Financial and Managerial Accounting 3rd edition Weygandt Solutions Manual

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CHAPTER 2

The Recording Process

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Do It!	Exercises	A Problems
1. Describe how accounts, debits, and credits are used to record business transactions.	1, 2, 3, 4, 5, 6, 7, 8, 9, 14, 21	1, 2, , 5	1	1, 2, 4, 6, 7	
2. Indicate how a journal is used in the recording process.	10, 11, 12, 13, 14, 16, 19	3, 4, 6	2	3, 5, 6, 7, 8, 9, 11, 12, 13, 14	1A, 2A, 3A, 5A
3. Explain how a ledger and posting help in the recording process.	15, 17	7, 8	3	10, 11, 14	2A, 3A, 5A
4. Prepare a trial balance.	18, 20	9, 10	4	11, 12, 13, 15, 16, 17	2A, 3A, 4A, 5A

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ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Journalize a series of transactions.	Easy	20–30
2A	Journalize transactions, post, and prepare a trial balance.	Easy	30–40
3A	Journalize and post transactions and prepare a trial balance.	Moderate	40–50
4A	Prepare a correct trial balance.	Moderate	30–40
5A	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50

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WEYGANDT FINANCIAL AND MANAGERIAL ACCOUNTING 3E
CHAPTER 2
THE RECORDING PROCESS

Number	LO	BT	Difficulty	Time (min.)
BE1	1	C	Easy	6–8
BE2	1	C	Easy	4–6
BE3	2	AP	Easy	4–6
BE4	2	C	Moderate	4–6
BE5	1	C	Easy	6–8
BE6	2	AP	Easy	4–6
BE7	3	AP	Easy	4–6
BE8	3	AP	Easy	4–6
BE9	4	AP	Easy	4–6
BE10	4	AN	Moderate	6–8
DI1	1	C	Easy	3–5
DI2	2	AP	Easy	3–5
DI3	3	AP	Easy	2–4
DI4	4	AP	Easy	6–8
EX1	1	K	Easy	2–4
EX2	1	C	Easy	10–15
EX3	2	AP	Easy	8–10
EX4	1	C	Easy	6–8
EX5	2	AP	Easy	6–8
EX6	1, 2	AP	Easy	6–8
EX7	1, 2	AP	Easy	8–10
EX10	3	C	Easy	2–4
EX11	3, 4	AP	Easy	10–12
EX12	2, 4	AP	Moderate	10–12
EX13	2, 4	AP	Moderate	12–15
EX14	2, 3	AP	Moderate	12–15
EX15	4	AN	Moderate	6–8
EX16	4	AP	Easy	10-15
EX17	2–4	AP	Hard	20–25

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THE RECORDING PROCESS (Continued)

Number	LO	BT	Difficulty	Time (min.)
P1A	2	AP	Easy	20–30
P2A	2–4	AP	Easy	30–40
P3A	2–4	AP	Moderate	40–50
P4A	4	AN	Moderate	30–40
P5A	2–4	AP	Moderate	40–50
CT1	1	C	Easy	8–10
CT2	1, 2	AN	Easy	8–10
CT3	1, 2	AN	Easy	15–20
CT4	—	AP, S	Moderate	20–30
CT5	—	AP, S	Moderate	10–15
CT6	2, 4	AN	Hard	40–45
CT7	2	AP	Easy	10–15
CT8	4	E	Moderate	10–15
CT9	—	E	Moderate	10–15
CT10	—	E	Moderate	40–45
CT11	—	S	Moderate	40–45

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Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Describe how accounts, debits, and credits are used to record business transactions.	Q2–1 Q2-21 E2-1	Q2-2 Q2-8 Q2-3 Q2-9 BE2-5 Q2-4 DI2-1 Q2-5 E2-2 Q2-6 BE2-1 E2-4 Q2-7 BE2-2	E2-6 E2-7			
2. Indicate how a journal is used in the recording process.	Q2-10 Q2-12 Q2-19	Q2-11 Q2-13 Q2-14 BE2-4	Q2-16 E2-7 P2-5A BE2-3 E2-8 BE2-6 E2-9 DI2-2 E2-12 E2-3 E2-13 E2-5 E2-14 E2-6 P2-1A P2-2A P2-3A			
3. Explain how a ledger and posting help in the recording process.	Q2-15	Q2-17 E2-10	BE2-7 E2-14 BE2-8 P2-2A DI2-3 P2-3A E2-11 P2-5A			
4. Prepare a trial balance.		Q2-18 E2-15	BE2-9 E2-13 P2-3A DI2-4 E2-16 P2-5A E2-11 E2-17 E2-12 P2-2A	Q2-20 BE2-10 E2-15 P2-4A		
Expand Your Critical Thinking		Financial Reporting	Real–World Focus Communication	Comparative Analysis Ethics Case Decision–Making Across the Organization	Communication Decision-Making Across the Organization Real-world focus Considering People, Planet, and Profit	All About You Ethics Case

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ANSWERS TO QUESTIONS

1. A T-account has the following parts: (a) the title, (b) the left or debit side, and (c) the right or credit side.

LO 1 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting IMA: Reporting

2. Disagree. The terms debit and credit mean left and right respectively.

LO 1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting IMA: Reporting

3. Tom is incorrect. The double-entry system merely records the dual effect (at least two accounts are affected) of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once, with a dual effect.

LO 1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting IMA: Reporting

4. Olga is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favorable nor unfavorable.

LO 1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

5. (a) Asset accounts are increased by debits and decreased by credits.
(b) Liability accounts are decreased by debits and increased by credits.
(c) Revenues, common stock, and retained earnings are increased by credits and decreased by debits. Expenses and dividends are increased by debits and decreased by credits.

LO 1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

6. (a) Accounts Receivable—debit balance.
(b) Cash—debit balance.
(c) Dividends—debit balance.
(d) Accounts Payable—credit balance.
(e) Service Revenue—credit balance.
(f) Salaries and Wages Expense—debit balance.
(g) Common Stock—credit balance.

LO 1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

7. (a) Accounts Receivable—asset—debit balance.
(b) Accounts Payable—liability—credit balance
(c) Equipment—asset—debit balance.
(d) Dividends—stockholders' equity—debit balance.
(e) Supplies—asset—debit balance.

LO 1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

8. (a) Debit Supplies and credit Accounts Payable.
(b) Debit Cash and credit Notes Payable.
(c) Debit Salaries and Wages Expense and credit Cash.

LO 1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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9. (1) Cash—both debit and credit entries.
(2) Accounts Receivable—both debit and credit entries.
(3) Dividends—debit entries only.
(4) Accounts Payable—both debit and credit entries.
(5) Salaries and Wages Expense—debit entries only.
(6) Service Revenue—credit entries only.

LO 1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

10. The basic steps in the recording process are:
1. Analyze each transaction for its effect on the accounts.
2. Enter the transaction information in a journal.
3. Transfer the journal information to the appropriate accounts in the ledger.

LO 2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting IMA: Reporting

11. The advantages of using the journal in the recording process are:
(a) It discloses in one place the complete effects of a transaction.
(b) It provides a chronological record of all transactions.
(c) It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.

LO 2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

12. (a) The debit should be entered first.
(b) The credit should be indented.

LO 2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting IMA: Reporting

13. When three or more accounts are required in one journal entry, the entry is referred to as a compound entry. An example of a compound entry is the purchase of equipment, part of which is paid for with cash and the remainder is on account.

LO 2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

14. (a) No, business transaction debits and credits should not be recorded directly in the ledger.
(b) The advantages of using the journal are:
1. It discloses in one place the complete effects of a transaction.
2. It provides a chronological record of all transactions.
3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.

LO 2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

15. The advantage of the last step in the posting process is to indicate that the item has been posted.

LO 3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting IMA: Reporting

16. (a)

Cash		9,000	
	Common Stock		9,000
	(Issued shares of stock for cash)		

(b)

Prepaid Insurance		800	
	Cash		800
	(Paid one-year insurance policy)		

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(c)	Supplies	2,000	
	Accounts Payable		2,000
	(Purchased supplies on account)		
(d)	Cash	7,800	
	Service Revenue		7,800
	(Received cash for services rendered)		

LO 2 BT: AP Difficulty: Easy TOT: 4 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

17. (a) The entire group of accounts maintained by a company, including all the asset, liability, and stockholders' equity accounts, is referred to collectively as the ledger.

(b) A chart of accounts is a list of accounts and the account numbers that identify their location in the ledger. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and define the level of detail that a company desires in its accounting system.

LO 3 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting IMA: Reporting

18. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove (check) that the debits equal the credits after posting. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.

LO 4 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

19. No, Juan is not correct. The proper sequence is as follows:
(b) Business transaction occurs.
(c) Information entered in the journal.
(a) Debits and credits posted to the ledger.
(e) Trial balance is prepared.
(d) Financial statements are prepared.

LO 2 BT: K Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

20. (a) The trial balance would balance.
(b) The trial balance would not balance.

LO 4 BT: AN Difficulty: Easy TOT: 4 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

21. The normal balances are Cash debit, Accounts Payable credit, and Interest Expense debit.

LO 1 BT: K Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2-1

		(a) Debit Effect	(b) Credit Effect	(c) Normal Balance
1.	Accounts Payable	Decrease	Increase	Credit
2.	Advertising Expense	Increase	Decrease	Debit
3.	Service Revenue	Decrease	Increase	Credit
4.	Accounts Receivable	Increase	Decrease	Debit
5.	Common Stock	Decrease	Increase	Credit
6.	Dividends	Increase	Decrease	Debit

LO 1 BT: C Difficulty: Easy TOT: 6 min. AACSB: None AICPA FC: Reporting IMA: Reporting

BRIEF EXERCISE 2-2

		Account Debited	Account Credited
June	1	Cash	Common Stock
	2	Equipment	Accounts Payable
	3	Rent Expense	Cash
	12	Accounts Receivable	Service Revenue

LO 1 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting IMA: Reporting

BRIEF EXERCISE 2-3

June	1	Cash	4,000	
		Common Stock		4,000
	2	Equipment	1,200	
		Accounts Payable		1,200
	3	Rent Expense	800	
		Cash		800
	12	Accounts Receivable	300	
		Service Revenue		300

LO 2 BT: AP Difficulty: Easy TOT: 4 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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BRIEF EXERCISE 2-4

The basic steps in the recording process are:

1. **Analyze each transaction. In this step, business documents are examined to determine the effects of the transaction on the accounts.**

2. **Enter each transaction in a journal. This step is called journalizing and it results in making a chronological record of the transactions.**

3. **Transfer journal information to ledger accounts. This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.**

LO 2 BT: C Difficulty: Moderate TOT: 5 min. AACSB: None AICPA FC: Reporting IMA: Reporting

BRIEF EXERCISE 2-5

		(a) Effect on Accounting Equation	(b) Debit-Credit Analysis
Aug.	1	The asset Cash is increased; the stockholders' equity account Common Stock is increased.	Debits increase assets: debit Cash $5,000. Credits increase stockholders' equity: credit Common Stock $5,000.
	4	The asset Prepaid Insurance is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Insurance $1,800. Credits decrease assets: credit Cash $1,800.
	16	The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash $1,900. Credits increase revenues: credit Service Revenue $1,900.
	27	The expense Salaries and Wages Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries and Wages Expense $1,000. Credits decrease assets: credit Cash $1,000.

LO 1 BT: C Difficulty: Moderate TOT: 6 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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BRIEF EXERCISE 2-6

Aug.	1	Cash	5,000	
		Common Stock		5,000
	4	Prepaid Insurance	1,800	
		Cash		1,800
	16	Cash	1,900	
		Service Revenue		1,900
	27	Salaries and Wages Expense	1,000	
		Cash		1,000

LO 2 BT: AP Difficulty: Easy TOT: 5 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

BRIEF EXERCISE 2-7

Cash

5/12	2,100		
5/15	3,200		
Bal.	5,300		

Service Revenue

		5/5	5,000
		5/15	3,200
		Bal.	8,200

Accounts Receivable

5/5	5,000	5/12	2,100
Bal.	2,900		

LO 3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting IMA: Reporting

BRIEF EXERCISE 2-8

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
May 12		J1	2,100		2,100
15		J1	3,200		5,300

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BRIEF EXERCISE 2-8 (Continued)

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1	5,000		5,000
12		J1		2,100	2,900

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1		5,000	5,000
15		J1		3,200	8,200

LO 3 BT: AP Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting IMA: Reporting

BRIEF EXERCISE 2-9

FAVRE COMPANY
Trial Balance
June 30, 2020

	Debit	Credit
Cash	$ 5,200	
Accounts Receivable	3,000	
Equipment	17,000	
Accounts Payable		$ 7,000
Common Stock		20,000
Dividends	800	
Service Revenue		6,000
Salaries and Wages Expense	6,000	
Rent Expense	1,000	
	$33,000	$33,000

(Credit tot. = Accts. pay. + Com. stk. + Serv. rev.)

LO 4 BT: AP Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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BRIEF EXERCISE 2-10

ERIKA COMPANY
Trial Balance
December 31, 2020

	Debit	Credit
Cash	$16,800	
Prepaid Insurance	3,500	
Accounts Payable		$ 3,000
Unearned Service Revenue		4,200
Common Stock		13,000
Dividends	4,500	
Service Revenue		25,600
Salaries and Wages Expense	18,600	
Rent Expense	2,400	
	$45,800	$45,800

(Credit tot. = Accts. pay. + Unearn. serv. rev. + Com. stk. + Serv. rev.)

LO 4 BT: AN Difficulty: Moderate TOT: 6 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 2-1

James would likely need the following accounts in which to record the transactions necessary to ready his photography studio for opening day:

Cash (debit balance)	**Notes Payable (credit balance)**
Supplies (debit balance)	**Accounts Payable (credit balance)**
Equipment (debit balance)	**Common Stock (credit balance)**
	Rent Expense (debit balance)

LO 1 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting IMA: Reporting

DO IT! 2-2

Each transaction that is recorded is entered in the general journal. The three activities would be recorded as follows:

1.	**Cash**	**8,000**	
	Common Stock		**8,000**
2.	**Supplies**	**1,600**	
	Cash		**300**
	Accounts Payable		**1,300**

3. No entry because no transaction has occurred.

LO 2 BT: AP Difficulty: Easy TOT: 4 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

DO IT! 2-3

Cash

4/1	**1,600**	**4/16**	**600**
4/3	**3,900**	**4/20**	**500**
4/30	**4,400**		

LO 3 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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DO IT! 2-4

CHILLIN' COMPANY
Trial Balance
December 31, 2020

	Debit	Credit
Cash	$ 6,000	
Accounts Receivable	8,000	
Supplies	5,000	
Equipment	76,000	
Notes Payable		$ 20,000
Accounts Payable		9,000
Salaries and Wages Payable		3,000
Common Stock		25,000
Dividends	8,000	
Service Revenue		86,000
Rent Expense	2,000	
Salaries and Wages Expense	38,000	
	$143,000	$143,000

LO 4 BT: AP Difficulty: Moderate TOT: 6 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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SOLUTIONS TO EXERCISES

EXERCISE 2-1

1. **False. An account is an accounting record of a specific asset, liability, *or stockholders' equity item*.**

2. **False. An account shows *increases and decreases* in the item it relates to.**

3. **False. Each asset, liability, and *stockholders'* equity item *has a separate account*.**

4. **False. An account has a left, or *debit* side, and a right, or *credit* side.**

5. **True.**

LO 1 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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	Account Debited				Account Credited			
Transaction	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance
Jan. 2	Asset	Cash	Increase	Debit	Stockholders' Equity	Common Stock	Increase	Credit
3	Asset	Equipment	Increase	Debit	Asset	Cash	Decrease	Debit
9	Asset	Supplies	Increase	Debit	Liability	Accounts Payable	Increase	Credit
11	Asset	Accounts Receivable	Increase	Debit	Stockholders' Equity	Service Revenue	Increase	Credit
16	Stockholders' Equity	Advertising Expense	Increase	Debit	Asset	Cash	Decrease	Debit
20	Asset	Cash	Increase	Debit	Asset	Accounts Receivable	Decrease	Debit
23	Liability	Accounts Payable	Decrease	Credit	Asset	Cash	Decrease	Debit
28	Stockholders' Equity	Dividends	Increase	Debit	Asset	Cash	Decrease	Debit

LO 1 BT: C Difficulty: Easy TOT: 10 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-3

General Journal **J1**

Date		Account Titles and Explanation	Ref.	Debit	Credit
Jan.	2	Cash		15,000	
		Common Stock			15,000
	3	Equipment		8,200	
		Cash			8,200
	9	Supplies		500	
		Accounts Payable			500
	11	Accounts Receivable		1,800	
		Service Revenue			1,800
	16	Advertising Expense		200	
		Cash			200
	20	Cash		780	
		Accounts Receivable			780
	23	Accounts Payable		300	
		Cash			300
	28	Dividends		500	
		Cash			500

LO 2 BT: AP Difficulty: Easy TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-4

Oct. 1 Debits increase assets: debit Cash $20,000.
Credits increase stockholders' equity: credit Common Stock $20,000.

2 No transaction.

3 Debits increase assets: debit Equipment $2,300.
Credits increase liabilities: credit Accounts Payable $2,300.

Oct. 6 Debits increase assets: debit Accounts Receivable $3,600.
Credits increase revenues: credit Service Revenue $3,600.

27 Debits decrease liabilities: debit Accounts Payable $850.
Credits decrease assets: credit Cash $850.

30 Debits increase expenses: debit Salaries and Wages Expense $2,500.
Credits decrease assets: credit Cash $2,500.

LO 1 BT: C Difficulty: Easy TOT: 6 min. AACSB: None AICPA FC: Reporting IMA: Reporting

EXERCISE 2-5

General Journal

Date	Account Titles and Explanation	Ref.	Debits	Credit
Oct. 1	Cash		20,000	
	Common Stock			20,000
2	No entry.			
3	Equipment		2,300	
	Accounts Payable			2,300
6	Accounts Receivable		3,600	
	Service Revenue			3,600
27	Accounts Payable		850	
	Cash			850
30	Salaries and Wages Expense		2,500	
	Cash			2,500

LO 2 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-6

(a)
1. Increase the asset Cash, increase the liability Notes Payable.
2. Increase the asset Equipment, decrease the asset Cash.
3. Increase the asset Supplies, increase the liability Accounts Payable.

(b)

1.	Cash	5,000	
	Notes Payable		5,000
2.	Equipment	2,500	
	Cash		2,500
3.	Supplies	450	
	Accounts Payable		450

LO 1, 2 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 2-7

(a) Assets = Liabilities + Stockholders' Equity

1.	+	+	(Issue stock)
2.	–	–	(Expense)
3.	+	+	(Revenue)
4.	–	–	(Dividends)

(b)

1.	Cash	5,000	
	Common Stock		5,000
2.	Rent Expense	950	
	Cash		950
3.	Accounts Receivable	4,700	
	Service Revenue		4,700
4.	Dividends	600	
	Cash		600

LO 1, 2 BT: AP Difficulty: Easy TOT: 8min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-8

General Journal

Date		Account Titles	Debit	Credit
March	1	Rent Expense	1,200	
		Cash		1,200
	3	Accounts Receivable	140	
		Service Revenue		140
	5	Cash	75	
		Service Revenue		75
	8	Equipment	600	
		Cash		80
		Accounts Payable		520
	12	Cash	140	
		Accounts Receivable		140
	14	Salaries and Wages Expense	525	
		Cash		525
	22	Utilities Expense	72	
		Cash		72
	24	Cash	1,500	
		Notes Payable		1,500
	27	Repairs Expense	220	
		Cash		220
	28	Accounts Payable	520	
		Cash		520
	30	Prepaid Insurance	1,800	
		Cash		1,800

LO 2 BT: AP Difficulty: Moderate TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-9

Trans.	Account Titles	Debit	Credit
1.	Cash	24,000	
	Common Stock		24,000
2.	Cash	7,000	
	Notes Payable		7,000
3.	Equipment	11,000	
	Cash		11,000
4.	Rent Expense	1,200	
	Cash		1,200
5.	Supplies	1,450	
	Cash		1,450
6.	Advertising Expense	600	
	Accounts Payable		600
7.	Cash	2,000	
	Accounts Receivable	16,000	
	Service Revenue		18,000
8.	Dividends	400	
	Cash		400
9.	Utilities Expense	2,000	
	Cash		2,000
10.	Accounts Payable	600	
	Cash		600
11.	Interest Expense	40	
	Cash		40
12.	Salaries and Wages Expense	6,400	
	Cash		6,400
13.	Cash	12,000	
	Accounts Receivable		12,000

LO 2 BT: AP Difficulty: Moderate TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-10

1. False. The general ledger contains all the asset, liability, *and stockholders' equity* accounts.
2. True.
3. False. The accounts in the general ledger are arranged in *financial statement order:* first the assets, then the liabilities, common stock, retained earnings, dividends, revenues, and expenses.
4. True.
5. False. The general ledger is not a book of original entry; transactions are first recorded in the general journal, then in the general ledger.

LO 3 BT: C Difficulty: Easy TOT: 4 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 2-11

(a)

Cash

Aug.	1	6,000	Aug.	12	800
	10	2,700			
	31	880			
Bal.		8,780			

Accounts Receivable

Aug.	25	1,600	Aug.	31	880
Bal.		720			

Equipment

Aug.	12	5,000

Notes Payable

	Aug. 12	4,200

Common Stock

	Aug. 1	6,000

Service Revenue

	Aug. 10	2,700
	25	1,600
	Bal.	4,300

(b)

KATI TILLMAN, INVESTMENT BROKER
Trial Balance
August 31, 2020

	Debit	Credit
Cash	$ 8,780	
Accounts Receivable	720	
Equipment	5,000	
Notes Payable		$ 4,200
Common Stock		6,000

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Service Revenue		**4,300**
	$14,500	**$14,500**

LO 3, 4 BT: AP Difficulty: Easy TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-12

(a)

General Journal

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash		10,000	
	Common Stock			10,000
	(Issued common stock for cash)			
12	Cash		900	
	Service Revenue			900
	(Received cash for services provided)			
15	Salaries and Wages Expense		720	
	Cash			720
	(Paid salaries to date)			
25	Accounts Payable		1,500	
	Cash			1,500
	(Paid creditors on account)			
29	Cash		400	
	Accounts Receivable			400
	(Received cash in payment of account)			
30	Cash		1,000	
	Unearned Service Revenue			1,000
	(Received cash for future services)			

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EXERCISE 2-12 (Continued)

(b)

SANTANA LANDSCAPING COMPANY
Trial Balance
April 30, 2020

	Debit	Credit
Cash	$10,080	
Accounts Receivable	2,800	
Supplies	1,800	
Accounts Payable		$ 300
Unearned Service Revenue		1,000
Common Stock		10,000
Service Revenue		4,100
Salaries and Wages Expense	720	
	$15,400	$15,400

(Tot. credits = Accts. pay. + Unearn. serv. rev. + Com. stk. + Serv. rev.)

LO 2, 4 BT: AP Difficulty: Moderate TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 2-13

(a)

Oct. 1	Cash	5,000	
	Common Stock		5,000
	(Issued common stock for cash)		
10	Cash	730	
	Service Revenue		730
	(Received cash for services provided)		
10	Cash	3,000	
	Notes Payable		3,000
	(Obtained loan from bank)		
20	Cash	500	
	Accounts Receivable		500
	(Received cash in payment of account)		
20	Accounts Receivable	910	
	Service Revenue		910
	(Billed clients for services provided)		

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EXERCISE 2-13 (Continued)

(b)

HIGGS CO.
Trial Balance
October 31, 2020

	Debit	Credit
Cash	$ 8,250	
Accounts Receivable	1,210	
Supplies	400	
Equipment	2,000	
Notes Payable		$ 3,000
Accounts Payable		500
Common Stock		7,000
Dividends	300	
Service Revenue		2,440
Salaries and Wages Expense	500	
Rent Expense	280	
	$12,940	$12,940

(Tot. credits = Notes pay. + Accts. pay. + Com. stk. + Serv. rev.)

LO 2, 4 BT: AP Difficulty: Moderate TOT: 12 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 2-14

(a)

General Journal **J1**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Sept. 1	Cash	101	10,000	
	Common Stock	311		10,000
5	Equipment	157	12,000	
	Cash	101		4,000
	Accounts Payable	201		8,000
25	Accounts Payable	201	2,400	
	Cash	101		2,400
30	Dividends	332	500	
	Cash	101		500

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EXERCISE 2-14 (Continued)

(b)

Cash **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1	10,000		10,000
5		J1		4,000	6,000
25		J1		2,400	3,600
30		J1		500	3,100

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1	12,000		12,000

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1		8,000	8,000
25		J1	2,400		5,600

Common Stock **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1		10,000	10,000

Dividends **No. 332**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30		J1	500		500

LO 2, 3 BT: AP Difficulty: Moderate TOT: 12 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-15

Error	(a) In Balance	(b) Difference	(c) Larger Column
1.	No	$450	Debit
2.	Yes	—	—
3.	Yes	—	—
4.	No	300	Credit
5.	Yes	—	—
6.	No	27	Debit

LO 4 BT: AN Difficulty: Moderate TOT: 6 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

EXERCISE 2-16

TIME IS MONEY DELIVERY SERVICE
Trial Balance
July 31, 2020

	Debit	Credit
Cash ($90,907 – Debit total without Cash $69,340)	$21,567	
Accounts Receivable	10,642	
Prepaid Insurance	1,968	
Equipment	49,360	
Notes Payable		$26,450
Accounts Payable		8,396
Salaries and Wages Payable		815
Common Stock		40,000
Retained Earnings		4,636
Dividends	700	
Service Revenue		10,610
Salaries and Wages Expense	4,428	
Maintenance and Repairs Expense	961	
Gasoline Expense	758	
Utilities Expense	523	
	$90,907	$90,907

LO 4 BT: AP Difficulty: Easy TOT: 10 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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EXERCISE 2-17
(a)

Date		Account Titles	Debit	Credit
Oct.	1	Cash	66,000	
		Common Stock		66,000
	2	No entry		
	4	Rent Expense	2,000	
		Cash		2,000
	7	Equipment	18,000	
		Cash		4,000
		Accounts Payable		14,000
	8	Advertising Expense	500	
		Cash		500
	10	Maintenance and Repairs Expense	390	
		Accounts Payable		390
	12	Accounts Receivable	3,200	
		Service Revenue		3,200
	16	Supplies	410	
		Accounts Payable		410
	21	Accounts Payable	14,000	
		Cash		14,000
	24	Utilities Expense	148	
		Cash		148
	27	Cash	3,200	
		Accounts Receivable		3,200
	31	Salaries and Wages Expense	5,100	
		Cash		5,100

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EXERCISE 2-17 (Continued)

(b)

Cash

10/1	66,000	10/4	2,000
10/27	3,200	10/7	4,000
		10/8	500
		10/21	14,000
		10/24	148
		10/31	5,100
Bal.	43,452		

Accounts Receivable

10/12	3,200	10/27	3,200

Supplies

10/16	410
Bal.	410

Equipment

10/7	18,000
Bal.	18,000

Accounts Payable

10/21	14,000	10/7	14,000
		10/10	390
		10/16	410
		Bal.	800

Common Stock

		10/1	66,000
		Bal.	66,000

Service Revenue

		10/12	3,200
		Bal.	3,200

Advertising Expense

10/8	500
Bal.	500

Salaries and Wages Expense

10/31	5,100
Bal.	5,100

Maintenance & Repairs Expense

10/10	390
Bal.	390

Rent Expense

10/4	2,000
Bal.	2,000

Utilities Expense

10/24	148
Bal.	148

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EXERCISE 2-17 (Continued)

(c)

BEYERS CORPORATION
Trial Balance
October 31, 2020

	Debit	Credit
Cash	$43,452	
Supplies	410	
Equipment	18,000	
Accounts Payable		$ 800
Common Stock		66,000
Service Revenue		3,200
Advertising Expense	500	
Salaries and Wages Expense	5,100	
Maintenance and Repairs Expense	390	
Rent Expense	2,000	
Utilities Expense	148	
	$70,000	$70,000

(Tot. credits = Accts. pay. + Com. stk. + Serv. rev.)

LO 2, 3, 4 BT: AP Difficulty: Hard TOT: 20 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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SOLUTIONS TO PROBLEMS

PROBLEM 2-1A

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash		50,000	
	Common Stock			50,000
	(Issued common stock for cash)			
4	Land		34,000	
	Cash			34,000
	(Purchased land for cash)			
8	Advertising Expense		1,800	
	Accounts Payable			1,800
	(Incurred advertising expense on account)			
11	Salaries and Wages Expense		1,500	
	Cash			1,500
	(Paid salaries)			
12	No entry—Not a transaction.			
13	Prepaid Insurance		2,400	
	Cash			2,400
	(Paid for one-year insurance policy)			
17	Dividends		1,400	
	Cash			1,400
	(Declared and paid cash dividends)			
20	Cash		5,700	
	Service Revenue			5,700
	(Received cash for services provided)			

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PROBLEM 2-1A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 25	Cash		3,000	
	Unearned Service Revenue			3,000
	(Received cash for future services)			
30	Cash		8,900	
	Service Revenue			8,900
	(Received cash for services provided)			
30	Accounts Payable		840	
	Cash			840
	(Paid creditor on account)			

LO 2 BT: AP Difficulty: Easy TOT: 25 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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PROBLEM 2-2A

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 1	Cash	101	20,000	
	Common Stock	311		20,000
	(Issued common stock for cash)			
2	No entry—not a transaction.			
3	Supplies	126	1,500	
	Accounts Payable	201		1,500
	(Purchased supplies on account)			
7	Rent Expense	729	900	
	Cash	101		900
	(Paid office rent)			
11	Accounts Receivable	112	2,800	
	Service Revenue	400		2,800
	(Billed client for services provided)			
12	Cash	101	3,500	
	Unearned Service Revenue	209		3,500
	(Received cash for future services)			
17	Cash	101	1,200	
	Service Revenue	400		1,200
	(Received cash for services provided)			
31	Salaries and Wages Expense	726	2,000	
	Cash	101		2,000
	(Paid salaries)			

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PROBLEM 2-2A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 31	Accounts Payable ($1,500 X 40%).....	201	600	
	Cash	101		600
	(Paid creditor on account)			

(b)

Cash **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
May 1		J1	20,000		20,000
7		J1		900	19,100
12		J1	3,500		22,600
17		J1	1,200		23,800
31		J1		2,000	21,800
31		J1		600	21,200

Accounts Receivable **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
May 11		J1	2,800		2,800

Supplies **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
May 3		J1	1,500		1,500

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
May 3		J1		1,500	1,500
31		J1	600		900

Unearned Service Revenue **No. 209**

Date	Explanation	Ref.	Debit	Credit	Balance
May 12		J1		3,500	3,500

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PROBLEM 2-2A (Continued)

Common Stock **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
May 1		J1		20,000	20,000

Service Revenue **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
May 11		J1		2,800	2,800
17		J1		1,200	4,000

Salaries and Wages Expense **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31		J1	2,000		2,000

Rent Expense **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
May 7		J1	900		900

(c)

JULIA DUMARS, INC.
Trial Balance
May 31, 2020

	Debit	Credit
Cash	$21,200	
Accounts Receivable	2,800	
Supplies	1,500	
Accounts Payable		$ 900
Unearned Service Revenue		3,500
Common Stock		20,000
Service Revenue		4,000
Salaries and Wages Expense	2,000	
Rent Expense	900	
	$28,400	$28,400

(Tot. credits = Accts. pay. + Unearn. serv. rev. + Com. stk. + Serv. rev.)

LO2,3,4 BT: AP Difficulty: Easy TOT: 35 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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PROBLEM 2-3A

(a) & (c)

Cash

Bal.	8,000		
		(1)	1,000
		(3)	1,700
(4)	13,000		
		(5)	14,400
(6)	5,000		
		(7)	3,000
		(8)	1,600
Bal.	4,300		

Accounts Receivable

Balance	15,000		
		(4)	13,000
(6)	9,000		
Bal.	11,000		

Supplies

Bal.	11,000		
(2)	3,600		
Bal.	14,600		

Prepaid Rent

Bal.	3,000		
Bal.	3,000		

Equipment

Bal.21,000			
	21,000		

Accounts Payable

		Bal.	17,000
		(2)	3,600
(5)	14,400		
		Bal.	6,200

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PROBLEM 2-3A (Continued)

Common Stock

	Bal.	30,000
		30,000

Retained Earnings

	Bal.	11,000
	Bal.	11,000

Dividends

(8)	1,600	
	1,600	

Service Revenue

	(6)	14,000
	Bal.	14,000

Advertising Expense

(1)	1,000	
	1,000	

Miscellaneous Expense

(3)	1,700	
Bal.	1,700	

Salaries and Wages Expense

(7)	3,000	
Bal.	3,000	

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PROBLEM 2-3A (Continued)

(b)

Trans.	Account Titles and Explanation	Debit	Credit
1.	Advertising Expense	1,000	
	Cash		1,000
2.	Supplies	3,600	
	Accounts Payable		3,600
3.	Miscellaneous Expense	1,700	
	Cash		1,700
4.	Cash	13,000	
	Accounts Receivable		13,000
5.	Accounts Payable	14,400	
	Cash		14,400
6.	Cash	5,000	
	Accounts Receivable	9,000	
	Service Revenue		14,000
7.	Salaries and Wages Expense	3,000	
	Cash		3,000
8.	Dividends	1,600	
	Cash		1,600

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PROBLEM 2-3A (Continued)

(d)

TABLETTE REPAIR SERVICE, INC.
Trial Balance
January 31, 2020

	Debit	Credit
Cash	$ 4,300	
Accounts Receivable	11,000	
Supplies	14,600	
Prepaid Rent	3,000	
Equipment	21,000	
Accounts Payable		$ 6,200
Common Stock		30,000
Retained Earnings		11,000
Dividends	1,600	
Service Revenue		14,000
Advertising Expense	1,000	
Miscellaneous Expense	1,700	
Salaries and Wages Expense	3,000	
	$61,200	$61,200

(Tot. credits = Accts. pay. + Com. stk. + Ret. earn. + Serv. rev.)

LO 2, 3, 4 BT: AP Difficulty: Moderate TOT: 45 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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PROBLEM 2-4A

DOMINIC COMPANY
Trial Balance
May 31, 2020

	Debit	Credit
Cash ($3,850 + $520 – $405)	$ 3,965	
Accounts Receivable ($2,570 – $420)	2,150	
Prepaid Insurance ($700 + $100)	800	
Supplies ($0 + $520)	520	
Equipment ($12,000 – $520)	11,480	
Accounts Payable ($4,500 – $100 + $520 – $420)		$ 4,500
Unearned Service Revenue		560
Common Stock ($11,700 + $1,000)		12,700
Dividends ($0 + $1,000)	1,000	
Service Revenue		8,960
Salaries and Wages Expense ($4,200 + $200)	4,400	
Advertising Expense ($1,100 + $405)	1,505	
Utilities Expense ($800 + $100)	900	
	$26,720	$26,720

(Tot. credits = Accts. pay. + Unearn. serv. rev. + Com. stk. + Serv. rev.)

(Tot. credits = $4,500 + $560 + $12,700 + $8,960)

LO 4 BT: AN Difficulty: Moderate TOT: 35 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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PROBLEM 2-5A

(a) & (c)

Cash — No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			6,000
2		J1		800	5,200
9		J1	1,800		7,000
10		J1		3,000	4,000
12		J1		320	3,680
25		J1	5,200		8,880
29		J1		1,600	7,280
30		J1	90		7,370
30		J1		1,000	6,370

Accounts Receivable — No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1	90		90

Prepaid Rent — No. 136

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1	1,000		1,000

Land — No. 140

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			12,000

Buildings — No. 145

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			8,000

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PROBLEM 2-5A (Continued)

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			6,000

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			2,000
10		J1	1,000		1,000
20		J1		950	1,950

Mortgage Payable **No. 275**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			10,000
10		J1	2,000		8,000

Common Stock **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			20,000

Service Revenue **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 9		J1		1,800	1,800
25		J1		5,200	7,000

Rent Revenue **No. 429**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1		180	180

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PROBLEM 2-5A (Continued)

Advertising Expense — **No. 610**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 12		J1	320		320

Salaries and Wages Expense — **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 29		J1	1,600		1,600

Rent Expense — **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2		J1	800		800
20		J1	950		1,750

(b)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 2	Rent Expense	729	800	
	Cash	101		800
	(Paid film rental)			
3	No entry—not a transaction.			
9	Cash	101	1,800	
	Service Revenue	400		1,800
	(Received cash for services provided)			
10	Mortgage Payable	275	2,000	
	Accounts Payable	201	1,000	
	Cash	101		3,000
	(Made payments on mortgage and accounts payable)			

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PROBLEM 2-5A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 11	No entry—not a transaction.			
12	Advertising Expense	610	320	
	Cash	101		320
	(Paid advertising expenses)			
20	Rent Expense.....	729	950	
	Accounts Payable.....	201		950
	(Rented film on account)			
25	Cash	101	5,200	
	Service Revenue.....	400		5,200
	(Received cash for services provided)			
29	Salaries and Wages Expense	726	1,600	
	Cash	101		1,600
	(Paid salaries expense)			
30	Cash	101	90	
	Accounts Receivable	112	90	
	Rent Revenue	429		180
	(18% X $1,000)			
	(Received cash and balance on account for concession revenue)			
30	Prepaid Rent	136	1,000	
	Cash	101		1,000
	(Paid cash for future film rentals)			

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PROBLEM 2-5A (Continued)

(d)

PALACE THEATER
Trial Balance
April 30, 2020

	Debit	Credit
Cash	$ 6,370	
Accounts Receivable	90	
Prepaid Rent	1,000	
Land	12,000	
Buildings	8,000	
Equipment	6,000	
Accounts Payable		$ 1,950
Mortgage Payable		8,000
Common Stock		20,000
Service Revenue		7,000
Rent Revenue		180
Advertising Expense	320	
Salaries and Wages Expense	1,600	
Rent Expense	1,750	
	$37,130	$37,130

(Tot. credits = Accts. pay. + Mortg. Pay. + Com. stk. + Serv. rev. + Rent rev.)

LO 2, 3, 4 BT: AP Difficulty: Moderate TOT: 45 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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CT 2-1 FINANCIAL REPORTING PROBLEM

(a)

Account	(1) Increase Side	(1) Decrease Side	(2) Normal Balance
Accounts Payable	Credit	Debit	Credit
Accounts Receivable	Debit	Credit	Debit
Property, Plant, and Equipment	Debit	Credit	Debit
Cash and Cash Equivalents	Debit	Credit	Debit
Research and Development Expense	Debit	Credit	Debit
Inventories	Debit	Credit	Debit

(b)
1. Cash is increased.
2. Cash is decreased.
3. Cash is decreased or Accounts Payable is increased.

(c)
1. Cash is decreased or Accounts Payable is increased.
2. Cash is decreased or Notes or Mortgage Payable is increased.

LO 1 BT: C Difficulty: Easy TOT: 8 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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CT 2-2 COMPARATIVE ANALYSIS PROBLEM

		PepsiCo		Coca-Cola	
(a)	1.	Inventory:	debit	1. Accounts Receivable:	debit
	2.	Property, Plant & Equipment:	debit	2. Cash and Cash Equivalents:	debit
	3.	Accounts Payable:	credit	3. Cost of Goods Sold(expense):	debit
	4.	Interest Expense:	debit	4. Sales (revenue)	credit

(b)

1. **Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).**
2. **Decrease in Salaries and Wages Payable: Cash is decreased (credited).**
3. **Increase in Property, Plant and Equipment: Cash is decreased (credited) or Accounts Payable or Notes payable is increased (credited).**
4. **Increase in Interest Expense: Cash is decreased (credited) or Interest Payable is increased (credited).**

LO 1, 2 BT: AN Difficulty: Easy TOT: 8 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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CT 2-3 COMPARATIVE ANALYSIS PROBLEM

		Amazon		Wal-Mart	
(a)	1.	Interest Expense:	debit	1. Product Revenues:	credit
	2.	Cash and Cash Equivalents:	debit	2. Inventories:	debit
	3.	Accounts Payable:	credit	3. Cost of Sales:	debit

(b) The following other accounts are ordinarily involved:

1. **Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).**
2. **Increase in Interest Expense: Cash is decreased (credited) or Interest Payable is increased (credited).**
3. **Decrease in Salaries and Wages Payable: Cash is decreased (credited).**
4. **Increase in Service Revenue: Cash or Accounts Receivable is increased (debited).**

LO 1, 2 BT: AN Difficulty: Easy TOT: 8 min. AACSB: None AICPA FC: Reporting IMA: Reporting

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CT 2-4 REAL–WORLD FOCUS

The answer is dependent upon the company selected by the student.

LO N/A BT: AP, S Difficulty: Moderate TOT: 20 min. AACSB: Analytic, Technology AICPA PC: Communication IMA: Information Management

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CT 2-5 REAL–WORLD FOCUS

(a) The reason the Green Bay Packers' issue an annual report is because they are a publicly owned, nonprofit company. It issues the report to more than 100,000 shareholders who hold shares. None of the other teams are publicly owned, so they have no obligation to make their financial information available except to their small group of owners.

(b) At the time that the article was written the owners of the NFL teams and the players' labor union were negotiating a new contract. Knowing how profitable the NFL teams are would be useful information for the players to know so that they would have a better sense of how much the teams could afford to pay. The Packers is obviously a "small market" team; it is not necessarily representative of teams in general. However, the Packers' annual report does give the players some sense of the profitability of other teams.

(c) Since some of the cost of the stadium that the Packers play in is covered by taxpayers, the county and state government has an interest in the team's finances.

(d) The Packers' revenues increased during recent years. However, because the cost of players' salaries increased at a faster rate than revenues, the Packers' operating profit actually declined.

LO N/A BT: AP, S Difficulty: Moderate TOT: 20 min. AACSB: Analytic, Technology AICPA PC: Communication IMA: Information Management

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CT 2-6 DECISION-MAKING ACROSS THE ORGANIZATION

(a)

May 1	Correct.		
5	Correct.		
7	Cash	300	
	Unearned Service Revenue		300
14	Equipment	800	
	Cash		800
15	Dividends	400	
	Cash		400
20	Cash	184	
	Service Revenue		184
30	Correct.		
31	Supplies	1,700	
	Accounts Payable		1,700

(b) The errors in the entries of May 14 and 20 would prevent the trial balance from balancing.

(c)	Net income as reported		$4,500
	Add: 5/15, Salaries expense (Dividends paid)		400
			4,900
	Less: 5/7, Boarding revenue unearned		300
	Correct net income		$4,600
(d)	Cash as reported		$12,475
	Add: 5/20, Transposition error	$ 36	
	5/31, Purchase on account	1,700	1,736
			$14,211

LO 2, 4 BT: AN Difficulty: Hard TOT: 45 min. AACSB: Analytic AICPA FC: Reporting IMA: Reporting

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CT 2-7 COMMUNICATION ACTIVITY

Date: May 25, 2020

To: Accounting Instructor

From: Student

In the first transaction, bills totaling $6,000 were sent to customers for services performed. Therefore, the asset Accounts Receivable is increased $6,000 and the revenue Service Revenue is increased $6,000. Debits increase assets and credits increase revenues, so the journal entry is:

Accounts Receivable	**6,000**	
Service Revenue		**6,000**
(Billed customers for services performed)		

The $6,000 amount is then posted to the debit side of the general ledger account Accounts Receivable and to the credit side of the general ledger account Service Revenue.

In the second transaction, $2,000 was paid in salaries to employees. Therefore, the expense Salaries and Wages Expense is increased $2,000 and the asset Cash is decreased $2,000. Debits increase expenses and credits decrease assets, so the journal entry is:

Salaries and Wages Expense	**2,000**	
Cash		**2,000**
(Salaries and wages paid)		

The $2,000 amount is then posted to the debit side of the general ledger account Salaries and Wages Expense and to the credit side of the general ledger account Cash.

LO 2 BT: AP Difficulty: Easy TOT: 10 min. AACSB: Analytic, Communication AICPA FC: Reporting AICPA PC: Communication IMA: Reporting

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CT 2-8 ETHICS CASE

(a) The stakeholders in this situation are:

- **Meredith Ward, assistant chief accountant.**
- **Users of the company's financial statements.**
- **The Frazier Company.**

(b) By adding $1,000 to the Equipment account, that account total is intentionally misstated. By not locating the error causing the imbalance, some other account may also be misstated by $1,000. If the amount of $1,000 is determined to be immaterial, and the intent is not to commit fraud (cover up an embezzlement or other misappropriation of assets), Meredith's action might not be considered unethical in the preparation of interim financial statements. However, if Meredith is violating a company accounting policy by her action, then she is acting unethically.

(c) Meredith's alternatives are:

1. **Miss the deadline but find the error causing the imbalance.**
2. **Tell her supervisor of the imbalance and suffer the consequences.**
3. **Do as she did and locate the error later, making the adjustment in the next quarter.**

LO 4 BT: E Difficulty: Moderate TOT: 10 min. AACSB: Ethics AICPA PC: Professional Demeanor IMA: Business Applications

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CT 2-9 ETHICS CASE

The decision whether to fire Mr. Edmondson was the responsibility of Radio Shack's board of directors, which is elected by the company's shareholders to oversee management. The board initially announced its support for the CEO. After further investigation, the board encouraged Mr. Edmondson to resign, which he did. In contrast, when Bausch & Lomb's CEO offered to resign in a similar situation, the company's board refused to accept his resignation. Board members stated that they felt he was still the best person for the position.

Radio Shack says that although it did a reference check at the time of Mr. Edmondson's hiring, it did not check his educational credentials. Under the Sarbanes-Oxley Act, companies must now perform thorough background checks as part of a check of internal controls. The bottom line: your résumé must be a fair and accurate depiction of your past.

LO A/N BT: E Difficulty: Moderate TOT: 10 min. AACSB: Ethics AICPA PC: Professional Demeanor IMA: Business Applications

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(a) Students' responses to this question will vary. It is important that the steps that they identify be as specific as possible, and clearly directed toward achieving their goal. You may wish to ask a follow-up question asking them to explain how each step will assist them in achieving their goal.

(b) There are many sites on the Internet that provide information about preparing a résumé. For example, you can find extensive resources at: http://www.rileyguide.com/resprep.html. Many schools also have resources in their placement centers or writing labs. The Writing Center at Rensselaer Polytechnic Institute provides useful, concise information on its website at http://www.ccp.rpi.edu/resources/careers-and-graduate-school/resumes. A wide variety of sample résumés can be found. For example, Monster.com provides samples for a wide variety of professions and situations at http://www.career-advice.monster.com/resumes-cover-letters/resume-samples/jobs.aspx.

(c) It is important to provide accurate and complete documentation of all relevant training, education, and employment experiences so as to provide assurance to the potential employer, and also to enable that employer to do follow-up work. If you say you have certain skills, such as computer skills, try to substantiate the claim with recognized proof of proficiency. Make sure that all addresses and phone numbers are accurate and up-to-date. Also, ensure that the people you use as references have a copy of your résumé and cover letter, and that they are informed that you are interviewing so they know to expect a call.

(d) See the sample résumés provided in the websites above for various format options. You might also mention to students that there are electronic résumé templates available on the Internet.

LO N/A BT: E Difficulty: Moderate TOT: 45 min. AACSB: Communication, Reflective Thinking AICPA PC: Communication IMA: Information Management

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CT 2-11 CONSIDERING PEOPLE, PLANET AND PROFIT

(a) The existence of three different forms of certification would most likely create confusion for coffee purchasers. It would be difficult to know what aspects of the coffee growing process each certification covered. Similarly, if there were multiple groups that certified financial statements, each with different criteria, it would be difficult for financial statement users to know what each certification promised.

(b) The Starbucks certification appears to be the most common in that area. It has the advantage of having a direct link to the Starbucks coffee market. Although it does not guarantee that Starbucks will buy its coffee, it is a requirement that must be met before Starbucks will buy somebody's coffee. Note that the article states that the Starbucks certification "Incorporates elements of social responsibility and environmental leadership, but quality of coffee is the first criteria." The Smithsonian Bird Friendly is considered to have the strictest requirements and, as a result, appears to be the least common.

(c) The certifications have multiple objectives including organic farming as a means to protect bird species, biodiversity and wildlife habitat. Some included requirements are to improve workers' living conditions, such as providing running water in worker housing, child labor regulations and education requirements. As mentioned above, the Starbucks certification has the potential financial benefit of making Starbucks a potential customer, which can stabilize farmers' earnings. Certifications can also be financially beneficial because companies can benefit from the positive relations effects of either producing or buying coffee produced using sustainable practices.

LO N/A BT: S Difficulty: Moderate TOT: 40 min. AACSB: Communication, Technology AICPA PC: Communication IMA: Information Management

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IFRS 2-1 INTERNATIONAL FINANCIAL REPORTING PROBLEM

Account	Financial Statement	Position in Financial Statement
(a) Other operating income and expenses	Consolidated Income statement	After gross margin and before operating profit
(b) Cash and cash equivalents	Consolidated Balance Sheet	Current assets
(c) Trade accounts payable	Consolidated Balance Sheet	Current liabilities
(d) Cost of net financial debt	Consolidated Income Statement	After Operating profit and before net profit before minority interests.

LO N/A BT: AN Difficulty: Easy TOT: 15 min. AACSB: Analytic, Diversity AICPA FC: Reporting AICPA BB: International/Global IMA: Reporting

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CHAPTER 2

The Recording Process

LEARNING OBJECTIVES

1. **DESCRIBE HOW ACCOUNTS, DEBITS, AND CREDITS ARE USED TO RECORD BUSINESS TRANSACTIONS.**

2. **INDICATE HOW A JOURNAL IS USED IN THE RECORDING PROCESS.**

3. **EXPLAIN HOW A LEDGER AND POSTING HELP IN THE RECORDING PROCESS.**

4. **PREPARE A TRIAL BALANCE.**

5. **COMPARE THE PROCEDURES FOR THE RECORDING PROCESS UNDER GAAP AND IFRS.**

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CHAPTER REVIEW

The Account

1. (L.O. 1) An **account** is an individual accounting record of increases and decreases in a specific asset, liability, or stockholders' equity item.

2. In its simplest form, an account consists of (a) the title of the account, (b) a left or debit side, and (c) a right or credit side. The alignment of these parts resembles the letter T, and therefore the account form is called a **T-account.**

Debits and Credits

3. The terms **debit** and **credit** mean left and right, respectively.
   a. The act of entering an amount on the left side of an account is called **debiting** the account and making an entry on the right side is **crediting** the account.
   b. When the debit amounts exceed the credits, an account has a **debit balance;** when the reverse is true, the account has a **credit balance.**

4. In a **double-entry** system, equal debits and credits are made in the accounts for each transaction. Thus, the total debits will always equal the total credits.

5. The effects of debits and credits on **assets** and **liabilities** and the normal balances are:

Accounts	Debits	Credits	Normal Balance
Assets	Increase	Decrease	Debit
Liabilities	Decrease	Increase	Credit

6. Accounts are kept for each of the five subdivisions of stockholders' equity: Common Stock, Retained Earnings, Dividends, Revenues, and Expenses.

7. The effects of debits and credits on the stockholders' equity accounts and the normal balances are:

Accounts	Debits	Credits	Normal Balance
Common Stock	Decrease	Increase	Credit
Retained Earnings	Decrease	Increase	Credit
Dividends	Increase	Decrease	Debit
Revenues	Decrease	Increase	Credit
Expenses	Increase	Decrease	Debit

8. The expanded basic equation is:

   Assets = Liabilities + Common Stock + Retained Earnings + Revenues – Expenses – Dividends

The Recording Process

9. (L.O. 2) The basic steps in the recording process are:
   a. Analyze each transaction for its effect on the accounts.
   b. Enter the transaction information in a **journal**.
   c. Transfer the journal information to the appropriate accounts in the **ledger**.

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The Journal

10. Transactions are initially recorded in a journal.
    a. A journal is referred to as a book of original entry.
    b. A **general journal** is the most basic form of journal.

11. The journal makes several significant contributions to the recording process:
    a. It discloses in one place the complete effect of a transaction.
    b. It provides a chronological record of transactions.
    c. It helps to prevent or locate errors because the debit and credit amounts for each entry can be readily compared.

12. Entering transaction data in the journal is known as **journalizing.** When only two accounts are required for a journal entry it is referred to as a **simple entry**. If three or more accounts are required in one journal entry, the entry is known as a **compound entry.**

The Ledger

13. (L.O. 3) The **general ledger** is the entire group of accounts maintained by a company. It keeps in one place all the information about changes in account balances and it is a source of useful data for management.

14. The **standard form of a ledger account** has three columns and the balance in the account is determined after each transaction.

15. **Posting** is the procedure of transferring journal entries to the ledger accounts. The following steps are used in posting:
    a. In the ledger, in the appropriate columns of the account(s) debited, enter the date, journal page, and debit amount shown in the journal.
    b. In the reference column of the journal, write the account number to which the debit amount was posted.
    c. Perform the same steps in a. and b. for the credit amount.

The Chart of Accounts

16. A **chart of accounts** is a listing of the accounts and the account numbers which identify their location in the ledger. The numbering system usually starts with the balance sheet accounts and follows with the income statement accounts.

The Recording Process

17. The basic steps in the recording process are illustrated as follows:

    Transaction On September 4, Fesmire Inc. pays $3,000 cash to a creditor in full payment of the balance due.

    Basic analysis The liability Accounts Payable is decreased $3,000, and the asset Cash is decreased $3,000.

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Debit-credit analysis Debits decrease liabilities: debit Accounts Payable $3,000.
Credits decrease assets: credit Cash $3,000.

Journal entry

Sept. 4	Accounts Payable	201	3,000	
	Cash	101		3,000
	(Paid creditor in full)			

Posting

Cash		1	Accounts Payable		201
Sept. 4	3,000		Sept. 4	3,000	

The Trial Balance

18. (L.O. 4) A **trial balance** is a list of accounts and their balances at a given time. The trial balance proves the mathematical equality of the debits and credits after posting.

19. A trial balance does not prove that the company has recorded all transactions or that the ledger is correct because the trial balance may still balance when
    a. a transaction is not journalized.
    b. a correct journal entry is not posted.
    c. an entry is posted twice.
    d. incorrect accounts are used in journalizing or posting.
    e. offsetting errors are made in recording the amount of a transaction.

A Look at IFRS

20. (L. O. 5) The following are the key similarities and differences between GAAP and IFRS as related to the recording process.
    a. Similarities:
       (1) Transaction analysis is the same under IFRS and GAAP.
       (2) Both the IASB and the FASB go beyond the basic definitions for assets, liabilities, equity, revenues, and expenses.
       (3) Currency signs are typically used only in the trial balance and the financial statements under both IFRS and GAAP.
       (4) The format of the trial balance is the same under IFRS and GAAP.
    b. Differences:
       (1) IFRS relies less on historical cost and more on fair value than do FASB standards.
       (2) Many non-U.S. companies have never completely documented their system of internal controls nor had an independent auditor attest to their effectiveness.

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LECTURE OUTLINE

A. The Account.

An account is an accounting record of increases and decreases in a specific asset, liability, or stockholders' equity item.

An account consists of three parts:

1. A title.
2. A left or debit side.
3. A right or credit side.

B. Debits and Credits.

The terms debit and credit are directional signals: Debit indicates left, and credit indicates right.

1. Assets, dividends, and expenses are increased by debits and decreased by credits.

2. Liabilities, common stock, retained earnings, and revenues are increased by credits and decreased by debits.

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C. The Recording Process.

Businesses use three basic steps in the recording process:

1. Analyze each transaction for its effects on the accounts.
2. Enter the transaction information in a journal.
3. Transfer the journal information to the appropriate accounts in the ledger.

D. The General Journal/Journalizing.

Entering transaction data in the general journal is called journalizing.

The general journal:

1. Discloses in one place the complete effects of a transaction.
2. Provides a chronological record of transactions.
3. Helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
4. A simple journal entry involves only two accounts (one debit and one credit) whereas a compound journal entry involves three or more accounts.

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E. The Ledger.

The ledger is the entire group of accounts maintained by a company. A general ledger contains all the assets, liabilities, and stockholders' equity accounts.

1. The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances.

2. Companies arrange the ledger in the sequence in which they present the accounts in the financial statements, beginning with the balance sheet accounts.

F. Posting/Chart of Accounts.

1. Posting is transferring journal entries to the ledger accounts.

2. Posting involves the following steps:

   a. In the ledger, in the appropriate columns of the account(s) debited, enter the date, journal page, and debit amount shown in the journal.

   b. In the reference column of the journal, write the account number to which the debit amount was posted.

   c. In the ledger, in the appropriate columns of the account(s) credited, enter the date, journal page, and credit amount shown in the journal.

   d. In the reference column of the journal, write the account number to which the credit amount was posted.

3. A chart of accounts lists the accounts and the account numbers that identify their location in the ledger. Accounts are usually numbered starting with the balance sheet accounts followed by income statement accounts.

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G. Trial Balance.

A trial balance is a list of accounts and their balances at a given time.

1. It proves the mathematical equality of debits and credits after posting.
2. It may also uncover errors in journalizing and posting.
3. It is useful in the preparation of financial statements.

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IFRS

A Look At IFRS

International companies use the same set of procedures and records to keep track of transaction data. Thus, the material in Chapter 2 dealing with the account, general rules of debit and credit, and steps in the recording process—the journal, ledger, and chart of accounts—is the same under both GAAP and IFRS.

KEY POINTS

Similarities

- Transaction analysis is the same under IFRS and GAAP.
- Both the IASB and FASB go beyond the basic definitions provided in this textbook for the key elements of financial statements, that is, assets, liabilities, equity, revenues, and expenses. The implications of the expanded definitions are discussed in more advanced accounting courses.
- As shown in the textbook, dollar signs are typically used only in the trial balance and the financial statements. The same practice is followed under IFRS, using the currency of the country that the reporting company is headquartered.
- A trial balance under IFRS follows the same format as shown in the textbook.

Differences

- IFRS relies less on historical cost and more on fair value than due FASB standards.
- Internal controls are a system of checks and balances designed to prevent and detect fraud and errors. While most public U. S. companies have these systems in place, many non-U. S. companies have never completely documented the controls nor had an independent auditor attest to their effectiveness.

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LOOKING TO THE FUTURE

The basic recording process shown in this textbook is followed by companies across the globe. It is unlikely to change in the future. The definitional structure of assets, liabilities, equity, revenues, and expenses may change over time as the IASB and FASB evaluate their overall conceptual framework for establishing accounting standards.

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20 MINUTE QUIZ

Circle the correct answer.

True/False

1. Assets are increased by debits and liabilities are decreased by credits.

   True False

2. The common stock account is increased by credits.

   True False

3. An account will have a credit balance if the total debit amounts exceed the total credit amounts.

   True False

4. The ledger is the entire group of accounts maintained by a company.

   True False

5. The basic steps in the recording process are (1) to analyze each transaction, (2) to enter the transaction in a journal, and (3) to transfer the journal entry to the appropriate ledger accounts.

   True False

6. Transferring journal entries to the ledger accounts is called posting and should be performed in chronological order.

   True False

7. Assets = liabilities + common stock + retained earnings + revenues – expenses– dividends is a correct form of the expanded basic accounting equation.

   True False

8. In posting, one should enter “J2” in the Post. Ref. Column on page two of the journal.

   True False

9. When the columns of the trial balance equal each other, it proves no errors occurred in recording and posting.

   True False

10. The double-entry system is possible because all business transactions may be expressed in equal debit and credit entries.

    True False

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Multiple Choice

1. Transactions are initially recorded in the
   a. general ledger.
   b. general journal.
   c. trial balance.
   d. balance sheet.

2. The right side of an account is referred to as the
   a. footing.
   b. chart side.
   c. debit side.
   d. credit side.

3. A purchase of office equipment for cash requires a credit to
   a. Equipment.
   b. Cash.
   c. Accounts Payable.
   d. Common Stock.

4. The equality of the accounting equation can be proven by preparing a
   a. trial balance.
   b. journal.
   c. general ledger.
   d. T-account.

5. Which of the following accounts would be increased with a debit?
   a. Rent Payable
   b. Common Stock
   c. Service Revenue
   d. Dividends

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ANSWERS TO QUIZ

True/False

1. False
2. True
3. False
4. True
5. True
6. True
7. True
8. False
9. False
10. True

Multiple Choice

1. b.
2. d.
3. b.
4. a.
5. d.

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CCC2 CONTINUING COOKIE CHRONICLE

After researching the different forms of business organization, Natalie Koebel decides to operate "Cookie Creations" as a corporation. She then starts the process of getting the business running. In November 2018, the following activities take place.

Nov. 8 Natalie cashes her U.S. Savings Bonds and receives $520, which she deposits in her personal bank account.

8 She opens a bank account under the name "Cookie Creations" and transfers $500 from her personal account to the new account in exchange for common stock.

11 Natalie pays $65 to have advertising brochures and posters printed. She plans to distribute these as opportunities arise. (Hint: Use Advertising Expense.)

13 She buys baking supplies, such as flour, sugar, butter, and chocolate chips, for $125 cash.

14 Natalie starts to gather some baking equipment to take with her when teaching the cookie classes. She has an excellent top-of-the-line food processor and mixer that originally cost her $750. Natalie decides to start using it only in her new business. She estimates that the equipment is currently worth $300. She invests the equipment in the business in exchange for common stock.

16 Natalie realizes that her initial cash investment is not enough. Her grandmother lends her $2,000 cash, for which Natalie signs a note payable in the name of the business. Natalie deposits the money in the business bank account. (Hint: The note does not have to be repaid for 24 months. As a result, the notes payable should be reported in the accounts as the last liability and also on the balance sheet as the last liability.)

17 She buys more baking equipment for $900 cash.

20 She teaches her first class and collects $125 cash.

25 Natalie books a second class for December 4 for $150. She receives $30 cash in advance as a down payment.

30 Natalie pays $1,320 for a one-year insurance policy that will expire on December 1, 2019.

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CCC2 (Continued)

Instructions

(a) Prepare journal entries to record the November transactions.

(b) Post the journal entries to general ledger accounts.

(c) Prepare a trial balance at November 30.

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Chapter Two

Challenge Exercise 1

Expands on: E2-2
LO: 1

Wunderkind Photography entered into the following transactions during February 2020.

1. Stockholders invested $5,000 in the business.
2. Bought photography equipment for a cash payment of $1,000.
3. Bought more photography equipment by signing a $500 note payable.
4. Performed photography services for $400 cash.
5. Performed photography services, and billed the customer $900 on account.
6. Collected $900 from the customer in item 5.
7. Paid for February developing and printing, $150.
8. Advertised the business in the Platteville Journal. The $100 cost will be billed to Wunderkind.
9. Paid the advertising bill from item 8.
10. Paid $200 for photography supplies.
11. Received $300 cash advance payment from a customer for a photography job to be performed in April.
12. Paid $250 dividend to the stockholders.

Instructions:

For each transaction indicate the following:

(a) The basic type of account debited and credited (asset, liability, stockholder's equity).
(b) The specific account debited and credited (cash, rent expense, service revenue, etc.).
(c) Whether the specific account is increased or decreased.
(d) The normal balance of each specific account.

Use the following format, in which the first transaction is given as an example.

	Account Debited				Account Credited			
	(a)	(b)	(c)	(d)	(a)	(b)	(c)	(d)
	Basic	Specific		Normal	Basic	Specific		Normal
No.	Type	Account	Effect	Balance	Type	Account	Effect	Balance

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Challenge Exercise 2

Expands on: E2-3
LO: 2

Data for Wunderkind Photography are presented in Challenge Exercise 2-2.

Instructions:
Journalize the transactions using journal page J1. (You may omit explanations).

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Challenge Exercise 3

Expands on: E2-5
LO: 2

Presented below is information related to Shawshank Real Estate Agency.

Oct. 1 Pete Shawshank begins business as a real estate agent with a cash investment of $25,000 in exchange for common stock.
2 Hires an administrative assistant.
3 Purchases office furniture for $2,900, by paying $700 cash with the balance on account.
6 Sells a house and lot for N. Kidman, earning a fee of $3,600, with $600 collected in cash and the balance billed to N. Kidman.
27 Pays $900 on the balance related to the transaction of October 3.
30 Pays the administrative assistant $2,300 in salary for October.
31 Collects $1,200 of the balance owed by N. Kidman.

Instructions:

1. Journalize the transactions. (You may omit explanations.)
2. What balance would Shawshank Real Estate Agency report for Accounts Payable in its October 31 financial statements? In which category of which financial statements would it be found?
3. What balance would Shawshank Real Estate Agency report for Accounts Receivable in its October 31 financial statements? In which category of which financial statements would it be found?

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Challenge Exercise 4

Expands on: E2-14
LO: 2

Selected transactions for Tina Louise Company during its first month in business are presented below.

Sept. 1 Invested $20,000 cash in the business in exchange for common stock.
5 Purchased equipment for $17,000 paying $6,000 in cash and the balance on account.
11 Performed $3,900 of services for clients, collecting $1,000 cash and billing them for the remainder.
25 Paid $7,000 cash on balance owed for equipment.
29 Declared and paid a $600 cash dividend.
30 Collected $1,500 from the clients from the September 11 transactions.

The chart of accounts shows: No. 101 Cash, No. 112 Accounts Receivable, No. 157 Equipment, No. 201 Accounts Payable, No. 311 Common Stock, No. 332 Dividends, and No. 400 Service Revenue.

Instructions:
(a) Journalize the transactions on page J1 of the journal.
(b) Post the transactions using the standard account form.
(c) Based only on these transactions, what amount would Tina Louise report as total assets in the September 30 balance sheet?
(d) Based only on these transactions, what amount would Tina Louise report as total liabilities in the September 30 balance sheet?

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Challenge Exercise 5

Expands on: E2-16
LO: 4

The accounts in the ledger of Sun Delivery Service contain the following balances on July 31, 2020.

Accounts Receivable	$ 8,000	Prepaid Insurance	$2,000
Accounts Payable	7,900	Retained Earnings	5,000
Cash	?	Service Revenue	11,000
Common Stock	42,000	Salaries and Wages Expense	?
Dividends	900	Salaries and Wages Payable	1,000
Equipment	50,000	Supplies	3,000
Gasoline Expense	800	Unearned Service Revenue	2,500
Insurance Expense	600		
Maintenance and Repairs Expense	1,100		
Notes Payable	19,000		

Instructions:

Prepare a trial balance with the accounts arranged as illustrated in the chapter and fill in the missing amounts for Cash and Salaries and Wages Expense. Assume net income for the period is $3,500

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Chapter 2

Exercises: Set B

E2-1B Bo Derrick has prepared the following list of statements about accounts.

Analyze statements about accounting and the recording process.

(LO 1)

1. An account is an accounting record of either a specific asset or a specific liability.
2. An account shows only increases, not decreases, in the item it relates to.
3. Some items, such as Cash and Accounts Receivable, are combined into one account.
4. An account has a left, or credit side, and a right, or debit side.
5. A simple form of an account consisting of just the account title, the left side, and the right side, is called a T-account.

Instructions

Identify each statement as true or false. If false, indicate how to correct the statement.

E2-2B Selected transactions for P. Islas, an interior decorating firm, in its first month of business, are as follows.

Identify debits, credits, and normal balances.

(LO 1)

Jan.	2	Invested $12,000 cash in the business in exchange for common stock.
	3	Purchased used car for $5,000 cash for use in the business.
	9	Purchased supplies on account for $400.
	11	Billed customers $1,400 for services performed.
	16	Paid $250 cash for advertising.
	20	Received $800 cash from customers billed on January 11.
	23	Paid creditor $200 cash on balance owed.
	28	Declared and paid a $1,300 cash dividend.

Instructions

For each transaction indicate the following.

(a) The basic type of account debited and credited (asset, liability, stockholders' equity).
(b) The specific account debited and credited (Cash, Rent Expense, Service Revenue, etc.).
(c) Whether the specific account is increased or decreased.
(d) The normal balance of the specific account.

Use the following format, in which the January 2 transaction is given as an example.

	Account Debited				Account Credited			
	(a)	(b)	(c)	(d)	(a)	(b)	(c)	(d)
Date	Basic Type	Specific Account	Effect	Normal Balance	Basic Type	Specific Account	Effect	Normal Balance
Jan. 2	Asset	Cash	Increase	Debit	Stockholders' Equity	Common Stock	Increase	Credit

E2-3B Data for P. Islas, interior decorating, are presented in E2-2B.

Journalize transactions.

(LO 2)

Instructions

Journalize the transactions using journal page J1. (You may omit explanations.)

Analyze transactions and determine their effect on accounts.

(LO 1)

E2-4B Presented below is information related to Noonan Real Estate Agency.

Oct. 1 Carl Hobart begins business as a real estate agent with a cash investment of $18,000 in exchange for common stock.
2 Hires an administrative assistant.
3 Purchases office furniture for $1,700, on account.
6 Sells a house and lot for W. Bush; bills W. Bush $4,200 for realty services performed.
27 Pays $750 on the balance related to the transaction of October 3.
30 Pays the administrative assistant $2,800 in salary for October.

Instructions
Prepare the debit-credit analysis for each transaction as illustrated on pages 62–66.

Journalize transactions.

(LO 2)

E2-5B Transaction data for Noonan Real Estate Agency are presented in E2-4B.

Instructions
Journalize the transactions. (You may omit explanations.)

Analyze transactions and journalize.

(LO 1, 2)

E2-6B Stacey Industries had the following transactions.

1. Borrowed $6,000 from the bank by signing a note.
2. Paid $2,800 cash for a computer.
3. Purchased $400 of supplies on account.

Instructions
(a) Indicate what accounts are increased and decreased by each transaction.
(b) Journalize each transaction. (Omit explanations.)

Analyze transactions and journalize.

(LO 1, 2)

E2-7B Pitt Enterprises had the following selected transactions.

1. B. Pitt invested $6,000 cash in the business in exchange for common stock.
2. Paid office rent of $1,500.
3. Performed consulting services and billed a client $5,300.
4. Declared and paid a $800 cash dividend.

Instructions
(a) Indicate the effect each transaction has on the accounting equation (Assets = Liabilities + Stockholders' Equity), using plus and minus signs.
(b) Journalize each transaction. (Omit explanations.)

Analyze statements about the ledger.

(LO 3)

E2-8B Leslie Sandeas has prepared the following list of statements about the general ledger.

1. The general ledger contains all the asset and liability accounts, but no stockholders' equity accounts.
2. The general ledger is sometimes referred to as simply the journal.
3. The accounts in the general ledger are arranged in alphabetical order.
4. Each account in the general ledger is numbered for easier identification.
5. The general ledger is a book of original entry.

Instructions
Identify each statement as true or false. If false, indicate how to correct the statement.

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E2-9B Selected transactions from the journal of Bill Bandy, investment broker, are presented below.

Post journal entries and prepare a trial balance.

(LO 3, 4)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Aug. 1	Cash		6,000	
	Common Stock			6,000
	(Investment of cash for stock)			
10	Cash		2,300	
	Service Revenue			2,300
	(Received cash for services performed)			
12	Equipment		4,000	
	Cash			2,500
	Notes Payable			1,500
	(Purchased office equipment for cash and notes payable)			
25	Account Receivable		1,500	
	Service Revenue			1,500
	(Billed clients for services performed)			
31	Cash		800	
	Account Receivable			800
	(Receipt of cash on account)			

Instructions

(a) Post the transactions to T accounts.
(b) Prepare a trial balance at August 31, 2020.

E2-10B The T-accounts below summarize the ledger of Simon Landscaping Company at the end of the first month of operations.

Journalize transactions from account data and prepare a trial balance.

(LO 2, 4)

Cash			No. 101
4/1	18,000	4/15	700
4/12	800	4/25	1,400
4/29	700		
4/30	1,200		

Unearned Service Revenue			No. 209
		4/30	1,200

Accounts Receivable			No. 112
4/7	3,800	4/29	700

Common Stock			No. 311
		4/1	18,000

Supplies			No. 126
4/4	1,900		

Service Revenue			No. 400
		4/7	3,800
		4/12	800

Accounts Payable			No. 201
4/25	1,400	4/4	1,900

Salaries and Wages Expense			No. 726
4/15	700		

Instructions

(a) Prepare the complete general journal (including explanations) from which the postings to Cash were made.
(b) Prepare a trial balance at April 30, 2020.

Journalize transactions from account data and prepare a trial balance.

(LO 2, 4)

E2-11B Presented below is the ledger for Roberts Co.

Cash			No. 101
10/1	6,000	10/4	400
10/10	750	10/12	1,600
10/10	2,000	10/15	350
10/20	700	10/30	380
10/25	2,500	10/31	700

Common Stock			No. 311
		10/1	6,000
		10/25	2,500

Dividends			No. 332
10/30	380		

Accounts Receivable			No. 112
10/6	800	10/20	700
10/20	990		

Service Revenue			No. 400
		10/6	800
		10/10	750
		10/20	990

Supplies			No. 126
10/4	400		

Salaries and Wages Expense			No. 726
10/31	700		

Equipment			No. 157
10/3	2,500		

Rent Expense			No. 729
10/15	350		

Notes Payable			No. 200
		10/10	2,000

Accounts Payable			No. 201
10/12	1,600	10/3	2,500

Instructions

(a) Reproduce the journal entries for the transactions that occurred on October 1, 10, and 20, and provide explanations for each.
(b) Determine the October 31 balance for each of the accounts above, and prepare a trial balance at October 31, 2020.

Prepare journal entries and post using standard account form.

(LO 2, 3)

E2-12B Selected transactions for Miles Rusthe Company during its first month in business are presented below.

Sept. 1 Invested $13,000 cash in the business in exchange for common stock.
5 Purchased equipment for $14,000 paying $4,000 in cash and the balance on account.
25 Paid $5,000 cash on balance owed for equipment.
30 Declared and paid an $800 cash dividend.

Gregory's chart of accounts shows: No. 101 Cash, No. 157 Equipment, No. 201 Accounts Payable, No. 311 Common Stock; No. 332 Dividends.

Instructions

(a) Journalize the transactions on page J1 of the journal. (Omit explanations.)
(b) Post the transactions using the standard account form.

Analyze errors and their effects on trial balance.

(LO 4)

E2-13B The bookkeeper for Clarke Equipment Repair made a number of errors in journalizing and posting, as described below.

1. A credit posting of $600 to Accounts Receivable was omitted.
2. A debit posting of $850 for Prepaid Insurance was debited to Insurance Expense.

3. A collection from a customer of $150 in payment of its account owed was journalized and posted as a debit to Cash $150 and a credit to Service Revenue $150.
4. A debit posting of $450 to Property Tax Expense was made twice.
5. A cash purchase of supplies for $350 was journalized and posted as a debit to Supplies $35 and a credit to Cash $35.
6. A debit of $574 to Advertising Expense was posted as $547.

Instructions
For each error:

(a) Indicate whether the trial balance will balance.
(b) If the trial balance will not balance, indicate the amount of the difference.
(c) Indicate the trial balance column that will have the larger total.

Consider each error separately. Use the following form, in which error (1) is given as an example.

Error	(a) In Balance	(b) Difference	(c) Larger Column
(1)	No	$400	debit

E2-14B The accounts in the ledger of Ayala Delivery Service contain the following balances on July 31, 2020.

Prepare a trial balance.

(LO 1, 4)

Accounts Receivable	$ 8,642	Prepaid Insurance	$ 1,968
Accounts Payable	6,396	Maintenance and Repairs Expense	961
Cash	?	Service Revenue	12,610
Equipment	45,360	Dividends	700
Gasoline Expense	758	Common Stock	35,000
Utilities Expense	523	Salaries and Wages Expense	3,428
Notes Payable	18,450	Salaries and Wages Payable	815
		Retained Earnings	4,636

Instructions
Prepare a trial balance with the accounts arranged as illustrated in the chapter and fill in the missing amount for Cash.

SOLUTIONS TO CASES FOR MANAGEMENT DECISION MAKING

CASE 1

1. **A predetermined manufacturing overhead rate means that all manufacturing overhead costs, are allocated to each job based on a cost driver. Often this is done based on the expected volume of units produced. That is, products that are produced in higher volume are allocated more overhead.**

   In the case of Wall Décor, in addition to volume sold, the base used is the cost of each print sold. That is, each print is allocated an amount of manufacturing overhead based on the cost of the print. The management of Wall Décor felt that this approach was logical because it was expected that more expensive prints would be more likely to be framed, and that the processing of framing requires the incurrence of considerably more overhead costs.

2. **The advantages of using the cost of each print as the manufacturing overhead cost driver are that: (1) it is relatively inexpensive to implement in a business, (2) it is easy to explain, and (3) it keeps accounting records in compliance with GAAP.**

   The primary disadvantage of using the cost of each print as the manufacturing overhead cost driver is that it may not result in a reasonable estimate of the cost of a job, batch, or service. That is, the assumed relationship—that the cost of the print is related to the amount of overhead cost incurred—may be incorrect. Many of the overhead costs incurred are the result of the framing and matting processes. However, the approach used by Wall Décor will result in a high overhead allocation to expensive prints, even if those prints are not framed. Furthermore, even if overhead costs are related to the cost of prints, and substantially more unframed prints are sold than framed prints, then an inordinate amount of overhead will still be allocated to the unframed prints simply because more of those are sold. By allocating overhead in an inappropriate fashion, product costs are distorted, and, as a consequence, management decision making is affected.

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CASE 1 (Continued)

3. Under a job order costing system, a predetermined overhead rate must be used, since the cost of jobs must be calculated throughout the year (rather than just at year-end). This predetermined overhead rate is based on expected costs and the expected total amount of the cost driver. Therefore, the first thing that must be done is to compute the total expected overhead cost. This step was completed in the information provided by the accounting and production teams. It was determined to be $375,200 (Illustration CA 1-2).

The second step is to determine the total expected cost of prints for the period.

Unframed:	**80,000 X $12 =**	**$ 960,000**
Steel-framed:	**15,000 X $16 =**	**240,000**
Wood-framed:	**7,000 X $20 =**	**140,000**
Total expected cost of prints		**$1,340,000**

Once the total expected overhead cost and total expected print cost are known, the overhead rate can be determined.

Predetermined overhead rate = $375,200 ÷ $1,340,000 = $0.28

This means that for every $1 of print cost, it is assumed that 28¢ of manufacturing overhead costs are consumed. For example, a $12 print will be assigned $3.36 ($12 X $0.28) of overhead.

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CASE 1 (Continued)

4.

	Lance Armstrong Print	John Elway Steel-Framed Print, No Matting	Lambeau Field Wood-Framed Print, with Matting
Direct material			
Print	$12.00	$16.00	$20.00
Frame and glass		4.00	6.00
Matting			4.00
Direct labor			
Picking			
([10/60] X $12)	2.00	2.00	2.00
Matting and framing			
([20/60] X $21)		7.00	
([30/60] X $21)			10.50
Manufacturing overhead			
(0.28 X $12, $16, $20)	3.36	4.48	5.60
Total product cost	$17.36	$33.48	$48.10

5. (a) Unframed prints 80,000 X $12 X $0.28 = $268,800
(b) Steel-framed prints 15,000 X $16 X $0.28 = 67,200
(c) Wood-framed prints 7,000 X $20 X $0.28 = 39,200
$375,200

(d) As a percentage, unframed prints are being allocated 71.6 percent or ($268,800 ÷ $375,200) of the total overhead cost.

6. No. Unframed prints are being allocated too much manufacturing overhead and framed prints too little manufacturing overhead. In designing the allocation approach, management had assumed that since the average cost of framed prints would exceed the average cost of unframed prints, more of the overhead would be allocated to framed prints. However, the cause of the apparent misallocation is that the volume of unframed prints is much greater than the volume of framed prints. This dramatic difference in volume far outweighs the difference in price. Therefore, unframed prints as a category end up absorbing the bulk of the overhead costs. This does not seem appropriate since a review of the manufacturing overhead costs shows that many of the overhead costs are associated with the framing and matting component of the production area, such as salaries, rent of factory equipment, and information systems.

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7. The high-volume unframed prints will be overcosted and the low-volume framed prints will be undercosted. This will occur because the category of prints that are sold most frequently will generally carry the greatest amount of overhead. For example, in reference to the solution to question 4, the framed and matted print is being allocated only $5.60, but an unframed print is allocated $3.36 of manufacturing overhead. This is not logical because a substantial portion of manufacturing overhead costs is dedicated to framing and matting prints.

As a result, Wall Décor might end up selling framed prints at a price that is too low to cover its cost. Changing the way the overhead is allocated may improve the profit center's performance.

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P2-4A Prepare a correct trial balance

The trial balance of Dominic Company show below does not balance.

DOMINIC COMPANY
Trial Balance
May 31, 2019

	Debit	Credit
Cash	$3,850	
Accounts Receivable		$2,750
Prepaid Insurance	700	
Equipment	12,000	
Accounts Payable		4,500
Unearned Service Revenue	560	
Common Stock		11,700
Service Revenue	8,690	
Salaries and Wages Expense	4,200	
Advertising Expense		1,100
Utilities Expense	800	
	$30,800	$20,050

Your review of the ledger reveals that each account has a normal balance. You also discover the following errors.

1. The totals of the debit sides of Prepaid Insurance, Accounts Payable, and Utilities E were each understated $100.
2. Transposition errors were made in Accounts Receivable and Service Revenue. Bas postings made, he correct balances were $2,570 and $8,960, respectively.
3. A debit posting to Salaries and Wages Expense of $200 was omitted.
4. A $1,000 cash dividend was debited to Common Stock for $1,000 and credited to C for $1,000.
5. A $520 purchases of supplies on account was debited to Equipment for $520 and c to Cash for $520.
6. A cash payment of $450 for advertising was debited to Advertising Expense for $45 credited to Cash for $45.
7. A collection from a customer for $420 was debited to Cash for $420 and credited t Accounts Payable for $420.

Instructions

Prepare a correct trial balance. Note that the chart of accounts includes the following Dividends and Supplies. (*Hint:* It helps to prepare the correct journal entry for the tra described and compare it to the mistake made.)

DOMINIC COMPANY Trial Balance May 31, 2019		
	Debit	Credit
Cash	Value	
Accounts Receivable	Value	
Prepaid Insurance	Value	
Supplies	Value	
Equipment	Value	
Accounts Payable		Value
Unearned Service Revenue		Value
Common Stock		Value
Dividends	Value	
Service Revenue		Value
Salaries and Wages Expense	Value	
Advertising Expense	Value	
Utilities Expense	Value	
	?	?

After you have completed the requirements of P2-4A, consider this additional question.

1. Assume that a $750 purchases of supplies on account was debited for $750 and credited to Cash for $750.

Expense

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P2-4B Prepare a correct trial balance

The trial balance of Zoop Co. shown below does not balance.

ZOOP CO.
Trial Balance
June 30, 2019

	Debit	Credit
Cash		$3,960
Accounts Receivable	$2,648	
Supplies	800	
Equipment	3,000	
Accounts Payable		2,666
Unearned Service Revenue	2,200	
Common Stock		9,000
Dividends	800	
Service Revenue		2,367
Salaries and Wages Expense	3,400	
Utilities Expense	910	
	$13,758	$17,993

Each of the listed accounts has a normal balance per the general ledger. An examination of the ledger and journal reveals the following errors.

1. Cash received from a customer in payment of its account was debited for $690, and Accounts Receivable was credited for the same amount. The actual collection was for $960.
2. The purchase of a computer on account for $620 was recorded as a debit to Supplies for $620 and a credit to Accounts Payable for $620.
3. Services were performed on account for a client for $760. Accounts Receivable was debited for $760, and Service Revenue was credited for $76.
4. A debit posting to Salaries and Wages Expense of $700 was omitted.
5. A payment of a balance due for $309 was credited to Cash for $309 and credited to Accounts Payable for $390.
6. The payment of a $600 cash dividend was debited to Salaries and Wages Expense for $600 and credited to Cash for $600.

Instructions

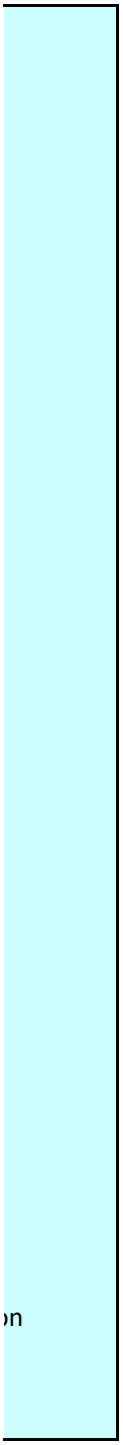
Prepare a correct trial balance. (*Hint:* It helps to prepare the correct journal entry for the transactio described and compare it to the mistake made.)

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ZOOP CO. Trial Balance June 30, 2019		
	Debit	Credit
Cash	Value	
Accounts Receivable	Value	
Supplies	Value	
Equipment	Value	
Accounts Payable		Value
Unearned Service Revenue		Value
Common Stock		Value
Dividends	Value	
Service Revenue		Value
Salaries and Wages Expense	Value	
Utilities Expense	Value	
	?	?

After you have completed the requirements of P2-4B, consider this additional question.

1. Assume that cash received from a customer in payment of its account was debited for $690, and Accounts Receivable was credited for the same amount. The actual collection was for $1,690.



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