# *Financial Accounting 5th edition Kemp Solutions Manual*

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# Chapter 2: Analyzing and Recording Business Transactions

## Discussion Questions: Key Points

1. Assets are listed in order of liquidity, or closeness to cash. Discuss the steps that the business would have to go through in order to convert each asset to cash in the normal course of business.
2. When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although they would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use.
3. Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the retained earnings account.
4. Not all events are transactions. A transaction is an event that has a financial impact on a company. Journal entries are recorded for all transactions.
5. The normal balance of an account is the side that increases the account.
    a. Debit
    b. Debit
    c. Credit
    d. Credit
    e. Debit
6. The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheck, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account).
7. A credit balance in the cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its checking account, it now has a liability to the bank. Rather than showing a credit balance in its cash account, it should show a credit balance in a liability account.
8. Journalizing is the process of recording a transaction in the journal. Posting is the process of transferring the information from the journal to the appropriate accounts in the ledger or to T-accounts.
9. False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to supplies is improperly recorded as a debit to supplies expense, for example, the trial balance will balance but the financial statements will be inaccurate.
10. The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger.

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## Short Exercises

### (5-10 min.) S 2-1

1. b
2. c
3. e
4. g
5. d
6. f
7. a

### (5-10 min.) S 2-2

| | | |
|---|---|---|
| 1. | Accounts payable | L |
| 2. | Cash | A |
| 3. | Service revenue | R |
| 4. | Prepaid rent | A |
| 5. | Rent expense | E |
| 6. | Common stock | SE |



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## (5-10 min.) S 2-3

1. Transactions occur.

5. Prepare the financial statements

4. Prepare the trial balance.

3. Post the transactions from the journal to the ledger.

2. Record the transactions in the journal.

## (5-10 min.) S 2-4

| | |
|---|---|
| Example | A, 1 |
| 1. | R, 4 |
| 2. | SE, 3 |
| 3. | A, 1 |
| 4. | E, 5 |
| 5. | L, 2 |
| 6. | SE, 3 |
| 7. | E ,5 |

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## (5-10 min.) S 2-5

The basic summary device in accounting is the account. The left side of an account is called the debit side, and the right side is called the credit side. We record transactions first in a journal. Then we post or copy the data to the ledger (or T-accounts). It is helpful to list all the accounts with their balances on a trial balance.

## (5-10 min.) S 2-6

| | | |
|---|---|---|
| DR | 1. | Rent expense |
| CR | 2. | Accounts payable |
| CR | 3. | Service revenue |
| DR | 4. | Office furniture |
| CR | 5. | Common stock |
| DR | 6. | Land |
| DR | 7. | Dividends |

## (5-10 min.) S 2-7

**Supplies**

| | | | |
|---|---|---|---|
| 3/8 | 250 | 3/27 | 400 |
| 3/17 | 800 | | |
| Bal. | 650 | | |

**Note payable**

| | | | |
|---|---|---|---|
| 3/20 | 1,250 | 3/5 | 9,500 |
| 3/31 | 4,500 | | |
| | | Bal. | 3,750 |



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## (5-10 min.) S 2-8

| Account | Type | ▲ | ▼ |
|---|---|---|---|
| Office equipment | Asset | Dr. | Cr. |
| Dividends | Stockholders' Equity | Dr. | Cr. |
| Service revenue | Revenue | Cr. | Dr. |
| Accounts payable | Liability | Cr. | Dr. |
| Rent expense | Expense | Dr. | Cr. |
| Cash | Asset | Dr. | Cr. |

## (15-20 min.) S 2-9

| Transaction | Account Affected | Type | ▲ ▼ | Dr. or Cr. |
|---|---|---|---|---|
| (1) | Cash | Asset | Increase | Dr |
| | Common stock | Stockholders' Equity | Increase | Cr |
| (2) | Equipment | Asset | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| (3) | Supplies | Asset | Increase | Dr |
| | Accounts payable | Liability | Increase | Cr |
| (4) | Accounts receivable | Asset | Increase | Dr |
| | Service revenue | Revenue | Increase | Cr |
| (5) | Accounts payable | Liability | Decrease | Dr |
| | Cash | Asset | Decrease | Cr |
| (6) | Operating expenses | Expense | Increase | Dr |


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| | | | | | |
|---|---|---|---|---|---|
| | Cash | Asset | Decrease | Cr |
| (7) | Dividends | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |

## (10-15 min.) S 2-10

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Aug | 1 | Cash | | 50,000 | |
| | | Common stock | | | 50,000 |
| | | Sold stock. | | | |
| | | | | | |
| | 5 | Dental supplies | | 6,300 | |
| | | Accounts payable | | | 6,300 |
| | | Purchased supplies on account. | | | |
| | | | | | |
| | 7 | Rent Expense | | 1,000 | |
| | | Cash | | | 1,000 |
| | | Paid office rent. | | | |
| | | | | | |
| | 10 | Cash | | 1,200 | |
| | | Accounts receivable | | 2,600 | |
| | | Service revenue | | | 3,800 |
| | | Performed service for patients. | | | |

## (10-15 min.) S 2-11

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Sep | 3 | Cash | | 35,000 | |
| | | Note payable | | | 35,000 |
| | | Borrowed money from the bank. | | | |
| | | | | | |
| | 9 | Accounts receivable | | 1,250 | |
| | | Service revenue | | | 1,250 |
| | | Performed service on account. | | | |



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| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| | 16 | Cash | | 500 | |
| | | Accounts receivable | | | 500 |
| | | Received cash on account. | | | |
| | | | | | |
| | 22 | Utilities expense | | 380 | |
| | | Accounts payable | | | 380 |
| | | Received utility bill. | | | |
| | | | | | |
| | 30 | Salaries expense | | 2,250 | |
| | | Cash | | | 2,250 |
| | | Paid salary expense. | | | |
| | | | | | |
| | 30 | Interest expense | | 170 | |
| | | Cash | | | 170 |
| | | Paid interest expense. | | | |

## (10-15 min.) S 2-12

| Audio Masters, Corp | | |
|---|---|---|
| Trial Balance | | |
| April 30, 2018 | | |
| | BALANCE | |
| | | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | $18,300 | |
| Prepaid rent | 750 | |
| Equipment | 21,000 | |
| Accounts payable | | $ 1,700 |
| Note payable | | 11,500 |
| Common stock | | 15,000 |
| Dividends | 22,600 | |
| Service revenue | | 63,000 |
| Rent expense | 10,150 | |
| Utilities expense | 18,400 | |
| Total | $91,200 | $91,200 |


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## (5-10 min.) S 2-13

**Mylar, Inc.**
**Trial Balance**
**December 31, 2018**

| | ACCOUNT | | DEBIT | | CREDIT |
|---|---|---|---|---|---|
| **BS** | Cash | | $12,100 | | |
| **BS** | Accounts Receivable | | 1,900 | | |
| **BS** | Supplies | | 250 | | |
| **BS** | Equipment | | 6,000 | | |
| **BS** | Accounts Payable | | | | $1,830 |
| **BS** | Notes Payable | | | | 10,000 |
| **BS** | Common Stock | | | | 8,500 |
| **RE** | Dividends | | 700 | | |
| **IS** | Service Revenue | | | | 3,500 |
| **IS** | Salaries Expense | | 1,740 | | |
| **IS** | Rent Expense | | 800 | | |
| **IS** | Utilities Expense | | 340 | | |
| | Total | | $23,830 | | $23,830 |

## (5-10 min.) S 2-14

e 1 Posting

d 2 Normal balance

g 3 Payable

a 4 Journal

b 5 Receivable

h 6 Chart of accounts

c 7 Debit

f 8 Trial balance

i 9 Credit



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## Exercises

### (10-15 min.) E 2-15A

| Transaction | Account Affected | Type | ▲ ▼ | Dr. or Cr. |
|---|---|---|---|---|
| Feb 2 | Accounts receivable | Asset | Increase | Dr |
| | Service revenue | Stockholders' Equity | Increase | Cr |
| 8 | Supplies | Asset | Increase | Dr |
| | Accounts payable | Liability | Increase | Cr |
| 10 | Advertising expense | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 14 | Cash | Asset | Increase | Dr |
| | Accounts receivable | Asset | Decrease | Cr |
| 21 | Accounts Payable | Liability | Decrease | Dr |
| | Cash | Asset | Decrease | Cr |
| 26 | Cash | Asset | Increase | Dr |
| | Service revenue | Stockholders' Equity | Increase | Cr |



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## (15-20 min.) E 2-16A

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Dec. | 1 | Interest expense | | 100 | |
| | | Cash | | | 100 |
| | | | | | |
| | 5 | Office furniture | | 2,500 | |
| | | Accounts payable | | | 2,500 |
| | | | | | |
| | 10 | Accounts receivable | | 2,900 | |
| | | Service revenue | | | 2,900 |
| | | | | | |
| | 12 | Cash | | 20,000 | |
| | | Notes payable | | | 20,000 |
| | | | | | |
| | 19 | Cash | | 80,000 | |
| | | Land | | | 80,000 |
| | | | | | |
| | 21 | Building | | 300,000 | |
| | | Notes payable | | | 300,000 |
| | | | | | |
| | 27 | Accounts Payable | | 650 | |
| | | Cash | | | 650 |


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## (15-20 min.) E 2-17A

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Mar. | 1 | Cash | | 95,000 | |
| | | Common stock | | | 95,000 |
| | | | | | |
| | 3 | Supplies | | 800 | |
| | | Accounts Payable | | | 800 |
| | | | | | |
| | 5 | Building | | 35,000 | |
| | | Cash | | | 35,000 |
| | | | | | |
| | 6 | Cash | | 1,500 | |
| | | Service revenue | | | 1,500 |
| | | | | | |
| | 11 | Accounts payable | | 500 | |
| | | Cash | | | 500 |
| | | | | | |
| | 18 | Accounts receivable | | 2,600 | |
| | | Service revenue | | | 2,600 |
| | | | | | |
| | 24 | Cash | | 900 | |
| | | Accounts receivable | | | 900 |
| | | | | | |
| | 30 | Salaries expense | | 700 | |
| | | Rent expense | | 1,500 | |
| | | Cash | | | 2,200 |



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## (10-15 min.) E 2-18A

***Req. 1***

**Cash**

| | | | | | |
|---|---|---|---|---|---|
| Jan. | 1 | 45,000 | Jan. | 2 | 1,400 |
| | 6 | 1,250 | | 4 | 6,000 |
| | 23 | 2,700 | | 9 | 400 |
| | | | | 15 | 900 |
| | | | | 26 | 4,800 |
| | | | | 28 | 425 |
| | | | | 29 | 1,150 |
| *Bal.* | | *33,875* | | | |

**Accounts Payable**

| | | | | | |
|---|---|---|---|---|---|
| Jan. | 9 | 400 | Jan. | 3 | 750 |
| | | | *Bal.* | | *350* |

**Common stock**

| | | | | | |
|---|---|---|---|---|---|
| | | | Jan. | 1 | 45,000 |
| | | | *Bal.* | | *45,000* |

**Accounts Receivable**

| | | | | | |
|---|---|---|---|---|---|
| Jan. | 17 | 5,200 | Jan. | 23 | 2,700 |
| *Bal.* | | *2,500* | | | |

**Service revenue**

| | | | | | |
|---|---|---|---|---|---|
| | | | Jan. | 6 | 1,250 |
| | | | | 17 | 5,200 |
| | | | *Bal.* | | *6,450* |

**Supplies**

| | | | | | |
|---|---|---|---|---|---|
| Jan. | 3 | 750 | | | |
| *Bal.* | | *750* | | | |

**Rent Expense**

| | | | | | |
|---|---|---|---|---|---|
| Jan. | 2 | 1,400 | | | |
| *Bal.* | | *1,400* | | | |

**Equipment**

| | | | | | |
|---|---|---|---|---|---|
| Jan. | 4 | 6,000 | | | |
| | 26 | 4,800 | | | |
| *Bal.* | | *10,800* | | | |

**Salaries Expense**

| | | | | | |
|---|---|---|---|---|---|
| Jan. | 15 | 900 | | | |
| | 29 | 1,150 | | | |
| *Bal.* | | *2,050* | | | |

**Utilities Expense**

| | | | | | |
|---|---|---|---|---|---|
| Jan. | 28 | 425 | | | |
| *Bal.* | | *425* | | | |


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***Req. 2***

| Zane's Creations, Inc. | | |
|---|---|---|
| **Trial Balance** | | |
| **January 31, 2018** | | |
| | **BALANCE** | |
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $33,875 | |
| Accounts receivable | 2,500 | |
| Supplies | 750 | |
| Equipment | 10,800 | |
| Accounts payable | | $ 350 |
| Common stock | | 45,000 |
| Service revenue | | 6,450 |
| Salaries expense | 2,050 | |
| Rent expense | 1,400 | |
| Utilties expense | 425 | |
| Total | $51,800 | $51,800 |



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## (15-20 min.) E 2-19A

***Req 1***

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Mar. | 2 | Rent expense | | 900 | |
| | | Cash | | | 900 |
| | | | | | |
| | 4 | Cash | | 1,600 | |
| | | Service revenue | | | 1,600 |
| | | | | | |
| | 8 | Supplies | | 800 | |
| | | Accounts payable | | | 800 |
| | | | | | |
| | 11 | Cash | | 2,300 | |
| | | Accounts receivable | | | 2,300 |
| | | | | | |
| | 15 | Cash | | 40,000 | |
| | | Common stock | | | 40,000 |
| | | | | | |
| | 19 | Accounts payable | | 450 | |
| | | Cash | | | 450 |
| | | | | | |
| | 27 | Accounts receivable | | 3,000 | |
| | | Service revenue | | | 3,000 |
| | | | | | |
| | 31 | Notes payable | | 2,000 | |
| | | Cash | | | 2,000 |


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***Req 2 & 3***

**Cash**

| | | | |
|---|---|---|---|
| Mar 1 | 2,000 | Mar 2 | 900 |
| Mar 4 | 1,600 | Mar 19 | 450 |
| Mar 11 | 2,300 | Mar 31 | 2,000 |
| Mar 15 | 40,000 | | |
| *Bal.* | *42,550* | | |

**Accounts payable**

| | | | |
|---|---|---|---|
| Mar 19 | 450 | Mar 1 | 1,400 |
| | | Mar 8 | 800 |
| | | *Bal.* | *1,750* |

**Accounts receivable**

| | | | |
|---|---|---|---|
| Mar 1 | 3,300 | Mar 11 | 2,300 |
| Mar 27 | 3,000 | | |
| *Bal.* | *4,000* | | |

**Notes payable**

| | | | |
|---|---|---|---|
| Mar 31 | 2,000 | Mar 1 | 15,000 |
| | | *Bal.* | *13,000* |

**Supplies**

| | |
|---|---|
| Mar 1 | 300 |
| Mar 8 | 800 |
| *Bal.* | *1,100* |

**Common stock**

| | |
|---|---|
| Mar 1 | 32,100 |
| Mar 15 | 40,000 |
| *Bal.* | *72,100* |

**Building**

| | |
|---|---|
| Mar 1 | 42,000 |
| *Bal.* | *42,000* |

**Service revenue**

| | |
|---|---|
| Mar 1 | 2,200 |
| Mar 4 | 1,600 |
| Mar 27 | 3,000 |
| *Bal.* | *6,800* |

**Office Furniture**

| | |
|---|---|
| Mar 1 | 2,300 |
| *Bal.* | *2,300* |

**Rent expense**

| | |
|---|---|
| Mar 1 | 800 |
| Mar 2 | 900 |
| *Bal.* | *1,700* |



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***Req 4***

| Clocktower Cleaning, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 42,550 | |
| Accounts receivable | 4,000 | |
| Supplies | 1,100 | |
| Building | 42,000 | |
| Office Furniture | 2,300 | |
| Accounts payable | | $ 1,750 |
| Notes payable | | 13,000 |
| Common stock | | 72,100 |
| Service revenue | | 6,800 |
| Rent expense | 1,700 | |
| Total | $93,650 | $93,650 |


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## (20-25 min.) E 2-20A

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Apr. | 1 | Cash | | 33,000 | |
| | | Common stock | | | 33,000 |
| | | Sold stock. | | | |
| | | | | | |
| | 2 | Supplies | | 400 | |
| | | Accounts Payable | | | 400 |
| | | Purchased supplies on acct. | | | |
| | | | | | |
| | 3 | Building | | 75,000 | |
| | | Notes payable | | | 75,000 |
| | | Purchased building signing note payable. | | | |
| | | | | | |
| | 4 | Equipment | | 9,000 | |
| | | Cash | | | 9,000 |
| | | Paid cash to purchase equipment | | | |
| | | | | | |
| | 5 | Notes Payable | | 7,000 | |
| | | Cash | | | 7,000 |
| | | Made payment on note payable. | | | |
| | | | | | |
| | 6 | Accounts payable | | 100 | |
| | | Cash | | | 100 |
| | | Made payment on account. | | | |
| | | | | | |

***Req. 2***

**Cash**

| | | | | |
|---|---|---|---|---|
| | (1) | 33,000 | (4) | 9,000 |
| | | | (5) | 7,000 |
| | | | (6) | 100 |
| *Bal.* | | *16,900* | | |

**Accounts payable**

| | | | |
|---|---|---|---|
| (6) | 100 | (2) | 400 |
| | | *Bal.* | *300* |

**Supplies**

| | | | |
|---|---|---|---|
| | (2) | 400 | |
| *Bal.* | | *400* | |

**Notes payable**

| | | | |
|---|---|---|---|
| (5) | 7,000 | (3) | 75,000 |
| | | *Bal.* | *68,000* |



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| Building | | | Common stock | | |
|---|---|---|---|---|---|
| (3) | 75,000 | | | (1) | 33,000 |
| *Bal.* | *75,000* | | | *Bal.* | *33,000* |

| Equipment | | | | | |
|---|---|---|---|---|---|
| (4) | 9,000 | | | | |
| *Bal.* | *9,000* | | | | |

***Req. 3***

| Sounds on Wheels, Inc. | | |
|---|---|---|
| Trial Balance | | |
| April 30, 2018 | | |
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | $16,900 | |
| Supplies | 400 | |
| Building | 75,000 | |
| Equipment | 9,000 | |
| Accounts payable | | $ 300 |
| Notes payable | | 68,000 |
| Common stock | | 33,000 |
| Total | $101,300 | $101,300 |


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***Req. 4***

| Sounds on Wheels, Inc. | | | |
|---|---|---|---|
| **Balance Sheet** | | | |
| **April 30, 2018** | | | |
| ASSETS | | LIABILITIES | |
| Cash | $ 16,900 | Accounts payable | $ 300 |
| Supplies | 400 | Notes payable | 68,000 |
| Building | 75,000 | Total liabilities | 68,300 |
| Equipment | 9,000 | STOCKHOLDERS' EQUITY | |
| | | Common stock | 33,000 |
| | | Total liabilities and | |
| Total assets | $101,300 | stockholder's equity | $101,300 |



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## (25-30 min.) E 2-21A

***Req. 2***

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Jun. | 2 | Cash | | 10,000 | |
| | | Common stock | | | 10,000 |
| | | | | | |
| | 3 | Rent expense | | 1,300 | |
| | | Cash | | | 1,300 |
| | | | | | |
| | 6 | Equipment | | 2,800 | |
| | | Cash | | | 2,800 |
| | | | | | |
| | 8 | Furniture | | 1,500 | |
| | | Accounts payable | | | 1,500 |
| | | | | | |
| | 11 | Supplies | | 600 | |
| | | Accounts payable | | | 600 |
| | | | | | |
| | 19 | Accounts receivable | | 2,300 | |
| | | Service revenue | | | 2,300 |
| | | | | | |
| | 20 | Utility expense | | 145 | |
| | | Cash | | | 145 |
| | | | | | |
| | 28 | Cash | | 1,800 | |
| | | Service revenue | | | 1,800 |
| | | | | | |

***Req. 1, and 3***

**Cash**

| | | | |
|---|---|---|---|
| Jun. 2 | 10,000 | Jun. 3 | 1,300 |
| 28 | 1,800 | 6 | 2,800 |
| | | 20 | 145 |
| *Bal.* | *7,555* | | |

**Accounts payable**

| | | | |
|---|---|---|---|
| | | Jun. 8 | 1,500 |
| | | 11 | 600 |
| | | *Bal* | *2,100* |


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**Accounts receivable**

| | | |
|---|---|---|
| Jun. 19 | 2,300 | |
| *Bal.* | *2,300* | |

**Common stock**

| | | |
|---|---|---|
| | Jun. 2 | 10,000 |
| | *Bal.* | *10,000* |

**Supplies**

| | | |
|---|---|---|
| Jun. 11 | 600 | |
| *Bal.* | *600* | |

**Service revenue**

| | | |
|---|---|---|
| | Jun. 19 | 2,300 |
| | 28 | 1,800 |
| | *Bal.* | *4,100* |

**Equipment**

| | | |
|---|---|---|
| Jun. 6 | 2,800 | |
| *Bal.* | *2,800* | |

**Rent Expense**

| | | |
|---|---|---|
| Jun. 3 | 1,300 | |
| *Bal.* | *1,300* | |

**Furniture**

| | | |
|---|---|---|
| Jun. 8 | 1,500 | |
| *Bal.* | *1,500* | |

**Utilities expense**

| | | |
|---|---|---|
| Jun 20 | 145 | |
| *Bal.* | *145* | |



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***Req. 4***

| Willis Construction, Inc.<br>Trial Balance<br>June 30, 2018 | | |
|---|---|---|
| | **BALANCE** | |
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 7,555 | |
| Accounts receivable | 2,300 | |
| Supplies | 600 | |
| Equipment | 2,800 | |
| Furniture | 1,500 | |
| Accounts payable | | $ 2,100 |
| Common stock | | 10,000 |
| Service revenue | | 4,100 |
| Rent expense | 1,300 | |
| Utilities expense | 145 | |
| Total | $16,200 | $16,200 |

***Req. 5***

| Willis Construction, Inc.<br>Income Statement<br>Month Ended June 30, 2018 | | |
|---|---|---|
| | | |
| Service revenue | | $4,100 |
| Expenses: | | |
| Rent expense | $1,300 | |
| Utilities expense | 145 | |
| Total expenses | | 1,445 |
| | | |
| Net Income | | $2,655 |


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| Willis Construction, Inc. | | |
|---|---|---|
| **Statement of Retained Earnings** | | |
| **Month Ended June 30, 2018** | | |
| | | |
| Retained earnings, June 1 | | $0 |
| Add: Net income | | 2,655 |
| Retained earnings, June 30 | | $2,655 |

Note: There were no dividends during the month of June

| Willis Construction, Inc. | | | |
|---|---|---|---|
| **Balance Sheet** | | | |
| **June 30, 2018** | | | |
| ASSETS | | LIABILITIES | |
| Cash | $ 7,555 | Accounts payable | $ 2,100 |
| Accounts receivable | 2,300 | | |
| Supplies | 600 | STOCKHOLDERS' EQUITY | |
| Equipment | 2,800 | Common stock | 10,000 |
| Furniture | 1,500 | Retained earnings | 2,655 |
| | | Total Stockholders' equity | 12,655 |
| | | | |
| | | Total liabilities and | |
| Total assets | $14,755 | stockholder's equity | $14,755 |



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## (20-25 min.) E 2-22A

| | Effect on Trial Balance | Account(s) Misstated |
|---|---|---|
| a. | Total debits = Total credits | Cash<br>$720 too high<br>Rent expense<br>$720 too low |
| b. | Total debits = Total credits | Accounts receivable<br>$250 too high<br>Accounts Payable<br>$250 too high |
| c. | Total debits = Total credits | Cash<br>$90 too high<br>Service revenue<br>$90 too high |
| d. | Total debits = Total credits | Supplies<br>$320 too low<br>Accounts payable<br>$320 too low |
| e. | Total debits > Total credits | Notes payable<br>$5,000 too low |


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## (10-15 min.) E 2-23B

| Transaction | Account Affected | Type | ▲ ▼ | Dr. or Cr. |
|---|---|---|---|---|
| May 1 | Cash | Asset | Increase | Dr |
| | Common stock | Stockholders' Equity | Increase | Cr |
| 3 | Supplies | Asset | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 6 | Equipment | Asset | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 11 | Advertising expense | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 18 | Cash | Asset | Increase | Dr |
| | Notes payable | Liability | Increase | Cr |
| 27 | Utilities expense | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |

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**(15-20 min.) E 2-24B**

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| June | 1 | Interest expense | | 900 | |
| | | Cash | | | 900 |
| | | | | | |
| | 5 | Office furniture | | 2,500 | |
| | | Accounts payable | | | 2,500 |
| | | | | | |
| | 10 | Accounts receivable | | 1,500 | |
| | | Service revenue | | | 1,500 |
| | | | | | |
| | 12 | Cash | | 22,000 | |
| | | Notes payable | | | 22,000 |
| | | | | | |
| | 19 | Cash | | 75,000 | |
| | | Land | | | 75,000 |
| | | | | | |
| | 21 | Building | | 400,000 | |
| | | Notes payable | | | 400,000 |
| | | | | | |
| | 27 | Accounts Payable | | 1,000 | |
| | | Cash | | | 1,000 |

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**(15-20 min.) E 2-25B**

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| July | 1 | Cash | | 85,000 | |
| | | Common stock | | | 85,000 |
| | | | | | |
| | 3 | Supplies | | 800 | |
| | | Accounts payable | | | 800 |
| | | | | | |
| | 5 | Building | | 35,000 | |
| | | Cash | | | 35,000 |
| | | | | | |
| | 6 | Cash | | 2,700 | |
| | | Service revenue | | | 2,700 |
| | | | | | |
| | 11 | Accounts payable | | 400 | |
| | | Cash | | | 400 |
| | | | | | |
| | 18 | Accounts receivable | | 3,200 | |
| | | Service revenue | | | 3,200 |
| | | | | | |
| | 24 | Cash | | 1,100 | |
| | | Accounts receivable | | | 1,100 |
| | | | | | |
| | 31 | Salaries expense | | 550 | |
| | | Rent expense | | 1,600 | |
| | | Cash | | | 2,150 |

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## (10-15 min.) E 2-26B

***Req. 1***

**Cash**

| | | | | | |
|---|---|---|---|---|---|
| Mar | 1 | 65,000 | Mar. | 2 | 1,100 |
| | 6 | 7,000 | | 4 | 7,900 |
| | 23 | 400 | | 9 | 100 |
| | | | | 15 | 675 |
| | | | | 28 | 425 |
| | | | | 29 | 725 |
| *Bal.* | | *61,475* | | | |

**Accounts Payable**

| | | | | | |
|---|---|---|---|---|---|
| Mar | 9 | 100 | Mar | 3 | 800 |
| | | | *Bal.* | | *700* |

**Common stock**

| | | | | | |
|---|---|---|---|---|---|
| | | | Mar | 1 | 65,000 |
| | | | *Bal.* | | *65,000* |

**Accounts Receivable**

| | | | | | |
|---|---|---|---|---|---|
| Mar | 17 | 1,900 | Mar | 23 | 400 |
| *Bal.* | | *1,500* | | | |

**Service revenue**

| | | | | | |
|---|---|---|---|---|---|
| | | | Mar | 6 | 7,000 |
| | | | | 17 | 1,900 |
| | | | *Bal.* | | *8,900* |

**Supplies**

| | | | | | |
|---|---|---|---|---|---|
| Mar | 3 | 800 | | | |
| *Bal.* | | *800* | | | |

**Rent Expense**

| | | | | | |
|---|---|---|---|---|---|
| Mar | 2 | 1,100 | | | |
| *Bal.* | | *1,100* | | | |

**Equipment**

| | | | | | |
|---|---|---|---|---|---|
| Mar | 4 | 7,900 | | | |
| *Bal.* | | *7,900* | | | |

**Salaries Expense**

| | | | | | |
|---|---|---|---|---|---|
| Mar | 15 | 675 | | | |
| | 29 | 725 | | | |
| *Bal.* | | *1,400* | | | |

**Utilities Expense**

| | | | | | |
|---|---|---|---|---|---|
| Mar | 28 | 425 | | | |
| *Bal.* | | *425* | | | |


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***Req. 2***

| Inspired Design, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| | **BALANCE** | |
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $61,475 | |
| Accounts receivable | 1,500 | |
| Supplies | 800 | |
| Equipment | 7,900 | |
| Accounts payable | | $ 700 |
| Common stock | | 65,000 |
| Service revenue | | 8,900 |
| Salaries expense | 1,400 | |
| Rent expense | 1,100 | |
| Utilities expense | 425 | |
| Total | $74,600 | $74,600 |



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## (15-20 min.) E 2-27B

***Req 1***

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Sep | 2 | Rent expense | | 500 | |
| | | Cash | | | 500 |
| | | | | | |
| | 4 | Cash | | 1,800 | |
| | | Service revenue | | | 1,800 |
| | | | | | |
| | 8 | Supplies | | 900 | |
| | | Accounts payable | | | 900 |
| | | | | | |
| | 11 | Cash | | 1,200 | |
| | | Accounts receivable | | | 1,200 |
| | | | | | |
| | 15 | Cash | | 10,000 | |
| | | Common stock | | | 10,000 |
| | | | | | |
| | 19 | Accounts payable | | 450 | |
| | | Cash | | | 450 |
| | | | | | |
| | 27 | Accounts receivable | | 2,800 | |
| | | Service revenue | | | 2,800 |
| | | | | | |
| | 28 | Notes payable | | 5,000 | |
| | | Cash | | | 5,000 |

***Req 2 & 3***

**Cash**

| | | | |
|---|---|---|---|
| Sep 1 | 1,450 | Sep 2 | 500 |
| 4 | 1,800 | 19 | 450 |
| 11 | 1,200 | 28 | 5,000 |
| 15 | 10,000 | | |
| *Bal.* | *8,500* | | |

**Accounts payable**

| | | | |
|---|---|---|---|
| Sep 19 | 450 | Sep 1 | 2,100 |
| | | 8 | 900 |
| | | *Bal.* | *2,550* |

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**Accounts receivable**

| | | | |
|---|---|---|---|
| Sep 1 | 3,900 | Sep 11 | 1,200 |
| 27 | 2,800 | | |
| *Bal.* | *5,500* | | |

**Notes payable**

| | | | |
|---|---|---|---|
| Sep 28 | 5,000 | Sep 1 | 10,000 |
| | | *Bal.* | *5,000* |

**Supplies**

| | | | |
|---|---|---|---|
| Sep 1 | 250 | | |
| 8 | 900 | | |
| *Bal.* | *1,150* | | |

**Common stock**

| | | | |
|---|---|---|---|
| | | Sep 1 | 30,000 |
| | | 15 | 10,000 |
| | | *Bal.* | *40,000* |

**Building**

| | | | |
|---|---|---|---|
| Sep 1 | 38,000 | | |
| *Bal.* | *38,000* | | |

**Service revenue**

| | | | |
|---|---|---|---|
| | | Sep 1 | 4,900 |
| | | 4 | 1,800 |
| | | 27 | 2,800 |
| | | *Bal.* | *9,500* |

**Office Furniture**

| | | | |
|---|---|---|---|
| Sep 1 | 2,300 | | |
| *Bal.* | *2,300* | | |

**Rent expense**

| | | | |
|---|---|---|---|
| Sep 1 | 1,100 | | |
| 2 | 500 | | |
| *Bal.* | *1,600* | | |

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***Req 4***

| White Glove Cleaning, Inc.<br>Trial Balance<br>September 30, 2018 | | |
|---|---|---|
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 8,500 | |
| Accounts receivable | 5,500 | |
| Supplies | 1,150 | |
| Building | 38,000 | |
| Office Furniture | 2,300 | |
| Accounts payable | | $ 2,550 |
| Notes payable | | 5,000 |
| Common stock | | 40,000 |
| Service revenue | | 9,500 |
| Rent expense | 1,600 | |
| Total | $57,050 | $57,050 |

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## (20-25 min.) E 2-28B

***Req. 1***

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Nov | 1 | Cash | | 45,000 | |
| | | Common stock | | | 45,000 |
| | | Sold stock. | | | |
| | | | | | |
| | 2 | Supplies | | 300 | |
| | | Accounts Payable | | | 300 |
| | | Purchased supplies on acct. | | | |
| | | | | | |
| | 3 | Building | | 60,000 | |
| | | Notes payable | | | 60,000 |
| | | Purchased building signing note payable. | | | |
| | | | | | |
| | 4 | Equipment | | 4,000 | |
| | | Cash | | | 4,000 |
| | | Paid cash to purchase equipment | | | |
| | | | | | |
| | 5 | Notes Payable | | 7,000 | |
| | | Cash | | | 7,000 |
| | | Made payment on note payable. | | | |
| | | | | | |
| | 6 | Accounts payable | | 150 | |
| | | Cash | | | 150 |
| | | Made payment on account. | | | |
| | | | | | |

***Req. 2***

**Cash**

| | | | | |
|---|---|---|---|---|
| | (1) | 45,000 | (4) | 4,000 |
| | | | (5) | 7,000 |
| | | | (6) | 150 |
| *Bal.* | | *33,850* | | |

**Accounts payable**

| | | | |
|---|---|---|---|
| (6) | 150 | (2) | 300 |
| | | *Bal.* | *150* |



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| Supplies | | |
|---|---|---|
| (2) | 300 | |
| *Bal.* | *300* | |

| Notes payable | | | |
|---|---|---|---|
| (5) | 7,000 | (3) | 60,000 |
| | | *Bal.* | *53,000* |

| Building | | |
|---|---|---|
| (3) | 60,000 | |
| *Bal.* | *60,000* | |

| Common stock | | |
|---|---|---|
| | (1) | 45,000 |
| | *Bal.* | *45,000* |

| Equipment | | |
|---|---|---|
| (4) | 4,000 | |
| *Bal.* | *4,000* | |

***Req. 3***

| Mobile Music, Inc.<br>Trial Balance<br>November 30, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | $33,850 | |
| Supplies | 300 | |
| Building | 60,000 | |
| Equipment | 4,000 | |
| Accounts payable | | $ 150 |
| Notes payable | | 53,000 |
| Common stock | | 45,000 |
| Total | $98,150 | $98,150 |

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***Req. 4***

| Mobile Music, Inc. | | | |
|---|---|---|---|
| **Balance Sheet** | | | |
| **November 30, 2018** | | | |
| ASSETS | | LIABILITIES | |
| Cash | $ 33,850 | Accounts payable | $ 150 |
| Supplies | 300 | Notes payable | 53,000 |
| Building | 60,000 | Total liabilities | 53,150 |
| Equipment | 4,000 | STOCKHOLDERS' EQUITY | |
| | | Common stock | 45,000 |
| | | Total liabilities and | |
| Total assets | $98,150 | stockholder's equity | $98,150 |



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## (25-30 min.) E 2-29B

***Req. 2***

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Sep | 2 | Cash | | 50,000 | |
| | | Common stock | | | 50,000 |
| | | | | | |
| | 3 | Rent expense | | 800 | |
| | | Cash | | | 800 |
| | | | | | |
| | 6 | Equipment | | 1,600 | |
| | | Cash | | | 1,600 |
| | | | | | |
| | 8 | Furniture | | 3,000 | |
| | | Accounts payable | | | 3,000 |
| | | | | | |
| | 11 | Supplies | | 700 | |
| | | Accounts payable | | | 700 |
| | | | | | |
| | 19 | Accounts receivable | | 2,300 | |
| | | Service revenue | | | 2,300 |
| | | | | | |
| | 20 | Utility expense | | 175 | |
| | | Cash | | | 175 |
| | | | | | |
| | 28 | Cash | | 1,125 | |
| | | Service revenue | | | 1,125 |
| | | | | | |

***Req. 1 & 3***

**Cash**

| | | | |
|---|---|---|---|
| Sep 2 | 50,000 | Sep 3 | 800 |
| 28 | 1,125 | 6 | 1,600 |
| | | 20 | 175 |
| *Bal.* | *48,550* | | |

**Accounts payable**

| | | | |
|---|---|---|---|
| | | Sep 8 | 3,000 |
| | | 11 | 700 |
| | | *Bal* | *3,700* |

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**Accounts receivable**

| | | |
|---|---|---|
| Sep 19 | 2,300 | |
| *Bal.* | *2,300* | |

**Supplies**

| | | |
|---|---|---|
| Sep 11 | 700 | |
| *Bal.* | *700* | |

**Equipment**

| | | |
|---|---|---|
| Sep 6 | 1,600 | |
| *Bal.* | *1,600* | |

**Furniture**

| | | |
|---|---|---|
| Sep 8 | 3,000 | |
| *Bal.* | *3,000* | |

**Common stock**

| | | |
|---|---|---|
| | Sep 2 | 50,000 |
| | *Bal.* | *50,000* |

**Service revenue**

| | | |
|---|---|---|
| | Sep 19 | 2,300 |
| | 28 | 1,125 |
| | *Bal.* | *3,425* |

**Rent Expense**

| | | |
|---|---|---|
| Sep 3 | 800 | |
| *Bal.* | *800* | |

**Utilities expense**

| | | |
|---|---|---|
| Sep 20 | 175 | |
| *Bal.* | *175* | |

***Req. 4***

**McGuire Construction, Inc.**
**Trial Balance**
**September 30, 2018**

| ACCOUNT TITLE | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|
| Cash | $ 48,550 | |
| Accounts receivable | 2,300 | |
| Supplies | 700 | |
| Equipment | 1,600 | |
| Furniture | 3,000 | |
| Accounts payable | | $ 3,700 |
| Common stock | | 50,000 |
| Service revenue | | 3,425 |
| Rent expense | 800 | |
| Utilities expense | 175 | |
| Total | $57,125 | $57,125 |

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***Req. 5***

| McGuire Construction, Inc. | | |
|---|---|---|
| **Income Statement** | | |
| **Month Ended September 30, 2018** | | |
| | | |
| Service revenue | | $3,425 |
| Expenses: | | |
| Rent expense | $800 | |
| Utilities expense | 175 | |
| Total expenses | | 975 |
| | | |
| Net Income | | $2,450 |

| McGuire Construction, Inc. | | |
|---|---|---|
| **Statement of Retained Earnings** | | |
| **Month Ended September 30, 2018** | | |
| | | |
| Retained earnings, September 1, 2018 | | $0 |
| Add: Net income | | 2,450 |
| Retained earnings, September 30, 2018 | | $2,450 |

Note: There were no dividends during the month of September.

| McGuire Construction, Inc. | | | |
|---|---|---|---|
| **Balance Sheet** | | | |
| **September 30, 2018** | | | |
| ASSETS | | LIABILITIES | |
| Cash | $ 48,550 | Accounts payable | $ 3,700 |
| Accounts receivable | 2,300 | | |
| Supplies | 700 | STOCKHOLDERS' EQUITY | |
| Equipment | 1,600 | Common stock | 50,000 |
| Furniture | 3,000 | Retained earnings | 2,450 |
| | | Total Stockholders' equity | 52,450 |
| | | | |
| | | Total liabilities and | |
| Total assets | $56,150 | stockholder's equity | $56,150 |

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## (10-15 min.) E 2-30B

| | Effect on Trial Balance | Account(s) Misstated |
|---|---|---|
| a. | Total debits = Total credits | Cash<br>$675 too high<br>Rent expense<br>$675 too low |
| b. | Total debits = Total credits | Accounts receivable<br>$300 too high<br>Accounts Payable<br>$300 too high |
| c. | Total debits = Total credits | Cash<br>$90 too high<br>Service revenue<br>$90 too high |
| d. | Total debits = Total credits | Supplies<br>$450 too low<br>Accounts payable<br>$450 too low |
| e. | Total debits > Total credits | Notes payable<br>$30,000 too low |



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## Problems

### (15-20 min.) P 2-31A

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| June | 1 | Cash | | 95,000 | |
| | | Common stock | | | 95,000 |
| | | | | | |
| | 3 | Supplies | | 200 | |
| | | Cash | | | 200 |
| | | | | | |
| | 8 | Land | | 38,000 | |
| | | Cash | | | 38,000 |
| | | | | | |
| | 12 | Office equipment | | 3,500 | |
| | | Accounts payable | | | 3,500 |
| | | | | | |
| | 17 | Cash | | 10,000 | |
| | | Notes payable | | | 10,000 |
| | | | | | |
| | 26 | Accounts payable | | 2,500 | |
| | | Cash | | | 2,500 |
| | | | | | |
| | 30 | Cash | | 11,000 | |
| | | Accounts receivable | | 25,000 | |
| | | Service revenue | | | 36,000 |
| | | | | | |
| | 30 | Salaries expense | | 2,700 | |
| | | Rent expense | | 1,800 | |
| | | Utilities expense | | 365 | |
| | | Cash | | | 4,865 |
| | | | | | |
| | 30 | Dividends | | 9,000 | |
| | | Cash | | | 9,000 |

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**(15-20 min.) P 2-32A**

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| May | 1 | Cash | | 210,000 | |
| | | Notes payable | | | 210,000 |
| | | | | | |
| | 3 | Building | | 145,000 | |
| | | Cash | | | 145,000 |
| | | | | | |
| | 6 | Accounts receivable | | 14,100 | |
| | | Service revenue | | | 14,100 |
| | | | | | |
| | 9 | Supplies | | 275 | |
| | | Accounts payable | | | 275 |
| | | | | | |
| | 13 | Cash | | 6,800 | |
| | | Service revenue | | | 6,800 |
| | | | | | |
| | 15 | Dividends | | 2,000 | |
| | | Cash | | | 2,000 |
| | | | | | |
| | 17 | Cash | | 9,200 | |
| | | Accounts Receivable | | | 9,200 |
| | | | | | |
| | 18 | Property tax expense | | 2,240 | |
| | | Cash | | | 2,240 |
| | | | | | |
| | 22 | Salaries expense | | 4,700 | |
| | | Cash | | | 4,700 |
| | | | | | |
| | 26 | Supplies | | 250 | |
| | | Cash | | | 250 |
| | | | | | |
| | 31 | Accounts payable | | 150 | |
| | | Cash | | | 150 |
| | | | | | |



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## (20-25 min.) P2-33A

***Req. 2***

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Jan | 1 | Cash | | 55,000 | |
| | | Common stock | | | 55,000 |
| | | | | | |
| | 3 | Supplies | | 100 | |
| | | Furniture | | 1,200 | |
| | | Accounts payable | | | 1,300 |
| | | | | | |
| | 5 | Cash | | 3,000 | |
| | | Service revenue | | | 3,000 |
| | | | | | |
| | 8 | Land | | 24,000 | |
| | | Cash | | | 24,000 |
| | | | | | |
| | 11 | Accounts receivable | | 2,700 | |
| | | Service revenue | | | 2,700 |
| | | | | | |
| | 14 | Salaries expense | | 650 | |
| | | Cash | | | 650 |
| | | | | | |
| | 16 | Accounts payable | | 1,150 | |
| | | Cash | | | 1,150 |
| | | | | | |
| | 19 | Cash | | 2,500 | |
| | | Service revenue | | | 2,500 |
| | | | | | |
| | 23 | Accounts receivable | | 1,300 | |
| | | Service revenue | | | 1,300 |
| | | | | | |
| | 28 | Cash | | 300 | |
| | | Accounts receivable | | | 300 |
| | | | | | |
| | 31 | Salaries expense | | 650 | |
| | | Cash | | | 650 |
| | | | | | |
| | 31 | Rent expense | | 1,700 | |
| | | Cash | | | 1,700 |
| | | | | | |
| | 31 | Dividends | | 1,100 | |
| | | Cash | | | 1,100 |

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***Req. 1, 3, and 4***

**Cash**

| | | | |
|---|---|---|---|
| Jan 1 | 55,000 | Jan 8 | 24,000 |
| 5 | 3,000 | 14 | 650 |
| 19 | 2,500 | 16 | 1,150 |
| 28 | 300 | 31 | 650 |
| | | 31 | 1,700 |
| | | 31 | 1,100 |
| *Bal.* | *31,550* | | |

**Accounts Payable**

| | | | |
|---|---|---|---|
| Jan 16 | 1,150 | Jan 3 | 1,300 |
| | | *Bal* | *150* |

**Common stock**

| | | | |
|---|---|---|---|
| | | Jan 1 | 55,000 |
| | | *Bal.* | *55,000* |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| Jan 11 | 2,700 | Jan 28 | 300 |
| 23 | 1,300 | | |
| *Bal.* | *3,700* | | |

**Dividends**

| | | | |
|---|---|---|---|
| Jan 31 | 1,100 | | |
| *Bal.* | 1,100 | | |

**Supplies**

| | | | |
|---|---|---|---|
| Jan 3 | 100 | | |
| *Bal.* | *100* | | |

**Service revenue**

| | | | |
|---|---|---|---|
| | | Jan 5 | 3,000 |
| | | 11 | 2,700 |
| | | 19 | 2,500 |
| | | 23 | 1,300 |
| | | *Bal.* | *9,500* |

**Land**

| | | | |
|---|---|---|---|
| Jan 8 | 24,000 | | |
| *Bal.* | *24,000* | | |

**Salaries Expense**

| | | | |
|---|---|---|---|
| Jan 14 | 650 | | |
| 31 | 650 | | |
| *Bal.* | *1,300* | | |

**Furniture**

| | | | |
|---|---|---|---|
| Jan 3 | 1,200 | | |
| *Bal.* | *1,200* | | |

**Rent Expense**

| | | | |
|---|---|---|---|
| Jan 31 | 1,700 | | |
| *Bal.* | *1,700* | | |

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***Req. 5***

| Miller & Associates, Inc.<br>Trial Balance<br>January 31, 2018 | | |
|---|---|---|
| | **BALANCE** | |
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 31,550 | |
| Accounts receivable | 3,700 | |
| Supplies | 100 | |
| Land | 24,000 | |
| Furniture | 1,200 | |
| Accounts payable | | $ 150 |
| Common stock | | 55,000 |
| Dividends | 1,100 | |
| Service revenue | | 9,500 |
| Salaries expense | 1,300 | |
| Rent expense | 1,700 | |
| Total | $64,650 | $64,650 |

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## (25-30 min.) P 2-34A

***Req. 1***

| Journal | | | | Page 6 | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Sep. | 16 | Cash | 110 | 1,500 | |
| | | Accounts receivable | 112 | | 1,500 |
| | | Received payment on account. | | | |
| | | | | | |
| | 18 | Accounts receivable | 112 | 1,800 | |
| | | Service revenue | 411 | | 1,800 |
| | | Performed service on account. | | | |
| | | | | | |
| | 21 | Cash | 110 | 1,050 | |
| | | Service revenue | 411 | | 1,050 |
| | | Performed service for cash. | | | |
| | | | | | |
| | 23 | Supplies | 115 | 150 | |
| | | Accounts Payable | 210 | | 150 |
| | | Purchased supplies on account. | | | |
| | | | | | |
| | 25 | Dividends | 315 | 1,000 | |
| | | Cash | 110 | | 1,000 |
| | | Paid dividends. | | | |
| | | | | | |
| | 27 | Accounts payable | 210 | 2,500 | |
| | | Cash | 110 | | 2,500 |
| | | Made payment on account. | | | |
| | | | | | |
| | 29 | Cash | 110 | 1,850 | |
| | | Service revenue | 411 | | 1,850 |
| | | Received cash for services performed. | | | |
| | | | | | |
| | 30 | Rent Expense | 515 | 1,200 | |
| | | Cash | 110 | | 1,200 |
| | | Paid rent. | | | |
| | | | | | |
| | 30 | Salaries Expense | 511 | 2,100 | |
| | | Cash | 110 | | 2,100 |
| | | Paid employee salaries. | | | |



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***Req. 2***

| CASH | | | | | | ACCOUNT NO. 110 | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Sep | 15 | Bal. | √ | | | 6,450 | |
| | 16 | | J.6 | 1,500 | | 7,950 | |
| | 21 | | J.6 | 1,050 | | 9,000 | |
| | 25 | | J.6 | | 1,000 | 8,000 | |
| | 27 | | J.6 | | 2,500 | 5,500 | |
| | 29 | | J.6 | 1,850 | | 7,350 | |
| | 30 | | J.6 | | 1,200 | 6,150 | |
| | 30 | | J.6 | | 2,100 | 4,050 | |

| ACCOUNTS RECEIVABLE | | | | | | ACCOUNT NO. 112 | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Sep | 15 | Bal. | √ | | | 4,700 | |
| | 16 | | J.6 | | 1,500 | 3,200 | |
| | 18 | | J.6 | 1,800 | | 5,000 | |

| SUPPLIES | | | | | | ACCOUNT NO. 115 | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Sep | 15 | Bal. | √ | | | 450 | |
| | 23 | | J.6 | 150 | | 600 | |

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| EQUIPMENT | | | | | | | ACCOUNT NO. 140 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Sep | 15 | Bal. | √ | | | 18,500 | |

| ACCOUNTS PAYABLE | | | | | | | ACCOUNT NO. 210 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Sep | 15 | Bal. | √ | | | | 4,300 |
| | 23 | | J.6 | | 150 | | 4,450 |
| | 27 | | J.6 | 2,500 | | | 1,950 |

| COMMON STOCK | | | | | | | ACCOUNT NO. 311 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Sep | 15 | Bal. | √ | | | | 25,000 |
| | | | | | | | |

| DIVIDENDS | | | | | | | ACCOUNT NO. 315 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Sep | 15 | Bal. | √ | | | 2,000 | |
| | 25 | | J.6 | 1,000 | | 3,000 | |

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| SERVICE REVENUE | | | | | | | ACCOUNT NO. 411 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | | 7,100 |
| | 18 | | J.6 | | 1,800 | | 8,900 |
| | 21 | | J.6 | | 1,050 | | 9,950 |
| | 29 | | J.6 | | 1,850 | | 11,800 |

| SALARIES EXPENSE | | | | | | | ACCOUNT NO. 511 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 3,100 | |
| | 30 | | J.6 | 2,100 | | 5,200 | |

| RENT EXPENSE | | | | | | | ACCOUNT NO. 515 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 1,200 | |
| | 30 | | J.6 | 1,200 | | 2,400 | |

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***Req. 3***

| Safenet, Inc. | | | |
|---|---|---|---|
| **Trial Balance** | | | |
| **September 30, 2018** | | | |
| | **ACCOUNT** | **DEBIT** | **CREDIT** |
| | Cash | $ 4,050 | |
| | Accounts receivable | 5,000 | |
| | Supplies | 600 | |
| | Equipment | 18,500 | |
| | Accounts payable | | $ 1,950 |
| | Common stock | | 25,000 |
| | Dividends | 3,000 | |
| | Service revenue | | 11,800 |
| | Salaries expense | 5,200 | |
| | Rent expense | 2,400 | |
| | Total | $38,750 | $38,750 |



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## (20-25 min.) P 2-35A

***Req. 1***

| Hernandez Computer Repair, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT | DEBIT | CREDIT |
| Cash | $ 4,600 | |
| Accounts receivable | 850 | |
| Supplies | 350 | |
| Land | 20,000 | |
| Building | 110,000 | |
| Accounts payable | | $ 925 |
| Notes payable | | 98,000 |
| Common stock | | 15,000 |
| Retained earnings | | 17,010 |
| Dividends | 2,000 | |
| Service revenue | | 13,200 |
| Salaries expense | 3,650 | |
| Rent expense | 1,500 | |
| Utilities expense | 675 | |
| Supplies expense | 360 | |
| Insurance expense | 150 | |
| Total | $144,135 | $144,135 |

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***Req. 2***

| Hernandez Computer Repair, Inc. | | |
|---|---|---|
| **Income Statement** | | |
| **Month Ended March 31, 2018** | | |
| | | |
| Service revenue | | $13,200 |
| Expenses | | |
| Salaries expense | $3,650 | |
| Rent expense | 1,500 | |
| Utilities expense | 675 | |
| Supplies expense | 360 | |
| Insurance expense | 150 | |
| Total expenses | | 6,335 |
| | | |
| Net Income | | $6,865 |



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| Hernandez Computer Repair, Inc.<br>Statement of Retained Earnings<br>Month Ended March 31, 2018 | |
|---|---|
| Retained earnings, Mar. 1, 2018 | $17,010 |
| Add: Net income | 6,865 |
| Subtotal | 23,875 |
| Less: Dividends | 2,000 |
| Retained earnings, Mar. 31, 2018 | $21,875 |

| Hernandez Computer Repair, Inc.<br>Balance Sheet<br>March 31, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| Cash | $ 4,600 | Accounts payable | $ 925 |
| Accounts receivable | 850 | Notes payable | 98,000 |
| Supplies | 350 | Total liabilities | 98,925 |
| Land | 20,000 | STOCKHOLDERS' EQUITY | |
| Building | 110,000 | Common stock | 15,000 |
| | | Retained earnings | 21,875 |
| | | Total stockholders' equity | 36,875 |
| | | Total liabilities and | |
| Total assets | $135,800 | stockholders' equity | $135,800 |

***Req 3***

It was a profitable month for Hernandez Computer Repair, Inc. from the standpoint that the business generated $6,865 of Net Income.

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## (15-20 min.) P 2-36A

***Req. 1***

| Journal | | | | Page 3 | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | a. | Cash | | 270 | |
| | | Service revenue | | | 270 |
| | | ($1,410– $1,140 = $270) | | | |
| | | | | | |
| | b. | Supplies | | 900 | |
| | | Accounts payable | | | 900 |
| | | The original entry was recorded "backwards" so an entry for double the amount needs to be made. | | | |
| | | | | | |
| | c. | Cash | | 7,200 | |
| | | Rent expense | | | 7,200 |
| | | ($8,000 - $800 = $7,200) | | | |
| | | | | | |
| | d. | Accounts payable | | 850 | |
| | | Accounts receivable | | | 850 |

***Req 2***

a. Net income is understated because Service revenue was credited (increased) by only $1,140 instead of the correct amount of $1,410.

b. Net income would be unchanged because the entry did not effect a revenue or an expense.

c. Net income would be understated because Rent expense was debited (increased) by $8,000 instead of the correct amount of $800.

d. Net income would be unchanged because the entry did not effect a revenue or an expense.



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## (15-20 min.) P 2-37B

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Nov | 1 | Cash | | 70,000 | |
| | | Common stock | | | 70,000 |
| | | | | | |
| | 3 | Supplies | | 275 | |
| | | Cash | | | 275 |
| | | | | | |
| | 8 | Land | | 34,000 | |
| | | Cash | | | 34,000 |
| | | | | | |
| | 12 | Office equipment | | 3,300 | |
| | | Accounts payable | | | 3,300 |
| | | | | | |
| | 17 | Cash | | 50,000 | |
| | | Notes payable | | | 50,000 |
| | | | | | |
| | 26 | Accounts payable | | 2,150 | |
| | | Cash | | | 2,150 |
| | | | | | |
| | 30 | Cash | | 8,000 | |
| | | Accounts receivable | | 25,000 | |
| | | Service revenue | | | 33,000 |
| | | | | | |
| | 30 | Salaries expense | | 2,400 | |
| | | Rent expense | | 1,100 | |
| | | Utilities expense | | 385 | |
| | | Cash | | | 3,885 |
| | | | | | |
| | 30 | Dividends | | 4,000 | |
| | | Cash | | | 4,000 |

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**(15-20 min.) P 2-38B**

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Aug | 1 | Cash | | 225,000 | |
| | | Notes payable | | | 225,000 |
| | | | | | |
| | 3 | Building | | 200,000 | |
| | | Cash | | | 200,000 |
| | | | | | |
| | 6 | Accounts receivable | | 19,000 | |
| | | Service revenue | | | 19,000 |
| | | | | | |
| | 9 | Supplies | | 245 | |
| | | Accounts payable | | | 245 |
| | | | | | |
| | 13 | Cash | | 7,600 | |
| | | Service revenue | | | 7,600 |
| | | | | | |
| | 15 | Dividends | | 5,000 | |
| | | Cash | | | 5,000 |
| | | | | | |
| | 17 | Cash | | 6,600 | |
| | | Accounts Receivable | | | 6,600 |
| | | | | | |
| | 18 | Property tax expense | | 1,200 | |
| | | Cash | | | 1,200 |
| | | | | | |
| | 22 | Salaries expense | | 2,500 | |
| | | Cash | | | 2,500 |
| | | | | | |
| | 26 | Supplies | | 185 | |
| | | Cash | | | 185 |
| | | | | | |
| | 31 | Accounts payable | | 150 | |
| | | Cash | | | 150 |
| | | | | | |



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## (20-25 min.) P2-39B

***Req. 2***

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Mar | 1 | Cash | | 60,000 | |
| | | Common stock | | | 60,000 |
| | | | | | |
| | 3 | Supplies | | 275 | |
| | | Furniture | | 2,100 | |
| | | Accounts payable | | | 2,375 |
| | | | | | |
| | 5 | Cash | | 2,200 | |
| | | Service revenue | | | 2,200 |
| | | | | | |
| | 8 | Land | | 22,000 | |
| | | Cash | | | 22,000 |
| | | | | | |
| | 11 | Accounts receivable | | 1,500 | |
| | | Service revenue | | | 1,500 |
| | | | | | |
| | 14 | Salaries expense | | 1,200 | |
| | | Cash | | | 1,200 |
| | | | | | |
| | 16 | Accounts payable | | 1,750 | |
| | | Cash | | | 1,750 |
| | | | | | |
| | 19 | Cash | | 850 | |
| | | Service revenue | | | 850 |
| | | | | | |
| | 23 | Accounts receivable | | 1,800 | |
| | | Service revenue | | | 1,800 |
| | | | | | |
| | 28 | Cash | | 400 | |
| | | Accounts receivable | | | 400 |
| | | | | | |
| | 31 | Salaries expense | | 1,200 | |
| | | Cash | | | 1,200 |
| | | | | | |
| | 31 | Rent expense | | 1,700 | |
| | | Cash | | | 1,700 |
| | | | | | |
| | 31 | Dividends | | 1,000 | |
| | | Cash | | | 1,000 |

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***Req. 1, 3, and 4***

**Cash**

| | | | |
|---|---|---|---|
| Mar 1 | 60,000 | Mar 8 | 22,000 |
| 5 | 2,200 | 14 | 1,200 |
| 19 | 850 | 16 | 1,750 |
| 28 | 400 | 31 | 1,200 |
| | | 31 | 1,700 |
| | | 31 | 1,000 |
| *Bal.* | *34,600* | | |

**Accounts Payable**

| | | | |
|---|---|---|---|
| Mar 16 | 1,750 | Mar 3 | 2,375 |
| | | *Bal* | *625* |

**Common stock**

| | | | |
|---|---|---|---|
| | | Mar 1 | 60,000 |
| | | *Bal.* | *60,000* |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| Mar 11 | 1,500 | Mar 28 | 400 |
| 23 | 1,800 | | |
| *Bal.* | *2,900* | | |

**Dividends**

| | | | |
|---|---|---|---|
| Mar 31 | 1,000 | | |
| *Bal.* | 1,000 | | |

**Supplies**

| | | | |
|---|---|---|---|
| Mar 3 | 275 | | |
| *Bal.* | *275* | | |

**Service revenue**

| | | | |
|---|---|---|---|
| | | Mar 5 | 2,200 |
| | | 11 | 1,500 |
| | | 19 | 850 |
| | | 23 | 1,800 |
| | | *Bal.* | *6,350* |

**Land**

| | | | |
|---|---|---|---|
| Mar 8 | 22,000 | | |
| *Bal.* | *22,000* | | |

**Salaries Expense**

| | | | |
|---|---|---|---|
| Mar 14 | 1,200 | | |
| 31 | 1,200 | | |
| *Bal.* | *2,400* | | |

**Furniture**

| | | | |
|---|---|---|---|
| Mar 3 | 2,100 | | |
| *Bal.* | *2,100* | | |

**Rent Expense**

| | | | |
|---|---|---|---|
| Mar 31 | 1,700 | | |
| *Bal.* | *1,700* | | |

***Req. 5***



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| Le & Associates, Inc. | | |
|---|---|---|
| **Trial Balance** | | |
| **March 31, 2018** | | |
| | **BALANCE** | |
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 34,600 | |
| Accounts receivable | 2,900 | |
| Supplies | 275 | |
| Land | 22,000 | |
| Furniture | 2,100 | |
| Accounts payable | | $ 625 |
| Common stock | | 60,000 |
| Dividends | 1,000 | |
| Service revenue | | 6,350 |
| Salaries expense | 2,400 | |
| Rent expense | 1,700 | |
| Total | $66,975 | $66,975 |

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## (25-30 min.) P 2-40B

***Req. 1***

| Journal | | | | Page 6 | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| May | 16 | Cash | 110 | 1,700 | |
| | | Accounts receivable | 112 | | 1,700 |
| | | Received payment on account. | | | |
| | | | | | |
| | 18 | Accounts receivable | 112 | 2,200 | |
| | | Service revenue | 411 | | 2,200 |
| | | Performed service on account. | | | |
| | | | | | |
| | 21 | Cash | 110 | 2,800 | |
| | | Service revenue | 411 | | 2,800 |
| | | Performed service for cash. | | | |
| | | | | | |
| | 23 | Supplies | 115 | 600 | |
| | | Accounts Payable | 210 | | 600 |
| | | Purchased supplies on account. | | | |
| | | | | | |
| | 25 | Dividends | 315 | 1,600 | |
| | | Cash | 110 | | 1,600 |
| | | Paid dividends. | | | |
| | | | | | |
| | 27 | Accounts payable | 210 | 2,000 | |
| | | Cash | 110 | | 2,000 |
| | | Made payment on account. | | | |
| | | | | | |
| | 29 | Cash | 110 | 4,200 | |
| | | Service revenue | 411 | | 4,200 |
| | | Received cash for services performed. | | | |
| | | | | | |
| | 30 | Rent Expense | 515 | 900 | |
| | | Cash | 110 | | 900 |
| | | Paid rent. | | | |
| | | | | | |
| | 31 | Salaries Expense | 511 | 1,950 | |
| | | Cash | 110 | | 1,950 |
| | | Paid employee salaries. | | | |



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***Req. 2***

| CASH | | | | | | ACCOUNT NO. 110 | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| May | 15 | Bal. | √ | | | 4,700 | |
| | 16 | | J.6 | 1,700 | | 6,400 | |
| | 21 | | J.6 | 2,800 | | 9,200 | |
| | 25 | | J.6 | | 1,600 | 7,600 | |
| | 27 | | J.6 | | 2,000 | 5,600 | |
| | 29 | | J.6 | 4,200 | | 9,800 | |
| | 30 | | J.6 | | 900 | 8,900 | |
| | 31 | | J.6 | | 1,950 | 6,950 | |

| ACCOUNTS RECEIVABLE | | | | | | ACCOUNT NO. 112 | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| May | 15 | Bal. | √ | | | 5,300 | |
| | 16 | | J.6 | | 1,700 | 3,600 | |
| | 18 | | J.6 | 2,200 | | 5,800 | |

| SUPPLIES | | | | | | ACCOUNT NO. 115 | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| May | 15 | Bal. | √ | | | 150 | |
| | 23 | | J.6 | 600 | | 750 | |

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| EQUIPMENT | | | | | | | ACCOUNT NO. 140 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 15 | Bal. | √ | | | 15,750 | |

| ACCOUNTS PAYABLE | | | | | | | ACCOUNT NO. 210 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 15 | Bal. | √ | | | | 2,900 |
| | 23 | | J.6 | | 600 | | 3,500 |
| | 27 | | J.6 | 2,000 | | | 1,500 |



Financial Accounting 5th edition Kemp Solutions Manual

| COMMON STOCK | | | | | | | ACCOUNT NO. 311 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| May | 15 | Bal. | √ | | | | 22,000 |
| | | | | | | | |

| DIVIDENDS | | | | | | | ACCOUNT NO. 315 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| May | 15 | Bal. | √ | | | 2,900 | |
| | 25 | | J.6 | 1,600 | | 4,500 | |

| SERVICE REVENUE | | | | | | | ACCOUNT NO. 411 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| May | 15 | Bal. | √ | | | | 8,200 |
| | 18 | | J.6 | | 2,200 | | 10,400 |
| | 21 | | J.6 | | 2,800 | | 13,200 |
| | 29 | | J.6 | | 4,200 | | 17,400 |

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| SALARIES EXPENSE | | | | | | | ACCOUNT NO. 511 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 15 | Bal. | √ | | | 2,800 | |
| | 31 | | J.6 | 1,950 | | 4,750 | |

| RENT EXPENSE | | | | | | | ACCOUNT NO. 515 |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 15 | Bal. | √ | | | 1,500 | |
| | 30 | | J.6 | 900 | | 2,400 | |



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***Req. 3***

| Security Systems, Inc. | | | |
|---|---|---|---|
| Trial Balance | | | |
| May 31, 2018 | | | |
| | **ACCOUNT** | **DEBIT** | **CREDIT** |
| | Cash | $ 6,950 | |
| | Accounts receivable | 5,800 | |
| | Supplies | 750 | |
| | Equipment | 15,750 | |
| | Accounts payable | | $ 1,500 |
| | Common stock | | 22,000 |
| | Dividends | 4,500 | |
| | Service revenue | | 17,400 |
| | Salaries expense | 4,750 | |
| | Rent expense | 2,400 | |
| | Total | $40,900 | $40,900 |

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## (20-25 min.) P 2-41B

***Req. 1***

| Wellington Electronics Repair, Inc.<br>Trial Balance<br>October 31, 2018 | | |
|---|---|---|
| | **BALANCE** | |
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| Cash | $15,100 | |
| Accounts receivable | 4,200 | |
| Supplies | 250 | |
| Land | 58,000 | |
| Building | 135,000 | |
| Accounts payable | | $ 3,300 |
| Notes payable | | 152,000 |
| Common stock | | 45,000 |
| Retained earnings | | 14,840 |
| Dividends | 1,500 | |
| Service revenue | | 7,750 |
| Salaries expense | 5,200 | |
| Rent expense | 2,400 | |
| Utilities expense | 535 | |
| Supplies expense | 480 | |
| Insurance expense | 225 | |
| Total | $222,890 | $222,890 |



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***Req. 2***

| Wellington Electronics Repair, Inc. | | |
|---|---|---|
| **Income Statement** | | |
| **Month Ended October 31, 2018** | | |
| | | |
| Service revenue | | $7,750 |
| Expenses | | |
| Salaries expense | $5,200 | |
| Rent expense | 2,400 | |
| Utilities expense | 535 | |
| Supplies expense | 480 | |
| Insurance expense | 225 | |
| Total expenses | | 8,840 |
| | | |
| Net Loss | | $(1,090) |

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| Wellington Electronics Repair, Inc.<br>Statement of Retained Earnings<br>Month Ended October 31, 2018 | |
|---|---|
| Retained earnings, October 1, 2018 | $14,840 |
| Subtract: Net loss | (1,090) |
| Subtotal | 13,750 |
| Less: Dividends | 1,500 |
| Retained earnings, October 31, 2018 | $12,250 |

| Wellington Electronics Repair, Inc.<br>Balance Sheet<br>October 31, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| Cash | $15,100 | Accounts payable | $ 3,300 |
| Accounts receivable | 4,200 | Notes payable | 152,000 |
| Supplies | 250 | Total liabilities | 155,300 |
| Land | 58,000 | STOCKHOLDERS' EQUITY | |
| Building | 135,000 | Common stock | 45,000 |
| | | Retained earnings | 12,250 |
| | | Total stockholders' equity | 57,250 |
| | | Total liabilities and | |
| Total assets | $212,550 | stockholders' equity | $212,550 |



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***Req 3***

It was a not a profitable month for Wellington Electronics Repair, Inc. from the standpoint that the business generated a loss of $1,090.

## (15-20 min.) P 2-42B

***Req. 1***

| Journal | | | | Page 3 | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | a. | Service revenue | | 180 | |
| | | Cash | | | 180 |
| | | ($1,640 – $1,460 = $180) | | | |
| | | | | | |
| | b. | Supplies | | 370 | |
| | | Accounts payable | | | 370 |
| | | The original entry was recorded "backwards" so an entry for double the amount needs to be made | | | |
| | | | | | |
| | c. | Rent expense | | 1,215 | |
| | | Cash | | | 1,215 |
| | | ($1,350 - $135 = $1,215) | | | |
| | | | | | |
| | d. | Accounts payable | | 1,750 | |
| | | Accounts receivable | | | 1,750 |

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***Req 2***

a. Net income is overstated because Service revenue was credited (increased) by $1,640 instead of the correct amount of $1,460.

b. Net income would be unchanged because the entry did not effect a revenue or an expense.

c. Net income would be overstated because Rent expense was debited (increased) by only $135 instead of the correct amount of $1,350.

d. Net income would be unchanged because the entry did not effect a revenue or an expense.



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## Continuing Exercise

***Req 2***

| | | | |
|---|---|---|---|
| May 1 | Cash | 1,500 | |
| | Common Stock | | 1,500 |
| | | | |
| 3 | Equipment | 1,908 | |
| | Accounts payable | | 1,908 |
| | | | |
| 5 | Supplies | 125 | |
| | Cash | | 125 |
| | | | |
| 6 | Accounts receivable | 375 | |
| | Service revenue | | 375 |
| | | | |
| 17 | Cash | 275 | |
| | Service Revenue | | 275 |
| | | | |
| 28 | Utilities Expense | 65 | |
| | Cash | | 65 |
| | | | |
| 30 | Cash | 150 | |
| | Accounts receivable | | 150 |

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***Req. 1 & 3***

**Assets = Liabilities + Stockholders' equity**

**Cash**

| | | | |
|---|---|---|---|
| 5/1 | 1,500 | 125 | 5/5 |
| 5/17 | 275 | 65 | 5/28 |
| 5/30 | 150 | | |
| Bal. | 1,735 | | |

**Supplies**

| | | |
|---|---|---|
| 5/5 | 125 | |
| Bal. | 125 | |

**Accounts payable**

| | | |
|---|---|---|
| | 1,908 | 5/3 |
| | 1,908 | Bal. |

**Common stock**

| | | |
|---|---|---|
| | 1,500 | 5/1 |
| | 1,500 | Bal. |

**Equipment**

| | | |
|---|---|---|
| 5/3 | 1,908 | |
| Bal. | 1,908 | |

**Retained earnings**

| | | |
|---|---|---|
| | | |
| | | |

**Accounts receivable**

| | | | |
|---|---|---|---|
| 5/6 | 375 | 150 | 5/30 |
| Bal. | 225 | | |

**Service revenue**

| | | |
|---|---|---|
| | 375 | 5/6 |
| | 275 | 5/17 |
| | 650 | Bal. |

**Utilities expense**

| | | |
|---|---|---|
| 5/28 | 65 | |
| Bal. | 65 | |



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***Req 4***

**Sensations Salon, Inc.**
**Trial Balance**
**May 31, 2018**

| ACCOUNT | DEBIT | CREDIT |
|---|---|---|
| Cash | $1,735 | |
| Accounts receivable | 225 | |
| Supplies | 125 | |
| Equipment | 1,908 | |
| Accounts payable | | $1,908 |
| Common stock | | 1,500 |
| Service revenue | | 650 |
| Utilities expense | 65 | . |
| Total | $4,058 | $4,058 |

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## Continuing Problem

***Req. 1***

| Journal | | | | | |
|---|---|---|---|---|---|
| **DATE** | | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| April | 1 | Salaries expense | | 675 | |
| | | Cash | | | 675 |
| | | | | | |
| | 2 | Land | | 16,000 | |
| | | Cash | | | 16,000 |
| | | | | | |
| | 3 | Rent expense | | 1,500 | |
| | | Cash | | | 1,500 |
| | | | | | |
| | 4 | Cash | | 1,700 | |
| | | Service revenue | | | 1,700 |
| | | | | | |
| | 5 | Cash | | 600 | |
| | | Accounts receivable | | | 600 |
| | | | | | |
| | 8 | Supplies | | 450 | |
| | | Accounts payable | | | 450 |
| | | | | | |
| | 11 | Accounts receivable | | 4,200 | |
| | | Service revenue | | | 4,200 |
| | | | | | |
| | 13 | Cash | | 10,000 | |
| | | Common stock | | | 10,000 |
| | | | | | |
| | 16 | Salaries Expense | | 675 | |
| | | Cash | | | 675 |
| | | | | | |
| | 17 | Cash | | 1,450 | |
| | | Service revenue | | | 1,450 |
| | | | | | |
| | 18 | Cash | | 300 | |



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| | | | | | |
|---|---|---|---|---|---|
| | | Accounts receivable | | | 300 |
| | | | | | |
| | 19 | Advertising expense | | 500 | |
| | | Cash | | | 500 |
| | | | | | |
| | 21 | Accounts payable | | 700 | |
| | | Cash | | | 700 |
| | | | | | |
| | 22 | Office furniture | | 2,100 | |
| | | Accounts payable | | | 2,100 |
| | | | | | |
| | 24 | Miscellaneous expense | | 75 | |
| | | Cash | | | 75 |
| | | | | | |
| | 26 | Accounts receivable | | 1,900 | |
| | | Service revenue | | | 1,900 |
| | | | | | |
| | 28 | Cash | | 900 | |
| | | Accounts receivable | | | 900 |
| | | | | | |
| | 30 | Utilities expense | | 245 | |
| | | Cash | | | 245 |
| | | | | | |
| | 30 | Salaries expense | | 675 | |
| | | Cash | | | 675 |
| | | | | | |
| | 30 | Dividends | | 2,300 | |
| | | Cash | | | 2,300 |
| | | | | | |
| | | | | | |
| | | | | | |

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***Req. 2***

| CASH | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | 31,880 | |
| Apr | 1 | | | | 675 | 31,205 | |
| | 2 | | | | 16,000 | 15,205 | |
| | 3 | | | | 1,500 | 13,705 | |
| | 4 | | | 1,700 | | 15,405 | |
| | 5 | | | 600 | | 16,005 | |
| | 13 | | | 10,000 | | 26,005 | |
| | 16 | | | | 675 | 25,330 | |
| | 17 | | | 1,450 | | 26,780 | |
| | 18 | | | 300 | | 27,080 | |
| | 19 | | | | 500 | 26,580 | |
| | 21 | | | | 700 | 25,880 | |
| | 24 | | | | 75 | 25,805 | |
| | 28 | | | 900 | | 26,705 | |
| | 30 | | | | 245 | 26,460 | |
| | 30 | | | | 675 | 25,785 | |
| | 30 | | | | 2,300 | 23,485 | |

| ACCOUNTS RECEIVABLE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | 1,300 | |
| Apr | 5 | | | | 600 | 700 | |
| | 11 | | | 4,200 | | 4,900 | |
| | 18 | | | | 300 | 4,600 | |
| | 26 | | | 1,900 | | 6,500 | |
| | 28 | | | | 900 | 5,600 | |

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| SUPPLIES | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | 900 | |
| Apr | 8 | | | 450 | | 1,350 | |

| LAND | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Apr | 2 | | | 16,000 | | 16,000 | |

| OFFICE FURNITURE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Apr | 22 | | | 2,100 | | 2,100 | |

| EQUIPMENT | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | 3,600 | |

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| VEHICLES | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | 35,800 | |

| ACCOUNTS PAYABLE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | | 1,000 |
| Apr | 8 | | | | 450 | | 1,450 |
| | 21 | | | 700 | | | 750 |
| | 22 | | | | 2,100 | | 2,850 |

| NOTES PAYABLE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | | 35,800 |

| COMMON STOCK | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | | 35,000 |
| Apr | 13 | | | | 10,000 | | 45,000 |

| DIVIDENDS | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | 1,500 | |
| Apr | 30 | | | 2,300 | | 3,800 | |

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| SERVICE REVENUE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | | 4,050 |
| Apr | 4 | | | | 1,700 | | 5,750 |
| | 11 | | | | 4,200 | | 9,950 |
| | 17 | | | | 1,450 | | 11,400 |
| | 26 | | | | 1,900 | | 13,300 |

| SALARIES EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | 620 | |
| Apr | 1 | | | 675 | | 1,295 | |
| | 16 | | | 675 | | 1,970 | |
| | 30 | | | 675 | | 2,645 | |

| RENT EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Apr | 3 | | | 1,500 | | 1,500 | |

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| UTILITIES EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Mar | 31 | Bal. | | | | 250 | |
| Apr | 30 | | | 245 | | 495 | |

| ADVERTISING EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Apr | 19 | | | 500 | | 500 | |

| MISCELLANEOUS EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Apr | 24 | | | 75 | | 75 | |



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***Req. 3***

| Fitness Equipment Doctor, Inc. | | | |
|---|---|---|---|
| Trial Balance | | | |
| April 30, 2018 | | | |
| | **ACCOUNT** | **DEBIT** | **CREDIT** |
| | Cash | $ 23,485 | |
| | Accounts receivable | 5,600 | |
| | Supplies | 1,350 | |
| | Land | 16,000 | |
| | Office furniture | 2,100 | |
| | Equipment | 3,600 | |
| | Vehicles | 35,800 | |
| | Accounts payable | | $ 2,850 |
| | Notes payable | | 35,800 |
| | Common stock | | 45,000 |
| | Dividends | 3,800 | |
| | Service revenue | | 13,300 |
| | Salaries expense | 2,645 | |
| | Rent expense | 1,500 | |
| | Advertising expense | 500 | |
| | Utilities expense | 495 | |
| | Miscellaneous expense | 75 | |
| | Total | $96,950 | $96,950 |

## Continuing Financial Statement Analysis Problem

Requirement 1.

Cash and cash equivalents would increase by $50 million and debt would increase by $50 million. This would cause Total assets and Total liabilities and shareholders' equity to each increase by $50 million.

| **Date** | **Accounts** | **Post Ref.** | **Dr.** | **Cr.** |
|---|---|---|---|---|
| | Cash | | $50 million | |
| | Other Long-term Debt | | | $50 million |
| | Borrowed $50,000,000 in debt. | | | |

Requirement 2.

There would be no net change in Total assets. Cash would decrease by $50 million and Property and equipment would increase by $50 million. This causes Total current assets to

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decrease by $50 million and Property and equipment, net to increase by $50 million for a net effect on Total assets of zero**.**

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | Property and Equipment | | $50 million | |
| | Cash | | | $50 million |
| | Purchased building for $50 million. | | | |

Requirement 3.

On the income statement, sales and costs would increase, creating an additional net income of $10 million. The $10 million increase in net income would then be added to the previous year's retained earnings, which would increase retained earnings on the balance sheet by $10 million. Cash would also increase by $10 million on the balance sheet. This would cause total assets to increase by $10 million and total liabilities and shareholders' equity to increase by $10 million**.**

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | Cash | | $10 million | |
| | Retained Earnings (Sales) | | | $10 million |
| | To record cash sales. | | | |

**Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet**

Requirement 4.

The salary expense increase of $1 million would cause an increase of $1 million in selling, general and administrative expenses on the income statement. This would cause net earnings to decrease by $1 million. Because net earnings are added to the previous year's retained earnings to get the current year's retained earnings, the retained earnings on the balance sheet would be decreased by $1 million. Cash would also decrease by $1 million on the balance sheet. This would cause total assets to decrease by $1 million and total liabilities and shareholders' equity to decrease by $1 million.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | Retained Earnings (Salaries Expense) | | $1 million | |
| | Cash | | | $1 million |
| | Salaries of $1 billion are paid. | | | |

**Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet.**



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## Ethics in Action

**Case #1**

- Lynne should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was *not* a dividend but rather the payment of an expense.
- It does matter how the $3,800 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.
- Lynne does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the $3,800 expense, Lynne is giving the bank an inaccurate and misleading income statement.

**Case #2**

- Joe's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.
- There are ethical concerns. Joe has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain

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account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions in order to provide accurate information; therefore, accountants have an ethical duty to ensure accurate financial reporting.

- As the owner of Lawn Boyz Lawnservice you should have a problem with Joe's actions. You need to have accurate financial information for decision-making purposes. Accordingly, by Joe reducing the actual amount of Wage Expense, you may not be aware of the actual labor costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Joe has not fulfilled his obligation as an accountant.



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## Financial Analysis

| Journal | | | |
|---|---|---|---|
| **DATE** | **ACCOUNTS** | **Dr.** | **Cr.** |
| Jan 2 | Property, Plant and Equipment | 678,000 | |
| | Cash | | 678,000 |
| | | | |
| 8 | Cash | 2,512,000 | |
| | Net Sales | | 2,512,000 |
| | | | |
| 12 | Inventory | 3,470,000 | |
| | Accounts Payable | | 3,470,000 |
| | | | |
| 21 | Accounts Receivable | 4,515,000 | |
| | Net Sales | | 4,515,000 |
| | | | |
| 30 | Accounts Payable | 2,975,000 | |
| | Cash | | 2,975,000 |

**2.** No solution.

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## Industry Analysis

1. Under Armour is the larger company in terms of revenue, with approximately $4.83 billion in net revenues for 2016 as compared to approximately $2.38 billion of net sales for Columbia Sportswear. This information is on the Consolidated Statement of Operations/Income.

2. Under Armour is the larger of the two in terms of total assets with about $3.64 billion at December 31, 2016, compared to about $2.01 billion for Columbia Sportswear. This information is on the Consolidated Balance Sheet.

3. Under Armour has more debt at the end of 2016 with around $1.61 billion at the end of the year. Columbia Sportswear has approximately $432 million in debt at the end of 2016. This information is also located on the Consolidated Balance Sheet. Note that the terms total liabilities and total debt mean the same thing.

4. Columbia Sportswear wins this one with a gross profit percentage of 46.7% ($1,110,348,000/$2,377,045,000) as compared to only 46.4% ($2,240,611,000/$4,825,335,000) for Under Armour. In terms of gross profit percentage, the higher the number, the better. This percentage indicates that Columbia Sportswear is doing a slightly better job of making profit from selling their products.

5. Under Armour had $59,000,000 of dividends in 2016 compared to only $48,122,000 of dividends for Columbia Sportswear. This number can be found on the Consolidated Statements of Stockholders' Equity. Again note that the terms Stockholder and Shareholder mean the same thing. Note that only part of Under Armour's dividends were paid in cash while all of Columbia Sportswear's dividends were cash dividends. Cash versus stock dividends are discussed in Chapter 10.

6. Student's response to this question will obviously vary.

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## Small Business Analysis

There are two mistakes here affecting the cash account. The first mistake is the cash transaction utilizing the debit card. When cash is decreased, it must be credited. Your client debited cash for the transaction using the logic that they were using a **debit** card. To correct this transaction, you will need to remove the original transaction and journalize the transaction correctly. These journal entries look the same. They are as follows:

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| May 7 | Supplies | | 320 | |
| | Cash | | | 320 |
| | To remove the original debit card transaction. | | | |

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| May 7 | Supplies | | 320 | |
| | Cash | | | 320 |
| | To record purchase of supplies using debit card. | | | |

The next error is that the credit card transaction doesn't have any effect on Cash until the credit card bill is paid. When the original transaction took place, a liability account, such as Credit Card Payable, should have been credited. To correct this, the following entry needs to be made.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| May 7 | Cash | | 275 | |
| | Credit Card Payable | | | 275 |
| | Correcting entry—used credit card instead of cash for utility bill. | | | |

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## Written Communication

Although student's responses will vary widely, here is a suggested memo to address the two situations.

Dear Client:

I want to address the two concerns you had in your e-mail to me last week. The first one was about the credit balance in your cash account. Even after corrections are made, the cash was still showing a credit balance. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have a credit balance in your cash account if your checking account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your checks unpaid. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

The second situation was concerning the use of debit cards versus credit cards. The terminology does get very confusing. Without going into an accounting lesson on the differences between debits and credits, let me explain what happens when you use the two cards. When you use your debit card, there have to be funds available in whatever account that card is attached to because the use of this card will automatically withdraw that amount of money from the account. The bank "debits" your account which, in banking terms, means they removed the money from your account. On the other hand, you have to credit cash because you are decreasing your cash account.

A credit card transaction, on the other hand, does not automatically remove the cash from your account. It sets up a liability to the credit card company which will have to be paid when you get the credit card statement. So the credit card transaction itself does not affect cash. You are not crediting cash when you use your credit card. You are crediting a liability to the credit card company which means you owe them money.



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## Discussion Questions

| | |
|---|---|
| 1 | Assets are listed in order of liquidity, or closeness to cash. Discuss the steps that the business would have to go through in order to convert each asset to cash in the normal course of business. |
| 2 | When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although it would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use. |
| 3 | Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the retained earnings account. |
| 4 | Not all events are transactions. A transaction is an event that has a financial impact on a company. Journal entries are recorded for all transactions. |
| 5 | The normal balance of an account is the side that increases the account<br>a. Debit<br>b. Debit<br>c. Credit<br>d. Credit<br>e. Debit |
| 6 | The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheck, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account). |
| 7 | A credit balance in the cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its checking account, it now has a liability to the bank. Rather than showing a credit balance in its cash account, it should show a credit balance in a liability account. |
| 8 | Journalizing is the process of recording a transaction in the journal. Posting is the process of transferring the information from the journal to the appropriate accounts in the ledger or to T-accounts. |
| 9 | False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to supplies is improperly recorded as a debit to supplies expense, for example, the trial balance will balance but the financial statements will be inaccurate. |
| 10 | The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger. |



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**S 2-1**
**(5-10 min.)**

Match the accounting terms at the left with the corresponding definitions at the right.

***Solution:***

| | |
|---|---|
| 1 | b |
| 2 | c |
| 3 | e |
| 4 | g |
| 5 | d |
| 6 | f |
| 7 | a |



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**S 2-2**
**(5-10 min.)**

For each of the following accounts, place the corresponding letter(s) of its account type in the space provided. Use the most detailed account type appropriate. (A) Asset (L) Liability (SE) Stockholders' Equity (R) Revenue (E) Expense

***Solution:***

| | | |
|---|---|---|
| 1 | Accounts payable | L |
| 2 | Cash | A |
| 3 | Service revenue | R |
| 4 | Prepaid rent | A |
| 5 | Rent expense | E |
| 6 | Common stock | SE |



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**S 2-3**
**(5-10 min.)**

The following list names the activities involved in the accounting process of recording and summarizing business transactions. Place the number corresponding with the order the activity occurs next to the activity, starting with 1.

***Solution:***

| | |
|---|---|
| 1 | Transactions occur. |
| 5 | Prepare the financial statements |
| 4 | Prepare the trial balance. |
| 3 | Post the transactions from the journal to the ledger. |
| 2 | Record the transactions in the journal. |



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**S 2-4**
**(5-10 min.)**

For each of the following accounts, indicate the account type by labeling it as an asset (A), liability (L), stockholders' equity (SE), revenue (R), or expense (E). Also give the digit each account number would begin with in the chart of accounts. Use the most detailed account type appropriate.

***Solution:***

| Example | A, 1 |
|---|---|
| 1 | R, 4 |
| 2 | SE, 3 |
| 3 | A, 1 |
| 4 | E, 5 |
| 5 | L, 2 |
| 6 | SE, 3 |
| 7 | E ,5 |



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**S 2-5**
**(5-10 min.)**

Demonstrate your knowledge of accounting terminology by filling in the blanks to review some key definitions.
Dillon Baker is describing the accounting process for a friend who is a psychology major. Dillon states, "The basic summary device in accounting is the _____. The left side of an account is called the _____ side, and the right side is called the _____ side. We record transactions first in a _____. Then we post, or copy, the data to the _____. It is helpful to list all the accounts with their balances on a _____ _____."

***Solution:***

Dillon Baker is describing the accounting process for a friend who is a psychology major. Dillon states, "The basic summary device in accounting is the account. The left side of an account is called the debit side, and the right side is called the credit side. We record transactions first in a journal. Then we post or copy the data to the ledger (or T-accounts). It is helpful to list all the accounts with their balances on a trial balance."



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**S 2-6**
**(5-10 min.)**

For each of the following accounts, indicate if the account's normal balance is a debit balance (DR) or a credit balance (CR).

***Solution:***

| | | |
|---|---|---|
| DR | 1 | Rent expense |
| CR | 2 | Accounts payable |
| CR | 3 | Service revenue |
| DR | 4 | Office furniture |
| CR | 5 | Common stock |
| DR | 6 | Land |
| DR | 7 | Dividends |



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**S 2-7**
**(5-10 min.)**

Calculate each account balance.

***Solution:***

| Supplies | | | |
|---|---|---|---|
| Mar-08 | 250 | Mar-27 | 400 |
| Mar-17 | 800 | | |
| Bal. | 650 | | |

| Note payable | | | |
|---|---|---|---|
| Mar-20 | 1,250 | Mar-05 | 9,500 |
| Mar-31 | 4,500 | | |
| | | Bal. | 3,750 |



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**S 2-8**
**(5-10 min.)**

Complete the following table. For each account listed, identify the type of account, how the account is increased (debit or credit), and how the account is decreased (debit or credit). Use the most detailed account type appropriate.

***Solution:***

| Account | Type | ↑ | ↓ |
|---|---|---|---|
| Office equipment | Asset | Dr. | Cr. |
| Dividends | Stockholder's Equity | Dr. | Cr. |
| Service revenue | Revenue | Cr. | Dr. |
| Accounts payable | Liability | Cr. | Dr. |
| Rent expense | Expense | Dr. | Cr. |
| Cash | Asset | Dr. | Cr. |



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**S 2-9**
**(15-20 min.)**

Complete the following table. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side.

***Solution:***

| Transaction | Account Affected | Type | ↑ ↓ | Dr. or Cr. |
|---|---|---|---|---|
| 1 | Cash | Asset | Increase | Dr |
| | Common stock | Stockholders' Equity | Increase | Cr |
| 2 | Equipment | Asset | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 3 | Supplies | Asset | Increase | Dr |
| | Accounts payable | Liability | Increase | Cr |
| 4 | Accounts receivable | Asset | Increase | Dr |
| | Service revenue | Revenue | Increase | Cr |
| 5 | Accounts payable | Liability | Decrease | Dr |
| | Cash | Asset | Decrease | Cr |
| 6 | Operating expenses | Expense | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 7 | Dividends | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |



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**S 2-10**
**(10-15 min.)**

Using the steps outlined in the five-step transaction analysis, record the transactions in the journal.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Aug 1 | Cash | | 50,000 | |
| | Common stock | | | 50,000 |
| | Sold stock. | | | |
| 5 | Dental supplies | | 6,300 | |
| | Accounts payable | | | 6,300 |
| | Purchased supplies on account. | | | |
| 7 | Rent Expense | | 1,000 | |
| | Cash | | | 1,000 |
| | Paid office rent. | | | |
| 10 | Cash | | 1,200 | |
| | Accounts receivable | | 2,600 | |
| | Service revenue | | | 3,800 |
| | Performed service for patients. | | | |



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**S 2-11**
**(10-15 min.)**

Using the steps outlined in the five-step transaction analysis, record the transactions in the journal.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Sep 3 | Cash | | 35,000 | |
| | Note payable | | | 35,000 |
| | Borrowed money from the bank. | | | |
| 9 | Accounts receivable | | 1,250 | |
| | Service revenue | | | 1,250 |
| | Performed service on account. | | | |
| 16 | Cash | | 500 | |
| | Accounts receivable | | | 500 |
| | Received cash on account. | | | |
| 22 | Utilities expense | | 380 | |
| | Accounts payable | | | 380 |
| | Received utility bill. | | | |
| 30 | Salaries expense | | 2,250 | |
| | Cash | | | 2,250 |
| | Paid salary expense. | | | |
| 30 | Interest expense | | 170 | |
| | Cash | | | 170 |
| | Paid interest expense. | | | |



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**S 2-12**
**(10-15 min.)**

Prepare the trial balance for Audio Masters at April 30, 2018. List the accounts in proper order.

***Solution:***

| Audio Masters, Corp<br>Trial Balance<br>April 30, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | $ 18,300 | |
| Prepaid rent | 750 | |
| Equipment | 21,000 | |
| Accounts payable | | $ 1,700 |
| Note payable | | 11,500 |
| Common stock | | 15,000 |
| Dividends | 22,600 | |
| Service revenue | | 63,000 |
| Rent expense | 10,150 | |
| Utilities expense | 18,400 | |
| Total | $ 91,200 | $ 91,200 |



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**S 2-13**
**(5-10 min.)**

Indicate the financial statement that will include the account: income statement (IS), statement of retained earnings (RE), or balance sheet (BS).

***Solution:***

| Mylar, Inc.<br>Trial Balance<br>December 31, 2018 | | | |
|---|---|---|---|
| | ACCOUNT | DEBIT | CREDIT |
| BS | Cash | $ 12,100 | |
| BS | Accounts Receivable | 1,900 | |
| BS | Supplies | 250 | |
| BS | Equipment | 6,000 | |
| BS | Accounts Payable | | $ 1,830 |
| BS | Notes Payable | | 10,000 |
| BS | Common Stock | | 8,500 |
| RE | Dividends | 700 | |
| IS | Service Revenue | | 3,500 |
| IS | Salaries Expense | 1,740 | |
| IS | Rent Expense | 800 | |
| IS | Utilities Expense | 340 | |
| | Total | $ 23,830 | $ 23,830 |



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**S 2-14**
**(5-10 min.)**

Match the accounting terms at the left with the corresponding phrase at the right.

***Solution:***

| | | |
|---|---|---|
| e | 1 | Posting |
| d | 2 | Normal balance |
| g | 3 | Payable |
| a | 4 | Journal |
| b | 5 | Receivable |
| h | 6 | Chart of accounts |
| c | 7 | Debit |
| f | 8 | Trial balance |
| i | 9 | Credit |



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**E 2-15A**
**(10-15 min.)**

**Requirement**

1. Complete the following table. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side.

***Solution:***

***Req. 1***

| Transaction | Account Affected | Type | ↑ ↓ | Dr. or Cr. |
|---|---|---|---|---|
| Feb. 2 | Accounts receivable | Asset | Increase | Dr |
| | Service revenue | Stockholders' Equity | Increase | Cr |
| 8 | Supplies | Asset | Increase | Dr |
| | Accounts payable | Liability | Increase | Cr |
| 10 | Advertising expense | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 14 | Cash | Asset | Increase | Dr |
| | Accounts receivable | Asset | Decrease | Cr |
| 21 | Accounts Payable | Liability | Decrease | Dr |
| | Cash | Asset | Decrease | Cr |
| 26 | Cash | Asset | Increase | Dr |
| | Service revenue | Stockholders' Equity | Increase | Cr |



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**E 2-16A**
**(15-20 min.)**

Using the steps outlined in the five-step transaction analysis, record the following transactions in the general journal for Gulaine Plumbing, Inc. Explanations are not required.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Dec. 1 | Interest expense | | 100 | |
| | Cash | | | 100 |
| 5 | Office furniture | | 2,500 | |
| | Accounts payable | | | 2,500 |
| 10 | Accounts receivable | | 2,900 | |
| | Service revenue | | | 2,900 |
| 12 | Cash | | 20,000 | |
| | Notes payable | | | 20,000 |
| 19 | Cash | | 80,000 | |
| | Land | | | 80,000 |
| 21 | Building | | 300,000 | |
| | Notes payable | | | 300,000 |
| 27 | Accounts Payable | | 650 | |
| | Cash | | | 650 |



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**E 2-17A**
**(15-20 min.)**

**Requirement**

1. Using the steps outlined in the five-step transaction analysis, journalize the transactions of Wu & Associates, Inc. List transactions by date. Use the following accounts: Cash, Accounts Receivable, Supplies, Building, Accounts Payable, Common Stock, Service Revenue, Salaries Expense, and Rent Expense.

***Solution:***

***Req. 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Mar. 1 | Cash | | 95,000 | |
| | Common stock | | | 95,000 |
| 3 | Supplies | | 800 | |
| | Accounts Payable | | | 800 |
| 5 | Building | | 35,000 | |
| | Cash | | | 35,000 |
| 6 | Cash | | 1,500 | |
| | Service revenue | | | 1,500 |
| 11 | Accounts payable | | 500 | |
| | Cash | | | 500 |
| 18 | Accounts receivable | | 2,600 | |
| | Service revenue | | | 2,600 |
| 24 | Cash | | 900 | |
| | Accounts receivable | | | 900 |
| 30 | Salaries expense | | 700 | |
| | Rent expense | | 1,500 | |
| | Cash | | | 2,200 |



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**E 2-18A**
**(10-15 min.)**

**Requirements**

1. Calculate account balances at January 31, 2018.
2. Prepare the trial balance for Zane's Creations, Inc., at January 31, 2018.

***Solution:***

***Req. 1***

| Cash | | Cash | |
|---|---|---|---|
| Jan. 1 | 45,000 | Jan. 2 | 1,400 |
| 6 | 1,250 | 4 | 6,000 |
| 23 | 2,700 | 9 | 400 |
| | | 15 | 900 |
| | | 26 | 4,800 |
| | | 28 | 425 |
| | | 29 | 1,150 |
| *Bal.* | *33,875* | | |

| Accounts Payable | | | |
|---|---|---|---|
| Jan. 9 | 400 | Jan.3 | 750 |
| | | *Bal.* | *350* |

| Accounts Receivable | | | |
|---|---|---|---|
| Jan. 17 | 5,200 | Jan.23 | 2,700 |
| *Bal.* | *2,500* | | |

| Common stock | | | |
|---|---|---|---|
| | | Jan. 1 | 45,000 |
| | | *Bal.* | *45,000* |

| Supplies | | | |
|---|---|---|---|
| Jan. 3 | 750 | | |
| *Bal.* | *750* | | |

| Service Revenue | | | |
|---|---|---|---|
| | | Jan. 6 | 1,250 |
| | | 17 | 5,200 |
| | | *Bal.* | *6,450* |

| Equipment | | | |
|---|---|---|---|
| Jan. 4 | 6,000 | | |
| 26 | 4,800 | | |
| *Bal.* | *10,800* | | |

| Salaries Expense | | | |
|---|---|---|---|
| Jan. 15 | 900 | | |
| 29 | 1,150 | | |
| *Bal.* | *2,050* | | |

| Rent Expense | | | |
|---|---|---|---|
| Jan. 2 | 1,400 | | |
| *Bal.* | *1,400* | | |

| Utilities Expense | | | |
|---|---|---|---|
| Jan.28 | 425 | | |
| *Bal.* | *425* | | |

***Req. 2***

**Creative Design, Inc.**
**Trial Balance**
**January 31, 2018**

| | BALANCE | |
|---|---|---|
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 33,875 | |
| Accounts receivable | 2,500 | |
| Supplies | 750 | |
| Equipment | 10,800 | |
| Accounts payable | | $ 350 |
| Common stock | | 45,000 |
| Service revenue | | 6,450 |
| Salaries expense | 2,050 | |
| Rent expense | 1,400 | |
| Utilities expense | 425 | |
| Total | $ 51,800 | $ 51,800 |



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**E 2-19A**
**(15-20 min.)**

**Requirements**

1. Journalize the transactions for the month of March. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at March 31, 2018.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at March 31, 2018.

***Solution:***

***Req 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Mar. 2 | Rent expense | | 900 | |
| | Cash | | | 900 |
| 4 | Cash | | 1,600 | |
| | Service revenue | | | 1,600 |
| 8 | Supplies | | 800 | |
| | Accounts payable | | | 800 |
| 11 | Cash | | 2,300 | |
| | Accounts receivable | | | 2,300 |
| 15 | Cash | | 40,000 | |
| | Common stock | | | 40,000 |
| 19 | Accounts payable | | 450 | |
| | Cash | | | 450 |
| 27 | Accounts receivable | | 3,000 | |
| | Service revenue | | | 3,000 |
| 31 | Notes payable | | 2,000 | |
| | Cash | | | 2,000 |



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***Req 2 & 3***

| Cash | | | |
|---|---|---|---|
| Mar. 1 | 2,000 | Mar. 2 | 900 |
| 4 | 1,600 | 19 | 450 |
| 11 | 2,300 | 31 | 2,000 |
| 15 | 40,000 | | |
| *Bal.* | *42,550* | | |

| Accounts payable | | | |
|---|---|---|---|
| Mar. 19 | 450 | Mar. 1 | 1400 |
| | | 8 | 800 |
| | | *Bal.* | *1750* |

| Accounts receivable | | | |
|---|---|---|---|
| Mar. 1 | 3,300 | Mar. 11 | 2,300 |
| 27 | 3,000 | | |
| *Bal.* | *4,000* | | |

| Notes payable | | | |
|---|---|---|---|
| Mar. 31 | 2,000 | Mar. 1 | 15,000 |
| | | *Bal.* | *13,000* |

| Supplies | | | |
|---|---|---|---|
| Mar. 1 | 300 | | |
| 8 | 800 | | |
| *Bal.* | *1100* | | |

| Common stock | | | |
|---|---|---|---|
| | | Mar. 1 | 32,100 |
| | | 15 | 40,000 |
| | | *Bal.* | *72,100* |

| Building | | | |
|---|---|---|---|
| Mar. 1 | 42,000 | | |
| *Bal.* | *42,000* | | |
| | | | |

| Service revenue | | | |
|---|---|---|---|
| | | Mar. 1 | 2,200 |
| | | 4 | 1,600 |
| | | 27 | 3,000 |
| | | *Bal.* | *6,800* |

| Office furniture | | | |
|---|---|---|---|
| Mar. 1 | 2,300 | | |
| *Bal.* | *2,300* | | |

| Rent expense | | | |
|---|---|---|---|
| Mar. 1 | 800 | | |
| 2 | 900 | | |
| *Bal.* | *1,700* | | |

***Req 4***

**Clocktower Cleaning, Inc.**
**Trial Balance**
**March 31, 2018**

| | BALANCE | |
|---|---|---|
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $42,550 | |
| Accounts receivable | 4,000 | |
| Supplies | 1,100 | |
| Office furniture | 2,300 | |
| Building | 42,000 | |
| Accounts payable | | $1,750 |
| Notes payable | | 13,000 |
| Common stock | | 72,100 |
| Service revenue | | 6,800 |
| Rent expense | 1,700 | |
| Total | $93,650 | $93,650 |



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**E 2-20A**
**(20-25 min.)**

**Requirements**

1. Based on the accounts, create the journal entries that resulted from the six transactions. Include explanations with each journal entry.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Sounds on Wheels, Inc., at April 30, 2018.
4. Prepare a balance sheet for Sounds on Wheels, Inc., as of April 30, 2018.

***Solution:***

***Req 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| April 1 | Cash | | 33,000 | |
| | Common stock | | | 33,000 |
| | Sold stock. | | | |
| 2 | Supplies | | 400 | |
| | Accounts Payable | | | 400 |
| | Purchased supplies on acct. | | | |
| 3 | Building | | 75,000 | |
| | Notes payable | | | 75,000 |
| | Purchased building signing note payable. | | | |
| 4 | Equipment | | 9,000 | |
| | Cash | | | 9,000 |
| | Paid cash to purchase equipment | | | |
| 5 | Notes Payable | | 7,000 | |
| | Cash | | | 7,000 |
| | Made payment on note payable. | | | |
| 6 | Accounts payable | | 100 | |
| | Cash | | | 100 |
| | Made payment on account. | | | |



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***Req. 2***

| Cash | | | |
|---|---|---|---|
| (1) | 33,000 | (4) | 9,000 |
| | | (5) | 7,000 |
| | | (6) | 100 |
| *Bal.* | *16,900* | | |

| Accounts payable | | | |
|---|---|---|---|
| (6) | 100 | (2) | 400 |
| | | *Bal.* | *300* |

| Supplies | | | |
|---|---|---|---|
| (2) | 400 | | |
| *Bal.* | *400* | | |

| Notes payable | | | |
|---|---|---|---|
| (5) | 7,000 | (3) | 75,000 |
| | | *Bal.* | 68,000 |

| Building | | | |
|---|---|---|---|
| (3) | 75,000 | | |
| *Bal.* | *75,000* | | |

| Common stock | | | |
|---|---|---|---|
| | | (1) | 33,000 |
| | | *Bal.* | *33,000* |

| Equipment | | | |
|---|---|---|---|
| (4) | 9,000 | | |
| *Bal.* | *9,000* | | |

***Req. 3***

| Sounds on Wheels, Inc.<br>Trial Balance<br>April 30, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | $ 16,900 | |
| Supplies | 400 | |
| Equipment | 9,000 | |
| Building | 75,000 | |
| Accounts payable | | $ 300 |
| Notes payable | | 68,000 |
| Common stock | | 33,000 |
| Total | $ 101,300 | $ 101,300 |

***Req. 4***

| Sounds on Wheels, Inc.<br>Balance Sheet<br>April 30, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| Cash | $ 16,900 | Accounts payable | $ 300 |
| Supplies | 400 | Notes payable | 68,000 |
| Equipment | 9,000 | Total liabilities | 68,300 |
| Building | 75,000 | STOCKHOLDERS' EQUITY | |
| | | Common stock | 33,000 |
| Total assets | $ 101,300 | Total liabilities and stockholder's equity | $ 101,300 |



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**E 2-21A**
**(25-30 min.)**

**Requirements**

1. Open, or set up, T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post the journal entries to the T-accounts, identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at June 30, 2018.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

***Solution:***

***Req. 1, and 2***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| June 2 | Cash | | 10,000 | |
| | Common stock | | | 10,000 |
| 3 | Rent expense | | 1,300 | |
| | Cash | | | 1,300 |
| 6 | Equipment | | 2,800 | |
| | Cash | | | 2,800 |
| 8 | Furniture | | 1,500 | |
| | Accounts payable | | | 1,500 |
| 11 | Supplies | | 600 | |
| | Accounts payable | | | 600 |
| 19 | Accounts receivable | | 2,300 | |
| | Service revenue | | | 2,300 |
| 20 | Utility expense | | 145 | |
| | Cash | | | 145 |
| 28 | Cash | | 1,800 | |
| | Service revenue | | | 1,800 |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 1, and 3***

| Cash | | | |
|---|---|---|---|
| Jun. 2 | 10,000 | Jun. 3 | 1,300 |
| 28 | 1,800 | 6 | 2,800 |
| | | 20 | 145 |
| *Bal.* | *7,555* | | |

| Accounts payable | | | |
|---|---|---|---|
| | | Jun. 8 | 1,500 |
| | | 11 | 600 |
| | | *Bal* | *2,100* |

| Accounts receivable | | |
|---|---|---|
| Jun. 19 | 2,300 | |
| *Bal.* | *2,300* | |

| Common stock | | |
|---|---|---|
| | Jun. 2 | 10,000 |
| | *Bal.* | *10,000* |

| Supplies | | |
|---|---|---|
| Jun. 11 | 600 | |
| *Bal.* | *600* | |

| Service revenue | | |
|---|---|---|
| | Jun. 19 | 2,300 |
| | 28 | 1,800 |
| | *Bal.* | *4,100* |

| Equipment | | |
|---|---|---|
| Jun. 6 | 2,800 | |
| *Bal.* | *2,800* | |

| Rent Expense | | |
|---|---|---|
| Jun. 3 | 1,300 | |
| *Bal.* | *1,300* | |

| Furniture | | |
|---|---|---|
| Jun. 8 | 1,500 | |
| *Bal.* | *1,500* | |

| Utilities expense | | |
|---|---|---|
| Nov-20 | 145 | |
| *Bal.* | *145* | |

***Req. 4***

**Willis Construction, Inc.**
**Trial Balance**
**June 30, 2018**

| | BALANCE | |
|---|---|---|
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 7,555 | |
| Accounts receivable | 2,300 | |
| Supplies | 600 | |
| Equipment | 2,800 | |
| Furniture | 1,500 | |
| Accounts payable | | $ 2,100 |
| Common stock | | 10,000 |
| Service revenue | | 4,100 |
| Rent expense | 1,300 | |
| Utilities expense | 145 | |
| Total | $ 16,200 | $ 16,200 |



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***Req. 5***

| Willis Construction, Inc.<br>Income Statement<br>Month Ended June 30, 2018 | | |
|---|---|---|
| Service revenue | | $ 4,100 |
| Expenses: | | |
| Rent expense | $1,300 | |
| Utilities expense | 145 | |
| Total expenses | | $1,445 |
| Net Income | | $ 2,655 |

| Willis Construction, Inc.<br>Statement of Retained Earnings<br>Month Ended June 30, 2018 | | |
|---|---|---|
| Retained earnings, June 1, 2018 | | 0 |
| Add: Net income | | 2,655 |
| Retained earnings, June 30, 2018 | | $ 2,655 |

Note: There were no dividends during the month of June.

| Willis Construction, Inc.<br>Balance Sheet<br>June 30, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| Cash | $ 7,555 | Accounts payable | $ 2,100 |
| Accounts receivable | 2,300 | | |
| Supplies | 600 | STOCKHOLDERS' EQUITY | |
| Equipment | 2,800 | Common stock | 10,000 |
| Furniture | 1,500 | Retained earnings | 2,655 |
| | | Total Stockholders' eq | 12,655 |
| | | Total liabilities and | |
| Total assets | $ 14,755 | stockholder's equity | $ 14,755 |



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**E 2-22A**
**(20-25 min.)**

**Requirements**

1. For each of these errors, state whether Kylie's mistake would cause the total debits and total credits on the trial balance to be unequal.
2. Identify each account with an incorrect balance, and indicate the amount and direction of the error.

***Solution:***

| | **Effect on Trial Balance** | **Account(s) Misstated** |
|---|---|---|
| a. | Total debits = Total credits | Cash<br>$720 too high<br>Rent expense<br>$720 too low |
| b. | Total debits = Total credits | Accounts receivable<br>$250 too high<br>Accounts Payable<br>$250 too high |
| c. | Total debits = Total credits | Cash<br>$90 too high<br>Service revenue<br>$90 too high |
| d. | Total debits = Total credits | Supplies<br>$320 too low<br>Accounts payable<br>$320 too low |
| e. | Total debits > Total credits | Notes payable<br>$5,000 too low |



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**E 2-23B**
**(10-15 min.)**

**Requirement**

1. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side. The first transaction has been analyzed for you.

***Solution:***

***Req. 1***

| Transaction | Account Affected | Type | ↑ ↓ | Dr. or Cr. |
|---|---|---|---|---|
| May 1 | Cash | Asset | Increase | Dr |
| | Common stock | Stockholders' Equity | Increase | Cr |
| 3 | Supplies | Asset | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 6 | Equipment | Asset | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 11 | Advertising expense | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 18 | Cash | Asset | Increase | Dr |
| | Notes payable | Liability | Increase | Cr |
| 27 | Utilities expense | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |



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**E 2-24B**
**(15-20 min.)**

Using the steps outlined in the five-step transaction analysis, record the following transactions in the general journal for Marx Plumbing, Inc. Explanations are not required.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| June 1 | Interest expense | | 900 | |
| | Cash | | | 900 |
| 5 | Office furniture | | 2,500 | |
| | Accounts payable | | | 2,500 |
| 10 | Accounts receivable | | 1,500 | |
| | Service revenue | | | 1,500 |
| 12 | Cash | | 22,000 | |
| | Notes payable | | | 22,000 |
| 19 | Cash | | 75,000 | |
| | Land | | | 75,000 |
| 21 | Building | | 400,000 | |
| | Notes payable | | | 400,000 |
| 27 | Accounts Payable | | 1,000 | |
| | Cash | | | 1,000 |



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**E 2-25B**
**(15-20 min.)**

**Requirements**

1. Using the steps outlined in the five-step transaction analysis, journalize the transactions of Rudenko & Associates, Inc. List transactions by date. Explanations are not required.

***Solution:***

***Req. 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| July 1 | Cash | | 85,000 | |
| | Common stock | | | 85,000 |
| 3 | Supplies | | 800 | |
| | Accounts Payable | | | 800 |
| 5 | Building | | 35,000 | |
| | Cash | | | 35,000 |
| 6 | Cash | | 2,700 | |
| | Service revenue | | | 2,700 |
| 11 | Accounts payable | | 400 | |
| | Cash | | | 400 |
| 18 | Accounts receivable | | 3,200 | |
| | Service revenue | | | 3,200 |
| 24 | Cash | | 1,100 | |
| | Accounts receivable | | | 1,100 |
| 31 | Salaries expense | | 550 | |
| | Rent expense | | 1,600 | |
| | Cash | | | 2,150 |



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**E 2-26B**
**(10-15 min.)**

**Requirements**

1. Calculate account balances at March 31, 2018.
2. Prepare the trial balance for Inspired Design, Inc., at March 31, 2018.

***Solution:***

***Req. 1***

| Cash | | | |
|---|---|---|---|
| Mar. 1 | 65,000 | Mar. 2 | 1,100 |
| 6 | 7,000 | 4 | 7,900 |
| 23 | 400 | 9 | 100 |
| | | 15 | 675 |
| | | 28 | 425 |
| | | 29 | 725 |
| *Bal.* | *61,475* | | |

| Accounts Payable | | | |
|---|---|---|---|
| Mar. 9 | 100 | Mar. 3 | 800 |
| | | *Bal.* | *700* |

| Accounts Receivable | | | |
|---|---|---|---|
| Mar. 17 | 1,900 | Mar. 23 | 400 |
| *Bal.* | *1,500* | | |

| Common stock | | | |
|---|---|---|---|
| | | Mar. 1 | 65,000 |
| | | *Bal.* | *65,000* |

| Supplies | | |
|---|---|---|
| Mar. 3 | 800 | |
| *Bal.* | *800* | |

| Service revenue | | | |
|---|---|---|---|
| | | Mar. 6 | 7,000 |
| | | 17 | 1,900 |
| | | *Bal.* | *8,900* |

| Equipment | | |
|---|---|---|
| Mar. 4 | 7,900 | |
| Bal. | *7,900* | |

| Salaries Expense | | | |
|---|---|---|---|
| Mar. 15 | 675 | | |
| 29 | 725 | | |
| Bal. | *1,400* | | |

| Rent Expense | | |
|---|---|---|
| Mar. 2 | 1,100 | |
| Bal. | *1,100* | |

| Utilities Expense | | |
|---|---|---|
| Mar. 28 | 425 | |
| Bal. | *425* | |

***Req. 2***

**Inspiried Design, Inc.**
**Trial Balance**
**March 31, 2018**

| | BALANCE | |
|---|---|---|
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | $ 61,475 | |
| Accounts receivable | 1,500 | |
| Supplies | 800 | |
| Equipment | 7,900 | |
| Accounts payable | | $ 700 |
| Common stock | | 65,000 |
| Service revenue | | 8,900 |
| Salaries expense | 1,400 | |
| Rent expense | 1,100 | |
| Utilities expense | 425 | |
| Total | $ 74,600 | $ 74,600 |



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**E 2-27B**
**(15-20 min.)**

**Requirements**

1. Journalize the transactions for the month of September. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at September 30, 2018.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at September 30, 2018.

***Solution:***

***Req 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Sept. 2 | Rent expense | | 500 | |
| | Cash | | | 500 |
| 4 | Cash | | 1,800 | |
| | Service revenue | | | 1,800 |
| 8 | Supplies | | 900 | |
| | Accounts payable | | | 900 |
| 11 | Cash | | 1,200 | |
| | Accounts receivable | | | 1,200 |
| 15 | Cash | | 10,000 | |
| | Common stock | | | 10,000 |
| 19 | Accounts payable | | 450 | |
| | Cash | | | 450 |
| 27 | Accounts receivable | | 2,800 | |
| | Service revenue | | | 2,800 |
| 28 | Notes payable | | 5,000 | |
| | Cash | | | 5,000 |



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***Req 2 & 3***

| Cash | | | |
|---|---|---|---|
| Sept. 1 | 1,450 | Sept. 2 | 500 |
| 4 | 1,800 | 19 | 450 |
| 11 | 1,200 | 28 | 5,000 |
| 15 | 10,000 | | |
| *Bal.* | *8,500* | | |

| Accounts payable | | | |
|---|---|---|---|
| Sept. 19 | 450 | 1 | 2100 |
| | | 8 | 900 |
| | | *Bal.* | *2,550* |

| Accounts receivable | | | |
|---|---|---|---|
| Sept. 1 | 3,900 | Sept. 11 | 1,200 |
| 27 | 2,800 | | |
| *Bal.* | *5,500* | | |

| Notes payable | | | |
|---|---|---|---|
| Sept. 28 | 5,000 | Sept. 1 | 10,000 |
| | | *Bal.* | *5,000* |

| Supplies | | |
|---|---|---|
| Sept. 1 | 250 | |
| 8 | 900 | |
| *Bal.* | *1,150* | |

| Common stock | | |
|---|---|---|
| | Sept. 1 | 30,000 |
| | 15 | 10,000 |
| | *Bal.* | *40,000* |

| Building | | |
|---|---|---|
| Sept. 1 | 38,000 | |
| *Bal.* | *38,000* | |
| | | |

| Service revenue | | |
|---|---|---|
| | Sept. 1 | 4,900 |
| | 4 | 1,800 |
| | 27 | 2,800 |
| | *Bal.* | *9,500* |

| Office furniture | | |
|---|---|---|
| Sept. 1 | 2,300 | |
| *Bal.* | *2,300* | |

| Rent expense | | |
|---|---|---|
| Sept. 1 | 1,100 | |
| 2 | 500 | |
| *Bal.* | *1,600* | |

***Req 4***

**White Glove Cleaning, Inc.**
**Trial Balance**
**September 31, 2018**

| | BALANCE | |
|---|---|---|
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 8,500 | |
| Accounts receivable | 5,500 | |
| Supplies | 1,150 | |
| Office furniture | 2,300 | |
| Building | 38,000 | |
| Accounts payable | | $ 2,550 |
| Notes payable | | 5,000 |
| Common stock | | 40,000 |
| Service revenue | | 9,500 |
| Rent expense | 1,600 | |
| Total | $ 57,050 | $ 57,050 |



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**E 2-28B**
**(20-25 min.)**

**Requirements**

1. Prepare the journal entries that served as the sources for the six transactions.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Mobile Music, Inc., at November 30, 2018.
4. Prepare a balance sheet for Mobile Music, Inc., as of November 30, 2018.

***Solution:***

***Req 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Nov. 1 | Cash | | 45,000 | |
| | Common stock | | | 45,000 |
| | Sold stock. | | | |
| 2 | Supplies | | 300 | |
| | Accounts Payable | | | 300 |
| | Purchased supplies on acct. | | | |
| 3 | Building | | 60,000 | |
| | Notes payable | | | 60,000 |
| | Purchased building signing note payable. | | | |
| 4 | Equipment | | 4,000 | |
| | Cash | | | 4,000 |
| | Paid cash to purchase equipment | | | |
| 5 | Notes Payable | | 7,000 | |
| | Cash | | | 7,000 |
| | Made payment on note payable. | | | |
| 6 | Accounts payable | | 150 | |
| | Cash | | | 150 |
| | Made payment on account. | | | |



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***Req. 2***

| Cash | | | |
|---|---|---|---|
| (1) | 45,000 | (4) | 4,000 |
| | | (5) | 7,000 |
| | | (6) | 150 |
| *Bal.* | *33,850* | | |

| Accounts payable | | | |
|---|---|---|---|
| (6) | 150 | (2) | 300 |
| | | *Bal.* | *150* |

| Supplies | | | |
|---|---|---|---|
| (2) | 300 | | |
| *Bal.* | *300* | | |

| Notes payable | | | |
|---|---|---|---|
| (5) | 7,000 | (3) | 60,000 |
| | | *Bal.* | *53,000* |

| Equipment | | | |
|---|---|---|---|
| (4) | 4,000 | | |
| *Bal.* | *4,000* | | |

| Common stock | | | |
|---|---|---|---|
| | | (1) | 45,000 |
| | | *Bal.* | *45,000* |

| Building | | | |
|---|---|---|---|
| (3) | 60,000 | | |
| *Bal.* | *60,000* | | |

***Req. 3***

**Mobile Music, Inc.**
**Trial Balance**
**November 30, 2018**

| ACCOUNT TITLE | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|
| Cash | $ 33,850 | |
| Supplies | 300 | |
| Equipment | 4,000 | |
| Building | 60,000 | |
| Accounts payable | | $ 150 |
| Notes payable | | 53,000 |
| Common stock | | 45,000 |
| Total | $ 98,150 | $ 98,150 |

***Req. 4***

**Mobile Music, Inc.**
**Balance Sheet**
**November 30, 2018**

| ASSETS | | LIABILITIES | |
|---|---|---|---|
| Cash | $ 33,850 | Accounts payable | $ 150 |
| Supplies | 300 | Notes payable | 53,000 |
| Equipment | 4,000 | Total liabilities | 53,150 |
| Building | 60,000 | STOCKHOLDERS' EQUITY | |
| | | Common stock | 45,000 |
| Total assets | $ 98,150 | Total liabilities and stockholder's equity | $ 98,150 |



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**E 2-29B**
**(25-30 min.)**

**Requirements**

1. Open or set up T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post journal entries to the T-accounts. Identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at September 30, 2018.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

***Solution:***

***Req. 1, and 2***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Sep. 2 | Cash | | 50,000 | |
| | Common stock | | | 50,000 |
| 3 | Rent expense | | 800 | |
| | Cash | | | 800 |
| 6 | Equipment | | 1,600 | |
| | Cash | | | 1,600 |
| 8 | Furniture | | 3,000 | |
| | Accounts payable | | | 3,000 |
| 11 | Supplies | | 700 | |
| | Accounts payable | | | 700 |
| 19 | Accounts receivable | | 2,300 | |
| | Service revenue | | | 2,300 |
| 20 | Utility expense | | 175 | |
| | Cash | | | 175 |
| 28 | Cash | | 1,125 | |
| | Service revenue | | | 1,125 |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 1, and 3***

| Cash | | | |
|---|---|---|---|
| Sep. 2 | 50,000 | Sep. 3 | 800 |
| 28 | 1,125 | 6 | 1,600 |
| | | 20 | 175 |
| *Bal.* | *48,550* | | |

| Accounts payable | | | |
|---|---|---|---|
| | | Sep. 8 | 3,000 |
| | | 11 | 700 |
| | | *Bal* | *3,700* |

| Accounts receivable | | |
|---|---|---|
| Sep. 19 | 2,300 | |
| *Bal.* | *2,300* | |

| Common stock | | |
|---|---|---|
| | Sep. 2 | 50,000 |
| | *Bal.* | *50,000* |

| Supplies | | |
|---|---|---|
| Sep. 11 | 700 | |
| *Bal.* | *700* | |

| Service revenue | | |
|---|---|---|
| | Sep. 19 | 2,300 |
| | 28 | 1,125 |
| | *Bal.* | *3,425* |

| Equipment | | |
|---|---|---|
| Sep. 6 | 1,600 | |
| *Bal.* | *1,600* | |

| Rent Expense | | |
|---|---|---|
| Sep. 3 | 800 | |
| *Bal.* | *800* | |

| Furniture | | |
|---|---|---|
| Sep. 8 | 3,000 | |
| *Bal.* | *3,000* | |

| Utilities expense | | |
|---|---|---|
| Sep. 20 | 175 | |
| *Bal.* | *175* | |

***Req. 4***

**McGuire Construction, Inc.**
**Trial Balance**
**September 30, 2018**

| | BALANCE | |
|---|---|---|
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 48,550 | |
| Accounts receivable | 2,300 | |
| Supplies | 700 | |
| Equipment | 1,600 | |
| Furniture | 3,000 | |
| Accounts payable | | $ 3,700 |
| Common stock | | 50,000 |
| Service revenue | | 3,425 |
| Rent expense | 800 | |
| Utilities expense | 175 | |
| Total | $ 57,125 | $ 57,125 |



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***Req. 5***

| McGuire Construction, Inc.<br>Income Statement<br>Month Ended September 30, 2018 | | |
|---|---|---|
| Service revenue | | $ 3,425 |
| Expenses: | | |
| Rent expense | $ 800 | |
| Utilities expense | 175 | |
| Total expenses | | 975 |
| Net Income | | $ 2,450 |

| McGuire Construction, Inc.<br>Statement of Retained Earnings<br>Month Ended September 30, 2018 | | |
|---|---|---|
| Retained earnings, September 1, 2018 | | 0 |
| Add: Net income | | 2,450 |
| Retained earnings, September 30, 2018 | | $ 2,450 |

Note: There were no dividends during the month of September

| McGuire Construction, Inc.<br>Balance Sheet<br>September 30, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| Cash | $ 48,550 | Accounts payable | $ 3,700 |
| Accounts receivable | 2,300 | | |
| Supplies | 700 | STOCKHOLDERS' EQUITY | |
| Equipment | 1,600 | Common stock | 50,000 |
| Furniture | 3,000 | Retained earnings | 2,450 |
| | | Total Stockholders' equity | 52,450 |
| | | Total liabilities and | |
| Total assets | $ 56,150 | stockholder's equity | $ 56,150 |



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**E 2-30B**
**(10-15 min.)**

**Requirements**

1. For each of these errors, state whether James' mistake would cause the total debits and total credits on the trial balance to be unequal.
2. Identify each account with an incorrect balance, and indicate the amount and direction of the error.

***Solution:***

| | Effect on Trial Balance | Account(s) Misstated |
|---|---|---|
| a. | Total debits = Total credits | Cash<br>$675 too high<br>Rent expense<br>$675 too low |
| b. | Total debits = Total credits | Accounts receivable<br>$300 too high<br>Accounts Payable<br>$300 too high |
| c. | Total debits = Total credits | Cash<br>$90 too high<br>Service revenue<br>$90 too high |
| d. | Total debits = Total credits | Supplies<br>$450 too low<br>Accounts payable<br>$450 too low |
| e. | Total debits > Total credits | Notes payable<br>$30,000 too low |



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**P 2-31A**
**(15-20 min.)**

**Requirement**

1. Journalize each transaction. Omit explanations.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| June 1 | Cash | | 95,000 | |
| | Common stock | | | 95,000 |
| 3 | Supplies | | 200 | |
| | Cash | | | 200 |
| 8 | Land | | 38,000 | |
| | Cash | | | 38,000 |
| 12 | Office equipment | | 3,500 | |
| | Accounts payable | | | 3,500 |
| 17 | Cash | | 10,000 | |
| | Notes payable | | | 10,000 |
| 26 | Accounts payable | | 2,500 | |
| | Cash | | | 2,500 |
| 30 | Cash | | 11,000 | |
| | Accounts receivable | | 25,000 | |
| | Service revenue | | | 36,000 |
| 30 | Salaries expense | | 2,700 | |
| | Rent expense | | 1,800 | |
| | Utilities expense | | 365 | |
| | Cash | | | 4,865 |
| 30 | Dividends | | 9,000 | |
| | Cash | | | 9,000 |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-32A**
**(15-20 min.)**

**Requirement**

1. Journalize each transaction. Omit explanations.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| May 1 | Cash | | 210,000 | |
| | Notes payable | | | 210,000 |
| 3 | Building | | 145,000 | |
| | Cash | | | 145,000 |
| 6 | Accounts receivable | | 14,100 | |
| | Service revenue | | | 14,100 |
| 9 | Supplies | | 275 | |
| | Accounts payable | | | 275 |
| 13 | Cash | | 6,800 | |
| | Service revenue | | | 6,800 |
| 15 | Dividends | | 2,000 | |
| | Cash | | | 2,000 |
| 17 | Cash | | 9,200 | |
| | Accounts Receivable | | | 9,200 |
| 18 | Property tax expense | | 2,240 | |
| | Cash | | | 2,240 |
| 22 | Salaries expense | | 4,700 | |
| | Cash | | | 4,700 |
| 26 | Supplies | | 250 | |
| | Cash | | | 250 |
| 31 | Accounts payable | | 150 | |
| | Cash | | | 150 |



Financial Accounting 5th edition Kemp Solutions Manual

**P2-33A**
**(20-25 min.)**

**Requirements**

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts, using transaction dates as posting references.
4. Calculate the balance in each account at January 31, 2018.
5. Prepare the trial balance for Miller & Associates, Inc., at January 31, 2018.

***Solution:***

***Req. 1, 3, and 4***

| Cash | | | |
|---|---|---|---|
| Jan. 1 | 55,000 | Jan. 8 | 24,000 |
| 5 | 3,000 | 14 | 650 |
| 19 | 2,500 | 16 | 1,150 |
| 28 | 300 | 31 | 650 |
| | | 31 | 1,700 |
| | | 31 | 1,100 |
| *Bal.* | *31,550* | | |

| Accounts Payable | | | |
|---|---|---|---|
| Jan. 16 | 1,150 | Jan. 3 | 1,300 |
| | | *Bal* | *150* |

| Common stock | | | |
|---|---|---|---|
| | | Jan. 1 | 55,000 |
| | | *Bal.* | *55,000* |

| Accounts Receivable | | | |
|---|---|---|---|
| Jan. 11 | 2,700 | Jan. 28 | 300 |
| 23 | 1,300 | | |
| *Bal.* | *3,700* | | |

| Dividends | | | |
|---|---|---|---|
| Jan. 31 | 1,100 | | |
| *Bal.* | *1,100* | | |

| Supplies | | | |
|---|---|---|---|
| Jan. 3 | 100 | | |
| *Bal.* | *100* | | |

| Service revenue | | | |
|---|---|---|---|
| | | Jan. 5 | 3,000 |
| | | 11 | 2,700 |
| | | 19 | 2500 |
| | | 23 | 1,300 |
| | | *Bal.* | *9,500* |

| Furniture | | | |
|---|---|---|---|
| Jan. 3 | 1,200 | | |
| *Bal.* | *1,200* | | |

| Salaries Expense | | | |
|---|---|---|---|
| Jan. 14 | 650 | | |
| 31 | 650 | | |
| *Bal.* | *1,300* | | |

| Land | | | |
|---|---|---|---|
| Jan. 8 | 24,000 | | |
| *Bal.* | *24,000* | | |

| Rent Expense | | | |
|---|---|---|---|
| Jan. 31 | 1,700 | | |
| *Bal.* | *1,700* | | |



Financial Accounting 5th edition Kemp Solutions Manual

***Req 2***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| June 1 | Cash | | 55,000 | |
| | Common stock | | | 55,000 |
| 3 | Supplies | | 100 | |
| | Furniture | | 1,200 | |
| | Accounts payable | | | 1,300 |
| 5 | Cash | | 3,000 | |
| | Service revenue | | | 3,000 |
| 8 | Land | | 24,000 | |
| | Cash | | | 24,000 |
| 11 | Accounts receivable | | 2,700 | |
| | Service revenue | | | 2,700 |
| 14 | Salaries expense | | 650 | |
| | Cash | | | 650 |
| 16 | Accounts payable | | 1,150 | |
| | Cash | | | 1,150 |
| 19 | Cash | | 2,500 | |
| | Service revenue | | | 2,500 |
| 23 | Accounts receivable | | 1,300 | |
| | Service revenue | | | 1,300 |
| 28 | Cash | | 300 | |
| | Accounts receivable | | | 300 |
| 31 | Salaries expense | | 650 | |
| | Cash | | | 650 |
| 31 | Rent expense | | 1,700 | |
| | Cash | | | 1,700 |
| 31 | Dividends | | 1,100 | |
| | Cash | | | 1,100 |

***Req. 5***

| Miller & Associates, Inc.<br>Trial Balance<br>January 31, 2018 | | |
|---|---|---|
| | **BALANCE** | |
| **ACCOUNT TITLE** | **DEBIT** | **CREDIT** |
| Cash | $ 31,550 | |
| Accounts receivable | 3,700 | |
| Supplies | 100 | |
| Furniture | 1,200 | |
| Land | 24,000 | |
| Accounts payable | | $ 150 |
| Common stock | | 55,000 |
| Dividends | 1,100 | |
| Service revenue | | 9,500 |
| Salaries expense | 1,300 | |
| Rent expense | 1,700 | |
| Total | $ 64,650 | $ 64,650 |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-34A**
**(25-30 min.)**

**Requirements**

1. Journalize the transactions that occurred September 16 to September 30 on page 6 of the journal.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at September 15. Use the four-column account format illustrated in the chapter. Enter "Bal" for the September 15 balance in the Item column. Post the transactions to the ledger using dates, account numbers, and posting references. Calculate the new account balances at September 30, 2018.
3. Prepare the trial balance for Safenet, Inc., at September 30, 2018.

***Solution:***

***Req. 1***

| Journal | | | | Page 6 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Sep. 16 | Cash | 110 | 1,500 | |
| | Accounts receivable | 112 | | 1,500 |
| | Received payment on account. | | | |
| 18 | Accounts receivable | 112 | 1,800 | |
| | Service revenue | 411 | | 1,800 |
| | Performed service on account. | | | |
| 21 | Cash | 110 | 1,050 | |
| | Service revenue | 411 | | 1,050 |
| | Performed service for cash. | | | |
| 23 | Supplies | 115 | 150 | |
| | Accounts Payable | 210 | | 150 |
| | Purchased supplies on account. | | | |
| 25 | Dividends | 315 | 1,000 | |
| | Cash | 110 | | 1,000 |
| | Paid dividends. | | | |
| 27 | Accounts payable | 210 | 2,500 | |
| | Cash | 110 | | 2,500 |
| | Made payment on account. | | | |

| Journal | | | | Page 6 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| 29 | Cash | 110 | 1,850 | |
| | Service revenue | 411 | | 1,850 |
| | Received cash for services performed. | | | |
| 30 | Rent Expense | 515 | 1,200 | |
| | Cash | 110 | | 1,200 |
| | Paid rent. | | | |
| 30 | Salaries Expense | 511 | 2,100 | |
| | Cash | 110 | | 2,100 |
| | Paid employee salaries. | | | |



Financial Accounting 5th edition Kemp Solutions Manual

*Req. 2*

| CASH | | | | | ACCOUNT NO. 110 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | 6,450 | |
| 16 | | J.6 | 1,500 | | 7,950 | |
| 21 | | J.6 | 1,050 | | 9,000 | |
| 25 | | J.6 | | 1,000 | 8,000 | |
| 27 | | J.6 | | 2,500 | 5,500 | |
| 29 | | J.6 | 1,850 | | 7,350 | |
| 30 | | J.6 | | 1,200 | 6,150 | |
| 30 | | J.6 | | 2,100 | 4,050 | |

| ACCOUNTS RECEIVABLE | | | | | ACCOUNT NO. 112 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | 4,700 | |
| 16 | | J.6 | | 1,500 | 3,200 | |
| 18 | | J.6 | 1,800 | | 5,000 | |

| SUPPLIES | | | | | ACCOUNT NO. 115 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | 450 | |
| 23 | | J.6 | 150 | | 600 | |

| EQUIPMENT | | | | | ACCOUNT NO. 140 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | | | | 18,500 | |

| ACCOUNTS PAYABLE | | | | | ACCOUNT NO. 210 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | | 4,300 |
| 23 | | J.6 | | 150 | | 4,450 |
| 27 | | J.6 | 2,500 | | | 1,950 |

| COMMON STOCK | | | | | ACCOUNT NO. 311 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | | 25,000 |



Financial Accounting 5th edition Kemp Solutions Manual

| DIVIDENDS | | | | | ACCOUNT NO. 315 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | 2,000 | |
| 25 | | J.6 | 1,000 | | 3,000 | |

| SERVICE REVENUE | | | | | ACCOUNT NO. 411 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | | 7,100 |
| 18 | | J.6 | | 1,800 | | 8,900 |
| 21 | | J.6 | | 1,050 | | 9,950 |
| 29 | | J.6 | | 1,850 | | 11,800 |

| SALARIES EXPENSE | | | | | ACCOUNT NO. 511 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | 3,100 | |
| 30 | | J.6 | 2,100 | | 5,200 | |

| RENT EXPENSE | | | | | ACCOUNT NO. 515 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| Sep-17 | Bal. | √ | | | 1,200 | |
| 30 | | J.6 | 1,200 | | 2,400 | |

***Req. 3***

| Safenet, Inc.<br>Trial Balance<br>September 30, 2018 | | | |
|---|---|---|---|
| | **ACCOUNT** | **DEBIT** | **CREDIT** |
| | Cash | $ 4,050 | |
| | Accounts receivable | 5,000 | |
| | Supplies | 600 | |
| | Equipment | 18,500 | |
| | Accounts payable | | $ 1,950 |
| | Common stock | | 25,000 |
| | Dividends | 3,000 | |
| | Service revenue | | 11,800 |
| | Salaries expense | 5,200 | |
| | Rent expense | 2,400 | |
| | Total | $ 38,750 | $ 38,750 |



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**P 2-35A**
**(20-25 min.)**

**Requirements**

1. Prepare the company's trial balance at March 31, 2018, listing accounts in the proper order. List the largest expense first, the second largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of $17,010 is the beginning balance for the month; it has not been updated for the current month's income or loss.
3. Was it a profitable month for Hernandez Computer Repair, Inc.? Why or why not?

***Solution:***

***Req. 1***

| Hernandez Computer Repair, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT | DEBIT | CREDIT |
| Cash | $ 4,600 | |
| Accounts receivable | 850 | |
| Supplies | 350 | |
| Building | 110,000 | |
| Land | 20,000 | |
| Accounts payable | | $ 925 |
| Notes payable | | 98,000 |
| Common stock | | 15,000 |
| Retained earnings | | 17,010 |
| Dividends | 2,000 | |
| Service revenue | | 13,200 |
| Salaries expense | 3,650 | |
| Rent expense | 1,500 | |
| Utilities expense | 675 | |
| Supplies expense | 360 | |
| Insurance expense | 150 | |
| Total | $ 144,135 | $ 144,135 |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 2***

| Hernandez Computer Repair, Inc.<br>Income Statement<br>Month Ended March 31, 2018 | | |
|---|---|---|
| Service revenue | | $ 13,200 |
| Expenses | | |
| Salaries expense | $ 3,650 | |
| Rent expense | 1,500 | |
| Utilities expense | 675 | |
| Supplies expense | 360 | |
| Insurance expense | 150 | |
| Total expenses | | 6,335 |
| Net Income | | $ 6,865 |

| Hernandez Computer Repair, Inc.<br>Statement of Retained Earnings<br>Month Ended March 31, 2018 | |
|---|---|
| Retained earnings, March 1, 2018 | $ 17,010 |
| Add: Net income | 6,865 |
| Subtotal | 23,875 |
| Less: Dividends | 2,000 |
| Retained earnings, March 31, 2018 | $ 21,875 |

| Hernandez Computer Repair, Inc.<br>Balance Sheet<br>March 31, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| Cash | $ 4,600 | Accounts payable | $ 925 |
| Accounts receivable | 850 | Notes payable | 98,000 |
| Supplies | 350 | Total liabilities | 98,925 |
| Land | 20,000 | STOCKHOLDERS' EQUITY | |
| Building | 110,000 | Common stock | 15,000 |
| | | Retained earnings | 21,875 |
| | | Total stockholders' equity | 36,875 |
| Total assets | $ 135,800 | Total liabilities and stockholders' equity | $ 135,800 |

It was a profitable month for Hernandez Computer Repair, Inc. from the standpoint that the business generated $6,865 of Net income.



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-36A**
**(15-20 min.)**

**Requirements**

1. Prepare the necessary journal entries to correct each of these errors.
2. For each of the errors, determine if the error would cause net income to be overstated, understated, or unchanged.

***Solution:***

***Req. 1***

| Journal | | | | Page 3 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| a. | Cash | | 270 | |
| | Service revenue | | | 270 |
| | ($1,410– $1,140 = $270) | | | |
| b. | Supplies | | 900 | |
| | Accounts payable | | | 900 |
| | The original entry was recorded “backwards” so an entry for double the amount needs to be made. | | | |
| c. | Cash | | 7,200 | |
| | Rent expense | | | 7,200 |
| | ($8,000 - $800 = $7,200) | | | |
| d. | Accounts payable | | 850 | |
| | Accounts receivable | | | 850 |

***Req 2***

| | |
|---|---|
| a. | Net income is understated because Service revenue was credited (increased) by only $1,140 instead of the correct amount of $1,410. |
| b. | Net income would be unchanged because the entry did not effect a revenue or an expense. |
| c. | Net income would be understated because Rent expense was debited (increased) by $8,000 instead of the correct amount of $800. |
| d. | Net income would be unchanged because the entry did not effect a revenue or an expense. |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-37B**
**(15-20 min.)**

**Requirement**

1. Journalize each transaction. Omit explanations.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Nov. 1 | Cash | | 70,000 | |
| | Common stock | | | 70,000 |
| 3 | Supplies | | 275 | |
| | Cash | | | 275 |
| 8 | Land | | 34,000 | |
| | Cash | | | 34,000 |
| 12 | Office equipment | | 3,300 | |
| | Accounts payable | | | 3,300 |
| 17 | Cash | | 50,000 | |
| | Notes payable | | | 50,000 |
| 26 | Accounts payable | | 2,150 | |
| | Cash | | | 2,150 |
| 30 | Cash | | 8,000 | |
| | Accounts receivable | | 25,000 | |
| | Service revenue | | | 33,000 |
| 30 | Salaries expense | | 2,400 | |
| | Rent expense | | 1,100 | |
| | Utilities expense | | 385 | |
| | Cash | | | 3,885 |
| 30 | Dividends | | 4,000 | |
| | Cash | | | 4,000 |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-38B**
**(15-20 min.)**

**Requirement**

1. Journalize each transaction. Omit explanations.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Aug. 1 | Cash | | 225,000 | |
| | Notes payable | | | 225,000 |
| 3 | Building | | 200,000 | |
| | Cash | | | 200,000 |
| 6 | Accounts receivable | | 19,000 | |
| | Service revenue | | | 19,000 |
| 9 | Supplies | | 245 | |
| | Accounts payable | | | 245 |
| 13 | Cash | | 7,600 | |
| | Service revenue | | | 7,600 |
| 15 | Dividends | | 5,000 | |
| | Cash | | | 5,000 |
| 17 | Cash | | 6,600 | |
| | Accounts Receivable | | | 6,600 |
| 18 | Property tax expense | | 1,200 | |
| | Cash | | | 1,200 |
| 22 | Salaries expense | | 2,500 | |
| | Cash | | | 2,500 |
| 26 | Supplies | | 185 | |
| | Cash | | | 185 |
| 31 | Accounts payable | | 150 | |
| | Cash | | | 150 |



Financial Accounting 5th edition Kemp Solutions Manual

**P2-39B**
**(20-25 min.)**

**Requirements**

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts that have been set up for you, using transaction dates as posting references.
4. Calculate the balance in each account.
5. Prepare the trial balance for Le & Associates, Inc., at March 31, 2018.

***Solution:***

***Req. 1, 3, and 4***

| Cash | | | |
|---|---|---|---|
| Mar. 1 | 60,000 | Mar. 8 | 22,000 |
| 5 | 2,200 | 14 | 1,200 |
| 19 | 850 | 16 | 1,750 |
| 28 | 400 | 31 | 1,200 |
| | | 31 | 1,700 |
| | | 31 | 1,000 |
| *Bal.* | *34,600* | | |

| Accounts Receivable | | | |
|---|---|---|---|
| Mar. 11 | 1,500 | Mar. 28 | 400 |
| 23 | 1,800 | | |
| *Bal.* | *2,900* | | |

| Supplies | | |
|---|---|---|
| Mar. 3 | 275 | |
| *Bal.* | *275* | |

| Furniture | | |
|---|---|---|
| Mar. 3 | 2,100 | |
| *Bal.* | *2,100* | |

| Land | | |
|---|---|---|
| Mar. 8 | 22,000 | |
| *Bal.* | *22,000* | |

| Accounts Payable | | | |
|---|---|---|---|
| Mar. 16 | 1,750 | Mar. 3 | 2,375 |
| | | *Bal* | *625* |

| Common stock | | | |
|---|---|---|---|
| | | Mar. 1 | 60,000 |
| | | *Bal.* | *60,000* |

| Dividends | | |
|---|---|---|
| Mar. 31 | 1,000 | |
| *Bal.* | *1,000* | |

| Service revenue | | | |
|---|---|---|---|
| | | Mar. 5 | 2,200 |
| | | 11 | 1,500 |
| | | 19 | 850 |
| | | 23 | 1,800 |
| | | *Bal.* | *6,350* |

| Salaries Expense | | |
|---|---|---|
| Mar. 14 | 1,200 | |
| 31 | 1,200 | |
| *Bal.* | *2,400* | |

| Rent Expense | | |
|---|---|---|
| Mr. 31 | 1,700 | |
| *Bal.* | *1,700* | |



Financial Accounting 5th edition Kemp Solutions Manual

***Req 2***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| Mar. 1 | Cash | | 60,000 | |
| | Common stock | | | 60,000 |
| 3 | Supplies | | 275 | |
| | Furniture | | 2,100 | |
| | Accounts payable | | | 2,375 |
| 5 | Cash | | 2,200 | |
| | Service revenue | | | 2,200 |
| 8 | Land | | 22,000 | |
| | Cash | | | 22,000 |
| 11 | Accounts receivable | | 1,500 | |
| | Service revenue | | | 1,500 |
| 14 | Salaries expense | | 1,200 | |
| | Cash | | | 1,200 |
| 16 | Accounts payable | | 1,750 | |
| | Cash | | | 1,750 |
| 19 | Cash | | 850 | |
| | Service revenue | | | 850 |
| 23 | Accounts receivable | | 1,800 | |
| | Service revenue | | | 1,800 |
| 28 | Cash | | 400 | |
| | Accounts receivable | | | 400 |
| 31 | Salaries expense | | 1,200 | |
| | Cash | | | 1,200 |
| 31 | Rent expense | | 1,700 | |
| | Cash | | | 1,700 |
| 31 | Dividends | | 1,000 | |
| | Cash | | | 1,000 |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 5***

| Le & Associates, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | $ 34,600 | |
| Accounts receivable | 2,900 | |
| Supplies | 275 | |
| Furniture | 2,100 | |
| Land | 22,000 | |
| Accounts payable | | $ 625 |
| Common stock | | 60,000 |
| Dividends | 1,000 | |
| Service revenue | | 6,350 |
| Salaries expense | 2,400 | |
| Rent expense | 1,700 | |
| Total | $ 66,975 | $ 66,975 |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-40B**
**(25-30 min.)**

**Requirements**

1. Journalize the transactions that occurred May 16 to May 31 on page 6 of the journal.
2. Open T-accounts for the ledger accounts listed in the trial balance and enter their beginning balances at May 15. Use the four-column account format illustrated in the chapter. Enter "Bal" for the May 15 balance in the item column. Post the transactions to the ledger, using dates, account numbers, and posting references. Calculate the new account balances at May 31, 2018.
3. Prepare the trial balance for Security Systems, Inc., at May 31, 2018.

***Solution:***

***Req. 1 and 2 are done after Req. 3***

***Req. 3***

**Security Systems, Inc.**
**Trial Balance**
**May 31, 2018**

| | ACCOUNT | DEBIT | CREDIT |
|---|---|---|---|
| | Cash | $ 6,950 | |
| | Accounts receivable | 5,800 | |
| | Supplies | 750 | |
| | Equipment | 15,750 | |
| | Accounts payable | | $ 1,500 |
| | Common stock | | 22,000 |
| | Dividends | 4,500 | |
| | Service revenue | | 17,400 |
| | Salaries expense | 4,750 | |
| | Rent expense | 2,400 | |
| | Total | $ 40,900 | $ 40,900 |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 1***

| Journal | | | | Page 6 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| May 16 | Cash | 110 | 1,700 | |
| | Accounts receivable | 112 | | 1,700 |
| | Received payment on account. | | | |
| 18 | Accounts receivable | 112 | 2,200 | |
| | Service revenue | 411 | | 2,200 |
| | Performed service on account. | | | |
| 21 | Cash | 110 | 2,800 | |
| | Service revenue | 411 | | 2,800 |
| | Performed service for cash. | | | |
| 23 | Supplies | 115 | 600 | |
| | Accounts Payable | 210 | | 600 |
| | Purchased supplies on account. | | | |
| 25 | Dividends | 315 | 1,600 | |
| | Cash | 110 | | 1,600 |
| | Paid dividends. | | | |
| 27 | Accounts payable | 210 | 2,000 | |
| | Cash | 110 | | 2,000 |
| | Made payment on account. | | | |
| 29 | Cash | 110 | 4,200 | |
| | Service revenue | 411 | | 4,200 |
| | Received cash for services performed. | | | |
| 30 | Rent Expense | 515 | 900 | |
| | Cash | 110 | | 900 |
| | Paid rent. | | | |
| 30 | Salaries Expense | 511 | 1,950 | |
| | Cash | 110 | | 1,950 |
| | Paid employee salaries. | | | |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 2***

| CASH | | | | | ACCOUNT NO. 110 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | 4,700 | |
| 16 | | J.6 | 1,700 | | 6,400 | |
| 21 | | J.6 | 2,800 | | 9,200 | |
| 25 | | J.6 | | 1,600 | 7,600 | |
| 27 | | J.6 | | 2,000 | 5,600 | |
| 29 | | J.6 | 4,200 | | 9,800 | |
| 30 | | J.6 | | 900 | 8,900 | |
| 30 | | J.6 | | 1,950 | 6,950 | |

| ACCOUNTS RECEIVABLE | | | | | ACCOUNT NO. 112 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | 5,300 | |
| 16 | | J.6 | | 1,700 | 3,600 | |
| 18 | | J.6 | 2,200 | | 5,800 | |

| SUPPLIES | | | | | ACCOUNT NO. 115 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | 150 | |
| 23 | | J.6 | 600 | | 750 | |

| EQUIPMENT | | | | | ACCOUNT NO. 140 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | 15,750 | |

| ACCOUNTS PAYABLE | | | | | ACCOUNT NO. 210 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | | 2,900 |
| 23 | | J.6 | | 600 | | 3,500 |
| 27 | | J.6 | 2,000 | | | 1,500 |



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| COMMON STOCK | | | | | ACCOUNT NO. 311 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | | 22,000 |

| DIVIDENDS | | | | | ACCOUNT NO. 315 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | 2,900 | |
| 25 | | J.6 | 1,600 | | 4,500 | |

| SERVICE REVENUE | | | | | ACCOUNT NO. 411 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | | 8,200 |
| 18 | | J.6 | | 2,200 | | 10,400 |
| 21 | | J.6 | | 2,800 | | 13,200 |
| 29 | | J.6 | | 4,200 | | 17,400 |

| SALARIES EXPENSE | | | | | ACCOUNT NO. 511 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | 2,800 | |
| 30 | | J.6 | 1,950 | | 4,750 | |

| RENT EXPENSE | | | | | ACCOUNT NO. 515 | |
|---|---|---|---|---|---|---|
| | | POST. | | | BALANCE | |
| DATE | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| May 15 | Bal. | √ | | | 1,500 | |
| 30 | | J.6 | 900 | | 2,400 | |



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**P 2-41B**
**(20-25 min.)**

**Requirements**

1. Prepare the company's trial balance at October 31, 2018, listing accounts in the proper order. List the largest expense first, the second-largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of $14,840 is the beginning balance for the month; it has not been updated for the current month's net income or loss.
3. Was it a profitable month for Wellington Electronics Repair, Inc.? Why or why not?

***Solution:***

***Req. 1***

| Wellington Electronics Repair, Inc.<br>Trial Balance<br>October 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT | DEBIT | CREDIT |
| Cash | $ 15,100 | |
| Accounts receivable | 4,200 | |
| Supplies | 250 | |
| Building | 135,000 | |
| Land | 58,000 | |
| Accounts payable | | $ 3,300 |
| Notes payable | | 152,000 |
| Common stock | | 45,000 |
| Retained earnings | | 14,840 |
| Dividends | 1,500 | |
| Service revenue | | 7,750 |
| Salaries expense | 5,200 | |
| Rent expense | 2,400 | |
| Utilities expense | 535 | |
| Supplies expense | 480 | |
| Insurance expense | 225 | |
| Total | $ 222,890 | $ 222,890 |



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***Req. 2***

| Wellington Electronics Repair, Inc.<br>Income Statement<br>Month Ended October 31, 2018 | | |
|---|---|---|
| Service revenue | | $ 7,750 |
| Expenses | | |
| Salaries expense | $ 5,200 | |
| Rent expense | 2,400 | |
| Utilities expense | 535 | |
| Supplies expense | 480 | |
| Insurance expense | 225 | |
| Total expenses | | 8,840 |
| Net Loss | | $ (1,090) |

| Wellington Electronics Repair, Inc.<br>Statement of Retained Earnings<br>Month Ended October 31, 2018 | |
|---|---|
| Retained earnings, October 1, 2018 | $ 14,840 |
| Subtract: Net loss | (1,090) |
| Subtotal | 13,750 |
| Less: Dividends | 1,500 |
| Retained earnings, October 31, 2018 | $ 12,250 |

| Wellington Electronics Repair, Inc.<br>Balance Sheet<br>October 31, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| Cash | $ 15,100 | Accounts payable | $ 3,300 |
| Accounts receivable | 4,200 | Notes payable | 152,000 |
| Supplies | 250 | Total liabilities | 155,300 |
| Land | 58,000 | STOCKHOLDERS' EQUITY | |
| Building | 135,000 | Common stock | 45,000 |
| | | Retained earnings | 12,250 |
| | | Total stockholders' equity | 57,250 |
| Total assets | $ 212,550 | Total liabilities and stockholders' equity | $ 212,550 |

It was a not a profitable month for Wellington Electronics Repair, Inc. from the standpoint that the business generated a loss of $1,090.



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**P 2-42B**
**(15-20 min.)**

**Requirements**

1. Prepare the necessary journal entries to correct each of these errors.
2. For each of the errors, determine if the error would cause net income to be overstated, understated, or unchanged.

***Solution:***

***Req. 1***

| Journal | | | | Page 3 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| a. | Cash | | 180 | |
| | Service revenue | | | 180 |
| | ($1,640 – $1,460 = $180) | | | |
| b. | Supplies | | 370 | |
| | Accounts payable | | | 370 |
| | The original entry was recorded “backwards” so an entry for double the amount needs to be made | | | |
| c. | Cash | | 1,215 | |
| | Rent expense | | | 1,215 |
| | ($1,350 - $135 = $1,215) | | | |
| d. | Accounts payable | | 1,750 | |
| | Accounts receivable | | | 1,750 |

***Req 2***

| | |
|---|---|
| a. | a. Net income is overstated because Service revenue was credited (increased) by $1,640 instead of the correct amount of $1,460. |
| b. | Net income would be unchanged because the entry did not effect a revenue or an expense. |
| c. | c. Net income would be overstated because Rent expense was debited (increased) by only $135 instead of the correct amount of $1,350. |
| d. | Net income would be unchanged because the entry did not effect a revenue or an expense. |



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**Continuing Exercise**

**Requirements**

1. Open T-accounts in the ledger: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Stock, Retained Earnings, Service Revenue, and Utilities Expense.
2. Journalize the transactions. Explanations are not required.
3. Post journal entries to the T-accounts. Key all items by date and denote an account balance as Bal. Formal posting references are not required. Determine ending balances in T-accounts on May 31, 2018.
4. Prepare a trial balance at May 31, 2018.

***Solution:***

***Req. 1 and 3 See after Req 4***

***Req 2***

| | | | |
|---|---|---|---|
| May 1 | Cash | 1,500 | |
| | Common Stock | | 1,500 |
| 3 | Equipment | 1,908 | |
| | Accounts payable | | 1,908 |
| 5 | Supplies | 125 | |
| | Cash | | 125 |
| 6 | Accounts receivable | 375 | |
| | Service revenue | | 375 |
| 17 | Cash | 275 | |
| | Service Revenue | | 275 |
| 28 | Utilities Expense | 65 | |
| | Cash | | 65 |
| 30 | Cash | 150 | |
| | Accounts receivable | | 150 |

***Req 4***

**Sensations Salon, Inc.**
**Trial Balance**
**May 31, 2018**

| ACCOUNT | DEBIT | CREDIT |
|---|---|---|
| Cash | $ 1,735 | |
| Accounts receivable | 225 | |
| Supplies | 125 | |
| Equipment | 1,908 | |
| Accounts payable | | $1,908 |
| Common stock | | 1,500 |
| Service revenue | | 650 |
| Utilities expense | 65 | |
| Total | $ 4,058 | $ 4,058 |



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## Continuing Exercise

***Req.1 and Req. 3***

**Assets = Liabilities + Stockholders' equity**

| Cash | | | |
|---|---|---|---|
| 5/1 | 1,500 | 125 | 5/5 |
| 5/17 | 275 | 65 | 5/28 |
| 5/30 | 150 | | |
| Bal. | 1,735 | | |

| Accounts payable | | | |
|---|---|---|---|
| | | 1,908 | 5/3 |
| | | 1,908 | Bal. |

| Common stock | | | |
|---|---|---|---|
| | | 1,500 | 5/1 |
| | | 1,500 | Bal. |

| Accounts receivable | | | |
|---|---|---|---|
| 5/6 | 375 | 150 | 5/30 |
| Bal. | 225 | | |

| Retained earnings | | | |
|---|---|---|---|
| | | | |
| | | | |

| Supplies | | | |
|---|---|---|---|
| 5/5 | 125 | | |
| Bal. | 125 | | |

| Service revenue | | | |
|---|---|---|---|
| | | 375 | 5/6 |
| | | 275 | 5/17 |
| | | 650 | Bal. |

| Equipment | | | |
|---|---|---|---|
| 5/3 | 1,908 | | |
| Bal. | 1,908 | | |

| Utilties expense | | | |
|---|---|---|---|
| 5/28 | 65 | | |
| Bal. | 65 | | |



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**Continuing Problem**

**Requirements**

1. Journalize the transactions that occurred in April. Omit explanations.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at March 31. Use the four-column account format illustrated in the chapter. Enter "Bal" for the March 31 balance in the Item column. Post the journalentries to the ledger creating new ledger accounts as necessary, omit posting references. Calculate the new account balances at April 30, 2018.
3. Prepare the trial balance for Fitness Equipment Doctor, Inc., at April 30, 2018.

***Solution:***

***Req. 1***

| Journal | | | Page 6 | |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| April 1 | Salaries expense | | 675 | |
| | Cash | | | 675 |
| 2 | Land | | 16,000 | |
| | Cash | | | 16,000 |
| 3 | Rent expense | | 1,500 | |
| | Cash | | | 1,500 |
| 4 | Cash | | 1,700 | |
| | Service revenue | | | 1,700 |
| 5 | Cash | | 600 | |
| | Accounts receivable | | | 600 |
| 8 | Supplies | | 450 | |
| | Accounts payable | | | 450 |
| 11 | Accounts receivable | | 4,200 | |
| | Service revenue | | | 4,200 |
| 13 | Cash | | 10,000 | |
| | Common stock | | | 10,000 |
| 16 | Salaries Expense | | 675 | |
| | Cash | | | 675 |



Financial Accounting 5th edition Kemp Solutions Manual

| Journal | | | Page 6 | |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| 17 | Cash | | 1,450 | |
| | Service revenue | | | 1,450 |
| 18 | Cash | | 300 | |
| | Accounts receivable | | | 300 |
| 19 | Advertising expense | | 500 | |
| | Cash | | | 500 |
| 21 | Accounts payable | | 700 | |
| | Cash | | | 700 |
| 22 | Office furniture | | 2,100 | |
| | Accounts payable | | | 2,100 |
| 24 | Miscellaneous expense | | 75 | |
| | Cash | | | 75 |
| 26 | Accounts receivable | | 1,900 | |
| | Service revenue | | | 1,900 |
| 28 | Cash | | 900 | |
| | Accounts receivable | | | 900 |
| 30 | Utilities expense | | 245 | |
| | Cash | | | 245 |
| 30 | Salaries expense | | 675 | |
| | Cash | | | 675 |
| 30 | Dividends | | 2,300 | |
| | Cash | | | 2,300 |



Financial Accounting 5th edition Kemp Solutions Manual

*Req. 2*

**CASH**

| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|---|---|---|---|---|
| Mar | 31 | Bal. | | | | 31,880 | |
| Apr | 1 | | | | 675 | 31,205 | |
| | 2 | | | | 16,000 | 15,205 | |
| | 3 | | | | 1,500 | 13,705 | |
| | 4 | | | 1,700 | | 15,405 | |
| | 5 | | | 600 | | 16,005 | |
| | 13 | | | 10,000 | | 26,005 | |
| | 16 | | | | 675 | 25,330 | |
| | 17 | | | 1,450 | | 26,780 | |
| | 18 | | | 300 | | 27,080 | |
| | 19 | | | | 500 | 26,580 | |
| | 21 | | | | 700 | 25,880 | |
| | 24 | | | | 75 | 25,805 | |
| | 28 | | | 900 | | 26,705 | |
| | 30 | | | | 245 | 26,460 | |
| | 30 | | | | 675 | 25,785 | |
| | 30 | | | | 2,300 | 23,485 | |

**ACCOUNTS RECEIVABLE**

| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|---|---|---|---|---|
| Mar | 31 | Bal. | | | | 1,300 | |
| Apr | 5 | | | | 600 | 700 | |
| | 11 | | | 4,200 | | 4,900 | |
| | 18 | | | | 300 | 4,600 | |
| | 26 | | | 1,900 | | 6,500 | |
| | 28 | | | | 900 | 5,600 | |

**SUPPLIES**

| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|---|---|---|---|---|
| Mar | 31 | Bal. | | | | 900 | |
| Apr | 8 | | | 450 | | 1,350 | |

**LAND**

| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|---|---|---|---|---|
| Apr | 2 | | | 16,000 | | 16,000 | |

**OFFICE FURNITURE**

| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|---|---|---|---|---|
| Apr | 22 | | | 2,100 | | 2,100 | |

**EQUIPMENT**

| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|---|---|---|---|---|
| Mar | 31 | Bal. | | | | 3,600 | |



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| VEHICLES | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Mar | 31 | Bal. | | | | 35,800 | |

| ACCOUNTS PAYABLE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Mar | 31 | Bal. | | | | | 1,000 |
| Apr | 8 | | | | 450 | | 1,450 |
| | 21 | | | 700 | | | 750 |
| | 22 | | | | 2,100 | | 2,850 |

| NOTES PAYABLE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Mar | 31 | Bal. | | | | | 35,800 |

| COMMON STOCK | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Mar | 31 | Bal. | | | | | 35,000 |
| Apr | 13 | | | | 10,000 | | 45,000 |

| DIVIDENDS | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Mar | 31 | Bal. | | | | 1,500 | |
| Apr | 30 | | | 2,300 | | 3,800 | |

| SERVICE REVENUE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Mar | 31 | Bal. | | | | | 4,050 |
| Apr | 4 | | | | 1,700 | | 5,750 |
| | 11 | | | | 4,200 | | 9,950 |
| | 17 | | | | 1,450 | | 11,400 |
| | 26 | | | | 1,900 | | 13,300 |



Financial Accounting 5th edition Kemp Solutions Manual

| SALARIES EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Mar | 31 | Bal. | | | | 620 | |
| Apr | 1 | | | 675 | | 1,295 | |
| | 16 | | | 675 | | 1,970 | |
| | 30 | | | 675 | | 2,645 | |

| RENT EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Apr | 3 | | | 1,500 | | 1,500 | |

| UTILITIES EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Mar | 31 | Bal. | | | | 250 | |
| Apr | 30 | | | 245 | | 495 | |

| ADVERTISING EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Apr | 19 | | | 500 | | 500 | |

| MISCELLANEOUS EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| Apr | 24 | | | 75 | | 75 | |

**Fitness Equipment Doctor, Inc.**
**Trial Balance**
**April 30, 2018**

| | ACCOUNT | DEBIT | CREDIT |
|---|---|---|---|
| | Cash | $ 23,485 | |
| | Accounts receivable | 5,600 | |
| | Supplies | 1,350 | |
| | Land | 16,000 | |
| | Office furniture | 2,100 | |
| | Equipment | 3,600 | |
| | Vehicles | 35,800 | |
| | Accounts payable | | $ 2,850 |
| | Notes payable | | 35,800 |
| | Common stock | | 45,000 |
| | Dividends | 3,800 | |
| | Service revenue | | 13,300 |
| | Salaries expense | 2,645 | |
| | Rent expense | 1,500 | |
| | Advertising expense | 500 | |
| | Utilities expense | 495 | |
| | Miscellaneous expense | 75 | |
| | Total | $ 96,950 | $ 96,950 |



Financial Accounting 5th edition Kemp Solutions Manual

**Continuing Financial Statement Analysis Problem**

a. What would happen to Dick's balance sheet if it borrowed $50 million in cash from a bank?
b. What would happen to Dick's balance sheet if it built a new store costing $50 million in cash?
c. What would happen to Dick's income statement and balance sheet if it had a big sale, increasing net income by $10 million which all ended up as cash?
d. What would happen to Dick's income statement and balance sheet if it hired more employees? The salaries of these employees cost Dick's $1 million paid in cash. The extra employees did not create any extra net income. (Note: Do not consider taxes in your answer.)

***Solution:***

a. Cash and cash equivalents would increase by $50 million and unsecured debt and other borrowings would increase by $50 million. This would cause Total assets and Total liabilities and shareholders' investment to each increase by $50 million.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | Cash | | $50 million | |
| | Unsecured debt and other borrowings | | | $50 million |
| | Borrowed $50,000,000 in unsecured debt. | | | |

b. There would be no net change in Total assets. Cash would decrease by $50 million and Buildings and improvements would increase by $50 million. This causes Total current assets to decrease by $50 million and Property and equipment, net to increase by $50 million for a net affect on Total assets of zero.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | Property and Equipment | | $50 million | |
| | Cash | | | $50 million |
| | Purchased building for $50 million. | | | |



Financial Accounting 5th edition Kemp Solutions Manual

c. On the income statement, sales and costs would increase, creating an additional net income of $10 billion. The $10 billion increase in net income would then be added to the previous year's retained earnings, which would increase retained earnings on the balance sheet by $10 billion. Cash would also increase by $10 billion on the balance sheet. This would cause total assets to increase by $10 billion and total liabilities and shareholders' investment to increase by $10 billion.

| Date | | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | Cash<br>Retained Earnings (Sales)<br>To record cash sales. | | $10 billion | $10 billion |

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (The Sales and cost accounts are closed to Retained Earnings.)

d. The salary expense increase of $1 billion would cause an increase of $1 billion in selling, general and administrative expenses on the income statement. This would cause net earnings to decrease by $1 billion. Net earnings would then be added to the previous year's retained earnings, which would decrease retained earnings on the balance sheet by $1 billion. Cash would also decrease by $1 billion on the balance sheet. This would cause total assets to decrease by $1 billion and total liabilities and shareholders' investment to decrease by $1 billion.

| Date | | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | Retained Earnings (Salaries Expense)<br>Cash<br>Salaries of $1 billion are paid. | | $1 billion | $1 billion |

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (Salaries expense is closed to Retained Earnings.)



Financial Accounting 5th edition Kemp Solutions Manual

**Case 1**

- Lynne should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was not a dividend but rather the payment of an expense.

- It does matter how the $3,800 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.

- Lynne does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the $3,800 expense, Lynne is giving the bank an inaccurate and misleading income statement.

**Case 2**

- Joe's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.

- There are ethical concerns. Joe has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions in order to provide accurate information; therefore, accountants have an ethical duty to ensure accurate financial reporting.

- As the owner of Lawn Boyz Lawnservice you should have a problem with Joe's actions. You need to have accurate financial information for decision-making purposes. Accordingly, by Joe reducing the actual amount of Wage Expense, you may not be aware of the actual labor costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Joe has not fulfilled his obligation as an accountant.



Financial Accounting 5th edition Kemp Solutions Manual

**Financial Analysis**

**Requirements**

1. Prepare journal entries to record the transactions listed. Use the account titles found in the Columbia Sportswear financial statements: Cash; Accounts Receivable; Inventory; Property, Plant, and Equipment; Accounts Payable; and Net Sales.
2. Look at the financial statements and locate the accounts that you included in your journal entries. Note that the balances Columbia Sportswear reported stated "in thousands," which means they include millions of dollars in transactions for the year. Imagine how much activity and how many transactions Columbia Sportswear has every day!

***Solution:***

***Req. 1***

| Journal | | | |
|---|---|---|---|
| **DATE** | **ACCOUNTS** | **Dr.** | **Cr.** |
| Jan. 2 | Property, Plant and Equipment | 678,000 | |
| | Cash | | 678,000 |
| 8 | Cash | 2,512,000 | |
| | Net Sales | | 2,512,000 |
| 12 | Inventory | 3,470,000 | |
| | Accounts Payable | | 3,470,000 |
| 21 | Accounts Receivable | 4,515,000 | |
| | Net Sales | | 4,515,000 |
| 30 | Accounts Payable | 2,975,000 | |
| | Cash | | 2,975,000 |

***Req. 2***

No solution.



Financial Accounting 5th edition Kemp Solutions Manual

**Industry Analysis**

**Requirements**

1. In terms of net sales or net revenue, which is the larger company for the year ending December 31, 2016? Which financial statement did you look at to find that information?
2. In terms of total assets at December 31, 2016, which is the larger company? Which financial statement did you look at to find that information?
3. Which company has more total debt at December 31, 2016? Which financial statement did you look at to find that information?
4. Which company has the higher gross profit percentage for the year ending December 31, 2016? Don't know that one? On the Consolidated Statements of Operations/Income, divide Gross Profit by Net Sales (or Net Revenues). What exactly does this mean?
5. Which company paid more cash dividends to its stockholders in 2016? Which financial statement did you look at to find that information?
6. Which company's stock would you rather own? Why?

***Solution:***

| | |
|---|---|
| 1 | Under Armour is the larger company in terms of revenue, with approximately $4.83 billion in net revenues for 2016 as compared to approximately $2.38 billion of net sales for Columbia Sportswear. This information is on the Consolidated Statement of Operations/Income. |
| 2 | Under Armour is the larger of the two in terms of total assets with about $3.64 billion at December 31, 2016, compared to about $2.01 billion for Columbia Sportswear. This information is on the Consolidated Balance Sheet. |
| 3 | Under Armour has more debt at the end of 2016 with around $1.61 billion at the end of the year. Columbia Sportswear has approximately $432 million in debt at the end of 2016. This information is also located on the Consolidated Balance Sheet. Note that the terms total liabilities and total debt mean the same thing. |
| 4 | Columbia Sportswear wins this one with a gross profit percentage of 46.7% ($1,110,348,000/$2,377,045,000) as compared to only 46.4% ($2,240,611,000/$4,825,335,000) for Under Armour. In terms of gross profit percentage, the higher the number, the better. This percentage indicates that Columbia Sportswear is doing a slightly better job of making profit from selling their products. |
| 5 | Under Armour had $59,000,000 of dividends in 2016 compared to only $48,122,000 of dividends for Columbia Sportswear. This number can be found on the Consolidated Statements of Stockholders' Equity. Again note that the terms Stockholder and Shareholder mean the same thing. Note that only part of Under Armour's dividends were paid in cash while all of Columbia Sportswear's dividends were cash dividends. Cash versus stock dividends are discussed in Chapter 10. |
| 6 | Student's response to this question will obviously vary. |



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**Small Business Analysis**

**Requirement**

1. Because Cash is the lifeblood of any business, having a correct balance in the Cash account is of utmost importance. Correctly entering cash transactions is equally important. Suggest to your client the corrections that need to be made to the journal entries she made.

***Solution:***

There are two mistakes here affecting the cash account. The first mistake is the cash transaction utilizing the debit card. When cash is decreased, it must be credited. Your client debited cash for the transaction using the logic that they were using a debit card. To correct this transaction, you will need to remove the original transaction and journalize the transaction correctly. These journal entries look the same. They are as follows:

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| May-07 | Supplies | | 320 | |
| | Cash | | | 320 |
| | To remove the original debit card transaction. | | | |

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| May-07 | Supplies | | 320 | |
| | Cash | | | 320 |
| | To record purchase of supplies using debit card. | | | |

The next error is that the credit card transaction doesn't have any effect on Cash until the credit card bill is paid. When the original transaction took place, a liability account, such as Credit Card Payable, should have been credited. To correct this, the following entry needs to be made.

| Date | | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| May-07 | Cash | | 275 | |
| | Credit Card Payable | | | 275 |
| | Correcting entry—used credit card instead of cash for utility bill. | | | |



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**Written Communication**

Write a short memo or letter to your client addressing these two issues and what you would consider to be the proper accounting treatment for each. More specifically, if the Cash account was showing as a credit balance, how would that have happened? Is it possible for that to happen? Regarding the use of the debit card versus the credit card, use the information contained in the chapter to explain the difference between the two types of cards and how each transaction should be recorded from an accounting point of view.

***Solution:***

Although student's responses will vary widely, here is a suggested memo to address the two situations.

Dear Client:

I want to address the two concerns you had in your e-mail to me last week. The first one was about the credit balance in your cash account. Even after corrections are made, the cash was still showing a credit balance. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have a credit balance in your cash account if your checking account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your checks unpaid. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

The second situation was concerning the use of debit cards versus credit cards. The terminology does get very confusing. Without going into an accounting lesson on the differences between debits and credits, let me explain what happens when you use the two cards. When you use your debit card, there have to be funds available in whatever account that card is attached to because the use of this card will automatically withdraw that amount of money from the account. The bank "debits" your account which, in banking terms, means they removed the money from your account. On the other hand, you have to credit cash because you are decreasing your cash account.

A credit card transaction, on the other hand, does not automatically remove the cash from your account. It sets up a liability to the credit card company which will have to be paid when you get the credit card statement. So the credit card transaction itself does not affect cash. You are not crediting cash when you use your credit card. You are crediting a liability to the credit card company which means you owe them money.



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# Chapter 2: Overview

# Analyzing and Recording Business Transactions

---

The chapter introduces **accounts** and briefly describes specific asset, liability, and stockholders' equity accounts. The concept of **double-entry accounting** and the rules of **debit** and **credit** for assets, liabilities, and stockholders' equity are described. The **T-account** is illustrated. The accounting equation is tied to the rules of debit and credit. **Normal balance** of accounts is discussed.

The **general journal** and **general ledger** are introduced. The processes used to **record** (**journalize**) a **transaction** in the general journal as well as **posting** a transaction to the general ledger are presented, including an illustration of a four-column account with a running balance. The five-step transaction analysis process is described and demonstrated. A series of transactions are analyzed, journalized, and posted to T-accounts in the ledger. Calculating the **balance** of accounts is explained.

The **trial balance** is defined and illustrated. Some errors that would not be revealed by a trial balance are described. The preparation of the financial statements from the trial balance is illustrated.

The chapter concludes with Focus on Decision Making, which assists students in understanding the decisions required as transactions are recorded and summarized.

## Learning Objectives

*After studying Chapter 2, your students should be able to:*

1. Define accounts and understand how they are used in accounting
2. Explain debits, credits, and the double-entry system of accounting
3. Demonstrate the use of the general journal and the general ledger to record business transactions
4. Use a trial balance to prepare financial statements


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# Chapter 2: Teaching Outline and Student Summary Handout

## How Are Accounts Used to Keep Business Transactions Organized?

**LO1) Define accounts and understand how they are used in accounting**

I. **Accounts** are the basic summary device of accounting; the detailed record of all the changes in a specific asset, liability, or stockholders' equity item as a result of transactions.

II. **Organizing Accounts**

A. Numbering helps keep accounts organized.

B. Account numbers usually have two or more digits, with the first digit designating the type of account. Generally, if an account starts with:

1. 1, it is an asset account.
2. 2, it is a liability account.
3. 3, it is a stockholders' equity account other than a revenue or an expense account.
4. 4, it is a revenue account.
5. 5, it is an expense account.
6. 9, it is another revenue or expense account.

C. The second and remaining digits specify the detailed account number.

1. For example, 101 may be Cash, and 131 may be Accounts Receivable.
2. Multiple digits allow for bigger gaps in the numbering sequence for adding additional accounts at a later date.

D. The **chart of accounts** is a list of all the accounts of a business and the numbers assigned to those accounts.

III. **Assets**

A. The **Cash** account includes bank account balances and cash on hand.


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B. The **Accounts Receivable** account represents amounts owed to the business by customers.

C. The **Notes Receivable** account represents a written promise (**promissory note**) that the customer or borrower will pay a fixed amount of money by a certain date. Often includes interest charges.

D. The **Prepaid Expenses** account includes assets of a business because they represent items that have been purchased but will be used later.

1. An example is insurance paid a year in advance.

E. The **Land** account is used to track the cost of land a business owns and uses in its operations.

F. The **Buildings** account represents the cost of a business's buildings, offices, warehouses, etc.

G. The **Equipment, Furniture, and Fixtures** account represent items such as computer equipment, office equipment, store equipment, and furniture and fixtures. A business typically has a separate asset account for each type of equipment.

IV. **Liabilities**

A. The **Accounts Payable** account reflects how much cash the business must pay to suppliers for goods or services that have already been received.

B. The **Notes Payable** account represents amounts the business must pay because it signed a promissory note to borrow money.

C. The **Accrued Liabilities** account represents liabilities for expenses that have been incurred but have not yet been paid.

1. Examples are Taxes Payable, Interest Payable, and Salaries Payable.


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V. **Stockholders' Equity**

A. The **Common Stock** account represents the investment of assets, usually cash, the stockholders have invested into a business in exchange for the company's stock.

B. The **Retained Earnings** account tracks the cumulative earnings of the business since it began, less any dividends given to stockholders.

C. The **Revenues** account represents amounts *earned* by the company even if the company has not yet been paid for the goods and services provided.

D. The **Expenses** account shows decreases in Retained Earnings from using resources to deliver goods and services to customers.

E. The **Dividends** account reflects the amount of earnings that have been distributed to the stockholders. This account decreases Retained Earnings.

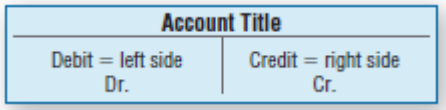
## What Is Double-Entry Accounting?

**LO2) Explain debits, credits, and the double-entry system of accounting**

I. **Double-entry accounting** is the rule of accounting that specifies every transaction involves at least two accounts and is recorded with equal amounts of debits and credits.

II. **Debit** is the left side of any account; an entry made to the left side of an account.

III. **Credit** is the right side of any account; an entry made to the right side of an account.





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IV. **T-account** is an informal account form used to summarize transactions where the top of the T holds the account title and the base divides the debit and credit sides of the account. Exhibit 2-1 shows T-accounts along with which side increases/decreases. Whether it is the left side of the T or the right side that increases the account depends on the type of account.

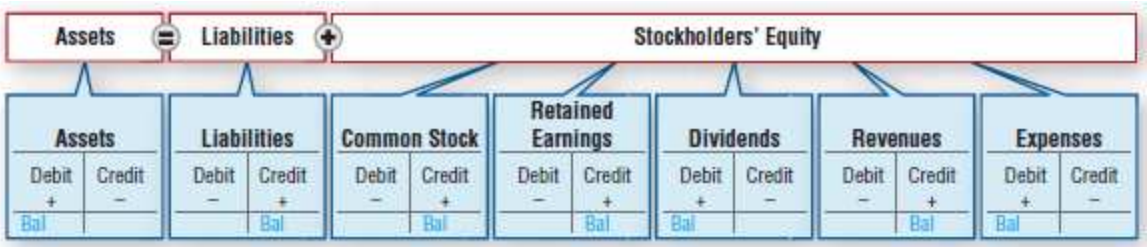



Exhibit 2-1

A. In the acronym **ADE**, **A**ssets, **D**ividends, and **E**xpenses are increased on the debit side.

B. In the acronym **LCR**, **L**iabilities, **C**ommon Stock, and **R**etained Earnings/**R**evenue are increased on the credit side.

VI. **Normal Balance**

A. The **normal balance** is the balance that appears on the side of an account where increases are recorded.

B. Using the ADE/LCR acronyms to help you with which accounts are increased, you can determine that:

1. Assets increase on the debit side, so the normal balance of an asset is on the debit side.
2. Liabilities increase on the credit side, so the normal balance of a liability is on the credit side.
3. The same principle follows for the remaining accounts.


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## How Are the General Journal and the General Ledger Used to Keep Track of Business Transactions?

**LO3) Demonstrate the use of the general journal and general ledger to record business transactions**

I. The **general journal** is the chronological accounting record of the transactions of a business.

A. The general journal is a place to record events that have affected the business. **Record** means to enter a transaction in a journal; also called **journalize**. A **transaction** is an event that has a financial impact on a business entity.

B. To record a journal entry:

1. Record the date.
2. Record the debit part of the entry by entering the account title and then entering the amount in the debit column.
3. Record the credit part of the entry on the next line by indenting the account title and then entering the amount in the credit column.
4. Write an explanation describing the entry.

C. Exhibit 2-2 demonstrates how to make a journal entry and post to the general ledger. The general journal reflects transactions by date, so it does not provide useful information by individual accounts. To see the effect on accounts, these journal entries are posted to the general ledger.

II. A **general ledger** is the accounting record that summarizes, in accounts, the transactions of a business and shows the resulting ending account balances.

III. **Posting** is copying information from the general journal to accounts in the general ledger.

A. Posting is broken down into four steps (see Exhibit 2-2):


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1. Copy the transaction date for the journal to the account in the ledger.
2. Copy the journal page number from the journal to the posting reference column in the ledger account. The **posting reference** is a notation in the journal and the ledger that links these two accounting records together.
3. Copy the dollar amount of the debit (or credit) from the journal as a debit (or credit) into the account in the ledger.
4. Copy the account number from the account in the ledger back to the posting reference column in the journal.

IV. **Transaction Analysis**

A. Step 1: Identify the accounts involved.

B. Step 2: Determine the type of account involved.

C. Step 3: Determine whether the account increases or decreases.

D. Step 4: Debit or credit the account.

E. Step 5: Journalize the transaction and post to the ledger.

V. **Balancing the T-Accounts**

A. After the transactions are recorded and posted to the T-accounts, the balance in each account is calculated. The **balance** is the difference between an account's total debit and total credit accounts; the ending value of an account.

## How Is a Trial Balance Prepared, and What Is It Used For?

**LO4) Use a trial balance to prepare financial statements**

I. A **trial balance** is a list of all the accounts of a business and their balances; its purpose is to verify that total debits equal total credits.

A. Not an official financial statement.


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B. Format includes the heading (company name, statement name, and date) and columns for the name of each account, the debit column, and the credit column. The debit and credit columns are totaled to ensure that debits equal credits.

C. Commonly prepared at the end of the accounting period but can be created any time.

1. The **accounting period** is generally the time period reflected by a set of financial statements.

a. Usually defined as a month, quarter, or year.

D. Exhibit 2-3 illustrates a trial balance.

## II. Correcting Errors

A. The method to correct an error depends on the type of error made.

1. If a journal entry is made to the wrong accounts or for the wrong amount, reverse or undo the incorrect entry. Then create a new entry that records the correct information.
2. To correct an entry that has been made twice, one of the entries should be reversed.
3. If an entry was erroneously omitted, simply create and enter the journal entry.

## III. Preparation of Financial Statements

A. Since the trial balance lists all of the accounts and their associated balances, it is often used to prepare financial statements.

B. Prepare the financial statements in the correct order (see Chapter 1).

C. Make sure that the balance sheet is in balance. If it is not, check to see what you entered for the Retained Earnings account. Is it the beginning Retained Earnings account balance or the ending Retained Earnings balance, which represents closing the income and expenses? The answer depends on the type


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of trial balance used to prepare the balance sheet, which will be covered in greater detail in Chapter 3.

D. Exhibit 2-4 illustrates how the financial statements flow together.

E. The **accounting cycle** is the sequence of steps used to record and report business transactions. This cycle is completed for every accounting period and repeated for subsequent accounting periods.

   1. See an illustration of the accounting cycle on page 70.
   2. Chapter 3 covers the remaining steps in the accounting cycle, including preparing adjusting and closing entries.


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# Key Topics

An understanding of Chapter 2 is essential for student success in the remaining financial accounting chapters. Spend adequate time in the beginning with accounting terminology. Accounting is foreign to many students, and, as is true with any foreign language, you must start with the basics. Students seem to more easily understand assets and liabilities than equity. An asset can be touched, a liability can be confirmed by looking at an invoice, but equity is conceptual. Equity is the stockholders' claims to the business assets—what's left over after liabilities are subtracted from assets. It may be helpful to ask students to attempt to calculate their personal equity. Students may own a car or home for which they have an outstanding loan or mortgage. The equity for the home would represent the cost of the home (asset) less the amount owed (liability) on the mortgage. Another analogy would be that the assets of a business are owned by either the creditors (liabilities) or the owners (stockholders' equity). You can also ask students to determine (from a simple standpoint) how much their business would be worth to a potential buyer. Some students might think that the total assets represent a fair sale price. Explain that while the assets represent the value of the business, the creditors still must be paid. To illustrate, take the total assets and subtract the amounts owed to the creditors (liabilities) to calculate the worth. Then you can tie this worth (equity) to the stockholders' equity balance.

Keep it simple when discussing **T-accounts** and the rules of debits and credits. **Debit** means left, and **credit** means right—period. A debit does not always mean an increase, and a credit does not always mean a decrease. Increases and decreases depend on the account type. Emphasize that every entry must balance (debits equal credits) and must be correct for the accounting system to generate correct and useful information. An incorrect journal entry that is posted to the right accounts will still produce incorrect information.

An **account** can have only one **balance**. Debits and credits within the same account are subtracted to determine the account balance, just like positives and negatives from a mathematical standpoint. The **normal balance** of an account is the side used to **record** increases in the account.

When discussing the **posting** process, inform students to be very careful when transferring amounts to the ledger. It is common for students at this point to reverse a posting, recording a debit as a credit or vice versa. A debit is placed on the left side, and a credit is placed on the right side. If the **trial balance** doesn't balance, it is common for students to have reversed a posting.

It is important for students to see the difference between the trial balance and the financial statements (especially the balance sheet). For example, the trial balance totals debits and credits. The balance sheet does not have debits and credits to total but totals the assets and then liabilities plus stockholders' equity.

Finally, it may be helpful for students to view the accounting system from both ends. The natural process is to **journalize**, post, and prepare a trial balance. However, once the chapter content is discussed, you can also begin with the trial balance and have students trace back to the ledger and journal to find a specific **transaction**. They can also get experience doing this when correcting a trial balance that doesn't balance.

When assigning homework problems, consider working the alternate problem in class. Both the exercises and the problems for each chapter have a Group A and a Group B. These problems are identical except that the names, the dates, and the dollar amounts change. For example, if you assign P2-33A, "Journalizing, posting, and preparing a trial balance," you can work P2-39B in class. You might also consider the "error correction" type of problems. Students often have the most trouble with problems that require critical thinking. Error correction problems require students to think beyond the routine assignments. For example, Problem P2-36A, "Correcting errors," requires students to prepare correcting


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journal entries and determine whether an error would cause net income to be overstated, understated, or unchanged. Problem P2-42B is the alternate problem and can be worked in class as a group assignment.


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# Assignment Grid

| Assignment | Topic(s) | Learning Objective(s) | Estimated Time in Minutes | Level of Difficulty |
|---|---|---|---|---|
| ***Short Exercises*** | | | | |
| S2-1 | Accounting terms | 1 | 5-10 | Easy |
| S2-2 | Account types | 1 | 5-10 | Easy |
| S2-3 | Accounting cycle steps | 2, 3, 4 | 5-10 | Easy |
| S2-4 | Account types | 1 | 5-10 | Easy |
| S2-5 | Accounting terminology | 2, 3, 4 | 5-10 | Easy |
| S2-6 | Effects of debits and credits on accounts | 2 | 5-10 | Easy |
| S2-7 | Balancing accounts and normal balances | 2, 3 | 5-10 | Easy |
| S2-8 | Types of accounts and effects of debits and credits | 2, 3 | 5-10 | Easy |
| S2-9 | Re-creating journal entries from T-account postings | 2, 3 | 15-20 | Easy |
| S2-10 | Journalizing transactions | 3 | 10-15 | Easy |
| S2-11 | Journalizing transactions | 3 | 10-15 | Easy |
| S2-12 | Preparing a trial balance | 4 | 10-15 | Easy |
| S2-13 | Preparing financial statements from a trial balance | 4 | 5-10 | Easy |
| S2-14 | Accounting terminology | 1, 2, 3, 4 | 5-10 | Easy |
| ***Exercises (Group A)*** | | | | |
| E2-15A | Journalizing transactions | 2, 3 | 10-15 | Easy |
| E2-16A | Journalizing transactions | 3 | 15-20 | Easy |
| E2-17A | Journalizing transactions | 3 | 15-20 | Easy |
| E2-18A | Balancing accounts and preparing a trial balance | 3, 4 | 10-15 | Easy |
| E2-19A | Recording transactions and preparing a trial balance | 3, 4 | 15-20 | Medium |
| E2-20A | Journalizing transactions and preparing a trial balance and balance sheet | 3, 4 | 20-25 | Medium |
| E2-21A | Journalizing, posting, trial balance, income statement, and balance sheet | 3, 4 | 25-30 | Medium |
| E2-22A | Correcting errors | 4 | 20-25 | Difficult |
| ***Exercises (Group B)*** | | | | |
| E2-23B | Journalizing transactions | 2, 3 | 10-15 | Easy |
| E2-24B | Journalizing transactions | 3 | 15-20 | Easy |
| E2-25B | Journalizing transactions | 3 | 15-20 | Easy |
| E2-26B | Balancing accounts and preparing a trial balance | 3, 4 | 10-15 | Easy |
| E2-27B | Recording transactions and preparing a trial balance | 3, 4 | 15-20 | Medium |


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| | | | | |
|---|---|---|---|---|
| E2-28B | Journalizing transactions and preparing a trial balance and balance sheet | 3, 4 | 20-25 | Medium |
| E2-29B | Journalizing, posting, trial balance, income statement, and balance sheet | 3, 4 | 25-30 | Medium |
| E2-30B | Correcting errors | 4 | 20-25 | Difficult |

***Exercises (Alternatives 1, 2, and 3)***
Available at http://www.pearson.com/mylab/accounting

***Problems (Group A)***

| | | | | |
|---|---|---|---|---|
| P2-31A | Journalizing transactions | 3 | 15-20 | Medium |
| P2-32A | Journalizing transactions | 3 | 15-20 | Medium |
| P2-33A | Journalizing, posting, and preparing a trial balance | 3, 4 | 20-25 | Medium |
| P2-34A | Journalizing, posting, and preparing a trial balance | 3, 4 | 25-30 | Medium |
| P2-35A | Preparing a trial balance, income statement, statement of retained earnings, and balance sheet | 4 | 20-25 | Medium |
| P2-36A | Correcting errors | 4 | 15-20 | Difficult |

***Problems (Group B)***

| | | | | |
|---|---|---|---|---|
| P2-37B | Journalizing transactions | 3 | 15-20 | Medium |
| P2-38B | Journalizing transactions | 3 | 15-20 | Medium |
| P2-39B | Journalizing, posting, and preparing a trial balance | 3, 4 | 20-25 | Medium |
| P2-40B | Journalizing, posting, and preparing a trial balance | 3, 4 | 25-30 | Medium |
| P2-41B | Prepare a trial balance, income statement, statement of retained earnings, and balance sheet | 4 | 20-25 | Medium |
| P2-42B | Correcting errors | 4 | 15-20 | Difficult |

***Problems (Alternatives 1, 2, and 3))***
Available at http://www.pearson.com/mylab/accounting

***Continuing Exercise***

| | | | | |
|---|---|---|---|---|
| | Opening T-accounts, journalizing transactions, posting and preparing a trial balance | 3, 4 | 30 | Medium |

***Continuing Problem***

| | | | | |
|---|---|---|---|---|
| | Journalizing transactions, opening general ledger accounts, posting and preparing a trial balance | 3, 4 | 50-60 | Medium |


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| | | | |
|---|---|---|---|
| ***Continuing Financial Statement Analysis Problem*** Using Dick's Sporting Goods (Dick's) financial statements to answer a series of questions | 3, 4 | 40-45 | Medium |
| ***Ethics in Action (2 cases)*** | 1 | 30 | Medium |
| ***Financial Analysis*** | 3, 4 | 60 | Medium |
| ***Industry Analysis*** | 3, 4 | 40 | Medium |
| ***Small-Business Analysis*** | 2, 3 | 30 | Medium |
| ***Written Communication*** | 1, 2 | 30 | Medium |

***Assignments Available in Varied Accounting Software Formats:***
Excel Templates: E2-18A, P2-41B
QuickBooks: P2-31A, P2-32A, P2-33A, P2-34A, P2-36A, 32-17A
Peachtree: P2-31A, P2-32A, P2-33A, P2-34A, P2-36A, 32-17A
General Ledger: P2-31A, P2-32A

# Answer Key to Chapter 2 Quiz (on following pages)

1. C
2. B
3. D
4. B
5. C
6. D
7. A
8. A
9. B
10. D


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Name_____Date_____Section_____

## CHAPTER 2
## TEN-MINUTE QUIZ

**Circle the letter of the best response.**

1. Which of these is (are) an example of a liability account?
   A. Service Revenue
   B. Rent Expense
   C. Accounts Payable
   D. All of the above

2. Oliver Company collected $2,250 on account. The effect of this transaction on the accounting equation is to:
   A. increase assets and decrease liabilities.
   B. nothing. It has no effect on total assets.
   C. increase assets and increase stockholders' equity.
   D. decrease assets and decrease liabilities.

3. Which of these statements is TRUE?
   A. Decreases in assets and increases in revenues are recorded with a debit.
   B. Increases in liabilities and decreases in retained earnings are recorded with a credit.
   C. Increases in both assets and dividends are recorded with a credit.
   D. Decreases in liabilities and increases in expenses are recorded with a debit.

4. Notes Payable has a normal beginning balance of $30,000. During the period, new borrowings total $63,000 and the ending balance in Notes Payable is $41,000. Determine the payments on loans during the period.
   A. $ 8,000
   B. $ 52,000
   C. $134,000
   D. $ 22,000

5. Which of these statements is NOT correct?
   A. The account is a basic summary device used in accounting.
   B. A business transaction is recorded first in the journal and then posted to the ledger.
   C. The ledger is a chronological listing of all transactions.
   D. The debit entry is recorded first in a journal entry; the credit entry then follows.

6. Which of these accounts has a normal credit balance?
   A. Rent Expense
   B. Common Stock
   C. Service Revenue
   D. Both B and C


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7. The journal entry to record the payment to a supplier of $890 on account is:

| | | | |
|---|---|---|---|
| A. | Accounts Payable | 890 | |
| | Cash | | 890 |
| B. | Cash | 890 | |
| | Accounts Receivable | | 890 |
| C. | Cash | 890 | |
| | Accounts Payable | | 890 |
| D. | Supplies | 890 | |
| | Cash | | 890 |

8. The ending Cash account balance is $57,600. During the period, debit postings equal $124,300. If credit postings during the period total $135,100, then the beginning Cash amount must have been:

A. $ 68,400.
B. $ 46,800.
C. $181,900.
D. $ 10,800.

9. Use the following selected information for the Callie Company to calculate the correct credit column total for a trial balance:

| | |
|---|---|
| Accounts Receivable | $ 7,200 |
| Accounts Payable | 6,900 |
| Building | 179,400 |
| Cash | 15,800 |
| Common Stock | 64,000 |
| Salary Expense | 56,100 |
| Salary Payable | 3,600 |
| Service Revenue | 190,500 |
| Dividends | 6,500 |

A. $201,000
B. $265,000
C. $321,400
D. $271,500

10. The INCORRECT trial balance debit column total is $58,700. During the period, a $1,000 debit to Accounts Receivable was posted as $100. What is the trial balance debit column total after this error is corrected?

A. $57,600
B. $59,800
C. $57,800
D. $59,600


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## Discussion Questions

1

2

3

4

5

6

7

8

9

10



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**S 2-1**
**(5-10 min.)**

Match the accounting terms at the left with the corresponding definitions at the right.

***Solution:***

| | |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| 6 | |
| 7 | |



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**S 2-2**
**(5-10 min.)**

For each of the following accounts, place the corresponding letter(s) of its account type in the space provided. Use the most detailed account type appropriate. (A) Asset (L) Liability (SE) Stockholders' Equity (R) Revenue (E) Expense

***Solution:***

| | | |
|---|---|---|
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |



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**S 2-3**
**(5-10 min.)**

The following list names the activities involved in the accounting process of recording and summarizing business transactions. Place the number corresponding with the order the activity occurs next to the activity, starting with 1.

***Solution:***

| | |
|---|---|
| 1 | |
| 5 | |
| 4 | |
| 3 | |
| 2 | |



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**S 2-4**
**(5-10 min.)**

For each of the following accounts, indicate the account type by labeling it as an asset (A), liability (L), stockholders' equity (SE), revenue (R), or expense (E). Also give the digit each account number would begin with in the chart of accounts. Use the most detailed account type appropriate.

***Solution:***

| Example | A, 1 |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| 6 | |
| 7 | |

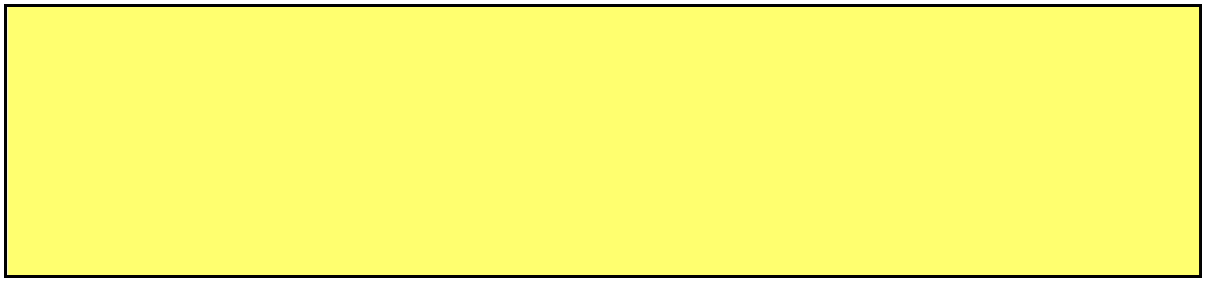


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**S 2-5**
**(5-10 min.)**

Demonstrate your knowledge of accounting terminology by filling in the blanks to review some key definitions.
Dillon Baker is describing the accounting process for a friend who is a psychology major. Dillon states, “The basic summary device in accounting is the _____. The left side of an account is called the _____ side, and the right side is called the _____ side. We record transactions first in a _____. Then we post, or copy, the data to the _____. It is helpful to list all the accounts with their balances on a _____ _____.”

***Solution:***





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**S 2-6**
**(5-10 min.)**

For each of the following accounts, indicate if the account's normal balance is a debit balance (DR) or a credit balance (CR).

***Solution:***

| | | |
|---|---|---|
| | 1 | |
| | 2 | |
| | 3 | |
| | 4 | |
| | 5 | |
| | 6 | |
| | 7 | |



Financial Accounting 5th edition Kemp Solutions Manual

**S 2-7**
**(5-10 min.)**

Calculate each account balance.

***Solution:***

| Supplies | |
|---|---|
| | |
| | |

| Note payable | |
|---|---|
| | |
| | |



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**S 2-8**
**(5-10 min.)**

Complete the following table. For each account listed, identify the type of account, how the account is increased (debit or credit), and how the account is decreased (debit or credit). Use the most detailed account type appropriate.

***Solution:***

| Account | Type | ↑ ↓ |
|---|---|---|
| | | |



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**S 2-9**
**(15-20 min.)**

Complete the following table. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side.

***Solution:***

| Transaction | Account Affected | Type | ↑ ↓ | Dr. or Cr. |
|---|---|---|---|---|
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |



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**S 2-10**
**(10-15 min.)**

Using the steps outlined in the five-step transaction analysis, record the transactions in the journal.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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**S 2-11**
**(10-15 min.)**

Using the steps outlined in the five-step transaction analysis, record the transactions in the journal.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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**S 2-12**
**(10-15 min.)**

Prepare the trial balance for Audio Masters at April 30, 2018. List the accounts in proper order.

***Solution:***

| Audio Masters, Corp<br>Trial Balance<br>April 30, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |



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**S 2-13**
**(5-10 min.)**

Indicate the financial statement that will include the account: income statement (IS), statement of retained earnings (RE), or balance sheet (BS).

***Solution:***

| Mylar, Inc.<br>Trial Balance<br>December 31, 2018 | | | |
|---|---|---|---|
| | ACCOUNT | DEBIT | CREDIT |
| | | | |



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**S 2-14**
**(5-10 min.)**

Match the accounting terms at the left with the corresponding phrase at the right.

***Solution:***

| | | |
|---|---|---|
| | 1 | |
| | 2 | |
| | 3 | |
| | 4 | |
| | 5 | |
| | 6 | |
| | 7 | |
| | 8 | |
| | 9 | |



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**E 2-15A**
**(10-15 min.)**

**Requirement**

1. Complete the following table. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side.

***Solution:***

***Req. 1***

| Transaction | Account Affected | Type | ↑ ↓ | Dr. or Cr. |
|---|---|---|---|---|
| | | | | |



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**E 2-16A**
**(15-20 min.)**

Using the steps outlined in the five-step transaction analysis, record the following transactions in the general journal for Gulaine Plumbing, Inc. Explanations are not required.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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**E 2-17A**
**(15-20 min.)**

**Requirement**

1. Using the steps outlined in the five-step transaction analysis, journalize the transactions of Wu & Associates, Inc. List transactions by date. Use the following accounts: Cash, Accounts Receivable, Supplies, Building, Accounts Payable, Common Stock, Service Revenue, Salaries Expense, and Rent Expense.

***Solution:***

***Req. 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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**E 2-18A**
**(10-15 min.)**

**Requirements**

1. Calculate account balances at January 31, 2018.
2. Prepare the trial balance for Zane's Creations, Inc., at January 31, 2018.

***Solution:***

***Req. 1***

| Cash | |
|---|---|
| | |
| | |

| Accounts Payable | |
|---|---|
| | |
| | |

| Accounts Receivable | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Service Revenue | |
|---|---|
| | |
| | |

| Equipment | |
|---|---|
| | |
| | |

| Salaries Expense | |
|---|---|
| | |
| | |

| Rent Expense | |
|---|---|
| | |
| | |

| Utilities Expense | |
|---|---|
| | |
| | |

***Req. 2***

| Creative Design, Inc.<br>Trial Balance<br>January 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |



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**E 2-19A**
**(15-20 min.)**

**Requirements**

1. Journalize the transactions for the month of March. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at March 31, 2018.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at March 31, 2018.

***Solution:***

***Req 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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***Req 2 & 3***

| Cash | |
|---|---|
| | |
| | |

| Accounts payable | |
|---|---|
| | |
| | |

| Accounts receivable | |
|---|---|
| | |
| | |

| Notes payable | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Building | |
|---|---|
| | |
| | |
| | |

| Service revenue | |
|---|---|
| | |
| | |

| Office furniture | |
|---|---|
| | |
| | |

| Rent expense | |
|---|---|
| | |
| | |

***Req 4***

| Clocktower Cleaning, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |



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**E 2-20A**
**(20-25 min.)**

**Requirements**

1. Based on the accounts, create the journal entries that resulted from the six transactions. Include explanations with each journal entry.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Sounds on Wheels, Inc., at April 30, 2018.
4. Prepare a balance sheet for Sounds on Wheels, Inc., as of April 30, 2018.

***Solution:***

***Req 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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***Req. 2***

| Cash | |
|---|---|
| | |
| | |

| Accounts payable | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Notes payable | |
|---|---|
| | |
| | |

| Equipment | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Building | |
|---|---|
| | |
| | |

***Req. 3***

| Sounds on Wheels, Inc.<br>Trial Balance<br>April 30, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |

***Req. 4***

| Sounds on Wheels, Inc.<br>Balance Sheet<br>April 30, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| | | | |



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**E 2-21A**
**(25-30 min.)**

**Requirements**

1. Open, or set up, T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post the journal entries to the T-accounts, identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at June 30, 2018.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

***Solution:***

***Req. 1, and 2***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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***Req. 1, and 3***

| Cash | |
|---|---|
| | |
| | |

| Accounts payable | |
|---|---|
| | |
| | |

| Accounts receivable | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Service revenue | |
|---|---|
| | |
| | |

| Equipment | |
|---|---|
| | |
| | |

| Rent Expense | |
|---|---|
| | |
| | |

| Furniture | |
|---|---|
| | |
| | |

| Utilities expense | |
|---|---|
| | |
| | |

***Req. 4***

| Willis Construction, Inc.<br>Trial Balance<br>June 30, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 5***

| Willis Construction, Inc.<br>Income Statement<br>Month Ended June 30, 2018 | | |
|---|---|---|
| | | |

| Willis Construction, Inc.<br>Statement of Retained Earnings<br>Month Ended June 30, 2018 | | |
|---|---|---|
| | | |

| | | | |
|---|---|---|---|
| | | | |

| Willis Construction, Inc.<br>Balance Sheet<br>June 30, 2018 | | | |
|---|---|---|---|
| | | | |
| | | | |



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**E 2-22A**
**(20-25 min.)**

**Requirements**

1. For each of these errors, state whether Kylie's mistake would cause the total debits and total credits on the trial balance to be unequal.
2. Identify each account with an incorrect balance, and indicate the amount and direction of the error.

***Solution:***

| | Effect on Trial Balance | Account(s) Misstated |
|---|---|---|
| a. | | |
| b. | | |
| c. | | |
| d. | | |
| e. | | |



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**E 2-23B**
**(10-15 min.)**

**Requirement**

1. For each transaction shown, determine the accounts affected, the type of account, whether the account increases or decreases, and whether it would be recorded in the journal on the debit or credit side. The first transaction has been analyzed for you.

***Solution:***

***Req. 1***

| Transaction | Account Affected | Type | ↑ ↓ | Dr. or Cr. |
|---|---|---|---|---|
| | | | | |



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**E 2-24B**
**(15-20 min.)**

Using the steps outlined in the five-step transaction analysis, record the following transactions in the general journal for Marx Plumbing, Inc. Explanations are not required.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| | | | | |



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**E 2-25B**
**(15-20 min.)**

**Requirements**

1. Using the steps outlined in the five-step transaction analysis, journalize the transactions of Rudenko & Associates, Inc. List transactions by date. Explanations are not required.

***Solution:***

***Req. 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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**E 2-26B**
**(10-15 min.)**

**Requirements**

1. Calculate account balances at March 31, 2018.
2. Prepare the trial balance for Inspired Design, Inc., at March 31, 2018.

***Solution:***

***Req. 1***

| Cash | |
|---|---|
| | |
| | |

| Accounts Payable | |
|---|---|
| | |
| | |

| Accounts Receivable | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Service revenue | |
|---|---|
| | |
| | |

| Equipment | |
|---|---|
| | |
| | |

| Salaries Expense | |
|---|---|
| | |
| | |

| Rent Expense | |
|---|---|
| | |
| | |

| Utilities Expense | |
|---|---|
| | |
| | |

***Req. 2***

| Inspiried Design, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |



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**E 2-27B**
**(15-20 min.)**

**Requirements**

1. Journalize the transactions for the month of September. Explanations are not required.
2. Post the journal entries to the appropriate T-accounts. Identify all items by date.
3. Calculate the balance of each account at September 30, 2018.
4. Prove that the total of all the debit balances equals the total of all of the credit balances by preparing a trial balance at September 30, 2018.

***Solution:***

***Req 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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***Req 2 & 3***

| Cash | |
|---|---|
| | |
| | |

| Accounts payable | |
|---|---|
| | |
| | |

| Accounts receivable | |
|---|---|
| | |
| | |

| Notes payable | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Office furniture | |
|---|---|
| | |
| | |

| Service revenue | |
|---|---|
| | |
| | |

| Building | |
|---|---|
| | |
| | |
| | |

| Rent expense | |
|---|---|
| | |
| | |

***Req 4***

| White Glove Cleaning, Inc.<br>Trial Balance<br>September 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |



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**E 2-28B**
**(20-25 min.)**

**Requirements**

1. Prepare the journal entries that served as the sources for the six transactions.
2. Calculate the ending balance in each account.
3. Prepare the trial balance for Mobile Music, Inc., at November 30, 2018.
4. Prepare a balance sheet for Mobile Music, Inc., as of November 30, 2018.

***Solution:***

***Req 1***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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***Req. 2***

| Cash | |
|---|---|
| | |
| | |

| Accounts payable | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Notes payable | |
|---|---|
| | |
| | |

| Equipment | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Building | |
|---|---|
| | |
| | |

***Req. 3***

| Mobile Music, Inc.<br>Trial Balance<br>November 30, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |

***Req. 4***

| Mobile Music, Inc.<br>Balance Sheet<br>November 30, 2018 | | | |
|---|---|---|---|
| ASSETS | | LIABILITIES | |
| | | STOCKHOLDERS' EQUITY | |



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**E 2-29B**
**(25-30 min.)**

**Requirements**

1. Open or set up T-accounts in the ledger for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Furniture, Accounts Payable, Common Stock, Service Revenue, Rent Expense, and Utilities Expense.
2. Record transactions in the journal. Explanations are not required.
3. Post journal entries to the T-accounts. Identify all items by date. Calculate the ending balance in each account.
4. Prepare a trial balance at September 30, 2018.
5. Prepare the income statement, statement of retained earnings, and balance sheet.

***Solution:***

***Req. 1, and 2***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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***Req. 1, and 3***

| Cash | |
|---|---|
| | |
| | |

| Accounts payable | |
|---|---|
| | |
| | |

| Accounts receivable | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Service revenue | |
|---|---|
| | |
| | |

| Equipment | |
|---|---|
| | |
| | |

| Rent Expense | |
|---|---|
| | |
| | |

| Furniture | |
|---|---|
| | |
| | |

| Utilities expense | |
|---|---|
| | |
| | |

***Req. 4***

| McGuire Construction, Inc.<br>Trial Balance<br>September 30, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |



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*Req. 5*

| McGuire Construction, Inc.<br>Income Statement<br>Month Ended September 30, 2018 | | |
|---|---|---|
| | | |

| McGuire Construction, Inc.<br>Statement of Retained Earnings<br>Month Ended September 30, 2018 | | |
|---|---|---|
| | | |

| |
|---|
| |

| McGuire Construction, Inc.<br>Balance Sheet<br>September 30, 2018 | | | |
|---|---|---|---|
| | | | |
| | | | |



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**E 2-30B**
**(10-15 min.)**

**Requirements**

1. For each of these errors, state whether James' mistake would cause the total debits and total credits on the trial balance to be unequal.
2. Identify each account with an incorrect balance, and indicate the amount and direction of the error.

***Solution:***

| | Effect on Trial Balance | Account(s) Misstated |
|---|---|---|
| a. | | |
| b. | | |
| c. | | |
| d. | | |
| e. | | |



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**P 2-31A**
**(15-20 min.)**

**Requirement**

1. Journalize each transaction. Omit explanations.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-32A**
**(15-20 min.)**

**Requirement**

1. Journalize each transaction. Omit explanations.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



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**P2-33A**
**(20-25 min.)**

**Requirements**

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts, using transaction dates as posting references.
4. Calculate the balance in each account at January 31, 2018.
5. Prepare the trial balance for Miller & Associates, Inc., at January 31, 2018.

***Solution:***

***Req. 1, 3, and 4***

| Cash | |
|---|---|
| | |
| | |

| Accounts Payable | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Accounts Receivable | |
|---|---|
| | |
| | |

| Dividends | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Service revenue | |
|---|---|
| | |
| | |

| Furniture | |
|---|---|
| | |
| | |

| Salaries Expense | |
|---|---|
| | |
| | |

| Land | |
|---|---|
| | |
| | |

| Rent Expense | |
|---|---|
| | |
| | |



Financial Accounting 5th edition Kemp Solutions Manual

*Req 2*

| Journal | | | | |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| | | | | |

*Req. 5*

| Miller & Associates, Inc.<br>Trial Balance<br>January 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-34A**
**(25-30 min.)**

**Requirements**

1. Journalize the transactions that occurred September 16 to September 30 on page 6 of the journal.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at September 15. Use the four-column account format illustrated in the chapter. Enter "Bal" for the September 15 balance in the Item column. Post the transactions to the ledger using dates, account numbers, and posting references. Calculate the new account balances at September 30, 2018.
3. Prepare the trial balance for Safenet, Inc., at September 30, 2018.

***Solution:***

***Req. 1***

| Journal | | | | Page 6 |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |

| Journal | | | | Page 6 |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

*Req. 2*

| CASH | | | | | ACCOUNT NO. 110 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| ACCOUNTS RECEIVABLE | | | | | ACCOUNT NO. 112 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| SUPPLIES | | | | | ACCOUNT NO. 115 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| EQUIPMENT | | | | | ACCOUNT NO. 140 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| ACCOUNTS PAYABLE | | | | | ACCOUNT NO. 210 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| COMMON STOCK | | | | | ACCOUNT NO. 311 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |



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| DIVIDENDS | | | | | ACCOUNT NO. 315 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| SERVICE REVENUE | | | | | ACCOUNT NO. 411 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| SALARIES EXPENSE | | | | | ACCOUNT NO. 511 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| RENT EXPENSE | | | | | ACCOUNT NO. 515 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

***Req. 3***

| Safenet, Inc.<br>Trial Balance<br>September 30, 2018 | | | |
|---|---|---|---|
| | **ACCOUNT** | **DEBIT** | **CREDIT** |
| | | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-35A**
**(20-25 min.)**

**Requirements**

1. Prepare the company's trial balance at March 31, 2018, listing accounts in the proper order. List the largest expense first, the second largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of $17,010 is the beginning balance for the month; it has not been updated for the current month's income or loss.
3. Was it a profitable month for Hernandez Computer Repair, Inc.? Why or why not?

***Solution:***

***Req. 1***

| Hernandez Computer Repair, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT | DEBIT | CREDIT |
| | | |
| | | |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 2***

| Hernandez Computer Repair, Inc.<br>Income Statement<br>Month Ended March 31, 2018 | | |
|---|---|---|
| | | |

| Hernandez Computer Repair, Inc.<br>Statement of Retained Earnings<br>Month Ended March 31, 2018 | |
|---|---|
| | |

| Hernandez Computer Repair, Inc.<br>Balance Sheet<br>March 31, 2018 | | | |
|---|---|---|---|
| | | | |
| | | | |
| | | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-36A**
**(15-20 min.)**

**Requirements**

1. Prepare the necessary journal entries to correct each of these errors.
2. For each of the errors, determine if the error would cause net income to be overstated, understated, or unchanged.

***Solution:***

***Req. 1***

| Journal | | | | Page 3 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| a. | | | | |
| b. | | | | |
| c. | | | | |
| d. | | | | |

***Req 2***

| | |
|---|---|
| a. | |
| b. | |
| c. | |
| d. | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-37B**
**(15-20 min.)**

**Requirement**

1. Journalize each transaction. Omit explanations.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-38B**
**(15-20 min.)**

**Requirement**

1. Journalize each transaction. Omit explanations.

***Solution:***

| Journal | | | | |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P2-39B**
**(20-25 min.)**

**Requirements**

1. Open or set up the following T-accounts: Cash, Accounts Receivable, Supplies, Furniture, Land, Accounts Payable, Common Stock, Dividends, Service Revenue, Salaries Expense, and Rent Expense.
2. Journalize transactions. Explanations are not required.
3. Post the transactions to the T-accounts that have been set up for you, using transaction dates as posting references.
4. Calculate the balance in each account.
5. Prepare the trial balance for Le & Associates, Inc., at March 31, 2018.

***Solution:***

***Req. 1, 3, and 4***

| Cash | |
|---|---|
| | |
| | |

| Accounts Payable | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Accounts Receivable | |
|---|---|
| | |
| | |

| Dividends | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Service revenue | |
|---|---|
| | |
| | |

| Furniture | |
|---|---|
| | |
| | |

| Salaries Expense | |
|---|---|
| | |
| | |

| Land | |
|---|---|
| | |
| | |

| Rent Expense | |
|---|---|
| | |
| | |



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***Req 2***

| Journal | | | | |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| | | | | |



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***Req. 5***

| Le & Associates, Inc.<br>Trial Balance<br>March 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| | | |
| | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-40B**
**(25-30 min.)**

**Requirements**

1. Journalize the transactions that occurred May 16 to May 31 on page 6 of the journal.
2. Open T-accounts for the ledger accounts listed in the trial balance and enter their beginning balances at May 15. Use the four-column account format illustrated in the chapter. Enter “Bal” for the May 15 balance in the item column. Post the transactions to the ledger, using dates, account numbers, and posting references. Calculate the new account balances at May 31, 2018.
3. Prepare the trial balance for Security Systems, Inc., at May 31, 2018.

***Solution:***

***Req. 1 and 2 is done after Req. 3***

***Req. 3***

| Security Systems, Inc.<br>Trial Balance<br>May 31, 2018 | | | |
|---|---|---|---|
| | **ACCOUNT** | **DEBIT** | **CREDIT** |
| | | | |



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***Req. 1***

| Journal | | | | Page 6 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| | | | | |



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***Req. 2***

| CASH | | | | | ACCOUNT NO. 110 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| ACCOUNTS RECEIVABLE | | | | | ACCOUNT NO. 112 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| SUPPLIES | | | | | ACCOUNT NO. 115 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| EQUIPMENT | | | | | ACCOUNT NO. 140 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| ACCOUNTS PAYABLE | | | | | ACCOUNT NO. 210 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |



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| COMMON STOCK | | | | | ACCOUNT NO. 311 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| DIVIDENDS | | | | | ACCOUNT NO. 315 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| SERVICE REVENUE | | | | | ACCOUNT NO. 411 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| SALARIES EXPENSE | | | | | ACCOUNT NO. 511 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |

| RENT EXPENSE | | | | | ACCOUNT NO. 515 | |
|---|---|---|---|---|---|---|
| | | | | | BALANCE | |
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | DEBIT | CREDIT |
| | | | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-41B**
**(20-25 min.)**

**Requirements**

1. Prepare the company's trial balance at October 31, 2018, listing accounts in the proper order. List the largest expense first, the second-largest expense next, and so on.
2. Prepare the month-end financial statements: income statement, statement of retained earnings, and balance sheet. The retained earnings balance of $14,840 is the beginning balance for the month; it has not been updated for the current month's net income or loss.
3. Was it a profitable month for Wellington Electronics Repair, Inc.? Why or why not?

***Solution:***

***Req. 1***

| Wellington Electronics Repair, Inc.<br>Trial Balance<br>October 31, 2018 | | |
|---|---|---|
| | BALANCE | |
| ACCOUNT | DEBIT | CREDIT |
| | | |
| | | |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 2***

| Wellington Electronics Repair, Inc.<br>Income Statement<br>Month Ended October 31, 2018 | | |
|---|---|---|
| | | |

| Wellington Electronics Repair, Inc.<br>Statement of Retained Earnings<br>Month Ended October 31, 2018 | |
|---|---|
| | |

| Wellington Electronics Repair, Inc.<br>Balance Sheet<br>October 31, 2018 | | | |
|---|---|---|---|
| | | | |
| | | | |
| | | | |



Financial Accounting 5th edition Kemp Solutions Manual

**P 2-42B**
**(15-20 min.)**

**Requirements**

1. Prepare the necessary journal entries to correct each of these errors.
2. For each of the errors, determine if the error would cause net income to be overstated, understated, or unchanged.

***Solution:***

***Req. 1***

| Journal | | | | Page 3 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| a. | | | | |
| b. | | | | |
| c. | | | | |
| d. | | | | |

***Req 2***

| | |
|---|---|
| a. | |
| b. | |
| c. | |
| d. | |



Financial Accounting 5th edition Kemp Solutions Manual

**Continuing Exercise**

**Requirements**

1. Open T-accounts in the ledger: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Stock, Retained Earnings, Service Revenue, and Utilities Expense.
2. Journalize the transactions. Explanations are not required.
3. Post journal entries to the T-accounts. Key all items by date and denote an account balance as Bal. Formal posting references are not required. Determine ending balances in T-accounts on May 31, 2018.
4. Prepare a trial balance at May 31, 2018.

***Solution:***

***Req. 1 and 3 See after Req 4***

***Req 2***

| | | | |
|---|---|---|---|
| | | | |

***Req 4***

| Sensations Salon, Inc.<br>Trial Balance<br>May 31, 2018 | | |
|---|---|---|
| **ACCOUNT** | **DEBIT** | **CREDIT** |
| | | |
| | | |



Financial Accounting 5th edition Kemp Solutions Manual

## Continuing Exercise

***Req.1 and Req. 3***

| Assets | = | Liabilities | + | Stockholders' equity |
|---|---|---|---|---|

| Cash | |
|---|---|
| | |
| | |

| Accounts payable | |
|---|---|
| | |
| | |

| Common stock | |
|---|---|
| | |
| | |

| Accounts receivable | |
|---|---|
| | |
| | |

| Retained earnings | |
|---|---|
| | |
| | |

| Supplies | |
|---|---|
| | |
| | |

| Service revenue | |
|---|---|
| | |
| | |

| Equipment | |
|---|---|
| | |
| | |

| Utilties expense | |
|---|---|
| | |
| | |



Financial Accounting 5th edition Kemp Solutions Manual

**Continuing Problem**

**Requirements**

1. Journalize the transactions that occurred in April. Omit explanations.
2. Open the ledger accounts listed in the trial balance together with their beginning balances at March 31. Use the four-column account format illustrated in the chapter. Enter “Bal” for the March 31 balance in the Item column. Post the journal entries to the ledger creating new ledger accounts as necessary, omit posting references. Calculate the new account balances at April 30, 2018.
3. Prepare the trial balance for Fitness Equipment Doctor, Inc., at April 30, 2018.

***Solution:***

***Req. 1***

| Journal | | | | Page 6 |
|---|---|---|---|---|
| **DATE** | **ACCOUNTS** | **POST. REF.** | **Dr.** | **Cr.** |
| | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

| Journal | | | | Page 6 |
|---|---|---|---|---|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

***Req. 2***

**CASH**

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

**ACCOUNTS RECEIVABLE**

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

**SUPPLIES**

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

**LAND**

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

**OFFICE FURNITURE**

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

**EQUIPMENT**

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



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| VEHICLES | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| ACCOUNTS PAYABLE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| NOTES PAYABLE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| COMMON STOCK | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| DIVIDENDS | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| SERVICE REVENUE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

| SALARIES EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| RENT EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| UTILITIES EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| ADVERTISING EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

| MISCELLANEOUS EXPENSE | | | | | | | |
|---|---|---|---|---|---|---|---|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
| | | | | | | | |

**Fitness Equipment Doctor, Inc.**
**Trial Balance**
**April 30, 2018**

| | ACCOUNT | DEBIT | CREDIT |
|---|---|---|---|
| | | | |
| | | | |



Financial Accounting 5th edition Kemp Solutions Manual

## Continuing Financial Statement Analysis Problem

a. What would happen to Dick's balance sheet if it borrowed $50 million in cash from a bank?
b. What would happen to Dick's balance sheet if it built a new store costing $50 million in cash?
c. What would happen to Dick's income statement and balance sheet if it had a big sale, increasing net income by $10 million which all ended up as cash?
d. What would happen to Dick's income statement and balance sheet if it hired more employees? The salaries of these employees cost Dick's $1 million paid in cash. The extra employees did not create any extra net income. (Note: Do not consider taxes in your answer.)

***Solution:***

a.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | | | | |

b.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | | | | |



Financial Accounting 5th edition Kemp Solutions Manual

c.

| | | | | |
|---|---|---|---|---|
| **Date** | | **Post Ref.** | **Dr.** | **Cr.** |
| | | | | |

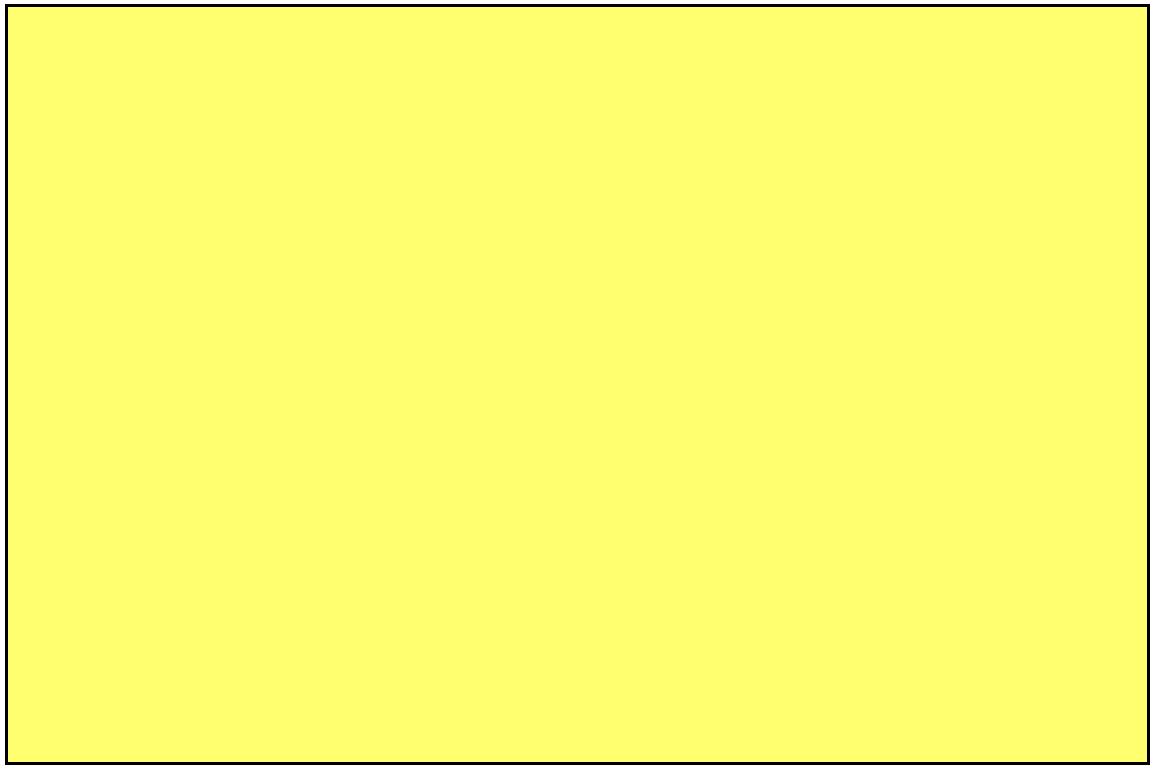
d.

| | | | | |
|---|---|---|---|---|
| **Date** | | **Post Ref.** | **Dr.** | **Cr.** |
| | | | | |

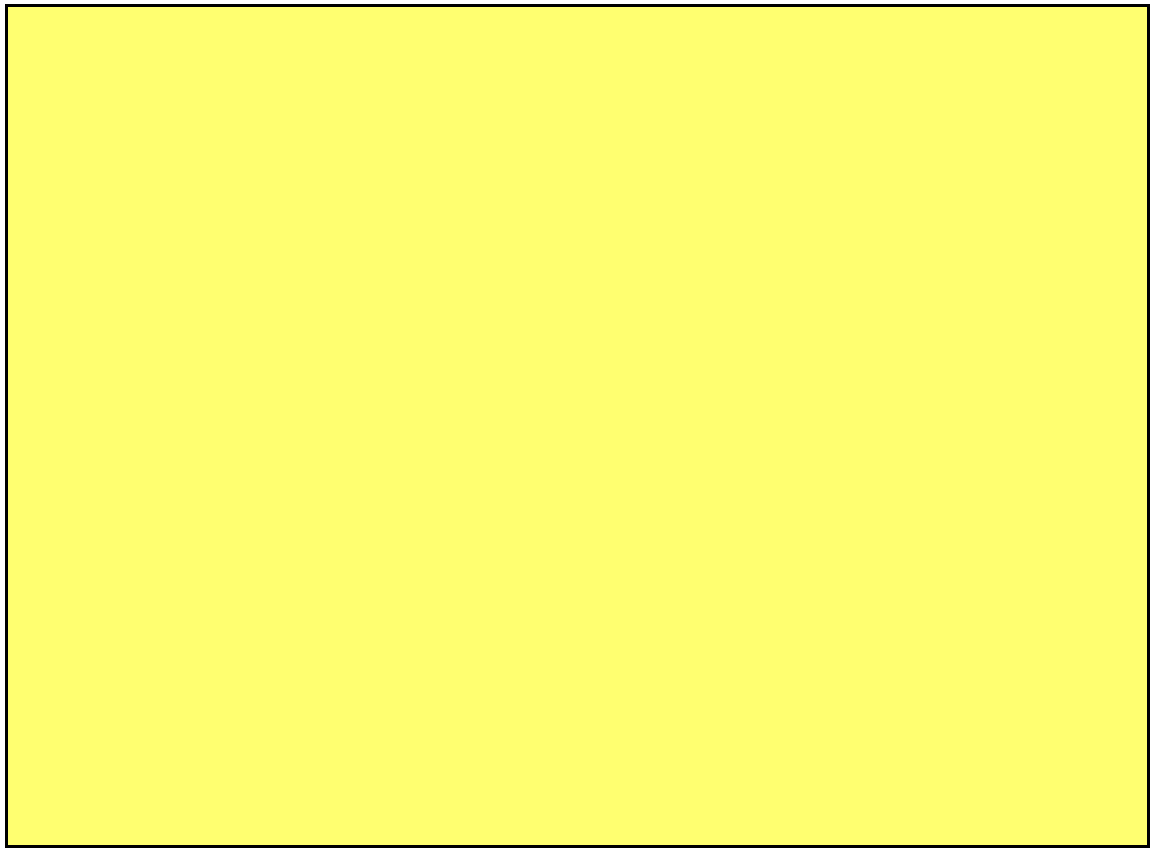


Financial Accounting 5th edition Kemp Solutions Manual

**Case 1**

- 
- 
- 

**Case 2**

- 
- 
- 



Financial Accounting 5th edition Kemp Solutions Manual

## Financial Analysis

**Requirements**

1. Prepare journal entries to record the transactions listed. Use the account titles found in the Columbia Sportswear financial statements: Cash; Accounts Receivable; Inventory; Property, Plant, and Equipment; Accounts Payable; and Net Sales.
2. Look at the financial statements and locate the accounts that you included in your journal entries. Note that the balances Columbia Sportswear reported stated "in thousands," which means they include millions of dollars in transactions for the year. Imagine how much activity and how many transactions Columbia Sportswear has every day!

***Solution:***

***Req. 1***

| Journal | | | |
|---|---|---|---|
| **DATE** | **ACCOUNTS** | **Dr.** | **Cr.** |
| | | | |

***Req. 2***

No solution.



Financial Accounting 5th edition Kemp Solutions Manual

**Industry Analysis**

**Requirements**

1. In terms of net sales or net revenue, which is the larger company for the year ending December 31, 2016? Which financial statement did you look at to find that information?
2. In terms of total assets at December 31, 2016, which is the larger company? Which financial statement did you look at to find that information?
3. Which company has more total debt at December 31, 2016? Which financial statement did you look at to find that information?
4. Which company has the higher gross profit percentage for the year ending December 31, 2016? Don't know that one? On the Consolidated Statements of Operations/Income, divide Gross Profit by Net Sales (or Net Revenues). What exactly does this mean?
5. Which company paid more cash dividends to its stockholders in 2016? Which financial statement did you look at to find that information?
6. Which company's stock would you rather own? Why?

***Solution:***

1

2

3

4

5

6



Financial Accounting 5th edition Kemp Solutions Manual

## Small Business Analysis

### Requirement

1. Because Cash is the lifeblood of any business, having a correct balance in the Cash account is of utmost importance. Correctly entering cash transactions is equally important. Suggest to your client the corrections that need to be made to the journal entries she made.

***Solution:***

| | | | | |
|---|---|---|---|---|
| | | | | |

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | | | | |

| Date | Accounts | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | | | | |

| | | | | |
|---|---|---|---|---|
| | | | | |

| Date | | Post Ref. | Dr. | Cr. |
|---|---|---|---|---|
| | | | | |

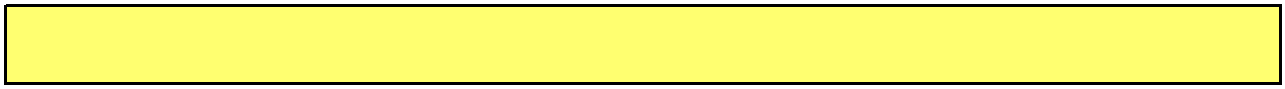


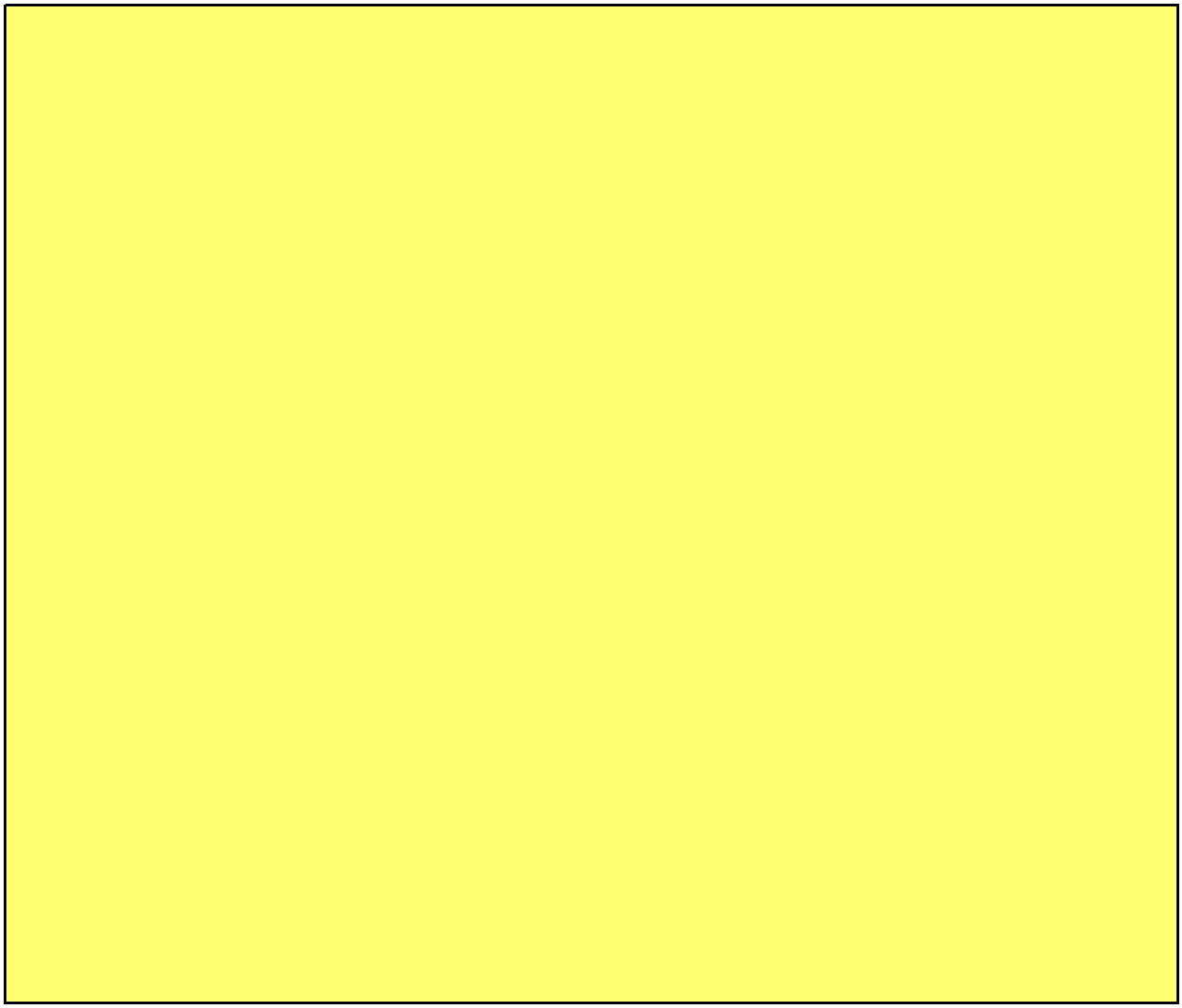
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**Written Communication**

Write a short memo or letter to your client addressing these two issues and what you would consider to be the proper accounting treatment for each. More specifically, if the Cash account was showing as a credit balance, how would that have happened? Is it possible for that to happen? Regarding the use of the debit card versus the credit card, use the information contained in the chapter to explain the difference between the two types of cards and how each transaction should be recorded from an accounting point of view.

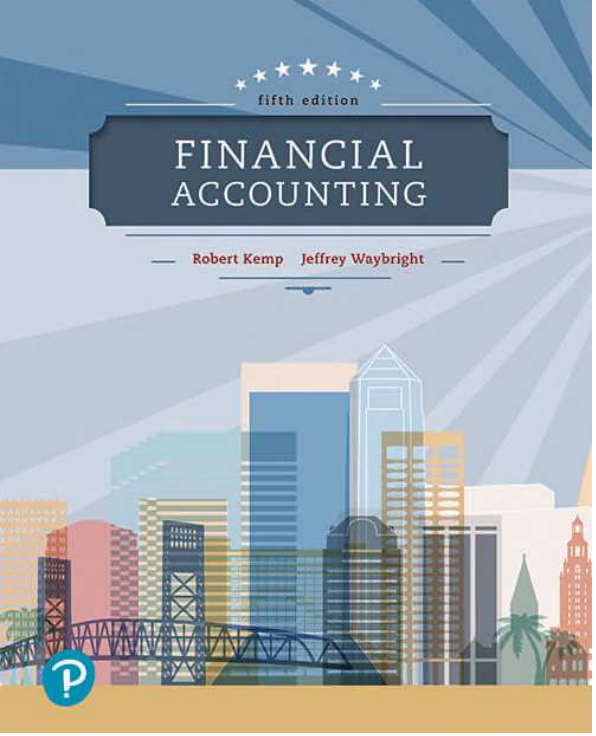
***Solution:***







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# Analyzing and Recording Business Transactions

Chapter 2

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# Learning Objectives

1. Define accounts and understand how they are used in accounting
2. Explain debits, credits, and the double-entry system of accounting
3. Demonstrate the use of the general journal and the general ledger to record business transactions
4. Use a trial balance to prepare financial statements

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# Business, Accounting, and You

- How does the Bold City Brewery, or any other business, keep up with all the transactions? How does a business keep track of all its sales (revenue), expenses, assets, liabilities, and other activities?
- There must be a "scorekeeper."
- There must be a systematic process that recognizes, measures, records, and reports these business transactions in an understandable, reliable, and relevant manner.
- There must be a way to capture the cause and effect of each transaction.
- That's the role of accounting in business.

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# Business, Accounting, and You

- For accounting information to be understandable, reliable, and relevant, accountants have rules.
- GAAP sets the rules for recognizing and measuring business transactions.
- It is a set of standard, universally accepted procedures that work.
- The key to using these techniques and procedures is understanding (1) accounts and (2) double-entry accounting.

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# Define Accounts and Understand How They Are Used in Accounting

Learning Objective 1

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# Accounts and Chart of Accounts

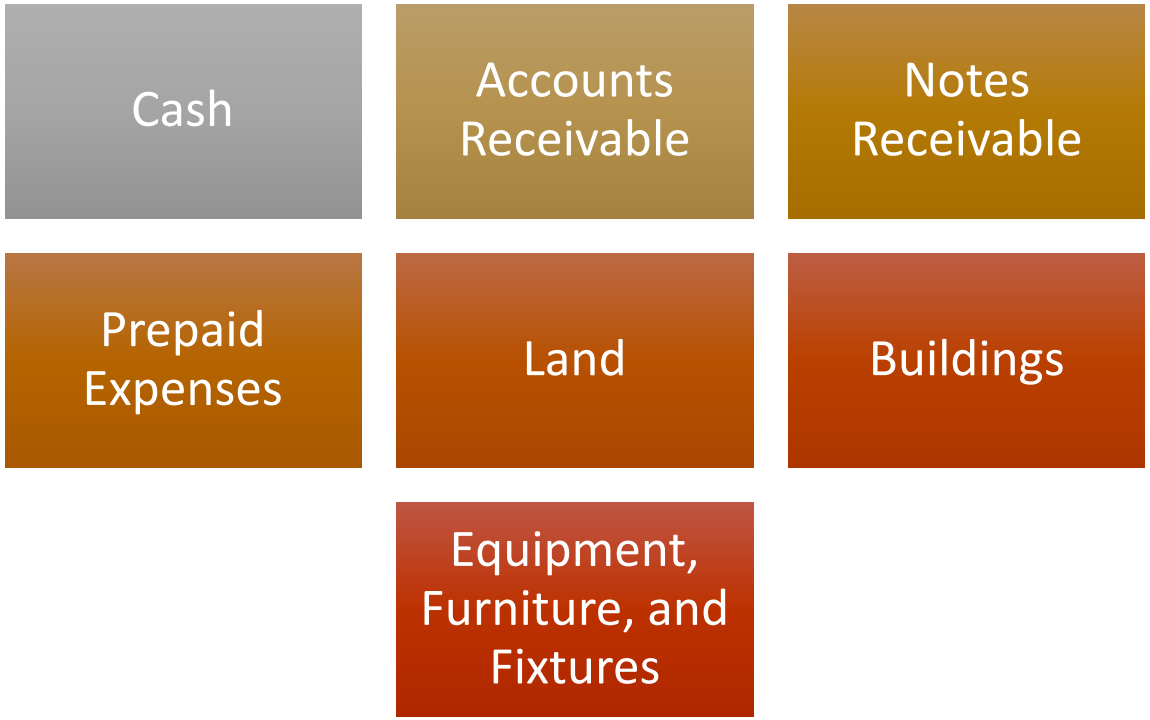
| Accounts | Organizing Accounts |
| --- | --- |
| • The basic summary device of accounting<br>• The detailed record of all the changes in a specific asset, liability, or stockholders' equity item as a result of transactions. | • 1 Assets<br>• 2 Liability<br>• 3 Stockholders' equity<br>• 4 Revenue<br>• 5 Expense<br>• 9 Other revenue or expense |

- The **chart of accounts** is a list of all the **accounts** of a business and the numbers assigned to those accounts.

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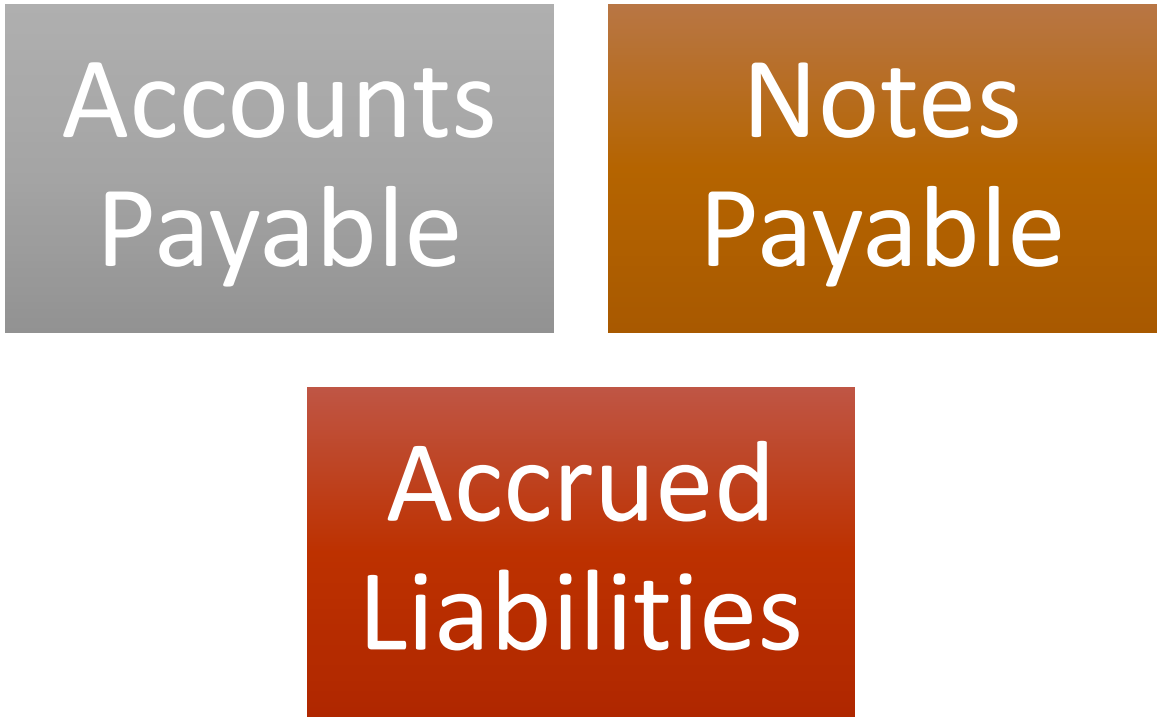
# Assets




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# Liabilities




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# Stockholders' Equity




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# Explain Debits, Credits, and the Double-Entry System of Accounting

Learning Objective 2

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# What Is Double-Entry Accounting?

- **T-account**

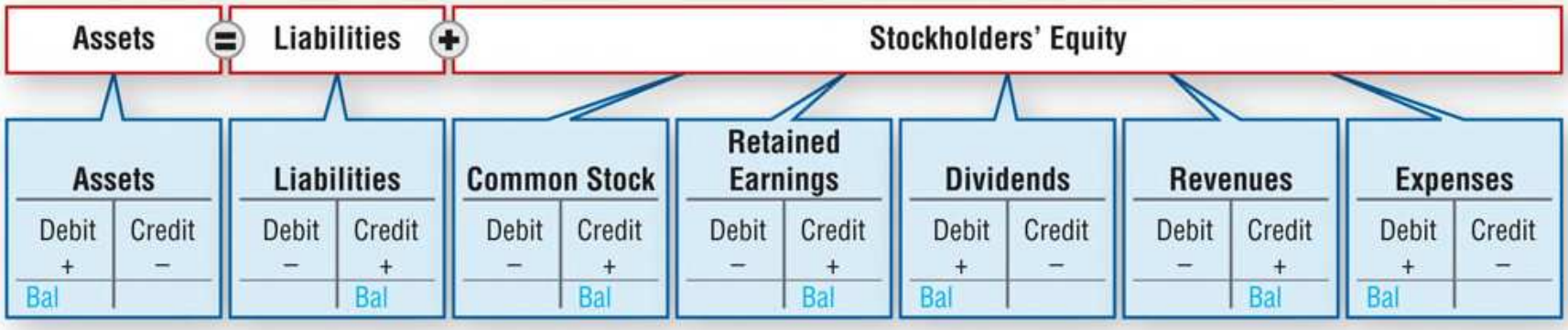
| Account Title | |
|---|---|
| Debit = left side | Credit = right side |
| Dr. | Cr. |

- **Double-entry accounting** requires that every transaction affect at least two accounts.

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# The Accounting Equation and T-accounts




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# Normal Balance

| Account: | Normal Balance: |
|---|---|
| Assets | Debit |
| Liabilities | Credit |
| Common Stock | Credit |
| Retained Earnings | Credit |
| Dividends | Debit |
| Revenues | Credit |
| Expenses | Debit |

- The **normal balance** of an account is on the increase side of an account.

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# Demonstrate the Use of the General Journal and the General Ledger to Record Business Transactions

Learning Objective 3

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# General Journal

- The **general journal** is the chronological accounting record of the transactions of a business.
- **Recording** (**journalizing**) is entering a transaction in a journal.
- A **transaction** is an event that has a financial impact on a business entity.

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# Steps in Recording a Journal Entry

1. Record the date.
2. Record the debit part of the entry by entering the account title and then entering the amount in the debit column.
3. Record the credit part of the entry on the next line by indenting the account title and then entering the amount in the credit column.
4. Write an explanation describing the entry.

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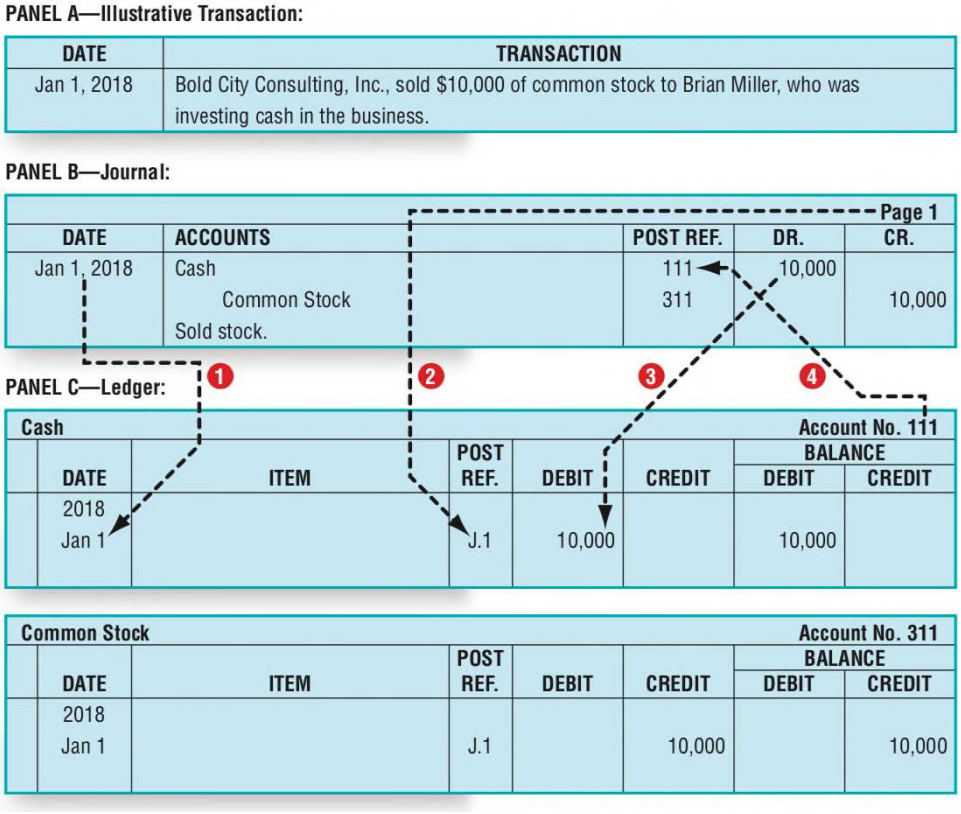
# General Ledger and Posting

- The **general ledger** is the accounting record summarizing, in accounts, the transactions of a business and showing the resulting ending account balances.
- **Posting** is copying information from the general journal to accounts in the general ledger.
- Debits in the journal are posted as debits in the ledger, and credits in the journal are posted as credits in the ledger.

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# Posting from the General Journal to the General Ledger



**PANEL A—Illustrative Transaction:**

| DATE | TRANSACTION |
|---|---|
| Jan 1, 2018 | Bold City Consulting, Inc., sold $10,000 of common stock to Brian Miller, who was investing cash in the business. |

**PANEL B—Journal:**

Page 1

| DATE | ACCOUNTS | POST REF. | DR. | CR. |
|---|---|---|---|---|
| Jan 1, 2018 | Cash | 111 | 10,000 | |
| | Common Stock | 311 | | 10,000 |
| | Sold stock. | | | |

**PANEL C—Ledger:**

Cash — Account No. 111

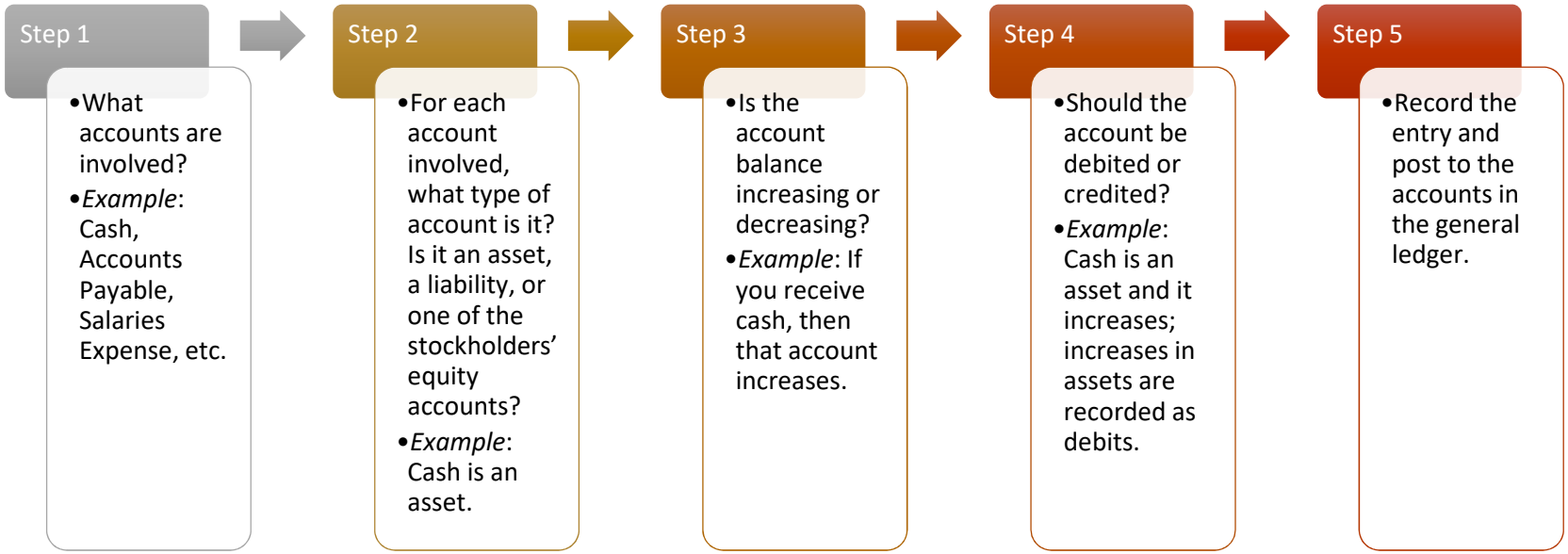
| DATE | ITEM | POST REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|---|---|---|---|
| 2018 Jan 1 | | J.1 | 10,000 | | 10,000 | |

Common Stock — Account No. 311

| DATE | ITEM | POST REF. | DEBIT | CREDIT | BALANCE DEBIT | BALANCE CREDIT |
|---|---|---|---|---|---|---|
| 2018 Jan 1 | | J.1 | | 10,000 | | 10,000 |

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# Transaction Analysis




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# Applying Transaction Analysis

| Step 1 | Step 2 | Step 3 | Step 4 | Step 5 |
|---|---|---|---|---|
| Accounts affected | Type | ↑ ↓ | Dr. or Cr. | Journalize entry and post to ledger |

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# Applying Transaction Analysis

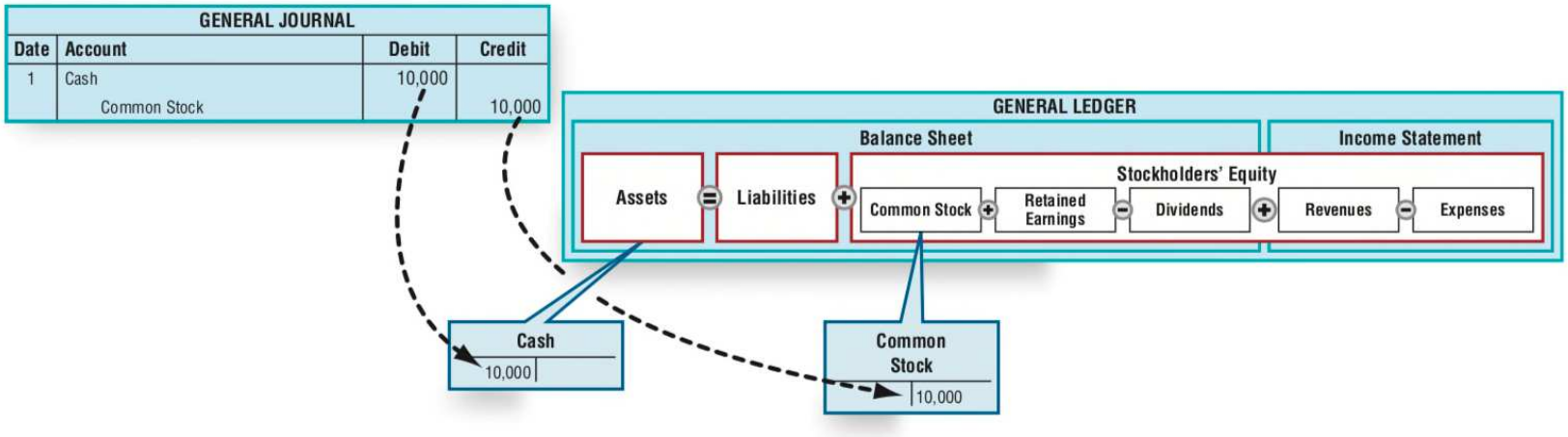
**1. Sale of stock.** The business sold Brian Miller $10,000 of common stock for cash.

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Cash | Asset | Increase | Dr. |
| Common Stock | Stockholders' Equity | Increase | Cr. |

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# Journalize and Post to the General Ledger




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# Applying Transaction Analysis

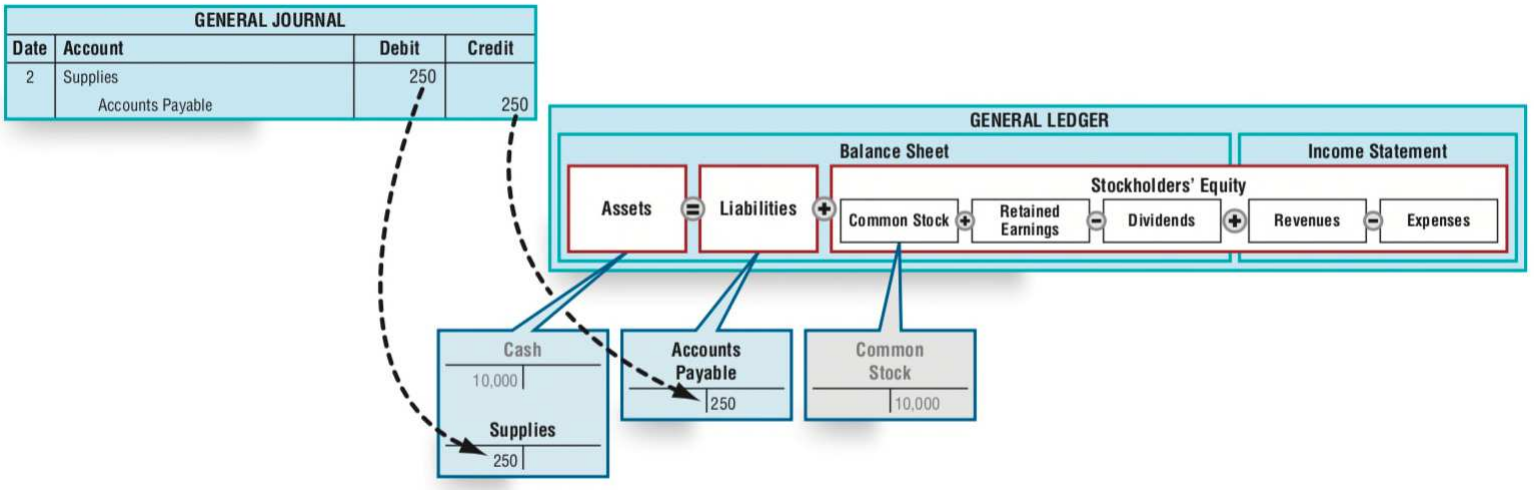
**2. Purchase supplies on credit.** Bold City Consulting purchases office supplies, agreeing to pay $250 within 30 days.

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Supplies | Asset | Increase | Dr. |
| Accounts Payable | Liability | Increase | Cr. |

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# Applying Transaction Analysis

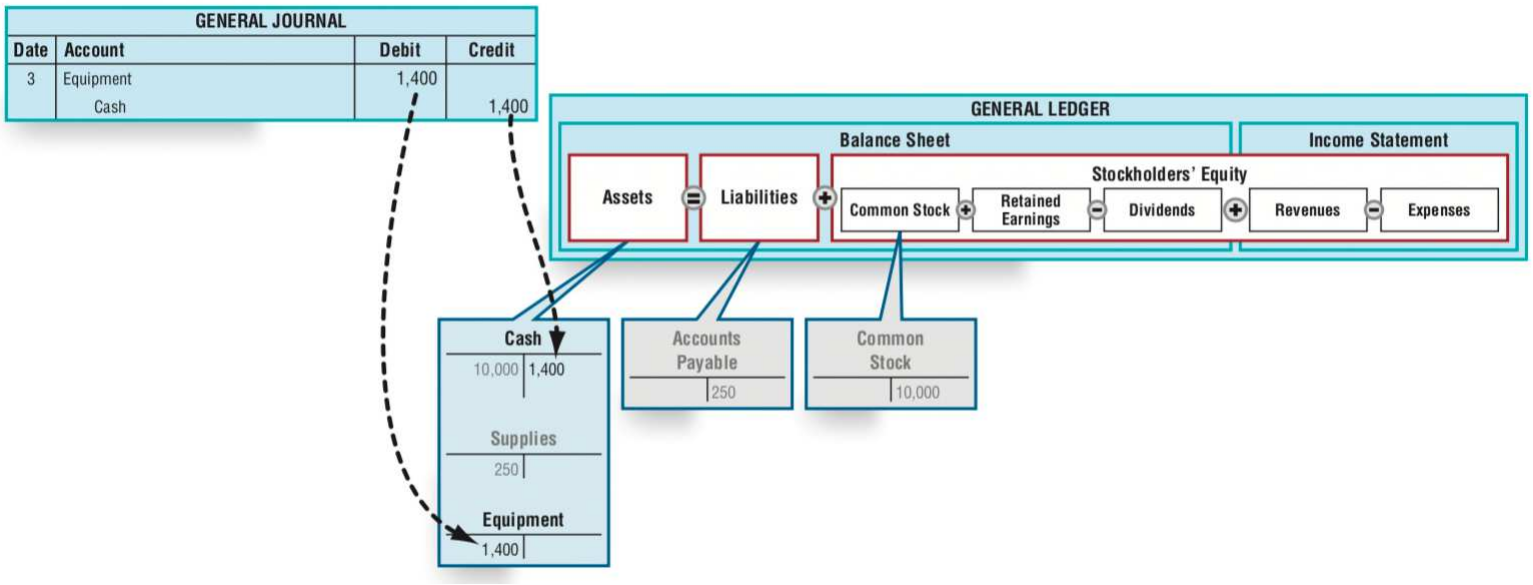
**3. Purchase equipment for cash.** The business purchases equipment, paying cash of $1,400.

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Equipment | Asset | Increase | Dr. |
| Cash | Asset | Decrease | Cr. |

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# Applying Transaction Analysis

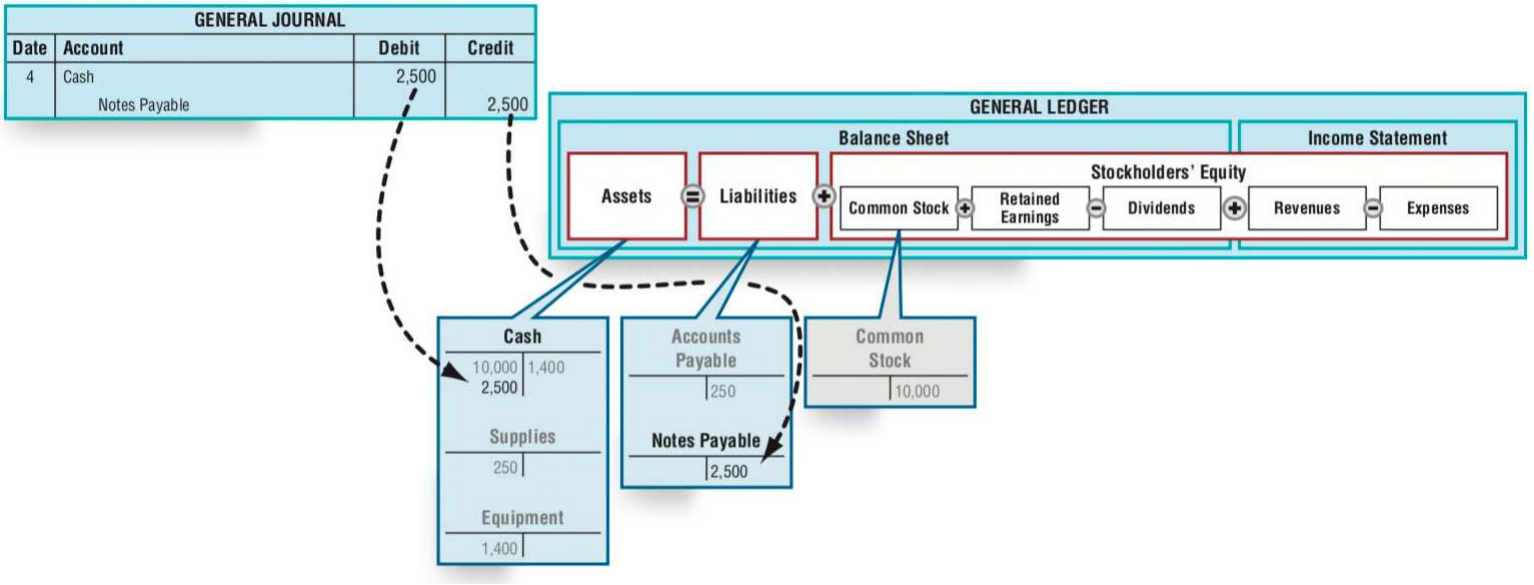
**4. Borrow cash from the bank.** Bold City Consulting borrows $2,500 cash from the bank and signs a two-year note payable to the bank.

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Cash | Asset | Increase | Dr. |
| Notes Payable | Liabilities | Increase | Cr. |

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# Applying Transaction Analysis

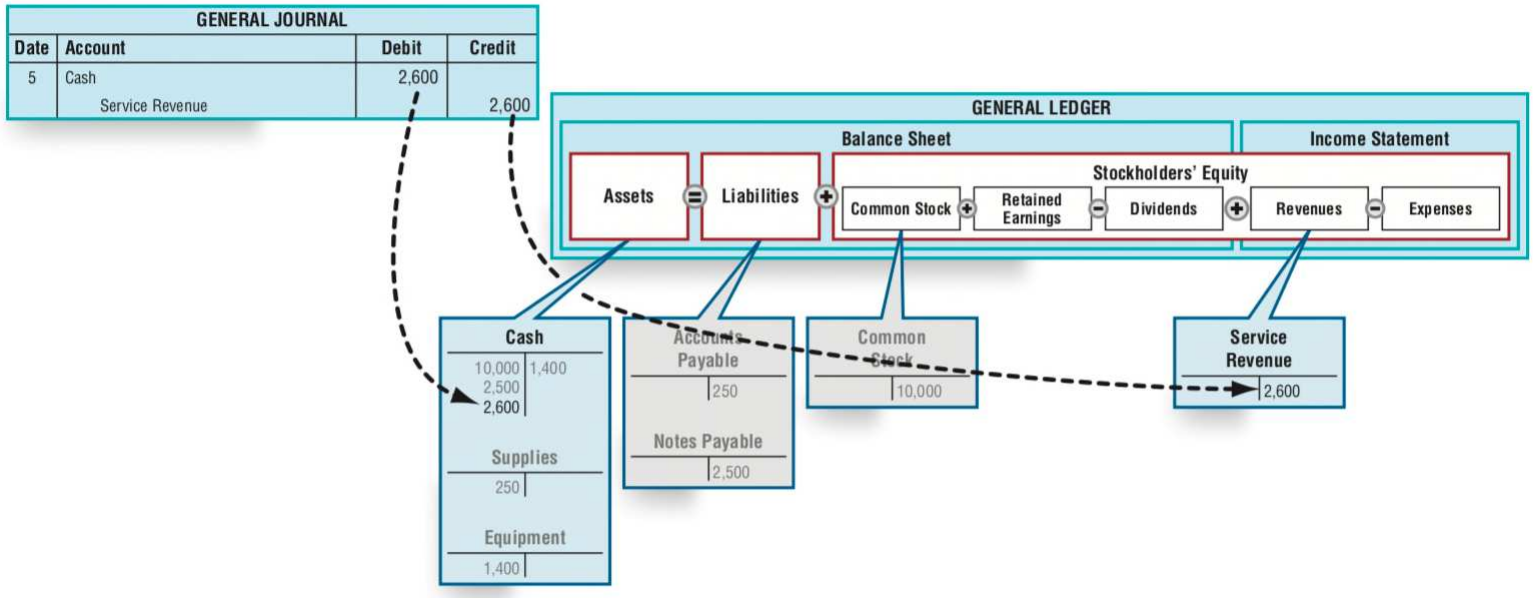
**5. Provide services for cash.** Bold City Consulting collects $2,600 cash for services provided.

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Cash | Asset | Increase | Dr. |
| Service Revenue | Revenue | Increase | Cr. |

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# Applying Transaction Analysis

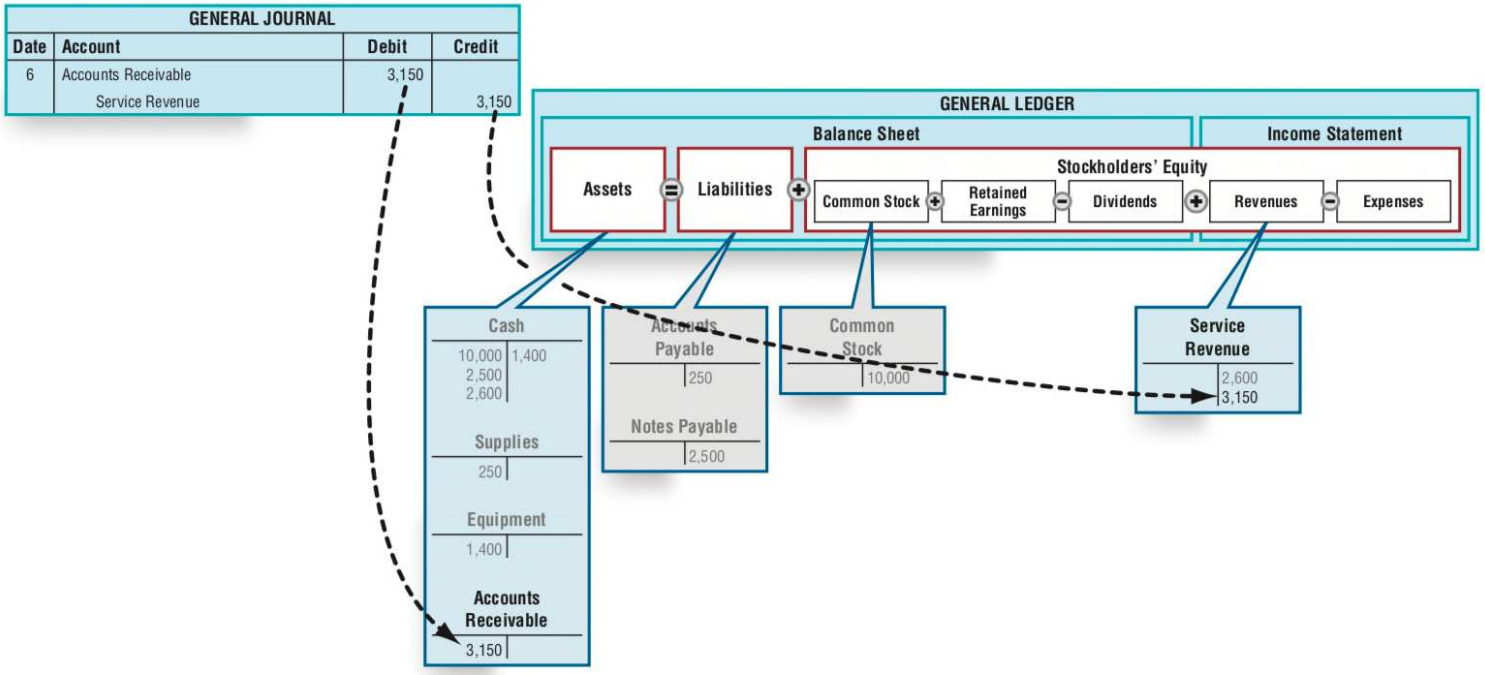
**6. Provide services on credit.** Bold City Consulting performs $3,150 of services on account.

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Accounts Receivable | Asset | Increase | Dr. |
| Service Revenue | Revenue | Increase | Cr. |

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# Applying Transaction Analysis

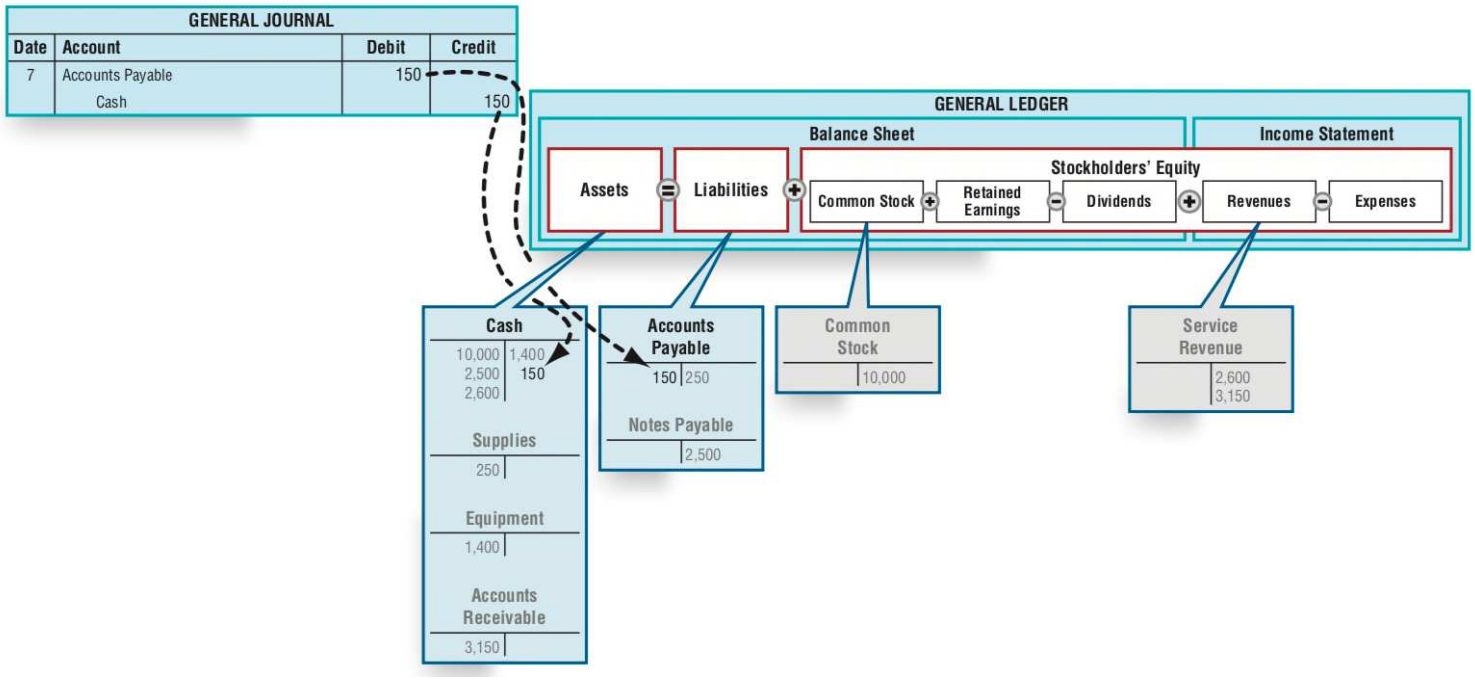
**7. Partial payment of accounts payable.** Bold City Consulting pays $150 to the store where it purchased $250 worth of supplies in transaction (2).

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Accounts Payable | Liability | Decrease | Dr. |
| Cash | Asset | Decrease | Cr. |

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# Applying Transaction Analysis

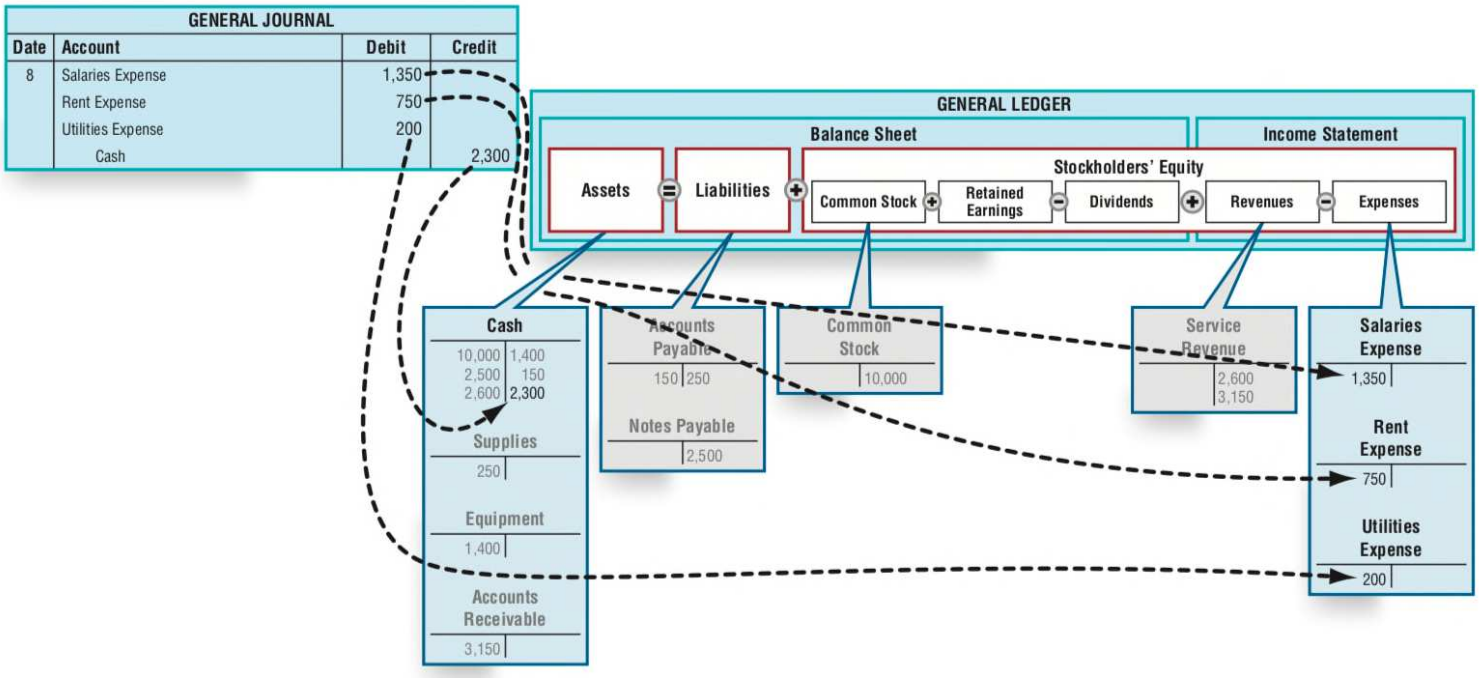
**8. Payment of expenses.** During the month, Bold City Consulting paid $2,300 cash for expenses incurred, such as salaries ($1,350), building rent ($750), and utilities ($200).

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Salaries Expense | Expense | Increase | Dr. |
| Rent Expense | Expense | Increase | Dr. |
| Utilities Expense | Expense | Increase | Dr. |
| Cash | Asset | Decrease | Cr. |

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# Journalize and Post to the General Ledger




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# Applying Transaction Analysis

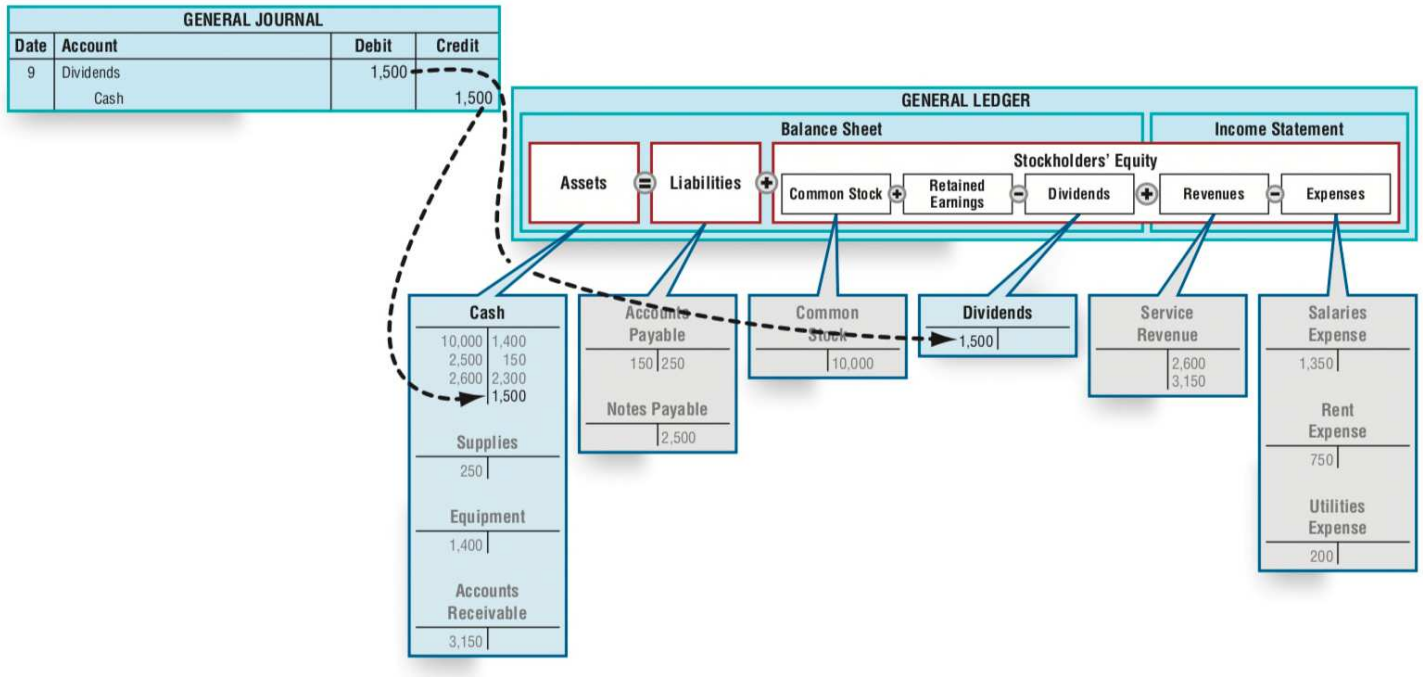
**9. Cash dividends.** Bold City Consulting pays $1,500 of cash dividends to Brian Miller, the stockholder.

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Accounts Affected | Type | Increase or Decrease | Dr. or Cr. |
| Dividends | Stockholders' Equity | Increase | Dr. |
| Cash | Asset | Decrease | Cr. |

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# Journalize and Post to the General Ledger




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# Example E2-17A

- The following transactions are provided:
  - Mar 1: Sold $95,000 of common stock to Jimmy Wu to start the business.
  - Mar 3: Purchased supplies on account, $800.
  - Mar 5: Paid cash for a building to use for storage, $35,000.
  - Mar 6: Performed service for customers and received cash, $1,500.
  - Mar 11: Paid on accounts payable, $500.
  - Mar 18: Performed service for customers on account, $2,600.
  - Mar 24: Received cash from a customer on account, $900.
  - Mar 30: Paid the following expenses: salaries, $700; and rent, $1,500.

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# Example E2-17A

| Date | Account | Dr. | Cr. |
|---|---|---|---|
| 1-Mar | Cash | $ 95,000.00 | |
| | Common Stock | | $ 95,000.00 |
| 3-Mar | Supplies | $ 800.00 | |
| | Accounts Payable | | $ 800.00 |
| 5-Mar | Building | $ 35,000.00 | |
| | Cash | | $ 35,000.00 |
| 6-Mar | Cash | $ 1,500.00 | |
| | Service Revenue | | $ 1,500.00 |

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# Example E2-17A

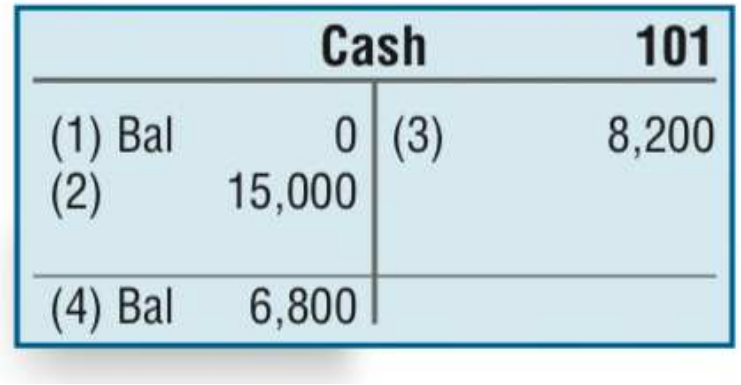
| Date | Account | Dr. | Cr. |
|---|---|---|---|
| 11-Mar | Accounts Payable | $ 500.00 | |
| | Cash | | $ 500.00 |
| 18-Mar | Accounts Receivable | $ 2,600.00 | |
| | Service Revenue | | $ 2,600.00 |
| 24-Mar | Cash | $ 900.00 | |
| | Accounts Receivable | | $ 900.00 |
| 30-Mar | Salaries Expense | $ 700.00 | |
| | Rent Expense | $ 1,500.00 | |
| | Cash | | $ 2,200.00 |

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# Balancing the T-Accounts

- The **balance** is the difference between an account's total debit and total credit amounts; the ending value of an account.
- After the transactions are recorded and posted to the T-accounts, you calculate each account's balance.

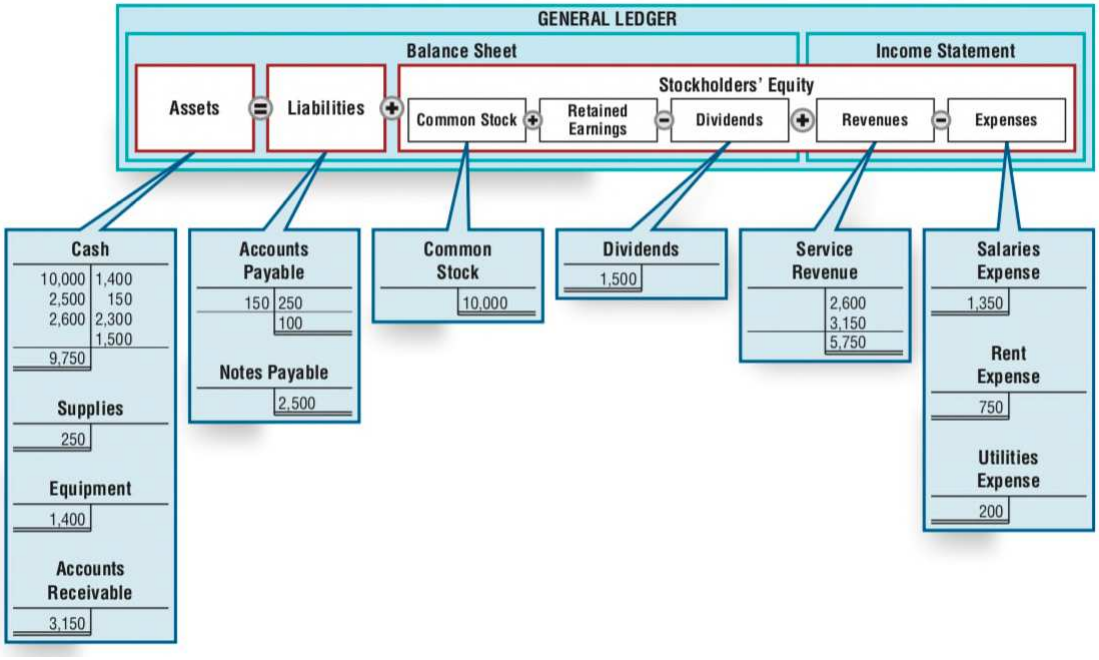


| Cash | | | 101 |
|---|---|---|---|
| (1) Bal | 0 | (3) | 8,200 |
| (2) | 15,000 | | |
| (4) Bal | 6,800 | | |

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# Balancing the T-Accounts




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# Use a Trial Balance to Prepare Financial Statements

Learning Objective 4

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# Trial Balance

- Once transactions have been recorded in the journal and posted to accounts in the ledger, a trial balance is prepared.
- A **trial balance** is a list of all the accounts of a business and their balances.
- Its purpose is to verify that total debits equal total credits.

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# Trial Balance

**Bold City Consulting, Inc.**
**Trial Balance**
January 31, 2018

| ACCOUNT | DEBIT | CREDIT |
|---|---|---|
| Cash | $9,750 | |
| Accounts Receivable | 3,150 | |
| Supplies | 250 | |
| Equipment | 1,400 | |
| Accounts Payable | | $ 100 |
| Notes Payable | | 2,500 |
| Common Stock | | 10,000 |
| Dividends | 1,500 | |
| Service Revenue | | 5,750 |
| Salaries Expense | 1,350 | |
| Rent Expense | 750 | |
| Utilities Expense | 200 | |
| Total | $18,350 | $18,350 |

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# Example S2-12

The accounting records for Audio Masters Corp., contain the following amounts on April 30, 2018.

- Service Revenue $63,000
- Prepaid Rent $750
- Accounts Payable $1,700
- Equipment $21,000
- Dividends $22,600
- Utilities Expense $18,400
- Note Payable $11,500
- Cash $18,300
- Rent Expense $10,150
- Common Stock $15,000

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# Example S2-12

**Audio Masters, Corp.**
**Trial Balance**
**April 30, 2018**

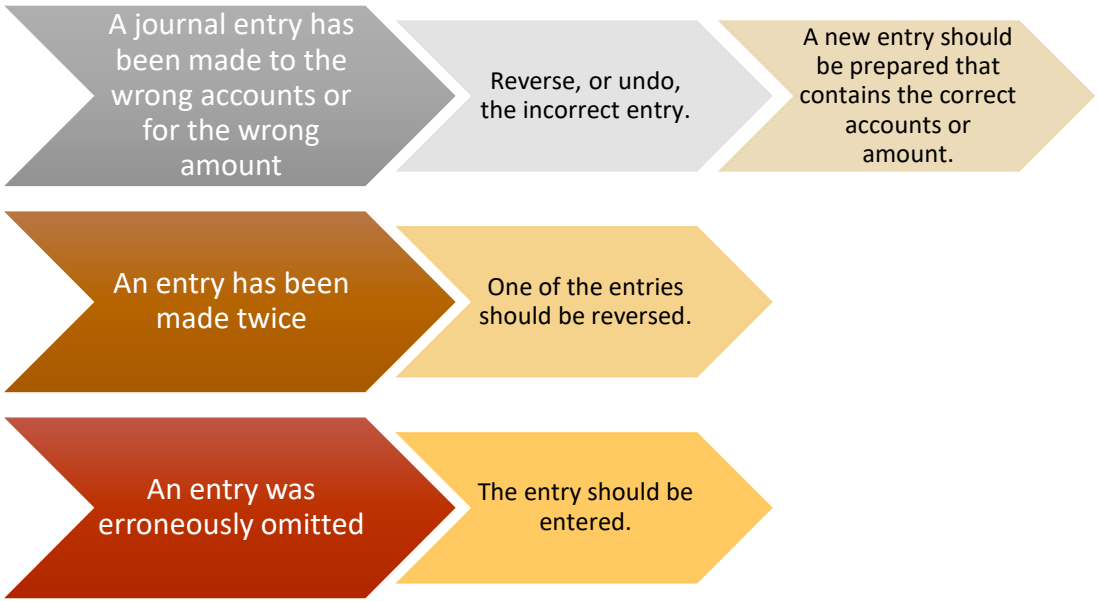
| ACCOUNT TITLE | BALANCE | |
|---|---|---|
| | DEBIT | CREDIT |
| Cash | $18,300 | |
| Prepaid Rent | 750 | |
| Equipment | 21,000 | |
| Accounts Payable | | $1,700 |
| Note Payable | | 11,500 |
| Common Stock | | 15,000 |
| Dividends | 22,600 | |
| Service Revenue | | 63,000 |
| Rent Expense | 10,150 | |
| Utilities Expense | 18,400 | |
| Total | $91,200 | $91,200 |

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# Correcting Errors

- If an error has occurred, the steps required to correct it depend on the type of error that was made.

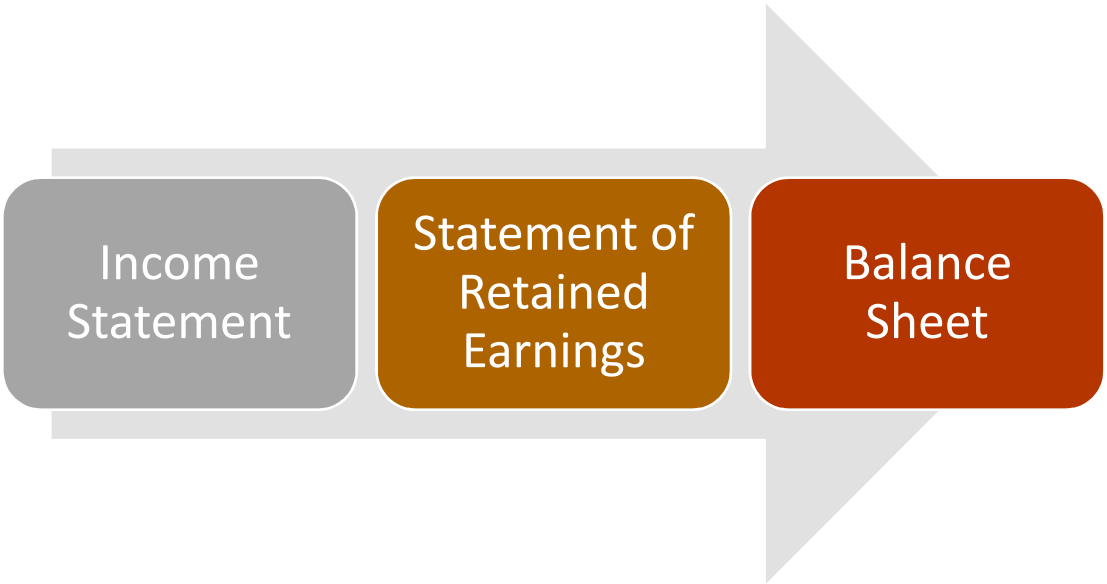



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# Preparation of Financial Statements

- After the trial balance is completed, the financial statements can be prepared, in the following order:




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# Preparation of Financial Statements

**Bold City Consulting, Inc.**
**Income Statement**
Month Ended January 31, 2018

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $5,750 |
| Expenses: | | |
| Salaries Expense | $1,350 | |
| Rent Expense | 750 | |
| Utilities Expense | 200 | |
| Total Expenses | | 2,300 |
| Net Income | | $3,450 |

**Bold City Consulting, Inc.**
**Statement of Retained Earnings**
Month Ended January 31, 2018

| | |
|---|---|
| Retained Earnings, January 1, 2018 | $ 0 |
| Add: Net Income for the month | 3,450 |
| Subtotal | 3,450 |
| Less: Dividends | 1,500 |
| Retained Earnings, January 31, 2018 | $1,950 |

**Bold City Consulting, Inc.**
**Balance Sheet**
January 31, 2018

| ASSETS | | LIABILITIES | |
|---|---|---|---|
| Cash | $9,750 | Accounts Payable | $ 100 |
| Accounts Receivable | 3,150 | Notes Payable | 2,500 |
| Supplies | 250 | Total Liabilities | 2,600 |
| Equipment | 1,400 | | |
| | | **STOCKHOLDERS' EQUITY** | |
| | | Common Stock | 10,000 |
| | | Retained Earnings | 1,950 |
| | | Total Stockholders' Equity | 11,950 |
| | | Total Liabilities & | |
| Total Assets | $14,550 | Stockholders' Equity | $14,550 |

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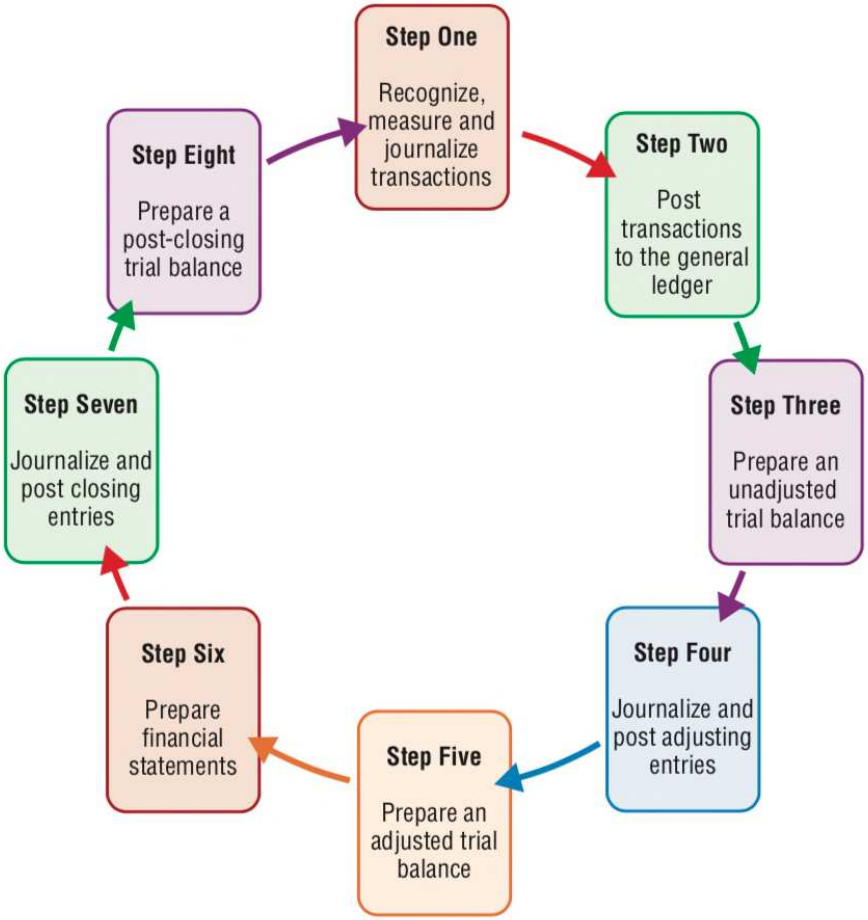
# Accounting Cycle

- The process of analyzing transactions, entering them into the journal, posting them to the ledger, preparing a trial balance, and preparing financial statements is only a part of the accounting cycle.
- The **accounting cycle** is the sequence of steps used to record and report business transactions.
- This accounting cycle is completed by a business for every **accounting period**, and then it is repeated for the next accounting period, and the next, and the next, and so on.

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# Accounting Cycle




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# Chapter Summary

- Numbered accounts are used to keep things organized.
- Account numbers starting with:
  - 1, assets
  - 2, liabilities
  - 3, stockholders' equity other than revenues and expenses
  - 4, revenues
  - 5, expenses
  - 6 through 9, other

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# Chapter Summary

- Debits and credits are used to record changes in an account's balance.
  - Debits increase assets, expenses, and dividends.
  - Credits increase liabilities, common stock, retained earnings, and revenues.
  - Debits decrease liabilities, common stock, retained earnings, and revenues.
  - Credits decrease assets, expenses, and dividends.

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# Chapter Summary

- Business transactions are
  - entered into the general journal.
  - posted from the general journal to the general ledger.
- A trial balance
  - ensures that debits equal credits.
  - is used to prepare the income statement, statement of retained earnings, and balance sheet.

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