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SKU: 9780134833187-SOLUTIONS

2
Debits and Credits: Analyzing and Recording Business Transactions

ANSWERS TO DISCUSSION QUESTIONS AND CRITICAL THINKING/ETHICAL CASE

1. A ledger is a group of accounts that records in monetary value the data from business transactions.
2. The left-hand side is always the debit side. It is an arbitrary rule.
3. False. Accounts with one entry will not need footings.
4. The financial statements are the end products of the accounting process.
5. The transaction analysis chart is a teaching device that is not used in the regular accounting process.
6. Which accounts are affected? In which categories do the accounts belong? Are the accounts increasing or decreasing? What do the rules of debit and credit say? What does the T-account look like?
7. Disagree. Computers will record debits and credits based on the account type.
8. False. The trial balance is an informal report that does not have the same status as financial statements. The trial balance is used to verify the equality of total debits and credits and prepare the financial statements.
9. The financial statements are prepared from the ending balances of the accounts (debit or credit) in the ledger. The columns on financial statements are used for listing amounts and for subtotaling.
10. It is easier to prepare the reports from the trial balance rather than the expanded accounting equation because the trial balance lists all accounts and their balances. The columns for revenue, expenses, etc., in the expanded accounting equation do not list specific titles and their balances.
11. The question in this case is whether Joshua should be allowed to put fictitious figures into the trial balance. I would not support this type of behavior. His behavior is extremely unprofessional and goes against professional ethical standards. Instead of putting in fictitious figures, Joshua should stay late and correct the trial balance. He could also ask for help.

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SOLUTIONS TO CONCEPT CHECKS

1. The ending balance in Cash is $19,500(debit balance). The ending balance in C. Rice, Capital is $18,000(credit balance).

Cash 110	
6/24 8,000 6/28 12,000	500 6/26
20,000	500
Bal. 19,500	

C. Rice, Capital 311	
	11,000 6/1 6,000 6/8 1,000 6/22
	18,000 Bal.

2.

Category	Incr.	Decr.	Normal Bal.
A. Liability	Cr.	Dr.	Cr.
B. Revenue	Cr.	Dr.	Cr.
C. Asset	Dr.	Cr.	Dr.
D. Capital	Cr.	Dr.	Cr.
E. Withdrawal	Dr.	Cr.	Dr.
F. Asset	Dr.	Cr.	Dr.
G. Expense	Dr.	Cr.	Dr.

3.

Account	Category	**Increase/Decrease**	Dr. or Cr.	T Accounts
Cash	Asset	↑	Dr.	Cash 600 |
Accounts Receivable	Asset	↑	Dr.	Acc. Rec. 2,900 |
Design Fees Earned	Revenue	↑	Cr.	Design Fees Earned | 3,500

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4. Cash
   Accounts Receivable
   Office Equipment
   Accounts Payable
   B. O'Mally, Capital
   B. O'Mally, Withdrawals
   Hair Salon Fees Earned
   Selling Expense
   Salary Expense
   Advertising Expense

5. A.BS
   B.BS
   C.BS
   D.BS
   E.OE
   F.OE
   G.IS
   H.IS
   I. IS
   J.IS
   K.IS

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SOLUTIONS TO SET A EXERCISES

2A-1. Balance Sheet Accounts

Assets

111 Cash
112 Accounts Receivable
121 Office Equipment (Microsoft Surface Tablet)

Liabilities

211 Accounts Payable

Owner's Equity

311 L. Janas, Capital
312 L. Janas, Withdrawals

Income Statement Accounts

Revenue

411 Legal Fees

Expenses

511 Salary Expense
512 Repair Expense
513 Advertising Expense

2A-2.

1. Accounts Affected	2. Category	3. ↑↓	4. Rules	5. T-Account Update
Computer Equipment	Asset	↑	Dr.	Computer Equipment: 26,000 |
Cash	Asset	↓	Cr.	Cash: | 9,000
Accounts Payable	Liability	↑	Cr.	Accounts Payable: | 17,000

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EXERCISES (CONTINUED)

2A-3.

ACCOUNT	CATEGORY	↑	↓	FINANCIAL STATEMENT
Computer Supplies	Asset	Dr.	Cr.	Balance Sheet
Legal Fees Earned	Revenue	Cr.	Dr.	Income Statement
P. Roy, Withdrawals	Withdrawal	Dr.	Cr.	Statement of Owner's Equity
Accounts Payable	Liability	Cr.	Dr.	Balance Sheet
Salaries Expense	Expense	Dr.	Cr.	Income Statement
Auto	Asset	Dr.	Cr.	Balance Sheet

2A-4.

	Dr.	Cr.
A.	8	1
B.	6	1
C.	9	4
D.	1	7
E.	10	1
F.	3	5
G.	2	7
H.	1	2
I.	3	4

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EXERCISES (CONTINUED)

2A-5.

(1)

HELM'S CLEANERS
INCOME STATEMENT
FOR MONTH ENDED MARCH 31, 201X

Revenue:		
Cleaning Fees		$ 466
Operating Expenses:		
Salaries Expense	$ 125	
Utilities Expense	162	
Total Operating Expenses		287
Net Income		$ 179

(2)

HELM'S CLEANERS
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED MARCH 31, 201X

J. Helm, Capital, March 1, 201X		$ 726
Net Income for March	$ 179	
Less: Withdrawals for March	(55)	
Increase in Capital		124
J. Helm, Capital, March 31, 201X		$ 850

(3)

HELM'S CLEANERS
BALANCE SHEET
MARCH 31, 201X

ASSETS		LIABILITIES AND OWNER'S EQUITY	
Cash	$ 750	**Liabilities**	
Equipment	500	**Accounts Payable**	$ 400
		Owner's Equity	
		J. Helm, Capital	850
		Total Liabilities and	
Total Assets	$1 250	**Owner's Equity**	$1 250

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SOLUTIONS TO SET B EXERCISES

2B-1. Balance Sheet Accounts

Assets

111 Cash
112 Accounts Receivable
121 Office Equipment (Apple iPad)

Liabilities

211 Accounts Payable

Owner's Equity

311 L. Jones, Capital
312 L. Jones, Withdrawals

Income Statement Accounts

Revenue

411 Legal Fees Earned

Expenses

511 Salary Expense
512 Rent Expense
513 Advertising Expense

2B-2.

1. Accounts Affected	2. Category	3. ↑↓	4. Rules	5. T-Account Update
Computer Equipment	Asset	↑	Dr.	Computer Equipment: 28,000 |
Cash	Asset	↓	Cr.	Cash: | 8,000
Accounts Payable	Liability	↑	Cr.	Accounts Payable: | 20,000

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EXERCISES (CONTINUED)

2B-3.

ACCOUNT	CATEGORY	↑	↓	FINANCIAL STATEMENT
Office Supplies	Asset	Dr.	Cr.	Balance Sheet
Rental Fees Earned	Revenue	Cr.	Dr.	Income Statement
A. Troy, Withdrawals	Withdrawal	Dr.	Cr.	Statement of Owner's Equity
Accounts Payable	Liability	Cr.	Dr.	Balance Sheet
Wage Expense	Expense	Dr.	Cr.	Income Statement
Computer	Asset	Dr.	Cr.	Balance Sheet

2B-4.

	Dr.	Cr.
A.	8	1
B.	6	1
C.	9	4
D.	1	7
E.	10	1
F.	3	5
G.	2	7
H.	1	2
I.	3	4

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EXERCISES (CONTINUED)

2B-5.

(1)

HILTON'S CLEANERS
INCOME STATEMENT
FOR MONTH ENDED JANUARY 31, 201X

Revenue:										
Cleaning Fees						**$**	**4**	**6**	**0**	
Operating Expenses:										
Salaries Expense	**$**	**1**	**1**	**0**						
Utilities Expense		**1**	**7**	**1**						
Total Operating Expenses							**2**	**8**	**1**	
Net Income						**$**	**1**	**7**	**9**	

(2)

HILTON'S CLEANERS
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED JANUARY 31, 201X

J. Hilton, Capital, January 1, 201X						**$**	**8**	**6**	**6**	
Net Income for January	**$**	**1**	**7**	**9**						
Less: Withdrawals for January		**(2**	**5**	**0)**						
Decrease in Capital								**(7**	**1)**	
J. Hilton, Capital, January 31, 201X						**$**	**7**	**9**	**5**	

(3)

HILTON'S CLEANERS
BALANCE SHEET
JANUARY 31, 201X

ASSETS						**LIABILITIES AND OWNER'S EQUITY**					
Cash	**$**	**7**	**5**	**0**		**Liabilities**					
Equipment		**5**	**0**	**0**		**Accounts Payable**	**$**	**4**	**5**	**5**	
						Owner's Equity					
						J. Hilton, Capital		**7**	**9**	**5**	
						Total Liabilities and					
Total Assets	**$1**	**2**	**5**	**0**		**Owner's Equity**	**$1**	**2**	**5**	**0**	

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SOLUTIONS TO SET A PROBLEMS

PROBLEM 2A-1

Accounts Affected	Category	Inc. ↑	Dec. ↓	Rules	T-Account update
A. Cash	Asset	↑		Dr.	Cash: (A) 45,000 | Brent Omara, Capital: 45,000 (A)
Brent Omara, Capital	Capital*	↑		Cr.	
B. Delivery Trucks	Asset	↑		Dr.	Delivery Trucks: (B) 5,000 | Accounts Payable: 5,000 (B)
Accounts Payable	Liability	↑		Cr.	
C. Rent Expense	Expense	↑		Dr.	Rent Expense: (C) 1,000 | Accounts Payable: 5,000 (B), 1,000 (C)
Accounts Payable	Liability	↑		Cr.	
D. Cash	Asset	↑		Dr.	Cash: (A)45,000, (D) 1,200 | Delivery Fees Earned: 1,200 (D)
Delivery Fees Earned	Revenue	↑		Cr.	
E. Accounts Receivable	Asset	↑		Dr.	Accounts Receivable: (E) 1,010 | Delivery Fees Earned: 1,200 (D), 1,010 (E)
Delivery Fees Earned	Revenue	↑		Cr.	
F. Brent Omara, Withdrawals	Withdrawal*	↑		Dr.	Brent Omara, Withdrawals: (F) 1,000 | Cash: (A)45,000, (D) 1,200 | 1,000 (F)
Cash	Asset		↓	Cr.	

* A subdivision of Owner's Equity

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PROBLEM 2A-2

Cash	111
(A) 34,000	80 (D)
(C) 3,100	650 (E)
	600 (G)

Bud Peters, Withdrawals	312
(D) 80	

Office Equipment	121
(B) 1,000	

Consulting Fees Earned	411
	3,100 (C)

Accounts Payable	211
(G) 600	1,000 (B)
	900 (F)

Advertising Expense	511
(E) 650	

Bud Peters, Capital	311
	34,000 (A)

Rent Expense	512
(F) 900	

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PROBLEM 2A-3

(a)

Cash 111	
(A) 17,000	600 (D)
(G) 5,500	100 (E)
	100 (F)
	340 (H)
	320 (I)
22,500	1,460
Bal 21,040	

Accounts Payable 211	
(D) 600	1,400 (C)
	800 Bal

Cleaning Fees Earned 411	
	11,000 (B)

Accounts Receivable 112	
(B) 11,000	5,500 (G)
Bal 5,500	

Brian Jett, Capital 311	
	17,000 (A)

Rent Expense 511	
(F) 100	

Office Equipment 121	
(C) 1,400	
(H) 340	
Bal 1,740	

Brian Jett, Withdrawals 312	
(I) 320	

Utilities Expense 512	
(E) 100	

(b)

BRIAN'S CLEANING SERVICE
TRIAL BALANCE
OCTOBER 31, 201X

	Dr.	Cr.
Cash	21 0 4 0	
Accounts Receivable	5 5 0 0	
Office Equipment	1 7 4 0	
Accounts Payable		8 0 0
Brian Jett, Capital		17 0 0 0
Brian Jett, Withdrawals	3 2 0	
Cleaning Fees Earned		11 0 0 0
Rent Expense	1 0 0	
Utilities Expense	1 0 0	
Totals	28 8 0 0	28 8 0 0

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PROBLEM 2A-4

(a)

GABRIELLA LEITZ, ATTORNEY AT LAW
INCOME STATEMENT
FOR MONTH ENDED JANUARY 31, 201X

Revenue:										
Revenue from Legal Fees						$1	6	0	0	
Operating Expenses:										
Utilities Expense	$	1	5	0						
Rent Expense		3	5	0						
Salaries Expense		1	5	0						
Total Operating Expenses							6	5	0	
Net Income						$	9	5	0	

(b)

GABRIELLA LEITZ, ATTORNEY AT LAW
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED JANUARY 31, 201X

G. Leitz, Capital, January 1, 201X					$4	6	0	0	
Net Income for January	$	9	5	0					
Less: Withdrawals for January		(4	0	0)					
Increase in Capital						5	5	0	
G. Leitz, Capital, January 31, 201X					$5	1	5	0	

(c)

GABRIELLA LEITZ, ATTORNEY AT LAW
BALANCE SHEET
JANUARY 31, 201X

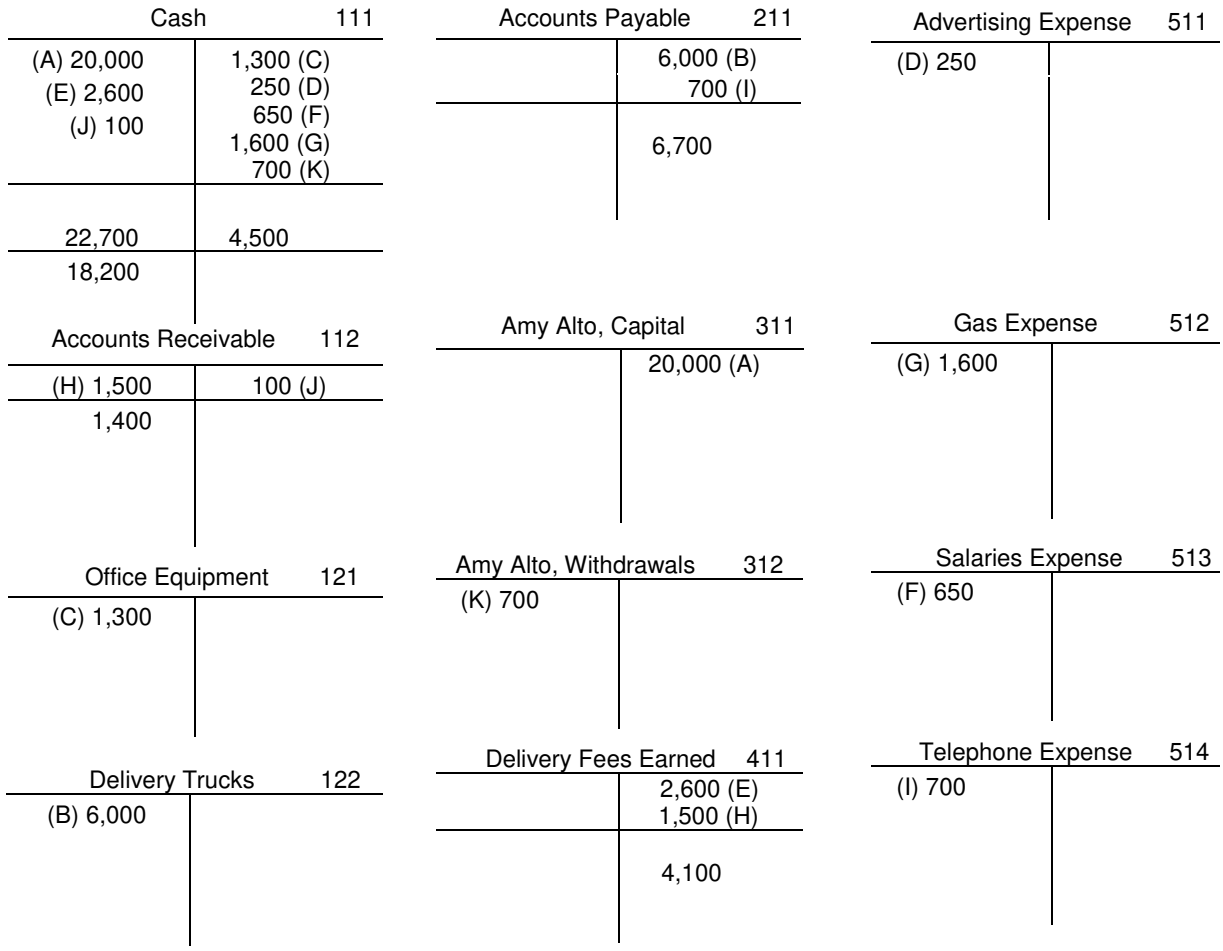
ASSETS						LIABILITIES AND OWNER'S EQUITY									
Cash	$7	0	0	0		Liabilities									
Accounts Receivable		8	0	0		Accounts Payable	$2	2	0	0					
Office Equipment		5	0	0		Salaries Payable		9	5	0					
						Total Liabilities						$3	1	5	0
						Owner's Equity									
						G. Leitz, Capital						5	1	5	0
						Total Liabilities and									
Total Assets	$8	3	0	0		Owner's Equity						$8	3	0	0

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PROBLEM 2A-5

(1, 2)



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PROBLEM 2A-5 (CONTINUED)

(3)

ALTO'S DELIVERY SERVICE
TRIAL BALANCE
OCTOBER 31, 201X

	Dr.	Cr.
Cash	18 2 0 0	
Accounts Receivable	1 4 0 0	
Office Equipment	1 3 0 0	
Delivery Trucks	6 0 0 0	
Accounts Payable		6 7 0 0
A. Alto, Capital		20 0 0 0
A. Alto, Withdrawals	7 0 0	
Delivery Fees Earned		4 1 0 0
Advertising Expense	2 5 0	
Gas Expense	1 6 0 0	
Salaries Expense	6 5 0	
Telephone Expense	7 0 0	
Totals	30 8 0 0	30 8 0 0

(4a)

ALTO'S DELIVERY SERVICE
INCOME STATEMENT
FOR MONTH ENDED OCTOBER 31, 201X

Revenue:		
Delivery Fees Earned		$4 1 0 0
Operating Expenses:		
Advertising Expense	$ 2 5 0	
Gas Expense	1 6 0 0	
Salaries Expense	6 5 0	
Telephone Expense	7 0 0	
Total Operating Expenses		3 2 0 0
Net Income		$ 9 0 0

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PROBLEM 2A-5 (CONCLUDED)

(4b)

ALTO'S DELIVERY SERVICE
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED OCTOBER 31, 201X

A. Alto, Capital, October 1, 201X						$			0	
Investment in October						20	0	0	0	
Total investment for October						20	0	0	0	
Net Income for October	$	9	0	0						
Less: Withdrawals for October		(7	0	0)						
Increase in Capital							2	0	0	
A. Alto, Capital, October 31, 201X						$20	2	0	0	

(4c)

ALTO'S DELIVERY SERVICE
BALANCE SHEET
OCTOBER 31, 201X

ASSETS						LIABILITIES AND OWNER'S EQUITY					
Cash	$18	2	0	0		Liabilities					
Accounts Receivable	_1	4	0	0		Accounts Payable	$ 6	7	0	0	
Office Equipment	_1	3	0	0							
Delivery Trucks	_6	0	0	0		Owner's Equity					
						A. Alto, Capital	20	2	0	0	
						Total Liabilities and					
Total Assets	$26	9	0	0		Owner's Equity	$26	9	0	0	

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SOLUTIONS TO SET B PROBLEMS

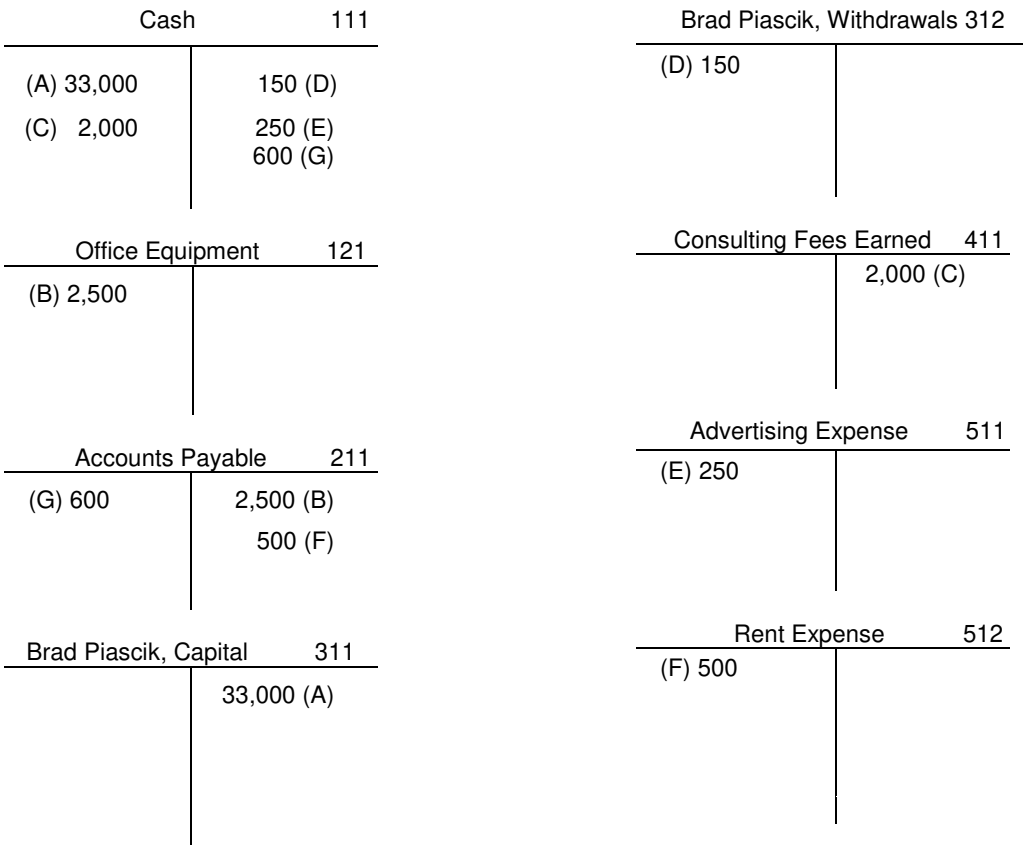
PROBLEM 2B-1

Accounts Affected	Category	Inc. ↑	Dec. ↓	Rules	T-Account update
A. Cash	Asset	↑		Dr.	Cash: (A) 50,000 | B. Orwell, Capital: 50,000 (A)
B. Orwell, Capital	Capital	↑		Cr.	
B. Delivery Trucks	Asset	↑		Dr.	Delivery Trucks: (B) 13,000 | Accounts Payable: 13,000 (B)
Accounts Payable	Liability	↑		Cr.	
C. Rent Expense	Expense	↑		Dr.	Rent Expense: (C) 1,100 | Accounts Payable: 13,000 (B), 1,100 (C)
Accounts Payable	Liability	↑		Cr.	
D. Cash	Asset	↑		Dr.	Cash: (A) 50,000, (D) 2,500 | Delivery Fees Earned: 2,500 (D)
Delivery Fees Earned	Revenue	↑		Cr.	
E. Accounts Receivable	Asset	↑		Dr.	Accounts Receivable: (E)1,200 | Delivery Fees Earned: 2,500 (D), 1,200 (E)
Delivery Fees Earned	Revenue	↑		Cr.	
F. B. Orwell, Withdrawals	Withdrawal	↑		Dr.	B. Orwell, Withdrawals: (F) 400 | Cash: (A)50,000, (D) 2,500 | 400 (F)
Cash	Asset		↓	Cr.	

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PROBLEM 2B-2



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PROBLEM 2B-3

(a)

Cash 111

7,000 (A)	400 (D)
2,000 (G)	500 (E)
	550 (F)
	550 (H)
	320 (I)
9,000	2,320
Bal. 6,680	

Accounts Receivable 112

11,000 (B)	2,000 (G)
Bal. 9,000	

Office Equipment 121

2,100 (C)	
550 (H)	
Bal. 2,650	

Accounts Payable 211

400 (D)	2,100 (C)
	1,700 Bal.

Brent Jane, Capital 311

	7,000 (A)

Brent Jane, Withdrawals 312

320 (I)

Cleaning Fees Earned 411

11,000 (B)

Rent Expense 511

550 (F)

Utility Expense 512

500 (E)

(b)

BRENT'S CLEANING SERVICE
TRIAL BALANCE
JULY 31, 201X

	Dr.	Cr.
Cash	6,680	
Accounts Receivable	9,000	
Office Equipment	2,650	
Accounts Payable		1,700
Brent Jane, Capital		7,000
Brent Jane, Withdrawals	320	
Cleaning Fees Earned		11,000
Rent Expense	550	
Utilities Expense	500	
Totals	19,700	19,700

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PROBLEM 2B-4

(a)

GAIL LANTZ, ATTORNEY AT LAW
INCOME STATEMENT
FOR MONTH ENDED JULY 31, 201X

Revenue:										
Revenue from Legal Fees						$1	6	0	0	
Operating Expenses:										
Utilities Expense	$	1	0	0						
Rent Expense		4	5	0						
Salaries Expense		2	0	0						
Total Operating Expenses							7	5	0	
Net Income						$	8	5	0	

(b)

GAIL LANTZ, ATTORNEY AT LAW
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED JULY 31, 201X

G. Lantz, Capital, July 1, 201X					$4	7	0	0	
Net Income for July	$	8	5	0					
Less: Withdrawals for July	(1	1	0	0)					
Decrease in Capital						(2	5	0)	
G. Lantz, Capital, July 31, 201X					$4	4	5	0	

(c)

GAIL LANTZ, ATTORNEY AT LAW
BALANCE SHEET
JULY 31, 201X

ASSETS						LIABILITIES AND OWNER'S EQUITY									
Cash	$5	0	0	0		Liabilities									
Accounts Receivable		7	5	0		Accounts Payable	$3	0	0	0					
Office Equipment	2	7	0	0		Salaries Payable	1	0	0	0					
						Total Liabilities						$4	0	0	0
						Owner's Equity									
						G. Lantz, Capital						4	4	5	0
						Total Liabilities and									
Total Assets	$8	4	5	0		Owner's Equity						$8	4	5	0

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PROBLEM 2B-5

(1, 2)

Cash 111	
(A) 33,000	1,100 (C)
(E) 3,500	250 (D)
(J) 100	750 (F)
	1,000 (G)
	700 (K)
36,600	3,800
Bal. 32,800	

Accounts Payable 211	
	13,000 (B)
	50 (I)
	Bal. 13,050

Advertising Expense 511	
(D) 250	

Accounts Receivable 112	
(H) 800	100 (J)
Bal. 700	

Audrey Avery, Capital 311	
	33,000 (A)

Gas Expense 512	
(G) 1,000	

Office Equipment 121	
(C) 1,100	

Audrey Avery, Withdrawals 312	
(K) 700	

Salaries Expense 513	
(F) 750	

Delivery Trucks 122	
(B) 13,000	

Delivery Fees Earned 411	
	3,500 (E)
	800 (H)
	Bal. 4,300

Telephone Expense 514	
(I) 50	

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PROBLEM 2B-5 (CONTINUED)
(3)

AVERY'S DELIVERY SERVICE
TRIAL BALANCE
OCTOBER 31, 201X

	Dr.	Cr.
Cash	32,800	
Accounts Receivable	7,000	
Office Equipment	11,000	
Delivery Trucks	13,000	
Accounts Payable		13,050
Audrey Avery, Capital		33,000
Audrey Avery, Withdrawals	7,000	
Delivery Fees Earned		4,300
Advertising Expense	2,500	
Gas Expense	1,000	
Salaries Expense	7,500	
Telephone Expense	500	
Totals	50,300	50,350

(4a)

AVERY'S DELIVERY SERVICE
INCOME STATEMENT
FOR MONTH ENDED OCTOBER 31, 201X

Revenue:		
Delivery Fees Earned		$4,300
Operating Expenses:		
Advertising Expense	$2,500	
Gas Expense	1,000	
Salaries Expense	7,500	
Telephone Expense	500	
Total Operating Expenses		2,050
Net Income		$2,250

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PROBLEM 2B-5 (CONCLUDED)
(4b)

AVERY'S DELIVERY SERVICE
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED OCTOBER 31, 201X

Audrey Avery, Capital, October 1, 201X						$			0	
Investment in October						33	0	0	0	
Total investment for October						33	0	0	0	
Net Income for October	$2	2	5	0						
Less: Withdrawals for October		(7	0	0)						
Increase in Capital						1	5	5	0	
Audrey Avery, Capital, October 31, 201X						$34	5	5	0	

(4c)

AVERY'S DELIVERY SERVICE
BALANCE SHEET
OCTOBER 31, 201X

ASSETS						LIABILITIES AND OWNER'S EQUITY					
Cash	$32	8	0	0		Liabilities					
Accounts Receivable		7	0	0		Accounts Payable	$13	0	5	0	
Office Equipment	1	1	0	0							
Delivery Trucks	13	0	0	0		Owner's Equity					
						Audrey Avery, Capital	34	5	5	0	
						Total Liabilities and					
Total Assets	$47	6	0	0		Owner's Equity	$47	6	0	0	

FINANCIAL REPORT PROBLEM SOLUTION—2016 Amazon.com's Annual Report

Year	Accounts Payable
2016	$25,309 million
2015	$20,397 million
Increase	$4,912 million

Accounts Payable increased by $4.912 billion in 2016. The change means Amazon.com, Inc. owes more to suppliers in 2016 than 2015. Accounts Payable is a liability that increases with a credit.

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Cash 1000

10,540 (bal)	300 (l)
1,400 (p)	50 (m)
	500 (n)
	100 (q)
	20 (r)
11,940	970
10,970 bal	

Accounts Receivable 1020

1,100 (o)	

Supplies 1030

500 (bal)	
500 (s)	
1,000 (bal)	

Computer Shop Equipment 1080

1,260 (bal)	

Office Equipment 1090

1,500 bal)	

Accounts Payable 2000

	600 (bal)
50 (m)	200 (k)
100 (q)	500 (s)
150	1,300
	1,150 (bal)

Falco, Capital 3000

	12,500 (bal)

Falco, Withdrawals 3010

1,500 bal	

Service Revenue 4000

	3,100 (bal)
	1,100 (o)
	1,400 (p)
	5,600 (bal)

Advertising Expense 5010

500(n)	

Rent Expense 5020

800 (bal)	

Utilities Expense 5030

100 bal	

Phone Expense 5040

200(k)	

Supplies Expense 5050

0	

Insurance Expense 5060

300 (l)	

Postage Expense 5070

20 (r)	

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Assignment 4

SUAREZ COMPUTER CENTER
TRIAL BALANCE
AUGUST 31, 201X

	Dr.					Cr.				
Cash	10	9	7	0	00					
Accounts Receivable	_1	1	0	0	00					
Supplies	_1	0	0	0	00					
Computer Shop Equipment	_1	2	6	0	00					
Office Equipment	_1	5	0	0	00					
Accounts Payable						_1	1	5	0	00
Falco, Capital						12	5	0	0	00
Falco, Withdrawals	_1	5	0	0	00					
Service Revenue						_5	6	0	0	00
Advertising Expense		5	0	0	00					
Rent Expense		8	0	0	00					
Utilities Expense		1	0	0	00					
Phone Expense		2	0	0	00					
Insurance Expense		3	0	0	00					
Postage Expense			2	0	00					
Totals	19	2	5	0	00	19	2	5	0	00

Assignment 5

SUAREZ COMPUTER CENTER
INCOME STATEMENT
FOR THE TWO MONTHS ENDED AUGUST 31, 201X

Revenue:										
Service Revenue						$ 5	6	0	0	00
Operating Expenses:										
Advertising Expense	$	5	0	0	00					
Rent Expense		8	0	0	00					
Utilities Expense		1	0	0	00					
Phone Expense		2	0	0	00					
Insurance Expense		3	0	0	00					
Postage Expense			2	0	00					
Total Operating Expenses						1	9	2	0	00
Net Income						$ 3	6	8	0	00

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Assignment 5 (Concluded)

SUAREZ COMPUTER CENTER
STATEMENT OF OWNER'S EQUITY
FOR THE TWO MONTHS ENDED AUGUST 31, 201X

Falco, Capital, July 1, 201X						$			0	00
Investment in July						12	5	0	0	00
Total investment for July						12	5	0	0	00
Net Income	$ 3	6	8	0	00					
Less: Falco Withdrawals	(1	5	0	0	00)					
Net Increase Capital						2	1	8	0	00
Falco, Capital, August 31, 201X						$14	6	8	0	00

SUAREZ COMPUTER CENTER
BALANCE SHEET
AUGUST 31, 201X

ASSETS						LIABILITIES AND OWNER'S EQUITY					
Cash	$10	9	7	0	00	Liabilities:					
Accounts Receivable	1	1	0	0	00	Accounts Payable	$ 1	1	5	0	00
Supplies	1	0	0	0	00						
Computer Shop Equipment	1	2	6	0	00	Owner's Equity:					
Office Equipment	1	5	0	0	00	Falco, Capital	14	6	8	0	00
						Total Liabilities and					
Total Assets	$15	8	3	0	00	Owner's Equity	$15	8	3	0	00

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Chapter 2
Debits and Credits: Analyzing and Recording Business Transactions

Chapter Overview

This chapter transitions from analyzing transactions and listing each account in a potentially long accounting equation to double entry accounting. There are five steps used to analyze a transaction: 1) determining which accounts are affected; 2) determining which categories the accounts belong to (assets, liabilities, capital, withdrawals, revenue, or expenses); 3) determining whether the accounts increase or decrease; 4) using the debit and credit rules to determine if the result of steps 2 and 3 results in a journal entry debit or credit; and 5) computing the balance in the T account. T accounts are used to illustrate debits and credits and how to evaluate each account's balance. A T account is a simpler way to illustrate an account. It has a debit and credit side and can be used to compute the balance in that account. Several examples are used to illustrate transaction analysis and the resulting journal entry and T account balance. Next, how to use the balances in the T accounts to prepare a trial balance is illustrated. A trial balance is a listing of a company's accounts and its resulting debit or credit balance in the proper debit or credit column. The information from the trial balance is used to prepare financial statements. Finally, the interrelationship between the financial statements is emphasized. The income or loss from the income statement is carried to the statement of owner's' equity. The ending balance in the statement of owner's equity is carried to the balance sheet.

Learning Objectives

After studying Chapter 2, your students should gain proficiency in the following:

1. Explain T Accounts and How to Foot and Balance.

2. Use a Chart of Accounts to Record Transactions in T Accounts According to the Rules of Debits and Credits.

3. Prepare a Trial Balance and the Financial Statements.

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Chapter 2 Assignment Grid

Assignment	Topic(s)	Learning Objective(s)	Estimated Time in Minutes	Level of Difficulty
Discussion Questions and Critical Thinking/Ethical Case				
1	Define ledger	1	5	Easy
2	Debit	1	5	Easy
3	Footings	1	5	Easy
4	Accounting cycle	2	5	Easy
5	Transaction Analysis Chart	2	5	Easy
6	Transaction Analysis Chart	2	5	Easy
7	Double Entry bookkeeping	2	5	Easy
8	Trial Balance	3	5	Easy
9	Financial Statements	3	5	Easy
10	Financial Statements	3	5	Easy
11	Trial Balance	3	5	Medium
Concept Checks				
1	The T account	1	5	Easy
2	Transaction Analysis	2	5	Easy
3	Transaction Analysis	2	5	Easy
4	Trial Balance	3	5	Easy
5	Trial Balance/ Financial Statements	3	10	Easy
Exercises (Set A)				
2A-1	Chart of accounts	2	10	Easy
2A-2	Transaction analysis	2	5	Easy
2A-3	Transaction analysis	2	5	Easy
2A-4	Account analysis	2	20	Medium
2A-5	Financial Statements	3	20	Medium
Exercises (Set B)				
2B-1	Chart of accounts	2	10	Easy
2B-2	Transaction analysis	2	5	Easy
2B-3	Transaction analysis	2	5	Easy
2B-4	Account analysis	2	20	Medium
2B-5	Financial Statements	3	20	Medium
Problems (Set A)				
2A-1	Transaction Analysis	2	20	Medium
2A-2	Transaction Analysis	2	20	Medium
2A-3	Trial Balance	1, 3	20	Medium
2A-4	Financial Statements	3	40	Hard
2A-5	Transactions, Trial Balance, & Financial Prep	2, 3	60	Hard
Problems (Set B)				
2B-1	Transaction Analysis	2	20	Medium
2B-2	Transaction Analysis	2	20	Medium
2B-3	Trial Balance	1, 3	20	Medium
2B-4	Financial Statements	3	40	Hard
2B-5	Transactions, Trial Balance, & Financial Prep	2, 3	60	Hard

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Assignment Topic(s)	Learning Objective(s)	Estimated Time in Minutes	Level of Difficulty
Financial Report Problem			
Reading Amazon's Annual Report	2	5	Easy
Keeping It Real			
Suarez Computer Center	1, 2, 3	60	Medium

Learning Unit 2-1: The T Account and How to Foot and Balance

Summary: The T account is a tool to demonstrate the increases and decreases in each account. The T account is a skeleton version of a standard account. A **standard account** form is the formal structure required for each account. All T accounts have three parts: account title, **debit** (left) and **credit** (right). The T accounts are footed to determine the balance or ending balance for the specific account. Foot is to (sum) add all debits and add (sum) all credits, and **footing** is totaling each individual column. The column balances are subtracted to compute the final total or ending balance for each account. The ending balance is always presented on the bigger or **normal side.** To record transactions, the accountant determines which accounts are credited or debited utilizing the debit and credit rules. The double-entry bookkeeping is an accounting system in which the recording of each transaction affects two or more accounts. You must include at least one debit and one credit per transaction, and the total amount of debits is equal to the total amount of credits.

Key Concepts: account, standard account, ledger, T account, debit, credit, footings, ending balance

Lecture Outline:

1) Each transaction is recorded in the accounting equation under specific accounts: assets, liabilities, capital, withdrawals, revenue, expenses, and so on.
2) Accounts are used to record increases and decreases of business transactions relating to individual elements of the accounting equation:
   a) assets,
   b) liabilities,
   c) capital,
   d) withdrawals,
   e) revenue,
   f) and expenses.
3) The subdivisions or account categories (account classification) are:
   a) asset accounts,
   b) liability accounts,
   c) owner's equity accounts,
   d) revenue accounts,
   e) and expense accounts.
4) The standard account form includes:
   a) columns for date,
   b) explanation,
   c) posting reference,
   d) debit,

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e) credit,
f) and total columns.

5) The ledger has all the individual accounts, and all transactions affecting an account are recorded on the form.
   a) A ledger is a book of accounts that records data from business transactions.
   b) Prepared manually in a traditional accounting format.
   c) Ledger accounts in a computerized system are updated automatically by software.
6) For simplicity sake, use the T account form for demonstration purposes. T account simple form includes:
   a) the title, which expresses the name of the account
   b) debit (left) side or Dr.
   c) credit (right) side or Cr.
7) Footing: (the totals for each column)
   a) process of adding all items on the debit side,
   b) adding all items on the credit side
   c) calculate the T account ending balance.
   d) Balance the difference between the amounts on each side of the T account.
      i) Total the debits (Dr.)
      ii) Total the credits (Cr.)
      iii) Subtract the debits and credits
      iv) The ending balance will be on the side that has the greater number.

Teaching Tips/Strategy: Use the "Success Coach" LU 2-1 to assess the understanding of the following concepts: T account, rules of debit and credit, and the account normal balance. Explain the basic accounting equation elements (Assets = Liabilities + Equity) and how the debit and credits are presented. For example: items to the left of the equal sign are assets. Normally the assets will increase by the left or debit. Items to the right of the equal sign, such as liabilities and equity, increase by the right. The subdivisions of equity (revenue, expenses, capital and withdrawals) will increase or decrease based on their relationship to equity. The revenue or capital accounts, will increase the equity. Therefore, the account increases by the right or credit. If the account is an expense or a withdrawal, it decreases equity. The account increases by left or debit.

For lecture practice, utilize the Concept Check #1 to use T accounts to foot and balance each account.

Use the "Ten-Minute Quiz" question #2 to reinforce T accounting concepts.

Learning Unit 2-2: The Chart of Accounts: Recording Transactions in T Accounts According to Rules of Debits and Credits.

Summary: The accounting recording process starts with a business transaction, an exchange between two or more parties, sharing items of equal value. The double-entry analysis of transactions presents two or more accounts that are affected and the total of debits and credits that are equal**.** This double-entry system helps in checking the recording of business transactions. All business transactions are recorded in accounts. An **account** is a tool used to record and summarize the effects of the organization's transactions. The basic accounting equation contains the following account categories: assets, liabilities, capital, withdrawals, revenues and expenses. The chart of accounts is a system of accounts that summarizes increases and decreases of all individual accounts. This numbering system of accounts allows accounts to be located quickly. For example, 100s are assets, 200s are liabilities, 300s are equity, 400s are revenues and 500s are expenses (See Table 2.2). A **compound entry** is a transaction that involves more than one debit or more than one credit**.**

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The debit and credit rules are: all assets increase by debit side (left) and decrease by credit side (right), liabilities increase by credit side (right) and decrease by debit side (left), and equity accounts increase by credit side (right) and decrease by debit side (left). The equity subdivisions or categories will use the debit and credit rules to present the effect on the organization's equity. The equity subdivision rules are:

1. Revenues increase the organization's equity in the business. Revenue accounts increase by credit and decrease by debit (same as the equity).
2. The expenses decrease the organization's equity. Therefore, all expense accounts will increase by debit and decrease by credit. (Note that any item that decreases the equity, the behavior is opposite to the main equity account.)
3. Capital accounts increase the organization's equity. Therefore, any capital transaction will increase by credit and decrease by debit. Withdrawals by owner decrease the organization's equity. Therefore, any withdrawal increases are recorded on the debit side.

Key Concepts: normal balance of an account, chart of accounts, compound entry, double-entry bookkeeping

Lecture Outline:

1) Refer to Table 2.1 for the rules of debit and credit using T accounts affecting the accounting equation.
   a) For assets increases are on the debit (left) side.
   b) For liabilities increases are on the credit (right) side.
   c) For capital increases are on the credit (right) side.
   d) For revenue increases are on the credit side which is the same as for capital.
   e) For withdrawals and expenses increases are on the debit side which is the opposite of how capital increases are.
   f) A normal balance of an account is the side that increases by the rules of debit and credit.
   g) The accounting equation balance must be maintained when transactions occur.
2) A chart of accounts is a numbered list of all of a business's accounts.
   a) Assets use 100s (as an example).
   b) Liabilities use 200s.
   c) Owner's Equity uses 300s.
   d) Revenues use 400s.
   e) Expenses use 500s.
3) Transaction analysis: five steps:
   a) Determine which accounts are affected.
   b) Determine which categories the accounts belong to: assets, liabilities, capital, withdrawals, revenue, or expenses.
   c) Determine whether the accounts increase or decrease.
   d) What do the rules of debit and credit say?
   e) What does the T account look like?
4) Compound entry is a transaction involving more than one debit or credit.
5) Double-entry bookkeeping refers to an accounting system in which the recording of each transaction affects two or more accounts, and the total of the debits is equal to the total of credits.

Teaching Tips/Strategy: Use the "Success Coach" LU 2-2 (end of the chapter) to review the debit and credit rules. After reviewing the concepts, complete the Concept Checks #2 and #3 to check the debit and credit rules. Exercises 2A-1, 2A-2, 2A-3, and 2A-4 are excellent classroom practice to reinforce the objective #2 concepts.

Use the "Ten-Minute Quiz" questions #1 - #5 to reinforce the Learning Objective #2.

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Learning Unit 2-3: The Trial Balance and Preparation of Financial Statements

Summary: The **trial balance** is a list of all accounts with their balances in the same order as they appear in the chart of accounts. A trial balance is not a financial statement although it is used to prepare financial statements. A trial balance is a listing of each account with each account balance listed in its proper debit or credit column. Balances on the trial balance are taken directly from footings and ending balances on the T accounts. The total of the debit column should equal the total of the credit column.

The financial statements include: income statement, statement of owner's equity, and the balance sheet. All financial statements have two columns. The columns are used for subtotals and NOT for debit and credit format. There are no debits and credits on the financial statements. The income statement summarizes the revenues and expenses to calculate the net income or net loss. The statement of owner's equity updates the ending capital balance for the period. It includes the beginning and ending balances of capital accounts, the net income or net loss, and the withdrawals account. The balance sheet is the representation of the accounting equation as the last day of the period or as a "snapshot". The balance sheet includes all assets, liabilities, and the ending balance of equity.

Key Concepts: Trial balance

Lecture Outline:

2) The trial balance:
   a) is a list of all accounts with their balances,
   b) the order of accounts is the same as they appear in the chart of accounts,
   c) is not a financial statement but is a tool used to prepare financial statements,
   d) is a list of ending balances from the ledger,
   e) and the total of the debit column should equal the total of the credit column.
6) Preparing financial statements:
   a) All financial statements are related:
      i) the net income or net loss from the income statement flows to the statements of owner's equity,
      ii) the ending balance of capital on the owner's equity statement flows to the balance sheet.
   b) The dollar sign or currency sign is used at the top of each column and on the final total amounts.
   c) One underline represents a list to subtotal
   d) Two underlines represent the end of the statement or the final "bottom line" number.
7) The Income Statement: (is generally prepared first)
   f) includes revenues and expenses
   g) includes gains or losses
   h) Net Income – revenues are greater than expenses. (Revenues – Expenses)
   i) Net Loss – expenses are greater than revenues. (Expenses – Revenues)
   j) The net income or net loss is carried to the statement of owner's equity.
8) The Statement of Owner's Equity:
   a) Start with the capital balance as of the beginning of the period
   b) Add: Net income (from the income statement)
   c) Add: additional investments from the owners
   d) Deduct: Net Loss (from the income statement)
   e) Deduct: any withdrawals
   f) Calculate the new ending balance for the capital account or owner's equity.
   g) The new balance for owner's equity is carried to the Balance Sheet.
9) The Balance Sheet:

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a) Lists all assets, liabilities and the new equity or capital account balance.
b) The total of assets = total of liabilities and equity.

Teaching Tips/Strategy: Use the "Success Coach" LU 2-3 to review trial balance and financial statement concepts. After reviewing the concepts, complete the Concept Checks #4 to illustrate the process needed to build a trial balance.

The instructor can use the Concept Check #5 as a demonstration exercise to explain the importance of accounts and the proper classification within the financial statements. Exercises 2A-5 and 2B-5 are excellent classroom practice to reinforce the objective #3 concepts.

Use the "Ten-Minute Quiz" questions #7, #8, #9 and #10 to reinforce the Learning Unit 2-3 concepts.

Teaching Tips/Strategy: Each chapter contains a Try It! at the end of each Learning Unit. The Try its! are intended as practice for students and/or as checking of student understanding. There is also a Demonstration Summary Problem with each chapter to provide an overview of all the chapter concepts. Students can study and review this problem to view how all the chapter concepts fit together.

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Name_____Date_____Section_____

CHAPTER 2
TEN-MINUTE QUIZ

Circle the letter of the best response.

1. Although debits increase assets, they also
   a. increase revenues
   b. increase expenses
   c. increase owner's equity
   d. increase liabilities

2. The right side of a T account is the
   a. increase side
   b. decrease side
   c. credit side
   d. debit side

3. A compound entry is
   a. an entry involving more than one debit or credit
   b. an entry involving multiple transactions
   c. an entry involving more than one date
   d. an entry increasing and decreasing the same account

4. Which of the following accounts has a normal debit balance?
   a. Mia Wong, Capital
   b. Cash
   c. Accounts Payable
   d. Fees Earned

5. Which of the following accounts has a normal credit balance?
   a. Office Equipment
   b. Salaries Expense
   c. Accounts Receivable
   d. Accounts Payable

6. Payment of salaries to employees is recorded as a(n)
   a. asset
   b. liability
   c. revenue
   d. expense

7. The trial balance
   a. shows the income earned during the year
   b. shows the total amount of assets
   c. shows the accuracy of the general ledger
   d. is the first financial statement prepared

8. Which account is shown on the balance sheet?
   a. Cash
   b. Utilities Expense

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c. Withdrawals by owner
d. Revenue

9. Which account is shown on the income statement?
   a. Equipment
   b. Owner, Capital Account
   c. Accounts Payable
   d. Rent Expense

10. Which account is shown on the statement of owner's equity?
    a. Fees Earned
    b. Accounts Receivable
    c. Owner, Withdrawals
    d. Accounts Payable

Answer Key to Chapter 2 Quiz

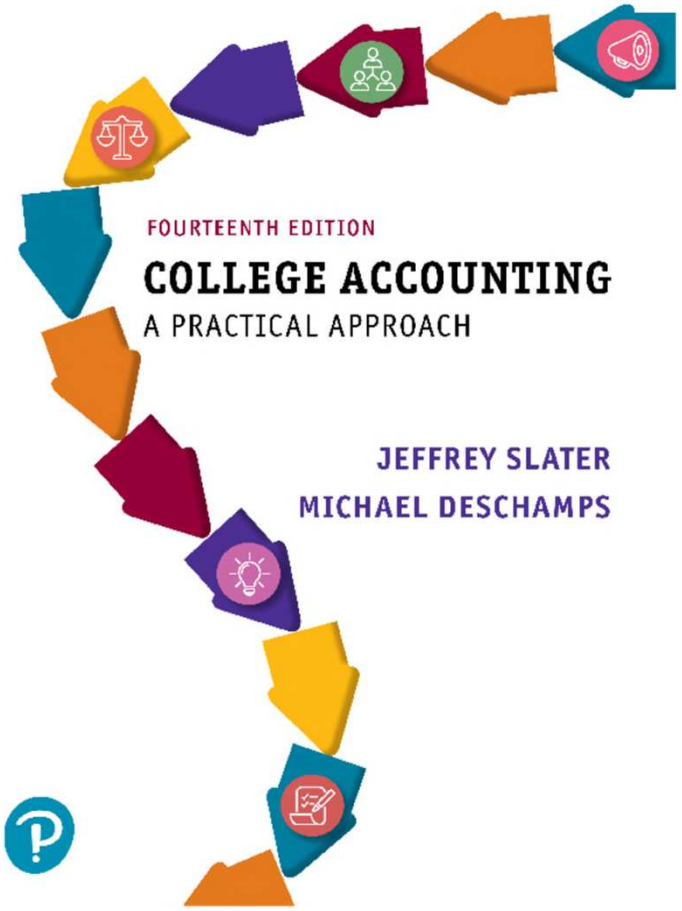
1. b
2. c
3. a
4. b
5. d
6. d
7. c
8. a
9. d
10. c

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College Accounting: A Practical Approach

Fourteenth Edition



Chapter 2

Debits and Credits: Analyzing and Recording Business Transactions

Pearson

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Learning Objectives

2.1 Explain T Accounts and How to Foot and Balance

2.2 Use a Chart of Accounts to Record Transactions in T Accounts According to the Rules of Debits and Credits

2.3 Prepare a Trial Balance and the Financial Statements

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Learning Objective 2.1

Explain T Accounts and How to Foot and Balance

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Standard Account (1 of 4)

- A business transaction is recorded in the accounting equation under a specific account
- Different accounts are used for each subdivisions of the accounting equation:
  - Assets
  - Liabilities
  - Equity
  - Expenses
  - Revenues

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Standard Account (2 of 4)

- Needed
  - A way to record the increases and decreases
  - In specific account categories
  - Keeping them together in one place
- Standard account
  - Formal account that includes columns for:
    - Date
    - Item
    - Posting reference
    - Debits
    - Credits

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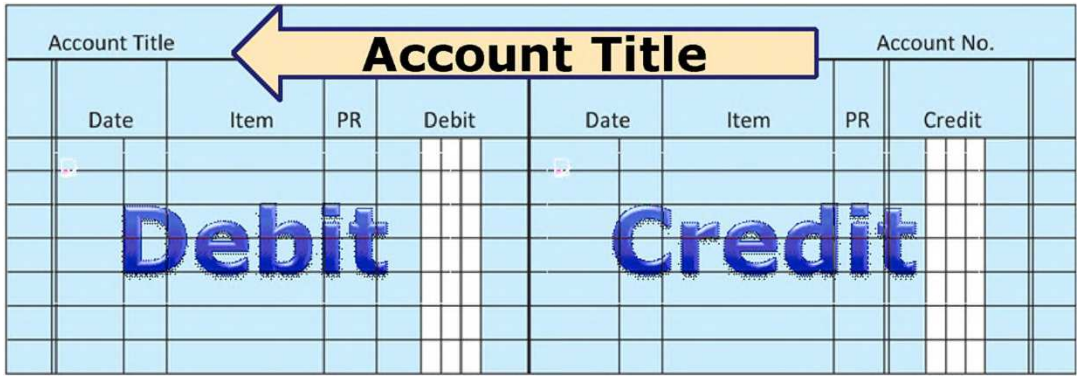
Standard Account (3 of 4)

- Accounts have a separate form
- Each form contains all transactions affecting it
- All forms kept together in a ledger (book-like)
- Each page contains one account

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Standard Account (4 of 4)

Figure 2.1 The Standard Account Form Is the Source of the T Account's Shape



- All T accounts have this structure.
- Left side is called debit side.
- Right side is called credit side.
- Debit and credit indicates position only.

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Balancing an Account

- The procedure used to balance an account is the same for all accounts

		Dr.	Cr.	
4/2		5,000	4/3	400
4/20		600	4/25	500
		5,600		**900**
Bal	**4,700**			

  - Add the items listed on the left side and foot (subtotal)
  - Add the items listed on the right side and foot (subtotal)
  - Subtract the smaller number from the larger number
  - The result is the account balance, listed on the side with the larger amount (**5,600 – 900 = 4,700**)

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Learning Objective 2.2

Use a Chart of Accounts to Record Transactions in T Accounts According to the Rules of Debits and Credits

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Recording Business Transactions: Debits and Credits (1 of 2)

- Learn the rules

Table 2.1 Rules of Debit and Credit

Account Category	Increase (Normal Balance)	Decrease
Assets	Debit	Credit
Liabilities	Credit	Debit
Owner's Equity		
Capital	Credit	Debit
Withdrawals	Debit	Credit
Revenue	Credit	Debit
Expenses	Debit	Credit

- Normal balance of an account is the side that increases

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Recording Business Transactions: Debits and Credits (2 of 2)

- The rules

Assets		=	Liabilities		+	Owner's Equity									
					+	Capital		−	Withdrawals		+	Revenue		−	Expenses	
Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
+	−		−	+		−	+		+	−		−	+		+	−

- Rules for withdrawals and expenses are the opposite of those for capital and revenue

Assets		+	Withdrawals		+	Expenses		=	Liabilities		+	Capital		+	Revenue	
Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
+	−		+	−		+	−		−	+		−	+		−	+

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Balancing the Equation

- Amount(s) entered on the debit side of one account(s) must be on the credit side of another account(s).
- This ensures the accounting equation is in balance.
  - You can have multiple debits with one credit.
  - You can have multiple credits with one debit.
  - You can have multiple debits with multiple credits.
- Debit totals must equal credit totals.

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Chart of Accounts

- A numbered list of all of the business' accounts

Table 2.2 Chart of Accounts for Jess Bora's Consulting Firm

Balance Sheet Accounts	
Assets	**Liabilities**
111 Cash	211 Accounts Payable
112 Accounts Receivable	**Owner's Equity**
121 Computer Equipment	311 Jess Bora, Capital
	312 Jess Bora, Withdrawals
Income Statement Accounts	
Revenue	**Expenses**
411 Consulting Fees	511 Salaries Expense
	512 Rent Expense
	513 Advertising Expense

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The Transaction Analysis (1 of 2)

- The five steps to analyzing each transaction

Step 1: Determine which accounts are affected. Example: Cash, Accounts Payable, Rent Expense. A transaction always affects at least two accounts.

Step 2: Determine which categories the accounts belong to: assets, liabilities, capital, withdrawals, revenue, or expenses.

Step 3: Determine whether the accounts increase or decrease. Example: If you receive cash, that account increases.

Step 4: What do the rules of debit and credit say?

Step 5: What does the T account look like?
Place amounts into accounts either on the left or right side depending on the rules.

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The Transaction Analysis (2 of 2)

- The five-step analysis from another perspective

1	2	3	4	5
Accounts Affected	Category	↓ (decrease) ↑ (increase)	Rules of Dr. and Cr.	Appearance of T Accounts

- Do not try to debit or credit an account until you go through the first three steps of the transaction analysis

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Applying the Transaction Analysis (1 of 10)

- Transaction A Aug. 28: Jess Bora invests $6,000 cash and $200 of computer equipment in the business.

1 Accounts Affected	2 Category	3 ↓↑	4 Rules of Dr. and Cr.	5 Appearance of T Accounts
Cash	Asset	↑	Dr.	Cash 111 (A) 6,000 |
Computer Equipment	Asset	↑	Dr.	Computer Equipment 121 (A) 200 |
Jess Bora , Capital	Capital	↑	Cr.	Jess Bora, Capital 311 | 6,200 (A)

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Compound Entries

- A transaction that involves more than one debit or more than one credit
- Example
  - A debit of $6,000 to Cash and a debit of $200 to Computer Equipment for a credit of $6,200 to Jess Bora's Capital
- The name for this is double-entry bookkeeping.

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Applying the Transaction Analysis (2 of 10)

- Transaction B Aug. 29: Computer consulting firm bought computer equipment for cash, $500.

1 Accounts Affected	2 Category	3 ↓↑	4 Rules of Dr. and Cr.	5 T Account Update
Computer Equipment	Asset	↑	Dr.	Computer Equipment 121 (A) 200 (B) 500
Cash	Asset	↓	Cr.	Cash 111 (A) 6,000 | 500 (B)

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Applying the Transaction Analysis (3 of 10)

- Transaction C Aug. 30: Bought more computer equipment on account, $300.

1 Accounts Affected	2 Category	3 ↓↑	4 Rules of Dr. and Cr.	5 T Account Update
Computer Equipment	Asset	↑	Dr.	Computer Equipment 121 (A) 200 (B) 500 (C) 300
Accounts Payable	Liability	↑	Cr.	Accounts Payable 211 300 (C)

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Applying the Transaction Analysis (4 of 10)

- Transaction D Sept. 1–30: Provided consulting services for cash, $2,000.

1 Accounts Affected	2 Category	3 ↓↑	4 Rules of Dr. and Cr.	5 T Account Update
Cash	Asset	↑	Dr.	Cash 111
				(A) 6,000 | 500 (B)
				(D) 2,000 |
Consulting Fees	Revenue	↑	Cr.	Consulting Fees 411
				| 2,000 (D)

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Applying the Transaction Analysis (5 of 10)

- Transaction E Sept. 1–30: Provided consulting services on account, $3,000.

1 Accounts Affected	2 Category	3 ↓↑	4 Rules of Dr. and Cr.	5 T Account Update
Accounts Receivable	Asset	↑	Dr.	Accounts Receivable 112 (E) 3,000 |
Consulting Fees	Revenue	↑	Cr.	Consulting Fees 411 | 2,000 (D) | 3,000 (E)

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Applying the Transaction Analysis (6 of 10)

- Transaction F - Sept. 1–30: Received $900 cash from clients for services rendered previously on account.

1 Accounts Affected	2 Category	3 ↓ ↑	4 Rules of Dr. and Cr.	5 T Account Update
Cash	Asset	↑	Dr.	Cash 111
				(A) 6,000 | 500 (B) (D) 2,000 (F) 900
Accounts Receivable	Asset	↓	Cr.	Accounts Receivable 112
				(E) 3,000 | 900 (F)

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Applying the Transaction Analysis (7 of 10)

- Transaction G Sept. 1–30: Paid Salaries Expense, $700.

1 Accounts Affected	2 Category	3 ↓↑	4 Rules of Dr. and Cr.	5 T Account Update
Salaries Expense	Expense	↑	Dr.	Salaries Expense 511
				(G) 700 |
Cash	Asset	↓	Cr.	Cash 111
				(A) 6,000 | 500 (B)
				(D) 2,000 | 700 (G)
				(F) 900 |

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Applying the Transaction Analysis (8 of 10)

- Transaction H Sept. 1–30: Paid Rent Expense, $400.

1 Accounts Affected	2 Category	3 ↓ ↑	4 Rules of Dr. and Cr.	5 T Account Update
Rent Expense	Expense	↑	Dr.	Rent Expense 512
				(H) 400 |
Cash	Asset	↓	Cr.	Cash 111
				(A) 6,000 | 500 (B)
				(D) 2,000 | 700 (G)
				(F) 900 | 400 (H)

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Applying the Transaction Analysis (9 of 10)

- Transaction I Sept. 1–30: Received a bill for Advertising Expense (to be paid next month), $200.

1 Accounts Affected	2 Category	3 ↓↑	4 Rules of Dr. and Cr.	5 T Account Update
Advertising Expense	Expense	↑	Dr.	Advertising Expense 513 (I) 200 |
Accounts Payable	Liability	↑	Cr.	Accounts Payable 211 300 (C) 200 (I)

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Applying the Transaction Analysis (10 of 10)

- Transaction J Sept. 1–30: Bora withdrew cash for personal use, $100.

1 Accounts Affected	2 Category	3 ↓↑	4 Rules of Dr. and Cr.	5 T Account Update
Jess Bora, Withdrawals	Withdrawals	↑	Dr.	Jess Bora, Withdrawals 312 (J) 100 |
Cash	Asset	↓	Cr.	Cash 111 (A) 6,000 | 500 (B) (D) 2,000 | 700 (G) (F) 900 | 400 (H) | 100 (J)

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Summary of Transactions (1 of 2)

Summary of Transactions for Jess Bora

Assets = **Liabilities** + **Owner's Equity**

Cash 111 = Accounts Payable 211 + Capital − Withdrawals + Revenue − Expenses

Cash 111	
(A) 6,000	500 (B)
(D) 2,000	700 (G)
(F) 900	400 (H)
	100 (J)

Accounts Payable 211	
	300 (C)
	200 (I)

Jess Bora, Capital 311	
	6,200 (A)

Jess Bora, Withdrawals 312	
(J) 100	

Consulting Fees 411	
	2,000 (D)
	3,000 (E)

Salaries Expense 511	
(G) 700	

Accounts Receivable 112	
(E) 3,000	900 (F)

Rent Expense 512	
(H) 400	

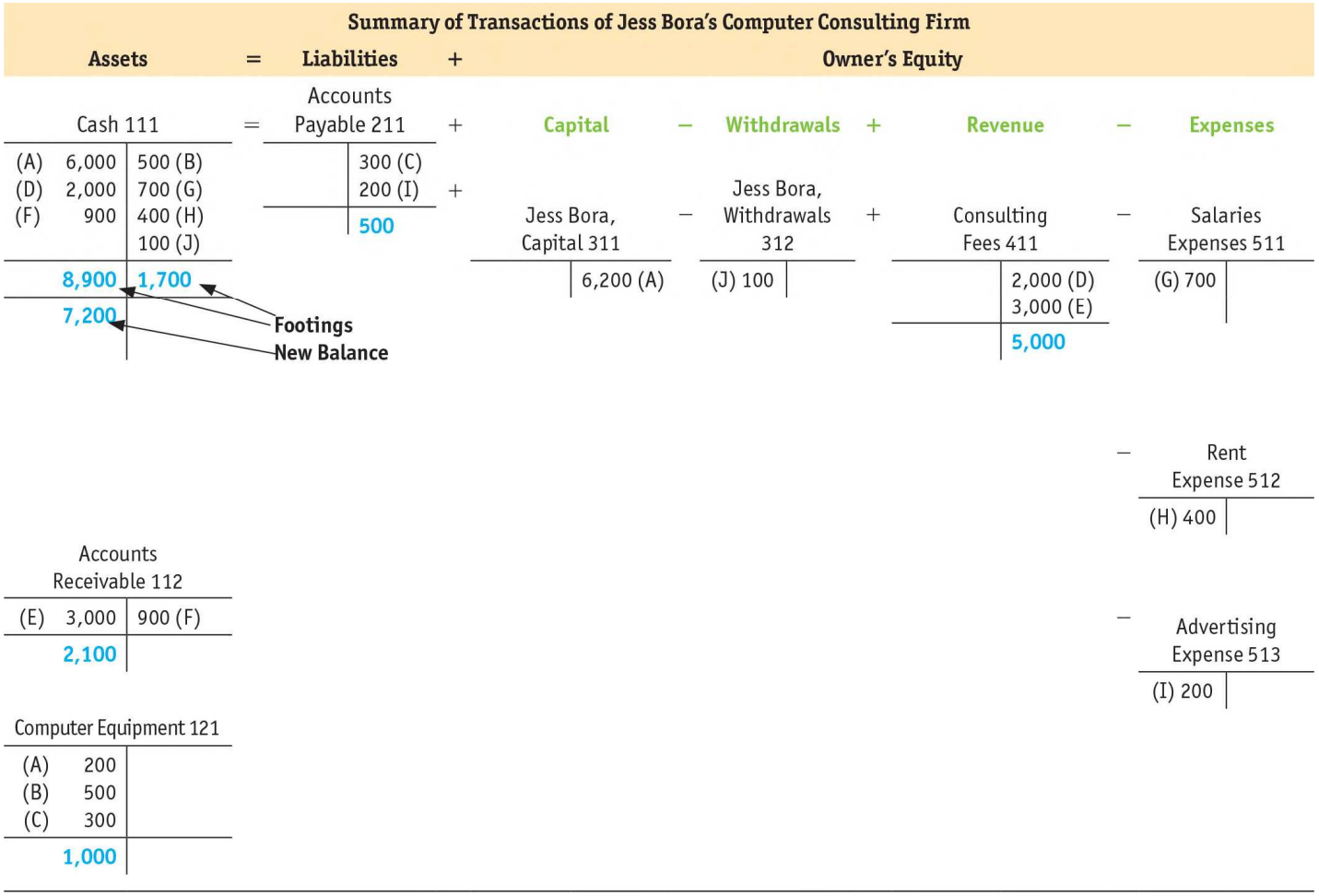
Computer Equipment 121	
(A) 200	
(B) 500	
(C) 300	

Advertising Expense 513	
(I) 200	

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Summary of Transactions (2 of 2)



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Learning Objective 2.3

- Prepare a Trial Balance and the Financial Statements

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Trial Balance

- List of the ending balances of all the accounts in a ledger
- Total debits should equal total credits
- List in same order as they appear in chart of accounts

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Figure 2.2 Trial Balance for Jess Bora's Computer Consulting Firm

JESS BORA, COMPUTER CONSULTING
TRIAL BALANCE
SEPTEMBER 30, 201X

	Dr.	Cr.
Cash	7 2 0 0 0 0	
Accounts Receivable	2 1 0 0 0 0	
Computer Equipment	1 0 0 0 0 0	
Accounts Payable		5 0 0 0 0
Jess Bora, Capital		6 2 0 0 0 0
Jess Bora, Withdrawals	1 0 0 0 0	
Consulting Fees		5 0 0 0 0 0
Salaries Expense	7 0 0 0 0	
Rent Expense	4 0 0 0 0	
Advertising Expense	2 0 0 0 0	
Totals	11 7 0 0 0 0	11 7 0 0 0 0

When a trial balance is complete, the total of all the debits must equal the total of all the credits.

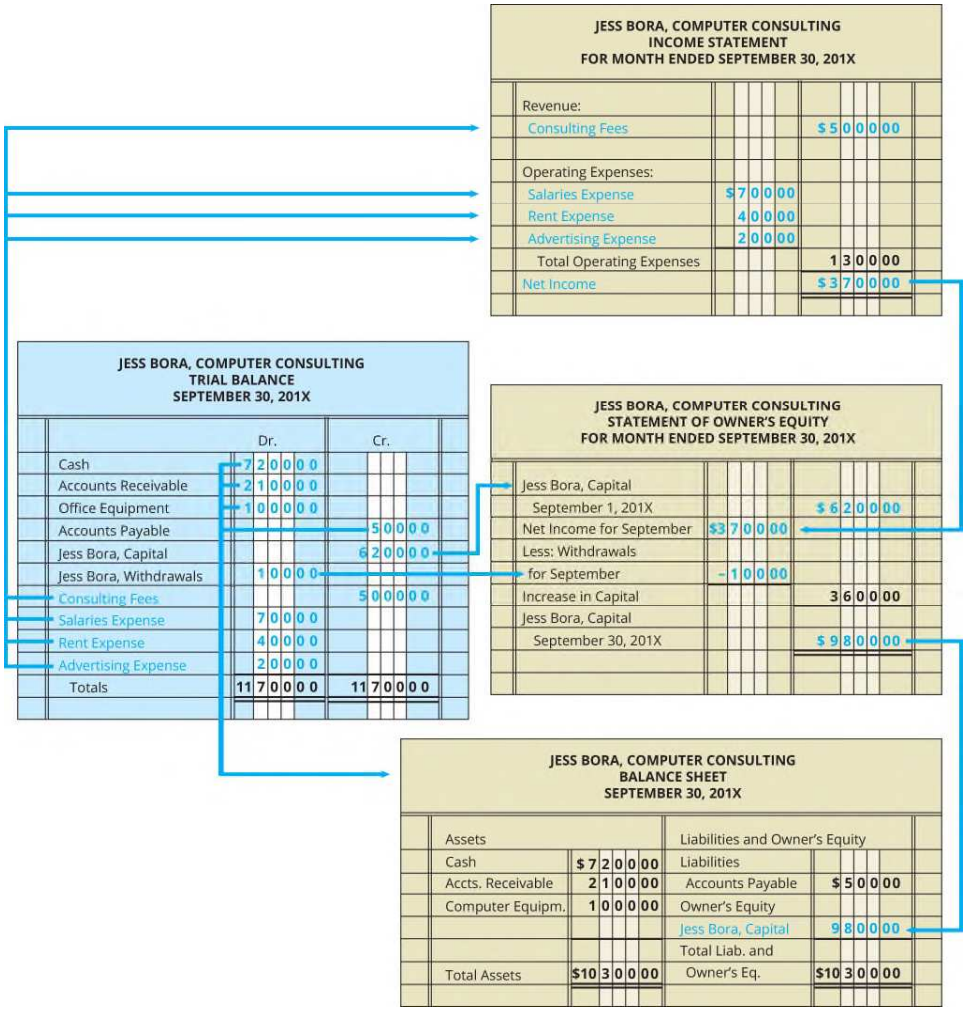
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Steps in Preparing Financial Statements from a Trial Balance

- **Income Statement:** Once the trial balance is complete, the first report to make is the income statement, which is made up of only revenue and expense.
- **Statement of Owner's Equity:** The second report to prepare is the statement of owner's equity, which shows how to calculate a new figure for capital.
- **Balance Sheet:** The third report is the balance sheet, which lists out each asset, liability, and the new figure for capital.

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Figure 2.3 Steps in Preparing Financial Statements from a Trial Balance



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Summary of the Chapter (1 of 6)

- The chart of accounts aids in locating and identifying accounts quickly.
- The rules of debit and credit only tell us on which side to place information.
  - Whether the debit or credit represents increases or decreases depends on the account category: assets, liabilities, capital, and so on.
    - Think of a business transaction as an exchange: You get something and you give or part with something.
- A transaction that involves more than one debit or more than one credit is called a **compound entry.**

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Summary of the Chapter (2 of 6)

- You will notice that assets, withdrawals, and expenses increase when you put amounts on the left, or debit, side of these accounts.
- The accounting system balances because liabilities, capital, and revenue increase when you put amounts on the right, or credit, side of these accounts.
- The increase side of any account will represent its normal balance.

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Summary of the Chapter (3 of 6)

- Footings are used to obtain the totals of each side of every T account that has more than one entry.
  - The **footings** are used to find the ending balance.
  - The ending balances are used to prepare a **trial balance.**
- The trial balance is not a financial statement, although it is used to prepare financial statements.
  - The trial balance lists all the accounts with their balances in the same order as they appear in the chart of accounts.

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Summary of the Chapter (4 of 6)

- The trial balance is a list of ending balances of ledger accounts.
  - These balances are used to prepare the three financial reports.
- Financial reports have no debits or credits.
  - The inside columns are used to subtotal numbers.
  - Revenue and expenses go on the income statement.
  - Withdrawals and either net income or net loss go on the statement of owner's equity to calculate a new figure for capital.

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Summary of the Chapter (5 of 6)

- The balance sheet is a list of assets, liabilities, and the new amount for ending capital.
- Remember that the trial balance has debit or credits, not the financial reports.
- All we are taking are the ending balances of each title from the trial balance.
- Once the trial balance is complete, the first statement to make is the income statement.
  - It is made up of only revenue and expenses.
- Remember that there are no debits or credits on financial statements.

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Summary of the Chapter (6 of 6)

- For the income statement:
  - List fees as the revenue and then list the expense titles in the inside column.
  - Total operating expenses are then subtracted from the fees to arrive at a net income or a net loss.
- The second statement to prepare is the statement of owner's equity, which shows how to calculate a new figure for capital.
- The third report is the balance sheet, which lists out each asset, liability, and the new figure for capital.

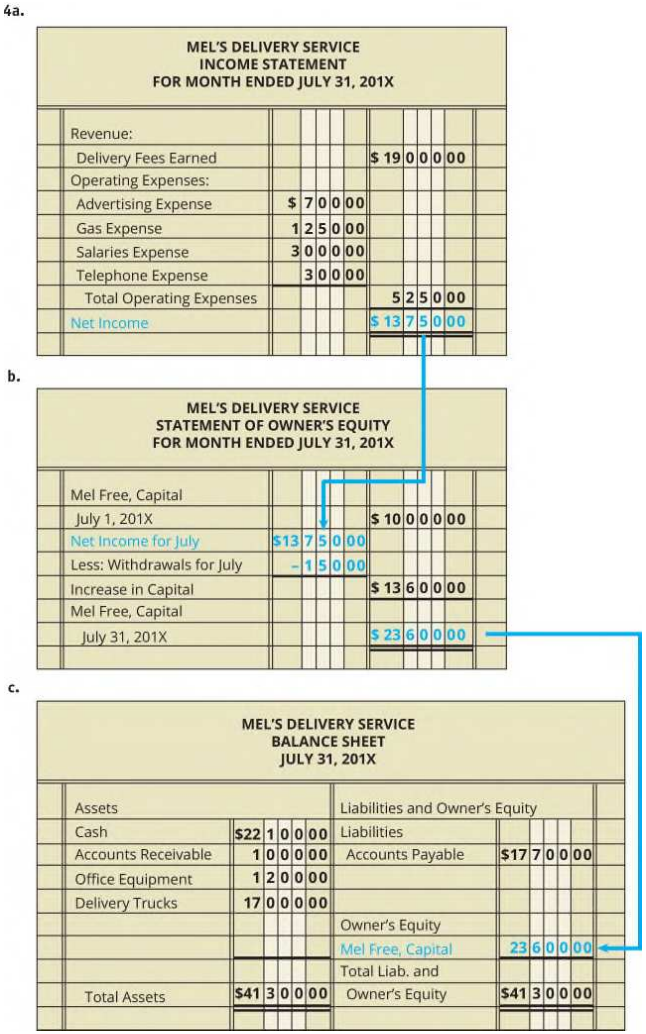
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Questions?

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Figure 2.4 Financial Statements



4a.

MEL'S DELIVERY SERVICE
INCOME STATEMENT
FOR MONTH ENDED JULY 31, 201X

Revenue:		
Delivery Fees Earned		$ 19 0 0 0 00
Operating Expenses:		
Advertising Expense	$ 7 0 0 00	
Gas Expense	1 2 5 0 00	
Salaries Expense	3 0 0 0 00	
Telephone Expense	3 0 0 00	
Total Operating Expenses		5 2 5 0 00
Net Income		$ 13 7 5 0 00

b.

MEL'S DELIVERY SERVICE
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED JULY 31, 201X

Mel Free, Capital		
July 1, 201X		$ 10 0 0 0 0 00
Net Income for July	$13 7 5 0 00	
Less: Withdrawals for July	– 1 5 0 00	
Increase in Capital		$ 13 6 0 0 00
Mel Free, Capital		
July 31, 201X		$ 23 6 0 0 00

c.

MEL'S DELIVERY SERVICE
BALANCE SHEET
JULY 31, 201X

Assets		Liabilities and Owner's Equity	
Cash	$22 1 0 0 00	Liabilities	
Accounts Receivable	1 0 0 0 00	Accounts Payable	$17 7 0 0 00
Office Equipment	1 2 0 0 00		
Delivery Trucks	17 0 0 0 00		
		Owner's Equity	
		Mel Free, Capital	23 6 0 0 00
		Total Liab. and	
Total Assets	$41 3 0 0 00	Owner's Equity	$41 3 0 0 00

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Figure 2.5 Exercise 2A-5 p. 56

HELM'S CLEANERS
TRIAL BALANCE
MARCH 31, 201X

	Dr.	Cr.
Cash	7 5 0 0 0	
Equipment	5 0 0 0 0	
Accounts Payable		4 0 0 0 0
J. Helm, Capital		7 2 6 0 0
J. Helm, Withdrawals	5 5 0 0	
Cleaning Fees		4 6 6 0 0
Salaries Expense	1 2 5 0 0	
Utilities Expense	1 6 2 0 0	
Totals	1 5 9 2 0 0	1 5 9 2 0 0

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Figure 2.6 Exercise 2B-5 p. 57

HILTON'S CLEANERS
TRIAL BALANCE
JANUARY 31, 201X

	Dr.	Cr.
Cash	7 5 0 0 0	
Equipment	5 0 0 0 0	
Accounts Payable		4 5 5 0 0
J. Hilton, Capital		8 6 6 0 0
J. Hilton, Withdrawals	2 5 0 0 0	
Cleaning Fees		4 6 0 0 0
Salaries Expense	1 1 0 0 0	
Utilities Expense	1 7 1 0 0	
Totals	1 7 8 1 0 0	1 7 8 1 0 0

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Figure 2.7 Problem 2A-4 p. 59

GABRIELLA LEITZ, ATTORNEY-AT-LAW
TRIAL BALANCE
JANUARY 31, 201X

Account	Debit	Credit
Cash	7,000.00	
Accounts Receivable	800.00	
Office Equipment	5,000.00	
Accounts Payable		2,200.00
Salaries Payable		950.00
G. Leitz, Capital		4,600.00
G. Leitz, Withdrawals	400.00	
Revenue from Legal Fees		1,600.00
Utilities Expense	150.00	
Rent Expense	350.00	
Salaries Expense	150.00	
Totals	9,350.00	9,350.00

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Figure 2.8 Problem 2B-4 p. 61

GAIL LANTZ, ATTORNEY-AT-LAW
TRIAL BALANCE
JULY 31, 201X

Account	Dr.	Cr.
Cash	5 0 0 0 0 0	
Accounts Receivable	7 5 0 0 0	
Office Equipment	2 7 0 0 0 0	
Accounts Payable		3 0 0 0 0 0
Salaries Payable		1 0 0 0 0 0
G. Lantz, Capital		4 7 0 0 0 0
G. Lantz, Withdrawals	1 1 0 0 0 0	
Revenue from Legal Fees		1 6 0 0 0 0
Utilities Expense	1 0 0 0 0	
Rent Expense	4 5 0 0 0	
Salaries Expense	2 0 0 0 0	
Totals	10 3 0 0 0 0	10 3 0 0 0 0

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