

1. Identify the three categories of the accounting equation and list at least four accounts associated with each category.

The three categories of the accounting equation are assets, liabilities, and equity.
Assets include Cash, Accounts Receivable, Notes Receivable, Prepaid Expenses, Land, Building, Equipment, Furniture, and Fixtures. Liabilities include Accounts Payable, Notes Payable, Accrued Liability, and Unearned Revenue. Equity includes Common Stock, Dividends, Revenue, and Expenses.

2. What is the purpose of the chart of accounts? Explain the numbering typically associated with the accounts.

Companies need a way to organize their accounts so they use a chart of accounts. Accounts starting with 1 are usually Assets, 2 – Liabilities, 3 – Equity, 4 – Revenues, and 5 – Expenses. The second and third digits in account number indicate where the account fits within the category.

3. What does a ledger show? What's the difference between a ledger and the chart of accounts?

A chart of accounts and a ledger are similar in that they both list the account names and account numbers of the business. A ledger, though, provides more detail. It includes the increases and decreases of each account for a specific period and the balance of each account at a specific point in time.

4. Accounting uses a double-entry system. Explain what this sentence means.

With a double-entry you need to record the dual effects of each transaction. Every transaction affects at least two accounts.

5. What is a T-account? On which side is the debit? On which side is the credit? Where does the account name go on a T-account?

A T-account is a shortened form of each account in the ledger.

The debit is on the left side, credit on the right side, and the account name is shown on top.

6. When are debits increases? When are debits decreases?

Debits are increases for assets, dividends, and expenses. Debits are decreases for liabilities, common stock, and revenue.

7. When are credits increases? When are credits decreases?

Credits are increases for liabilities, common stock, and revenue. Credits are decreases for assets, dividends, and expenses.

8. Identify which types of accounts have a normal debit balance and which types of accounts have a normal credit balance.

Assets, dividends, and expenses have a normal debit balance. Liabilities, common stock, and revenue have a normal credit balance.

9. What are source documents? Provide examples of source documents that a business might use.

Source documents provide the evidence and data for accounting transactions. Examples of source documents a business would have are: bank deposit slips, purchase invoices, bank checks, and sales invoices.

**10.** Where are transactions initially recorded?

Transactions are first recorded in a journal, which is the record of transactions in date order.
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**11.** Explain the five steps in journalizing and posting transactions.

Step 1: Identify the accounts and the account type. You need this information before you can complete the next step. Step 2: Decide if each account increases or decreases using the rules of debits and credits. Reviewing the rules of debits and credits, we use the accounting equation to help determine debits and credits for each account. Step 3: Record transactions in the journal using journal entries. Step 4: Post the journal entry to the ledger. When journal entries are posted from the journal to the ledger, the dollar amount is transferred from the debit and credit columns to the specific accounts in the ledger. The date on the journal entry should also be transferred to the accounts in the ledger. Step 5: Determine whether the accounting equation is in balance. After each entry the accounting equation should always be in balance.

**12.** What are the four parts of a journal entry?

Part 1: Date of the transaction. Part 2: Debit account name and dollar amount. Part 3: Credit account name and dollar amount. The credit account name is indented. Part 4: Brief explanation.

**13.** What is involved in the posting process?

When transactions are posted from the journal to the ledger, the dollar amount is transferred from the debit and credit columns to the specific accounts in the ledger. The date of the journal entry is also transferred to the accounts in the ledger. The posting reference columns in the journal and ledger are also completed. In a computerized system, this step is completed automatically when the transaction is recorded in the journal.

14. What is the purpose of the trial balance?

The trial balance is used to prove the equality of total debits and total credits of all accounts in the ledger; it is also used to prepare the financial statements.

15. What is the difference between the trial balance and the balance sheet?

A trial balance verifies the equality of total debits and total credits of all accounts on the trial balance and is an internal document used only by employees of the company. The balance sheet, on the other hand, presents the business's accounting equation and is a financial statement that can be used by both internal and external users.

16. If total debits equal total credits on the trial balance, is the trial balance error-free? Explain your answer.

If total debits equal total credits on the trial balance, it does not mean that the trial balance is error-free. An incorrect amount could have been used, an entry could have been completely missed, or the wrong account title could have been debited or credited .

17. What is the calculation for the debt ratio? Explain what the debt ratio evaluates.

The debt ratio is calculated by dividing total liabilities by total assets and shows the proportion of assets financed with debt. It can be used to evaluate a business's ability to pay its debts.

**S2-1**

Identify each account as an asset (A), liability (L), or equity (E).

**Solution:**

a. Notes Receivable (A)
b. New, Capital (E)
c. Prepaid Insurance (A)
d. Notes Payable (L)
e. Rent Revenue (E)
f. Taxes Payable (L)
g. Rent Expense (E)
h. Furniture (A)
i. New, Withdrawals (E)
j. Unearned Revenue (L)

**S2-2**

For each account, identify whether the changes would be recorded as a debit (DR) or credit (CR).

**Solution:**

a. Increase to Accounts Receivable (DR)
b. Decrease to Unearned Revenue (DR)
c. Decrease to Cash (CR)
d. Increase to Interest Expense (DR)
e. Increase to Salaries Payable (CR)
f. Decrease to Prepaid Rent (CR)
g. Increase to Perry, Capital (CR)
h. Increase to Notes Receivable (DR)
i. Decrease to Accounts Payable (DR)
j. Increase to Interest Revenue (CR)

**S2-3**

For each account, identify whether the normal balance is a debit (DR) or credit (CR).

**Solution:**

a. Notes Payable (CR)
b. Hernandez, Withdrawals (DR)
c. Service Revenue (CR)
d. Land (DR)
e. Unearned Revenue (CR)
f. Hernandez, Capital (CR)
g. Utilities Expense (DR)
h. Office Supplies (DR)
i. Advertising Expense (DR)
j. Interest Payable (CR)

## S2-4

Journalize the transactions of Jack Davis, M.D. Include an explanation with each entry.

## Solution:

Date	Accounts and Explanation	Debit	Credit
Jan. 1	Cash	35,000	
	Davis, Capital		35,000
	<i>Owner contribution.</i>		
2	Medical Supplies	13,000	
	Accounts Payable		13,000
	<i>Purchased medical supplies on account.</i>		
4	Cash	1,900	
	Service Revenue		1,900
	<i>Performed services for patients.</i>		
12	Rent Expense	2,600	
	Cash		2,600
	<i>Paid rent with cash.</i>		
15	Accounts Receivable	10,000	
	Service Revenue		10,000
	<i>Performed services for patients on account.</i>		



**S2-5**

Journalize the transactions of Arkansas Sales Consultants. Include an explanation with each journal entry.

**Solution:**

Date	Accounts and Explanation	Debit	Credit
Jan. 22	Accounts Receivable	9,000	
	Service Revenue		9,000
	<i>Performed services for customers on account.</i>		
30	Cash	7,000	
	Accounts Receivable		7,000
	<i>Received cash on account from customers.</i>		
31	Utilities Expense	210	
	Utilities Payable		210
	<i>Received a utility bill due in February.</i>		
31	Salaries Expense	2,400	
	Cash		2,000
	<i>Paid monthly salary to salesman.</i>		
31	Cash	2,475	
	Unearned Revenue		2,475
	<i>Received 3 months consulting services in advance.</i>		
31	Henry, Withdrawals	900	
	Cash		900
	<i>Owner withdrawal.</i>		

**S2-6**

Calculate the Accounts Payable balance.

**Solution:**

Accounts Payable			
May 2	6,000	14,000	May 1
May 22	12,000	1,000	May 5
		7,000	May 15
		500	May 23
		4,500	Bal.

S2-7

Requirements

1. Journalize the transactions of Kenneth Watson Optical Dispensary. Include an explanation with each journal entry.
2. Open the following accounts (use T-account format): Cash (Beginning Balance of \$23,000), Office Supplies, and Accounts Payable. Post the journal entries from Requirement 1 to the accounts and compute the balance in each account.

Solution:

Requirement 1

Date	Accounts and Explanation	Debit	Credit
Mar. 15	Office Supplies	2,600	
	Accounts Payable		2,600
	<i>Purchased office supplies on account.</i>		
28	Accounts Payable	1,300	
	Cash		1,300
	<i>Paid cash on account.</i>		

Requirement 2

Cash			
Bal.	23,000	1,300	Mar. 28
Bal.	21,700		

Accounts Payable			
Mar. 28	1,300	2,600	Mar. 15
		1,300	Bal.

Office Supplies			
Mar. 15	2,600		
Bal.	2,600		

**S2-8**

Prepare the trial balance of Henderson Floor Coverings at December 31, 2016.

**Solution:**

<b>HENDERSON FLOOR COVERINGS</b> <b>Trial Balance</b> <b>December 31, 2016</b>		
<b>Account Title</b>	<b>Balance</b>	
	<b>Debit</b>	<b>Credit</b>
Cash	\$ 12,000	
Accounts Receivable	4,000	
Equipment	45,000	
Accounts Payable		1,500
Salaries Payable		15,000
Interest Payable		7,500
Henderson, Capital		25,000
Henderson, Withdrawals	12,900	
Service Revenue		38,000
Rent Expense	10,000	
Salaries Expense	1,800	
Utilities Expense	1,300	
<b>Total</b>	<b>\$ 87,000</b>	<b>\$ 87,000</b>

**S2-9**

What is Magic Carpet Care's debt ratio as of October 31?

**Solution:**

Debt ratio = Total liabilities / Total assets = \$60,000 / \$240,000 = 0.25 = 25%

**E2-10**

Match the accounting terms with the corresponding definitions.

**Solution:**

1.	g
2.	a
3.	e
4.	d
5.	j
6.	i
7.	f
8.	b
9.	h
10.	c

**E2-11**

Create a chart of accounts for Raymond Autobody Shop using the standard system.

**Solution:**

Assets	
100	Cash
110	Automotive Supplies
120	Equipment

Liabilities	
200	Accounts Payable
210	Unearned Revenue

Equity	
300	Raymond, Capital
310	Raymond, Withdrawals

Revenues	
400	Service Revenue

Expenses	
500	Utilities Expense
510	Advertising Expense

**E2-12**
**Requirements**

1. Identify each account as asset (A), liability (L), or equity (E).
2. Identify whether the account is increased with a debit (DR) or credit (CR).
3. Identify whether the normal balance is a debit (DR) or credit (CR).

**Solution:**

Account Name		Requirement 1	Requirement 2	Requirement 3
		Type of Account	Increase with Debit/Credit	Normal Balance with Debit/Credit
a.	Interest Revenue	E	CR	CR
b.	Accounts Payable	L	CR	CR
c.	Curtis, Capital	E	CR	CR
d.	Office Supplies	A	DR	DR
e.	Advertising Expense	E	DR	DR
f.	Unearned Revenue	L	CR	CR
g.	Prepaid Rent	A	DR	DR
h.	Utilities Expense	E	DR	DR
i.	Curtis, Withdrawals	E	DR	DR
j.	Service Revenue	E	CR	CR



**E2-13**

Insert the missing information into the accounting equation. Signify increases as Incr. and decreases as Decr.

**Solution:**

a. Assets
b. Equity
c. Liabilities
d. Owner, Withdrawal
e. Incr.
f. Incr.
g. Decr.
h. Incr.
i. Incr.
j. Decr.
k. Decr.
l. Incr.
m. Decr.
n. Credit
o. Debit
p. Debit
q. Debit
r. Debit

**E2-14**

For each transaction, identify a possible source document.

**Solution:**

a. Bank deposit slip
b. Purchase invoice
c. Sales invoice

**E2-15**

As the manager of Margarita Mexican Restaurant, you must deal with a variety of business transactions. Provide an explanation for the following transactions:

**Solution:**

a.	Purchased equipment with cash.
b.	Paid cash withdrawals to owner.
c.	Paid wages owed to employees, previously recorded.
d.	Received equipment for the business in exchange for capital.
e.	Received cash from customer for work to be completed in the future.
f.	Paid for advertising with cash.
g.	Performed services that were paid by the customer.

## E2-16

Journalize the transactions of London Engineering. Include an explanation with each journal entry.

## Solution:

Date	Accounts and Explanation	Debit	Credit
Jul. 2	Cash	12,000	
	London, Capital		12,000
	<i>Owner contribution.</i>		
4	Utilities Expense	410	
	Cash		410
	<i>Paid utility expense.</i>		
5	Equipment	2,200	
	Accounts Payable		2,200
	<i>Purchased equipment on account.</i>		
10	Accounts Receivable	2,800	
	Service Revenue		2,800
	<i>Performed services for client on account.</i>		
12	Cash	7,500	
	Notes Payable		7,000
	<i>Borrowed cash by signing note.</i>		
19	London, Withdrawals	750	
	Cash		750
	<i>Owner withdrawal.</i>		
21	Office Supplies	860	
	Cash		800
	<i>Purchased office supplies with cash.</i>		
27	Accounts Payable	2,200	
	Cash		2,200
	<i>Paid cash on account.</i>		

## E2-17

## Requirements

1. Open the following T-accounts for London Engineering: Cash; Accounts Receivable; Office Supplies; Equipment; Accounts Payable; Notes Payable; London, Capital; London, Withdrawals; Service Revenue; Utilities Expense.
2. Post the journal entries to the T-accounts. Also transfer the dates to the T-accounts.
3. Compute the July 31 balance for each account.

## Solution:

## Requirements 1, 2, and 3

Cash			
Jul. 2	12,000	410	Jul. 4
Jul. 12	7,500	750	Jul. 19
		860	Jul. 21
		2,200	Jul. 27
Balance	15,280		

Accounts Payable			
Jul. 27	2,200	2,200	Jul. 5
		0	Balance

Accounts Receivable			
Jul. 10	2,800		
Balance	2,800		

Notes Payable			
		7,500	Jul. 12
		7,500	Balance

Office Supplies			
Jul. 21	860		
Balance	860		

London, Capital			
		12,000	Jul. 2
		12,000	Balance

Equipment			
Jul. 5	2,200		
Balance	2,200		

London, Withdrawals			
Jul. 19	750		
Balance	750		

Service Revenue			
		2,800	Jul. 10
		2,800	Balance

Utilities Expense			
Jul. 4	410		
Balance	410		

## E2-18

Journalize the transactions of Wilson Technology Solutions. Include an explanation with each journal entry.

## Solution:

Date	Accounts and Explanation	Debit	Credit
May 1	Cash		
	Wilson, Capital	85,000	
	<i>Owner contribution.</i>		85,000
2	Office Supplies	550	
	Accounts Payable		550
	<i>Purchased office supplies on account.</i>		
4	Building	48,000	
	Land	9,000	
	Cash		57,000
	<i>Purchased building and land for cash.</i>		
6	Cash	3,600	
	Service Revenue		3,600
	<i>Performed services for customers for cash.</i>		
9	Accounts Payable	450	
	Cash		450
	<i>Paid cash on account.</i>		
17	Accounts Receivable	3,400	
	Service Revenue		3,400
	<i>Performed services for customers on account.</i>		
19	Rent Expense	1,400	
	Cash		1,400
	<i>Paid rent for the month.</i>		
20	Cash	1,300	
	Unearned Revenue		1,300
	<i>Received cash from customers for services to be performed next month.</i>		

Date	Accounts and Explanation	Debit	Credit
21	Prepaid Advertising	300	
	Cash		300
	<i>Paid for next month's advertising.</i>		
23	Cash	2,600	
	Accounts Receivable		2,600
	<i>Received cash on account from customer.</i>		
31	Salaries Expense	1,200	
	Cash		1,200
	<i>Paid salaries.</i>		



## E2-19

## Requirements

- 1 Open four-column accounts using the following account numbers: Cash, 110; Accounts Receivable, 120; Office Supplies, 130; Prepaid Advertising, 140; Building, 150; Land, 160; Accounts Payable, 210; Unearned Revenue, 220; Wilson, Capital, 310; Service Revenue, 410; Rent Expense, 510; Salaries Expense, 520.
- 2 Post the journal entries to the four-column accounts and determine the balance in the account after each transaction. Assume that the journal entries were recorded on page 10 of the journal. Make sure to complete the Post. Ref. columns in the journal and ledger.

## Solution:

## Requirement 2

Date	Accounts and Explanation	Post Ref.	Debit	Credit
May 1	Cash	110	85,000	
	Wilson, Capital	310		85,000
	<i>Owner contribution.</i>			
2	Office Supplies	130	550	
	Accounts Payable	210		550
	<i>Purchased office supplies on account.</i>			
4	Building	150	48,000	
	Land	160	9,000	
	Cash	110		57,000
	<i>Purchased building and land for cash.</i>			
6	Cash	110	3,600	
	Service Revenue	410		3,600
	<i>Performed services for customers for cash.</i>			
9	Accounts Payable	210	450	
	Cash	110		450
	<i>Paid cash on account.</i>			

Date	Accounts and Explanation	Post Ref.	Debit	Credit
17	Accounts Receivable	120	3,400	
	Service Revenue	410		3,400
	<i>Performed services for customers on account.</i>			
19	Rent Expense	510	1,400	
	Cash	110		1,400
	<i>Paid rent for the month.</i>			
20	Cash	110	1,300	
	Unearned Revenue	220		1,300
	<i>Received cash from customers for services to be performed next month.</i>			
21	Prepaid Advertising	140	300	
	Cash	110		300
	<i>Paid for next month's advertising.</i>			
23	Cash	110	2,600	
	Accounts Receivable	120		2,600
	<i>Received cash on account from customer.</i>			
31	Salaries Expense	520	1,200	
	Cash	110		1,200
	<i>Paid salaries.</i>			

**Requirements 1 and 2****CASH****Account No. 110**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 1		J10	85,000		85,000	
May 4		J10		57,000	28,000	
May 6		J10	3,600		31,600	
May 9		J10		450	31,150	
May 19		J10		1,400	29,750	
May 20		J10	1,300		31,050	
May 21		J10		300	30,750	
May 23		J10	2,600		33,350	
May 31		J10		1,200	32,150	

ACCOUNTS RECEIVABLE

Account No. 120

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 17		J10	3,400		3,400	
May 23		J10		2,600	800	

OFFICE SUPPLIES

Account No. 130

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 2		J10	550		550	

PREPAID ADVERTISING

Account No. 140

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 21		J10	300		300	

BUILDING

Account No. 150

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 4		J10	48,000		48,000	

LAND

Account No. 160

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 4		J10	9,000		9,000	

ACCOUNTS PAYABLE

Account No. 210

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 2		J10		550		550
May 9		J10	450			100

UNEARNED REVENUE

Account No. 220

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 20		J10		1,300		1,300

WILSON, CAPITAL

Account No. 310

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 1		J10		85,000		85,000

SERVICE REVENUE

Account No. 410

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 6		J10		3,600		3,600
May 17		J10		3,400		7,000

RENT EXPENSE

Account No. 510

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 19		J10	1,400		1,400	

SALARIES EXPENSE

Account No. 520

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
May 31		J10	1,200		1,200	

**E2-20**

The first nine transactions of North-West Airplane Repair have been posted to the T-accounts. Provide an explanation for each of the nine transactions.

**Solution:**

1. The business received cash of \$370,000 and gave capital to owner.
2. Paid \$360,000 cash for a building.
3. Borrowed \$260,000 cash, signing a notes payable.
4. Purchased office supplies on account, \$1,500.
5. Paid \$1,200 on accounts payable.
6. Paid property tax expense, \$1,500.
7. Paid rent \$1,400 and salaries \$2,500.
8. The owner withdrew \$7,000 cash from the business.
9. Performed services for customers and received cash, \$21,000.

## E2-21

Prepare the journal entries that served as the sources for the five transactions. Include an explanation for each entry.

## Solution:

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
1.	Cash		56,000	
	Atkins, Capital			56,000
	<i>Owner contribution.</i>			
2.	Office Supplies		200	
	Accounts Payable			200
	<i>Purchased office supplies on account.</i>			
3.	Building		37,000	
	Cash			37,000
	<i>Purchased building for cash.</i>			
4.	Cash		49,000	
	Notes Payable			49,000
	<i>Borrowed money signing a note payable.</i>			
5.	Equipment		5,900	
	Cash			5,900
	<i>Purchased equipment for cash.</i>			

## E2-22

Prepare Aker's trial balance as of August 31, 2016.

## Solution:

AKER MOVING COMPANY		
Trial Balance		
August 31, 2016		
Account Title	Balance	
	Debit	Credit
Cash	\$ 5,000	
Accounts Receivable	8,700	
Office Supplies	300	
Trucks	132,000	
Building	48,000	
Accounts Payable		\$ 4,200
Notes Payable		62,000
Aker, Capital		53,300
Aker, Withdrawals	6,200	
Service Revenue		92,000
Salaries Expense	7,000	
Fuel Expense	3,000	
Insurance Expense	600	
Utilities Expense	500	
Advertising Expense	200	
Total	\$ 211,500	\$ 211,500

## E2-23

Prepare Morris Farm Equipment Repair's trial balance as of May 31, 2016.

## Solution:

MORRIS FARM EQUIPMENT REPAIR		
Trial Balance		
May 31, 2016		
Account Title	Balance	
	Debit	Credit
Cash	\$ 12,680	
Accounts Receivable	3,100	
Equipment	18,000	
Building	32,000	
Land	12,000	
Accounts Payable		\$ 3,400
Notes Payable		27,600
Morris, Capital		47,000
Morris, Withdrawals	1,200	
Service Revenue		7,200
Salaries Expense	5,600	
Property Tax Expense	300	
Advertising Expense	320	
Total	\$ 85,200	\$ 85,200



## E2-24

**Requirements**

1. Open the following four-column accounts of Tori Peel, CPA: Cash, 110; Accounts Receivable, 120; Office Supplies, 130; Office Furniture, 140; Accounts Payable, 210; Utilities Payable, 220; Peel, Capital, 310; Peel, Withdrawals, 320; Service Revenue, 410; Salaries Expense, 510; Rent Expense, 520; Utilities Expense, 530.
2. Journalize the transactions and then post the journal entries to the four-column accounts. Keep a running balance in each account. Assume the journal entries are recorded on page 10 of the journal.
3. Prepare the trial balance as of June 30, 2016.

**Solution:****Requirement 2**

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Jun-01	Cash	110	13,500	
	Office Furniture	140	5,400	
	Peel, Capital	310		18,900
5	Rent Expense	520	1,300	
	Cash	110		1,300
9	Office Supplies	130	800	
	Accounts Payable	210		800
14	Salaries Expense	510	1,700	
	Cash	110		1,700
18	Utilities Expense	530	250	
	Utilities Payable	220		250
21	Accounts Payable	210	600	
	Cash	110		600

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
25	Accounts Receivable	120	5,900	
	Service Revenue	410		5,900
28	Peel, Withdrawals	320	6,900	
	Cash	110		6,900

**Requirements 1 & 2**

CASH					Account No. 110	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 1		J10	13,500		13,500	
June 5		J10		1,300	12,200	
June 14		J10		1,700	10,500	
June 21		J10		600	9,900	
June 28		J10		6,900	3,000	

ACCOUNTS RECEIVABLE					Account No. 120	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 25		J10	5,900		5,900	

OFFICE SUPPLIES					Account No. 130	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 9		J10	800		800	

OFFICE FURNITURE					Account No. 140	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 1		J10	5,400		5,400	

## ACCOUNTS PAYABLE

Account No. 210

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 9		J10		800		800
June 21		J10	600			200

## UTILITIES PAYABLE

Account No. 220

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 18		J10		250		250

## PEEL, CAPITAL

Account No. 310

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 1		J10		18,900		18,900

## PEEL, WITHDRAWALS

Account No. 320

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 28		J10	6,900		6,900	

## SERVICE REVENUE

Account No. 410

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 25		J10		5,900		5,900

## SALARIES EXPENSE

Account No. 510

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 14		J10	1,700		1,700	

## RENT EXPENSE

Account No. 520

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 5		J10	1,300		1,300	

## UTILITIES EXPENSE

Account No. 530

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
June 18		J10	250		250	

## Requirement 3

TORI PEEL, CPA Trial Balance June 30, 2016			
Acct. No.	Account Name	Debit	Credit
110	Cash	\$ 3,000	
120	Accounts Receivable	5,900	
130	Office Supplies	800	
140	Office Furniture	5,400	
210	Accounts Payable		\$ 200
220	Utilities Payable		250
310	Peel, Capital		18,900
320	Peel, Withdrawals	6,900	
410	Service Revenue		5,900
510	Salaries Expense	1,700	
520	Rent Expense	1,300	
530	Utilities Expense	250	
	Total	\$ 25,250	\$ 25,250

## E2-25

**Requirements**

1. For each of these errors, state whether total debits equal total credits on the trial balance.
2. Identify each account that has an incorrect balance, and the amount and direction of the error (such as "Accounts Receivable \$500 too high").

**Solution:****Requirements 1 and 2**

<b>Debits equal Credits, Yes or No</b>		<b>Accounts</b>	<b>Amount</b>	<b>High or Low</b>
a.	No	Notes Payable	\$ 4,000	Low
b.	No	Utilities Expense	450	High
c.	Yes	Furniture	300	High
		Accounts Payable	300	High
d.	No	Cash	990	Low
e.	Yes	Office Supplies	90	Low
		Accounts Payable	90	Low

## E2-26

Prepare the corrected trial balance as of November 30, 2016. Assume all amounts are correct and all accounts have normal balances.

**Solution:**

TOWN AND COUNTRY PAINTING SPECIALISTS		
Trial Balance		
November 30, 2016		
Account Title	Balance	
	Debit	Credit
Cash	\$ 12,900	
Accounts Receivable	1,100	
Office Supplies	300	
Painting Equipment	13,000	
Accounts Payable		\$ 3,100
Unearned Revenue		2,000
Wilson, Capital		15,000
Wilson, Withdrawals	7,000	
Service Revenue		19,650
Advertising Expense	450	
Rent Expense	2,700	
Salaries Expense	2,100	
Utilities Expense	200	
Total	\$ 39,750	\$ 39,750

## E2-27

Prepare the corrected trial balance as of May 31, 2016, complete with a heading; journal entries are not required.

## Solution:

CARLA MADOCK TUTORING SERVICE		
Trial Balance		
May 31, 2016		
Account Title	Balance	
	Debit	Credit
Cash	\$ 3,500	
Accounts Receivable	1,200	
Office Supplies	700	
Painting Equipment	15,800	
Accounts Payable		\$ 12,000
Unearned Revenue		800
Madock, Capital		12,500
Madock, Withdrawals	10,200	
Service Revenue		9,600
Salaries Expense	1,900	
Rent Expense	800	
Utilities Expense	800	
Total	\$ 34,900	\$ 34,900

Explanation:

a.	Increase Cash by \$600, decrease Accounts Receivable by \$600.
b.	Increase Accounts Payable by \$900 (\$1,000 – \$100).
c.	Increase Utilities Expense and Utilities Payable by \$300 each.
d.	Increase Madock, Capital by \$900.

**E2-28**

Calculate the debt ratio for Jason Hilton, M.D.

**Solution:**

Liabilities:		
Accounts Payable	\$	1,800
Utilities Payable		700
Unearned Revenue		18,290
Notes Payable		77,000
Total liabilities	\$	97,790

Assets:		
Cash	\$	37,000
Accounts Receivable		7,200
Office Supplies		2,600
Office Equipment		22,000
Building		85,000
Land		24,000
Total assets	\$	177,800

Debt ratio = Total liabilities / Total assets = \$97,790 / \$177,800 = 0.55 = 55%		



## P2-29A

## Requirements

1. Journalize each transaction. Explanations are not required.
2. Post the journal entries to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account Bal.
3. Prepare the trial balance of Vincent Yarwood, M.D. as of July 31, 2017.

## Solution:

## Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
July 1	Cash		68,000	
	Yarwood, Capital			68,000
5	Rent Expense		550	
	Cash			550
9	Land		17,000	
	Cash			17,000
10	Office Supplies		1,800	
	Accounts Payable			1,800
19	Cash		24,000	
	Notes Payable			24,000
22	Accounts Payable		1,700	
	Cash			1,700
28	Advertising Expense		290	
	Advertising Payable			290
31	Cash		6,000	
	Accounts Receivable		5,500	
	Service Revenue			11,500

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
July 31	Salaries Expense		2,000	
	Rent Expense		1,000	
	Utilities Expense		550	
	Cash			3,550
31	Cash		1,260	
	Unearned Revenue			1,260
31	Yarwood, Withdrawals		7,400	
	Cash			7,400

**Requirement 2**

Cash			
Jul. 1	68,000	550	Jul. 5
Jul. 19	24,000	17,000	Jul. 9
Jul. 31	6,000	1,700	Jul. 22
Jul. 31	1,260	3,550	Jul. 31
		7,400	Jul. 31
Bal.	69,060		

Accounts Payable			
Jul. 22	1,700	1,800	Jul. 10
		100	Bal.

Accounts Receivable			
Jul. 31	5,500		
Bal.	5,500		

Advertising Payable			
		290	Jul. 28
		290	Bal.

Office Supplies			
Jul. 10	1,800		
Bal.	1,800		

Unearned Revenue			
		1,260	Jul. 31
		1,260	Bal.

Yarwood, Capital			
		68,000	Jul. 1
		68,000	Bal.

Notes Payable			
		24,000	Jul. 19
		24,000	Bal.

Land			
Jul. 9	17,000		
Bal.	17,000		

Yarwood, Withdrawals			
Jul. 31	7,400		
Bal.	7,400		

Service Revenue			
		11,500	Jul. 31
		11,500	Bal.

Utilities Expense			
Jul. 31	550		
Bal.	550		

Salaries Expense			
Jul. 31	2,000		
Bal.	2,000		

Rent Expense			
Jul. 5	550		
Jul. 31	1,000		
Bal.	1,550		

Advertising Expense			
Jul. 28	290		
Bal.	290		

## Requirement 3

VINCENT YARWOOD, MD Trial Balance July 31, 2017		
Account Title	Balance	
	Debit	Credit
Cash	\$ 69,060	
Accounts Receivable	5,500	
Office Supplies	1,800	
Land	17,000	
Accounts Payable		\$ 100
Advertising Payable		290
Unearned Revenue		1,260
Notes Payable		24,000
Yarwood, Capital		68,000
Yarwood, Withdrawals	7,400	
Service Revenue		11,500
Salaries Expense	2,000	
Rent Expense	1,550	
Utilities Expense	550	
Advertising Expense	290	
Total	\$ 105,150	\$ 105,150

## P2-30A

## Requirements

- Record each transaction in the journal using the following account titles: Cash; Accounts Receivable; Office Supplies; Prepaid Insurance; Furniture; Land; Accounts Payable; Utilities Payable; Unearned Revenue; Stann, Capital; Stann, Withdrawals; Service Revenue; Salaries Expense; Rent Expense; Utilities Expense. Explanations are not required.
- Open a T-account for each of the accounts.
- Post the journal entries to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account Bal.
- Prepare the trial balance of Doris Stann, Designer, as of September 30, 2017.

## Solution:

## Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Sep. 1	Cash		47,000	
	Stann, Capital			47,000
4	Office Supplies		700	
	Furniture		1,600	
	Accounts Payable			2,300
6	Cash		1,400	
	Service Revenue			1,400
7	Land		20,000	
	Cash			20,000
10	Accounts Receivable		900	
	Service Revenue			900
14	Accounts Payable		1,600	
	Cash			1,600

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Sep. 15	Salaries Expense		1,480	
	Cash			1,480
17	Cash		700	
	Accounts Receivable			700
20	Accounts Receivable		700	
	Service Revenue			700
25	Cash		2,200	
	Unearned Revenue			2,200
28	Cash		2,600	
	Service Revenue			2,600
29	Prepaid Insurance		2,400	
	Cash			2,400
30	Salaries Expense		1,480	
	Cash			1,480
30	Rent Expense		500	
	Cash			500
30	Utilities Expense		400	
	Utilities Payable			400
30	Stann, Withdrawals		3,000	
	Cash			3,000

## Requirements 2 and 3

Cash			
Sep. 1	47,000	20,000	Sep. 7
Sep. 6	1,400	1,600	Sep. 14
Sep. 17	700	1,480	Sep. 15
Sep. 25	2,200	2,400	Sep. 29
Sep. 28	2,600	1,480	Sep. 30
		500	Sep. 30
		3,000	Sep. 30
Bal.	23,440		

Accounts Payable			
Sep. 14	1,600	2,300	Sep. 4
		700	Bal.

Utilities Payable			
		400	Sep. 30
		400	Bal.

Accounts Receivable			
Sep. 10	900	700	Sep. 17
Sep. 20	700		
Bal.	900		

Unearned Revenue			
		2,200	Sep. 25
		2,200	Bal.

Office Supplies			
Sep. 4	700		
Bal.	700		

Stann, Capital			
		47,000	Sep. 1
		47,000	Bal.

Prepaid Insurance			
Sep. 29	2,400		
Bal.	2,400		

Stann, Withdrawals			
Sep. 30	3,000		
Bal.	3,000		

Land			
Sep. 7	20,000		
Bal.	20,000		

Service Revenue			
		1,400	Sep. 6
		900	Sep. 10
		700	Sep. 20
		2,600	Sep. 28
		5,600	Bal.

Furniture				Utilities Expense			
Sep. 4	1,600			Sep. 30	400		
Bal.	1,600			Bal.	400		

  

Salaries Expense				Rent Expense			
Sep. 15	1,480			Sep. 30	500		
Sep. 30	1,480			Bal.	500		
Bal.	2,960						

#### Requirement 4

DORIS STANN, DESIGNER Trial Balance September 30, 2017.		
Account Title	Balance	
	Debit	Credit
Cash	\$ 23,440	
Accounts Receivable	900	
Office Supplies	700	
Prepaid Insurance	2,400	
Furniture	1,600	
Land	20,000	
Accounts Payable		\$ 700
Utilities Payable		400
Unearned Revenue		2,200
Stann, Capital		47,000
Stann, Withdrawals	3,000	
Service Revenue		5,600
Salaries Expense	2,960	
Rent Expense	500	
Utilities Expense	400	
Total	<b>\$ 55,900</b>	<b>\$ 55,900</b>



## P2-31A

## Requirements

- Record each transaction in the journal, using the following account titles: Cash; Accounts Receivable; Office Supplies; Prepaid Insurance; Furniture; Building; Land; Accounts Payable; Utilities Payable; Notes Payable; Monroe, Capital; Monroe, Withdrawals; Service Revenue; Salaries Expense; Rent Expense; and Utilities Expense. Explanations are not required.
- Open the following four-column accounts including account numbers: Cash, 101; Accounts Receivable, 111; Office Supplies, 121; Prepaid Insurance, 131; Furniture, 141; Building, 151; Land, 161; Accounts Payable, 201; Utilities Payable, 211; Notes Payable, 221; Monroe, Capital, 301; Monroe, Withdrawals, 311; Service Revenue, 411; Salaries Expense, 511; Rent Expense, 521; and Utilities Expense, 531.
- Post the journal entries to four-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Assume the journal entries were recorded on page 1 of the journal.
- Prepare the trial balance of Timothy Monroe, Attorney, at January 31, 2017.

## Solution:

## Requirement 1 and 3

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Jan. 1	Cash	101	62,000	
	Monroe, Capital	301		62,000
3	Office Supplies	121	500	
	Furniture	141	2,000	
	Accounts Payable	201		2,500
4	Cash	101	1,600	
	Service Revenue	411		1,600
7	Building	151	70,000	
	Land	161	29,000	
	Cash	101		70,000
	Notes Payable	221		29,000

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Jan. 11	Accounts Receivable	111	300	
	Service Revenue	411		300
15	Salaries Expense	511	1,180	
	Cash	101		1,180
16	Accounts Payable	201	500	
	Cash	101		500
18	Cash	101	2,000	
	Service Revenue	411		2,000
19	Accounts Receivable	111	1400	
	Service Revenue	411		1400
25	Utilities Expense	531	550	
	Utilities Payable	211		550
29	Cash	101	700	
	Accounts Receivable	111		700
30	Prepaid Insurance	131	840	
	Cash	101		840
30	Salaries Expense	511	1,180	
	Cash	101		1,180
31	Rent Expense	521	1,300	
	Cash	101		1,300
31	Monroe, Withdrawals	311	2,900	
	Cash	101		2,900

## Requirements 2 and 3

## CASH

Account No. 101

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 1		J1	62,000		62,000	
Jan. 4		J1	1,600		63,600	
Jan. 7		J1		35,000	28,600	
Jan. 15		J1		1,180	27,420	
Jan. 16		J1		500	26,920	
Jan. 18		J1	2,000		28,920	
Jan. 29		J1	700		29,620	
Jan. 30		J1		840	28,780	
Jan. 30		J1		1,180	27,600	
Jan. 31		J1		1,300	26,300	
Jan. 31		J1		2,900	23,400	

## ACCOUNTS RECEIVABLE

Account No. 111

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 11		J1	300		300	
Jan. 19		J1	1,400		1,700	
Jan. 29		J1		700	1,000	

## OFFICE SUPPLIES

Account No. 121

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1	500		500	

## PREPAID INSURANCE

Account No. 131

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 30		J1	840		840	

## FURNITURE

Account No. 141

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1	2,000		2,000	

## BUILDING

Account No. 151

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1	70,000		70,000	

## LAND

Account No. 161

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1	29,000		29,000	

## ACCOUNTS PAYABLE

Account No. 201

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1		2,500		2,500
Jan. 16		J1	500			2,000

## UTILITIES PAYABLE

Account No. 211

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 25		J1		550		550

## NOTES PAYABLE

Account No. 221

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1		64,000		64,000

## MONROE, CAPITAL

Account No. 301

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 1		J1		62,000		62,000

## MONROE, WITHDRAWALS

Account No. 311

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31		J1	2,900		2,900	

## SERVICE REVENUE

Account No. 411

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 4		J1		1,600		1,600
Jan. 11		J1		300		1,900
Jan. 18		J1		2,000		3,900
Jan. 19		J1		1400		5,300

## SALARIES EXPENSE

Account No. 511

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 15		J1	1,180		1,180	
Jan. 30		J1	1,180		2,360	

## RENT EXPENSE

Account No. 521

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31		J1	1,300		1,300	

## UTILITIES EXPENSE

Account No. 531

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 25		J1	550		550	

## Requirement 4

TIMOTHY MONROE, ATTORNEY		
Trial Balance		
January 31, 2017		
Account Title	Balance	
	Debit	Credit
Cash	\$ 23,400	
Accounts Receivable	1,000	
Office Supplies	500	
Prepaid Insurance	840	
Furniture	2,000	
Building	70,000	
Land	29,000	
Accounts Payable		\$ 2,000
Utilities Payable		550
Notes Payable		64,000
Monroe, Capital		62,000
Monroe, Withdrawals	2,900	
Service Revenue		5,300
Salaries Expense	2,360	
Rent Expense	1,300	
Utilities Expense	550	
Total	\$ 133,850	\$ 133,850

P2-32A

**Requirements**

1. Record the April transactions in the journal.
2. Open the four-column ledger accounts listed in the trial balance, together with their balances as of March 31.
3. Post the journal entries to four-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Assume the journal entries were recorded on page 5 of the journal.
4. Prepare the trial balance of Steve Mentz, CPA, at April 30, 2017.

**Solution:**

**Requirement 1**

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Apr. 4	Cash	11	1,000	
	Accounts Receivable	12		1,000
	<i>Received cash from client on account.</i>			
8	Accounts Receivable	12	5,800	
	Service Revenue	41		5,800
	<i>Performed tax services for client on account.</i>			
13	Accounts Payable	21	1,500	
	Cash	11		1,500
	<i>Paid cash on account.</i>			
14	Furniture	14	4,600	
	Accounts Payable	21		4,600
	<i>Purchased furniture on account.</i>			
15	Automobile	15	8,000	
	Mentz, Capital			\$ 8,000
	<i>Owner contribution.</i>			

[illegible]

## Requirements 2 and 3

## CASH

Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				18,000	
Apr. 4		J5	1,000		19,000	
13		J5		1,500	17,500	
19		J5	2,900		20,400	
20		J5		8,000	12,400	
21		J5	5,400		17,800	
24		J5	1,200		19,000	
27		J5		700	18,300	
28		J5		1,600	16,700	

## ACCOUNTS RECEIVABLE

Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				9,500	
Apr. 4		J5		1,000	8,500	
8		J5	5,800		14,300	
19		J5		2,900	11,400	

## OFFICE SUPPLIES

Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				1,000	
Apr. 18		J5	500		1,500	

## FURNITURE

Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 14		J5	4,600		4,600	

## AUTOMOBILE

Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 15		J5	8,000		8,000	



## LAND

Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				26,000	

## ACCOUNTS PAYABLE

Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					5,500
Apr. 13		J5	1,500			4,000
14		J5		4,600		8,600
18		J5		500		9,100

## UNEARNED REVENUE

Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 24		J5		1,200		1,200

## MENTZ, CAPITAL

Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					44,100
Apr. 15		J5		8,000		52,100

## MENTZ, WITHDRAWALS

Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 20		J5	8,000		8,000	

## SERVICE REVENUE

Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31						10,800
Apr. 8		J5		5,800		16,600
21		J5		5,400		22,000

## SALARIES EXPENSE

Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31					5,000	
Apr. 28		J5	1,600		6,600	

## RENT EXPENSE

Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31					900	
Apr. 27		J5	700		1,600	

## Requirement 4

STEVE MENTZ, CPA Trial Balance April 30, 2017			
Acct. No.	Account Title	Balance	
		Debit	Credit
11	Cash	\$ 16,700	
12	Accounts Receivable	11,400	
13	Office Supplies	1,500	
14	Furniture	4,600	
15	Automobile	8,000	
16	Land	26,000	
21	Accounts Payable		\$ 9,100
22	Unearned Revenue		1,200
31	Mentz, Capital		52,100
33	Mentz, Withdrawals	8,000	
41	Service Revenue		22,000
51	Salaries Expense	6,600	
52	Rent Expense	1,600	
	Total	\$ 84,400	\$ 84,400

**P2-33A**

Prepare the corrected trial balance as of August 31, 2017. Journal entries are not required.

**Solution:**

<b>CREATIVE CHILD CARE</b> <b>Trial Balance</b> <b>August 31, 2017</b>		
Account Title	Balance	
	Debit	Credit
Cash	\$ 10,200	
Accounts Receivable	15,000	
Office Supplies	2,500	
Prepaid Insurance	3,900	
Equipment	76,500	
Accounts Payable		\$ 4,400
Notes Payable		47,000
Tarrago, Capital		50,000
Tarrago, Withdrawals	3,400	
Service Revenue		14,500
Salaries Expense	3,500	
Rent Expense	700	
Advertising Expense	200	
Total	<b>\$ 115,900</b>	<b>\$ 115,900</b>

**Explanations:**

- Increase Cash by \$1,400.
- Increase Accounts Receivable by \$7,800 ( $\$3,900 \times 2$ ).
- Increase Office Supplies and Accounts Payable by \$1,300 each.
- Decrease Equipment by \$7,800 ( $\$84,300 - \$76,500$ ).
- Decrease Salaries Expense by \$300.
- Advertising Expense should have a debit balance of \$200.  
Decrease Cash by \$200.
- Tarrago, Withdrawals should decrease by \$2,160 and Cash should increase by \$2,160 ( $\$2,400 - \$240$ ).
- Service Revenue should increase by \$4,500.
- Prepaid Insurance should increase by \$3,600 ( $\$1,800 \times 2$ ).

**P2-34A****Requirements**

1. Prepare the income statement for the month ended July 31, 2017.
2. Prepare the statement of owner's equity for the month ended July 31, 2017.  
The beginning balance of capital was \$0 and the owner contributed \$24,000.
3. Prepare the balance sheet as of July 31, 2017.
4. Calculate the debt ratio as of July 31, 2017.

**Solution:****Requirement 1**

<b>SANDRA SOUSA, REGISTERED DIETICIAN</b> <b>Income Statement</b> <b>Month Ended July 31, 2017</b>	
Revenues:	\$ 11,840
Service Revenue	
Expenses:	
Salaries Expense	\$ 2,300
Rent Expense	800
Utilities Expense	250
Total Expenses	3,350
Net Income	<u>\$ 8,490</u>

## Requirement 2

SANDRA SOUSA, REGISTERED DIETICIAN Statement of Owner's Equity Month Ended July 31, 2017	
Sousa, Capital, July 1, 2017	\$ 0
Owner contribution	\$ 24,000
Net income for the month	8,490
	32,490
Owner withdrawal	(2,600)
Sousa, Capital, July 31, 2017	<u>\$29,890</u>

## Requirements 3

SANDRA SOUSA, REGISTERED DIETICIAN Balance Sheet July 31, 2017			
Assets		Liabilities	
Cash	\$ 33,000	Accounts Payable	\$ 3,300
Accounts Receivable	9,500	Unearned Revenue	2,810
Office Supplies	1,500	Notes Payable	25,000
Prepaid Insurance	2,000	Total Liabilities	31,110
Equipment	15,000		
		Owner's Equity	
		Sousa, Capital	\$29,890
		Total Liabilities and Owner's Equity	
Total Assets	<u>\$ 61,000</u>	Equity	<u>\$ 61,000</u>

## Requirements 4

Debt ratio = Total liabilities / Total assets = \$31,110 / \$61,000 = 0.51 = 51%

## P2-35B

## Requirements

1. Journalize each transaction. Explanations are not required.
2. Post the journal entries to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account Bal.
3. Prepare the trial balance of Vito York, M.D. as of March 31, 2017.

## Solution:

## Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Mar. 1	Cash		64,000	
	York, Capital			64,000
5	Rent Expense		630	
	Cash			630
9	Land		13,000	
	Cash			13,000
10	Office Supplies		1,800	
	Accounts Payable			1,800
19	Cash		24,000	
	Notes Payable			24,000
22	Accounts Payable		1,200	
	Cash			1,200
28	Advertising Expense		270	
	Advertising Payable			270
31	Cash		6,600	
	Accounts Receivable		5,800	
	Service Revenue			12,400

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Mar. 31	Salaries Expense		2,700	
	Rent Expense		1,500	
	Utilities Expense		400	
	Cash			4,600
31	Cash		1,450	
	Unearned Revenue			1,450
31	York, Withdrawals		6,600	
	Cash			6,600

### Requirement 2

Cash			
Mar. 1	64,000	630	Mar. 5
Mar. 19	24,000	13,000	Mar. 9
Mar. 31	6,600	1,200	Mar. 22
Mar. 31	1,450	4,600	Mar. 31
		6,600	Mar. 31
Bal.	70,020		

Accounts Payable			
Mar. 22	1,200	1,800	Mar. 10
		600	Bal.

Accounts Receivable			
Mar. 31	5,800		
Bal.	5,800		

Advertising Payable			
		270	Mar. 28
		270	Bal.

Office Supplies			
Mar. 10	1,800		
Bal.	1,800		

Unearned Revenue			
		1,450	Mar. 31
		1,450	Bal.

York, Capital			
		64,000	Mar. 1
		64,000	Bal.

Notes Payable			
		24,000	Mar. 19
		24,000	Bal.

Land			
Mar. 9	13,000		
Bal.	0		

York, Withdrawals			
Mar. 31	6,600		
Bal.	6,600		

Service Revenue			
		12,400	Mar. 31
		12,400	Bal.

Utilities Expense			
Mar. 31	400		
Bal.	400		

Salaries Expense			
Mar. 31	2,700		
Bal.	2,700		

Rent Expense			
Mar. 5	630		
Mar. 31	1,500		
Bal.	2,130		

Advertising Expense			
Mar. 28	270		
Bal.	270		



## Requirement 3

VITO YORK, MD Trial Balance March 31, 2017		
Account Title	Balance	
	Debit	Credit
Cash	\$ 70,020	
Accounts Receivable	5,800	
Office Supplies	1,800	
Land	13,000	
Accounts Payable		\$ 600
Advertising Payable		270
Unearned Revenue		1,450
Notes Payable		24,000
York, Capital		64,000
York, Withdrawals	6,600	
Service Revenue		12,400
Salaries Expense	2,700	
Rent Expense	2,130	
Utilities Expense	400	
Advertising Expense	270	
Total	<b>\$ 102,720</b>	<b>\$ 102,720</b>

**P2-36B**
**Requirements**

- Record each transaction in the journal using the following account titles: Cash; Accounts Receivable; Office Supplies; Prepaid Insurance; Furniture; Land; Accounts Payable; Utilities Payable; Unearned Revenue; Sikes, Capital; Sikes, Withdrawals; Service Revenue; Salaries Expense; Rent Expense; Utilities Expense. Explanations are not required.
- Open a T-account for each of the accounts.
- Post the journal entries to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account Bal.
- Prepare the trial balance of Deb Sikes, Designer, as of November 30, 2017.

**Solution:**
**Requirement 1**

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Nov. 1	Cash		39,000	
	Sikes, Capital			39,000
4	Office Supplies		900	
	Furniture		1,800	
	Accounts Payable			2,700
6	Cash		2,000	
	Service Revenue			2,000
7	Land		24,000	
	Cash			24,000
10	Accounts Receivable		1,200	
	Service Revenue			1,200
14	Accounts Payable		1,800	
	Cash			1,800
15	Salaries Expense		1,410	
	Cash			1,410

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Nov. 17	Cash		1000	
	Accounts Receivable			1000
20	Accounts Receivable		900	
	Service Revenue			900
25	Cash		2,100	
	Unearned Revenue			2,100
28	Cash		2,800	
	Service Revenue			2,800
29	Prepaid Insurance		1,080	
	Cash			1,080
30	Salaries Expense		1,410	
	Cash			1,410
30	Rent Expense		800	
	Cash			830
30	Utilities Expense		600	
	Utilities Payable			600
30	Sikes, Withdrawals		4,000	
	Cash			4,000

Requirements 2 and 3

Cash			
Nov. 1	39,000	24,000	Nov. 7
Nov. 6	2,000	1,800	Nov. 14
Nov. 17	1,000	1,410	Nov. 15
Nov. 25	2,100	1,080	Nov. 29
Nov. 28	2,800	1,410	Nov. 30
		800	Nov. 30
		4,000	Nov. 30
Bal.	12,400		

Accounts Payable			
Nov. 14	1,800	2,700	Nov. 4
		900	Bal.

Utilities Payable			
		600	Nov. 30
		600	Bal.

Accounts Receivable			
Nov. 10	1,200	1,000	Nov. 17
Nov. 20	900		
Bal.	1,100		

Unearned Revenue			
		2,100	Nov. 25
		2,100	Bal.

Office Supplies			
Nov. 4	900		
Bal.	900		

Sikes, Capital			
		39,000	Nov. 1
		39,000	Bal.

Prepaid Insurance			
Nov. 29	1,080		
Bal.	1,080		

Sikes, Withdrawals			
Nov. 30	4,000		
Bal.	4,000		

Land			
Nov. 7	24,000		
Bal.	24,000		

Service Revenue			
		2,000	Nov. 6
		1,200	Nov. 10
		900	Nov. 20
		2,800	Nov. 28
		6,900	Bal.

Furniture			
Nov. 4	1,800		
Bal.	1,800		

Utilities Expense			
Nov. 30	600		
Bal.	600		

Salaries Expense			
Nov. 15	1,410		
Nov. 30	1,410		
Bal.	2,820		

Rent Expense			
Nov. 30	800		
Bal.	800		

## Requirement 4

<b>DEB SIKES,DESIGNER</b> <b>Trial Balance</b> <b>November 30, 2017</b>		
Account Title	Balance	
	Debit	Credit
Cash	\$ 12,400	
Accounts Receivable	1,100	
Office Supplies	900	
Prepaid Insurance	1,080	
Furniture	1,800	
Land	24,000	
Accounts Payable		\$ 900
Utilities Payable		600
Unearned Revenue		2,100
Sikes, Capital		39,000
Sikes, Withdrawals	4,000	
Service Revenue		6,900
Salaries Expense	2,820	
Rent Expense	800	
Utilities Expense	600	
Total	\$ 49,500	\$ 49,500

## P2-37B

## Requirements

- Record each transaction in the journal, using the following account titles: Cash; Accounts Receivable; Office Supplies; Prepaid Insurance; Furniture; Building; Land; Accounts Payable; Utilities Payable; Notes Payable; Moore, Capital; Moore, Withdrawals; Service Revenue; Salaries Expense; Rent Expense; and Utilities Expense. Explanations are not required.
- Open the following four-column accounts including account numbers: Cash, 101; Accounts Receivable, 111; Office Supplies, 121; Prepaid Insurance, 131; Furniture, 141; Building, 151; Land, 161; Accounts Payable, 201; Utilities Payable, 211; Notes Payable, 221; Moore, Capital, 301; Moore, Withdrawals, 311; Service Revenue, 411; Salaries Expense, 511; Rent Expense, 521; and Utilities Expense, 531.
- Post the journal entries to four-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Assume the journal entries were recorded on page 1 of the journal.
- Prepare the trial balance of Trevor Moore, Attorney, at April 30, 2017.

## Solution:

## Requirement 1 and 3

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Apr. 1	Cash	101	76,000	
	Moore, Capital	301		76,000
3	Office Supplies	121	400	
	Furniture	141	2,200	
	Accounts Payable	201		2,600
4	Cash	101	900	
	Service Revenue	411		900
7	Building	151	120,000	
	Land	161	29,000	
	Cash	101		120,000
	Notes Payable	221		29,000

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Apr. 11	Accounts Receivable	111	800	
	Service Revenue	411		800
15	Salaries Expense	511	1230	
	Cash	101		1230
16	Accounts Payable	201	400	
	Cash	101		400
18	Cash	101	2,800	
	Service Revenue	411		2,800
19	Accounts Receivable	111	1500	
	Service Revenue	411		1500
25	Utilities Expense	531	650	
	Utilities Payable	211		650
28	Cash	101	1700	
	Accounts Receivable	111		1700
29	Prepaid Insurance	131	4,800	
	Cash	101		4,800
29	Salaries Expense	511	1,230	
	Cash	101		1,230
30	Rent Expense	521	1100	
	Cash	101		1100
30	Moore, Withdrawals	311	2,000	
	Cash	101		2,000



## Requirements 2 and 3

## CASH

Account No. 101

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 1		J1	76,000		76,000	
Apr. 4		J1	900		76,900	
Apr. 7		J1		45,000	31,900	
Apr. 15		J1		1,230	30,670	
Apr. 16		J1		400	30,270	
Apr. 18		J1	2,800		33,070	
Apr. 28		J1	1,700		34,770	
Apr. 29		J1		4,800	29,970	
Apr. 29		J1		1,230	28,740	
Apr. 30		J1		1,100	27,640	
Apr. 30		J1		2,000	25,640	

## ACCOUNTS RECEIVABLE

Account No. 111

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 11		J1	800		800	
Apr. 19		J1	1,500		2,300	
Apr. 28		J1		1700	600	

## OFFICE SUPPLIES

Account No. 121

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 3		J1	400		400	

## PREPAID INSURANCE

Account No. 131

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 29		J1	4,800		4,800	

## FURNITURE

Account No. 141

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 3		J1	2,200		2,200	

## BUILDING

Account No. 151

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1	120,000		120,000	

**LAND**

Account No. 161

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1	29,000		29,000	

**ACCOUNTS PAYABLE**

Account No. 201

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 3		J1		2,600		2,600
Apr. 16		J1	400			2,200

**UTILITIES PAYABLE**

Account No. 211

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 25		J1		650		650

**NOTES PAYABLE**

Account No. 221

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1		104,000		104,000

**MOORE, CAPITAL**

Account No. 301

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 1		J1		76,000		76,000

**MOORE, WITHDRAWALS**

Account No. 311

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 30		J1	2,000		2,000	

**SERVICE REVENUE**

Account No. 411

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 4		J1		900		900
Apr. 11		J1		800		1,700
Apr. 18		J1		2,800		4,500
Apr. 19		J1		1500		6,000

SALARIES EXPENSE

Account No. 511

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 15		J1	1,230		1,230	
Apr. 29		J1	1,230		2,460	

RENT EXPENSE

Account No. 521

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 30		J1	1,100		1,100	

UTILITIES EXPENSE

Account No. 531

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 25		J1	650		650	

## Requirement 4

TREVOR MOORE, ATTORNEY Trial Balance April 30, 2017		
Account Title	Balance	
	Debit	Credit
Cash	\$ 25,640	
Accounts Receivable	600	
Office Supplies	400	
Prepaid Insurance	4,800	
Furniture	2,200	
Building	120,000	
Land	29,000	
Accounts Payable		\$ 2,200
Utilities Payable		650
Notes Payable		104,000
Moore, Capital		76,000
Moore, Withdrawals	2,000	
Service Revenue		6,000
Salaries Expense	2,460	
Rent Expense	1100	
Utilities Expense	650	
Total	\$ 188,850	\$ 188,850

## P2-38B

## Requirements

1. Record the April transactions in the journal using the following accounts: Cash; Accounts Receivable; Office Supplies; Furniture; Automobile; Land; Accounts Payable; Unearned Revenue; Howe, Capital; Howe, Withdrawals; Service Revenue; Salaries Expense; and Rent Expense. Include an explanation for each entry.
2. Open the four-column ledger accounts listed in the trial balance, together with their balances as of March 31. Use the following account numbers: Cash, 11; Accounts Receivable, 12; Office Supplies, 13; Furniture, 14; Automobile, 15; Land, 16; Accounts Payable, 21; Unearned Revenue, 22; Howe, Capital, 31; Howe, Withdrawals; 33; Service Revenue, 41; Salaries Expense, 51; and Rent Expense, 52.
3. Post the journal entries to four-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Assume the journal entries were recorded on page 5 of the journal.
4. Prepare the trial balance of James Howe, CPA, at April 30, 2017.

## Solution:

## Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Apr. 4	Cash	11	2,000	
	Accounts Receivable	12		2,000
	<i>Received cash from client on account</i>			
8	Accounts Receivable	12	5,400	
	Service Revenue	41		5,400
	<i>Performed tax services for client on account</i>			
13	Accounts Payable	21	3,300	
	Cash	11		3,300
	<i>Paid cash on account</i>			
14	Furniture	14	4,600	
	Accounts Payable	21		4,600
	<i>Purchased furniture on account</i>			

[illegible]

### Requirements 2 and 3

#### CASH

#### Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				10,000	
Apr. 4		J5	2,000		12,000	
Apr. 13		J5		3,300	8,700	
Apr. 19		J5	2,700		11,400	
Apr. 20		J5		4,000	7,400	
Apr. 21		J5	3,800		11,200	
Apr. 24		J5	1,400		12,600	
Apr. 27		J5		600	12,000	
Apr. 28		J5		1,000	11,000	

#### ACCOUNTS RECEIVABLE

#### Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				7,500	
Apr. 4		J5		2,000	5,500	
Apr. 8		J5	5,400		10,900	
Apr. 19		J5		2,700	8,200	

#### OFFICE SUPPLIES

#### Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				400	
Apr. 18		J5	1,000		1,400	

#### FURNITURE

#### Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 14		J5	4,600		4,600	

## AUTOMOBILE

Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 15		J5	10,000		10,000	

## LAND

Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				27,000	

## ACCOUNTS PAYABLE

Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					4,200
Apr. 13		J5	3,300			900
Apr. 14		J5		4,600		5,500
Apr. 18		J5		1000		6,500

## UNEARNED REVENUE

Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 24		J5		1,400		1,400

## HOWE, CAPITAL

Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					33,300
Apr. 15		J5		10,000		43,300

## HOWE, WITHDRAWALS

Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 20		J5	4,000		4,000	



## SERVICE REVENUE

Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31						10,800
Apr. 8		J5		5,400		16,200
Apr. 21		J5		3800		20,000

## SALARIES EXPENSE

Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31					2,500	
Apr. 28		J5	1,000		3,500	

## RENT EXPENSE

Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31					900	
Apr. 27		J5	600		1,500	

## Requirement 4

JAMES HOWE, CPA Trial Balance April 30, 2017			
Acct. No.	Account Title	Balance	
		Debit	Credit
11	Cash	\$ 11,000	
12	Accounts Receivable	8,200	
13	Office Supplies	1,400	
14	Furniture	4,600	
15	Automobile	10,000	
16	Land	27,000	
21	Accounts Payable		\$ 6,500
22	Unearned Revenue		1,400
31	Howe, Capital		43,300
33	Howe, Withdrawals	4,000	
41	Service Revenue		20,000
51	Salaries Expense	3,500	
52	Rent Expense	1500	
	Total	\$ 71,200	\$ 71,200

**P2-39B**

Prepare the corrected trial balance as of May 31, 2015. Journal entries are not required.

**Solution:**

LEARN FOR LIFE CHILD CARE Trial Balance May 31, 2017		
Account Title	Balance	
	Debit	Credit
Cash	\$ 10,500	
Accounts Receivable	15,900	
Office Supplies	2,100	
Prepaid Insurance	3,600	
Equipment	81,500	
Accounts Payable		\$ 4,700
Notes Payable		48,000
Emerald, Capital		54,000
Emerald, Withdrawals	2,700	
Service Revenue		15,700
Salaries Expense	4,600	
Rent Expense	900	
Advertising Expense	600	
Total	\$ 122,400	\$ 122,400

**Explanations:**

- Increase Cash by \$1,800.
- Increase Accounts Receivable by \$7,800 ( $\$3,900 \times 2$ ).
- Increase Office Supplies and Accounts Payable by \$1,200 each.
- Decrease Equipment by \$7,800 ( $\$89,300 - \$81,500$ ).
- Decrease Salaries Expense by \$500.
- Advertising Expense should have a debit balance of \$600.  
Decrease Cash by \$600.
- Emerald, Withdrawals should decrease by \$900 and Cash should increase by \$900 ( $\$1,000 - \$100$ ).
- Service Revenue should increase by \$4,200.
- Prepaid Insurance should increase by \$2,600 ( $\$1,300 \times 2$ ).

**P2-40B****Requirements**

1. Prepare the income statement for the month ended July 31, 2017.
2. Prepare the statement of retained earnings for the month ended July 31, 2017.  
The beginning balance of retained earnings was \$0 and the owner contributed
3. Prepare the balance sheet as of July 31, 2017.
4. Calculate the debt ratio as of July 31, 2017.

**Solution:****Requirement 1**

SARAH SILK, REGISTERED DIETICIAN Income Statement Month Ended July 31, 2017		
Revenues:		
Service Revenue		\$ 9,858
Expenses:		
Salaries Expense	\$ 1,300	
Rent Expense	800	
Utilities Expense	250	
Total Expenses		2,350
Net Income		\$ 7,508

## Requirement 2

SARAH SILK, REGISTERED DIETICIAN Statement of Owner's Equity Month Ended July 31, 2017	
Silk, Capital, July 1, 2017	\$ 0
Owner contribution	\$ 26,000
Net income for the month	\$ 7,508
	\$ 33,508
Owner withdrawal	(2,500)
Silk, Capital, July 31, 2017	\$ 31,008

## Requirements 3

SARAH SILK, REGISTERED DIETICIAN Balance Sheet July 31, 2017	
Assets	Liabilities
Cash \$ 30,000	Accounts Payable \$ 3,400
Accounts Receivable 9,700	Unearned Revenue 5,192
Office Supplies 2,200	Notes Payable 25,000
Prepaid Insurance 2,700	Total Liabilities \$ 33,592
Equipment 20,000	
	<b>Owner's Equity</b>
	Silk, Capital \$ 31,008
	Total Liabilities and
Total Assets \$ 64,600	Owner's Equity \$ 64,600

## Requirements 4

Debt ratio = Total liabilities / Total assets = \$33,529 / \$64,600 = 0.52 = 52%

**P2-41****Requirements**

1. Journalize the transactions, using the following accounts: Cash; Accounts Receivable; Office Supplies; Equipment; Furniture; Accounts Payable; Unearned Revenue; Daniels, Capital; Daniels, Withdrawals; Service Revenue; Rent Expense; and Utilities Expense. Explanations are not required.
2. Open a T-account for each of the accounts.
3. Post the journal entries to the T-accounts and calculate account balances. Formal posting references are not required.
4. Prepare a trial balance as of December 31, 2016.
5. Prepare the income statement of Davis Consulting for the month ended December 31, 2016.
6. Prepare the statement of owner's equity for the month ended December 31, 2016.
7. Prepare the balance sheet as of December 31, 2016.
8. Calculate the debt ratio for Daniels Consulting.

## Solution:

## Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Dec. 2	Cash		20,000	
	Daniels, Capital			20,000
2	Rent Expense		2000	
	Cash			2,000
3	Equipment		3,600	
	Cash			3,600
4	Furniture		3,000	
	Accounts Payable			3,000
5	Office Supplies		800	
	Accounts Payable			800
9	Accounts Receivable		2,500	
	Service Revenue			2,500
12	Utilities Expense		150	
	Cash			150
18	Cash		2,100	
	Service Revenue			2,100
21	Cash		2,400	
	Unearned Revenue			2,400
21	No entry needed			
26	Accounts Payable		200	
	Cash			200
28	Cash		400	
	Accounts Receivable			400

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Dec. 30	Daniels, Withdrawals		1,000	
	Cash			1,000

**Requirements 2 and 3**

Cash			
Dec. 2	20,000	2,000	Dec. 2
Dec. 18	2,100	3,600	Dec. 3
Dec. 21	2,400	150	Dec. 12
Dec. 28	400	200	Dec. 26
		1,000	Dec. 30
Balance	17,950		

Accounts Payable			
Dec. 26	200	3,000	Dec. 4
		800	Dec. 5
		3,600	Balance

Accounts Receivable			
Dec. 9	2,500	400	Dec. 28
Balance	2,100		

Unearned Revenue			
		2,400	Dec. 21
		2,400	Balance

Office Supplies			
Dec. 5	800		
Balance	800		

Daniels, Capital			
		20,000	Dec. 2
		20,000	Balance

Equipment			
Dec. 3	3,600		
Balance	3,600		

Daniels, Withdrawals			
Dec. 30	1,000		
Balance	1,000		



Furniture			
Dec. 4	3,000		
Balance	3,000		

Service Revenue			
		2,500	Dec. 9
		2,100	Dec. 18
		4,600	Balance

Rent Expense			
Dec. 2	2,000		
Balance	2,000		

Utilities Expense			
Dec. 12	150		
Balance	150		

#### Requirement 4

DANIELS CONSULTING Trial Balance December 31, 2016		
Account Title	Balance	
	Debit	Credit
Cash	\$17,950	
Accounts Receivable	2,100	
Office Supplies	800	
Equipment	3,600	
Furniture	3,000	
Accounts Payable		\$ 3,600
Unearned Revenue		2,400
Daniels, Capital		20,000
Daniels, Withdrawals	1,000	
Service Revenue		4,600
Rent Expense	2,000	
Utilities Expense	150	
Total	\$30,600	\$30,600

**Requirement 5**

<b>DANIELS CONSULTING</b>	
<b>Income Statement</b>	
<b>Month Ended December 31, 2016</b>	
Revenues:	
Service Revenue	\$ 4,600
Expenses:	
Rent Expense	\$ 2,000
Utilities Expense	150
Total Expenses	2,150
Net Income	<u>\$ 2,450</u>

**Requirement 6**

<b>DANIELS CONSULTING</b>	
<b>Statement of Owner's Equity</b>	
<b>Month Ended December 31, 2016</b>	
Daniels, Capital, December 1, 2016	\$ 0
Owner contribution	\$ 20,000
Net income for the month	\$ 2,450
	\$ 22,450
Owner withdrawals	(1,000)
Daniels, Capital, December 31, 2016	<u>\$ 21,450</u>

Requirement 7

<b>DANIELS CONSULTING</b> <b>Balance Sheet</b> <b>December 31, 2016</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 17,950	Accounts Payable	\$ 3,600
Accounts Receivable	2,100	Unearned Revenue	<u>2,400</u>
Office Supplies	800	Total Liabilities	6,000
Equipment	3,600		
Furniture	3,000		
		<b>Owner's Equity</b>	
		Daniels, Capital	21,450
		Total Liabilities and Owner's	
Total Assets	<u>\$ 27,450</u>	Equity	<u>\$ 27,450</u>

Requirement 8

Debt ratio = Total liabilities / Total assets = \$6,000 / \$27,450 = 0.22* = 22%
* rounded

## P2-42

**Requirements**

1. Journalize the transactions, using the following accounts: Cash; Accounts Receivable; Cleaning Supplies; Prepaid Rent; Prepaid Insurance; Equipment; Truck; Accounts Payable; Unearned Revenue; Notes Payable; Habib, Capital; Habib, Withdrawals; Service Revenue; Salaries Expense; Advertising Expense; and Utilities Expense. Explanations are not required.
2. Open a T-account for each account.
3. Post the journal entries to the T-accounts and calculate account balances. Formal posting references are not required.
4. Prepare a trial balance as of November 30, 2017.

**Solution:****Requirement 1**

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Nov. 1	Cash		3,500	
	Truck		7,000	
	Habib, Capital			10,500
2	Prepaid Rent		2,000	
	Cash			2,000
3	Prepaid Insurance		1,800	
	Cash			1,800
4	Cleaning Supplies		220	
	Accounts Payable			220
5	Equipment		2,000	
	Accounts Payable			2,000
7	Equipment		1,200	
	Cash			1,200
9	Accounts Receivable		3,800	
	Service Revenue			3,800

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Nov. 10	Cash		300	
	Accounts Receivable			300
15	Salaries Expense		350	
	Cash			350
16	Cash		12,000	
	Unearned Revenue			12,000
17	Cash		1000	
	Service Revenue			1,000
18	Utilities Expense		250	
	Accounts Payable			250
20	Cash		96,000	
	Notes Payable			96,000
21	Cash		900	
	Accounts Receivable			900
25	Accounts Payable		1,000	
	Cash			1,000
29	Advertising Expense		500	
	Cash			500
30	Habib, Withdrawals		200	
	Cash			200

## Requirements 2 and 3

Cash			
Nov. 1	35,000	2,000	Nov. 2
Nov. 10	300	1,800	Nov. 3
Nov. 16	12,000	1,200	Nov. 7
Nov. 17	1,000	350	Nov. 15
Nov. 20	96,000	1,000	Nov. 25
Nov. 21	900	500	Nov. 29
		200	Nov. 30
Balance	138,150		

Accounts Payable			
Nov. 25	1000	220	Nov. 4
		2,000	Nov. 5
		250	Nov. 18
		1,470	Balance

Accounts Receivable			
Nov. 9	3,800	300	Nov. 10
		900	Nov. 21
Balance	2,600		

Unearned Revenue			
		12,000	Nov. 16
		12,000	Balance

Cleaning Supplies			
Nov. 4	220		
Balance	220		

Notes Payable			
		96,000	Nov. 20
		96,000	Balance

Prepaid Rent			
Nov. 2	2,000		
Balance	2,000		

Habib, Capital			
		42,000	Nov. 1
		42,000	Balance

Prepaid Insurance			
Nov. 3	1,800		
Balance	1,800		

Habib, Withdrawals			
Nov. 30	200		
Balance	200		

Equipment			
Nov. 5	2,000		
Nov. 7	1,000		
Balance	3,000		

Service Revenue			
		3,800	Nov. 9
		1,000	Nov. 17
		4,800	Balance

Truck			
Nov. 1	7,000		
Balance	7,000		

Salaries Expense			
Nov. 15	350		
Balance	350		

Utilities Expense			
Nov. 18	250		
Balance	250		

Advertising Expense			
Nov. 29	500		
Balance	500		

## Requirement 4

CRYSTAL CLEAR CLEANING Trial Balance November 30, 2017		
Account Title	Balance	
	Debit	Credit
Cash	\$138,150	
Accounts Receivable	2,600	
Cleaning Supplies	220	
Prepaid Rent	2,000	
Prepaid Insurance	1,800	
Equipment	3,200	
Truck	7,000	
Accounts Payable		1,470
Unearned Revenue		12,000
Notes Payable		96,000
Habib, Capital		42,000
Habib, Withdrawals	200	
Service Revenue		4,800
Salaries Expense	350	
Advertising Expense	500	
Utilities Expense	250	
Total	\$ 156,270	\$ 156,270



Decision Case 2-1

Requirements

1. Open the following T-accounts: Cash; Accounts Receivable; Office Supplies; Accounts Payable; McChesney, Capital; Service Revenue; Salaries Expense; Rent Expense; and Advertising Expense.
2. Post the transactions directly to the accounts without using a journal. Record each transaction by letter. Calculate account balances.
3. Prepare a trial balance at June 30, 2016.
4. Compute the amount of net income or net loss for this first month of operations. Would you recommend that McChesney continue in business?

Solution:

Requirements 1 and 2

Cash			
a.	10,000	300	b.
f.	1,200	2,400	d.
Bal.	8,500		

Accounts Payable			
		700	c.
		700	Bal.

Accounts Receivable			
e.	8,800	1,200	f.
Bal.	7,600		

McChesney, Capital			
		10,000	a.
		10,000	Bal.

Office Supplies			
b.	300		
Bal.	300		

Service Revenue			
		8,800	e.
		8,800	Bal.

Rent Expense			
d.	1,000		
Bal.	1,000		

Salaries Expense			
d.	1,400		
Bal.	1,400		

Advertising Expense			
c.	700		
Bal.	700		

### Requirement 3

A-PLUS TRAVEL PLANNERS		
Trial Balance		
June 30, 2016		
Account Title	Balance	
	Debit	Credit
Cash	\$ 8,500	
Accounts Receivable	7,600	
Office Supplies	300	
Accounts Payable		\$ 700
McChesney, Capital		10,000
Service Revenue		8,800
Salaries Expense	1,400	
Rent Expense	1,000	
Advertising Expense	700	
Total	\$ 19,500	\$ 19,500

**Requirement 4**

Revenues:	\$ 8,800
Service Revenue	
Expenses:	\$ 1,400
Salaries Expense	1,000
Rent Expense	700
Advertising Expense	3,100
Total Expenses	<u>\$ 5,700</u>
Net Income	

McChesney should discontinue the business because net income falls below the target amount.

**Ethical Issue 2-1**

What is the ethical issue in this situation, if any? State why you approve or disapprove of Henson's management of Better Days Ahead's funds.

**Solution:**

The bank has a standing agreement with Better Days Ahead for overdrafts, so as long as transactions are compliant with terms of the agreement, there is no ethical issue. The exercise refers to Better Days Ahead managing funds "wisely." However, whether funds are managed wisely or not is a matter of prudent business management and not an ethical issue. Presumably if Better Days Ahead was exceeding the terms of the agreement, the bank would cancel the arrangement.

Some students may point out that the agreement was for times when donations were running low, whereas the reasons given for the overdraft are for expansion and fundraising. If this is interpreted to mean that Better Days Ahead is abusing the privilege according to the terms of the agreement, then there may be an ethical issue involved, but that is not made clear by the information given.

Students may approve of Henson's cash management if the arrangement is beneficial to Better Days Ahead, and thus helps them accomplish their charitable mission more effectively. Students may disapprove of Henson's cash management if (a) they feel it is "unwise" (poor business management), or (b) if they believe he is exceeding the terms of the agreement.

**Fraud Case 2-1****Requirements**

1. How did the change in the journal entries affect the net income of the company at year-end?
2. Who gained and who lost as a result of these actions?

**Solution:****Requirement 1**

By changing an expense to an asset, the total expenses will decrease and net income will increase.
--

**Requirement 2**

The CEO gained by earning a bonus, and the accounting manager may have gained by getting favorable treatment from the CEO. The shareholders of the company lost, because the company paid out the bonus under fraudulent conditions.

**Financial Statement Case 2-1****Requirement**

1. Calculate the debt ratio for Starbucks Corporation as of October 2, 2011.
2. How did the debt ratio for Starbucks Corporation compare to the debt ratio for Green Mountain Coffee Roasters, Inc.? Discuss.

**Solution:****Requirement 1**

Debt ratio = Total liabilities / Total assets
= \$7,034.4 (in millions) / \$11,516.7 (in millions)
= 0.611* = 61.1%
* rounded

**Requirement 2**

Starbucks debt ratio is significantly higher than Green Mountain (30.0%).

**Communication Activity 2-1**

In 35 words or fewer, explain the difference between a debit and a credit, and explain what the normal balance of the six account types is.

**Solution:**

Debits are on the left, credits are on the right. Normal balance for assets, expenses, and dividends is a debit. For liability, common stock, and revenue accounts, the normal balance is a credit.