

CHAPTER 2 ANALYZING TRANSACTIONS

DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, owner's equity, revenue, or expense. A ledger is a group of related accounts.
2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset and expense accounts but a decrease in liability, owner's capital, and revenue accounts.
3.
 - a. Assuming no errors have occurred, the credit balance in the cash account resulted from drawing checks for \$1,850 in excess of the amount of cash on deposit.
 - b. The \$1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.
4.
 - a. The revenue was earned in October.
 - b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.
(2) Debit Cash and credit Accounts Receivable in November.
5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.
6. The listing of \$9,800 is a transposition; the listing of \$100 is a slide.
7.
 - a. No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.
 - b. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by \$90.
8.
 - a. The equality of the trial balance would not be affected.
 - b. On the income statement, total operating expenses (salary expense) would be overstated by \$7,500, and net income would be understated by \$7,500. On the statement of owner's equity, the beginning and ending capital would be correct. However, net income and withdrawals would be understated by \$7,500. These understatements offset one another, and, thus, ending owner's equity is correct. The balance sheet is not affected by the error.
9.
 - a. The equality of the trial balance would not be affected.
 - b. On the income statement, revenues (fees earned) would be overstated by \$300,000, and net income would be overstated by \$300,000. On the statement of owner's equity, the beginning capital would be correct. However, net income and ending capital would be overstated by \$300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by \$300,000, and owner's equity is overstated by \$300,000. The understatement of liabilities is offset by the overstatement of owner's equity, and, thus, total liabilities and owner's equity is correct.
10.
 - a. From the viewpoint of Surety Storage, the balance of the checking account represents an asset.
 - b. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

PRACTICE EXERCISES**PE 2-1A**

1. Debit and credit entries, normal debit balance
2. Credit entries only, normal credit balance
3. Debit and credit entries, normal credit balance
4. Credit entries only, normal credit balance
5. Credit entries only, normal credit balance
6. Debit entries only, normal debit balance

PE 2-1B

1. Debit and credit entries, normal credit balance
2. Debit and credit entries, normal debit balance
3. Debit entries only, normal debit balance
4. Debit entries only, normal debit balance
5. Debit entries only, normal debit balance
6. Credit entries only, normal credit balance

PE 2-2A

Feb.	12	Office Equipment	18,000	
		Cash		7,000
		Accounts Payable		11,000

PE 2-2B

Sept.	30	Office Supplies	2,500	
		Cash		800
		Accounts Payable		1,700

PE 2-3A

July	9	Accounts Receivable	12,000	
		Fees Earned		12,000

PE 2-3B

Aug.	13	Cash	9,000	
		Fees Earned		9,000

PE 2-4A

Jan.	25	Jay Nolan, Drawing	16,000	
		Cash		16,000

PE 2-4B

June	30	Dawn Pierce, Drawing	11,500	
		Cash		11,500

PE 2-5A

Using the following T account, solve for the amount of cash receipts (indicated by ? below).

Cash			
Feb. 1 Bal.	14,750	93,400	Cash payments
Cash receipts	?		
Feb. 28 Bal.	15,200		

$\$15,200 = \$14,750 + \text{Cash receipts} - \$93,400$
 $\text{Cash receipts} = \$15,200 + \$93,400 - \$14,750 = \$93,850$

PE 2-5B

Using the following T account, solve for the amount of supplies expense (indicated by ? below).

Supplies			
Aug. 1 Bal.	1,025	?	Supplies expense
Supplies purchased	3,110		
Aug. 31 Bal.	1,324		

$\$1,324 = \$1,025 + \$3,110 - \text{Supplies expense}$
 $\text{Supplies expense} = \$1,025 + \$3,110 - \$1,324 = \$2,811$

PE 2–6A

- a. The totals are unequal. The credit total is lower by \$900 (\$5,400 – \$4,500).
- b. The totals are equal since both the debit and credit entries were journalized and posted for \$720.
- c. The totals are unequal. The debit total is higher by \$3,200 (\$1,600 + \$1,600).

PE 2–6B

- a. The totals are equal since both the debit and credit entries were journalized and posted for \$12,900.
- b. The totals are unequal. The credit total is higher by \$1,656 (\$1,840 – \$184).
- c. The totals are unequal. The debit total is higher by \$4,500 (\$8,300 – \$3,800).

PE 2–7A

a.

Utilities Expense	7,300	
Miscellaneous Expense		7,300
Utilities Expense	7,300	
Cash		7,300

Note: The first entry in (a) reverses the incorrect entry, and the second entry records the correct entry. These two entries could also be combined into one entry as shown below; however, preparing two entries would make it easier for someone to understand later what happened and why the entries were necessary.

Utilities Expense	14,600	
Miscellaneous Expense		7,300
Cash		7,300

b.

Accounts Payable	6,100	
Accounts Receivable		6,100

PE 2-7B

a.	Cash	8,400	
	Accounts Receivable		8,400
b.	Supplies	2,500	
	Office Equipment		2,500
	Supplies	2,500	
	Accounts Payable		2,500

Note: The first entry in (b) reverses the incorrect entry, and the second entry records the correct entry. These two entries could also be combined into one entry as shown below; however, preparing two entries would make it easier for someone to understand later what happened and why the entries were necessary.

Supplies	5,000	
Office Equipment		2,500
Accounts Payable		2,500

PE 2-8A

Fuller Company Income Statements For Years Ended December 31				
	2014	2013	Increase/(Decrease)	
			Amount	Percent
Fees earned	\$680,000	\$850,000	\$(170,000)	-20.0%
Operating expenses	541,875	637,500	(95,625)	-15.0%
Net income	\$138,125	\$212,500	\$ (74,375)	-35.0%

PE 2-8B

Paragon Company Income Statements For Years Ended December 31				
	2014	2013	Increase/(Decrease)	
			Amount	Percent
Fees earned	\$1,416,000	\$1,200,000	\$216,000	18.0%
Operating expenses	1,044,000	900,000	144,000	16.0%
Net income	\$ 372,000	\$ 300,000	\$ 72,000	24.0%

EXERCISES

Ex. 2-1

Balance Sheet Accounts	Income Statement Accounts
<u>Assets</u>	<u>Revenue</u>
Flight Equipment	Cargo and Mail Revenue
Purchase Deposits for Flight Equipment ^a	Passenger Revenue
Spare Parts and Supplies	
<u>Liabilities</u>	<u>Expenses</u>
Accounts Payable	Aircraft Fuel Expense
Air Traffic Liability ^b	Commissions (Expense) ^c
	Landing Fees (Expense) ^d
<u>Owner's Equity</u>	
None	

- ^a Advance payments (deposits) on aircraft to be delivered in the future
- ^b Passenger ticket sales not yet recognized as revenue
- ^c Commissions paid to travel agents
- ^d Fees paid to airports for landing rights

Ex. 2-2

Account	Account Number
Accounts Payable	21
Accounts Receivable	12
Cash	11
Fees Earned	41
Gina Kissel, Capital	31
Gina Kissel, Drawing	32
Land	13
Miscellaneous Expense	53
Supplies Expense	52
Wages Expense	51

Note: Expense accounts are normally listed in order of magnitude from largest to smallest with Miscellaneous Expense always listed last. Since Wages Expense is normally larger than Supplies Expense, Wages Expense is listed as account number 51 and Supplies Expense as account number 52.

Ex. 2-3

Balance Sheet Accounts	Income Statement Accounts
<u>1. Assets</u>	<u>4. Revenue</u>
11 Cash	41 Fees Earned
12 Accounts Receivable	
13 Supplies	<u>5. Expenses</u>
14 Prepaid Insurance	51 Wages Expense
15 Equipment	52 Rent Expense
	53 Supplies Expense
<u>2. Liabilities</u>	59 Miscellaneous Expense
21 Accounts Payable	
22 Unearned Rent	
<u>3. Owner's Equity</u>	
31 Ivy Bishop, Capital	
32 Ivy Bishop, Drawing	

Note: The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14, accounts 21–22, and accounts 51–53. In a new business, the order of magnitude of balances in such accounts is not determinable in advance. The magnitude may also vary from period to period.

Ex. 2-4

- | | |
|-----------|-----------|
| a. debit | g. debit |
| b. credit | h. credit |
| c. credit | i. debit |
| d. credit | j. credit |
| e. debit | k. debit |
| f. credit | l. debit |

Ex. 2-5

1. debit and credit entries (c)
2. debit and credit entries (c)
3. debit and credit entries (c)
4. credit entries only (b)
5. debit entries only (a)
6. debit entries only (a)
7. debit entries only (a)

Ex. 2-6

- | | |
|--|-------------------|
| a. Liability—credit | e. Asset—debit |
| b. Asset—debit | f. Revenue—credit |
| c. Owner’s equity
(Amanda Whitmore, Capital)—credit | g. Asset—debit |
| d. Owner’s equity
(Amanda Whitmore, Drawing)—debit | h. Expense—debit |
| | i. Asset—debit |
| | j. Expense—debit |

Ex. 2-7

2014				
July	1	Rent Expense	3,200	
		Cash		3,200
	3	Advertising Expense	750	
		Cash		750
	5	Supplies	1,300	
		Cash		1,300
	6	Office Equipment	12,500	
		Accounts Payable		12,500
	10	Cash	11,400	
		Accounts Receivable		11,400
	15	Accounts Payable	1,175	
		Cash		1,175
	27	Miscellaneous Expense	600	
		Cash		600
	30	Utilities Expense	180	
		Cash		180
	31	Accounts Receivable	33,760	
		Fees Earned		33,760
	31	Utilities Expense	1,300	
		Cash		1,300
	31	Dennis Isberg, Drawing	4,000	
		Cash		4,000

Ex. 2-8

a.

JOURNAL

Page 19

Date	Description	Post. Ref.	Debit	Credit
2014	Adjusting Entries			
May 22	Supplies	15	6,180	
	Accounts Payable	21		6,180
	Purchased supplies on account.			

b., c., d.

Account: Supplies Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
May 1	Balance	√			1,500	
	22	19	6,180		7,680	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
May 1	Balance	√				16,750
	22	19		6,180		22,930

e. Yes, the rules of debit and credit apply to all companies.

Ex. 2-9

a. (1)

Accounts Receivable	48,600	
Fees Earned		48,600

(2)

Supplies	1,975	
Accounts Payable		1,975

(3)

Cash	31,400	
Accounts Receivable		31,400

(4)

Accounts Payable	1,350	
Cash		1,350

Ex. 2-9 (Concluded)

b.

Cash		Accounts Payable	
(3)	31,400	(4)	1,350
Supplies		Fees Earned	
(2)	1,975	(1)	48,600
Accounts Receivable			
(1)	48,600	(3)	31,400

c. **No. A credit balance in Accounts Receivable could occur if a customer overpaid his or her account. Regardless, the credit balance should be investigated to verify that an error has not occurred.**

Ex. 2-10

a. **The increase of \$140,000 (\$515,000 – \$375,000) in the cash account does not indicate net income of that amount. Net income is the net change in all assets and liabilities from operating (revenue and expense) transactions.**

b. **\$60,000 (\$200,000 – \$140,000)**

or

Cash	
X	375,000
515,000	_____
200,000	

$$X + \$515,000 - \$375,000 = \$200,000$$

$$X = \$200,000 - \$515,000 + \$375,000$$

$$X = \$60,000$$

Ex. 2-11

a.

Accounts Payable		
	276,500	
Mar. 1		X
		261,000
Mar. 31		76,000

$$X + \$261,000 - \$276,500 = \$76,000$$

$$X = \$76,000 + \$276,500 - \$261,000$$

$$X = \$91,500$$

b.

Accounts Receivable		
July 1	49,000	
	X	
July 31	61,500	525,000

$$\$49,000 + X - \$525,000 = \$61,500$$

$$X = \$61,500 + \$525,000 - \$49,000$$

$$X = \$537,500$$

c.

Cash		
Sept. 1	28,440	
	112,100	
Sept. 30	33,200	X

$$\$28,440 + \$112,100 - X = \$33,200$$

$$X = \$28,440 + \$112,100 - \$33,200$$

$$X = \$107,340$$

Ex. 2-12

- a. Debit (negative) balance of \$16,000 (\$314,000 - \$10,000 - \$320,000). This negative balance means that the liabilities of Waters' business exceed the assets.
- b. Yes. The balance sheet prepared at December 31 will balance, with Terrace Waters, Capital, being reported in the owner's equity section as a negative \$16,000.

Ex. 2–13

a. and b.

Transaction	Account Debited		Account Credited	
	Type	Effect	Type	Effect
(1)	asset	+	owner's equity	+
(2)	asset	+	asset	-
(3)	asset	+	asset	-
			liability	+
(4)	expense	+	asset	-
(5)	asset	+	revenue	+
(6)	liability	-	asset	-
(7)	asset	+	asset	-
(8)	expense	+	asset	-
(9)	drawing	+	asset	-

Ex. 2–14

(1)	Cash	75,000	
	Luis Chavez, Capital		75,000
(2)	Supplies	4,000	
	Cash		4,000
(3)	Equipment	25,000	
	Accounts Payable		22,000
	Cash		3,000
(4)	Operating Expenses	2,700	
	Cash		2,700
(5)	Accounts Receivable	19,500	
	Service Revenue		19,500
(6)	Accounts Payable	9,000	
	Cash		9,000
(7)	Cash	11,000	
	Accounts Receivable		11,000
(8)	Operating Expenses	2,000	
	Supplies		2,000
(9)	Luis Chavez, Drawing	5,000	
	Cash		5,000

Ex. 2-15

a.

GRAND CANYON TOURS CO.		
Unadjusted Trial Balance		
April 30, 2014		
	Debit Balances	Credit Balances
Cash	62,300	
Accounts Receivable	8,500	
Supplies	2,000	
Equipment	25,000	
Accounts Payable		13,000
Luis Chavez, Capital		75,000
Luis Chavez, Drawing	5,000	
Service Revenue		19,500
Operating Expenses	4,700	
	107,500	107,500

b. Net income, \$14,800 (\$19,500 – \$4,700)

Ex. 2-16

LEAF CO.		
Unadjusted Trial Balance		
December 31, 2014		
	Debit Balances	Credit Balances
Cash	13,500 *	
Accounts Receivable	38,100	
Supplies	3,200	
Prepaid insurance	6,400	
Land	40,000	
Accounts Payable		23,500
Unearned Rent		13,500
Notes Payable		50,000
Dan Leafdale, Capital		50,000
Dan Leafdale, Drawing	16,000	
Fees Earned		538,000
Wages Expense	476,800	
Rent Expense	36,000	
Utilities Expense	18,000	
Supplies Expense	9,000	
Insurance Expense	6,000	
Miscellaneous Expense	12,000	
	675,000	675,000

*\$13,500 = \$675,000 – \$12,000 – \$6,000 – \$9,000 – \$18,000 – \$36,000 – \$476,800 – \$16,000
 – \$40,000 – \$6,400 – 3,200 – \$38,100

Ex. 2-17

Inequality of trial balance totals would be caused by errors described in (c) and (e). For (c), the debit total would exceed the credit total by \$9,900 (\$4,950 + \$4,950). For (e), the credit total would exceed the debit total by \$17,100 (\$19,000 – \$1,900).

Errors (b), (d), and (e) would require correcting entries. Although it is not a correcting entry, the entry that was not made in (a) should also be entered in the journal.

Ex. 2-18

RANGER CO.		
Unadjusted Trial Balance		
August 31, 2014		
	Debit Balances	Credit Balances
Cash	15,500	
Accounts Receivable	46,750	
Prepaid Insurance	12,000	
Equipment	190,000	
Accounts Payable		24,600
Unearned Rent		5,400
Carmen Meeks, Capital		110,000
Carmen Meeks, Drawing	13,000	
Service Revenue		385,000
Wages Expense	213,000	
Advertising Expense	16,350	
Miscellaneous Expense	18,400	
	525,000	525,000

Ex. 2-19

Error	(a) Out of Balance	(b) Difference	(c) Larger Total
1.	yes	\$6,000	debit
2.	no	—	—
3.	yes	5,400	credit
4.	yes	480	debit
5.	no	—	—
6.	yes	90	credit
7.	yes	360	credit

Ex. 2–20

1. The Debit column total is added incorrectly. The sum is \$890,700 rather than \$1,189,300.
2. The trial balance should be dated “July 31, 2014,” not “For the Month Ending July 31, 2014.”
3. The Accounts Receivable balance should be in the Debit column.
4. The Accounts Payable balance should be in the Credit column.
5. The Samuel Parson, Drawing, balance should be in the Debit column.
6. The Advertising Expense balance should be in the Debit column.

A corrected trial balance would be as follows:

MASCOT CO.		
Unadjusted Trial Balance		
July 31, 2014		
	Debit Balances	Credit Balances
Cash	36,000	
Accounts Receivable	112,600	
Prepaid Insurance	18,000	
Equipment	375,000	
Accounts Payable		53,300
Salaries Payable		7,500
Samuel Parson, Capital		297,200
Samuel Parson, Drawing	17,000	
Service Revenue		682,000
Salary Expense	396,800	
Advertising Expense	73,000	
Miscellaneous Expense	11,600	
	1,040,000	1,040,000

Ex. 2–21

a.	Prepaid Rent	13,550	
	Cash		13,550
b.	Ron Sutin, Drawing	14,000	
	Wages Expense		14,000

Ex. 2-22

a.	Cash	17,600	
	Fees Earned		8,800
	Accounts Receivable		8,800
b.	Accounts Payable*	1,760	
	Supplies Expense		1,760
	Supplies	1,760	
	Cash		1,760

* The first entry reverses the original entry. The second entry is the entry that should have been made initially.

Ex. 2-23

- a. 1. Revenue:
 \$2,033 million increase (\$67,390 – \$65,357)
 3.1% increase ($\$2,033 \div \$65,357$)
2. Operating expenses:
 \$1,454 million increase (\$62,138 – \$60,684)
 2.4% increase ($\$1,454 \div \$60,684$)
3. Operating income:
 \$579 million increase (\$5,252 – \$4,673)
 12.4% increase ($\$579 \div \$4,673$)
- b. During the recent year, revenue increased by 3.1%, while operating expenses increased by only 2.4%. As a result, operating income increased by 12.4%, a favorable trend from the prior year.

Ex. 2–24

- a. 1. **Revenue:**
 \$13,764 million increase (\$421,849 – \$408,085)
 3.4% increase (\$13,764 ÷ \$408,085)
2. **Operating expenses:**
 \$12,224 million increase (\$396,307 – \$384,083)
 3.2% increase (\$12,224 ÷ \$384,083)
3. **Operating expenses:**
 \$1,540 million increase (\$25,542 – \$24,002)
 6.4% increase (\$1,540 ÷ \$24,002)
- b. **During the recent year, revenue increased by 3.4%, while operating expenses increased by 3.2%. As a result, operating income increased by 6.4%, a favorable trend from the prior year.**
- c. **Because of the size differences between Target and Walmart (Walmart has over 6 times the revenue), it is best to compare the two companies on the basis of percent changes. Target and Walmart increased their revenue from the prior year by approximately the same percent (3.1% for Target and 3.4% for Walmart). However, Target's operating expenses increased by only 2.4% compared to Walmart's 3.2% increase. As a result, Target's operating income increased by 12.4% compared to Walmart's 6.4% increase. Based upon this analysis, it appears that Target was better able to control its operating expenses as its revenue increased than was Walmart.**

PROBLEMS

Prob. 2-1A

1. and 2.

Cash	
(a) 25,000	(b) 2,750
(g) 11,150	(c) 4,000
	(e) 1,600
	(f) 2,400
	(h) 300
	(i) 3,500
	(j) 550
	(m) 2,200
	(n) 815
Bal. 18,035	

Accounts Receivable	
(l) 17,300	

Supplies	
(e) 1,600	

Prepaid Insurance	
(f) 2,400	

Automobiles	
(c) 30,000	

Equipment	
(d) 9,000	

Notes Payable	
(j) 550	(c) 26,000
	Bal. 25,450

Accounts Payable	
(i) 3,500	(d) 9,000
	(k) 1,500
	Bal. 7,000

Lynn Cantwell, Capital	
	(a) 25,000

Professional Fees	
	(g) 11,150
	(l) 17,300
	Bal. 28,450

Rent Expense	
(b) 2,750	

Salary Expense	
(m) 2,200	

Blueprint Expense	
(k) 1,500	

Automobile Expense	
(n) 815	

Miscellaneous Expense	
(h) 300	

Prob. 2-1A (Concluded)

3.

LYNN CANTWELL, ARCHITECT		
Unadjusted Trial Balance		
July 31, 2014		
	Debit Balances	Credit Balances
Cash	18,035	
Accounts Receivable	17,300	
Supplies	1,600	
Prepaid Insurance	2,400	
Automobiles	30,000	
Equipment	9,000	
Notes Payable		25,450
Accounts Payable		7,000
Lynn Cantwell, Capital		25,000
Professional Fees		28,450
Rent Expense	2,750	
Salary Expense	2,200	
Blueprint Expense	1,500	
Automobile Expense	815	
Miscellaneous Expense	300	
	85,900	85,900

4. Net income, \$20,885 ($\$28,450 - \$2,750 - \$2,200 - \$1,500 - \$815 - \300)

Prob. 2-2A

1. (a)	Cash	23,500	
	Alicia Masingale, Capital		23,500
(b)	Rent Expense	4,000	
	Cash		4,000
(c)	Supplies	1,800	
	Accounts Payable		1,800
(d)	Accounts Payable	675	
	Cash		675
(e)	Cash	16,750	
	Sales Commissions		16,750
(f)	Automobile Expense	1,000	
	Miscellaneous Expense	800	
	Cash		1,800
(g)	Office Salaries Expense	2,150	
	Cash		2,150
(h)	Supplies Expense	925	
	Supplies		925
(i)	Alicia Masingale, Drawing	1,600	
	Cash		1,600

Prob. 2–2A (Continued)

2.

Cash	
(a) 23,500	(b) 4,000
(e) 16,750	(d) 675
	(f) 1,800
	(g) 2,150
	(i) 1,600
Bal. 30,025	

Sales Commissions	
	(e) 16,750

Rent Expense	
(b) 4,000	

Supplies	
(c) 1,800	(h) 925
Bal. 875	

Office Salaries Expense	
(g) 2,150	

Accounts Payable	
(d) 675	(c) 1,800
	Bal. 1,125

Automobile Expense	
(f) 1,000	

Alicia Masingale, Capital	
	(a) 23,500

Supplies Expense	
(h) 925	

Alicia Masingale, Drawing	
(i) 1,600	

Miscellaneous Expense	
(f) 800	

Prob. 2-2A (Concluded)

3.

LEOPARD REALTY		
Unadjusted Trial Balance		
January 31, 2014		
	Debit Balances	Credit Balances
Cash	30,025	
Supplies	875	
Accounts Payable		1,125
Alicia Masingale, Capital		23,500
Alicia Masingale, Drawing	1,600	
Sales Commissions		16,750
Rent Expense	4,000	
Office Salaries Expense	2,150	
Automobile Expense	1,000	
Supplies Expense	925	
Miscellaneous Expense	800	
	41,375	41,375

4. a. \$16,750
 b. \$8,875 ($\$4,000 + \$2,150 + \$1,000 + \$925 + \800)
 c. \$7,875 ($\$16,750 - \$8,875$)
5. \$29,775, which is the initial investment of \$23,500 plus the excess of net income of \$7,875 over the withdrawals of \$1,600.

Prob. 2-3A

1.

JOURNAL

Page 1

Date	Description	Post. Ref.	Debit	Credit
2014				
June 1	Cash	11	21,500	
	Ellie Hopkins, Capital	31		21,500
	1 Rent Expense	53	4,200	
	Cash	11		4,200
	6 Equipment	16	8,500	
	Accounts Payable	22		8,500
	8 Truck	18	28,000	
	Cash	11		3,000
	Notes Payable	21		25,000
	10 Supplies	13	1,800	
	Cash	11		1,800
	12 Cash	11	9,000	
	Fees Earned	41		9,000
	15 Prepaid Insurance	14	2,700	
	Cash	11		2,700
	23 Accounts Receivable	12	13,650	
	Fees Earned	41		13,650
	24 Truck Expense	55	975	
	Accounts Payable	22		975

JOURNAL

Page 2

Date	Description	Post. Ref.	Debit	Credit
2014				
June 29	Utilities Expense	54	2,480	
	Cash	11		2,480
	29 Miscellaneous Expense	59	750	
	Cash	11		750

Prob. 2-3A (Continued)

Account: Supplies Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	10	1	1,800		1,800	

Account: Prepaid Insurance Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	15	1	2,700		2,700	

Account: Equipment Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	6	1	8,500		8,500	

Account: Truck Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	8	1	28,000		28,000	

Account: Notes Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	8	1		25,000		25,000

Account: Accounts Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	6	1		8,500		8,500
	24	1		975		9,475
	30	2	4,250			5,225

Prob. 2-3A (Continued)

Account: Ellie Hopkins, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	1	1		21,500		21,500

Account: Ellie Hopkins, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	30	2	3,000			3,000

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	12	1		9,000		9,000
	23	1		13,650		22,650

Account: Wages Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	30	2	5,100			5,100

Account: Rent Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	1	1	4,200			4,200

Account: Utilities Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June	29	2	2,480			2,480

Prob. 2–3A (Continued)

Account: Truck Expense Account No. 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
June	24		1	975		975	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
June	29		2	750		750	

Prob. 2–3A (Concluded)

3.

FIRST-CLASS DESIGNS		
Unadjusted Trial Balance		
June 30, 2014		
	Debit Balances	Credit Balances
Cash	11,020	
Accounts Receivable	5,850	
Supplies	1,800	
Prepaid Insurance	2,700	
Equipment	8,500	
Truck	28,000	
Notes Payable		25,000
Accounts Payable		5,225
Ellie Hopkins, Capital		21,500
Ellie Hopkins, Drawing	3,000	
Fees Earned		22,650
Wages Expense	5,100	
Rent Expense	4,200	
Utilities Expense	2,480	
Truck Expense	975	
Miscellaneous Expense	750	
	74,375	74,375

4. \$9,145 ($\$22,650 - \$5,100 - \$4,200 - \$2,480 - \$975 - \750)
5. As will be discussed in Chapter 3, various adjustments are normally required at the end of the accounting period. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required.

Note to Instructors: At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.

Prob. 2–4A

2. and 3.

JOURNAL

Date	Description	Post. Ref.	Debit	Credit
2014				
Apr. 1	Rent Expense	52	6,500	
	Cash	11		6,500
2	Office Supplies	14	2,300	
	Accounts Payable	21		2,300
5	Prepaid Insurance	13	6,000	
	Cash	11		6,000
10	Cash	11	52,300	
	Accounts Receivable	12		52,300
15	Land	16	200,000	
	Cash	11		30,000
	Notes Payable	23		170,000
17	Accounts Payable	21	6,450	
	Cash	11		6,450
20	Accounts Payable	21	325	
	Office Supplies	14		325
23	Advertising Expense	53	4,300	
	Cash	11		4,300

JOURNAL

Date	Description	Post. Ref.	Debit	Credit
2014				
Apr. 27	Cash	11	2,500	
	Salary and Commission Expense	51		2,500
28	Automobile Expense	54	1,500	
	Cash	11		1,500
29	Miscellaneous Expense	59	1,400	
	Cash	11		1,400

Prob. 2-4A (Continued)

Account: Prepaid Insurance Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr.	1 Balance	✓			3,000	
	5	18	6,000		9,000	

Account: Office Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr.	1 Balance	✓			1,800	
	2	18	2,300		4,100	
	20	18		325	3,775	

Account: Land Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr.	15	18	200,000		200,000	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr.	1 Balance	✓				14,000
	2	18		2,300		16,300
	17	18	6,450			9,850
	20	18	325			9,525

Account: Unearned Rent Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr.	30	19		10,000		10,000

Account: Notes Payable Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr.	15	18		170,000		170,000

Prob. 2-4A (Continued)

Account: Lester Wagner, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓				46,000

Account: Lester Wagner, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			2,000	
	30	19	4,000		6,000	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓				240,000
	30	19		57,000		297,000

Account: Salary and Commission Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			148,200	
	27	19		2,500	145,700	
	30	19	11,900		157,600	

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			30,000	
	1	18	6,500		36,500	

Account: Advertising Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			17,800	
	23	18	4,300		22,100	

Prob. 2-4A (Continued)

Account: Automobile Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			5,500	
	28	19	1,500		7,000	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			3,900	
	29	19	1,400		5,300	

4.

ELITE REALTY Unadjusted Trial Balance April 30, 2014		
	Debit Balances	Credit Balances
Cash	19,050	
Accounts Receivable	66,200	
Prepaid Insurance	9,000	
Office Supplies	3,775	
Land	200,000	
Accounts Payable		9,525
Unearned Rent		10,000
Notes Payable		170,000
Lester Wagner, Capital		46,000
Lester Wagner, Drawing	6,000	
Fees Earned		297,000
Salary and Commission Expense	157,600	
Rent Expense	36,500	
Advertising Expense	22,100	
Automobile Expense	7,000	
Miscellaneous Expense	5,300	
	532,525	532,525

Prob. 2-4A (Concluded)

5. (a) The unadjusted trial balance in (4) still balances, since the debits equaled the credits in the original journal entry.

(b) The correcting entry for \$7,200 (\$19,100 – \$11,900) would be as follows:

JOURNAL

Page 19

Date		Description	Post. Ref.	Debit	Credit
2014					
Apr.	30	Salary and Commission Expense	51	7,200	
		Cash	11		7,200

(c) Transposition

Prob. 2–5A

1.

THE COLBY GROUP		
Unadjusted Trial Balance		
August 31, 2014		
	Debit Balances	Credit Balances
Cash*	22,400	
Accounts Receivable	48,000	
Supplies	8,750	
Prepaid Insurance	4,300	
Equipment	196,000	
Notes Payable		117,600
Accounts Payable		30,800
Terry Colby, Capital		122,150
Terry Colby, Drawing	63,000	
Fees Earned		454,450
Wages Expense	270,000	
Rent Expense	58,100	
Advertising Expense	25,200	
Gas, Electricity, and Water Expense	24,150	
Miscellaneous Expense	5,100	
	725,000	725,000

* \$17,300 + \$6,000 (a) – \$900 (b)

2. **No.** The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

Prob. 2-1B

1. and 2.

Cash			
(a)	18,000	(b)	2,500
(g)	12,000	(c)	3,150
		(d)	1,450
		(f)	2,400
		(h)	1,800
		(i)	375
		(l)	2,800
		(m)	200
		(n)	300
		(o)	550
Bal.	14,475		

Accounts Payable			
(h)	1,800	(e)	6,500
		(j)	2,500
		Bal.	7,200

Ken Jones, Capital	
(a)	18,000

Professional Fees	
(g)	12,000
(k)	15,650
Bal.	27,650

Accounts Receivable	
(k)	15,650

Rent Expense	
(c)	3,150

Supplies	
(d)	1,450

Salary Expense	
(l)	2,800

Prepaid Insurance	
(f)	2,400

Blueprint Expense	
(j)	2,500

Automobiles	
(b)	19,500

Automobile Expense	
(o)	550

Equipment	
(e)	6,500

Miscellaneous Expense	
(i)	375
(m)	200
Bal.	575

Notes Payable			
(n)	300	(b)	17,000
		Bal.	16,700

Prob. 2-1B (Concluded)

3.

KEN JONES, ARCHITECT Unadjusted Trial Balance April 30, 2014		
	Debit Balances	Credit Balances
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Notes Payable		16,700
Accounts Payable		7,200
Ken Jones, Capital		18,000
Professional Fees		27,650
Rent Expense	3,150	
Salary Expense	2,800	
Blueprint Expense	2,500	
Automobile Expense	550	
Miscellaneous Expense	575	
	69,550	69,550

4. Net income, \$18,075 ($\$27,650 - \$3,150 - \$2,800 - \$2,500 - \$550 - \575)

Prob. 2-2B

1. (a)	Cash	17,500	
	Rafael Masey, Capital		17,500
(b)	Supplies	2,300	
	Accounts Payable		2,300
(c)	Cash	13,300	
	Sales Commissions		13,300
(d)	Rent Expense	3,000	
	Cash		3,000
(e)	Accounts Payable	1,150	
	Cash		1,150
(f)	Rafael Masey, Drawing	1,800	
	Cash		1,800
(g)	Automobile Expense	1,500	
	Miscellaneous Expense	400	
	Cash		1,900
(h)	Office Salaries Expense	2,800	
	Cash		2,800
(i)	Supplies Expense	1,050	
	Supplies		1,050

Prob. 2-2B (Continued)

2.

Cash	
(a)	17,500
(c)	13,300
Bal.	20,150

Sales Commissions	
(c)	13,300
Rent Expense	
(d)	3,000

Supplies	
(b)	2,300
Bal.	1,250

Office Salaries Expense	
(h)	2,800

Accounts Payable	
(e)	1,150
Bal.	1,150

Automobile Expense	
(g)	1,500

Rafael Masey, Capital	
(a)	17,500

Supplies Expense	
(i)	1,050

Rafael Masey, Drawing	
(f)	1,800

Miscellaneous Expense	
(g)	400

Prob. 2–2B (Concluded)

3.

PLANET REALTY		
Unadjusted Trial Balance		
August 31, 2014		
	Debit Balances	Credit Balances
Cash	20,150	
Supplies	1,250	
Accounts Payable		1,150
Rafael Masey, Capital		17,500
Rafael Masey, Drawing	1,800	
Sales Commissions		13,300
Rent Expense	3,000	
Office Salaries Expense	2,800	
Automobile Expense	1,500	
Supplies Expense	1,050	
Miscellaneous Expense	400	
	31,950	31,950

4. a. \$13,300
 b. \$8,750 ($\$3,000 + \$2,800 + \$1,500 + \$1,050 + \400)
 c. \$4,550 ($\$13,300 - \$8,750$)
5. \$20,250, which is the initial investment of \$17,500 plus the excess of net income of \$4,550 over the withdrawals of \$1,800.

Prob. 2-3B

1.

JOURNAL

Page 1

Date	Description	Post. Ref.	Debit	Credit
2014				
Oct. 1	Cash	11	18,000	
	Jay Pryor, Capital	31		18,000
	4 Rent Expense	53	3,000	
	Cash	11		3,000
	10 Truck	18	23,750	
	Cash	11		3,750
	Notes Payable	21		20,000
	13 Equipment	16	10,500	
	Accounts Payable	22		10,500
	14 Supplies	13	2,100	
	Cash	11		2,100
	15 Prepaid Insurance	14	3,600	
	Cash	11		3,600
	15 Cash	11	8,950	
	Fees Earned	41		8,950

JOURNAL

Page 2

Date	Description	Post. Ref.	Debit	Credit
2014				
Oct. 21	Accounts Payable	22	2,000	
	Cash	11		2,000
	24 Accounts Receivable	12	14,150	
	Fees Earned	41		14,150
	26 Truck Expense	55	700	
	Accounts Payable	22		700
	27 Utilities Expense	54	2,240	
	Cash	11		2,240

Prob. 2-3B (Continued)

Account: Supplies Account No. 13

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	14		1	2,100		2,100	

Account: Prepaid Insurance Account No. 14

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	15		1	3,600		3,600	

Account: Equipment Account No. 16

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	13		1	10,500		10,500	

Account: Truck Account No. 18

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	10		1	23,750		23,750	

Account: Notes Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	10		1		20,000		20,000

Account: Accounts Payable Account No. 22

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	13		1		10,500		10,500
	21		2	2,000			8,500
	26		2		700		9,200

Prob. 2-3B (Continued)

Account: Jay Pryor, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	1	1		18,000		18,000

Account: Jay Pryor, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	31	2	3,500			3,500

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	15	1		8,950		8,950
	24	2		14,150		23,100

Account: Wages Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	30	2	4,800			4,800

Account: Rent Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	4	1	3,000			3,000

Account: Utilities Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	27	2	2,240			2,240

Prob. 2-3B (Continued)

Account: Truck Expense Account No. 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	26		2	700		700	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	27		2	1,100		1,100	

Prob. 2–3B (Concluded)

3.

PIONEER DESIGNS		
Unadjusted Trial Balance		
October 31, 2014		
	Debit Balances	Credit Balances
Cash	8,460	
Accounts Receivable	6,550	
Supplies	2,100	
Prepaid Insurance	3,600	
Equipment	10,500	
Truck	23,750	
Notes Payable		20,000
Accounts Payable		9,200
Jay Pryor, Capital		18,000
Jay Pryor, Drawing	3,500	
Fees Earned		23,100
Wages Expense	4,800	
Rent Expense	3,000	
Utilities Expense	2,240	
Truck Expense	700	
Miscellaneous Expense	1,100	
	70,300	70,300

4. \$11,260 (\$23,100 – \$4,800 – \$3,000 – \$2,240 – \$700 – \$1,100)
5. As will be discussed in Chapter 3, various adjustments are normally required at the end of the accounting period. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required.

Note to Instructors: At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.

Prob. 2-4B

2. and 3.

JOURNAL

Page 18

Date	Description	Post. Ref.	Debit	Credit
2014				
Aug. 1	Office Supplies	14	3,150	
	Accounts Payable	21		3,150
	2 Rent Expense	52	7,200	
	Cash	11		7,200
	3 Cash	11	83,900	
	Accounts Receivable	12		83,900
	5 Prepaid Insurance	13	12,000	
	Cash	11		12,000
	9 Accounts Payable	21	400	
	Office Supplies	14		400
	17 Advertising Expense	53	8,000	
	Cash	11		8,000
	23 Accounts Payable	21	13,750	
	Cash	11		13,750

JOURNAL

Page 19

Date	Description	Post. Ref.	Debit	Credit
2014				
Aug. 29	Miscellaneous Expense	59	1,700	
	Cash	11		1,700
	30 Automobile Expense	54	2,500	
	Cash	11		2,500
	31 Cash	11	2,000	
	Salary and Commission Expense	51		2,000
	31 Salary and Commission Expense	51	53,000	
	Cash	11		53,000

Prob. 2-4B (Continued)

Account: Prepaid Insurance Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			12,600	
	5	18	12,000		24,600	

Account: Office Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			2,800	
	1	18	3,150		5,950	
	9	18		400	5,550	

Account: Land Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	31	19	75,000		75,000	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓				21,000
	1	18		3,150		24,150
	9	18	400			23,750
	23	18	13,750			10,000

Account: Unearned Rent Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	31	19		5,000		5,000

Account: Notes Payable Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	31	19		67,500		67,500

Prob. 2-4B (Continued)

Account: Cindy Getman, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓				87,500

Account: Cindy Getman, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			44,800	
	31	19	1,000		45,800	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓				591,500
	31	19		183,500		775,000

Account: Salary and Commission Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			385,000	
	31	19		2,000	383,000	
	31	19	53,000		436,000	

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			49,000	
	2	18	7,200		56,200	

Account: Advertising Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			32,200	
	17	18	8,000		40,200	

Prob. 2-4B (Continued)

Account: Automobile Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			15,750	
	30	19	2,500		18,250	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			5,250	
	29	19	1,700		6,950	

4.

VALLEY REALTY Unadjusted Trial Balance August 31, 2014		
	Debit Balances	Credit Balances
Cash	36,750	
Accounts Receivable	199,700	
Prepaid Insurance	24,600	
Office Supplies	5,550	
Land	75,000	
Accounts Payable		10,000
Unearned Rent		5,000
Notes Payable		67,500
Cindy Getman, Capital		87,500
Cindy Getman, Drawing	45,800	
Fees Earned		775,000
Salary and Commission Expense	436,000	
Rent Expense	56,200	
Advertising Expense	40,200	
Automobile Expense	18,250	
Miscellaneous Expense	6,950	
	945,000	945,000

Prob. 2-4B (Concluded)

5. (a) The unadjusted trial balance in (4) still balances, since the debits equaled the credits in the original journal entry.

(b) The correcting entry for \$9,000 (\$10,000 – \$1,000) would be as follows:

JOURNAL					Page <u>19</u>
Date		Description	Post. Ref.	Debit	Credit
2014					
Aug.	31	Cindy Getman, Drawing	32	9,000	
		Cash	11		9,000

(c) Slide

Prob. 2-5B

1.

TECH SUPPORT SERVICES		
Unadjusted Trial Balance		
January 31, 2014		
	Debit Balances	Credit Balances
Cash*	20,250	
Accounts Receivable	56,400	
Supplies	6,750	
Prepaid Insurance	9,600	
Equipment	162,000	
Notes Payable		54,000
Accounts Payable		16,650
Thad Engelberg, Capital		107,850
Thad Engelberg, Drawing	39,000	
Fees Earned		534,000
Wages Expense	306,000	
Rent Expense	62,550	
Advertising Expense	28,350	
Gas, Electricity, and Water Expense	17,000	
Miscellaneous Expense	4,600	
	712,500	712,500

* $\$25,550 - \$8,000$ (a) + $\$2,700$ (b)

2. **No.** The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

CONTINUING PROBLEM

2. and 3.

JOURNALPage 1

Date		Description	Post. Ref.	Debit	Credit
2014					
July	1	Cash	11	5,000	
		Peyton Smith, Capital	31		5,000
	1	Office Rent Expense	51	1,750	
		Cash	11		1,750
	1	Prepaid Insurance	15	2,700	
		Cash	11		2,700
	2	Cash	11	1,000	
		Accounts Receivable	12		1,000
	3	Cash	11	7,200	
		Unearned Revenue	23		7,200
	3	Accounts Payable	21	250	
		Cash	11		250
	4	Miscellaneous Expense	59	900	
		Cash	11		900
	5	Office Equipment	17	7,500	
		Accounts Payable	21		7,500
	8	Advertising Expense	55	200	
		Cash	11		200
	11	Cash	11	1,000	
		Fees Earned	41		1,000
	13	Equipment Rent Expense	52	700	
		Cash	11		700
	14	Wages Expense	50	1,200	
		Cash	11		1,200

Continuing Problem (Continued)

2. and 3.

JOURNAL

Date	Description	Post. Ref.	Debit	Credit
2014				
July 16	Cash	11	2,000	
	Fees Earned	41		2,000
	18 Supplies	14	850	
	Accounts Payable	21		850
	21 Music Expense	54	620	
	Cash	11		620
	22 Advertising Expense	55	800	
	Cash	11		800
	23 Cash	11	750	
	Accounts Receivable	12	1,750	
	Fees Earned	41		2,500
	27 Utilities Expense	53	915	
	Cash	11		915
	28 Wages Expense	50	1,200	
	Cash	11		1,200
	29 Miscellaneous Expense	59	540	
	Cash	11		540
	30 Cash	11	500	
	Accounts Receivable	12	1,000	
	Fees Earned	41		1,500
	31 Cash	11	3,000	
	Fees Earned	41		3,000
	31 Music Expense	54	1,400	
	Cash	11		1,400
	31 Peyton Smith, Drawing	32	1,250	
	Cash	11		1,250

Continuing Problem (Continued)

1. and 3.

Account: Cash Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1	Balance	✓			3,920
	1		1	5,000		8,920
	1		1		1,750	7,170
	1		1		2,700	4,470
	2		1	1,000		5,470
	3		1	7,200		12,670
	3		1		250	12,420
	4		1		900	11,520
	8		1		200	11,320
	11		1	1,000		12,320
	13		1		700	11,620
	14		1		1,200	10,420
	16		2	2,000		12,420
	21		2		620	11,800
	22		2		800	11,000
	23		2	750		11,750
	27		2		915	10,835
	28		2		1,200	9,635
	29		2		540	9,095
	30		2	500		9,595
	31		2	3,000		12,595
	31		2		1,400	11,195
	31		2		1,250	9,945

Account: Accounts Receivable Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1	Balance	✓			1,000
	2		1		1,000	—
	23		2	1,750		1,750
	30		2	1,000		2,750

Continuing Problem (Continued)

Account: Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			170	
	18	2	850		1,020	

Account: Prepaid Insurance Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1	1	2,700		2,700	

Account: Office Equipment Account No. 17

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	5	1	7,500		7,500	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓				250
	3	1	250		—	—
	5	1		7,500		7,500
	18	2		850		8,350

Account: Unearned Revenue Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	3	1		7,200		7,200

Account: Peyton Smith, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓				4,000
	1	1		5,000		9,000

Continuing Problem (Continued)

Account: Peyton Smith, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			500	
	31	2	1,250		1,750	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓				6,200
	11	1		1,000		7,200
	16	2		2,000		9,200
	23	2		2,500		11,700
	30	2		1,500		13,200
	31	2		3,000		16,200

Account: Wages Expense Account No. 50

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			400	
	14	1	1,200		1,600	
	28	2	1,200		2,800	

Account: Office Rent Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			800	
	1	1	1,750		2,550	

Account: Equipment Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			675	
	13	1	700		1,375	

Continuing Problem (Continued)

Account: Utilities Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			300	
	27	2	915		1,215	

Account: Music Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			1,590	
	21	2	620		2,210	
	31	2	1,400		3,610	

Account: Advertising Expense Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			500	
	8	1	200		700	
	22	2	800		1,500	

Account: Supplies Expense Account No. 56

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			180	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			415	
	4	1	900		1,315	
	29	2	540		1,855	

Continuing Problem (Concluded)

4.

PS MUSIC		
Unadjusted Trial Balance		
July 31, 2014		
	Debit Balances	Credit Balances
Cash	9,945	
Accounts Receivable	2,750	
Supplies	1,020	
Prepaid Insurance	2,700	
Office Equipment	7,500	
Accounts Payable		8,350
Unearned Revenue		7,200
Peyton Smith, Capital		9,000
Peyton Smith, Drawing	1,750	
Fees Earned		16,200
Music Expense	3,610	
Wages Expense	2,800	
Office Rent Expense	2,550	
Advertising Expense	1,500	
Equipment Rent Expense	1,375	
Utilities Expense	1,215	
Supplies Expense	180	
Miscellaneous Expense	1,855	
	40,750	40,750

CASES & PROJECTS

CP 2–1

Acceptable ethical conduct requires that Gil look for the difference. If Gil cannot find the difference within a reasonable amount of time, he should confer with his supervisor as to what action should be taken so that the financial statements can be prepared by the 5 o'clock deadline. Gil's responsibility to his employer is to act with integrity, objectivity, and due care, so that users of the financial statements will not be misled.

CP 2–2

The following general journal entry should be used to record the receipt of tuition payments received in advance of classes:

Cash.....	XXXX	
Unearned Tuition Deposits.....		XXXX

Cash is an asset account, and Unearned Tuition Deposits is a liability account. As the classes are taught throughout the term, the unearned tuition deposits become earned revenue.

CP 2–3

The journal is called the book of original entry. It provides a time-ordered history of the transactions that have occurred for the firm. This time-ordered history is very important because it allows one to trace ledger account balances back to the original transactions that created those balances. This is called an “audit trail.” If the firm recorded transactions by posting to ledgers directly, it would be nearly impossible to reconstruct actual transactions. The debits and credits would all be separated and accumulated into the ledger balances. Once the transactions become part of the ledger balances, the original transactions would be lost. That is, there would be no audit trail, and any errors that might occur in recording transactions would be almost impossible to trace. Thus, firms first record transaction debits and credits in a journal. These transactions are then posted to the ledger to update the account balances. The journal and ledger are linked using posting references. This allows an analyst to trace the transaction flow forward or backward, depending on the need.

CP 2–4

1. The rules of debit and credit must be memorized. Dot is correct in that the rules of debit and credit could be reversed as long as everyone accepted and abided by the rules. However, the important point is that everyone accepts the rules as the way in which transactions should be recorded. This generates uniformity across the accounting profession and reduces errors and confusion. Since the current rules of debit and credit have been used for centuries, Dot should adapt to the current rules of debit and credit, rather than devise her own.

The primary reason that all accounts do not have the same rules for increases and decreases is for control of the recording process. The double-entry accounting system, which includes both (1) the rules of debit and credit and (2) the accounting equation, guarantees that (1) debits always equal credits and (2) assets always equal liabilities plus owner's equity. If all increases in the account were recorded by debits, then the control that debits always equal credits would be removed. In addition, the control that the normal balance of assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

Dot is correct that we could call the left and right sides of an account different terms, such as "LE" or "RE." Again, centuries of tradition dictate the current terminology used. One might note, however, that in Latin, *debere* (debit) means left and *credere* (credit) means right.

2. The accounting system may be designed to capture information about the buying habits of various customers or vendors, such as the quantity normally ordered, average amount ordered, number of returns, etc. Thus, in a sense, there can be other "sides" of (information about) a transaction that are recorded by the accounting system. Such information would be viewed as supplemental to the basic double-entry accounting system.

CP 2-5

- a. Although the titles and numbers of accounts may differ, depending on how expenses are classified, the following accounts would be adequate for recording transaction data for Eagle Caddy Service:

<u>Balance Sheet Accounts</u>	<u>Income Statement Accounts</u>
<u>1. Assets</u>	<u>4. Revenue</u>
11 Cash	41 Service Revenue
12 Accounts Receivable	
13 Supplies	<u>5. Expenses</u>
	51 Rent Expense
<u>2. Liabilities</u>	52 Supplies Expense
21 Accounts Payable	53 Wages Expense
	54 Utilities Expense
<u>3. Owner's Equity</u>	55 Miscellaneous Expense
31 Cory Neece, Capital	
32 Cory Neece, Drawing	

b.

EAGLE CADDY SERVICE Income Statement For Month Ended June 30, 2014		
Service revenue		\$11,400
Expenses:		
Rent expense	\$3,500	
Supplies expense	1,925	
Wages expense	850	
Utilities expense	340	
Miscellaneous expense	395	
Total expenses		7,010
Net income		\$ 4,390

Note to Instructors: Students may have prepared slightly different income statements, depending upon the titles of the major expense classifications chosen. Regardless of the classification of expenses, however, the total sales, total expenses, and net income should be as presented above.

T accounts are not required for the preparation of the income statement of Eagle Caddy Service. The following presentation illustrates one solution using T accounts. Alternative solutions are possible if students used different accounts. In presenting the following T account solution, instructors may wish to emphasize the advantages of using T accounts (or a journal and four-column accounts) when a large number of transactions must be recorded.

CP 2-5 (Continued)

Cash			11		
2014			2014		
June	1	2,000	June	1	500
	15	5,400		2	750
	30	4,200		3	600
	30	1,500		17	1,000
				20	2,400
				28	395
				30	340
				30	850
Bal.		<u>6,265</u>			

Service Revenue			41		
2014			2014		
June	15	5,400			
	25	1,800			
	30	4,200			
Bal.		<u>11,400</u>			

Rent Expense			51		
2014			2014		
June	1	500			
	3	3,000			
Bal.		<u>3,500</u>			

Accounts Receivable			12		
2014			2014		
June	25	<u>1,800</u>	June	30	<u>1,500</u>
Bal.		300			

Supplies Expense			52		
2014			2014		
June	30	1,925			

Supplies			13		
2014			2014		
June	2	750	June	30	1,925
	7	1,000			
	22	850			
Bal.		<u>675</u>			

Wages Expense			53		
2014			2014		
June	30	850			

Accounts Payable			21		
2014			2014		
June	17	1,000	June	3	2,400
	20	2,400		7	1,000
				22	850
			Bal.		<u>850</u>

Utilities Expense			54		
2014			2014		
June	30	340			

Cory Neece, Capital			31		
2014			2014		
June	1	2,000			

Miscellaneous Expense			55		
2014			2014		
June	28	395			

CP 2–5 (Concluded)

c. \$6,265, computed in the following manner:

Cash receipts:		
Initial investment.....	\$2,000	
Cash sales.....	9,600	
Collections on accounts.....	<u>1,500</u>	
Total cash receipts during June.....		\$13,100
Cash disbursements:		
Rent expense (\$500 + \$600 + \$2,400).....	\$3,500	
Supplies purchased for cash.....	750	
Wages expense.....	850	
Payment for supplies on account.....	1,000	
Utilities expense.....	340	
Miscellaneous expense.....	<u>395</u>	
Total cash disbursements during June.....		<u>6,835</u>
Cash on hand according to records*.....		<u>\$ 6,265</u>

* If the student used T accounts in completing part (b), or this part, this amount (\$6,265) should agree with the balance of the cash account.

d. The difference of \$90 (\$6,265 – \$6,175) between the cash on hand according to records (\$6,265) and the cash on hand according to the count (\$6,175) could be due to many factors, including errors in the record keeping and withdrawals made by Cory.

CP 2–6

Note to Instructors: The purpose of this activity is to familiarize students with the job opportunities available in accounting or in fields that require (or prefer) the employee to have some knowledge of accounting.

An example of an advertisement for an accounting job is shown on the next page.

Source: CareerBuilders.com

CP 2–6 (Continued)

ACCOUNTING MANAGER
Accountants One

JOB SNAPSHOT:

Location: North East metro Atlanta area, GA	Experience: 3 to 8 years
Base Pay: \$60,000–\$65,000/Year	Travel: None
Other Pay: Excellent corporate benefits!	Relocation Covered: No
Employee Type: Full-Time	Post Date: 5/9/2011
Industry: Manufacturing	Contact Information
Manages Others: Yes	Contact:
Job Type: Accounting	Phone: 555-395-6969
Education: 4-Year Degree	Ref ID: RD5694

DESCRIPTION:

A growing and well-established Atlanta company has asked us to recruit an Accounting Manager. This person will report to the Controller and be responsible for all day-to-day management of the department.

ESSENTIAL FUNCTIONS:

- Provide management with timely and accurate data and reports
- Responsible for accuracy of accounting entries, monthly P & L and Balance Sheets
- Perform analysis of financial reports and performance
- Personally conduct and manage collection activities
- Process biweekly employee payroll in an accurate and timely manner
- Supervise, train, and develop Accounts Payable Coordinator and additional accounting staff as necessary
- Interact with vendors and customers in a payables and receivables management process
- Initiate bank wires and ACH transfers
- Interact with internal and external auditors in completing audits
- Perform other duties as assigned

REQUIREMENTS:

- BS degree in Accounting, successful completion of CPA exams is a plus. Minimum 3 years experience as an accounting manager or supervisor in a manufacturing environment is absolutely required! Working knowledge of Microsoft Dynamics 10.0 is very strongly preferred!
- Exceptional analytical and problem-solving abilities
- Must be well-versed in the financial aspects of inventory as well as state and federal financial regulations
- Must possess the ability to professionally interact with internal and external customers
- Excellent written and verbal communication skills
- Proficient knowledge of Excel and Word
- Experience with EXACT software as well as LOTUS Notes would be a plus
- Ability to analyze financial data and prepare financial reports, statements, and projections

CLIENT IS INTERVIEWING FOR AN IMMEDIATE HIRE!

NO CALLS PLEASE, AND LOCAL CANDIDATES ONLY need apply by emailing confidential resume as soon as possible. All qualified will be contacted immediately.

CP 2–6 (Continued)

An example of a job advertisement requiring accounting knowledge is as follows:

Source: CareerBuilders.com

EAST REGION FINANCIAL INSTITUTIONS DIRECTOR
Jefferson Wells

JOB SNAPSHOT:

Location: Atlanta, GA 30301
Employee Type: Full-Time
Industry: Accounting—Finance
Manages Others: Yes
Job Type: Accounting

Experience: Not Specified
Travel: Up to 50%
Post Date: 5/17/2011
Contact Information
Ref ID: 1294

DESCRIPTION:

Directors at Jefferson Wells are crucial to our success. They bring a wealth of experience and knowledge to our various service offerings and are responsible for ensuring the development and execution of the strategic plan for their respective market. Their goal is to drive the development of the Solution Area with the goal of significant growth and profitability. They provide technical expertise and leverage a network of clients and contacts. The Director plays a critical role in the leadership and development of our Engagement Managers and Professional Consultants.

Directors create and implement the Marketing Operating Plan, as well as create revenue strategies to meet revenue targets. They drive development and execution of effective client solutions to key targets.

Directors work closely with Business Development Managers on proposals and business development calls. Directors serve as the business advisor to clients to ensure quality assurance standards are met. They manage, direct, and monitor multiple client services teams on client engagements. They maintain strong communication with clients to manage expectations, ensure client satisfaction and adherence to deadlines.

Other key success factors include:

- Solid history of excellent performance, management capability, and revenue growth
- Proven ability to drive a business including selling, work plan development, proposal writing, and overseeing service delivery
- Management experience of a large group of professionals of 10 or more, with demonstrated history of building a solution area—hiring, training, and mentoring
- Demonstrated ability in developing meaningful client relationships, and capacity to bring and leverage relationships to Jefferson Wells

The East Region Financial Institutions Director works under the general supervision of the East Region Vice President and has a dotted line relationship to the Managing Directors in the region. This Director will be recognized as a financial institution industry leader with expertise in the areas of commercial and residential loan origination/servicing, deposit operations, and the corresponding GAAP accounting requirements as well as regulatory compliance. He/she will be accountable for overseeing the following projects/activities at Jefferson Wells' financial institution clients in one or all of the following areas:

- Regulatory Compliance including Loan Compliance and BSA/AML
- Troubled Debt Restructuring
- Enterprise Risk Management
- Loan Reviews (Commercial and/or Consumer) and Credit Risk
- FAS 15 and FAS 114
- Foreclosure Application Processing
- Loss Mitigation
- Financial Process Documentation and Improvement
- Policy and Procedure Development

CP 2–6 (Concluded)

Jefferson Wells (www.jeffersonwells.com) delivers professional services in the areas of internal audit and controls, technology risk management, tax, and finance and accounting-related services. The firm's unique, agile structure aligns experienced professionals with proven processes to deliver pragmatic and cost-effective results. Headquartered in Milwaukee, Jefferson Wells serves clients, including Fortune 500 and Global 1000 companies, from offices worldwide. Jefferson Wells is an independently operating, wholly owned subsidiary of Manpower Inc. (NYSE: MAN).

Jefferson Wells is an Equal Opportunity Employer.

REQUIREMENTS:

- Minimum 12 years or more of clearly progressive, professional development in the general area of accounting services/internal auditing, including a mix of public accounting and managerial level financial institution industry experience
- Bachelor's degree in accounting
- CPA, CIA, and/or MBA preferred
- Consulting delivery experience
- Strong leadership skills
- Senior-level internal compliance experience within a large financial institution
- Willingness and ability to travel

