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Chapter 2
Recording Business Transactions

Review Questions

1. Identify the three categories of the accounting equation, and list at least four accounts associated with each category.

The three categories of the accounting equation are assets, liabilities, and equity. Assets include Cash, Accounts Receivable, Notes Receivable, Prepaid Expenses, Land, Building, Equipment, Furniture, and Fixtures. Liabilities include Accounts Payable, Notes Payable, Accrued Liability, and Unearned Revenue. Equity includes Common Stock, Dividends, Revenue, and Expenses.

2. What is the purpose of the chart of accounts? Explain the numbering typically associated with the accounts.

Companies need a way to organize their accounts so they use a chart of accounts. Accounts starting with 1 are usually Assets, 2 – Liabilities, 3 – Equity, 4 – Revenues, and 5 – Expenses. The second and third digits in account numbers indicate where the account fits within the category.

3. What does a ledger show? What's the difference between a ledger and the chart of accounts?

A chart of accounts and a ledger are similar in that they both list the account names and account numbers of the business. A ledger, though, provides more detail. It includes the increases and decreases of each account for a specific period and the balance of each account at a specific point in time.

4. Accounting uses a double-entry system. Explain what this sentence means.

With a double-entry you need to record the dual effects of each transaction. Every transaction affects at least two accounts.

5. What is a T-account? On which side is the debit? On which side is the credit? Where does the account name go on a T-account?

A T-account is a shortened form of each account in the ledger. The debit is on the left side, credit on the right side, and the account name is shown on top.

6. When are debits increases? When are debits decreases?

Debits are increases for assets, dividends, and expenses. Debits are decreases for liabilities, common stock, and revenue.

7. When are credits increases? When are credits decreases?

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Credits are increases for liabilities, common stock, and revenue. Credits are decreases for assets, dividends, and expenses.

8. Identify which types of accounts have a normal debit balance and which types of accounts have a normal credit balance.

Assets, dividends, and expenses have a normal debit balance. Liabilities, common stock, and revenue have a normal credit balance.

9. What are source documents? Provide examples of source documents that a business might use.

Source documents provide the evidence and data for accounting transactions. Examples of source documents a business would have are: bank deposit slips, purchase invoices, bank checks, and sales invoices

10. Where are transactions initially recorded?

Transactions are first recorded in a journal, which is the record of transactions in date order.

11. Explain the five steps in journalizing and posting transactions.

Step 1: Identify the accounts and the account type. You need this information before you can complete the next step. Step 2: Decide if each account increases or decreases, then apply the rules of debits and credits. Reviewing the rules of debits and credits, we use the accounting equation to help determine debits and credits for each account. Step 3: Record transactions in the journal using journal entries. Step 4: Post the journal entry to the ledger. When journal entries are posted from the journal to the ledger, the dollar amount is transferred from the debit and credit columns to the specific accounts in the ledger. The date on the journal entry should also be transferred to the accounts in the ledger. Step 5: Determine whether the accounting equation is in balance. After each entry the accounting equation should always be in balance.

12. What are the four parts of a journal entry?

Part 1: Date of the transaction. Part 2: Debit account name and dollar amount. Part 3: Credit account name and dollar amount. The credit account name is indented. Part 4: Brief explanation.

13. What is involved in the posting process?

When transactions are posted from the journal to the ledger, the dollar amount is transferred from the debit and credit columns to the specific accounts in the ledger. The date of the journal entry is also transferred to the accounts in the ledger. The posting reference columns in the journal and ledger are also completed. In a computerized system, this step is completed automatically when the transaction is recorded in the journal.

14. What is the purpose of the trial balance?

The trial balance is used to prove the equality of total debits and total credits of all accounts in the ledger; it is also used to prepare the financial statements.

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15. What is the difference between the trial balance and the balance sheet?

A trial balance verifies the equality of total debits and total credits of all accounts on the trial balance and is an internal document used only by employees of the company. The balance sheet, on the other hand, presents the business's accounting equation and is a financial statement that can be used by both internal and external users.

16. If total debits equal total credits on the trial balance, is the trial balance error-free? Explain your answer.

If total debits equal total credits on the trial balance, it does not mean that the trial balance is error-free. An incorrect amount could have been used, an entry could have been completely missed, or the wrong account title could have been debited or credited.

17. What is the calculation for the debt ratio? Explain what the debt ratio evaluates.

The debt ratio is calculated by dividing total liabilities by total assets and shows the proportion of assets financed with debt. It can be used to evaluate a business's ability to pay its debts.

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Short Exercises

S2-1 Identifying accounts

Learning Objective 1

Consider the following accounts and identify each account as an asset (A), liability (L), or equity (E).

a. Notes Receivable

b. Common Stock

c. Prepaid Insurance

d. Notes Payable

e. Rent Revenue

f. Taxes Payable

g. Rent Expense

h. Furniture

i. Dividends

j. Unearned Revenue

SOLUTION

a. Notes Receivable **(A)**
b. Common Stock **(E)**
c. Prepaid Insurance **(A)**
d. Notes Payable **(L)**
e. Rent Revenue **(E)**
f. Taxes Payable **(L)**
g. Rent Expense **(E)**
h. Furniture **(A)**
i. Dividends **(E)**
j. Unearned Revenue **(L)**

S2-2 Identifying increases and decreases in accounts

Learning Objective 2

For each account, identify whether the changes would be recorded as a debit (DR) or credit (CR).

a. Increase to Accounts Receivable

b. Decrease to Unearned Revenue

c. Decrease to Cash

d. Increase to Interest Expense

e. Increase to Salaries Payable

f. Decrease to Prepaid Rent

g. Increase to Common Stock

h. Increase to Notes Receivable

i. Decrease to Accounts Payable

j. Increase to Interest Revenue

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SOLUTION

a. Increase to Accounts Receivable **(DR)**
b. Decrease to Unearned Revenue **(DR)**
c. Decrease to Cash **(CR)**
d. Increase to Interest Expense **(DR)**
e. Increase to Salaries Payable **(CR)**
f. Decrease to Prepaid Rent **(CR)**
g. Increase to Common Stock **(CR)**
h. Increase to Notes Receivable **(DR)**
i. Decrease to Accounts Payable **(DR)**
j. Increase to Interest Revenue **(CR)**

S2-3 Identifying normal balances

Learning Objective 2

For each account, identify whether the normal balance is a debit (DR) or credit (CR).

a. Notes Payable

b. Dividends

c. Service Revenue

d. Land

e. Unearned Revenue

f. Common Stock

g. Utilities Expense

h. Office Supplies

i. Advertising Expense

j. Interest Payable

SOLUTION

a. Notes Payable **(CR)**
b. Dividends **(DR)**
c. Service Revenue **(CR)**
d. Land **(DR)**
e. Unearned Revenue **(CR)**
f. Common Stock **(CR)**
g. Utilities Expense **(DR)**
h. Office Supplies **(DR)**
i. Advertising Expense **(DR)**
j. Interest Payable **(CR)**

S2-4 Calculating the balance of a T-account

Learning Objective 2

Calculate the Accounts Payable balance.

Accounts Payable			
May 2	6,000	21,000	May 1
May 22	11,500	500	May 5
		8,500	May 15
		500	May 23

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SOLUTION

Accounts Payable			
May 2	6,000	21,000	May 1
May 22	11,500	500	May 5
		8,500	May 15
		500	May 23
		13,000	Bal.

S2-5 Journalizing transactions

Learning Objective 3

John Daniel opened a medical practice in Sacramento, California, and had the following transactions during the month of January.

Jan. 1	The business received $34,000 cash and issued common stock to Daniel.
2	Purchased medical supplies on account, $17,000.
4	Performed services for patients receiving $1,600.
12	Paid monthly office rent of $3,000.
15	Recorded $7,000 revenue for services rendered to patients on account.

Journalize the transactions of John Daniel, M.D. Include an explanation with each entry.

SOLUTION

Date	Accounts and Explanation	Debit	Credit
Jan. 1	Cash	34,000	
	Common Stock		34,000
	Received cash in exchange for common stock.		
2	Medical Supplies	17,000	
	Accounts Payable		17,000
	Purchased medical supplies on account.		
4	Cash	1,600	
	Service Revenue		1,600
	Performed services for patients.		
12	Rent Expense	3,000	
	Cash		3,000
	Paid rent with cash.		
15	Accounts Receivable	7,000	
	Service Revenue		7,000
	Performed services for patients on account.		

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S2-6 Journalizing transactions

Learning Objective 3

Harper Sales Consultants completed the following transactions during the latter part of January:

Jan. 22	Performed services for customers on account, $7,500.
30	Received cash on account from customers, $8,000.
31	Received a utility bill, $220, which will be paid during February.
31	Paid monthly salary to salesman, $2,500.
31	Received $2,310 for three months of consulting service to be performed starting in February.
31	Cash dividends of $950 were paid to stockholders.

Journalize the transactions of Harper Sales Consultants. Include an explanation with each journal entry.

SOLUTION

Date	Accounts and Explanation	Debit	Credit
Jan. 22	Accounts Receivable	7,500	
	Service Revenue		7,500
	Performed services for customers on account.		
30	Cash	8,000	
	Accounts Receivable		8,000
	Received cash on account from customers.		
31	Utilities Expense	220	
	Utilities Payable		220
	Received a utility bill due in February.		
31	Salaries Expense	2,500	
	Cash		2,500
	Paid monthly salary to salesman.		
31	Cash	2,310	
	Unearned Revenue		2,310
	Received cash for 3 months consulting services in advance.		
31	Dividends	950	
	Cash		950
	Paid cash dividends.		

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S2-7 Journalizing transactions and posting to T-accounts

Learning Objective 3

Roland Foster Optical Dispensary completed the following transactions during the latter part of March:

Mar. 15	Purchased office supplies on account, $3,400.
28	Paid $1,800 on account.

Requirements

1. Journalize the transactions of Roland Foster Optical Dispensary. Include an explanation with each journal entry.
2. Open the following accounts (use T-account format): Cash (Beginning Balance of $21,000), Office Supplies, and Accounts Payable. Post the journal entries from Requirement 1 to the accounts, and compute the balance in each account.

SOLUTION

Requirement 1

Date	Accounts and Explanation	Debit	Credit
Mar. 15	Office Supplies	3,400	
	Accounts Payable		3,400
	Purchased office supplies on account.		
28	Accounts Payable	1,800	
	Cash		1,800
	Paid cash on account.		

Requirement 2

Cash

Bal.	21,000	1,800	Mar. 28
Bal.	19,200		

Accounts Payable

Mar. 28	1,800	3,400	Mar. 15
		1,600	Bal.

Office Supplies

Mar. 15	3,400	
Bal.	3,400	

S2-8 Preparing a trial balance

Learning Objective 4

Smithson Floor Coverings reported the following summarized data at December 31, 2018. Accounts appear in no particular order, and all have normal balances.

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Service Revenue	$ 26,000	Salaries Payable	$ 25,000
Equipment	36,000	Salaries Expense	1,600
Rent Expense	17,000	Cash	7,000
Common Stock	24,000	Accounts Receivable	3,600
Accounts Payable	2,200	Interest Payable	6,000
Dividends	16,100	Utilities Expense	1,900

Prepare the trial balance of Smithson Floor Coverings at December 31, 2018.

SOLUTION

SMITHSON FLOOR COVERINGS
Trial Balance
December 31, 2018

Account Title	**Balance**	
	Debit	Credit
Cash	$ 7,000	
Accounts Receivable	3,600	
Equipment	36,000	
Accounts Payable		$ 2,200
Salaries Payable		25,000
Interest Payable		6,000
Common Stock		24,000
Dividends	16,100	
Service Revenue		26,000
Rent Expense	17,000	
Salaries Expense	1,600	
Utilities Expense	1,900	
Total	**$ 83,200**	**$ 83,200**

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S2-9 Calculating debt ratio

Learning Objective 5

Aladdin Carpet Care had the following total assets, liabilities, and equity as of October 31:

Assets	$ 200,000
Liabilities	30,000
Equity	170,000

What is Aladdin Carpet Care's debt ratio as of October 31?

SOLUTION

Debt ratio = Total liabilities / Total assets = $30,000 / $200,000 = 0.15 = 15%

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Exercises

E2-10 Using accounting vocabulary

Learning Objectives 1, 2, 3, 4

Match the accounting terms with the corresponding definitions.

1. Posting	**a.** A detailed record of all increases and decreases that have occurred in a particular asset, liability, or equity during a period
2. Account	**b.** The record holding all the accounts of a business, the changes in those accounts, and their balances
3. Debit	**c.** A journal entry that is characterized by having multiple debits and/or multiple credits
4. Journal	**d.** A record of transactions in date order
5. Chart of accounts	**e.** Left side of a T-account
6. rial balance	**f.** Side of an account where increases are recorded
7. Normal balance	**g.** Transferring amounts from the journal to the ledger
8. Ledger	**h.** Right side of a T-account
9. Credit	**i.** A list of all accounts with their balances at a point in time
10. Compound journal entry	**j.** A list of all accounts with their account numbers

SOLUTION

1. g
2. a
3. e
4. d
5. j
6. i
7. f
8. b
9. h
10. c

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E2-11 Creating a chart of accounts

Learning Objective 1

Raymond Autobody Shop has the following accounts:

Accounts Payable	Service Revenue
Cash	Equipment
Utilities Expense	Common Stock
Automotive Supplies	Advertising Expense
Dividends	Unearned Revenue
Retained Earnings	

Create a chart of accounts for Raymond Autobody Shop using the standard numbering system. Each account is separated by a factor of 10. For example, the first asset account will be 100 and the next asset account will 110.

SOLUTION

Assets	Equity
100 – Cash 110 – Automotive Supplies 120 – Equipment	300 – Common Stock 310 – Retained Earnings 320 – Dividends
	Revenues
Liabilities	400 – Service Revenue
200 – Accounts Payable 210 – Unearned Revenue	Expenses
	500 – Utilities Expense 510 – Advertising Expense

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E2-12 Identifying accounts, increases in accounts, and normal balances

Learning Objectives 1, 2

a. Interest Revenue

b. Accounts Payable

c. Common Stock

d. Office Supplies

e. Advertising Expense

f. Unearned Revenue

g. Prepaid Rent

h. Utilities Expense

i. Dividends

j. Service Revenue

Requirements

1. Identify each account as asset (A), liability (L), or equity (E).

2. Identify whether the account is increased with a debit (DR) or credit (CR).

3. Identify whether the normal balance is a debit (DR) or credit (CR).

SOLUTION

		Requirement 1	Requirement 2	Requirement 3
	Account Name	**Type of Account**	**Increase with Debit/Credit**	**Normal Balance Debit/Credit**
a.	Interest Revenue	E	CR	CR
b.	Accounts Payable	L	CR	CR
c.	Common Stock	E	CR	CR
d.	Office Supplies	A	DR	DR
e.	Advertising Expense	E	DR	DR
f.	Unearned Revenue	L	CR	CR
g.	Prepaid Rent	A	DR	DR
h.	Utilities Expense	E	DR	DR
i.	Dividends	E	DR	DR
j.	Service Revenue	E	CR	CR

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E2-13 Identifying increases and decreases in accounts and normal balances

Learning Objective 2

Insert the missing information into the accounting equation. Signify increases as Incr. and decreases as Decr.

(a)	=	LIABILITIES	+	(b)											
				Contributed Capital		+	Retained Earnings								
ASSETS			=	(c)		+	Common Stock		–	(d)		+	Revenues		–	Expenses	
(e) Debit	Decr. (n)		=	Decr. (o)	(f) Credit	+	(g) (p)	(h) Credit	–	(i) (q)	(j) Credit	+	(k) Debit	(l) Credit	–	Incr. (r)	(m) Credit

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SOLUTION

(a) Assets	=	Liabilities	+	(b) Equity							
				Contributed Capital		+	Retained Earnings				
Assets	=	(c) Liabilities		+ Common Stock		–	(d) Dividends	+	Revenues	–	Expenses
(e) Incr.	Decr.	Decr.	(f) Incr.	(g) Decr.	(h) Incr.		(i) Incr.	(j) Decr.	(k) Decr.	(l) Incr.	Incr.	(m) Decr.
Debit	(n) Credit	(o) Debit	Credit	(p) Debit	Credit		(q) Debit	Credit	Debit	Credit	(r) Debit	Credit

(a) Assets
(b) Equity
(c) Liabilities
(d) Dividends
(e) Incr.
(f) Incr.
(g) Decr.
(h) Incr.
(i) Incr.
(j) Decr.
(k) Decr.
(l) Incr.
(m) Decr.
(n) Credit
(o) Debit
(p) Debit
(q) Debit
(r) Debit

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E2-14 Identifying source documents

Learning Objective 3

For each transaction, identify a possible source document.

a. The business received $20,000 cash and issued common stock to stockholders.

b. Purchased office supplies on account, $500.

c. Recorded $1,000 revenue for services rendered to customers.

SOLUTION

a. Bank deposit slip
b. Purchase invoice
c. Sales invoice

E2-15 Analyzing and journalizing transactions

Learning Objective 3

As the manager of Margarita Mexican Restaurant, you must deal with a variety of business transactions. Provide an explanation for the following transactions:

a. Debit Equipment and credit Cash.

b. Debit Dividends and credit Cash.

c. Debit Wages Payable and credit Cash.

d. Debit Equipment and credit Common Stock.

e. Debit Cash and credit Unearned Revenue.

f. Debit Advertising Expense and credit Cash.

g. Debit Cash and credit Service Revenue.

SOLUTION

a. Purchased equipment with cash.
b. Paid cash dividends to stockholders.
c. Paid wages owed to employees, previously recorded.
d. Received equipment for the business in exchange for common stock.
e. Received cash from customer for work to be completed in the future.
f. Paid for advertising with cash.
g. Performed services that were paid by the customer.

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Use the following information to answer Exercises E2-16 and E2-17.

The following transactions occurred for Lawrence Engineering:

Jul. 2	Received $14,000 contribution from Brett Lawrence in exchange for common stock.
4	Paid utilities expense of $370.
5	Purchased equipment on account, $1,600.
10	Performed services for a client on account, $2,900.
12	Borrowed $7,100 cash, signing a notes payable.
19	Cash dividends of $200 were paid to stockholders.
21	Purchased office supplies for $840 and paid cash.
27	Paid the liability from July 5.

E2-16 Analyzing and journalizing transactions

Learning Objective 3

Journalize the transactions of Lawrence Engineering. Include an explanation with each journal entry. Use the following accounts: Cash; Accounts Receivable; Office Supplies; Equipment; Accounts Payable; Notes Payable; Common Stock; Dividends; Service Revenue; and Utilities Expense.

SOLUTION

Date	Accounts and Explanation	Debit	Credit
Jul. 2	Cash	14,000	
	Common Stock		14,000
	Issued common stock in exchange for cash.		
4	Utilities Expense	370	
	Cash		370
	Paid utility expense.		
5	Equipment	1,600	
	Accounts Payable		1,600
	Purchased equipment on account.		
10	Accounts Receivable	2,900	
	Service Revenue		2,900
	Performed services for client on account.		
12	Cash	7,100	
	Notes Payable		7,100
	Borrowed cash by signing note.		
19	Dividends	200	
	Cash		200
	Paid cash dividends.		

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E2-16, cont.

21	Office Supplies	840	
	Cash		840
	Purchased office supplies with cash.		
27	Accounts Payable	1,600	
	Cash		1,600
	Paid cash on account.		

E2-17 Posting journal entries to T-accounts

Learning Objective 3

3. Cash Balance $18,090

Requirements

1. Open the following T-accounts for Lawrence Engineering: Cash; Accounts Receivable; Office Supplies; Equipment; Accounts Payable; Notes Payable; Common Stock; Dividends; Service Revenue; and Utilities Expense.
2. Post the journal entries to the T-accounts. Also transfer the dates to the T-accounts.
3. Compute the July 31 balance for each account.

SOLUTION

Requirements 1, 2, and 3

Cash

Jul. 2	14,000	370	Jul. 4
Jul. 12	7,100	200	Jul. 19
		840	Jul. 21
		1,600	Jul. 27
Balance	18,090		

Accounts Payable

Jul. 27	1,600	1,600	Jul. 5
		0	Balance

Accounts Receivable

Jul. 10	2,900		
Balance	2,900		

Notes Payable

		7,100	Jul. 12
		7,100	Balance

Office Supplies

Jul. 21	840		
Balance	840		

Common Stock

		14,000	Jul. 2
		14,000	Balance

Equipment

Jul. 5	1,600		
Balance	1,600		

Dividends

Jul. 19	200		
Balance	200		

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Service Revenue			
		2,900	Jul. 10
		2,900	Balance

Utilities Expense			
Jul. 4	370		
Balance	370		

Use the following information to answer Exercises E2-18 and E2-19.

The following transactions occurred for Wilke Technology Solutions:

May 1	The business received cash of $105,000 and issued common stock to Zoe Wilke.
2	Purchased office supplies on account, $550.
4	Paid $57,000 cash for building and land. The building had a fair market value of $45,000.
6	Performed services for customers and received cash, $3,600.
9	Paid $350 on accounts payable.
17	Performed services for customers on account, $3,500.
19	Paid rent expense for the month, $1,200.
20	Received $1,500 from customers for services to be performed next month.
21	Paid $900 for advertising in next month's *IT Technology* magazine.
23	Received $3,100 cash on account from a customer.
31	Incurred and paid salaries, $1,700.

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E2-18 Analyzing and journalizing transactions

Learning Objective 3

Journalize the transactions of Wilke Technology Solutions. Include an explanation with each journal entry. Use the following accounts: Cash; Accounts Receivable; Office Supplies; Prepaid Advertising; Land; Building; Accounts Payable; Unearned Revenue; Common Stock; Service Revenue; Rent Expense; and Salaries Expense.

SOLUTION

Date	Accounts and Explanation	Post. Ref.	Debit	Credit
May 1	Cash		105,000	
	Common Stock.			105,000
	Issued common stock in exchange for cash.			
2	Office Supplies		550	
	Accounts Payable			550
	Purchased office supplies on account.			
4	Building		45,000	
	Land		12,000	
	Cash			57,000
	Purchased building and land for cash.			
6	Cash		3,600	
	Service Revenue			3,600
	Performed services for customers for cash.			
9	Accounts Payable		350	
	Cash			350
	Paid cash on account.			
17	Accounts Receivable		3,500	
	Service Revenue			3,500
	Performed services for customers on account.			
19	Rent Expense		1,200	
	Cash			1,200
	Paid rent for the month.			
20	Cash		1,500	
	Unearned Revenue			1,500
	Received cash from customers for services to be performed next month.			

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E2-19, cont.

21	Prepaid Advertising Cash *Paid for next month's advertising.*		900	 900
23	Cash Accounts Receivable *Received cash on account from customer.*		3,100	 3,100
31	Salaries Expense Cash *Paid salaries.*		1,700	 1,700

E2-19 Posting journal entries to four-column accounts

Learning Objective 3

2. Cash Balance $52,050

Requirements

1. Open four-column accounts using the following account numbers: Cash, 110; Accounts Receivable, 120; Office Supplies, 130; Prepaid Advertising, 140; Land, 150; Building, 160; Accounts Payable, 210; Unearned Revenue, 220; Common Stock, 310; Service Revenue, 410; Rent Expense, 510; and Salaries Expense, 520.

2. Post the journal entries to the four-column accounts, and determine the balance in the account after each transaction. Assume that the journal entries were recorded on page 10 of the journal. Make sure to complete the Post. Ref. columns in the journal and ledger.

SOLUTION

Requirement 2

Date	Accounts and Explanation	Post. Ref.	Debit	Credit
May 1	Cash Common Stock *Issued common stock in exchange for cash.*	110 310	105,000	 105,000
2	Office Supplies Accounts Payable *Purchased office supplies on account.*	130 210	550	 550

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E2-19, cont.

4	Building	160	45,000	
	Land	150	12,000	
	Cash	110		57,000
	Purchased building and land for cash.			
6	Cash	110	3,600	
	Service Revenue	410		3,600
	Performed services for customers for cash.			
9	Accounts Payable	210	350	
	Cash	110		350
	Paid cash on account.			
17	Accounts Receivable	120	3,500	
	Service Revenue	410		3,500
	Performed services for customers on account.			
19	Rent Expense	510	1,200	
	Cash	110		1,200
	Paid rent for the month.			
20	Cash	110	1,500	
	Unearned Revenue	220		1,500
	Received cash from customers for services to be performed next month.			
21	Prepaid Advertising	140	900	
	Cash	110		900
	Paid for next month's advertising.			
23	Cash	110	3,100	
	Accounts Receivable	120		3,100
	Received cash on account from customer.			
31	Salaries Expense	520	1,700	
	Cash	110		1,700
	Paid salaries.			

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E2-19, cont.

Requirements 1 and 2

CASH — Account No. 110

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 1		J10	105,000		105,000	
May 4		J10		57,000	48,000	
May 6		J10	3,600		51,600	
May 9		J10		350	51,250	
May 19		J10		1,200	50,050	
May 20		J10	1,500		51,550	
May 21		J10		900	50,650	
May 23		J10	3,100		53,750	
May 31		J10		1,700	52,050	

ACCOUNTS RECEIVABLE — Account No. 120

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 17		J10	3,500		3,500	
May 23		J10		3,100	400	

OFFICE SUPPLIES — Account No. 130

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 2		J10	550		550	

PREPAID ADVERTISING — Account No. 140

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 21		J10	900		900	

LAND — Account No. 150

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 4		J10	12,000		12,000	

BUILDING — Account No. 160

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 4		J10	45,000		45,000	

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E2-19, cont.

ACCOUNTS PAYABLE — Account No. 210

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 2		J10		550		550
May 9		J10	350			200

UNEARNED REVENUE — Account No. 220

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 20		J10		1,500		1,500

COMMON STOCK — Account No. 310

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 1		J10		105,000		105,000

SERVICE REVENUE — Account No. 410

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 6		J10		3,600		3,600
May 17		J10		3,500		7,100

RENT EXPENSE — Account No. 510

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 19		J10	1,200		1,200	

SALARIES EXPENSE — Account No. 520

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 31		J10	1,700		1,700	

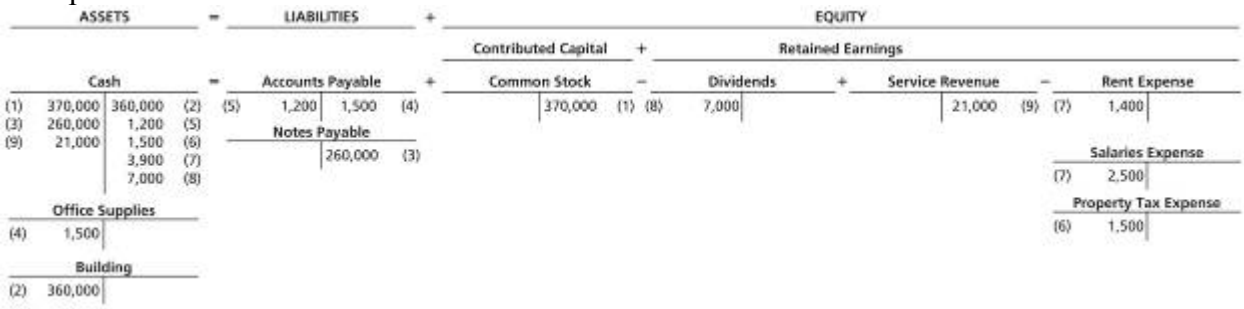
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E2-20 Analyzing transactions from T-accounts

Learning Objective 3

The first nine transactions of North-West Airplane Repair have been posted to the T-accounts. Provide an explanation for each of the nine transactions.



SOLUTION

1. The business received cash of $370,000 and issued common stock.
2. Paid $360,000 cash for a building.
3. Borrowed $260,000 cash, signing a note payable.
4. Purchased office supplies on account, $1,500.
5. Paid $1,200 on accounts payable.
6. Paid property tax expense, $1,500.
7. Paid rent $1,400 and salaries $2,500.
8. Cash dividends of $7,000 paid to stockholders.
9. Performed services for customers and received cash, $21,000.

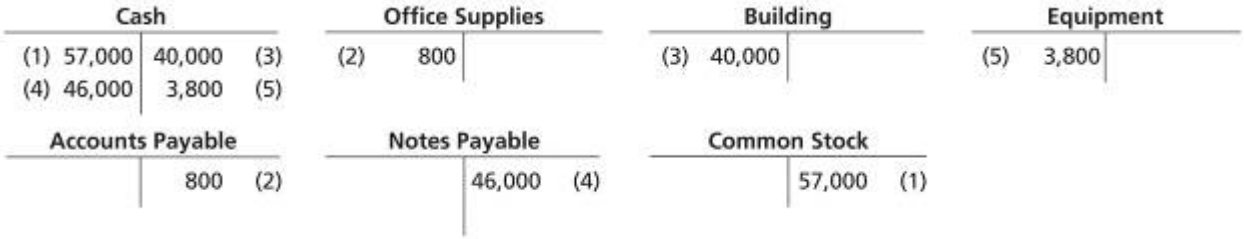
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E2-21 Journalizing transactions from T-accounts

Learning Objective 3

In December 2018, the first five transactions of Abling's Lawn Care Company have been posted to the T-accounts. Prepare the journal entries that served as the sources for the five transactions. Include an explanation for each entry.



SOLUTION

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
1.	Cash		57,000	
	Common Stock			57,000
	Issued common stock in exchange for cash.			
2.	Office Supplies		800	
	Accounts Payable			800
	Purchased office supplies on account.			
3.	Building		40,000	
	Cash			40,000
	Purchased building for cash.			
4.	Cash		46,000	
	Notes Payable			46,000
	Borrowed money signing a note payable.			
5.	Equipment		3,800	
	Cash			3,800
	Purchased equipment for cash.			

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E2-22 Preparing a trial balance

Learning Objective 4

Total Debits $191,800

The accounts of Anderson Moving Company follow with their normal balances as of August 31, 2018. The accounts are listed in no particular order.

Common Stock	$ 49,800	Trucks	$ 123,000
Insurance Expense	600	Fuel Expense	1,000
Accounts Payable	4,000	Dividends	5,600
Service Revenue	82,000	Utilities Expense	300
Building	41,000	Accounts Receivable	10,000
Advertising Expense	200	Notes Payable	56,000
Salaries Expense	6,000	Office Supplies	100
Cash	4,000		

Prepare Anderson's trial balance as of August 31, 2018.

SOLUTION

ANDERSON MOVING COMPANY
Trial Balance
August 31, 2018

Account Title	**Balance**	
	Debit	Credit
Cash	$ 4,000	
Accounts Receivable	10,000	
Office Supplies	100	
Building	41,000	
Trucks	123,000	
Accounts Payable		$ 4,000
Notes Payable		56,000
Common Stock		49,800
Dividends	5,600	
Service Revenue		82,000
Salaries Expense	6,000	
Fuel Expense	1,000	
Insurance Expense	600	
Utilities Expense	300	
Advertising Expense	200	
Total	**$ 191,800**	**$ 191,800**

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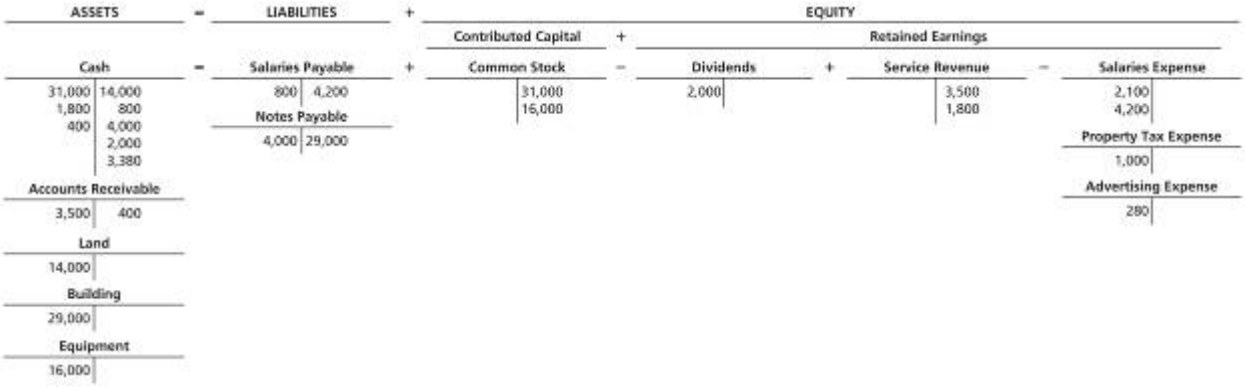
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E2-23 Preparing a trial balance from T-accounts

Learning Objective 4

Total Debits $80,700

The T-accounts of McMahon Farm Equipment Repair follow as of May 31, 2018.



Prepare McMahon Farm Equipment Repair's trial balance as of May 31, 2018.

SOLUTION

MCMAHON FARM EQUIPMENT REPAIR
Trial Balance
May 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 9,020	
Accounts Receivable	3,100	
Land	14,000	
Building	29,000	
Equipment	16,000	
Salaries Payable		$ 3,400
Notes Payable		25,000
Common Stock		47,000
Dividends	2,000	
Service Revenue		5,300
Salaries Expense	6,300	
Property Tax Expense	1,000	
Advertising Expense	280	
Total	**$ 80,700**	**$ 80,700**

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E2-24 Journalizing transactions, posting journal entries to four-column accounts, and preparing a trial balance

Learning Objectives 3, 4

3. Total Debits $24,670

The following transactions occurred during the month for Teresa Parker, CPA:

Jun. 1	Parker opened an accounting firm by contributing $13,200 cash and office furniture with a fair market value of $5,300 in exchange for common stock.
5	Paid monthly rent of $1,300.
9	Purchased office supplies on account, $600.
14	Paid employee's salary, $1,900.
18	Received a bill for utilities to be paid next month, $370.
21	Paid $500 of the accounts payable created on June 9.
25	Performed accounting services on account, $5,700.
28	Paid cash dividends of $6,700.

Requirements

1. Open the following four-column accounts of Teresa Parker, CPA: Cash, 110; Accounts Receivable, 120; Office Supplies, 130; Office Furniture, 140; Accounts Payable, 210; Utilities Payable, 220; Common Stock, 310; Dividends, 320; Service Revenue, 410; Salaries Expense, 510; Rent Expense, 520; and Utilities Expense, 530.

2. Journalize the transactions, and then post the journal entries to the four-column accounts. Explanations are not required for the journal entries. Keep a running balance in each account. Assume the journal entries are recorded on page 10 of the journal.

3. Prepare the trial balance as of June 30, 2018.

SOLUTION

Requirement 2

Date	Accounts and Explanation	Post Ref.	Debit	Credit
June 1	Cash	110	13,200	
	Office Furniture	140	5,300	
	Common Stock	310		18,500
5	Rent Expense	520	1,300	
	Cash	110		1,300
9	Office Supplies	130	600	
	Accounts Payable	210		600

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E2-24, cont.

14	Salaries Expense	510	1,900	
	Cash	110		1,900
18	Utilities Expense	530	370	
	Utilities Payable	220		370
21	Accounts Payable	210	500	
	Cash	110		500
25	Accounts Receivable	120	5,700	
	Service Revenue	410		5,700
28	Dividends	320	6,700	
	Cash	110		6,700

Requirements 1 & 2

CASH — Account No. 110

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 1		J10	13,200		13,200	
June 5		J10		1,300	11,900	
June 14		J10		1,900	10,000	
June 21		J10		500	9,500	
June 28		J10		6,700	2,800	

ACCOUNTS RECEIVABLE — Account No. 120

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 25		J10	5,700		5,700	

OFFICE SUPPLIES — Account No. 130

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 9		J10	600		600	

OFFICE FURNITURE — Account No. 140

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 1		J10	5,300		5,300	

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E2-24, cont.

ACCOUNTS PAYABLE — Account No. 210

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
June 9		J10		600		600
June 21		J10	500			100

UTILITIES PAYABLE — Account No. 220

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
June 18		J10		370		370

COMMON STOCK — Account No. 310

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
June 1		J10		18,500		18,500

DIVIDENDS — Account No. 320

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
June 28		J10	6,700		6,700	

SERVICE REVENUE — Account No. 410

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
June 25		J10		5,700		5,700

SALARIES EXPENSE — Account No. 510

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
June 14		J10	1,900		1,900	

RENT EXPENSE — Account No. 520

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
June 5		J10	1,300		1,300	

UTILITIES EXPENSE — Account No. 530

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
June 18		J10	370		370	

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E2-24, cont.

Requirement 3

TERESA PARKER, CPA
Trial Balance
June 30, 2018

Acct. No.	Account Title	Balance	
		Debit	Credit
110	Cash	$ 2,800	
120	Accounts Receivable	5,700	
130	Office Supplies	600	
140	Office Furniture	5,300	
210	Accounts Payable		$ 100
220	Utilities Payable		370
310	Common Stock		18,500
320	Dividends	6,700	
410	Service Revenue		5,700
510	Salaries Expense	1,900	
520	Rent Expense	1,300	
530	Utilities Expense	370	
	Total	**$ 24,670**	**$ 24,670**

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E2-25 Analyzing accounting errors

Learning Objective 4

Courtney Meehan has trouble keeping her debits and credits equal. During a recent month, Courtney made the following accounting errors:

a. In preparing the trial balance, Courtney omitted a $5,000 Notes Payable. The debit to Cash was correct.

b. Courtney posted a $1,000 Utilities Expense as $100. The credit to Cash was correct.

c. In recording a $600 payment on account, Courtney debited Furniture instead of Accounts Payable.

d. In journalizing a receipt of cash for service revenue, Courtney debited Cash for $50 instead of the correct amount of $500. The credit was correct.

e. Courtney recorded a $210 purchase of office supplies on account by debiting Office Supplies for $120 and crediting Accounts Payable for $120.

Requirements

1. For each of these errors, state whether total debits equal total credits on the trial balance.

2. Identify each account that has an incorrect balance and the amount and direction of the error (e.g., "Accounts Receivable $500 too high").

SOLUTION

Requirements 1 and 2

	Debits equal Credits, Yes or No	Accounts	Amount	High or Low
a.	No	Notes Payable	$5,000	Low
b.	No	Utilities Expense	900	Low
c.	Yes	Furniture	600	High
		Accounts Payable	600	High
d.	No	Cash	450	Low
e.	Yes	Office Supplies	90	Low
		Accounts Payable	90	Low

E2-26 Correcting errors in a trial balance

Learning Objective 4

Total Debits $35,600

The accountant for Countryside Painting Specialists is having a hard time preparing the trial balance as of November 30, 2018:

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COUNTRYSIDE PAINTING SPECIALISTS Trial Balance November 30, 2018		
	Balance	
Account Title	Debit	Credit
Painting Equipment	$ 13,500	
Cash	12,100	
Accounts Receivable	1,300	
Advertising Expense	550	
Dividends		$ 3,500
Accounts Payable		3,300
Rent Expense	1,800	
Common Stock	15,000	
Service Revenue		15,600
Unearned Revenue	1,700	
Salaries Expense	2,400	
Office Supplies		200
Utilities Expense	250	
Total	$ 48,600	$ 22,600

Prepare the corrected trial balance as of November 30, 2018. Assume all amounts are correct and all accounts have normal balances.

SOLUTION

COUNTRYSIDE PAINTING SPECIALISTS Trial Balance November 30, 2018		
Account Title	**Balance**	
	Debit	Credit
Cash	$ 12,100	
Accounts Receivable	1,300	
Office Supplies	200	
Painting Equipment	13,500	
Accounts Payable		$ 3,300
Unearned Revenue		1,700
Common Stock		15,000
Dividends	3,500	
Service Revenue		15,600
Advertising Expense	550	
Rent Expense	1,800	
Salaries Expense	2,400	
Utilities Expense	250	
Total	**$ 35,600**	**$ 35,600**

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E2-27 Correcting errors in a trial balance

Learning Objective 4

Total Debits $35,300

The following trial balance of Joy McDowell Tutoring Service as of May 31, 2018, does not balance.

JOY MCDOWELL TUTORING SERVICE
Trial Balance
May 31, 2018

	Balance	
Account Title	**Debit**	**Credit**
Cash	$ 2,800	
Accounts Receivable	2,000	
Office Supplies	600	
Computer Equipment	15,800	
Accounts Payable		$ 11,100
Utilities Payable		800
Common Stock		11,600
Dividends	10,400	
Service Revenue		9,600
Salaries Expense	1,900	
Rent Expense	800	
Utilities Expense	700	
Total	$ 35,000	$ 33,100

Investigation of the accounting records reveals that the bookkeeper:

a. Recorded a $400 cash revenue transaction by debiting Accounts Receivable. The credit entry was correct.

b. Posted a $2,000 credit to Accounts Payable as $200.

c. Did not record Utilities Expense or the related Utilities Payable in the amount of $300.

d. Understated Common Stock by $100.

Prepare the corrected trial balance as of May 31, 2018, complete with a heading; journal entries are not required.

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SOLUTION

JOY MCDOWELL TUTORING SERVICE
Trial Balance
May 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 3,200	
Accounts Receivable	1,600	
Office Supplies	600	
Computer Equipment	15,800	
Accounts Payable		$ 12,900
Utilities Payable		1,100
Common Stock		11,700
Dividends	10,400	
Service Revenue		9,600
Salaries Expense	1,900	
Rent Expense	800	
Utilities Expense	1,000	
Total	**$ 35,300**	**$ 35,300**

Explanation:

a. Increase Cash by $400, decrease Accounts Receivable by $400.

b. Increase Accounts Payable by $1,800 ($2,000 – $200).

c. Increase Utilities Expense and Utilities Payable by $300 each.

d. Increase Common Stock by $100.

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E2-28 Calculating the debt ratio

Learning Objective 5

Total Assets $174,900

John Hart, M.D., reported the following trial balance as of September 30, 2018:

JOHN HART M.D.
Trial Balance
September 30, 2018

	Balance	
Account Title	**Debit**	**Credit**
Cash	$ 30,000	
Accounts Receivable	7,900	
Office Supplies	3,000	
Land	29,000	
Building	75,000	
Office Equipment	30,000	
Accounts Payable		$ 1,600
Utilities Payable		800
Unearned Revenue		24,795
Notes Payable		69,000
Common Stock		110,000
Dividends	57,000	
Service Revenue		50,505
Salaries Expense	23,500	
Utilities Expense	1,100	
Advertising Expense	200	
Total	$ 256,700	$ 256,700

Calculate the debt ratio for John Hart, M.D.

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SOLUTION

Liabilities:	
Accounts Payable	$ 1,600
Utilities Payable	800
Unearned Revenue	24,795
Notes Payable	69,000
Total liabilities	$ 96,195
Assets:	
Cash	$ 30,000
Accounts Receivable	7,900
Office Supplies	3,000
Office Equipment	30,000
Building	75,000
Land	29,000
Total assets	$ 174,900

Debt ratio = Total liabilities / Total assets = $96,195 / $174,900 = 0.55 = 55%

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Problems (Group A)

P2-29A Journalizing transactions, posting journal entries to T-accounts, and preparing a trial balance

Learning Objectives 3, 4

2. Cash Balance $56,050

Vince York practices medicine under the business title Vince York, M.D. During July, the medical practice completed the following transactions:

Jul. 1	York contributed $63,000 cash to the business in exchange for common stock.
5	Paid monthly rent on medical equipment, $510.
9	Paid $23,000 cash to purchase land to be used in operations.
10	Purchased office supplies on account, $1,600.
19	Borrowed $22,000 from the bank for business use.
22	Paid $1,100 on account.
28	The business received a bill for advertising in the daily newspaper to be paid in August, $240.
31	Revenues earned during the month included $6,400 cash and $6,000 on account.
31	Paid employees' salaries $2,200, office rent $1,900, and utilities $560. Record as a compound entry.
31	The business received $1,120 for medical screening services to be performed next month.
31	Paid cash dividends of $7,200.

The business uses the following accounts: Cash; Accounts Receivable; Office Supplies; Land; Accounts Payable; Advertising Payable; Unearned Revenue; Notes Payable; Common Stock; Dividends; Service Revenue; Salaries Expense; Rent Expense; Utilities Expense; and Advertising Expense.

Requirements

1. Journalize each transaction. Explanations are not required.

2. Post the journal entries to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account *Bal*.

3. Prepare the trial balance of Vince York, M.D., as of July 31, 2018.

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SOLUTION

Requirement 1

Date	Accounts and Explanation	Post Ref.	Debit	Credit
July 1	Cash		63,000	
	Common Stock			63,000
5	Rent Expense		510	
	Cash			510
9	Land		23,000	
	Cash			23,000
10	Office Supplies		1,600	
	Accounts Payable			1,600
19	Cash		22,000	
	Notes Payable			22,000
22	Accounts Payable		1,100	
	Cash			1,100
28	Advertising Expense		240	
	Advertising Payable			240
31	Cash		6,400	
	Accounts Receivable		6,000	
	Service Revenue			12,400
31	Salaries Expense		2,200	
	Rent Expense		1,900	
	Utilities Expense		560	
	Cash			4,660
31	Cash		1,120	
	Unearned Revenue			1,120
31	Dividends		7,200	
	Cash			7,200

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P2-29A, cont.
Requirement 2

Cash			
Jul. 1	63,000	510	Jul. 5
Jul. 19	22,000	23,000	Jul. 9
Jul. 31	6,400	1,100	Jul. 22
Jul. 31	1,120	4,660	Jul. 31
		7,200	Jul. 31
Bal.	56,050		

Accounts Receivable		
Jul. 31	6,000	
Bal.	6,000	

Office Supplies		
Jul. 10	1,600	
Bal.	1,600	

Land		
Jul. 9	23,000	
Bal.	23,000	

Accounts Payable			
Jul. 22	1,100	1,600	Jul. 10
		500	Bal.

Advertising Payable		
	240	Jul. 28
	240	Bal.

Unearned Revenue		
	1,120	Jul. 31
	1,120	Bal.

Notes Payable		
	22,000	Jul. 19
	22,000	Bal.

Common Stock		
	63,000	Jul. 1
	63,000	Bal.

Dividends		
Jul. 31	7,200	
Bal.	7,200	

Service Revenue		
	12,400	Jul. 31
	12,400	Bal.

Salaries Expense		
Jul. 31	2,200	
Bal.	2,200	

Rent Expense		
Jul. 5	510	
Jul. 31	1,900	
Bal.	2,410	

Utilities Expense		
Jul. 31	560	
Bal.	560	

Advertising Expense		
Jul. 28	240	
Bal.	240	

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P2-29A, cont.
Requirement 3

VINCE YORK, MD
Trial Balance
July 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 56,050	
Accounts Receivable	6,000	
Office Supplies	1,600	
Land	23,000	
Accounts Payable		$ 500
Advertising Payable		240
Unearned Revenue		1,120
Notes Payable		22,000
Common Stock		63,000
Dividends	7,200	
Service Revenue		12,400
Salaries Expense	2,200	
Rent Expense	2,410	
Utilities Expense	560	
Advertising Expense	240	
Total	**$ 99,260**	**$ 99,260**

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P2-30A Journalizing transactions, posting journal entries to T-accounts, and preparing a trial balance

Learning Objectives 3, 4

4. Total Debits $58,300

Ann Simpson started her practice as a design consultant on September 1, 2018. During the first month of operations, the business completed the following transactions:

Sep. 1	Received $48,000 cash and issued common stock to Simpson.
4	Purchased office supplies, $1,200, and furniture, $1,300, on account.
6	Performed services for a law firm and received $1,900 cash.
7	Paid $18,000 cash to acquire land to be used in operations.
10	Performed services for a hotel and received its promise to pay the $1,200 within one week.
14	Paid for the furniture purchased on September 4 on account.
15	Paid assistant's semimonthly salary, $1,500.
17	Received cash on account, $1,000.
20	Prepared a design for a school on account, $650.
25	Received $2,100 cash for design services to be performed in October.
28	Received $2,900 cash for consulting with Plummer & Gordon.
29	Paid $600 cash for a 12-month insurance policy starting on October 1.
30	Paid assistant's semimonthly salary, $1,500.
30	Paid monthly rent expense, $600.
30	Received a bill for utilities, $350. The bill will be paid next month.
30	Paid cash dividends of $3,700.

Requirements

1. Record each transaction in the journal using the following account titles: Cash; Accounts Receivable; Office Supplies; Prepaid Insurance; Land; Furniture; Accounts Payable; Utilities Payable; Unearned Revenue; Common Stock; Dividends; Service Revenue; Salaries Expense; Rent Expense; and Utilities Expense. Explanations are not required.
2. Open a T-account for each of the accounts.
3. Post the journal entries to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account *Bal*.
4. Prepare the trial balance of Ann Simpson, Designer, as of September 30, 2018.

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SOLUTION

Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Sep. 1	Cash		48,000	
	Common Stock			48,000
4	Office Supplies		1,200	
	Furniture		1,300	
	Accounts Payable			2,500
6	Cash		1,900	
	Service Revenue			1,900
7	Land		18,000	
	Cash			18,000
10	Accounts Receivable		1,200	
	Service Revenue			1,200
14	Accounts Payable		1,300	
	Cash			1,300
15	Salaries Expense		1,500	
	Cash			1,500
17	Cash		1,000	
	Accounts Receivable			1,000
20	Accounts Receivable		650	
	Service Revenue			650
25	Cash		2,100	
	Unearned Revenue			2,100
28	Cash		2,900	
	Service Revenue			2,900
29	Prepaid Insurance		600	
	Cash			600
30	Salaries Expense		1,500	
	Cash			1,500
30	Rent Expense		600	
	Cash			600

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P2-30A, cont.

30	Utilities Expense		350	
	Utilities Payable			350
30	Dividends		3,700	
	Cash			3,700

Requirements 2 and 3

Cash

Sep. 1	48,000	18,000	Sep. 7
Sep. 6	1,900	1,300	Sep. 14
Sep. 17	1,000	1,500	Sep. 15
Sep. 25	2,100	600	Sep. 29
Sep. 28	2,900	1,500	Sep. 30
		600	Sep. 30
		3,700	Sep. 30
Bal.	28,700		

Accounts Payable

Sep. 14	1,300	2,500	Sep. 4
		1,200	Bal.

Utilities Payable

		350	Sep. 30
		350	Bal.

Accounts Receivable

Sep. 10	1,200	1,000	Sep. 17
Sep. 20	650		
Bal.	850		

Unearned Revenue

		2,100	Sep. 25
		2,100	Bal.

Office Supplies

Sep. 4	1,200		
Bal.	1,200		

Common Stock

		48,000	Sep. 1
		48,000	Bal.

Prepaid Insurance

Sep. 29	600		
Bal.	600		

Dividends

Sep. 30	3,700		
Bal.	3,700		

Land

Sep. 7	18,000		
Bal.	18,000		

Service Revenue

		1,900	Sep. 6
		1,200	Sep. 10
		650	Sep. 20
		2,900	Sep. 28
		6,650	Bal.

Furniture

Sep. 4	1,300		
Bal.	1,300		

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P2-30A, cont.

Salaries Expense		
Sep. 15	1,500	
Sep. 30	1,500	
Bal.	3,000	

Rent Expense		
Sep. 30	600	
Bal.	600	

Utilities Expense		
Sep. 30	350	
Bal.	350	

Requirement 4

ANN SIMPSON, DESIGNER
Trial Balance
September 30, 2018

Account Title	**Balance**	
	Debit	Credit
Cash	$ 28,700	
Accounts Receivable	850	
Office Supplies	1,200	
Prepaid Insurance	600	
Land	18,000	
Furniture	1,300	
Accounts Payable		$ 1,200
Utilities Payable		350
Unearned Revenue		2,100
Common Stock		48,000
Dividends	3,700	
Service Revenue		6,650
Salaries Expense	3,000	
Rent Expense	600	
Utilities Expense	350	
Total	**$ 58,300**	**$ 58,300**

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P2-31A Journalizing transactions, posting journal entries to four-column accounts, and preparing a trial balance

Learning Objectives 3, 4

3. Cash Balance $50,160

Terrence Murphy opened a law office on January 1, 2018. During the first month of operations, the business completed the following transactions:

Jan. 1	Murphy contributed $78,000 cash to the business, Terrence Murphy, Attorney. The business issued common stock to Murphy.
3	Purchased office supplies, $600, and furniture, $1,700, on account.
4	Performed legal services for a client and received $1,000 cash.
7	Purchased a building with a market value of $130,000, and land with a market value of $25,000. The business paid $25,000 cash and signed a note payable to the bank for the remaining amount.
11	Prepared legal documents for a client on account, $400.
15	Paid assistant's semimonthly salary, $1,120.
16	Paid for the office supplies purchased on January 3 on account.
18	Received $2,700 cash for helping a client sell real estate.
19	Defended a client in court and billed the client for $1,800.
25	Received a bill for utilities, $600. The bill will be paid next month.
29	Received cash on account, $1,500.
30	Paid $1,200 cash for a 12-month insurance policy starting on February 1.
30	Paid assistant's semimonthly salary, $1,120.
31	Paid monthly rent expense, $1,800.
31	Paid cash dividends of $2,200.

Requirements

1. Record each transaction in the journal, using the following account titles: Cash; Accounts Receivable; Office Supplies; Prepaid Insurance; Land; Building; Furniture; Accounts Payable; Utilities Payable; Notes Payable; Common Stock; Dividends; Service Revenue; Salaries Expense; Rent Expense; and Utilities Expense. Explanations are not required.
2. Open the following four-column accounts including account numbers: Cash, 101; Accounts Receivable, 111; Office Supplies, 121; Prepaid Insurance, 131; Land, 141; Building, 151; Furniture, 161; Accounts Payable, 201; Utilities Payable, 211; Notes Payable, 221; Common Stock, 301; Dividends, 311; Service Revenue, 411; Salaries Expense, 511; Rent Expense, 521; and Utilities Expense, 531.
3. Post the journal entries to four-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Assume the journal entries were recorded on page 1 of the journal.
4. Prepare the trial balance of Terrence Murphy, Attorney, at January 31, 2018.

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SOLUTION

Requirements 1 and 3

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Jan. 1	Cash	101	78,000	
	Common Stock	301		78,000
3	Office Supplies	121	600	
	Furniture	161	1,700	
	Accounts Payable	201		2,300
4	Cash	101	1,000	
	Service Revenue	411		1,000
7	Building	151	130,000	
	Land	141	25,000	
	Cash	101		25,000
	Notes Payable	221		130,000
11	Accounts Receivable	111	400	
	Service Revenue	411		400
15	Salaries Expense	511	1,120	
	Cash	101		1,120
16	Accounts Payable	201	600	
	Cash	101		600
18	Cash	101	2,700	
	Service Revenue	411		2,700
19	Accounts Receivable	111	1,800	
	Service Revenue	411		1,800
25	Utilities Expense	531	600	
	Utilities Payable	211		600
29	Cash	101	1,500	
	Accounts Receivable	111		1,500
30	Prepaid Insurance	131	1,200	
	Cash	101		1,200
30	Salaries Expense	511	1,120	
	Cash	101		1,120

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P2-31A, cont.

31	Rent Expense	521	1,800	
	Cash	101		1,800
31	Dividends	311	2,200	
	Cash	101		2,200

Requirements 2 and 3

CASH — Account No. 101

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 1		J1	78,000		78,000	
Jan. 4		J1	1,000		79,000	
Jan. 7		J1		25,000	54,000	
Jan. 15		J1		1,120	52,880	
Jan. 16		J1		600	52,280	
Jan. 18		J1	2,700		54,980	
Jan. 29		J1	1,500		56,480	
Jan. 30		J1		1,200	55,280	
Jan. 30		J1		1,120	54,160	
Jan. 31		J1		1,800	52,360	
Jan. 31		J1		2,200	50,160	

ACCOUNTS RECEIVABLE — Account No. 111

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 11		J1	400		400	
Jan. 19		J1	1,800		2,200	
Jan. 29		J1		1,500	700	

OFFICE SUPPLIES — Account No. 121

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1	600		600	

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P2-31A, cont.

PREPAID INSURANCE — Account No. 131

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 30		J1	1,200		1,200	

LAND — Account No. 141

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1	25,000		25,000	

BUILDING — Account No. 151

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1	130,000		130,000	

FURNITURE — Account No. 161

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1	1,700		1,700	

ACCOUNTS PAYABLE — Account No. 201

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1		2,300		2,300
Jan. 16		J1	600			1,700

UTILITIES PAYABLE — Account No. 211

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 25		J1		600		600

NOTES PAYABLE — Account No. 221

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1		130,000		130,000

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P2-31A, cont.

COMMON STOCK — Account No. 301

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 1		J1		78,000		78,000

DIVIDENDS — Account No. 311

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31		J1	2,200		2,200	

SERVICE REVENUE — Account No. 411

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 4		J1		1,000		1,000
Jan. 11		J1		400		1,400
Jan. 18		J1		2,700		4,100
Jan. 19		J1		1,800		5,900

SALARIES EXPENSE — Account No. 511

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 15		J1	1,120		1,120	
Jan. 30		J1	1,120		2,240	

RENT EXPENSE — Account No. 521

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31		J1	1,800		1,800	

UTILITIES EXPENSE — Account No. 531

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 25		J1	600		600	

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P2-31A, cont.
Requirement 4

TERRENCE MURPHY, ATTORNEY Trial Balance January 31, 2018		
Account Title	**Balance**	
	Debit	Credit
Cash	$ 50,160	
Accounts Receivable	700	
Office Supplies	600	
Prepaid Insurance	1,200	
Land	25,000	
Building	130,000	
Furniture	1,700	
Accounts Payable		$ 1,700
Utilities Payable		600
Notes Payable		130,000
Common Stock		78,000
Dividends	2,200	
Service Revenue		5,900
Salaries Expense	2,240	
Rent Expense	1,800	
Utilities Expense	600	
Total	**$ 216,200**	**$ 216,200**

P2-32A Journalizing transactions, posting journal entries to four-column accounts, and preparing a trial balance

Learning Objectives 3, 4

3. Cash Balance $12,500

The trial balance of Shawn Merry, CPA, is dated March 31, 2018:

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SHAWN MERRY, CPA
Trial Balance
March 31, 2018

Account Title	Balance Debit	Balance Credit
Cash	$ 11,000	
Accounts Receivable	16,500	
Office Supplies	400	
Land	30,000	
Furniture	0	
Automobile	0	
Accounts Payable		$ 3,800
Unearned Revenue		0
Common Stock		52,300
Dividends	0	
Service Revenue		8,200
Salaries Expense	5,600	
Rent Expense	800	
Total	$ 64,300	$ 64,300

During April, the business completed the following transactions:

Apr. 4	Collected $2,500 cash from a client on account.
8	Performed tax services for a client on account, $5,400.
13	Paid $3,000 on account.
14	Purchased furniture on account, $3,600.
15	Merry contributed his personal automobile to the business in exchange for common stock. The automobile had a market value of $9,500.
18	Purchased office supplies on account, $900.
19	Received $2,700 for tax services performed on April 8.
20	Paid cash dividends of $6,500.
21	Received $5,700 cash for consulting work completed.
24	Received $2,400 cash for accounting services to be completed next month.
27	Paid office rent, $600.
28	Paid employee salary, $1,700.

Requirements

1. Record the April transactions in the journal. Use the following accounts: Cash; Accounts Receivable; Office Supplies; Land; Furniture; Automobile; Accounts Payable; Unearned Revenue; Common Stock; Dividends; Service Revenue; Salaries Expense; and Rent Expense. Include an explanation for each entry.

2. Open the four-column ledger accounts listed in the trial balance, together with their balances as of March 31. Use the following account numbers: Cash, 11; Accounts Receivable, 12; Office Supplies, 13; Land, 14; Furniture, 15; Automobile, 16; Accounts Payable, 21; Unearned Revenue, 22; Common Stock, 31; Dividends, 33; Service Revenue, 41; Salaries Expense, 51; and Rent Expense, 52.

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3. Post the journal entries to four-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Assume the journal entries were recorded on page 5 of the journal.

4. Prepare the trial balance of Shawn Merry, CPA, at April 30, 2018.

SOLUTION

Requirement 1

Date	Accounts and Explanation	Post. Ref.	Debit	Credit
Apr. 4	Cash	11	2,500	
	Accounts Receivable	12		2,500
	Received cash from client on account.			
8	Accounts Receivable	12	5,400	
	Service Revenue	41		5,400
	Performed tax services for client on account.			
13	Accounts Payable	21	3,000	
	Cash	11		3,000
	Paid cash on account.			
14	Furniture	15	3,600	
	Accounts Payable	21		3,600
	Purchased furniture on account.			
15	Automobile	16	9,500	
	Common Stock	31		9,500
	Issued common stock in exchange for automobile.			
18	Office Supplies	13	900	
	Accounts Payable	21		900
	Purchased office supplies on account.			
19	Cash	11	2,700	
	Accounts Receivable	12		2,700
	Received cash on account.			
20	Dividends	33	6,500	
	Cash	11		6,500
	Paid cash dividends.			
21	Cash	11	5,700	
	Service Revenue	41		5,700
	Received cash for consulting work.			

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P2-32A, cont.

Apr. 24	Cash	11	2,400	
	Unearned Revenue	22		2,400
	Received payment for services to be performed next month.			
27	Rent Expense	52	600	
	Cash	11		600
	Paid office rent.			
28	Salaries Expense	51	1,700	
	Cash	11		1,700
	Paid employee salary.			

Requirements 2 and 3

CASH — Account No. 11

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
Mar. 31	Balance				11,000	
Apr. 4		J5	2,500		13,500	
Apr. 13		J5		3,000	10,500	
Apr. 19		J5	2,700		13,200	
Apr. 20		J5		6,500	6,700	
Apr. 21		J5	5,700		12,400	
Apr. 24		J5	2,400		14,800	
Apr. 27		J5		600	14,200	
Apr. 28		J5		1,700	12,500	

ACCOUNTS RECEIVABLE — Account No. 12

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
Mar. 31	Balance				16,500	
Apr. 4		J5		2,500	14,000	
Apr. 8		J5	5,400		19,400	
Apr. 19		J5		2,700	16,700	

OFFICE SUPPLIES — Account No. 13

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
Mar. 31	Balance				400	
Apr. 18		J5	900		1,300	

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P2-32A, cont.

LAND — Account No. 14

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				30,000	

FURNITURE — Account No. 15

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 14		J5	3,600		3,600	

AUTOMOBILE — Account No. 16

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 15		J5	9,500		9,500	

ACCOUNTS PAYABLE — Account No. 21

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					3,800
Apr. 13		J5	3,000			800
Apr. 14		J5		3,600		4,400
Apr. 18		J5		900		5,300

UNEARNED REVENUE — Account No. 22

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 24		J5		2,400		2,400

COMMON STOCK — Account No. 31

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					52,300
Apr. 15		J5		9,500		61,800

DIVIDENDS — Account No. 33

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 20		J5	6,500		6,500	

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P2-32A, cont.

SERVICE REVENUE — Account No. 41

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					8,200
Apr. 8		J5		5,400		13,600
Apr. 21		J5		5,700		19,300

SALARIES EXPENSE — Account No. 51

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				5,600	
Apr. 28		J5	1,700		7,300	

RENT EXPENSE — Account No. 52

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				800	
Apr. 27		J5	600		1,400	

Requirement 4

SHAWN MERRY, CPA
Trial Balance
April 30, 2018

Acct. No.	Account Title	Balance	
		Debit	Credit
11	Cash	$ 12,500	
12	Accounts Receivable	16,700	
13	Office Supplies	1,300	
14	Land	30,000	
15	Furniture	3,600	
16	Automobile	9,500	
21	Accounts Payable		$ 5,300
22	Unearned Revenue		2,400
31	Common Stock		61,800
33	Dividends	6,500	
41	Service Revenue		19,300
51	Salaries Expense	7,300	
52	Rent Expense	1,400	
	Total	**$ 88,800**	**$ 88,800**

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P2-33A Correcting errors in a trial balance

Learning Objective 4

Total Debits $123,250

The trial balance of Beautiful Tots Child Care does not balance.

BEAUTIFUL TOTS CHILD CARE
Trial Balance
August 31, 2018

	Balance	
Account Title	**Debit**	**Credit**
Cash	$ 7,900	
Accounts Receivable	6,700	
Office Supplies	1,000	
Prepaid Insurance	300	
Equipment	91,500	
Accounts Payable		$ 3,400
Notes Payable		45,000
Common Stock		57,000
Dividends	5,000	
Service Revenue		12,350
Salaries Expense	4,400	
Rent Expense	750	
Total	$ 117,550	$ 117,750

The following errors are detected:

a. Cash is understated by $1,500.

b. A $4,100 debit to Accounts Receivable was posted as a credit.

c. A $1,400 purchase of office supplies on account was neither journalized nor posted.

d. Equipment was incorrectly transferred from the ledger as $91,500. It should have been transferred as $83,000.

e. Salaries Expense is overstated by $700.

f. A $300 cash payment for advertising expense was neither journalized nor posted.

g. A $200 cash dividend was incorrectly journalized as $2,000.

h. Service Revenue was understated by $4,100.

i. A 12-month insurance policy was posted as a $1,900 credit to Prepaid Insurance. Cash was posted correctly.

Prepare the corrected trial balance as of August 31, 2018. Journal entries are not required.

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SOLUTION

BEAUTIFUL TOTS CHILD CARE
Trial Balance
August 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 10,900	
Accounts Receivable	14,900	
Office Supplies	2,400	
Prepaid Insurance	4,100	
Equipment	83,000	
Accounts Payable		$ 4,800
Notes Payable		45,000
Common Stock		57,000
Dividends	3,200	
Service Revenue		16,450
Salaries Expense	3,700	
Rent Expense	750	
Advertising Expense	300	
Total	**$ 123,250**	**$ 123,250**

Explanations:

a. Increase Cash by $1,500.

b. Increase Accounts Receivable by $8,200 ($4,100 × 2).

c. Increase Office Supplies and Accounts Payable by $1,400 each.

d. Decrease Equipment by $8,500 ($91,500 − $83,000).

e. Decrease Salaries Expense by $700.

f. Advertising Expense should have a debit balance of $300. Decrease Cash by $300.

g. Dividends should decrease by $1,800 and Cash should increase by $1,800 ($2,000 − $200).

h. Service Revenue should increase by $4,100.

i. Prepaid Insurance should increase by $3,800 ($1,900 × 2).

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P2-34A Preparing financial statements from the trial balance and calculating the debt ratio

Learning Objectives 4, 5

2. Ending Retained Earnings $11,788

The trial balance as of July 31, 2018, for Sara Simon, Registered Dietician, is presented below:

SARA SIMON REGISTERED DIETICIAN
Trial Balance
July 31, 2018

	Balance	
Account Title	**Debit**	**Credit**
Cash	$ 38,000	
Accounts Receivable	9,000	
Office Supplies	2,300	
Prepaid Insurance	2,400	
Equipment	16,000	
Accounts Payable		$ 3,000
Unearned Revenue		3,912
Notes Payable		31,000
Common Stock		18,000
Dividends	2,800	
Service Revenue		17,888
Salaries Expense	1,700	
Rent Expense	1,100	
Utilities Expense	500	
Total	$ 73,800	$ 73,800

Requirements

1. Prepare the income statement for the month ended July 31, 2018.
2. Prepare the statement of retained earnings for the month ended July 31, 2018. The beginning balance of retained earnings was $0.
3. Prepare the balance sheet as of July 31, 2018.
4. Calculate the debt ratio as of July 31, 2018.

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SOLUTION

Requirement 1

SARA SIMON, REGISTERED DIETICIAN Income Statement Month Ended July 31, 2018		
Revenues:		
Service Revenue		$ 17,888
Expenses:		
Salaries Expense	$ 1,700	
Rent Expense	1,100	
Utilities Expense	500	
Total Expenses		3,300
Net Income		$ 14,588

Requirement 2

SARA SIMON, REGISTERED DIETICIAN Statement of Retained Earnings Month Ended July 31, 2018	
Retained Earnings, July 1, 2018	$ 0
Net income for the month	14,588
	14,588
Dividends	(2,800)
Retained Earnings, July 31, 2018	$ 11,788

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P2-34A, cont.
Requirements 3

SARA SIMON, REGISTERED DIETICIAN
Balance Sheet
July 31, 2018

Assets		Liabilities	
Cash	$ 38,000	Accounts Payable	$ 3,000
Accounts Receivable	9,000	Unearned Revenue	3,912
Office Supplies	2,300	Notes Payable	31,000
Prepaid Insurance	2,400	Total Liabilities	37,912
Equipment	16,000		
		Stockholders' Equity	
		Common Stock	18,000
		Retained Earnings	11,788
		Total Stockholders' Equity	29,788
		Total Liabilities and Stockholders'	
Total Assets	$ 67,700	Equity	$ 67,700

Requirement 4

Debt ratio = Total liabilities / Total assets = $37,912 / $67,700 = 0.56 = 56%

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Problems (Group B)

P2-35B Journalizing transactions, posting journal entries to T-accounts, and preparing a trial balance

Learning Objectives 3, 4

2. Cash Balance $69,680

Victor Yang practices medicine under the business title Victor Yang, M.D. During March, the medical practice completed the following transactions:

Mar. 1	Yang contributed $62,000 cash to the business in exchange for common stock.
5	Paid monthly rent on medical equipment, $570.
9	Paid $14,000 cash to purchase land to be used in operations.
10	Purchased office supplies on account, $1,500.
19	Borrowed $27,000 from the bank for business use.
22	Paid $1,400 on account.
28	The business received a bill for advertising in the daily newspaper to be paid in April, $220.
31	Revenues earned during the month included $6,700 cash and $5,800 on account.
31	Paid employees' salaries $2,100, office rent $1,500, and utilities $350. Record as a compound entry.
31	The business received $1,000 for medical screening services to be performed next month.
31	Paid cash dividends of $7,100.

The business uses the following accounts: Cash; Accounts Receivable; Office Supplies; Land; Accounts Payable; Advertising Payable; Unearned Revenue; Notes Payable; Common Stock; Dividends; Service Revenue; Salaries Expense; Rent Expense; Utilities Expense; and Advertising Expense.

Requirements

1. Journalize each transaction. Explanations are not required.

2. Post the journal entries to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account *Bal*.

3. Prepare the trial balance of Victor Yang, M.D., as of March 31, 2018.

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SOLUTION

Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Mar. 1	Cash		62,000	
	Common Stock			62,000
5	Rent Expense		570	
	Cash			570
9	Land		14,000	
	Cash			14,000
10	Office Supplies		1,500	
	Accounts Payable			1,500
19	Cash		27,000	
	Notes Payable			27,000
22	Accounts Payable		1,400	
	Cash			1,400
28	Advertising Expense		220	
	Advertising Payable			220
31	Cash		6,700	
	Accounts Receivable		5,800	
	Service Revenue			12,500
31	Salaries Expense		2,100	
	Rent Expense		1,500	
	Utilities Expense		350	
	Cash			3,950
31	Cash		1,000	
	Unearned Revenue			1,000
31	Dividends		7,100	
	Cash			7,100

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P2-35B, cont.
Requirement 2

Cash			
Mar. 1	62,000	570	Mar. 5
Mar. 19	27,000	14,000	Mar. 9
Mar. 31	6,700	1,400	Mar. 22
Mar. 31	1,000	3,950	Mar. 31
		7,100	Mar. 31
Bal.	69,680		

Accounts Receivable		
Mar. 31	5,800	
Bal.	5,800	

Office Supplies		
Mar. 10	1,500	
Bal.	1,500	

Land		
Mar. 9	14,000	
Bal.	14,000	

Accounts Payable			
Mar. 22	1,400	1,500	Mar. 10
		100	Bal.

Advertising Payable		
	220	Mar. 28
	220	Bal.

Unearned Revenue		
	1,000	Mar. 31
	1,000	Bal.

Notes Payable		
	27,000	Mar. 19
	27,000	Bal.

Common Stock		
	62,000	Mar. 1
	62,000	Bal.

Dividends		
Mar. 31	7,100	
Bal.	7,100	

Service Revenue		
	12,500	Mar. 31
	12,500	Bal.

Salaries Expense		
Mar. 31	2,100	
Bal.	2,100	

Rent Expense		
Mar. 5	570	
Mar. 31	1,500	
Bal.	2,070	

Utilities Expense		
Mar. 31	350	
Bal.	350	

Advertising Expense		
Mar. 28	220	
Bal.	220	

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P2-35B, cont.
Requirement 3

VICTOR YANG, MD
Trial Balance
March 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 69,680	
Accounts Receivable	5,800	
Office Supplies	1,500	
Land	14,000	
Accounts Payable		$ 100
Advertising Payable		220
Unearned Revenue		1,000
Notes Payable		27,000
Common Stock		62,000
Dividends	7,100	
Service Revenue		12,500
Salaries Expense	2,100	
Rent Expense	2,070	
Utilities Expense	350	
Advertising Expense	220	
Total	**$ 102,820**	**$ 102,820**

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P2-36B Journalizing transactions, posting journal entries to T-accounts, and preparing a trial balance

Learning Objectives 3, 4

4. Total Debits $51,430

Beth Stewart started her practice as a design consultant on November 1, 2018. During the first month of operations, the business completed the following transactions:

Nov. 1	Received $41,000 cash and issued common stock to Stewart.
4	Purchased office supplies, $1,200, and furniture, $2,300, on account.
6	Performed services for a law firm and received $2,100 cash.
7	Paid $27,000 cash to acquire land to be used in operations.
10	Performed services for a hotel and received its promise to pay the $800 within one week.
14	Paid for the furniture purchased on November 4 on account.
15	Paid assistant's semimonthly salary, $1,470.
17	Received cash on account, $500.
20	Prepared a design for a school on account, $680.
25	Received $1,900 cash for design services to be performed in December.
28	Received $3,100 cash for consulting with Plummer & Gordon.
29	Paid $840 cash for a 12-month insurance policy starting on December 1.
30	Paid assistant's semimonthly salary, $1,470.
30	Paid monthly rent expense, $650.
30	Received a bill for utilities, $650. The bill will be paid next month.
30	Paid cash dividends of $2,800.

Requirements

1. Record each transaction in the journal using the following account titles: Cash; Accounts Receivable; Office Supplies; Prepaid Insurance; Land; Furniture; Accounts Payable; Utilities Payable; Unearned Revenue; Common Stock; Dividends; Service Revenue; Salaries Expense; Rent Expense; and Utilities Expense. Explanations are not required.
2. Open a T-account for each of the accounts.
3. Post the journal entries to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account *Bal*.
4. Prepare the trial balance of Beth Stewart, Designer, as of November 30, 2018.

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SOLUTION

Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Nov. 1	Cash		41,000	
	Common Stock			41,000
4	Office Supplies		1,200	
	Furniture		2,300	
	Accounts Payable			3,500
6	Cash		2,100	
	Service Revenue			2,100
7	Land		27,000	
	Cash			27,000
10	Accounts Receivable		800	
	Service Revenue			800
14	Accounts Payable		2,300	
	Cash			2,300
15	Salaries Expense		1,470	
	Cash			1,470
17	Cash		500	
	Accounts Receivable			500
20	Accounts Receivable		680	
	Service Revenue			680
25	Cash		1,900	
	Unearned Revenue			1,900
28	Cash		3,100	
	Service Revenue			3,100
29	Prepaid Insurance		840	
	Cash			840
30	Salaries Expense		1,470	
	Cash			1,470
30	Rent Expense		650	
	Cash			650

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P2-36B, cont.

Nov. 30	Utilities Expense		650	
	Utilities Payable			650
30	Dividends		2,800	
	Cash			2,800

Requirements 2 and 3

Cash

Nov. 1	41,000	27,000	Nov. 7
Nov. 6	2,100	2,300	Nov. 14
Nov. 17	500	1,470	Nov. 15
Nov. 25	1,900	840	Nov. 29
Nov. 28	3,100	1,470	Nov. 30
		650	Nov. 30
		2,800	Nov. 30
Bal.	12,070		

Accounts Receivable

Nov. 10	800	500	Nov. 17
Nov. 20	680		
Bal.	980		

Office Supplies

Nov. 4	1,200		
Bal.	1,200		

Prepaid Insurance

Nov. 29	840		
Bal.	840		

Land

Nov. 7	27,000		
Bal.	27,000		

Furniture

Nov. 4	2,300		
Bal.	2,300		

Accounts Payable

Nov. 14	2,300	3,500	Nov. 4
		1,200	Bal.

Utilities Payable

		650	Nov. 30
		650	Bal.

Unearned Revenue

		1,900	Nov. 25
		1,900	Bal.

Common Stock

		41,000	Nov. 1
		41,000	Bal.

Dividends

Nov. 30	2,800		
Bal.	2,800		

Service Revenue

		2,100	Nov. 6
		800	Nov. 10
		680	Nov. 20
		3,100	Nov. 28
		6,680	Bal.

Salaries Expense

Nov. 15	1,470		
Nov. 30	1,470		
Bal.	2,940		

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P2-36B, cont.

Rent Expense		
Nov. 30	650	
Bal.	650	

Utilities Expense		
Nov. 30	650	
Bal.	650	

Requirement 4

BETH STEWART, DESIGNER
Trial Balance
November 30, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 12,070	
Accounts Receivable	980	
Office Supplies	1,200	
Prepaid Insurance	840	
Land	27,000	
Furniture	2,300	
Accounts Payable		$ 1,200
Utilities Payable		650
Unearned Revenue		1,900
Common Stock		41,000
Dividends	2,800	
Service Revenue		6,680
Salaries Expense	2,940	
Rent Expense	650	
Utilities Expense	650	
Total	**$ 51,430**	**$ 51,430**

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P2-37B Journalizing transactions, posting journal entries to four-column accounts, and preparing a trial balance

Learning Objectives 3, 4

3. Service Revenue Balance $6,800

Theodore McMahon opened a law office on April 1, 2018. During the first month of operations, the business completed the following transactions:

Apr. 1	McMahon contributed $70,000 cash to the business, Theodore McMahon, Attorney. The business issued common stock to McMahon.
3	Purchased office supplies, $1,100, and furniture, $1,300, on account.
4	Performed legal services for a client and received $2,000 cash.
7	Purchased a building with a market value of $150,000, and land with a market value of $30,000. The business paid $40,000 cash and signed a note payable to the bank for the remaining amount.
11	Prepared legal documents for a client on account, $400.
15	Paid assistant's semimonthly salary, $1,200.
16	Paid for the office supplies purchased on April 3 on account.
18	Received $2,700 cash for helping a client sell real estate.
19	Defended a client in court and billed the client for $1,700.
25	Received a bill for utilities, $650. The bill will be paid next month.
28	Received cash on account, $1,100.
29	Paid $3,600 cash for a 12-month insurance policy starting on May 1.
29	Paid assistant's semimonthly salary, $1,200.
30	Paid monthly rent expense, $2,100.
30	Paid cash dividends of $3,200.

Requirements

1. Record each transaction in the journal, using the following account titles: Cash; Accounts Receivable; Office Supplies; Prepaid Insurance; Land; Building; Furniture; Accounts Payable; Utilities Payable; Notes Payable; Common Stock; Dividends; Service Revenue; Salaries Expense; Rent Expense; and Utilities Expense. Explanations are not required.
2. Open the following four-column accounts including account numbers: Cash, 101; Accounts Receivable, 111; Office Supplies, 121; Prepaid Insurance, 131; Land, 141; Building, 151; Furniture, 161; Accounts Payable, 201; Utilities Payable, 211; Notes Payable, 221; Common Stock, 301; Dividends, 311; Service Revenue, 411; Salaries Expense, 511; Rent Expense, 521; and Utilities Expense, 531.
3. Post the journal entries to four-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Assume the journal entries were recorded on page 1 of the journal.
4. Prepare the trial balance of Theodore McMahon, Attorney, at April 30, 2018.

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SOLUTION

Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Apr. 1	Cash	101	70,000	
	Common Stock	301		70,000
3	Office Supplies	121	1,100	
	Furniture	161	1,300	
	Accounts Payable	201		2,400
4	Cash	101	2,000	
	Service Revenue	411		2,000
7	Building	151	150,000	
	Land	141	30,000	
	Cash	101		40,000
	Notes Payable	221		140,000
11	Accounts Receivable	111	400	
	Service Revenue	411		400
15	Salaries Expense	511	1,200	
	Cash	101		1,200
16	Accounts Payable	201	1,100	
	Cash	101		1,100
18	Cash	101	2,700	
	Service Revenue	411		2,700
19	Accounts Receivable	111	1,700	
	Service Revenue	411		1,700
25	Utilities Expense	531	650	
	Utilities Payable	211		650
28	Cash	101	1,100	
	Accounts Receivable	111		1,100
29	Prepaid Insurance	131	3,600	
	Cash	101		3,600
29	Salaries Expense	511	1,200	
	Cash	101		1,200

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P2-37B, cont.

Apr. 30	Rent Expense	521	2,100	
	Cash	101		2,100
30	Dividends	311	3,200	
	Cash	101		3,200

Requirements 2 and 3

CASH — Account No. 101

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
Apr. 1		J1	70,000		70,000	
Apr. 4		J1	2,000		72,000	
Apr. 7		J1		40,000	32,000	
Apr. 15		J1		1,200	30,800	
Apr. 16		J1		1,100	29,700	
Apr. 18		J1	2,700		32,400	
Apr. 28		J1	1,100		33,500	
Apr. 29		J1		3,600	29,900	
Apr. 29		J1		1,200	28,700	
Apr. 30		J1		2,100	26,600	
Apr. 30		J1		3,200	23,400	

ACCOUNTS RECEIVABLE — Account No. 111

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
Apr. 11		J1	400		400	
Apr. 19		J1	1,700		2,100	
Apr. 28		J1		1,100	1,000	

OFFICE SUPPLIES — Account No. 121

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
Apr. 3		J1	1,100		1,100	

PREPAID INSURANCE — Account No. 131

Date	Item	Post Ref.	Debit	Credit	Balance Debit	Balance Credit
Apr. 29		J1	3,600		3,600	

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P2-37B, cont.

LAND — Account No. 141

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1	30,000		30,000	

BUILDING — Account No. 151

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1	150,000		150,000	

FURNITURE — Account No. 161

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 3		J1	1,300		1,300	

ACCOUNTS PAYABLE — Account No. 201

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 3		J1		2,400		2,400
Apr. 16		J1	1,100			1,300

UTILITIES PAYABLE — Account No. 211

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 25		J1		650		650

NOTES PAYABLE — Account No. 221

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1		140,000		140,000

COMMON STOCK — Account No. 301

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 1		J1		70,000		70,000

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P2-37B, cont.

DIVIDENDS — Account No. 311

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 30		J1	3,200		3,200	

SERVICE REVENUE — Account No. 411

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 4		J1		2,000		2,000
Apr. 11		J1		400		2,400
Apr. 18		J1		2,700		5,100
Apr. 19		J1		1,700		6,800

SALARIES EXPENSE — Account No. 511

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 15		J1	1,200		1,200	
Apr. 29		J1	1,200		2,400	

RENT EXPENSE — Account No. 521

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 30		J1	2,100		2,100	

UTILITIES EXPENSE — Account No. 531

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 25		J1	650		650	

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P2-37B, cont.
Requirement 4

THEODORE MCMAHON, ATTORNEY
Trial Balance
April 30, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 23,400	
Accounts Receivable	1,000	
Office Supplies	1,100	
Prepaid Insurance	3,600	
Land	30,000	
Building	150,000	
Furniture	1,300	
Accounts Payable		$ 1,300
Utilities Payable		650
Notes Payable		140,000
Common Stock		70,000
Dividends	3,200	
Service Revenue		6,800
Salaries Expense	2,400	
Rent Expense	2,100	
Utilities Expense	650	
Total	**$ 218,750**	**$ 218,750**

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P2-38B Journalizing transactions, posting journal entries to four-column accounts, and preparing a trial balance

Learning Objectives 3, 4

3. Cash Balance $20,250

The trial balance of John Menning, CPA, is dated March 31, 2018:

JOHN MENNING, CPA
Trial Balance
March 31, 2018

	Balance	
Account Title	**Debit**	**Credit**
Cash	$ 17,000	
Accounts Receivable	10,500	
Office Supplies	1,200	
Land	29,000	
Furniture	0	
Automobile	0	
Accounts Payable		$ 3,800
Unearned Revenue		0
Common Stock		46,200
Dividends	0	
Service Revenue		11,200
Salaries Expense	2,500	
Rent Expense	1,000	
Total	$ 61,200	$ 61,200

During April, the business completed the following transactions:

Apr. 4	Collected $6,000 cash from a client on account.
8	Performed tax services for a client on account, $5,500.
13	Paid $3,300 on account.
14	Purchased furniture on account, $4,000.
15	Menning contributed his personal automobile to the business in exchange for common stock. The automobile had a market value of $11,500.
18	Purchased office supplies on account, $1,600.
19	Received $2,750 for tax services performed on April 8.
20	Paid cash dividends of $7,500.
21	Received $4,900 cash for consulting work completed.
24	Received $2,500 cash for accounting services to be completed next month.
27	Paid office rent, $900.
28	Paid employee salary, $1,200.

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Requirements

1. Record the April transactions in the journal using the following accounts: Cash; Accounts Receivable; Office Supplies; Land; Furniture; Automobile; Accounts Payable; Unearned Revenue; Common Stock; Dividends; Service Revenue; Salaries Expense; and Rent Expense. Include an explanation for each entry.

2. Open the four-column ledger accounts listed in the trial balance, together with their balances as of March 31. Use the following account numbers: Cash, 11; Accounts Receivable, 12; Office Supplies, 13; Land, 14; Furniture, 15; Automobile, 16; Accounts Payable, 21; Unearned Revenue, 22; Common Stock, 31; Dividends, 33; Service Revenue, 41; Salaries Expense, 51; and Rent Expense, 52.

3. Post the journal entries to four-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Assume the journal entries were recorded on page 5 of the journal.

4. Prepare the trial balance of John Menning, CPA, at April 30, 2018.

SOLUTION

Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Apr. 4	Cash	11	6,000	
	Accounts Receivable	12		6,000
	Received cash from client on account.			
8	Accounts Receivable	12	5,500	
	Service Revenue	41		5,500
	Performed tax services for client on account.			
13	Accounts Payable	21	3,300	
	Cash	11		3,300
	Paid cash on account.			
14	Furniture	15	4,000	
	Accounts Payable	21		4,000
	Purchased furniture on account.			
15	Automobile	16	11,500	
	Common Stock	31		11,500
	Issued common stock in exchange for automobile.			
18	Office Supplies	13	1,600	
	Accounts Payable	21		1,600
	Purchased office supplies on account.			

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P2-38B, cont.

Apr. 19	Cash	11	2,750	
	Accounts Receivable	12		2,750
	Received cash on account.			
20	Dividends	33	7,500	
	Cash	11		7,500
	Paid cash dividends to stockholders.			
21	Cash	11	4,900	
	Service Revenue	41		4,900
	Received cash for consulting work.			
24	Cash	11	2,500	
	Unearned Revenue	22		2,500
	Received payment for services to be performed next month.			
27	Rent Expense	52	900	
	Cash	11		900
	Paid office rent.			
28	Salaries Expense	51	1,200	
	Cash	11		1,200
	Paid employee salary.			

Requirements 2 and 3

CASH Account No. 11

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				17,000	
Apr. 4		J5	6,000		23,000	
Apr. 13		J5		3,300	19,700	
Apr. 19		J5	2,750		22,450	
Apr. 20		J5		7,500	14,950	
Apr. 21		J5	4,900		19,850	
Apr. 24		J5	2,500		22,350	
Apr. 27		J5		900	21,450	
Apr. 28		J5		1,200	20,250	

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P2-38B, cont.

ACCOUNTS RECEIVABLE — Account No. 12

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				10,500	
Apr. 4		J5		6,000	4,500	
Apr. 8		J5	5,500		10,000	
Apr. 19		J5		2,750	7,250	

OFFICE SUPPLIES — Account No. 13

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				1,200	
Apr. 18		J5	1,600		2,800	

LAND — Account No. 14

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				29,000	

FURNITURE — Account No. 15

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 14		J5	4,000		4,000	

AUTOMOBILE — Account No. 16

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 15		J5	11,500		11,500	

ACCOUNTS PAYABLE — Account No. 21

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					3,800
Apr. 13		J5	3,300			500
Apr. 14		J5		4,000		4,500
Apr. 18		J5		1,600		6,100

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P2-38B, cont.

UNEARNED REVENUE — Account No. 22

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 24		J5		2,500		2,500

COMMON STOCK — Account No. 31

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					46,200
Apr. 15		J5		11,500		57,700

DIVIDENDS — Account No. 33

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 20		J5	7,500		7,500	

SERVICE REVENUE — Account No. 41

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					11,200
Apr. 8		J5		5,500		16,700
Apr. 21		J5		4,900		21,600

SALARIES EXPENSE — Account No. 51

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				2,500	
Apr. 28		J5	1,200		3,700	

RENT EXPENSE — Account No. 52

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				1,000	
Apr. 27		J5	900		1,900	

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P2-38B, cont.

Requirement 4

JOHN MENNING, CPA
Trial Balance
April 30, 2018

Acct. No.	Account Title	Balance	
		Debit	Credit
11	Cash	$ 20,250	
12	Accounts Receivable	7,250	
13	Office Supplies	2,800	
14	Land	29,000	
15	Furniture	4,000	
16	Automobile	11,500	
21	Accounts Payable		$ 6,100
22	Unearned Revenue		2,500
31	Common Stock		57,700
33	Dividends	7,500	
41	Service Revenue		21,600
51	Salaries Expense	3,700	
52	Rent Expense	1,900	
	Total	**$ 87,900**	**$ 87,900**

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P2-39B Correcting errors in a trial balance

Learning Objective 4

Total Debits $123,300

The trial balance of Love to Learn Child Care does not balance.

LOVE TO LEARN CHILD CARE
Trial Balance
May 31, 2018

	Balance	
Account Title	**Debit**	**Credit**
Cash	$ 8,060	
Accounts Receivable	8,700	
Office Supplies	1,000	
Prepaid Insurance	1,700	
Equipment	90,400	
Accounts Payable		$ 3,000
Notes Payable		45,000
Common Stock		54,000
Dividends	3,740	
Service Revenue		16,300
Salaries Expense	4,350	
Rent Expense	400	
Total	$ 118,350	$ 118,300

The following errors are detected:

a. Cash is understated by $1,800.

b. A $3,800 debit to Accounts Receivable was posted as a credit.

c. A $1,000 purchase of office supplies on account was neither journalized nor posted.

d. Equipment was incorrectly transferred from the ledger as $90,400. It should have been transferred as $82,500.

e. Salaries Expense is overstated by $350.

f. A $300 cash payment for advertising expense was neither journalized nor posted.

g. A $160 cash dividend was incorrectly journalized as $1,600.

h. Service Revenue was understated by $4,000.

i. A 12-month insurance policy was posted as a $1,400 credit to Prepaid Insurance. Cash was posted correctly.

Prepare the corrected trial balance as of May 31, 2018. Journal entries are not required.

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SOLUTION

LOVE TO LEARN CHILD CARE
Trial Balance
May 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 11,000	
Accounts Receivable	16,300	
Office Supplies	2,000	
Prepaid Insurance	4,500	
Equipment	82,500	
Accounts Payable		$ 4,000
Notes Payable		45,000
Common Stock		54,000
Dividends	2,300	
Service Revenue		20,300
Salaries Expense	4,000	
Rent Expense	400	
Advertising Expense	300	
Total	**$ 123,300**	**$ 123,300**

Explanations:

a. Increase Cash by $1,800.

b. Increase Accounts Receivable by $7,600 ($3,800 × 2).

c. Increase Office Supplies and Accounts Payable by $1,000 each.

d. Decrease Equipment by $7,900 ($90,400 − $82,500).

e. Decrease Salaries Expense by $350.

f. Advertising Expense should have a debit balance of $300. Decrease Cash by $300.

g. Dividends should decrease by $1,440 and Cash should increase by $1,440 ($1,600 − $160).

h. Service Revenue should increase by $4,000.

i. Prepaid Insurance should increase by $2,800 ($1,400 × 2).

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P2-40B Preparing financial statements from the trial balance and calculating the debt ratio

Learning Objectives 4, 5

1. Net Income $13,404

The trial balance as of July 31, 2018, for Sheila Sanchez, Registered Dietician, is presented below:

SHEILA SANCHEZ, REGISTERED DIETICIAN
Trial Balance
July 31, 2018

	Balance	
Account Title	**Debit**	**Credit**
Cash	$ 32,000	
Accounts Receivable	9,100	
Office Supplies	1,400	
Prepaid Insurance	2,600	
Equipment	24,000	
Accounts Payable		$ 3,400
Unearned Revenue		1,296
Notes Payable		34,000
Common Stock		20,000
Dividends	3,000	
Service Revenue		15,804
Salaries Expense	1,600	
Rent Expense	700	
Utilities Expense	100	
Total	$ 74,500	$ 74,500

Requirements

1. Prepare the income statement for the month ended July 31, 2018.
2. Prepare the statement of retained earnings for the month ended July 31, 2018. The beginning balance of retained earnings was $0.
3. Prepare the balance sheet as of July 31, 2018.
4. Calculate the debt ratio as of July 31, 2018.

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SOLUTION

Requirement 1

SHEILA SANCHEZ, REGISTERED DIETICIAN Income Statement Month Ended July 31, 2018		
Revenues:		
Service Revenue		$ 15,804
Expenses:		
Salaries Expense	$ 1,600	
Rent Expense	700	
Utilities Expense	100	
Total Expenses		2,400
Net Income		$ 13,404

Requirement 2

SHEILA SANCHEZ, REGISTERED DIETICIAN Statement of Retained Earnings Month Ended July 31, 2018	
Retained Earnings, July 1, 2018	$ 0
Net income for the month	13,404
	13,404
Dividends	(3,000)
Retained Earnings, July 31, 2018	$ 10,404

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P2-40B, cont.
Requirement 3

SHEILA SANCHEZ, REGISTERED DIETICIAN
Balance Sheet
July 31, 2018

Assets		Liabilities	
Cash	$ 32,000	Accounts Payable	$ 3,400
Accounts Receivable	9,100	Unearned Revenue	1,296
Office Supplies	1,400	Notes Payable	34,000
Prepaid Insurance	2,600	Total Liabilities	$ 38,696
Equipment	24,000		
		Stockholders' Equity	
		Common Stock	20,000
		Retained Earnings	10,404
		Total Stockholders' Equity	30,404
		Total Liabilities and Stockholders'	
Total Assets	$ 69,100	Equity	$ 69,100

Requirement 4

Debt ratio = Total liabilities / Total assets = $38,696 / $69,100 = 0.56 = 56%

Using Excel

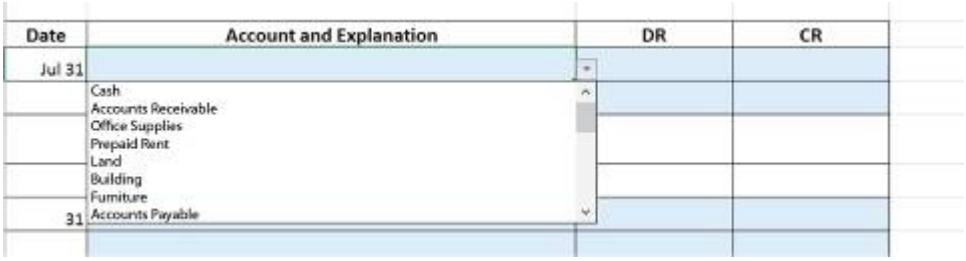
P2-41 Using Excel to journalize and post transactions, and to create financial statements

Redmond Corporation started operations on April 1, 2018. Seventeen transactions occurred during April. Financial statements are prepared at the end of the month.

Requirements

1. Use Excel to record the transactions for April. Use the blue shaded areas for inputs.

a. To record the account name in the journal, click in the Account and Explanation column. A drop down arrow will appear to the right. Click the arrow and select an account from the chart of accounts. Use the explanation to help you with the entry.



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b. Indent the account name of the account to be credited using the indent button on the Home tab. Click the Increase Indent button twice.



2. Post the transactions to T-Accounts. Use the blue shaded areas for inputs.

a. For each transaction, post the amount on the correct side of the T-Account. The T-account totals will be calculated automatically.

b. Total debits should equal total credits. The debit-credit balance check appears in the top right-hand corner of the T-Account worksheet.

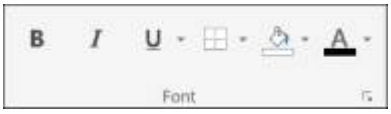
3. Prepare the income statement, statement of retained earnings, and balance sheet for the company using the trial balance. Each financial statement appears on a separate worksheet tab.

a. Fill in the blue shaded areas using a formula that references the account balances in the trial balance at the end of the month.

b. Format the cells requiring dollar signs. Number formatting is located on the Home tab.



c. Format the cells requiring a single underline and cells requiring double underlines. The borders tool is found on the Home tab. It looks like a window pane. Click the down arrow for different border selections.



SOLUTION

The student templates for *Using Excel* are available online in MyAccountingLab in the Multimedia Library or at http://www.pearsonhighered.com/Horngren. The solution to *Using Excel* is located in MyAccountingLab in the Instructor Resource Center or at http://www.pearsonhighered.com/Horngren.

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Continuing Problem

P2-42 Journalizing transactions, posting to T-accounts, and preparing a trial balance

Problem P2-42 continues with the company introduced in Chapter 1, Canyon Canoe Company. Here you will account for Canyon Canoe Company's transactions as it is actually done in practice. Begin by reviewing the transactions from Chapter 1. The transactions have been reprinted below.

Nov. 1	Received $16,000 cash to begin the company and issued common stock to Amber and Zach.
2	Signed a lease for a building and paid $1,200 for the first month's rent.
3	Purchased canoes for $4,800 on account.
4	Purchased office supplies on account, $750.
7	Earned $1,400 cash for rental of canoes.
13	Paid $1,500 cash for wages.
15	Paid $50 dividends to stockholders.
16	Received a bill for $150 for utilities. (Use separate payable account.)
20	Received a bill for $175 for cell phone expenses. (Use separate payable account.)
22	Rented canoes to Early Start Daycare on account, $3,000.
26	Paid $1,000 on account related to the November 3 purchase.
28	Received $750 from Early Start Daycare for canoe rental on November 22.
30	Paid $100 dividends to stockholders.

In addition, Canyon Canoe Company completed the following transactions for December.

Dec. 1	Amber and Zack contributed land on the river (worth $85,000) and a small building to use as a rental office (worth $35,000) in exchange for common stock.
1	Prepaid $3,000 for three months' rent on the warehouse where the company stores the canoes.
2	Purchased canoes signing a note payable for $7,200
4	Purchased office supplies on account for $500.
9	Received $4,500 cash for canoe rentals to customers.
15	Rented canoes to customers for $3,500, but will be paid next month.
16	Received a $750 deposit from a canoe rental group that will use the canoes next month.
18	Paid the utilities and telephone bills from last month.
19	Paid various accounts payable, $2,000.
20	Received bills for the telephone ($325) and utilities ($295) which will be paid later.
31	Paid wages of $1,800.
31	Paid cash dividend to stockholders, $300.

Requirements

1. Journalize the transactions for both November and December, using the following accounts: Cash; Accounts Receivable; Office Supplies; Prepaid Rent; Land; Building; Canoes; Accounts Payable; Utilities Payable; Telephone Payable; Unearned Revenue; Notes Payable; Common Stock;

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Dividends; Canoe Rental Revenue; Rent Expense; Utilities Expense; Wages Expense; and Telephone Expense. Explanations are not required. (Hint: For November transactions, refer to your answer for Chapter 1.)

2. Open a T-account for each of the accounts.
3. Post the journal entries to the T-accounts, and calculate account balances. Formal posting references are not required.
4. Prepare a trial balance as of December 31, 2018.
5. Prepare the income statement of Canyon Canoe Company for the two months ended December 31, 2018.
6. Prepare the statement of retained earnings for the two months ended December 31, 2018.
7. Prepare the balance sheet as of December 31, 2018.
8. Calculate the debt ratio for Canyon Canoe Company at December 31, 2018.

SOLUTION

Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Nov. 1	Cash		16,000	
	Common Stock			16,000
2	Rent Expense		1,200	
	Cash			1,200
3	Canoes		4,800	
	Accounts Payable			4,800
4	Office Supplies		750	
	Accounts Payable			750
7	Cash		1,400	
	Canoe Rental Revenue			1,400
13	Wages Expense		1,500	
	Cash			1,500
15	Dividends		50	
	Cash			50
16	Utilities Expense		150	
	Utilities Payable			150
20	Telephone Expense		175	
	Telephone Payable			175
22	Accounts Receivable		3,000	
	Canoe Rental Revenue			3,000

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Requirement 1, cont.

Nov. 26	Accounts Payable		1,000	
	Cash			1,000
28	Cash		750	
	Accounts Receivable			750
30	Dividends		100	
	Cash			100
Dec. 1	Land		85,000	
	Building		35,000	
	Common Stock			120,000
1	Prepaid Rent		3,000	
	Cash			3,000
2	Canoes		7,200	
	Notes Payable			7,200
4	Office Supplies		500	
	Accounts Payable			500
9	Cash		4,500	
	Canoe Rental Revenue			4,500
15	Accounts Receivable		3,500	
	Canoe Rental Revenue			3,500
16	Cash		750	
	Unearned Revenue			750
18	Utilities Payable		150	
	Telephone Payable		175	
	Cash			325
19	Accounts Payable		2,000	
	Cash			2,000
20	Telephone Expense		325	
	Utilities Expense		295	
	Telephone Payable			325
	Utilities Payable			295
31	Wages Expense		1,800	
	Cash			1,800
31	Dividends		300	
	Cash			300

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P2-42, cont.
Requirements 2 and 3

Cash			
Nov. 1	16,000	1,200	Nov. 2
Nov. 7	1,400	1,500	Nov. 13
Nov. 28	750	50	Nov. 15
Dec. 9	4,500	1,000	Nov. 26
Dec. 16	750	100	Nov. 30
		3,000	Dec. 1
		325	Dec. 18
		2,000	Dec. 19
		1,800	Dec. 31
		300	Dec. 31
Balance	12,125		

Accounts Payable			
Nov. 26	1,000	4,800	Nov. 3
Dec. 19	2,000	750	Nov. 4
		500	Dec. 4
		3,050	Balance

Accounts Receivable			
Nov. 22	3,000	750	Nov. 28
Dec. 15	3,500		
Balance	5,750		

Utilities Payable			
Dec. 18	150	150	Nov. 16
		295	Dec. 20
		295	Balance

Office Supplies		
Nov. 4	750	
Dec. 4	500	
Balance	1,250	

Telephone Payable			
Dec. 18	175	175	Nov. 20
		325	Dec. 20
		325	Balance

Prepaid Rent		
Dec. 1	3,000	
Balance	3,000	

Unearned Revenue		
	750	Dec. 16
	750	Balance

Land		
Dec. 1	85,000	
Balance	85,000	

Notes Payable		
	7,200	Dec. 2
	7,200	Balance

Building		
Dec. 1	35,000	
Balance	35,000	

Common Stock		
	16,000	Nov. 1
	120,000	Dec. 1
	136,000	Balance

Canoes		
Nov. 3	4,800	
Dec. 2	7,200	
Balance	12,000	

Dividends		
Nov. 15	50	
Nov. 30	100	
Dec. 31	300	
Balance	450	

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P2-42, cont.
Requirements 2 and 3, cont.

Canoe Rental Revenue		
	1,400	Nov. 7
	3,000	Nov. 22
	4,500	Dec. 9
	3,500	Dec. 15
	12,400	Balance

Rent Expense		
Nov. 2	1,200	
Balance	1,200	

Wages Expense		
Nov. 13	1,500	
Dec. 31	1,800	
Balance	3,300	

Utilities Expense		
Nov. 16	150	
Dec. 20	295	
Balance	445	

Telephone Expense		
Nov. 20	175	
Dec. 20	325	
Balance	500	

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P2-42, cont.
Requirement 4

CANYON CANOE COMPANY
Trial Balance
December 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	$ 12,125	
Accounts Receivable	5,750	
Office Supplies	1,250	
Prepaid Rent	3,000	
Land	85,000	
Building	35,000	
Canoes	12,000	
Accounts Payable		$ 3,050
Utilities Payable		295
Telephone Payable		325
Unearned Revenue		750
Notes Payable		7,200
Common Stock		136,000
Dividends	450	
Canoe Rental Revenue		12,400
Rent Expense	1,200	
Wages Expense	3,300	
Utilities Expense	445	
Telephone Expense	500	
Total	**$ 160,020**	**$ 160,020**

Requirement 5

CANYON CANOE COMPANY
Income Statement
Two Months Ended December 31, 2018

Revenues:		
Canoe Rental Revenue		$ 12,400
Expenses:		
Wages Expense	$ 3,300	
Rent Expense	1,200	
Telephone Expense	500	
Utilities Expense	445	
Total Expenses		5,445
Net Income		$ 6,955

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P2-42, cont.

Requirement 6

CANYON CANOE COMPANY Statement of Retained Earnings Two Months Ended December 31, 2018	
Retained Earnings, November 1, 2018	$ 0
Net income for the month	6,955
	6,955
Dividends	(450)
Retained Earnings, December 31, 2018	$ 6,505

Requirement 7

CANYON CANOE COMPANY
Balance Sheet
December 31, 2018

Assets		Liabilities	
Cash	$ 12,125	Accounts Payable	$ 3,050
Accounts Receivable	5,750	Utilities Payable	295
Office Supplies	1,250	Telephone Payable	325
Prepaid Rent	3,000	Unearned Revenue	750
Land	85,000	Notes Payable	7,200
Building	35,000	Total Liabilities	11,620
Canoes	12,000		
		Stockholders' Equity	
		Common Stock	136,000
		Retained Earnings	6,505
		Total Stockholders' Equity	142,505
		Total Liabilities and Stockholders'	
Total Assets	$ 154,125	Equity	$ 154,125

Requirement 8

Debt ratio = Total liabilities / Total assets = $11,620 / $154,125 = 0.075* = 7.5%

* rounded

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Practice Set

P2-43 Journalizing transactions, posting to T-accounts, and preparing a trial balance

Consider the following transactional data for the first month of operations for Crystal Clear Cleaning.

Nov. 1	Stockholders contributed $15,000 and a truck, with a market value of $3,000, to the business in exchange for common stock.
2	The business paid $4,000 to Pleasant Properties for November through February rent. (Debit Prepaid Rent)
3	Paid $4,800 for a business insurance policy for the term November 1, 2018 through October 31, 2019. (Debit Prepaid Insurance)
4	Purchased cleaning supplies on account, $320.
5	Purchased on account an industrial vacuum cleaner costing $1,500. The invoice is payable November 25.
7	Paid $3,900 for a computer and printer.
9	Performed cleaning services on account in the amount of $4,700.
10	Received $200 for services rendered on November 9.
15	Paid employees, $400.
16	Received $15,000 for a 1-year contract beginning November 16 for cleaning services to be provided. Contract begins November 16, 2018, and ends November 15, 2019. (Credit Unearned Revenue)
17	Provided cleaning services and received $400 cash.
18	Received a utility bill for $175 with a due date of December 4, 2018. (Use Accounts Payable)
20	Borrowed $36,000 from bank with interest rate of 6% per year.
21	Received $500 on account for services performed on November 9.
25	Paid $750 on account for vacuum cleaner purchased on November 5.
29	Paid $200 for advertising.
30	Cash dividends of $1,400 were paid to stockholders.

Requirements

1. Journalize the transactions, using the following accounts: Cash; Accounts Receivable; Cleaning Supplies; Prepaid Rent; Prepaid Insurance; Equipment; Truck; Accounts Payable; Unearned Revenue; Notes Payable; Common Stock; Dividends; Service Revenue; Salaries Expense; Advertising Expense; and Utilities Expense. Explanations are not required.
2. Open a T-account for each account.
3. Post the journal entries to the T-accounts, and calculate account balances.
4. Prepare a trial balance as of November 30, 2018.

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SOLUTION

Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Nov. 1	Cash		15,000	
	Truck		3,000	
	Common Stock			18,000
2	Prepaid Rent		4,000	
	Cash			4,000
3	Prepaid Insurance		4,800	
	Cash			4,800
4	Cleaning Supplies		320	
	Accounts Payable			320
5	Equipment		1,500	
	Accounts Payable			1,500
7	Equipment		3,900	
	Cash			3,900
9	Accounts Receivable		4,700	
	Service Revenue			4,700
10	Cash		200	
	Accounts Receivable			200
15	Salaries Expense		400	
	Cash			400
16	Cash		15,000	
	Unearned Revenue			15,000
17	Cash		400	
	Service Revenue			400
18	Utilities Expense		175	
	Accounts Payable			175
20	Cash		36,000	
	Notes Payable			36,000

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P2-43, cont.

Nov. 21	Cash		500	
	Accounts Receivable			500
25	Accounts Payable		750	
	Cash			750
29	Advertising Expense		200	
	Cash			200
30	Dividends		1,400	
	Cash			1,400

Requirements 2 and 3

Cash

Nov. 1	15,000	4,000	Nov. 2
Nov. 10	200	4,800	Nov. 3
Nov. 16	15,000	3,900	Nov. 7
Nov. 17	400	400	Nov. 15
Nov. 20	36,000	750	Nov. 25
Nov. 21	500	200	Nov. 29
		1,400	Nov. 30
Balance	51,650		

Accounts Payable

Nov. 25	750	320	Nov. 4
		1,500	Nov. 5
		175	Nov. 18
		1,245	Balance

Accounts Receivable

Nov. 9	4,700	200	Nov. 10
		500	Nov. 21
Balance	4,000		

Unearned Revenue

		15,000	Nov. 16
		15,000	Balance

Cleaning Supplies

Nov. 4	320	
Balance	320	

Notes Payable

	36,000	Nov. 20
	36,000	Balance

Prepaid Rent

Nov. 2	4,000	
Balance	4,000	

Common Stock

	18,000	Nov. 1
	18,000	Balance

Prepaid Insurance

Nov. 3	4,800	
Balance	4,800	

Dividends

Nov. 30	1,400	
Balance	1,400	

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P2-43, cont.
Requirements 2 and 3

Equipment		
Nov. 5	1,500	
Nov. 7	3,900	
Balance	5,400	

Service Revenue		
	4,700	Nov. 9
	400	Nov. 17
	5,100	Balance

Truck		
Nov. 1	3,000	
Balance	3,000	

Salaries Expense		
Nov. 15	400	
Balance	400	

Advertising Expense		
Nov. 29	200	
Balance	200	

Utilities Expense		
Nov. 18	175	
Balance	175	

Requirement 4

CRYSTAL CLEAR CLEANING
Trial Balance
November 30, 2018

Account Title	**Balance**	
	Debit	Credit
Cash	$ 51,650	
Accounts Receivable	4,000	
Cleaning Supplies	320	
Prepaid Rent	4,000	
Prepaid Insurance	4,800	
Equipment	5,400	
Truck	3,000	
Accounts Payable		$ 1,245
Unearned Revenue		15,000
Notes Payable		36,000
Common Stock		18,000
Dividends	1,400	
Service Revenue		5,100
Salaries Expense	400	
Advertising Expense	200	
Utilities Expense	175	
Total	**$ 75,345**	**$ 75,345**

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Critical Thinking

Tying It All Together Case 2-1

Before you begin this assignment, review the Tying It All Together feature in the chapter.

Part of the **Fry's Electronics, Inc**.'s experience involves providing technical support to its customers. This includes in-home installations of electronics and also computer support at their retail store locations.

Requirements

1. Suppose Fry's Electronics, Inc. provides $10,500 of computer support at the Dallas-Fort Worth store during the month of November. How would Fry's Electronics record this transaction? Assume all customers paid in cash. What financial statement(s) would this transaction affect?
2. Assume Fry's Electronics, Inc.'s Modesto, California, location received $24,000 for an annual contract to provide computer support to the local city government. How would Fry's Electronics record this transaction? What financial statement(s) would this transaction affect?
3. What is the difference in how revenue is recorded in requirements 1 and 2? Clearly state when revenue is recorded in each requirement.

SOLUTION

Requirement 1

Fry's Electronics would record the following journal entry:

Date	Accounts and Explanation	Debit	Credit
	Cash	10,500	
	Service Revenue		10,500

The transaction would increase assets (Cash) and equity (Retained Earnings) on the balance sheet and increase Service Revenue on the income statement.

Requirement 2

Fry's Electronics would record the following journal entry:

Date	Accounts and Explanation	Debit	Credit
	Cash	24,000	
	Unearned Revenue		24,000

The transaction would increase assets (Cash) and increase liabilities (Unearned Revenue) on the balance sheet.

Requirement 3

In requirement 1, Fry's Electronics recorded revenue because the company had received the cash from the customer and provided the service. In requirement 2, Fry's Electronics recorded a liability, Unearned Revenue, because even though cash was received, the service has not been provided. The revenue related to requirement 2 will not be recorded until the service has been provided.

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Decision Case 2-1

Your friend, Dean McChesney, requested that you advise him on the effects that certain transactions will have on his business, A-Plus Travel Planners. Time is short, so you cannot journalize the transactions. Instead, you must analyze the transactions without a journal. McChesney will continue the business only if he can expect to earn a monthly net income of $6,000. The business completed the following transactions during June:

a. McChesney deposited $10,000 cash in a business bank account to start the company. The company issued common stock to McChesney.

b. Paid $300 cash for office supplies.

c. Incurred advertising expense on account, $700.

d. Paid the following cash expenses: administrative assistant's salary, $1,400; office rent, $1,000.

e. Earned service revenue on account, $8,800.

f. Collected cash from customers on account, $1,200.

Requirements

1. Open the following T-accounts: Cash; Accounts Receivable; Office Supplies; Accounts Payable; Common Stock; Service Revenue; Salaries Expense; Rent Expense; and Advertising Expense.

2. Post the transactions directly to the accounts without using a journal. Record each transaction by letter. Calculate account balances.

3. Prepare a trial balance at June 30, 2018.

4. Compute the amount of net income or net loss for this first month of operations. Would you recommend that McChesney continue in business?

SOLUTION

Requirements 1 and 2

Cash			
a.	10,000	300	b.
f.	1,200	2,400	d.
Bal.	8,500		

Accounts Payable			
		700	c.
		700	Bal.

Accounts Receivable			
e.	8,800	1,200	f.
Bal.	7,600		

Common Stock			
		10,000	a.
		10,000	Bal.

Office Supplies			
b.	300		
Bal.	300		

Service Revenue			
		8,800	e.
		8,800	Bal.

Salaries Expense			
d.	1,400		
Bal.	1,400		

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Decision Case 2-1, cont.

Rent Expense			
	d.	1,000	
	Bal.	1,000	

Advertising Expense			
	c.	700	
	Bal.	700	

Requirement 3

A-PLUS TRAVEL PLANNERS
Trial Balance
June 30, 2018

Account Title	**Balance**	
	Debit	Credit
Cash	$ 8,500	
Accounts Receivable	7,600	
Office Supplies	300	
Accounts Payable		$ 700
Common Stock		10,000
Service Revenue		8,800
Salaries Expense	1,400	
Rent Expense	1,000	
Advertising Expense	700	
Total	**$ 19,500**	**$ 19,500**

Requirement 4

Revenues:		
Service Revenue		$ 8,800
Expenses:		
Salaries Expense	$ 1,400	
Rent Expense	1,000	
Advertising Expense	700	
Total Expenses		3,100
Net Income		$ 5,700

McChesney should discontinue the business because net income falls below the target amount.

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Ethical Issue 2-1

Better Days Ahead, a charitable organization, has a standing agreement with First National Bank. The agreement allows Better Days Ahead to overdraw its cash balance at the bank when donations are running low. In the past, Better Days Ahead managed funds wisely and rarely used this privilege. Jacob Henson has recently become the president of Better Days Ahead. To expand operations, Henson acquired office equipment and spent large amounts on fundraising. During Henson's presidency, Better Days Ahead has maintained a negative bank balance of approximately $10,000.

What is the ethical issue in this situation, if any? State why you approve or disapprove of Henson's management of Better Days Ahead's funds.

SOLUTION

The bank has a standing agreement with Better Days Ahead for overdrafts, so as long as transactions are compliant with terms of the agreement, there is no ethical issue. The exercise refers to Better Days Ahead managing funds "wisely." However, whether funds are managed wisely or not is a matter of prudent business management and not an ethical issue. Presumably if Better Days Ahead was exceeding the terms of the agreement, the bank would cancel the arrangement.

Some students may point out that the agreement was for times when donations were running low, whereas the reasons given for the overdraft are for expansion and fundraising. If this is interpreted to mean that Better Days Ahead is abusing the privilege according to the terms of the agreement, then there may be an ethical issue involved, but that is not made clear by the information given.

Students may approve of Henson's cash management if the arrangement is beneficial to Better Days Ahead, and thus helps them accomplish their charitable mission more effectively. Students may disapprove of Henson's cash management if (a) they feel it is "unwise" (poor business management), or (b) if they believe he is exceeding the terms of the agreement.

Fraud Case 2-1

Roy Akins was the accounting manager at Zelco, a tire manufacturer, and he played golf with Hugh Stallings, the CEO, who was something of a celebrity in the community. The CEO stood to earn a substantial bonus if Zelco increased net income by year-end. Roy was eager to get into Hugh's elite social circle; he boasted to Hugh that he knew some accounting tricks that could increase company income by simply revising a few journal entries for rental payments on storage units. At the end of the year, Roy changed the debits from "rent expense" to "prepaid rent" on several entries. Later, Hugh got his bonus, and the deviations were never discovered.

Requirements

1. How did the change in the journal entries affect the net income of the company at year-end?
2. Who gained and who lost as a result of these actions?

SOLUTION

Requirement 1

By changing an expense to an asset, the total expenses will decrease and net income will increase.

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Requirement 2

The CEO gained by earning a bonus, and the accounting manager may have gained by getting favorable treatment from the CEO. The shareholders of the company lost, because the company paid out the bonus under fraudulent conditions.

Financial Statement Case 2-1

Refer to http://www.pearsonhighered.com/Horngren to view a link to **Target Corporation's** Fiscal 2015 Annual Report.

Requirements

1. Calculate the debt ratio for Target Corporation as of January 30, 2016.
2. How did the debt ratio for Target Corporation compare to the debt ratio for **Kohl's Corporation**? Discuss.

SOLUTION

Requirement 1

Debt ratio = Total liabilities / Total assets
= $27,305 (in millions) / $40,262 (in millions)
= 0.678* = 67.8%
* rounded

Requirement 2

Target's debt ratio is significantly higher than Kohl's (59.6%).

Communication Activity 2-1

In 35 words or fewer, explain the difference between a debit and a credit, and explain what the normal balance of the six account types is.

SOLUTION

Debits are on the left, credits are on the right. Normal balance for assets, expenses, and dividends is a debit. For liability, common stock, and revenue accounts, the normal balance is a credit.

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