

Chapter 2: Analyzing and Recording Business Transactions

Discussion Questions: Key Points

1. Assets are listed in order of liquidity, or closeness to cash. Discuss the steps that the business would have to go through in order to convert each asset to cash in the normal course of business.
2. When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although they would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use.
3. Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the retained earnings account.
4. Not all events are transactions. A transaction is an event that has a financial impact on a company. Journal entries are recorded for all transactions.
5. The normal balance of an account is the side that increases the account.
 - a. Debit
 - b. Debit
 - c. Credit
 - d. Credit
 - e. Debit
6. The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheck, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account).
7. A credit balance in the cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its checking account, it now has a liability to the bank. Rather than showing a credit balance in its cash account, it should show a credit balance in a liability account.
8. Journalizing is the process of recording a transaction in the journal. Posting is the process of transferring the information from the journal to the appropriate accounts in the ledger or to T-accounts.
9. False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to supplies is improperly recorded as a debit to supplies expense, for example, the trial balance will balance but the financial statements will be inaccurate.
10. The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger.

Short Exercises

(5-10 min.) S 2-1

1. b
2. c
3. e
4. g
5. d
6. f
7. a

(5-10 min.) S 2-2

- | | |
|---------------------|----|
| 1. Accounts payable | L |
| 2. Cash | A |
| 3. Service revenue | R |
| 4. Prepaid rent | A |
| 5. Rent expense | E |
| 6. Common stock | SE |

(5-10 min.) S 2-3

1. Transactions occur.
5. Prepare the financial statements
4. Prepare the trial balance.
3. Post the transactions from the journal to the ledger.
2. Record the transactions in the journal.

(5-10 min.) S 2-4

Example	A, 1
1.	R, 4
2.	SE, 3
3.	A, 1
4.	E, 5
5.	L, 2
6.	SE, 3
7.	E ,5

(5-10 min.) S 2-5

The basic summary device in accounting is the account. The left side of an account is called the debit side, and the right side is called the credit side. We record transactions first in a journal. Then we post or copy the data to the ledger (or T-accounts). It is helpful to list all the accounts with their balances on a trial balance.

(5-10 min.) S 2-6

<u>DR</u>	1.	Rent expense
<u>CR</u>	2.	Accounts payable
<u>CR</u>	3.	Service revenue
<u>DR</u>	4.	Office furniture
<u>CR</u>	5.	Common stock
<u>DR</u>	6.	Land
<u>DR</u>	7.	Dividends

(5-10 min.) S 2-7

Supplies			
3/8	250	3/27	400
3/17	800		
Bal.	650		

Note payable			
3/20	1,250	3/5	9,500
3/31	4,500		
		Bal.	3,750

(5-10 min.) S 2-8

Account	Type	↑	↓
Office equipment	Asset	Dr.	Cr.
Dividends	Stockholder's Equity	Dr.	Cr.
Service revenue	Revenue	Cr.	Dr.
Accounts payable	Liability	Cr.	Dr.
Rent expense	Expense	Dr.	Cr.
Cash	Asset	Dr.	Cr.

(15-20 min.) S 2-9

Transaction	Account Affected	Type	↑	↓	Dr. or Cr.
(1)	Cash	Asset	Increase		Dr
	Common stock	Stockholders' Equity	Increase		Cr
(2)	Equipment	Asset	Increase		Dr
	Cash	Asset	Decrease		Cr
(3)	Supplies	Asset	Increase		Dr
	Accounts payable	Liability	Increase		Cr
(4)	Accounts receivable	Asset	Increase		Dr
	Service revenue	Revenue	Increase		Cr
(5)	Accounts payable	Liability	Decrease		Dr
	Cash	Asset	Decrease		Cr
(6)	Operating expenses	Expense	Increase		Dr

	Cash	Asset	Decrease	Cr
(7)	Dividends	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr

(10-15 min.) S 2-10

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Aug	1	Cash		50,000	
		Common stock			50,000
		Sold stock.			
	5	Dental supplies		6,300	
		Accounts payable			6,300
		Purchased supplies on account.			
	7	Rent Expense		1,000	
		Cash			1,000
		Paid office rent.			
	10	Cash		1,200	
		Accounts receivable		2,600	
		Service revenue			3,800
		Performed service for patients.			

(10-15 min.) S 2-11

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep	3	Cash		35,000	
		Note payable			35,000
		Borrowed money from the bank.			
	9	Accounts receivable		1,250	
		Service revenue			1,250
		Performed service on account.			

	16	Cash		500	
		Accounts receivable			500
		Received cash on account.			
	22	Utilities expense		380	
		Accounts payable			380
		Received utility bill.			
	30	Salaries expense		2,250	
		Cash			2,250
		Paid salary expense.			
	30	Interest expense		170	
		Cash			170
		Paid interest expense.			

(10-15 min.) S 2-12

Audio Masters, Corp		
Trial Balance		
April 30, 2016		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$18,300	
Prepaid rent	750	
Equipment	21,000	
Accounts payable		\$ 1,700
Note payable		11,500
Common stock		15,000
Dividends	22,600	
Service revenue		63,000
Rent expense	10,150	
Utilities expense	18,400	
Total	<u>\$91,200</u>	<u>\$91,200</u>

(5-10 min.) S 2-13

**Mylar, Inc.
Trial Balance
December 31, 2016**

	ACCOUNT		DEBIT		CREDIT
BS	Cash		\$12,100		
BS	Accounts Receivable		1,900		
BS	Supplies		250		
BS	Equipment		6,000		
BS	Accounts Payable				\$1,830
BS	Notes Payable				10,000
BS	Common Stock				8,500
RE	Dividends		700		
IS	Service Revenue				3,500
IS	Salaries Expense		1,740		
IS	Rent Expense		800		
IS	Utilities Expense		340		
	Total		<u>\$23,830</u>		<u>\$23,830</u>

(5-10 min.) S 2-14

- e 1 Posting
- d 2 Normal balance
- g 3 Payable
- a 4 Journal
- b 5 Receivable
- h 6 Chart of accounts
- c 7 Debit
- f 8 Trial balance
- i 9 Credit

Exercises

(10-15 min.) E 2-15A

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
Feb 2	Accounts receivable	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr
8	Supplies	Asset	Increase	Dr
	Accounts payable	Liability	Increase	Cr
10	Advertising expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr
14	Cash	Asset	Increase	Dr
	Accounts receivable	Asset	Decrease	Cr
21	Accounts Payable	Liability	Decrease	Dr
	Cash	Asset	Decrease	Cr
26	Cash	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr

(15-20 min.) E 2-16A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Dec.	1	Interest expense		100	
		Cash			100
	5	Office furniture		2,500	
		Accounts payable			2,500
	10	Accounts receivable		2,900	
		Service revenue			2,900
	12	Cash		20,000	
		Notes payable			20,000
	19	Cash		80,000	
		Land			80,000
	21	Building		300,000	
		Notes payable			300,000
	27	Accounts Payable		650	
		Cash			650

(15-20 min.) E 2-17A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Mar.	1	Cash		95,000	
		Common stock			95,000
	3	Supplies		800	
		Accounts Payable			800
	5	Building		35,000	
		Cash			35,000
	6	Cash		1,500	
		Service revenue			1,500
	11	Accounts payable		500	
		Cash			500
	18	Accounts receivable		2,600	
		Service revenue			2,600
	24	Cash		900	
		Accounts receivable			900
	30	Salaries expense		700	
		Rent expense		1,500	
		Cash			2,200

(10-15 min.) E 2-18A

Req. 1

Cash

Jan. 1	55,000	Jan. 2	1,250
6	1,000	4	10,200
23	600	9	300
		15	800
		28	375
		29	850
Bal.	42,825		

Accounts Payable

Jan. 9	300	Jan. 3	400
		Bal.	100

Common stock

	Jan. 1	55,000
	Bal.	55,000

Accounts Receivable

Jan. 17	4,500	Jan. 23	600
Bal.	3,900		

Service revenue

	Jan. 6	1,000
	17	4,500
	Bal.	5,500

Supplies

Jan. 3	400
Bal.	400

Rent Expense

Jan. 2	1,250
Bal.	1,250

Equipment

Jan. 4	10,200
Bal.	10,200

Salaries Expense

Jan. 15	800
29	850
Bal.	1,650

Utilities Expense

Jan. 28	375
Bal.	375

Req. 2

Creative Design, Inc.		
Trial Balance		
January 31, 2016		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$42,825	
Accounts receivable	3,900	
Supplies	400	
Equipment	10,200	
Accounts payable		\$ 100
Common stock		55,000
Service revenue		5,500
Salaries expense	1,650	
Rent expense	1,250	
Utilities expense	375	
Total	<u>\$60,600</u>	<u>\$60,600</u>

(15-20 min.) E 2-19A

Req 1

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Mar.	2	Rent expense		900	
		Cash			900
	4	Cash		1,600	
		Service revenue			1,600
	8	Supplies		800	
		Accounts payable			800
	11	Cash		2,300	
		Accounts receivable			2,300
	15	Cash		40,000	
		Common stock			40,000
	19	Accounts payable		450	
		Cash			450
	27	Accounts receivable		3,000	
		Service revenue			3,000
	31	Notes payable		2,000	
		Cash			2,000

Req 2 & 3

Cash

Mar 1	2,000	Mar 2	900
Mar 4	1,600	Mar 19	450
Mar 11	2,300	Mar 31	2,000
Mar 15	40,000		
<i>Bal.</i>	42,550		

Accounts payable

Mar 19	450	Mar 1	1,400
		Mar 8	800
		<i>Bal.</i>	1,750

Accounts receivable

Mar 1	3,300	Mar 11	2,300
Mar 27	3,000		
<i>Bal.</i>	4,000		

Notes payable

Mar 31	2,000	Mar 1	15,000
		<i>Bal.</i>	13,000

Supplies

Mar 1	300		
Mar 8	800		
<i>Bal.</i>	1,100		

Common stock

		Mar 1	32,100
		Mar 15	40,000
		<i>Bal.</i>	72,100

Office furniture

Mar 1	2,300		
<i>Bal.</i>	2,300		

Service revenue

		Mar 1	2,200
		Mar 4	1,600
		Mar 27	3,000
		<i>Bal.</i>	6,800

Building

Mar 1	42,000		
<i>Bal.</i>	42,000		

Rent expense

Mar 1	800		
Mar 2	900		
<i>Bal.</i>	1,700		

Req 4

Clocktower Cleaning, Inc.		
Trial Balance		
March 31, 2016		
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$ 42,550	
Accounts receivable	4,000	
Supplies	1,100	
Office furniture	2,300	
Building	42,000	
Accounts payable		\$ 1,750
Notes payable		13,000
Common stock		72,100
Service revenue		6,800
Rent expense	1,700	
Total	<u>\$93,650</u>	<u>\$93,650</u>

(20-25 min.) E 2-20A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Apr.	1	Cash		33,000	
		Common stock			33,000
		Sold stock.			
	2	Supplies		400	
		Accounts Payable			400
		Purchased supplies on acct.			
	3	Building		75,000	
		Notes payable			75,000
		Purchased building signing note payable.			
	4	Equipment		9,000	
		Cash			9,000
		Paid cash to purchase equipment			
	5	Notes Payable		7,000	
		Cash			7,000
		Made payment on note payable.			
	6	Accounts payable		100	
		Cash			100
		Made payment on account.			

Req. 2

Cash			
(1)	33,000	(4)	9,000
		(5)	7,000
		(6)	100
<i>Bal.</i>	<i>16,900</i>		

Accounts payable			
(6)	100	(2)	400
		<i>Bal.</i>	<i>300</i>

Supplies	
(2)	400
<i>Bal.</i>	<i>400</i>

Notes payable			
(5)	7,000	(3)	75,000
		<i>Bal.</i>	<i>68,000</i>

Equipment		
(4)	9,000	
<i>Bal.</i>	9,000	

Common stock		
	(1)	33,000
	<i>Bal.</i>	33,000

Building		
(3)	75,000	
<i>Bal.</i>	75,000	

Req. 3

Sounds on Wheels, Inc.		
Trial Balance		
April 30, 2016		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$16,900	
Supplies	400	
Equipment	9,000	
Building	75,000	
Accounts payable		\$ 300
Notes payable		68,000
Common stock		33,000
Total	\$101,300	\$101,300

Req. 4

Sounds on Wheels, Inc.			
Balance Sheet			
April 30, 2016			
ASSETS		LIABILITIES	
Cash	\$ 16,900	Accounts payable	\$ 300
Supplies	400	Notes payable	<u>68,000</u>
Equipment	9,000	Total liabilities	68,300
Building	<u>75,000</u>	STOCKHOLDERS' EQUITY	
		Common stock	<u>33,000</u>
		Total liabilities and	
Total assets	<u>\$101,300</u>	stockholder's equity	<u>\$101,300</u>

(25-30 min.) E 2-21A

Req. 2

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Jun.	2	Cash		10,000	
		Common stock			10,000
	3	Rent expense		1,300	
		Cash			1,300
	6	Equipment		2,800	
		Cash			2,800
	8	Furniture		1,500	
		Accounts payable			1,500
	11	Supplies		600	
		Accounts payable			600
	19	Accounts receivable		2,300	
		Service revenue			2,300
	20	Utility expense		145	
		Cash			145
	28	Cash		1,800	
		Service revenue			1,800

Req. 1, and 3

Cash			
Jun. 2	10,000	Jun. 3	1,300
28	1,800	6	2,800
		20	145
Bal.	7,555		

Accounts payable		
	Jun. 8	1,500
	11	600
	Bal	2,100

Accounts receivable		
Jun. 19	2,300	
<i>Bal.</i>	2,300	

Common stock		
	Jun. 2	10,000
	<i>Bal.</i>	10,000

Supplies		
Jun. 11	600	
<i>Bal.</i>	600	

Service revenue		
	Jun. 19	2,300
	28	1,800
	<i>Bal.</i>	4,100

Equipment		
Jun. 6	2,800	
<i>Bal.</i>	2,800	

Rent Expense		
Jun. 3	1,300	
<i>Bal.</i>	1,300	

Furniture		
Jun. 8	1,500	
<i>Bal.</i>	1,500	

Utilities expense		
Jun 20	145	
<i>Bal.</i>	145	

Req. 4

Willis Construction, Inc.		
Trial Balance		
June 30, 2016		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$ 7,555	
Accounts receivable	2,300	
Supplies	600	
Equipment	2,800	
Furniture	1,500	
Accounts payable		\$ 2,100
Common stock		10,000
Service revenue		4,100
Rent expense	1,300	
Utilities expense	<u>145</u>	
Total	<u>\$16,200</u>	<u>\$16,200</u>

Req. 5

Willis Construction, Inc.		
Income Statement		
Month Ended June 30, 2016		
Service revenue		\$4,100
Expenses:		
Rent expense	\$1,300	
Utilities expense	<u>145</u>	
Total expenses		<u>1,445</u>
Net Income		<u>\$2,655</u>

Willis Construction, Inc.		
Statement of Retained Earnings		
Month Ended June 30, 2016		
Retained earnings, June 1		\$0
Add: Net income		<u>2,655</u>
Retained earnings, June 30		<u>\$2,655</u>

Note: There were no dividends during the month of June

Willis Construction, Inc.			
Balance Sheet			
June 30, 2016			
ASSETS		LIABILITIES	
Cash	\$ 7,555	Accounts payable	\$ 2,100
Accounts receivable	2,300		
Supplies	600	STOCKHOLDERS' EQUITY	
Equipment	2,800	Common stock	10,000
Furniture	<u>1,500</u>	Retained earnings	<u>2,655</u>
		Total Stockholders' equity	<u>12,655</u>
		Total liabilities and	
Total assets	<u>\$14,755</u>	stockholder's equity	<u>\$14,755</u>

(20-25 min.) E 2-22A

Effect on Trial Balance	Account(s) Misstated
a. Total debits = Total credits	Cash \$720 too high Rent expense \$720 too low
b. Total debits = Total credits	Accounts receivable \$250 too high Accounts Payable \$250 too high
c. Total debits = Total credits	Cash \$90 too high Service revenue \$90 too high
d. Total debits = Total credits	Supplies \$320 too low Accounts payable \$320 too low
e. Total debits > Total credits	Notes payable \$5,000 too low

(10-15 min.) E 2-23B

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
May 1	Cash	Asset	Increase	Dr
	Common stock	Stockholders' Equity	Increase	Cr
3	Supplies	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
6	Equipment	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
11	Advertising expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr
18	Cash	Asset	Increase	Dr
	Notes payable	Liability	Increase	Cr
27	Utilities expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr

(15-20 min.) E 2-24B

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
June	1	Interest expense		900	
		Cash			900
	5	Office furniture		2,500	
		Accounts payable			2,500
	10	Accounts receivable		1,500	
		Service revenue			1,500
	12	Cash		22,000	
		Notes payable			22,000
	19	Cash		75,000	
		Land			75,000
	21	Building		400,000	
		Notes payable			400,000
	27	Accounts Payable		1,000	
		Cash			1,000

(15-20 min.) E 2-25B

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
July	1	Cash		85,000	
		Common stock			85,000
	3	Supplies		800	
		Accounts payable			800
	5	Building		35,000	
		Cash			35,000
	6	Cash		2,700	
		Service revenue			2,700
	11	Accounts payable		400	
		Cash			400
	18	Accounts receivable		3,200	
		Service revenue			3,200
	24	Cash		1,100	
		Accounts receivable			1,100
	31	Salaries expense		550	
		Rent expense		1,600	
		Cash			2,150

(10-15 min.) E 2-26B

Req. 1

Cash			
Mar 1	65,000	Mar. 2	1,100
6	7,000	4	7,900
23	400	9	100
		15	675
		28	425
		29	725
Bal.	61,475		

Accounts Receivable			
Mar 17	1,900	Mar 23	400
Bal.	1,500		

Supplies	
Mar 3	800
Bal.	800

Equipment	
Mar 4	7,900
Bal.	7,900

Accounts Payable			
Mar 9	100	Mar 3	800
		Bal.	700

Common stock		
	Mar 1	65,000
	Bal.	65,000

Service revenue		
	Mar 6	7,000
	17	1,900
	Bal.	8,900

Rent Expense	
Mar 2	1,100
Bal.	1,100

Salaries Expense		
Mar 15	675	
29	725	
Bal.	1,400	

Utilities Expense		
Mar 28	425	
Bal.	425	

Req. 2

Inspired Design , Inc.		
Trial Balance		
March 31, 2016		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$61,475	
Accounts receivable	1,500	
Supplies	800	
Equipment	7,900	
Accounts payable		\$ 700
Common stock		65,000
Service revenue		8,900
Salaries expense	1,400	
Rent expense	1,100	
Utilities expense	425	
Total	<u>\$74,600</u>	<u>\$74,600</u>

(15-20 min.) E 2-27B

Req 1

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep	2	Rent expense		500	
		Cash			500
	4	Cash		1,800	
		Service revenue			1,800
	8	Supplies		900	
		Accounts payable			900
	11	Cash		1,200	
		Accounts receivable			1,200
	15	Cash		10,000	
		Common stock			10,000
	19	Accounts payable		450	
		Cash			450
	27	Accounts receivable		2,800	
		Service revenue			2,800
	28	Notes payable		5,000	
		Cash			5,000

Req 2 & 3

Cash				Accounts payable			
Sep 1	1,450	Sep 2	500	Sep 19	450	Sep 1	2,100
4	1,800	19	450			8	900
11	1,200	28	5,000			Bal.	2,550
15	10,000						
Bal.	8,500						

Accounts receivable			
Sep 1	3,900	Sep 11	1,200
27	2,800		
Bal.	5,500		

Notes payable			
Sep 28	5,000	Sep 1	10,000
		Bal.	5,000

Supplies			
Sep 1	250		
8	900		
Bal.	1,150		

Common stock			
		Sep 1	30,000
		15	10,000
		Bal.	40,000

Office furniture			
Sep 1	2,300		
Bal.	2,300		

Service revenue			
		Sep 1	4,900
		4	1,800
		27	2,800
		Bal.	9,500

Building			
Sep 1	38,000		
Bal.	38,000		

Rent expense			
Sep 1	1,100		
2	500		
Bal.	1,600		

Req 4

White Glove Cleaning, Inc.		
Trial Balance		
September 30, 2016		
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$ 8,500	
Accounts receivable	5,500	
Supplies	1,150	
Office furniture	2,300	
Building	38,000	
Accounts payable		\$ 2,550
Notes payable		5,000
Common stock		40,000
Service revenue		9,500
Rent expense	1,600	
Total	<u>\$57,050</u>	<u>\$57,050</u>

(20-25 min.) E 2-28B

Req. 1

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Nov	1	Cash		45,000	
		Common stock			45,000
		Sold stock.			
	2	Supplies		300	
		Accounts Payable			300
		Purchased supplies on acct.			
	3	Building		60,000	
		Notes payable			60,000
		Purchased building signing note payable.			
	4	Equipment		4,000	
		Cash			4,000
		Paid cash to purchase equipment			
	5	Notes Payable		7,000	
		Cash			7,000
		Made payment on note payable.			
	6	Accounts payable		150	
		Cash			150
		Made payment on account.			

Req. 2

Cash				Accounts payable			
(1)	45,000	(4)	4,000	(6)	150	(2)	300
		(5)	7,000			Bal.	150
		(6)	150				
Bal.	33,850						

Supplies	
(2)	300
Bal.	300

Notes payable			
(5)	7,000	(3)	60,000
		Bal.	53,000

Equipment	
(4)	4,000
Bal.	4,000

Common stock		
	(1)	45,000
	Bal.	45,000

Building	
(3)	60,000
Bal.	60,000

Req. 3

Mobile Music, Inc.		
Trial Balance		
November 30, 2016		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$33,850	
Supplies	300	
Equipment	4,000	
Building	60,000	
Accounts payable		\$ 150
Notes payable		53,000
Common stock		45,000
Total	\$98,150	\$98,150

Req. 4

Mobile Music, Inc.			
Balance Sheet			
November 30, 2016			
ASSETS		LIABILITIES	
Cash	\$ 33,850	Accounts payable	\$ 150
Supplies	300	Notes payable	<u>53,000</u>
Equipment	4,000	Total liabilities	53,150
Building	<u>60,000</u>	STOCKHOLDERS' EQUITY	
		Common stock	<u>45,000</u>
		Total liabilities and	
Total assets	<u>\$98,150</u>	stockholder's equity	<u>\$98,150</u>

(25-30 min.) E 2-29B

Req. 1

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep	2	Cash		50,000	
		Common stock			50,000
	3	Rent expense		800	
		Cash			800
	6	Equipment		1,600	
		Cash			1,600
	8	Furniture		3,000	
		Accounts payable			3,000
	11	Supplies		700	
		Accounts payable			700
	19	Accounts receivable		2,300	
		Service revenue			2,300
	20	Utility expense		175	
		Cash			175
	28	Cash		1,125	
		Service revenue			1,125

Req. 2

Cash				Accounts payable		
Sep 2	50,000	Sep 3	800		Sep 8	3,000
28	1,125	6	1,600		11	700
		20	175		Bal	3,700
Bal.	48,550					

Accounts receivable		
Sep 19	2,300	
Bal.	2,300	

Supplies		
Sep 11	700	
Bal.	700	

Equipment		
Sep 6	1,600	
Bal.	1,600	

Furniture		
Sep 8	3,000	
Bal.	3,000	

Common stock		
	Sep 2	50,000
	Bal.	50,000

Service revenue		
	Sep 19	2,300
	28	1,125
	Bal.	3,425

Rent Expense		
Sep 3	800	
Bal.	800	

Utilities expense		
Sep 20	175	
Bal.	175	

Req. 3

McGuire Construction, Inc.		
Trial Balance		
September 30, 2016		
ACCOUNT TITLE	BALANCE	
	DEBIT	CREDIT
Cash	\$ 48,550	
Accounts receivable	2,300	
Supplies	700	
Equipment	1,600	
Furniture	3,000	
Accounts payable		\$ 3,700
Common stock		50,000
Service revenue		3,425
Rent expense	800	
Utilities expense	175	
Total	<u>\$57,125</u>	<u>\$57,125</u>

Req. 4

McGuire Construction, Inc.		
Income Statement		
Month Ended September 30, 2016		
Service revenue		\$3,425
Expenses:		
Rent expense	\$800	
Utilities expense	<u>175</u>	
Total expenses		<u>975</u>
Net Income		<u>\$2,450</u>

McGuire Construction, Inc.		
Statement of Retained Earnings		
Month Ended September 30, 2016		
Retained earnings, September 1, 2016		\$0
Add: Net income		<u>2,450</u>
Retained earnings, September 30, 2016		<u>\$2,450</u>

Note: There were no dividends during the month of September

McGuire Construction, Inc.			
Balance Sheet			
September 30, 2016			
ASSETS		LIABILITIES	
Cash	\$ 48,550	Accounts payable	\$ 3,700
Accounts receivable	2,300		
Supplies	700	STOCKHOLDERS' EQUITY	
Equipment	1,600	Common stock	50,000
Furniture	<u>3,000</u>	Retained earnings	<u>2,450</u>
		Total Stockholders' equity	<u>52,450</u>
		Total liabilities and	
Total assets	<u>\$56,150</u>	stockholder's equity	<u>\$56,150</u>

(10-15 min.) E 2-30B

Effect on Trial Balance	Account(s) Misstated
a. Total debits = Total credits	Cash \$675 too high Rent expense \$675 too low
b. Total debits = Total credits	Accounts receivable \$300 too high Accounts Payable \$300 too high
c. Total debits = Total credits	Cash \$90 too high Service revenue \$90 too high
d. Total debits = Total credits	Supplies \$450 too low Accounts payable \$450 too low
e. Total debits > Total credits	Notes payable \$30,000 too low

Problems

(15-20 min.) P 2-31A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
June	1	Cash		95,000	
		Common stock			95,000
	3	Supplies		200	
		Cash			200
	8	Land		38,000	
		Cash			38,000
	12	Office equipment		3,500	
		Accounts payable			3,500
	17	Cash		10,000	
		Notes payable			10,000
	26	Accounts payable		2,500	
		Cash			2,500
	30	Cash		11,000	
		Accounts receivable		25,000	
		Service revenue			36,000
	30	Salaries expense		2,700	
		Rent expense		1,800	
		Utilities expense		365	
		Cash			4,865
	30	Dividends		9,000	
		Cash			9,000

(15-20 min.) P 2-32A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
May	1	Cash		210,000	
		Notes payable			210,000
	3	Building		145,000	
		Cash			145,000
	6	Accounts receivable		14,100	
		Service revenue			14,100
	9	Supplies		275	
		Accounts payable			275
	13	Cash		6,800	
		Service revenue			6,800
	15	Dividends		2,000	
		Cash			2,000
	17	Cash		9,200	
		Accounts Receivable			9,200
	18	Property tax expense		2,240	
		Cash			2,240
	22	Salaries expense		4,700	
		Cash			4,700
	26	Supplies		250	
		Cash			250
	31	Accounts payable		150	
		Cash			150

(20-25 min.) P2-33A**Req. 2**

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Jan	1	Cash		55,000	
		Common stock			55,000
	3	Supplies		100	
		Furniture		1,200	
		Accounts payable			1,300
	5	Cash		3,000	
		Service revenue			3,000
	8	Land		24,000	
		Cash			24,000
	11	Accounts receivable		2,700	
		Service revenue			2,700
	14	Salaries expense		650	
		Cash			650
	16	Accounts payable		1,150	
		Cash			1,150
	19	Cash		2,500	
		Service revenue			2,500
	23	Accounts receivable		1,300	
		Service revenue			1,300
	28	Cash		300	
		Accounts receivable			300
	31	Salaries expense		650	
		Cash			650
	31	Rent expense		1,700	
		Cash			1,700
	31	Dividends		1,100	
		Cash			1,100

Req. 1, 3, and 4

Cash			
Jan 1	55,000	Jan 8	24,000
5	3,000	14	650
19	2,500	16	1,150
28	300	31	650
		31	1,700
		31	1,100
<i>Bal.</i>	<i>31,550</i>		

Accounts Payable			
Jan 16	1,150	Jan 3	1,300
		<i>Bal.</i>	<i>150</i>

Common stock			
		Jan 1	55,000
		<i>Bal.</i>	<i>55,000</i>

Accounts Receivable			
Jan 11	2,700	Jan 28	300
23	1,300		
<i>Bal.</i>	<i>3,700</i>		

Dividends			
Jan 31	1,100		
<i>Bal.</i>	<i>1,100</i>		

Supplies			
Jan 3	100		
<i>Bal.</i>	<i>100</i>		

Service revenue			
		Jan 5	3,000
		11	2,700
		19	2,500
		23	1,300
		<i>Bal.</i>	<i>9,500</i>

Furniture			
Jan 3	1,200		
<i>Bal.</i>	<i>1,200</i>		

Salaries Expense			
Jan 14	650		
31	650		
<i>Bal.</i>	<i>1,300</i>		

Land			
Jan 8	24,000		
<i>Bal.</i>	<i>24,000</i>		

Rent Expense			
Jan 31	1,700		
<i>Bal.</i>	<i>1,700</i>		

Req. 5

Miller & Associates, Inc.		
Trial Balance		
January 31, 2016		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$ 31,550	
Accounts receivable	3,700	
Supplies	100	
Furniture	1,200	
Land	24,000	
Accounts payable		\$ 150
Common stock		55,000
Dividends	1,100	
Service revenue		9,500
Salaries expense	1,300	
Rent expense	1,700	
Total	<u>\$64,650</u>	<u>\$64,650</u>

(25-30 min.) P 2-34A*Req. 1*

Journal			Page 6		
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep.	16	Cash	110	1,900	
		Accounts receivable	112		1,900
		Received payment on account.			
	18	Accounts receivable	112	2,800	
		Service revenue	411		2,800
		Performed service on account.			
	21	Cash	110	2,200	
		Service revenue	411		2,200
		Performed service for cash.			
	23	Supplies	115	250	
		Accounts Payable	210		250
		Purchased supplies on account.			
	25	Dividends	315	1,300	
		Cash	110		1,300
		Paid dividends.			
	27	Accounts payable	210	2,300	
		Cash	110		2,300
		Made payment on account.			
	29	Cash	110	2,500	
		Service revenue	411		2,500
		Received cash for services performed.			
	30	Rent Expense	515	1,600	
		Cash	110		1,600
		Paid rent.			
	30	Salaries Expense	511	1,800	
		Cash	110		1,800
		Paid employee salaries.			

Req. 2

CASH						ACCOUNT NO. 110	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√			4,100	
	16		J.6	1,900		6,000	
	21		J.6	2,200		8,200	
	25		J.6		1,300	6,900	
	27		J.6		2,300	4,600	
	29		J.6	2,500		7,100	
	30		J.6		1,600	5,500	
	30		J.6		1,800	3,700	

ACCOUNTS RECEIVABLE						ACCOUNT NO. 112	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√			8,800	
	16		J.6		1,900	6,900	
	18		J.6	2,800		9,700	

SUPPLIES						ACCOUNT NO. 115	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√			300	
	23		J.6	250		550	

EQUIPMENT						ACCOUNT NO. 140	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√			12,900	

ACCOUNTS PAYABLE						ACCOUNT NO. 210	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√				5,200
	23		J.6		250		5,450
	27		J.6	2,300			3,150

COMMON STOCK						ACCOUNT NO. 311	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√				21,000

DIVIDENDS						ACCOUNT NO. 315	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√			2,800	
	25		J.6	1,300		4,100	

SERVICE REVENUE						ACCOUNT NO. 411	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√				6,700
	18		J.6		2,800		9,500
	21		J.6		2,200		11,700
	29		J.6		2,500		14,200

SALARIES EXPENSE						ACCOUNT NO. 511	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√			2,700	
	30		J.6	1,800		4,500	

RENT EXPENSE						ACCOUNT NO. 515	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Sep	15	Bal.	√			1,300	
	30		J.6	1,600		2,900	

Req. 3

Security Solutions, Inc.			
Trial Balance			
September 30, 2016			
	ACCOUNT	DEBIT	CREDIT
	Cash	\$ 3,700	
	Accounts receivable	9,700	
	Supplies	550	
	Equipment	12,900	
	Accounts payable		\$ 3,150
	Common stock		21,000
	Dividends	4,100	
	Service revenue		14,200
	Salaries expense	4,500	
	Rent expense	<u>2,900</u>	<u> </u>
	Total	<u>\$38,350</u>	<u>\$38,350</u>

(20-25 min.) P 2-35A

Req. 1

Hernandez Computer Repair, Inc.		
Trial Balance		
March 31, 2016		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	\$ 4,600	
Accounts receivable	850	
Supplies	350	
Building	110,000	
Land	20,000	
Accounts payable		\$ 925
Notes payable		98,000
Common stock		15,000
Retained earnings		17,010
Dividends	2,000	
Service revenue		13,200
Salaries expense	3,650	
Rent expense	1,500	
Utilities expense	675	
Supplies expense	360	
Insurance expense	150	
Total	<u>\$144,135</u>	<u>\$144,135</u>

Req. 2

Hernandez Computer Repair, Inc.		
Income Statement		
Month Ended March 31, 2016		
Service revenue		\$13,200
Expenses		
Salaries expense	\$3,650	
Rent expense	1,500	
Utilities expense	675	
Supplies expense	360	
Insurance expense	<u>150</u>	
Total expenses		<u>6,335</u>
Net Income		<u>\$6,865</u>

Hernandez Computer Repair, Inc. Statement of Retained Earnings Month Ended March 31, 2016	
Retained earnings, Mar. 1, 2016	\$17,010
Add: Net income	<u>6,865</u>
Subtotal	23,875
Less: Dividends	<u>2,000</u>
Retained earnings, Mar. 31, 2016	<u>\$21,875</u>

Hernandez Computer Repair, Inc. Balance Sheet March 31, 2016			
ASSETS		LIABILITIES	
Cash	\$ 4,600	Accounts payable	\$ 925
Accounts receivable	850	Notes payable	<u>98,000</u>
Supplies	350	Total liabilities	98,925
Land	20,000	STOCKHOLDERS' EQUITY	
Building	<u>110,000</u>	Common stock	15,000
		Retained earnings	<u>21,875</u>
		Total stockholders' equity	<u>36,875</u>
		Total liabilities and	
Total assets	<u>\$135,800</u>	stockholders' equity	<u>\$135,800</u>

Req 3

It was a profitable month for Hernandez Computer Repair, Inc. from the standpoint that the business generated \$6,865 of Net income.

(15-20 min.) P 2-36A

Req. 1

Journal			Page 3		
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
	a.	Cash		270	
		Service revenue			270
		(\$1,410– \$1,140 = \$270)			
	b.	Supplies		900	
		Accounts payable			900
		The original entry was recorded “backwards” so an entry for double the amount needs to be made.			
	c.	Cash		7,200	
		Rent expense			7,200
		(\$8,000 - \$800 = \$7,200)			
	d.	Accounts payable		850	
		Accounts receivable			850

Req 2

- Net income is understated because Service revenue was credited (increased) by only \$1,140 instead of the correct amount of \$1,410.
- Net income would be unchanged because the entry did not effect a revenue or an expense.
- Net income would be understated because Rent expense was debited (increased) by \$8,000 instead of the correct amount of \$800.
- Net income would be unchanged because the entry did not effect a revenue or an expense.

(15-20 min.) P 2-37B

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Nov	1	Cash		70,000	
		Common stock			70,000
	3	Supplies		275	
		Cash			275
	8	Land		34,000	
		Cash			34,000
	12	Office equipment		3,300	
		Accounts payable			3,300
	17	Cash		50,000	
		Notes payable			50,000
	26	Accounts payable		2,150	
		Cash			2,150
	30	Cash		8,000	
		Accounts receivable		25,000	
		Service revenue			33,000
	30	Salaries expense		2,400	
		Rent expense		1,100	
		Utilities expense		385	
		Cash			3,885
	30	Dividends		4,000	
		Cash			4,000

(15-20 min.) P 2-38B

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Aug	1	Cash		225,000	
		Notes payable			225,000
	3	Building		200,000	
		Cash			200,000
	6	Accounts receivable		19,000	
		Service revenue			19,000
	9	Supplies		245	
		Accounts payable			245
	13	Cash		7,600	
		Service revenue			7,600
	15	Dividends		5,000	
		Cash			5,000
	17	Cash		6,600	
		Accounts Receivable			6,600
	18	Property tax expense		1,200	
		Cash			1,200
	22	Salaries expense		2,500	
		Cash			2,500
	26	Supplies		185	
		Cash			185
	31	Accounts payable		150	
		Cash			150

(20-25 min.) P2-39B**Req. 2**

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Mar	1	Cash		60,000	
		Common stock			60,000
	3	Supplies		275	
		Furniture		2,100	
		Accounts payable			2,375
	5	Cash		2,200	
		Service revenue			2,200
	8	Land		22,000	
		Cash			22,000
	11	Accounts receivable		1,500	
		Service revenue			1,500
	14	Salaries expense		1,200	
		Cash			1,200
	16	Accounts payable		1,750	
		Cash			1,750
	19	Cash		850	
		Service revenue			850
	23	Accounts receivable		1,800	
		Service revenue			1,800
	28	Cash		400	
		Accounts receivable			400
	31	Salaries expense		1,200	
		Cash			1,200
	31	Rent expense		1,700	
		Cash			1,700
	31	Dividends		1,000	
		Cash			1,000

Req. 1, 3, and 4

Cash			
Mar 1	60,000	Mar 8	22,000
5	2,200	14	1,200
19	850	16	1,750
28	400	31	1,200
		31	1,700
		31	1,000
Bal.	34,600		

Accounts Receivable			
Mar 11	1,500	Mar 28	400
23	1,800		
Bal.	2,900		

Supplies	
Mar 3	275
Bal.	275
9,200	

Furniture	
Mar 3	2,100
Bal.	2,100

Land	
Mar 8	22,000
Bal.	22,000

Accounts Payable			
Mar 16	1,750	Mar 3	2,375
		Bal.	625

Common stock		
	Mar 1	60,000
	Bal.	60,000

Dividends		
Mar 31	1,000	
Bal.	1,000	

Service revenue		
	Mar 5	2,200
	11	1,500
	19	850
	23	1,800
	Bal.	6,350

Salaries Expense		
Mar 14	1,200	
31	1,200	
Bal.	2,400	

Rent Expense		
Mar 31	1,700	
Bal.	1,700	

Req. 5

Le & Associates, Inc.		
Trial Balance		
March 31, 2016		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$ 34,600	
Accounts receivable	2,900	
Supplies	275	
Furniture	2,100	
Land	22,000	
Accounts payable		\$ 625
Common stock		60,000
Dividends	1,000	
Service revenue		6,350
Salaries expense	2,400	
Rent expense	1,700	
Total	<u>\$66,975</u>	<u>\$66,975</u>

(25-30 min.) P 2-40B

Req. 1

Journal			Page 6		
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
May	16	Cash	110	1,700	
		Accounts receivable	112		1,700
		Received payment on account.			
	18	Accounts receivable	112	2,200	
		Service revenue	411		2,200
		Performed service on account.			
	21	Cash	110	2,800	
		Service revenue	411		2,800
		Performed service for cash.			
	23	Supplies	115	600	
		Accounts Payable	210		600
		Purchased supplies on account.			
	25	Dividends	315	1,600	
		Cash	110		1,600
		Paid dividends.			
	27	Accounts payable	210	2,000	
		Cash	110		2,000
		Made payment on account.			
	29	Cash	110	4,200	
		Service revenue	411		4,200
		Received cash for services performed.			
	30	Rent Expense	515	900	
		Cash	110		900
		Paid rent.			
	31	Salaries Expense	511	1,950	
		Cash	110		1,950
		Paid employee salaries.			

Req. 2

CASH						ACCOUNT NO. 110	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			4,700	
	16		J.6	1,700		6,400	
	21		J.6	2,800		9,200	
	25		J.6		1,600	7,600	
	27		J.6		2,000	5,600	
	29		J.6	4,200		9,800	
	30		J.6		900	8,900	
	31		J.6		1,950	6,950	

ACCOUNTS RECEIVABLE						ACCOUNT NO. 112	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			5,300	
	16		J.6		1,700	3,600	
	18		J.6	2,200		5,800	

SUPPLIES						ACCOUNT NO. 115	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			150	
	23		J.6	600		750	

EQUIPMENT						ACCOUNT NO. 140	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			15,750	

ACCOUNTS PAYABLE						ACCOUNT NO. 210	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√				2,900
	23		J.6		600		3,500
	27		J.6	2,000			1,500

COMMON STOCK						ACCOUNT NO. 311	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√				22,000

DIVIDENDS						ACCOUNT NO. 315	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			2,900	
	25		J.6	1,600		4,500	

SERVICE REVENUE						ACCOUNT NO. 411	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√				8,200
	18		J.6		2,200		10,400
	21		J.6		2,800		13,200
	29		J.6		4,200		17,400

SALARIES EXPENSE						ACCOUNT NO. 511	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			2,800	
	31		J.6	1,950		4,750	

RENT EXPENSE						ACCOUNT NO. 515	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			1,500	
	30		J.6	900		2,400	

Req. 3

Security Systems, Inc.			
Trial Balance			
May 31, 2016			
	ACCOUNT	DEBIT	CREDIT
	Cash	\$ 6,950	
	Accounts receivable	5,800	
	Supplies	750	
	Equipment	15,750	
	Accounts payable		\$ 1,500
	Common stock		22,000
	Dividends	4,500	
	Service revenue		17,400
	Salaries expense	4,750	
	Rent expense	2,400	
	Total	<u>\$40,900</u>	<u>\$40,900</u>

(20-25 min.) P 2-41B

Req. 1

Wellington Electronics Repair, Inc.		
Trial Balance		
October 31, 2016		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	15,100	
Accounts receivable	4,200	
Supplies	250	
Building	135,000	
Land	58,000	
Accounts payable		\$ 3,300
Notes payable		152,000
Common stock		45,000
Retained earnings		14,840
Dividends	1,500	
Service revenue		7,750
Salaries expense	5,200	
Rent expense	2,400	
Utilities expense	535	
Supplies expense	480	
Insurance expense	225	
Total	<u>\$222,890</u>	<u>\$222,890</u>

Req. 2

Wellington Electronics Repair, Inc.		
Income Statement		
Month Ended October 31, 2016		
Service revenue		\$7,750
Expenses		
Salaries expense	\$5,200	
Rent expense	2,400	
Utilities expense	535	
Supplies expense	480	
Insurance expense	<u>225</u>	
Total expenses		<u>8,840</u>
Net Loss		<u><u>\$(1,090)</u></u>

Wellington Electronics Repair, Inc. Statement of Retained Earnings Month Ended October 31, 2016	
Retained earnings, October 1, 2016	\$14,840
Subtract: Net loss	<u>(1,090)</u>
Subtotal	13,750
Less: Dividends	<u>1,500</u>
Retained earnings, October 31, 2016	<u>\$12,250</u>

Wellington Electronics Repair, Inc. Balance Sheet October 31, 2016			
ASSETS		LIABILITIES	
Cash	\$15,100	Accounts payable	\$ 3,300
Accounts receivable	4,200	Note payable	<u>152,000</u>
Supplies	250	Total liabilities	155,300
Land	58,000	STOCKHOLDERS' EQUITY	
Building	<u>135,000</u>	Common stock	45,000
		Retained earnings	<u>12,250</u>
		Total stockholders' equity	<u>57,250</u>
		Total liabilities and	
Total assets	<u>\$212,550</u>	stockholders' equity	<u>\$212,550</u>

Req 3

It was a not a profitable month for Wellington Electronics Repair, Inc. from the standpoint that the business generated a loss of \$1,090.

(15-20 min.) P 2-42B

Req. 1

Journal			Page 3	
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
a.	Service revenue		180	
	Cash			180
	(\$1,640 – \$1,460 = \$180)			
b.	Supplies		370	
	Accounts payable			370
	The original entry was recorded “backwards” so an entry for double the amount needs to be made			
c.	Rent expense		1,215	
	Cash			1,215
	(\$1,350 - \$135 = \$1,215)			
d.	Accounts payable		1,750	
	Accounts receivable			1,750

Req 2

- a. Net income is overstated because Service revenue was credited (increased) by \$1,640 instead of the correct amount of \$1,460.
- b. Net income would be unchanged because the entry did not effect a revenue or an expense.
- c. Net income would be overstated because Rent expense was debited (increased) by only \$135 instead of the correct amount of \$1,350.
- d. Net income would be unchanged because the entry did not effect a revenue or an expense.

Continuing Exercise

Req 2

May 1	Cash	1,500	
	Common Stock		1,500
3	Equipment	1,908	
	Accounts payable		1,908
5	Supplies	125	
	Cash		125
6	Accounts receivable	375	
	Service revenue		375
17	Cash	275	
	Service Revenue		275
28	Utilities Expense	65	
	Cash		65
30	Cash	150	
	Accounts receivable		150

Req. 1 & 3

Assets				=	Liabilities			+	Stockholders' equity		
									Common stock		
Cash					Supplies						
5/1	1,500	125	5/5		5/5	125				1,500	5/1
5/17	275	65	5/28								
5/30	150										
Bal.	1,735				Bal.	125				1,500	Bal.
					Equipment				Retained earnings		
					5/3	1,908					
					Bal.	1,908					
Accounts receivable									Service revenue		
5/6	375	150	5/30							375	5/6
										275	5/17
Bal.	225									650	Bal.
									Utilities expense		
									5/28	65	
									Bal.	65	

Req 4

Sensations Salon, Inc.
Trial Balance
May 31, 2016

ACCOUNT	DEBIT	CREDIT
Cash	\$1,735	
Accounts receivable	225	
Supplies	125	
Equipment	1,908	
Accounts payable		\$1,908
Common stock		1,500
Service revenue		650
Utilities expense	65	
Total	<u>\$4,058</u>	<u>\$4,058</u>

Continuing Problem

Req. 1

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
April	1	Salaries expense		675	
		Cash			675
	2	Land		16,000	
		Cash			16,000
	3	Rent expense		1,500	
		Cash			1,500
	4	Cash		1,700	
		Service revenue			1,700
	5	Cash		600	
		Accounts receivable			600
	8	Supplies		450	
		Accounts payable			450
	11	Accounts receivable		4,200	
		Service revenue			4,200
	13	Cash		10,000	
		Common stock			10,000
	16	Salaries Expense		675	
		Cash			675
	17	Cash		1,450	
		Service revenue			1,450
	18	Cash		300	

		Accounts receivable			300
	19	Advertising expense		500	
		Cash			500
	21	Accounts payable		700	
		Cash			700
	22	Office furniture		2,100	
		Accounts payable			2,100
	24	Miscellaneous expense		75	
		Cash			75
	26	Accounts receivable		1,900	
		Service revenue			1,900
	28	Cash		900	
		Accounts receivable			900
	30	Utilities expense		245	
		Cash			245
	30	Salaries expense		675	
		Cash			675
	30	Dividends		2,300	
		Cash			2,300

Req. 2

CASH							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				31,880	
Apr	1				675	31,205	
	2				16,000	15,205	
	3				1,500	13,705	
	4			1,700		15,405	
	5			600		16,005	
	13			10,000		26,005	
	16				675	25,330	
	17			1,450		26,780	
	18			300		27,080	
	19				500	26,580	
	21				700	25,880	
	24				75	25,805	
	28			900		26,705	
	30				245	26,460	
	30				675	25,785	
	30				2,300	23,485	

ACCOUNTS RECEIVABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				1,300	
Apr	5				600	700	
	11			4,200		4,900	
	18				300	4,600	
	26			1,900		6,500	
	28				900	5,600	

SUPPLIES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				900	
Apr	8			450		1,350	

LAND							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	2			16,000		16,000	

OFFICE FURNITURE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	22			2,100		2,100	

EQUIPMENT							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				3,600	

VEHICLES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				35,800	

ACCOUNTS PAYABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.					1,000
Apr	8				450		1,450
	21			700			750
	22				2,100		2,850

NOTES PAYABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.					35,800

COMMON STOCK							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.					35,000
Apr	13				10,000		45,000

DIVIDENDS							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				1,500	
Apr	30			2,300		3,800	

SERVICE REVENUE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.					4,050
Apr	4				1,700		5,750
	11				4,200		9,950
	17				1,450		11,400
	26				1,900		13,300

SALARIES EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				620	
Apr	1			675		1,295	
	16			675		1,970	
	30			675		2,645	

RENT EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	3			1,500		1,500	

UTILITIES EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				250	
Apr	30			245		495	

ADVERTISING EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	19			500		500	

MISCELLANEOUS EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	24			75		75	

Req. 3

Fitness Equipment Doctor, Inc.			
Trial Balance			
April 30, 2016			
	ACCOUNT	DEBIT	CREDIT
	Cash	\$ 23,485	
	Accounts receivable	5,600	
	Supplies	1,350	
	Land	16,000	
	Office furniture	2,100	
	Equipment	3,600	
	Vehicles	35,800	
	Accounts payable		\$ 2,850
	Notes payable		35,800
	Common stock		45,000
	Dividends	3,800	
	Service revenue		13,300
	Salaries expense	2,645	
	Rent expense	1,500	
	Advertising expense	500	
	Utilities expense	495	
	Miscellaneous expense	75	
	Total	\$96,950	\$96,950

Continuing Financial Statement Analysis Problem

- a. Cash and cash equivalents would increase by \$50 million and debt would increase by \$50 million. This would cause Total assets and Total liabilities and shareholders' investment to each increase by \$50 million.

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		\$50 million	
	Other long-term debt			\$50 million
	Borrowed \$50,000,000 in debt.			

- b. There would be no net change in Total assets. Cash would decrease by \$50 million and Property and equipment would increase by \$50 million. This causes Total current assets to decrease by \$50 million and Property and equipment, net to increase by \$50 million for a net effect on Total assets of zero.

Date	Accounts	Post Ref.	Dr.	Cr.
	Property and equipment		\$50 million	
	Cash			\$50 million
	Purchased building for \$50 million.			

- c. On the income statement, sales and costs would increase, creating an additional net income of \$10 million. The \$10 million increase in net income would then be added to the previous year's retained earnings, which would increase retained earnings on the balance sheet by \$10 million. Cash would also increase by \$10 million on the balance sheet. This would cause total assets to increase by \$10 million and total liabilities and shareholders' investment to increase by \$10 million.

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		\$10 million	
	Retained Earnings			\$10 million
	To record cash sales.			

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet

- d. The salary expense increase of \$1 million would cause an increase of \$1 million in selling, general and administrative expenses on the income statement. This would cause net earnings to decrease by \$1 million. Net earnings would then be added to the previous year's retained earnings, which would decrease retained earnings on the balance sheet by \$1 million. Cash would also decrease by \$1 million on the balance sheet. This would cause total assets to decrease by \$1 million and total liabilities and shareholders' investment to decrease by \$1 million.

Date	Accounts	Post Ref.	Dr.	Cr.
	Retained Earnings		\$1 million	
	Cash			\$1 million
	Salaries of \$1 billion are paid.			

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet.

Ethics in Action

Case #1

- Lynne should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was *not* a dividend but rather the payment of an expense.
- It does matter how the \$3,800 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.
- Lynne does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the \$3,800 expense, Lynne is giving the bank an inaccurate and misleading income statement.

Case #2

- Joe's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.
- There are ethical concerns. Joe has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions in order to provide accurate

information; therefore, accountants have an ethical duty to ensure accurate financial reporting.

- As the owner of Lawn Boyz Lawnservice you should have a problem with Joe's actions. You need to have accurate financial information for decision-making purposes. Accordingly, by Joe reducing the actual amount of Wage Expense, you may not be aware of the actual labor costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Joe has not fulfilled his obligation as an accountant.

Financial Analysis

Journal			
DATE	ACCOUNTS	Dr.	Cr.
Jan 2	Property, Plant and Equipment	612,000	
	Cash		612,000
8	Cash	1,217,000	
	Net Sales		1,217,000
12	Inventory	32,358,000	
	Accounts Payable		32,358,000
21	Accounts Receivable	128,426,000	
	Net Sales		128,426,000
30	Accounts Payable	22,412,000	
	Cash		22,412,000

2. No solution.

Industry Analysis

1. Under Armour is the larger company in terms of revenue, with approximately \$3.1 billion in net revenues for 2014 as compared to approximately \$2.1 billion of net sales for Columbia Sportswear. This information is on the Consolidated Statement of Operations/Income.
2. Under Armour is the larger of the two in terms of total assets with about \$2.1 billion at December 31, 2014, compared to about \$1.8 billion for Columbia Sportswear. This information is on the Consolidated Balance Sheet.
3. Under Armour has more debt at the end of 2014 with around \$745 million at the end of the year. Columbia Sportswear has approximately \$437 million in debt at the end of 2014. This information is also located on the Consolidated Balance Sheet. Note that the terms total liabilities and total debt mean the same thing.
4. Under Armour wins this one with a gross profit percentage of 49.0% ($\$1,512,206,000 / \$3,084,370,000$) as compared to only 45.5% ($\$954,951,000 / \$2,100,590,000$) for Columbia Sportswear. In terms of gross profit percentage, the higher the number, the better. This percentage indicates that Under Armour is doing a little better job of making profit from selling their products.
5. Columbia Sportswear paid out more dividends to their stockholders in 2014. They paid \$39,836,000 in dividends. This number can be found on one of two financial statements. It's shown on either the Consolidated Statement of Cash Flows or the Consolidated Statements of Shareholders' Equity. Again note that the terms Stockholder and Shareholder mean the same thing. What about Under Armour? They did not pay out any dividends in any of the years covered by these financial statements.
6. Student's response to this question will obviously vary.

Small Business Analysis

There are two mistakes here affecting the cash account. The first mistake is the cash transaction utilizing the debit card. When cash is decreased, it must be credited. Your client debited cash for the transaction using the logic that they were using a **debit** card. To correct this transaction, you will need to remove the original transaction and journalize the transaction correctly. These journal entries look the same. They are as follows:

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Supplies		320	
	Cash			320
	To remove the original debit card transaction.			

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Supplies		320	
	Cash			320
	To record purchase of supplies using debit card.			

The next error is that the credit card transaction doesn't have any effect on Cash until the credit card bill is paid. When the original transaction took place, a liability account, such as Credit Card Payable, should have been credited. To correct this, the following entry needs to be made.

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Cash		275	
	Credit Card Payable			275
	Correcting entry—used credit card instead of cash for utility bill.			

Written Communication

Although student's responses will vary widely, here is a suggested memo to address the two situations.

Dear Client:

I want to address the two concerns you had in your e-mail to me last week. The first one was about the credit balance in your cash account. Even after corrections are made, the cash was still showing a credit balance. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have a credit balance in your cash account if your checking account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your checks unpaid. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

The second situation was concerning the use of debit cards versus credit cards. The terminology does get very confusing. Without going into an accounting lesson on the differences between debits and credits, let me explain what happens when you use the two cards. When you use your debit card, there have to be funds available in whatever account that card is attached to because the use of this card will automatically withdraw that amount of money from the account. The bank "debits" your account which, in banking terms, means they removed the money from your account. On the other hand, you have to credit cash because you are decreasing your cash account.

A credit card transaction, on the other hand, does not automatically remove the cash from your account. It sets up a liability to the credit card company which will have to be paid when you get the credit card statement. So the credit card transaction itself does not affect cash. You are not crediting cash when you use your credit card. You are crediting a liability to the credit card company which means you owe them money.