

# CHAPTER 2

## The Recording Process

### ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>
1. Indicate how accounts, debits, and credits are used to record business transactions.	1, 2, 3, 4, 5, 6, 7, 8, 9, 19, 21	1, 2, 5	1	1, 2, 4, 6, 7, 14	1A, 2A, 3A, 5A
2. Indicate how a journal is used in the recording process.	10, 11, 12, 13, 14, 16	3, 4, 6	2	3, 5, 6, 7, 10, 11, 12	1A, 2A, 3A, 5A
3. Explain how a ledger and posting help in the recording process.	15, 17	7, 8	3	8, 9, 12	2A, 3A, 5A
4. Prepare a trial balance.	18, 20	9, 10	4	9, 10, 11, 13, 14	2A, 3A, 4A, 5A

## ASSIGNMENT CHARACTERISTICS TABLE

<b>Problem Number</b>	<b>Description</b>	<b>Difficulty Level</b>	<b>Time Allotted (min.)</b>
1A	Journalize a series of transactions.	Simple	20–30
2A	Journalize transactions, post, and prepare a trial balance.	Simple	30–40
3A	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50
4A	Prepare a correct trial balance.	Moderate	30–40
5A	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50

**WEYGANDT ACCOUNTING PRINCIPLES 12E**  
**CHAPTER 2**  
**THE RECORDING PROCESS**

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
BE1	1	C	Simple	6–8
BE2	1	C	Simple	4–6
BE3	2	AP	Simple	4–6
BE4	2	C	Moderate	4–6
BE5	1	C	Simple	6–8
BE6	2	AP	Simple	4–6
BE7	3	AP	Simple	4–6
BE8	3	AP	Simple	4–6
BE9	4	AP	Simple	4–6
BE10	4	AN	Moderate	6–8
DI1	1	C	Simple	3–5
DI2	2	AP	Simple	3–5
DI3	3	AP	Simple	2–4
DI4	4	AP	Simple	6–8
EX1	1	K	Simple	2–4
EX2	1	C	Simple	10–15
EX3	2	AP	Simple	8–10
EX4	1	C	Simple	6–8
EX5	2	AP	Simple	6–8
EX6	1, 2	AP	Simple	6–8
EX7	1, 2	AP	Simple	8–10
EX8	3	K	Simple	2–4
EX9	3, 4	AP	Simple	10–12
EX10	2, 4	AP	Moderate	10–12
EX11	2, 4	AP	Moderate	12–15
EX12	2, 3	AP	Moderate	12–15
EX13	4	AN	Moderate	6–8
EX14	1, 4	AP	Simple	8–10

## THE RECORDING PROCESS (Continued)

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
P1A	1, 2	AP	Simple	20–30
P2A	1, 2, 3, 4	AP	Simple	30–40
P3A	1, 2, 3, 4	AP	Moderate	40–50
P4A	4	AN	Moderate	30–40
P5A	1, 2, 3, 4	AP	Moderate	40–50
BYP1	1	C	Simple	8–10
BYP2	1, 2	AN	Simple	8–10
BYP3	—	AP	Simple	15–20
BYP4	—	AP, S	Simple	15–20
BYP5	3, 4	AP, S	Moderate	20–30
BYP6	4	AN, E	Moderate	10–15
BYP7	—	E	Moderate	10–15
BYP8	—	E	Moderate	15–20
BYP9	—	E	Moderate	15–20
BYP10	—	E	Moderate	20–30

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Describe how accounts, debits, and credits are used to record business transactions.	Q2-1 Q2-21 E2-1	Q2-2 Q2-8 DI2-1 Q2-3 Q2-9 E2-2 Q2-4 Q2-19 E2-4 Q2-5 BE2-1 Q2-6 BE2-2 Q2-7 BE2-5	E2-6 P2-1A P2-5A E2-7 P2-2A E2-14 P2-3A			
2. Indicate how a journal is used in the recording process.	Q2-10 Q2-12	Q2-11 Q2-13 Q2-14 BE2-4	Q2-16 E2-5 E2-12 BE2-3 E2-6 P2-1A BE2-6 E2-7 P2-2A DI2-2 E2-10 P2-3A E2-3 E2-11 P2-5A			
3. Explain how a ledger and posting help in the recording process.	E2-8	Q2-15 Q2-17	BE2-7 E2-9 P2-3A BE2-8 E2-12 P2-5A DI2-3 P2-2A			
4. Prepare a trial balance.		Q2-18 Q2-20	BE2-9 E2-10 P2-2A DI2-4 E2-11 P2-3A E2-9 E2-14 P2-5A	BE2-10 E2-13 P2-4A		
<b>Broadening Your Perspective</b>		<b>Financial Reporting</b>	<b>Real-World Focus</b>	<b>Comparative Analysis Ethics Case</b>	<b>Communication Decision Making Across the Organization Real-World Focus</b>	<b>All About You Ethics Case Considering P, P, and P</b>

# ANSWERS TO QUESTIONS

1. A T account has the following parts: (a) the title, (b) the left or debit side, and (c) the right or credit side.
2. Disagree. The terms debit and credit mean left and right respectively.
3. Heath is incorrect. The double-entry system merely records the dual effect of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once, with a dual effect.
4. Erica is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favorable nor unfavorable.
5.
  - (a) Asset accounts are increased by debits and decreased by credits.
  - (b) Liability accounts are decreased by debits and increased by credits.
  - (c) Revenues and owner's capital are increased by credits and decreased by debits. Expenses and owner's drawing are increased by debits and decreased by credits.
6.
  - (a) Accounts Receivable—debit balance.
  - (b) Cash—debit balance.
  - (c) Owner's Drawings—debit balance.
  - (d) Accounts Payable—credit balance.
  - (e) Service Revenue—credit balance.
  - (f) Salaries and Wages Expense—debit balance.
  - (g) Owner's Capital—credit balance.
7.
  - (a) Accounts Receivable—asset—debit balance.
  - (b) Accounts Payable—liability—credit balance
  - (c) Equipment—asset—debit balance.
  - (d) Owner's Drawings—owner's equity—debit balance.
  - (e) Supplies—asset—debit balance.
8.
  - (a) Debit Supplies and credit Accounts Payable.
  - (b) Debit Cash and credit Notes Payable.
  - (c) Debit Salaries and Wages Expense and credit Cash.
9.
  - (1) Cash—both debit and credit entries.
  - (2) Accounts Receivable—both debit and credit entries.
  - (3) Owner's Drawings—debit entries only.
  - (4) Accounts Payable—both debit and credit entries.
  - (5) Salaries and Wages Expense—debit entries only.
  - (6) Service Revenue—credit entries only.
10. The basic steps in the recording process are:
  - (1) Analyze each transaction for its effect on the accounts.
  - (2) Enter the transaction information in a journal.
  - (3) Transfer the journal information to the appropriate accounts in the ledger.

**Questions Chapter 2 (Continued)**

11. The advantages of using the journal in the recording process are:  
 (1) It discloses in one place the complete effects of a transaction.  
 (2) It provides a chronological record of all transactions.  
 (3) It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
12. (a) The debit should be entered first.  
 (b) The credit should be indented.
13. When three or more accounts are required in one journal entry, the entry is referred to as a compound entry. An example of a compound entry is the purchase of equipment, part of which is paid for with cash and the remainder is on account.
14. (a) No, debits and credits should not be recorded directly in the ledger.  
 (b) The advantages of using the journal are:  
 1. It discloses in one place the complete effects of a transaction.  
 2. It provides a chronological record of all transactions.  
 3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
15. The advantage of the last step in the posting process is to indicate that the item has been posted.
16. (a) Cash ..... 9,000  
     Owner's Capital..... 9,000  
         (Invested cash in the business)
- (b) Prepaid Insurance..... 800  
     Cash ..... 800  
         (Paid one-year insurance policy)
- (c) Supplies..... 2,000  
     Accounts Payable ..... 2,000  
         (Purchased supplies on account)
- (d) Cash ..... 7,500  
     Service Revenue..... 7,500  
         (Received cash for services performed)
17. (a) The entire group of accounts maintained by a company, including all the asset, liability, and owner's equity accounts, is referred to collectively as the ledger.  
 (b) A chart of accounts is a list of accounts and the account numbers that identify their location in the ledger. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and define the level of detail that a company desires in its accounting system.

## Questions Chapter 2 (Continued)

18. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove (check) that the debits equal the credits after posting. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.
19. No, Victor is not correct. The proper sequence is as follows:
- (b) Business transaction occurs.
  - (c) Information entered in the journal.
  - (a) Debits and credits posted to the ledger.
  - (e) Trial balance is prepared.
  - (d) Financial statements are prepared.
20. (a) The trial balance would balance.  
(b) The trial balance would not balance.
21. The normal balances are Cash debit, Accounts Payable credit, and Interest Expense debit.



# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 2-1

	(a) Debit Effect	(b) Credit Effect	(c) Normal Balance
1. Accounts Payable	Decrease	Increase	Credit
2. Advertising Expense	Increase	Decrease	Debit
3. Service Revenue	Decrease	Increase	Credit
4. Accounts Receivable	Increase	Decrease	Debit
5. Owner's Capital	Decrease	Increase	Credit
6. Owner's Drawings	Increase	Decrease	Debit

## BRIEF EXERCISE 2-2

		Account Debited	Account Credited
June	1	Cash	Owner's Capital
	2	Equipment	Accounts Payable
	3	Rent Expense	Cash
	12	Accounts Receivable	Service Revenue

## BRIEF EXERCISE 2-3

June	1	Cash .....	5,000	
		Owner's Capital .....		5,000
	2	Equipment .....	2,400	
		Accounts Payable.....		2,400
	3	Rent Expense .....	800	
		Cash .....		800
	12	Accounts Receivable .....	300	
		Service Revenue.....		300

## BRIEF EXERCISE 2-4

The basic steps in the recording process are:

1. Analyze each transaction. In this step, business documents are examined to determine the effects of the transaction on the accounts.
2. Enter each transaction in a journal. This step is called journalizing and it results in making a chronological record of the transactions.
3. Transfer journal information to ledger accounts. This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.

## BRIEF EXERCISE 2-5

	(a) <u>Effect on Accounting Equation</u>	(b) <u>Debit-Credit Analysis</u>
Aug. 1	The asset Cash is increased; the owner's equity account Owner's Capital is increased.	Debits increase assets: debit Cash \$8,000. Credits increase owner's equity: credit Owner's Capital \$8,000.
4	The asset Prepaid Insurance is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Insurance \$1,800. Credits decrease assets: credit Cash \$1,800.
16	The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash \$3,600. Credits increase revenues: credit Service Revenue \$3,600.
27	The expense Salaries and Wages Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries and Wages Expense \$1,000. Credits decrease assets: credit Cash \$1,000.

**BRIEF EXERCISE 2-6**

Aug. 1	Cash.....	8,000	
	Owner's Capital .....		8,000
4	Prepaid Insurance.....	1,800	
	Cash .....		1,800
16	Cash.....	3,600	
	Service Revenue .....		3,600
27	Salaries and Wages Expense.....	1,000	
	Cash .....		1,000

**BRIEF EXERCISE 2-7**

Cash		Service Revenue	
5/12	2,400		5/5
5/15	3,000		4,400
Ending Bal.	5,400		5/15
			3,000
			Ending Bal.
			7,400

Accounts Receivable			
5/5	4,400	5/12	2,400
Ending Bal.	2,000		

**BRIEF EXERCISE 2-8**

Cash					
Date	Explanation	Ref.	Debit	Credit	Balance
May 12		J1	2,400		2,400
15		J1	3,000		5,400

**BRIEF EXERCISE 2-8 (Continued)**

**Accounts Receivable**

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1	4,400		4,400
12		J1		2,400	2,000

**Service Revenue**

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1		4,400	4,400
15		J1		3,000	7,400

**BRIEF EXERCISE 2-9**

**AMARO COMPANY**  
**Trial Balance**  
**June 30, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 5,800	
Accounts Receivable .....	3,000	
Equipment.....	17,000	
Accounts Payable.....		\$ 8,100
Owner's Capital .....		15,000
Owner's Drawings .....	1,200	
Service Revenue.....		10,000
Salaries and Wages Expense .....	5,100	
Rent Expense.....	1,000	
	<u>\$33,100</u>	<u>\$33,100</u>

**BRIEF EXERCISE 2-10**

**CAPPSHAW COMPANY**  
**Trial Balance**  
**December 31, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$10,800	
Prepaid Insurance .....	3,500	
Accounts Payable .....		\$ 3,000
Unearned Service Revenue .....		2,200
Owner's Capital .....		9,000
Owner's Drawings .....	4,500	
Service Revenue .....		25,600
Salaries and Wages Expense .....	18,600	
Rent Expense .....	2,400	
	<u>\$39,800</u>	<u>\$39,800</u>

**SOLUTIONS FOR DO IT! REVIEW EXERCISES**

**DO IT! 2-1**

Tom would likely need the following accounts in which to record the transactions necessary to ready his photography studio for opening day:

- |                                |                                   |
|--------------------------------|-----------------------------------|
| Cash (debit balance)           | Equipment (debit balance)         |
| Supplies (debit balance)       | Accounts Payable (credit balance) |
| Notes Payable (credit balance) | Owner's Capital (credit balance)  |

**DO IT! 2-2**

Each transaction that is recorded is entered in the general journal. The three activities would be recorded as follows:

- |    |   |       |       |
|----|---|-------|-------|
| 1. | Cash.....                                     | 6,300 |       |
|    | Owner's Capital.....                          |       | 6,300 |
| 2. | Supplies .....                                | 1,100 |       |
|    | Cash.....                                     |       | 400   |
|    | Accounts Payable.....                         |       | 700   |
| 3. | No entry because no transaction has occurred. |       |       |

**DO IT! 2-3**

Cash			
4/1	1,600	4/16	700
4/3	3,400	4/20	250
4/30	4,050		

**DO IT! 2-4**

**CARLAND COMPANY  
Trial Balance  
December 31, 2017**

	Debit	Credit
Cash .....	\$ 6,000	
Accounts Receivable .....	8,000	
Supplies .....	6,000	
Equipment.....	80,000	
Notes Payable.....		\$ 20,000
Accounts Payable.....		11,000
Salaries and Wages Payable .....		3,000
Owner's Capital .....		28,000
Owner's Drawings .....	8,000	
Service Revenue.....		88,000
Rent Expense.....	4,000	
Salaries and Wages Expense .....	38,000	
	<b>\$150,000</b>	<b>\$150,000</b>

# SOLUTIONS TO EXERCISES

## EXERCISE 2-1

1. **False.** An account is an accounting record of a specific asset, liability, or owner's equity item.
2. **False.** An account shows *increases and decreases* in the item it relates to.
3. **False.** Each asset, liability, and owner's equity item *has a separate account*.
4. **False.** An account has a left, or *debit* side, and a right, or *credit* side.
5. **True.**

<u>Transaction</u>	<u>Account Debited</u>				<u>Account Credited</u>			
	<u>(a) Basic Type</u>	<u>(b) Specific Account</u>	<u>(c) Effect</u>	<u>(d) Normal Balance</u>	<u>(a) Basic Type</u>	<u>(b) Specific Account</u>	<u>(c) Effect</u>	<u>(d) Normal Balance</u>
Jan. 2	Asset	Cash	Increase	Debit	Owner's Equity	Owner's Capital	Increase	Credit
3	Asset	Equipment	Increase	Debit	Asset	Cash	Decrease	Debit
9	Asset	Supplies	Increase	Debit	Liability	Accounts Payable	Increase	Credit
11	Asset	Accounts Receivable	Increase	Debit	Owner's Equity	Service Revenue	Increase	Credit
16	Owner's Equity	Advertising Expense	Increase	Debit	Asset	Cash	Decrease	Debit
20	Asset	Cash	Increase	Debit	Asset	Accounts Receivable	Decrease	Debit
23	Liability	Accounts Payable	Decrease	Credit	Asset	Cash	Decrease	Debit
28	Owner's Equity	Owner's Drawings	Increase	Debit	Asset	Cash	Decrease	Debit



## EXERCISE 2-3

General Journal			J1	
Date	Account Titles and Explanation	Ref.	Debit	Credit
Jan. 2	Cash .....		10,000	
	Owner's Capital .....			10,000
3	Equipment .....		3,000	
	Cash .....			3,000
9	Supplies .....		500	
	Accounts Payable .....			500
11	Accounts Receivable .....		2,400	
	Service Revenue .....			2,400
16	Advertising Expense .....		350	
	Cash .....			350
20	Cash .....		700	
	Accounts Receivable .....			700
23	Accounts Payable .....		300	
	Cash .....			300
28	Owner's Drawings .....		1,000	
	Cash .....			1,000

## EXERCISE 2-4

- Oct. 1   **Debits increase assets: debit Cash \$15,000.**  
**Credits increase owner's equity: credit Owner's Capital \$15,000.**
- 2       **No transaction.**
- 3       **Debits increase assets: debit Equipment \$1,900.**  
**Credits increase liabilities: credit Accounts Payable \$1,900.**

## EXERCISE 2-4 (Continued)

- Oct. 6    **Debits increase assets: debit Accounts Receivable \$3,800.  
Credits increase revenues: credit Service Revenue \$3,800.**
- 27       **Debits decrease liabilities: debit Accounts Payable \$1,100.  
Credits decrease assets: credit Cash \$1,100.**
- 30       **Debits increase expenses: debit Salaries and Wages Expense  
\$2,500.  
Credits decrease assets: credit Cash \$2,500.**

## EXERCISE 2-5

### General Journal

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credit</b>
Oct. 1	Cash .....		15,000	
	Owner's Capital .....			15,000
2	No entry.			
3	Equipment .....		1,900	
	Accounts Payable .....			1,900
6	Accounts Receivable .....		3,800	
	Service Revenue.....			3,800
27	Accounts Payable .....		1,100	
	Cash .....			1,100
30	Salaries and Wages Expense .....		2,500	
	Cash .....			2,500

## EXERCISE 2-6

- (a) 1. Increase the asset Cash, increase the liability Notes Payable.  
 2. Increase the asset Equipment, decrease the asset Cash.  
 3. Increase the asset Supplies, increase the liability Accounts Payable.

(b) 1.	Cash .....	5,000	
	Notes Payable .....		5,000
2.	Equipment.....	3,100	
	Cash .....		3,100
3.	Supplies .....	850	
	Accounts Payable.....		850

## EXERCISE 2-7

- (a) **Assets = Liabilities + Owner's Equity**
- |    |   |   |              |
|----|---|---|--------------|
| 1. | + | + | (Investment) |
| 2. | - | - | (Expense)    |
| 3. | + | + | (Revenue)    |
| 4. | - | - | (Drawings)   |

(b) 1.	Cash .....	4,000	
	Owner's Capital .....		4,000
2.	Rent Expense .....	840	
	Cash .....		840
3.	Accounts Receivable .....	5,200	
	Service Revenue.....		5,200
4.	Owner's Drawings .....	750	
	Cash .....		750

## EXERCISE 2-8

- False. The general ledger contains all the asset, liability, *and owner's equity* accounts.
- True.
- False. The accounts in the general ledger are arranged in *financial statement order*: first the assets, then the liabilities, owner's capital, owner's drawings, revenues, and expenses.
- True.
- False. The general ledger is not a book of original entry; transactions are first recorded in the general journal, then in the general ledger.

**EXERCISE 2-9**

(a)

Cash			
Aug. 1	5,000	Aug. 12	2,300
10	2,600		
31	900		
Bal.	6,200		

Notes Payable		
	Aug. 12	2,700

Owner's Capital		
	Aug. 1	5,000

Accounts Receivable			
Aug. 25	1,700	Aug. 31	900
Bal.	800		

Service Revenue		
	Aug. 10	2,600
	25	1,700
	Bal.	4,300

Equipment	
Aug. 12	5,000

(b) **JUNE FELDMAN, INVESTMENT BROKER**  
**Trial Balance**  
**August 31, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 6,200	
Accounts Receivable.....	800	
Equipment.....	5,000	
Notes Payable.....		\$ 2,700
Owner's Capital.....		5,000
Service Revenue.....		4,300
	<u>\$12,000</u>	<u>\$12,000</u>

## EXERCISE 2-10

(a)

<b>General Journal</b>				
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
Apr. 1	Cash .....		12,000	
	Owner's Capital .....			12,000
	(Owner's investment of cash in business)			
12	Cash .....		900	
	Service Revenue .....			900
	(Received cash for services performed)			
15	Salaries and Wages Expense .....		1,300	
	Cash .....			1,300
	(Paid salaries to date)			
25	Accounts Payable.....		1,500	
	Cash .....			1,500
	(Paid creditors on account)			
29	Cash .....		400	
	Accounts Receivable .....			400
	(Received cash in payment of account)			
30	Cash .....		1,000	
	Unearned Service Revenue .....			1,000
	(Received cash for future services)			

**EXERCISE 2-10 (Continued)**

**(b) DAGGETT LANDSCAPING COMPANY  
Trial Balance  
April 30, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$11,500	
Accounts Receivable.....	2,800	
Supplies.....	1,800	
Accounts Payable.....		\$ 300
Unearned Service Revenue.....		1,000
Owner's Capital.....		12,000
Service Revenue.....		4,100
Salaries and Wages Expense.....	<u>1,300</u>	
	<u>\$17,400</u>	<u>\$17,400</u>

**EXERCISE 2-11**

(a) Oct. 1	Cash.....	3,000	
	Owner's Capital.....		3,000
	(Owner's investment of cash in business)		
10	Cash.....	750	
	Service Revenue.....		750
	(Received cash for services performed)		
10	Cash.....	4,000	
	Notes Payable.....		4,000
	(Obtained loan from bank)		
20	Cash.....	500	
	Accounts Receivable.....		500
	(Received cash in payment of account)		
20	Accounts Receivable.....	940	
	Service Revenue.....		940
	(Billed clients for services performed)		

**EXERCISE 2-11 (Continued)**

(b)

**SHUMWAY CO.  
Trial Balance  
October 31, 2017**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 7,200	
Accounts Receivable.....	1,240	
Supplies .....	400	
Equipment.....	2,000	
Notes Payable .....		\$ 4,000
Accounts Payable.....		500
Owner's Capital .....		5,000
Owner's Drawings .....	300	
Service Revenue.....		2,490
Salaries and Wages Expense .....	500	
Rent Expense .....	350	
	<u>\$11,990</u>	<u>\$11,990</u>

**EXERCISE 2-12**

(a)

**General Journal**

**J1**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Sept. 1	Cash.....	101	10,000	
	Owner's Capital.....	301		10,000
5	Equipment .....	157	12,000	
	Cash .....	101		4,000
	Accounts Payable .....	201		8,000
25	Accounts Payable .....	201	3,000	
	Cash .....	101		3,000
30	Owner's Drawings.....	306	700	
	Cash .....	101		700

**EXERCISE 2-12 (Continued)****(b)**

<b>Cash</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1		J1	10,000		10,000
5		J1		4,000	6,000
25		J1		3,000	3,000
30		J1		700	2,300

<b>Equipment</b>					<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 5		J1	12,000		12,000

<b>Accounts Payable</b>					<b>No. 201</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 5		J1		8,000	8,000
25		J1	3,000		5,000

<b>Owner's Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1		J1		10,000	10,000

<b>Owner's Drawings</b>					<b>No. 306</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 30		J1	700		700



## EXERCISE 2-13

<u>Error</u>	<u>(a) In Balance</u>	<u>(b) Difference</u>	<u>(c) Larger Column</u>
1.	No	\$525	Debit
2.	Yes	—	—
3.	Yes	—	—
4.	No	415	Credit
5.	Yes	—	—
6.	No	27	Debit

## EXERCISE 2-14

### OVERNITE DELIVERY SERVICE Trial Balance July 31, 2017

	<u>Debit</u>	<u>Credit</u>
Cash (\$78,821 – Debit total without Cash \$66,340).....	\$12,481	
Accounts Receivable .....	7,642	
Prepaid Insurance .....	1,968	
Equipment.....	49,360	
Notes Payable.....		\$17,000
Accounts Payable .....		8,396
Salaries and Wages Payable .....		815
Owner's Capital .....		42,000
Owner's Drawings .....	700	
Service Revenue .....		10,610
Salaries and Wages Expense .....	4,428	
Maintenance and Repairs Expense.....	961	
Gasoline Expense .....	758	
Utilities Expense .....	523	
	<u>\$78,821</u>	<u>\$78,821</u>

# SOLUTIONS TO PROBLEMS

<b>PROBLEM 2-1A</b>
---------------------

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash .....		20,000	
	Owner's Capital .....			20,000
	(Owner's investment of cash in business)			
3	Land.....		12,000	
	Buildings .....		2,000	
	Equipment.....		1,000	
	Cash .....			15,000
	(Purchased Rainbow's Golf Land)			
5	Advertising Expense .....		900	
	Cash .....			900
	(Paid for advertising)			
6	Prepaid Insurance .....		600	
	Cash .....			600
	(Paid for one-year insurance policy)			
10	Equipment.....		1,050	
	Accounts Payable .....			1,050
	(Purchased equipment on account)			
18	Cash .....		1,100	
	Service Revenue .....			1,100
	(Received cash for services performed)			
19	Cash .....		1,500	
	Unearned Service Revenue .....			1,500
	(Received cash for coupon books sold)			

**PROBLEM 2-1A (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Mar. 25</b>	<b>Owner's Drawings.....</b>		<b>800</b>	
	<b>Cash .....</b>			<b>800</b>
	<b>(Withdrew cash for personal use)</b>			
<b>30</b>	<b>Salaries and Wages Expense.....</b>		<b>250</b>	
	<b>Cash .....</b>			<b>250</b>
	<b>(Paid salaries)</b>			
<b>30</b>	<b>Accounts Payable .....</b>		<b>1,050</b>	
	<b>Cash .....</b>			<b>1,050</b>
	<b>(Paid creditor on account)</b>			
<b>31</b>	<b>Cash.....</b>		<b>2,700</b>	
	<b>Service Revenue .....</b>			<b>2,700</b>
	<b>(Received cash for services performed)</b>			

**PROBLEM 2-2A**

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash.....	101	20,000	
	Owner's Capital .....	301		20,000
	(Owner's investment of cash in business)			
1	No entry—not a transaction.			
2	Rent Expense.....	729	1,100	
	Cash .....	101		1,100
	(Paid monthly office rent)			
3	Supplies.....	126	4,000	
	Accounts Payable.....	201		4,000
	(Purchased supplies on account from Dazzle Company)			
10	Accounts Receivable.....	112	5,100	
	Service Revenue.....	400		5,100
	(Billed clients for services performed)			
11	Cash.....	101	1,000	
	Unearned Service Revenue.....	209		1,000
	(Received cash for future service)			
20	Cash.....	101	2,100	
	Service Revenue.....	400		2,100
	(Received cash for services performed)			
30	Salaries and Wages Expense.....	726	2,800	
	Cash .....	101		2,800
	(Paid monthly salary)			

**PROBLEM 2-2A (Continued)**

Date	Account Titles and Explanation	Ref.	Debits	Credit
Apr. 30	Accounts Payable .....	201	2,400	
	Cash .....	101		2,400
	(Paid Dazzle Company on account)			

(b)

**Cash** **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1		J1	20,000		20,000
2		J1		1,100	18,900
11		J1	1,000		19,900
20		J1	2,100		22,000
30		J1		2,800	19,200
30		J1		2,400	16,800

**Accounts Receivable** **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1	5,100		5,100

**Supplies** **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1	4,000		4,000

**Accounts Payable** **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1		4,000	4,000
30		J1	2,400		1,600

**Unearned Service Revenue** **No. 209**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 11		J1		1,000	1,000

**PROBLEM 2-2A (Continued)**

**Owner's Capital** **No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1		J1		20,000	20,000

**Service Revenue** **No. 400**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 10		J1		5,100	5,100
20		J1		2,100	7,200

**Salaries and Wages Expense** **No. 726**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 30		J1	2,800		2,800

**Rent Expense** **No. 729**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 2		J1	1,100		1,100

**(c) EMILY VALLEY, DENTIST  
Trial Balance  
April 30, 2017**

	<b>Debit</b>	<b>Credit</b>
Cash.....	\$16,800	
Accounts Receivable.....	5,100	
Supplies.....	4,000	
Accounts Payable.....		\$ 1,600
Unearned Service Revenue.....		1,000
Owner's Capital.....		20,000
Service Revenue.....		7,200
Salaries and Wages Expense.....	2,800	
Rent Expense.....	1,100	
	<u>\$29,800</u>	<u>\$29,800</u>

<b>PROBLEM 2-3A</b>
---------------------

(a)

Trans.	Account Titles and Explanation	Debit	Credit
1.	Cash .....	40,000	
	Owner's Capital .....		40,000
2.	No entry—Not a transaction.		
3.	Prepaid Rent .....	24,000	
	Cash .....		24,000
4.	Equipment .....	30,000	
	Cash .....		10,000
	Accounts Payable .....		20,000
5.	Prepaid Insurance .....	1,800	
	Cash .....		1,800
6.	Supplies .....	420	
	Cash .....		420
7.	Supplies .....	1,500	
	Accounts Payable .....		1,500
8.	Cash .....	8,000	
	Accounts Receivable .....	12,000	
	Service Revenue .....		20,000
9.	Accounts Payable .....	400	
	Cash .....		400
10.	Cash .....	3,000	
	Accounts Receivable .....		3,000
11.	Utilities Expense .....	380	
	Accounts Payable .....		380

**PROBLEM 2-3A (Continued)**

Trans.	Account Titles and Explanation	Debit	Credit
12.	Salaries and Wages Expense.....	6,100	
	Cash .....		6,100

(b)

Cash	
(1)	40,000
	(3) 24,000
	(4) 10,000
	(5) 1,800
	(6) 420
(8)	8,000
	(9) 400
(10)	3,000
	(12) 6,100
	<b>8,280</b>

Equipment	
(4)	30,000
	30,000

Accounts Payable	
	(4) 20,000
	(7) 1,500
(9)	400
	(11) 380
	<b>21,480</b>

Accounts Receivable	
(8)	12,000
	(10) 3,000
	<b>9,000</b>

Owner's Capital	
	(1) 40,000
	<b>40,000</b>

Supplies	
(6)	420
(7)	1,500
	<b>1,920</b>

Service Revenue	
	(8) 20,000
	<b>20,000</b>

Prepaid Insurance	
(5)	1,800
	<b>1,800</b>

Salaries and Wages Expense	
(12)	6,100
	<b>6,100</b>

Prepaid Rent	
(3)	24,000
	<b>24,000</b>

Utilities Expense	
(11)	380
	<b>380</b>



**PROBLEM 2-3A (Continued)**

(c)

**MAQUOKETA SERVICES**  
**Trial Balance**  
**May 31, 2017**

	Debit	Credit
Cash.....	\$ 8,280	
Accounts Receivable.....	9,000	
Supplies .....	1,920	
Prepaid Insurance.....	1,800	
Prepaid Rent .....	24,000	
Equipment.....	30,000	
Accounts Payable.....		\$21,480
Owner's Capital .....		40,000
Service Revenue .....		20,000
Salaries and Wages Expense .....	6,100	
Utilities Expense .....	380	
	\$81,480	\$81,480

<b>PROBLEM 2-4A</b>
---------------------

**AVTAR SANDHU CO.  
Trial Balance  
June 30, 2017**

	Debit	Credit
Cash (\$3,340 + \$270) .....	\$ 3,610	
Accounts Receivable (\$2,812 – \$270) .....	2,542	
Supplies (\$1,200 – \$710) .....	490	
Equipment (\$2,600 + \$710).....	3,310	
Accounts Payable (\$3,666 – \$306 – \$360).....		\$ 3,000
Unearned Service Revenue .....		1,100
Owner’s Capital .....		8,000
Owner’s Drawings (\$800 + \$600).....	1,400	
Service Revenue (\$2,480 + \$882).....		3,362
Salaries and Wages Expense (\$3,200 + \$700 – \$600) .....	3,300	
Utilities Expense.....	810	
	<b>\$15,462</b>	<b>\$15,462</b>

<b>PROBLEM 2-5A</b>
---------------------

(a) & (c)

<b>Cash</b>					<b>No. 101</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			3,000
2		J1		1,500	1,500
9		J1	4,300		5,800
10		J1		4,100	1,700
12		J1		900	800
20		J1	5,000		5,800
20		J1		2,000	3,800
31		J1		3,100	700
31		J1	450		1,150
31		J1	9,000		10,150

<b>Accounts Receivable</b>					<b>No. 112</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	450		450

<b>Land</b>					<b>No. 140</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			24,000

<b>Buildings</b>					<b>No. 145</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			10,000

<b>Equipment</b>					<b>No. 157</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			10,000

**PROBLEM 2-5A (Continued)****Accounts Payable** **No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1	Balance	✓			7,000
2		J1		2,000	9,000
10		J1	4,100		4,900

**Owner's Capital** **No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1	Balance	✓			40,000

**Service Revenue** **No. 400**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 9		J1		4,300	4,300
20		J1		5,000	9,300
31		J1		9,000	18,300

**Rent Revenue** **No. 429**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar.31		J1		900	900

**Advertising Expense** **No. 610**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar.12		J1	900		900

**Salaries and Wages Expense** **No. 726**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31		J1	3,100		3,100

**PROBLEM 2-5A (Continued)**

<b>Rent Expense</b>					<b>No. 729</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 2		J1	3,500		3,500
20		J1	2,000		5,500

(b)

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>J1</b>
Mar. 2	Rent Expense .....	729	3,500		
	Accounts Payable .....	201		2,000	
	Cash .....	101		1,500	
	(Rented films for cash and on account)				
3	No entry.				
9	Cash .....	101	4,300		
	Service Revenue.....	400		4,300	
	(Received cash for services performed)				
10	Accounts Payable (\$2,000 + \$2,100) .....	201	4,100		
	Cash .....	101		4,100	
	(Paid creditors on account)				
11	No entry.				
12	Advertising Expense.....	610	900		
	Cash .....	101		900	
	(Paid advertising expense)				
20	Cash .....	101	5,000		
	Service Revenue.....	400		5,000	
	(Received cash for services performed)				
20	Rent Expense .....	729	2,000		
	Cash .....	101		2,000	
	(Paid film rental)				

**PROBLEM 2-5A (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
Mar. 31	Salaries and Wages Expense.....	726	3,100	
	Cash .....	101		3,100
	(Paid salaries expense)			
31	Cash.....	101	450	
	Accounts Receivable.....	112	450	
	Rent Revenue.....	429		900
	(15% X \$6,000)			
	(Received cash and balance on account for rent revenue)			
31	Cash.....	101	9,000	
	Service Revenue.....	400		9,000
	(Received cash for services performed)			

**(d) STARR THEATER  
Trial Balance  
March 31, 2017**

	<b>Debit</b>	<b>Credit</b>
Cash .....	\$10,150	
Accounts Receivable .....	450	
Land.....	24,000	
Buildings.....	10,000	
Equipment.....	10,000	
Accounts Payable.....		\$ 4,900
Owner's Capital .....		40,000
Service Revenue.....		18,300
Rent Revenue .....		900
Advertising Expense .....	900	
Salaries and Wages Expense .....	3,100	
Rent Expense.....	5,500	
	<u>\$64,100</u>	<u>\$64,100</u>

(a)		GENERAL JOURNAL		J1
		Account Titles and Explanation	Debit	Credit
Nov.	8	No entry required for cashing U.S. Savings Bonds—this is a personal transaction.		
	8	Cash .....	500	
		Owner's Capital .....		500
	11	Advertising Expense .....	65	
		Cash .....		65
	13	Supplies .....	125	
		Cash .....		125
	14	Equipment .....	300	
		Owner's Capital .....		300
	16	Cash .....	2,000	
		Notes Payable .....		2,000
	17	Equipment .....	900	
		Cash .....		900
	20	Cash .....	125	
		Service Revenue .....		125
	25	Cash .....	30	
		Unearned Service Revenue .....		30
	30	Prepaid Insurance .....	1,320	
		Cash .....		1,320

CC2 (Continued)

(b)

Cash					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 8		J1	500		500
11		J1		65	435
13		J1		125	310
16		J1	2,000		2,310
17		J1		900	1,410
20		J1	125		1,535
25		J1	30		1,565
30		J1		1,320	245

Supplies					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 13		J1	125		125

Prepaid Insurance					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 30		J1	1,320		1,320

Equipment					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 14		J1	300		300
17		J1	900		1,200

Unearned Service Revenue					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 25		J1		30	30



**CC2 (Continued)****(b) (Continued)****Notes Payable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credits</b>	<b>Balance</b>
Nov. 16		J1		2,000	2,000

**Owner's Capital**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credits</b>	<b>Balance</b>
Nov. 8		J1		500	500
14		J1		300	800

**Service Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credits</b>	<b>Balance</b>
Nov. 20		J1		125	125

**Advertising Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credits</b>	<b>Balance</b>
Nov. 11		J1	65		65

CC2 (Continued)

(c)

**COOKIE CREATIONS**  
**Trial Balance**  
**November 30, 2016**

---

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 245	
Supplies .....	125	
Prepaid Insurance .....	1,320	
Equipment.....	1,200	
Unearned Service Revenue .....		\$ 30
Notes Payable.....		2,000
Owner's Capital .....		800
Service Revenue.....		125
Advertising Expense .....	65	
	<u>\$2,955</u>	<u>\$2,955</u>

**Note to instructors:** Because the notes payable is not due for 24 months, it follows Unearned Service Revenue in the accounts and the trial balance.

(a) <u>Account</u>	(1) Increase Side	(1) Decrease Side	(2) Normal Balance
Accounts Payable	Credit	Debit	Credit
Accounts Receivable	Debit	Credit	Debit
Property, Plant, and Equipment	Debit	Credit	Debit
Cash and Cash Equivalents	Debit	Credit	Debit
Research and Development Expense	Debit	Credit	Debit
Inventories	Debit	Credit	Debit

- (b)
1. Cash is increased.
  2. Cash is decreased.
  3. Cash is decreased or Accounts Payable is increased.

- (c)
1. Cash is decreased.
  2. Cash is decreased or Notes or Mortgage Payable is increased.

	<u>PepsiCo</u>		<u>Coca-Cola</u>	
(a)	1. Inventory:	debit	1. Accounts Receivable:	debit
	2. Property, Plant & Equipment:	debit	2. Cash and Cash Equivalents:	debit
	3. Accounts Payable:	credit	3. Cost of Goods Sold(expense):	debit
	Interest Expense:	debit	4. Sales (revenue)	credit

(b)

1. Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).
2. Decrease in Salaries and Wages Payable: Cash is decreased (credited).
3. Increase in Property, Plant and Equipment: Cash is decreased (credited) and Accounts Payable or Notes payable is increased (credited).
4. Increase in Interest Expense: Cash is decreased (credited).

	<u>Amazon</u>		<u>Wal-Mart</u>	
(a)	1. Interest Expense:	debit	1. Net Product Revenues:	credit
	2. Cash and Cash Equivalents:	debit	2. Inventories:	debit
	3. Accounts Payable:	credit	3. Cost of Sales:	debit

(b) The following other accounts are ordinarily involved:

1. Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).
2. Increase in Interest Expense: Cash is decreased (credited).
3. Decrease in Salaries and Wages Payable: Cash is decreased (credited).
4. Increase in Service Revenue: Cash or Accounts Receivable is increased (debited).

**The answer is dependent upon the company selected by the student.**

- (a) The reason the Green Bay Packers' issue an annual report is because they are a publicly owned, nonprofit company. They issue the report to the more than 100,000 shareholders who hold shares. None of the other teams are publicly owned, so they have no obligation to make their financial information available except to their small group of owners.**
- (b) At the time that the article was written the owners of the NFL teams and the players' labor union were negotiating a new contract. Knowing how profitable the NFL teams are would be useful information for the players to know so that they would have a better sense of how much the teams could afford to pay. The Packers are obviously a "small market" team, they are not necessarily representative of teams in general. However, the Packers' annual report does give the players some sense of the profitability of other teams.**
- (c) Since some of the cost of the stadium that the Packers play in is covered by taxpayers, the county and state government has an interest in the team's finances.**
- (d) The Packers' revenues increased during recent years. However, because the cost of players' salaries increased at a faster rate than revenues, the Packers' operating profit actually declined.**

**Date:** May 25, 2017

**To:** Accounting Instructor

**From:** Student

In the first transaction, bills totaling \$6,000 were sent to customers for services performed. Therefore, the asset Accounts Receivable is increased \$6,000 and the revenue Service Revenue is increased \$6,000. Debits increase assets and credits increase revenues, so the journal entry is:

Accounts Receivable .....	6,000	
Service Revenue .....		6,000
(Billed customers for services performed)		

The \$6,000 amount is then posted to the debit side of the general ledger account Accounts Receivable and to the credit side of the general ledger account Service Revenue.

In the second transaction, \$2,000 was paid in salaries to employees. Therefore, the expense Salaries and Wages Expense is increased \$2,000 and the asset Cash is decreased \$2,000. Debits increase expenses and credits decrease assets, so the journal entry is:

Salaries and Wages Expense .....	2,000	
Cash.....		2,000
(Salaries and wages paid)		

The \$2,000 amount is then posted to the debit side of the general ledger account Salaries and Wages Expense and to the credit side of the general ledger account Cash.



(a) The stakeholders in this situation are:

- ▶ Ellynn Kole, assistant chief accountant.
- ▶ Users of the company's financial statements.
- ▶ The Doman Company.

(b) By adding \$1,000 to the Equipment account, that account total is intentionally misstated. By not locating the error causing the imbalance, some other account may also be misstated by \$1,000. If the amount of \$1,000 is determined to be immaterial, and the intent is not to commit fraud (cover up an embezzlement or other misappropriation of assets), Ellynn's action might not be considered unethical in the preparation of interim financial statements. However, if Ellynn is violating a company accounting policy by her action, then she is acting unethically.

(c) Ellynn's alternatives are:

1. Miss the deadline but find the error causing the imbalance.
2. Tell her supervisor of the imbalance and suffer the consequences.
3. Do as she did and locate the error later, making the adjustment in the next quarter.

The decision whether to fire Mr. Edmondson was the responsibility of Radio Shack's board of directors, which is elected by the company's shareholders to oversee management. The board initially announced its support for the CEO. After further investigation, the board encouraged Mr. Edmondson to resign, which he did. In contrast, when Bausch & Lomb's CEO offered to resign in a similar situation, the company's board refused to accept his resignation. Board members stated that they felt he was still the best person for the position.

Radio Shack says that although it did a reference check at the time of Mr. Edmondson's hiring, it did not check his educational credentials. Under the Sarbanes-Oxley Act, companies must now perform thorough background checks as part of a check of internal controls. The bottom line: Your résumé must be a fair and accurate depiction of your past.

- (a) Students' responses to this question will vary. It is important that the steps that they identify be as specific as possible, and clearly directed toward achieving their goal. You may wish to ask a follow-up question asking them to explain how each step will assist them in achieving their goal.
- (b) There are many sites on the Internet that provide information about preparing a résumé. For example, you can find extensive resources at: <http://www.rileyguide.com/resprep.html>. Many schools also have resources in their placement centers or writing labs. The Writing Center at Rensselaer Polytechnic Institute provides useful, concise information on its website at <http://www.ccp.rpi.edu/resources/careers-and-graduate-school/resumes>. A wide variety of sample résumés can be found. For example, Monster.com provides samples for a wide variety of professions and situations at <http://www.career-advice.monster.com/resumes-cover-letters/careers.aspx>.
- (c) It is important to provide accurate and complete documentation of all relevant training, education, and employment experiences so as to provide assurance to the potential employer, and also to enable that employer to do follow-up work. If you say you have certain skills, such as computer skills, try to substantiate the claim with recognized proof of proficiency. Make sure that all addresses and phone numbers are accurate and up-to-date. Also, ensure that the people you use as references have a copy of your résumé and cover letter, and that they are informed that you are interviewing so they know to expect a call.
- (d) See the sample résumés provided in the websites above for various format options. You might also mention to students that there are electronic résumé templates available on the Internet.

- (a) The existence of three different forms of certification would most likely create confusion for coffee purchasers. It would be difficult to know what aspects of the coffee growing process each certification covered. Similarly, if there were multiple groups that certified financial statements, each with different criteria, it would be difficult for financial statement users to know what each certification promised.
- (b) The Starbucks certification appears to be the most common in that area. It has the advantage of having a direct link to the Starbucks coffee market. Although it does not guarantee that Starbucks will buy its coffee, it is a requirement that must be met before Starbucks will buy somebody's coffee. Note that the article states that the Starbucks certification "incorporates elements of social responsibility and environmental leadership, but quality of coffee is the first criteria." The Smithsonian Bird Friendly is considered to have the strictest requirements and, as a result, appears to be the least common.
- (c) The certifications have multiple objectives including organic farming as a means to protect bird species, biodiversity and wildlife habitat. Some included requirements are to improve workers' living conditions, such as providing running water in worker housing, child labor regulations and education requirements. As mentioned above, the Starbucks certification has the potential financial benefit of making Starbucks a potential customer, which can stabilize farmers' earnings. Certifications can also be financially beneficial because companies can benefit from the positive public relations effects of either producing or buying coffee produced using sustainable practices.

<b>Account</b>	<b>Financial Statement</b>	<b>Position in Financial Statement</b>
<b>Other operating income and expense</b>	<b>Consolidated Income Statement</b>	<b>After gross profit and before operating profit</b>
<b>Cash and cash equivalents</b>	<b>Consolidated Balance Sheet</b>	<b>Current assets</b>
<b>Trade accounts payable</b>	<b>Consolidated Balance Sheet</b>	<b>Current liabilities</b>
<b>Cost of net financial debt</b>	<b>Consolidated Income Statement</b>	<b>After operating profit and before profit from continuing operations before taxes.</b>