

CHAPTER 2

The Recording Process

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain what an account is and how it helps in the recording process.	1			1		
2. Define debits and credits and explain their use in recording business transactions.	2, 3, 4, 5, 6, 7, 8, 9, 21	1, 2, 5	1	2, 4, 6, 7, 14	1A, 2A, 3A, 5A	1B, 2B, 3B, 5B
3. Identify the basic steps in the recording process.	10, 19	4		6, 7		
4. Explain what a journal is and how it helps in the recording process.	11, 12, 13, 14, 16	3, 6	2	3, 5, 6, 7, 10, 11, 12	1A, 2A, 3A, 5A	1B, 2B, 3B, 5B
5. Explain what a ledger is and how it helps in the recording process.	17			8		
6. Explain what posting is and how it helps in the recording process.	15	7, 8	3	9, 12	2A, 3A, 5A	2B, 3B, 5B
7. Prepare a trial balance and explain its purposes.	18, 20	9, 10	4	9, 10, 11, 13, 14	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Journalize a series of transactions.	Simple	20–30
2A	Journalize transactions, post, and prepare a trial balance.	Simple	30–40
3A	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50
4A	Prepare a correct trial balance.	Moderate	30–40
5A	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50
1B	Journalize a series of transactions.	Simple	20–30
2B	Journalize transactions, post, and prepare a trial balance.	Simple	30–40
3B	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50
4B	Prepare a correct trial balance.	Moderate	30–40
5B	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50

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CHAPTER 2
THE RECORDING PROCESS

Number	LO	BT	Difficulty	Time (min.)
BE1	2	C	Simple	6–8
BE2	2	C	Simple	4–6
BE3	4	AP	Simple	4–6
BE4	3	C	Moderate	4–6
BE5	2	C	Simple	6–8
BE6	4	AP	Simple	4–6
BE7	6	AP	Simple	4–6
BE8	6	AP	Simple	4–6
BE9	7	AP	Simple	4–6
BE10	7	AN	Moderate	6–8
DI1	2	C	Simple	3–5
DI2	4	AP	Simple	3–5
DI3	6	AP	Simple	2–4
DI4	7	AP	Simple	6–8
EX1	1	K	Simple	2–4
EX2	2	C	Simple	10–15
EX3	4	AP	Simple	8–10
EX4	2	C	Simple	6–8
EX5	4	AP	Simple	6–8
EX6	2–4	AP	Simple	6–8
EX7	2–4	AP	Simple	8–10
EX8	5	K	Simple	2–4
EX9	6, 7	AP	Simple	10–12
EX10	4, 7	AP	Moderate	10–12
EX11	4, 7	AP	Moderate	12–15
EX12	4, 6	AP	Moderate	12–15
EX13	7	AN	Moderate	6–8
EX14	2, 7	AP	Simple	8–10

THE RECORDING PROCESS (Continued)

Number	LO	BT	Difficulty	Time (min.)
P1A	2, 4	AP	Simple	20–30
P2A	2, 4, 6, 7	AP	Simple	30–40
P3A	2, 4, 6, 7	AP	Moderate	40–50
P4A	7	AN	Moderate	30–40
P5A	2, 4, 6, 7	AP	Moderate	40–50
P1B	2, 4	AP	Simple	20–30
P2B	2, 4, 6, 7	AP	Simple	30–40
P3B	2, 4, 6, 7	AP	Moderate	40–50
P4B	7	AN	Moderate	30–40
P5B	2, 4, 6, 7	AP	Moderate	40–50
BYP1	2	C	Simple	8–10
BYP2	2, 4	AN	Simple	8–10
BYP3	—	AP	Simple	15–20
BYP4	—	AP, S	Simple	15–20
BYP5	6, 7	AP, S	Moderate	20–30
BYP6	3, 6	S	Simple	10–15
BYP7	7	AN, E	Moderate	10–15
BYP8	—	E	Moderate	10–15
BYP9	—	E	Moderate	15–20
BYP10	—	E	Moderate	15–20

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what an account is and how it helps in the recording process.	Q2-1 E2-1					
2. Define debits and credits and explain their use in recording business transactions.	Q2-21	Q2-2 Q2-7 BE2-2 Q2-3 Q2-8 BE2-5 Q2-4 Q2-9 DI2-1 Q2-5 BE2-1 E2-2 Q2-6 E2-4	E2-6 P2-3A P2-5B E2-7 P2-5A E2-14 P2-1B P2-1A P2-2B P2-2A P2-3B			
3. Identify the basic steps in the recording process.	Q2-10	Q2-19 BE2-4	E2-6 E2-7			
4. Explain what a journal is and how it helps in the recording process.	Q2-12	Q2-11 Q2-13 Q2-14	Q2-16 E2-7 P2-5A BE2-3 E2-10 P2-1B BE2-6 E2-11 P2-2B DI2-2 E2-12 P2-3B E2-3 P2-1A P2-5B E2-5 P2-2A E2-6 P2-3A			
5. Explain what a ledger is and how it helps in the recording process.	E2-8	Q2-17				
6. Explain what posting is and how it helps in the recording process.		Q2-15	BE2-7 E2-12 P2-2B BE2-8 P2-2A P2-3B DI2-3 P2-3A P2-5B E2-9 P2-5A			
7. Prepare a trial balance and explain its purposes.		Q2-18 Q2-20	BE2-9 E2-11 P2-5A DI2-4 E2-14 P2-2B E2-9 P2-2A P2-3B E2-10 P2-3A P2-5B	BE2-10 P2-4B		
Broadening Your Perspective		Financial Reporting	Decision Making Across the Organization Real-World Focus	Comparative Analysis Ethics Case	Communication Decision Making Across the Organization Real-World Focus	All About You Ethics Case Considering P, P and P

ANSWERS TO QUESTIONS

1. A T account has the following parts: (a) the title, (b) the left or debit side, and (c) the right or credit side.
2. Disagree. The terms debit and credit mean left and right respectively.
3. Heath is incorrect. The double-entry system merely records the dual effect of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once, with a dual effect.
4. Erica is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favorable nor unfavorable.
5.
 - (a) Asset accounts are increased by debits and decreased by credits.
 - (b) Liability accounts are decreased by debits and increased by credits.
 - (c) Revenues and owner's capital are increased by credits and decreased by debits. Expenses and owner's drawing are increased by debits and decreased by credits.
6.
 - (a) Accounts Receivable—debit balance.
 - (b) Cash—debit balance.
 - (c) Owner's Drawings—debit balance.
 - (d) Accounts Payable—credit balance.
 - (e) Service Revenue—credit balance.
 - (f) Salaries and Wages Expense—debit balance.
 - (g) Owner's Capital—credit balance.
7.
 - (a) Accounts Receivable—asset—debit balance.
 - (b) Accounts Payable—liability—credit balance
 - (c) Equipment—asset—debit balance.
 - (d) Owner's Drawings—owner's equity—debit balance.
 - (e) Supplies—asset—debit balance.
8.
 - (a) Debit Supplies and credit Accounts Payable.
 - (b) Debit Cash and credit Notes Payable.
 - (c) Debit Salaries and Wages Expense and credit Cash.
9.
 - (1) Cash—both debit and credit entries.
 - (2) Accounts Receivable—both debit and credit entries.
 - (3) Owner's Drawings—debit entries only.
 - (4) Accounts Payable—both debit and credit entries.
 - (5) Salaries and Wages Expense—debit entries only.
 - (6) Service Revenue—credit entries only.
10. The basic steps in the recording process are:
 - (1) Analyze each transaction for its effect on the accounts.
 - (2) Enter the transaction information in a journal.
 - (3) Transfer the journal information to the appropriate accounts in the ledger.

Questions Chapter 2 (Continued)

11. The advantages of using the journal in the recording process are:
 (1) It discloses in one place the complete effects of a transaction.
 (2) It provides a chronological record of all transactions.
 (3) It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
12. (a) The debit should be entered first.
 (b) The credit should be indented.
13. When three or more accounts are required in one journal entry, the entry is referred to as a compound entry. An example of a compound entry is the purchase of equipment, part of which is paid for with cash and the remainder is on account.
14. (a) No, debits and credits should not be recorded directly in the ledger.
 (b) The advantages of using the journal are:
 1. It discloses in one place the complete effects of a transaction.
 2. It provides a chronological record of all transactions.
 3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
15. The advantage of the last step in the posting process is to indicate that the item has been posted.
16. (a) Cash 9,000
 Owner's Capital 9,000
 (Invested cash in the business)
- (b) Prepaid Insurance 800
 Cash 800
 (Paid one-year insurance policy)
- (c) Supplies 2,000
 Accounts Payable 2,000
 (Purchased supplies on account)
- (d) Cash 7,500
 Service Revenue 7,500
 (Received cash for services performed)
17. (a) The entire group of accounts maintained by a company, including all the asset, liability, and owner's equity accounts, is referred to collectively as the ledger.
 (b) A chart of accounts is a list of accounts and the account numbers that identify their location in the ledger. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and define the level of detail that a company desires in its accounting system.

Questions Chapter 2 (Continued)

18. 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 (check) that the debits equal the credits after posting. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.
19. No, Victor is not correct. The proper sequence is as follows:
- (b) Business transaction occurs.
 - (c) Information entered in the journal.
 - (a) Debits and credits posted to the ledger.
 - (e) Trial balance is prepared.
 - (d) Financial statements are prepared.
20. (a) The trial balance would balance.
(b) The trial balance would not balance.
21. The normal balances are Cash debit, Accounts Payable credit, and Interest Expense debit.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2-1

	(a) Debit Effect	(b) Credit Effect	(c) Normal Balance
1. Accounts Payable	Decrease	Increase	Credit
2. Advertising Expense	Increase	Decrease	Debit
3. Service Revenue	Decrease	Increase	Credit
4. Accounts Receivable	Increase	Decrease	Debit
5. Owner's Capital	Decrease	Increase	Credit
6. Owner's Drawings	Increase	Decrease	Debit

BRIEF EXERCISE 2-2

		Account Debited	Account Credited
June	1	Cash	Owner's Capital
	2	Equipment	Accounts Payable
	3	Rent Expense	Cash
	12	Accounts Receivable	Service Revenue

BRIEF EXERCISE 2-3

June	1	Cash	5,000	
		Owner's Capital		5,000
	2	Equipment	2,100	
		Accounts Payable		2,100
	3	Rent Expense	800	
		Cash		800
	12	Accounts Receivable	300	
		Service Revenue.....		300

BRIEF EXERCISE 2-4

The basic steps in the recording process are:

1. Analyze each transaction. In this step, business documents are examined to determine the effects of the transaction on the accounts.
2. Enter each transaction in a journal. This step is called journalizing and it results in making a chronological record of the transactions.
3. Transfer journal information to ledger accounts. This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.

BRIEF EXERCISE 2-5

	(a) <u>Effect on Accounting Equation</u>	(b) <u>Debit-Credit Analysis</u>
Aug. 1	The asset Cash is increased; the owner's equity account Owner's Capital is increased.	Debits increase assets: debit Cash \$8,000. Credits increase owner's equity: credit Owner's Capital \$8,000.
4	The asset Prepaid Insurance is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Insurance \$1,800. Credits decrease assets: credit Cash \$1,800.
16	The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash \$3,400. Credits increase revenues: credit Service Revenue \$3,400.
27	The expense Salaries and Wages Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries and Wages Expense \$1,000. Credits decrease assets: credit Cash \$1,000.

BRIEF EXERCISE 2-6

Aug. 1	Cash	8,000	
	Owner's Capital		8,000
4	Prepaid Insurance	1,800	
	Cash		1,800
16	Cash	3,400	
	Service Revenue		3,400
27	Salaries and Wages Expense	1,000	
	Cash		1,000

BRIEF EXERCISE 2-7

Cash		Service Revenue	
5/12	2,400		5/5
5/15	3,000		4,100
Ending Bal.	5,400		5/15
			3,000
			Ending Bal.
			7,100

Accounts Receivable			
5/5	4,100	5/12	2,400
Ending Bal.	1,700		

BRIEF EXERCISE 2-8

Cash						
Date	Explanation	Ref.	Debit	Credit	Balance	
May 12		J1	2,400		2,400	
15		J1	3,000		5,400	

BRIEF EXERCISE 2-8 (Continued)

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1	4,100		4,100
12		J1		2,400	1,700

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1		4,100	4,100
15		J1		3,000	7,100

BRIEF EXERCISE 2-9

DEROCHE COMPANY
Trial Balance
June 30, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 5,800	
Accounts Receivable	3,000	
Equipment	17,000	
Accounts Payable		\$ 9,000
Owner's Capital		15,000
Owner's Drawings	1,200	
Service Revenue		10,000
Salaries and Wages Expense	6,000	
Rent Expense	1,000	
	<u>\$34,000</u>	<u>\$34,000</u>

BRIEF EXERCISE 2-10

HUEWITT COMPANY
Trial Balance
December 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$10,800	
Prepaid Insurance	3,500	
Accounts Payable.....		\$ 3,000
Unearned Service Revenue		2,200
Owner's Capital		9,000
Owner's Drawings	4,500	
Service Revenue.....		25,600
Salaries and Wages Expense	18,600	
Rent Expense.....	2,400	
	<u>\$39,800</u>	<u>\$39,800</u>

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 2-1

Ivan would likely need the following accounts in which to record the transactions necessary to ready his photography studio for opening day:

Cash (debit balance)	Equipment (debit balance)
Supplies (debit balance)	Accounts Payable (credit balance)
Notes Payable (credit balance)	Owner's Capital (credit balance)

DO IT! 2-2

Each transaction that is recorded is entered in the general journal. The three activities would be recorded as follows:

1. Cash..... 6,300
 Owner's Capital..... 6,300

2. Supplies..... 1,100
 Cash..... 400
 Accounts Payable..... 700

3. No entry because no transaction has occurred.

DO IT! 2-3

Cash			
4/1	1,600	4/16	700
4/3	3,400	4/20	300
4/30	4,000		

DO IT! 2-4

**RECHA COMPANY
Trial Balance
December 31, 2014**

	Debit	Credit
Cash	\$ 6,000	
Accounts Receivable	8,000	
Supplies	6,000	
Equipment	80,000	
Notes Payable		\$ 20,000
Accounts Payable		11,000
Salaries and Wages Payable.....		3,000
Owner's Capital		28,000
Owner's Drawings.....	8,000	
Service Revenue		88,000
Rent Expense	4,000	
Salaries and Wages Expense	38,000	
	\$150,000	\$150,000

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.**

Transaction	Account Debited				Account Credited			
	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance
Jan. 2	Asset	Cash	Increase	Debit	Owner's Equity	Owner's Capital	Increase	Credit
3	Asset	Equipment	Increase	Debit	Asset	Cash	Decrease	Debit
9	Asset	Supplies	Increase	Debit	Liability	Accounts Payable	Increase	Credit
11	Asset	Accounts Receivable	Increase	Debit	Owner's Equity	Service Revenue	Increase	Credit
16	Owner's Equity	Advertising Expense	Increase	Debit	Asset	Cash	Decrease	Debit
20	Asset	Cash	Increase	Debit	Asset	Accounts Receivable	Decrease	Debit
23	Liability	Accounts Payable	Decrease	Credit	Asset	Cash	Decrease	Debit
28	Owner's Equity	Owner's Drawings	Increase	Debit	Asset	Cash	Decrease	Debit

EXERCISE 2-3

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Jan. 2	Cash		10,000	
	Owner's Capital			10,000
3	Equipment		4,000	
	Cash			4,000
9	Supplies		500	
	Accounts Payable			500
11	Accounts Receivable		2,100	
	Service Revenue			2,100
16	Advertising Expense		350	
	Cash			350
20	Cash		700	
	Accounts Receivable			700
23	Accounts Payable		300	
	Cash			300
28	Owner's Drawings		1,000	
	Cash			1,000

EXERCISE 2-4

- Oct. 1 **Debits increase assets: debit Cash \$15,000.**
Credits increase owner's equity: credit Owner's Capital \$15,000.
- 2 **No transaction.**
- 3 **Debits increase assets: debit Equipment \$1,900.**
Credits increase liabilities: credit Accounts Payable \$1,900.

EXERCISE 2-4 (Continued)

- Oct. 6 **Debits increase assets: debit Accounts Receivable \$3,600.
Credits increase revenues: credit Service Revenue \$3,600.**
- 27 **Debits decrease liabilities: debit Accounts Payable \$1,100.
Credits decrease assets: credit Cash \$1,100.**
- 30 **Debits increase expenses: debit Salaries and Wages Expense
\$2,500.
Credits decrease assets: credit Cash \$2,500.**

EXERCISE 2-5

General Journal

Date	Account Titles and Explanation	Ref.	Debits	Credit
Oct. 1	Cash..... Owner's Capital		15,000	15,000
2	No entry.			
3	Equipment..... Accounts Payable		1,900	1,900
6	Accounts Receivable		3,600	
	Service Revenue.....			3,600
27	Accounts Payable		1,100	
	Cash.....			1,100
30	Salaries and Wages Expense		2,500	
	Cash.....			2,500

EXERCISE 2-6

- (a) 1. Increase the asset Cash, increase the liability Notes Payable.
 2. Increase the asset Equipment, decrease the asset Cash.
 3. Increase the asset Supplies, increase the liability Accounts Payable.

(b) 1.	Cash	5,000	
	Notes Payable		5,000
2.	Equipment	3,100	
	Cash		3,100
3.	Supplies	850	
	Accounts Payable		850

EXERCISE 2-7

- (a) **Assets = Liabilities + Owner's Equity**
- | | | | |
|----|---|---|--------------|
| 1. | + | + | (Investment) |
| 2. | - | - | (Expense) |
| 3. | + | + | (Revenue) |
| 4. | - | - | (Drawings) |

(b) 1.	Cash	4,000	
	Owner's Capital		4,000
2.	Rent Expense	950	
	Cash		950
3.	Accounts Receivable	5,200	
	Service Revenue		5,200
4.	Owner's Drawings	750	
	Cash		750

EXERCISE 2-8

- False. The general ledger contains all the asset, liability, *and owner's equity* accounts.
- True.
- False. The accounts in the general ledger are arranged in *financial statement order*: first the assets, then the liabilities, owner's capital, owner's drawings, revenues, and expenses.
- True.
- 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 2-9

(a)

Cash			
Aug. 1	5,000	Aug. 12	3,000
10	2,400		
31	900		
Bal.	5,300		

Notes Payable		
	Aug. 12	2,000

Owner's Capital		
	Aug. 1	5,000

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

Service Revenue		
	Aug. 10	2,400
	25	1,700
	Bal.	4,100

Equipment	
Aug. 12	5,000

(b) **TRISHA SPOOR, INVESTMENT BROKER**
Trial Balance
August 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 5,300	
Accounts Receivable	800	
Equipment.....	5,000	
Notes Payable.....		\$ 2,000
Owner's Capital		5,000
Service Revenue		4,100
	<u>\$11,100</u>	<u>\$11,100</u>

EXERCISE 2-10

(a)

General Journal

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash..... Owner's Capital..... (Owner's investment of cash in business)		12,000	12,000
12	Cash..... Service Revenue..... (Received cash for services performed)		900	900
15	Salaries and Wages Expense..... Cash..... (Paid salaries to date)		1,300	1,300
25	Accounts Payable..... Cash..... (Paid creditors on account)		1,500	1,500
29	Cash..... Accounts Receivable..... (Received cash in payment of account)		400	400
30	Cash..... Unearned Service Revenue..... (Received cash for future services)		1,000	1,000

EXERCISE 2-10 (Continued)

**(b) ZIMMER LANDSCAPING COMPANY
Trial Balance
April 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$11,500	
Accounts Receivable	2,800	
Supplies	1,800	
Accounts Payable		\$ 300
Unearned Service Revenue		1,000
Owner's Capital		12,000
Service Revenue		4,100
Salaries and Wages Expense.....	<u>1,300</u>	
	<u>\$17,400</u>	<u>\$17,400</u>

EXERCISE 2-11

(a) Oct. 1	Cash	3,000	
	Owner's Capital		3,000
	(Owner's investment of cash in business)		
10	Cash	500	
	Service Revenue		500
	(Received cash for services performed)		
10	Cash	4,000	
	Notes Payable.....		4,000
	(Obtained loan from bank)		
20	Cash	500	
	Accounts Receivable		500
	(Received cash in payment of account)		
20	Accounts Receivable	940	
	Service Revenue		940
	(Billed clients for services performed)		

EXERCISE 2-11 (Continued)

(b)

**HARBACH CO.
Trial Balance
October 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 7,050	
Accounts Receivable	1,240	
Supplies	400	
Equipment	2,000	
Notes Payable		\$ 4,000
Accounts Payable		500
Owner's Capital		5,000
Owner's Drawings	300	
Service Revenue		2,240
Salaries and Wages Expense	500	
Rent Expense	250	
	<u>\$11,740</u>	<u>\$11,740</u>

EXERCISE 2-12

(a)

General Journal					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
Sept. 1	Cash	101	10,000		
	Owner's Capital	301		10,000	
5	Equipment	157	12,000		
	Cash	101		4,000	
	Accounts Payable	201		8,000	
25	Accounts Payable	201	3,000		
	Cash	101		3,000	
30	Owner's Drawings	306	700		
	Cash	101		700	

EXERCISE 2-12 (Continued)**(b)**

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1	10,000		10,000
5		J1		4,000	6,000
25		J1		3,000	3,000
30		J1		700	2,300

Equipment					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1	12,000		12,000

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1		8,000	8,000
25		J1	3,000		5,000

Owner's Capital					No. 301
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1		10,000	10,000

Owner's Drawings					No. 306
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30		J1	700		700

EXERCISE 2-13

<u>Error</u>	<u>(a) In Balance</u>	<u>(b) Difference</u>	<u>(c) Larger Column</u>
1.	No	\$525	Debit
2.	Yes	—	—
3.	Yes	—	—
4.	No	415	Credit
5.	Yes	—	—
6.	No	18	Credit

EXERCISE 2-14

LONGORIA DELIVERY SERVICE
Trial Balance
July 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash (\$78,821 – Debit total without Cash \$66,340)	\$12,481	
Accounts Receivable	7,642	
Prepaid Insurance	1,968	
Equipment.....	49,360	
Notes Payable.....		\$17,000
Accounts Payable.....		8,396
Salaries and Wages Payable		815
Owner’s Capital		42,000
Owner’s Drawings	700	
Service Revenue.....		10,610
Salaries and Wages Expense	4,428	
Maintenance and Repairs Expense	961	
Gasoline Expense.....	758	
Utilities Expense.....	523	
	<u>\$78,821</u>	<u>\$78,821</u>

SOLUTIONS TO PROBLEMS

PROBLEM 2-1A

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash		20,000	
	Owner's Capital.....			20,000
	(Owner's investment of cash in business)			
3	Land		12,000	
	Buildings.....		2,000	
	Equipment		1,000	
	Cash			15,000
	(Purchased Sable's Golf Land)			
5	Advertising Expense		700	
	Cash			700
	(Paid for advertising)			
6	Prepaid Insurance		600	
	Cash			600
	(Paid for one-year insurance policy)			
10	Equipment		1,050	
	Accounts Payable.....			1,050
	(Purchased equipment on account)			
18	Cash		1,100	
	Service Revenue			1,100
	(Received cash for services performed)			
19	Cash		1,500	
	Unearned Service Revenue			1,500
	(Received cash for coupon books sold)			

PROBLEM 2-1A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 25	Owner's Drawings		800	
	 Cash			800
	 (Withdrew cash for personal use)			
30	Salaries and Wages Expense		250	
	 Cash			250
	 (Paid salaries)			
30	Accounts Payable		1,050	
	 Cash			1,050
	 (Paid creditor on account)			
31	Cash		2,100	
	 Service Revenue			2,100
	 (Received cash for services performed)			

PROBLEM 2-2A

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash	101	20,000	
	Owner's Capital.....	301		20,000
	(Owner's investment of cash in business)			
1	No entry—not a transaction.			
2	Rent Expense	729	1,100	
	Cash	101		1,100
	(Paid monthly office rent)			
3	Supplies	126	4,000	
	Accounts Payable.....	201		4,000
	(Purchased supplies on account from Smile Company)			
10	Accounts Receivable.....	112	5,100	
	Service Revenue	400		5,100
	(Billed clients for services performed)			
11	Cash	101	1,000	
	Unearned Service Revenue	209		1,000
	(Received cash for future service)			
20	Cash	101	2,100	
	Service Revenue	400		2,100
	(Received cash for services performed)			
30	Salaries and Wages Expense.....	726	2,800	
	Cash	101		2,800
	(Paid monthly salary)			

PROBLEM 2-2A (Continued)

Date	Account Titles and Explanation	Ref.	Debits	Credit
Apr. 30	Accounts Payable	201	2,400	
	Cash	101		2,400
	(Paid Smile Company on account)			

(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 Service Revenue					No. 209
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 11		J1		1,000	1,000

PROBLEM 2-2A (Continued)

Owner's 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 and Wages 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) BRIDGETTE KEYES, DENTIST
Trial Balance
April 30, 2014

	Debit	Credit
Cash	\$16,800	
Accounts Receivable	5,100	
Supplies	4,000	
Accounts Payable		\$ 1,600
Unearned Service Revenue		1,000
Owner's Capital		20,000
Service Revenue		7,200
Salaries and Wages Expense.....	2,800	
Rent Expense	1,100	
	<u>\$29,800</u>	<u>\$29,800</u>

PROBLEM 2-3A

(a)

Trans.	Account Titles and Explanation	Debit	Credit
1.	Cash	40,000	
	Owner's Capital		40,000
2.	No entry—Not a transaction.		
3.	Prepaid Rent	24,000	
	Cash		24,000
4.	Equipment.....	30,000	
	Cash		10,000
	Accounts Payable		20,000
5.	Prepaid Insurance	1,800	
	Cash		1,800
6.	Supplies	500	
	Cash		500
7.	Supplies	1,500	
	Accounts Payable		1,500
8.	Cash	8,000	
	Accounts Receivable	12,000	
	Service Revenue		20,000
9.	Accounts Payable	400	
	Cash		400
10.	Cash	3,000	
	Accounts Receivable		3,000
11.	Utilities Expense	350	
	Accounts Payable		350

PROBLEM 2-3A (Continued)

Trans.	Account Titles and Explanation	Debit	Credit
12.	Salaries and Wages Expense.....	6,100	
	Cash.....		6,100

(b)

Cash	
(1)	40,000
	(3) 24,000
	(4) 10,000
	(5) 1,800
	(6) 500
(8)	8,000
	(9) 400
(10)	3,000
	(12) 6,100
	8,200

Equipment	
(4)	30,000
	30,000

Accounts Payable	
	(4) 20,000
	(7) 1,500
(9)	400
	(11) 350
	21,450

Accounts Receivable	
(8)	12,000
	(10) 3,000
	9,000

Owner's Capital	
	(1) 40,000
	40,000

Supplies	
(6)	500
(7)	1,500
	2,000

Service Revenue	
	(8) 20,000
	20,000

Prepaid Insurance	
(5)	1,800
	1,800

Salaries and Wages Expense	
(12)	6,100
	6,100

Prepaid Rent	
(3)	24,000
	24,000

Utilities Expense	
(11)	350
	350

PROBLEM 2-3A (Continued)

(c)

**SANTA ANA SERVICES
Trial Balance
May 31, 2014**

	Debit	Credit
Cash	\$ 8,200	
Accounts Receivable.....	9,000	
Supplies.....	2,000	
Prepaid Insurance.....	1,800	
Prepaid Rent.....	24,000	
Equipment	30,000	
Accounts Payable.....		\$21,450
Owner's Capital.....		40,000
Service Revenue		20,000
Salaries and Wages Expense	6,100	
Utilities Expense	350	
	\$81,450	\$81,450

PROBLEM 2-4A

**MARIUS SANTIAGO CO.
Trial Balance
June 30, 2014**

	Debit	Credit
Cash (\$3,340 + \$270).....	\$ 3,610	
Accounts Receivable (\$2,812 – \$270)	2,542	
Supplies (\$1,200 – \$710).....	490	
Equipment (\$2,600 + \$710).....	3,310	
Accounts Payable (\$3,666 – \$306 – \$360).....		\$ 3,000
Unearned Service Revenue.....		1,100
Owner’s Capital.....		8,000
Owner’s Drawings (\$800 + \$600)	1,400	
Service Revenue (\$2,480 + \$882).....		3,362
Salaries and Wages Expense (\$3,200 + \$700 – \$600)	3,300	
Utilities Expense	810	
	\$15,462	\$15,462

PROBLEM 2-5A

(a) & (c)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			3,000
2		J1		1,500	1,500
9		J1	4,000		5,500
10		J1		4,100	1,400
12		J1		800	600
20		J1	5,000		5,600
20		J1		2,000	3,600
31		J1		3,100	500
31		J1	450		950
31		J1	9,000		9,950

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	450		450

Land					No. 140
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			24,000

Buildings					No. 145
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			10,000

Equipment					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			10,000

PROBLEM 2-5A (Continued)**Accounts Payable** **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			7,000
2		J1		2,000	9,000
10		J1	4,100		4,900

Owner's Capital **No. 301**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			40,000

Service Revenue **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 9		J1		4,000	4,000
20		J1		5,000	9,000
31		J1		9,000	18,000

Rent Revenue **No. 429**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar.31		J1		900	900

Advertising Expense **No. 610**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar.12		J1	800		800

Salaries and Wages Expense **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	3,100		3,100

PROBLEM 2-5A (Continued)

Rent Expense					No. 729
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 2		J1	3,500		3,500
20		J1	2,000		5,500

(b)

Date	Account Titles and Explanation	Ref.	Debit	Credit	J1
Mar. 2	Rent Expense	729	3,500		
	Accounts Payable	201		2,000	
	Cash	101		1,500	
	(Rented films for cash and on account)				
3	No entry.				
9	Cash	101	4,000		
	Service Revenue	400		4,000	
	(Received cash for services performed)				
10	Accounts Payable (\$2,000 + \$2,100)	201	4,100		
	Cash	101		4,100	
	(Paid creditors on account)				
11	No entry.				
12	Advertising Expense.....	610	800		
	Cash	101		800	
	(Paid advertising expense)				
20	Cash	101	5,000		
	Service Revenue	400		5,000	
	(Received cash for services performed)				
20	Rent Expense	729	2,000		
	Cash	101		2,000	
	(Paid film rental)				

PROBLEM 2-5A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 31	Salaries and Wages Expense.....	726	3,100	
	Cash.....	101		3,100
	(Paid salaries expense)			
31	Cash	101	450	
	Accounts Receivable.....	112	450	
	Rent Revenue.....	429		900
	(15% X \$6,000)			
	(Received cash and balance on account for rent revenue)			
31	Cash	101	9,000	
	Service Revenue.....	400		9,000
	(Received cash for services performed)			

**(d) LUNT THEATER
Trial Balance
March 31, 2014**

	Debit	Credit
Cash	\$ 9,950	
Accounts Receivable.....	450	
Land	24,000	
Buildings	10,000	
Equipment	10,000	
Accounts Payable.....		\$ 4,900
Owner's Capital.....		40,000
Service Revenue		18,000
Rent Revenue.....		900
Advertising Expense	800	
Salaries and Wages Expense	3,100	
Rent Expense	5,500	
	<u>\$63,800</u>	<u>\$63,800</u>

PROBLEM 2-1B

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash..... Owner's Capital (Owner's investment of cash in business)		35,000	35,000
4	Land..... Cash (Purchased land for cash)		27,000	27,000
8	Advertising Expense..... Accounts Payable (Incurred advertising expense on account)		1,800	1,800
11	Salaries and Wages Expense..... Cash (Paid salaries)		1,500	1,500
12	No entry—Not a transaction.			
13	Prepaid Insurance Cash (Paid for one-year insurance policy)		1,650	1,650
17	Owner's Drawings Cash (Withdrew cash for personal use)		1,000	1,000
20	Cash..... Service Revenue (Received cash for services performed)		6,800	6,800

J1

PROBLEM 2-1B (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 25	Cash.....		2,500	
	 Unearned Service Revenue.....			2,500
	 (Received cash for future services)			
30	Cash.....		8,900	
	 Service Revenue.....			8,900
	 (Received cash for services performed)			
30	Accounts Payable.....		900	
	 Cash.....			900
	 (Paid creditor on account)			

PROBLEM 2-2B

(a)

Date	Account Titles and Explanation	Ref.	Debit	Credit
				J1
May 1	Cash.....	101	20,000	
	Owner's Capital	301		20,000
	(Owner's investment of cash in business)			
2	No entry—not a transaction.			
3	Supplies	126	2,500	
	Accounts Payable	201		2,500
	(Purchased supplies on account)			
7	Rent Expense.....	729	900	
	Cash	101		900
	(Paid office rent)			
11	Accounts Receivable	112	3,200	
	Service Revenue	400		3,200
	(Billed client for services performed)			
12	Cash.....	101	3,500	
	Unearned Service Revenue.....	209		3,500
	(Received cash for future services)			
17	Cash.....	101	1,200	
	Service Revenue	400		1,200
	(Received cash for services performed)			
31	Salaries and Wages Expense.....	726	2,000	
	Cash	101		2,000
	(Paid salaries)			

PROBLEM 2-2B (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 31	Accounts Payable (\$2,500 X 60%).....	201	1,500	
	Cash.....	101		1,500
	(Paid creditor on account)			

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
May 1		J1	20,000		20,000
7		J1		900	19,100
12		J1	3,500		22,600
17		J1	1,200		23,800
31		J1		2,000	21,800
31		J1		1,500	20,300

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
May 11		J1	3,200		3,200

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
May 3		J1	2,500		2,500

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance
May 3		J1		2,500	2,500
31		J1	1,500		1,000

Unearned Service Revenue					No. 209
Date	Explanation	Ref.	Debit	Credit	Balance
May 12		J1		3,500	3,500

PROBLEM 2-2B (Continued)

Owner's Capital					No. 301
Date	Explanation	Ref.	Debit	Credit	Balance
May 1		J1		20,000	20,000

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
May 11		J1		3,200	3,200
17		J1		1,200	4,400

Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
May 31		J1	2,000		2,000

Rent Expense					No. 729
Date	Explanation	Ref.	Debit	Credit	Balance
May 7		J1	900		900

(c) **IRIS BECK, CPA**
Trial Balance
May 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$20,300	
Accounts Receivable	3,200	
Supplies	2,500	
Accounts Payable		\$ 1,000
Unearned Service Revenue		3,500
Owner's Capital		20,000
Service Revenue		4,400
Salaries and Wages Expense	2,000	
Rent Expense	900	
	<u>\$28,900</u>	<u>\$28,900</u>

PROBLEM 2-3B

(a) & (c)

Cash		
Balance	8,000	
		(1) 1,000
		(3) 2,000
(4)	14,000	
		(5) 15,000
(7)	6,000	
		(8) 3,500
		(9) 3,000
	3,500	

Accounts Receivable		
Balance	15,000	
		(4) 14,000
(7)	9,000	
	10,000	

Supplies		
Balance	13,000	
(2)	4,200	
		(6) 4,000
	13,200	

Prepaid Rent		
Balance	3,000	
	3,000	

Equipment		
Balance	20,000	
	20,000	

Accounts Payable		
		Balance 19,000
		(2) 4,200
(5)	15,000	
		8,200

Owner's Capital		
	Balance	40,000
		40,000

Owner's Drawings		
(9)	3,000	
	3,000	

Service Revenue		
	(7)	15,000
		15,000

Advertising Expense		
(1)	1,000	
	1,000	

Miscellaneous Expense		
(3)	2,000	
	2,000	

Supplies Expense		
(6)	4,000	
	4,000	

Salaries and Wages Expense		
(8)	3,500	
	3,500	

PROBLEM 2-3B (Continued)

(b)

Trans.	Account Titles and Explanation	Debit	Credit
1.	Advertising Expense..... Cash	1,000	1,000
2.	Supplies	4,200	
	Accounts Payable		4,200
3.	Miscellaneous Expense..... Cash	2,000	2,000
4.	Cash	14,000	
	Accounts Receivable.....		14,000
5.	Accounts Payable	15,000	
	Cash		15,000
6.	Supplies Expense	4,000	
	Supplies		4,000
7.	Cash	6,000	
	Accounts Receivable.....	9,000	
	Service Revenue		15,000
8.	Salaries and Wages Expense..... Cash	3,500	3,500
9.	Owner's Drawings..... Cash	3,000	3,000

PROBLEM 2-3B (Continued)

**(d) VIAN REPAIR SERVICE
Trial Balance
January 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 3,500	
Accounts Receivable	10,000	
Supplies	17,200	
Prepaid Rent	3,000	
Equipment.....	20,000	
Accounts Payable		\$ 8,200
Owner's Capital		40,000
Owner's Drawings	3,000	
Service Revenue		15,000
Advertising Expense.....	1,000	
Miscellaneous Expense.....	2,000	
Salaries and Wages Expense.....	3,500	
	<u>\$63,200</u>	<u>\$63,200</u>

PROBLEM 2-4B

SEAN DEVINE COMPANY
Trial Balance
May 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash (\$5,850 + \$520 – \$486)	\$ 5,884	
Accounts Receivable (\$2,570 – \$210)	2,360	
Prepaid Insurance (\$700 + \$100)	800	
Supplies (\$0 + \$520)	520	
Equipment (\$8,000 – \$520)	7,480	
Accounts Payable (\$4,500 – \$100 + \$520 – \$210)		\$ 4,710
Unearned Service Revenue		650
Owner's Capital (\$11,700 + \$1,000)		12,700
Owner's Drawings (\$0 + \$1,000)	1,000	
Service Revenue		6,960
Salaries and Wages Expense (\$4,200 + \$200)	4,400	
Advertising Expense (\$1,100 + \$486)	1,586	
Utilities Expense (\$890 + \$100)	990	
	<u>\$25,020</u>	<u>\$25,020</u>

PROBLEM 2-5B

(a) & (c)

Cash						No. 101
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			4,000	
2		J1		1,100	2,900	
9		J1	2,800		5,700	
10		J1		3,000	2,700	
12		J1		500	2,200	
25		J1	5,200		7,400	
29		J1		2,000	5,400	
30		J1	85		5,485	
30		J1		1,200	4,285	

Accounts Receivable						No. 112
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 30		J1	85		85	

Prepaid Rent						No. 136
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 30		J1	1,200		1,200	

Land						No. 140
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			10,000	

Buildings						No. 145
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			8,000	

PROBLEM 2-5B (Continued)

Equipment						No. 157
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			6,000	

Accounts Payable						No. 201
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			2,000	
10		J1	1,000		1,000	
20		J1		1,000	2,000	

Mortgage Payable						No. 275
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			8,000	
10		J1	2,000		6,000	

Owner's Capital						No. 301
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 1	Balance	✓			18,000	

Service Revenue						No. 400
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 9		J1		2,800	2,800	
25		J1		5,200	8,000	

Rent Revenue						No. 429
Date	Explanation	Ref.	Debit	Credit	Balance	
Apr. 30		J1		170	170	

PROBLEM 2-5B (Continued)

Advertising Expense No. 610

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 12		J1	500		500

Salaries and Wages Expense No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 29		J1	2,000		2,000

Rent Expense No. 729

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2		J1	1,100		1,100
20		J1	1,000		2,100

(b)

Date	Account Titles and Explanation	Ref.	Debit	Credit
				J1
Apr. 2	Rent Expense	729	1,100	
	Cash	101		1,100
	(Paid film rental)			
3	No entry—not a transaction.			
9	Cash	101	2,800	
	Service Revenue	400		2,800
	(Received cash for services performed)			
10	Mortgage Payable	275	2,000	
	Accounts Payable	201	1,000	
	Cash	101		3,000
	(Made payments on mortgage and accounts payable)			

PROBLEM 2-5B (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 11	No entry—not a transaction.			
12	Advertising Expense.....	610	500	
	 Cash	101		500
	 (Paid advertising expenses)			
20	Rent Expense	729	1,000	
	 Accounts Payable	201		1,000
	 (Rented film on account)			
25	Cash	101	5,200	
	 Service Revenue	400		5,200
	 (Received cash for services performed)			
29	Salaries and Wages Expense.....	726	2,000	
	 Cash	101		2,000
	 (Paid salaries expense)			
30	Cash	101	85	
	 Accounts Receivable	112	85	
	 Rent Revenue	429		170
	 (17% X \$1,000)			
	 (Received cash and balance on account for rent revenue)			
30	Prepaid Rent.....	136	1,200	
	 Cash	101		1,200
	 (Paid cash for future film rentals)			

PROBLEM 2-5B (Continued)

(d)

**CLASSIC THEATER
Trial Balance
April 30, 2014**

	Debit	Credit
Cash	\$ 4,285	
Accounts Receivable	85	
Prepaid Rent	1,200	
Land.....	10,000	
Buildings.....	8,000	
Equipment.....	6,000	
Accounts Payable		\$ 2,000
Mortgage Payable		6,000
Owner's Capital		18,000
Service Revenue		8,000
Rent Revenue		170
Advertising Expense.....	500	
Salaries and Wages Expense.....	2,000	
Rent Expense	2,100	
	\$34,170	\$34,170

(a)		GENERAL JOURNAL		J1
		Account Titles and Explanation	Debit	Credit
Nov.	8	No entry required for cashing U.S. Savings Bonds—this is a personal transaction.		
	8	Cash	500	
		Owner's Capital		500
	11	Advertising Expense.....	65	
		Cash.....		65
	13	Supplies	125	
		Cash.....		125
	14	Equipment.....	300	
		Owner's Capital		300
	16	Cash	2,000	
		Notes Payable		2,000
	17	Equipment.....	900	
		Cash.....		900
	20	Cash	125	
		Service Revenue.....		125
	25	Cash	30	
		Unearned Service Revenue		30
	30	Prepaid Insurance	1,320	
		Cash.....		1,320

CCC2 (Continued)

(b)

Cash					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 8		J1	500		500
11		J1		65	435
13		J1		125	310
16		J1	2,000		2,310
17		J1		900	1,410
20		J1	125		1,535
25		J1	30		1,565
30		J1		1,320	245

Supplies					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 13		J1	125		125

Prepaid Insurance					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 30		J1	1,320		1,320

Equipment					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 14		J1	300		300
17		J1	900		1,200

Unearned Service Revenue					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 25		J1		30	30

CCC2 (Continued)**(b) (Continued)****Notes Payable**

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 16		J1		2,000	2,000

Owner's Capital

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 8		J1		500	500
14		J1		300	800

Service Revenue

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 20		J1		125	125

Advertising Expense

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 11		J1	65		65

CCC2 (Continued)

(c)

COOKIE CREATIONS
Trial Balance
November 30, 2013

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 245	
Supplies	125	
Prepaid Insurance	1,320	
Equipment	1,200	
Unearned Service Revenue		\$ 30
Notes Payable		2,000
Owner's Capital		800
Service Revenue		125
Advertising Expense	65	
	<u>\$2,955</u>	<u>\$2,955</u>

Note to instructors: Because the notes payable is not due for 24 months, it follows Unearned Service Revenue in the accounts and the trial balance.

(a) <u>Account</u>	(1) Increase Side	(1) Decrease Side	(2) Normal Balance
Accounts Payable	Credit	Debit	Credit
Accounts Receivable	Debit	Credit	Debit
Property, Plant, and Equipment	Debit	Credit	Debit
Cash and Cash Equivalents	Debit	Credit	Debit
Research and Development Expense	Debit	Credit	Debit
Inventories	Debit	Credit	Debit

- (b) 1. Cash is increased.
 2. Cash is decreased.
 3. Cash is decreased or Accounts Payable is increased.

- (c) 1. Cash is decreased.
 2. Cash is decreased or Notes or Mortgage Payable is increased.

	<u>Amazon</u>		<u>Wal-Mart</u>	
(a)	1. Interest Expense:	debit	1. Net Sales Revenues:	credit
	2. Cash and Cash Equivalents:	debit	2. Inventories:	debit
	3. Accounts Payable:	credit	3. Cost of Sales:	debit

(b) The following other accounts are ordinarily involved:

1. Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).
2. Increase in Interest Expense: Cash is decreased (credited).
3. Decrease in Salaries and Wages Payable: Cash is decreased (credited).
4. Increase in Service Revenue: Cash or Accounts Receivable is increased (debited).

The answer is dependent upon the company selected by the student.

- (a) The reason the Green Bay Packers' issue an annual report is because they are a publicly owned, nonprofit company. They issue the report to the more than 100,000 shareholders who hold shares. None of the other teams are publicly owned, so they have no obligation to make their financial information available except to their small group of owners.**
- (b) At the time that the article was written the owners of the NFL teams and the players' labor union were negotiating a new contract. Knowing how profitable the NFL teams are would be useful information for the players to know so that they would have a better sense of how much the teams could afford to pay. The Packers are obviously a "small market" team, they are not necessarily representative of teams in general. However, the Packers' annual report does give the players some sense of the profitability of other teams.**
- (c) Since some of the cost of the stadium that the Packers play in is covered by taxpayers, the county and state government has an interest in the team's finances.**
- (d) The Packers' revenues increased during recent years. However, because the cost of players' salaries increased at a faster rate than revenues, the Packers' operating profit actually declined.**

(a)	May 1	Correct.		
	5	Correct.		
	7	Cash	300	
		Unearned Service Revenue		300
	14	Equipment.....	800	
		Cash		800
	15	Owner's Drawings.....	400	
		Cash		400
	20	Cash	184	
		Service Revenue		184
	30	Correct.		
	31	Supplies	1,700	
		Accounts Payable		1,700
(b)	The errors in the entries of May 14 and 20 would prevent the trial balance from balancing.			
(c)	Net income as reported.....			\$ 4,500
	Add: 5/15, Salaries expense			
	(Owner's Drawings).....			<u>400</u>
				4,900
	Less: 5/7, Boarding revenue unearned.....			<u>300</u>
	Correct net income			<u>\$ 4,600</u>
(d)	Cash as reported			\$12,475
	Add: 5/20, Transposition error		\$ 36	
	5/31, Purchase on account		<u>1,700</u>	<u>1,736</u>
				<u>\$14,211</u>

Date: May 25, 2014

To: Accounting Instructor

From: Student

In the first transaction, bills totaling \$6,000 were sent to customers for services performed. Therefore, the asset Accounts Receivable is increased \$6,000 and the revenue Service Revenue is increased \$6,000. Debits increase assets and credits increase revenues, so the journal entry is:

Accounts Receivable.....	6,000	
Service Revenue		6,000
(Billed customers for services performed)		

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.

In the second transaction, \$2,000 was paid in salaries to employees. Therefore, the expense Salaries and Wages Expense is increased \$2,000 and the asset Cash is decreased \$2,000. Debits increase expenses and credits decrease assets, so the journal entry is:

Salaries and Wages Expense	2,000	
Cash		2,000
(Salaries and wages paid)		

The \$2,000 amount is then posted to the debit side of the general ledger account Salaries and Wages Expense and to the credit side of the general ledger account Cash.

- (a) The stakeholders in this situation are:
- ▶ Meredith Ward, assistant chief accountant.
 - ▶ Users of the company's financial statements.
 - ▶ The Frazier Company.
- (b) By adding \$1,000 to the Equipment account, that account total is intentionally misstated. By not locating the error causing the imbalance, some other account may also be misstated by \$1,000. If the amount of \$1,000 is determined to be immaterial, and the intent is not to commit fraud (cover up an embezzlement or other misappropriation of assets), Meredith's action might not be considered unethical in the preparation of interim financial statements. However, if Meredith is violating a company accounting policy by her action, then she is acting unethically.
- (c) Meredith's alternatives are:
1. Miss the deadline but find the error causing the imbalance.
 2. Tell her supervisor of the imbalance and suffer the consequences.
 3. Do as she did and locate the error later, making the adjustment in the next quarter.

The decision whether to fire Mr. Edmondson was the responsibility of Radio Shack's board of directors, which is elected by the company's shareholders to oversee management. The board initially announced its support for the CEO. After further investigation, the board encouraged Mr. Edmondson to resign, which he did. In contrast, when Bausch & Lomb's CEO offered to resign in a similar situation, the company's board refused to accept his resignation. Board members stated that they felt he was still the best person for the position.

Radio Shack says that although it did a reference check at the time of Mr. Edmondson's hiring, it did not check his educational credentials. Under the Sarbanes-Oxley Act, companies must now perform thorough background checks as part of a check of internal controls. The bottom line: Your résumé must be a fair and accurate depiction of your past.

- (a) Students' responses to this question will vary. It is important that the steps that they identify be as specific as possible, and clearly directed toward achieving their goal. You may wish to ask a follow-up question asking them to explain how each step will assist them in achieving their goal.
- (b) There are many sites on the Internet that provide information about preparing a résumé. For example, you can find extensive resources at: <http://www.rileyguide.com/resprep.html>. Many schools also have resources in their placement centers or writing labs. The Writing Center at Rensselaer Polytechnic Institute provides useful, concise information on its website at <http://www.ccp.rpi.edu/resources/careers-and-graduate-school/resumes>. A wide variety of sample résumés can be found. For example, Monster.com provides samples for a wide variety of professions and situations at <http://www.career-advice.monster.com/resumes-cover-letters/careers.aspx>.
- (c) It is important to provide accurate and complete documentation of all relevant training, education, and employment experiences so as to provide assurance to the potential employer, and also to enable that employer to do follow-up work. If you say you have certain skills, such as computer skills, try to substantiate the claim with recognized proof of proficiency. Make sure that all addresses and phone numbers are accurate and up-to-date. Also, ensure that the people you use as references have a copy of your résumé and cover letter, and that they are informed that you are interviewing so they know to expect a call.
- (d) See the sample résumés provided in the websites above for various format options. You might also mention to students that there are electronic résumé templates available on the Internet.

- (a) The existence of three different forms of certification would most likely create confusion for coffee purchasers. It would be difficult to know what aspects of the coffee growing process each certification covered. Similarly, if there were multiple groups that certified financial statements, each with different criteria, it would be difficult for financial statement users to know what each certification promised.
- (b) The Starbucks certification appears to be the most common in that area. It has the advantage of having a direct link to the Starbucks coffee market. Although it does not guarantee that Starbucks will buy its coffee, it is a requirement that must be met before Starbucks will buy somebody's coffee. Note that the article states that the Starbucks certification "incorporates elements of social responsibility and environmental leadership, but quality of coffee is the first criteria." The Smithsonian Bird Friendly is considered to have the strictest requirements and, as a result, appears to be the least common.
- (c) The certifications have multiple objectives including organic farming as a means to protect bird species, biodiversity and wildlife habitat. Some included requirements are to improve workers' living conditions, such as providing running water in worker housing, child labor regulations and education requirements. As mentioned above, the Starbucks certification has the potential financial benefit of making Starbucks a potential customer, which can stabilize farmers' earnings. Certifications can also be financially beneficial because companies can benefit from the positive public relations effects of either producing or buying coffee produced using sustainable practices.

IFRS 2-1

In deciding whether the U.S. should adopt IFRS, the SEC should consider the following.

- Whether IFRS is sufficiently developed and consistent in application
- Whether the IASB is sufficiently independent
- Whether IFRS is established for the benefit to investors
- The issues involved in educating investors about IFRS
- The impact of a switch to IFRS on U.S. laws and regulations
- The impact on companies including changes to their accounting systems, contractual arrangements, corporate governance, and litigation
- The issues involved in educating accountants, so they can prepare statements under IFRS

IFRS 2-2 INTERNATIONAL FINANCIAL REPORTING PROBLEM

Account	Financial Statement	Position in Financial Statement
Other administrative expenses	Consolidated Income statement	After gross profit and before operating profit
Cash at bank	Consolidated Balance Sheet	Current assets
Borrowings and overdrafts	Consolidated Balance Sheet	Current and Non-current liabilities
Finance costs	Consolidated Income Statement	After Operating profit and before Profit from continuing operations before taxation.