

## Chapter 2 Review of the Accounting Process

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### EXERCISES

#### Exercise 2-1

	Assets	=	Liabilities	+ Paid-in Capital	+ Retained Earnings
1.	+ 800,000 (cash)			+ 800,000 (common stock)	
2.	- 15,000 (cash)				
	+ 60,000 (equipment)		+ 45,000 (note payable)		
3.	+ 270,000 (inventory)		+ 270,000 (accounts payable)		
4.	+ 360,000 (accounts receivable)				+ 360,000 (revenue)
	- 210,000 (inventory)				- 210,000 (expense)
5.	- 20,000 (cash)				- 20,000 (expense)
6.	- 15,000 (cash)				
	+ 15,000 (prepaid insurance)				
7.	- 180,000 (cash)		- 180,000 (accounts payable)		
8.	+ 190,000 (cash)				
	- 190,000 (accounts receivable)				
9.	- 2,000 (accumulated depreciation)				- 2,000 (expense)

## Exercise 2-2

1.	Cash.....	800,000	
	Common stock .....		800,000
2.	Equipment.....	60,000	
	Note payable .....		45,000
	Cash .....		15,000
3.	Inventory .....	270,000	
	Accounts payable .....		270,000
4.	Accounts receivable .....	360,000	
	Sales revenue .....		360,000
	Cost of goods sold.....	210,000	
	Inventory .....		210,000
5.	Rent expense .....	20,000	
	Cash.....		20,000
6.	Prepaid insurance .....	15,000	
	Cash.....		15,000
7.	Accounts payable .....	180,000	
	Cash.....		180,000
8.	Cash.....	190,000	
	Accounts receivable .....		190,000
9.	Depreciation expense .....	2,000	
	Accumulated depreciation .....		2,000

## Exercise 2-3

	<u>Increase (I) or Decrease (D)</u>	<u>Account</u>
1.	<u>D</u>	Accounts receivable
2.	<u>D</u>	Salary expense
3.	<u>D</u>	Loss on sale of land
4.	<u>D</u>	Prepaid insurance
5.	<u>I</u>	Interest revenue
6.	<u>I</u>	Common stock
7.	<u>I</u>	Interest payable
8.	<u>D</u>	Land
9.	<u>D</u>	Interest expense
10.	<u>I</u>	Gain on sale of equipment
11.	<u>D</u>	Interest expense
12.	<u>I</u>	Accumulated depreciation
13.	<u>D</u>	Advertising expense
14.	<u>I</u>	Sales revenue

## Exercise 2-4

	<u>Account(s) Debited</u>	<u>Account(s) Credited</u>
Example: Purchased equipment for cash	2	5
1. Paid a cash dividend.	10	5
2. Paid insurance for the next six months.	8	5
3. Sold goods to customers on account.	4,16	9,3
4. Purchased inventory for cash.	3	5
5. Purchased supplies on account.	6	1
6. Paid employees wages for November.	17	5
7. Issued common stock in exchange for cash.	5	12
8. Collected cash from customers on account.	5	4
9. Borrowed cash from a bank and signed a note.	5	11
10. At the end of November, recorded the amount of supplies that had been used during the month.	7	6
11. Paid October's interest on a bank loan.	13	5
12. Accrued interest expense for November.	18	13

## Exercise 2-5

1. Insurance expense ( $\$12,000 \times \frac{5}{24}$ )..... 2,500

Prepaid insurance .....		2,500
2. Depreciation expense .....	20,000	
Accumulated depreciation .....		20,000
3. Salaries expense .....	27,000	
Salaries payable .....		27,000
4. Interest receivable ( $\$50,000 \times 8\% \times \frac{3}{12}$ ) .....	1,000	
Interest revenue .....		1,000
5. Supplies .....	2,200	
Supplies expense .....		2,200

## Exercise 2-6

### Requirement 1

Supplies	
11/30 Balance	4,000
Purchased	6,000
12/31 Balance	8,000

  

	Expense	?
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Cost of supplies used =  $\$4,000 + 6,000 - 8,000 = \mathbf{\$2,000}$

### Requirement 2

Prepaid rent	
11/30 Balance	10,000
12/31 Balance	7,000

  

	Expense	?
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Rent expense for December =  $\$10,000 - 7,000 = \mathbf{\$3,000}$

**Exercise 2-6 (concluded)**

**Requirement 3**

Interest payable	
	7,000 11/30 Balance
Interest paid      ?	2,000    Accrued interest
	4,000 12/31 Balance

Cash paid during December = \$7,000 + 2,000 – 4,000 = **\$5,000**

**Requirement 4**

Unearned rent revenue	
	4,500 11/30 Balance
Earned for Dec. 1,500	
	3,000 12/31 Balance

Rent revenue recognized each month = \$6,000 x 1/4 = **\$1,500**

<b>December 31, 2013</b>		
Unearned rent revenue.....	1,500	
Rent revenue .....		1,500

# PROBLEMS

## Problem 2-1

### Requirement 1

<b>2013</b>		<b>Debit</b>	<b>Credit</b>
July 1	Cash	1,000,000	
	Common stock		1,000,000
July 2	Inventory	80,000	
	Accounts payable		80,000
July 4	Prepaid rent	10,000	
	Cash		10,000
July 10	Accounts receivable	120,000	
	Sales revenue		120,000
July 10	Cost of goods sold	75,000	
	Inventory		75,000
July 15	Cash	50,000	
	Note payable		50,000
July 20	Wages expense	15,000	
	Cash		15,000
July 24	Accounts payable	50,000	
	Cash		50,000
July 26	Cash	60,000	
	Accounts receivable		60,000
July 28	Utilities expense	1,500	
	Cash		1,500
July 31	Prepaid insurance	8,000	
	Cash		8,000

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**Problem 2-1 (continued)**

**Requirement 2**

**Cash**

7/1 Bal.	0		
7/1	1,000,000	10,000	7/4
7/15	50,000	15,000	7/20
7/26	60,000	50,000	7/24
		1,500	7/28
		8,000	7/31
<b>7/31 Bal.</b>	<b>1,025,500</b>		

**Accounts receivable**

7/1 Bal.	0		
7/10	120,000	60,000	7/26
<b>7/31 Bal.</b>	<b>60,000</b>		

**Inventory**

7/1 Bal.	0		
7/2	80,000	75,000	7/10
<b>7/31 Bal.</b>	<b>5,000</b>		

**Prepaid insurance**

7/1 Bal.	0		
7/31	8,000		
<b>7/31 Bal.</b>	<b>8,000</b>		

**Prepaid rent**

7/1 Bal.	0		
7/4	10,000		
<b>7/31 Bal.</b>	<b>10,000</b>		

**Accounts payable**

		0	7/1 Bal.
7/24	50,000	80,000	7/2
		30,000	<b>7/31 Bal.</b>

**Note payable**

	0	7/1 Bal.
	50,000	7/15
	50,000	<b>7/31 Bal.</b>

**Common stock**

	0	7/1 Bal.
	1,000,000	7/1
	1,000,000	<b>7/31 Bal.</b>

**Problem 2-1 (concluded)**

**INCOME STATEMENT ACCOUNTS**

**Sales revenue**

**Cost of goods sold**

	0	7/1 Bal.	7/1 Bal.	0
	120,000	7/10	7/10	75,000
	120,000	<b>7/31 Bal.</b>	<b>7/31 Bal.</b>	75,000

**Utilities expense**

**Wages expense**

7/1 Bal.	0	7/1 Bal.	0
7/28	1,500	7/20	15,000
<b>7/31 Bal.</b>	1,500	<b>7/31 Bal.</b>	15,000

**Requirement 3**

<b>Account Title</b>	<b>Debits</b>	<b>Credits</b>
Cash	1,025,500	
Accounts receivable	60,000	
Inventory	5,000	
Prepaid rent	10,000	
Prepaid insurance	8,000	
Accounts payable		30,000
Note payable		50,000
Common stock		1,000,000
Sales revenue		120,000
Cost of goods sold	75,000	
Wages expense	15,000	
Utilities expense	1,500	
Totals	<u>1,200,000</u>	<u>1,200,000</u>



## Problem 2-2

1.	Depreciation expense .....	22,000	
	Accumulated depreciation .....		22,000
2.	Wage expense (\$7,000 – 5,000) .....	2,000	
	Wages payable .....		2,000
3.	Interest expense ( $\$50,000 \times 8\% \times \frac{9}{12}$ ) .....	3,000	
	Interest payable .....		3,000
4.	Supplies expense (\$2,300 – 1,000) .....	1,300	
	Supplies .....		1,300
5.	Unearned revenue .....	3,000	
	Sales revenue .....		3,000
6.	Rent expense .....	1,000	
	Prepaid rent .....		1,000