CHAPTER 2

The Recording Process

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Exercises	Problems Set A	Problems Set B
1. Describe how accounts, debits, and credits are used to record business transactions.	1, 2, 3, 4, 5, 6	1, 2, 3, 4, 5	1, 2, 3, 4	1, 4	1, 4
2. State how a journal is used in the recording process and journalize transactions.	7, 8, 9, 10, 11	6, 7, 8, 9, 10, 11, 12	2, 5, 6, 7, 8, 9, 14, 16	1, 2, 3, 4, 5, 6, 7, 8, 11	1, 2, 3, 4, 5, 6, 7, 8, 11
3. Explain how a ledger helps in the recording process and post transactions.	12, 13, 14	13, 14, 15	2, 10, 11, 12, 13, 15, 16	4, 5, 6, 7, 8, 11	4, 5, 6, 7, 8, 11
4. Prepare a trial balance.	15, 16, 17, 18, 19, 20	16, 17, 18	2, 10, 12, 13, 14, 15, 16, 17, 18, 19	4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15	4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Perform transaction analysis and journalize transactions.	Simple	15-20
2A	Journalize transactions.	Simple	20-30
3A	Journalize transactions.	Simple	20-30
4A	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
5A	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
6A	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
7A	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
8A	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
9A	Prepare a trial balance.	Simple	25-35
10A	Prepare financial statements.	Simple	25-35
11A	Journalize transactions, post, and prepare trial balance.	Moderate	65-75
12A	Prepare financial statements.	Simple	25-35
13A	Prepare trial balance and financial statements.	Simple	35-45
14A	Analyze errors and effects on trial balance.	Moderate	25-35
15A	Prepare correct trial balance.	Complex	30-40
1B	Perform transaction analysis and journalize transactions.	Simple	15-20
2B	Journalize transactions.	Simple	20-30
3B	Journalize transactions.	Simple	20-30
4B	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
5B	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
6B	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
7B	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
8B	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
9B	Prepare a trial balance.	Simple	25-35
10B	Prepare financial statements.	Simple	25-35
11B	Journalize transactions, post, and prepare trial balance.	Moderate	65-75

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
12B	Prepare financial statements.	Simple	25-35
13B	Prepare trial balance and financial statements.	Simple	35-45
14B	Analyze errors and effects on trial balance.	Moderate	25-35
15B	Prepare correct trial balance.	Complex	30-40

BLOOM'S TAXONOMY TABLE

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

Study Objective	Knowledge	Comprehension	Application	Analysis	Syn-thesis	Evalu-ation
1. Describe how accounts, debits, and credits are used to record business transactions.	Q2-2 Q2-3 BE2-2 BE2-3 BE2-4 BE2-5 E2-1 E2-2	Q2-1 Q2-4 Q2-5 Q2-6 E2-3 E2-4	BE2-1 P2-1A P2-1B P2-4A P2-4B			
2. State how a journal is used in the recording process and journalize transactions.	Q2-8 Q2-10 BE2-6 E2-1 E2-2	Q2-7 Q2-9 Q2-11 BE2-7 BE2-8	BE2-9 BE2-10 BE2-11 BE2-12 E2-5 E2-6 E2-7 E2-8 E2-9 E2-14 E2-16 P2-1A P2-1B P2-2A P2-2B P2-3A P2-3B P2-4A P2-4B P2-5A P2-5B P2-6A P2-6B P2-7A P2-7B P2-8A P2-8B P2-11A P2-11B			
3. Explain how a ledger helps in the recording process and post transactions	Q2-12 E2-2 E2-11	Q2-13 Q2-14	BE2-13 E2-10 BE2-14 E2-12 BE2-15 E2-13 P2-4A E2-15 P2-5A E2-16 P2-6A P2-4B P2-7A P2-5B P2-8A P2-6B P2-11A P2-7B P2-8B P2-11B			
4. Prepare a trial balance.	Q2-15 E2-2	Q2-16 Q2-17 Q2-18 Q2-19	Q2-20 E2-12 BE2-16 E2-13 BE2-17 E2-15 BE2-18 E2-16 E2-10 E2-17 E2-14 E2-19 P2-4A P2-4B P2-5A P2-5B P2-6A P2-6B P2-7A P2-7B P2-8A P2-8B P2-9A P2-9B P2-10A P2-10B P2-11A P2-11B P2-12A P2-12B P2-13A P2-13B	Q2-19 E2-18 P2-14A P2-14B P2-15A P2-15B		

Study Objective	Knowledge	Comprehension	Application		Analysis	Syn-thesis	Evalu-ation
Broadening Your Perspective		BYP2-1 BYP2-4	BYP2-2 BYP2-3 BYP2-5 BYP2-6				

ANSWERS TO QUESTIONS

1. An account is an accounting record of increases and decreases in a specific asset, liability, or owner's equity item. A company will need, at a minimum, two accounts to represent an asset account and either a liability or owner's equity account. However, companies usually have many accounts since they will have different types of assets, liabilities, and owner's equity items, including drawings, revenues, and expenses.

2. Debiting an account refers to the practice of entering an amount on the debit (or left) side of an account. Crediting an account signifies entering an amount on the credit (or right) side of an account.

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

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

4. Dmitri is incorrect because debit and credit don't mean increase or decrease. Debit means left side and credit means right side. Different types of accounts will increase with debits versus credits. Accounts on the left side of the accounting equation (assets) will increase with debits. Accounts on the right side of the accounting equation (liabilities and owner's equity) will increase with credits except for expenses and drawings which are decreases to owner's equity and therefore are increased with debits. This way, the accounting equation remains in balance.

5. The normal balance of owner's capital is a credit. The account is increased by credits and decreased by debits. Both drawings and expenses reduce owner's equity. Because of this, their normal balance is a debit. These two accounts are increased by debits, which end up reducing owner's equity.

6. Gustave is incorrect. The double-entry system merely records the effect of a transaction on the two (or more) accounts affected. A transaction is not recorded twice; it is recorded once, with a dual (or multiple) effect on the accounting equation.

QUESTIONS (Continued)

7. An event or transaction is recorded only if it causes the company's financial position (assets, liabilities, and/or owner's equity) to change. In some events, nothing is currently obtained nor given up so nothing is recorded. The event may lead to a future transaction that changes the company's financial position but is not recorded until that time. An example of an event that is not currently recorded but will result in a future transaction is the signing of a lease.

8. The three basic steps in the recording process are analyze, journalize, and post.

9. After it is determined that a transaction should be recorded because it does cause the company's financial position to change, analyzing a business transaction involves: identifying (1) the type of accounts involved, (2) whether the accounts are increased or decreased, and (3) whether the accounts need to be debited or credited.

10. A simple journal entry refers to an entry that affects only two accounts, a debit to one account and a credit to another account. A compound entry refers to an entry that affects three or more accounts. To ensure the accounting equation remains balanced, the totals of the debit amounts and credit amounts must be equal.

11. The accounts that could be credited are Revenue, Accounts Receivable, and Unearned Revenue. Revenue would be credited for a cash sale. Accounts Receivable would be credited when a customer makes a payment on account for revenue that was previously earned and recorded. Unearned Revenue would be credited when a customer pays in advance.

12. The advantages of recording the individual transactions in a journal before posting to the ledger are:
    1. The journal discloses in one place the complete effect of a transaction.
    2. The journal provides a chronological record of all transactions.
    3. The journal helps to prevent or locate errors, because the debit and credit amounts for each entry can be readily compared.

QUESTIONS (Continued)

13. The T account is often used in accounting textbooks for illustrative purposes. It shows only the debit and credit side of a ledger account. It is faster to create and more efficient for analyzing the impact of specific transactions Businesses however usually use a "standard" form of account. This form shows a debit and credit column but also includes additional information such as the balance of the account (to show the account balance after every transaction), the date, explanation, and reference. This additional information is useful in preventing and detecting errors.

14. The entire group of accounts and related transactional details maintained by a company, including all the asset, liability, and owners' equity accounts, is referred to collectively as the ledger. A chart of accounts lists only the account names and account numbers that identify their location in the ledger. The numbering system used to identify the accounts usually starts with the balance sheet accounts and follows with the income statement accounts. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and identify their location in the ledger.

15. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove the mathematical equality of debits and credits, after all journalized transactions have been posted. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.

16. Since accounts are given an account number in the chart of accounts, the trial balance is prepared in numerical order. Accounts are generally listed and assigned account numbers in the chart of accounts using the following numerical sequence: assets, liabilities, owner's equity, drawings, revenues, and lastly expenses. This convention makes is easy for anyone to find an account either in the chart of accounts or in a trial balance.

17. The sequence in which the first four steps in the accounting process does matter in properly accounting for transactions. Unless business transactions are first analyzed, it is possible for the transaction to be misinterpreted or omitted from the accounting process. Once analyzed, the transactions need to be journalized in a journal, after which the transactions are posted to the general ledger in order to arrive at updated balances which then appear in a trial balance.

18. The company should use "December 31" on its trial balance. The trial balance simply shows the balance in the accounts at a specific point in time.

QUESTIONS (Continued)

19. (a) The trial balance would not balance, because there were two debits for $750 and no credits. The debits do not equal the credits. Accounts Payable should have been credited, not debited, for $750.
    (b) The trial balance would balance, because the debits ($1,000) and credits ($1,000) are equal. But both the Service Revenue and the Accounts Receivable balances would be incorrect as the credit should have been recorded to Accounts Receivable, not Service Revenue.
    (c) The trial balance would not balance, because the debit to Rent Expense for $650 is not equal to the credit to Cash for $560. The debit side of the trial balance is overstated by $90, because either the Rent Expense is overstated by $90 (Rent Expense should have been debited for $560), or cash is overstated by $90 (the payment should have been credited for $650).

20. The following are three types of errors that could cause the trial balance to not balance, in spite of the fact that the ledger accounts have correct balances.
    1. When transcribing amounts from the ledger to the trial balance, an account balance was recorded at an incorrect amount or omitted.
    2. Balances in the trial balance did not appear in the correct column.
    3. The addition of the trial balance columns was not done correctly.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2-1

(a) **$7,500 + $16,700 – $15,400 = $8,800**

(b) **$8,800 + $13,100 – $4,700 = $17,200**

(c) **$3,800 – $6,400 + $6,800 = $4,200**

(d) **$3,800 + $7,700 – $5,900 = $5,600**

(e) **$100,000 – $24,000 + $45,000 = $121,000**

(f) **$149,000 – $121,000 + $27,000 = $55,000**

BRIEF EXERCISE 2-2

Account	Type of Account	Normal Balance
1. Prepaid Insurance	Asset	Debit
2. Accounts Payable	Liability	Credit
3. Land	Asset	Debit
4. Service Revenue	Owner's Equity	Credit
5. Utilities Expense	Owner's Equity	Debit
6. Owner's Capital	Owner's Equity	Credit
7. Equipment	Asset	Debit
8. Salaries Expense	Owner's Equity	Debit
9. Supplies	Asset	Debit
10. Unearned Revenue	Liability	Credit

BRIEF EXERCISE 2-3

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

BRIEF EXERCISE 2-4

Cash

Dr.	Cr.
500	8,720
800	495
8,920	6,750
5,355	
10,435	
Sub. 26,010	15,965
Bal. 10,045	

Service Revenue

Dr.	Cr.
	9,500
	3,200
	4,500
	1,050
	Bal. 18,250

Accounts Payable

Dr.	Cr.
1,720	6,740
495	2,500
6,750	
Sub. 8,965	9,240
	Bal. 275

Salaries Expense

Dr.	Cr.
4,550	
550	
3,750	
425	
Bal. 9,275	

BRIEF EXERCISE 2-5

		(a) Normal Balance	(b) Debit Effect	(c) Credit Effect
1.	Accounts Payable	Credit	Decrease	Increase
2.	Supplies	Debit	Increase	Decrease
3.	J. Takamoto, Capital	Credit	Decrease	Increase
4.	J. Takamoto, Drawings	Debit	Increase	Decrease
5.	Prepaid Rent	Debit	Increase	Decrease
6.	Utilities Expense	Debit	Increase	Decrease
7.	Service Revenue	Credit	Decrease	Increase
8.	Unearned Revenue	Credit	Decrease	Increase

BRIEF EXERCISE 2-6

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

BRIEF EXERCISE 2-7

Transaction 1: (Solution provided in text.)

Basic Analysis	**The asset account Cash is decreased by $439. The asset account Supplies is increased by $439.**
Debit/Credit Analysis	**Debits increase assets: debit Supplies $439. Credits decrease assets: credit Cash $439.**

Transaction 2:

Basic Analysis	**The asset account Accounts Receivable is increased by $1,020. The revenue account Service Revenue is increased by $1,020.**
Debit/Credit Analysis	**Debits increase assets: debit Accounts Receivable $1,020. Credits increase revenues: credit Service Revenue $1,020.**

Transaction 3:

Basic Analysis	**The asset account Equipment is increased by $2,230. The liability account Accounts Payable is increased by $2,230.**
Debit/Credit Analysis	**Debits increase assets: debit Equipment $2,230. Credits increase liabilities: credit Accounts Payable $2,230.**

Transaction 4:

Basic Analysis	**The expense account Utilities Expense is increased by $293. The asset account Cash is decreased by $293.**
Debit/Credit Analysis	**Debits increase expenses: debit Utilities Expense $293. Credits decrease assets: credit Cash $293.**

BRIEF EXERCISE 2-7 (Continued)

Transaction 5:

Basic Analysis	**The asset account Cash is increased by $750. The revenue account Service Revenue is increased by $750.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $750. Credits increase revenues: credit Service Revenue $750.**

Transaction 6:

Basic Analysis	**The asset account Cash is increased by $7,100. The liability account Unearned Revenue is increased by $7,100.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $7,100. Credits increase liabilities: credit Unearned Revenue $7,100.**

BRIEF EXERCISE 2-8

	Account Debited			Account Credited		
Transaction	(a) Basic Type	(b) Specific Account	(c) Effect	(a) Basic Type	(b) Specific Account	(c) Effect
Aug. 1*	Asset	Cash	+ $17,970	Owner's Equity	B. Fleming, Capital	+ $17,970
4	Asset	Prepaid Rent	+ $4,720	Asset	Cash	– $4,720
5	Asset	Supplies	+ $625	Liability	Accounts Payable	+ $625
6	Asset	Cash	+ $560	Owner's Equity	Service Revenue	+ $560
17	Asset	Accounts Receivable	+ $1,210	Owner's Equity	Service Revenue	+ $1,210
27	Owner's Equity	Salaries Expense	+ $980	Asset	Cash	– $980
29	Owner's Equity	B. Fleming, Drawings	+ $720	Asset	Cash	– $720

***Solution provided in text.**

BRIEF EXERCISE 2-9

June 1 transaction: (Soltuion provided in text)

Basic Analysis	**The asset account Cash is increased by $8,430. The owner's equity account T. Pridham, Capital is increased by $8,430.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $8,430. Credits increase owner's equity: credit T. Pridham, Capital $8,430.**
Journal Entry	**June 1 Cash 8,430 T. Pridham,Capital 8,430 Invested cash in business.**

June 2 transaction:

Basic Analysis	**The asset account Equipment is increased by $2,620. The liability account Accounts Payable is increased by $2,620.**
Debit/Credit Analysis	**Debits increase assets: debit Equipment $2,620. Credits increase liabilities: credit Accounts Payable $2,620.**
Journal Entry	**June 2 Equipment 2,620 Accounts Payable 2,620 Purchased equipment on account.**

June 5 transaction:

Basic Analysis	**An accounting transaction has not occurred. A debit/credit analysis is not needed because there is no accounting entry.**

BRIEF EXERCISE 2-9 (Continued)

June 17 transaction:

Basic Analysis	**The asset account Accounts Receivable is increased by $2,500. The revenue account Service Revenue is increased by $2,500.**
Debit/Credit Analysis	**Debits increase assets: debit Accounts Receivable $2,500. Credits increase revenues: credit Service Revenue $2,500.**
Journal Entry	**June 17 Accounts Receivable 2,500 Service Revenue 2,500 Performed services on account for R. Windl.**

June 27 transaction:

Basic Analysis	**The asset account Cash is increased by $1,190. The asset account Accounts Receivable is decreased by $1,190.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $1,190. Credits decrease assets: credit Accounts Receivable $1,190.**
Journal Entry	**June 27 Cash 1,190 Accounts Receivable 1,190 Collected cash on account from R. Windl.**

BRIEF EXERCISE 2-10

Oct.	1	Cash	30,000	
		L. Berge, Capital		30,000
	2	Rent Expense	700	
		Cash		700
	3	Equipment	2,800	
		Accounts Payable		2,800
	6	Accounts Receivable	4,400	
		Service Revenue		4,400
	27	Accounts Payable	1,100	
		Cash		1,100
	30	Utilities Expense	130	
		Accounts Payable		130

BRIEF EXERCISE 2-11

Aug.	31	Supplies	439	
		Cash		439
	31	Accounts Receivable	1,020	
		Service Revenue		1,020
	31	Equipment	2,230	
		Accounts Payable		2,230
	31	Utilities Expense	293	
		Cash		293
	31	Cash	750	
		Service Revenue		750
	31	Cash	7,100	
		Unearned Revenue		7,100

BRIEF EXERCISE 2-12

Aug	**1**	**Cash**	**17,970**	
		B. Fleming, Capital		**17,970**
	4	**Prepaid Rent**	**4,720**	
		Cash		**4,720**
	5	**Supplies**	**625**	
		Accounts Payable		**625**
	6	**Cash**	**560**	
		Service Revenue		**560**
	17	**Accounts Receivable**	**1,210**	
		Service Revenue		**1,210**
	27	**Salaries Expense**	**980**	
		Cash		**980**
	29	**B. Fleming, Drawings**	**720**	
		Cash		**720**

BRIEF EXERCISE 2-13

Cash

Aug. 1	17,970	Aug. 4	4,720
6	560	27	980
		29	720
Bal.	12,110		

B. Fleming, Capital

		Aug. 1	17,970
		Bal.	17,970

Accounts Receivable

Aug. 17	1,210		
Bal.	1,210		

B. Fleming, Drawings

Aug. 29	720		
Bal.	720		

Prepaid Rent

Aug. 4	4,720		
Bal.	4,720		

Service Revenue

		Aug. 6	560
		17	1,210
		Bal.	1,770

Supplies

Aug. 5	625		
Bal.	625		

Salaries Expense

Aug. 27	980		
Bal.	980		

Accounts Payable

		Aug. 5	625
		Bal.	625

BRIEF EXERCISE 2-14

Cash

Apr. 1	1,600	Apr. 16	700
3	3,400	20	250
Bal.	4,050		

BRIEF EXERCISE 2-15

Cash

Sept. 4	2,400		
10	3,000		
28	1,325		
Sept. 30 Bal.	6,725		

Accounts Receivable

Sept. 2	4,400	Sept. 4	2,400
		28	1,325
Sept. 30 Bal.	675		

Service Revenue

		Sept. 2	4,400
		10	3,000
		Sept.30 Bal.	7,400

BRIEF EXERCISE 2-16

AMARO COMPANY
Trial Balance
June 30, 2017

	Debit	Credit
Cash	$5,800	
Accounts receivable	3,000	
Equipment	17,000	
Accounts payable		$ 8,100
Owner's capital		15,000
Owner's drawings	1,200	
Service revenue		10,000
Rent expense	1,000	
Salaries expense	5,100	
	$33,100	$33,100

BRIEF EXERCISE 2-17

PETTIPAS COMPANY
Trial Balance
April 30, 2017

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

BRIEF EXERCISE 2-18

1. **The Prepaid insurance balance was in the wrong column. Assets have a normal debit balance. When this account is moved to the debit column, the new total in the debit column will be $46,200 ($42,700 + $3,500) and the new total in the credit column will be $47,100 ($50,600 – $3,500).**

2. **The trial balance is now out of balance by $900 ($46,200 – $47,100). The transposition error in L. Bourque, Capital account is the cause of the $900 difference. If the $15,400 balance in that account is transposed to $14,500 this will reduce the total credits by $900 and the trial balance will now balance. See revised trial balance below:**

BOURQUE COMPANY
Trial Balance
December 31, 2017

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

SOLUTIONS TO EXERCISES

EXERCISE 2-1

1. **False. An account is an accounting record of a specific asset, liability, or owner's equity *item*.**

2. **False. An account shows increases and decreases in the item it relates to.**

3. **False. Each asset, liability, and owner's equity item has a separate account.**

4. **False*. An account has a left, or debit side, and a right, or credit side.***

5. **True.**

EXERCISE 2-2

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

EXERCISE 2-3

(a)

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

***Solution provided in text.**

(b)

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

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

EXERCISE 2-4

	Account Debited			Account Credited		
Date	(a) Basic Type	(b) Specific Account	(c) Effect	(a) Basic Type	(b) Specific Account	(c) Effect
Mar. 5	Asset*	Cash	+ $10,220	Owner's Equity	J. MacKenzie, Capital	+$10,220
7	Owner's Equity	Advertising Expense	+ $350	Asset	Cash	– $350
9	Asset	Supplies	+ $1,050	Liability	Accounts Payable	+ $1,050
11	Asset	Vehicles	+ $8,770	Asset	Cash	– $8,770
13	Asset	Accounts Receivable	+ $1,520	Owner's Equity	Service Revenue	+ $1,520
25	Asset	Cash	+ $10,880	Liability	Notes Payable	+$10,880
26	Asset	Cash	+ $1,140	Asset	Accounts Receivable	– $1,140
29	Liability	Accounts Payable	– $1,050	Asset	Cash	– $1,050
30	Asset	Cash	+ $800	Liability	Unearned Revenue	+ $800
31	Owner's Equity	J. MacKenzie, Drawings	+ $1,720	Asset	Cash	– $1,720

***Solution provided in text.**

EXERCISE 2-5

Mar.	5	Cash	10,220	
		J. MacKenzie, Capital		10,220
	7	Advertising Expense	350	
		Cash		350
	9	Supplies	1,050	
		Accounts Payable		1,050
	11	Vehicles	8,770	
		Cash		8,770
	13	Accounts Receivable	1,520	
		Service Revenue		1,520
	25	Cash	10,880	
		Notes Payable		10,880
	26	Cash	1,140	
		Accounts Receivable		1,140
	29	Accounts Payable	1,050	
		Cash		1,050
	30	Cash	800	
		Unearned Revenue		800
	31	J. MacKenzie, Drawings	1,720	
		Cash		1,720

EXERCISE 2-6

Transaction 1:

Basic Analysis	**The expense account Rent Expense is increased by $550. The asset account Cash is decreased by $550.**
Debit/Credit Analysis	**Debits increase expenses: debit Rent Expense $550. Credits decrease assets: credit Cash $550.**
Journal Entry	**June 1 Rent Expense 550 Cash 550 Paid June rent.**

Transaction 2:

Basic Analysis	**The expense account Insurance Expense is increased by $175. The asset account Cash is decreased by $175.**
Debit/Credit Analysis	**Debits increase expenses: debit Insurance Expense $175. Credits decrease assets: credit Cash $175.**
Journal Entry	**June 2 Insurance Expense 175 Cash 175 Paid one month of insurance.**

Transaction 3:

Basic Analysis	**The asset account Cash is increased by $1,255. The asset account Accounts Receivable is decreased by $1,255.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $1,255. Credits decrease assets: credit Accounts Receivable $1,255.**
Journal Entry	**June 5 Cash 1,255 Accounts Receivable 1,255 Collected cash on account.**

EXERCISE 2-6 (Continued)

Transaction 4:

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

Transaction 5:

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

Transaction 6:

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

EXERCISE 2-6 (Continued)

Transaction 7:

Basic Analysis	**The asset account Cash is increased by $1,000. The liability account Unearned Revenue is increased by $1,000.**
Debit/Credit Analysis	**Debits increase assets: debit Cash $1,000. Credits increase liabilities: credit Unearned Revenue $1,000.**
Journal Entry	**June 19 Cash 1,000** **Unearned Revenue 1,000** **Received advance from J. Dupuis for future services.**

Transaction 8:

Basic Analysis	**The asset account Equipment is increased by $1,575. The liability account Accounts Payable is increased by $1,575.**
Debit/Credit Analysis	**Debits increase assets: debit Equipment $1,575. Credits increase liabilities: credit Accounts Payable $1,575.**
Journal Entry	**June 29 Equipment 1,575** **Accounts Payable 1,575** **Purchased equipment on account.**

Transaction 9:

Basic Analysis	**The expense account Salaries Expense is increased by $850. The asset account Cash is decreased by $850.**
Debit/Credit Analysis	**Debits increase expenses: debit Salaries Expense $850.** **Credits decrease assets: credit Cash $850.**
Journal Entry	**June 30 Salaries Expense 850** **Cash 850** **Paid employee.**

EXERCISE 2-6 (Continued)

Transaction 10:

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

EXERCISE 2-7

June	1	Rent Expense	550	
		Cash		550
	2	Insurance Expense	175	
		Cash		175
	5	Cash	1,255	
		Accounts Receivable		1,255
	14	Accounts Payable	675	
		Cash		675
	17	Accounts Receivable	1,420	
		Service Revenue		1,420
	19	Cash	1,000	
		Unearned Revenue		1,000
	29	Equipment	1,575	
		Accounts Payable		1,575
	30	Salaries Expense	850	
		Cash		850
	30	D. Bratt, Drawings	1,250	
		Cash		1,250

EXERCISE 2-8

GENERAL JOURNAL

Trans.	Account Titles	Debit	Credit
1.	Cash	1,820	
	Service Revenue		1,820
2.	Rent Expense	1,095	
	Cash		1,095
3.	Supplies	450	
	Accounts Payable		450
4.	Accounts Receivable	2,105	
	Service Revenue		2,105
5.	Cash	1,225	
	Accounts Receivable		1,225
6.	Cash	7,960	
	Unearned Revenue		7,960
7.	Prepaid Advertising	8,120	
	Cash		8,120
8.	Accounts Payable	450	
	Cash		450
9.	S. Beaulieu, Drawings	2,800	
	Cash		2,800

EXERCISE 2-9

GENERAL JOURNAL

Date		Account Titles	Debit	Credit
June	1	Cash	13,430	
		Equipment	3,490	
		S. Polland, Capital		16,920
	2	Prepaid Insurance	1,420	
		Cash		1,420
	3	Equipment	4,580	
		Cash		930
		Notes Payable		3,650
	10	Cash	220	
		Service Revenue		220
	16	Accounts Receivable	8,000	
		Service Revenue		8,000
	27	Advertising Expense	650	
		Cash		650
	29	Telephone Expense	80	
		Accounts Payable		80
	30	Salaries Expense	1,830	
		Cash		1,830
	30	Cash	8,000	
		Accounts Receivable		8,000

EXERCISE 2-10
(a) and (b)

Cash

June 1	13,430	June 2	1,420
10	220	3	930
30	8,000	27	650
		30	1,830
June30Bal.	16,820		

S. Polland, Capital

		June 1	16,920
		June30Bal.	16,920

Accounts Receivable

June 16	8,000	June 30	8,000
June 30 Bal.	0		

Service Revenue

		June10	220
		16	8,000
		June30 Bal.	8,220

Prepaid Insurance

June 2	1,420		
June 30Bal.	1,420		

Equipment

June 1	3,490		
3	4,580		
June30 Bal.	8,070		

Salaries Expense

June30	1,830		
June30Bal.	1,830		

Notes Payable

		June 3	3,650
		June30 Bal	3,650

Advertising Expense

June 27	650		
June 30 Bal.	650		

Accounts Payable

		June29	80
		June30 Bal.	80

Telephone Expense

June29	80		
June 30 Bal.	80		

EXERCISE 2-10 (Continued)

(b)

POLLAND REAL ESTATE AGENCY
Trial Balance
June 30, 2017

	Debit	Credit
Cash	$16,820	
Prepaid insurance	1,420	
Equipment	8,070	
Accounts payable		$ 80
Notes payable		3,650
S. Polland, capital		16,920
Service revenue		8,220
Salaries expense	1,830	
Advertising expense	650	
Telephone expense	80	
	$28,870	$28,870

EXERCISE 2-11

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

EXERCISE 2-12

(a) and (b)

Cash

Sept. 1	17,400	(2)	700
(1)	1,200	(3)	200
(4)	1,000		
Sept.30Bal.	18,700		

Accounts Payable

		Sept. 1	1,000
		(6)	1,000
(3)	200		
		Sept.30 Bal.	1,800

Accounts Receivable

Sept. 1	2,000	(4)	1,000
Sept. 30 Bal.	1,000		

Unearned Service Revenue

(5)	1,200	Sept. 1	1,600
		Sept.30Bal.	400

Supplies

Sept. 1	1,900		
(6)	1,000		
Sept. 30 Bal.	2,900		

Owner's Capital

		Sept. 1	16,000
		Sept.30Bal.	16,000

Salaries Expense

Sept. 1	1,400		
(2)	700		
Sept.30Bal.	2,100		

Service Revenue

		Sept. 1	4,100
		(1)	1,200
		(5)	1,200
		Sept. 30Bal.	6,500

EXERCISE 2-12 (Continued)

(c)

DEPOT COMPANY
Trial Balance
September 30, 2017

	Debit	Credit
Cash	$18,700	
Accounts receivable	1,000	
Supplies	2,900	
Accounts payable		$ 1,800
Unearned revenue		400
Owner's capital		16,000
Service revenue		6,500
Salaries expense	2,100	
	$24,700	$24,700

EXERCISE 2-13

(a)

Cash

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

J. Feldman, Capital

		Aug. 1	5,000
		Aug. 31Bal.	5,000

Accounts Receivable

Aug. 25	1,700	Aug. 31	900
Aug. 31 Bal.	800		

Service Revenue

		Aug.10	2,600
		25	1,700
		Aug.31Bal.	4,300

Equipment

Aug. 12	5,000		
Aug. 31Bal.	5,000		

Notes Payable

		Aug. 12	2,700
		Aug.31 Bal	2,700

(b)

JUNE FELDMAN, INVESTMENT BROKER
Trial Balance
August 31, 2017

	Debit	Credit
Cash	$6,200	
Accounts receivable	800	
Equipment	5,000	
Notes payable		$ 2,700
J. Feldman, capital		5,000
Service revenue		4,300
	$12,000	$12,000

EXERCISE 2-14

(a) GENERAL JOURNAL J1

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

EXERCISE 2-14 (Continued)

(a) (Continued)

GENERAL JOURNAL **J1**

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

EXERCISE 2-14 (Continued)

(b)

FORTIN CO.
Trial Balance
October 31, 2017

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

EXERCISE 2-15

(a) and (b)

Cash

July 31	8,800	Aug. 1	1,200
Aug. 12	2,400	10	420
31	5,910	25	2,250
		30	540
		31	4,770
Aug.31 Bal.	7,930		

L. Meche, Capital

		July 31	15,000
		Aug. 31 Bal.	15,000

Accounts Receivable

July 31	2,750	Aug. 12	2,400
Aug. 31	2,550		
Aug. 31 Bal.	2,900		

L. Meche, Drawings

July 31	5,125		
Aug. 31	4,770		
Aug.31Bal.	9,895		

Supplies

July 31	585		
Aug.31 Bal.	585		

Fees Earned

		July 31	10,410
		Aug. 31	8,460
		Aug.31Bal.	18,870

Equipment

July 31	15,550		
Aug.31Bal.	15,550		

Rent Expense

July 31	1,200		
Aug. 1	1,200		
Aug.31 Bal.	2,400		

Notes Payable

Aug. 30	500	July 31	10,000
		Aug. 31 Bal.	9,500

Salaries Expense

July 31	2,250		
Aug. 25	2,250		
Aug.31 Bal.	4,500		

Accounts Payable

Aug. 10	420	July 31	850
		Aug. 31 Bal.	430

Interest Expense

Aug.30	40		
Aug.31 Bal.	40		

EXERCISE 2-15 (Continued)

(c)

LEE MECHE, MD
Trial Balance
August 31, 2017

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

EXERCISE 2-16

(a)

GENERAL JOURNAL **J1**

Date		Account Titles	Debit	Credit
July	2	Rent Expense	1,060	
		Cash		1,060
	4	Supplies	790	
		Accounts Payable		790
	15	Accounts Payable	680	
		Cash		680
	31	Salaries expense	2,420	
		Cash		2,420
	31	Cash	9,940	
		Accounts Receivable	400	
		Service Revenue		10,340

(b) and (c)

Cash

June 30	5,820	July 2	1,060
31	9,940	15	680
		31	2,420
July31 Bal.	11,600		

Accounts Payable

		June 30	680
		July 4	790
July 15	680		
		July 31	Bal.790

Accounts Receivable

June 30	400		
July 31 Bal.	400		

Notes Payable

		June 30	50,020
		July 31Bal.	50,020

EXERCISE 2-16 (Continued)

(b) and (c) (Continued)

Supplies

June 30	1,180	
July 4	790	
July 31 Bal.	1,970	

S. Ahuja, Capital

	June 30	21,290
	July31Bal.	21,290

Equipment

June 30	64,990	
July31Bal.	64,990	

Service Revenue

	July 31	10,340
	July 31Bal.	10,340

Rent Expense

July 2	1,060	
July31Bal.	1,060	

Salaries Expense

July 31	2,420	
July31Bal.	2,420	

(d)

AHUJA DENTAL SERVICES
Trial Balance
July 31, 2017

	Debit	Credit
Cash	$11,600	
Accounts receivable	400	
Supplies	1,970	
Equipment	64,990	
Notes payable		$50,020
Accounts payable		790
S. Ahuja, capital		21,290
Service revenue		10,340
Rent expense	1,060	
Salaries expense	2,420	
	$82,440	$82,440

EXERCISE 2-17

(a)

O'NEILL'S PHYCHOLOGICAL SERVICES
Trial Balance
July 31, 2017

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

This assumes notes payable are repayable very quickly.

EXERCISE 2-17 (Continued)

(b)

O'NEILL'S PSYCHOLOGICAL SERVICES
Income Statement
Year Ended July 31, 2017

Revenues		
Service revenue		$96,180
Expenses		
Rent expense	$10,880	
Salaries expense	45,540	
Supplies expense	5,960	
Total expenses		62,380
Profit		$33,800

O'NEILL'S PSYCHOLOGICAL SERVICES
Statement of Owner's Equity
Year Ended July 31, 2017

T. O'Neill, capital, August 1, 2016	$64,340
Add: Profit	33,800
	98,140
Less: Drawings	57,980
T. O'Neill, capital, July 31, 2017	$40,160

EXERCISE 2-17 (Continued)

(b) (Continued)

O'NEILL'S PSYCHOLOGICAL SERVICES
Balance Sheet
July 31, 2017

Assets

Cash	$ 6,470
Accounts receivable	7,340
Supplies	790
Equipment	58,900
Total assets	$73,500

Liabilities and Owner's Equity

Liabilities	
Notes payable	$22,960
Accounts payable	9,030
Unearned revenue	1,350
Total liabilities	33,340
Owner's Equity	
T. O'Neill, capital	40,160
Total liabilities and owner's equity	$73,500

EXERCISE 2-18

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

***Solution provided in text.**

EXERCISE 2-19

ROYAL MOUNTAIN TOURS
Trial Balance
March 31, 2017

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

SOLUTIONS TO PROBLEMS

PROBLEM 2-1A

(a)

	Account Debited			Account Credited		
	(1)	(2)	(3)	(1)	(2)	(3)
Trans-action	Basic Type	Specific Account	Effect	Basic Type	Specific Account	Effect
Apr. 1*	Asset	Cash	+ $12,800	Owner's Equity	N. Dhaliwal, Capital	+ $12,800
2	Asset	Equipment	+ $5,000	Liability	Accounts Payable	+$5,000
2	Owner's Equity	Insurance Expense	+ $134	Asset	Cash	– $134
2	Asset	Supplies	+ $590	Asset	Cash	– $590
7	Owner's Equity	Advertising Expense	+ $600	Asset	Cash	– $600
8	Asset	Cash	+ $630	Owner's Equity	Service Revenue	+ $630

PROBLEM 2-1A (Continued)

(a) (Continued)

	Account Debited			Account Credited		
	(1)	(2)	(3)	(1)	(2)	(3)
Trans-action	Basic Type	Specific Account	Effect	Basic Type	Specific Account	Effect
10	No transaction at this point in time (see Apr. 28).					
25	Owner's Equity	N. Dhaliwal, Drawings	+ $960	Asset	Cash	– $960
28	Asset	Cash	+ $1,270	Owner's Equity	Service Revenue	+ $1,270
29	Asset	Cash	+ $1,800	Liability	Unearned Revenue	+ $1,800
30	Liability	Accounts Payable	– $5,000	Asset	Cash	– $5,000

***Solution provided in text.**

PROBLEM 2-1A (Continued)

(b) GENERAL JOURNAL

Date		Account Titles	Debit	Credit
Apr.	1	Cash	12,800	
		N. Dhaliwal, Capital		12,800
	2	Equipment	5,000	
		Accounts Payable		5,000
	2	Insurance Expense	134	
		Cash		134
	2	Supplies	590	
		Cash		590
	7	Advertising Expense	600	
		Cash		600
	8	Cash	630	
		Service Revenue		630
	10	No transaction at this time.		
	25	N. Dhaliwal, Drawings	960	
		Cash		960
	28	Cash	1,270	
		Service Revenue		1,270
	29	Cash	1,800	
		Unearned Revenue		1,800
	30	Accounts Payable	5,000	
		Cash		5,000

PROBLEM 2-1A (Continued)

Taking It Further

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

PROBLEM 2-2A

GENERAL JOURNAL

Date		Account Titles	Debit	Credit
May	1	Cash	73,800	
		A. Mawani, Capital		73,800
	2	Land	108,500	
		Building	84,300	
		Equipment	59,100	
		Cash		60,300
		Notes Payable ($251,900 – $60,300)		191,600
	4	Equipment	17,000	
		Accounts Payable		17,000
	5	No entry required.		
	6	Prepaid Insurance	2,580	
		Cash		2,580
	15	Cash	1,830	
		Fees Earned		1,830
	19	Accounts Payable	5,480	
		Cash		5,480
	20	Cash	350	
		Accounts Receivable	1,060	
		Fees Earned		1,410
	30	Cash	1,060	
		Accounts Receivable		1,060

PROBLEM 2-2A (Continued)

Date	Account Titles	Debit	Credit
May 31	Cash	3,100	
	Fees Earned		3,100
31	Salaries Expense	2,220	
	Cash		2,220
31	Interest Expense	710	
	Cash		710
31	A. Mawani, Drawings	1,540	
	Cash		1,540

Taking It Further

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

PROBLEM 2-3A

Aug.	**2**	**Cash**	**35,000**	
		J. Green, Capital		**35,000**
	2	**Supplies**	**550**	
		Accounts Payable		**550**
	5	**Equipment**	**10,000**	
		Notes Payable		**10,000**
	9	**Cash**	**7,500**	
		Accounts Receivable	**7,500**	
		Service Revenue		**15,000**
	14	**Salaries Expense**	**1,200**	
		Cash		**1,200**
	15	**J. Green, Drawings**	**4,300**	
		Cash		**4,300**
	19	**Cash**	**2,450**	
		Unearned Revenue		**2,450**
	22	**Accounts Payable**	**550**	
		Cash		**550**
	25	**Cash**	**7,500**	
		Accounts Receivable		**7,500**
	26	**Office Expense**	**3,200**	
		Cash		**3,200**
	30	**Interest Expense**	**50**	
		Cash		**50**

PROBLEM 2-3A (Continued)

Taking It Further

Service revenue and salaries expense are considered equity accounts because transactions that cause increases in service revenue will cause increases in equity and transactions that cause increases in salaries expense will cause decreases in equity.

Increases in revenues are recorded on the credit side of the account and so the credit side of the equity account represents an increase. On the other hand, increases in salaries expense are recorded on the debit side of the account and so the debit side of the equity account represents a decrease.

PROBLEM 2-4A

(a)

J1

Date		Account Titles	Ref.	Debit	Credit
Apr.	1	Cash	101	20,000	
		E. Valley, Capital	301		20,000
	1	No entry—not a transaction.			
	2	Rent Expense	729	1,100	
		Cash	101		1,100
	3	Supplies	126	4,000	
		Accounts Payable	201		4,000
	10	Accounts Receivable	112	5,100	
		Service Revenue	400		5,100
	11	Cash	101	1,000	
		Unearned Revenue	209		1,000
	20	Cash	101	2,100	
		Service Revenue	400		2,100
	30	Salaries Expense	726	2,800	
		Cash	101		2,800
	30	Accounts Payable	201	2,400	
		Cash	101		2,400

PROBLEM 2-4A (Continued)

(b)

Cash **No. 101**

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

Accounts Receivable **No. 112**

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

Supplies **No. 126**

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

Accounts Payable **No. 201**

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

Unearned Revenue **No. 209**

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

PROBLEM 2-4A (Continued)

E. Valley, Capital **No. 301**

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

Service Revenue **No. 400**

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

Salaries Expense **No. 726**

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

Rent Expense **No. 729**

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

(c)

EMILY VALLEY, DENTIST
Trial Balance
April 30, 2017

	Debit	Credit
Cash	$16,800	
Accounts Receivable	5,100	
Supplies	4,000	
Accounts Payable		$ 1,600
Unearned Revenue		1,000
E. Valley, Capital		20,000
Service Revenue		7,200
Salaries Expense	2,800	
Rent Expense	1,100	
	$29,800	$29,800

PROBLEM 2-4A (Continued)

Taking It Further

The next step in the accounting cycle will be the preparation of a trial balance. The main purpose of the trial balance is to prove that the debits equal the credits after posting. It is also useful in preparing financial statements.

PROBLEM 2-5A

(a) **GENERAL JOURNAL**

Date		Account Titles	Ref.	Debit	Credit
Sept.	1	Cash	101	9,630	
		G. Rodewald, Capital	301		9,630
	2	Rent Expense	726	690	
		Cash	101		690
	2	Prepaid Insurance	130	750	
		Cash	101		750
	5	Equipment	151	2,640	
		Accounts Payable	201		2,640
	7	Advertising Expense	610	420	
		Cash	101		420
	13	Cash	101	500	
		Service Revenue	400		500
	21	Accounts Receivable	112	800	
		Service Revenue	400		800
	24	Cash	101	540	
		Accounts Receivable	112		540
	28	Utilities Expense	737	210	
		Cash	101		210
	29	Accounts Payable	201	1,470	
		Cash	101		1,470

PROBLEM 2-5A (Continued)

(a) (Continued)

Date	Account Titles	Ref.	Debit	Credit
Sept. 30	Cash	101	860	
	Unearned Revenue	209		860
30	Cash	101	1,045	
	Service Revenue	400		1,045
30	G. Rodewald, Drawings	306	1,490	
	Cash	101		1,490

(b)

Cash — No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1	9,630		9,630
2		J1		690	8,940
2		J1		750	8,190
7		J1		420	7,770
13		J1	500		8,270
24		J1	540		8,810
28		J1		210	8,600
29		J1		1,470	7,130
30		J1	860		7,990
30		J1	1,045		9,035
30		J1		1,490	7,545

Accounts Receivable — No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 21		J1	800		800
24		J1		540	260

PROBLEM 2-5A (Continued)

(b) (Continued)

Prepaid Insurance — No. 130

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 2		J1	750		750

Equipment — No. 151

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1	2,640		2,640

Accounts Payable — No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1		2,640	2,640
29		J1	1,470		1,170

Unearned Revenue — No. 209

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30		J1		860	860

G. Rodewald, Capital — No. 301

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1		9,630	9,630

G. Rodewald, Drawings — No. 306

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30		J1	1,490		1,490

PROBLEM 2-5A (Continued)

(b) (Continued)

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 13		J1		500	500
21		J1		800	1,300
30		J1		1,045	2,345

Advertising Expense					No. 610
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 7		J1	420		420

Rent Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 2		J1	690		690

Utilities Expense					No. 737
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 28		J1	210		210

PROBLEM 2-5A (Continued)

(c)

GRETE KANINES
Trial Balance
September 30, 2017

	Debit	Credit
Cash	$7,545	
Accounts receivable	260	
Prepaid insurance	750	
Equipment	2,640	
Accounts payable		$1,170
Unearned revenue		860
G. Rodewald, capital		9,630
G. Rodewald, drawings	1,490	
Service revenue		2,345
Advertising expense	420	
Rent expense	690	
Utilities expense	210	
	$14,005	$14,005

Taking It Further

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

PROBLEM 2-6A

(a) GENERAL JOURNAL

Date		Account Titles	Debit	Credit
May	1	Cash	44,810	
		Equipment	10,690	
		J. Abramson, Capital		55,500
	1	No entry—not a transaction.		
	2	Prepaid Insurance	3,255	
		Cash		3,255
	5	Rent Expense	2,275	
		Prepaid Rent	2,275	
		Cash		4,550
	8	Equipment	15,870	
		Cash		7,150
		Notes Payable		8,720
	9	Supplies	570	
		Cash		570
	15	Supplies	730	
		Accounts Payable		730
	17	Accounts Receivable	3,200	
		Service Revenue		3,200
	22	Telephone Expense	320	
		Cash		320
	25	Cash	1,120	
		Service Revenue		1,120

PROBLEM 2-6A (Continued)

(a) (Continued)

Date		Account Titles	Debit	Credit
May	26	J. Abramson, Drawings	1,980	
		Cash		1,980
	28	Cash	2,720	
		Accounts Receivable		2,720
	30	Accounts Payable	730	
		Cash		730
	30	Interest Expense	67	
		Cash		67
	31	Cash	500	
		Unearned Revenue		500
	31	Salaries Expense	2,340	
		Cash		2,340

(b)

Cash

May		May	
1	44,810	2	3,255
25	1,120	5	4,550
28	2,720	8	7,150
31	500	9	570
		22	320
		26	1,980
		30	730
		30	67
		31	2,340
Bal.	28,188		

Accounts Receivable

May 17	3,200	May 28	2,720
Bal.	480		

PROBLEM 2-6A (Continued)

(b) (Continued)

Supplies

May 9	570		
15	730		
Bal.	1,300		

J. Abramson, Capital

		May 1	55,500
		Bal.	55,500

Prepaid Insurance

May 2	3,255		
Bal.	3,255		

J. Abramson, Drawings

May 26	1,980		
Bal.	1,980		

Prepaid Rent

May 5	2,275		
Bal.	2,275		

Service Revenue

		May 17	3,200
		25	1,120
		Bal.	4,320

Equipment

May 1	10,690		
8	15,870		
Bal.	26,560		

Interest Expense

May 30	67		
Bal.	67		

Unearned Revenue

		May 31	500
		Bal.	500

Rent Expense

May 5	2,275		
Bal.	2,275		

Notes Payable

		May 8	8,720
		Bal.	8,720

Salaries Expense

May 31	2,340		
Bal.	2,340		

Accounts Payable

May 30	730	May 15	730
		Bal.	0

Telephone Expense

May 22	320		
Bal.	320		

PROBLEM 2-6A (Continued)

(c)

ABRAMSON FINANCIAL SERVICES
Trial Balance
May 31, 2017

	Debit	Credit
Cash	$28,188	
Accounts receivable	480	
Supplies	1,300	
Prepaid insurance	3,255	
Prepaid rent	2,275	
Equipment	26,560	
Unearned revenue		$ 500
Notes payable		8,720
J. Abramson, capital		55,500
J. Abramson, drawings	1,980	
Service revenue		4,320
Interest expense	67	
Rent expense	2,275	
Salaries expense	2,340	
Telephone expense	320	
	$69,040	$69,040

PROBLEM 2-6A (Continued)

Taking It Further

This is not true. The cash account shows an increase of $28,188 during the month of May, whereas the company shows a loss of $682 for the month ($4,320 – $67 – $2,275 – $2,340 – $320). The change in the cash account does not reflect profit or loss because not all transactions that changed cash represent increases in revenues or expenses. One of the major sources of cash during the month is an investment by the owner of $55,500. This increases owner’s equity, but is not a source of revenue for the company. The company received cash in advance of doing work (unearned revenue of $500) and performed services in advance of payment (accounts receivable of $480), as well as making non-expense payments for services in advance (prepaid rent and insurance), equipment, and owner drawings. The statement of cash flows reconciles the changes in the cash account to its various uses and sources.

PROBLEM 2-7A

(a)

GENERAL JOURNAL

Date		Account Titles	Debit	Credit
May	1	Film Rental Expense	25,000	
		Cash		10,784
		Accounts Payable		14,216
	2	No entry—not a transaction.		
	7	Advertising Expense	1,090	
		Cash		1,090
	10	Cash	35,940	
		Admission Revenue		35,940
	10	Accounts Payable	14,216	
		Cash		14,216
	15	Film Rental Expense	28,600	
		Cash		14,300
		Accounts Payable		14,300
	25	Accounts Payable	4,990	
		Cash		4,990
	30	Salaries Expense	6,230	
		Cash		6,230

PROBLEM 2-7A (Continued)

(a) (Continued)

Date		Account Titles	Debit	Credit
May	31	Cash	2,370	
		Accounts Receivable	1,785	
		Concession Revenue		4,155
	31	Cash	41,800	
		Admission Revenue		41,800
	31	Mortgage Payable	1,185	
		Interest Expense	605	
		Cash		1,790

(b) and (c)

Cash

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			18,900
	1				10,784	8,116
	7				1,090	7,026
	10			35,940		42,966
	10				14,216	28,750
	15				14,300	14,450
	25				4,990	9,460
	30				6,230	3,230
	31			2,370		5,600
	31			41,800		47,400
	31				1,790	45,610

Accounts Receivable

Date		Explanation	Ref.	Debit	Credit	Balance
May	31			1,785		1, 785

PROBLEM 2-7A (Continued)

(b) and (c) (Continued)

Land

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			75,000

Buildings

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			69,800

Equipment

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			17,000

Accounts Payable

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			4,990
	1				14,216	19,206
	10			14,216		4,990
	15				14,300	19,290
	25			4,990		14,300

Mortgage Payable

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			106,300
	31			1,185		105,115

N. Wood, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
May	1	Balance	✓			69,410

PROBLEM 2-7A (Continued)

(b) and (c) (Continued)

Admission Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
May	10				35,940	35,940
	31				41,800	77,740

Concession Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
May	31				4,155	4,155

Advertising Expense

Date		Explanation	Ref.	Debit	Credit	Balance
May	7			1,090		1,090

Film Rental Expense

Date		Explanation	Ref.	Debit	Credit	Balance
May	1			25,000		25,000
	15			28,600		53,600

Interest Expense

Date		Explanation	Ref.	Debit	Credit	Balance
May	31			605		605

Salaries Expense

Date		Explanation	Ref.	Debit	Credit	Balance
May	30			6,230		6,230

PROBLEM 2-7A (Continued)

(d)

SEQUEL THEATRE
Trial Balance
May 31, 2017

	Debit	Credit
Cash	$45,610	
Accounts receivable	1,785	
Land	75,000	
Buildings	69,800	
Equipment	17,000	
Accounts payable		$ 14,300
Mortgage payable		105,115
N. Wood, capital		69,410
Admission revenue		77,740
Concession revenue		4,155
Advertising expense	1,090	
Film rental expense	53,600	
Interest expense	605	
Salaries expense	6,230	
	$270,720	$270,720

Taking It Further

The revenues less the expense in the trial balance show a profit for the month of May of $20,370 ($77,740 + $4,155 – $1,090 – $53,600 – $605 – $6,230). Although a positive profit is a good indication of the company's profitability, it is not sufficient information to determine whether Sequel Theatre is a sound business. One month's transactions do not indicate a pattern of profitability, in particular for businesses such as theatres where revenues tend to be seasonal. The financial results for the entire year should be examined, along with comparative amounts for previous years, to determine if the company has a trend of profitability.

PROBLEM 2-8A

(b) GENERAL JOURNAL

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

PROBLEM 2-8A (Continued)

(b) (Continued)

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

(a) and (c)

Cash

Nov.30	2,965	Dec. 1	475
3	2,500	1	1,500
4	1,800	4	2,000
20	3,300	7	310
29	525	8	150
		10	2,130
		21	135
		24	3,000
		30	695
		31	210
Bal.	485		

Accounts Receivable

Nov.30	2,200	Dec. 4	1,800
22	2,250		
Bal.	2,650		

Supplies

Nov. 30	1,450		
Dec. 8	150		
Bal.	1,600		

PROBLEM 2-8A (Continued)

(a) and (c) (Continued)

Equipment

Nov.30	17,500		
Dec. 1	3,500		
Bal.	21,000		

Notes Payable

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

Accounts Payable

Dec. 4	2,000	Nov.30	4,235
10	2,130	1	2,000
		Bal.	2,105

Unearned Revenue

Dec. 15	825	Nov. 30	825
		Dec. 29	525
		Bal.	525

A. Zhawaki, Capital

		Nov.30	19,500

A. Zhawaki, Drawings

Nov.30	31,350		
Dec. 24	3,000		
Bal.	34,350		

Fees Earned

		Nov.30	47,075
		Dec. 15	825
		20	3,300
		22	2,250
		Bal.	53,450

Insurance Expense

Nov.30	3,410		
Dec. 7	310		
Bal.	3,720		

Rent Expense

Nov.30	5,225		
Dec. 1	475		
Bal.	5,700		

Telephone Expense

Nov.30	1,485		
Dec. 21	135		
Bal.	1,620		

Travel Expense

Nov.30	6,050		
Dec. 30	695		
Bal.	6,745		

Interest Expense

Dec. 31	10		
Bal.	10		

PROBLEM 2-8A (Continued)

(d)

A TO Z MUSIC
Trial Balance
December 31, 2017

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

Taking It Further

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

PROBLEM 2-8A (Continued)

Taking It Further (Continued)

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

PROBLEM 2-9A

J. SAGGIT
Trial Balance
June 30, 2017

	Debit	Credit
Cash	$ 8,000	
Accounts receivable	10,250	
Supplies	5,000	
Prepaid expenses	3,000	
Land	64,000	
Equipment	18,250	
Accounts payable		$ 12,500
Notes payable		30,000
J. Saggit, capital		28,000
J. Saggit, drawings	12,000	
Service revenue		63,050
Rent expense	4,500	
Utilities expense	550	
Salaries expense	7,500	
Interest expense	500	
	$133,550	$133,550

Taking It Further

J. Saggit is incorrect in his belief. While the ledger and the trial balance may be in balance, omissions or duplications of entries as well as entries to incorrect accounts may cause the financial statements to be incorrect and therefore not error free.

PROBLEM 2-10A

(a)

ABRAMSON FINANCIAL SERVICES
Income Statement
Month Ended May 31, 2017

Revenues		
Service revenue		$4,320
Expenses		
Interest expense	$ 67	
Rent expense	2,275	
Salaries expense	2,340	
Telephone expense	320	
Total expenses		5,002
Loss		$(682)

(b)

ABRAMSON FINANCIAL SERVICES
Statement of Owner's Equity
Month Ended May 31, 2017

J. Abramson, capital, May 1, 2017		$ 0
Add: Investment		55,500
		55,500
Less: Loss	$ 682	
Drawings	1,980	2,662
J. Abramson, capital, May 31, 2017		$52,838

PROBLEM 2-10A (Continued)

(c)

ABRAMSON FINANCIAL SERVICES
Balance Sheet
May 31, 2017

Assets

Cash	$28,188
Accounts receivable	480
Supplies	1,300
Prepaid insurance	3,255
Prepaid rent	2,275
Equipment	26,560
Total assets	$62,058

Liabilities and Owner's Equity

Liabilities	
Notes payable	$ 8,720
Unearned service revenue	500
	9,220
Owner's Equity	
J. Abramson, Capital	52,838
Total liabilities and owner's equity	$62,058

Taking It Further

In its first month of operations Abramson Financial Services incurred more expenses than it generated in revenues resulting in a loss of $682. Since this is a new business, it may take a few months for revenues to reach and exceed the level of expenses. Jacob will need to monitor the revenues generated as compared to expenses incurred to ensure the company reaches profitability as soon as possible.

PROBLEM 2-11A

(a) GENERAL JOURNAL

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

PROBLEM 2-11A (Continued)

(a) (Continued)

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

(b) and (c)

Cash

Jan.31	2,100	Feb. 1	430
3	4,240	2	1,050
4	720	6	970
		14	400
		15	1,050
27	2,830	26	185
		27	575
		28	400
		28	1,050
Bal.	3,780		

Accounts Receivable

Jan.31	720	Feb. 4	720
23	1,475		
Bal.	1,475		

Prepaid Rent

Feb.28	1,050		
Bal.	1,050		

Equipment

Jan.31	12,400		
Bal.	12,400		

Accounts Payable

		Jan.31	1,470
Feb. 6	970		
		Bal.	500

Unearned Revenue

		Feb. 27	2,830
		Bal.	2,830

D. Scoffin, Capital

		Jan.31	13,750
		Bal.	13,750

D. Scoffin, Drawings

Feb. 27	575		
Bal.	575		

PROBLEM 2-11A (Continued)

(b) and (c) (Continued)

Fees Earned

		Feb. 3	4,240
		Feb. 23	1,475
		Bal.	5,715

Advertising Expense

Feb. 1	430		

Internet Expense

Feb. 26	185		

Rent Expense

Feb. 2	1,050		
Feb. 15	1,050		
Bal.	2,100		

Salaries Expense

Feb. 14	400		
Feb. 28	400		
Bal.	800		

PROBLEM 2-11A (Continued)

(d)

YH CURLING SCHOOL
Trial Balance
February 28, 2017

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

Taking It Further

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

PROBLEM 2-12A

(a)

YH CURLING SCHOOL
Income Statement
Month Ended February 28, 2017

Revenues		
Fees earned		$5,715
Expenses		
Advertising expense	$ 430	
Internet expense	185	
Rent expense	2,100	
Salaries expense	800	
Total expenses		3,515
Profit		$2,200

(b)

YH CURLING SCHOOL
Statement of Owner's Equity
Month Ended February 28, 2017

D. Scoffin, capital, February 1, 2017	$13,750
Add: Profit	2,200
	15,950
Less: Drawings	575
D. Scoffin, capital, February 28, 2017	$15,375

PROBLEM 2-12A (Continued)

(c)

YH CURLING SCHOOL
Balance Sheet
February 28, 2017

Assets

Cash	$ 3,780
Accounts receivable	1,475
Prepaid rent	1,050
Equipment	12,400
Total assets	$18,705

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 500
Unearned revenue	2,830
Total liabilities	3,330
Owner's Equity	
D. Scoffin, capital	15,375
Total liabilities and owner's equity	$18,705

Taking It Further

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

PROBLEM 2-13A

(a)

SUPER DELIVERY SERVICE
Trial Balance
August 31, 2017

	Debit	Credit
Cash (to balance debits = credits*)	$ 6,301	
Accounts receivable	4,226	
Supplies	299	
Prepaid insurance	358	
Equipment	49,660	
Notes payable		$19,480
Accounts payable		3,250
Salaries payable		883
Unearned revenue		643
T. Rowe, capital		48,840
T. Rowe, drawings	25,000	
Service revenue		37,800
Gas expense	12,177	
Insurance expense	2,016	
Interest expense	1,006	
Repairs expense	1,549	
Salaries expense	5,698	
Supplies expense	2,606	
	$110,896	$110,896

*** Total debits without cash = $104,595**
$110,896 – $104,595 = $6,301

PROBLEM 2-13A (Continued)

(b)

SUPER DELIVERY SERVICE
Income Statement
Year Ended August 31, 2017

Revenues		
Service revenue		$37,800
Expenses		
Gas expense	$12,177	
Insurance expense	2,016	
Interest expense	1,006	
Repairs expense	1,549	
Salaries expense	5,698	
Supplies expense	2,606	
Total expenses		25,052
Profit		$12,748

SUPER DELIVERY SERVICE
Statement of Owner's Equity
Year Ended August 31, 2017

T. Rowe, capital, August 31, 2016	$48,840
Plus: Profit	12,748
	61,588
Less: Drawings	25,000
T. Rowe, capital, August 31, 2017	$36,588

PROBLEM 2-13A (Continued)

(b) (Continued)

SUPER DELIVERY SERVICE
Balance Sheet
August 31, 2017

Assets	
Cash	$6,301
Accounts receivable	4,226
Supplies	299
Prepaid insurance	358
Equipment	49,660
Total assets	$60,844
Liabilities and Owner's Equity	
Liabilities	
Notes payable	$19,480
Accounts payable	3,250
Salaries payable	883
Unearned revenue	643
Total liabilities	24,256
Owner's Equity	
T. Rowe, capital	36,588
Total liabilities and owner's equity	$60,844

PROBLEM 2-13A (Continued)

Taking It Further

Tom Rowe has withdrawn almost twice as much cash compared to the profit. This has resulted in a net decrease to the owner's capital account. Tom's drawings have left the company with a low level of liquid assets (Cash of $6,301 + Accounts receivable of $4,226 = $10,527) to pay off liabilities (Notes payable of $19,480 + Accounts payable of $3,250 + Salaries payable of $883 = $23,613). Tom's drawings should be based on his cash budget for the coming year and leave the company with sufficient cash to meet its liabilities and to be able to grow.

PROBLEM 2-14A

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

(b)

	1	2	3	4	5
1					
2					
3	No	Interest Revenue	Understated $750	Yes	Increase by $750
4	Yes	Salaries Expense Drawings	Overstated $1,000 Understated $1,000	Yes	Yes
5	Yes	Unearned Revenue Service Revenue	Overstated $325 Understated $325	Yes	Decrease by $325 Increase by $325
6	No	Supplies	Understated $1,540	Increase $1,540	Yes
7	No	Unearned Revenue	Understated $500	Yes	Increase by $500
8	Yes	Cash Salaries Payable	Overstated $495 Overstated $495	Decrease by $495	Decrease by $495

PROBLEM 2-14A (Continued)

(b) (Continued)

	1	2	3	4	5
9	No	Equipment	Overstated $3,600	Decrease by $3,600	Yes
10	Yes	Utilities Expense Accounts Payable	Understated $650 Understated $650	Increase by $650	Increase by $650

Taking It Further

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

For example:

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

PROBLEM 2-15A

(a)

WINTER CO.
Trial Balance
June 30, 2017

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

Taking It Further

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

PROBLEM 2-1B

(a)

	Account Debited			Account Credited		
	(1)	(2)	(3)	(1)	(2)	(3)
Transaction	Basic Type	Specific Account	Effect	Basic Type	Specific Account	Effect
Jan. 2*	Owner's Equity	Rent Expense	+ $525	Asset	Cash	– $525
4	Asset	Cash	+ $1,055	Owner's Equity	Service Revenue	+ $1,055
5	Asset	Supplies	+ $420	Liability	Accounts Payable	+ $420
7	No transaction at this point in time (see Jan. 18).					
10	Asset	Cash	+ $1,500	Liability	Unearned Revenue	+ $1,500
12	Owner's Equity	K. Battistella, Drawings	+ $500	Asset	Cash	– $500
18	Asset	Accounts Receivable	+ $1,085	Owner's Equity	Service Revenue	+ $1,085
25	Liability	Accounts Payable	– $420	Asset	Cash	– $420
27	Asset	Cash	+ $1,085	Asset	Accounts Receivable	– $1,085
28	Asset	Cash	+ $5,000	Liability	Notes Payable	+ $5,000
29	Asset	Equipment	+ $1,950	Asset	Cash	– $1,950

PROBLEM 2-1B (Continued)

***Solution provided in text.**

(b)

GENERAL JOURNAL

Date		Account Titles	Debit	Credit
Jan.	2	Rent Expense	525	
		Cash		525
	4	Cash	1,055	
		Service Revenue		1,055
	5	Supplies	420	
		Accounts Payable		420
	7	No transaction at this time.		
	10	Cash	1,500	
		Unearned Revenue		1,500
	12	K. Battistella, Drawings	500	
		Cash		500
	18	Accounts Receivable	1,085	
		Service Revenue		1,085
	25	Accounts Payable	420	
		Cash		420
	27	Cash	1,085	
		Accounts Receivable		1,085
	28	Cash	5,000	
		Notes Payable		5,000
	29	Equipment	1,950	
		Cash		1,950

PROBLEM 2-1B (Continued)

Taking It Further

Cash is an asset and is on the left-hand side of the accounting equation. When cash is received, it increases the balance, and when cash is paid out, it decreases the balance. To decrease an asset, it is credited, so a credit to cash decreases cash.

PROBLEM 2-2B

GENERAL JOURNAL

Date		Account Titles	Debit	Credit
May	1	Cash	70,000	
		D. Tanner, Capital		70,000
	3	Land	225,000	
		Building	75,000	
		Equipment	55,000	
		Cash		35,000
		Notes Payable		320,000
	3	Insurance Expense	780	
		Cash		780
	8	Advertising Expense	1,950	
		Cash		1,950
	15	Cash	5,400	
		Admissions Revenue		5,400
	16	Salaries Expense	2,600	
		Cash		2,600
	20	Cash	500	
		Accounts Receivable	2,250	
		Admissions Revenue		2,750
	22	No entry required		
	29	Cash	2,250	
		Accounts Receivable		2,250

PROBLEM 2-2B (Continued)

Date		Account Titles	Ref.	Debit	Credit
May	30	Cash		5,750	
		Admissions Revenue			5,750
	31	Interest Expense		1,200	
		Notes Payable		5,333	
		Cash			6,533
	31	D. Tanner, Drawings		1,800	
		Cash			1,800
	31	Salaries Expense		3,800	
		Cash			3,800

Taking It Further

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

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

PROBLEM 2-3B

Apr.	1	Cash	27,750	
		A. Rai, Capital		27,750
	2	Equipment	5,000	
		Notes Payable		5,000
	3	Supplies	250	
		Accounts Payable		250
	5	Cash	6,300	
		Accounts Receivable	5,950	
		Service Revenue		12,250
	10	A. Rai, Drawings	4,300	
		Cash		4,300
	13	Accounts Payable	250	
		Cash		250
	15	Cash	2,450	
		Unearned Revenue		2,450
	25	Cash	5,950	
		Accounts Receivable		5,950
	26	Office Expense	1,200	
		Cash		1,200
	30	Interest Expense	45	
		Cash		45

PROBLEM 2-3B (Continued)

Taking It Further

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

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

PROBLEM 2-4B

(a)

J1

Date		Account Titles	Ref.	Debit	Credit
Apr.	1	Cash..	101	45,000	
		B. Fair, Capital	301		45,000
	1	No entry—not a transaction.			
	2	Rent Expense................................	729	800	
		Cash	101		800
	3	Supplies	126	1,500	
		Accounts Payable	201		1,500
	10	Accounts Receivable.....................	112	1,800	
		Service Revenue.....................	400		1,800
	11	Cash..	101	500	
		Unearned Service Revenue ...	209		500
	20	Cash..	101	1,500	
		Service Revenue.....................	400		1,500
	30	Salaries Expense...........................	726	2,000	
		Cash	101		2,000
	30	Accounts Payable	201	600	
		Cash	101		600

PROBLEM 2-4B (Continued)

(b)

Cash — **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1		J1	45,000		45,000
2		J1		800	44,200
11		J1	500		44,700
20		J1	1,500		46,200
30		J1		2,000	44,200
30		J1		600	43,600

Accounts Receivable — **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1	1,800		1,800

Supplies — **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1	1,500		1,500

Accounts Payable — **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1		1,500	1,500
30		J1	600		900

Unearned Service Revenue — **No. 209**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 11		J1		500	500

PROBLEM 2-4B (Continued)

B. Fair, Capital — **No. 301**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1		J1		45,000	45,000

Service Revenue — **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1		1,800	1,800
20		J1		1,500	3,300

Salaries Expense — **No. 726**

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

Rent Expense — **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2		J1	800		800

(c)

BARBARA FAIR, ARCHITECT
Trial Balance
April 30, 2017

	Debit	Credit
Cash	$43,600	
Accounts Receivable	1,800	
Supplies	1,500	
Accounts Payable		$ 900
Unearned Revenue		500
B. Fair, Capital		45,000
Service Revenue		3,300
Salaries Expense	2,000	
Rent Expense	800	
	$49,700	$49,700

PROBLEM 2-4B (Continued)

Taking It Further

Barbara is not correct. Debits mean left and credits mean right. Whether we debit or credit an account depends on the type of account (asset, liability, or owner's equity) and whether the account is increasing or decreasing. For example, if we buy equipment with cash, we debit an equipment account and credit a cash account. Just because this transaction reduces (credits) the cash account, it does not mean it is bad. It means a transaction has taken place that has used some of the cash of the entity and this needs to be reflected in the books.

PROBLEM 2-5B

(a)

GENERAL JOURNAL

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

PROBLEM 2-5B (Continued)

(a) (Continued)

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

(b)

CASH — No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	1		J1	25,000		25,000
	1		J1		750	24,250
	2		J1		250	24,000
	3		J1		5,250	18,750
	12		J1		945	17,805
	20		J1	1,320		19,125
	24		J1	2,500		21,625
	25		J1		675	20,950
	28		J1	970		21,920
	29		J1		1,225	20,695

ACCOUNTS RECEIVABLE — No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	8		J1	1,270		1,270
	28		J1		970	300

PROBLEM 2-5B (Continued)

(b) (Continued)

SUPPLIES — No. 126

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	5		J1	675		675

EQUIPMENT — No. 151

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	3		J1	5,250		5,250

ACCOUNTS PAYABLE — No. 201

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	5		J1		675	675
	25		J1	675		0
	31		J1		225	225

UNEARNED REVENUE — No. 209

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	24		J1		2,500	2,500

T. NGUYEN, CAPITAL — No. 301

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	1		J1		25,000	25,000

PROBLEM 2-5B (Continued)

(b) (Continued)

T. NGUYEN, DRAWINGS — **No. 306**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	30		J1	1,225		1,225

SERVICE REVENUE — **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	8		J1		1,270	1,270
	20		J1		1,320	2,590

ADVERTISING EXPENSE — **No. 610**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	12		J1	945		945

RENT EXPENSE — **No. 726**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	1		J1	750		750

UTILITIES EXPENSE — **No. 737**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	2		J1	250		250
	31		J1	225		475

PROBLEM 2-5B (Continued)

(c)

NGUYEN IMPORT SERVICES
Trial Balance
August 31, 2017

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

Taking It Further

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

PROBLEM 2-6B

(a) GENERAL JOURNAL

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

PROBLEM 2-6B (Continued)

(a) (Continued)

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

(b)

Cash

Nov. 1	35,000	Nov3	4,280
16	990	4	395
27	750	5	6,000
29	2,800	7	475
		26	1,000
		30	60
		30	2,825
		30	700
		30	1,150
Bal.	22,655		

Accounts Receivable

Nov.20	4,500	Nov 29	2,800
Bal.	1,700		

PROBLEM 2-6B (Continued)

(b) (Continued)

Supplies

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

H. Kiersted, Drawings

Nov.30	700		
Nov.30	1,150		
Bal.	1,850		

Prepaid Rent

Nov.3	2,140		
Bal.	2,140		

Service Revenue

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

Equipment

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

Insurance Expense

Nov. 4	395		
Bal.	395		

Accounts Payable

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

Interest Expense

Nov. 30	60		
Bal.	60		

Unearned Revenue

		Nov27	750
		Bal.	750

Rent Expense

Nov. 3	2,140		
Bal.	2,140		

Notes Payable

		Nov.5	12,000
		Bal.	12,000

Salaries Expense

Nov 30	2,825		
Bal.	2,825		

H. Kiersted, Capital

		Nov. 1	47,000
		Bal.	47,000

Telephone Expense

Nov. 27	220		
Bal.	220		

PROBLEM 2-6B (Continued)

(c)

KIERSTED FINANCIAL SERVICES
Trial Balance
November 30, 2017

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

PROBLEM 2-6B (Continued)

Taking It Further

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

PROBLEM 2-7B

(a) GENERAL JOURNAL

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

PROBLEM 2-7B (Continued)

(a) (Continued)

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

(b) and (c)

Cash

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

PROBLEM 2-7B (Continued)

(b) and (c) (Continued)

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	260		260

Prepaid Film Rental

Date	Explanation	Ref.	Debit	Credit	Balance
July 30		J1	700		700

Land

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			100,000

Buildings

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			80,000

Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			25,000

PROBLEM 2-7B (Continued)

(b) and (c) (Continued)

Accounts Payable

Date		Explanation	Ref.	Debit	Credit	Balance
June	30	Balance	✓			5,000
July	16		J1	2,800		2,200
	19		J1		750	2,950

Mortgage Payable

Date		Explanation	Ref.	Debit	Credit	Balance
June	30	Balance	✓			125,000
July	11		J1	2,000		123,000

F. Ferguson, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
June	30	Balance	✓			81,000

F. Ferguson, Drawings

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

Admissions Revenue

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

PROBLEM 2-7B (Continued)

(b) and (c) (Continued)

Concession Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1		520	520

Advertising Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 2		J1	620		620

Film Rental Expense

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

Interest Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 11		J1	500		500

Repairs Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1	350		350

PROBLEM 2-7B (Continued)

(b) and (c) (Continued)

Salaries Expense

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	1,900		1,900

(d)

HIGHLAND THEATRE
Trial Balance
July 31, 2017

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

PROBLEM 2-7B (Continued)

Taking It Further

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

PROBLEM 2-8B

(b) GENERAL JOURNAL J1

Date		Account Titles and Explanation	Debit	Credit
Dec.	1	Rent Expense	525	
		Cash		525
	1	Equipment	3,270	
		Cash		1,270
		Notes Payable		2,000
	4	Cash	1,880	
		Accounts Receivable		1,880
	7	Insurance Expense	308	
		Cash		308
	8	Supplies	135	
		Accounts Payable		135
	10	Accounts Payable	2,140	
		Cash		2,140
	12	Unearned Revenue	765	
		Service Revenue		765
	20	Cash	3,480	
		Service Revenue		3,480
	21	Advertising Expense	115	
		Cash		115
	24	L. Kuznetsova, Drawings	2,860	
		Cash		2,860

PROBLEM 2-8B (Continued)

(b) (Continued)

Dec.	28	Accounts Receivable	2,280	
		Service Revenue		2,280
	29	Cash	560	
		Unearned Revenue		560
	30	Salaries Expense	655	
		Cash		655
	31	Notes Payable	160	
		Interest Expense	10	
		Cash		170

PROBLEM 2-8B (Continued)

(a) and (c)

Cash

Nov. 30	3,165	Dec. 1	525
		1	1,270
4	1,880		
		7	308
		10	2,140
20	3,480	21	115
29	560	24	2,860
		30	655
		31	170
Bal.	1,042		

Accounts Receivable

Nov. 30	2,110	Dec. 4	1,880
Dec. 28	2,280		
Bal.	2,510		

Supplies

Nov. 30	1,340		
Dec. 8	135		
Bal.	1,475		

Equipment

Nov. 30	17,730		
Dec. 1	3,270		
Bal.	21,000		

Notes Payable

Dec.31	160	Nov. 30	2,000
		Bal.	1,840

Accounts Payable

Dec. 10	2,140	Nov. 30	4,245
		Dec. 8	135
		Bal.	2,240

Unearned Revenue

Dec. 12	765	Nov. 30	765
		Dec. 29	560
		Bal.	560

L. Kuznetsova, Capital

		Nov. 30	19,300

L. Kuznetsova, Drawings

Nov. 30	31,190		
Dec. 24	2,860		
Bal.	34,050		

PROBLEM 2-8B (Continued)

(a) and (c) (Continued)

Service Revenue

		Nov. 30	47,963
		Dec. 12	765
		20	3,480
		28	2,280
		Bal.	54,488

Advertising Expense

Nov. 30	1,265		
Dec. 21	115		
Bal.	1,380		

Insurance Expense

Nov. 30	3,388		
Dec. 7	308		
Bal.	3,696		

Rent Expense

Nov. 30	5,775		
Dec. 2	525		
Bal.	6,300		

Salaries Expense

Nov. 30	6,310		
Dec. 30	655		
Bal.	6,965		

Interest Expense

Dec. 31	10		

PROBLEM 2-8B (Continued)

(d)

LVK COACHING SERVICES
Trial Balance
December 31, 2017

	Debit	Credit
Cash	$ 1,042	
Accounts receivable	2,510	
Supplies	1,475	
Equipment	21,000	
Accounts payable		$ 2,240
Notes payable		1,840
Unearned revenue		560
L. Kuznetsova, capital		19,300
L. Kuznetsova, drawings	34,050	
Service revenue		54,488
Advertising expense	1,380	
Insurance expense	3,696	
Rent expense	6,300	
Salaries expense	6,965	
Interest expense	10	
	$78,428	$78,428

PROBLEM 2-8B (Continued)

Taking It Further

The cash balance has decreased from $3,165 to $1,042 or $2,123 during the month of December. This is a substantial decrease from the opening balance and exposes the company to the possibility of not being able to pay its outstanding liabilities. The company borrowed $2,000 at the beginning of December to purchase equipment. Had the company not purchased the additional equipment, the cash balance for the month would have been $2,482 ($1,042 + $1,270 + $170 payment on the note payable). This still represents a decrease from the December ending balance. Depending on the timing of the repayment of the note payable, the company may be able to generate sufficient cash from the collection of its account receivable to be able to honour its commitments on its liabilities. During the month of January, the company should collect outstanding receivables as quickly as possible (in particular those amounts still outstanding from November) and reduce owner drawings. The company will also need to ensure the new equipment generates additional cash as soon as possible.

PROBLEM 2-9B

J. NIKKO
Trial Balance
November 30, 2017

	Debit	Credit
Cash	$ 8,000	
Accounts receivable	10,250	
Supplies	5,000	
Prepaid expenses	3,000	
Land	64,000	
Equipment	18,250	
Accounts payable		$ 12,500
Notes payable		30,000
J. Nikko, capital		28,000
J. Nikko, drawings	12,000	
Service revenue		63,050
Rent expense	4,500	
Utilities expense	550	
Salaries expense	7,500	
Interest expense	500	
	$133,550	$133,550

Taking It Further

The advantages of first recording the individual transactions in a journal and then posting to the ledger are:

1. **The journal discloses in one place, the complete effect of a transaction.**
2. **The journal provides a chronological record of all transactions.**
3. **The journal helps to prevent or locate errors, because the debit and credit amounts for each entry can be readily compared.**

The advantage of the last step in the posting process is to indicate that the item has been posted, and to provide a cross-reference.

PROBLEM 2-10B

(a)

KIERSTED FINANCIAL SERVICES
Income Statement
Month Ended November 30, 2017

Revenues		
Service revenue		$ 5,490
Expenses		
Insurance expense	$ 395	
Interest expense	60	
Rent expense	2,140	
Salaries expense	2,825	
Telephone expense	220	
Total expenses		5,640
Loss		$ (150)

(b)

KIERSTED FINANCIAL SERVICES
Statement of Owner's Equity
Month Ended November 30, 2017

H. Kiersted, capital, November 1, 2017			$ 0
Add:	Investment		47,000
			47,000
Less:	Loss	$ 150	
	Drawings	1,850	2,000
H. Kiersted, capital, November 30, 2017			$45,000

PROBLEM 2-10B (Continued)

(c)

KIERSTED FINANCIAL SERVICES
Balance Sheet
November 30, 2017

Assets

Cash	$22,655
Accounts receivable	1,700
Supplies	2,025
Prepaid rent	2,140
Equipment	30,000
Total assets	$58,520

Liabilities and Owner's Equity

Liabilities	
Notes payable	$12,000
Accounts payable	770
Unearned service revenue	750
Total liabilities	13,520
Owner's Equity	
H. Kiersted, capital	45,000
Total liabilities and owner's equity	$58,520

Taking It Further

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

PROBLEM 2-11B

(a) GENERAL JOURNAL

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

PROBLEM 2-11B (Continued)

(a) (Continued)

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

(b) and (c)

Cash

Feb.28	3,500	2	13,000
Mar. 1	12,000	3	145
16	8,000	10	550
		18	5,000
		30	580
31	2,000	31	1,650
		31	555
		31	1,900
		31	1,000
Bal.	1,120		

Accounts Receivable

Feb.28	14,450		
		Mar.16	8,000
31	5,000		
Bal.	11,450		

Prepaid Rent

Feb.28	950		

PROBLEM 2-11B (Continued)

(b) and (c) (Continued)

Equipment

Feb.28	15,100		

Accounts Payable

		Feb.28	18,750
Mar. 2	13,000		
18	5,000		
		Bal.	750

Notes Payable

Mar. 30	500	Feb.28	12,000
		Bal.	11,500

H. Nolan, Capital

		Feb.28	14,300

H. Nolan, Drawings

Mar. 31	1,000		

Service Revenue

		Feb.28	7,000

Advertising Expense

Mar. 10	550		

Interest Expense

Mar. 31	55		

Miscellaneous Expense

Mar. 30	580		

Rent Expense

Mar. 31	950		

Insurance Expense

Mar. 3	145		

Salaries Expense

Mar. 31	1,650		

PROBLEM 2-11B (Continued)

(d)

HN HR CONSULTING
Trial Balance
March 31, 2017

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

Taking It Further

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

PROBLEM 2-12B

(a)

HN HR CONSULTING
Income Statement
Month Ended March 31, 2017

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

(b)

HN HR CONSULTING
Statement of Owner's Equity
Month Ended March 31, 2017

H. Nolan, capital, March 1, 2017	$14,300
Add: Profit	3,070
	17,370
Less: Drawings	1,000
H. Nolan, capital, March 31, 2017	$16,370

PROBLEM 2-12B (Continued)

(c)

HN HR CONSULTING
Balance Sheet
March 31, 2017

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

Taking It Further

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

PROBLEM 2-13B

(a)

LAZDOWSKI MARKETING SERVICES
Trial Balance
October 31, 2017

	Debit	Credit
Cash	$ 4,930	
Accounts receivable	6,010	
Supplies	1,240	
Prepaid rent	975	
Furniture	56,685	
Equipment	25,970	
Notes payable		$48,850
Accounts payable		4,403
Unearned revenue		3,555
I. Lazdowski, capital		57,410
I. Lazdowski, drawings	75,775	
Fees earned (to balance*)		114,047
Advertising expense	14,970	
Insurance expense	2,020	
Interest expense	2,445	
Supplies expense	5,000	
Rent expense	11,700	
Salaries expense	20,545	
	$228,265	$228,265

***Total credits without fees earned = $114,218**
$228,265 – $114,218=$114,047

PROBLEM 2-13B (Continued)

(b)

LAZDOWSKI MARKETING SERVICES
Income Statement
Year Ended October 31, 2017

Revenues		
Fees earned		$114,047
Expenses		
Advertising expense	$14,970	
Insurance expense	2,020	
Interest expense	2,445	
Supplies expense	5,000	
Rent expense	11,700	
Salaries expense	20,545	
Total expenses		56,680
Profit		$57,367

LAZDOWSKI MARKETING SERVICES
Statement of Owner's Equity
Year Ended October 31, 2017

I. Lazdowski, capital, November 1, 2016	$57,410
Add: Profit	57,367
	114,777
Less: Drawings	75,775
I. Lazdowski, capital, October 31, 2017	$39,002

PROBLEM 2-13B (Continued)

(b) (Continued)

LAZDOWSKI MARKETING SERVICES
Balance Sheet
October 31, 2017

Assets

Cash	$ 4,930
Accounts receivable	6,010
Supplies	1,240
Prepaid rent	975
Furniture	56,685
Equipment	25,970
Total assets	$95,810

Liabilities and Owner's Equity

Liabilities	
Notes payable	$48,850
Accounts payable	4,403
Unearned revenue	3,555
Total liabilities	56,808
Owner's Equity	
I. Lazdowski, capital	39,002
Total liabilities and owner's equity	$95,810

PROBLEM 2-13B (Continued)

Taking It Further

Drawings exceeded profit. This has resulted in a net decrease to the owner's capital account. Inga's drawings have left the company with a low level of liquid assets (Cash of $4,930 + Accounts receivable of $6,010 = $10,940) to pay off liabilities (Notes payable of $48,850 + Accounts payable of $4,403 = $53,253). Inga's drawings should be based on her cash budget for the coming year and should leave the company with sufficient cash to able to meet its liabilities and grow.

PROBLEM 2-14B

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

(b)

Trans	1	2	3	4	5
1	No	Prepaid Insurance	Understated $3,600	Increase by $3,600	Yes
2	Yes	Accounts Receivable Accounts Payable	Understated $500 Understated $500	Increase by $500	Increase by $500
3					
4	Yes	Salaries Payable Cash	Understated $1,200 Understated $1,200	Increase by $1,200	Increase by $1,200
5	No	Cash	Understated $250	Increase by $250	Yes
6	Yes	Drawings Salaries Expense	Understated $1,200 Overstated $1,200	Yes	Yes

PROBLEM 2-14B (Continued)

(b) (Continued)

Trans	1	2	3	4	5
7	Yes	Unearned Revenue Service Revenue	Understated $400 Overstated $400	Yes	Yes
8	No	Accounts Payable	Understated $750 = ($375 × 2)	Yes	Increase by $750
9	No	Equipment Cash Accounts Payable	Overstated $1,800 Overstated $8,600 Understated $6,800	Decrease by $10,400	Increase by $6,800
10	Yes	Accounts Receivable Service Revenue	Understated $950 Understated $950	Increase by $950	Increase by $950

PROBLEM 2-14B (Continued)

Taking It Further

2. **This error understates Accounts Receivable and Accounts Payable. It may lead to liabilities being unpaid and receivables being uncollected.**
4. **This error may lead to salaries to employees not being paid since the transaction was posted as a credit to Cash. It would show as already being paid. The error would also understate the company's liabilities.**
6. **This error overstates Salaries Expense. It results in lower profits on the income statement because of the additional expense.**
7. **This error shows lower liabilities by understating Unearned Revenue. It results in higher profit on the income statement because of the overstated Service Revenue.**
10. **This error understates the asset Accounts Receivable and understates Service Revenue. It results in a lower profit on the income statement because of the unrecorded revenue.**

PROBLEM 2-15B

SHAWNEE SLOPES COMPANY
Trial Balance
June 30, 2017

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

Taking It Further

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

BYP2-1 FINANCIAL REPORTING PROBLEM

(a)

Account	(1) Financial Statement	(2) Account	(3) Normal Balance	(4) Increase Side	(4) Decrease Side
Interest expense	Income Statement	Expense	Debit	Debit	Credit
Cash and cash equivalents	Balance Sheet	Asset	Debit	Debit	Credit
Unearned revenues	Balance Sheet	Liability	Credit	Credit	Debit
Inventories	Balance Sheet	Asset	Debit	Debit	Credit
Long-term debt	Balance Sheet	Liability	Credit	Credit	Debit
Prepaid expenses	Balance Sheet	Asset	Debit	Debit	Credit
Sales	Income Statement	Revenue	Credit	Credit	Debit
Accounts payable and accrued expenses	Balance Sheet	Liability	Credit	Credit	Debit

BYP2-1 (Continued)

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

BYP2-2 INTERPRETING FINANCIAL STATEMENTS

(a)

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

BYP2-2 (Continued)
(b)

WESTJET AIRLINES LTD.
Trial Balance
December 31, 2014

Cash	$1,416,220	
Accounts receivable	54,950	
Inventory	36,658	
Prepaid expenses and deposits	144,192	
Property and equipment	2,793,194	
Intangibles	122,913	
Other assets	78,306	
Accounts payable and accrued liabilities		$502,432
Advance ticket sale liability		575,781
Non-refundable guest credits liability		45,434
Maintenance provisions liability		191,768
Other liabilities		227,804
Deferred income tax liability		296,892
Long-term debt		1,028,820
Shareholders' (owners') equity, January 1, 2015		1,589,840
Shareholders' (owners') "drawings"	96,295	
Guest revenues		3,599,157
Other revenues		377,395
Aircraft fuel, leasing, and maintenance expense	1,466,465	
Airport operations expense	507,743	
Flight operations and navigational charges	458,146	
Depreciation and amortization expense	226,740	
Sales and distribution expense	376,676	
Marketing, general, and administration expense	224,783	
In flight expense	171,741	
Employee profit share expense	68,787	
Non-operating expenses	85,164	
Income tax expense	106,350	
	$8,435,323	$8,435,323

BYP2-2 (Continued)

(c) **Items have been grouped on the WestJet income statement based on the nature of the expenses such as expenses related to marketing, general, and administrative. Preparing a more condensed statement of income is preferable for large organizations such as WestJet as the users of the financial statements are generally investors who are not interested in any greater detail concerning expenses than what has been presented by management.**

(d) **Most customers using WestJet services book their flights well in advance of their trip. The customers also pay for their tickets before the flight. The cash obtained by WestJet represents unearned revenue until the service of the flight has been delivered to the customer.**

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

BYP2-3 COLLABORATIVE LEARNING ACTIVITY

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

BYP2-4 COMMUNICATION ACTIVITY

e-mail:

Hello instructor,

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

(1) In the first example, a transaction has not yet taken place. White Glove's financial position (assets, liabilities, and owner's equity) is not changed as a result of the contract. There has been no exchange between the parties involved in the event.

(2) In the second example, bills totalling $6,000 were sent to customers for services performed. First, we analyze the transaction to determine the accounts involved and the debits/credits required. We determine that the asset Accounts Receivable is increased $6,000 and Service Revenue is increased $6,000. Debits increase assets and credits increase revenues, so the next step is preparing the journal entry:

Accounts Receivable	**6,000**	
Service Revenue		**6,000**
Billed customer for services performed.		

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

BYP2-4 (Continued)

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

Salaries Expense..	**2,000**	
Cash...		**2,000**
Paid salaries.		

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

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

BYP2-5 "All About You" Activity

(a) On September 1, 2017, my personal equity would be as follows:

Cash ($4,000 + $14,000)	$18,000
Clothes	1,000
Cell phone	200
Total assets	19,200
Less Student loan	(14,000)
Personal equity, Sept. 1, 2017	$5,200

(b)

Personal Trial Balance
December 15, 2017

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

BYP2-5 (Continued)

(b) (Continued)

Errors in the Trial Balance:

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

(c)

Personal equity, September 1	**$5,200**
Net loss *	**(8,850)**
Personal equity (deficit), December 15th	**$(3,650)**

Rent expense	**$1,600**
Groceries expense	**1,200**
Tuition for September to December	**2,800**
Textbooks for September to December	**600**
Entertainment expense	**1,500**
Cell phone expense	**250**
Cable TV and internet expense	**200**
Bus pass for September to December	**250**
Airfare expense	**450**
***Net loss**	**$8,850**

BYP2-5 (Continued)

(d)

Personal Balance Sheet
December 15, 2017

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

(e) The amount of expenses in the September to December semester totalled $8,850. Of this amount, it will not be necessary to use cash to pay for the $250 bus pass next semester as it has already been purchased. If the other expenses are kept at the same level, I will need $8,600 ($8,850 – $250) of cash which exceeds my current cash balance of $6,000 by $2,600. The cash balance is inadequate.

(f) Expenses that can be avoided in the second semester include entertainment expenses of $1,500 and the airfare of $450. Another expense that can be reduced substantially but not eliminated is the cell phone expense.

(g) Additional cash expenditures that could occur in the second semester may possibly include repair to the computer or the loss of the damage deposit and additional payments to the landlord for damage to the apartment. Textbooks are another likely expense.

BYP2-5 (Continued)

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

BYP2-6 Santé Smoothie Saga

(a)

Apr.	12	No entry required for cashing Canada Savings Bonds—this is a personal transaction.		
	13	Cash	900	
		N. Koebel, Capital		900
	15	Cash	3,000	
		Notes Payable		3,000
	18	Advertising Expense	325	
		Cash		325
	20	Supplies	198	
		Cash		198
	22	Equipment	825	
		N. Koebel, Capital		825
	23	Account Receivable	300	
		Revenue		300
	24	Telephone Expense	98	
		Accounts Payable		98
	28	Cash	125	
		Unearned Revenue		125

BYP2-6 (Continued)

(b)

Cash

Apr. 13	900		
Apr. 15	3,000	Apr. 18	325
Apr.28	125	Apr. 20	198
Bal.	3,502		

Accounts Receivable

Apr. 23	300		

Supplies

Apr. 20	198		

Equipment

Apr. 22	825		

Accounts Payable

		Apr. 24	98

Unearned Revenue

		Apr. 28	125

Notes Payable

		Apr. 15	3,000

N. Koebel, Capital

		Apr. 13	900
		Apr. 22	825
		Bal.	1,725

BYP2-6 (Continued)

(b) (Continued)

Revenue

		Apr. 23	300

Advertising Expense

Apr. 18	325		

Telephone Expense

Apr. 24	98		

(c)

SANTÉ SMOOTHIES
Trial Balance
April 30, 2017

	Debit	Credit
Cash	$3,502	
Accounts receivable	300	
Supplies	198	
Equipment	825	
Accounts payable		$ 98
Unearned revenue		125
Notes payable		3,000
N. Koebel, capital		1,725
Revenue		300
Advertising expense	325	
Telephone expense	98	
	$5,248	$5,248

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