# **Chapter 2**

## Recording Business Transactions

### Short Exercises

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

**The transaction had a financial impact on the business and should be recorded. The payment for the computer was not an expense.**

**The payment related to the purchase of an asset, “Equipment,” because the computer is an economic resource of the business. The computer will provide benefit over more than one fiscal period.**

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

**a. $12,000 (Cash $10,000–$5,000; Supplies $2,000, Computer $5,000)**

**b. $2,000 Accounts Payable**

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

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
|  |  **25,000** |  | **4,000** |  |  | **6,000** |  |  |
|  |  **2,000** |  |  |  |  |  |  |  |
| **Bal.** |  **23,000** |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Supplies** |  | **Accounts Payable** |
|  |  **9,000** |  |  |  |  |  | **9,000** |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Rent** |  | **Service Revenue** |  | **Common Shares** |
| **4,000** |  |  |  | **8,000** |  |  | **25,000** |  |

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

**Increased total assets: May 1 (Cash)**

 **May 1 (Medical supplies)**

 **May 3 (Cash, Accounts receivable)**

**Decreased total assets: May 2 (Cash)**

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

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **June** | **15** | **Cash**  | **25,000** |  |
|  |  |  **Note Payable**  |  | **25,000** |
|  |  | **Borrowed money from the bank.** |  |  |
|  |  |  |  |  |
|  | **22** | **Accounts Receivable**  | **9,000** |  |
|  |  |  **Service Revenue**  |  | **9,000** |
|  |  | **Delivered portrait to be paid on account.** |
|  |  |  |  |  |
|  | **28** | **Cash**  | **5,000** |  |
|  |  |  **Accounts Receivable**  |  | **5,000** |
|  |  | **Received cash on account.** |  |  |
|  |  |  |  |  |
|  | **29** | **Utilities Expense**  | **600** |  |
|  |  |  **Accounts Payable**  |  | **600** |
|  |  | **Received utility bill.** |  |  |
|  |  |  |  |  |
|  | **30** | **Salary Expense**  | **2,500** |  |
|  |  |  **Cash**  |  | **2,500** |
|  |  | **Paid salary.** |  |  |
|  |  |  |  |  |

**(10-15 min.) S 2-6**

### *Req. 1*

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  |  | **Supplies………………………………..** | **5,000** |  |
|  |  |  **Accounts Payable…………………** |  | **5,000** |
|  |  | **Purchased supplies on account.** |  |  |
|  |  |  |  |  |
|  |  | **Accounts Payable……………………** | **3,000** |  |
|  |  |  **Cash…………………………………** |  | **3,000** |
|  |  | **Paid cash on account.** |  |  |

### *Req. 2*

|  |
| --- |
| **Accounts Payable** |
| **3,000** |  |  | **5,000** |
|  |  | **Bal.** | **2,000** |

### *Req. 3*

Biaggi's business owes $2,000, as shown in the Accounts Payable account.

**(10-15 min.) S 2-7**

### *Req. 1*

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  |  | **Accounts Receivable**  | **500** |  |
|  |  |  **Service Revenue**  |  | **500** |
|  |  | **Performed service on account.** |  |  |
|  |  |  |  |  |
|  |  | **Cash**  | **100** |  |
|  |  |  **Accounts Receivable**  |  | **100** |
|  |  | **Received cash on account.** |  |  |

### *Req. 2*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  **Cash** |  | **Accounts Receivable** |  | **Service Revenue** |
|  | **100** |  |  |  |  | **500** |  | **100** |  |  |  |  | **500** |
| **Bal.** | **100** |  |  |  | **Bal.** | **400** |  |  |  |  | **Bal.** | **500** |

### *Req. 3*

**a. The Centre earned $500: Service Revenue**

**b. Total assets $500: Cash………………….. $100**

 **Accounts receivable. 400**

 **Total assets…………. $500**

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

|  |
| --- |
| **lululemon athletica inc.** |
| **Trial Balance** |
| **December 31, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
|  | ***(Millions)*** |
| **Cash & other current assets** | **$ 53** |  |
| **Other assets**  | **101** |  |
| **Accounts payable**  |  | **$ 5** |
| **Other liabilities**  |  | **38** |
| **Shareholders’ equity**  |  | **80** |
| **Revenues**  |  | **275** |
| **Expenses**  |  **244** | **\_\_\_** |
| **Total**  | **$398** | **$398** |

**lululemon’s net income: $31 million ($275 – $244)**

**(10 min.) S 2-9**

**1. Total assets = $95,000 ($6,000 + $13,000 + $4,000 +**

 **$22,000 + $50,000)**

**2. Total liabilities = $39,000 ($19,000 + $20,000)**

**3. Net income = \*$38,000 ($70,000 – $21,000 – $10,000 –**

 **$1,000)**

**4. Total shareholders’ equity = $56,000 ($10,000 +**

 **$8,000 + $38,000\*)**

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

|  |
| --- |
| **Custom Pool Service, Inc.** |
| **Trial Balance** |
| **June 30, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **9,200** |  |
| **Accounts receivable**  | **15,200** |  |
| **Land**  | **29,600** |  |
| **Accounts payable**  |  |  **$ 4,100** |
| **Loan payable**  |  |  **11,500** |
| **Common shares**  |  |  **8,300**  |
| **Retained earnings**  |  |  **24,700** |
| **Dividends**  | **5,800** |  |
| **Service revenue**  |  |  **22,300** |
| **Salary expense**  | **8,500** |  |
| **Utilities expense**  | **1,700** |  |
| **Delivery expense**  |  **900** |  |
| **Total**  | **$70,900** | **$70,900** |

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

|  |  |  |  |
| --- | --- | --- | --- |
|  **H** |  **1. Debit** | **A.** | **The cost of operating a**  |
|  |  |  | **business; a decrease in**  |
|  **A** |  **2. Expense** |  | **shareholders’ equity** |
|  |  |  |  |
|  **C** |  **3. Net income** | **B.** | **Always a liability** |
|  |  |  |  |
|  **D** |  **4. Ledger** | **C.** | **Revenues – Expenses** |
|  |  |  |  |
|  **J** |  **5. Posting** | **D.**  | **Grouping of accounts** |
|  |  |  |  |
|  **I** |  **6. Normal balance** | **E.** | **Assets – Liabilities** |
|  |  |  |  |
|  **B** |  **7. Payable** | **F.** | **Record of transactions** |
|  |  |  |  |
|  **F** |  **8. Journal** | **G.** | **Always an asset** |
|  |  |  |  |
|  **G** |  **9. Receivable**  | **H.** | **Left side of an account** |
|  |  |  |  |
|  **E** |  **10. Owners’ equity** |  **I.** | **Side of an account where**  |
|  |  |  | **increases are recorded** |
|  |  |  |  |
|  |  |  **J.** | **Copying data from the****journal to the ledger** |

**(5 min.) S 2-12**

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Computer Equipment** |
|  | **100,000** |  |  |  |  | **60,000** |  |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Accounts Payable** |  | **Common Shares** |
|  |  |  | **60,000** |  |  |  |  | **100,000** |
|  |  |  |  |  |  |  |  |  |

**Total debits = $160,000 ($100,000 + $60,000)**

**Total credits = $160,000 ($60,000 + $100,000)**

**Exercises**

**(10-15 min.) E 2-13**

**TO: Home Office**

**FROM: Store Manager**

**During the first week, I borrowed $170,000 on a note payable. I used the store’s beginning cash plus the borrowed money to purchase land, a building, copy equipment, and supplies. After all these transactions, the store’s balance sheet appears as follows:**

|  |
| --- |
| **The Gap** |
| **Ottawa Store**  |
| **Balance Sheet** |
| **Date** |
| **ASSETS** | **LIABILITIES** |
| **Cash** | **$ 10,000** | **Note payable** | **$170,000** |
| **Inventory** | **40,000** |  |  |
| **Store fixtures** | **50,000** | SHAREHOLDERS’ EQUITY |
| **Land** | **40,000** | **Common shares** | **100,000** |
| **Building** |  **130,000** | **Total liabilities and** | **\_\_\_\_\_\_\_\_** |
| **Total assets** | **$270,000** |  **shareholders’ equity $270,000** |

|  |
| --- |
| **Cash** |
| **100,000** | **50,000** |
|  | **40,000** |
| **10,000** |  |

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

**a. Purchase of asset for cash**

 **Sale of asset for cash**

 **Collection of an account receivable**

**b. Payment of dividends to shareholders**

 **Expense transaction**

**c. Pay a liability**

 **Return of asset purchased on account**

**d. Issuance of shares**

 **Revenue transaction**

**e. Purchase of asset on account**

 **Borrow money**

 **(Answers may vary.)**

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

a. No effect on total assets. Increase in cash offsets the decrease in accounts receivable.

**b. No effect (a personal transaction)**

c. No effect on total assets. Increase in cash offsets the decrease in land.

**d. Increased assets (cash)**

e. No effect on total assets. Increase in land offsets the decrease in cash.

**f. Increased assets (cash)**

**g. Decreased assets (cash)**

**h. Increased assets (equipment)**

**i. Increased assets (supplies)**

**j. Decreased assets (cash)**

 **(10-20 min.) E 2-16**

### *Req. 1*

|  |
| --- |
| **Analysis of Transactions** |
|  **ASSETS =** |  **LIABILITIES + SHAREHOLDERS’ EQUITY** |
| **Date** |  Cash + |  **Accounts****Receivable +**  |  **Dental****Supplies +** |  **Land =** | **Accounts** **Payable +** |  **Note** **Payable +** | **Common** **Shares +** | **Retained****Earnings** | **Type of Shareholders’****Equity Transaction** |
| Mar. 6 |  **50,000** |  |  |  |  |  |  **50,000** |  | **Issued shares** |
| **9** | **(30,000)** |  |  |  **30,000** |  |  |  |  |  |
| **12** |  |  | **3,000** |  | **3,000** |  |  |  |  |
| **15** | **Not a transaction of the business.** |  |  |  |  |  |
| **15-31** | **5,000** | **5,000** |  |  |  |  |  |  **10,000** | **Service revenue** |
| **15-31** | **(1,400)** |  |  |  |  |  |  |  **(1,400)** | **Salary expense** |
|  | **(1,000)** |  |  |  |  |  |  |  **(1,000)** | **Rent expense** |
|  | **(300)** |  |  |  |  |  |  |  **(300)** | **Utilities expense** |
| **31** |  |  |  **(250)** |  |  |  |  |  **(250)** | **Supplies Expense** |
| **31** | **10,000** |  |  |  |  |  **10,000** |  |  |  |
| **31** |  **(2,000)** |  |  |  | **(2,000)** |  |  |  |  |
| **Bal.** | **30,300** | **5,000** | **2,750** | **30,000** | **1,000** | **10,000** | **50,000** | **7,050** |  |

 **$68,050 $68,050**

**NOTE: The supplies had been paid for in the $3,000 purchase, therefore not a debit to cash.**

**(continued) E 2-16**

### *Req. 2*

**a. $68,050**

**b. $5,000**

**c. $11,000 ($1,000 + $10,000)**

**d. $57,050 ($68,050 – $11,000, or $50,000 + $7,050)**

**e. $7,050 (Revenue, $10,000 minus total expenses of $2,950, equals net income, $7,050.)**

**(10-15 min.) E 2-17**

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **March** |  **6** | **Cash**  | **50,000** |  |
|  |  |  **Common Shares**  |  | **50,000** |
|  |  | **Issued shares to owner.** |  |  |
|  |  |  |  |  |
|  |  **9** | **Land**  | **30,000** |  |
|  |  |  **Cash**  |  | **30,000** |
|  |  | **Purchased land.** |  |  |
|  |  |  |  |  |
|  | **12** | **Dental Supplies**  |  **3,000** |  |
|  |  |  **Accounts Payable**  |  | **3,000** |
|  |  | **Purchased supplies on account.** |  |  |
|  |  |  |  |  |
|  | **15** | **Not a transaction of the business.** |  |  |
|  |  |  |  |  |
|  | **15-31** | **Cash**  | **5,000** |  |
|  |  | **Accounts Receivable**  | **5,000** |  |
|  |  |  **Service Revenue**  |  | **10,000** |
|  |  | **Performed service for cash and on account.** |  |
|  |  |  |  |  |
|  | **15-31** | **Salary Expense**  | **1,400** |  |
|  |  | **Rent Expense**  | **1,000** |  |
|  |  | **Utilities Expense**  | **300** |  |
|  |  |  **Cash**  |  | **2,700** |
|  |  | **Paid expenses.** |  |  |
|  |  |  |  |  |
|  | **31** | **Supplies Expense** | **250** |  |
|  |  |  **Dental Supplies**  |  | **250** |
|  |  | **Used dental supplies.** |  |  |
|  |  |  |  |  |
|  | **31** | **Cash**  | **10,000** |  |
|  |  |  **Note Payable**  |  | **10,000** |
|  |  | **Borrowed money.** |  |  |
|  |  |  |  |  |
|  | **31** | **Accounts Payable**  | **2,000** |  |
|  |  |  **Cash**  |  | **2,000** |
|  |  | **Paid on account.** |  |  |

**(10-20 min.) E 2-18**

***Req. 1 (journal entries)***

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Oct.** |  **1** | **Cash**  | **25,000** |  |
|  |  |  **Common Shares**  |  | **25,000** |
|  |  | **Issued common shares to owner.** |  |  |
|  |  |  |  |  |
|  |  **2** | **Office Supplies**  | **800** |  |
|  |  |  **Accounts Payable**  |  | **800** |
|  |  | **Purchased office supplies on account.** |  |  |
|  |  |  |  |  |
|  |  **4** | **Land**  | **20,000** |  |
|  |  |  **Cash**  |  | **20,000** |
|  |  | **Paid cash for land.** |  |  |
|  |  |  |  |  |
|  |  **6** | **Cash**  | **5,000** |  |
|  |  |  **Service Revenue**  |  | **5,000** |
|  |  | **Performed services for cash.** |  |  |
|  |  |  |  |  |
|  |  **9** | **Accounts Payable**  | **100** |  |
|  |  |  **Cash**  |  | **100** |
|  |  | **Paid cash on account.** |  |  |
|  |  |  |  |  |
|  | **17** | **Accounts Receivable**  | **1,500** |  |
|  |  |  **Service Revenue**  |  | **1,500** |
|  |  | **Performed service on account.** |  |  |
|  |  |  |  |  |
|  | **23** | **Cash**  | **1,000** |  |
|  |  |  **Accounts Receivable**  |  | **1,000** |
|  |  | **Received cash on account.** |  |  |
|  |  |  |  |  |
|  | **31** | **Salary Expense**  | **1,000** |  |
|  |  | **Rent Expense**  | **500** |  |
|  |  |  **Cash**  |  | **1,500** |
|  |  | **Paid cash expenses.** |  |  |

**(20-30 min.) E 2-19**

### *Req. 1*

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
| **Oct. 1** | **25,000** | **Oct. 4** | **20,000** |  | **Oct. 17** | **1,500** | **Oct. 23** | **1,000** |
| **6****23** | **5,000****1,000** | **9****31** | **100****1,500** |  | **Oct. 31** | **500** |  |  |
|  |  |  |  |  |
| **Oct. 31** | **9,400** |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Office Supplies** |  | **Land** |
| **Oct. 2** | **800** |  |  |  | **Oct. 4** | **20,000** |  |  |
| **Oct. 31** | **800** |  |  |  | **Oct. 31** | **20,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Accounts Payable** |  | **Common Shares** |
| **Oct. 9** | **100** | **Oct. 2** | **800** |  |  |  | **Oct. 1** | **25,000** |
|  |  | **Oct. 31** | **700** |  |  |  | **Oct. 31** | **25,000** |

|  |  |  |
| --- | --- | --- |
| **Service Revenue** |  | **Salary Expense** |
|  |  | **Oct. 6** | **5,000** |  | **Oct. 31** | **1,000** |  |  |
|  |  | **17** | **1,500** |  | **Oct. 31** | **1,000** |  |  |
|  |  | **Oct. 31** | **6,500** |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Rent Expense** |  |  |
| **Oct. 31** | **500** |  |  |  |  |  |  |  |
| **Oct. 31** | **500** |  |  |  |  |  |  |  |

**(continued) E 2-19**

### *Req. 2*

|  |
| --- |
| **Perfect Printers, Inc.** |
| **Trial Balance** |
| **October 31, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 9,400** |  |
| **Accounts receivable**  | **500** |  |
| **Office supplies**  | **800** |  |
| **Land**  | **20,000** |  |
| **Accounts payable**  |  | **$ 700** |
| **Common shares**  |  | **25,000** |
| **Service revenue**  |  | **6,500**  |
| **Salary expense**  | **1,000** |  |
| **Rent expense**  |  **500** |  |
| **Total**  | **$32,200** | **$32,200** |

***Req. 3***

**Total assets ($9,400 + $500 + $800 + $20,000)….. $30,700**

**Total liabilities………………………………………… (700)**

**Total shareholders’ equity ($25,000 + $6,500**

 **– $1,000 – $500)…… $30,000**

**(10-15 min.) E 2-20**

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  | **1.** | **Cash**  | **20,000** |  |
|  |  |  **Common Shares**  |  | **20,000** |
|  |  | **Issued common shares.** |  |  |
|  |  |  |  |  |
|  | **2.** | **Cash**  | **7,000** |  |
|  |  |  **Note Payable**  |  | **7,000** |
|  |  | **Borrowed money; signed note payable.** |  |
|  |  |  |  |  |
|  | **3.** | **Land**  | **31,000** |  |
|  |  |  **Cash**  |  | **8,000** |
|  |  |  **Note Payable**  |  | **23,000** |
|  |  | **Purchased land by paying cash**  |  |  |
|  |  | **and signing a note payable.** |  |  |
|  |  |  |  |  |
|  | **4.** | **Supplies**  | **1,000** |  |
|  |  |  **Accounts Payable**  |  | **1,000** |
|  |  | **Purchased supplies on account.** |  |  |
|  |  |  |  |  |
|  | **5.** | **Cash**  | **100** |  |
|  |  |  **Supplies**  |  | **100** |
|  |  | **Sold supplies for cash.** |  |  |
|  |  |  |  |  |
|  | **6.** | **Equipment**  | **8,000** |  |
|  |  |  **Cash**  |  | **8,000** |
|  |  | **Paid cash for equipment.** |  |  |
|  |  |  |  |  |
|  | **7.** | **Accounts Payable**  | **400** |  |
|  |  |  **Cash**  |  | **400** |
|  |  | **Paid cash on account.** |  |  |

**Cash balance = $10,700 ($20,000 + $7,000 – $8,000 + $100 – $8,000 – $400)**

**Company owes $30,600 ($7,000 + $23,000 + $1,000 – $400)**

**(10-20 min.) E 2-21**

### *Req. 1*

|  |
| --- |
| **Victoria Garden Care Ltd.** |
| **Trial Balance** |
| **Sept. 30, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 9,000** |  |
| **Accounts receivable**  | **17,500** |  |
| **Equipment**  | **29,000** |  |
| **Accounts payable**  |  |  **$ 4,300** |
| **Note payable**  |  |  **13,000** |
| **Common shares**  |  |  **8,500**  |
| **Retained earnings**  |  |  **21,400** |
| **Dividends**  | **6,000** |  |
| **Service revenue**  |  |  **24,000** |
| **Salary expense**  | **8,000** |  |
| **Utilities expense**  | **1,400** |  |
| **Delivery expense**  |  **300** |  |
| **Total**  | **$71,200** | **$71,200** |

**(continued) E 2-21**

### *Req. 2*

|  |
| --- |
| **Victoria Garden Care Ltd.** |
| **Income Statement** |
| **For the Month Ended Sept. 30, 2014** |
| **Service revenue**  |  | **$24,000** |
| **Salary expense**  | **$8,000** |  |
| **Utilities expense**  | **1,400** |  |
| **Delivery expense**  |  **300** |  |
| **Total expenses**  |  |  **9,700** |
| **Net income**  |  | **$14,300** |

**(15-25 min.) E 2-22**

|  |
| --- |
| **Sam’s Deli Inc.** |
| **Trial Balance** |
| **October 31, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 5,200\*** |  |
| **Accounts receivable**  |  **12,000\*** |  |
| **Inventory**  |  **17,000** |  |
| **Supplies**  |  **600** |  |
| **Land**  |  **55,000** |  |
| **Accounts payable**  |  | **$13,100\*** |
| **Share capital**  |  | **49,000\*** |
| **Sales revenue**  |  |  **32,100**  |
| **Salary expense**  |  **1,700** |  |
| **Insurance expense**  |  **1,000** |  |
| **Utilities expense**  |  **900\*** |  |
| **Rent expense**  |  **800** | **\_\_\_\_\_\_\_** |
| **Total**  | **$94,200** | **$94,200** |

**\_\_\_\_\_**

**\*Explanations:**

 **Cash: $4,200 + $1,000 = $5,200**

 **Accounts Receivable: $13,000 – $1,000 = $12,000**

 **Accounts Payable: $12,000 + $1,000 – $100 + $200 = $13,100**

 **Share Capital: $47,900 + $1,100 = $49,000**

 **Utilities Expense: $700 + $200 = $900**

**(5-15 min.) E 2-23**

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
| **(a)** | **10,000** | **(b)** | **1,600** |  | **(f)** | **12,100** |  |  |
|  |  | **(d)** | **2,000** |  | **Bal.** | **12,100** |  |  |
|  |  | **(e)** | **200** |  |  |  |  |  |
|  |  | **(g)** | **2,000** |  |  |  |  |  |
| **Bal.** | **4,200** |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Office Supplies** |  | **Office Furniture** |
| **(c)** | **600** |  |  |  | **(a)** | **5,000** |  |  |
| **Bal.** | **600** |  |  |  | **Bal.** | **5,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Accounts Payable** |  | **Common Shares** |
| **(e)** | **200** | **(c)** | **600** |  |  |  | **(a)** | **15,000** |
|  |  | **Bal.** | **400** |  |  |  | **Bal.** | **15,000** |

|  |  |  |
| --- | --- | --- |
| **Dividends** |  | **Service Revenue** |
| **(g)** | **2,000** |  |  |  |  |  | **(f)** | **12,100** |
| **Bal.** | **2,000** |  |  |  |  |  | **Bal.** | **12,100** |

|  |  |  |
| --- | --- | --- |
| **Salary Expense** |  | **Rent Expense** |
| **(d)** | **2,000** |  |  |  | **(b)** | **1,600** |  |  |
| **Bal.** | **2,000** |  |  |  | **Bal.** | **1,600** |  |  |

**(10-20 min.) E 2-24**

### *Req. 1*

|  |
| --- |
| **Sonia Rothesay, Accountant** |
| **Trial Balance** |
| **May 31, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 4,200** |  |
| **Accounts receivable**  | **12,100** |  |
| **Office supplies**  | **600** |  |
| **Office furniture**  | **5,000** |  |
| **Accounts payable**  |  | **$ 400** |
| **Common shares**  |  | **15,000** |
| **Dividends**  | **2,000** |  |
| **Service revenue**  |  | **12,100** |
| **Salary expense**  | **2,000** |  |
| **Rent expense**  |  **1,600** |  |
| **Total**  | **$27,500** | **$27,500** |

### *Req. 2*

The business performed well during May. The result of operations was net income of $8,500, as shown by the income statement accounts:

 **Service revenue…………………. $12,100**

 **Salary expense……….. $2,000**

 **Rent expense…………. 1,600**

 **Total expenses……………….. (3,600)**

 **Net income……………………….. $ 8,500**

**(20-30 min.) E 2-25**

### *Reqs. 1 and 3*

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
| **Jan. 2** | **5,000** | **Jan. 2** | **500** |  | **Jan. 18** | **1,700** |  |  |
|  **9** | **800** | **3** | **3,000** |  |  |  |  |  |
|  |  | **12** | **200** |  |  |  |  |  |
| **Bal.** | **2,100** |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Supplies** |  | **Equipment** |
| **Jan. 5** | **900** |  |  |  | **Jan. 3** | **3,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Furniture** |  | **Accounts Payable** |
| **Jan. 4** | **6,000** |  |  |  |  |  | **Jan. 4** | **6,000** |
|  |  |  |  |  |  |  |  **5** | **900** |
|  |  |  |  |  |  |  | **Bal.** | **6,900** |

|  |  |  |
| --- | --- | --- |
| **Common Shares** |  | **Dividends** |
|  |  | **Jan. 2** | **5,000** |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Service Revenue** |  | **Rent Expense** |
|  |  | **Jan. 9** | **800** |  | **Jan. 2** | **500** |  |  |
|  |  |  **18** | **1,700** |  |  |  |  |  |
|  |  | **Bal.**  | **2,500** |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Utilities Expense** |  | **Salary Expense** |
| **Jan. 12** | **200** |  |  |  |  |  |  |  |

**(continued) E 2-25**

### *Req. 2*

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Jan.** |  **2** | **Cash**  | **5,000** |  |
|  |  |  **Common Shares**  |  | **5,000** |
|  |  |  |  |  |
|  |  **2** | **Rent Expense**  | **500** |  |
|  |  |  **Cash**  |  | **500** |
|  |  |  |  |  |
|  |  **3** | **Equipment**  | **3,000** |  |
|  |  |  **Cash**  |  | **3,000** |
|  |  |  |  |  |
|  |  **4** | **Furniture**  | **6,000** |  |
|  |  |  **Accounts Payable**  |  | **6,000** |
|  |  |  |  |  |
|  |  **5** | **Supplies**  | **900** |  |
|  |  |  **Accounts Payable**  |  | **900** |
|  |  |  |  |  |
|  |  **9** | **Cash**  | **800** |  |
|  |  |  **Service Revenue**  |  | **800** |
|  |  |  |  |  |
|  | **12** | **Utilities Expense**  | **200** |  |
|  |  |  **Cash**  |  | **200** |
|  |  |  |  |  |
|  | **18** | **Accounts Receivable**  | **1,700** |  |
|  |  |  **Service Revenue**  |  | **1,700** |

**(continued) E 2-25**

### *Req. 4*

|  |
| --- |
| **Web Marketing Services Inc.** |
| **Trial Balance** |
| **January 18, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 2,100** |  |
| **Accounts receivable**  | **1,700** |  |
| **Supplies**  | **900** |  |
| **Equipment**  | **3,000** |  |
| **Furniture**  | **6,000** |  |
| **Accounts payable**  |  | **$ 6,900** |
| **Common shares**  |  | **5,000** |
| **Dividends**  | **—** |  |
| **Service revenue**  |  | **2,500** |
| **Rent expense**  | **500** |  |
| **Utilities expense**  | **200** |  |
| **Salary expense**  |  **—** |  |
| **Total**  | **$14,400** | **$14,400** |

**(20-40 min.) E 2-26**

**a. Total cash paid during March:**

|  |  |
| --- | --- |
|  **Cash** |  |
| **Feb. 28 Bal.** | **10,000** |  |  |  |
| **March receipts** | **80,000** | **March cash payments** |  **X** | **= $85,000** |
| **Mar. 31 Bal.** | **5,000** |  |  |  |

|  |  |
| --- | --- |
| **$10,000 + $80,000 – X** | **= $ 5,000** |
|  **X** | **= $85,000** |

**(continued) E 2-26**

**b. Cash collections from customers during March:**

|  |  |
| --- | --- |
|  **Accounts Receivable** |  |
| **Feb. 28 Bal.** | **26,000** |  |  |  |
| **March sales** |  |  |  |  |
|  **on account** | **50,000** | **March collections** |  **X** | **= $52,000** |
| **Mar. 31 Bal.** | **24,000** |  |  |  |

|  |  |
| --- | --- |
| **$26,000 + $50,000 – X**  | **= $24,000** |
|  |  **X** | **= $52,000** |

**c. Cash paid on a note payable during March:**

|  |  |
| --- | --- |
|  |  **Note Payable** |
|  |  |  | **Feb. 28 Bal.** | **13,000** |
|  | **March** |  | **March** |  |
| **X =17,000** |  **payments on note** | **X** |  **new borrowing** | **25,000** |
|  |  |  | **Mar. 31 Bal.** | **21,000** |

|  |  |
| --- | --- |
| **$13,000 + $25,000 – X** | **= $21,000** |
|  **X** | **= $17,000** |

**(20-30 min.) E 2-27**

***Req. 1***

|  |
| --- |
| **You Build Inc.** |
| **Trial Balance** |
| **December 31, 2014** |
|  |  |  |
| **Cash**  | **$ 3,900** |  |
| **Accounts receivable**  | **7,200** |  |
| **Land**  | **34,000** |  |
| **Accounts payable**  |  | **$ 5,800** |
| **Note payable**  |  | **5,000** |
| **Common shares**  |  | **20,000** |
| **Retained earnings**  |  | **7,300** |
| **Service revenue**  |  | **9,100** |
| **Salary expense**  | **3,400** |  |
| **Advertising expense**  |  **900** | **\_\_\_\_\_\_\_** |
| **Totals**  | **$49,400** | **$47,200** |

 **Out of balance**

**by $2,200**

**The correct balance of Accounts Receivable is $5,000
($7,200 – $2,200). After this correction, total debits will be $47,200 ($49,400 – $2,200), the same as total credits.**

**(continued) E 2-27**

***Req. 2***

|  |
| --- |
| **You Build Inc.** |
| **Trial Balance** |
| **December 31, 2014** |
|  |  |  |
| **Cash ($3,900 – $1,400)**  | **$ 2,500** |  |
| **Accounts receivable**  |  |  |
|  **($7,200 – $2,200 + $10,000)**  | **15,000** |  |
| **Land ($34,000 + $60,000)**  | **94,000** |  |
| **Accounts payable ($5,800 + $1,000)**  |  | **$ 6,800** |
| **Note payable ($5,000 + $60,000)**  |  | **65,000** |
| **Common shares**  |  | **20,000** |
| **Retained earnings**  |  | **7,300** |
| **Service revenue ($9,100 + $10,000)**  |  | **19,100** |
| **Salary expense ($3,400 + $1,400)**  | **4,800** |  |
| **Advertising expense ($900 + $1,000)**  |  **1,900** |  |
| **Totals**  | **$118,200** | **$118,200** |

***Req. 3***

**a. Total assets = $111,500 ($2,500 + $15,000 + $94,000)**

**b. Total liabilities = $71,800 ($6,800 + $65,000)**

**c. Net income = $12,400 ($19,100 – $4,800 – $1,900)**

**(10-15 min.) E 2-28**

|  |  |  |
| --- | --- | --- |
| **City of Regina:** |  |  |
|  **Income statement** | **August** | September |
|  **Medical expense**  | **$30,000** |  **$ -0-** |
|  |  |  |
|  **Balance sheet** | August 31 | September 30 |
|  **Cash**  | **$50,000** | **$25,000\*** |
|  **Accounts payable**  | **30,000** | **5,000\*\*** |
|  |  |  |
| **PHO:** |  |  |
|  **Income statement** | August | September |
|  **Service revenue**  | **$30,000** |  **$ -0-** |
|  |  |  |
|  **Balance sheet** | August 31 | September 30 |
|  **Cash**  |  **$ -0-** | **$25,000** |
|  **Accounts receivable**  | **30,000** | **5,000\*\*** |

**Explanation:**

 **Regina’s expense is PHO’s revenue.**

 **Regina’s cash payment is PHO’s cash receipt.**

**Regina’s account payable is PHO’s account receivable.**

**\_\_\_\_\_\_\_\_\_\_**

 **\*$50,000 – $25,000 = $25,000**

 **\*\*$30,000 – $25,000 = $ 5,000**

**Quiz**

|  |  |  |  |
| --- | --- | --- | --- |
| **Q2-29** | **c.** |  |  |
| **Q2-30** | **d.** |  |  |
| **Q2-31** | **c.** |  |  |
| **Q2-32** | **a.** |  |  |
| **Q2-33** | **d.** |  |  |
| **Q2-34** | **b.** |  |  |
| **Q2-35** | **c.** |  |  |
| **Q2-36** | **a.** |  |  |
| **Q2-37** | **b.** |  |  |
| **Q2-38** | **d.** |  |  |
| **Q2-39** | **d.** |  |  |
| **Q2-40** | **c.** |  |  |
| **Q2-41** | **a.** |  |  |
| **Q2-42** | **b.** |  |  |
| **Q2-43** | **a.** |  |  |
| **Q2-44** | **d.** |  |  |
| **Q2-45** | **c.** |  |  |
| **Q2-46** | **b.** |  |  |
| **Q2-47** | **a.** |  |  |
| **Q2-48** | **b.** |  |

**Problems**

**Group A**

**(15-30 min.) P 2-49A**

**Dear Sue,**

This trial balance lists the accounts of Amusement Specialties, Inc., along with its balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

 The fact that the trial balance is in balance does not mean that Amusement Specialties is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute Amusement Specialties’ total assets add the asset account balances (Cash $14,000 + Accounts receivable $11,000 + Prepaid expenses $4,000 + Equipment $171,000 + Building $100,000 = $300,000); For total liabilities add the liability account balances (Accounts payable $30,000 + Note payable $120,000 = $150,000).Net income or net loss for the current period is computed by subtracting total expenses from total revenue. During the current period, Amusement Specialties earned a net income of $30,000 [service revenue of $86,000 minus total expenses of $56,000 ($14,000 + $3,000 + $32,000 + $7,000)].

**Student responses may vary.**

**(45-60 min.) P 2-50A**

### *Req. 1*

|  |
| --- |
| **Analysis of Transactions** |
| **ASSETS** | **= LIABILITIES + SHAREHOLDERS’ EQUITY** |
|  |  **Cash +** |  **Accounts Receivable +**  | **Supplies +** |  **Land =** |  **Accounts** **Payable +** |  **Common** **Shares +** | **Retained****Earnings** | **Type of Shareholders’****Equity Transaction** |
| **Bal.** |  **1,300** |  **1,000** |  | **12,000** | **8,000** |  **4,000** |  **2,300** |  |
| **a)** |  **5,000** |  |  |  |  |  **5,000** |  | **Issued shares** |
| **b)** |  **7,600** |  |  |  |  |  |  **7,600** | **Service revenue** |
| **c)** |  **(4,000)** |  |  |  | **(4,000)** |  |  |  |
| **d)** |  |  | **1,500** |  | **1,500** |  |  |  |
| **e)** |  **1,000** | **(1,000)** |  |  |  |  |  |  |
| **f)** |  | **2,500** |  |  |  |  |  **2,500** | **Service revenue** |
| **g)** |  **(900)** |  |  |  |  |  |  **(900)** | **Rent expense** |
|  |  **(300)** |  |  |  |  |  |  **(300)** | **Advertising expense** |
| **h)** | **(2,000)** | **\_\_\_\_** | **\_\_\_\_** |  |  |  | **(2,000)** | **Dividends** |
| **Bal.** | **7,700** | **2,500** | **1,500** | **12,000** | **5,500** | **9,000** |  **9,200** |  |

 **$23,700 $23,700**

**(continued) P 2-50A**

### *Req. 2*

|  |
| --- |
| **Blythe Spirit Consulting, Inc.** |
| **Income Statement** |
| **For the Month Ended June 30, 2014** |
| **Revenues:** |  |  |
|  **Service revenue ($7,600 + $2,500)**  |  | **$10,100** |
| **Expenses:** |  |  |
|  **Rent expense**  | **$900** |  |
|  **Advertising expense**  |  **300** |  |
|  **Total expenses**  |  |  **\_1,200** |
| **Net income**  |  | **$ 8,900** |

### *Req. 3*

|  |
| --- |
| **Blythe Spirit Consulting, Inc.** |
| **Statement of Retained Earnings** |
| **For the Month Ended June 30, 2014** |
| **Retained earnings, May 31, 2014**  | **$2,300** |
| **Add: Net income for the month**  |  **8,900** |
|  | **11,200** |
| **Less: Dividends**  |  **(2,000)** |
| **Retained earnings, June 30, 2014**  | **$9,200** |

**(continued) P 2-50A**

### *Req. 4*

|  |
| --- |
| **Blythe Spirit Consulting, Inc.** |
| **Balance Sheet** |
| **June 30, 2014** |
| **ASSETS** | **LIABILITIES** |  |
| **Cash**  | **$ 7,700** | **Accounts payable**  |  **$ 5,500** |
| **Accounts receivable**  | **2,500** | SHAREHOLDERS’ |  |
| **Supplies**  | **1,500** | **EQUITY** |  |
| **Land**  | **12,000** | **Common shares**  | **9,000** |
|  |  | **Retained earnings**  |  **9,200** |
|  |  | **Total shareholders’ equity.** | **18,200** |
|  |  | **Total liabilities and** |  |
| **Total assets**  | **$23,700** |  **shareholders**’ **equity**  | **$23,700** |

**(30-40 min.) P 2-51A**

### *Req. 1*

|  |
| --- |
| Journal |
|  | **ACCOUNT TITLES**  | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  | **a.** | **Cash**  | **5,000** |  |
|  |  |  **Common Shares**  |  | **5,000** |
|  |  |  |  |  |
|  | **b.** | **Cash**  | **7,600** |  |
|  |  |  **Service Revenue**  |  | **7,600** |
|  |  |  |  |  |
|  | **c.** | **Accounts Payable**  | **4,000** |  |
|  |  |  **Cash**  |  | **4,000** |
|  |  |  |  |  |
|  | **d.** | **Supplies**  | **1,500** |  |
|  |  |  **Accounts Payable**  |  | **1,500** |
|  |  |  |  |  |
|  | **e.** | **Cash**  | **1,000** |  |
|  |  |  **Accounts Receivable**  |  | **1,000** |
|  |  |  |  |  |
|  | **f.** | **Accounts Receivable**  | **2,500** |  |
|  |  |  **Service Revenue**  |  | **2,500** |
|  |  |  |  |  |
|  | **g.** | **Rent Expense**  | **900** |  |
|  |  | **Advertising Expense**  | **300** |  |
|  |  |  **Cash**  |  | **1,200** |
|  |  |  |  |  |
|  | **h.** | **Dividends**  | **2,000** |  |
|  |  |  **Cash**  |  | **2,000** |

**(continued) P 2-51A**

### *Reqs. 2 and 3*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Cash** |  | **Accounts****Receivable** |  | **Supplies** |  | **Land** |
| **1,300** | **4,000** |  | **1,000** | **1,000** |  | **1,500** |  |  | **12,000** |  |
| **5,000** | **1,200** |  | **2,500** |  |  | **1,500** |  |  | **12,000** |  |
| **7,600** | **2,000** |  | **2,500** |  |  |  |  |  |  |  |
| **1,000** |  |  |  |  |  |  |  |  |  |  |
| **7,700** |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Accounts****Payable** |  | **Common Shares** |  | **Retained****Earnings** |  | **Dividends** |
| **4,000** | **8,000** |  |  | **4,000** |  |  | **2,300** |  | **2,000** |  |
|  | **1,500** |  |  | **5,000** |  |  | **2,300** |  | **2,000** |  |
|  | **5,500** |  |  | **9,000** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Service****Revenue** |  | **Rent Expense** |  | **Advertising****Expense** |  |  |
|  | **7,600** |  | **900** |  |  | **300** |  |  |  |  |
|  | **2,500** |  | **900** |  |  | **300** |  |  |  |  |
|  | **10,100** |  |  |  |  |  |  |  |  |  |

The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-50A.

**(40-50 min.) P 2-52A**

### *Req. 1*

### *Classification of Transactions*

**Sept. 4 b**

 **5 c**

 **6 c**

 **7 c**

 **10 b**

 **11 b**

 **12 a**

 **18 c**

 **21 c**

 **25 c**

 **30 c**

**(continued) P 2-52A**

***Req. 2***

|  |
| --- |
| **Analysis of Transactions** |
| **ASSETS** | **= LIABILITIES + SHAREHOLDERS’ EQUITY** |
| **Date** |  **Cash +** |  **Accounts****Receivable+** | **Supplies +**  |  **Office****Furniture =** |  **Accounts** **Payable +** |  **Common** **Shares +** | **Retained****Earnings** | **Type of Shareholders’****Equity Transaction** |
| **Sept. 4\*** |  |  |  |  |  |  |  |  |
|  **5** | **50,000** |  |  |  |  | **50,000** |  | **Issued shares** |
|  **6** |  **(300)** |  | **300** |  |  |  |  |  |
|  **7** | **(20,000)** |  |  | **25,000** | **5,000** |  |  |  |
|  **10\*** |  |  |  |  |  |  |  |  |
|  **11\***  |  |  |  |  |  |  |  |  |
|  **12\*\*** |  |  |  |  |  |  |  |  |
|  **18** |  | **10,000** |  |  |  |  | **10,000** | **Service revenue** |
|  **21** |  **(2,500)** |  |  |  | **(2,500)** |  |  |  |
|  **25** |  **(4,000)** |  |  |  |  |  | **(4,000)** | **Rent expense** |
|  **28** |  **(2,000)** |  | **\_\_\_** |  |  |  | **(2,000)** | **Dividends** |
| **Bal.** | **21,200** | **10,000** | **300** | **25,000** | **2,500** | **50,000** |  **4,000** |  |

 **$56,500 $56,500**

**\_\_\_\_\_**

**\*Not a transaction of the business.**

**\*\* A business-related event, but not a transaction to be recorded.**

**(continued) P 2-52A**

### *Req. 3*

**a. The business has $21,200 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from the issuance of shares. Share issuances go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, holds the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no relationship between cash and retained earnings.**

**b. The business’s total resources (total assets) are $56,500 ($21,200 + $10,000 + $300 + $25,000). The business owes total liabilities of $2,500, so the shareholder’s ownership interest in the assets of the business is $54,000 ($56,500 – $2,500, or $50,000 + $4,000).**

**(continued) P 2-52A**

### *Req. 4*

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Sept.** |  **5** | **Cash**  | **50,000** |  |
|  |  |  **Common Shares**  |  | **50,000** |
|  |  | **Issued shares to shareholder.** |  |  |
|  |  |  |  |  |
|  |  **6** | **Supplies**  | **300** |  |
|  |  |  **Cash**  |  | **300** |
|  |  | **Purchased supplies.** |  |  |
|  |  |  |  |  |
|  |  **7** | **Office Furniture**  | **25,000** |  |
|  |  |  **Cash**  |  | **20,000** |
|  |  |  **Accounts Payable**  |  | **5,000** |
|  |  | **Purchased furniture.** |  |  |
|  |  |  |  |  |
|  | **18** | **Accounts Receivable**  | **10,000** |  |
|  |  |  **Service Revenue**  |  | **10,000** |
|  |  | **Performed service on account.** |  |  |
|  |  |  |  |  |
|  | **21** | **Accounts Payable**  | **2,500** |  |
|  |  |  **Cash**  |  | **2,500** |
|  |  | **Paid on account.** |  |  |
|  |  |  |  |  |
|  | **25** | **Rent Expense**  | **4,000** |  |
|  |  |  **Cash**  |  | **4,000** |
|  |  | **Paid rent.** |  |  |
|  |  |  |  |  |
|  | **28** | **Dividends**  | **2,000** |  |
|  |  |  **Cash**  |  | **2,000** |
|  |  | **Paid dividend.** |  |  |

**(15-20 min.) P 2-53A**

***Req. 1 (journal entries; explanations not required)***

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES**  | **DEBIT** | **CREDIT** |
| **Oct.** |  **1** | **Cash**  | **8,000** |  |
|  |  |  **Common shares**  |  | **8,000** |
|  |  |  |  |  |
|  |  **5** | **Rent Expense**  | **1,000** |  |
|  |  |  **Cash**  |  | **1,000** |
|  |  |  |  |  |
|  |  **9** | **Land**  | **30,000** |  |
|  |  |  **Cash**  |  | **5,000** |
|  |  |  **Notes Payable**  |  | **25,000** |
|  |  |  |  |  |
|  | **10** | **Supplies**  | **1,200** |  |
|  |  |  **Accounts Payable**  |  | **1,200** |
|  |  |  |  |  |
|  | **19** | **Accounts Payable**  | **600** |  |
|  |  |  **Cash**  |  | **600** |
|  |  |  |  |  |
|  | **22** | **Cash**  | **10,000** |  |
|  |  |  **Notes Payable**  |  | **10,000** |
|  |  |  |  |  |
|  | **31** | **Cash**  | **7,000** |  |
|  |  | **Accounts Receivable**  | **5,000** |  |
|  |  |  **Service Revenue**  |  | **12,000** |
|  |  |  |  |  |
|  | **31** | **Salary Expense**  | **2,000** |  |
|  |  | **Advertising Expense**  | **1,500** |  |
|  |  | **Utilities Expense**  | **1,100** |  |
|  |  |  **Cash**  |  | **4,600** |
|  |  |  |  |  |
|  | **31** | **Dividends**  | **3,000** |  |
|  |  |  **Cash**  |  | **3,000** |

**(continued) P 2-53A**

**Req. 2**

|  |
| --- |
| **Cash** |
| **8,000** | **1,000** |
|  | **5,000** |
| **10,000** | **600** |
| **7,000** | **4,600** |
|  | **3,000** |
| **Bal. 10,800**  |  |

|  |
| --- |
| **Accounts Payable** |
| **600** | **1,200** |
|  | **Bal. 600** |

|  |
| --- |
| **Notes Payable** |
|  | **25,000** |
|  | **10,000** |
|  | **Bal. 35,000** |

### *Req. 3*

Cash: $10,800 ($8,000 – $1,000 – $5,000 – $600 + $10,000 + $7,000 – $4,600 – $3,000)

Total amount owed: $35,600 ($25,000 + $1,200 – $600 + $10,000)

**(50-60 min.) P 2-54A**

***Req. 1 (journal entries; explanations not required)***

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES**  | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **May** |  **2** | **Cash**  | **30,000** |  |
|  |  |  **Common shares**  |  | **30,000** |
|  |  |  |  |  |
|  |  **3** | **Supplies**  | **1,000** |  |
|  |  | **Equipment**  | **2,600** |  |
|  |  |  **Accounts Payable**  |  | **3,600** |
|  |  |  |  |  |
|  |  **4** | **Cash**  | **1,500** |  |
|  |  |  **Service Revenue**  |  | **1,500** |
|  |  |  |  |  |
|  |  **7** | **Land**  | **22,000** |  |
|  |  |  **Cash**  |  | **22,000** |
|  |  |  |  |  |
|  | **11** | **Accounts Receivable**  | **500** |  |
|  |  |  **Service Revenue**  |  | **500** |
|  |  |  |  |  |
|  | **16** | **Accounts Payable**  | **2,600** |  |
|  |  |  **Cash**  |  | **2,600** |
|  |  |  |  |  |
|  | **17** | **Utilities Expense**  | **95** |  |
|  |  |  **Cash**  |  | **95** |
|  |  |  |  |  |
|  | **18** | **Cash**  | **250** |  |
|  |  |  **Accounts Receivable**  |  | **250** |

**(continued) P 2-54A**

***Req. 1 (journal entries; explanations not required)***

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES**  | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **May** | **22** | **Utilities Expense**  | **400** |  |
|  |  |  **Cash**  |  | **400** |
|  |  |  |  |  |
|  | **29** | **Cash**  | **2,000** |  |
|  |  |  **Service Revenue**  |  | **2,000** |
|  |  |  |  |  |
|  | **31** | **Salary Expense**  | **1,300** |  |
|  |  |  **Cash**  |  | **1,300** |
|  |  |  |  |  |
|  | **31** | **Dividends**  | **1,500** |  |
|  |  |  **Cash**  |  | **1,500** |

**(continued) P 2-54A**

***Req. 2 (ledger accounts)***

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
| **May 2** | **30,000** | **May 7** | **22,000** |  | **May 11** | **500** | **May 18** | **250** |
|  **4** | **1,500** | **16** | **2,600** |  | **Bal.** | **250** |  |  |
|  **18** | **250** | **17** | **95** |  |  |  |  |  |
|  **29** | **2,000** | **22** | **400** |  |  |  |  |  |
|  |  | **31** | **1,300** |  | **Supplies** |
|  |  | **31** | **1,500** |  | **May 3** | **1,000** |  |  |
| **Bal.** | **5,855** |  |  |  | **Bal.** | **1,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Equipment** |  | **Land** |
| **May 3** | **2,600** |  |  |  | **May 7** | **22,000** |  |  |
| **Bal.**  | **2,600** |  |  |  | **Bal.** | **22,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Accounts Payable** |  | **Common shares** |
| **May 16** | **2,600** | **May 3**  | **3,600** |  |  |  | **May 2** | **30,000** |
|  |  |  **Bal.** | **1,000** |  |  |  | **Bal.** | **30,000** |

|  |  |  |
| --- | --- | --- |
|  |  | **Dividends** |
|  |  |  |  |  | **May 31** | **1,500** |  |  |
|  |  |  |  |  | **Bal.** | **1,500** |  |  |

|  |  |  |
| --- | --- | --- |
| **Service Revenue** |  | **Salary Expense** |
|  |  | **May 4** | **1,500** |  | **May 31** | **1,300** |  |  |
|  |  | **11** | **500** |  | **Bal.** | **1,300** |  |  |
|  |  | **29** | **2,000** |  |  |  |  |  |
|  |  |  **Bal.**  | **4,000** |  |  |  |  |  |

|  |
| --- |
| **Utilities Expense** |
| **May 17** **22** | **95****400** |  |  |
| **Bal.** | **495** |  |  |

**(continued) P 2-54A**

***Req. 3***

|  |
| --- |
| **New Pane Windows Inc.** |
| **Trial Balance** |
| **May 31, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 5,855** |  |
| **Accounts receivable**  | **250** |  |
| **Supplies**  | **1,000** |  |
| **Equipment**  | **2,600** |  |
| **Land**  | **22,000** |  |
| **Accounts payable**  |  | **$ 1,000** |
| **Common shares**  |  | **30,000** |
| **Dividends**  | **1,500** |  |
| **Service revenue**  |  | **4,000** |
| **Salary expense**  | **1,300** |  |
| **Utilities expense**  |  **495** |  |
| **Total**  | **$35,000** | **$35,000** |

***Req. 4***

**Total resources (assets) = $31,705 ($5,855 + $250 + $1,000**

 **+ $2,600 + $22,000)**

**Amount owed (total liabilities) = $1,000**

**Profit (net income) = $2,205 ($4,000 – $1,300 –**

 **$495)**

**(40-50 min.) P 2-55A**

***Reqs. 1 and 2***

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
| **(a)** | **10,000** | **(c)** | **60,000** |  | **(g)** | **4,500** | **(j)** | **3,100** |
| **(b)** | **50,000** | **(e)** | **1,500** |  | **Bal.** | **1,400** |  |  |
| **(f)** | **800** | **(h)** | **100** |  |  |  |  |  |
| **(j)** | **3,100** | **(k)** | **1,800** |  |  |  |  |  |
| **Bal.** | **500** |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Office Supplies** |  | **Music Equipment** |
| **(d)** | **1,000** |  |  |  | **(c)** | **60,000** |  |  |
| **Bal.**  | **1,000** |  |  |  | **Bal.** | **60,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Building** |  | **Accounts Payable** |
| **(a)** | **50,000** |  |  |  | **(h)** | **100** | **(d)** | **1,000** |
| **Bal.**  | **50,000** |  |  |  |  |  | **(i)** | **600** |
|  |  |  |  |  |  |  | **Bal.** | **1,500** |

|  |  |  |
| --- | --- | --- |
| **Note Payable** |  | **Common Shares** |
|  |  | **(b)** | **50,000** |  |  |  | **(a)** | **60,000** |
|  |  | **Bal.** | **50,000** |  |  |  | **Bal.** | **60,000** |

|  |  |  |
| --- | --- | --- |
|  |  | **Service Revenue** |
|  |  |  |  |  |  |  | **(f)** | **800** |
|  |  |  |  |  |  |  | **(g)** | **4,500** |
|  |  |  |  |  |  |  | **Bal.** | **5,300** |

**(continued) P 2-55A**

|  |  |  |
| --- | --- | --- |
| **Salary Expense** |  | **Rent Expense** |
| **(e)** | **1,500** |  |  |  | **(k)** | **1,000** |  |  |
| **Bal.**  | **1,500** |  |  |  | **Bal.** | **1,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Advertising Expense** |  | **Utilities Expense** |
| **(k)** | **800** |  |  |  | **(i)** | **600** |  |  |
| **Bal.**  | **800** |  |  |  | **Bal.** | **600** |  |  |

**(continued) P 2-55A**

### *Req. 3*

|  |
| --- |
| **Music Services Ltd.** |
| **Trial Balance** |
| **January 31, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 500** |  |
| **Accounts receivable**  | **1,400** |  |
| **Office supplies**  | **1,000** |  |
| **Music equipment**  | **60,000** |  |
| **Building**  | **50,000** |  |
| **Accounts payable**  |  | **$ 1,500** |
| **Note payable**  |  | **50,000** |
| **Common shares**  |  | **60,000** |
| **Service revenue**  |  | **5,300** |
| **Salary expense**  | **1,500** |  |
| **Rent expense**  | **1,000** |  |
| **Advertising expense**  | **800** |  |
| **Utilities expense**  |  **600** |  |
| **Total**  | **$116,800** | **$116,800** |

***Req. 4***

**Total assets = $112,900 ($500 + $1,400 + $1,000 + $60,000**

 **+ $50,000)**

**Total liabilities = $51,500 ($1,500 + $50,000)**

**Net income = $1,400 ($5,300 – $1,500 – $1,000 – $800**

 **– $600)**

**The bank manager’s concerns are answered by the above information.**

**Problems**

**Group B**

**(15-30 min.) P 2-56B**

**Dear Friend,**

This trial balance lists all the accounts of Opera Tours Inc., along with their balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet and an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The Balance Sheet is made up of the Asset, Liability and Shareholders’ Equity accounts. These accounts make up the accounting equation; Assets = Liabilities + Shareholder’s Equity.

(continued) P 2-56B

The balance sheet accounts of Opera Tours Inc. are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Assets |  | Liabilities |  |
| Cash | $ 12,000 | Accounts payable | $105,000 |
| Accounts receivable | 45,000 | Note payable |  92,000 |
| Prepaid expenses | 4,000 |  | 197,000 |
| Equipment |  231,000 | Equity |  |
|  | $292,000 | Common shares | 30,000 |
|  |  | Retained earnings plus | 32,000 |
|  |  | Net income | 33,000 |
|  |  |  | 95,000 |
|  |  |  | $292,000 |

**The Income Statement is made up of Revenue and Expense Accounts. Revenue less Expenses equal Net Income (Loss). The income statement accounts of Opera Tours Inc. are as follows:**

|  |  |
| --- | --- |
| **Service Revenue** | **$139,000** |
| **Expenses** |  |
| **Salary expense** | **69,000** |
| **Tour expenses** | **26,000** |
| **Rent expense** | **7,000** |
| **Advertising expense** | **4,000** |
|  | **106,000** |
|  |  |
| **Net income** | **$ 33,000** |

 The fact that the trial balance is in balance does not mean that Opera Tours Inc. is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. In this instance, Opera Tours Inc. had a net income of $33,000 as per the Income Statement outlined above.

**Student responses may vary.**

**(45-60 min.) P 2-57B**

### *Req. 1*

|  |
| --- |
| **Analysis of Transactions** |
| **ASSETS** |  **= LIABILITIES + SHAREHOLDERS’ EQUITY** |
|  |  **Cash +** |  **Accounts****Receivable +**  | **Supplies +** |  **Land =** |  **Accounts** **Payable +** |  **Common** **Shares +** | **Retained****Earnings** | **Type of Shareholders’****Equity Transaction** |
| **Bal.** |  **1,700** | **2,200** |  | **24,100** | **5,400** | **10,000** | **12,600** |  |
| **a)** | **30,000** |  |  |  |  | **30,000** |  | **Issued shares** |
| **b)** |  **(1,000)** |  |  |  | **(1,000)** |  |  |  |
| **c)** |  **5,100** |  |  |  |  |  |  **5,100** | **Service revenue** |
| **d)** |  **700** |  **(700)** |  |  |  |  |  |  |
| **e)** |  |  | **800** |  |  **800** |  |  |  |
| **f)** |  | **15,000** |  |  |  |  |  **15,000** | **Service revenue** |
| **g)** | **1,700** |  |  |  |  |  **1,700** |  | **Issued shares** |
| **h)** | **(2,100)** |  |  |  |  |  |  **(2,100)** | **Rent expense** |
|  | **(1,600)** |  |  |  |  |  |  **(1,600)** | **Advertising expense** |
| **i)** |  **(2,000)** |  | **\_\_\_** |  |  |  | **(2,000)** | **Dividends** |
| **Bal.** | **32,500** | **16,500** | **800** | **24,100** | **5,200** | **41,700** | **27,000** |  |

 **$73,900 $73,900**

**(continued) P 2-57B**

### *Req. 2*

|  |
| --- |
| **DH Designers, Inc.** |
| **Income Statement** |
| **For the Month Ended May 31, 2014** |
| **Revenues:** |  |  |
|  **Service revenue ($5,100 + $15,000)** |  | **$20,100** |
| **Expenses:** |  |  |
|  **Rent expense**  | **$2,100** |  |
|  **Advertising expense**  |  **1,600** |  |
|  **Total expenses**  |  |  **3,700** |
| **Net income**  |  | **$16,400** |

### *Req. 3*

|  |
| --- |
| **DH Designers, Inc.** |
| **Statement of Retained Earnings** |
| **For the Month Ended May 31, 2014** |
| **Retained earnings, April 30, 2014**  | **$12,600** |
| **Add: Net income for the month**  |  **16,400** |
|  | **29,000** |
| **Less: Dividends**  |  **(2,000)** |
| **Retained earnings, May 31, 2014**  | **$27,000** |

**(continued) P 2-57B**

### *Req. 4*

|  |
| --- |
| **DH Designers, Inc.** |
| **Balance Sheet** |
| **May 31, 2014** |
| **ASSETS** | **LIABILITIES** |
| **Cash**  | **$32,500** | **Accounts payable**  | **$ 5,200** |
| **Accounts receivable**  | **16,500** | SHAREHOLDERS’ |
| **Supplies**  | **800** | **EQUITY** |
| **Land**  | **24,100** | **Common shares**  | **41,700** |
|  |  | **Retained earnings**  |  **27,000** |
|  |  | **Total shareholders’ equity** | **68,700** |
|  |  | **Total liabilities and** |  |
| **Total assets**  | **$73,900** |  **shareholders’ equity**  | **$73,900** |

**(30-40 min.) P 2-58B**

### *Req. 1*

|  |
| --- |
| Journal |
|  | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
|  | **a.** | **Cash**  | **30,000** |  |
|  |  |  **Common Shares**  |  | **30,000** |
|  |  |  |  |  |
|  | **b.** | **Accounts Payable**  | **1,000** |  |
|  |  |  **Cash**  |  | **1,000** |
|  |  |  |  |  |
|  | **c.** | **Cash**  | **5,100** |  |
|  |  |  **Service Revenue**  |  | **5,100** |
|  |  |  |  |  |
|  | **d.** | **Cash**  | **700** |  |
|  |  |  **Accounts Receivable**  |  | **700** |
|  |  |  |  |  |
|  | **e.** | **Supplies**  | **800** |  |
|  |  |  **Accounts Payable**  |  | **800** |
|  |  |  |  |  |
|  | **f.** | **Accounts Receivable**  | **15,000** |  |
|  |  |  **Service Revenue**  |  | **15,000** |
|  |  |  |  |  |
|  | **g.** | **Cash**  | **1,700** |  |
|  |  |  **Common Shares**  |  | **1,700** |
|  |  |  |  |  |
|  | **h.** | **Rent Expense**  | **2,100** |  |
|  |  | **Advertising Expense**  | **1,600** |  |
|  |  |  **Cash**  |  | **3,700** |
|  |  |  |  |  |
|  | **i.** | **Dividends**  | **2,000** |  |
|  |  |  **Cash**  |  | **2,000** |

**(continued) P 2-58B**

### *Reqs. 2 and 3*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Cash** |  | **Accounts****Receivable** |  | **Supplies** |  | **Land** |
| **1,700** | **1,000** |  | **2,200** | **700** |  | **800** |  |  | **24,100** |  |
| **30,000** | **3,700** |  | **15,000** |  |  | **800** |  |  | **24,100** |  |
| **5,100** | **2,000** |  | **16,500** |  |  |  |  |  |  |  |
| **700** |  |  |  |  |  |  |  |  |  |  |
| **1,700** |  |  |  |  |  |  |  |  |  |  |
| **32,500** |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Accounts****Payable** |  | **Common Shares** |  | **Retained****Earnings** |  | **Dividends** |
| **1,000** | **5,400** |  |  | **10,000** |  |  | **12,600** |  | **2,000** |  |
|  | **800** |  |  | **30,000** |  |  | **12,600** |  | **2,000** |  |
|  | **5,200** |  |  | **1,700** |  |  |  |  |  |  |
|  |  |  |  | **41,700** |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Service****Revenue** |  | **Rent Expense** |  | **Advertising****Expense** |  |  |
|  | **5,100** |  | **2,100** |  |  | **1,600** |  |  |  |  |
|  | **15,000** |  | **2,100** |  |  | **1,600** |  |  |  |  |
|  | **20,100** |  |  |  |  |  |  |  |  |  |

The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-57B.

**(40-50 min.) P 2-59B**

### *Req. 1*

### *Classification of Transactions*

**March 1 a**

 **2 a**

 **3 a**

 **5 b**

 **6 c**

 **7 b**

 **9 b**

 **23 b**

 **29 b**

 **30 b**

 **31 b**

**(continued) P 2-59B**

### *Req. 2*

|  |
| --- |
| **Analysis of Transactions** |
| **ASSETS** |  **= LIABILITIES + SHAREHOLDERS’ EQUITY** |
| **Date** |  **Cash +** |  **Accounts****Receivable +**  | **Supplies +** |  **Office****Furniture =** |  **Accounts** **Payable +** |  **Common** **Shares +** | **Retained****Earnings** | **Type of Shareholders’****Equity Transaction** |
| **March 1\*** |  |  |  |  |  |  |  |  |
|  **2\*** |  |  |  |  |  |  |  |  |
|  **3\*** |  |  |  |  |  |  |  |  |
|  **5**  |  **50,000** |  |  |  |  | **50,000** |  | **Issued shares** |
|  **6\*\*** |  |  |  |  |  |  |  |  |
|  **7**  | **(450)** |  | **450** |  |  |  |  |  |
|  **9** | **(5,000)** |  |  | **15,500** | **10,500** |  |  |  |
|  **23** |  | **4,000** |  |  |  |  |  **4,000** | **Service revenue** |
|  **29** | **(5,000)** |  |  |  | **(5,000)** |  |  |  |
|  **30** | **(2,100)** |  |  |  |  |  | **(2,100)** | **Rent expense** |
|  **31** |  **(1,000)** |  | **\_\_\_** |  |  |  | **(1,000)** | **Dividend** |
| **Bal.** |  **36,450** | **4,000** | **450** | **15,500** | **5,500** | **50,000** |  **900** |  |

 **$56,400 $56,400**

**\_\_\_\_\_**

**\*Not a transaction of the business.**

**\*\* A business-related event, but not a transaction to be recorded.**

**(continued) P 2-59B**

### *Req. 3*

**a. The business has $36,450 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from issuing shares. Issuances of shares go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, records the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no direct relationship between cash and retained earnings.**

b. The business’s total resources (total assets) are $56,400 ($36,450 + $4,000 + $450 + $15,500). The business owes total liabilities of $5,500, so Kohler’s ownership interest in the assets of the business is $50,900 ($56,400 – $5,500, or $50,000 + $900).

**(continued) P 2-59B**

***Req. 4***

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **March** |  **5** | **Cash**  | **50,000** |  |
|  |  |  **Common Shares**  |  | **50,000** |
|  |  | **Issued shares to shareholder.** |  |  |
|  |  |  |  |  |
|  |  **7** | **Supplies**  | **450** |  |
|  |  |  **Cash**  |  | **450** |
|  |  | **Purchased supplies.** |  |  |
|  |  |  |  |  |
|  |  **9** | **Office Furniture**  | **15,500** |  |
|  |  |  **Cash**  |  | **5,000** |
|  |  |  **Accounts Payable**  |  | **10,500** |
|  |  | **Purchased furniture.** |  |  |
|  |  |  |  |  |
|  | **23** | **Accounts Receivable**  | **4,000** |  |
|  |  |  **Service Revenue**  |  | **4,000** |
|  |  | **Provided service on account.** |  |  |
|  |  |  |  |  |
|  | **29** | **Accounts Payable**  | **5,000** |  |
|  |  |  **Cash**  |  | **5,000** |
|  |  | **Paid on account.** |  |  |
|  |  |  |  |  |
|  | **30** | **Rent Expense**  | **2,100** |  |
|  |  |  **Cash**  |  | **2,100** |
|  |  | **Paid rent.** |  |  |
|  |  |  |  |  |
|  | **31** | **Dividends**  | **1,000** |  |
|  |  |  **Cash**  |  | **1,000** |
|  |  | **Paid dividend.** |  |  |

**(15-20 min.) P 2-60B**

***Req. 1 (journal entries; explanations not required)***

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES**  | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **June** |  **1** | **Cash**  | **25,000** |  |
|  |  |  **Common Shares**  |  | **25,000** |
|  |  |  |  |  |
|  |  **2** | **Land**  | **40,000** |  |
|  |  |  **Cash**  |  | **10,000** |
|  |  |  **Note Payable**  |  | **30,000** |
|  |  |  |  |  |
|  |  **7** | **Cash**  | **20,000** |  |
|  |  |  **Sales Revenue**  |  | **20,000** |
|  |  |  |  |  |
|  | **10** | **Supplies**  | **1,000** |  |
|  |  |  **Accounts Payable**  |  | **1,000** |
|  |  |  |  |  |
|  | **15** | **Salary Expense**  | **2,800** |  |
|  |  | **Rent Expense**  | **1,800** |  |
|  |  |  **Cash**  |  | **4,600** |
|  |  |  |  |  |
|  | **15** | **Advertising Expense**  | **1,100** |  |
|  |  |  **Cash**  |  | **1,100** |
|  |  |  |  |  |
|  | **16** | **Accounts Payable**  | **1,000** |  |
|  |  |  **Cash**  |  | **1,000** |
|  |  |  |  |  |
|  | **17** | **Dividends**  | **2,000** |  |
|  |  |  **Cash**  |  | **2,000** |

**(continued) P 2-60B**

***Req. 2***

|  |
| --- |
| **Cash** |
| **25,000** | **10,000** |
| **20,000** | **4,600** |
|  | **1,100** |
|  | **1,000** |
|  | **2,000** |
| **26,300** |  |

|  |
| --- |
| **Accounts Payable** |
| **1,000** | **1,000** |
| **0** |  |
|  |  |

|  |
| --- |
| **Notes Payable** |
|  | **30,000** |
|  | **30,000** |
|  |  |

***Req. 3***

**Cash: $26,300 ($25,000 – $10,000 + $20,000 –**

**$4,600 – $1,100 – $1,000 – $2,000)**

**Total amount owed: $30,000 ($30,000 + $1,000 –**

**$1,000)**

**(50-60 min.) P 2-61B**

***Req. 1 (journal entries; explanations not required)***

|  |
| --- |
| Journal |
| **DATE** | **ACCOUNT TITLES**  | **DEBIT** | **CREDIT** |
|  |  |  |  |  |
| **Oct.** |  **3** | **Cash**  | **20,000** |  |
|  |  |  **Common Shares**  |  | **20,000** |
|  |  |  |  |  |
|  |  **4** | **Cash**  | **5,000** |  |
|  |  |  **Service Revenue**  |  | **5,000** |
|  |  |  |  |  |
|  |  **6** | **Supplies**  | **300** |  |
|  |  | **Furniture**  | **2,500** |  |
|  |  |  **Accounts Payable**  |  | **2,800** |
|  |  |  |  |  |
|  |  **7** | **Land**  | **15,000** |  |
|  |  |  **Cash**  |  | **15,000** |
|  |  |  |  |  |
|  |  **7** | **Accounts Receivable**  | **1,500** |  |
|  |  |  **Service Revenue**  |  | **1,500** |
|  |  |  |  |  |
|  | **16** | **Cash**  | **500** |  |
|  |  |  **Accounts Receivable**  |  | **500** |
|  |  |  |  |  |
|  | **24** | **Utilities Expense**  | **110** |  |
|  |  |  **Cash**  |  | **110** |
|  |  |  |  |  |
|  | **24** | **Utilities Expense**  | **400** |  |
|  |  |  **Cash**  |  | **400** |
|  |  |  |  |  |
|  | **28** | **Cash**  | **2,500** |  |
|  |  |  **Service Revenue**  |  | **2,500** |
|  |  |  |  |  |
|  | **31** | **Salary Expense**  | **1,200** |  |
|  |  |  **Cash**  |  | **1,200** |
|  |  |  |  |  |
|  | **31** | **Accounts Payable**  | **2,500** |  |
|  |  |  **Cash**  |  | **2,500** |
|  |  |  |  |  |
|  | **31** | **Dividends**  | **2,400** |  |
|  |  |  **Cash**  |  | **2,400** |

**(continued) P 2-61B**

***Req. 2 (ledger accounts)***

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
| **Oct. 3** | **20,000** | **Oct. 7** | **15,000** |  | **Oct. 7** | **1,500** | **Oct. 16** | **500** |
|  **4** | **5,000** | **24** | **110** |  | **Bal.** | **1,000** |  |  |
| **16** | **500** | **24** | **400** |  |  |  |  |  |
| **28** | **2,500** | **31** | **2,500** |  |  |  |  |  |
|  |  | **31** | **1,200** |  | **Supplies** |
|  |  | **31** | **2,400** |  | **Oct. 6** | **300** |  |  |
| **Bal.** | **6,390** |  |  |  | **Bal.** | **300** |  |  |

|  |  |  |
| --- | --- | --- |
| **Furniture** |  | **Land** |
| **Oct. 6** | **2,500** |  |  |  | **Oct. 7** | **15,000** |  |  |
| **Bal.**  | **2,500** |  |  |  | **Bal.** | **15,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Accounts Payable** |  | **Common Shares** |
| **Oct. 31** | **2,500** | **Oct. 6** | **2,800** |  |  |  | **Oct. 3** | **20,000** |
|  |  |  **Bal.** | **300** |  |  |  | **Bal.** | **20,000** |

|  |  |  |
| --- | --- | --- |
| **Dividends** |  | **Service Revenue** |
| **Oct. 31** | **2,400** |  |  |  |  |  | **Oct. 4** | **5,000** |
| **Bal.** | **2,400** |  |  |  |  |  | **7** | **1,500** |
|  |  |  |  |  |  | **28** | **2,500** |
|  |  |  |  |  |  | **Bal.** | **9,000** |

**(continued) P 2-61B**

***Req. 2 (ledger accounts)***

|  |  |  |
| --- | --- | --- |
| **Salary Expense** |  |  |
| **Oct. 31** | **1,200** |  |  |  |  |  |  |  |
| **Bal.** | **1,200** |  |  |  |  |  |  |  |

|  |
| --- |
| **Utilities Expense** |
| **Oct. 24** **24** | **110****400** |  |  |
| **Bal.** | **510** |  |  |

**(continued) P 2-61B**

### *Req. 3*

|  |
| --- |
| **Barron Environmental Services Inc.** |
| **Trial Balance** |
| **October 31, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 6,390** |  |
| **Accounts receivable**  | **1,000** |  |
| **Supplies**  | **300** |  |
| **Furniture**  | **2,500** |  |
| **Land**  | **15,000** |  |
| **Accounts payable**  |  | **$ 300** |
| **Common shares**  |  | **20,000** |
| **Dividends**  | **2,400** |  |
| **Service revenue**  |  | **9,000** |
| **Salary expense**  | **1,200** |  |
| **Utilities expense**  |  **510** |  |
| **Total**  | **$29,300** | **$29,300** |

***Req. 4***

**Total resources (assets) = $25,190 ($6,390 + $1,000 +**

 **$300 + $2,500 + $15,000)**

**Amount owed (total liabilities) = $300**

**Profit (net income) = $7,290 ($9,000 – $1,200 –**

**$510)**

**(40-50 min.) P 2-62B**

### *Reqs. 1 and 2*

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
| **(a)** | **20,000** | **(c)** | **35,000** |  | **(e)** | **2,500** | **(f)** | **1,200** |
| **(b)** | **90,000** | **(g)** | **800** |  | **Bal.** | **1,300** |  |  |
| **(f)** | **1,200** | **(j)** | **2,200** |  |  |  |  |  |
| **(i)** | **1,100** | **(k)** | **1,100** |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **Bal.** | **73,200** |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Office Supplies** |  | **Computer Equipment** |
| **(d)** | **1,300** |  |  |  | **(c)** | **35,000** |  |  |
| **Bal.**  | **1,300** |  |  |  | **Bal.** | **35,000** |  |  |

|  |  |  |
| --- | --- | --- |
| **Building** |  | **Accounts Payable** |
| **(a)** | **60,000** |  |  |  | **(g)** | **800** | **(d)** | **1,300** |
| **Bal.**  | **60,000** |  |  |  |  |  | **(h)** | **500** |
|  |  |  |  |  |  |  | **Bal.** | **1,000** |

|  |  |  |
| --- | --- | --- |
| **Note Payable** |  | **Common Shares** |
|  |  | **(b)** | **90,000** |  |  |  | **(a)** | **80,000** |
|  |  | **Bal.** | **90,000** |  |  |  | **Bal.** | **80,000** |

|  |  |  |
| --- | --- | --- |
|  |  | **Service Revenue** |
|  |  |  |  |  |  |  | **(e)** | **2,500** |
|  |  |  |  |  |  |  | **(i)** | **1,100** |
|  |  |  |  |  |  |  | **Bal.** | **3,600** |

**(continued) P 2-62B**

|  |  |  |
| --- | --- | --- |
| **Salary Expense** |  | **Advertising Expense** |
| **(j)** | **2,200** |  |  |  | **(h)** | **500** |  |  |
| **Bal.**  | **2,200** |  |  |  | **Bal.** | **500** |  |  |

|  |  |  |
| --- | --- | --- |
| **Rent Expense** |  | **Utilities Expense** |
| **(k)** | **700** |  |  |  | **(k)** | **400** |  |  |
| **Bal.**  | **700** |  |  |  | **Bal.** | **400** |  |  |

**(continued) P 2-62B**

### *Req. 3*

|  |
| --- |
| **SchulichGraphics Service Inc.** |
| **Trial Balance** |
| **June 30, 2014** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$ 73,200** |  |
| **Accounts receivable**  | **1,300** |  |
| **Office supplies**  | **1,300** |  |
| **Computer equipment**  | **35,000** |  |
| **Building**  | **60,000** |  |
| **Accounts payable**  |  | **$ 1,000** |
| **Note payable**  |  | **90,000** |
| **Common shares**  |  | **80,000** |
| **Service revenue**  |  | **3,600** |
| **Salary expense**  | **2,200** |  |
| **Rent expense**  | **700** |  |
| **Advertising expense**  | **500** |  |
| **Utilities expense**  |  **400** |  **\_\_\_\_\_\_\_** |
| **Total**  | **$174,600** | **$174,600** |

**Decision Cases**

**(40-50 min.) Decision Case 1**

***Reqs. 1 and 2***

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Accounts Receivable** |
| **(a)** | **10,000** | **(b)** | **300** |  | **(d)** | **7,000** | **(g)** | **1200** |
| **(e)** | **5,000** | **(f)** | **2,300** |  | **Bal.** | **5,800** |  |  |
| **(i)** | **2,500** | **(h)** | **1,000** |  |  |  |  |  |
| **(g)** | **1,200** | **(j)** | **800** |  |  |  |  |  |
| **Bal.** | **14,300** |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Supplies** |  | **Furniture** |
| **(b)** | **300** |  |  |  | **(c)** | **4,400** |  |  |
| **Bal.** | **300** |  |  |  | **Bal.** | **4,400** |  |  |

|  |  |  |
| --- | --- | --- |
| **Accounts Payable** |  | **Notes Payable** |
| **(h)** | **1,000** | **(c)** | **4,400** |  |  |  | **(e)** | **5,000** |
|  |  | **Bal.** | **3,400** |  |  |  | **Bal.** | **5,000** |

|  |  |  |
| --- | --- | --- |
| **Common Shares** |  |  |
|  |  | **(a)** | **10,000** |  |  |  |  |  |
|  |  | **Bal.** | **10,000** |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Service Revenue** |  | **Salary Expense** |
|  |  | **(d)** | **7,000** |  | **(f)** | **1,700** |  |  |
|  |  | **(i)** | **2,500** |  | **Bal.**  | **1,700** |  |  |
|  |  | **Bal.** | **9,500** |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Advertising Expense** |  | **Rent Expense** |
| **(j)** | **800** |  |  |  | **(f)** | **600** |  |  |
| **Bal.**  | **800** |  |  |  | **Bal.** | **600** |  |  |

**(continued) Decision Case 1**

***Req. 3***

|  |
| --- |
| **Tipple Networks, Inc.** |
| **Trial Balance** |
| **Current Date** |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| **Cash**  | **$14,300** |  |
| **Accounts receivable**  | **5,800** |  |
| **Supplies**  | **300** |  |
| **Furniture**  | **4,400** |  |
| **Accounts payable**  |  | **$ 3,400** |
| **Notes payable**  |  | **5,000** |
| **Common shares**  |  | **10,000** |
| **Service revenue**  |  | **9,500** |
| **Salary expense**  | **1,700** |  |
| **Advertising expense**  | **800** |  |
| **Rent expense**  |  **600** |  |
| **Total**  | **$27,900** | **$27,900** |

**(continued) Decision Case 1**

***Req. 4 (net income or loss for first month of operations)***

|  |  |  |
| --- | --- | --- |
| **Revenues:** |  |  |
|  **Service revenue**  |  | **$9,500** |
| **Expenses:** |  |  |
|  **Salary expense**  | **$1,700** |  |
|  **Advertising expense**  | **800** |  |
|  **Rent expense**  |  **600** |  |
|  **Total expenses**  |  |  **3,100** |
| **Net income for month**  |  | **$6,400** |

***Recommendation*: Continue the business. Even though first-month net income falls below the target amount, the business should grow and should be able to earn monthly net income of $10,000. Business startups require focus on non-revenue generating issues which will *not* continue into future months. Tipple needs to focus on generating revenue of at least $13,100 per month.**

**(20-30 min.) Decision Case 2**

|  |
| --- |
| **Barbara Boland Blossoms, Inc.** |
| **Income Statement** |
| **For the Quarter Ended December 31, 2014** |
|  |  |
| **Sales revenue**  | **$36,000** |
|  |  |
| **Cost of goods sold**  | **22,000** |
| **Rent expense**  | **6,000** |
| **Advertising expense**  |  **5,000** |
|  **Total expenses**  |  **33,000** |
|  |  |
| **Net income**  | **$ 3,000** |

|  |
| --- |
| **Barbara Boland Blossoms, Inc.** |
| **Balance Sheet** |
| **December 31, 2014** |
| **ASSETS** | **LIABILITIES** |
| **Cash**  | **$ 6,000** | **Accounts payable**  | **$ 8,000** |
| **Flower inventory**  | **5,000** | **SHAREHOLDERS’ EQUITY** |
| **Store fixtures**  |  **10,000** | **Common shares**  | **10,000** |
|  |  | **Retained earnings**  |  **3,000** |
|  |  |  **Total owners’ equity**  |  **13,000** |
|  |  |  **Total liabilities**  |  |
|  **Total assets…….** | **$21,000** |  **and equity**  | **$21,000** |

***Recommendation*: Do not expand because both net income**

**and total assets do not reach the target amounts. Boland’s cousin made some mistakes, which will affect the decision to expand the business. One issue is the high cost of goods sold (61%). If this expense could be reduced the profit target would be achievable.**

**Ethical Issue 1**

***Req. 1***

|  |  |  |  |
| --- | --- | --- | --- |
| Option 1: | Cash .  | 100,000 |  |
|  |  Common shares  |  | 100,000 |
|  |  |  |  |
| Option 2: |  |  |  |
|  | Transaction to record land transfer and issue of sharesLand …………………………………….  | 100,000 |  |
|  |  Common shares ………….. |  | 100,000 |
|  |  |  |  |
|  | Transaction to cancel shares and transfer land back to Murphy Common shares  | 100,000 |  |
|  |  Land  |  | 100,000 |

|  |  |  |
| --- | --- | --- |
| **Issue** | **$100,000 common shares for cash** | **Transfer personal land to company** |
| **Is this a valid business transaction?** | **Yes. An investment of $100,000 has been made in the business.** | **No, if the intent is to transfer the land back to the shareholder during term of the loan. Questionable. Is the land worth $100,000? Will the land be used in the business?** |
| **Who are stake-holders?** | **Bank who advances loan. Murphy, owner of the business. Friend who invested in business. Loan officer.** | **Bank who advances loan. Murphy, owner of the business. Loan officer.** |
| **Alternatives/impacts on stakeholders** | **Murphy, owner of the business will receive loan based on value of shareholder equity. Friend who invested in business could increase value of investment if business expands. Bank who advances loan receives interest. Loan officer builds client relationship.** | **Murphy, owner of the business will violate bank covenant when land is transferred back to personal use and common shares are cancelled during term of loan. Bank risk on loan is increased as assets were overstated on loan application. Loan officer could be held accountable for bad risk loan.** |
| **Decision** | **This option would be ethical in the circumstances.** | **This option is misleading and unethical in the circumstances.** |

**Ethical Issue 2**

**Issue Is Beatrice Grand making decisions that take advantage of (abuse) the standing agreement between Community Charities (CC) and the Royal Bank of Canada (RBC)?**

**Stakeholders Royal Bank of Canada (RBC) is the key stakeholder as its funds are being used.**

 **RBC Client representative who will determine whether bank can continue on this basis.**

 **Community charities is increasing overdraft position.**

 **Beatrice Grand, President, is expanding operations and initiating fundraising for CC.**

**Alternatives/Impact on**

**stakeholders RBC could be misled re Beatrice Grand’s decisions that lead to the increasing overdraft of Community Charities’ cash balance.**

 **RBC Client representative will be held accountable if ongoing negative bank balance is abuse of agreement with Community Charities.**

 **Community Charities may benefit from expansion and fundraising efforts; however, the organization’s overdraft is also increasing.**

 **Beatrice Grand is making decisions on behalf of Community Charities which could have positive or negative consequences.**

**Decision If RBC is aware of CC’s expansion plans, the situation is ethically appropriate. This assumes RBC and CC are communicating openly.**

 **If RBC is unaware of Beatrice Grand’s decisions, CC is abusing agreement with RBC. In this case, the situation is unethical.**

**Focus on Financials**

**(20-30 min.) Telus Corporation**

***Reqs. 1 and 3***

***(All amounts in millions)***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cash & Temp Inv** |  | **Accounts Receivable** |  | **Inventories** |
|  | **17** | **(d)****(g)****(h)****(i)** | **741****4,113****1,413****3,200** |  |  | **1,318** |  |  |  |  | **283** | **(e)** | **671** |
| **(a)** | **3,101** | **(c)** | **2,991** | **(d)** | **741** |  |  |
| **(b)** | **6,505** |  |  |  |  |  |  |  |  |  |  |  |
| **(c)** | **2,991** |  |  |  | **1,428** |  |  |  | **353** |  |  |
|  |  |  |  |  | **Long-Term debt** |  | **Accounts payable** |
|  |  |  |  | **(h)** | **1,413** |  |  **5,209** | **(g)** | **4,113** | **(f)** | **1,477****4,055** |
|  | **46** |  |  |  |  |  | **3,796** |  |  |  | **1,419** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Prop, Plant, Equip** |  | **Service revenue** |  | **Goods/Serv. Purch.** |
| **(i)** | **7,831****3,200** |  |  | **(a)****(b)** | **3,101****6,505** | **(e)****(f)** | **671****4,055** |  |
|  | **11,031** |  |  |  | **9,606** |  | **4,726** |  |

***Req. 2***

|  |  |  |
| --- | --- | --- |
|  |  |  ***(Millions)*** |
| **a.** | **Accounts Receivable**  | **3,101** |  |
|  |  **Service Revenue**  |  | **3,101** |
|  |  |  |  |
| **b.** | **Cash**  | **6,505** |  |
|  |  **Service Revenue**  |  | **6,505** |

**(continued) Telus Corporation**

|  |  |  |
| --- | --- | --- |
|  |  |  ***(Millions)*** |
| **c.** | **Cash**  | **2,991** |  |
|  |  **Accounts Receivable**  |  | **2,991** |
|  |  |  |  |
| **d.** | **Inventories**  | **741** |  |
|  |  **Cash**  |  | **741** |
|  |  |  |  |
| **e.** | **Goods and services purchased**  | **671** |  |
|  |  **Inventories**  |  | **671** |
|  |  |  |  |
| **f.** | **Goods and services purchased**  | **4,055** |  |
|  |  **Accounts Payable**  |  | **4,055** |
|  |  |  |  |
| **g.** | **Accounts Payable**  | **4,113** |  |
|  |  **Cash**  |  | **4,113** |
|  |  |  |  |
| **h.** | **Long–term debt**  | **1,413** |  |
|  |  **Cash**  |  | **1,413** |
|  |  |  |  |
| **i.** | **Property, Plant, and Equipment**  | **3,200** |  |
|  |  **Cash**  |  | **3,200** |

***Req. 4***

**All the selected account balances agree with Telus’s actual figures on the income statement or the balance sheet.**

**Focus on Analysis**

**(20-30 min.) Telus Corporation**

***Req. 1***

During 2011, Telus had less sales revenue than it collected in cash from customers. This is determined by analyzing Accounts Receivable, as follows:

|  |  |  |
| --- | --- | --- |
|  |  | ***( (Millions)*** |
|  | **Balance at the end of 2010**  | **$1,318** |
| **+** | **Sales during 2011**  |  S |
| **–** | **Collections from customers during**  |  **(C)** |
| **=** | **Balance at the end of 2011**  | **$1,428** |

Sales (S) must have exceeded Collections (C) because the total receivable balance increased during the year.

***Req. 2***

|  |  |
| --- | --- |
|  | ***(Millions)*** |
| **Long-term debt:** |  |
|  **At end of 2010 (including current portion)**  |  **$ 6,056** |
|  **At end of 2011 (including current portion)**  | **6,574** |
|  **Increase in long-term debt during 2011**  | **$ 518** |
|  |  |

**Long–term debt increased during 2011, so Telus must have taken on more long-term debt than it repaid during the year.**

**(continued) Telus Corporation**

***Req. 3***

|  |  |  |
| --- | --- | --- |
|  | **2011** | **2010** |
| **Operating Revenues (millions)** | **$10,325** | **$9,742** |
|  |  |  |
|  | Increase = $583 |
|  | **6.0%** |
|  |  |  |
| **Net Income (millions)** | **$1,215** | **$1,052** |
|  |  |  |
|  | Increase = $163 |
|  | **15.5%** |
|  |

Net Income increased more than Service Revenues by a healthy percentage. Most investors prefer this outcome because it means that a company was able to increase its revenues while holding the increase in expenses to a lower rate of increase compared to the increase in sales. In other words, the company was able to keep a higher percentage of its revenues in 2011 than it did in 2010.

**Demo Doc**

**Debit/Credit Transaction Analysis**

***To make sure you understand this material, work though the following demonstration “Demo Doc” with detailed comments to help you see the concept within the framework of a worked-through problem.***

***Learning Objectives 1, 2, 3, 4***

**On September 1, 2014, Michael Moe incorporated Moe’s Mowing Inc., a company that provides mowing and landscaping services. During the month of September, the business incurred the following transactions:**

**a. To begin operations, Michael deposited $10,000 cash in the business’s bank account. The business received the cash and issued common shares to Michael.**

**b. The business purchased equipment for $3,500 on account.**

**c. The business purchased office supplies for $800 cash.**

**d. The business provided $2,600 of services to a customer on account.**

**e. The business paid $500 cash toward the equipment previously purchased on account in transaction b.**

**f. The business received $2,000 in cash for services provided to a new customer.**

**g. The business paid $200 cash to repair equipment.**

**h. The business paid $900 cash in salary expense.**

**i. The business received $2,100 cash from a customer on account.**

**j. The business paid cash dividends of $1,500.**

**Requirements**

**1. Create blank T-accounts for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Shares, Dividends, Service Revenue, Salary Expense, Repair Expense.**

**2. Journalize the transactions and then post to the T-accounts. Use the table in Exhibit 2-16 to help with the journal entries.**

**EXHIBIT 2-16 The Rules of Debit and Credit**

|  |  |  |
| --- | --- | --- |
|  | **Increase** | **Decrease** |
| **Assets** | **debit** | **credit** |
| **Liabilities** | **credit** | **debit** |
| **Stockholders’ equity** | **credit** | **debit** |
| **Revenues** | **credit** | **debit** |
| **Expenses** | **debit** | **credit** |
| **Dividends** | **debit** | **credit** |

**3. Total each T-account to determine its balance at the end of the month.**

**4. Prepare the trial balance of Moe’s Mowing Inc. at September 30, 2014.**

**Demo Doc Solutions**

**Requirement 1**

**Create blank T-accounts for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Shares, Dividends, Service Revenue, Salary Expense, Repair Expense.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Part 1** | **Part 2** | **Part 3** | **Part 4** | **Demo Doc Complete** |

**Opening a T-account means drawing a blank account that looks like a capital “T” and putting the account title across the top. T-accounts show the additions and subtractions made to each account. For easy reference, the accounts are grouped into assets, liabilities, stockholders equity, revenue, and expenses (in that order).**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **ASSETS** |  | **=** |  | **LIABILITIES** | **+** | **SHAREHOLDERS’ EQUITY** |
| **Cash** |  | **Supplies** |  | **Accounts Payable** |  | **Common Shares** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Dividends** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Receivable** |  | **Equipment** |  |  |  |  |  |  | **Service Revenue** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **EXPENSES** |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Salary Expenses** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Repair Expense** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Requirement 2**

**Journalize the transactions and show how they are recorded in T-accounts.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Part 1** | **Part 2** | **Part 3** | **Part 4** | **Demo Doc Complete** |

**a. To begin operations, Michael deposited $10,000 cash in the business’s bank account. The business received the cash and issued common stock to Michael.**

**First, we must determine which accounts are affected by the transaction**

**The business received $10,000 cash from its principal shareholder (Michael Moe). In exchange, the business issued common stock to Michael. So, the accounts involved are Cash and Common Shares.**

**Remember that we are recording the transactions of Moe’s Mowing Inc., not the transactions of Michael Moe, the person. Michael and his business are two entirely separate accounting entities.**

**The next step is to determine what type of accounts these are. Cash is an asset, Common Shares is part of equity.**

**Next, we must determine if these accounts increased or decreased. From the business point of view, Cash (an asset) has increased. Common Shares (equity) has also increased.**

**Now we must determine if these accounts should be debited or credited. According to the rules of debit and credit (see Exhibit 2-16 on p.), an increase in assets is a debit, while an increase in equity is a credit.**

**So, Cash (an asset) increases, which requires a debit. Common Shares (equity) also increases, which requires a credit.**

**The journal entry follows.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** |  | **Cash (Asset ↑; debit)** | **10,000** |  |
|  |  |  **Common shares (equity ↑; credit)** |  | **10,000** |
|  |  | ***Issued common stock.*** |  |  |

**The total dollar amount of debits must always equal the total dollar amounts of credits.**

**Remember to use the transaction letter as references. This will help as we post entries to the T-accounts.**

**Each T-account has two sides—one for recording debits and the other for recording credits. To post the transaction to a
T-account, simply transfer the amount of each debit to
the correct account as a debit (left-side) entry, and transfer
the amount of each credit to the correct account as a credit (right-side) entry.**

**This transaction includes a debit of $10,000 to cash. This means that $10,000 is posted to the left side of the Cash
T-account. The transaction also includes a credit of $10,000 to Common Shares. This means that $10,000 is posted to the right side of the Common Shares account, as follows**

|  |  |  |
| --- | --- | --- |
| **Cash** |  | **Common Shares** |
| **a.** | **10,000** |  |  | **a.** | **10,000** |

**Now the first transaction has been journalized and posted. We repeat this process for every journal entry. Let’s proceed to the next transaction.**

**b. The business purchased equipment for $3,500 on account.**

**The business received equipment in exchange for a promise to pay for the $3,500 cost at a future date. So the accounts involved in the transaction are Equipment and Accounts Payable.**

**Equipment is an asset and Accounts Payable is a liability.**

**The asset Equipment has increased. The liability Accounts payable has also increased.**

**Looking at Exhibit 2-16, an increase in assets (in this case, the increase in Equipment) is a debit, while an increase in liabilities (in this case, Accounts Payable) is a credit.**

**The Journal entry follows.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **b.** |  | **Equipment (Asset ↑; debit)** | **3,500** |  |
|  |  |  **Accounts Payable (Liability ↑; credit)** |  | **3,500** |
|  |  | ***Purchased equipment on account.*** |  |  |

**$3,500 is then posted to the debit (left) side of the Equipment T-account. $3,500 is posted to the credit (right) side of Accounts Payable, as follows**

|  |  |  |
| --- | --- | --- |
| **Equipment** |  | **Accounts Payable** |
| **b.** | **3,500** |  |  | **b.** | **3,500** |

**c. The business purchased office supplies for $800 cash.**

**The business purchased supplies, paying cash of $800. So the accounts involved in the transaction are Supplies and Cash.**

**Supplies and Cash are both assets.**

**Supplies (an asset) have increased. Cash (an asset) has decreased.**

**Looking at Exhibit 2-16, an increase in assets is a debit, while a decrease in assets is a credit.**

**So the increase to Supplies (an asset) is a debit, while the decrease to Cash (an asset) is a credit.**

**The Journal entry follows:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **c.** |  | **Supplies (Asset ↑; debit)** | **800** |  |
|  |  |  **Cash (Asset ↓; credit)** |  | **800** |
|  |  | ***Purchased supplies for cash.*** |  |  |

**$800 is then posted to the debit (left) side of the Supplies T-account. $800 is posted to the credit (right) side of the Cash account, as follows.**

|  |  |  |
| --- | --- | --- |
|  **Cash** |  | **Supplies** |
| **a.** | **10,000** |  |  |  | **c.** | **800** |
|  |  | **c.** | **800** |  |  |  |  |

**Notice the $10,000 already on the debit side of the Cash account. This came from transaction a.**

**d. The business provided $2,600 of services to a customer on account.**

**The business rendered service for a customer and received a promise from the customer to pay us $2,600 cash next month. So the accounts involved in the transaction are Accounts Receivable and Service Revenue.**

**Accounts Receivable is an asset and Service Revenue is revenue.**

**Accounts Receivable (an asset) has increased. Service Revenue (revenue) has also increased.**

**Looking at Exhibit 2-16, an increase in assets is a debit, while an increase in revenue is a credit.**

**So the increase to Accounts Receivable (an asset) is a debit, while the increase to Service Revenue (revenue) is a credit.**

**The journal entry follows.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **d.** |  | **Accounts Receivable (Asset ↑; debit)** | **2,600** |  |
|  |  |  **Service Revenue (Revenue ↑; credit)** |  | **2,600** |
|  |  | ***Purchased services on account.*** |  |  |

**$2,600 is posted to the debit (left) side of the Accounts Receivable T-account. $2,600 is posted to the credit (right) side of the Service Revenue account, as follows.**

|  |  |  |
| --- | --- | --- |
| **Account Receivable** |  | **Service Revenue** |
| **d.** | **2,600** |  |  | **d.** | **2,600** |

**e. The business paid $500 cash toward the equipment previously purchased on account in transaction b.**

**The business paid some of the money that it owed on the purchase of equipment in transaction b. The accounts involved in the transaction are Accounts Payable and Cash.**

**Accounts Payable is a liability that has decreased. Cash is an asset that has also decreased.**

**Remember that Accounts Payable shows the amount the business must pay in the future (a liability). When the business pays these creditors, Accounts Payable will decrease because the business will then owe less (in the case, Accounts Payable drops from $3,500—in transaction b—to $3,000).**

**Looking at Exhibit 2-16, a decrease in liabilities is a debit, while a decrease in assets is a credit.**

**So Accounts Payable (a liability) decreases, which is a debit. Cash (an asset) decreases, which is a credit.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **e.** |  | **Accounts Payable (Liability ↓; debit)** | **500** |  |
|  |  |  **Cash (Asset ↓; credit)** |  | **500** |
|  |  | ***Partial payment on account.*** |  |  |

**$500 is posted to the debit (left) side of the Accounts Payable T-account. $500 is posted to the credit (right) side of the Cash account, as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** |  |  | **Accounts Payable** |
| **a.** | **10,000** |  |  |  |  |  | **b.** | **3,500** |
|  |  | **c.** | **800** |  | **e.** | **500** |  |  |
|  |  | **e.** | **500** |  |  |  |  |  |

**Again notice the amounts already in the T-accounts from previous transactions. The reference letters show which transaction caused each amount to appear in the T-account.**

**f. The business received $2,000 in cash for services provided to a new customer.**

**The business received $2,000 cash in exchange for mowing and landscaping services rendered to a customer. The accounts involved in the transaction are Cash and Service Revenue.**

**Cash is an asset that has increased and Service Revenue is revenue, which has also increased.**

**Looking at Exhibit 2-16, an increase in assets is a debit, while an increase in revenue is a credit.**

**So the increase to Cash (an asset) is a debit. The increase to Service Revenue (revenue) is a credit.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **f.** |  | **Cash (Asset ↑; debit)** | **2,000** |  |
|  |  |  **Service Revenue (Revenue ↑; credit)** |  | **2,000** |
|  |  | ***Provided services for cash*** |  |  |

**$2,000 is then posted to the debit (left) side of the Cash
T-account. $2,000 is posted to the credit (right) side of the Service Revenue account, as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** |  |  | **Service Revenue** |
| **a.** | **10,000** |  |  |  |  |  | **d.** | **2,600** |
|  |  | **c.** | **800** |  |  |  | **f.** | **2,000** |
| **f.** | **2,000** | **e.** | **500** |  |  |  |  |  |

**Notice how we keep adding onto the T-accounts. The value from previous transactions remains in their places.**

**g. The business paid $200 cash to repair equipment.**

**The business paid $200 cash to have equipment repaired. Because the benefit of the repairs has already been used, the repairs are recorded as Repair Expense. Because the repairs were paid in cash, the Cash account is also involved.**

**Repair Expense is an expense that has increased and Cash is an asset that has decreased.**

**Looking at Exhibit 2-16, an increase in expenses calls for a debit, while a decrease in an asset requires a credit.**

**So Repair Expense (an expense) increases, which is a debit, Cash (an asset) decreases, which is a credit.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **g.** |  | **Repair Expense (Expense ↑; debit)** | **200** |  |
|  |  |  **Cash (Asset ↓; credit)** |  | **200** |
|  |  | ***Paid for repairs.*** |  |  |

**$200 is then posted to the debit (left) side of the Repair Expense T-account. $200 is posted to the credit (right) side of the Cash account, as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** |  |  | **Repair Expense** |
| **a.** | **10,000** |  |  |  |  |  | **g.** | **200** |
|  |  | **c.** | **800** |  |  |  |  |  |
|  |  | **e.** | **500** |  |  |  |  |  |
| **f.** | **2,000** |  |  |  |  |  |  |  |
|  |  | **g.** | **200** |  |  |  |  |  |

**h. The business paid $900 cash for salary expense.**

**The business paid employees $900 in cash. Because the benefit of the employees’ work has already been used, their salaries are recorded as Salary Expense. Because the salaries were paid in cash, the Cash account is also involved.**

**Salary Expense is an expense that has increased and Cash is an asset that has decreased.**

**Looking at Exhibit 2-16, an increase in expenses is a debit, while a decrease in an asset is a credit.**

**In this case, Salary Expense (an expense) increases, which is a debit. Cash (an asset) decreases, which is a credit.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **h.** |  | **Salary Expense (Expense ↑; debit)** | **900** |  |
|  |  |  **Cash (Asset ↓; credit)** |  | **900** |
|  |  | ***Paid salary*** |  |  |

**$900 is posted to the debit (left) side of the Salary Expense T-account. $900 is posted to the credit (right) side of the Cash account, as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** |  |  | **Salary Expense** |
| **a.** | **10,000** |  |  |  |  |  | **h.** | **200** |
|  |  | **c.** | **800** |  |  |  |  |  |
|  |  | **e.** | **500** |  |  |  |  |  |
| **f.** | **2,000** |  |  |  |  |  |  |  |
|  |  | **g.** | **200** |  |  |  |  |  |
|  |  | **h.** | **900** |  |  |  |  |  |

**i. The business received $2,100 cash from a customer on account.**

**The business received cash of $2,100 from a customer for services previously provided in transaction d. The accounts affected by this transaction are Cash and Accounts Receivable.**

**Cash and Accounts Receivable are both assets.**

**The asset Cash has increased, and the asset Accounts Receivable has decreased.**

**Remember, Accounts Receivable shows the amount of cash the business has coming from customers. When the business receives cash from these customers, Accounts Receivable will decrease, because the business will have less to receive in the future (in this case, it reduces from $2,600—in transaction d—to $500).**

**Looking Exhibit 2-10, an increase in assets is a debit, while a decrease in assets is a credit.**

**So Cash (an asset) increases, which is a debit. Accounts Receivable (an asset) decreases, which is a credit.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **i.** |  | **Cash (Asset ↑; debit)** | **2,100** |  |
|  |  |  **Accounts Receivable (Asset ↓; credit)** |  | **2,100** |
|  |  | ***Received cash an account.*** |  |  |

**$2,100 is posted to the debit (left) side of the Cash T-account $2,100 is posted to the credit (right) side of the Accounts Receivable account, as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** |  |  | **Accounts Receivable** |
| **a.** | **10,000** |  |  |  | **d.** | **2,600** |  |  |
|  |  | **c.** | **800** |  |  |  | **i.** | **2,100** |
|  |  | **e.** | **500** |  |  |  |  |  |
| **f.** | **2,000** |  |  |  |  |  |  |  |
|  |  | **g.** | **200** |  |  |  |  |  |
|  |  | **h.** | **900** |  |  |  |  |  |
| **i.** | **2,100** |  |  |  |  |  |  |  |

**j. The business declared and paid cash dividends of $1,500.**

**The business paid Michael dividends from the earnings it had retained on his behalf. This caused Michael’s ownership interest (equity) to decrease. The accounts involved in this transaction are Dividends and Cash.**

**Dividends have increased and Cash is an asset that has decreased.**

**Looking at Exhibit 2-16, an increase in dividends is a debit, while a decrease in an asset is a credit.**

**Remember that Dividends are a negative element of shareholders’ equity. Therefore, when Dividends increase, shareholder’s equity decrease. So in this case, Dividends decrease equity with a debit. Cash (an asset) decreases with a credit.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **j.** |  | **Dividends (Dividends ↑; debit) ↓SE** | **1,500** |  |
|  |  |  **Cash (Asset ↓; credit)** |  | **1,500** |
|  |  | ***Paid dividends.*** |  |  |

**$1,500 is posted to the debit (left) side of the Dividends
T-account. $1,500 is posted to the credit (right) side of the Cash account, as follows.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash** |  |  | **Dividends** |
| **a.** | **10,000** |  |  |  | **j.** | **1,500** |  |  |
|  |  | **c.** | **800** |  |  |  |  |  |
|  |  | **e.** | **500** |  |  |  |  |  |
| **f.** | **2,000** |  |  |  |  |  |  |  |
|  |  | **g.** | **200** |  |  |  |  |  |
|  |  | **h.** | **900** |  |  |  |  |  |
| **i.** | **2,100** |  |  |  |  |  |  |  |
|  |  | **j.** | **1,500** |  |  |  |  |  |

**Now we can summarize all of the journal entries during the month.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref.** |  | **Accounts and Explanation** | **Debit** | **Credit** |
| **a.** |  | **Cash** | **10,000** |  |
|  |  |  **Common Shares** |  | **10,000** |
|  |  | ***Issued common Shares.*** |  |  |
| **b.** |  | **Equipment** | **3,500** |  |
|  |  |  **Accounts Payable** |  | **3,500** |
|  |  | ***Purchased equipment on account.*** |  |  |
| **c.** |  | **Supplies** | **800** |  |
|  |  |  **Cash** |  | **800** |
|  |  | ***Purchased supplies for cash.*** |  |  |
| **d.** |  | **Accounts Receivable** | **2,600** |  |
|  |  |  **Service Revenue** |  | **2,600** |
|  |  | ***Provided services on account.*** |  |  |
| **e.** |  | **Accounts Payable** | **500** |  |
|  |  |  **Cash** |  | **500** |
|  |  | ***Partial payment on account.*** |  |  |
| **f.** |  | **Cash** | **2,000** |  |
|  |  |  **Service Revenue** |  | **2,000** |
|  |  | ***Provided services for cash.*** |  |  |
| **g.** |  | **Repair Expense** | **200** |  |
|  |  |  **Cash** |  | **200** |
|  |  | ***Paid for repairs.*** |  |  |
| **h.** |  | **Salary Expense** | **900** |  |
|  |  |  **Cash** |  | **900** |
|  |  | ***Paid salary.*** |  |  |
| **i.** |  | **Cash** | **2,100** |  |
|  |  |  **Accounts Receivable** |  | **2,100** |
|  |  | ***Received cash on account.*** |  |  |
| **j.** |  | **Dividends** | **1,500** |  |
|  |  |  **Cash** |  | **1,500** |
|  |  | ***Paid dividends.*** |  |  |

**Requirement 3**

**Total each T-account to determine its balance at the end of the month.**

**Part 1 Part 2 Part 3 Part 4 Demo Doc Complete**

**To compute the balance in a T-account (total the T-account), add up the numbers on the debit/left side of the account and (separately) add the credit/right side of the account. The difference between the total debits and the total credits is the account’s balance, which is placed on the side that holds the larger total. This gives the balance in the T-account.**

**For example, for the Cash account, the numbers on the debit/left side total $10,000 + $2,000 + $2,100 = $14,100. The credit/right side = $800 + $500 + $200 + $900 + $1,500 = $3,900. The difference is $14,100 – $3,900 = $10,200. At the end of the period Cash has a debit balance of $10,200. We put the $10,200 at the bottom of the debit side because that was the side that showed the bigger total ($14,100). This is called a debit balance.**

**An easy way to think of totaling T-accounts is:**

**Beginning balance in a T-account**

**+ Increase to the T-account**

**– Decrease to the T-account**

**T-account balance (net total)**

**T-accounts, after posting all transactions and totaling each account, are as follows:**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **ASSETS** |  | **=** |  | **LIABILITIES** | **+** | **SHAREHOLDERS’ EQUITY** |
| **Cash** |  | **Supplies** |  | **Accounts Payable** |  | **Common Shares** |
| **a.** | **10,000** |  |  | **c.** | **800** |  |  | **b.** | **3,500** |  |  | **a.** | **10,000** |
|  |  | **c.** | **800** |  | **Bal.** | **800** |  | **e.** | **500** |  |  |  |  | **Bal** | **10,000** |
| **f.** | **2,000** | **e** | **500** |  |  |  |  |  | **Bal.** | **3,000** |  |  |  |  |  |
|  |  | **g.** | **200** |  |  |  |  |  |  |  |  |  | **Dividends** |
|  |  | **h.** | **900** |  |  |  |  |  |  |  |  | **j.** | **1,500** |  |  |
| **i.** | **2,100** |  |  |  |  |  |  |  |  |  |  |  | **Bal.** | **1,500** |  |  |
|  |  | **j.** | **1,500** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Bal.** | **10,200** |  |  |  |  |  |  |  |  |  |  |  | **Revenue** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Accounts Receivable** |  | **Equipment** |  |  |  |  |  |  | **Service Revenue** |
| **d.** | **2,600** |  |  |  | **b.** | **3,500** |  |  |  |  |  |  |  |  | **d.** | **2,600** |
|  |  | **i.** | **2,100** |  | **Bal.** | **3,500** |  |  |  |  |  |  |  |  | **f.** | **2,000** |
| **Bal.** | **500** |  |  |  |  |  |  |  |  |  |  |  |  |  | **Bal.** | **4,600** |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **EXPENSES** |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Salary Expenses** |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **h.** | **900** |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **Bal.** | **900** |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **Repair Expense** |
|  |  |  |  |  |  |  |  |  |  |  |  |  | **g.** | **200** |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | **Bal.** | **200** |  |  |

**Requirement 4**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Part 1** | **Part 2** | **Part 3** | **Part 4** | **Demo Doc Complete** |

**The trial balance lists all the accounts along with their balances. This listing is helpful because it summarizes all the accounts in one place. Otherwise one must plough through all the T-accounts to find the balance of Accounts Payable, Salary Expense, or any other account.**

**The trial balance is an *internal* accounting document that accountants and managers use to prepare the financial statements. It’s not like the income statement and balance sheet, which are presented to the public.**

 **Data for the trial balance come directly from the T-accounts that we prepared in Requirement 3. A debit balance in a T-account remains a debit in the trial balance, and likewise for credits. For example, the
Accounts Payable T-account shows a $3,000 credit balance, and the trial balance lists Accounts Payable correctly.**

 **The trial balance for Moe’s Mowing at September 30, 2014, appears as follows. Notice that we list the accounts in their proper order—assets, liabilities, stockholders, equity, revenues, and expenses.**

|  |
| --- |
| **Moe’s Mowing, Inc.****Trial Balance****September 30, 2014** |
|  |  | **Balance** |
|  |  |  | **Debit** |  | **Credit** |
| ***Assets*** | **Cash** |  | **$10,200** |  |  |
| **Accounts receivable** |  | **500** |  |  |
| **Supplies** |  | **800** |  |  |
| **Equipment**  |  | **3,500** |  |  |
| ***Liabilities*** | **Accounts payable** |  |  |  | **$3,000** |
| ***Equity*** | **Common shares** |  |  |  | **10,000** |
| **Dividends** |  | **1,500** |  |  |
| ***Revenues*** | **Service revenue** |  |  |  | **4,600** |
| ***Expenses*** | **Salary expense** |  | **900** |  |  |
| **Repair expense** |  | **200** |  |  |
|  | **Total** |  | **$17,600** |  | **$17,600** |

**You should trace each account from the T-accounts to the trial balance.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Part 1** | **Part 2** | **Part 3** | **Part 4** | **Demo Doc Complete** |