

## CHAPTER 2—Solutions

### ANALYZING BUSINESS TRANSACTIONS

#### Chapter 2, SE 1.

Jan.	10	Do not recognize because an order is not a complete transaction.
		There is no obligation on the part of either party at this point.
Feb.	15	Recognize the purchase. Delivery has been made; there is an obligation to pay.
Mar.	1	Recognize the payment. Cash is paid, and the obligation no longer exists.

#### Chapter 2, SE 2.

The concept of recognition is applied by recording the transaction at the recognition point on June 1 when the transaction takes place. Supplies are purchased with cash, and the buyer takes title to the supplies.

The concept of valuation is applied by recording the supplies at a cost of \$2,000.

The classification concept is applied by reducing the asset Cash and increasing the asset Supplies. Supplies are classified as an asset because they have not been used up and will benefit future operations. If they were used up immediately, they could be classified as Supplies Expense.

#### Chapter 2, SE 3.

1.	Liability	5.	Expense
2.	Asset	6.	Asset
3.	None (Stockholders' Equity)	7.	Liability
4.	Revenue	8.	Asset

#### Chapter 2, SE 4.

1.	Credit	5.	Debit
2.	Debit	6.	Debit
3.	Debit	7.	Credit
4.	Credit	8.	Debit

**Chapter 2, SE 5.**

<b>Mar.</b>	<b>2</b>	<b>Debit Cash; credit Common Stock</b>
	<b>5</b>	<b>Debit Equipment; credit Cash</b>
	<b>7</b>	<b>Debit Supplies; credit Accounts Payable</b>
	<b>19</b>	<b>Debit Cash; credit Recording Service Revenue</b>
	<b>22</b>	<b>Debit Cash; credit Unearned Recording Service Revenue</b>
	<b>25</b>	<b>Debit Rent Expense; credit Cash</b>
	<b>31</b>	<b>Debit Accounts Receivable; credit Recording Service Revenue</b>

**Chapter 2, SE 6.**

<b>Cash</b>					<b>Unearned Recording Service Revenue</b>				
<b>Mar.</b>	<b>2</b>	<b>10,000</b>	<b>Mar.</b>	<b>5</b>	<b>5,000</b>				
	<b>19</b>	<b>1,000</b>		<b>25</b>	<b>1,300</b>			<b>Mar.</b>	<b>22</b>
	<b>22</b>	<b>1,200</b>							<b>1,200</b>
		<b>12,200</b>			<b>6,300</b>	<b>Common Stock</b>			
<b>Bal.</b>		<b>5,900</b>						<b>Mar.</b>	<b>2</b>
<b>Accounts Receivable</b>					<b>Recording Service Revenue</b>				
<b>Mar.</b>	<b>31</b>	<b>500</b>						<b>Mar.</b>	<b>19</b>
									<b>31</b>
<b>Supplies</b>								<b>Bal.</b>	<b>1,500</b>
<b>Mar.</b>	<b>7</b>	<b>600</b>				<b>Rent Expense</b>			
<b>Equipment</b>					<b>Mar.</b>	<b>25</b>	<b>1,300</b>		
<b>Mar.</b>	<b>5</b>	<b>5,000</b>							
<b>Accounts Payable</b>									
			<b>Mar.</b>	<b>7</b>	<b>600</b>				

**Chapter 2, SE 7.****Smile's Recordings, Inc.****Trial Balance****March 31, 2011**

<b>Cash</b>	<b>\$ 5,900</b>	
<b>Accounts Receivable</b>	<b>500</b>	
<b>Supplies</b>	<b>600</b>	
<b>Equipment</b>	<b>5,000</b>	
<b>Accounts Payable</b>		<b>\$ 600</b>
<b>Unearned Recording Service Revenue</b>		<b>1,200</b>
<b>Common Stock</b>		<b>10,000</b>
<b>Recording Service Revenue</b>		<b>1,500</b>
<b>Rent Expense</b>	<b><u>1,300</u></b>	
	<b><u>\$13,300</u></b>	<b><u>\$13,300</u></b>

**Chapter 2, SE 8.**

<b>May</b>	<b>2</b>	<b>Debit Cash; credit Common Stock</b>
	<b>5</b>	<b>Debit Office Equipment; credit Cash</b>
	<b>7</b>	<b>Debit Supplies; credit Accounts Payable</b>
	<b>19</b>	<b>Debit Cash; credit Programming Service Revenue</b>
	<b>22</b>	<b>Debit Cash; credit Unearned Programming Service Revenue</b>
	<b>25</b>	<b>Debit Rent Expense; credit Cash</b>
	<b>31</b>	<b>Debit Accounts Receivable; credit Programming Service Revenue</b>

**Chapter 2, SE 9.**

<b>Cash</b>						<b>Unearned Programming Service Revenue</b>					
<b>May</b>	<b>2</b>	<b>5,000</b>	<b>May</b>	<b>5</b>	<b>2,500</b>			<b>May</b>	<b>22</b>	<b>600</b>	
	<b>19</b>	<b>500</b>		<b>25</b>	<b>650</b>						
	<b>22</b>	<b>600</b>									
		<b>6,100</b>			<b>3,150</b>						
<b>Bal.</b>		<b>2,950</b>									
<b>Accounts Receivable</b>						<b>Common Stock</b>					
<b>May</b>	<b>31</b>	<b>250</b>						<b>May</b>	<b>2</b>	<b>5,000</b>	
<b>Supplies</b>						<b>Programming Service Revenue</b>					
<b>May</b>	<b>7</b>	<b>300</b>						<b>May</b>	<b>19</b>	<b>500</b>	
									<b>31</b>	<b>250</b>	
								<b>Bal.</b>		<b>750</b>	
<b>Office Equipment</b>						<b>Rent Expense</b>					
<b>May</b>	<b>5</b>	<b>2,500</b>				<b>May</b>	<b>25</b>	<b>650</b>			
<b>Accounts Payable</b>											
			<b>May</b>	<b>7</b>	<b>300</b>						

**Chapter 2, SE 10.****Bear's Programming Service, Inc.****Trial Balance****May 31, 2011**

<b>Cash</b>	<b>\$2,950</b>	
<b>Accounts Receivable</b>	<b>250</b>	
<b>Supplies</b>	<b>300</b>	
<b>Office Equipment</b>	<b>2,500</b>	
<b>Accounts Payable</b>		<b>\$ 300</b>
<b>Unearned Programming Service Revenue</b>		<b>600</b>
<b>Common Stock</b>		<b>5,000</b>
<b>Programming Service Revenue</b>		<b>750</b>
<b>Rent Expense</b>	<b><u>650</u></b>	
	<b><u>\$6,650</u></b>	<b><u>\$6,650</u></b>

General Journal					Page 4
Date		Description	Post. Ref.	Debit	Credit
Sept.	6	Accounts Receivable		3,800	
		Service Revenue			3,800
		Billed customer for services			
		performed			
	16	Cash		1,800	
		Accounts Receivable			1,800
		Recorded receipt of partial			
		payment on account billed			
		September 6			

## Chapter 2, SE 12.

Cash					Account No. 111	
		Post.			Balance	
Date	Item	Ref.	Debit	Credit	Debit	Credit
Sept. 16		J4	1,800		1,800	

Accounts Receivable					Account No. 113	
		Post.			Balance	
Date	Item	Ref.	Debit	Credit	Debit	Credit
Sept. 6		J4	3,800		3,800	
16		J4		1,800	2,000	

Service Revenue					Account No. 411	
		Post.			Balance	
Date	Item	Ref.	Debit	Credit	Debit	Credit
Sept. 6		J4		3,800		3,800

**Note:** At this point, the account numbers would also be posted to the accounts in the general journal in SE 11.

Trial Balance		
September 16		
Cash	\$1,800	
Accounts Receivable	2,000	
Service Revenue		<u>\$3,800</u>
	<u>\$3,800</u>	<u>\$3,800</u>

**Chapter 2, SE 13.**

<b>General Journal</b>					
<b>Date</b>		<b>Description</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Mar.</b>	<b>2</b>	<b>Cash</b>		<b>10,000</b>	
		<b>Common Stock</b>			<b>10,000</b>
		<b>Issued common stock</b>			
	<b>5</b>	<b>Equipment</b>		<b>5,000</b>	
		<b>Cash</b>			<b>5,000</b>
		<b>Purchased equipment for cash</b>			
	<b>7</b>	<b>Supplies</b>		<b>600</b>	
		<b>Accounts Payable</b>			<b>600</b>
		<b>Purchased supplies on account</b>			
	<b>19</b>	<b>Cash</b>		<b>1,000</b>	
		<b>Recording Service Revenue</b>			<b>1,000</b>
		<b>Performed recording services</b>			
		<b>for cash</b>			
	<b>22</b>	<b>Cash</b>		<b>1,200</b>	
		<b>Unearned Recording Service</b>			
		<b>Revenue</b>			<b>1,200</b>
		<b>Received payment for recording</b>			
		<b>services to be performed</b>			
	<b>25</b>	<b>Rent Expense</b>		<b>1,300</b>	
		<b>Cash</b>			<b>1,300</b>
		<b>Paid the rent for March</b>			
	<b>31</b>	<b>Accounts Receivable</b>		<b>500</b>	
		<b>Recording Service Revenue</b>			<b>500</b>
		<b>Billed a customer for services</b>			
		<b>performed</b>			



**Chapter 2, SE 14.**

	Cash				
	Jan. 2	1,200	Jan. 4	700	

The transactions of January 2 and 4 have an immediate impact on cash, whereas the transactions of January 8 and 9 will not impact cash until later, when the cash is received or paid.

Chapter 2, SE 15.													
Financial ratio calculated													
Asset Turnover						=	Revenues						
							Average Total Assets						
\$29,700						=	\$29,700		=	1.1	times		
(	\$28,000	+	\$26,000	)	÷		2	\$27,000					

**Chapter 2, E 1.**

- |    |  |
|----|--|
| 1. | No issue is more important than another. Each must be resolved satisfactorily for a transaction to be recorded correctly.  |
| 2. | The most common violation of the recognition concept is when a revenue is recognized before the earnings process is complete. For instance, the recording of an order as revenue before the service is performed or the product is delivered to the customer would overstate revenues.   |
| 3. | Assets and expenses are closely related because many assets are expenses that have not yet been used. Examples are prepaid assets and plant and equipment. As a result, debits <i>increase</i> assets and expenses, and credits <i>decrease</i> assets and expenses. They appear on opposite sides of the accounting equation. |
| 4. | With unearned revenues (a liability), cash is <i>received</i> in advance for a service to be performed later. With prepaid expenses (an asset), cash is <i>paid</i> in advance of receiving a service.   |

**Chapter 2, E 2.**

- |    |   |
|----|---|
| 1. | Retained Earnings is the most likely account to have an abnormal balance (debit) because of situations in which expenses exceed revenues (net loss). It is unusual for any other account to have an abnormal balance.   |
| 2. | All equipment needs normal repairs. These are considered an ongoing cost of business and thus are expenses. However, it may be argued that if the repair is major, such as a major overhaul that is done every five years, the expenditure would benefit future years and thus could be recorded as an asset. |
| 3. | To maintain liquidity, it can issue stock, sell long-term investments (e.g., unused equipment), or take out a loan.   |
| 4. | A retail company selling advertising products would have the following asset account: Merchandise Inventory.  |

**Chapter 2, E 3.**

<b>Jan.</b>	<b>15</b>	<b>Not recorded. An offer is not a completed transaction.</b>
<b>Feb.</b>	<b>2</b>	<b>Not recorded. Notice of a price increase is not a transaction.</b>
<b>Mar.</b>	<b>29</b>	<b>Recorded. The utilities expense has been incurred, and the liability for payment exists.</b>
<b>June</b>	<b>10</b>	<b>Not recorded. An order does not constitute a recognition point.</b>
<b>July</b>	<b>6</b>	<b>Recorded. Villa Corporation now owns the office equipment, and a liability to pay exists.</b>

**Chapter 2, E 4.**

**1. Purchases recognized on date shipped**

<b>Order</b>	<b>Date Shipped</b>		<b>Date Received</b>		<b>Amount</b>
<b>b</b>	<b>July</b>	<b>10</b>	<b>July</b>	<b>15</b>	<b>\$1,500</b>
<b>c</b>		<b>16</b>		<b>22</b>	<b>900</b>
<b>d</b>		<b>23</b>		<b>30</b>	<b>1,200</b>
<b>e</b>		<b>27</b>	<b>Aug.</b>	<b>1</b>	<b><u>1,400</u></b>
<b>Total July purchases</b>					<b><u>\$5,000</u></b>

**2. Purchases recognized on date received**

<b>Order</b>	<b>Date Shipped</b>		<b>Date Received</b>		<b>Amount</b>
<b>a</b>	<b>June</b>	<b>26</b>	<b>July</b>	<b>5</b>	<b>\$ 600</b>
<b>b</b>	<b>July</b>	<b>10</b>		<b>15</b>	<b>1,500</b>
<b>c</b>		<b>16</b>		<b>22</b>	<b>900</b>
<b>d</b>		<b>23</b>		<b>30</b>	<b><u>1,200</u></b>
<b>Total July purchases</b>					<b><u>\$4,200</u></b>

Chapter 2, E 5.											
			+	Stockholders' Equity							
Assets	=	Liabilities		Common Stock	+	Retained Earnings	-	Dividends	+	Revenues	- Expenses
Cash		Accounts Payable		Common Stock		Retained Earnings		Dividends		Service Revenue	Rent Expense
1,725		600		900		300		375		750	450
\$1,725	=	\$ 600	+	\$1,125							
\$1,725	=	\$1,725									

**Chapter 2, E 6.**

	Type of Account						Normal Balance (increases balance)	
			Stockholders' Equity					
				Retained Earnings				
				Common				
Item	Asset	Liability	Stock	Dividends	Revenue	Expense	Debit	Credit
a.	x						x	
b.						x	x	
c.	x						x	
d.			x					x
e.					x			x
f.	x						x	
g.		x						x
h.	x						x	
i.		x						x
j.						x	x	
k.	x						x	
l.						x	x	
m.	x						x	
n.						x	x	
o.					x			x
p.				x			x	
q.		x						x
r.		x						x
s.	x						x	
t.		x						x
u.	x						x	
v.						x	x	
w.		x						x
x.	x						x	
y.	x						x	
z.						x	x	

**Chapter 2, E 7.**

- |    |   |
|----|---|
| a. | The asset account Cash was increased. Increases in assets are recorded by debits. Debit Cash \$5,000. A component of stockholders' equity, Common Stock, was increased. Increases in stockholders' equity are recorded by credits. Credit Common Stock \$5,000. |
| b. | The asset Prepaid Rent was increased. Increases in assets are recorded by debits. Debit Prepaid Rent \$3,360. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$3,360.   |
| c. | The asset Supplies was increased. Increases in assets are recorded by debits. Debit Supplies \$240. The liability Accounts Payable was increased. Increases in liabilities are recorded by credits. Credit Accounts Payable \$240.                              |
| d. | The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash \$1,400. Stockholders' equity was increased by the fees earned. Increases in stockholders' equity are recorded by credits. Credit Hair Cutting Fees Earned \$1,400.        |
| e. | The liability Accounts Payable was decreased. Decreases in liabilities are recorded by debits. Debit Accounts Payable \$240. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$240.                                      |
| f. | The stockholders' equity was decreased by the utilities expense. Decreases in stockholders' equity are recorded by debits. Debit Utilities Expense \$144. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$144.         |
| g. | The stockholders' equity was decreased when dividends were paid to stockholders. Decreases in stockholders' equity are recorded by debits. Debit Dividends \$200. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$200. |

**Chapter 2, E 8.**

		<b>Debit</b>	<b>Credit</b>
<b>a.</b>	<b>Paid for supplies purchased on credit last month.</b>	<b>5</b>	<b>1</b>
<b>b.</b>	<b>Received cash from customers billed last month.</b>	<b>1</b>	<b>2</b>
<b>c.</b>	<b>Made a payment on accounts payable.</b>	<b>5</b>	<b>1</b>
<b>d.</b>	<b>Purchased supplies on credit.</b>	<b>3</b>	<b>5</b>
<b>e.</b>	<b>Billed a client for lawn services.</b>	<b>2</b>	<b>6</b>
<b>f.</b>	<b>Made a rent payment for the current month.</b>	<b>8</b>	<b>1</b>
<b>g.</b>	<b>Received cash from customers for current lawn services.</b>	<b>1</b>	<b>6</b>
<b>h.</b>	<b>Paid employee wages.</b>	<b>7</b>	<b>1</b>
<b>i.</b>	<b>Ordered equipment.</b>	<b>No entry</b>	
<b>j.</b>	<b>Received and paid for the equipment ordered in <i>i</i>.</b>	<b>4</b>	<b>1</b>



Chapter 2, E 9.

Cash				Accounts Payable			
a.	8,600	b.	1,600	f.	800	c.	2,200
g.	7,440	d.	1,200			Bal.	1,400
		e.	1,800	Common Stock			
		f.	800			a.	11,800
		h.	2,000	Dividends			
	16,040		7,400	h.	2,000		
Bal.	8,640			Repair Fees Earned			
Repair Supplies						g.	7,440
c.	2,200			Salaries Expense			
Repair Equipment				e.	1,800		
a.	3,200			Rent Expense			
d.	1,200			b.	1,600		
Bal.	4,400						

**Chapter 2, E 10.**

<b>Change Repair Service, Inc.</b>		
<b>Trial Balance</b>		
<b>June 30, 2011</b>		
<b>Cash</b>	<b>\$ 8,640</b>	
<b>Repair Supplies</b>	<b>2,200</b>	
<b>Repair Equipment</b>	<b>4,400</b>	
<b>Accounts Payable</b>		<b>\$ 1,400</b>
<b>Common Stock</b>		<b>11,800</b>
<b>Dividends</b>	<b>2,000</b>	
<b>Repair Fees Earned</b>		<b>7,440</b>
<b>Salaries Expense</b>	<b>1,800</b>	
<b>Rent Expense</b>	<b><u>1,600</u></b>	
	<b><u>\$20,640</u></b>	<b><u>\$20,640</u></b>

**Chapter 2, E 11.**

<b>a.</b>	<b>Issued common stock for cash, \$40,000.</b>
<b>b.</b>	<b>Purchased equipment with cash, \$15,000.</b>
<b>c.</b>	<b>Billed customer for services rendered, \$8,000.</b>
<b>d.</b>	<b>Purchased equipment on account, \$9,000.</b>
<b>e.</b>	<b>Paid wages with cash, \$3,600.</b>
<b>f.</b>	<b>Paid cash on account owed, \$4,500.</b>
<b>g.</b>	<b>Received cash on account, \$1,500.</b>
<b>h.</b>	<b>Sold equipment (at cost) for cash, \$900.</b>

**Chapter 2, E 12.**

Chapla Corporation									
Trial Balance									
March 31, 2011									
Cash					\$10,800				
Accounts Receivable					5,600				
Prepaid Insurance					1,320				
Land					6,240				
Building					40,800				
Equipment					14,400				
Notes Payable							\$20,000		
Accounts Payable							21,420	*	
Common Stock							24,000		
Retained Earnings							13,740		
					<u>\$79,160</u>		<u>\$79,160</u>		
*	\$79,160	– (	\$20,000	+	\$24,000	+	\$13,740	) =	\$21,420

**Chapter 2, E 13.**

a.	Unequal totals. The total debits would be \$27 more than the total credits.
b.	Equal balance. However, both Accounts Receivable (an asset account) and Accounts Payable (a liability account) would be overstated by \$150.
c.	Equal balance. However, both accounts would be incorrect. Cash would be overstated by \$378, and Office Supplies would be understated by \$378.
d.	Equal balance. However, an error has been made by debiting the wrong asset. Therefore, Supplies would be overstated by \$450, and Equipment would be understated by \$450.

**Chapter 2, E 14.**

<b>Kilda Services, Inc.</b>		
<b>Trial Balance</b>		
<b>July 31, 2011</b>		
<b>Cash</b>	<b>\$ 8,120</b>	
<b>Accounts Receivable</b>	<b>11,560</b>	
<b>Supplies</b>	<b>480</b>	
<b>Prepaid Insurance</b>	<b>720</b>	
<b>Equipment</b>	<b>14,800</b>	
<b>Notes Payable</b>		<b>\$ 4,800</b>
<b>Accounts Payable</b>		<b>7,720</b>
<b>Common Stock</b>		<b>6,000</b>
<b>Retained Earnings</b>		<b>15,120</b>
<b>Dividends</b>	<b>2,200</b>	
<b>Revenues</b>		<b>11,840</b>
<b>Salaries Expense</b>	<b>5,200</b>	
<b>Rent Expense</b>	<b>1,200</b>	
<b>Advertising Expense</b>	<b>680</b>	
<b>Utilities Expense</b>	<b><u>520</u></b>	
	<b><u>\$45,480</u></b>	<b><u>\$45,480</u></b>

# Chapter 2, E 15.

Revenues from Services		Cash Sale	Cash		Cash Purchase	Expenses		
	1,500	→	1,500	1,100	→	1,100		
	1,800		1,200	700		1,300		
	3,300		2,700	1,800		2,400		
			900					
Credit Sale		→	Collection on Account		→	Credit Purchase		
		→			→	Accounts Payable		
						700	1,300	
							600	

The cash balance after these transactions is \$900. The amount still to be received (the balance of Accounts Receivable) is \$600. The amount still to be paid (the balance of Accounts Payable) is \$600.

**Chapter 2, E 16.**

General Journal					
Date	Description	Post. Ref.	Debit	Credit	
a.	Cash		8,600		
	Repair Equipment		3,200		
	Common Stock			11,800	
	Issue common stock for cash and repair equipment				
b.	Rent Expense		1,600		
	Cash			1,600	
	Paid current month's rent				
c.	Repair Supplies		2,200		
	Accounts Payable			2,200	
	Purchased repair supplies on credit				
d.	Repair Equipment		1,200		
	Cash			1,200	
	Purchased additional repair equipment for cash				
e.	Salaries Expense		1,800		
	Cash			1,800	
	Paid salary to a helper				
f.	Accounts Payable		800		
	Cash			800	
	Paid \$800 of the amount purchased on credit in transaction c				
g.	Cash		7,440		
	Repair Fees Earned			7,440	
	Accepted cash for repairs completed				
h.	Dividends		2,000		
	Cash			2,000	
	Declared and paid a dividend				

**Chapter 2, E 17.**

<b>May</b>	<b>1</b>	<b>Merchandise Inventory</b>	<b>2,400</b>	
		<b>Accounts Payable</b>		<b>2,400</b>
		<b>Purchased merchandise inventory on</b>		
		<b>account</b>		

**The answer given here assumes the perpetual inventory method because it is most intuitive at this point in the course. The purpose of this exercise is to focus on analytical thinking.**

	<b>2</b>	<b>Marketable Securities</b>	<b>6,000</b>	
		<b>Cash</b>		<b>6,000</b>
		<b>Purchased marketable securities</b>		
	<b>3</b>	<b>Accounts Payable</b>	<b>500</b>	
		<b>Merchandise Inventory</b>		<b>500</b>
		<b>Returned part of merchandise</b>		
		<b>inventory for full credit</b>		
	<b>4</b>	<b>Accounts Receivable</b>	<b>1,600</b>	
		<b>Sales</b>		<b>1,600</b>
		<b>Sold merchandise inventory</b>		

**(Note to the instructor: A full discussion might be held at this point on what should be done to the Merchandise Inventory account.)**

	<b>5</b>	<b>Land</b>	<b>200,000</b>	
		<b>Building</b>	<b>400,000</b>	
		<b>Cash</b>		<b>120,000</b>
		<b>Mortgage Payable</b>		<b>480,000</b>
		<b>Purchased land and building with</b>		
		<b>partial payment in cash</b>		
	<b>6</b>	<b>Cash</b>	<b>7,000</b>	
		<b>Advance Deposit or Unearned Revenue</b>		<b>7,000</b>
		<b>Recorded deposit on services of</b>		
		<b>\$24,000 to be provided</b>		

Chapter 2, E 18.

General Journal						Page 10	
Date		Description	Post. Ref.	Debit	Credit		
Dec.	14	Equipment	144	12,000			
		Cash	111		4,000		
		Accounts Payable	212		8,000		
		Purchased equipment; paid one-third in cash					
	28	Accounts Payable	212	6,000			
		Cash	111		6,000		
		Paid for part of equipment purchased on credit					

  

General Ledger							
Cash						Account No. 111	
						Balance	
Date	Item	Post. Ref.	Debit	Credit		Debit	Credit
Dec.	13	Balance	✓			16,000	
	14		J10	4,000		12,000	
	28		J10	6,000		6,000	

  

Equipment						Account No. 144	
						Balance	
Date	Item	Post. Ref.	Debit	Credit		Debit	Credit
Dec.	14		J10	12,000		12,000	

  

Accounts Payable						Account No. 212	
						Balance	
Date	Item	Post. Ref.	Debit	Credit		Debit	Credit
Dec.	14		J10	8,000			8,000
	28		J10	6,000			2,000



**Chapter 2, E 19.**

**Financial ratio calculated**

<b>Asset Turnover</b>		=	<b>Revenue</b>		<b>Average Total Assets</b>	
<b>2012</b>		=	<b>\$88,000</b>		<b>( \$102,000 + \$80,000 ) ÷ 2</b>	
		=	<b>\$88,000</b>	=	<b>1.0</b>	<b>times</b>
<b>2011</b>		=	<b>\$80,000</b>		<b>( \$80,000 + \$72,000 ) ÷ 2</b>	
		=	<b>\$80,000</b>	=	<b>1.1</b>	<b>times</b>

**By this measure, the profitability has decreased by 0.1. It is important to use average total assets to make the components of the formula consistent.**

Stockholders' Equity																			
Assets		=	Liabilities		+	Common Stock		+	Retained Earnings		-	Dividends		+	Revenues		-	Expenses	
Cash			Accounts Payable			Common Stock			Retained Earnings			Dividends			Revenue Earned			Rent Expense	
6,880			1,950			15,000			5,000			3,900			8,700			3,600	
Accounts Receivable			Notes Payable															Utilities Expense	
5,060			10,000															210	
Supplies																		Wages Expense	
3,250																		4,400	
Equipment																			
13,350																			
Accounting equation without Cash:																			
Cash		+	\$21,660		=	\$28,540													
		Cash		=	\$ 6,880														
Accounting equation in balance:																			
\$28,540		=	\$11,950		+	\$16,590													
\$28,540		=	\$28,540																

**Chapter 2, P 2.**

		<b>Debit</b>	<b>Credit</b>
a.	Paid for supplies purchased on credit last month.	7	1
b.	Billed customers for services performed.	2	11
c.	Paid the current month's rent.	12	1
d.	Purchased supplies on credit.	3	7
e.	Received cash from customers for services performed but not yet billed.	1	11
f.	Purchased equipment on account.	5	7
g.	Received a bill for repairs.	13	7
h.	Returned part of the equipment purchased in <i>f</i> for a credit.	7	5
i.	Received payments from customers previously billed.	1	2
j.	Paid the bill received in <i>g</i> .	7	1
k.	Received an order for services to be performed.	No entry	
l.	Paid for repairs with cash.	13	1
m.	Made a payment to reduce the principal of the note payable.	6	1
n.	Declared and paid a dividend.	10	1

Chapter 2, P 3.

1. T accounts set up
2. Transactions recorded in the accounts

Cash				Accounts Receivable				Supplies			
a.	11,400	b.	520	f.	4,080	j.	2,760	e.	660		
j.	2,760	c.	380		4,080		2,760				
		h.	660	Bal.	1,320						
		i.	80								
		k.	180								
		l.	880								
		m.	600								
	14,160		3,300								
Bal.	10,860										
Computers				Office Equipment				Accounts Payable			
a.	10,000			a.	7,200			h.	660	e.	660
g.	960			g.	760					g.	1,720
Bal.	10,960			Bal.	7,960				660		2,380
										Bal.	1,720
Common Stock				Dividends				Tuition Revenue			
		a.	28,600	m.	600					f.	4,080
Salaries Expense				Utilities Expense				Rent Expense			
l.	880			k.	180			b.	520		
Repair Expense				Advertising Expense							
i.	80			c.	380						
d.	No entry										

**Chapter 2, P 3. (Continued)****3. Trial balance prepared**

<b>Best Secretarial Training, Inc.</b>		
<b>Trial Balance</b>		
<b>(Today's Date)</b>		
<b>Cash</b>	<b>\$10,860</b>	
<b>Accounts Receivable</b>	<b>1,320</b>	
<b>Supplies</b>	<b>660</b>	
<b>Computers</b>	<b>10,960</b>	
<b>Office Equipment</b>	<b>7,960</b>	
<b>Accounts Payable</b>		<b>\$ 1,720</b>
<b>Common Stock</b>		<b>28,600</b>
<b>Dividends</b>	<b>600</b>	
<b>Tuition Revenue</b>		<b>4,080</b>
<b>Salaries Expense</b>	<b>880</b>	
<b>Rent Expense</b>	<b>520</b>	
<b>Advertising Expense</b>	<b>380</b>	
<b>Utilities Expense</b>	<b>180</b>	
<b>Repair Expense</b>	<b>80</b>	
	<b><u>\$34,400</u></b>	<b><u>\$34,400</u></b>

**4. User Insight: Transactions *f* and *j* examined**

The revenues were \$4,080, and only \$2,760 of cash was received from those revenues. The company accepts credit sales to accommodate its students and encourage them to enroll. The company must consider the possibility that it will not receive the cash until later and that some students will not be able to pay.

# Chapter 2, P 4.

1. T accounts set up
2. Transactions recorded in the accounts

Cash						Accounts Receivable					
Oct.	1	12,000	Oct.	3	2,800	Oct.	21	1,340	Oct.	27	600
	12	960		4	1,200	Bal.		740			
	27	600		9	80						
				17	500						
				24	80						
				31	700						
		13,560			5,360						
Bal.		8,200									
Cleaning Supplies						Prepaid Lease					
Oct.	7	1,000				Oct.	4	1,200			
Cleaning Equipment						Accounts Payable					
Oct.	3	2,800				Oct.	17	500	Oct.	7	1,000
									Bal.		500
Common Stock						Dividends					
			Oct.	1	12,000	Oct.	31	700			
Cleaning Revenue						Repair Expense					
			Oct.	12	960	Oct.	9	80			
				21	1,340		24	80			
			Bal.		2,300	Bal.		160			
Oct.	2	No entry									

**Chapter 2, P 4. (Continued)****3. Trial balance prepared**

<b>Mori Upholstery Cleaning, Inc.</b>		
<b>Trial Balance</b>		
<b>October 31, 2011</b>		
<b>Cash</b>	<b>\$ 8,200</b>	
<b>Accounts Receivable</b>	<b>740</b>	
<b>Cleaning Supplies</b>	<b>1,000</b>	
<b>Prepaid Lease</b>	<b>1,200</b>	
<b>Cleaning Equipment</b>	<b>2,800</b>	
<b>Accounts Payable</b>		<b>\$ 500</b>
<b>Common Stock</b>		<b>12,000</b>
<b>Dividends</b>	<b>700</b>	
<b>Cleaning Revenue</b>		<b>2,300</b>
<b>Repair Expense</b>	<b><u>160</u></b>	<b><u>          </u></b>
	<b><u>\$14,800</u></b>	<b><u>\$14,800</u></b>

<b>Chapter 2, P 4. (Continued)</b>	
<b>4.</b>	<b>User Insight: Accounting issues discussed</b>
<p>October 7 and 9 are the recognition points for these transactions. October 7 is the recognition point for the purchase of supplies rather than October 2, when the supplies were ordered, because it is on October 7 when title to the supplies passes and there is an obligation to pay. October 9 is the recognition point for the repairs because this is when the repairs are done and there is an obligation to pay for them.</p>	
<p>Both transactions are recorded at cost, the amount that the company is obligated to pay.</p>	
<p>The supplies purchased on October 7 are classified as an asset, Supplies, because the supplies are not used immediately but will be used up in the future. On the other hand, the purchase of repairs is classified as stockholders' equity, Repair Expense, because they are necessary now in the current period for the van to continue running. Also, the purchase of supplies is classified as Accounts Payable, a liability, because the supplies are to be paid for in the future. Conversely, the purchase of repairs is classified as Cash, an asset, because the repairs are paid for on the day of purchase.</p>	



**Chapter 2, P 5.**

**3. Transactions entered in the general journal  
(Requirements 1, 2, 4, and 5 follow)**

General Journal				Page 17
Date	Description	Post. Ref.	Debit	Credit
2011				
Feb. 2	Rent Expense	511	270	
	Cash	111		270
	Paid February rent			
	3 Cash	111	650	
	Service Revenue	411		650
	Recorded receipt of fees for this month's services			
	4 Supplies	115	85	
	Accounts Payable	212		85
	Purchased supplies on account			
	5 Gas and Oil Expense	512	40	
	Cash	111		40
	Reimbursed bus driver for gas			
	6 No entry			
	8 Accounts Payable	212	170	
	Cash	111		170
	Made payment to creditors			
	9 Cash	111	1,200	
	Accounts Receivable	113		1,200
	Recorded receipt of payments on account			
	10 Accounts Receivable	113	700	
	Service Revenue	411		700
	Billed customers for services			

**Chapter 2, P 5. (Continued)**

General Journal					Page 18
Date	Description	Post. Ref.	Debit	Credit	
<b>2011</b>					
<b>Feb. 11</b>	<b>Accounts Payable</b>	<b>212</b>	<b>85</b>		
	<b>Cash</b>	<b>111</b>		<b>85</b>	
	<b>Made payment to creditors</b>				
	<b>13 Equipment</b>	<b>141</b>	<b>1,000</b>		
	<b>Cash</b>	<b>111</b>		<b>1,000</b>	
	<b>Purchased equipment for cash</b>				
	<b>17 Equipment</b>	<b>141</b>	<b>290</b>		
	<b>Accounts Payable</b>	<b>212</b>		<b>290</b>	
	<b>Purchased equipment on</b>				
	<b>account</b>				
	<b>19 Utilities Expense</b>	<b>514</b>	<b>145</b>		
	<b>Cash</b>	<b>111</b>		<b>145</b>	
	<b>Paid this month's utility bill</b>				
	<b>22 Cash</b>	<b>111</b>	<b>500</b>		
	<b>Accounts Receivable</b>	<b>113</b>		<b>500</b>	
	<b>Recorded receipt of payment on</b>				
	<b>account from customers</b>				
	<b>26 Wages Expense</b>	<b>513</b>	<b>460</b>		
	<b>Cash</b>	<b>111</b>		<b>460</b>	
	<b>Paid part-time assistants</b>				
	<b>27 Gas and Oil Expense</b>	<b>512</b>	<b>325</b>		
	<b>Accounts Payable</b>	<b>212</b>		<b>325</b>	
	<b>Purchased gas and oil for bus</b>				
	<b>on account</b>				
	<b>28 Dividends</b>	<b>313</b>	<b>110</b>		
	<b>Cash</b>	<b>111</b>		<b>110</b>	
	<b>Declared and paid dividend</b>				

**Chapter 2, P 5. (Continued)**

1. **Ledger accounts set up**
2. **Amounts from January 31 trial balance entered**
4. **Entries from journal posted to ledger accounts**

<b>Cash</b>					<b>Account No. 111</b>	
		<b>Post.</b>			<b>Balance</b>	
<b>Date</b>	<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>						
<b>Jan. 31</b>	<b>Balance</b>				<b>1,870</b>	
<b>Feb. 2</b>		<b>J17</b>		<b>270</b>	<b>1,600</b>	
	<b>3</b>	<b>J17</b>	<b>650</b>		<b>2,250</b>	
	<b>5</b>	<b>J17</b>		<b>40</b>	<b>2,210</b>	
	<b>8</b>	<b>J17</b>		<b>170</b>	<b>2,040</b>	
	<b>9</b>	<b>J17</b>	<b>1,200</b>		<b>3,240</b>	
	<b>11</b>	<b>J18</b>		<b>85</b>	<b>3,155</b>	
	<b>13</b>	<b>J18</b>		<b>1,000</b>	<b>2,155</b>	
	<b>19</b>	<b>J18</b>		<b>145</b>	<b>2,010</b>	
	<b>22</b>	<b>J18</b>	<b>500</b>		<b>2,510</b>	
	<b>26</b>	<b>J18</b>		<b>460</b>	<b>2,050</b>	
	<b>28</b>	<b>J18</b>		<b>110</b>	<b>1,940</b>	

<b>Accounts Receivable</b>					<b>Account No. 113</b>	
		<b>Post.</b>			<b>Balance</b>	
<b>Date</b>	<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>						
<b>Jan. 31</b>	<b>Balance</b>				<b>1,700</b>	
<b>Feb. 9</b>		<b>J17</b>		<b>1,200</b>	<b>500</b>	
	<b>10</b>	<b>J17</b>	<b>700</b>		<b>1,200</b>	
	<b>22</b>	<b>J18</b>		<b>500</b>	<b>700</b>	

<b>Supplies</b>					<b>Account No. 115</b>	
		<b>Post.</b>			<b>Balance</b>	
<b>Date</b>	<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>						
<b>Feb. 4</b>		<b>J17</b>	<b>85</b>		<b>85</b>	

**Chapter 2, P 5. (Continued)**

<b>Equipment</b>							
						<b>Account No. 141</b>	
			<b>Post.</b>			<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>							
<b>Jan.</b>	<b>31</b>	<b>Balance</b>				<b>1,040</b>	
<b>Feb.</b>	<b>13</b>		<b>J18</b>	<b>1,000</b>		<b>2,040</b>	
	<b>17</b>		<b>J18</b>	<b>290</b>		<b>2,330</b>	
<b>Buses</b>						<b>Account No. 143</b>	
			<b>Post.</b>			<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>							
<b>Jan.</b>	<b>31</b>	<b>Balance</b>				<b>17,400</b>	
<b>Notes Payable</b>						<b>Account No. 211</b>	
			<b>Post.</b>			<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>							
<b>Jan.</b>	<b>31</b>	<b>Balance</b>					<b>15,000</b>
<b>Accounts Payable</b>						<b>Account No. 212</b>	
			<b>Post.</b>			<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>							
<b>Jan.</b>	<b>31</b>	<b>Balance</b>					<b>1,640</b>
<b>Feb.</b>	<b>4</b>		<b>J17</b>		<b>85</b>		<b>1,725</b>
	<b>8</b>		<b>J17</b>	<b>170</b>			<b>1,555</b>
	<b>11</b>		<b>J18</b>	<b>85</b>			<b>1,470</b>
	<b>17</b>		<b>J18</b>		<b>290</b>		<b>1,760</b>
	<b>27</b>		<b>J18</b>		<b>325</b>		<b>2,085</b>

**Chapter 2, P 5. (Continued)**

Common Stock						Account No. 311	
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2011							
Jan.	31	Balance					4,000

Retained Earnings						Account No. 312	
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2011							
Jan.	31	Balance					1,370

Dividends						Account No. 313	
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2011							
Feb.	28		J18	110		110	

Service Revenue						Account No. 411	
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2011							
Feb.	3		J17		650		650
	10		J17		700		1,350

Rent Expense						Account No. 511	
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2011							
Feb.	2		J17	270		270	

Gas and Oil Expense						Account No. 512	
						Balance	
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2011							
Feb.	5		J17	40		40	
	27		J18	325		365	

**Chapter 2, P 5. (Continued)**

<b>Wages Expense</b>						<b>Account No. 513</b>	
			<b>Post.</b>			<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>							
<b>Feb.</b>	<b>26</b>		<b>J18</b>	<b>460</b>		<b>460</b>	

<b>Utilities Expense</b>						<b>Account No. 514</b>	
			<b>Post.</b>			<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
<b>2011</b>							
<b>Feb.</b>	<b>19</b>		<b>J18</b>	<b>145</b>		<b>145</b>	

**5. Trial balance prepared**

<b>Acorn Nursery School Corporation</b>		
<b>Trial Balance</b>		
<b>February 28, 2011</b>		
<b>Cash</b>	<b>\$ 1,940</b>	
<b>Accounts Receivable</b>	<b>700</b>	
<b>Supplies</b>	<b>85</b>	
<b>Equipment</b>	<b>2,330</b>	
<b>Buses</b>	<b>17,400</b>	
<b>Notes Payable</b>		<b>\$15,000</b>
<b>Accounts Payable</b>		<b>2,085</b>
<b>Common Stock</b>		<b>4,000</b>
<b>Retained Earnings</b>		<b>1,370</b>
<b>Dividends</b>	<b>110</b>	
<b>Service Revenue</b>		<b>1,350</b>
<b>Rent Expense</b>	<b>270</b>	
<b>Gas and Oil Expense</b>	<b>365</b>	
<b>Wages Expense</b>	<b>460</b>	
<b>Utilities Expense</b>	<b>145</b>	
	<b><u>\$23,805</u></b>	<b><u>\$23,805</u></b>

**Chapter 2, P 5. (Continued)****6. User Insight: Transactions for February 3, 9, 10, and 22 examined**

Revenues were earned on February 3 (\$650) and February 10 (\$700) for a total of \$1,350. Cash was received from sales on February 3 (\$650) and on account on February 9 from last month (\$1,200) and on February 22 (\$500), for a total of \$2,350. Revenues and cash received do not correspond when a company sells on credit.

The main business issue that arises from this situation is that the company may need to arrange for a loan or other financing to pay expenses until the accounts receivable are collected.

Chapter 2, P 6.

Stockholders' Equity																							
Assets		=	Liabilities		+	Common Stock		+	Retained Earnings		-	Dividends		+	Revenues		-	Expenses					
Cash			Accounts Payable			Common Stock			Retained Earnings			Dividends			Design Revenue			Rent Expense					
6,200			2,710			15,000			22,000			18,000			103,000			6,440					
Accounts Receivable			Loans Payable															Telephone Expense					
35,000			5,000															480					
																		Wages Expense					
Equipment			Unearned Revenue																				
31,590			9,000															59,000					
Accounting equation without Equipment:																							
Equipment +														\$41,200		=		\$72,790					
Equipment														=				\$31,590					
Accounting equation in balance:																							
\$72,790														=		\$16,710		+		\$56,080			
\$72,790														=		\$72,790							



## Chapter 2, P 7.

### 1. Journal entries prepared

June	2	Cash	14,400	
		Common Stock		14,400
		Issued 14,400 shares of \$1 par value common stock		
	3	Supplies	300	
		Accounts Payable		300
		Purchased supplies on account		
	4	Bicycles	5,000	
		Cash		2,400
		Accounts Payable		2,600
		Purchased bicycles; made partial payment and agreed to pay the rest later		
	5	Shed	5,800	
		Cash		5,800
		Purchased shed to store bicycles for cash		
	8	Shed	800	
		Cash		800
		Paid for shed installation		
	9	No entry		
	10	Maintenance Expense	150	
		Cash		150
		Paid for cleanup		
	13	Cash	1,940	
		Rental Revenue		1,940
		Recorded rentals made for cash		
	17	Accounts Payable	300	
		Cash		300
		Paid for supplies purchased on June 3		

**Chapter 2, P 7. (Continued)**

<b>June</b>	<b>18</b>	<b>Repair Expense</b>	<b>110</b>	
		<b>Cash</b>		<b>110</b>
		<b>Paid for bicycle repairs</b>		
	<b>23</b>	<b>Accounts Receivable</b>	<b>220</b>	
		<b>Rental Revenue</b>		<b>220</b>
		<b>Billed company for rentals</b>		
	<b>25</b>	<b>Concession Fee Expense</b>	<b>200</b>	
		<b>Cash</b>		<b>200</b>
		<b>Paid monthly concession fee</b>		
	<b>27</b>	<b>Cash</b>	<b>1,920</b>	
		<b>Rental Revenue</b>		<b>1,920</b>
		<b>Recorded rentals made for cash</b>		
	<b>29</b>	<b>Wages Expense</b>	<b>480</b>	
		<b>Cash</b>		<b>480</b>
		<b>Paid wages of assistant</b>		
	<b>30</b>	<b>Dividends</b>	<b>1,000</b>	
		<b>Cash</b>		<b>1,000</b>
		<b>Declared and paid a dividend</b>		

**Chapter 2, P 7. (Continued)**

**2. T accounts set up and entries posted from the journal**

Cash				Accounts Receivable				Supplies			
6/2	14,400	6/4	2,400	6/23	220			6/3	300		
6/13	1,940	6/5	5,800								
6/27	1,920	6/8	800								
		6/10	150								
		6/17	300								
		6/18	110								
		6/25	200								
		6/29	480								
		6/30	1,000								
	18,260		11,240								
Bal.	7,020										
Shed				Bicycles				Accounts Payable			
6/5	5,800			6/4	5,000			6/17	300	6/3	300
6/8	800									6/4	2,600
Bal.	6,600								300		2,900
										Bal.	2,600
Common Stock				Dividends				Rental Revenue			
		6/2	14,400	6/30	1,000					6/13	1,940
										6/23	220
										6/27	1,920
										Bal.	4,080
Wages Expense				Maintenance Expense				Repair Expense			
6/29	480			6/10	150			6/18	110		
Concession Fee Expense											
6/25	200										

**Chapter 2, P 7. (Continued)****3. Trial balance prepared**

<b>Kluz Rentals, Inc.</b>		
<b>Trial Balance</b>		
<b>June 30, 2011</b>		
<b>Cash</b>	<b>\$ 7,020</b>	
<b>Accounts Receivable</b>	<b>220</b>	
<b>Supplies</b>	<b>300</b>	
<b>Shed</b>	<b>6,600</b>	
<b>Bicycles</b>	<b>5,000</b>	
<b>Accounts Payable</b>		<b>\$ 2,600</b>
<b>Common Stock</b>		<b>14,400</b>
<b>Dividends</b>	<b>1,000</b>	
<b>Rental Revenue</b>		<b>4,080</b>
<b>Wages Expense</b>	<b>480</b>	
<b>Maintenance Expense</b>	<b>150</b>	
<b>Repair Expense</b>	<b>110</b>	
<b>Concession Fee Expense</b>	<b>200</b>	
	<b><u>\$21,080</u></b>	<b><u>\$21,080</u></b>

**4. User Insight: Recognition and classification discussed**

**June 3 and 10 are the recognition points for these transactions. June 3 is the recognition point for the purchase of supplies because it is on June 3 when the title to the supplies passes and there is an obligation to pay. June 10 is the recognition point for the cleaning work because this is when the cleaning is done and there is an obligation to pay for it.**

**Both transactions are recorded at cost, the amount that the company is obligated to pay.**

**The supplies purchased on June 3 are classified as an asset, Supplies, because the supplies are not used immediately but will be used up in the future. The purchase of cleaning work is classified as stockholders' equity, Maintenance Expense, because it is necessary now in the current period for the company to continue running. Also the purchase of supplies is classified as Accounts Payable, a liability, because the supplies are to be paid for in the future. Conversely, the payment to a maintenance person is classified as Cash, an asset, because the cleaning work is paid for on the day of purchase.**

Chapter 2, P 8.

3. Transactions entered in the general journal  
(Requirements 1, 2, 4, and 5 follow)

General Journal					Page 22
Date		Description	Post. Ref.	Debit	Credit
2011					
Aug.	2	Rent Expense	512	650	
		Cash	111		650
		Paid August rent			
	3	Cash	111	2,300	
		Accounts Receivable	113		2,300
		Recorded receipt of cash on account			
	7	No entry			
	10	Accounts Receivable	113	2,800	
		Marketing Fees	411		2,800
		Billed customers for services			
	12	Accounts Payable	212	1,100	
		Cash	111		1,100
		Paid on account			
	14	Supplies	115	380	
		Accounts Payable	212		380
		Purchased supplies on credit			
	17	Accounts Payable	212	80	
		Supplies	115		80
		Returned supplies for credit			
	19	Cash	111	4,800	
		Marketing Fees	411		4,800
		Recorded receipt of payment for services			
	24	Utilities Expense	513	280	
		Cash	111		280
		Paid August utility bill			
	26	Advertising Expense	515	700	
		Accounts Payable	212		700
		Recorded receipt of August advertising bill			

**Chapter 2, P 8. (Continued)**

General Journal					Page 23
Date		Description	Post. Ref.	Debit	Credit
2011					
Aug.	29	Accounts Receivable	113	2,700	
		Marketing Fees	411		2,700
		Billed customer for services			
	30	Salaries Expense	511	3,800	
		Cash	111		3,800
		Paid salaries for August			
	31	Dividends	313	1,200	
		Cash	111		1,200
		Declared and paid dividend			

**Chapter 2, P 8. (Continued)**

1. **Ledger accounts set up**
2. **Amounts from July trial balance entered**
4. **Entries from journal posted to ledger accounts**

<b>Cash</b>					<b>Account No. 111</b>	
					<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>	
<b>2011</b>						
<b>July</b>	<b>31</b>	<b>Balance</b>				<b>10,200</b>
<b>Aug.</b>	<b>2</b>		<b>J22</b>	<b>650</b>		<b>9,550</b>
	<b>3</b>		<b>J22</b>	<b>2,300</b>		<b>11,850</b>
	<b>12</b>		<b>J22</b>	<b>1,100</b>		<b>10,750</b>
	<b>19</b>		<b>J22</b>	<b>4,800</b>		<b>15,550</b>
	<b>24</b>		<b>J22</b>	<b>280</b>		<b>15,270</b>
	<b>30</b>		<b>J23</b>	<b>3,800</b>		<b>11,470</b>
	<b>31</b>		<b>J23</b>	<b>1,200</b>		<b>10,270</b>

  

<b>Accounts Receivable</b>					<b>Account No. 113</b>	
					<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>	
<b>2011</b>						
<b>July</b>	<b>31</b>	<b>Balance</b>				<b>5,500</b>
<b>Aug.</b>	<b>3</b>		<b>J22</b>	<b>2,300</b>		<b>3,200</b>
	<b>10</b>		<b>J22</b>	<b>2,800</b>		<b>6,000</b>
	<b>29</b>		<b>J23</b>	<b>2,700</b>		<b>8,700</b>

  

<b>Supplies</b>					<b>Account No. 115</b>	
					<b>Balance</b>	
<b>Date</b>		<b>Item</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>	
<b>2011</b>						
<b>July</b>	<b>31</b>	<b>Balance</b>				<b>610</b>
<b>Aug.</b>	<b>14</b>		<b>J22</b>	<b>380</b>		<b>990</b>
	<b>17</b>		<b>J22</b>	<b>80</b>		<b>910</b>

Chapter 2, P 8. (Continued)							
<b>Office Equipment</b>					<b>Account No. 141</b>		
			<b>Post.</b>		<b>Balance</b>		
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
2011							
July	31	Balance				4,200	
<b>Accounts Payable</b>					<b>Account No. 212</b>		
			<b>Post.</b>		<b>Balance</b>		
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
2011							
July	31	Balance					2,600
Aug.	12		J22	1,100			1,500
	14		J22		380		1,880
	17		J22	80			1,800
	26		J22		700		2,500
<b>Common Stock</b>					<b>Account No. 311</b>		
			<b>Post.</b>		<b>Balance</b>		
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
2011							
July	31	Balance					12,000
<b>Retained Earnings</b>					<b>Account No. 312</b>		
			<b>Post.</b>		<b>Balance</b>		
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
2011							
July	31	Balance					5,910
<b>Dividends</b>					<b>Account No. 313</b>		
			<b>Post.</b>		<b>Balance</b>		
<b>Date</b>		<b>Item</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Debit</b>	<b>Credit</b>
2011							
Aug.	31		J23	1,200		1,200	



**Chapter 2, P 8. (Continued)**

Marketing Fees						Account No. 411	
			Post.			Balance	
Date		Item	Ref.	Debit	Credit	Debit	Credit
2011							
Aug.	10		J22		2,800		2,800
	19		J22		4,800		7,600
	29		J23		2,700		10,300

Salaries Expense						Account No. 511	
			Post.			Balance	
Date		Item	Ref.	Debit	Credit	Debit	Credit
2011							
Aug.	30		J23	3,800		3,800	

Rent Expense						Account No. 512	
			Post.			Balance	
Date		Item	Ref.	Debit	Credit	Debit	Credit
2011							
Aug.	2		J22	650		650	

Utilities Expense						Account No. 513	
			Post.			Balance	
Date		Item	Ref.	Debit	Credit	Debit	Credit
2011							
Aug.	24		J22	280		280	

Advertising Expense						Account No. 515	
			Post.			Balance	
Date		Item	Ref.	Debit	Credit	Debit	Credit
2011							
Aug.	26		J22	700		700	

**Chapter 2, P 8. (Continued)****5. Trial balance prepared**

<b>Brilliant Ads Corporation</b>		
<b>Trial Balance</b>		
<b>August 31, 2011</b>		
<b>Cash</b>	<b>\$10,270</b>	
<b>Accounts Receivable</b>	<b>8,700</b>	
<b>Supplies</b>	<b>910</b>	
<b>Office Equipment</b>	<b>4,200</b>	
<b>Accounts Payable</b>		<b>\$ 2,500</b>
<b>Common Stock</b>		<b>12,000</b>
<b>Retained Earnings</b>		<b>5,910</b>
<b>Dividends</b>	<b>1,200</b>	
<b>Marketing Fees</b>		<b>10,300</b>
<b>Salaries Expense</b>	<b>3,800</b>	
<b>Rent Expense</b>	<b>650</b>	
<b>Utilities Expense</b>	<b>280</b>	
<b>Advertising Expense</b>	<b>700</b>	
	<b><u>\$30,710</u></b>	<b><u>\$30,710</u></b>

**6. User Insight: Transactions for August 3, 10, 19, and 29 examined**

The revenues were \$10,300, and only \$4,800 of cash was received from those revenues. Also, the company received \$2,300 of cash for services provided in previous months. Not all customers pay on time, and the company has to finance them.

**Chapter 2, P 9.**

		<b>Debit</b>	<b>Credit</b>
<b>a.</b>	<b>Paid for supplies purchased on credit last month.</b>	<b>7</b>	<b>1</b>
<b>b.</b>	<b>Billed customers for services performed.</b>	<b>2</b>	<b>11</b>
<b>c.</b>	<b>Paid the current month's rent.</b>	<b>12</b>	<b>1</b>
<b>d.</b>	<b>Purchased supplies with cash.</b>	<b>3</b>	<b>1</b>
<b>e.</b>	<b>Received cash from customers for services performed</b>		
	<b>but not yet billed.</b>	<b>1</b>	<b>11</b>
<b>f.</b>	<b>Purchased equipment on account.</b>	<b>5</b>	<b>7</b>
<b>g.</b>	<b>Received a bill for repairs.</b>	<b>13</b>	<b>7</b>
<b>h.</b>	<b>Returned part of the equipment purchased in <i>f</i> for a</b>		
	<b>credit.</b>	<b>7</b>	<b>5</b>
<b>i.</b>	<b>Received payments from customers previously billed.</b>	<b>1</b>	<b>2</b>
<b>j.</b>	<b>Paid the bill received in <i>g</i>.</b>	<b>7</b>	<b>1</b>
<b>k.</b>	<b>Received an order for services to be performed.</b>	<b>No entry</b>	
<b>l.</b>	<b>Paid for repairs with cash.</b>	<b>13</b>	<b>1</b>
<b>m.</b>	<b>Made a payment to reduce the principal of the note</b>		
	<b>payable.</b>	<b>6</b>	<b>1</b>
<b>n.</b>	<b>Declared and paid a dividend.</b>	<b>10</b>	<b>1</b>

Chapter 2, P 10.

1. T accounts set up
2. Transactions recorded in the accounts

Cash				Accounts Receivable				Supplies			
a.	6,100	b.	700	f.	1,910	j.	1,060	e.	270		
j.	1,060	c.	220		1,910		1,060				
		h.	270	Bal.	850						
		i.	80								
		k.	110								
		l.	530								
		m.	250								
	7,160		2,160								
Bal.	5,000										
Computers				Office Equipment				Accounts Payable			
a.	4,300			a.	5,400			h.	270	e.	270
g.	499			g.	425					g.	924
Bal.	4,799			Bal.	5,825				270		1,194
										Bal.	924
Common Stock				Dividends				Tuition Revenue			
		a.	15,800	m.	250					f.	1,910
Salaries Expense				Utilities Expense				Rent Expense			
l.	530			k.	110			b.	700		
Repair Expense				Advertising Expense							
i.	80			c.	220						
d.	No entry										

**Chapter 2, P 10. (Continued)****3. Trial balance prepared****Creative Training, Inc.****Trial Balance****(Today's Date)**

Cash	\$ 5,000	
Accounts Receivable	850	
Supplies	270	
Computers	4,799	
Office Equipment	5,825	
Accounts Payable		\$ 924
Common Stock		15,800
Dividends	250	
Tuition Revenue		1,910
Rent Expense	700	
Salaries Expense	530	
Advertising Expense	220	
Utilities Expense	110	
Repair Expense	80	
	<u>\$18,634</u>	<u>\$18,634</u>

**4. User Insight: Transactions f and j examined**

The revenues were \$1,910, and only \$1,060 of cash was received from those revenues. The company accepts credit sales to accommodate its students and encourage them to enroll. The company must consider the possibility that it will not receive the cash until later and that some students will not be able to pay.

**Chapter 2, C 1.****Memorandum**

<b>Date:</b>	Today's date
<b>To:</b>	Owners
<b>From:</b>	Student's name
<b>Re:</b>	Accounting Policy for Delivery Trucks

You have asked me to record our newly purchased delivery trucks at current market value. However, to do this will not be in accord with the cost principle. This principle holds that assets should be recorded initially at cost because it is a verifiable amount. Market values are more subjective and thus are not as reliable and do not represent the actual cost that we have incurred.

The entry to record the purchase should be made as follows:

<b>Delivery Trucks</b>	<b>xxx</b>	
<b>Cash</b>		<b>xxx</b>

Note that the delivery trucks are an asset on our balance sheet because they will benefit future periods. The fact that we made a bargain purchase will be reflected in increased profits as we allocate a lower expense over the life of the asset.

**Chapter 2, C 2.**

This case raises classification issues. Rebates, as the SEC says, should not be classified as revenues. They should be classified as a reduction of costs and expenses. Think of it this way: if you bought a product for \$100 with a mail-in rebate of \$30, you would consider its cost to be \$70, not a cost of \$100 and revenue of \$30. The latter would not affect your income, but you would be overstating costs and revenues by the same amount. The same situation applies to the companies. The SEC does not want them to overstate revenues through incorrect classification.

**Chapter 2, C 3.****1. Accounts classified**

Cash and Due from Banks	Asset
Loans to Customers	Asset
Securities Available for Sale	Asset
Deposits by Customers	Liability

**2. T accounts set up and transactions recorded**

<b>Cash and Due from Banks</b>				
(b)	2,000	(a)	2,000	
		(c)	5,000	
<b>Securities Available for Sale</b>				
(a)	2,000			
<b>Loans to Customers</b>				
(c)	5,000			
<b>Deposits by Customers</b>				
		(b)	2,000	

**Chapter 2, C 4.**

Financial statements are prepared on the accrual basis, which differs from cash flows. In this case, it appears that the company is making sales on credit, which increases accounts receivable and delays the receipt of cash. The company is also paying off accounts payable, which uses cash. The company could make more of an effort to collect its accounts receivable and possibly change its credit policies to encourage more cash sales and faster payments. With regard to accounts payable, the company could work with its suppliers to get better terms. Although it cannot be determined from the facts, the company may be increasing inventory or investing in long-term assets, both of which use cash.

**Chapter 2, C 5.**

<b>1.</b>	<b>CVS's notes to the financial statements state that "Advertising costs are expensed when the related advertising takes place."</b>
<b>2.</b>	<b>CVS's notes to the financial statements state that "Inventories are stated at the lower of cost or market . . . ."</b>
<b>3.</b>	<b>CVS's notes to the financial statements state that "Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased."</b>



## Chapter 2, C 6.

### Financial ratio calculated

<b>Asset Turnover</b>	<b>=</b>	<b>Revenues</b>					
		<b>Average Total Assets</b>					

### CVS

<b>2009</b>	<b>=</b>	<b>\$98,729</b>					
		<b>(</b>	<b>\$61,641</b>	<b>+</b>	<b>\$60,960</b>	<b>) ÷ 2</b>	

	<b>=</b>	<b>\$98,729.0</b>	<b>=</b>	<b>1.6</b>	<b>times</b>	
		<b>\$61,301.0</b>				

<b>2008</b>	<b>=</b>	<b>\$87,472</b>					
		<b>(</b>	<b>\$60,960</b>	<b>+</b>	<b>\$54,722</b>	<b>) ÷ 2</b>	

	<b>=</b>	<b>\$87,472</b>	<b>=</b>	<b>1.5</b>	<b>times</b>	
		<b>\$57,841</b>				

### Southwest

<b>2009</b>	<b>=</b>	<b>\$10,350</b>					
		<b>(</b>	<b>\$14,269</b>	<b>+</b>	<b>\$14,068</b>	<b>) ÷ 2</b>	

	<b>=</b>	<b>\$10,350</b>	<b>=</b>	<b>0.7</b>	<b>times</b>	
		<b>\$14,169</b>				

<b>2008</b>	<b>=</b>	<b>\$11,023</b>					
		<b>(</b>	<b>\$14,068</b>	<b>+</b>	<b>\$16,772</b>	<b>) ÷ 2</b>	

	<b>=</b>	<b>\$11,023</b>	<b>=</b>	<b>0.7</b>	<b>times</b>	
		<b>\$15,420.0</b>				

**Asset turnover increased for both companies from 2008 to 2009. CVS was producing more revenues on each dollar invested in assets than Southwest was. The trend is the same for both years examined.**

## Chapter 2, C 7.

In a normal sale, which this appears to be, title passes when the sale is made. So the transaction was recorded properly as a sale when shipment was made on December 31. But Shah undoubtedly was taking advantage of the company's accounting policy. In some companies, a very liberal return policy is offered to encourage customers to buy. Other companies limit returns, especially of commodities like copier paper, to a small percentage of a sale. We do not know the company's policy in this case, but it is unlikely that an office supply firm would routinely accept such a large return. If a company is in a business in which substantial returns are usual—publishing, for example—it is appropriate to estimate returns in the financial statements.

Opinions will vary about the ethics of Shah's action. Most students will argue that his behavior was not ethical. Others may insist that the action fell within the company's rules and that the conversation with the buyer was simply an aggressive sales tactic. They may claim that the purchaser might very well have kept the large order. However, if both transactions stand, Quality Office Supplies Corporation loses in two ways: first, it must pay Shah a bonus that he did not earn; second, it incurs the costs associated with the return (possibly shipping, insurance, handling, and even damage).

**Chapter 2, C 8.**

**1. March transactions recorded in journal form**

<b>a.</b>	<b>Cash</b>	<b>14,375</b>	
	<b>Common Stock</b>		<b>14,375</b>
	<b>Issued 575 shares of \$25 par value common stock</b>		
<b>b.</b>	<b>Legal Expense</b>	<b>875</b>	
	<b>Cash</b>		<b>875</b>
	<b>Paid attorney</b>		
<b>c.</b>	<b>Cash</b>	<b>6,250</b>	
	<b>Loan Payable</b>		<b>6,250</b>
	<b>Recorded receipt of loan from bank</b>		
<b>d.</b>	<b>Loan Payable</b>	<b>250</b>	
	<b>Interest Expense</b>	<b>75</b>	
	<b>Cash</b>		<b>325</b>
	<b>Made payment on bank loan, including interest</b>		
<b>e.</b>	<b>Truck</b>	<b>12,375</b>	
	<b>Cash</b>		<b>3,125</b>
	<b>Truck Loan Payable</b>		<b>9,250</b>
	<b>Purchased truck, making \$3,125 down payment</b>		
<b>f.</b>	<b>Prepaid Rent</b>	<b>1,125</b>	
	<b>Cash</b>		<b>1,125</b>
	<b>Paid three months' rent in advance</b>		
<b>g.</b>	<b>Office Equipment</b>	<b>1,000</b>	
	<b>Accounts Payable</b>		<b>1,000</b>
	<b>Purchased office equipment; payment due April 10</b>		
<b>h.</b>	<b>Material Handling Equipment</b>	<b>625</b>	
	<b>Accounts Payable</b>		<b>625</b>
	<b>Purchased material handling equipment; payment due April 10</b>		

**Chapter 2, C 8. (Continued)**

<b>i.</b>	<b>Cash</b>	<b>500</b>	
	<b>Accounts Receivable</b>	<b>1,125</b>	
	<b>Delivery Revenue</b>		<b>1,625</b>
	<b>Recorded delivery revenues for March</b>		
<b>j.</b>	<b>Cash</b>	<b>375</b>	
	<b>Accounts Receivable</b>		<b>375</b>
	<b>Recorded receipt of payments on accounts</b>		
<b>k.</b>	<b>Wages Expense</b>	<b>562</b>	
	<b>Cash</b>		<b>562</b>
	<b>Paid wages for March</b>		
<b>l.</b>	<b>Utilities Expense</b>	<b>93</b>	
	<b>Accounts Payable</b>		<b>93</b>
	<b>Recorded receipt of utility bill for March</b>		
<b>m.</b>	<b>Cash</b>	<b>62</b>	
	<b>Unearned Revenue</b>		<b>62</b>
	<b>Recorded receipt of payment in advance for a delivery order</b>		

Chapter 2, C 8. (Continued)											
2 and 3. Entries set up in T accounts and balances determined											
Cash			Accounts Receivable			Prepaid Rent					
a.	14,375	b.	875	i.	1,125	j.	375	f.	1,125		
c.	6,250	d.	325	Bal.	750						
i.	500	e.	3,125								
j.	375	f.	1,125								
m.	62	k.	562								
	21,562		6,012								
Bal.	15,550										
Truck			Office Equipment			Material Handling Equipment					
e.	12,375		g.	1,000		h.	625				
Accounts Payable			Unearned Revenue			Loan Payable					
		g.	1,000	m.	62	d.	250	c.	6,250		
		h.	625					Bal.	6,000		
		i.	93								
		Bal.	1,718								
Truck Loan Payable			Common Stock			Delivery Revenue					
		e.	9,250	a.	14,375			i.	1,625		
Wages Expense			Utilities Expense			Interest Expense					
k.	562		l.	93		d.	75				
Legal Expense											
b.	875										

Chapter 2, C 8. (Continued)		
4. Trial balance prepared		
Takla Delivery Service Corporation		
Trial Balance		
March 31, 2011		
Cash	\$15,550	
Accounts Receivable	750	
Prepaid Rent	1,125	
Truck	12,375	
Office Equipment	1,000	
Material Handling Equipment	625	
Accounts Payable		\$ 1,718
Unearned Revenue		62
Loan Payable		6,000
Truck Loan Payable		9,250
Common Stock		14,375
Delivery Revenue		1,625
Legal Expense	875	
Wages Expense	562	
Utilities Expense	93	
Interest Expense	75	
	\$33,030	\$33,030
5. Information in trial balance evaluated		
The activity of the Cash account is important because a business needs to maintain enough cash to operate and to pay its bills. However, the balance in the Cash account is a poor indicator of whether a company is profitable. There are several reasons. One is that cash can be used to purchase assets that benefit future periods. For example, the company purchased a truck and other assets that will benefit future periods. A second reason is that some cash received may may not be revenue. The bank loan to the company is an example. A third reason is that expenses can be incurred that have not yet been paid. The utility bill that has not been paid is an example. A fourth reason is that revenues may be forthcoming from customers who have bought on credit but not yet paid their outstanding balances. There is a \$750 balance in Accounts Receivable at the end of March, for which revenues have already been recognized and recorded but not collected.		

**Chapter 2, C 8. (Continued)**

To determine if a company is making a profit, the accountant must look beyond the Cash account. Some indication of profitability can be obtained by examining the revenues and expenses listed in the trial balance. But this approach has limitations, too. For example, the expenses may be incomplete. In the Takla Delivery case, an examination of the trial balance shows revenues of \$1,625 and expenses of \$1,605 (\$562 + \$93 + \$75 + \$875), but there is no account yet for rent expense. Part of the amount in Prepaid Rent has now been used up; it should be treated as an expense. If we add one month's rent, \$375, to the expenses, total expenses are \$1,980, which exceeds the revenues. Other assets also may be partially "used up" by the end of the month.

The trial balance proves only that the accounts are in balance. It does not prove that a company has made a profit over the period.

**6. Ethical implications identified**

It would be unethical to record an order as revenue. An order does not meet the criteria for revenue recognition under generally accepted accounting principles. It does not represent an obligation to pay, and delivery has not taken place.