

Chapter 2

Recording Business Transactions

Short Exercises

(5 min.) S 2-1

The transaction had a financial impact on the business and should be recorded. The payment for the computer was not an expense.

The payment related to the purchase of an asset, “Equipment,” because the computer is an economic resource of the business. The computer will provide benefit over more than one fiscal period.

(5 min.) S 2-2

- a. \$12,000 (Cash \$10,000–\$5,000; Supplies \$2,000, Computer \$5,000)
- b. \$2,000 Accounts Payable

(5-10 min.) S 2-3

Cash	
25,000	4,000
2,000	
Bal. 23,000	

Accounts Receivable	
6,000	

Supplies	
9,000	

Accounts Payable	
	9,000

Rent	
4,000	

Service Revenue	
	8,000

Common Shares	
	25,000

(5 min.) S 2-4

Increased total assets: May 1 (Cash)
May 1 (Medical supplies)
May 3 (Cash, Accounts receivable)

Decreased total assets: May 2 (Cash)

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
June 15	Cash Note Payable Borrowed money from the bank.	25,000	25,000
22	Accounts Receivable Service Revenue Delivered portrait to be paid on account.	9,000	9,000
28	Cash Accounts Receivable Received cash on account.	5,000	5,000
29	Utilities Expense Accounts Payable Received utility bill.	600	600
30	Salary Expense Cash Paid salary.	2,500	2,500

Req. 1**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies.....	5,000	
	Accounts Payable.....		5,000
	Purchased supplies on account.		
	Accounts Payable.....	3,000	
	Cash.....		3,000
	Paid cash on account.		

Req. 2

Accounts Payable	
3,000	5,000
	Bal. 2,000

Req. 3

Biaggi's business owes \$2,000, as shown in the Accounts Payable account.

Req. 1**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable	500	
	Service Revenue		500
	Performed service on account.		
	Cash	100	
	Accounts Receivable		100
	Received cash on account.		

Req. 2

Cash		Accounts Receivable		Service Revenue	
	100		500		500
Bal.	100	Bal.	400		Bal 500
					.

Req. 3

a. The Centre earned \$500: Service Revenue

b. Total assets \$500: Cash..... \$100
 Accounts receivable. 400
 Total assets.....\$500

(10 min.) S 2-8

lululemon athletica inc.

Trial Balance

December 31, 2014

ACCOUNT	DEBIT	CREDIT
	<i>(Millions)</i>	
Cash & other current assets	\$ 53	
Other assets	101	
Accounts payable		\$ 5
Other liabilities		38
Shareholders' equity		80
Revenues		275
Expenses	<u>244</u>	
Total	<u>\$398</u>	<u>\$398</u>

lululemon's net income: \$31 million (\$275 – \$244)

(10 min.) S 2-9

- 1. Total assets = \$95,000 (\$6,000 + \$13,000 + \$4,000 + \$22,000 + \$50,000)**
- 2. Total liabilities = \$39,000 (\$19,000 + \$20,000)**
- 3. Net income = *\$38,000 (\$70,000 – \$21,000 – \$10,000 – \$1,000)**
- 4. Total shareholders' equity = \$56,000 (\$10,000 + \$8,000 + \$38,000*)**

(10 min.) S 2-10

**Custom Pool Service, Inc.
Trial Balance
June 30, 2014**

ACCOUNT	DEBIT	CREDIT
Cash	9,200	
Accounts receivable	15,200	
Land	29,600	
Accounts payable		\$ 4,100
Loan payable		11,500
Common shares		8,300
Retained earnings		24,700
Dividends	5,800	
Service revenue		22,300
Salary expense	8,500	
Utilities expense	1,700	
Delivery expense	<u>900</u>	
Total	<u>\$70,900</u>	<u>\$70,900</u>

- | | | | |
|----------|--------------------|----|--|
| <u>H</u> | 1. Debit | A. | The cost of operating a business; a decrease in shareholders' equity |
| <u>A</u> | 2. Expense | | |
| <u>C</u> | 3. Net income | B. | Always a liability |
| <u>D</u> | 4. Ledger | C. | Revenues – Expenses |
| <u>J</u> | 5. Posting | D. | Grouping of accounts |
| <u>I</u> | 6. Normal balance | E. | Assets – Liabilities |
| <u>B</u> | 7. Payable | F. | Record of transactions |
| <u>F</u> | 8. Journal | G. | Always an asset |
| <u>G</u> | 9. Receivable | H. | Left side of an account |
| <u>E</u> | 10. Owners' equity | I. | Side of an account where increases are recorded |
| | | J. | Copying data from the journal to the ledger |

(5 min.) S 2-12

Cash		Computer Equipment	
100,000		60,000	
Accounts Payable		Common Shares	
	60,000		100,000

Total debits = \$160,000 (\$100,000 + \$60,000)

Total credits = \$160,000 (\$60,000 + \$100,000)

Exercises

(10-15 min.) E 2-13

TO: Home Office

FROM: Store Manager

During the first week, I borrowed \$170,000 on a note payable. I used the store's beginning cash plus the borrowed money to purchase land, a building, copy equipment, and supplies. After all these transactions, the store's balance sheet appears as follows:

**The Gap
Ottawa Store
Balance Sheet
Date**

ASSETS		LIABILITIES	
Cash	\$ 10,000	Note payable	\$170,000
Inventory	40,000		
Store fixtures	50,000	SHAREHOLDERS' EQUITY	
Land	40,000	Common shares	100,000
Building	<u>130,000</u>	Total liabilities and	
Total assets	<u>\$270,000</u>	shareholders' equity	<u>\$270,000</u>

Cash	
100,000	50,000
	40,000
10,000	

(5-10 min.) E 2-14

- a. Purchase of asset for cash
Sale of asset for cash
Collection of an account receivable
- b. Payment of dividends to shareholders
Expense transaction
- c. Pay a liability
Return of asset purchased on account
- d. Issuance of shares
Revenue transaction
- e. Purchase of asset on account
Borrow money
(Answers may vary.)

(10-15 min.) E 2-15

- a. No effect on total assets. Increase in cash offsets the decrease in accounts receivable.
- b. No effect (a personal transaction)
- c. No effect on total assets. Increase in cash offsets the decrease in land.
- d. Increased assets (cash)
- e. No effect on total assets. Increase in land offsets the decrease in cash.
- f. Increased assets (cash)
- g. Decreased assets (cash)
- h. Increased assets (equipment)
- i. Increased assets (supplies)
- j. Decreased assets (cash)

Req. 1**Analysis of Transactions**

ASSETS					=	LIABILITIES		+	SHAREHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Dental Supplies	+ Land	=	Accounts Payable	+ Note Payable	+ Common Shares	+ Retained Earnings	Type of Shareholders' Equity Transaction	
Mar. 6	50,000							50,000		Issued shares	
9	(30,000)			30,000							
12			3,000			3,000					
15	Not a transaction of the business.										
15-31	5,000	5,000							10,000	Service revenue	
15-31	(1,400)								(1,400)	Salary expense	
	(1,000)								(1,000)	Rent expense	
	(300)								(300)	Utilities expense	
31			(250)						(250)	Supplies Expense	
31	10,000						10,000				
31	(2,000)					(2,000)					
Bal.	<u>30,300</u>	<u>5,000</u>	<u>2,750</u>	<u>30,000</u>		<u>1,000</u>	<u>10,000</u>	<u>50,000</u>	<u>7,050</u>		
					</						

Req. 2

a. \$68,050

b. \$5,000

c. \$11,000 (\$1,000 + \$10,000)

d. \$57,050 (\$68,050 – \$11,000, or \$50,000 + \$7,050)

e. \$7,050 (Revenue, \$10,000 minus total expenses of \$2,950, equals net income, \$7,050.)

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
March 6	Cash	50,000	
	Common Shares		50,000
	Issued shares to owner.		
9	Land	30,000	
	Cash		30,000
	Purchased land.		
12	Dental Supplies	3,000	
	Accounts Payable		3,000
	Purchased supplies on account.		
15	Not a transaction of the business.		
15-31	Cash	5,000	
	Accounts Receivable	5,000	
	Service Revenue		10,000
	Performed service for cash and on account.		
15-31	Salary Expense	1,400	
	Rent Expense	1,000	
	Utilities Expense	300	
	Cash		2,700
	Paid expenses.		
31	Supplies Expense	250	
	Dental Supplies		250
	Used dental supplies.		
31	Cash	10,000	
	Note Payable		10,000
	Borrowed money.		
31	Accounts Payable	2,000	
	Cash		2,000
	Paid on account.		

Req. 1 (journal entries)**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Oct. 1	Cash Common Shares Issued common shares to owner.	25,000	25,000
2	Office Supplies Accounts Payable Purchased office supplies on account.	800	800
4	Land Cash Paid cash for land.	20,000	20,000
6	Cash Service Revenue Performed services for cash.	5,000	5,000
9	Accounts Payable Cash Paid cash on account.	100	100
17	Accounts Receivable Service Revenue Performed service on account.	1,500	1,500
23	Cash Accounts Receivable Received cash on account.	1,000	1,000
31	Salary Expense Rent Expense Cash Paid cash expenses.	1,000 500	1,500

Req. 1

Cash

Oct. 1	25,000	Oct. 4	20,000
6	5,000	9	100
23	1,000	31	1,500
Oct. 31	9,400		

Accounts Receivable

Oct. 17	1,500	Oct. 23	1,000
Oct. 31	500		

Office Supplies

Oct. 2	800		
Oct. 31	800		

Land

Oct. 4	20,000		
Oct. 31	20,000		

Accounts Payable

Oct. 9	100	Oct. 2	800
		Oct. 31	700

Common Shares

	Oct. 1	25,000
	Oct. 31	25,000

Service Revenue

	Oct. 6	5,000
	17	1,500
	Oct. 31	6,500

Salary Expense

Oct. 31	1,000	
Oct. 31	1,000	

Rent Expense

Oct. 31	500	
Oct. 31	500	

Req. 2

Perfect Printers, Inc.
Trial Balance
October 31, 2014

ACCOUNT	DEBIT	CREDIT
Cash	\$ 9,400	
Accounts receivable	500	
Office supplies	800	
Land	20,000	
Accounts payable		\$ 700
Common shares		25,000
Service revenue		6,500
Salary expense	1,000	
Rent expense	500	
Total	<u>\$32,200</u>	<u>\$32,200</u>

Req. 3

Total assets (\$9,400 + \$500 + \$800 + \$20,000).....	\$30,700
Total liabilities.....	<u>(700)</u>
Total shareholders' equity (\$25,000 + \$6,500 – \$1,000 – \$500).....	<u>\$30,000</u>

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash Common Shares Issued common shares.	20,000	20,000
2.	Cash Note Payable Borrowed money; signed note payable.	7,000	7,000
3.	Land Cash Note Payable Purchased land by paying cash and signing a note payable.	31,000	8,000 23,000
4.	Supplies Accounts Payable Purchased supplies on account.	1,000	1,000
5.	Cash Supplies Sold supplies for cash.	100	100
6.	Equipment Cash Paid cash for equipment.	8,000	8,000
7.	Accounts Payable Cash Paid cash on account.	400	400

Cash balance = \$10,700 (\$20,000 + \$7,000 – \$8,000 + \$100 – \$8,000 – \$400)

Company owes \$30,600 (\$7,000 + \$23,000 + \$1,000 – \$400)

Req. 1

Victoria Garden Care Ltd.
Trial Balance
Sept. 30, 2014

ACCOUNT	DEBIT	CREDIT
Cash	\$ 9,000	
Accounts receivable	17,500	
Equipment	29,000	
Accounts payable		\$ 4,300
Note payable		13,000
Common shares		8,500
Retained earnings		21,400
Dividends	6,000	
Service revenue		24,000
Salary expense	8,000	
Utilities expense	1,400	
Delivery expense	300	
Total	<u>\$71,200</u>	<u>\$71,200</u>

Req. 2

Victoria Garden Care Ltd.		
Income Statement		
For the Month Ended Sept. 30, 2014		
Service revenue		\$24,000
Salary expense	\$8,000	
Utilities expense	1,400	
Delivery expense	<u>300</u>	
Total expenses		<u>9,700</u>
Net income		<u><u>\$14,300</u></u>

**Sam's Deli Inc.
Trial Balance
October 31, 2014**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 5,200*	
Accounts receivable	12,000*	
Inventory	17,000	
Supplies	600	
Land	55,000	
Accounts payable		\$13,100*
Share capital		49,000*
Sales revenue		32,100
Salary expense	1,700	
Insurance expense	1,000	
Utilities expense	900*	
Rent expense	800	
Total	<u>\$94,200</u>	<u>\$94,200</u>

***Explanations:**

Cash: \$4,200 + \$1,000 = \$5,200

Accounts Receivable: \$13,000 – \$1,000 = \$12,000

Accounts Payable: \$12,000 + \$1,000 – \$100 + \$200 = \$13,100

Share Capital: \$47,900 + \$1,100 = \$49,000

Utilities Expense: \$700 + \$200 = \$900

Cash			
(a)	10,000	(b)	1,600
		(d)	2,000
		(e)	200
		(g)	2,000
Bal.	4,200		

Accounts Receivable			
(f)	12,100		
Bal.	12,100		

Office Supplies			
(c)	600		
Bal.	600		

Office Furniture			
(a)	5,000		
Bal.	5,000		

Accounts Payable			
(e)	200	(c)	600
		Bal.	400

Common Shares			
		(a)	15,000
		Bal.	15,000

Dividends			
(g)	2,000		
Bal.	2,000		

Service Revenue			
		(f)	12,100
		Bal.	12,100

Salary Expense			
(d)	2,000		
Bal.	2,000		

Rent Expense			
(b)	1,600		
Bal.	1,600		

Req. 1

**Sonia Rothesay, Accountant
Trial Balance
May 31, 2014**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 4,200	
Accounts receivable	12,100	
Office supplies	600	
Office furniture	5,000	
Accounts payable		\$ 400
Common shares		15,000
Dividends	2,000	
Service revenue		12,100
Salary expense	2,000	
Rent expense	<u>1,600</u>	
Total	<u>\$27,500</u>	<u>\$27,500</u>

Req. 2

The business performed well during May. The result of operations was net income of \$8,500, as shown by the income statement accounts:

Service revenue.....	\$12,100
Salary expense.....	\$2,000
Rent expense.....	<u>1,600</u>
Total expenses.....	<u>(3,600)</u>
Net income.....	<u>\$ 8,500</u>

Reqs. 1 and 3**Cash**

Jan. 2	5,000	Jan. 2	500
9	800	3	3,000
		12	200
Bal.	2,100		

Accounts Receivable

Jan. 18	1,700	
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Supplies

Jan. 5	900	
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Equipment

Jan. 3	3,000	
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Furniture

Jan. 4	6,000	
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Accounts Payable

	Jan. 4	6,000
	5	900
	Bal.	6,900

Common Shares

	Jan. 2	5,000
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Dividends

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Service Revenue

	Jan. 9	800
	18	1,700
	Bal.	2,500

Rent Expense

Jan. 2	500	
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Utilities Expense

Jan. 12	200	
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Salary Expense

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Req. 2**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Jan. 2	Cash	5,000	
	Common Shares		5,000
2	Rent Expense	500	
	Cash		500
3	Equipment	3,000	
	Cash		3,000
4	Furniture	6,000	
	Accounts Payable		6,000
5	Supplies	900	
	Accounts Payable		900
9	Cash	800	
	Service Revenue		800
12	Utilities Expense	200	
	Cash		200
18	Accounts Receivable	1,700	
	Service Revenue		1,700

Req. 4

**Web Marketing Services Inc.
Trial Balance
January 18, 2014**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 2,100	
Accounts receivable	1,700	
Supplies	900	
Equipment	3,000	
Furniture	6,000	
Accounts payable		\$ 6,900
Common shares		5,000
Dividends	—	
Service revenue		2,500
Rent expense	500	
Utilities expense	200	
Salary expense	—	
Total	<u>\$14,400</u>	<u>\$14,400</u>

a. Total cash paid during March:

Cash			
Feb. 28 Bal.	10,000		
March receipts	80,000	March cash payments	X = \$85,000
Mar. 31 Bal.	5,000		

$$\$10,000 + \$80,000 - X = \$ 5,000$$

$$X = \$85,000$$

b. Cash collections from customers during March:

Accounts Receivable			
Feb. 28 Bal.	26,000		
March sales			
on account	50,000	March collections	X = \$52,000
Mar. 31 Bal.	24,000		

$$\begin{aligned} \$26,000 + \$50,000 - X &= \$24,000 \\ X &= \$52,000 \end{aligned}$$

c. Cash paid on a note payable during March:

Note Payable			
		Feb. 28 Bal.	13,000
	March	March	
X = \$17,000	payments on note	new borrowing	25,000
		Mar. 31 Bal.	21,000

$$\begin{aligned} \$13,000 + \$25,000 - X &= \$21,000 \\ X &= \$17,000 \end{aligned}$$

Req. 1

**You Build Inc.
Trial Balance
December 31, 2014**

Cash	\$ 3,900	
Accounts receivable	7,200	
Land	34,000	
Accounts payable		\$ 5,800
Note payable		5,000
Common shares		20,000
Retained earnings		7,300
Service revenue		9,100
Salary expense	3,400	
Advertising expense	900	
Totals	<u>\$49,400</u>	<u>\$47,200</u>

Out of balance

by \$2,200

The correct balance of Accounts Receivable is \$5,000 (\$7,200 – \$2,200). After this correction, total debits will be \$47,200 (\$49,400 – \$2,200), the same as total credits.

Req. 2

**You Build Inc.
Trial Balance
December 31, 2014**

Cash (\$3,900 – \$1,400)	\$ 2,500	
Accounts receivable (\$7,200 – \$2,200 + \$10,000)	15,000	
Land (\$34,000 + \$60,000)	94,000	
Accounts payable (\$5,800 + \$1,000)		\$ 6,800
Note payable (\$5,000 + \$60,000)		65,000
Common shares		20,000
Retained earnings		7,300
Service revenue (\$9,100 + \$10,000)		19,100
Salary expense (\$3,400 + \$1,400)	4,800	
Advertising expense (\$900 + \$1,000)	<u>1,900</u>	
Totals	<u>\$118,200</u>	<u>\$118,200</u>

Req. 3

a. Total assets = \$111,500 (\$2,500 + \$15,000 + \$94,000)

b. Total liabilities = \$71,800 (\$6,800 + \$65,000)

c. Net income = \$12,400 (\$19,100 – \$4,800 – \$1,900)

City of Regina:

Income statement	August	September
Medical expense	\$30,000	\$ -0-

Balance sheet	August 31	September 30
Cash	\$50,000	\$25,000*
Accounts payable	30,000	5,000**

PHO:

Income statement	August	September
Service revenue	\$30,000	\$ -0-

Balance sheet	August 31	September 30
Cash	\$ -0-	\$25,000
Accounts receivable	30,000	5,000**

Explanation:

Regina's expense is PHO's revenue.

Regina's cash payment is PHO's cash receipt.

Regina's account payable is PHO's account receivable.

$$*\$50,000 - \$25,000 = \$25,000$$

$$**\$30,000 - \$25,000 = \$ 5,000$$

Quiz

Q2-29	c.
Q2-30	d.
Q2-31	c.
Q2-32	a.
Q2-33	d.
Q2-34	b.
Q2-35	c.
Q2-36	a.
Q2-37	b.
Q2-38	d.
Q2-39	d.
Q2-40	c.
Q2-41	a.
Q2-42	b.
Q2-43	a.
Q2-44	d.
Q2-45	c.
Q2-46	b.
Q2-47	a.
Q2-48	b.

Problems

Group A

(15-30 min.) P 2-49A

Dear Sue,

This trial balance lists the accounts of Amusement Specialties, Inc., along with its balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The fact that the trial balance is in balance does not mean that Amusement Specialties is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute Amusement Specialties' total assets add the asset account balances (Cash \$14,000 + Accounts receivable \$11,000 + Prepaid expenses \$4,000 + Equipment \$171,000 + Building \$100,000 = \$300,000); For total liabilities add the liability account balances (Accounts payable \$30,000 + Note payable \$120,000 = \$150,000). Net income or net loss for the current period is computed by subtracting total

expenses from total revenue. During the current period, Amusement Specialties earned a net income of \$30,000 [service revenue of \$86,000 minus total expenses of \$56,000 (\$14,000 + \$3,000 + \$32,000 + \$7,000)].

Student responses may vary.

(45-60 min.) P 2-50A

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES	+	SHAREHOLDERS' EQUITY						
	Cash	+	Accounts Receivable	+	Supplies	+	Land	=	Accounts Payable	+	Common Shares	+	Retained Earnings	Type of Shareholders' Equity Transaction
Bal.	1,300		1,000				12,000		8,000		4,000		2,300	
a)	5,000										5,000			Issued shares
b)	7,600												7,600	Service revenue
c)	(4,000)								(4,000)					
d)					1,500				1,500					
e)	1,000		(1,000)											
f)			2,500										2,500	Service revenue
g)	(900)												(900)	Rent expense
	(300)												(300)	Advertising expense
h)	(2,000)												(2,000)	Dividends
Bal.	<u>7,700</u>		<u>2,500</u>		<u>1,500</u>		<u>12,000</u>		<u>5,500</u>		<u>9,000</u>		<u>9,200</u>	
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Req. 2

Blythe Spirit Consulting, Inc.		
Income Statement		
For the Month Ended June 30, 2014		
<hr/>		
Revenues:		
Service revenue (\$7,600 + \$2,500)		\$10,100
Expenses:		
Rent expense	\$900	
Advertising expense	<u>300</u>	
Total expenses		<u>1,200</u>
Net income		<u><u>\$ 8,900</u></u>

Req. 3

Blythe Spirit Consulting, Inc.	
Statement of Retained Earnings	
For the Month Ended June 30, 2014	
<hr/>	
Retained earnings, May 31, 2014	\$2,300
Add: Net income for the month	<u>8,900</u>
	11,200
Less: Dividends	<u>(2,000)</u>
Retained earnings, June 30, 2014	<u><u>\$9,200</u></u>

Req. 4

**Blythe Spirit Consulting, Inc.
Balance Sheet
June 30, 2014**

ASSETS		LIABILITIES	
Cash	\$ 7,700	Accounts payable	\$ 5,500
Accounts receivable	2,500	SHAREHOLDERS'	
Supplies	1,500	EQUITY	
Land	12,000	Common shares	9,000
		Retained earnings	<u>9,200</u>
		Total shareholders' equity.	18,200
		Total liabilities and	
Total assets	<u>\$23,700</u>	shareholders' equity	<u>\$23,700</u>

Req. 1**Journal**

	ACCOUNT TITLES	DEBIT	CREDIT
a.	Cash	5,000	
	Common Shares		5,000
b.	Cash	7,600	
	Service Revenue		7,600
c.	Accounts Payable	4,000	
	Cash		4,000
d.	Supplies	1,500	
	Accounts Payable		1,500
e.	Cash	1,000	
	Accounts Receivable		1,000
f.	Accounts Receivable	2,500	
	Service Revenue		2,500
g.	Rent Expense	900	
	Advertising Expense	300	
	Cash		1,200
h.	Dividends	2,000	
	Cash		2,000

Reqs. 2 and 3

Cash		Accounts Receivable		Supplies		Land	
1,300	4,000	1,000	1,000	1,500		12,000	
						0	
5,000	1,200	2,500		1,500		12,000	
						0	
7,600	2,000	2,500					
1,000							
7,700							

Accounts Payable		Common Shares		Retained Earnings		Dividends	
4,000	8,000		4,000		2,300	2,000	
	1,500		5,000		2,300	2,000	
	5,500		9,000				

Service Revenue		Rent Expense		Advertising Expense	
	7,600	900		300	
	2,500	900		300	
	10,100				

The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-50A.

Req. 1

Classification of Transactions

Sept.	4	b
	5	c
	6	c
	7	c
	10	b
	11	b
	12	a
	18	c
	21	c
	25	c
	30	c

(continued) P 2-52A

Req. 2

Analysis of Transactions

ASSETS							=	LIABILITIES		+	SHAREHOLDERS' EQUITY			
Date	Cash	+	Accounts Receivable	+	Supplies	+	Office Furniture	=	Accounts Payable	+	Common Shares	+	Retained Earnings	Type of Shareholders' Equity Transaction
Sept. 4*														
5	50,000										50,000			Issued shares
6	(300)				300									
7	(20,000)						25,000		5,000					
10*														
11*														
12**														
18			10,000										10,000	Service revenue
21	(2,500)								(2,500)					
25	(4,000)												(4,000)	Rent expense
28	(2,000)												(2,000)	Dividends
Bal.	<u>21,200</u>		<u>10,000</u>		<u>300</u>		<u>25,000</u>		<u>2,500</u>		<u>50,000</u>		<u>4,000</u>	

Req. 3

- a. The business has \$21,200 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from the issuance of shares. Share issuances go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, holds the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no relationship between cash and retained earnings.
- b. The business's total resources (total assets) are \$56,500 ($\$21,200 + \$10,000 + \$300 + \$25,000$). The business owes total liabilities of \$2,500, so the shareholder's ownership interest in the assets of the business is \$54,000 ($\$56,500 - \$2,500$, or $\$50,000 + \$4,000$).

Req. 4**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Sept. 5	Cash	50,000	
	Common Shares		50,000
	Issued shares to shareholder.		
6	Supplies	300	
	Cash		300
	Purchased supplies.		
7	Office Furniture	25,000	
	Cash		20,000
	Accounts Payable		5,000
	Purchased furniture.		
18	Accounts Receivable	10,000	
	Service Revenue		10,000
	Performed service on account.		
21	Accounts Payable	2,500	
	Cash		2,500
	Paid on account.		
25	Rent Expense	4,000	
	Cash		4,000
	Paid rent.		
28	Dividends	2,000	
	Cash		2,000
	Paid dividend.		

*Req. 1 (journal entries; explanations not required)***Journal**

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Oct. 1	Cash	8,000	
	Common shares		8,000
5	Rent Expense	1,000	
	Cash		1,000
9	Land	30,000	
	Cash		5,000
	Notes Payable		25,000
10	Supplies	1,200	
	Accounts Payable		1,200
19	Accounts Payable	600	
	Cash		600
22	Cash	10,000	
	Notes Payable		10,000
31	Cash	7,000	
	Accounts Receivable	5,000	
	Service Revenue		12,000
31	Salary Expense	2,000	
	Advertising Expense	1,500	
	Utilities Expense	1,100	
	Cash		4,600
31	Dividends	3,000	
	Cash		3,000

Req. 2

Cash	
8,000	1,000
	5,000
10,000	600
7,000	4,600
	3,000
Bal. 10,800	

Accounts Payable	
600	1,200
	Bal. 600

Notes Payable	
	25,000
	10,000
	Bal. 35,000

Req. 3

Cash: \$10,800 (\$8,000 – \$1,000 – \$5,000 – \$600 + \$10,000 + \$7,000 – \$4,600 – \$3,000)

Total amount owed: \$35,600 (\$25,000 + \$1,200 – \$600 + \$10,000)

Req. 1 (journal entries; explanations not required)**Journal**

DATE	ACCOUNT TITLES	DEBIT	CREDIT
May 2	Cash	30,000	
	Common shares		30,000
3	Supplies	1,000	
	Equipment	2,600	
	Accounts Payable		3,600
4	Cash	1,500	
	Service Revenue		1,500
7	Land	22,000	
	Cash		22,000
11	Accounts Receivable	500	
	Service Revenue		500
16	Accounts Payable	2,600	
	Cash		2,600
17	Utilities Expense	95	
	Cash		95
18	Cash	250	
	Accounts Receivable		250

Req. 1 (journal entries; explanations not required)

Journal			
DATE	ACCOUNT TITLES	DEBIT	CREDIT
May 22	Utilities Expense	400	
	Cash		400
29	Cash	2,000	
	Service Revenue		2,000
31	Salary Expense	1,300	
	Cash		1,300
31	Dividends	1,500	
	Cash		1,500

Req. 2 (ledger accounts)**Cash**

May 2	30,000	May 7	22,000
4	1,500	16	2,600
18	250	17	95
29	2,000	22	400
		31	1,300
		31	1,500
Bal.	5,855		

Equipment

May 3	2,600		
Bal.	2,600		

Accounts Payable

May 16	2,600	May 3	3,600
		Bal.	1,000

Service Revenue

	May 4	1,500
	11	500
	29	2,000
	Bal.	4,000

Accounts Receivable

May 11	500	May 18	250
Bal.	250		

Supplies

May 3	1,000		
Bal.	1,000		

Land

May 7	22,000		
Bal.	22,000		

Common shares

	May 2	30,000
	Bal.	30,000

Dividends

May 31	1,500		
Bal.	1,500		

Salary Expense

May 31	1,300		
Bal.	1,300		

Utilities Expense

May 17	95		
22	400		
Bal.	495		

Req. 3

**New Pane Windows Inc.
Trial Balance
May 31, 2014**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 5,855	
Accounts receivable	250	
Supplies	1,000	
Equipment	2,600	
Land	22,000	
Accounts payable		\$ 1,000
Common shares		30,000
Dividends	1,500	
Service revenue		4,000
Salary expense	1,300	
Utilities expense	495	
Total	<u>\$35,000</u>	<u>\$35,000</u>

Req. 4

Total resources (assets) = \$31,705 (\$5,855 + \$250 + \$1,000 + \$2,600 + \$22,000)

Amount owed (total liabilities) = \$1,000

Profit (net income) = \$2,205 (\$4,000 – \$1,300 – \$495)

Reqs. 1 and 2

Cash

(a)	10,000	(c)	60,000
(b)	50,000	(e)	1,500
(f)	800	(h)	100
(j)	3,100	(k)	1,800
Bal.	500		

Accounts Receivable

(g)	4,500	(j)	3,100
Bal.	1,400		

Office Supplies

(d)	1,000	
Bal.	1,000	

Music Equipment

(c)	60,000	
Bal.	60,000	

Building

(a)	50,000	
Bal.	50,000	

Accounts Payable

(h)	100	(d)	1,000
		(i)	600
		Bal.	1,500

Note Payable

	(b)	50,000
	Bal.	50,000

Common Shares

	(a)	60,000
	Bal.	60,000

Service Revenue

	(f)	800
	(g)	4,500
	Bal.	5,300

(continued) P 2-55A

Salary Expense		
(e)	1,500	
Bal.	1,500	

Rent Expense		
(k)	1,000	
Bal.	1,000	

Advertising Expense		
(k)	800	
Bal.	800	

Utilities Expense		
(i)	600	
Bal.	600	

Req. 3

**Music Services Ltd.
Trial Balance
January 31, 2014**

ACCOUNT	DEBIT	CREDIT
Cash	\$ 500	
Accounts receivable	1,400	
Office supplies	1,000	
Music equipment	60,000	
Building	50,000	
Accounts payable		\$ 1,500
Note payable		50,000
Common shares		60,000
Service revenue		5,300
Salary expense	1,500	
Rent expense	1,000	
Advertising expense	800	
Utilities expense	600	
Total	<u>\$116,800</u>	<u>\$116,800</u>

Req. 4

Total assets = \$112,900 (\$500 + \$1,400 + \$1,000 + \$60,000 + \$50,000)

Total liabilities = \$51,500 (\$1,500 + \$50,000)

Net income = \$1,400 (\$5,300 – \$1,500 – \$1,000 – \$800 – \$600)

The bank manager's concerns are answered by the above information.

Problems

Group B

(15-30 min.) P 2-56B

Dear Friend,

This trial balance lists all the accounts of Opera Tours Inc., along with their balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet and an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The Balance Sheet is made up of the Asset, Liability and Shareholders' Equity accounts. These accounts make up the accounting equation; $\text{Assets} = \text{Liabilities} + \text{Shareholder's Equity}$.

(continued) P 2-56B

The balance sheet accounts of Opera Tours Inc. are as follows:

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 12,000	Accounts payable	\$105,000
Accounts receivable	45,000	Note payable	<u>92,000</u>
Prepaid expenses	4,000		197,000
Equipment	<u>231,000</u>	<u>Equity</u>	
	<u>\$292,000</u>	Common shares	30,000
		Retained earnings plus	32,000
		Net income	<u>33,000</u>
			<u>95,000</u>
			<u>\$292,000</u>

The Income Statement is made up of Revenue and Expense Accounts. Revenue less Expenses equal Net Income (Loss). The income statement accounts of Opera Tours Inc. are as follows:

Service Revenue	\$139,000
<u>Expenses</u>	
Salary expense	69,000
Tour expenses	26,000
Rent expense	7,000
Advertising expense	<u>4,000</u>
	<u>106,000</u>
Net income	<u>\$ 33,000</u>

The fact that the trial balance is in balance does not mean that Opera Tours Inc. is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. In this instance, Opera Tours Inc. had a net income of \$33,000 as per the Income Statement outlined above.

Student responses may vary.

(45-60 min.) P 2-57B

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES	+	SHAREHOLDERS' EQUITY	
	Cash	+ Accounts Receivable	+ Supplies	+ Land	=	Accounts Payable	+ Common Shares	+ Retained Earnings	Type of Shareholders' Equity Transaction
Bal.	1,700	2,200		24,100		5,400	10,000	12,600	
a)	30,000						30,000		Issued shares
b)	(1,000)					(1,000)			
c)	5,100							5,100	Service revenue
d)	700	(700)							
e)			800			800			
f)		15,000						15,000	Service revenue
g)	1,700						1,700		Issued shares
h)	(2,100)							(2,100)	Rent expense
	(1,600)							(1,600)	Advertising expense
i)	(2,000)							(2,000)	Dividends
Bal.	<u>32,500</u>	<u>16,500</u>	<u>800</u>	<u>24,100</u>		<u>5,200</u>	<u>41,700</u>	<u>27,000</u>	
						</			

Req. 2

DH Designers, Inc. Income Statement For the Month Ended May 31, 2014		
<hr/>		
Revenues:		
Service revenue (\$5,100 + \$15,000)		\$20,100
Expenses:		
Rent expense	\$2,100	
Advertising expense	<u>1,600</u>	
Total expenses		<u>3,700</u>
Net income		<u>\$16,400</u>

Req. 3

DH Designers, Inc. Statement of Retained Earnings For the Month Ended May 31, 2014	
<hr/>	
Retained earnings, April 30, 2014	\$12,600
Add: Net income for the month	<u>16,400</u>
	29,000
Less: Dividends	<u>(2,000)</u>
Retained earnings, May 31, 2014	<u>\$27,000</u>

Req. 4

**DH Designers, Inc.
Balance Sheet
May 31, 2014**

ASSETS		LIABILITIES	
Cash	\$32,500	Accounts payable	\$ 5,200
Accounts receivable	16,500	SHAREHOLDERS'	
Supplies	800	EQUITY	
Land	24,100	Common shares	41,700
		Retained earnings	<u>27,000</u>
		Total shareholders' equity	68,700
		Total liabilities and	
Total assets	<u>\$73,900</u>	shareholders' equity	<u>\$73,900</u>

Req. 1**Journal**

ACCOUNT TITLES AND EXPLANATION		DEBIT	CREDIT
a.	Cash	30,000	
	Common Shares		30,000
b.	Accounts Payable	1,000	
	Cash		1,000
c.	Cash	5,100	
	Service Revenue		5,100
d.	Cash	700	
	Accounts Receivable		700
e.	Supplies	800	
	Accounts Payable		800
f.	Accounts Receivable	15,000	
	Service Revenue		15,000
g.	Cash	1,700	
	Common Shares		1,700
h.	Rent Expense	2,100	
	Advertising Expense	1,600	
	Cash		3,700
i.	Dividends	2,000	
	Cash		2,000

Reqs. 2 and 3

Cash		Accounts Receivable		Supplies		Land	
1,700	1,000	2,200	700	800		24,100	
30,000	3,700	15,000		800		24,100	
5,100	2,000	16,500					
700							
1,700							
32,500							

Accounts Payable		Common Shares		Retained Earnings		Dividends	
1,000	5,400		10,000		12,600	2,000	
	800		30,000		12,600	2,000	
	5,200		1,700				
			41,700				

Service Revenue		Rent Expense		Advertising Expense	
	5,100	2,100		1,600	
	15,000	2,100		1,600	
	20,100				

The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-57B.

Req. 1

Classification of Transactions

March	1	a
	2	a
	3	a
	5	b
	6	c
	7	b
	9	b
	23	b
	29	b
	30	b
	31	b

Req. 2

Analysis of Transactions

ASSETS					=	LIABILITIES	+	SHAREHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable +	Supplies +	Office Furniture	=	Accounts Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction	
March 1*										
2*										
3*										
5	50,000						50,000		Issued shares	
6**										
7	(450)		450							
9	(5,000)			15,500		10,500				
23		4,000						4,000	Service revenue	
29	(5,000)					(5,000)				
30	(2,100)							(2,100)	Rent expense	
31	(1,000)							(1,000)	Dividend	
Bal.	<u>36,450</u>	<u>4,000</u>	<u>450</u>	<u>15,500</u>		<u>5,500</u>	<u>50,000</u>	<u>900</u>		

Req. 3

- a. The business has \$36,450 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from issuing shares. Issuances of shares go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, records the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no direct relationship between cash and retained earnings.
- b. The business's total resources (total assets) are \$56,400 ($\$36,450 + \$4,000 + \$450 + \$15,500$). The business owes total liabilities of \$5,500, so Kohler's ownership interest in the assets of the business is \$50,900 ($\$56,400 - \$5,500$, or $\$50,000 + \900).

Req. 4**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
March 5	Cash Common Shares Issued shares to shareholder.	50,000	50,000
7	Supplies Cash Purchased supplies.	450	450
9	Office Furniture Cash Accounts Payable Purchased furniture.	15,500	5,000 10,500
23	Accounts Receivable Service Revenue Provided service on account.	4,000	4,000
29	Accounts Payable Cash Paid on account.	5,000	5,000
30	Rent Expense Cash Paid rent.	2,100	2,100
31	Dividends Cash Paid dividend.	1,000	1,000

Req. 1 (journal entries; explanations not required)

Journal			
DATE	ACCOUNT TITLES	DEBIT	CREDIT
June 1	Cash	25,000	
	Common Shares		25,000
2	Land	40,000	
	Cash		10,000
	Note Payable		30,000
7	Cash	20,000	
	Sales Revenue		20,000
10	Supplies	1,000	
	Accounts Payable		1,000
15	Salary Expense	2,800	
	Rent Expense	1,800	
	Cash		4,600
15	Advertising Expense	1,100	
	Cash		1,100
16	Accounts Payable	1,000	
	Cash		1,000
17	Dividends	2,000	
	Cash		2,000

Req. 2

Cash	
25,000	10,000
20,000	4,600
	1,100
	1,000
	2,000
26,300	

Accounts Payable	
1,000	1,000
0	

Notes Payable	
	30,000
	30,000

Req. 3

**Cash: \$26,300 (\$25,000 – \$10,000 + \$20,000 –
\$4,600 – \$1,100 – \$1,000 – \$2,000)**

**Total amount owed: \$30,000 (\$30,000 + \$1,000 –
\$1,000)**

Req. 1 (journal entries; explanations not required)

Journal			
DATE	ACCOUNT TITLES	DEBIT	CREDIT
Oct. 3	Cash	20,000	
	Common Shares		20,000
4	Cash	5,000	
	Service Revenue		5,000
6	Supplies	300	
	Furniture	2,500	
	Accounts Payable		2,800
7	Land	15,000	
	Cash		15,000
7	Accounts Receivable	1,500	
	Service Revenue		1,500
16	Cash	500	
	Accounts Receivable		500
24	Utilities Expense	110	
	Cash		110
24	Utilities Expense	400	
	Cash		400
28	Cash	2,500	
	Service Revenue		2,500

31	Salary Expense	1,200	
	Cash		1,200
31	Accounts Payable	2,500	
	Cash		2,500
31	Dividends	2,400	
	Cash		2,400

Req. 2 (ledger accounts)

Cash			
Oct. 3	20,000	Oct. 7	15,000
4	5,000	24	110
16	500	24	400
28	2,500	31	2,500
		31	1,200
		31	2,400
Bal.	6,390		

Accounts Receivable			
Oct. 7	1,500	Oct. 16	500
Bal.	1,000		

Supplies			
Oct. 6	300		
Bal.	300		

Furniture			
Oct. 6	2,500		
Bal.	2,500		

Land			
Oct. 7	15,000		
Bal.	15,000		

Accounts Payable			
Oct. 31	2,500	Oct. 6	2,800
		Bal.	300

Common Shares			
		Oct. 3	20,000
		Bal.	20,000

Dividends			
Oct. 31	2,400		
Bal.	2,400		

Service Revenue			
		Oct. 4	5,000
		7	1,500
		28	2,500
		Bal.	9,000

Req. 2 (ledger accounts)

Salary Expense		
Oct. 31	1,200	
Bal.	1,200	

Utilities Expense		
Oct. 24	110	
24	400	
Bal.	510	

Req. 3

Barron Environmental Services Inc.
Trial Balance
October 31, 2014

ACCOUNT	DEBIT	CREDIT
Cash	\$ 6,390	
Accounts receivable	1,000	
Supplies	300	
Furniture	2,500	
Land	15,000	
Accounts payable		\$ 300
Common shares		20,000
Dividends	2,400	
Service revenue		9,000
Salary expense	1,200	
Utilities expense	510	
Total	<u>\$29,300</u>	<u>\$29,300</u>

Req. 4

Total resources (assets) = \$25,190 (\$6,390 + \$1,000 + \$300 + \$2,500 + \$15,000)

Amount owed (total liabilities) = \$300

Profit (net income) = \$7,290 (\$9,000 – \$1,200 – \$510)

Reqs. 1 and 2

Cash

(a)	20,000	(c)	35,000
(b)	90,000	(g)	800
(f)	1,200	(j)	2,200
(i)	1,100	(k)	1,100
Bal.	73,200		

Accounts Receivable

(e)	2,500	(f)	1,200
Bal.	1,300		

Office Supplies

(d)	1,300		
Bal.	1,300		

Computer Equipment

(c)	35,000		
Bal.	35,000		

Building

(a)	60,000		
Bal.	60,000		

Accounts Payable

(g)	800	(d)	1,300
		(h)	500
		Bal.	1,000

Note Payable

	(b)	90,000
	Bal.	90,000

Common Shares

	(a)	80,000
	Bal.	80,000

Service Revenue

	(e)	2,500
	(i)	1,100
	Bal.	3,600

(continued) P 2-62B

Salary Expense		
(j)	2,200	
Bal.	2,200	

Advertising Expense		
(h)	500	
Bal.	500	

Rent Expense		
(k)	700	
Bal.	700	

Utilities Expense		
(k)	400	
Bal.	400	

Req. 3

SchulichGraphics Service Inc.
Trial Balance
June 30, 2014

ACCOUNT	DEBIT	CREDIT
Cash	\$ 73,200	
Accounts receivable	1,300	
Office supplies	1,300	
Computer equipment	35,000	
Building	60,000	
Accounts payable		\$ 1,000
Note payable		90,000
Common shares		80,000
Service revenue		3,600
Salary expense	2,200	
Rent expense	700	
Advertising expense	500	
Utilities expense	400	
Total	<u>\$174,600</u>	<u>\$174,600</u>

Decision Cases

(40-50 min.) Decision Case 1

Reqs. 1 and 2

Cash			
(a)	10,000	(b)	300
(e)	5,000	(f)	2,300
(i)	2,500	(h)	1,000
(g)	1,200	(j)	800
Bal.	14,300		

Accounts Receivable			
(d)	7,000	(g)	1200
Bal.	5,800		

Supplies			
(b)	300		
Bal.	300		

Furniture			
(c)	4,400		
Bal.	4,400		

Accounts Payable			
(h)	1,000	(c)	4,400
		Bal.	3,400

Notes Payable			
		(e)	5,000
1.		Bal.	5,000

Common Shares			
		(a)	10,000
		Bal.	10,000

Service Revenue			
		(d)	7,000
		(i)	2,500
		Bal.	9,500

Salary Expense			
(f)	1,700		
Bal.	1,700		

Advertising Expense			
(j)	800		
Bal.	800		

Rent Expense			
(f)	600		
Bal.	600		

Req. 3

Tipple Networks, Inc.
Trial Balance
Current Date

ACCOUNT	DEBIT	CREDIT
Cash	\$14,300	
Accounts receivable	5,800	
Supplies	300	
Furniture	4,400	
Accounts payable		\$ 3,400
Notes payable		5,000
Common shares		10,000
Service revenue		9,500
Salary expense	1,700	
Advertising expense	800	
Rent expense	600	
Total	<u>\$27,900</u>	<u>\$27,900</u>

Req. 4 (net income or loss for first month of operations)

Revenues:		
Service revenue		\$9,500
Expenses:		
Salary expense	\$1,700	
Advertising expense	800	
Rent expense	<u>600</u>	
Total expenses		<u>3,100</u>
Net income for month		<u><u>\$6,400</u></u>

Recommendation: Continue the business. Even though first-month net income falls below the target amount, the business should grow and should be able to earn monthly net income of \$10,000. Business startups require focus on non-revenue generating issues which will *not* continue into future months. Tipple needs to focus on generating revenue of at least \$13,100 per month.

(20-30 min.) Decision Case 2

Barbara Boland Blossoms, Inc.
Income Statement
For the Quarter Ended December 31, 2014

Sales revenue	\$36,000
Cost of goods sold	22,000
Rent expense	6,000
Advertising expense	<u>5,000</u>
Total expenses	<u>33,000</u>
Net income	<u>\$ 3,000</u>

Barbara Boland Blossoms, Inc.
Balance Sheet
December 31, 2014

ASSETS		LIABILITIES	
Cash	\$ 6,000	Accounts payable	\$ 8,000
Flower inventory	5,000	SHAREHOLDERS' EQUITY	
Store fixtures	<u>10,000</u>	Common shares	10,000
		Retained earnings	<u>3,000</u>
		Total owners' equity	<u>13,000</u>
		Total liabilities	
Total assets.....	<u>\$21,000</u>	and equity	<u>\$21,000</u>

Recommendation: Do not expand because both net income and total assets do not reach the target amounts. Boland's cousin made some mistakes, which will affect the decision to expand the business. One issue is the high cost of goods sold (61%). If this expense could be reduced the profit target would be achievable.

Req. 1

Option 2:

Land	100,000	100,000
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Ethical Issue 2

Issue	Is Beatrice Grand making decisions that take advantage of (abuse) the standing agreement between Community Charities (CC) and the Royal Bank of Canada (RBC)?
Stakeholders	Royal Bank of Canada (RBC) is the key stakeholder as its funds are being used. RBC Client representative who will determine whether bank can continue on this basis. Community charities is increasing overdraft position. Beatrice Grand, President, is expanding operations and initiating fundraising for CC.
Alternatives/Impact on stakeholders	RBC could be misled re Beatrice Grand's decisions that lead to the increasing overdraft of Community Charities' cash balance. RBC Client representative will be held accountable if ongoing negative bank balance is abuse of agreement with Community Charities. Community Charities may benefit from expansion and fundraising efforts; however, the organization's overdraft is also increasing. Beatrice Grand is making decisions on behalf of Community Charities

which could have positive or negative consequences.

Decision

If RBC is aware of CC's expansion plans, the situation is ethically appropriate. This assumes RBC and CC are communicating openly.

If RBC is unaware of Beatrice Grand's decisions, CC is abusing agreement with RBC. In this case, the situation is unethical.

Focus on Financials

(20-30 min.) Telus Corporation

Reqs. 1 and 3

(All amounts in millions)

Cash & Temp Inv			Accounts Receivable			Inventories		
	17 (d)	741		1,318		283 (e)	671	
	(g)	4,113	(a)	3,101	(c)	2,991	(d)	741
	(h)	1,413						
	(i)	3,200						
(b)	6,505							
(c)	2,991			1,428			353	
			Long-Term debt			Accounts payable		
			(h)	1,413	5,209	(g)	4,113	1,477
							(f)	4,055
	46				3,796			1,419

Prop, Plant, Equip		Service revenue		Goods/Serv. Purch.	
	7,831		(a) 3,101	(e)	671
(i)	3,200		(b) 6,505	(f)	4,055
	11,031		9,606		4,726

Req. 2

(Millions)

a. Accounts Receivable		3,101	
Service Revenue			3,101
b. Cash		6,505	
Service Revenue			6,505

(continued) Telus Corporation

	<i>(Millions)</i>	
c. Cash	2,991	
Accounts Receivable		2,991
d. Inventories	741	
Cash		741
e. Goods and services purchased	671	
Inventories		671
f. Goods and services purchased	4,055	
Accounts Payable		4,055
g. Accounts Payable	4,113	
Cash		4,113
h. Long-term debt	1,413	
Cash		1,413
i. Property, Plant, and Equipment	3,200	
Cash		3,200

Req. 4

All the selected account balances agree with Telus's actual figures on the income statement or the balance sheet.

Focus on Analysis

(20-30 min.) Telus Corporation

Req. 1

During 2011, Telus had less sales revenue than it collected in cash from customers. This is determined by analyzing Accounts Receivable, as follows:

	(Millions)
Balance at the end of 2010	\$1,318
+ Sales during 2011	S
– Collections from customers during	<u>(C)</u>
= Balance at the end of 2011	<u>\$1,428</u>

Sales (S) must have exceeded Collections (C) because the total receivable balance increased during the year.

Req. 2

	(Millions)
Long-term debt:	
At end of 2010 (including current portion)	\$ 6,056
At end of 2011 (including current portion)	<u>6,574</u>
Increase in long-term debt during 2011	<u>\$ 518</u>

Long-term debt increased during 2011, so Telus must have taken on more long-term debt than it repaid during the year.

(continued) Telus Corporation

Req. 3

	2011	2010
Operating Revenues (millions)	\$10,325	\$9,742
	Increase = \$583	
	6.0%	
Net Income (millions)	\$1,215	\$1,052
	Increase = \$163	
	15.5%	

Net Income increased more than Service Revenues by a healthy percentage. Most investors prefer this outcome because it means that a company was able to increase its revenues while holding the increase in expenses to a lower rate of increase compared to the increase in sales. In other words, the company was able to keep a higher percentage of its revenues in 2011 than it did in 2010.

Demo Doc

Debit/Credit Transaction Analysis

To make sure you understand this material, work through the following demonstration “Demo Doc” with detailed comments to help you see the concept within the framework of a worked-through problem.

Learning Objectives 1, 2, 3, 4

On September 1, 2014, Michael Moe incorporated Moe’s Mowing Inc., a company that provides mowing and landscaping services. During the month of September, the business incurred the following transactions:

- a. To begin operations, Michael deposited \$10,000 cash in the business’s bank account. The business received the cash and issued common shares to Michael.**
- b. The business purchased equipment for \$3,500 on account.**
- c. The business purchased office supplies for \$800 cash.**
- d. The business provided \$2,600 of services to a customer on account.**
- e. The business paid \$500 cash toward the equipment previously purchased on account in transaction b.**
- f. The business received \$2,000 in cash for services provided to a new customer.**
- g. The business paid \$200 cash to repair equipment.**
- h. The business paid \$900 cash in salary expense.**
- i. The business received \$2,100 cash from a customer on account.**
- j. The business paid cash dividends of \$1,500.**

Requirements

1. Create blank T-accounts for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Shares, Dividends, Service Revenue, Salary Expense, Repair Expense.
2. Journalize the transactions and then post to the T-accounts. Use the table in Exhibit 2-16 to help with the journal entries.

EXHIBIT 2-16 The Rules of Debit and Credit

	Increase	Decrease
Assets	debit	credit
Liabilities	credit	debit
Stockholders' equity	credit	debit
Revenues	credit	debit
Expenses	debit	credit
Dividends	debit	credit

3. Total each T-account to determine its balance at the end of the month.
4. Prepare the trial balance of Moe's Mowing Inc. at September 30, 2014.

Demo Doc Solutions

Requirement 1

Create blank T-accounts for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Shares, Dividends, Service Revenue, Salary Expense, Repair Expense.

Part 1	Part 2	Part 3	Part 4	Demo Doc Complete
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Opening a T-account means drawing a blank account that looks like a capital “T” and putting the account title across the top. T-accounts show the additions and subtractions made to each account. For easy reference, the accounts are grouped into assets, liabilities, stockholders equity, revenue, and expenses (in that order).

ASSETS		=	LIABILITIES	+ SHAREHOLDERS' EQUITY
Cash	Supplies		Accounts Payable	Common Shares
				Dividends
Accounts Receivable	Equipment			Service Revenue
				EXPENSES
				Salary Expenses
				Repair Expense

Requirement 2

Journalize the transactions and show how they are recorded in T-accounts.

Part 1	Part 2	Part 3	Part 4	Demo Doc Complete
---------------	---------------	---------------	---------------	--------------------------

- a. To begin operations, Michael deposited \$10,000 cash in the business's bank account. The business received the cash and issued common stock to Michael.**

First, we must determine which accounts are affected by the transaction

The business received \$10,000 cash from its principal shareholder (Michael Moe). In exchange, the business issued common stock to Michael. So, the accounts involved are Cash and Common Shares.

Remember that we are recording the transactions of Moe's Mowing Inc., not the transactions of Michael Moe, the person. Michael and his business are two entirely separate accounting entities.

The next step is to determine what type of accounts these are. Cash is an asset, Common Shares is part of equity.

Next, we must determine if these accounts increased or decreased. From the business point of view, Cash (an asset) has increased. Common Shares (equity) has also increased.

Now we must determine if these accounts should be debited or credited. According to the rules of debit and credit (see

Exhibit 2-16 on p.), an increase in assets is a debit, while an increase in equity is a credit.

So, Cash (an asset) increases, which requires a debit. Common Shares (equity) also increases, which requires a credit.

The journal entry follows.

a.	Cash (Asset ↑; debit)	10,000	
	Common shares (equity ↑; credit)		10,000
	<i>Issued common stock.</i>		

The total dollar amount of debits must always equal the total dollar amounts of credits.

Remember to use the transaction letter as references. This will help as we post entries to the T-accounts.

Each T-account has two sides—one for recording debits and the other for recording credits. To post the transaction to a T-account, simply transfer the amount of each debit to the correct account as a debit (left-side) entry, and transfer the amount of each credit to the correct account as a credit (right-side) entry.

This transaction includes a debit of \$10,000 to cash. This means that \$10,000 is posted to the left side of the Cash T-account. The transaction also includes a credit of \$10,000 to Common Shares. This means that \$10,000 is posted to the right side of the Common Shares account, as follows

Cash	Common Shares
a. 10,000	a. 10,000

Now the first transaction has been journalized and posted. We repeat this process for every journal entry. Let's proceed to the next transaction.

b. The business purchased equipment for \$3,500 on account.

The business received equipment in exchange for a promise to pay for the \$3,500 cost at a future date. So the accounts involved in the transaction are Equipment and Accounts Payable.

Equipment is an asset and Accounts Payable is a liability.

The asset Equipment has increased. The liability Accounts payable has also increased.

Looking at Exhibit 2-16, an increase in assets (in this case, the increase in Equipment) is a debit, while an increase in liabilities (in this case, Accounts Payable) is a credit.

The Journal entry follows.

b.	Equipment (Asset ↑; debit)	3,500	
	Accounts Payable (Liability ↑; credit)		3,500
	<i>Purchased equipment on account.</i>		

\$3,500 is then posted to the debit (left) side of the Equipment T-account. \$3,500 is posted to the credit (right) side of Accounts Payable, as follows

Equipment	Accounts Payable
------------------	-------------------------

b. 3,500		b 3,500
		.

c. The business purchased office supplies for \$800 cash.

The business purchased supplies, paying cash of \$800. So the accounts involved in the transaction are Supplies and Cash.

Supplies and Cash are both assets.

Supplies (an asset) have increased. Cash (an asset) has decreased.

Looking at Exhibit 2-16, an increase in assets is a debit, while a decrease in assets is a credit.

So the increase to Supplies (an asset) is a debit, while the decrease to Cash (an asset) is a credit.

The Journal entry follows:

c.	Supplies (Asset ↑; debit)	800	
	Cash (Asset ↓; credit)		800
	<i>Purchased supplies for cash.</i>		

\$800 is then posted to the debit (left) side of the Supplies T-account. \$800 is posted to the credit (right) side of the Cash account, as follows.

Cash		Supplies	
a. 10,000		c. 800	
	c. 800		

Notice the \$10,000 already on the debit side of the Cash account. This came from transaction a.

d. The business provided \$2,600 of services to a customer on account.

The business rendered service for a customer and received a promise from the customer to pay us \$2,600 cash next month. So the accounts involved in the transaction are Accounts Receivable and Service Revenue.

Accounts Receivable is an asset and Service Revenue is revenue.

Accounts Receivable (an asset) has increased. Service Revenue (revenue) has also increased.

Looking at Exhibit 2-16, an increase in assets is a debit, while an increase in revenue is a credit.

So the increase to Accounts Receivable (an asset) is a debit, while the increase to Service Revenue (revenue) is a credit.

The journal entry follows.

d.	Accounts Receivable (Asset ↑; debit)	2,600	
	Service Revenue (Revenue ↑; credit)		2,600
	<i>Purchased services on account.</i>		

\$2,600 is posted to the debit (left) side of the Accounts Receivable T-account. \$2,600 is posted to the credit (right) side of the Service Revenue account, as follows.

Account Receivable		Service Revenue	
d. 2,600		d	2,600
		.	

e. The business paid \$500 cash toward the equipment previously purchased on account in transaction b.

The business paid some of the money that it owed on the purchase of equipment in transaction b. The accounts involved in the transaction are Accounts Payable and Cash.

Accounts Payable is a liability that has decreased. Cash is an asset that has also decreased.

Remember that Accounts Payable shows the amount the business must pay in the future (a liability). When the business pays these creditors, Accounts Payable will decrease because the business will then owe less (in the case, Accounts Payable drops from \$3,500—in transaction b—to \$3,000).

Looking at Exhibit 2-16, a decrease in liabilities is a debit, while a decrease in assets is a credit.

So Accounts Payable (a liability) decreases, which is a debit. Cash (an asset) decreases, which is a credit.

e.	Accounts Payable (Liability ↓; debit)	500	
	Cash (Asset ↓; credit)		500
	<i>Partial payment on account.</i>		

\$500 is posted to the debit (left) side of the Accounts Payable T-account. \$500 is posted to the credit (right) side of the Cash account, as follows:

Cash		Accounts Payable	
a. 10,000			b. 3,500
			.
	c. 800	e. 500	
	e. 500		

Again notice the amounts already in the T-accounts from previous transactions. The reference letters show which transaction caused each amount to appear in the T-account.

f. The business received \$2,000 in cash for services provided to a new customer.

The business received \$2,000 cash in exchange for mowing and landscaping services rendered to a customer. The accounts involved in the transaction are Cash and Service Revenue.

Cash is an asset that has increased and Service Revenue is revenue, which has also increased.

Looking at Exhibit 2-16, an increase in assets is a debit, while an increase in revenue is a credit.

So the increase to Cash (an asset) is a debit. The increase to Service Revenue (revenue) is a credit.

f.	Cash (Asset ↑; debit)	2,000	
		0	
	Service Revenue (Revenue ↑; credit)		2,000
	<i>Provided services for cash</i>		

\$2,000 is then posted to the debit (left) side of the Cash T-account. \$2,000 is posted to the credit (right) side of the Service Revenue account, as follows:

Cash		Service Revenue	
a. 10,000		d 2,600	
	c. 800	.	
f. 2,000	e. 500	f. 2,000	

Notice how we keep adding onto the T-accounts. The value from previous transactions remains in their places.

g. The business paid \$200 cash to repair equipment.

The business paid \$200 cash to have equipment repaired. Because the benefit of the repairs has already been used, the repairs are recorded as Repair Expense. Because the repairs were paid in cash, the Cash account is also involved.

Repair Expense is an expense that has increased and Cash is an asset that has decreased.

Looking at Exhibit 2-16, an increase in expenses calls for a debit, while a decrease in an asset requires a credit.

So Repair Expense (an expense) increases, which is a debit, Cash (an asset) decreases, which is a credit.

g.	Repair Expense (Expense ↑; debit)	200	
	Cash (Asset ↓; credit)		200
	<i>Paid for repairs.</i>		

\$200 is then posted to the debit (left) side of the Repair Expense T-account. \$200 is posted to the credit (right) side of the Cash account, as follows:

Cash		Repair Expense	
a. 10,000		g 200	
		.	
	c. 800		
	e. 500		
f. 2,000			
	g. 200		

h. The business paid \$900 cash for salary expense.

The business paid employees \$900 in cash. Because the benefit of the employees' work has already been used, their salaries are recorded as Salary Expense. Because the salaries were paid in cash, the Cash account is also involved.

Salary Expense is an expense that has increased and Cash is an asset that has decreased.

Looking at Exhibit 2-16, an increase in expenses is a debit, while a decrease in an asset is a credit.

In this case, Salary Expense (an expense) increases, which is a debit. Cash (an asset) decreases, which is a credit.

h.	Salary Expense (Expense ↑; debit)	900	
	Cash (Asset ↓; credit)		900
	<i>Paid salary</i>		

\$900 is posted to the debit (left) side of the Salary Expense T-account. \$900 is posted to the credit (right) side of the Cash account, as follows:

Cash		Salary Expense	
a. 10,000			h 200
			.
	c. 800		
	e. 500		
f. 2,000			
	g. 200		
	h. 900		

i. The business received \$2,100 cash from a customer on account.

The business received cash of \$2,100 from a customer for services previously provided in transaction d. The accounts affected by this transaction are Cash and Accounts Receivable.

Cash and Accounts Receivable are both assets. The asset Cash has increased, and the asset Accounts Receivable has decreased.

Remember, Accounts Receivable shows the amount of cash the business has coming from customers. When the business receives cash from these customers, Accounts Receivable will decrease, because the business will have less to receive in the future (in this case, it reduces from \$2,600—in transaction d—to \$500).

Looking Exhibit 2-10, an increase in assets is a debit, while a decrease in assets is a credit. So Cash (an asset) increases, which is a debit. Accounts Receivable (an asset) decreases, which is a credit.

i.	Cash (Asset ↑; debit)	2,100	
	Accounts Receivable (Asset ↓; credit)		2,100
	<i>Received cash on account.</i>		

\$2,100 is posted to the debit (left) side of the Cash T-account
 \$2,100 is posted to the credit (right) side of the Accounts Receivable account, as follows:

Cash		Accounts Receivable	
a. 10,000		d. 2,600	
	c. 800		i. 2,100

f.	2,000	e.	500
		g.	200
		h.	900
i.	2,100		

j. The business declared and paid cash dividends of \$1,500.

The business paid Michael dividends from the earnings it had retained on his behalf. This caused Michael's ownership interest (equity) to decrease. The accounts involved in this transaction are Dividends and Cash.

Dividends have increased and Cash is an asset that has decreased.

Looking at Exhibit 2-16, an increase in dividends is a debit, while a decrease in an asset is a credit.

Remember that Dividends are a negative element of shareholders' equity. Therefore, when Dividends increase, shareholder's equity decrease. So in this case, Dividends decrease equity with a debit. Cash (an asset) decreases with a credit.

j.	Dividends (Dividends ↑; debit) ↓SE	1,500	
	Cash (Asset ↓; credit)		1,500
	<i>Paid dividends.</i>		

\$1,500 is posted to the debit (left) side of the Dividends T-account. \$1,500 is posted to the credit (right) side of the Cash account, as follows.

Cash		Dividends	
a.	10,000	j.	1,500
	c.		800

f.	2,000	e.	500	
		g.	200	
		h.	900	
i.	2,100	j.	1,500	

Now we can summarize all of the journal entries during the month.

Ref.	Accounts and Explanation	Debit	Credit
a.	Cash Common Shares <i>Issued common Shares.</i>	10,000	10,000
b.	Equipment Accounts Payable <i>Purchased equipment on account.</i>	3,500	3,500
c.	Supplies Cash <i>Purchased supplies for cash.</i>	800	800
d.	Accounts Receivable Service Revenue <i>Provided services on account.</i>	2,600	2,600
e.	Accounts Payable Cash <i>Partial payment on account.</i>	500	500
f.	Cash Service Revenue <i>Provided services for cash.</i>	2,000	2,000
g.	Repair Expense Cash <i>Paid for repairs.</i>	200	200
h.	Salary Expense Cash <i>Paid salary.</i>	900	900
i.	Cash	2,100	

j.	Accounts Receivable		2,100
	<i>Received cash on account.</i>		
	Dividends	1,500	
	Cash		1,500
	<i>Paid dividends.</i>		

Requirement 3

Total each T-account to determine its balance at the end of the month.

Part 1 Part 2 Part 3 Part 4 Demo Doc Complete

To compute the balance in a T-account (total the T-account), add up the numbers on the debit/left side of the account and (separately) add the credit/right side of the account. The difference between the total debits and the total credits is the account's balance, which is placed on the side that holds the larger total. This gives the balance in the T-account.

For example, for the Cash account, the numbers on the debit/left side total $\$10,000 + \$2,000 + \$2,100 = \$14,100$. The credit/right side = $\$800 + \$500 + \$200 + \$900 + \$1,500 = \$3,900$. The difference is $\$14,100 - \$3,900 = \$10,200$. At the end of the period Cash has a debit balance of \$10,200. We put the \$10,200 at the bottom of the debit side because that was the side that showed the bigger total (\$14,100). This is called a debit balance.

An easy way to think of totaling T-accounts is:

Beginning balance in a T-account
+ Increase to the T-account
– Decrease to the T-account
T-account balance (net total)

T-accounts, after posting all transactions and totaling each account, are as follows:

ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY

Cash	
a.	10,000
f.	2,000
i.	2,100
Bal .	10,200

Supplies	
c.	800
Bal.	800

Accounts Payable	
e.	500
Bal.	3,000

Common Shares	
a.	10,000
Bal	10,000
Dividends	
j.	1,500
Bal.	1,500
Revenue	

Accounts Receivable	
d.	2,600
i.	2,100
Bal .	500

Equipment	
b.	3,500
Bal.	3,500

Service Revenue	
d.	2,600
f.	2,000
Bal.	4,600
EXPENSES	
Salary Expenses	
h.	900
Bal.	900
Repair Expense	
g.	200
Bal.	200

Requirement 4

Part 1	Part 2	Part 3	Part 4	Demo Doc Complete
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The trial balance lists all the accounts along with their balances. This listing is helpful because it summarizes all the accounts in one place. Otherwise one must plough through all the T-accounts to find the balance of Accounts Payable, Salary Expense, or any other account.

The trial balance is an *internal* accounting document that accountants and managers use to prepare the financial statements. It's not like the income statement and balance sheet, which are presented to the public.

Data for the trial balance come directly from the T-accounts that we prepared in Requirement 3. A debit balance in a T-account remains a debit in the trial balance, and likewise for credits. For example, the Accounts Payable T-account shows a \$3,000 credit balance, and the trial balance lists Accounts Payable correctly.

The trial balance for Moe's Mowing at September 30, 2014, appears as follows. Notice that we list the accounts in their proper order—assets, liabilities, stockholders, equity, revenues, and expenses.

Moe's Mowing, Inc. Trial Balance September 30, 2014			
		Balance	
		Debit	Credit
Assets	Cash	\$10,200	
	Accounts receivable	500	
	Supplies	800	
	Equipment	3,500	
Liabilities	Accounts payable		\$3,000
	Common shares		10,000
Equity	Dividends	1,500	
Revenues	Service revenue		4,600
Expenses	Salary expense	900	
	Repair expense	200	
Total		<u>\$17,600</u>	<u>\$17,600</u>

You should trace each account from the T-accounts to the trial balance.

Part 1	Part 2	Part 3	Part 4	Demo Doc Complete
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