

Discussion Questions

- 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 it 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.

S 2-1**(5-10 min.)**

Match the accounting terms at the left with the corresponding definitions at the right.

Solution:

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

S 2-2**(5-10 min.)**

For each of the following accounts, place the corresponding letter(s) of its account type in the space provided. Use the most detailed account type appropriate. (A) Asset (L) Liability (SE) Stockholders' Equity (R) Revenue (E) Expense

Solution:

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

S 2-3**(5-10 min.)**

The following list names the activities involved in the accounting process of recording and summarizing business transactions. Place the number corresponding with the order the activity occurs next to the activity, starting with 1.

Solution:

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.

S 2-4**(5-10 min.)**

For each of the following accounts, indicate the account type by labeling it as an asset (A), liability (L), stockholders' equity (SE), revenue (R), or expense (E). Also give the digit each account number would begin with in the chart of accounts. Use the most detailed account type appropriate.

Solution:

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

S 2-5**(5-10 min.)**

Demonstrate your knowledge of accounting terminology by filling in the blanks to review some key definitions.

Dillon Baker is describing the accounting process for a friend who is a psychology major. Dillon states, "The basic summary device in accounting is the _____. The left side of an account is called the _____ side, and the right side is called the _____ side. We record transactions first in a _____. Then we post, or copy, the data to the _____. It is helpful to list all the accounts with their balances on a _____."

Solution:

Dillon Baker is describing the accounting process for a friend who is a psychology major. Dillon states, "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."

S 2-6**(5-10 min.)**

For each of the following accounts, indicate if the account's normal balance is a debit balance (DR) or a credit balance (CR).

Solution:

<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

S 2-7
(5-10 min.)

Calculate each account balance.

Solution:

Supplies			
Mar-08	250	Mar-27	400
Mar-17	800		
Bal.	650		

Note payable			
Mar-20	1,250	Mar-05	9,500
Mar-31	4,500		
		Bal.	3,750

S 2-8**(5-10 min.)**

Complete the following table. For each account listed, identify the type of account, how the account is increased (debit or credit), and how the account is decreased (debit or credit). Use the most detailed account type appropriate.

Solution:

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.

S 2-9**(15-20 min.)**

Complete the following table. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side.

Solution:

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

S 2-10**(10-15 min.)**

Using the steps outlined in the five-step transaction analysis, record the transactions in the journal.

Solution:

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

S 2-11**(10-15 min.)**

Using the steps outlined in the five-step transaction analysis, record the transactions in the journal.

Solution:

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
Sep 3	Cash Note payable Borrowed money from the bank.		35,000	35,000
9	Accounts receivable Service revenue Performed service on account.		1,250	1,250
16	Cash Accounts receivable Received cash on account.		500	500
22	Utilities expense Accounts payable Received utility bill.		380	380
30	Salaries expense Cash Paid salary expense.		2,250	2,250
30	Interest expense Cash Paid interest expense.		170	170

S 2-12
(10-15 min.)

Prepare the trial balance for Audio Masters at April 30, 2016. List the accounts in proper order.

Solution:

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>

S 2-13**(5-10 min.)**

Indicate the financial statement that will include the account: income statement (IS), statement of retained earnings (RE), or balance sheet (BS).

Solution:

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>

S 2-14**(5-10 min.)**

Match the accounting terms at the left with the corresponding phrase at the right.

Solution:

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

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

Requirement

1. Complete the following table. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side.

Solution:

Req. 1

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

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

Using the steps outlined in the five-step transaction analysis, record the following transactions in the general journal for Gulaine Plumbing, Inc. Explanations are not required.

Solution:

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

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

Requirement

1. Using the steps outlined in the five-step transaction analysis, journalize the transactions of Wu & Associates, Inc. List transactions by date. Use the following accounts: Cash, Accounts Receivable, Supplies, Building, Accounts Payable, Common Stock, Service Revenue, Salaries Expense, and Rent Expense.

Solution:

Req. 1

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

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

Requirements

1. Calculate account balances at January 31, 2016.
2. Prepare the trial balance for Creative Design, Inc., at January 31, 2016.

Solution:

Req. 1

Cash			
Jan. 1	55,000	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

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

Common stock			
		Jan. 1	55,000
		Bal.	55,000

Supplies			
Jan. 3	400		
Bal.	400		

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

Equipment			
Jan. 4	10,200		
Bal.	10,200		

Salaries Expense			
Jan. 15	800		
29	850		
Bal.	1,650		

Rent Expense			
Jan. 2	1,250		
Bal.	1,250		

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>

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

Requirements

1. Journalize the transactions for the month of March. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at March 31, 2016.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at March 31, 2016.

Solution:

Req 1

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

Req 2 & 3

Cash			
Mar. 1	2,000	Mar. 2	900
4	1,600	19	450
11	2,300	31	2,000
15	40,000		
Bal.	42,550		

Accounts payable			
Mar. 19	450	Mar. 1	1400
		8	800
		Bal.	1750

Accounts receivable			
Mar. 1	3,300	Mar. 11	2,300
27	3,000		
Bal.	4,000		

Notes payable			
Mar. 31	2,000	Mar. 1	15,000
		Bal.	13,000

Supplies			
Mar. 1	300		
8	800		
Bal.	1100		

Common stock			
		Mar. 1	32,100
		15	40,000
		Bal.	72,100

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

Service revenue			
		Mar. 1	2,200
		4	1,600
		27	3,000
		Bal.	6,800

Building			
Mar. 1	42,000		
Bal.	42,000		

Rent expense			
Mar. 1	800		
2	900		
Bal.	1,700		

Req 4

Clocktower Cleaning, Inc. Trial Balance March 31, 2016		
BALANCE		
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>

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

Requirements

1. Based on the accounts, create the journal entries that resulted from the six transactions. Include explanations with each journal entry.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Sounds on Wheels, Inc., at April 30, 2016.
4. Prepare a balance sheet for Sounds on Wheels, Inc., as of April 30, 2016.

Solution:

Req 1

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

Req. 2

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

Accounts payable			
(6)	100	(2)	400
		Bal.	300

Supplies			
(2)	400		
Bal.	400		

Notes payable			
(5)	7,000	(3)	75,000
		Bal.	68,000

Equipment			
(4)	9,000		
Bal.	9,000		

Common stock			
		(1)	33,000
		Bal.	33,000

Building			
(3)	75,000		
Bal.	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	<u>\$ 101,300</u>	<u>\$ 101,300</u>

Req. 4

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

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

Requirements

1. Open, or set up, T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post the journal entries to the T-accounts, identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at June 30, 2016.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

Solution:

Req. 1, and 2

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

Common stock		
	Jun. 2	10,000
	Bal.	10,000

Supplies		
Jun. 11	600	
Bal.	600	

Service revenue		
	Jun. 19	2,300
	28	1,800
	Bal.	4,100

Equipment		
Jun. 6	2,800	
Bal.	2,800	

Rent Expense		
Jun. 3	1,300	
Bal.	1,300	

Furniture		
Jun. 8	1,500	
Bal.	1,500	

Utilities expense		
Nov-20	145	
Bal.	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	145	
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	145	
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, 2016		0
Add: Net income		<u>2,655</u>
Retained earnings, June 30, 2016		<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	STOCKHOLDERS' EQUITY	
Supplies	600	Common stock	10,000
Equipment	2,800	Retained earnings	<u>2,655</u>
Furniture	<u>1,500</u>	Total Stockholders' eq	<u>12,655</u>
Total assets	<u>\$ 14,755</u>	Total liabilities and stockholder's equity	<u>\$ 14,755</u>

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

1. For each of these errors, state whether Kylie's mistake would cause the total debits and total credits on the trial balance to be unequal.
2. Identify each account with an incorrect balance, and indicate the amount and direction of the error.

Solution:

	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

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

Requirement

1. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side. The first transaction has been analyzed for you.

Solution:

Req. 1

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

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

Using the steps outlined in the five-step transaction analysis, record the following transactions in the general journal for Marx Plumbing, Inc. Explanations are not required.

Solution:

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

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

Requirements

- Using the steps outlined in the five-step transaction analysis, journalize the transactions of Rudenko & Associates, Inc. List transactions by date. Explanations are not required.

Solution:

Req. 1

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

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

Requirements

1. Calculate account balances at March 31, 2016.
2. Prepare the trial balance for Inspired Design, Inc., at March 31, 2016.

Solution:

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 Payable			
Mar. 9	100	Mar. 3	800
		Bal.	700

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

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

Supplies			
Mar. 3	800		
Bal.	800		

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

Equipment			
Mar. 4	7,900		
Bal.	7,900		

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

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

Utilities Expense			
Mar. 28	425		
Bal.	425		

Req. 2

Inspiried 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>

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

Requirements

1. Journalize the transactions for the month of September. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at September 30, 2016.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at September 30, 2016.

Solution:

Req 1

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

Req 2 & 3

Cash			
Sept. 1	1,450	Sept. 2	500
4	1,800	19	450
11	1,200	28	5,000
15	10,000		
Bal.	8,500		

Accounts payable			
Sept. 19	450	1	2100
		8	900
		Bal.	2550

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

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

Supplies			
Sept. 1	450		
8	225		
Bal.	675		

Common stock			
		Sept. 1	30,000
		15	5,000
		Bal.	35,000

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

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

Building			
Sept. 1	3,800		
Bal.	3,800		

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

Req 4

White Glove Cleaning, Inc. Trial Balance September 31, 2016		
BALANCE		
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	\$57,050	\$57,050

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

Requirements

1. Prepare the journal entries that served as the sources for the six transactions.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Mobile Music, Inc., at November 30, 2016.
4. Prepare a balance sheet for Mobile Music, Inc., as of November 30, 2016.

Solution:

Req 1

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

Req. 2

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

Accounts payable			
(6)	150	(2)	300
		Bal.	150

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 stockholder's equity	<u>\$ 98,150</u>
Total assets	<u>\$ 98,150</u>		

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

Requirements

1. Open or set up T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post journal entries to the T-accounts. Identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at September 30, 2016.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

Solution:

Req. 1, and 2

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

Req. 1, and 3

Cash			
Sep. 2	50,000	Sep. 3	800
28	1,125	6	1,600
		20	175
Bal.	48,550		

Accounts payable		
	Sep. 8	3,000
	11	700
	Bal.	3,700

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

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

Supplies		
Sep. 11	700	
Bal.	700	

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

Equipment		
Sep. 6	1,600	
Bal.	1,600	

Rent Expense		
Sep. 3	800	
Bal.	800	

Furniture		
Sep. 8	3,000	
Bal.	3,000	

Utilities expense		
Sep. 20	175	
Bal.	175	

Req. 4

McGuire Construction, Inc. Trial Balance September 30, 2016		
BALANCE		
ACCOUNT TITLE	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	\$ 57,125	\$ 57,125

Req. 5

McGuire Construction, Inc. Income Statement Month Ended September 30, 2016		
Service revenue		\$ 3,425
Expenses:		
Rent expense	\$ 800	
Utilities expense	175	
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	STOCKHOLDERS' EQUITY	
Supplies	700		
Equipment	1,600		
Furniture	<u>3,000</u>		
		Common stock	50,000
		Retained earnings	<u>2,450</u>
		Total Stockholders' equity	<u>52,450</u>
		Total liabilities and stockholder's equity	
Total assets	<u>\$ 56,150</u>		<u>\$ 56,150</u>

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

1. For each of these errors, state whether James' mistake would cause the total debits and total credits on the trial balance to be unequal.
2. Identify each account with an incorrect balance, and indicate the amount and direction of the error.

Solution:

	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

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

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

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

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

P2-33A
(20-25 min.)

Requirements

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts, using transaction dates as posting references.
4. Calculate the balance in each account at January 31, 2016.
5. Prepare the trial balance for Miller & Associates, Inc., at January 31, 2016.

Solution:

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
Bal.	31,550		

Accounts Payable			
Jan. 16	1,150	Jan. 3	1,300
		Bal.	150

Common stock			
		Jan. 1	55,000
		Bal.	55,000

Accounts Receivable			
Jan. 11	2,700	Jan. 28	300
23	1,300		
Bal.	3,700		

Dividends			
Jan. 31	1,100		
Bal.	1,100		

Supplies			
Jan. 3	100		
Bal.	100		

Service revenue			
		Jan. 5	3,000
		11	2,700
		19	2500
		23	1,300
		Bal.	9,500

Furniture			
Jan. 3	1,200		
Bal.	1,200		

Salaries Expense			
Jan. 14	650		
31	650		
Bal.	1,300		

Land			
Jan. 8	24,000		
Bal.	24,000		

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

Req 2

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

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>

P 2-34A
(25-30 min.)

Requirements

1. Journalize the transactions that occurred September 16 to September 30 on page 6 of the journal.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at September 15. Use the four-column account format illustrated in the chapter. Enter "Bal" for the September 15 balance in the Item column. Post the transactions to the ledger using dates, account numbers, and posting references. Calculate the new account balances at September 30, 2016.
3. Prepare the trial balance for Security Solutions, Inc., at September 30, 2016.

Solution:

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.			

Journal				Page 6
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
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	2,900	
	Total	<u>\$ 38,350</u>	<u>\$ 38,350</u>

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

Requirements

1. Prepare the company's trial balance at March 31, 2016, listing accounts in the proper order. List the largest expense first, the second largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of \$17,010 is the beginning balance for the month; it has not been updated for the current month's income or loss.
3. Was it a profitable month for Hernandez Computer Repair, Inc.? Why or why not?

Solution:

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	\$ 144,135	\$ 144,135

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	150	
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, March 1, 2016	\$ 17,010
Add: Net income	<u>6,865</u>
Subtotal	23,875
Less: Dividends	<u>2,000</u>
Retained earnings, March 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 assets	<u>\$ 135,800</u>	Total liabilities and stockholders' equity	<u>\$ 135,800</u>

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

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

Requirements

1. Prepare the necessary journal entries to correct each of these errors.
2. For each of the errors, determine if the error would cause net income to be overstated, understated, or unchanged.

Solution:

Req. 1

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

Req 2

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

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

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

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

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

P2-39B**(20-25 min.)****Requirements**

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts that have been set up for you, using transaction dates as posting references.
4. Calculate the balance in each account.

Solution:**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
<i>Bal.</i>	34,600		

Accounts Payable			
Mar. 16	1,750	Mar. 3	2,375
		<i>Bal.</i>	625

Common stock			
		Mar. 1	60,000
		<i>Bal.</i>	60,000

Accounts Receivable			
Mar. 11	1,500	Mar. 28	400
23	1,800		
<i>Bal.</i>	2,900		

Dividends			
Mar. 31	1,000		
<i>Bal.</i>	1,000		

Supplies			
Mar. 3	275		
<i>Bal.</i>	275		

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

Furniture			
Mar. 3	2,100		
<i>Bal.</i>	2,100		

Salaries Expense			
Mar. 14	1,200		
31	1,200		
<i>Bal.</i>	2,400		

Land			
Mar. 8	22,000		
<i>Bal.</i>	22,000		

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

Req 2

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

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	\$ 66,975	\$ 66,975

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

Requirements

1. Journalize the transactions that occurred May 16 to May 31 on page 6 of the journal.
2. Open T-accounts for the ledger accounts listed in the trial balance and enter their beginning balances at May 15. Use the four-column account format illustrated in the chapter. Enter "Bal" for the May 15 balance in the item column. Post the transactions to the ledger, using dates, account numbers, and posting references. Calculate the new account balances at May 31, 2016.
3. Prepare the trial balance for Security Systems, Inc., at May 31, 2016.

Solution:

Req. 1 and 2 is done after Req. 3

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>

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.			
30	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	
30		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	
30		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	

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

Requirements

1. Prepare the company's trial balance at October 31, 2016, listing accounts in the proper order. List the largest expense first, the second-largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of \$14,840 is the beginning balance for the month; it has not been updated for the current month's net income or loss.
3. Was it a profitable month for Wellington Electronics Repair, Inc.? Why or why not?

Solution:

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	225	
Total expenses		<u>8,840</u>
Net Loss		<u>\$ (1,090)</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	Notes 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 assets	<u>\$ 212,550</u>	Total liabilities and stockholders' equity	<u>\$ 212,550</u>

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

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

Requirements

1. Prepare the necessary journal entries to correct each of these errors.
2. For each of the errors, determine if the error would cause net income to be overstated, understated, or unchanged.

Solution:

Req. 1

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

Req 2

a.	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.	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**Requirements**

1. Open T-accounts in the ledger: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Stock, Retained Earnings, Service Revenue, and Utilities Expense.
2. Journalize the transactions. Explanations are not required.
3. Post journal entries to the T-accounts. Key all items by date and denote an account balance as Bal. Formal posting references are not required. Determine ending balances in T-accounts on May 31, 2016.

Solution:**Req. 1 and 3 See after Req 4****Req 2**

May 1	Cash	1,500	
	Common Stock		1,500
3	Equipment	1,908	
	Accounts payable		1,908
5	Fuel expense	125	
	Cash		125
6	Accounts receivable	375	
	Service revenue		375
17	Lawn supplies	275	
	Cash		275
28	Cash	65	
	Service revenue		65
30	Cash	150	
	Accounts receivable		150

Req 4

Sensations Salon, Inc. Trial Balance May 31, 2016		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 1,735	
Accounts receivable	225	
Lawn supplies	125	
Equipment	1,908	
Accounts payable		\$1,908
Common stock		1,500
Service revenue		650
Fuel expense	65	
Total	<u>\$ 4,058</u>	<u>\$ 4,058</u>

Continuing Exercise

Req.1 and Req. 3

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

Continuing Problem

Requirements

1. Journalize the transactions that occurred in April. Omit explanations.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at March 31. Use the four-column account format illustrated in the chapter. Enter "Bal" for the March 31 balance in the Item column. Post the journal entries to the ledger creating new ledger accounts as necessary, omit posting references. Calculate the new account balances at April 30, 2016.
3. Prepare the trial balance for Fitness Equipment Doctor, Inc., at April 30, 2016.

Solution:**Req. 1**

Journal			Page 6	
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
April 1	Salaries expense Cash		675	675
2	Land Cash		16,000	16,000
3	Rent expense Cash		1,500	1,500
4	Cash Service revenue		1,700	1,700
5	Cash Accounts receivable		600	600
8	Supplies Accounts payable		450	450
11	Accounts receivable Service revenue		4,200	4,200
13	Cash Common stock		10,000	10,000
16	Salaries Expense Cash		675	675

Journal			Page 6	
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
17	Cash Service revenue		1,450	1,450
18	Cash Accounts receivable		300	300
19	Advertising expense Cash		500	500
21	Accounts payable Cash		700	700
22	Office furniture Accounts payable		2,100	2,100
24	Miscellaneous expense Cash		75	75
26	Accounts receivable Service revenue		1,900	1,900
28	Cash Accounts receivable		900	900
30	Utilities expense Cash		245	245
30	Salaries expense Cash		675	675
30	Dividends Cash		2,300	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	

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. What would happen to Dick's balance sheet if it borrowed \$50 million in cash from a bank?
- b. What would happen to Dick's balance sheet if it built a new store costing \$50 million in cash?
- c. What would happen to Dick's income statement and balance sheet if it had a big sale, increasing net income by \$10 million which all ended up as cash?
- d. What would happen to Dick's income statement and balance sheet if it hired more employees? The salaries of these employees cost Dick's \$1 million paid in cash.

Solution:

- a. Cash and cash equivalents would increase by \$50 million and unsecured debt and other borrowings 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	
	Unsecured debt and other borrowings			\$50 million
	Borrowed \$50,000,000 in unsecured debt.			

- b. There would be no net change in Total assets. Cash would decrease by \$50 million and Buildings and improvements 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 affect on Total assets of zero.

Date	Accounts	Post Ref.	Dr.	Cr.
	Buildings and improvements		\$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 billion. The \$10 billion 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 billion. Cash would also increase by \$10 billion on the balance sheet. This would cause total assets to increase by \$10 billion and total liabilities and shareholders' investment to increase by \$10 billion.

Date		Post Ref.	Dr.	Cr.
	Cash		\$10 billion	
	Retained Earnings			\$10 billion
	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. (The Sales and cost accounts are closed to Retained Earnings.)

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

Date		Post Ref.	Dr.	Cr.
	Retained Earnings		\$1 billion	
	Cash			\$1 billion
	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. (Salaries expense is closed to Retained Earnings.)

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

Requirements

1. Prepare journal entries to record the transactions listed. Use the account titles found in the Columbia Sportswear financial statements: Cash; Accounts Receivable; Inventory; Property, Plant, and Equipment; Accounts Payable; and Net Sales.
2. Look at the financial statements and locate the accounts that you included in your journal entries. Note that the balances Columbia Sportswear reported include millions of dollars in transactions for the year. Imagine how much activity and how many transactions Columbia Sportswear has every day!

Solution:

Req. 1

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

Req. 2

No solution.

Industry Analysis

Requirements

1. In terms of net sales or net revenue, which is the larger company for the year ending December 31, 2014? Which financial statement did you look at to find that information?
2. In terms of total assets at December 31, 2014, which is the larger company? Which financial statement did you look at to find that information?
3. Which company has more total debt at December 31, 2014? Which financial statement did you look at to find that information?
4. Which company has the higher gross profit percentage for the year ending December 31, 2014? Don't know that one? On the Consolidated Statements of Operations/Income, divide Gross Profit by Net Sales (or Net Revenues). What exactly does this mean?
5. Which company paid more cash dividends to its stockholders in 2014? Which financial statement did you look at to find that information?
6. Which company's stock would you rather own? Why?

Solution:

- 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

Requirement

1. Because Cash is the lifeblood of any business, having a correct balance in the Cash account is of utmost importance. Correctly entering cash transactions is equally important. Suggest to your client the corrections that need to be made to the journal entries she made.

Solution:

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-07	Supplies Cash To remove the original debit card transaction.		320	320

Date	Accounts	Post Ref.	Dr.	Cr.
May-07	Supplies Cash To record purchase of supplies using debit card.		320	320

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-07	Cash Credit Card Payable Correcting entry—used credit card instead of cash for utility bill.		275	275

Written Communication

Write a short memo or letter to your client addressing these two situations and what you would consider to be the proper accounting treatment for each of the two. More specifically, if the Cash account was showing as a credit balance, how would that have happened? Is it possible for that to happen? And regarding the use of the debit card versus the credit card, from the information contained in the chapter, explain the difference between the two types of cards and how each transaction should be recorded from an accounting point of view.

Solution:

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.