

Exercises: Set B—Solutions

E1B. Recognition

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

E2B. T Accounts, Normal Balance, and the Accounting Equation

Owner's Equity												
Assets		=	Liabilities		+	Owner's Equity						
						M. Powell, Capital	-	M. Powell, Withdrawals	+	Revenues	-	Expenses
						M. Powell, Capital		M. Powell, Withdrawals		Service Revenue		Rent Expense
1,725				600		1,200		375		750		450
\$1,725		=		\$600	+	\$1,125						
\$1,725		=		\$1,725								

E3B. Classification of Accounts

Item	Type of Account						Normal Balance	
	Asset	Liability	Owner's Equity					
			R. Shuckman, Capital	R. Shuckman, Withdrawals	Revenue	Expense	Debit	Credit
a.	X						X	
b.						X	X	
c.	X						X	
d.			X					X
e.					X			X
f.	X						X	
g.		X						X
h.	X						X	
i.	X						X	
j.						X	X	
k.	X						X	
l.						X	X	
m.					X			X
n.				X			X	
o.		X						X
p.		X						X
q.	X						X	
r.		X						X
s.	X						X	
t.						X	X	
u.		X						X
v.	X						X	
w.	X						X	
x.						X	X	

E4B. Transaction Analysis			
a.	The asset account Cash was increased. Increases in assets are recorded by debits. Debit Cash \$2,500. A component of Owner's Equity, C. Wilder, Capital, was increased. Increases in owner's capital are recorded by credits. Credit C. Wilder, Capital \$2,500.		
b.	The asset Prepaid Rent was increased. Increases in assets are recorded by debits. Debit Prepaid Rent \$1,680. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$1,680.		
c.	The asset Supplies was increased. Increases in assets are recorded by debits. Debit Supplies \$120. The liability Accounts Payable was increased. Increases in liabilities are recorded by credits. Credit Accounts Payable \$120.		
d.	The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash \$700. Owner's equity was increased by the fees earned. Increases in owner's equity are recorded by credits. Credit Salon Fees Earned \$700.		
e.	The liability Accounts Payable was decreased. Decreases in liabilities are recorded by debits. Debit Accounts Payable \$120. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$120.		
f.	The owner's equity was decreased by the utilities expense. Decreases in owner's equity are recorded by debits. Debit Utilities Expense \$72. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$72.		
g.	The owner's equity was decreased when withdrawals were paid to the owner. Decreases in owner's equity are recorded by debits. Debit C. Wilder, Withdrawals \$100. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$100.		
E5B. Transaction Analysis			
		Debit	Credit
a.	Received cash from customers billed last month.	1	2
b.	Made a payment on accounts payable.	5	1
c.	Purchased supplies on credit.	3	5
d.	Billed a client for lawn services.	2	6
e.	Made a rent payment for the current month.	8	1
f.	Received cash from customers for lawn services.	1	6
g.	Paid employee wages.	7	1
h.	Ordered equipment.	No entry	
i.	Paid for supplies purchased on credit last month.	5	1
j.	Received and paid for the equipment ordered in <i>h</i> .	4	1

E6B. Recording Transactions in T Accounts							
Cash				Accounts Payable			
a.	4,300	b.	800	f.	400	c.	1,100
g.	3,720	d.	600			Bal.	700
		e.	900	D. Stan, Capital			
		f.	400			a.	5,900
		h.	1,000	D. Stan, Withdrawals			
	8,020		3,700	h.	1,000		
Bal.	4,320			Repair Fees Earned			
Repair Supplies						g.	3,720
c.	1,100			Salaries Expense			
Repair Equipment				e.	900		
a.	1,600			Rent Expense			
d.	600			b.	800		
Bal.	2,200						
E7B. Analysis of Transactions							
a.	Owner invests cash of \$20,000 in company.						
b.	Purchased equipment with cash, \$7,500.						
c.	Billed customer for services rendered, \$4,000.						
d.	Purchased equipment on account, \$4,500.						
e.	Paid wages with cash, \$1,800.						
f.	Paid cash owed on account, \$2,250.						
g.	Received cash \$750 as partial payment for transaction c.						
h.	Sold equipment (at cost) for cash, \$450.						

E8B. Analysis of Unfamiliar Transactions

May	1	Merchandise Inventory	1,400	
		Accounts Payable		1,400
		Purchased merchandise inventory on		
		account		

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

	2	Marketable Securities	3,000	
		Cash		3,000
		Purchased marketable securities		
	3	Accounts Payable	250	
		Merchandise Inventory		250
		Returned part of merchandise inventory for full credit		
	4	Accounts Receivable	800	
		Sales		800
		Sold merchandise inventory on account		

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

	5	Land	100,000	
		Building	200,000	
		Cash		60,000
		Mortgage Payable		240,000
		Purchased land and building with partial payment in cash		
	6	Cash	3,500	
		Advance Deposit or Unearned Revenue		3,500
		Recorded deposit on services of \$12,000 to be provided		

E9B. Trial Balance		
<div> <div>Stan Repair Service</div> <div>Trial Balance</div> <div>June 30, 2014</div> </div>		
Cash	4,320	
Repair Supplies	1,100	
Repair Equipment	2,200	
Accounts Payable		700
D. Stan, Capital		5,900
D. Stan, Withdrawals	1,000	
Repair Fees Earned		3,720
Salaries Expense	900	
Rent Expense	800	
	<u>10,320</u>	<u>10,320</u>
E10B. Preparing a Trial Balance		
<div> <div>Kremer Company</div> <div>Trial Balance</div> <div>March 31, 2014</div> </div>		
Cash	5,400	
Accounts Receivable	2,800	
Prepaid Insurance	660	
Land	3,120	
Building	20,400	
Equipment	7,200	
Notes Payable		10,000
Accounts Payable		10,710 *
M. Kremer, Capital		18,870
	<u>39,580</u>	<u>39,580</u>
* \$39,580 – (\$10,000 + \$18,870) = \$10,710		
E11B. Effects of Errors on a Trial Balance		
a.	Unequal totals. The total debits would be \$27 more than the total credits.	
b.	Equal totals. However, both Accounts Receivable (an asset account) and Accounts Payable (a liability account) would be overstated by \$150.	
c.	Equal totals. However, both accounts would be incorrect. Cash would be overstated by \$378, and Office Supplies would be understated by \$378.	
d.	Equal totals. However, an error has been made by debiting the wrong asset. Therefore, Supplies would be overstated by \$450, and Equipment would be understated by \$450.	

E12B. Correcting Errors in a Trial Balance		
Sullivan Services		
Trial Balance		
July 31, 2014		
Cash	4,060	
Accounts Receivable	5,780	
Supplies	240	
Prepaid Insurance	360	
Equipment	7,400	
Notes Payable		2,400
Accounts Payable		3,860
M. Sullivan, Capital		10,560
M. Sullivan, Withdrawals	1,100	
Revenues		5,920
Salaries Expense	2,600	
Rent Expense	600	
Advertising Expense	340	
Utilities Expense	<u>260</u>	<u> </u>
	<u>22,740</u>	<u>22,740</u>

E13B. Recording Transactions in the General Journal				
General Journal				
2014				
	a.	Cash	4,300	
		Repair Equipment	1,600	
		D. Stan, Capital		5,900
		Invested cash and repair equipment in the business		
	b.	Rent Expense	800	
		Cash		800
		Paid current month rent		
	c.	Repair Supplies	1,100	
		Accounts Payable		1,100
		Purchased repair supplies on credit		
	d.	Repair Equipment	600	
		Cash		600
		Purchased additional repair equipment for cash		
	e.	Salaries Expense	900	
		Cash		900
		Paid salary to a helper		
	f.	Accounts Payable	400	
		Cash		400
		Paid \$400 of the amount purchased on credit in transaction c.		
	g.	Cash	3,720	
		Repair Fees Earned		3,720
		Accepted cash for repairs completed		
	h.	D. Stan, Withdrawals	1,000	
		Cash		1,000
		Withdrew cash from the business		

E14B. Recording Transactions in the General Journal and Posting to the Ledger Accounts

General Journal					Page 10
Date	Description	Post. Ref.	Debit	Credit	
Dec. 14	Equipment	146	6,000		
	Cash	111		2,000	
	Accounts Payable	212		4,000	
	To purchase equipment; paid one-third in cash				
28	Accounts Payable	212	3,000		
	Cash	111		3,000	
	To pay for part of equipment purchased on credit				

General Ledger						
Cash					Account No. 111	
					Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit
Dec. 13	Balance	✓			8,000	
14		J10		2,000	6,000	
28		J10		3,000	3,000	

Equipment					Account No. 146	
					Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit
Dec. 14		J10	6,000		6,000	

Accounts Payable					Account No. 212	
					Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit
Dec. 14		J10		4,000		4,000
28		J10	3,000			1,000

E15B. Application of Recognition Point									
1. Purchases recognized on date shipped									
Order		Date Shipped		Date Received		Amount			
b		July	10	July	15	\$ 750			
c			16		22	400			
d			23		30	600			
e			27	Aug.	1	<u>750</u>			
Total July purchases						<u>\$2,500</u>			
2. Purchases recognized on date received									
Order		Date Shipped		Date Received		Amount			
a		June	26	July	5	\$ 300			
b		July	10		15	750			
c			16		22	400			
d			23		30	<u>600</u>			
Total July purchases						<u>\$2,050</u>			
E16B. Cash Flow Analysis									
Revenues from Services		Cash Sale	Cash		Cash Purchase	Expenses			
	750		750	550		550			
	900		600	350		650			
	1,650		1,350	900		1,200			
			450						
Credit Sale		Collection on Account			Credit Purchase				
Accounts Receivable				Payment on Account		Accounts Payable			
	900	600				350	650		
	300						300		
The cash balance after these transactions is \$450. The amount still to be received (the balance of Accounts Receivable) is \$300. The amount still to be paid (the balance of Accounts Payable) is \$300.									