Chapter 2

Unit Three: Recording Transactions in T-Accounts

Balance Sheet Accounts

Problems: Applications

Exercise 1 (a) and (b)	Page 40
and 5 (b) and (c)	Page 42

Victoria Restaurant

Cash

June 1	6 400	June 2	1 080
6	6 000	3	1 800
	12 400	5	1 750
			4 630
Bal.	7 770		

Supplies

June 1	12 000		

Building

June 1	200 000		

Equipment

June 1	50 000		
1	1 780		
5	2 200		
Bal.	53 980		

Accounts Payable

June 3	1 800	June 1	17 000
		1	1 780
		5	450
		Bal.	17 430

Mortgage Payable

June 2	1 080	June 1	85 000
		Bal.	83 920

R. Savard, Capital

		June 1	166 400
		6	6 000
		Bal.	172 400

Exercise 2 Page 40 and 41
and 6 (a) Page 42

Window World

Cash

Aug. 1	12 500	Aug. 4	550
15	4 200	7	1 800
	16 700	10	4 100
Bal.	10 250		6 450

Cleaning Supplies

Aug 1	24 400		
4	550		
Bal.	24 950		

Equipment

Aug. 1	35 000		
7	4 500		
Bal.	39 500		

Truck

Aug. 1	42 500		

Accounts Payable

		Aug 1	18 700
		7	2 700
		Bal.	21 400

Bank Loan

Aug. 10	4 100	Aug. 1	22 500
		Bal.	18 400

J. Schmidt, Capital

		Aug. 1	73 200
		15	4 200
		Bal.	77 400

Exercise 3 Page 41

Cash

	Debit	Credit
	1 800	250
	400	635
	2 100	885
	4 300	
Bal.	3 415	

Accounts Receivable

	Debit	Credit
	2 000	1 300
	4 200	350
	1 800	165
	8 000	1 815
Bal.	6 185	

Accounts Payable

Debit		Credit
300		615
		450
		75
		1 140
	Bal.	840

Exercise 4 Page 41

Transaction	Account Affected	Type of Account	Increase/ Decrease	Debit/ Credit	Amount
May 1	Bank Loan	Liability	Decrease	Debit	$ 600
	Cash	Asset	Decrease	Credit	600
2	Equipment	Asset	Increase	Debit	1 700
	Accts. Pay.	Liability	Increase	Credit	1 700
4	Cash	Asset	Increase	Debit	29 000
	Bank Loan	Liability	Increase	Credit	29 000
5	Aircraft	Asset	Increase	Debit	57 000
	Cash	Asset	Decrease	Credit	25 000
	Accts. Pay	Liability	Increase	Credit	32 000
7	Cash	Asset	Increase	Debit	3 500
	Accts. Rec.	Asset	Decrease	Credit	3 500

Exercise 5 (a) Page 42

Transaction	Account Affected	Type of Account	Increase/ Decrease	Debit/ Credit	Amount
	Equipment	Asset	Increase	Debit	$ 1 780
June 1	Accounts Payable	Liability	Increase	Credit	1 780
	Mortgage	Liability	Decrease	Debit	1 080
2	Payable				
	Cash	Asset	Decrease	Credit	1 080
	Accounts	Liability	Decrease	Debit	1 800
3	Payable				
	Cash	Asset	Decrease	Credit	1 800
	Equipment	Asset	Increase	Debit	2 200
5	Cash	Asset	Decrease	Credit	1 750
	Accts. Pay	Liability	Increase	Credit	450
	Cash	Asset	Increase	Debit	6 000
6	R. Savard,	Owner's	Increase	Credit	6 000
	Capital	Equity			

Exercise 5 (d) Page 42

Victoria Restaurant
Trial Balance
June 6, 2008

ACCOUNT	ACC. NO.	DEBIT	CREDIT
Cash		7770 00	
Supplies		12000 00	
Building		200000 00	
Equipment		53980 00	
Accounts Payable			17430 00
Mortgage Payable			83920 00
R. Savard, Capital			172400 00
		273750 00	273750 00

Exercise 6 (b) Page 42

Window World
Trial Balance
August 15, 2007

ACCOUNT	ACC. NO.	DEBIT	CREDIT
Cash		10,250.00	
Cleaning Supplies		24,950.00	
Equipment		39,500.00	
Truck		42,500.00	
Accounts Payable			21,400.00
Bank Loan			18,400.00
J. Schmidt, Capital			77,400.00
		117,200.00	117,200.00

Exercise 7 (a) and (b) Pages 42 and 43

Utopia Salon and Spa

Cash

Mar. 1	4 800	Mar. 4	1 100
4	2 500	5	4 000
6	10 000	7	8 225
	17 300		13 325
Bal.	3 975		

Accounts Receivable

Mar. 1	3 600	Mar. 4	2 500
Bal.	1 100		

Supplies

Mar. 1	2 400	Mar. 3	75
2	300		
	2 700		
Bal.	2 625		

Land

Mar. 1	30 000		

Building

Mar. 1	90 000		

Equipment

Mar. 1	40 000		
5	12 000		
Bal.	52 000		

Accounts Payable

Mar. 3	75	Mar. 1	800
7	8 225	2	300
	8 300	5	8 000
			9 100
		Bal.	800

Bank Loan

		Mar. 1	2 700
		6	10 000
		Bal.	12 700

Mortgage Payable

Mar. 4	1 100	Mar. 1	88 000
		Bal.	86 900

C. Williams, Capital

		Mar. 1	79 300

Exercise 7 (c) Page 43

Utopia Salon and Spa
Trial Balance
March 7, 2007

ACCOUNT	ACC. NO.	DEBIT	CREDIT
Cash		3975.00	
Accounts Receivalbe		1100.00	
Supplies		2625.00	
Land		30000.00	
Building		90000.00	
Equipment		52000.00	
Accounts Payable			800.00
Bank Loan			12700.00
Mortgage Payable			86900.00
C. Williams, Capital			79300.00
		179700.00	179700.00

Exercise 8 (a) and (b) Page 43

Shirley Bowman, C.G.A.

Cash

Mar. 31	4 200	Apr. 1	420
Apr. 1	1 500	2	1 200
3	4 700	4	750
6	75	5	600
	10 475		2 970
Bal.	7 505		

Accounts Receivable

Mar. 31	6 500	Apr. 1	1 500
Bal.	5 000		

Office Supplies

Mar. 31	2 700	Apr. 6	75
Apr. 5	600		
	3 300		
Bal.	3 225		

Land

Mar. 31	25 500		

Building

Mar. 31	75 000		

Office Equipment

Mar. 31	27 100		
Apr. 2	3 250		
9	350		
Bal.	30 700		

Accounts Payable

Apr. 4	750	Mar. 31	3 750
		Apr. 2	2 050
			5 800
		Bal.	5 050

Taxes Payable

		Mar. 31	830

Bank Loan

Apr. 1	420	Mar. 31	6 300
		Bal.	5 880

Mortgage Payable

		Mar. 31	44 000

S. Bowman, Capital

		Mar. 31	86 120
		Apr. 3	4 700
		9	350
		Bal.	91 170

Exercise 8 (c) Page 44

Shirley Bowman, C.G.A.
Trial Balance
April 9, 2007

ACCOUNT	ACC. NO.	DEBIT	CREDIT
Cash		7 505 00	
Accounts Receivable		5 000 00	
Office Supplies		3 225 00	
Land		25 500 00	
Building		75 000 00	
Office Equipment		30 700 00	
Accounts Payable			5 050 00
Taxes Payable			830 00
Bank Loan			5 880 00
Mortgage Payable			44 000 00
S. Bowman, Capital			91 170 00
		146 930 00	146 930 00

Problems: Challenges

Challenge 1 Pages 44 and 45

Transaction	Account Affected	Type of Account	Increase/ Decrease	Debit/ Credit	Amount
(a)	Accounts Payable	Liability	Decrease	Debit	$ 150
	Cash	Asset	Decrease	Credit	150
	Paid an account payable				
(b)	Cash	Asset	Increase	Debit	425
	Accts. Rec.	Asset	Decrease	Credit	425
	Collected on account receivable.				
(c)	Equipment	Asset	Increase	Debit	650
	Accts. Pay.	Liability	Increase	Credit	650
	Purchased equipment to be paid for later.				
(d)	Tapes	Asset	Increase	Debit	400
	Cash	Asset	Decrease	Credit	100
	Accts. Pay.	Liability	Increase	Credit	300
	Purchased tapes paying part of the amount in cash with the balance to be paid later.				
(e)	Accts. Pay.	Liability	Decrease	Debit	250
	Cash	Asset	Decrease	Credit	250
	Paid an account payable.				

Challenge 2 Page 45

Transaction	Account Affected	Type of Account	Increase/ Decrease	Debit/ Credit	Amount
(a)	Cash	Asset	Increase	Debit	$ 12 000
	D. Lord, Capital	Owner's Equity	Increase	Credit	12 000
	Since the Cash and Capital accounts both increased, the business must have received a cash investment from the owner.				
(b)	Supplies	Asset	Increase	Debit	750
	Cash	Asset	Decrease	Credit	750
	The business bought $750 worth of supplies, paying by cash.				
(c)	Furniture	Asset	Increase	Debit	3 000
	Cash	Asset	Decrease	Credit	1 000
	Accts. Pay	Liability	Increase	Credit	2 000
	The business bought furniture for $3000, paying $1000 in cash and owing the remaining $2000.				
(d)	Accts. Pay	Liability	Decrease	Debit	1 750
	Cash	Asset	Decrease	Credit	1 750
	The business paid $1750 on a bill that was owing.				
(e)	Equipment	Asset	Increase	Debit	5 000
	Accts. Pay	Liability	Increase	Credit	5 000
	The business bought equipment worth $5000 to be paid for later.				
(f)	Cash	Asset	Increase	Debit	6 500
	Bank Loan	Liability	Increase	Credit	6 500
	The business borrowed $6500 from the bank.				

Challenge 3 (a) Page 46

Dr. W. Lucey, General Ledger

Cash

Sept. 30	35 000	Oct. 6	315
Oct. 2	68 000	7	425
3	150	9	92 000
8	12 500	10	3 500
15	550		96 240
	118 700		
Bal.	22 460		

Accounts Receivable/Patients

Sept. 30	6 000	Oct. 3	150
Bal.	5 850		

Accounts Receivable/Prov. Health Plan

Sept 30	14 000	Oct 8	15 500
		Bal.	1 500

Software

Oct. 12	2 500		

Medical Supplies

Sept. 30	2 000	Oct. 5	43
Oct. 4	259		
	2 259		
Bal.	2 216		

Land

Oct. 9	150 000		

Building

Oct. 9	142 000		

Equipment

Sept. 30	130 000	Oct. 15	50
Oct. 10	3 500		
	133 500		
Bal.	133 450		

Due to Suppliers

Oct. 5	43	Sept. 30	4 000
6	315	Oct. 4	259
	358	12	2 500
			6 759
		Bal.	6 401

Bank Loan

Oct. 7	425	Sept. 30	7 000
		Bal.	6 575

Mortgage Payable

		Oct. 9	200 000

Dr. W. Lucey, Capital

		Sept. 30	176 000
		Oct. 2	68 000
		Bal.	244 000

Challenge 3 (c) Page 46

Dr. W. Lucey Trial Balance October 15, 2008						
ACCOUNT	ACC. NO.	DEBIT		CREDIT	
Cash		22460	00		
Due from Patients		5850	00		
Due from Provincial Health Plan				1500	00
Software		2500	00		
Medical Supplies		2216	00		
Land		150000	00		
Building		142000	00		
Equipment		133450	00		
Due to Suppliers				6401	00
Bank Loan				6575	00
Mortgage Payable				200000	00
Dr. E. Kingsbury, Capital				244000	00
		458476	00	458476	00

Challenge 3 (d) Page 46

Dr. W. Lucey Balance Sheet October 15, 2008					
Assets			Liabilities		
Cash	22460	00	Due to Provincial Health Plan	1500	00
Due from Patients	5850	00	Due to Suppliers	6401	00
Software	2500	00	Bank Loan	6575	00
Medical Supplies	2216	00	Mortgage Payable	200000	00
Land	150000	00	Total Liabilities	214476	00
Building	142000	00	Owner's Equity		
Equipment	133450	00	Dr. W. Lucey, Capital	244000	00
Total Assets	458476	00	Total Liabilities and Owner's Equity	455546	00

Challenge 4 Page 46

The Pastry Shoppe Trial Balance July 31, 200X			
ACCOUNT	ACC. NO.	DEBIT	CREDIT
Cash		7 000 00	
Accounts Receivable		2 500 00	
Baking Supplies		3 500 00	
Baking Equipment		22 500 00	
Delivery Trucks		57 000 00	
Land		35 000 00	
Building		105 000 00	
Accounts Payable			6 000 00
Bank Loan			11 500 00
Mortgage Payable			95 000 00
Capital			118 000 00
Totals		232 500 00	232 500 00

Case Study 1 Page 47

(a) This error might go undetected since one asset was increased and another decreased by the same amount. The trial balance would still balance even though both accounts were incorrect.

(b) Since the asset and liability accounts were both reduced by the same amount, the trial balance would balance.

(c) Since the asset was increased while the liability was decreased, the trial balance would not balance and the error would be discovered.

(d) Since the asset was increased by an amount greater than the owner's equity, the trial balance would not balance.

Case Study 2 Page 48

(a) The entry to Accounts Receivable was recorded correctly.

(b) Cash was debited $5 rather than $250; therefore the cash balance was too low by $245.

(c) The credit side of the trial balance was correct since the Accounts Receivable account was credited for the correct amount.

(d) The debit total was $52 225 - $245 = $51 980.

(e) The debit balance was too low since the Cash account was debited $245 less than it should have been.

Case Study 3 Page 48

A transaction may involve two assets, one of which increases while the other decreases. The equation A = L + OE still remains in balance.

Case Study 4 Pages 48 and 49

(a) Owner's equity is $ 170 000.

Assets – Liabilities = Owner's Equity

$238 000 – $68 000 = $170 000

However, the real worth of the business depends on the current value of the assets. For example, the value of the five-year-old trucks is shown at the cost price of $40 000 each for a total of $80,000. The real current value of the trucks is much less than $80 000. The same applies to the two equipment items.

(b) Before making the decision to sell or not, the following information should be considered:

1. What is the real current value of the assets?
2. What is a realistic net worth of the business? Does your friend have the business skills and interest needed to operate the business?

(c) In order to decide on a selling price, the following should be considered:

1. What has been the business' profit or loss for the last few years?
2. What profit or loss can be expected from the business? How does this compare to the offer of $50 000 from Exodus?
3. What does your friend presently do for a living? How much is the friend's current income?

Ethics Case Page 49

(a) i. What costs did Matthew's actions cause the retailer to absorb?

A number of costs were incurred by the retailer including:

a. restocking the item
b. packaging of the now used equipment
c. cost of reselling the now used equipment—probably at a discount

ii. Do you feel that Matthew was unethical in this situation? Why?

This question is designed as a basis for values clarification and discussion.

iii. Should the retailer change its policy?

The decision to change the policy would be based on consideration of a number of factors such as:

a. the frequency of the returns
b. the cost to the retailer of restocking, repackaging and reselling the equipment
c. the policies of the retailer's competition
d. the reputation and image the retailer wishes to promote

(b) Questions i and ii are designed as a basis for values clarification and discussion.

iii. Every time a cart is lost or stolen, the store incurs a cost of $300. Operating expenses increase and profit decreases.

(c) i. Shoplifting increases the expenses of a business and affects the company's net profit or loss. It could lead to an increase in prices if the company is to make a profit.

ii. Some retailers use video cameras, security guards and post the right to inspect packages or to insist that packages be left at the door when entering the store. Question ii is also designed as a basis for discussion and values clarification.