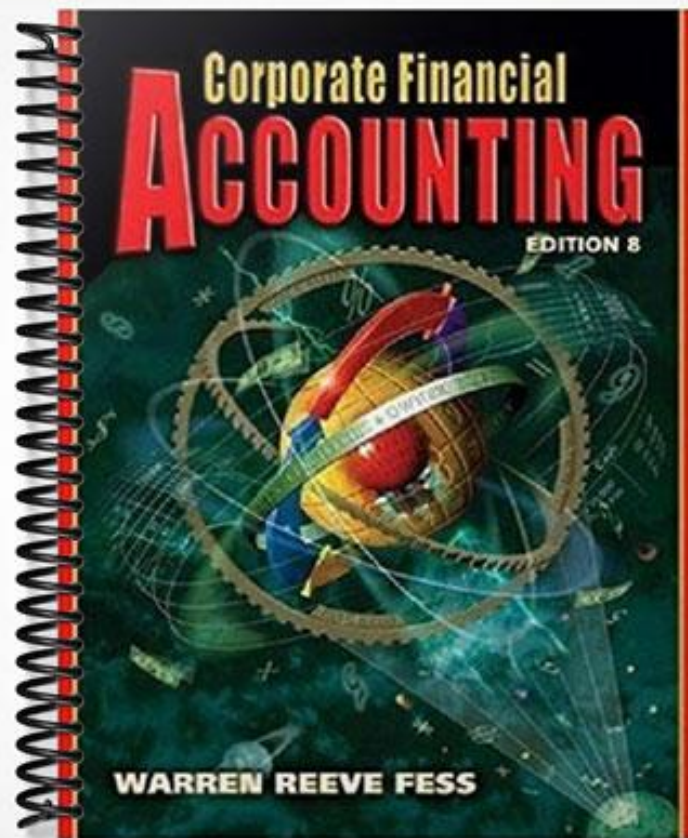


SOLUTIONS MANUAL



CHAPTER 2 ANALYZING TRANSACTIONS

CLASS DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, stockholders' equity, revenue, or expense. A ledger is a group of related accounts.
2. The terms *debit* and *credit* may signify either an increase or decrease, depending upon the nature of the account. For example, debits signify an increase in asset, expense, and dividends accounts but a decrease in liability, capital stock, retained earnings, and revenue accounts.
3. Creditors and owners both have rights or claims to assets as indicated by the accounting equation, $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$. Therefore, the same rules of debit and credit apply to both liabilities and stockholders' equity.
4.
 - a. Decrease in retained earnings
 - b. Increase in expense
5.
 - a. Increase in retained earnings
 - b. Increase in revenue
6.
 - a. Assuming no errors have occurred, the credit balance in the cash account resulted from drawing checks for \$3,000 in excess of the amount of cash on deposit.
 - b. The \$3,000 credit balance in the cash account as of August 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 May.
 - b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in May.
(2) Debit Cash and credit Accounts Receivable in June.
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 \$18,590 is a transposition; the listing of \$720 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 \$270.
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 \$7,500, and net income would be understated by \$7,500. On the retained earnings statement, the beginning and ending retained earnings would be correct. However, net income and dividends would be understated by \$7,500. These understatements offset one another, and thus, ending retained earnings is correct. The balance sheet is not affected by the error.
13.
 - a. The equality of the trial balance would not be affected.
 - b. On the income statement, revenues (fees earned) would be overstated by \$25,000, and net income would be overstated by \$25,000. On the retained earnings statement, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by \$25,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by \$25,000, and retained earnings is overstated by \$25,000. The understatement of liabilities is offset by the overstatement of retained earnings, and thus, total liabilities and stockholders' equity is correct.
14. The preferred procedure is to journalize and post a correcting entry debiting Accounts Receivable and crediting Accounts Payable.



15. a. From the viewpoint of Kennon Storage, the balance of the checking account represents an asset.
- b. From the viewpoint of Livingston Savings Bank, the balance of the checking account represents a liability.

EXERCISES

Ex. 2-1

Balance Sheet Accounts	Income Statement Accounts
<p style="text-align: center;"><u>Assets</u></p> <p>Flight Equipment</p> <p>Purchase Deposits for Flight Equipment*</p> <p>Spare Parts and Supplies</p> <p style="text-align: center;"><u>Liabilities</u></p> <p>Accounts Payable</p> <p>Air Traffic Liability**</p> <p style="text-align: center;"><u>Owners' (Stockholders') Equity</u></p> <p>None</p>	<p style="text-align: center;"><u>Revenue</u></p> <p>Cargo and Mail Revenue</p> <p>Passenger Revenue</p> <p style="text-align: center;"><u>Expenses</u></p> <p>Aircraft Fuel Expense</p> <p>Commissions***</p> <p>Landing Fees****</p>

* 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
Capital Stock	31
Cash	11
Dividends	33
Fees Earned	41
Land	13
Miscellaneous Expense	53
Supplies Expense	52
Wages Expense	51

Ex. 2-3

	<u>1. Assets</u>		<u>4. Revenue</u>
11	Cash	41	Fees Earned
12	Accounts Receivable		
13	Supplies		<u>5. Expenses</u>
14	Prepaid Insurance	51	Wages Expense
15	Equipment	52	Rent Expense
		53	Supplies Expense
		59	Miscellaneous Expense
	<u>2. Liabilities</u>		
21	Accounts Payable		
22	Unearned Rent		
	<u>3. Owners' (Stockholders') Equity</u>		
31	Capital Stock		
32	Retained Earnings		
33	Dividends		

Note: The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14 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	<u>Account Debited</u>		<u>Account Credited</u>	
	Type	Effect	Type	Effect
(1)	asset	+	capital stock	+
(2)	asset	+	asset	-
(3)	asset	+	asset	-
			liability	+
(4)	expense	+	asset	-
(5)	asset	+	revenue	+
(6)	liability	-	asset	-
(7)	asset	+	asset	-
(8)	dividends	+	asset	-
(9)	expense	+	asset	-

Ex. 2-5

(1)	Cash	40,000	
	Capital Stock.....		40,000
(2)	Supplies	2,800	
	Cash.....		2,800
(3)	Equipment	24,000	
	Accounts Payable.....		15,000
	Cash.....		9,000
(4)	Operating Expenses	3,050	
	Cash.....		3,050
(5)	Accounts Receivable	12,000	
	Service Revenue.....		12,000
(6)	Accounts Payable	7,500	
	Cash.....		7,500
(7)	Cash	9,500	
	Accounts Receivable		9,500
(8)	Dividends.....	5,000	
	Cash.....		5,000
(9)	Operating Expenses	1,050	
	Supplies		1,050

Ex. 2-6

JME CO.
Trial Balance
February 28, 2006

Cash	22,150	
Accounts Receivable	2,500	
Supplies	1,750	
Equipment.....	24,000	
Accounts Payable		7,500
Capital Stock		40,000
Dividends	5,000	
Service Revenue.....		12,000
Operating Expenses	<u>4,100</u>	
	<u>59,500</u>	<u>59,500</u>

Ex. 2-7

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

Ex. 2-8

- | | |
|--------------------------------|------------------|
| a. Liability—credit | f. Asset—debit |
| b. Asset—debit | g. Expense—debit |
| c. Asset—debit | h. Asset—debit |
| d. Stockholders' equity—credit | i. Expense—debit |
| e. Revenue—credit | |

Ex. 2-9

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

Ex. 2-10

- a. Debit (negative) balance of \$500 ($\$20,500 - \$4,000 - \$17,000$).
- b. Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the stockholders' equity section as a negative \$500.

Ex. 2-11

- a. The increase of \$28,750 in the cash account does not indicate earnings of that amount. Other assets may have increased or decreased, and liabilities and capital stock may have increased or decreased.
- b. \$7,550 (\$36,300 – \$28,750)

Ex. 2-12

- a. \$40,550 (\$7,850 + \$41,850 – \$9,150)
- b. \$63,000 (\$61,000 + \$17,500 – \$15,500)
- c. \$20,800 (\$40,500 – \$57,700 + \$38,000)

Ex. 2-13

2005

Aug. 1	Rent Expense	1,225	
	Cash.....		1,225
2	Advertising Expense	700	
	Cash.....		700
4	Supplies.....	1,110	
	Cash.....		1,110
6	Office Equipment	7,500	
	Accounts Payable.....		7,500
8	Cash	3,600	
	Accounts Receivable		3,600
12	Accounts Payable	1,150	
	Cash.....		1,150
20	Dividends.....	1,000	
	Cash.....		1,000
25	Miscellaneous Expense	500	
	Cash.....		500
30	Utilities Expense	195	
	Cash.....		195
31	Accounts Receivable	10,150	
	Fees Earned		10,150
31	Utilities Expense	380	
	Cash.....		380

Ex. 2-14

a.

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Date	Description	Post. Ref.	Debit	Credit
2006				
Oct. 27	Supplies	15	1,800	
	Accounts Payable	21		1,800
	Purchased supplies on account.			

b., c., d.

Supplies 15

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Oct. 1	Balance	✓			600	
27	.....	43	1,800		2,400	

Accounts Payable 21

2006						
Oct. 1	Balance	✓				6,150
27	.....	43		1,800		7,950

Ex. 2-15

a.

(1)	Accounts Receivable	14,400	
	Fees Earned		14,400
(2)	Supplies	1,250	
	Accounts Payable		1,250
(3)	Cash	7,275	
	Accounts Receivable		7,275
(4)	Accounts Payable	750	
	Cash		750

b.

Cash				Accounts Payable						
(3)	7,275	|	(4)	750	|	(4)	750	|	(2)	1,250
Supplies				Fees Earned						
(2)	1,250	|			|	(1)	14,400			
Accounts Receivable										
(1)	14,400	|	(3)	7,275						

Ex. 2-16

**WILLIAMS CO.
 Trial Balance
 March 31, 2006**

Cash	18,740	
Accounts Receivable	37,500	
Supplies	2,100	
Prepaid Insurance	3,000	
Land.....	85,000	
Accounts Payable		20,000
Unearned Rent.....		9,000
Notes Payable.....		40,000
Capital Stock		50,000
Retained Earnings.....		36,640
Dividends	20,000	
Fees Earned.....		310,000
Wages Expense.....	175,000	
Rent Expense	60,000	
Utilities Expense	41,500	
Supplies Expense	7,900	
Insurance Expense	6,000	
Miscellaneous Expense	8,900	
	<u>465,640</u>	<u>465,640</u>

Ex. 2-17

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

Ex. 2-18

WHIPPETT CO.
Trial Balance
December 31, 2006

Cash	13,375	
Accounts Receivable	25,500	
Prepaid Insurance	8,000	
Equipment.....	75,000	
Accounts Payable		12,080
Unearned Rent.....		4,250
Capital Stock		25,000
Retained Earnings.....		57,420
Dividends	10,000	
Service Revenue.....		83,750
Wages Expense.....	42,000	
Advertising Expense.....	7,200	
Miscellaneous Expense	1,425	
	<u>182,500</u>	<u>182,500</u>

Ex. 2-19

Error	(a) Out of Balance	(b) Difference	(c) Larger Total
1.	yes	\$1,250	debit
2.	yes	18	credit
3.	yes	4,175	debit
4.	yes	800	credit
5.	no	—	—
6.	yes	180	credit
7.	no	—	—

Ex. 2-20

1. The debit column total is added incorrectly. The sum is \$100,110, rather than \$149,890.
2. The trial balance should be dated January 31, 2006, not for the month of January.
3. The Accounts Receivable balance should be in the debit column.
4. The Accounts Payable balance should be in the credit column.
5. The Dividends balance should be in the debit column.
6. The Advertising Expense balance should be in the debit column.

A corrected trial balance would be as follows:

**COUGAR CO.
Trial Balance
January 31, 2006**

Cash	7,500	
Accounts Receivable	16,400	
Prepaid Insurance	6,460	
Equipment.....	50,000	
Accounts Payable		1,850
Salaries Payable		1,250
Capital Stock		5,000
Retained Earnings.....		38,200
Dividends	6,000	
Service Revenue.....		78,700
Salary Expense.....	32,810	
Advertising Expense	4,340	
Miscellaneous Expense	1,490	
	<u>125,000</u>	<u>125,000</u>

Ex. 2-21

a.	Dividends.....	5,000	
	Wages Expense		5,000
b.	Prepaid Rent.....	450	
	Cash.....		450

Ex. 2-22

a.	Supplies.....	100	
	Accounts Payable.....		100
	Equipment	100	
	Miscellaneous Expense		100
b.	Cash	7,500	
	Unearned Revenue		3,750
	Accounts Receivable		3,750

Ex. 2-23

- a. 1. Net sales: \$4,694 million increase (\$58,247 – \$53,553)
 8.8% increase ($\$4,694 \div \$53,553$)
- 2. Total operating expenses: \$1,063 million increase (\$12,278 – \$11,215)
 9.5% increase ($\$1,063 \div \$11,215$)
- b. During the year ending February 2, 2003, the percent increase in total operating expenses (9.5%) is more than the percent increase in net sales (8.8%), an unfavorable trend.

Ex. 2-24

a.

KMART CORPORATION
Income Statement
For the Years Ending January 31, 2000 and 1999
(in millions)

	<u>2000</u>	<u>1999</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
1. Sales	\$ 37,028	\$ 35,925	\$ 1,103	3.1%
2. Cost of sales	(29,658)	(28,111)	1,547	5.5%
3. Selling, general, and admin. expenses	<u>(7,415)</u>	<u>(6,514)</u>	<u>901</u>	13.8%
4. Operating income (loss) before taxes	<u>\$ (45)</u>	<u>\$ 1,300</u>	<u>\$(1,345)</u>	(103.5%)

b. The horizontal analysis of Kmart Corporation reveals deteriorating operating results from 1999 to 2000. While sales increased by \$1,103 million, a 3.1% increase, cost of sales increased by \$1,547 million, a 5.5% increase. Selling, general, and administrative expenses also increased by \$901 million, a 13.8% increase. The end result was that operating income decreased by \$1,345 million, over a 100% decrease, and created a \$45 million loss in 2000. Little over a year later, Kmart filed for bankruptcy protection. It has now emerged from bankruptcy, hoping to return to profitability.

PROBLEMS

Prob. 2-1A

1. and 2.

Cash			
(a)	17,500	(b)	4,000
(g)	3,725	(c)	1,250
10,360	21,225	(d)	660
		(f)	1,200
		(h)	1,800
		(i)	235
		(l)	1,300
		(m)	105
		(n)	200
		(o)	115
			10,865

Accounts Payable			
(h)	1,800	(e)	5,200
		(j)	650
		4,050	5,850
Capital Stock			
		(a)	17,500
Professional Fees			
		(g)	3,725
		(k)	3,500
			7,225

Accounts Receivable	
(k)	3,500

Rent Expense	
(c)	1,250

Supplies	
(d)	660

Salary Expense	
(l)	1,300

Prepaid Insurance	
(f)	1,200

Blueprint Expense	
(j)	650

Automobiles	
(b)	19,700

Automobile Expense	
(o)	115

Equipment	
(e)	5,200

Miscellaneous Expense	
(i)	235
(m)	105
	340

Notes Payable			
(n)	200	(b)	15,700
			15,500

Prob. 2-1A Concluded

3.

LUKE KELSEY, ARCHITECT, P.C.
Trial Balance
April 30, 2006

Cash	10,360	
Accounts Receivable	3,500	
Supplies	660	
Prepaid Insurance	1,200	
Automobiles.....	19,700	
Equipment.....	5,200	
Notes Payable.....		15,500
Accounts Payable		4,050
Capital Stock		17,500
Professional Fees		7,225
Rent Expense	1,250	
Salary Expense.....	1,300	
Blueprint Expense.....	650	
Automobile Expense.....	115	
Miscellaneous Expense	340	
	<u>44,275</u>	<u>44,275</u>

Prob. 2–2A

1.

(a)	Cash.....	12,000	
	Capital Stock.....		12,000
(b)	Supplies.....	850	
	Accounts Payable.....		850
(c)	Cash.....	12,600	
	Sales Commissions		12,600
(d)	Rent Expense.....	2,000	
	Cash.....		2,000
(e)	Accounts Payable.....	450	
	Cash.....		450
(f)	Dividends.....	1,500	
	Cash.....		1,500
(g)	Automobile Expense	1,700	
	Miscellaneous Expense	375	
	Cash.....		2,075
(h)	Office Salaries Expense	3,000	
	Cash.....		3,000
(i)	Supplies Expense.....	605	
	Supplies		605

Prob. 2–2A Concluded

2.

Cash		Sales Commissions	
(a) 12,000	(d) 2,000		(c) 12,600
(c) 12,600	(e) 450		
15,575 24,600	(f) 1,500		
	(g) 2,075	Rent Expense	
	(h) 3,000	(d) 2,000	
	9,025		
Supplies		Office Salaries Expense	
(b) 850	(i) 605	(h) 3,000	
245			
Accounts Payable		Automobile Expense	
(e) 450	(b) 850	(g) 1,700	
	400		
Capital Stock		Supplies Expense	
	(a) 12,000	(i) 605	
Dividends		Miscellaneous Expense	
(f) 1,500		(g) 375	

3.

**STAR REALTY
Trial Balance
March 31, 2006**

Cash	15,575	
Supplies	245	
Accounts Payable		400
Capital Stock		12,000
Dividends	1,500	
Sales Commissions		12,600
Rent Expense	2,000	
Office Salaries Expense	3,000	
Automobile Expense	1,700	
Supplies Expense	605	
Miscellaneous Expense	375	
	<u>25,000</u>	<u>25,000</u>

4. a. \$12,600
b. \$7,680
c. \$4,920

Prob. 2–3A

1.

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Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2006				
July 1	Cash	11	18,000	
	Capital Stock	31		18,000
5	Rent Expense	53	1,500	
	Cash	11		1,500
10	Truck	18	15,000	
	Cash	11		5,000
	Notes Payable	21		10,000
13	Equipment	16	5,400	
	Accounts Payable	22		5,400
14	Supplies	13	975	
	Cash	11		975
15	Prepaid Insurance	14	3,000	
	Cash	11		3,000
15	Cash	11	4,100	
	Fees Earned	41		4,100
21	Accounts Payable	22	2,400	
	Cash	11		2,400
24	Accounts Receivable	12	6,100	
	Fees Earned	41		6,100
26	Truck Expense	55	580	
	Accounts Payable	22		580
27	Utilities Expense	54	950	
	Cash	11		950
27	Miscellaneous Expense	59	315	
	Cash	11		315

Prob. 2–3A Continued

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Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2006				
July 29	Cash	11	3,420	
	Accounts Receivable	12		3,420
30	Wages Expense	51	3,000	
	Cash	11		3,000
31	Dividends	33	2,000	
	Cash	11		2,000

2.

Cash 11

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
July 1	1	18,000		18,000	
5	1		1,500	16,500	
10	1		5,000	11,500	
14	1		975	10,525	
15	1		3,000	7,525	
15	1	4,100		11,625	
21	2		2,400	9,225	
27	2		950	8,275	
27	2		315	7,960	
29	2	3,420		11,380	
30	2		3,000	8,380	
31	2		2,000	6,380	

Accounts Receivable 12

2006						
July 24	.....	2	6,100		6,100	
29	.....	2		3,420	2,680	

Prob. 2–3A Continued

Supplies							13
Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2006							
July 14	1	975	.....	975	.....
Prepaid Insurance							14
2006							
July 15	1	3,000	.....	3,000	.....
Equipment							16
2006							
July 13	1	5,400	.....	5,400	.....
Truck							18
2006							
July 10	1	15,000	.....	15,000	.....
Notes Payable							21
2006							
July 10	1	.....	10,000	.....	10,000	
Accounts Payable							22
2006							
July 13	1	.....	5,400	.....	5,400	
21	2	2,400	.....	.....	3,000	
26	2	.....	580	.....	3,580	
Capital Stock							31
2006							
July 1	1	.....	18,000	.....	18,000	
Dividends							33
2006							
July 31	2	2,000	.....	2,000	.....

Prob. 2–3A Continued

Fees Earned 41

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
July 15	1	.....	4,100	.....	4,100
24	2	.....	6,100	.....	10,200

Wages Expense 51

2006						
July 30	.....	2	3,000	.....	3,000	.....

Rent Expense 53

2006						
July 5	.....	1	1,500	.....	1,500	.....

Utilities Expense 54

2006						
July 27	.....	2	950	.....	950	.....

Truck Expense 55

2006						
July 26	.....	2	580	.....	580	.....

Miscellaneous Expense 59

2006						
July 27	.....	2	315	.....	315	.....

Prob. 2–3A Concluded

3.

GREAT LOOKS DESIGNS
Trial Balance
July 31, 2006

Cash	6,380	
Accounts Receivable	2,680	
Supplies	975	
Prepaid Insurance	3,000	
Equipment.....	5,400	
Truck	15,000	
Notes Payable.....		10,000
Accounts Payable		3,580
Capital Stock		18,000
Dividends	2,000	
Fees Earned.....		10,200
Wages Expense.....	3,000	
Rent Expense	1,500	
Utilities Expense	950	
Truck Expense.....	580	
Miscellaneous Expense	315	
	<u>41,780</u>	<u>41,780</u>

Prob. 2-4A

2. and 3.

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Pages 18 and 19

Date	Description	Post. Ref.	Debit	Credit
2006				
Aug. 1	Office Supplies	14	1,760	
	Accounts Payable	21		1,760
2	Rent Expense	52	3,000	
	Cash	11		3,000
3	Cash	11	50,000	
	Accounts Receivable	12		50,000
5	Prepaid Insurance	13	3,600	
	Cash	11		3,600
9	Accounts Payable	21	240	
	Office Supplies	14		240
17	Advertising Expense	53	3,450	
	Cash	11		3,450
23	Accounts Payable	21	2,670	
	Cash	11		2,670
29	Miscellaneous Expense	59	350	
	Cash	11		350
30	Automobile Expense	54	1,360	
	Cash	11		1,360
31	Cash	11	800	
	Salary and Commission Expense	51		800
31	Salary and Commission Expense	51	17,400	
	Cash	11		17,400
31	Accounts Receivable	12	41,900	
	Fees Earned	41		41,900
31	Land	16	75,000	
	Cash	11		10,000
	Notes Payable	22		65,000
31	Dividends	33	2,500	
	Cash	11		2,500

Prob. 2–4A Continued

1. and 3.

Cash **11**

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Aug. 1	Balance	✓			51,200	
2	18		3,000	48,200	
3	18	50,000		98,200	
5	18		3,600	94,600	
17	18		3,450	91,150	
23	18		2,670	88,480	
29	19		350	88,130	
30	19		1,360	86,770	
31	19	800		87,570	
31	19		17,400	70,170	
31	19		10,000	60,170	
31	19		2,500	57,670	
31	19	1,500		59,170	

Accounts Receivable **12**

2006						
Aug. 1	Balance	✓			65,750	
3	.....	18		50,000	15,750	
31	.....	19	41,900		57,650	

Prepaid Insurance **13**

2006						
Aug. 1	Balance	✓			2,800	
5	.....	18	3,600		6,400	

Office Supplies **14**

2006						
Aug. 1	Balance	✓			1,000	
1	.....	18	1,760		2,760	
9	.....	18		240	2,520	

Land **16**

2006						
Aug. 31	.....	19	75,000		75,000	

Prob. 2–4A Continued

Accounts Payable 21

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Aug. 1	Balance .....	✓	.....	.....	.....	5,200
1	.....	18	.....	1,760	.....	6,960
9	.....	18	240	.....	.....	6,720
23	.....	18	2,670	.....	.....	4,050

Notes Payable 22

2006						
Aug. 31	.....	19	.....	65,000	.....	65,000

Capital Stock 31

2006						
Aug. 1	Balance .....	✓	.....	.....	.....	8,000

Retained Earnings 32

2006						
Aug. 1	Balance .....	✓	.....	.....	.....	31,700

Dividends 33

2006						
Aug. 1	Balance .....	✓	.....	.....	16,000	.....
31	.....	19	2,500	.....	18,500	.....

Fees Earned 41

2006						
Aug. 1	Balance .....	✓	.....	.....	.....	244,000
31	.....	19	.....	41,900	.....	285,900

Salary and Commission Expense 51

2006						
Aug. 1	Balance .....	✓	.....	.....	113,000	.....
31	.....	19	.....	800	112,200	.....
31	.....	19	17,400	.....	129,600	.....

Prob. 2-4A Continued

Rent Expense 52

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Aug. 1	Balance	✓			17,500	
2	.....	18	3,000		20,500	

Advertising Expense 53

2006						
Aug. 1	Balance	✓			14,300	
17	.....	18	3,450		17,750	

Automobile Expense 54

2006						
Aug. 1	Balance	✓			6,400	
30	.....	19	1,360		7,760	

Miscellaneous Expense 59

2006						
Aug. 1	Balance	✓			950	
29	.....	19	350		1,300	

Prob. 2-4A Concluded

4.

**DOBIE REALTY
 Trial Balance
 August 31, 2006**

Cash	59,170	
Accounts Receivable	57,650	
Prepaid Insurance	6,400	
Office Supplies	2,520	
Land.....	75,000	
Accounts Payable		4,050
Unearned Rent.....		1,500
Notes Payable.....		65,000
Capital Stock		8,000
Retained Earnings.....		31,700
Dividends	18,500	
Fees Earned.....		285,900
Salary and Commission Expense	129,600	
Rent Expense	20,500	
Advertising Expense	17,750	
Automobile Expense.....	7,760	
Miscellaneous Expense	1,300	
	<u>396,150</u>	<u>396,150</u>

Prob. 2–5A

1. Totals of preliminary trial balance:		Debit	<u>\$59,291.40</u>
		Credit	<u>\$45,229.20</u>
2. Difference between preliminary trial balance totals:			<u>\$14,062.20</u>
3. Errors in trial balance:			
(a) Land debit balance was listed as \$26,265.00 instead of \$26,625.00.			
(b) Accounts Payable credit balance of \$1,077.50 was listed as debit balance.			
(c) Wages Expense debit balance of \$2,518.60 was listed as credit balance.			
(d) Advertising Expense of \$275.00 was omitted.			
4. Errors in account balances:			
(a) Dividends balance of \$1,350.00 was totaled as \$1,500.00.			
5. Errors in posting:			
(a) Rent Expense entry of July 1 for \$1,540.00 was posted as \$15,400.00 (slide).			
(b) Cash entry of July 15 for \$1,785.50 was posted as \$1,875.50 (transposition).			
(c) Service Revenue entry of July 31 for \$1,276.10 was posted as \$1,726.10 (transposition).			
(d) Utilities Expense entry of July 30 for \$436.60 was posted as \$4,366.00 (slide).			
6. July 31 Utilities Expense	52	210.00	
Cash	11		210.00

7.

**CYPRESS TV REPAIR
Trial Balance
July 31, 20—**

Cash	8,706.00		
Supplies	997.90		
Prepaid Insurance	395.50		
Land.....	26,625.00		
Notes Payable.....		6,500.00	
Accounts Payable		1,077.50	
Capital Stock		7,500.00	
Retained Earnings.....		20,260.20	
Dividends	1,350.00		
Service Revenue.....		8,000.40	
Wages Expense.....	2,518.60		
Utilities Expense	646.60		
Advertising Expense	275.00		
Rent Expense	1,540.00		
Miscellaneous Expense	283.50		
	<u>43,338.10</u>	<u>43,338.10</u>	

Prob. 2–6A

1.

**SEE-A-LOT VIDEOGRAPHY
Trial Balance
August 31, 2006**

Cash	4,500*	
Accounts Receivable	10,200	
Supplies	1,500	
Prepaid Insurance	1,140	
Equipment.....	36,000	
Notes Payable.....		12,000
Accounts Payable		3,720
Capital Stock		1,000
Retained Earnings.....		20,600
Dividends	9,000	
Fees Earned.....		118,680
Wages Expense.....	68,000	
Rent Expense	13,900	
Advertising Expense.....	6,300	
Gas, Electricity, and Water Expense	3,780	
Miscellaneous Expense	1,680	
	<u>156,000</u>	<u>156,000</u>

*\$4,700 – \$4,400 (a) + \$4,200 (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) 30,000	(b) 450
(g) 2,750	(c) 1,500
23,830	(e) 1,050
	(f) 1,200
	(h) 140
	(i) 3,000
	(j) 450
	(m) 1,000
	(n) 130
	8,920

Accounts Receivable	
(l) 4,150	

Supplies	
(e) 1,050	

Prepaid Insurance	
(f) 1,200	

Automobiles	
(c) 16,500	

Equipment	
(d) 6,500	

Notes Payable	
(j) 450	(c) 15,000
	14,550

Accounts Payable	
(i) 3,000	(d) 6,500
	(k) 525
	4,025
	7,025

Capital Stock	
	(a) 30,000

Professional Fees	
	(g) 2,750
	(l) 4,150
	6,900

Rent Expense	
(b) 450	

Salary Expense	
(m) 1,000	

Automobile Expense	
(n) 130	

Blueprint Expense	
(k) 525	

Miscellaneous Expense	
(h) 140	

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Prob. 2–1B Concluded

3.

CARLA WHITE, ARCHITECT, P.C.
Trial Balance
July 31, 2006

Cash	23,830	
Accounts Receivable	4,150	
Supplies	1,050	
Prepaid Insurance	1,200	
Automobiles.....	16,500	
Equipment.....	6,500	
Notes Payable.....		14,550
Accounts Payable		4,025
Capital Stock		30,000
Professional Fees		6,900
Rent Expense	450	
Salary Expense.....	1,000	
Automobile Expense.....	130	
Blueprint Expense.....	525	
Miscellaneous Expense	140	
	<u>55,475</u>	<u>55,475</u>

Prob. 2–2B

1.

(a)	Cash	15,000	
	Capital Stock.....		15,000
(b)	Rent Expense	2,000	
	Cash.....		2,000
(c)	Supplies.....	500	
	Accounts Payable.....		500
(d)	Accounts Payable	290	
	Cash.....		290
(e)	Cash	10,750	
	Sales Commissions		10,750
(f)	Automobile Expense	1,400	
	Miscellaneous Expense	480	
	Cash.....		1,880
(g)	Office Salaries Expense	2,500	
	Cash.....		2,500
(h)	Supplies Expense	325	
	Supplies		325
(i)	Dividends.....	1,000	
	Cash.....		1,000

Prob. 2–2B Concluded

2.

Cash				Sales Commissions	
(a)	15,000	(b)	2,000		
(e)	10,750	(d)	290		
18,080	25,750	(f)	1,880		
		(g)	2,500	Office Salaries Expense	
		(i)	1,000	(g)	2,500
			7,670		
Supplies				Rent Expense	
(c)	500	(h)	325	(b)	2,000
175					
Accounts Payable				Automobile Expense	
(d)	290	(c)	500	(f)	1,400
		210			
Capital Stock				Supplies Expense	
		(a)	15,000	(h)	325
Dividends				Miscellaneous Expense	
(i)	1,000			(f)	480

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3.

**ACADIA REALTY
Trial Balance
January 31, 2006**

Cash	18,080	
Supplies	175	
Accounts Payable		210
Capital Stock		15,000
Dividends	1,000	
Sales Commissions		10,750
Office Salaries Expense	2,500	
Rent Expense	2,000	
Automobile Expense	1,400	
Supplies Expense	325	
Miscellaneous Expense	480	
	<u>25,960</u>	<u>25,960</u>

4. a. \$10,750
b. \$6,705
c. \$4,045

Prob. 2–3B

1.

JOURNAL

Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2006				
Nov. 2	Cash	11	15,000	
	Capital Stock	31		15,000
5	Rent Expense	53	1,750	
	Cash	11		1,750
6	Equipment	16	8,500	
	Accounts Payable	22		8,500
8	Truck	18	18,000	
	Cash	11		5,000
	Notes Payable	21		13,000
10	Supplies	13	1,115	
	Cash	11		1,115
12	Cash	11	7,500	
	Fees Earned	41		7,500
15	Prepaid Insurance	14	1,400	
	Cash	11		1,400
23	Accounts Receivable	12	3,950	
	Fees Earned	41		3,950
24	Truck Expense	55	600	
	Accounts Payable	22		600
29	Utilities Expense	54	750	
	Cash	11		750
29	Miscellaneous Expense	59	310	
	Cash	11		310
30	Cash	11	2,200	
	Accounts Receivable	12		2,200

Prob. 2–3B Continued

JOURNAL

Pages 1 and 2

Date	Description	Post. Ref.	Debit	Credit
2006				
Nov. 30	Wages Expense.....	51	2,700	
	Cash.....	11		2,700
30	Accounts Payable	22	2,125	
	Cash.....	11		2,125
30	Dividends.....	33	1,400	
	Cash.....	11		1,400

2.

GENERAL LEDGER

Cash 11

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Nov. 2	1	15,000		15,000	
5	1		1,750	13,250	
8	1		5,000	8,250	
10	1		1,115	7,135	
12	1	7,500		14,635	
15	1		1,400	13,235	
29	2		750	12,485	
29	2		310	12,175	
30	2	2,200		14,375	
30	2		2,700	11,675	
30	2		2,125	9,550	
30	2		1,400	8,150	

Accounts Receivable 12

2006						
Nov. 23	.....	1	3,950		3,950	
30	.....	2		2,200	1,750	

Prob. 2–3B Continued

Supplies							13
Date	Item	Post. Ref.	Dr.	Cr.	Balance		
					Dr.	Cr.	
2006							
Nov. 10	1	1,115	.....	1,115	.....
Prepaid Insurance							14
2006							
Nov. 15	1	1,400	.....	1,400	.....
Equipment							16
2006							
Nov. 6	1	8,500	.....	8,500	.....
Truck							18
2006							
Nov. 8	1	18,000	.....	18,000	.....
Notes Payable							21
2006							
Nov. 8	1	.....	8,000	.....	8,000	
Accounts Payable							22
2006							
Nov. 6	1	.....	8,500	.....	8,500	
24	1	.....	600	.....	9,100	
30	2	2,125	.....	.....	6,975	
Capital Stock							31
2006							
Nov. 2	1	.....	15,000	.....	15,000	
Dividends							33
2006							
Nov. 30	2	1,400	.....	1,400	.....

Prob. 2–3B Continued

Fees Earned 41

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Nov. 12	1	.....	7,500	.....	7,500
23	1	.....	3,950	.....	11,450

Wages Expense 51

2006						
Nov. 30	.....	2	2,700	.....	2,700	.....

Rent Expense 53

2006						
Nov. 5	.....	1	1,750	.....	1,750	.....

Utilities Expense 54

2006						
Nov. 29	.....	2	750	.....	750	.....

Truck Expense 55

2006						
Nov. 24	.....	1	600	.....	600	.....

Miscellaneous Expense 59

2006						
Nov. 29	.....	2	310	.....	310	.....

Prob. 2–3B Concluded

3.

DARDING DESIGNS
Trial Balance
November 30, 2006

Cash	8,150	
Accounts Receivable	1,750	
Supplies	1,115	
Prepaid Insurance	1,400	
Equipment.....	8,500	
Truck	18,000	
Notes Payable.....		13,000
Accounts Payable		6,975
Capital Stock		15,000
Dividends	1,400	
Fees Earned.....		11,450
Wages Expense.....	2,700	
Rent Expense	1,750	
Utilities Expense	750	
Truck Expense.....	600	
Miscellaneous Expense	310	
	<u>46,425</u>	<u>46,425</u>

Prob. 2–4B

2. and 3.

JOURNAL

Pages 18 and 19

Date	Description	Post. Ref.	Debit	Credit
2006				
Nov. 1	Rent Expense	52	7,000	
	Cash	11		7,000
2	Office Supplies	14	2,000	
	Accounts Payable	21		2,000
5	Prepaid Insurance	13	4,800	
	Cash	11		4,800
10	Cash	11	47,000	
	Accounts Receivable	12		47,000
15	Land	16	90,000	
	Cash	11		10,000
	Notes Payable	22		80,000
17	Accounts Payable	21	9,100	
	Cash	11		9,100
20	Accounts Payable	21	400	
	Office Supplies	14		400
23	Advertising Expense	53	2,050	
	Cash	11		2,050
27	Cash	11	700	
	Salary and Commission Expense	51		700
28	Automobile Expense	54	1,100	
	Cash	11		1,100
29	Miscellaneous Expense	59	390	
	Cash	11		390
30	Accounts Receivable	12	48,400	
	Fees Earned	41		48,400
30	Salary and Commission Expense	51	24,000	
	Cash	11		24,000
30	Dividends	33	7,500	
	Cash	11		7,500

Prob. 2–4B Continued

1. and 3.

Cash **11**

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Nov. 1	Balance .....	✓	.....	.....	36,300	.....
1	18	.....	7,000	29,300	.....
5	18	.....	4,800	24,500	.....
10	18	47,000	.....	71,500	.....
15	18	.....	10,000	61,500	.....
17	18	.....	9,100	52,400	.....
23	18	.....	2,050	50,350	.....
27	19	700	.....	51,050	.....
28	19	.....	1,100	49,950	.....
29	19	.....	390	49,560	.....
30	19	.....	24,000	25,560	.....
30	19	.....	7,500	18,060	.....
30	19	2,000	.....	.....	20,060

Accounts Receivable **12**

2006						
Nov. 1	Balance .....	✓	.....	.....	97,500	.....
10	.....	18	.....	47,000	50,500	.....
30	.....	19	48,400	.....	98,900	.....

Prepaid Insurance **13**

2006						
Nov. 1	Balance .....	✓	.....	.....	2,200	.....
5	.....	18	4,800	.....	7,000	.....

Office Supplies **14**

2006						
Nov. 1	Balance .....	✓	.....	.....	2,100	.....
2	.....	18	2,000	.....	4,100	.....
20	.....	18	.....	400	3,700	.....

Land **16**

2006						
Nov. 15	.....	18	90,000	.....	90,000	.....

Prob. 2–4B Continued

Accounts Payable 21

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Nov. 1	Balance .....	✓	.....	.....	.....	23,020
2	.....	18	.....	2,000	.....	25,020
17	.....	18	9,100	.....	.....	15,920
20	.....	18	400	.....	.....	15,520

Notes Payable 22

2006						
Nov. 15	.....	18	.....	80,000	.....	80,000

Capital Stock 31

2006						
Nov. 1	Balance .....	✓	.....	.....	.....	20,000

Retained Earnings 32

2006						
Nov. 1	Balance .....	✓	.....	.....	.....	48,680

Dividends 33

2006						
Nov. 1	Balance .....	✓	.....	.....	2,000	.....
30	.....	19	7,500	.....	9,500	.....

Fees Earned 41

2006						
Nov. 1	Balance .....	✓	.....	.....	.....	253,000
30	.....	19	.....	48,400	.....	301,400

Salary and Commission Expense 51

2006						
Nov. 1	Balance .....	✓	.....	.....	148,200	.....
27	.....	19	.....	700	147,500	.....
30	.....	19	24,000	.....	171,500	.....

Prob. 2–4B Continued

Rent Expense 52

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
Nov. 1	Balance	✓			30,000	
1	.....	18	7,000		37,000	

Advertising Expense 53

2006						
Nov. 1	Balance	✓			17,800	
23	.....	18	2,050		19,850	

Automobile Expense 54

2006						
Nov. 1	Balance	✓			5,500	
28	.....	19	1,100		6,600	

Miscellaneous Expense 59

2006						
Nov. 1	Balance	✓			3,100	
29	.....	19	390		3,490	

Prob. 2-4B Concluded

4.

**BOOMER REALTY
 Trial Balance
 November 30, 2006**

Cash	20,060	
Accounts Receivable	98,900	
Prepaid Insurance	7,000	
Office Supplies	3,700	
Land.....	90,000	
Accounts Payable		15,520
Unearned Rent.....		2,000
Notes Payable.....		80,000
Capital Stock		20,000
Retained Earnings.....		48,680
Dividends	9,500	
Fees Earned.....		301,400
Salary and Commission Expense	171,500	
Rent Expense	37,000	
Advertising Expense	19,850	
Automobile Expense.....	6,600	
Miscellaneous Expense.....	3,490	
	<u>467,600</u>	<u>467,600</u>

Prob. 2–5B

- | | | |
|---|--------|--------------------|
| 1. Totals of preliminary trial balance: | Debit | <u>\$59,291.40</u> |
| | Credit | <u>\$45,229.20</u> |
| 2. Difference between preliminary trial balance totals: | | <u>\$14,062.20</u> |
| 3. Errors in trial balance: | | |
| (a) Land debit balance was listed as \$26,265.00 instead of \$26,625.00. | | |
| (b) Accounts Payable credit balance of \$1,077.50 was listed as debit balance. | | |
| (c) Advertising Expense of \$275.00 was omitted. | | |
| 4. Errors in account balances: | | |
| (a) Dividends balance of \$1,350.00 was totaled as \$1,500.00. | | |
| 5. Errors in posting: | | |
| (a) Rent Expense entry of July 1 for \$1,540.00 was posted as \$15,400.00 (slide). | | |
| (b) Cash entry of July 15 for \$1,785.50 was posted as \$1,875.50 (transposition). | | |
| (c) Service Revenue entry of July 31 for \$1,276.10 was posted as \$1,726.10 (transposition). | | |
| (d) Utilities Expense entry of July 30 for \$436.60 was posted as \$4,366.00 (slide). | | |
| 6. July 31 Advertising Expense | 53 | 175.00 |
| Cash | 11 | 175.00 |
| 7. | | |

**CYPRESS TV REPAIR
Trial Balance
July 31, 20—**

Cash	8,741.00	
Supplies	997.90	
Prepaid Insurance	395.50	
Land.....	26,625.00	
Notes Payable.....		6,500.00
Accounts Payable		1,077.50
Capital Stock		7,500.00
Retained Earnings.....		20,260.20
Dividends	1,350.00	
Service Revenue.....		8,000.40
Wages Expense.....	2,518.60	
Utilities Expense	436.60	
Advertising Expense	450.00	
Rent Expense	1,540.00	
Miscellaneous Expense	283.50	
	<u>43,338.10</u>	<u>43,338.10</u>

Prob. 2–6B

1.

**BOBBERT WINDOW
Trial Balance
October 31, 2006**

Cash	5,050*	
Accounts Receivable	8,825	
Supplies	1,540	
Prepaid Insurance	770	
Equipment.....	35,000	
Notes Payable.....		21,000
Accounts Payable		5,475
Capital Stock		6,000
Retained Earnings.....		15,825
Dividends	11,200	
Fees Earned.....		76,700
Wages Expense.....	43,540	
Rent Expense	10,400	
Advertising Expense.....	4,480	
Gas, Electricity, and Water Expense	3,100	
Miscellaneous Expense	1,095	
	<u>125,000</u>	<u>125,000</u>

*\$5,200 + \$2,550 (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.

CONTINUING PROBLEM

2. and 3.

		JOURNAL		Page 1
Date	Description	Post. Ref.	Debit	Credit
2006				
May	1	Cash	11	3,000
		Capital Stock	31	3,000
	1	Office Rent Expense	51	1,600
		Cash	11	1,600
	1	Prepaid Insurance	15	3,360
		Cash	11	3,360
	2	Cash	11	1,200
		Accounts Receivable	12	1,200
	3	Cash	11	4,800
		Unearned Revenue	23	4,800
	3	Accounts Payable	21	250
		Cash	11	250
	4	Miscellaneous Expense	59	150
		Cash	11	150
	5	Office Equipment	17	5,000
		Accounts Payable	21	5,000
	8	Advertising Expense	55	200
		Cash	11	200
	11	Cash	11	600
		Fees Earned	41	600
	13	Equipment Rent Expense	52	500
		Cash	11	500
	14	Wages Expense	50	1,200
		Cash	11	1,200

Continuing Problem Continued

2. and 3.

JOURNAL

Page 2

Date	Description	Post. Ref.	Debit	Credit
2006				
May 16	Cash	11	1,100	
	Fees Earned	41		1,100
18	Supplies	14	750	
	Accounts Payable	21		750
21	Music Expense	54	240	
	Cash	11		240
22	Advertising Expense	55	500	
	Cash	11		500
23	Cash	11	400	
	Accounts Receivable	12	1,160	
	Fees Earned	41		1,560
27	Utilities Expense	53	560	
	Cash	11		560
28	Wages Expense	50	1,200	
	Cash	11		1,200
29	Miscellaneous Expense	59	170	
	Cash	11		170
30	Cash	11	600	
	Accounts Receivable	12	600	
	Fees Earned	41		1,200
31	Cash	11	2,000	
	Fees Earned	41		2,000
31	Music Expense	54	600	
	Cash	11		600
31	Dividends	33	2,000	
	Cash	11		2,000

Continuing Problem Continued

1. and 3.

Cash 11

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
May 1	Balance	✓			6,160	
1	1	3,000		9,160	
1	1		1,600	7,560	
1	1		3,360	4,200	
2	1	1,200		5,400	
3	1	4,800		10,200	
3	1		250	9,950	
4	1		150	9,800	
8	1		200	9,600	
11	1	600		10,200	
13	1		500	9,700	
14	1		1,200	8,500	
16	2	1,100		9,600	
21	2		240	9,360	
22	2		500	8,860	
23	2	400		9,260	
27	2		560	8,700	
28	2		1,200	7,500	
29	2		170	7,330	
30	2	600		7,930	
31	2	2,000		9,930	
31	2		600	9,330	
31	2		2,000	7,330	

Accounts Receivable 12

2006						
May 1	Balance	✓			1,200	
2	.....	1		1,200	—	—
23	.....	2	1,160		1,160	
30	.....	2	600		1,760	

Supplies 14

2006						
May 1	Balance	✓			170	
18	.....	2	750		920	

Prepaid Insurance 15

2006						
May 1	.....	1	3,360		3,360	

Continuing Problem Continued

Office Equipment **17**

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
May 5	1	5,000	.....	5,000	.....

Accumulated Depreciation—Office Equipment **18**

This account is not used in Chapter 2.

Accounts Payable **21**

2006						
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**

2006						
May 3	.....	1	.....	4,800	.....	4,800

Capital Stock **31**

2006						
May 1	Balance .....	✓	.....	.....	.....	7,000
1	.....	1	.....	3,000	.....	10,000

Retained Earnings **32**

This account is not used in Chapter 2.

Dividends **33**

2006						
May 1	Balance .....	✓	.....	.....	250	.....
31	.....	2	2,000	.....	2,250	.....

Income Summary **34**

This account is not used in Chapter 2.

Continuing Problem Continued

Fees Earned 41

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
May 1	Balance .....	✓	.....	.....	.....	4,750
11	1	.....	600	.....	5,350
16	2	.....	1,100	.....	6,450
23	2	.....	1,560	.....	8,010
30	2	.....	1,200	.....	9,210
31	2	.....	2,000	.....	11,210

Wages Expense 50

2006						
May 1	Balance .....	✓	.....	.....	400	.....
14	.....	1	1,200	.....	1,600	.....
28	.....	2	1,200	.....	2,800	.....

Office Rent Expense 51

2006						
May 1	Balance .....	✓	.....	.....	1,000	.....
1	.....	1	1,600	.....	2,600	.....

Equipment Rent Expense 52

2006						
May 1	Balance .....	✓	.....	.....	650	.....
13	.....	1	500	.....	1,150	.....

Utilities Expense 53

2006						
May 1	Balance .....	✓	.....	.....	300	.....
27	.....	2	560	.....	860	.....

Music Expense 54

2006						
May 1	Balance .....	✓	.....	.....	940	.....
21	.....	2	240	.....	1,180	.....
31	.....	2	600	.....	1,780	.....

Advertising Expense 55

2006						
May 1	Balance .....	✓	.....	.....	600	.....
8	.....	1	200	.....	800	.....
22	.....	2	500	.....	1,300	.....

Continuing Problem Concluded

Supplies Expense 56

Date	Item	Post. Ref.	Dr.	Cr.	Balance	
					Dr.	Cr.
2006						
May 1	Balance .....	✓	.....	.....	180	.....

Insurance Expense 57

This account is not used in Chapter 2.

Depreciation Expense 58

This account is not used in Chapter 2.

Miscellaneous Expense 59

2006						
May 1	Balance .....	✓	.....	.....	150	.....
4	.....	1	150	.....	300	.....
29	.....	2	170	.....	470	.....

4.

**DANCIN MUSIC
Trial Balance
May 31, 2006**

Cash	7,330	
Accounts Receivable	1,760	
Supplies	920	
Prepaid Insurance	3,360	
Office Equipment	5,000	
Accounts Payable		5,750
Unearned Revenue		4,800
Capital Stock		10,000
Dividends	2,250	
Fees Earned		11,210
Wages Expense	2,800	
Office Rent Expense	2,600	
Equipment Rent Expense	1,150	
Utilities Expense	860	
Music Expense	1,780	
Advertising Expense	1,300	
Supplies Expense	180	
Miscellaneous Expense	470	
	<u>31,760</u>	<u>31,760</u>

SPECIAL ACTIVITIES

Activity 2–1

Acceptable ethical conduct requires that Ross look for the difference. If Ross 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. Ross'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.

Activity 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.

Activity 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.

Activity 2–4

1. The rules of debit and credit must be memorized. Doris 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, Doris 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 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 owners' 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.

Doris 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.

Activity 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 Eagle Caddy Service:

<p><u>1. Assets</u></p> <p>11 Cash</p> <p>12 Accounts Receivable</p> <p>13 Supplies</p> <p><u>2. Liabilities</u></p> <p>21 Accounts Payable</p> <p><u>3. Owner's Equity</u></p> <p>31 Kercy Hepner, Capital</p> <p>32 Kercy Hepner, Drawing</p>	<p><u>4. Revenue</u></p> <p>41 Service Revenue</p> <p><u>5. Expenses</u></p> <p>51 Rent Expense</p> <p>52 Supplies Expense</p> <p>53 Salary Expense</p> <p>54 Utilities Expense</p> <p>55 Miscellaneous Expense</p>
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- b.

EAGLE CADDY SERVICE
Income Statement
For Month Ended June 30, 2006

Service revenue.....		\$4,450
Operating expenses:		
Rent expense.....	\$1,800	
Supplies expense.....	610	
Salary expense	390	
Utilities expense.....	160	
Miscellaneous expense	<u>180</u>	
Total operating expenses.....		<u>3,140</u>
Net income		<u>\$1,310</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 operating 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.

Activity 2–5 Concluded

c. \$2,250, computed in the following manner:

Cash receipts:		
Initial investment.....	\$2,250	
Cash sales	3,880	
Collections on accounts	<u>270</u>	
Total cash receipts during June.....		\$6,400
 Cash disbursements:		
Rent expense	\$1,800	
Supplies purchased for cash.....	225	
Salary expense.....	390	
Payment for supplies on account.....	270	
Utilities expense	160	
Miscellaneous expense	<u>180</u>	
Total cash disbursements during June		<u>3,025</u>
Cash on hand according to records.....		<u>\$3,375*</u>

*If the student used T accounts in completing part (b), or this part, this amount (\$3,375) should agree with the balance of the cash account.

d. The difference of \$195 between the cash on hand according to records (\$3,375) and the cash on hand according to the count (\$3,180) could be due to many factors, including errors in the record keeping and withdrawals made by Kerby.

Activity 2–6

1. From our discussions in Chapter 1, the three possible business strategies that could be used are as follows:

low-cost strategy
differentiation strategy
combination strategy

2. Real world examples of each strategy are as follows:

low-cost strategy: Stein Mart, Wal-Mart, Kmart, Costco
differentiation strategy: GAP, Limited, Old Navy, Talbots
combination strategy: JCPenney, Sears, Dillards

3. The answers will vary among the students groups. Normally, venture capital firms demand a large percentage of ownership, which many times is the majority (over 50%) ownership.

Activity 2–7

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.