# *Financial Accounting 16th edition Warren Solutions Manual*

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# CHAPTER 2
# ANALYZING TRANSACTIONS

## DISCUSSION QUESTIONS

**1.** An account is a form designed to record changes in a particular asset, liability, owner's 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 and expense accounts but a decrease in liability, owner's equity, and revenue accounts.

**3.** **a.** Assuming that no errors have occurred, the credit balance in the cash account resulted from drawing 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."

**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 failing 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.** Recording $9,800 instead of the correct amount of $8,900 is a transposition. Recording $100 instead of the correct amount of $1,000 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 owner's equity, the beginning and ending owner's capital would be correct. The understatement of net income understates owner's equity by $7,500, while the understatement of withdrawals overstates owner's equity by $7,500. Thus, ending owner's equity 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 owner's equity, the beginning capital would be correct. However, net income and ending capital would be overstated by $300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by $300,000, and owner's equity is overstated by $300,000. The understatement of liabilities is offset by the overstatement of owner's equity, and thus, total liabilities and owner's 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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# PRACTICE EXERCISES

**PE 2-1A**

1. **Debit and credit entries (c), normal debit balance**
2. **Credit entries only (b), normal credit balance**
3. **Credit entries only (b), normal credit balance**
4. **Debit entries only (a), normal debit balance**
5. **Credit entries only (b), normal credit balance**
6. **Debit and credit entries (c), normal credit balance**

**PE 2-1B**

1. **Debit and credit entries (c), normal credit balance**
2. **Debit and credit entries (c), normal debit balance**
3. **Debit entries only (a), normal debit balance**
4. **Debit entries only (a), normal debit balance**
5. **Debit entries only (a), normal debit balance**
6. **Credit entries only (b), normal credit balance**

**PE 2-2A**

| | | | | |
|---|---|---|---|---|
| Feb. | 19 | Office Equipment | 14,800 | |
| | | Cash | | 3,600 |
| | | Accounts Payable | | 11,200 |

**PE 2-2B**

| | | | | |
|---|---|---|---|---|
| Sept. | 30 | Office Supplies | 1,900 | |
| | | Cash | | 600 |
| | | Accounts Payable | | 1,300 |


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**PE 2-3A**

| | | | | |
|---|---|---|---|---|
| Apr. | 30 | Accounts Receivable | 12,980 | |
| | | Fees Earned | | 12,980 |

**PE 2-3B**

| | | | | |
|---|---|---|---|---|
| Aug. | 13 | Cash | 7,480 | |
| | | Fees Earned | | 7,480 |

**PE 2-4A**

| | | | | |
|---|---|---|---|---|
| Dec. | 23 | Graeme Schneider, Drawing | 27,000 | |
| | | Cash | | 27,000 |

**PE 2-4B**

| | | | | |
|---|---|---|---|---|
| June | 30 | Claire Hope, Drawing | 9,500 | |
| | | Cash | | 9,500 |

**PE 2-5A**

**Using the following T account, solve for the amount of cash receipts (indicated by ? below).**

| Cash | | | |
|---|---|---|---|
| July 1 Bal. | 42,830 | 132,500 | Cash payments |
| Cash receipts | ? | | |
| July 31 Bal. | 33,850 | | |

**$33,850 = $42,830 + Cash receipts – $132,500**
**Cash receipts = $33,850 + $132,500 – $42,830 = $123,520**

**PE 2-5B**

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

| Supplies | | | |
|---|---|---|---|
| Aug. 1 Bal. | 1,240 | ? | Supplies expense |
| Supplies purchased | 3,760 | | |
| Aug. 31 Bal. | 1,600 | | |

**$1,600 = $1,240 + $3,760 – Supplies expense**
**Supplies expense = $1,240 + $3,760 – $1,600 = $3,400**


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**PE 2-6A**

**a. The trial balance totals are unequal. The debit total is higher by $900 ($9,800 – $8,900).**

**b. The trial balance totals are equal because both the debit and credit entries were journalized and posted for $530.**

**c. The trial balance totals are unequal. The debit total is higher by $5,800 ($2,900 + $2,900).**

**PE 2-6B**

**a. The trial balance totals are equal because both the debit and credit entries were journalized and posted for $14,200.**

**b. The trial balance totals are unequal. The credit total is higher by $360 ($1,730 – $1,370).**

**c. The trial balance totals are unequal. The debit total is higher by $4,500 ($7,250 – $2,750).**


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**PE 2-7A**

**a.**

| Journal Entry That Was Made in Error | | | Journal Entry That Should Have Been Made | | |
|---|---|---|---|---|---|
| Miscellaneous Expense | 3,220 | | Rent Expense | 3,220 | |
| Rent Expense | | 3,220 | Cash | | 3,220 |

**Comparison**

**Rent Expense instead of Miscellaneous Expense should have been debited. Cash instead of Rent Expense should have been credited. The debit and credit amount of $3,220 is correct.**

**Correcting Journal Entries**

| | | |
|---|---|---|
| Rent Expense | 3,220 | |
| Miscellaneous Expense | | 3,220 |
| Rent Expense | 3,220 | |
| Cash | | 3,220 |

***Note:*** **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

**b.**

| Journal Entry That Was Made in Error | | | Journal Entry That Should Have Been Made | | |
|---|---|---|---|---|---|
| Cash | 5,080 | | Cash | 5,080 | |
| Accounts Payable | | 5,080 | Accounts Receivable | | 5,080 |

**Comparison**

**Accounts Receivable instead of Accounts Payable should have been credited.**

**Correcting Journal Entry**

| | | |
|---|---|---|
| Accounts Payable | 5,080 | |
| Accounts Receivable | | 5,080 |



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**PE 2-7B**

**a.**

| Journal Entry That Was Made in Error | | | Journal Entry That Should Have Been Made | | |
|---|---|---|---|---|---|
| Accounts Receivable | 10,700 | | Cash | 10,700 | |
| Fees Earned | | 10,700 | Fees Earned | | 10,700 |

**Comparison**

**Cash instead of Accounts Receivable should have been debited.**

**Correcting Journal Entry**

| | | |
|---|---|---|
| Cash | 10,700 | |
| Accounts Receivable | | 10,700 |

**b.**

| Journal Entry That Was Made in Error | | | Journal Entry That Should Have Been Made | | |
|---|---|---|---|---|---|
| Office Equipment | 4,300 | | Supplies | 4,300 | |
| Supplies | | 4,300 | Accounts Payable | | 4,300 |

**Comparison**

**Supplies instead of Office Equipment should have been debited.**
**Accounts Payable instead of Supplies should have been credited.**
**The debit and credit amount of $4,300 is correct.**

**Correcting Journal Entries**

| | | |
|---|---|---|
| Supplies | 4,300 | |
| Office Equipment | | 4,300 |
| Supplies | 4,300 | |
| Accounts Payable | | 4,300 |

***Note:*** **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**


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**PE 2-8A**

| Vaughn Company<br>Income Statements<br>For the Years Ended December 31 | | | | |
|---|---|---|---|---|
| | | | Increase/(Decrease) | |
| | 20Y1 | 20Y0 | Amount | Percent |
| Fees earned | $716,800 | $896,000 | $(179,200) | (20%) |
| Operating expenses | 557,760 | 672,000 | (114,240) | (17%) |
| Net income | $159,040 | $224,000 | $ (64,960) | (29%) |

**PE 2-8B**

| Satterfield Company<br>Income Statements<br>For the Years Ended December 31 | | | | |
|---|---|---|---|---|
| | 20Y1 | 20Y0 | Increase/(Decrease) | |
| | | | Amount | Percent |
| Fees earned | $3,068,200 | $2,645,000 | $423,200 | 16.0% |
| Operating expenses | 2,281,600 | 1,984,000 | 297,600 | 15.0% |
| Net income | $ 786,600 | $ 661,000 | $125,600 | 19.0% |


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# EXERCISES

**Ex. 2-1**

| Balance Sheet Accounts | Income Statement Accounts |
|---|---|
| **Assets** | **Revenues** |
| Cash | Cargo Revenue |
| Accounts Receivable | Passenger Revenue |
| Property and Equipment | |
| Fuel Inventory | |
| Parts and Supplies | |
| Prepaid Expenses | |
| **Liabilities** | **Expenses** |
| Accounts Payable | Aircraft Fuel (Expense) |
| Air Traffic Liability[a] | Aircraft Maintenance (Expense) |
| Loyalty Program (Obligations)[b] | Aircraft Rent (Expense) |
| Accrued Salaries (Obligations) | Regional Carriers Expense[c] |
| | Landing Fees (Expense)[d] |
| | Passenger Commissions (Expense)[e] |
| **Owner's Equity** | |
| None | |

[a] Passenger ticket sales for future flights
[b] Obligations to provide frequent flyers future travel and other benefits
[c] Payments to other airlines for passenger travel under Delta tickets
[d] Fees paid to airports for landing rights
[e] Commissions paid to travel agents for passenger bookings

**Ex. 2-2**

| Account | Account Number |
|---|---|
| Accounts Payable | 21 |
| Accounts Receivable | 12 |
| Cash | 11 |
| Fees Earned | 41 |
| Fred Biggs, Capital | 31 |
| Fred Biggs, Drawing | 32 |
| Land | 13 |
| Miscellaneous Expense | 53 |
| 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. Owner's Equity** | |
| 31 Lorri Ross, Capital | |
| 32 Lorri Ross, Drawing | |

***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. | debit |
| b. | credit | h. | credit |
| c. | debit | i. | debit |
| d. | credit | j. | credit |
| e. | credit | k. | debit |
| f. | debit | 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. Owner's equity (Ashley Griffin, Capital)—credit**
**d. Owner's equity (Ashley Griffin, Drawing)—debit**
**e. Asset—debit**
**f. Revenue—credit**
**g. Asset—debit**
**h. Expense—debit**
**i. Asset—debit**
**j. Expense—debit**

**Ex. 2-7**

| | | | | |
|---|---|---|---|---|
| 20Y3 | | | | |
| Oct. | 1 | Rent Expense | 4,800 | |
| | | Cash | | 4,800 |
| | | | | |
| | 3 | Advertising Expense | 2,500 | |
| | | Cash | | 2,500 |
| | | | | |
| | 5 | Supplies | 1,390 | |
| | | Cash | | 1,390 |
| | | | | |
| | 6 | Office Equipment | 10,670 | |
| | | Accounts Payable | | 10,670 |
| | | | | |
| | 10 | Cash | 19,730 | |
| | | Accounts Receivable | | 19,730 |
| | | | | |
| | 15 | Accounts Payable | 9,480 | |
| | | Cash | | 9,480 |
| | | | | |
| | 27 | Miscellaneous Expense | 530 | |
| | | Cash | | 530 |
| | | | | |
| | 30 | Utilities Expense | 220 | |
| | | Cash | | 220 |
| | | | | |
| | 31 | Accounts Receivable | 38,620 | |
| | | Fees Earned | | 38,620 |
| | | | | |
| | 31 | Utilities Expense | 1,540 | |
| | | Cash | | 1,540 |
| | | | | |
| | 31 | Michael Short, Drawing | 6,700 | |
| | | Cash | | 6,700 |


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**Ex. 2-8**

**a.**

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| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| 20Y4 | | | | | |
| Sept. | 18 | Supplies | 15 | 8,710 | |
| | | Accounts Payable | 21 | | 8,710 |
| | | Purchased supplies on account. | | | |

**b., c., d.**

Account: Supplies Account No. 15

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| 20Y4 | | | | | | | |
| Sept. | 1 | Balance | ✓ | | | 2,960 | |
| | 18 | | 87 | 8,710 | | 11,670 | |

Account: Accounts Payable Account No. 21

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| 20Y4 | | | | | | | |
| Sept. | 1 | Balance | ✓ | | | | 38,400 |
| | 18 | | 87 | | 8,710 | | 47,110 |

**e. Yes. The rules of debit and credit apply to all companies.**

**Ex. 2-9**

**a.**

| | | | |
|---|---|---|---|
| (1) | Accounts Receivable | 73,900 | |
| | Fees Earned | | 73,900 |
| (2) | Supplies | 1,960 | |
| | Accounts Payable | | 1,960 |
| (3) | Cash | 62,770 | |
| | Accounts Receivable | | 62,770 |
| (4) | Accounts Payable | 820 | |
| | Cash | | 820 |



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**Ex. 2-9 (Concluded)**

**b.**

| Cash | | | |
|---|---|---|---|
| (3) | 62,770 | (4) | 820 |

| Accounts Payable | | | |
|---|---|---|---|
| (4) | 820 | (2) | 1,960 |

| Supplies | | | |
|---|---|---|---|
| (2) | 1,960 | | |

| Fees Earned | | | |
|---|---|---|---|
| | | (1) | 73,900 |

| Accounts Receivable | | | |
|---|---|---|---|
| (1) | 73,900 | (3) | 62,770 |

**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 $140,000 ($515,000 – $375,000) in the cash account does not indicate net income of that amount. Net income is the excess of revenues over expenses and is normally not the same as the change in the cash account.**

**b.** **$60,000 ($200,000 – $140,000)**

**or**

| Cash | |
|---|---|
| X | 375,000 |
| 515,000 | |
| 200,000 | |

**X + $515,000 – $375,000 = $200,000**
**X = $200,000 – $515,000 + $375,000**
**X = $60,000**


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**Ex. 2-11**

**a.**

**Accounts Payable**

| | | | | | |
|---|---|---|---|---|---|
| | | | Feb. | 1 | X |
| | 194,500 | | | | 210,400 |
| | | | Feb. | 28 | 62,500 |

**X + $210,400 – $194,500 = $62,500**
**X = $62,500 + $194,500 – $210,400**
**X = $46,600**

**b.**

**Accounts Receivable**

| | | | | | |
|---|---|---|---|---|---|
| Oct. | 1 | 121,100 | | | 470,500 |
| | | X | | | |
| Oct. | 31 | 136,800 | | | |

**$121,100 + X – $470,500 = $136,800**
**X = $136,800 + $470,500 – $121,100**
**X = $486,200**

**c.**

**Cash**

| | | | | | |
|---|---|---|---|---|---|
| Apr. | 1 | 48,350 | | | X |
| | | 260,060 | | | |
| Apr. | 30 | 59,390 | | | |

**$48,350 + $260,060 – X = $59,390**
**X = $48,350 + $260,060 – $59,390**
**X = $249,020**

**Ex. 2-12**

**a. Credit balance of $170,000 ($500,000 – $10,000 – $320,000).**

**b. Yes. The balance sheet prepared at December 31 will balance, with Terrace Waters, Capital, being reported in the owner's equity section as $170,000.**


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**Ex. 2-13**

**a. and b.**

| | Account Debited | | Account Credited | |
|---|---|---|---|---|
| Transaction | Type | Effect | Type | Effect |
| (1) | asset | + | owner's equity | + |
| (2) | asset | + | asset | – |
| (3) | asset | + | asset | – |
| | | | liability | + |
| (4) | expense | + | asset | – |
| (5) | asset | + | revenue | + |
| (6) | liability | – | asset | – |
| (7) | asset | + | asset | – |
| (8) | expense | + | asset | – |
| (9) | drawing | + | asset | – |

**Ex. 2-14**

| | | | |
|---|---|---|---|
| (1) | Cash | 97,000 | |
| | Mary Silva, Capital | | 97,000 |
| (2) | Supplies | 1,160 | |
| | Cash | | 1,160 |
| (3) | Equipment | 10,350 | |
| | Accounts Payable | | 8,280 |
| | Cash | | 2,070 |
| (4) | Operating Expenses | 8,120 | |
| | Cash | | 8,120 |
| (5) | Accounts Receivable | 15,910 | |
| | Fees Earned | | 15,910 |
| (6) | Accounts Payable | 3,490 | |
| | Cash | | 3,490 |
| (7) | Cash | 10,540 | |
| | Accounts Receivable | | 10,540 |
| (8) | Operating Expenses | 850 | |
| | Supplies | | 850 |
| (9) | Mary Silva, Drawing | 3,200 | |
| | Cash | | 3,200 |



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**Ex. 2-15**

**a.**

| Emerald Tours Co.<br>Unadjusted Trial Balance<br>May 31, 20Y5 | | |
|---|---|---|
| | Debit Balances | Credit Balances |
| Cash | 89,500 | |
| Accounts Receivable | 5,370 | |
| Supplies | 310 | |
| Equipment | 10,350 | |
| Accounts Payable | | 4,790 |
| Mary Silva, Capital | | 97,000 |
| Mary Silva, Drawing | 3,200 | |
| Fees Earned | | 15,910 |
| Operating Expenses | 8,970 | |
| | 117,700 | 117,700 |

**b.** **Net income, $6,940 ($15,910 – $8,970)**


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**Ex. 2-16**

| Hickory Furniture Company<br>Unadjusted Trial Balance<br>December 31, 20Y6 | | |
|---|---|---|
| | Debit Balances | Credit Balances |
| Cash | 33,320* | |
| Accounts Receivable | 116,900 | |
| Supplies | 4,275 | |
| Prepaid Insurance | 21,600 | |
| Land | 50,000 | |
| Accounts Payable | | 42,770 |
| Unearned Rent | | 12,000 |
| Notes Payable | | 50,000 |
| Elaine Wells, Capital | | 75,000 |
| Elaine Wells, Drawing | 24,000 | |
| Fees Earned | | 745,230 |
| Wages Expense | 580,700 | |
| Rent Expense | 48,000 | |
| Utilities Expense | 26,850 | |
| Supplies Expense | 6,255 | |
| Insurance Expense | 3,600 | |
| Miscellaneous Expense | 9,500 | |
| | 925,000 | 925,000 |

* $33,320 = $925,000 – $9,500 – $3,600 – $6,255 – $26,850 – $48,000 – $580,700 – $24,000 – $50,000 – $21,600 – $4,275 – $116,900

**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.<br>Unadjusted Trial Balance<br>August 31, 20Y7 | | |
|---|---|---|
| | 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 |
| Carmen Meeks, Capital | | 110,000 |
| Carmen Meeks, Drawing | 13,000 | |
| Fees Earned | | 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 $890,700 rather than $1,189,300.**
2. **The trial balance should be dated "July 31, 20Y3," not "For the Month Ending July 31, 20Y3."**
3. **The Accounts Receivable balance should be in the Debit column.**
4. **The Accounts Payable balance should be in the Credit column.**
5. **The Samuel Parson, Drawing, 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:**

**Mascot Co.**
**Unadjusted Trial Balance**
**July 31, 20Y3**

| | Account No. | Debit Balances | Credit Balances |
|---|---|---|---|
| Cash | 11 | 36,000 | |
| Accounts Receivable | 12 | 112,600 | |
| Prepaid Insurance | 13 | 18,000 | |
| Equipment | 14 | 375,000 | |
| Accounts Payable | 21 | | 53,300 |
| Salaries Payable | 22 | | 7,500 |
| Samuel Parson, Capital | 31 | | 297,200 |
| Samuel Parson, Drawing | 32 | 17,000 | |
| Fees Earned | 41 | | 682,000 |
| Salary Expense | 51 | 396,800 | |
| Advertising Expense | 52 | 73,000 | |
| Miscellaneous Expense | 59 | 11,600 | |
| | | 1,040,000 | 1,040,000 |


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**Ex. 2-21**

**a.**

| Journal Entry That Was Made in Error | | | Journal Entry That Should Have Been Made | | |
|---|---|---|---|---|---|
| Insurance Expense | 18,000 | | Prepaid Insurance | 18,000 | |
| Prepaid Insurance | | 18,000 | Cash | | 18,000 |

**Comparison**

**Prepaid Insurance instead of Insurance Expense should have been debited. Cash instead of Prepaid Insurance should have been credited. The debit and credit amount of $18,000 is correct.**

**Correcting Journal Entries**

| | | |
|---|---|---|
| Prepaid Insurance | 18,000 | |
| Insurance Expense | | 18,000 |
| Prepaid Insurance | 18,000 | |
| Cash | | 18,000 |

***Note:*** **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

**b.**

| Journal Entry That Was Made in Error | | | Journal Entry That Should Have Been Made | | |
|---|---|---|---|---|---|
| Wages Expense | 10,000 | | Brian Phillips, Drawing | 10,000 | |
| Cash | | 10,000 | Cash | | 10,000 |

**Comparison**

**Brian Phillips, Drawing instead of Wages Expense should have been debited.**

**Correcting Journal Entry**

| | | |
|---|---|---|
| Brian Phillips, Drawing | 10,000 | |
| Wages Expense | | 10,000 |



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**Ex. 2-22**

**a.**

| Journal Entry That Was Made in Error | | | Journal Entry That Should Have Been Made | | |
|---|---|---|---|---|---|
| Fees Earned | 8,800 | | Cash | 8,800 | |
| Cash | | 8,800 | Accounts Receivable | | 8,800 |

**Comparison**

**Cash instead of Fees Earned should have been debited. Accounts Receivable instead of Cash should have been credited. The debit and credit amount of $8,800 is correct.**

**Correcting Journal Entries**

| | | |
|---|---|---|
| Cash | 8,800 | |
| Fees Earned | | 8,800 |
| Cash | 8,800 | |
| Accounts Receivable | | 8,800 |

***Note:*** **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

**b.**

| Journal Entry That Was Made in Error | | | Journal Entry That Should Have Been Made | | |
|---|---|---|---|---|---|
| Supplies Expense | 1,760 | | Supplies | 1,760 | |
| Accounts Payable | | 1,760 | Cash | | 1,760 |

**Comparison**

**Supplies instead of Supplies Expense should have been debited. Cash instead of Accounts Payable should have been credited. The debit and credit amount of $1,760 is correct.**

**Correcting Journal Entries**

| | | |
|---|---|---|
| Accounts Payable | 1,760 | |
| Supplies Expense | | 1,760 |
| Supplies | 1,760 | |
| Cash | | 1,760 |

***Note:*** **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**



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**Ex. 2-23**

**a. 1. Revenue:**
**$2,642 million increase ($75,356 – $72,714)**
**3.6% increase ($2,642 ÷ $72,714)**

**2. Operating expenses:**
**$2,756 million increase ($71,246 – $68,490)**
**4.0% increase ($2,756 ÷ $68,490)**

**3. Operating income:**
**$114 million decrease ($4,110 – $4,224)**
**2.7% decrease (–$114 ÷ $4,224)**

**b. During the recent year, revenue increased by 3.6%, while operating expenses increased by 4.0%. As a result, operating income decreased by 2.7%, from the prior year.**


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**Ex. 2-24**

**a. 1. Revenue:**
**$12,551 million increase ($141,576 – $129,025)**
**9.7% increase ($12,551 ÷ $129,025)**

**2. Operating expenses:**
**$12,182 million increase ($137,096 – $124,914)**
**9.8% increase ($12,182 ÷ $124,914)**

**3. Operating income:**
**$369 million increase ($4,480 – $4,111)**
**9.0% increase ($369 ÷ $4,111)**

**b. During the recent year, revenue increased by 9.7%, while operating expenses increased by 9.8%. As a result, operating income increased by 9.0% from the prior year.**

**c. Because of the size differences between Target and Costco (Costco has more than 1.8 times the revenue), it is best to compare the two companies on the basis of percent changes from the prior year. Costco's revenues increased by 9.7%, while Target's revenue increased by 3.6%. The expenses of Costco increased by 9.8%, which is slightly more than the percentage increase in revenues. As a result, Costco's operating income increased by 9.0%. Target's expenses increased by 4.0%, which is less than the percentage increase in revenues. As a result, Target's operating income decreased by 2.7%. Overall, Costco had a better operating performance than Target.**


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# PROBLEMS

**Prob. 2-1A**

**1. and 2.**

**Cash**

| | | | |
|---|---|---|---|
| (a) | 36,000 | (b) | 2,400 |
| (g) | 12,200 | (c) | 7,800 |
| | | (e) | 2,150 |
| | | (f) | 4,000 |
| | | (h) | 815 |
| | | (i) | 4,500 |
| | | (j) | 5,000 |
| | | (m) | 6,450 |
| | | (n) | 1,020 |
| Bal. | 14,065 | | |

**Accounts Receivable**

| | |
|---|---|
| (l) | 18,300 |

**Supplies**

| | |
|---|---|
| (e) | 2,150 |

**Prepaid Insurance**

| | |
|---|---|
| (f) | 4,000 |

**Automobiles**

| | |
|---|---|
| (c) | 32,800 |

**Equipment**

| | |
|---|---|
| (d) | 9,000 |

**Accounts Payable**

| | | | |
|---|---|---|---|
| (i) | 4,500 | (d) | 9,000 |
| | | (k) | 2,890 |
| | | Bal. | 7,390 |

**Notes Payable**

| | | | |
|---|---|---|---|
| (j) | 5,000 | (c) | 25,000 |
| | | Bal. | 20,000 |

**Connie Young, Capital**

| | | | |
|---|---|---|---|
| | | (a) | 36,000 |

**Professional Fees**

| | | | |
|---|---|---|---|
| | | (g) | 12,200 |
| | | (l) | 18,300 |
| | | Bal. | 30,500 |

**Salary Expense**

| | |
|---|---|
| (m) | 6,450 |

**Blueprint Expense**

| | |
|---|---|
| (k) | 2,890 |

**Rent Expense**

| | |
|---|---|
| (b) | 2,400 |

**Automobile Expense**

| | |
|---|---|
| (n) | 1,020 |

**Miscellaneous Expense**

| | |
|---|---|
| (h) | 815 |



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**Prob. 2-1A (Concluded)**

**3.**

| Connie Young, Architect<br>Unadjusted Trial Balance<br>October 31, 20Y4 | | |
|---|---|---|
| | Debit Balances | Credit Balances |
| Cash | 14,065 | |
| Accounts Receivable | 18,300 | |
| Supplies | 2,150 | |
| Prepaid Insurance | 4,000 | |
| Automobiles | 32,800 | |
| Equipment | 9,000 | |
| Accounts Payable | | 7,390 |
| Notes Payable | | 20,000 |
| Connie Young, Capital | | 36,000 |
| Professional Fees | | 30,500 |
| Salary Expense | 6,450 | |
| Blueprint Expense | 2,890 | |
| Rent Expense | 2,400 | |
| Automobile Expense | 1,020 | |
| Miscellaneous Expense | 815 | |
| | 93,890 | 93,890 |

**4. Net income, $16,925 ($30,500 – $6,450 – $2,890 – $2,400 – $1,020 – $815)**


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**Prob. 2-2A**

**1.**

| | | | |
|---|---|---|---|
| **(a)** | **Cash** | **53,000** | |
| | **Fahad Ali, Capital** | | **53,000** |
| **(b)** | **Rent Expense** | **7,950** | |
| | **Cash** | | **7,950** |
| **(c)** | **Supplies** | **4,240** | |
| | **Accounts Payable** | | **4,240** |
| **(d)** | **Accounts Payable** | **2,320** | |
| | **Cash** | | **2,320** |
| **(e)** | **Cash** | **24,180** | |
| | **Fees Earned** | | **24,180** |
| **(f)** | **Automobile Expense** | **2,490** | |
| | **Miscellaneous Expense** | **560** | |
| | **Cash** | | **3,050** |
| **(g)** | **Office Salaries Expense** | **6,630** | |
| | **Cash** | | **6,630** |
| **(h)** | **Supplies Expense** | **1,860** | |
| | **Supplies** | | **1,860** |
| **(i)** | **Fahad Ali, Drawing** | **2,600** | |
| | **Cash** | | **2,600** |


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**Prob. 2-2A (Continued)**

**2.**

| Cash | | | |
|---|---|---|---|
| (a) | 53,000 | (b) | 7,950 |
| (e) | 24,180 | (d) | 2,320 |
| | | (f) | 3,050 |
| | | (g) | 6,630 |
| | | (i) | 2,600 |
| Bal. | 54,630 | | |

| Fees Earned | | | |
|---|---|---|---|
| | | (e) | 24,180 |

| Supplies | | | |
|---|---|---|---|
| (c) | 4,240 | (h) | 1,860 |
| Bal. | 2,380 | | |

| Rent Expense | | | |
|---|---|---|---|
| (b) | 7,950 | | |

| Accounts Payable | | | |
|---|---|---|---|
| (d) | 2,320 | (c) | 4,240 |
| | | Bal. | 1,920 |

| Office Salaries Expense | | | |
|---|---|---|---|
| (g) | 6,630 | | |

| Fahad Ali, Capital | | | |
|---|---|---|---|
| | | (a) | 53,000 |

| Automobile Expense | | | |
|---|---|---|---|
| (f) | 2,490 | | |

| Fahad Ali, Drawing | | | |
|---|---|---|---|
| (i) | 2,600 | | |

| Supplies Expense | | | |
|---|---|---|---|
| (h) | 1,860 | | |

| Miscellaneous Expense | | | |
|---|---|---|---|
| (f) | 560 | | |



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**Prob. 2-2A (Concluded)**

**3.**

| Mountain Top Realty<br>Unadjusted Trial Balance<br>January 31, 20Y5 | | |
|---|---|---|
| | Debit Balances | Credit Balances |
| Cash | 54,630 | |
| Supplies | 2,380 | |
| Accounts Payable | | 1,920 |
| Fahad Ali, Capital | | 53,000 |
| Fahad Ali, Drawing | 2,600 | |
| Fees Earned | | 24,180 |
| Rent Expense | 7,950 | |
| Office Salaries Expense | 6,630 | |
| Automobile Expense | 2,490 | |
| Supplies Expense | 1,860 | |
| Miscellaneous Expense | 560 | |
| | 79,100 | 79,100 |

**4.** a. $24,180
b. $19,490 ($7,950 + $6,630 + $2,490 + $1,860 + $560)
c. $4,690 ($24,180 – $19,490)

**5.** There is a $2,090 increase in owner's equity for January, which is net income of $4,690 minus withdrawals of $2,600.


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**Prob. 2-3A**

**1.**

**JOURNAL** Page 1

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| 20Y6 | | | | | |
| June | 1 | Cash | 11 | 48,000 | |
| | | Hannah Ellis, Capital | 31 | | 48,000 |
| | | | | | |
| | 1 | Rent Expense | 53 | 6,510 | |
| | | Cash | 11 | | 6,510 |
| | | | | | |
| | 6 | Equipment | 16 | 19,340 | |
| | | Accounts Payable | 22 | | 19,340 |
| | | | | | |
| | 8 | Van | 18 | 39,100 | |
| | | Cash | 11 | | 6,200 |
| | | Notes Payable | 21 | | 32,900 |
| | | | | | |
| | 10 | Supplies | 13 | 3,260 | |
| | | Cash | 11 | | 3,260 |
| | | | | | |
| | 12 | Cash | 11 | 16,730 | |
| | | Fees Earned | 41 | | 16,730 |
| | | | | | |
| | 15 | Prepaid Insurance | 14 | 4,940 | |
| | | Cash | 11 | | 4,940 |
| | | | | | |
| | 23 | Accounts Receivable | 12 | 16,320 | |
| | | Fees Earned | 41 | | 16,320 |
| | | | | | |
| | 24 | Van Expense | 55 | 2,060 | |
| | | Accounts Payable | 22 | | 2,060 |

**JOURNAL** Page 2

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| 20Y6 | | | | | |
| June | 29 | Utilities Expense | 54 | 4,250 | |
| | | Cash | 11 | | 4,250 |
| | | | | | |
| | 29 | Miscellaneous Expense | 59 | 1,300 | |
| | | Cash | 11 | | 1,300 |



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**Prob. 2-3A (Continued)**

| | | | | | |
|---|---|---|---|---|---|
| | 30 | Cash | 11 | 10,050 | |
| | | Accounts Receivable | 12 | | 10,050 |
| | | | | | |
| | 30 | Wages Expense | 51 | 6,950 | |
| | | Cash | 11 | | 6,950 |
| | | | | | |
| | 30 | Accounts Payable | 22 | 9,360 | |
| | | Cash | 11 | | 9,360 |
| | | | | | |
| | 30 | Hannah Ellis, Drawing | 32 | 2,200 | |
| | | Cash | 11 | | 2,200 |

**2.**

**GENERAL LEDGER**

**Account:** Cash **Account No.** 11

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| 20Y6 | | | | | | | |
| June | 1 | | 1 | 48,000 | | 48,000 | |
| | 1 | | 1 | | 6,510 | 41,490 | |
| | 8 | | 1 | | 6,200 | 35,290 | |
| | 10 | | 1 | | 3,260 | 32,030 | |
| | 12 | | 1 | 16,730 | | 48,760 | |
| | 15 | | 1 | | 4,940 | 43,820 | |
| | 29 | | 2 | | 4,250 | 39,570 | |
| | 29 | | 2 | | 1,300 | 38,270 | |
| | 30 | | 2 | 10,050 | | 48,320 | |
| | 30 | | 2 | | 6,950 | 41,370 | |
| | 30 | | 2 | | 9,360 | 32,010 | |
| | 30 | | 2 | | 2,200 | 29,810 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| 20Y6 | | | | | | | |
| June | 23 | | 1 | 16,320 | | 16,320 | |
| | 30 | | 2 | | 10,050 | 6,270 | |



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**Prob. 2-3A (Continued)**

**Account:** Supplies **Account No.** 13

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 10 | | 1 | 3,260 | | 3,260 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 15 | | 1 | 4,940 | | 4,940 | |

**Account:** Equipment **Account No.** 16

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 6 | | 1 | 19,340 | | 19,340 | |

**Account:** Van **Account No.** 18

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 8 | | 1 | 39,100 | | 39,100 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 8 | | 1 | | 32,900 | | 32,900 |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 6 | | 1 | | 19,340 | | 19,340 |
| | 24 | | 1 | | 2,060 | | 21,400 |
| | 30 | | 2 | 9,360 | | | 12,040 |



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**Prob. 2-3A (Continued)**

**Account:** Hannah Ellis, Capital **Account No.** 31

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 1 | | 1 | | 48,000 | | 48,000 |

**Account:** Hannah Ellis, Drawing **Account No.** 32

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 30 | | 2 | 2,200 | | 2,200 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 12 | | 1 | | 16,730 | | 16,730 |
| | 23 | | 1 | | 16,320 | | 33,050 |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 30 | | 2 | 6,950 | | 6,950 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 1 | | 1 | 6,510 | | 6,510 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| June | 29 | | 2 | 4,250 | | 4,250 | |



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**Prob. 2-3A (Continued)**

**Account:** Van Expense **Account No.** 55

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| 20Y6 | | | | | | | |
| June | 24 | | 1 | 2,060 | | 2,060 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| 20Y6 | | | | | | | |
| June | 29 | | 2 | 1,300 | | 1,300 | |



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**Prob. 2-3A (Concluded)**

**3.**

**Whitworth Designs**
**Unadjusted Trial Balance**
**June 30, 20Y6**

| | Account No. | Debit Balances | Credit Balances |
|---|---|---|---|
| Cash | 11 | 29,810 | |
| Accounts Receivable | 12 | 6,270 | |
| Supplies | 13 | 3,260 | |
| Prepaid Insurance | 14 | 4,940 | |
| Equipment | 16 | 19,340 | |
| Van | 18 | 39,100 | |
| Notes Payable | 21 | | 32,900 |
| Accounts Payable | 22 | | 12,040 |
| Hannah Ellis, Capital | 31 | | 48,000 |
| Hannah Ellis, Drawing | 32 | 2,200 | |
| Fees Earned | 41 | | 33,050 |
| Wages Expense | 51 | 6,950 | |
| Rent Expense | 53 | 6,510 | |
| Utilities Expense | 54 | 4,250 | |
| Van Expense | 55 | 2,060 | |
| Miscellaneous Expense | 59 | 1,300 | |
| | | 125,990 | 125,990 |

**4.** **$11,980 ($33,050 – $6,950 – $6,510 – $4,250 – $2,060 – $1,300)**

**5.** **Some supplies may have been used during June, 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 Whitworth 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.**

**JOURNAL** Page 18

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| 20Y7 | | | | | |
| 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 |

**JOURNAL** Page 19

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| 20Y7 | | | | | |
| 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 | Lester Wagner, Drawing | 32 | 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Apr. | 15 | | 18 | 200,000 | | 200,000 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Apr. | 30 | | 19 | | 10,000 | | 10,000 |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Apr. | 15 | | 18 | | 170,000 | | 170,000 |



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**Prob. 2-4A (Continued)**

Account: Lester Wagner, Capital Account No. 31

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Apr. | 1 | Balance | ✓ | | | | 46,000 |

Account: Lester Wagner, Drawing Account No. 32

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Apr. | 1 | Balance | ✓ | | | 30,000 | |
| | 1 | | 18 | 6,500 | | 36,500 | |

Account: Advertising Expense Account No. 53

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Apr. | 1 | Balance | ✓ | | | 17,800 | |
| | 23 | | 18 | 4,300 | | 22,100 | |



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**Prob. 2-4A (Continued)**

Account: Automobile Expense Account No. 54

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Apr. | 1 | Balance | ✓ | | | 3,900 | |
| | 29 | | 19 | 1,400 | | 5,300 | |

**4.**

**Elite Realty**
**Unadjusted Trial Balance**
**April 30, 20Y7**

| | 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 |
| Lester Wagner, Capital | 31 | | 46,000 |
| Lester Wagner, Drawing | 32 | 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:**

**JOURNAL** **Page 19**

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| 20Y7 | | | | | |
| Apr. | 30 | Salary and Commission Expense | 51 | 7,200 | |
| | | Cash | 11 | | 7,200 |

**(c) Transposition**



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**Prob. 2-5A**

**1.**

| The Colby Group<br>Unadjusted Trial Balance<br>August 31, 20Y8 | | |
|---|---|---|
| | Debit Balances | Credit Balances |
| Cash* | 22,400 | |
| Accounts Receivable | 48,000 | |
| Supplies** | 8,750 | |
| Prepaid Insurance | 4,300 | |
| Equipment | 196,000 | |
| Notes Payable | | 117,600 |
| Accounts Payable | | 30,800 |
| Terry Colby, Capital | | 122,150 |
| Terry Colby, Drawing | 63,000 | |
| Fees Earned | | 454,450 |
| Wages Expense | 270,000 | |
| Rent Expense | 58,100 | |
| Advertising Expense | 25,200 | |
| Gas, Electricity, and Water Expense | 24,150 | |
| Miscellaneous Expense | 5,100 | |
| | 725,000 | 725,000 |

* $17,300 + $6,000 (a) – $900 (b)

** $7,400 + $1,500 – $150

**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 |

**Accounts Payable**

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

**Notes Payable**

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

**Ken Jones, Capital**

| | | | |
|---|---|---|---|
| | | (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.**

| Ken Jones, Architect<br>Unadjusted Trial Balance<br>April 30, 20Y4 | | |
|---|---|---|
| | Debit Balances | Credit Balances |
| Cash | 14,475 | |
| Accounts Receivable | 15,650 | |
| Supplies | 1,450 | |
| Prepaid Insurance | 2,400 | |
| Automobiles | 19,500 | |
| Equipment | 6,500 | |
| Accounts Payable | | 7,200 |
| Notes Payable | | 16,700 |
| Ken Jones, Capital | | 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 | |
| | Rafael Masey, Capital | | 17,500 |
| (b) | Supplies | 2,300 | |
| | Accounts Payable | | 2,300 |
| (c) | Cash | 13,300 | |
| | Fees Earned | | 13,300 |
| (d) | Rent Expense | 3,000 | |
| | Cash | | 3,000 |
| (e) | Accounts Payable | 1,150 | |
| | Cash | | 1,150 |
| (f) | Rafael Masey, Drawing | 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 | | |

**Fees Earned**

| | | | |
|---|---|---|---|
| | | (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 | | |

**Rafael Masey, Capital**

| | | | |
|---|---|---|---|
| | | (a) | 17,500 |

**Supplies Expense**

| | | | |
|---|---|---|---|
| (i) | 1,050 | | |

**Rafael Masey, Drawing**

| | | | |
|---|---|---|---|
| (f) | 1,800 | | |

**Miscellaneous Expense**

| | | | |
|---|---|---|---|
| (g) | 400 | | |



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**Prob. 2-2B (Concluded)**

**3.**

| Planet Realty<br>Unadjusted Trial Balance<br>August 31, 20Y5 | | |
|---|---|---|
| | Debit Balances | Credit Balances |
| Cash | 20,150 | |
| Supplies | 1,250 | |
| Accounts Payable | | 1,150 |
| Rafael Masey, Capital | | 17,500 |
| Rafael Masey, Drawing | 1,800 | |
| Fees Earned | | 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.** There is a $2,750 increase in owner's equity for August, which is net income of $4,550 minus withdrawals of $1,800.


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**Prob. 2-3B**

**1.**

**JOURNAL** Page 1

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| 20Y6 | | | | | |
| Oct. | 1 | Cash | 11 | 18,000 | |
| | | Jay Pryor, Capital | 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 |
|---|---|---|---|---|---|
| 20Y6 | | | | | |
| 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 | Jay Pryor, Drawing | 32 | 3,500 | |
| | | Cash | 11 | | 3,500 |

**2.**

**GENERAL LEDGER**

**Account:** Cash **Account No.** 11

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| 20Y6 | | | | | | | |
| 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 | Credit |
| 20Y6 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 14 | | 1 | 2,100 | | 2,100 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 15 | | 1 | 3,600 | | 3,600 | |

**Account:** Equipment **Account No.** 16

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 13 | | 1 | 10,500 | | 10,500 | |

**Account:** Truck **Account No.** 18

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 10 | | 1 | 23,750 | | 23,750 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 10 | | 1 | | 20,000 | | 20,000 |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| 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:** Jay Pryor, Capital **Account No.** 31

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 1 | | 1 | | 18,000 | | 18,000 |

**Account:** Jay Pryor, Drawing **Account No.** 32

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 31 | | 2 | 3,500 | | 3,500 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 30 | | 2 | 4,800 | | 4,800 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| Oct. | 4 | | 1 | 3,000 | | 3,000 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y6 | | | | | | | |
| 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 | Credit |
| 20Y6 | | | | | | | |
| Oct. | 26 | | 2 | 700 | | 700 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|---|---|---|---|---|---|---|---|
| | | | | | | Debit | Credit |
| 20Y6 | | | | | | | |
| Oct. | 27 | | 2 | 1,100 | | 1,100 | |



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**Prob. 2-3B (Concluded)**

**3.**

**Pioneer Designs**
**Unadjusted Trial Balance**
**October 31, 20Y6**

| | 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 |
| Jay Pryor, Capital | 31 | | 18,000 |
| Jay Pryor, Drawing | 32 | 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 |
|---|---|---|---|---|---|
| 20Y7 | | | | | |
| 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 |
|---|---|---|---|---|---|
| 20Y7 | | | | | |
| 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 | Cindy Getman, Drawing | 32 | 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 | Credit |
| 20Y7 | | | | | | | |
| 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 | Credit |
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Aug. | 31 | | 19 | 75,000 | | 75,000 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Aug. | 31 | | 19 | | 5,000 | | 5,000 |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Aug. | 31 | | 19 | | 67,500 | | 67,500 |



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**Prob. 2-4B (Continued)**

**Account:** Cindy Getman, Capital **Account No.** 31

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Aug. | 1 | Balance | ✓ | | | | 87,500 |

**Account:** Cindy Getman, Drawing **Account No.** 32

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Aug. | 1 | Balance | ✓ | | | 49,000 | |
| | 2 | | 18 | 7,200 | | 56,200 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Aug. | 1 | Balance | ✓ | | | 32,200 | |
| | 17 | | 18 | 8,000 | | 40,200 | |



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**Prob. 2-4B (Continued)**

Account: Automobile Expense Account No. 54

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| 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 | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y7 | | | | | | | |
| Aug. | 1 | Balance | ✓ | | | 5,250 | |
| | 29 | | 19 | 1,700 | | 6,950 | |

**4.**

**Valley Realty**
**Unadjusted Trial Balance**
**August 31, 20Y7**

| | 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 |
| Cindy Getman, Capital | 31 | | 87,500 |
| Cindy Getman, Drawing | 32 | 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 |


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**Prob. 2-4B (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 $9,000 ($10,000 – $1,000) would be as follows:**

**JOURNAL** **Page 19**

| Date | | Description | Post. Ref. | Debit | Credit |
|---|---|---|---|---|---|
| 20Y7 | | | | | |
| Aug. | 31 | Cindy Getman, Drawing | 32 | 9,000 | |
| | | Cash | 11 | | 9,000 |

**(c) Slide**



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**Prob. 2-5B**

**1.**

**Tech Support Services**
**Unadjusted Trial Balance**
**January 31, 20Y8**

| | 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 |
| Thad Engelberg, Capital | | 107,850 |
| Thad Engelberg, Drawing | 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 |

* $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 |
|---|---|---|---|---|---|
| 20Y9 | | | | | |
| July | 1 | Cash | 11 | 5,000 | |
| | | Peyton Smith, Capital | 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 |
|---|---|---|---|---|---|
| 20Y9 | | | | | |
| 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 | Peyton Smith, Drawing | 32 | 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 |
| 20Y9 | | | | | | | |
| 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 |
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| July | 1 | | 1 | 2,700 | | 2,700 | |

Account: Office Equipment Account No. 17

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| July | 5 | | 1 | 7,500 | | 7,500 | |

Account: Accounts Payable Account No. 21

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| July | 3 | | 1 | | 7,200 | | 7,200 |

Account: Peyton Smith, Capital Account No. 31

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| July | 1 | Balance | ✓ | | | | 4,000 |
| | 1 | | 1 | | 5,000 | | 9,000 |



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**Continuing Problem (Continued)**

**Account:** Peyton Smith, Drawing **Account No.** 32

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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 |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| July | 1 | Balance | ✓ | | | 180 | |

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

| Date | | Item | Post. Ref. | Debit | Credit | Balance Debit | Balance Credit |
|---|---|---|---|---|---|---|---|
| 20Y9 | | | | | | | |
| 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, 20Y9**

| | 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 |
| Peyton Smith, Capital | 31 | | 9,000 |
| Peyton Smith, Drawing | 32 | 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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## CASES & PROJECTS

**CP 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 on 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.**

**CP 2-2**

**A sample solution based on Nike Inc.'s Form 10-K for the fiscal year ended May 31, 2018, follows:**

1. **$22,536 million**
2. **$12,724 million ($6,040 + $3,468 + $3,216)**
3. **$9,812 million ($22,536 million on total assets – $12,724 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.**

**CP 2-3**

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 (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**


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**CP 2-3 (Concluded)**

**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" and "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, and number of returns. 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.**

**CP 2-4**

***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 wants 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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**CP 2-5**

**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. The entry to record the earned portion of tuition will be:**

| | | |
|---|---|---|
| **Unearned Tuition Deposits** | **XXX** | |
| **Earned Tuition Deposits** | | **XXX** |

**CP 2-6**

**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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**CP 2-7**

**a. Although the titles and numbers of accounts may differ, depending on how expenses are classified, the following accounts would be adequate for recording transaction data for Eagle Caddy Service:**

| Balance Sheet Accounts | | Income Statement Accounts | |
|---|---|---|---|
| **1. Assets** | | **4. Revenue** | |
| 11 | Cash | 41 | Fees Earned |
| 12 | Accounts Receivable | | |
| 13 | Supplies | **5. Expenses** | |
| | | 51 | Rent Expense |
| **2. Liabilities** | | 52 | Supplies Expense |
| 21 | Accounts Payable | 53 | Wages Expense |
| | | 54 | Utilities Expense |
| **3. Owner's Equity** | | 55 | Miscellaneous Expense |
| 31 | Cory Neece, Capital | | |
| 32 | Cory Neece, Drawing | | |

**b.**

| Eagle Caddy Service<br>Income Statement<br>For the Month Ended June 30, 20Y9 | | |
|---|---|---|
| Fees earned | | $11,400 |
| Expenses: | | |
| Rent expense | $3,500 | |
| Supplies expense | 1,925 | |
| Wages expense | 850 | |
| Utilities expense | 340 | |
| Miscellaneous expense | 395 | |
| Total expenses | | 7,010 |
| Net income | | $ 4,390 |

***Note to Instructors:*** **Students may have prepared slightly different income statements, depending upon the titles of the major expense classifications chosen. Regardless of the classification of expenses, however, the total sales, total expenses, and net income should be as presented above.**

**T accounts are not required for the preparation of the income statement of Eagle Caddy Service. The following presentation illustrates one solution using T accounts. Alternative solutions are possible if students used different accounts. In presenting the following T account solution, instructors may wish to emphasize the advantages of using T accounts (or a journal and four-column accounts) when a large number of transactions must be recorded.**


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**CP 2-7 (Continued)**

**Cash** 11

| 20Y9 | | | 20Y9 | | |
|---|---|---|---|---|---|
| June | 1 | 2,000 | June | 1 | 500 |
| | 15 | 5,400 | | 2 | 750 |
| | 30 | 4,200 | | 3 | 600 |
| | 30 | 1,500 | | 17 | 1,000 |
| | | | | 20 | 2,400 |
| | | | | 28 | 395 |
| | | | | 30 | 340 |
| | | | | 30 | 850 |
| Bal. | | 6,265 | | | |

**Accounts Receivable** 12

| 20Y9 | | | 20Y9 | | |
|---|---|---|---|---|---|
| June | 25 | 1,800 | June | 30 | 1,500 |
| Bal. | | 300 | | | |

**Supplies** 13

| 20Y9 | | | 20Y9 | | |
|---|---|---|---|---|---|
| June | 2 | 750 | June | 30 | 1,925 |
| | 7 | 1,000 | | | |
| | 22 | 850 | | | |
| Bal. | | 675 | | | |

**Accounts Payable** 21

| 20Y9 | | | 20Y9 | | |
|---|---|---|---|---|---|
| June | 17 | 1,000 | June | 3 | 2,400 |
| | 20 | 2,400 | | 7 | 1,000 |
| | | | | 22 | 850 |
| | | | Bal. | | 850 |

**Cory Neece, Capital** 31

| | | | 20Y9 | | |
|---|---|---|---|---|---|
| | | | June | 1 | 2,000 |

**Fees Earned** 41

| | | | 20Y9 | | |
|---|---|---|---|---|---|
| | | | June | 15 | 5,400 |
| | | | | 25 | 1,800 |
| | | | | 30 | 4,200 |
| | | | Bal. | | 11,400 |

**Rent Expense** 51

| 20Y9 | | |
|---|---|---|
| June | 1 | 500 |
| | 3 | 3,000 |
| Bal. | | 3,500 |

**Supplies Expense** 52

| 20Y9 | | |
|---|---|---|
| June | 30 | 1,925 |

**Wages Expense** 53

| 20Y9 | | |
|---|---|---|
| June | 30 | 850 |

**Utilities Expense** 54

| 20Y9 | | |
|---|---|---|
| June | 30 | 340 |

**Miscellaneous Expense** 55

| 20Y9 | | |
|---|---|---|
| June | 28 | 395 |



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**CP 2-7 (Concluded)**

**c. $6,265, computed in the following manner:**

| | | |
|---|---|---|
| **Cash receipts:** | | |
| **Initial investment** | **$2,000** | |
| **Cash sales ($5,400 + $4,200)** | **9,600** | |
| **Collections on accounts** | **1,500** | |
| **Total cash receipts during June** | | **$13,100** |
| **Cash disbursements:** | | |
| **Rent expense ($500 + $3,000)** | **$3,500** | |
| **Supplies purchased for cash** | **750** | |
| **Wages expense** | **850** | |
| **Payment for supplies on account** | **1,000** | |
| **Utilities expense** | **340** | |
| **Miscellaneous expense** | **395** | |
| **Total cash disbursements during June** | | **6,835** |
| **Cash on hand according to records*** | | **$ 6,265** |

*** If the student used T accounts in completing part (b), or this part, this amount ($6,265) should agree with the balance of the cash account.**

**d. The difference of $90 ($6,265 – $6,175) between the cash on hand according to records ($6,265) and the cash on hand according to the count ($6,175) could be due to many factors, including errors in the record keeping and withdrawals made by Cory.**



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