Financial Accounting 5th edition Kemp Solutions Manual

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Chapter 2: Analyzing and Recording Business Transactions

Discussion Questions: Key Points

1. Assets are listed in order of liquidity, or closeness to cash. Discuss the steps that the business would have to go through in order to convert each asset to cash in the normal course of business.
2. When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although they would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use.
3. Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the retained earnings account.
4. Not all events are transactions. A transaction is an event that has a financial impact on a company. Journal entries are recorded for all transactions.
5. The normal balance of an account is the side that increases the account.
    a. Debit
    b. Debit
    c. Credit
    d. Credit
    e. Debit
6. The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheck, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account).
7. A credit balance in the cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its checking account, it now has a liability to the bank. Rather than showing a credit balance in its cash account, it should show a credit balance in a liability account.
8. Journalizing is the process of recording a transaction in the journal. Posting is the process of transferring the information from the journal to the appropriate accounts in the ledger or to T-accounts.
9. False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to supplies is improperly recorded as a debit to supplies expense, for example, the trial balance will balance but the financial statements will be inaccurate.
10. The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger.

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Short Exercises

(5-10 min.) S 2-1

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

(5-10 min.) S 2-2

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

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(5-10 min.) S 2-3

1. Transactions occur.

5. Prepare the financial statements

4. Prepare the trial balance.

3. Post the transactions from the journal to the ledger.

2. Record the transactions in the journal.

(5-10 min.) S 2-4

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

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(5-10 min.) S 2-5

The basic summary device in accounting is the account. The left side of an account is called the debit side, and the right side is called the credit side. We record transactions first in a journal. Then we post or copy the data to the ledger (or T-accounts). It is helpful to list all the accounts with their balances on a trial balance.

(5-10 min.) S 2-6

DR	1.	Rent expense
CR	2.	Accounts payable
CR	3.	Service revenue
DR	4.	Office furniture
CR	5.	Common stock
DR	6.	Land
DR	7.	Dividends

(5-10 min.) S 2-7

Supplies

3/8	250	3/27	400
3/17	800		
Bal.	650		

Note payable

3/20	1,250	3/5	9,500
3/31	4,500		
		Bal.	3,750

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(5-10 min.) S 2-8

Account	Type	↑	↓
Office equipment	Asset	Dr.	Cr.
Dividends	Stockholders' Equity	Dr.	Cr.
Service revenue	Revenue	Cr.	Dr.
Accounts payable	Liability	Cr.	Dr.
Rent expense	Expense	Dr.	Cr.
Cash	Asset	Dr.	Cr.

(15-20 min.) S 2-9

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
(1)	Cash	Asset	Increase	Dr
	Common stock	Stockholders' Equity	Increase	Cr
(2)	Equipment	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
(3)	Supplies	Asset	Increase	Dr
	Accounts payable	Liability	Increase	Cr
(4)	Accounts receivable	Asset	Increase	Dr
	Service revenue	Revenue	Increase	Cr
(5)	Accounts payable	Liability	Decrease	Dr
	Cash	Asset	Decrease	Cr
(6)	Operating expenses	Expense	Increase	Dr

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	Cash	Asset	Decrease	Cr
(7)	Dividends	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr

(10-15 min.) S 2-10

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

(10-15 min.) S 2-11

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep	3	Cash		35,000	
		Note payable			35,000
		Borrowed money from the bank.			
	9	Accounts receivable		1,250	
		Service revenue			1,250
		Performed service on account.			

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	16	Cash		500	
		Accounts receivable			500
		Received cash on account.			
	22	Utilities expense		380	
		Accounts payable			380
		Received utility bill.			
	30	Salaries expense		2,250	
		Cash			2,250
		Paid salary expense.			
	30	Interest expense		170	
		Cash			170
		Paid interest expense.			

(10-15 min.) S 2-12

Audio Masters, Corp		
Trial Balance		
April 30, 2018		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$18,300	
Prepaid rent	750	
Equipment	21,000	
Accounts payable		$ 1,700
Note payable		11,500
Common stock		15,000
Dividends	22,600	
Service revenue		63,000
Rent expense	10,150	
Utilities expense	18,400	
Total	$91,200	$91,200

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(5-10 min.) S 2-13

Mylar, Inc.
Trial Balance
December 31, 2018

	ACCOUNT		DEBIT		CREDIT
BS	Cash		$12,100		
BS	Accounts Receivable		1,900		
BS	Supplies		250		
BS	Equipment		6,000		
BS	Accounts Payable				$1,830
BS	Notes Payable				10,000
BS	Common Stock				8,500
RE	Dividends		700		
IS	Service Revenue				3,500
IS	Salaries Expense		1,740		
IS	Rent Expense		800		
IS	Utilities Expense		340		
	Total		$23,830		$23,830

(5-10 min.) S 2-14

e 1 Posting

d 2 Normal balance

g 3 Payable

a 4 Journal

b 5 Receivable

h 6 Chart of accounts

c 7 Debit

f 8 Trial balance

i 9 Credit

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Exercises

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

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
Feb 2	Accounts receivable	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr
8	Supplies	Asset	Increase	Dr
	Accounts payable	Liability	Increase	Cr
10	Advertising expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr
14	Cash	Asset	Increase	Dr
	Accounts receivable	Asset	Decrease	Cr
21	Accounts Payable	Liability	Decrease	Dr
	Cash	Asset	Decrease	Cr
26	Cash	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr

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

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

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

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

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

Req. 1

Cash

Jan. 1	45,000	Jan. 2	1,400
6	1,250	4	6,000
23	2,700	9	400
		15	900
		26	4,800
		28	425
		29	1,150
Bal.	*33,875*		

Accounts Payable

Jan. 9	400	Jan. 3	750
		Bal.	*350*

Common stock

		Jan. 1	45,000
		Bal.	*45,000*

Accounts Receivable

Jan. 17	5,200	Jan. 23	2,700
Bal.	*2,500*		

Service revenue

		Jan. 6	1,250
		17	5,200
		Bal.	*6,450*

Supplies

Jan. 3	750		
Bal.	*750*		

Rent Expense

Jan. 2	1,400		
Bal.	*1,400*		

Equipment

Jan. 4	6,000		
26	4,800		
Bal.	*10,800*		

Salaries Expense

Jan. 15	900		
29	1,150		
Bal.	*2,050*		

Utilities Expense

Jan. 28	425		
Bal.	*425*		

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Req. 2

Zane's Creations, Inc.		
Trial Balance		
January 31, 2018		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$33,875	
Accounts receivable	2,500	
Supplies	750	
Equipment	10,800	
Accounts payable		$ 350
Common stock		45,000
Service revenue		6,450
Salaries expense	2,050	
Rent expense	1,400	
Utilties expense	425	
Total	$51,800	$51,800

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

Req 1

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

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Req 2 & 3

Cash

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

Accounts payable

Mar 19	450	Mar 1	1,400
		Mar 8	800
		Bal.	*1,750*

Accounts receivable

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

Notes payable

Mar 31	2,000	Mar 1	15,000
		Bal.	*13,000*

Supplies

Mar 1	300		
Mar 8	800		
Bal.	*1,100*		

Common stock

		Mar 1	32,100
		Mar 15	40,000
		Bal.	*72,100*

Building

Mar 1	42,000		
Bal.	*42,000*		

Service revenue

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

Office Furniture

Mar 1	2,300		
Bal.	*2,300*		

Rent expense

Mar 1	800		
Mar 2	900		
Bal.	*1,700*		

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Req 4

Clocktower Cleaning, Inc.		
Trial Balance		
March 31, 2018		
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 42,550	
Accounts receivable	4,000	
Supplies	1,100	
Building	42,000	
Office Furniture	2,300	
Accounts payable		$ 1,750
Notes payable		13,000
Common stock		72,100
Service revenue		6,800
Rent expense	1,700	
Total	$93,650	$93,650

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

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

Req. 2

Cash

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

Accounts payable

(6)	100	(2)	400
		Bal.	*300*

Supplies

(2)	400	
Bal.	*400*	

Notes payable

(5)	7,000	(3)	75,000
		Bal.	*68,000*

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Building			
	(3)	75,000	
Bal.		*75,000*	

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

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

Req. 3

Sounds on Wheels, Inc.		
Trial Balance		
April 30, 2018		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$16,900	
Supplies	400	
Building	75,000	
Equipment	9,000	
Accounts payable		$ 300
Notes payable		68,000
Common stock		33,000
Total	$101,300	$101,300

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Req. 4

Sounds on Wheels, Inc.			
Balance Sheet			
April 30, 2018			
ASSETS		LIABILITIES	
Cash	$ 16,900	Accounts payable	$ 300
Supplies	400	Notes payable	68,000
Building	75,000	Total liabilities	68,300
Equipment	9,000	STOCKHOLDERS' EQUITY	
		Common stock	33,000
		Total liabilities and	
Total assets	$101,300	stockholder's equity	$101,300

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

Req. 2

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

Req. 1, and 3

Cash

Jun. 2	10,000	Jun. 3	1,300
28	1,800	6	2,800
		20	145
Bal.	*7,555*		

Accounts payable

		Jun. 8	1,500
		11	600
		Bal	*2,100*

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Accounts receivable

Jun. 19	2,300	
Bal.	*2,300*	

Common stock

	Jun. 2	10,000
	Bal.	*10,000*

Supplies

Jun. 11	600	
Bal.	*600*	

Service revenue

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

Equipment

Jun. 6	2,800	
Bal.	*2,800*	

Rent Expense

Jun. 3	1,300	
Bal.	*1,300*	

Furniture

Jun. 8	1,500	
Bal.	*1,500*	

Utilities expense

Jun 20	145	
Bal.	*145*	

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Req. 4

Willis Construction, Inc.		
Trial Balance		
June 30, 2018		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 7,555	
Accounts receivable	2,300	
Supplies	600	
Equipment	2,800	
Furniture	1,500	
Accounts payable		$ 2,100
Common stock		10,000
Service revenue		4,100
Rent expense	1,300	
Utilities expense	145	
Total	$16,200	$16,200

Req. 5

Willis Construction, Inc.		
Income Statement		
Month Ended June 30, 2018		
Service revenue		$4,100
Expenses:		
Rent expense	$1,300	
Utilities expense	145	
Total expenses		1,445
Net Income		$2,655

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Willis Construction, Inc.		
Statement of Retained Earnings		
Month Ended June 30, 2018		
Retained earnings, June 1		$0
Add: Net income		2,655
Retained earnings, June 30		$2,655

Note: There were no dividends during the month of June

Willis Construction, Inc.			
Balance Sheet			
June 30, 2018			
ASSETS		LIABILITIES	
Cash	$ 7,555	Accounts payable	$ 2,100
Accounts receivable	2,300		
Supplies	600	STOCKHOLDERS' EQUITY	
Equipment	2,800	Common stock	10,000
Furniture	1,500	Retained earnings	2,655
		Total Stockholders' equity	12,655
		Total liabilities and	
Total assets	$14,755	stockholder's equity	$14,755

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

	Effect on Trial Balance	Account(s) Misstated
a.	Total debits = Total credits	Cash $720 too high Rent expense $720 too low
b.	Total debits = Total credits	Accounts receivable $250 too high Accounts Payable $250 too high
c.	Total debits = Total credits	Cash $90 too high Service revenue $90 too high
d.	Total debits = Total credits	Supplies $320 too low Accounts payable $320 too low
e.	Total debits > Total credits	Notes payable $5,000 too low

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

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
May 1	Cash	Asset	Increase	Dr
	Common stock	Stockholders' Equity	Increase	Cr
3	Supplies	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
6	Equipment	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
11	Advertising expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr
18	Cash	Asset	Increase	Dr
	Notes payable	Liability	Increase	Cr
27	Utilities expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr

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

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

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

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

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

Req. 1

Cash

Mar 1	65,000	Mar. 2	1,100
6	7,000	4	7,900
23	400	9	100
		15	675
		28	425
		29	725
Bal.	*61,475*		

Accounts Payable

Mar 9	100	Mar 3	800
		Bal.	*700*

Common stock

		Mar 1	65,000
		Bal.	*65,000*

Accounts Receivable

Mar 17	1,900	Mar 23	400
Bal.	*1,500*		

Service revenue

		Mar 6	7,000
		17	1,900
		Bal.	*8,900*

Supplies

Mar 3	800		
Bal.	*800*		

Rent Expense

Mar 2	1,100		
Bal.	*1,100*		

Equipment

Mar 4	7,900		
Bal.	*7,900*		

Salaries Expense

Mar 15	675		
29	725		
Bal.	*1,400*		

Utilities Expense

Mar 28	425		
Bal.	*425*		

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Req. 2

Inspired Design, Inc.		
Trial Balance		
March 31, 2018		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$61,475	
Accounts receivable	1,500	
Supplies	800	
Equipment	7,900	
Accounts payable		$ 700
Common stock		65,000
Service revenue		8,900
Salaries expense	1,400	
Rent expense	1,100	
Utilities expense	425	
Total	$74,600	$74,600

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

Req 1

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

Req 2 & 3

Cash

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

Accounts payable

Sep 19	450	Sep 1	2,100
		8	900
		Bal.	*2,550*

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Accounts receivable

Sep 1	3,900	Sep 11	1,200
27	2,800		
Bal.	*5,500*		

Notes payable

Sep 28	5,000	Sep 1	10,000
		Bal.	*5,000*

Supplies

Sep 1	250		
8	900		
Bal.	*1,150*		

Common stock

		Sep 1	30,000
		15	10,000
		Bal.	*40,000*

Building

Sep 1	38,000		
Bal.	*38,000*		

Service revenue

		Sep 1	4,900
		4	1,800
		27	2,800
		Bal.	*9,500*

Office Furniture

Sep 1	2,300		
Bal.	*2,300*		

Rent expense

Sep 1	1,100		
2	500		
Bal.	*1,600*		

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Req 4

White Glove Cleaning, Inc.		
Trial Balance		
September 30, 2018		
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 8,500	
Accounts receivable	5,500	
Supplies	1,150	
Building	38,000	
Office Furniture	2,300	
Accounts payable		$ 2,550
Notes payable		5,000
Common stock		40,000
Service revenue		9,500
Rent expense	1,600	
Total	$57,050	$57,050

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

Req. 1

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

Req. 2

Cash

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

Accounts payable

(6)	150	(2)	300
		Bal.	*150*

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Supplies			
	(2)	300	
Bal.		*300*	

Notes payable			
	(5)	7,000	(3) 60,000
			Bal. *53,000*

Building			
	(3)	60,000	
Bal.		*60,000*	

Common stock			
			(1) 45,000
			Bal. *45,000*

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

Req. 3

Mobile Music, Inc.		
Trial Balance		
November 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$33,850	
Supplies	300	
Building	60,000	
Equipment	4,000	
Accounts payable		$ 150
Notes payable		53,000
Common stock		45,000
Total	$98,150	$98,150

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Req. 4

Mobile Music, Inc.			
Balance Sheet			
November 30, 2018			
ASSETS		LIABILITIES	
Cash	$ 33,850	Accounts payable	$ 150
Supplies	300	Notes payable	53,000
Building	60,000	Total liabilities	53,150
Equipment	4,000	STOCKHOLDERS' EQUITY	
		Common stock	45,000
		Total liabilities and	
Total assets	$98,150	stockholder's equity	$98,150

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

Req. 2

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

Req. 1 & 3

Cash

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

Accounts payable

		Sep 8	3,000
		11	700
		Bal	*3,700*

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

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

Supplies			
Sep 11	700		
Bal.	*700*		

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

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

Rent Expense			
Sep 3	800		
Bal.	*800*		

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

Utilities expense			
Sep 20	175		
Bal.	*175*		

Req. 4

McGuire Construction, Inc.		
Trial Balance		
September 30, 2018		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 48,550	
Accounts receivable	2,300	
Supplies	700	
Equipment	1,600	
Furniture	3,000	
Accounts payable		$ 3,700
Common stock		50,000
Service revenue		3,425
Rent expense	800	
Utilities expense	175	
Total	$57,125	$57,125

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Req. 5

McGuire Construction, Inc.		
Income Statement		
Month Ended September 30, 2018		
Service revenue		$3,425
Expenses:		
Rent expense	$800	
Utilities expense	175	
Total expenses		975
Net Income		$2,450

McGuire Construction, Inc.		
Statement of Retained Earnings		
Month Ended September 30, 2018		
Retained earnings, September 1, 2018		$0
Add: Net income		2,450
Retained earnings, September 30, 2018		$2,450

Note: There were no dividends during the month of September.

McGuire Construction, Inc.			
Balance Sheet			
September 30, 2018			
ASSETS		LIABILITIES	
Cash	$ 48,550	Accounts payable	$ 3,700
Accounts receivable	2,300		
Supplies	700	STOCKHOLDERS' EQUITY	
Equipment	1,600	Common stock	50,000
Furniture	3,000	Retained earnings	2,450
		Total Stockholders' equity	52,450
		Total liabilities and	
Total assets	$56,150	stockholder's equity	$56,150

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

	Effect on Trial Balance	Account(s) Misstated
a.	Total debits = Total credits	Cash $675 too high Rent expense $675 too low
b.	Total debits = Total credits	Accounts receivable $300 too high Accounts Payable $300 too high
c.	Total debits = Total credits	Cash $90 too high Service revenue $90 too high
d.	Total debits = Total credits	Supplies $450 too low Accounts payable $450 too low
e.	Total debits > Total credits	Notes payable $30,000 too low

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Problems

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

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
June	1	Cash		95,000	
		Common stock			95,000
	3	Supplies		200	
		Cash			200
	8	Land		38,000	
		Cash			38,000
	12	Office equipment		3,500	
		Accounts payable			3,500
	17	Cash		10,000	
		Notes payable			10,000
	26	Accounts payable		2,500	
		Cash			2,500
	30	Cash		11,000	
		Accounts receivable		25,000	
		Service revenue			36,000
	30	Salaries expense		2,700	
		Rent expense		1,800	
		Utilities expense		365	
		Cash			4,865
	30	Dividends		9,000	
		Cash			9,000

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

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
May	1	Cash		210,000	
		Notes payable			210,000
	3	Building		145,000	
		Cash			145,000
	6	Accounts receivable		14,100	
		Service revenue			14,100
	9	Supplies		275	
		Accounts payable			275
	13	Cash		6,800	
		Service revenue			6,800
	15	Dividends		2,000	
		Cash			2,000
	17	Cash		9,200	
		Accounts Receivable			9,200
	18	Property tax expense		2,240	
		Cash			2,240
	22	Salaries expense		4,700	
		Cash			4,700
	26	Supplies		250	
		Cash			250
	31	Accounts payable		150	
		Cash			150

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(20-25 min.) P2-33A

Req. 2

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

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Req. 1, 3, and 4

Cash

Jan 1	55,000	Jan 8	24,000
5	3,000	14	650
19	2,500	16	1,150
28	300	31	650
		31	1,700
		31	1,100
Bal.	*31,550*		

Accounts Payable

Jan 16	1,150	Jan 3	1,300
		Bal	*150*

Common stock

		Jan 1	55,000
		Bal.	*55,000*

Accounts Receivable

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

Dividends

Jan 31	1,100		
Bal.	1,100		

Supplies

Jan 3	100		
Bal.	*100*		

Service revenue

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

Land

Jan 8	24,000		
Bal.	*24,000*		

Salaries Expense

Jan 14	650		
31	650		
Bal.	*1,300*		

Furniture

Jan 3	1,200		
Bal.	*1,200*		

Rent Expense

Jan 31	1,700		
Bal.	*1,700*		

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Req. 5

Miller & Associates, Inc.		
Trial Balance		
January 31, 2018		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 31,550	
Accounts receivable	3,700	
Supplies	100	
Land	24,000	
Furniture	1,200	
Accounts payable		$ 150
Common stock		55,000
Dividends	1,100	
Service revenue		9,500
Salaries expense	1,300	
Rent expense	1,700	
Total	$64,650	$64,650

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

Req. 1

Journal				Page 6	
DATE		**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
Sep.	16	Cash	110	1,500	
		Accounts receivable	112		1,500
		Received payment on account.			
	18	Accounts receivable	112	1,800	
		Service revenue	411		1,800
		Performed service on account.			
	21	Cash	110	1,050	
		Service revenue	411		1,050
		Performed service for cash.			
	23	Supplies	115	150	
		Accounts Payable	210		150
		Purchased supplies on account.			
	25	Dividends	315	1,000	
		Cash	110		1,000
		Paid dividends.			
	27	Accounts payable	210	2,500	
		Cash	110		2,500
		Made payment on account.			
	29	Cash	110	1,850	
		Service revenue	411		1,850
		Received cash for services performed.			
	30	Rent Expense	515	1,200	
		Cash	110		1,200
		Paid rent.			
	30	Salaries Expense	511	2,100	
		Cash	110		2,100
		Paid employee salaries.			

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Req. 2

CASH							ACCOUNT NO. 110
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			6,450	
	16		J.6	1,500		7,950	
	21		J.6	1,050		9,000	
	25		J.6		1,000	8,000	
	27		J.6		2,500	5,500	
	29		J.6	1,850		7,350	
	30		J.6		1,200	6,150	
	30		J.6		2,100	4,050	

ACCOUNTS RECEIVABLE							ACCOUNT NO. 112
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			4,700	
	16		J.6		1,500	3,200	
	18		J.6	1,800		5,000	

SUPPLIES							ACCOUNT NO. 115
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			450	
	23		J.6	150		600	

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EQUIPMENT							ACCOUNT NO. 140
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			18,500	

ACCOUNTS PAYABLE							ACCOUNT NO. 210
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√				4,300
	23		J.6		150		4,450
	27		J.6	2,500			1,950

COMMON STOCK							ACCOUNT NO. 311
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√				25,000

DIVIDENDS							ACCOUNT NO. 315
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			2,000	
	25		J.6	1,000		3,000	

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SERVICE REVENUE							ACCOUNT NO. 411
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√				7,100
	18		J.6		1,800		8,900
	21		J.6		1,050		9,950
	29		J.6		1,850		11,800

SALARIES EXPENSE							ACCOUNT NO. 511
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			3,100	
	30		J.6	2,100		5,200	

RENT EXPENSE							ACCOUNT NO. 515
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Sep	15	Bal.	√			1,200	
	30		J.6	1,200		2,400	

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Req. 3

Safenet, Inc.			
Trial Balance			
September 30, 2018			
	ACCOUNT	**DEBIT**	**CREDIT**
	Cash	$ 4,050	
	Accounts receivable	5,000	
	Supplies	600	
	Equipment	18,500	
	Accounts payable		$ 1,950
	Common stock		25,000
	Dividends	3,000	
	Service revenue		11,800
	Salaries expense	5,200	
	Rent expense	2,400	
	Total	$38,750	$38,750

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

Req. 1

Hernandez Computer Repair, Inc.		
Trial Balance		
March 31, 2018		
	BALANCE	
ACCOUNT	**DEBIT**	**CREDIT**
Cash	$ 4,600	
Accounts receivable	850	
Supplies	350	
Land	20,000	
Building	110,000	
Accounts payable		$ 925
Notes payable		98,000
Common stock		15,000
Retained earnings		17,010
Dividends	2,000	
Service revenue		13,200
Salaries expense	3,650	
Rent expense	1,500	
Utilities expense	675	
Supplies expense	360	
Insurance expense	150	
Total	$144,135	$144,135

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Req. 2

Hernandez Computer Repair, Inc.		
Income Statement		
Month Ended March 31, 2018		
Service revenue		$13,200
Expenses		
Salaries expense	$3,650	
Rent expense	1,500	
Utilities expense	675	
Supplies expense	360	
Insurance expense	150	
Total expenses		6,335
Net Income		$6,865

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Hernandez Computer Repair, Inc. Statement of Retained Earnings Month Ended March 31, 2018	
Retained earnings, Mar. 1, 2018	$17,010
Add: Net income	6,865
Subtotal	23,875
Less: Dividends	2,000
Retained earnings, Mar. 31, 2018	$21,875

Hernandez Computer Repair, Inc. Balance Sheet March 31, 2018			
ASSETS		LIABILITIES	
Cash	$ 4,600	Accounts payable	$ 925
Accounts receivable	850	Notes payable	98,000
Supplies	350	Total liabilities	98,925
Land	20,000	STOCKHOLDERS' EQUITY	
Building	110,000	Common stock	15,000
		Retained earnings	21,875
		Total stockholders' equity	36,875
		Total liabilities and	
Total assets	$135,800	stockholders' equity	$135,800

Req 3

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

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

Req. 1

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

Req 2

a. Net income is understated because Service revenue was credited (increased) by only $1,140 instead of the correct amount of $1,410.

b. Net income would be unchanged because the entry did not effect a revenue or an expense.

c. Net income would be understated because Rent expense was debited (increased) by $8,000 instead of the correct amount of $800.

d. Net income would be unchanged because the entry did not effect a revenue or an expense.

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

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

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

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Aug	1	Cash		225,000	
		Notes payable			225,000
	3	Building		200,000	
		Cash			200,000
	6	Accounts receivable		19,000	
		Service revenue			19,000
	9	Supplies		245	
		Accounts payable			245
	13	Cash		7,600	
		Service revenue			7,600
	15	Dividends		5,000	
		Cash			5,000
	17	Cash		6,600	
		Accounts Receivable			6,600
	18	Property tax expense		1,200	
		Cash			1,200
	22	Salaries expense		2,500	
		Cash			2,500
	26	Supplies		185	
		Cash			185
	31	Accounts payable		150	
		Cash			150

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(20-25 min.) P2-39B

Req. 2

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

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Req. 1, 3, and 4

Cash

Mar 1	60,000	Mar 8	22,000
5	2,200	14	1,200
19	850	16	1,750
28	400	31	1,200
		31	1,700
		31	1,000
Bal.	*34,600*		

Accounts Payable

Mar 16	1,750	Mar 3	2,375
		Bal	*625*

Common stock

		Mar 1	60,000
		Bal.	*60,000*

Accounts Receivable

Mar 11	1,500	Mar 28	400
23	1,800		
Bal.	*2,900*		

Dividends

Mar 31	1,000		
Bal.	1,000		

Supplies

Mar 3	275		
Bal.	*275*		

Service revenue

		Mar 5	2,200
		11	1,500
		19	850
		23	1,800
		Bal.	*6,350*

Land

Mar 8	22,000		
Bal.	*22,000*		

Salaries Expense

Mar 14	1,200		
31	1,200		
Bal.	*2,400*		

Furniture

Mar 3	2,100		
Bal.	*2,100*		

Rent Expense

Mar 31	1,700		
Bal.	*1,700*		

Req. 5

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Le & Associates, Inc.		
Trial Balance		
March 31, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$ 34,600	
Accounts receivable	2,900	
Supplies	275	
Land	22,000	
Furniture	2,100	
Accounts payable		$ 625
Common stock		60,000
Dividends	1,000	
Service revenue		6,350
Salaries expense	2,400	
Rent expense	1,700	
Total	$66,975	$66,975

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

Req. 1

Journal				Page 6	
DATE		**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
May	16	Cash	110	1,700	
		Accounts receivable	112		1,700
		Received payment on account.			
	18	Accounts receivable	112	2,200	
		Service revenue	411		2,200
		Performed service on account.			
	21	Cash	110	2,800	
		Service revenue	411		2,800
		Performed service for cash.			
	23	Supplies	115	600	
		Accounts Payable	210		600
		Purchased supplies on account.			
	25	Dividends	315	1,600	
		Cash	110		1,600
		Paid dividends.			
	27	Accounts payable	210	2,000	
		Cash	110		2,000
		Made payment on account.			
	29	Cash	110	4,200	
		Service revenue	411		4,200
		Received cash for services performed.			
	30	Rent Expense	515	900	
		Cash	110		900
		Paid rent.			
	31	Salaries Expense	511	1,950	
		Cash	110		1,950
		Paid employee salaries.			

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Req. 2

CASH							ACCOUNT NO. 110
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
May	15	Bal.	√			4,700	
	16		J.6	1,700		6,400	
	21		J.6	2,800		9,200	
	25		J.6		1,600	7,600	
	27		J.6		2,000	5,600	
	29		J.6	4,200		9,800	
	30		J.6		900	8,900	
	31		J.6		1,950	6,950	

ACCOUNTS RECEIVABLE							ACCOUNT NO. 112
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
May	15	Bal.	√			5,300	
	16		J.6		1,700	3,600	
	18		J.6	2,200		5,800	

SUPPLIES							ACCOUNT NO. 115
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
May	15	Bal.	√			150	
	23		J.6	600		750	

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EQUIPMENT							ACCOUNT NO. 140
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			15,750	

ACCOUNTS PAYABLE							ACCOUNT NO. 210
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√				2,900
	23		J.6		600		3,500
	27		J.6	2,000			1,500

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COMMON STOCK							ACCOUNT NO. 311
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√				22,000

DIVIDENDS							ACCOUNT NO. 315
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			2,900	
	25		J.6	1,600		4,500	

SERVICE REVENUE							ACCOUNT NO. 411
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√				8,200
	18		J.6		2,200		10,400
	21		J.6		2,800		13,200
	29		J.6		4,200		17,400

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SALARIES EXPENSE							ACCOUNT NO. 511
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			2,800	
	31		J.6	1,950		4,750	

RENT EXPENSE							ACCOUNT NO. 515
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	15	Bal.	√			1,500	
	30		J.6	900		2,400	

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Req. 3

Security Systems, Inc.			
Trial Balance			
May 31, 2018			
	ACCOUNT	**DEBIT**	**CREDIT**
	Cash	$ 6,950	
	Accounts receivable	5,800	
	Supplies	750	
	Equipment	15,750	
	Accounts payable		$ 1,500
	Common stock		22,000
	Dividends	4,500	
	Service revenue		17,400
	Salaries expense	4,750	
	Rent expense	2,400	
	Total	$40,900	$40,900

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

Req. 1

Wellington Electronics Repair, Inc.		
Trial Balance		
October 31, 2018		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	$15,100	
Accounts receivable	4,200	
Supplies	250	
Land	58,000	
Building	135,000	
Accounts payable		$ 3,300
Notes payable		152,000
Common stock		45,000
Retained earnings		14,840
Dividends	1,500	
Service revenue		7,750
Salaries expense	5,200	
Rent expense	2,400	
Utilities expense	535	
Supplies expense	480	
Insurance expense	225	
Total	$222,890	$222,890

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Req. 2

Wellington Electronics Repair, Inc.		
Income Statement		
Month Ended October 31, 2018		
Service revenue		$7,750
Expenses		
Salaries expense	$5,200	
Rent expense	2,400	
Utilities expense	535	
Supplies expense	480	
Insurance expense	225	
Total expenses		8,840
Net Loss		$(1,090)

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Wellington Electronics Repair, Inc. Statement of Retained Earnings Month Ended October 31, 2018	
Retained earnings, October 1, 2018	$14,840
Subtract: Net loss	(1,090)
Subtotal	13,750
Less: Dividends	1,500
Retained earnings, October 31, 2018	$12,250

Wellington Electronics Repair, Inc. Balance Sheet October 31, 2018			
ASSETS		LIABILITIES	
Cash	$15,100	Accounts payable	$ 3,300
Accounts receivable	4,200	Notes payable	152,000
Supplies	250	Total liabilities	155,300
Land	58,000	STOCKHOLDERS' EQUITY	
Building	135,000	Common stock	45,000
		Retained earnings	12,250
		Total stockholders' equity	57,250
		Total liabilities and	
Total assets	$212,550	stockholders' equity	$212,550

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Req 3

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

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

Req. 1

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

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Req 2

a. Net income is overstated because Service revenue was credited (increased) by $1,640 instead of the correct amount of $1,460.

b. Net income would be unchanged because the entry did not effect a revenue or an expense.

c. Net income would be overstated because Rent expense was debited (increased) by only $135 instead of the correct amount of $1,350.

d. Net income would be unchanged because the entry did not effect a revenue or an expense.

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Continuing Exercise

Req 2

May 1	Cash	1,500	
	Common Stock		1,500
3	Equipment	1,908	
	Accounts payable		1,908
5	Supplies	125	
	Cash		125
6	Accounts receivable	375	
	Service revenue		375
17	Cash	275	
	Service Revenue		275
28	Utilities Expense	65	
	Cash		65
30	Cash	150	
	Accounts receivable		150

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Req. 1 & 3

Assets = Liabilities + Stockholders' equity

Cash

5/1	1,500	125	5/5
5/17	275	65	5/28
5/30	150		
Bal.	1,735		

Supplies

5/5	125		
Bal.	125		

Accounts payable

	1,908	5/3	
	1,908	Bal.	

Common stock

	1,500	5/1	
	1,500	Bal.	

Equipment

5/3	1,908		
Bal.	1,908		

Retained earnings

Accounts receivable

5/6	375	150	5/30
Bal.	225		

Service revenue

		375	5/6
		275	5/17
		650	Bal.

Utilities expense

5/28	65		
Bal.	65		

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Req 4

Sensations Salon, Inc.
Trial Balance
May 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$1,735	
Accounts receivable	225	
Supplies	125	
Equipment	1,908	
Accounts payable		$1,908
Common stock		1,500
Service revenue		650
Utilities expense	65	.
Total	$4,058	$4,058

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Continuing Problem

Req. 1

Journal					
DATE		**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
April	1	Salaries expense		675	
		Cash			675
	2	Land		16,000	
		Cash			16,000
	3	Rent expense		1,500	
		Cash			1,500
	4	Cash		1,700	
		Service revenue			1,700
	5	Cash		600	
		Accounts receivable			600
	8	Supplies		450	
		Accounts payable			450
	11	Accounts receivable		4,200	
		Service revenue			4,200
	13	Cash		10,000	
		Common stock			10,000
	16	Salaries Expense		675	
		Cash			675
	17	Cash		1,450	
		Service revenue			1,450
	18	Cash		300	

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		Accounts receivable			300
	19	Advertising expense		500	
		Cash			500
	21	Accounts payable		700	
		Cash			700
	22	Office furniture		2,100	
		Accounts payable			2,100
	24	Miscellaneous expense		75	
		Cash			75
	26	Accounts receivable		1,900	
		Service revenue			1,900
	28	Cash		900	
		Accounts receivable			900
	30	Utilities expense		245	
		Cash			245
	30	Salaries expense		675	
		Cash			675
	30	Dividends		2,300	
		Cash			2,300

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Req. 2

CASH							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				31,880	
Apr	1				675	31,205	
	2				16,000	15,205	
	3				1,500	13,705	
	4			1,700		15,405	
	5			600		16,005	
	13			10,000		26,005	
	16				675	25,330	
	17			1,450		26,780	
	18			300		27,080	
	19				500	26,580	
	21				700	25,880	
	24				75	25,805	
	28			900		26,705	
	30				245	26,460	
	30				675	25,785	
	30				2,300	23,485	

ACCOUNTS RECEIVABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				1,300	
Apr	5				600	700	
	11			4,200		4,900	
	18				300	4,600	
	26			1,900		6,500	
	28				900	5,600	

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SUPPLIES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				900	
Apr	8			450		1,350	

LAND							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	2			16,000		16,000	

OFFICE FURNITURE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	22			2,100		2,100	

EQUIPMENT							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				3,600	

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VEHICLES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				35,800	

ACCOUNTS PAYABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.					1,000
Apr	8				450		1,450
	21			700			750
	22				2,100		2,850

NOTES PAYABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.					35,800

COMMON STOCK							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.					35,000
Apr	13				10,000		45,000

DIVIDENDS							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				1,500	
Apr	30			2,300		3,800	

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SERVICE REVENUE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.					4,050
Apr	4				1,700		5,750
	11				4,200		9,950
	17				1,450		11,400
	26				1,900		13,300

SALARIES EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				620	
Apr	1			675		1,295	
	16			675		1,970	
	30			675		2,645	

RENT EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	3			1,500		1,500	

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UTILITIES EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	31	Bal.				250	
Apr	30			245		495	

ADVERTISING EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	19			500		500	

MISCELLANEOUS EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Apr	24			75		75	

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Req. 3

Fitness Equipment Doctor, Inc.			
Trial Balance			
April 30, 2018			
	ACCOUNT	**DEBIT**	**CREDIT**
	Cash	$ 23,485	
	Accounts receivable	5,600	
	Supplies	1,350	
	Land	16,000	
	Office furniture	2,100	
	Equipment	3,600	
	Vehicles	35,800	
	Accounts payable		$ 2,850
	Notes payable		35,800
	Common stock		45,000
	Dividends	3,800	
	Service revenue		13,300
	Salaries expense	2,645	
	Rent expense	1,500	
	Advertising expense	500	
	Utilities expense	495	
	Miscellaneous expense	75	
	Total	$96,950	$96,950

Continuing Financial Statement Analysis Problem

Requirement 1.

Cash and cash equivalents would increase by $50 million and debt would increase by $50 million. This would cause Total assets and Total liabilities and shareholders' equity to each increase by $50 million.

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		$50 million	
	Other Long-term Debt			$50 million
	Borrowed $50,000,000 in debt.			

Requirement 2.

There would be no net change in Total assets. Cash would decrease by $50 million and Property and equipment would increase by $50 million. This causes Total current assets to

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decrease by $50 million and Property and equipment, net to increase by $50 million for a net effect on Total assets of zero**.**

Date	Accounts	Post Ref.	Dr.	Cr.
	Property and Equipment		$50 million	
	Cash			$50 million
	Purchased building for $50 million.			

Requirement 3.

On the income statement, sales and costs would increase, creating an additional net income of $10 million. The $10 million increase in net income would then be added to the previous year's retained earnings, which would increase retained earnings on the balance sheet by $10 million. Cash would also increase by $10 million on the balance sheet. This would cause total assets to increase by $10 million and total liabilities and shareholders' equity to increase by $10 million**.**

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		$10 million	
	Retained Earnings (Sales)			$10 million
	To record cash sales.			

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet

Requirement 4.

The salary expense increase of $1 million would cause an increase of $1 million in selling, general and administrative expenses on the income statement. This would cause net earnings to decrease by $1 million. Because net earnings are added to the previous year's retained earnings to get the current year's retained earnings, the retained earnings on the balance sheet would be decreased by $1 million. Cash would also decrease by $1 million on the balance sheet. This would cause total assets to decrease by $1 million and total liabilities and shareholders' equity to decrease by $1 million.

Date	Accounts	Post Ref.	Dr.	Cr.
	Retained Earnings (Salaries Expense)		$1 million	
	Cash			$1 million
	Salaries of $1 billion are paid.			

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet.

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Ethics in Action

Case #1

- Lynne should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was *not* a dividend but rather the payment of an expense.
- It does matter how the $3,800 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.
- Lynne does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the $3,800 expense, Lynne is giving the bank an inaccurate and misleading income statement.

Case #2

- Joe's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.
- There are ethical concerns. Joe has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain

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account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions in order to provide accurate information; therefore, accountants have an ethical duty to ensure accurate financial reporting.

- As the owner of Lawn Boyz Lawnservice you should have a problem with Joe's actions. You need to have accurate financial information for decision-making purposes. Accordingly, by Joe reducing the actual amount of Wage Expense, you may not be aware of the actual labor costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Joe has not fulfilled his obligation as an accountant.

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Financial Analysis

Journal			
DATE	**ACCOUNTS**	**Dr.**	**Cr.**
Jan 2	Property, Plant and Equipment	678,000	
	Cash		678,000
8	Cash	2,512,000	
	Net Sales		2,512,000
12	Inventory	3,470,000	
	Accounts Payable		3,470,000
21	Accounts Receivable	4,515,000	
	Net Sales		4,515,000
30	Accounts Payable	2,975,000	
	Cash		2,975,000

2. No solution.

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Industry Analysis

1. Under Armour is the larger company in terms of revenue, with approximately $4.83 billion in net revenues for 2016 as compared to approximately $2.38 billion of net sales for Columbia Sportswear. This information is on the Consolidated Statement of Operations/Income.

2. Under Armour is the larger of the two in terms of total assets with about $3.64 billion at December 31, 2016, compared to about $2.01 billion for Columbia Sportswear. This information is on the Consolidated Balance Sheet.

3. Under Armour has more debt at the end of 2016 with around $1.61 billion at the end of the year. Columbia Sportswear has approximately $432 million in debt at the end of 2016. This information is also located on the Consolidated Balance Sheet. Note that the terms total liabilities and total debt mean the same thing.

4. Columbia Sportswear wins this one with a gross profit percentage of 46.7% ($1,110,348,000/$2,377,045,000) as compared to only 46.4% ($2,240,611,000/$4,825,335,000) for Under Armour. In terms of gross profit percentage, the higher the number, the better. This percentage indicates that Columbia Sportswear is doing a slightly better job of making profit from selling their products.

5. Under Armour had $59,000,000 of dividends in 2016 compared to only $48,122,000 of dividends for Columbia Sportswear. This number can be found on the Consolidated Statements of Stockholders' Equity. Again note that the terms Stockholder and Shareholder mean the same thing. Note that only part of Under Armour's dividends were paid in cash while all of Columbia Sportswear's dividends were cash dividends. Cash versus stock dividends are discussed in Chapter 10.

6. Student's response to this question will obviously vary.

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Small Business Analysis

There are two mistakes here affecting the cash account. The first mistake is the cash transaction utilizing the debit card. When cash is decreased, it must be credited. Your client debited cash for the transaction using the logic that they were using a **debit** card. To correct this transaction, you will need to remove the original transaction and journalize the transaction correctly. These journal entries look the same. They are as follows:

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Supplies		320	
	Cash			320
	To remove the original debit card transaction.			

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Supplies		320	
	Cash			320
	To record purchase of supplies using debit card.			

The next error is that the credit card transaction doesn't have any effect on Cash until the credit card bill is paid. When the original transaction took place, a liability account, such as Credit Card Payable, should have been credited. To correct this, the following entry needs to be made.

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Cash		275	
	Credit Card Payable			275
	Correcting entry—used credit card instead of cash for utility bill.			

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Written Communication

Although student's responses will vary widely, here is a suggested memo to address the two situations.

Dear Client:

I want to address the two concerns you had in your e-mail to me last week. The first one was about the credit balance in your cash account. Even after corrections are made, the cash was still showing a credit balance. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have a credit balance in your cash account if your checking account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your checks unpaid. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

The second situation was concerning the use of debit cards versus credit cards. The terminology does get very confusing. Without going into an accounting lesson on the differences between debits and credits, let me explain what happens when you use the two cards. When you use your debit card, there have to be funds available in whatever account that card is attached to because the use of this card will automatically withdraw that amount of money from the account. The bank "debits" your account which, in banking terms, means they removed the money from your account. On the other hand, you have to credit cash because you are decreasing your cash account.

A credit card transaction, on the other hand, does not automatically remove the cash from your account. It sets up a liability to the credit card company which will have to be paid when you get the credit card statement. So the credit card transaction itself does not affect cash. You are not crediting cash when you use your credit card. You are crediting a liability to the credit card company which means you owe them money.

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Discussion Questions

1	Assets are listed in order of liquidity, or closeness to cash. Discuss the steps that the business would have to go through in order to convert each asset to cash in the normal course of business.
2	When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although it would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use.
3	Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the retained earnings account.
4	Not all events are transactions. A transaction is an event that has a financial impact on a company. Journal entries are recorded for all transactions.
5	The normal balance of an account is the side that increases the account a. Debit b. Debit c. Credit d. Credit e. Debit
6	The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheck, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account).
7	A credit balance in the cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its checking account, it now has a liability to the bank. Rather than showing a credit balance in its cash account, it should show a credit balance in a liability account.
8	Journalizing is the process of recording a transaction in the journal. Posting is the process of transferring the information from the journal to the appropriate accounts in the ledger or to T-accounts.
9	False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to supplies is improperly recorded as a debit to supplies expense, for example, the trial balance will balance but the financial statements will be inaccurate.
10	The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger.

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S 2-1
(5-10 min.)

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

Solution:

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

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S 2-2
(5-10 min.)

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

Solution:

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

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S 2-3
(5-10 min.)

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

Solution:

1	Transactions occur.
5	Prepare the financial statements
4	Prepare the trial balance.
3	Post the transactions from the journal to the ledger.
2	Record the transactions in the journal.

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S 2-4
(5-10 min.)

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

Solution:

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

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S 2-5
(5-10 min.)

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

Solution:

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

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S 2-6
(5-10 min.)

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

Solution:

DR	1	Rent expense
CR	2	Accounts payable
CR	3	Service revenue
DR	4	Office furniture
CR	5	Common stock
DR	6	Land
DR	7	Dividends

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S 2-7
(5-10 min.)

Calculate each account balance.

Solution:

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

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

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S 2-8
(5-10 min.)

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

Solution:

Account	Type	↑	↓
Office equipment	Asset	Dr.	Cr.
Dividends	Stockholder's Equity	Dr.	Cr.
Service revenue	Revenue	Cr.	Dr.
Accounts payable	Liability	Cr.	Dr.
Rent expense	Expense	Dr.	Cr.
Cash	Asset	Dr.	Cr.

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S 2-9
(15-20 min.)

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

Solution:

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
1	Cash	Asset	Increase	Dr
	Common stock	Stockholders' Equity	Increase	Cr
2	Equipment	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
3	Supplies	Asset	Increase	Dr
	Accounts payable	Liability	Increase	Cr
4	Accounts receivable	Asset	Increase	Dr
	Service revenue	Revenue	Increase	Cr
5	Accounts payable	Liability	Decrease	Dr
	Cash	Asset	Decrease	Cr
6	Operating expenses	Expense	Increase	Dr
	Cash	Asset	Decrease	Cr
7	Dividends	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr

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S 2-10
(10-15 min.)

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

Solution:

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

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S 2-11
(10-15 min.)

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

Solution:

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

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S 2-12
(10-15 min.)

Prepare the trial balance for Audio Masters at April 30, 2018. List the accounts in proper order.

Solution:

Audio Masters, Corp Trial Balance April 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$ 18,300	
Prepaid rent	750	
Equipment	21,000	
Accounts payable		$ 1,700
Note payable		11,500
Common stock		15,000
Dividends	22,600	
Service revenue		63,000
Rent expense	10,150	
Utilities expense	18,400	
Total	$ 91,200	$ 91,200

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S 2-13
(5-10 min.)

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

Solution:

Mylar, Inc. Trial Balance December 31, 2018			
	ACCOUNT	DEBIT	CREDIT
BS	Cash	$ 12,100	
BS	Accounts Receivable	1,900	
BS	Supplies	250	
BS	Equipment	6,000	
BS	Accounts Payable		$ 1,830
BS	Notes Payable		10,000
BS	Common Stock		8,500
RE	Dividends	700	
IS	Service Revenue		3,500
IS	Salaries Expense	1,740	
IS	Rent Expense	800	
IS	Utilities Expense	340	
	Total	$ 23,830	$ 23,830

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S 2-14
(5-10 min.)

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

Solution:

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

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

Requirement

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

Solution:

Req. 1

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
Feb. 2	Accounts receivable	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr
8	Supplies	Asset	Increase	Dr
	Accounts payable	Liability	Increase	Cr
10	Advertising expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr
14	Cash	Asset	Increase	Dr
	Accounts receivable	Asset	Decrease	Cr
21	Accounts Payable	Liability	Decrease	Dr
	Cash	Asset	Decrease	Cr
26	Cash	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr

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

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

Solution:

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

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

Requirement

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

Solution:

Req. 1

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

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

Requirements

1. Calculate account balances at January 31, 2018.
2. Prepare the trial balance for Zane's Creations, Inc., at January 31, 2018.

Solution:

Req. 1

Cash		Cash	
Jan. 1	45,000	Jan. 2	1,400
6	1,250	4	6,000
23	2,700	9	400
		15	900
		26	4,800
		28	425
		29	1,150
Bal.	*33,875*		

Accounts Payable			
Jan. 9	400	Jan.3	750
		Bal.	*350*

Accounts Receivable			
Jan. 17	5,200	Jan.23	2,700
Bal.	*2,500*		

Common stock			
		Jan. 1	45,000
		Bal.	*45,000*

Supplies			
Jan. 3	750		
Bal.	*750*		

Service Revenue			
		Jan. 6	1,250
		17	5,200
		Bal.	*6,450*

Equipment			
Jan. 4	6,000		
26	4,800		
Bal.	*10,800*		

Salaries Expense			
Jan. 15	900		
29	1,150		
Bal.	*2,050*		

Rent Expense			
Jan. 2	1,400		
Bal.	*1,400*		

Utilities Expense			
Jan.28	425		
Bal.	*425*		

Req. 2

Creative Design, Inc.
Trial Balance
January 31, 2018

	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 33,875	
Accounts receivable	2,500	
Supplies	750	
Equipment	10,800	
Accounts payable		$ 350
Common stock		45,000
Service revenue		6,450
Salaries expense	2,050	
Rent expense	1,400	
Utilities expense	425	
Total	$ 51,800	$ 51,800

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

Requirements

1. Journalize the transactions for the month of March. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at March 31, 2018.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at March 31, 2018.

Solution:

Req 1

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

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Req 2 & 3

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

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

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

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

Supplies			
Mar. 1	300		
8	800		
Bal.	*1100*		

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

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

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

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

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

Req 4

Clocktower Cleaning, Inc.
Trial Balance
March 31, 2018

	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$42,550	
Accounts receivable	4,000	
Supplies	1,100	
Office furniture	2,300	
Building	42,000	
Accounts payable		$1,750
Notes payable		13,000
Common stock		72,100
Service revenue		6,800
Rent expense	1,700	
Total	$93,650	$93,650

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

Requirements

1. Based on the accounts, create the journal entries that resulted from the six transactions. Include explanations with each journal entry.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Sounds on Wheels, Inc., at April 30, 2018.
4. Prepare a balance sheet for Sounds on Wheels, Inc., as of April 30, 2018.

Solution:

Req 1

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

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Req. 2

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

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

Supplies			
(2)	400		
Bal.	*400*		

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

Building			
(3)	75,000		
Bal.	*75,000*		

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

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

Req. 3

Sounds on Wheels, Inc. Trial Balance April 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$ 16,900	
Supplies	400	
Equipment	9,000	
Building	75,000	
Accounts payable		$ 300
Notes payable		68,000
Common stock		33,000
Total	$ 101,300	$ 101,300

Req. 4

Sounds on Wheels, Inc. Balance Sheet April 30, 2018			
ASSETS		LIABILITIES	
Cash	$ 16,900	Accounts payable	$ 300
Supplies	400	Notes payable	68,000
Equipment	9,000	Total liabilities	68,300
Building	75,000	STOCKHOLDERS' EQUITY	
		Common stock	33,000
Total assets	$ 101,300	Total liabilities and stockholder's equity	$ 101,300

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

Requirements

1. Open, or set up, T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post the journal entries to the T-accounts, identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at June 30, 2018.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

Solution:

Req. 1, and 2

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

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Req. 1, and 3

Cash			
Jun. 2	10,000	Jun. 3	1,300
28	1,800	6	2,800
		20	145
Bal.	*7,555*		

Accounts payable			
		Jun. 8	1,500
		11	600
		Bal	*2,100*

Accounts receivable			
Jun. 19	2,300		
Bal.	*2,300*		

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

Supplies			
Jun. 11	600		
Bal.	*600*		

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

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

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

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

Utilities expense			
Nov-20	145		
Bal.	*145*		

Req. 4

Willis Construction, Inc.
Trial Balance
June 30, 2018

	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 7,555	
Accounts receivable	2,300	
Supplies	600	
Equipment	2,800	
Furniture	1,500	
Accounts payable		$ 2,100
Common stock		10,000
Service revenue		4,100
Rent expense	1,300	
Utilities expense	145	
Total	$ 16,200	$ 16,200

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Req. 5

Willis Construction, Inc. Income Statement Month Ended June 30, 2018		
Service revenue		$ 4,100
Expenses:		
Rent expense	$1,300	
Utilities expense	145	
Total expenses		$1,445
Net Income		$ 2,655

Willis Construction, Inc. Statement of Retained Earnings Month Ended June 30, 2018		
Retained earnings, June 1, 2018		0
Add: Net income		2,655
Retained earnings, June 30, 2018		$ 2,655

Note: There were no dividends during the month of June.

Willis Construction, Inc. Balance Sheet June 30, 2018			
ASSETS		LIABILITIES	
Cash	$ 7,555	Accounts payable	$ 2,100
Accounts receivable	2,300		
Supplies	600	STOCKHOLDERS' EQUITY	
Equipment	2,800	Common stock	10,000
Furniture	1,500	Retained earnings	2,655
		Total Stockholders' eq	12,655
Total assets	$ 14,755	Total liabilities and stockholder's equity	$ 14,755

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

Requirements

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

Solution:

	Effect on Trial Balance	Account(s) Misstated
a.	Total debits = Total credits	Cash $720 too high Rent expense $720 too low
b.	Total debits = Total credits	Accounts receivable $250 too high Accounts Payable $250 too high
c.	Total debits = Total credits	Cash $90 too high Service revenue $90 too high
d.	Total debits = Total credits	Supplies $320 too low Accounts payable $320 too low
e.	Total debits > Total credits	Notes payable $5,000 too low

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

Requirement

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

Solution:

Req. 1

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
May 1	Cash	Asset	Increase	Dr
	Common stock	Stockholders' Equity	Increase	Cr
3	Supplies	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
6	Equipment	Asset	Increase	Dr
	Cash	Asset	Decrease	Cr
11	Advertising expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr
18	Cash	Asset	Increase	Dr
	Notes payable	Liability	Increase	Cr
27	Utilities expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr

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

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

Solution:

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

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

Requirements

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

Solution:

Req. 1

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

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

Requirements

1. Calculate account balances at March 31, 2018.
2. Prepare the trial balance for Inspired Design, Inc., at March 31, 2018.

Solution:

Req. 1

Cash			
Mar. 1	65,000	Mar. 2	1,100
6	7,000	4	7,900
23	400	9	100
		15	675
		28	425
		29	725
Bal.	*61,475*		

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

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

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

Supplies			
Mar. 3	800		
Bal.	*800*		

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

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

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

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

Utilities Expense			
Mar. 28	425		
Bal.	*425*		

Req. 2

Inspiried Design, Inc.
Trial Balance
March 31, 2018

	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 61,475	
Accounts receivable	1,500	
Supplies	800	
Equipment	7,900	
Accounts payable		$ 700
Common stock		65,000
Service revenue		8,900
Salaries expense	1,400	
Rent expense	1,100	
Utilities expense	425	
Total	$ 74,600	$ 74,600

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

Requirements

1. Journalize the transactions for the month of September. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at September 30, 2018.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at September 30, 2018.

Solution:

Req 1

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

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Req 2 & 3

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

Accounts payable			
Sept. 19	450	1	2100
		8	900
		Bal.	*2,550*

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

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

Supplies			
Sept. 1	250		
8	900		
Bal.	*1,150*		

Common stock			
		Sept. 1	30,000
		15	10,000
		Bal.	*40,000*

Building			
Sept. 1	38,000		
Bal.	*38,000*		

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

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

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

Req 4

White Glove Cleaning, Inc. Trial Balance September 31, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$ 8,500	
Accounts receivable	5,500	
Supplies	1,150	
Office furniture	2,300	
Building	38,000	
Accounts payable		$ 2,550
Notes payable		5,000
Common stock		40,000
Service revenue		9,500
Rent expense	1,600	
Total	$ 57,050	$ 57,050

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

Requirements

1. Prepare the journal entries that served as the sources for the six transactions.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Mobile Music, Inc., at November 30, 2018.
4. Prepare a balance sheet for Mobile Music, Inc., as of November 30, 2018.

Solution:

Req 1

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

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Req. 2

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

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

Supplies			
(2)	300		
Bal.	*300*		

Notes payable			
(5)	7,000	(3)	60,000
		Bal.	*53,000*

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

Common stock			
		(1)	45,000
		Bal.	*45,000*

Building			
(3)	60,000		
Bal.	*60,000*		

Req. 3

Mobile Music, Inc. Trial Balance November 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$ 33,850	
Supplies	300	
Equipment	4,000	
Building	60,000	
Accounts payable		$ 150
Notes payable		53,000
Common stock		45,000
Total	$ 98,150	$ 98,150

Req. 4

Mobile Music, Inc. Balance Sheet November 30, 2018			
ASSETS		LIABILITIES	
Cash	$ 33,850	Accounts payable	$ 150
Supplies	300	Notes payable	53,000
Equipment	4,000	Total liabilities	53,150
Building	60,000	STOCKHOLDERS' EQUITY	
		Common stock	45,000
Total assets	$ 98,150	Total liabilities and stockholder's equity	$ 98,150

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

Requirements

1. Open or set up T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post journal entries to the T-accounts. Identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at September 30, 2018.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

Solution:

Req. 1, and 2

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

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Req. 1, and 3

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

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

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

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

Supplies			
Sep. 11	700		
Bal.	*700*		

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

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

Rent Expense			
Sep. 3	800		
Bal.	*800*		

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

Utilities expense			
Sep. 20	175		
Bal.	*175*		

Req. 4

McGuire Construction, Inc.
Trial Balance
September 30, 2018

	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 48,550	
Accounts receivable	2,300	
Supplies	700	
Equipment	1,600	
Furniture	3,000	
Accounts payable		$ 3,700
Common stock		50,000
Service revenue		3,425
Rent expense	800	
Utilities expense	175	
Total	$ 57,125	$ 57,125

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Req. 5

McGuire Construction, Inc. Income Statement Month Ended September 30, 2018		
Service revenue		$ 3,425
Expenses:		
Rent expense	$ 800	
Utilities expense	175	
Total expenses		975
Net Income		$ 2,450

McGuire Construction, Inc. Statement of Retained Earnings Month Ended September 30, 2018		
Retained earnings, September 1, 2018		0
Add: Net income		2,450
Retained earnings, September 30, 2018		$ 2,450

Note: There were no dividends during the month of September

McGuire Construction, Inc. Balance Sheet September 30, 2018			
ASSETS		LIABILITIES	
Cash	$ 48,550	Accounts payable	$ 3,700
Accounts receivable	2,300		
Supplies	700	STOCKHOLDERS' EQUITY	
Equipment	1,600	Common stock	50,000
Furniture	3,000	Retained earnings	2,450
		Total Stockholders' equity	52,450
Total assets	$ 56,150	Total liabilities and stockholder's equity	$ 56,150

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

Requirements

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

Solution:

	Effect on Trial Balance	Account(s) Misstated
a.	Total debits = Total credits	Cash $675 too high Rent expense $675 too low
b.	Total debits = Total credits	Accounts receivable $300 too high Accounts Payable $300 too high
c.	Total debits = Total credits	Cash $90 too high Service revenue $90 too high
d.	Total debits = Total credits	Supplies $450 too low Accounts payable $450 too low
e.	Total debits > Total credits	Notes payable $30,000 too low

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
June 1	Cash		95,000	
	Common stock			95,000
3	Supplies		200	
	Cash			200
8	Land		38,000	
	Cash			38,000
12	Office equipment		3,500	
	Accounts payable			3,500
17	Cash		10,000	
	Notes payable			10,000
26	Accounts payable		2,500	
	Cash			2,500
30	Cash		11,000	
	Accounts receivable		25,000	
	Service revenue			36,000
30	Salaries expense		2,700	
	Rent expense		1,800	
	Utilities expense		365	
	Cash			4,865
30	Dividends		9,000	
	Cash			9,000

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
May 1	Cash		210,000	
	Notes payable			210,000
3	Building		145,000	
	Cash			145,000
6	Accounts receivable		14,100	
	Service revenue			14,100
9	Supplies		275	
	Accounts payable			275
13	Cash		6,800	
	Service revenue			6,800
15	Dividends		2,000	
	Cash			2,000
17	Cash		9,200	
	Accounts Receivable			9,200
18	Property tax expense		2,240	
	Cash			2,240
22	Salaries expense		4,700	
	Cash			4,700
26	Supplies		250	
	Cash			250
31	Accounts payable		150	
	Cash			150

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P2-33A
(20-25 min.)

Requirements

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts, using transaction dates as posting references.
4. Calculate the balance in each account at January 31, 2018.
5. Prepare the trial balance for Miller & Associates, Inc., at January 31, 2018.

Solution:

Req. 1, 3, and 4

Cash			
Jan. 1	55,000	Jan. 8	24,000
5	3,000	14	650
19	2,500	16	1,150
28	300	31	650
		31	1,700
		31	1,100
Bal.	*31,550*		

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

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

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

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

Supplies			
Jan. 3	100		
Bal.	*100*		

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

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

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

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

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

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Req 2

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

Req. 5

Miller & Associates, Inc. Trial Balance January 31, 2018		
	BALANCE	
ACCOUNT TITLE	**DEBIT**	**CREDIT**
Cash	$ 31,550	
Accounts receivable	3,700	
Supplies	100	
Furniture	1,200	
Land	24,000	
Accounts payable		$ 150
Common stock		55,000
Dividends	1,100	
Service revenue		9,500
Salaries expense	1,300	
Rent expense	1,700	
Total	$ 64,650	$ 64,650

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

Requirements

1. Journalize the transactions that occurred September 16 to September 30 on page 6 of the journal.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at September 15. Use the four-column account format illustrated in the chapter. Enter "Bal" for the September 15 balance in the Item column. Post the transactions to the ledger using dates, account numbers, and posting references. Calculate the new account balances at September 30, 2018.
3. Prepare the trial balance for Safenet, Inc., at September 30, 2018.

Solution:

Req. 1

Journal				Page 6
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
Sep. 16	Cash	110	1,500	
	Accounts receivable	112		1,500
	Received payment on account.			
18	Accounts receivable	112	1,800	
	Service revenue	411		1,800
	Performed service on account.			
21	Cash	110	1,050	
	Service revenue	411		1,050
	Performed service for cash.			
23	Supplies	115	150	
	Accounts Payable	210		150
	Purchased supplies on account.			
25	Dividends	315	1,000	
	Cash	110		1,000
	Paid dividends.			
27	Accounts payable	210	2,500	
	Cash	110		2,500
	Made payment on account.			

Journal				Page 6
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
29	Cash	110	1,850	
	Service revenue	411		1,850
	Received cash for services performed.			
30	Rent Expense	515	1,200	
	Cash	110		1,200
	Paid rent.			
30	Salaries Expense	511	2,100	
	Cash	110		2,100
	Paid employee salaries.			

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Req. 2

CASH						ACCOUNT NO. 110
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√			6,450	
16		J.6	1,500		7,950	
21		J.6	1,050		9,000	
25		J.6		1,000	8,000	
27		J.6		2,500	5,500	
29		J.6	1,850		7,350	
30		J.6		1,200	6,150	
30		J.6		2,100	4,050	

ACCOUNTS RECEIVABLE						ACCOUNT NO. 112
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√			4,700	
16		J.6		1,500	3,200	
18		J.6	1,800		5,000	

SUPPLIES						ACCOUNT NO. 115
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√			450	
23		J.6	150		600	

EQUIPMENT						ACCOUNT NO. 140
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.				18,500	

ACCOUNTS PAYABLE						ACCOUNT NO. 210
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√				4,300
23		J.6		150		4,450
27		J.6	2,500			1,950

COMMON STOCK						ACCOUNT NO. 311
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√				25,000

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DIVIDENDS					ACCOUNT NO. 315	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√			2,000	
25		J.6	1,000		3,000	

SERVICE REVENUE					ACCOUNT NO. 411	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√				7,100
18		J.6		1,800		8,900
21		J.6		1,050		9,950
29		J.6		1,850		11,800

SALARIES EXPENSE					ACCOUNT NO. 511	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√			3,100	
30		J.6	2,100		5,200	

RENT EXPENSE					ACCOUNT NO. 515	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Sep-17	Bal.	√			1,200	
30		J.6	1,200		2,400	

Req. 3

Safenet, Inc.
Trial Balance
September 30, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 4,050	
Accounts receivable	5,000	
Supplies	600	
Equipment	18,500	
Accounts payable		$ 1,950
Common stock		25,000
Dividends	3,000	
Service revenue		11,800
Salaries expense	5,200	
Rent expense	2,400	
Total	$ 38,750	$ 38,750

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

Requirements

1. Prepare the company's trial balance at March 31, 2018, listing accounts in the proper order. List the largest expense first, the second largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of $17,010 is the beginning balance for the month; it has not been updated for the current month's income or loss.
3. Was it a profitable month for Hernandez Computer Repair, Inc.? Why or why not?

Solution:

Req. 1

Hernandez Computer Repair, Inc. Trial Balance March 31, 2018		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	$ 4,600	
Accounts receivable	850	
Supplies	350	
Building	110,000	
Land	20,000	
Accounts payable		$ 925
Notes payable		98,000
Common stock		15,000
Retained earnings		17,010
Dividends	2,000	
Service revenue		13,200
Salaries expense	3,650	
Rent expense	1,500	
Utilities expense	675	
Supplies expense	360	
Insurance expense	150	
Total	$ 144,135	$ 144,135

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Req. 2

Hernandez Computer Repair, Inc. Income Statement Month Ended March 31, 2018		
Service revenue		$ 13,200
Expenses		
Salaries expense	$ 3,650	
Rent expense	1,500	
Utilities expense	675	
Supplies expense	360	
Insurance expense	150	
Total expenses		6,335
Net Income		$ 6,865

Hernandez Computer Repair, Inc. Statement of Retained Earnings Month Ended March 31, 2018	
Retained earnings, March 1, 2018	$ 17,010
Add: Net income	6,865
Subtotal	23,875
Less: Dividends	2,000
Retained earnings, March 31, 2018	$ 21,875

Hernandez Computer Repair, Inc. Balance Sheet March 31, 2018			
ASSETS		LIABILITIES	
Cash	$ 4,600	Accounts payable	$ 925
Accounts receivable	850	Notes payable	98,000
Supplies	350	Total liabilities	98,925
Land	20,000	STOCKHOLDERS' EQUITY	
Building	110,000	Common stock	15,000
		Retained earnings	21,875
		Total stockholders' equity	36,875
Total assets	$ 135,800	Total liabilities and stockholders' equity	$ 135,800

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

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

Requirements

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

Solution:

Req. 1

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

Req 2

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

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

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

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
Aug. 1	Cash		225,000	
	Notes payable			225,000
3	Building		200,000	
	Cash			200,000
6	Accounts receivable		19,000	
	Service revenue			19,000
9	Supplies		245	
	Accounts payable			245
13	Cash		7,600	
	Service revenue			7,600
15	Dividends		5,000	
	Cash			5,000
17	Cash		6,600	
	Accounts Receivable			6,600
18	Property tax expense		1,200	
	Cash			1,200
22	Salaries expense		2,500	
	Cash			2,500
26	Supplies		185	
	Cash			185
31	Accounts payable		150	
	Cash			150

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P2-39B
(20-25 min.)

Requirements

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts that have been set up for you, using transaction dates as posting references.
4. Calculate the balance in each account.
5. Prepare the trial balance for Le & Associates, Inc., at March 31, 2018.

Solution:

Req. 1, 3, and 4

Cash			
Mar. 1	60,000	Mar. 8	22,000
5	2,200	14	1,200
19	850	16	1,750
28	400	31	1,200
		31	1,700
		31	1,000
Bal.	*34,600*		

Accounts Receivable			
Mar. 11	1,500	Mar. 28	400
23	1,800		
Bal.	*2,900*		

Supplies			
Mar. 3	275		
Bal.	*275*		

Furniture			
Mar. 3	2,100		
Bal.	*2,100*		

Land			
Mar. 8	22,000		
Bal.	*22,000*		

Accounts Payable			
Mar. 16	1,750	Mar. 3	2,375
		Bal	*625*

Common stock			
		Mar. 1	60,000
		Bal.	*60,000*

Dividends			
Mar. 31	1,000		
Bal.	*1,000*		

Service revenue			
		Mar. 5	2,200
		11	1,500
		19	850
		23	1,800
		Bal.	*6,350*

Salaries Expense			
Mar. 14	1,200		
31	1,200		
Bal.	*2,400*		

Rent Expense			
Mr. 31	1,700		
Bal.	*1,700*		

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Req 2

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

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Req. 5

Le & Associates, Inc. Trial Balance March 31, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	$ 34,600	
Accounts receivable	2,900	
Supplies	275	
Furniture	2,100	
Land	22,000	
Accounts payable		$ 625
Common stock		60,000
Dividends	1,000	
Service revenue		6,350
Salaries expense	2,400	
Rent expense	1,700	
Total	$ 66,975	$ 66,975

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

Requirements

1. Journalize the transactions that occurred May 16 to May 31 on page 6 of the journal.
2. Open T-accounts for the ledger accounts listed in the trial balance and enter their beginning balances at May 15. Use the four-column account format illustrated in the chapter. Enter "Bal" for the May 15 balance in the item column. Post the transactions to the ledger, using dates, account numbers, and posting references. Calculate the new account balances at May 31, 2018.
3. Prepare the trial balance for Security Systems, Inc., at May 31, 2018.

Solution:

Req. 1 and 2 are done after Req. 3

Req. 3

Security Systems, Inc. Trial Balance May 31, 2018			
	ACCOUNT	**DEBIT**	**CREDIT**
	Cash	$ 6,950	
	Accounts receivable	5,800	
	Supplies	750	
	Equipment	15,750	
	Accounts payable		$ 1,500
	Common stock		22,000
	Dividends	4,500	
	Service revenue		17,400
	Salaries expense	4,750	
	Rent expense	2,400	
	Total	$ 40,900	$ 40,900

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Req. 1

Journal				Page 6
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**
May 16	Cash	110	1,700	
	Accounts receivable	112		1,700
	Received payment on account.			
18	Accounts receivable	112	2,200	
	Service revenue	411		2,200
	Performed service on account.			
21	Cash	110	2,800	
	Service revenue	411		2,800
	Performed service for cash.			
23	Supplies	115	600	
	Accounts Payable	210		600
	Purchased supplies on account.			
25	Dividends	315	1,600	
	Cash	110		1,600
	Paid dividends.			
27	Accounts payable	210	2,000	
	Cash	110		2,000
	Made payment on account.			
29	Cash	110	4,200	
	Service revenue	411		4,200
	Received cash for services performed.			
30	Rent Expense	515	900	
	Cash	110		900
	Paid rent.			
30	Salaries Expense	511	1,950	
	Cash	110		1,950
	Paid employee salaries.			

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Req. 2

CASH					ACCOUNT NO. 110	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√			4,700	
16		J.6	1,700		6,400	
21		J.6	2,800		9,200	
25		J.6		1,600	7,600	
27		J.6		2,000	5,600	
29		J.6	4,200		9,800	
30		J.6		900	8,900	
30		J.6		1,950	6,950	

ACCOUNTS RECEIVABLE					ACCOUNT NO. 112	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√			5,300	
16		J.6		1,700	3,600	
18		J.6	2,200		5,800	

SUPPLIES					ACCOUNT NO. 115	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√			150	
23		J.6	600		750	

EQUIPMENT					ACCOUNT NO. 140	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√			15,750	

ACCOUNTS PAYABLE					ACCOUNT NO. 210	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√				2,900
23		J.6		600		3,500
27		J.6	2,000			1,500

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COMMON STOCK					ACCOUNT NO. 311	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√				22,000

DIVIDENDS					ACCOUNT NO. 315	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√			2,900	
25		J.6	1,600		4,500	

SERVICE REVENUE					ACCOUNT NO. 411	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√				8,200
18		J.6		2,200		10,400
21		J.6		2,800		13,200
29		J.6		4,200		17,400

SALARIES EXPENSE					ACCOUNT NO. 511	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√			2,800	
30		J.6	1,950		4,750	

RENT EXPENSE					ACCOUNT NO. 515	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
May 15	Bal.	√			1,500	
30		J.6	900		2,400	

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

Requirements

1. Prepare the company's trial balance at October 31, 2018, listing accounts in the proper order. List the largest expense first, the second-largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of $14,840 is the beginning balance for the month; it has not been updated for the current month's net income or loss.
3. Was it a profitable month for Wellington Electronics Repair, Inc.? Why or why not?

Solution:

Req. 1

Wellington Electronics Repair, Inc. Trial Balance October 31, 2018		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	$ 15,100	
Accounts receivable	4,200	
Supplies	250	
Building	135,000	
Land	58,000	
Accounts payable		$ 3,300
Notes payable		152,000
Common stock		45,000
Retained earnings		14,840
Dividends	1,500	
Service revenue		7,750
Salaries expense	5,200	
Rent expense	2,400	
Utilities expense	535	
Supplies expense	480	
Insurance expense	225	
Total	$ 222,890	$ 222,890

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Req. 2

Wellington Electronics Repair, Inc. Income Statement Month Ended October 31, 2018		
Service revenue		$ 7,750
Expenses		
Salaries expense	$ 5,200	
Rent expense	2,400	
Utilities expense	535	
Supplies expense	480	
Insurance expense	225	
Total expenses		8,840
Net Loss		$ (1,090)

Wellington Electronics Repair, Inc. Statement of Retained Earnings Month Ended October 31, 2018	
Retained earnings, October 1, 2018	$ 14,840
Subtract: Net loss	(1,090)
Subtotal	13,750
Less: Dividends	1,500
Retained earnings, October 31, 2018	$ 12,250

Wellington Electronics Repair, Inc. Balance Sheet October 31, 2018			
ASSETS		LIABILITIES	
Cash	$ 15,100	Accounts payable	$ 3,300
Accounts receivable	4,200	Notes payable	152,000
Supplies	250	Total liabilities	155,300
Land	58,000	STOCKHOLDERS' EQUITY	
Building	135,000	Common stock	45,000
		Retained earnings	12,250
		Total stockholders' equity	57,250
Total assets	$ 212,550	Total liabilities and stockholders' equity	$ 212,550

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

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

Requirements

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

Solution:

Req. 1

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

Req 2

a.	a. Net income is overstated because Service revenue was credited (increased) by $1,640 instead of the correct amount of $1,460.
b.	Net income would be unchanged because the entry did not effect a revenue or an expense.
c.	c. Net income would be overstated because Rent expense was debited (increased) by only $135 instead of the correct amount of $1,350.
d.	Net income would be unchanged because the entry did not effect a revenue or an expense.

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Continuing Exercise

Requirements

1. Open T-accounts in the ledger: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Stock, Retained Earnings, Service Revenue, and Utilities Expense.
2. Journalize the transactions. Explanations are not required.
3. Post journal entries to the T-accounts. Key all items by date and denote an account balance as Bal. Formal posting references are not required. Determine ending balances in T-accounts on May 31, 2018.
4. Prepare a trial balance at May 31, 2018.

Solution:

Req. 1 and 3 See after Req 4

Req 2

May 1	Cash	1,500	
	Common Stock		1,500
3	Equipment	1,908	
	Accounts payable		1,908
5	Supplies	125	
	Cash		125
6	Accounts receivable	375	
	Service revenue		375
17	Cash	275	
	Service Revenue		275
28	Utilities Expense	65	
	Cash		65
30	Cash	150	
	Accounts receivable		150

Req 4

Sensations Salon, Inc.
Trial Balance
May 31, 2018

ACCOUNT	DEBIT	CREDIT
Cash	$ 1,735	
Accounts receivable	225	
Supplies	125	
Equipment	1,908	
Accounts payable		$1,908
Common stock		1,500
Service revenue		650
Utilities expense	65	
Total	$ 4,058	$ 4,058

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Continuing Exercise

Req.1 and Req. 3

Assets = Liabilities + Stockholders' equity

Cash			
5/1	1,500	125	5/5
5/17	275	65	5/28
5/30	150		
Bal.	1,735		

Accounts payable			
		1,908	5/3
		1,908	Bal.

Common stock			
		1,500	5/1
		1,500	Bal.

Accounts receivable			
5/6	375	150	5/30
Bal.	225		

Retained earnings			

Supplies			
5/5	125		
Bal.	125		

Service revenue			
		375	5/6
		275	5/17
		650	Bal.

Equipment			
5/3	1,908		
Bal.	1,908		

Utilties expense			
5/28	65		
Bal.	65		

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Continuing Problem

Requirements

1. Journalize the transactions that occurred in April. Omit explanations.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at March 31. Use the four-column account format illustrated in the chapter. Enter "Bal" for the March 31 balance in the Item column. Post the journalentries to the ledger creating new ledger accounts as necessary, omit posting references. Calculate the new account balances at April 30, 2018.
3. Prepare the trial balance for Fitness Equipment Doctor, Inc., at April 30, 2018.

Solution:

Req. 1

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

Financial Accounting 5th edition Kemp Solutions Manual

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

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Req. 2

CASH

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Mar	31	Bal.				31,880	
Apr	1				675	31,205	
	2				16,000	15,205	
	3				1,500	13,705	
	4			1,700		15,405	
	5			600		16,005	
	13			10,000		26,005	
	16				675	25,330	
	17			1,450		26,780	
	18			300		27,080	
	19				500	26,580	
	21				700	25,880	
	24				75	25,805	
	28			900		26,705	
	30				245	26,460	
	30				675	25,785	
	30				2,300	23,485	

ACCOUNTS RECEIVABLE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Mar	31	Bal.				1,300	
Apr	5				600	700	
	11			4,200		4,900	
	18				300	4,600	
	26			1,900		6,500	
	28				900	5,600	

SUPPLIES

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Mar	31	Bal.				900	
Apr	8			450		1,350	

LAND

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Apr	2			16,000		16,000	

OFFICE FURNITURE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Apr	22			2,100		2,100	

EQUIPMENT

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Mar	31	Bal.				3,600	

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VEHICLES							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Mar	31	Bal.				35,800	

ACCOUNTS PAYABLE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Mar	31	Bal.					1,000
Apr	8				450		1,450
	21			700			750
	22				2,100		2,850

NOTES PAYABLE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Mar	31	Bal.					35,800

COMMON STOCK							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Mar	31	Bal.					35,000
Apr	13				10,000		45,000

DIVIDENDS							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Mar	31	Bal.				1,500	
Apr	30			2,300		3,800	

SERVICE REVENUE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Mar	31	Bal.					4,050
Apr	4				1,700		5,750
	11				4,200		9,950
	17				1,450		11,400
	26				1,900		13,300

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SALARIES EXPENSE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Mar	31	Bal.				620	
Apr	1			675		1,295	
	16			675		1,970	
	30			675		2,645	

RENT EXPENSE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Apr	3			1,500		1,500	

UTILITIES EXPENSE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Mar	31	Bal.				250	
Apr	30			245		495	

ADVERTISING EXPENSE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Apr	19			500		500	

MISCELLANEOUS EXPENSE							
			POST.			BALANCE	
DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Apr	24			75		75	

Fitness Equipment Doctor, Inc.
Trial Balance
April 30, 2018

	ACCOUNT	DEBIT	CREDIT
	Cash	$ 23,485	
	Accounts receivable	5,600	
	Supplies	1,350	
	Land	16,000	
	Office furniture	2,100	
	Equipment	3,600	
	Vehicles	35,800	
	Accounts payable		$ 2,850
	Notes payable		35,800
	Common stock		45,000
	Dividends	3,800	
	Service revenue		13,300
	Salaries expense	2,645	
	Rent expense	1,500	
	Advertising expense	500	
	Utilities expense	495	
	Miscellaneous expense	75	
	Total	$ 96,950	$ 96,950

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Continuing Financial Statement Analysis Problem

a. What would happen to Dick's balance sheet if it borrowed $50 million in cash from a bank?
b. What would happen to Dick's balance sheet if it built a new store costing $50 million in cash?
c. What would happen to Dick's income statement and balance sheet if it had a big sale, increasing net income by $10 million which all ended up as cash?
d. What would happen to Dick's income statement and balance sheet if it hired more employees? The salaries of these employees cost Dick's $1 million paid in cash. The extra employees did not create any extra net income. (Note: Do not consider taxes in your answer.)

Solution:

a. Cash and cash equivalents would increase by $50 million and unsecured debt and other borrowings would increase by $50 million. This would cause Total assets and Total liabilities and shareholders' investment to each increase by $50 million.

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		$50 million	
	Unsecured debt and other borrowings			$50 million
	Borrowed $50,000,000 in unsecured debt.			

b. There would be no net change in Total assets. Cash would decrease by $50 million and Buildings and improvements would increase by $50 million. This causes Total current assets to decrease by $50 million and Property and equipment, net to increase by $50 million for a net affect on Total assets of zero.

Date	Accounts	Post Ref.	Dr.	Cr.
	Property and Equipment		$50 million	
	Cash			$50 million
	Purchased building for $50 million.			

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c. On the income statement, sales and costs would increase, creating an additional net income of $10 billion. The $10 billion increase in net income would then be added to the previous year's retained earnings, which would increase retained earnings on the balance sheet by $10 billion. Cash would also increase by $10 billion on the balance sheet. This would cause total assets to increase by $10 billion and total liabilities and shareholders' investment to increase by $10 billion.

Date		Post Ref.	Dr.	Cr.
	Cash Retained Earnings (Sales) To record cash sales.		$10 billion	 $10 billion

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (The Sales and cost accounts are closed to Retained Earnings.)

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

Date		Post Ref.	Dr.	Cr.
	Retained Earnings (Salaries Expense) Cash Salaries of $1 billion are paid.		$1 billion	 $1 billion

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (Salaries expense is closed to Retained Earnings.)

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Case 1

- Lynne should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was not a dividend but rather the payment of an expense.

- It does matter how the $3,800 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.

- Lynne does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the $3,800 expense, Lynne is giving the bank an inaccurate and misleading income statement.

Case 2

- Joe's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.

- There are ethical concerns. Joe has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions in order to provide accurate information; therefore, accountants have an ethical duty to ensure accurate financial reporting.

- As the owner of Lawn Boyz Lawnservice you should have a problem with Joe's actions. You need to have accurate financial information for decision-making purposes. Accordingly, by Joe reducing the actual amount of Wage Expense, you may not be aware of the actual labor costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Joe has not fulfilled his obligation as an accountant.

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Financial Analysis

Requirements

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

Solution:

Req. 1

Journal			
DATE	**ACCOUNTS**	**Dr.**	**Cr.**
Jan. 2	Property, Plant and Equipment	678,000	
	Cash		678,000
8	Cash	2,512,000	
	Net Sales		2,512,000
12	Inventory	3,470,000	
	Accounts Payable		3,470,000
21	Accounts Receivable	4,515,000	
	Net Sales		4,515,000
30	Accounts Payable	2,975,000	
	Cash		2,975,000

Req. 2

No solution.

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Industry Analysis

Requirements

1. In terms of net sales or net revenue, which is the larger company for the year ending December 31, 2016? Which financial statement did you look at to find that information?
2. In terms of total assets at December 31, 2016, which is the larger company? Which financial statement did you look at to find that information?
3. Which company has more total debt at December 31, 2016? Which financial statement did you look at to find that information?
4. Which company has the higher gross profit percentage for the year ending December 31, 2016? Don't know that one? On the Consolidated Statements of Operations/Income, divide Gross Profit by Net Sales (or Net Revenues). What exactly does this mean?
5. Which company paid more cash dividends to its stockholders in 2016? Which financial statement did you look at to find that information?
6. Which company's stock would you rather own? Why?

Solution:

1	Under Armour is the larger company in terms of revenue, with approximately $4.83 billion in net revenues for 2016 as compared to approximately $2.38 billion of net sales for Columbia Sportswear. This information is on the Consolidated Statement of Operations/Income.
2	Under Armour is the larger of the two in terms of total assets with about $3.64 billion at December 31, 2016, compared to about $2.01 billion for Columbia Sportswear. This information is on the Consolidated Balance Sheet.
3	Under Armour has more debt at the end of 2016 with around $1.61 billion at the end of the year. Columbia Sportswear has approximately $432 million in debt at the end of 2016. This information is also located on the Consolidated Balance Sheet. Note that the terms total liabilities and total debt mean the same thing.
4	Columbia Sportswear wins this one with a gross profit percentage of 46.7% ($1,110,348,000/$2,377,045,000) as compared to only 46.4% ($2,240,611,000/$4,825,335,000) for Under Armour. In terms of gross profit percentage, the higher the number, the better. This percentage indicates that Columbia Sportswear is doing a slightly better job of making profit from selling their products.
5	Under Armour had $59,000,000 of dividends in 2016 compared to only $48,122,000 of dividends for Columbia Sportswear. This number can be found on the Consolidated Statements of Stockholders' Equity. Again note that the terms Stockholder and Shareholder mean the same thing. Note that only part of Under Armour's dividends were paid in cash while all of Columbia Sportswear's dividends were cash dividends. Cash versus stock dividends are discussed in Chapter 10.
6	Student's response to this question will obviously vary.

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Small Business Analysis

Requirement

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

Solution:

There are two mistakes here affecting the cash account. The first mistake is the cash transaction utilizing the debit card. When cash is decreased, it must be credited. Your client debited cash for the transaction using the logic that they were using a debit card. To correct this transaction, you will need to remove the original transaction and journalize the transaction correctly. These journal entries look the same. They are as follows:

Date	Accounts	Post Ref.	Dr.	Cr.
May-07	Supplies		320	
	Cash			320
	To remove the original debit card transaction.			

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

The next error is that the credit card transaction doesn't have any effect on Cash until the credit card bill is paid. When the original transaction took place, a liability account, such as Credit Card Payable, should have been credited. To correct this, the following entry needs to be made.

Date		Post Ref.	Dr.	Cr.
May-07	Cash		275	
	Credit Card Payable			275
	Correcting entry—used credit card instead of cash for utility bill.			

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Written Communication

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

Solution:

Although student's responses will vary widely, here is a suggested memo to address the two situations.

Dear Client:

I want to address the two concerns you had in your e-mail to me last week. The first one was about the credit balance in your cash account. Even after corrections are made, the cash was still showing a credit balance. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have a credit balance in your cash account if your checking account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your checks unpaid. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

The second situation was concerning the use of debit cards versus credit cards. The terminology does get very confusing. Without going into an accounting lesson on the differences between debits and credits, let me explain what happens when you use the two cards. When you use your debit card, there have to be funds available in whatever account that card is attached to because the use of this card will automatically withdraw that amount of money from the account. The bank "debits" your account which, in banking terms, means they removed the money from your account. On the other hand, you have to credit cash because you are decreasing your cash account.

A credit card transaction, on the other hand, does not automatically remove the cash from your account. It sets up a liability to the credit card company which will have to be paid when you get the credit card statement. So the credit card transaction itself does not affect cash. You are not crediting cash when you use your credit card. You are crediting a liability to the credit card company which means you owe them money.

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Chapter 2: Overview

Analyzing and Recording Business Transactions

The chapter introduces **accounts** and briefly describes specific asset, liability, and stockholders' equity accounts. The concept of **double-entry accounting** and the rules of **debit** and **credit** for assets, liabilities, and stockholders' equity are described. The **T-account** is illustrated. The accounting equation is tied to the rules of debit and credit. **Normal balance** of accounts is discussed.

The **general journal** and **general ledger** are introduced. The processes used to **record** (**journalize**) a **transaction** in the general journal as well as **posting** a transaction to the general ledger are presented, including an illustration of a four-column account with a running balance. The five-step transaction analysis process is described and demonstrated. A series of transactions are analyzed, journalized, and posted to T-accounts in the ledger. Calculating the **balance** of accounts is explained.

The **trial balance** is defined and illustrated. Some errors that would not be revealed by a trial balance are described. The preparation of the financial statements from the trial balance is illustrated.

The chapter concludes with Focus on Decision Making, which assists students in understanding the decisions required as transactions are recorded and summarized.

Learning Objectives

After studying Chapter 2, your students should be able to:

1. Define accounts and understand how they are used in accounting
2. Explain debits, credits, and the double-entry system of accounting
3. Demonstrate the use of the general journal and the general ledger to record business transactions
4. Use a trial balance to prepare financial statements

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Chapter 2: Teaching Outline and Student Summary Handout

How Are Accounts Used to Keep Business Transactions Organized?

LO1) Define accounts and understand how they are used in accounting

I. **Accounts** are the basic summary device of accounting; the detailed record of all the changes in a specific asset, liability, or stockholders' equity item as a result of transactions.

II. **Organizing Accounts**

A. Numbering helps keep accounts organized.

B. Account numbers usually have two or more digits, with the first digit designating the type of account. Generally, if an account starts with:

1. 1, it is an asset account.
2. 2, it is a liability account.
3. 3, it is a stockholders' equity account other than a revenue or an expense account.
4. 4, it is a revenue account.
5. 5, it is an expense account.
6. 9, it is another revenue or expense account.

C. The second and remaining digits specify the detailed account number.

1. For example, 101 may be Cash, and 131 may be Accounts Receivable.
2. Multiple digits allow for bigger gaps in the numbering sequence for adding additional accounts at a later date.

D. The **chart of accounts** is a list of all the accounts of a business and the numbers assigned to those accounts.

III. **Assets**

A. The **Cash** account includes bank account balances and cash on hand.

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B. The **Accounts Receivable** account represents amounts owed to the business by customers.

C. The **Notes Receivable** account represents a written promise (**promissory note**) that the customer or borrower will pay a fixed amount of money by a certain date. Often includes interest charges.

D. The **Prepaid Expenses** account includes assets of a business because they represent items that have been purchased but will be used later.

1. An example is insurance paid a year in advance.

E. The **Land** account is used to track the cost of land a business owns and uses in its operations.

F. The **Buildings** account represents the cost of a business's buildings, offices, warehouses, etc.

G. The **Equipment, Furniture, and Fixtures** account represent items such as computer equipment, office equipment, store equipment, and furniture and fixtures. A business typically has a separate asset account for each type of equipment.

IV. **Liabilities**

A. The **Accounts Payable** account reflects how much cash the business must pay to suppliers for goods or services that have already been received.

B. The **Notes Payable** account represents amounts the business must pay because it signed a promissory note to borrow money.

C. The **Accrued Liabilities** account represents liabilities for expenses that have been incurred but have not yet been paid.

1. Examples are Taxes Payable, Interest Payable, and Salaries Payable.

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V. **Stockholders' Equity**

A. The **Common Stock** account represents the investment of assets, usually cash, the stockholders have invested into a business in exchange for the company's stock.

B. The **Retained Earnings** account tracks the cumulative earnings of the business since it began, less any dividends given to stockholders.

C. The **Revenues** account represents amounts *earned* by the company even if the company has not yet been paid for the goods and services provided.

D. The **Expenses** account shows decreases in Retained Earnings from using resources to deliver goods and services to customers.

E. The **Dividends** account reflects the amount of earnings that have been distributed to the stockholders. This account decreases Retained Earnings.

What Is Double-Entry Accounting?

LO2) Explain debits, credits, and the double-entry system of accounting

I. **Double-entry accounting** is the rule of accounting that specifies every transaction involves at least two accounts and is recorded with equal amounts of debits and credits.

II. **Debit** is the left side of any account; an entry made to the left side of an account.

III. **Credit** is the right side of any account; an entry made to the right side of an account.

Account Title	
Debit = left side Dr.	Credit = right side Cr.

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IV. **T-account** is an informal account form used to summarize transactions where the top of the T holds the account title and the base divides the debit and credit sides of the account. Exhibit 2-1 shows T-accounts along with which side increases/decreases. Whether it is the left side of the T or the right side that increases the account depends on the type of account.

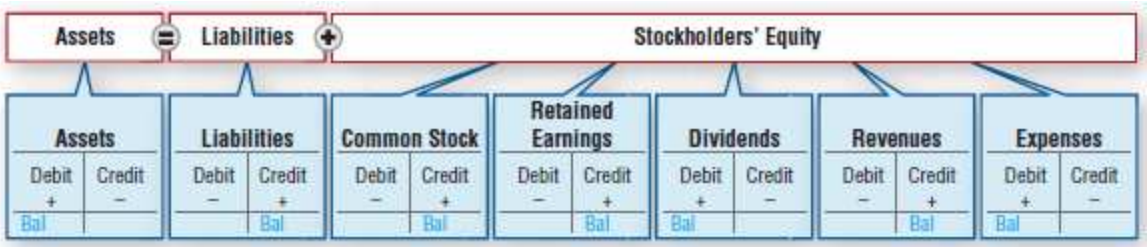

Exhibit 2-1

A. In the acronym **ADE**, **A**ssets, **D**ividends, and **E**xpenses are increased on the debit side.

B. In the acronym **LCR**, **L**iabilities, **C**ommon Stock, and **R**etained Earnings/**R**evenue are increased on the credit side.

VI. **Normal Balance**

A. The **normal balance** is the balance that appears on the side of an account where increases are recorded.

B. Using the ADE/LCR acronyms to help you with which accounts are increased, you can determine that:

1. Assets increase on the debit side, so the normal balance of an asset is on the debit side.
2. Liabilities increase on the credit side, so the normal balance of a liability is on the credit side.
3. The same principle follows for the remaining accounts.

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How Are the General Journal and the General Ledger Used to Keep Track of Business Transactions?

LO3) Demonstrate the use of the general journal and general ledger to record business transactions

I. The **general journal** is the chronological accounting record of the transactions of a business.

   A. The general journal is a place to record events that have affected the business. **Record** means to enter a transaction in a journal; also called **journalize**. A **transaction** is an event that has a financial impact on a business entity.

   B. To record a journal entry:

      1. Record the date.
      2. Record the debit part of the entry by entering the account title and then entering the amount in the debit column.
      3. Record the credit part of the entry on the next line by indenting the account title and then entering the amount in the credit column.
      4. Write an explanation describing the entry.

   C. Exhibit 2-2 demonstrates how to make a journal entry and post to the general ledger. The general journal reflects transactions by date, so it does not provide useful information by individual accounts. To see the effect on accounts, these journal entries are posted to the general ledger.

II. A **general ledger** is the accounting record that summarizes, in accounts, the transactions of a business and shows the resulting ending account balances.

III. **Posting** is copying information from the general journal to accounts in the general ledger.

   A. Posting is broken down into four steps (see Exhibit 2-2):

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1. Copy the transaction date for the journal to the account in the ledger.
2. Copy the journal page number from the journal to the posting reference column in the ledger account. The **posting reference** is a notation in the journal and the ledger that links these two accounting records together.
3. Copy the dollar amount of the debit (or credit) from the journal as a debit (or credit) into the account in the ledger.
4. Copy the account number from the account in the ledger back to the posting reference column in the journal.

IV. **Transaction Analysis**

A. Step 1: Identify the accounts involved.

B. Step 2: Determine the type of account involved.

C. Step 3: Determine whether the account increases or decreases.

D. Step 4: Debit or credit the account.

E. Step 5: Journalize the transaction and post to the ledger.

V. **Balancing the T-Accounts**

A. After the transactions are recorded and posted to the T-accounts, the balance in each account is calculated. The **balance** is the difference between an account's total debit and total credit accounts; the ending value of an account.

How Is a Trial Balance Prepared, and What Is It Used For?

LO4) Use a trial balance to prepare financial statements

I. A **trial balance** is a list of all the accounts of a business and their balances; its purpose is to verify that total debits equal total credits.

A. Not an official financial statement.

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B. Format includes the heading (company name, statement name, and date) and columns for the name of each account, the debit column, and the credit column. The debit and credit columns are totaled to ensure that debits equal credits.

C. Commonly prepared at the end of the accounting period but can be created any time.

1. The **accounting period** is generally the time period reflected by a set of financial statements.

a. Usually defined as a month, quarter, or year.

D. Exhibit 2-3 illustrates a trial balance.

II. **Correcting Errors**

A. The method to correct an error depends on the type of error made.

1. If a journal entry is made to the wrong accounts or for the wrong amount, reverse or undo the incorrect entry. Then create a new entry that records the correct information.

2. To correct an entry that has been made twice, one of the entries should be reversed.

3. If an entry was erroneously omitted, simply create and enter the journal entry.

III. **Preparation of Financial Statements**

A. Since the trial balance lists all of the accounts and their associated balances, it is often used to prepare financial statements.

B. Prepare the financial statements in the correct order (see Chapter 1).

C. Make sure that the balance sheet is in balance. If it is not, check to see what you entered for the Retained Earnings account. Is it the beginning Retained Earnings account balance or the ending Retained Earnings balance, which represents closing the income and expenses? The answer depends on the type

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of trial balance used to prepare the balance sheet, which will be covered in greater detail in Chapter 3.

D. Exhibit 2-4 illustrates how the financial statements flow together.

E. The **accounting cycle** is the sequence of steps used to record and report business transactions. This cycle is completed for every accounting period and repeated for subsequent accounting periods.

   1. See an illustration of the accounting cycle on page 70.
   2. Chapter 3 covers the remaining steps in the accounting cycle, including preparing adjusting and closing entries.

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Key Topics

An understanding of Chapter 2 is essential for student success in the remaining financial accounting chapters. Spend adequate time in the beginning with accounting terminology. Accounting is foreign to many students, and, as is true with any foreign language, you must start with the basics. Students seem to more easily understand assets and liabilities than equity. An asset can be touched, a liability can be confirmed by looking at an invoice, but equity is conceptual. Equity is the stockholders' claims to the business assets—what's left over after liabilities are subtracted from assets. It may be helpful to ask students to attempt to calculate their personal equity. Students may own a car or home for which they have an outstanding loan or mortgage. The equity for the home would represent the cost of the home (asset) less the amount owed (liability) on the mortgage. Another analogy would be that the assets of a business are owned by either the creditors (liabilities) or the owners (stockholders' equity). You can also ask students to determine (from a simple standpoint) how much their business would be worth to a potential buyer. Some students might think that the total assets represent a fair sale price. Explain that while the assets represent the value of the business, the creditors still must be paid. To illustrate, take the total assets and subtract the amounts owed to the creditors (liabilities) to calculate the worth. Then you can tie this worth (equity) to the stockholders' equity balance.

Keep it simple when discussing **T-accounts** and the rules of debits and credits. **Debit** means left, and **credit** means right—period. A debit does not always mean an increase, and a credit does not always mean a decrease. Increases and decreases depend on the account type. Emphasize that every entry must balance (debits equal credits) and must be correct for the accounting system to generate correct and useful information. An incorrect journal entry that is posted to the right accounts will still produce incorrect information.

An **account** can have only one **balance**. Debits and credits within the same account are subtracted to determine the account balance, just like positives and negatives from a mathematical standpoint. The **normal balance** of an account is the side used to **record** increases in the account.

When discussing the **posting** process, inform students to be very careful when transferring amounts to the ledger. It is common for students at this point to reverse a posting, recording a debit as a credit or vice versa. A debit is placed on the left side, and a credit is placed on the right side. If the **trial balance** doesn't balance, it is common for students to have reversed a posting.

It is important for students to see the difference between the trial balance and the financial statements (especially the balance sheet). For example, the trial balance totals debits and credits. The balance sheet does not have debits and credits to total but totals the assets and then liabilities plus stockholders' equity.

Finally, it may be helpful for students to view the accounting system from both ends. The natural process is to **journalize**, post, and prepare a trial balance. However, once the chapter content is discussed, you can also begin with the trial balance and have students trace back to the ledger and journal to find a specific **transaction**. They can also get experience doing this when correcting a trial balance that doesn't balance.

When assigning homework problems, consider working the alternate problem in class. Both the exercises and the problems for each chapter have a Group A and a Group B. These problems are identical except that the names, the dates, and the dollar amounts change. For example, if you assign P2-33A, "Journalizing, posting, and preparing a trial balance," you can work P2-39B in class. You might also consider the "error correction" type of problems. Students often have the most trouble with problems that require critical thinking. Error correction problems require students to think beyond the routine assignments. For example, Problem P2-36A, "Correcting errors," requires students to prepare correcting

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journal entries and determine whether an error would cause net income to be overstated, understated, or unchanged. Problem P2-42B is the alternate problem and can be worked in class as a group assignment.

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Assignment Grid

Assignment	Topic(s)	Learning Objective(s)	Estimated Time in Minutes	Level of Difficulty
Short Exercises				
S2-1	Accounting terms	1	5-10	Easy
S2-2	Account types	1	5-10	Easy
S2-3	Accounting cycle steps	2, 3, 4	5-10	Easy
S2-4	Account types	1	5-10	Easy
S2-5	Accounting terminology	2, 3, 4	5-10	Easy
S2-6	Effects of debits and credits on accounts	2	5-10	Easy
S2-7	Balancing accounts and normal balances	2, 3	5-10	Easy
S2-8	Types of accounts and effects of debits and credits	2, 3	5-10	Easy
S2-9	Re-creating journal entries from T-account postings	2, 3	15-20	Easy
S2-10	Journalizing transactions	3	10-15	Easy
S2-11	Journalizing transactions	3	10-15	Easy
S2-12	Preparing a trial balance	4	10-15	Easy
S2-13	Preparing financial statements from a trial balance	4	5-10	Easy
S2-14	Accounting terminology	1, 2, 3, 4	5-10	Easy
Exercises (Group A)				
E2-15A	Journalizing transactions	2, 3	10-15	Easy
E2-16A	Journalizing transactions	3	15-20	Easy
E2-17A	Journalizing transactions	3	15-20	Easy
E2-18A	Balancing accounts and preparing a trial balance	3, 4	10-15	Easy
E2-19A	Recording transactions and preparing a trial balance	3, 4	15-20	Medium
E2-20A	Journalizing transactions and preparing a trial balance and balance sheet	3, 4	20-25	Medium
E2-21A	Journalizing, posting, trial balance, income statement, and balance sheet	3, 4	25-30	Medium
E2-22A	Correcting errors	4	20-25	Difficult
Exercises (Group B)				
E2-23B	Journalizing transactions	2, 3	10-15	Easy
E2-24B	Journalizing transactions	3	15-20	Easy
E2-25B	Journalizing transactions	3	15-20	Easy
E2-26B	Balancing accounts and preparing a trial balance	3, 4	10-15	Easy
E2-27B	Recording transactions and preparing a trial balance	3, 4	15-20	Medium

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E2-28B	Journalizing transactions and preparing a trial balance and balance sheet	3, 4	20-25	Medium
E2-29B	Journalizing, posting, trial balance, income statement, and balance sheet	3, 4	25-30	Medium
E2-30B	Correcting errors	4	20-25	Difficult

Exercises (Alternatives 1, 2, and 3)
Available at http://www.pearson.com/mylab/accounting

Problems (Group A)

P2-31A	Journalizing transactions	3	15-20	Medium
P2-32A	Journalizing transactions	3	15-20	Medium
P2-33A	Journalizing, posting, and preparing a trial balance	3, 4	20-25	Medium
P2-34A	Journalizing, posting, and preparing a trial balance	3, 4	25-30	Medium
P2-35A	Preparing a trial balance, income statement, statement of retained earnings, and balance sheet	4	20-25	Medium
P2-36A	Correcting errors	4	15-20	Difficult

Problems (Group B)

P2-37B	Journalizing transactions	3	15-20	Medium
P2-38B	Journalizing transactions	3	15-20	Medium
P2-39B	Journalizing, posting, and preparing a trial balance	3, 4	20-25	Medium
P2-40B	Journalizing, posting, and preparing a trial balance	3, 4	25-30	Medium
P2-41B	Prepare a trial balance, income statement, statement of retained earnings, and balance sheet	4	20-25	Medium
P2-42B	Correcting errors	4	15-20	Difficult

Problems (Alternatives 1, 2, and 3))
Available at http://www.pearson.com/mylab/accounting

Continuing Exercise

	Opening T-accounts, journalizing transactions, posting and preparing a trial balance	3, 4	30	Medium

Continuing Problem

	Journalizing transactions, opening general ledger accounts, posting and preparing a trial balance	3, 4	50-60	Medium

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Continuing Financial Statement Analysis Problem Using Dick's Sporting Goods (Dick's) financial statements to answer a series of questions	3, 4	40-45	Medium
Ethics in Action (2 cases)	1	30	Medium
Financial Analysis	3, 4	60	Medium
Industry Analysis	3, 4	40	Medium
Small-Business Analysis	2, 3	30	Medium
Written Communication	1, 2	30	Medium

Assignments Available in Varied Accounting Software Formats:
Excel Templates: E2-18A, P2-41B
QuickBooks: P2-31A, P2-32A, P2-33A, P2-34A, P2-36A, 32-17A
Peachtree: P2-31A, P2-32A, P2-33A, P2-34A, P2-36A, 32-17A
General Ledger: P2-31A, P2-32A

Answer Key to Chapter 2 Quiz (on following pages)

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

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Name_____Date_____Section_____

CHAPTER 2
TEN-MINUTE QUIZ

Circle the letter of the best response.

1. Which of these is (are) an example of a liability account?
   A. Service Revenue
   B. Rent Expense
   C. Accounts Payable
   D. All of the above

2. Oliver Company collected $2,250 on account. The effect of this transaction on the accounting equation is to:
   A. increase assets and decrease liabilities.
   B. nothing. It has no effect on total assets.
   C. increase assets and increase stockholders' equity.
   D. decrease assets and decrease liabilities.

3. Which of these statements is TRUE?
   A. Decreases in assets and increases in revenues are recorded with a debit.
   B. Increases in liabilities and decreases in retained earnings are recorded with a credit.
   C. Increases in both assets and dividends are recorded with a credit.
   D. Decreases in liabilities and increases in expenses are recorded with a debit.

4. Notes Payable has a normal beginning balance of $30,000. During the period, new borrowings total $63,000 and the ending balance in Notes Payable is $41,000. Determine the payments on loans during the period.
   A. $ 8,000
   B. $ 52,000
   C. $134,000
   D. $ 22,000

5. Which of these statements is NOT correct?
   A. The account is a basic summary device used in accounting.
   B. A business transaction is recorded first in the journal and then posted to the ledger.
   C. The ledger is a chronological listing of all transactions.
   D. The debit entry is recorded first in a journal entry; the credit entry then follows.

6. Which of these accounts has a normal credit balance?
   A. Rent Expense
   B. Common Stock
   C. Service Revenue
   D. Both B and C

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7. The journal entry to record the payment to a supplier of $890 on account is:

A. Accounts Payable 890
    Cash 890

B. Cash 890
    Accounts Receivable 890

C. Cash 890
    Accounts Payable 890

D. Supplies 890
    Cash 890

8. The ending Cash account balance is $57,600. During the period, debit postings equal $124,300. If credit postings during the period total $135,100, then the beginning Cash amount must have been:

A. $ 68,400.
B. $ 46,800.
C. $181,900.
D. $ 10,800.

9. Use the following selected information for the Callie Company to calculate the correct credit column total for a trial balance:

Accounts Receivable	$ 7,200
Accounts Payable	6,900
Building	179,400
Cash	15,800
Common Stock	64,000
Salary Expense	56,100
Salary Payable	3,600
Service Revenue	190,500
Dividends	6,500

A. $201,000
B. $265,000
C. $321,400
D. $271,500

10. The INCORRECT trial balance debit column total is $58,700. During the period, a $1,000 debit to Accounts Receivable was posted as $100. What is the trial balance debit column total after this error is corrected?

A. $57,600
B. $59,800
C. $57,800
D. $59,600

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Discussion Questions

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

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S 2-1
(5-10 min.)

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

Solution:

1	
2	
3	
4	
5	
6	
7	

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S 2-2
(5-10 min.)

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

Solution:

1		
2		
3		
4		
5		
6		

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S 2-3
(5-10 min.)

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

Solution:

1	
5	
4	
3	
2	

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S 2-4
(5-10 min.)

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

Solution:

Example	A, 1
1	
2	
3	
4	
5	
6	
7	

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S 2-5
(5-10 min.)

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

Solution:

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S 2-6
(5-10 min.)

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

Solution:

	1	
	2	
	3	
	4	
	5	
	6	
	7	

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S 2-7
(5-10 min.)

Calculate each account balance.

Solution:

Supplies	

Note payable	

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S 2-8
(5-10 min.)

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

Solution:

Account	Type	↑ ↓

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S 2-9
(15-20 min.)

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

Solution:

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.
1				
2				
3				
4				
5				
6				
7				

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S 2-10
(10-15 min.)

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

Solution:

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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S 2-11
(10-15 min.)

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

Solution:

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**

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S 2-12
(10-15 min.)

Prepare the trial balance for Audio Masters at April 30, 2018. List the accounts in proper order.

Solution:

Audio Masters, Corp Trial Balance April 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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S 2-13
(5-10 min.)

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

Solution:

Mylar, Inc. Trial Balance December 31, 2018			
	ACCOUNT	DEBIT	CREDIT

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S 2-14
(5-10 min.)

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

Solution:

	1	
	2	
	3	
	4	
	5	
	6	
	7	
	8	
	9	

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

Requirement

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

Solution:

Req. 1

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.

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

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

Solution:

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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

Requirement

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

Solution:

Req. 1

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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

Requirements

1. Calculate account balances at January 31, 2018.
2. Prepare the trial balance for Zane's Creations, Inc., at January 31, 2018.

Solution:

Req. 1

Cash	

Accounts Payable	

Accounts Receivable	

Common stock	

Supplies	

Service Revenue	

Equipment	

Salaries Expense	

Rent Expense	

Utilities Expense	

Req. 2

Creative Design, Inc.
Trial Balance
January 31, 2018

	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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

Requirements

1. Journalize the transactions for the month of March. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at March 31, 2018.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at March 31, 2018.

Solution:

Req 1

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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Req 2 & 3

Cash	

Accounts payable	

Accounts receivable	

Notes payable	

Supplies	

Common stock	

Building	

Service revenue	

Office furniture	

Rent expense	

Req 4

Clocktower Cleaning, Inc. Trial Balance March 31, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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

Requirements

1. Based on the accounts, create the journal entries that resulted from the six transactions. Include explanations with each journal entry.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Sounds on Wheels, Inc., at April 30, 2018.
4. Prepare a balance sheet for Sounds on Wheels, Inc., as of April 30, 2018.

Solution:

Req 1

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**

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Req. 2

Cash	

Accounts payable	

Supplies	

Notes payable	

Equipment	

Common stock	

Building	

Req. 3

Sounds on Wheels, Inc. Trial Balance April 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

Req. 4

Sounds on Wheels, Inc. Balance Sheet April 30, 2018			
ASSETS		LIABILITIES	

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

Requirements

1. Open, or set up, T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post the journal entries to the T-accounts, identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at June 30, 2018.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

Solution:

Req. 1, and 2

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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Req. 1, and 3

Cash	

Accounts payable	

Accounts receivable	

Common stock	

Supplies	

Service revenue	

Equipment	

Rent Expense	

Furniture	

Utilities expense	

Req. 4

Willis Construction, Inc. Trial Balance June 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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Req. 5

Willis Construction, Inc. Income Statement Month Ended June 30, 2018		

Willis Construction, Inc. Statement of Retained Earnings Month Ended June 30, 2018		

Willis Construction, Inc. Balance Sheet June 30, 2018			

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

Requirements

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

Solution:

	Effect on Trial Balance	Account(s) Misstated
a.		
b.		
c.		
d.		
e.		

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

Requirement

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

Solution:

Req. 1

Transaction	Account Affected	Type	↑ ↓	Dr. or Cr.

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

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

Solution:

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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

Requirements

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

Solution:

Req. 1

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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

Requirements

1. Calculate account balances at March 31, 2018.
2. Prepare the trial balance for Inspired Design, Inc., at March 31, 2018.

Solution:

Req. 1

Cash	

Accounts Payable	

Accounts Receivable	

Common stock	

Supplies	

Service revenue	

Equipment	

Salaries Expense	

Rent Expense	

Utilities Expense	

Req. 2

Inspiried Design, Inc. Trial Balance March 31, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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

Requirements

1. Journalize the transactions for the month of September. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at September 30, 2018.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at September 30, 2018.

Solution:

Req 1

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**

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Req 2 & 3

Cash	

Accounts payable	

Accounts receivable	

Notes payable	

Supplies	

Common stock	

Office furniture	

Service revenue	

Building	

Rent expense	

Req 4

White Glove Cleaning, Inc. Trial Balance September 31, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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

Requirements

1. Prepare the journal entries that served as the sources for the six transactions.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Mobile Music, Inc., at November 30, 2018.
4. Prepare a balance sheet for Mobile Music, Inc., as of November 30, 2018.

Solution:

Req 1

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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Req. 2

Cash	

Accounts payable	

Supplies	

Notes payable	

Equipment	

Common stock	

Building	

Req. 3

Mobile Music, Inc. Trial Balance November 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

Req. 4

Mobile Music, Inc. Balance Sheet November 30, 2018			
ASSETS		LIABILITIES	
		STOCKHOLDERS' EQUITY	

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

Requirements

1. Open or set up T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post journal entries to the T-accounts. Identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at September 30, 2018.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

Solution:

Req. 1, and 2

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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Req. 1, and 3

Cash	

Accounts payable	

Accounts receivable	

Common stock	

Supplies	

Service revenue	

Equipment	

Rent Expense	

Furniture	

Utilities expense	

Req. 4

McGuire Construction, Inc. Trial Balance September 30, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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Req. 5

McGuire Construction, Inc. Income Statement Month Ended September 30, 2018		

McGuire Construction, Inc. Statement of Retained Earnings Month Ended September 30, 2018		

McGuire Construction, Inc. Balance Sheet September 30, 2018			

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

Requirements

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

Solution:

	Effect on Trial Balance	Account(s) Misstated
a.		
b.		
c.		
d.		
e.		

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**

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P2-33A
(20-25 min.)

Requirements

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts, using transaction dates as posting references.
4. Calculate the balance in each account at January 31, 2018.
5. Prepare the trial balance for Miller & Associates, Inc., at January 31, 2018.

Solution:

Req. 1, 3, and 4

Cash	

Accounts Payable	

Common stock	

Accounts Receivable	

Dividends	

Supplies	

Service revenue	

Furniture	

Salaries Expense	

Land	

Rent Expense	

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Req 2

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

Req. 5

Miller & Associates, Inc. Trial Balance January 31, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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

Requirements

1. Journalize the transactions that occurred September 16 to September 30 on page 6 of the journal.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at September 15. Use the four-column account format illustrated in the chapter. Enter "Bal" for the September 15 balance in the Item column. Post the transactions to the ledger using dates, account numbers, and posting references. Calculate the new account balances at September 30, 2018.
3. Prepare the trial balance for Safenet, Inc., at September 30, 2018.

Solution:

Req. 1

Journal				Page 6
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

Journal				Page 6
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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Req. 2

CASH						ACCOUNT NO. 110
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

ACCOUNTS RECEIVABLE						ACCOUNT NO. 112
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

SUPPLIES						ACCOUNT NO. 115
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

EQUIPMENT						ACCOUNT NO. 140
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

ACCOUNTS PAYABLE						ACCOUNT NO. 210
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

COMMON STOCK						ACCOUNT NO. 311
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

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DIVIDENDS					ACCOUNT NO. 315	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

SERVICE REVENUE					ACCOUNT NO. 411	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

SALARIES EXPENSE					ACCOUNT NO. 511	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

RENT EXPENSE					ACCOUNT NO. 515	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

Req. 3

Safenet, Inc. Trial Balance September 30, 2018			
	ACCOUNT	**DEBIT**	**CREDIT**

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

Requirements

1. Prepare the company's trial balance at March 31, 2018, listing accounts in the proper order. List the largest expense first, the second largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of $17,010 is the beginning balance for the month; it has not been updated for the current month's income or loss.
3. Was it a profitable month for Hernandez Computer Repair, Inc.? Why or why not?

Solution:

Req. 1

Hernandez Computer Repair, Inc. Trial Balance March 31, 2018		
	BALANCE	
ACCOUNT	DEBIT	CREDIT

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Req. 2

Hernandez Computer Repair, Inc. Income Statement Month Ended March 31, 2018		

Hernandez Computer Repair, Inc. Statement of Retained Earnings Month Ended March 31, 2018	

Hernandez Computer Repair, Inc. Balance Sheet March 31, 2018			

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

Requirements

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

Solution:

Req. 1

Journal			Page 3	
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
a.				
b.				
c.				
d.				

Req 2

a.	
b.	
c.	
d.	

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**

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

Requirement

1. Journalize each transaction. Omit explanations.

Solution:

Journal				
DATE	**ACCOUNTS**	**POST. REF.**	**Dr.**	**Cr.**

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P2-39B
(20-25 min.)

Requirements

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts that have been set up for you, using transaction dates as posting references.
4. Calculate the balance in each account.
5. Prepare the trial balance for Le & Associates, Inc., at March 31, 2018.

Solution:

Req. 1, 3, and 4

Cash	

Accounts Payable	

Common stock	

Accounts Receivable	

Dividends	

Supplies	

Service revenue	

Furniture	

Salaries Expense	

Land	

Rent Expense	

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Req 2

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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Req. 5

Le & Associates, Inc. Trial Balance March 31, 2018		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT

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

Requirements

1. Journalize the transactions that occurred May 16 to May 31 on page 6 of the journal.
2. Open T-accounts for the ledger accounts listed in the trial balance and enter their beginning balances at May 15. Use the four-column account format illustrated in the chapter. Enter “Bal” for the May 15 balance in the item column. Post the transactions to the ledger, using dates, account numbers, and posting references. Calculate the new account balances at May 31, 2018.
3. Prepare the trial balance for Security Systems, Inc., at May 31, 2018.

Solution:

Req. 1 and 2 is done after Req. 3

Req. 3

Security Systems, Inc. Trial Balance May 31, 2018			
	ACCOUNT	**DEBIT**	**CREDIT**

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Req. 1

Journal				Page 6
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

Financial Accounting 5th edition Kemp Solutions Manual

Req. 2

CASH					ACCOUNT NO. 110	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

ACCOUNTS RECEIVABLE					ACCOUNT NO. 112	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

SUPPLIES					ACCOUNT NO. 115	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

EQUIPMENT					ACCOUNT NO. 140	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

ACCOUNTS PAYABLE					ACCOUNT NO. 210	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

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COMMON STOCK					ACCOUNT NO. 311	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

DIVIDENDS					ACCOUNT NO. 315	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

SERVICE REVENUE					ACCOUNT NO. 411	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

SALARIES EXPENSE					ACCOUNT NO. 511	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

RENT EXPENSE					ACCOUNT NO. 515	
		POST.			BALANCE	
DATE	ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT

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

Requirements

1. Prepare the company's trial balance at October 31, 2018, listing accounts in the proper order. List the largest expense first, the second-largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of $14,840 is the beginning balance for the month; it has not been updated for the current month's net income or loss.
3. Was it a profitable month for Wellington Electronics Repair, Inc.? Why or why not?

Solution:

Req. 1

Wellington Electronics Repair, Inc. Trial Balance October 31, 2018		
	BALANCE	
ACCOUNT	DEBIT	CREDIT

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Req. 2

Wellington Electronics Repair, Inc. Income Statement Month Ended October 31, 2018		

Wellington Electronics Repair, Inc. Statement of Retained Earnings Month Ended October 31, 2018	

Wellington Electronics Repair, Inc. Balance Sheet October 31, 2018			

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

Requirements

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

Solution:

Req. 1

Journal			Page 3	
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
a.				
b.				
c.				
d.				

Req 2

a.	
b.	
c.	
d.	

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Continuing Exercise

Requirements

1. Open T-accounts in the ledger: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Stock, Retained Earnings, Service Revenue, and Utilities Expense.
2. Journalize the transactions. Explanations are not required.
3. Post journal entries to the T-accounts. Key all items by date and denote an account balance as Bal. Formal posting references are not required. Determine ending balances in T-accounts on May 31, 2018.
4. Prepare a trial balance at May 31, 2018.

Solution:

Req. 1 and 3 See after Req 4

Req 2

Req 4

Sensations Salon, Inc. Trial Balance May 31, 2018		
ACCOUNT	**DEBIT**	**CREDIT**

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Continuing Exercise

Req.1 and Req. 3

Assets = Liabilities + Stockholders' equity

Cash	

Accounts payable	

Common stock	

Accounts receivable	

Retained earnings	

Supplies	

Service revenue	

Equipment	

Utilties expense	

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Continuing Problem

Requirements

1. Journalize the transactions that occurred in April. Omit explanations.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at March 31. Use the four-column account format illustrated in the chapter. Enter "Bal" for the March 31 balance in the Item column. Post the journal entries to the ledger creating new ledger accounts as necessary, omit posting references. Calculate the new account balances at April 30, 2018.
3. Prepare the trial balance for Fitness Equipment Doctor, Inc., at April 30, 2018.

Solution:

Req. 1

Journal				Page 6
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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Journal				Page 6
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.

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Req. 2

CASH

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

ACCOUNTS RECEIVABLE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

SUPPLIES

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

LAND

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

OFFICE FURNITURE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

EQUIPMENT

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

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VEHICLES

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

ACCOUNTS PAYABLE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

NOTES PAYABLE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

COMMON STOCK

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

DIVIDENDS

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

SERVICE REVENUE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

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SALARIES EXPENSE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

RENT EXPENSE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

UTILITIES EXPENSE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

ADVERTISING EXPENSE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

MISCELLANEOUS EXPENSE

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT

Fitness Equipment Doctor, Inc.
Trial Balance
April 30, 2018

	ACCOUNT	DEBIT	CREDIT

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Continuing Financial Statement Analysis Problem

a. What would happen to Dick's balance sheet if it borrowed $50 million in cash from a bank?
b. What would happen to Dick's balance sheet if it built a new store costing $50 million in cash?
c. What would happen to Dick's income statement and balance sheet if it had a big sale, increasing net income by $10 million which all ended up as cash?
d. What would happen to Dick's income statement and balance sheet if it hired more employees? The salaries of these employees cost Dick's $1 million paid in cash. The extra employees did not create any extra net income. (Note: Do not consider taxes in your answer.)

Solution:

a.

Date	Accounts	Post Ref.	Dr.	Cr.

b.

Date	Accounts	Post Ref.	Dr.	Cr.

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c.

Date		Post Ref.	Dr.	Cr.

d.

Date		Post Ref.	Dr.	Cr.

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Case 1

-
-
-

Case 2

-
-
-

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Financial Analysis

Requirements

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

Solution:

Req. 1

Journal			
DATE	**ACCOUNTS**	**Dr.**	**Cr.**

Req. 2

No solution.

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Industry Analysis

Requirements

1. In terms of net sales or net revenue, which is the larger company for the year ending December 31, 2016? Which financial statement did you look at to find that information?
2. In terms of total assets at December 31, 2016, which is the larger company? Which financial statement did you look at to find that information?
3. Which company has more total debt at December 31, 2016? Which financial statement did you look at to find that information?
4. Which company has the higher gross profit percentage for the year ending December 31, 2016? Don't know that one? On the Consolidated Statements of Operations/Income, divide Gross Profit by Net Sales (or Net Revenues). What exactly does this mean?
5. Which company paid more cash dividends to its stockholders in 2016? Which financial statement did you look at to find that information?
6. Which company's stock would you rather own? Why?

Solution:

1

2

3

4

5

6

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Small Business Analysis

Requirement

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

Solution:

Date	**Accounts**	**Post Ref.**	**Dr.**	**Cr.**

Date	**Accounts**	**Post Ref.**	**Dr.**	**Cr.**

Date		**Post Ref.**	**Dr.**	**Cr.**

Written Communication

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

Solution:

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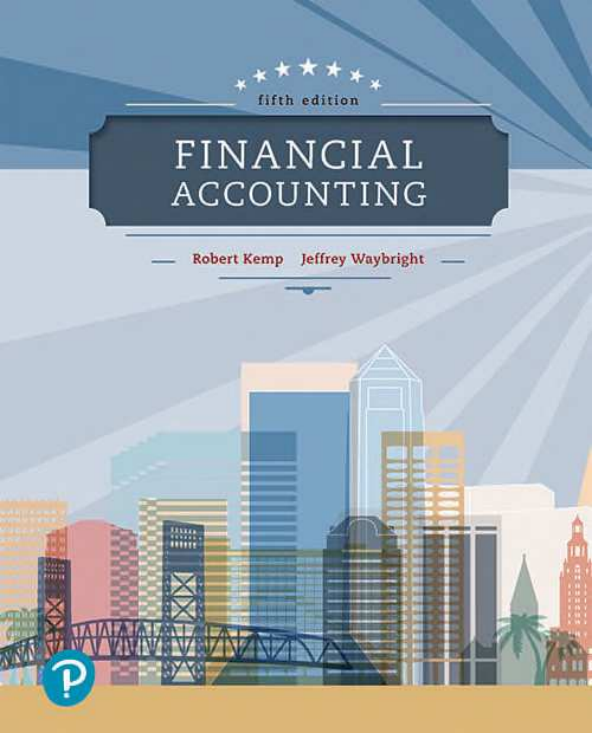

Analyzing and Recording Business Transactions

Chapter 2

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Learning Objectives

1. Define accounts and understand how they are used in accounting
2. Explain debits, credits, and the double-entry system of accounting
3. Demonstrate the use of the general journal and the general ledger to record business transactions
4. Use a trial balance to prepare financial statements

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Business, Accounting, and You

- How does the Bold City Brewery, or any other business, keep up with all the transactions? How does a business keep track of all its sales (revenue), expenses, assets, liabilities, and other activities?
- There must be a “scorekeeper.”
- There must be a systematic process that recognizes, measures, records, and reports these business transactions in an understandable, reliable, and relevant manner.
- There must be a way to capture the cause and effect of each transaction.
- That’s the role of accounting in business.

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Business, Accounting, and You

- For accounting information to be understandable, reliable, and relevant, accountants have rules.
- GAAP sets the rules for recognizing and measuring business transactions.
- It is a set of standard, universally accepted procedures that work.
- The key to using these techniques and procedures is understanding (1) accounts and (2) double-entry accounting.

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Define Accounts and Understand How They Are Used in Accounting

Learning Objective 1

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Accounts and Chart of Accounts

Accounts
• The basic summary device of accounting • The detailed record of all the changes in a specific asset, liability, or stockholders' equity item as a result of transactions.

Organizing Accounts
• 1 Assets • 2 Liability • 3 Stockholders' equity • 4 Revenue • 5 Expense • 9 Other revenue or expense

- The **chart of accounts** is a list of all the **accounts** of a business and the numbers assigned to those accounts.

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Assets

Cash	Accounts Receivable	Notes Receivable
Prepaid Expenses	Land	Buildings
	Equipment, Furniture, and Fixtures	

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Liabilities

Accounts Payable

Notes Payable

Accrued Liabilities

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Stockholders' Equity

Common Stock

Retained Earnings

Revenues

Expenses

Dividends

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Explain Debits, Credits, and the Double-Entry System of Accounting

Learning Objective 2

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What Is Double-Entry Accounting?

- **T-account**

Account Title	
Debit = left side	Credit = right side
Dr.	Cr.

- **Double-entry accounting** requires that every transaction affect at least two accounts.

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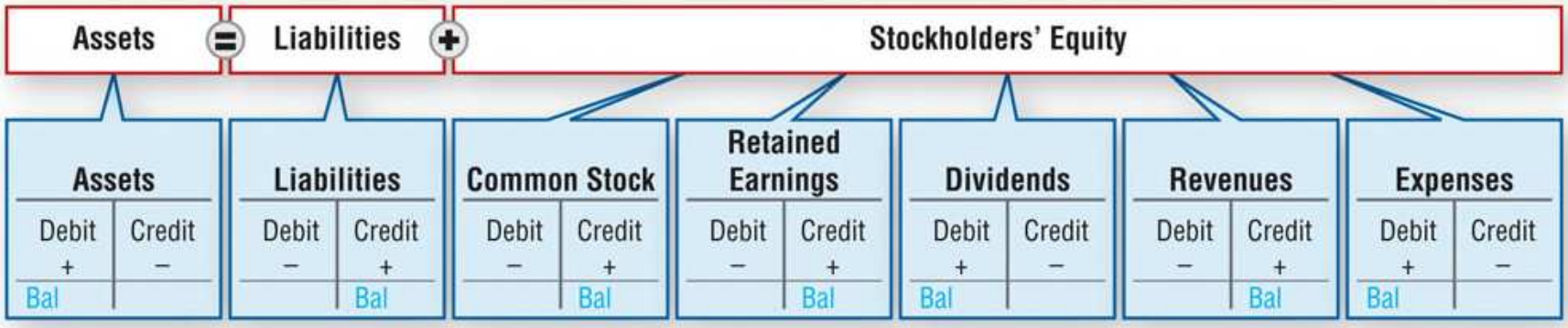
The Accounting Equation and T-accounts



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Normal Balance

Account:	Normal Balance:
Assets	Debit
Liabilities	Credit
Common Stock	Credit
Retained Earnings	Credit
Dividends	Debit
Revenues	Credit
Expenses	Debit

- The **normal balance** of an account is on the increase side of an account.

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Demonstrate the Use of the General Journal and the General Ledger to Record Business Transactions

Learning Objective 3

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General Journal

- The **general journal** is the chronological accounting record of the transactions of a business.
- **Recording** (**journalizing**) is entering a transaction in a journal.
- A **transaction** is an event that has a financial impact on a business entity.

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Steps in Recording a Journal Entry

1. Record the date.
2. Record the debit part of the entry by entering the account title and then entering the amount in the debit column.
3. Record the credit part of the entry on the next line by indenting the account title and then entering the amount in the credit column.
4. Write an explanation describing the entry.

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General Ledger and Posting

- The **general ledger** is the accounting record summarizing, in accounts, the transactions of a business and showing the resulting ending account balances.
- **Posting** is copying information from the general journal to accounts in the general ledger.
- Debits in the journal are posted as debits in the ledger, and credits in the journal are posted as credits in the ledger.

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Posting from the General Journal to the General Ledger

PANEL A—Illustrative Transaction:

DATE	TRANSACTION
Jan 1, 2018	Bold City Consulting, Inc., sold $10,000 of common stock to Brian Miller, who was investing cash in the business.

PANEL B—Journal:

Page 1

DATE	ACCOUNTS		POST REF.	DR.	CR.
Jan 1, 2018	Cash		111	10,000	
	Common Stock		311		10,000
	Sold stock.				

PANEL C—Ledger:

1 2 3 4

Cash — Account No. 111

DATE	ITEM	POST REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
2018 Jan 1		J.1	10,000		10,000	

Common Stock — Account No. 311

DATE	ITEM	POST REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
2018 Jan 1		J.1		10,000		10,000

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Transaction Analysis

Step 1

- What accounts are involved?
- *Example*: Cash, Accounts Payable, Salaries Expense, etc.

Step 2

- For each account involved, what type of account is it? Is it an asset, a liability, or one of the stockholders' equity accounts?
- *Example*: Cash is an asset.

Step 3

- Is the account balance increasing or decreasing?
- *Example*: If you receive cash, then that account increases.

Step 4

- Should the account be debited or credited?
- *Example*: Cash is an asset and it increases; increases in assets are recorded as debits.

Step 5

- Record the entry and post to the accounts in the general ledger.

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Applying Transaction Analysis

Step 1	Step 2	Step 3	Step 4	Step 5
Accounts affected	Type	↑↓	Dr. or Cr.	Journalize entry and post to ledger

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Applying Transaction Analysis

1. Sale of stock. The business sold Brian Miller $10,000 of common stock for cash.

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Cash	Asset	Increase	Dr.
Common Stock	Stockholders' Equity	Increase	Cr.

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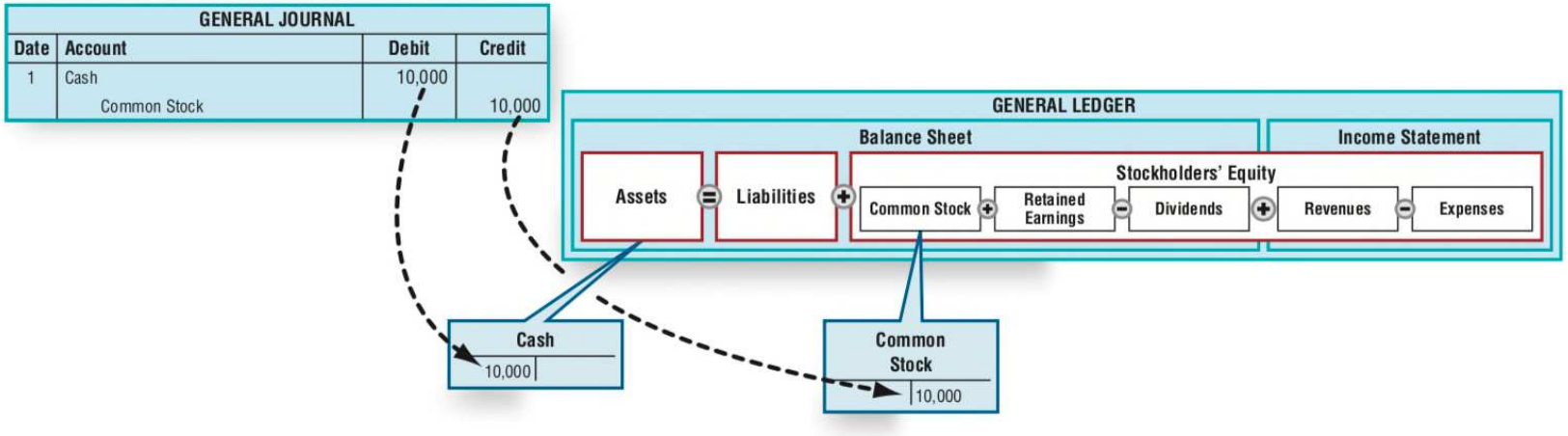
Journalize and Post to the General Ledger



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Applying Transaction Analysis

2. Purchase supplies on credit. Bold City Consulting purchases office supplies, agreeing to pay $250 within 30 days.

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Supplies	Asset	Increase	Dr.
Accounts Payable	Liability	Increase	Cr.

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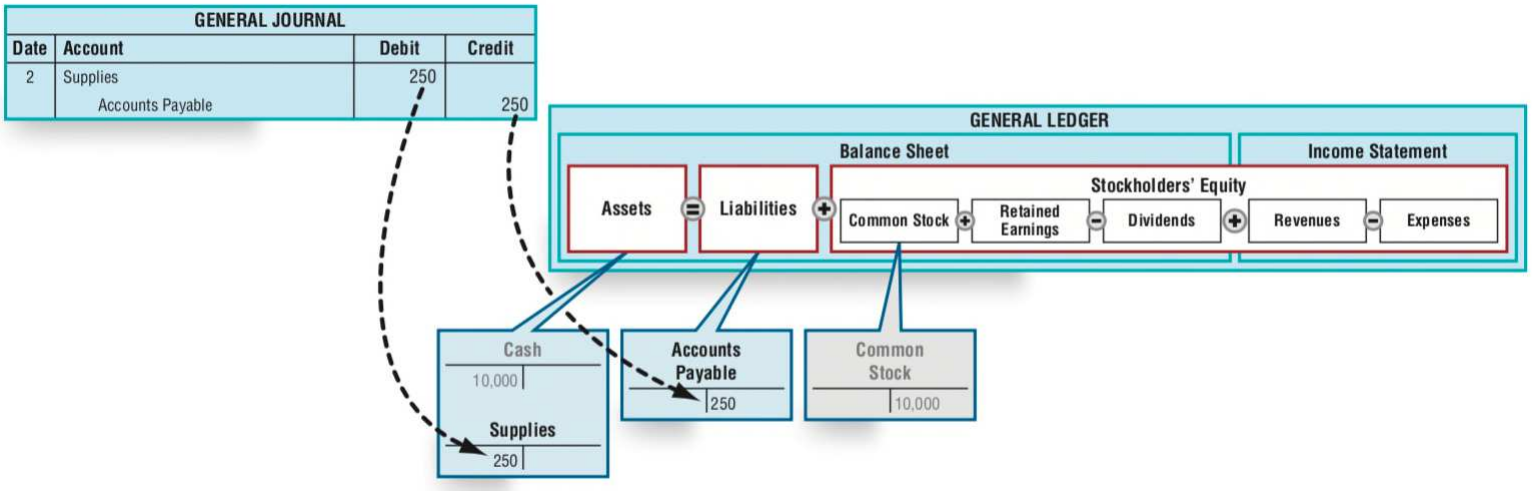
Journalize and Post to the General Ledger



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Applying Transaction Analysis

3. Purchase equipment for cash. The business purchases equipment, paying cash of $1,400.

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Equipment	Asset	Increase	Dr.
Cash	Asset	Decrease	Cr.

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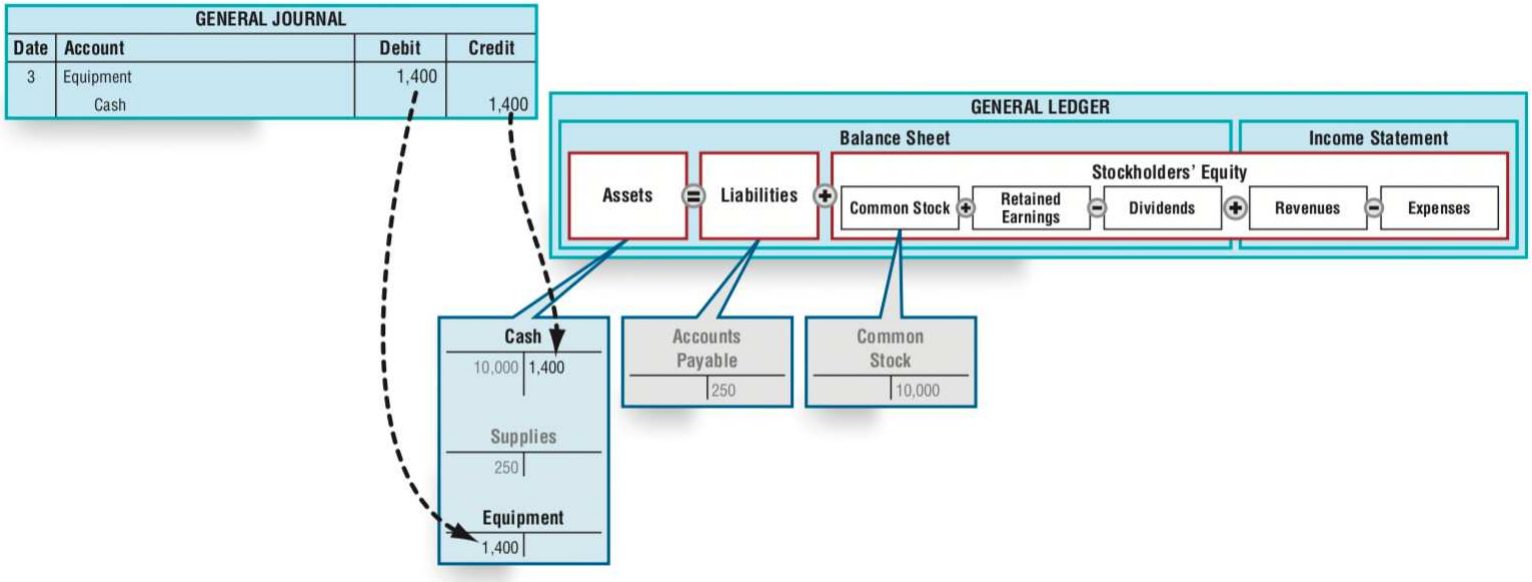

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Applying Transaction Analysis

4. Borrow cash from the bank. Bold City Consulting borrows $2,500 cash from the bank and signs a two-year note payable to the bank.

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Cash	Asset	Increase	Dr.
Notes Payable	Liabilities	Increase	Cr.

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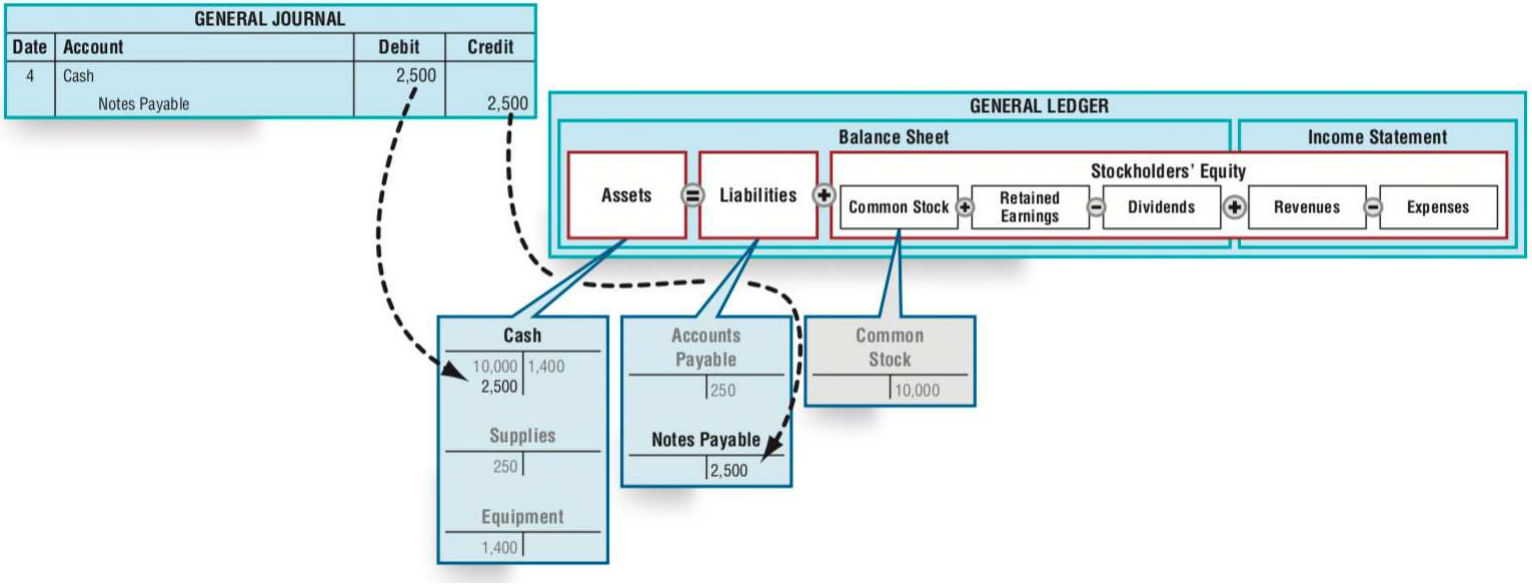

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Applying Transaction Analysis

5. Provide services for cash. Bold City Consulting collects $2,600 cash for services provided.

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Cash	Asset	Increase	Dr.
Service Revenue	Revenue	Increase	Cr.

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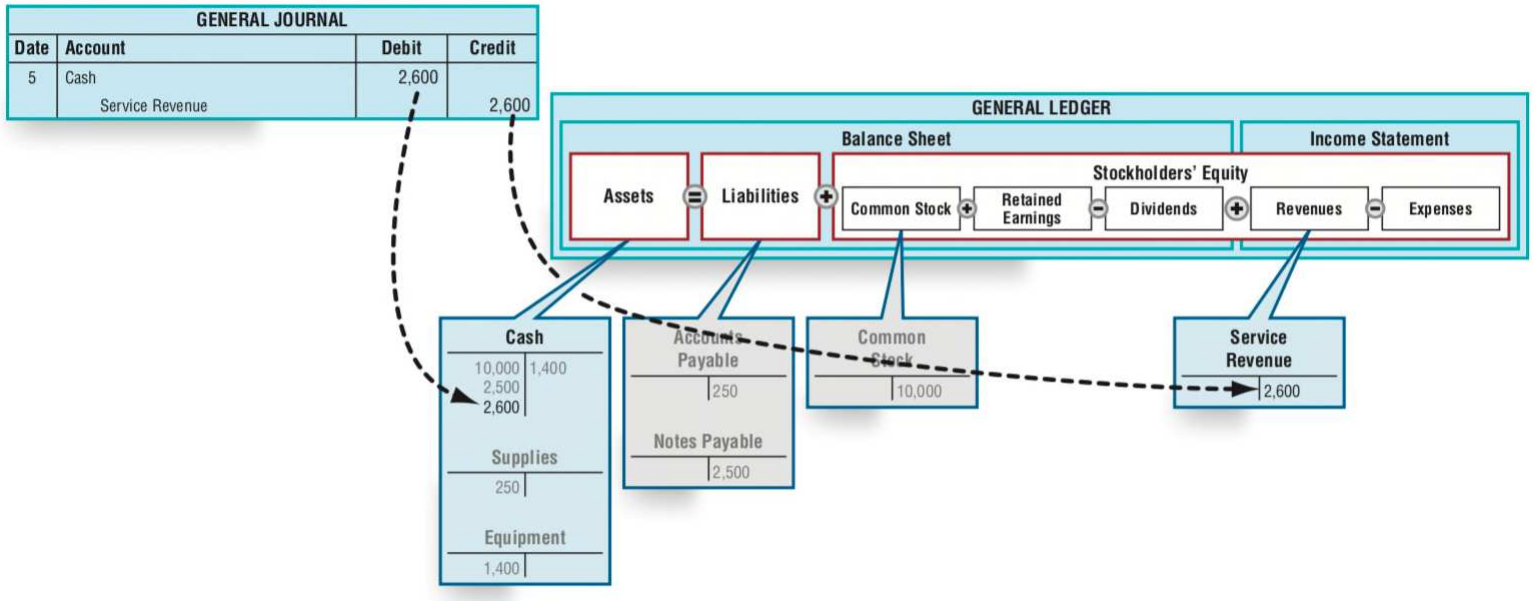

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Applying Transaction Analysis

6. Provide services on credit. Bold City Consulting performs $3,150 of services on account.

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Accounts Receivable	Asset	Increase	Dr.
Service Revenue	Revenue	Increase	Cr.

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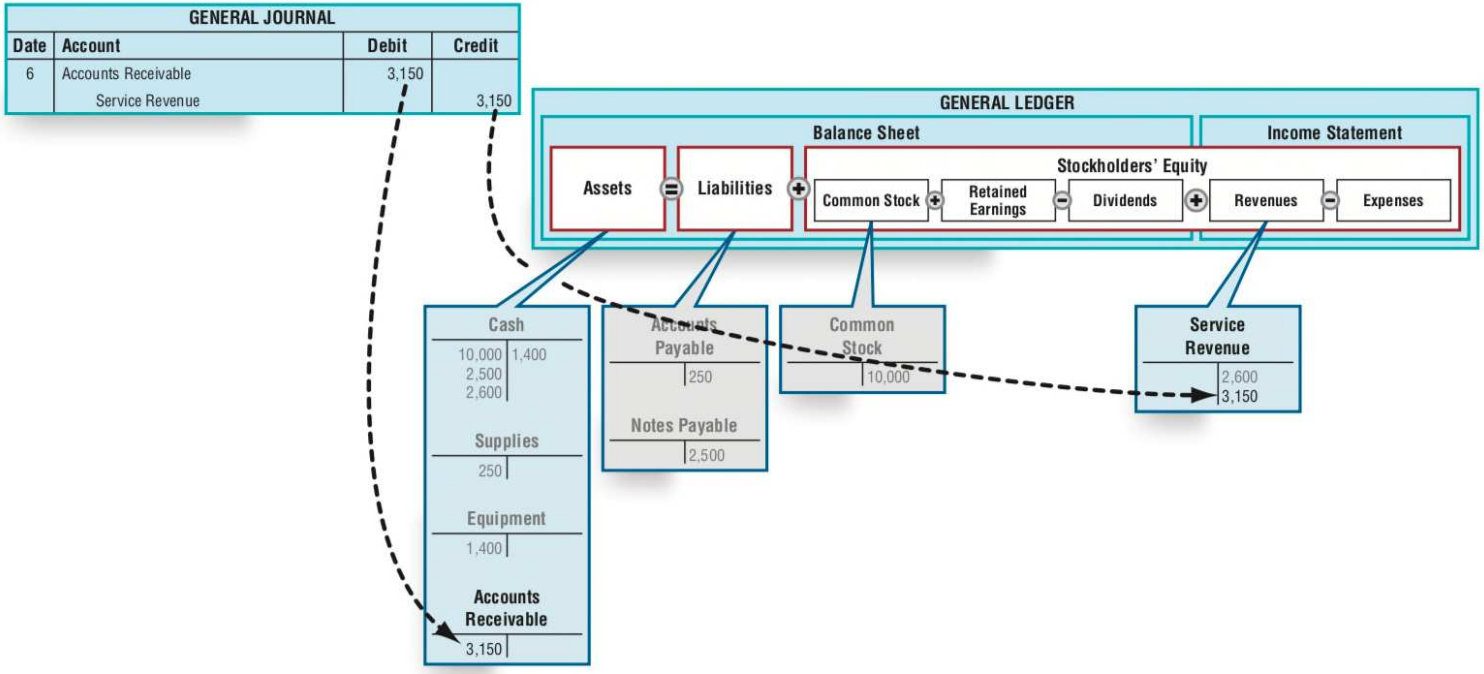

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Applying Transaction Analysis

7. Partial payment of accounts payable. Bold City Consulting pays $150 to the store where it purchased $250 worth of supplies in transaction (2).

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Accounts Payable	Liability	Decrease	Dr.
Cash	Asset	Decrease	Cr.

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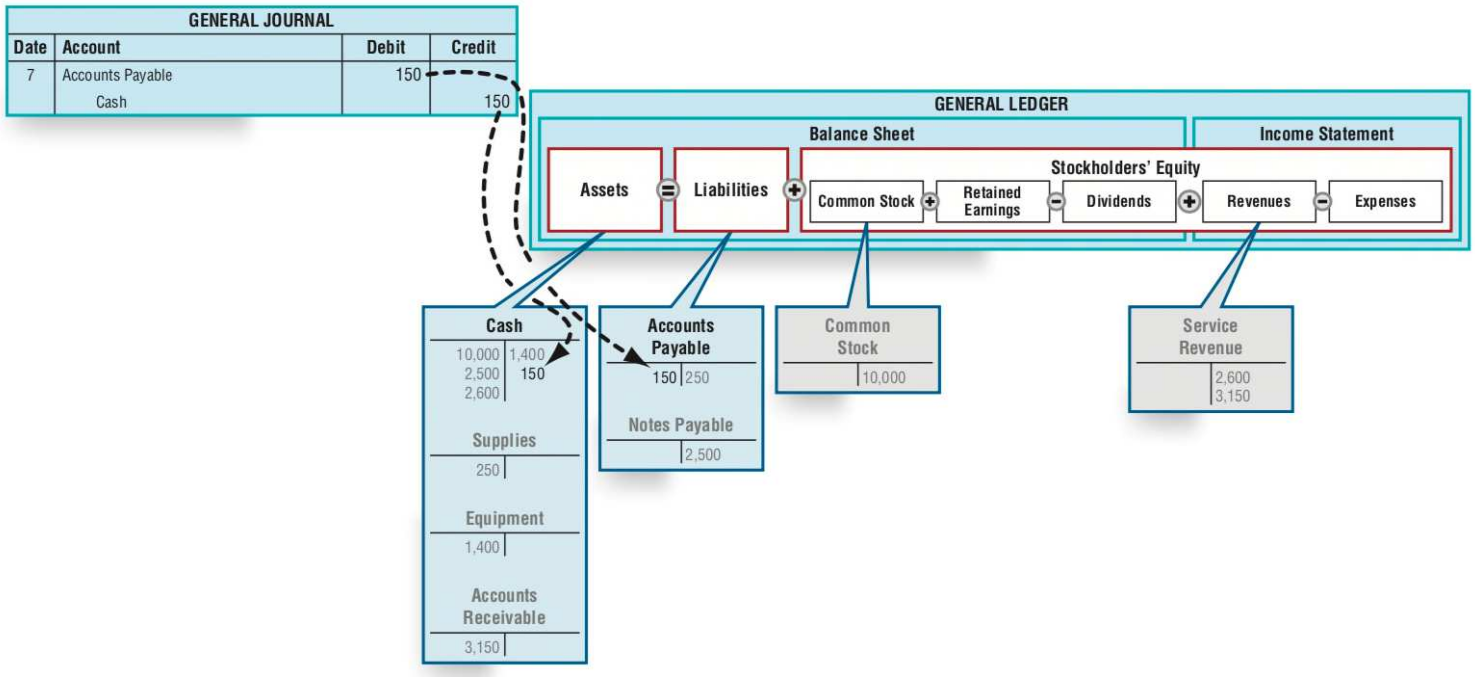
Journalize and Post to the General Ledger



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Applying Transaction Analysis

8. Payment of expenses. During the month, Bold City Consulting paid $2,300 cash for expenses incurred, such as salaries ($1,350), building rent ($750), and utilities ($200).

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Salaries Expense	Expense	Increase	Dr.
Rent Expense	Expense	Increase	Dr.
Utilities Expense	Expense	Increase	Dr.
Cash	Asset	Decrease	Cr.

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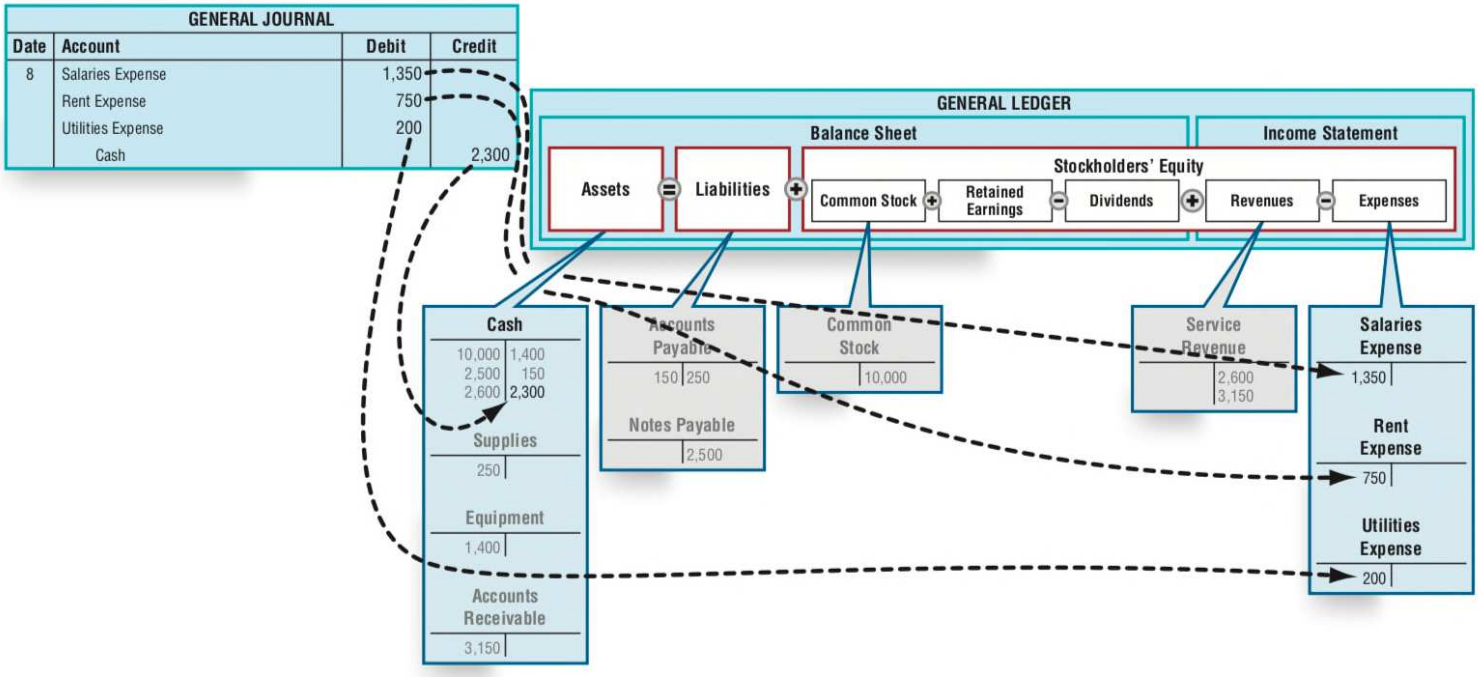
Journalize and Post to the General Ledger



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Applying Transaction Analysis

9. Cash dividends. Bold City Consulting pays $1,500 of cash dividends to Brian Miller, the stockholder.

1	2	3	4
Accounts Affected	Type	Increase or Decrease	Dr. or Cr.
Dividends	Stockholders' Equity	Increase	Dr.
Cash	Asset	Decrease	Cr.

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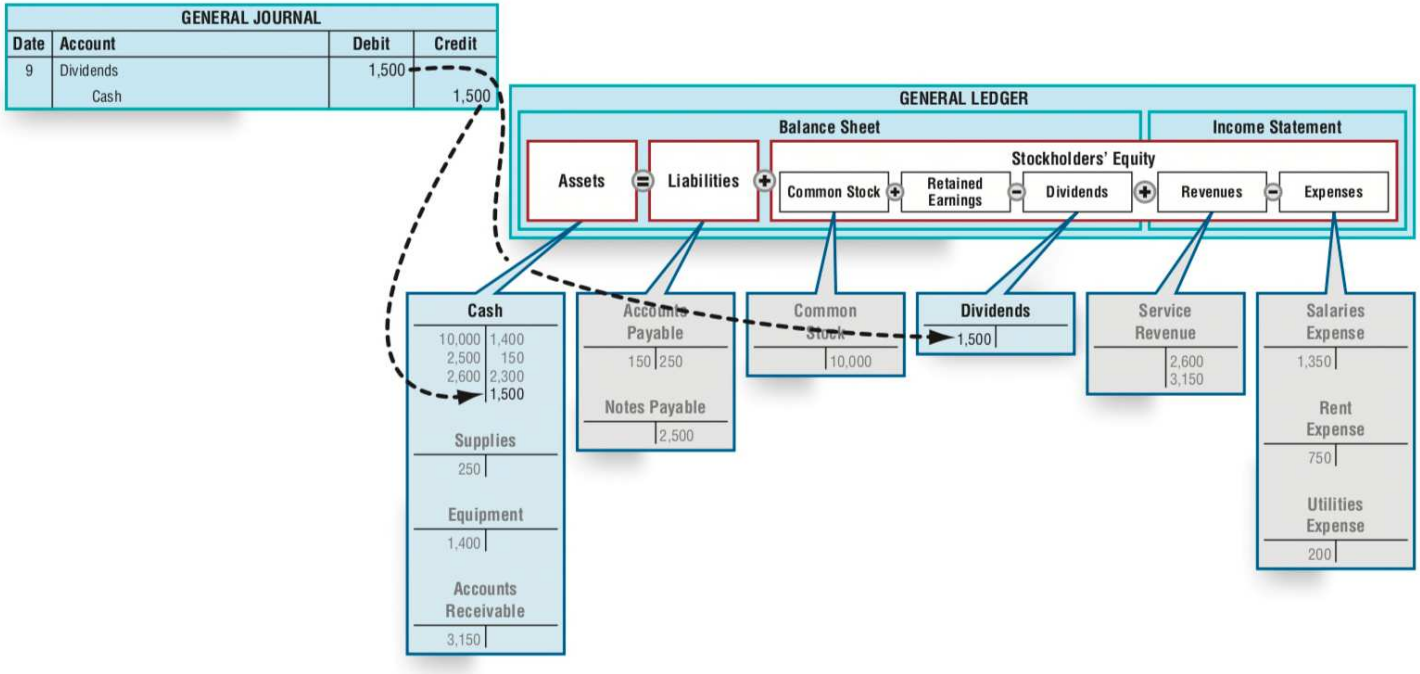
Journalize and Post to the General Ledger



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Example E2-17A

- The following transactions are provided:
  - Mar 1: Sold $95,000 of common stock to Jimmy Wu to start the business.
  - Mar 3: Purchased supplies on account, $800.
  - Mar 5: Paid cash for a building to use for storage, $35,000.
  - Mar 6: Performed service for customers and received cash, $1,500.
  - Mar 11: Paid on accounts payable, $500.
  - Mar 18: Performed service for customers on account, $2,600.
  - Mar 24: Received cash from a customer on account, $900.
  - Mar 30: Paid the following expenses: salaries, $700; and rent, $1,500.

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Example E2-17A

Date	Account	Dr.	Cr.
1-Mar	Cash	$ 95,000.00	
	Common Stock		$ 95,000.00
3-Mar	Supplies	$ 800.00	
	Accounts Payable		$ 800.00
5-Mar	Building	$ 35,000.00	
	Cash		$ 35,000.00
6-Mar	Cash	$ 1,500.00	
	Service Revenue		$ 1,500.00

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Example E2-17A

Date	Account	Dr.	Cr.
11-Mar	Accounts Payable	$ 500.00	
	Cash		$ 500.00
18-Mar	Accounts Receivable	$ 2,600.00	
	Service Revenue		$ 2,600.00
24-Mar	Cash	$ 900.00	
	Accounts Receivable		$ 900.00
30-Mar	Salaries Expense	$ 700.00	
	Rent Expense	$ 1,500.00	
	Cash		$ 2,200.00

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Balancing the T-Accounts

- The **balance** is the difference between an account's total debit and total credit amounts; the ending value of an account.
- After the transactions are recorded and posted to the T-accounts, you calculate each account's balance.

Cash		101	
(1) Bal	0	(3)	8,200
(2)	15,000		
(4) Bal	6,800		

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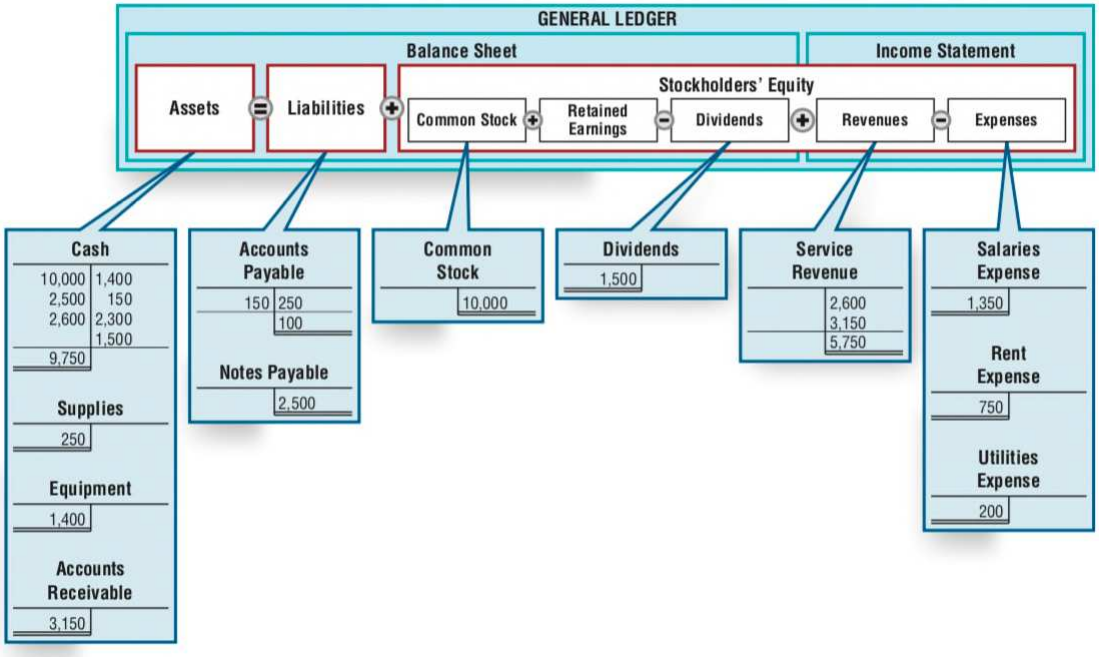
Balancing the T-Accounts



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Use a Trial Balance to Prepare Financial Statements

Learning Objective 4

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Trial Balance

- Once transactions have been recorded in the journal and posted to accounts in the ledger, a trial balance is prepared.
- A **trial balance** is a list of all the accounts of a business and their balances.
- Its purpose is to verify that total debits equal total credits.

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Trial Balance

Bold City Consulting, Inc.
Trial Balance
January 31, 2018

		ACCOUNT	DEBIT	CREDIT
		Cash	$9,750	
		Accounts Receivable	3,150	
		Supplies	250	
		Equipment	1,400	
		Accounts Payable		$ 100
		Notes Payable		2,500
		Common Stock		10,000
		Dividends	1,500	
		Service Revenue		5,750
		Salaries Expense	1,350	
		Rent Expense	750	
		Utilities Expense	200	
		Total	$18,350	$18,350

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Example S2-12

The accounting records for Audio Masters Corp., contain the following amounts on April 30, 2018.

- Service Revenue $63,000
- Prepaid Rent $750
- Accounts Payable $1,700
- Equipment $21,000
- Dividends $22,600
- Utilities Expense $18,400
- Note Payable $11,500
- Cash $18,300
- Rent Expense $10,150
- Common Stock $15,000

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Example S2-12

Audio Masters, Corp.
Trial Balance
April 30, 2018

ACCOUNT TITLE	BALANCE	
	DEBIT	CREDIT
Cash	$18,300	
Prepaid Rent	750	
Equipment	21,000	
Accounts Payable		$1,700
Note Payable		11,500
Common Stock		15,000
Dividends	22,600	
Service Revenue		63,000
Rent Expense	10,150	
Utilities Expense	18,400	
Total	$91,200	$91,200

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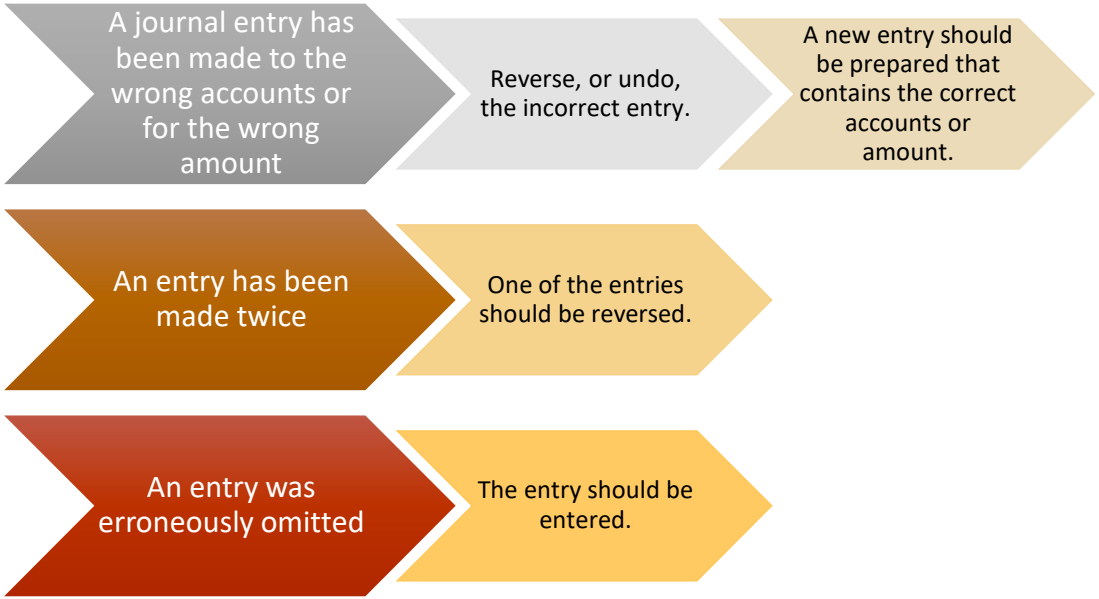
Correcting Errors

- If an error has occurred, the steps required to correct it depend on the type of error that was made.



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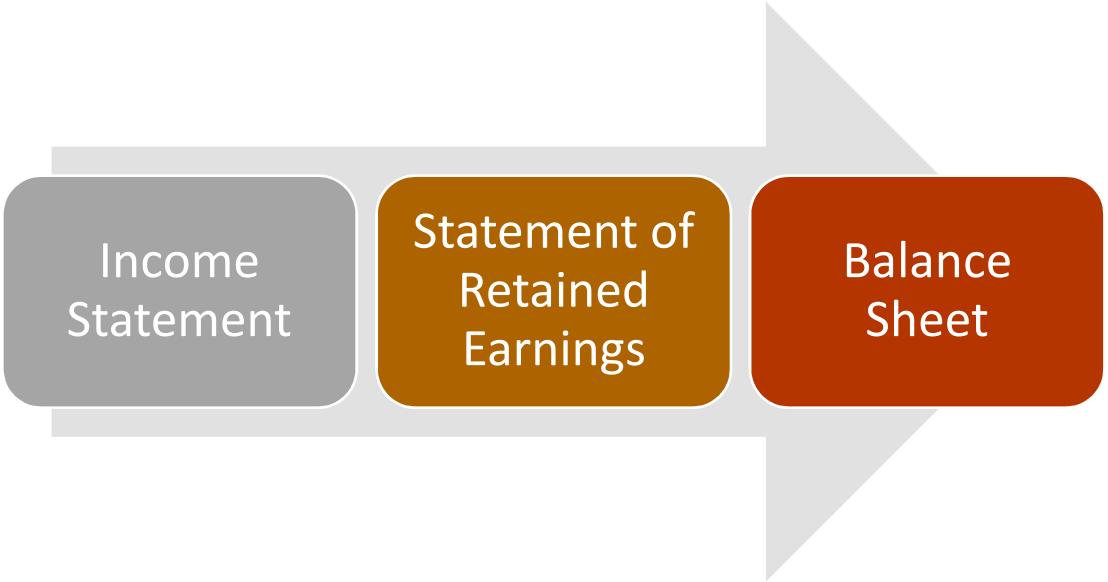
Preparation of Financial Statements

- After the trial balance is completed, the financial statements can be prepared, in the following order:



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Preparation of Financial Statements

Bold City Consulting, Inc.
Income Statement
Month Ended January 31, 2018

Revenue:		
Service Revenue		$5,750
Expenses:		
Salaries Expense	$1,350	
Rent Expense	750	
Utilities Expense	200	
Total Expenses		2,300
Net Income		$3,450

Bold City Consulting, Inc.
Statement of Retained Earnings
Month Ended January 31, 2018

Retained Earnings, January 1, 2018	$ 0
Add: Net Income for the month	3,450
Subtotal	3,450
Less: Dividends	1,500
Retained Earnings, January 31, 2018	$1,950

Bold City Consulting, Inc.
Balance Sheet
January 31, 2018

ASSETS		LIABILITIES	
Cash	$9,750	Accounts Payable	$ 100
Accounts Receivable	3,150	Notes Payable	2,500
Supplies	250	Total Liabilities	2,600
Equipment	1,400		
		STOCKHOLDERS' EQUITY	
		Common Stock	10,000
		Retained Earnings	1,950
		Total Stockholders' Equity	11,950
Total Assets	$14,550	Total Liabilities & Stockholders' Equity	$14,550

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Accounting Cycle

- The process of analyzing transactions, entering them into the journal, posting them to the ledger, preparing a trial balance, and preparing financial statements is only a part of the accounting cycle.
- The **accounting cycle** is the sequence of steps used to record and report business transactions.
- This accounting cycle is completed by a business for every **accounting period**, and then it is repeated for the next accounting period, and the next, and the next, and so on.

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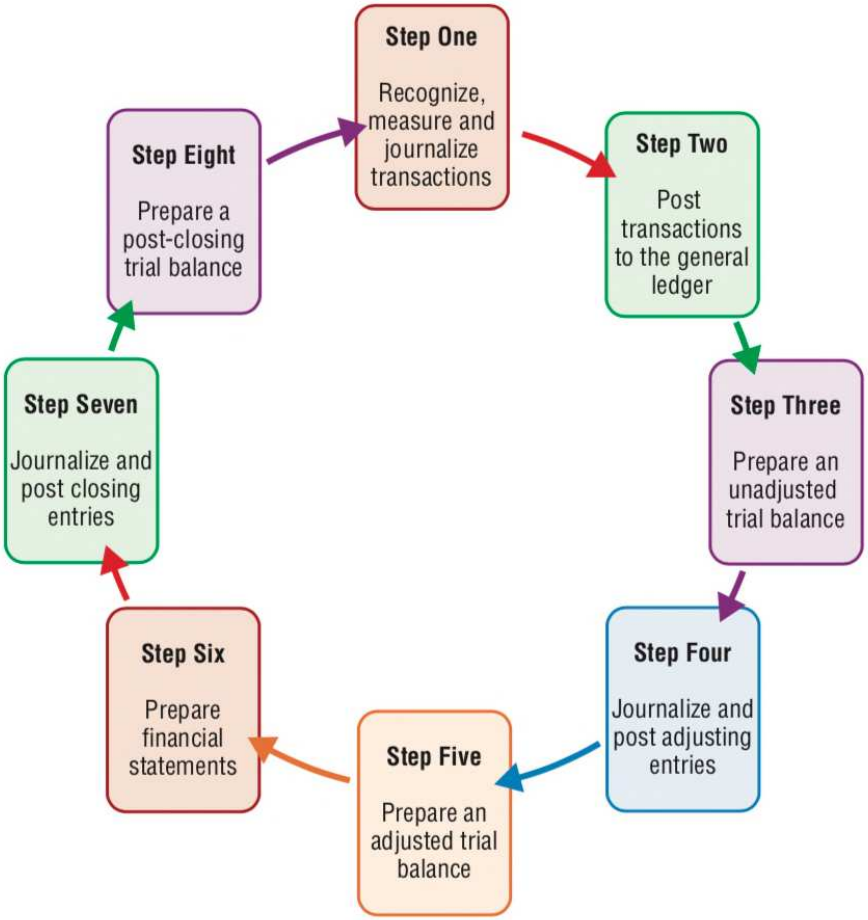
Accounting Cycle



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Chapter Summary

- Numbered accounts are used to keep things organized.
- Account numbers starting with:
  - 1, assets
  - 2, liabilities
  - 3, stockholders' equity other than revenues and expenses
  - 4, revenues
  - 5, expenses
  - 6 through 9, other

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Chapter Summary

- Debits and credits are used to record changes in an account's balance.
  - Debits increase assets, expenses, and dividends.
  - Credits increase liabilities, common stock, retained earnings, and revenues.
  - Debits decrease liabilities, common stock, retained earnings, and revenues.
  - Credits decrease assets, expenses, and dividends.

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Chapter Summary

- Business transactions are
  - entered into the general journal.
  - posted from the general journal to the general ledger.
- A trial balance
  - ensures that debits equal credits.
  - is used to prepare the income statement, statement of retained earnings, and balance sheet.

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