Financial Accounting 5th edition Spiceland Solutions Manual

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Chapter 2
The Accounting Cycle: During the Period

INSTRUCTOR'S MANUAL

Authors' Perspectives

PART A: Measuring Business Activities

LO2-1 Identify the basic steps in measuring external transactions.

LO2-2 Analyze the impact of external transactions on the accounting equation.

Begin with the Basics: A = L + SE – Start slowly with just the basic accounting equation. In Part A, students are given 10 external transactions for Eagle Soccer Academy. *The transactions are listed in an intentional order.* The first five transactions involve accounts affecting only the basic accounting equation (assets, liabilities, and common stock). At this point, we can walk students through three basic concepts:

1. Transactions involve exchanges between the company and another entity.*
2. A detailed record of transactions is kept using specific accounts.
3. The specific account balances within each measurement category (A, L, and SE) summarize to show that the basic accounting equation remains in balance after each transaction.

*To help visual learners, the exchange in each transaction is illustrated.

Expand the Accounting Equation – The final five transactions are used to help students understand the effects of revenues, expenses, and dividends on retained earnings in the expanded accounting equation.

Understanding how and why transactions involving revenues, expenses, and dividends affect retained earnings is a difficult concept at first for many students. To help make this concept easier, instructors can begin by explaining the simpler concept that a company's equity is generated from two sources (and therefore affects two account balances):

1. Equity is generated from contributions by owners (externally-generated)—Common Stock
2. Equity is generated from profitable operations (internally-generated)—Retained Earnings

Related to the second source of equity, some or all of the profits (calculated as *revenues* minus *expenses*) may be distributed to owners (*dividends*). In accounting, we temporarily maintain a record of transactions involving revenues, expenses, and dividends in *separate accounts* (such as Service Revenue, Salaries Expense, and Dividends), but eventually all of these transactions are combined in a *single account* (Retained Earnings) to keep track of the company's equity that has been generated from profits retained in the business.

- Illustration 2-3 (with video) is a useful tool to show students the relationship between the

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basic accounting equation and the expanded accounting equation.

PART B: Debits and Credits

LO2-3 Assess whether the impact of external transactions results in a debit or credit to an account balance.

LO2-4 Record transactions in a journal using debits and credits.

LO2-5 Post transactions to the general ledger.

LO2-6 Prepare a trial balance.

"The very day a debit is born, it has a twin credit" – These words were written by Luca Pacioli in his original *Summa de Arithmetica, Geometria, Proportioni et Proportionalita.* We can present debits and credits as the language of accounting (or the terminology used to indicate an increase or decrease in accounts). A journal entry is the sentence form of the accounting language. Just like an English sentence has proper format, so does an accounting sentence.

- ✓ An English sentence requires at least one noun and one verb, and there is noun-verb agreement; an accounting sentence requires at least one debit and one credit, and debits must equal credits.
- ✓ An English sentence requires proper format by capitalizing the first letter of the first word and adding a punctuation mark at the end; an accounting sentence requires proper format by placing debits to be on top and to the left, and credits on bottom and to the right.
- ✓ An English sentence has a proper format to facilitate communication; an accounting sentence (journal entry) has proper format to facilitate measurement and communication of companies' financial stories.

Part B shows students how to record transactions in a journal using debits and credits with *the same 10 transactions that were covered in Part A*. This helps students draw the connection between the effects of transactions on account balances and recording debits and credits.

- Illustration 2-6 is the debit-credit version of Illustration 2-3 and shows students how debits and credits are used in the expanded accounting equation.
- Illustration 2-7 provides a simple memorization tool to help students with debits and credits (**DEALOR**). By splitting the word DEA | LOR, we see that debits are increases for accounts on the left (**D**ividends, **E**xpenses, and **A**ssets), and credits are increases for accounts on the right (**L**iabilities, **O**wners' Equity, and **R**evenues). Students can easily memorize DEALOR to make the measurement role of accounting easy to accomplish.

Common Mistake: Many students will hear the phrase "assets are the debit accounts" and believe it indicates that assets can only be debited. We can quickly dispel this misconception by introducing the basic concept that just like the balance of your checking account can increase and decrease, so too can the balance of every other account. DEALOR tells us how to *increase* each account. If we want to *decrease* the account, we do the opposite.

Aggregation of Measurements – To demonstrate the process of *aggregation* of individual

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transactions to compute a *single* ending account balance, the chapter ends with a full summary of the transactions recorded in the journal (Illustration 2-11), the posting to the general ledger (Illustration 2-12), and the preparation of the trial balance (Illustration 2-13). It is this process of measuring each transaction and then aggregating those measurements that allows efficient communication of accounting information to financial statement users.

At the end of this instructor's manual, instructors will find a detailed illustration of the posting of Eagle Soccer Academy's 10 transactions to the Cash general ledger account. The 10 transactions correspond to those in Illustration 2-11, and the Cash account corresponds to the one shown in Illustration 2-12. Students can see how each debit to the Cash account in a journal entry is posted to the debit side of the general ledger account, increasing the balance. Similarly, credits to the Cash account are posted to the credit side of the general ledger account, reducing the balance.

Self-Study Materials

- Let's Review—Effects of transactions on the accounting equation (p. 70).
- Let's Review—Effects of debits and credit on account balances (p. 73).
- Let's Review—Recording transactions in a journal (p. 82).
- Chapter Highlights (p. 85).
- Key Points by Learning Objective (p. 86).
- Glossary of Key Terms (p. 87).
- Self-Study Questions with answers available (p. 87).
- Applying Excel videos to demonstrate key topics (p. 88).
- Videos for Let's Review and certain illustrations.

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Key Points by Learning Objective

Throughout the chapter, *Key Points* provide quick synopses of the critical pieces of information students should be understanding. These Key Points are summarized by Learning Objective at the end of the chapter, providing students with a convenient study guide.

LO2-1 Identify the basic steps in measuring external transactions.

External transactions are transactions between the company and separate economic entities. Internal transactions do not include an exchange with a separate economic entity.

The six-step measurement process (Illustration 2–1) is the foundation of financial accounting. To understand this process, it is important to realize in Step 2 that we analyze the effects of business transactions on the accounting equation (Part A of this chapter). Then, in Step 3 we begin the process of translating those effects into the accounting records (Part B of this chapter).

LO2-2 Analyze the impact of external transactions on the accounting equation.

After each transaction, the accounting equation must always remain in balance. In other words, assets always must equal liabilities plus stockholders' equity.

The expanded accounting equation demonstrates that revenues increase retained earnings, while expenses and dividends decrease retained earnings. Retained earnings is a component of stockholders' equity.

LO2-3 Assess whether the impact of external transactions results in a debit or credit to an account balance.

For the basic accounting equation (Assets = Liabilities + Stockholders' Equity), assets (left side) increase with *debits*. Liabilities and stockholders' equity (right side) increase with *credits*. The opposite is true to decrease any of these accounts.

The Retained Earnings account is a stockholders' equity account that normally has a credit balance. The Retained Earnings account has three components—revenues, expenses, and dividends. The difference between revenues (increased by credits) and expenses (increased by debits) equals net income. Net income increases the balance of Retained Earnings. Dividends (increased by debits) decrease the balance of Retained Earnings.

LO2-4 Record transactions in a journal using debits and credits.

For each transaction, total debits must equal total credits.

LO2-5 Post transactions to the general ledger.

Posting is the process of transferring the debit and credit information from transactions recorded in the journal to individual accounts in the general ledger.

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LO2-6 Prepare a trial balance.

A trial balance is a list of all accounts and their balances at a particular date. Debits must equal credits, but that doesn't necessarily mean that all account balances are correct.

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Assignment Charts

Questions	Learning Objective(s)	Topic	Time (Min.)
1	LO2-1	Understand the difference between external and internal transactions	5
2	LO2-1	List steps to measure external transactions	5
3	LO2-2	Explain the dual effect of transactions	5
4	LO2-2	Describe the impact of transactions on the accounting equation	5
5	LO2-2	Explain the dual effect of transactions	5
6	LO2-3	Identify normal accounting balances	5
7	LO2-3	Understand the effects of debits and credits on account balances	5
8	LO2-3	Determine whether a debit or credit increases an account balance	5
9	LO2-3	Determine whether a debit or credit decreases an account balance	5
10	LO2-3	Explain the relation between retained earnings and its revenue and expense components	5
11	LO2-4	Describe a journal and a journal entry	5
12	LO2-4	Understand the proper format for recording transactions	5
13	LO2-4	Explain why debits equal credits	5
14	LO2-4	Record transactions	5
15	LO2-4	Describe recorded transactions	5
16	LO2-5	Explain a T-account	5
17	LO2-5	Post transactions	5
18	LO2-5	Describe a general ledger	5
19	LO2-6	Describe a trial balance	5
20	LO2-6	Understand total debits and total credits in a trial balance	5

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Brief Exercises	Learning Objective(s)	Topic	Time (Min.)
BE2-1	LO2-1	List steps in the measurement process	5
BE2-2	LO2-2	Balance the accounting equation	5
BE2-3	LO2-2	Balance the accounting equation	10
BE2-4	LO2-2	Analyze the impact of transactions on the accounting equation	10
BE2-5	LO2-3	Understand the effect of debits and credits on accounts	10
BE2-6	LO2-3	Understand the effect of debits and credits on accounts	10
BE2-7	LO2-4	Record transactions	10
BE2-8	LO2-4	Record transactions	10
BE2-9	LO2-5	Analyze T-accounts	10
BE2-10	LO2-2, 2-3, 2-4, 2-5	Analyze the impact of transactions on the accounting equation, record transactions, and post	10
BE2-11	LO2-6	Prepare a trial balance	10
BE2-12	LO2-6	Correct a trial balance	10

Exercises	Learning Objective(s)	Topic	Time (Min.)
E2-1	LO2-1	Identify terms associated with the measurement process	5
E2-2	LO2-2	Analyze the impact of transactions on the accounting equation	5
E2-3	LO2-2	Analyze the impact of transactions on the accounting equation	10
E2-4	LO2-2	Analyze the impact of transactions on the accounting equation	5
E2-5	LO2-2	Understand the components of retained earnings	10
E2-6	LO2-3	Indicate the debit or credit balance of accounts	10
E2-7	LO2-3	Associate debits and credits with external transactions	5
E2-8	LO2-4	Record transactions	10
E2-9	LO2-4	Identify transactions	5
E2-10	LO2-4	Record transactions	15
E2-11	LO2-4	Record transactions	15
E2-12	LO2-4	Correct recorded transactions	15
E2-13	LO2-4	Correct recorded transactions	15
E2-14	LO2-5	Post transactions to Cash T-account	10
E2-15	LO2-5	Post transactions to T-accounts	15
E2-16	LO2-5	Identify transactions	10
E2-17	LO2-6	Prepare a trial balance	10
E2-18	LO2-6	Prepare a trial balance	10

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E2-19	LO2-4, 2-5, 2-6	Record transactions, post to T-accounts, and prepare a trial balance	30
E2-20	LO2-4, 2-5, 2-6	Record transactions, post to T-accounts, and prepare a trial balance	30

Problems	Learning Objective(s)	Topic	Time (Min.)
P2-1A	LO2-2	Analyze the impact of transactions on the accounting equation	10
P2-2A	LO2-2	Analyze the impact of transactions on the accounting equation	15
P2-3A	LO2-3	Identify the type of account and its normal debit or credit balance	15
P2-4A	LO2-4	Record transactions	20
P2-5A	LO2-2, 2-4	Analyze the impact of transactions on the accounting equation and record transactions	30
P2-6A	LO2-6	Prepare a trial balance	20
P2-7A	LO2-4, 2-5, 2-6	Complete the steps in the measurement of external transactions	45
P2-8A	LO2-4, 2-5, 2-6	Complete the steps in the measurement of external transactions	50
P2-9A	LO2-4, 2-5, 2-6	Complete the steps in the measurement of external transactions	60
P2-1B	LO2-2	Analyze the impact of transactions on the accounting equation	10
P2-2B	LO2-2	Analyze the impact of transactions on the accounting equation	15
P2-3B	LO2-3	Identify the type of account and its normal debit or credit balance	15
P2-4B	LO2-4	Record transactions	20
P2-5B	LO2-2, 2-4	Analyze the impact of transactions on the accounting equation and record transactions	30
P2-6B	LO2-6	Prepare a trial balance	20
P2-7B	LO2-4, 2-5, 2-6	Complete the steps in the measurement of external transactions	45
P2-8B	LO2-4, 2-5, 2-6	Complete the steps in the measurement of external transactions	50
P2-9B	LO2-4, 2-5, 2-6	Complete the steps in the measurement of external transactions	60

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Additional Perspectives	Topic	Time (Min.)
AP2-1	Continuing Problem: Great Adventures	45
AP2-2	Financial Analysis: American Eagle Outfitters, Inc.	15
AP2-3	Financial Analysis: The Buckle, Inc.	15
AP2-4	Comparative Analysis: American Eagle Outfitters, Inc. vs. The Buckle, Inc.	15
AP2-5	Ethics	20
AP2-6	Internet Research	30
AP2-7	Written Communication	25

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Alternate Let's Review

Problem #1

A company has the following transactions during June:

June 2 Provide services to customers for cash, $4,300
June 8 Purchase office supplies on account, $1,000
June 11 Pay workers' salaries for the current period, $1,400
June 15 Issue additional shares of common stock, $6,000
June 28 Pay one-half of the amount owed for supplies purchased on June 8, $500

Required:

Indicate how each transaction affects the accounting equation.

Solution:

	Assets	=	Liabilities	+	Stockholders' Equity
June 2	+ $4,300	=		+	+ $4,300
June 8	+ $1,000	=	+ $1,000	+	
June 11	− $1,400	=		+	− $1,400
June 15	+ $6,000	=		+	+ $6,000
June 28	− $500	=	− $500	+	
	+ $9,400	=	+ $500	+	+ $8,900

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Problem #2

A company has the following transactions during June:

June 2 Provide services to customers for cash, $4,300
June 8 Purchase office supplies on account, $1,000
June 11 Pay workers' salaries for the current period, $1,400
June 15 Issue additional shares of common stock, $6,000
June 28 Pay one-half of the amount owed for supplies purchased on June 8, $500

Required:

For each transaction, identify (1) the two accounts involved, (2) the type of account, (3) whether the transaction increases or decreases the account balance, and (4) whether the increase or decrease would be recorded with a debit or credit.

Solution:

Date	(1) Accounts Involved	(2) Account Type	(3) Increase or Decrease	(4) Debit or Credit
June 2	Cash	Asset	Increase	Debit
	Service Revenue	Revenue	Increase	Credit
June 8	Supplies	Asset	Increase	Debit
	Accounts Payable	Liability	Increase	Credit
June 11	Salaries Expense	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit
June 15	Cash	Asset	Increase	Debit
	Common Stock	Stockholders' Eq.	Increase	Credit
June 28	Accounts Payable	Liability	Decrease	Debit
	Cash	Asset	Decrease	Credit

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Problem #3

A company has the following transactions during June:

June 2 Provide services to customers for cash, $4,300
June 8 Purchase office supplies on account, $1,000
June 11 Pay workers' salaries for the current period, $1,400
June 15 Issue additional shares of common stock, $6,000
June 28 Pay one-half of the amount owed for supplies purchased on June 8, $500

Required:
Record each transaction.

Solution:

	Debit	Credit
June 2	4,300	
Cash		
Service Revenue		4,300
(*Provide services for cash*)		
June 8	1,000	
Supplies		
Accounts Payable		1,000
(*Purchase supplies on account*)		
June 11	1,400	
Salaries Expense		
Cash		1,400
(*Pay salaries*)		
June 15	6,000	
Cash		
Common Stock		6,000
(*Issue common stock for cash*)		
June 28	500	
Accounts Payable		
Cash		500
(*Pay on account*)		

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Common Mistakes

Common Mistakes made by students are highlighted in each of the chapters. With greater awareness of the potential pitfalls, students can avoid making the same mistakes and gain a deeper understanding of the chapter material.

Common Mistake
It's sometimes tempting to *decrease* cash as a way of recording an investor's initial investment. However, we account for transactions *from the company's perspective,* and the company *received* cash from the stockholder—an increase in cash.

Common Mistake
Don't let the account name fool you. Even though the term *revenue* appears in the account title for *deferred revenue,* this is not a revenue account. *Deferred* indicates that the company has yet to provide services even though it has collected the customer's cash. The company owes the customer a service, which creates a liability.

Common Mistake
Students often believe a payment of dividends to owners increases stockholders' equity. Remember, you are accounting for the resources *of the company.* While stockholders have more personal cash after dividends have been paid, the company in which they own stock has *fewer* resources (less cash).

Common Mistake
Some students think the term "debit" *always* means increase and "credit" *always* means decrease. While this is true for assets, it is *not* true for liabilities and stockholders' equity. Liabilities and stockholders' equity increase with a credit and decrease with a debit.

Common Mistake
Many students forget to indent the credit account names. For the account credited, be sure to indent both the account name and the amount.

Common Mistake
Students sometimes hear the phrase "assets are the debit accounts" and believe it indicates that assets can only be debited. This is incorrect! Assets, or any account, can be *either* debited or credited. Rather, this phrase indicates that debiting the asset account will increase the balance and that an asset account normally will have a debit balance. Similarly, the phrase "liabilities and stockholders' equity are the credit accounts" does *not* mean that these accounts cannot be debited. They will be debited when their balances decrease. Rather, the phrase means that crediting the liabilities and stockholders' equity accounts increases their balances, and they normally will have a credit balance.

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Common Mistake
Just because the debits and credits are equal in a trial balance does not necessarily mean that all balances are correct. A trial balance could contain offsetting errors. For example, if we overstate cash and revenue each by $1,000, both accounts will be in error, but the trial balance will still balance, since the overstatement to cash increases debits by $1,000 and the overstatement to revenue increases credits by $1,000.

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Decision Points

Decision Points are provided in each chapter to give insight into how measurement and communication of financial accounting information help decision makers.

Decision Points

Question	Accounting Information	Analysis
How much profit has a company earned over its lifetime for its owners and retained for use in the business?	Retained earnings	The balance of retained earnings provides a record of all revenues and expenses (which combine to make net income) less dividends over the life of the company.

Question	Accounting Information	Analysis
How does the accounting system capture the effects of a company's external transactions?	Journal entries General ledger Trial balance	The effects of external transactions are summarized by recording increases and decreases to general ledger accounts and summarizing them in a trial balance.

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Posting Transactions of Eagle Soccer Academy to the Cash General Ledger Account (Learning Objective 2-5)

Illustration 2-11

		Debit	Credit
(1)	December 1		
	Cash (+A)	25,000	
	Common Stock (+SE)		25,000
	(Issue common stock for cash)		
(2)	December 1		
	Cash (+A)	10,000	
	Notes Payable (+L)		10,000
	(Borrow by signing three-year note)		
(3)	December 1		
	Equipment (+A)	24,000	
	Cash (−A)		24,000
	(Purchase equipment for cash)		
(4)	December 1		
	Prepaid Rent (+A)	6,000	
	Cash (−A)		6,000
	(Prepay rent with cash)		
(5)	December 6		
	Supplies (+A)	2,300	
	Accounts Payable (+L)		2,300
	(Purchase supplies on account)		
(6)	December 12		
	Cash (+A)	4,300	
	Service Revenue (+R, +SE)		4,300
	(Provide training to customers for cash)		
(7)	December 17		
	Accounts Receivable (+A)	2,000	
	Service Revenue (+R, +SE)		2,000
	(Provide training to customers on account)		
(8)	December 23		
	Cash (+A)	600	
	Unearned Revenue (+L)		600
	(Receive cash in advance from customers)		
(9)	December 28		
	Salaries Expense (+E, −SE)	2,800	
	Cash (−A)		2,800
	(Pay salaries to employees)		
(10)	December 30		
	Dividends (+D, −SE)	200	
	Cash (−A)		200
	(Pay cash dividends)		

Cash account from Illustration 2-12

Account: Cash

Date	Description	Debit	Credit	Balance
Dec. 1	Beginning balance			0
Dec. 1	Issue common stock for cash	25,000		25,000
Dec. 1	Borrow by signing three-year note	10,000		35,000
Dec. 1	Purchase equipment for cash		24,000	11,000
Dec. 1	Prepay rent with cash		6,000	5,000
Dec. 12	Provide training to customers for cash	4,300		9,300
Dec. 23	Receive cash in advance from customers	600		9,900
Dec. 28	Pay salaries to employees		2,800	7,100
Dec. 30	Pay cash dividends		200	6,900

Post

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Chapter 2
The Accounting Cycle: During the Period

REVIEW QUESTIONS

Question 2-1 (LO 2-1)

External transactions are transactions between the company and a separate economic entity. Internal transactions do not include an exchange with a separate economic entity. Purchasing supplies from a local vendor is classified as an external transaction.

Question 2-2 (LO 2-1)

1. Use source documents to identify accounts affected by external transactions.
2. Analyze the impact of the transaction on the accounting equation.
3. Assess whether the transaction results in a debit or a credit to the account balance.
4. Record the transaction in the journal using debits and credits.
5. Post the transaction to the T-accounts in the general ledger.
6. Prepare a trial balance.

Question 2-3 (LO 2-2)

Dual effect refers to each transaction having an effect on at least two accounts of the accounting equation such that the accounting equation will always be in balance. If an economic event increases (decreases) one side of the equation, then it also increases (decreases) the other side of the equation by the same amount, or, it increases one account and decreases another account on the same side of the equation.

Question 2-4 (LO 2-2)

	Assets	=	Liabilities	+	Stockholders' equity
(a)	**Increase**	=	**Increase**	+	**No change**
(b)	**Decrease**	=	**No change**	+	**Decrease**
(c)	**Increase**	=	**No change**	+	**Increase**
(d)	**No change***	=	**No change**	+	**No change**

*** One asset (equipment) increases while another asset (cash) decreases.**

Question 2-5 (LO 2-2)

Jerry is not correct. While it is possible for a transaction to increase one account and decrease another, dual effect simply indicates that at least two accounts will always be affected. However, the accounting equation must always remain in balance. It is not possible for one side of the equation to increase while the other side decreases.

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Answers to Review Questions (continued)

Question 2-6 (LO 2-3)

Accounts	Normal balance
Assets	**Debit**
Liabilities	**Credit**
Stockholders' equity	**Credit**
Revenues	**Credit**
Expenses	**Debit**

Question 2-7 (LO 2-3)

Jenny is not correct. Any account can be debited or credited. Since an asset has a normal debit balance, it would be debited when it increases and credited when it decreases. Similarly, since a liability has a normal credit balance, it would be credited when it increases and debited when it decreases.

Question 2-8 (LO 2-3)

Accounts	Increase
(a) Cash	**Debit**
(b) Salaries payable	**Credit**
(c) Utilities expense	**Debit**
(d) Service revenue	**Credit**

Question 2-9 (LO 2-3)

Accounts	Decrease*
(a) Cash	**Credit**
(b) Salaries payable	**Debit**
(c) Utilities expense	**Credit**
(d) Service revenue	**Debit**

* Answers are opposite of those in Question 2-8

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Answers to Review Questions (continued)

Question 2-10 (LO 2-3)

These statements are consistent. Retained earnings has three components – revenues, expenses, and dividends. Changing the balance of any of these components changes the balance of retained earnings. Retained earnings increases with a credit and decreases with a debit. Since expenses reduce retained earnings, an increase to an expense decreases retained earnings.

Question 2-11 (LO 2-4)

A journal provides a chronological record of all transactions affecting a firm. A journal entry is used to describe the format for recording a transaction.

Question 2-12 (LO 2-4)

Date		Debit	Credit
	Account Name	**Amount**	
	Account Name		**Amount**
	(*Description of transaction*)		

Question 2-13 (LO 2-4)

In each journal entry, the sum of all amounts debited equals the sum of all amounts credited.

Question 2-14 (LO 2-4)

(a)	Debit	Credit
Cash	**1,200**	
Service Revenue		**1,200**
(*Receive cash from providing services*)		

(b)	Debit	Credit
Rent Expense	**500**	
Cash		**500**
(*Pay rent for the current month*)		

(c)	Debit	Credit
Building	**10,000**	
Notes Payable		**10,000**
(*Purchase building with note payable*)		

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Answers to Review Questions (continued)

Question 2-15 (LO 2-4)

(a) Purchase supplies by paying cash of $20,000.
(b) Provide services to customer on account for $30,000.
(c) Pay cash on accounts payable of $10,000.

Question 2-16 (LO 2-5)

A T-account is an informal means to show the balance in an account. The left side is referred to as a *debit* and the right side is referred to as a *credit*.

Question 2-17 (LO 2-5)

Posting is the process of transferring the debit and credit information from the journal to individual accounts in the general ledger.

(a)

Supplies	
20,000	

Cash	
	20,000

(b)

Accounts Receivable	
30,000	

Service Revenue	
	30,000

(c)

Accounts Payable	
10,000	

Cash	
	10,000

Question 2-18 (LO 2-6)

The general ledger is the collection of all accounts used to record the company's transactions. A chart of accounts is a listing of all account names.

Question 2-19 (LO 2-6)

A trial balance is a list of all accounts and their balances at a particular date. Balance refers to the fact that the sum of the accounts with debit balances should equal the sum of the accounts with credit balances**.**

Question 2-20 (LO 2-6)

Not necessarily. While total debits equaling total credits is a good indication that all accounts have been appropriately accounted for, the accounts could contain offsetting errors. For example, if one account with a debit (credit) balance is understated by the same amount that another account with a debit (credit) balance is overstated, the trial balance will show equal debit and credit totals.

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BRIEF EXERCISES

Brief Exercise 2-1 (LO 2-1)

Proper order:

(c) Use source documents to identify accounts affected by external transactions.
(d) Analyze the impact of the transaction on the accounting equation.
(b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
(f) Record transactions using debits and credits.
(a) Post the transaction to the T-accounts in the general ledger.
(e) Prepare a trial balance.

Brief Exercise 2-2 (LO 2-2)

	Assets	=	Liabilities	+	Stockholders' Equity	Possible (Yes/No)
(a)	Increase (Cash ↑)	=	Decrease (Accounts Payable ↓)	+	No change	**No**
(b)	No change	=	Increase (Salaries Payable ↑)	+	Increase (Service Revenues ↑)	**No**
(c)	Decrease (Cash ↓)	=	No Change	+	Decrease (Advertising Expense ↑)	**Yes**

Brief Exercise 2-3 (LO 2-2)

	Total Assets		Total Liabilities and Stockholders' Equity
Cash	$ 7,200	Accounts Payable	$ 1,700
Supplies	2,100	Salaries Payable	4,300
Prepaid Rent	3,200	Notes Payable	**18,000**
Land	9,000	Stockholders' Equity	13,500
Equipment	**16,000**		
	$37,500		$37,500

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Brief Exercise 2-4 (LO 2-2)

	Assets	=	Liabilities	+	Stockholders' Equity
(a)	**+$50,000**	=	**$0**	+	**+$50,000**
(b)	**+$42,000** **−$42,000**	=	**$0**	+	**$0**
(c)	**+$35,000**	=	**+$35,000**	+	**$0**
(d)	**−$5,000**	=	**$0**	+	**−$5,000**

Brief Exercise 2-5 (LO 2-3)

Account	Debit	Credit
Asset	+	−
Liability	**−**	**+**
Common Stock	**−**	**+**
Retained Earnings	**−**	**+**
Dividends	**+**	**−**
Revenue	**−**	**+**
Expense	**+**	**−**

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Brief Exercise 2-6 (LO 2-3)

(a) The balance of an *asset* account increases with a **debit** and decreases with a **credit**.

(b) The balance of a *liability* account increases with a **credit** and decreases with a **debit**.

(c) The balance of a stockholders' equity account increases with a **credit** and decreases with a **debit**.

(d) The balance of a *revenue* account increases with a **credit** and decreases with a **debit**.

(e) The balance of an *expense* account increases with a **debit** and decreases with a **credit**.

Brief Exercise 2-7 (LO 2-4)

(1)	Debit	Credit
Equipment	**15,000**	
Notes Payable		**15,000**
(*Purchase equipment with note payable*)		

(2)		
Supplies	**600**	
Cash		**600**
(*Purchase office supplies for cash*)		

(3)		
Rent Expense	**800**	
Cash		**800**
(*Pay rent for the current month*)		

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Brief Exercise 2-8 (LO 2-4)

(1)	Debit	Credit
Cash	**17,000**	
Service Revenue		**17,000**
(*Provide services for cash*)		
(2)		
Prepaid Insurance	**4,200**	
Cash		**4,200**
(*Purchase one year of prepaid insurance with cash*)		
(3)		
Equipment	**20,000**	
Cash		**20,000**
(*Purchase equipment with cash*)		
(4)		
Cash	**30,000**	
Notes Payable		**30,000**
(*Obtain bank loan*)		

Brief Exercise 2-9 (LO 2-5)

1.

Cash	
13,000	8,200
4,400	1,900
3,500	5,500
5,300	

2. Postings on the left side (or debit side) of the cash T-account represent increases to cash, such as receiving cash from customers, selling assets, borrowing money, and issuing stock.

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3. Postings on the right side (or credit side) of the cash T-account represent decreases to cash, such as paying cash for rent, supplies, equipment, employee salaries, utilities, repayment of debt, and dividends.

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Brief Exercise 2-10 (LO 2-2, 2-3, 2-4, 2-5)

	Assets	=	Liabilities	+	Stockholders' Equity
(a)	+$30,000	=	$0	+	+$30,000
(b)	+$20,000	=	+$20,000	+	$0
(c)	−$7,000	=	$0	+	−$7,000

(a)		Debit	Credit
Cash		**30,000**	
	Service Revenue		**30,000**
	(*Provide services for cash*)		

(b)

Supplies		**20,000**	
	Accounts Payable		**20,000**
	(*Purchase office supplies on account*)		

(c)

Salaries Expense		**7,000**	
	Cash		**7,000**
	(*Pay salaries for the current month*)		

Cash

	0		
(a)	30,000	7,000	(c)
	23,000		

Service Revenue

		0	
		30,000	(a)
		30,000	

Supplies

	0		
(b)	20,000		
	20,000		

Accounts Payable

		0	
		20,000	(b)
		20,000	

Salaries Expense

	0		
(c)	7,000		
	7,000		

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Brief Exercise 2-11 (LO 2-6)

Trial Balance

Accounts	Debit	Credit
Cash	$ 6,100	
Accounts Receivable	4,400	
Prepaid Rent	900	
Accounts Payable		$ 2,000
Salaries Payable		700
Common Stock		6,200
Retained Earnings		2,000
Dividends	500	
Service Revenue		7,100
Salaries Expense	3,000	
Rent Expense	2,000	
Advertising Expense	1,100	
Totals	$18,000	$18,000

Brief Exercise 2-12 (LO 2-6)

Trial Balance

Accounts	Debit	Credit
Cash	$ 7,300	
Accounts Receivable	2,100	
Equipment	10,400	
Accounts Payable		$ 3,900
Deferred Revenue		1,100
Common Stock		11,000
Retained Earnings		3,900
Dividends	600	
Service Revenue		4,500
Salaries Expense	3,200	
Utilities Expense	800	
Totals	$24,400	$24,400

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EXERCISES

Exercise 2-1 (LO 2-1)

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

Exercise 2-2 (LO 2-2)

	Assets	=	Liabilities	+	Stockholders' Equity
1.	*Increase*	=	*No effect*	+	*Increase*
2.	**Increase**	=	**Increase**	+	**No effect**
3.	**Increase**	=	**No effect**	+	**Increase**
4.	**Decrease**	=	**No effect**	+	**Decrease**
5.	**Decrease**	=	**No effect**	+	**Decrease**
6.	**No effect***	=	**No effect**	+	**No effect**

* One asset (cash) increases while another asset (accounts receivable) decreases.

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Exercise 2-3 (LO 2-2)

	Dual Effect	
1. Issue 10,000 shares of common stock in exchange for $32,000 in cash.	**Assets increase**	**Stockholders' equity increases**
2. Purchase land for $19,000. A note payable is signed for the full amount.	**Assets increase**	**Liabilities increase**
3. Purchase storage containers for $8,000.	**One asset (containers) increases and another asset (cash) decreases**	
4. Hire three employees for $2,000 per month.	**No effect on the accounting equation**	
5. Receive cash of $12,000 in rental fees for the current month.	**Assets increase**	**Stockholders' equity increases**
6. Purchase office supplies for $2,000 on account.	**Assets increase**	**Liabilities increase**
7. Pay employees $6,000 for the first month's salaries.	**Assets decrease**	**Stockholders' equity decreases**

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Exercise 2-4 (LO 2-2)

	Dual Effect	
1. Paint houses in the current month for $15,000 on account.	**Assets increase**	**Stockholders' equity increases**
2. Purchase painting equipment for $16,000 cash.	**One asset (equipment) increases and another asset (cash) decreases**	
3. Purchase office supplies on account for $2,500.	**Assets increase**	**Liabilities increase**
4. Pay employee salaries of $3,200 for the current month.	**Assets decrease**	**Stockholders' equity decreases**
5. Purchase advertising to appear in the current month, $1,200.	**Assets decrease**	**Stockholders' equity decreases**
6. Pay office rent of $4,400 for the current month.	**Assets decrease**	**Stockholders' equity decreases**
7. Receive $10,000 from customers in (1) above.	**One asset (cash) increases and another asset (accounts receivable) decreases**	
8. Receive cash of $5,000 in advance from a customer that plans to have his house painted in the following month.	**Assets increase**	**Liabilities increase**

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Exercise 2-5 (LO 2-2)

Transaction	Balance
Retained earnings, April 1	**$13,000**
1. Issue common stock for cash, $11,000	**0**
2. Provide services to customers on account, $8,500.	**+8,500**
3. Provide services to customers in exchange for cash, $3,200.	**+3,200**
4. Purchase equipment and pay cash, $7,600.	**0**
5. Pay rent for April, $1,100.	**−1,100**
6. Pay employee salaries for April, $3,500.	**−3,500**
7. Pay dividends to stockholders, $2,000.	**−2,000**
Retained earnings, April 30	**$18,100**

Exercise 2-6 (LO 2-3)

	Debit or Credit	Account
1.	Debit	Cash
2.	Credit	Service Revenue
3.	Debit	Salaries Expense
4.	Credit	Accounts Payable
5.	Debit	Equipment
6.	Credit	Retained Earnings
7.	Debit	Utilities Expense
8.	Debit	Accounts Receivable
9.	Debit	Dividends
10.	Credit	Common Stock

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Exercise 2-7 (LO 2-3)

	Account Debited	Account Credited
Example: Purchase equipment in exchange for cash.	*Equipment*	*Cash*
1. Pay a cash dividend.	**Dividends**	**Cash**
2. Pay rent in advance for the next three months.	**Prepaid Rent**	**Cash**
3. Provide services to customers on account.	**Accounts Receivable**	**Service Revenue**
4. Purchase office supplies on account.	**Supplies**	**Accounts Payable**
5. Pay salaries for the current month.	**Salaries Expense**	**Cash**
6. Issue common stock in exchange for cash.	**Cash**	**Common Stock**
7. Collect cash from customers for services provided in (3) above.	**Cash**	**Accounts Receivable**
8. Borrow cash from the bank and sign a note.	**Cash**	**Notes Payable**
9. Pay for the current month's utilities.	**Utilities Expense**	**Cash**
10. Pay for office supplies purchased in (4) above.	**Accounts Payable**	**Cash**

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Exercise 2-8 (LO 2-4)

(1)	Debit	Credit
Equipment	**23,400**	
Cash		**23,400**
(*Purchase equipment with cash*)		
(2)		
Cash	**6,800**	
Service Revenue		**6,800**
(*Provide services for cash*)		
(3)		
Rent Expense	**1,300**	
Cash		**1,300**
(*Pay current month's rent*)		
(4)		
Supplies	**1,000**	
Accounts Payable		**1,000**
(*Purchase office supplies on account*)		
(5)		
Salaries Expense	**2,100**	
Cash		**2,100**
(*Pay current month's salaries*)		

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Exercise 2-9 (LO 2-4)

1. Purchase equipment with cash, $8,800.
2. Provide services to customers on account, $3,200.
3. Pay current month's salaries, $1,900.
4. Receive cash from customers in advance of services, $1,500.
5. Pay dividends to stockholders, $900.

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Exercise 2-10 (LO 2-4)

February 2	Debit	Credit
Advertising Expense	**700**	
Cash		**700**
(*Pay advertising for current month*)		
February 7		
Supplies	**1,300**	
Accounts Payable		**1,300**
(*Purchase beauty supplies on account*)		
February 14		
Cash	**2,900**	
Service Revenue		**2,900**
(*Provide beauty services for cash*)		
February 15		
Salaries Expense	**900**	
Cash		**900**
(*Pay salaries for current month*)		
February 25		
Accounts Receivable	**1,000**	
Service Revenue		**1,000**
(*Provide beauty services on account*)		
February 28		
Utilities Expense	**300**	
Cash		**300**
(*Pay utilities for current month*)		

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Exercise 2-11 (LO 2-4)

March 1	Debit	Credit
Cash	**21,000**	
Common Stock		**21,000**
(*Issue common stock*)		
March 5		
Cash	**9,000**	
Notes Payable		**9,000**
(*Obtain bank loan*)		
March 10		
Equipment	**25,000**	
Cash		**25,000**
(*Purchase construction equipment for cash*)		
March 15		
Advertising Expense	**1,100**	
Cash		**1,100**
(*Purchase advertising for current month)*		
March 22		
Accounts Receivable	**18,000**	
Service Revenue		**18,000**
(*Provide construction services on account*)		
March 27		
Cash	**13,000**	
Accounts Receivable		**13,000**
(*Receive cash on account*)		
March 28		
Salaries Expense	**6,000**	
Cash		**6,000**
(*Pay salaries for current month*)		

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Exercise 2-12 (LO 2-4)

Corrections

	External Transaction	Accounts	Debit	Credit
1.	Owners invest $15,000 in the company and receive common stock.	**Cash**	**15,000**	
		Common Stock		**15,000**
2.	Receive cash of $4,000 for services provided in the current period.	Cash	4,000	
		Service Revenue		4,000
3.	Purchase office supplies on account, $300.	Supplies	300	
		Accounts Payable		**300**
4.	Pay $600 for next month's rent.	**Prepaid Rent**	**600**	
		Cash		600
5.	Purchase office equipment with cash of $2,200.	**Equipment**	**2,200**	
		Cash		**2,200**

Note: Accounts in blue are corrected items.
Accounts in black need no correction.

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Exercise 2-13 (LO 2-4)

Corrections

	External Transaction	Accounts	Debit	Credit
1.	Pay cash dividends of $800 to stockholders.	**Dividends**	**800**	
		Cash		**800**
2.	Provide services on account for customers, $3,400	**Accounts Receivable**	**3,400**	
		Service Revenue		3,400
3.	Pay a $500 utilities bill for the current period.	Utilities Expense	500	
		Cash		500
4.	Receive cash of $400 from previously billed customers.	Cash	400	
		Accounts Receivable		**400**
5.	Pay for supplies previously purchased on account, $1,200.	**Accounts Payable**	**1,200**	
		Cash		1,200

Note: Accounts in blue are corrected items.
Accounts in black need no correction.

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Exercise 2-14 (LO 2-5)

	Cash		
	5,000		
(1)	**15,000**	**9,000**	**(2)**
(4)	**8,000**	**3,000**	**(3)**
(6)	**4,000**	**1,000**	**(5)**
		7,000	**(7)**
	12,000		

Transaction (8) is not posted to the Cash T-account because a purchase *on account* does not involve cash.

Exercise 2-15 (LO 2-5)

	Cash		
	3,400		
(3)	10,200	1,000	(4)
(6)	1,100	3,700	(5)
	10,000		

	Accounts Receivable		
	4,200		
(1)	8,400	10,200	(3)
	2,400		

	Supplies		
	400		
(2)	2,300		
	2,700		

	Accounts Payable		
		3,500	
(5)	3,700	2,300	(2)
		2,100	

	Deferred Revenue		
		300	
		1,100	(6)
		1,400	

	Service Revenue		
		0	
		8,400	(1)
		8,400	

	Advertising Expense		
	0		
(4)	1,000		
	1,000		

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Exercise 2-16 (LO 2-5)

1. Provide services to customers for cash, $20,000.
2. Provide services to customers on account, $5,000.
3. Receive cash from customers on account, $4,000.
4. Purchase supplies on account, $6,000.
5. Pay employees for current salaries, $14,000.
6. Pay cash on account, $7,000.

Exercise 2-17 (LO 2-6)

Sooner Company
Trial Balance
April 30

Accounts	Debit	Credit
Cash	$ 3,900	
Accounts Receivable	6,100	
Prepaid Rent	7,400	
Land	60,000	
Accounts Payable		$ 4,300
Deferred Revenue		2,300
Common Stock		40,000
Retained Earnings		23,000
Service Revenue		25,400
Supplies Expense	9,400	
Salaries Expense	8,200	
Totals	$95,000	$95,000

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Exercise 2-18 (LO 2-6)

Cobras Incorporated
Trial Balance
March 31

Accounts	Debit	Credit
Cash	$ 3,500	
Accounts Receivable	4,200	
Supplies	1,000	
Prepaid Insurance	1,200	
Buildings	55,000	
Accounts Payable		$ 2,200
Salaries Payable		500
Common Stock		35,000
Retained Earnings		17,800
Service Revenue		19,500
Salaries Expense	6,400	
Utilities Expense	3,700	
Totals	$75,000	$75,000

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Exercise 2-19 (LO 2-4, 2-5, 2-6)

Requirement 1

(1) January 1	Debit	Credit
Cash	**42,000**	
Common Stock		**42,000**
(*Issue common stock*)		
(2) January 5		
Land	**24,000**	
Notes Payable		**24,000**
(*Purchase land with note payable*)		
(3) January 9		
Equipment	**9,000**	
Cash		**9,000**
(*Purchase storage containers*)		
(4) January 12		
No entry		
(5) January 18		
Cash	**13,000**	
Service Revenue		**13,000**
(*Receive cash for current month's rent*)		
(6) January 23		
Supplies	**3,000**	
Accounts Payable		**3,000**
(*Purchase office supplies on account*)		
(7) January 31		
Salaries Expense	**9,000**	
Cash		**9,000**
(*Pay salaries for the current month*)		

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Exercise 2-19 (continued)

Requirement 2

Cash				Common Stock		
	0				0	
(1)	42,000				42,000	(1)
		9,000	(3)			
(5)	13,000					
		9,000	(7)			
	37,000				42,000	

Land			Notes Payable		
	0			0	
(2)	24,000			24,000	(2)
	24,000			24,000	

Equipment			Service Revenue		
	0			0	
(3)	9,000			13,000	(5)
	9,000			13,000	

Supplies			Accounts Payable		
	0			0	
(6)	3,000			3,000	(6)
	3,000			3,000	

Salaries Expense		
	0	
(7)	9,000	
	9,000	

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Exercise 2-19 (concluded)

Requirement 3

Green Wave Company
Trial Balance

Accounts	Debit	Credit
Cash	$37,000	
Supplies	3,000	
Land	24,000	
Equipment	9,000	
Accounts Payable		$ 3,000
Notes Payable		24,000
Common Stock		42,000
Service Revenue		13,000
Salaries Expense	9,000	
Totals	$82,000	$82,000

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Exercise 2-20 (LO 2-4, 2-5, 2-6)

Requirement 1

(1) September 3	Debit	Credit
Accounts Receivable	**20,000**	
Service Revenue		**20,000**
(*Provide painting on account*)		
(2) September 8		
Equipment	**21,000**	
Cash		**21,000**
(*Purchase painting equipment*)		
(3) September 12		
Supplies	**3,500**	
Accounts Payable		**3,500**
(*Purchase office supplies on account*)		
(4) September 15		
Salaries Expense	**4,200**	
Cash		**4,200**
(*Pay salaries for the current month*)		
(5) September 19		
Advertising Expense	**1,000**	
Cash		**1,000**
(*Pay advertising for the current month*)		
(6) September 22		
Rent Expense	**5,400**	
Cash		**5,400**
(*Pay rent for the current month*)		
(7) September 26		
Cash	**15,000**	
Accounts Receivable		**15,000**
(*Receive cash on account*)		
(8) September 30		
Cash	**6,000**	
Deferred Revenue		**6,000**
(*Receive cash in advance for painting*)		

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Exercise 2-20 (continued)

Requirement 2

Accounts Receivable

Beg.	1,700		
(1)	20,000		
		15,000	(7)
	6,700		

Service Revenue

	0	Beg.
	20,000	(1)
	20,000	

Equipment

Beg.	7,400		
(2)	21,000		
	28,400		

Cash

Beg.	46,100		
		21,000	(2)
		4,200	(4)
		1,000	(5)
		5,400	(6)
(7)	15,000		
(8)	6,000		
	35,500		

Supplies

Beg.	500		
(3)	3,500		
	4,000		

Accounts Payable

	1,200	Beg.
	3,500	(3)
	4,700	

Salaries Expense

Beg.	0		
(4)	4,200		
	4,200		

Advertising Expense

Beg.	0		
(5)	1,000		
	1,000		

Rent Expense

Beg.	0		
(6)	5,400		
	5,400		

Deferred Revenue

	0	Beg.
	6,000	(8)
	6,000	

Common Stock

	25,000	Beg.
	25,000	

Retained Earnings

	29,500	Beg.
	29,500	

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Exercise 2-20 (concluded)

Requirement 3

Boilermaker House Painting Company
Trial Balance

Accounts	Debit	Credit
Cash	$35,500	
Accounts Receivable	6,700	
Supplies	4,000	
Equipment	28,400	
Accounts Payable		$ 4,700
Deferred Revenue		6,000
Common Stock		25,000
Retained Earnings		29,500
Service Revenue		20,000
Salaries Expense	4,200	
Advertising Expense	1,000	
Rent Expense	5,400	
Totals	$85,200	$85,200

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PROBLEMS: SET A

Problem 2-1A (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash.	*Increase*	=	*No effect*	+	*Increase*
2. Purchase business supplies on account.	**Increase**	=	**Increase**	+	**No effect**
3. Pay for legal services for the current month.	**Decrease**	=	**No effect**	+	**Decrease**
4. Provide services to customers on account.	**Increase**	=	**No effect**	+	**Increase**
5. Pay employee salaries for the current month.	**Decrease**	=	**No effect**	+	**Decrease**
6. Provide services to customers for cash.	**Increase**	=	**No effect**	+	**Increase**
7. Pay for advertising for the current month.	**Decrease**	=	**No effect**	+	**Decrease**
8. Repay loan from the bank.	**Decrease**	=	**Decrease**	+	**No effect**
9. Pay dividends to stockholders.	**Decrease**	=	**No effect**	+	**Decrease**
10. Receive cash from customers in (4) above.	**No effect***	=	**No effect**	+	**No effect**
11. Pay for supplies purchased in (2) above.	**Decrease**	=	**Decrease**	+	**No effect**

***One asset (cash) increases and another asset (accounts receivable) decreases**

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Problem 2-2A (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Provide services to customers on account, $1,600.	*+$1,600*	=	*$0*	+	*+$1,600*
2. Pay $400 for current month's rent.	**–$400**	=	**$0**	+	**–$400**
3. Hire a new employee, who will be paid $500 at the end of each month.	**$0**	=	**$0**	+	**$0**
4. Pay $100 for advertising aired in the current period.	**–$100**	=	**$0**	+	**–$100**
5. Purchase office supplies for cash.	**+$400 –$400**	=	**$0**	+	**$0**
6. Receive cash of $1,000 from customers in (1) above.	**+$1,000 –$1,000**	=	**$0**	+	**$0**
7. Obtain a loan from the bank for $7,000.	**+$7,000**	=	**+$7,000**	+	**$0**
8. Receive a bill of $200 for utility costs of the current period.	**$0**	=	**+$200**	+	**–$200**
9. Issue common stock for $10,000 cash.	**+$10,000**	=	**$0**	+	**+$10,000**
10. Pay $500 to employee in (3) above.	**–$500**	=	**$0**	+	**–$500**
Totals	**$17,600**	=	**$7,200**	+	**$10,400**

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Problem 2-3A (LO 2-3)

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Salaries Payable	**Liability**	**Credit**
2. Common Stock	**Stockholders' equity**	**Credit**
3. Prepaid Rent	**Asset**	**Debit**
4. Buildings	**Asset**	**Debit**
5. Utilities Expense	**Expense**	**Debit**
6. Equipment	**Asset**	**Debit**
7. Rent Expense	**Expense**	**Debit**
8. Notes Payable	**Liability**	**Credit**
9. Salaries Expense	**Expense**	**Debit**
10. Insurance Expense	**Expense**	**Debit**
11. Cash	**Asset**	**Debit**
12. Service Revenue	**Revenue**	**Credit**

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Problem 2-4A (LO 2-4)

Transactions for Jake's Lawn Maintenance Company

July 3	Debit	Credit
Accounts Receivable	**500**	
Service Revenue		**500**
(*Provide services on account*)		
July 6		
Repairs and Maintenance Expense	**450**	
Accounts Payable		**450**
(*Receive maintenance on account*)		
July 9		
Cash	**500**	
Accounts Receivable		**500**
(*Receive cash on account*)		
July 14		
Notes Receivable	**600**	
Cash		**600**
(*Loan cash by accepting note receivable*)		
July 18		
Advertising Expense	**110**	
Cash		**110**
(*Pay advertising for the current month*)		
July 20		
Accounts Payable	**450**	
Cash		**450**
(*Pay cash on account*)		
July 27		
No entry for Jake.		
July 30		
No entry for Jake.		
July 31		
Cash	**600**	
Notes Receivable		**600**
(*Receive cash on note receivable*)		

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Problem 2-5A (LO 2-2, 2-4)

Transactions for Luke's Repair Shop

July 3	Debit	Credit
Repairs and Maintenance Expense	**500**	
Accounts Payable		**500**
(*Receive services on account*)		
July 6		
Accounts Receivable	**450**	
Service Revenue		**450**
(*Provide services on account*)		
July 9		
Accounts Payable	**500**	
Cash		**500**
(*Pay cash on account*)		
July 14		
Cash	**600**	
Notes Payable		**600**
(*Borrow by signing note payable*)		
July 18		
No entry for Luke.		
July 20		
Cash	**450**	
Accounts Receivable		**450**
(*Receive cash on account*)		
July 27		
Cash	**800**	
Service Revenue		**800**
(*Provide services for cash*)		
July 30		
Salaries Expense	**300**	
Cash		**300**
(*Pay salaries to employees*)		
July 31		
Notes Payable	**600**	
Cash		**600**
(*Pay note payable*)		

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Problem 2-5A (concluded)

	Jake's Lawn Maintenance Company					Luke's Repair Shop				
	Assets	=	Liabilities	+	Stockholders' Equity	Assets	=	Liabilities	+	Stockholders' Equity
July 3	*+$500*	=	*$0*	+	*+$500*	*$0*	=	*+$500*	+	*−$500*
6	**$0**	=	**+$450**	+	**−$450**	**+$450**	=	**$0**	+	**+$450**
9	**+$500** **−$500**	=	**$0**	+	**$0**	**−$500**	=	**−$500**	+	**$0**
14	**+$600** **−$600**	=	**$0**	+	**$0**	**+$600**	=	**+$600**	+	**$0**
18	**−$110**	=	**$0**	+	**−$110**	**$0**	=	**$0**	+	**$0**
20	**−$450**	=	**−$450**	+	**$0**	**+$450** **−$450**	=	**$0**	+	**$0**
27	**$0**	=	**$0**	+	**$0**	**+$800**	=	**$0**	+	**+$800**
30	**$0**	=	**$0**	+	**$0**	**−$300**	=	**$0**	+	**−$300**
31	**+$600** **−$600**	=	**$0**	+	**$0**	**−$600**	=	**−$600**	+	**$0**

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Problem 2-6A (LO 2-6)

Bruins Company
Trial Balance
November 30

Accounts	Debit	Credit
Cash	$ 40,000	
Accounts Receivable	50,000	
Supplies	1,100	
Prepaid Rent	3,000	
Equipment	**60,800**	
Accounts Payable		$ 17,000
Salaries Payable		5,000
Interest Payable		3,000
Deferred Revenue		9,000
Notes Payable		30,000
Common Stock		50,000
Retained Earnings		35,000
Dividends	1,100	
Service Revenue		65,000
Salaries Expense	30,000	
Rent Expense	12,000	
Interest Expense	3,000	
Supplies Expense	7,000	
Utilities Expense	6,000	
Totals	$214,000	$214,000

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Problem 2-7A (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

		Debit	Credit
(1)	March 1		
	Cash	**3,000**	
	Common Stock		**3,000**
	(*Issue common stock*)		
(2)	March 3		
	Equipment	**2,700**	
	Notes Payable		**2,700**
	(*Purchase sewing equipment with note payable*)		
(3)	March 5		
	Rent Expense	**600**	
	Cash		**600**
	(*Pay rent for current month*)		
	March 7		
	No entry		
(4)	March 12		
	Supplies	**130**	
	Accounts Payable		**130**
	(*Purchase sewing supplies on account*)		
(5)	March 15		
	Cash	**800**	
	Service Revenue		**800**
	(*Provide services for cash*)		
(6)	March 19		
	Cash	**700**	
	Deferred Revenue		**700**
	(*Receive cash in advance from customer*)		
(7)	March 25		
	Deferred Revenue	**700**	
	Service Revenue		**700**
	(*Provide services to customer*)		
(8)	March 30		
	Utilities Expense	**95**	
	Cash		**95**
	(*Pay utilities for current month*)		
(9)	March 31		
	Dividends	**150**	
	Cash		**150**
	(*Pay dividends*)		

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Problem 2-7A (continued)

Requirements 2 and 3

Cash	
(1) 3,000	600 (3)
(5) 800	95 (8)
(6) 700	150 (9)
3,655	

Supplies	
(4) 130	
130	

Equipment	
(2) 2,700	
2,700	

Accounts Payable	
	130 (4)
	130

Deferred Revenue	
(7) 700	700 (6)
	0

Notes Payable	
	2,700 (2)
	2,700

Common Stock	
	3,000 (1)
	3,000

Dividends	
(9) 150	
150	

Service Revenue	
	800 (5)
	700 (7)
	1,500

Rent Expense	
(3) 600	
600	

Utilities Expense	
(8) 95	
95	

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Problem 2-7A (concluded)

Requirement 4

Ute Sewing Shop
Trial Balance
March 31

Accounts	Debit	Credit
Cash	$3,655	
Supplies	130	
Equipment	2,700	
Accounts Payable		$ 130
Deferred Revenue		0
Notes Payable		2,700
Common Stock		3,000
Dividends	150	
Service Revenue		1,500
Rent Expense	600	
Utilities Expense	95	
Totals	$7,330	$7,330

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Problem 2-8A (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

		Debit	Credit
(1)	Sep. 1		
	Cash	**4,700**	
	Service Revenue		**4,700**
	(*Provide services for cash*)		
(2)	Sep. 2		
	Land	**6,400**	
	Notes Payable		**6,400**
	(*Purchase land with note payable*)		
(3)	Sep. 4		
	Advertising Expense	**500**	
	Accounts Payable		**500**
	(*Receive invoice for current advertising*)		
(4)	Sep. 8		
	Accounts Receivable	**6,000**	
	Service Revenue		**6,000**
	(*Provide services on account*)		
(5)	Sep. 10		
	Supplies	**1,100**	
	Accounts Payable		**1,100**
	(*Purchase supplies on account*)		
(6)	Sep. 13		
	Notes Payable	**4,000**	
	Cash		**4,000**
	(*Pay note payable*)		
(7)	Sep. 18		
	Cash	**5,000**	
	Accounts Receivable		**5,000**
	(*Receive cash on account*)		
(8)	Sep. 20		
	Rent Expense	**900**	
	Cash		**900**
	(*Pay rent for current month*)		
(9)	Sep. 30		
	Utilities Expense	**2,000**	
	Cash		**2,000**
	(*Pay utilities for current month*)		

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Problem 2-8A (continued)

(10)	Sep. 30			
	Salaries Expense		**4,000**	
		Cash		**4,000**
		(*Pay salaries for current month*)		
(11)	Sep. 30			
	Dividends		**1,100**	
		Cash		**1,100**
		(*Pay dividends*)		

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Problem 2-8A (continued)

Requirements 2 and 3

Cash	
Bal. 6,500	4,000 (6)
(1) 4,700	900 (8)
(7) 5,000	2,000 (9)
	4,000 (10)
	1,100 (11)
4,200	

Accounts Receivable	
Bal. 2,500	5,000 (7)
(4) 6,000	
3,500	

Supplies	
Bal. 7,600	
(5) 1,100	
8,700	

Land	
Bal. 11,200	
(2) 6,400	
17,600	

Accounts Payable	
	7,500 Bal.
	500 (3)
	1,100 (5)
	9,100

Notes Payable	
(6) 4,000	3,000 Bal.
	6,400 (2)
	5,400

Common Stock	
	9,000 Bal.
	9,000

Retained Earnings	
	8,300 Bal.
	8,300

Dividends	
(11) 1,100	
1,100	

Service Revenue	
	4,700 (1)
	6,000 (4)
	10,700

Salaries Expense	
(10) 4,000	
4,000	

Rent Expense	
(8) 900	
900	

Advertising Expense	
(3) 500	
500	

Utilities Expense	
(9) 2,000	
2,000	

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Problem 2-8A (continued)

Requirement 4

Pirates Incorporated
Trial Balance
September 30

Accounts	Debit	Credit
Cash	$ 4,200	
Accounts Receivable	3,500	
Supplies	8,700	
Land	17,600	
Accounts Payable		$ 9,100
Notes Payable		5,400
Common Stock		9,000
Retained Earnings		8,300
Dividends	1,100	
Service Revenue		10,700
Salaries Expense	4,000	
Rent Expense	900	
Advertising Expense	500	
Utilities Expense	2,000	
Totals	$42,500	$42,500

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Problem 2-9A (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

		Debit	Credit
(1)	December 1		
	Rent Expense	**900**	
	Cash		**900**
	(*Pay rent for December*)		
(2)	December 5		
	Cash	**2,800**	
	Service Revenue		**2,800**
	(*Provide services for cash*)		
(3)	December 8		
	Cash	**10,000**	
	Notes Payable		**10,000**
	(*Borrow by signing note payable*)		
(4)	December 12		
	Cash	**3,500**	
	Accounts Receivable		**3,500**
	(*Receive cash from customers on account*)		
(5)	December 13		
	Cash	**20,000**	
	Common Stock		**20,000**
	(*Issue shares of common stock*)		
(6)	December 15		
	Salaries Expense	**1,200**	
	Cash		**1,200**
	(*Pay salaries for December*)		
(7)	December 17		
	Advertising Expense	**1,000**	
	Cash		**1,000**
	(*Purchase advertising for December*)		
(8)	December 22		
	Accounts Receivable	**3,200**	
	Service Revenue		**3,200**
	(*Provide services on account*)		
	December 23		
	No journal entry required		

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Problem 2-9A (continued)

(9)	December 26		
	Equipment	**28,500**	
	Cash		**28,500**
	(*Purchase equipment*)		
(10)	December 28		
	Accounts Payable	**1,500**	
	Cash		**1,500**
	(*Pay cash on account*)		
(11)	December 31		
	Dividends	**2,000**	
	Cash		**2,000**
	(*Pay dividends*)		

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Problem 2-9A (continued)

Requirements 2 and 3

Cash	
Bal. 9,200	900 (1)
(2) 2,800	1,200 (6)
(3)10,000	1,000 (7)
(4) 3,500	28,500 (9)
(5) 20,000	1,500 (10)
	2,000 (11)
10,400	

Accounts Receivable	
Bal. 4,500	3,500 (4)
(8) 3,200	
4,200	

Prepaid Insurance	
Bal. 400	
400	

Equipment	
Bal. 24,100	
(9) 28,500	
52,600	

Land	
Bal. 170,000	
170,000	

Accounts Payable	
(10) 1,500	3,300 Bal.
	1,800

Notes Payable	
	50,000 Bal.
	10,000 (3)
	60,000

Common Stock	
	120,000 Bal.
	20,000 (5)
	140,000

Retained Earnings	
	14,100 Bal.
	14,100

Dividends	
Bal. 5,000	
(11) 2,000	
7,000	

Service Revenue	
	75,000 Bal.
	2,800 (2)
	3,200 (8)
	81,000

Advertising Expense	
Bal. 11,000	
(7) 1,000	
12,000	

Salaries Expense	
Bal. 28,300	
(6) 1,200	
29,500	

Rent Expense	
Bal. 9,900	
(1) 900	
10,800	

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Problem 2-9A (continued)

Requirement 4

RiverHawk Expeditions
Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 10,400	
Accounts Receivable	4,200	
Prepaid Insurance	400	
Equipment	52,600	
Land	170,000	
Accounts Payable		$ 1,800
Notes Payable		60,000
Common Stock		140,000
Retained Earnings		14,100
Dividends	7,000	
Service Revenue		81,000
Advertising Expense	12,000	
Salaries Expense	29,500	
Rent Expense	10,800	
Totals	$296,900	$296,900

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PROBLEMS: SET B

Problem 2-1B (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank	*Increase*	=	*Increase*	+	*No effect*
2. Purchase a machine to use in operations for cash.	**No effect***	=	**No effect**	+	**No effect**
3. Provide services to customers for cash.	**Increase**	=	**No effect**	+	**Increase**
4. Pay employee salaries for the current month.	**Decrease**	=	**No effect**	+	**Decrease**
5. Repay loan from the bank in (1) above.	**Decrease**	=	**Decrease**	+	**No effect**
6. Customers pay cash in advance of services.	**Increase**	=	**Increase**	+	**No effect**
7. Pay for maintenance costs in the current month.	**Decrease**	=	**No effect**	+	**Decrease**
8. Pay for advertising in the current month.	**Decrease**	=	**No effect**	+	**Decrease**
9. Purchase office supplies on account.	**Increase**	=	**Increase**	+	**No effect**
10. Provide services to customers on account.	**Increase**	=	**No effect**	+	**Increase**
11. Pay dividends to stockholders.	**Decrease**	=	**No effect**	+	**Decrease**

***One asset (machine) increases and another asset (cash) decreases**

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Problem 2-2B (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash, $15,000.	*+$15,000*	=	*$0*	+	*+$15,000*
2. Obtain a loan from the bank for $9,000.	**+$9,000**	=	**+$9,000**	+	**$0**
3. Receive cash of $1,200 in advance from customers.	**+$1,200**	=	**+$1,200**	+	**$0**
4. Purchase supplies on account, $2,400.	**+$2,400**	=	**+$2,400**	+	**$0**
5. Pay one year of rent in advance, $12,000.	**+$12,000** **−$12,000**	=	**$0**	+	**$0**
6. Provide services to customers on account, $3,000.	**+$3,000**	=	**$0**	+	**+$3,000**
7. Repay $4,000 of the loan in (2) above.	**−$4,000**	=	**−$4,000**	+	**$0**
8. Pay full amount for supplies purchased in (4) above.	**−$2,400**	=	**−$2,400**	+	**$0**
9. Provide services to customers in (3) above.	**$0**	=	**−$1,200**	+	**+$1,200**
10. Pay cash dividends of $1,000 to stockholders.	**−$1,000**	=	**$0**	+	**−$1,000**
Totals	**$23,200**	=	**$5,000**	+	**$18,200**

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Problem 2-3B (LO 2-3)

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Supplies	**Asset**	**Debit**
2. Advertising Expense	**Expense**	**Debit**
3. Prepaid Insurance	**Asset**	**Debit**
4. Supplies Expense	**Expense**	**Debit**
5. Accounts Payable	**Liability**	**Credit**
6. Equipment	**Asset**	**Debit**
7. Dividends	**Dividends**	**Debit**
8. Accounts Receivable	**Asset**	**Debit**
9. Retained Earnings	**Stockholders' equity**	**Credit**
10. Deferred Revenue	**Liability**	**Credit**
11. Service Revenue	**Revenue**	**Credit**
12. Utilities Payable	**Liability**	**Credit**

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Problem 2-4B (LO 2-4)

Transactions for Eli's Insurance Services

May 2	Debit	Credit
Cash	**300**	
Deferred Revenue		**300**
(*Receive cash in advance from customer*)		
May 5		
Repairs and Maintenance Expense	**425**	
Accounts Payable		**425**
(*Receive maintenance services on account*)		
May 7		
Cash	**500**	
Notes Payable		**500**
(*Receive cash and sign note payable*)		
May 14		
No entry for Eli.		
May 19		
Accounts Payable	**425**	
Cash		**425**
(*Pay cash on account*)		
May 25		
Utilities Expense	**135**	
Cash		**135**
(*Pay utilities for the current month*)		
May 28		
Deferred Revenue	**300**	
Service Revenue		**300**
(*Provide service previously paid*)		
May 31		
Notes Payable	**500**	
Cash		**500**
(*Pay cash on note payable*)		

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Problem 2-5B (LO 2-2, 2-4)

Transactions for Olivia's Maintenance Services

		Debit	Credit
May 2			
	Prepaid Insurance	**300**	
	Cash		**300**
	(*Pay for insurance services in advance*)		
May 5			
	Accounts Receivable	**425**	
	Service Revenue		**425**
	(*Provide services on account*)		
May 7			
	Notes Receivable	**500**	
	Cash		**500**
	(*Loan cash and issue note receivable*)		
May 14			
	Supplies	**200**	
	Cash		**200**
	(*Purchase maintenance supplies with cash*)		
May 19			
	Cash	**425**	
	Accounts Receivable		**425**
	(*Receive cash on account*)		
May 25			
	No entry for Olivia.		
May 28			
	Insurance Expense	**300**	
	Prepaid Insurance		**300**
	(*Received services paid in advance*)		
May 31			
	Cash	**500**	
	Notes Receivable		**500**
	(*Receive cash on note receivable*)		

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Problem 2-5B (concluded)

	Eli's Insurance Services					Olivia's Maintenance Services				
	Assets	=	Liabilities	+	Stockholders' Equity	Assets	=	Liabilities	+	Stockholders' Equity
May 2	*+$300*	=	*+$300*	+	*$0*	*+$300* *−$300*	=	*$0*	+	*$0*
5	**$0**	=	**+$425**	+	**−$425**	**+$425**	=	**$0**	+	**+$425**
7	**+$500**	=	**+$500**	+	**$0**	**+$500** **−$500**	=	**$0**	+	**$0**
14	**$0**	=	**$0**	+	**$0**	**+$200** **−$200**	=	**$0**	+	**$0**
19	**−$425**	=	**−$425**	+	**$0**	**+$425** **−$425**	=	**$0**	+	**$0**
25	**−$135**	=	**$0**	+	**−$135**	**$0**	=	**$0**	+	**$0**
28	**$0**	=	**−$300**	+	**+$300**	**−$300**	=	**$0**	+	**−$300**
31	**−$500**	=	**−$500**	+	**$0**	**+$500** **−$500**	=	**$0**	+	**$0**

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Problem 2-6B (LO 2-6)

Ducks Company
Trial Balance
September 30

Accounts	Debit	Credit
Cash	$ 25,000	
Accounts Receivable	14,000	
Supplies	7,000	
Prepaid Insurance	5,000	
Equipment	28,000	
Accounts Payable		$ 7,000
Salaries Payable		4,000
Utilities Payable		1,100
Deferred Revenue		9,000
Common Stock		29,000
Retained Earnings		13,000
Dividends	4,000	
Service Revenue		**55,100**
Salaries Expense	9,000	
Insurance Expense	8,000	
Advertising Expense	1,100	
Supplies Expense	10,000	
Entertainment Expense	6,000	
Utilities Expense	1,100	
Totals	$118,200	$118,200

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Problem 2-7B (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

		Debit	Credit
(1)	June 1		
	Cash	**70,000**	
	Notes Payable		**70,000**
	(*Obtain loan from bank*)		
(2)	June 2		
	Cash	**40,000**	
	Common Stock		**40,000**
	(*Issue common stock*)		
(3)	June 7		
	Equipment	**75,000**	
	Cash		**75,000**
	(*Purchase equipment*)		
(4)	June 10		
	Supplies	**8,000**	
	Accounts Payable		**8,000**
	(*Purchase cleaning supplies on account*)		
(5)	June 12		
	Cash	**5,000**	
	Service Revenue		**5,000**
	(*Provide car washes for cash*)		
(6)	June 16		
	Salaries Expense	**900**	
	Cash		**900**
	(*Pay salaries to employees*)		
(7)	June 19		
	Advertising Expense	**500**	
	Cash		**500**
	(*Pay for current advertising*)		
(8)	June 23		
	Accounts Receivable	**6,000**	
	Service Revenue		**6,000**
	(*Provide car washes on account*)		

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Problem 2-7B (continued)

(9)	June 29			
	Salaries Expense		**950**	
	Cash			**950**
	(*Pay salaries to employees*)			
(10)	June 30			
	Utilities Expense		**1,400**	
	Cash			**1,400**
	(*Pay current utility bill)*			
(11)	June 30			
	Dividends		**600**	
	Cash			**600**
	(*Pay dividends to stockholders*)			

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Problem 2-7B (continued)

Requirements 2 and 3

Cash	
(1) 70,000	75,000 (3)
(2) 40,000	900 (6)
(5) 5,000	500 (7)
	950 (9)
	1,400 (10)
	600 (11)
35,650	

Accounts Receivable	
(8) 6,000	
6,000	

Supplies	
(4) 8,000	
8,000	

Equipment	
(3) 75,000	
75,000	

Accounts Payable	
	8,000 (4)
	8,000

Notes Payable	
	70,000 (1)
	70,000

Common Stock	
	40,000 (2)
	40,000

Dividends	
(11) 600	
600	

Service Revenue	
	5,000 (5)
	6,000 (8)
	11,000

Salaries Expense	
(6) 900	
(9) 950	
1,850	

Advertising Expense	
(7) 500	
500	

Utilities Expense	
(10) 1,400	
1,400	

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Problem 2-7B (concluded)

Requirement 4

Salukis Car Cleaning
Trial Balance
June 30

Accounts	Debit	Credit
Cash	$ 35,650	
Accounts Receivable	6,000	
Supplies	8,000	
Equipment	75,000	
Accounts Payable		$ 8,000
Notes Payable		70,000
Common Stock		40,000
Dividends	600	
Service Revenue		11,000
Salaries Expense	1,850	
Advertising Expense	500	
Utilities Expense	1,400	
Totals	$129,000	$129,000

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Problem 2-8B (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

		Debit	Credit
(1)	Nov. 1		
	Cash	**13,000**	
	Common Stock		**13,000**
	(*Issue common stock*)		
(2)	Nov. 2		
	Equipment	**3,500**	
	Notes Payable		**3,500**
	(*Purchase equipment with note payable*)		
(3)	Nov. 4		
	Supplies	**1,000**	
	Accounts Payable		**1,000**
	(*Purchase supplies on account*)		
(4)	Nov. 10		
	Accounts Receivable	**9,000**	
	Service Revenue		**9,000**
	(*Provide services on account*)		
(5)	Nov. 15		
	Accounts Payable	**1,100**	
	Cash		**1,100**
	(*Pay cash on account*)		
(6)	Nov. 20		
	Salaries Expense	**3,000**	
	Cash		**3,000**
	(*Pay current salaries*)		
(7)	Nov. 22		
	Cash	**11,000**	
	Service Revenue		**11,000**
	(*Provide services for cash*)		
(8)	Nov. 24		
	Notes Payable	**1,400**	
	Cash		**1,400**
	(*Pay note payable*)		
(9)	Nov. 26		
	Cash	**7,000**	
	Accounts receivable		**7,000**
	(*Receive cash on account*)		

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Problem 2-8B (continued)

(10)	Nov. 28		
	Utilities Expense	**1,100**	
	Cash		**1,100**
	(*Pay utilities for current month*)		
(11)	Nov. 30		
	Rent Expense	**5,000**	
	Cash		**5,000**
	(*Pay rent for current month*)		

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Problem 2-8B (continued)

Requirements 2 and 3

Cash	
Bal. 3,200	1,100 (5)
(1) 13,000	3,000 (6)
(7) 11,000	1,400 (8)
(9) 7,000	1,100 (10)
	5,000 (11)
22,600	

Accounts Receivable	
Bal. 600	7,000 (9)
(4) 9,000	
2,600	

Supplies	
Bal. 700	
(3) 1,000	
1,700	

Equipment	
Bal. 9,400	
(2) 3,500	
12,900	

Accounts Payable	
	2,000 Bal.
(5)1,100	1,000 (3)
	1,900

Notes Payable	
(8) 1,400	4,000 Bal.
	3,500 (2)
	6,100

Common Stock	
	7,000 Bal.
	13,000 (1)
	20,000

Retained Earnings	
	900 Bal.
	900

Service Revenue	
	9,000 (4)
	11,000 (7)
	20,000

Salaries Expense	
(6) 3,000	
3,000	

Utilities Expense	
(10) 1,100	
1,100	

Rent Expense	
(11) 5,000	
5,000	

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Problem 2-8B (continued)

Requirement 4

Buckeye Incorporated
Trial Balance
November 30

Accounts	Debit	Credit
Cash	$22,600	
Accounts Receivable	2,600	
Supplies	1,700	
Equipment	12,900	
Accounts Payable		$ 1,900
Notes Payable		6,100
Common Stock		20,000
Retained Earnings		900
Service Revenue		20,000
Salaries Expense	3,000	
Utilities Expense	1,100	
Rent Expense	5,000	
Totals	$48,900	$48,900

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Problem 2-9B (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

		Debit	Credit
(1)	December 1-31		
	Cash	**27,400**	
	Service Revenue		**27,400**
	(*Provide services for cash*)		
(2)	December 4		
	Supplies	**2,900**	
	Accounts Payable		**2,900**
	(*Purchase supplies on account*)		
(3)	December 8		
	Advertising Expense	**3,200**	
	Cash		**3,200**
	(*Purchase advertising for December*)		
(4)	December 9		
	Accounts Payable	**2,900**	
	Cash		**2,900**
	(*Pay cash on account*)		
(5)	December 12		
	Cash	**5,000**	
	Common Stock		**5,000**
	(*Issue shares of common stock*)		
(6)	December 16		
	Accounts Payable	**6,300**	
	Cash		**6,300**
	(*Pay cash on account*)		
(7)	December 19		
	Equipment	**7,700**	
	Cash		**7,700**
	(*Purchase equipment*)		
(8)	December 22		
	Utilities Expense	**4,500**	
	Cash		**4,500**
	(*Pay utilities for current month*)		
(9)	December 24		
	Cash	**2,300**	
	Deferred Revenue		**2,300**
	(*Receive cash in advance from customers*)		

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Problem 2-9B (continued)

December 27

No journal entry is required

(10)	December 30		
	Salaries Expense	**7,000**	
	Cash		**7,000**
	(*Pay salaries for December*)		
(11)	December 31		
	Dividends	**3,000**	
	Cash		**3,000**
	(*Pay dividends*)		

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Problem 2-9B (continued)

Requirements 2 and 3

Cash	
Bal. 19,400	3,200 (3)
(1) 27,400	2,900 (4)
(5) 5,000	6,300 (6)
(9) 2,300	7,700 (7)
	4,500 (8)
	7,000 (10)
	3,000 (11)
19,500	

Supplies	
Bal. 1,500	
(2) 2,900	
4,400	

Prepaid Rent	
Bal. 7,200	
7,200	

Equipment	
Bal. 83,700	
(7) 7,700	
91,400	

Buildings	
Bal. 240,000	
240,000	

Accounts Payable	
(4) 2,900	9,800 Bal.
(6) 6,300	2,900 (2)
	3,500

Deferred Revenue	
	2,000 Bal.
	2,300 (9)
	4,300

Common Stock	
	125,000 Bal.
	5,000 (5)
	130,000

Retained Earnings	
	75,500 Bal.
	75,500

Dividends	
Bal. 9,000	
(11) 3,000	
12,000	

Service Revenue	
	264,000 Bal.
	27,400 (1)
	291,400

Salaries Expense	
Bal. 65,000	
(10) 7,000	
72,000	

Advertising Expense	
Bal. 18,200	
(3) 3,200	
21,400	

Utilities Expense	
Bal. 32,300	
(8) 4,500	
36,800	

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Problem 2-9B (continued)

Requirement 4

Thunder Cat Services
Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 19,500	
Supplies	4,400	
Prepaid Rent	7,200	
Equipment	91,400	
Buildings	240,000	
Accounts Payable		$ 3,500
Deferred Revenue		4,300
Common Stock		130,000
Retained Earnings		75,500
Dividends	12,000	
Service Revenue		291,400
Salaries Expense	72,000	
Advertising Expense	21,400	
Utilities Expense	36,800	
Totals	$504,700	$504,700

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ADDITIONAL PERSPECTIVES

Additional Perspective 2-1

Requirement 1

Entries are numbered for posting.

		Debit	Credit
(1)	July 1, 2021		
	Cash	**10,000**	
	Common Stock		**10,000**
	(*Issue common stock to Suzie*)		
(2)	July 1, 2021		
	Cash	**10,000**	
	Common Stock		**10,000**
	(*Issue common stock to Tony*)		
(3)	July 1, 2021		
	Prepaid Insurance	**4,800**	
	Cash		**4,800**
	(*Purchase one-year insurance policy*)		
(4)	July 2, 2021		
	Legal Fees Expense	**1,500**	
	Cash		**1,500**
	(*Pay legal fees for incorporation*)		
(5)	July 4, 2021		
	Supplies (Office)	**1,800**	
	Accounts Payable		**1,800**
	(*Purchase office supplies on account*)		
(6)	July 7, 2021		
	Advertising Expense	**300**	
	Cash		**300**
	(*Pay cash for advertising*)		
(7)	July 8, 2021		
	Equipment (Bikes)	**12,000**	
	Cash		**12,000**
	(*Pay cash for mountain bikes*)		
(8)	July 15, 2021		
	Cash	**2,000**	
	Service Revenue		**2,000**
	(*Receive cash for mountain bike clinic*)		

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Additional Perspective 2-1 (continued)

Requirement 1 (concluded)

(9)	July 22, 2021			
	Cash		**2,300**	
		Service Revenue		**2,300**
		(*Receive cash for mountain bike clinic*)		
(10)	July 24, 2021			
	Advertising Expense		**700**	
		Cash		**700**
		(*Pay cash for advertising*)		
(11)	July 30, 2021			
	Cash		**4,000**	
		Deferred Revenue		**4,000**
		(*Receive cash in advance for kayak clinic*)		

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Additional Perspective P2-1 (continued)

Requirement 2

Cash	
(1) 10,000	4,800 (3)
(2) 10,000	1,500 (4)
(8) 2,000	300 (6)
(9) 2,300	12,000 (7)
(11) 4,000	700 (10)
9,000	

Prepaid Insurance	
(3) 4,800	
4,800	

Supplies	
(5) 1,800	
1,800	

Equipment	
(7) 12,000	
12,000	

Accounts Payable	
	1,800 (5)
	1,800

Deferred Revenue	
	4,000 (11)
	4,000

Common Stock	
	10,000 (1)
	10,000 (2)
	20,000

Service Revenue	
	2,000 (8)
	2,300 (9)
	4,300

Advertising Expense	
(6) 300	
(10) 700	
1,000	

Legal Fees Expense	
(4) 1,500	
1,500	

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Additional Perspective 2-1 (concluded)

Requirement 3

Great Adventures, Inc.
Trial Balance
July 31, 2021

Accounts	Debit	Credit
Cash	$ 9,000	
Prepaid Insurance	4,800	
Supplies	1,800	
Equipment	12,000	
Accounts Payable		$ 1,800
Deferred Revenue		4,000
Common Stock		20,000
Service Revenue		4,300
Advertising Expense	1,000	
Legal Fees expense	1,500	
Totals	$30,100	$30,100

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Additional Perspective 2-2

($ in thousands)

Requirement 1

Percentage change in total assets = ($1,816,313 − $1,782,660) / $1,782,660 = 1.9%

Percentage change in net sales = ($3,795,549 − $3,609,865) / $3,609,865 = 5.1%

Requirement 2

Percentage change in net income = ($204,163 − $212,449) / $212,449 = -3.9%

Requirement 3

No. Based on the statement of stockholders' equity, American Eagle did not issue common stock in the most recent year.

Requirement 4

No. The terms "debit" and "credit" are not shown in the balance sheet. **Asset** accounts, such as cash, merchandise inventory, accounts receivable, and property and equipment, increase with a debit. **Liability** accounts, such as accounts payable, accrued rent, and other liabilities increase with a credit. **Stockholders' equity** accounts, such as common stock and retained earnings, also increase with a credit.

Requirement 5

No. The terms "debit" and "credit" are not shown in the income statement. **Expense** accounts, such as cost of sales and selling, general and administrative expenses increase with a debit. **Revenue** accounts, such as net revenue, increase with a credit.

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Additional Perspective 2-3

($ in thousands)

Requirement 1

Percentage change in total assets = ($538,116 − $579,847) / $579,847 = -7.2%

Percentage change in net sales = ($913,380 − $974,873) / $974,873 = -6.3%

Requirement 2

Percentage change in net income = ($89,707 − $97,961) / $97,961 = -8.4%

Requirement 3

Yes. Based on the statement of stockholders' equity, The Buckle did issue a small amount of common stock in the most recent year.

Requirement 4

No. The terms "debit" and "credit" are not shown in the balance sheet. **Asset** accounts, such as cash, inventory, accounts receivable, and property and equipment increase with a debit. **Liability** accounts, such as accounts payable, accrued employee compensation, and income taxes increase with a credit. **Stockholders' equity** accounts, such as common stock and retained earnings, also increase with a credit.

Requirement 5

No. The terms "debit" and "credit" are not shown in the income statement. **Expense** accounts, such as cost of sales and selling, general, and administrative expenses, increase with a debit. **Revenue** accounts, such as net sales, increase with a credit.

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Additional Perspective 2-4

American Eagle for all three. American Eagle has a larger increase in terms of total assets, and also showed growth in net sales whereas Buckle's net sales declined. Buckle's net income declined by a larger percentage.

Without reading more of the financial reports at this point, it appears from the financial statements that the apparel business is slumping and Buckle is struggling to find its place, having already shown operations that it discontinued and perhaps a need to re-strategize its operations.

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Additional Perspective 2-5

1. Increases reported profit by $75,000, from a loss of $50,000 to a profit of $25,000 (ignoring any tax effects).

2. Yes.
Robert, the company's president, benefits from false reporting by maintaining the company's profitable appearance. The incentives could be bonus compensation plans, a desire to please stockholders, meeting analysts' earnings forecasts for the company, or maintaining good standing with creditors. Larry benefits from false reporting by keeping his friendship with Robert, keeping his job for the longer-term, and getting a free dinner tonight. However, if the false reporting is discovered by authorities, both parties face legal penalties and suffer reputational damage.

3. Yes.
Outside decisions makers, such as investors and creditors, view companies that report a profit instead of a loss as being more financially stable.

4. No.
As the accountant, Larry should understand that his responsibilities are to accurately record and report the company's activities. Larry must be aware that Robert may have incentives for falsely reporting to Larry about the additional revenue. Without source documents, an important step in the measurement process, Larry should not record any transactions.

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Additional Perspective 2-6

(Note to instructor: Answers are based on items in Apple's September 30, 2017 annual report. Dollar amounts are in millions)

Requirement 1

Accounts receivable = $17,874. The accounts receivable account represents the amount owed to Apple by its customers.

Requirement 2

Accounts payable = $49,049. The accounts payable account represents the amount owed by Apple to its suppliers.

Requirement 3

Accrued expenses could include income taxes payable, salaries payable, interest payable, and rent payable.

Requirement 4

Common stock (including additional paid-in capital) = $35,867. The common stock account represents capital contributed to the company by stockholders.

Requirement 5

Assets ($375,319) = Liabilities ($241,272) + Stockholders' equity ($134,047)

Requirement 6

Net sales = $229,234. The period of net sales is for the year ended September 30, 2017.

Requirement 7

Expenses include cost of sales; research and development; selling, general, and administrative; and provision for income taxes.

Requirement 8

Yes, the company's revenues exceed expenses. The difference is net income of $48,351.

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Additional Perspective 2-7

For transaction (a):

Step 1. Analyze customer invoice.
Step 2. Determine assets increase and stockholders' equity increases (and revenues increase).
Step 3. Increase assets with a debit and increase revenues with a credit.
Step 4. **Accounts Receivable** **500**
Service Revenue **500**
(*Provide services on account*)

For transaction (b):

Step 1. Analyze employee paycheck.
Step 2. Determine assets decrease and stockholders' equity decreases (and expenses increase).
Step 3. Decrease assets with a credit and increase expenses with a debit.
Step 4. **Salaries Expense** **1,200**
Cash **1,200**
(*Pay salary for the current month*)

For transaction (c):

Step 1. Analyze purchase receipt for equipment.
Step 2. Determine one asset increases and another asset decreases.
Step 3. Increase assets with a debit and decrease assets with a credit.
Step 4. **Equipment** **2,700**
Cash **2,700**
(*Purchase office equipment*)

Step 5. All transactions are posted to the general ledger accounts.

Step 6. A trial balance is prepared using the balance of each general ledger account. Total debits should equal total credits in the trial balance.

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Financial Accounting

Fifth Edition

The Accounting Cycle: During the Period

CHAPTER 2

Spiceland • Thomas • Herrmann

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Functions of Financial Accounting

(1) **Measure** business activities of the company.

- Record transactions

(2) **Communicate** measurements to external parties for decision making.

- Prepare financial statements

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Part A

MEASURING BUSINESS ACTIVITIES

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Learning Objective 1

LO2-1 Identify the basic steps in measuring external transactions.

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Illustration 2-1
Six Steps in Measuring External Transactions

Step 1	• Use source documents to identify **accounts** affected by an external transaction.
Step 2	• Analyze the impact of the transaction on the **accounting equation**.
Step 3	• Assess whether the transaction results in a **debit** or **credit** to account balances.
Step 4	• Record the transaction in a **journal** using debits and credits.
Step 5	• Post the transaction to the **general ledger**.
Step 6	• Prepare a **trial balance**.

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Capturing Transactions in Accounts

- **Account**: Record of all transactions related to a particular item over a period of time.
  - Asset accounts:

    Examples: Cash, Supplies, and Equipment
  - Liability accounts:

    Examples: Accounts Payable, Salaries Payable, Utilities Payable, and Taxes Payable
  - Stockholders' equity accounts:

    Examples: Common Stock and Retained Earnings
- **Chart of accounts**: A list of all account names used to record transactions

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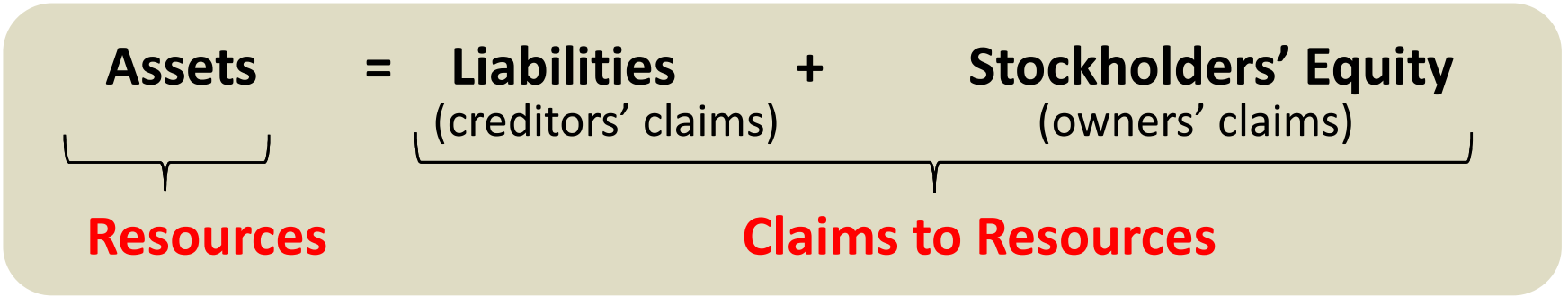
Learning Objective 2

LO2-2 Analyze the impact of external transactions on the accounting equation.

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Effects of Transactions on the Basic Accounting Equation

- Each transaction will have a dual effect on the basic accounting equation



- If total assets **increase**, then liabilities or stockholders' equity **increases** by the same amount.
- If total assets **decrease**, then liabilities or stockholders' equity **decreases** by the same amount.

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Understanding Effects of Transaction

- For each transaction, ask these three questions:
  1. **What is one account affected by the transaction?**
     - Does this account increase or decrease?
  2. **What is a second account affected by the transaction?**
     - Does this account increase or decrease?
  3. **Do assets equal liabilities plus stockholders' equity?**
     - THEY MUST!!! EVERY TIME!!

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Illustration 2-2
External Transactions of Eagle Soccer Academy

Transaction	Date	Description
(1)	Dec. 1	Sell shares of common stock for $25,000 to obtain the funds necessary to start the business.
(2)	Dec. 1	Borrow $10,000 from the local bank and sign a note promising to repay the full amount of the debt in three years.
(3)	Dec. 1	Purchase equipment necessary for giving soccer training. $24,000 cash.
(4)	Dec. 1	Pay one year of rent in advance, $6,000 ($500 per month).
(5)	Dec. 6	Purchase supplies on account, $2,300.
(6)	Dec. 12	Provide soccer training to customers for cash, $4,300.
(7)	Dec. 17	Provide soccer training to customers on account, $2,000.
(8)	Dec. 23	Receive cash in advance for 12 soccer training sessions to be given in the future, $600.
(9)	Dec. 28	Pay salaries to employees, $2,800.
(10)	Dec. 30	Pay cash dividends of $200 to shareholders.

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Transaction (1): Issue Common Stock (1 of 3)

Sell shares of common stock for $25,000 to obtain the funds necessary to start the business.



- **What is one account affected by the transaction?**
  - Cash
- **Does that account increase or decrease?**
  - Increase by $25,000

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Transaction (1): Issue Common Stock (2 of 3)

Sell shares of common stock for $25,000 to obtain the funds necessary to start the business.



- **What is a <u>second</u> account affected by the transaction?**
  - Common Stock
- **Does that account increase or decrease?**
  - Increase by $25,000

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Transaction (1): Issue Common Stock (3 of 3)

Sell shares of common stock for $25,000 to obtain the funds necessary to start the business.

Assets	=	Liabilities	+	Stockholders' Equity
Cash				Common Stock
(1) +$25,000	=			+$25,000

- **Do assets equal liabilities plus stockholders' equity?**
  - Yes, assets increase by $25,000 and stockholders' equity increases by $25,000

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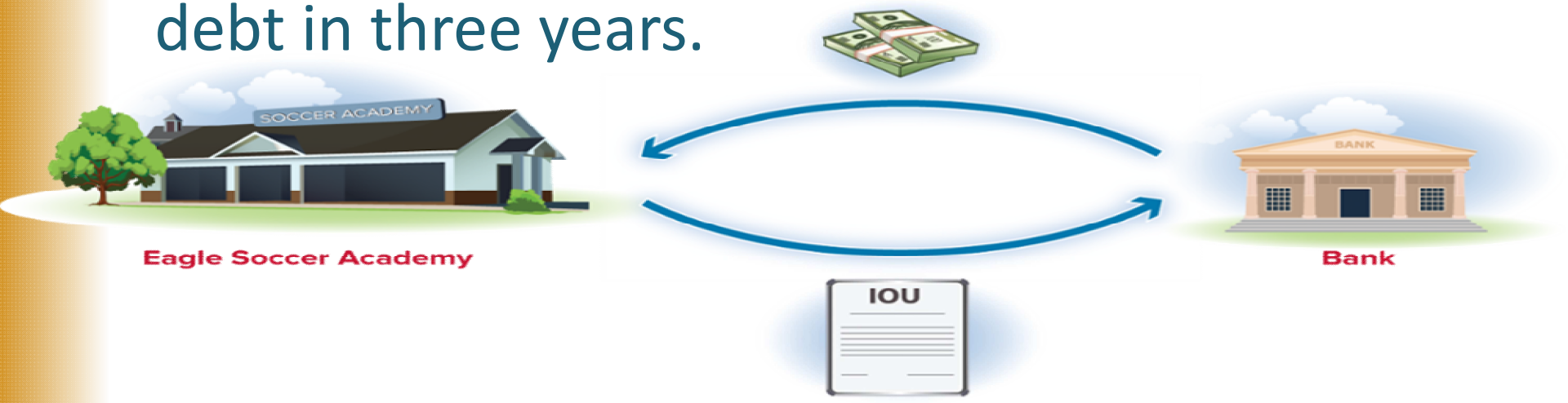
Common Mistake—Decrease or Increase Cash?

It's sometimes tempting to *decrease* cash as a way of recording an investor's initial investment. However, remember we account for the transactions *from the company's perspective*, and the company *received* cash from the stockholder—an increase in cash.

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Transaction (2): Borrow Cash from the Bank

Borrow $10,000 from the local bank and sign a note promising to repay the full amount of the debt in three years.



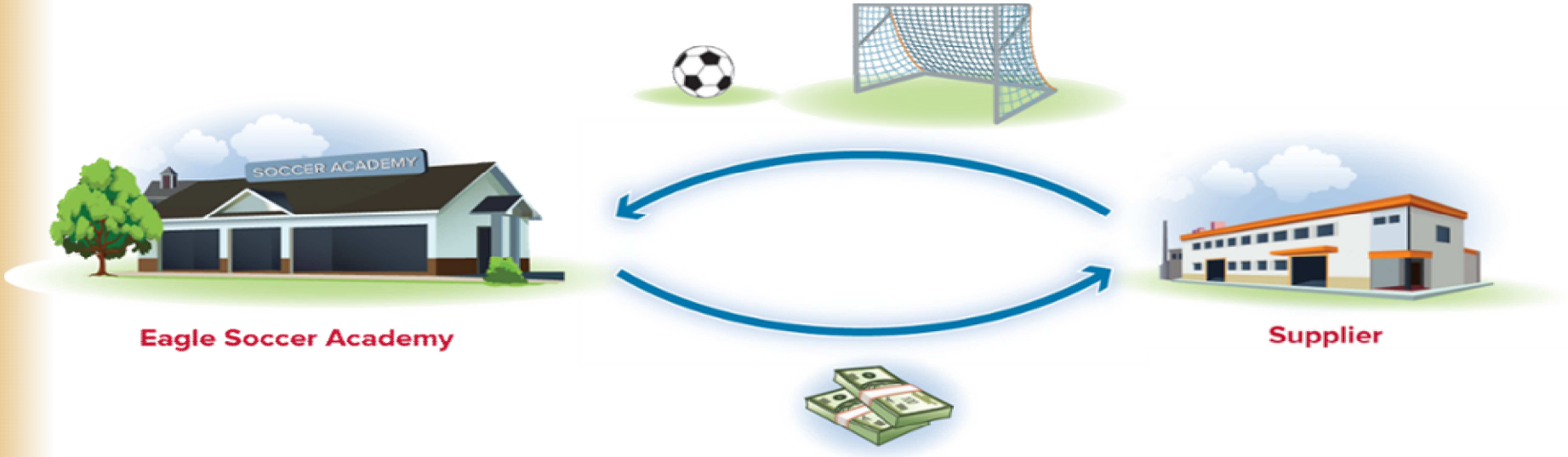
Assets	=	Liabilities	+	Stockholders' Equity
Cash		Notes Payable		Common Stock
Bal. $25,000				$25,000
(2) +$10,000		+$10,000		
Bal. $35,000		$10,000		$25,000
$35,000	=	$35,000		

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Transaction (3): Purchase Equipment

Purchase equipment necessary for giving soccer training, $24,000 cash.



Assets		=	Liabilities	+	Stockholders' Equity
Cash	Equipment		Notes Payable		Common Stock
Bal. $35,000			$10,000		$25,000
(3)–$24,000	+$24,000				
Bal. $11,000	$24,000		$10,000		$25,000
$35,000			=		$35,000

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Concept Check 2-1

What would be the effect on total assets if a company purchased land for $200,000 cash?

a. Total assets would go up by $200,000.

b. Total assets would go down by $200,000.

c. There would be zero effect on total assets.

d. None of the above

One asset (land) would go up and another asset (cash) would go down. Therefore there would be zero effect on total assets.

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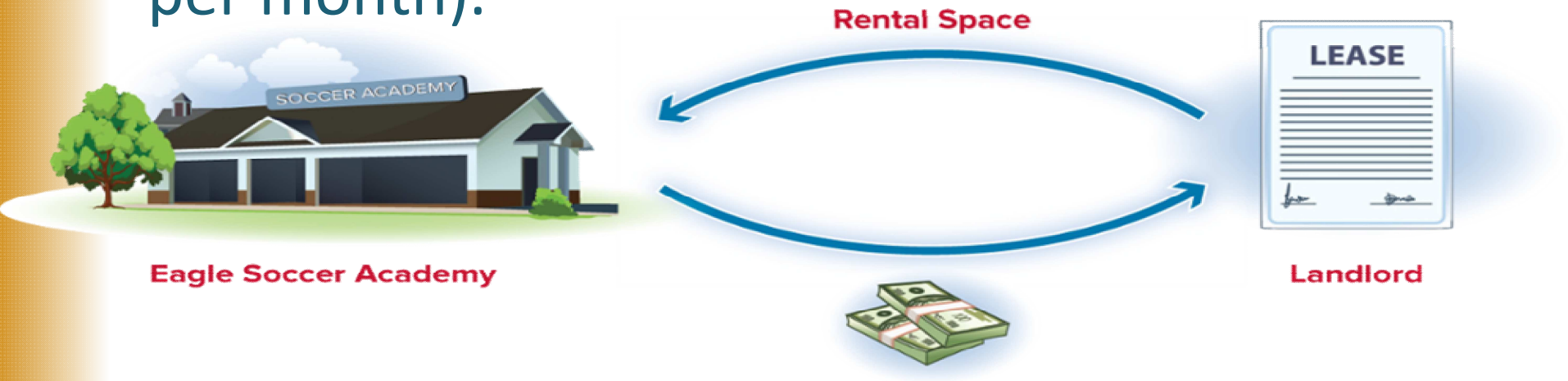
Key Point 1

After EACH transaction, the accounting equation must ALWAYS remain in balance. In other words, assets must always equal liabilities plus stockholders' equity. Get into the habit of checking this equality often!

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Transaction (4): Pay for Rent in Advance

Pay one year of rent in advance, $6,000 ($500 per month).

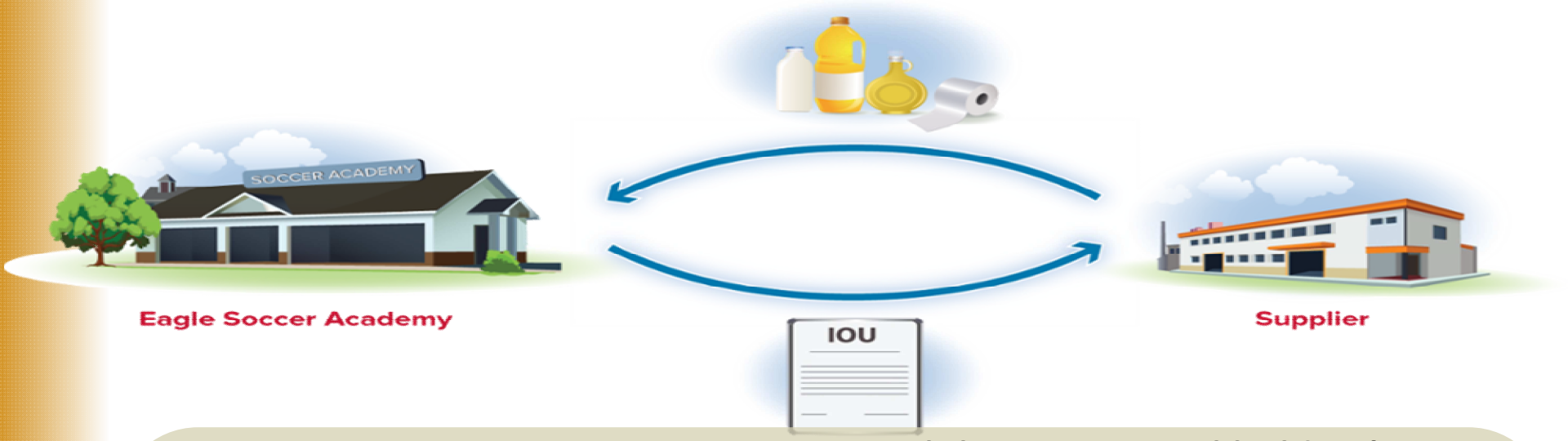


Assets			=	Liabilities	+	Stockholders' Equity
Cash	Prepaid Rent	Equipment		Notes Payable		Common Stock
Bal. $11,000		$24,000		$10,000		$25,000
(4) –$ 6,000	+$6,000					
Bal. $ 5,000	$6,000	$24,000		$10,000		$25,000
	$35,000		=	$35,000		

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Transaction (5): Purchase Supplies on Account

Purchase supplies on account, $2,300.

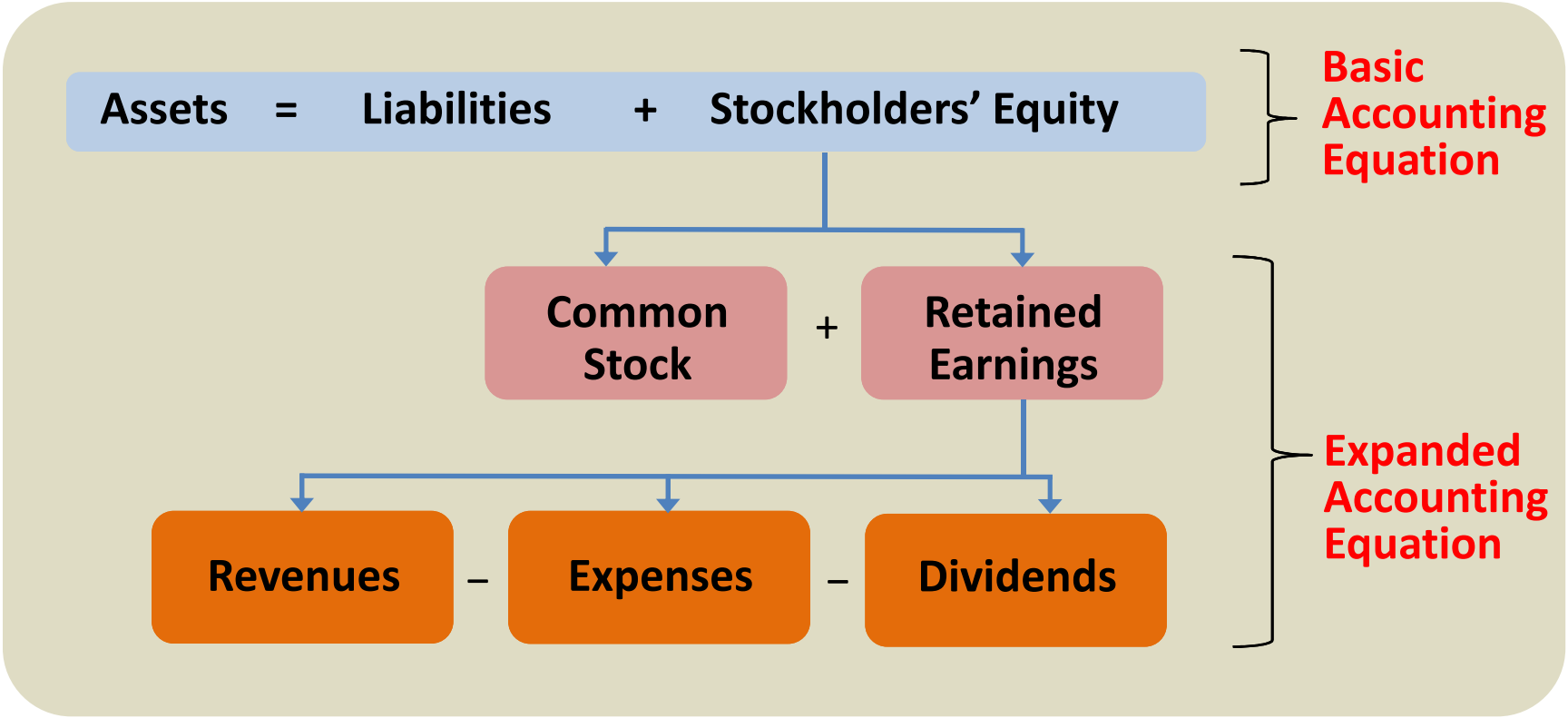


Assets				= Liabilities		+ Stockholders' Equity
Cash	Supplies	Prepaid Rent	Equipment	Accounts Payable	Notes Payable	Common Stock
Bal. $5,000		$6,000	$24,000		$10,000	$25,000
(5)	+$2,300			+$2,300		
Bal. $5,000	$2,300	$6,000	$24,000	$2,300	$10,000	$25,000
$37,300				= $37,300		

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Illustration 2-3
Expanded Accounting Equation



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Key Point 2

The expanded accounting equation demonstrates that:

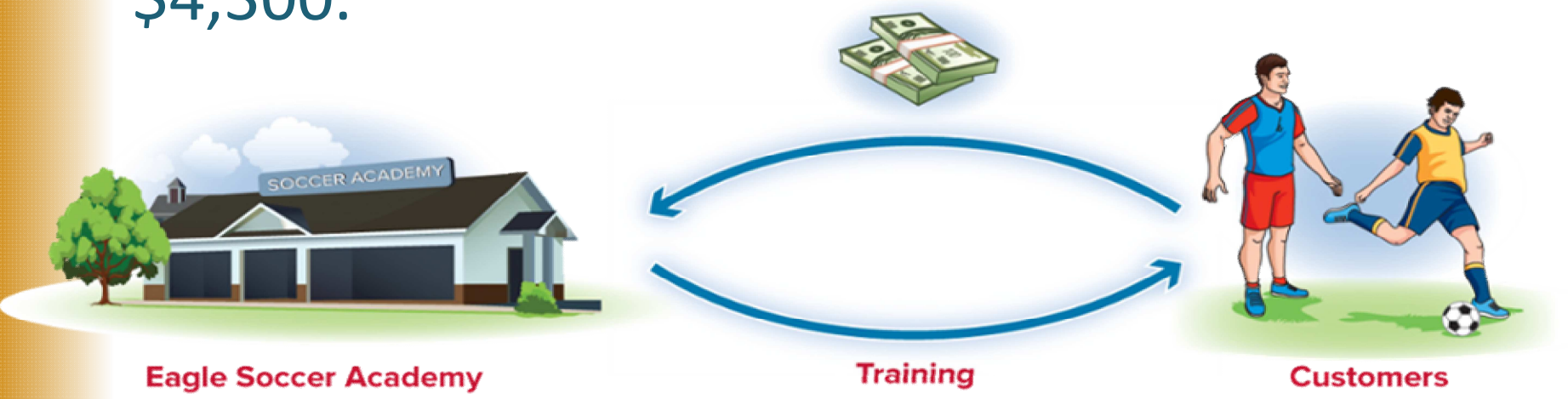
1. **Revenues** increase retained earnings
2. **Expenses** decrease retained earnings
3. **Dividends** decrease retained earnings

- Retained earnings is a component of stockholders' equity.

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Transaction (6): Provide Services for Cash

Provide soccer training to customers for cash, $4,300.

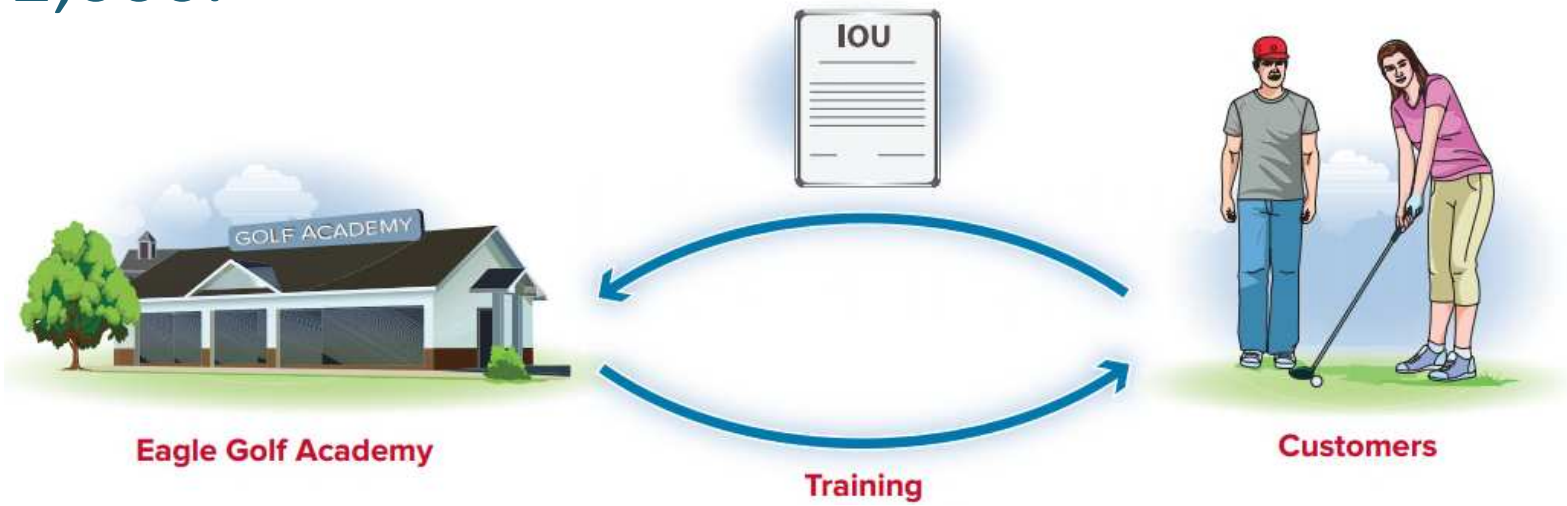


Assets				= Liabilities		+ Stockholders' Equity	
Cash	Supplies		Equipment	Accounts Payable	Notes Payable		
Bal. $ 5,000	$2,300	$6,000	$24,000	$2,300	$10,000	$25,000	
(6) +$4,300							+$4,300 Service Revenue
Bal. $ 9,300	$2,300	$6,000	$24,000	$2,300	$10,000	$25,000	$4,300
$41,600				= $41,600			

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Transaction (7): Provide Services on Account

Provide soccer training to customers on account, $2,000.



	Assets					=	Liabilities		+	Stockholders' Equity		
	Cash	Accounts Receivable	Supplies	Prepaid Rent	Equipment		Accounts Payable	Notes Payable		Common Stock	Retained Earnings	
Bal.	$9,300		$2,300	$6,000	$24,000		$2,300	$10,000		$25,000	$4,300	
(7)		+$2,000									+$2,000	Service Revenue
Bal.	$9,300	$2,000	$2,300	$6,000	$24,000		$2,300	$10,000		$25,000	$6,300	
	$43,600					=	$43,600					

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Transaction (8): Receive Cash in Advance from Customers

Receive cash in advance for 12 soccer training sessions to be given in the future, $600.



Assets					=	Liabilities			+ Stockholders' Equity	
	Cash	Accounts Receivable	Supplies	Prepaid Rent	Equipment	Accounts Payable	Deferred Revenue	Notes Payable	Common Stock	Retained Earnings
Bal.	$9,300	$2,000	$2,300	$6,000	$24,000	$2,300		$10,000	$25,000	$6,300
(8)	+$ 600						+$600			
Bal.	$9,900	$2,000	$2,300	$6,000	$24,000	$2,300	$600	$10,000	$25,000	$6,300
	$44,200					=	$44,200			

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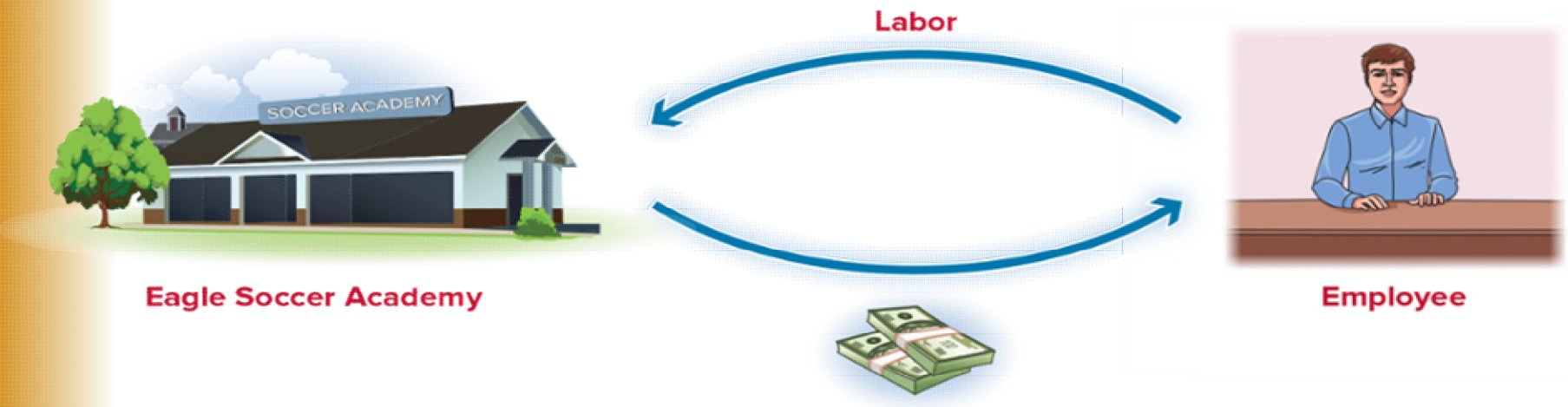
Common Mistake—Deferred Revenues

Don’t let the account name fool you. Even though the term *revenue* appears in the account title for *deferred revenue*, this is NOT a revenue account. *Deferred* indicates that the company has yet to provide services even though it has collected the customer’s cash. The company owes the customer a service, which creates a *liability*.

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Transaction (9): Pay Salaries to Employees

Pay salaries to employees, $2,800.



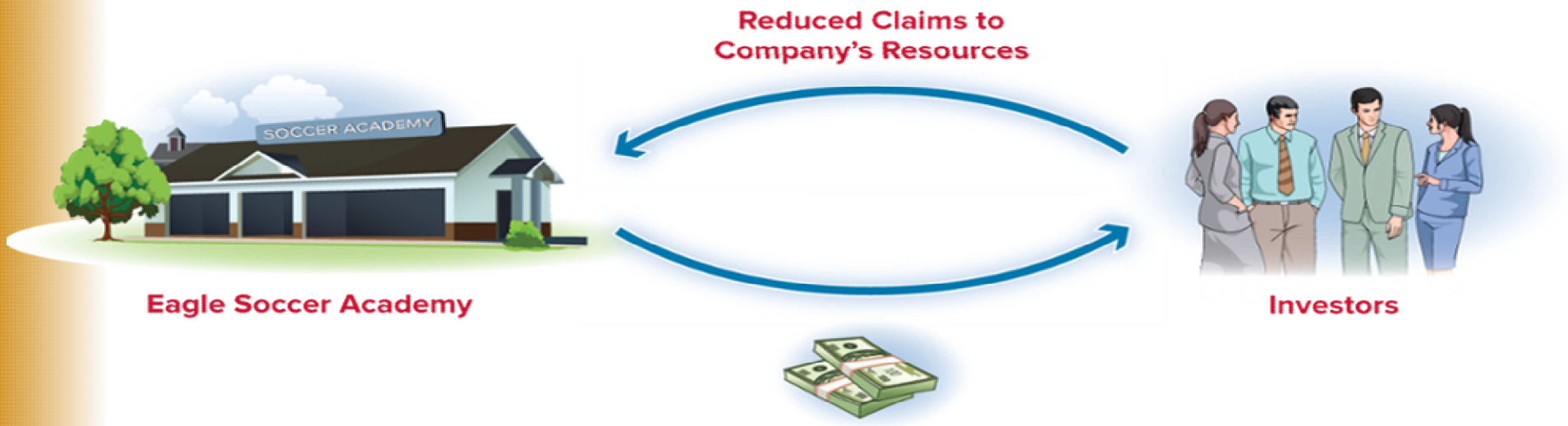
Assets					= Liabilities			+ Stockholders' Equity		
Cash	Accounts Receivable	Supplies	Prepaid Rent	Equipment	Accounts Payable	Deferred Revenue	Notes Payable	Common Stock	Retained Earnings	
Bal. $9,900	$2,000	$2,300	$6,000	$24,000	$2,300	$600	$10,000	$25,000	$6,300	Salaries
(9) –$2,800									–$2,800	Expense
Bal. $7,100	$2,000	$2,300	$6,000	$24,000	$2,300	$600	$10,000	$25,000	$3,500	
$41,400					= $41,400					

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Transaction (10): Pay Cash Dividends

Pay cash dividends of $200 to shareholders.



Assets					= Liabilities			+ Stockholders' Equity	
Cash	Accounts Receivable	Supplies	Prepaid Rent	Equipment	Accounts Payable	Deferred Revenue	Notes Payable	Common Stock	Retained Earnings
Bal. $7,100	$2,000	$2,300	$6,000	$24,000	$2,300	$600	$10,000	$25,000	$3,500
(10) –$ 200									–$ 200 Dividends
Bal. $6,900	$2,000	$2,300	$6,000	$24,000	$2,300	$600	$10,000	$25,000	$3,300
$41,200					= $41,200				

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Illustration 2-4
Summary of All 10 External Transactions of Eagle Soccer Academy

	Assets					=	Liabilities			+	Stockholders' Equity		
	Cash	Accounts Receivable	Supplies	Prepaid Rent	Equipment		Accounts Payable	Deferred Revenue	Notes Payable		Common Stock	Retained Earnings	
Dec. 1	$0	$0	$0	$0	$0		$0	$0	$0		$0	$0	
(1)	+25,000										+25,000		
(2)	+10,000								+10,000				
(3)	- 24,000				+24,000								
(4)	- 6,000			+6,000									
(5)			+2,300				+2,300						
(6)	+4,300											+4,300	Service Revenue
(7)		+2,000										+2,000	Service Revenue
(8)	+600							+600					
(9)	- 2,800											-2,800	Salaries Expense
(10)	-200											-200	Dividends
Dec. 31	$6,900	$2,000	$2,300	$6,000	$24,000		$2,300	$600	$10,000		$25,000	$3,300	
		$41,200				=			$41,200				

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Concept Check 2-2

What effect does the payment of dividends have on the accounting equation?

a. Assets decrease and equity increases

b. Assets decrease and equity decreases

c. Assets decrease and liabilities increase

d. Assets increase and equity increases

Payment of dividends causes the cash account (which is an asset) to decrease and also causes retained earnings (which is an equity account) to decrease. So the correct answer is the payment of dividends decreases both assets and equity.

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Part B

DEBITS AND CREDITS

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Learning Objective 3

LO2-3 Assess whether the impact of external transactions results in a debit or credit to an account balance.

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Illustration 2-5

Debit and Credit Effects on Accounts in the Basic Accounting Equation

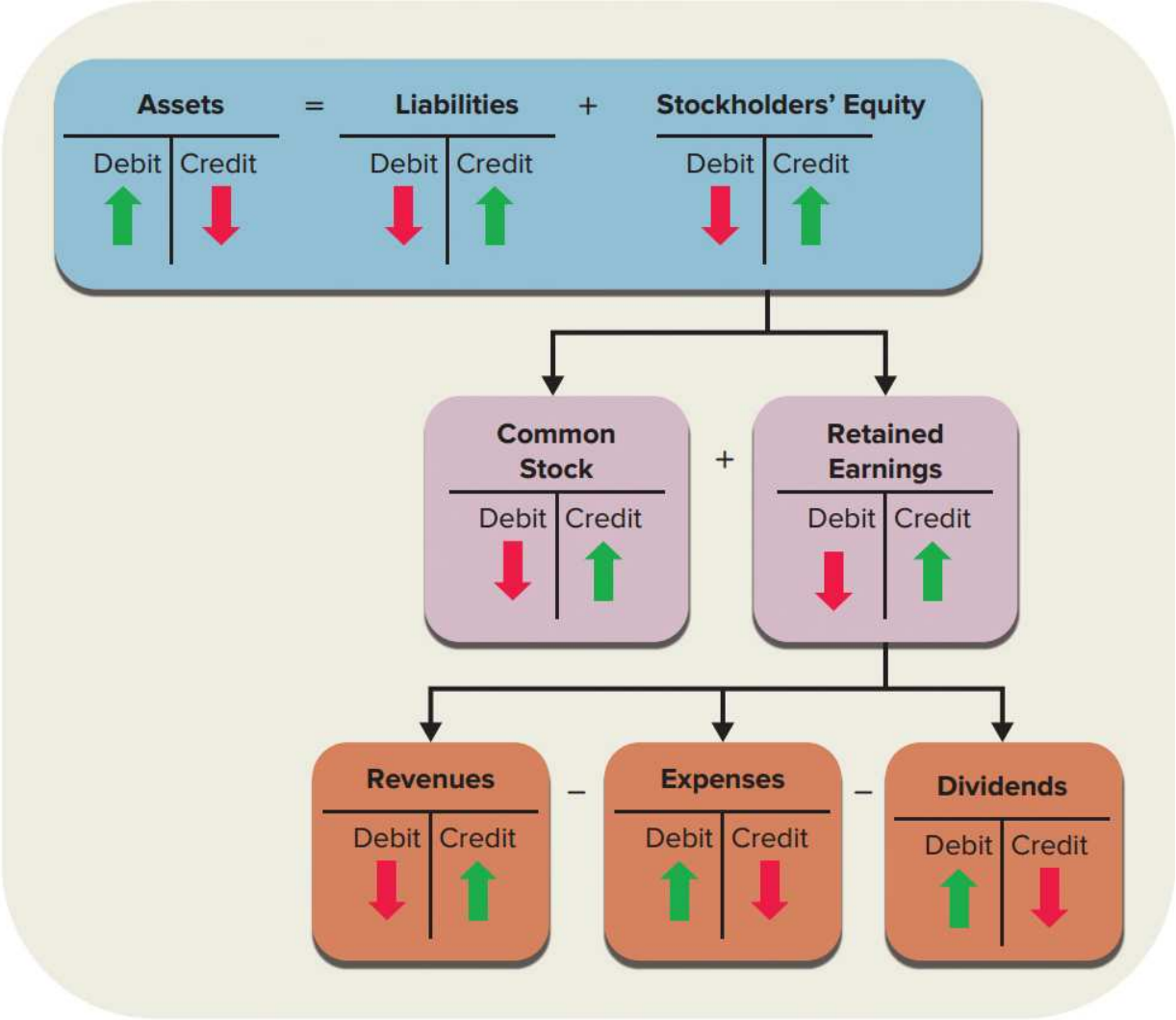


1. Left side—Assets increase with **debits**.
2. Right side—Liabilities and stockholders' equity increase with **credits**.

- The *opposite* is true to **decrease** the balance of any of these accounts.

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Illustration 2-6
Debit and Credit Effects on Accounts in the Expanded Accounting Equation



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Illustration 2-7
Debit and Credit Effects on Each Account Type

- A simple memory aid



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Concept Check 2-3

What does the word debit mean?

a. Left side

b. Right side

c. Increase

d. Decrease

The word debit means left side and the word credit means right side. The effects of debits and credits on account balances are different depending on the type of account being used. Sometimes a debit increases an account balance and sometimes it decreases an account balance.

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Learning Objective 4

LO2-4 Record transactions in a journal using debits and credits.

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Illustration 2-8

Format for Recording a Business Transaction, or Journal Entry

Date	Debit	Credit
Account Name	**Amount**	
Account Name.....		**Amount**
(Description of transaction)		

- Prior to the widespread use of computers, companies recorded their transactions in paper-based journals. Thus, the term ***journal entry.***

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Recording Transactions—Example

- On December 1, Eagle Soccer Academy sells shares of common stock to investors for cash of $25,000.
  - Debit to Cash for $25,000
  - Credit to Common Stock for $25,000

December 1	Debit	Credit
Cash *(+A)*.....	**25,000**	
Common Stock *(+SE)*.....		**25,000**
(Issue common stock for cash)		

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Common Mistake—Indention

Many students forget to indent the credit account names. For the account credited, be sure to indent both the account name and the amount.

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Learning Objective 5

LO2-5 Post transactions to the general ledger.

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Illustration 2-10
General Ledger Account

- ***Posting*** is the process of transferring the debit and credit information from the journal to individual general ledger accounts.
- The ***general ledger*** provides, in a single collection, each account with its individual transactions and resulting account balance.

Account: Title				
Date	Description	Debit	Credit	Balance

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Posting Transaction to Accounts (1 of 10)

- On December 1, Eagle Soccer Academy sells shares of common stock to investors for cash of $25,000.

(1) December 1	Debit	Credit
Cash *(+A)*	**25,000**	
Common Stock *(+SE)*		**25,000**
(Issue common stock for cash)		

Account: Cash

Date	Descriptions	Debit	Credit	Balance
Dec. 1	Beginning Balance			0
Dec. 1	Issue common stock for cash	25,000		25,000

Account: Common Stock

Date	Descriptions	Debit	Credit	Balance
Dec. 1	Beginning Balance			0
Dec. 1	Issue common stock for cash		25,000	25,000

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Posting Transaction to Accounts (2 of 10)

- On December 1, Eagle borrows cash from a bank, $10,000.

(2) December 1	Debit	Credit
Cash *(+A)*.....	**10,000**	
Notes Payable *(+L)*.....		**10,000**
(Borrow cash by signing three-year note)		

Account: Cash

Date	Descriptions	Debit	Credit	Balance
Dec. 1	Beginning Balance			0
Dec. 1	Issue common stock for cash	25,000		25,000
Dec. 1	Borrow cash by signing note	10,000		35,000

Account: Notes Payable

Date	Descriptions	Debit	Credit	Balance
Dec. 1	Beginning Balance			0
Dec. 1	Borrow cash by signing note		10,000	10,000

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Posting Transaction to Accounts (3 of 10)

- On December 1, Eagle purchases equipment with cash, $24,000.

(3) December 1	Debit	Credit
Equipment *(+A)*.....	**24,000**	
Cash *(−A)*.....		**24,000**
(Purchase equipment with cash)		

Post to accounts

- **T-account**: Simplified version of general ledger account
- Includes the account title at the top, left side for recording debits, and right side for recording credits

Equipment			Cash		
(3)	**24,000**		(1)	25,000	**(3) 24,000**
			(2)	10,000	
Bal.	24,000		Bal.	11,000	

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Posting Transaction to Accounts (4 of 10)

- On December 1, Eagle pays one year of rent in advance, $6,000 ($500 per month).

(4) December 1	Debit	Credit
Prepaid Rent *(+A)*	**6,000**	
Cash *(−A)*		**6,000**
(Prepay one year of rent with cash)		

Prepaid Rent

(4)	**6,000**		
Bal.	6,000		

Cash

(1)	25,000	(3)	24,000
(2)	10,000	**(4)**	**6,000**
Bal.	5,000		

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Posting Transaction to Accounts (5 of 10)

- On December 6, Eagle purchases supplies on account, $2,300.

(5) December 6	Debit	Credit
Supplies *(+A)*	**2,300**	
Accounts Payable *(+L)*		**2,300**
(Purchase supplies on account)		

Supplies			**Accounts Payable**		
(5)	**2,300**			**(5)**	**2,300**
Bal.	2,300			Bal.	2,300

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Posting Transaction to Accounts (6 of 10)

- On December 12, Eagle provides soccer training to customers for cash, $4,300.

(6) December 12	Debit	Credit
Cash *(+A)*.....	**4,300**	
Service Revenue *(+R, +SE)*		**4,300**
(Provide training to customers for cash)		

Cash			**Service Revenue**		
(1)	25,000	(3) 24,000		**(6)**	**4,300**
(2)	10,000	(4) 6,000			
(6)	**4,300**				
Bal.	9,300			Bal.	4,300

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Posting Transaction to Accounts (7 of 10)

- On December 17, Eagle provides soccer training to customers on account, $2,000.

(7) December 17	Debit	Credit
Accounts Receivable *(+A)*	**2,000**	
Service Revenue *(+R, +SE)*		**2,000**
(Provide training to customers on account)		

Accounts Receivable

(7)	**2,000**		
Bal.	2,000		

Service Revenue

		(6)	4,300
		(7)	**2,000**
		Bal.	6,300

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Posting Transaction to Accounts (8 of 10)

- On December 23, Eagle receives cash in advance for 12 soccer training sessions to be given in the future, $600.

(8) December 23	Debit	Credit
Cash *(+A)*	**600**	
Deferred Revenue *(+L)*		**600**
(Receive cash in advance from customers)		

Cash

(1)	25,000	(3)	24,000
(2)	10,000	(4)	6,000
(6)	4,300		
(8)	**600**		
Bal.	9,900		

Deferred Revenue

		(8)	**600**
		Bal.	600

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Posting Transaction to Accounts (9 of 10)

- On December 28, Eagle pays salaries to employees, $2,800.

(9) December 28	Debit	Credit
Salaries Expense *(+E, −SE)*	**2,800**	
Cash *(−A)*		**2,800**
(Pay salaries to employees)		

Salaries Expense			**Cash**		
(9)	**2,800**		(1)	25,000	(3) 24,000
			(2)	10,000	(4) 6,000
			(6)	4,300	**(9) 2,800**
			(8)	600	
Bal.	2,800		Bal.	7,100	

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Posting Transaction to Accounts (10 of 10)

- On December 28, Eagle pays cash dividends to shareholders, $2,200.

(10) December 30	Debit	Credit
Dividends *(+D, −SE)*	**200**	
Cash *(−A)*		**200**
(Pay cash dividends)		

Dividends

(10)	**200**		
Bal.	200		

Cash

(1)	25,000	(3)	24,000
(2)	10,000	(4)	6,000
(6)	4,300	(9)	2,800
(8)	600	**(10)**	**200**
Bal.	6,900		

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Illustration 2-11 (1 of 3)
Summary of Journal Entries Recorded for Transactions of Eagle Soccer Academy

(1) December 1	Debit	Credit
Cash *(+A)*	**25,000**	
Common Stock *(+SE)*		**25,000**
(Issue common stock for cash)		

(2) December 1	Debit	Credit
Cash *(+A)*	**10,000**	
Notes Payable *(+L)*		**10,000**
(Borrow cash by signing three-year note)		

(3) December 1	Debit	Credit
Equipment *(+A)*	**24,000**	
Cash *(−A)*		**24,000**
(Purchase equipment with cash)		

(4) December 1	Debit	Credit
Prepaid Rent *(+A)*	**6,000**	
Cash *(−A)*		**6,000**
(Prepay rent with cash)		

Continued

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Illustration 2-11 (2 of 3)
Summary of Journal Entries Recorded for Transactions of Eagle Soccer Academy

(5) December 6	Debit	Credit
Supplies *(+A)*	**2,300**	
Accounts Payable *(+L)*		**2,300**
(Purchase supplies on account)		

(6) December 12	Debit	Credit
Cash *(+A)*.....	**4,300**	
Service Revenue *(+R, +SE)*		**4,300**
(Provide training to customers for cash)		

(7) December 17	Debit	Credit
Accounts Receivable *(+A)*.....	**2,000**	
Service Revenue *(+R, +SE)*		**2,000**
(Provide training to customers on account)		

(8) December 23	Debit	Credit
Cash *(+A)*	**600**	
Deferred Revenue *(+L)*		**600**
(Receive cash in advance from customers)		

Continued

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Illustration 2-11 (3 of 3)
Summary of Journal Entries Recorded for Transactions of Eagle Soccer Academy

(9) December 28	Debit	Credit
Salaries Expense *(+E, −SE)*	2,800	
Cash *(−A)*		2,800
(Pay salaries to employees)		

(10) December 30	Debit	Credit
Dividends *(+D, −SE)*	200	
Cash *(−A)*		200
(Pay cash dividends)		

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Illustration 2-12
Posting of External Transactions of Eagle Soccer Academy from Journal Entries to General Ledger Accounts

Assets = Liabilities + Stockholders' Equity

Cash

(1)	25,000	(3)	24,000
(2)	10,000	(4)	6,000
(6)	4,300	(9)	2,800
(8)	600	(10)	200
Bal.	**6,900**		

Accounts Receivable

(7)	2,000		
Bal.	**2,000**		

Supplies

(5)	2,300		
Bal.	**2,300**		

Prepaid Rent

(4)	6,000		
Bal.	**6,000**		

Equipment

(3)	24,000		
Bal.	**24,000**		

Accounts Payable

		(5)	2,300
		Bal.	**2,300**

Deferred Revenue

		(8)	600
		Bal.	**600**

Notes Payable

		(2)	10,000
		Bal.	**10,000**

Common Stock

		(1)	25,000
		Bal.	**25,000**

Retained Earnings

			0
			0

Service Revenue

		(6)	4,300
		(7)	2,000
		Bal.	**6,300**

Salaries Expense

(9)	2,800		
Bal.	**2,800**		

Dividends

(10)	200		
Bal.	**200**		

Transaction numbers are shown in parentheses. Account balances are in bold.

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Concept Check 2-4

Which of the following is used to provide a chronological record of all transactions affecting a firm?

a. The general ledger

b. The journal

c. The trial balance

d. The income statement

The journal is a chronological record of the economic events that have taken place. (The general ledger is used to accumulate the balances of the accounts, and the trial balance is a summarized listing of all the debit and credit accounts. The income statement is a financial statement used to determine whether the business was profitable.)

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Concept Check 2-5

Which of the following accounts would be debited when a company pays $12,000 in advance for one year of rent?

a. Cash
b. Rent Expense
c. Prepaid Rent
d. Rental Income

This transaction creates a prepaid account—specifically prepaid rent. Prepaid rent is an asset account. In order to increase an asset account you would debit it. The correct answer is the prepaid rent account would be debited for $12,000 when the rent was paid in advance. (Cash would be credited.)

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Learning Objective 6

LO2-6 Prepare a trial balance.

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Trial Balance

- A ***trial balance*** is a list of all accounts and their balances at a particular date, showing that total debits equal total credits.
- Another purpose of the trial balance is to assist us in preparing adjusting entries for *internal* transactions (Chapter 3).
- Used for **internal purposes** only
  - Not published to external parties
  - Not required to follow an order of listing

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Illustration 2-13

Trial Balance of Eagle Soccer Academy

EAGLE SOCCER ACADEMY
Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 6,900	
Accounts Receivable	2,000	
Supplies	2,300	
Prepaid Rent	6,000	
Equipment	24,000	
Accounts Payable		$ 2,300
Deferred Revenue		600
Notes Payable		10,000
Common Stock		25,000
Retained Earnings		0
Dividends	200	
Service Revenue		6,300
Salaries Expense	2,800	
Totals	$44,200	$44,200

Must Equal

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Concept Check 2-6

Which of the following accounts would appear in the credit column of a trial balance?

a. Prepaid Rent

b. Dividends

c. Common Stock

d. Salaries Expense

The trial balance is a listing of all accounts and their balances at a given date. The only account listed above that would have a credit balance and therefore appear in the credit column of the trial balance is the common stock account. This is an equity account and equity accounts are increased by credits. (All other accounts listed have debit balances and therefore appear in the debit column.)

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End of Chapter 2

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