

SOLUTIONS MANUAL

WARREN REEVE DUCHAC

ACCOUNTING



22E

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22E

CHAPTER 2

ANALYZING TRANSACTIONS

QUESTION INFORMATION

Number	Objective	Description	Difficulty	Time	AACSB	AICPA	SS	GL
EO2-1	2-2		Easy	5 min	Analytic	FN-Measurement		
EO2-2	2-1		Easy	5 min	Analytic	FN-Measurement		
EO2-3	2-1		Easy	5 min	Analytic	FN-Measurement		
EO2-4	2-1		Easy	5 min	Analytic	FN-Measurement		
EO2-5	2-1		Easy	5 min	Analytic	FN-Measurement		
EO2-6	2-2		Easy	5 min	Analytic	FN-Measurement		
EO2-7	2-1		Easy	5 min	Analytic	FN-Measurement		
EO2-8	2-3		Easy	5 min	Analytic	FN-Measurement		
EO2-9	2-3		Easy	5 min	Analytic	FN-Measurement		
EO2-10	2-4		Easy	5 min	Analytic	FN-Measurement		
EO2-11	2-4		Easy	5 min	Analytic	FN-Measurement		
EO2-12	2-4		Easy	5 min	Analytic	FN-Measurement		
EO2-13	2-4		Easy	5 min	Analytic	FN-Measurement		
EO2-14	2-4		Easy	5 min	Analytic	FN-Measurement		
EO2-15	2-1		Easy	5 min	Analytic	FN-Measurement		
PE2-1A	2-1	Journal entry for purchase of office equipment	Easy	5 min	Analytic	FN-Measurement		
PE2-1B	2-1	Journal entry for purchase of office supplies	Easy	5 min	Analytic	FN-Measurement		
PE2-2A	2-1	Journal entry for fees earned on account	Easy	5 min	Analytic	FN-Measurement		
PE2-2B	2-1	Journal entry for cash received for services rendered	Easy	5 min	Analytic	FN-Measurement		
PE2-3A	2-1	Journal entry for owner's withdrawal	Easy	5 min	Analytic	FN-Measurement		
PE2-3B	2-1	Journal entry for owner's withdrawal	Easy	5 min	Analytic	FN-Measurement		
PE2-4A	2-1	Rules of debit and credit and normal balances	Easy	5 min	Analytic	FN-Measurement		
PE2-4B	2-1	Rules of debit and credit and normal balances	Easy	5 min	Analytic	FN-Measurement		
PE2-5A	2-2	Determining cash receipts	Easy	5 min	Analytic	FN-Measurement		
PE2-5B	2-2	Determining supplies expense	Easy	5 min	Analytic	FN-Measurement		
PE2-6A	2-3	Effect of errors on a trial balance	Moderate	10 min	Analytic	FN-Measurement		
PE2-6B	2-3	Effect of errors on a trial balance	Moderate	10 min	Analytic	FN-Measurement		
PE2-7A	2-4	Correction of errors	Easy	5 min	Analytic	FN-Measurement		
PE2-7B	2-4	Correction of errors	Easy	5 min	Analytic	FN-Measurement		
Ex2-1	2-1	Chart of accounts	Easy	5 min	Analytic	FN-Measurement		
Ex2-2	2-1	Chart of accounts	Easy	5 min	Analytic	FN-Measurement		
Ex2-3	2-1	Chart of accounts	Easy	10 min	Analytic	FN-Measurement		
Ex2-4	2-1	Identifying transactions	Easy	10 min	Analytic	FN-Measurement		

Number	Objective	Description	Difficulty	Time	AACSB	AICPA	SS	GL
Ex2-5	2-1, 2-2	Journal entries	Easy	10 min	Analytic	FN-Measurement		
Ex2-6	2-3	Trial balance	Easy	5 min	Analytic	FN-Measurement	Exl	
Ex2-7	2-1	Normal entries for accounts	Easy	5 min	Analytic	FN-Measurement		
Ex2-8	2-1	Normal balances of accounts	Easy	5 min	Analytic	FN-Measurement		
Ex2-9	2-1	Rules of debit and credit	Easy	5 min	Analytic	FN-Measurement		
Ex2-10	2-1	Capital account balance	Easy	5 min	Analytic	FN-Measurement		
Ex2-11	2-1	Cash account balance	Easy	5 min	Analytic	FN-Measurement		
Ex2-12	2-1	Accounts balances	Moderate	10 min	Analytic	FN-Measurement		
Ex2-13	2-1, 2-2	Transactions	Moderate	15 min	Analytic	FN-Measurement		
Ex2-14	2-1, 2-2	Journalizing and posting	Easy	10 min	Analytic	FN-Measurement		
Ex2-15	2-1, 2-2	Transactions and T accounts	Easy	15 min	Analytic	FN-Measurement	Exl	
Ex2-16	2-3	Trial balance	Moderate	10 min	Analytic	FN-Measurement	Exl	
Ex2-17	2-3	Effect of errors on trial balance	Moderate	10 min	Analytic	FN-Measurement		
Ex2-18	2-3	Errors in trial balance	Difficult	15 min	Analytic	FN-Measurement		
Ex2-19	2-3	Effect of errors on trial balance	Moderate	10 min	Analytic	FN-Measurement		
Ex2-20	2-3	Errors in trial balance	Easy	10 min	Analytic	FN-Measurement		
Ex2-21	2-4	Entries to correct errors	Easy	5 min	Analytic	FN-Measurement		
Ex2-22	2-4	Entries to correct errors	Easy	5 min	Analytic	FN-Measurement		
Pr2-1A	2-1, 2-2, 2-3	Entries into T accounts and trial balance	Moderate	1 1/2 hr	Analytic	FN-Measurement		
Pr2-2A	2-1, 2-2, 2-3	Journal entries and trial balance	Moderate	1 1/2 hr	Analytic	FN-Measurement	Exl	KA
Pr2-3A	2-1, 2-2, 2-3	Journal entries and trial balance	Moderate	1 1/2 hr	Analytic	FN-Measurement	Exl	KA
Pr2-4A	2-1, 2-2, 2-3	Journal entries and trial balance	Moderate	2 hr	Analytic	FN-Measurement	Exl	KA
Pr2-5A	2-3,2-4	Errors in trial balance	Difficult	2 hr	Analytic	FN-Measurement		
Pr2-6A	2-3	Corrected trial balance	Difficult	1 1/2 hr	Analytic	FN-Measurement	Exl	
Pr2-1B	2-1, 2-2, 2-3	Entries into T accounts and trial balance	Moderate	1 1/2 hr	Analytic	FN-Measurement		
Pr2-2B	2-1, 2-2, 2-3	Journal entries and trial balance	Moderate	1 1/2 hr	Analytic	FN-Measurement	Exl	KA
Pr2-3B	2-1, 2-2, 2-3	Journal entries and trial balance	Moderate	1 1/2 hr	Analytic	FN-Measurement	Exl	KA
Pr2-4B	2-1, 2-2, 2-3	Journal entries and trial balance	Moderate	2 hr	Analytic	FN-Measurement	Exl	KA
Pr2-5B	2-3, 2-4	Errors in trial balance	Difficult	2 hr	Analytic	FN-Measurement		
Pr2-6B	2-3	Corrected trial balance	Difficult	1 1/2 hr	Analytic	FN-Measurement	Exl	
DM-2		Continuing Problem						KA
SA2-1	2-3	Ethics and professional conduct in business	Easy	5 min	Ethics	BB-Industry		
SA2-2	2-1	Account for revenue	Easy	5 min	Analytic	FN-Measurement		
SA2-3	2-1	Record transactions	Easy	5 min	Analytic	FN-Measurement		

Number	Objective	Description	Difficulty	Time	AACSB	AICPA	SS	GL
SA2-4	2-1	Debits and credits	Easy	15 min	Analytic	FN-Measurement		
SA2-5	2-1, 2-2	Transactions and income statement	Moderate	1 hr	Analytic	FN-Measurement		
SA2-6	1-1	Opportunities for accountants	Easy	15 min	Reflective Thinking	FN-Research		

EYE OPENERS

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 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. Liabilities and owner's equity both have rights or claims to assets as indicated by the accounting equation, $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$. Therefore, the same rules of debit and credit apply to both liabilities and owner's equity.
4.
 - a. Decrease in owner's equity
 - b. Increase in expense
5.
 - a. Increase in owner's equity
 - b. Increase in revenue
6.
 - a. Assuming no errors have occurred, the credit balance in the cash account resulted from drawing checks for \$2,500 in excess of the amount of cash on deposit.
 - b. The \$2,500 credit balance in the cash account as of January 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.
7.
 - a. The revenue was earned in February.
 - b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in February.
(2) Debit Cash and credit Accounts Receivable in March.
8. The trial balance is a proof of the equality of the debits and the credits in the ledger.
9. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.
10. The listing of \$21,630 is a transposition; the listing of \$15,000 is a slide.
11.
 - 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 credit total of the trial balance to exceed the debit total by \$450.
12.
 - 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 \$5,000, and net income would be understated by \$5,000. On the statement of owner's equity, the beginning and ending capital would be correct. However, net income and withdrawals would be understated by \$5,000. These understatements offset one another, and, thus, ending owner's equity is correct. The balance sheet is not affected by the error.
13.
 - a. The equality of the trial balance would not be affected.
 - b. On the income statement, revenues (fees earned) would be overstated by \$80,000, and net income would be overstated by \$80,000. On the statement of owner's equity, the beginning capital would be correct. However, net income and ending capital would be overstated by \$80,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by \$80,000, and owner's equity is overstated by \$80,000. The understatement of liabilities is offset by the overstatement of owner's equity, and, thus, total liabilities and owner's equity is correct.
14. The preferred procedure is to journalize and post a correcting entry debiting Accounts Payable and crediting Cash.
15.
 - a. From the viewpoint of Peachtree Storage, the balance of the checking account represents an asset.
 - b. From the viewpoint of Buckhead Savings Bank, the balance of the checking account represents a liability.

PRACTICE EXERCISES

PE 2-1A

Nov. 23	Office Equipment	13,750	
	Cash.....		5,000
	Accounts Payable		8,750

PE 2-1B

Mar. 13	Office Supplies.....	6,500	
	Cash.....		1,300
	Accounts Payable.....		5,200

PE 2-2A

Feb. 2	Accounts Receivable.....	6,300	
	Fees Earned		6,300

PE 2-2B

Jan. 21	Cash.....	1,250	
	Fees Earned		1,250

PE 2-3A

Oct. 31	Amy Sykes, Drawing.....	4,500	
	Cash.....		4,500

PE 2-3B

July 31	Paul Wright, Drawing.....	7,250	
	Cash.....		7,250

PE 2–4A

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

PE 2–4B

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

PE 2–5A

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

Cash			
Apr. 1 Bal.	18,750	219,140	Cash payments
Cash receipts	?		
Apr. 30 Bal.	22,175		

$$\$22,175 = \$18,750 + \text{Cash receipts} - \$219,140$$

$$\text{Cash receipts} = \$22,175 + \$219,140 - \$18,750 = \$222,565$$

PE 2–5B

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

Supplies			
Jan. 1 Bal.	1,035	|	?
Cash receipts	<u>2,325</u>		Supplies expense
Jan. 31 Bal.	786		

$$\$786 = \$1,035 + \$2,325 - \text{Supplies expense}$$

$$\text{Supplies expense} = \$1,035 + \$2,325 - \$786 = \$2,574$$

PE 2–6A

- a. The totals are equal since both the debit and credit entries were journalized and posted for \$486.
- b. The totals are unequal. The debit total is higher by \$2,260 (\$1,130 + \$1,130).
- c. The totals are unequal. The credit total is higher by \$90 (\$2,540 – \$2,450).

PE 2–6B

- a. The totals are unequal. The credit total is higher by \$300 (\$1,312 – \$1,012).
- b. The totals are equal since both the debit and credit entries were journalized and posted for \$4,500.
- c. The totals are unequal. The credit total is higher by \$1,278 (\$1,420 – \$142).

PE 2-7A

a.	Accounts Payable.....	3,125	
	Accounts Receivable.....		3,125
b.	Advertising Expense	1,500	
	Miscellaneous Expense		1,500
	Advertising Expense	1,500	
	Cash.....		1,500

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.

	Advertising Expense	3,000	
	Miscellaneous Expense		1,500
	Cash.....		1,500

PE 2-7B

a.	Supplies	2,690	
	Office Equipment		2,690
	Supplies	2,690	
	Accounts Payable		2,690

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.

	Supplies	5,380	
	Office Equipment		2,690
	Accounts Payable		2,690
b.	Cash.....	3,750	
	Accounts Receivable.....		3,750

EXERCISES

Ex. 2–1

Balance Sheet Accounts	Income Statement Accounts
<u>Assets</u>	<u>Revenue</u>
Flight Equipment	Cargo and Mail Revenue
Purchase Deposits for Flight Equipment*	Passenger Revenue
Spare Parts and Supplies	<u>Expenses</u>
<u>Liabilities</u>	Aircraft Fuel Expense
Accounts Payable	Commissions***
Air Traffic Liability**	Landing Fees****
<u>Owner's Equity</u>	
None	
*Advance payments on aircraft purchases	
**Passenger ticket sales not yet recognized as revenue	
***Commissions paid to travel agents	
****Fees paid to airports for landing rights	

Ex. 2–2

Account	Account Number
Accounts Payable	21
Accounts Receivable	12
Angie Stowe, Capital	31
Angie Stowe, Drawing	32
Cash	11
Fees Earned	41
Land	13
Miscellaneous Expense	53
Supplies Expense	52
Wages Expense	51

Ex. 2–3

Balance Sheet Accounts		Income Statement Accounts	
	<u>1. Assets</u>		<u>4. Revenue</u>
11	Cash	41	Fees Earned
12	Accounts Receivable		<u>5. Expenses</u>
13	Supplies	51	Wages Expense
14	Prepaid Insurance	52	Rent Expense
15	Equipment	53	Supplies Expense
	<u>2. Liabilities</u>	59	Miscellaneous Expense
21	Accounts Payable		
22	Unearned Rent		
	<u>3. Owner's Equity</u>		
31	Rebecca Wimmer, Capital		
32	Rebecca Wimmer, Drawing		

Note: The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14 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. and b.

Transaction	Account Debited		Account Credited	
	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)	drawing	+	asset	–
(9)	expense	+	asset	–

Ex. 2–5

(1)	Cash	30,000	
	Tosha Lewis, Capital		30,000
(2)	Supplies	1,800	
	Cash		1,800
(3)	Equipment	24,000	
	Accounts Payable		15,000
	Cash		9,000
(4)	Operating Expenses	3,050	
	Cash		3,050
(5)	Accounts Receivable	15,000	
	Service Revenue		15,000
(6)	Accounts Payable	7,500	
	Cash		7,500
(7)	Cash	10,000	
	Accounts Receivable		10,000
(8)	Tosha Lewis, Drawing	2,500	
	Cash		2,500
(9)	Operating Expenses	1,050	
	Supplies		1,050

Ex. 2–6

EOS CO.
Unadjusted Trial Balance
March 31, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	16,150	
Accounts Receivable	5,000	
Supplies	750	
Equipment	24,000	
Accounts Payable		7,500
Tosha Lewis, Capital		30,000
Tosha Lewis, Drawing	2,500	
Service Revenue		15,000
Operating Expenses	<u>4,100</u>	
	<u>52,500</u>	<u>52,500</u>

Ex. 2–7

1. debit and credit (c)
2. debit and credit (c)
3. debit and credit (c)
4. credit only (b)
5. debit only (a)
6. debit only (a)
7. debit only (a)

Ex. 2–8

- | | |
|--|-------------------|
| a. Liability—credit | e. Asset—debit |
| b. Asset—debit | f. Revenue—credit |
| c. Owner’s equity
(Boyd Magnus, Capital)—credit | g. Asset—debit |
| d. Owner’s equity
(Boyd Magnus, Drawing)—debit | h. Expense—debit |
| | i. Asset—debit |
| | j. Expense—debit |

Ex. 2–9

- | | |
|-----------|-----------|
| a. debit | g. debit |
| b. debit | h. credit |
| c. credit | i. credit |
| d. debit | j. debit |
| e. debit | k. credit |
| f. credit | l. credit |

Ex. 2–10

- a. Debit (negative) balance of \$3,700 ($\$21,800 - \$1,500 - \$24,000$). Such a negative balance means that the liabilities of Sarah’s business exceed the assets.
- b. Yes. The balance sheet prepared at December 31 will balance, with Sarah Bredy, Capital, being reported in the owner’s equity section as a negative \$3,700.

Ex. 2–11

- a. The increase of \$166,870 (\$479,250 – \$312,380) in the cash account does not indicate earnings of that amount. Earnings will represent the net change in all assets and liabilities from operating transactions.
- b. \$75,055 (\$241,925 – \$166,870)

Ex. 2–12

- a. \$67,700 (\$11,150 + \$72,300 – \$15,750)
- b. \$117,000 (\$115,000 + \$27,500 – \$25,500)
- c. \$5,100 (\$60,500 – \$77,700 + \$22,300)

Ex. 2–13

2007

Oct. 1	Rent Expense	2,500	
	Cash.....		2,500
3	Advertising Expense	1,100	
	Cash.....		1,100
4	Supplies.....	725	
	Cash.....		725
6	Office Equipment	7,500	
	Accounts Payable.....		7,500
10	Cash.....	3,600	
	Accounts Receivable		3,600
12	Accounts Payable	600	
	Cash.....		600
20	Alfonso Finley, Drawing	1,000	
	Cash.....		1,000
27	Miscellaneous Expense	500	
	Cash.....		500
30	Utilities Expense	195	
	Cash.....		195
31	Accounts Receivable.....	20,150	
	Fees Earned		20,150
31	Utilities Expense	315	
	Cash.....		315

Ex. 2-14

a.

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Date	Description	Post. Ref.	Debit	Credit
2008				
July 27	Supplies	15	1,875	
	Accounts Payable	21		1,875
	Purchased supplies on account.			

b., c., d.

Supplies 15

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
July 1	Balance .....	✓	.....	.....	735	.....
27	.....	38	1,875	.....	2,610	.....

Accounts Payable 21

2008						
July 1	Balance .....	✓	.....	.....	.....	11,380
27	.....	38	.....	1,875	.....	13,255

Ex. 2–15

a.

(1)	Accounts Receivable	13,750	
	Fees Earned		13,750
(2)	Supplies	1,325	
	Accounts Payable		1,325
(3)	Cash	8,150	
	Accounts Receivable		8,150
(4)	Accounts Payable	800	
	Cash		800

b.

Cash		Accounts Payable	
(3)	8,150	(4)	800
		(4)	800
		(2)	1,325
Supplies		Fees Earned	
(2)	1,325		
		(1)	13,750
Accounts Receivable			
(1)	13,750	(3)	8,150

Ex. 2–16

**MATICE CO.
Unadjusted Trial Balance
July 31, 2008**

	<u>Debit Balances</u>	<u>Credit Balances</u>
Cash	52,350	
Accounts Receivable	112,500	
Supplies	6,300	
Prepaid Insurance	9,000	
Land.....	255,000	
Accounts Payable		56,130
Unearned Rent.....		27,000
Notes Payable.....		120,000
Milton Adair, Capital.....		259,920
Milton Adair, Drawing	60,000	
Fees Earned.....		930,000
Wages Expense.....	525,000	
Rent Expense	180,000	
Utilities Expense	124,500	
Supplies Expense	23,700	
Insurance Expense	18,000	
Miscellaneous Expense.....	26,700	
	<u>1,393,050</u>	<u>1,393,050</u>

Ex. 2–17

Inequality of trial balance totals would be caused by errors described in (b) and (d).

Ex. 2–18

AWESOME CO.
Unadjusted Trial Balance
December 31, 2008

	<u>Debit Balances</u>	<u>Credit Balances</u>
Cash	26,750	
Accounts Receivable	49,200	
Prepaid Insurance	16,000	
Equipment.....	150,000	
Accounts Payable		22,360
Unearned Rent.....		8,500
Sean Milner, Capital		164,840
Sean Milner, Drawing.....	20,000	
Service Revenue.....		167,500
Wages Expense.....	84,000	
Advertising Expense.....	14,400	
Miscellaneous Expense.....	2,850	
	<u>363,200</u>	<u>363,200</u>

Ex. 2–19

<u>Error</u>	<u>(a) Out of Balance</u>	<u>(b) Difference</u>	<u>(c) Larger Total</u>
1.	yes	\$5,125	debit
2.	yes	1,350	credit
3.	yes	1,375	debit
4.	yes	18	credit
5.	no	—	—
6.	yes	180	credit
7.	no	—	—

Ex. 2–20

1. The debit column total is added incorrectly. The sum is \$291,750, rather than \$458,250.
2. The trial balance should be dated “for the month ending October 31, 2008,” not for the month of October.
3. The Accounts Receivable balance should be in the debit column.
4. The Accounts Payable balance should be in the credit column.
5. The Nolan Towns, 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:

**HYBRID CO.
Unadjusted Trial Balance
October 31, 2008**

	<u>Debit Balances</u>	<u>Credit Balances</u>
Cash	22,500	
Accounts Receivable	49,200	
Prepaid Insurance	10,800	
Equipment.....	150,000	
Accounts Payable		5,550
Salaries Payable.....		3,750
Nolan Towns, Capital.....		129,600
Nolan Towns, Drawing.....	18,000	
Service Revenue.....		236,100
Salary Expense.....	98,430	
Advertising Expense.....	21,600	
Miscellaneous Expense.....	4,470	
	<u>375,000</u>	<u>375,000</u>

Ex. 2–21

a.	Joel Goodson, Drawing.....	20,000	
	Wages Expense		20,000
b.	Prepaid Rent.....	3,600	
	Cash.....		3,600

Ex. 2–22

a.	Accounts Payable	940	
	Supplies Expense.....		940
	Supplies.....	940	
	Cash.....		940
b.	Cash.....	5,500	
	Fees Earned		2,750
	Accounts Receivable		2,750

PROBLEMS

Prob. 2-1A

1. and 2.

Cash	
(a) 25,000	(b) 2,000
(g) 3,750	(c) 1,500
	(e) 975
	(f) 1,200
	(h) 240
	(i) 2,500
	(j) 450
	(m) 1,500
	(n) <u>280</u>
Bal. 18,105	

Accounts Receivable	
(l) 3,150	

Supplies	
(e) 975	

Prepaid Insurance	
(f) 1,200	

Automobiles	
(c) 16,500	

Equipment	
(d) 6,500	

Notes Payable	
(j) <u>450</u>	(c) <u>15,000</u>
	Bal. 14,550

Accounts Payable	
(i) 2,500	(d) 6,500
	(k) <u>750</u>
	Bal. 4,750

Hannah Knox, Capital	
	(a) 25,000

Professional Fees	
	(g) 3,750
	(l) <u>3,150</u>
	Bal. 6,900

Rent Expense	
(b) 2,000	

Salary Expense	
(m) 1,500	

Automobile Expense	
(n) 280	

Blueprint Expense	
(k) 750	

Miscellaneous Expense	
(h) 240	

Prob. 2-1A Concluded

3.

HANNAH KNOX, ARCHITECT
Unadjusted Trial Balance
July 31, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	18,105	
Accounts Receivable	3,150	
Supplies	975	
Prepaid Insurance	1,200	
Automobiles.....	16,500	
Equipment.....	6,500	
Notes Payable.....		14,550
Accounts Payable		4,750
Hannah Knox, Capital		25,000
Professional Fees		6,900
Rent Expense	2,000	
Salary Expense.....	1,500	
Automobile Expense.....	280	
Blueprint Expense.....	750	
Miscellaneous Expense	240	
	<u>51,200</u>	<u>51,200</u>

Prob. 2–2A

1.

(a)	Cash	15,000	
	Kara Frantz, Capital		15,000
(b)	Rent Expense	2,500	
	Cash		2,500
(c)	Supplies	850	
	Accounts Payable		850
(d)	Accounts Payable	400	
	Cash		400
(e)	Cash	15,750	
	Sales Commissions		15,750
(f)	Automobile Expense	2,400	
	Miscellaneous Expense	600	
	Cash		3,000
(g)	Office Salaries Expense	3,250	
	Cash		3,250
(h)	Supplies Expense	575	
	Supplies		575
(i)	Kara Frantz, Drawing	1,000	
	Cash		1,000

Prob. 2–2A Continued

2.

Cash		Sales Commissions	
(a) 15,000	(b) 2,500		(e) 15,750
(e) 15,750	(d) 400		
	(f) 3,000	Office Salaries Expense	
	(g) 3,250	(g) 3,250	
	(i) <u>1,000</u>		
Bal. 20,600			
Supplies		Rent Expense	
(c) <u>850</u>	(h) <u>575</u>	(b) 2,500	
Bal. 275			
Accounts Payable		Automobile Expense	
(d) <u>400</u>	(c) <u>850</u>	(f) 2,400	
	Bal. 450		
Kara Frantz, Capital		Supplies Expense	
	(a) 15,000	(h) 575	
Kara Frantz, Drawing		Miscellaneous Expense	
(i) 1,000		(f) 600	

3.

MUDCAT REALTY
Unadjusted Trial Balance
March 31, 2008

	<u>Debit Balances</u>	<u>Credit Balances</u>
Cash	20,600	
Supplies	275	
Accounts Payable		450
Kara Frantz, Capital		15,000
Kara Frantz, Drawing	1,000	
Sales Commissions		15,750
Office Salaries Expense	3,250	
Rent Expense	2,500	
Automobile Expense	2,400	
Supplies Expense	575	
Miscellaneous Expense	600	
	<u>31,200</u>	<u>31,200</u>

Prob. 2–2A Concluded

- 4. a. \$15,750**
- b. \$9,325**
- c. \$6,425**

Prob. 2–3A

1.

JOURNAL

Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2008				
June 1	Cash	11	18,000	
	Brooks Dodd, Capital	31		18,000
5	Rent Expense	53	2,150	
	Cash	11		2,150
6	Equipment	16	8,500	
	Accounts Payable	22		8,500
8	Truck	18	18,000	
	Cash	11		10,000
	Notes Payable	21		8,000
10	Supplies	13	1,200	
	Cash	11		1,200
12	Cash	11	10,500	
	Fees Earned	41		10,500
15	Prepaid Insurance	14	2,400	
	Cash	11		2,400
23	Accounts Receivable	12	5,950	
	Fees Earned	41		5,950
24	Truck Expense	55	1,000	
	Accounts Payable	22		1,000
29	Utilities Expense	54	1,200	
	Cash	11		1,200
29	Miscellaneous Expense	59	400	
	Cash	11		400
30	Cash	11	3,200	
	Accounts Receivable	12		3,200

Prob. 2–3A Continued

JOURNAL

Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2008				
June 30	Wages Expense.....	51	2,900	
	Cash.....	11		2,900
30	Accounts Payable	22	2,125	
	Cash.....	11		2,125
30	Brooks Dodd, Drawing	32	1,750	
	Cash.....	11		1,750

2.

GENERAL LEDGER

Cash 11

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
June 1	1	18,000		18,000	
5	1		2,150	15,850	
8	1		10,000	5,850	
10	1		1,200	4,650	
12	1	10,500		15,150	
15	1		2,400	12,750	
29	2		1,200	11,550	
29	2		400	11,150	
30	2	3,200		14,350	
30	2		2,900	11,450	
30	2		2,125	9,325	
30	2		1,750	7,575	

Accounts Receivable

12

2008						
June 23	.....	1	5,950		5,950	
30	.....	2		3,200	2,750	

Prob. 2–3A Continued

Supplies **13**

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
June 10	1	1,200	.....	1,200	.....

Prepaid Insurance **14**

2008						
June 15	.....	1	2,400	.....	2,400	.....

Equipment **16**

2008						
June 6	.....	1	8,500	.....	8,500	.....

Truck **18**

2008						
June 8	.....	1	18,000	.....	18,000	.....

Notes Payable **21**

2008						
June 8	.....	1	.....	8,000	.....	8,000

Accounts Payable **22**

2008						
June 6	.....	1	.....	8,500	.....	8,500
24	.....	1	.....	1,000	.....	9,500
30	.....	2	2,125	.....	.....	7,375

Brooks Dodd, Capital **31**

2008						
June 1	.....	1	.....	18,000	.....	18,000

Brooks Dodd, Drawing **32**

2008						
June 30	.....	2	1,750	.....	1,750	.....

Prob. 2–3A Continued

Fees Earned 41

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
June 12	1	.....	10,500	.....	10,500
23	1	.....	5,950	.....	16,450

Wages Expense 51

2008						
June 30	.....	2	2,900	.....	2,900	.....

Rent Expense 53

2008						
June 5	.....	1	2,150	.....	2,150	.....

Utilities Expense 54

2008						
June 29	.....	2	1,200	.....	1,200	.....

Truck Expense 55

2008						
June 24	.....	1	1,000	.....	1,000	.....

Miscellaneous Expense 59

2008						
June 29	.....	2	400	.....	400	.....

Prob. 2–3A Concluded

3.

COORDINATED DESIGNS
Unadjusted Trial Balance
June 30, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	7,575	
Accounts Receivable	2,750	
Supplies	1,200	
Prepaid Insurance	2,400	
Equipment.....	8,500	
Truck	18,000	
Notes Payable.....		8,000
Accounts Payable		7,375
Brooks Dodd, Capital.....		18,000
Brooks Dodd, Drawing	1,750	
Fees Earned.....		16,450
Wages Expense.....	2,900	
Rent Expense	2,150	
Utilities Expense	1,200	
Truck Expense.....	1,000	
Miscellaneous Expense	400	
	<u>49,825</u>	<u>49,825</u>

Prob. 2–4A

2. and 3.

JOURNAL

Pages 18 and 19

Date	Description	Post. Ref.	Debit	Credit
2008				
Nov. 1	Rent Expense	52	5,000	
	Cash	11		5,000
2	Office Supplies	14	1,750	
	Accounts Payable	21		1,750
5	Prepaid Insurance	13	4,800	
	Cash	11		4,800
10	Cash	11	52,000	
	Accounts Receivable	12		52,000
15	Land	16	90,000	
	Cash	11		10,000
	Notes Payable	23		80,000
17	Accounts Payable	21	7,750	
	Cash	11		7,750
20	Accounts Payable	21	250	
	Office Supplies	14		250
23	Advertising Expense	53	2,100	
	Cash	11		2,100
27	Cash	11	700	
	Salary and Commission Expense	51		700
28	Automobile Expense	54	1,500	
	Cash	11		1,500
29	Miscellaneous Expense	59	450	
	Cash	11		450
30	Accounts Receivable	12	48,400	
	Fees Earned	41		48,400
30	Salary and Commission Expense	51	25,000	
	Cash	11		25,000
30	Ashley Carnes, Drawing	32	8,000	
	Cash	11		8,000
30	Cash	11	2,500	
	Unearned Rent	22		2,500

Prob. 2–4A Continued

1. and 3.

Cash 11

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
Nov. 1	Balance .....	✓	.....	.....	26,300	.....
1	18	.....	5,000	21,300	.....
5	18	.....	4,800	16,500	.....
10	18	.52,000	.....	68,500	.....
15	18	.....	10,000	58,500	.....
17	18	.....	7,750	50,750	.....
23	18	.....	2,100	48,650	.....
27	19	700	.....	49,350	.....
28	19	.....	1,500	47,850	.....
29	19	.....	450	47,400	.....
30	19	.....	25,000	22,400	.....
30	19	.....	8,000	14,400	.....
30	19	2,500	.....	16,900	.....

Accounts Receivable 12

2008						
Nov. 1	Balance .....	✓	.....	.....	67,500	.....
10	.....	18	.....	52,000	15,500	.....
30	.....	19	.48,400	.....	63,900	.....

Prepaid Insurance 13

2008						
Nov. 1	Balance .....	✓	.....	.....	3,000	.....
5	.....	18	4,800	.....	7,800	.....

Office Supplies 14

2008						
Nov. 1	Balance .....	✓	.....	.....	1,800	.....
2	.....	18	1,750	.....	3,550	.....
20	.....	18	.....	250	3,300	.....

Land 16

2008						
Nov. 15	.....	18	.90,000	.....	90,000	.....

Prob. 2–4A Continued

Accounts Payable 21

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
Nov. 1	Balance .....	✓	.....	.....	.....	13,020
2	.....	18	.....	1,750	.....	14,770
17	.....	18	7,750	.....	.....	7,020
20	.....	18	250	.....	.....	6,770

Unearned Rent 22

2008						
Nov. 30	.....	19	.....	2,500	.....	2,500

Notes Payable 23

2008						
Nov. 15	.....	18	.....	80,000	.....	80,000

Ashley Carnes, Capital 31

2008						
Nov. 1	Balance .....	✓	.....	.....	.....	32,980

Ashley Carnes, Drawing 32

2008						
Nov. 1	Balance .....	✓	.....	.....	2,000	.....
30	.....	19	8,000	.....	10,000	.....

Fees Earned 41

2008						
Nov. 1	Balance .....	✓	.....	.....	.....	260,000
30	.....	19	.....	48,400	.....	308,400

Salary and Commission Expense 51

2008						
Nov. 1	Balance .....	✓	.....	.....	148,200	.....
27	.....	19	.....	700	147,500	.....
30	.....	19	.25,000	.....	172,500	.....

Prob. 2–4A Continued

Rent Expense 52

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
Nov. 1	Balance .....	✓	.....	.....	30,000	.....
1	.....	18	5,000	.....	35,000	.....

Advertising Expense 53

2008						
Nov. 1	Balance .....	✓	.....	.....	17,800	.....
23	.....	18	2,100	.....	19,900	.....

Automobile Expense 54

2008						
Nov. 1	Balance .....	✓	.....	.....	5,500	.....
28	.....	19	1,500	.....	7,000	.....

Miscellaneous Expense 59

2008						
Nov. 1	Balance .....	✓	.....	.....	3,900	.....
29	.....	19	450	.....	4,350	.....

Prob. 2–4A Concluded

4.

PASSPORT REALTY
Unadjusted Trial Balance
November 30, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	16,900	
Accounts Receivable	63,900	
Prepaid Insurance	7,800	
Office Supplies	3,300	
Land.....	90,000	
Accounts Payable		6,770
Unearned Rent.....		2,500
Notes Payable.....		80,000
Ashley Carnes, Capital		32,980
Ashley Carnes, Drawing	10,000	
Fees Earned.....		308,400
Salary and Commission Expense	172,500	
Rent Expense	35,000	
Advertising Expense	19,900	
Automobile Expense.....	7,000	
Miscellaneous Expense	4,350	
	<u>430,650</u>	<u>430,650</u>

Prob. 2–5A

- | | | |
|---|--------|--------------------|
| 1. Totals of preliminary trial balance: | Debit | <u>\$39,224.40</u> |
| | Credit | <u>\$38,336.50</u> |
| 2. Difference between preliminary trial balance totals: | | <u>\$887.90</u> |
| 3. Errors in trial balance: | | |
| (a) Supplies debit balance was listed as \$979.90 instead of \$997.90. | | |
| (b) Notes Payable credit balance of \$6,500.00 was listed as debit balance. | | |
| (c) Martin Tresp, Drawing debit balance of \$1,350.00 was listed as credit balance. | | |
| (d) Miscellaneous Expense of \$283.50 was omitted. | | |
| 4. Errors in account balances: | | |
| (a) Accounts Payable balance of \$1,077.50 was totaled as \$1,225.90. | | |
| 5. Errors in posting: | | |
| (a) Prepaid Insurance entry of July 9 for \$144.00 was posted as \$1,440.00 (slide). | | |
| (b) Land entry of July 10 for \$12,000.00 was posted as \$1,200.00 (slide). | | |
| (c) Cash entry of July 25 for \$1,681.30 was posted as \$1,683.10 (transposition). | | |
| (d) Wages Expense entry of July 31 for \$1,390.00 was posted as \$1,930.00 (transposition). | | |
| 6. July 31 Advertising Expense..... | 53 | 125.00 |
| Cash..... | 11 | 125.00 |

Prob. 2–5A Concluded

7.

MAINSTAY TV REPAIR
Unadjusted Trial Balance
July 31, 20—

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	8,791.00	
Supplies	997.90	
Prepaid Insurance	395.50	
Land.....	26,625.00	
Notes Payable.....		6,500.00
Accounts Payable		1,077.50
Martin Tresp, Capital.....		27,760.20
Martin Tresp, Drawing	1,350.00	
Service Revenue.....		8,000.40
Wages Expense.....	2,518.60	
Utilities Expense	436.60	
Advertising Expense.....	400.00	
Rent Expense	1,540.00	
Miscellaneous Expense	283.50	
	<u>43,338.10</u>	<u>43,338.10</u>

Prob. 2–6A

1.

**IBERIAN CARPET
Unadjusted Trial Balance
March 31, 2008**

	<u>Debit Balances</u>	<u>Credit Balances</u>
Cash	6,400*	
Accounts Receivable	13,720	
Supplies	2,500	
Prepaid Insurance	1,230	
Equipment.....	56,000	
Notes Payable.....		33,600
Accounts Payable		8,800
Jose Mendrano, Capital.....		34,900
Jose Mendrano, Drawing.....	18,000	
Fees Earned.....		122,700
Wages Expense.....	70,000	
Rent Expense	16,600	
Advertising Expense.....	7,200	
Gas, Electricity, and Water Expense	6,900	
Miscellaneous Expense	<u>1,450</u>	
	<u>200,000</u>	<u>200,000</u>

*\$4,300 + \$3,000 (a) – \$900 (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.

Prob. 2–1B

1. and 2.

Cash			
(a)	22,500	(b)	4,000
(g)	6,500	(c)	2,500
		(d)	1,200
		(f)	1,600
		(h)	1,800
		(i)	300
		(l)	1,500
		(m)	210
		(n)	200
		(o)	<u>250</u>
Bal.	<u>15,440</u>		

Accounts Payable			
(h)	1,800	(e)	5,200
	<u> </u>	(j)	<u>800</u>
		Bal.	4,200

Lynette Moss, Capital	
	(a) 22,500

Professional Fees	
	(g) 6,500
	(k) <u>3,500</u>
Bal.	10,000

Accounts Receivable	
(k)	3,500

Rent Expense	
(c)	2,500

Supplies	
(d)	1,200

Salary Expense	
(l)	1,500

Prepaid Insurance	
(f)	1,600

Blueprint Expense	
(j)	800

Automobiles	
(b)	15,300

Automobile Expense	
(o)	250

Equipment	
(e)	5,200

Miscellaneous Expense	
(i)	300
(m)	<u>210</u>
Bal.	510

Notes Payable			
(n)	<u>200</u>	(b)	<u>11,300</u>
		Bal.	11,100

Prob. 2-1B Concluded

3.

LYNETTE MOSS, ARCHITECT
Unadjusted Trial Balance
April 30, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	15,440	
Accounts Receivable	3,500	
Supplies	1,200	
Prepaid Insurance	1,600	
Automobiles.....	15,300	
Equipment.....	5,200	
Notes Payable.....		11,100
Accounts Payable		4,200
Lynette Moss, Capital		22,500
Professional Fees		10,000
Rent Expense	2,500	
Salary Expense.....	1,500	
Blueprint Expense.....	800	
Automobile Expense.....	250	
Miscellaneous Expense	510	
	<u>47,800</u>	<u>47,800</u>

Prob. 2–2B

1.

(a)	Cash	18,000	
	Bill Bonds, Capital.....		18,000
(b)	Supplies	1,000	
	Accounts Payable.....		1,000
(c)	Cash	14,600	
	Sales Commissions		14,600
(d)	Rent Expense	3,000	
	Cash.....		3,000
(e)	Accounts Payable	600	
	Cash.....		600
(f)	Bill Bonds, Drawing.....	1,500	
	Cash.....		1,500
(g)	Automobile Expense	2,000	
	Miscellaneous Expense	500	
	Cash.....		2,500
(h)	Office Salaries Expense	2,800	
	Cash.....		2,800
(i)	Supplies Expense	725	
	Supplies		725

Prob. 2–2B Continued

2.

Cash			
(a)	18,000	(d)	3,000
(c)	14,600	(e)	600
		(f)	1,500
		(g)	2,500
		(h)	<u>2,800</u>
Bal.	<u>22,200</u>		

Sales Commissions	
	(c) 14,600

Rent Expense	
(d)	3,000

Supplies	
(b)	<u>1,000</u>
Bal.	275

Office Salaries Expense	
(h)	2,800

Accounts Payable	
(e)	<u>600</u>
(b)	<u>1,000</u>
Bal.	400

Automobile Expense	
(g)	2,000

Bill Bonds, Capital	
	(a) 18,000

Supplies Expense	
(i)	725

Bill Bonds, Drawing	
(f)	1,500

Miscellaneous Expense	
(g)	500

Prob. 2–2B Concluded

3.

GENESIS REALTY
Unadjusted Trial Balance
July 31, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	22,200	
Supplies	275	
Accounts Payable		400
Bill Bonds, Capital		18,000
Bill Bonds, Drawing	1,500	
Sales Commissions		14,600
Rent Expense	3,000	
Office Salaries Expense	2,800	
Automobile Expense	2,000	
Supplies Expense	725	
Miscellaneous Expense	500	
	<u>33,000</u>	<u>33,000</u>

4. a. \$14,600
 b. \$9,025
 c. \$5,575

Prob. 2–3B

1.

JOURNAL

Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2008				
Oct. 1	Cash	11	20,000	
	Kristy Gomez, Capital	31		20,000
3	Rent Expense	53	1,600	
	Cash	11		1,600
10	Truck	18	15,000	
	Cash	11		5,000
	Notes Payable	21		10,000
13	Equipment	16	4,500	
	Accounts Payable	22		4,500
14	Supplies	13	1,100	
	Cash	11		1,100
15	Prepaid Insurance	14	2,800	
	Cash	11		2,800
15	Cash	11	6,100	
	Fees Earned	41		6,100
21	Accounts Payable	22	2,400	
	Cash	11		2,400
24	Accounts Receivable	12	8,600	
	Fees Earned	41		8,600
26	Truck Expense	55	875	
	Accounts Payable	22		875
27	Utilities Expense	54	900	
	Cash	11		900
27	Miscellaneous Expense	59	315	
	Cash	11		315

Prob. 2–3B Continued

JOURNAL

Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2008				
Oct. 29	Cash	11	4,100	
	Accounts Receivable	12		4,100
30	Wages Expense	51	2,500	
	Cash	11		2,500
31	Kristy Gomez, Drawing	32	3,000	
	Cash	11		3,000

2.

Cash

11

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
Oct. 1	1	20,000	.....	20,000	.....
3	1	.....	1,600	18,400	.....
10	1	.....	5,000	13,400	.....
14	1	.....	1,100	12,300	.....
15	1	.....	2,800	9,500	.....
15	1	6,100	.....	15,600	.....
21	2	.....	2,400	13,200	.....
27	2	.....	900	12,300	.....
27	2	.....	315	11,985	.....
29	2	4,100	.....	16,085	.....
30	2	.....	2,500	13,585	.....
31	2	.....	3,000	10,585	.....

Accounts Receivable

12

2008						
Oct. 24	.....	2	8,600	.....	8,600	.....
29	.....	2	.....	4,100	4,500	.....

Prob. 2–3B Continued

Supplies **13**

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
Oct. 14	1	1,100	.....	1,100	.....

Prepaid Insurance **14**

2008						
Oct. 15	.....	1	2,800	.....	2,800	.....

Equipment **16**

2008						
Oct. 13	.....	1	4,500	.....	4,500	.....

Truck **18**

2008						
Oct. 10	.....	1	15,000	.....	15,000	.....

Notes Payable **21**

2008						
Oct. 10	.....	1	.....	10,000	.....	10,000

Accounts Payable **22**

2008						
Oct. 13	.....	1	.....	4,500	.....	4,500
21	.....	2	2,400	.....	.....	2,100
26	.....	2	.....	875	.....	2,975

Kristy Gomez, Capital **31**

2008						
Oct. 1	.....	1	.....	20,000	.....	20,000

Kristy Gomez, Drawing **32**

2008						
Oct. 31	.....	2	3,000	.....	3,000	.....

Prob. 2–3B Continued

Fees Earned 41

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
Oct. 15	1	.....	6,100	.....	6,100
24	2	.....	8,600	.....	14,700

Wages Expense 51

2008						
Oct. 30	.....	2	2,500	.....	2,500	.....

Rent Expense 53

2008						
Oct. 3	.....	1	1,600	.....	1,600	.....

Utilities Expense 54

2008						
Oct. 27	.....	2	900	.....	900	.....

Truck Expense 55

2008						
Oct. 26	.....	2	875	.....	875	.....

Miscellaneous Expense 59

2008						
Oct. 27	.....	2	315	.....	315	.....

Prob. 2–3B Concluded

3.

ULTIMATE DESIGNS
Unadjusted Trial Balance
October 31, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	10,585	
Accounts Receivable	4,500	
Supplies	1,100	
Prepaid Insurance	2,800	
Equipment.....	4,500	
Truck	15,000	
Notes Payable.....		10,000
Accounts Payable		2,975
Kristy Gomez, Capital		20,000
Kristy Gomez, Drawing.....	3,000	
Fees Earned.....		14,700
Wages Expense.....	2,500	
Rent Expense	1,600	
Utilities Expense	900	
Truck Expense.....	875	
Miscellaneous Expense	315	
	<u>47,675</u>	<u>47,675</u>

Prob. 2–4B

2. and 3.

JOURNAL

Pages 18 and 19

Date	Description	Post. Ref.	Debit	Credit
2008				
Aug. 1	Office Supplies	14	1,500	
	Accounts Payable	21		1,500
2	Rent Expense	52	2,500	
	Cash	11		2,500
3	Cash	11	28,720	
	Accounts Receivable	12		28,720
5	Prepaid Insurance	13	3,600	
	Cash	11		3,600
9	Accounts Payable	21	250	
	Office Supplies	14		250
17	Advertising Expense	53	3,450	
	Cash	11		3,450
23	Accounts Payable	21	2,670	
	Cash	11		2,670
29	Miscellaneous Expense	59	500	
	Cash	11		500
30	Automobile Expense	54	1,500	
	Cash	11		1,500
31	Cash	11	1,000	
	Salary and Commission Expense	51		1,000
31	Salary and Commission Expense	51	17,400	
	Cash	11		17,400
31	Accounts Receivable	12	51,900	
	Fees Earned	41		51,900
31	Land	16	75,000	
	Cash	11		10,000
	Notes Payable	23		65,000
31	Jody Craft, Drawing	32	5,000	
	Cash	11		5,000
31	Cash	11	2,000	
	Unearned Rent	22		2,000

Prob. 2–4B Continued

1. and 3.

Cash 11

Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2008							
Aug. 1	Balance .....	✓	.....	.....	21,200	.....
2	18	.....	2,500	18,700	.....
3	18	28,720	.....	47,420	.....
5	18	.....	3,600	43,820	.....
17	18	.....	3,450	40,370	.....
23	18	.....	2,670	37,700	.....
29	19	.....	500	37,200	.....
30	19	.....	1,500	35,700	.....
31	19	1,000	.....	36,700	.....
31	19	.....	17,400	19,300	.....
31	19	.....	10,000	9,300	.....
31	19	.....	5,000	4,300	.....
31	19	2,000	.....	6,300	.....

Accounts Receivable 12

2008							
Aug. 1	Balance .....	✓	.....	.....	35,750	.....
3	.....	18	.....	28,720	7,030	.....
31	.....	19	51,900	.....	58,930	.....

Prepaid Insurance 13

2008							
Aug. 1	Balance .....	✓	.....	.....	4,500	.....
5	.....	18	3,600	.....	8,100	.....

Office Supplies 14

2008							
Aug. 1	Balance .....	✓	.....	.....	1,000	.....
1	.....	18	1,500	.....	2,500	.....
9	.....	18	.....	250	2,250	.....

Land 16

2008							
Aug. 31	19	75,000	75,000	

Prob. 2–4B Continued

Accounts Payable 21

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
Aug. 1	Balance .....	✓	.....	.....	.....	6,200
1	.....	18	.....	1,500	.....	7,700
9	.....	18	250	.....	.....	7,450
23	.....	18	2,670	.....	.....	4,780

Unearned Rent 22

2008						
Aug. 31	.....	19	.....	2,000	.....	2,000

Notes Payable 23

2008						
Aug. 31	.....	19	.....	65,000	.....	65,000

Jody Craft, Capital 31

2008						
Aug. 1	Balance .....	✓	.....	.....	.....	31,550

Jody Craft, Drawing 32

2008						
Aug. 1	Balance .....	✓	.....	.....	16,000	.....
31	.....	19	5,000	.....	21,000	.....

Fees Earned 41

2008						
Aug. 1	Balance .....	✓	.....	.....	.....	220,000
31	.....	19	.....	51,900	.....	271,900

Salary and Commission Expense 51

2008						
Aug. 1	Balance .....	✓	.....	.....	140,000	.....
31	.....	19	.....	1,000	139,000	.....
31	.....	19	17,400	.....	156,400	.....

Prob. 2-4B Continued

Rent Expense 52

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
Aug. 1	Balance .....	✓	.....	.....	17,500	.....
2	.....	18	2,500	.....	20,000	.....

Advertising Expense 53

2008						
Aug. 1	Balance .....	✓	.....	.....	14,300	.....
17	.....	18	3,450	.....	17,750	.....

Automobile Expense 54

2008						
Aug. 1	Balance .....	✓	.....	.....	6,400	.....
30	.....	19	1,500	.....	7,900	.....

Miscellaneous Expense 59

2008						
Aug. 1	Balance .....	✓	.....	.....	1,100	.....
29	.....	19	500	.....	1,600	.....

Prob. 2–4B Concluded

4.

EQUITY REALTY
Unadjusted Trial Balance
August 31, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	6,300	
Accounts Receivable	58,930	
Prepaid Insurance	8,100	
Office Supplies	2,250	
Land.....	75,000	
Accounts Payable		4,780
Unearned Rent.....		2,000
Notes Payable.....		65,000
Jody Craft, Capital.....		31,550
Jody Craft, Drawing	21,000	
Fees Earned.....		271,900
Salary and Commission Expense	156,400	
Rent Expense	20,000	
Advertising Expense	17,750	
Automobile Expense.....	7,900	
Miscellaneous Expense	1,600	
	<u>375,230</u>	<u>375,230</u>

Prob. 2–5B

- | | | |
|---|-------------------------|------------------------------|
| 1. Totals of preliminary trial balance: | Debit | <u>\$39,224.40</u> |
| | Credit | <u>\$38,336.50</u> |
| 2. Difference between preliminary trial balance totals: | | <u>\$887.90</u> |
| 3. Errors in trial balance: | | |
| (a) Supplies debit balance was listed as \$979.90 instead of \$997.90. | | |
| (b) Notes Payable credit balance of \$6,500.00 was listed as debit balance. | | |
| (c) Martin Tresp, Drawing debit balance of \$1,350.00 was listed as credit balance. | | |
| (d) Miscellaneous Expense of \$283.50 was omitted. | | |
| 4. Errors in account balances: | | |
| (a) Accounts Payable balance of \$1,077.50 was totaled as \$1,225.90. | | |
| 5. Errors in posting: | | |
| (a) Prepaid Insurance entry of July 9 for \$144.00 was posted as \$1,440.00 (slide). | | |
| (b) Land entry of July 10 for \$12,000.00 was posted as \$1,200.00 (slide). | | |
| (c) Cash entry of July 25 for \$1,681.30 was posted as \$1,683.10 (transposition). | | |
| (d) Wages Expense entry of July 31 for \$1,390.00 was posted as \$1,930.00 (transposition). | | |
| 6. July 31 | Utilities Expense | 53 110.00 |
| | Cash..... | 11 110.00 |

Prob. 2–5B Concluded

7.

MAINSTAY TV REPAIR
Unadjusted Trial Balance
July 31, 20—

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	8,806.00	
Supplies	997.90	
Prepaid Insurance	395.50	
Land.....	26,625.00	
Notes Payable.....		6,500.00
Accounts Payable		1,077.50
Martin Tresp, Capital.....		27,760.20
Martin Tresp, Drawing	1,350.00	
Service Revenue.....		8,000.40
Wages Expense.....	2,518.60	
Utilities Expense	546.60	
Advertising Expense.....	275.00	
Rent Expense	1,540.00	
Miscellaneous Expense.....	283.50	
	<u>43,338.10</u>	<u>43,338.10</u>

Prob. 2–6B

1.

EPIC VIDEO
Unadjusted Trial Balance
July 31, 2008

	<u>Debit</u> <u>Balances</u>	<u>Credit</u> <u>Balances</u>
Cash	6,750*	
Accounts Receivable	15,300	
Supplies	2,250	
Prepaid Insurance	1,710	
Equipment.....	54,000	
Notes Payable.....		18,000
Accounts Payable		5,580
Carlton Dey, Capital		32,400
Carlton Dey, Drawing	13,500	
Fees Earned.....		178,020
Wages Expense.....	102,000	
Rent Expense	20,850	
Advertising Expense.....	9,450	
Gas, Electricity, and Water Expense	5,670	
Miscellaneous Expense	2,520	
	<u>234,000</u>	<u>234,000</u>

*\$6,250 – \$5,000 (a) + \$5,500 (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.

CONTINUING PROBLEM

2. and 3.

JOURNAL

Page 1

Date	Description	Post. Ref.	Debit	Credit
2008				
May 1	Cash	11	2,500	
	Kris Payne, Capital	31		2,500
1	Office Rent Expense	51	1,600	
	Cash	11		1,600
1	Prepaid Insurance	15	3,360	
	Cash	11		3,360
2	Cash	11	1,350	
	Accounts Receivable	12		1,350
3	Cash	11	4,800	
	Unearned Revenue	23		4,800
3	Accounts Payable	21	250	
	Cash	11		250
4	Miscellaneous Expense	59	300	
	Cash	11		300
5	Office Equipment	17	5,000	
	Accounts Payable	21		5,000
8	Advertising Expense	55	180	
	Cash	11		180
11	Cash	11	750	
	Fees Earned	41		750
13	Equipment Rent Expense	52	500	
	Cash	11		500
14	Wages Expense	50	1,000	
	Cash	11		1,000

Continuing Problem Continued

2. and 3.

JOURNAL

Page 2

Date	Description	Post. Ref.	Debit	Credit
2008				
May 16	Cash	11	1,500	
	Fees Earned	41		1,500
18	Supplies	14	750	
	Accounts Payable	21		750
21	Music Expense	54	325	
	Cash	11		325
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	560	
	Cash	11		560
28	Wages Expense	50	1,000	
	Cash	11		1,000
29	Miscellaneous Expense	59	150	
	Cash	11		150
30	Cash	11	400	
	Accounts Receivable	12	1,100	
	Fees Earned	41		1,500
31	Cash	11	2,800	
	Fees Earned	41		2,800
31	Music Expense	54	900	
	Cash	11		900
31	Kris Payne, Drawing	32	1,000	
	Cash	11		1,000

Continuing Problem Continued

1. and 3.

Cash

11

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
May 1	Balance	✓			9,160	
1	1	2,500		11,660	
1	1		1,600	10,060	
1	1		3,360	6,700	
2	1	1,350		8,050	
3	1	4,800		12,850	
3	1		250	12,600	
4	1		300	12,300	
8	1		180	12,120	
11	1	750		12,870	
13	1		500	12,370	
14	1		1,000	11,370	
16	2	1,500		12,870	
21	2		325	12,545	
22	2		800	11,745	
23	2	750		12,495	
27	2		560	11,935	
28	2		1,000	10,935	
29	2		150	10,785	
30	2	400		11,185	
31	2	2,800		13,985	
31	2		900	13,085	
31	2		1,000	12,085	

Accounts Receivable

12

2008						
May 1	Balance	✓			1,350	
2	.....	1		1,350	—	—
23	.....	2	1,750		1,750	
30	.....	2	1,100		2,850	

Supplies

14

2008						
May 1	Balance	✓			170	
18	.....	2	750		920	

Prepaid Insurance

15

2008						
May 1	.....	1	3,360		3,360	

Continuing Problem Continued

Office Equipment 17

Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2008							
May 5	1	5,000	.....	5,000	.....

Accumulated Depreciation—Office Equipment 18

This account is not used in Chapter 2.

Accounts Payable 21

2008							
May 1	Balance .....	✓	.....	.....	.....	.....	250
3	.....	1	250	.....	—	—
5	.....	1	.....	5,000	.....	5,000	
18	.....	2	.....	750	.....	5,750	

Wages Payable 22

This account is not used in Chapter 2.

Unearned Revenue 23

2008							
May 3	.....	1	.....	4,800	.....	4,800	

Kris Payne, Capital 31

2008							
May 1	Balance .....	✓	.....	.....	.....	.....	10,000
1	.....	1	.....	2,500	.....	12,500	

Kris Payne, Drawing 32

2008							
May 1	Balance .....	✓	.....	.....	300	.....
31	.....	2	1,000	.....	1,300	.....

Income Summary 33

This account is not used in Chapter 2.

Fees Earned 41

2008							
May 1	Balance .....	✓	.....	.....	.....	.....	5,700
11	.....	1	.....	750	.....	6,450	
16	.....	2	.....	1,500	.....	7,950	
23	.....	2	.....	2,500	.....	10,450	
30	.....	2	.....	1,500	.....	11,950	
31	.....	2	.....	2,800	.....	14,750	

Continuing Problem Continued

Wages Expense 50

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2008						
May 1	Balance .....	✓	.....	.....	400	.....
14	.....	1	1,000	.....	1,400	.....
28	.....	2	1,000	.....	2,400	.....

Office Rent Expense 51

2008						
May 1	Balance .....	✓	.....	.....	1,000	.....
1	.....	1	1,600	.....	2,600	.....

Equipment Rent Expense 52

2008						
May 1	Balance .....	✓	.....	.....	800	.....
13	.....	1	500	.....	1,300	.....

Utilities Expense 53

2008						
May 1	Balance .....	✓	.....	.....	350	.....
27	.....	2	560	.....	910	.....

Music Expense 54

2008						
May 1	Balance .....	✓	.....	.....	1,340	.....
21	.....	2	325	.....	1,665	.....
31	.....	2	900	.....	2,565	.....

Advertising Expense 55

2008						
May 1	Balance .....	✓	.....	.....	750	.....
8	.....	1	180	.....	930	.....
22	.....	2	800	.....	1,730	.....

Supplies Expense 56

2008						
May 1	Balance .....	✓	.....	.....	180	.....

Insurance Expense 57

This account is not used in Chapter 2.

Continuing Problem Concluded

Depreciation Expense 58

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.

This account is not used in Chapter 2.

Miscellaneous Expense 59

2008						
May	1	Balance .....	✓	.....	.....	150
	4	.....	1	300	.....	450
	29	.....	2	150	.....	600

4.

**DANCIN MUSIC
Unadjusted Trial Balance
May 31, 2008**

	<u>Debit Balances</u>	<u>Credit Balances</u>
Cash	12,085	
Accounts Receivable	2,850	
Supplies	920	
Prepaid Insurance	3,360	
Office Equipment	5,000	
Accounts Payable		5,750
Unearned Revenue		4,800
Kris Payne, Capital		12,500
Kris Payne, Drawing	1,300	
Fees Earned		14,750
Wages Expense	2,400	
Office Rent Expense	2,600	
Equipment Rent Expense	1,300	
Utilities Expense	910	
Music Expense	2,565	
Advertising Expense	1,730	
Supplies Expense	180	
Miscellaneous Expense	600	
	<u>37,800</u>	<u>37,800</u>

SPECIAL ACTIVITIES

SA 2-1

Acceptable ethical conduct requires that Tomas look for the difference. If Tomas cannot find the difference within a reasonable amount of time, he should confer with his supervisor as to what action should be taken so that the financial statements can be prepared by the 5 o'clock deadline. Tomas's responsibility to his employer is to act with integrity, objectivity, and due care, so that users of the financial statements will not be misled.

SA 2-2

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

Cash	XXXX	
Unearned Tuition Deposits		XXXX

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.

SA 2-3

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 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 upon the need.

SA 2–4

1. The rules of debit and credit must be memorized. Miguel 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. Since the current rules of debit and credit have been used for centuries, Miguel should adapt to the current rules of debit and credit, rather than devise his 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 both (1) the rules of debit and credit and (2) the accounting equation, guarantees that (1) debits always equals credits and (2) assets always equals liabilities plus owner's equity. If all increases in the account were recorded by debits, then the control that debits always equals credits would be removed. In addition, the control that the normal balance of assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

Miguel is correct that we could call the left and right sides of an account different terms, such as "LE" or "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, number of returns, etc. 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.

SA 2–5

- 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 Birdie Caddy Service:

Balance Sheet Accounts		Income Statement Accounts	
	<u>1. Assets</u>		<u>4. Revenue</u>
11	Cash	41	Service Revenue
12	Accounts Receivable		
13	Supplies		<u>5. Expenses</u>
	<u>2. Liabilities</u>	51	Rent Expense
21	Accounts Payable	52	Supplies Expense
	<u>3. Owner's Equity</u>	53	Wages Expense
31	Shane Raburn, Capital	54	Utilities Expense
32	Shane Raburn, Drawing	55	Miscellaneous Expense

b.

BIRDIE CADDY SERVICE
Income Statement
For Month Ended June 30, 2008

Service revenue.....	\$7,200
Expenses:	
Rent expense.....	\$2,000
Supplies expense.....	810
Wages expense.....	450
Utilities expense.....	160
Miscellaneous expense.....	<u>180</u>
Total expenses.....	<u>3,600</u>
Net income.....	<u>\$3,600</u>

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 Birdie 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.

SA 2–5 Continued

Cash		11	
2008		2008	
June 1	2,000	June 1	500
15	3,150	2	650
30	3,200	3	750
30	550	17	350
		20	750
		28	180
		30	160
		30	<u>450</u>
Bal.	<u>5,110</u>		

Service Revenue		41	
2008		2008	
June 15	3,150	June 15	3,150
25	850	25	850
30	<u>3,200</u>	30	<u>3,200</u>
Bal.	7,200	Bal.	7,200

Rent Expense		51	
2008		2008	
June 1	500	June 1	500
3	<u>1,500</u>	3	<u>1,500</u>
Bal.	2,000	Bal.	2,000

Accounts Receivable		12	
2008		2008	
June 25	<u>850</u>	June 30	<u>550</u>
Bal.	300		

Supplies Expense		52	
2008		2008	
June 30	810	June 30	810

Supplies		13	
2008		2008	
June 2	650	June 30	810
7	350		
22	<u>200</u>		
Bal.	390		

Wages Expense		53	
2008		2008	
June 30	450	June 30	450

Utilities Expense		54	
2008		2008	
June 30	160	June 30	160

Accounts Payable		21	
2008		2008	
June 17	350	June 3	750
20	750	7	350
		22	<u>200</u>
		Bal.	200

Miscellaneous Expense		55	
2008		2008	
June 28	180	June 28	180

Shane Raburn, Capital		31	
2008		2008	
June 1	2,000	June 1	2,000

SA 2–5 Concluded

c. **\$5,110, computed in the following manner:**

Cash receipts:		
Initial investment.....	\$2,000	
Cash sales	6,350	
Collections on accounts	550	
Total cash receipts during June.....		\$8,900
Cash disbursements:		
Rent expense	\$2,000	
Supplies purchased for cash.....	650	
Wages expense.....	450	
Payment for supplies on account.....	350	
Utilities expense	160	
Miscellaneous expense.....	180	
Total cash disbursements during June		<u>3,790</u>
Cash on hand according to records.....		<u>\$5,110*</u>

***If the student used T accounts in completing part (b), or this part, this amount (\$5,110) should agree with the balance of the cash account.**

d. **The difference of \$130 between the cash on hand according to records (\$5,110) and the cash on hand according to the count (\$4,980) could be due to many factors, including errors in the record keeping and withdrawals made by Shane.**

SA 2–6

Note to Instructors: The purpose of this activity is to familiarize students with the job opportunities available in accounting or in fields that require (or prefer) the employee to have some knowledge of accounting.

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 Personal Trainer 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.

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

1. Describe the characteristics of an account and record transactions using a chart of accounts and journal.
2. Describe and illustrate the posting of journal entries to accounts.
3. Prepare an unadjusted trial balance and explain how it can be used to discover errors.
4. Discover and correct errors in recording transactions.

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?
- 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 alphabetic order?
- Why aren’t increases (+) always a debit and decreases (-) always a credit? Wouldn’t that make more sense?
- Why can 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 recompute 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?

OBJECTIVE 1

Describe the characteristics of an account and record transactions using a chart of accounts and journal.

KEY TERMS

Account	Journal
Assets	Journal Entry
Balance of Account	Journalizing
Chart of Accounts	Ledger
Credit	Liabilities
Debit	Owner's Equity
Double Entry Accounting	Revenues
Drawing	T Accounts
Expenses	

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. This separation will make it easier to prepare financial statements. TM 2-1 can be used to highlight this change.

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.

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

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

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

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

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

K/A SOFTWARE—Chart of Accounts

K/A general ledger software problems all have Charts of Accounts already designed that students may view when they are working a problem.

INTERNET ACTIVITY—Chart of Accounts

There are organizations that post recommended charts of accounts on the Internet so your students can see some real-world examples. For example, the American Booksellers Association provides a suggested chart of accounts for its members. They also provide an extensive explanation of why a standard chart of accounts is helpful. The web address is:

<http://www.ambook.org/misc/member/scoatext.html>

Another standard chart of accounts is provided by North Carolina Schools. Of course, this chart of accounts is set up to facilitate governmental fund accounting, so it may require some explanation. The web address is:

<http://www.ncpublicshools.org/fbs/coa>

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

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.

$$\begin{array}{c}
 \text{Assets} \\
 \hline
 + \quad | \quad - \\
 \hline
 \end{array}
 =
 \begin{array}{c}
 \text{Liabilities} \\
 \hline
 - \quad | \quad + \\
 \hline
 \end{array}
 +
 \begin{array}{c}
 \text{Owner's Equity} \\
 \hline
 - \quad | \quad + \\
 \hline
 \end{array}$$

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.

Although this is the most simplistic approach, some students become very confused by the treatment of the drawings 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.

“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.

<u>A</u> fter <u>E</u> ating <u>D</u> inner,	<u>L</u> et's <u>R</u> ead the <u>C</u> omics
Accounts increased with a debit:	Accounts increased with a credit:
<u>A</u> ssets	<u>L</u> iabilitys
<u>E</u> xpenses	<u>R</u> evenues
<u>D</u> rawings	<u>C</u> apital

“ALICE” Approach 2: 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

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

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

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

LECTURE AID—Double Entry Accounting

To help the student understand the effect of Double Entry Accounting, it can be helpful to illustrate examples of some 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
	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	Increase	Increase

IN-CLASS AND HOMEWORK ASSIGNMENT CHART

Objective 1. Describe the characteristics of an account and record transactions using a chart of accounts and journal.			
Key Learning Outcomes	Example Exercises (In-class)	Practice Exercises (In-class or Homework)	Other End-of-Chapter Activities (Homework)
Prepare a chart of accounts for a proprietorship.			EO 1, EX 2-1, EX 2-2, EX 2-3, SA 2-5
Prepare journal entries.	2-1, 2-2, 2-3	2-1A, 2-1B, 2-2A, 2-2B, 2-3A, 2-3B	EX 2-13, EX 2-14, EX 2-15, PR 2-2A, PR 2-2B, PR 2-3A, PR 2-3B, PR 2-4A, PR 2-4B, SA 2-2
Record journal entries in T accounts.			EO 7, EX 2-4, EX 2-5, EX 2-7, PR 2-1A, PR 2-1B, Continuing Problem, SA 2-3
List the rules of debit and credit.	2-4	2-4A, 2-4B	EO 2, EO 3, EO 4, EO 5, EX 2-9, SA 2-4
Determine the normal balance for accounts.	2-4	2-4A, 2-4B,	EO 6, EO 15, EX 2-8, EX 2-10, EX 2-11, EX 2-12

OBJECTIVE 2

Describe and illustrate the posting of journal entries to accounts.

KEY TERMS

- Posting
- Two-Column Journal
- Unearned Revenue

SUGGESTED APPROACH

At this point, it is time to introduce your students to the standard journal and four-column ledger formats. 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.

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

1. **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. **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.
3. **Blank Lines:** A blank line should separate all transactions in a manual journal to make them easier to read. Computerized systems are normally designed to separate journal entries without special input.

It is also helpful to emphasize the importance of using 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 indentation of the names of accounts credited is not necessary because Debits and Credits are recorded in separate columns.

DEMONSTRATION PROBLEM—The Ledger

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

WRITING EXERCISE—The Journal and the Ledger

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

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

GROUP LEARNING ACTIVITY—The Journal and the Ledger

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

IN-CLASS AND HOMEWORK ASSIGNMENT CHART

Objective 2. Describe and illustrate the posting of journal entries to accounts.			
Key Learning Outcomes	Example Exercises (In-class)	Practice Exercises (In-class or Homework)	Other End-of-Chapter Activities (Homework)
Post journal entries to a standard account.			PR 2-3A, PR 2-3B, PR 2-4A, PR 2-4B, Continuing Problem
Post journal entries to a T account.	2-5	2-5A, 2-5B	EX 2-5, EX 2-14, EX 2-15, PR 2-1A, PR 2-1B, PR 2-2A, PR 2-2B, SA 2-5

OBJECTIVE 3

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

KEY TERM

Trial Balance

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.

DEMONSTRATION PROBLEM—Preparing a Trial Balance

To demonstrate how to prepare a trial balance, show TM 2-5 (the T accounts from the group learning activity under Objective 3). Ask your students to work in small groups to complete a trial balance using these account balances. TM 2-11 shows the completed trial balance.

GROUP LEARNING ACTIVITY—Errors in a Trial Balance

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

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

1. Re-add the columns of the trial balance to check for math errors. This usually is not a problem with a computerized program.
2. Look for accounts with abnormal balances on the trial balance. This usually points to an error.
3. Compare account balances on the trial balance with those in the ledger. Watch for omitted accounts or transposition errors.
4. Recompute 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 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 77 of the text). These type 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.
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 credit to Fees Earned cause the columns of a trial balance to be unequal? Answer: No.

IN-CLASS AND HOMEWORK ASSIGNMENT CHART

Objective 3. Prepare an unadjusted trial balance and explain how it can be used to discover errors.			
Key Learning Outcomes	Example Exercises (In-class)	Practice Exercises (In-class or Homework)	Other End-of-Chapter Activities (Homework)
Prepare an unadjusted trial balance.	2-6	2-6A, 2-6B	EO 8, EX 2-6, EX 2-16, EX 2-17, EX 2-18, EX 2-19, EX 2-20, PR 2-1A, PR 2-1B, PR 2-2A, PR 2-2B, PR 2-3A, PR 2-3B, PR 2-4A, PR 2-4B, PR 2-5A, PR 2-5B, PR 2-6A, PR 2-6B, Continuing Problem

OBJECTIVE 4

Discover and correct errors in recording transactions.

KEY TERMS

Materiality Concept
Slide
Transposition

SUGGESTED APPROACH

Briefly introduce your students to transpositions and slides by giving an example of each of these errors. For example, recording an entry for \$678 as \$687 is a transposition; recording an entry for \$120 as \$1200 is a slide. Remind students that if either of these errors has occurred and there are no other errors, the difference between the two columns of a trial balance can be evenly divided by 9.

Exhibit 8 in the text summarizes the procedures for correcting errors. Review these procedures with the class.

You can demonstrate the process used to correct improper postings by using TM 2-12. For example, draw a line through the incorrect postings to the capital and fees earned accounts and write in the correct amounts.

The following group learning activity will give students the opportunity to practice correcting journal entries.

GROUP LEARNING ACTIVITY—Correcting Journal Entries

TM 2-14 presents several errors in recording journal entries. These incorrect journal entries have been posted. Divide the class into small groups and ask your students to prepare journal entries to correct these errors.

If your students are having trouble with these entries, suggest the following steps:

1. In T accounts, record the debit and credit for the incorrect journal entry.
2. In T accounts, record what the debit and credit should have been to journalize the entry correctly.
3. Determine what entry must be made to bring the accounts from step 1 in line with what they should be according to step 2.

The solution to this exercise is presented in TM 2-15.

WRITING EXERCISE—Correcting Errors

The following exercise will allow your students to practice both their communication and critical-thinking skills.

The text emphasizes that all errors are corrected either through a correcting journal entry or by drawing a line through the incorrect title or amount.

Pose the following question to your class and ask them to write their response. (This question also appears on TM 2-16.)

Errors may be corrected either by (1) preparing a correcting journal entry or (2) drawing a line through the incorrect account title or amount and writing in the correct information above the error. Why do you think it is not acceptable to simply erase the error and write in the correction?

The text does not address why accountants do not simply erase mistakes, but you as instructor should. Explain that erasing is not allowed in order to prevent improper changes to accounts and to provide an audit trail thus assuring the integrity of the accounting information. In K/A software, you are allowed at times to go back to an entry or amount and just change account numbers or amounts to make corrections. Commercial accounting software normally has safeguards to prevent changes without leaving an audit trail. The complexity of these safeguards depends on the software itself.

IN-CLASS AND HOMEWORK ASSIGNMENT CHART

Objective 4. Discover and correct errors in recording transactions.			
Key Learning Outcomes	Example Exercises (In-class)	Practice Exercises (In-class or Homework)	Other End-of-Chapter Activities (Homework)
Discover errors in journalizing, posting, or preparing the trial balance.			EO 9, EO 10, EO 11, EO 12, PR 2-5A, PR 2-5B, SA 2-6
Prepare correcting entries for errors that have been journalized and posted.	2-7	2-7A, 2-7B	EO 13, EO 14, EX 2-21, EX 2-22

ETHICS

IN-CLASS AND HOMEWORK ASSIGNMENT CHART

Ethics			
Key Learning Outcomes	Example Exercises <i>(In-class)</i>	Practice Exercises <i>(In-class or Homework)</i>	Other End-of-Chapter Activities <i>(Homework)</i>
			SA 2-1