

CHAPTER 2

ANALYZING TRANSACTIONS

CLASS DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, stockholders' equity, revenue, or expense. A ledger is a group of related accounts.
2. The terms *debit* and *credit* may signify either an increase or decrease, depending upon the nature of the account. For example, debits signify an increase in asset, expense, and dividends accounts but a decrease in liability, capital stock, retained earnings, and revenue accounts.
3. Creditors and owners both have rights or claims to assets as indicated by the accounting equation, $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$. Therefore, the same rules of debit and credit apply to both liabilities and stockholders' equity.
4.
 - a. Decrease in retained earnings
 - b. Increase in expense
5.
 - a. Increase in retained earnings
 - b. Increase in revenue
6.
 - a. Assuming no errors have occurred, the credit balance in the cash account resulted from drawing checks for \$3,000 in excess of the amount of cash on deposit.
 - b. The \$3,000 credit balance in the cash account as of August 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.
7.
 - a. The revenue was earned in May.
 - b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in May.
(2) Debit Cash and credit Accounts Receivable in June.
8. The trial balance is a proof of the equality of the debits and the credits in the ledger.
9. 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.
10. The listing of \$18,590 is a transposition; the listing of \$720 is a slide.
11.
 - 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 credit total of the trial balance to exceed the debit total by \$270.
12.
 - 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 retained earnings statement, the beginning and ending retained earnings would be correct. However, net income and dividends would be understated by \$7,500. These understatements offset one another, and thus, ending retained earnings is correct. The balance sheet is not affected by the error.
13.
 - a. The equality of the trial balance would not be affected.
 - b. On the income statement, revenues (fees earned) would be overstated by \$25,000, and net income would be overstated by \$25,000. On the retained earnings statement, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by \$25,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by \$25,000, and retained earnings is overstated by \$25,000. The understatement of liabilities is offset by the overstatement of retained earnings, and thus, total liabilities and stockholders' equity is correct.
14. The preferred procedure is to journalize and post a correcting entry debiting Accounts Receivable and crediting Accounts Payable.

15. a. From the viewpoint of Kennon Storage, the balance of the checking account represents an asset.

b. From the viewpoint of Livingston Savings Bank, the balance of the checking account represents a liability.

EXERCISES

Ex. 2-1

Balance Sheet Accounts

Assets

Flight Equipment
 Purchase Deposits
 for Flight Equipment*
 Spare Parts and Supplies

Liabilities

Accounts Payable
 Air Traffic Liability**

Owners' (Stockholders') Equity

None

Income Statement Accounts

Revenue

Cargo and Mail Revenue
 Passenger Revenue

Expenses

Aircraft Fuel Expense
 Commissions***
 Landing Fees****

* Advance payments on aircraft purchases

** Passenger ticket sales not yet recognized as revenue

*** Commissions paid to travel agents

**** Fees paid to airports for landing rights

Ex. 2-2

Account	Account Number
Accounts Payable	21
Accounts Receivable	12
Capital Stock	31
Cash	11
Dividends	33
Fees Earned	41
Land	13
Miscellaneous Expense	53
Supplies Expense	52
Wages Expense	51

Ex. 2–3

	<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
		59	Miscellaneous Expense
	<u>2. Liabilities</u>		
21	Accounts Payable		
22	Unearned Rent		
	<u>3. Owners' (Stockholders') Equity</u>		
31	Capital Stock		
32	Retained Earnings		
33	Dividends		

Note: The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14 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. and b.

Transaction	<u>Account Debited</u>		<u>Account Credited</u>	
	Type	Effect	Type	Effect
(1)	asset	+	capital stock	+
(2)	asset	+	asset	–
(3)	asset	+	asset	–
			liability	+
(4)	expense	+	asset	–
(5)	asset	+	revenue	+
(6)	liability	–	asset	–
(7)	asset	+	asset	–
(8)	dividends	+	asset	–
(9)	expense	+	asset	–

Ex. 2–5

(1)	Cash.....	40,000	
	Capital Stock.....		40,000
(2)	Supplies.....	1,800	
	Cash.....		1,800
(3)	Equipment	24,000	
	Accounts Payable.....		15,000
	Cash.....		9,000
(4)	Operating Expenses	3,050	
	Cash.....		3,050
(5)	Accounts Receivable.....	12,000	
	Service Revenue		12,000
(6)	Accounts Payable	7,500	
	Cash.....		7,500
(7)	Cash.....	9,500	
	Accounts Receivable		9,500
(8)	Dividends.....	5,000	
	Cash.....		5,000
(9)	Operating Expenses	1,050	
	Supplies		1,050

Ex. 2–6

**MALTA CO.
Trial Balance
February 28, 2006**

Cash	23,150	
Accounts Receivable	2,500	
Supplies	750	
Equipment.....	24,000	
Accounts Payable		7,500
Capital Stock		40,000
Dividends	5,000	
Service Revenue.....		12,000
Operating Expenses	4,100	
	<u>59,500</u>	<u>59,500</u>

Ex. 2-7

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

Ex. 2-8

- | | |
|--------------------------------|------------------|
| a. Liability—credit | f. Asset—debit |
| b. Asset—debit | g. Expense—debit |
| c. Asset—debit | h. Asset—debit |
| d. Stockholders' equity—credit | i. Expense—debit |
| e. Revenue—credit | |

Ex. 2-9

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

Ex. 2-10

- a. Debit (negative) balance of \$1,500 ($\$10,500 - \$4,000 - \$8,000$).
- b. Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the stockholders' equity section as a negative \$1,500.

Ex. 2–11

- a. The increase of \$28,750 in the cash account does not indicate earnings of that amount. Other assets may have increased or decreased, and liabilities and capital stock may have increased or decreased.
- b. \$7,550 (\$36,300 – \$28,750)

Ex. 2–12

- a. \$40,550 (\$7,850 + \$41,850 – \$9,150)
- b. \$63,000 (\$61,000 + \$17,500 – \$15,500)
- c. \$20,800 (\$40,500 – \$57,700 + \$38,000)

Ex. 2–13

2005

Aug. 1	Rent Expense	1,500	
	Cash.....		1,500
2	Advertising Expense	700	
	Cash.....		700
4	Supplies.....	1,050	
	Cash.....		1,050
6	Office Equipment	7,500	
	Accounts Payable.....		7,500
8	Cash.....	3,600	
	Accounts Receivable		3,600
12	Accounts Payable	1,150	
	Cash.....		1,150
20	Dividends.....	1,000	
	Cash.....		1,000
25	Miscellaneous Expense.....	500	
	Cash.....		500
30	Utilities Expense	195	
	Cash.....		195
31	Accounts Receivable.....	10,150	
	Fees Earned		10,150
31	Utilities Expense.....	380	

Cash.....

380

Ex. 2–14

a.

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Date	Description	Post. Ref.	Debit	Credit
2006				
Oct. 27	Supplies	15	1,320	
	Accounts Payable	21		1,320
	Purchased supplies on account.			

b., c., d.

Supplies

15

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Oct. 1	Balance .....	✓	.....	.....	585	.....
27	.....	43	1,320	.....	1,905	.....

Accounts Payable

21

2006						
Oct. 1	Balance .....	✓	.....	.....	.....	6,150
27	.....	43	.....	1,320	.....	7,470

Ex. 2–15

a.

(1)	Accounts Receivable.....	12,190	
	Fees Earned		12,190
(2)	Supplies.....	1,250	
	Accounts Payable.....		1,250
(3)	Cash.....	9,150	
	Accounts Receivable		9,150
(4)	Accounts Payable	750	
	Cash.....		750

b.

Cash		Accounts Payable	
(3)	9,150	(4)	750
Supplies		Fees Earned	
(2)	1,250	(1)	12,190
Accounts Receivable			
(1)	12,190	(3)	9,150

Ex. 2-16

**HALEAKALA PARK CO.
Trial Balance
March 31, 2006**

Cash	17,450	
Accounts Receivable	37,500	
Supplies	2,100	
Prepaid Insurance	3,000	
Land.....	85,000	
Accounts Payable		18,710
Unearned Rent.....		9,000
Notes Payable.....		40,000
Capital Stock		50,000
Retained Earnings.....		36,640
Dividends	20,000	
Fees Earned.....		310,000
Wages Expense.....	175,000	
Rent Expense	60,000	
Utilities Expense	41,500	
Supplies Expense	7,900	
Insurance Expense.....	6,000	
Miscellaneous Expense	8,900	
	<u>464,350</u>	<u>464,350</u>

Ex. 2-17

Inequality of trial balance totals would be caused by errors described in (b) and (d).

Ex. 2–18

**ESCALADE CO.
Trial Balance
December 31, 2006**

Cash	13,375	
Accounts Receivable	24,600	
Prepaid Insurance	8,000	
Equipment.....	75,000	
Accounts Payable		11,180
Unearned Rent.....		4,250
Capital Stock		25,000
Retained Earnings.....		57,420
Dividends	10,000	
Service Revenue.....		83,750
Wages Expense.....	42,000	
Advertising Expense.....	7,200	
Miscellaneous Expense	1,425	
	<u>181,600</u>	<u>181,600</u>

Ex. 2–19

Error	(a) Out of Balance	(b) Difference	(c) Larger Total
1.	yes	\$1,250	debit
2.	yes	18	credit
3.	yes	4,175	debit
4.	yes	800	credit
5.	no	—	—
6.	yes	180	credit
7.	no	—	—

Ex. 2–20

1. The debit column total is added incorrectly. The sum is \$97,250, rather than \$152,750.
2. The trial balance should be dated January 31, 2006, not for the month of January.
3. The Accounts Receivable balance should be in the debit column.
4. The Accounts Payable balance should be in the credit column.
5. The Dividends 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:

**DINERO CO.
Trial Balance
January 31, 2006**

Cash	7,500	
Accounts Receivable	16,400	
Prepaid Insurance	3,600	
Equipment.....	50,000	
Accounts Payable		1,850
Salaries Payable.....		1,250
Capital Stock		5,000
Retained Earnings.....		38,200
Dividends	6,000	
Service Revenue.....		78,700
Salary Expense.....	32,810	
Advertising Expense.....	7,200	
Miscellaneous Expense.....	1,490	
	<u>125,000</u>	<u>125,000</u>

Ex. 2–21

a.	Dividends.....	15,000	
	Wages Expense		15,000
b.	Prepaid Rent.....	4,500	
	Cash.....		4,500

Ex. 2–22

a.	Supplies.....	550	
	Accounts Payable.....		550
	Prepaid Rent.....	550	
	Miscellaneous Expense		550
b.	Cash.....	7,500	
	Accounts Payable.....		3,750
	Accounts Receivable		3,750

Ex. 2–23

- a. 1. Net sales: \$4,694 million increase ($\$58,247 - \$53,553$)
8.8% increase ($\$4,694 \div \$53,553$)
2. Total operating expenses: \$1,063 million increase ($\$12,278 - \$11,215$)
9.5% increase ($\$1,063 \div \$11,215$)
- b. During the year ending February 2, 2003, the percent increase in total operating expenses (9.5%) is more than the percent increase in net sales (8.8%), an unfavorable trend.

Ex. 2–24

a.

KMART CORPORATION
Income Statement
For the Years Ending January 31, 2000 and 1999
(in millions)

	<u>2000</u>	<u>1999</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
1. Sales	\$37,028	\$35,925	\$ 1,103	3.1%
2. Cost of sales	(29,658)	(28,111)	1,547	5.5%
3. Selling, general, and admin. expenses	<u>(7,415)</u>	<u>(6,514)</u>	<u>901</u>	13.8%
4. Operating income (loss) before taxes	<u>\$ (45)</u>	<u>\$ 1,300</u>	<u>\$(1,345)</u>	(103.5%)

b. The horizontal analysis of Kmart Corporation reveals deteriorating operating results from 1999 to 2000. While sales increased by \$1,103 million, a 3.1% increase, cost of sales increased by \$1,547 million, a 5.5% increase. Selling, general, and administrative expenses also increased by \$901 million, a 13.8% increase. The end result was that operating income decreased by \$1,345 million, over a 100% decrease, and created a \$45 million loss in 2000. Little over a year later, Kmart filed for bankruptcy protection. It has now emerged from bankruptcy, hoping to return to profitability.

PROBLEMS

Prob. 2-1A

1. and 2.

Cash	
(a) 17,500	(b) 4,000
(g) 3,725	(c) 2,200
9,410 21,225	(d) 660
	(f) 1,200
	(h) 1,800
	(i) 235
	(l) 1,300
	(m) 105
	(n) 200
	(o) 115
	11,815

Accounts Payable	
(h) 1,800	(e) 5,200
	(j) 650
	4,050 5,850
Capital Stock	
	(a) 17,500
Professional Fees	
	(g) 3,725
	(k) 3,500
	7,225

Accounts Receivable	
(k) 3,500	

Rent Expense	
(c) 2,200	

Supplies	
(d) 660	

Salary Expense	
(l) 1,300	

Prepaid Insurance	
(f) 1,200	

Blueprint Expense	
(j) 650	

Automobiles	
(b) 15,300	

Automobile Expense	
(o) 115	

Equipment	
(e) 5,200	

Miscellaneous Expense	
(i) 235	
(m) 105	
	340

Notes Payable	
(n) 200	(b) 11,300
	11,100

Prob. 2-1A Concluded

3.

SHAUN WILCOX, ARCHITECT, P.C.
Trial Balance
April 30, 2006

Cash	9,410	
Accounts Receivable	3,500	
Supplies	660	
Prepaid Insurance	1,200	
Automobiles	15,300	
Equipment.....	5,200	
Notes Payable.....		11,100
Accounts Payable		4,050
Capital Stock		17,500
Professional Fees		7,225
Rent Expense	2,200	
Salary Expense.....	1,300	
Blueprint Expense.....	650	
Automobile Expense.....	115	
Miscellaneous Expense	340	
	<u>39,875</u>	<u>39,875</u>

Prob. 2–2A

1.

(a)	Cash.....	12,000	
	Capital Stock.....		12,000
(b)	Supplies.....	850	
	Accounts Payable.....		850
(c)	Cash.....	12,600	
	Sales Commissions.....		12,600
(d)	Rent Expense	2,000	
	Cash.....		2,000
(e)	Accounts Payable	450	
	Cash.....		450
(f)	Dividends.....	1,500	
	Cash.....		1,500
(g)	Automobile Expense	1,700	
	Miscellaneous Expense.....	375	
	Cash.....		2,075
(h)	Office Salaries Expense	3,000	
	Cash.....		3,000
(i)	Supplies Expense	605	
	Supplies		605

Prob. 2–2A Concluded

2.

Cash			
(a)	12,000	(d)	2,000
(c)	12,600	(e)	450
15,575	24,600	(f)	1,500
		(g)	2,075
		(h)	3,000
			9,025

Sales Commissions	
(c)	12,600

Rent Expense	
(d)	2,000

Supplies	
(b)	850
245	

Office Salaries Expense	
(h)	3,000

Accounts Payable	
(e)	450
	(b) 850
	400

Automobile Expense	
(g)	1,700

Capital Stock	
	(a) 12,000

Supplies Expense	
(i)	605

Dividends	
(f)	1,500

Miscellaneous Expense	
(g)	375

3.

STAR REALTY
Trial Balance
March 31, 2006

Cash	15,575	
Supplies	245	
Accounts Payable		400
Capital Stock		12,000
Dividends	1,500	
Sales Commissions		12,600
Rent Expense	2,000	
Office Salaries Expense	3,000	
Automobile Expense.....	1,700	
Supplies Expense	605	
Miscellaneous Expense	375	
	<u>25,000</u>	<u>25,000</u>

4. a. \$12,600
b. \$7,680
c. \$4,920

Prob. 2–3A

1.

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Date	Description	Post. Ref.	Debit	Credit
2006				
July 1	Cash	11	18,000	
	Capital Stock.....	31		18,000
5	Rent Expense	53	1,500	
	Cash.....	11		1,500
10	Truck	18	15,000	
	Cash.....	11		5,000
	Notes Payable	21		10,000
13	Equipment.....	16	4,500	
	Accounts Payable	22		4,500
14	Supplies	13	975	
	Cash.....	11		975
15	Prepaid Insurance	14	3,000	
	Cash.....	11		3,000
15	Cash	11	4,100	
	Fees Earned	41		4,100
21	Accounts Payable	22	2,400	
	Cash.....	11		2,400
24	Accounts Receivable	12	6,100	
	Fees Earned	41		6,100
26	Truck Expense	55	580	
	Accounts Payable	22		580
27	Utilities Expense	54	950	
	Cash.....	11		950
27	Miscellaneous Expense.....	59	315	
	Cash.....	11		315

Prob. 2–3A Continued

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Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2006				
July 29	Cash	11	3,420	
	Accounts Receivable.....	12		3,420
30	Wages Expense.....	51	2,500	
	Cash.....	11		2,500
31	Dividends.....	33	2,000	
	Cash.....	11		2,000

2.

Cash

11

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
July 1	1	18,000	.....	18,000	.....
5	1	.....	1,500	16,500	.....
10	1	.....	5,000	11,500	.....
14	1	.....	975	10,525	.....
15	1	.....	3,000	7,525	.....
15	1	4,100	.....	11,625	.....
21	2	.....	2,400	9,225	.....
27	2	.....	950	8,275	.....
27	2	.....	315	7,960	.....
29	2	3,420	.....	11,380	.....
30	2	.....	2,500	8,880	.....
31	2	.....	2,000	6,880	.....

Accounts Receivable

12

2006						
July 24	.....	2	6,100	.....	6,100	.....
29	.....	2	.....	3,420	2,680	.....

Prob. 2–3A Continued

Supplies					13	
Date	Item	Post. Ref.	Dr.	Cr.	<u>Balance</u>	
			Dr.	Cr.	Dr.	Cr.
2006						
July 14	1	975	.....	975	.....
Prepaid Insurance					14	
2006						
July 15	1	3,000	.....	3,000	.....
Equipment					16	
2006						
July 13	1	4,500	.....	4,500	.....
Truck					18	
2006						
July 10	1	15,000	.....	15,000	.....
Notes Payable					21	
2006						
July 10	1	.....	10,000	.....	10,000
Accounts Payable					22	
2006						
July 13	1	.....	4,500	.....	4,500
21	2	2,400	.....	.....	2,100
26	2	.....	580	.....	2,680
Capital Stock					31	
2006						
July 1	1	.....	18,000	.....	18,000
Dividends					33	
2006						
July 31	2	2,000	.....	2,000	.....

Prob. 2–3A Continued

Fees Earned

41

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
July 15	1	.....	4,100	.....	4,100
24	2	.....	6,100	.....	10,200

Wages Expense

51

2006						
July 30	.....	2	2,500	.....	2,500	.....

Rent Expense

53

2006						
July 5	.....	1	1,500	.....	1,500	.....

Utilities Expense

54

2006						
July 27	.....	2	950	.....	950	.....

Truck Expense

55

2006						
July 26	.....	2	580	.....	580	.....

Miscellaneous Expense

59

2006						
July 27	.....	2	315	.....	315	.....

Prob. 2–3A Concluded

3.

INGRES DESIGNS
Trial Balance
July 31, 2006

Cash	6,880	
Accounts Receivable	2,680	
Supplies	975	
Prepaid Insurance	3,000	
Equipment.....	4,500	
Truck	15,000	
Notes Payable.....		10,000
Accounts Payable		2,680
Capital Stock		18,000
Dividends	2,000	
Fees Earned.....		10,200
Wages Expense.....	2,500	
Rent Expense	1,500	
Utilities Expense	950	
Truck Expense.....	580	
Miscellaneous Expense	315	
	<u>40,880</u>	<u>40,880</u>

Prob. 2–4A

2. and 3.

		JOURNAL		Pages 18 and 19	
Date	Description	Post. Ref.	Debit	Credit	
2006					
Aug. 1	Office Supplies.....	14	1,760		
	Accounts Payable	21		1,760	
2	Rent Expense	52	2,500		
	Cash.....	11		2,500	
3	Cash	11	38,720		
	Accounts Receivable.....	12		38,720	
5	Prepaid Insurance	13	3,600		
	Cash.....	11		3,600	
9	Accounts Payable	21	240		
	Office Supplies.....	14		240	
17	Advertising Expense.....	53	3,450		
	Cash.....	11		3,450	
23	Accounts Payable	21	2,670		
	Cash.....	11		2,670	
29	Miscellaneous Expense.....	59	350		
	Cash.....	11		350	
30	Automobile Expense.....	54	1,360		
	Cash.....	11		1,360	
31	Cash	11	800		
	Salary and Commission Expense.....	51		800	
31	Salary and Commission Expense.....	51	17,400		
	Cash.....	11		17,400	
31	Accounts Receivable	12	41,900		
	Fees Earned	41		41,900	
31	Land	16	75,000		
	Cash.....	11		10,000	
	Notes Payable	22		65,000	
31	Dividends.....	33	2,500		
	Cash.....	11		2,500	

Prob. 2–4A Continued

1. and 3.

Cash

11

Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2006							
Aug. 1	Balance .....	✓	.....	.....	31,200	.....
2	18	.....	2,500	28,700	.....
3	18	38,720	.....	67,420	.....
5	18	.....	3,600	63,820	.....
17	18	.....	3,450	60,370	.....
23	18	.....	2,670	57,700	.....
29	19	.....	350	57,350	.....
30	19	.....	1,360	55,990	.....
31	19	800	.....	56,790	.....
31	19	.....	17,400	39,390	.....
31	19	.....	10,000	29,390	.....
31	19	.....	2,500	26,890	.....

Accounts Receivable

12

2006							
Aug. 1	Balance .....	✓	.....	.....	45,750	.....
3	.....	18	.....	38,720	7,030	.....
31	.....	19	41,900	.....	48,930	.....

Prepaid Insurance

13

2006							
Aug. 1	Balance .....	✓	.....	.....	2,800	.....
5	.....	18	3,600	.....	6,400	.....

Office Supplies

14

2006							
Aug. 1	Balance .....	✓	.....	.....	1,000	.....
1	.....	18	1,760	.....	2,760	.....
9	.....	18	.....	240	2,520	.....

Land

16

2006							
Aug. 31	19	75,000	75,000	

Prob. 2–4A Continued

Accounts Payable						21	
Date	Item	Post. Ref.	Dr.	Cr.	<u>Balance</u>		
					Dr.	Cr.	
2006							
Aug. 1	Balance .....	✓	.....	.....	.....	5,200
1	.....	18	.....	1,760	.....	6,960
9	.....	18	240	.....	.....	6,720
23	.....	18	2,670	.....	.....	4,050
Notes Payable						22	
2006							
Aug. 31	.....	19	.....	65,000	.....	65,000
Capital Stock						31	
2006							
Aug. 1	Balance .....	✓	.....	.....	.....	8,000
Retained Earnings						32	
2006							
Aug. 1	Balance .....	✓	.....	.....	.....	31,700
Dividends						33	
2006							
Aug. 1	Balance .....	✓	.....	.....	16,000	.....
31	.....	19	2,500	.....	18,500	.....
Fees Earned						41	
2006							
Aug. 1	Balance .....	✓	.....	.....	.....	224,000
31	.....	19	.....	41,900	.....	265,900
Salary and Commission Expense						51	
2006							
Aug. 1	Balance .....	✓	.....	.....	133,000	.....
31	.....	19	.....	800	132,200	.....
31	.....	19	17,400	.....	149,600	.....

Prob. 2–4A Continued

Rent Expense

52

Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2006							
Aug. 1	Balance .....	✓	.....	.....	17,500	.....
2	.....	18	2,500	.....	20,000	.....

Advertising Expense

53

2006							
Aug. 1	Balance .....	✓	.....	.....	14,300	.....
17	.....	18	3,450	.....	17,750	.....

Automobile Expense

54

2006							
Aug. 1	Balance .....	✓	.....	.....	6,400	.....
30	.....	19	1,360	.....	7,760	.....

Miscellaneous Expense

59

2006							
Aug. 1	Balance .....	✓	.....	.....	950	.....
29	.....	19	350	.....	1,300	.....

Prob. 2–4A Concluded

4.

**FICKLE REALTY
Trial Balance
August 31, 2006**

Cash	26,890	
Accounts Receivable	48,930	
Prepaid Insurance	6,400	
Office Supplies	2,520	
Land.....	75,000	
Accounts Payable		4,050
Notes Payable.....		65,000
Capital Stock		8,000
Retained Earnings.....		31,700
Dividends	18,500	
Fees Earned.....		265,900
Salary and Commission Expense	149,600	
Rent Expense	20,000	
Advertising Expense.....	17,750	
Automobile Expense.....	7,760	
Miscellaneous Expense	1,300	
	<u>374,650</u>	<u>374,650</u>

Prob. 2–5A

- | | | |
|---|--------|--------------------|
| 1. Totals of preliminary trial balance: | Debit | <u>\$59,291.40</u> |
| | Credit | <u>\$45,229.20</u> |
| 2. Difference between preliminary trial balance totals: | | <u>\$14,062.20</u> |
| 3. Errors in trial balance: | | |
| (a) Land debit balance was listed as \$26,265.00 instead of \$26,625.00. | | |
| (b) Accounts Payable credit balance of \$1,077.50 was listed as debit balance. | | |
| (c) Wages Expense debit balance of \$2,518.60 was listed as credit balance. | | |
| (d) Advertising Expense of \$275.00 was omitted. | | |
| 4. Errors in account balances: | | |
| (a) Dividends balance of \$1,350.00 was totaled as \$1,500.00. | | |
| 5. Errors in posting: | | |
| (a) Rent Expense entry of July 1 for \$1,540.00 was posted as \$15,400.00 (slide). | | |
| (b) Cash entry of July 15 for \$1,785.50 was posted as \$1,875.50 (transposition). | | |
| (c) Service Revenue entry of July 31 for \$1,276.10 was posted as \$1,726.10 (transposition). | | |
| (d) Utilities Expense entry of July 30 for \$436.60 was posted as \$4,366.00 (slide). | | |

6.	July	31	Utilities Expense	52	210.00	
			Cash.....	11		210.00

7.

**CYPRESS TV REPAIR
Trial Balance
July 31, 20—**

Cash	8,706.00	
Supplies	997.90	
Prepaid Insurance	395.50	
Land.....	26,625.00	
Notes Payable.....		6,500.00
Accounts Payable		1,077.50
Capital Stock		7,500.00
Retained Earnings.....		20,260.20
Dividends	1,350.00	
Service Revenue.....		8,000.40
Wages Expense.....	2,518.60	
Utilities Expense	646.60	
Advertising Expense.....	275.00	

Rent Expense	1,540.00	
Miscellaneous Expense	<u>283.50</u>	
	<u>43,338.10</u>	<u>43,338.10</u>

Prob. 2–6A

1.

ONYX VIDEOGRAPHY
Trial Balance
August 31, 2006

Cash	4,500*	
Accounts Receivable	10,200	
Supplies	1,500	
Prepaid Insurance	1,140	
Equipment.....	36,000	
Notes Payable.....		12,000
Accounts Payable		3,720
Capital Stock		1,000
Retained Earnings.....		20,600
Dividends	9,000	
Fees Earned.....		118,680
Wages Expense.....	68,000	
Rent Expense	13,900	
Advertising Expense.....	6,300	
Gas, Electricity, and Water Expense	3,780	
Miscellaneous Expense	1,680	
	<u>156,000</u>	<u>156,000</u>

*\$4,700 – \$3,500 (a) + \$3,300 (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) 1,500
(g) 2,750	(c) 1,500
10,780	20,750
	(e) 1,050
	(f) 1,200
	(h) 140
	(i) 3,000
	(j) 450
	(m) 1,000
	(n) 130
	9,970

Accounts Receivable	
(l) 4,150	

Supplies	
(e) 1,050	

Prepaid Insurance	
(f) 1,200	

Automobiles	
(c) 16,500	

Equipment	
(d) 6,500	

Notes Payable	
(j) 450	(c) 15,000
	14,550

Accounts Payable	
(i) 3,000	(d) 6,500
	(k) 525
	4,025
	7,025

Capital Stock	
	(a) 18,000

Professional Fees	
	(g) 2,750
	(l) 4,150
	6,900

Rent Expense	
(b) 1,500	

Salary Expense	
(m) 1,000	

Automobile Expense	
(n) 130	

Blueprint Expense	
(k) 525	

Miscellaneous Expense	
(h) 140	

Prob. 2-1B Concluded

3.

CHRISTINA KIFF, ARCHITECT, P.C.
Trial Balance
July 31, 2006

Cash	10,780	
Accounts Receivable	4,150	
Supplies	1,050	
Prepaid Insurance	1,200	
Automobiles	16,500	
Equipment.....	6,500	
Notes Payable.....		14,550
Accounts Payable		4,025
Capital Stock		18,000
Professional Fees		6,900
Rent Expense	1,500	
Salary Expense.....	1,000	
Automobile Expense.....	130	
Blueprint Expense.....	525	
Miscellaneous Expense	140	
	<u>43,475</u>	<u>43,475</u>

Prob. 2–2B

1.

(a)	Cash.....	9,000	
	Capital Stock.....		9,000
(b)	Rent Expense.....	2,000	
	Cash.....		2,000
(c)	Supplies.....	700	
	Accounts Payable.....		700
(d)	Accounts Payable.....	290	
	Cash.....		290
(e)	Cash.....	10,750	
	Sales Commissions.....		10,750
(f)	Automobile Expense.....	1,400	
	Miscellaneous Expense.....	480	
	Cash.....		1,880
(g)	Office Salaries Expense.....	2,500	
	Cash.....		2,500
(h)	Supplies Expense.....	575	
	Supplies.....		575
(i)	Dividends.....	1,000	
	Cash.....		1,000

Prob. 2–2B Concluded

2.

Cash				Sales Commissions	
(a) 9,000	(b) 2,000			(e) 10,750	
(e) 10,750	(d) 290				
12,080	19,750	(f) 1,880			
		(g) 2,500			
		(i) 1,000			
		7,670			
Supplies				Rent Expense	
(c) 700	(h) 575			(b) 2,000	
125					
Accounts Payable				Automobile Expense	
(d) 290	(c) 700			(f) 1,400	
	410				
Capital Stock				Supplies Expense	
	(a) 9,000			(h) 575	
Dividends				Miscellaneous Expense	
(i) 1,000				(f) 480	

3.

**ACADIA REALTY
Trial Balance
January 31, 2006**

Cash	12,080	
Supplies	125	
Accounts Payable		410
Capital Stock		9,000
Dividends	1,000	
Sales Commissions		10,750
Office Salaries Expense	2,500	
Rent Expense	2,000	
Automobile Expense.....	1,400	
Supplies Expense	575	
Miscellaneous Expense	480	
	<u>20,160</u>	<u>20,160</u>

4. a. \$10,750
 b. \$6,955
 c. \$3,795

Prob. 2–3B

1.

JOURNAL

Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2006				
Nov. 2	Cash	11	15,000	
	Capital Stock	31		15,000
5	Rent Expense	53	1,750	
	Cash	11		1,750
6	Equipment	16	8,500	
	Accounts Payable	22		8,500
8	Truck	18	18,000	
	Cash	11		10,000
	Notes Payable	21		8,000
10	Supplies	13	1,115	
	Cash	11		1,115
12	Cash	11	7,500	
	Fees Earned	41		7,500
15	Prepaid Insurance	14	2,400	
	Cash	11		2,400
23	Accounts Receivable	12	3,950	
	Fees Earned	41		3,950
24	Truck Expense	55	600	
	Accounts Payable	22		600
29	Utilities Expense	54	750	
	Cash	11		750
29	Miscellaneous Expense	59	310	
	Cash	11		310
30	Cash	11	2,200	
	Accounts Receivable	12		2,200

Prob. 2–3B Continued

JOURNAL

Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2006				
Nov. 30	Wages Expense.....	51	2,700	
	Cash.....	11		2,700
30	Accounts Payable	22	2,125	
	Cash.....	11		2,125
30	Dividends.....	33	1,400	
	Cash.....	11		1,400

2.

GENERAL LEDGER

Cash						11	
Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2006							
Nov. 2	1	15,000		15,000		
5	1		1,750	13,250		
8	1		10,000	3,250		
10	1		1,115	2,135		
12	1	7,500		9,635		
15	1		2,400	7,235		
29	2		750	6,485		
29	2		310	6,175		
30	2	2,200		8,375		
30	2		2,700	5,675		
30	2		2,125	3,550		
30	2		1,400	2,150		

Accounts Receivable

12

2006							
Nov. 23	.....	1	3,950		3,950	
30	.....	2		2,200	1,750	

Prob. 2–3B Continued

Supplies					13	
Date	Item	Post. Ref.	Dr.	Cr.	<u>Balance</u>	
			Dr.	Cr.	Dr.	Cr.
2006						
Nov. 10	1	1,115	.....	1,115	.....
Prepaid Insurance					14	
2006						
Nov. 15	1	2,400	.....	2,400	.....
Equipment					16	
2006						
Nov. 6	1	8,500	.....	8,500	.....
Truck					18	
2006						
Nov. 8	1	18,000	.....	18,000	.....
Notes Payable					21	
2006						
Nov. 8	1	.....	8,000	.....	8,000
Accounts Payable					22	
2006						
Nov. 6	1	.....	8,500	.....	8,500
24	1	.....	600	.....	9,100
30	2	2,125	.....	.....	6,975
Capital Stock					31	
2006						
Nov. 2	1	.....	15,000	.....	15,000
Dividends					33	
2006						
Nov. 30	2	1,400	.....	1,400	.....

Prob. 2–3B Continued

Fees Earned

41

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Nov. 12	1	.....	7,500	.....	7,500
23	1	.....	3,950	.....	11,450

Wages Expense

51

2006						
Nov. 30	.....	2	2,700	.....	2,700	.....

Rent Expense

53

2006						
Nov. 5	.....	1	1,750	.....	1,750	.....

Utilities Expense

54

2006						
Nov. 29	.....	2	750	.....	750	.....

Truck Expense

55

2006						
Nov. 24	.....	1	600	.....	600	.....

Miscellaneous Expense

59

2006						
Nov. 29	.....	2	310	.....	310	.....

Prob. 2–3B Concluded

3.

DEVON DESIGNS
Trial Balance
November 30, 2006

Cash	2,150	
Accounts Receivable	1,750	
Supplies	1,115	
Prepaid Insurance	2,400	
Equipment.....	8,500	
Truck	18,000	
Notes Payable.....		8,000
Accounts Payable		6,975
Capital Stock		15,000
Dividends	1,400	
Fees Earned.....		11,450
Wages Expense.....	2,700	
Rent Expense	1,750	
Utilities Expense	750	
Truck Expense.....	600	
Miscellaneous Expense	310	
	<u>41,425</u>	<u>41,425</u>

Prob. 2–4B

2. and 3.

		JOURNAL		Pages 18 and 19	
Date	Description	Post. Ref.	Debit	Credit	
2006					
Nov. 1	Rent Expense	52	7,000		
	Cash	11		7,000	
2	Office Supplies	14	1,675		
	Accounts Payable	21		1,675	
5	Prepaid Insurance	13	4,800		
	Cash	11		4,800	
10	Cash	11	52,000		
	Accounts Receivable	12		52,000	
15	Land	16	90,000		
	Cash	11		10,000	
	Notes Payable	22		80,000	
17	Accounts Payable	21	9,100		
	Cash	11		9,100	
20	Accounts Payable	21	400		
	Office Supplies	14		400	
23	Advertising Expense	53	2,050		
	Cash	11		2,050	
27	Cash	11	700		
	Salary and Commission Expense	51		700	
28	Automobile Expense	54	1,100		
	Cash	11		1,100	
29	Miscellaneous Expense	59	390		
	Cash	11		390	
30	Accounts Receivable	12	48,400		
	Fees Earned	41		48,400	
30	Salary and Commission Expense	51	24,000		
	Cash	11		24,000	
30	Dividends	33	7,500		
	Cash	11		7,500	

Prob. 2–4B Continued

1. and 3.

Cash 11

Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2006							
Nov. 1	Balance .....	✓	.....	.....	36,300	.....
1	18	.....	7,000	29,300	.....
5	18	.....	4,800	24,500	.....
10	18	52,000	.....	76,500	.....
15	18	.....	10,000	66,500	.....
17	18	.....	9,100	57,400	.....
23	18	.....	2,050	55,350	.....
27	19	700	.....	56,050	.....
28	19	.....	1,100	54,950	.....
29	19	.....	390	54,560	.....
30	19	.....	24,000	30,560	.....
30	19	.....	7,500	23,060	.....

Accounts Receivable 12

2006							
Nov. 1	Balance .....	✓	.....	.....	97,500	.....
10	.....	18	.....	52,000	45,500	.....
30	.....	19	48,400	.....	93,900	.....

Prepaid Insurance 13

2006							
Nov. 1	Balance .....	✓	.....	.....	2,200	.....
5	.....	18	4,800	.....	7,000	.....

Office Supplies 14

2006							
Nov. 1	Balance .....	✓	.....	.....	2,100	.....
2	.....	18	1,675	.....	3,775	.....
20	.....	18	.....	400	3,375	.....

Land 16

2006							
Nov. 15	18	90,000	90,000	

Prob. 2–4B Continued

Accounts Payable

21

Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2006							
Nov. 1	Balance .....	✓	.....	.....	.....	23,020
2	.....	18	.....	1,675	.....	24,695
17	.....	18	9,100	.....	.....	15,595
20	.....	18	400	.....	.....	15,195

Notes Payable

22

2006							
Nov. 15	18	80,000	80,000	

Capital Stock

31

2006							
Nov. 1	Balance	✓	20,000	

Retained Earnings

32

2006							
Nov. 1	Balance	✓	48,680	

Dividends

33

2006							
Nov. 1	Balance .....	✓	.....	.....	2,000	.....
30	.....	19	7,500	.....	9,500	.....

Fees Earned

41

2006							
Nov. 1	Balance .....	✓	.....	.....	.....	253,000
30	.....	19	.....	48,400	.....	301,400

Salary and Commission Expense

51

2006							
Nov. 1	Balance .....	✓	.....	.....	148,200	.....
27	.....	19	.....	700	147,500	.....
30	.....	19	24,000	.....	171,500	.....

Prob. 2–4B Continued

Rent Expense

52

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Nov. 1	Balance .....	✓	.....	.....	30,000	.....
1	.....	18	7,000	.....	37,000	.....

Advertising Expense

53

2006						
Nov. 1	Balance .....	✓	.....	.....	17,800	.....
23	.....	18	2,050	.....	19,850	.....

Automobile Expense

54

2006						
Nov. 1	Balance .....	✓	.....	.....	5,500	.....
28	.....	19	1,100	.....	6,600	.....

Miscellaneous Expense

59

2006						
Nov. 1	Balance .....	✓	.....	.....	3,100	.....
29	.....	19	390	.....	3,490	.....

Prob. 2-4B Concluded

4.

BOOMERANG REALTY
Trial Balance
November 30, 2006

Cash	23,060	
Accounts Receivable	93,900	
Prepaid Insurance	7,000	
Office Supplies	3,375	
Land.....	90,000	
Accounts Payable		15,195
Notes Payable.....		80,000
Capital Stock		20,000
Retained Earnings.....		48,680
Dividends	9,500	
Fees Earned.....		301,400
Salary and Commission Expense	171,500	
Rent Expense	37,000	
Advertising Expense.....	19,850	
Automobile Expense.....	6,600	
Miscellaneous Expense	3,490	
	<u>465,275</u>	<u>465,275</u>

Prob. 2–5B

- | | | |
|---|--------|--------------------|
| 1. Totals of preliminary trial balance: | Debit | <u>\$59,291.40</u> |
| | Credit | <u>\$45,229.20</u> |
| 2. Difference between preliminary trial balance totals: | | <u>\$14,062.20</u> |
| 3. Errors in trial balance: | | |
| (a) Land debit balance was listed as \$26,265.00 instead of \$26,625.00. | | |
| (b) Accounts Payable credit balance of \$1,077.50 was listed as debit balance. | | |
| (c) Advertising Expense of \$275.00 was omitted. | | |
| 4. Errors in account balances: | | |
| (a) Dividends balance of \$1,350.00 was totaled as \$1,500.00. | | |
| 5. Errors in posting: | | |
| (a) Rent Expense entry of July 1 for \$1,540.00 was posted as \$15,400.00 (slide). | | |
| (b) Cash entry of July 15 for \$1,785.50 was posted as \$1,875.50 (transposition). | | |
| (c) Service Revenue entry of July 31 for \$1,276.10 was posted as \$1,726.10 (transposition). | | |
| (d) Utilities Expense entry of July 30 for \$436.60 was posted as \$4,366.00 (slide). | | |

6.	July 31	Advertising Expense	53	175.00	
		Cash	11		175.00
7.					

**CYPRESS TV REPAIR
Trial Balance
July 31, 20—**

Cash	8,741.00	
Supplies	997.90	
Prepaid Insurance	395.50	
Land.....	26,625.00	
Notes Payable.....		6,500.00
Accounts Payable		1,077.50
Capital Stock		7,500.00
Retained Earnings.....		20,260.20
Dividends	1,350.00	
Service Revenue.....		8,000.40
Wages Expense.....	2,518.60	
Utilities Expense	436.60	
Advertising Expense.....	450.00	
Rent Expense	1,540.00	

Miscellaneous Expense	<u>283.50</u>	<u> </u>
	<u>43,338.10</u>	<u>43,338.10</u>

Prob. 2–6B

1.

**MONTERO CARPET
Trial Balance
October 31, 2006**

Cash	4,000*	
Accounts Receivable	8,575	
Supplies	1,540	
Prepaid Insurance	770	
Equipment.....	35,000	
Notes Payable.....		21,000
Accounts Payable		5,475
Capital Stock		6,000
Retained Earnings.....		15,825
Dividends	11,200	
Fees Earned.....		76,700
Wages Expense.....	43,540	
Rent Expense	10,400	
Advertising Expense.....	4,480	
Gas, Electricity, and Water Expense	4,400	
Miscellaneous Expense	1,095	
	<u>125,000</u>	<u>125,000</u>

*\$5,200 + \$1,500 (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.

JOURNAL					Page 1
Date	Description	Post. Ref.	Debit	Credit	
2006					
May 1	Cash	11	3,000		
	Capital Stock.....	31		3,000	
1	Office Rent Expense	51	1,600		
	Cash.....	11		1,600	
1	Prepaid Insurance	15	3,360		
	Cash.....	11		3,360	
2	Cash	11	1,200		
	Accounts Receivable.....	12		1,200	
3	Cash	11	4,800		
	Unearned Revenue	23		4,800	
3	Accounts Payable	21	250		
	Cash.....	11		250	
4	Miscellaneous Expense.....	59	150		
	Cash.....	11		150	
5	Office Equipment	17	5,000		
	Accounts Payable	21		5,000	
8	Advertising Expense.....	55	200		
	Cash.....	11		200	
11	Cash	11	600		
	Fees Earned	41		600	
13	Equipment Rent Expense.....	52	500		
	Cash.....	11		500	
14	Wages Expense.....	50	1,200		
	Cash.....	11		1,200	

Continuing Problem Continued

2. and 3.

JOURNAL

Page 2

Date	Description	Post. Ref.	Debit	Credit
2006				
May 16	Cash	11	1,100	
	 Fees Earned	41		1,100
18	Supplies	14	750	
	 Accounts Payable	21		750
21	Music Expense	54	240	
	 Cash	11		240
22	Advertising Expense.....	55	500	
	 Cash	11		500
23	Cash	11	400	
	 Accounts Receivable	12	1,160	
	 Fees Earned	41		1,560
27	Utilities Expense	53	560	
	 Cash	11		560
28	Wages Expense.....	50	1,200	
	 Cash	11		1,200
29	Miscellaneous Expense.....	59	170	
	 Cash	11		170
30	Cash	11	600	
	 Accounts Receivable	12	600	
	 Fees Earned	41		1,200
31	Cash	11	2,000	
	 Fees Earned	41		2,000
31	Music Expense	54	600	
	 Cash	11		600
31	Dividends	33	2,000	
	 Cash	11		2,000

Continuing Problem Continued

1. and 3.

Cash

11

Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2006							
May 1	Balance .....	✓	.....	.....	6,160	.....
1	1	3,000	.....	9,160	.....
1	1	.....	1,600	7,560	.....
1	1	.....	3,360	4,200	.....
2	1	1,200	.....	5,400	.....
3	1	4,800	.....	10,200	.....
3	1	.....	250	9,950	.....
4	1	.....	150	9,800	.....
8	1	.....	200	9,600	.....
11	1	600	.....	10,200	.....
13	1	.....	500	9,700	.....
14	1	.....	1,200	8,500	.....
16	2	1,100	.....	9,600	.....
21	2	.....	240	9,360	.....
22	2	.....	500	8,860	.....
23	2	400	.....	9,260	.....
27	2	.....	560	8,700	.....
28	2	.....	1,200	7,500	.....
29	2	.....	170	7,330	.....
30	2	600	.....	7,930	.....
31	2	2,000	.....	9,930	.....
31	2	.....	600	9,330	.....
31	2	.....	2,000	7,330	.....

Accounts Receivable

12

2006

May 1	Balance .....	✓	.....	.....	1,200	.....
2	.....	1	.....	1,200	—	—	
23	.....	2	1,160	.....	1,160	.....
30	.....	2	600	.....	1,760	.....

Supplies

14

2006

May 1	Balance .....	✓	.....	.....	170	.....
18	.....	2	750	.....	920	.....

Prepaid Insurance

15

2006

May 1 1 3,360 3,360

Continuing Problem Continued

Office Equipment 17

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
May 5	1	5,000	.....	5,000	.....

Accumulated Depreciation—Office Equipment 18

This account is not used in Chapter 2.

Accounts Payable 21

2006						
May 1	Balance .....	✓	.....	.....	.....	250
3	.....	1	250	.....	—	—
5	.....	1	.....	5,000	.....	5,000
18	.....	2	.....	750	.....	5,750

Wages Payable 22

This account is not used in Chapter 2.

Unearned Revenue 23

2006						
May 3	.....	1	.....	4,800	.....	4,800

Capital Stock 31

2006						
May 1	Balance .....	✓	.....	.....	.....	7,000
1	.....	1	.....	3,000	.....	10,000

Retained Earnings 32

This account is not used in Chapter 2.

Dividends 33

2006						
May 1	Balance .....	✓	.....	.....	250	.....
31	.....	2	2,000	.....	2,250	.....

Income Summary 34

This account is not used in Chapter 2.

Continuing Problem Continued

						41	
Fees Earned							
		Post.			<u>Balance</u>		
Date	Item	Ref.	Dr.	Cr.	Dr.	Cr.	
2006							
May 1	Balance .....	✓	.....	.....	.....	.....	4,750
11	.....	1	.....	600	.....	.....	5,350
16	.....	2	.....	1,100	.....	.....	6,450
23	.....	2	.....	1,560	.....	.....	8,010
30	.....	2	.....	1,200	.....	.....	9,210
31	.....	2	.....	2,000	.....	.....	11,210
						50	
Wages Expense							
2006							
May 1	Balance .....	✓	.....	.....	400	.....
14	.....	1	1,200	.....	1,600	.....
28	.....	2	1,200	.....	2,800	.....
						51	
Office Rent Expense							
2006							
May 1	Balance .....	✓	.....	.....	1,000	.....
1	.....	1	1,600	.....	2,600	.....
						52	
Equipment Rent Expense							
2006							
May 1	Balance .....	✓	.....	.....	650	.....
13	.....	1	500	.....	1,150	.....
						53	
Utilities Expense							
2006							
May 1	Balance .....	✓	.....	.....	300	.....
27	.....	2	560	.....	860	.....
						54	
Music Expense							
2006							
May 1	Balance .....	✓	.....	.....	940	.....
21	.....	2	240	.....	1,180	.....
31	.....	2	600	.....	1,780	.....
						55	
Advertising Expense							
2006							
May 1	Balance .....	✓	.....	.....	600	.....
8	.....	1	200	.....	800	.....

22 2 500 1,300
Continuing Problem Concluded

Supplies Expense 56

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
May 1	Balance .....	✓	.....	.....	180	.....

Insurance Expense 57
This account is not used in Chapter 2.

Depreciation Expense 58
This account is not used in Chapter 2.

Miscellaneous Expense 59

2006						
May 1	Balance .....	✓	.....	.....	150	.....
4	.....	1	150	.....	300	.....
29	.....	2	170	.....	470	.....

4.

DANCIN MUSIC
Trial Balance
May 31, 2006

Cash	7,330	
Accounts Receivable	1,760	
Supplies	920	
Prepaid Insurance	3,360	
Office Equipment	5,000	
Accounts Payable		5,750
Unearned Revenue		4,800
Capital Stock		10,000
Dividends	2,250	
Fees Earned		11,210
Wages Expense	2,800	
Office Rent Expense	2,600	
Equipment Rent Expense	1,150	
Utilities Expense	860	
Music Expense	1,780	
Advertising Expense	1,300	
Supplies Expense	180	

Miscellaneous Expense	<u>470</u>	<u> </u>
	<u>31,760</u>	<u>31,760</u>

SPECIAL ACTIVITIES

Activity 2–1

Acceptable ethical conduct requires that Ross look for the difference. If Ross 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. Ross'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.

Activity 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.

Activity 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 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 upon the need.

Activity 2–4

1. The rules of debit and credit must be memorized. Doris 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, Doris 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 equals credits and (2) assets always equals liabilities plus owners' equity. If all increases in the account were recorded by debits, then the control that debits always equals 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.

Doris 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.

Activity 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>1. Assets</u>		<u>4. Revenue</u>
11	Cash	41	Service Revenue
12	Accounts Receivable		
13	Supplies		<u>5. Expenses</u>
	<u>2. Liabilities</u>	51	Rent Expense
21	Accounts Payable	52	Supplies Expense
	<u>3. Owner's Equity</u>	53	Salary Expense
31	Kercy Hepner, Capital	54	Utilities Expense
32	Kercy Hepner, Drawing	55	Miscellaneous Expense

- b.

EAGLE CADDY SERVICE
Income Statement
For Month Ended June 30, 2006

Service revenue		\$4,450
Operating expenses:		
Rent expense	\$1,800	
Supplies expense	610	
Salary expense	390	
Utilities expense	160	
Miscellaneous expense	<u>180</u>	
Total operating expenses		<u>3,140</u>
Net income		<u>\$1,310</u>

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 operating 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.

Activity 2–5 Continued

Cash		11	
2006		2006	
June 1	2,250	June 1	300
15	1,680	2	225
30	2,200	3	1,125
30	270	17	270
3,375	6,400	20	375
		28	180
		30	160
		30	390
			3,025

Service Revenue		41	
2006		2006	
		June 15	1,680
		25	570
		30	2,200
			4,450

Rent Expense		51	
2006			
June 1	300		
3	1,500		
	1,800		

Accounts Receivable		12	
2006		2006	
June 25	570	June 30	270
	300		

Supplies Expense		52	
2006			
June 30	610		

Supplies		13	
2006		2006	
June 2	225	June 30	610
7	270		
22	255		
140	750		

Salary Expense		53	
2006			
June 30	390		

Utilities Expense		54	
2006			
June 30	160		

Accounts Payable		21	
2006		2006	
June 17	270	June 3	375
20	375	7	270
	645	22	255
		255	900

Miscellaneous Expense		55	
2006			
June 28	180		

Kercy Hepner, Capital		31	
2006			
June 1	2,250		

Activity 2–6

1. From our discussions in Chapter 1, the three possible business strategies that could be used are as follows:

- low-cost strategy
- differentiation strategy
- combination strategy

2. Real world examples of each strategy are as follows:

- low-cost strategy: Stein Mart, Wal-Mart, Kmart, Costco
- differentiation strategy: GAP, Limited, Old Navy, Talbots
- combination strategy: JCPenney, Sears, Dillards

3. The answers will vary among the students groups. Normally, venture capital firms demand a large percentage of ownership, which many times is the majority (over 50%) ownership.

Activity 2–7

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.