EXERCISES

Ex. 2–1

Balance Sheet Accounts	Income Statement Accounts
Assets	**Revenue**
Flight Equipment	Cargo and Mail Revenue
Purchase Deposits for Flight Equipment[a]	Passenger Revenue
Spare Parts and Supplies	
	Expenses
Liabilities	Aircraft Fuel Expense
Accounts Payable	Commissions[c]
Air Traffic Liability[b]	Landing Fees[d]
Stockholders' Equity	
None	

[a]Advance payments on aircraft purchases
[b]Passenger ticket sales not yet recognized as revenue
[c]Commissions paid to travel agents
[d]Fees paid to airports for landing rights

Ex. 2–2

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

Ex. 2–3

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

Note: **The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14 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. and b.

	Account Debited		Account Credited	
Transaction	Type	Effect	Type	Effect
(1)	asset	+	capital stock	+
(2)	asset	+	asset	–
(3)	asset	+	asset	–
			liability	+
(4)	expense	+	asset	–
(5)	asset	+	revenue	+
(6)	liability	–	asset	–
(7)	asset	+	asset	–
(8)	expense	+	asset	–
(9)	dividends	+	asset	–

Ex. 2–5

(1)	Cash	25,000	
	Capital Stock		25,000
(2)	Supplies	1,750	
	Cash		1,750
(3)	Equipment	18,000	
	Accounts Payable		14,400
	Cash		3,600
(4)	Operating Expenses	2,700	
	Cash		2,700
(5)	Accounts Receivable	13,500	
	Service Revenue		13,500
(6)	Accounts Payable	7,500	
	Cash		7,500
(7)	Cash	10,000	
	Accounts Receivable		10,000
(8)	Operating Expenses	1,050	
	Supplies		1,050
(9)	Dividends	2,500	
	Cash		2,500

Ex. 2–6

CYCLE TOURS CO.
Unadjusted Trial Balance
February 28, 2010

	Debit Balances	Credit Balances
Cash	16,950	
Accounts Receivable	3,500	
Supplies	700	
Equipment	18,000	
Accounts Payable		6,900
Capital Stock		25,000
Dividends	2,500	
Service Revenue		13,500
Operating Expenses	3,750	
	45,400	45,400

Ex. 2–7

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

Ex. 2–8

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

Ex. 2–9

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

Ex. 2–10

a. Debit (negative) balance of $16,200 ($37,100 – $1,000 – $52,300). Such a negative balance means net loss and dividends have exceeded the net income of prior years.

b. Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the stockholders' equity section as a negative $16,200.

Ex. 2–11

a. The increase of $49,850 ($319,750 – $269,900) in the cash account does not indicate earnings of that amount. Earnings will represent the net change in all assets and liabilities from operating transactions.

b. $22,500 ($72,350 – $49,850)

Ex. 2–12

a.

Accounts Payable

		July 1	X
	90,300		115,150
		July 31	39,000

X + $115,150 – $90,300 = $39,000

X = $39,000 + $90,300 – $115,150

X = $14,150

b.

Accounts Receivable

May 1	36,200		315,000
	X		
May 31	41,600		

$36,200 + X – $315,000 = $41,600

X = $41,600 + $315,000 – $36,200

X = $320,400

c.

Cash

Apr. 1	18,275		X
	279,100		
Apr. 30	13,200		

$18,275 + $279,100 – X = $13,200

X = $18,275 + $279,100 – $13,200

X = $284,175

Ex. 2–13

2009				
Mar.	1	Rent Expense	3,000	
		Cash		3,000
	2	Advertising Expense	1,800	
		Cash		1,800
	5	Supplies	900	
		Cash		900
	6	Office Equipment	12,300	
		Accounts Payable		12,300
	10	Cash	4,100	
		Accounts Receivable		4,100
	15	Accounts Payable	1,200	
		Cash		1,200
	27	Miscellaneous Expense	500	
		Cash		500
	30	Utilities Expense	180	
		Cash		180
	31	Accounts Receivable	26,800	
		Fees Earned		26,800
	31	Utilities Expense	315	
		Cash		315
	31	Dividends	2,000	
		Cash		2,000

Ex. 2–14

a.

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Date		Description	Post. Ref.	Debit	Credit
2010					
Aug.	7	Supplies	15	2,190	
		Accounts Payable	21		2,190
		Purchased supplies on account.			

b., c., d.

Supplies							15
			Post.			Balance	
Date		Item	Ref.	Dr.	Cr.	Dr.	Cr.
2010							
Aug.	1	Balance	✓	....	....	1,050	....
	7	....	19	2,190	....	3,240	....

Accounts Payable							21
2010							
Aug.	1	Balance	✓	....	....	....	15,600
	7	....	19	....	2,190	....	17,790

Ex. 2–15

a.

(1)	Accounts Receivable	41,730	
	Fees Earned		41,730
(2)	Supplies	1,800	
	Accounts Payable		1,800
(3)	Cash	39,150	
	Accounts Receivable		39,150
(4)	Accounts Payable	1,100	
	Cash		1,100

b.

Cash

(3)	39,150	(4)	1,100

Accounts Payable

(4)	1,100	(2)	1,800

Supplies

(2)	1,800		

Fees Earned

		(1)	41,730

Accounts Receivable

(1)	41,730	(3)	39,150

Ex. 2–16

AZNAR CO.
Unadjusted Trial Balance
October 31, 2010

	Debit Balances	Credit Balances
Cash	26,000	
Accounts Receivable	56,250	
Supplies	3,150	
Prepaid Insurance	4,500	
Land	127,500	
Accounts Payable		28,000
Unearned Rent		13,500
Notes Payable		60,000
Capital Stock		50,000
Retained Earnings		79,850
Dividends	30,000	
Fees Earned		465,000
Wages Expense	262,500	
Rent Expense	90,000	
Utilities Expense	62,250	
Supplies Expense	11,850	
Insurance Expense	9,000	
Miscellaneous Expense	13,350	
	696,350	696,350

Ex. 2–17

Inequality of trial balance totals would be caused by errors described in (a) and (e). For (a), the debit total would exceed the credit total by $4,300 ($2,150 + $2,150). For (e), the debit total would exceed the credit total by $10,000 ($15,000 – $5,000).

Ex. 2–18

NEVADA-FOR-YOU CO.
Unadjusted Trial Balance
December 31, 2010

	Debit Balances	Credit Balances
Cash	13,375	
Accounts Receivable	24,600	
Prepaid Insurance	8,000	
Equipment	75,000	
Accounts Payable		11,180
Unearned Rent		4,250
Capital Stock		30,000
Retained Earnings		52,420
Dividends	10,000	
Service Revenue		83,750
Wages Expense	42,000	
Advertising Expense	7,200	
Miscellaneous Expense	1,425	
	181,600	181,600

Ex. 2–19

Error	(a) Out of Balance	(b) Difference	(c) Larger Total
1.	yes	$6,150	debit
2.	no	—	—
3.	yes	450	credit
4.	yes	270	credit
5.	no	—	—
6.	yes	1,800	credit
7.	yes	1,150	debit

Ex. 2–20

1. The debit column total is added incorrectly. The sum is $1,167,000, rather than $1,833,000.
2. The trial balance should be dated “March 31, 2010,” not “For the month ending March 31, 2010.”
3. The Accounts Receivable balance should be in the debit column.
4. The Accounts Payable balance should be in the credit column.
5. The Dividends balance should be in the debit column.
6. The Advertising Expense balance should be in the debit column.

A corrected trial balance would be as follows:

BURGOO CO.
Unadjusted Trial Balance
March 31, 2010

	Debit Balances	Credit Balances
Cash	90,000	
Accounts Receivable	196,800	
Prepaid Insurance	43,200	
Equipment	600,000	
Accounts Payable		22,200
Salaries Payable		15,000
Capital Stock		150,000
Retained Earnings		368,400
Dividends	72,000	
Service Revenue		944,400
Salary Expense	393,720	
Advertising Expense	86,400	
Miscellaneous Expense	17,880	
	1,500,000	1,500,000

Ex. 2–21

		Debit	Credit
a.	Prepaid Rent	6,000	
	Cash		6,000
b.	Dividends	18,000	
	Wages Expense		18,000

Ex. 2–22

a.	Cash	7,500	
	Fees Earned		3,750
	Accounts Receivable		3,750
b.	Accounts Payable	1,500	
	Supplies Expense		1,500
	Supplies	1,500	
	Cash		1,500

Ex. 2–23

a. 1. Net sales: \$189 million increase (\$3,728 – \$3,539)
5.3% increase (\$189 ÷ \$3,539)

2. Total operating expenses: \$206 million increase (\$3,400 – \$3,194)
6.4% increase (\$206 ÷ \$3,194)

b. During 2007, the percentage increase in total operating expenses (6.4%) is more than the percentage increase in net sales (5.3%), an unfavorable trend.

Ex. 2–24

a.

KMART CORPORATION
Income Statement
For the Years Ended January 31, 2000 and 1999
(in millions)

	2000	1999	Increase (Decrease) Amount	Increase (Decrease) Percent
1. Sales	$ 37,028	$ 35,925	$ 1,103	3.1%
2. Cost of sales	(29,658)	(28,111)	1,547	5.5%
3. Selling, general, and administrative expenses	(7,415)	(6,514)	901	13.8%
4. Operating income (loss) before taxes	$ (45)	$ 1,300	$(1,345)	(103.5)%

b. **The horizontal analysis of Kmart Corporation reveals deteriorating operating results from 1999 to 2000. While sales increased by $1,103 million, a 3.1% increase, cost of sales increased by $1,547 million, a 5.5% increase. Selling, general, and administrative expenses also increased by $901 million, a 13.8% increase. The end result was that operating income decreased by $1,345 million, over a 100% decrease, and created a $45 million loss in 2000. Little over a year later, Kmart filed for bankruptcy protection. It has now emerged from bankruptcy and was merged into Sears to form the company Sears Holding Corporation.**