

CHAPTER 2 ANALYZING TRANSACTIONS

DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, owner's equity, revenue, or expense. A ledger is a group of related accounts.
2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset and expense accounts but a decrease in liability, owner's capital, and revenue accounts.
3.
 - a. Assuming that no errors have occurred, the credit balance in the cash account resulted from drawings checks for \$1,850 in excess of the amount of cash on deposit.
 - b. The \$1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft."
4.
 - a. The revenue was earned in October.
 - b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.
(2) Debit Cash and credit Accounts Receivable in November.
5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failing to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.
6. Recording \$9,800 instead of the correct amount of \$8,900 is a transposition. Recording \$100 instead of the correct amount of \$1,000 is a slide.
7.
 - a. No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.
 - b. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by \$90.
8.
 - a. The equality of the trial balance would not be affected.
 - b. On the income statement, total operating expenses (salary expense) would be overstated by \$7,500, and net income would be understated by \$7,500. On the statement of owner's equity, the beginning and ending owner's capital would be correct. The understatement of net income understates owner's equity by \$7,500, while the understatement of withdrawals overstates owner's equity by \$7,500. Thus, ending owner's equity is correct. The balance sheet is not affected by the error.
9.
 - a. The equality of the trial balance would not be affected.
 - b. On the income statement, revenues (fees earned) would be overstated by \$300,000, and net income would be overstated by \$300,000. On the statement of owner's equity, the beginning capital would be correct. However, net income and ending capital would be overstated by \$300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by \$300,000, and owner's equity is overstated by \$300,000. The understatement of liabilities is offset by the overstatement of owner's equity, and thus, total liabilities and owner's equity is correct.
10.
 - a. From the viewpoint of Surety Storage, the balance of the checking account represents an asset.
 - b. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

PRACTICE EXERCISES**PE 2-1A**

1. Debit and credit entries (c), normal debit balance
2. Credit entries only (b), normal credit balance
3. Credit entries only (b), normal credit balance
4. Debit entries only (a), normal debit balance
5. Credit entries only (b), normal credit balance
6. Debit and credit entries (c), normal credit balance

PE 2-1B

1. Debit and credit entries (c), normal credit balance
2. Debit and credit entries (c), normal debit balance
3. Debit entries only (a), normal debit balance
4. Debit entries only (a), normal debit balance
5. Debit entries only (a), normal debit balance
6. Credit entries only (b), normal credit balance

PE 2-2A

Feb.	19	Office Equipment	18,500	
		Cash		4,500
		Accounts Payable		14,000

PE 2-2B

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

PE 2-3A

Apr.	30	Accounts Receivable	11,250	
		Fees Earned		11,250

PE 2-3B

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

PE 2-4A

Dec.	23	Steve Buckley, Drawing	20,000	
		Cash		20,000

PE 2-4B

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

PE 2-5A

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

Cash			
July 1 Bal.	37,450	115,860	Cash payments
Cash receipts	?		
July 31 Bal.	29,600		

$$\$29,600 = \$37,450 + \text{Cash receipts} - \$115,860$$

$$\text{Cash receipts} = \$29,600 + \$115,860 - \$37,450 = \$108,010$$

PE 2-5B

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

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

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

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

PE 2-6A

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

PE 2-6B

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

PE 2-7A

a.	Rent Expense	4,650	
	Miscellaneous Expense		4,650
	Rent Expense	4,650	
	Cash		4,650

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

	Rent Expense	9,300	
	Miscellaneous Expense		4,650
	Cash		4,650

b.	Accounts Payable	3,700	
	Accounts Receivable		3,700

PE 2-7B

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

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

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

PE 2-8A

FULLER COMPANY Income Statements For Years Ended December 31				
	2019	2018	Increase/(Decrease)	
			Amount	Percent
Fees earned	\$680,000	\$850,000	\$(170,000)	-20.0%
Operating expenses	541,875	637,500	(95,625)	-15.0%
Net income	\$138,125	\$212,500	\$ (74,375)	-35.0%

PE 2-8B

PARAGON COMPANY Income Statements For Years Ended December 31				
	2019	2018	Increase/(Decrease)	
			Amount	Percent
Fees earned	\$1,416,000	\$1,200,000	\$216,000	18.0%
Operating expenses	1,044,000	900,000	144,000	16.0%
Net income	\$ 372,000	\$ 300,000	\$ 72,000	24.0%

EXERCISES**Ex. 2-1**

Balance Sheet Accounts		Income Statement Accounts	
<u>Assets</u>		<u>Revenue</u>	
Advanced Payments for Equipment ^a		Cargo Revenue	
Cash		Passenger Revenue	
Flight Equipment			
Fuel Inventory			
Parts and Supplies			
Prepaid Expenses			
<u>Liabilities</u>		<u>Expenses</u>	
Accounts Payable		Aircraft Fuel (Expense)	
Air Traffic Liability ^b		Aircraft Maintenance (Expense)	
Frequent Flyer (Obligations) ^c		Aircraft Rent (Expense)	
Taxes Payable		Contract Carrier Arrangements (Expense) ^d	
		Landing Fees (Expense) ^e	
		Passenger Commissions (Expense) ^f	
<u>Owner's Equity</u>			

None

^a Advance payments (deposits) on aircraft to be delivered in the future^b Passenger ticket sales for future flights^c Obligations to provide frequent flyers future travel and other benefits^d Payments to other airlines for passenger travel under Delta tickets^e Fees paid to airports for landing rights^f Commissions paid to travel agents for passenger bookings**Ex. 2-2**

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

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

Ex. 2-3

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

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

Ex. 2-4

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

Ex. 2-5

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

Ex. 2-6

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

Ex. 2-7

2019				
Oct.	1	Rent Expense	3,600	
		Cash		3,600
	3	Advertising Expense	1,200	
		Cash		1,200
	5	Supplies	750	
		Cash		750
	6	Office Equipment	8,000	
		Accounts Payable		8,000
	10	Cash	14,800	
		Accounts Receivable		14,800
	15	Accounts Payable	7,110	
		Cash		7,110
	27	Miscellaneous Expense	400	
		Cash		400
	30	Utilities Expense	250	
		Cash		250
	31	Accounts Receivable	33,100	
		Fees Earned		33,100
	31	Utilities Expense	1,050	
		Cash		1,050
	31	Jason Payne, Drawing	2,500	
		Cash		2,500

Ex. 2-8

a.

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Date	Description	Post. Ref.	Debit	Credit
2019				
Sept. 18	Supplies	15	2,475	
	Accounts Payable	21		2,475
	Purchased supplies on account.			

b., c., d.

Account: SuppliesAccount No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Sept. 1	Balance	✓			840	
	18	87	2,475		3,315	

Account: Accounts PayableAccount No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Sept. 1	Balance	✓				10,900
	18	87		2,475		13,375

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

Ex. 2-9

a. (1)

Accounts Receivable	73,900	
Fees Earned		73,900

(2)

Supplies	1,960	
Accounts Payable		1,960

(3)

Cash	62,770	
Accounts Receivable		62,770

(4)

Accounts Payable	820	
Cash		820

Ex. 2-9 (Concluded)

b.

Cash		Accounts Payable	
(3)	62,770	(4)	820
		(4)	820
		(2)	1,960
Supplies		Fees Earned	
(2)	1,960		
		(1)	73,900
Accounts Receivable			
(1)	73,900	(3)	62,770

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

Ex. 2-10

- a. The increase of \$140,000 (\$515,000 – \$375,000) in the cash account does not indicate net income of that amount. Net income is the excess of revenues over expenses and is normally not the same as the change in the cash account.
- b. \$60,000 (\$200,000 – \$140,000)

or

Cash	
X	375,000
515,000	
200,000	

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

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

$$X = \$60,000$$

Ex. 2-11

Accounts Payable			
a.		Feb. 1	X
	186,500		201,400
		Feb. 28	59,900

$$X + \$201,400 - \$186,500 = \$59,900$$

$$X = \$59,900 + \$186,500 - \$201,400$$

$$X = \$45,000$$

Accounts Receivable			
b.	Oct. 1	115,800	449,600
		X	
	Oct. 31	130,770	

$$\$115,800 + X - \$449,600 = \$130,770$$

$$X = \$130,770 + \$449,600 - \$115,800$$

$$X = \$464,570$$

Cash			
c.	Apr. 1	46,220	X
		248,600	
	Apr. 30	56,770	

$$\$46,220 + \$248,600 - X = \$56,770$$

$$X = \$46,220 + \$248,600 - \$56,770$$

$$X = \$238,050$$

Ex. 2-12

- Credit balance of \$170,000 (\$500,000 – \$10,000 – \$320,000).
- Yes. The balance sheet prepared at December 31 will balance, with Terrace Waters, Capital, being reported in the owner's equity section as \$170,000.

Ex. 2-13

a. and b.

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

Ex. 2-14

(1)	Cash	75,000	
	Beth Worley, Capital		75,000
(2)	Supplies	900	
	Cash		900
(3)	Equipment	8,000	
	Accounts Payable		6,400
	Cash		1,600
(4)	Operating Expenses	6,280	
	Cash		6,280
(5)	Accounts Receivable	12,300	
	Fees Earned		12,300
(6)	Accounts Payable	2,700	
	Cash		2,700
(7)	Cash	8,150	
	Accounts Receivable		8,150
(8)	Operating Expenses	660	
	Supplies		660
(9)	Beth Worley, Drawing	2,500	
	Cash		2,500

Ex. 2-15

a.

NATIONAL PARK TOURS CO. Unadjusted Trial Balance May 31, 2019		
	Debit Balances	Credit Balances
Cash	69,170	
Accounts Receivable	4,150	
Supplies	240	
Equipment	8,000	
Accounts Payable		3,700
Beth Worley, Capital		75,000
Beth Worley, Drawing	2,500	
Service Revenue		12,300
Operating Expenses	6,940	
	91,000	91,000

b. Net income, \$5,360 (\$12,300 – \$6,940)

Ex. 2-16

HICKORY FURNITURE COMPANY Unadjusted Trial Balance December 31, 2019		
	Debit Balances	Credit Balances
Cash	33,320*	
Accounts Receivable	116,900	
Supplies	4,275	
Prepaid insurance	21,600	
Land	50,000	
Accounts Payable		42,770
Unearned Rent		12,000
Notes Payable		50,000
Elaine Wells, Capital		75,000
Elaine Wells, Drawing	24,000	
Fees Earned		745,230
Wages Expense	580,700	
Rent Expense	48,000	
Utilities Expense	26,850	
Supplies Expense	6,255	
Insurance Expense	3,600	
Miscellaneous Expense	9,500	
	925,000	925,000

*\$33,320 = \$925,000 – \$9,500 – \$3,600 – \$6,255 – \$26,850 – \$48,000 – \$580,700 – \$24,000
– \$50,000 – \$21,600 – \$4,275 – \$116,900

Ex. 2-17

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

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

Ex. 2-18

RANGER CO. Unadjusted Trial Balance August 31, 2019		
	Debit Balances	Credit Balances
Cash	15,500	
Accounts Receivable	46,750	
Prepaid Insurance	12,000	
Equipment	190,000	
Accounts Payable		24,600
Unearned Rent		5,400
Carmen Meeks, Capital		110,000
Carmen Meeks, Drawing	13,000	
Fees Earned		385,000
Wages Expense	213,000	
Advertising Expense	16,350	
Miscellaneous Expense	18,400	
	525,000	525,000

Ex. 2-19

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

Ex. 2-20

1. The Debit column total is added incorrectly. The sum is \$890,700 rather than \$1,189,300.
2. The trial balance should be dated "July 31, 2019," not "For the Month Ending July 31, 2019."
3. The Accounts Receivable balance should be in the Debit column.
4. The Accounts Payable balance should be in the Credit column.
5. The Samuel Parson, Drawing, balance should be in the Debit column.
6. The Advertising Expense balance should be in the Debit column.

A corrected trial balance would be as follows:

MASCOT CO. Unadjusted Trial Balance July 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	36,000	
Accounts Receivable	12	112,600	
Prepaid Insurance	13	18,000	
Equipment	14	375,000	
Accounts Payable	21		53,300
Salaries Payable	22		7,500
Samuel Parson, Capital	31		297,200
Samuel Parson, Drawing	32	17,000	
Service Revenue	41		682,000
Salary Expense	51	396,800	
Advertising Expense	52	73,000	
Miscellaneous Expense	59	11,600	
		1,040,000	1,040,000

Ex. 2-21

- a. The correction could be made with one or two entries as shown below.

Prepaid Insurance	36,000	
Insurance Expense		18,000
Cash		18,000

or (reverses original entry)

Prepaid Insurance	18,000	
Insurance Expense		18,000
Prepaid Insurance	18,000	
Cash		18,000

- b.
- | | | |
|-------------------------|--------|--------|
| Brian Phillips, Drawing | 10,000 | |
| Wages Expense | | 10,000 |

Ex. 2-22

The correction could be made with one or two entries as shown below.

a.

Cash	17,600	
Fees Earned		8,800
Accounts Receivable		8,800

or (reverses original entry)

Cash	8,800	
Fees		8,800
Cash	8,800	
Accounts Receivable		8,800

b.

Accounts Payable*	1,760	
Supplies Expense		1,760

Supplies	1,760	
Cash		1,760

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

Ex. 2-23

- a.
- Revenue:
 - \$1,339 million increase (\$72,618 – \$71,279)
 - 1.9% increase ($\$1,339 \div \$71,279$)
 - Operating expenses:
 - \$1,974 million increase (\$68,083 – \$66,109)
 - 3.0% increase ($\$1,974 \div \$66,109$)
 - Operating income:
 - \$635 million decrease (\$4,535 – \$5,170)
 - 12.3% decrease ($-\$635 \div \$5,170$)
- b. During the recent year, revenue increased by 1.9%, while operating expenses increased by 3.0%. As a result, operating income decreased by –12.3%, from the prior year.

Ex. 2-24

- a. 1. **Revenue:**
\$3,559 million increase ($\$116,199 - \$112,640$)
3.2% increase ($\$3,559 \div \$112,640$)
2. **Operating expenses:**
\$3,155 million increase ($\$112,575 - \$109,420$)
2.9% increase ($\$3,155 \div \$109,420$)
3. **Operating income:**
\$404 million increase ($\$3,624 - \$3,220$)
12.5% increase ($\$404 \div \$3,220$)
- b. During the recent year, revenue increased by 3.2%, while operating expenses increased by 2.9%. As a result, operating income increased by 12.5% from the prior year.
- c. Because of the size differences between Target and Costco (Costco has more than 1.6 times the revenue), it is best to compare the two companies on the basis of percent changes from the prior year. Costco's revenues increased by 3.2%, while Target's revenues increased by only 1.9%. The expenses of Costco increased by 2.9%, which is less than the percentage increase in revenues. As a result, Costco's operating income increased by 12.5%. In contrast, Target's expenses increased by 3.0%, which is more than the percentage increase in revenues. As a result, Target's operating income decreased by 12.3%. Overall, Costco had a better operating performance than Target.

PROBLEMS

Prob. 2-1A

1. and 2.

Cash	
(a) 36,000	(b) 2,400
(g) 12,200	(c) 7,800
	(e) 2,150
	(f) 4,000
	(h) 815
	(i) 4,500
	(j) 5,000
	(m) 6,450
	(n) 1,020
Bal. 14,065	

Accounts Receivable	
(l) 18,300	

Supplies	
(e) 2,150	

Prepaid Insurance	
(f) 4,000	

Automobiles	
(c) 32,800	

Equipment	
(d) 9,000	

Accounts Payable	
(i) 4,500	(d) 9,000
	(k) 2,890
	Bal. 7,390

Notes Payable	
(j) 5,000	(c) 25,000
	Bal. 20,000

Connie Young, Capital	
	(a) 36,000

Professional Fees	
	(g) 12,200
	(l) 18,300
	Bal. 30,500

Salary Expense	
(m) 6,450	

Blueprint Expense	
(k) 2,890	

Rent Expense	
(b) 2,400	

Automobile Expense	
(n) 1,020	

Miscellaneous Expense	
(h) 815	

Prob. 2-1A (Concluded)

CONNIE YOUNG, ARCHITECT Unadjusted Trial Balance October 31, 2019		
	Debit Balances	Credit Balances
Cash	14,065	
Accounts Receivable	18,300	
Supplies	2,150	
Prepaid Insurance	4,000	
Automobiles	32,800	
Equipment	9,000	
Accounts Payable		7,390
Notes Payable		20,000
Connie Young, Capital		36,000
Professional Fees		30,500
Salary Expense	6,450	
Blueprint Expense	2,890	
Rent Expense	2,400	
Automobile Expense	1,020	
Miscellaneous Expense	815	
	93,890	93,890

4. Net income, \$16,925 (\$30,500 – \$6,450 – \$2,890 – \$2,400 – \$1,020 – \$815)

Prob. 2-2A

1.	(a)	Cash	40,000	
		Sharon Matthews, Capital		40,000
	(b)	Rent Expense	6,000	
		Cash		6,000
	(c)	Supplies	3,200	
		Accounts Payable		3,200
	(d)	Accounts Payable	1,750	
		Cash		1,750
	(e)	Cash	18,250	
		Fees Earned		18,250
	(f)	Automobile Expense	1,880	
		Miscellaneous Expense	420	
		Cash		2,300
	(g)	Office Salaries Expense	5,000	
		Cash		5,000
	(h)	Supplies Expense	1,400	
		Supplies		1,400
	(i)	Sharon Matthews, Drawing	2,000	
		Cash		2,000

Prob. 2-2A (Continued)

2.

Cash	
(a) 40,000	(b) 6,000
(e) 18,250	(d) 1,750
	(f) 2,300
	(g) 5,000
	(i) 2,000
Bal. 41,200	

Fees Earned	
	(e) 18,250

Rent Expense	
(b) 6,000	

Supplies	
(c) 3,200	(h) 1,400
Bal. 1,800	

Office Salaries Expense	
(g) 5,000	

Accounts Payable	
(d) 1,750	(c) 3,200
	Bal. 1,450

Automobile Expense	
(f) 1,880	

Sharon Matthews, Capital	
	(a) 40,000

Supplies Expense	
(h) 1,400	

Sharon Matthews, Drawing	
(i) 2,000	

Miscellaneous Expense	
(f) 420	

Prob. 2-2A (Concluded)

3.

TRI-CITY REALTY Unadjusted Trial Balance January 31, 2019		
	Debit Balances	Credit Balances
Cash	41,200	
Supplies	1,800	
Accounts Payable		1,450
Sharon Matthews, Capital		40,000
Sharon Matthews, Drawing	2,000	
Fees Earned		18,250
Rent Expense	6,000	
Office Salaries Expense	5,000	
Automobile Expense	1,880	
Supplies Expense	1,400	
Miscellaneous Expense	420	
	59,700	59,700

4. a. \$18,250
 b. \$14,700 (\$6,000 + \$5,000 + \$1,880 + \$1,400 + \$420)
 c. \$3,550 (\$18,250 – \$14,700)
5. \$41,550, which is the initial investment of \$40,000 plus net income of \$3,550 minus the withdrawals of \$2,000.

Prob. 2-3A

1.

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Date	Description	Post. Ref.	Debit	Credit
2019				
June 1	Cash	11	35,000	
	Kris Storey, Capital	31		35,000
	1 Rent Expense	53	4,750	
	Cash	11		4,750
	6 Equipment	16	14,100	
	Accounts Payable	22		14,100
	8 Van	18	28,500	
	Cash	11		4,500
	Notes Payable	21		24,000
	10 Supplies	13	2,380	
	Cash	11		2,380
	12 Cash	11	12,200	
	Fees Earned	41		12,200
	15 Prepaid Insurance	14	3,600	
	Cash	11		3,600
	23 Accounts Receivable	12	11,900	
	Fees Earned	41		11,900
	24 Van Expense	55	1,500	
	Accounts Payable	22		1,500

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Date	Description	Post. Ref.	Debit	Credit
2019				
June 29	Utilities Expense	54	3,100	
	Cash	11		3,100
	29 Miscellaneous Expense	59	950	
	Cash	11		950

Prob. 2-3A (Continued)

	30	Cash	11	7,330	
		Accounts Receivable	12		7,330
	30	Wages Expense	51	5,070	
		Cash	11		5,070
	30	Accounts Payable	22	6,825	
		Cash	11		6,825
	30	Kris Storey, Drawing	32	1,600	
		Cash	11		1,600

2.

GENERAL LEDGER

Account: CashAccount No. 11

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	1		1	35,000		35,000	
	1		1		4,750	30,250	
	8		1		4,500	25,750	
	10		1		2,380	23,370	
	12		1	12,200		35,570	
	15		1		3,600	31,970	
	29		2		3,100	28,870	
	29		2		950	27,920	
	30		2	7,330		35,250	
	30		2		5,070	30,180	
	30		2		6,825	23,355	
	30		2		1,600	21,755	

Account: Accounts ReceivableAccount No. 12

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	23		1	11,900		11,900	
	30		2		7,330	4,570	

Prob. 2-3A (Continued)

Account: Supplies Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
June 10		1	2,380		2,380	

Account: Prepaid Insurance Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
June 15		1	3,600		3,600	

Account: Equipment Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
June 6		1	14,100		14,100	

Account: Van Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
June 8		1	28,500		28,500	

Account: Notes Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
June 8		1		24,000		24,000

Account: Accounts Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
June 6		1		14,100		14,100
	24	1		1,500		15,600
	30	2	6,825			8,775

Prob. 2-3A (Continued)

Account: Kris Storey, Capital Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	1		1		35,000		35,000

Account: Kris Storey, Drawing Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	30		2	1,600		1,600	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	12		1		12,200		12,200
	23		1		11,900		24,100

Account: Wages Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	30		2	5,070		5,070	

Account: Rent Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	1		1	4,750		4,750	

Account: Utilities Expense Account No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	29		2	3,100		3,100	

Prob. 2-3A (Continued)

Account: Van Expense Account No. 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	24		1	1,500		1,500	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
June	29		2	950		950	

Prob. 2-3A (Concluded)

ECO-CENTRIC DESIGNS Unadjusted Trial Balance June 30, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	21,755	
Accounts Receivable	12	4,570	
Supplies	13	2,380	
Prepaid Insurance	14	3,600	
Equipment	15	14,100	
Van	18	28,500	
Notes Payable	21		24,000
Accounts Payable	22		8,775
Kris Storey, Capital	31		35,000
Kris Storey, Drawing	32	1,600	
Fees Earned	41		24,100
Wages Expense	51	5,070	
Rent Expense	53	4,750	
Utilities Expense	54	3,100	
Van Expense	55	1,500	
Miscellaneous Expense	59	950	
		91,875	91,875

4. $\$8,730 (\$24,100 - \$5,070 - \$4,750 - \$3,100 - \$1,500 - \$950)$

5. Some supplies may have been used during June but no supplies expense has been recorded.

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Eco-Centric Designs.

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

Prob. 2-4A

2. and 3.

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Date		Description	Post. Ref.	Debit	Credit
2019					
Apr.	1	Rent Expense	52	6,500	
		Cash	11		6,500
	2	Office Supplies	14	2,300	
		Accounts Payable	21		2,300
	5	Prepaid Insurance	13	6,000	
		Cash	11		6,000
	10	Cash	11	52,300	
		Accounts Receivable	12		52,300
	15	Land	16	200,000	
		Cash	11		30,000
		Notes Payable	23		170,000
	17	Accounts Payable	21	6,450	
		Cash	11		6,450
	20	Accounts Payable	21	325	
		Office Supplies	14		325
	23	Advertising Expense	53	4,300	
		Cash	11		4,300

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Date		Description	Post. Ref.	Debit	Credit
2019					
Apr.	27	Cash	11	2,500	
		Salary and Commission Expense	51		2,500
	28	Automobile Expense	54	1,500	
		Cash	11		1,500
	29	Miscellaneous Expense	59	1,400	
		Cash	11		1,400

Prob. 2-4A (Continued)

	30	Accounts Receivable	12	57,000	
		Fees Earned	41		57,000
	30	Salary and Commission Expense	51	11,900	
		Cash	11		11,900
	30	Lester Wagner, Drawing	32	4,000	
		Cash	11		4,000
	30	Cash	11	10,000	
		Unearned Rent	22		10,000

1. and 3.

GENERAL LEDGER

Account: CashAccount No. 11

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Apr.	1	Balance	✓			26,300	
	1		18		6,500	19,800	
	5		18		6,000	13,800	
	10		18	52,300		66,100	
	15		18		30,000	36,100	
	17		18		6,450	29,650	
	23		18		4,300	25,350	
	27		19	2,500		27,850	
	28		19		1,500	26,350	
	29		19		1,400	24,950	
	30		19		11,900	13,050	
	30		19		4,000	9,050	
	30		19	10,000		19,050	

Account: Accounts ReceivableAccount No. 12

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Apr.	1	Balance	✓			61,500	
	10		18		52,300	9,200	
	30		19	57,000		66,200	

Prob. 2-4A (Continued)

Account: Prepaid Insurance Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1 Balance	✓			3,000	
	5	18	6,000		9,000	

Account: Office Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1 Balance	✓			1,800	
	2	18	2,300		4,100	
	20	18		325	3,775	

Account: Land Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	15	18	200,000		200,000	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1 Balance	✓				14,000
	2	18		2,300		16,300
	17	18	6,450			9,850
	20	18	325			9,525

Account: Unearned Rent Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	30	19		10,000		10,000

Account: Notes Payable Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	15	18		170,000		170,000

Prob. 2-4A (Continued)

Account: Lester Wagner, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1	Balance	✓			46,000

Account: Lester Wagner, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1	Balance	✓		2,000	
	30		19	4,000	6,000	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1	Balance	✓			240,000
	30		19	57,000		297,000

Account: Salary and Commission Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1	Balance	✓		148,200	
	27		19	2,500	145,700	
	30		19	11,900	157,600	

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1	Balance	✓		30,000	
	1		18	6,500	36,500	

Account: Advertising Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1	Balance	✓		17,800	
	23		18	4,300	22,100	

Prob. 2-4A (Continued)

Account: Automobile Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1				5,500	
	28	19	1,500		7,000	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr.	1				3,900	
	29	19	1,400		5,300	

4.

ELITE REALTY Unadjusted Trial Balance April 30, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	19,050	
Accounts Receivable	12	66,200	
Prepaid Insurance	13	9,000	
Office Supplies	14	3,775	
Land	16	200,000	
Accounts Payable	21		9,525
Unearned Rent	22		10,000
Notes Payable	23		170,000
Lester Wagner, Capital	31		46,000
Lester Wagner, Drawing	32	6,000	
Fees Earned	41		297,000
Salary and Commission Expense	51	157,600	
Rent Expense	52	36,500	
Advertising Expense	53	22,100	
Automobile Expense	54	7,000	
Miscellaneous Expense	59	5,300	
		532,525	532,525

Prob. 2-4A (Concluded)

5. (a) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.
- (b) The correcting entry for \$7,200 (\$19,100 – \$11,900) would be as follows:

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Date		Description	Post. Ref.	Debit	Credit
2019					
Apr.	30	Salary and Commission Expense	51	7,200	
		Cash	11		7,200

- (c) Transposition

Prob. 2-5A

1.

THE COLBY GROUP Unadjusted Trial Balance August 31, 2019		
	Debit Balances	Credit Balances
Cash*	22,400	
Accounts Receivable	48,000	
Supplies**	8,750	
Prepaid Insurance	4,300	
Equipment	196,000	
Notes Payable		117,600
Accounts Payable		30,800
Terry Colby, Capital		122,150
Terry Colby, Drawing	63,000	
Fees Earned		454,450
Wages Expense	270,000	
Rent Expense	58,100	
Advertising Expense	25,200	
Gas, Electricity, and Water Expense	24,150	
Miscellaneous Expense	5,100	
	725,000	725,000

* \$17,300 + \$6,000 (a) – \$900 (b)

** \$7,400 + \$1,500 – \$150

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

Prob. 2-1B

1. and 2.

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

Notes Payable	
(n) 300	(b) 17,000
	Bal. 16,700
Ken Jones, Capital	
	(a) 18,000
Professional Fees	
	(g) 12,000
	(k) 15,650
	Bal. 27,650

Accounts Receivable	
(k) 15,650	

Rent Expense	
(c) 3,150	

Supplies	
(d) 1,450	

Salary Expense	
(l) 2,800	

Prepaid Insurance	
(f) 2,400	

Blueprint Expense	
(j) 2,500	

Automobile	
(b) 19,500	

Automobile Expense	
(o) 550	

Equipment	
(e) 6,500	

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

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

Prob. 2-1B (Concluded)

3.

KEN JONES, ARCHITECT Unadjusted Trial Balance April 30, 2019		
	Debit Balances	Credit Balances
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Accounts Payable		7,200
Notes Payable		16,700
Ken Jones, Capital		18,000
Professional Fees		27,650
Rent Expense	3,150	
Salary Expense	2,800	
Blueprint Expense	2,500	
Automobile Expense	550	
Miscellaneous Expense	575	
	69,550	69,550

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

Prob. 2-2B

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

Prob. 2-2B (Continued)

2.

Cash		Fees Earned	
(a) 17,500	(d) 3,000		(c) 13,300
(c) 13,300	(e) 1,150		
	(f) 1,800		
	(g) 1,900		
	(h) 2,800		
Bal. 20,150			

Supplies		Office Salaries Expense	
(b) 2,300	(i) 1,050	(h) 2,800	
Bal. 1,250			

Accounts Payable		Automobile Expense	
(e) 1,150	(b) 2,300	(g) 1,500	
	Bal. 1,150		

Rafael Masey, Capital		Supplies Expense	
	(a) 17,500	(i) 1,050	

Rafael Masey, Drawing		Miscellaneous Expense	
(f) 1,800		(g) 400	

Prob. 2-2B (Concluded)

3.

PLANET REALTY Unadjusted Trial Balance August 31, 2019		
	Debit Balances	Credit Balances
Cash	20,150	
Supplies	1,250	
Accounts Payable		1,150
Rafael Masey, Capital		17,500
Rafael Masey, Drawing	1,800	
Fees Earned		13,300
Rent Expense	3,000	
Office Salaries Expense	2,800	
Automobile Expense	1,500	
Supplies Expense	1,050	
Miscellaneous Expense	400	
	31,950	31,950

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

Prob. 2-3B

1.

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Page 1

Date	Description	Post. Ref.	Debit	Credit
2019				
Oct. 1	Cash	11	18,000	
	Jay Pryor, Capital	31		18,000
4	Rent Expense	53	3,000	
	Cash	11		3,000
10	Truck	18	23,750	
	Cash	11		3,750
	Notes Payable	21		20,000
13	Equipment	16	10,500	
	Accounts Payable	22		10,500
14	Supplies	13	2,100	
	Cash	11		2,100
15	Prepaid Insurance	14	3,600	
	Cash	11		3,600
15	Cash	11	8,950	
	Fees Earned	41		8,950

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Page 2

Date	Description	Post. Ref.	Debit	Credit
2019				
Oct. 21	Accounts Payable	22	2,000	
	Cash	11		2,000
24	Accounts Receivable	12	14,150	
	Fees Earned	41		14,150
26	Truck Expense	55	700	
	Accounts Payable	22		700
27	Utilities Expense	54	2,240	
	Cash	11		2,240

Prob. 2-3B (Continued)

	27	Miscellaneous Expense	59	1,100	
		Cash	11		1,100
	29	Cash	11	7,600	
		Accounts Receivable	12		7,600
	30	Wages Expense	51	4,800	
		Cash	11		4,800
	31	Jay Pryor, Drawing	32	3,500	
		Cash	11		3,500

2.

GENERAL LEDGER

Account: Cash Account No. 11

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	1		1	18,000		18,000	
	4		1		3,000	15,000	
	10		1		3,750	11,250	
	14		1		2,100	9,150	
	15		1		3,600	5,550	
	15		1	8,950		14,500	
	21		2		2,000	12,500	
	27		2		2,240	10,260	
	27		2		1,100	9,160	
	29		2	7,600		16,760	
	30		2		4,800	11,960	
	31		2		3,500	8,460	

Account: Accounts Receivable Account No. 12

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	24		2	14,150		14,150	
	29		2		7,600	6,550	

Prob. 2-3B (Continued)

Account: Supplies Account No. 13

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	14		1	2,100		2,100	

Account: Prepaid Insurance Account No. 14

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	15		1	3,600		3,600	

Account: Equipment Account No. 16

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	13		1	10,500		10,500	

Account: Truck Account No. 18

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	10		1	23,750		23,750	

Account: Notes Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	10		1		20,000		20,000

Account: Accounts Payable Account No. 22

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	13		1		10,500		10,500
	21		2	2,000			8,500
	26		2		700		9,200

Prob. 2-3B (Continued)

Account: Jay Pryor, CapitalAccount No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	1		1		18,000		18,000

Account: Jay Pryor, DrawingAccount No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	31		2	3,500		3,500	

Account: Fees EarnedAccount No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	15		1		8,950		8,950
	24		2		14,150		23,100

Account: Wages ExpenseAccount No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	30		2	4,800		4,800	

Account: Rent ExpenseAccount No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	4		1	3,000		3,000	

Account: Utilities ExpenseAccount No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	27		2	2,240		2,240	

Prob. 2-3B (Continued)Account: Truck Expense Account No. 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	26		2	700		700	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
Oct.	27		2	1,100		1,100	

Prob. 2-3B (Concluded)

3.

PIONEER DESIGNS Unadjusted Trial Balance October 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	8,460	
Accounts Receivable	12	6,550	
Supplies	13	2,100	
Prepaid Insurance	14	3,600	
Equipment	16	10,500	
Truck	18	23,750	
Notes Payable	21		20,000
Accounts Payable	22		9,200
Jay Pryor, Capital	31		18,000
Jay Pryor, Drawing	32	3,500	
Fees Earned	41		23,100
Wages Expense	51	4,800	
Rent Expense	53	3,000	
Utilities Expense	54	2,240	
Truck Expense	55	700	
Miscellaneous Expense	59	1,100	
		70,300	70,300

4. \$11,260 (\$23,100 – \$4,800 – \$3,000 – \$2,240 – \$700 – \$1,100)
5. Some supplies may have been used during October but no supplies expense has been recorded.

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Pioneer Designs.

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

Prob. 2-4B

2. and 3.

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Date	Description	Post. Ref.	Debit	Credit
2019				
Aug. 1	Office Supplies	14	3,150	
	Accounts Payable	21		3,150
2	Rent Expense	52	7,200	
	Cash	11		7,200
3	Cash	11	83,900	
	Accounts Receivable	12		83,900
5	Prepaid Insurance	13	12,000	
	Cash	11		12,000
9	Accounts Payable	21	400	
	Office Supplies	14		400
17	Advertising Expense	53	8,000	
	Cash	11		8,000
23	Accounts Payable	21	13,750	
	Cash	11		13,750

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Date	Description	Post. Ref.	Debit	Credit
2019				
Aug. 29	Miscellaneous Expense	59	1,700	
	Cash	11		1,700
30	Automobile Expense	54	2,500	
	Cash	11		2,500
31	Cash	11	2,000	
	Salary and Commission Expense	51		2,000
31	Salary and Commission Expense	51	53,000	
	Cash	11		53,000

Prob. 2-4B (Continued)

Account: Prepaid Insurance Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1	Balance	✓		12,600	
	5		18	12,000	24,600	

Account: Office Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1	Balance	✓		2,800	
	1		18	3,150	5,950	
	9		18	400	5,550	

Account: Land Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	31		19	75,000	75,000	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1	Balance	✓			21,000
	1		18	3,150		24,150
	9		18	400		23,750
	23		18	13,750		10,000

Account: Unearned Rent Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	31		19	5,000		5,000

Account: Notes Payable Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	31		19	67,500		67,500

Prob. 2-4B (Continued)

Account: Cindy Getman, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1 Balance	✓				87,500

Account: Cindy Getman, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1 Balance	✓			44,800	
	31	19	1,000		45,800	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1 Balance	✓				591,500
	31	19		183,500		775,000

Account: Salary and Commission Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1 Balance	✓			385,000	
	31	19		2,000	383,000	
	31	19	53,000		436,000	

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1 Balance	✓			49,000	
	2	18	7,200		56,200	

Account: Advertising Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1 Balance	✓			32,200	
	17	18	8,000		40,200	

Prob. 2-4B (Continued)

Account: Automobile Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1				15,750	
	30	19	2,500		18,250	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Aug.	1				5,250	
	29	19	1,700		6,950	

4.

VALLEY REALTY Unadjusted Trial Balance August 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	36,750	
Accounts Receivable	12	199,700	
Prepaid Insurance	13	24,600	
Office Supplies	14	5,550	
Land	16	75,000	
Accounts Payable	21		10,000
Unearned Rent	22		5,000
Notes Payable	23		67,500
Cindy Getman, Capital	31		87,500
Cindy Getman, Drawing	32	45,800	
Fees Earned	41		775,000
Salary and Commission Expense	51	436,000	
Rent Expense	52	56,200	
Advertising Expense	53	40,200	
Automobile Expense	54	18,250	
Miscellaneous Expense	59	6,950	
		945,000	945,000

Prob. 2-4B (Concluded)

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

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

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Date		Description	Post. Ref.	Debit	Credit
2019					
Aug.	31	Cindy Getman, Drawing	32	9,000	
		Cash	11		9,000

(c) Slide

Prob. 2-5B

TECH SUPPORT SERVICES Unadjusted Trial Balance January 31, 2019		
	Debit Balances	Credit Balances
Cash*	20,250	
Accounts Receivable	56,400	
Supplies	6,750	
Prepaid Insurance	9,600	
Equipment	162,000	
Notes Payable		54,000
Accounts Payable		16,650
Thad Engelberg, Capital		107,850
Thad Engelberg, Drawing	39,000	
Fees Earned		534,000
Wages Expense	306,000	
Rent Expense	62,550	
Advertising Expense	28,350	
Gas, Electricity, and Water Expense	17,000	
Miscellaneous Expense	4,600	
	712,500	712,500

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

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

CONTINUING PROBLEM

2. and 3.

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Date	Description	Post. Ref.	Debit	Credit
2019				
July	1 Cash	11	5,000	
	Peyton Smith, Capital	31		5,000
	1 Office Rent Expense	51	1,750	
	Cash	11		1,750
	1 Prepaid Insurance	15	2,700	
	Cash	11		2,700
	2 Cash	11	1,000	
	Accounts Receivable	12		1,000
	3 Cash	11	7,200	
	Unearned Revenue	23		7,200
	3 Accounts Payable	21	250	
	Cash	11		250
	4 Miscellaneous Expense	59	900	
	Cash	11		900
	5 Office Equipment	17	7,500	
	Accounts Payable	21		7,500
	8 Advertising Expense	55	200	
	Cash	11		200
	11 Cash	11	1,000	
	Fees Earned	41		1,000
	13 Equipment Rent Expense	52	700	
	Cash	11		700
	14 Wages Expense	50	1,200	
	Cash	11		1,200

Continuing Problem (Continued)

2. and 3.

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Page 2

Date	Description	Post. Ref.	Debit	Credit
2019				
July 16	Cash	11	2,000	
	Fees Earned	41		2,000
	18 Supplies	14	850	
	Accounts Payable	21		850
	21 Music Expense	54	620	
	Cash	11		620
	22 Advertising Expense	55	800	
	Cash	11		800
	23 Cash	11	750	
	Accounts Receivable	12	1,750	
	Fees Earned	41		2,500
	27 Utilities Expense	53	915	
	Cash	11		915
	28 Wages Expense	50	1,200	
	Cash	11		1,200
	29 Miscellaneous Expense	59	540	
	Cash	11		540
	30 Cash	11	500	
	Accounts Receivable	12	1,000	
	Fees Earned	41		1,500
	31 Cash	11	3,000	
	Fees Earned	41		3,000
	31 Music Expense	54	1,400	
	Cash	11		1,400
	31 Peyton Smith, Drawing	32	1,250	
	Cash	11		1,250

Continuing Problem (Continued)

1. and 3.

Account: CashAccount No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	✓			3,920	
	1	1	5,000		8,920	
	1	1		1,750	7,170	
	1	1		2,700	4,470	
	2	1	1,000		5,470	
	3	1	7,200		12,670	
	3	1		250	12,420	
	4	1		900	11,520	
	8	1		200	11,320	
	11	1	1,000		12,320	
	13	1		700	11,620	
	14	1		1,200	10,420	
	16	2	2,000		12,420	
	21	2		620	11,800	
	22	2		800	11,000	
	23	2	750		11,750	
	27	2		915	10,835	
	28	2		1,200	9,635	
	29	2		540	9,095	
	30	2	500		9,595	
	31	2	3,000		12,595	
	31	2		1,400	11,195	
	31	2		1,250	9,945	

Account: Accounts ReceivableAccount No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	✓			1,000	
	2	1		1,000	—	—
	23	2	1,750		1,750	
	30	2	1,000		2,750	

Continuing Problem (Continued)

Account: Supplies Account No. 14

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1	Balance	✓			170	
	18		2	850		1,020	

Account: Prepaid Insurance Account No. 15

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1		1	2,700		2,700	

Account: Office Equipment Account No. 17

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	5		1	7,500		7,500	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1	Balance	✓				250
	3		1	250		—	—
	5		1		7,500		7,500
	18		2		850		8,350

Account: Unearned Revenue Account No. 23

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	3		1		7,200		7,200

Account: Peyton Smith, Capital Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1	Balance	✓				4,000
	1		1		5,000		9,000

Continuing Problem (Continued)

Account: Peyton Smith, Drawing Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1	Balance	✓			500	
	31		2	1,250		1,750	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1	Balance	✓				6,200
	11		1		1,000		7,200
	16		2		2,000		9,200
	23		2		2,500		11,700
	30		2		1,500		13,200
	31		2		3,000		16,200

Account: Wages Expense Account No. 50

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1	Balance	✓			400	
	14		1	1,200		1,600	
	28		2	1,200		2,800	

Account: Office Rent Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1	Balance	✓			800	
	1		1	1,750		2,550	

Account: Equipment Rent Expense Account No. 52

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2019							
July	1	Balance	✓			675	
	13		1	700		1,375	

Continuing Problem (Continued)

Account: Utilities Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	Balance	✓		300	
	27		2	915	1,215	

Account: Music Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	Balance	✓		1,590	
	21		2	620	2,210	
	31		2	1,400	3,610	

Account: Advertising Expense Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	Balance	✓		500	
	8		1	200	700	
	22		2	800	1,500	

Account: Supplies Expense Account No. 56

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	Balance	✓		180	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	Balance	✓		415	
	4		1	900	1,315	
	29		2	540	1,855	

Continuing Problem (Concluded)

4.

PS MUSIC Unadjusted Trial Balance July 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	9,945	
Accounts Receivable	12	2,750	
Supplies	14	1,020	
Prepaid Insurance	15	2,700	
Office Equipment	17	7,500	
Accounts Payable	21		8,350
Unearned Revenue	23		7,200
Peyton Smith, Capital	31		9,000
Peyton Smith, Drawing	32	1,750	
Fees Earned	41		16,200
Wages Expense	50	2,800	
Office Rent Expense	51	2,550	
Equipment Rent Expense	52	1,375	
Utilities Expense	53	1,215	
Music Expense	54	3,610	
Advertising Expense	55	1,500	
Supplies Expense	56	180	
Miscellaneous Expense	59	1,855	
		40,750	40,750

CASES & PROJECTS

CP 2-1

1. **No. For financial accounting information to be useful, it must accurately reflect an entity's business transactions and economic activity. For this to happen, each account must reflect the increases or decreases that result from each transaction. If the trial balance does not balance, it means that a transaction has not been accurately recorded in the accounts. By knowingly submitting a trial balance that does not accurately reflect the transactions in the accounts, Buddy is demonstrating a failure of individual character and is acting unethically.**
2. **The users of the financial information who rely on this information will be affected, as the information will not be a faithful representation of the entity's economic activity.**
3. **Buddy should have discussed the issue with his supervisor and asked for more time to find the error.**

CP 2-2

A sample solution based on Nike Inc.'s Form 10-K for the fiscal year ended May 31, 2015, follows:

1. **\$21,600 million**
2. **\$8,893 (\$21,600 million on total assets – \$12,707 million total liabilities)**
3. **\$12,707 million**
4. **3**
5. **2**
6. **The income statement reports a summary of revenues and expenses for a specific period of time, such as a month or a year. The balance sheet reports a list of assets, liabilities, and stockholders' equity as of a specific date, usually at the close of the last day of a month or a year.**

CP 2-3

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

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

CP 2-3 (Concluded)

assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

Dot is correct that we could call the left and right sides of an account different terms, such as “LE” and “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, and number of returns. Thus, in a sense, there can be other “sides” of (information about) a transaction that are recorded by the accounting system. Such information would be viewed as supplemental to the basic double-entry accounting system.

CP 2-4

Note to Instructors: The purpose of this activity is to familiarize students with the job opportunities available in accounting and allow them to demonstrate their ability to communicate the role of accounting in the context of a specific position that requires knowledge of accounting. An example of an advertisement for such a position is shown below. Individual student answers will vary depending on the specific scenario they select.

ABOUT THE COMPANY

Our client is looking to add a Financial Analyst. With a large and growing finance team, there is significant opportunity for growth and advancement within the department. The company boasts a team-oriented culture and provides its employees with the tools and training necessary to perform. Our client is looking to bring on more of a junior-level candidate who wants to gain experience in his or her field of study. There will be hands-on training for the role that will evolve from a data analyst into a financial analyst and will be reporting to the director of finance. Our client is in the consumer goods industry and is an international company that has multiple opportunities for growth.

RESPONSIBILITIES OF THE FINANCIAL ANALYST

The Financial Analyst will:

- Conduct special studies to analyze complex financial actions and prepare recommendations for policy, procedure, control, or action.
- Analyze financial information to determine present and future financial performance.
- Evaluate complex profit plans, operating records, and financial statements.
- Direct preparation of studies, reports, analyses, and recommendations in areas such as budgets, forecasts, financial plans, statistical reports, and business forecasts.
- Coordinate with all levels of management to gather, analyze, summarize, and prepare recommendations regarding financial plans, trended future requirements, and operating forecasts.

Source: CareerBuilder.com

CP 2-5

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

Cash.....	XXX	
Unearned Tuition Deposits.....		XXX

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. The entry to record the earned portion of tuition will be:

Unearned Tuition Deposits.....	XXX	
Earned Tuition Deposits.....		XXX

CP 2-6

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

CP 2-7

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

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

b.

EAGLE CADDY SERVICE Income Statement For Month Ended June 30, 2019		
Fees earned		\$11,400
Expenses:		
Rent expense	\$3,500	
Supplies expense	1,925	
Wages expense	850	
Utilities expense	340	
Miscellaneous expense	395	
Total expenses		7,010
Net income		\$ 4,390

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

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

CP 2-7 (Continued)

Cash				11		Fees Earned				41		
2019				2019						2019		
June	1	2,000		June	1	500			June	15	5,400	
	15	5,400			2	750				25	1,800	
	30	4,200			3	600				30	4,200	
	30	1,500			17	1,000			Bal.		11,400	
					20	2,400						
					28	395						
					30	340						
					30	850						
Bal.		6,265							Rent Expense			51
						2019						
				June	1	500						
					3	3,000						
				Bal.		3,500						

Accounts Receivable				12	Supplies Expense				52
2019					2019				
June	25	1,800			June	30	1,500		
Bal.		300						1,925	

Supplies					13	Wages Expense					53
2019			2019			2019					
June	2	750	June	30	1,925	June	30	850			
	7	1,000									
	22	850									
Bal.		675									

Accounts Payable					21	Utilities Expense			54
2019			2019			2019			
June	17	1,000	June	3	2,400	June	30	340	
	20	2,400		7	1,000				
				22	850				
			Bal.		850				

Cory Neece, Capital			31	Miscellaneous Expense			55
2019				2019			
June	1	2,000		June	28	395	

CP 2-7 (Concluded)

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

Cash receipts:

Initial investment.....	\$2,000	
Cash sales (\$5,400 + \$4,200).....	9,600	
Collections on accounts.....	<u>1,500</u>	
Total cash receipts during June.....		\$13,100

Cash disbursements:

Rent expense (\$500 + \$3,000).....	\$3,500	
Supplies purchased for cash.....	750	
Wages expense.....	850	
Payment for supplies on account.....	1,000	
Utilities expense.....	340	
Miscellaneous expense.....	<u>395</u>	
Total cash disbursements during June.....		<u>6,835</u>
Cash on hand according to records*.....		<u>\$ 6,265</u>

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

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

