

## CHAPTER 2 ANALYZING TRANSACTIONS

### DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, stockholders' equity, revenue, or expense. A ledger is a group of related accounts.
2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset and expense accounts but a decrease in liability, capital stock, retained earnings, and revenue accounts.
3.
  - a. Assuming no errors have occurred, the credit balance in the cash account resulted from drawing checks for \$1,850 in excess of the amount of cash on deposit.
  - b. The \$1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.
4.
  - a. The revenue was earned in October.
  - b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.  
(2) Debit Cash and credit Accounts Receivable in November.
5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.
6. The listing of \$9,800 is a transposition; the listing of \$100 is a slide.
7.
  - a. No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.
  - b. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by \$90.
8.
  - a. The equality of the trial balance would not be affected.
  - b. On the income statement, total operating expenses (salary expense) would be overstated by \$7,500, and net income would be understated by \$7,500. On the retained earnings statement, the beginning and ending retained earnings would be correct. However, net income and dividends would be understated by \$7,500. These understatements offset one another; ending retained earnings equity is correct. The balance sheet is not affected by the error.
9.
  - a. The equality of the trial balance would not be affected.
  - b. On the income statement, revenues (fees earned) would be overstated by \$300,000, and net income would be overstated by \$300,000. On the retained earnings statement, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by \$300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by \$300,000, and stockholders' equity (retained earnings) is overstated by \$300,000. The understatement of liabilities is offset by the overstatement of stockholders' equity (retained earnings); total liabilities and stockholders' equity is correct.
10.
  - a. From the viewpoint of Surety Storage, the balance of the checking account represents an asset.
  - b. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

**PRACTICE EXERCISES****PE 2-1A**

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

**PE 2-1B**

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

**PE 2-2A**

<b>Feb.</b>	<b>12</b>	<b>Office Equipment</b>	<b>18,000</b>	
		<b>Cash</b>		<b>7,000</b>
		<b>Accounts Payable</b>		<b>11,000</b>

**PE 2-2B**

<b>Sept.</b>	<b>30</b>	<b>Office Supplies</b>	<b>2,500</b>	
		<b>Cash</b>		<b>800</b>
		<b>Accounts Payable</b>		<b>1,700</b>

**PE 2-3A**

July	9	Accounts Receivable	12,000	
		Fees Earned		12,000

**PE 2-3B**

Aug.	13	Cash	9,000	
		Fees Earned		9,000

**PE 2-4A**

Jan.	25	Dividends	16,000	
		Cash		16,000

**PE 2-4B**

June	30	Dividends	11,500	
		Cash		11,500

**PE 2-5A**

Using the following T account, solve for the amount of cash receipts (indicated by ? below).

Cash			
Feb. 1 Bal.	14,750	93,400	Cash payments
Cash receipts	?		
Feb. 28 Bal.	15,200		

$$\$15,200 = \$14,750 + \text{Cash receipts} - \$93,400$$

$$\text{Cash receipts} = \$15,200 + \$93,400 - \$14,750 = \$93,850$$

**PE 2-5B**

Using the following T account, solve for the amount of supplies expense (indicated by ? below).

Supplies			
Aug. 1 Bal.	1,025	?	Supplies expense
Supplies purchased	3,110		
Aug. 31 Bal.	1,324		

$$\$1,324 = \$1,025 + \$3,110 - \text{Supplies expense}$$

$$\text{Supplies expense} = \$1,025 + \$3,110 - \$1,324 = \$2,811$$

**PE 2–6A**

- a. The totals are unequal. The credit total is lower by \$900 (\$5,400 – \$4,500).
- b. The totals are equal since both the debit and credit entries were journalized and posted for \$720.
- c. The totals are unequal. The debit total is higher by \$3,200 (\$1,600 + \$1,600).

**PE 2–6B**

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

**PE 2–7A**

a.

Utilities Expense	7,300	
Miscellaneous Expense		7,300
Utilities Expense	7,300	
Cash		7,300

**Note:** The first entry in (a) reverses the incorrect entry, and the second entry records the correct entry. These two entries could also be combined into one entry as shown below; however, preparing two entries would make it easier for someone to understand later what happened and why the entries were necessary.

Utilities Expense	14,600	
Miscellaneous Expense		7,300
Cash		7,300

b.

Accounts Payable	6,100	
Accounts Receivable		6,100

PE 2-7B

a.	Cash	8,400	
	Accounts Receivable		8,400
b.	Supplies	2,500	
	Office Equipment		2,500
	Supplies	2,500	
	Accounts Payable		2,500

**Note:** The first entry in (b) reverses the incorrect entry, and the second entry records the correct entry. These two entries could also be combined into one entry as shown below; however, preparing two entries would make it easier for someone to understand later what happened and why the entries were necessary.

Supplies	5,000	
Office Equipment		2,500
Accounts Payable		2,500

PE 2-8A

Fuller Company Income Statements For Years Ended December 31				
	2014	2013	Increase/(Decrease)	
			Amount	Percent
Fees earned	\$680,000	\$850,000	\$(170,000)	-20.0%
Operating expenses	541,875	637,500	(95,625)	-15.0%
Net income	\$138,125	\$212,500	\$ (74,375)	-35.0%

PE 2-8B

Paragon Company Income Statements For Years Ended December 31				
	2014	2013	Increase/(Decrease)	
			Amount	Percent
Fees earned	\$1,416,000	\$1,200,000	\$216,000	18.0%
Operating expenses	1,044,000	900,000	144,000	16.0%
Net income	\$ 372,000	\$ 300,000	\$ 72,000	24.0%

## EXERCISES

**Ex. 2-1**

Balance Sheet Accounts	Income Statement Accounts
<p><u>Assets</u></p> <p>Flight Equipment Purchase Deposits for Flight Equipment<sup>a</sup> Spare Parts and Supplies</p> <p><u>Liabilities</u></p> <p>Accounts Payable Air Traffic Liability<sup>b</sup></p> <p><u>Stockholders' Equity</u></p> <p>None</p>	<p><u>Revenue</u></p> <p>Cargo and Mail Revenue Passenger Revenue</p> <p><u>Expenses</u></p> <p>Aircraft Fuel Expense Commissions (Expense)<sup>c</sup> Landing Fees (Expense)<sup>d</sup></p>

- <sup>a</sup> Advance payments (deposits) on aircraft to be delivered in the future
- <sup>b</sup> Passenger ticket sales not yet recognized as revenue
- <sup>c</sup> Commissions paid to travel agents
- <sup>d</sup> Fees paid to airports for landing rights

**Ex. 2-2**

Account	Account Number
Accounts Payable	21
Accounts Receivable	12
Capital Stock	31
Cash	11
Dividends	33
Fees Earned	41
Land	13
Miscellaneous Expense	53
Retained Earnings	32
Supplies Expense	52
Wages Expense	51

**Note:** Expense accounts are normally listed in order of magnitude from largest to smallest with Miscellaneous Expense always listed last. Since Wages Expense is normally larger than Supplies Expense, Wages Expense is listed as account number 51 and Supplies Expense as account number 52.

## Ex. 2-3

Balance Sheet Accounts	Income Statement Accounts
<u>1. Assets</u>	<u>4. Revenue</u>
11 Cash	41 Fees Earned
12 Accounts Receivable	
13 Supplies	<u>5. Expenses</u>
14 Prepaid Insurance	51 Wages Expense
15 Equipment	52 Rent Expense
	53 Supplies Expense
<u>2. Liabilities</u>	59 Miscellaneous Expense
21 Accounts Payable	
22 Unearned Rent	
<u>3. Stockholders' Equity</u>	
31 Capital Stock	
32 Retained Earnings	
33 Dividends	

**Note:** The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14, accounts 21–22, and accounts 51–53. In a new business, the order of magnitude of balances in such accounts is not determinable in advance. The magnitude may also vary from period to period.

## Ex. 2-4

- |           |           |
|-----------|-----------|
| a. debit  | g. credit |
| b. credit | h. debit  |
| c. credit | i. debit  |
| d. credit | j. credit |
| e. debit  | k. debit  |
| f. credit | l. debit  |

## Ex. 2-5

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

**Ex. 2-6**

- |                                |                   |
|--------------------------------|-------------------|
| a. Liability—credit            | f. Revenue—credit |
| b. Asset—debit                 | g. Asset—debit    |
| c. Stockholders' equity—credit | h. Expense—debit  |
| d. Asset—debit                 | i. Asset—debit    |
| e. Stockholders' equity—debit  | j. Expense—debit  |

**Ex. 2-7**

<b>2014</b>				
<b>July</b>	<b>1</b>	<b>Rent Expense</b>	<b>3,200</b>	
		<b>Cash</b>		<b>3,200</b>
	<b>3</b>	<b>Advertising Expense</b>	<b>750</b>	
		<b>Cash</b>		<b>750</b>
	<b>5</b>	<b>Supplies</b>	<b>1,300</b>	
		<b>Cash</b>		<b>1,300</b>
	<b>6</b>	<b>Office Equipment</b>	<b>12,500</b>	
		<b>Accounts Payable</b>		<b>12,500</b>
	<b>10</b>	<b>Cash</b>	<b>11,400</b>	
		<b>Accounts Receivable</b>		<b>11,400</b>
	<b>15</b>	<b>Accounts Payable</b>	<b>1,175</b>	
		<b>Cash</b>		<b>1,175</b>
	<b>27</b>	<b>Miscellaneous Expense</b>	<b>600</b>	
		<b>Cash</b>		<b>600</b>
	<b>30</b>	<b>Utilities Expense</b>	<b>180</b>	
		<b>Cash</b>		<b>180</b>
	<b>31</b>	<b>Accounts Receivable</b>	<b>33,760</b>	
		<b>Fees Earned</b>		<b>33,760</b>
	<b>31</b>	<b>Utilities Expense</b>	<b>1,300</b>	
		<b>Cash</b>		<b>1,300</b>
	<b>31</b>	<b>Dividends</b>	<b>4,000</b>	
		<b>Cash</b>		<b>4,000</b>

Ex. 2-8

a.

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Date	Description	Post. Ref.	Debit	Credit
2014	Adjusting Entries			
May 22	Supplies	15	6,180	
	Accounts Payable	21		6,180
	Purchased supplies on account.			

b., c., d.

Account: Supplies

Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
May 1	Balance	✓			1,500	
	22	19	6,180		7,680	

Account: Accounts Payable

Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
May 1	Balance	✓				16,750
	22	19		6,180		22,930

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

Ex. 2-9

a. (1)

Accounts Receivable	48,600	
Fees Earned		48,600

(2)

Supplies	1,975	
Accounts Payable		1,975

(3)

Cash	31,400	
Accounts Receivable		31,400

(4)

Accounts Payable	1,350	
Cash		1,350

**Ex. 2-9 (Concluded)**

b.

<b>Cash</b>		<b>Accounts Payable</b>	
(3)      31,400	(4)      1,350	(4)      1,350	(2)      1,975
<b>Supplies</b>		<b>Fees Earned</b>	
(2)      1,975			(1)      48,600
<b>Accounts Receivable</b>			
(1)      48,600	(3)      31,400		

c. **No. A credit balance in Accounts Receivable could occur if a customer overpaid his or her account. Regardless, the credit balance should be investigated to verify that an error has not occurred.**

**Ex. 2-10**

- a. **The increase of \$140,000 (\$515,000 – \$375,000) in the cash account does not indicate net income of that amount. Net income is the net change in all assets and liabilities from operating (revenue and expense) transactions.**
- b. **\$60,000 (\$200,000 – \$140,000)**

or

<b>Cash</b>	
X	375,000
515,000	
200,000	

$$X + \$515,000 - \$375,000 = \$200,000$$

$$X = \$200,000 - \$515,000 + \$375,000$$

$$X = \$60,000$$

**Ex. 2-11**

a.

Accounts Payable			
		276,500	X
	Mar. 1		261,000
	Mar. 31		76,000

$$X + \$261,000 - \$276,500 = \$76,000$$

$$X = \$76,000 + \$276,500 - \$261,000$$

$$X = \$91,500$$

b.

Accounts Receivable			
July 1		49,000	525,000
		X	
July 31		61,500	

$$\$49,000 + X - \$525,000 = \$61,500$$

$$X = \$61,500 + \$525,000 - \$49,000$$

$$X = \$537,500$$

c.

Cash			
Sept. 1		28,440	X
		112,100	
Sept. 30		33,200	

$$\$28,440 + \$112,100 - X = \$33,200$$

$$X = \$28,440 + \$112,100 - \$33,200$$

$$X = \$107,340$$

**Ex. 2-12**

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

Ex. 2-13

a. and b.

Transaction	Account Debited		Account Credited	
	Type	Effect	Type	Effect
(1)	asset	+	stockholders' equity	+
(2)	asset	+	asset	-
(3)	asset	+	asset	-
			liability	+
(4)	expense	+	asset	-
(5)	asset	+	revenue	+
(6)	liability	-	asset	-
(7)	asset	+	asset	-
(8)	expense	+	asset	-
(9)	dividends	+	asset	-

Ex. 2-14

(1)	Cash	75,000	
	Capital Stock		75,000
(2)	Supplies	4,000	
	Cash		4,000
(3)	Equipment	25,000	
	Accounts Payable		22,000
	Cash		3,000
(4)	Operating Expenses	2,700	
	Cash		2,700
(5)	Accounts Receivable	19,500	
	Service Revenue		19,500
(6)	Accounts Payable	9,000	
	Cash		9,000
(7)	Cash	11,000	
	Accounts Receivable		11,000
(8)	Operating Expenses	2,000	
	Supplies		2,000
(9)	Dividends	5,000	
	Cash		5,000

Ex. 2-15

a.

<b>GRAND CANYON TOURS CO.</b>		
<b>Unadjusted Trial Balance</b>		
<b>April 30, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Cash</b>	<b>62,300</b>	
<b>Accounts Receivable</b>	<b>8,500</b>	
<b>Supplies</b>	<b>2,000</b>	
<b>Equipment</b>	<b>25,000</b>	
<b>Accounts Payable</b>		<b>13,000</b>
<b>Capital Stock</b>		<b>75,000</b>
<b>Dividends</b>	<b>5,000</b>	
<b>Service Revenue</b>		<b>19,500</b>
<b>Operating Expenses</b>	<b>4,700</b>	
	<b>107,500</b>	<b>107,500</b>

b. Net income, \$14,800 (\$19,500 – \$4,700)

Ex. 2-16

<b>LEAF CO.</b>		
<b>Unadjusted Trial Balance</b>		
<b>December 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash	13,500 *	
Accounts Receivable	38,100	
Supplies	3,200	
Prepaid insurance	6,400	
Land	40,000	
Accounts Payable		23,500
Unearned Rent		13,500
Notes Payable		50,000
Capital Stock		8,000
Retained Earnings		42,000
Dividends	16,000	
Fees Earned		538,000
Wages Expense	476,800	
Rent Expense	36,000	
Utilities Expense	18,000	
Supplies Expense	9,000	
Insurance Expense	6,000	
Miscellaneous Expense	12,000	
	<b>675,000</b>	<b>675,000</b>

\*\$13,500 = \$675,000 – \$12,000 – \$6,000 – \$9,000 – \$18,000 – \$36,000 – \$476,800 – \$16,000  
 – \$40,000 – \$6,400 – 3,200 – \$38,100

Ex. 2-17

Inequality of trial balance totals would be caused by errors described in (c) and (e). For (c), the debit total would exceed the credit total by \$9,900 (\$4,950 + \$4,950). For (e), the credit total would exceed the debit total by \$17,100 (\$19,000 – \$1,900).

Errors (b), (d), and (e) would require correcting entries. Although it is not a correcting entry, the entry that was not made in (a) should also be entered in the journal.

Ex. 2-18

<b>RANGER CO.</b>		
<b>Unadjusted Trial Balance</b>		
<b>August 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash	15,500	
Accounts Receivable	46,750	
Prepaid Insurance	12,000	
Equipment	190,000	
Accounts Payable		24,600
Unearned Rent		5,400
Capital Stock		40,000
Retained Earnings		70,000
Dividends	13,000	
Service Revenue		385,000
Wages Expense	213,000	
Advertising Expense	16,350	
Miscellaneous Expense	18,400	
	<b>525,000</b>	<b>525,000</b>

Ex. 2-19

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

**Ex. 2-20**

1. The Debit column total is added incorrectly. The sum is \$890,700 rather than \$1,189,300.
2. The trial balance should be dated "July 31, 2014," not "For the Month Ending July 31, 2014."
3. The Accounts Receivable balance should be in the Debit column.
4. The Accounts Payable balance should be in the Credit column.
5. The Dividends balance should be in the Debit column.
6. The Advertising Expense balance should be in the Debit column.

A corrected trial balance would be as follows:

<b>MASCOT CO.</b>		
<b>Unadjusted Trial Balance</b>		
<b>July 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Cash</b>	<b>36,000</b>	
<b>Accounts Receivable</b>	<b>112,600</b>	
<b>Prepaid Insurance</b>	<b>18,000</b>	
<b>Equipment</b>	<b>375,000</b>	
<b>Accounts Payable</b>		<b>53,300</b>
<b>Salaries Payable</b>		<b>7,500</b>
<b>Capital Stock</b>		<b>100,000</b>
<b>Retained Earnings</b>		<b>197,200</b>
<b>Dividends</b>	<b>17,000</b>	
<b>Service Revenue</b>		<b>682,000</b>
<b>Salary Expense</b>	<b>396,800</b>	
<b>Advertising Expense</b>	<b>73,000</b>	
<b>Miscellaneous Expense</b>	<b>11,600</b>	
	<b>1,040,000</b>	<b>1,040,000</b>

**Ex. 2-21**

<b>a.</b>	<b>Prepaid Rent</b>	<b>13,550</b>	
	<b>Cash</b>		<b>13,550</b>
<b>b.</b>	<b>Dividends</b>	<b>14,000</b>	
	<b>Wages Expense</b>		<b>14,000</b>

**Ex. 2-22**

a.	Cash	17,600	
	Fees Earned		8,800
	Accounts Receivable		8,800
b.	Accounts Payable*	1,760	
	Supplies Expense		1,760
	Supplies	1,760	
	Cash		1,760

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

**Ex. 2-23**

- a. 1. Revenue:  
     \$2,033 million increase (\$67,390 – \$65,357)  
     3.1% increase ( $\$2,033 \div \$65,357$ )
2. Operating expenses:  
     \$1,454 million increase (\$62,138 – \$60,684)  
     2.4% increase ( $\$1,454 \div \$60,684$ )
3. Operating income:  
     \$579 million increase (\$5,252 – \$4,673)  
     12.4% increase ( $\$579 \div \$4,673$ )
- b. During the recent year, revenue increased by 3.1%, while operating expenses increased by only 2.4%. As a result, operating income increased by 12.4%, a favorable trend from the prior year.

**Ex. 2-24**

- a. 1. **Revenue:**  
    \$13,764 million increase ( $\$421,849 - \$408,085$ )  
    3.4% increase ( $\$13,764 \div \$408,085$ )
2. **Operating expenses:**  
    \$12,224 million increase ( $\$396,307 - \$384,083$ )  
    3.2% increase ( $\$12,224 \div \$384,083$ )
3. **Operating expenses:**  
    \$1,540 million increase ( $\$25,542 - \$24,002$ )  
    6.4% increase ( $\$1,540 \div \$24,002$ )
- b. During the recent year, revenue increased by 3.4%, while operating expenses increased by 3.2%. As a result, operating income increased by 6.4%, a favorable trend from the prior year.
- c. Because of the size differences between Target and Walmart (Walmart has over 6 times the revenue), it is best to compare the two companies on the basis of percent changes. Target and Walmart increased their revenue from the prior year by approximately the same percent (3.1% for Target and 3.4% for Walmart). However, Target's operating expenses increased by only 2.4% compared to Walmart's 3.2% increase. As a result, Target's operating income increased by 12.4% compared to Walmart's 6.4% increase. Based upon this analysis, it appears that Target was better able to control its operating expenses as its revenue increased than was Walmart.

**PROBLEMS**

**Prob. 2-1A**

**1. and 2.**

<b>Cash</b>	
(a) 25,000	(b) 2,750
(g) 11,150	(c) 4,000
	(e) 1,600
	(f) 2,400
	(h) 300
	(i) 3,500
	(j) 550
	(m) 2,200
	(n) 815
<b>Bal.</b> 18,035	

<b>Equipment</b>	
(d) 9,000	

<b>Notes Payable</b>	
(j) 550	(c) 26,000
	<b>Bal.</b> 25,450

<b>Accounts Payable</b>	
(i) 3,500	(d) 9,000
	(k) 1,500
	<b>Bal.</b> 7,000

<b>Accounts Receivable</b>	
(l) 17,300	

<b>Capital Stock</b>	
	(a) 25,000

<b>Supplies</b>	
(e) 1,600	

<b>Professional Fees</b>	
	(g) 11,150
	(l) 17,300
	<b>Bal.</b> 28,450

<b>Prepaid Insurance</b>	
(f) 2,400	

<b>Rent Expense</b>	
(b) 2,750	

<b>Automobiles</b>	
(c) 30,000	

<b>Salary Expense</b>	
(m) 2,200	

<b>Blueprint Expense</b>	
(k) 1,500	

<b>Automobile Expense</b>	
(n) 815	

<b>Miscellaneous Expense</b>	
(h) 300	

## Prob. 2-1A (Concluded)

3.

<b>CANTWELL ARCHITECTS</b>		
<b>Unadjusted Trial Balance</b>		
<b>July 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Cash</b>	<b>18,035</b>	
<b>Accounts Receivable</b>	<b>17,300</b>	
<b>Supplies</b>	<b>1,600</b>	
<b>Prepaid Insurance</b>	<b>2,400</b>	
<b>Automobiles</b>	<b>30,000</b>	
<b>Equipment</b>	<b>9,000</b>	
<b>Notes Payable</b>		<b>25,450</b>
<b>Accounts Payable</b>		<b>7,000</b>
<b>Capital Stock</b>		<b>25,000</b>
<b>Professional Fees</b>		<b>28,450</b>
<b>Rent Expense</b>	<b>2,750</b>	
<b>Salary Expense</b>	<b>2,200</b>	
<b>Blueprint Expense</b>	<b>1,500</b>	
<b>Automobile Expense</b>	<b>815</b>	
<b>Miscellaneous Expense</b>	<b>300</b>	
	<b>85,900</b>	<b>85,900</b>

4. Net income, \$20,885 ( $\$28,450 - \$2,750 - \$2,200 - \$1,500 - \$815 - \$300$ )

Prob. 2-2A

1. (a)	Cash	23,500	
	Capital Stock		23,500
(b)	Rent Expense	4,000	
	Cash		4,000
(c)	Supplies	1,800	
	Accounts Payable		1,800
(d)	Accounts Payable	675	
	Cash		675
(e)	Cash	16,750	
	Sales Commissions		16,750
(f)	Automobile Expense	1,000	
	Miscellaneous Expense	800	
	Cash		1,800
(g)	Office Salaries Expense	2,150	
	Cash		2,150
(h)	Supplies Expense	925	
	Supplies		925
(i)	Dividends	1,600	
	Cash		1,600

Prob. 2–2A (Continued)

2.

Cash	
(a) 23,500	(b) 4,000
(e) 16,750	(d) 675
	(f) 1,800
	(g) 2,150
	(i) 1,600
<b>Bal.</b> 30,025	

Sales Commissions	
	(e) 16,750

Rent Expense	
(b) 4,000	

Supplies	
(c) 1,800	(h) 925
<b>Bal.</b> 875	

Office Salaries Expense	
(g) 2,150	

Accounts Payable	
(d) 675	(c) 1,800
	<b>Bal.</b> 1,125

Automobile Expense	
(f) 1,000	

Capital Stock	
	(a) 23,500

Supplies Expense	
(h) 925	

Dividends	
(i) 1,600	

Miscellaneous Expense	
(f) 800	

Prob. 2–2A (Concluded)

3.

<b>LEOPARD REALTY</b>		
<b>Unadjusted Trial Balance</b>		
<b>January 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Cash</b>	<b>30,025</b>	
<b>Supplies</b>	<b>875</b>	
<b>Accounts Payable</b>		<b>1,125</b>
<b>Capital Stock</b>		<b>23,500</b>
<b>Dividends</b>	<b>1,600</b>	
<b>Sales Commissions</b>		<b>16,750</b>
<b>Rent Expense</b>	<b>4,000</b>	
<b>Office Salaries Expense</b>	<b>2,150</b>	
<b>Automobile Expense</b>	<b>1,000</b>	
<b>Supplies Expense</b>	<b>925</b>	
<b>Miscellaneous Expense</b>	<b>800</b>	
	<b>41,375</b>	<b>41,375</b>

4. a. \$16,750  
 b. \$8,875 (\$4,000 + \$2,150 + \$1,000 + \$925 + \$800)  
 c. \$7,875 (\$16,750 – \$8,875)
5. \$6,275, which is the excess of net income of \$7,875 over the dividends of \$1,600.

Prob. 2-3A

1.

JOURNAL

Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>June 1</b>	<b>Cash</b>	<b>11</b>	<b>21,500</b>	
	<b>Capital Stock</b>	<b>31</b>		<b>21,500</b>
	<b>1 Rent Expense</b>	<b>53</b>	<b>4,200</b>	
	<b>Cash</b>	<b>11</b>		<b>4,200</b>
	<b>6 Equipment</b>	<b>16</b>	<b>8,500</b>	
	<b>Accounts Payable</b>	<b>22</b>		<b>8,500</b>
	<b>8 Truck</b>	<b>18</b>	<b>28,000</b>	
	<b>Cash</b>	<b>11</b>		<b>3,000</b>
	<b>Notes Payable</b>	<b>21</b>		<b>25,000</b>
	<b>10 Supplies</b>	<b>13</b>	<b>1,800</b>	
	<b>Cash</b>	<b>11</b>		<b>1,800</b>
	<b>12 Cash</b>	<b>11</b>	<b>9,000</b>	
	<b>Fees Earned</b>	<b>41</b>		<b>9,000</b>
	<b>15 Prepaid Insurance</b>	<b>14</b>	<b>2,700</b>	
	<b>Cash</b>	<b>11</b>		<b>2,700</b>
	<b>23 Accounts Receivable</b>	<b>12</b>	<b>13,650</b>	
	<b>Fees Earned</b>	<b>41</b>		<b>13,650</b>
	<b>24 Truck Expense</b>	<b>55</b>	<b>975</b>	
	<b>Accounts Payable</b>	<b>22</b>		<b>975</b>

JOURNAL

Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>June 29</b>	<b>Utilities Expense</b>	<b>54</b>	<b>2,480</b>	
	<b>Cash</b>	<b>11</b>		<b>2,480</b>
	<b>29 Miscellaneous Expense</b>	<b>59</b>	<b>750</b>	
	<b>Cash</b>	<b>11</b>		<b>750</b>

Prob. 2-3A (Continued)

	30	Cash	11	7,800	
		Accounts Receivable	12		7,800
	30	Wages Expense	51	5,100	
		Cash	11		5,100
	30	Accounts Payable	22	4,250	
		Cash	11		4,250
	30	Dividends	33	3,000	
		Cash	11		3,000

2.

GENERAL LEDGER

Account: Cash Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 1		1	21,500		21,500	
1		1		4,200	17,300	
8		1		3,000	14,300	
10		1		1,800	12,500	
12		1	9,000		21,500	
15		1		2,700	18,800	
29		2		2,480	16,320	
29		2		750	15,570	
30		2	7,800		23,370	
30		2		5,100	18,270	
30		2		4,250	14,020	
30		2		3,000	11,020	

Account: Accounts Receivable Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 23		1	13,650		13,650	
30		2		7,800	5,850	

**Prob. 2-3A (Continued)**

Account: Supplies Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 10		1	1,800		1,800	

Account: Prepaid Insurance Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 15		1	2,700		2,700	

Account: Equipment Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 6		1	8,500		8,500	

Account: Truck Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 8		1	28,000		28,000	

Account: Notes Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 8		1		25,000		25,000

Account: Accounts Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 6		1		8,500		8,500
	24	1		975		9,475
	30	2	4,250			5,225

**Prob. 2-3A (Continued)**

Account: Capital Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 1		1		21,500		21,500

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 30		2	3,000			3,000

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 12		1		9,000		9,000
June 23		1		13,650		22,650

Account: Wages Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 30		2	5,100			5,100

Account: Rent Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 1		1	4,200			4,200

Account: Utilities Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
June 29		2	2,480			2,480

**Prob. 2–3A (Continued)**

Account: Truck Expense Account No. 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
June	24		1	975		975	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
June	29		2	750		750	

Prob. 2–3A (Concluded)

3.

<b>FIRST-CLASS DESIGNS</b>		
<b>Unadjusted Trial Balance</b>		
<b>June 30, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash	11,020	
Accounts Receivable	5,850	
Supplies	1,800	
Prepaid Insurance	2,700	
Equipment	8,500	
Truck	28,000	
Notes Payable		25,000
Accounts Payable		5,225
Capital Stock		21,500
Dividends	3,000	
Fees Earned		22,650
Wages Expense	5,100	
Rent Expense	4,200	
Utilities Expense	2,480	
Truck Expense	975	
Miscellaneous Expense	750	
	<b>74,375</b>	<b>74,375</b>

4. \$9,145 (\$22,650 – \$5,100 – \$4,200 – \$2,480 – \$975 – \$750)
5. As will be discussed in Chapter 3, various adjustments are normally required at the end of the accounting period. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required.

*Note to Instructors:* At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.

Prob. 2-4A

2. and 3.

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Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>Apr. 1</b>	<b>Rent Expense</b>	<b>52</b>	<b>6,500</b>	
	<b>Cash</b>	<b>11</b>		<b>6,500</b>
	<b>2 Office Supplies</b>	<b>14</b>	<b>2,300</b>	
	<b>Accounts Payable</b>	<b>21</b>		<b>2,300</b>
	<b>5 Prepaid Insurance</b>	<b>13</b>	<b>6,000</b>	
	<b>Cash</b>	<b>11</b>		<b>6,000</b>
	<b>10 Cash</b>	<b>11</b>	<b>52,300</b>	
	<b>Accounts Receivable</b>	<b>12</b>		<b>52,300</b>
	<b>15 Land</b>	<b>16</b>	<b>200,000</b>	
	<b>Cash</b>	<b>11</b>		<b>30,000</b>
	<b>Notes Payable</b>	<b>23</b>		<b>170,000</b>
	<b>17 Accounts Payable</b>	<b>21</b>	<b>6,450</b>	
	<b>Cash</b>	<b>11</b>		<b>6,450</b>
	<b>20 Accounts Payable</b>	<b>21</b>	<b>325</b>	
	<b>Office Supplies</b>	<b>14</b>		<b>325</b>
	<b>23 Advertising Expense</b>	<b>53</b>	<b>4,300</b>	
	<b>Cash</b>	<b>11</b>		<b>4,300</b>

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Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>Apr. 27</b>	<b>Cash</b>	<b>11</b>	<b>2,500</b>	
	<b>Salary and Commission Expense</b>	<b>51</b>		<b>2,500</b>
	<b>28 Automobile Expense</b>	<b>54</b>	<b>1,500</b>	
	<b>Cash</b>	<b>11</b>		<b>1,500</b>
	<b>29 Miscellaneous Expense</b>	<b>59</b>	<b>1,400</b>	
	<b>Cash</b>	<b>11</b>		<b>1,400</b>

Prob. 2-4A (Continued)

	30	Accounts Receivable	12	57,000	
		Fees Earned	41		57,000
	30	Salary and Commission Expense	51	11,900	
		Cash	11		11,900
	30	Dividends	33	4,000	
		Cash	11		4,000
	30	Cash	11	10,000	
		Unearned Rent	22		10,000

1. and 3.

GENERAL LEDGER

Account: Cash

Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr.	1 Balance	✓			26,300	
	1	18		6,500	19,800	
	5	18		6,000	13,800	
	10	18	52,300		66,100	
	15	18		30,000	36,100	
	17	18		6,450	29,650	
	23	18		4,300	25,350	
	27	19	2,500		27,850	
	28	19		1,500	26,350	
	29	19		1,400	24,950	
	30	19		11,900	13,050	
	30	19		4,000	9,050	
	30	19	10,000		19,050	

Account: Accounts Receivable

Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr.	1 Balance	✓			61,500	
	10	18		52,300	9,200	
	30	19	57,000		66,200	

Prob. 2-4A (Continued)

Account: Prepaid Insurance Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			3,000	
	5	18	6,000		9,000	

Account: Office Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			1,800	
	2	18	2,300		4,100	
	20	18		325	3,775	

Account: Land Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 15		18	200,000		200,000	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓				14,000
	2	18		2,300		16,300
	17	18	6,450			9,850
	20	18	325			9,525

Account: Unearned Rent Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 30		19		10,000		10,000

Account: Notes Payable Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 15		18		170,000		170,000

Prob. 2-4A (Continued)

Account: Capital Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓				10,000

Account: Retained Earnings Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓				36,000

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			2,000	
	30	19	4,000		6,000	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓				240,000
	30	19		57,000		297,000

Account: Salary and Commission Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			148,200	
	27	19		2,500	145,700	
	30	19	11,900		157,600	

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			30,000	
	1	18	6,500		36,500	

**Prob. 2-4A (Continued)**

Account: Advertising Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			17,800	
	23	18	4,300		22,100	

Account: Automobile Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			5,500	
	28	19	1,500		7,000	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Apr. 1	Balance	✓			3,900	
	29	19	1,400		5,300	

Prob. 2-4A (Concluded)

4.

<b>ELITE REALTY</b>		
<b>Unadjusted Trial Balance</b>		
<b>April 30, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash	19,050	
Accounts Receivable	66,200	
Prepaid Insurance	9,000	
Office Supplies	3,775	
Land	200,000	
Accounts Payable		9,525
Unearned Rent		10,000
Notes Payable		170,000
Capital Stock		10,000
Retained Earnings		36,000
Dividends	6,000	
Fees Earned		297,000
Salary and Commission Expense	157,600	
Rent Expense	36,500	
Advertising Expense	22,100	
Automobile Expense	7,000	
Miscellaneous Expense	5,300	
	<b>532,525</b>	<b>532,525</b>

5. (a) The unadjusted trial balance in (4) still balances, since the debits equaled the credits in the original journal entry.
- (b) The correcting entry for \$7,200 (\$19,100 – \$11,900) would be as follows:

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Date	Description	Post. Ref.	Debit	Credit
2014				
Apr. 30	Salary and Commission Expense	51	7,200	
	Cash	11		7,200

(c) Transposition

Prob. 2-5A

1.

<b>THE COLBY GROUP</b>		
<b>Unadjusted Trial Balance</b>		
<b>August 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Cash*</b>	<b>22,400</b>	
<b>Accounts Receivable</b>	<b>48,000</b>	
<b>Supplies</b>	<b>8,750</b>	
<b>Prepaid Insurance</b>	<b>4,300</b>	
<b>Equipment</b>	<b>196,000</b>	
<b>Notes Payable</b>		<b>117,600</b>
<b>Accounts Payable</b>		<b>30,800</b>
<b>Capital Stock</b>		<b>35,000</b>
<b>Retained Earnings</b>		<b>87,150</b>
<b>Dividends</b>	<b>63,000</b>	
<b>Fees Earned</b>		<b>454,450</b>
<b>Wages Expense</b>	<b>270,000</b>	
<b>Rent Expense</b>	<b>58,100</b>	
<b>Advertising Expense</b>	<b>25,200</b>	
<b>Gas, Electricity, and Water Expense</b>	<b>24,150</b>	
<b>Miscellaneous Expense</b>	<b>5,100</b>	
	<b>725,000</b>	<b>725,000</b>

\* \$17,300 + \$6,000 (a) - \$900 (b)

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

**Prob. 2-1B**

1. and 2.

Cash	
(a) 18,000	(b) 2,500
(g) 12,000	(c) 3,150
	(d) 1,450
	(f) 2,400
	(h) 1,800
	(i) 375
	(l) 2,800
	(m) 200
	(n) 300
	(o) 550
Bal. 14,475	

Accounts Payable	
(h) 1,800	(e) 6,500
	(j) 2,500
	Bal. 7,200

  

Capital Stock	
	(a) 18,000

  

Professional Fees	
	(g) 12,000
	(k) 15,650
	Bal. 27,650

Accounts Receivable	
(k) 15,650	

Rent Expense	
(c) 3,150	

Supplies	
(d) 1,450	

Salary Expense	
(l) 2,800	

Prepaid Insurance	
(f) 2,400	

Blueprint Expense	
(j) 2,500	

Automobiles	
(b) 19,500	

Automobile Expense	
(o) 550	

Equipment	
(e) 6,500	

Miscellaneous Expense	
(i) 375	
(m) 200	
Bal. 575	

Notes Payable	
(n) 300	(b) 17,000
	Bal. 16,700

Prob. 2-1B (Concluded)

3.

<b>JONES ARCHITECTS</b>		
<b>Unadjusted Trial Balance</b>		
<b>April 30, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Notes Payable		16,700
Accounts Payable		7,200
Capital Stock		18,000
Professional Fees		27,650
Rent Expense	3,150	
Salary Expense	2,800	
Blueprint Expense	2,500	
Automobile Expense	550	
Miscellaneous Expense	575	
	<b>69,550</b>	<b>69,550</b>

4. Net income, \$18,075 ( $\$27,650 - \$3,150 - \$2,800 - \$2,500 - \$550 - \$575$ )

Prob. 2–2B

1. (a)	Cash	17,500	
	Capital Stock		17,500
(b)	Supplies	2,300	
	Accounts Payable		2,300
(c)	Cash	13,300	
	Sales Commissions		13,300
(d)	Rent Expense	3,000	
	Cash		3,000
(e)	Accounts Payable	1,150	
	Cash		1,150
(f)	Dividends	1,800	
	Cash		1,800
(g)	Automobile Expense	1,500	
	Miscellaneous Expense	400	
	Cash		1,900
(h)	Office Salaries Expense	2,800	
	Cash		2,800
(i)	Supplies Expense	1,050	
	Supplies		1,050

Prob. 2-2B (Continued)

2.

Cash	
(a)	17,500
(c)	13,300
<hr/>	
Bal.	20,150

Sales Commissions	
(c)	13,300

Rent Expense	
(d)	3,000

Supplies	
(b)	2,300
Bal.	1,250

Office Salaries Expense	
(h)	2,800

Accounts Payable	
(e)	1,150
Bal.	1,150

Automobile Expense	
(g)	1,500

Capital Stock	
(a)	17,500

Supplies Expense	
(i)	1,050

Dividends	
(f)	1,800

Miscellaneous Expense	
(g)	400

## Prob. 2-2B (Concluded)

3.

<b>PLANET REALTY</b>		
<b>Unadjusted Trial Balance</b>		
<b>August 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Cash</b>	<b>20,150</b>	
<b>Supplies</b>	<b>1,250</b>	
<b>Accounts Payable</b>		<b>1,150</b>
<b>Capital Stock</b>		<b>17,500</b>
<b>Dividends</b>	<b>1,800</b>	
<b>Sales Commissions</b>		<b>13,300</b>
<b>Rent Expense</b>	<b>3,000</b>	
<b>Office Salaries Expense</b>	<b>2,800</b>	
<b>Automobile Expense</b>	<b>1,500</b>	
<b>Supplies Expense</b>	<b>1,050</b>	
<b>Miscellaneous Expense</b>	<b>400</b>	
	<b>31,950</b>	<b>31,950</b>

4. a. \$13,300  
 b. \$8,750 ( $\$3,000 + \$2,800 + \$1,500 + \$1,050 + \$400$ )  
 c. \$4,550 ( $\$13,300 - \$8,750$ )
5. \$2,750, which is the excess of net income of \$4,550 over the dividends of \$1,800.

Prob. 2-3B

1.

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Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>Oct. 1</b>	<b>Cash</b>	<b>11</b>	<b>18,000</b>	
	<b>Capital Stock</b>	<b>31</b>		<b>18,000</b>
	<b>4 Rent Expense</b>	<b>53</b>	<b>3,000</b>	
	<b>Cash</b>	<b>11</b>		<b>3,000</b>
	<b>10 Truck</b>	<b>18</b>	<b>23,750</b>	
	<b>Cash</b>	<b>11</b>		<b>3,750</b>
	<b>Notes Payable</b>	<b>21</b>		<b>20,000</b>
	<b>13 Equipment</b>	<b>16</b>	<b>10,500</b>	
	<b>Accounts Payable</b>	<b>22</b>		<b>10,500</b>
	<b>14 Supplies</b>	<b>13</b>	<b>2,100</b>	
	<b>Cash</b>	<b>11</b>		<b>2,100</b>
	<b>15 Prepaid Insurance</b>	<b>14</b>	<b>3,600</b>	
	<b>Cash</b>	<b>11</b>		<b>3,600</b>
	<b>15 Cash</b>	<b>11</b>	<b>8,950</b>	
	<b>Fees Earned</b>	<b>41</b>		<b>8,950</b>

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Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>Oct. 21</b>	<b>Accounts Payable</b>	<b>22</b>	<b>2,000</b>	
	<b>Cash</b>	<b>11</b>		<b>2,000</b>
	<b>24 Accounts Receivable</b>	<b>12</b>	<b>14,150</b>	
	<b>Fees Earned</b>	<b>41</b>		<b>14,150</b>
	<b>26 Truck Expense</b>	<b>55</b>	<b>700</b>	
	<b>Accounts Payable</b>	<b>22</b>		<b>700</b>
	<b>27 Utilities Expense</b>	<b>54</b>	<b>2,240</b>	
	<b>Cash</b>	<b>11</b>		<b>2,240</b>



Prob. 2-3B (Continued)

Account: Supplies Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct. 14		1	2,100		2,100	

Account: Prepaid Insurance Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct. 15		1	3,600		3,600	

Account: Equipment Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct. 13		1	10,500		10,500	

Account: Truck Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct. 10		1	23,750		23,750	

Account: Notes Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct. 10		1		20,000		20,000

Account: Accounts Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct. 13		1		10,500		10,500
	21	2	2,000			8,500
	26	2		700		9,200

**Prob. 2-3B (Continued)**

Account: Capital Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	1	1		18,000		18,000

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	31	2	3,500		3,500	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	15	1		8,950		8,950
	24	2		14,150		23,100

Account: Wages Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	30	2	4,800		4,800	

Account: Rent Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	4	1	3,000		3,000	

Account: Utilities Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Oct.	27	2	2,240		2,240	

**Prob. 2-3B (Continued)**

Account: Truck Expense Account No. 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	26		2	700		700	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2014							
Oct.	27		2	1,100		1,100	

Prob. 2–3B (Concluded)

3.

<b>PIONEER DESIGNS</b>		
<b>Unadjusted Trial Balance</b>		
<b>October 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash	8,460	
Accounts Receivable	6,550	
Supplies	2,100	
Prepaid Insurance	3,600	
Equipment	10,500	
Truck	23,750	
Notes Payable		20,000
Accounts Payable		9,200
Capital Stock		18,000
Dividends	3,500	
Fees Earned		23,100
Wages Expense	4,800	
Rent Expense	3,000	
Utilities Expense	2,240	
Truck Expense	700	
Miscellaneous Expense	1,100	
	<b>70,300</b>	<b>70,300</b>

4.  $\$11,260 (\$23,100 - \$4,800 - \$3,000 - \$2,240 - \$700 - \$1,100)$
5. As will be discussed in Chapter 3, various adjustments are normally required at the end of the accounting period. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required.

**Note to Instructors:** At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.

Prob. 2-4B

2. and 3.

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Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>Aug. 1</b>	<b>Office Supplies</b>	<b>14</b>	<b>3,150</b>	
	<b>Accounts Payable</b>	<b>21</b>		<b>3,150</b>
	<b>2 Rent Expense</b>	<b>52</b>	<b>7,200</b>	
	<b>Cash</b>	<b>11</b>		<b>7,200</b>
	<b>3 Cash</b>	<b>11</b>	<b>83,900</b>	
	<b>Accounts Receivable</b>	<b>12</b>		<b>83,900</b>
	<b>5 Prepaid Insurance</b>	<b>13</b>	<b>12,000</b>	
	<b>Cash</b>	<b>11</b>		<b>12,000</b>
	<b>9 Accounts Payable</b>	<b>21</b>	<b>400</b>	
	<b>Office Supplies</b>	<b>14</b>		<b>400</b>
	<b>17 Advertising Expense</b>	<b>53</b>	<b>8,000</b>	
	<b>Cash</b>	<b>11</b>		<b>8,000</b>
	<b>23 Accounts Payable</b>	<b>21</b>	<b>13,750</b>	
	<b>Cash</b>	<b>11</b>		<b>13,750</b>

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Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>Aug. 29</b>	<b>Miscellaneous Expense</b>	<b>59</b>	<b>1,700</b>	
	<b>Cash</b>	<b>11</b>		<b>1,700</b>
	<b>30 Automobile Expense</b>	<b>54</b>	<b>2,500</b>	
	<b>Cash</b>	<b>11</b>		<b>2,500</b>
	<b>31 Cash</b>	<b>11</b>	<b>2,000</b>	
	<b>Salary and Commission Expense</b>	<b>51</b>		<b>2,000</b>
	<b>31 Salary and Commission Expense</b>	<b>51</b>	<b>53,000</b>	
	<b>Cash</b>	<b>11</b>		<b>53,000</b>



Prob. 2-4B (Continued)

Account: Prepaid Insurance Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			12,600	
	5	18	12,000		24,600	

Account: Office Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓			2,800	
	1	18	3,150		5,950	
	9	18		400	5,550	

Account: Land Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	31	19	75,000		75,000	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	1 Balance	✓				21,000
	1	18		3,150		24,150
	9	18	400			23,750
	23	18	13,750			10,000

Account: Unearned Rent Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	31	19		5,000		5,000

Account: Notes Payable Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug.	31	19		67,500		67,500

Prob. 2-4B (Continued)

Account: Capital Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓				17,500

Account: Retained Earnings Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓				70,000

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓			44,800	
	31	19	1,000		45,800	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓				591,500
	31	19		183,500		775,000

Account: Salary and Commission Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓			385,000	
	31	19		2,000	383,000	
	31	19	53,000		436,000	

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓			49,000	
	2	18	7,200		56,200	

**Prob. 2-4B (Continued)**

Account: Advertising Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓			32,200	
	17	18	8,000		40,200	

Account: Automobile Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓			15,750	
	30	19	2,500		18,250	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
Aug. 1	Balance	✓			5,250	
	29	19	1,700		6,950	

Prob. 2-4B (Concluded)

4.

<b>VALLEY REALTY</b>		
<b>Unadjusted Trial Balance</b>		
<b>August 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
Cash	36,750	
Accounts Receivable	199,700	
Prepaid Insurance	24,600	
Office Supplies	5,550	
Land	75,000	
Accounts Payable		10,000
Unearned Rent		5,000
Notes Payable		67,500
Capital Stock		17,500
Retained Earnings		70,000
Dividends	45,800	
Fees Earned		775,000
Salary and Commission Expense	436,000	
Rent Expense	56,200	
Advertising Expense	40,200	
Automobile Expense	18,250	
Miscellaneous Expense	6,950	
	<b>945,000</b>	<b>945,000</b>

5. (a) The unadjusted trial balance in (4) still balances, since the debits equaled the credits in the original journal entry.
- (b) The correcting entry for \$9,000 (\$10,000 – \$1,000) would be as follows:

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Date	Description	Post. Ref.	Debit	Credit
2014				
Aug. 31	Dividends	33	9,000	
	Cash	11		9,000

(c) Slide

Prob. 2–5B

1.

<b>TECH SUPPORT SERVICES</b>		
<b>Unadjusted Trial Balance</b>		
<b>January 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Cash*</b>	<b>20,250</b>	
<b>Accounts Receivable</b>	<b>56,400</b>	
<b>Supplies</b>	<b>6,750</b>	
<b>Prepaid Insurance</b>	<b>9,600</b>	
<b>Equipment</b>	<b>162,000</b>	
<b>Notes Payable</b>		<b>54,000</b>
<b>Accounts Payable</b>		<b>16,650</b>
<b>Capital Stock</b>		<b>18,000</b>
<b>Retained Earnings</b>		<b>89,850</b>
<b>Dividends</b>	<b>39,000</b>	
<b>Fees Earned</b>		<b>534,000</b>
<b>Wages Expense</b>	<b>306,000</b>	
<b>Rent Expense</b>	<b>62,550</b>	
<b>Advertising Expense</b>	<b>28,350</b>	
<b>Gas, Electricity, and Water Expense</b>	<b>17,000</b>	
<b>Miscellaneous Expense</b>	<b>4,600</b>	
	<b>712,500</b>	<b>712,500</b>

\* \$25,550 – \$8,000 (a) + \$2,700 (b)

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

**CONTINUING PROBLEM**

2. and 3.

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Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>July</b>	<b>1 Cash</b>	<b>11</b>	<b>5,000</b>	
	<b>    Capital Stock</b>	<b>31</b>		<b>5,000</b>
	<b>1 Office Rent Expense</b>	<b>51</b>	<b>1,750</b>	
	<b>    Cash</b>	<b>11</b>		<b>1,750</b>
	<b>1 Prepaid Insurance</b>	<b>15</b>	<b>2,700</b>	
	<b>    Cash</b>	<b>11</b>		<b>2,700</b>
	<b>2 Cash</b>	<b>11</b>	<b>1,000</b>	
	<b>    Accounts Receivable</b>	<b>12</b>		<b>1,000</b>
	<b>3 Cash</b>	<b>11</b>	<b>7,200</b>	
	<b>    Unearned Revenue</b>	<b>23</b>		<b>7,200</b>
	<b>3 Accounts Payable</b>	<b>21</b>	<b>250</b>	
	<b>    Cash</b>	<b>11</b>		<b>250</b>
	<b>4 Miscellaneous Expense</b>	<b>59</b>	<b>900</b>	
	<b>    Cash</b>	<b>11</b>		<b>900</b>
	<b>5 Office Equipment</b>	<b>17</b>	<b>7,500</b>	
	<b>    Accounts Payable</b>	<b>21</b>		<b>7,500</b>
	<b>8 Advertising Expense</b>	<b>55</b>	<b>200</b>	
	<b>    Cash</b>	<b>11</b>		<b>200</b>
	<b>11 Cash</b>	<b>11</b>	<b>1,000</b>	
	<b>    Fees Earned</b>	<b>41</b>		<b>1,000</b>
	<b>13 Equipment Rent Expense</b>	<b>52</b>	<b>700</b>	
	<b>    Cash</b>	<b>11</b>		<b>700</b>
	<b>14 Wages Expense</b>	<b>50</b>	<b>1,200</b>	
	<b>    Cash</b>	<b>11</b>		<b>1,200</b>

## Continuing Problem (Continued)

2. and 3.

## JOURNAL

Page 2

Date	Description	Post. Ref.	Debit	Credit
<b>2014</b>				
<b>July 16</b>	Cash	11	2,000	
	Fees Earned	41		2,000
	<b>18</b> Supplies	14	850	
	Accounts Payable	21		850
	<b>21</b> Music Expense	54	620	
	Cash	11		620
	<b>22</b> Advertising Expense	55	800	
	Cash	11		800
	<b>23</b> Cash	11	750	
	Accounts Receivable	12	1,750	
	Fees Earned	41		2,500
	<b>27</b> Utilities Expense	53	915	
	Cash	11		915
	<b>28</b> Wages Expense	50	1,200	
	Cash	11		1,200
	<b>29</b> Miscellaneous Expense	59	540	
	Cash	11		540
	<b>30</b> Cash	11	500	
	Accounts Receivable	12	1,000	
	Fees Earned	41		1,500
	<b>31</b> Cash	11	3,000	
	Fees Earned	41		3,000
	<b>31</b> Music Expense	54	1,400	
	Cash	11		1,400
	<b>31</b> Dividends	33	1,250	
	Cash	11		1,250

**Continuing Problem (Continued)**

1. and 3.

Account:     **Cash**     Account No.     **11**    

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
<b>July</b>	<b>1</b>	<b>Balance</b>			<b>3,920</b>	
	<b>1</b>		<b>5,000</b>		<b>8,920</b>	
	<b>1</b>			<b>1,750</b>	<b>7,170</b>	
	<b>1</b>			<b>2,700</b>	<b>4,470</b>	
	<b>2</b>		<b>1,000</b>		<b>5,470</b>	
	<b>3</b>		<b>7,200</b>		<b>12,670</b>	
	<b>3</b>			<b>250</b>	<b>12,420</b>	
	<b>4</b>			<b>900</b>	<b>11,520</b>	
	<b>8</b>			<b>200</b>	<b>11,320</b>	
	<b>11</b>		<b>1,000</b>		<b>12,320</b>	
	<b>13</b>			<b>700</b>	<b>11,620</b>	
	<b>14</b>			<b>1,200</b>	<b>10,420</b>	
	<b>16</b>		<b>2,000</b>		<b>12,420</b>	
	<b>21</b>			<b>620</b>	<b>11,800</b>	
	<b>22</b>			<b>800</b>	<b>11,000</b>	
	<b>23</b>		<b>750</b>		<b>11,750</b>	
	<b>27</b>			<b>915</b>	<b>10,835</b>	
	<b>28</b>			<b>1,200</b>	<b>9,635</b>	
	<b>29</b>			<b>540</b>	<b>9,095</b>	
	<b>30</b>		<b>500</b>		<b>9,595</b>	
	<b>31</b>		<b>3,000</b>		<b>12,595</b>	
	<b>31</b>			<b>1,400</b>	<b>11,195</b>	
	<b>31</b>			<b>1,250</b>	<b>9,945</b>	

Account:     **Accounts Receivable**     Account No.     **12**    

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
<b>July</b>	<b>1</b>	<b>Balance</b>			<b>1,000</b>	
	<b>2</b>			<b>1,000</b>	<b>—</b>	<b>—</b>
	<b>23</b>		<b>1,750</b>		<b>1,750</b>	
	<b>30</b>		<b>1,000</b>		<b>2,750</b>	

**Continuing Problem (Continued)**

Account: Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓			170	
	18	2	850		1,020	

Account: Prepaid Insurance Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1	1	2,700		2,700	

Account: Office Equipment Account No. 17

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	5	1	7,500		7,500	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓				250
	3	1	250		—	—
	5	1		7,500		7,500
	18	2		850		8,350

Account: Unearned Revenue Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	3	1		7,200		7,200

Account: Capital Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2014						
July	1 Balance	✓				4,000
	1	1		5,000		9,000

**Continuing Problem (Continued)**

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
July 1	Balance	✓			500	
	31	2	1,250		1,750	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
July 1	Balance	✓				6,200
	11	1		1,000		7,200
	16	2		2,000		9,200
	23	2		2,500		11,700
	30	2		1,500		13,200
	31	2		3,000		16,200

Account: Wages Expense Account No. 50

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
July 1	Balance	✓			400	
	14	1	1,200		1,600	
	28	2	1,200		2,800	

Account: Office Rent Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
July 1	Balance	✓			800	
	1	1	1,750		2,550	

Account: Equipment Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
July 1	Balance	✓			675	
	13	1	700		1,375	

**Continuing Problem (Continued)**

Account:     **Utilities Expense**     Account No.     **53**    

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
<b>July</b>	<b>1</b>	<b>Balance</b>			<b>300</b>	
	<b>27</b>		<b>915</b>		<b>1,215</b>	

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

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
<b>July</b>	<b>1</b>	<b>Balance</b>			<b>1,590</b>	
	<b>21</b>		<b>620</b>		<b>2,210</b>	
	<b>31</b>		<b>1,400</b>		<b>3,610</b>	

Account:     **Advertising Expense**     Account No.     **55**    

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
<b>July</b>	<b>1</b>	<b>Balance</b>			<b>500</b>	
	<b>8</b>		<b>200</b>		<b>700</b>	
	<b>22</b>		<b>800</b>		<b>1,500</b>	

Account:     **Supplies Expense**     Account No.     **56**    

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
<b>July</b>	<b>1</b>	<b>Balance</b>			<b>180</b>	

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

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
<b>2014</b>						
<b>July</b>	<b>1</b>	<b>Balance</b>			<b>415</b>	
	<b>4</b>		<b>900</b>		<b>1,315</b>	
	<b>29</b>		<b>540</b>		<b>1,855</b>	

## Continuing Problem (Concluded)

4.

<b>PS MUSIC</b>		
<b>Unadjusted Trial Balance</b>		
<b>July 31, 2014</b>		
	<b>Debit Balances</b>	<b>Credit Balances</b>
<b>Cash</b>	<b>9,945</b>	
<b>Accounts Receivable</b>	<b>2,750</b>	
<b>Supplies</b>	<b>1,020</b>	
<b>Prepaid Insurance</b>	<b>2,700</b>	
<b>Office Equipment</b>	<b>7,500</b>	
<b>Accounts Payable</b>		<b>8,350</b>
<b>Unearned Revenue</b>		<b>7,200</b>
<b>Capital Stock</b>		<b>9,000</b>
<b>Dividends</b>	<b>1,750</b>	
<b>Fees Earned</b>		<b>16,200</b>
<b>Music Expense</b>	<b>3,610</b>	
<b>Wages Expense</b>	<b>2,800</b>	
<b>Office Rent Expense</b>	<b>2,550</b>	
<b>Advertising Expense</b>	<b>1,500</b>	
<b>Equipment Rent Expense</b>	<b>1,375</b>	
<b>Utilities Expense</b>	<b>1,215</b>	
<b>Supplies Expense</b>	<b>180</b>	
<b>Miscellaneous Expense</b>	<b>1,855</b>	
	<b>40,750</b>	<b>40,750</b>

## CASES & PROJECTS

### CP 2–1

Acceptable ethical conduct requires that Gil look for the difference. If Gil cannot find the difference within a reasonable amount of time, he should confer with his supervisor as to what action should be taken so that the financial statements can be prepared by the 5 o'clock deadline. Gil's responsibility to his employer is to act with integrity, objectivity, and due care, so that users of the financial statements will not be misled.

### CP 2–2

The following general journal entry should be used to record the receipt of tuition payments in advance of classes:

Cash.....	XXXX	
Unearned Tuition Deposits.....		XXXX

Cash is an asset account, and Unearned Tuition Deposits is a liability account. As the classes are taught throughout the term, the unearned tuition deposits become earned revenue.

### CP 2–3

The journal is called the book of original entry. It provides a time-ordered history of the transactions that have occurred for the firm. This time-ordered history is very important because it allows one to trace ledger account balances back to the original transactions that created those balances. This process is called an “audit trail.” If the firm recorded transactions by posting to ledgers directly, it would be nearly impossible to reconstruct actual transactions. The debits and credits would all be separated and accumulated into the ledger balances. Once the transactions become part of the ledger balances, the original transactions would be lost. That is, there would be no audit trail, and any errors that might occur in recording transactions would be almost impossible to trace. Thus, firms first record transaction debits and credits in a journal. These transactions are then posted to the ledger to update the account balances. The journal and ledger are linked using posting references. This allows an analyst to trace the transaction flow forward or backward, depending on the need.

## CP 2–4

1. The rules of debit and credit must be memorized. Dot is correct in that the rules of debit and credit could be reversed as long as everyone accepted and abided by the rules. However, the important point is that everyone accepts the rules as the way in which transactions should be recorded. This generates uniformity across the accounting profession and reduces errors and confusion. Since the current rules of debit and credit have been used for centuries, Dot should adapt to the current rules of debit and credit, rather than devise her own.

The primary reason that all accounts do not have the same rules for increases and decreases is for control of the recording process. The double-entry accounting system, which includes both (1) the rules of debit and credit and (2) the accounting equation, guarantees that (1) debits always equal credits and (2) assets always equal liabilities plus stockholders' equity. If all increases in the account were recorded by debits, then the control that debits always equal credits would be removed. In addition, the control that the normal balance of assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

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

2. The accounting system may be designed to capture information about the buying habits of various customers or vendors, such as the quantity normally ordered, average amount ordered, number of returns, etc. Thus, in a sense, there can be other "sides" of (information about) a transaction that are recorded by the accounting system. Such information would be viewed as supplemental to the basic double-entry accounting system.

CP 2–5

- a. Although the titles and numbers of accounts may differ, depending on how expenses are classified, the following accounts would be adequate for recording transaction data for Eagle Caddy Service:

<u>Balance Sheet Accounts</u>		<u>Income Statement Accounts</u>	
<u>1. Assets</u>		<u>4. Revenue</u>	
11	Cash	41	Service Revenue
12	Accounts Receivable		
13	Supplies	<u>5. Expenses</u>	
		51	Rent Expense
<u>2. Liabilities</u>		52	Supplies Expense
21	Accounts Payable	53	Wages Expense
		54	Utilities Expense
<u>3. Owner's Equity</u>		55	Miscellaneous Expense
31	Cory Neece, Capital		
32	Cory Neece, Drawing		

b.

EAGLE CADDY SERVICE		
Income Statement		
For Month Ended June 30, 2014		
Service revenue		\$11,400
Expenses:		
Rent expense	\$3,500	
Supplies expense	1,925	
Wages expense	850	
Utilities expense	340	
Miscellaneous expense	395	
Total expenses		7,010
Net income		\$ 4,390

*Note to Instructors:* Students may have prepared slightly different income statements, depending upon the titles of the major expense classifications chosen. Regardless of the classification of expenses, however, the total sales, total expenses, and net income should be as presented above.

T accounts are not required for the preparation of the income statement of Eagle Caddy Service. The following presentation illustrates one solution using T accounts. Alternative solutions are possible if students used different accounts. In presenting the following T account solution, instructors may wish to emphasize the advantages of using T accounts (or a journal and four-column accounts) when a large number of transactions must be recorded.

CP 2-5 (Continued)

Cash			11		
2014			2014		
June	1	2,000	June	1	500
	15	5,400		2	750
	30	4,200		3	600
	30	1,500		17	1,000
				20	2,400
				28	395
				30	340
				30	850
Bal.		<u>6,265</u>			

Service Revenue			41		
2014			2014		
June	15	5,400			
	25	1,800			
	30	4,200			
Bal.		<u>11,400</u>			

Rent Expense			51		
2014			2014		
June	1	500			
	3	3,000			
Bal.		<u>3,500</u>			

Accounts Receivable			12		
2014			2014		
June	25	<u>1,800</u>	June	30	<u>1,500</u>
Bal.		300			

Supplies Expense			52		
2014			2014		
June	30	1,925			

Supplies			13		
2014			2014		
June	2	750	June	30	1,925
	7	1,000			
	22	<u>850</u>			
Bal.		675			

Wages Expense			53		
2014			2014		
June	30	850			

Accounts Payable			21		
2014			2014		
June	17	1,000	June	3	2,400
	20	2,400		7	1,000
				22	<u>850</u>
Bal.			Bal.		850

Utilities Expense			54		
2014			2014		
June	30	340			

Cory Neece, Capital			31		
2014			2014		
June	1	2,000			

Miscellaneous Expense			55		
2014			2014		
June	28	395			

**CP 2–5 (Concluded)**

c. **\$6,265, computed in the following manner:**

**Cash receipts:**

Initial investment.....	<b>\$2,000</b>	
Cash sales.....	<b>9,600</b>	
Collections on accounts.....	<u><b>1,500</b></u>	
<b>Total cash receipts during June.....</b>		<b>\$13,100</b>

**Cash disbursements:**

Rent expense (\$500 + \$600 + \$2,400).....	<b>\$3,500</b>	
Supplies purchased for cash.....	<b>750</b>	
Wages expense.....	<b>850</b>	
Payment for supplies on account.....	<b>1,000</b>	
Utilities expense.....	<b>340</b>	
Miscellaneous expense.....	<u><b>395</b></u>	
<b>Total cash disbursements during June.....</b>		<u><b>6,835</b></u>

<b>Cash on hand according to records* .....</b>		<u><u><b>\$ 6,265</b></u></u>
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\* If the student used T accounts in completing part (b), or this part, this amount (\$6,265) should agree with the balance of the cash account.

d. The difference of \$90 (\$6,265 – \$6,175) between the cash on hand according to records (\$6,265) and the cash on hand according to the count (\$6,175) could be due to many factors, including errors in the record keeping and withdrawals made by Cory.

**CP 2–6**

**Note to Instructors:** The purpose of this activity is to familiarize students with the job opportunities available in accounting or in fields that require (or prefer) the employee to have some knowledge of accounting.

An example of an advertisement for an accounting job is shown on the next page.

Source: CareerBuilders.com

**CP 2–6 (Continued)**

**ACCOUNTING MANAGER**  
**Accountants One**

**JOB SNAPSHOT:**

Location: North East metro Atlanta area, GA	Experience: 3 to 8 years
Base Pay: \$60,000–\$65,000/Year	Travel: None
Other Pay: Excellent corporate benefits	Relocation Covered: No
Employee Type: Full-Time	Post Date: 5/9/2011
Industry: Manufacturing	Contact Information
Manages Others: Yes	Contact:
Job Type: Accounting	Phone: 555-395-6969
Education: 4-Year Degree	Ref ID: RD5694

**DESCRIPTION:**

A growing and well-established Atlanta company has asked us to recruit an Accounting Manager. This person will report to the Controller and be responsible for all day-to-day management of the department.

**ESSENTIAL FUNCTIONS:**

- Provide management with timely and accurate data and reports
- Responsible for accuracy of accounting entries, monthly P & L and Balance Sheets
- Perform analysis of financial reports and performance
- Personally conduct and manage collection activities
- Process biweekly employee payroll in an accurate and timely manner
- Supervise, train, and develop Accounts Payable Coordinator and additional accounting staff as necessary
- Interact with vendors and customers in a payables and receivables management process
- Initiate bank wires and ACH transfers
- Interact with internal and external auditors in completing audits
- Perform other duties as assigned

**REQUIREMENTS:**

- BS degree in Accounting, successful completion of CPA exams is a plus. Minimum 3 years experience as an accounting manager or supervisor in a manufacturing environment is absolutely required. Working knowledge of Microsoft Dynamics 10.0 is strongly preferred.
- Exceptional analytical and problem-solving abilities
- Must be well-versed in the financial aspects of inventory as well as state and federal financial regulations
- Must possess the ability to professionally interact with internal and external customers
- Excellent written and verbal communication skills
- Proficient knowledge of Excel and Word
- Experience with EXACT software as well as LOTUS Notes would be a plus
- Ability to analyze financial data and prepare financial reports, statements, and projections

**CLIENT IS INTERVIEWING FOR AN IMMEDIATE HIRE!**

NO CALLS PLEASE, AND LOCAL CANDIDATES ONLY need apply by emailing confidential resume as soon as possible. All qualified candidates will be contacted immediately.

**CP 2–6 (Continued)**

**An example of a job advertisement requiring accounting knowledge is as follows:**

**Source: CareerBuilders.com**

**EAST REGION FINANCIAL INSTITUTIONS DIRECTOR**  
**Jefferson Wells**

**JOB SNAPSHOT:**

Location: Atlanta, GA 30301  
Employee Type: Full-Time  
Industry: Accounting—Finance  
Manages Others: Yes  
Job Type: Accounting

Experience: Not Specified  
Travel: Up to 50%  
Post Date: 5/17/2011  
Contact Information  
Ref ID: 1294

**DESCRIPTION:**

Directors at Jefferson Wells are crucial to our success. They bring a wealth of experience and knowledge to our various service offerings and are responsible for ensuring the development and execution of the strategic plan for their respective market. Their goal is to drive the development of the Solution Area with the goal of significant growth and profitability. They provide technical expertise and leverage a network of clients and contacts. The Director plays a critical role in the leadership and development of our Engagement Managers and Professional Consultants.

Directors create and implement the Marketing Operating Plan, as well as create revenue strategies to meet revenue targets. They drive development and execution of effective client solutions to key targets.

Directors work closely with Business Development Managers on proposals and business development calls. Directors serve as the business advisor to clients to ensure quality assurance standards are met. They manage, direct, and monitor multiple client services teams on client engagements. They maintain strong communication with clients to manage expectations, ensure client satisfaction and adherence to deadlines. Other key success factors include:

- Solid history of excellent performance, management capability, and revenue growth
- Proven ability to drive a business including selling, work plan development, proposal writing, and overseeing service delivery
- Management experience of a large group of professionals of 10 or more, with demonstrated history of building a solution area—hiring, training, and mentoring
- Demonstrated ability in developing meaningful client relationships, and capacity to bring and leverage relationships to Jefferson Wells

The East Region Financial Institutions Director works under the general supervision of the East Region Vice President and has a dotted line relationship to the Managing Directors in the region. This Director will be recognized as a financial institution industry leader with expertise in the areas of commercial and residential loan origination/servicing, deposit operations, and the corresponding GAAP accounting requirements as well as regulatory compliance. He/she will be accountable for overseeing the following projects/activities at Jefferson Wells' financial institution clients in one or all of the following areas:

- Regulatory Compliance including Loan Compliance and BSA/AML
- Troubled Debt Restructuring
- Enterprise Risk Management
- Loan Reviews (Commercial and/or Consumer) and Credit Risk
- FAS 15 and FAS 114
- Foreclosure Application Processing
- Loss Mitigation
- Financial Process Documentation and Improvement
- Policy and Procedure Development

**CP 2–6 (Concluded)**

Jefferson Wells ([www.jeffersonwells.com](http://www.jeffersonwells.com)) delivers professional services in the areas of internal audit and controls, technology risk management, tax, and finance and accounting-related services. The firm's unique, agile structure aligns experienced professionals with proven processes to deliver pragmatic and cost-effective results. Headquartered in Milwaukee, Jefferson Wells serves clients, including Fortune 500 and Global 1000 companies, from offices worldwide. Jefferson Wells is an independently operating, wholly owned subsidiary of ManpowerGroup. (NYSE: MAN).

Jefferson Wells is an Equal Opportunity Employer.

**REQUIREMENTS:**

- Minimum 12 years or more of clearly progressive, professional development in the general area of accounting services/internal auditing, including a mix of public accounting and managerial level financial institution industry experience
- Bachelor's degree in accounting
- CPA, CIA, and/or MBA preferred
- Consulting delivery experience
- Strong leadership skills
- Senior-level internal compliance experience within a large financial institution
- Willingness and ability to travel

