Corporate Financial Accounting 14th edition Warren Solutions Manual

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CHAPTER 2
ANALYZING TRANSACTIONS

DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, stockholders' equity, revenue, or expense. A ledger is a group of related accounts.

2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset, expense, and dividends accounts but a decrease in liability, common stock, retained earnings, and revenue accounts.

3. **A.** Assuming no errors have occurred, the credit balance in the cash account resulted from writing checks for $1,850 in excess of the amount of cash on deposit.

B. The $1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.

4. **A.** The revenue was earned in October.

B. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.

(2) Debit Cash and credit Accounts Receivable in November.

5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.

6. The listing of $9,800 is a transposition; the listing of $100 is a slide.

7. **A.** No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.

B. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by $90.

8. **A.** The equality of the trial balance would not be affected.

B. On the income statement, total operating expenses (salary expense) would be overstated by $7,500, and net income would be understated by $7,500. On the retained earnings statement, the beginning and ending retained earnings would be correct. However, net income and dividends would be understated by $7,500. These understatements offset one another, and thus, ending retained earnings is correct. The balance sheet is not affected by the error.

9. **A.** The equality of the trial balance would not be affected.

B. On the income statement, revenues (fees earned) would be overstated by $300,000, and net income would be overstated by $300,000. On the retained earnings statement, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by $300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by $300,000, and stockholders' equity (retained earnings) is overstated by $300,000. The understatement of liabilities is offset by the overstatement of stockholders' equity (retained earnings), and thus, total liabilities and stockholders' equity is correct.

10. **A.** From the viewpoint of Surety Storage, the balance of the checking account represents an asset.

B. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

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BASIC EXERCISES

BE 2–1

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

BE 2–2

Mar.	9	Office Supplies		1,775	
		Cash			275
		Accounts Payable			1,500

BE 2–3

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

BE 2–4

June	30	Dividends	11,500	
		Cash		11,500

BE 2–5

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

Supplies

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

$1,324 = $1,025 + $3,110 – Supplies expense
Supplies expense = $1,025 + $3,110 – $1,324 = $2,811

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BE 2–6

A. The totals are equal because both the debit and credit entries were journalized and posted for $12,900.

B. The totals are unequal. The credit total is higher by $1,656 ($1,840 – $184).

C. The totals are unequal. The debit total is higher by $4,500 ($8,300 – $3,800).

BE 2–7

A.

Cash	8,400	
Accounts Receivable		8,400

B.

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

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

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

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EXERCISES

Ex. 2–1

Balance Sheet Accounts	Income Statement Accounts
Assets	**Revenue**
Advanced Payments for Equipment[a]	Cargo Revenue
Cash	Passenger Revenue
Flight Equipment	
Fuel Inventory	
Parts and Supplies Inventories	
Prepaid Expenses	
Liabilities	**Expenses**
Accounts Payable	Aircraft Fuel (Expense)
Air Traffic Liability[b]	Aircraft Maintenance (Expense)
Frequent Flyer (Obligations)[c]	Aircraft Rent (Expense)
Taxes Payable	Contract Carrier Arrangements (Expense)[d]
	Landing Fees (Expense)[e]
	Passenger Commissions (Expense)[f]
Stockholders' Equity	
None	

[a] Advance payments (deposits) on aircraft to be delivered in the future
[b] Passenger ticket sales for future flights
[c] Obligations to provide frequent flyers future travel and other benefits
[d] Payments to other airlines for passenger travel under Delta tickets
[e] Fees paid to airports for landing rights
[f] Commissions paid to travel agents for passenger bookings

Ex. 2–2

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

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

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Ex. 2–3

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

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

Ex. 2–4

A.	debit	G.	credit
B.	credit	H.	debit
C.	credit	I.	debit
D.	credit	J.	credit
E.	debit	K.	debit
F.	credit	L.	debit

Ex. 2–5

1. debit and credit entries (C)
2. debit and credit entries (C)
3. debit and credit entries (C)
4. credit entries only (B)
5. debit entries only (A)
6. debit entries only (A)
7. debit entries only (A)

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Ex. 2–6

A. Liability—credit
B. Asset—debit
C. Asset—debit
D. Stockholders' equity (Common Stock)—credit
E. Stockholders' equity (Dividends)—debit
F. Revenue—credit
G. Asset—debit
H. Expense—debit
I. Asset—debit
J. Expense—debit

Ex. 2–7

2018				
March	1	Rent Expense	4,000	
		Cash		4,000
	3	Advertising Expense	1,350	
		Cash		1,350
	5	Supplies	1,800	
		Cash		1,800
	6	Office Equipment	11,500	
		Accounts Payable		11,500
	10	Cash	8,600	
		Accounts Receivable		8,600
	15	Accounts Payable	3,180	
		Cash		3,180
	27	Miscellaneous Expense	700	
		Cash		700
	30	Utilities Expense	550	
		Cash		550
	31	Accounts Receivable	37,200	
		Fees Earned		37,200
	31	Utilities Expense	830	
		Cash		830
	31	Dividends	2,000	
		Cash		2,000

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Ex. 2–8

A.

JOURNAL Page 91

Date		Description	Post. Ref.	Debit	Credit
2018					
Oct.	3	Supplies	15	3,600	
		Accounts Payable	21		3,600
		Purchased supplies on account.			

B., C., D.

Account: Supplies Account No. 15

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	1	Balance	✓			770	
	3		91	3,600		4,370	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	1	Balance	✓				26,200
	3		91		3,600		29,800

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

Ex. 2–9

A.

(1)	Accounts Receivable	54,100	
	Fees Earned		54,100
(2)	Supplies	1,250	
	Accounts Payable		1,250
(3)	Cash	43,800	
	Accounts Receivable		43,800
(4)	Accounts Payable	600	
	Cash		600

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Ex. 2–9 (Concluded)

B.

Cash			
(3)	43,800	(4)	600

Accounts Payable			
(4)	600	(2)	1,250

Supplies			
(2)	1,250		

Fees Earned			
		(1)	54,100

Accounts Receivable			
(1)	54,100	(3)	43,800

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

Ex. 2–10

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

B. **$60,000 ($200,000 – $140,000)**

or

Cash	
X	375,000
515,000	
200,000	

X + $515,000 – $375,000 = $200,000
X = $200,000 – $515,000 + $375,000
X = $60,000

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Ex. 2–11

A.

Accounts Payable			
		Feb. 1	X
	186,500		201,400
		Feb. 28	59,900

X + $201,400 – $186,500 = $59,900
X = $59,900 + $186,500 – $201,400
X = $45,000

B.

Accounts Receivable			
Oct. 1	115,800		449,600
	X		
Oct. 31	130,770		

$115,800 + X – $449,600 = $130,770
X = $130,770 + $449,600 – $115,800
X = $464,570

C.

Cash			
Apr. 1	46,220		X
	248,600		
Apr. 30	56,770		

$46,220 + $248,600 – X = $56,770
X = $46,220 + $248,600 – $56,770
X = $238,050

Ex. 2–12

A. **Debit (negative) balance of $16,000 ($314,000 – $10,000 – $320,000). This negative balance means that the liabilities of the business exceed the assets.**

B. **Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the stockholders' equity section as a debit (negative) balance of $16,000.**

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Ex. 2–13

A. and B.

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

Ex. 2–14

(1)	Cash	50,000	
	Common Stock		50,000
(2)	Supplies	3,400	
	Cash		3,400
(3)	Equipment	15,000	
	Accounts Payable		10,000
	Cash		5,000
(4)	Operating Expenses	4,850	
	Cash		4,850
(5)	Accounts Receivable	18,200	
	Service Revenue		18,200
(6)	Accounts Payable	2,500	
	Cash		2,500
(7)	Cash	8,700	
	Accounts Receivable		8,700
(8)	Operating Expenses	1,100	
	Supplies		1,100
(9)	Dividends	1,000	
	Cash		1,000

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Ex. 2–15

A.

Napa Tours Co. Unadjusted Trial Balance April 30, 2018		
	Debit Balances	Credit Balances
Cash	41,950	
Accounts Receivable	9,500	
Supplies	2,300	
Equipment	15,000	
Accounts Payable		7,500
Common Stock		50,000
Dividends	1,000	
Service Revenue		18,200
Operating Expenses	5,950	
	75,700	75,700

B. **Net income, $12,250 ($18,200 – $5,950)**

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Ex. 2–16

Atlantic Furniture Company Unadjusted Trial Balance July 31, 2018		
	Debit Balances	Credit Balances
Cash	207,325	
Accounts Receivable	483,600	
Supplies	3,975	
Prepaid Insurance	21,600	
Land	50,000	
Accounts Payable		92,400
Unearned Rent		6,000
Notes Payable		25,000
Common Stock		75,000
Retained Earnings		311,600
Dividends	24,000	
Fees Earned		2,750,000
Wages Expense	2,250,000	
Rent Expense	140,000	
Utilities Expense	49,100	
Supplies Expense	11,200	
Insurance Expense	9,000	
Miscellaneous Expense	10,200	
	3,260,000	3,260,000

Cash = $3,260,000 – $10,200 – $9,000 – $11,200 – $49,100 – $140,000 – $2,250,000 – $24,000 – $50,000 – $21,600 – $3,975 – $483,600 = $207,325

Ex. 2–17

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

Errors (B), (C), (D), and (E) would require correcting entries. Although it is not a correcting entry, the entry that was not made in (A) should also be entered in the journal.

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Ex. 2–18

Ranger Co. Unadjusted Trial Balance August 31, 2018		
	Debit Balances	Credit Balances
Cash	15,500	
Accounts Receivable	46,750	
Prepaid Insurance	12,000	
Equipment	190,000	
Accounts Payable		24,600
Unearned Rent		5,400
Common Stock		40,000
Retained Earnings		70,000
Dividends	13,000	
Service Revenue		385,000
Wages Expense	213,000	
Advertising Expense	16,350	
Miscellaneous Expense	18,400	
	525,000	525,000

Ex. 2–19

Error	(A) Out of Balance	(B) Difference	(C) Larger Total
1.	yes	$6,000	debit
2.	no	—	—
3.	yes	5,400	credit
4.	yes	480	debit
5.	no	—	—
6.	yes	90	credit
7.	yes	360	credit

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Ex. 2–20

1. **The Debit column total is added incorrectly. The sum is $1,098,500 rather than $1,801,500.**
2. **The trial balance should be dated "December 31, 2018," not "For the Year Ending December 31, 2018."**
3. **The Accounts Receivable balance should be in the Debit column.**
4. **The Accounts Payable balance should be in the Credit column.**
5. **The Dividends balance should be in the Debit column.**
6. **The Advertising Expense balance should be in the Debit column.**

A corrected trial balance would be as follows:

Ensemble Co. Unadjusted Trial Balance December 31, 2018		
	Debit Balances	Credit Balances
Cash	42,900	
Accounts Receivable	123,500	
Prepaid Insurance	27,000	
Equipment	300,000	
Accounts Payable		52,000
Salaries Payable		4,800
Common Stock		40,000
Retained Earnings		137,200
Dividends	5,000	
Service Revenue		1,216,000
Salary Expense	660,000	
Advertising Expense	275,000	
Miscellaneous Expense	16,600	
	1,450,000	1,450,000

Ex. 2–21

A. The correction could be made with one or two entries as shown below.

Prepaid Insurance	36,000	
Insurance Expense		18,000
Cash		18,000

or (reverses original entry)

Prepaid Insurance	18,000	
Insurance Expense		18,000
Prepaid Insurance	18,000	
Cash		18,000

B.

Dividends	10,000	
Wages Expense		10,000

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Ex. 2–22

A.

Cash	**17,600**	
Fees Earned		**8,800**
Accounts Receivable		**8,800**

B.

Accounts Payable	**1,760**	
Supplies Expense		**1,760**

Supplies	**1,760**	
Cash		**1,760**

Note: The first entry reverses the original entry. The second entry is the entry that should have been made initially.

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PROBLEMS

Prob. 2–1A

1. and 2.

Cash

(A)	30,000	(B)	2,500
(G)	9,000	(C)	6,000
		(E)	2,100
		(F)	3,600
		(H)	2,600
		(I)	4,000
		(J)	1,875
		(M)	6,000
		(N)	1,300
Bal.	9,025		

Accounts Receivable

(L)	31,400		

Supplies

(E)	2,100		

Prepaid Insurance

(F)	3,600		

Automobiles

(C)	28,500		

Equipment

(D)	8,000		

Notes Payable

(J)	1,875	(C)	22,500
		Bal.	20,625

Accounts Payable

(I)	4,000	(D)	8,000
		(K)	5,500
		Bal.	9,500

Common Stock

		(A)	30,000

Professional Fees

		(G)	9,000
		(L)	31,400
		Bal.	40,400

Salary Expense

(M)	6,000		

Blueprint Expense

(K)	5,500		

Rent Expense

(B)	2,500		

Automobile Expense

(N)	1,300		

Miscellaneous Expense

(H)	2,600		

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Prob. 2–1A (Concluded)

3.

Knaus Architects Unadjusted Trial Balance January 31, 2018		
	Debit Balances	Credit Balances
Cash	9,025	
Accounts Receivable	31,400	
Supplies	2,100	
Prepaid Insurance	3,600	
Automobiles	28,500	
Equipment	8,000	
Notes Payable		20,625
Accounts Payable		9,500
Common Stock		30,000
Professional Fees		40,400
Salary Expense	6,000	
Blueprint Expense	5,500	
Rent Expense	2,500	
Automobile Expense	1,300	
Miscellaneous Expense	2,600	
	100,525	100,525

4. Net income, $22,500 ($40,400 – $6,000 – $5,500 – $2,500 – $1,300 – $2,600)

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Prob. 2–2A

1. (A)

Cash	40,000	
Common Stock		40,000

(B)

Rent Expense	4,800	
Cash		4,800

(C)

Supplies	2,150	
Accounts Payable		2,150

(D)

Accounts Payable	1,100	
Cash		1,100

(E)

Cash	18,750	
Sales Commissions		18,750

(F)

Automobile Expense	1,580	
Miscellaneous Expense	800	
Cash		2,380

(G)

Office Salaries Expense	3,500	
Cash		3,500

(H)

Supplies Expense	1,300	
Supplies		1,300

(I)

Dividends	1,500	
Cash		1,500

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Prob. 2–2A (Continued)

2.

Cash

(A)	40,000	(B)	4,800
(E)	18,750	(D)	1,100
		(F)	2,380
		(G)	3,500
		(I)	1,500
Bal.	45,470		

Sales Commissions

		(E)	18,750

Rent Expense

(B)	4,800		

Supplies

(C)	2,150	(H)	1,300
Bal.	850		

Office Salaries Expense

(G)	3,500		

Accounts Payable

(D)	1,100	(C)	2,150
		Bal.	1,050

Automobile Expense

(F)	1,580		

Common Stock

		(A)	40,000

Supplies Expense

(H)	1,300		

Dividends

(I)	1,500		

Miscellaneous Expense

(F)	800		

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Prob. 2–2A (Concluded)

3.

Affordable Realty Unadjusted Trial Balance October 31, 2018		
	Debit Balances	Credit Balances
Cash	45,470	
Supplies	850	
Accounts Payable		1,050
Common Stock		40,000
Dividends	1,500	
Sales Commissions		18,750
Rent Expense	4,800	
Office Salaries Expense	3,500	
Automobile Expense	1,580	
Supplies Expense	1,300	
Miscellaneous Expense	800	
	59,800	59,800

4. **A. $18,750**
B. $11,980 ($4,800 + $3,500 + $1,580 + $1,300 + $800)
C. $6,770 ($18,750 – $11,980)

5. $5,270, which is the excess of net income of $6,770 over the dividends of $1,500.

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Prob. 2–3A

1.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
2018					
Nov.	1	Cash	11	36,000	
		Common Stock	31		36,000
	1	Rent Expense	53	4,000	
		Cash	11		4,000
	6	Equipment	16	16,000	
		Accounts Payable	22		16,000
	8	Truck	18	43,000	
		Cash	11		4,300
		Notes Payable	21		38,700
	10	Supplies	13	1,860	
		Cash	11		1,860
	12	Cash	11	8,000	
		Fees Earned	41		8,000
	15	Prepaid Insurance	14	2,400	
		Cash	11		2,400
	23	Accounts Receivable	12	15,500	
		Fees Earned	41		15,500
	24	Truck Expense	55	1,250	
		Accounts Payable	22		1,250

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Date		Description	Post. Ref.	Debit	Credit
2018					
Nov.	29	Utilities Expense	54	3,660	
		Cash	11		3,660
	29	Miscellaneous Expense	59	1,700	
		Cash	11		1,700

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Prob. 2–3A (Continued)

^^

	30	Cash	11	10,500	
		Accounts Receivable	12		10,500
	30	Wages Expense	51	4,750	
		Cash	11		4,750
	30	Accounts Payable	22	4,000	
		Cash	11		4,000
	30	Dividends	33	1,600	
		Cash	11		1,600

2.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	1		1	36,000		36,000	
	1		1		4,000	32,000	
	8		1		4,300	27,700	
	10		1		1,860	25,840	
	12		1	8,000		33,840	
	15		1		2,400	31,440	
	29		2		3,660	27,780	
	29		2		1,700	26,080	
	30		2	10,500		36,580	
	30		2		4,750	31,830	
	30		2		4,000	27,830	
	30		2		1,600	26,230	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	23		1	15,500		15,500	
	30		2		10,500	5,000	

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Prob. 2–3A (Continued)

Account: **Supplies** Account No. **13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	10		1	1,860		1,860	

Account: **Prepaid Insurance** Account No. **14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	15		1	2,400		2,400	

Account: **Equipment** Account No. **16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	6		1	16,000		16,000	

Account: **Truck** Account No. **18**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	8		1	43,000		43,000	

Account: **Notes Payable** Account No. **21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	8		1		38,700		38,700

Account: **Accounts Payable** Account No. **22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	6		1		16,000		16,000
	24		1		1,250		17,250
	30		2	4,000			13,250

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Prob. 2–3A (Continued)

Account: Common Stock **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	1		1		36,000		36,000

Account: Dividends **Account No.** 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	30		2	1,600		1,600	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	12		1		8,000		8,000
	23		1		15,500		23,500

Account: Wages Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	30		2	4,750		4,750	

Account: Rent Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	1		1	4,000		4,000	

Account: Utilities Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	29		2	3,660		3,660	

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Prob. 2–3A (Continued)

Account: Truck Expense **Account No.** 55

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	24		1	1,250		1,250	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Nov.	29		2	1,700		1,700	

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Prob. 2–3A (Concluded)

3.

Modern Designs Unadjusted Trial Balance November 30, 2018			
	Account No.	Debit Balances	Credit Balances
Cash	11	26,230	
Accounts Receivable	12	5,000	
Supplies	13	1,860	
Prepaid Insurance	14	2,400	
Equipment	16	16,000	
Truck	18	43,000	
Notes Payable	21		38,700
Accounts Payable	22		13,250
Common Stock	31		36,000
Dividends	33	1,600	
Fees Earned	41		23,500
Wages Expense	51	4,750	
Rent Expense	53	4,000	
Utilities Expense	54	3,660	
Truck Expense	55	1,250	
Miscellaneous Expense	59	1,700	
		111,450	111,450

4. **$8,140 ($23,500 – $4,750 – $4,000 – $3,660 – $1,250 – $1,700)**

5. **Some supplies may have been used during November, but no supplies expense has been recorded.**

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Modern Designs.

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

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Prob. 2–4A

2. and 3.

JOURNAL Page 18

Date		Description	Post. Ref.	Debit	Credit
2018					
Apr.	1	Rent Expense	52	6,500	
		Cash	11		6,500
	2	Office Supplies	14	2,300	
		Accounts Payable	21		2,300
	5	Prepaid Insurance	13	6,000	
		Cash	11		6,000
	10	Cash	11	52,300	
		Accounts Receivable	12		52,300
	15	Land	16	200,000	
		Cash	11		30,000
		Notes Payable	23		170,000
	17	Accounts Payable	21	6,450	
		Cash	11		6,450
	20	Accounts Payable	21	325	
		Office Supplies	14		325
	23	Advertising Expense	53	4,300	
		Cash	11		4,300

JOURNAL Page 19

Date		Description	Post. Ref.	Debit	Credit
2018					
Apr.	27	Cash	11	2,500	
		Salary and Commission Expense	51		2,500
	28	Automobile Expense	54	1,500	
		Cash	11		1,500
	29	Miscellaneous Expense	59	1,400	
		Cash	11		1,400

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Prob. 2–4A (Continued)

^^^

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

1. and 3.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			26,300	
	1		18		6,500	19,800	
	5		18		6,000	13,800	
	10		18	52,300		66,100	
	15		18		30,000	36,100	
	17		18		6,450	29,650	
	23		18		4,300	25,350	
	27		19	2,500		27,850	
	28		19		1,500	26,350	
	29		19		1,400	24,950	
	30		19		11,900	13,050	
	30		19		4,000	9,050	
	30		19	10,000		19,050	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			61,500	
	10		18		52,300	9,200	
	30		19	57,000		66,200	

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Prob. 2–4A (Continued)

Account: **Prepaid Insurance** Account No. **13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			3,000	
	5		18	6,000		9,000	

Account: **Office Supplies** Account No. **14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			1,800	
	2		18	2,300		4,100	
	20		18		325	3,775	

Account: **Land** Account No. **16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	15		18	200,000		200,000	

Account: **Accounts Payable** Account No. **21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓				14,000
	2		18		2,300		16,300
	17		18	6,450			9,850
	20		18	325			9,525

Account: **Unearned Rent** Account No. **22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	30		19		10,000		10,000

Account: **Notes Payable** Account No. **23**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	15		18		170,000		170,000

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Prob. 2–4A (Continued)

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓				10,000

Account: Retained Earnings Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓				36,000

Account: Dividends Account No. 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			2,000	
	30		19	4,000		6,000	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓				240,000
	30		19		57,000		297,000

Account: Salary and Commission Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			148,200	
	27		19		2,500	145,700	
	30		19	11,900		157,600	

Account: Rent Expense Account No. 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			30,000	
	1		18	6,500		36,500	

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Prob. 2–4A (Continued)

Account: Advertising Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			17,800	
	23		18	4,300		22,100	

Account: Automobile Expense Account No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			5,500	
	28		19	1,500		7,000	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Apr.	1	Balance	✓			3,900	
	29		19	1,400		5,300	

4.

Elite Realty
Unadjusted Trial Balance
April 30, 2018

	Account No.	Debit Balances	Credit Balances
Cash	11	19,050	
Accounts Receivable	12	66,200	
Prepaid Insurance	13	9,000	
Office Supplies	14	3,775	
Land	16	200,000	
Accounts Payable	21		9,525
Unearned Rent	22		10,000
Notes Payable	23		170,000
Common Stock	31		10,000
Retained Earnings	32		36,000
Dividends	33	6,000	
Fees Earned	41		297,000
Salary and Commission Expense	51	157,600	
Rent Expense	52	36,500	
Advertising Expense	53	22,100	
Automobile Expense	54	7,000	
Miscellaneous Expense	59	5,300	
		532,525	532,525

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Prob. 2–4A (Concluded)

5. (A) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(B) The correcting entry for $7,200 ($19,100 – $11,900) would be as follows:

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Date		Description	Post. Ref.	Debit	Credit
2018					
Apr.	30	Salary and Commission Expense	51	7,200	
		Cash	11		7,200

(C) Transposition

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Prob. 2–5A

1.

The Lexington Group Unadjusted Trial Balance May 31, 2018		
	Debit Balances	Credit Balances
Cash	18,750	
Accounts Receivable	53,500	
Supplies	2,225	
Prepaid Insurance	7,400	
Equipment	171,175	
Notes Payable		45,000
Accounts Payable		36,000
Common Stock		50,000
Retained Earnings		89,150
Dividends	20,000	
Fees Earned		429,850
Wages Expense	270,000	
Rent Expense	60,300	
Advertising Expense	25,200	
Gas, Electricity, and Water Expense	16,350	
Miscellaneous Expense	5,100	
	650,000	650,000

Cash = $20,350 – $7,000 (A) + $5,400 (B) = $18,750

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

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Prob. 2–1B

1. and 2.

Cash

(A)	18,000	(B)	2,500
(G)	12,000	(C)	3,150
		(D)	1,450
		(F)	2,400
		(H)	1,800
		(I)	375
		(L)	2,800
		(M)	200
		(N)	300
		(O)	550
Bal.	14,475		

Accounts Payable

(H)	1,800	(E)	6,500
		(J)	2,500
		Bal.	7,200

Common Stock

		(A)	18,000

Professional Fees

		(G)	12,000
		(K)	15,650
		Bal.	27,650

Accounts Receivable

(K)	15,650		

Rent Expense

(C)	3,150		

Supplies

(D)	1,450		

Salary Expense

(L)	2,800		

Prepaid Insurance

(F)	2,400		

Blueprint Expense

(J)	2,500		

Automobiles

(B)	19,500		

Automobile Expense

(O)	550		

Equipment

(E)	6,500		

Miscellaneous Expense

(I)	375		
(M)	200		
Bal.	575		

Notes Payable

(N)	300	(B)	17,000
		Bal.	16,700

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Prob. 2–1B (Concluded)

3.

Jones Architects Unadjusted Trial Balance April 30, 2018		
	Debit Balances	Credit Balances
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Notes Payable		16,700
Accounts Payable		7,200
Common Stock		18,000
Professional Fees		27,650
Rent Expense	3,150	
Salary Expense	2,800	
Blueprint Expense	2,500	
Automobile Expense	550	
Miscellaneous Expense	575	
	69,550	69,550

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

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Prob. 2–2B

1. (A)

Cash	17,500	
Common Stock		17,500

(B)

Supplies	2,300	
Accounts Payable		2,300

(C)

Cash	13,300	
Sales Commissions		13,300

(D)

Rent Expense	3,000	
Cash		3,000

(E)

Accounts Payable	1,150	
Cash		1,150

(F)

Dividends	1,800	
Cash		1,800

(G)

Automobile Expense	1,500	
Miscellaneous Expense	400	
Cash		1,900

(H)

Office Salaries Expense	2,800	
Cash		2,800

(I)

Supplies Expense	1,050	
Supplies		1,050

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Prob. 2–2B (Continued)

2.

Cash

(A)	17,500	(D)	3,000
(C)	13,300	(E)	1,150
		(F)	1,800
		(G)	1,900
		(H)	2,800
Bal.	20,150		

Sales Commissions

		(C)	13,300

Rent Expense

(D)	3,000		

Supplies

(B)	2,300	(I)	1,050
Bal.	1,250		

Office Salaries Expense

(H)	2,800		

Accounts Payable

(E)	1,150	(B)	2,300
		Bal.	1,150

Automobile Expense

(G)	1,500		

Common Stock

		(A)	17,500

Supplies Expense

(I)	1,050		

Dividends

(F)	1,800		

Miscellaneous Expense

(G)	400		

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Prob. 2–2B (Concluded)

3.

Planet Realty Unadjusted Trial Balance August 31, 2018		
	Debit Balances	Credit Balances
Cash	20,150	
Supplies	1,250	
Accounts Payable		1,150
Common Stock		17,500
Dividends	1,800	
Sales Commissions		13,300
Rent Expense	3,000	
Office Salaries Expense	2,800	
Automobile Expense	1,500	
Supplies Expense	1,050	
Miscellaneous Expense	400	
	31,950	31,950

4. **A. $13,300**
B. $8,750 ($3,000 + $2,800 + $1,500 + $1,050 + $400)
C. $4,550 ($13,300 – $8,750)

5. **$2,750, which is the excess of net income of $4,550 over the dividends of $1,800.**

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Prob. 2–3B

1.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
2018					
Oct.	1	Cash	11	18,000	
		Common Stock	31		18,000
	4	Rent Expense	53	3,000	
		Cash	11		3,000
	10	Truck	18	23,750	
		Cash	11		3,750
		Notes Payable	21		20,000
	13	Equipment	16	10,500	
		Accounts Payable	22		10,500
	14	Supplies	13	2,100	
		Cash	11		2,100
	15	Prepaid Insurance	14	3,600	
		Cash	11		3,600
	15	Cash	11	8,950	
		Fees Earned	41		8,950

JOURNAL Page 2

Date		Description	Post. Ref.	Debit	Credit
2018					
Oct.	21	Accounts Payable	22	2,000	
		Cash	11		2,000
	24	Accounts Receivable	12	14,150	
		Fees Earned	41		14,150
	26	Truck Expense	55	700	
		Accounts Payable	22		700
	27	Utilities Expense	54	2,240	
		Cash	11		2,240

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Prob. 2–3B (Continued)

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	27	Miscellaneous Expense	59	1,100	
		Cash	11		1,100
	29	Cash	11	7,600	
		Accounts Receivable	12		7,600
	30	Wages Expense	51	4,800	
		Cash	11		4,800
	31	Dividends	33	3,500	
		Cash	11		3,500

2.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	1		1	18,000		18,000	
	4		1		3,000	15,000	
	10		1		3,750	11,250	
	14		1		2,100	9,150	
	15		1		3,600	5,550	
	15		1	8,950		14,500	
	21		2		2,000	12,500	
	27		2		2,240	10,260	
	27		2		1,100	9,160	
	29		2	7,600		16,760	
	30		2		4,800	11,960	
	31		2		3,500	8,460	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	24		2	14,150		14,150	
	29		2		7,600	6,550	

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Prob. 2–3B (Continued)

Account: Supplies **Account No.** 13

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	14		1	2,100		2,100	

Account: Prepaid Insurance **Account No.** 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	15		1	3,600		3,600	

Account: Equipment **Account No.** 16

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	13		1	10,500		10,500	

Account: Truck **Account No.** 18

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	10		1	23,750		23,750	

Account: Notes Payable **Account No.** 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	10		1		20,000		20,000

Account: Accounts Payable **Account No.** 22

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	13		1		10,500		10,500
	21		2	2,000			8,500
	26		2		700		9,200

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Prob. 2–3B (Continued)

Account: Common Stock **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	1		1		18,000		18,000

Account: Dividends **Account No.** 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	31		2	3,500		3,500	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	15		1		8,950		8,950
	24		2		14,150		23,100

Account: Wages Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	30		2	4,800		4,800	

Account: Rent Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	4		1	3,000		3,000	

Account: Utilities Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	27		2	2,240		2,240	

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Prob. 2–3B (Continued)

Account: Truck Expense **Account No.** 55

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	26		2	700		700	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Oct.	27		2	1,100		1,100	

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Prob. 2–3B (Concluded)

3.

Pioneer Designs Unadjusted Trial Balance October 31, 2018			
	Account No.	Debit Balances	Credit Balances
Cash	11	8,460	
Accounts Receivable	12	6,550	
Supplies	13	2,100	
Prepaid Insurance	14	3,600	
Equipment	16	10,500	
Truck	18	23,750	
Notes Payable	21		20,000
Accounts Payable	22		9,200
Common Stock	31		18,000
Dividends	33	3,500	
Fees Earned	41		23,100
Wages Expense	51	4,800	
Rent Expense	53	3,000	
Utilities Expense	54	2,240	
Truck Expense	55	700	
Miscellaneous Expense	59	1,100	
		70,300	70,300

4. $11,260 ($23,100 – $4,800 – $3,000 – $2,240 – $700 – $1,100)

5. Some supplies may have been used during October, but no supplies expense has been recorded.

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Pioneer Designs.

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

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Prob. 2–4B

2. and 3.

JOURNAL Page 18

Date		Description	Post. Ref.	Debit	Credit
2018					
Aug.	1	Office Supplies	14	3,150	
		Accounts Payable	21		3,150
	2	Rent Expense	52	7,200	
		Cash	11		7,200
	3	Cash	11	83,900	
		Accounts Receivable	12		83,900
	5	Prepaid Insurance	13	12,000	
		Cash	11		12,000
	9	Accounts Payable	21	400	
		Office Supplies	14		400
	17	Advertising Expense	53	8,000	
		Cash	11		8,000
	23	Accounts Payable	21	13,750	
		Cash	11		13,750

JOURNAL Page 19

Date		Description	Post. Ref.	Debit	Credit
2018					
Aug.	29	Miscellaneous Expense	59	1,700	
		Cash	11		1,700
	30	Automobile Expense	54	2,500	
		Cash	11		2,500
	31	Cash	11	2,000	
		Salary and Commission Expense	51		2,000
	31	Salary and Commission Expense	51	53,000	
		Cash	11		53,000

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Prob. 2–4B (Continued)

^^^

	31	Accounts Receivable	12	183,500	
		Fees Earned	41		183,500
	31	Land	16	75,000	
		Cash	11		7,500
		Notes Payable	23		67,500
	31	Dividends	33	1,000	
		Cash	11		1,000
	31	Cash	11	5,000	
		Unearned Rent	22		5,000

1. and 3.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			52,500	
	2		18		7,200	45,300	
	3		18	83,900		129,200	
	5		18		12,000	117,200	
	17		18		8,000	109,200	
	23		18		13,750	95,450	
	29		19		1,700	93,750	
	30		19		2,500	91,250	
	31		19	2,000		93,250	
	31		19		53,000	40,250	
	31		19		7,500	32,750	
	31		19		1,000	31,750	
	31		19	5,000		36,750	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			100,100	
	3		18		83,900	16,200	
	31		19	183,500		199,700	

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Prob. 2–4B (Continued)

Account: **Prepaid Insurance** Account No. **13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			12,600	
	5		18	12,000		24,600	

Account: **Office Supplies** Account No. **14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			2,800	
	1		18	3,150		5,950	
	9		18		400	5,550	

Account: **Land** Account No. **16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	31		19	75,000		75,000	

Account: **Accounts Payable** Account No. **21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓				21,000
	1		18		3,150		24,150
	9		18	400			23,750
	23		18	13,750			10,000

Account: **Unearned Rent** Account No. **22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	31		19		5,000		5,000

Account: **Notes Payable** Account No. **23**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	31		19		67,500		67,500

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Prob. 2–4B (Continued)

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓				17,500

Account: Retained Earnings Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓				70,000

Account: Dividends Account No. 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			44,800	
	31		19	1,000		45,800	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓				591,500
	31		19		183,500		775,000

Account: Salary and Commission Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			385,000	
	31		19		2,000	383,000	
	31		19	53,000		436,000	

Account: Rent Expense Account No. 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			49,000	
	2		18	7,200		56,200	

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Prob. 2–4B (Continued)

Account: Advertising Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			32,200	
	17		18	8,000		40,200	

Account: Automobile Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			15,750	
	30		19	2,500		18,250	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
Aug.	1	Balance	✓			5,250	
	29		19	1,700		6,950	

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Prob. 2–4B (Concluded)

4.

Valley Realty Unadjusted Trial Balance August 31, 2018			
	Account No.	Debit Balances	Credit Balances
Cash	11	36,750	
Accounts Receivable	12	199,700	
Prepaid Insurance	13	24,600	
Office Supplies	14	5,550	
Land	16	75,000	
Accounts Payable	21		10,000
Unearned Rent	22		5,000
Notes Payable	23		67,500
Common Stock	31		17,500
Retained Earnings	32		70,000
Dividends	33	45,800	
Fees Earned	41		775,000
Salary and Commission Expense	51	436,000	
Rent Expense	52	56,200	
Advertising Expense	53	40,200	
Automobile Expense	54	18,250	
Miscellaneous Expense	59	6,950	
		945,000	945,000

5. (A) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(B) The correcting entry for $9,000 ($10,000 – $1,000) would be as follows:

JOURNAL Page 19

Date		Description	Post. Ref.	Debit	Credit
2018					
Aug.	31	Dividends	33	9,000	
		Cash	11		9,000

(C) Slide

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Prob. 2–5B

1.

Tech Support Services Unadjusted Trial Balance January 31, 2018		
	Debit Balances	Credit Balances
Cash	20,250	
Accounts Receivable	56,400	
Supplies	6,750	
Prepaid Insurance	9,600	
Equipment	162,000	
Notes Payable		54,000
Accounts Payable		16,650
Common Stock		18,000
Retained Earnings		89,850
Dividends	39,000	
Fees Earned		534,000
Wages Expense	306,000	
Rent Expense	62,550	
Advertising Expense	28,350	
Gas, Electricity, and Water Expense	17,000	
Miscellaneous Expense	4,600	
	712,500	712,500

Cash = $25,550 – $8,000 (A) + $2,700 (B)

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

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CONTINUING PROBLEM

2. and 3.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
2018					
July	1	Cash	11	5,000	
		Common Stock	31		5,000
	1	Office Rent Expense	51	1,750	
		Cash	11		1,750
	1	Prepaid Insurance	15	2,700	
		Cash	11		2,700
	2	Cash	11	1,000	
		Accounts Receivable	12		1,000
	3	Cash	11	7,200	
		Unearned Revenue	23		7,200
	3	Accounts Payable	21	250	
		Cash	11		250
	4	Miscellaneous Expense	59	900	
		Cash	11		900
	5	Office Equipment	17	7,500	
		Accounts Payable	21		7,500
	8	Advertising Expense	55	200	
		Cash	11		200
	11	Cash	11	1,000	
		Fees Earned	41		1,000
	13	Equipment Rent Expense	52	700	
		Cash	11		700
	14	Wages Expense	50	1,200	
		Cash	11		1,200

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Continuing Problem (Continued)

2. and 3.

JOURNAL Page 2

Date		Description	Post. Ref.	Debit	Credit
2018					
July	16	Cash	11	2,000	
		Fees Earned	41		2,000
	18	Supplies	14	850	
		Accounts Payable	21		850
	21	Music Expense	54	620	
		Cash	11		620
	22	Advertising Expense	55	800	
		Cash	11		800
	23	Cash	11	750	
		Accounts Receivable	12	1,750	
		Fees Earned	41		2,500
	27	Utilities Expense	53	915	
		Cash	11		915
	28	Wages Expense	50	1,200	
		Cash	11		1,200
	29	Miscellaneous Expense	59	540	
		Cash	11		540
	30	Cash	11	500	
		Accounts Receivable	12	1,000	
		Fees Earned	41		1,500
	31	Cash	11	3,000	
		Fees Earned	41		3,000
	31	Music Expense	54	1,400	
		Cash	11		1,400
	31	Dividends	33	1,250	
		Cash	11		1,250

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Continuing Problem (Continued)

1. and 3.

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			3,920	
	1		1	5,000		8,920	
	1		1		1,750	7,170	
	1		1		2,700	4,470	
	2		1	1,000		5,470	
	3		1	7,200		12,670	
	3		1		250	12,420	
	4		1		900	11,520	
	8		1		200	11,320	
	11		1	1,000		12,320	
	13		1		700	11,620	
	14		1		1,200	10,420	
	16		2	2,000		12,420	
	21		2		620	11,800	
	22		2		800	11,000	
	23		2	750		11,750	
	27		2		915	10,835	
	28		2		1,200	9,635	
	29		2		540	9,095	
	30		2	500		9,595	
	31		2	3,000		12,595	
	31		2		1,400	11,195	
	31		2		1,250	9,945	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			1,000	
	2		1		1,000	—	—
	23		2	1,750		1,750	
	30		2	1,000		2,750	

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Continuing Problem (Continued)

Account: Supplies **Account No.** 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			170	
	18		2	850		1,020	

Account: Prepaid Insurance **Account No.** 15

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1		1	2,700		2,700	

Account: Office Equipment **Account No.** 17

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	5		1	7,500		7,500	

Account: Accounts Payable **Account No.** 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓				250
	3		1	250		—	—
	5		1		7,500		7,500
	18		2		850		8,350

Account: Unearned Revenue **Account No.** 23

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	3		1		7,200		7,200

Account: Common Stock **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓				4,000
	1		1		5,000		9,000

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Continuing Problem (Continued)

Account: Dividends **Account No.** 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			500	
	31		2	1,250		1,750	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓				6,200
	11		1		1,000		7,200
	16		2		2,000		9,200
	23		2		2,500		11,700
	30		2		1,500		13,200
	31		2		3,000		16,200

Account: Wages Expense **Account No.** 50

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			400	
	14		1	1,200		1,600	
	28		2	1,200		2,800	

Account: Office Rent Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			800	
	1		1	1,750		2,550	

Account: Equipment Rent Expense **Account No.** 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			675	
	13		1	700		1,375	

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Continuing Problem (Continued)

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			300	
	27		2	915		1,215	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			1,590	
	21		2	620		2,210	
	31		2	1,400		3,610	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			500	
	8		1	200		700	
	22		2	800		1,500	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			180	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018							
July	1	Balance	✓			415	
	4		1	900		1,315	
	29		2	540		1,855	

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Continuing Problem (Concluded)

4.

PS Music
Unadjusted Trial Balance
July 31, 2018

	Account No.	Debit Balances	Credit Balances
Cash	11	9,945	
Accounts Receivable	12	2,750	
Supplies	14	1,020	
Prepaid Insurance	15	2,700	
Office Equipment	17	7,500	
Accounts Payable	21		8,350
Unearned Revenue	23		7,200
Common Stock	31		9,000
Dividends	33	1,750	
Fees Earned	41		16,200
Wages Expense	50	2,800	
Office Rent Expense	51	2,550	
Equipment Rent Expense	52	1,375	
Utilities Expense	53	1,215	
Music Expense	54	3,610	
Advertising Expense	55	1,500	
Supplies Expense	56	180	
Miscellaneous Expense	59	1,855	
		40,750	40,750

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ANALYSIS FOR DECISION MAKING

ADM–1

A.

Amazon.com, Inc. Operating Income Statements For the Years Ended December 31 (in millions)				
	Year 2	Year 1	Increase (Decrease)	Percent
Product sales	$70,080	$60,903	$ 9,177	15.1%
Service sales	18,908	13,549	5,359	39.6%
Total sales	$88,988	$74,452	$14,536	19.5%
Cost of sales	$62,752	$54,181	8,571	15.8%
Fulfillment	10,766	8,585	2,181	25.4%
Marketing	4,332	3,133	1,199	38.3%
Technology and content	9,275	6,565	2,710	41.3%
General and administrative	1,552	1,129	423	37.5%
Other operating expense (income), net	133	114	19	16.7%
Total operating expenses	$88,810	$73,707	$15,103	20.5%
Income from operations	$ 178	$ 745	$ (567)	(76.1)%

B. The horizontal analysis shows that total sales increased by 19.5% between the two years, with a strong increase in service sales. Service sales are revenues earned from Amazon's Web hosting, Web design, and order fulfillment services provided for other businesses. This part of Amazon apparently has been growing rapidly. Total operating expenses have grown by 20.5% between the two years, indicating that expenses are growing faster than revenues. The expense growth appears to be occurring across all the major expense categories, with cost of sales (purchase price of merchandise resold) growing closest to the revenue growth. The net result is a significant decline in income from operations between the two years. Income from operations declined over 76% between the two years. Thus, Amazon demonstrates significant revenue growth, but is unable to translate that growth into operating income. This may be due to Amazon's strategy to promote revenue growth above profitability in this stage of its life cycle.

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ADM–2

A.

Chipotle Mexican Grill, Inc. Balance Sheets December 31 (in thousands)				
	Year 2	Year 1	Increase (Decrease)	Percent
Assets				
Current assets				
Cash	$ 419,465	$ 323,203	$ 96,262	29.8%
Accounts receivable, net	34,839	24,016	10,823	45.1%
Inventory	15,332	13,044	2,288	17.5%
Other current assets	70,251	51,073	19,178	37.6%
Investments	338,592	254,971	83,621	32.8%
Total current assets	$ 878,479	$ 666,307	$212,172	31.8%
Property, plant, and equipment	1,106,984	963,238	143,746	14.9%
Long-term investments	496,106	313,863	182,243	58.1%
Other assets	64,716	65,872	(1,156)	(1.8)%
Total assets	$2,546,285	$2,009,280	$537,005	26.7%
Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	$ 69,613	$ 59,022	$ 10,591	17.9%
Other current liabilities	176,097	140,206	35,891	25.6%
Total current liabilities	$ 245,710	$ 199,228	$ 46,482	23.3%
Long-term liabilities	288,206	271,764	16,442	6.1%
Total liabilities	$ 533,916	$ 470,992	$ 62,924	13.4%
Stockholders' Equity				
Common stock	$ 354	$ 352	$ 2	0.6%
Additional paid-in capital	1,038,932	919,840	119,092	12.9%
Retained earnings	1,722,271	1,276,897	445,374	34.9%
Treasury stock	(748,759)	(660,421)	88,338	13.4%
Other adjustments	(429)	1,620	(2,049)	(126.5)%
Total stockholders' equity	$2,012,369	$1,538,288	$474,081	30.8%
Total liabilities and stockholders' equity	$2,546,285	$2,009,280	$537,005	26.7%

B. Total assets increased by 26.7%. Part of this increase is explained by a 32% increase in current assets, of which current investments increased by 32.8% and cash increased by 29.8%. Long-term investments increased by 58%, while property, plant, and equipment increased by only 14.9%. It would seem Chipotle is able to create excess earnings that can be invested in short- and long-term investments after providing for growth.

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ADM–2 (Concluded)

The total liabilities increased by 13.4%, with a 23.3% increase in current liabilities and 6.1% increase in long-term liabilities. These increases suggest that Chipotle is increasing debt modestly, but does not rely significantly upon debt to finance growth.

Total stockholders' equity increased by 30.8%, mostly explained by a 34.9% increase in retained earnings. Year 2 earnings explain the increase in retained earnings. The earnings provide sufficient resources to finance growth while providing additional cash for purchasing investments and treasury stock.

ADM–3

A. 1. Revenue: $72,618 – $71,279 = $1,339

$$\frac{\$1,339}{\$71,279} = 1.9\%$$

2. Operating expenses: $67,857 – $66,320 = $1,537

$$\frac{\$1,537}{\$66,320} = 2.3\%$$

3. Operating income: $4,761 – $4,959 = –$198

$$\frac{(\$198)}{\$4,959} = (4.0)\%$$

B. The revenue increased by 1.9% between the two years; however, the operating expenses grew by 2.3% in the same period. Thus, expenses grew faster than revenues. As a result, operating income fell 4.0% between the two years.

ADM–4

A. 1. Revenue: $485,651 – $476,294 = $9,357

$$\frac{\$9,357}{\$476,294} = 2.0\%$$

2. Operating expenses: $458,504 – $449,422 = $9,082

$$\frac{\$9,082}{\$449,422} = 2.0\%$$

3. Operating income: $27,147 – $26,872 = $275

$$\frac{\$275}{\$26,872} = 1.0\%$$

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ADM–4 (Concluded)

B. The revenue and operating expenses both increased by 2.0% between the two years. The net result was operating income increased by 1.0% between the two years. Walmart was able to keep revenue and expense growth in line with each other.

C. Walmart was able to increase operating income between the two years because revenues and expenses grew at the same rate. Target had nearly the same revenue growth as Walmart (approximately 2%), but was not able keep expense growth in line with the revenue growth. Target's expenses grew by 2.3% while Walmart's were lower at only 2.0%. Thus, Target actually had a decline in operating income, while Walmart was able to increase operating income between the two years.

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TAKE IT FURTHER

TIF 2–1

1. **No. For financial accounting information to be useful, it must accurately reflect an entity's business transactions and economic activity. For this to happen, each account must reflect the increases or decreases that result from each transaction. If the trial balance does not balance, it means that a transaction has not been accurately recorded in the accounts. By knowingly submitting a trial balance that does not accurately reflect the transactions in the accounts, Buddy is demonstrating a failure of individual character and is acting unethically.**

2. **The users of the financial information who rely upon this information will be affected, as the information will not be a faithful representation of the entity's economic activity.**

3. **Buddy should have discussed the issue with his supervisor and asked for more time to find the error.**

TIF 2–2

A sample solution based on Nike Inc.'s Form 10-K for the fiscal year ended May 31, 2015, follows:

1. **$21,600 million**
2. **$8,893 ($21,600 million total assets – $12,707 million total liabilities)**
3. **$12,707 million**
4. **3**
5. **2**
6. **The income statement reports a summary of revenues and expenses for a specific period of time, such as a month or a year. The balance sheet reports a list of assets, liabilities, and stockholders' equity as of a specific date, usually at the close of the last day of a month or a year.**

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TIF 2–3

Note to Instructors: The purpose of this activity is to familiarize students with the job opportunities available in accounting, and allow them to demonstrate their ability to communicate the role of accounting in the context of a specific position that requires knowledge of accounting. An example of an advertisement for such a position is shown below. Individual student answers will vary depending on the specific scenario they select.

ABOUT THE COMPANY

Our client is looking to add a Financial Analyst. With a large and growing finance team, there is significant opportunity for growth and advancement within the department. The company boasts a team-oriented culture and provides its employees with the tools and training necessary to perform. Our client is looking to bring on more of a junior-level candidate who is looking to gain experience in his or her field of study. There will be hands-on training for the role that will evolve from a data analyst into a financial analyst and will be reporting to the director of finance. Our client is in the consumer goods industry and is an international company that has multiple opportunities for growth.

RESPONSIBILITIES OF THE FINANCIAL ANALYST

The Financial Analyst will:

- **Conduct special studies to analyze complex financial actions and prepare recommendations for policy, procedure, control, or action.**
- **Analyze financial information to determine present and future financial performance.**
- **Evaluate complex profit plans, operating records, and financial statements.**
- **Direct preparation of studies, reports, analyses, and recommendations in areas such as budgets, forecasts, financial plans, statistical reports, and business forecasts.**
- **Coordinate with all levels of management to gather, analyze, summarize, and prepare recommendations regarding financial plans, trended future requirements, and operating forecasts.**

Source: CareerBuilder.com

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chapter

2

Analyzing Transactions

OPENING COMMENTS

Chapter 2 is the *most* important chapter in the text. It introduces students to the rules of debit and credit, chart of accounts, two-column journals, four-column ledgers, T accounts, and the trial balance. Quite frankly, if students fail to grasp the concepts in this chapter, the first seeds of destruction will be sown for those students who will ultimately withdraw from or fail the course.

Emphasize that Chapter 2 builds the foundation for all that will be learned about accounting principles. Unlike many other college courses, it is impossible to understand Chapter 3 and beyond if the principles of Chapter 2 are not mastered. You need to dispel the false belief that "maybe I'll get the next chapter—even though I'm totally lost now."

Also encourage your students to seek help immediately if they begin to struggle with course content. Make them aware of the resources available at your institution: tutorial services, peer assistance, your office hours, use of CengageNOW, and support services, etc. Too frequently, students wait until after they have failed their first examination to seek help. For those who heed them, these simple suggestions will help students avoid failure.

Reinforce the fact that accounting is best learned by doing. Students must work the exercises to grasp the concepts introduced in this chapter.

The chapter ends with an explanation and demonstration of analyzing financial statements using horizontal analysis. Interpretation explains possible relationships among the changes revealed in the analysis.

After studying the chapter, your students should be able to:

1. Describe the characteristics of an account and a chart of accounts.
2. Describe and illustrate journalizing transactions using the double-entry accounting system.
3. Describe and illustrate the journalizing and posting of transactions to accounts.

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4. Prepare an unadjusted trial balance and explain how it can be used to discover errors.

ADM Describe and illustrate the use of horizontal analysis in evaluating a company's performance and financial condition.

KEY TERMS

account
account receivable
assets
balance of the account
chart of accounts
common stock
correcting journal entry
credit
debit
dividends
double-entry accounting system
expenses
horizontal analysis
journal
journal entry
journalizing
ledger
liabilities
normal balance of an account
posting
retained earnings
revenues
rules of debit and credit
slide
stockholders' equity
T account
transposition
trial balance
unadjusted trial balance
unearned revenue

STUDENT FAQS

- Why does Cash have a debit balance instead of a credit? My bank tells me they are crediting my account when I put money in. This question has to be answered several times until the student realizes that to the bank it is a liability, and they are telling the student what they are doing to their books.
- Why is the abbreviation for a debit "Dr" when there is no "r" in the spelling?
- Why can't the normal balances of all the accounts be opposite what they are?
- Who dreamed this accounting system up?

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- Who uses these statements, and what do they do with the information?
- What is the difference between journalizing and posting?
- What is the difference between an expense and a liability?
- Aren't assets and revenue the same? If a business works for someone and gets paid, aren't Cash and Revenue exactly the same thing?
- Aren't expenses and liabilities the same? If a business gets a utility bill and hasn't paid it yet, aren't Utility Expense and Utility Payable exactly the same account?
- Why do they call it a credit card? Who is crediting what?
- "I work in a bank and we use debits and credits, but you have them all reversed in the book. The bank where I work does everything exactly the opposite."
- Why can't we just record the transactions directly into the ledger?
- Why are the ledger accounts in a specific order? Why aren't they listed in alphabetical order?
- Why aren't increases (+) always a debit and decreases (–) always a credit? Wouldn't that make more sense?
- Why can't you wait until the end of the month to compute the balance of each account in the ledger? Isn't it a lot of work to re-compute a new balance after each posting?
- In business, we say that we need to raise capital to start a business, so why aren't cash and capital the same thing?
- How do I know whether to use wages expense or wages payable?
- Do small businesses really need to do all this work to keep track of their income? Can't they just add and subtract from their bank account?

OBJECTIVE 1

Describe the characteristics of an account and a chart of accounts.

SYNOPSIS

In the previous chapter, transactions were recorded using the accounting equation format. Exhibit 1 presents a summary of the transactions we analyzed in the previous chapter for NetSolutions. This chapter demonstrates how to record transactions using accounts. Accounts make it easy to track increases and decreases in a company's assets, liabilities, stockholders' equity, revenues, expenses, and dividends. For example, NetSolutions will need 12 accounts, one for each of the financial statement items shown in Exhibit 1. Basically, accounts have two sides, a left side and a right side. Because the letter "T" has a left side and a right side, the term "T account" is often used to refer to accounts. Debits are recorded on the left side of the T, and credits are recorded on the right side of the T. The balance of the account is the amount of the difference between the debits and the credits that have been entered into an account. All the accounts used in a business are grouped together in a ledger. A list of the accounts maintained in the ledger is known as a chart of accounts. Exhibit 2 presents the chart of accounts for NetSolutions. Assets are the resources owned by a business. Liabilities are the rights of creditors that represent debts of the

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business. Stockholders' equity represents the rights of owners to the assets of the business. For a corporation, stockholders' equity in the business is composed of common stock and retained earnings. The dividends account represents distributions of earnings to stockholders. Revenues are increases in assets and stockholders' equity as a result of selling services or products to customers. Expenses are assets used up or services consumed in the process of generating revenues. Each account in the chart of accounts is assigned an account number. These accounts are used to record the business's transactions.

Key Terms and Definitions

- **Account** - An accounting form that is used to record the increases and decreases in each financial statement item.
- **Assets** - The resources owned by a business.
- **Balance of the Account** - The amount of the difference between the debits and the credits that have been entered into an account.
- **Chart of Accounts** - A list of the accounts in the ledger.
- **Common Stock** - The stock outstanding when a corporation has issued only one class of stock.
- **Credit** - Amount entered on the right side of an account.
- **Debit** - Amount entered on the left side of an account.
- **Dividends** - Distribution of a corporation's earnings to stockholders.
- **Expenses** - Assets used up or services consumed in the process of generating revenues.
- **Ledger** - A group of accounts for a business.
- **Liabilities** - The rights of creditors that represent debts of the business.
- **Retained Earnings** - Net income retained in a corporation that is reported as part of stockholders' equity.
- **Revenues** - Increases in assets and equity as a result of selling services or products to customers.
- **Stockholders' Equity** - The owners' equity in a corporation.
- **T account** - The simplest form of an account.

Relevant Exhibits

- Exhibit 1 – NetSolutions' November Transactions
- Exhibit 2 – Chart of Accounts for NetSolutions

SUGGESTED APPROACH

Remind students that accounts are used to record business transactions. An account is simply a record of all the increases and decreases in a financial statement item (such as cash, supplies, and accounts payable). A group of accounts is called a ledger.

Point out that only a very small enterprise with very few transactions (such as a lawn-mowing service run by students) could use the accounting system illustrated in Chapter 1. For most businesses, this system would be inefficient. For example, in the prior chapter, all business transactions affecting stockholders' equity were recorded as stockholders' equity. In Chapter 2, these different types of transactions will be separated and recorded in the common stock, retained earnings, dividends, revenue, and expense accounts. Issuance of common stock and revenue accounts increase stockholders' equity; dividends and expense accounts reduce stockholders' equity. This separation will make it easier to prepare financial statements. Transparency Master (TM) 2-1 can be used to highlight this change.

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T accounts are introduced as a convenient way to track increases and decreases in accounts. You may want to stress that T accounts are a representation of the general ledger, which is the official place to record and track account balances.

GROUP LEARNING ACTIVITY—Chart of Accounts

Objective 1 also introduces a chart of accounts and a flexible system of numbering accounts. Under the text's indexing system, accounts are assigned a two-digit number. The first digit indicates the account's classification (1 = assets, 2 = liabilities, 3 = stockholders' equity, 4 = revenue, and 5 = expenses). Stress that all enterprises will have the same categories of accounts; however, the account titles used and the number of accounts will vary. You can emphasize this variety by asking students to bring in charts of accounts from businesses where they or a relative work.

TM 2-2 presents information related to the business transactions of Larry Sharp, M.D. Divide students into small groups and ask them to use the information to develop a chart of accounts for Dr. Sharp. Also ask them to assign a number to each account.

This activity will test whether your students can identify the accounts needed to record Dr. Sharp's typical business transactions and apply the concept of a flexible numbering system. The group activity may be assigned before discussing the information related to charts of accounts presented in the text. This will force students to recall some information from their reading assignment and reinforce your expectation that all reading assignments are to be completed prior to classroom discussion.

TM 2-3 presents a suggested chart of accounts that you may want to share with the class after they have completed their group work. Remind them that the chart of accounts is different for every company, reflecting each company's typical business transactions.

You will notice that the suggested solution in TM 2-3 does not include insurance expense or depreciation expense accounts. These accounts, although necessary for preparing adjusting entries, have been omitted since that step in the accounting cycle will not be introduced until Chapter 3.

The first account form introduced in Chapter 2 is the T account. Draw a T account on the board, and remind students that the left side will be called the debit or Dr. side and the right side will be called the credit or Cr. side. Each T account has a name as well as a normal balance side.

To demonstrate how a T account works, you may want to use the Cash account and record the increases and decreases to the account from one of the problems worked in Chapter 1 (1-3A, for example). Show how the balance is recorded and compare it to the balance reached in the Chapter 1 problem.

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INTERNET ACTIVITY—Chart of Accounts

There are organizations that post recommended charts of accounts on the Internet, so your students can see some real-world examples. A standard chart of accounts is provided by Small Business Notes. The Web address is:

http://www.smallbusinessnotes.com/operating/finmgmt/financialstmts/cofa.html

You might also want to encourage your students to search for other suggested charts of accounts.

OBJECTIVE 2

Describe and illustrate journalizing transactions using the double-entry accounting system.

SYNOPSIS

Businesses use the double-entry accounting system for recording transactions, based on recording increases and decreases in accounts so that debits equal credits. In this system, the rules of debit and credit specify how to record increases and decreases in the accounts. The normal balance of an account can be either a debit or a credit depending on whether increases in the account are recorded as debits or credits. For asset and expense accounts, a debit increases the account, and a credit decreases the account. For liability, stockholders' equity, and revenue accounts, a debit decreases the account, and a credit increases the account. The word *debit* can be abbreviated as Dr., and *credit* can be abbreviated as Cr. Exhibit 3 summarizes the debit/credit rules and indicates the normal balance in each type of account. Using the rules of debit and credit, transactions are entered in a journal chronologically as they occur; this is the initial record in which the effects of a transaction are recorded. The process of entering a transaction is called journaling. Each such record is known as a journal entry. Exhibit 4 summarizes terminology that is often used to describe common transactions along with the specific accounts that would be debited and credited. The transaction is recorded using the following steps: the date of the transaction is recorded in the date column, the title of the account to be debited is entered first in the description column, and the amount to be debited is entered in the debit column. The title of the account to be credited is listed under the account debited and indented and the amount to be credited is entered in the credit column. A brief description may be entered at this time in the description column below the account credited. The Post. Ref. column is not used until the entry in transferred to the ledger.

Key Terms and Definitions

- **Double-Entry Accounting System** - A system of accounting for recording transactions, based on recording increases and decreases in accounts so that debits equal credits.
- **Journal** - The initial record in which the effects of a transaction are recorded.
- **Journal Entry** - The form of recording a transaction in a journal.
- **Journalizing** - The process of recording a transaction in the journal.
- **Normal Balance of an Account** - The normal balance of an account can be either a debit or a credit depending on whether increases in the account are recorded as debits or credits.
- **Rules of Debit and Credit** - In the double-entry accounting system, specific rules for recording debits and credits based on the type of account.

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Relevant Check Up Corners and Exhibits

- Exhibit 3 – Rules of Debit and Credit, Normal Balances of Accounts
- Check Up Corner 2-1 – Balance Sheet Accounts
- Exhibit 4 – Transaction Terminology and Related Journal Entry Accounts
- Check Up Corner 2-2 – Journal Entries

SUGGESTED APPROACH

Learning the rules of debit and credit is one of the first major hurdles for students in accounting principles. Remind students that debit and credit simply represent the left and right sides of an account. The trick is remembering which accounts are increased with debits and which are increased with credits.

LECTURE AID—Rules of Debit and Credit

Three approaches to explain the rules of debit and credit follow. You may want to present all methods to your class and encourage each student to use the approach that he or she understands best.

"Mirror Image" Approach: One way to explain the rules of debit and credit is to draw the following equation on the board.

Assets		=	Liabilities		+	Stockholders' Equity	
+	–		–	+		–	+

Point out that the rules for increasing and decreasing liabilities and stockholders' equity accounts are the mirror image of the rules for assets. Therefore, if students can remember the rules for assets, they can deduce the rules for the remaining accounts. This method requires that the student understand that the negative effect of the dividends and expense accounts on stockholders' equity requires the opposite treatment of the rules of debit and credit for these types of accounts. Exhibit 3 from the text is excellent to help explain this concept.

Although this is the most simplistic approach, some students become very confused by the treatment of the dividends and expense accounts. Increases to these accounts are debits because they reduce stockholders' equity. However, some students want to record expenses and dividends as credits because the schematic has a + sign on the credit side of stockholders' equity accounts.

"After Eating Dinner" Approach: The rules of debit and credit can also be explained with the following saying: "After eating dinner, let's relax and snooze."

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Here's how it works.

After Eating Dinner,	Let's Relax and Snooze
Accounts increased with a debit:	Accounts increased with a credit:
Assets	Liabilities
Expenses	Revenues
Dividends	Stockholders' Equity

"ALSIE" Approach: The rules of debit and credit can also be explained using the acronym "ALSIE."

List the types of classifications of accounts:

A = Assets
L = Liabilities
S = Stockholders' Equity
I = Income (Revenue)
E = Expense

Arrange the letters to read "ALSIE." Then list normal balances by the side of each.

A = Dr.
L = Cr.
S = Cr.
I = Cr.
E = Dr.

Note that ALSIE begins and ends with normal Dr. balance accounts, while the three middle classifications are normal Cr. balance accounts. The dividends account is not included in this explanation, so the student must memorize the proper treatment of this account.

No matter which approach the student uses to learn the rules, you will need to reinforce the categories and the proper treatment of increases and decreases over and over. Start by emphasizing that half of the accounts are increased with debits (assets, dividends, and expenses) and half are increased with credits (liabilities, stockholders' equity, and revenue). It is also important to discuss the meaning of normal balance. Normal balance is the side of the account in which increases are recorded. At this point in the learning process, the student can assume that typically only assets and liabilities will have both debit and credit entries. Dividends and expense accounts will typically have only debit entries, and stockholders' equity and revenue accounts will have only credit entries. This generalization will hold true until Chapter 4. By that time, the student should be comfortable with the debit and credit rules.

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GROUP LEARNING ACTIVITY—Rules of Debit and Credit

After explaining the rules of debit and credit, it is important to reinforce those concepts with an example.

Remind students that business transactions are initially recorded in a record called a journal. After each entry is journalized, it is posted to the proper account in the ledger. In this group exercise, students will post entries into T accounts.

Ask your students to draw the following T accounts on a sheet of paper:

Cash	Retained Earnings
Accounts Receivable	Dividends
Supplies	Fees Earned
Stereo Equipment	Wages Expense
Accounts Payable	Advertising Expense
Common Stock	

TM 2-4 lists several business transactions. Illustrate the process by recording the first two or three transactions in a journal format and by posting them to the appropriate T account. As you work these examples, emphasize that there is a three-step process in analyzing each entry: (1) determine which accounts are affected, (2) decide whether each account should be increased or decreased, and (3) translate the increase or decrease into a debit or a credit.

Students may find it helpful when initially analyzing transactions to first see if the transaction involves cash. Most transactions in this stage of learning involve cash. If cash is being received, the debit portion of the transaction is cash. If cash is being given, the credit portion of the transaction is cash. This will provide students with half the transaction entry and allow them to focus on determining the other account to complete the journal entry.

After completing your examples, ask students to work in small groups to complete the transactions. TM 2-5 presents the solution to this exercise.

LECTURE AID—Double-Entry Accounting

To help the student understand the effect of double-entry accounting, it can be helpful to illustrate examples of some of the more common transactions, such as the ones below, as you lecture.

TRANSACTION	AFFECTED ACCOUNTS	
	Cash	Common Stock
	Dr. Cr.	Dr. Cr.
Issued stock for cash	Increase	Increase

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	Cash		Fees Earned	
	Dr.	Cr.	Dr.	Cr.
Received cash for services rendered	Increase			Increase

	Accounts Receivable		Fees Earned	
	Dr.	Cr.	Dr.	Cr.
Billed customers on account	Increase			Increase

	Cash		Expense Account	
	Dr.	Cr.	Dr.	Cr.
Paid for expenses		Decrease	Increase	

	Cash		Accounts Receivable	
	Dr.	Cr.	Dr.	Cr.
Received cash on account	Increase			Decrease

	Cash		Accounts Payable	
	Dr.	Cr.	Dr.	Cr.
Paid on account		Decrease	Decrease	

	Supplies		Accounts Payable	
	Dr.	Cr.	Dr.	Cr.
Purchased on account	Increase			Increase

	Cash		Dividends	
	Dr.	Cr.	Dr.	Cr.
Paid cash dividends		Decrease	Increase	

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LECTURE AID—Journalizing

At this point, it is time to introduce your students to the standard journal format. It is interesting to point out that while T accounts are not actually used to record business transactions, accountants frequently use them to analyze complex transactions. In the same way, students will find the T account a useful tool throughout this and future accounting courses.

You may wish to point out the useful table that summarizes common transaction terminology in Exhibit 4 of the text.

TM 2-6 shows a series of transactions recorded in a two-column journal. Use this exhibit to review the two-column journal format with your students. You may want to stress the following format issues:

1. *Date:* The year is entered only at the top of the Date column. The month is entered on the first line of the date column on each page; it is also entered for the first transaction when changing to a new month. The date is entered for each transaction.
2. *Description*: The Description column is where account names are entered. Debited accounts should be on top, and credited accounts should be on the bottom and indented to the right (credits are always on the right).
3. *Description:* A brief description of the transaction should be written below the debit and credit account titles. This description may be omitted if the transaction is a normal business occurrence and its nature is obvious from the entry. When calculations are required, they should be noted here.
4. *Debit and Credit*: Proper journalizing always has at least one debit and one credit, and total debits must always equal total credits. Proper journalizing will keep the accounting equation in balance.
5. *Blank Lines:* A blank line should separate all transactions in a manual journal to make them easier to read. Computerized systems are normally designed to separate journal entries without special input.

It is also helpful to emphasize the importance of using the correct journal entry format of left justifying debits and indenting credits by writing the following entry on the board and asking students to identify what is wrong:

Supplies	500
Cash	500

Because the credit in the entry is not indented, it is difficult to identify the debit and the credit. Were supplies purchased using cash, or were they sold for cash?

In most computerized systems, the indention of the names of accounts credited is not necessary because debits and credits are recorded in separate columns.

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OBJECTIVE 3

Describe and illustrate the journalizing and posting of transactions to accounts.

SYNOPSIS

This objective continues with journalizing and demonstrates how to post the journal entries to the ledger. Posting is the process of transferring the debits and credits from the journal entries to the accounts in the ledger. Exhibit 5 illustrates this process. Using the company NetSolutions, the chapter shows the journalizing of a transaction in a standard account form and then demonstrates how to record each entry in the ledger. The debits and credits from each entry are transferred to the ledger in the order in which they occurred. The ledger account is located for the first line of the entry, the date is transferred first, then the amount of the debit is entered in the Debit column, the journal page is entered in the Post Reference (Post. Ref.) column of the ledger, and the account number is entered in the Post. Ref. column in the journal. The ledger account is located for the second line of the entry, the date is transferred first, then the amount of the credit is entered in the Credit column, the journal page is entered in the Post. Ref. column of the ledger, and the account number is entered in the Post. Ref. column in the journal. Thus, the Post. Ref. notations serve to link the journal and ledger and provide an easy way to trace transactions from the journal to the ledger or vice versa.

Several transactions are analyzed with the text showing both the journal entry and its posting to the ledger. The transaction in which NetSolutions rents land to another entity for three months introduces the concept of unearned revenue. This transaction creates a liability by receiving revenue in advance. As the three months pass, the liability will decrease and become revenue. The transaction in which NetSolutions agrees that a customer may receive services and pay at a later date creates an account receivable. This is a claim against the customer created by selling merchandise or services on credit. This account is an asset, and the revenue is earned even though no cash is yet received. Exhibit 6 presents the general ledger for NetSolutions after all of the transactions have been posted. Notice the use of the four-column account format, which facilitates the determination of account balances.

Key Terms and Definitions

- **Account Receivable** - A claim against the customer created by selling merchandise or services on credit.
- **Posting** - The process of transferring the debits and credits from the journal entries to the accounts in the ledger.
- **Unearned Revenue** - The liability created by receiving revenue in advance.

Relevant Exhibits

- Exhibit 5 – Diagram of the Recording and Posting of a Debit and a Credit
- Exhibit 6 – General Ledger for NetSolutions

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SUGGESTED APPROACH

Remind students that journalizing transactions is a sequential record of business dealings and posting is the updating of individual account balances. Getting the journal entry correct is the bigger challenge; the posting is merely a process of transferring the information from the journal to the proper ledger accounts. Although posting can be a tedious process, it is critical that the student follow the process and not resort to shortcuts; otherwise, information may be omitted, resulting in incorrect account balances.

DEMONSTRATION PROBLEM—The Ledger

TM 2-7 is a series of four-column ledger accounts. Use these blank accounts to demonstrate posting of the first three transactions from TM 2-6. As you post the transactions, remind students that a posting reference must be entered in the appropriate columns of both the journal and the ledger. Also emphasize that transactions should be posted carefully to avoid errors. Careless posting may result in a lot of time being wasted trying to find errors. Emphasize that with a software package, posting will usually be done automatically, so there is less chance of making mistakes in posting.

WRITING EXERCISE—The Journal and the Ledger

It is important for students to understand the reason that business transactions are recorded in a journal as the book of original entry and later posted to a ledger. To check their understanding of these concepts, ask them to write a response to the following questions. These questions are also found on TM 2-8.

1. Why are business transactions initially recorded in a journal?
2. Why are business transactions posted from the journal to a ledger?

Question 1 possible response: The journal is used to record transactions in the order in which they occur. The journal shows the entire effect of the transaction and how the transaction impacts the accounting equation. Without the journal, the general ledger accounts would not reflect the entire history of the transaction.

Question 2 possible response: The ledger tracks the balance of the individual accounts. Without posting transaction to the ledger, the accountant would have to go back and track every individual transaction to find those that impact the account in question and track the increases and decreases over the accounting period to determine the balance in the account.

GROUP LEARNING ACTIVITY—The Journal and the Ledger

This activity presents another method to emphasize the purpose of the journal and the ledger in the accounting process. TM 2-9 lists questions a business owner might ask that can be answered by examining the company's accounting records. Your students' task is to determine which accounting record holds the answer: the journal or the ledger. Answers to this activity are provided on TM 2-10.

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OBJECTIVE 4

Prepare an unadjusted trial balance and explain how it can be used to discover errors.

SYNOPSIS

This objective explains the purpose and the steps in the preparation of the trial balance. The trial balance is a summary listing of the titles and balances of accounts in the ledger, and it verifies the equality of the debits and the credits, which double-entry accounting requires. The first step in preparing a trial balance is to create the heading. This includes the company name, the title of the document, and the date it is prepared. Next, list all the accounts from the ledger, in order, and enter their debit or credit balances. Total the debit and credit columns and verify the totals match. The trial balance shown in Exhibit 7 is an unadjusted trial balance, which distinguishes it from other trial balances that will be introduced later. An unadjusted trial balance is a summary listing of the titles and balances of accounts in the ledger *prior* to the posting of adjusting entries.

If the trial balance does not show equality, an error occurred. Several errors are common and easy to find. If the difference between the columns is 10, 100, or 1,000, an addition error may exist. Recalculate the totals. If the same error exists, recalculate the account balances. If the difference between the totals is divisible by 2, a debit may have been entered as a credit or vice versa. A transposition error may have occurred if the difference is divisible by 9. This is an error in which the order of the digits is changed, such as writing $542 as $452 or $524. A similar error is called a slide. In a slide, the entire number is moved one or more spaces to the right or the left, such as writing $542.00 as $54.20 or $5,420.00. If the difference is not divisible by 2 or 9, review the ledger to see if accounts have been omitted. If no accounts have been omitted from the ledger, review the journal to see if the postings are complete.

Some errors do not cause the trial balance to be unequal. These may be discovered at any time. An entry that is prepared when an error has already been journalized and posted is called a correcting journal entry.

Key Terms and Definitions

- **Correcting Journal Entry** - An entry that is prepared when an error has already been journalized and posted.
- **Slide** - An error in which the entire number is moved one or more spaces to the right or the left, such as writing $542.00 as $54.20 or $5,420.00.
- **Transposition** - An error in which the order of the digits is changed, such as writing $542 as $452 or $524.
- **Trial Balance** - A summary listing of the titles and balances of accounts in the ledger used to detect errors.
- **Unadjusted Trial Balance** - A summary listing of the titles and balances of accounts in the ledger prior to the posting of adjusting entries.

Relevant Check Up Corner and Exhibit

- Exhibit 7 – Trial Balance
- Check Up Corner 2-3 – Trial Balance

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SUGGESTED APPROACH

Remind students that a trial balance is simply a listing of accounts and their balances. It is used to check the accuracy of posting by testing to see that total debits equal total credits. At this point, students have learned two controls over recording entries in a double-entry accounting system: (1) Debits = Credits and (2) Assets = Liabilities + Stockholders' Equity.

You may point out that this is the first of three times in the accounting cycle that the trial balance will be completed.

DEMONSTRATION PROBLEM—Preparing a Trial Balance

To demonstrate how to prepare a trial balance, show TM 2-5 (the T accounts from the group learning activity under Objective 2). Ask your students to work in small groups to complete a trial balance using these account balances. TM 2-11 shows the completed trial balance.

GROUP LEARNING ACTIVITY—Errors in a Trial Balance

The goal of this activity is to demonstrate the use of a trial balance in detecting errors made while recording journal entries, posting, and computing account balances. TM 2-12 presents journal entries, T accounts, and a trial balance. Several errors have been made in posting the journal entries, and as a result, the trial balance does not balance. Ask your students to work in small groups to uncover the errors and correct the trial balance. TM 2-13 shows the corrected trial balance.

You may want to give your students the following hints to help them detect the errors:

1. Re-add the columns of the trial balance to check for math errors. This usually is not a problem with a computerized program.
2. Look for accounts with abnormal balances on the trial balance. This usually points to an error.
3. Compare account balances on the trial balance with those in the ledger. Watch for omitted accounts, slide errors, or transposition errors.
4. Re-compute the balance of each account to check for math errors. Again, this usually doesn't happen with a computerized program.
5. Trace each posting back to the journal entry to make sure the proper amount was posted. Watch for slide or transposition errors.

You will also want to point out that the trial balance does not catch every possible accounting error. The following errors will not be discovered simply by preparing a trial balance:

1. Failing to record a transaction or to post a transaction.
2. Recording the same erroneous amount for both the debit and the credit parts of a transaction.
3. Recording the same transaction more than once.
4. Posting part of a transaction correctly as a debit or credit but to the wrong account.

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As an example, ask your class the following question: Would recording an $800 sale on account as a debit to Cash and a credit to Fees Earned cause the columns of a trial balance to be unequal? Answer: No.

ADM OBJECTIVE

Describe and illustrate the use of horizontal analysis in evaluating a company's performance and financial condition.

SYNOPSIS

It is useful in business to compare a company's performance with its past performance. Financial analysis that compares an item in a current statement with the same item in prior statements is called horizontal analysis. The financial statements being compared are arranged next to each other to facilitate the comparison. Two additional columns are presented to the right. The first column shows the numerical difference between the amounts, and the second displays the percentage difference as an increase or a decrease. The significance of these changes should be investigated to determine if operations can be improved. The example in the chapter shows a comparison of income statements; however, this analysis can be used on any financial statement.

Key Term and Definition

- **Horizontal Analysis** - Financial analysis that compares an item in a current statement with the same item in prior statements.

SUGGESTED APPROACH

This objective introduces the value of horizontal analysis as a tool to indicate trends in a company's performance. Remind students that financial statements are a "snapshot" in time without any means of comparison to other time periods. The horizontal analysis indicates changes (increase or decrease) in both amounts and percentages.

TM 2-14 shows an example of a horizontal analysis of income statements for Music Express using figures from TM 2-11. Note that while the June expenditures were greater than those in May so, too, were the fees earned—enough to show increases in the amount <u>and</u> percentage of net income for Music Express.

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			Tagging							Associated Assets			Focus			
Type	Item	Description	LO(s)	Difficulty	Time Est	BUSPROG	AICPA	ACBSP - Primary	Bloom's	Video	Excel	CLGL	ADM	Real World	Writing	Ethics
MC	1		1	Easy	5 min.	Analytic	FN - Measurement	GAAP	Remembering							
MC	2		1	Easy	5 min.	Analytic	FN - Measurement	GAAP	Remembering							
MC	3		1	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Understanding							
MC	4		2, 3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying							
MC	5		4	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
LREX	1	Rules of debit and credit and normal balances	2	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering	x						
LREX	2	Journal entry for asset purchase	2, 3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering	x						
LREX	3	Journal entry for fees earned	2, 3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
LREX	4	Journal entry for dividends	2, 3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
LREX	5	Missing amount from an account	3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
LREX	6	Trial balance errors	4	Moderate	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
LREX	7	Correcting entries	4	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying							
PP		Problem	n/a	Challenging	1.5 hours	Analytic	FN - Measurement	Financial Statements	Applying							
DQ	1		n/a	Easy	5 min.	Analytic	FN - Measurement	GAAP	Remembering							
DQ	2		n/a	Easy	5 min.	Analytic	FN - Measurement	GAAP	Remembering							
DQ	3		n/a	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
DQ	4		n/a	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
DQ	5		n/a	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
DQ	6		n/a	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
DQ	7		n/a	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
DQ	8		n/a	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
DQ	9		n/a	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
DQ	10		n/a	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering							
BE	1	Rules of debit and credit and normal balances	2	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Remembering	x						
BE	2	Journal entry for asset purchase	2, 3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
BE	3	Journal entry for fees earned	2, 3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
BE	4	Journal entry for dividends	2, 3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
BE	5	Missing amount from an account	3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
BE	6	Trial balance errors	4	Moderate	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
BE	7	Correcting entries	4	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
EX	1	Chart of accounts	1	Easy	5 min.	Analytic	FN - Measurement	GAAP	Remembering					x		
EX	2	Chart of accounts	1	Easy	5 min.	Analytic	FN - Measurement	GAAP	Remembering							
EX	3	Chart of accounts	1	Easy	10 min.	Analytic	FN - Measurement	GAAP	Remembering							
EX	4	Rules of debit and credit	1,2	Easy	5 min.	Analytic	FN - Measurement	GAAP	Remembering							
EX	5	Normal entries for accounts	2	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying							
EX	6	Normal balances of accounts	1,2	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying							
EX	7	Transactions	2	Moderate	15 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
EX	8	Journalizing and posting	2,3	Easy	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x					x	
EX	9	Transactions and T accounts	2,3	Easy	15 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x	x				x	
EX	10	Cash account balance	1,2,3	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying						x	
EX	11	Accounts balances	1,2,3	Moderate	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
EX	12	Retained earnings account balance	1,2	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x					x	
EX	13	Identifying transactions	1,2	Easy	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying							
EX	14	Journal entries	1,2	Easy	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
EX	15	Trial balance	4	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x	x					
EX	16	Trial balance	4	Moderate	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
EX	17	Effect of errors on trial balance	4	Moderate	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying							
EX	18	Errors in trial balance	4	Easy	15 min.	Analytic	FN - Measurement	Recording Transactions	Applying							

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			Tagging							Associated Assets			Focus			
Type	Item	Description	LO(s)	Difficulty	Time Est	BUSPROG	AICPA	ACBSP - Primary	Bloom's	Video	Excel	CLGL	ADM	Real World	Writing	Ethics
EX	19	Effect of errors on trial balance	4	Moderate	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying							
EX	20	Errors in trial balance	4	Easy	10 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
EX	21	Entries to correct errors	4	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
EX	22	Entries to correct errors	4	Easy	5 min.	Analytic	FN - Measurement	Recording Transactions	Applying	x						
PR	1A	Entries into T accounts and trial balance	1,2,3,4	Moderate	1.5 hours	Analytic	FN - Measurement	Recording Transactions	Applying							
PR	2A	Journal entries and trial balance	1,2,3,4	Moderate	1.5 hours	Analytic	FN - Measurement	Recording Transactions	Applying	x	x	x				
PR	3A	Journal entries and trial balance	1,2,3,4	Moderate	1.5 hours	Analytic	FN - Measurement	Recording Transactions	Applying	x	x	x			x	
PR	4A	Journal entries and trial balance	1,2,3,4	Moderate	2 hours	Analytic	FN - Measurement	Recording Transactions	Applying			x				
PR	5A	Corrected trial balance	4	Challenging	1.5 hours	Analytic	FN - Measurement	Recording Transactions	Applying						x	
PR	1B	Entries into T accounts and trial balance	1,2,3,4	Moderate	1.5 hours	Analytic	FN - Measurement	Recording Transactions	Applying							
PR	2B	Journal entries and trial balance	1,2,3,4	Moderate	1.5 hours	Analytic	FN - Measurement	Recording Transactions	Applying	x	x	x				
PR	3B	Journal entries and trial balance	1,2,3,4	Moderate	1.5 hours	Analytic	FN - Measurement	Recording Transactions	Applying	x	x	x			x	
PR	4B	Journal entries and trial balance	1,2,3,4	Moderate	2 hours	Analytic	FN - Measurement	Recording Transactions	Applying			x				
PR	5B	Corrected trial balance	4	Challenging	1.5 hours	Analytic	FN - Measurement	Recording Transactions	Applying						x	
CP		Continuing Problem	n/a	Challenging	2.0 hours	Analytic	FN - Measurement	Recording Transactions	Applying			x				
ADM		Continuing Company Analysis	ADM	Challenging	35 min.	Analytic	FN - Measurement	Recording Transactions	Evaluating				x	x	x	
ADM		Chipotle: Horizontal Analysis	ADM	Challenging	1 hour	Analytic	FN - Measurement	Recording Transactions	Evaluating				x	x	x	
ADM		Target: Horizontal Analysis	ADM	Challenging	30 min.	Analytic	FN - Measurement	Recording Transactions	Evaluating				x	x	x	
ADM		Walmart and Target: Horizontal Analysis	ADM	Challenging	45 min.	Analytic	FN - Measurement	Recording Transactions	Evaluating				x	x	x	
TIF		Ethics in action	n/a	Challenging	30 min.	Ethics	BB - Industry	Purpose	Analyzing						x	x
TIF		Team Activity	n/a	Challenging	1 hour	Analytic	FN - Measurement	Financial Statements	Analyzing					x	x	
TIF		Communication and Decision Making	n/a	Challenging	45 min.	Reflective Thinking	FN-Research	Purpose	Analyzing						x	

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INSTRUCTOR'S GUIDE

There are two options for using this practice set:

1. Business Forms
2. Narrative of Transactions

Either option or a combination of both options may be used. If you specify that only the business forms be used, you may ask students to hand in the Narrative of Transactions pages from Booklet 3 before they begin the practice set.

Business Forms Method

The Business Forms approach requires the student to analyze various business documents and decide how to enter the transactions in the journal. There are seven types of business forms:

1. Vendor Invoices for Purchases
2. Sales Invoices
3. Credit Memos
4. Checks from Customers
5. Interoffice Memos
6. Bank Deposit Slips
7. Checkbook

The documents are presented in Booklet 3 in order of occurrence, numbered 1 through 61. Some documents have accompanying notes to assist the student in analyzing how to record the transactions.

Narrative of Transactions Method

Using the Narrative of Transactions approach requires the student to enter each business transaction using the same method as the problems presented in the text. Each transaction is listed in order by date with all necessary information given in narrative form. The student analyzes the information given in each transaction and enters it in the appropriate journal.

Combining Methods

Since there are advantages to both methods, using both may be desirable. In this approach, students could use the business forms as the primary source of information and use the Narrative of Transactions to support the accuracy of their entries. This would allow students to experience the paper flow of a business and provide some assurance that entries contain the appropriate amounts.

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Using Special Journals

This practice set utilizes special journals to record the daily transactions of the business. The journals are similar to those presented in the special journals online appendix to the text; however, they contain additional columns to accommodate entries for a merchandising operation, such as *Cost of Goods Sold* and *Inventory*. There are five types of journals contained in the practice set:

1. Revenue Journal (also called a Sales Journal)
2. Purchases Journal
3. Cash Payments Journal
4. Cash Receipts Journal
5. General (two-column) Journal

Pages 3 through 7 of this guide provide diagrams of the overall process of using these journals in a merchandising enterprise. Pages 4 through 7 diagram each type of special journal. These can be made into transparencies, if desired, and used to help guide the students through the various types of transactions contained in the set.

Analysis Test

A form for recording amounts in the practice set is also included on page 9 of this guide. This form may be copied and distributed to students, and you may instruct students to hand in a completed form with their completed set.

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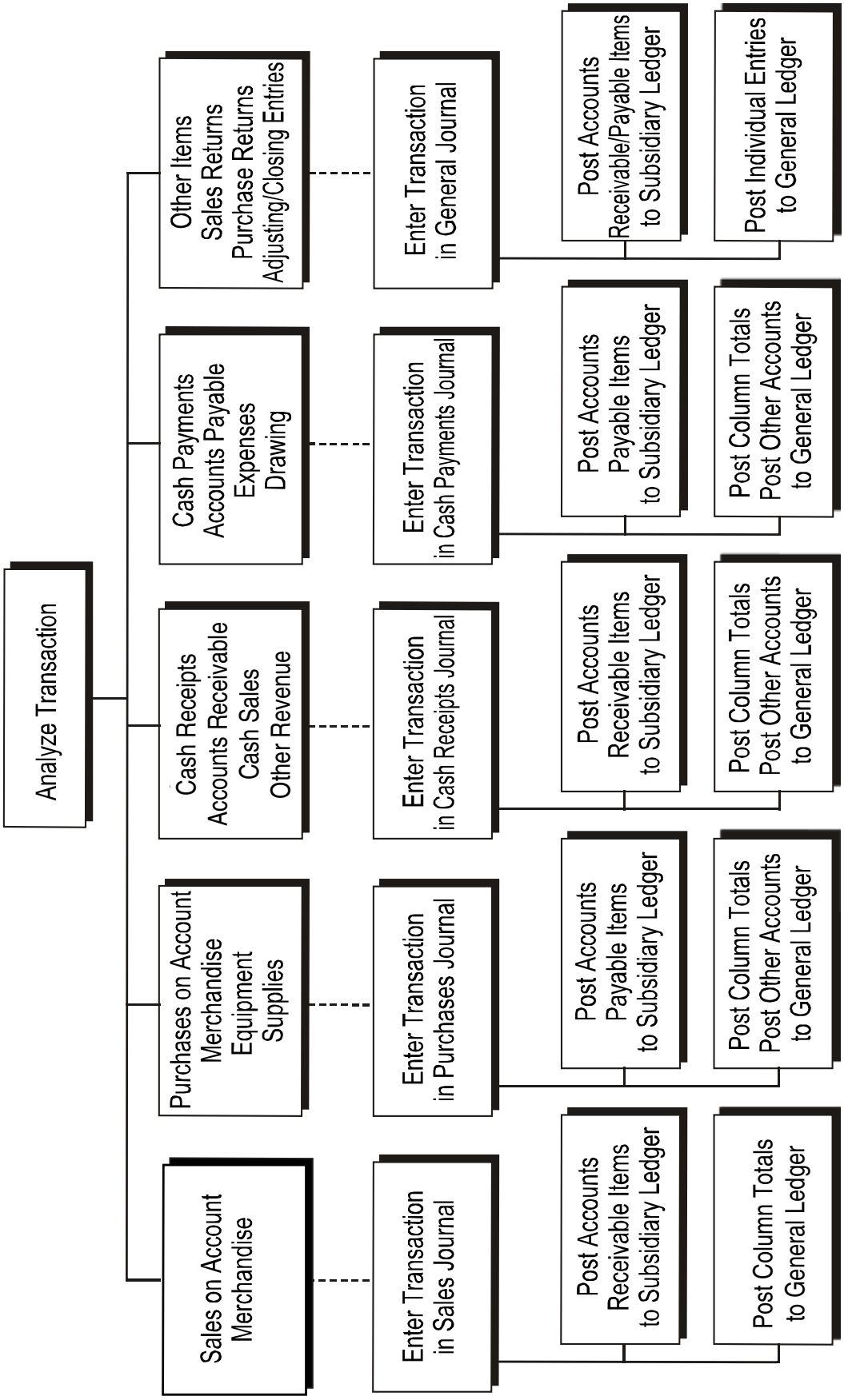
SPECIAL JOURNALS IN MERCHANDISING OPERATIONS



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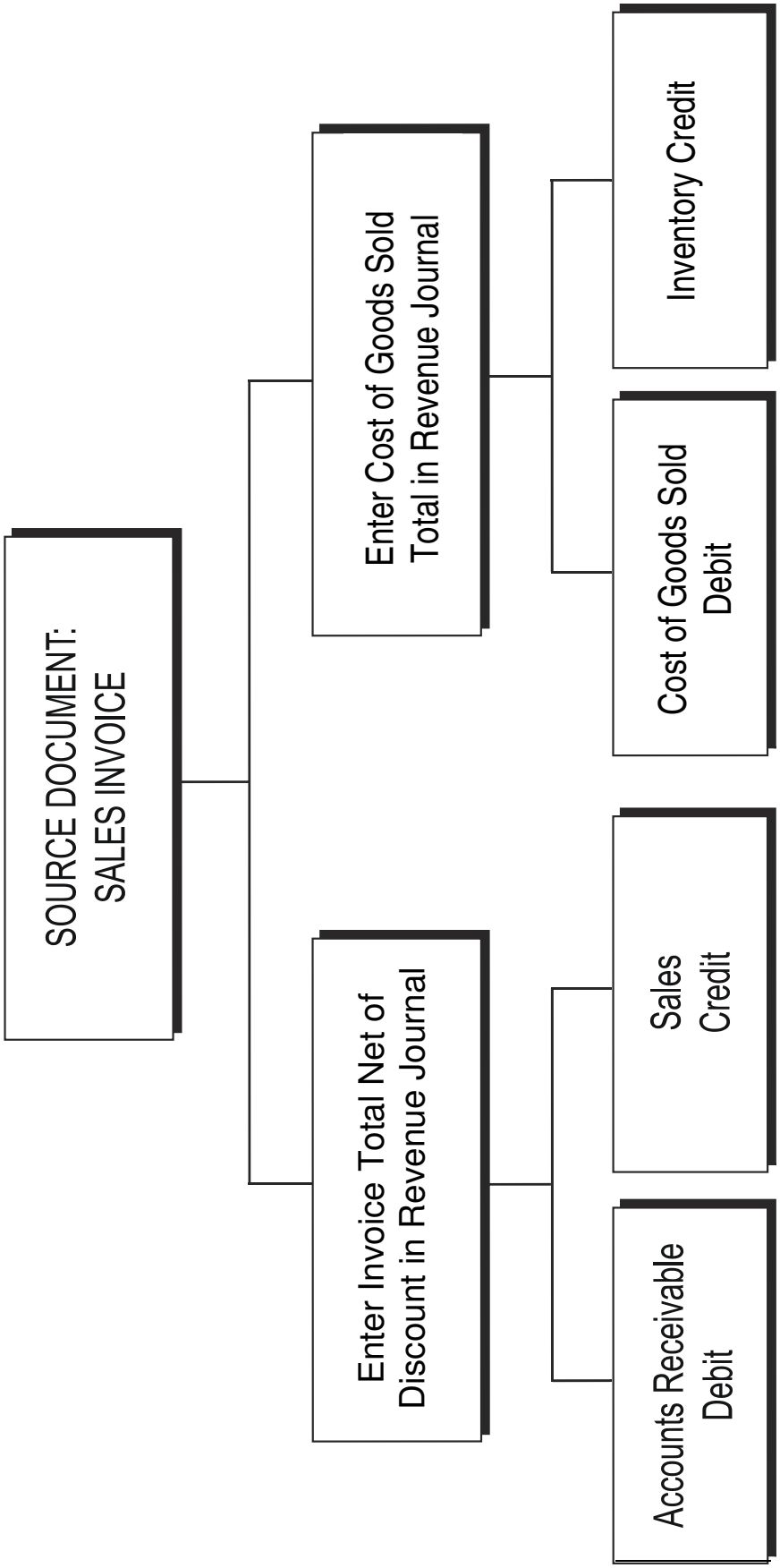
Revenue Journal



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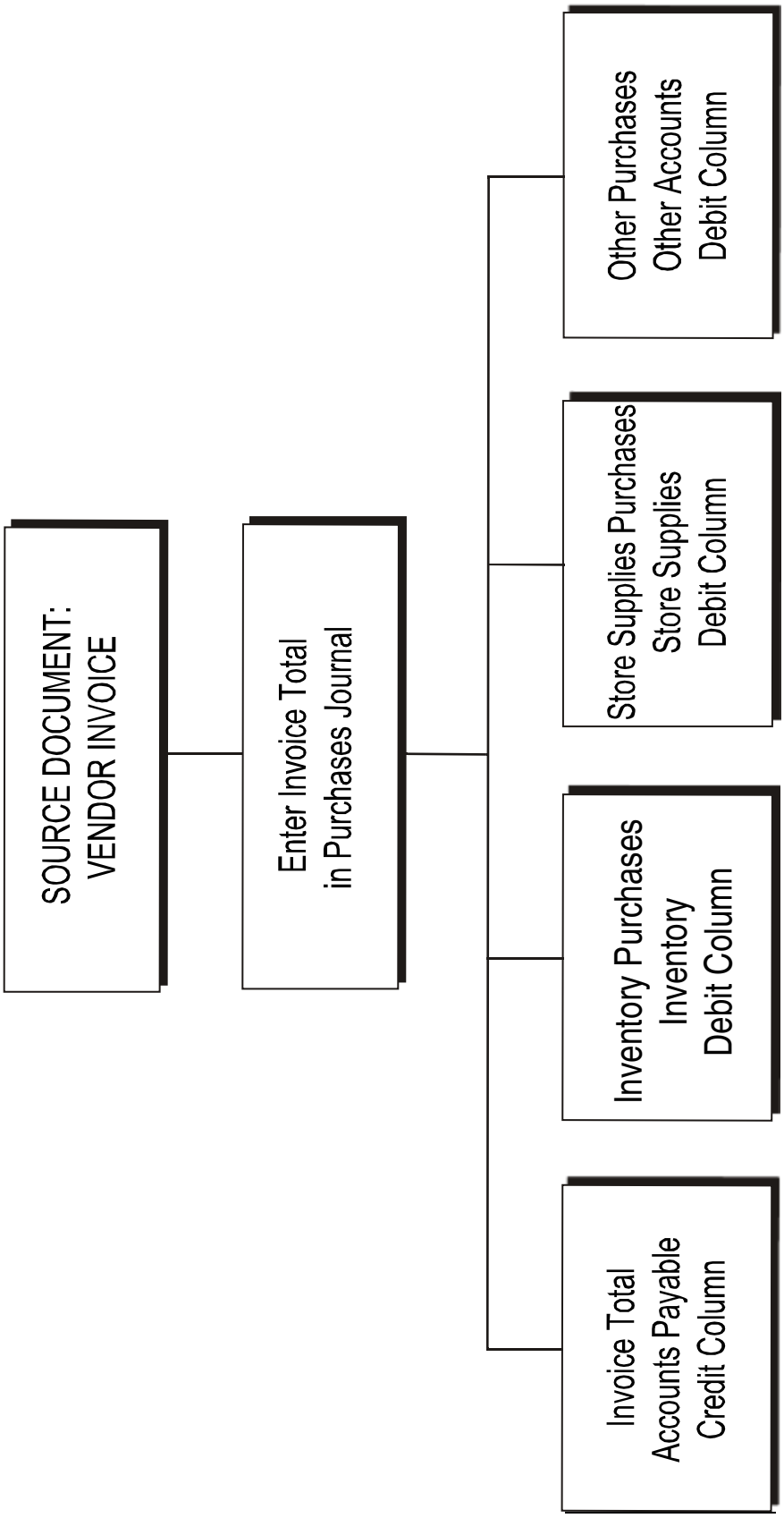
Purchases Journal



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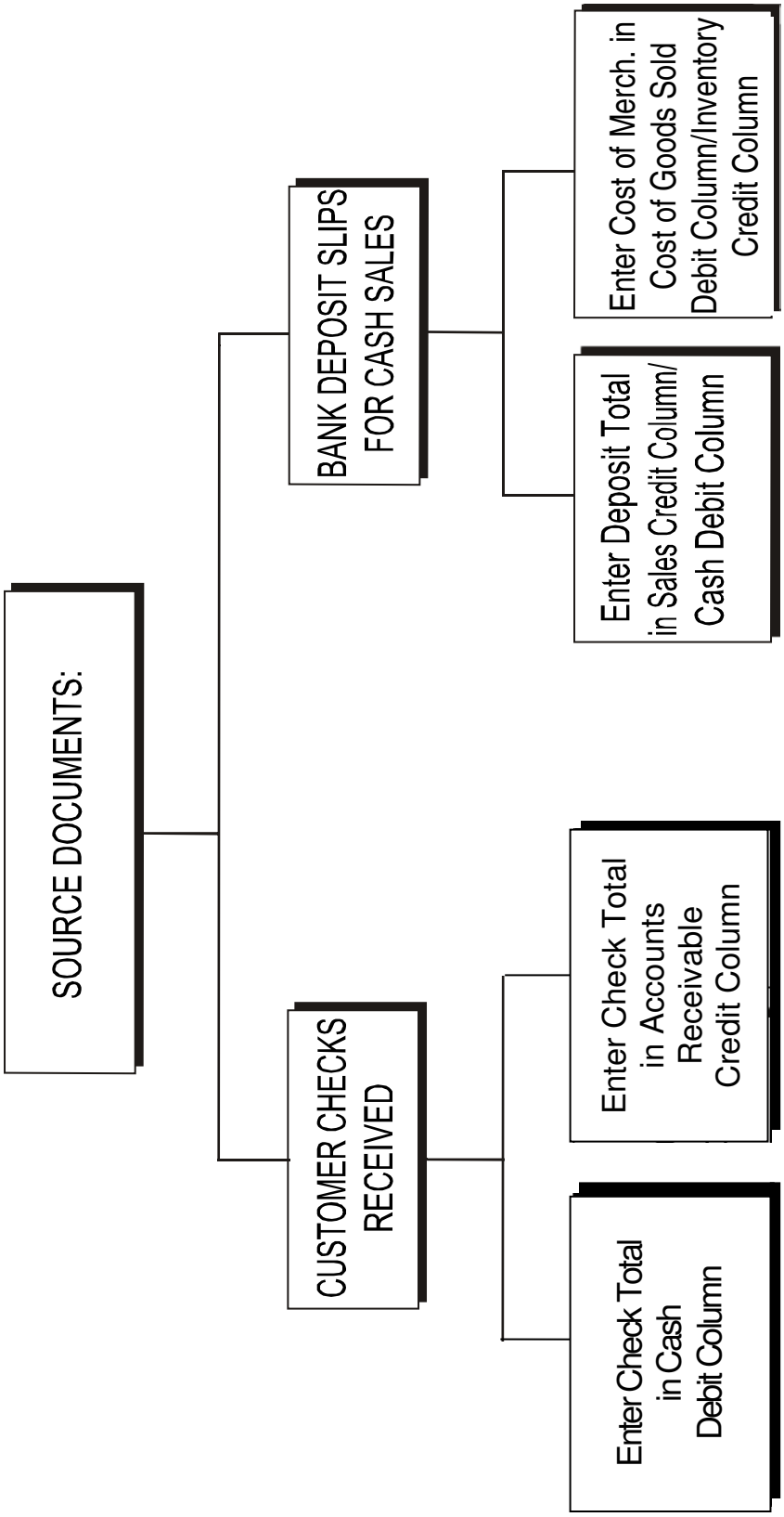
Cash Receipts Journal



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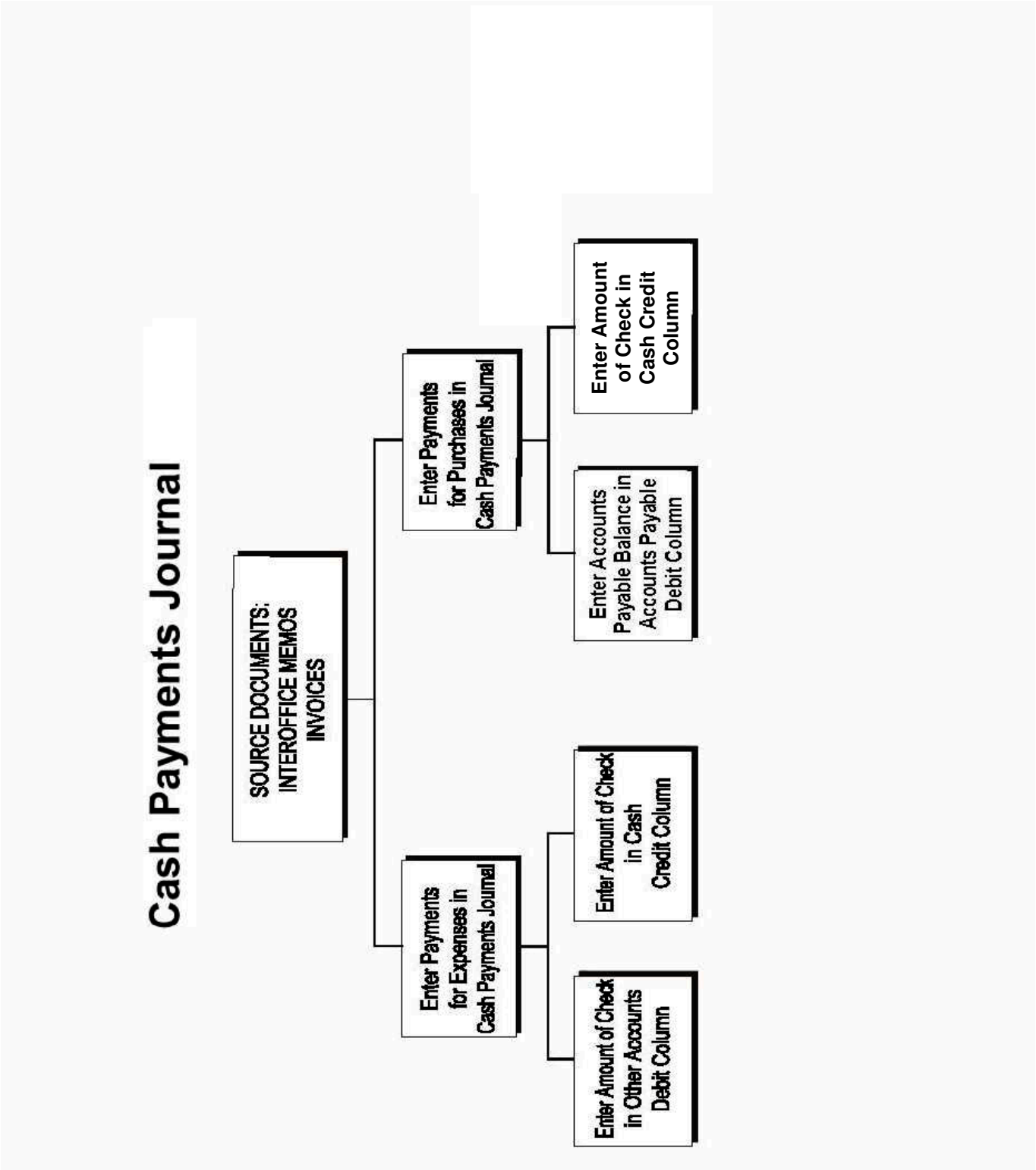

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Fit & Fashionable

ANALYSIS TEST

	Journals	
1.	Total Merchandise Purchases during April	$
2.	Total Cash Sales during April	$
3.	Total Sales on Account for April	$
4.	Total Accounts Payable Credits during April	$
	Accounts Receivable Ledger	
5.	All Access Fitness Center Balance on April 30	$
6.	Miami Health Club Balance on April 30	$
	Accounts Payable Ledger	
7.	Alexus Fitness Connection Balance on April 30	$
8.	Sports Magic Warehouse Balance on April 30	$
	Income Statement	
9.	Sales	$
10.	Cost of Goods Sold	$
11.	Gross Profit	$
12.	Total Operating Expenses	$
13.	Net Income	$
	Statement of Owner's Equity	
14.	Change in Owner's Equity	$
15.	Ending Balance of Owner's Equity, April 30	$
	Balance Sheet	
16.	Total Current Assets	$
17.	Total Property, Plant, and Equipment	$
18.	Total Current Liabilities	$
	Adjustments	
19.	Adjustment to Office Supplies	$
20.	Adjustment to Prepaid Insurance	$
21.	Adjustment to Unearned Rent	$
22.	Adjustment for Inventory Shrinkage	$
	Closing	
23.	Amount Closed to Capital from Income Summary	$
24.	Post-Closing Trial Balance Total	$
25.	Amount Closed from Drawing to Capital	$

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REVENUE JOURNAL

PAGE 2

	DATE		INV. NO.	ACCOUNT DEBITED	POST. REF.	ACCOUNTS RECEIVABLE DEBIT / SALES CREDIT	COST OF GOODS SOLD DEBIT / INVENTORY CREDIT	
1	20Y8							1
2	April	1	301	Miami Health Club	✓	5,301.60	3,864.00	2
3		3	302	All Access Fitness Center	✓	9,364.29	6,825.00	3
4		5	303	Westwood Boxing Gym	✓	27,306.48	19,903.68	4
5		8	304	The Sun Set Recreation Center	✓	21,756.88	15,858.00	5
6		10	305	Rockdale Gym	✓	13,373.86	9,412.00	6
7		16	306	Miami Health Club	✓	5,649.80	4,115.20	7
8		23	307	All Access Fitness Center	✓	13,770.64	10,040.00	8
9		25	308	Cory's Gym in the Grove	✓	5,186.36	3,780.00	9
10		26	309	Body Excellence Fitness Club	✓	3,789.17	2,640.00	10
11		30				105,499.08	76,437.88	11
12						(1112) (4100)	(5100) (1114)	12

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PURCHASES JOURNAL

PAGE 2

	DATE		ACCOUNT CREDITED	POST. REF.	ACCOUNTS PAYABLE CREDIT	INVENTORY DEBIT	STORE SUPPLIES DEBIT	OTHER ACCOUNTS DEBIT			
								ACCOUNT DEBITED	POST. REF.	AMOUNT	
1	20Y8										1
2	April	1	Alexus Fitness Corporation	✓	13,865.00	13,865.00					2
3		5	Sports Magic Warehouse	✓	49,519.75	49,519.75					3
4		8	Fit & Fab Health Products	✓	5,125.40	5,125.40					4
5		9	Fizzy-Cal Network	✓	11,400.00	9,600.00	1,800.00				5
6		16	Alexus Fitness Corporation	✓	10,105.00	9,180.00	250.00	Miscellaneous Selling Expense	5290	675	6
7		17	Sports Magic Warehouse	✓	16,900.00	16,900.00					7
8		20	Fizzy-Cal Network	✓	5,350.00	5,125.00	225.00				8
9		22	HeartFit Enterprises	✓	3,400.00	3,400.00					9
10		22	Fizzy-Cal Network	✓	10,800.00	10,800.00					10
11		24	Sports Magic Warehouse	✓	2,400.00	2,400.00					11
12		30			128,865.15	125,915.15	2,275.00			675.00	12
13					(2100)	(1115)	(1117)			(✓)	13

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CASH RECEIPTS JOURNAL

PAGE 2

	DATE		ACCOUNT	POST. REF.	OTHER ACCOUNTS CREDIT	COST OF GOODS SOLD DEBIT / INVENTORY CREDIT	SALES CREDIT	ACCOUNTS RECEIVABLE CREDIT	CASH DEBIT	
1	20Y8									1
2	April	2	Body Excellence Fitness Club	✓				14,406.00	14,406.00	2
3		3	Cory's Gym in the Grove	✓				12,348.00	12,348.00	3
4		4	The Sun Set Recreation Center	✓				6,174.00	6,174.00	4
5		6	Cash Sales	✓		18,024.00	26,600.00		26,600.00	5
6		8	Westwood Boxing Gym	✓				8,232.00	8,232.00	6
7		8	Pine Bay Fitness Club	✓				10,976.00	10,976.00	7
8		11	Store Supplies	1117	300.00				300.00	8
9		11	Miami Health Club	✓				5,301.60	5,301.60	9
10		12	All Access Fitness Center	✓				9,364.29	9,364.29	10
11		13	Cash Sales	✓		24,910.80	36,120.00		36,120.00	11
12		15	Westwood Boxing Gym	✓				27,306.48	27,306.48	12
13		18	The Sun Set Recreation Center	✓				20,933.68	20,933.68	13
14		19	Rockdale Gym	✓				13,373.86	13,373.86	14
15		20	Cash Sales	✓		19,292.80	27,020.00		27,020.00	15
16		30	Notes Receivable	1111	3,000.00				3,060.00	16
17			Interest Revenue	6100	60.00					17
18		30	Cash Sales	✓		19,099.20	28,280.00		28,280.00	18
19		30			3,360.00	81,326.80	118,020.00	128,415.91	249,795.91	19
20					(✓)	(1114) (5100)	(4100)	(1112)	(1110)	20

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CASH PAYMENTS JOURNAL

PAGE 2

	DATE		CK. NO.	ACCOUNT DEBITED	POST. REF.	OTHER ACCOUNTS DEBIT	ACCOUNTS PAYABLE DEBIT	CASH CREDIT	
1	20Y8								1
2	April	1	2201	Alexus Fitness Connection	✓		14,268.80	14,268.80	2
3		2	2202	Prepaid Insurance	1118	5,700.00		5,700.00	3
4		3	2203	Fizzy-Cal Network	✓		46,480.00	46,480.00	4
5		4	2204	HeartFit Enterprises	✓		14,000.00	14,000.00	5
6		10	2205	Miscellaneous Selling Expense	5290	175.00		175.00	6
7		13	2206	Sales Salaries Expense	5200	8,000.00			7
8				Office Salaries Expense	5300	5,000.00		13,000.00	8
9		17	2207	Marty Chavez, Drawing	3110	4,200.00		4,200.00	9
10		17	2208	Advertising Expense	5210	441.00		441.00	10
11		18	2209	Fit & Fab Health Products	✓		4,267.90	4,267.90	11
12		18	2210	Muscles R_x Distributors	✓		53,200.00	53,200.00	12
13		18	2211	Advertising Expense	5210	185.00		185.00	13
14		20	2212	Miscellaneous Selling Expense	5290	231.00		231.00	14
15		24	2213	Miscellaneous Administrative Expense	5390	287.00		287.00	15
16		26	2214	Sales Salaries Expense	5200	8,000.00			16
17				Office Salaries Expense	5300	5,000.00		13,000.00	17
18		27	2215	Miscellaneous Administrative Expense	5390	340.00		340.00	18
19		27	2216	Alexus Fitness Connection	✓		13,865.00	13,865.00	19
20		27	2217	Marty Chavez, Drawing	3110	2,500.00		2,500.00	20
21		29	2218	Miscellaneous Administrative Expense	5390	204.00			21
22				Miscellaneous Selling Expense	5290	408.00		612.00	22
23		29	2219	Miscellaneous Administrative Expense	5390	360.00		360.00	23
24		30	2220	Interest Expense	7100	700.00		700.00	24
25		30				41,731.00	146,081.70	187,812.70	25
26						(✓)	(2100)	(1110)	26

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GENERAL JOURNAL

PAGE 5

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20Y8						1
2	April	9	Customer Refunds Payable	2120	823.20		2
3			Accounts Rec./The Sun Set Rec. Center	1112/✓		823.20	3
4							4
5		9	Inventory	1114	600.00		5
6			Estimated Returns Inventory	1115		600.00	6
7							7
8		11	Accounts Payable/Fit & Fab Health Products	2100/✓	857.50		8
9			Inventory	1114		857.50	9
10							10
11		19	Customer Refunds Payable	2120	416.50		11
12			Accounts Receivable/Miami Health Club	1112/✓		416.50	12
13							13
14		19	Inventory	1114	304.00		14
15			Estimated Returns Inventory	1115		304.00	15
16							16
17		25	Accounts Payable/HeartFit Enterprises	2100/✓	400.00		17
18			Inventory	1114		400.00	18

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GENERAL JOURNAL

PAGE 6

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20Y8		**Adjusting Entries**				1
2	April	30	Cost of Goods Sold	5100	142.22		2
3			Inventory	1114		142.22	3
4							4
5		30	Office Supplies Expense	5340	500.00		5
6			Office Supplies	1116		500.00	6
7							7
8		30	Store Supplies Expense	5220	650.00		8
9			Store Supplies	1117		650.00	9
10							10
11		30	Insurance Expense	5330	475.00		11
12			Prepaid Insurance	1118		475.00	12
13							13
14		30	Depreciation Expense—Equipment	5320	1,250.00		14
15			Accumulated Depreciation—Equipment	1125		1,250.00	15
16							16
17		30	Depreciation Expense—Building	5350	2,475.00		17
18			Accumulated Depreciation—Building	1123		2,475.00	18
19							19
20		30	Interest Receivable	1113	30.00		20
21			Interest Revenue	6100		30.00	21
22							22
23		30	Sales Salaries Expense	5200	1,200.00		23
24			Office Salaries Expense	5300	500.00		24
25			Salaries Payable	2110		1,700.00	25
26							26
27		30	Sales	4100	4,470.00		27
28			Customer Refunds Payable	2120		4,470.00	28
29							29
30		30	Estimated Returns Inventory	1115	3,190.00		30
31			Cost of Goods Sold	5100		3,190.00	31
32							32
33							33
34							34
35							35

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GENERAL JOURNAL

PAGE 7

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20Y8		**Closing Entries**				1
2	Apr.	30	Sales	4100	219,049.08		2
3			Interest Revenue	6100	90.00		3
4			Income Summary	3120		219,139.08	4
5							5
6		30	Income Summary	3120	191,772.90		6
7			Cost of Goods Sold	5100		154,716.90	7
8			Sales Salaries Expense	5200		17,200.00	8
9			Advertising Expense	5210		626.00	9
10			Store Supplies Expense	5220		650.00	10
11			Miscellaneous Selling Expense	5290		1,489.00	11
12			Office Salaries Expense	5300		10,500.00	12
13			Depreciation Expense—Equipment	5320		1,250.00	13
14			Insurance Expense	5330		475.00	14
15			Office Supplies Expense	5340		500.00	15
16			Depreciation Expense—Building	5350		2,475.00	16
17			Miscellaneous Administrative Expense	5390		1,191.00	17
18			Interest Expense	7100		700.00	18
19							19
20		30	Income Summary	3120	27,366.18		20
21			Marty Chavez, Capital	3100		27,366.18	21
22							22
23		30	Marty Chavez, Capital	3100	6,700.00		23
24			Marty Chavez, Drawing	3110		6,700.00	24
25							25
26							26
27							27
28							28

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GENERAL LEDGER

ACCOUNT *Cash* ACCOUNT NO. *1110*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*84,147.80*	
	30		CR2	249,795.91		333,943.71	
	30		CP2		187,812.70	146,131.01	

ACCOUNT *Notes Receivable* ACCOUNT NO. *1111*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*9,800.00*	
	30		CR2		3,000.00	6,800.00	

ACCOUNT *Accounts Receivable* ACCOUNT NO. *1112*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*52,136.00*	
	9		J5		823.20	51,312.80	
	19		J5		416.50	50,896.30	
	30		R2	105,499.08		156,395.38	
	30		CR2		128,415.91	27,979.47	

ACCOUNT *Interest Receivable* ACCOUNT NO. *1113*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	30	Adjusting	J6	30.00		30.00	

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ACCOUNT *Inventory* ACCOUNT NO. *1114*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*240,900.00*	
	9		J5	600.00		241,500.00	
	11		J5		857.50	240,642.50	
	19		J5	304.00		240,946.50	
	25		J5		400.00	240,546.50	
	30		R2		76,437.88	164,108.62	
	30		P2	125,915.15		290,023.77	
	30		CR2		81,326.80	208,696.97	
	30	Adjusting	J6		142.22	208,554.75	

ACCOUNT *Estimated Returns Inventory* ACCOUNT NO. *1115*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*2,357.00*	
	9		J5		600.00	1,757.00	
	19		J5		304.00	1,453.00	
	30	Adjusting	J6	3,190.00		4,643.00	

ACCOUNT *Office Supplies* ACCOUNT NO. *1116*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*2,100.00*	
	30	Adjusting	J6		500.00	1,600.00	

ACCOUNT *Store Supplies* ACCOUNT NO. *1117*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*1,680.00*	
	11		CR2		300.00	1,380.00	
	30		P2	2,275.00		3,655.00	
	30	Adjusting	J6		650.00	3,005.00	

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ACCOUNT *Prepaid Insurance* ACCOUNT NO. *1118*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	2		CP2	5,700.00		5,700.00	
	30	Adjusting	J6		475.00	5,225.00	

ACCOUNT *Land* ACCOUNT NO. *1120*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*210,000.00*	

ACCOUNT *Building* ACCOUNT NO. *1122*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*439,000.00*	

ACCOUNT *Accumulated Depreciation—Building* ACCOUNT NO. *1123*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓				*140,200.00*
	30	Adjusting	J6		2,475.00		142,675.00

ACCOUNT *Equipment* ACCOUNT NO. *1124*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓			*98,350.00*	

ACCOUNT *Accumulated Depreciation—Equipment* ACCOUNT NO. *1125*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓				*34,540.00*
	30	Adjusting	J6		1,250.00		35,790.00

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ACCOUNT *Accounts Payable* ACCOUNT NO. *2100*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓				*127,948.80*
	11		J5	857.50			127,091.30
	25		J5	400.00			126,691.30
	30		P2		128,865.15		255,556.45
	30		CP2	146,081.70			109,474.75

ACCOUNT *Salaries Payable* ACCOUNT NO. *2110*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	30	Adjusting	J6		1,700.00		1,700.00

ACCOUNT *Customer Refunds Payable* ACCOUNT NO. *2120*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓				*3,300.00*
	9		J5	823.20			2,476.80
	19		J5	416.50			2,060.30
	30	Adjusting	J6		4,470.00		6,530.30

ACCOUNT *Notes Payable* ACCOUNT NO. *2150*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓				*168,000.00*

ACCOUNT *Marty Chavez, Capital* ACCOUNT NO. *3100*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	*1*	*Balance*	✓				*666,482.00*
	30	Closing	J7		27,366.18		693,848.18
	30	Closing	J7	6,700.00			687,148.18

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ACCOUNT *Marty Chavez, Drawing* ACCOUNT NO. *3110*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	17		CP2	4,200.00		4,200.00	
	27		CP2	2,500.00		6,700.00	
	30	Closing	J7		6,700.00	—	—

ACCOUNT *Income Summary* ACCOUNT NO. *3120*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	30	Closing	J7		219,139.08		219,139.08
	30	Closing	J7	191,772.90			27,366.18
	30	Closing	J7	27,366.18		—	—

ACCOUNT *Sales* ACCOUNT NO. *4100*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	30		R2		105,499.08		105,499.08
	30		CR2		118,020.00		223,519.08
	30	Adjusting	J6	4,470.00			219,049.08
	30	Closing	J7	219,049.08		—	—

ACCOUNT *Cost of Goods Sold* ACCOUNT NO. *5100*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20Y8							
Apr.	30		R2	76,437.88		76,437.88	
	30		CR2	81,326.80		157,764.68	
	30	Adjusting	J6	142.22		157,906.90	
	30	Adjusting	J6		3,190.00	154,716.90	
	30	Closing	J7		154,716.90	—	—

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ACCOUNT *Sales Salaries Expense* ACCOUNT NO. *5200*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	13		CP2	8,000.00		8,000.00	
	26		CP2	8,000.00		16,000.00	
	30	Adjusting	J6	1,200.00		17,200.00	
	30	Closing	J7		17,200.00	—	—

ACCOUNT *Advertising Expense* ACCOUNT NO. *5210*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	17		CP2	441.00		441.00	
	18		CP2	185.00		626.00	
	30	Closing	J7		626.00	—	—

ACCOUNT *Store Supplies Expense* ACCOUNT NO. *5220*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	30	Adjusting	J6	650.00		650.00	
	30	Closing	J7		650.00	—	—

ACCOUNT *Miscellaneous Selling Expense* ACCOUNT NO. *5290*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	10		CP2	175.00		175.00	
	16		P2	675.00		850.00	
	20		CP2	231.00		1,081.00	
	29		CP2	408.00		1,489.00	
	30	Closing	J7		1,489.00	—	—

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ACCOUNT *Office Salaries Expense* ACCOUNT NO. *5300*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	13		CP2	5,000.00		5,000.00	
	26		CP2	5,000.00		10,000.00	
	30	Adjusting	J6	500.00		10,500.00	
	30	Closing	J7		10,500.00	—	—

ACCOUNT *Depreciation Expense—Equipment* ACCOUNT NO. *5320*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	30	Adjusting	J6	1,250.00		1,250.00	
		Closing	J7		1,250.00	—	—

ACCOUNT *Insurance Expense* ACCOUNT NO. *5330*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	30	Adjusting	J6	475.00		475.00	
	30	Closing	J7		475.00	—	—

ACCOUNT *Office Supplies Expense* ACCOUNT NO. *5340*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	30	Adjusting	J6	500.00		500.00	
	30	Closing	J7		500.00	—	—

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ACCOUNT *Depreciation Expense—Building* ACCOUNT NO. *5350*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	30	Adjusting	J6	2,475.00		2,475.00	
	30	Closing	J7		2,475.00	—	—

ACCOUNT *Miscellaneous Administrative Expense* ACCOUNT NO. *5390*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	24		CP2	287.00		287.00	
	27		CP2	340.00		627.00	
	29		CP2	204.00		831.00	
	29		CP2	360.00		1,191.00	
	30	Closing	J7		1,191.00	—	—

ACCOUNT *Interest Revenue* ACCOUNT NO. *6100*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	30		CR2		60.00		60.00
	30	Adjusting	J6		30.00		90.00
	30	Closing	J7	90.00		—	—

ACCOUNT *Interest Expense* ACCOUNT NO. *7100*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
20Y8							
Apr.	30		CP2	700.00		700.00	
	30	Closing	J7		700.00	—	—

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ACCOUNTS RECEIVABLE LEDGER

NAME *All Access Fitness Center*

ADDRESS *1 South Park Blvd., South Miami, FL 33143*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
Apr.	3		R2	9,364.29		9,364.29
	12		CR2		9,364.29	—
	23		R2	13,770.64		13,770.64

NAME *Body Excellence Fitness Club*

ADDRESS *9 Key Biscayne Ave., Suite 100, Key Biscayne, FL 33149*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
Apr.	*1*	*Balance*	✓			*14,406.00*
	2		CR2		14,406.00	—
	26		R2	3,789.17		3,789.17

NAME *Cory's Gym in the Grove*

ADDRESS *20 Main Highway, Coconut Grove, FL 33133*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
Apr.	*1*	*Balance*	✓			*12,348.00*
	3		CR2		12,348.00	—
	25		R2	5,186.36		5,186.36

NAME *Miami Health Club*

ADDRESS *8050 SW 8th Street, Miami, FL 33130*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
Apr.	1		R2	5,301.60		5,301.60
	11		CR2		5,301.60	—
	16		R2	5,649.80		5,649.80
	19		J5		416.50	5,233.30

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NAME *Pine Bay Fitness Club*

ADDRESS *8 SW 57th Ave., Miami, FL 33156*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
Apr.	1	*Balance*	✓			10,976.00
	8		CR2		10,976.00	—

NAME *Rockdale Gym*

ADDRESS *162 S. Dixie Hwy., Rockdale, FL 33157*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
Apr.	10		R2	13,373.86		13,373.86
	26		CR2		13,373.86	—

NAME *The Sun Set Recreation Center*

ADDRESS *50 Snapper Creek Dr., Sunset, FL 33173*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
Apr.	*1*	*Balance*	✓			*6,174.00*
	4		CR2		6,174.00	—
	8		R2	21,756.88		21,756.88
	9		J5		823.20	20,933.68
	18		CR2		20,933.68	—

NAME *Westwood Boxing Gym*

ADDRESS *50 Westwood Lake Dr., Miami, FL 33165*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
Apr.	*1*	*Balance*	✓			*8,232.00*
	11		R2	27,306.48		35,538.48
	16		CR2		8,232.00	27,306.48
	19		CR2		27,306.48	—

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ACCOUNTS PAYABLE LEDGER

NAME *Alexus Fitness Connection*

ADDRESS *100 Coral Way, Miami, FL 33129*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
April	*1*	*Balance*	✓			*14,268.80*
	1		P2		13,865.00	28,133.80
	1		CP2	14,268.80		13,865.00
	16		P2		10,105.00	23,970.00
	27		CP2	13,865.00		10,105.00

NAME *Fit & Fab Health Products*

ADDRESS *15 Park Avenue, 115th Floor, New York, NY 10154*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
April	8		P2		5,125.40	5,125.40
	11		J5	857.50		4,267.90
	18		CP2	4,267.90		—

NAME *Fizzy-Cal Network*

ADDRESS *45 Caribbean Avenue, Los Angeles, CA 90001*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
April	*1*	*Balance*	✓			*46,480.00*
	3		CP2	46,480.00		—
	9		P2		11,400.00	11,400.00
	20		P2		5,350.00	16,750.00
	22		P2		10,800.00	27,550.00

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NAME *HeartFit Enterprises*

ADDRESS *15 Brickell Ave. #150, Miami, FL 33129*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
April	*1*	*Balance*	✓			*14,000.00*
	4		CP2	14,000.00		—
	22		P2		3,400.00	3,400.00
	25		J5	400.00		3,000.00

NAME *Muscles R_x Distributors*

ADDRESS *80 Commercial Blvd., Fort Lauderdale, FL 33310*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
April	*1*	*Balance*	✓			*53,200.00*
	18		CP2	53,200.00		—

NAME *Sports Magic Warehouse*

ADDRESS *246 Santa Monica Blvd., Santa Monica, CA 90403*

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
20Y8						
April	5		P2		49,519.75	49,519.75
	17		P2		16,900.00	66,419.75
	24		P2		2,400.00	68,819.75

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Fit & Fashionable		
DEPOSIT TICKETS		

April 6

CHECKS:	Body Excellence Fitness Club	14,406.00
	Cory's Gym in the Grove	12,348.00
	The Sun Set Recreation Center	6,174.00
	TOTAL	32,928.00

April 13

CHECKS:	Westwood Boxing Gym	8,232.00
	Pine Bay Fitness Club	10,976.00
	SupplyMax	300.00
	Miami Health Club	5,301.60
	All Access Fitness Center	9,364.29
	TOTAL	34,173.89

April 20

CHECKS:	Westwood Boxing Gym	27,306.48
	The Sun Set Recreation Center	20,933.68
	Rockdale Gym	13,373.86
	TOTAL	61,614.02

April 30

CHECKS:	Blue Water Enterprises	3,060.00
	TOTAL	3,060.00

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Fit & Fashionable				
CHECK STUBS FOR APRIL				
Check Number	Date	Check Amount	Deposits	Balance
				84,147.80
2201	1	14,268.80		69,879.00
2202	2	5,700.00		64,179.00
2203	3	46,480.00		17,699.00
2204	4	14,000.00		3,699.00
	6		26,600.00	30,299.00
	6		32,928.00	63,227.00
2205	10	175.00		63,052.00
2206	13	13,000.00		50,052.00
	13		36,120.00	86,172.00
	13		34,173.89	120,345.89
2207	17	4,200.00		116,145.89
2208	17	441.00		115,704.89
2209	18	4,267.90		111,436.99
2210	18	53,200.00		58,236.99
2211	18	185.00		58,051.99
2212	20	231.00		57,820.99
	20		27,020.00	84,840.99
	20		61,614.02	146,455.01
2213	24	287.00		146,168.01
2214	26	13,000.00		133,168.01
2215	27	340.00		132,828.01
2216	27	13,865.00		118,963.01
2217	27	2,500.00		116,463.01
2218	29	612.00		115,851.01
2219	29	360.00		115,491.01
2220	30	700.00		114,791.01
	30		28,280.00	143,071.01
	30		3,060.00	146,131.01

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Fit & Fashionable	
Schedule of Accounts Receivable	
April 30, 20Y8	

All Access Fitness Center	$ 13,770.64
Body Excellence Fitness Club	3,789.17
Cory's Gym in the Grove	5,186.36
Miami Health Club	5,233.30
Total Accounts Receivable	$ 27,979.47

Fit & Fashionable	
Schedule of Accounts Payable	
April 30, 20Y8	

Alexus Fitness Connection	$ 10,105.00
Fizzy-Cal Network	27,550.00
HeartFit Enterprises	3,000.00
Sports Magic Warehouse	68,819.75
Total Accounts Payable	$ 109,474.75

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Fit & Fashionable			
Trial Balance (Preadjusting)			
April 30, 20Y8			
ACCOUNT	ACCT. NO.	DEBIT BALANCES	CREDIT BALANCES
Cash	1110	146,131.01	
Notes Receivable	1111	6,800.00	
Accounts Receivable	1112	27,979.47	
Interest Receivable	1113		
Inventory	1114	208,696.97	
Estimated Returns Inventory	1115	1,453.00	
Office Supplies	1116	2,100.00	
Store Supplies	1117	3,655.00	
Prepaid Insurance	1118	5,700.00	
Land	1120	210,000.00	
Building	1122	439,000.00	
Accumulated Depreciation—Building	1123		140,200.00
Equipment	1124	98,350.00	
Accumulated Depreciation—Equipment	1125		34,540.00
Accounts Payable	2100		109,474.75
Salaries Payable	2110		
Customer Refunds Payable	2120		2,060.30
Notes Payable	2150		168,000.00
Marty Chavez, Capital	3100		666,482.00
Marty Chavez, Drawing	3110	6,700.00	
Sales	4100		223,519.08
Cost of Goods Sold	5100	157,764.68	
Sales Salaries Expense	5200	16,000.00	
Advertising Expense	5210	626.00	
Store Supplies Expense	5220		
Miscellaneous Selling Expense	5290	1,489.00	
Office Salaries Expense	5300	10,000.00	
Depreciation Expense—Equipment	5320		
Insurance Expense	5330		
Office Supplies Expense	5340		
Depreciation Expense—Building	5350		
Miscellaneous Administrative Expense	5390	1,191.00	
Interest Revenue	6100		60.00
Interest Expense	7100	700.00	
		1,344,336.13	1,344,336.13

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Fit &
Work
April 30,

	ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		
		DEBIT	CREDIT	DEBIT	CREDIT	
1	*Cash*	146,131.01				1
2	*Notes Receivable*	6,800.00				2
3	*Accounts Receivable*	27,979.47				3
4	*Interest Receivable*			(g) 30.00		4
5	*Inventory*	208,696.97			(a) 142.22	5
6	*Estimated Returns Inventory*	1,453.00		(j) 3,190.00		6
7	*Office Supplies*	2,100.00			(b) 500.00	7
8	*Store Supplies*	3,655.00			(c) 650.00	8
9	*Prepaid Insurance*	5,700.00			(d) 475.00	9
10	*Land*	210,000.00				10
11	*Building*	439,000.00				11
12	*Accum. Depreciation—Building*		140,200.00		(f) 2,475.00	12
13	*Equipment*	98,350.00				13
14	*Accum. Depreciation—Equipment*		34,540.00		(e) 1,250.00	14
15	*Accounts Payable*		109,474.75			15
16	*Salaries Payable*				(h) 1,700.00	16
17	*Customer Refunds Payable*		2,060.30		(i) 4,470.00	17
18	*Notes Payable*		168,000.00			18
19	*Marty Chavez, Capital*		666,482.00			19
20	*Marty Chavez, Drawing*	6,700.00				20
21	*Sales*		223,519.08	(i) 4,470.00		21
22	*Cost of Goods Sold*	157,764.68		(a) 142.22	(j) 3,190.00	22
23	*Sales Salaries Expense*	16,000.00		(h) 1,200.00		23
24	*Advertising Expense*	626.00				24
25	*Store Supplies Expense*			(c) 650.00		25
26	*Miscellaneous Selling Expense*	1,489.00				26
27	*Office Salaries Expense*	10,000.00		(h) 500.00		27
28	*Depr. Expense—Equipment*			(e) 1,250.00		28
29	*Insurance Expense*			(d) 475.00		29
30	*Office Supplies Expense*			(b) 500.00		30
31	*Depr. Expense—Building*			(f) 2,475.00		31
32	*Miscellaneous Admin. Expense*	1,191.00				32
33	*Interest Revenue*		60.00		(g) 30.00	33
34	*Interest Expense*	700.00				34
35	*Totals*	1,344,336.13	1,344,336.13	14,882.22	14,882.22	35
36	*Net Income*					36
37						37
38						38
39						39

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Fashionable
Sheet
20Y8

	ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	146,131.01				146,131.01		1
2	6,800.00				6,800.00		2
3	27,979.47				27,979.47		3
4	30.00				30.00		4
5	208,554.75				208,554.75		5
6	4,643.00				4,643.00		6
7	1,600.00				1,600.00		7
8	3,005.00				3,005.00		8
9	5,225.00				5,225.00		9
10	210,000.00				210,000.00		10
11	439,000.00				439,000.00		11
12		142,675.00				142,675.00	12
13	98,350.00				98,350.00		13
14		35,790.00				35,790.00	14
15		109,474.75				109,474.75	15
16		1,700.00				1,700.00	16
17		6,530.30				6,530.30	17
18		168,000.00				168,000.00	18
19		666,482.00				666,482.00	19
20	6,700.00				6,700.00		20
21		219,049.08		219,049.08			21
22	154,716.90		154,716.90				22
23	17,200.00		17,200.00				23
24	626.00		626.00				24
25	650.00		650.00				25
26	1,489.00		1,489.00				26
27	10,500.00		10,500.00				27
28	1,250.00		1,250.00				28
29	475.00		475.00				29
30	500.00		500.00				30
31	2,475.00		2,475.00				31
32	1,191.00		1,191.00				32
33		90.00		90.00			33
34	700.00		700.00				34
35	1,349,791.13	1,349,791.13	191,772.90	219,139.08	1,158,018.23	1,130,652.05	35
36			27,366.18			27,366.18	36
37			219,139.08	219,139.08	1,158,018.23	1,158,018.23	37
38							38
39							39

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Fit & Fashionable			
Income Statement			
For the Month Ended April 30, 20Y8			
Revenues:			
Sales			$ 219,049.08
Cost of goods sold			154,716.90
Gross profit			$ 64,332.18
Operating expenses:			
Selling expenses:			
Sales salaries expense	$ 17,200.00		
Advertising expense	626.00		
Store supplies expense	650.00		
Miscellaneous selling expense	1,489.00		
Total selling expenses		$ 19,965.00	
Administrative expenses:			
Office salaries expense	$ 10,500.00		
Depreciation expense—equipment	1,250.00		
Insurance expense	475.00		
Office supplies expense	500.00		
Depreciation expense—building	2,475.00		
Miscellaneous administrative expense	1,191.00		
Total administrative expenses		16,391.00	
Total operating expenses			36,356.00
Income from operations			$ 27,976.18
Other revenue and expense:			
Interest revenue		$ 90.00	
Interest expense		(700.00)	(610.00)
Net income			$ 27,366.18

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Fit & Fashionable		
Statement of Owner's Equity		
For the Month Ended April 30, 20Y8		

Marty Chavez, capital, March 31, 20Y8		$ 666,482.00
Net income for the month	$ 27,366.18	
Withdrawals	(6,700.00)	
Change in owner's equity		20,666.18
Marty Chavez, capital, April 30, 20Y8		$ 687,148.18

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Fit & Fashionable			
Balance Sheet			
April 30, 20Y8			
Assets			
Current assets:			
Cash		$ 146,131.01	
Notes receivable		6,800.00	
Accounts receivable		27,979.47	
Interest receivable		30.00	
Inventory		208,554.75	
Estimated returns inventory		4,643.00	
Office supplies		1,600.00	
Store supplies		3,005.00	
Prepaid insurance		5,225.00	
Total current assets			$ 403,968.23
Property, plant, and equipment:			
Land		$ 210,000.00	
Building	$ 439,000.00		
Accumulated depreciation	(142,675.00)		
Building, book value		296,325.00	
Equipment	$ 98,350.00		
Accumulated depreciation	(35,790.00)		
Equipment, book value		62,560.00	
Total property, plant, and equipment			568,885.00
Total assets			$ 972,853.23
Liabilities			
Current liabilities:			
Accounts payable		$ 109,474.75	
Salaries payable		1,700.00	
Customer refunds payable		6,530.30	
Total current liabilities			$ 117,705.05
Long-term liabilities:			
Notes payable			168,000.00
Total liabilities			$ 285,705.05
Owner's Equity			
Marty Chavez, capital			687,148.18
Total liabilities and owner's equity			$ 972,853.23

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Fit & Fashionable			
Post-Closing Trial Balance			
April 30, 20Y8			
ACCOUNT	ACCT. NO.	DEBIT BALANCES	CREDIT BALANCES
Cash	1110	146,131.01	
Notes Receivable	1111	6,800.00	
Accounts Receivable	1112	27,979.47	
Interest Receivable	1113	30.00	
Inventory	1114	208,554.75	
Estimated Returns Inventory	1115	4,643.00	
Office Supplies	1116	1,600.00	
Store Supplies	1117	3,005.00	
Prepaid Insurance	1118	5,225.00	
Land	1120	210,000.00	
Building	1122	439,000.00	
Accumulated Depreciation—Building	1123		142,675.00
Equipment	1124	98,350.00	
Accumulated Depreciation—Equipment	1125		35,790.00
Accounts Payable	2100		109,474.75
Salaries Payable	2110		1,700.00
Customer Refunds Payable	2120		6,530.30
Notes Payable	2150		168,000.00
Marty Chavez, Capital	3100		687,148.18
		1,151,318.23	1,151,318.23

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Corporate Financial Accounting 14th edition Warren Solutions Manual

Fit & Fashionable

ANALYSIS TEST

	Journals	
1.	Total Merchandise Purchases during April	$ 125,915.15
2.	Total Cash Sales during April	$ 118,020.00
3.	Total Sales on Account for April	$ 105,499.08
4.	Total Accounts Payable Credits during April	$ 128,865.15
	Accounts Receivable Ledger	
5.	All Access Fitness Center Balance on April 30	$ 13,770.64
6.	Miami Health Club Balance on April 30	$ 5,233.30
	Accounts Payable Ledger	
7.	Alexus Fitness Center Balance on April 30	$ 10,105.00
8.	Sports Magic Warehouse Balance on April 30	$ 68,819.75
	Income Statement	
9.	Sales	$ 219,049.08
10.	Cost of Goods Sold	$ 154,716.90
11.	Gross Profit	$ 64,332.18
12.	Total Operating Expenses	$ 36,356.00
13.	Net Income	$ 27,366.18
	Statement of Owner's Equity	
14.	Change in Owner's Equity	$ 20,666.18
15.	Ending Balance of Owner's Equity, April 30	$ 687,148.18
	Balance Sheet	
16.	Total Current Assets	$ 403,968.23
17.	Total Property, Plant, and Equipment	$ 568,885.00
18.	Total Current Liabilities	$ 117,705.05
	Adjustments	
19.	Adjustment to Office Supplies	$ 500.00
20.	Adjustment to Prepaid Insurance	$ 475.00
21.	Adjustment to Store Supplies	$ 650.00
22.	Adjustment for Inventory Shrinkage	$ 142.22
	Closing	
23.	Amount Closed to Capital from Income Summary	$ 27,366.18
24.	Post-Closing Trial Balance Total	$ 1,151,318.23
25.	Amount Closed from Drawing to Capital	$ 6,700.00

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Transparency Master 2-1

Assets = Liabilities + Stockholders' Equity

STOCKHOLDERS' EQUITY ACCOUNTS

Account	Used to Record
Common Stock	Owner's Investments
Retained Earnings	Earnings That Have Not Been Paid Out as Dividends to Shareholders
Dividends	Earnings Distributions to Owners
Revenue	Revenues from Customers
Expense	Expenses Incurred in the Process of Generating Revenues

CHART OF ACCOUNTS

Larry Sharp, M.D.

The following information pertains to the medical practice of Larry Sharp, M.D. Using the information, develop a chart of accounts for Dr. Sharp. Remember to number the accounts using a flexible system of indexing, as described in your textbook.

1. **Dr. Sharp is the sole shareholder of his medical practice.**
2. **Dr. Sharp has the following assets that are used in the business: $15,000 in cash, $1,200 worth of supplies, and medical equipment that cost $8,900.**
3. **Dr. Sharp buys all of his medical supplies on account and pays for them within 30 days of the purchase.**
4. **In payment for his services, Dr. Sharp will accept cash or will bill his patients.**
5. **Dr. Sharp rents his office space. His lease agreement requires him to pay his own utilities.**
6. **Dr. Sharp is required to carry malpractice insurance, which is paid at the beginning of each year.**
7. **Dr. Sharp has one receptionist and one medical assistant who work for him full time. Each year, he buys the receptionist and the assistant flowers on their birthdays.**
8. **To keep current on medical advances, Dr. Sharp frequently attends medical seminars. These seminars can cost as much as $10,000 each year.**

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Transparency Master 2-3

SAMPLE CHART OF ACCOUNTS

Larry Sharp, M.D.

Assets

10 Cash
11 Accounts Receivable
12 Supplies
13 Prepaid Insurance
14 Medical Equipment

Liabilities

21 Accounts Payable

Stockholders' Equity

31 Common Stock
32 Retained Earnings
33 Dividends

Revenues

41 Fees Earned

Expenses

51 Wages Expense
52 Rent Expense
53 Utilities Expense
54 Medical Seminars Expense
55 Supplies Expense
56 Miscellaneous Expense

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POSTING ENTRIES INTO T ACCOUNTS

Mark Gordon decided to start a business as a disc jockey for wedding receptions, reunions, and other parties. His business is called Music Express. Record the following journal entries for Music Express and post these entries to the appropriate T accounts.

a. Issued common stock to Mark for $7,000.
b. Purchased $5,700 of stereo equipment on account.
c. Paid for an advertisement in local newspapers, $500.
d. Paid cash for supplies, $75.
e. Received $1,000 cash from customers for music provided at class reunions.
f. Paid for stereo equipment purchased in (b).
g. Provided music at a wedding reception; the bride's father was billed $300. Payment is due in 30 days.
h. Paid wages of an assistant, $150.
i. Received cash from the customer billed in (g).
j. Paid cash dividend to Mark, $575.

Cash

Accounts Receivable

Supplies

Stereo Equipment

Accounts Payable

Common Stock

Retained Earnings

Dividends

Fees Earned

Wages Expense

Advertising Expense

POSTING ENTRIES INTO T ACCOUNTS
Solution

Mark Gordon decided to start a business as a disc jockey for wedding receptions, reunions, and other parties. His business is called Music Express. Record the following journal entries for Music Express and post these entries to the appropriate T accounts.

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f. Paid for stereo equipment purchased in (b).
g. Provided music at a wedding reception; the bride's father was billed $300. Payment is due in 30 days.
h. Paid wages of an assistant, $150.
i. Received cash from the customer billed in (g).
j. Paid cash dividend to Mark, $575.

Cash

a.	7,000	c.	500
e.	1,000	d.	75
i.	300	f.	5,700
		h.	150
		j.	575
	1,300		

Accounts Receivable

g.	300	i.	300
	0		

Supplies

d.	75		

Stereo Equipment

b.	5,700		

Accounts Payable

		b.	5,700
f.	5,700		
			0

Common Stock

		a.	7,000

Retained Earnings

Dividends

j.	575		

Fees Earned

		e.	1,000
		g.	300
			1,300

Wages Expense

h.	150		

Advertising Expense

c.	500		

Transparency Master 2-6

JOURNAL **Page 1**

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
20Y1				
Sept. 1	Cash		8,000	
	Common Stock			8,000
	Owner's initial investment.			
3	Supplies		200	
	Cash			200
	Purchased supplies.			
7	Cash		500	
	Fees Earned			500
	Received from cash customers.			
12	Wages Expense		100	
	Cash			100
	Paid wages of assistant.			
15	Office Equipment		275	
	Accounts Payable			275
	Purchased fax machine.			
20	Accounts Receivable		1,310	
	Fees Earned			1,310
	Billed credit customers.			

Transparency Master 2-7

ACCOUNT Cash **ACCOUNT NO. 10**

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

ACCOUNT Supplies **ACCOUNT NO. 12**

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

ACCOUNT Common Stock **ACCOUNT NO. 31**

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

ACCOUNT Fees Earned **ACCOUNT NO. 41**

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

WRITING EXERCISE

1. **Why are business transactions initially recorded in a journal?**

2. **Why are business transactions posted from the journal to a ledger?**

Where Is the Answer— The Journal or the Ledger?

The answers to the following business questions can be determined by examining accounting records. For each question, state whether the answer can be found in the journal or the ledger.

1. **A business owner has decided to purchase a piece of equipment costing $1,500. He wants to know whether the business has enough cash to pay for the equipment.**
2. **The company checkbook shows that a $750 check was written on March 28. The owner wants to know why that check was written.**
3. **A personnel manager wants to know the total her company has spent on employee wages so far this month.**
4. **The marketing manager of a company wants to know the cost of a special full-page ad placed in *The Wall Street Journal* during the first week of December last year. The company frequently advertises in a variety of newspapers and magazines.**

Where Is the Answer— The Journal or the Ledger?

Solution

1. **A business owner has decided to purchase a piece of equipment costing $1,500. He wants to know whether the business has enough cash to pay for the equipment.**

   The ledger will show the current balance in the cash account.

2. **The company checkbook shows that a $750 check was written on March 28. The owner wants to know why that check was written.**

   The journal will show the account debited when the check was written and a brief description of the transaction.

3. **A personnel manager wants to know the total her company has spent on employee wages so far this month.**

   The ledger will show the current balance in the wages expense account.

4. **The marketing manager of a company wants to know the cost of a special full-page ad placed in *The Wall Street Journal* during the first week of December last year. The company frequently advertises in a variety of newspapers and magazines.**

   The journal entries around the first week of December will need to be searched for the cost of this ad. The description accompanying the entry should identify* The Wall Street Journal *ad.

Transparency Master 2-11

TRIAL BALANCE

Music Express
Trial Balance
May 31, 20Y1

	Debit Balances	Credit Balances
Cash	1,300	
Supplies	75	
Stereo Equipment.....	5,700	
Common Stock		7,000
Dividends	575	
Fees Earned		1,300
Wages Expense	150	
Advertising Expense	500	
	8,300	8,300

Transparency Master 2-12

WHAT'S WRONG WITH THIS?

Journal Entries:

a.	Cash	8,000	
	Common Stock		8,000
b.	Supplies	200	
	Cash		200
c.	Cash	550	
	Fees Earned		550
d.	Wages Expense	1,340	
	Cash		1,340
e.	Accounts Receivable	810	
	Fees Earned		810

T Accounts:

Cash

a.	8,000	b.	200
c.	550	d.	1,340
	6,970		

Common Stock

		a.	8,000
		e.	810
			8,810

Accounts Receivable

e.	810		

Fees Earned

		c.	500

Supplies

b.	200		

Wages Expense

d.	1,340		

Trial Balance

	Debit Balances	Credit Balances
Cash	6,970	
Accounts Receivable	810	
Supplies	200	
Common Stock		8,810
Fees Earned	500	
Wages Expense	1,340	
	9,810	8,810

Transparency Master 2-13

WHAT'S WRONG WITH THIS?

Solution

Trial Balance

	Debit Balances	Credit Balances
Cash	7,010	
Accounts Receivable	810	
Supplies	200	
Common Stock		8,000
Fees Earned		1,360
Wages Expense	1,340	
	9,360	9,360

Transparency Master 2-14

Music Express

Income Statements

For the Months Ended May 31 and June 30

	June	May	Increase (Decrease)	Percent
Fees earned	$2,100	$1,300	$ 800	61.5%
Operating expenses:				
Wages expense	$ 180	$ 150	$ 30	20.0%
Advertising expense	600	450	150	33.3%
Total operating expenses	$ 780	$ 600	$ 180	30.0%
Net income	$1,320	$ 700	$ 620	88.6%

Chapter 2

Analyzing Transactions

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Corporate Financial Accounting 14e

Warren
Reeve
Duchac

Learning Objectives

- **Obj. 1:** Describe the characteristics of an account and a chart of accounts.
- **Obj. 2:** Describe and illustrate journalizing transactions using the double-entry accounting system.
- **Obj. 3:** Describe and illustrate the journalizing and posting of transactions to accounts.
- **Obj. 4:** Prepare an unadjusted trial balance and explain how it can be used to discover errors.
- **ADM**: Describe and illustrate the use of horizontal analysis in evaluating a company's performance and financial condition.

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Using Accounts to Record Transactions

- Accounting systems are designed to show the increases and decreases in each accounting equation element as a separate record.
  - This record is called an **account**.

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NetSolutions' November Transactions

	Assets			= Liabilities +		Stockholders' Equity						
	Cash	+ Supp.	+ Land	= Accounts Payable	+ Common Stock	– Dividends	+ Fees Earned	– Wages Exp.	– Rent Exp.	– Supplies Exp.	– Utilities Exp.	– Misc. Exp.
A.	+25,000				+25,000							
B.	-20,000		+20,000									
Bal.	5,000		20,000		25,000							
C.		+1,350		+1,350								
Bal.	5,000	1,350	20,000	1,350	25,000							
D.	+7,500						+7,500					
Bal.	12,500	1,350	20,000	1,350	25,000		7,500					
E.	-3,650							-2,125	-800		-450	-275
Bal.	8,850	1,350	20,000	1,350	25,000		7,500	-2,125	-800		-450	-275
F.	-950			-950								
Bal.	7,900	1,350	20,000	400	25,000		7,500	-2,125	-800		-450	-275
G.		-800								-800		
Bal.	7,900	550	20,000	400	25,000		7,500	-2,125	-800	-800	-450	-275
H.	-2,000					-2,000						
Bal.	5,900	550	20,000	400	25,000	-2,000	7,500	-2,125	-800	-800	-450	-275

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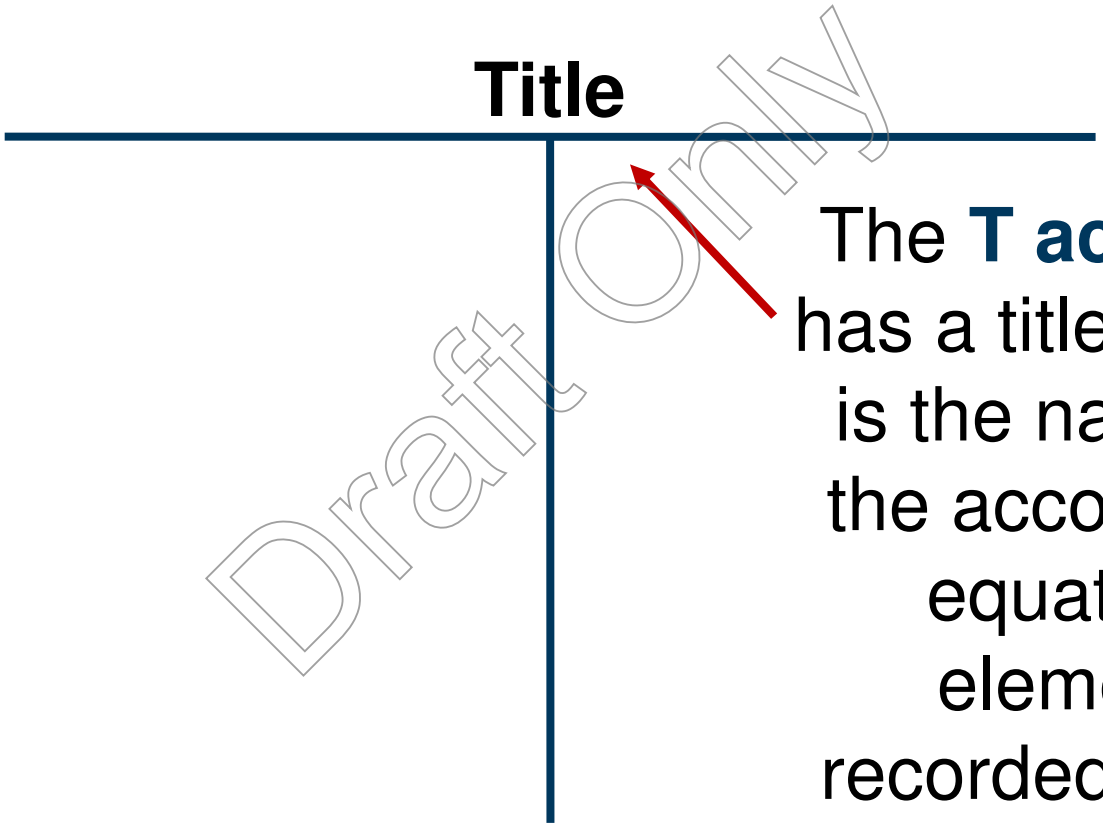
The T Account
(slide 1 of 4)



The **T account** has a title, which is the name of the accounting equation element recorded in the account.

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The T Account
(slide 2 of 4)

Title

Increases in assets are recorded on the **debit** side (left side) of the account.

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The T Account
(slide 3 of 4)

Title

	Decreases in assets are recorded on the **credit** side (right side) of the account.

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The T Account
(slide 4 of 4)

Cash

Debit Side of Account

(A)	25,000	(B)	20,000
(D)	7,500	(E)	3,650
		(F)	950
		(H)	2,000
Balance	5,900		

Credit Side of Account

Balance of the Account
(the excess of the debits of an asset account over its credits)

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Chart of Accounts

- A group of accounts for a business entity is called a **ledger**.
- A list of the accounts in the ledger is called a **chart of accounts**.
- The accounts are normally listed in the order in which they appear in the financial statements.
  - The balance sheet accounts are listed first, in the order of assets, liabilities, and stockholders' equity.
  - The income statement accounts are then listed in the order of revenues and expenses.

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Assets

- **Assets** are resources owned by the business entity.
  - Examples of assets include:
    - Cash
    - Supplies
    - Intangible assets (patent rights, copyrights, trademarks)
    - Accounts receivable
    - Prepaid expenses
    - Buildings
    - Equipment

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Liabilities

- **Liabilities** are debts owed to outsiders (creditors).
  - Examples of liabilities include:
    - Accounts payable
    - Notes payable
    - Wages payable
    - *Unearned revenues* (cash received from customers before services are delivered)

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Stockholders' Equity

- **Stockholders' equity** is the stockholders' right to the assets of the business.
- Stockholders' equity is represented by the balance of the **common stock** and **retained earnings** accounts.
- A **dividends** account represents distributions of earnings to stockholders.

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Revenues

- **Revenues** are increases in assets and stockholders' equity as a result of selling services or products to customers.
  - Examples of revenues include:
    - Fees earned
    - Fares earned
    - Commissions revenue
    - Rent revenue

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Expenses

- **Expenses** result from using up assets or consuming services in the process of generating revenues.
  - Examples of expenses include:
    - Wages expense
    - Rent expense
    - Utilities expense
    - Supplies expense
    - Miscellaneous expense

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Chart of Accounts for NetSolutions

Balance Sheet Accounts	Income Statement Accounts
1. Assets	**4. Revenue**
11 Cash	41 Fees Earned
12 Accounts Receivable	**5. Expenses**
14 Supplies	51 Wages Expense
15 Prepaid Insurance	52 Supplies Expense
17 Land	53 Rent Expense
18 Office Equipment	54 Utilities Expense
2. Liabilities	59 Miscellaneous Expense
21 Accounts Payable	
23 Unearned Rent	
3. Stockholders' Equity	
31 Common Stock	
32 Retained Earnings	
33 Dividends	

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Double-Entry Accounting System

- All businesses use what is called the **double-entry accounting system**.
- This system is based on the accounting equation and requires:
  - Every business transaction to be recorded in at least two accounts.
  - The total debits recorded for each transaction to be equal to the total credits recorded.
- The double-entry accounting system has specific **rules of debit and credit** for recording transactions in the accounts.

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Balance Sheet Accounts

- The debit and credit rules for balance sheet accounts are as follows:

Balance Sheet Accounts								
ASSETS Asset Accounts		=	LIABILITIES Liability Accounts		+	STOCKHOLDERS' EQUITY Stockholders' Equity Accounts	
Debit for increases (+)	Credit for decreases (–)		Debit for decreases (–)	Credit for increases (+)		Debit for decreases (–)	Credit for increases (+)

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Income Statement Accounts

- The debit and credit rules for income statement accounts are based on their relationship with stockholders' equity.
- The rules of debit and credit for revenue and expense accounts are as follows:

Income Statement Accounts			
Revenue Accounts		Expense Accounts	
Debit for decreases (–)	Credit for increases (+)	Debit for increases (+)	Credit for decreases (–)

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Dividends

- The debit and credit rules for recording dividends are based on the effect of dividends on stockholders' equity (retained earnings).
- The rules of debit and credit for the dividends account are as follows:

Dividends Account

Debit for increases (+)	Credit for decreases (–)

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Normal Balances

- The sum of the increases in an account is usually equal to or greater than the sum of the decreases in the account. Thus, the **normal balance of an account** is either a debit or credit depending on whether increases in the account are recorded as debits or credits.

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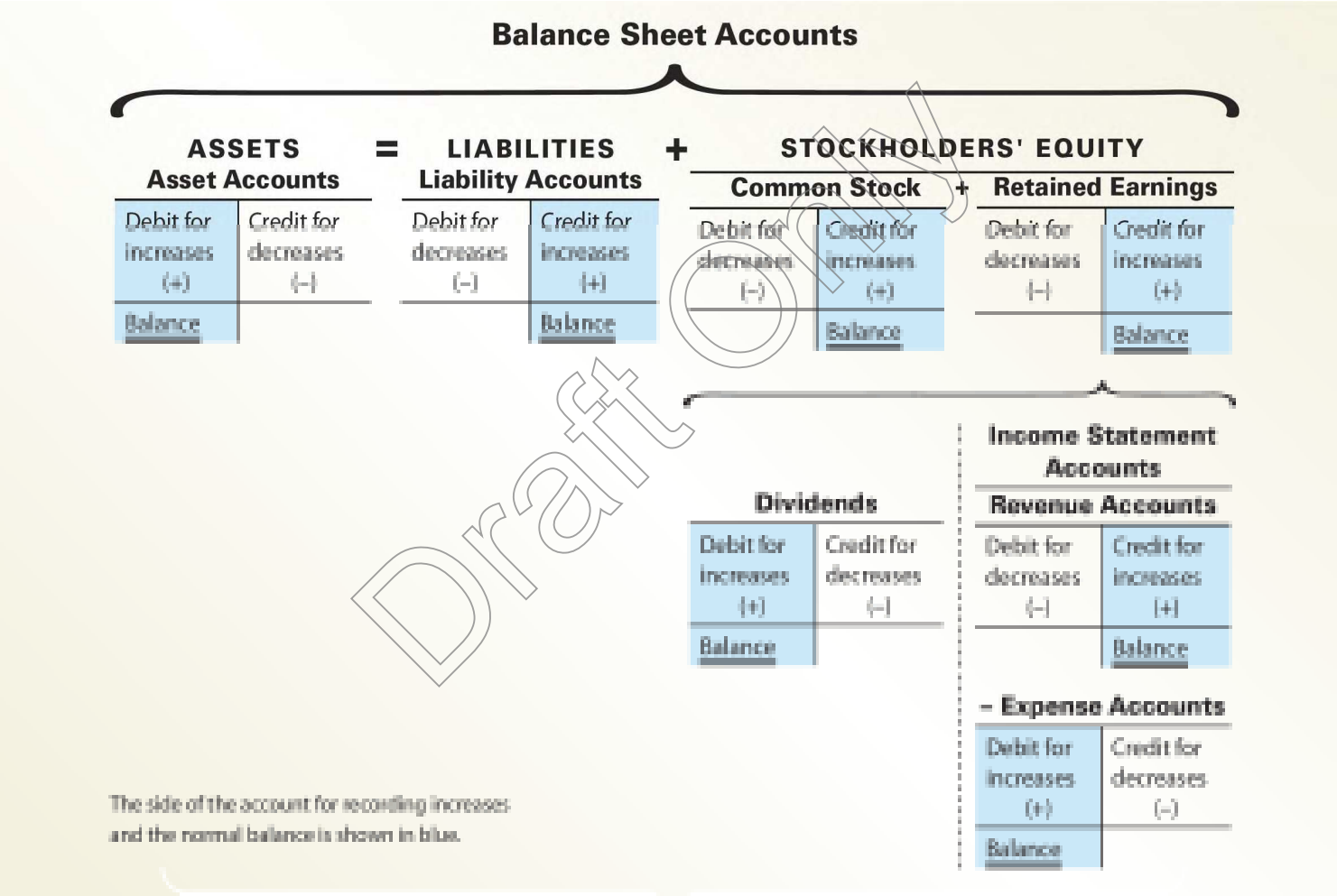
Rules of Debit and Credit, Normal Balances of Accounts



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Check Up Corner

Balance Sheet Accounts

David Simmons, M.D., recently organized Simmons Urgent Care Inc. as a walk-in clinic. The clinic has purchased medical supplies and office equipment on account. In addition, David has invested cash in the business in exchange for common stock.

Identify the balance sheet accounts that Simmons Urgent Care will use to record these transactions, indicating whether each is an asset, liability, or stockholders' equity account and whether the normal balance is a debit or a credit.

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Check Up Corner

Balance Sheet Accounts (cont'd)

Solution:

Assets are the resources owned by a business.

Assets		Liabilities	
Cash	debit	Accounts Payable	credit
Supplies	debit	**Stockholders' Equity**	
Equipment	debit	Common Stock	credit

Liabilities are debts owed to outsiders.

Stockholders' equity is the stockholders' rights to the assets of the business.

Asset accounts have normal debit balances.

Liability and stockholders' equity accounts have normal credit balances.

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Journalizing
(slide 1 of 3)

- Using the rules of debit and credit, transactions are initially entered in a record called a **journal**.

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Journalizing
(slide 2 of 3)

- Transactions are recorded in the journal using the following steps:
  - Step 1. The date of the transaction is entered in the Date column.
  - Step 2. The title of the account to be debited is recorded in the left-hand margin under the Description column, and the amount to be debited is entered in the Debit column.
  - Step 3. The title of the account to be credited is listed below and to the right of the debited account title, and the amount to be credited is entered in the Credit column.
  - Step 4. A brief description may be entered below the credited account.
  - Step 5. The Post. Ref. (Posting Reference) column is left blank when the journal entry is initially recorded. This column is used later when the journal entry amounts are transferred to the accounts in the ledger.

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Journalizing
(slide 3 of 3)

- The process of recording a transaction in the journal is called **journalizing**.
- The entry in the journal is called a **journal entry**.

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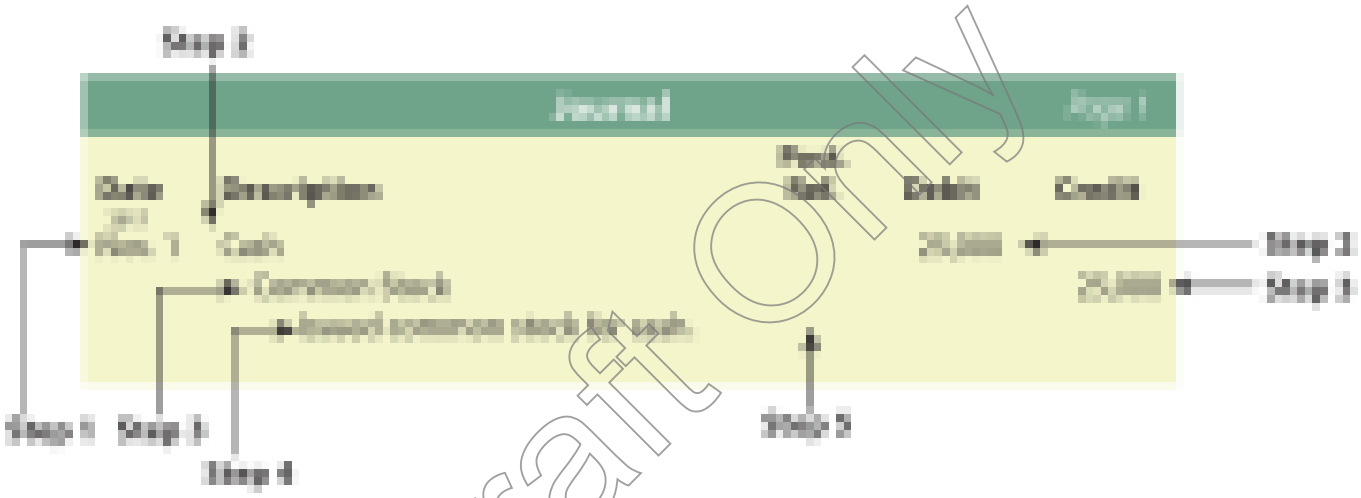
Transaction A

- On November 1, Chris Clark deposited $25,000 in a bank account in the name of NetSolutions in exchange for common stock.



Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity
Cash				Common Stock
Nov. 1 25,000				Nov. 1 25,000
increase				increase

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Transaction Terminology and Related Journal Entry Accounts

	Journal Entry Account	
Common Transaction Terminology	**Debit**	**Credit**
Received cash for services provided	Cash	Fees Earned
Services provided on account	Accounts Receivable	Fees Earned
Received cash on account	Cash	Accounts Receivable
Purchased on account	Asset account	Accounts Payable
Paid on account	Accounts Payable	Cash
Paid cash	Asset or expense account	Cash
Issued common stock	Cash and/or other assets	Common Stock
Paid dividends	Dividends	Cash

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Transaction B

- On November 5, NetSolutions paid $20,000 for the purchase of land as a future building site.

Nov. 5	Land	20,000	
	Cash		20,000
	Purchased land for building site.		

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity

Land

Nov. 5 20,000	

increase

Cash

	Nov. 5 20,000

decrease

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Transaction C

- On November 10, NetSolutions purchased supplies on account for $1,350.

Nov. 10	Supplies		1,350	
	Accounts Payable			1,350
	Purchased supplies on account.			

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity

Supplies		Accounts Payable	
Nov. 10	1,350		Nov. 10 1,350

increase

increase

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Transaction D

- On November 18, NetSolutions received cash of $7,500 from customers for services provided.

Nov. 18	Cash	7,500	
	Fees Earned		7,500
	Received fees from customers.		

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity (Revenue)
Cash				Fees Earned
Nov. 18 7,500				Nov. 18 7,500
increase				increase

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Transaction E

- On November 30, NetSolutions incurred the following expenses: wages, $2,125; rent, $800; utilities, $450; and miscellaneous, $275.

Nov. 30	Wages Expense	2,125	
	Rent Expense	800	
	Utilities Expense	450	
	Miscellaneous Expense	275	
	Cash		3,650
	Paid expenses.		

Accounting Equation Impact

Assets = Liabilities + Stockholders' Equity (Expense)

Cash	
Nov. 30	3,650

decrease

All four expense accounts increase.

Wages Expense	
Nov. 30	2,125

Rent Expense	
Nov. 30	800

Utilities Expense	
Nov. 30	450

Miscellaneous Expense	
Nov. 30	275

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Transaction F

- On November 30, NetSolutions paid creditors on account, $950.

Nov. 30	Accounts Payable	950	
	Cash		950
	Paid creditors on account.		

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity
Cash		Accounts Payable		
Nov. 30 950		Nov. 30 950		
decrease		decrease		

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Transaction G

- NetSolutions purchased $1,350 of supplies on November 10. Chris Clark determined that the cost of supplies on hand at November 30 was $550. Thus, $800 ($1,350 – $550) of supplies must have been used during November.

Nov. 30	Supplies Expense	800	
	Supplies		800
	Supplies used during November.		

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity (Expense)
Supplies				**Supplies Expense**
Nov. 30 800				Nov. 30 800
decrease				**increase**

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Transaction H

- On November 30, dividends of $2,000 were paid.

Journal				Page 3
Date	Description	Post. Ref.	Debit	Credit
2017 Nov. 30	Dividends		2,000	
	Cash			2,000
	Paid dividends.			

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Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity (Dividends)
Cash				**Dividends**
Nov. 30 2,000				Nov. 30 2,000
decrease				**increase**

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Check Up Corner

Journal Entries

During the first month of operations, Simmons Urgent Care Inc. completed the following transactions:

Jan. 1 David Simmons deposited $30,000 in a bank account in the name of Simmons Urgent Care Inc. in exchange for common stock.

2 Purchased medical supplies on account, $6,000.

6 Paid cash to creditors on account, $3,200.

7 Purchased office equipment on account, $62,500.

Prepare the journal entries to record these transactions, and illustrate their impact on the accounting equation.

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Check Up Corner

Journal Entries (cont'd)

Solution:

The title of the account to be debited is recorded flush left in the Description column.

The amount to be debited is recorded in the Debit column.

The amount to be credited is recorded in the Credit column.

Date	Description	Debit	Credit
2017			
Jan. 1	Cash	30,000	
	Common Stock		30,000
2	Supplies	6,000	
	Accounts Payable		6,000
6	Accounts Payable	3,200	
	Cash		3,200
7	Office Equipment	62,500	
	Accounts Payable		62,500

The title of the account to be credited is recorded below the debit in the Description column and indented slightly.

Increases in asset accounts are recorded on the debit (left) side of the account.

Increases in liability and stockholders' equity accounts are recorded on the credit (right) side of the account.

Assets = **Liabilities** + **Stockholders' Equity**

Cash			
Jan. 1	30,000	Jan. 6	3,200

Accounts Payable			
Jan. 6	3,200	Jan. 2	6,000
		7	62,500

Common Stock			
		Jan. 1	30,000

Supplies	
Jan. 2	6,000

Office Equipment	
Jan. 7	62,500

Decreases in liability accounts are recorded on the debit (left) side of the account.

Decreases in asset accounts are recorded on the credit (right) side of the account.

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Posting Journal Entries to Accounts
(slide 1 of 3)

- The process of transferring the debits and credits from the journal entries to the accounts is called **posting**.

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Posting Journal Entries to Accounts
(slide 2 of 3)

- On December 1, NetSolutions paid a premium of $2,400 for an insurance policy for liability, theft, and fire. The policy covers a one-year period.

Dec.	1	Prepaid Insurance	15	2,400	
		Cash	11		2,400
		Paid premium on one-year policy.			

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity

Cash	11
Dec. 1	2,400

decrease

Prepaid Insurance	15
Dec. 1 2,400	

increase

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Posting Journal Entries to Accounts
(slide 3 of 3)

- The debits and credits for each journal entry are posted to the accounts in the order in which they occur in the journal.
- The debit portion of the December 1 journal entry on the previous slide is posted using the following four steps:
  - Step 1. The date (Dec. 1) of the journal entry is entered in the Date column of Prepaid Insurance and Cash.
  - Step 2. The amount (2,400) is entered into the Debit column of Prepaid Insurance and the amount (2,400) is entered into the Credit column of Cash.
  - Step 3. The journal page number (2) is entered in the Posting Reference (Post. Ref.) column of Prepaid Insurance and Cash.
  - Step 4. The account numbers (15) and (11) are entered in the Posting Reference (Post. Ref.) column in the journal.

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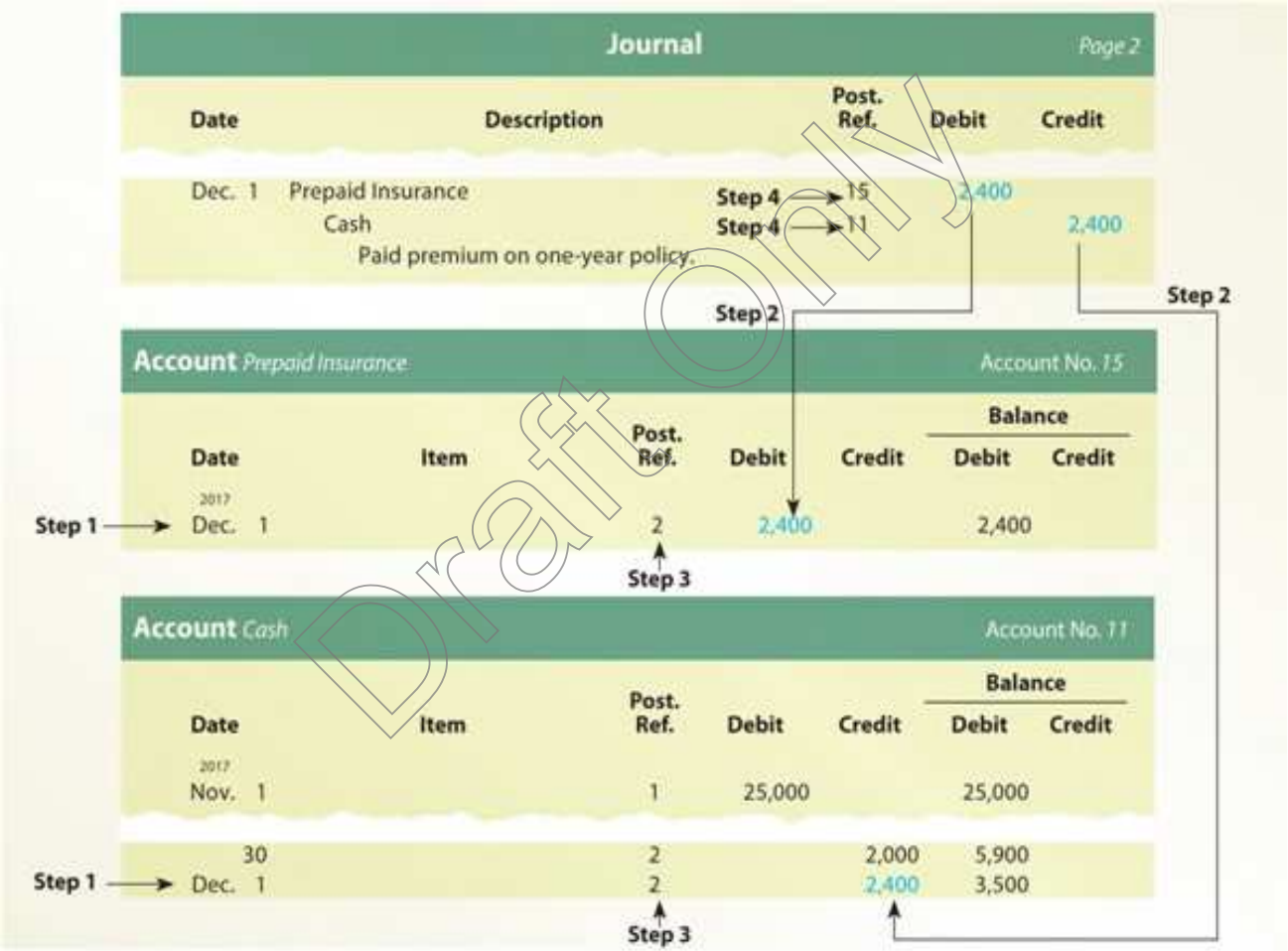
Diagram of the Recording and Posting of a Debit and a Credit



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Transaction – Paid Rent

- On December 1, NetSolutions paid rent for December, $800. The company from which NetSolutions is renting its office space now requires the payment of rent on the first of each month, rather than at the end of the month.

Dec. 1	Rent Expense	53	800	
	Cash	11		800
	Paid rent for December.			

Accounting Equation Impact

Assets		=	Liabilities	+	Stockholders' Equity (Expense)	
Cash	11				Rent Expense	53
Dec. 1	800				Dec. 1	800

decrease **increase**

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Transaction – Unearned Revenue

- On December 1, NetSolutions received an offer from a local retailer to rent the land purchased on November 5. The retailer plans to use the land as a parking lot for its employees and customers. NetSolutions agreed to rent the land to the retailer for three months, with the rent payable in advance. NetSolutions received $360 for three months' rent beginning December 1.
- The liability created by receiving the cash in advance of providing the service is called **unearned revenue**.

Dec. 1	Cash	11	360	
	Unearned Rent	23		360
	Received advance payment for three months' rent on land.			

Accounting Equation Impact

Assets		=	Liabilities		+	Stockholders' Equity
Cash	11		Unearned Rent	23		
Dec. 1 360			Dec. 1	360		

increase

increase

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Transaction – Purchased Office Equipment

- On December 4, NetSolutions purchased office equipment on account from Executive Supply Co. for $1,800.

Dec. 4	Office Equipment	18	1,800	
	Accounts Payable	21		1,800
	Purchased office equipment on account.			

Accounting Equation Impact

Assets		=	Liabilities		+	Stockholders' Equity
Office Equipment	18		Accounts Payable	21		
Dec. 4 1,800			Dec. 4	1,800		

increase **increase**

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Transaction – Paid for Advertisement

- On December 6, NetSolutions paid $180 for a newspaper advertisement.

Dec. 6	Miscellaneous Expense	59	180	
	Cash	11		180
	Paid for newspaper advertisement.			

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Accounting Equation Impact

Assets		=	Liabilities	+	Stockholders' Equity (Expense)	
Cash	11				Miscellaneous Exp.	59
Dec. 6	180				Dec. 6	180

decrease **increase**

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Transaction – Paid Creditors (Dec. 11)

- On December 11, NetSolutions paid creditors $400.

Dec. 11	Accounts Payable	21	400	
	Cash	11		400
	Paid creditors on account.			

Accounting Equation Impact

Assets		=	Liabilities		+	Stockholders' Equity
Cash	11		Accounts Payable	21		
Dec. 11	400		Dec. 11	400		
decrease			decrease			

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Transaction – Paid Wages (Dec. 13)

- On December 13, NetSolutions paid a receptionist and a part-time assistant $950 for two weeks' wages.

Journal				Page 3
Date	Description	Post. Ref.	Debit	Credit
2011				
Dec. 13	Wages Expense	51	950	
	Cash	11		950
	Paid two weeks' wages.			

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Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity (Expense)
Cash 11				Wages Expense 51
Dec. 13 950				Dec. 13 950

decrease

increase

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Transaction – Received Fees (Dec. 16)

- On December 16, NetSolutions received $3,100 from fees earned for the first half of December.

Dec. 16	Cash	11	3,100	
	Fees Earned	41		3,100
	Received fees from customers.			

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity (Revenue)
Cash 11				Fees Earned 41
Dec. 16 3,100				Dec. 16 3,100
increase				increase

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Transaction – Fees Earned on Account
(slide 1 of 2)

- When a business agrees that a customer may pay for services provided at a later date, an **account receivable** is created.
  - An account receivable is a claim against the customer.
  - An account receivable is an asset, and the revenue is earned even though no cash has been received.

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Transaction – Fees Earned on Account
(slide 2 of 2)

- Fees earned on account totaled $1,750 for the first half of December.

Dec. 16	Accounts Receivable	12	1,750	
	Fees Earned	41		1,750
	Fees earned on account.			

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Accounting Equation Impact

Assets		=	Liabilities	+	Stockholders' Equity (Revenue)	
Accounts Receivable	12				Fees Earned	41
Dec. 16 1,750					Dec. 16	1,750

increase

increase

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Transaction – Paid Creditors (Dec. 20)

- On December 20, NetSolutions paid $900 to Executive Supply Co. on the $1,800 debt owed from the December 4 transaction.

Dec. 20	Accounts Payable	21	900	
	Cash	11		900
	Paid creditors on account.			

Accounting Equation Impact

Assets		=	Liabilities		+	Stockholders' Equity
Cash	11		Accounts Payable	21		
Dec. 20	900		Dec. 20	900		
decrease			decrease			

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Transaction – Received Payment on Account

- On December 21, NetSolutions received $650 from customers in payment of their accounts.

Dec. 21	Cash	11	650	
	Accounts Receivable	12		650
	Received cash from customers on account.			

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity

Cash	11
Dec. 21 650	

increase

Accounts Receivable	12
	Dec. 21 650

decrease

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Transaction – Paid for Supplies

- On December 23, NetSolutions paid $1,450 for supplies.

Dec. 23	Supplies	14	1,450	
	Cash	11		1,450
	Purchased supplies.			

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity

Cash	11
Dec. 23	1,450

decrease

Supplies	14
Dec. 23 1,450	

increase

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Transaction – Paid Wages (Dec. 27)

- On December 27, NetSolutions paid the receptionist and the part-time assistant $1,200 for two weeks' wages.

Dec.	27	Wages Expense	51	1,200	
		Cash	11		1,200
		Paid two weeks' wages.			

Accounting Equation Impact

Assets		=	Liabilities	+	Stockholders' Equity (Expense)	
Cash	11				Wages Expense	51
Dec. 27	1,200				Dec. 27 1,200	

decrease **increase**

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Transaction – Paid Telephone Bill

- On December 31, NetSolutions paid its $310 telephone bill for the month.

Dec.	31	Utilities Expense	54	310	
		Cash	11		310
		Paid telephone bill.			

Accounting Equation Impact

Assets		=	Liabilities	+	Stockholders' Equity (Expense)	
Cash	11				Utilities Expense	54
Dec. 31	310				Dec. 31	310

decrease **increase**

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Transaction – Paid Electric Bill

- On December 31, NetSolutions paid its $225 electric bill for the month.

Journal				Page 4
Date	Description	Post. Ref.	Debit	Credit
2011				
Dec. 31	Utilities Expense	54	225	
	Cash	11		225
	Paid electric bill.			

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Accounting Equation Impact

Assets		=	Liabilities	+	Stockholders' Equity (Expense)	
Cash	11				Utilities Expense	54
Dec. 31	225				Dec. 31 225	

decrease **increase**

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Transaction – Received Fees (Dec. 31)

- On December 31, NetSolutions received $2,870 from fees earned for the second half of December.

Dec.	31	Cash	11	2,870	
		Fees Earned	41		2,870
		Received fees from customers.			

Accounting Equation Impact

Assets		=	Liabilities	+	Stockholders' Equity (Revenue)	
Cash	11				Fees Earned	41
Dec. 31 2,870					Dec. 31	2,870

increase

increase

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Transaction – Fees Earned on Account

- On December 31, fees earned on account totaled $1,120 for the second half of December.

Dec.	31	Accounts Receivable	12	1,120	
		Fees Earned	41		1,120
		Fees earned on account.			

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity (Revenue)
Accounts Receivable 12				**Fees Earned** 41
Dec. 31 1,120				Dec. 31 1,120
increase				increase

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Transaction – Paid Dividends

- On December 31, dividends of $2,000 were paid.

Dec.	31	Dividends	33	2,000	
		Cash	11		2,000
		Paid dividends.			

Accounting Equation Impact

Assets	=	Liabilities	+	Stockholders' Equity (Dividends)
Cash 11				Dividends 33
Dec. 31 2,000				Dec. 31 2,000
decrease				increase

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General Ledger for NetSolutions
(slide 1 of 2)

Ledger

Account Cash — Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Nov. 1		1	25,000		25,000	
5		1		20,000	5,000	
18		1	7,500		12,500	
30		1		3,650	8,850	
30		1		900	7,950	
30		2		2,000	5,950	
Dec. 1		2		2,400	3,550	
1		2		800	2,750	
1		2	300		3,050	
6		2		180	2,870	
11		2		400	2,470	
13		3		950	1,520	
16		3	3,100		4,620	
20		3		900	3,720	
21		3	450		4,170	
23		3		1,400	2,970	
27		3		1,280	1,690	
31		3		270	1,420	
31		4		225	1,195	
31		4	2,870		4,065	
31		4		2,000	2,065	

Account Accounts Receivable — Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Dec. 16		3	1,750		1,750	
21		3		550	1,180	
31		4	1,120		2,220	

Account Supplies — Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Nov. 18		1	1,350		1,350	
30		1		800	550	
Dec. 23		3	1,450		2,000	

Account Prepaid Insurance — Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Dec. 1		2	2,400		2,400	

Account Land — Account No. 17

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Nov. 5		1	20,000		20,000	

Account Office Equipment — Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Dec. 4		2	1,800		1,800	

Account Accounts Payable — Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Nov. 18		1		1,350		1,350
30		1	950			400
Dec. 4		2		1,800		2,200
11		2	400			1,800
28		3	900			900

Account Unearned Rent — Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Dec. 1		2		360		360

Account Common Stock — Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Nov. 1		1		25,000		25,000

Account Dividends — Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017 Nov. 30		2	2,000		2,000	
Dec. 31		4	2,000		4,000	

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General Ledger for NetSolutions
(slide 2 of 2)

Account Fees Earned — Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017						
Nov. 16		1		7,500		7,500
Dec. 16		3		3,100		10,600
16		3		1,750		12,350
31		4		2,870		15,220
31		4		1,120		16,340

Account Wages Expense — Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017						
Nov. 30		1	2,125		2,125	
Dec. 13		3	968		3,093	
27		3	1,200		4,273	

Account Supplies Expense — Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017						
Nov. 30		1	600		600	

Account Rent Expense — Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017						
Nov. 30		1	800		800	
Dec. 1		2	800		1,600	

Account Utilities Expense — Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017						
Nov. 30		1	450		450	
Dec. 31		3	310		760	
31		4	326		986	

Account Miscellaneous Expense — Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2017						
Nov. 30		1	275		275	
Dec. 6		2	180		455	

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Trial Balance
(slide 1 of 3)

- The equality of debits and credits in the ledger should be proven at the end of each accounting period by preparing a **trial balance**.

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Trial Balance
(slide 2 of 3)

- The steps in preparing a trial balance are as follows:
  - Step 1. List the name of the company, the title of the trial balance, and the date the trial balance is prepared.
  - Step 2. List the accounts from the ledger, and enter their debit or credit balance in the Debit or Credit column of the trial balance.
  - Step 3. Total the Debit and Credit columns of the trial balance.
  - Step 4. Verify that the total of the Debit column equals the total of the Credit column.

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Trial Balance
(slide 3 of 3)

- An **unadjusted trial balance** is distinguished from an adjusted trial balance and a post-closing trial balance. (The latter two are prepared in later chapters and include additional information.)

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Trial Balance

Step 1

NetSolutions
Unadjusted Trial Balance
December 31, 2017

Step 2

	Account No.	Debit Balances	Credit Balances
Cash	11	2,065	
Accounts Receivable	12	2,220	
Supplies	14	2,000	
Prepaid Insurance	15	2,400	
Land	17	30,000	
Office Equipment	18	1,800	
Accounts Payable	21		900
Unearned Rent	23		300
Common Stock	31		25,000
Dividends	33	4,000	
Fees Earned	41		16,340
Wages Expense	51	4,275	
Supplies Expense	52	800	
Rent Expense	53	1,600	
Utilities Expense	54	985	
Miscellaneous Expense	59	455	
		42,600	42,600

Steps 3–4

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Errors Affecting the Trial Balance

- A **transposition** occurs when the order of the digits is copied incorrectly, such as writing $542 as $452 or $524.
- In a **slide**, the entire number is copied incorrectly one or more spaces to the right or the left, such as writing $542.00 as $54.20 or $5,420.00.

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Errors Not Affecting the Trial Balance
(slide 1 of 2)

- Errors that do not cause the trial balance totals to be unequal may be discovered when preparing the trial balance or may be indicated by an unusual account balance. For example, since a business cannot have "negative" supplies, a credit balance in the supplies account indicates an error has occurred.
- If an error has already been journalized and posted to the ledger, a **correcting journal entry** is normally prepared.

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Errors Not Affecting the Trial Balance
(slide 2 of 2)

- Assume that on May 5 a $12,500 purchase of office equipment on account was incorrectly journalized and posted as a debit to Supplies and a credit to Accounts Payable for $12,500.
- The entry to correct the error is as follows:

May	31	Office Equipment	18	12,500	
		Supplies	14		12,500
		To correct erroneous debit to Supplies on May 5. See invoice from Bell Office Equipment Co.			

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Check Up Corner

Trial Balance

The accounts in the ledger of Simmons Urgent Care Inc. as of December 31, 2018, are listed in alphabetical order as follows. All accounts have normal balances.

Accounts Payable	$ 7,200	Miscellaneous Expense	$ 2,200
Accounts Receivable	22,000	Retained Earnings	36,300
Cash	21,000	Supplies	7,800
Common Stock	30,000	Supplies Expense	22,000
Dividends	15,000	Rent Expense	12,000
Fees Earned	250,000	Utilities Expense	4,000
Office Equipment	62,500	Wages Expense	155,000

Prepare an unadjusted trial balance, listing the accounts in their normal order.

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Check Up Corner

Trial Balance (cont'd)

Solution:

Balances from accounts with a normal debit balance are shown in the left column.

Balances from accounts with a normal credit balance are shown in the right column.

Accounts from the general ledger are presented in the order in which they appear in the ledger.

Simmons Urgent Care Inc.
Unadjusted Trial Balance
December 31, 2010

	Debit Balances	Credit Balances
Cash	31,000	
Accounts Receivable	22,000	
Supplies	7,800	
Office Equipment	82,500	
Accounts Payable		7,200
Common Stock		30,000
Retained Earnings		36,500
Dividends	15,000	
Fees Earned		250,000
Wages Expense	155,000	
Supplies Expense	22,000	
Rent Expense	12,000	
Utilities Expense	4,000	
Miscellaneous Expense	2,200	
	323,500	323,500

The trial balance verifies that the total debits equal total credits. If total debits do not equal total credits, an error has occurred.

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Analysis for Decision Making: Horizontal Analysis
(slide 1 of 2)

- In **horizontal analysis**, the amount of each item on a current financial statement is compared with the same item on an earlier statement.
- The increase or decrease in the *amount* of the item is computed together with the *percent* of increase or decrease.
- When two statements are being compared, the earlier statement is used as the base for computing the amount and the percent of change.

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Analysis for Decision Making: Horizontal Analysis
(slide 2 of 2)

J. Holmes, Attorney-at-Law
Income Statements
For the Years Ended December 31

	Year 2	Year 1	Increase (Decrease)	Percent
Fees earned	$187,500	$150,000	$37,500	25.0%*
Operating expenses:				
Wages expense	$ 60,000	$ 45,000	$15,000	33.3%
Rent expense	15,000	12,000	3,000	25.0%
Utilities expense	12,500	9,000	3,500	38.9%
Supplies expense	2,700	3,000	(300)	(10.0)%
Miscellaneous expense	2,300	1,800	500	27.8%
Total operating expenses	$ 92,500	$ 70,800	$21,700	30.6%
Net income	$ 95,000	$ 79,200	$15,800	19.9%

*$37,500 ÷ $150,000

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