**Chapter Two**

**Challenge Exercise 1**

Expands on: E2-2

LO: 1

Wunderkind Photography entered into the following transactions during February 2020

1. Stockholders invested $5,000 in the business.
2. Bought photography equipment for a cash payment of $1,000.
3. Bought more photography equipment by signing a $500 note payable.
4. Performed photography services for $400 cash.
5. Performed photography services, and billed the customer $900 on account.
6. Collected $900 from the customer in item 5.
7. Paid for February developing and printing, $150.
8. Advertised the business in the Platteville Journal. The $100 cost will be billed to Wunderkind.
9. Paid the advertising bill from item 8.
10. Paid $200 for photography supplies.
11. Received $300 cash advance payment from a customer for a photography job to be performed in April.
12. Paid $250 dividend to the stockholders.

Instructions:

For each transaction indicate the following:

1. The basic type of account debited and credited (asset, liability, stockholder’s equity).
2. The specific account debited and credited (cash, rent expense, service revenue, etc.).
3. Whether the specific account is increased or decreased.
4. The normal balance of each specific account.

Use the following format, in which the first transaction is given as an example.

Account Debited Account Credited

1. (b) (c) (d) (a) (b) (c) (d)

Basic Specific Normal Basic Specific Normal

No. Type Account Effect Balance Type Account Effect Balance

**Challenge Exercise 1 – Solution**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Account Debited | | | | | | |  | Account Credited | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| No. |  | (a)  Basic  Type |  | (b)  Specific  Account |  | (c)  Effect |  | (d)  Normal  Balance |  | (a)  Basic  Type |  | (b)  Specific  Account |  | (c)  Effect |  | (d)  Normal  Balance |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 1 |  | Asset |  | Cash |  | Increase |  | Debit |  | Stockholders’  Equity |  | Common  Stock |  | Increase |  | Credit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2 |  | Asset |  | Equipment |  | Increase |  | Debit |  | Asset |  | Cash |  | Decrease |  | Debit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3 |  | Asset |  | Equipment |  | Increase |  | Debit |  | Liability |  | Notes  Payable |  | Increase |  | Credit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4 |  | Asset |  | Cash |  | Increase |  | Debit |  | Stockholders’  Equity |  | Service  Revenue |  | Increase |  | Credit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 5 |  | Asset |  | Accounts  Receivable |  | Increase |  | Debit |  | Stockholders’  Equity |  | Service  Revenue |  | Increase |  | Credit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 6 |  | Asset |  | Cash |  | Increase |  | Debit |  | Asset |  | Accounts  Receivable |  | Decrease |  | Debit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 7 |  | Stockholders’  Equity |  | Printing  Expense |  | Increase |  | Debit |  | Asset |  | Cash |  | Decrease |  | Debit |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 8 |  | Stockholders’  Equity |  | Advertising  Expense |  | Increase |  | Debit |  | Liability |  | Accounts  Payable |  | Increase |  | Credit |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9 |  | Liability |  | Accounts  Payable |  | Decrease |  | Credit |  | Asset |  | Cash |  | Decrease |  | Debit |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10 |  | Asset |  | Supplies |  | Increase |  | Debit |  | Asset |  | Cash |  | Decrease |  | Debit |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11 |  | Asset |  | Cash |  | Increase |  | Debit |  | Liability |  | Unearned Service Revenue |  | Increase |  | Credit |
| 12 |  | Stockholders’  Equity |  | Dividends |  | Increase |  | Debit |  | Asset |  | Cash |  | Decrease |  | Debit |

**Challenge Exercise 2**

Expands on: E2-3

LO: 2

Data for Wunderkind Photography are presented in Challenge Exercise 2-2.

Instructions:

Journalize the transactions using journal page J1. (You may omit explanations).

**Challenge Exercise 2 – Solution**

**General Journal J1**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Item** |  | **Account Titles and Explanation** |  | **Ref.** |  | **Debit** |  | **Credit** |
| **1** |  | **Cash** |  |  |  | **5,000** |  |  |
|  |  | **Common Stock** |  |  |  |  |  | **5,000** |
|  |  |  |  |  |  |  |  |  |
| **2** |  | **Equipment** |  |  |  | **1,000** |  |  |
|  |  | **Cash** |  |  |  |  |  | **1,000** |
|  |  |  |  |  |  |  |  |  |
| **3** |  | **Equipment** |  |  |  | **500** |  |  |
|  |  | **Notes Payable** |  |  |  |  |  | **500** |
|  |  |  |  |  |  |  |  |  |
| **4** |  | **Cash....** |  |  |  | **400** |  |  |
|  |  | **Service Revenue** |  |  |  |  |  | **400** |
|  |  |  |  |  |  |  |  |  |
| **5** |  | **Accounts Receivable** |  |  |  | **900** |  |  |
|  |  | **Service Revenue** |  |  |  |  |  | **900** |
|  |  |  |  |  |  |  |  |  |
| **6** |  | **Cash….** |  |  |  | **900** |  |  |
|  |  | **Accounts Receivable** |  |  |  |  |  | **900** |
|  |  |  |  |  |  |  |  |  |
| **7** |  | **Printing Expense** |  |  |  | **150** |  |  |
|  |  | **Cash** |  |  |  |  |  | **150** |
|  |  |  |  |  |  |  |  |  |
| **8** |  | **Advertising Expense** |  |  |  | **100** |  |  |
|  |  | **Accounts Payable** |  |  |  |  |  | **100** |

**Challenge Exercise 2 – Solution (Continued)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **9** |  | **Accounts Payable** |  |  |  | **100** |  |  |
|  |  | **Cash** |  |  |  |  |  | **100** |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **10** |  | **Supplies** |  |  |  | **200** |  |  |
|  |  | **Cash** |  |  |  |  |  | **200** |
|  |  |  |  |  |  |  |  |  |
| **11** |  | **Cash……..** |  |  |  | **300** |  |  |
|  |  | **Unearned Service Revenue** |  |  |  |  |  | **300** |
|  |  |  |  |  |  |  |  |  |
| **12** |  | **Dividends….** |  |  |  | **250** |  |  |
|  |  | **Cash……** |  |  |  |  |  | **250** |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

**Challenge Exercise 3**

Expands on: E2-5

LO: 2

Presented below is information related to Shawshank Real Estate Agency.

Oct. 1 Pete Shawshank begins business as a real estate agent with a cash investment of $25,000 in exchange for

common stock.

2 Hires an administrative assistant.

3 Purchases office furniture for $2,900, by paying $700 cash with the balance on account.

6 Sells a house and lot for N. Kidman, earning a fee of $3,600, with $600 collected in cash and the balance billed to

N. Kidman.

27 Pays $900 on the balance related to the transaction of October 3.

30 Pays the administrative assistant $2,300 in salary for October.

31 Collects $1,200 of the balance owed by N. Kidman.

Instructions:

1. Journalize the transactions. (You may omit explanations.)
2. What balance would Shawshank Real Estate Agency report for Accounts Payable in its October 31 financial statements? In which category of which financial statements would it be found?
3. What balance would Shawshank Real Estate Agency report for Accounts Receivable in its October 31 financial statements? In which category of which financial statements would it be found?

**Challenge Exercise 3 – Solution**

1.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **1** |  | **Cash…………..** |  |  |  | **25,000** |  |  |
|  |  | **Common Stock** |  |  |  |  |  | **25,000** |
|  |  |  |  |  |  |  |  |  |
| **2** |  | **No entry, not a transaction** |  |  |  |  | | |
|  |  |  |  |  |  |  |  |  |
| **3** |  | **Equipment** |  |  |  | **2,900** |  |  |
|  |  | **Cash…………………………………………………………..** |  |  |  |  |  | **700** |
|  |  | **Accounts Payable** |  |  |  |  |  | **2,200** |
|  |  |  |  |  |  |  |  |  |
| **6** |  | **Cash........................................................................**  **Accounts Receivable** |  |  |  | **600**  **3,000** |  |  |
|  |  | **Service Revenue** |  |  |  |  |  | **3,600** |
|  |  |  |  |  |  |  |  |  |
| **27** |  | **Accounts Payable** |  |  |  | **900** |  |  |
|  |  | **Cash** |  |  |  |  |  | **900** |
|  |  |  |  |  |  |  |  |  |
| **30** |  | **Salaries and Wages Expense** |  |  |  | **2,300** |  |  |
|  |  | **Cash** |  |  |  |  |  | **2,300** |
|  |  |  |  |  |  |  |  |  |
| **31** |  | **Cash….** |  |  |  | **1,200** |  |  |
|  |  | **Accounts Receivable** |  |  |  |  |  | **1,200** |

2. The October 31 balance of Accounts Payable is $1,300 ($2,200 - $900), and would be reported in the liabilities section of the balance sheet.

3. The October 31 balance of Accounts Receivable is $1,800 ($3,000 - $1,200), and would be reported in the assets section of the balance sheet.

**Challenge Exercise 4**

Expands on: E2-14

LO: 2

Selected transactions for Tina Louise Company during its first month in business are presented below.

Sept. 1 Invested $20,000 cash in the business in exchange for common stock.

5 Purchased equipment for $17,000 paying $6,000 in cash and the balance on account.

11 Performed $3,900 of services for clients, collecting $1,000 cash and billing them for the remainder.

25 Paid $7,000 cash on balance owed for equipment.

29 Declared and paid a $600 cash dividend.

30 Collected $1,500 from the clients from the September 11 transactions.

The chart of accounts shows: No. 101 Cash, No. 112 Accounts Receivable, No. 157 Equipment, No. 201 Accounts Payable, No. 311 Common Stock, No. 332 Dividends, and No. 400 Service Revenue.

Instructions:

(a) Journalize the transactions on page J1 of the journal.

(b) Post the transactions using the standard account form.

(c) Based only on these transactions, what amount would Tina Louise report as total assets in the September 30 balance sheet?

(d) Based only on these transactions, what amount would Tina Louise report as total liabilities in the September 30 balance sheet?

**Challenge Exercise 4 – Solution**

**(a)**

**General Journal J1**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Account Titles and Explanation** |  | **Ref.** |  | **Debit** |  | **Credit** |
| **Sept. 1** |  | **Cash….**  **Common Stock** |  | **101**  **311** |  | **20,000** |  | **20,000** |
|  |  |  |  |  |  |  |  |  |
| **5** |  | **Equipment**  **Cash**  **Accounts Payable** |  | **157**  **101**  **201** |  | **17,000** |  | **6,000**  **11,000** |
| **11** |  | **Cash….**  **Accounts Receivable**  **Service Revenue** |  | **101**  **110**  **407** |  | **1,000**  **2,900** |  | **3,900** |
| **25** |  | **Accounts Payable**  **Cash** |  | **201**  **101** |  | **7,000** |  | **7,000** |
|  |  |  |  |  |  |  |  |  |
| **29** |  | **Dividends**  **Cash** |  | **332**  **101** |  | **600** |  | **600** |
| **30** |  | **Cash….**  **Accounts Receivable** |  | **101**  **407** |  | **1,500** |  | **1,500** |

**(b)**

**Cash No. 101**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** |  | **Ref.** |  | **Debit** |  | **Credit** |  | **Balance** |
| **Sept. 1** |  |  |  | **J1** |  | **20,000** |  |  |  | **20,000** |
| **5**  **6** |  |  |  | **J1**  **J1** |  | **1,000** |  | **6,000** |  | **14,000**  **15,000** |
| **25** |  |  |  | **J1** |  |  |  | **7,000** |  | **8,000** |
| **29**  **30** |  |  |  | **J1**  **J1** |  | **1,500** |  | **600** |  | **7,400**  **8,900** |

**Accounts Receivable No. 112**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** |  | **Ref.** |  | **Debit** |  | **Credit** |  | **Balance** |
| **Sept. 11** |  |  |  | **J1** |  | **2,900** |  |  |  | **2,900** |
| **30** |  |  |  | **J1** |  |  |  | **1,500** |  | **1,400** |
|  |  |  |  |  |  |  |  |  |  |  |

**Challenge Exercise 4 – Solution (Continued)**

**Equipment No. 157**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** |  | **Ref.** |  | **Debit** |  | **Credit** |  | **Balance** |
| **Sept. 5** |  |  |  | **J1** |  | **17,000** |  |  |  | **17,000** |

**Accounts Payable No. 201**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** |  | **Ref.** |  | **Debit** |  | **Credit** |  | **Balance** |
| **Sept. 5** |  |  |  | **J1** |  |  |  | **11,000** |  | **11,000** |
| **25** |  |  |  | **J1** |  | **7,000** |  |  |  | **4,000** |

**Common Stock No. 311**

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

**Dividends No. 332**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** |  | **Ref.** |  | **Debit** |  | **Credit** |  | **Balance** | |
| **Sept.29** |  |  |  | **J1** |  | **600** |  |  |  | | **600** |

**Service Revenue No. 400**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** |  | **Ref.** |  | **Debit** |  | **Credit** |  | **Balance** |
| **Sept. 11** |  |  |  | **J1** |  |  |  | **3,900** |  | **3,900** |

(c) Total assets would be $27,300 ($8,900 + $1.400 + $17,000).

(d) Total liabilities would be $4,000 (just accounts payable).

**Challenge Exercise 5**

Expands on: E2-16

LO: 4

The accounts in the ledger of Sun Delivery Service contain the following balances on July 31, 2020.

Accounts Receivable $ 8,000 Prepaid Insurance $2,000

Accounts Payable 7,900 Retained Earnings 5,000

Cash ? Service Revenue 11,000

Common Stock 42,000 Salaries and Wages Expense ?

Dividends 900 Salaries and Wages Payable 1,000

Equipment 50,000 Supplies 3,000 Gasoline and Oil Expense 800 Unearned Service Revenue 2,500

Insurance Expense 600

Maintenance and Repair Expense 1,100

Notes Payable 19,000

Instructions:

Prepare a trial balance with the accounts arranged as illustrated in the chapter and fill in the missing amounts for Cash and Salaries Expense. Assume net income for the period is $3,500

**Challenge Exercise 5 – Solution**

**SUN DELIVERY SERVICE**

**Trial Balance**

**July 31, 2020**

**Debit     Credit**

**Cash\*\* $17,000**

**Accounts Receivable 8,000**

**Supplies 3,000**

**Prepaid Insurance 2,000**

**Equipment 50,000**

**Notes Payable $19,000**

**Accounts Payable 7,900**

**Salaries and Wages Payable 1,000**

**Unearned Revenue 2,500**

**Common Stock 42,000**

**Retained Earnings 5,000**

**Dividends 900**

**Service Revenue 11,000**

**Salaries and Wages Expense\* 5,000**

**Maintenance and Repair Expense 1,100**

**Gasoline and Oil Expense 800**

**Insurance Expense 600**

**$88,400 $88,400**

\*$11,000 - $1,100 - $800 - $600 – Salaries and Wages Expense = $3,500; Salaries and Wages Expense = $5,000.

\*\*$88,400 (total credits) - $71,400 (total debits without cash).