---

<u><b>Assets</b></u>	
Cash .....	\$ 3,780
Accounts receivable .....	1,475
Prepaid rent .....	1,050
Equipment .....	<u>12,400</u>
 Total assets.....	 <u><b>\$18,705</b></u>
 <u><b>Liabilities and Owner's Equity</b></u>	
<b>Liabilities</b>	
Accounts payable .....	\$ 500
Unearned revenue .....	<u>2,830</u>
Total liabilities .....	<u><b>3,330</b></u>
 <b>Owner's Equity</b>	
D. Scoffin, capital .....	<u><b>15,375</b></u>
 Total liabilities and owner's equity .....	 <u><b>\$18,705</b></u>

**Taking It Further**

There is a difference between cash collected from customers and revenue in any specific month. Although the school has earned revenue, it has not necessarily collected all of the cash from providing the services. In addition, the school has received cash in advance of providing the services so this amount is not yet included in fees earned.

<b>PROBLEM 2-11A</b>
----------------------

(a)

**SUPER DELIVERY SERVICE**  
**Trial Balance**  
**August 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash (to balance debits = credits*) .....	\$ 6,765	
Accounts receivable .....	4,275	
Supplies .....	265	
Prepaid insurance .....	405	
Equipment .....	49,720	
Notes payable .....		\$19,500
Accounts payable .....		3,235
Salaries payable .....		925
Unearned revenue .....		675
J. Rowe, capital .....		48,750
J. Rowe, drawings .....	24,400	
Service revenue .....		37,780
Gas and oil expense .....	12,145	
Insurance expense .....	2,020	
Interest expense .....	975	
Repairs expense .....	1,580	
Salaries expense .....	5,665	
Supplies expense .....	2,650	
	<u>\$110,865</u>	<u>\$110,865</u>

\* Total debits without cash = \$104,100  
 \$110,865 – \$104,100 = \$6,765

**PROBLEM 2-11A (Continued)****(b)**

**SUPER DELIVERY SERVICE**  
**Income Statement**  
**Year Ended August 31, 2014**

---

<b>Revenues</b>	
Service revenue .....	<b>\$37,780</b>
<b>Expenses</b>	
Gas and oil expense .....	<b>\$12,145</b>
Insurance expense .....	<b>2,020</b>
Interest expense .....	<b>975</b>
Repairs expense .....	<b>1,580</b>
Salaries expense .....	<b>5,665</b>
Supplies expense .....	<b><u>2,650</u></b>
Total expenses .....	<b><u>25,035</u></b>
<b>Profit .....</b>	<b><u>\$12,745</u></b>

**SUPER DELIVERY SERVICE**  
**Statement of Owner's Equity**  
**Year Ended August 31, 2014**

---

J. Rowe, capital, August 31, 2013 .....	<b>\$48,750</b>
Plus: Profit .....	<b><u>12,745</u></b>
	<b>61,495</b>
Less: Drawings .....	<b><u>24,400</u></b>
J. Rowe, capital, August 31, 2014 .....	<b><u>\$37,095</u></b>

**PROBLEM 2-11A (Continued)****(b) (Continued)**

**SUPER DELIVERY SERVICE**  
**Balance Sheet**  
**August 31, 2014**

---

<u><b>Assets</b></u>	
Cash .....	\$ 6,765
Accounts receivable .....	4,275
Supplies .....	265
Prepaid insurance .....	405
Equipment .....	<u>49,720</u>
 Total assets.....	 <u><b>\$61,430</b></u>
 <u><b>Liabilities and Owner's Equity</b></u>	
<b>Liabilities</b>	
Notes payable .....	\$19,500
Accounts payable .....	3,235
Salaries payable .....	925
Unearned revenue .....	<u>675</u>
Total liabilities .....	24,335
<b>Owner's Equity</b>	
J. Rowe, capital.....	<u>37,095</u>
 Total liabilities and owner's equity .....	 <u><b>\$61,430</b></u>



## **PROBLEM 2-11A (Continued)**

### **Taking It Further**

**Jan Rowe has withdrawn more cash than profit. This has resulted in a net decrease to the owner's capital account. Jan's drawings have left the company with a low level of liquid assets (Cash of \$6,765 + Accounts receivable of \$4,275 = \$11,040) to pay off liabilities (Notes payable of \$19,500 + Accounts payable of \$3,235 + Salaries payable of \$925 = \$23,660). Jan's drawings should be based on her cash budget for the coming year and leave the company with sufficient cash to meet its liabilities and to be able to grow.**

- (b)**

© 2013 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

		<b>Drawings</b>	<b>Understated \$1,000</b>		
		<b>Service Revenue</b>	<b>Understated \$325</b>		
	<b>No</b>		<b>Understated \$1,540</b>		

		<b>Salaries Payable</b>			

			<b>Overstated \$495</b>		
--	--	--	-----------------------------	--	--

### PROBLEM 2-12A (Continued)

**(b) (Continued)**

	1	2	3	4	5
9					
			Understated		

		<b>Accounts Payable</b>	<b>\$650</b>		
--	--	-------------------------	--------------	--	--

### Taking It Further

**Disagree. Even though the trial balance is balanced, uncorrected errors misstate the financial position of the company.**

**For example:**

- 4. This error overstates Salary Expense and thereby lowers profit on the income statement.**
- 8. This error shows higher liabilities by overstating Salaries Payable and higher assets by overstating Cash.**
- 10. This error understates Utilities Expense and understates Accounts Payable. It results in a higher profit on the income statement because of the unrecorded expense that was consumed in generating the profits.**

**PROBLEM 2-13A****(a)****WINTER CO.  
Trial Balance  
June 30, 2014**


---

	<u>Debit</u>	<u>Credit</u>
Cash (\$2,835 + \$570 - \$750) .....	\$ 2,655	
Accounts receivable (\$1,861 + \$750 - \$570 + \$980 - \$98) .....	2,923	
Prepaid insurance (correct balance provided)....	655	
Supplies (\$500 + \$360) .....	860	
Equipment (\$7,900 - \$360) .....	7,540	
Accounts payable (\$2,695 + \$608 - \$806) .....		\$ 2,497
Unearned fees (correct balance provided) .....		1,855
F. Winter, capital (correct balance provided) .....		11,231
F. Winter, drawings (\$800 + \$400) .....	1,200	
Service revenue (\$3,460 - \$3,460 + \$4,360) .....		4,360
Office expense (\$1,010 + \$500) .....	1,510	
Salaries expense (\$3,000 - \$400) .....	2,600	
	<u>\$19,943</u>	<u>\$19,943</u>

**Taking It Further**

There could still be errors after correcting the items identified. The errors could be counter-balancing errors that affect both the debit and credit side equally, such as a transposition error in recording a journal entry that affects both the debit and credit sides, or errors that counter-balance on the debit side, or on the credit side, of the trial balance (items #1, 2 and 6). The trial balance could also be in balance and not show transactions that have been omitted but that should have been recorded.



**PROBLEM 2-1B**

<u>Account</u>	(a) Type of <u>Account</u>	(b) <u>Financial Statement</u>	(c) <u>Normal Balance</u>	(d) <u>Increase</u>	(e) <u>Decrease</u>
Salaries Payable	Liability	Balance Sheet	Credit	Credit	Debit
Salaries Expense	Expense	Income Statement	Debit	Debit	Credit
W. Isaacson, Drawings	Drawings	Statement of Owner's Equity	Debit	Debit	Credit
W. Isaacson, Capital	Owner's Capital	Balance Sheet and Statement of Owner's Equity	Credit	Credit	Debit
Unearned Revenue	Liability	Balance Sheet	Credit	Credit	Debit
Rent Revenue	Revenue	Income Statement	Credit	Credit	Debit
Rent Expense	Expense	Income Statement	Debit	Debit	Credit
Prepaid Rent	Asset	Balance Sheet	Debit	Debit	Credit
Supplies Expense	Expense	Income Statement	Debit	Debit	Credit
Supplies	Asset	Balance Sheet	Debit	Debit	Credit
Equipment	Asset	Balance Sheet	Debit	Debit	Credit
Notes Payable	Liability	Balance Sheet	Credit	Credit	Debit
Fees Earned	Revenue	Income Statement	Credit	Credit	Debit
Interest Expense	Expense	Income Statement	Debit	Debit	Credit
Insurance Expense	Expense	Income Statement	Debit	Debit	Credit

**PROBLEM 2-1B (Continued)**

	(a)	(b)	(c)	(d)	(e)
<u>Account</u>	<u>Type of Account</u>	<u>Financial Statement</u>	<u>Normal Balance</u>	<u>Increase</u>	<u>Decrease</u>
Land	Asset	Balance Sheet	Debit	Debit	Credit
Building	Asset	Balance Sheet	Debit	Debit	Credit
Cash	Asset	Balance Sheet	Debit	Debit	Credit
Accounts Receivable	Asset	Balance Sheet	Debit	Debit	Credit
Accounts Payable	Liability	Balance Sheet	Credit	Credit	Debit

**Taking It Further**

The term debit indicates left and the term credit indicates right. The normal balance of the account represents its position in the accounting equation. Assets have a normal debit balance because they represent the left side of the accounting equation. Therefore, transactions that increase assets are reflected by an increase (a debit) to an asset account. Conversely, liabilities and owner's equity accounts have a normal credit balance because they represent the right side of the accounting equation.

Revenues and expenses represent changes in the owner's equity account. Revenues increase owner's equity and therefore increase the right side of the accounting equation; revenues have a normal credit balance. Expenses reduce owner's equity and increases in expenses reduce the right side of the accounting equation; expenses have a normal debit balance.

<b>PROBLEM 2-2B</b>
---------------------

(a)

Trans- action	Account Debited			Account Credited		
	(1) <u>Basic Type</u>	(2) <u>Specific Account</u>	(3) <u>Effect</u>	(1) <u>Basic Type</u>	(2) <u>Specific Account</u>	(3) <u>Effect</u>
Jan.2	Owner's Equity Asset	Rent Expense	+ \$475	Asset	Cash	– \$475
4	Asset	Cash	+ \$975	Owner's Equity Liability	Service Revenue	+ \$975
5	Asset	Supplies	+ \$250	Liability	Accounts Payable	+ \$250
7	No transaction at this point in time (see Jan. 18).					
10	Asset	Cash	+ \$500	Liability	Unearned Revenue	+ \$500
12	Owner's Equity Asset	K. Battistella, Drawings	+ \$700	Asset	Cash	– \$700
18	Asset	Accounts Receivable	+ \$885	Owner's Equity Asset	Service Revenue	+ \$885
25	Liability	Accounts Payable	– \$250	Asset	Cash	– \$250
27	Asset	Cash	+ \$885	Asset	Accounts Receivable	– \$885
28	Asset	Cash	+ \$2,000	Liability	Notes Payable	+ \$2,000
29	Asset	Equipment	+ \$1,950	Asset	Cash	– \$1,950

**PROBLEM 2-2B (Continued)****(b)****GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>Jan. 2</b>	<b>Rent Expense .....</b>	<b>475</b>	
	<b>    Cash.....</b>		<b>475</b>
<b>2</b>	<b>Cash .....</b>	<b>975</b>	
	<b>    Service Revenue .....</b>		<b>975</b>
<b>5</b>	<b>Supplies .....</b>	<b>250</b>	
	<b>    Accounts Payable .....</b>		<b>250</b>
<b>7</b>	<b>No transaction at this time.</b>		
<b>10</b>	<b>Cash .....</b>	<b>500</b>	
	<b>    Unearned Revenue .....</b>		<b>500</b>
<b>12</b>	<b>K. Battistella, Drawings.....</b>	<b>700</b>	
	<b>    Cash.....</b>		<b>700</b>
<b>18</b>	<b>Accounts Receivable .....</b>	<b>885</b>	
	<b>    Service Revenue .....</b>		<b>885</b>
<b>25</b>	<b>Accounts Payable .....</b>	<b>250</b>	
	<b>    Cash.....</b>		<b>250</b>
<b>27</b>	<b>Cash .....</b>	<b>885</b>	
	<b>    Accounts Receivable.....</b>		<b>885</b>
<b>28</b>	<b>Cash .....</b>	<b>2,000</b>	
	<b>    Notes Payable .....</b>		<b>2,000</b>
<b>29</b>	<b>Equipment.....</b>	<b>1,950</b>	
	<b>    Cash.....</b>		<b>1,950</b>

## **PROBLEM 2-2B (Continued)**

### **Taking It Further**

**From the perspective of the bank, their customer's bank account represents a liability of the bank. The bank owes Battistella Couture & Design Co. the amount of cash that it holds in the bank account. Liabilities increase with credits. Consequently, when Karen deposits money in the business account, the bank credits the account, as the bank's liability has increased.**

**From the perspective of Battistella Couture & Design Co., the bank account (Cash) is an asset. Debits increase assets and credits decrease assets. Therefore when the cash account is decreased a credit is used by the company.**

**The bank follows the same debit and credit rules, it just has the opposite perspective on what is an asset and what is a liability.**

<b>PROBLEM 2-3B</b>
---------------------

**GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>May 1</b>	<b>Cash .....</b>	<b>50,000</b>	
	<b>    D. Tanner, Capital .....</b>		<b>50,000</b>
<b>3</b>	<b>Land .....</b>	<b>225,000</b>	
	<b>Building.....</b>	<b>75,000</b>	
	<b>Equipment.....</b>	<b>55,000</b>	
	<b>    Cash.....</b>		<b>35,000</b>
	<b>    Notes Payable .....</b>		<b>320,000</b>
<b>3</b>	<b>Insurance Expense.....</b>	<b>458</b>	
	<b>    Cash.....</b>		<b>458</b>
<b>8</b>	<b>Advertising Expense .....</b>	<b>1,950</b>	
	<b>    Cash.....</b>		<b>1,950</b>
<b>15</b>	<b>Cash .....</b>	<b>2,200</b>	
	<b>    Admissions Revenue.....</b>		<b>2,200</b>
<b>16</b>	<b>Salaries Expense.....</b>	<b>1,800</b>	
	<b>    Cash.....</b>		<b>1,800</b>
<b>20</b>	<b>Cash .....</b>	<b>500</b>	
	<b>    Accounts Receivable .....</b>	<b>1,000</b>	
	<b>    Admissions Revenue.....</b>		<b>1,500</b>
<b>22</b>	<b>No entry required</b>		
<b>29</b>	<b>Cash .....</b>	<b>1,000</b>	
	<b>    Accounts Receivable.....</b>		<b>1,000</b>

**PROBLEM 2-3B (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>May 30</b>	<b>Cash .....</b>		<b>4,800</b>	
	<b>    Admissions Revenue.....</b>			<b>4,800</b>
<b>31</b>	<b>Interest Expense.....</b>		<b>1,300</b>	
	<b>    Notes Payable.....</b>		<b>2,500</b>	
	<b>    Cash.....</b>			<b>3,800</b>
<b>31</b>	<b>D. Tanner, Drawings.....</b>		<b>800</b>	
	<b>    Cash.....</b>			<b>800</b>
<b>31</b>	<b>Salaries Expense.....</b>		<b>1,800</b>	
	<b>    Cash.....</b>			<b>1,800</b>

**Taking It Further**

The purpose of the journal entries is to show the debit and credit effects of each transaction on specific accounts. This helps to prevent and locate errors because the debit and credit amounts in the entry have to balance. The journal entries also provide a chronological record of transactions, give an explanation of the transaction, and identify source documents.

The next step in the recording process is to transfer the information to the ledger by posting the transactions to specific ledger accounts. Dustin should find the information generated by this next step more useful since posting transactions to the ledger will update the ledger account balances. Once this step is completed, a trial balance can be prepared from the ledger accounts as well as financial statements.

**PROBLEM 2-4B****(a)****GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Aug. 1</b>	<b>Cash .....</b>	<b>101</b>	<b>25,000</b>	
	<b>    T. Nguyen, Capital .....</b>	<b>301</b>		<b>25,000</b>
<b>1</b>	<b>Rent Expense .....</b>	<b>726</b>	<b>750</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>750</b>
<b>2</b>	<b>Utilities Expense.....</b>	<b>737</b>	<b>250</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>250</b>
<b>3</b>	<b>Equipment.....</b>	<b>151</b>	<b>5,250</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>5,250</b>
<b>5</b>	<b>Supplies .....</b>	<b>126</b>	<b>675</b>	
	<b>    Accounts Payable.....</b>	<b>201</b>		<b>675</b>
<b>8</b>	<b>Accounts Receivable .....</b>	<b>112</b>	<b>1,270</b>	
	<b>    Service Revenue .....</b>	<b>400</b>		<b>1,270</b>
<b>12</b>	<b>Advertising Expense .....</b>	<b>610</b>	<b>945</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>945</b>
<b>20</b>	<b>Cash .....</b>	<b>101</b>	<b>1,320</b>	
	<b>    Service Revenue .....</b>	<b>400</b>		<b>1,320</b>
<b>24</b>	<b>Cash .....</b>	<b>101</b>	<b>2,500</b>	
	<b>    Unearned Revenue .....</b>	<b>209</b>		<b>2,500</b>
<b>25</b>	<b>Accounts Payable .....</b>	<b>201</b>	<b>675</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>675</b>



**PROBLEM 2-4B (Continued)****(a) (Continued)**

<b>Aug. 28</b>	<b>Cash .....</b>	<b>101</b>	<b>970</b>	
	<b>Accounts Receivable.....</b>	<b>112</b>		<b>970</b>
<b>29</b>	<b>T. Nguyen, Drawings .....</b>	<b>306</b>	<b>1,225</b>	
	<b>Cash.....</b>	<b>101</b>		<b>1,225</b>
<b>31</b>	<b>Utilities Expense.....</b>	<b>737</b>	<b>225</b>	
	<b>Accounts Payable .....</b>	<b>201</b>		<b>225</b>

**(b)**

<b>CASH</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Aug. 1</b>		<b>J1</b>	<b>25,000</b>		<b>25,000</b>
<b>1</b>		<b>J1</b>		<b>750</b>	<b>24,250</b>
<b>2</b>		<b>J1</b>		<b>250</b>	<b>24,000</b>
<b>3</b>		<b>J1</b>		<b>5,250</b>	<b>18,750</b>
<b>12</b>		<b>J1</b>		<b>945</b>	<b>17,805</b>
<b>20</b>		<b>J1</b>	<b>1,320</b>		<b>19,125</b>
<b>24</b>		<b>J1</b>	<b>2,500</b>		<b>21,625</b>
<b>25</b>		<b>J1</b>		<b>675</b>	<b>20,950</b>
<b>28</b>		<b>J1</b>	<b>970</b>		<b>21,920</b>
<b>29</b>		<b>J1</b>		<b>1,225</b>	<b>20,695</b>

<b>ACCOUNTS RECEIVABLE</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Aug. 8</b>		<b>J1</b>	<b>1,270</b>		<b>1,270</b>
<b>28</b>		<b>J1</b>		<b>970</b>	<b>300</b>

**PROBLEM 2-4B (Continued)****(b) (Continued)**

<b>SUPPLIES</b>					<b>No. 126</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 5		J1	675		675

<b>EQUIPMENT</b>					<b>No. 151</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 3		J1	5,250		5,250

<b>ACCOUNTS PAYABLE</b>					<b>No. 201</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 5		J1		675	675
25		J1	675		0
31		J1		225	225

<b>UNEARNED REVENUE</b>					<b>No. 209</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 24		J1		2,500	2,500

<b>T. NGUYEN, CAPITAL</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 1		J1		25,000	25,000

**PROBLEM 2-4B (Continued)****(b) (Continued)**

<b>T. NGUYEN, DRAWINGS</b>					<b>No. 306</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Aug. 30</b>		<b>J1</b>	<b>1,225</b>		<b>1,225</b>

<b>SERVICE REVENUE</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Aug. 8</b>		<b>J1</b>		<b>1,270</b>	<b>1,270</b>
<b>20</b>		<b>J1</b>		<b>1,320</b>	<b>2,590</b>

<b>ADVERTISING EXPENSE</b>					<b>No. 610</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Aug. 12</b>		<b>J1</b>	<b>945</b>		<b>945</b>

<b>RENT EXPENSE</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Aug. 1</b>		<b>J1</b>	<b>750</b>		<b>750</b>

<b>UTILITIES EXPENSE</b>					<b>No. 737</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Aug. 2</b>		<b>J1</b>	<b>250</b>		<b>250</b>
<b>31</b>		<b>J1</b>	<b>225</b>		<b>475</b>

**PROBLEM 2-4B (Continued)****(c)**

**NGUYEN IMPORT SERVICES**  
**Trial Balance**  
**August 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$20,695	
Accounts receivable .....	300	
Supplies .....	675	
Equipment.....	5,250	
Accounts payable.....		\$ 225
Unearned revenue .....		2,500
T. Nguyen, capital.....		25,000
T. Nguyen, drawings .....	1,225	
Service revenue.....		2,590
Advertising expense .....	945	
Rent expense.....	750	
Utilities expense.....	475	
	<u>\$30,315</u>	<u>\$30,315</u>

**Taking It Further**

While Thanh is correct in making the connection that transactions recorded to the drawings, revenue and expense accounts ultimately have a direct impact on the owner's capital account, there remains a need for these separate accounts. Without them, a business is unable to report the revenues and expenses on the income statement, and the drawing by the owner as reported on the statement of owner's equity. This detailed information is relevant and necessary to the users of the financial statement.

<b>PROBLEM 2-5B</b>
---------------------

**(a) GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>Nov. 1</b>	<b>Cash .....</b>	<b>35,000</b>	
	<b>Equipment.....</b>	<b>12,000</b>	
	<b>H. Kiersted, Capital .....</b>		<b>47,000</b>
<b>2</b>	<b>No entry—not a transaction.</b>		
<b>3</b>	<b>Rent Expense .....</b>	<b>2,140</b>	
	<b>Prepaid Rent .....</b>	<b>2,140</b>	
	<b>Cash.....</b>		<b>4,280</b>
<b>4</b>	<b>Insurance Expense.....</b>	<b>395</b>	
	<b>Cash (\$4,740 ÷ 12).....</b>		<b>395</b>
<b>5</b>	<b>Equipment.....</b>	<b>18,000</b>	
	<b>Cash.....</b>		<b>6,000</b>
	<b>Notes Payable .....</b>		<b>12,000</b>
<b>6</b>	<b>Supplies .....</b>	<b>1,550</b>	
	<b>Accounts Payable .....</b>		<b>1,550</b>
<b>7</b>	<b>Supplies .....</b>	<b>475</b>	
	<b>Cash.....</b>		<b>475</b>
<b>16</b>	<b>Cash .....</b>	<b>990</b>	
	<b>Service Revenue .....</b>		<b>990</b>
<b>20</b>	<b>Accounts Receivable .....</b>	<b>4,500</b>	
	<b>Service Revenue .....</b>		<b>4,500</b>
<b>26</b>	<b>Accounts Payable .....</b>	<b>1,000</b>	
	<b>Cash.....</b>		<b>1,000</b>

**PROBLEM 2-5B (Continued)****(a) (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
Nov. 27	Telephone Expense.....	220	
	Accounts Payable.....		220
27	Cash .....	750	
	Unearned Revenue .....		750
29	Cash .....	2,800	
	Accounts Receivable.....		2,800
30	Interest Expense.....	60	
	Cash.....		60
30	Salaries Expense.....	2,825	
	Cash.....		2,825
30	H. Kiersted, Drawings .....	700	
	Cash.....		700
30	H. Kiersted, Drawings .....	1,150	
	Cash.....		1,150

**(b)**

<b>Cash</b>				<b>Accounts Receivable</b>			
Nov. 1	35,000	Nov3	4,280	Nov.20	4,500	Nov 29	2,800
16	990	4	395	Bal.	1,700		
27	750	5	6,000				
29	2,800	7	475				
		26	1,000				
		30	60				
		30	2,825				
		30	700				
		30	1,150				
Bal.	22,655						

**PROBLEM 2-5B (Continued)****(b) (Continued)**

Supplies		
Nov.6	1,550	
7	475	
Bal.	2,025	

H. Kiersted, Drawings		
Nov.30	700	
Nov. 30	1,150	
Bal.	1,850	

Prepaid Rent		
Nov.3	2,140	
Bal.	2,140	

Service Revenue		
	Nov.16	990
	20	4,500
	Bal.	5,490

Equipment		
Nov. 1	12,000	
5	18,000	
Bal.	30,000	

Insurance Expense		
Nov. 4	395	
Bal.	395	

Accounts Payable			
Nov26	1,000	Nov 6	1,550
		Nov 27	220
		Bal.	770

Interest Expense		
Nov. 30	60	
Bal.	60	

Unearned Revenue		
	Nov27	750
	Bal.	750

Rent Expense		
Nov. 3	2,140	
Bal.	2,140	

Notes Payable		
	Nov.5	12,000
	Bal.	12,000

Salaries Expense		
Nov 30	2,825	
Bal.	2,825	

H. Kiersted, Capital		
	Nov. 1	47,000
	Bal.	47,000

Telephone Expense		
Nov. 27	220	
Bal.	220	

**PROBLEM 2-5B (Continued)****(c)**

**KIERSTED FINANCIAL SERVICES**  
**Trial Balance**  
**November 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$22,655	
Accounts receivable.....	1,700	
Supplies .....	2,025	
Prepaid rent.....	2,140	
Equipment.....	30,000	
Accounts payable .....		\$ 770
Unearned revenue .....		750
Notes payable .....		12,000
H. Kiersted, capital .....		47,000
H. Kiersted, drawings .....	1,850	
Service revenue .....		5,490
Insurance expense .....	395	
Interest expense .....	60	
Rent expense .....	2,140	
Salaries expense.....	2,825	
Telephone expense .....	220	
	<u>\$66,010</u>	<u>\$66,010</u>



**PROBLEM 2-5B (Continued)****Taking It Further**

**This is not true. The cash account shows an increase of \$22,655 during the month of November, whereas the company shows a loss of \$150 for the month ( $\$5,490 - \$395 - \$60 - \$2,140 - \$2,825 - \$220$ ). The change in the cash account does not reflect profit or loss because not all transactions represent increases in revenues or expenses. One of the major sources of cash during the month is an investment by the owner of \$35,000. This increases owner's equity, but is not a source of revenue for the company. The company received cash in advance of doing work (unearned service revenue of \$750) and performed services in advance of payment (accounts receivable of \$1,700), as well as making non-expense payments for services in advance (prepaid rent), payments for equipment and for owner drawings. The statement of cash flows reconciles the changes in the cash account to its various uses and sources.**

<b>PROBLEM 2-6B</b>
---------------------

**(a) GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>July 2</b>	<b>Film Rental Expense .....</b>	<b>800</b>	
	<b>Cash.....</b>		<b>800</b>
<b>2</b>	<b>Advertising Expense .....</b>	<b>620</b>	
	<b>Cash.....</b>		<b>620</b>
<b>3</b>	<b>No entry—not a transaction.</b>		
<b>5</b>	<b>No entry—not a transaction.</b>		
<b>10</b>	<b>Cash .....</b>	<b>1,950</b>	
	<b>Admissions Revenue.....</b>		<b>1,950</b>
<b>11</b>	<b>Mortgage Payable.....</b>	<b>2,000</b>	
	<b>Interest Expense.....</b>	<b>500</b>	
	<b>Cash.....</b>		<b>2,500</b>
<b>12</b>	<b>Repairs Expense .....</b>	<b>350</b>	
	<b>Cash.....</b>		<b>350</b>
<b>16</b>	<b>Accounts Payable .....</b>	<b>2,800</b>	
	<b>Cash.....</b>		<b>2,800</b>
<b>19</b>	<b>Film Rental Expense .....</b>	<b>750</b>	
	<b>Accounts Payable.....</b>		<b>750</b>
<b>29</b>	<b>Cash .....</b>	<b>3,500</b>	
	<b>Admissions Revenue.....</b>		<b>3,500</b>

**PROBLEM 2-6B (Continued)****(a) (Continued)**

<b>July 30</b>	<b>F. Ferguson, Drawings.....</b>	<b>1,200</b>	
	<b>Cash.....</b>		<b>1,200</b>
<b>30</b>	<b>Prepaid Film Rental.....</b>	<b>700</b>	
	<b>Cash.....</b>		<b>700</b>
<b>31</b>	<b>Salaries Expense.....</b>	<b>1,900</b>	
	<b>Cash.....</b>		<b>1,900</b>
<b>31</b>	<b>Cash .....</b>	<b>260</b>	
	<b>Accounts Receivable .....</b>	<b>260</b>	
	<b>Concession Revenue.....</b>		<b>520</b>

**(b) and (c)****Cash**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>July 1</b>	<b>Balance</b>	<b>✓</b>			<b>6,000</b>
<b>2</b>		<b>J1</b>		<b>800</b>	<b>5,200</b>
<b>2</b>		<b>J1</b>		<b>620</b>	<b>4,580</b>
<b>10</b>		<b>J1</b>	<b>1,950</b>		<b>6,530</b>
<b>11</b>		<b>J1</b>		<b>2,500</b>	<b>4,030</b>
<b>12</b>		<b>J1</b>		<b>350</b>	<b>3,680</b>
<b>16</b>		<b>J1</b>		<b>2,800</b>	<b>880</b>
<b>29</b>		<b>J1</b>	<b>3,500</b>		<b>4,380</b>
<b>30</b>		<b>J1</b>		<b>1,200</b>	<b>3,180</b>
<b>30</b>		<b>J1</b>		<b>700</b>	<b>2,480</b>
<b>31</b>		<b>J1</b>		<b>1,900</b>	<b>580</b>
<b>31</b>		<b>J1</b>	<b>260</b>		<b>840</b>

**PROBLEM 2-6B (Continued)****(b) and (c) (Continued)****Accounts Receivable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31		J1	260		260

**Prepaid Film Rentals**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 30		J1	700		700

**Land**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			100,000

**Buildings**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			80,000

**Equipment**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1	Balance	✓			25,000

**PROBLEM 2-6B (Continued)****(b) and (c) (Continued)****Accounts Payable**

Date	Explanation	Ref.	Debit	Credit	Balance
July 1	Balance	✓			5,000
16		J1	2,800		2,200
19		J1		750	2,950

**Mortgage Payable**

Date	Explanation	Ref.	Debit	Credit	Balance
July 1	Balance	✓			125,000
11		J1	2,000		123,000

**F. Ferguson, Capital**

Date	Explanation	Ref.	Debit	Credit	Balance
July 1	Balance	✓			81,000

**F. Ferguson, Drawings**

Date	Explanation	Ref.	Debit	Credit	Balance
July 30		J1	1,200		1,200

**Admissions Revenue**

Date	Explanation	Ref.	Debit	Credit	Balance
July 10		J1		1,950	1,950
29		J1		3,500	5,450

**PROBLEM 2-6B (Continued)****(b) and (c) (Continued)****Concession Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31		J1		520	520

**Advertising Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 2		J1	620		620

**Film Rental Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 2		J1	800		800
19		J1	750		1,550

**Interest Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 11		J1	500		500

**Repairs Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 12		J1	350		350

**PROBLEM 2-6B (Continued)****(b) and (c) (Continued)****Salaries Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31		J1	1,900		1,900

**(d)**

**HIGHLAND THEATRE**  
**Trial Balance**  
**July 31, 2014**

	<u><b>Debit</b></u>	<u><b>Credit</b></u>
Cash .....	\$840	
Accounts receivable .....	260	
Prepaid rentals .....	700	
Land .....	100,000	
Buildings.....	80,000	
Equipment.....	25,000	
Accounts payable.....		\$ 2,950
Mortgage payable.....		123,000
F. Ferguson, capital .....		81,000
F. Ferguson, drawings .....	1,200	
Admissions revenue .....		5,450
Concession revenue .....		520
Advertising expense .....	620	
Film rental expense.....	1,550	
Interest expense.....	500	
Repairs expense.....	350	
Salaries expense .....	1,900	
	<u><b>\$212,920</b></u>	<u><b>\$212,920</b></u>

**PROBLEM 2-6B (Continued)****Taking It Further**

The revenue and expense accounts in the trial balance show a profit for the month of July of \$1,050 ( $\$5,450 + \$520 - \$620 - \$1,550 - \$500 - \$350 - \$1,900$ ). Although a positive profit is a good indication of the company's profitability, it is not sufficient information to determine whether Highland Theatre is a sound business. One month's transactions do not indicate a pattern of profitability, in particular for businesses such as theatres where revenues tend to be seasonal. The financial results for the entire year should be examined, along with comparative amounts for previous years, to determine if the company has a trend of profitability.



**PROBLEM 2-7B**

<b>(b)</b>		<b>GENERAL JOURNAL</b>		<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>	
<b>Dec. 1</b>	<b>Rent Expense .....</b>	<b>750</b>		
	<b>    Cash.....</b>		<b>750</b>	
<b>1</b>	<b>Equipment.....</b>	<b>3,500</b>		
	<b>    Cash.....</b>		<b>1,500</b>	
	<b>    Notes Payable .....</b>		<b>2,000</b>	
<b>4</b>	<b>Cash .....</b>	<b>2,850</b>		
	<b>    Accounts Receivable.....</b>		<b>2,850</b>	
<b>7</b>	<b>Insurance Expense.....</b>	<b>285</b>		
	<b>    Cash.....</b>		<b>285</b>	
<b>8</b>	<b>Supplies .....</b>	<b>315</b>		
	<b>    Accounts Payable.....</b>		<b>315</b>	
<b>10</b>	<b>Accounts Payable .....</b>	<b>5,660</b>		
	<b>    Cash.....</b>		<b>5,660</b>	
<b>12</b>	<b>Unearned Revenue.....</b>	<b>1,370</b>		
	<b>    Service Revenue .....</b>		<b>1,370</b>	
<b>20</b>	<b>Cash .....</b>	<b>3,055</b>		
	<b>    Service Revenue .....</b>		<b>3,055</b>	
<b>21</b>	<b>Advertising Expense.....</b>	<b>325</b>		
	<b>    Cash.....</b>		<b>325</b>	
<b>24</b>	<b>L. Kuznetsova, Drawings .....</b>	<b>2,650</b>		
	<b>    Cash.....</b>		<b>2,650</b>	

**PROBLEM 2-7B (Continued)****(b) (Continued)**

<b>Dec. 28</b>	<b>Accounts Receivable .....</b>	<b>2,250</b>	
	<b>Service Revenue .....</b>		<b>2,250</b>
<b>29</b>	<b>Cash .....</b>	<b>925</b>	
	<b>Unearned Revenue .....</b>		<b>925</b>
<b>30</b>	<b>Salaries Expense .....</b>	<b>960</b>	
	<b>Cash .....</b>		<b>960</b>
<b>31</b>	<b>Notes Payable .....</b>	<b>160</b>	
	<b>Interest Expense .....</b>	<b>10</b>	
	<b>Cash .....</b>		<b>170</b>

**PROBLEM 2-7B (Continued)****(a) and (c)**

<b>Cash</b>			
<b>Dec. 1</b>	<b>7,315</b>	<b>Dec. 1</b>	<b>750</b>
		<b>1</b>	<b>1,500</b>
<b>4</b>	<b>2,850</b>		
		<b>7</b>	<b>285</b>
		<b>10</b>	<b>5,660</b>
<b>20</b>	<b>3,055</b>	<b>21</b>	<b>325</b>
<b>29</b>	<b>925</b>	<b>24</b>	<b>2,650</b>
		<b>30</b>	<b>960</b>
		<b>31</b>	<b>170</b>
<b>Bal.</b>	<b>1,845</b>		

<b>Accounts Receivable</b>			
<b>Dec. 1</b>	<b>4,020</b>	<b>Dec. 4</b>	<b>2,850</b>
<b>28</b>	<b>2,250</b>		
<b>Bal.</b>	<b>3,420</b>		

<b>Supplies</b>			
<b>Dec. 1</b>	<b>1,805</b>		
<b>8</b>	<b>315</b>		
<b>Bal.</b>	<b>2,120</b>		

<b>Equipment</b>			
<b>Dec. 1</b>	<b>21,500</b>		
<b>3</b>	<b>3,500</b>		
<b>Bal.</b>	<b>25,000</b>		

<b>Notes Payable</b>			
<b>Dec.31</b>	<b>160</b>	<b>Dec. 1</b>	<b>2,000</b>
		<b>Bal.</b>	<b>1,840</b>

<b>Accounts Payable</b>			
<b>Dec. 10</b>	<b>5,660</b>	<b>Dec. 1</b>	<b>8,660</b>
		<b>8</b>	<b>315</b>
		<b>Bal.</b>	<b>3,315</b>

<b>Unearned Revenue</b>			
<b>Dec. 12</b>	<b>1,370</b>	<b>Dec. 1</b>	<b>1,370</b>
		<b>29</b>	<b>925</b>
		<b>Bal.</b>	<b>925</b>

<b>L. Kuznetsova, Capital</b>			
		<b>Dec. 1</b>	<b>29,130</b>

<b>L. Kuznetsova, Drawings</b>			
<b>Dec. 1</b>	<b>34,200</b>		
<b>24</b>	<b>2,650</b>		
<b>Bal.</b>	<b>36,850</b>		

**PROBLEM 2-7B (Continued)****(a) and (c) (Continued)****Service Revenue**

	<b>Dec. 1</b>	<b>55,175</b>	
	<b>12</b>	<b>1,370</b>	
	<b>20</b>	<b>3,055</b>	
	<b>28</b>	<b>2,250</b>	
	<b>Bal.</b>	<b>61,850</b>	

**Advertising Expense**

<b>Dec. 1</b>	<b>3,550</b>	
<b>21</b>	<b>325</b>	
<b>Bal.</b>	<b>3,875</b>	

**Insurance Expense**

<b>Dec. 1</b>	<b>3,135</b>	
<b>7</b>	<b>285</b>	
<b>Bal.</b>	<b>3,420</b>	

**Rent Expense**

<b>Dec. 1</b>	<b>8,250</b>	
<b>2</b>	<b>750</b>	
<b>Bal.</b>	<b>9,000</b>	

**Salaries Expense**

<b>Dec. 1</b>	<b>10,560</b>	
<b>30</b>	<b>960</b>	
<b>Bal.</b>	<b>11,520</b>	

**Interest Expense**

<b>Dec. 31</b>	<b>10</b>	
----------------	-----------	--

**PROBLEM 2-7B (Continued)****(d)**

**LVK COACHING SERVICES**  
**Trial Balance**  
**December 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 1,845	
Accounts receivable .....	3,420	
Supplies .....	2,120	
Equipment.....	25,000	
Accounts payable.....		\$ 3,315
Notes payable.....		1,840
Unearned revenue.....		925
L. Kuznetsova, capital.....		29,130
L. Kuznetsova, drawings .....	36,850	
Service revenue.....		61,850
Advertising expense .....	3,875	
Insurance expense .....	3,420	
Rent expense.....	9,000	
Salaries expense .....	11,520	
Interest expense.....	10	
	<u>\$97,060</u>	<u>\$97,060</u>

**PROBLEM 2-7B (Continued)****Taking It Further**

The cash balance has decreased from \$7,315 to \$1,845 or \$5,470 during the month of December. This is a substantial decrease from the opening balance and exposes the company to the possibility of not being able to pay its outstanding liabilities. The company borrowed \$2,000 at the beginning of December to purchase equipment. Had the company not purchased the additional equipment, the cash balance for the month would have been \$3,515 ( $\$1,845 + \$1,500 + \$170$  payment on the note payable). This still represents a large decrease from the December ending balance. Depending on the timing of the repayment of the note payable, the company may be able to generate sufficient cash from the collection of its account receivable to be able to honour its commitments on its liabilities. During the month of January, the company should collect outstanding receivables as quickly as possible (in particular those amounts still outstanding from November) and reduce owner drawings. The company will also need to ensure the new equipment generates additional cash as soon as possible.

<b>PROBLEM 2-8B</b>
---------------------

(a)

**KIERSTED FINANCIAL SERVICES**  
**Income Statement**  
**Month Ended November 30, 2014**

---

<b>Revenues</b>	
Service revenue .....	\$ 5,490
<b>Expenses</b>	
Insurance expense .....	\$ 395
Interest expense .....	60
Rent expense .....	2,140
Salaries expense.....	2,825
Telephone expense .....	<u>220</u>
Total expenses .....	<u>5,640</u>
<b>Loss.....</b>	<b><u>\$ (150)</u></b>

(b)

**KIERSTED FINANCIAL SERVICES**  
**Statement of Owner's Equity**  
**Month Ended November 30, 2014**

---

H. Kiersted, capital, November 1, 2014 .....	\$ 0
Add: Investment.....	<u>47,000</u>
	47,000
Less: Loss .....	\$ 150
Drawings .....	<u>1,850</u>
	<u>2,000</u>
H. Kiersted, capital, November 30, 2014 .....	<b><u>\$45,000</u></b>

**PROBLEM 2-8B (Continued)****(c)**

**KIERSTED FINANCIAL SERVICES**  
**Balance Sheet**  
**November 30, 2014**

---

<u><b>Assets</b></u>	
Cash .....	\$22,655
Accounts receivable .....	1,700
Supplies .....	2,025
Prepaid rent .....	2,140
Equipment.....	<u>30,000</u>
<b>Total assets</b> .....	<b><u>\$58,520</u></b>
<u><b>Liabilities and Owner's Equity</b></u>	
<b>Liabilities</b>	
Notes payable .....	\$12,000
Accounts payable .....	770
Unearned service revenue .....	<u>750</u>
<b>Total liabilities</b> .....	<b>13,520</b>
<b>Owner's Equity</b>	
H. Kiersted, capital .....	<u>45,000</u>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$58,520</u></b>

**Taking It Further**

In its first month of operations, Kiersted Financial Services incurred more expenses than it generated in revenues resulting in a loss of \$150. Since this is a new business, it may take a few months for revenues to reach and exceed the level of expenses. Haakon will need to monitor the revenues generated as compared to expenses incurred to ensure the company reaches profitability as soon as possible.



**PROBLEM 2-9B****(a) GENERAL JOURNAL**

	Account Titles and Explanation	Debit	Credit
Mar. 1	Cash .....	12,000	
	Notes Payable .....		12,000
2	Accounts Payable .....	13,000	
	Cash .....		13,000
3	Insurance Expense .....	145	
	Cash .....		145
10	Advertising Expense .....	550	
	Cash .....		550
16	Cash .....	8,000	
	Accounts Receivable .....		8,000
18	Accounts Payable .....	5,000	
	Cash .....		5,000
30	Miscellaneous Expense .....	580	
	Cash .....		580
31	Cash .....	2,000	
	Accounts Receivable .....	5,000	
	Service Revenue .....		7,000
31	Salaries Expense .....	1,650	
	Cash .....		1,650

**PROBLEM 2-9B (Continued)****(a) (Continued)**

<b>Mar. 31</b>	<b>Interest Expense.....</b>	<b>55</b>	
	<b>Notes Payable.....</b>	<b>500</b>	
	<b>Cash.....</b>		<b>555</b>
<b>31</b>	<b>Rent Expense .....</b>	<b>950</b>	
	<b>Prepaid Rent .....</b>	<b>950</b>	
	<b>Cash.....</b>		<b>1,900</b>
<b>31</b>	<b>H. Nolan, Drawings.....</b>	<b>1,000</b>	
	<b>Cash.....</b>		<b>1,000</b>

**(b) and (c)**

<b>Cash</b>			
<b>Mar.1</b>	<b>3,500</b>	<b>2</b>	<b>13,000</b>
<b>1</b>	<b>12,000</b>	<b>3</b>	<b>145</b>
<b>16</b>	<b>8,000</b>	<b>10</b>	<b>550</b>
		<b>18</b>	<b>5,000</b>
		<b>30</b>	<b>580</b>
<b>31</b>	<b>2,000</b>	<b>31</b>	<b>1,650</b>
		<b>31</b>	<b>555</b>
		<b>31</b>	<b>1,900</b>
		<b>31</b>	<b>1,000</b>
<b>Bal.</b>	<b>1,120</b>		

<b>Mar. 1</b>	<b>14,450</b>		
		<b>16</b>	<b>8,000</b>
<b>31</b>	<b>5,000</b>		
<b>Bal.</b>	<b>11,450</b>		

<b>Prepaid Rent</b>	
<b>Mar.31</b>	<b>950</b>

**Accounts Receivable**

**PROBLEM 2-9B (Continued)****(b) and (c) (Continued)**

<b>Equipment</b>	
Mar. 115,100	

  

<b>Accounts Payable</b>	
	Mar. 1 18,750
Mar. 2 13,000	
18 5,000	
	Bal. 750

  

<b>Notes Payable</b>	
Mar. 30 500	Mar. 1 12,000
	Bal. 11,500

  

<b>H. Nolan, Capital</b>	
	Mar. 1 14,300

  

<b>H. Nolan, Drawings</b>	
Mar. 31 1,000	

<b>Service Revenue</b>	
	Mar. 31 7,000

  

<b>Advertising Expense</b>	
Mar. 10 550	

  

<b>Interest Expense</b>	
Mar. 31 55	

  

<b>Miscellaneous Expense</b>	
Mar. 30 580	

  

<b>Rent Expense</b>	
Mar. 31 950	

  

<b>Insurance Expense</b>	
Mar. 31 45	

  

<b>Salaries Expense</b>	
Mar. 31 1,650	

**PROBLEM 2-9B (Continued)****(d)**

**HN HR CONSULTING**  
**Trial Balance**  
**March 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$1,120	
Accounts receivable .....	11,450	
Prepaid rent .....	950	
Equipment.....	15,100	
Accounts payable.....		\$750
Notes payable.....		11,500
H. Nolan, capital .....		14,300
H. Nolan, drawings .....	1,000	
Service revenue.....		7,000
Advertising expense .....	550	
Interest expense.....	55	
Miscellaneous expense.....	580	
Rent expense.....	950	
Insurance expense .....	145	
Salaries expense .....	1,650	
	<u>\$33,550</u>	<u>\$33,550</u>

**Taking It Further**

The March rent payment of \$1,900 is half asset and half expense. The asset portion of \$950 is for the rent for April and the expense portion of \$950 is for the March rent. April's rent is a future benefit at March 31, and thus is an asset. Whereas, March's rent has been used by March 31 and thus is an expense.

<b>PROBLEM 2-10B</b>
----------------------

(a)

**HN HR CONSULTING**  
**Income Statement**  
**Month Ended March 31, 2014**

---

<b>Revenues</b>	
Service revenue .....	<b>\$ 7,000</b>
<b>Expenses</b>	
Advertising expense.....	\$ 550
Insurance expense .....	145
Interest expense .....	55
Miscellaneous expense .....	580
Rent expense .....	950
Salaries expense.....	<u>1,650</u>
Total expenses .....	<u><b>3,930</b></u>
<b>Profit.....</b>	<u><b>\$3,070</b></u>

(b)

**HN HR CONSULTING**  
**Statement of Owner's Equity**  
**Month Ended March 31, 2014**

---

H. Nolan, capital, March 1, 2014 .....	<b>\$14,300</b>
Add: Profit.....	<u><b>3,070</b></u>
	<b>17,370</b>
Less: Drawings .....	<u><b>1,000</b></u>
H. Nolan, capital, March 31, 2014 .....	<u><b>\$16,370</b></u>

**PROBLEM 2-10B (Continued)****(c)**

**HN HR CONSULTING**  
**Balance Sheet**  
**March 31, 2014**

---

<u><b>Assets</b></u>	
Cash .....	\$ 1,120
Accounts receivable .....	11,450
Prepaid rent .....	950
Equipment.....	<u>15,100</u>
 Total assets.....	 <u><b>\$28,620</b></u>
 <u><b>Liabilities and Owner's Equity</b></u>	
<b>Liabilities</b>	
Accounts payable .....	\$ 750
Notes payable .....	<u>11,500</u>
Total liabilities .....	<u>12,250</u>
 <b>Owner's Equity</b>	
H. Nolan, capital.....	<u>16,370</u>
 Total liabilities and owner's equity .....	 <u><b>\$28,620</b></u>

**Taking It Further**

Hobson would not be able to retire and take out cash from the business in an amount equal to his capital account balance of \$16,370. The cash balance is only \$1,120. All other assets would need to be converted to cash, and the debts paid first. Hobson would have the right to whatever cash remained.

<b>PROBLEM 2-11B</b>
----------------------

(a)

**LAZDOWSKI MARKETING SERVICES**  
**Trial Balance**  
**October 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 4,930	
Accounts receivable .....	6,010	
Supplies .....	1,240	
Prepaid rent .....	975	
Furniture .....	56,685	
Equipment.....	25,970	
Notes payable .....		\$48,850
Accounts payable.....		4,430
Unearned revenue .....		3,555
I. Lazdowski, capital.....		57,410
I. Lazdowski, drawings .....	75,775	
Fees earned (to balance*) .....		114,020
Advertising expense .....	14,970	
Insurance expense .....	2,020	
Interest expense .....	2,445	
Supplies expense .....	5,000	
Rent expense.....	11,700	
Salaries expense .....	<u>20,545</u>	
	<u>\$228,265</u>	<u>\$228,265</u>

**\*Total credits without fees earned = \$114,245**  
**\$228,265 – \$114,245=\$114,020**

**PROBLEM 2-11B (Continued)****(b)**

**LAZDOWSKI MARKETING SERVICES**  
**Income Statement**  
**Year Ended October 31, 2014**

---

<b>Revenues</b>	
<b>Fees earned.....</b>	<b>\$114,020</b>
<b>Expenses</b>	
<b>Advertising expense.....</b>	<b>\$14,970</b>
<b>Insurance expense .....</b>	<b>2,020</b>
<b>Interest expense .....</b>	<b>2,445</b>
<b>Supplies expense .....</b>	<b>5,000</b>
<b>Rent expense .....</b>	<b>11,700</b>
<b>Salaries expense.....</b>	<b><u>20,545</u></b>
<b>Total expenses .....</b>	<b><u>56,680</u></b>
<b>Profit .....</b>	<b><u>\$57,340</u></b>

**LAZDOWSKI MARKETING SERVICES**  
**Statement of Owner's Equity**  
**Year Ended October 31, 2014**

---

<b>I. Lazdowski, capital, November 1, 2013.....</b>	<b>\$57,410</b>
<b>Add: Profit .....</b>	<b><u>57,340</u></b>
	<b>114,750</b>
<b>Less: Drawings.....</b>	<b><u>75,775</u></b>
<b>I. Lazdowski, capital, October 31, 2014.....</b>	<b><u>\$38,975</u></b>



**PROBLEM 2-11B (Continued)****(b) (Continued)**

**LAZDOWSKI MARKETING SERVICES**  
**Balance Sheet**  
**October 31, 2014**

---

<u><b>Assets</b></u>	
Cash .....	\$ 4,930
Accounts receivable .....	6,010
Supplies .....	1,240
Prepaid rent .....	975
Furniture .....	56,685
Equipment.....	<u>25,970</u>
 Total assets.....	 <u><u>\$95,810</u></u>
 <u><b>Liabilities and Owner's Equity</b></u>	
<b>Liabilities</b>	
Notes payable .....	\$48,850
Accounts payable .....	4,430
Unearned revenue .....	<u>3,555</u>
Total liabilities .....	56,835
<b>Owner's Equity</b>	
I. Lazdowski, capital .....	<u>38,975</u>
 Total liabilities and owner's equity .....	 <u><u>\$95,810</u></u>

**PROBLEM 2-11B (Continued)****Taking It Further**

**Inga Lazdowski has withdrawn more cash than profit. This has resulted in a net decrease to the owner's capital account. Inga's drawings have left the company with a low level of liquid assets (Cash of \$4,930 + Accounts receivable of \$6,010 = \$10,940) to pay off liabilities (Notes payable of \$48,850 + Accounts payable of \$4,430 = \$53,280). Inga's drawings should be based on her cash budget for the coming year and leave the company with sufficient cash to able to meet its liabilities and grow.**

<b>PROBLEM 2-12B</b>
----------------------

- (a)
1. Incorrect
  2. Incorrect
  3. Correct
  4. Incorrect
  5. Incorrect
  6. Incorrect
  7. Incorrect
  8. Incorrect
  9. Incorrect
  10. Incorrect

(b)

Trans	1	2	3	4	5
1					
2					

			<b>Understated \$500</b>		
<b>3</b>		<b>Accounts Payable</b>			
<b>4</b>			<b>Understated \$1,200</b>		
<b>5</b>					

<b>6</b>		<b>Salaries Expense</b>	<b>Overstated \$1,200</b>		

**PROBLEM 2-12B (Continued)****(b) (Continued)**

<b>Trans</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>7</b>		<b>Service Revenue</b>	<b>Overstated \$400</b>		
<b>8</b>					

			<b>(\$375×2)</b>		
<b>9</b>		<b>Cash</b>  <b>Accounts Payable</b>	<b>Overstated \$8,600</b> <b>Understated \$6,800</b>		
<b>10</b>					

		<b>Service Revenue</b>			
--	--	----------------------------	--	--	--



### PROBLEM 2-12B (Continued)

## Taking It Further

1. **Disagree.** Even though the trial balance is balanced, uncorrected errors misstate the financial position of the company.
2. This error understates Accounts Receivable and Accounts Payable. It may lead to liabilities being unpaid and receivables being uncollected.
4. This error may lead to Salaries to employees not being paid since the transaction was posted as a credit to Cash. It would show as already being paid. The error would also understate the company's liabilities.
6. This error overstates Salaries Expense. It results in lower profits on the income statement because of the additional expense.
7. This error shows lower liabilities by understating Unearned Revenue. It results in higher profit on the income statement because of the overstated Service Revenue.
9. This error shows lower liabilities by understating Accounts Payable and higher assets by overstating Equipment and Cash. It may lead to the supplier not being paid since the transaction shows the equipment as already paid.
10. This error understates the asset Accounts Receivable and understates Service Revenue. It results in a lower profit on the income statement because of the unrecorded revenue.

<b>PROBLEM 2-13B</b>
----------------------

**SHAWNEE SLOPES COMPANY**  
**Trial Balance**  
**June 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash (\$5,875 + \$210 – \$120 + \$650) .....	\$ 6,615	
Accounts receivable (\$3,620 – \$385– \$385).....	2,850	
Supplies (\$0 + \$650) .....	650	
Equipment (\$14,020 – \$650 + \$2,000) .....	15,370	
Notes payable (\$0 + \$2,000) .....		\$ 2,000
Accounts payable (\$5,290 – \$165– \$165 + \$650)		5,610
Property taxes payable (\$500 – \$500) .....		0
A. Shawnee, capital (\$17,900 + \$750) .....		18,650
A. Shawnee, drawings (\$0 + \$750) .....	750	
Service revenue (\$7,027– \$560 + \$650) .....		7,117
Advertising expense (\$1,132 – \$210 + \$120) ....	1,042	
Property tax expense (\$1,100 + \$500) .....	1,600	
Salaries expense (\$4,150 + \$350) .....	4,500	
	<u>\$33,377</u>	<u>\$33,377</u>

### Taking It Further

There could still be errors after correcting the items identified. The errors could be counter-balancing errors that affect both the debit and credit side equally, such as a transposition error in recording a journal entry that affects both the debit and credit sides (item #6), or errors that counter-balance on the debit side, or on the credit side, of the trial balance. The trial balance could also be in balance and not show transactions that have been omitted but that should have been recorded.

**CONTINUING COOKIE CHRONICLE**

(a)	GENERAL JOURNAL		J1
	Account Titles and Explanation	Debit	Credit
Nov. 12	No entry required for cashing Canada Savings Bonds—this is a personal transaction.		
12	Cash ..... N. Koebel, Capital .....	900	900
18	Advertising Expense..... Cash.....	325	325
20	Supplies ..... Cash.....	198	198
25	Equipment ..... N. Koebel, Capital .....	550	550
26	Account Receivable ..... Fees Earned .....	300	300
27	Telephone Expense..... Accounts Payable.....	98	98
29	Cash ..... Notes Payable .....	3,000	3,000
Dec. 2	Cash ..... Fees Earned .....	250	250
3	Equipment ..... Cash.....	1,000	1,000

**CONTINUING COOKIE CHRONICLE (Continued)****(a) (Continued)**

<b>GENERAL JOURNAL</b>			<b>J1</b>
	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>Dec. 9</b>	<b>Cash .....</b>	<b>125</b>	
	<b>    Unearned Revenue .....</b>		<b>125</b>
<b>13</b>	<b>Accounts Payable .....</b>	<b>98</b>	
	<b>    Cash.....</b>		<b>98</b>
<b>16</b>	<b>Cash .....</b>	<b>300</b>	
	<b>    Accounts Receivable.....</b>		<b>300</b>
<b>17</b>	<b>Accounts Receivable .....</b>	<b>500</b>	
	<b>    Fees Earned .....</b>		<b>500</b>
<b>30</b>	<b>Telephone Expense.....</b>	<b>76</b>	
	<b>    Accounts Payable.....</b>		<b>76</b>

**(b)**

<b>Cash</b>				<b>Accounts Receivable</b>			
<b>Nov.12</b>	<b>900</b>	<b>Nov.18</b>	<b>325</b>	<b>Nov.26</b>	<b>300</b>	<b>Dec. 16</b>	<b>300</b>
<b>29</b>	<b>3,000</b>	<b>20</b>	<b>198</b>	<b>Dec. 17</b>	<b>500</b>		
<b>Dec. 2</b>	<b>250</b>	<b>Dec. 3</b>	<b>1,000</b>	<b>Bal.</b>	<b>500</b>		
<b>9</b>	<b>125</b>	<b>13</b>	<b>98</b>				
<b>16</b>	<b>300</b>						
<b>Bal.</b>	<b>2,954</b>						

  

<b>Supplies</b>		<b>Equipment</b>	
<b>Nov.20</b>	<b>198</b>	<b>Nov.25</b>	<b>550</b>
		<b>Dec. 3</b>	<b>1,000</b>
		<b>Bal.</b>	<b>1,550</b>

**CONTINUING COOKIE CHRONICLE (Continued)****(b) (Continued)**

<b>Accounts Payable</b>			
<b>Dec. 13</b>	<b>98</b>	<b>Nov.27</b>	<b>98</b>
		<b>Dec. 30</b>	<b>76</b>
		<b>Bal.</b>	<b>76</b>

<b>Unearned Revenue</b>		
	<b>Dec. 9</b>	<b>125</b>

<b>Notes Payable</b>		
	<b>Nov.28</b>	<b>3,000</b>

<b>N. Koebel, Capital</b>		
	<b>Nov.12</b>	<b>900</b>
	<b>25</b>	<b>550</b>
	<b>Bal.</b>	<b>1,450</b>

<b>Fees Earned</b>		
	<b>Nov.26</b>	<b>300</b>
	<b>Dec. 2</b>	<b>250</b>
	<b>17</b>	<b>500</b>
	<b>Bal.</b>	<b>1,050</b>

<b>Advertising Expense</b>		
<b>Nov. 18</b>	<b>325</b>	

<b>Telephone Expense</b>		
<b>Nov. 27</b>	<b>98</b>	
<b>30</b>	<b>76</b>	
<b>Bal.</b>	<b>174</b>	

**CONTINUING COOKIE CHRONICLE (Continued)****(c)**

**COOKIE CREATIONS**  
**Trial Balance**  
**December 31, 2013**

---

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$2,954	
Accounts receivable .....	500	
Supplies .....	198	
Equipment.....	1,550	
Accounts payable.....		\$ 76
Unearned revenue .....		125
Notes payable.....		3,000
N. Koebel, capital .....		1,450
Fees earned .....		1,050
Advertising expense .....	325	
Telephone expense .....	<u>174</u>	
	<u>\$5,701</u>	<u>\$5,701</u>

**BYP 2-1 FINANCIAL REPORTING PROBLEM**

(a)		(1) Financial Statement	(2) Account	(3) Normal Balance	(3) Increase Side	(4) Decrease Side
Account						
Administrative expenses		Income Statement	Expense	Debit	Debit	Credit
Cash and cash equivalents		Balance Sheet	Asset	Debit	Debit	Credit
Finance costs		Income Statement	Expense	Debit	Debit	Credit
Inventories		Balance Sheet	Asset	Debit	Debit	Credit
Long-term debt		Balance Sheet	Liability	Credit	Credit	Debit
Prepaid expenses		Balance Sheet	Asset	Debit	Debit	Credit
Sales		Income Statement	Revenue	Credit	Credit	Debit
Trade and other payables		Balance Sheet	Liability	Credit	Credit	Debit

## **BYP 2-1 (Continued)**

- (b)**
- 1. Cash is decreased.**
  - 2. Cash is increased.**
  - 3. Cash and/or Accounts Receivable are increased.**
  - 4. Accounts Payable is increased or Cash is decreased.**
  - 5. Cash is decreased.**



## **BYP 2-2 INTERPRETING FINANCIAL STATEMENTS**

**(a)**

- 1. Deferred income tax liability.**
- 2. Income tax expense.**
- 3. Also in a corporation the owners are called shareholders. So the final two amounts listed would only exist in a corporation and not in a proprietorship.**

**BYP 2-2 (Continued)****(b)**

**WEST AIRLINES LTD.**  
**Trial Balance**  
**December 31, 2011**

---

<b>Cash .....</b>	<b>\$1,291,946</b>	
<b>Accounts receivable .....</b>	<b>34,122</b>	
<b>Inventory.....</b>	<b>31,695</b>	
<b>Prepaid expenses and deposits.....</b>	<b>66,936</b>	
<b>Property and equipment.....</b>	<b>1,911,227</b>	
<b>Intangible and other assets.....</b>	<b>137,752</b>	
<b>Accounts payable and accrued liabilities .....</b>		<b>\$ 307,279</b>
<b>Advance ticket sale liability.....</b>		<b>432,186</b>
<b>Non-refundable guest credits liability .....</b>		<b>43,485</b>
<b>Maintenance provisions liability .....</b>		<b>151,645</b>
<b>Other liabilities .....</b>		<b>13,698</b>
<b>Deferred income tax liability .....</b>		<b>326,456</b>
<b>Long-term debt.....</b>		<b>828,712</b>
<b>Shareholders' (owners) equity, January 1, 2011</b>		<b>1,304,233</b>
<b>Shareholders' (owners) "drawings" .....</b>	<b>82,718</b>	
<b>Guest revenues .....</b>		<b>2,790,299</b>
<b>Other revenues.....</b>		<b>281,241</b>
<b>Aircraft fuel, leasing, and maintenance expense</b>	<b>1,227,709</b>	
<b>Airport operations expense.....</b>	<b>421,561</b>	
<b>Flight operations and navigational charges .....</b>	<b>483,920</b>	
<b>Sales and distribution expense.....</b>	<b>273,364</b>	
<b>Marketing, general, and administration expense</b>	<b>209,880</b>	
<b>Depreciation and amortization expense.....</b>	<b>174,751</b>	
<b>Employee profit share expense .....</b>	<b>23,804</b>	
<b>Non-operating expenses .....</b>	<b>48,545</b>	
<b>Income tax expense .....</b>	<b>59,304</b>	
	<b><u>\$6,479,234</u></b>	<b><u>\$6,479,234</u></b>

## **BYP 2-2 (Continued)**

- (c) Items have been grouped on the WestJet income statement based on the nature of the expenses such as expenses related to marketing, general, and administrative. Preparing a more condensed statement of income is preferable for large organizations such as WestJet as the users of the financial statements are generally investors who are not interested in any greater detail concerning expenses than what has been presented by management.**
- (d) Most customers using WestJet services book their flights well in advance of their trip. The customers also pay for their tickets before the flight. The cash obtained by WestJet represents unearned revenue until the service of the flight has been delivered to the customer.**

**WestJet has used two main accounts for unearned revenue: Advance Ticket Sales Liability and Non-refundable Guest Credits Liability.**

## **BYP 2-3 COLLABORATIVE LEARNING ACTIVITY**

**All of the material supplementing the collaborative learning activity, including a suggested solution, can be found in the Collaborative Learning section of the Instructor Resources site accompanying this textbook.**

## **BYP 2-4 COMMUNICATION ACTIVITY**

**e-mail:**

**Hello instructor,**

**As requested, following is an explanation and illustration of the steps in the recording process as they relate to the March 15 transactions for White Glove Company:**

- (1) In the first example, a transaction has not yet taken place. White Glove's financial position (assets, liabilities, and owner's equity) is not changed as a result of the contract. There has been no exchange between the parties involved in the event.**
- (2) In the second example, bills totalling \$6,000 were sent to customers for services performed. First, we analyze the transaction to determine the accounts involved and the debits/credits required. We determine that the asset Accounts Receivable is increased \$6,000 and Service Revenue is increased \$6,000. Debits increase assets and credits increase revenues, so the next step is preparing the journal entry:**

<b>Accounts Receivable .....</b>	<b>6,000</b>	
<b>    Service Revenue .....</b>		<b>6,000</b>
<b>    Billed customer for services performed.</b>		

**The third step is posting the entry. 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 accounts Service Revenue.**

## **BYP 2-4 (Continued)**

- (3) In the third example, \$2,000 was paid in salaries to employees. First we analyze the transaction to determine the accounts involved and the debits/credits required. We determine that the expense Salaries Expense is increased \$2,000 and the asset Cash is decreased \$2,000. Debits increase expenses and credits decrease assets, so the next step is preparing the journal entry:**

<b>Salaries Expense.....</b>	<b>2,000</b>	
<b>Cash.....</b>		<b>2,000</b>
<b>    Paid salaries.</b>		

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

**I trust that the foregoing is satisfactory. Please let me know if anything further is required.**

## **BYP 2-5 ETHICS CASE**

**(a) The stakeholders in this situation are:**

**Vu Hung, assistant chief accountant.**

**Users of the company's financial statements**

- **internal – managers or company owner**
- **external – Lim Company's bank or other creditors**

**Vu's supervisor (the chief accountant, who evaluates her).**

**(b) By adding \$1,000 to the Equipment account, the account total is intentionally misstated. By not locating the error causing the imbalance, some other account(s) may also be misstated. 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), Vu's action might not be considered unethical in the preparation of interim financial statements. However, she should disclose what she has done. Otherwise, if Vu is violating a company accounting policy by her action, then she is acting unethically. Even if the \$1,000 is considered immaterial, the source of the error should be determined, as it may be made up of more than one error, and the sum of the errors (net effect of the errors in total) may be immaterial, but each individual error could have a material effect on the financial statements.**

**(c) Vu'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 (if any) in the next quarter.**

**BYP 2-6 “All About You” Activity**

(a) On September 1, 2014, my personal equity would be as follows:

Cash (\$4,000 + \$14,000) .....	\$18,000
Clothes.....	1,000
Cell phone.....	<u>200</u>
Total assets .....	19,200
Less Student loan .....	<u>(14,000)</u>
Personal equity, Sept. 1, 2014	<u>\$5,200</u>

(b)

**Personal Trial Balance**  
**December 15, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$6,000	
Clothes (\$1,000 + \$1,500).....	2,500	
Cell phone.....	200	
Computer .....	1,000	
Damage deposit on apartment .....	400	
Unused bus pass.....	250	
Student loan .....		\$14,000
Personal equity .....		5,200
Rent expense.....	1,600	
Groceries expense .....	1,200	
Tuition for September to December.....	2,800	
Textbooks for September to December .....	600	
Entertainment expense.....	1,500	
Cell phone expense.....	250	
Cable TV and internet expense .....	200	
Bus pass expense .....	250	
Airfare .....	450	
	<u>\$19,200</u>	<u>\$19,200</u>



**BYP 2-6 (Continued)****(b) (Continued)****Errors in the Trial Balance:**

- The cash amount should be the amount in the bank account at December 15<sup>th</sup>.
- The computer was recorded at \$100 rather than the actual cost of \$1,000.
- Rent expense of \$2,000 should be split between the actual expense of \$1,600 (\$400 per month for September to December inclusive) and the damage deposit on the apartment which is an asset and not an expense.
- Groceries are an expense and should be listed in the debit column.
- Bus pass expense of \$500 should be split between the amount used for September through December \$250 and the amount of the bus pass that represents an asset as of the end of December 2013 of \$250.
- The airfare is \$450, not \$540.

<b>(c) Personal equity, September 1</b>	<b>\$5,200</b>
<b>Net loss *</b>	<b><u>(8,850)</u></b>
<b>Personal equity (deficit), December 15th</b>	<b><u><u>\$(3,650)</u></u></b>
<b>Rent expense.....</b>	<b>\$1,600</b>
<b>Groceries expense .....</b>	<b>1,200</b>
<b>Tuition for September to December.....</b>	<b>2,800</b>
<b>Textbooks for September to December.....</b>	<b>600</b>
<b>Entertainment expense.....</b>	<b>1,500</b>
<b>Cell phone expense .....</b>	<b>250</b>
<b>Cable TV and internet expense .....</b>	<b>200</b>
<b>Bus pass for September to December.....</b>	<b>250</b>
<b>Airfare expense .....</b>	<b><u>450</u></b>
<b>* Net loss.....</b>	<b><u><u>\$8,850</u></u></b>

**BYP 2-6 (Continued)****(d)**

**Personal Balance Sheet**  
**December 15, 2014**

---

<u><b>Assets</b></u>	
Cash .....	\$6,000
Clothes .....	2,500
Cell phone .....	200
Damage deposit on apartment .....	400
Unused bus pass .....	250
Computer .....	<u>1,000</u>
<b>Total assets .....</b>	<b><u>\$10,350</u></b>
<u><b>Liability and Deficit</b></u>	
<b>Liability</b>	
Student loan .....	\$14,000
Personal equity (deficit) .....	<u>(3,650)</u>
<b>Total liabilities and owner's equity .....</b>	<b><u>\$10,350</u></b>

- (e) The amount of expenses in the September to December semester totalled \$8,850. Of this amount, it will not be necessary to use cash to pay for the \$250 bus pass next semester as it has already been purchased. If the other expenses are kept at the same level, I will need \$8,600 (\$8,850 – \$250) of cash which exceeds my current cash balance of \$6,000 by \$2,600. The cash balance is inadequate.
- (f) Expenses that can be avoided in the second semester include entertainment expenses of \$1,500 and the airfare of \$450. Another expense that can be reduced substantially but not eliminated is the cell phone expense.
- (g) Additional cash expenditures that could occur in the second semester may possibly include repair to the computer or the loss of the damage deposit and additional payments to the landlord for damage to the apartment.

### **BYP 2-6 (Continued)**

- (h) Unless I get a part-time job, or cut expenses in addition to the entertainment and airfare expenses mentioned in (f), it will be necessary to ask for more money from my parents.**

## Legal Notice

---

### Copyright



Copyright © 2013 by John Wiley & Sons Canada, Ltd. or related companies. All rights reserved.

The data contained in these files are protected by copyright. This manual is furnished under licence and may be used only in accordance with the terms of such licence.

The material provided herein may not be downloaded, reproduced, stored in a retrieval system, modified, made available on a network, used to create derivative works, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise without the prior written permission of John Wiley & Sons Canada, Ltd.