Financial Accounting 15th 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, owner's equity, revenue, or expense. A ledger is a group of related accounts.

2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset and expense accounts but a decrease in liability, owner's capital, and revenue accounts.

3. **a.** Assuming that no errors have occurred, the credit balance in the cash account resulted from drawings 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."

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 failing 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. Recording $9,800 instead of the correct amount of $8,900 is a transposition. Recording $100 instead of the correct amount of $1,000 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 statement of owner's equity, the beginning and ending owner's capital would be correct. The understatement of net income understates owner's equity by $7,500, while the understatement of withdrawals overstates owner's equity by $7,500. Thus, ending owner's equity is correct. The balance sheet is not affected by the error.

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

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

PE 2-1A

1. **Debit and credit entries (c), normal debit balance**
2. **Credit entries only (b), normal credit balance**
3. **Credit entries only (b), normal credit balance**
4. **Debit entries only (a), normal debit balance**
5. **Credit entries only (b), normal credit balance**
6. **Debit and credit entries (c), normal credit balance**

PE 2-1B

1. **Debit and credit entries (c), normal credit balance**
2. **Debit and credit entries (c), normal debit balance**
3. **Debit entries only (a), normal debit balance**
4. **Debit entries only (a), normal debit balance**
5. **Debit entries only (a), normal debit balance**
6. **Credit entries only (b), normal credit balance**

PE 2-2A

Feb.	19	Office Equipment	18,500	
		Cash		4,500
		Accounts Payable		14,000

PE 2-2B

Sept.	30	Office Supplies	2,500	
		Cash		800
		Accounts Payable		1,700

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PE 2-3A

Apr.	30	Accounts Receivable	11,250	
		Fees Earned		11,250

PE 2-3B

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

PE 2-4A

Dec.	23	Steve Buckley, Drawing	20,000	
		Cash		20,000

PE 2-4B

June	30	Dawn Pierce, Drawing	11,500	
		Cash		11,500

PE 2-5A

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

Cash

July 1 Bal.	37,450	115,860	Cash payments
Cash receipts	?		
July 31 Bal.	29,600		

$29,600 = $37,450 + Cash receipts – $115,860
Cash receipts = $29,600 + $115,860 – $37,450 = $108,010

PE 2-5B

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

Supplies

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

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

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PE 2-6A

a. The trial balance totals are unequal. The debit total is higher by $900 ($5,400 – $4,500).

b. The trial balance totals are equal because both the debit and credit entries were journalized and posted for $720.

c. The trial balance totals are unequal. The debit total is higher by $3,200 ($1,600 + $1,600).

PE 2-6B

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

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

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

PE 2-7A

a.

Rent Expense	4,650	
Miscellaneous Expense		4,650
Rent Expense	4,650	
Cash		4,650

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

Rent Expense	9,300	
Miscellaneous Expense		4,650
Cash		4,650

b.

Accounts Payable	3,700	
Accounts Receivable		3,700

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PE 2-7B

a.

Cash	8,400	
Accounts Receivable		8,400

b.

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

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

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

PE 2-8A

FULLER COMPANY
Income Statements
For Years Ended December 31

	2019	2018	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Fees earned	$680,000	$850,000	$(170,000)	–20.0%
Operating expenses	541,875	637,500	(95,625)	–15.0%
Net income	$138,125	$212,500	$ (74,375)	–35.0%

PE 2-8B

PARAGON COMPANY
Income Statements
For Years Ended December 31

	2019	2018	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Fees earned	$1,416,000	$1,200,000	$216,000	18.0%
Operating expenses	1,044,000	900,000	144,000	16.0%
Net income	$ 372,000	$ 300,000	$ 72,000	24.0%

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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	
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]
Owner's 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
Fees Earned	41
Fred Biggs, Capital	31
Fred Biggs, Drawing	32
Land	13
Miscellaneous Expense	53
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. Owner's Equity	
31 Lorri Ross, Capital	
32 Lorri Ross, Drawing	

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.	debit
b.	credit	h.	credit
c.	debit	i.	debit
d.	credit	j.	credit
e.	credit	k.	debit
f.	debit	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. Owner's equity (Ashley Griffin, Capital)—credit
d. Owner's equity (Ashley Griffin, Drawing)—debit
e. Asset—debit
f. Revenue—credit
g. Asset—debit
h. Expense—debit
i. Asset—debit
j. Expense—debit

Ex. 2-7

2019				
Oct.	1	Rent Expense	3,600	
		Cash		3,600
	3	Advertising Expense	1,200	
		Cash		1,200
	5	Supplies	750	
		Cash		750
	6	Office Equipment	8,000	
		Accounts Payable		8,000
	10	Cash	14,800	
		Accounts Receivable		14,800
	15	Accounts Payable	7,110	
		Cash		7,110
	27	Miscellaneous Expense	400	
		Cash		400
	30	Utilities Expense	250	
		Cash		250
	31	Accounts Receivable	33,100	
		Fees Earned		33,100
	31	Utilities Expense	1,050	
		Cash		1,050
	31	Jason Payne, Drawing	2,500	
		Cash		2,500

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Ex. 2-8

a.

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Date		Description	Post. Ref.	Debit	Credit
2019					
Sept.	18	Supplies	15	2,475	
		Accounts Payable	21		2,475
		Purchased supplies on account.			

b., c., d.

Account: Supplies Account No. 15

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Sept.	1	Balance	✓			840	
	18		87	2,475		3,315	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Sept.	1	Balance	✓				10,900
	18		87		2,475		13,375

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

Ex. 2-9

a. (1)

Accounts Receivable	73,900	
Fees Earned		73,900

(2)

Supplies	1,960	
Accounts Payable		1,960

(3)

Cash	62,770	
Accounts Receivable		62,770

(4)

Accounts Payable	820	
Cash		820

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Ex. 2-9 (Concluded)

b.

Cash			
(3)	62,770	(4)	820

Accounts Payable			
(4)	820	(2)	1,960

Supplies			
(2)	1,960		

Fees Earned			
		(1)	73,900

Accounts Receivable			
(1)	73,900	(3)	62,770

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 excess of revenues over expenses and is normally not the same as the change in the cash account.**

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. **Credit balance of $170,000 ($500,000 – $10,000 – $320,000).**

b. **Yes. The balance sheet prepared at December 31 will balance, with Terrace Waters, Capital, being reported in the owner's equity section as $170,000.**

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Ex. 2-13

a. and b.

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

Ex. 2-14

(1)	Cash	75,000	
	Beth Worley, Capital		75,000
(2)	Supplies	900	
	Cash		900
(3)	Equipment	8,000	
	Accounts Payable		6,400
	Cash		1,600
(4)	Operating Expenses	6,280	
	Cash		6,280
(5)	Accounts Receivable	12,300	
	Fees Earned		12,300
(6)	Accounts Payable	2,700	
	Cash		2,700
(7)	Cash	8,150	
	Accounts Receivable		8,150
(8)	Operating Expenses	660	
	Supplies		660
(9)	Beth Worley, Drawing	2,500	
	Cash		2,500

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Ex. 2-15

a.

NATIONAL PARK TOURS CO. Unadjusted Trial Balance May 31, 2019		
	Debit Balances	Credit Balances
Cash	69,170	
Accounts Receivable	4,150	
Supplies	240	
Equipment	8,000	
Accounts Payable		3,700
Beth Worley, Capital		75,000
Beth Worley, Drawing	2,500	
Service Revenue		12,300
Operating Expenses	6,940	
	91,000	91,000

b. **Net income, $5,360 ($12,300 – $6,940)**

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Ex. 2-16

HICKORY FURNITURE COMPANY Unadjusted Trial Balance December 31, 2019		
	Debit Balances	Credit Balances
Cash	33,320*	
Accounts Receivable	116,900	
Supplies	4,275	
Prepaid insurance	21,600	
Land	50,000	
Accounts Payable		42,770
Unearned Rent		12,000
Notes Payable		50,000
Elaine Wells, Capital		75,000
Elaine Wells, Drawing	24,000	
Fees Earned		745,230
Wages Expense	580,700	
Rent Expense	48,000	
Utilities Expense	26,850	
Supplies Expense	6,255	
Insurance Expense	3,600	
Miscellaneous Expense	9,500	
	925,000	925,000

*$33,320 = $925,000 – $9,500 – $3,600 – $6,255 – $26,850 – $48,000 – $580,700 – $24,000 – $50,000 – $21,600 – $4,275 – $116,900

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, 2019		
	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
Carmen Meeks, Capital		110,000
Carmen Meeks, Drawing	13,000	
Fees Earned		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 $890,700 rather than $1,189,300.**
2. **The trial balance should be dated "July 31, 2019," not "For the Month Ending July 31, 2019."**
3. **The Accounts Receivable balance should be in the Debit column.**
4. **The Accounts Payable balance should be in the Credit column.**
5. **The Samuel Parson, Drawing, 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:

MASCOT CO.
Unadjusted Trial Balance
July 31, 2019

	Account No.	Debit Balances	Credit Balances
Cash	11	36,000	
Accounts Receivable	12	112,600	
Prepaid Insurance	13	18,000	
Equipment	14	375,000	
Accounts Payable	21		53,300
Salaries Payable	22		7,500
Samuel Parson, Capital	31		297,200
Samuel Parson, Drawing	32	17,000	
Service Revenue	41		682,000
Salary Expense	51	396,800	
Advertising Expense	52	73,000	
Miscellaneous Expense	59	11,600	
		1,040,000	1,040,000

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.

Brian Phillips, Drawing	10,000	
Wages Expense		10,000

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Ex. 2-22

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

a.

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

or (reverses original entry)

Cash	8,800	
Fees		8,800
Cash	8,800	
Accounts Receivable		8,800

b.

Accounts Payable*	1,760	
Supplies Expense		1,760

Supplies	1,760	
Cash		1,760

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

Ex. 2-23

a. **1. Revenue:**
$1,339 million increase ($72,618 – $71,279)
1.9% increase ($1,339 ÷ $71,279)

2. Operating expenses:
$1,974 million increase ($68,083 – $66,109)
3.0% increase ($1,974 ÷ $66,109)

3. Operating income:
–$635 million decrease ($4,535 – $5,170)
–12.3% decrease (–$635 ÷ $5,170)

b. **During the recent year, revenue increased by 1.9%, while operating expenses increased by 3.0%. As a result, operating income decreased by –12.3%, from the prior year.**

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Ex. 2-24

a. 1. Revenue:
$3,559 million increase ($116,199 – $112,640)
3.2% increase ($3,559 ÷ $112,640)

2. Operating expenses:
$3,155 million increase ($112,575 – $109,420)
2.9% increase ($3,155 ÷ $109,420)

3. Operating income:
$404 million increase ($3,624 – $3,220)
12.5% increase ($404 ÷ $3,220)

b. During the recent year, revenue increased by 3.2%, while operating expenses increased by 2.9%. As a result, operating income increased by 12.5% from the prior year.

c. Because of the size differences between Target and Costco (Costco has more than 1.6 times the revenue), it is best to compare the two companies on the basis of percent changes from the prior year. Costco's revenues increased by 3.2%, while Target's revenues increased by only 1.9%. The expenses of Costco increased by 2.9%, which is less than the percentage increase in revenues. As a result, Costco's operating income increased by 12.5%. In contrast, Target's expenses increased by 3.0%, which is more than the percentage increase in revenues. As a result, Target's operating income decreased by 12.3%. Overall, Costco had a better operating performance than Target.

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PROBLEMS

Prob. 2-1A

1. and 2.

Cash

(a)	36,000	(b)	2,400
(g)	12,200	(c)	7,800
		(e)	2,150
		(f)	4,000
		(h)	815
		(i)	4,500
		(j)	5,000
		(m)	6,450
		(n)	1,020
Bal.	14,065		

Equipment

(d)	9,000		

Accounts Payable

(i)	4,500	(d)	9,000
		(k)	2,890
		Bal.	7,390

Notes Payable

(j)	5,000	(c)	25,000
		Bal.	20,000

Accounts Receivable

(l)	18,300		

Connie Young, Capital

		(a)	36,000

Supplies

(e)	2,150		

Professional Fees

		(g)	12,200
		(l)	18,300
		Bal.	30,500

Prepaid Insurance

(f)	4,000		

Salary Expense

(m)	6,450		

Automobiles

(c)	32,800		

Blueprint Expense

(k)	2,890		

Rent Expense

(b)	2,400		

Automobile Expense

(n)	1,020		

Miscellaneous Expense

(h)	815		

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Prob. 2-1A (Concluded)

3.

CONNIE YOUNG, ARCHITECT Unadjusted Trial Balance October 31, 2019		
	Debit Balances	Credit Balances
Cash	14,065	
Accounts Receivable	18,300	
Supplies	2,150	
Prepaid Insurance	4,000	
Automobiles	32,800	
Equipment	9,000	
Accounts Payable		7,390
Notes Payable		20,000
Connie Young, Capital		36,000
Professional Fees		30,500
Salary Expense	6,450	
Blueprint Expense	2,890	
Rent Expense	2,400	
Automobile Expense	1,020	
Miscellaneous Expense	815	
	93,890	93,890

4. Net income, $16,925 ($30,500 – $6,450 – $2,890 – $2,400 – $1,020 – $815)

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Prob. 2-2A

1.

(a)	Cash	40,000	
	Sharon Matthews, Capital		40,000
(b)	Rent Expense	6,000	
	Cash		6,000
(c)	Supplies	3,200	
	Accounts Payable		3,200
(d)	Accounts Payable	1,750	
	Cash		1,750
(e)	Cash	18,250	
	Fees Earned		18,250
(f)	Automobile Expense	1,880	
	Miscellaneous Expense	420	
	Cash		2,300
(g)	Office Salaries Expense	5,000	
	Cash		5,000
(h)	Supplies Expense	1,400	
	Supplies		1,400
(i)	Sharon Matthews, Drawing	2,000	
	Cash		2,000

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Prob. 2-2A (Continued)

2.

Cash

(a)	40,000	(b)	6,000
(e)	18,250	(d)	1,750
		(f)	2,300
		(g)	5,000
		(i)	2,000
Bal.	41,200		

Fees Earned

		(e)	18,250

Rent Expense

(b)	6,000		

Supplies

(c)	3,200	(h)	1,400
Bal.	1,800		

Office Salaries Expense

(g)	5,000		

Accounts Payable

(d)	1,750	(c)	3,200
		Bal.	1,450

Automobile Expense

(f)	1,880		

Sharon Matthews, Capital

		(a)	40,000

Supplies Expense

(h)	1,400		

Sharon Matthews, Drawing

(i)	2,000		

Miscellaneous Expense

(f)	420		

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Prob. 2-2A (Concluded)

3.

TRI-CITY REALTY Unadjusted Trial Balance January 31, 2019		
	Debit Balances	Credit Balances
Cash	41,200	
Supplies	1,800	
Accounts Payable		1,450
Sharon Matthews, Capital		40,000
Sharon Matthews, Drawing	2,000	
Fees Earned		18,250
Rent Expense	6,000	
Office Salaries Expense	5,000	
Automobile Expense	1,880	
Supplies Expense	1,400	
Miscellaneous Expense	420	
	59,700	59,700

4. a. $18,250
b. $14,700 ($6,000 + $5,000 + $1,880 + $1,400 + $420)
c. $3,550 ($18,250 – $14,700)

5. $41,550, which is the initial investment of $40,000 plus net income of $3,550 minus the withdrawals of $2,000.

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Prob. 2-3A

1.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
2019					
June	1	Cash	11	35,000	
		Kris Storey, Capital	31		35,000
	1	Rent Expense	53	4,750	
		Cash	11		4,750
	6	Equipment	16	14,100	
		Accounts Payable	22		14,100
	8	Van	18	28,500	
		Cash	11		4,500
		Notes Payable	21		24,000
	10	Supplies	13	2,380	
		Cash	11		2,380
	12	Cash	11	12,200	
		Fees Earned	41		12,200
	15	Prepaid Insurance	14	3,600	
		Cash	11		3,600
	23	Accounts Receivable	12	11,900	
		Fees Earned	41		11,900
	24	Van Expense	55	1,500	
		Accounts Payable	22		1,500

JOURNAL Page 2

Date		Description	Post. Ref.	Debit	Credit
2019					
June	29	Utilities Expense	54	3,100	
		Cash	11		3,100
	29	Miscellaneous Expense	59	950	
		Cash	11		950

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Prob. 2-3A (Continued)

^^^

	30	Cash	11	7,330	
		Accounts Receivable	12		7,330
	30	Wages Expense	51	5,070	
		Cash	11		5,070
	30	Accounts Payable	22	6,825	
		Cash	11		6,825
	30	Kris Storey, Drawing	32	1,600	
		Cash	11		1,600

2.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	1		1	35,000		35,000	
	1		1		4,750	30,250	
	8		1		4,500	25,750	
	10		1		2,380	23,370	
	12		1	12,200		35,570	
	15		1		3,600	31,970	
	29		2		3,100	28,870	
	29		2		950	27,920	
	30		2	7,330		35,250	
	30		2		5,070	30,180	
	30		2		6,825	23,355	
	30		2		1,600	21,755	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	23		1	11,900		11,900	
	30		2		7,330	4,570	

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Prob. 2-3A (Continued)

Account: Supplies **Account No.** 13

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	10		1	2,380		2,380	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	15		1	3,600		3,600	

Account: Equipment **Account No.** 16

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	6		1	14,100		14,100	

Account: Van **Account No.** 18

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	8		1	28,500		28,500	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	8		1		24,000		24,000

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	6		1		14,100		14,100
	24		1		1,500		15,600
	30		2	6,825			8,775

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Prob. 2-3A (Continued)

Account: Kris Storey, Capital Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	1		1		35,000		35,000

Account: Kris Storey, Drawing Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	30		2	1,600		1,600	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	12		1		12,200		12,200
	23		1		11,900		24,100

Account: Wages Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	30		2	5,070		5,070	

Account: Rent Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	1		1	4,750		4,750	

Account: Utilities Expense Account No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	29		2	3,100		3,100	

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Prob. 2-3A (Continued)

Account: Van Expense **Account No.** 55

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	24		1	1,500		1,500	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
June	29		2	950		950	

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Prob. 2-3A (Concluded)

3.

ECO-CENTRIC DESIGNS Unadjusted Trial Balance June 30, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	21,755	
Accounts Receivable	12	4,570	
Supplies	13	2,380	
Prepaid Insurance	14	3,600	
Equipment	15	14,100	
Van	18	28,500	
Notes Payable	21		24,000
Accounts Payable	22		8,775
Kris Storey, Capital	31		35,000
Kris Storey, Drawing	32	1,600	
Fees Earned	41		24,100
Wages Expense	51	5,070	
Rent Expense	53	4,750	
Utilities Expense	54	3,100	
Van Expense	55	1,500	
Miscellaneous Expense	59	950	
		91,875	91,875

4. **$8,730 ($24,100 – $5,070 – $4,750 – $3,100 – $1,500 – $950)**

5. **Some supplies may have been used during June 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 Eco-Centric 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
2019					
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
2019					
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	Lester Wagner, Drawing	32	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
2019							
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
2019							
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
2019							
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
2019							
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
2019							
Apr.	15		18	200,000		200,000	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
Apr.	30		19		10,000		10,000

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Apr.	15		18		170,000		170,000

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Prob. 2-4A (Continued)

Account: Lester Wagner, Capital Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Apr.	1	Balance	✓				46,000

Account: Lester Wagner, Drawing Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
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
2019							
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
2019							
Apr.	1	Balance	✓			30,000	
	1		18	6,500		36,500	

Account: Advertising Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Apr.	1	Balance	✓			17,800	
	23		18	4,300		22,100	

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Prob. 2-4A (Continued)

Account: Automobile Expense Account No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
Apr.	1	Balance	✓			3,900	
	29		19	1,400		5,300	

4.

ELITE REALTY
Unadjusted Trial Balance
April 30, 2019

	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
Lester Wagner, Capital	31		46,000
Lester Wagner, Drawing	32	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:

JOURNAL **Page 19**

Date		Description	Post. Ref.	Debit	Credit
2019					
Apr.	30	Salary and Commission Expense	51	7,200	
		Cash	11		7,200

(c) Transposition

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Prob. 2-5A

1.

THE COLBY GROUP Unadjusted Trial Balance August 31, 2019		
	Debit Balances	Credit Balances
Cash*	22,400	
Accounts Receivable	48,000	
Supplies**	8,750	
Prepaid Insurance	4,300	
Equipment	196,000	
Notes Payable		117,600
Accounts Payable		30,800
Terry Colby, Capital		122,150
Terry Colby, Drawing	63,000	
Fees Earned		454,450
Wages Expense	270,000	
Rent Expense	58,100	
Advertising Expense	25,200	
Gas, Electricity, and Water Expense	24,150	
Miscellaneous Expense	5,100	
	725,000	725,000

* $17,300 + $6,000 (a) – $900 (b)
** $7,400 + $1,500 – $150

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		

Notes Payable

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

Ken Jones, Capital

		(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		

Automobile

(b)	19,500		

Automobile Expense

(o)	550		

Equipment

(e)	6,500		

Miscellaneous Expense

(i)	375		
(m)	200		
Bal.	575		

Accounts Payable

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

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Prob. 2-1B (Concluded)

3.

KEN JONES, ARCHITECT Unadjusted Trial Balance April 30, 2019		
	Debit Balances	Credit Balances
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Accounts Payable		7,200
Notes Payable		16,700
Ken Jones, Capital		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	
	Rafael Masey, Capital		17,500
(b)	Supplies	2,300	
	Accounts Payable		2,300
(c)	Cash	13,300	
	Fees Earned		13,300
(d)	Rent Expense	3,000	
	Cash		3,000
(e)	Accounts Payable	1,150	
	Cash		1,150
(f)	Rafael Masey, Drawing	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		

Fees Earned

		(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		

Rafael Masey, Capital

		(a)	17,500

Supplies Expense

(i)	1,050		

Rafael Masey, Drawing

(f)	1,800		

Miscellaneous Expense

(g)	400		

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Prob. 2-2B (Concluded)

3.

PLANET REALTY Unadjusted Trial Balance August 31, 2019		
	Debit Balances	Credit Balances
Cash	20,150	
Supplies	1,250	
Accounts Payable		1,150
Rafael Masey, Capital		17,500
Rafael Masey, Drawing	1,800	
Fees Earned		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. $20,250, which is the initial investment of $17,500 plus net income of $4,550 minus the withdrawals of $1,800.

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Prob. 2-3B

1.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
2019					
Oct.	1	Cash	11	18,000	
		Jay Pryor, Capital	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
2019					
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)

^^

	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	Jay Pryor, Drawing	32	3,500	
		Cash	11		3,500

2.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
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
2019							
Oct.	14		1	2,100		2,100	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Oct.	15		1	3,600		3,600	

Account: Equipment **Account No.** 16

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Oct.	13		1	10,500		10,500	

Account: Truck **Account No.** 18

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Oct.	10		1	23,750		23,750	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Oct.	10		1		20,000		20,000

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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: Jay Pryor, Capital Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Oct.	1		1		18,000		18,000

Account: Jay Pryor, Drawing Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Oct.	31		2	3,500		3,500	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
Oct.	30		2	4,800		4,800	

Account: Rent Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Oct.	4		1	3,000		3,000	

Account: Utilities Expense Account No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
Oct.	26		2	700		700	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Oct.	27		2	1,100		1,100	

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Prob. 2-3B (Concluded)

3.

PIONEER DESIGNS Unadjusted Trial Balance October 31, 2019			
	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
Jay Pryor, Capital	31		18,000
Jay Pryor, Drawing	32	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
2019					
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
2019					
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)

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	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	Cindy Getman, Drawing	32	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
2019							
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
2019							
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
2019							
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
2019							
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
2019							
Aug.	31		19	75,000		75,000	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
Aug.	31		19		5,000		5,000

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Aug.	31		19		67,500		67,500

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Prob. 2-4B (Continued)

Account: Cindy Getman, Capital Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Aug.	1	Balance	✓				87,500

Account: Cindy Getman, Drawing Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
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
2019							
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
2019							
Aug.	1	Balance	✓			49,000	
	2		18	7,200		56,200	

Account: Advertising Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
Aug.	1	Balance	✓			32,200	
	17		18	8,000		40,200	

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Prob. 2-4B (Continued)

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
Aug.	1	Balance	✓			5,250	
	29		19	1,700		6,950	

4.

VALLEY REALTY
Unadjusted Trial Balance
August 31, 2019

	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
Cindy Getman, Capital	31		87,500
Cindy Getman, Drawing	32	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

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Prob. 2-4B (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 $9,000 ($10,000 – $1,000) would be as follows:

JOURNAL **Page 19**

Date		Description	Post. Ref.	Debit	Credit
2019					
Aug.	31	Cindy Getman, Drawing	32	9,000	
		Cash	11		9,000

(c) Slide

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Prob. 2-5B

1.

TECH SUPPORT SERVICES Unadjusted Trial Balance January 31, 2019		
	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
Thad Engelberg, Capital		107,850
Thad Engelberg, Drawing	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

* $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
2019					
July	1	Cash	11	5,000	
		Peyton Smith, Capital	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
2019					
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	Peyton Smith, Drawing	32	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
2019							
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
2019							
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
2019							
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
2019							
July	1		1	2,700		2,700	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
July	5		1	7,500		7,500	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
July	3		1		7,200		7,200

Account: Peyton Smith, Capital **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
July	1	Balance	✓				4,000
	1		1		5,000		9,000

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Continuing Problem (Continued)

Account: Peyton Smith, Drawing **Account No.** 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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
2019							
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
2019							
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
2019							
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
2019							
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
2019							
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
2019							
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
2019							
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
2019							
July	1	Balance	✓			180	

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

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2019							
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, 2019			
	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
Peyton Smith, Capital	31		9,000
Peyton Smith, Drawing	32	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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CASES & PROJECTS

CP 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 on 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.**

CP 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 on 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.**

CP 2-3

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

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

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CP 2-3 (Concluded)

assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

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

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

CP 2-4

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 wants 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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CP 2-5

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

Cash……	**XXX**	
Unearned Tuition Deposits……		**XXX**

Cash is an asset account, and Unearned Tuition Deposits is a liability account. As the classes are taught throughout the term, the unearned tuition deposits become earned revenue. The entry to record the earned portion of tuition will be:

Unearned Tuition Deposits……	**XXX**	
Earned Tuition Deposits……		**XXX**

CP 2-6

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

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CP 2-7

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

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

b.

EAGLE CADDY SERVICE
Income Statement
For Month Ended June 30, 2019

Fees earned		$11,400
Expenses:		
Rent expense	$3,500	
Supplies expense	1,925	
Wages expense	850	
Utilities expense	340	
Miscellaneous expense	395	
Total expenses		7,010
Net income		$ 4,390

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

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

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CP 2-7 (Continued)

Cash 11

2019			2019		
June	1	2,000	June	1	500
	15	5,400		2	750
	30	4,200		3	600
	30	1,500		17	1,000
				20	2,400
				28	395
				30	340
				30	850
Bal.		6,265			

Fees Earned 41

2019		
June	15	5,400
	25	1,800
	30	4,200
Bal.		11,400

Rent Expense 51

2019		
June	1	500
	3	3,000
Bal.		3,500

Accounts Receivable 12

2019			2019		
June	25	1,800	June	30	1,500
Bal.		300			

Supplies Expense 52

2019		
June	30	1,925

Supplies 13

2019			2019		
June	2	750	June	30	1,925
	7	1,000			
	22	850			
Bal.		675			

Wages Expense 53

2019		
June	30	850

Accounts Payable 21

2019			2019		
June	17	1,000	June	3	2,400
	20	2,400		7	1,000
				22	850
			Bal.		850

Utilities Expense 54

2019		
June	30	340

Cory Neece, Capital 31

2019		
June	1	2,000

Miscellaneous Expense 55

2019		
June	28	395

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CP 2-7 (Concluded)

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

Cash receipts:		
Initial investment	**$2,000**	
Cash sales ($5,400 + $4,200)	**9,600**	
Collections on accounts	**1,500**	
Total cash receipts during June		**$13,100**
Cash disbursements:		
Rent expense ($500 + $3,000)	**$3,500**	
Supplies purchased for cash	**750**	
Wages expense	**850**	
Payment for supplies on account	**1,000**	
Utilities expense	**340**	
Miscellaneous expense	**395**	
Total cash disbursements during June		**6,835**
Cash on hand according to records*		**$ 6,265**

*** If the student used T accounts in completing part (b), or this part, this amount ($6,265) should agree with the balance of the cash account.**

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

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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.
5. 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
capital account
chart of accounts
correcting journal entry
credit
debit
double-entry accounting system
drawing
expenses
four-column account
horizontal analysis
journal
journal entry
journalizing
ledger
liabilities
normal balance of an account
owner's equity
posting
revenues
rules of debit and credit
slide
T account
transposition
trial balance
two-column journal
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. This chapter demonstrates how to record transactions using T 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 in the ledger is known as a chart of accounts. The ledger contains all accounts used in the business. Assets are the resources owned by a business. Liabilities are the rights of creditors that represent debts of the business. Owner's equity is the owner's right to the assets of the business. For a proprietorship, the owner's equity in the business is represented in the capital account; the drawing account represents the amounts that the owner has withdrawn from the business. Revenues are increases in assets and owner's equity as a result of selling services or products to customers. Expenses are assets used up or services consumed in the process of

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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.
- **Capital account** - An account used for a proprietorship that represents the owner's equity.
- **Chart of accounts -** A list of the accounts in the ledger.
- **Credit** - Amount entered on the right side of an account.
- **Debit** - Amount entered on the left side of an account.
- **Drawing** - The account used to record amounts withdrawn by an owner of a proprietorship.
- **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.
- **Owner's equity -** The owner's right to the assets of the business.
- **Revenues -** Increases in assets from performing services or delivering products to customers.
- **T account -** The simplest form of an account.

Relevant Exhibits

- Exhibit 1 – NetSolutions' November Transaction
- 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 owner's equity were recorded in the capital account. In Chapter 2, the different types of owner's equity transactions will be separated and recorded in the following accounts: capital, drawing, revenue, and expense accounts. Capital and revenue accounts increase owner's equity; drawing and expense accounts reduce owner's equity. This separation will make it easier to prepare financial statements. The following summary can be used to highlight this change.

Account	Used to Record
Capital	Owner's investments
Drawing	Owner's withdrawals
Revenue	Revenues from customers
Expense	Expenses incurred in the process of generating revenues

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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 = owner's 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.

Handout 2-1 (at the end of this manual) presents information related to the business transactions of Larry Sharp, M.D. You can use it as a handout or project it for your students. 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.

Handout 2-2 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 Handout 2-2 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

Many organizations 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. Its 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 debits and credits based on the type of 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. For asset and expense accounts, a debit increases the account, and a credit decreases the account. For liability, owner's 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. Using the rules of debit and credit, transactions are entered in a journal; 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. 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 is 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.
- **Two-column journal** - A journal format with a debit column and a credit column.

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Relevant Example Exercises and Exhibits

- Exhibit 3 – Rules of Debit and Credit, Normal Balances of Accounts
- Example Exercise 2-1 – Rules of Debit and Credit and Normal Balances
- Exhibit 4 – Transaction Terminology and Related Journal Entry Accounts
- Example Exercise 2-2 – Journal Entry for Asset Purchase

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		+	Owner's Equity	
+	–		–	+		–	+

Point out that the rules for increasing and decreasing liabilities and owner's 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 drawing and expense accounts on owner's 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 drawing and expense accounts. Increases to these accounts are debits, since they reduce owner's equity. However, some students want to record expenses and drawings as credits because the schematic has a + sign on the credit side of owner's equity accounts.

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

Here's how it works.

After Eating Dinner,	Let's Read the Comics
Accounts increased with a debit:	Accounts increased with a credit:
Assets	Liabilities
Expenses	Revenues
Drawings	Capital

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

List the types of classifications of accounts:

A = Assets
L = Liabilities
C = Capital (Owner's Equity)
I = Income (Revenue)
E = Expense

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

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

Note that ALICE begins and ends with normal Dr. balance accounts, while the three middle classifications are normal Cr. balance accounts. The drawing 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, drawing, and expenses) and half are increased with credits (liabilities, capital, and revenue). It is also important to discuss the meaning of normal balance. Normal balance is the entry that increases the account. At this point in the learning process, the student can assume that only assets and liabilities will have both debit and credit entries. Drawing and expense accounts will have only debit entries, and capital 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 a T account.

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

Cash	M. Gordon, Capital
Accounts Receivable	M. Gordon, Drawing
Supplies	Fees Earned
Stereo Equipment	Wages Expense
Accounts Payable	Advertising Expense

Handout 2-3 lists several business transactions, which you can project on the board or use as a handout. 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. Handout 2-4 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 more common transactions, such as the ones below, as you lecture.

TRANSACTION	AFFECTED ACCOUNTS			
	Cash		Owner's Capital	
	Dr.	Cr.	Dr.	Cr.
Deposited cash in an account in the name of the business.	Increase			Increase

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TRANSACTION	AFFECTED ACCOUNTS	
	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	Owner's Drawing
	Dr. / Cr.	Dr. / Cr.
Withdrew cash for personal use.	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 Exhibit 4 in the text that summarizes common transaction terminology.

Handout 2-5 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. *Dates:* 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 whenever changing to a new month. The date is entered for each transaction.
2. 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). (In CengageNOW, when an amount is entered in the Credit column, the account name will automatically indent.)
3. 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.
4. *Explanations:* 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. (Explanations are not required in CengageNOW.)
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. (Blank lines are not required in CengageNOW.)

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

Since 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 also 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. 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 Posting 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.

Several transactions are analyzed. 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 passes, 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.

Key Terms and Definitions

- **Account receivable** - A claim against the customer created by selling merchandise or services on credit.
- **Four-column account** - An account format used for posting journal entries with columns for debits, credits, and a debit or credit balance.
- **Posting** - The process of transferring the debits and credits from the journal entries to the accounts.
- **Unearned revenue** - The liability created by receiving revenue in advance.

Relevant Example Exercises and Exhibits

- Exhibit 5 – Diagram of the Recording and Posting of a Debit and a Credit Ledger, NetSolutions
- Example Exercise 2-3 – Journal Entry for Fees Earned
- Example Exercise 2-4 – Journal Entry for Owner's Withdrawal
- Exhibit 6 – General Ledger for NetSolutions on December 31, 2018
- Example Exercise 2-5 – Missing Amount from an Account

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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 a 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

Handout 2-6 is a series of four-column ledger accounts. Use these blank accounts to demonstrate posting of the first three transactions from Handout 2-5. 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.

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 a 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. Handout 2-7 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 Handout 2-8.

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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 that the totals match. The trial balance shown in Exhibit 7 in the text 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 may have 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. An entry of this type is shown on page 79 in the text.

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.
- **Unadjusted trial balance** - A summary listing of the titles and balances of accounts in the ledger prior to the posting of adjusting entries.

Relevant Example Exercises and Exhibit

- Exhibit 7 – Trial Balance
- Example Exercise 2-6 – Errors Affecting the Trial Balance
- Example Exercise 2-7 – Correcting Entries

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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 + Owner's Equity.

You may point out at this time 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 Handout 2-4 (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. Handout 2-9 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. Handout 2-10 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. Handout 2-11 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 (page 78 of the text). These types of things keep accountants very humble.

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.

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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.

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.

OBJECTIVE 5

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.

Relevant Example Exercise

- Example Exercise 2-8 – Horizontal Analysis

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.

Handout 2-12 shows an example of what a horizontal analysis of income statements for Music Express using figures from Handout 2-9 might look like. 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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Handout 2-1

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 owner 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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Handout 2-2

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

Owner's Equity

31 Larry Sharp, Capital
32 Larry Sharp, Drawing

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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Handout 2-3, Part 1

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. Mark transferred $7,000 from a personal bank account to an account to be used for his business.

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. Mark withdrew $575 cash for personal use.

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Handout 2-3, Part 2

Cash

Accounts Payable

M. Gordon, Capital

M. Gordon, Drawing

Accounts Receivable

Fees Earned

Wages Expense

Supplies

Advertising Expense

Stereo Equipment

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Handout 2-4, Part 1

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. Mark transferred $7,000 from a personal bank account to an account to be used for his business.

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. Mark withdrew $575 cash for personal use.

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Handout 2-4, Part 2

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

Accounts Payable			
		b.	5,700
f.	5,700		
			0

M. Gordon, Capital			
		a.	7,000

M. Gordon, Drawing			
j.	575		

Accounts Receivable			
g.	300	i.	300
	0		

Fees Earned			
		e.	1,000
		g.	300
			1,300

Supplies			
d.	75		

Wages Expense			
h.	150		

Stereo Equipment			
b.	5,700		

Advertising Expense			
c.	500		

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Handout 2-5

JOURNAL

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
20Y1				
Sept. 1	Cash		8,000	
	S. Morgan, Capital			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.			

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Handout 2-6

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 S. Morgan, Capital **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

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Handout 2-7

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.

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Handout 2-8

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.*

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Handout 2-9

TRIAL BALANCE

Music Express
Trial Balance
May 31, 20Y1

10	Cash …….	1,300	
12	Supplies ……	75	
16	Stereo Equipment …….	5,700	
31	M. Gordon, Capital ……..		7,000
32	M. Gordon, Drawing ……	575	
41	Fees Earned ……..		1,300
51	Wages Expense …….	150	
52	Advertising Expense …….	500	
		8,300	8,300

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Handout 2-10

WHAT'S WRONG WITH THIS?

Journal Entries:

a.	Cash	8,000	
	J. Day, Capital		8,000
b.	Supplies	200	
	Cash		200
c.	Cash	550	
	Fees Earned		550
d.	Wages Expense	1,340	
	Cash		1,340
e.	Accounts Rec.	810	
	Fees Earned		810

Trial Balance

10	Cash	6,970	
11	Accounts Rec.	810	
12	Supplies	200	
31	J. Day, Capital		8,810
41	Fees Earned	500	
51	Wages Expense	1,340	
		9,810	8,810

T Accounts:

Cash

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

J. Day, Capital

a.	8,000
e.	810
	8,810

Fees Earned

	c. 550

Accounts Receivable

e.	810

Wages Expense

d.	1,340

Supplies

b.	200

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Handout 2-11

WHAT'S WRONG WITH THIS?

(Solution)

Trial Balance

10	Cash	7,010	
11	Accounts Receivable	810	
12	Supplies	200	
31	J. Day, Capital		8,000
41	Fees Earned		1,360
51	Wages Expense	1,340	
		9,360	9,360

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Handout 2-12

Music Express

Income Statements

For the Months Ended May 31 and June 30

			Increase (Decrease)	
	June	May	Amt	Per.
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

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- Combining Methods 1
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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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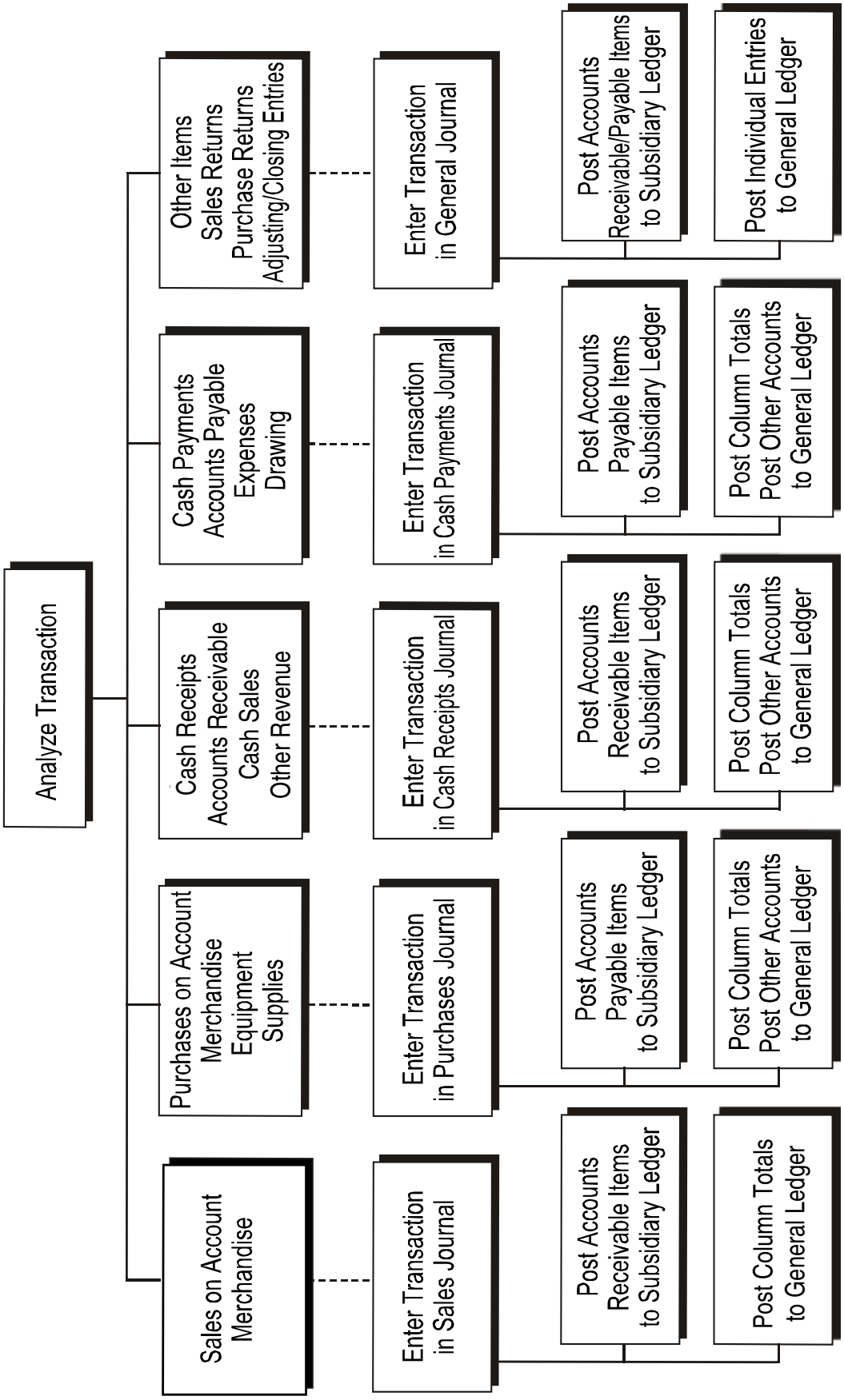
SPECIAL JOURNALS IN MERCHANDISING OPERATIONS



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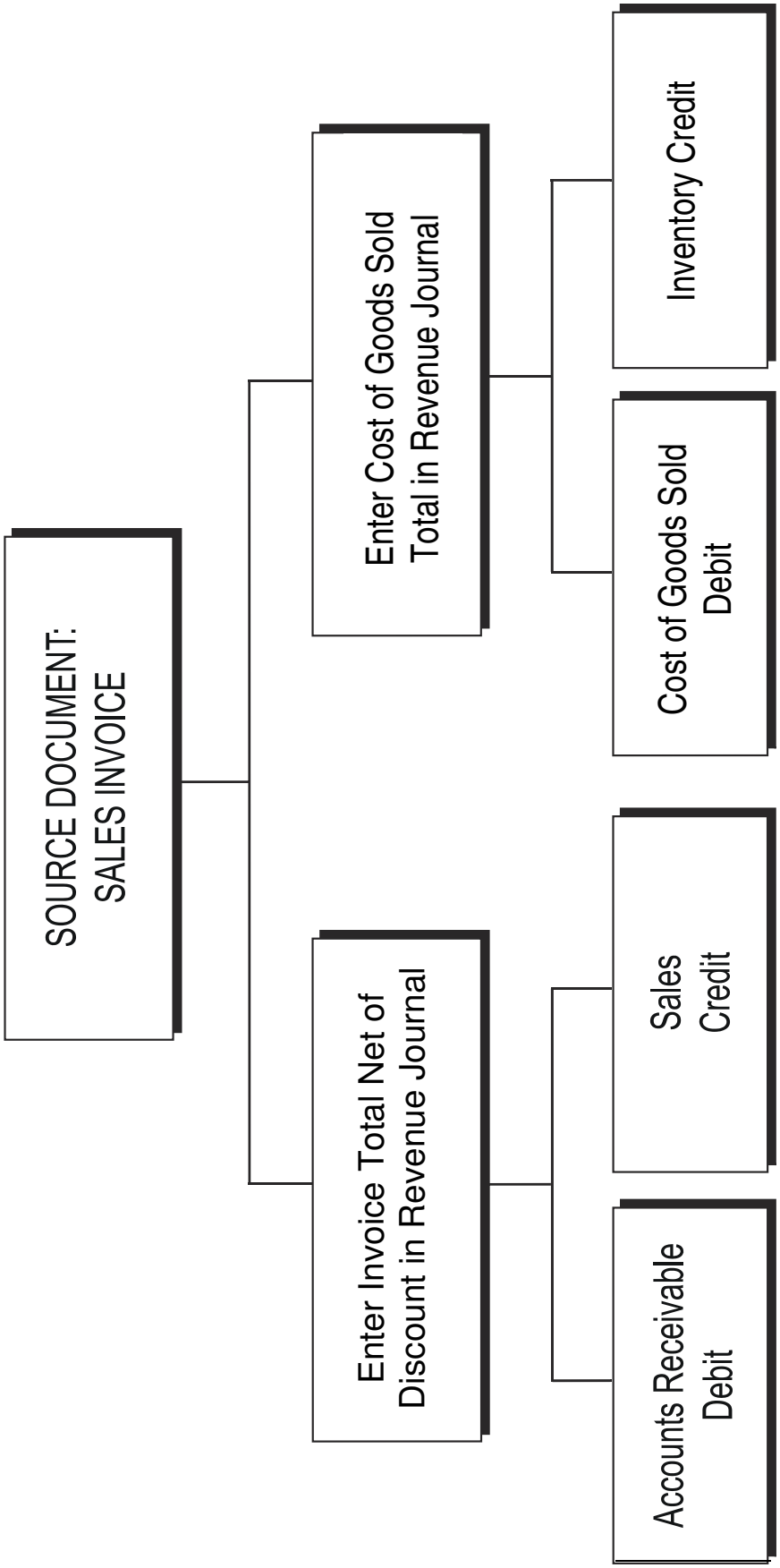
Revenue Journal



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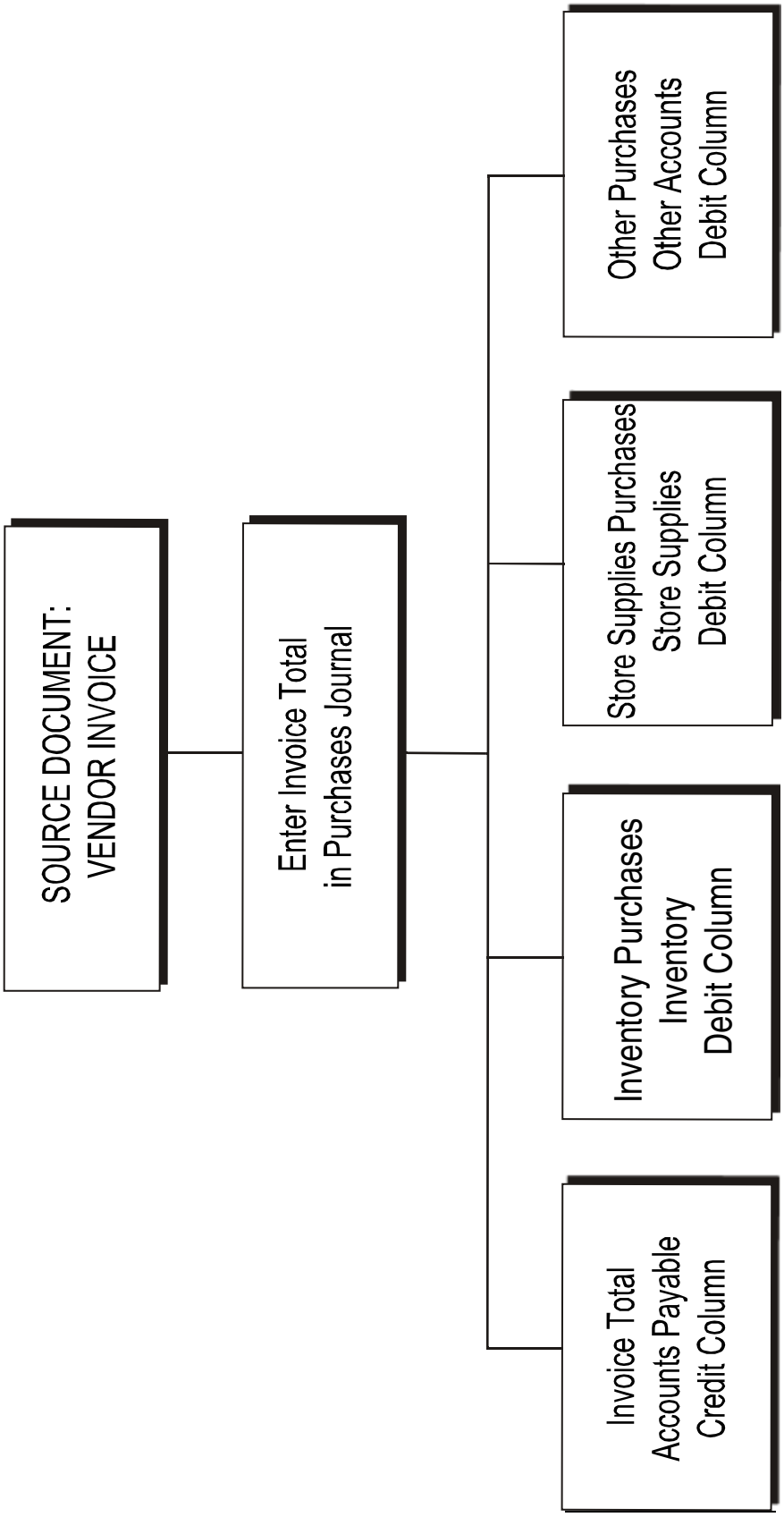
Purchases Journal



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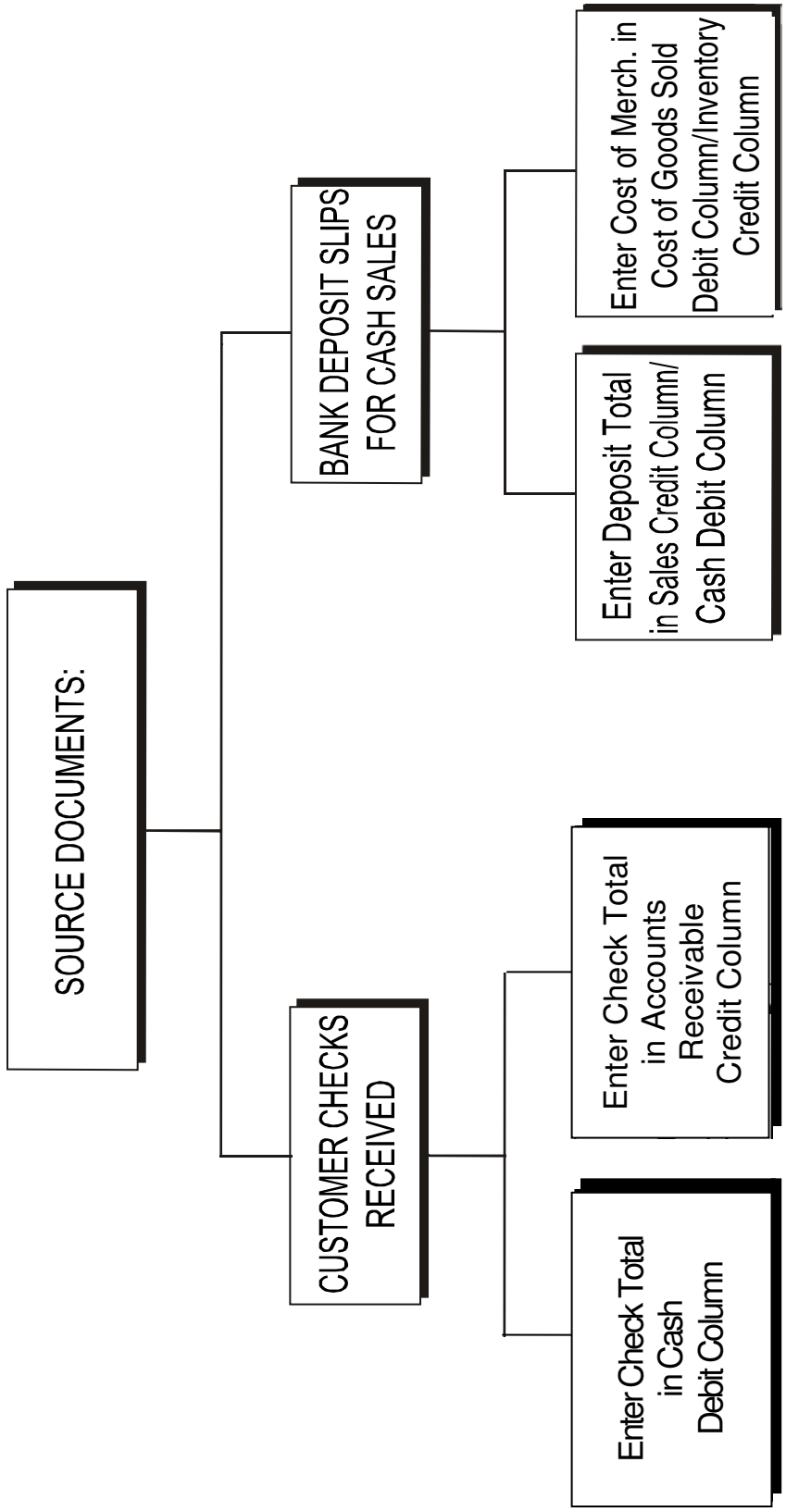
Cash Receipts Journal



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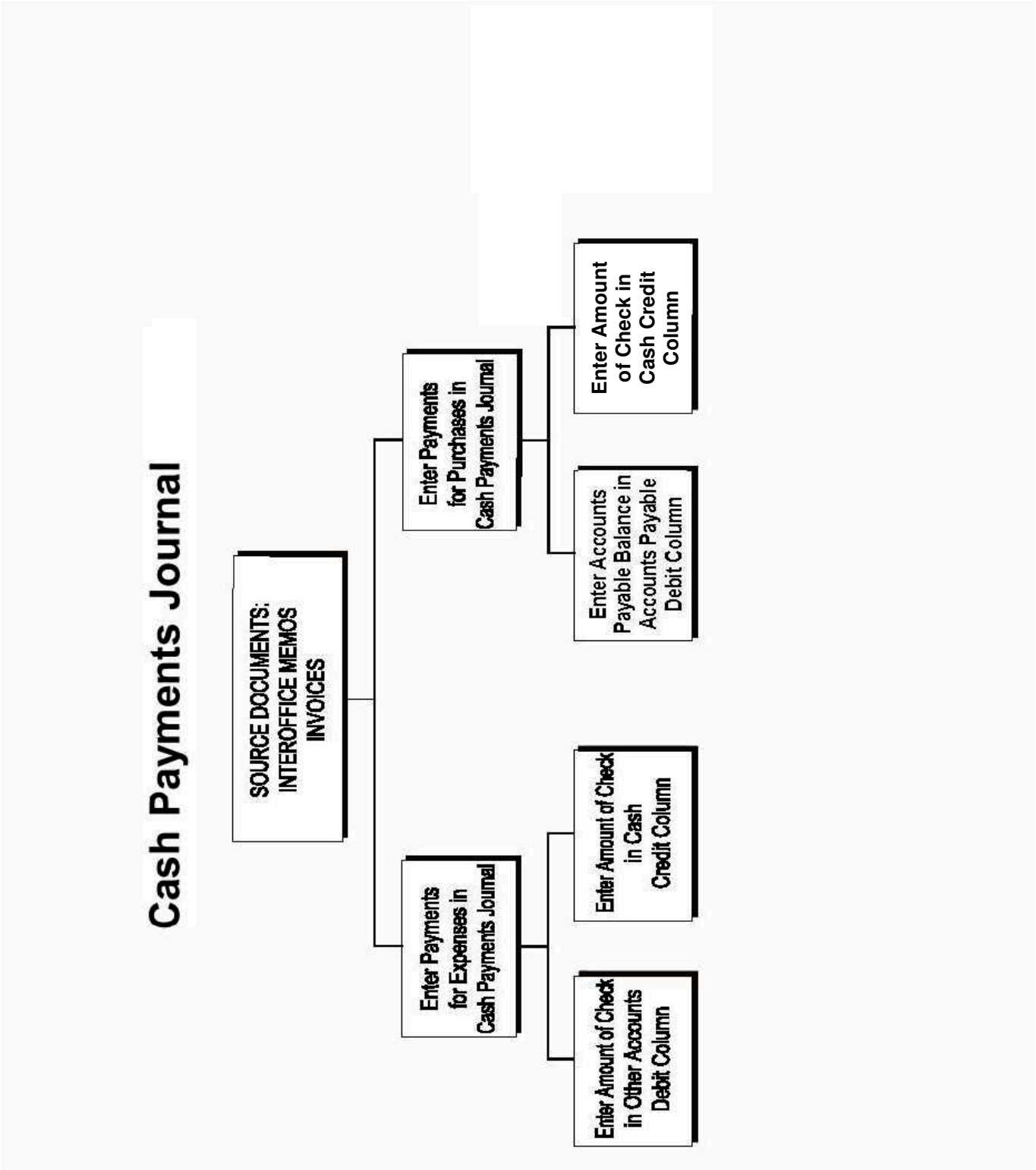

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ANALYSIS TEST

	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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SOLUTIONS

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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	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	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	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	CREDIT
20Y8							
Apr.	*1*	*Balance*	✓				*168,000.00*

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

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	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	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	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	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	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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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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CHAPTER

2 Analyzing Transactions

Accounting 27e

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Learning Objectives

- **LO1**: Describe the characteristics of an account and a chart of accounts.
- **LO2**: Describe and illustrate journalizing transactions using the double-entry accounting system.
- **LO3**: Describe and illustrate the journalizing and posting of transactions to accounts.
- **LO4**: Prepare an unadjusted trial balance and explain how it can be used to discover errors.
- **LO5**: 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 +				Owner's Equity					
	Cash	+ Supp.	+ Land	=	Accounts Payable	+ Chris Clark, Capital	– Chris Clark, Drawing	+ 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 2)

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

Title

The left side of the account is called the **debit** side.	The right side of the account is called the **credit** side.

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The T Account
(slide 2 of 2)

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 Account

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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**.

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Assets

- **Assets** are resources owned by the business entity.
  - Some examples of assets are:
    - Cash
    - Supplies
    - Accounts receivable
    - Buildings

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Liabilities

- **Liabilities** are debts owed to outsiders (creditors).
  - Some examples of liabilities are:
    - Accounts payable
    - Notes payable
    - Wages payable
    - Interest payable

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Owner's Equity

- **Owner's equity** is the owner's right to the assets of the business after all liabilities have been paid. For a proprietorship, the owner's equity is represented by the balance of the owner's **capital account**.
- A **drawing** account represents the amount of withdrawals made by the owner.

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Revenues

- **Revenues** are increases in assets and owner's equity as a result of selling services or products to customers.
  - Some examples of revenues are:
    - Fees earned
    - Commissions revenue
    - Rent revenue

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Expenses

- The using up of assets or consuming services in the process of generating revenues results in **expenses**.
  - Some examples of expenses are:
    - Wages expense
    - Rent 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. Owner's Equity	
31 Chris Clark, Capital	
32 Chris Clark, Drawing	

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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		+	OWNER'S EQUITY Owner's 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 owner's equity.

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

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Owner Withdrawals

- The debit and credit rules for recording owner withdrawals are based on the effect of owner withdrawals on owner's equity.

Drawing 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 a 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

ASSETS = **LIABILITIES** + **OWNER'S EQUITY**

Asset Accounts

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

Liability Accounts

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

Owner's Capital Account

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

Owner's Drawing Account

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

Income Statement Accounts

Revenue Accounts

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

Expense Accounts

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

Note: The side of the account for recording increases, and the normal balance is shown in green.

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Example Exercise

State for each account whether it is likely to have (a) debit entries only, (b) credit entries only, or (c) both debit and credit entries. Also indicate its normal balance.

1. Amber Saunders, Drawing
2. Accounts Payable
3. Cash
4. Fees Earned
5. Supplies
6. Utilities Expense

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

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Journalizing
(slide 1 of 3)

- A transaction is 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.

Journal *Page 1*

Date			Description	Post. Ref.	Debit	Credit
2018						
Nov.	1		Cash		25,000	
			Chris Clark, Capital			25,000
			Invested cash in NetSolutions.			

Step 1 Step 2 Step 3 Step 4 Step 5

Step 2 Step 3

Accounting Equation Impact

Assets		=	Liabilities	+	Owner's Equity (Investment)
Cash					Chris Clark, Capital
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
Owner investments	Cash and/or other assets	(Owner's name), Capital
Owner withdrawals	(Owner's name), Drawing	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.				

Assets	=	Liabilities	+	Owner's Equity

Accounting Equation Impact

Land	
Nov. 5 20,000	

Cash	
	Nov. 5 20,000

increase

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	+	Owner's 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	+	Owner's 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	+	Owner's 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 Cash Paid creditors on account.		950	950	

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

Accounting Equation Impact

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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.

Supplies used = $1,350 – $550 = $800

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

Assets	=	Liabilities	+	Owner's Equity (Expense)
Supplies				**Supplies Expense**
Nov. 30 800				Nov. 30 800

Accounting Equation Impact

decrease **increase**

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Transaction H

- On November 30, Chris Clark withdrew $2,000 from NetSolutions for personal use.

Journal *Page 2*

Date		Description	Post. Ref.	Debit	Credit
2018					
Nov.	30	Chris Clark, Drawing		2,000	
		Cash			2,000
		Chris Clark withdrew cash for personal use.			

Assets	=	Liabilities	+	Owner's Equity (Drawing)
Cash				Chris Clark, Drawing
Nov. 30 2,000				Nov. 30 2,000
decrease				increase

Accounting Equation Impact

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Example Exercise

Journal Entry for Asset Purchase

Prepare a journal entry for the purchase of a truck on June 3 for $42,500, paying $8,500 cash and the remainder on account.

June 3	Truck	42,500	
	Cash		8,500
	Accounts Payable		34,000

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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		2,400	
			Cash			2,400
			Paid premium on one-year policy.			

Accounting Equation Impact

Assets	=	Liabilities	+	Owner's 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 to the prepaid insurance account using the following four steps:
  - Step 1. The date (Dec. 1) of the transaction 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

Journal *Page 2*

Date		Description	Post. Ref.	Debit	Credit
Dec.	1	Prepaid Insurance	Step 4 → 15	2,400	
		Cash	Step 4 → 11		2,400
		Paid premium on one-year policy.			

Step 2

Step 2

Account *Prepaid Insurance* *Account No. 15*

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
Step 1 → 2018 Dec.	1		2	2,400		2,400	

Step 3

Account *Cash* *Account No. 11*

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018 Nov.	1		1	25,000		25,000	
	30		2		2,000	5,900	
Step 1 → Dec.	1		2		2,400	3,500	

Step 3

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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	+	Owner's Equity (Expense)	
Cash	11				Rent Expense	53
Dec. 1	800				Dec. 1	800

decrease **increase**

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Transaction – Unearned Revenue
(slide 1 of 2)

- 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**.

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Transaction – Unearned Revenue
(slide 2 of 2)

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

Accounting Equation Impact

Assets		=	Liabilities		+	Owner's 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.				

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

Accounting Equation Impact

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.				

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

Accounting Equation Impact

decrease **increase**

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Transaction – Paid Creditors

- On December 11, NetSolutions paid creditors $400.

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

Assets	=	Liabilities	+	Owner's Equity

Cash	11
Dec. 11	400

Accounts Payable	21
Dec. 11 400	

decrease decrease

Accounting Equation Impact

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Transaction – Paid Wages

- 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
2018					
Dec.	13	Wages Expense	51	950	
		Cash	11		950
		Paid two weeks' wages.			

Accounting Equation Impact

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

decrease **increase**

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Transaction – Received Fees

- 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	+	Owner's 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.			

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

Accounting Equation Impact

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Example Exercise

Journal Entry for Fees Earned

Prepare a journal entry on August 7 for the fees earned on account, $115,000.

Aug. 7	Accounts Receivable	115,000	
	Fees Earned		115,000

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Transaction – Paid Creditors

- 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.				

Assets		=	Liabilities		+	Owner's Equity
Cash	11		Accounts Payable	21		
Dec. 20	900		Dec. 20	900		

decrease decrease

Accounting Equation Impact

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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.				

Assets	=	Liabilities	+	Owner's Equity

Accounting Equation Impact

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	+	Owner's Equity

Cash			
		Dec. 23	1,450

decrease

Supplies			
Dec. 23	1,450		

increase

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Transaction – Paid Wages

- 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	+	Owner's 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	+	Owner's 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
2018					
Dec.	31	Utilities Expense	54	225	
		Cash	11		225
		Paid electric bill.			

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

Accounting Equation Impact

decrease **increase**

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Transaction – Received Fees

- 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.				

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

Accounting Equation Impact

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.				

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

Accounting Equation Impact

increase

increase

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Transaction – Withdrew Cash

- On December 31, Chris Clark withdrew $2,000 for personal use.

Dec.	31	Chris Clark, Drawing	32	2,000		
		Cash	11		2,000	
		Chris Clark withdrew cash for personal use.				

Assets	=	Liabilities	+	Owner's Equity (Drawing)
Cash 11				Chris Clark, Drawing 32
Dec. 31 2,000				Dec. 31 2,000

Accounting Equation Impact

decrease **increase**

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Example Exercise

Journal Entry for Owner's Withdrawal

Prepare a journal entry on December 29 for the payment of $12,000 to the owner of Smartstaff Consulting Services, Dominique Walsh, for personal use.

Dec. 29	Dominique Walsh, Drawing	12,000	
	Cash		12,000

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Example Exercise

Missing Amount from an Account

On March 1, the cash account balance was $22,350. During March, cash receipts totaled $241,880, and the March 31 balance was $19,125. Determine the cash payments made during March.

Using the following T account, solve for the amount of cash payments (indicated by ?):

Cash

Mar. 1 Bal.	22,350	?	Cash payments
Cash receipts	241,880		
Mar. 31 Bal.	19,125		

$19,125 = $22,350 + $241,880 − Cash payments

Cash payments = $22,350 + $241,880 − $19,125

Cash payments = $245,105

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General Ledger for NetSolutions on December 31, 2018 (slide 1 of 3)

Ledger

Account *Cash* — *Account No. 11*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018						
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		950	7,900	
30		2		2,000	5,900	
Dec. 1		2		2,400	3,500	
1		2		800	2,700	
1		2	360		3,060	
6		2		180	2,880	
11		2		400	2,480	
13		3		950	1,530	
16		3	3,100		4,630	
20		3		900	3,730	
21		3	650		4,380	
23		3		1,450	2,930	
27		3		1,200	1,730	
31		3		310	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
2018						
Dec. 16		3	1,750		1,750	
21		3		650	1,100	
31		4	1,120		2,220	

Account *Supplies* — *Account No. 14*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018						
Nov. 10		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
2018						
Dec. 1		2	2,400		2,400	

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General Ledger for NetSolutions on December 31, 2018 (slide 2 of 3)

Account *Land* — *Account No. 17*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018 Nov. 5		1	20,000		20,000	

Account *Office Equipment* — *Account No. 18*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018 Dec. 4		2	1,800		1,800	

Account *Accounts Payable* — *Account No. 21*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018 Nov. 10		1		1,350		1,350
30		1	950			400
Dec. 4		2		1,800		2,200
11		2	400			1,800
20		3	900			900

Account *Unearned Rent* — *Account No. 23*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018 Dec. 1		2		360		360

Account *Chris Clark, Capital* — *Account No. 31*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018 Nov. 1		1		25,000		25,000

Account *Chris Clark, Drawing* — *Account No. 32*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018 Nov. 30		2	2,000		2,000	
Dec. 31		4	2,000		4,000	

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General Ledger for NetSolutions on December 31, 2018 (slide 3 of 3)

Account *Fees Earned* — *Account No. 41*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018						
Nov. 18		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
2018						
Nov. 30		1	2,125		2,125	
Dec. 13		3	950		3,075	
27		3	1,200		4,275	

Account *Supplies Expense* — *Account No. 52*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018						
Nov. 30		1	800		800	

Account *Rent Expense* — *Account No. 53*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018						
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
2018						
Nov. 30		1	450		450	
Dec. 31		3	310		760	
31		4	225		985	

Account *Miscellaneous Expense* — *Account No. 59*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2018						
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, 2018

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	20,000	
Office Equipment	18	1,800	
Accounts Payable	21		900
Unearned Rent	23		360
Chris Clark, Capital	31		25,000
Chris Clark, Drawing	32	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

Step 3
Step 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 $97.50 as $975.00.

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Example Exercise

For each of the following errors, considered individually, indicate whether the error would cause the trial balance totals to be unequal. If the error would cause the trial balance totals to be unequal, indicate whether the debit or credit total is higher and by how much.

a. Payment of a cash withdrawal of $5,600 was journalized and posted as a debit of $6,500 to Salary Expense and a credit of $6,500 to Cash.

b. A fee of $2,850 earned from a client was debited to Accounts Receivable for $2,580 and credited to Fees Earned for $2,850.

c. A payment of $3,500 to a creditor was posted as a debit of $3,500 to Accounts Payable and a debit of $3,500 to Cash.

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Example Exercise

a. The trial balance totals are equal since both the debit and credit entries were journalized and posted for $6,500.
b. The trial balance totals are unequal. The credit total is higher by $270 ($2,850 – $2,580).
c. The trial balance totals are unequal. The debit total is higher by $7,000 ($3,500 + $3,500).

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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:

May	31	Office Equipment	18	12,500		
		Supplies	14		12,500	
		To correct erroneous debit to Supplies on May 5.				

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Example Exercise

The following errors took place in journalizing and posting transactions:

a. A withdrawal of $6,000 by Cheri Ramey, owner of the business, was recorded as a debit to Office Salaries Expense and a credit to Cash.

b. Utilities Expense of $4,500 paid for the current month was recorded as a debit to Miscellaneous Expense and a credit to Accounts Payable.

Journalize the entries to correct the errors. Omit explanations.

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Example Exercise

a.	Cheri Ramey, Drawing	6,000	
	Office Salaries Expense		6,000
b.	Accounts Payable	4,500	
	Miscellaneous Expense		4,500
	Utilities Expense	4,500	
	Cash		4,500

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; however, preparing two entries will make it easier for someone later to understand what happened and why the entries were necessary.

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Financial Analysis and Interpretation: 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.
- 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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Financial Analysis and Interpretation: Horizontal Analysis (slide 2 of 2)

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

			Increase (Decrease)	
	Year 2	Year 1	Amount	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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Example Exercise

Two income statements for McCorkle Company follow:

McCorkle Company
Income Statements
For the Years Ended December 31

	2019	2018
Fees earned	$210,000	$175,000
Operating expenses	172,500	150,000
Net income	$ 37,500	$ 25,000

Prepare a horizontal analysis of McCorkle Company's income statement.

McCorkle Company
Income Statements
For the Years Ended December 31

			Increase (Decrease)	
	2019	2018	Amount	Percent
Fees earned	$210,000	$175,000	$35,000	20%
Operating expenses	172,500	150,000	22,500	15
Net income	$ 37,500	$ 25,000	$12,500	50

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