Financial Accounting 11th edition Harrison Solutions Manual

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Chapter 2

Transaction Analysis

Ethics Check

(5-10 min.) EC 2-1

a. **Due care**

b. **Integrity**

c. **Due care**

d. **Objectivity and independence**

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Short Exercises

(5 min.) S 2-1

a. No (no dollars involved)

b. Yes

c. No (no dollars involved yet)

d. Yes

e. Yes

f. Yes

g. No

h. Yes

(5 min.) S 2-2

a. L

b. E

c. A

d. L

e. E

f. A

g. A

h. L

i. A

j. E

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(10 min.) S 2-3

G 1. Debit

A 2. Expense

F 3. Net income

C 4. Ledger

D 5. Posting

I 6. Normal balance

J 7. Payable

E 8. Journal

H 9. Receivable

B 10. Owners' equity

(5 min.) S 2-4

Anderson's payment was *not* an expense.

Anderson acquired an *asset*, Equipment, because the computer is an economic resource of the business.

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(5 min.) S 2-5

a. Purchase of asset on account
Borrow money

b. Declaration and payment of dividends to owners
Expense transaction (ex: received and paid utility bill)

c. Pay a liability
Return an asset purchased on account

d. Issuance of stock
Revenue transaction (ex: provided services on account or for cash)

e. Purchase of asset for cash
Sale of asset for cash
Collection of an account receivable

(Answers may vary.)

(5 min.) S 2-6

	Assets		Liabilities		Stk. Equity	
	Incr	Decr	Incr	Decr	Incr	Decr
Jan 2	X		X			
Jan 4	X				X	
Jan 10	X				X	
Jan 15		X		X		
Jan 18	X				X	
Jan 21	X	X				
Jan 31		X				X

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(5 min.) S 2-7

a. $19,200 ($17,000 + $2,200 + $4,600 − $4,600)

b. $ 2,200

(5-10 min.) S 2-8

Reqs. 1, 2

Cash	
250,000	

Computer Equipment	
106,000	

Accounts Payable	
	106,000

Common Stock	
	250,000

Req. 3

Total debits = $356,000 ($250,000 + $106,000)

Total credits = $356,000 ($106,000 + $250,000)

(5-10 min.) S 2-9

Cash		
	29,000	4,000
	7,100	
Bal.	32,100	

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(10 min.) S 2-10

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Jan.	15	Cash	31,000	
		Note Payable		31,000
		Borrowed money from the bank.		
	22	Accounts Receivable	16,800	
		Service Revenue		16,800
		Performed service on account.		
	28	Cash	12,000	
		Accounts Receivable		12,000
		Received cash on account.		
	29	Utilities Expense	1,400	
		Cash		1,400
		Paid utility bill.		
	31	Salary Expense	9,000	
		Cash		9,000
		Paid salary expense.		

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(10-15 min.) S 2-11

Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies.....	5,200	
	Accounts Payable.....		5,200
	Purchased supplies on account.		
	Accounts Payable.....	1,750	
	Cash.....		1,750
	Paid cash on account.		

Req. 2

Accounts Payable

1,750		5,200
	Bal.	3,450

Req. 3

The business owes $3,450, as shown in the Accounts Payable account.

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(10-15 min.) S 2-12

Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable	4,900	
	Service Revenue.....		4,900
	Performed service on account.		
	Cash	2,300	
	Accounts Receivable		2,300
	Received cash on account.		

Req. 2

Cash				Accounts Receivable				Service Revenue			
	2,300				4,900		2,300				4,900
Bal.	2,300			Bal.	2,600				Bal.		4,900

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Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
July	1	Cash	10,000	
		Common Stock		10,000
		Issued stock to owner.		
	5	Accounts Receivable	5,000	
		Service Revenue		5,000
		Provided (sold) services on account.		
	9	Office Supplies	500	
		Accounts Payable		500
		Purchased supplies on account.		
	10	Cash	2,100	
		Service Revenue		2,100
		Provided (sold) services for cash.		
	12	Cash	5,000	
		Accounts Receivable		5,000
		Collected cash on account.		
	24	Accounts Payable	500	
		Cash		500
		Paid on account.		
	25	Utilities Expense	200	
		Cash		200
		Paid expenses.		
	30	Office Furniture	3,500	
		Note Payable		3,500
		Purchased furniture with note payable.		
	31	Salary Expense	3,000	
		Cash		3,000
		Paid payroll.		

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(10 min.) S 2-14

Navy Port Company
Trial Balance
December 31, 2016

ACCOUNT	DEBIT	CREDIT
	Millions	
Cash	$ 4	
Other assets	23	
Accounts payable		$ 5
Other liabilities		1
Stockholders' equity		6
Revenues		39
Expenses	24	
Total	$51	$51

Navy Port Company's net income: $15 million ($39 − $24)

(10 min.) S 2-15

1.	Total assets	= $94,000	($4,000 + $14,000 + $1,000 + $48,000 + $27,000)
2.	Total liabilities	= $80,000	($54,000 + $26,000)
3.	Net income (loss)	= ($8,000)	($31,600 − $29,000 − $9,000 − $1,600)

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(10 min.) S 2-16

1. Total debits = $ 90,400 ($133,600 + $4,800 − $48,000)

Total credits = $133,600

Difference = $ 43,200 ($133,600 − $90,400);

$43,200 / 9 = $4,800 (an integer), which suggests either a transposition or a slide.

2. Total debits = $160,600 ($133,600 + $41,000 − $14,000)

Total credits = $133,600

Difference = $ 27,000 ($160,600 − $133,600);

$27,000 / 9 = $3,000 (an integer), which suggests either a transposition or a slide.

3. Total debits = $119,600 ($133,600 − $14,000)

Total credits = $147,600 ($133,600 + $14,000)

Difference = $ 28,000 ($147,600 − $119,600)

$28,000 / 2 = $14,000 (original amount of accounts receivable).

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

TO: Home Office

FROM: Laura Sprague, Store Manager

During the first week, I used the store's beginning cash to purchase equipment and supplies. I signed a note payable to buy land and a building. After all these transactions, the store's balance sheet appears as follows:

Designs Unlimited
Columbus Store
Balance Sheet
Date

ASSETS		LIABILITIES	
Cash	$ 55,400	Note payable*	$275,000
Supplies	6,600		
Land	76,000	STOCKHOLDERS' EQUITY	
Building	199,000	Common stock	98,000
Equipment	36,000	Total liabilities and	
Total assets	$373,000	stockholders' equity	$373,000

*$76,000 + $199,000 = $275,000

Cash

98,000	36,000
	6,600
55,400	

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

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

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

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

d. **Increased assets. (Cash)**

e. **No effect. (A personal transaction)**

f. **Increased assets. (Equipment)**

g. **Increased assets. (Office supplies)**

h. **Increased assets. (Cash)**

i. **Decreased assets. (Cash)**

j. **Decreased assets. (Cash)**

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

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES		+ STOCKHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable +	Medical Supplies +	Land	=	Accounts Payable +	Note Payable +	Common Stock +	Retained Earnings	Type of Stockholders' Equity Transaction
July 6	148,000							148,000		Issued stock
9	(66,000)			66,000						
12			2,000			2,000				
15	Not a transaction of the business.									
15-31	4,600	4,600							9,200	Service revenue
15-31	(2,900)								(2,900)	Salary expense
	(1,500)								(1,500)	Rent expense
	(700)								(700)	Utilities expense
31	600		(600)							
31	36,000						36,000			
31	(1,500)					(1,500)				
Bal.	116,600	4,600	1,400	66,000		500	36,000	148,000	4,100	

$188,600 = $188,600

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Req. 2

a. $188,600

b. $4,600

c. $36,500 ($500 + $36,000)

d. $152,100 ($188,600 − $36,500, or $148,000 + $4,100)

e. $4,100 (Revenue, $9,200 minus expenses, $5,100 equals net income, $4,100.)

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

Req. 1

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
July	6	Cash	148,000	
		Common Stock		148,000
		Issued stock to owner.		
	9	Land	66,000	
		Cash		66,000
		Purchased land.		
	12	Medical Supplies	2,000	
		Accounts Payable		2,000
		Purchased supplies on account.		
	15	Not a transaction of the business.		
	15-31	Cash	4,600	
		Accounts Receivable	4,600	
		Service Revenue		9,200
		Performed service for cash and on account.		
	15-31	Salary Expense	2,900	
		Rent Expense	1,500	
		Utilities Expense	700	
		Cash		5,100
		Paid expenses.		
	31	Cash	600	
		Medical Supplies		600
		Sold supplies.		
	31	Cash	36,000	
		Note Payable		36,000
		Borrowed money.		
	31	Accounts Payable	1,500	
		Cash		1,500
		Paid on account.		

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(20-30 min.) E 2-21A

Req. 1

Cash

July	6	148,000	July	9	66,000
	15-31	4,600		15-31	5,100
	31	600		31	1,500
	31	36,000			
Bal.		116,600			

Accounts Receivable

July 15-31	4,600		
Bal.	4,600		

Medical Supplies

July	12	2,000	July	31	600
Bal.		1,400			

Land

July	9	66,000			
Bal.		66,000			

Accounts Payable

July	31	1,500	July	12	2,000
			Bal.		500

Note Payable

			July	31	36,000
			Bal.		36,000

Common Stock

			July	6	148,000
			Bal.		148,000

Service Revenue

		July 15-31	9,200
		Bal.	9,200

Salary Expense

July 15-31	2,900		
Bal.	2,900		

Rent Expense

July 15-31	1,500		
Bal.	1,500		

Utilities Expense

July 15-31	700		
Bal.	700		

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Req. 2

Dr. Kristine Cohen, P.C.
Trial Balance
July 31, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$116,600	
Accounts receivable	4,600	
Medical supplies	1,400	
Land	66,000	
Accounts payable		$ 500
Note payable		36,000
Common stock		148,000
Service revenue		9,200
Salary expense	2,900	
Rent expense	1,500	
Utilities expense	700	
Total	$193,700	$193,700

Req. 3

Total assets ($116,600 + $4,600 + $1,400 + $66,000)	$188,600
Total liabilities ($500 + $36,000)	(36,500)
Total stockholders' equity ($148,000 + $4,100*)	$152,100

*Net income = $4,100 ($9,200 – $2,900 – $1,500 – $700)

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(10-15 min.) E 2-22A

Req. 1

Journal

ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1. Cash	8,900	
Common Stock		8,900
Issued common stock.		
2. Cash	10,000	
Note Payable		10,000
Borrowed money; signed note payable.		
3. Supplies	1,000	
Accounts Payable		1,000
Purchased supplies on account.		
4. Land	36,000	
Cash		12,000
Note Payable		24,000
Purchased land by paying cash and signing a note payable.		
5. Cash	75	
Supplies		75
Sold supplies for cash.		
6. Accounts Payable	300	
Cash		300
Paid cash on account.		
7. Equipment	3,700	
Cash		3,700
Paid cash for equipment.		

Cash balance = $2,975 ($8,900 + $10,000 − $12,000 + $75 − $300 − $3,700)

Company owes $34,700 ($10,000 + $1,000 + $24,000 − $300)

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(10-20 min.) E 2-23A

Req. 1

Custom Patio Service, Inc.
Trial Balance
April 30, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$18,700	
Accounts receivable	5,100	
Equipment	30,400	
Accounts payable		$ 4,900
Note payable		24,000
Common stock		16,800
Retained earnings		2,400
Dividends	3,400	
Service revenue		21,100
Salary expense	8,800	
Utilities expense	2,200	
Delivery expense	600	
Total	$69,200	$69,200

Req. 2

Custom Patio Service, Inc.
Income Statement
For the Month Ended April 30, 2016

Service revenue		$21,100
Salary expense	$8,800	
Utilities expense	2,200	
Delivery expense	600	
Total expenses		11,600
Net income		$ 9,500

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Req. 1

Harper, Inc.
Trial Balance
September 30, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$15,000*	
Accounts receivable	12,100*	
Inventory	16,800	
Supplies	200	
Land	50,000	
Accounts payable		$14,940*
Common stock		47,200*
Sales revenue		40,000
Insurance expense	3,700*	
Salary expense	2,400	
Utilities expense	1,040*	
Rent expense	900	
Total	$102,140	$102,140

*Computations:

Cash: $14,500 + $500 = $15,000
Accounts Receivable: $12,600 − $500 = $12,100
Accounts Payable: $12,000 + $3,000 − $300 + $240 = $14,940
Common Stock: $47,100 + $100 = $47,200
Insurance Expense: $0 + $3,700 = $3,700
Utilities Expense: $800 + $240 = $1,040

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(10-15 min.) E 2-25A

Cash

(a)	22,500	(b)	1,600
		(d)	3,300
		(e)	850
		(g)	2,300
Bal.	14,450		

Accounts Receivable

(f)	10,100		
Bal.	10,100		

Office Supplies

(c)	1,400		
Bal.	1,400		

Office Furniture

(a)	9,000		
Bal.	9,000		

Accounts Payable

(e)	850	(c)	1,400
		Bal.	550

Common Stock

		(a)	31,500
		Bal.	31,500

Dividends

(g)	2,300		
Bal.	2,300		

Service Revenue

		(f)	10,100
		Bal.	10,100

Salary Expense

(d)	3,300		
Bal.	3,300		

Rent Expense

(b)	1,600		
Bal.	1,600		

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(15-20 min.) E 2-26A

Req. 1

Leigh Hampton, Attorney
Trial Balance
January 31, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$14,450	
Accounts receivable	10,100	
Office supplies	1,400	
Office furniture	9,000	
Accounts payable		$ 550
Common stock		31,500
Dividends	2,300	
Service revenue		10,100
Salary expense	3,300	
Rent expense	1,600	
Total	$42,150	$42,150

Req. 2

The business performed well during January. The result of operations was net income of $5,200, as shown by the income statement accounts:

Service revenue		$ 10,100
Salary expense	$3,300	
Rent expense	1,600	
Total expenses		(4,900)
Net income		$ 5,200

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

Req. 1

(amounts in millions)

Cash (X) + Other assets (21) = Accounts payable (7) + Other liabilities (6) + S/E (5) + Revenues (37) – Expenses (30)

Cash (X) = 4

Req. 2

(amounts in millions)

New Towne Company
Trial Balance
September 30, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$ 4	
Other assets	21	
Accounts payable		$ 7
Other liabilities		6
Stockholders' equity		5
Revenues		37
Expenses	30	
Total	$55	$55

Net income is $7 ($37 – $30)

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

TO: Home Office

FROM: Gary Breen, Store Manager

During the first week, I used the store's beginning cash to purchase equipment and supplies. I signed a note payable to buy land and a building. After all these transactions, the store's balance sheet appears as follows:

Summertime Fashions
Orlando Store
Balance Sheet
Date

ASSETS		LIABILITIES	
Cash	$ 60,300	Note payable*	$279,000
Supplies	5,700		
Land	79,000	STOCKHOLDERS' EQUITY	
Building	200,000	Common stock	108,000
Equipment	42,000	Total liabilities and	
Total assets	$387,000	stockholders' equity	$387,000

*($79,000 + $200,000) = $279,000

Cash	
108,000	42,000
	5,700
60,300	

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(10-15 min.) E 2-29B

a. **No effect on total assets. Increase in notes receivable offsets the decrease in land.**

b. **Increased assets. (Cash)**

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

d. **Increased assets. (Cash)**

e. **Increased assets. (Land)**

f. **Increased assets. (Accounts receivable)**

g. **Decreased assets. (Cash)**

h. **Increased assets. (Supplies)**

i. **No effect. (A personal transaction)**

j. **Decreased assets. (Cash)**

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(10-20 min.) E 2-30B

Req. 1

Analysis of Transactions

	ASSETS				=	LIABILITIES		+ STOCKHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable +	Medical Supplies +	Land =		Accounts Payable +	Note Payable +	Common Stock +	Retained Earnings	Type of Stockholders' Equity Transaction
May 6	148,000							148,000		Issued stock
9	(59,000)			59,000						
12			1,700			1,700				
15	Not a transaction of the business.									
15-31	4,500	4,500							9,000	Service revenue
15-31	(3,200)								(3,200)	Salary expense
	(1,100)								(1,100)	Rent expense
	(1,200)								(1,200)	Utilities expense
31	300		(300)							
31	32,000						32,000			
31	(1,300)					(1,300)				
Bal.	119,000	4,500	1,400	59,000		400	32,000	148,000	3,500	

$183,900 $183,900

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Req. 2

a. $183,900

b. $4,500

c. $32,400 ($400 + $32,000)

d. $151,500 ($183,900 − $32,400, or $148,000 + $3,500)

e. $3,500 (Revenue, $9,000 minus expenses, $5,500, equals net income, $3,500)

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(10-15 min.) E 2-31B

Req. 1

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
May	6	Cash	148,000	
		Common Stock		148,000
		Issued stock to owner.		
	9	Land	59,000	
		Cash		59,000
		Purchased land.		
	12	Medical Supplies	1,700	
		Accounts Payable		1,700
		Purchased supplies on account.		
	15	Not a transaction of the business.		
	15-31	Cash	4,500	
		Accounts Receivable	4,500	
		Service Revenue		9,000
		Performed service for cash and on account.		
	15-31	Salary Expense	3,200	
		Rent Expense	1,100	
		Utilities Expense	1,200	
		Cash		5,500
		Paid expenses.		
	31	Cash	300	
		Medical Supplies		300
		Sold supplies.		
	31	Cash	32,000	
		Note Payable		32,000
		Borrowed money.		
	31	Accounts Payable	1,300	
		Cash		1,300
		Paid on account.		

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(20-30 min.) E 2-32B

Req. 1

Cash

May	6	148,000	May	9	59,000
	15-31	4,500		15-31	5,500
	31	300		31	1,300
	31	32,000			
Bal.		119,000			

Accounts Receivable

May	15-31	4,500	
Bal.		4,500	

Medical Supplies

May	12	1,700	May	31	300
Bal.		1,400			

Land

May	9	59,000			
Bal.		59,000			

Accounts Payable

May	31	1,300	May	12	1,700
			Bal.		400

Note Payable

			May	31	32,000
			Bal.		32,000

Common Stock

			May	6	148,000
			Bal.		148,000

Service Revenue

			May	15-31	9,000
			Bal.		9,000

Salary Expense

May	15-31	3,200			
Bal.		3,200			

Rent Expense

May	15-31	1,100			
Bal.		1,100			

Utilities Expense

May	15-31	1,200			
Bal.		1,200			

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Req. 2

Dr. Sue Smith, P.C.
Trial Balance
May 31, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$119,000	
Accounts receivable	4,500	
Medical supplies	1,400	
Land	59,000	
Accounts payable		$ 400
Note payable		32,000
Common stock		148,000
Service revenue		9,000
Salary expense	3,200	
Utilities expense	1,200	
Rent expense	1,100	
Total	$189,400	$189,400

Req. 3

Total assets ($119,000 + $4,500 + $1,400 + $59,000)	$183,900
Total liabilities ($400 + $32,000)	(32,400)
Total stockholders' equity ($148,000 + $3,500*)	$151,500

*Net income = $3,500 ($9,000 − $3,200 − $1,200 − $1,100)

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(10-15 min.) E 2-33B

Req. 1

Journal

ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1. Cash	8,600	
Common Stock		8,600
Issued common stock.		
2. Cash	7,500	
Note Payable		7,500
Borrowed money; signed note payable.		
3. Supplies	800	
Accounts Payable		800
Purchased supplies on account.		
4. Land	36,000	
Cash		7,000
Note Payable		29,000
Purchased land by paying cash and signing a note payable.		
5. Cash	70	
Supplies		70
Sold supplies for cash.		
6. Accounts Payable	230	
Cash		230
Paid cash on account.		
7. Equipment	3,500	
Cash		3,500
Paid cash for equipment.		

Cash balance = $5,440 ($8,600 + $7,500 − $7,000 + $70 − $230 − $3,500)

Company owes $37,070 ($7,500 + $800 + $29,000 − $230)

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Req. 1

Deluxe Deck Service, Inc.
Trial Balance
April 30, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$18,500	
Accounts receivable	5,800	
Equipment	30,000	
Accounts payable		$ 4,900
Note payable		22,500
Common stock		16,800
Retained earnings		3,450
Dividends	3,900	
Service revenue		21,200
Salary expense	8,500	
Utilities expense	1,400	
Delivery expense	750	
Total	$68,850	$68,850

Req. 2

Deluxe Deck Service, Inc.
Income Statement
For the Month Ended April 30, 2016

Service revenue		$21,200
Salary expense	$8,500	
Utilities expense	1,400	
Delivery expense	750	
Total expenses		10,650
Net income		$10,550

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(15-25 min.) E 2-35B

Req. 1

Carver, Inc.
Trial Balance
September 30, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$ 14,300*	
Accounts receivable	12,400*	
Inventory	17,200	
Supplies	800	
Land	52,000	
Accounts payable		$ 14,550*
Common stock		47,900*
Sales revenue		41,000
Insurance expense	3,300*	
Salary expense	2,100	
Utilities expense	850*	
Rent expense	500	
Total	$103,450	$103,450

*Computations:

Cash: $14,100 + $200 = $14,300
Accounts Receivable: $12,600 − $200 = $12,400
Accounts Payable: $12,100 + $2,000 − $200 + $650 = $14,550
Common Stock: $47,600 + $300 = $47,900
Insurance Expense: $0 + $3,300 = $3,300
Utilities Expense: $200 + $650 = $850

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(10-15 min.) E 2-36B

Cash			
(a)	23,000	(b)	1,000
		(d)	2,500
		(e)	150
		(g)	2,000
Bal.	17,350		

Accounts Receivable			
(f)	10,900		
Bal.	10,900		

Office Supplies			
(c)	700		
Bal.	700		

Office Furniture			
(a)	9,400		
Bal.	9,400		

Accounts Payable			
(e)	150	(c)	700
		Bal.	550

Common Stock			
		(a)	32,400
		Bal.	32,400

Dividends			
(g)	2,000		
Bal.	2,000		

Service Revenue			
		(f)	10,900
		Bal.	10,900

Salary Expense			
(d)	2,500		
Bal.	2,500		

Rent Expense			
(b)	1,000		
Bal.	1,000		

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

Req. 1

Eric Newton, Attorney
Trial Balance
December 31, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$ 17,350	
Accounts receivable	10,900	
Office supplies	700	
Office furniture	9,400	
Accounts payable		$ 550
Common stock		32,400
Dividends	2,000	
Service revenue		10,900
Salary expense	2,500	
Rent expense	1,000	
Total	$43,850	$43,850

Req. 2

The business performed well during December. The result of operations was net income of $7,400, as shown by the income statement accounts:

Service revenue		$10,900
Salary expense	$2,500	
Rent expense	1,000	
Total expenses		(3,500)
Net income		$ 7,400

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

Req. 1

(amounts in millions)

Cash (X) + Other assets (20) = Accounts payable (7) + Other liabilities (3) + S/E (6) + Revenues (38) – Expenses (25)

Cash (X) = 9

Req. 2

(amounts in millions)

Wolf Products Company
Trial Balance
May 31, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$ 9	
Other assets	20	
Accounts payable		$ 7
Other liabilities		3
Stockholders' equity		6
Revenues		38
Expenses	25	
Total	$54	$54

Net income is $13 ($38 – $25)

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Serial Exercise

(20-30 min.) E 2-39

Req. 1

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Aug.	2	Cash	10,000	
		Common Stock		10,000
	2	Rent Expense	600	
		Cash		600
	3	Equipment	2,700	
		Cash		2,700
	4	Furniture	4,500	
		Accounts Payable		4,500
	5	Supplies	800	
		Accounts Payable		800
	9	Cash	1,400	
		Service Revenue		1,400
	12	Utilities Expense	300	
		Cash		300
	18	Accounts Receivable	1,900	
		Service Revenue		1,900

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Req. 2

Cash

Aug. 2	10,000	Aug. 2	600
9	1,400	3	2,700
		12	300
Bal.	7,800		

Accounts Receivable

Aug. 18	1,900		
Bal.	1,900		

Supplies

Aug. 5	800		
Bal.	800		

Equipment

Aug. 3	2,700		
Bal.	2,700		

Furniture

Aug. 4	4,500		
Bal.	4,500		

Accounts Payable

		Aug. 4	4,500
		5	800
		Bal.	5,300

Common Stock

		Aug. 2	10,000
		Bal.	10,000

Service Revenue

		Aug. 9	1,400
		18	1,900
		Bal.	3,300

Rent Expense

Aug. 2	600		
Bal.	600		

Utilities Expense

Aug. 12	300		
Bal.	300		

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Req. 3

Barbara Miracle, Certified Public Accountant, P.C.
Trial Balance
August 18, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$ 7,800	
Accounts receivable	1,900	
Supplies	800	
Equipment	2,700	
Furniture	4,500	
Accounts payable		$ 5,300
Common stock		10,000
Dividends	—	
Service revenue		3,300
Rent expense	600	
Utilities expense	300	
Salary expense	—	
Total	$18,600	$18,600

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Q2-40	**a**	
Q2-41	**d**	
Q2-42	**d**	
Q2-43	**b**	
Q2-44	**c**	
Q2-45	**b**	
Q2-46	**a**	
Q2-47	**d**	
Q2-48	**a**	
Q2-49	**c**	
Q2-50	**d**	
Q2-51	**a**	
Q2-52	**a**	
Q2-53	**d**	
Q2-54	**a**	
Q2-55	**d**	
Q2-56	**d**	
Q2-57	**d**	
Q2-58	**c**	
Q2-59	**b**	**($51,000 + $30,000 + $22,000) = $103,000**

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(15-30 min.) P 2-60A

Req. 1

Dear Vicki,

This trial balance lists the accounts of the company, along with their balances at December 31, 2016. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Amusement Specialties reports:

a. Total assets = $393,500 ($14,000 + $40,000 + $4,500 + $96,000 + $239,000)

b. Total liabilities = $147,300 ($51,300 + $96,000)

c. Net income = $139,000 ($270,000 − $47,000 − $2,000 − $79,000 − $3,000)

Student responses may vary but should include these amounts.

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(45-60 min.) P 2-61A

Req. 1

Analysis of Transactions

	ASSETS				= LIABILITIES	+ STOCKHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
Bal.	2,200	3,600		12,000	7,700	6,200	3,900	
a)	3,800					3,800		Issued stock
b)	6,000						6,000	Service revenue
c)	(4,300)				(4,300)			
d)			500		500			
e)	2,000	(2,000)						
f)		4,000					4,000	Service revenue
g)	(1,300)						(1,300)	Rent expense
	(700)						(700)	Advertising expense
h)	(2,800)						(2,800)	Dividends
Bal.	4,900	5,600	500	12,000	3,900	10,000	9,100	
	$23,000				$23,000			

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Req. 2

Rodriguez Computing, Inc.
Income Statement
Month Ended October 31, 2016

Revenues:		
Service revenue ($6,000 + $4,000)		$10,000
Expenses:		
Rent expense	$1,300	
Advertising expense	700	
Total expenses		2,000
Net income		$8,000

Req. 3

Rodriguez Computing, Inc.
Statement of Retained Earnings
Month Ended October 31, 2016

Retained earnings, October 1, 2016	$ 3,900
Add: Net income	8,000
Subtotal	11,900
Less: Dividends declared	(2,800)
Retained earnings, October 31, 2016	$ 9,100

Req. 4

Rodriguez Computing, Inc.
Balance Sheet
October 31, 2016

ASSETS		LIABILITIES	
Cash	$ 4,900	Accounts payable	$ 3,900
Accounts receivable	5,600	STOCKHOLDERS'	
Supplies	500	EQUITY	
Equipment	12,000	Common stock	10,000
		Retained earnings	9,100
		Total stockholders' equity	19,100
		Total liabilities and	
Total assets	$23,000	stockholders' equity	$23,000

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(30-40 min.) P 2-62A

Req. 1

Journal

	ACCOUNT TITLES	DEBIT	CREDIT
a.	Cash	3,800	
	Common Stock		3,800
b.	Cash	6,000	
	Service Revenue		6,000
c.	Accounts Payable	4,300	
	Cash		4,300
d.	Supplies	500	
	Accounts Payable		500
e.	Cash	2,000	
	Accounts Receivable		2,000
f.	Accounts Receivable	4,000	
	Service Revenue		4,000
g.	Rent Expense	1,300	
	Advertising Expense	700	
	Cash		2,000
h.	Dividends	2,800	
	Cash		2,800

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Reqs. 2 and 3

Cash	
2,200	4,300
3,800	2,000
6,000	2,800
2,000	
4,900	

Accounts Receivable	
3,600	2,000
4,000	
5,600	

Supplies	
500	
500	

Equipment	
12,000	
12,000	

Accounts Payable	
4,300	7,700
	500
	3,900

Common Stock	
	6,200
	3,800
	10,000

Retained Earnings	
	3,900
	3,900

Dividends	
2,800	
2,800	

Service Revenue	
	6,000
	4,000
	10,000

Rent Expense	
1,300	
1,300	

Advertising Expense	
700	
700	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-61A.

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(50-60 min.) P 2-63A

Req. 1

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
May	2	Cash	65,000	
		Common Stock		65,000
	3	Supplies	600	
		Equipment	11,700	
		Accounts Payable		12,300
	4	Cash	5,600	
		Service Revenue		5,600
	7	Land	37,000	
		Cash		37,000
	11	Accounts Receivable	2,900	
		Service Revenue		2,900
	16	Accounts Payable	11,700	
		Cash		11,700
	17	Advertising Expense	610	
		Cash		610
	18	Cash	800	
		Accounts Receivable		800
	22	Utilities Expenses	440	
		Cash		440
	29	Cash	2,500	
		Service Revenue		2,500
	31	Salary Expense	2,400	
		Cash		2,400
	31	Dividends	2,000	
		Cash		2,000

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Req. 2

Cash

May 2	65,000	May 7	37,000
4	5,600	16	11,700
18	800	17	610
29	2,500	22	440
		31	2,400
		31	2,000
Bal.	19,750		

Accounts Receivable

May 11	2,900	May 18	800
Bal.	2,100		

Supplies

May 3	600		
Bal.	600		

Equipment

May 3	11,700		
Bal.	11,700		

Land

May 7	37,000		
Bal.	37,000		

Accounts Payable

May 16	11,700	May 3	12,300
		Bal.	600

Common Stock

		May 2	65,000
		Bal.	65,000

Dividends

May 31	2,000		
Bal.	2,000		

Service Revenue

		May 4	5,600
		11	2,900
		29	2,500
		Bal.	11,000

Salary Expense

May 31	2,400		
Bal.	2,400		

Advertising Expense

May 17	610		
Bal.	610		

Utilities Expense

May 22	440		
Bal.	440		

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Req. 3

Martinson Services, Inc.
Trial Balance
May 31, 20XX

ACCOUNT	DEBIT	CREDIT
Cash	$19,750	
Accounts receivable	2,100	
Supplies	600	
Land	37,000	
Equipment	11,700	
Accounts payable		$ 600
Common stock		65,000
Dividends	2,000	
Service revenue		11,000
Salary expense	2,400	
Advertising expense	610	
Utilities expense	440	
Total	$76,600	$76,600

Req. 4

Total resources (assets) = $71,150 ($19,750 + $2,100 + $600 + $37,000 + $11,700)

Amount owed (total liabilities) = $600

Profit (net income) = $7,550 ($11,000 − $2,400 − $610 – $440)

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Req. 1

Cash

(a)	44,000	(c)	49,000
(b)	63,000	(e)	6,000
(f)	3,710	(h)	100
(j)	1,200	(k)	1,800
Bal.	55,010		

Accounts Receivable

(g)	13,300	(j)	1,200
Bal.	12,100		

Supplies

(d)	230		
Bal.	230		

Music Equipment

(c)	49,000		
Bal.	49,000		

Building

(a)	106,000		
Bal.	106,000		

Accounts Payable

(h)	100	(d)	230
		(i)	800
		Bal.	930

Note Payable

		(b)	63,000
		Bal.	63,000

Common Stock

		(a)	150,000
		Bal.	150,000

Service Revenue

		(f)	3,710
		(g)	13,300
		Bal.	17,010

Salary Expense

(e)	6,000		
Bal.	6,000		

Rent Expense

(k)	1,100		
Bal.	1,100		

Advertising Expense

(k)	700		
Bal.	700		

Utilities Expense

(i)	800		
Bal.	800		

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Req. 2

Stein Music Services Corporation
Trial Balance
April 30, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$ 55,010	
Accounts receivable	12,100	
Supplies	230	
Building	106,000	
Music equipment	49,000	
Accounts payable		$ 930
Note payable…		63,000
Common stock		150,000
Service revenue		17,010
Salary expense	6,000	
Rent expense…	1,100	
Utilities expense	800	
Advertising expense	700	
Total	$230,940	$230,940

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(15-30 min.) P 2-65B

Req. 1

Dear Amy,

This trial balance lists the accounts of the company, along with their balances at December 31, 2016. The trial balance provides the data for computing total assets, total liabilities, and net income or net loss.

Larrabee Design reports:

a. Total assets = $392,500 ($13,000 + $47,000 + $5,500 + $103,000 + $224,000)

b. Total liabilities = $148,400 ($50,400 + $98,000)

c. Net income = $91,000 ($220,000 − $33,000 − $15,000 − $79,000 − $2,000)

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(45-60 min.) P 2-66B

Req. 1

Analysis of Transactions

	ASSETS				= LIABILITIES	+ STOCKHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Common Stock	+ Retained Earnings	Type of Stockholders' Equity Transaction
Bal.	2,100	3,400		12,400	7,500	5,600	4,800	
a)	3,900					3,900		Issued stock
b)	6,000						6,000	Service revenue
c)	(4,800)				(4,800)			
d)			900		900			
e)	1,100	(1,100)						
f)		4,500					4,500	Service revenue
g)	(1,700)						(1,700)	Rent expense
	(1,300)						(1,300)	Advertising expense
h)	(2,300)						(2,300)	Dividends
Bal.	3,000	6,800	900	12,400	3,600	9,500	10,000	
	$23,100				$23,100			

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Req. 2

Willis Computing, Inc.
Income Statement
Month Ended November 30, 2016

Revenues:		
Service revenue ($6,000 + $4,500)		**$10,500**
Expenses:		
Rent expense.....	**$1,700**	
Advertising expense	**1,300**	
Total expenses		**3,000**
Net income.....		**$ 7,500**

Req. 3

Willis Computing, Inc.
Statement of Retained Earnings
For the Month Ended November 30, 2016

Retained earnings, October 31, 2016	**$ 4,800**
Add: Net income.....	**7,500**
Subtotal	**12,300**
Less: Dividends declared.....	**(2,300)**
Retained earnings, November 30, 2016	**$10,000**

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Req. 4

Willis Computing, Inc.
Balance Sheet
November 30, 2016

ASSETS		LIABILITIES	
Cash	$ 3,000	Accounts payable	$ 3,600
Accounts receivable	6,800	STOCKHOLDERS'	
Supplies	900	EQUITY	
Equipment	12,400	Common stock	9,500
		Retained earnings	10,000
		Total stockholders' equity	19,500
		Total liabilities and	
Total assets	$23,100	stockholders' equity	$23,100

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(30-40 min.) P 2-67B

Req. 1

Journal

	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
a.	Cash	3,900	
	Common Stock.....		3,900
b.	Cash	6,000	
	Service Revenue		6,000
c.	Accounts Payable	4,800	
	Cash		4,800
d.	Supplies	900	
	Accounts Payable		900
e.	Cash	1,100	
	Accounts Receivable…		1,100
f.	Accounts Receivable	4,500	
	Service Revenue		4,500
g.	Rent Expense	1,700	
	Advertising Expense.....	1,300	
	Cash		3,000
h.	Dividends	2,300	
	Cash		2,300

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Reqs. 2 and 3

Cash	
2,100	4,800
3,900	3,000
6,000	2,300
1,100	
3,000	

Accounts Receivable	
3,400	1,100
4,500	
6,800	

Supplies	
900	
900	

Equipment	
12,400	
12,400	

Accounts Payable	
4,800	7,500
	900
	3,600

Common Stock	
	5,600
	3,900
	9,500

Retained Earnings	
	4,800
	4,800

Dividends	
2,300	
2,300	

Service Revenue	
	6,000
	4,500
	10,500

Rent Expense	
1,700	
1,700	

Advertising Expense	
1,300	
1,300	

The balances of all the accounts Cash through Common Stock agree with the ending balances obtained in Problem 2-66B.

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(50-60 min.) P 2-68B

Req. 1

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
July	2	Cash	62,000	
		Common Stock		62,000
	3	Supplies	800	
		Equipment	12,100	
		Accounts Payable		12,900
	4	Cash	5,600	
		Service Revenue		5,600
	7	Land	39,000	
		Cash		39,000
	11	Accounts Receivable	2,900	
		Service Revenue		2,900
	16	Accounts Payable	12,100	
		Cash		12,100
	17	Utilities Expense	590	
		Cash		590
	18	Cash	800	
		Accounts Receivable		800
	22	Utilities Expense	420	
		Cash		420
	29	Cash	2,300	
		Service Revenue		2,300
	30	Salary Expense	2,500	
		Cash		2,500
	30	Dividends	2,000	
		Cash		2,000

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Req. 2

Cash

July	2	62,000	July 7	39,000
	4	5,600	16	12,100
	18	800	17	590
	29	2,300	22	420
			30	2,500
			30	2,000
Bal.		14,090		

Accounts Receivable

July	11	2,900	July 18	800
Bal.		2,100		

Supplies

July	3	800		
Bal.		800		

Equipment

July	3	12,100		
Bal.		12,100		

Land

July	7	39,000		
Bal.		39,000		

Accounts Payable

July	16	12,100	July 3	12,900
			Bal.	800

Common Stock

			July 2	62,000
			Bal.	62,000

Dividends

July	30	2,000		
Bal.		2,000		

Service Revenue

			July 4	5,600
			11	2,900
			29	2,300
			Bal.	10,800

Salary Expense

July	30	2,500		
Bal.		2,500		

Utilities Expense

July	17	590		
	22	420		
Bal.		1,010		

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Req. 3

Gagne Services, Inc.
Trial Balance
July 31, 20XX

ACCOUNT	DEBIT	CREDIT
Cash	$14,090	
Accounts receivable	2,100	
Supplies	800	
Land	39,000	
Equipment	12,100	
Accounts payable		$ 800
Common stock		62,000
Dividends	2,000	
Service revenue		10,800
Salary expense	2,500	
Utilities expense	1,010	
Total	$73,600	$73,600

Req. 4

Total resources (assets) = $68,090 ($14,090 + $2,100 + $800 + $39,000 + $12,100)

Amount owed (total liabilities) = $800

Profit (net income) = $7,290 ($10,800 − $2,500 − $1,010)

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(40-50 min.) P 2-69B

Req. 1

Cash

(a)	50,000	(c)	44,000
(b)	63,000	(e)	5,900
(f)	3,700	(h)	200
(j)	1,700	(k)	1,500
Bal.	66,800		

Music Equipment

(c)	44,000		
Bal.	44,000		

Note Payable

		(b)	63,000
		Bal.	63,000

Common Stock

		(a)	156,000
		Bal.	156,000

Service Revenue

		(f)	3,700
		(g)	13,100
		Bal.	16,800

Advertising Expense

(k)	300		
Bal.	300		

Accounts Receivable

(g)	13,100	(j)	1,700
Bal.	11,400		

Supplies

(d)	210		
Bal.	210		

Building

(a)	106,000		
Bal.	106,000		

Accounts Payable

(h)	200	(d)	210
		(i)	600
		Bal.	610

Salary Expense

(e)	5,900		
Bal.	5,900		

Rent Expense

(k)	1,200		
Bal.	1,200		

Utilities Expense

(i)	600		
Bal.	600		

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Req. 2

Spahr Music Corporation
Trial Balance
May 31, 2016

ACCOUNT	DEBIT	CREDIT
Cash	$ 66,800	
Accounts receivable	11,400	
Supplies	210	
Building	106,000	
Music equipment	44,000	
Accounts payable		$ 610
Note payable		63,000
Common stock		156,000
Service revenue		16,800
Salary expense	5,900	
Rent expense	1,200	
Utilities expense	600	
Advertising expense	300	
Total	$236,410	$236,410

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Challenge Exercises and Problem

(20-40 min.) E 2-70

Req. 1

a. Total cash paid during December:

Cash				
Nov. 30 Bal.	16,500			
Dec. receipts	91,000	Dec. payments	X	= $99,250
Dec. 31 Bal.	8,250			

$16,500 + $91,000 − X = $ 8,250
X = $99,250

b. Cash collections from customers during December:

Accounts Receivable				
Nov 30 Bal.	23,000			
Dec. sales on account	42,000	Dec. collections	X	= $44,000
Dec. 31 Bal.	21,000			

$23,000 + $42,000 − X = $21,000
X = $44,000

c. Cash paid on notes payable during December:

Notes Payable				
			Nov. 30 Bal.	11,500
X = $23,000	Dec. note payments	X	Dec. new borrowing	31,000
			Dec. 31 Bal.	19,500

$11,500 + $31,000 − X = $19,500
X = $23,000

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(20-30 min.) E 2-71

Req. 1

4AC, Inc.
Trial Balance
October 31, 2016

Cash……..	$ 3,900	
Accounts receivable……..	7,100	
Land……...	30,100	
Accounts payable……..		$ 6,200
Note payable……		5,900
Common stock……		24,100
Retained earnings……..		1,700
Service revenue……..		9,400
Salary expense……	2,900	
Advertising expense…….	1,400	
Totals…….	$45,400	$47,300

Out of balance by $1,900

The correct balance of Accounts Receivable is $9,000* ($7,100 + $1,900). After this correction, total debits will be $47,300 ($45,400 + $1,900), the same as total credits.

Req. 2

a. Total assets = $43,000 ($3,900 + $9,000* + $30,100)

b. Total liabilities = $12,100 ($6,200 + $5,900)

c. Net income = $ 5,100 ($9,400 − $2,900 − $1,400)

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(10-15 min.) E 2-72

Req. 1

Henderson Co.:

Income statement	November	December
Employee medical exp. .	$38,000	$ -0-

Balance sheet	Nov. 30	Dec. 31
Cash	$57,000	$30,000*
Accounts payable	38,000	11,000**

Goodland Hospital:

Income statement	November	December
Service revenue	$38,000	$ -0-

Balance sheet	Nov. 30	Dec. 31
Cash	$ -0-	$27,000
Accounts receivable	38,000	11,000**

Req. 2

Explanation:

Henderson's $38,000 expense is Goodland's revenue.
Henderson's $27,000 cash payment is Goodland's cash receipt.
Henderson's $11,000 account payable is Goodland's account receivable.

*$57,000 − $27,000 = $30,000
**$38,000 − $27,000 = $11,000

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(20 min.) P 2-73

Req. 1

Date	Effect on Cash	Effect on Total Assets	Effect on Net Income
May 1	Understated $100	Overstated $100	Overstated $100
2	Understated $18,000	Understated $18,000	Understated $18,000
5	Correct	Understated $2,800	Understated $2,800
10	Correct	Correct	Correct
16	Correct	Correct	Overstated $5,600
25	Correct	Overstated $5,400	Correct

Req. 2

Correct cash balance, $24,500 ($6,400 + $100 + $18,000)

Req. 3

Correct total assets, $43,300 ($28,000 + $18,000 - $5,400 + $2,800 - $100)

Req. 4

Correct net income, $23,100 ($8,000 - $100 + $2,800 - $5,600 + $18,000)

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(40-50 min.) Decision Case 1

Reqs. 1 and 2

Cash

(a)	7,000	(c)	1,300
(b)	6,000	(d)	1,800
(h)	2,500	(f)	2,000
(i)	1,200	(f)	1,200
		(j)	1,000
Bal.	9,400		

Accounts Receivable

(g)	8,000	(i)	1,200
Bal.	6,800		

Supplies

(c)	1,300		

Furniture

(e)	5,400		

Accounts Payable

(j)	1,000	(e)	5,400
		Bal.	4,400

Notes Payable

		(b)	6,000

Common Stock

		(a)	7,000

Service Revenue

		(g)	8,000
		(h)	2,500
		Bal.	10,500

Salary Expense

(f)	2,000		

Advertising Expense

(d)	1,800		

Rent Expense

(f)	1,200		

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Req. 3

Barlow Networks, Inc.
Trial Balance
Current Date

ACCOUNT	DEBIT	CREDIT
Cash	$ 9,400	
Accounts receivable	6,800	
Supplies	1,300	
Furniture	5,400	
Accounts payable		$ 4,400
Notes payable		6,000
Common stock		7,000
Service revenue		10,500
Salary expense	2,000	
Advertising expense	1,800	
Rent expense	1,200	
Total	$27,900	$27,900

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

Revenues:		
Service revenue		$10,500
Expenses:		
Salary expense	$2,000	
Advertising expense	1,800	
Rent expense	1,200	
Total expenses		5,000
Net income for month		$5,500

Recommendation: **Barlow's criteria for remaining in operation was to earn net income of $5,000. His actual result was just over this goal. Yes, I would recommend that he stay in business.**

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(20-30 min.) Decision Case 2

Little Italy, Inc.
Income Statement
Month Ended December 31, 2016

Sales revenue	$42,000
Expenses:	
Cost of sales (expense)	22,000
Rent expense	6,000
Advertising expense	5,000
Total expenses	33,000
Net income	$ 9,000

Little Italy, Inc.
Balance Sheet
December 31, 2016

ASSETS		LIABILITIES	
Cash	$ 12,000	Accounts payable	$ 8,000
Food inventory	5,000	STOCKHOLDERS' EQUITY	
Furniture	10,000	Common stock	10,000
		Retained earnings	9,000*
		Total stockholders' equity	19,000
Total assets	$27,000	Total liabilities and stockholders' equity	$27,000

*Must solve for this amount. It is also the amount of net income, which is the only change in retained earnings for the month.

Recommendation: Do not expand this month. The business falls short of the goals for both net income and total assets. However, Little Italy, Inc. appears to be profitable, and assets are building toward Gardner's goals. Maybe next month.

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Ethical Issue 1

1. The ethical issue is whether these alternatives of financing the business are proper from an economic, legal, and ethical standpoint.
2. The stakeholders are Scruffy Murphy, the bank, potential new and existing creditors, and the friend who may become a stockholder. Consequences to the creditors are the inability of the company to pay interest and the loan. Consequences to the investors are the inability of the company to pay dividends and the possibility of loss of investment if the company goes bankrupt.
3.

Option 1:	Cash	200,000	
	Common Stock.....		200,000
Option 2:	Land	200,000	
	Common Stock.....		200,000
	Common Stock	200,000	
	Land.....		200,000

Option 1 is economically sound, perfectly legal, and also ethical because the sale of the stock is a valid transaction between the business and a stockholder. The consequences of this decision are that Murphy obtains additional financing at a cost (he now shares ownership of the business with his friend). The friend gives up cash in exchange for an ownership interest in the business. The bank and future creditors obtain complete and truthful disclosure of the manner in which the business has been financed.

Option 2 represents "window dressing" (making the company look like an entity that it is not). Although it might be legal in the strictest sense of the word (and it might not), this option does not faithfully represent economic reality. Thus, it is not in accordance with GAAP, which is a substitute for the legal criterion. This option is also unethical because the receipt of the land by the business is not a real transaction. The transfer of the land back to

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Murphy means that the business never actually has the land for its use. It violates the rights of the bank and future creditors to give them information that is inaccurate and that does not faithfully represent economic reality.

4. **The best option to take is definitely Option 1. The decision maker can walk away from this transaction confident that he or she told the truth.**

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Ethical Issue 2

Part a.

1. The ethical issue is whether you should question your grade, which is higher than you expected. Your choices are (a) discuss the grade with the professor; and (b) do not discuss the grade with the professor.

2, 3. Stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead to a downward adjustment. While this could possibly have adverse economic consequences (i.e., perhaps loss of scholarship if the grade is substantially lowered), it is unlikely that a letter-grade drop in one course would have such an impact on grade point average as to cause loss of a scholarship. There is no legal consequence to reporting a grade that is too high. The ethical consequence is generally positive on all concerned, as it leads to clarification of the true grade.

4. Student opinions will vary on this part.

Part b.

1. The ethical issue in this case is whether you should question your grade, which is now lower than you expected. Your choices are (a) discuss the grade with the professor; and (b) do not discuss the grade with the professor.

2, 3. Like part a, the stakeholders are you, the professor, the other students in the class, and the university. The possible consequences to you of discussing the grade with the professor is that it may lead to the discovery that the professor made a mistake in calculating the grade, which may lead

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to an upward adjustment. This could have positive economic consequences (i.e., perhaps keeping a scholarship). Like part a, the ethical consequence of this action is generally positive on all concerned, as it leads to clarification of the true grade.

4. Most students would probably respond "take it to the professor." But shouldn't we be just as concerned about knowing the true grade either way? The author recommends discussing the grade with the professor one way or the other.

Part c.

Both course grades and financial statements report results that people use in order to make decisions that can carry both positive and negative consequences. In both situations, it is important that the user receive relevant information, and that the information faithfully represent facts as they actually occurred.

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Focus on Financials: Apple Inc.

(20-30 min.)

Reqs. 1 and 3

(All amounts in millions)

Cash

	0		
b.	178,437	e.	104,776
g.	980	f.	18,034
i.	1,382	h.	13,973
		j.	4,027
	39,989		

Inventories

	1,764	d.	112,258
c.	112,605		
	2,111		

Property, Plant and Equipment, net

	16,597		
j.	4,027		
	20,624		

Cost of Sales

d.	112,258		
	112,258		

Other Income/(Expense), net

		g.	980
			980

Accounts Receivable, net

	13,102	b.	178,437
a.	182,795		
	17,460		

Other Assets

	5,146		
		i.	1,382
	3,764		

Accounts Payable

e.	104,776		22,367
		c.	112,605
			30,196

Net Sales

		a.	182,795
			182,795

Operating Expenses

f.	18,034		
	18,034		

Provision for Income Taxes

h.	13,973		
	13,973		

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Req. 2

		(Millions)	
a.	Accounts Receivable, net	182,795	
	Net Sales (Revenue)		182,795
b.	Cash	178,437	
	Accounts Receivable, net		178,437
c.	Inventories	112,605	
	Accounts Payable		112,605
d.	Cost of Sales	112,258	
	Inventories		112,258
e.	Accounts Payable	104,776	
	Cash		104,776
f.	Operating Expenses	18,034	
	Cash		18,034
g.	Cash	980	
	Other Income/(Expense), net		980
h.	Provision for Income Taxes	13,973	
	Cash		13,973
i.	Cash	1,382	
	Other Assets		1,382
j.	Property, Plant, and Equipment, net	4,027	
	Cash		4,027

Req. 4

All the selected account balances agree with Apple Inc.'s actual figures on the income statement or the balance sheet.

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Req. 5

Revenue:	*(Millions)*	
Net sales	**$182,795**	
Other Income/(Expense), net	**980**	
Total revenue		**183,775**
Expenses:		
Cost of sales	**$112,258**	
Operating expenses	**18,034**	
Provision for income taxes	**13,973**	
Total expenses		**144,265**
Net Income		**$ 39,510**

The net income of $39,510 million equals the net income reported on Apple's income statement.

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Focus on Analysis: Under Armour, Inc.

(20-30 min.)

Req. 1

During fiscal 2014, Under Armour, Inc. had more net revenues than cash collections. This is determined by analyzing net receivables, as follows:

Net receivables:

		(Thousands)
	Balance at the end of fiscal 2013	$ 209,952
+	Net revenues during fiscal 2014 (from consolidated statements of income)	3,084,370
−	Collections from customers during fiscal 2014	(X)
=	Balance at the end of fiscal 2014	$ 279,835

Solving for X, collections were $3,014,487 ($209,952 + $3,084,370 – $279,835). Another way to express this relationship is that when accounts receivable increase during the year, revenues must exceed cash collections. If accounts receivable decrease during the year, cash collections must exceed revenues.

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Req. 2

Net revenues increased 32.26% in 2014, which is better than in 2013 (27.09%) perhaps due to a better strategic alignment. Net income increased more in 2014 (28.16%) than in 2013 (26.05%). Net income grew slower than net revenues during the two year period due to a larger tax bill and additional sources of expenses due to expansion. For example, interest expense increased 81.90% in 2014 and selling, general and administrative expenses increased 32.89% in 2014.

	2014	2013	2012
Net revenues (thousands)	$3,084,370	$2,332,051	$1,834,921
$ change	752,319	497,130	
Percentage change	32.26%	27.09%	
Net income (thousands)	$208,042	$162,330	$128,778
$ change	45,712	33,552	
Percentage change	28.16%	26.05%	

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Group Projects

Student responses will vary.

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Chapter 2 - Transaction Analysis

Directed Reading Worksheet

Part I: Explain what a transaction is (LO1)

1. A(n) _____ is any event that has a financial impact on the business and can be measured reliably.

2. What two things must happen for an event to be considered a transaction?

Part II: Define "account," and list and differentiate between different types of accounts (LO2)

3. What is the accounting equation?

4. A(n) _____ is the record of all the changes in a particular asset, liability, or stockholders' equity during a period.

5. What is the definition of an asset?

6. List seven asset accounts that a company is likely to have.

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7. What is the definition of a liability?

8. List the three most common types of liabilities.

9. What is stockholders' equity?

10. What five main types of accounts are in stockholders' equity?

11. What effect does a dividend declaration have on retained earnings?

12. What effect does revenue have on stockholders' equity? What effect do expenses have on stockholders' equity?

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Part III: Show the impact of business transactions on the accounting equation

13. For each item, indicate the impact of that transaction on assets, liabilities, and equity. Assume that all transactions, unless stated otherwise, are in cash.

	Transaction	Assets (increase + or decrease -)	=	Liabilities (increase + or decrease -)	+	Equity (increase + or decrease -)
1.	**Received $50,000 cash and issued stock to the owners**					
2.	**Paid $40,000 cash for land**					
3.	**Bought $3,700 of supplies on account**					
4.	**Received $7,000 cash from customers for service revenue earned**					
5.	**Performed services for customers on account, $3,000**					
6.	**Paid cash expenses: rent, $1,100; employee salary, $1,200; utilities, $400**					
7.	**Paid $1,900 on the account payable created in transaction 3**					
8.	**Major stockholder paid personal funds to remodel home, not a business transaction**					
9.	**Received $1,000 on account**					
10.	**Sold land for cash at the land's cost of $22,000**					
11.	**Declared and paid a dividend of $2,100 to the stockholders**					

14. What line item is carried from the Income Statement to the Statement of Retained Earnings? What line item is carried from the Statement of Retained Earnings to the Balance Sheet?

Part IV: Analyze the impact of business transactions on accounts

15. Describe what it means that accounting is based on a double-entry system?

16. The left side of each t-account is the _____ side, and the right side is the _____ side.

17. Describe how debits and credits affect asset, liability, and stockholders' equity accounts.

18. How do debits and credits affect dividend, expense, and revenue accounts.

Part V: Record (journalize and post) transactions in the books

19. What is the chronological record of transactions that accountants use called?

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20. List the three steps of the journalizing process.

    a. _____

    b. _____

    c. _____

21. The _____ is a grouping of all the T-accounts, with their balances.

22. What does “posting” mean?

23. Post the following transactions to the ledger accounts. Use t-accounts to represent the ledger accounts. (Transactions 1-4 from question 13)

1.	Received $50,000 cash and issued stock to the owners
2.	Paid $40,000 cash for land
3.	Bought $3,700 of supplies on account
4.	Received $7,000 cash from customers for service revenue earned

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Part VI: Construct and use a trial balance

24. Describe a trial balance, including its purpose.

25. What formula could you use to analyze the cash account and compute cash payments for the period if you were unsure of the amount of cash payments?

26. What three strategies could help you detect and correct accounting errors made during the period?
    a. _____
    b. _____
    c. _____

27. What do organizations use to list all of their accounts and account numbers?

28. Describe what an account's "normal balance" means.

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29. Indicate the normal balance for each of the following types of accounts:
    a. Assets
    b. Liabilities
    c. Stockholders' equity – overall
        i. Common stock
        ii. Retained earnings
        iii. Dividends
        iv. Revenues
        v. Expenses

30. What is an advantage of using the four-column account format?

31. On what statement do companies report their results of operations? On what statement do companies report their financial position?

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Chapter 2 - Transaction Analysis

Directed Reading Worksheet Answer Key

Part I: Explain what a transaction is (LO1)

1. Transaction
2. (1) It gives something, and (2) it receives something in return.

Part II: Define "account," and list and differentiate between different types of accounts (LO2)

3. Assets = Liabilities + Stockholders' (Owners') Equity
4. Account
5. Economic resources that provide a future benefit for a business
6. Cash, Accounts receivable, Inventory, Prepaid expenses, Film and television costs, Investments, and Parks, Resorts, and Other Property
7. Liabilities are debt. Amounts owed to other parties (payables).
8. Accounts payable, Notes payable, and Accrued liabilities
9. The owners' claims to the assets of a corporation
10. Common stock, Retained earnings, Dividends, Revenues, and Expenses
11. Dividends decrease retained earnings
12. Expenses decrease stockholders' equity.
    Revenues increase stockholders' equity.

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13.

	Transaction	Assets (increase + or decrease -)	=	Liabilities (increase + or decrease -)	+	Equity (increase + or decrease -)
1.	**Received $50,000 cash and issued stock to the owners**	50,000	=		+	50,000
2.	**Paid $40,000 cash for land**	(40,000) +40,000	=		+	
3.	**Bought $3,700 of supplies on account**	3,700	=	3,700	+	
4.	**Received $7,000 cash from customers for service revenue earned**	7,000	=		+	7,000
5.	**Performed services for customers on account, $3,000**	3,000	=		+	3,000
6.	**Paid cash expenses: rent, $1,100; employee salary, $1,200; utilities, $400**	(2,700)	=		+	(2,700)
7.	**Paid $1,900 on the account payable created in transaction 3**	(1,900)	=	(1,900)	+	
8.	**Major stockholder paid personal funds to remodel home, not a business transaction**	N/A	=	N/A	+	N/A
9.	**Received $1,000 on account**	+1,000 (1,000)	=		+	
10.	**Sold land for cash at the land's cost of $22,000**	+22,000 (22,000)	=		+	
11.	**Declared and paid a dividend of $2,100 to the stockholders**	(2,100)	=		+	(2,100)

14. Net income

    Ending retained earnings

Part IV: Analyze the impact of business transactions on accounts

15. The dual effects of each transaction are always recorded. Every transaction affects at least two accounts.
16. Debit; credit
17. Debits increase assets and decrease liabilities and stockholders' equity. Credits decrease assets and increase liabilities and stockholders' equity.
18. Debits increase dividends and expenses but decrease revenues. Credits decrease dividends and expenses but increase revenues.

Part V: Record (journalize and post) transactions in the books

19. Journal
20. a. Specify each account affected by the transaction and classify each account by type.

    b. Determine whether each account is increased or decreased by the transaction. Use the rules of debit and credit to increase or decrease each account.

    c. Record the transaction in the journal, including a brief explanation. The debit side in entered on the left margin, and the credit side is indented to the right.
21. Ledger
22. Posting means to copy data (amounts) from the journal to the ledger.
23.

Cash		Common Stock		Land		Service Revenue	
(1) 50,000	(2) 40,000		(1) 50,000	(2) 40,000			(4) 7,000
(4) 7,000							

Supplies		Accounts Payable	
(3) 3,700			(3) 3,700

Part VI: Construct and use a trial balance

24. A trial balance lists all of the accounts with their balances. It starts with assets, then liabilities and stockholders' equity. The trial balance summarizes all the account balances and shows whether total debits equal total credits. The trial balance facilitates in the preparation of the financial statements.
25. Cash payments = Beginning balance + Cash receipts – Ending balance
26. a. Search the records for a missing account.

    b. Divide the out-of-balance amount by 2.

    c. Divide the out-of-balance amount by 9.
27. Chart of accounts
28. Normal balance is the side of the account where increases are recorded. In order to increase an asset, you debit it, therefore assets have a normal debit balance.
29. Normal balances:
    a. Assets – **debit**
    b. Liabilities – **credit**
    c. Stockholders' equity – overall – **credit**
        i. Common stock – **credit**
        ii. Retained earnings – **credit**
        iii. Dividends – **debit**
        iv. Revenues – **credit**
        v. Expenses – **debit**
30. It keeps a running balance in the two right columns.
31. Results of operations are reported on the income statement, while the company's financial position can be found on the balance sheet.

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Chapter 2: Transaction Analysis

Learning Objectives

1. **Explain** what a transaction is
2. **Define** "account" and **list** and **differentiate** between different types of accounts
3. **Show** the impact of business transactions on the accounting equation
4. **Analyze** the impact of business transactions on accounts
5. **Record** (journalize and post) transactions in the books
6. **Construct and use** a trial balance

Chapter 2 Outline

I. A Business Transaction
   - A. Any event that has a financial impact on the business and can be measured reliably
   - B. Giving something
   - C. Receiving something in return

II. Account
   - A. Record of all the changes in a particular asset, liability, or stockholders' equity during a period
   - B. Categories
     1. Assets (Examples: Cash, Accounts Receivable, Inventory)
     2. Liabilities (Examples: Accounts Payable, Notes Payable, Accrued Liabilities)
     3. Stockholders' (Owners') Equity (Examples: Common Stock, Retained Earnings, Dividends, Revenues, Expenses)

III. Transaction Examples
   - A. Impact on the accounting equation (the equation always stays in balance)
   - B. Impact on the financial statements

IV. Impact of Business Transactions on Accounts
   - A. Double-entry accounting system
   - B. T-account:

ACCOUNT TITLE

Debit	Credit

     1. Debit – "left or left-hand side"
     2. Credit – "right or right-hand side"
   - C. Rules of debit and credit

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1. Debit – Increases in assets, expenses, and dividends; decreases in liabilities, stockholders' equity, and revenues
2. Credit – Increases in liabilities, stockholders' equity, and revenues; decreases in assets, expenses, and dividends

D. Balance = amount remaining in an account

E. Revenues (Examples: Sales Revenue, Legal Fees Earned, Service Revenue)

F. Expenses (Examples: Cost of Goods Sold, Salaries Expense, Utilities Expense)

V. Record Transactions in the Books

A. Journal – A chronological record of transactions

B. Journalizing example:

Account and Explanation	Debit	Credit
Cash	50,000	
Common Stock		50,000
Issued common stock		

C. Ledger – Grouping of all the T-accounts, with their balances

D. Posting – Data must be copied from the journal to the ledger

E. Posting example:

Account and Explanation	Debit	Credit
Cash	50,000	
Common Stock		50,000
Issued common stock		

Cash	
50,000	

Common Stock	
	50,000

F. Flow of accounting data

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VI. Construct and Use a Trial Balance

A. Analyzing accounts

B. Correcting accounting errors

C. Chart of accounts

D. Normal account balances:

Account Type	Normal Balance	Increase	Decrease
Asset	**Debit**	**Debit**	**Credit**
Liability	**Credit**	**Credit**	**Debit**
Stockholders' Equity	**Credit**	**Credit**	**Debit**
Revenue	**Credit**	**Credit**	**Debit**
Expense	**Debit**	**Debit**	**Credit**
Common Stock	**Credit**	**Credit**	**Debit**
Retained Earnings	**Credit**	**Credit**	**Debit**
Dividends	**Debit**	**Debit**	**Credit**

E. Account formats

F. How to analyze transactions from T-accounts

Chapter Activities

1. Chapter Opener

Chapter 2 spotlight continues with the Walt Disney Company discussion from Chapter 1 and discusses the sources of some of the millions of transactions that Disney records each year, resulting in billions of dollars of revenues. Throughout the chapter, references are made to the accounts and transactions that Disney reports in their financial statements. Again, have the students review the Walt Disney website at https://thewaltdisneycompany.com, and study the financial statements, focusing on the consolidated statements of income (found in the annual report), and discuss what items might make up the company's revenues. Additionally, discuss the items that could be included in the expense figures for Disney. This could lead to a discussion about how a company determines its net income or net loss.

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2. Transactions Activity

Use the game Monopoly as an example of a business that would engage in transactions for a particular period. Examples of transactions that a player of the game might encounter include:

1) Receive $1,500 in cash to be used as capital investment
2) Bank pays you a dividend of $50
3) Purchase Park Place for $35
4) Pay poor tax of $15
5) Purchase house for property on Park Place for $200
6) Pay rent on Baltic Avenue of $4
7) Receive for services $25
8) From sale of common stock, you get $45
9) Pay school tax of $150
10) Collect rent on Park Place of $175
11) Pay rent on Pennsylvania Railroad of $25
12) Pay Water Works $60
13) Mortgage Park Place for $175

Place the students into groups and use the chart of accounts below. Have the students put each of the transactions in journal entry form.

Cash
Dividend Revenue
Common Stock
House
Investment Revenue
Land
Mortgage Payable
Rent Expense
Rent Revenue
Tax Expense
Service Revenue
Utilities Expense

<u>Difficult Topics</u>

- Rules of debit and credit

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Answer Key to Chapter 2 Quiz (Quiz on following pages)

1. A
2. C
3. C
4. B
5. D
6. B
7. A
8. B
9. D
10. C

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Name_____ Date_____
Section_____

CHAPTER 2
10-MINUTE QUIZ

Circle the letter of the best response.

1. Which of the following accounts is decreased with a credit?
   A. Accounts Receivable
   B. Accounts Payable
   C. Rent Revenue
   D. Service Revenue

2. The ledger is:
   A. Always expected to have a debit balance.
   B. An event that has an economic impact on the business.
   C. A grouping of all T-accounts, with their balances.
   D. None of the above

3. The journal is:
   A. A listing of all open accounts and their balances.
   B. A listing of all accounts used to record the business transactions.
   C. A chronological record of transactions.
   D. Not necessary to record transactions.

4. Which of the following accounts is decreased with a debit?
   A. Equipment
   B. Accounts Payable
   C. Cash
   D. Payroll Expense

5. The Spartain Company received $3,600 from a customer on account. The entry to record this transaction is:

A. Accounts Receivable	3,600	
Cash		3,600
B. Cash	3,600	
Accounts Payable		3,600
C. Revenue	3,600	
Cash		3,600
D. Cash	3,600	
Accounts Receivable		3,600

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6. In analyzing a transaction using the accounting equation, which account is included in the Stockholders' Equity section?
   A. Accounts Payable
   B. Revenue
   C. Accounts Receivable
   D. Cash

7. Cash at the beginning of March was $5,670. During the month, cash receipts totaled $78,990. Ending cash at March 31 was $2,340. Cash disbursements during March must have been:
   A. $82,320
   B. $84,660
   C. $75,660
   D. Cannot be determined from the information given.

8. A trial balance:
   A. Requires that every transaction affect at least two accounts.
   B. Lists all accounts with their balances.
   C. Mandates that the dollar sum of the debits equal that of the credits for each transaction.
   D. None of the above

9. When a company sells merchandise, but the customer does not pay it immediately, it should:
   A. Credit Accounts Payable.
   B. Make no entry.
   C. Credit Accounts Receivable.
   D. Debit Accounts Receivable.

10. An expense:
   A. Has the same normal balance as liabilities.
   B. Is the decrease in liabilities as a result of providing goods or services.
   C. Is the decrease in stockholders' equity as a result of providing goods or services.
   D. Is the increase in stockholders' equity as a result of providing goods or service

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Chapter 2: Questions You Should Be Able To Answer

Learning Objective	Question(s)	Answer	For practice
1. Explain what a transaction is	What is a business transaction?	A **transaction** is any event that has a financial impact on the business and can be measured reliably.	S2-1 S2-9
2. Define "account," and list and differentiate between different types of accounts	• What is an account?	• An account, the basic summary device of accounting, is the record of all the changes in a particular asset, liability, or stockholders' equity during a period.	S2-3
	• Describe the following accounts: 1. Assets 2. Liabilities 3. Stockholders' equity 4. Revenues 5. Expenses 6. Dividends	1. Economic resources that provide a future benefit for a business. 2. Debts of the business, due in cash or goods/services, 3. The owners' claims to the assets of the corporation, including common stock and retained earnings. 4. Increases in stockholders' equity that result from delivering goods or services to customers. 5. Decreases in stockholders' equity that result from costs of operating a business. 6. Distributions to shareholders, usually in cash, from profitable operations; dividends decrease retained earnings.	S2-2 S2-4

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Learning Objective	Question(s)	Answer	For practice
3. Show the impact of business transactions on the accounting equation			S2-5 S2-6
4. Analyze the impact of business transactions on accounts	What is the double-entry system of accounting?	Every transaction affects at least two accounts.	S2-7 S2-8 S2-9
	What is a T-account?	The letter, T; the name of the account is written on the top. Debit entries are on the left side with credit entries on the right side of the T-account.	
	• What are the rules of debit and credit?	• Assets increase with a debit and decrease with a credit. • Liabilities and stockholders' equity increase with a credit and decrease with a debit. (Note that the rules are the opposite on opposite sides of the accounting equation.) • Revenues increase with a credit and expenses increase with a debit. • Dividends increase with a debit. (Note that revenues increase retained earnings and expenses and dividends decrease retained earnings.)	

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Learning Objective	Question(s)	Answer	For practice
5. Record (journalize and post) transactions in the books	What is a journal?	A chronological record of business transactions; the first place a transaction is recorded.	S2-10 S2-11, S2-12, S2-13
	What is the ledger?	A grouping of the T-accounts, along with their balances.	
	What occurs during posting?	Transactions are posted or copied from the journal to the ledger (always in that order). A balance is calculated for each account in the ledger.	
6. Construct and use a trial balance	What is a trial balance?	A list of all accounts with their balances—assets first, then liabilities and stockholders' equity (including revenue and expense accounts). Account balances are listed in either the debit column or the credit column, and the columns are totaled. They should be equal.	S2-14 S2-15 S2-16
	What does a trial balance prove?	That equal debits and credits have been recorded.	
	How can the trial balance be used?	To facilitate preparation of financial statements (although they will be more accurate after adjusting entries are added in the next chapter).	
	How can accounting errors be detected?	1. Search for missing amounts. 2. If the two columns of the trial balance are not equal, search for an entry of that amount. 3. Divided the difference between the two columns by 9 to determine if there is a slide or transposition error.	
Ethics Check			EC-1

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Learning Objective	Question(s)	Answer	For practice
6. Construct and use a trial balance (continued)	• How can the trial balance be used?	• To facilitate preparation of financial statements (although they will be more accurate after adjusting entries are added in the next chapter)	
	• How can accounting errors be detected?	• Search for missing amounts • If the two columns of the trial balance are not equal, search for an entry of that amount • Divide the difference between the two columns by 9 to determine if there is a slide or transposition error	
Ethics Check			EC2-1

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Chapter 2: Assignment Grid

					(Will have an X if available)		
Assignment	**Topic(s)**	**L.O.**	**Estimated Time (minutes)**	**Level of Difficulty**	**Excel Templates**	**QuickBook Templates**	**General Ledger Templates**
S2-1	Explain what a transaction is	1	5	Easy			
S2-2	Differentiate between different types of accounts	2	5	Easy			
S2-3	Define accounting terms	2	10	Easy			
S2-4	Differentiate between different types of accounts	2	5	Easy			
S2-5	Show the impact of transactions on the accounting equation	3	5	Easy			
S2-6	Show the impact of transactions on the accounting equation	3	5	Medium			
S2-7	Analyze the impact of business transactions on accounts	4	5	Easy			
S2-8	Analyze the impact of business transactions on accounts	4	5-10	Easy			
S2-9	Analyze the impact of business transactions on accounts	4	5-10	Easy			
S2-10	Record (journalize) transactions	5	10	Medium		X	
S2-11	Record (journalize and post) transactions in the books	5	10-15	Easy			
S2-12	Record (journalize and post) transactions in the books	5	10-15	Easy			
S2-13	Record (journalize) transactions	5	15-20	Medium			
S2-14	Construct and use a trial balance	6	10	Medium			
S2-15	Use a trial balance	6	10	Easy			
S2-16	Use a trial balance	6	10	Medium			

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					(Will have an X if available)		
Assignment	**Topic(s)**	**L.O.**	**Estimated Time (minutes)**	**Level of Difficulty**	**Excel Templates**	**QuickBook Templates**	**General Ledger Templates**
E2-17A	Explain what a transaction is; analyze the impact of transactions on accounts	1,4	10-15	Easy			
E2-18A	Analyze the impact of business transactions on accounts	4	10-15	Easy			
E2-19A	Show the impact of business transactions on the accounting equation	3	15-20	Medium			
E2-20A	Record (journalize) transactions in the books	5	10-15	Medium		X	X
E2-21A	Analyze the impact of business transactions on accounts; record (post) transactions in the books; construct and use a trial balance	4,5,6	20-30	Medium			
E2-22A	Explain what a transaction is; analyze the impact of business transactions on the accounts; record (journalize) transactions	1,4,5	10-15	Medium			
E2-23A	Construct and use a trial balance	6	10-20	Medium	X		
E2-24A	Construct and use a trial balance	6	15-25	Medium	X		
E2-25A	Analyze the impact of business transactions on accounts	4	10-15	Medium			
E2-26A	Construct and use a trial balance	6	15-20	Medium			
E2-27A	Construct and use a trial balance	6	15-20	Medium			
E2-28B	Explain what a transaction is; analyze the impact of transactions on accounts	1,4	10-15	Easy			
E2-29B	Analyze the impact of transactions on accounts	4	10-15	Easy			
E2-30B	Show the impact of business transactions on the accounting equation	3	15-20	Medium			
E2-31B	Record (journalize) transactions in the books	5	10-15	Medium			

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					(Will have an X if available)		
Assignment	**Topic(s)**	**L.O.**	**Estimated Time (minutes)**	**Level of Difficulty**	**Excel Templates**	**QuickBook Templates**	**General Ledger Templates**
E2-32B	Analyze the impact of business transactions on accounts; record (post) transactions in the books; construct and use a trial balance	4,5,6	20-30	Medium			
E2-33B	Explain what a transaction is; analyze the impact of business transactions on accounts; record (journalize) transactions in the books	1,4,5	10-15	Medium			
E2-34B	Construct and use a trial balance	6	10-20	Medium			
E2-35B	Construct and use a trial balance	6	15-25	Medium			
E2-36B	Analyze the impact of business transactions on accounts	4	10-15	Medium			
E2-37B	Construct and use a trial balance	6	15-20	Medium			
E2-38B	Construct and use a trial balance	6	15-20	Medium			
E2-39	Explain what a transaction is; analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books; construct and use a trial balance	1,4, 5,6	20-30	Medium			
Q2-40 to Q2-59	Quiz questions	All	30-50	Medium			
P2-60A	Construct and use a trial balance	6	15-30	Medium			
P2-61A	Show the impact of business transactions on the accounting equation; analyze the impact of business transactions on accounts	3,4	45-60	Medium			
P2-62A	Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books	4,5	30-40	Medium		X	

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					(Will have an X if available)		
Assignment	**Topic(s)**	**L.O.**	**Estimated Time (minutes)**	**Level of Difficulty**	**Excel Templates**	**QuickBook Templates**	**General Ledger Templates**
P2-63A	Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books; construct and use a trial balance	4,5,6	50-60	Medium		X	X
P2-64A	Analyze the impact of business transactions on accounts; construct and use a trial balance	4,6	40-50	Medium			
P2-65B	Construct and use a trial balance	6	15-30	Medium			
P2-66B	Show the impact of business transactions on the accounting equation; analyze the impact of business transactions on accounts	3,4	45-60	Medium			
P2-67B	Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books	4,5	30-40	Medium			
P2-68B	Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books; construct and use a trial balance	4,5,6	50-60	Medium	X		
P2-69B	Analyze the impact of business transactions on accounts; construct and use a trial balance	4,6	40-50	Medium			
E2-70	Analyze the impact of business transactions on accounts	4	20-40	Difficult			
E2-71	Analyze the impact of business transactions on accounts; construct and use a trial balance	4,6	20-30	Medium			
E2-72	Analyze the impact of business transactions on account	4	10-15	Medium			

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					(Will have an X if available)		
Assignment	**Topic(s)**	**L.O.**	**Estimated Time (minutes)**	**Level of Difficulty**	**Excel Templates**	**QuickBook Templates**	**General Ledger Templates**
P2-73	Show the impact of business transactions; analyze the impact of errors and compute correct amounts; record (journalize and post) transaction in the books	3,4,5	20-30	Difficult			
Decision Case 1	Analyze the impact of transactions on business accounts; construct and use a trial balance; measure net income or loss; decide whether to continue a business	4,6	40-50	Medium			
Decision Case 2	Analyze the impact of transactions on business accounts; correct erroneous financial statements; decide whether to expand a business	4	20-30	Medium			
Ethical Issue 1	Scruffy's Bar	All	20-30	Medium			
Ethical Issue 2	Academic Honesty	All	20	Medium			
Focus on Financials–Apple Inc.	Record transactions; compute net income	3,4	20-30	Medium			
Focus on Analysis–Under Armour, Inc.	Analyze financial statements	4	20-30	Medium			
Group Project 1	Rock Concert	All	45-60	Difficult			
Group Project 2	Local Business	All	45-60	Difficult			

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Chapter 2: Locating an annual report/Form 10-K

Initial posting

In this discussion, you will use information you find in a company's Form 10-K, which is the annual report that publicly-held companies file with the Securities & Exchange Commission (SEC.)

The first thing you need to do is find a recent 10-K (issued within the past twelve months) for a publicly-held company in which you are interested.

To find a Form 10-K, you will use the SEC Edgar database. Search online for "SEC Edgar." If you know what company you are interested in, you might also be able to go to that company's Investor Relations website and locate its Form 10-K there. You can also view a short video about how to locate a Form 10-K on the SEC EDGAR site at http://youtu.be/MPgvGua9-RM.

In your first posting for this discussion, describe the company you selected for the Form 10-K. Give the company's full official name. Give the URL for the direct download of the company's 10-K that you are referencing. You will want to talk about what this company does and the products it sells. What is the company's year end (date)? Also tell why you selected this company. Why does this company interest you? Is this somewhere you might be interested in working at some day? Are you passionate about the company's products?

Your posting should be 100 – 300 words. Do not copy phrases from the Form 10-K; write your post in your own words. You can include information from the financial statements or Note 1 as well. Include one item in your paragraph that you found particularly interesting or surprising. You also need to post (in that same initial posting) a question about something in the 10-K (the parts described above only) that puzzles you; some question you have from reading the parts described.

Follow-up posting

For your follow-up posting(s) for the week (the one(s) due by Saturday), you will reply to someone's question(s). Use your textbook as your reference. Have reasons (facts) behind your answer (please note: Wikipedia is not an appropriate source, nor are many websites you find.) Do try to answer the question and provide rationale for your answer (again, your textbook is the best source in most cases).

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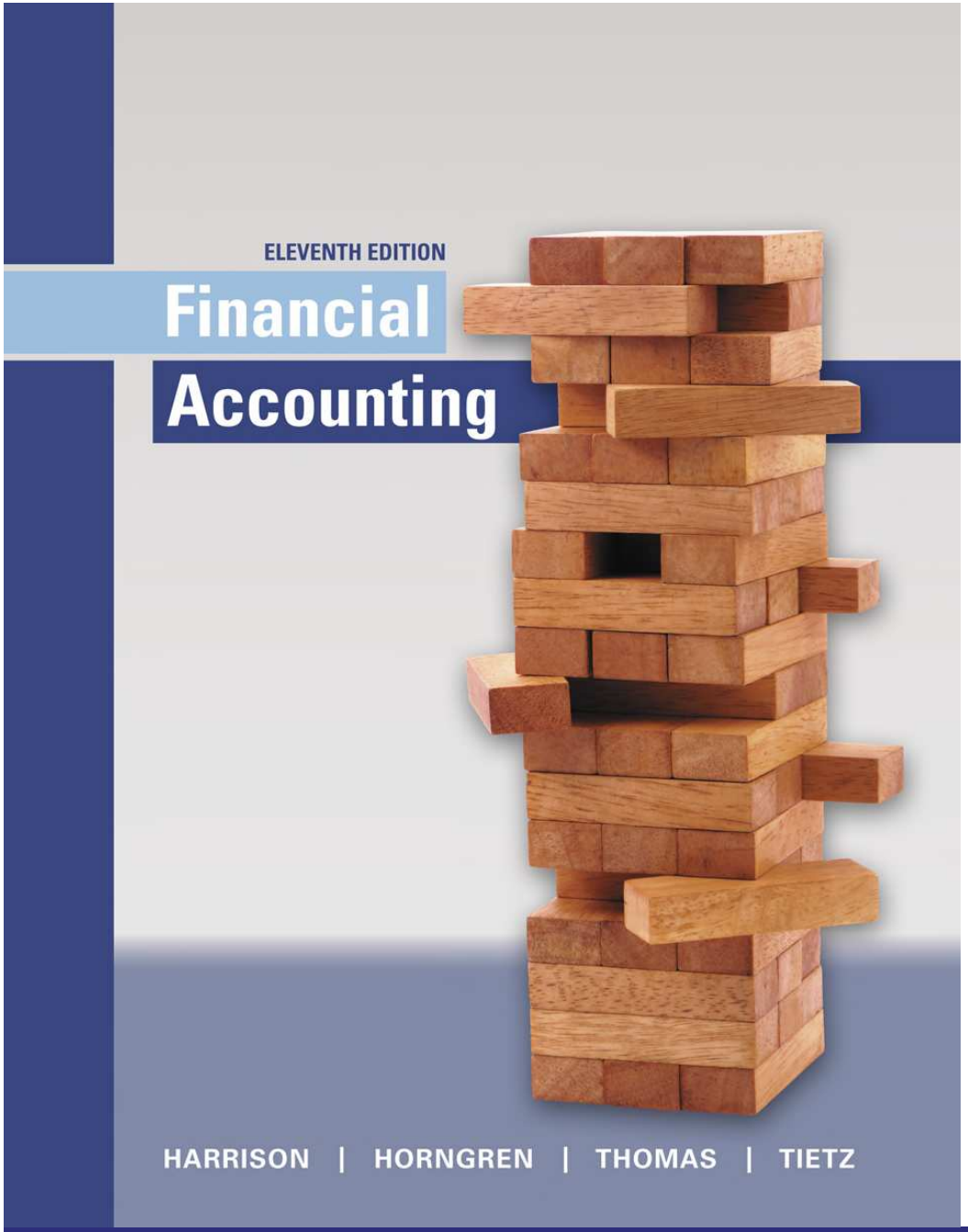

Financial Accounting

Chapter Two: Transaction Analysis

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1 Learning Objectives

1. **Explain** what a transaction is
2. **Define** "account," and **list** and **differentiate** between different types of accounts
3. **Show** the impact of business transactions on the accounting equation
4. **Analyze** the impact of business transactions on accounts
5. **Record** (journalize and post) transactions in the books
6. **Construct and use** a trial balance

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Learning Objective One

Explain what a transaction is

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1 Explain What a Transaction Is

A **transaction** is any event that has a financial impact on the business and can be measured reliably.

- Provides objective information about the financial impact on an exchange
  - Gives something
  - Receives something
- Accounting records both sides of the transaction

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Learning Objective Two

Define “account,” and **list** and **differentiate** between different types of accounts

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2 Define Account

The accounting equation expresses the basic relationship of accounting.

Assets = Liabilities + Stockholders' (Owners') Equity

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2 Define Account

An **account** is the record of all the changes in a particular asset, liability, or stockholders' equity during a period.

- Basic summary device

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2 List and Differentiate Between Different Types of Accounts

Assets: economic resources that provide a future benefit

Cash	Money including bank account balances, paper currency, coins, certificates of deposits, and checks
Accounts Receivable	Promise for future cash for goods or services
Inventory	Goods the company sells to customers

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2 List and Differentiate Between Different Types of Accounts

Assets: economic resources that provide a future benefit

Prepaid Expenses	Expenses paid in advance, such as insurance or rent
Investments	Interests purchased and held in other companies
Property, Plant, and Equipment	Cost of the land, buildings, and equipment owned by a company

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2 List and Differentiate Between Different Types of Accounts

Assets: economic resources that provide a future benefit

Prepaid Expenses	Expenses paid in advance, such as insurance or rent
Investments	Interests purchased and held in other companies
Property, Plant, and Equipment	Cost of the land, buildings, and equipment owned by a company

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2 List and Differentiate Between Different Types of Accounts

Liabilities: a debt or payable

Accounts Payable	Promise to pay a debt
Notes Payable	Signed notes promising to pay a future amount
Accrued Liabilities	Liability for an expense you have not yet paid

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2 List and Differentiate Between Different Types of Accounts

Stockholders' Equity: the stockholders' claims to the assets of the company

Common Stock	Owners' investment in the corporation through stock
Retained Earnings	Cumulative net income minus net losses and dividends over the company's life
Dividends	Distribution of the company's earnings to its shareholders

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2 List and Differentiate Between Different Types of Accounts

Stockholders' Equity: the stockholders' claims to the assets of the company

Revenues	Increase in stockholders' equity from delivering goods or services to customers
Expenses	Decrease in stockholders' equity due to the cost of operating the business

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Learning Objective Three

Show the impact of business transactions on the accounting equation

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3 Show the impact of business transactions on the accounting equation

Example: Alladin Travel, Inc.

To illustrate the accounting for transactions, we will consider 11 transactions and analyze each in terms of its effect on Alladin Travel.

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3 Transaction 1

On, April 1, Starr Williams and a few friends invest $50,000 to open Alladin Travel, Inc., and the business issues common stock to the stockholders.

Assets	=	Liabilities	+	Stockholders' Equity	Type of Stockholders' Equity Transaction
Cash				Common Stock	
(1) + 50,000				+ 50,000	Issued common stock

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3 Transaction 2

Alladin purchases land for a new location and pays cash of $40,000.

	Assets			=	Liabilities +	Stockholders' Equity	Type of Stockholders' Equity Transaction
	Cash	+	Land			Common Stock	
(1)	50,000					50,000	Issued common stock
(2)	− 40,000		+ 40,000				
Bal	10,000		40,000			50,000	
	50,000					50,000	

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Transaction 3

The business buys supplies on account, agreeing to pay $3,700 within 30 days.

	Assets						Liabilities	+	Stockholders' Equity
	Cash	+	Supplies	+	Land	=	Accounts Payable	+	Common Stock
Bal	10,000				40,000				50,000
(3)			+ 3,700				+ 3,700		
Bal	10,000		3,700		40,000		3,700		50,000
	53,700						53,700		

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Transaction 4

Alladin earns $7,000 of service revenue by providing services for customers.

	Assets						Liabilities + Stockholders' Equity					Type of Stockholders' Equity Transaction
	Cash	+	Supplies	+	Land	=	Accounts Payable	+	Common Stock	+	Retained Earnings	
Bal	10,000		3,700		40,000	=	3,700		50,000			
(4)	+ 7,000										+ 7,000	Service revenue
Bal	17,000		3,700		40,000	=	3,700		50,000		7,000	
			60,700			=			60,700			

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Transaction 5

Alladin performs services on account, which means that Alladin lets some customers pay later.

	Assets				=	Liabilities + Stockholders' Equity			Type of Stockholders' Equity Transaction
	Cash +	Accounts Receivable +	Supplies +	Land		Accounts Payable +	Common Stock +	Retained Earnings	
Bal	17,000		3,700	40,000		3,700	50,000	7,000	
(5)		+ 3,000						+ 3,000	Service revenue
Bal	17,000	3,000	3,700	40,000		3,700	50,000	10,000	
	63,700					63,700			

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Transaction 6

During the month, Alladin Travel, Inc., pays $2,700 for the following expenses: rent $1,100; employee salaries, $1,200; and utilities, $400.

	Assets					Liabilities + Stockholders' Equity				Type of Stockholders' Equity Transaction
	Cash	+ Accounts Receivable	+ Supplies	+ Land	=	Accounts Payable	+ Common Stock	+ Retained Earnings		
Bal	17,000	3,000	3,700	40,000		3,700	50,000	10,000		
(6)	− 2,700							− 1,100		Rent expense
								− 1,200		Salary expense
								− 400		Utilities expense
Bal	14,300	3,000	3,700	40,000		3,700	50,000	7,300		
	61,000					61,000				

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Transaction 7

Alladin pays $1,900 on account, which means to make a payment toward an account payable.

	Assets									Liabilities + Stockholders' Equity				
	Cash	+	Accounts Receivable	+	Supplies	+	Land	=		Accounts Payable	+	Common Stock	+	Retained Earnings
Bal	14,300		3,000		3,700		40,000			3,700		50,000		7,300
(7)	− 1,900									− 1,900				
Bal	12,400		3,000		3,700		40,000			1,800		50,000		7,300
	59,100									59,100				

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Transaction 8

Starr Williams, the major stockholder of Alladin Travel, paid $30,000 out of her personal bank account to remodel her home.

No Entry

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Transaction 9

In transaction 5, Alladin performed services for customers on account. The business now collects $1,000 from a customer.

	Assets									Liabilities + Stockholders' Equity				
	Cash	+	Accounts Receivable	+	Supplies	+	Land	=		Accounts Payable	+	Common Stock	+	Retained Earnings
Bal	12,400		3,000		3,700		40,000			1,800		50,000		7,300
(9)	+ 1,000		− 1,000											
Bal	13,400		2,000		3,700		40,000			1,800		50,000		7,300
	59,100									59,100				

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Transaction 10

Alladin sells some land for $22,000, which is the same amount Alladin paid for the land.

	Assets									Liabilities	+	Stockholders' Equity		
	Cash	+	Accounts Receivable	+	Supplies	+	Land	=		Accounts Payable	+	Common Stock	+	Retained Earnings
Bal	13,400		2,000		3,700		40,000	=		1,800		50,000		7,300
(10)	+ 22,000						− 22,000							
Bal	35,400		2,000		3,700		18,000	=		1,800		50,000		7,300
	59,100									59,100				

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Transaction 11

Alladin Travel, Inc., declares a dividend and pays the stockholders $2,100 cash.

	Assets					Liabilities + Stockholders' Equity				Type of Stockholders' Equity Transaction
	Cash	+ Accounts Receivable	+ Supplies	+ Land	=	Accounts Payable	+ Common Stock	+ Retained Earnings		
Bal	35,400	2,000	3,700	18,000	=	1,800	50,000	7,300		
(11)	− 2,100				=			− 2,100		Dividend
Bal	33,300	2,000	3,700	18,000	=	1,800	50,000	5,200		
	57,000				=	57,000				

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Exhibit 2-1 | Transaction Analysis: Alladin Travel, Inc.

A1

	A	B	C	D	E	F	G	H	I	J
1		Assets				=	Liabilities	+ Stockholders' Equity		Type of SE Transaction
2	Trans	Cash	AR	Supplies	Land		AP	C Stock	RE	
3	1	50,000						50,000		Issued common stock
4	2	(40,000)			40,000					
5	3			3,700			3,700			
6	4	7,000							7,000	Service revenue
7	5		3,000						3,000	Service revenue
8	6	(2,700)							(1,100)	Rent expense
9									(1,200)	Salary expense
10									(400)	Utilities expense
11	7	(1,900)					(1,900)			
12	9	1,000	(1,000)							
13	10	22,000			(22,000)					
14	11	(2,100)							(2,100)	Dividend
15	Bal	33,300	2,000	3,700	18,000		1,800	50,000	5,200	
16	Totals		57,000					57,000		
17										

Statement of Cash Flows Data

Income Statement Data

Statement of Retained Earnings Data

Balance Sheet Data

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Exhibit 2-2 | Financial Statements of Alladin Travel, Inc. 1 of 2

A1

	A	B	C	D
1	**Alladin Travel, Inc. Income Statement Month Ended April 30, 2016**			
2	**Revenues**			
3	Service revenue ($7,000 + $3,000)		$ 10,000	
4	**Expenses**			
5	Salary expense	$ 1,200		
6	Rent expense	1,100		
7	Utilities expense	400		
8	Total expenses		2,700	
9	Net income		$ 7,300	

	B	C
1	**Alladin Travel, Inc. Statement of Retained Earnings Month Ended April 30, 2016**	
2	Retained earnings, April 1, 2016	$ 0
3	Add: Net income for the month	7,300
4	Subtotal	7,300
5	Less: Dividends declared	(2,100)
6	Retained earnings, April 30, 2016	$ 5,200
7		

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Exhibit 2-2 | Financial Statements of Alladin Travel, Inc. 2 of 2

A1

	A	B	C
1	**Alladin Travel, Inc. Statement of Retained Earnings Month Ended April 30, 2016**		
2	Retained earnings, April 1, 2016		$ 0
3	Add: Net income for the month		7,300
4	Subtotal		7,300
5	Less: Dividends declared		(2,100)
6	Retained earnings, April 30, 2016		$ 5,200
7			

	A	B	C	D	E
1	**Alladin Travel, Inc. Balance Sheet April 30, 2016**				
2	**Assets**			**Liabilities**	
3	Cash		$ 33,300	Accounts payable	$ 1,800
4	Accounts receivable		2,000	**Stockholders' Equity**	
5	Supplies		3,700	Common stock	50,000
6	Land		18,000	Retained earnings	5,200
7				Total stockholders' equity	55,200
8				Total liabilities and	
9	Total assets		$ 57,000	stockholders' equity	$ 57,000
10					

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Learning Objective Four

Analyze the impact of business transactions on accounts

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4 Analyze the impact of business transactions on accounts

Accounting:

- Double-entry system
- Records dual effects of each transaction
  - At least two accounts in each transaction

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4 Analyze the impact of business transactions on accounts

The T-Account

- Record of increases and decreases in a specific asset, liability, equity, revenue, or expense
- Left side = "Debit"
- Right side = "Credit"

Cash

(Left side)	(Right side)
Debit	*Credit*
Debit = Left side	Credit = Right side

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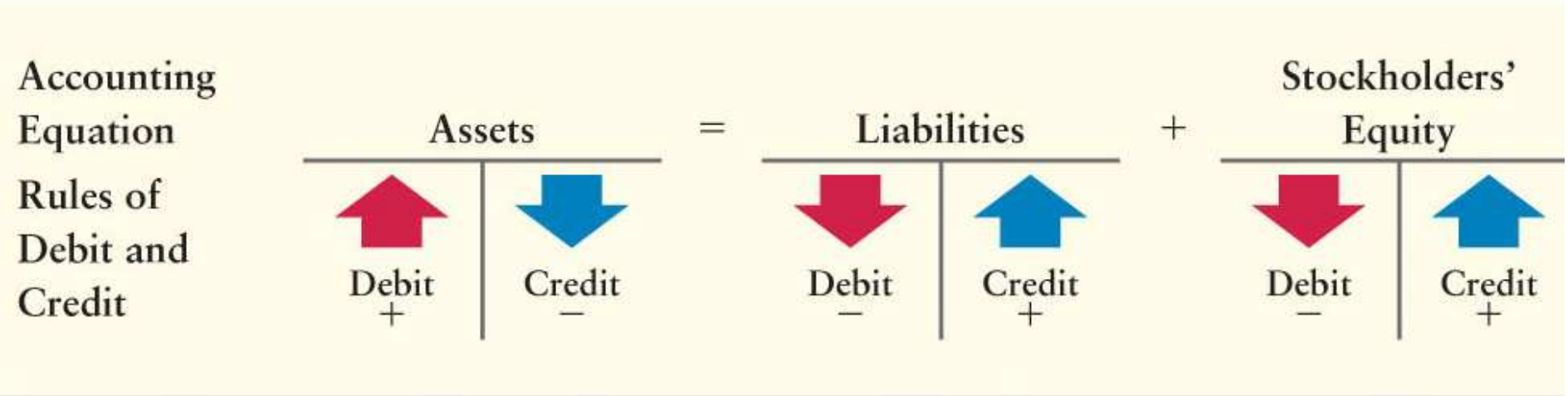
Exhibit 2-3 | Accounting Equation and the Rules of Debit and Credit



The type of account determines how to record increases and decreases.

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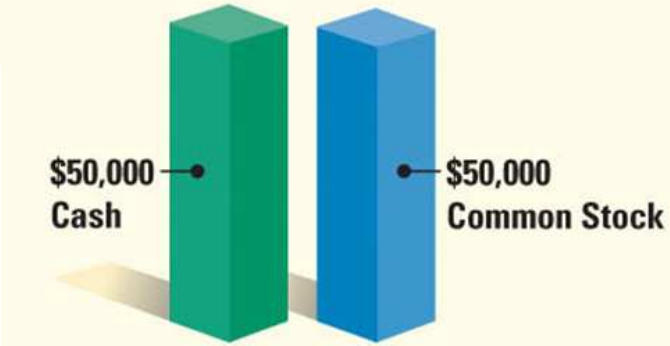
Exhibit 2-4 | The Accounting Equation after Alladin Travel, Inc.'s, First Transaction

Cash	Common Stock
Debit for increase, 50,000	Credit for increase, 50,000



To illustrate, Alladin Travel, Inc., received $50,000 and issued (gave) stock. What is the effect on the accounts?

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Exhibit 2-5 | The Accounting Equation after Alladin Travel, Inc.'s, First Two Transactions

Cash

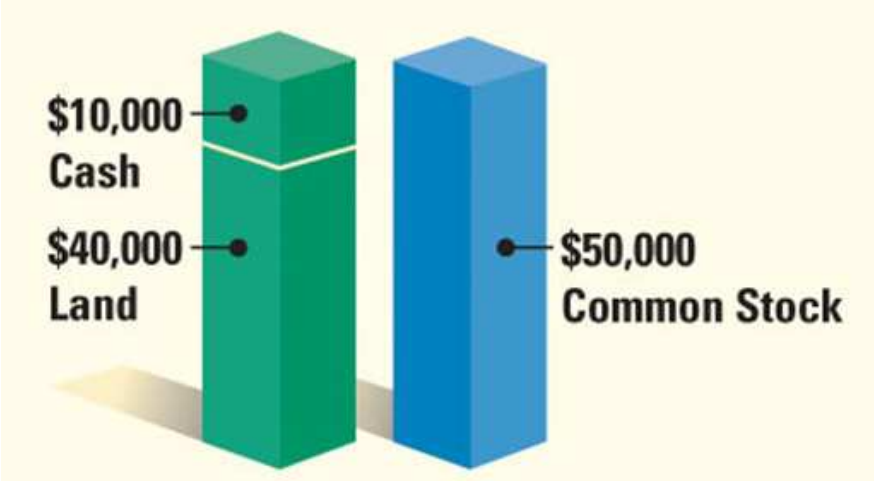
Bal	50,000		Credit for decrease, 40,000
Bal	10,000		

Land

Debit for increase, 40,000			
Bal	40,000		

Common Stock

		Bal	50,000



Alladin's second transaction is a $40,000 cash purchase of land. What is the effect on the accounts?

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4 Additional Stockholders' Equity Accounts: Revenues and Expenses

Two categories of income statement accounts:

- Revenues → increase stockholders' equity

  → result from delivering goods/services

- Expenses → decrease stockholders equity

  → cost of operating the business

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Exhibit 2-6 | Expansion of the Accounting Equation

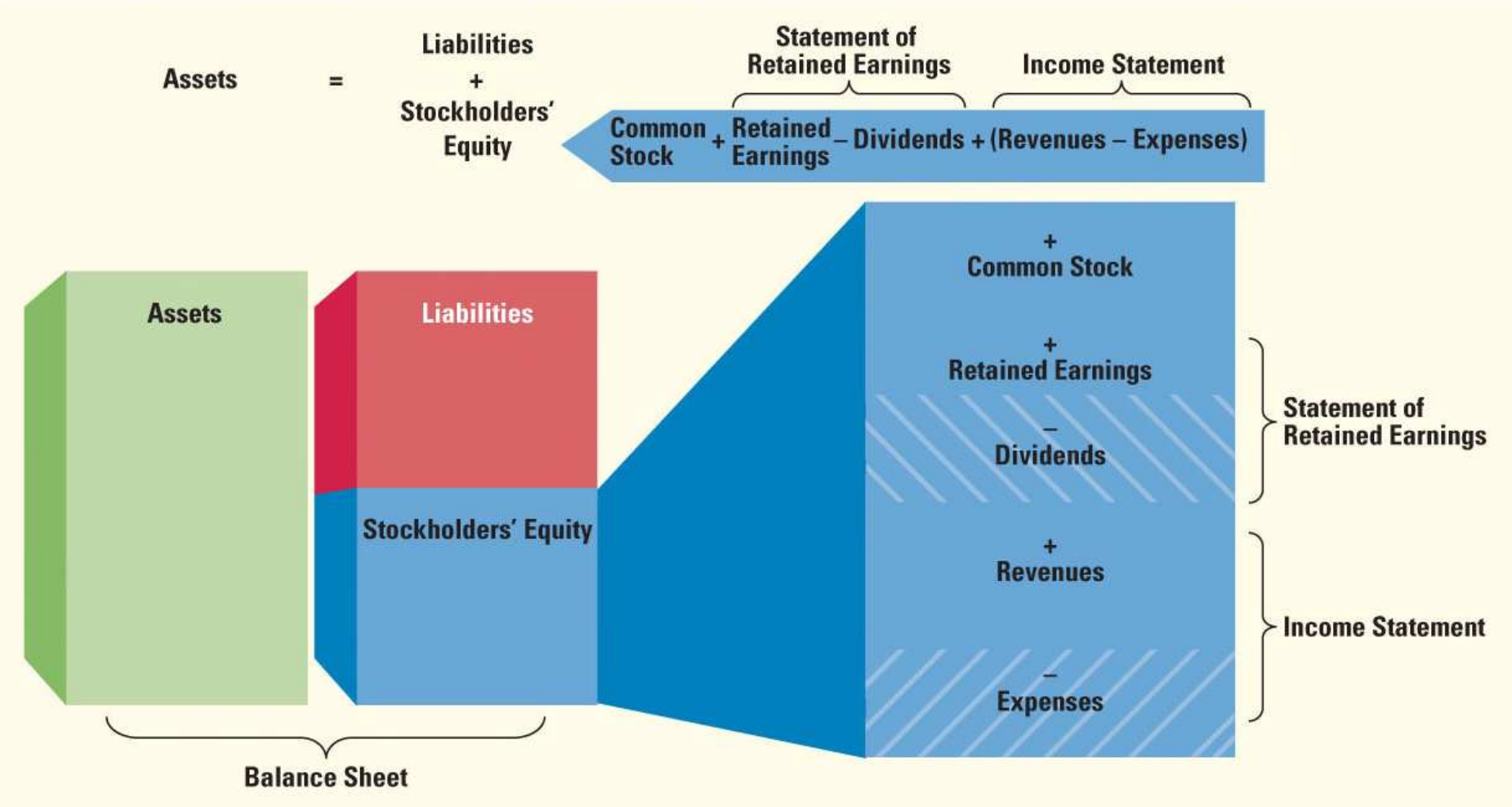

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Exhibit 2-7 | Final Form of the Rules of Debit and Credit

ASSETS	=	LIABILITIES	+	STOCKHOLDERS' EQUITY

Assets		Liabilities		Common Stock		Retained Earnings		Dividends	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
+	−	−	+	−	+	−	+	+	−

Revenues		Expenses	
Debit	Credit	Debit	Credit
−	+	+	−

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Learning Objective Five

Record (journalize and post) transactions in the books

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5 Record (journalize and post) transactions in the books

Journal

- Chronological record of transactions
- Three steps:
  1. Specify each account affected by the transaction and classify by type
  2. Determine if each account is increased or decreased (debit or credit)
  3. Record in the journal

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Financial Accounting 11th edition Harrison Solutions Manual

5 Record (journalize and post) transactions in the books

Steps to journalize the first transaction of Alladin Travel, Inc.

Step 1 Business receives $50,000 cash and issues stock

Step 2 Both Cash and Common Stock increase

Step 3 Journalize the transaction:

A1

	A	B	C	D	E	F
		JOURNAL				
1	Date	Accounts and Explanation	Debit	Credit		
2	Apr 1	Cash	50,000			
3		Common Stock		50,000		
4		*Issued common stock.*				
5						

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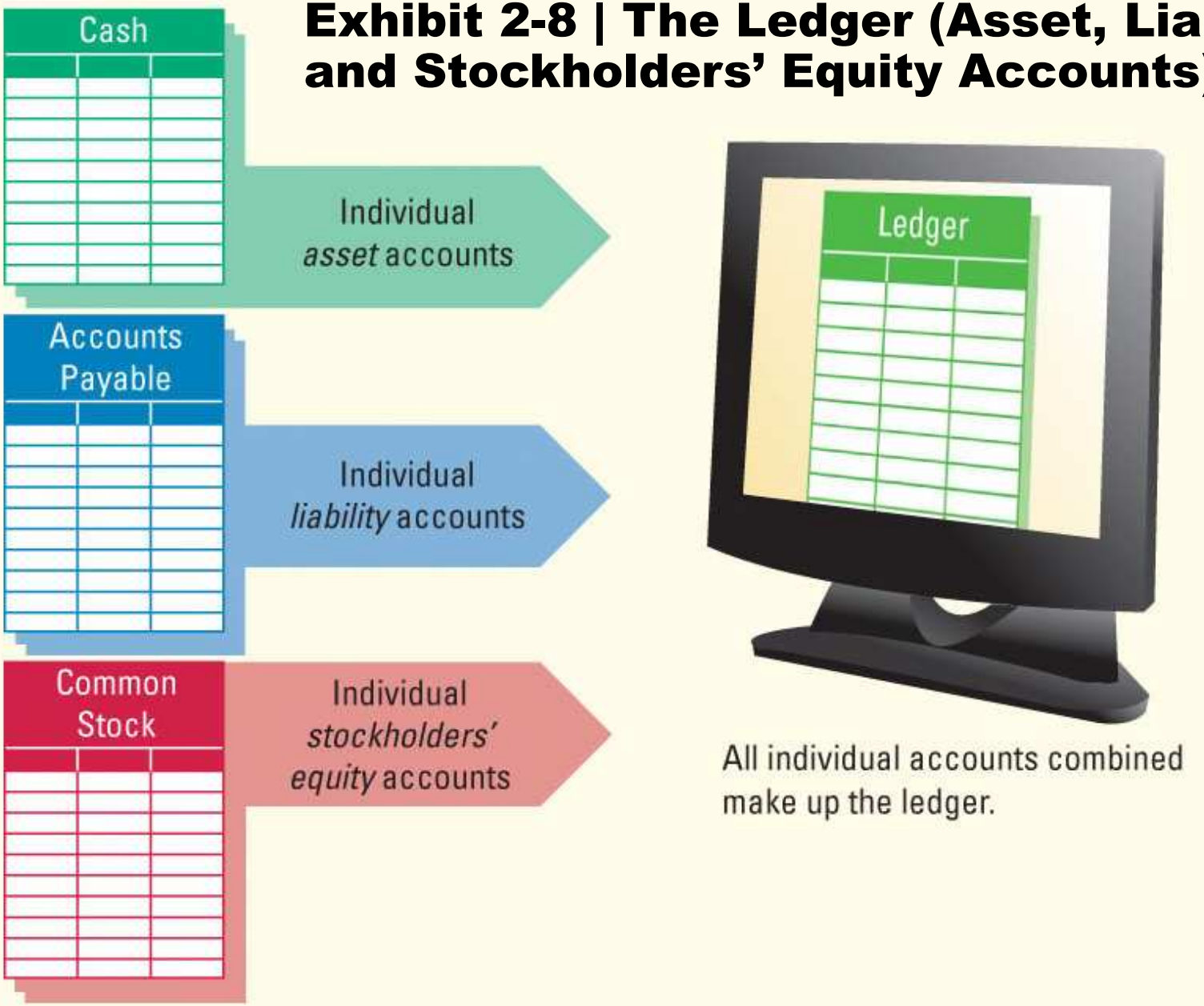
Exhibit 2-8 | The Ledger (Asset, Liability, and Stockholders' Equity Accounts)



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5 Exhibit 2-9 | Journal Entry and Posting to the Accounts

PANEL A—Journal Entry

A1

	A	B	C
1	**Accounts and Explanation**	**Debit**	**Credit**
2	Cash	50,000	
3	Common Stock		50,000
4	*Issued common stock.*		
5			

PANEL B—Posting to the Accounts

Cash	
50,000	

Common Stock	
	50,000

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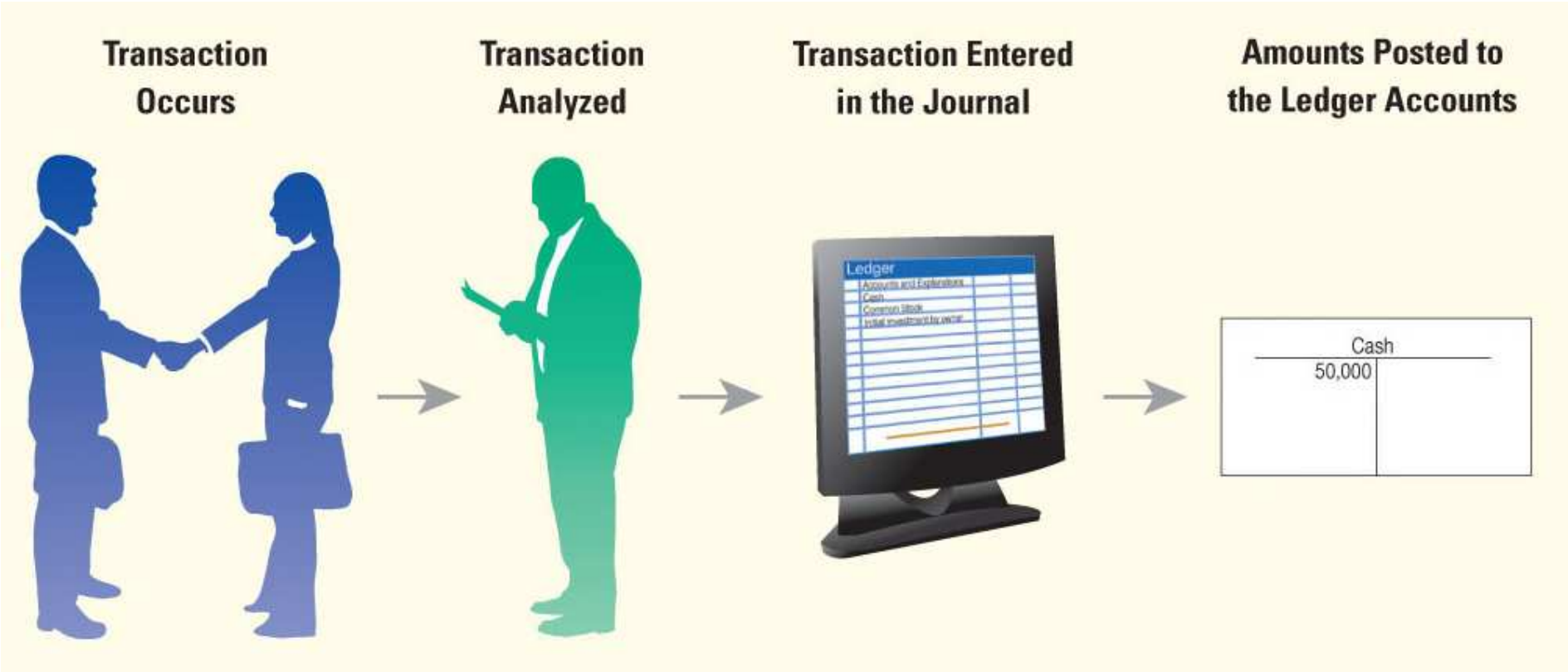
Exhibit 2-10 | Flow of Accounting Data



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5 Transaction 1

(1) Received $50,000 cash and issued stock to the owners

A1

	A	B	C	D	E
1	Cash	50,000			
2	Common Stock		50,000		
3	*Issued common stock.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity
Accounting equation	+50,000	=	0	+	50,000

The ledger accounts

Cash		Common Stock	
(1) 50,000			(1) 50,000

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5 Transaction 2

(2) Paid $40,000 cash for land

A1

	A	B	C	D	E
1	Land	40,000			
2	Cash		40,000		
3	*Paid cash for land.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity
Accounting equation	+ 40,000 − 40,000	=	0	+	0

	Cash			Land		
The ledger accounts	(1) 50,000	(2)	40,000	(2)	40,000	

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5 Transaction 3

(3) Purchased supplies for $3,700 on account

A1

	A	B	C	D	E
1	Supplies	3,700			
2	Accounts Payable		3,700		
3	*Purchased office supplies on account.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity
Accounting equation	+ 3,700	=	+ 3,700	+	0

	Supplies		Accounts Payable	
The ledger accounts	(3) 3,700			(3) 3,700

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5 Transaction 4

(4) Performed services and received cash of $7,000

A1

	A	B	C	D	E
1	Cash	7,000			
2	Service Revenue		7,000		
3	*Performed services for cash.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity	+	Revenues
Accounting equation	+ 7,000	=	0			+	7,000

The ledger accounts

Cash			
(1)	50,000	(2)	40,000
(4)	7,000		

Service Revenue	
	(4) 7,000

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5 Transaction 5

(5) Performed services for a customer on account, $3,000

A1

	A	B	C	D	E
1	Accounts Receivable	3,000			
2	Service Revenue		3,000		
3	*Performed services on account.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity	+	Revenues
Accounting equation	+ 3,000	=	0			+	3,000

The ledger accounts

Accounts Receivable			Service Revenue		
(5)	3,000			(4)	7,000
				(5)	3,000

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5 Transaction 6

(6) Paid cash expenses: rent, $1,100; employee salary, $1,200; utilities, $400

	A	B	C	D	E
1	Rent Expense	1,100			
2	Salary Expense	1,200			
3	Utilities Expense	400			
4	Cash		2,700		
5	*Paid expenses.*				
6					

	Assets	=	Liabilities	+	Stockholders' Equity	−	Expenses
Accounting equation	− 2,700	=	0			−	2,700

The ledger accounts

Cash

(1)	50,000	(2)	40,000
(4)	7,000	(6)	2,700

Rent Expense

(6)	1,100

Salary Expense

(6)	1,200

Utilities Expense

(6)	400

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5 Transaction 7

(7) Paid $1,900 on the payable created in transaction 3

A1

	A	B	C	D	E
1	Accounts Payable	1,900			
2	Cash		1,900		
3	*Paid cash on account.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity
Accounting equation	− 1,900	=	− 1,900	+	0

	Cash			Accounts Payable		
The ledger accounts	(1) 50,000	(2)	40,000	(7) 1,900	(3)	3,700
	(4) 7,000	(6)	2,700			
		(7)	1,900			

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5 Transaction 8

(8) Stockholder of Alladin remodeled her home with personal funds

No Entry

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5 Transaction 9

(9) Received $1,000 on account

A1

	A	B	C	D	E
1	Cash	1,000			
2	Accounts Receivable		1,000		
3	*Collected cash on account.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity
Accounting equation	+ 1,000	=	0	+	0
	− 1,000				

The ledger accounts

Cash

(1)	50,000	(2)	40,000
(4)	7,000	(6)	2,700
(9)	1,000	(7)	1,900

Accounts Receivable

(5)	3,000	(9)	1,000

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5 Transaction 10

(10) Sold land for cash at the land's cost of $22,000

A1

	A	B	C	D	E
1	Cash	22,000			
2	Land		22,000		
3	*Sold land.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity
Accounting equation	+ 22,000	=	0	+	0
	− 22,000				

The ledger accounts

Cash

(1)	50,000	(2)	40,000
(4)	7,000	(6)	2,700
(9)	1,000	(7)	1,900
(10)	22,000		

Land

(2)	40,000	(10)	22,000

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5 Transaction 11

(11) Declared and paid a dividend of $2,100 to stockholders

A1

	A	B	C	D	E
1	Dividends	2,100			
2	Cash		2,100		
3	*Declared and paid dividends.*				
4					

	Assets	=	Liabilities	+	Stockholders' Equity	−	Dividends
Accounting equation	− 2,100	=	0			−	2,100

The ledger accounts

Cash

(1)	50,000	(2)	40,000
(4)	7,000	(6)	2,700
(9)	1,000	(7)	1,900
(10)	22,000	(11)	2,100

Dividends

(11)	2,100

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Exhibit 2-11 | Alladin Travel, Inc.'s, Ledger Accounts after Posting

Assets = Liabilities + Stockholders' Equity

Cash

(1)	50,000	(2)	40,000
(4)	7,000	(6)	2,700
(9)	1,000	(7)	1,900
(10)	22,000	(11)	2,100
Bal	33,300		

Accounts Receivable

(5)	3,000	(9)	1,000
Bal	2,000		

Supplies

(3)	3,700		
Bal	3,700		

Land

(2)	40,000	(10)	22,000
Bal	18,000		

Accounts Payable

(7)	1,900	(3)	3,700
		Bal	1,800

Common Stock

		(1)	50,000
		Bal	50,000

Revenue

Service Revenue

		(4)	7,000
		(5)	3,000
		Bal	10,000

Dividends

(11)	2,100		
Bal	2,100		

Expenses

Rent Expense

(6)	1,100		
Bal	1,100		

Salary Expense

(6)	1,200		
Bal	1,200		

Utilities Expense

(6)	400		
Bal	400		

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Learning Objective Six

Construct and use a trial balance

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6 Construct and use a trial balance

Trial Balance

- Lists all accounts with their balances
- Assets listed first, then liabilities and stockholders' equity
- Shows that debits equal credits
- Usually prepared at the end of the period
- Facilitates preparation of the financial statements

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A1

	A	B	C	D	E
1	**Alladin Travel, Inc.** **Trial Balance** **April 30, 2016**				
2		**Balance**			
3	**Account Title**	**Debit**	**Credit**		
4	Cash	$33,300			
5	Accounts receivable	2,000			
6	Supplies	3,700			
7	Land	18,000			
8	Accounts payable		$ 1,800		
9	Common stock		50,000		
10	Dividends	2,100			
11	Service revenue		10,000		
12	Rent expense	1,100			
13	Salary expense	1,200			
14	Utilities expense	400			
15	Total	$61,800	$61,800		
16					

Exhibit 2-12 | Trial Balance

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6 Analyzing Accounts

Suppose Alladin's began May with cash of $1,000. During May, Alladin's received cash of $8,000 and ended the month with a cash balance of $3,000.

You can compute total cash payments by analyzing Alladin's Cash account:

Cash

			x = beginning balance + cash receipts − ending balance
Beginning balance	1,000		= 1,000 + 8,000 − 3,000
Cash receipts	8,000	Cash payments	x = 6,000
Ending balance	3,000		

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6 Analyzing Accounts

You can compute either sales on account or cash collections on account by analyzing the Accounts Receivable account (using assumed amounts):

Accounts Receivable

			x = beginning balance + sales on account − ending balance = 6,000 + 10,000 − 5,000
Beginning balance	6,000		
Sales on account	10,000	Collections on account	x = 11,000
Ending balance	5,000		

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6 Analyzing Accounts

You can determine how much you paid on account by analyzing Accounts Payable (using assumed amounts):

Accounts Payable

	x = beginning balance + purchases on account − ending balance = 9,000 + 6,000 − 11,000	Beginning balance	9,000
Payments on account	x = 4,000	Purchases on account	6,000
		Ending balance	11,000

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6 Correcting Accounting Errors

First compute the difference between debits and credits in the trial balance.

- Search for missing accounts
- Divide the out-of-balance amount by 2
- Divide the out-of-balance amount by 9
  - Slide
  - Transposition

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6 Exhibit 2-13 | Chart of Accounts—Alladin Travel, Inc.

Balance Sheet Accounts

Assets		Liabilities		Stockholders' Equity	
101	Cash	201	Accounts Payable	301	Common Stock
111	Accounts Receivable	231	Notes Payable	311	Retained Earnings
141	Supplies			312	Dividends
151	Land				
191	Office Furniture				

Income Statement Accounts (Part of Stockholders' Equity)

Revenues		Expenses	
401	Service Revenue	501	Rent Expense
		502	Salary Expense
		503	Utilities Expense

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Exhibit 2-14 | Normal Balances of the Accounts

Assets	Debit	
Liabilities		Credit
Stockholders' Equity—overall		Credit
Common stock		Credit
Retained earnings		Credit
Dividends	Debit	
Revenues		Credit
Expenses	Debit	

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Exhibit 2-15 | Account in Four-Column Format

Account: Cash — **Account No. 101**

Date	Item	Debit	Credit	Balance Debit	Balance Credit
2016					
Apr 2		50,000		50,000	
3			40,000	10,000	

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