Financial & Managerial Accounting 15th edition Warren Solutions Manual

SKU: 9781337902663-SOLUTIONS

CHAPTER 2
ANALYZING TRANSACTIONS

DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, stockholders' equity, revenue, or expense. A ledger is a group of related accounts.

2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset, expense, and dividends accounts but a decrease in liability, common stock, retained earnings, and revenue accounts.

3. **a.** Assuming no errors have occurred, the credit balance in the cash account resulted from writing checks for $1,850 in excess of the amount of cash on deposit.

b. The $1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.

4. **a.** The revenue was earned in October.

b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.

(2) Debit Cash and credit Accounts Receivable in November.

5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.

6. The listing of $9,800 is a transposition; the listing of $100 is a slide.

7. **a.** No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.

b. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by $90.

8. **a.** The equality of the trial balance would not be affected.

b. On the income statement, total operating expenses (salary expense) would be overstated by $7,500, and net income would be understated by $7,500. On the statement of stockholders' equity, the beginning and ending retained earnings would be correct. However, net income and dividends would be understated by $7,500. These understatements offset one another, and thus, ending retained earnings is correct. The balance sheet is not affected by the error.

9. **a.** The equality of the trial balance would not be affected.

b. On the income statement, revenues (fees earned) would be overstated by $300,000, and net income would be overstated by $300,000. On the statement of stockholders' equity, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by $300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by $300,000, and stockholders' equity (retained earnings) is overstated by $300,000. The understatement of liabilities is offset by the overstatement of stockholders' equity (retained earnings), and thus, total liabilities and stockholders' equity is correct.

10. **a.** From the viewpoint of Surety Storage, the balance of the checking account represents an asset.

b. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

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BASIC EXERCISES

BE 2–1

1. **Debit and credit entries, normal credit balance**
2. **Debit and credit entries, normal debit balance**
3. **Debit entries only, normal debit balance**
4. **Debit entries only, normal debit balance**
5. **Debit entries only, normal debit balance**
6. **Credit entries only, normal credit balance**

BE 2–2

Nov.	2	Office Supplies		1,600	
		Cash			500
		Accounts Payable			1,100

BE 2–3

Aug.	13	Cash	9,000	
		Fees Earned		9,000

BE 2–4

June	30	Dividends	11,500	
		Cash		11,500

BE 2–5

Using the following T account, solve for the amount of supplies expense (indicated by ? below).

Supplies

Aug. 1 Bal.	1,025	?	Supplies expense
Supplies purchased	3,110		
Aug. 31 Bal.	1,324		

$1,324 = $1,025 + $3,110 – Supplies expense
Supplies expense = $1,025 + $3,110 – $1,324 = $2,811

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BE 2–6

a. The totals are equal because both the debit and credit entries were journalized and posted for $12,900.

b. The totals are unequal. The credit total is higher by $1,656 ($1,840 – $184).

c. The totals are unequal. The debit total is higher by $4,500 ($8,300 – $3,800).

BE 2–7

a.

Cash	8,400	
Accounts Receivable		8,400

b.

Supplies	2,500	
Office Equipment		2,500
Supplies	2,500	
Accounts Payable		2,500

Note: **The first entry in (b) reverses the incorrect entry, and the second entry records the correct entry. These two entries could also be combined into one entry as shown below; however, preparing two entries would make it easier for someone to understand later what happened and why the entries were necessary.**

Supplies	5,000	
Office Equipment		2,500
Accounts Payable		2,500

BE 2–8

Paragon Company
Income Statements
For the Years Ended December 31

	20Y7	20Y6	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Fees earned	$ 1,416,000	$1,200,000	$216,000	18.0%
Expenses	(1,044,000)	(900,000)	144,000	16.0%
Net income	$ 372,000	$ 300,000	$ 72,000	24.0%

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EXERCISES

Ex. 2–1

Balance Sheet Accounts	Income Statement Accounts
Assets	**Revenue**
Advanced Payments for Equipment[a]	Cargo Revenue
Cash	Passenger Revenue
Flight Equipment	
Fuel Inventory	
Parts and Supplies Inventories	
Prepaid Expenses	
Liabilities	**Expenses**
Accounts Payable	Aircraft Fuel (Expense)
Air Traffic Liability[b]	Aircraft Maintenance (Expense)
Frequent Flyer (Obligations)[c]	Aircraft Rent (Expense)
Taxes Payable	Contract Carrier Arrangements (Expense)[d]
	Landing Fees (Expense)[e]
	Passenger Commissions (Expense)[f]
Stockholders' Equity	
None	

[a] Advance payments (deposits) on aircraft to be delivered in the future
[b] Passenger ticket sales for future flights
[c] Obligations to provide frequent flyers future travel and other benefits
[d] Payments to other airlines for passenger travel under Delta tickets
[e] Fees paid to airports for landing rights
[f] Commissions paid to travel agents for passenger bookings

Ex. 2–2

Account	Account Number
Accounts Payable	21
Accounts Receivable	12
Cash	11
Common Stock	31
Dividends	33
Fees Earned	41
Land	13
Miscellaneous Expense	53
Retained Earnings	32
Supplies Expense	52
Wages Expense	51

Note: **Expense accounts are normally listed in order of magnitude from largest to smallest with Miscellaneous Expense always listed last. Since Wages Expense is normally larger than Supplies Expense, Wages Expense is listed as account number 51 and Supplies Expense as account number 52.**

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Ex. 2–3

Balance Sheet Accounts	Income Statement Accounts
1. Assets	**4. Revenue**
11 Cash	41 Fees Earned
12 Accounts Receivable	
13 Supplies	**5. Expenses**
14 Prepaid Insurance	51 Wages Expense
15 Equipment	52 Rent Expense
	53 Supplies Expense
2. Liabilities	59 Miscellaneous Expense
21 Accounts Payable	
22 Unearned Rent	
3. Stockholders' Equity	
31 Common Stock	
32 Retained Earnings	
33 Dividends	

Note: **The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14, accounts 21–22, and accounts 51–53. In a new business, the order of magnitude of balances in such accounts is not determinable in advance. The magnitude may also vary from period to period.**

Ex. 2–4

a.	debit	g.	credit
b.	debit	h.	debit
c.	debit	i.	debit
d.	credit	j.	credit
e.	debit	k.	debit
f.	credit	l.	debit

Ex. 2–5

1. debit and credit entries (c)
2. debit and credit entries (c)
3. debit and credit entries (c)
4. credit entries only (b)
5. debit entries only (a)
6. debit entries only (a)
7. debit entries only (a)

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Ex. 2–6

a. Liability—credit
b. Asset—debit
c. Asset—debit
d. Stockholders' equity (Common Stock)—credit
e. Stockholders' equity (Dividends)—debit
f. Revenue—credit
g. Asset—debit
h. Expense—debit
i. Asset—debit
j. Expense—debit

Ex. 2–7

20Y2				
Oct.	1	Rent Expense	2,500	
		Cash		2,500
	4	Advertising Expense	1,000	
		Cash		1,000
	5	Supplies	1,800	
		Cash		1,800
	6	Office Equipment	11,500	
		Accounts Payable		11,500
	12	Cash	7,500	
		Accounts Receivable		7,500
	20	Accounts Payable	2,700	
		Cash		2,700
	27	Miscellaneous Expense	700	
		Cash		700
	30	Utilities Expense	475	
		Cash		475
	31	Accounts Receivable	42,400	
		Fees Earned		42,400
	31	Utilities Expense	900	
		Cash		900
	31	Dividends	1,500	
		Cash		1,500

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Ex. 2–8

a.

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Date		Description	Post. Ref.	Debit	Credit
20Y9					
Feb.	11	Supplies	15	2,250	
		Accounts Payable	21		2,250
		Purchased supplies on account.			

b., c., d.

Account: Supplies Account No. 15

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Feb.	1	Balance	✓			400	
	11		73	2,250		2,650	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Feb.	1	Balance	✓				18,300
	11		73		2,250		20,550

e. Yes, the rules of debit and credit apply to all companies.

Ex. 2–9

a.

(1)	Accounts Receivable	112,700	
	Fees Earned		112,700
(2)	Supplies	4,500	
	Accounts Payable		4,500
(3)	Cash	88,220	
	Accounts Receivable		88,220
(4)	Accounts Payable	3,100	
	Cash		3,100

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Ex. 2–9 (Concluded)

b.

Cash			
(3)	88,220	(4)	3,100

Accounts Payable			
(4)	3,100	(2)	4,500

Supplies			
(2)	4,500		

Fees Earned			
		(1)	112,700

Accounts Receivable			
(1)	112,700	(3)	88,220

c. **No, an error may not have necessarily occurred. A credit balance in Accounts Receivable could occur if a customer overpaid his or her account. Regardless, the credit balance should be investigated to verify that an error has not occurred.**

Ex. 2–10

a. **The increase of $270,800 ($1,245,000 – $974,200) in the cash account does not indicate net income of that amount. Net income is the net change in all assets and liabilities from operating (revenue and expense) transactions.**

b. **$150,200 ($421,000 – $270,800)**

or

Cash	
X	974,200
1,245,000	
421,000	

X + $1,245,000 – $974,200 = $421,000
X = $421,000 – $1,245,000 + $974,200
X = $150,200

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Ex. 2–11

a.

Accounts Payable				
		Feb. 1		X
	186,500			201,400
		Feb. 28		59,900

X + $201,400 – $186,500 = $59,900
X = $59,900 + $186,500 – $201,400
X = $45,000

b.

Accounts Receivable				
Oct. 1		115,800		449,600
		X		
Oct. 31		130,770		

$115,800 + X – $449,600 = $130,770
X = $130,770 + $449,600 – $115,800
X = $464,570

c.

Cash				
Apr. 1		46,220		X
		248,600		
Apr. 30		56,770		

$46,220 + $248,600 – X = $56,770
X = $46,220 + $248,600 – $56,770
X = $238,050

Ex. 2–12

a. **Debit (negative) balance of $16,000 ($314,000 – $10,000 – $320,000). This negative balance means that the liabilities of the business exceed the assets.**

b. **Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the stockholders' equity section as a debit (negative) balance of $16,000.**

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Ex. 2–13

a. and b.

	Account Debited		Account Credited	
Transaction	Type	Effect	Type	Effect
(1)	asset	+	stockholders' equity	+
(2)	asset	+	asset	–
(3)	asset	+	asset	–
			liability	+
(4)	expense	+	asset	–
(5)	asset	+	revenue	+
(6)	liability	–	asset	–
(7)	asset	+	asset	–
(8)	expense	+	asset	–
(9)	dividend	+	asset	–

Ex. 2–14

(1)	Cash	40,000	
	Common Stock		40,000
(2)	Supplies	4,000	
	Cash		4,000
(3)	Equipment	15,000	
	Accounts Payable		10,000
	Cash		5,000
(4)	Operating Expenses	6,175	
	Cash		6,175
(5)	Accounts Receivable	20,500	
	Service Revenue		20,500
(6)	Accounts Payable	6,000	
	Cash		6,000
(7)	Cash	13,100	
	Accounts Receivable		13,100
(8)	Operating Expenses	2,200	
	Supplies		2,200
(9)	Dividends	1,500	
	Cash		1,500

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Ex. 2–15

a.

Rocky Mountain Tours Co. Unadjusted Trial Balance June 30, 20Y2		
	Debit Balances	Credit Balances
Cash	30,425	
Accounts Receivable	7,400	
Supplies	1,800	
Equipment	15,000	
Accounts Payable		4,000
Common Stock		40,000
Dividends	1,500	
Service Revenue		20,500
Operating Expenses	8,375	
	64,500	64,500

b. **Net income, $12,125 ($20,500 – $8,375)**

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Ex. 2–16

Seaside Furniture Company Unadjusted Trial Balance August 31, 20Y5		
	Debit Balances	Credit Balances
Cash	426,800	
Accounts Receivable	660,500	
Supplies	11,200	
Prepaid Insurance	21,600	
Land	1,850,000	
Accounts Payable		118,600
Unearned Rent		12,000
Notes Payable		75,000
Common Stock		150,000
Retained Earnings		1,814,400
Dividends	36,000	
Fees Earned		4,330,000
Wages Expense	2,950,000	
Rent Expense	390,000	
Utilities Expense	82,000	
Supplies Expense	23,700	
Insurance Expense	18,000	
Miscellaneous Expense	30,200	
	6,500,000	6,500,000

Cash = $6,500,000 – $30,200 – $18,000 – $23,700 – $82,000 – $390,000 – $2,950,000 – $36,000 – $1,850,000 – $21,600 – $11,200 – $660,500 = $426,800

Ex. 2–17

Inequality of trial balance totals would be caused by errors described in (c) and (e). For (c), the debit total would exceed the credit total by $9,900 ($4,950 + $4,950). For (e), the credit total would exceed the debit total by $17,100 ($19,000 – $1,900).

Errors (b), (c), (d), and (e) would require correcting entries. Although it is not a correcting entry, the entry that was not made in (a) should also be entered in the journal.

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Ex. 2–18

Ranger Co. Unadjusted Trial Balance August 31, 20Y1		
	Debit Balances	Credit Balances
Cash	15,500	
Accounts Receivable	46,750	
Prepaid Insurance	12,000	
Equipment	190,000	
Accounts Payable		24,600
Unearned Rent		5,400
Common Stock		40,000
Retained Earnings		70,000
Dividends	13,000	
Service Revenue		385,000
Wages Expense	213,000	
Advertising Expense	16,350	
Miscellaneous Expense	18,400	
	525,000	525,000

Ex. 2–19

Error	(a) Out of Balance	(b) Difference	(c) Larger Total
1.	yes	$6,000	debit
2.	no	—	—
3.	yes	5,400	credit
4.	yes	480	debit
5.	no	—	—
6.	yes	90	credit
7.	yes	360	credit

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Ex. 2–20

1. **The Debit column total is added incorrectly. The sum is $1,098,500 rather than $1,801,500.**
2. **The trial balance should be dated "December 31, 20Y8," not "For the Year Ending December 31, 20Y8."**
3. **The Accounts Receivable balance should be in the Debit column.**
4. **The Accounts Payable balance should be in the Credit column.**
5. **The Dividends balance should be in the Debit column.**
6. **The Advertising Expense balance should be in the Debit column.**

A corrected trial balance would be as follows:

Ensemble Co. Unadjusted Trial Balance December 31, 20Y8		
	Debit Balances	Credit Balances
Cash	42,900	
Accounts Receivable	123,500	
Prepaid Insurance	27,000	
Equipment	300,000	
Accounts Payable		52,000
Salaries Payable		4,800
Common Stock		40,000
Retained Earnings		137,200
Dividends	5,000	
Service Revenue		1,216,000
Salary Expense	660,000	
Advertising Expense	275,000	
Miscellaneous Expense	16,600	
	1,450,000	1,450,000

Ex. 2–21

a. The correction could be made with one or two entries as follows:

Prepaid Insurance	36,000	
Insurance Expense		18,000
Cash		18,000

or (reverse original entry)

Prepaid Insurance	18,000	
Insurance Expense		18,000
Prepaid Insurance	18,000	
Cash		18,000

b.

Dividends	10,000	
Wages Expense		10,000

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Ex. 2–22

a.

Cash	17,600	
Fees Earned		8,800
Accounts Receivable		8,800

b.

Accounts Payable	1,760	
Supplies Expense		1,760

Supplies	1,760	
Cash		1,760

Note: **The first entry reverses the original entry. The second entry is the entry that should have been made initially.**

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PROBLEMS

Prob. 2–1A

1. and 2.

Cash

(a)	30,000	(b)	2,500
(g)	9,000	(c)	6,000
		(e)	2,100
		(f)	3,600
		(h)	2,600
		(i)	4,000
		(j)	1,875
		(m)	6,000
		(n)	1,300
Bal.	9,025		

Accounts Receivable

(l)	31,400

Supplies

(e)	2,100

Prepaid Insurance

(f)	3,600

Automobiles

(c)	28,500

Equipment

(d)	8,000

Notes Payable

(j)	1,875	(c)	22,500
		Bal.	20,625

Accounts Payable

(i)	4,000	(d)	8,000
		(k)	5,500
		Bal.	9,500

Common Stock

		(a)	30,000

Professional Fees

		(g)	9,000
		(l)	31,400
		Bal.	40,400

Salary Expense

(m)	6,000

Blueprint Expense

(k)	5,500

Rent Expense

(b)	2,500

Automobile Expense

(n)	1,300

Miscellaneous Expense

(h)	2,600

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Prob. 2–1A (Concluded)

3.

Knaus Architects
Unadjusted Trial Balance
January 31, 20Y4

	Debit Balances	Credit Balances
Cash	9,025	
Accounts Receivable	31,400	
Supplies	2,100	
Prepaid Insurance	3,600	
Automobiles	28,500	
Equipment	8,000	
Notes Payable		20,625
Accounts Payable		9,500
Common Stock		30,000
Professional Fees		40,400
Salary Expense	6,000	
Blueprint Expense	5,500	
Rent Expense	2,500	
Automobile Expense	1,300	
Miscellaneous Expense	2,600	
	100,525	100,525

4. **Net income, $22,500 ($40,400 – $6,000 – $5,500 – $2,500 – $1,300 – $2,600)**

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Prob. 2–2A

1.

(a)	Cash	40,000	
	Common Stock		40,000
(b)	Rent Expense	4,800	
	Cash		4,800
(c)	Supplies	2,150	
	Accounts Payable		2,150
(d)	Accounts Payable	1,100	
	Cash		1,100
(e)	Cash	18,750	
	Sales Commissions		18,750
(f)	Automobile Expense	1,580	
	Miscellaneous Expense	800	
	Cash		2,380
(g)	Office Salaries Expense	3,500	
	Cash		3,500
(h)	Supplies Expense	1,300	
	Supplies		1,300
(i)	Dividends	1,500	
	Cash		1,500

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Prob. 2–2A (Continued)

2.

Cash

(a)	40,000	(b)	4,800
(e)	18,750	(d)	1,100
		(f)	2,380
		(g)	3,500
		(i)	1,500
Bal.	45,470		

Supplies

(c)	2,150	(h)	1,300
Bal.	850		

Accounts Payable

(d)	1,100	(c)	2,150
		Bal.	1,050

Common Stock

		(a)	40,000

Dividends

(i)	1,500

Sales Commissions

		(e)	18,750

Rent Expense

(b)	4,800

Office Salaries Expense

(g)	3,500

Automobile Expense

(f)	1,580

Supplies Expense

(h)	1,300

Miscellaneous Expense

(f)	800

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Prob. 2–2A (Concluded)

3.

Affordable Realty Unadjusted Trial Balance October 31, 20Y6		
	Debit Balances	Credit Balances
Cash	45,470	
Supplies	850	
Accounts Payable		1,050
Common Stock		40,000
Dividends	1,500	
Sales Commissions		18,750
Rent Expense	4,800	
Office Salaries Expense	3,500	
Automobile Expense	1,580	
Supplies Expense	1,300	
Miscellaneous Expense	800	
	59,800	59,800

4. a. $18,750
b. $11,980 ($4,800 + $3,500 + $1,580 + $1,300 + $800)
c. $6,770 ($18,750 – $11,980)

5. $5,270, which is the excess of net income of $6,770 over the dividends of $1,500.

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Prob. 2–3A

1.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
20Y9					
Nov.	1	Cash	11	50,000	
		Common Stock	31		50,000
	1	Rent Expense	53	4,000	
		Cash	11		4,000
	6	Equipment	16	15,000	
		Accounts Payable	22		15,000
	8	Truck	18	38,500	
		Cash	11		5,000
		Notes Payable	21		33,500
	10	Supplies	13	1,750	
		Cash	11		1,750
	12	Cash	11	11,500	
		Fees Earned	41		11,500
	15	Prepaid Insurance	14	2,400	
		Cash	11		2,400
	23	Accounts Receivable	12	22,300	
		Fees Earned	41		22,300
	24	Truck Expense	55	1,250	
		Accounts Payable	22		1,250

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Date		Description	Post. Ref.	Debit	Credit
20Y9					
Nov.	29	Utilities Expense	54	4,500	
		Cash	11		4,500
	29	Miscellaneous Expense	59	1,000	
		Cash	11		1,000

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Prob. 2–3A (Continued)

	30	Cash	11	9,000	
		Accounts Receivable	12		9,000
	30	Wages Expense	51	6,800	
		Cash	11		6,800
	30	Accounts Payable	22	3,000	
		Cash	11		3,000
	30	Dividends	33	2,500	
		Cash	11		2,500

2.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Nov.	1		1	50,000		50,000	
	1		1		4,000	46,000	
	8		1		5,000	41,000	
	10		1		1,750	39,250	
	12		1	11,500		50,750	
	15		1		2,400	48,350	
	29		2		4,500	43,850	
	29		2		1,000	42,850	
	30		2	9,000		51,850	
	30		2		6,800	45,050	
	30		2		3,000	42,050	
	30		2		2,500	39,550	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Nov.	23		1	22,300		22,300	
	30		2		9,000	13,300	

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Prob. 2–3A (Continued)

Account: Supplies **Account No. 13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	10		1	1,750		1,750	

Account: Prepaid Insurance **Account No. 14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	15		1	2,400		2,400	

Account: Equipment **Account No. 16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	6		1	15,000		15,000	

Account: Truck **Account No. 18**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	8		1	38,500		38,500	

Account: Notes Payable **Account No. 21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	8		1		33,500		33,500

Account: Accounts Payable **Account No. 22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	6		1		15,000		15,000
	24		1		1,250		16,250
	30		2	3,000			13,250

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Prob. 2–3A (Continued)

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	1		1		50,000		50,000

Account: Dividends Account No. 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	30		2	2,500		2,500	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	12		1		11,500		11,500
	23		1		22,300		33,800

Account: Wages Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	30		2	6,800		6,800	

Account: Rent Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	1		1	4,000		4,000	

Account: Utilities Expense Account No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Nov.	29		2	4,500		4,500	

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Prob. 2–3A (Continued)

Account: Truck Expense **Account No.** 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Nov.	24		1	1,250		1,250	

Account: Miscellaneous Expense **Account No.** 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y9							
Nov.	29		2	1,000		1,000	

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Prob. 2–3A (Concluded)

3.

Heritage Designs Unadjusted Trial Balance November 30, 20Y9			
	Account No.	Debit Balances	Credit Balances
Cash	11	39,550	
Accounts Receivable	12	13,300	
Supplies	13	1,750	
Prepaid Insurance	14	2,400	
Equipment	16	15,000	
Truck	18	38,500	
Notes Payable	21		33,500
Accounts Payable	22		13,250
Common Stock	31		50,000
Dividends	33	2,500	
Fees Earned	41		33,800
Wages Expense	51	6,800	
Rent Expense	53	4,000	
Utilities Expense	54	4,500	
Truck Expense	55	1,250	
Miscellaneous Expense	59	1,000	
		130,550	130,550

4. **$16,250 ($33,800 – $6,800 – $4,000 – $4,500 – $1,250 – $1,000)**

5. **Some supplies may have been used during November, but no supplies expense has been recorded.**

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Heritage Designs.

Note to Instructors: **At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.**

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Prob. 2–4A

2. and 3.

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	1	Rent Expense	52	6,500	
		Cash	11		6,500
	2	Office Supplies	14	2,300	
		Accounts Payable	21		2,300
	5	Prepaid Insurance	13	6,000	
		Cash	11		6,000
	10	Cash	11	52,300	
		Accounts Receivable	12		52,300
	15	Land	16	200,000	
		Cash	11		30,000
		Notes Payable	23		170,000
	17	Accounts Payable	21	6,450	
		Cash	11		6,450
	20	Accounts Payable	21	325	
		Office Supplies	14		325
	23	Advertising Expense	53	4,300	
		Cash	11		4,300

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	27	Cash	11	2,500	
		Salary and Commission Expense	51		2,500
	28	Automobile Expense	54	1,500	
		Cash	11		1,500
	29	Miscellaneous Expense	59	1,400	
		Cash	11		1,400

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Prob. 2–4A (Continued)

	30	Accounts Receivable	12	57,000	
		Fees Earned	41		57,000
	30	Salary and Commission Expense	51	11,900	
		Cash	11		11,900
	30	Dividends	33	4,000	
		Cash	11		4,000
	30	Cash	11	10,000	
		Unearned Rent	22		10,000

1. and 3.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			26,300	
	1		18		6,500	19,800	
	5		18		6,000	13,800	
	10		18	52,300		66,100	
	15		18		30,000	36,100	
	17		18		6,450	29,650	
	23		18		4,300	25,350	
	27		19	2,500		27,850	
	28		19		1,500	26,350	
	29		19		1,400	24,950	
	30		19		11,900	13,050	
	30		19		4,000	9,050	
	30		19	10,000		19,050	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			61,500	
	10		18		52,300	9,200	
	30		19	57,000		66,200	

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Prob. 2–4A (Continued)

Account: Prepaid Insurance Account No. 13

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			3,000	
	5		18	6,000		9,000	

Account: Office Supplies Account No. 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			1,800	
	2		18	2,300		4,100	
	20		18		325	3,775	

Account: Land Account No. 16

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	15		18	200,000		200,000	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				14,000
	2		18		2,300		16,300
	17		18	6,450			9,850
	20		18	325			9,525

Account: Unearned Rent Account No. 22

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	30		19		10,000		10,000

Account: Notes Payable Account No. 23

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	15		18		170,000		170,000

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Prob. 2–4A (Continued)

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				10,000

Account: Retained Earnings Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				36,000

Account: Dividends Account No. 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			2,000	
	30		19	4,000		6,000	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				240,000
	30		19		57,000		297,000

Account: Salary and Commission Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			148,200	
	27		19		2,500	145,700	
	30		19	11,900		157,600	

Account: Rent Expense Account No. 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			30,000	
	1		18	6,500		36,500	

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Prob. 2–4A (Continued)

Account: Advertising Expense Account No. 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			17,800	
	23		18	4,300		22,100	

Account: Automobile Expense Account No. 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			5,500	
	28		19	1,500		7,000	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			3,900	
	29		19	1,400		5,300	

4.

Elite Realty
Unadjusted Trial Balance
April 30, 20Y3

	Account No.	Debit Balances	Credit Balances
Cash	11	19,050	
Accounts Receivable	12	66,200	
Prepaid Insurance	13	9,000	
Office Supplies	14	3,775	
Land	16	200,000	
Accounts Payable	21		9,525
Unearned Rent	22		10,000
Notes Payable	23		170,000
Common Stock	31		10,000
Retained Earnings	32		36,000
Dividends	33	6,000	
Fees Earned	41		297,000
Salary and Commission Expense	51	157,600	
Rent Expense	52	36,500	
Advertising Expense	53	22,100	
Automobile Expense	54	7,000	
Miscellaneous Expense	59	5,300	
		532,525	532,525

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Prob. 2–4A (Concluded)

5. (a) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(b) The correcting entry for $7,200 ($19,100 – $11,900) would be as follows:

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	30	Salary and Commission Expense	51	7,200	
		Cash	11		7,200

(c) Transposition

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Prob. 2–5A

1.

The Lexington Group
Unadjusted Trial Balance
May 31, 20Y6

	Debit Balances	Credit Balances
Cash	18,750	
Accounts Receivable	53,500	
Supplies	2,225	
Prepaid Insurance	7,400	
Equipment	171,175	
Notes Payable		45,000
Accounts Payable		36,000
Common Stock		50,000
Retained Earnings		89,150
Dividends	20,000	
Fees Earned		429,850
Wages Expense	270,000	
Rent Expense	60,300	
Advertising Expense	25,200	
Gas, Electricity, and Water Expense	16,350	
Miscellaneous Expense	5,100	
	650,000	650,000

Cash = $20,350 – $7,000 (a) + $5,400 (b) = $18,750

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

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Prob. 2–1B

1. and 2.

Cash

(a)	18,000	(b)	2,500
(g)	12,000	(c)	3,150
		(d)	1,450
		(f)	2,400
		(h)	1,800
		(i)	375
		(l)	2,800
		(m)	200
		(n)	300
		(o)	550
Bal.	14,475		

Accounts Receivable

(k)	15,650		

Supplies

(d)	1,450		

Prepaid Insurance

(f)	2,400		

Automobiles

(b)	19,500		

Equipment

(e)	6,500		

Notes Payable

(n)	300	(b)	17,000
		Bal.	16,700

Accounts Payable

(h)	1,800	(e)	6,500
		(j)	2,500
		Bal.	7,200

Common Stock

		(a)	18,000

Professional Fees

		(g)	12,000
		(k)	15,650
		Bal.	27,650

Rent Expense

(c)	3,150		

Salary Expense

(l)	2,800		

Blueprint Expense

(j)	2,500		

Automobile Expense

(o)	550		

Miscellaneous Expense

(i)	375		
(m)	200		
Bal.	575		

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Prob. 2–1B (Concluded)

3.

Jones Architects Unadjusted Trial Balance April 30, 20Y2		
	Debit Balances	Credit Balances
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Notes Payable		16,700
Accounts Payable		7,200
Common Stock		18,000
Professional Fees		27,650
Rent Expense	3,150	
Salary Expense	2,800	
Blueprint Expense	2,500	
Automobile Expense	550	
Miscellaneous Expense	575	
	69,550	69,550

4. Net income, $18,075 ($27,650 – $3,150 – $2,800 – $2,500 – $550 – $575)

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Prob. 2–2B

1.

(a)	Cash	17,500	
	Common Stock		17,500
(b)	Supplies	2,300	
	Accounts Payable		2,300
(c)	Cash	13,300	
	Sales Commissions		13,300
(d)	Rent Expense	3,000	
	Cash		3,000
(e)	Accounts Payable	1,150	
	Cash		1,150
(f)	Dividends	1,800	
	Cash		1,800
(g)	Automobile Expense	1,500	
	Miscellaneous Expense	400	
	Cash		1,900
(h)	Office Salaries Expense	2,800	
	Cash		2,800
(i)	Supplies Expense	1,050	
	Supplies		1,050

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Prob. 2–2B (Continued)

2.

Cash

(a)	17,500	(d)	3,000
(c)	13,300	(e)	1,150
		(f)	1,800
		(g)	1,900
		(h)	2,800
Bal.	20,150		

Sales Commissions

		(c)	13,300

Rent Expense

(d)	3,000		

Supplies

(b)	2,300	(i)	1,050
Bal.	1,250		

Office Salaries Expense

(h)	2,800		

Accounts Payable

(e)	1,150	(b)	2,300
		Bal.	1,150

Automobile Expense

(g)	1,500		

Common Stock

		(a)	17,500

Supplies Expense

(i)	1,050		

Dividends

(f)	1,800		

Miscellaneous Expense

(g)	400		

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Prob. 2–2B (Concluded)

3.

Planet Realty
Unadjusted Trial Balance
August 31, 20Y7

	Debit Balances	Credit Balances
Cash	20,150	
Supplies	1,250	
Accounts Payable		1,150
Common Stock		17,500
Dividends	1,800	
Sales Commissions		13,300
Rent Expense	3,000	
Office Salaries Expense	2,800	
Automobile Expense	1,500	
Supplies Expense	1,050	
Miscellaneous Expense	400	
	31,950	31,950

4. a. $13,300
b. $8,750 ($3,000 + $2,800 + $1,500 + $1,050 + $400)
c. $4,550 ($13,300 – $8,750)

5. $2,750, which is the excess of net income of $4,550 over the dividends of $1,800.

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Prob. 2–3B

1.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
20Y4					
Oct.	1	Cash	11	18,000	
		Common Stock	31		18,000
	4	Rent Expense	53	3,000	
		Cash	11		3,000
	10	Truck	18	23,750	
		Cash	11		3,750
		Notes Payable	21		20,000
	13	Equipment	16	10,500	
		Accounts Payable	22		10,500
	14	Supplies	13	2,100	
		Cash	11		2,100
	15	Prepaid Insurance	14	3,600	
		Cash	11		3,600
	15	Cash	11	8,950	
		Fees Earned	41		8,950

JOURNAL Page 2

Date		Description	Post. Ref.	Debit	Credit
20Y4					
Oct.	21	Accounts Payable	22	2,000	
		Cash	11		2,000
	24	Accounts Receivable	12	14,150	
		Fees Earned	41		14,150
	26	Truck Expense	55	700	
		Accounts Payable	22		700
	27	Utilities Expense	54	2,240	
		Cash	11		2,240

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Prob. 2–3B (Continued)

	27	Miscellaneous Expense	59	1,100	
		Cash	11		1,100
	29	Cash	11	7,600	
		Accounts Receivable	12		7,600
	30	Wages Expense	51	4,800	
		Cash	11		4,800
	31	Dividends	33	3,500	
		Cash	11		3,500

2.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	1		1	18,000		18,000	
	4		1		3,000	15,000	
	10		1		3,750	11,250	
	14		1		2,100	9,150	
	15		1		3,600	5,550	
	15		1	8,950		14,500	
	21		2		2,000	12,500	
	27		2		2,240	10,260	
	27		2		1,100	9,160	
	29		2	7,600		16,760	
	30		2		4,800	11,960	
	31		2		3,500	8,460	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	24		2	14,150		14,150	
	29		2		7,600	6,550	

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Prob. 2–3B (Continued)

Account: Supplies **Account No. 13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	14		1	2,100		2,100	

Account: Prepaid Insurance **Account No. 14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	15		1	3,600		3,600	

Account: Equipment **Account No. 16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	13		1	10,500		10,500	

Account: Truck **Account No. 18**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	10		1	23,750		23,750	

Account: Notes Payable **Account No. 21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	10		1		20,000		20,000

Account: Accounts Payable **Account No. 22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	13		1		10,500		10,500
	21		2	2,000			8,500
	26		2		700		9,200

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Prob. 2–3B (Continued)

Account: Common Stock **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	1		1		18,000		18,000

Account: Dividends **Account No.** 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	31		2	3,500		3,500	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	15		1		8,950		8,950
	24		2		14,150		23,100

Account: Wages Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	30		2	4,800		4,800	

Account: Rent Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	4		1	3,000		3,000	

Account: Utilities Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	27		2	2,240		2,240	

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Prob. 2–3B (Continued)

Account: Truck Expense **Account No.** 55

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	26		2	700		700	

Account: Miscellaneous Expense **Account No.** 59

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	27		2	1,100		1,100	

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Prob. 2–3B (Concluded)

3.

Pioneer Designs
Unadjusted Trial Balance
October 31, 20Y4

	Account No.	Debit Balances	Credit Balances
Cash	11	8,460	
Accounts Receivable	12	6,550	
Supplies	13	2,100	
Prepaid Insurance	14	3,600	
Equipment	16	10,500	
Truck	18	23,750	
Notes Payable	21		20,000
Accounts Payable	22		9,200
Common Stock	31		18,000
Dividends	33	3,500	
Fees Earned	41		23,100
Wages Expense	51	4,800	
Rent Expense	53	3,000	
Utilities Expense	54	2,240	
Truck Expense	55	700	
Miscellaneous Expense	59	1,100	
		70,300	70,300

4. **$11,260 ($23,100 – $4,800 – $3,000 – $2,240 – $700 – $1,100)**

5. **Some supplies may have been used during October, but no supplies expense has been recorded.**

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Pioneer Designs.

Note to Instructors: **At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.**

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Prob. 2–4B

2. and 3.

JOURNAL Page 18

Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	1	Office Supplies	14	3,150	
		Accounts Payable	21		3,150
	2	Rent Expense	52	7,200	
		Cash	11		7,200
	3	Cash	11	83,900	
		Accounts Receivable	12		83,900
	5	Prepaid Insurance	13	12,000	
		Cash	11		12,000
	9	Accounts Payable	21	400	
		Office Supplies	14		400
	17	Advertising Expense	53	8,000	
		Cash	11		8,000
	23	Accounts Payable	21	13,750	
		Cash	11		13,750

JOURNAL Page 19

Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	29	Miscellaneous Expense	59	1,700	
		Cash	11		1,700
	30	Automobile Expense	54	2,500	
		Cash	11		2,500
	31	Cash	11	2,000	
		Salary and Commission Expense	51		2,000
	31	Salary and Commission Expense	51	53,000	
		Cash	11		53,000

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Prob. 2–4B (Continued)

	31	Accounts Receivable	12	183,500	
		Fees Earned	41		183,500
	31	Land	16	75,000	
		Cash	11		7,500
		Notes Payable	23		67,500
	31	Dividends	33	1,000	
		Cash	11		1,000
	31	Cash	11	5,000	
		Unearned Rent	22		5,000

1. and 3.

GENERAL LEDGER

Account: Cash Account No. 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			52,500	
	2		18		7,200	45,300	
	3		18	83,900		129,200	
	5		18		12,000	117,200	
	17		18		8,000	109,200	
	23		18		13,750	95,450	
	29		19		1,700	93,750	
	30		19		2,500	91,250	
	31		19	2,000		93,250	
	31		19		53,000	40,250	
	31		19		7,500	32,750	
	31		19		1,000	31,750	
	31		19	5,000		36,750	

Account: Accounts Receivable Account No. 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			100,100	
	3		18		83,900	16,200	
	31		19	183,500		199,700	

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Prob. 2–4B (Continued)

Account: Prepaid Insurance **Account No.** 13

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			12,600	
	5		18	12,000		24,600	

Account: Office Supplies **Account No.** 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			2,800	
	1		18	3,150		5,950	
	9		18		400	5,550	

Account: Land **Account No.** 16

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19	75,000		75,000	

Account: Accounts Payable **Account No.** 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				21,000
	1		18		3,150		24,150
	9		18	400			23,750
	23		18	13,750			10,000

Account: Unearned Rent **Account No.** 22

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19		5,000		5,000

Account: Notes Payable **Account No.** 23

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19		67,500		67,500

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Prob. 2–4B (Continued)

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				17,500

Account: Retained Earnings Account No. 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				70,000

Account: Dividends Account No. 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			44,800	
	31		19	1,000		45,800	

Account: Fees Earned Account No. 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				591,500
	31		19		183,500		775,000

Account: Salary and Commission Expense Account No. 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			385,000	
	31		19		2,000	383,000	
	31		19	53,000		436,000	

Account: Rent Expense Account No. 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			49,000	
	2		18	7,200		56,200	

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Prob. 2–4B (Continued)

Account: Advertising Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y8							
Aug.	1	Balance	✓			32,200	
	17		18	8,000		40,200	

Account: Automobile Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y8							
Aug.	1	Balance	✓			15,750	
	30		19	2,500		18,250	

Account: Miscellaneous Expense **Account No.** 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y8							
Aug.	1	Balance	✓			5,250	
	29		19	1,700		6,950	

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Prob. 2–4B (Concluded)

4.

Valley Realty Unadjusted Trial Balance August 31, 20Y8			
	Account No.	Debit Balances	Credit Balances
Cash	11	36,750	
Accounts Receivable	12	199,700	
Prepaid Insurance	13	24,600	
Office Supplies	14	5,550	
Land	16	75,000	
Accounts Payable	21		10,000
Unearned Rent	22		5,000
Notes Payable	23		67,500
Common Stock	31		17,500
Retained Earnings	32		70,000
Dividends	33	45,800	
Fees Earned	41		775,000
Salary and Commission Expense	51	436,000	
Rent Expense	52	56,200	
Advertising Expense	53	40,200	
Automobile Expense	54	18,250	
Miscellaneous Expense	59	6,950	
		945,000	945,000

5. (a) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(b) The correcting entry for $9,000 ($10,000 – $1,000) would be as follows:

JOURNAL Page 19

Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	31	Dividends	33	9,000	
		Cash	11		9,000

(c) Slide

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Prob. 2–5B

1.

Tech Support Services Unadjusted Trial Balance January 31, 20Y5		
	Debit Balances	Credit Balances
Cash	20,250	
Accounts Receivable	56,400	
Supplies	6,750	
Prepaid Insurance	9,600	
Equipment	162,000	
Notes Payable		54,000
Accounts Payable		16,650
Common Stock		18,000
Retained Earnings		89,850
Dividends	39,000	
Fees Earned		534,000
Wages Expense	306,000	
Rent Expense	62,550	
Advertising Expense	28,350	
Gas, Electricity, and Water Expense	17,000	
Miscellaneous Expense	4,600	
	712,500	712,500

Cash = $25,550 – $8,000 (a) + $2,700 (b)

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

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CONTINUING PROBLEM

2. and 3.

JOURNAL Page 1

Date		Description	Post. Ref.	Debit	Credit
20Y5					
July	1	Cash	11	5,000	
		Common Stock	31		5,000
	1	Office Rent Expense	51	1,750	
		Cash	11		1,750
	1	Prepaid Insurance	15	2,700	
		Cash	11		2,700
	2	Cash	11	1,000	
		Accounts Receivable	12		1,000
	3	Cash	11	7,200	
		Unearned Revenue	23		7,200
	3	Accounts Payable	21	250	
		Cash	11		250
	4	Miscellaneous Expense	59	900	
		Cash	11		900
	5	Office Equipment	17	7,500	
		Accounts Payable	21		7,500
	8	Advertising Expense	55	200	
		Cash	11		200
	11	Cash	11	1,000	
		Fees Earned	41		1,000
	13	Equipment Rent Expense	52	700	
		Cash	11		700
	14	Wages Expense	50	1,200	
		Cash	11		1,200

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Continuing Problem (Continued)

2. and 3.

JOURNAL Page 2

Date		Description	Post. Ref.	Debit	Credit
20Y5					
July	16	Cash	11	2,000	
		Fees Earned	41		2,000
	18	Supplies	14	850	
		Accounts Payable	21		850
	21	Music Expense	54	620	
		Cash	11		620
	22	Advertising Expense	55	800	
		Cash	11		800
	23	Cash	11	750	
		Accounts Receivable	12	1,750	
		Fees Earned	41		2,500
	27	Utilities Expense	53	915	
		Cash	11		915
	28	Wages Expense	50	1,200	
		Cash	11		1,200
	29	Miscellaneous Expense	59	540	
		Cash	11		540
	30	Cash	11	500	
		Accounts Receivable	12	1,000	
		Fees Earned	41		1,500
	31	Cash	11	3,000	
		Fees Earned	41		3,000
	31	Music Expense	54	1,400	
		Cash	11		1,400
	31	Dividends	33	1,250	
		Cash	11		1,250

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Continuing Problem (Continued)

1. and 3.

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y5							
July	1	Balance	✓			3,920	
	1		1	5,000		8,920	
	1		1		1,750	7,170	
	1		1		2,700	4,470	
	2		1	1,000		5,470	
	3		1	7,200		12,670	
	3		1		250	12,420	
	4		1		900	11,520	
	8		1		200	11,320	
	11		1	1,000		12,320	
	13		1		700	11,620	
	14		1		1,200	10,420	
	16		2	2,000		12,420	
	21		2		620	11,800	
	22		2		800	11,000	
	23		2	750		11,750	
	27		2		915	10,835	
	28		2		1,200	9,635	
	29		2		540	9,095	
	30		2	500		9,595	
	31		2	3,000		12,595	
	31		2		1,400	11,195	
	31		2		1,250	9,945	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
20Y5							
July	1	Balance	✓			1,000	
	2		1		1,000	—	—
	23		2	1,750		1,750	
	30		2	1,000		2,750	

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Continuing Problem (Continued)

Account: Supplies Account No. 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			170	
	18		2	850		1,020	

Account: Prepaid Insurance Account No. 15

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1		1	2,700		2,700	

Account: Office Equipment Account No. 17

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	5		1	7,500		7,500	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓				250
	3		1	250		—	—
	5		1		7,500		7,500
	18		2		850		8,350

Account: Unearned Revenue Account No. 23

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	3		1		7,200		7,200

Account: Common Stock Account No. 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓				4,000
	1		1		5,000		9,000

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Continuing Problem (Continued)

Account: Dividends **Account No.** 33

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			500	
	31		2	1,250		1,750	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓				6,200
	11		1		1,000		7,200
	16		2		2,000		9,200
	23		2		2,500		11,700
	30		2		1,500		13,200
	31		2		3,000		16,200

Account: Wages Expense **Account No.** 50

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			400	
	14		1	1,200		1,600	
	28		2	1,200		2,800	

Account: Office Rent Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			800	
	1		1	1,750		2,550	

Account: Equipment Rent Expense **Account No.** 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			675	
	13		1	700		1,375	

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Continuing Problem (Continued)

Account: Utilities Expense **Account No. 53**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			300	
	27		2	915		1,215	

Account: Music Expense **Account No. 54**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			1,590	
	21		2	620		2,210	
	31		2	1,400		3,610	

Account: Advertising Expense **Account No. 55**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			500	
	8		1	200		700	
	22		2	800		1,500	

Account: Supplies Expense **Account No. 56**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			180	

Account: Miscellaneous Expense **Account No. 59**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y5							
July	1	Balance	✓			415	
	4		1	900		1,315	
	29		2	540		1,855	

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Continuing Problem (Concluded)

4.

PS Music
Unadjusted Trial Balance
July 31, 20Y5

	Account No.	Debit Balances	Credit Balances
Cash	11	9,945	
Accounts Receivable	12	2,750	
Supplies	14	1,020	
Prepaid Insurance	15	2,700	
Office Equipment	17	7,500	
Accounts Payable	21		8,350
Unearned Revenue	23		7,200
Common Stock	31		9,000
Dividends	33	1,750	
Fees Earned	41		16,200
Wages Expense	50	2,800	
Office Rent Expense	51	2,550	
Equipment Rent Expense	52	1,375	
Utilities Expense	53	1,215	
Music Expense	54	3,610	
Advertising Expense	55	1,500	
Supplies Expense	56	180	
Miscellaneous Expense	59	1,855	
		40,750	40,750

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MAKE A DECISION

MAD 2–1

a.

Amazon.com, Inc. Income Statements For the Years Ended December 31 (in millions)				
			Increase/(Decrease)	
	Year 2	Year 1	Amount	Percent
Revenues:				
Product sales	$ 94,665	$ 79,268	$15,397	19.4%
Service sales	41,322	27,738	13,584	49.0%
Total revenues	$ 135,987	$ 107,006	$28,981	27.1%
Operating expenses:				
Cost of sales	$ (88,265)	$ (71,651)	16,614	23.2%
Fulfillment	(17,619)	(13,410)	4,209	31.4%
Marketing	(7,233)	(5,254)	1,979	37.7%
Technology and content	(16,085)	(12,540)	3,545	28.3%
General and administrative	(2,432)	(1,747)	685	39.2%
Other operating expense (income), net	(167)	(171)	(4)	(2.3)%
Total operating expenses	$(131,801)	$(104,773)	$27,028	25.8%
Operating income	$ 4,186	$ 2,233	$ 1,953	87.5%

b. **The horizontal analysis shows that total revenues increased by 27.1% between the two years, with a strong increase in service sales. Service sales are revenues earned from Amazon's Web hosting, Web design, and order fulfillment services provided for other businesses. This part of Amazon apparently has been growing rapidly. Total operating expenses have grown by 25.8% between the two years, indicating that expenses are growing slower than revenues. The expense growth appears to be occurring across all the major expense categories. The net result is a significant increase in operating income between the two years of 87.5%. Thus, Amazon demonstrates significant revenue and operating income growth from Year 1 to Year 2.**

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MAD 2–2

a.

Chipotle Mexican Grill, Inc. Income Statements For the Years Ended December 31 (in thousands)				
			Increase/(Decrease)	
	Year 2	Year 1	Amount	Percent
Revenue	$ 3,904,384	$ 4,501,223	$(596,839)	(13.3)%
Expenses:				
Food, beverage, packing	$(1,365,580)	$(1,503,835)	$(138,255)	(9.2)%
Labor	(1,105,001)	(1,045,726)	59,275	5.7%
Rent (ocupancy)	(293,636)	(262,412)	31,224	11.9%
General and administrative	(641,953)	(514,963)	126,990	24.7%
Other	(463,647)	(410,698)	52,949	12.9%
Total expenses	$(3,869,817)	$(3,737,634)	$ 132,183	3.5%
Operating income	$ 34,567	$ 763,589	$(729,022)	(95.5)%

b. Revenue decreased by 13.3% in Year 2, while total expenses increased 3.5%. Food, beverage, packing expense decreased by 9.2%, while the other expenses increased from 5.7% (labor) to 24.7% (general and administrative). As a result, operating income decreased by 95.5%, a significant decrease and unfavorable result.

c. The significant decrease in revenue and operating income in Year 2 was caused by food-borne illnesses (E. Coli) in as many as 15 states. As a result, customers avoided Chipotle's restaurants with a related decrease in revenue. The 9.2% decrease in food, beverage, packing expense is consistent with the decrease in customers and related revenue.

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MAD 2–3

a.

Vera Bradley, Inc.
Income Statements
For the Years Ended January 31
(in millions)

	Year 2	Year 1	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Revenue	$ 502.6	$ 509.0	$ (6.4)	(1.3)%
Expenses:				
Cost of merchandise sold	$(221.4)	$(240.0)	$(18.6)	(7.8)%
Selling, general, admin. expenses	(236.8)	(208.7)	28.1	13.5%
Other expenses	(16.8)	(21.9)	(5.1)	(23.3)%
Total expenses	$(475.0)	$(470.6)	$ 4.4	0.9%
Operating income	$ 27.6	$ 38.4	$(10.8)	(28.1)%

b. Operating income decreased $10.8 million or 28.1% in Year 2. This is a significant decrease and would be viewed unfavorably by stockholders. Revenue decreased by 1.3% ($6.4 million), which was accompanied by a 7.8% ($18.6 million) decrease in cost of mechandise sold. However, selling, general, admin. expenses increased by 13.5% ($28.1 million), which was partially offset by a 23.3% ($5.1 million) decrease in other expenses.

MAD 2–4

a. 1. Revenue: $73,785 – $72,618 = $1,167

$$\frac{\$1,167}{\$72,618} = 1.6\%$$

2. Operating expenses: $68,875 – $68,083 = $792

$$\frac{\$792}{\$68,083} = 1.2\%$$

3. Operating income: $4,910 – $4,535 = $375

$$\frac{\$375}{\$4,535} = 8.3\%$$

b. The revenue increased by 1.6% between the two years, while the operating expenses grew by 1.2%. Thus, expenses grew less than revenues. As a result, operating income increased 8.3% in Year 2.

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MAD 2–5

a. 1. Revenue: $482,130 – $485,651 = $(3,521)

$$\frac{\$(3,521)}{\$485,651} = (0.7)\%$$

2. Operating expenses: $458,025 – $458,504 = $(479)

$$\frac{\$(479)}{\$458,504} = (0.1)\%$$

3. Operating income: $24,105 – $27,147 = $(3,042)

$$\frac{\$(3,042)}{\$27,147} = (11.2)\%$$

b. Revenue decreased by 0.7%, while operating expenses decreasd only 0.1%. As a result, operating income decreased by 11.2%, which is an unfavorable change in Year 2.

MAD 2–6

Target's operating results improved from Year 1 to Year 2, while Wal-Mart's operating results declined. Specifically, Target's revenue and operating income increased by 1.6% and 8.3%. In contrast, Wal-Mart's revenue and operating income decreased by 0.7% and 11.2%.

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TAKE IT FURTHER

TIF 2–1

1. **No. For financial accounting information to be useful, it must accurately reflect an entity's business transactions and economic activity. For this to happen, each account must reflect the increases or decreases that result from each transaction. If the trial balance does not balance, it means that a transaction has not been accurately recorded in the accounts. By knowingly submitting a trial balance that does not accurately reflect the transactions in the accounts, Buddy is demonstrating a failure of individual character and is acting unethically.**

2. **The users of the financial information who rely upon this information will be affected, as the information will not be a faithful representation of the entity's economic activity.**

3. **Buddy should have discussed the issue with his supervisor and asked for more time to find the error.**

TIF 2–2

A sample solution based on Apple Inc.'s Form 10-K for the fiscal year ended September 24, 2016, follows:

1. **$321,686 million**
2. **$193,437**
3. **$128,249 million ($321,686 million total assets – $193,437 million total liabilities)**
4. **3**
5. **2**
6. **The income statement reports a summary of revenues and expenses for a specific period of time, such as a month or a year. The balance sheet reports a list of assets, liabilities, and stockholders' equity as of a specific date, usually at the close of the last day of a month or a year.**

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TIF 2–3

Note to Instructors: **The purpose of this activity is to familiarize students with the job opportunities available in accounting, and allow them to demonstrate their ability to communicate the role of accounting in the context of a specific position that requires knowledge of accounting. An example of an advertisement for such a position is shown below. Individual student answers will vary depending on the specific scenario they select.**

ABOUT THE COMPANY

Our client is looking to add a Financial Analyst. With a large and growing finance team, there is significant opportunity for growth and advancement within the department. The company boasts a team-oriented culture and provides its employees with the tools and training necessary to perform. Our client is looking to bring on more of a junior-level candidate who is looking to gain experience in his or her field of study. There will be hands-on training for the role that will evolve from a data analyst into a financial analyst and will be reporting to the director of finance. Our client is in the consumer goods industry and is an international company that has multiple opportunities for growth.

RESPONSIBILITIES OF THE FINANCIAL ANALYST

The Financial Analyst will:

- **Conduct special studies to analyze complex financial actions and prepare recommendations for policy, procedure, control, or action.**
- **Analyze financial information to determine present and future financial performance.**
- **Evaluate complex profit plans, operating records, and financial statements.**
- **Direct preparation of studies, reports, analyses, and recommendations in areas such as budgets, forecasts, financial plans, statistical reports, and business forecasts.**
- **Coordinate with all levels of management to gather, analyze, summarize, and prepare recommendations regarding financial plans, trended future requirements, and operating forecasts.**

Source: CareerBuilder.com

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TIF 2–4

The following general journal entry should be used to record the receipt of tuition payments received in advance of classes:

Cash……	**XXX**	
Unearned Tuition Deposits……		**XXX**

Cash is an asset account, and Unearned Tuition Deposits is a liability account. As the classes are taught throughout the term, the unearned tuition deposits become earned revenue.

TIF 2–5

The journal is called the book of original entry. It provides a time-ordered history of the transactions that have occurred for the firm. This time-ordered history is very important because it allows one to trace ledger account balances back to the original transactions that created those balances. This is called an "audit trail." If the firm recorded transactions by posting to ledgers directly, it would be nearly impossible to reconstruct actual transactions. The debits and credits would all be separated and accumulated into the ledger balances. Once the transactions become part of the ledger balances, the original transactions would be lost. That is, there would be no audit trail, and any errors that might occur in recording transactions would be almost impossible to trace. Thus, firms first record transaction debits and credits in a journal. These transactions are then posted to the ledger to update the account balances. The journal and ledger are linked using posting references. This allows an analyst to trace the transaction flow forward or backward, depending on the need.

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TIF 2–6

1. **The rules of debit and credit must be memorized. Dot is correct in that the rules of debit and credit could be reversed as long as everyone accepted and abided by the rules. However, the important point is that everyone accepts the rules as the way in which transactions should be recorded. This generates uniformity across the accounting profession and reduces errors and confusion. Because the current rules of debit and credit have been used for centuries, Dot should adapt to the current rules of debit and credit, rather than devise her own.**

   The primary reason that all accounts do not have the same rules for increases and decreases is for control of the recording process. The double-entry accounting system, which includes both (1) the rules of debit and credit and (2) the accounting equation, guarantees that (1) debits always equal credits and (2) assets always equal liabilities plus owner's equity. If all increases in the account were recorded by debits, then the control that debits always equal credits would be removed. In addition, the control that the normal balance of assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

   Dot is correct that we could call the left and right sides of an account different terms, such as "LE" or "RE." Again, centuries of tradition dictate the current terminology used. One might note, however, that in Latin, *debere* (debit) means left and *credere* (credit) means right.

2. **The accounting system may be designed to capture information about the buying habits of various customers or vendors, such as the quantity normally ordered, average amount ordered, number of returns, etc. Thus, in a sense, there can be other "sides" of (information about) a transaction that are recorded by the accounting system. Such information would be viewed as supplemental to the basic double-entry accounting system.**

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