CHAPTER 2

ANALYZING TRANSACTIONS

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 a 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, common stock, retained earnings, and revenue accounts.
3. a. Assuming no errors have occurred, the credit balance in the cash account resulted from writing checks for $1,850 in excess of the amount of cash on deposit.

b. The $1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an “overdraft” and should be classified on the balance sheet as a liability.

1. 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.

1. 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.
2. The listing of $9,800 is a transposition; the listing of $100 is a slide.
3. 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.

1. 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 stockholders’ equity, 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.

1. 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 stockholders’ equity, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by $300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by $300,000, and stockholders’ equity (retained earnings) is overstated by $300,000. The understatement of liabilities is offset by the overstatement of stockholders’ equity (retained earnings), and thus, total liabilities and stockholders’ equity is correct.

1. 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.

BASIC EXERCISES

BE 2–1

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

BE 2–2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Nov.** | **2** | **Office Supplies** |  | **1,600** |  |
|  |  | **Cash** |  |  | **500** |
|  |  | **Accounts Payable** |  |  | **1,100** |

BE 2–3

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Aug.** | **13** | **Cash** | **9,000** |  |
|  |  | **Fees Earned** |  | **9,000** |

BE 2–4

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **June** | **30** | **Dividends** | **11,500** |  |
|  |  | **Cash** |  | **11,500** |

BE 2–5

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 – Supplies expense

Supplies expense = $1,025 + $3,110 – $1,324 = $2,811

BE 2–6

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

BE 2–7

|  |  |  |  |
| --- | --- | --- | --- |
| **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** |

BE 2–8

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Paragon Company**  **Income Statements**  **For the Years Ended December 31** | | | | |
|  | **20Y7** | **20Y6** | **Increase/(Decrease)** | |
| **Amount** | **Percent** |
| **Fees earned** | **$ 1,416,000** | **$1,200,000** | **$216,000** | **18.0%** |
| **Expenses** | **(1,044,000)** | **(900,000)** | **144,000** | **16.0%** |
| **Net income** | **$ 372,000** | **$ 300,000** | **$ 72,000** | **24.0%** |
|  |  |  |  |  |

EXERCISES

|  |  |  |
| --- | --- | --- |
| **Ex. 2–1** |  |  |
| **Balance Sheet Accounts** |  | **Income Statement Accounts** |
| **Assets** |  | **Revenue** |
| **Advanced Payments for Equipmenta** |  | **Cargo Revenue** |
| **Cash** |  | **Passenger Revenue** |
| **Flight Equipment** |  |  |
| **Fuel Inventory** |  |  |
| **Parts and Supplies Inventories** |  |  |
| **Prepaid Expenses** |  |  |
| **Liabilities** |  | **Expenses** |
| **Accounts Payable** |  | **Aircraft Fuel (Expense)** |
| **Air Traffic Liabilityb** |  | **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** |

**Stockholders’ Equity**

**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** |
| **Common Stock** | **31** |
| **Dividends** | **33** |
| **Fees Earned** | **41** |
| **Land** | **13** |
| **Miscellaneous Expense** | **53** |
| **Retained Earnings** | **32** |
| **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** |
|  | **1.   Assets** |  | | **4.   Revenue** |
| **11** | **Cash** | **41** | | **Fees Earned** |
| **12** | **Accounts Receivable** |  | |  |
| **13** | **Supplies** |  | | **5.   Expenses** |
| **14** | **Prepaid Insurance** | **51** | | **Wages Expense** |
| **15** | **Equipment** | **52** | | **Rent Expense** |
|  |  | **53** | | **Supplies Expense** |
|  | **2.   Liabilities** | **59** | | **Miscellaneous Expense** |
| **21** | **Accounts Payable** |  | |  |
| **22** | **Unearned Rent** |  | |  |
|  | **3.   Stockholders’ Equity** |  | |  |
| **31** | **Common 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, 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.** | **credit** |
| **b.** | **debit** | **h.** | **debit** |
| **c.** | **debit** | **i.** | **debit** |
| **d.** | **credit** | **j.** | **credit** |
| **e.** | **debit** | **k.** | **debit** |
| **f.** | **credit** | **l.** | **debit** |

Ex. 2–5

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Ex.2–6 | |  |  |  | |
| **a.** | **Liability—credit** | | | | **f.** | | **Revenue—credit** |
| **b.** | **Asset—debit** | | | | **g.** | | **Asset—debit** |
| **c.** | **Asset—debit** | | | | **h.** | | **Expense—debit** |
| **d.** | **Stockholders’ equity**  **(Common Stock)—credit** | | | | **i.**  **j.** | | **Asset—debit**  **Expense—debit** |
| **e.** | **Stockholders’ equity**  **(Dividends)—debit** | | | |  | |  |

Ex. 2–7

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **20Y2** |  |  |  |  |
| **Oct.** | **1** | **Rent Expense** | **2,500** |  |
|  |  | **Cash** |  | **2,500** |
|  |  |  |  |  |
|  | **4** | Advertising **Expense** | **1,000** |  |
|  |  | **Cash** |  | **1,000** |
|  |  |  |  |  |
|  | **5** | **Supplies** | **1,800** |  |
|  |  | **Cash** |  | **1,800** |
|  |  |  |  |  |
|  | **6** | **Office Equipment** | **11,500** |  |
|  |  | **Accounts Payable** |  | **11,500** |
|  |  |  |  |  |
|  | **12** | **Cash** | **7,500** |  |
|  |  | **Accounts Receivable** |  | **7,500** |
|  |  |  |  |  |
|  | **20** | **Accounts Payable** | **2,700** |  |
|  |  | **Cash** |  | **2,700** |
|  |  |  |  |  |
|  | **27** | **Miscellaneous Expense** | **700** |  |
|  |  | **Cash** |  | **700** |
|  |  |  |  |  |
|  | **30** | **Utilities Expense** | **475** |  |
|  |  | **Cash** |  | **475** |
|  |  |  |  |  |
|  | **31** | **Accounts Receivable** | **42,400** |  |
|  |  | **Fees Earned** |  | **42,400** |
|  |  |  |  |  |
|  | **31** | **Utilities Expense** | **900** |  |
|  |  | **Cash** |  | **900** |
|  |  |  |  |  |
|  | **31** | **Dividends** | **1,500** |  |
|  |  | **Cash** |  | **1,500** |

Ex. 2–8

a.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | JOURNAL |  | **Page** | **73** |
|  | |  |  |  |  |
| **Date** | | **Description** | **Post.**  **Ref.** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |
| **Feb.** | **11** | **Supplies** | **15** | **2,250** |  |
|  |  | **Accounts Payable** | **21** |  | **2,250** |
|  |  | **Purchased supplies on account.** |  |  |  |

b., c., d.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | |  | Supplies | | | **Account No.** | | **15** | |
|  |  |  | |  |  |  |  | | |
| **Date** | | **Item** | | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | | |
| **Debit** | | **Credit** |
| **20Y9** |  |  | |  |  |  |  | |  |
| **Feb.** | **1** | **Balance** | | **✓** |  |  | **400** | |  |
|  | **11** |  | | **73** | **2,250** |  | **2,650** | |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account:** |  | Accounts Payable | **Account No.** | **21** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | | **Item** | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | |
| **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Feb.** | **1** | **Balance** | **✓** |  |  |  | **18,300** |
|  | **11** |  | **73** |  | **2,250** |  | **20,550** |

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

**Ex. 2–9**

|  |  |  |  |
| --- | --- | --- | --- |
| **a. (1)** | **Accounts Receivable** | **112,700** |  |
|  | **Fees Earned** |  | **112,700** |
|  |  |  |  |
| **(2)** | **Supplies** | **4,500** |  |
|  | **Accounts Payable** |  | **4,500** |
|  |  |  |  |
| **(3)** | **Cash** | **88,220** |  |
|  | **Accounts Receivable** |  | **88,220** |
|  |  |  |  |
| **(4)** | **Accounts Payable** | **3,100** |  |
|  | **Cash** |  | **3,100** |

Ex. 2–9 (Concluded)

b.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cash | | | | | |  | Accounts Payable | | | | | |
| (3) |  | 88,220 | (4) |  | 3,100 |  | (4) |  | 3,100 | (2) |  | 4,500 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Supplies | | | | | |  | Fees Earned | | | | | |
| (2) |  | 4,500 |  |  |  |  |  |  |  | (1) |  | 112,700 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts Receivable | | | | | |  |  |  |  |  |  |  |
| (1) |  | 112,700 | (3) |  | 88,200 |  |  |  |  |  |  |  |

1. 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

1. The increase of $270,800 ($1,245,000 – $974,200) in the cash account does not indicate net income of that amount. Net income is the net change in all assets and liabilities from operating (revenue and expense) transactions.
2. $150,200 ($421,000 – $270,800)

or.

Cash

|  |  |  |  |
| --- | --- | --- | --- |
| **X** | | **974,200** | |
|  | **1,245,000** |  |  |
| **421,000** | |  | |

**X + $1,245,000 – $974,200 = $421,000**

X = $421,000 – $1,245,000 + $974,200

X = $150,200

Ex. 2–11

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

X + $201,400 – $186,500 = $59,900

X = $59,900 + $186,500 – $201,400

X = $45,000

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

**$115,800 + X – $449,600 = $130,770**

**X = $130,770 + $449,600 – $115,800**

**X = $464,570**

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

**$46,220 + $248,600 – X = $56,770**

**X = $46,220 + $248,600 – $56,770**

**X = $238,050**

Ex. 2–12

1. **Debit (negative) balance of $16,000 ($314,000 – $10,000 – $320,000). This negative balance means that the liabilities of the business exceed the assets.**
2. **Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the stockholders’ equity section as a debit (negative) balance of $16,000.**

**Ex. 2–13**

**a. and b.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Account Debited** | |  | **Account Credited** | |
| **Transaction** |  | **Type** | **Effect** |  | **Type** | **Effect** |
| **(1)** |  | **asset** | **+** |  | **stockholders’ equity** | **+** |
| **(2)** |  | **asset** | **+** |  | **asset** | **–** |
| **(3)** |  | **asset** | **+** |  | **asset** | **–** |
|  |  |  |  |  | **liability** | **+** |
| **(4)** |  | **expense** | **+** |  | **asset** | **–** |
| **(5)** |  | **asset** | **+** |  | **revenue** | **+** |
| **(6)** |  | **liability** | **–** |  | **asset** | **–** |
| **(7)** |  | **asset** | **+** |  | **asset** | **–** |
| **(8)** |  | **expense** | **+** |  | **asset** | **–** |
| **(9)** |  | **dividend** | **+** |  | **asset** | **–** |

Ex. 2–14

|  |  |  |  |
| --- | --- | --- | --- |
| **(1)** | **Cash** | **40,000** |  |
|  | **Common Stock** |  | **40,000** |
|  |  |  |  |
| **(2)** | **Supplies** | **4,000** |  |
|  | **Cash** |  | **4,000** |
|  |  |  |  |
| **(3)** | **Equipment** | **15,000** |  |
|  | **Accounts Payable** |  | **10,000** |
|  | **Cash** |  | **5,000** |
|  |  |  |  |
| **(4)** | **Operating Expenses** | **6,175** |  |
|  | **Cash** |  | **6,175** |
|  |  |  |  |
| **(5)** | **Accounts Receivable** | **20,500** |  |
|  | **Service Revenue** |  | **20,500** |
|  |  |  |  |
| **(6)** | **Accounts Payable** | **6,000** |  |
|  | **Cash** |  | **6,000** |
|  |  |  |  |
| **(7)** | **Cash** | **13,100** |  |
|  | **Accounts Receivable** |  | **13,100** |
|  |  |  |  |
| **(8)** | **Operating Expenses** | **2,200** |  |
|  | **Supplies** |  | **2,200** |
|  |  |  |  |
| **(9)** | **Dividends** | **1,500** |  |
|  | **Cash** |  | **1,500** |

Ex. 2–15

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Rocky Mountain Tours Co.**  **Unadjusted Trial Balance**  **June 30, 20Y2** | | |
|  |  | **Debit Balances** | **Credit Balances** |
|  | **Cash** | **30,425** |  |
|  | **Accounts Receivable** | **7,400** |  |
|  | **Supplies** | **1,800** |  |
|  | **Equipment** | **15,000** |  |
|  | **Accounts Payable** |  | **4,000** |
|  | **Common Stock** |  | **40,000** |
|  | **Dividends** | **1,500** |  |
|  | **Service Revenue** |  | **20,500** |
|  | **Operating Expenses** | **8,375** |  |
|  |  | **64,500** | **64,500** |
|  |  |  |  |

b. Net income, $12,125 ($20,500 – $8,375)

Ex. 2–16

|  |  |  |
| --- | --- | --- |
| **Seaside Furniture Company**  **Unadjusted Trial Balance**  **August 31, 20Y5** | | |
|  | **Debit**  **Balances** | **Credit Balances** |
| **Cash** | **426,800** |  |
| **Accounts Receivable** | **660,500** |  |
| **Supplies** | **11,200** |  |
| **Prepaid Insurance** | **21,600** |  |
| **Land** | **1,850,000** |  |
| **Accounts Payable** |  | **118,600** |
| **Unearned Rent** |  | **12,000** |
| **Notes Payable** |  | **75,000** |
| **Common Stock** |  | **150,000** |
| **Retained Earnings** |  | **1,814,400** |
| **Dividends** | **36,000** |  |
| **Fees Earned** |  | **4,330,000** |
| **Wages Expense** | **2,950,000** |  |
| **Rent Expense** | **390,000** |  |
| **Utilities Expense** | **82,000** |  |
| **Supplies Expense** | **23,700** |  |
| **Insurance Expense** | **18,000** |  |
| **Miscellaneous Expense** | **30,200** |  |
|  | **6,500,000** | **6,500,000** |
|  |  |  |

Cash = $6,500,000 – $30,200 – $18,000 – $23,700 – $82,000 – $390,000 – $2,950,000 – $36,000 – $1,850,000 – $21,600 – $11,200 – $660,500 = $426,800

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, 20Y1** | | |
|  | **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** |
| **Common Stock** |  | **40,000** |
| **Retained Earnings** |  | **70,000** |
| **Dividends** | **13,000** |  |
| **Service Revenue** |  | **385,000** |
| **Wages Expense** | **213,000** |  |
| **Advertising Expense** | **16,350** |  |
| **Miscellaneous Expense** | **18,400** |  |
|  | **525,000** | **525,000** |
|  |  |  |

Ex. 2–19

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

**Ex. 2–20**

1. The Debit column total is added incorrectly. The sum is $1,098,500 rather than $1,801,500.
2. The trial balance should be dated “December 31, 20Y8,” not “For the Year Ending December 31, 20Y8.”
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:

|  |  |  |
| --- | --- | --- |
| **Ensemble Co.**  **Unadjusted Trial Balance**  **December 31, 20Y8** | | |
|  | **Debit Balances** | **Credit Balances** |
| **Cash** | **42,900** |  |
| **Accounts Receivable** | **123,500** |  |
| **Prepaid Insurance** | **27,000** |  |
| **Equipment** | **300,000** |  |
| **Accounts Payable** |  | **52,000** |
| **Salaries Payable** |  | **4,800** |
| **Common Stock** |  | **40,000** |
| **Retained Earnings** |  | **137,200** |
| **Dividends** | **5,000** |  |
| **Service Revenue** |  | **1,216,000** |
| **Salary Expense** | **660,000** |  |
| **Advertising Expense** | **275,000** |  |
| **Miscellaneous Expense** | **16,600** |  |
|  | **1,450,000** | **1,450,000** |
|  |  |  |

Ex. 2–21

a. The correction could be made with one or two entries as follows:

|  |  |  |
| --- | --- | --- |
| **Prepaid Insurance** | **36,000** |  |
| **Insurance Expense** |  | **18,000** |
| **Cash** |  | **18,000** |

**or (reverse original entry)**

|  |  |  |
| --- | --- | --- |
| **Prepaid Insurance** | **18,000** |  |
| **Insurance Expense** |  | **18,000** |
|  |  |  |
| **Prepaid Insurance** | **18,000** |  |
| **Cash** |  | **18,000** |

|  |  |  |  |
| --- | --- | --- | --- |
| **b.** | **Dividends** | **10,000** |  |
|  | **Wages Expense** |  | **10,000** |

**Ex. 2–22**

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Cash** | **17,600** |  |
|  | **Fees Earned** |  | **8,800** |
|  | **Accounts Receivable** |  | **8,800** |

|  |  |  |  |
| --- | --- | --- | --- |
| **b.** | **Accounts Payable** | **1,760** |  |
|  | **Supplies Expense** |  | **1,760** |

|  |  |  |
| --- | --- | --- |
| **Supplies** | **1,760** |  |
| **Cash** |  | **1,760** |

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

**PROBLEMS**

Prob. 2–1A

1. and 2.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Equipment** | | | |
| **(a)** | **30,000** | **(b)** | **2,500** |  | **(d)** | **8,000** |  |  |
| **(g)** | **9,000** | **(c)** | **6,000** |  |  |  |  |  |
|  |  | **(e)** | **2,100** |  |  | **Notes Payable** | |  |
|  |  | **(f)** | **3,600** |  | **(j)** | **1,875** | **(c)** | **22,500** |
|  |  | **(h)** | **2,600** |  |  |  | **Bal.** | **20,625** |
|  |  | **(i)** | **4,000** |  |  |  |  |  |
|  |  | **(j)** | **1,875** |  |  | **Accounts Payable** | |  |
|  |  | **(m)** | **6,000** |  | **(i)** | **4,000** | **(d)** | **8,000** |
|  |  | **(n)** | **1,300** |  |  |  | **(k)** | **5,500** |
| **Bal.** | **9,025** |  |  |  |  |  | **Bal.** | **9,500** |
|  |  | |  |  |  |  | |  |
|  | **Accounts Receivable** | |  |  |  | **Common Stock** | |  |
| **(l)** | **31,400** |  |  |  |  |  | **(a)** | **30,000** |
|  | **Supplies** | |  |  |  | **Professional Fees** | |  |
| **(e)** | **2,100** |  |  |  |  |  | **(g)** | **9,000** |
|  |  |  |  |  |  |  | **(l)** | **31,400** |
|  |  |  |  |  |  |  | **Bal.** | **40,400** |
|  |  | |  |  |  |  | |  |
|  | **Prepaid Insurance** | |  |  |  | **Salary Expense** | |  |
| **(f)** | **3,600** |  |  |  | **(m)** | **6,000** |  |  |
|  | **Automobiles** | |  |  |  | **Blueprint Expense** | |  |
| **(c)** | **28,500** |  |  |  | **(k)** | **5,500** |  |  |
|  |  |  |  |  |  | Rent Expense | |  |
|  |  |  |  |  | **(b)** | **2,500** |  |  |
|  |  |  |  |  |  | Automobile Expense | |  |
|  |  |  |  |  | **(n)** | **1,300** |  |  |
|  |  |  |  |  |  | Miscellaneous Expense | |  |
|  |  |  |  |  | **(h)** | **2,600** |  |  |

**Prob. 2–1A (Concluded)**

|  |  |  |  |
| --- | --- | --- | --- |
| **3.** | **Knaus Architects**  **Unadjusted Trial Balance**  **January 31, 20Y4** | | |
|  |  | **Debit**  **Balances** | **Credit**  **Balances** |
|  | **Cash** | **9,025** |  |
|  | **Accounts Receivable** | **31,400** |  |
|  | **Supplies** | **2,100** |  |
|  | **Prepaid Insurance** | **3,600** |  |
|  | **Automobiles** | **28,500** |  |
|  | **Equipment** | **8,000** |  |
|  | **Notes Payable** |  | **20,625** |
|  | **Accounts Payable** |  | **9,500** |
|  | **Common Stock** |  | **30,000** |
|  | **Professional Fees** |  | **40,400** |
|  | **Salary Expense** | **6,000** |  |
|  | **Blueprint Expense** | **5,500** |  |
|  | **Rent Expense** | **2,500** |  |
|  | **Automobile Expense** | **1,300** |  |
|  | **Miscellaneous Expense** | **2,600** |  |
|  |  | **100,525** | **100,525** |
|  |  |  |  |

**4. Net income, $22,500 ($40,400 – $6,000 – $5,500 – $2,500 – $1,300 – $2,600)**

**Prob. 2–2A**

|  |  |  |  |
| --- | --- | --- | --- |
| **1. (a)** | **Cash** | **40,000** |  |
|  | **Common Stock** |  | **40,000** |
|  |  |  |  |
| **(b)** | **Rent Expense** | **4,800** |  |
|  | **Cash** |  | **4,800** |
|  |  |  |  |
| **(c)** | **Supplies** | **2,150** |  |
|  | **Accounts Payable** |  | **2,150** |
|  |  |  |  |
| **(d)** | **Accounts Payable** | **1,100** |  |
|  | **Cash** |  | **1,100** |
|  |  |  |  |
| **(e)** | **Cash** | **18,750** |  |
|  | **Sales Commissions** |  | **18,750** |
|  |  |  |  |
| **(f)** | **Automobile Expense** | **1,580** |  |
|  | **Miscellaneous Expense** | **800** |  |
|  | **Cash** |  | **2,380** |
|  |  |  |  |
| **(g)** | **Office Salaries Expense** | **3,500** |  |
|  | **Cash** |  | **3,500** |
|  |  |  |  |
| **(h)** | **Supplies Expense** | **1,300** |  |
|  | **Supplies** |  | **1,300** |
|  |  |  |  |
| **(i)** | **Dividends** | **1,500** |  |
|  | **Cash** |  | **1,500** |

Prob. 2–2A (Continued)

2.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | |  | **Sales Commissions** | | |
| **(a)** | **40,000** | **(b)** | **4,800** |  |  |  | **(e) 18,750** |
| **(e)** | **18,750** | **(d)** | **1,100** |  |  |  | |
|  |  | **(f)** | **2,380** |  |  | **Rent Expense** | |
|  |  | **(g)** | **3,500** |  | **(b)** | **4,800** |  |
|  |  | **(i)** | **1,500** |  |  |  | |
| **Bal.** | **45,470** |  |  |  |  |  | |
|  |  | |  |  |  |  | |
|  | **Supplies** | |  |  |  | **Office Salaries Expense** | |
| **(c)** | **2,150** | **(h)** | **1,300** |  | **(g)** | **3,500** |  |
| **Bal.** | **850** |  |  |  |  |  | |
|  | **Accounts Payable** | |  |  |  | **Automobile Expense** | |
| **(d)** | **1,100** | **(c)** | **2,150** |  | **(f)** | **1,580** |  |
|  |  | **Bal.** | **1,050** |  |  |  | |
|  | **Common Stock** | |  |  |  | **Supplies Expense** | |
|  |  | **(a)** | **40,000** |  | **(h)** | **1,300** |  |
|  | **Dividends** | |  |  |  | **Miscellaneous Expense** | |
| **(i)** | **1,500** |  |  |  | **(f)** | **800** |  |

Prob. 2–2A (Concluded)

|  |  |  |  |
| --- | --- | --- | --- |
| **3.** | **Affordable Realty**  **Unadjusted Trial Balance**  **October 31, 20Y6** | | |
|  |  | **Debit**  **Balances** | **Credit**  **Balances** |
|  | **Cash** | **45,470** |  |
|  | **Supplies** | **850** |  |
|  | **Accounts Payable** |  | **1,050** |
|  | **Common Stock** |  | **40,000** |
|  | **Dividends** | **1,500** |  |
|  | **Sales Commissions** |  | **18,750** |
|  | **Rent Expense** | **4,800** |  |
|  | **Office Salaries Expense** | **3,500** |  |
|  | **Automobile Expense** | **1,580** |  |
|  | **Supplies Expense** | **1,300** |  |
|  | **Miscellaneous Expense** | **800** |  |
|  |  | **59,800** | **59,800** |
|  |  |  |  |

1. a. $18,750
2. $11,980 ($4,800 + $3,500 + $1,580 + $1,300 + $800)
3. $6,770 ($18,750 – $11,980)
4. $5,270, which is the excess of net income of $6,770 over the dividends of $1,500.

Prob. 2–3A

1.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | JOURNAL |  | **Page** | **1** |
|  | |  |  |  |  |
| **Date** | | **Description** | **Post.**  **Ref.** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |
| **Nov.** | **1** | **Cash** | **11** | **50,000** |  |
|  |  | **Common Stock** | **31** |  | **50,000** |
|  |  |  |  |  |  |
|  | **1** | **Rent Expense** | **53** | **4,000** |  |
|  |  | **Cash** | **11** |  | **4,000** |
|  |  |  |  |  |  |
|  | **6** | **Equipment** | **16** | **15,000** |  |
|  |  | **Accounts Payable** | **22** |  | **15,000** |
|  |  |  |  |  |  |
|  | **8** | **Truck** | **18** | **38,500** |  |
|  |  | **Cash** | **11** |  | **5,000** |
|  |  | **Notes Payable** | **21** |  | **33,500** |
|  |  |  |  |  |  |
|  | **10** | **Supplies** | **13** | **1,750** |  |
|  |  | **Cash** | **11** |  | **1,750** |
|  |  |  |  |  |  |
|  | **12** | **Cash** | **11** | **11,500** |  |
|  |  | **Fees Earned** | **41** |  | **11,500** |
|  |  |  |  |  |  |
|  | **15** | **Prepaid Insurance** | **14** | **2,400** |  |
|  |  | **Cash** | **11** |  | **2,400** |
|  |  |  |  |  |  |
|  | **23** | **Accounts Receivable** | **12** | **22,300** |  |
|  |  | **Fees Earned** | **41** |  | **22,300** |
|  |  |  |  |  |  |
|  | **24** | **Truck Expense** | **55** | **1,250** |  |
|  |  | **Accounts Payable** | **22** |  | **1,250** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | JOURNAL |  | **Page** | **2** |
|  | |  |  |  |  |
| **Date** | | **Description** | **Post.**  **Ref.** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |
| **Nov.** | 29 | **Utilities Expense** | **54** | **4,500** |  |
|  |  | **Cash** | **11** |  | **4,500** |
|  |  |  |  |  |  |
|  | 29 | **Miscellaneous Expense** | **59** | **1,000** |  |
|  |  | **Cash** | **11** |  | **1,000** |

**Prob. 2–3A (Continued)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **30** | **Cash** | **11** | **9,000** |  |
|  |  | **Accounts Receivable** | **12** |  | **9,000** |
|  |  |  |  |  |  |
|  | **30** | **Wages Expense** | **51** | **6,800** |  |
|  |  | **Cash** | **11** |  | **6,800** |
|  |  |  |  |  |  |
|  | **30** | **Accounts Payable** | **22** | **3,000** |  |
|  |  | **Cash** | **11** |  | **3,000** |
|  |  |  |  |  |  |
|  | **30** | **Dividends** | **33** | **2,500** |  |
|  |  | **Cash** | **11** |  | **2,500** |

2.

GENERAL LEDGER

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | **Cash** | | | **Account No.** | | **11** | |
|  | |  |  |  |  |  | | |
| **Date** | | **Item** | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | | |
| **Debit** | | **Credit** |
| **20Y9** |  |  |  |  |  |  | |  |
| **Nov.** | 1 |  | **1** | **50,000** |  | **50,000** | |  |
|  | 1 |  | **1** |  | **4,000** | **46,000** | |  |
|  | 8 |  | **1** |  | **5,000** | **41,000** | |  |
|  | 10 |  | **1** |  | **1,750** | **39,250** | |  |
|  | 12 |  | **1** | **11,500** |  | **50,750** | |  |
|  | 15 |  | **1** |  | **2,400** | **48,350** | |  |
|  | 29 |  | **2** |  | **4,500** | **43,850** | |  |
|  | 29 |  | **2** |  | **1,000** | **42,850** | |  |
|  | 30 |  | **2** | **9,000** |  | **51,850** | |  |
|  | 30 |  | **2** |  | **6,800** | **45,050** | |  |
|  | 30 |  | **2** |  | **3,000** | **42,050** | |  |
|  | 30 |  | **2** |  | **2,500** | **39,550** | |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | Accounts Receivable | | | **Account No.** | | **12** | |
|  |  |  |  |  |  |  | | |
| **Date** | | **Item** | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | | |
| **Debit** | | **Credit** |
| **20Y9** |  |  |  |  |  |  | |  |
| **Nov.** | 23 |  | **1** | **22,300** |  | **22,**300 | |  |
|  | 30 |  | **2** |  | **9,**000 | **13,**300 | |  |

**Prob. 2–3A (Continued)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | **Supplies** | | | **Account No.** | | **13** | |
|  |  |  |  |  |  |  | | |
|  |  |  | **Post.** |  |  | **Balance** | | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | | **Credit** |
| **20Y9** |  |  |  |  |  |  | |  |
| **Nov.** | **10** |  | **1** | **1,750** |  | **1,750** | |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | **Prepaid Insurance** | | | **Account No.** | | **14** | |
|  |  |  |  |  |  |  | | |
|  |  |  | **Post.** |  |  | **Balance** | | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | | **Credit** |
| **20Y9** |  |  |  |  |  |  | |  |
| **Nov.** | **15** |  | **1** | **2,400** |  | **2,400** | |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | **Equipment** | | | **Account No.** | | **16** | |
|  |  |  |  |  |  |  | | |
|  |  |  | **Post.** |  |  | **Balance** | | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | | **Credit** |
| **20Y9** |  |  |  |  |  |  | |  |
| **Nov.** | **6** |  | **1** | **15,000** |  | **15,000** | |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | **Truck** | | | **Account No.** | | **18** | |
|  |  |  |  |  |  |  | | |
|  |  |  | **Post.** |  |  | **Balance** | | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | | **Credit** |
| **20Y9** |  |  |  |  |  |  | |  |
| **Nov.** | **8** |  | **1** | **38,500** |  | **38,500** | |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | **Notes Payable** | | | **Account No.** | | **21** | |
|  |  |  |  |  |  |  | | |
|  |  |  | **Post.** |  |  | **Balance** | | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | | **Credit** |
| **20Y9** |  |  |  |  |  |  | |  |
| **Nov.** | **8** |  | **1** |  | **33,500** |  | | **33,500** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | Accounts Payable | | | Account No. | | **22** | |
|  | |  |  |  |  |  | | |
| **Date** | | **Item** | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | | |
| **Debit** | | **Credit** |
| **20Y9** |  |  |  |  |  |  | |  |
| **Nov.** | 6 |  | **1** |  | **15,000** |  | | **15,000** |
|  | 24 |  | **1** |  | **1,250** |  | | **16,250** |
|  | 30 |  | **2** | **3,000** |  |  | | **13,250** |

**Prob. 2–3A (Continued)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Common Stock** | **Account No.** | **31** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Nov.** | **1** |  | **1** |  | **50,000** |  | **50,000** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Dividends** | **Account No.** | **33** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Nov.** | **30** |  | **2** | **2,500** |  | **2,500** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Fees Earned** | **Account No.** | **41** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Nov.** | 12 |  | **1** |  | **11,500** |  | **11,500** |
|  | 23 |  | **1** |  | **22,300** |  | **33,800** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Wages Expense** | **Account No.** | **51** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Nov.** | **30** |  | **2** | **6,800** |  | **6,800** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Rent Expense** | **Account No.** | **53** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Nov.** | **1** |  | **1** | **4,000** |  | **4,000** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Utilities Expense** | **Account No.** | **54** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Nov.** | **29** |  | **2** | **4,500** |  | **4,500** |  |

**Prob. 2–3A (Continued)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Truck Expense** | **Account No.** | **55** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Nov.** | 24 |  | **1** | **1,250** |  | **1,250** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Miscellaneous Expense** | **Account No.** | **59** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y9** |  |  |  |  |  |  |  |
| **Nov.** | **29** |  | **2** | **1,000** |  | **1,000** |  |

**Prob. 2–3A (Concluded)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **3.** | **Heritage Designs**  **Unadjusted Trial Balance**  **November 30, 20Y9** | | | |
|  |  | **Account No.** | **Debit Balances** | **Credit Balances** |
|  | **Cash** | **11** | **39,550** |  |
|  | **Accounts Receivable** | **12** | **13,300** |  |
|  | **Supplies** | **13** | **1,750** |  |
|  | **Prepaid Insurance** | **14** | **2,400** |  |
|  | **Equipment** | **16** | **15,000** |  |
|  | **Truck** | **18** | **38,500** |  |
|  | **Notes Payable** | **21** |  | **33,500** |
|  | **Accounts Payable** | **22** |  | **13,250** |
|  | **Common Stock** | **31** |  | **50,000** |
|  | **Dividends** | **33** | **2,500** |  |
|  | **Fees Earned** | **41** |  | **33,800** |
|  | **Wages Expense** | **51** | **6,800** |  |
|  | **Rent Expense** | **53** | **4,000** |  |
|  | **Utilities Expense** | **54** | **4,500** |  |
|  | **Truck Expense** | **55** | **1,250** |  |
|  | **Miscellaneous Expense** | **59** | **1,000** |  |
|  |  |  | **130,550** | **130,550** |
|  |  |  |  |  |

1. $16,250 ($33,800 – $6,800 – $4,000 – $4,500 – $1,250 – $1,000)
2. Some supplies may have been used during November, 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 Heritage 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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | JOURNAL |  | **Page** | **18** |
|  | |  |  |  |  |
| **Date** | | **Description** | **Post.**  **Ref.** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |
| **Apr.** | **1** | **Rent Expense** | **52** | **6,500** |  |
|  |  | **Cash** | **11** |  | **6,500** |
|  |  |  |  |  |  |
|  | **2** | **Office Supplies** | **14** | **2,300** |  |
|  |  | **Accounts Payable** | **21** |  | **2,300** |
|  |  |  |  |  |  |
|  | **5** | **Prepaid Insurance** | **13** | **6,000** |  |
|  |  | **Cash** | **11** |  | **6,000** |
|  |  |  |  |  |  |
|  | **10** | **Cash** | **11** | **52,300** |  |
|  |  | **Accounts Receivable** | **12** |  | **52,300** |
|  |  |  |  |  |  |
|  | **15** | **Land** | **16** | **200,000** |  |
|  |  | **Cash** | **11** |  | **30,000** |
|  |  | **Notes Payable** | **23** |  | **170,000** |
|  |  |  |  |  |  |
|  | **17** | **Accounts Payable** | **21** | **6,450** |  |
|  |  | **Cash** | **11** |  | **6,450** |
|  |  |  |  |  |  |
|  | **20** | **Accounts Payable** | **21** | **325** |  |
|  |  | **Office Supplies** | **14** |  | **325** |
|  |  |  |  |  |  |
|  | **23** | **Advertising Expense** | **53** | **4,300** |  |
|  |  | **Cash** | **11** |  | **4,300** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | JOURNAL |  | **Page** | **19** |
|  | |  |  |  |  |
| **Date** | | **Description** | **Post.**  **Ref.** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |
| **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** | **Dividends** | **33** | **4,000** |  |
|  |  | **Cash** | **11** |  | **4,000** |
|  |  |  |  |  |  |
|  | **30** | **Cash** | **11** | **10,000** |  |
|  |  | **Unearned Rent** | **22** |  | **10,000** |

**1. and 3.**

GENERAL LEDGER

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Cash** | **Account No.** | **11** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | | **Item** | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | |
| **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **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 Receivable** | **Account No.** | **12** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | | **Item** | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | |
| **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **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** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **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** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  | **1,800** |  |
|  | **2** |  | **18** | **2,300** |  | **4,100** |  |
|  | **20** |  | **18** |  | **325** | **3,775** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Land** | **Account No.** | **16** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **15** |  | **18** | **200,000** |  | **200,000** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Accounts Payable** | **Account No.** | **21** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | | **Item** | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | |
| **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **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** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **30** |  | **19** |  | **10,000** |  | **10,000** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Notes Payable** | **Account No.** | **23** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | | **Item** | **Post.**  **Ref.** | **Debit** | **Credit** | **Balance** | |
| **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **15** |  | **18** |  | **170,000** |  | **170,000** |

**Prob. 2–4A (Continued)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Common Stock** | **Account No.** | **31** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  |  | **10,000** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Retained Earnings** | **Account No.** | **32** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  |  | **36,000** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Dividends** | **Account No.** | **33** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  | **2,000** |  |
|  | **30** |  | **19** | **4,000** |  | **6,000** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Fees Earned** | **Account No.** | **41** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| 20Y3 |  |  |  |  |  |  |  |
| 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** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  | **148,200** |  |
|  | **27** |  | **19** |  | **2,500** | **145,700** |  |
|  | **30** |  | **19** | **11,900** |  | **157,600** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Rent Expense** | **Account No.** | **52** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  | **30,000** |  |
|  | **1** |  | **18** | **6,500** |  | **36,500** |  |

**Prob. 2–4A (Continued)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Advertising Expense** | **Account No.** | **53** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  | **17,800** |  |
|  | **23** |  | **18** | **4,300** |  | **22,100** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Automobile Expense** | **Account No.** | **54** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  | **5,500** |  |
|  | **28** |  | **19** | **1,500** |  | **7,000** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account:** | **Miscellaneous Expense** | **Account No.** | **59** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Post.** |  |  | **Balance** | |
| **Date** | | **Item** | **Ref.** | **Debit** | **Credit** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |  |  |
| **Apr.** | **1** | **Balance** | **✓** |  |  | **3,900** |  |
|  | **29** |  | **19** | **1,400** |  | **5,300** |  |

**4.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Elite Realty**  **Unadjusted Trial Balance**  **April 30, 20Y3** | | | |
|  | **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** |
| **Common Stock** | **31** |  | **10,000** |
| **Retained Earnings** | **32** |  | **36,000** |
| **Dividends** | **33** | **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:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | **JOURNAL** |  | **Page** | **19** |
|  | |  |  |  |  |
| **Date** | | **Description** | **Post.**  **Ref.** | **Debit** | **Credit** |
| **20Y3** |  |  |  |  |  |
| **Apr.** | **30** | **Salary and Commission Expense** | **51** | **7,200** |  |
|  |  | **Cash** | **11** |  | **7,200** |

(c) Transposition

Prob. 2–5A

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | The Lexington Group  Unadjusted Trial Balance  May 31, 20Y6 | | |
|  |  | Debit Balances | Credit Balances |
|  | Cash | 18,750 |  |
|  | Accounts Receivable | 53,500 |  |
|  | Supplies | 2,225 |  |
|  | Prepaid Insurance | 7,400 |  |
|  | Equipment | 171,175 |  |
|  | Notes Payable |  | 45,000 |
|  | Accounts Payable |  | 36,000 |
|  | Common Stock |  | 50,000 |
|  | Retained Earnings |  | 89,150 |
|  | Dividends | **20,000** |  |
|  | Fees Earned |  | 429,850 |
|  | Wages Expense | 270,000 |  |
|  | Rent Expense | 60,300 |  |
|  | Advertising Expense | 25,200 |  |
|  | Gas, Electricity, and Water Expense | 16,350 |  |
|  | Miscellaneous Expense | 5,100 |  |
|  |  | 650,000 | 650,000 |
|  |  |  |  |

Cash = $20,350 – $7,000 (a) + $5,400 (b) = $18,750

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 | | | | | |  | Accounts Payable | | | | | |
| (a) |  | 18,000 | (b) |  | 2,500 |  | (h) |  | 1,800 | (e) |  | 6,500 |
| (g) |  | 12,000 | (c) |  | 3,150 |  |  |  |  | (j) |  | 2,500 |
|  |  |  | (d) |  | 1,450 |  |  |  |  | Bal. |  | 7,200 |
|  |  |  | (f) |  | 2,400 |  |  |  |  |  |  |  |
|  |  |  | (h) |  | 1,800 |  | Common Stock | | | | | |
|  |  |  | (i) |  | 375 |  |  |  |  | (a) |  | 18,000 |
|  |  |  | (l) |  | 2,800 |  |  |  |  |  |  |  |
|  |  |  | (m) |  | 200 |  | Professional Fees | | | | | |
|  |  |  | (n) |  | 300 |  |  |  |  | (g) |  | 12,000 |
|  |  |  | (o) |  | 550 |  |  |  |  | (k) |  | 15,650 |
| Bal. |  | 14,475 |  |  |  |  |  |  |  | Bal. |  | 27,650 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Accounts Receivable | | | | | |  | Rent Expense | | | | | |
| (k) |  | 15,650 |  |  |  |  | (c) |  | 3,150 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Supplies | | | | | |  | Salary Expense | | | | | |
| (d) |  | 1,450 |  |  |  |  | (l) |  | 2,800 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Prepaid Insurance | | | | | |  | Blueprint Expense | | | | | |
| (f) |  | 2,400 |  |  |  |  | (j) |  | 2,500 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Automobiles | | | | | |  | Automobile Expense | | | | | |
| (b) |  | 19,500 |  |  |  |  | (o) |  | 550 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Equipment | | | | | |  | Miscellaneous Expense | | | | | |
| (e) |  | 6,500 |  |  |  |  | (i) |  | 375 |  |  |  |
|  |  |  |  |  |  |  | (m) |  | 200 |  |  |  |
| Notes Payable | | | | | |  | Bal. |  | 575 |  |  |  |
| (n) |  | 300 | (b) |  | 17,000 |  |  |  |  |  |  |  |
|  |  |  | Bal. |  | 16,700 |  |  |  |  |  |  |  |

Prob. 2–1B (Concluded)

|  |  |  |  |
| --- | --- | --- | --- |
| 3. | Jones Architects  Unadjusted Trial Balance  April 30, 20Y2 | | |
|  |  | Debit Balances | Credit Balances |
|  | Cash | 14,475 |  |
|  | Accounts Receivable | 15,650 |  |
|  | Supplies | 1,450 |  |
|  | Prepaid Insurance | 2,400 |  |
|  | Automobiles | 19,500 |  |
|  | Equipment | 6,500 |  |
|  | Notes Payable |  | 16,700 |
|  | Accounts Payable |  | 7,200 |
|  | Common Stock |  | 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 |  |
|  |  | Common Stock |  | 17,500 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (b) | Supplies | 2,300 |  |
|  |  | Accounts Payable |  | 2,300 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (c) | Cash | 13,300 |  |
|  |  | Sales Commissions |  | 13,300 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (d) | Rent Expense | 3,000 |  |
|  |  | Cash |  | 3,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (e) | Accounts Payable | 1,150 |  |
|  |  | Cash |  | 1,150 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (f) | Dividends | 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 | | | |  | Sales Commissions | |
| (a) | 17,500 | (d) | 3,000 |  |  | (c)    13,300 |
| (c) | 13,300 | (e) | 1,150 |  |  |  |
|  |  | (f) | 1,800 |  | Rent Expense | |
|  |  | (g) | 1,900 |  | (d)     3,000 |  |
|  |  | (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 |  |  |  |
|  |  | |  |  |  | |
|  | Common Stock | |  |  | **Supplies Expense** | |
|  |  | (a) | 17,500 |  | (i)     1,050 |  |
|  | Dividends | |  |  | **Miscellaneous Expense** | |
| (f) | 1,800 |  |  |  | **(g)**     **450** |  |

Prob. 2–2B (Concluded)

|  |  |  |  |
| --- | --- | --- | --- |
| 3. | Planet Realty  Unadjusted Trial Balance  August 31, 20Y7 | | |
|  |  | Debit Balances | Credit Balances |
|  | Cash | 20,150 |  |
|  | Supplies | 1,250 |  |
|  | Accounts Payable |  | 1,150 |
|  | Common Stock |  | 17,500 |
|  | Dividends | 1,800 |  |
|  | Sales Commissions |  | 13,300 |
|  | Rent Expense | 3,000 |  |
|  | Office Salaries Expense | 2,800 |  |
|  | Automobile Expense | 1,500 |  |
|  | Supplies Expense | 1,050 |  |
|  | Miscellaneous Expense | 400 |  |
|  |  | 31,950 | 31,950 |
|  |  |  |  |

1. a. $13,300
2. $8,750 ($3,000 + $2,800 + $1,500 + $1,050 + $400)
3. $4,550 ($13,300 – $8,750)
4. $2,750, which is the excess of net income of $4,550 over the dividends of $1,800.

Prob. 2–3B

**1**.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | JOURNAL Page | | | 1 | |
|  | | | | | | | |
| Date | | Description | | Post.  Ref. | Debit | | Credit |
| 20Y4 |  |  | |  |  | |  |
| Oct. | **1** | Cash | | **11** | 18,000 | |  |
|  |  | Common Stock | | 31 |  | | 18,000 |
|  |  |  | |  |  | |  |
|  | 4 | Rent Expense | | 53 | 3,000 | |  |
|  |  | Cash | | **11** |  | | 3,000 |
|  |  |  | |  |  | |  |
|  | **10** | Truck | | 18 | 23,750 | |  |
|  |  | Cash | | **11** |  | | 3,750 |
|  |  | Notes Payable | | **21** |  | | **20,000** |
|  |  |  | |  |  | |  |
|  | **13** | Equipment | | 16 | 10,500 | |  |
|  |  | Accounts Payable | | **22** |  | | 10,500 |
|  |  |  | |  |  | |  |
|  | **14** | Supplies | | 13 | **2,100** | |  |
|  |  | Cash | | **11** |  | | **2,100** |
|  |  |  | |  |  | |  |
|  | **15** | Prepaid Insurance | | 14 | 3,600 | |  |
|  |  | Cash | | **11** |  | | 3,600 |
|  |  |  | |  |  | |  |
|  | **15** | Cash | | **11** | 8,950 | |  |
|  |  | Fees Earned | | 41 |  | | 8,950 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| JOURNAL Page | | | | | | | | 2 | |
|  | | | | | | | |  | |
| Date | | | Description | | Post.  Ref. | Debit | | Credit | |
| 20Y4 | |  |  | |  |  | |  | |
| 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 | | | Dividends | 33 | | 3,500 | |  | |
|  |  | | | Cash | **11** | |  | | 3,500 | |

**2**.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| GENERAL LEDGER | | | | | | | | | | |
| **Account:** | | | Cash | | | Account No. | | | **11** | |
|  | | |  | | |  | | |  | |
| Date | | Item | | Post.  Ref. | Debit | | Credit | Balance | | |
| Debit | | Credit |
| 20Y4 |  |  | |  |  | |  |  | |  |
| 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 | |
|  |  |  | |  |  | |  |  | | |
|  |  |  | | Post. |  | |  | Balance | | |
| Date | | Item | | Ref. | Debit | | Credit | Debit | | Credit |
| 20Y4 |  |  | |  |  | |  |  | |  |
| Oct. | 24 |  | | **2** | 14,150 | |  | 14,150 | |  |
|  | 29 |  | | **2** |  | | 7,600 | 6,550 | |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Prob. 2–3B (Continued) | | | | | | | | | | |
| **Account:** | | | Supplies | | | | Account No. | | | 13 |
|  | | | | | | | | | | |
|  |  |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y4 |  |  | |  |  |  | |  |  | |
| Oct. | 14 |  | | **1** | **2,100** |  | | **2,100** |  | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | | Prepaid Insurance | | | | Account No. | | 14 |
|  | | | | | | | | | |
|  |  |  | | Post. |  |  | | Balance | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit |
| 20Y4 |  |  | |  |  |  | |  |  |
| Oct. | 15 |  | | **1** | 3,600 |  | | 3,600 |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Equipment | | | | Account No. | | 16 | |
|  |  |  | |  |  |  | |  | | |
|  |  |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | | Credit |
| 20Y4 |  |  | |  |  |  | |  | |  |
| Oct. | 13 |  | | **1** | 10,500 |  | | 10,500 | |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Truck** | |  | | | Account No. | | 18 |
|  | | | | | | | | | | |
|  |  |  | | Post. | |  |  | | Balance | |
| Date | | Item | | Ref. | | Debit | Credit | | Debit | Credit |
| 20Y4 |  |  | |  | |  |  | |  |  |
| Oct. | **10** |  | | **1** | | 23,750 |  | | 23,750 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Notes Payable** | | | |  | Account No. | | 21 | |
|  |  | | | | | | | | | | |
|  |  |  | | Post. |  |  | | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | | Debit | | Credit |
| 20Y4 |  |  | |  |  |  | | |  | |  |
| Oct. | **10** |  | | **1** |  | **20,000** | | |  | | **20,000** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | | Accounts Payable | | | | | | | | | | Account No. | | | | 22 | |
|  | | | | | | | | | | | | | | | | | | | |
| Date | | | | Item | | | Post.  Ref. | | Debit | | Credit | | | | Balance | | | | |
| Debit | | | | Credit |
| 20Y4 |  | | |  | | |  | |  | |  | | | |  | | | |  |
| Oct. | 13 | | |  | | | **1** | |  | | **10**,500 | | | |  | | | | 10,500 |
|  | **21** | | |  | | | **2** | | **2,000** | |  | | | |  | | | | 8,500 |
|  | 26 | | |  | | | **2** | |  | | 700 | | | |  | | | | 9,200 |
| Prob. 2–3B (Continued) | | | | | | | | | | | | | | | | | | | |
| Account: | | | Common Stock | | | | | | | | | Account No. | | | | | 31 | | |
|  | |  | | |  |  | |  | |  | | |  | | | | | | |
|  | |  | | |  | Post. | |  | |  | | | Balance | | | | | | |
| Date | | | | | Item | Ref. | | Debit | | Credit | | | Debit | | | Credit | | | |
| 20Y4 | |  | | |  |  | |  | |  | | |  | | |  | | | |
| Oct. | | **1** | | |  | **1** | |  | | 18,000 | | |  | | | 18,000 | | | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Dividends | | | | | | | | | Account No. | | | 33 |
|  | |  | |  | | |  | |  |  | | |  | | |
|  |  | | |  | Post. |  | |  | | | Balance | | | | |
| Date | | | | Item | Ref. | Debit | | Credit | | | Debit | | | Credit | |
| 20Y4 |  | | |  |  |  | |  | | |  | | |  | |
| Oct. | 31 | | |  | **2** | 3,500 | |  | | | 3,500 | | |  | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Fees Earned** | | | | | | | | | Account No. | | | 41 |
|  | |  | |  | | | |  | |  |  | |  | | |
|  |  | | | |  | Post. |  | |  | | | Balance | | | |
| Date | | | | | Item | Ref. | Debit | | Credit | | | Debit | | Credit | |
| 20Y4 |  | | | |  |  |  | |  | | |  | |  | |
| Oct. | 15 | | | |  | **1** |  | | 8,950 | | |  | | 8,950 | |
|  | 24 | | | |  | **2** |  | | **14**,150 | | |  | | 23,100 | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Wages Expense | | | | | | | | | Account No. | | | 51 |
|  | |  | |  | | | |  | |  |  | |  | | | |
|  |  | | | |  | Post. |  | |  | | | Balance | | | |
| Date | | | | | Item | Ref. | Debit | | Credit | | | Debit | | Credit | |
| 20Y4 |  | | | |  |  |  | |  | | |  | |  | |
| Oct. | 30 | | | |  | **2** | 4,800 | |  | | | 4,800 | |  | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Rent Expense | | | | | | | | | | Account No. | | | 53 |
|  | |  | |  | | | |  | |  |  | | |  | | | |
|  |  | | | |  | Post. |  | |  | | | Balance | | | | |
| Date | | | | | Item | Ref. | Debit | | Credit | | | Debit | | | Credit | |
| 20Y4 |  | | | |  |  |  | |  | | |  | | |  | |
| Oct. | 4 | | | |  | **1** | 3,000 | |  | | | 3,000 | | |  | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Utilities Expense | | | | | | | | | | Account No. | | | 54 |
|  | |  | |  | | | |  | |  |  | | |  | | | |
|  |  | | | |  | Post. |  | |  | | | Balance | | | | |
| Date | | | | | Item | Ref. | Debit | | Credit | | | Debit | | | Credit | |
| 20Y4 |  | | | |  |  |  | |  | | |  | | |  | |
| Oct. | 27 | | | |  | **2** | 2,240 | |  | | | 2,**240** | | |  | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Prob. 2–3B (Continued) | | | | | | | | | | |
| Account: | | Truck Expense | | | | | Account No. | | | 55 |
|  |  | |  |  |  |  | |  | | |
|  |  | |  | Post. |  |  | | Balance | | |
| Date | | | Item | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y4 |  | |  |  |  |  | |  |  | |
| Oct. | **26** | |  | **2** | 700 |  | | 700 |  | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Miscellaneous Expense | | | | | | | | | Account No. | | | 59 |
|  | |  | | |  | | |  | |  |  | |  | | | |
|  |  | | |  | | Post. |  | |  | | | Balance | | | |
| Date | | | | Item | | Ref. | Debit | | Credit | | | Debit | | Credit | |
| 20Y4 |  | | |  | |  |  | |  | | |  | |  | |
| Oct. | 27 | | |  | | **2** | **1,100** | |  | | | **1,100** | |  | |

Prob. 2–3B (**Concluded)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 3. | Pioneer Designs  Unadjusted Trial Balance  October 31, 20Y4 | | | |
|  |  | 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 |
|  | Common Stock | 31 |  | 18,000 |
|  | Dividends | 33 | 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 |
|  |  |  |  |  |

1. $11,260 ($23,100 – $4,800 – $3,000 – $2,240 – $700 – $1,100)
2. 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.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JOURNAL | | | | Page | | 18 | |
|  | | | | | | | |
| Date | | Description | Post.  Ref. | | Debit | | Credit |
| 20Y8 |  |  |  | |  | |  |
| Aug. | **1** | Office Supplies | 14 | | 3,150 | |  |
|  |  | Accounts Payable | **21** | |  | | 3,150 |
|  |  |  |  | |  | |  |
|  | **2** | Rent Expense | 52 | | 7,200 | |  |
|  |  | Cash | **11** | |  | | 7,200 |
|  |  |  |  | |  | |  |
|  | 3 | Cash | **11** | | 83,900 | |  |
|  |  | Accounts Receivable | **12** | |  | | 83,900 |
|  |  |  |  | |  | |  |
|  | 5 | Prepaid Insurance | 13 | | **12,000** | |  |
|  |  | Cash | **11** | |  | | **12,000** |
|  |  |  |  | |  | |  |
|  | 9 | Accounts Payable | **21** | | 400 | |  |
|  |  | Office Supplies | 14 | |  | | 400 |
|  |  |  |  | |  | |  |
|  | 17 | Advertising Expense | 53 | | **8,000** | |  |
|  |  | Cash | **11** | |  | | **8,000** |
|  |  |  |  | |  | |  |
|  | 23 | Accounts Payable | **21** | | 13,750 | |  |
|  |  | Cash | **11** | |  | | 13,750 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JOURNAL | | | | Page | | 19 | |
|  | |  |  | |  | |  |
| Date | | Description | Post.  Ref. | | Debit | | Credit |
| 20Y8 |  |  |  | |  | |  |
| 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)** | | | | | |
|  | 31 | Accounts Receivable | **12** | 183,500 |  |
|  |  | Fees Earned | 41 |  | 183,500 |
|  |  |  |  |  |  |
|  | 31 | Land | 16 | 75,000 |  |
|  |  | Cash | **11** |  | 7,500 |
|  |  | Notes Payable | 23 |  | 67,500 |
|  |  |  |  |  |  |
|  | 31 | Dividends | 33 | **1,000** |  |
|  |  | Cash | **11** |  | **1,000** |
|  |  |  |  |  |  |
|  | 31 | Cash | **11** | 5,000 |  |
|  |  | Unearned Rent | **22** |  | 5,000 |

1. and 3.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| GENERAL LEDGER | | | | | | | | | | |
| Account: | | | **Cash** | | | Account No. | | | | 11 |
|  | |  | |  |  | |  |  | |  |
| Date | | Item | | Post.  Ref. | Debit | | Credit | Balance | | |
| Debit | Credit | |
| 20Y8 |  |  | |  |  | |  |  |  | |
| Aug. | **1** | Balance | | ✓ |  | |  | 52,500 |  | |
|  | **2** |  | | 18 |  | | 7,200 | 45,300 |  | |
|  | 3 |  | | 18 | 83,900 | |  | 129,200 |  | |
|  | 5 |  | | 18 |  | | **12,000** | 117,200 |  | |
|  | 17 |  | | 18 |  | | **8,000** | 109,200 |  | |
|  | 23 |  | | 18 |  | | 13,750 | 95,450 |  | |
|  | 29 |  | | 19 |  | | 1,700 | 93,750 |  | |
|  | 30 |  | | 19 |  | | 2,500 | 91,250 |  | |
|  | 31 |  | | 19 | **2,000** | |  | 93,250 |  | |
|  | 31 |  | | 19 |  | | 53,000 | 40,250 |  | |
|  | 31 |  | | 19 |  | | 7,500 | 32,750 |  | |
|  | 31 |  | | 19 |  | | **1,000** | 31,750 |  | |
|  | 31 |  | | 19 | 5,000 | |  | 36,750 |  | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | Accounts Receivable | | | Account No. | | | 12 |
|  | |  |  |  |  |  | | |
| Date | | Item | Post.  Ref. | Debit | Credit | Balance | | |
| Debit | Credit | |
| 20Y8 |  |  |  |  |  |  |  | |
| Aug. | **1** | Balance | ✓ |  |  | **100,100** |  | |
|  | 3 |  | 18 |  | 83,900 | 16,200 |  | |
|  | 31 |  | 19 | 183,500 |  | 199,700 |  | |

**Prob. 2–4B (Continued)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account:** | | Prepaid Insurance | | | Account No. | | 13 | |
|  |  |  |  |  |  |  | | |
|  | |  | Post. |  |  | Balance | | |
| Date | | Item | Ref. | Debit | Credit | Debit | | Credit |
| 20Y8 |  |  |  |  |  |  | |  |
| Aug. | **1** | Balance | ✓ |  |  | 12,600 | |  |
|  | 5 |  | 18 | **12,000** |  | 24,600 | |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | **Office Supplies** | | | Account No. | | 14 | |
|  | |  |  |  |  |  | | |
| Date | | Item | Post.  Ref. | Debit |  | Balance | | |
| Credit | Debit | | Credit |
| 20Y8 |  |  |  |  |  |  | |  |
| Aug. | **1** | Balance | ✓ |  |  | 2,800 | |  |
|  | **1** |  | 18 | 3,150 |  | 5,950 | |  |
|  | 9 |  | 18 |  | 400 | 5,550 | |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | Land | | | | Account No. | | 16 | |
|  |  |  |  |  |  | |  | | |
|  | |  | Post. |  |  | | Balance | | |
| Date | | Item | Ref. | Debit | Credit | | Debit | | Credit |
| 20Y8 |  |  |  |  |  | |  | |  |
| Aug. | 31 |  | 19 | 75,000 |  | | 75,000 | |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | **Accounts Payable** | | | | Account No. | | 21 | |
|  | |  |  |  |  | |  | | |
| Date | | Item | Post.  Ref. | Debit |  | | Balance | | |
| Credit | | Debit | | Credit |
| 20Y8 |  |  |  |  |  | |  | |  |
| 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** | |
|  |  |  |  |  |  | |  | | |
|  | |  | Post. |  |  | | Balance | | |
| Date | | Item | Ref. | Debit | Credit | | Debit | | Credit |
| 20Y8 |  |  |  |  |  | |  | |  |
| Aug. | 31 |  | 19 |  | 5,000 | |  | | 5,000 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | **Notes Payable** | | | | Account No. | | 23 | |
|  |  |  |  |  |  | |  | | |
|  | |  | Post. |  |  | | Balance | | |
| Date | | Item | Ref. | Debit | Credit | | Debit | | Credit |
| 20Y8 |  |  |  |  |  | |  | |  |
| Aug. | 31 |  | 19 |  | 67,500 | |  | | 67,500 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Prob. 2–4B (Continued) | | | | | | | | | |
| Account: | | | Common Stock | | | | Account No. | | 31 |
|  | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit |
| 20Y8 |  |  | |  |  |  | |  |  |
| Aug. | **1** | Balance | | ✓ |  |  | |  | 17,500 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Retained Earnings | | | | Account No. | | | 32 |
|  |  |  | |  |  |  | |  | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y8 |  |  | |  |  |  | |  |  | |
| Aug. | **1** | Balance | | ✓ |  |  | |  | 70,000 | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Dividends** | | | | Account No. | | | 33 |
|  |  |  | |  |  |  | |  | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y8 |  |  | |  |  |  | |  |  | |
| Aug. | **1** | Balance | | ✓ |  |  | | 44,800 |  | |
|  | 31 |  | | 19 | **1,000** |  | | 45,800 |  | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | **Fees Earned** | | | | | Account No. | | 41 | |
|  |  | |  |  |  |  | |  | | |
|  | | |  | Post. |  |  | | Balance | | |
| Date | | | Item | Ref. | Debit | Credit | | Debit | | Credit |
| 20Y8 |  | |  |  |  |  | |  | |  |
| 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 |
| 20Y8 |  | |  |  |  |  | |  | |  |
| Aug. | **1** | | Balance | ✓ |  |  | | 385,000 | |  |
|  | 31 | |  | 19 |  | **2,000** | | 383,000 | |  |
|  | 31 | |  | 19 | 53,000 |  | | 436,000 | |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Rent Expense** | | | | Account No. | | | 52 |
|  |  |  | |  |  |  | |  | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y8 |  |  | |  |  |  | |  |  | |
| Aug. | **1** | Balance | | ✓ |  |  | | 49,000 |  | |
|  | **2** |  | | 18 | 7,200 |  | | 56,200 |  | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Prob. 2–4B (Continued) | | | | | | | | | | |
| Account: | | | Advertising Expense | | | | Account No. | | | 53 |
|  | | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y8 |  |  | |  |  |  | |  |  | |
| Aug. | **1** | Balance | | ✓ |  |  | | 32,200 |  | |
|  | 17 |  | | 18 | **8,000** |  | | 40,200 |  | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Automobile Expense | | | | Account No. | | | 54 |
|  | | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y8 |  |  | |  |  |  | |  |  | |
| Aug. | **1** | Balance | | ✓ |  |  | | 15,750 |  | |
|  | 30 |  | | 19 | 2,500 |  | | 18,250 |  | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Miscellaneous Expense | | | | **Account No.** | | | 59 |
|  | | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y8 |  |  | |  |  |  | |  |  | |
| Aug. | **1** | Balance | | ✓ |  |  | | 5,250 |  | |
|  | 29 |  | | 19 | 1,700 |  | | 6,950 |  | |

Prob. 2–4B (Concluded)

4.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Valley Realty  Unadjusted Trial Balance  August 31, 20Y8 | | | | |
|  | Account | Debit | Credit | |
|  | No. | Balances | 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 | |
| Common Stock | 31 |  | 17,500 | |
| Retained Earnings | 32 |  | 70,000 | |
| Dividends | 33 | 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 | |
|  |  |  | |  |

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:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| JOURNAL | | | | Page | | 19 |
|  | |  |  | |  |  |
| Date | | Description | Post.  Ref. | | Debit | Credit |
| 20Y8 |  |  |  | |  |  |
| Aug. | 31 | Dividends | 33 | | 9,000 |  |
|  |  | Cash | **11** | |  | 9,000 |

(c) Slide

**Prob. 2–5B**

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | Tech Support Services  Unadjusted Trial Balance  January 31, 20Y5 | | |
|  |  | Debit | Credit |
|  |  | Balances | 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 |
|  | Common Stock |  | 18,000 |
|  | Retained Earnings |  | 89,850 |
|  | Dividends | 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 |
|  |  |  |  |

Cash = $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.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JOURNAL | | | Page | | | 1 | |
|  | |  | |  |  | |  |
| Date | | Description | | Post. Ref. | Debit | | Credit |
| 20Y5 |  |  | |  |  | |  |
| July | **1** | Cash | | **11** | 5,000 | |  |
|  |  | Common Stock | | 31 |  | | 5,000 |
|  |  |  | |  |  | |  |
|  | **1** | Office Rent Expense | | 51 | 1,750 | |  |
|  |  | Cash | | **11** |  | | 1,750 |
|  |  |  | |  |  | |  |
|  | **1** | Prepaid Insurance | | 15 | 2,700 | |  |
|  |  | Cash | | **11** |  | | 2,700 |
|  |  |  | |  |  | |  |
|  | **2** | Cash | | **11** | **1,000** | |  |
|  |  | Accounts Receivable | | **12** |  | | **1,000** |
|  |  |  | |  |  | |  |
|  | 3 | Cash | | **11** | 7,200 | |  |
|  |  | Unearned Revenue | | 23 |  | | 7,200 |
|  |  |  | |  |  | |  |
|  | 3 | Accounts Payable | | **21** | 250 | |  |
|  |  | Cash | | **11** |  | | 250 |
|  |  |  | |  |  | |  |
|  | 4 | Miscellaneous Expense | | 59 | 900 | |  |
|  |  | Cash | | **11** |  | | 900 |
|  |  |  | |  |  | |  |
|  | 5 | Office Equipment | | 17 | 7,500 | |  |
|  |  | Accounts Payable | | **21** |  | | 7,500 |
|  |  |  | |  |  | |  |
|  | **8** | Advertising Expense | | 55 | **200** | |  |
|  |  | Cash | | **11** |  | | **200** |
|  |  |  | |  |  | |  |
|  | 11 | Cash | | **11** | **1,000** | |  |
|  |  | Fees Earned | | 41 |  | | **1,000** |
|  |  |  | |  |  | |  |
|  | 13 | Equipment Rent Expense | | 52 | 700 | |  |
|  |  | Cash | | **11** |  | | 700 |
|  |  |  | |  |  | |  |
|  | 14 | Wages Expense | | 50 | **1,200** | |  |
|  |  | Cash | | **11** |  | | **1,200** |

Continuing Problem (Continued)

2. and 3.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | JOURNAL | Page | | 2 |
|  | |  |  |  |  |
| Date | | Description | Post.  Ref. | Debit | Credit |
| 20Y5 |  |  |  |  |  |
| 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 | Dividends | 33 | 1,250 |  |
|  |  | Cash | **11** |  | 1,250 |

Continuing Problem (Continued)

1. and 3.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Cash** | | | | Account No. | | | 11 |
|  | | | | | | | | | | |
| Date | | Item | | Post.  Ref. | Debit |  | | Balance | | |
| Credit | | Debit | Credit | |
| 20Y5 |  |  | |  |  |  | |  |  | |
| July | **1** | Balance | | ✓ |  |  | | 3,920 |  | |
|  | 1 |  | | **1** | 5,000 |  | | 8,920 |  | |
|  | 1 |  | | **1** |  | 1,750 | | 7,170 |  | |
|  | 1 |  | | **1** |  | 2,700 | | 4,470 |  | |
|  | 2 |  | | **1** | **1,000** |  | | 5,470 |  | |
|  | 3 |  | | **1** | 7,200 |  | | 12,670 |  | |
|  | 3 |  | | **1** |  | 250 | | 12,420 |  | |
|  | 4 |  | | **1** |  | 900 | | 11,520 |  | |
|  | 8 |  | | **1** |  | **200** | | 11,320 |  | |
|  | 11 |  | | **1** | **1,000** |  | | 12,320 |  | |
|  | 13 |  | | **1** |  | 700 | | 11,620 |  | |
|  | 14 |  | | **1** |  | **1,200** | | 10,420 |  | |
|  | 16 |  | | **2** | **2,000** |  | | 12,420 |  | |
|  | 21 |  | | **2** |  | 620 | | 11,800 |  | |
|  | 22 |  | | **2** |  | 800 | | **11,000** |  | |
|  | 23 |  | | **2** | 750 |  | | 11,750 |  | |
|  | 27 |  | | **2** |  | 915 | | 10,835 |  | |
|  | 28 |  | | **2** |  | **1,200** | | 9,635 |  | |
|  | 29 |  | | **2** |  | 540 | | 9,095 |  | |
|  | 30 |  | | **2** | 500 |  | | 9,595 |  | |
|  | 31 |  | | **2** | 3,000 |  | | 12,595 |  | |
|  | 31 |  | | **2** |  | 1,400 | | 11,195 |  | |
|  | 31 |  | | **2** |  | 1,250 | | 9,945 |  | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Accounts Receivable | | | | Account No. | | | 12 |
|  | | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y5 |  |  | |  |  |  | |  |  | |
| July | 1 | Balance | | ✓ |  |  | | **1,000** |  | |
|  | 2 |  | | **1** |  | **1,000** | | — | — | |
|  | 23 |  | | **2** | 1,750 |  | | 1,750 |  | |
|  | 30 |  | | **2** | **1,000** |  | | 2,750 |  | |

Continuing Problem (Continued)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Supplies** | | | | Account No. | | 14 | |
|  | | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | | Credit |
| 20Y5 |  |  | |  |  |  | |  | |  |
| July | 1 | Balance | | ✓ |  |  | | 170 | |  |
|  | 18 |  | | **2** | 850 |  | | **1,020** | |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Prepaid Insurance | | | | Account No. | | 15 | |
|  | | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | | Credit |
| 20Y5 |  |  | |  |  |  | |  | |  |
| July | 1 |  | | **1** | 2,700 |  | | 2,700 | |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Office Equipment | | | | Account No. | | 17 | |
|  |  | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | | Credit |
| 20Y5 |  |  | |  |  |  | |  | |  |
| July | 5 |  | | **1** | 7,500 |  | | 7,500 | |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | Accounts Payable | | | | Account No. | | 21 | |
|  | | | | | | | | | | |
| Date | | Item | | Post.  Ref. | Debit |  | | Balance | | |
| Credit | | Debit | | Credit |
| 20Y5 |  |  | |  |  |  | |  | |  |
| July | 1 | Balance | | ✓ |  |  | |  | | 250 |
|  | 3 |  | | **1** | 250 |  | | — | | — |
|  | 5 |  | | **1** |  | 7,500 | |  | | 7,500 |
|  | 18 |  | | **2** |  | 850 | |  | | 8,350 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Unearned Revenue** | | | | Account No. | | | 23 |
|  | | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y5 |  |  | |  |  |  | |  |  | |
| July | 3 |  | | **1** |  | 7,200 | |  | 7,200 | |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account: | | | **Common Stock** | | | | Account No. | | | 31 |
|  | | | | | | | | | | |
|  | |  | | Post. |  |  | | Balance | | |
| Date | | Item | | Ref. | Debit | Credit | | Debit | Credit | |
| 20Y5 |  |  | |  |  |  | |  |  | |
| July | 1 | Balance | | ✓ |  |  | |  | 4,000 | |
|  | 1 |  | | **1** |  | 5,000 | |  | 9,000 | |

Continuing Problem (Continued)

|  |  |  |  |
| --- | --- | --- | --- |
| Account: | **Dividends** | Account No. | 33 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | Post. |  |  | Balance | |
| Date | | Item | Ref. | Debit | Credit | Debit | Credit |
| 20Y5 |  |  |  |  |  |  |  |
| 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 |
| 20Y5 |  |  |  |  |  |  |  |
| 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 |
| 20Y5 |  |  |  |  |  |  |  |
| July | 1 | Balance | ✓ |  |  | 400 |  |
|  | 14 |  | 1 | 1,200 |  | 1,600 |  |
|  | 28 |  | 2 | 1,200 |  | 2,800 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: | Office Rent Expense | Account No. | 51 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | Post. |  |  | Balance | |
| Date | | Item | Ref. | Debit | Credit | Debit | Credit |
| 20Y5 |  |  |  |  |  |  |  |
| July | 1 | Balance | ✓ |  |  | 800 |  |
|  | 1 |  | 1 | 1,750 |  | 2,550 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: | Equipment Rent Expense | Account No. | 52 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | Post. |  |  | Balance | |
| Date | | Item | Ref. | Debit | Credit | Debit | Credit |
| 20Y5 |  |  |  |  |  |  |  |
| July | 1 | Balance | ✓ |  |  | 675 |  |
|  | 13 |  | 1 | 700 |  | 1,375 |  |

Continuing Problem (Continued)

|  |  |  |  |
| --- | --- | --- | --- |
| Account: | Utilities Expense | Account No. | 53 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | Post. |  |  | Balance | |
| Date | | Item | Ref. | Debit | Credit | Debit | Credit |
| 20Y5 |  |  |  |  |  |  |  |
| July | 1 | Balance | ✓ |  |  | 300 |  |
|  | 27 |  | 2 | 915 |  | 1,215 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: | **Music Expense** | Account No. | 54 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date | | Item | Post.  Ref. | Debit | Credit | Balance | |
| Debit | Credit |
| 20Y5 |  |  |  |  |  |  |  |
| 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 |
| 20Y5 |  |  |  |  |  |  |  |
| July | 1 | Balance | ✓ |  |  | 500 |  |
|  | 8 |  | 1 | 200 |  | 700 |  |
|  | 22 |  | 2 | 800 |  | 1,500 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: | Supplies Expense | Account No. | 56 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | Post. |  |  | Balance | |
| Date | | Item | Ref. | Debit | Credit | Debit | Credit |
| 20Y5 |  |  |  |  |  |  |  |
| July | 1 | Balance | ✓ |  |  | 180 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| Account: | Miscellaneous Expense | Account No. | 59 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date | | Item | Post.  Ref. | Debit | Credit | Balance | |
| Debit | Credit |
| 20Y5 |  |  |  |  |  |  |  |
| 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, 20Y5 | | | |
|  |  | Account | Debit | Credit |
|  |  | No. | Balances | 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 |
|  | Common Stock | 31 |  | 9,000 |
|  | Dividends | 33 | 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 |
|  |  |  |  |  |

MAKE A DECISION

MAD 2–1

a.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Amazon.com, Inc.  Income Statements  For the Years Ended December 31  (in millions) | | | | |
|  |  |  | Increase/(Decrease) | |
|  | Year 2 | Year 1 | Amount | Percent |
| Revenues: |  |  |  |  |
| Product sales | $ 94,665 | $ 79,268 | $ 15,397 | 19.4% |
| Service sales | 41,322 | 27,738 | 13,584 | 49.0% |
| Total revenues | $ 135,987 | $ 107,006 | $ 28,981 | 27.1% |
| Operating expenses: |  |  |  |  |
| Cost of sales | $ (88,265) | $ (71,651) | 16,614 | 23.2% |
| Fulfillment | (17,619) | (13,410) | 4,209 | 31.4% |
| Marketing | (7,233) | (5,254) | 1,979 | 37.7% |
| Technology and content | (16,085) | (12,540) | 3,545 | 28.3% |
| General and administrative | (2,432) | (1,747) | 685 | 39.2% |
| Other operating expense |  |  |  |  |
| (income), net | (167) | (171) | (4) | (2.3)% |
| Total operating expenses | $(131,801) | $(104,773) | $ 27,028 | 25.8% |
| Operating income | $ 4,186 | $ 2,233 | $ 1,953 | 87.5% |
|  |  |  |  |  |

b. The horizontal analysis shows that total revenues increased by 27.1% between the two years, with a strong increase in service sales. Service sales are revenues earned from Amazon’s Web hosting, Web design, and order fulfillment services provided for other businesses. This part of Amazon apparently has been growing rapidly. Total operating expenses have grown by 25.8% between the two years, indicating that expenses are growing slower than revenues. The expense growth appears to be occurring across all the major expense categories. The net result is a significant increase in operating income between the two years of 87.5%. Thus, Amazon demonstrates significant revenue and operating income growth from Year 1 to Year 2.

MAD 2–3

a.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Chipotle Mexican Grill, Inc.  Income Statements  For the Years Ended December 31  (in thousands) | | | | |
|  | Year 2 | Year 1 | Increase/(Decrease) | |
| Amount | Percent |
| Revenue | $ 3,904,384 | $ 4,501,223 | $(596,839) | (13.3)% |
| Expenses: |  |  |  |  |
| Food, beverage, packing | $(1,365,580) | $(1,503,835) | $(138,255) | (9.2)% |
| Labor | (1,105,001) | (1,045,726) | 59,275 | 5.7% |
| Rent (occupancy) | (293,636) | (262,412) | 31,224 | 11.9% |
| General and administrative | (641,953) | (514,963) | 126,990 | 24.7% |
| Other | (463,647) | (410,698) | 52,949 | 12.9% |
| Total expenses | $(3,869,817) | $(3,737,634) | $ 132,183 | 3.5% |
| Operating income | $ 34,567 | $ 763,589 | $(729,022) | (95.5)% |
|  |  |  |  |  |

1. Revenue decreased by 13.3% in Year 2, while total expenses increased 3.5%. Food, beverage, packing expense decreased by 9.2%, while the other expenses increased from 5.7% (labor) to 24.7% (general and administrative). As a result, operating income decreased by 95.5%, a significant decrease and unfavorable result.
2. The significant decrease in revenue and operating income in Year 2 was caused by food-borne illnesses (E. Coli) in as many as 15 states. As a result, customers avoided Chipotle’s restaurants with a related decrease in revenue. The 9.2% decrease in food, beverage, packing expense is consistent with the decrease in customers and related revenue.

**MAD 2–4**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| a. | Vera Bradley, Inc.  Income Statements  For the Years Ended January 31  (in millions) | | | | |
|  |  | Year 2 | Year 1 | Increase/(Decrease) | |
|  | Amount | Percent |
|  | Revenue | $ 502.6 | $ 509.0 | $ (6.4) | (1.3)% |
|  | Expenses: |  |  |  |  |
|  | Cost of merchandise sold | $(221.4) | $(240.0) | $(18.6) | (7.8)% |
|  | Selling, general, admin. expenses | (236.8) | (208.7) | 28.1 | 13.5% |
|  | Other expenses | (16.8) | (21.9) | (5.1) | (23.3)% |
|  | Total expenses | $(475.0) | $(470.6) | $ 4.4 | 0.9% |
|  | Operating income | $ 27.6 | $ 38.4 | $(10.8) | (28.1)% |
|  |  |  |  |  |  |

**b. Operating income decreased $10.8 million or 28.1% in Year 2. This is a significant decrease and would be viewed unfavorably by stockholders. Revenue decreased by 1.3% ($6.4 million), which was accompanied by a 7.8% ($18.6 million) decrease in cost of mechandise sold. However, selling, general, admin. expenses increased by 13.5% ($28.1 million), which was partially offset by a 23.3% ($5.1 million) decrease in other expenses.**

**MAD 2–4**

**a. 1. Revenue: $73,785** – **$72,618 = $1,167**



**2. Operating expenses: $68,875** – **$68,083 = $792**



3. Operating income: $4,910 – $4,535 = $375



**b.** **The revenue increased by 1.6% between the two years, while the operating expenses grew by 1.2%. Thus, expenses grew less than revenues. As a result, operating income increased 8.3% in Year 2.**

MAD 2–5

1. 1. Revenue: $482,130 – $485,651 = $(3,521)



1. Operating expenses: $458,025 – $458,504 = $(479)



1. Operating income: $24,105 – $27,147 = $(3,042)



1. Revenue decreased by 0.7%, while operating expenses decreased only 0.1%. As a result, operating income decreased by 11.2%, which is an unfavorable change in Year 2.

MAD 2–6

Target’s operating results improved from Year 1 to Year 2, while Wal-Mart’s operating results declined. Specifically, Target’s revenue and operating income increased by 1.6% and 8.3%. In contrast, Wal-Mart’s revenue and operating income decreased by 0.7% and 11.2%.

TAKE IT FURTHER

TIF 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.

1. The users of the financial information who rely upon this information will be affected, as the information will not be a faithful representation of the entity’s economic activity.
2. Buddy should have discussed the issue with his supervisor and asked for more time to find the error.

TIF 2–2

A sample solution based on Apple Inc.’s Form 10-K for the fiscal year ended

September 24, 2016, follows:

1. $321,686 million
2. $193,437
3. $128,249 million ($321,686 million total assets – $193,437 million total liabilities)
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.

TIF 2–3

**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 is looking 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

TIF 2–4

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.

TIF 2–5

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.

TIF 2–6

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 both (1) the rules of debit and credit and (2) the accounting equation, guarantees that (1) debits always equal credits and (2) assets always equal liabilities plus owner’s equity. If all increases in the account were recorded by debits, then the control that debits always equal credits would be removed. In addition, the control that the normal balance of assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

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

1. 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.