

Chapter 2: Analyzing and Recording Business Transactions

Discussion Questions: Key Points

1. Assets are listed in order of liquidity, or closeness to cash. Discuss the steps that the business would have to go through in order to convert each asset to cash in the normal course of business.
2. When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although it would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use.
3. Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the retained earnings account.
4. Not all events are transactions. A transaction is an event that has a financial impact on a company. Journal entries are recorded for all transactions.
5. The normal balance of an account is the side that increases the account.
 - a. Debit
 - b. Debit
 - c. Credit
 - d. Credit
 - e. Debit
6. The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheck, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account).
7. A credit balance in the cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its checking account, it now has a liability to the bank. Rather than showing a credit balance in its cash account, it should show a credit balance in a liability account.
8. Journalizing is the process of recording a transaction in the journal. Posting is the process of transferring the information from the journal to the appropriate accounts in the ledger or to T-accounts.
9. False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to supplies is improperly recorded as a debit to supplies expense, for example, the trial balance will balance but the financial statements will be inaccurate.
10. The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger.

Short Exercises

(5-10 min.) S 2-1

1. b
2. c
3. e
4. g
5. d
6. f
7. a

(5-10 min.) S 2-2

- | | |
|---------------------|----|
| 1. Accounts payable | L |
| 2. Cash | A |
| 3. Service revenue | R |
| 4. Prepaid rent | A |
| 5. Rent expense | E |
| 6. Common stock | SE |

(5-10 min.) S 2-3

1. Transactions occur.
5. Prepare the financial statements
4. Prepare the trial balance.
3. Post the transactions from the journal to the ledger.
2. Record the transactions in the journal.

(5-10 min.) S 2-4

| | |
|---------|-------|
| Example | A, 1 |
| 1. | R, 4 |
| 2. | SE, 3 |
| 3. | A, 1 |
| 4. | E, 5 |
| 5. | L, 2 |
| 6. | SE, 3 |
| 7. | E ,5 |

(5-10 min.) S 2-5

The basic summary device in accounting is the account. The left side of an account is called the debit side, and the right side is called the credit side. We record transactions first in a journal. Then we post or copy the data to the ledger (or T-accounts). It is helpful to list all the accounts with their balances on a trial balance.

(5-10 min.) S 2-6

| | | |
|-----------|----|------------------|
| <u>DR</u> | 1. | Rent expense |
| <u>CR</u> | 2. | Accounts payable |
| <u>CR</u> | 3. | Service revenue |
| <u>DR</u> | 4. | Office furniture |
| <u>CR</u> | 5. | Common stock |
| <u>DR</u> | 6. | Land |
| <u>DR</u> | 7. | Dividends |

(5-10 min.) S 2-7

| Supplies | | | |
|----------|-----|------|-----|
| 3/8 | 250 | 3/27 | 400 |
| 3/17 | 800 | | |
| Bal. | 650 | | |

| Note payable | | | |
|--------------|-------|------|-------|
| 3/20 | 1,250 | 3/5 | 9,500 |
| 3/31 | 4,500 | | |
| | | Bal. | 3,750 |

(5-10 min.) S 2-8

| Account | Type | ↑ | ↓ |
|------------------|----------------------|-----|-----|
| Office equipment | Asset | Dr. | Cr. |
| Dividends | Stockholder's Equity | Dr. | Cr. |
| Service revenue | Revenue | Cr. | Dr. |
| Accounts payable | Liability | Cr. | Dr. |
| Rent expense | Expense | Dr. | Cr. |
| Cash | Asset | Dr. | Cr. |

(15-20 min.) S 2-9

| Transaction | Account Affected | Type | ↑ | ↓ | Dr. or Cr. |
|-------------|---------------------|----------------------|----------|---|------------|
| (1) | Cash | Asset | Increase | | Dr |
| | Common stock | Stockholders' Equity | Increase | | Cr |
| (2) | Equipment | Asset | Increase | | Dr |
| | Cash | Asset | Decrease | | Cr |
| (3) | Supplies | Asset | Increase | | Dr |
| | Accounts payable | Liability | Increase | | Cr |
| (4) | Accounts receivable | Asset | Increase | | Dr |
| | Service revenue | Revenue | Increase | | Cr |
| (5) | Accounts payable | Liability | Decrease | | Dr |
| | Cash | Asset | Decrease | | Cr |
| (6) | Operating expenses | Expense | Increase | | Dr |

| | | | | |
|-----|-----------|----------------------|----------|----|
| | Cash | Asset | Decrease | Cr |
| (7) | Dividends | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |

(10-15 min.) S 2-10

| Journal | | | | | |
|---------|----|---------------------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Aug | 1 | Cash | | 50,000 | |
| | | Common stock | | | 50,000 |
| | | Sold stock. | | | |
| | | | | | |
| | 5 | Dental supplies | | 6,300 | |
| | | Accounts payable | | | 6,300 |
| | | Purchased supplies on account. | | | |
| | | | | | |
| | 7 | Rent Expense | | 1,000 | |
| | | Cash | | | 1,000 |
| | | Paid office rent. | | | |
| | | | | | |
| | 10 | Cash | | 1,200 | |
| | | Accounts receivable | | 2,600 | |
| | | Service revenue | | | 3,800 |
| | | Performed service for patients. | | | |

(10-15 min.) S 2-11

| Journal | | | | | |
|---------|---|-------------------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Sep | 3 | Cash | | 35,000 | |
| | | Note payable | | | 35,000 |
| | | Borrowed money from the bank. | | | |
| | | | | | |
| | 9 | Accounts receivable | | 1,250 | |
| | | Service revenue | | | 1,250 |
| | | Performed service on account. | | | |

| | | | | | |
|--|----|---------------------------|--|-------|-------|
| | | | | | |
| | 16 | Cash | | 500 | |
| | | Accounts receivable | | | 500 |
| | | Received cash on account. | | | |
| | | | | | |
| | 22 | Utilities expense | | 380 | |
| | | Accounts payable | | | 380 |
| | | Received utility bill. | | | |
| | | | | 2,250 | |
| | 30 | Salaries expense | | 2,600 | |
| | | Cash | | | 2,250 |
| | | Paid salary expense. | | | |
| | | | | | |
| | 30 | Interest expense | | 170 | |
| | | Cash | | | 170 |
| | | Paid interest expense. | | | |

(10-15 min.) S 2-12

| Audio Masters, Corp | | |
|---------------------|-----------------|-----------------|
| Trial Balance | | |
| April 30, 2014 | | |
| | BALANCE | |
| | | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$18,300 | |
| Prepaid rent | 750 | |
| Equipment | 21,000 | |
| Accounts payable | | \$ 1,700 |
| Note payable | | 11,500 |
| Common stock | | 15,000 |
| Dividends | 22,600 | |
| Service revenue | | 63,000 |
| Rent expense | 10,150 | |
| Utilities expense | 18,400 | |
| Total | <u>\$91,200</u> | <u>\$91,200</u> |

(5-10 min.) S 2-13

**Mylar, Inc.
Trial Balance
December 31, 2014**

| | ACCOUNT | | DEBIT | | CREDIT |
|-----------|---------------------|--|-----------------|--|-----------------|
| BS | Cash | | \$12,100 | | |
| BS | Accounts Receivable | | 1,900 | | |
| BS | Supplies | | 250 | | |
| BS | Equipment | | 6,000 | | |
| BS | Accounts Payable | | | | \$1,830 |
| BS | Notes Payable | | | | 10,000 |
| BS | Common Stock | | | | 8,500 |
| RE | Dividends | | 700 | | |
| IS | Service Revenue | | | | 3,500 |
| IS | Salaries Expense | | 1,740 | | |
| IS | Rent Expense | | 800 | | |
| IS | Utilities Expense | | <u>340</u> | | |
| | Total | | <u>\$23,830</u> | | <u>\$23,830</u> |

(5-10 min.) S 2-14

- e 1 Posting
- d 2 Normal balance
- g 3 Payable
- a 4 Journal
- b 5 Receivable
- h 6 Chart of accounts
- c 7 Debit
- f 8 Trial balance
- i 9 Credit

Exercises

(10-15 min.) E 2-15A

| Transaction | Account Affected | Type | ↑ | ↓ | Dr. or Cr. |
|-------------|---------------------|----------------------|----------|---|------------|
| Jul 1 | Advertising expense | Stockholders' Equity | Increase | | Dr |
| | Cash | Asset | Decrease | | Cr |
| 3 | Cash | Asset | Increase | | Dr |
| | Service revenue | Stockholders' Equity | Increase | | Cr |
| 5 | Supplies | Asset | Increase | | Dr |
| | Accounts payable | Liability | Increase | | Cr |
| 9 | Cash | Asset | Increase | | Dr |
| | Accounts receivable | Asset | Decrease | | Cr |
| 12 | Accounts Payable | Liability | Decrease | | Dr |
| | Cash | Asset | Decrease | | Cr |
| 17 | Accounts receivable | Asset | Increase | | Dr |
| | Service revenue | Stockholders' Equity | Increase | | Cr |

(15-20 min.) E 2-16A

| Journal | | | | | |
|----------------|----|---------------------|-----------------------|------------|------------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Apr. | 1 | Interest expense | | 380 | |
| | | Cash | | | 380 |
| | | | | | |
| | 5 | Office furniture | | 3,200 | |
| | | Accounts payable | | | 3,200 |
| | | | | | |
| | 10 | Accounts receivable | | 2,650 | |
| | | Service revenue | | | 2,650 |
| | | | | | |
| | 12 | Cash | | 25,000 | |
| | | Notes payable | | | 25,000 |
| | | | | | |
| | 19 | Cash | | 53,000 | |
| | | Land | | | 53,000 |
| | | | | | |
| | 21 | Building | | 250,000 | |
| | | Notes payable | | | 250,000 |
| | | | | | |
| | 27 | Accounts Payable | | 1,800 | |
| | | Cash | | | 1,800 |

(15-20 min.) E 2-17A

| Journal | | | | | |
|----------------|---|------------------|-----------------------|------------|------------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Nov. | 1 | Cash | | 85,000 | |
| | | Common stock | | | 85,000 |
| | | | | | |
| | 3 | Supplies | | 400 | |
| | | Accounts Payable | | | 400 |
| | | | | | |
| | 5 | Building | | 40,000 | |

| | | | | | |
|--|----|---------------------|--|-------|--------|
| | | Cash | | | 40,000 |
| | | | | | |
| | 6 | Cash | | 1,600 | |
| | | Service revenue | | | 1,600 |
| | | | | | |
| | 11 | Accounts payable | | 350 | |
| | | Cash | | | 350 |
| | | | | | |
| | 18 | Accounts receivable | | 2,600 | |
| | | Service revenue | | | 2,600 |
| | | | | | |
| | 24 | Cash | | 1,300 | |
| | | Accounts receivable | | | 1,300 |
| | | | | | |
| | 30 | Salaries expense | | 700 | |
| | | Rent expense | | 1,800 | |
| | | Cash | | | 2,500 |

(10-15 min.) E 2-18A

Req. 1

Cash

| | | | |
|--------|--------|--------|--------|
| Oct. 1 | 25,000 | Oct. 4 | 13,500 |
| 6 | 6,700 | 9 | 300 |
| 23 | 1,400 | 29 | 1,600 |
| Bal. | 17,700 | | |

Accounts Payable

| | | | |
|--------|-----|--------|-----|
| Oct. 9 | 300 | Oct. 2 | 450 |
| | | Bal. | 150 |

Accounts Receivable

| | | | |
|---------|-------|---------|-------|
| Oct. 17 | 2,300 | Oct. 23 | 1,400 |
| Bal. | 900 | | |

Common stock

| | | |
|--|--------|--------|
| | Oct. 1 | 25,000 |
| | Bal. | 25,000 |

Supplies

| | | |
|--------|-----|--|
| Oct. 2 | 450 | |
| Bal. | 450 | |

Service revenue

| | | |
|--|--------|-------|
| | Oct. 6 | 6,700 |
| | 17 | 2,300 |
| | Bal. | 9,000 |

Equipment

| | | |
|--------|--------|--|
| Oct. 4 | 13,500 | |
| Bal. | 13,500 | |

Salaries Expense

| | | |
|---------|-------|--|
| Oct. 29 | 1,600 | |
| Bal. | 1,600 | |

Req. 2

| Tiny Tykes Daycare, Inc. | | |
|--------------------------|-----------------|-----------------|
| Trial Balance | | |
| October 31, 2014 | | |
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$17,700 | |
| Accounts receivable | 900 | |
| Supplies | 450 | |
| Equipment | 13,500 | |
| Accounts payable | | \$ 150 |
| Common stock | | 25,000 |
| Service revenue | | 9,000 |
| Salaries expense | 1,600 | |
| Total | <u>\$34,150</u> | <u>\$34,150</u> |

(15-20 min.) E 2-19A

Req 1

| Journal | | | | | |
|---------|----|---------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Mar. | 2 | Rent expense | | 1,000 | |
| | | Cash | | | 1,000 |
| | | | | | |
| | 4 | Cash | | 1,100 | |
| | | Service revenue | | | 1,100 |
| | | | | | |
| | 8 | Supplies | | 100 | |
| | | Accounts payable | | | 100 |
| | | | | | |
| | 11 | Cash | | 2,600 | |
| | | Accounts receivable | | | 2,600 |
| | | | | | |
| | 15 | Cash | | 45,000 | |
| | | Common stock | | | 45,000 |
| | | | | | |
| | 19 | Accounts payable | | 450 | |
| | | Cash | | | 450 |
| | | | | | |
| | 27 | Accounts receivable | | 3,300 | |
| | | Service revenue | | | 3,300 |
| | | | | | |
| | 31 | Notes payable | | 6,000 | |
| | | Cash | | | 6,000 |

Req 2 & 3

| Cash | | | |
|--------|--------|--------|-------|
| Mar 1 | 5,000 | Mar 2 | 1,000 |
| Mar 4 | 1,100 | Mar 19 | 450 |
| Mar 11 | 2,600 | Mar 31 | 6,000 |
| Mar 15 | 45,000 | | |
| Bal. | 46,250 | | |

| Accounts payable | | | |
|------------------|-----|-------|-----|
| Mar 19 | 450 | Mar 1 | 400 |
| | | Mar 8 | 100 |
| | | Bal. | 50 |

| Accounts receivable | | | |
|---------------------|-------|--------|-------|
| Mar 1 | 2,800 | Mar 11 | 2,600 |

| Notes payable | | | |
|---------------|-------|-------|-------|
| Mar 31 | 6,000 | Mar 1 | 9,000 |

| | | |
|-------------|-------|--|
| Mar 27 | 3,300 | |
| <i>Bal.</i> | 3,500 | |

| | | |
|--|-------------|-------|
| | | |
| | <i>Bal.</i> | 3,000 |

| Supplies | | |
|-----------------|-----|--|
| Mar 1 | 550 | |
| Mar 8 | 100 | |
| <i>Bal.</i> | 650 | |

| Common stock | | |
|---------------------|-------------|--------|
| | Mar 1 | 30,750 |
| | Mar 15 | 45,000 |
| | <i>Bal.</i> | 75,750 |

| Office furniture | | |
|-------------------------|-------|--|
| Mar 1 | 2,900 | |
| <i>Bal.</i> | 2,900 | |

| Service revenue | | |
|------------------------|-------------|-------|
| | Mar 1 | 2,600 |
| | Mar 4 | 1,100 |
| | Mar 27 | 3,300 |
| | <i>Bal.</i> | 7,000 |

| Building | | |
|-----------------|--------|--|
| Mar 1 | 30,000 | |
| <i>Bal.</i> | 30,000 | |

| Rent expense | | |
|---------------------|-------|--|
| Mar 1 | 1,500 | |
| Mar 2 | 1,000 | |
| <i>Bal.</i> | 2,500 | |

Req 4

| Baily Realty, Inc. | | |
|---------------------------|-----------------|-----------------|
| Trial Balance | | |
| March 31, 2014 | | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$ 46,250 | |
| Accounts receivable | 3,500 | |
| Supplies | 650 | |
| Office furniture | 2,900 | |
| Building | 30,000 | |
| Accounts payable | | \$ 50 |
| Notes payable | | 3,000 |
| Common stock | | 75,750 |
| Service revenue | | 7,000 |
| Rent expense | 2,500 | |
| Total | <u>\$85,800</u> | <u>\$85,800</u> |

(20-25 min.) E 2-20A

| Journal | | | | | |
|---------|---|--|---------------|---------|---------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Sep. | 1 | Cash | | 53,000 | |
| | | Common stock | | | 53,000 |
| | | Sold stock. | | | |
| | | | | | |
| | 2 | Supplies | | 750 | |
| | | Accounts Payable | | | 750 |
| | | Purchased supplies on acct. | | | |
| | | | | | |
| | 3 | Building | | 140,000 | |
| | | Notes payable | | | 140,000 |
| | | Purchased building signing note payable. | | | |
| | | | | | |
| | 4 | Equipment | | 7,500 | |
| | | Cash | | | 7,500 |
| | | Paid cash to purchase equipment | | | |
| | | | | | |
| | 5 | Notes Payable | | 5,500 | |
| | | Cash | | | 5,500 |
| | | Made payment on note payable. | | | |
| | | | | | |
| | 6 | Accounts payable | | 500 | |
| | | Cash | | | 500 |
| | | Made payment on account. | | | |
| | | | | | |

Req. 2

| Cash | | | |
|------|--------|-----|-------|
| (1) | 53,000 | (4) | 7,500 |
| | | (5) | 5,500 |
| | | (6) | 500 |
| Bal. | 39,500 | | |

| Accounts payable | | | |
|------------------|-----|------|-----|
| (6) | 500 | (2) | 750 |
| | | Bal. | 250 |

| Supplies | |
|----------|-----|
| (2) | 750 |
| Bal. | 750 |

| Notes payable | | | |
|---------------|-------|------|---------|
| (5) | 5,500 | (3) | 140,000 |
| | | Bal. | 134,500 |

| Equipment | | |
|------------------|-------|--|
| (4) | 7,500 | |
| <i>Bal.</i> | 7,500 | |

| Common stock | | |
|---------------------|-------------|--------|
| | (1) | 53,000 |
| | <i>Bal.</i> | 53,000 |

| Building | | |
|-----------------|---------|--|
| (3) | 140,000 | |
| <i>Bal.</i> | 140,000 | |

| | | |
|--|--|--|
| | | |
| | | |

Req. 3

| Rawlins Equipment, Inc. | | |
|--------------------------------|-------------------------|-------------------------|
| Trial Balance | | |
| September 30, 2014 | | |
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$39,500 | |
| Supplies | 750 | |
| Equipment | 7,500 | |
| Building | 140,000 | |
| Accounts payable | | \$ 250 |
| Notes payable | | 134,500 |
| Common stock | | 53,000 |
| Total | <u>\$187,750</u> | <u>\$187,750</u> |

Req. 4

| Rawlins Equipment, Inc. | | | |
|--------------------------------|------------------|-----------------------------|------------------|
| Balance Sheet | | | |
| September 30, 2014 | | | |
| ASSETS | | LIABILITIES | |
| Cash | \$ 39,500 | Accounts payable | \$ 250 |
| Supplies | 750 | Notes payable | <u>134,500</u> |
| Equipment | 7,500 | Total liabilities | 134,750 |
| Building | <u>140,000</u> | STOCKHOLDERS' EQUITY | |
| | | Common stock | <u>53,000</u> |
| | | Total liabilities and | |
| Total assets | <u>\$187,750</u> | stockholder's equity | <u>\$187,750</u> |

(25-30 min.) E 2-21A

Req. 2

| Journal | | | | | |
|---------|----|---------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Nov. | 2 | Cash | | 80,000 | |
| | | Common stock | | | 80,000 |
| | 3 | Rent expense | | 1,700 | |
| | | Cash | | | 1,700 |
| | 6 | Equipment | | 1,800 | |
| | | Cash | | | 1,800 |
| | 8 | Furniture | | 1,200 | |
| | | Accounts payable | | | 1,200 |
| | 11 | Supplies | | 400 | |
| | | Accounts payable | | | 400 |
| | 19 | Accounts receivable | | 2,600 | |
| | | Service revenue | | | 2,600 |
| | 20 | Utility expense | | 500 | |
| | | Cash | | | 500 |
| | 28 | Cash | | 1,600 | |
| | | Service revenue | | | 1,600 |

Req. 1, and 3

| Cash | | | | Accounts payable | | | |
|--------|--------|--------|-------|------------------|--------|-------|--|
| Nov. 2 | 80,000 | Nov. 3 | 1,700 | | Nov. 8 | 1,200 | |
| 28 | 1,600 | 6 | 1,800 | | 11 | 400 | |
| | | 20 | 500 | | | | |
| Bal. | 77,600 | | | | Bal | 1,600 | |

Accounts receivable

| | | |
|-------------|-------|--|
| Nov. 19 | 2,600 | |
| <i>Bal.</i> | 2,600 | |

Common stock

| | | |
|--|-------------|--------|
| | Nov. 2 | 80,000 |
| | <i>Bal.</i> | 80,000 |

Supplies

| | | |
|-------------|-----|--|
| Nov. 11 | 400 | |
| <i>Bal.</i> | 400 | |

Service revenue

| | | |
|--|-------------|-------|
| | Nov. 19 | 2,600 |
| | 28 | 1,600 |
| | <i>Bal.</i> | 4,200 |

Equipment

| | | |
|-------------|-------|--|
| Nov. 6 | 1,800 | |
| <i>Bal.</i> | 1,800 | |

Rent Expense

| | | |
|-------------|-------|--|
| Nov. 3 | 1,700 | |
| <i>Bal.</i> | 1,700 | |

Furniture

| | | |
|-------------|-------|--|
| Nov. 8 | 1,200 | |
| <i>Bal.</i> | 1,200 | |

Utilities expense

| | | |
|-------------|-----|--|
| Nov 20 | 500 | |
| <i>Bal.</i> | 500 | |

Req. 4

| Munro Consulting, Inc. | | |
|------------------------|-----------------|-----------------|
| Trial Balance | | |
| November 30, 2014 | | |
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$ 77,600 | |
| Accounts receivable | 2,600 | |
| Supplies | 400 | |
| Equipment | 1,800 | |
| Furniture | 1,200 | |
| Accounts payable | | \$ 1,600 |
| Common stock | | 80,000 |
| Service revenue | | 4,200 |
| Rent expense | 1,700 | |
| Utilities expense | <u>500</u> | |
| Total | <u>\$85,800</u> | <u>\$85,800</u> |

Req. 5

| Munro Consulting, Inc. | | |
|-------------------------------|------------|----------------|
| Income Statement | | |
| Month Ended November 30, 2014 | | |
| | | |
| Service revenue | | \$4,200 |
| Expenses: | | |
| Rent expense | \$1,700 | |
| Utilities expense | <u>500</u> | |
| Total expenses | | <u>2,200</u> |
| | | |
| Net Income | | <u>\$2,000</u> |

| Munro Consulting, Inc. | | |
|--------------------------------|--|--|
| Statement of Retained Earnings | | |
| Month Ended November 30, 2014 | | |
| | | |

| | | |
|--------------------------------|--|----------------|
| Retained earnings, November 1 | | \$0 |
| Add: Net income | | <u>2,000</u> |
| Retained earnings, November 30 | | <u>\$2,000</u> |

Note: There were no dividends during the month of November

| Munro Consulting, Inc. | | | |
|-------------------------------|-----------------|-----------------------------|-----------------|
| Balance Sheet | | | |
| November 30, 2014 | | | |
| ASSETS | | LIABILITIES | |
| Cash | \$ 77,600 | Accounts payable | \$ 1,600 |
| Accounts receivable | 2,600 | | |
| Supplies | 400 | STOCKHOLDERS' EQUITY | |
| Equipment | 1,800 | Common stock | 80,000 |
| Furniture | <u>1,200</u> | Retained earnings | <u>2,000</u> |
| | | Total Stockholders' equity | <u>82,000</u> |
| | | | |
| | | Total liabilities and | |
| Total assets | <u>\$83,600</u> | stockholder's equity | <u>\$83,600</u> |

(20-25 min.) E 2-22A

| Effect on Trial Balance | Account(s) Misstated |
|---------------------------------|---|
| a. Total debits = Total credits | Cash \$405 too high Rent expense \$405 too low |
| b. Total debits = Total credits | Accounts receivable \$800 too high Accounts Payable \$800 too high |
| c. Total debits = Total credits | Cash \$180 too high Service revenue \$180too high |
| d. Total debits = Total credits | Supplies \$550 too low Accounts payable \$550 too low |
| e. Total debits > Total credits | Notes payable \$30,000 too low |

(10-15 min.) E 2-23B

| Transaction | Account Affected | Type | ↑ ↓ | Dr. or Cr. |
|-------------|---------------------|----------------------|----------|------------|
| Apr. 1 | Advertising expense | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 3 | Equipment | Asset | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 5 | Cash | Asset | Increase | Dr |
| | Common stock | Stockholders' Equity | Increase | Cr |
| 9 | Cash | Asset | Increase | Dr |
| | Notes payable | Liability | Increase | Cr |
| 12 | Utilities expense | Stockholders' Equity | Increase | Dr |
| | Cash | Asset | Decrease | Cr |
| 17 | Supplies | Asset | Increase | Dr |
| | Cash | Asset | Decrease | Cr |

(15-20 min.) E 2-24B

| Journal | | | | | |
|---------|----|---------------------|---------------|---------|---------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Apr. | 1 | Interest expense | | 1,000 | |
| | | Cash | | | 1,000 |
| | | | | | |
| | 5 | Office furniture | | 3,000 | |
| | | Accounts payable | | | 3,000 |
| | | | | | |
| | 10 | Accounts receivable | | 2,400 | |
| | | Service revenue | | | 2,400 |
| | | | | | |
| | 12 | Cash | | 20,000 | |
| | | Notes payable | | | 20,000 |
| | | | | | |
| | 19 | Cash | | 75,000 | |
| | | Land | | | 75,000 |
| | | | | | |
| | 21 | Building | | 300,000 | |
| | | Notes payable | | | 300,000 |
| | | | | | |
| | 27 | Accounts Payable | | 1,500 | |
| | | Cash | | | 1,500 |

(15-20 min.) E 2-25B

| Journal | | | | | |
|---------|----|---------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Dec. | 1 | Cash | | 80,000 | |
| | | Common stock | | | 80,000 |
| | 3 | Supplies | | 160 | |
| | | Accounts payable | | | 160 |
| | 5 | Building | | 45,000 | |
| | | Cash | | | 45,000 |
| | 6 | Cash | | 3,700 | |
| | | Service revenue | | | 3,700 |
| | 11 | Accounts payable | | 120 | |
| | | Cash | | | 120 |
| | 18 | Accounts receivable | | 2,650 | |
| | | Service revenue | | | 2,650 |
| | 24 | Cash | | 2,100 | |
| | | Accounts receivable | | | 2,100 |
| | 31 | Salaries expense | | 1,100 | |
| | | Rent expense | | 1,450 | |
| | | Cash | | | 2,550 |

(10-15 min.) E 2-26B

Req. 1

| Cash | | | |
|-------|--------|--------|--------|
| May 1 | 35,000 | May. 4 | 12,700 |
| 6 | 3,000 | 9 | 600 |
| 23 | 750 | 29 | 1,500 |
| Bal. | 23,950 | | |

| Accounts Payable | | | |
|------------------|-----|-------|-----|
| May 9 | 600 | May 2 | 900 |
| | | Bal. | 300 |

| Accounts Receivable | | | |
|---------------------|-------|--------|-----|
| May 17 | 5,100 | May 23 | 750 |
| Bal. | 4,350 | | |

| Common stock | | | |
|--------------|--|-------|--------|
| | | May 1 | 35,000 |
| | | Bal. | 35,000 |

| Supplies | | | |
|----------|-----|--|--|
| May 2 | 900 | | |
| Bal. | 900 | | |

| Service revenue | | | |
|-----------------|--|-------|-------|
| | | May 6 | 3,000 |
| | | 17 | 5,100 |
| | | Bal. | 8,100 |

| Equipment | | | |
|-----------|--------|--|--|
| May 4 | 12,700 | | |
| Bal. | 12,700 | | |

| Salaries Expense | | | |
|------------------|-------|--|--|
| May 29 | 1,500 | | |
| Bal. | 1,500 | | |

Req. 2

| Fun Time Daycare, Inc. | | |
|-------------------------------|-----------------|-----------------|
| Trial Balance | | |
| May 31, 2014 | | |
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$23,950 | |
| Accounts receivable | 4,350 | |
| Supplies | 900 | |
| Equipment | 12,700 | |
| Accounts payable | | \$ 300 |
| Common stock | | 35,000 |
| Service revenue | | 8,100 |
| Salaries expense | 1,500 | |
| Total | <u>\$43,400</u> | <u>\$43,400</u> |

(15-20 min.) E 2-27B

Req 1

| Journal | | | | | |
|---------|----|---------------------|---------------|-------|-------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Dec | 2 | Rent expense | | 1,600 | |
| | | Cash | | | 1,600 |
| | 4 | Cash | | 900 | |
| | | Service revenue | | | 900 |
| | 8 | Supplies | | 225 | |
| | | Accounts payable | | | 225 |
| | 11 | Cash | | 1,500 | |
| | | Accounts receivable | | | 1,500 |
| | 15 | Cash | | 5,000 | |
| | | Common stock | | | 5,000 |
| | 19 | Accounts payable | | 375 | |
| | | Cash | | | 375 |
| | 27 | Accounts receivable | | 1,640 | |
| | | Service revenue | | | 1,640 |
| | 28 | Notes payable | | 2,500 | |
| | | Cash | | | 2,500 |

Req 2 & 3

| Cash | | | |
|--------|-------|--------|-------|
| Dec 1 | 4,325 | Dec 2 | 1,600 |
| Dec 4 | 900 | Dec 19 | 375 |
| Dec 11 | 1,500 | Dec 28 | 2,500 |
| Dec 15 | 5,000 | | |
| Bal. | 7,250 | | |

| Accounts payable | | | |
|------------------|-----|-------|-----|
| Dec 19 | 375 | Dec 1 | 875 |
| | | Dec 8 | 225 |
| | | Bal. | 725 |

| Accounts receivable | | | |
|---------------------|--------------|--------|-------|
| Dec 1 | 2,200 | Dec 11 | 1,500 |
| Dec 27 | 1,640 | | |
| <i>Bal.</i> | <i>2,340</i> | | |

| Notes payable | | | |
|---------------|-------|-------------|---------------|
| Dec 28 | 2,500 | Dec 1 | 17,500 |
| | | <i>Bal.</i> | <i>15,000</i> |

| Supplies | | | |
|-------------|------------|--|--|
| Dec 1 | 450 | | |
| Dec 8 | 225 | | |
| <i>Bal.</i> | <i>675</i> | | |

| Common stock | | | |
|--------------|--|-------------|---------------|
| | | Dec 1 | 30,000 |
| | | Dec 15 | 5,000 |
| | | <i>Bal.</i> | <i>35,000</i> |

| Office furniture | | | |
|------------------|--------------|--|--|
| Dec 1 | 3,100 | | |
| <i>Bal.</i> | <i>3,100</i> | | |

| Service revenue | | | |
|-----------------|--|-------------|--------------|
| | | Dec 1 | 5,300 |
| | | Dec 4 | 900 |
| | | Dec 27 | 1,640 |
| | | <i>Bal.</i> | <i>7,840</i> |

| Building | | | |
|-------------|---------------|--|--|
| Dec 1 | 42,000 | | |
| <i>Bal.</i> | <i>42,000</i> | | |

| Rent expense | | | |
|--------------|--------------|--|--|
| Dec 1 | 1,600 | | |
| Dec 2 | 1,600 | | |
| <i>Bal.</i> | <i>3,200</i> | | |

Req 4

| Going Green, Inc. | | |
|--------------------------|-----------------|-----------------|
| Trial Balance | | |
| December 31, 2014 | | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$ 7,250 | |
| Accounts receivable | 2,340 | |
| Supplies | 675 | |
| Office furniture | 3,100 | |
| Building | 42,000 | |
| Accounts payable | | \$ 725 |
| Notes payable | | 15,000 |
| Common stock | | 35,000 |
| Service revenue | | 7,840 |
| Rent expense | 3,200 | |
| Total | <u>\$58,565</u> | <u>\$58,565</u> |

(20-25 min.) E 2-28B

Req. 1

| Journal | | | | | |
|---------|---|--|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Jun | 1 | Cash | | 28,000 | |
| | | Common stock | | | 28,000 |
| | | Sold stock. | | | |
| | 2 | Supplies | | 1,100 | |
| | | Accounts Payable | | | 1,100 |
| | | Purchased supplies on acct. | | | |
| | 3 | Building | | 50,000 | |
| | | Notes payable | | | 50,000 |
| | | Purchased building signing note payable. | | | |
| | 4 | Equipment | | 9,000 | |
| | | Cash | | | 9,000 |
| | | Paid cash to purchase equipment | | | |
| | 5 | Notes Payable | | 2,500 | |
| | | Cash | | | 2,500 |
| | | Made payment on note payable. | | | |
| | 6 | Accounts payable | | 500 | |
| | | Cash | | | 500 |
| | | Made payment on account. | | | |
| | | | | | |

Req. 2

| Cash | | | |
|------|--------|-----|-------|
| (1) | 28,000 | (4) | 9,000 |
| | | (5) | 2,500 |
| | | (6) | 500 |
| Bal. | 16,000 | | |

| Accounts payable | | | |
|------------------|-----|------|-------|
| (6) | 500 | (2) | 1,100 |
| | | Bal. | 600 |

| Supplies | | | |
|----------|--|--|--|
|----------|--|--|--|

| Notes payable | | | |
|---------------|--|--|--|
|---------------|--|--|--|

| | | |
|-------------|--------------|--|
| (2) | 1,100 | |
| <i>Bal.</i> | <i>1,100</i> | |

| | | | |
|-----|-------|-------------|---------------|
| (5) | 2,500 | (3) | 50,000 |
| | | <i>Bal.</i> | <i>47,500</i> |

| Equipment | | |
|------------------|--------------|--|
| (4) | 9,000 | |
| <i>Bal.</i> | <i>9,000</i> | |

| Common stock | | | |
|---------------------|--|-------------|---------------|
| | | (1) | 28,000 |
| | | <i>Bal.</i> | <i>28,000</i> |

| Building | | |
|-----------------|---------------|--|
| (3) | 50,000 | |
| <i>Bal.</i> | <i>50,000</i> | |

| | |
|--|--|
| | |
| | |

Req. 3

| Grinko, Inc. | | |
|----------------------|-----------------|-----------------|
| Trial Balance | | |
| June 30, 2014 | | |
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$16,000 | |
| Supplies | 1,100 | |
| Equipment | 9,000 | |
| Building | 50,000 | |
| Accounts payable | | \$ 600 |
| Notes payable | | 47,500 |
| Common stock | | 28,000 |
| Total | <u>\$76,100</u> | <u>\$76,100</u> |

Req. 4

| Grinko, Inc. | | | |
|----------------------|-----------------|-----------------------------|-----------------|
| Balance Sheet | | | |
| June 30, 2014 | | | |
| ASSETS | | LIABILITIES | |
| Cash | \$ 16,000 | Accounts payable | \$ 600 |
| Supplies | 1,100 | Notes payable | <u>47,500</u> |
| Equipment | 9,000 | Total liabilities | 48,100 |
| Building | <u>50,000</u> | STOCKHOLDERS' EQUITY | |
| | | Common stock | <u>28,000</u> |
| | | Total liabilities and | |
| Total assets | <u>\$76,100</u> | stockholder's equity | <u>\$76,100</u> |

(25-30 min.) E 2-29B

Req. 1

| Journal | | | | | |
|---------|----|---------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Sep | 2 | Cash | | 50,000 | |
| | | Common stock | | | 50,000 |
| | 3 | Rent expense | | 1,750 | |
| | | Cash | | | 1,750 |
| | 6 | Equipment | | 1,400 | |
| | | Cash | | | 1,400 |
| | 8 | Furniture | | 2,700 | |
| | | Accounts payable | | | 2,700 |
| | 11 | Supplies | | 225 | |
| | | Accounts payable | | | 225 |
| | 19 | Accounts receivable | | 1,835 | |
| | | Service revenue | | | 1,835 |
| | 20 | Utility expense | | 285 | |
| | | Cash | | | 285 |
| | 28 | Cash | | 975 | |
| | | Service revenue | | | 975 |

Req. 2

| Cash | | | | Accounts payable | | | |
|-------------|--------|-------|-------|------------------|------------|-------|--|
| Sep 2 | 50,000 | Sep 3 | 1,750 | | Sep 8 | 2,700 | |
| 28 | 975 | 6 | 1,400 | | 11 | 225 | |
| | | 20 | 285 | | <i>Bal</i> | 2,925 | |
| <i>Bal.</i> | 47,540 | | | | | | |

| Accounts receivable | | |
|---------------------|-------|--|
| Sep 19 | 1,835 | |
| Bal. | 1,335 | |

| Supplies | | |
|----------|-----|--|
| Sep 11 | 225 | |
| Bal. | 225 | |

| Equipment | | |
|-----------|-------|--|
| Sep 6 | 1,400 | |
| Bal. | 1,400 | |

| Furniture | | |
|-----------|-------|--|
| Sep 8 | 2,700 | |
| Bal. | 2,700 | |

| Common stock | | |
|--------------|-------|--------|
| | Sep 2 | 50,000 |
| | Bal. | 50,000 |

| Service revenue | | |
|-----------------|--------|-------|
| | Sep 19 | 1,835 |
| | 28 | 975 |
| | Bal. | 2,810 |

| Rent Expense | | |
|--------------|-------|--|
| Sep 3 | 1,750 | |
| Bal. | 1,750 | |

| Utilities expense | | |
|-------------------|-----|--|
| Sep 20 | 285 | |
| Bal. | 285 | |

Req. 3

| Nolan Consulting, Inc. | | |
|------------------------|-----------------|-----------------|
| Trial Balance | | |
| September 30, 2014 | | |
| ACCOUNT TITLE | BALANCE | |
| | DEBIT | CREDIT |
| Cash | \$ 47,540 | |
| Accounts receivable | 1,835 | |
| Supplies | 225 | |
| Equipment | 1,400 | |
| Furniture | 2,700 | |
| Accounts payable | | \$ 2,925 |
| Common stock | | 50,000 |
| Service revenue | | 2,810 |
| Rent expense | 1,750 | |
| Utilities expense | 285 | |
| Total | <u>\$55,735</u> | <u>\$55,735</u> |

Req. 4

| Nolan Consulting, Inc. | | |
|--------------------------------|--|---------|
| Income Statement | | |
| Month Ended September 30, 2014 | | |
| | | |
| Service revenue | | \$2,810 |

| | | |
|-------------------|------------|--------------|
| Expenses: | | |
| Rent expense | \$1,750 | |
| Utilities expense | <u>285</u> | |
| Total expenses | | <u>2,035</u> |
| | | |
| Net Income | | <u>\$775</u> |

| | | |
|---------------------------------------|--|--------------|
| Nolan Consulting, Inc. | | |
| Statement of Retained Earnings | | |
| Month Ended September 30, 2014 | | |
| | | |
| Retained earnings, September 1, 2014 | | \$0 |
| Add: Net income | | <u>775</u> |
| Retained earnings, September 30, 2014 | | <u>\$775</u> |

Note: There were no dividends during the month of September

| Nolan Consulting, Inc. | | | |
|------------------------|-----------------|----------------------------|-----------------|
| Balance Sheet | | | |
| September 30, 2014 | | | |
| ASSETS | | LIABILITIES | |
| Cash | \$ 47,540 | Accounts payable | \$ 2,925 |
| Accounts receivable | 1,835 | | |
| Supplies | 225 | STOCKHOLDERS' EQUITY | |
| Equipment | 1,400 | Common stock | 50,000 |
| Furniture | <u>2,700</u> | Retained earnings | <u>775</u> |
| | | Total Stockholders' equity | <u>50,775</u> |
| | | | |
| | | Total liabilities and | |
| Total assets | <u>\$53,700</u> | stockholder's equity | <u>\$53,700</u> |

(10-15 min.) E 2-30B

| Effect on Trial Balance | Account(s) Misstated |
|---------------------------------|---|
| a. Total debits = Total credits | Cash \$810 too high Rent expense \$810 too low |
| b. Total debits = Total credits | Accounts receivable \$700 too high Accounts Payable \$700 too high |
| c. Total debits = Total credits | Cash \$90 too low Service revenue \$90 too low |
| d. Total debits = Total credits | Supplies \$380 too low Accounts payable \$380 too low |
| e. Total debits > Total credits | Notes payable \$95,000 too low |

Problems

(15-20 min.) P 2-31A

| Journal | | | | | |
|---------|----|---------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Apr. | 1 | Cash | | 40,000 | |
| | | Common stock | | | 40,000 |
| | | | | | |
| | 3 | Supplies | | 600 | |
| | | Cash | | | 600 |
| | | | | | |
| | 8 | Land | | 28,000 | |
| | | Cash | | | 28,000 |
| | | | | | |
| | 12 | Office equipment | | 1,800 | |
| | | Accounts payable | | | 1,800 |
| | | | | | |
| | 17 | Cash | | 5,000 | |
| | | Notes payable | | | 5,000 |
| | | | | | |
| | 26 | Accounts payable | | 2,600 | |
| | | Cash | | | 2,600 |
| | | | | | |
| | 30 | Cash | | 15,000 | |
| | | Accounts receivable | | 27,000 | |
| | | Service revenue | | | 42,000 |
| | | | | | |
| | 30 | Salaries expense | | 2,900 | |
| | | Rent expense | | 1,400 | |
| | | Utilities expense | | 700 | |
| | | Cash | | | 5,000 |
| | | | | | |
| | 30 | Dividends | | 9,000 | |
| | | Cash | | | 9,000 |

(15-20 min.) P 2-32A

| Journal | | | | | |
|---------|----|----------------------|---------------|---------|---------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| July | 1 | Cash | | 450,000 | |
| | | Notes payable | | | 450,000 |
| | 3 | Building | | 275,000 | |
| | | Cash | | | 275,000 |
| | 6 | Accounts receivable | | 21,400 | |
| | | Service revenue | | | 21,400 |
| | 9 | Supplies | | 875 | |
| | | Accounts payable | | | 875 |
| | 13 | Cash | | 8,200 | |
| | | Service revenue | | | 8,200 |
| | 15 | Dividends | | 3,500 | |
| | | Cash | | | 3,500 |
| | 17 | Cash | | 5,900 | |
| | | Accounts Receivable | | | 5,900 |
| | 18 | Property tax expense | | 1,140 | |
| | | Cash | | | 1,140 |
| | 22 | Salaries expense | | 4,300 | |
| | | Cash | | | 4,300 |
| | 26 | Supplies | | 550 | |
| | | Cash | | | 550 |
| | 31 | Accounts payable | | 4,700 | |
| | | Cash | | | 4,700 |

(20-25 min.) P2-33A**Req. 2**

| Journal | | | | | |
|----------------|----|---------------------|-----------------------|------------|------------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Oct | 1 | Cash | | 50,000 | |
| | | Common stock | | | 50,000 |
| | 3 | Supplies | | 300 | |
| | | Furniture | | 1,300 | |
| | | Accounts payable | | | 1,600 |
| | 5 | Cash | | 1,800 | |
| | | Service revenue | | | 1,800 |
| | 8 | Land | | 25,000 | |
| | | Cash | | | 25,000 |
| | 11 | Accounts receivable | | 2,500 | |
| | | Service revenue | | | 2,500 |
| | 14 | Salaries expense | | 600 | |
| | | Cash | | | 600 |
| | 16 | Accounts payable | | 1,300 | |
| | | Cash | | | 1,300 |
| | 19 | Cash | | 300 | |
| | | Service revenue | | | 300 |
| | 23 | Accounts receivable | | 1,700 | |
| | | Service revenue | | | 1,700 |
| | 28 | Cash | | 400 | |
| | | Accounts receivable | | | 400 |
| | 31 | Salaries expense | | 600 | |
| | | Cash | | | 600 |
| | 31 | Rent expense | | 1,500 | |
| | | Cash | | | 1,500 |
| | 31 | Dividends | | 1,800 | |
| | | Cash | | | 1,800 |

Req. 1, 3, and 4

| Cash | | | |
|-------|--------|-------|--------|
| Oct 1 | 50,000 | Oct 8 | 25,000 |
| 5 | 1,800 | 14 | 600 |
| 19 | 300 | 16 | 1,300 |
| 28 | 400 | 31 | 600 |
| | | 31 | 1,500 |
| | | 31 | 1,800 |
| Bal. | 21,700 | | |

| Accounts Payable | | | |
|------------------|-------|-------|-------|
| Oct 16 | 1,300 | Oct 3 | 1,600 |
| | | Bal. | 300 |

| Common stock | | | |
|--------------|--|-------|--------|
| | | Oct 1 | 50,000 |
| | | Bal. | 50,000 |

| Accounts Receivable | | | |
|---------------------|-------|--------|-----|
| Oct 11 | 2,500 | Oct 28 | 400 |
| 23 | 1,700 | | |
| Bal. | 3,800 | | |

| Dividends | | | |
|-----------|-------|--|--|
| Oct 31 | 1,800 | | |
| Bal. | 1,800 | | |

| Supplies | | | |
|----------|-----|--|--|
| Oct 3 | 300 | | |
| Bal. | 300 | | |

| Service revenue | | | |
|-----------------|--|-------|-------|
| | | Oct 5 | 1,800 |
| | | 11 | 2,500 |
| | | 19 | 300 |
| | | 23 | 1,700 |
| | | Bal. | 6,300 |

| Furniture | | | |
|-----------|-------|--|--|
| Oct 3 | 1,300 | | |
| Bal. | 1,300 | | |

| Salaries Expense | | | |
|------------------|-------|--|--|
| Oct 14 | 600 | | |
| 31 | 600 | | |
| Bal. | 1,200 | | |

| Land | | | |
|-------|--------|--|--|
| Oct 8 | 25,000 | | |
| Bal. | 25,000 | | |

| Rent Expense | | | |
|--------------|-------|--|--|
| Oct 31 | 1,500 | | |
| Bal. | 1,500 | | |

Req. 5

| Stevens & Associates, Inc. | | |
|---------------------------------------|-----------------|-----------------|
| Trial Balance | | |
| October 31, 2014 | | |
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$ 21,700 | |
| Accounts receivable | 3,800 | |
| Supplies | 300 | |
| Furniture | 1,300 | |
| Land | 25,000 | |
| Accounts payable | | \$ 300 |
| Common stock | | 50,000 |
| Dividends | 1,800 | |
| Service revenue | | 6,300 |
| Salaries expense | 1,200 | |
| Rent expense | 1,500 | |
| Total | <u>\$56,600</u> | <u>\$56,600</u> |

(25-30 min.) P 2-34A*Req. 1*

| Journal | | | Page 6 | | |
|---------|----|---------------------------------------|---------------|-------|-------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Sep. | 16 | Cash | 110 | 3,200 | |
| | | Accounts receivable | 112 | | 3,200 |
| | | Received payment on account. | | | |
| | | | | | |
| | 18 | Accounts receivable | 112 | 2,650 | |
| | | Service revenue | 411 | | 2,650 |
| | | Performed service on account. | | | |
| | | | | | |
| | 21 | Cash | 110 | 1,150 | |
| | | Service revenue | 411 | | 1,150 |
| | | Performed service for cash. | | | |
| | | | | | |
| | 23 | Supplies | 115 | 215 | |
| | | Accounts Payable | 210 | | 215 |
| | | Purchased supplies on account. | | | |
| | | | | | |
| | 25 | Dividends | 315 | 1,500 | |
| | | Cash | 110 | | 1,500 |
| | | Paid dividends. | | | |
| | | | | | |
| | 27 | Accounts payable | 210 | 1,800 | |
| | | Cash | 110 | | 1,800 |
| | | Made payment on account. | | | |
| | | | | | |
| | 29 | Cash | 110 | 3,200 | |
| | | Service revenue | 411 | | 3,200 |
| | | Received cash for services performed. | | | |
| | | | | | |
| | 30 | Rent Expense | 515 | 1,950 | |
| | | Cash | 110 | | 1,950 |
| | | Paid rent. | | | |
| | | | | | |
| | 30 | Salaries Expense | 511 | 1,400 | |
| | | Cash | 110 | | 1,400 |
| | | Paid employee salaries. | | | |

Req. 2

| CASH | | | | | | ACCOUNT NO. 110 | |
|-------------|----|-------------|-----------------------|--------------|---------------|------------------------|---------------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 6,530 | |
| | 16 | | J.6 | 3,200 | | 9,730 | |
| | 21 | | J.6 | 1,150 | | 10,880 | |
| | 25 | | J.6 | | 1,500 | 9,380 | |
| | 27 | | J.6 | | 1,800 | 7,580 | |
| | 29 | | J.6 | 3,200 | | 10,780 | |
| | 30 | | J.6 | | 1,950 | 8,830 | |
| | 30 | | J.6 | | 1,400 | 7,430 | |

| ACCOUNTS RECEIVABLE | | | | | | ACCOUNT NO. 112 | |
|----------------------------|----|-------------|-----------------------|--------------|---------------|------------------------|---------------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 7,200 | |
| | 16 | | J.6 | | 3,200 | 4,000 | |
| | 18 | | J.6 | 2,650 | | 6,650 | |

| SUPPLIES | | | | | | ACCOUNT NO. 115 | |
|-----------------|----|-------------|-----------------------|--------------|---------------|------------------------|---------------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 310 | |
| | 23 | | J.6 | 215 | | 525 | |

| EQUIPMENT | | | | | | ACCOUNT NO. 140 | |
|-----------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 14,300 | |

| ACCOUNTS PAYABLE | | | | | | ACCOUNT NO. 210 | |
|------------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | | 5,100 |
| | 23 | | J.6 | | 215 | | 5,315 |
| | 27 | | J.6 | 1,800 | | | 3,515 |

| COMMON STOCK | | | | | | ACCOUNT NO. 311 | |
|--------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | | 23,000 |
| | | | | | | | |

| DIVIDENDS | | | | | | ACCOUNT NO. 315 | |
|-----------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 2,500 | |
| | 25 | | J.6 | 1,500 | | 4,000 | |

| SERVICE REVENUE | | | | | | ACCOUNT NO. 411 | |
|-----------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | | 6,940 |
| | 18 | | J.6 | | 2,650 | | 9,590 |
| | 21 | | J.6 | | 1,150 | | 10,740 |
| | 29 | | J.6 | | 3,200 | | 13,940 |

| SALARIES EXPENSE | | | | | | ACCOUNT NO. 511 | |
|------------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 2,800 | |
| | 30 | | J.6 | 1,400 | | 4,200 | |

| RENT EXPENSE | | | | | | ACCOUNT NO. 515 | |
|--------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Sep | 15 | Bal. | √ | | | 1,400 | |
| | 30 | | J.6 | 1,950 | | 3,350 | |

Req. 3

| Safe Systems, Inc. | | | |
|---------------------------|---------------------|-----------------|-------------------|
| Trial Balance | | | |
| September 30, 2014 | | | |
| | ACCOUNT | DEBIT | CREDIT |
| | Cash | \$ 7,430 | |
| | Accounts receivable | 6,650 | |
| | Supplies | 525 | |
| | Equipment | 14,300 | |
| | Accounts payable | | \$ 3,515 |
| | Common stock | | 23,000 |
| | Dividends | 4,000 | |
| | Service revenue | | 13,940 |
| | Salaries expense | 4,200 | |
| | Rent expense | <u>3,350</u> | <u> </u> |
| | Total | <u>\$40,455</u> | <u>\$40,455</u> |

(20-25 min.) P 2-35A

Req. 1

| Apex Consulting, Inc. | | |
|-----------------------|------------------|------------------|
| Trial Balance | | |
| January 31, 20124 | | |
| | BALANCE | |
| ACCOUNT | DEBIT | CREDIT |
| Cash | \$ 7,600 | |
| Accounts receivable | 5,500 | |
| Supplies | 200 | |
| Building | 99,000 | |
| Land | 54,000 | |
| Accounts payable | | \$ 4,500 |
| Notes payable | | 85,000 |
| Common stock | | 34,300 |
| Retained earnings | | 10,400 |
| Dividends | 14,000 | |
| Service revenue | | 126,500 |
| Salaries expense | 62,000 | |
| Rent expense | 7,500 | |
| Utilities expense | 5,400 | |
| Supplies expense | 3,500 | |
| Insurance expense | 2,000 | |
| Total | <u>\$260,700</u> | <u>\$260,700</u> |

Req. 2

| Apex Consulting, Inc. | | |
|-----------------------------|----------|-----------|
| Income Statement | | |
| Year Ended January 31, 2014 | | |
| | | |
| Service revenue | | \$126,500 |
| Expenses | | |
| Salaries expense | \$62,000 | |
| Rent expense | 7,500 | |
| Utilities expense | 5,400 | |

| | | |
|-------------------|--------------|-----------------|
| Supplies expense | 3,500 | |
| Insurance expense | <u>2,000</u> | |
| Total expenses | | <u>80,400</u> |
| | | |
| Net Income | | <u>\$46,100</u> |

| Apex Consulting , Inc. Statement of Retained Earnings Year Ended January31, 2014 | |
|--|-----------------|
| Retained earnings, Feb. 1, 2013 | \$10,400 |
| Add: Net income | <u>46,100</u> |
| Subtotal | 56,500 |
| Less: Dividends | <u>14,000</u> |
| Retained earnings, Jan. 31, 2014 | <u>\$42,500</u> |

| Apex Consulting, Inc. Balance Sheet January 31, 2014 | | | |
|--|------------------|----------------------------|------------------|
| ASSETS | | LIABILITIES | |
| Cash | \$ 7,600 | Accounts payable | \$ 4,500 |
| Accounts receivable | 5,500 | Notes payable | <u>85,000</u> |
| Supplies | 200 | Total liabilities | 89,500 |
| Land | 54,000 | STOCKHOLDERS' EQUITY | |
| Building | <u>99,000</u> | Common stock | 34,300 |
| | | Retained earnings | <u>42,500</u> |
| | | Total stockholders' equity | <u>76,800</u> |
| | | Total liabilities and | |
| Total assets | <u>\$166,300</u> | stockholders' equity | <u>\$166,300</u> |

Req 3

It was a profitable year for Apex Consulting, Inc. from the standpoint that the business generated \$46,100 of Net income.

(15-20 min.) P 2-36A

Req. 1

| Journal | | | Page 3 | | |
|---------|----|---|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| | a. | Cash | | 180 | |
| | | Service revenue | | | 180 |
| | | (\$420– \$240 = \$180) | | | |
| | | | | | |
| | b. | Supplies | | 750 | |
| | | Accounts payable | | | 750 |
| | | The original entry was recorded “backwards” so an entry for double the amount needs to be made. | | | |
| | | | | | |
| | c. | Cash | | 12,375 | |
| | | Rent expense | | | 12,375 |
| | | (\$13,750 - \$1,375 = \$12,375) | | | |
| | | | | | |
| | d. | Accounts payable | | 1,100 | |
| | | Accounts receivable | | | 1,1000 |

Req 2

- Net income is understated because Service revenue was credited (increased) by only \$240 instead of the correct amount of \$420.
- Net income would be unchanged because the entry did not effect a revenue or an expense.
- Net income would be understated because Rent expense was debited (increased) by \$13,750 instead of the correct amount of \$1,375.
- Net income would be unchanged because the entry did not effect a revenue or an expense.

(15-20 min.) P 2-37B

| Journal | | | | | |
|---------|----|---------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Sep | 1 | Cash | | 60,000 | |
| | | Common stock | | | 60,000 |
| | | | | | |
| | 3 | Supplies | | 450 | |
| | | Cash | | | 450 |
| | | | | | |
| | 8 | Land | | 43,000 | |
| | | Cash | | | 43,000 |
| | | | | | |
| | 12 | Office equipment | | 4,300 | |
| | | Accounts payable | | | 4,300 |
| | | | | | |
| | 17 | Cash | | 65,000 | |
| | | Notes payable | | | 65,000 |
| | | | | | |
| | 26 | Accounts payable | | 2,800 | |
| | | Cash | | | 2,800 |
| | | | | | |
| | 30 | Cash | | 12,000 | |
| | | Accounts receivable | | 16,500 | |
| | | Service revenue | | | 28,500 |
| | | | | | |
| | 30 | Salaries expense | | 3,240 | |
| | | Rent expense | | 1,800 | |
| | | Utilities expense | | 675 | |
| | | Cash | | | 5,715 |
| | | | | | |
| | 30 | Dividends | | 4,300 | |
| | | Cash | | | 4,300 |

(15-20 min.) P 2-38B

| Journal | | | | | |
|---------|----|----------------------|---------------|---------|---------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| May | 1 | Cash | | 150,000 | |
| | | Notes payable | | | 150,000 |
| | 3 | Building | | 135,000 | |
| | | Cash | | | 135,000 |
| | 6 | Accounts receivable | | 11,800 | |
| | | Service revenue | | | 11,800 |
| | 9 | Supplies | | 1,100 | |
| | | Accounts payable | | | 1,100 |
| | 13 | Cash | | 8,100 | |
| | | Service revenue | | | 8,100 |
| | 15 | Dividends | | 5,000 | |
| | | Cash | | | 5,000 |
| | 17 | Cash | | 7,500 | |
| | | Accounts Receivable | | | 7,500 |
| | 18 | Property tax expense | | 1,250 | |
| | | Cash | | | 1,250 |
| | 22 | Salaries expense | | 3,350 | |
| | | Cash | | | 3,350 |
| | 26 | Supplies | | 1,300 | |
| | | Cash | | | 1,300 |
| | 31 | Accounts payable | | 5,000 | |
| | | Cash | | | 5,000 |

(20-25 min.) P2-39B**Req. 2**

| Journal | | | | | |
|----------------|----|---------------------|-----------------------|------------|------------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| July | 1 | Cash | | 100,000 | |
| | | Common stock | | | 100,000 |
| | | | | | |
| | 3 | Supplies | | 575 | |
| | | Furniture | | 2,300 | |
| | | Accounts payable | | | 2,875 |
| | | | | | |
| | 5 | Cash | | 1,600 | |
| | | Service revenue | | | 1,600 |
| | | | | | |
| | 8 | Land | | 28,000 | |
| | | Cash | | | 28,000 |
| | | | | | |
| | 11 | Accounts receivable | | 1,850 | |
| | | Service revenue | | | 1,850 |
| | | | | | |
| | 14 | Salaries expense | | 575 | |
| | | Cash | | | 575 |
| | | | | | |
| | 16 | Accounts payable | | 2,300 | |
| | | Cash | | | 2,300 |
| | | | | | |
| | 19 | Cash | | 2,450 | |
| | | Service revenue | | | 2,450 |
| | | | | | |
| | 23 | Accounts receivable | | 3,300 | |
| | | Service revenue | | | 3,300 |
| | | | | | |
| | 28 | Cash | | 1,450 | |
| | | Accounts receivable | | | 1,450 |
| | | | | | |
| | 31 | Salaries expense | | 575 | |
| | | Cash | | | 575 |
| | | | | | |
| | 31 | Rent expense | | 1,720 | |
| | | Cash | | | 1,720 |
| | | | | | |
| | 31 | Dividends | | 2,500 | |
| | | Cash | | | 2,500 |

| Cash | | | | Accounts Payable | | | |
|---------------------|---------|--------|--------|------------------|-------|-------|---------|
| Jul 1 | 100,000 | Jul 8 | 28,000 | Jul 16 | 2,300 | Jul 3 | 2,875 |
| 5 | 1,600 | 14 | 575 | | | Bal. | 575 |
| 19 | 2,450 | 16 | 2,300 | | | | |
| 28 | 1,450 | 31 | 575 | | | | |
| | | 31 | 1,720 | | | | |
| | | 31 | 2,500 | | | | |
| Bal. | 69,830 | | | | | | |
| Accounts Receivable | | | | Common stock | | | |
| Jul 11 | 1,850 | Jul 28 | 1,450 | | | Jul 1 | 100,000 |
| 23 | 3,300 | | | | | Bal. | 100,000 |
| Bal. | 3,700 | | | | | | |
| Supplies | | | | Dividends | | | |
| Jul 3 | 575 | | | Jul 31 | 2,500 | | |
| Bal. | 575 | | | Bal. | 2,500 | | |
| | | | | | | | |
| 9,200 | | | | | | | |
| Service revenue | | | | Salaries Expense | | | |
| | | | | | | Jul 5 | 1,600 |
| | | | | | | 11 | 1,850 |
| | | | | | | 19 | 2,450 |
| | | | | | | 23 | 3,300 |
| | | | | | | Bal. | 8,400 |
| | | | | | | | |
| Furniture | | | | Rent Expense | | | |
| Jul 3 | 2,300 | | | Jul 14 | 575 | | |
| Bal. | 2,300 | | | 31 | 575 | | |
| | | | | Bal. | 1,150 | | |
| | | | | | | | |
| Land | | | | | | | |
| Jul 8 | 28,000 | | | Jul 31 | 1,720 | | |
| Bal. | 28,000 | | | Bal. | 1,720 | | |

Req. 5

| Slater & Associates, Inc. | | |
|--------------------------------------|------------------|------------------|
| Trial Balance | | |
| July 31, 2014 | | |
| | BALANCE | |
| ACCOUNT TITLE | DEBIT | CREDIT |
| Cash | \$ 69,830 | |
| Accounts receivable | 3,700 | |
| Supplies | 575 | |
| Furniture | 2,300 | |
| Land | 28,000 | |
| Accounts payable | | \$ 575 |
| Common stock | | 100,000 |
| Dividends | 2,500 | |
| Service revenue | | 9,200 |
| Salaries expense | 1,150 | |
| Rent expense | 1,720 | |
| Total | <u>\$109,775</u> | <u>\$109,775</u> |

(25-30 min.) P 2-40B

Req. 1

| Journal | | | Page 6 | | |
|---------|----|---------------------------------------|---------------|-------|-------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Jan | 16 | Cash | 110 | 3,400 | |
| | | Accounts receivable | 112 | | 3,400 |
| | | Received payment on account. | | | |
| | | | | | |
| | 18 | Accounts receivable | 112 | 1,200 | |
| | | Service revenue | 411 | | 1,200 |
| | | Performed service on account. | | | |
| | | | | | |
| | 21 | Cash | 110 | 2,700 | |
| | | Service revenue | 411 | | 2,700 |
| | | Performed service for cash. | | | |
| | | | | | |
| | 23 | Supplies | 115 | 400 | |
| | | Accounts Payable | 210 | | 400 |
| | | Purchased supplies on account. | | | |
| | | | | | |
| | 25 | Dividends | 315 | 1,400 | |
| | | Cash | 110 | | 1,400 |
| | | Paid dividends. | | | |
| | | | | | |
| | 27 | Accounts payable | 210 | 2,100 | |
| | | Cash | 110 | | 2,100 |
| | | Made payment on account. | | | |
| | | | | | |
| | 29 | Cash | 110 | 3,800 | |
| | | Service revenue | 411 | | 3,800 |
| | | Received cash for services performed. | | | |
| | | | | | |
| | 30 | Rent Expense | 515 | 1,000 | |
| | | Cash | 110 | | 1,000 |
| | | Paid rent. | | | |
| | | | | | |
| | 30 | Salaries Expense | 511 | 2,400 | |
| | | Cash | 110 | | 2,400 |
| | | Paid employee salaries. | | | |

Req. 2

| CASH | | | | | | ACCOUNT NO. 110 | |
|-------------|----|-------------|-----------------------|--------------|---------------|------------------------|---------------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | 2,700 | |
| | 16 | | J.6 | 3,400 | | 6,100 | |
| | 21 | | J.6 | 2,700 | | 8,800 | |
| | 25 | | J.6 | | 1,400 | 7,400 | |
| | 27 | | J.6 | | 2,100 | 5,300 | |
| | 29 | | J.6 | 3,800 | | 9,100 | |
| | 30 | | J.6 | | 1,000 | 8,100 | |
| | 30 | | J.6 | | 2,400 | 5,700 | |

| ACCOUNTS RECEIVABLE | | | | | | ACCOUNT NO. 112 | |
|----------------------------|----|-------------|-----------------------|--------------|---------------|------------------------|---------------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | 8,000 | |
| | 16 | | J.6 | | 3,400 | 4,600 | |
| | 18 | | J.6 | 1,200 | | 5,800 | |

| SUPPLIES | | | | | | ACCOUNT NO. 115 | |
|-----------------|----|-------------|-----------------------|--------------|---------------|------------------------|---------------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | 1,000 | |
| | 23 | | J.6 | 400 | | 1,400 | |

| EQUIPMENT | | | | | | ACCOUNT NO. 140 | |
|-----------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | 14,600 | |

| ACCOUNTS PAYABLE | | | | | | ACCOUNT NO. 210 | |
|------------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | | 4,500 |
| | 23 | | J.6 | | 400 | | 4,900 |
| | 27 | | J.6 | 2,100 | | | 2,800 |

| COMMON STOCK | | | | | | ACCOUNT NO. 311 | |
|--------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | | 21,600 |
| | | | | | | | |

| DIVIDENDS | | | | | | ACCOUNT NO. 315 | |
|-----------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | 2,800 | |
| | 25 | | J.6 | 1,400 | | 4,200 | |

| SERVICE REVENUE | | | | | | ACCOUNT NO. 411 | |
|-----------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | | 6,600 |
| | 18 | | J.6 | | 1,200 | | 7,800 |
| | 21 | | J.6 | | 2,700 | | 10,500 |
| | 29 | | J.6 | | 3,800 | | 14,300 |

| SALARIES EXPENSE | | | | | | ACCOUNT NO. 511 | |
|------------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | 2,300 | |
| | 30 | | J.6 | 2,400 | | 4,700 | |

| RENT EXPENSE | | | | | | ACCOUNT NO. 515 | |
|--------------|----|------|---------------|-------|--------|-----------------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jan | 15 | Bal. | √ | | | 1,300 | |
| | 30 | | J.6 | 1,000 | | 2,300 | |

Req. 3

| XYZ Systems, Inc. | | | |
|-------------------|---------------------|-----------------|-----------------|
| Trial Balance | | | |
| January 31, 2014 | | | |
| | ACCOUNT | DEBIT | CREDIT |
| | Cash | \$ 5,700 | |
| | Accounts receivable | 5,800 | |
| | Supplies | 1,400 | |
| | Equipment | 14,600 | |
| | Accounts payable | | \$ 2,800 |
| | Common stock | | 21,600 |
| | Dividends | 4,200 | |
| | Service revenue | | 14,300 |
| | Salaries expense | 4,700 | |
| | Rent expense | 2,300 | |
| | Total | <u>\$38,700</u> | <u>\$38,700</u> |

(20-25 min.) P 2-41B

Req. 1

| BakerConsulting, Inc. | | |
|------------------------------|-------------------------|-------------------------|
| Trial Balance | | |
| December 31, 2014 | | |
| | BALANCE | |
| ACCOUNT | DEBIT | CREDIT |
| Cash | 9,120 | |
| Accounts receivable | 7,370 | |
| Supplies | 650 | |
| Building | 135,000 | |
| Land | 82,000 | |
| Accounts payable | | \$ 4,100 |
| Notes payable | | 85,000 |
| Common stock | | 120,000 |
| Retained earnings | | 12,320 |
| Dividends | 15,000 | |
| Service revenue | | 101,700 |
| Salaries expense | 48,750 | |
| Rent expense | 11,340 | |
| Utilities expense | 6,750 | |
| Supplies expense | 1,840 | |
| Insurance expense | 5,300 | |
| Total | <u>\$323,120</u> | <u>\$323,120</u> |

Req. 2

| Baker Consulting, Inc. | | |
|-------------------------------------|----------|-----------|
| Income Statement | | |
| Year Ended December 31, 2014 | | |
| | | |
| Service revenue | | \$101,700 |
| Expenses | | |
| Salaries expense | \$48,750 | |
| Rent expense | 11,340 | |
| Utilities expense | 6,750 | |
| Insurance expense | 5,300 | |

| | | |
|------------------|--------------|------------------------|
| Supplies expense | <u>1,840</u> | |
| Total expenses | | <u>73,980</u> |
| | | |
| Net Income | | <u><u>\$27,720</u></u> |

| Baker Consulting , Inc. Statement of Retained Earnings Year Ended December 31, 2014 | |
|--|-----------------|
| Retained earnings, January 1, 2014 | \$12,320 |
| Add: Net income | <u>27,720</u> |
| Subtotal | 40,040 |
| Less: Dividends | <u>15,000</u> |
| Retained earnings, December 31, 2014 | <u>\$25,040</u> |

| BakerConsulting, Inc. Balance Sheet December 31, 2014 | | | |
|--|------------------|----------------------------|------------------|
| ASSETS | | LIABILITIES | |
| Cash | \$ 9,120 | Accounts payable | \$ 4,100 |
| Accounts receivable | 7,370 | Note payable | <u>85,000</u> |
| Supplies | 650 | Total liabilities | 89,100 |
| Land | 82,000 | STOCKHOLDERS' EQUITY | |
| Building | <u>135,000</u> | Common stock | 120,000 |
| | | Retained earnings | <u>25,040</u> |
| | | Total stockholders' equity | <u>145,040</u> |
| | | Total liabilities and | |
| Total assets | <u>\$234,140</u> | stockholders' equity | <u>\$234,140</u> |

Req 3

It was a profitable year for Baker Consulting, Inc. from the standpoint that the business generated \$27,720 of Net income.

(15-20 min.) P 2-42B

Req. 1

| Journal | | | Page 3 | |
|---------|--|---------------|--------|--------|
| DATE | ACCOUNTS | POST. REF. | Dr. | Cr. |
| | a. Cash | | 270 | |
| | Service revenue | | | 270 |
| | (\$740 – \$470 = \$270) | | | |
| | | | | |
| | b. Supplies | | 450 | |
| | Accounts payable | | | 450 |
| | The original entry was recorded “backwards” so an entry for double the amount needs to be made | | | |
| | | | | |
| | c. Cash | | 10,800 | |
| | Rent expense | | | 10,800 |
| | (\$12,000 - \$1,200 = \$10,800) | | | |
| | | | | |
| | d. Accounts payable | | 825 | |
| | Accounts receivable | | | 825 |

Req 2

- a. Net income is understated because Service revenue was credited (increased) by only \$470 instead of the correct amount of \$740.

- b. Net income would be unchanged because the entry did not effect a revenue or an expense.
- c. Net income would be understated because Rent expense was debited (increased) by \$12,000 instead of the correct amount of \$1,200.
- d. Net income would be unchanged because the entry did not effect a revenue or an expense.

Continuing Exercise

Req 2

| | | | |
|------|---------------------|-------|-------|
| 4/1 | Cash | 2,000 | |
| | Common Stock | | 2,000 |
| | | | |
| 4/3 | Equipment | 1,600 | |
| | Accounts payable | | 1,600 |
| | | | |
| 4/5 | Fuel expense | 90 | |
| | Cash | | 90 |
| | | | |
| 4/6 | Accounts receivable | 225 | |
| | Service revenue | | 225 |
| | | | |
| 4/8 | Lawn supplies | 85 | |
| | Cash | | 85 |
| | | | |
| 4/17 | Cash | 850 | |
| | Service revenue | | 850 |
| | | | |
| 4/30 | Cash | 175 | |
| | Accounts receivable | | 175 |

Req. 3

| Assets | | | | = | Liabilities | | | + | Stockholders' equity | | |
|---------------------|-------|-----|------|---|------------------|-------|------|---|----------------------|-------|------|
| Cash | | | | | Accounts payable | | | | Common stock | | |
| 4/1 | 2,000 | 90 | 4/5 | | | 1,600 | 4/3 | | | 2,000 | 4/1 |
| 4/17 | 850 | 85 | 4/8 | | | | | | | | |
| 4/30 | 175 | | | | | 1,600 | Bal. | | | 2,000 | Bal. |
| Bal. | 2,850 | | | | | | | | | | |
| Accounts receivable | | | | | Equipment | | | | Retained earnings | | |
| 4/6 | 225 | 175 | 4/30 | | 4/3 | 1,600 | | | | | |
| Bal. | 50 | | | | Bal. | 1,600 | | | | | |
| | | | | | | | | | Service revenue | | |
| | | | | | | | | | | 225 | 4/6 |
| | | | | | | | | | | 850 | 4/17 |
| | | | | | | | | | | 1,075 | Bal. |
| | | | | | | | | | Fuel Expense | | |
| | | | | | | | | | 4/5 | 90 | |
| | | | | | | | | | Bal. | 90 | |

Req 4

Cole's Yard Care, Inc.
Trial Balance
April 30, 2014

| ACCOUNT | DEBIT | CREDIT |
|---------------------|----------------|----------------|
| Cash | \$2,850 | |
| Accounts receivable | 50 | |
| Lawn supplies | 85 | |
| Equipment | 1,600 | |
| Accounts payable | | \$1,600 |
| Common stock | | 2,000 |
| Service revenue | | 1,075 |
| Fuel expense | 90 | |
| Total | <u>\$4,675</u> | <u>\$4,675</u> |

Continuing Problem

Req. 1

| Journal | | | Page 6 | | |
|---------|----|---------------------|---------------|--------|--------|
| DATE | | ACCOUNTS | POST. REF. | Dr. | Cr. |
| Jun | 1 | Salaries expense | | 625 | |
| | | Cash | | | 625 |
| | | | | | |
| | 2 | Land | | 25,000 | |
| | | Cash | | | 25,000 |
| | | | | | |
| | 3 | Rent expense | | 2,300 | |
| | | Cash | | | 2,300 |
| | | | | | |
| | 4 | Cash | | 1,750 | |
| | | Service revenue | | | 1,750 |
| | | | | | |
| | 5 | Cash | | 450 | |
| | | Accounts receivable | | | 450 |
| | | | | | |
| | 8 | Supplies | | 725 | |
| | | Accounts payable | | | 725 |
| | | | | | |
| | 11 | Accounts receivable | | 3,250 | |
| | | Sevrice revenue | | | 3,250 |
| | | | | | |
| | 13 | Cash | | 10,000 | |
| | | Common stock | | | 10,000 |
| | | | | | |
| | 16 | Salaries Expense | | 625 | |
| | | Cash | | | 625 |
| | | | | | |
| | 17 | Cash | | 1,500 | |
| | | Service revenue | | | 1,500 |
| | | | | | |

| | | | | | |
|--|----|-----------------------|--|-------|-------|
| | 18 | Cash | | 1,025 | |
| | | Accounts receivable | | | 1,025 |
| | | | | | |
| | 19 | Advertising expense | | 450 | |
| | | Cash | | | 450 |
| | | | | | |
| | 21 | Accounts payable | | 875 | |
| | | Cash | | | 875 |
| | | | | | |
| | 22 | Office furniture | | 4,000 | |
| | | Accounts payable | | | 4,000 |
| | | | | | |
| | 24 | Miscellaneous expense | | 275 | |
| | | Cash | | | 275 |
| | | | | | |
| | 26 | Accounts receivable | | 1,450 | |
| | | Service revenue | | | 1,450 |
| | | | | | |
| | 28 | Cash | | 1,800 | |
| | | Accounts receivable | | | 1,800 |
| | | | | | |
| | 30 | Utilities expense | | 640 | |
| | | Cash | | | 640 |
| | | | | | |
| | 30 | Salaries expense | | 625 | |
| | | Cash | | | 625 |
| | | | | | |
| | 30 | Dividends | | 3,500 | |
| | | Cash | | | 3,500 |
| | | | | | |
| | | | | | |
| | | | | | |

Req. 2

| CASH | | | | | | | |
|-------------|----|-------------|-----------------------|--------------|---------------|----------------|---------------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | 43,325 | |
| Jun | 1 | | | | 625 | 42,700 | |
| | 2 | | | | 25,000 | 17,700 | |
| | 3 | | | | 2,300 | 15,400 | |
| | 4 | | | 1,750 | | 17,150 | |
| | 5 | | | 450 | | 17,600 | |
| | 13 | | | 10,000 | | 27,600 | |
| | 16 | | | | 625 | 26,975 | |
| | 17 | | | 1,500 | | 28,475 | |
| | 18 | | | 1,025 | | 29,500 | |
| | 19 | | | | 450 | 29,050 | |
| | 21 | | | | 875 | 28,175 | |
| | 24 | | | | 275 | 27,900 | |
| | 28 | | | 1,800 | | 29,700 | |
| | 30 | | | | 640 | 29,060 | |
| | 30 | | | | 625 | 28,435 | |
| | 30 | | | | 3,500 | 24,935 | |

| ACCOUNTS RECEIVABLE | | | | | | | |
|----------------------------|----|-------------|-----------------------|--------------|---------------|----------------|---------------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | 2,300 | |
| Jun | 5 | | | | 450 | 1,850 | |
| | 11 | | | 3,250 | | 5,100 | |
| | 18 | | | | 1,025 | 4,075 | |
| | 26 | | | 1,450 | | 5,525 | |
| | 28 | | | | 1,800 | 3,725 | |

| SUPPLIES | | | | | | | |
|----------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | 600 | |
| Jun | 8 | | | 725 | | 1,325 | |

| LAND | | | | | | | |
|------|---|------|---------------|--------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jun | 2 | | | 25,000 | | 25,000 | |

| OFFICE FURNITURE | | | | | | | |
|------------------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jun | 22 | | | 4,000 | | 4,000 | |

| EQUIPMENT | | | | | | | |
|-----------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | 1,800 | |

| VEHICLES | | | | | | | |
|----------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | 36,200 | |

| ACCOUNTS PAYABLE | | | | | | | |
|------------------|--|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |

| | | | | | | | |
|-----|----|------|--|-----|-------|--|-------|
| May | 31 | Bal. | | | | | 1,040 |
| Jun | 8 | | | | 725 | | 1,765 |
| | 21 | | | 875 | | | 890 |
| | 22 | | | | 4,000 | | 4,890 |

| NOTES PAYABLE | | | | | | | |
|---------------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | | 36,200 |

| COMMON STOCK | | | | | | | |
|--------------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | | 45,000 |
| Jun | 13 | | | | 10,000 | | 55,000 |

| DIVIDENDS | | | | | | | |
|-----------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | 2,500 | |
| Jun | 30 | | | 3,500 | | 6,000 | |

| SERVICE REVENUE | | | | | | | |
|-----------------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | | 5,850 |
| Jun | 4 | | | | 1,750 | | 7,600 |
| | 11 | | | | 3,250 | | 10,850 |
| | 17 | | | | 1,500 | | 12,350 |
| | 26 | | | | 1,450 | | 13,800 |

| SALARIES EXPENSE | | | | | | | |
|------------------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | 625 | |
| Jun | 1 | | | 625 | | 1,250 | |
| | 16 | | | 625 | | 1,875 | |
| | 30 | | | 625 | | 2,500 | |

| RENT EXPENSE | | | | | | | |
|--------------|---|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jun | 3 | | | 2,300 | | 2,300 | |

| UTILITIES EXPENSE | | | | | | | |
|-------------------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| May | 31 | Bal. | | | | 740 | |
| Jun | 30 | | | 640 | | 1,380 | |

| ADVERTISING EXPENSE | | | | | | | |
|---------------------|--|--|-------|--|--|---------|--|
| | | | POST. | | | BALANCE | |

| DATE | | ITEM | REF. | DEBIT | CREDIT | DEBIT | CREDIT |
|------|----|------|------|-------|--------|-------|--------|
| Jun | 19 | | | 450 | | 450 | |

| MISCELLANEOUS EXPENSE | | | | | | | |
|-----------------------|----|------|---------------|-------|--------|---------|--------|
| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | | DEBIT | CREDIT |
| Jun | 24 | | | 275 | | 275 | |

Req. 3

| Aqua Magic, Inc. | | | |
|-------------------------|-----------------------|------------------|------------------|
| Trial Balance | | | |
| June 30, 2014 | | | |
| | ACCOUNT | DEBIT | CREDIT |
| | Cash | \$ 24,935 | |
| | Accounts receivable | 3,725 | |
| | Supplies | 1,325 | |
| | Land | 25,000 | |
| | Office furniture | 4,000 | |
| | Equipment | 1,800 | |
| | Vehicles | 36,200 | |
| | Accounts payable | | \$ 4,890 |
| | Notes payable | | 36,200 |
| | Common stock | | 55,000 |
| | Dividends | 6,000 | |
| | Service revenue | | 13,800 |
| | Salaries expense | 2,500 | |
| | Rent expense | 2,300 | |
| | Utilities expense | 1,380 | |
| | Advertising expense | 450 | |
| | Miscellaneous expense | 275 | |
| | Total | \$109,890 | \$109,890 |

Continuing Financial Statement Analysis Problem

- a. Cash and cash equivalents would increase by \$50 million and unsecured debt and other borrowings would increase by \$50 million. This would cause Total assets and Total liabilities and shareholders' investment to each increase by \$50 million.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|-------------|--|------------------|--------------|--------------|
| | Cash | | \$50 million | |
| | Unsecured debt and other borrowings | | | \$50 million |
| | Borrowed \$50,000,000 in unsecured debt. | | | |

- b. There would be no net change in Total assets. Cash would decrease by \$50 million and Buildings and improvements would increase by \$50 million. This causes Total current assets to decrease by \$50 million and Property and equipment, net to increase by \$50 million for a net affect on Total assets of zero.

| | | | | |
|--|--|-------------|--|--|
| | | Post | | |
|--|--|-------------|--|--|

| Date | Accounts | Ref. | Dr. | Cr. |
|------|--------------------------------------|------|--------------|--------------|
| | Buildings and improvements | | \$50 million | |
| | Cash | | | \$50 million |
| | Purchased building for \$50 million. | | | |

- c. On the income statement, sales and costs would increase, creating an additional net income of \$10 billion. The \$10 billion increase in net income would then be added to the previous year's retained earnings, which would increase retained earnings on the balance sheet by \$10 billion. Cash would also increase by \$10 billion on the balance sheet. This would cause total assets to increase by \$10 billion and total liabilities and shareholders' investment to increase by \$10 billion.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|------|-----------------------|-----------|--------------|--------------|
| | Cash | | \$10 billion | |
| | Retained Earnings | | | \$10 billion |
| | To record cash sales. | | | |

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (The Sales and cost accounts are closed to Retained Earnings.)

- d. The salary expense increase of \$1 billion would cause an increase of \$1 billion in selling, general and administrative expenses on the income statement. This would cause net earnings to decrease by \$1 billion. Net earnings would then be added to the previous year's retained earnings, which would decrease retained earnings on the balance sheet by \$1 billion. Cash would also decrease by \$1 billion on the balance sheet. This would cause total assets to decrease by \$1 billion and total liabilities and shareholders' investment to decrease by \$1 billion.

e.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|------|-----------------------------------|-----------|-------------|-------------|
| | Retained Earnings | | \$1 billion | |
| | Cash | | | \$1 billion |
| | Salaries of \$1 billion are paid. | | | |

Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (Salaries expense is closed to Retained Earnings.)

Ethics in Action

Case #1

- Lynne should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was *not* a dividend but rather the payment of an expense.
- It does matter how the \$3,800 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.

- Lynne does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the \$3,800 expense, Lynne is giving the bank an inaccurate and misleading income statement.

Case #2

- Joe's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.
- There are ethical concerns. Joe has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions in order to provide accurate information; therefore, accountants have an ethical duty to ensure accurate financial reporting.
- As the owner of Lawn Boyz Lawnservice you should have a problem with Joe's actions. You need to have accurate financial information for decision-making purposes. Accordingly, by Joe reducing the actual amount of Wage Expense, you may not be aware of the actual labor costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Joe has not fulfilled his obligation as an accountant.

Financial Analysis

| Journal | | | |
|---------|-------------------------------|------------|------------|
| DATE | ACCOUNTS | Dr. | Cr. |
| Jan 3 | Property, Plant and Equipment | 583,000 | |
| | Cash | | 583,000 |
| | | | |
| 7 | Cash | 27,480,000 | |
| | Net Sales | | 27,480,000 |
| | | | |
| 10 | Inventory | 31,364,000 | |
| | Accounts Payable | | 31,364,000 |
| | | | |
| 15 | Accounts Receivable | 703,000 | |
| | Net Sales | | 703,000 |
| | | | |
| 29 | Accounts Payable | 14,625,000 | |
| | Cash | | 14,625,000 |

2. No solution.

Industry Analysis

1. Under Armour is the larger company in terms of revenue, with approximately \$1.83 billion in net revenues for 2012 as compared to approximately \$1.67 billion of net sales for Columbia Sportswear . This information is on the Consolidated Statement of Operations/Income.
2. Columbia Sportswear is the larger of the two in terms of total assets with about \$1.46 billion at December 31, 2012, compared to about \$1.16 billion for Under Armour. This information is on the Consolidated Balance Sheet.
3. Under Armour has more debt at the end of 2012 with around \$340 million at the end of the year. Columbia Sportswear has approximately \$293 million in debt at the end of 2012. This information is also located on the Consolidated Balance Sheet. Note that the terms total liabilities and total debt mean the same thing.
4. Under Armour wins this one with a gross profit percentage of 47.9% as compared to only 42.9% for Columbia Sportswear. In terms of gross profit percentage, the higher the number, the better. This percentage indicates that Under Armour is doing a little better job of making profit from selling their products.
5. Columbia Sportswear paid out more dividends to their stockholders in 2012. They paid \$29,780,000 in dividends. This number can be found on one of two financial statements. It's shown on either the Consolidated Statement of Cash Flows or the Consolidated Statements of Shareholders' Equity. Again note that the terms Stockholder and Shareholder mean the same thing. What about Under Armour? They did not pay out any dividends in any of the years covered by these financial statements.
6. Student's response to this question will obviously vary.

Small Business Analysis

There are two mistakes here affecting the cash account. The first mistake is the cash transaction utilizing the debit card. When cash is decreased, it must be credited. Your client debited cash for the transaction using the logic that they were using a **debit** card. To correct this transaction, you will need to remove the original transaction and journalize the transaction correctly. These journal entries look the same. They are as follows:

| Date | Accounts | Post Ref. | Dr. | Cr. |
|-------|--|-----------|-----|-----|
| May 7 | Supplies | | 400 | |
| | Cash | | | 400 |
| | To remove the original debit card transaction. | | | |

| Date | Accounts | Post Ref. | Dr. | Cr. |
|-------|--|-----------|-----|-----|
| May 7 | Supplies | | 400 | |
| | Cash | | | 400 |
| | To record purchase of supplies using debit card. | | | |

The next error is that the credit card transaction doesn't have any effect on Cash until the credit card bill is paid. When the original transaction took place, a liability account, such as Credit Card Payable, should have been credited. To correct this, the following entry needs to be made.

| Date | Accounts | Post Ref. | Dr. | Cr. |
|-------|---|-----------|-----|-----|
| May 7 | Cash | | 250 | |
| | Credit Card Payable | | | 250 |
| | Correcting entry—used credit card instead of cash for utility bill. | | | |

Written Communication

Although student's responses will vary widely, here is a suggested memo to address the two situations.

Dear Client:

I want to address the two concerns you had in your e-mail to me last week. The first one was about the credit balance in your cash account. Even after corrections are made, the cash was still showing a credit balance. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have a credit balance in your cash account if your checking account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your checks unpaid. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

The second situation was concerning the use of debit cards versus credit cards. The terminology does get very confusing. Without going into an accounting lesson on the differences between debits and credits, let me explain what happens when you use the two cards. When you use your debit card, there have to be funds available in whatever account that card is attached to because the use of this card will automatically withdraw that amount of money from the account. The bank "debits" your account which, in banking terms, means they removed the money from your account. On the other hand, you have to credit cash because you are decreasing your cash account.

A credit card transaction, on the other hand, does not automatically remove the cash from your account. It sets up a liability to the credit card company which will have to be paid when you get the credit card statement. So the credit card transaction itself does not affect cash. You are not crediting cash when you use your credit card. You are crediting a liability to the credit card company which means you owe them money.