

## CHAPTER 2

# The Recording Process

### Learning Objectives

1. Describe how accounts, debits, and credits are used to record business transactions
2. State how a journal is used in the recording process and journalize transactions
3. Explain how a ledger helps in the recording process and post transactions
4. Prepare a trial balance

**Summary of Questions by Learning Objectives and Bloom's Taxonomy**

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
<b>Questions</b>														
1.	1	C	5.	1	C	9.	2	C	13.	3	C	17.	4	C
2.	1	K	6.	1	C	10.	2	K	14.	4	C	18.	4	C
3.	1	K	7.	2	C	11.	2	C	15.	4	K	19.	4	AN
4.	1	C	8.	2	K	12.	3	K	16.	4	C	20.	4	AN
<b>Brief Exercises</b>														
1.	1	AP	5.	1	K	9.	2	AP	13.	2	AP	17.	4	AP
2.	1	K	6.	2	K	10.	2	AP	14.	3	AP	18.	4	AP
3.	1	K	7.	2	C	11.	2	AP	15.	3	AP			
4.	1	K	8.	2	C	12.	2	AP	16.	4	AP			
<b>Exercises</b>														
1.	1	K	5.	2	AP	9.	2,3	AP	13.	3,4	AP	17.	4	AP
2.	1,2,3,4	K	6.	2	AP	10.	2	AP	14.	3,4	AP	18.	4	AN
3.	1	C	7.	2	AP	11.	3	K	15.	3,4	AP	19.	4	AP
4.	1	C	8.	2	AP	12.	3,4	AP	16.	2,3,4	AP			
<b>Problems</b>														
1.	1,2	AP	4.	1,2,3,4	AP	7.	2,3,4	AP	10.	4	AP	13.	4	AP
2.	2	AP	5.	2,3,4	AP	8.	2,3,4	AP	11.	2,3,4	AP	14.	4	AN
3.	2	AP	6.	2,3,4	AP	9.	4	AP	12.	4	AP	15.	4	AN

Legend: The following abbreviations will appear throughout the solutions manual file.

LO	Learning objective	
BT	Bloom's Taxonomy K Knowledge C Comprehension AP Application AN Analysis S Synthesis E Evaluation	
Difficulty:	Level of difficulty S Simple M Moderate C Complex	
Time:	Estimated time to complete in minutes	
AACSB	Association to Advance Collegiate Schools of Business	
	Communication	Communication
	Ethics	Ethics
	Analytic	Analytic
	Tech.	Technology
	Diversity	Diversity
	Reflec. Thinking	Reflective Thinking
CPA CM	CPA Canada Competency Map	
	Ethics	Professional and Ethical Behaviour
	PS and DM	Problem-Solving and Decision-Making
	Comm.	Communication
	Self-Mgt.	Self-Management
	Team & Lead	Teamwork and Leadership
	Reporting	Financial Reporting
	Stat. & Gov.	Strategy and Governance
	Mgt. Accounting	Management Accounting
	Audit	Audit and Assurance
	Finance	Finance
	Tax	Taxation

**ASSIGNMENT CLASSIFICATION TABLE**

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

## ASSIGNMENT CHARACTERISTICS TABLE

<u>Problem Number</u>	<u>Description</u>	<u>Difficulty Level</u>	<u>Time Allotted (min.)</u>
1A	Perform transaction analysis and journalize transactions.	Simple	20-30
2A	Journalize transactions.	Simple	15-20
3A	Journalize transactions.	Simple	20-25
4A	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
5A	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
6A	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
7A	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
8A	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
9A	Prepare trial balance.	Simple	15-20
10A	Prepare financial statements.	Simple	25-35
11A	Journalize transactions, post, prepare trial balance and financial statements.	Moderate	75-90
12A	Prepare trial balance and financial statements.	Simple	25-35
13A	Prepare trial balance and financial statements.	Simple	35-45
14A	Analyze errors and effects on trial balance.	Moderate	25-35
15A	Prepare correct trial balance.	Complex	30-40
1B	Perform transaction analysis and journalize transactions.	Simple	20-30
2B	Journalize transactions.	Simple	15-20
3B	Journalize transactions.	Simple	20-25
4B	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
5B	Journalize transactions, post, and prepare trial balance.	Moderate	40-50
6B	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
7B	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
8B	Journalize transactions, post, and prepare trial balance.	Moderate	55-65
9B	Prepare trial balance and financial statements.	Moderate	35-45
10B	Prepare financial statements.	Simple	25-35

**ASSIGNMENT CHARACTERISTICS TABLE**

<u>Problem Number</u>	<u>Description</u>	<u>Difficulty Level</u>	<u>Time Allotted (min.)</u>
11B	Journalize transactions, post, prepare trial balance and financial statements.	Moderate	75-90
12B	Prepare financial statements.	Simple	25-35
13B	Prepare trial balance and financial statements.	Simple	35-45
14B	Analyze errors and effects on trial balance.	Moderate	25-35
15B	Prepare correct trial balance.	Complex	30-40

## BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Study Objectives, and End-of-Chapter Material

Study Objective	Knowledge	Comprehension	Application		Analysis	Syn-thesis	Evalu-ation
1. Describe how accounts, debits, and credits are used to record business transactions.	Q2.2 Q2.3 BE2.2 BE2.3 BE2.4 BE2.5 E2.1 E2.2	Q2.1 Q2.4 Q2.5 Q2.6 E2.3 E2.4	BE2.1 P2.1A P2.1B P2.4A	P2.4B			
2. State how a journal is used in the recording process and journalize transactions.	Q2.8 Q2.10 BE2.6  E2.1 E2.2	Q2.7 Q2.9 Q2.11 BE2.7 BE2.8	BE2.9 BE2.11 E2.5 E2.7 E2.9 E2.14 P2.1A P2.2A P2.3A P2.4A P2.5A P2.6A P2.7A P2.8A P2.11A	BE2.10 BE2.12 E2.6 E2.8 E2.10 E2.16 P2.1B P2.2B P2.3B P2.4B P2.5B P2.6B P2.7B P2.8B P2.11B			
3. Explain how a ledger helps in the recording process and post transactions	Q2.12 E2.2 E2.11	Q2.13 Q2.14	BE2.13 BE2.14 BE2.15 P2.4A P2.5A P2.6A P2.7A P2.8A P2.11A	E2.9 E2.12 E2.13 E2.15 E2.16 P2.4B P2.5B P2.6B P2.7B P2.8B P2.11B			
4. Prepare a trial balance.	Q2.15 E2.2	Q2.16 Q2.17 Q2.18 Q2.19	Q2.20 BE2.16 BE2.17 BE2.18 E2.10 E2.14 P2.4A P2.5A P2.6A P2.7A P2.8A P2.9A P2.10A P2.11A P2.12A P2.13A	E2.12 E2.13 E2.15 E2.16 E2.17 E2.19 P2.4B P2.5B P2.6B P2.7B P2.8B P2.9B P2.10B P2.11B P2.12B P2.13B	Q2.19 E2.18 P2.14A P2.14B P2.15A P2.15B		

Study Objective	Knowledge	Comprehension	Application		Analysis	Synthesis	Evaluation
Broadening Your Perspective		BYP2.1 BYP2.4	BYP2.2 BYP2.3 BYP2.5 BYP2.6				



## ANSWERS TO QUESTIONS

1. An account is an accounting record of increases and decreases in a specific asset, liability, or owner's equity item. A company will need, at a minimum, two accounts to represent an asset account and either a liability or owner's equity account. However, companies usually have many accounts since they will have different types of assets, liabilities, and owner's equity items, including drawings, revenues, and expenses.

LO 1 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

2. Debiting an account refers to the practice of entering an amount on the debit (or left) side of an account. Crediting an account signifies entering an amount on the credit (or right) side of an account.

LO 1 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

3. All accounts have a normal balance, which is the side that increases the account balance. Assets are on the left side of the basic accounting equation and liabilities and owner's equity are on the right side of the basic accounting equation. Since debits are on the left side, and assets are also on the left side, the normal balance of an asset is a debit balance.

Since credits are on the right side and liabilities are on the right side, the normal balance of a liability is a credit balance. The same is also true for owner's equity. Revenues increase owner's equity and therefore also have a normal credit balance. But expenses and drawings are decreases to owner's equity and thus have a normal debit balance.

LO 1 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

4. Dmitri is incorrect because debit and credit do not mean increase or decrease. Debit means left side and credit means right side. Different types of accounts will increase with debits versus credits. Accounts on the left side of the accounting equation (assets) will increase with debits. Accounts on the right side of the accounting equation (liabilities and owner's equity) will increase with credits, except for expenses and drawings, which are decreases to owner's equity and therefore are increased with debits. This way, the accounting equation remains in balance.

LO 1 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

## QUESTIONS (Continued)

5. The normal balance of owner's capital is a credit. The account is increased by credits and decreased by debits. Both drawings and expenses reduce owner's equity. Because of this, their normal balance is a debit. These accounts are increased by debits, which end up reducing owner's equity.

LO 1 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

6. Gustave is incorrect. The double-entry system merely records the effect of a transaction on the two (or more) accounts affected. A transaction is not recorded twice; it is recorded once, with a dual (or multiple) effect on the accounting equation.

LO 1 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

7. An event or transaction is recorded only if it causes the company's financial position (assets, liabilities, and/or owner's equity) to change. In some events, nothing is currently obtained nor given up, so nothing is recorded. The event may lead to a future transaction that changes the company's financial position but is not recorded until that time. An example of an event that is not currently recorded but will result in a future transaction is the signing of a lease.

LO 2 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

8. The three basic steps in the recording process are analyze, journalize, and post.

LO 2 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

9. After it is determined that a transaction should be recorded because it does cause the company's financial position to change, analyzing a business transaction involves identifying (1) the type of accounts involved, (2) whether the accounts are increased or decreased, and (3) whether the accounts need to be debited or credited.

LO 2 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

10. A simple journal entry refers to an entry that affects only two accounts, a debit to one account and a credit to another account. A compound entry refers to an entry that affects three or more accounts. To ensure the accounting equation remains balanced, the totals of the debit amounts and credit amounts must be equal.

LO 2 BT: K Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

## QUESTIONS (Continued)

11. The accounts that could be credited are Revenue, Accounts Receivable, and Unearned Revenue. Revenue would be credited for a cash sale. Accounts Receivable would be credited when a customer makes a payment on account for revenue that was previously earned and recorded. Unearned Revenue would be credited when a customer pays in advance.

LO 2 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

12. The advantages of recording the individual transactions in a journal before posting to the ledger are:
1. The journal discloses in one place the complete effect of a transaction.
  2. The journal provides a chronological record of all transactions.
  3. The journal helps to prevent or locate errors, because the debit and credit amounts for each entry can be readily compared.

LO 3 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

13. The T account is often used in accounting textbooks for illustrative purposes. It shows only the debit and credit side of a ledger account. It is faster to create and more efficient for analyzing the impact of specific transactions. Businesses however usually use a “standard” form of account. This form shows a debit and credit column but also includes additional information such as the balance of the account (to show the account balance after every transaction), the date, explanation, and reference. This additional information is useful in preventing and detecting errors.

LO 3 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

14. The entire group of accounts and related transactional details maintained by a company, including all the asset, liability, and owners' equity accounts, is referred to collectively as the ledger. A chart of accounts lists only the account names and account numbers that identify their location in the ledger. The numbering system used to identify the accounts usually starts with the balance sheet accounts and follows with the income statement accounts. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and identify their location in the ledger.

LO 4 BT: C Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

## QUESTIONS (Continued)

15. 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 the mathematical equality of debits and credits, after all journalized transactions have been posted. A trial balance also helps with the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.

LO 4 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

16. Since accounts are given an account number in the chart of accounts, the trial balance is prepared in numerical order. Accounts are generally listed and assigned account numbers in the chart of accounts using the following numerical sequence: assets, liabilities, owner's equity, drawings, revenues, and lastly, expenses. This convention makes it easy for anyone to find an account either in the chart of accounts or in a trial balance.

LO 4 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

17. The sequence in which the first four steps in the accounting process does matter in properly accounting for transactions. Unless business transactions are first analyzed, it is possible for the transaction to be misinterpreted or omitted from the accounting process. Once analyzed, the transactions need to be journalized in a journal, after which the transactions are posted to the general ledger to arrive at updated balances that then appear in a trial balance.

LO 4 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

18. The company should use "December 31" on its trial balance. The trial balance simply shows the balance in the accounts at a specific point in time.

LO 4 BT: C Difficulty: M Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

## QUESTIONS (Continued)

19. a. The trial balance would not balance, because there were two debits for \$750 and no credits. The debits do not equal the credits. Accounts Payable should have been credited, not debited, for \$750.
- b. The trial balance would balance, because the debits (\$1,000) and credits (\$1,000) are equal. But both the Service Revenue and the Accounts Receivable balances would be incorrect as the credit should have been recorded to Accounts Receivable, not Service Revenue.
- c. The trial balance would not balance, because the debit to Rent Expense for \$650 is not equal to the credit to Cash for \$560. The debit side of the trial balance is overstated by \$90, because either the Rent Expense is overstated by \$90 (Rent Expense should have been debited for \$560), or cash is overstated by \$90 (Cash should have been credited for \$650).

LO 4 BT: AN Difficulty: C Time: 10 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

20. The following are three types of errors that could cause the trial balance to not balance, although the ledger accounts have correct balances.
1. When transcribing amounts from the ledger to the trial balance, an account balance was recorded at an incorrect amount or omitted.
  2. Balances in the trial balance did not appear in the correct column.
  3. The addition of the trial balance columns was not done correctly.

LO 4 BT: AP Difficulty: C Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

## SOLUTIONS TO BRIEF EXERCISES

### BRIEF EXERCISE 2.1

- a.  $\$7,500 + \$16,700 - \$15,400 = \$8,800$
- b.  $\$8,800 + \$13,100 - \$4,700 = \$17,200$
- c.  $\$3,800 - \$6,400 + \$6,800 = \$4,200$
- d.  $\$3,800 + \$7,700 - \$5,900 = \$5,600$
- e.  $\$100,000 - \$24,000 + \$45,000 = \$121,000$
- f.  $\$149,000 - \$121,000 + \$27,000 = \$55,000$

LO 1 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

### BRIEF EXERCISE 2.2

Account	Normal Balance
1. Prepaid Insurance	Debit
2. Accounts Payable	Credit
3. Land	Debit
4. Service Revenue	Credit
5. Utilities Expense	Debit
6. Owner's Capital	Credit
7. Equipment	Debit
8. Salaries Expense	Debit
9. Supplies	Debit
10. Unearned Revenue	Credit

LO 1 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

### BRIEF EXERCISE 2.3

Account	a. Type of Account	b. Normal Balance
1. Accounts Receivable	Asset	Debit
2. Rent Expense	Owner's Equity	Debit
3. B. Damji, Drawings	Owner's Equity	Debit
4. Supplies	Asset	Debit
5. Unearned Revenue	Liability	Credit
6. Service Revenue	Owner's Equity	Credit
7. Prepaid Insurance	Asset	Debit
8. Notes Payable	Liability	Credit

LO 1 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

### BRIEF EXERCISE 2.4

Cash	
Dr.	Cr.
500	8,720
800	495
8,920	6,750
5,355	
10,435	
Sub. 26,010	15,965
Bal. 10,045	

Service Revenue	
Dr.	Cr.
	9,500
	3,200
	4,500
	1,050
	Bal. 18,250

Accounts Payable	
Dr.	Cr.
1,720	6,740
495	2,500
6,750	
Sub. 8,965	9,240
	Bal. 275

Salaries Expense	
Dr.	Cr.
4,550	
550	
3,750	
425	
Bal. 9,275	

LO 1 BT: K Difficulty: S Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

**BRIEF EXERCISE 2.5**

	a.	b.	c.
	<u>Normal</u>	<u>Debit</u>	<u>Credit</u>
	<u>Balance</u>	<u>Effect</u>	<u>Effect</u>
1. Accounts Payable	Credit	Decrease	Increase
2. Supplies	Debit	Increase	Decrease
3. J. Takamoto, Capital	Credit	Decrease	Increase
4. J. Takamoto, Drawings	Debit	Increase	Decrease
5. Prepaid Rent	Debit	Increase	Decrease
6. Utilities Expense	Debit	Increase	Decrease
7. Service Revenue	Credit	Decrease	Increase
8. Unearned Revenue	Credit	Decrease	Increase

LO 1 BT: K Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

**BRIEF EXERCISE 2.6**

	a.	b.
	<u>Account</u>	<u>Change</u>
	<u>Owner's</u>	<u>with</u>
	<u>Equity</u>	<u>Credit</u>
1. Increase in D. Parmelee, Capital	Asset	Credit
2. Decrease in Cash	Liability	Debit
3. Decrease in Notes Payable	Owner's Equity	Debit
4. Increase in Rent Expense	Owner's Equity	Debit
5. Increase in D. Parmelee, Drawings	Asset	Debit
6. Increase in Equipment	Liability	Credit
7. Increase in Accounts Payable	Owner's Equity	Credit
8. Increase in Service Revenue	Owner's Equity	Credit

LO 2 BT: K Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting



**BRIEF EXERCISE 2.7****Transaction 1: (Solution provided in text.)**

<b>Basic Analysis</b>	<b>The asset account Cash is decreased by \$439. The asset account Supplies is increased by \$439.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Supplies \$439. Credits decrease assets: credit Cash \$439.</b>

**Transaction 2:**

<b>Basic Analysis</b>	<b>The asset account Accounts Receivable is increased by \$1,020. The revenue account Service Revenue is increased by \$1,020.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Accounts Receivable \$1,020. Credits increase revenues: credit Service Revenue \$1,020.</b>

**Transaction 3:**

<b>Basic Analysis</b>	<b>The asset account Equipment is increased by \$2,230. The liability account Accounts Payable is increased by \$2,230.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Equipment \$2,230. Credits increase liabilities: credit Accounts Payable \$2,230.</b>

**Transaction 4:**

<b>Basic Analysis</b>	<b>The expense account Utilities Expense is increased by \$293. The asset account Cash is decreased by \$293.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase expenses: debit Utilities Expense \$293. Credits decrease assets: credit Cash \$293.</b>

**BRIEF EXERCISE 2.7 (Continued)****Transaction 5:**

<b>Basic Analysis</b>	<b>The asset account Cash is increased by \$750. The revenue account Service Revenue is increased by \$750.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Cash \$750. Credits increase revenues: credit Service Revenue \$750.</b>

**Transaction 6:**

<b>Basic Analysis</b>	<b>The asset account Cash is increased by \$7,100. The liability account Unearned Revenue is increased by \$7,100.</b>
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Cash \$7,100. Credits increase liabilities: credit Unearned Revenue \$7,100.</b>

LO 2 BT: C Difficulty: S Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

**BRIEF EXERCISE 2.8**

<b>Account Debited</b>				<b>Account Credited</b>		
<b>Trans- action</b>	<b>a. Basic Type</b>	<b>b. Specific Account</b>	<b>c. Effect</b>	<b>a. Basic Type</b>	<b>b. Specific Account</b>	<b>c. Effect</b>
<b>Aug. 1*</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$17,970</b>	<b>Owner's Equity</b>	<b>B. Fleming, Capital</b>	<b>+ \$17,970</b>
<b>4</b>	<b>Asset</b>	<b>Prepaid Rent</b>	<b>+ \$4,720</b>	<b>Asset</b>	<b>Cash</b>	<b>- \$4,720</b>
<b>5</b>	<b>Asset</b>	<b>Supplies</b>	<b>+ \$625</b>	<b>Liability</b>	<b>Accounts Payable</b>	<b>+ \$625</b>
<b>6</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$560</b>	<b>Owner's Equity</b>	<b>Service Revenue</b>	<b>+ \$560</b>
<b>17</b>	<b>Asset</b>	<b>Accounts Receivable</b>	<b>+ \$1,210</b>	<b>Owner's Equity</b>	<b>Service Revenue</b>	<b>+ \$1,210</b>
<b>27</b>	<b>Owner's Equity</b>	<b>Salaries Expense</b>	<b>+ \$980</b>	<b>Asset</b>	<b>Cash</b>	<b>- \$980</b>
<b>29</b>	<b>Owner's Equity</b>	<b>B. Fleming, Drawings</b>	<b>+ \$720</b>	<b>Asset</b>	<b>Cash</b>	<b>- \$720</b>

**\*Solution provided in text**

LO 2 BT: C Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

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**BRIEF EXERCISE 2.9 (Continued)****June 17 transaction:**

<b>Basic Analysis</b>	The asset account <b>Accounts Receivable</b> is increased by \$2,500. The revenue account <b>Service Revenue</b> is increased by \$2,500.									
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Accounts Receivable \$2,500.</b> <b>Credits increase revenues: credit Service Revenue \$2,500.</b>									
<b>Journal Entry</b>	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"><b>June 17</b></td> <td style="width: 20%;"><b>Accounts Receivable</b></td> <td style="width: 20%; text-align: right;"><b>2,500</b></td> </tr> <tr> <td></td> <td style="padding-left: 40px;"><b>Service Revenue</b></td> <td style="text-align: right;"><b>2,500</b></td> </tr> <tr> <td></td> <td colspan="2" style="text-align: center;"><b>Performed services on account for R. Windl.</b></td> </tr> </table>	<b>June 17</b>	<b>Accounts Receivable</b>	<b>2,500</b>		<b>Service Revenue</b>	<b>2,500</b>		<b>Performed services on account for R. Windl.</b>	
<b>June 17</b>	<b>Accounts Receivable</b>	<b>2,500</b>								
	<b>Service Revenue</b>	<b>2,500</b>								
	<b>Performed services on account for R. Windl.</b>									

**June 27 transaction:**

<b>Basic Analysis</b>	The asset account <b>Cash</b> is increased by \$1,190. The asset account <b>Accounts Receivable</b> is decreased by \$1,190.									
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Cash \$1,190.</b> <b>Credits decrease assets: credit Accounts Receivable \$1,190.</b>									
<b>Journal Entry</b>	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"><b>June 27</b></td> <td style="width: 20%;"><b>Cash</b></td> <td style="width: 20%; text-align: right;"><b>1,190</b></td> </tr> <tr> <td></td> <td style="padding-left: 40px;"><b>Accounts Receivable</b></td> <td style="text-align: right;"><b>1,190</b></td> </tr> <tr> <td></td> <td colspan="2" style="text-align: center;"><b>Collected cash on account from R. Windl.</b></td> </tr> </table>	<b>June 27</b>	<b>Cash</b>	<b>1,190</b>		<b>Accounts Receivable</b>	<b>1,190</b>		<b>Collected cash on account from R. Windl.</b>	
<b>June 27</b>	<b>Cash</b>	<b>1,190</b>								
	<b>Accounts Receivable</b>	<b>1,190</b>								
	<b>Collected cash on account from R. Windl.</b>									

LO 2 BT: AP Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

## BRIEF EXERCISE 2.10

Oct. 1	Cash .....	30,000	
	L. Berge, Capital .....		30,000
	Invested cash in business.		
2	Rent Expense .....	700	
	Cash .....		700
	Paid October rent.		
3	Equipment .....	2,800	
	Accounts Payable.....		2,800
	Purchased office equipment on account.		
6	Accounts Receivable .....	4,400	
	Service Revenue.....		4,400
	Performed services on account.		
27	Accounts Payable .....	1,100	
	Cash .....		1,100
	Made a payment on account.		
30	Utilities Expense .....	130	
	Accounts Payable .....		130
	Received bill for October utilities.		

LO 2 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

## BRIEF EXERCISE 2.11

All entries are at August 31 as given in the text.

1.	Supplies .....	439	
	Cash .....		439
	<b>Cash purchase for supplies.</b>		
2.	Accounts Receivable .....	1,020	
	Service Revenue .....		1,020
	<b>Performed services on account.</b>		
3.	Equipment .....	2,230	
	Accounts Payable.....		2,230
	<b>Purchased office equipment on account.</b>		
4.	Utilities Expense .....	293	
	Cash .....		293
	<b>Paid utilities expense.</b>		
5.	Cash .....	750	
	Service Revenue .....		750
	<b>Received cash for services performed.</b>		
6.	Cash .....	7,100	
	Unearned Revenue .....		7,100
	<b>Received cash in advance from customer.</b>		

LO 2 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

**BRIEF EXERCISE 2.12**

<b>Aug. 1</b>	<b>Cash</b> .....	<b>17,970</b>	
	<b>B. Fleming, Capital</b> .....		<b>17,970</b>
	<b>Invested cash in business.</b>		
<b>4</b>	<b>Prepaid Rent</b> .....	<b>4,720</b>	
	<b>Cash</b> .....		<b>4,720</b>
	<b>Paid rent in advance.</b>		
<b>5</b>	<b>Supplies</b> .....	<b>625</b>	
	<b>Accounts Payable</b> .....		<b>625</b>
	<b>Purchased supplies on account.</b>		
<b>6</b>	<b>Cash</b> .....	<b>560</b>	
	<b>Service Revenue</b> .....		<b>560</b>
	<b>Received cash for services performed.</b>		
<b>17</b>	<b>Accounts Receivable</b> .....	<b>1,210</b>	
	<b>Service Revenue</b> .....		<b>1,210</b>
	<b>Performed services on account.</b>		
<b>27</b>	<b>Salaries Expense</b> .....	<b>980</b>	
	<b>Cash</b> .....		<b>980</b>
	<b>Paid employee salaries.</b>		
<b>29</b>	<b>B. Fleming, Drawings</b> .....	<b>720</b>	
	<b>Cash</b> .....		<b>720</b>
	<b>Withdrew cash for personal use by owner.</b>		

LO 2 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting



## BRIEF EXERCISE 2.13

Jan.	2	Cash .....	10,000	
		M. Acosta, Capital.....		10,000
		Invested cash in business.		
	3	Vehicles .....	3,000	
		Cash .....		3,000
		Purchased a used car for cash.		
	9	Supplies.....	600	
		Accounts Payable.....		600
		Purchased supplies on account.		
	11	Accounts Receivable .....	2,400	
		Service Revenue.....		2,400
		Performed services on account.		
	16	Advertising Expense.....	350	
		Cash .....		350
		Paid for advertising expense.		
	20	Cash .....	900	
		Accounts Receivable .....		900
		Collection on account.		
	28	M. Acosta, Drawings .....	1,000	
		Cash .....		1,000
		Withdrew cash for personal use by owner.		

LO 2 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

### BRIEF EXERCISE 2.14

Cash			
<b>Apr. 1</b>	<b>1,600</b>	<b>Apr. 16</b>	<b>700</b>
		<b>20</b>	<b>250</b>
		<b>3</b>	<b>3,400</b>
<b>Bal.</b>	<b>4,050</b>		

LO 3 BT: AP Difficulty: S Time: 5 min. AACSB: None CPA: cpa-t001 CM: Reporting

### BRIEF EXERCISE 2.15

Cash	
<b>Sept. 4</b>	<b>2,400</b>
<b>10</b>	<b>3,000</b>
<b>28</b>	<b>1,325</b>
<b>Sept. 30 Bal.</b>	<b>6,725</b>

Accounts Receivable			
<b>Sept. 2</b>	<b>4,400</b>	<b>Sept. 4</b>	<b>2,400</b>
		<b>28</b>	<b>1,325</b>
		<b>Sept. 30 Bal.</b>	<b>675</b>

Service Revenue		
	<b>Sept. 2</b>	<b>4,400</b>
	<b>10</b>	<b>3,000</b>
	<b>Sept.30 Bal.</b>	<b>7,400</b>

LO 3 BT: AP Difficulty: S Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

## BRIEF EXERCISE 2.16

### AMARO COMPANY Trial Balance June 30, 2021

	<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
Rent expense.....	1,000	
Salaries expense .....	<u>5,100</u>	
	<u>\$33,100</u>	<u>\$33,100</u>

LO 4 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

## BRIEF EXERCISE 2.17

### PETTIPAS COMPANY Trial Balance April 30, 2021

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$6,400	
Accounts receivable .....	5,000	
Supplies .....	650	
Prepaid rent .....	800	
Equipment .....	14,600	
Accounts payable.....		\$ 3,300
Unearned revenue .....		250
C. Pettipas, capital .....		22,500
C. Pettipas, drawings .....	1,100	
Service revenue.....		8,000
Rent expense.....	4,500	
Salaries expense .....	1,000	
	<u>\$34,050</u>	<u>\$34,050</u>

LO 4 BT: AP Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

**BRIEF EXERCISE 2.18**

1. The Prepaid insurance balance was in the wrong column. Assets have a normal debit balance. When this account is moved to the debit column, the new total in the debit column will be \$46,200 ( $\$42,700 + \$3,500$ ) and the new total in the credit column will be \$47,100 ( $\$50,600 - \$3,500$ ).
2. The trial balance is now out of balance by \$900 ( $\$46,200 - \$47,100$ ). The transposition error in L. Bourque, Capital account is the cause of the \$900 difference. If the \$15,400 balance in that account is transposed to \$14,500, this will reduce the total credits by \$900 and the trial balance will now balance. See revised trial balance below:

**BOURQUE COMPANY**  
**Trial Balance**  
**December 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$15,000	
Accounts receivable .....	1,800	
Prepaid insurance .....	3,500	
Accounts payable.....		\$ 2,000
Unearned revenue .....		2,200
L. Bourque, capital .....		14,500
L. Bourque, drawings.....	4,900	
Service revenue.....		27,500
Rent expense.....	2,400	
Salaries expense .....	<u>18,600</u>	
	<u>\$46,200</u>	<u>\$46,200</u>

LO 4 BT: AP Difficulty: C Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

## 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.**

LO 1 BT: K Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

### EXERCISE 2.2

- a. 4. **Credit**
- b. 2. **Analyzing transactions**
- c. 9. **Posting**
- d. 1. **Account**
- e. 5. **Debit**
- f. 7. **Journalizing**
- g. 10. **Trial balance**
- h. 4. **Credit**
- i. 3. **Chart of accounts**
- j. 6. **Journal**

LO 1,2,3,4 BT: K Difficulty: M Time: 10 min. AACSB: None CPA: cpa-t001 CM: Reporting

**EXERCISE 2.3**

a.

<b>Account</b>	<b>1. Type of Account</b>	<b>2. Financial Statement</b>	<b>3. Normal Balance</b>
<b>Cash*</b>	<b>Asset</b>	<b>Balance Sheet</b>	<b>Debit</b>
<b>M. Kobayashi, Capital</b>	<b>Owner's Equity (Capital)</b>	<b>Balance Sheet and Statement of Owner's Equity</b>	<b>Credit</b>
<b>Accounts Payable</b>	<b>Liability</b>	<b>Balance Sheet</b>	<b>Credit</b>
<b>Building</b>	<b>Asset</b>	<b>Balance Sheet</b>	<b>Debit</b>
<b>Insurance Expense</b>	<b>Owner's Equity (Expense)</b>	<b>Income Statement</b>	<b>Debit</b>
<b>Interest Revenue</b>	<b>Owner's Equity (Revenue)</b>	<b>Income Statement</b>	<b>Credit</b>
<b>M. Kobayashi, Drawings</b>	<b>Owner's Equity (Drawings)</b>	<b>Statement of Owner's Equity</b>	<b>Debit</b>
<b>Notes Receivable</b>	<b>Asset</b>	<b>Balance Sheet</b>	<b>Debit</b>
<b>Prepaid Insurance</b>	<b>Asset</b>	<b>Balance Sheet</b>	<b>Debit</b>
<b>Rent Expense</b>	<b>Owner's Equity (Expense)</b>	<b>Income Statement</b>	<b>Debit</b>
<b>Service Revenue</b>	<b>Owner's Equity (Revenue)</b>	<b>Income Statement</b>	<b>Credit</b>
<b>Supplies</b>	<b>Asset</b>	<b>Balance Sheet</b>	<b>Debit</b>

\*Solution provided in text.

b.

Assets are on the left side of the basic accounting equation and liabilities and owner's equity are on the right side of the basic accounting equation. Since debits are on the left side, and assets are also on the left side, the normal balance of an asset is a debit balance.

Since credits are on the right side and liabilities are on the right side, the normal balance of a liability is a credit balance. The same is also true for owner's equity. Revenues increase owner's equity and therefore also have a normal credit balance. But expenses and drawings are decreases to owner's equity and thus have a normal debit balance.

LO 1 BT: C Difficulty: S Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

**EXERCISE 2.4**

<b>Account Debited</b>				<b>Account Credited</b>		
<b>Date</b>	<b>a. Basic Type</b>	<b>b. Specific Account</b>	<b>c. Effect</b>	<b>a. Basic Type</b>	<b>b. Specific Account</b>	<b>c. Effect</b>
<b>Mar. 5</b>	<b>Asset*</b>	<b>Cash</b>	<b>+ \$10,220</b>	<b>Owner's Equity</b>	<b>J. MacKenzie, Capital</b>	<b>+\$10,220</b>
<b>7</b>	<b>Owner's Equity</b>	<b>Advertising Expense</b>	<b>+ \$350</b>	<b>Asset</b>	<b>Cash</b>	<b>- \$350</b>
<b>9</b>	<b>Asset</b>	<b>Supplies</b>	<b>+ \$1,050</b>	<b>Liability</b>	<b>Accounts Payable</b>	<b>+ \$1,050</b>
<b>11</b>	<b>Asset</b>	<b>Vehicles</b>	<b>+ \$8,770</b>	<b>Asset</b>	<b>Cash</b>	<b>- \$8,770</b>
<b>13</b>	<b>Asset</b>	<b>Accounts Receivable</b>	<b>+ \$1,520</b>	<b>Owner's Equity</b>	<b>Service Revenue</b>	<b>+ \$1,520</b>
<b>25</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$10,880</b>	<b>Liability</b>	<b>Notes Payable</b>	<b>+\$10,880</b>
<b>26</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$1,140</b>	<b>Asset</b>	<b>Accounts Receivable</b>	<b>- \$1,140</b>
<b>29</b>	<b>Liability</b>	<b>Accounts Payable</b>	<b>- \$1,050</b>	<b>Asset</b>	<b>Cash</b>	<b>- \$1,050</b>
<b>30</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$800</b>	<b>Liability</b>	<b>Unearned Revenue</b>	<b>+ \$800</b>
<b>31</b>	<b>Owner's Equity</b>	<b>J. MacKenzie, Drawings</b>	<b>+ \$1,720</b>	<b>Asset</b>	<b>Cash</b>	<b>- \$1,720</b>

**\*Solution provided in text.**

LO 1 BT: K Difficulty: M Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting



## EXERCISE 2.5

<b>Mar. 5</b>	<b>Cash.....</b> 10,220	
	<b>J. MacKenzie, Capital.....</b>	<b>10,220</b>
	<b>Invested cash in business.</b>	
<b>7</b>	<b>Advertising Expense .....</b> 350	
	<b>Cash .....</b>	<b>350</b>
	<b>Paid for advertising expense.</b>	
<b>9</b>	<b>Supplies.....</b> 1,050	
	<b>Accounts Payable .....</b>	<b>1,050</b>
	<b>Purchased supplies on account.</b>	
<b>11</b>	<b>Vehicles .....</b> 8,770	
	<b>Cash .....</b>	<b>8,770</b>
	<b>Purchased used car for cash.</b>	
<b>13</b>	<b>Accounts Receivable.....</b> 1,520	
	<b>Service Revenue.....</b>	<b>1,520</b>
	<b>Performed services on account.</b>	
<b>25</b>	<b>Cash.....</b> 10,880	
	<b>Notes Payable.....</b>	<b>10,880</b>
	<b>Borrowed cash and signed a note.</b>	
<b>26</b>	<b>Cash.....</b> 1,140	
	<b>Accounts Receivable .....</b>	<b>1,140</b>
	<b>Collection on account.</b>	
<b>29</b>	<b>Accounts Payable .....</b> 1,050	
	<b>Cash .....</b>	<b>1,050</b>
	<b>Payment on account.</b>	
<b>30</b>	<b>Cash.....</b> 800	
	<b>Unearned Revenue.....</b>	<b>800</b>
	<b>Received cash in advance from customer.</b>	

## EXERCISE 2.5 (Continued)

<b>Mar. 31</b>	<b>J. MacKenzie, Drawings .....</b>	<b>1,720</b>	
	<b>Cash .....</b>		<b>1,720</b>
	<b>Withdrew cash for personal use by owner.</b>		

LO 2 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

## EXERCISE 2.6

### Transaction 1:

<b>Basic Analysis</b>	The expense account Rent Expense is increased by \$550. The asset account Cash is decreased by \$550.												
<b>Debit/Credit Analysis</b>	Debits increase expenses: debit Rent Expense \$550. Credits decrease assets: credit Cash \$550.												
<b>Journal Entry</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; vertical-align: top;">June 1</td> <td style="width: 60%;">Rent Expense</td> <td style="width: 15%; text-align: right; vertical-align: bottom;">550</td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td style="padding-left: 20px;">Cash</td> <td></td> <td style="text-align: right; vertical-align: bottom;">550</td> </tr> <tr> <td></td> <td colspan="3" style="text-align: center;">Paid June rent.</td> </tr> </table>	June 1	Rent Expense	550			Cash		550		Paid June rent.		
June 1	Rent Expense	550											
	Cash		550										
	Paid June rent.												

### Transaction 2:

<b>Basic Analysis</b>	The expense account Insurance Expense is increased by \$175. The asset account Cash is decreased by \$175.												
<b>Debit/Credit Analysis</b>	Debits increase expenses: debit Insurance Expense \$175. Credits decrease assets: credit Cash \$175.												
<b>Journal Entry</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; vertical-align: top;">June 2</td> <td style="width: 60%;">Insurance Expense</td> <td style="width: 15%; text-align: right; vertical-align: bottom;">175</td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td style="padding-left: 20px;">Cash</td> <td></td> <td style="text-align: right; vertical-align: bottom;">175</td> </tr> <tr> <td></td> <td colspan="3" style="text-align: center;">Paid one month of insurance.</td> </tr> </table>	June 2	Insurance Expense	175			Cash		175		Paid one month of insurance.		
June 2	Insurance Expense	175											
	Cash		175										
	Paid one month of insurance.												

### Transaction 3:

<b>Basic Analysis</b>	The asset account Cash is increased by \$1,255. The revenue account Service Revenue is increased by \$1,255.												
<b>Debit/Credit Analysis</b>	Debits increase assets: debit Cash \$1,255. Credits increase revenue: credit Service Revenue \$1,255.												
<b>Journal Entry</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; vertical-align: top;">June 5</td> <td style="width: 60%;">Cash</td> <td style="width: 15%; text-align: right; vertical-align: bottom;">1,255</td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td style="padding-left: 20px;">Service Revenue</td> <td></td> <td style="text-align: right; vertical-align: bottom;">1,255</td> </tr> <tr> <td></td> <td colspan="3" style="text-align: center;">Received cash for services provided.</td> </tr> </table>	June 5	Cash	1,255			Service Revenue		1,255		Received cash for services provided.		
June 5	Cash	1,255											
	Service Revenue		1,255										
	Received cash for services provided.												

**EXERCISE 2.6 (Continued)**

**Transaction 4:**

<b>Basic Analysis</b>	<b>June 9: An accounting transaction has not occurred. A debit/credit analysis is not needed because there is no accounting entry.</b>
-----------------------	--

**Transaction 5:**

<b>Basic Analysis</b>	<b>The liability account Accounts Payable is decreased by \$675. The asset account Cash is decreased by \$675.</b>									
<b>Debit/Credit Analysis</b>	<b>Debits decrease liabilities: debit Accounts Payable \$675. Credits decrease assets: credit Cash \$675.</b>									
<b>Journal Entry</b>	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"><b>June 14 Accounts Payable</b></td> <td style="width: 20%; text-align: right;"><b>675</b></td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 100px;"><b>Cash</b></td> <td></td> <td style="text-align: right;"><b>675</b></td> </tr> <tr> <td colspan="3" style="text-align: center;"><b>Paid cash on account.</b></td> </tr> </table>	<b>June 14 Accounts Payable</b>	<b>675</b>		<b>Cash</b>		<b>675</b>	<b>Paid cash on account.</b>		
<b>June 14 Accounts Payable</b>	<b>675</b>									
<b>Cash</b>		<b>675</b>								
<b>Paid cash on account.</b>										

**Transaction 6:**

<b>Basic Analysis</b>	<b>The asset account Accounts Receivable is increased by \$1,420. The revenue account Service Revenue is increased by \$1,420.</b>									
<b>Debit/Credit Analysis</b>	<b>Debits increase assets: debit Accounts Receivable \$1,420. Credits increase revenues: credit Service Revenue \$1,420.</b>									
<b>Journal Entry</b>	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"><b>June 17 Accounts Receivable</b></td> <td style="width: 20%; text-align: right;"><b>1,420</b></td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 100px;"><b>Service Revenue</b></td> <td></td> <td style="text-align: right;"><b>1,420</b></td> </tr> <tr> <td colspan="3" style="text-align: center;"><b>Performed services on account for Rudy Holland.</b></td> </tr> </table>	<b>June 17 Accounts Receivable</b>	<b>1,420</b>		<b>Service Revenue</b>		<b>1,420</b>	<b>Performed services on account for Rudy Holland.</b>		
<b>June 17 Accounts Receivable</b>	<b>1,420</b>									
<b>Service Revenue</b>		<b>1,420</b>								
<b>Performed services on account for Rudy Holland.</b>										

**EXERCISE 2.6 (Continued)**

**Transaction 7:**

<b>Basic Analysis</b>	The asset account <b>Cash</b> is increased by <b>\$1,000</b> . The liability account <b>Unearned Revenue</b> is increased by <b>\$1,000</b> .									
<b>Debit/Credit Analysis</b>	Debits increase assets: debit <b>Cash \$1,000</b> . Credits increase liabilities: credit <b>Unearned Revenue \$1,000</b> .									
<b>Journal Entry</b>	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"><b>June 19 Cash</b></td> <td style="width: 20%; text-align: right;"><b>1,000</b></td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 40px;"><b>Unearned Revenue</b></td> <td></td> <td style="text-align: right;"><b>1,000</b></td> </tr> <tr> <td colspan="3" style="text-align: center;"><b>Received advance from J. Dupuis for future services.</b></td> </tr> </table>	<b>June 19 Cash</b>	<b>1,000</b>		<b>Unearned Revenue</b>		<b>1,000</b>	<b>Received advance from J. Dupuis for future services.</b>		
<b>June 19 Cash</b>	<b>1,000</b>									
<b>Unearned Revenue</b>		<b>1,000</b>								
<b>Received advance from J. Dupuis for future services.</b>										

**Transaction 8:**

<b>Basic Analysis</b>	The asset account <b>Equipment</b> is increased by <b>\$1,575</b> . The liability account <b>Accounts Payable</b> is increased by <b>\$1,575</b> .									
<b>Debit/Credit Analysis</b>	Debits increase assets: debit <b>Equipment \$1,575</b> . Credits increase liabilities: credit <b>Accounts Payable \$1,575</b> .									
<b>Journal Entry</b>	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"><b>June 29 Equipment</b></td> <td style="width: 20%; text-align: right;"><b>1,575</b></td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 40px;"><b>Accounts Payable</b></td> <td></td> <td style="text-align: right;"><b>1,575</b></td> </tr> <tr> <td colspan="3" style="text-align: center;"><b>Purchased equipment on account.</b></td> </tr> </table>	<b>June 29 Equipment</b>	<b>1,575</b>		<b>Accounts Payable</b>		<b>1,575</b>	<b>Purchased equipment on account.</b>		
<b>June 29 Equipment</b>	<b>1,575</b>									
<b>Accounts Payable</b>		<b>1,575</b>								
<b>Purchased equipment on account.</b>										

**Transaction 9:**

<b>Basic Analysis</b>	The expense account <b>Salaries Expense</b> is increased by <b>\$850</b> . The asset account <b>Cash</b> is decreased by <b>\$850</b> .									
<b>Debit/Credit Analysis</b>	Debits increase expenses: debit <b>Salaries Expense \$850</b> . Credits decrease assets: credit <b>Cash \$850</b> .									
<b>Journal Entry</b>	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"><b>June 30 Salaries Expense</b></td> <td style="width: 20%; text-align: right;"><b>850</b></td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding-left: 40px;"><b>Cash</b></td> <td></td> <td style="text-align: right;"><b>850</b></td> </tr> <tr> <td colspan="3" style="text-align: center;"><b>Paid employee.</b></td> </tr> </table>	<b>June 30 Salaries Expense</b>	<b>850</b>		<b>Cash</b>		<b>850</b>	<b>Paid employee.</b>		
<b>June 30 Salaries Expense</b>	<b>850</b>									
<b>Cash</b>		<b>850</b>								
<b>Paid employee.</b>										

**EXERCISE 2.6 (Continued)****Transaction 10:**

<b>Basic Analysis</b>	<b>The owner's equity account D. Bratt, Drawings is increased by \$1,250. The asset account Cash is decreased by \$1,250.</b>									
<b>Debit/Credit Analysis</b>	<b>Debits increase drawings: debit D. Bratt, Drawings \$1,250. Credits decrease assets: credit Cash \$1,250.</b>									
<b>Journal Entry</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"><b>June 30 D. Bratt, Drawings</b></td> <td style="width: 20%; text-align: right;"><b>1,250</b></td> <td style="width: 20%;"></td> </tr> <tr> <td style="text-align: right;"><b>Cash</b></td> <td></td> <td style="text-align: right;"><b>1,250</b></td> </tr> <tr> <td colspan="3" style="text-align: center;"><b>Paid D. Bratt, the company owner.</b></td> </tr> </table>	<b>June 30 D. Bratt, Drawings</b>	<b>1,250</b>		<b>Cash</b>		<b>1,250</b>	<b>Paid D. Bratt, the company owner.</b>		
<b>June 30 D. Bratt, Drawings</b>	<b>1,250</b>									
<b>Cash</b>		<b>1,250</b>								
<b>Paid D. Bratt, the company owner.</b>										

LO 2 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

## EXERCISE 2.7

Mar.	1	Rent Expense .....	1,200	
		Cash .....		1,200
		Paid March rent.		
	3	Accounts Receivable .....	160	
		Service Revenue.....		160
		Performed services on account.		
	5	Cash.....	75	
		Service Revenue.....		75
		Performed services for cash.		
	8	Equipment .....	300	
		Cash .....		100
		Accounts Payable .....		200
		Purchased equipment for cash and on account.		
	12	Cash.....	160	
		Accounts Receivable .....		160
		Collection on account.		
	14	Salaries Expense .....	525	
		Cash .....		525
		Paid employee salaries.		
	22	Utilities Expense .....	172	
		Cash .....		172
		Paid utilities expense.		
	26	Repairs Expense .....	220	
		Cash .....		200
		Paid for plumbing repairs.		
	28	Account Payable.....	200	
		Cash .....		200
		Payment on account.		

**EXERCISE 2.7 (Continued)**

<b>Mar. 30</b>	<b>Prepaid Insurance.....</b>	<b>1,800</b>	
	<b>Cash .....</b>		<b>1,800</b>
	<b>Paid for insurance in advance.</b>		

LO 2 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

**EXERCISE 2.8**

**GENERAL JOURNAL**

<b>Trans.</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
1.	<b>Cash .....</b>	<b>1,820</b>	
	<b>Service Revenue.....</b>		<b>1,820</b>
	<b>Received cash for services performed.</b>		
2.	<b>Rent Expense .....</b>	<b>1,095</b>	
	<b>Cash.....</b>		<b>1,095</b>
	<b>Paid October rent.</b>		
3.	<b>Supplies .....</b>	<b>450</b>	
	<b>Accounts Payable.....</b>		<b>450</b>
	<b>Purchased supplies on account.</b>		
4.	<b>Accounts Receivable .....</b>	<b>2,105</b>	
	<b>Service Revenue.....</b>		<b>2,105</b>
	<b>Performed services on account.</b>		
5.	<b>Cash .....</b>	<b>1,225</b>	
	<b>Accounts Receivable.....</b>		<b>1,225</b>
	<b>Collection on account.</b>		
6.	<b>Cash .....</b>	<b>7,960</b>	
	<b>Unearned Revenue .....</b>		<b>7,960</b>
	<b>Received cash in advance from customer.</b>		



**EXERCISE 2.8 (Continued)****GENERAL JOURNAL**

<b>Trans.</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
7.	<b>Prepaid Insurance</b> .....	<b>8,120</b>	
	<b>Cash</b> .....		<b>8,120</b>
	<b>Paid for insurance in advance.</b>		
8.	<b>Accounts Payable</b> .....	<b>450</b>	
	<b>Cash</b> .....		<b>450</b>
	<b>Payment on account.</b>		
9.	<b>S. Beaulieu, Drawings</b> .....	<b>2,800</b>	
	<b>Cash</b> .....		<b>2,800</b>
	<b>Withdrew cash for personal use by owner.</b>		

LO 2 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

## EXERCISE 2.9

a.

### GENERAL JOURNAL

Date	Account Titles	Debit	Credit
June 1	Cash .....	13,430	
	Equipment .....	3,490	
	<b>S. Polland, Capital .....</b>		<b>16,920</b>
	<b>Invested cash and equipment in business.</b>		
2	Prepaid Insurance .....	1,420	
	Cash.....		1,420
	<b>Paid for insurance in advance.</b>		
3	Equipment .....	4,580	
	Cash.....		930
	Notes Payable .....		3,650
	<b>Purchased equipment for cash and signed a note.</b>		
10	Cash .....	220	
	Service Revenue.....		220
	<b>Received cash for services performed.</b>		
16	Accounts Receivable .....	8,000	
	Service Revenue.....		8,000
	<b>Performed services on account.</b>		
27	Advertising Expense.....	650	
	Cash.....		650
	<b>Paid for advertising expense.</b>		
29	Telephone Expense .....	80	
	Accounts Payable.....		80
	<b>Received telephone invoice.</b>		
30	Salaries Expense.....	1,830	
	Cash.....		1,830
	<b>Paid employee salaries.</b>		

**EXERCISE 2.9 (Continued)**

**GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>June 30</b>	<b>Cash .....</b>	<b>8,000</b>	
	<b>Accounts Receivable.....</b>		<b>8,000</b>
	<b>Collection on account.</b>		

**EXERCISE 2.9 (Continued)**

**b.**

<b>Cash</b>			<b>S. Polland, Capital</b>		
June 1	13,430	June 2	1,420	June 1	16,920
10	220	3	930		
30	8,000	27	650		
		30	1,830		
<b>June30Bal. 16,820</b>			<b>June30Bal. 16,920</b>		

<b>Accounts Receivable</b>			<b>Service Revenue</b>		
June 16	8,000	June 30	8,000	June 10	220
				16	8,000
<b>June 30 Bal. 0</b>			<b>June30 Bal. 8,220</b>		

<b>Prepaid Insurance</b>	
June 2	1,420
<b>June 30Bal. 1,420</b>	

<b>Equipment</b>		<b>Salaries Expense</b>	
June 1	3,490	June 30	1,830
3	4,580		
<b>June30Bal. 8,070</b>		<b>June30Bal. 1,830</b>	

<b>Notes Payable</b>		<b>Advertising Expense</b>		
	June 3	3,650	June 27	650
	<b>June30 Bal.3,650</b>		<b>June 30 Bal.650</b>	

<b>Accounts Payable</b>		<b>Telephone Expense</b>		
	June 29	80	June 29	80
	<b>June30 Bal. 80</b>		<b>June 30 Bal. 80</b>	

LO 2,3 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

## EXERCISE 2.10

Apr.	1	Cash.....	24,000	
		A. Santos, Capital.....		24,000
		Invested cash in business.		
	2	Rent Expense .....	1,800	
		Cash .....		1,800
		Paid April rent.		
	3	Cash.....	7,000	
		Notes Payable.....		7,000
		Borrowed cash and signed a note.		
	4	Equipment .....	5,000	
		Cash .....		5,000
		Purchased equipment with cash.		
	6	Supplies.....	1,450	
		Cash .....		1,450
		Cash purchase of supplies.		
	8	Advertising Expense .....	1,600	
		Accounts Payable .....		1,600
		Purchased advertising on account.		
	10	Cash.....	2,000	
		Accounts Receivable.....	16,000	
		Service Revenue.....		18,000
		Performed services for cash and on account.		
	15	A. Santos, Drawings .....	1,000	
		Cash .....		1,000
		Withdrew cash for personal use by owner.		
	18	Accounts Payable.....	1,600	
		Cash .....		1,600
		Payment on account.		

**EXERCISE 2.10 (Continued)**

<b>Apr. 20</b>	<b>Salaries Expense .....</b>	<b>6,400</b>	
	<b>    Cash .....</b>		<b>6,400</b>
	<b>    Paid employee salaries.</b>		
<b>22</b>	<b>Cash .....</b>	<b>12,000</b>	
	<b>    Accounts Receivable .....</b>		<b>12,000</b>
	<b>    Collection on account.</b>		
<b>29</b>	<b>Utilities Expense .....</b>	<b>500</b>	
	<b>    Cash .....</b>		<b>500</b>
	<b>    Paid for utilities expense.</b>		
<b>30</b>	<b>Interest Expense .....</b>	<b>40</b>	
	<b>    Cash .....</b>		<b>40</b>
	<b>    Paid for interest on bank loan.</b>		

LO 2 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

## EXERCISE 2.11

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

LO 3 BT: K Difficulty: C Time: 15 min. AACSB: None CPA: cpa-t001 CM: Reporting

**EXERCISE 2.12**

a. and b.

<b>Cash</b>				<b>Accounts Payable</b>			
Sept. 1	17,400	(2)	700			Sept. 1	1,000
(1)	1,200	(3)	200			(6)	1,000
(4)	1,000			(3)	200		
<b>Sept.30Bal.18,700</b>				<b>Sept.30 Bal. 1,800</b>			

<b>Accounts Receivable</b>				<b>Unearned Revenue</b>			
Sept. 1	2,000	(4)	1,000	(5)	1,200	Sept. 1	1,600
<b>Sept. 30 Bal.1,000</b>				<b>Sept.30Bal. 400</b>			

<b>Supplies</b>				<b>Owner's Capital</b>			
Sept. 1	1,900					Sept. 1	16,000
(6)	1,000						
<b>Sept. 30 Bal. 2,900</b>				<b>Sept.30Bal. 16,000</b>			

<b>Salaries Expense</b>				<b>Service Revenue</b>			
Sept. 1	1,400					Sept. 1	4,100
(2)	700					(1)	1,200
						(5)	1,200
<b>Sept.30Bal. 2,100</b>				<b>Sept. 30Bal. 6,500</b>			



**EXERCISE 2.12 (Continued)**

**c.**

**DEPOT COMPANY  
Trial Balance  
September 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$18,700	
Accounts receivable .....	1,000	
Supplies .....	2,900	
Accounts payable .....		\$ 1,800
Unearned revenue .....		400
Owner's capital .....		16,000
Service revenue .....		6,500
Salaries expense .....	<u>2,100</u>	
	<u>\$24,700</u>	<u>\$24,700</u>

LO 3,4 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

### EXERCISE 2.13

a.

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

Accounts Receivable		Service Revenue	
Aug. 25	1,700	Aug. 31	900
Aug. 31 Bal.	800	Aug.10	2,600
		25	1,700
		Aug.31Bal.	4,300

Equipment		Notes Payable	
Aug. 12	5,000	Aug. 12	2,700
Aug. 31Bal.	5,000	Aug.31 Bal	2,700

b.

**JUNE FELDMAN, INVESTMENT BROKER**  
**Trial Balance**  
**August 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$6,200	
Accounts receivable .....	800	
Equipment .....	5,000	
Notes payable.....		\$ 2,700
J. Feldman, capital .....		5,000
Service revenue.....		4,300
	<u>\$12,000</u>	<u>\$12,000</u>

LO 3,4 BT: AP Difficulty: M Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

**EXERCISE 2.14**

<b>a.</b>		<b>GENERAL JOURNAL</b>		<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>	
<b>Oct. 1</b>	<b>Cash .....</b>	<b>1,200</b>		
	<b>    A. Fortin, Capital .....</b>		<b>1,200</b>	
	<b>    Invested cash in business.</b>			
<b>3</b>	<b>Equipment .....</b>	<b>5,400</b>		
	<b>    Cash.....</b>		<b>400</b>	
	<b>    Notes Payable .....</b>		<b>5,000</b>	
	<b>    Purchased equipment and issued a note.</b>			
<b>4</b>	<b>Supplies .....</b>	<b>800</b>		
	<b>    Accounts Payable.....</b>		<b>800</b>	
	<b>    Purchased supplies on account.</b>			
<b>6</b>	<b>Accounts Receivable .....</b>	<b>1,000</b>		
	<b>    Service Revenue .....</b>		<b>1,000</b>	
	<b>    Performed services on account.</b>			
<b>10</b>	<b>Cash .....</b>	<b>650</b>		
	<b>    Service Revenue.....</b>		<b>650</b>	
	<b>    Performed services for cash.</b>			
<b>12</b>	<b>Accounts Payable .....</b>	<b>500</b>		
	<b>    Cash.....</b>		<b>500</b>	
	<b>    Payment on account.</b>			
<b>15</b>	<b>Cash .....</b>	<b>3,000</b>		
	<b>    Service Revenue.....</b>		<b>3,000</b>	
	<b>    Performed services for cash.</b>			
<b>20</b>	<b>Accounts Receivable .....</b>	<b>940</b>		
	<b>    Service Revenue .....</b>		<b>940</b>	
	<b>    Performed services on account.</b>			

**EXERCISE 2.14 (Continued)****a. (Continued)**

<b>GENERAL JOURNAL</b>			<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
<b>Oct. 21</b>	<b>Cash .....</b>	<b>800</b>	
	<b>    Accounts Receivable.....</b>		<b>800</b>
	<b>    Collection on account.</b>		
<b>25</b>	<b>Cash .....</b>	<b>2,000</b>	
	<b>    A. Fortin, Capital.....</b>		<b>2,000</b>
	<b>    Invested cash in business.</b>		
<b>28</b>	<b>Advertising Expense.....</b>	<b>400</b>	
	<b>    Accounts Payable.....</b>		<b>400</b>
	<b>    Purchased advertising on account.</b>		
<b>30</b>	<b>A. Fortin, Drawings .....</b>	<b>600</b>	
	<b>    Cash.....</b>		<b>600</b>
	<b>    Withdrew cash for personal use by owner.</b>		
<b>31</b>	<b>Rent Expense .....</b>	<b>250</b>	
	<b>    Cash.....</b>		<b>250</b>
	<b>    Paid rent for October.</b>		
<b>31</b>	<b>Salaries Expense.....</b>	<b>500</b>	
	<b>    Cash.....</b>		<b>500</b>
	<b>    Paid employee salaries.</b>		

**EXERCISE 2.14 (Continued)**

b.

**FORTIN CO.**  
**Trial Balance**  
**October 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 5,400	
Accounts receivable .....	1,140	
Supplies .....	800	
Equipment .....	5,400	
Notes payable .....		\$ 5,000
Accounts payable .....		700
A. Fortin, capital .....		3,200
A. Fortin, drawings .....	600	
Service revenue .....		5,590
Advertising expense .....	400	
Rent expense .....	250	
Salaries expense .....	500	
	<u>\$14,490</u>	<u>\$14,490</u>

LO 2,4 BT: AP Difficulty: C Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

## EXERCISE 2.15

a. and b.

Cash				L. Meche, Capital	
July 31	8,800	Aug. 1	1,200	July 31	15,000
Aug. 12	2,400	10	420		
31	5,910	25	2,250		
		30	540		
		31	4,770		
Aug.31 Bal. 7,930				Aug.31 Bal. 15,000	

Accounts Receivable			L. Meche, Drawings		
July 31	2,750	Aug. 12	2,400	July 31	5,125
Aug. 31	2,550			Aug. 31	4,770
Aug. 31 Bal. 2,900				Aug.31Bal. 9,895	

Supplies		Service Revenue	
July 31	585	July 31	10,410
		Aug. 31	8,460
Aug.31 Bal. 585		Aug.31Bal.18,870	

Equipment		Rent Expense	
July 31	15,550	July 31	1,200
		Aug. 1	1,200
Aug.31Bal. 15,550		Aug.31 Bal. 2,400	

Notes Payable		Salaries Expense	
Aug. 30	500	July 31	10,000
		Aug. 25	2,250
		Aug.31 Bal.4,500	
		Aug. 31 Bal. 9,500	

Accounts Payable		Interest Expense	
Aug. 10	420	July 31	850
		Aug.30	40
		Aug.31 Bal. 40	
		Aug. 31 Bal. 430	

**EXERCISE 2.15 (Continued)**

**c.**

**LEE MECHE, MD  
Trial Balance  
August 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$7,930	
Accounts receivable .....	2,900	
Supplies .....	585	
Equipment .....	15,550	
Notes payable .....		\$9,500
Accounts payable .....		430
L. Meche, capital .....		15,000
L. Meche, drawings .....	9,895	
Service revenue .....		18,870
Interest expense .....	40	
Rent expense .....	2,400	
Salaries expense .....	4,500	
	<u>\$43,800</u>	<u>\$43,800</u>

LO 3,4 BT: AP Difficulty: M Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

## EXERCISE 2.16

a.

GENERAL JOURNAL				J1
Date	Account Titles	Debit	Credit	
July 2	Rent Expense .....	1,060		
	Cash.....		1,060	
	Paid July rent.			
4	Supplies .....	790		
	Accounts Payable.....		790	
	Purchased supplies on account.			
15	Accounts Payable .....	680		
	Cash.....		680	
	Payment on account.			
31	Salaries expense .....	2,420		
	Cash.....		2,420	
	Paid employee salaries.			
31	Cash .....	9,940		
	Accounts Receivable .....	400		
	Service Revenue.....		10,340	
	Performed services for cash and on account.			

b. and c.

Cash			Accounts Payable		
June 30	5,820	July 2	1,060	June 30	680
31	9,940	15	680	July 4	790
		31	2,420	July 15	680
July 31 Bal.	11,600			July 31	Bal. 790

  

Accounts Receivable		Notes Payable	
July 31	400	June 30	50,020
July 31 Bal.	400	July 31	Bal. 50,020



**EXERCISE 2.16 (Continued)**

**b. and c. (Continued)**

<b>Supplies</b>		<b>S. Ahuja, Capital</b>	
June 30	1,180	June 30	21,290
July 4	790		
July 31 Bal.	1,970	July 31 Bal.	21,290

<b>Equipment</b>		<b>Service Revenue</b>	
June 30	64,990	July 31	10,340
July 31 Bal.	64,990	July 31 Bal.	10,340

<b>Rent Expense</b>		<b>Salaries Expense</b>	
July 2	1,060	July 31	2,420
July 31 Bal.	1,060	July 31 Bal.	2,420

**d.**

**AHUJA DENTAL SERVICES  
Trial Balance  
July 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$11,600	
Accounts receivable .....	400	
Supplies .....	1,970	
Equipment .....	64,990	
Notes payable .....		\$50,020
Accounts payable .....		790
S. Ahuja, capital .....		21,290
Service revenue .....		10,340
Rent expense .....	1,060	
Salaries expense .....	2,420	
	<u>\$82,440</u>	<u>\$82,440</u>

LO 2,3,4 BT: AP Difficulty: M Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

## EXERCISE 2.17

a.

**O'NEILL'S PSYCHOLOGICAL SERVICES**  
**Trial Balance**  
**July 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 6,470	
Accounts receivable .....	7,340	
Supplies .....	790	
Equipment .....	58,900	
Notes payable .....		\$22,960
Accounts payable .....		9,030
Unearned revenue .....		1,350
T. O'Neill, capital .....		64,340
T. O'Neill, drawings .....	57,980	
Service revenue .....		96,180
Rent expense .....	10,880	
Salaries expense .....	45,540	
Supplies expense .....	5,960	
	<u>\$193,860</u>	<u>\$193,860</u>

**EXERCISE 2.17 (Continued)**

**b.**

**O'NEILL'S PSYCHOLOGICAL SERVICES**  
**Income Statement**  
**Year Ended July 31, 2021**

---

<b>Revenues</b>	
Service revenue .....	<b>\$96,180</b>
<b>Expenses</b>	
Rent expense .....	\$10,880
Salaries expense .....	45,540
Supplies expense .....	<u>5,960</u>
Total expenses .....	<u>62,380</u>
Profit .....	<u><b>\$33,800</b></u>

**O'NEILL'S PSYCHOLOGICAL SERVICES**  
**Statement of Owner's Equity**  
**Year Ended July 31, 2021**

---

T. O'Neill, capital, August 1, 2020 .....	<b>\$64,340</b>
Add: Profit .....	<u>33,800</u>
	98,140
Less: Drawings .....	<u>57,980</u>
T. O'Neill, capital, July 31, 2021 .....	<u><b>\$40,160</b></u>

**EXERCISE 2.17 (Continued)**

**b. (Continued)**

**O'NEILL'S PSYCHOLOGICAL SERVICES**  
**Balance Sheet**  
**July 31, 2021**

---

<u><b>Assets</b></u>	
Cash .....	\$ 6,470
Accounts receivable .....	7,340
Supplies .....	790
Equipment .....	<u>58,900</u>
<b>Total assets</b> .....	<b><u>\$73,500</u></b>
 <u><b>Liabilities and Owner's Equity</b></u>  	
<b>Liabilities</b>	
Notes payable .....	\$22,960
Accounts payable .....	9,030
Unearned revenue .....	<u>1,350</u>
<b>Total liabilities</b> .....	<b>33,340</b>
<b>Owner's Equity</b>	
T. O'Neill, capital.....	<u>40,160</u>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$73,500</u></b>

LO 4 BT: AP Difficulty: M Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

**EXERCISE 2.18**

<u>Error</u>	a. In <u>Balance</u>	b. <u>Difference</u>	c. <u>Larger</u> <u>Column</u>	d. <u>Incorrect Accounts</u>
1.*	No	\$400	Debit	Accounts Payable
2.	Yes	\$0	None	Rent Expense Prepaid Rent
3.	Yes	\$0	None	Accounts Receivable Service Revenue
4.	No	\$500	Credit	Accounts Payable
5.	Yes	\$0	None	Supplies Cash
6.	No	\$18	Credit	Advertising Expense
7.	Yes	\$0	None	Cash Salaries Expense

**\*Solution provided in text.**

LO 4 BT: AN Difficulty: C Time: 20 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

## EXERCISE 2.19

### ROYAL MOUNTAIN TOURS Trial Balance March 31, 2021

	<u>Debit</u>	<u>Credit</u>
Cash (\$12,800+ \$400 – [\$240 × 2]).....	\$12,720	
Accounts receivable (\$4,090 + \$900 + \$770) .....	5,760	
Supplies .....	840	
Equipment .....	7,350	
Accounts payable (\$2,500 + 400) .....		\$ 2,900
T. Zelinski, capital .....		24,000
T. Zelinski, drawings .....	3,650	
Service revenue (\$6,750 + \$770) .....		7,520
Advertising expense .....	3,700	
Salaries expense .....	400	
<b>Totals</b>	<b><u>\$34,420</u></b>	<b><u>\$34,420</u></b>

LO 4 BT: AP Difficulty: C Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

## SOLUTIONS TO PROBLEMS

### PROBLEM 2.1A

a.

<u>Trans- action</u>	Account Debited			Account Credited		
	1. <u>Basic Type</u>	2. <u>Specific Account</u>	3. <u>Effect</u>	1. <u>Basic Type</u>	2. <u>Specific Account</u>	3. <u>Effect</u>
Apr. 1*	Asset	Cash	+ \$12,800	Owner's Equity	N. Dhaliwal, Capital	+ \$12,800
2	Asset	Equipment	+ \$5,000	Liability	Accounts Payable	+\$5,000
2	Asset	Prepaid Insurance	+ \$1,500	Asset	Cash	- \$1,500
2	Asset	Supplies	+ \$590	Asset	Cash	- \$590
7	Owner's Equity	Advertising Expense	+ \$600	Asset	Cash	- \$600
8	Asset	Cash	+ \$630	Owner's Equity	Service Revenue	+ \$630

**PROBLEM 2.1A (Continued)****a. (Continued)**

<b>Trans- action</b>	<b>Account Debited</b>			<b>Account Credited</b>		
	<b>(1) Basic Type</b>	<b>(2) Specific Account</b>	<b>(3) Effect</b>	<b>(1) Basic Type</b>	<b>(2) Specific Account</b>	<b>(3) Effect</b>
<b>Apr.10</b>	<b>No transaction now (see Apr. 28).</b>					
<b>25</b>	<b>Owner's Equity</b>	<b>N. Dhaliwal, Drawings</b>	<b>+ \$960</b>	<b>Asset</b>	<b>Cash</b>	<b>– \$960</b>
<b>28</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$1,270</b>	<b>Owner's Equity</b>	<b>Service Revenue</b>	<b>+ \$1,270</b>
<b>29</b>	<b>Asset</b>	<b>Cash</b>	<b>+ \$1,800</b>	<b>Liability</b>	<b>Unearned Revenue</b>	<b>+ \$1,800</b>
<b>30</b>	<b>Liability</b>	<b>Accounts Payable</b>	<b>– \$5,000</b>	<b>Asset</b>	<b>Cash</b>	<b>– \$5,000</b>

**\*Solution provided in text.**



**PROBLEM 2.1A (Continued)****b. GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 1</b>	<b>Cash .....</b>	<b>12,800</b>	
	<b>    N. Dhaliwal, Capital.....</b>		<b>12,800</b>
	<b>    Invested cash in business.</b>		
<b>2</b>	<b>Equipment.....</b>	<b>5,000</b>	
	<b>    Accounts Payable .....</b>		<b>5,000</b>
	<b>    Purchased equipment on account.</b>		
<b>2</b>	<b>Prepaid Insurance .....</b>	<b>1,500</b>	
	<b>    Cash.....</b>		<b>1,500</b>
	<b>    Paid insurance in advance.</b>		
<b>2</b>	<b>Supplies .....</b>	<b>590</b>	
	<b>    Cash.....</b>		<b>590</b>
	<b>    Cash purchase of supplies.</b>		
<b>7</b>	<b>Advertising Expense .....</b>	<b>600</b>	
	<b>    Cash.....</b>		<b>600</b>
	<b>    Paid for advertising expense.</b>		
<b>8</b>	<b>Cash .....</b>	<b>630</b>	
	<b>    Service Revenue .....</b>		<b>630</b>
	<b>    Performed services for cash.</b>		
<b>10</b>	<b>No transaction at this time.</b>		
<b>25</b>	<b>N. Dhaliwal, Drawings .....</b>	<b>960</b>	
	<b>    Cash.....</b>		<b>960</b>
	<b>    Withdrew cash for personal use by owner.</b>		
<b>28</b>	<b>Cash .....</b>	<b>1,270</b>	
	<b>    Service Revenue .....</b>		<b>1,270</b>
	<b>    Performed services for cash.</b>		

**PROBLEM 2.1A (Continued)****b. (Continued)****GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 29</b>	<b>Cash .....</b>	<b>1,800</b>	
	<b>    Unearned Revenue .....</b>		<b>1,800</b>
	<b>    Received cash in advance from customer.</b>		
<b>30</b>	<b>Accounts Payable .....</b>	<b>5,000</b>	
	<b>    Cash.....</b>		<b>5,000</b>
	<b>    Payment on account.</b>		

**Taking It Further**

**The investment by the owner increases cash, an asset. Assets are on the left (or debit) side of the accounting equation. The same transaction also increases the right (or credit) side of the accounting equation and increases the owner's capital. Since both the left and right side of the accounting equation must remain in balance, a transaction must have both a debit and a credit.**

LO 1,2 BT: AP Difficulty: S Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.2A</b>
---------------------

### GENERAL JOURNAL

Date	Account Titles	Debit	Credit
May 1	Cash .....	73,800	
	A. Mawani, Capital .....		73,800
	Invested cash in business.		
2	Land .....	108,500	
	Building.....	84,300	
	Equipment.....	59,100	
	Cash.....		60,300
	Notes Payable (\$251,900 – \$60,300)		191,600
	Purchased land, building, and equipment for cash and signed a note.		
4	Equipment.....	17,000	
	Accounts Payable .....		17,000
	Purchased equipment on account.		
5	No entry required.		
6	Prepaid Insurance .....	2,580	
	Cash.....		2,580
	Paid for insurance in advance.		
15	Cash .....	1,830	
	Service Revenue .....		1,830
	Performed services for cash.		
19	Accounts Payable .....	5,480	
	Cash.....		5,480
	Payment on account.		

**PROBLEM 2.2A (Continued)**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>May 20</b>	<b>Cash .....</b>	<b>250</b>	
	<b>    Accounts Receivable .....</b>	<b>250</b>	
	<b>        Service Revenue .....</b>		<b>500</b>
	<b>        Performed services for cash and on account.</b>		
<b>30</b>	<b>Cash .....</b>	<b>250</b>	
	<b>    Accounts Receivable.....</b>		<b>250</b>
	<b>    Collection on account.</b>		
<b>31</b>	<b>Cash .....</b>	<b>3,100</b>	
	<b>    Service Revenue .....</b>		<b>3,100</b>
	<b>    Performed services for cash.</b>		
<b>31</b>	<b>Salaries Expense.....</b>	<b>2,220</b>	
	<b>    Cash.....</b>		<b>2,220</b>
	<b>    Paid employee salaries.</b>		
<b>31</b>	<b>Interest Expense.....</b>	<b>710</b>	
	<b>    Cash.....</b>		<b>710</b>
	<b>    Paid interest on note payable.</b>		
<b>31</b>	<b>A. Mawani, Drawings.....</b>	<b>1,540</b>	
	<b>    Cash.....</b>		<b>1,540</b>
	<b>    Withdrew cash for personal use by owner.</b>		

**Taking It Further**

The purpose of the journal entries is to show the debit and credit effects of each transaction on specific accounts. This helps to prevent and locate errors because the debit and credit amounts in the entry must balance. The journal entries also provide a chronological record of transactions, explain the transactions, and identify source documents.

LO 2 BT: AP Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.3A</b>
---------------------

Aug.	2	Cash ..... 35,000 J. Green, Capital ..... Invest cash in business.	35,000 35,000
	2	Supplies ..... 550 Accounts Payable ..... Purchased supplies on account.	550 550
	5	Equipment..... 10,000 Notes Payable ..... Purchased equipment and signed a note.	10,000 10,000
	9	Cash ..... 7,500 Accounts Receivable ..... 7,500 Service Revenue ..... Performed services for cash and on account.	7,500 7,500 15,000
	14	Salaries Expense..... 1,200 Cash..... Paid employee salaries.	1,200 1,200
	15	J. Green, Drawings ..... 4,300 Cash..... Withdrew cash for personal use by owner.	4,300 4,300
	19	Cash ..... 2,450 Unearned Revenue ..... Received cash in advance from customer.	2,450 2,450
	22	Accounts Payable ..... 550 Cash..... Payment on account.	550 550
	25	Cash ..... 7,500 Accounts Receivable..... Collection on account.	7,500 7,500

**PROBLEM 2.3A (Continued)**

<b>Aug. 26</b>	<b>Office Expense .....</b>	<b>3,200</b>	
	<b>Cash.....</b>		<b>3,200</b>
	<b>Paid office expense.</b>		
<b>30</b>	<b>Interest Expense.....</b>	<b>50</b>	
	<b>Cash.....</b>		<b>50</b>
	<b>Paid interest on note payable.</b>		

**Taking It Further**

**Service revenue and salaries expense are considered equity accounts because transactions that cause increases in service revenue will cause increases in equity and transactions that cause increases in salaries expense will cause decreases in equity.**

**Increases in revenues are recorded on the credit side of the account because the credit side of the capital account represents an increase. On the other hand, increases in salaries expense are recorded on the debit side of the account because the debit side of the capital account represents a decrease.**

LO 2 BT: AP Difficulty: S Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.4A</b>
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a.

Date	Account Titles	Ref.	Debit	Credit
				<b>J1</b>
Apr. 1	Cash.....	101	20,000	
	E. Valley, Capital.....	301		20,000
	Invested cash in business.			
1	No entry—not a transaction.			
2	Rent Expense.....	729	1,100	
	Cash .....	101		1,100
	Paid rent for the month.			
3	Supplies .....	126	4,000	
	Accounts Payable .....	201		4,000
	Purchased supplies on account.			
10	Accounts Receivable.....	112	5,100	
	Service Revenue.....	400		5,100
	Performed services on account.			
11	Cash.....	101	1,000	
	Unearned Revenue.....	209		1,000
	Received cash in advance from customer.			
20	Cash.....	101	2,100	
	Service Revenue.....	400		2,100
	Performed services for cash.			
30	Salaries Expense .....	726	2,800	
	Cash .....	101		2,800
	Paid secretary-receptionist salary.			
30	Accounts Payable .....	201	2,400	
	Cash .....	101		2,400
	Payment on account.			

**PROBLEM 2.4A (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>
<b>Apr. 1</b>		<b>J1</b>	<b>20,000</b>		<b>20,000</b>
<b>2</b>		<b>J1</b>		<b>1,100</b>	<b>18,900</b>
<b>11</b>		<b>J1</b>	<b>1,000</b>		<b>19,900</b>
<b>20</b>		<b>J1</b>	<b>2,100</b>		<b>22,000</b>
<b>30</b>		<b>J1</b>		<b>2,800</b>	<b>19,200</b>
<b>30</b>		<b>J1</b>		<b>2,400</b>	<b>16,800</b>

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 10</b>		<b>J1</b>	<b>5,100</b>		<b>5,100</b>

<b>Supplies</b>					<b>No. 126</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 3</b>		<b>J1</b>	<b>4,000</b>		<b>4,000</b>

<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>
<b>Apr. 3</b>		<b>J1</b>		<b>4,000</b>	<b>4,000</b>
<b>30</b>		<b>J1</b>	<b>2,400</b>		<b>1,600</b>

<b>Unearned Revenue</b>					<b>No. 209</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 11</b>		<b>J1</b>		<b>1,000</b>	<b>1,000</b>



**PROBLEM 2.4A (Continued)**

<b>E. Valley, Capital</b>					<b>No. 301</b>
<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

<b>Service Revenue</b>					<b>No. 400</b>
<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

<b>Salaries Expense</b>					<b>No. 726</b>
<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

<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>
Apr. 2		J1	1,100		1,100

**c. EMILY VALLEY, DENTIST**  
**Trial Balance**  
**April 30, 2021**

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

## **PROBLEM 2.4A (Continued)**

### **Taking It Further**

**The next step in the accounting cycle will be the preparation of a trial balance. The main purpose of the trial balance is to prove that the debits equal the credits after posting. It is also useful in preparing financial statements.**

LO 1,2,3,4 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.5A</b>
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**a. GENERAL JOURNAL**

Date	Account Titles	Ref.	Debit	Credit
Sept. 1	Cash .....	101	9,630	
	G. Rodewald, Capital .....	301		9,630
	Invested cash in business.			
2	Rent Expense .....	726	690	
	Cash.....	101		690
	Paid September rent.			
2	Prepaid Insurance .....	130	750	
	Cash.....	101		750
	Paid insurance policy in advance.			
5	Equipment.....	151	2,640	
	Accounts Payable .....	201		2,640
	Purchased equipment on account.			
7	Advertising Expense .....	610	420	
	Cash.....	101		420
	Paid advertising expense.			
13	Cash .....	101	500	
	Service Revenue .....	400		500
	Performed services for cash.			
21	Accounts Receivable .....	112	800	
	Service Revenue .....	400		800
	Performed services on account.			
24	Cash .....	101	540	
	Accounts Receivable.....	112		540
	Collection on account.			

**PROBLEM 2.5A (Continued)****a. (Continued)**

<b>Date</b>	<b>Account Titles</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Sept. 28</b>	<b>Utilities Expense.....</b>	<b>737</b>	<b>210</b>	
	<b>Cash.....</b>	<b>101</b>		<b>210</b>
	<b>Paid utilities expense.</b>			
<b>29</b>	<b>Accounts Payable .....</b>	<b>201</b>	<b>1,470</b>	
	<b>Cash.....</b>	<b>101</b>		<b>1,470</b>
	<b>Payment on account.</b>			
<b>30</b>	<b>Cash .....</b>	<b>101</b>	<b>860</b>	
	<b>Unearned Revenue .....</b>	<b>209</b>		<b>860</b>
	<b>Received cash in advance from customer.</b>			
<b>30</b>	<b>Cash .....</b>	<b>101</b>	<b>1,045</b>	
	<b>Service Revenue .....</b>	<b>400</b>		<b>1,045</b>
	<b>Performed services for cash.</b>			
<b>30</b>	<b>G. Rodewald, Drawings.....</b>	<b>306</b>	<b>1,490</b>	
	<b>Cash.....</b>	<b>101</b>		<b>1,490</b>
	<b>Withdrew cash for personal use by owner.</b>			

**PROBLEM 2.5A (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>
<b>Sept. 1</b>		<b>J1</b>	<b>9,630</b>		<b>9,630</b>
<b>2</b>		<b>J1</b>		<b>690</b>	<b>8,940</b>
<b>2</b>		<b>J1</b>		<b>750</b>	<b>8,190</b>
<b>7</b>		<b>J1</b>		<b>420</b>	<b>7,770</b>
<b>13</b>		<b>J1</b>	<b>500</b>		<b>8,270</b>
<b>24</b>		<b>J1</b>	<b>540</b>		<b>8,810</b>
<b>28</b>		<b>J1</b>		<b>210</b>	<b>8,600</b>
<b>29</b>		<b>J1</b>		<b>1,470</b>	<b>7,130</b>
<b>30</b>		<b>J1</b>	<b>860</b>		<b>7,990</b>
<b>30</b>		<b>J1</b>	<b>1,045</b>		<b>9,035</b>
<b>30</b>		<b>J1</b>		<b>1,490</b>	<b>7,545</b>

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 21</b>		<b>J1</b>	<b>800</b>		<b>800</b>
<b>24</b>		<b>J1</b>		<b>540</b>	<b>260</b>

<b>Prepaid Insurance</b>					<b>No. 130</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 2</b>		<b>J1</b>	<b>750</b>		<b>750</b>

<b>Equipment</b>					<b>No. 151</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 5</b>		<b>J1</b>	<b>2,640</b>		<b>2,640</b>

**PROBLEM 2.5A (Continued)****b. (Continued)**

<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>
<b>Sept. 5</b>		<b>J1</b>		<b>2,640</b>	<b>2,640</b>
<b>29</b>		<b>J1</b>	<b>1,470</b>		<b>1,170</b>

<b>Unearned Revenue</b>					<b>No. 209</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 30</b>		<b>J1</b>		<b>860</b>	<b>860</b>

<b>G. Rodewald, Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 1</b>		<b>J1</b>		<b>9,630</b>	<b>9,630</b>

<b>G. Rodewald, Drawings</b>					<b>No. 306</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 30</b>		<b>J1</b>	<b>1,490</b>		<b>1,490</b>

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 13</b>		<b>J1</b>		<b>500</b>	<b>500</b>
<b>21</b>		<b>J1</b>		<b>800</b>	<b>1,300</b>
<b>30</b>		<b>J1</b>		<b>1,045</b>	<b>2,345</b>

<b>Advertising Expense</b>					<b>No. 610</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Sept. 7</b>		<b>J1</b>	<b>420</b>		<b>420</b>

**PROBLEM 2.5A (Continued)**

**b. (Continued)**

<b>Rent Expense</b>					<b>No. 726</b>
<u>Date</u>	<u>Explanation</u>	<u>Ref.</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
Sept. 2		J1	690		690

<b>Utilities Expense</b>					<b>No. 737</b>
<u>Date</u>	<u>Explanation</u>	<u>Ref.</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
Sept. 28		J1	210		210

**c.**

**GRETE KANINES  
Trial Balance  
September 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$7,545	
Accounts receivable.....	260	
Prepaid insurance.....	750	
Equipment.....	2,640	
Accounts payable.....		\$1,170
Unearned revenue.....		860
G. Rodewald, capital.....		9,630
G. Rodewald, drawings.....	1,490	
Service revenue.....		2,345
Advertising expense.....	420	
Rent expense.....	690	
Utilities expense.....	210	
	<u>\$14,005</u>	<u>\$14,005</u>

## **PROBLEM 2.5A (Continued)**

### **Taking It Further**

**While Grete is correct in making the connection that transactions involving investments, drawings, revenues, and expenses ultimately have an impact on the owner's capital account, there remains a need for these separate accounts. Without them, a business is unable to report the revenues and expenses on the income statement, and the investments and drawings by the owner on the statement of owner's equity. This detailed information is relevant and necessary to the users of the financial statements.**

LO 2,3,4 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting



<b>PROBLEM 2.6A</b>
---------------------

**a. GENERAL JOURNAL**

Date	Account Titles	Debit	Credit
May 1	Cash .....	44,810	
	Equipment.....	10,690	
	<b>J. Abramson, Capital .....</b>		<b>55,500</b>
	<b>Invested cash and equipment in the business.</b>		
1	<b>No entry—not a transaction.</b>		
2	Prepaid Insurance .....	3,255	
	Cash.....		3,255
	<b>Paid insurance in advance.</b>		
5	Rent Expense .....	2,275	
	Prepaid Rent.....	2,275	
	Cash.....		4,550
	<b>Paid first and final month's rent.</b>		
8	Equipment.....	15,870	
	Cash.....		7,150
	Notes Payable .....		8,720
	<b>Purchased equipment for cash and signed a note.</b>		
9	Supplies .....	570	
	Cash.....		570
	<b>Purchased supplies for cash.</b>		
15	Supplies .....	730	
	Accounts Payable .....		730
	<b>Purchased supplies on account.</b>		
17	Accounts Receivable .....	3,200	
	Service Revenue .....		3,200
	<b>Provided services on account.</b>		

**PROBLEM 2.6A (Continued)****a. (Continued)**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>May 22</b>	<b>Telephone Expense.....</b>	<b>320</b>	
	<b>Cash.....</b>		<b>320</b>
	<b>    Paid telephone expense.</b>		
<b>25</b>	<b>Cash .....</b>	<b>1,120</b>	
	<b>    Service Revenue .....</b>		<b>1,120</b>
	<b>    Provided services for cash.</b>		
<b>26</b>	<b>J. Abramson, Drawings.....</b>	<b>1,980</b>	
	<b>Cash.....</b>		<b>1,980</b>
	<b>    Withdrew cash for personal use by owner.</b>		
<b>28</b>	<b>Cash .....</b>	<b>2,720</b>	
	<b>    Accounts Receivable.....</b>		<b>2,720</b>
	<b>    Collection on account.</b>		
<b>30</b>	<b>Accounts Payable .....</b>	<b>730</b>	
	<b>Cash.....</b>		<b>730</b>
	<b>    Payment on account.</b>		
<b>30</b>	<b>Interest Expense.....</b>	<b>67</b>	
	<b>Cash.....</b>		<b>67</b>
	<b>    Paid interest on note payable.</b>		
<b>31</b>	<b>Cash .....</b>	<b>500</b>	
	<b>    Unearned Revenue .....</b>		<b>500</b>
	<b>    Received cash in advance from customer.</b>		
<b>31</b>	<b>Salaries Expense.....</b>	<b>2,340</b>	
	<b>Cash.....</b>		<b>2,340</b>
	<b>    Paid employee salaries.</b>		

**PROBLEM 2.6A (Continued)**

b.

<b>Cash</b>			
<b>May</b>		<b>May</b>	
1	44,810	2	3,255
25	1,120	5	4,550
28	2,720	8	7,150
31	500	9	570
		22	320
		26	1,980
		30	730
		30	67
		31	2,340
<b>Bal. 28,188</b>			

<b>Accounts Receivable</b>			
<b>May 17</b>	<b>3,200</b>	<b>May 28</b>	<b>2,720</b>
<b>Bal. 480</b>			

2.b.

<b>Supplies</b>	
<b>May 9</b>	<b>570</b>
15	730
<b>Bal. 1,300</b>	

<b>J. Abramson, Capital</b>	
<b>May 1</b>	<b>55,500</b>
<b>Bal. 55,500</b>	

<b>Prepaid Insurance</b>	
<b>May 2</b>	<b>3,255</b>
<b>Bal. 3,255</b>	

<b>J. Abramson, Drawings</b>	
<b>May 26</b>	<b>1,980</b>
<b>Bal. 1,980</b>	

<b>Prepaid Rent</b>	
<b>May 5</b>	<b>2,275</b>
<b>Bal. 2,275</b>	

<b>Service Revenue</b>		
<b>May 17</b>	<b>3,200</b>	
25	1,120	
<b>Bal. 4,320</b>		

<b>Equipment</b>	
<b>May 1</b>	<b>10,690</b>
8	15,870
<b>Bal. 26,560</b>	

<b>Interest Expense</b>	
<b>May 30</b>	<b>67</b>
<b>Bal. 67</b>	

**PROBLEM 2.6A (Continued)**

**b. (Continued)**

<b>Unearned Revenue</b>		
	<b>May 31</b>	<b>500</b>
	<b>Bal.</b>	<b>500</b>

<b>Rent Expense</b>		
<b>May 5</b>	<b>2,275</b>	
	<b>Bal.</b>	<b>2,275</b>

<b>Notes Payable</b>		
	<b>May 8</b>	<b>8,720</b>
	<b>Bal.</b>	<b>8,720</b>

<b>Salaries Expense</b>		
<b>May 31</b>	<b>2,340</b>	
	<b>Bal.</b>	<b>2,340</b>

<b>Accounts Payable</b>			
<b>May 30</b>	<b>730</b>	<b>May 15</b>	<b>730</b>
		<b>Bal.</b>	<b>0</b>

<b>Telephone Expense</b>		
<b>May 22</b>	<b>320</b>	
	<b>Bal.</b>	<b>320</b>

**PROBLEM 2.6A (Continued)**

c.

**ABRAMSON FINANCIAL SERVICES**  
**Trial Balance**  
**May 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$28,188	
Accounts receivable.....	480	
Supplies .....	1,300	
Prepaid insurance.....	3,255	
Prepaid rent.....	2,275	
Equipment.....	26,560	
Unearned revenue .....		\$ 500
Notes payable .....		8,720
J. Abramson, capital.....		55,500
J. Abramson, drawings .....	1,980	
Service revenue .....		4,320
Interest expense .....	67	
Rent expense .....	2,275	
Salaries expense.....	2,340	
Telephone expense .....	320	
	<u>\$69,040</u>	<u>\$69,040</u>

**PROBLEM 2.6A (Continued)****Taking It Further**

**This is not true. The cash account shows an increase of \$28,188 during the month of May, whereas the company shows a loss of \$682 for the month ( $\$4,320 - \$67 - \$2,275 - \$2,340 - \$320$ ). The change in the cash account does not reflect profit or loss because not all transactions that changed cash represent increases in revenues or expenses. One of the major sources of cash during the month is an investment by the owner of \$55,500. This increases owner's equity but is not a source of revenue for the company. The company received cash in advance of doing work (unearned revenue of \$500) and performed services in advance of payment (accounts receivable of \$480), as well as making non-expense payments for services in advance (prepaid rent and insurance), equipment, and owner drawings. The statement of cash flows reconciles the changes in the cash account to its various uses and sources.**

LO 2,3,4 BT: AP Difficulty: M Time: 65 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.7A</b>
---------------------

a.

**GENERAL JOURNAL**

Date	Account Titles	Debit	Credit
May 1	Film Rental Expense .....	25,000	
	Cash.....		10,784
	Accounts Payable.....		14,216
	Rented movies for cash and on account.		
2	No entry—not a transaction.		
7	Advertising Expense.....	1,090	
	Cash.....		1,090
	Paid advertising expense.		
10	Cash .....	35,940	
	Admission Revenue .....		35,940
	To record admission revenue.		
10	Accounts Payable .....	14,216	
	Cash.....		14,216
	Payment on account.		
15	Film Rental Expense .....	28,600	
	Cash.....		14,300
	Accounts Payable.....		14,300
	Rented movies for cash and on account.		
25	Accounts Payable .....	4,990	
	Cash.....		4,990
	Payment on account.		
30	Salaries Expense.....	6,230	
	Cash.....		6,230
	Paid employee salaries.		

**PROBLEM 2.7A (Continued)**

**a. (Continued)**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>May 31</b>	<b>Cash .....</b>	<b>2,370</b>	
	<b>Accounts Receivable .....</b>	<b>1,785</b>	
	<b>Concession Revenue .....</b>		<b>4,155</b>
	<b>To record concession revenue.</b>		
<b>31</b>	<b>Cash .....</b>	<b>41,800</b>	
	<b>Admission Revenue .....</b>		<b>41,800</b>
	<b>To record admission revenue.</b>		
<b>31</b>	<b>Mortgage Payable .....</b>	<b>1,185</b>	
	<b>Interest Expense .....</b>	<b>605</b>	
	<b>Cash.....</b>		<b>1,790</b>
	<b>To record mortgage payment.</b>		

**b. and c.**

**Cash**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>May 1</b>	<b>Balance</b>	✓			<b>18,900</b>
<b>1</b>				<b>10,784</b>	<b>8,116</b>
<b>7</b>				<b>1,090</b>	<b>7,026</b>
<b>10</b>			<b>35,940</b>		<b>42,966</b>
<b>10</b>				<b>14,216</b>	<b>28,750</b>
<b>15</b>				<b>14,300</b>	<b>14,450</b>
<b>25</b>				<b>4,990</b>	<b>9,460</b>
<b>30</b>				<b>6,230</b>	<b>3,230</b>
<b>31</b>			<b>2,370</b>		<b>5,600</b>
<b>31</b>			<b>41,800</b>		<b>47,400</b>
<b>31</b>				<b>1,790</b>	<b>45,610</b>

**Accounts Receivable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>May 31</b>			<b>1,785</b>		<b>1,785</b>



**PROBLEM 2.7A (Continued)****b. and c. (Continued)****Land**

Date	Explanation	Ref.	Debit	Credit	Balance
May 1	Balance	✓			75,000

**Buildings**

Date	Explanation	Ref.	Debit	Credit	Balance
May 1	Balance	✓			69,800

**Equipment**

Date	Explanation	Ref.	Debit	Credit	Balance
May 1	Balance	✓			17,000

**Accounts Payable**

Date	Explanation	Ref.	Debit	Credit	Balance
May 1	Balance	✓			4,990
1				14,216	19,206
10			14,216		4,990
15				14,300	19,290
25			4,990		14,300

**Mortgage Payable**

Date	Explanation	Ref.	Debit	Credit	Balance
May 1	Balance	✓			106,300
31			1,185		105,115

**N. Wood, Capital**

Date	Explanation	Ref.	Debit	Credit	Balance
May 1	Balance	✓			69,410

**PROBLEM 2.7A (Continued)****b. and c. (Continued)****Admission Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 10				35,940	35,940
31				41,800	77,740

**Concession Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31				4,155	4,155

**Advertising Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 7			1,090		1,090

**Film Rental Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 1			25,000		25,000
15			28,600		53,600

**Interest Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31			605		605

**Salaries Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 30			6,230		6,230

**PROBLEM 2.7A (Continued)**

d.

**SEQUEL THEATRE**  
**Trial Balance**  
**May 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$45,610	
Accounts receivable .....	1,785	
Land .....	75,000	
Buildings .....	69,800	
Equipment .....	17,000	
Accounts payable .....		\$ 14,300
Mortgage payable .....		105,115
N. Wood, capital .....		69,410
Admission revenue .....		77,740
Concession revenue .....		4,155
Advertising expense .....	1,090	
Film rental expense .....	53,600	
Interest expense .....	605	
Salaries expense .....	6,230	
	<u>\$270,720</u>	<u>\$270,720</u>

**Taking It Further**

The revenues less the expense in the trial balance show a profit for the month of May of \$20,370 ( $\$77,740 + \$4,155 - \$1,090 - \$53,600 - \$605 - \$6,230$ ). Although a positive profit is a good indication of the company's profitability, it is not sufficient information to determine whether Sequel Theatre is a sound business. One month's transactions do not indicate a pattern of profitability, in particular for businesses such as theatres where revenues tend to be seasonal. The financial results for the entire year should be examined, along with comparative amounts for previous years, to determine if the company has a trend of profitability.

LO 2,3,4 BT: AP Difficulty: M Time: 65 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.8A</b>
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**b. GENERAL JOURNAL**

Date	Account Titles	Debit	Credit
Dec. 1	Rent Expense .....	475	
	Cash.....		475
	Paid rent for December.		
1	Equipment.....	3,500	
	Cash.....		1,500
	Accounts Payable.....		2,000
	Purchased equipment for cash and on account.		
3	Cash .....	2,500	
	Notes Payable .....		2,500
	Borrowed cash and signed a note.		
4	Accounts Payable .....	2,000	
	Cash.....		2,000
	Payment on account.		
4	Cash .....	1,800	
	Accounts Receivable.....		1,800
	Collection on account.		
7	Insurance Expense.....	310	
	Cash.....		310
	Paid insurance for December.		
8	Supplies .....	150	
	Cash.....		150
	Purchased supplies for cash.		
10	Accounts Payable .....	2,130	
	Cash.....		2,130
	Payment on account.		

**PROBLEM 2.8A (Continued)****b. (Continued)**

<b>Dec. 15</b>	<b>Unearned Revenue</b> .....	<b>825</b>	
	<b>Service Revenue</b> .....		<b>825</b>
	<b>Performed services for advance payments.</b>		
<b>20</b>	<b>Cash</b> .....	<b>3,300</b>	
	<b>Service Revenue</b> .....		<b>3,300</b>
	<b>Performed services for cash.</b>		
<b>21</b>	<b>Telephone Expense</b> .....	<b>135</b>	
	<b>Cash</b> .....		<b>135</b>
	<b>Paid telephone expense.</b>		
<b>22</b>	<b>Accounts Receivable</b> .....	<b>2,250</b>	
	<b>Service Revenue</b> .....		<b>2,250</b>
	<b>Performed services on account.</b>		
<b>24</b>	<b>A. Zhawaki, Drawings</b> .....	<b>3,000</b>	
	<b>Cash</b> .....		<b>3,000</b>
	<b>Withdrew cash for personal use by owner.</b>		
<b>29</b>	<b>Cash</b> .....	<b>525</b>	
	<b>Unearned Revenue</b> .....		<b>525</b>
	<b>Received cash in advance from customer.</b>		
<b>30</b>	<b>Travel Expense</b> .....	<b>695</b>	
	<b>Cash</b> .....		<b>695</b>
	<b>Paid travel expense.</b>		
<b>31</b>	<b>Notes Payable</b> .....	<b>200</b>	
	<b>Interest Expense</b> .....	<b>10</b>	
	<b>Cash</b> .....		<b>210</b>
	<b>Made principal and interest payment on note.</b>		

**PROBLEM 2.8A (Continued)**

a. and c.

<b>Cash</b>			
<b>Nov. 30</b>	<b>2,965</b>	<b>Dec. 1</b>	<b>475</b>
<b>Dec. 32,500</b>		<b>1</b>	<b>1,500</b>
<b>4</b>	<b>1,800</b>	<b>4</b>	<b>2,000</b>
<b>20</b>	<b>3,300</b>	<b>7</b>	<b>310</b>
<b>29</b>	<b>525</b>	<b>8</b>	<b>150</b>
		<b>10</b>	<b>2,130</b>
		<b>21</b>	<b>135</b>
		<b>24</b>	<b>3,000</b>
		<b>30</b>	<b>695</b>
		<b>31</b>	<b>210</b>
<b>Bal.</b>	<b>485</b>		

<b>Accounts Receivable</b>			
<b>Nov. 30</b>	<b>2,200</b>	<b>Dec. 4</b>	<b>1,800</b>
<b>Dec. 22</b>	<b>2,250</b>		
<b>Bal.</b>	<b>2,650</b>		

<b>Supplies</b>			
<b>Nov. 30</b>	<b>1,450</b>		
<b>Dec. 8</b>	<b>150</b>		
<b>Bal.</b>	<b>1,600</b>		

**PROBLEM 2.8A (Continued)**

**a. and c. (Continued)**

<b>Equipment</b>	
Nov.30	17,500
Dec. 1	3,500
Bal.	21,000

<b>Notes Payable</b>			
Dec. 31	200	Dec. 3	2,500
		Bal.	2,300

<b>Accounts Payable</b>			
Dec. 4	2,000	Nov.30	4,235
10	2,130	Dec. 1	2,000
		Bal.	2,105

<b>Unearned Revenue</b>			
Dec. 15	825	Nov. 30	825
		Dec. 29	525
		Bal.	525

<b>A. Zhawaki, Capital</b>	
	Nov.30 19,500

<b>A. Zhawaki, Drawings</b>	
Nov.30	31,350
Dec. 24	3,000
Bal.	34,350

<b>Service Revenue</b>	
Nov.30	47,075
Dec. 15	825
20	3,300
22	2,250
Bal.	53,450

<b>Insurance Expense</b>	
Nov.30	3,410
Dec. 7	310
Bal.	3,720

<b>Rent Expense</b>	
Nov.30	5,225
Dec. 1	475
Bal.	5,700

<b>Telephone Expense</b>	
Nov.30	1,485
Dec. 21	135
Bal.	1,620

<b>Travel Expense</b>	
Nov.30	6,050
Dec. 30	695
Bal.	6,745

<b>Interest Expense</b>	
Dec. 31	10
Bal.	10

**PROBLEM 2.8A (Continued)**

d.

**A TO Z MUSIC**  
**Trial Balance**  
**December 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 485	
Accounts receivable.....	2,650	
Supplies .....	1,600	
Equipment.....	21,000	
Notes payable .....		\$ 2,300
Accounts payable.....		2,105
Unearned revenue .....		525
A. Zhawaki, capital.....		19,500
A. Zhawaki, drawings .....	34,350	
Service revenue .....		53,450
Insurance expense .....	3,720	
Rent expense .....	5,700	
Telephone expense .....	1,620	
Travel expense.....	6,745	
Interest expense .....	10	
	<u>\$77,880</u>	<u>\$77,880</u>

**Taking It Further**

The cash balance has decreased from \$2,965 to \$485 during the month of December. This is a substantial decrease from the opening balance and exposes the company to the possibility of not being able to pay its outstanding liabilities. The company borrowed \$2,500 at the beginning of December and used this cash to purchase used equipment for \$3,500. Had the company not borrowed or purchased the additional equipment, the cash balance for the month would have been \$1,695 ( $\$485 + \$3,500 - \$2,500 + \$210$  payment on the note payable). This still represents a substantial decrease from the November ending balance and is cause for concern.



## **PROBLEM 2.8A (Continued)**

### **Taking It Further (Continued)**

**During the month of January, the company should collect outstanding receivables as quickly as possible (in particular, those amounts still outstanding from November) and reduce owner drawings. The company will also need to ensure the additional used equipment generates additional cash as soon as possible.**

LO 2,3,4 BT: AP Difficulty: M Time: 65 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.9A</b>
---------------------

**J. SAGGIT  
Trial Balance  
June 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 8,000	
Accounts receivable .....	10,250	
Supplies .....	5,000	
Prepaid expenses.....	3,000	
Land .....	64,000	
Equipment.....	18,250	
Accounts payable.....		\$ 12,500
Notes payable.....		30,000
J. Saggit, capital.....		28,000
J. Saggit, drawings.....	12,000	
Service revenue.....		63,050
Rent expense.....	4,500	
Utilities expense.....	550	
Salaries expense .....	7,500	
Interest expense.....	500	
	<u>\$133,550</u>	<u>\$133,550</u>

### Taking It Further

**J. Saggit is incorrect in his belief. While the ledger and the trial balance may be in balance, omissions or duplications of entries as well as entries to incorrect accounts may cause the financial statements to be incorrect and therefore not error free.**

LO 4 BT: AP Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.10A</b>
----------------------

a.

**NICHOLAS MARKETING SERVICES**  
**Income Statement**  
**Year Ended December 31, 2021**

---

<b>Revenues</b>		
Service revenue .....		\$35,800
<b>Expenses</b>		
Interest expense .....	\$ 150	
Rent expense .....	6,600	
Salaries expense.....	12,555	
Telephone expense .....	<u>1,540</u>	
Total expenses .....		<u>20,845</u>
Profit.....		<u>\$14,955</u>

b.

**NICHOLAS MARKETING SERVICES**  
**Statement of Owner's Equity**  
**Year Ended December 31, 2021**

---

O. Nicholas, capital, January 1, 2021 .....	\$ 34,460
Plus: Profit .....	<u>14,955</u>
	49,415
Less: Drawings.....	<u>3,600</u>
O. Nicholas, capital, December 31, 2021 .....	<u>\$45,815</u>

**PROBLEM 2.10A (Continued)**

c.

**NICHOLAS MARKETING SERVICES**  
**Balance Sheet**  
**December 31, 2021**

---

<u>Assets</u>	
Cash .....	\$5,500
Accounts receivable .....	20,380
Supplies .....	3,320
Prepaid insurance .....	4,450
Prepaid rent .....	2,265
Equipment .....	<u>27,400</u>
<b>Total assets</b> .....	<b><u>\$63,315</u></b>
 <u>Liabilities and Owner's Equity</u>  	
<b>Liabilities</b>	
Unearned revenue .....	\$ 2,500
Notes payable .....	<u>15,000</u>
<b>Total liabilities</b> .....	<b>17,500</b>
 <b>Owner's Equity</b>	
O. Nicholas, Capital .....	<u>45,815</u>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$63,315</u></b>

**Taking It Further**

**Nicholas Marketing Services performed well, realizing a profit for the year. A large portion of its revenues remain uncollected and are reported in accounts receivable at the end of the year. In addition, if the notes payable are due in the near future, there would not be enough cash on hand to meet this obligation. Nicholas should be monitoring the collection of its accounts receivable closely.**

LO 4 BT: AP Difficulty: S Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.11A</b>
----------------------

**a. GENERAL JOURNAL**

Date	Account Titles	Debit	Credit
Feb. 1	Advertising Expense.....	430	
	Cash.....		430
	Paid for advertising expense.		
2	Rent Expense .....	1,050	
	Cash.....		1,050
	Paid rent for first two weeks of February.		
3	Cash .....	4,240	
	Service Revenue.....		4,240
	Performed services for cash.		
4	Cash .....	720	
	Accounts Receivable.....		720
	Collection on account.		
6	Accounts Payable .....	970	
	Cash.....		970
	Payment on account.		
14	Salaries Expense.....	400	
	Cash.....		400
	Paid employee salaries.		
15	Rent Expense .....	1,050	
	Cash.....		1,050
	Paid rent for last two weeks of February.		
23	Accounts Receivable .....	1,475	
	Service Revenue.....		1,475
	Performed services on account.		

**PROBLEM 2.11A (Continued)****a. (Continued)**

<b>Feb.26</b>	<b>Telephone Expense.....</b>	<b>185</b>	
	<b>Cash.....</b>		<b>185</b>
	<b>Paid for telephone expense.</b>		
<b>27</b>	<b>Cash .....</b>	<b>2,830</b>	
	<b>Unearned Revenue .....</b>		<b>2,830</b>
	<b>Received cash in advance from customer.</b>		
<b>27</b>	<b>D. Scoffin, Drawings .....</b>	<b>575</b>	
	<b>Cash.....</b>		<b>575</b>
	<b>Withdrew cash for personal use by owner.</b>		
<b>28</b>	<b>Salaries Expense.....</b>	<b>400</b>	
	<b>Cash.....</b>		<b>400</b>
	<b>Paid employee salaries.</b>		
<b>28</b>	<b>Prepaid Rent.....</b>	<b>1,050</b>	
	<b>Cash.....</b>		<b>1,050</b>
	<b>Paid rent for first two weeks of March.</b>		

**PROBLEM 2.11A (Continued)**

b. and c.

Cash			
Jan.31	2,100	Feb. 1	430
Feb. 3	4,240	2	1,050
4	720	6	970
		14	400
		15	1,050
27	2,830	26	185
		27	575
		28	400
		28	1,050
Bal.	3,780		

Accounts Receivable			
Jan.31	720	Feb. 4	720
Feb.23	1,475		
Bal.	1,475		

Prepaid Rent	
Feb.28	1,050
Bal.	1,050

Equipment	
Jan.31	12,400
Bal.	12,400

Accounts Payable	
	Jan.31 1,470
Feb. 6	970
	Bal. 500

Unearned Revenue	
	Feb. 27 2,830
	Bal. 2,830

D. Scoffin, Capital	
	Jan.31 13,750
	Bal. 13,750

**PROBLEM 2.11A (Continued)****b. and c. (Continued)****D. Scoffin, Drawings**

<b>Feb. 27</b>	<b>575</b>	
<b>Bal.</b>	<b>575</b>	

**Service Revenue**

	<b>Feb. 3</b>	<b>4,240</b>
	<b>Feb. 23</b>	<b>1,475</b>
	<b>Bal.</b>	<b>5,715</b>

**Advertising Expense**

<b>Feb. 1</b>	<b>430</b>	
---------------	------------	--

**Telephone Expense**

<b>Feb. 26</b>	<b>185</b>	
----------------	------------	--

**Rent Expense**

<b>Feb. 2</b>	<b>1,050</b>	
<b>Feb. 15</b>	<b>1,050</b>	
<b>Bal.</b>	<b>2,100</b>	

**Salaries Expense**

<b>Feb. 14</b>	<b>400</b>	
<b>Feb. 28</b>	<b>400</b>	
<b>Bal.</b>	<b>800</b>	



**PROBLEM 2.11A (Continued)**

d.

**YH CURLING SCHOOL  
Trial Balance  
February 28, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 3,780	
Accounts receivable .....	1,475	
Prepaid rent .....	1,050	
Equipment .....	12,400	
Accounts payable .....		\$ 500
Unearned revenue .....		2,830
D. Scoffin, capital .....		13,750
D. Scoffin, drawings.....	575	
Service revenue.....		5,715
Advertising expense .....	430	
Telephone expense .....	185	
Rent expense.....	2,100	
Salaries expense .....	800	
	<u>\$22,795</u>	<u>\$22,795</u>

e.

**YH CURLING SCHOOL  
Income Statement  
Month Ended February 28, 2021**

<b>Revenues</b>		
Service revenue .....		\$5,715
<b>Expenses</b>		
Advertising expense.....	\$ 430	
Telephone expense .....	185	
Rent expense .....	2,100	
Salaries expense .....	800	
<b>Total expenses .....</b>		<b><u>3,515</u></b>
<b>Profit .....</b>		<b><u>\$2,200</u></b>

**PROBLEM 2.11A (Continued)**

f.

**YH CURLING SCHOOL  
Statement of Owner's Equity  
Month Ended February 28, 2021**

---

D. Scoffin, capital, February 1, 2021 .....	\$13,750
Add: Profit .....	<u>2,200</u>
	15,950
Less: Drawings.....	<u>575</u>
D. Scoffin, capital, February 28, 2021 .....	<u><u>\$15,375</u></u>

g.

**YH CURLING SCHOOL  
Balance Sheet  
February 28, 2021**

---

<u><b>Assets</b></u>	
Cash .....	\$ 3,780
Accounts receivable .....	1,475
Prepaid rent .....	1,050
Equipment .....	<u>12,400</u>
<b>Total assets.....</b>	<b><u><u>\$18,705</u></u></b>

**Liabilities and Owner's Equity**

<b>Liabilities</b>	
Accounts payable .....	\$ 500
Unearned revenue .....	<u>2,830</u>
<b>Total liabilities .....</b>	<b>3,330</b>
<b>Owner's Equity</b>	
D. Scoffin, capital .....	<u>15,375</u>
<b>Total liabilities and owner's equity .....</b>	<b><u><u>\$18,705</u></u></b>

## **PROBLEM 2.11A (Continued)**

### **Taking It Further**

**The payments to YH Curling Club for February ice rental are an expense as they are a cost of the month to have a rink available to deliver the services performed by the school during the month. They are not an asset because there is no future benefit beyond the end of the month. However, the February 28 ice rental payment is for March ice rental, and thus has not been used yet, and therefore it is an asset as it has a future benefit.**

LO 2,3,4 BT: AP Difficulty: M Time: 90 min. AACSB: None CPA: cpa-t001 CM: Reporting

**PROBLEM 2.12A**

a.

**MINDFUL MEDITATION  
Income Statement  
Year Ended December 31, 2021**

---

<b>Revenues</b>		
Service revenue .....		<b>\$85,050</b>
<b>Expenses</b>		
Interest expense .....	\$ 550	
Rent expense .....	15,500	
Salaries expense .....	36,500	
Telephone expense .....	<u>2,510</u>	
Total expenses.....		<u>55,060</u>
Profit .....		<u><u>\$29,990</u></u>

b.

**MINDFUL MEDITATION  
Statement of Owner's Equity  
Year Ended December 31, 2021**

---

E. Mendes, capital, January 1, 2021 .....	<b>\$16,845</b>
Add: Profit .....	<u>29,990</u>
	<b>46,835</b>
Less: Drawings.....	<u>24,000</u>
E. Mendes, capital, December 31, 2021 .....	<u><u>\$22,835</u></u>

**PROBLEM 2.12A (Continued)**

c.

**MINDFUL MEDITATION**  
**Balance Sheet**  
**December 31, 2021**

---

<u>Assets</u>	
Cash .....	\$ 12,230
Accounts receivable .....	5,400
Supplies .....	1,120
Prepaid insurance .....	2,145
Equipment .....	<u>15,200</u>
<b>Total assets.....</b>	<b><u>\$36,095</u></b>
 <u>Liabilities and Owner's Equity</u>	
<b>Liabilities</b>	
Accounts payable.....	\$ 3,260
Notes payable .....	<u>10,000</u>
<b>Total liabilities .....</b>	<b>13,260</b>
 <b>Owner's Equity</b>	
E. Mendes, capital .....	<u>22,835</u>
<b>Total liabilities and owner's equity .....</b>	<b><u>\$36,095</u></b>

**Taking It Further**

**There is a difference between cash collected from customers and revenue in any accounting period. Although the yoga studio has earned revenue, it has not necessarily collected all of the cash from providing the services. Also, some of the cash collected in 2021 may be for services provided in 2020.**

LO 4 BT: AP Difficulty: S Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.13A</b>
----------------------

a.

**SUPER DELIVERY SERVICE**  
**Trial Balance**  
**August 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash (to balance debits = credits*) .....	\$ 6,301	
Accounts receivable .....	4,226	
Supplies .....	299	
Prepaid insurance .....	358	
Equipment .....	49,660	
Notes payable .....		\$19,480
Accounts payable .....		3,250
Salaries payable .....		883
Unearned revenue .....		643
T. Rowe, capital .....		48,840
T. Rowe, drawings .....	25,000	
Service revenue .....		37,800
Utilities expense .....	12,177	
Insurance expense .....	2,016	
Interest expense .....	1,006	
Repairs expense .....	1,549	
Salaries expense .....	5,698	
Supplies expense .....	2,606	
	<u>\$110,896</u>	<u>\$110,896</u>

\* Total debits without cash = \$104,595  
\$110,896 – \$104,595 = \$6,301

**PROBLEM 2.13A (Continued)**

b.

**SUPER DELIVERY SERVICE  
Income Statement  
Year Ended August 31, 2021**

---

<b>Revenues</b>	
Service revenue .....	<b>\$37,800</b>
<b>Expenses</b>	
Utilities expense .....	\$12,177
Insurance expense .....	2,016
Interest expense .....	1,006
Repairs expense .....	1,549
Salaries expense .....	5,698
Supplies expense .....	<u>2,606</u>
Total expenses .....	<u>25,052</u>
Profit .....	<u><u>\$12,748</u></u>

**SUPER DELIVERY SERVICE  
Statement of Owner's Equity  
Year Ended August 31, 2021**

---

T. Rowe, capital, August 31, 2020 .....	\$48,840
Plus: Profit .....	<u>12,748</u>
	61,588
Less: Drawings .....	<u>25,000</u>
T. Rowe, capital, August 31, 2021 .....	<u><u>\$36,588</u></u>

**PROBLEM 2.13A (Continued)****b. (Continued)**

**SUPER DELIVERY SERVICE**  
**Balance Sheet**  
**August 31, 2021**

---

<u>Assets</u>	
Cash .....	\$6,301
Accounts receivable .....	4,226
Supplies .....	299
Prepaid insurance .....	358
Equipment .....	<u>49,660</u>
 Total assets .....	 <u>\$60,844</u>
 <u>Liabilities and Owner's Equity</u>	
<b>Liabilities</b>	
Notes payable .....	\$19,480
Accounts payable .....	3,250
Salaries payable .....	883
Unearned revenue .....	<u>643</u>
Total liabilities .....	24,256
<b>Owner's Equity</b>	
T. Rowe, capital .....	<u>36,588</u>
 Total liabilities and owner's equity .....	 <u>\$60,844</u>



## **PROBLEM 2.13A (Continued)**

### **Taking It Further**

**Tom Rowe has withdrawn almost twice as much cash compared to the profit. This has resulted in a net decrease to the owner's capital account. Tom's drawings have left the company with a low level of liquid assets (Cash of \$6,301 + Accounts receivable of \$4,226 = \$10,527) to pay off liabilities (Notes payable of \$19,480 + Accounts payable of \$3,250 + Salaries payable of \$883 = \$23,613). Tom's drawings should be based on his cash budget for the coming year and leave the company with sufficient cash to meet its liabilities and to be able to grow.**

LO 4 BT: AP Difficulty: S Time: 45 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.14A</b>
----------------------

- a.
1. Correct
  2. Correct
  3. Incorrect
  4. Incorrect
  5. Incorrect
  6. Incorrect
  7. Incorrect
  8. Incorrect
  9. Incorrect
  10. Incorrect

b.

	1	2	3	4	5
1					
2					
3	No	Interest Revenue	Understated \$750	Yes	Increase by \$750
4	Yes	Salaries Expense Drawings	Overstated \$1,000 Understated \$1,000	Yes	Yes
5	Yes	Unearned Revenue Service Revenue	Overstated \$325 Understated \$325	Yes	Decrease by \$325 Increase by \$325
6	No	Supplies	Understated \$1,540	Increase \$1,540	Yes
7	No	Unearned Revenue	Understated \$500	Yes	Increase by \$500
8	Yes	Cash Salaries Payable	Overstated \$495 Overstated \$495	Decrease by \$495	Decrease by \$495

**PROBLEM 2.14A (Continued)****b. (Continued)**

	1	2	3	4	5
9	No	Equipment	Overstated \$3,600	Decrease by \$3,600	Yes
10	Yes	Utilities Expense Accounts Payable	Understated \$650 Understated \$650	Increase by \$650	Increase by \$650

**Taking It Further**

**Disagree.** Even though the trial balance is balanced, uncorrected errors misstate the financial position of the company.

**For example:**

- 4. This error overstates Salaries Expense and thereby lowers profit on the income statement.**
- 8. This error shows higher liabilities by overstating Salaries Payable and higher assets by overstating Cash.**
- 10. This error understates Utilities Expense and understates Accounts Payable. It results in a higher profit on the income statement because of the unrecorded expense that was incurred in generating the profits.**

LO 4 BT: AN Difficulty: M Time: 35 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

**PROBLEM 2.15A**

a.

**WINTER CO.  
Trial Balance  
June 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash (\$2,835 + \$570 - \$750).....	\$ 2,655	
Accounts receivable (\$1,861 + \$750 - \$570 + \$980 - \$98).....	2,923	
Prepaid insurance (correct balance provided)....	655	
Supplies (\$500 + \$360).....	860	
Equipment (\$7,900 - \$360) .....	7,540	
Accounts payable (\$2,695 + \$608 - \$806).....		\$ 2,497
Unearned revenue (correct balance provided) ...		1,855
F. Winter, capital (correct balance provided) .....		11,231
F. Winter, drawings (\$800 + \$400).....	1,200	
Service revenue (\$3,460 - \$3,460 + \$4,360).....		4,360
Office expense (\$1,010 + \$500).....	1,510	
Salaries expense (\$3,000 - \$400) .....	2,600	
	<u>\$19,943</u>	<u>\$19,943</u>

**Taking It Further**

There could still be errors after correcting the items identified. The errors could be counter-balancing errors that affect both the debit and credit side equally, such as a transposition error in recording a journal entry that affects both the debit and credit sides, or errors that counter-balance on the debit side, or on the credit side, of the trial balance (items #1, 2, and 6). The trial balance could also be in balance and not show transactions that have been omitted but that should have been recorded.

LO 4 BT: AN Difficulty: M Time: 40 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.1B</b>
---------------------

a.	Account Debited			Account Credited		
<u>Trans- action</u>	1.	2.	3.	1.	2.	3.
<u>Jan. 2*</u>	<u>Basic Type</u>	<u>Specific Account</u>	<u>Effect</u>	<u>Basic Type</u>	<u>Specific Account</u>	<u>Effect</u>
	Owner's Equity	Rent Expense	+ \$525	Asset	Cash	- \$525
4	Asset	Cash	+ \$1,055	Owner's Equity	Service Revenue	+ \$1,055
5	Asset	Supplies	+ \$420	Liability	Accounts Payable	+ \$420
7	No transaction now (see Jan. 18).					
10	Asset	Cash	+ \$1,500	Liability	Unearned Revenue	+ \$1,500
12	Owner's Equity	K. Battistella, Drawings	+ \$500	Asset	Cash	- \$500
18	Asset	Accounts Receivable	+ \$1,085	Owner's Equity	Service Revenue	+ \$1,085
25	Liability	Accounts Payable	- \$420	Asset	Cash	- \$420
27	Asset	Cash	+ \$1,085	Asset	Accounts Receivable	- \$1,085
28	Asset	Cash	+ \$5,000	Liability	Notes Payable	+ \$5,000
29	Asset	Equipment	+ \$1,950	Asset	Cash	- \$1,950

**PROBLEM 2.1B (Continued)****\*Solution provided in text.****b.****GENERAL JOURNAL**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>Jan. 2</b>	<b>Rent Expense .....</b>	<b>525</b>	
	<b>Cash.....</b>		<b>525</b>
	<b>Paid rent for January.</b>		
<b>4</b>	<b>Cash .....</b>	<b>1,055</b>	
	<b>Service Revenue .....</b>		<b>1,055</b>
	<b>Performed services for cash.</b>		
<b>5</b>	<b>Supplies .....</b>	<b>420</b>	
	<b>Accounts Payable .....</b>		<b>420</b>
	<b>Purchased supplies on account.</b>		
<b>7</b>	<b>No transaction at this time.</b>		
<b>10</b>	<b>Cash .....</b>	<b>1,500</b>	
	<b>Unearned Revenue .....</b>		<b>1,500</b>
	<b>Received cash in advance from customer.</b>		
<b>12</b>	<b>K. Battistella, Drawings.....</b>	<b>500</b>	
	<b>Cash.....</b>		<b>500</b>
	<b>Withdrew cash for personal use by owner.</b>		
<b>18</b>	<b>Accounts Receivable .....</b>	<b>1,085</b>	
	<b>Service Revenue .....</b>		<b>1,085</b>
	<b>Performed services on account.</b>		
<b>25</b>	<b>Accounts Payable .....</b>	<b>420</b>	
	<b>Cash.....</b>		<b>420</b>
	<b>Payment on account.</b>		

**PROBLEM 2.1B (Continued)**

**b. (Continued)**

Jan. 27	Cash .....	1,085	
	Accounts Receivable .....		1,085
	Collection on account.		
28	Cash .....	5,000	
	Notes Payable .....		5,000
	Borrowed cash and signed a note.		
29	Equipment.....	1,950	
	Cash.....		1,950
	Purchased equipment for cash.		

**Taking It Further**

**Cash is an asset and is on the left-hand side of the accounting equation. When cash is received, it increases the balance, and when cash is paid out, it decreases the balance. To decrease an asset, it is credited, so a credit to cash decreases cash.**

LO 1,2 BT: AP Difficulty: S Time: 30 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.2B</b>
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### GENERAL JOURNAL

Date	Account Titles	Debit	Credit
May 1	Cash .....	70,000	
	D. Tanner, Capital .....		70,000
	Invested cash in business.		
3	Land .....	225,000	
	Building.....	75,000	
	Equipment.....	55,000	
	Cash.....		35,000
	Notes Payable .....		320,000
	Purchase land, building, and equipment for cash and signed a note.		
3	Insurance Expense.....	780	
	Cash.....		780
	Paid insurance expense.		
8	Advertising Expense .....	1,950	
	Cash.....		1,950
	Paid advertising expense.		
15	Cash .....	5,400	
	Service Revenue .....		5,400
	Performed services for cash.		
16	Salaries Expense.....	2,600	
	Cash.....		2,600
	Paid employee salaries.		
20	Cash .....	500	
	Accounts Receivable .....	2,250	
	Service Revenue .....		2,750
	Performed services for cash and on account.		



**PROBLEM 2.2B (Continued)**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>May 22</b>	<b>No entry required</b>		
<b>29</b>	<b>Cash .....</b>	<b>2,250</b>	
	<b>    Accounts Receivable.....</b>		<b>2,250</b>
	<b>    Collection on account.</b>		
<b>30</b>	<b>Cash .....</b>	<b>5,750</b>	
	<b>    Service Revenue .....</b>		<b>5,750</b>
	<b>    Performed services for cash.</b>		
<b>31</b>	<b>Interest Expense.....</b>	<b>1,200</b>	
	<b>Notes Payable.....</b>	<b>5,333</b>	
	<b>    Cash.....</b>		<b>6,533</b>
	<b>    Made principal and interest payment on note.</b>		
<b>31</b>	<b>D. Tanner, Drawings.....</b>	<b>1,800</b>	
	<b>    Cash.....</b>		<b>1,800</b>
	<b>    Withdrew cash for personal use by owner.</b>		
<b>31</b>	<b>Salaries Expense.....</b>	<b>3,800</b>	
	<b>    Cash.....</b>		<b>3,800</b>
	<b>    Paid employee salaries.</b>		

## **PROBLEM 2.2B (Continued)**

### **Taking It Further**

**The purpose of the journal entries is to show the debit and credit effects of each transaction on specific accounts. This helps to prevent and locate errors because the debit and credit amounts in the entry must balance. The journal entries also provide a chronological record of transactions, explain the transaction, and identify source documents.**

**The next step in the recording process is to transfer the information to the ledger by posting the transactions to specific ledger accounts. Dustin should find the information generated by this next step more useful since posting transactions to the ledger will update the ledger account balances. Once this step is completed, a trial balance can be prepared from the ledger accounts as can the financial statements.**

LO 2 BT: AP Difficulty: S Time: 20 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.3B</b>
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Apr.	1	<b>Cash .....</b> 27,750 <b>A. Rai, Capital.....</b> <b>Invested cash in business.</b>	27,750  27,750
	2	<b>Equipment.....</b> 5,000 <b>Notes Payable .....</b> <b>Purchased equipment and signed a note.</b>	5,000  5,000
	3	<b>Supplies .....</b> 250 <b>Accounts Payable .....</b> <b>Purchased supplies on account.</b>	250  250
	5	<b>Cash .....</b> 6,300 <b>Accounts Receivable .....</b> 5,950 <b>Service Revenue .....</b> <b>Performed services for cash and on account.</b>	6,300 5,950  12,250
	10	<b>A. Rai, Drawings.....</b> 4,300 <b>Cash.....</b> <b>Withdrew cash for personal use by owner.</b>	4,300  4,300
	13	<b>Accounts Payable .....</b> 250 <b>Cash.....</b> <b>Payment on account.</b>	250  250
	15	<b>Cash .....</b> 2,450 <b>Unearned Revenue .....</b> <b>Received cash in advance from customer.</b>	2,450  2,450
	25	<b>Cash .....</b> 5,950 <b>Accounts Receivable.....</b> <b>Collection on account.</b>	5,950  5,950

## PROBLEM 2.3B (Continued)

### a. (continued)

Apr. 26	Office Expense .....	1,200	
	Cash.....		1,200
	Paid office expense.		
30	Interest Expense.....	45	
	Cash.....		45
	Paid interest on note payable.		

### Taking It Further

**Assets are on the left side of the basic accounting equation and liabilities and owner's equity are on the right side of the basic accounting equation. Since debits are on the left side, and assets are also on the left side, the normal balance of an asset is a debit balance.**

**Since credits are on the right side and liabilities are on the right side, the normal balance of a liability is a credit balance. The same is also true for owner's equity. Revenues increase owner's equity and therefore also have a normal credit balance. But expenses and drawings are decreases to owner's equity and thus have a normal debit balance.**

LO 2 BT: AP Difficulty: S Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

**PROBLEM 2.4B**

a.

Date	Account Titles	Ref.	Debit	J1 Credit
Apr. 1	Cash.....	101	45,000	
	B. Fair, Capital .....	301		45,000
	Invested cash in business.			
1 No entry—not a transaction.				
2	Rent Expense.....	729	800	
	Cash .....	101		800
	Paid rent for the month.			
3	Supplies .....	126	1,500	
	Accounts Payable .....	201		1,500
	Purchased supplies on account.			
10	Accounts Receivable.....	112	1,800	
	Service Revenue.....	400		1,800
	Performed services on account.			
11	Cash.....	101	500	
	Unearned Revenue.....	209		500
	Received cash in advance from customer.			
20	Cash.....	101	1,500	
	Service Revenue.....	400		1,500
	Performed services for cash.			
30	Salaries Expense .....	726	2,000	
	Cash .....	101		2,000
	Paid secretary-receptionist salary.			

**PROBLEM 2.4B (Continued)**

**a. (continued)**

<b>Apr. 30</b>	<b>Accounts Payable .....</b>	<b>201</b>	<b>600</b>	
	<b>Cash .....</b>	<b>101</b>		<b>600</b>
	<b>Payment on account.</b>			

**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>
<b>Apr. 1</b>		<b>J1</b>	<b>45,000</b>		<b>45,000</b>
<b>2</b>		<b>J1</b>		<b>800</b>	<b>44,200</b>
<b>11</b>		<b>J1</b>	<b>500</b>		<b>44,700</b>
<b>20</b>		<b>J1</b>	<b>1,500</b>		<b>46,200</b>
<b>30</b>		<b>J1</b>		<b>2,000</b>	<b>44,200</b>
<b>30</b>		<b>J1</b>		<b>600</b>	<b>43,600</b>

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 10</b>		<b>J1</b>	<b>1,800</b>		<b>1,800</b>

<b>Supplies</b>					<b>No. 126</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 3</b>		<b>J1</b>	<b>1,500</b>		<b>1,500</b>

<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>
<b>Apr. 3</b>		<b>J1</b>		<b>1,500</b>	<b>1,500</b>
<b>30</b>		<b>J1</b>	<b>600</b>		<b>900</b>

**PROBLEM 2.4B (Continued)**

<b>Unearned Revenue</b>					<b>No. 209</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 11</b>		<b>J1</b>		<b>500</b>	<b>500</b>

<b>B. Fair, Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 1</b>		<b>J1</b>		<b>45,000</b>	<b>45,000</b>

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 10</b>		<b>J1</b>		<b>1,800</b>	<b>1,800</b>
<b>20</b>		<b>J1</b>		<b>1,500</b>	<b>3,300</b>

<b>Salaries Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 30</b>		<b>J1</b>	<b>2,000</b>		<b>2,000</b>

<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>
<b>Apr. 2</b>		<b>J1</b>	<b>800</b>		<b>800</b>

**PROBLEM 2.4B (Continued)**

**c. BARBARA FAIR, ARCHITECT**  
**Trial Balance**  
**April 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$43,600	
Accounts Receivable.....	1,800	
Supplies .....	1,500	
Accounts Payable.....		\$ 900
Unearned Revenue .....		500
B. Fair, Capital .....		45,000
Service Revenue.....		3,300
Salaries Expense .....	2,000	
Rent Expense.....	800	
	<u>\$49,700</u>	<u>\$49,700</u>

**Taking It Further**

Barbara is not correct. Debits mean left and credits mean right. Whether we debit or credit an account depends on the type of account (asset, liability, or owner's equity) and whether the account is increasing or decreasing. For example, if we buy equipment with cash, we debit an equipment account and credit a cash account. Just because this transaction reduces (credits) the cash account, it does not mean it is bad. It means a transaction has taken place that has used some of the cash of the entity and this needs to be reflected in the books.

LO 1,2,3,4 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting



<b>PROBLEM 2.5B</b>
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a.

**GENERAL JOURNAL**

Date	Account Titles	Ref.	Debit	Credit
Aug. 1	Cash .....	101	25,000	
	T. Nguyen, Capital .....	301		25,000
	Invested cash in business.			
1	Rent Expense .....	726	750	
	Cash.....	101		750
	Paid August rent.			
2	Utilities Expense.....	737	250	
	Cash.....	101		250
	Paid utilities expense.			
3	Equipment.....	151	5,250	
	Cash.....	101		5,250
	Purchased equipment for cash.			
5	Supplies .....	126	675	
	Accounts Payable.....	201		675
	Purchased supplies on account.			
8	Accounts Receivable .....	112	1,270	
	Service Revenue .....	400		1,270
	Performed services on account.			
12	Advertising Expense .....	610	945	
	Cash.....	101		945
	Paid advertising expense.			
20	Cash .....	101	1,320	
	Service Revenue .....	400		1,320
	Performed services for cash.			

**PROBLEM 2.5B (Continued)**

**a. (Continued)**

<b>Aug. 24</b>	<b>Cash .....</b>	<b>101</b>	<b>2,500</b>	
	<b>Unearned Revenue .....</b>	<b>209</b>		<b>2,500</b>
	<b>Received cash in advance from customer.</b>			
<b>25</b>	<b>Accounts Payable .....</b>	<b>201</b>	<b>675</b>	
	<b>Cash.....</b>	<b>101</b>		<b>675</b>
	<b>Payment on account.</b>			
<b>28</b>	<b>Cash .....</b>	<b>101</b>	<b>970</b>	
	<b>Accounts Receivable.....</b>	<b>112</b>		<b>970</b>
	<b>Collection on account.</b>			
<b>29</b>	<b>T. Nguyen, Drawings.....</b>	<b>306</b>	<b>1,225</b>	
	<b>Cash.....</b>	<b>101</b>		<b>1,225</b>
	<b>Withdrew cash for personal use by owner.</b>			
<b>31</b>	<b>Utilities Expense.....</b>	<b>737</b>	<b>225</b>	
	<b>Accounts Payable.....</b>	<b>201</b>		<b>225</b>
	<b>Received utility bill.</b>			

**b.**

		Cash			No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
<b>Aug. 1</b>		<b>J1</b>	<b>25,000</b>		<b>25,000</b>
<b>1</b>		<b>J1</b>		<b>750</b>	<b>24,250</b>
<b>2</b>		<b>J1</b>		<b>250</b>	<b>24,000</b>
<b>3</b>		<b>J1</b>		<b>5,250</b>	<b>18,750</b>
<b>12</b>		<b>J1</b>		<b>945</b>	<b>17,805</b>
<b>20</b>		<b>J1</b>	<b>1,320</b>		<b>19,125</b>
<b>24</b>		<b>J1</b>	<b>2,500</b>		<b>21,625</b>
<b>25</b>		<b>J1</b>		<b>675</b>	<b>20,950</b>
<b>28</b>		<b>J1</b>	<b>970</b>		<b>21,920</b>
<b>29</b>		<b>J1</b>		<b>1,225</b>	<b>20,695</b>

**PROBLEM 2.5B (Continued)****b. (Continued)**

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 8		J1	1,270		1,270
28		J1		970	300

<b>Supplies</b>					<b>No. 126</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 5		J1	675		675

<b>Equipment</b>					<b>No. 151</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 3		J1	5,250		5,250

<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>
Aug. 5		J1		675	675
25		J1	675		0
31		J1		225	225

<b>Unearned Revenue</b>					<b>No. 209</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 24		J1		2,500	2,500

**PROBLEM 2.5B (Continued)****b. (Continued)**

<b>T. Nguyen, Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 1		J1		25,000	25,000

<b>T. Nguyen, Drawings</b>					<b>No. 306</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 29		J1	1,225		1,225

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 8		J1		1,270	1,270
20		J1		1,320	2,590

<b>Advertising Expense</b>					<b>No. 610</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 12		J1	945		945

<b>Rent Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 1		J1	750		750

<b>Utilities Expense</b>					<b>No. 737</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 2		J1	250		250
31		J1	225		475

**PROBLEM 2.5B (Continued)**

**c.**

**NGUYEN IMPORT SERVICES  
Trial Balance  
August 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$20,695	
Accounts receivable .....	300	
Supplies .....	675	
Equipment.....	5,250	
Accounts payable.....		\$ 225
Unearned revenue .....		2,500
T. Nguyen, capital.....		25,000
T. Nguyen, drawings .....	1,225	
Service revenue.....		2,590
Advertising expense .....	945	
Rent expense.....	750	
Utilities expense.....	475	
	<u>\$30,315</u>	<u>\$30,315</u>

**Taking It Further**

While Thanh is correct in making the connection that transactions recorded to the drawings, revenue, and expense accounts ultimately impact the owner’s capital account, there remains a need for these separate accounts. Without them, a business is unable to report the revenues and expenses on the income statement, and the drawings by the owner as reported on the statement of owner’s equity. This detailed information is relevant and necessary to the users of the financial statements.

LO 2,3,4 BT: AP Difficulty: M Time: 50 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.6B</b>
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**a. GENERAL JOURNAL**

Date	Account Titles	Debit	Credit
Nov. 1	Cash .....	35,000	
	Equipment.....	12,000	
	H. Kiersted, Capital.....		47,000
	Invested cash and equipment in the business.		
2	No entry—not a transaction.		
3	Rent Expense .....	2,140	
	Prepaid Rent.....	2,140	
	Cash.....		4,280
	Paid first and last month's rent.		
4	Insurance Expense.....	395	
	Cash (\$4,740 ÷ 12).....		395
	Paid insurance for the month of November.		
5	Equipment.....	18,000	
	Cash.....		6,000
	Notes Payable .....		12,000
	Purchased equipment for cash and signed a note.		
6	Supplies .....	1,550	
	Accounts Payable .....		1,550
	Purchased supplies on account.		
7	Supplies .....	475	
	Cash.....		475
	Purchased supplies for cash.		
16	Cash .....	990	
	Service Revenue .....		990
	Provided services for cash.		

**PROBLEM 2.6B (Continued)****a. (Continued)**

<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
<b>Nov. 20</b>	<b>Accounts Receivable .....</b>	<b>4,500</b>	
	<b>    Service Revenue .....</b>		<b>4,500</b>
	<b>    Provided services on account.</b>		
<b>26</b>	<b>Accounts Payable .....</b>	<b>1,000</b>	
	<b>    Cash.....</b>		<b>1,000</b>
	<b>    Payment on account.</b>		
<b>27</b>	<b>Telephone Expense.....</b>	<b>220</b>	
	<b>    Accounts Payable.....</b>		<b>220</b>
	<b>    Received telephone bill.</b>		
<b>27</b>	<b>Cash .....</b>	<b>750</b>	
	<b>    Unearned Revenue .....</b>		<b>750</b>
	<b>    Received cash in advance from customer.</b>		
<b>29</b>	<b>Cash .....</b>	<b>2,800</b>	
	<b>    Accounts Receivable.....</b>		<b>2,800</b>
	<b>    Collection on account.</b>		
<b>30</b>	<b>Interest Expense.....</b>	<b>60</b>	
	<b>    Cash.....</b>		<b>60</b>
	<b>    Paid interest on note payable.</b>		
<b>30</b>	<b>Salaries Expense.....</b>	<b>2,825</b>	
	<b>    Cash.....</b>		<b>2,825</b>
	<b>    Paid employee salaries.</b>		
<b>30</b>	<b>H. Kiersted, Drawings .....</b>	<b>700</b>	
	<b>    Cash.....</b>		<b>700</b>
	<b>    Withdrew cash for personal use by owner.</b>		
<b>30</b>	<b>H. Kiersted, Drawings .....</b>	<b>1,150</b>	
	<b>    Cash.....</b>		<b>1,150</b>
	<b>    Paid invoice for personal asset of owner.</b>		

**PROBLEM 2.6B (Continued)**

b.

Cash			
Nov. 1	35,000	Nov. 3	4,280
16	990	4	395
27	750	5	6,000
29	2,800	7	475
		26	1,000
		30	60
		30	2,825
		30	700
		30	1,150
<b>Bal.</b>	<b>22,655</b>		

Accounts Receivable			
Nov. 20	4,500	Nov. 29	2,800
<b>Bal.</b>	<b>1,700</b>		

Supplies	
Nov. 6	1,550
7	475
<b>Bal.</b>	<b>2,025</b>

H. Kiersted, Drawings	
Nov. 30	700
30	1,150
<b>Bal.</b>	<b>1,850</b>

Prepaid Rent	
Nov. 3	2,140
<b>Bal.</b>	<b>2,140</b>

Service Revenue	
	Nov. 16 990
	20 4,500
<b>Bal.</b>	<b>5,490</b>

Equipment	
Nov. 1	12,000
5	18,000
<b>Bal.</b>	<b>30,000</b>

Insurance Expense	
Nov. 4	395
<b>Bal.</b>	<b>395</b>

Accounts Payable			
Nov. 26	1,000	Nov. 6	1,550
		Nov. 27	220
		<b>Bal.</b>	<b>770</b>

Interest Expense	
Nov. 30	60
<b>Bal.</b>	<b>60</b>

Unearned Revenue	
	Nov. 27 750
<b>Bal.</b>	<b>750</b>

Rent Expense	
Nov. 3	2,140
<b>Bal.</b>	<b>2,140</b>



**PROBLEM 2.6B (Continued)**

**b. (Continued)**

Notes Payable			Salaries Expense		
	Nov.5	12,000	Nov. 30	2,825	
	Bal.	12,000	Bal.	2,825	

  

H. Kiersted, Capital			Telephone Expense		
	Nov. 1	47,000	Nov. 27	220	
	Bal.	47,000	Bal.	220	

**c.**

**KIERSTED FINANCIAL SERVICES  
Trial Balance  
November 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$22,655	
Accounts receivable.....	1,700	
Supplies .....	2,025	
Prepaid rent.....	2,140	
Equipment.....	30,000	
Accounts payable.....		\$ 770
Unearned revenue .....		750
Notes payable .....		12,000
H. Kiersted, capital .....		47,000
H. Kiersted, drawings.....	1,850	
Service revenue .....		5,490
Insurance expense .....	395	
Interest expense .....	60	
Rent expense .....	2,140	
Salaries expense.....	2,825	
Telephone expense .....	220	
	<u>\$66,010</u>	<u>\$66,010</u>

## **PROBLEM 2.6B (Continued)**

### **Taking It Further**

**This is not true. The cash account shows an increase of \$22,655 during the month of November, whereas the company shows a loss of \$150 for the month ( $\$5,490 - \$395 - \$60 - \$2,140 - \$2,825 - \$220$ ). The change in the cash account does not reflect profit or loss because not all cash transactions represent increases in revenues or expenses. One of the major sources of cash during the month is an investment by the owner of \$35,000. This increases owner's equity but is not a source of revenue for the company. The company received cash in advance of doing work (unearned service revenue of \$750) and performed services in advance of payment (accounts receivable of \$1,700), as well as making non-expense payments for services in advance (prepaid rent), equipment, and owner drawings. The statement of cash flows reconciles the changes in the cash account to its various uses and sources.**

LO 2,3,4 BT: AP Difficulty: M Time: 65 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.7B</b>
---------------------

**a. GENERAL JOURNAL**

Date	Account Titles	Debit	Credit
July 2	Film Rental Expense .....	800	
	Cash.....		800
	Rented movies for cash.		
2	Advertising Expense .....	620	
	Cash.....		620
	Paid advertising expense.		
3	No entry—not a transaction.		
5	No entry—not a transaction.		
10	Cash .....	1,950	
	Admission Revenue.....		1,950
	To record admission revenue.		
11	Mortgage Payable.....	2,000	
	Interest Expense.....	500	
	Cash.....		2,500
	To record mortgage payment.		
12	Repairs Expense .....	350	
	Cash.....		350
	Payment of equipment repairs.		
16	Accounts Payable .....	2,800	
	Cash.....		2,800
	Payment on account.		
19	Film Rental Expense .....	750	
	Accounts Payable.....		750
	Rented movies on account.		

**PROBLEM 2.7B (Continued)**

**a. (Continued)**

<b>July 29</b>	<b>Cash .....</b>	<b>3,500</b>	
	<b>Admission Revenue.....</b>		<b>3,500</b>
	<b>To record admission revenue.</b>		
<b>30</b>	<b>F. Ferguson, Drawings.....</b>	<b>1,200</b>	
	<b>Cash.....</b>		<b>1,200</b>
	<b>Withdrew cash for personal use by owner.</b>		
<b>30</b>	<b>Prepaid Film Rental.....</b>	<b>700</b>	
	<b>Cash.....</b>		<b>700</b>
	<b>Paid for film rental in advance.</b>		
<b>31</b>	<b>Salaries Expense.....</b>	<b>1,900</b>	
	<b>Cash.....</b>		<b>1,900</b>
	<b>Paid employee salaries.</b>		
<b>31</b>	<b>Cash .....</b>	<b>260</b>	
	<b>Accounts Receivable .....</b>	<b>260</b>	
	<b>Concession Revenue.....</b>		<b>520</b>
	<b>To record concession revenue.</b>		

**PROBLEM 2.7B (Continued)**

b. and c.

**Cash**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>June 30</b>	<b>Balance</b>	✓			<b>6,000</b>
<b>July 2</b>		J1		<b>800</b>	<b>5,200</b>
<b>2</b>		J1		<b>620</b>	<b>4,580</b>
<b>10</b>		J1	<b>1,950</b>		<b>6,530</b>
<b>11</b>		J1		<b>2,500</b>	<b>4,030</b>
<b>12</b>		J1		<b>350</b>	<b>3,680</b>
<b>16</b>		J1		<b>2,800</b>	<b>880</b>
<b>29</b>		J1	<b>3,500</b>		<b>4,380</b>
<b>30</b>		J1		<b>1,200</b>	<b>3,180</b>
<b>30</b>		J1		<b>700</b>	<b>2,480</b>
<b>31</b>		J1		<b>1,900</b>	<b>580</b>
<b>31</b>		J1	<b>260</b>		<b>840</b>

**Accounts Receivable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>July 31</b>		J1	<b>260</b>		<b>260</b>

**Prepaid Film Rental**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>July 30</b>		J1	<b>700</b>		<b>700</b>

**PROBLEM 2.7B (Continued)****b. and c. (Continued)****Land**

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			100,000

**Buildings**

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			80,000

**Equipment**

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			25,000

**Accounts Payable**

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			5,000
July 16		J1	2,800		2,200
July 19		J1		750	2,950

**Mortgage Payable**

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			125,000
July 11		J1	2,000		123,000

**PROBLEM 2.7B (Continued)****b. and c. (Continued)****F. Ferguson, Capital**

Date	Explanation	Ref.	Debit	Credit	Balance
June 30	Balance	✓			81,000

**F. Ferguson, Drawings**

Date	Explanation	Ref.	Debit	Credit	Balance
July 30		J1	1,200		1,200

**Admission Revenue**

Date	Explanation	Ref.	Debit	Credit	Balance
July 10		J1		1,950	1,950
29		J1		3,500	5,450

**Concession Revenue**

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1		520	520

**Advertising Expense**

Date	Explanation	Ref.	Debit	Credit	Balance
July 2		J1	620		620

**PROBLEM 2.7B (Continued)****b. and c. (Continued)****Film Rental Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 2		J1	800		800
19		J1	750		1,550

**Interest Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 11		J1	500		500

**Repairs Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 12		J1	350		350

**Salaries Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31		J1	1,900		1,900



**PROBLEM 2.7B (Continued)**

d.

**HIGHLAND THEATRE**  
**Trial Balance**  
**July 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$840	
Accounts receivable .....	260	
Prepaid film rental .....	700	
Land .....	100,000	
Buildings.....	80,000	
Equipment.....	25,000	
Accounts payable.....		\$ 2,950
Mortgage payable.....		123,000
F. Ferguson, capital .....		81,000
F. Ferguson, drawings .....	1,200	
Admission revenue .....		5,450
Concession revenue .....		520
Advertising expense .....	620	
Film rental expense.....	1,550	
Interest expense .....	500	
Repairs expense.....	350	
Salaries expense .....	1,900	
	<u>\$212,920</u>	<u>\$212,920</u>

## PROBLEM 2.7B (Continued)

### Taking It Further

The revenue and expense accounts in the trial balance show a profit for the month of July of \$1,050 ( $\$5,450 + \$520 - \$620 - \$1,550 - \$500 - \$350 - \$1,900$ ). Although a positive profit is a good indication of the company's profitability, it is not sufficient information to determine whether Highland Theatre is a sound business. One month's transactions do not indicate a pattern of profitability, in particular for businesses such as theatres where revenues tend to be seasonal. The financial results for the entire year should be examined, along with comparative amounts for previous years, to determine if the company has a trend of profitability.

LO 2,3,4 BT: AP Difficulty: M Time: 65 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.8B</b>
---------------------

b.	GENERAL JOURNAL		J1
Date	Account Titles and Explanation	Debit	Credit
Dec. 1	Rent Expense .....	525	
	Cash.....		525
	Paid rent for December.		
1	Equipment.....	3,270	
	Cash.....		1,270
	Notes Payable .....		2,000
	Purchased equipment for cash and on account.		
4	Cash .....	1,880	
	Accounts Receivable.....		1,880
	Collection on account.		
7	Insurance Expense.....	308	
	Cash.....		308
	Paid insurance for December.		
8	Supplies .....	135	
	Accounts Payable.....		135
	Purchased supplies on account.		
10	Accounts Payable .....	2,140	
	Cash.....		2,140
	Payment on account.		
12	Unearned Revenue.....	765	
	Service Revenue .....		765
	Performed services for advance payments.		
20	Cash .....	3,480	
	Service Revenue .....		3,480
	Performed services for cash.		

**PROBLEM 2.8B (Continued)****b. (Continued)**

<b>Dec. 21</b>	<b>Office Expense .....</b>	<b>115</b>	
	<b>Cash.....</b>		<b>115</b>
	<b>Paid office expense.</b>		
<b>24</b>	<b>L. Kuznetsova, Drawings .....</b>	<b>2,860</b>	
	<b>Cash.....</b>		<b>2,860</b>
	<b>Withdrew cash for personal use by owner.</b>		
<b>28</b>	<b>Accounts Receivable .....</b>	<b>2,280</b>	
	<b>Service Revenue .....</b>		<b>2,280</b>
	<b>Performed services on account.</b>		
<b>29</b>	<b>Cash .....</b>	<b>560</b>	
	<b>Unearned Revenue .....</b>		<b>560</b>
	<b>Received cash in advance from customer.</b>		
<b>30</b>	<b>Salaries Expense.....</b>	<b>655</b>	
	<b>Cash.....</b>		<b>655</b>
	<b>Paid employee salaries.</b>		
<b>31</b>	<b>Notes Payable.....</b>	<b>160</b>	
	<b>Interest Expense.....</b>	<b>10</b>	
	<b>Cash.....</b>		<b>170</b>
	<b>Made principal and interest payment on note.</b>		

**PROBLEM 2.8B (Continued)**

a. and c.

<b>Cash</b>			
Nov. 30	3,165	Dec. 1	525
		1	1,270
4	1,880		
		7	308
		10	2,140
20	3,480	21	115
29	560	24	2,860
		30	655
		31	170
Bal.	1,042		

<b>Accounts Receivable</b>			
Nov. 30	2,110	Dec. 4	1,880
Dec. 28	2,280		
Bal.	2,510		

<b>Supplies</b>			
Nov. 30	1,340		
Dec. 8	135		
Bal.	1,475		

<b>Equipment</b>			
Nov. 30	17,730		
Dec. 1	3,270		
Bal.	21,000		

<b>Notes Payable</b>			
Dec.31	160	Dec. 1	2,000
		Bal.	1,840

<b>Accounts Payable</b>			
Dec. 10	2,140	Nov. 30	4,245
		Dec. 8	135
		Bal.	2,240

<b>Unearned Revenue</b>			
Dec. 12	765	Nov. 30	765
		Dec. 29	560
		Bal.	560

<b>L. Kuznetsova, Capital</b>	
	Nov. 30 19,300

<b>L. Kuznetsova, Drawings</b>	
Nov. 30	31,190
Dec. 24	2,860
Bal.	34,050

**PROBLEM 2.8B (Continued)****a. and c. (Continued)****Service Revenue**

	<b>Nov. 30</b>	<b>47,963</b>
	<b>Dec. 12</b>	<b>765</b>
	<b>20</b>	<b>3,480</b>
	<b>28</b>	<b>2,280</b>
	<b>Bal.</b>	<b>54,488</b>

**Advertising Expense**

<b>Nov. 30</b>	<b>1,265</b>	
<b>Bal.</b>	<b>1,265</b>	

**Insurance Expense**

<b>Nov. 30</b>	<b>3,388</b>	
<b>Dec. 7</b>	<b>308</b>	
<b>Bal.</b>	<b>3,696</b>	

**Rent Expense**

<b>Nov. 30</b>	<b>5,775</b>	
<b>Dec. 1</b>	<b>525</b>	
<b>Bal.</b>	<b>6,300</b>	

**Salaries Expense**

<b>Nov. 30</b>	<b>6,310</b>	
<b>Dec. 30</b>	<b>655</b>	
<b>Bal.</b>	<b>6,965</b>	

**Office Expense**

<b>Dec. 21</b>	<b>115</b>	
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**Interest Expense**

<b>Dec. 31</b>	<b>10</b>	
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**PROBLEM 2.8B (Continued)**

d.

**LVK COACHING SERVICES**  
**Trial Balance**  
**December 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 1,042	
Accounts receivable .....	2,510	
Supplies .....	1,475	
Equipment.....	21,000	
Accounts payable.....		\$ 2,240
Notes payable.....		1,840
Unearned revenue .....		560
L. Kuznetsova, capital.....		19,300
L. Kuznetsova, drawings .....	34,050	
Service revenue.....		54,488
Advertising expense .....	1,265	
Insurance expense .....	3,696	
Rent expense.....	6,300	
Salaries expense .....	6,965	
Office expense.....	115	
Interest expense .....	10	
	<u>\$78,428</u>	<u>\$78,428</u>

## **PROBLEM 2.8B (Continued)**

### **Taking It Further**

**The cash balance has decreased from \$3,165 to \$1,042 or \$2,123 during the month of December. This is a substantial decrease from the opening balance and exposes the company to the possibility of not being able to pay its outstanding liabilities. The company borrowed \$2,000 at the beginning of December to purchase equipment. Had the company not purchased the additional equipment, the cash balance for the month would have been \$2,482 (\$1,042 + \$1,270 + \$170 payment on the note payable). This still represents a decrease from the December ending balance. Depending on the timing of the repayment of the note payable, the company may be able to generate sufficient cash from the collection of its account receivable to be able to honour its commitments on its liabilities. During the month of January, the company should collect outstanding receivables as quickly as possible (in particular those amounts still outstanding from November) and reduce owner drawings. The company will also need to ensure the new equipment generates additional cash as soon as possible.**

LO 2,3,4 BT: AP Difficulty: M Time: 65 min. AACSB: None CPA: cpa-t001 CM: Reporting



<b>PROBLEM 2.9B</b>
---------------------

**J. NIKKO  
Trial Balance  
November 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 8,000	
Accounts receivable .....	10,250	
Supplies .....	5,000	
Prepaid expenses.....	3,000	
Land .....	64,000	
Equipment.....	18,250	
Accounts payable.....		\$ 12,500
Notes payable.....		30,000
J. Nikko, capital .....		28,000
J. Nikko, drawings.....	12,000	
Service revenue.....		63,050
Rent expense.....	4,500	
Utilities expense.....	550	
Salaries expense .....	7,500	
Interest expense.....	500	
	<u>\$133,550</u>	<u>\$133,550</u>

**PROBLEM 2.9B (Continued)**

b.

**J. NIKKO  
Income Statement  
Year Ended November 30, 2021**

---

<b>Revenues</b>		
Service revenue .....		<b>\$63,050</b>
<b>Expenses</b>		
Rent expense .....	\$ 4,500	
Salaries expense.....	7,500	
Utilities expense .....	550	
Interest expense .....	<u>500</u>	
Total expenses .....		<u>13,050</u>
Profit.....		<u><u>\$50,000</u></u>

c.

**J. NIKKO  
Statement of Owner's Equity  
Year Ended November 30, 2021**

---

J. Nikko, capital, December 1, 2020 .....	<b>\$28,000</b>
Add: Profit .....	<u>50,000</u>
	<b>78,000</b>
Less: Drawings.....	<u>12,000</u>
J. Nikko, capital, November 30, 2021 .....	<u><u>\$66,000</u></u>

**PROBLEM 2.9B (Continued)**

d.

**J. NIKKO**  
**Balance Sheet**  
**November 30, 2021**

---

<u>Assets</u>	
Cash .....	\$ 8,000
Accounts receivable .....	10,250
Supplies .....	5,000
Prepaid expenses.....	3,000
Land .....	64,000
Equipment.....	<u>18,250</u>
<b>Total assets</b> .....	<b><u>\$108,500</u></b>
 <u>Liabilities and Owner's Equity</u>	
<b>Liabilities</b>	
Accounts payable .....	\$ 12,500
Notes payable .....	<u>30,000</u>
<b>Total liabilities</b> .....	<b>42,500</b>
 <b>Owner's Equity</b>	
J. Nikko, capital.....	<u>66,000</u>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$108,500</u></b>

## **PROBLEM 2.9B (Continued)**

### **Taking It Further**

**The advantages of first recording the individual transactions in a journal and then posting to the ledger are:**

- 1. The journal discloses in one place, the complete effect of a transaction.**
- 2. The journal provides a chronological record of all transactions.**
- 3. The journal helps to prevent or locate errors, because the debit and credit amounts for each entry can be readily compared.**

**The advantage of the last step in the posting process is to indicate that the item has been posted, and to provide a cross-reference.**

LO 4 BT: AP Difficulty: M Time: 45 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.10B</b>
----------------------

a.

**OWEN'S ART SUPPLIES**  
**Income Statement**  
**Year Ended December 31, 2021**

---

<b>Revenues</b>	
Service revenue .....	\$ 26,600
<b>Expenses</b>	
Rent expense .....	\$6,000
Salaries expense.....	6,300
Supplies expense .....	<u>1,280</u>
Total expenses .....	13,580
Profit.....	<u>\$ 13,020</u>

b.

**OWEN'S ART SUPPLIES**  
**Statement of Owner's Equity**  
**Year Ended December 31, 2021**

---

O. Leduc, capital, January 1, 2021 .....	\$17,890
Add: Profit .....	<u>13,020</u>
	30,910
Less: Drawings .....	<u>10,300</u>
O. Leduc, capital, December 31, 2021 .....	<u>\$20,610</u>

**PROBLEM 2.10B (Continued)**

c.

**OWEN'S ART SUPPLIES**  
**Balance Sheet**  
**December 31, 2021**

---

<u>Assets</u>	
Cash .....	\$ 2,550
Accounts receivable .....	3,310
Supplies .....	1,830
Equipment.....	<u>21,000</u>
<b>Total assets</b> .....	<b><u>\$28,690</u></b>
 <u>Liabilities and Owner's Equity</u>  	
<b>Liabilities</b>	
Accounts payable .....	\$ 3,420
Unearned revenue .....	<u>4,660</u>
<b>Total liabilities</b> .....	<b>8,080</b>
 <b>Owner's Equity</b>	
O. Leduc, capital .....	<u>20,610</u>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$28,690</u></b>

**Taking It Further**

**Owen's Art Supplies performed well, realizing a profit for the year. A portion of its revenues remain uncollected and are reported in accounts receivable at the end of the year. Drawings were in line with the amount of the profit for the year.**

LO 4 BT: AP Difficulty: S Time: 35 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.11B</b>
----------------------

**a. GENERAL JOURNAL**

		Account Titles	Debit	Credit
<b>Mar. 1</b>	<b>Cash</b> .....		<b>12,000</b>	
	<b>Notes Payable</b> .....			<b>12,000</b>
		<b>Borrowed cash and signed a note.</b>		
<b>2</b>	<b>Accounts Payable</b> .....		<b>13,000</b>	
	<b>Cash</b> .....			<b>13,000</b>
		<b>Payment on account.</b>		
<b>3</b>	<b>Insurance Expense</b> .....		<b>145</b>	
	<b>Cash</b> .....			<b>145</b>
		<b>Paid March insurance expense.</b>		
<b>10</b>	<b>Utilities Expense</b> .....		<b>550</b>	
	<b>Cash</b> .....			<b>550</b>
		<b>Paid utilities expense.</b>		
<b>16</b>	<b>Cash</b> .....		<b>8,000</b>	
	<b>Accounts Receivable</b> .....			<b>8,000</b>
		<b>Collection on account.</b>		
<b>18</b>	<b>Accounts Payable</b> .....		<b>5,000</b>	
	<b>Cash</b> .....			<b>5,000</b>
		<b>Payment on account.</b>		
<b>30</b>	<b>Office Expense</b> .....		<b>580</b>	
	<b>Cash</b> .....			<b>580</b>
		<b>Paid office expense.</b>		
<b>31</b>	<b>Cash</b> .....		<b>2,000</b>	
	<b>Accounts Receivable</b> .....		<b>5,000</b>	
	<b>Service Revenue</b> .....			<b>7,000</b>
		<b>Performed services for cash and on account.</b>		

**PROBLEM 2.11B (Continued)****a. (Continued)**

<b>Mar. 31</b>	<b>Salaries Expense.....</b>	<b>1,650</b>	
	<b>Cash.....</b>		<b>1,650</b>
	<b>Paid employee salaries.</b>		
<b>31</b>	<b>Interest Expense.....</b>	<b>55</b>	
	<b>Notes Payable.....</b>	<b>500</b>	
	<b>Cash.....</b>		<b>555</b>
	<b>Paid principal and interest on note payable.</b>		
<b>31</b>	<b>Rent Expense .....</b>	<b>950</b>	
	<b>Prepaid Rent .....</b>	<b>950</b>	
	<b>Cash.....</b>		<b>1,900</b>
	<b>Paid March and April rent.</b>		
<b>31</b>	<b>H. Nolan, Drawings.....</b>	<b>1,000</b>	
	<b>Cash.....</b>		<b>1,000</b>
	<b>Withdrew cash for personal use by owner.</b>		



**PROBLEM 2.11B (Continued)**

**b. and c.**

Cash			
<b>Feb.28</b>	<b>3,500</b>	<b>Mar.2</b>	<b>13,000</b>
<b>Mar. 1</b>	<b>12,000</b>	3	145
16	8,000	10	550
		18	5,000
		30	580
31	2,000	31	1,650
		31	555
		31	1,900
		31	1,000
<b>Bal.</b>	<b>1,120</b>		

Accounts Receivable			
<b>Feb.28</b>	<b>14,450</b>		
		<b>Mar.16</b>	<b>8,000</b>
<b>Mar. 31</b>	<b>5,000</b>		
<b>Bal.</b>	<b>11,450</b>		

Prepaid Rent		
<b>Mar. 31</b>	<b>950</b>	

**PROBLEM 2.11B (Continued)**

**b. and c. (Continued)**

<b>Equipment</b>	
<b>Feb.28</b>	<b>15,100</b>

<b>Service Revenue</b>	
	<b>Mar. 31</b>
	<b>7,000</b>

<b>Accounts Payable</b>	
	<b>Feb.28</b>
	<b>18,750</b>
<b>Mar. 2</b>	<b>13,000</b>
<b>18</b>	<b>5,000</b>
	<b>Bal.</b>
	<b>750</b>

<b>Utilities Expense</b>	
<b>Mar. 10</b>	<b>550</b>

<b>Interest Expense</b>	
<b>Mar. 31</b>	<b>55</b>

<b>Notes Payable</b>	
<b>Mar. 31</b>	<b>500</b>
	<b>Mar. 1</b>
	<b>12,000</b>
	<b>Bal.</b>
	<b>11,500</b>

<b>Office Expense</b>	
<b>Mar. 30</b>	<b>580</b>

<b>Rent Expense</b>	
<b>Mar. 31</b>	<b>950</b>

<b>H. Nolan, Capital</b>	
	<b>Feb.28</b>
	<b>14,300</b>

<b>Insurance Expense</b>	
<b>Mar. 3</b>	<b>145</b>

<b>H. Nolan, Drawings</b>	
<b>Mar. 31</b>	<b>1,000</b>

<b>Salaries Expense</b>	
<b>Mar. 31</b>	<b>1,650</b>

**PROBLEM 2.11B (Continued)**

d.

**HN CONSULTING**  
**Trial Balance**  
**March 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$1,120	
Accounts receivable .....	11,450	
Prepaid rent .....	950	
Equipment.....	15,100	
Accounts payable.....		\$750
Notes payable.....		11,500
H. Nolan, capital .....		14,300
H. Nolan, drawings .....	1,000	
Service revenue.....		7,000
Utilities expense.....	550	
Interest expense.....	55	
Office expense.....	580	
Rent expense.....	950	
Insurance expense .....	145	
Salaries expense .....	1,650	
	<u>\$33,550</u>	<u>\$33,550</u>

**PROBLEM 2.11B (Continued)**

e.

**HN CONSULTING  
Income Statement  
Month Ended March 31, 2021**

---

<b>Revenues</b>	
Service revenue .....	\$ 7,000
<b>Expenses</b>	
Utilities expense .....	\$550
Office expense .....	580
Rent expense .....	950
Insurance expense .....	145
Salaries expense.....	1,650
Interest expense .....	<u>55</u>
Total expenses .....	<u>3,930</u>
Profit.....	<u><u>\$ 3,070</u></u>

f.

**HN CONSULTING  
Statement of Owner's Equity  
Month Ended March 31, 2021**

---

H. Nolan, capital, Feb 28, 2021 .....	\$14,300
Add: Profit .....	<u>3,070</u>
	17,370
Less: Drawings .....	<u>1,000</u>
H. Nolan, capital, March 31, 2021 .....	<u><u>\$16,370</u></u>

**PROBLEM 2.11B (Continued)**

g.

**HN CONSULTING**  
**Balance Sheet**  
**March 31, 2021**

---

<u>Assets</u>	
Cash .....	\$ 1,120
Accounts receivable .....	11,450
Prepaid rent .....	950
Equipment.....	<u>15,100</u>
<b>Total assets</b> .....	<b><u>\$28,620</u></b>
 <u>Liabilities and Owner's Equity</u>  	
<b>Liabilities</b>	
Notes payable .....	\$11,500
Accounts payable .....	<u>750</u>
<b>Total liabilities</b> .....	<b>12,250</b>
 <b>Owner's Equity</b>	
H. Nolan, capital.....	<u>16,370</u>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$28,620</u></b>

**Taking It Further**

The March rent payment of \$1,900 is half asset and half expense. The asset portion of \$950 is for the rent for April and the expense portion of \$950 is for the March rent. April's rent is a future benefit at March 31, and thus is an asset, whereas March's rent has been used by March 31 and thus is an expense.

LO 2,3,4 BT: AP Difficulty: M Time: 75 min. AACSB: None CPA: cpa-t001 CM: Reporting

**PROBLEM 2.12B**

a.

**EDDEN ELECTRICAL  
Income Statement  
Year Ended April 30, 2021**

---

<b>Revenues</b>	
Service revenue .....	<b>\$90,600</b>
 <b>Expenses</b>	
Insurance expense .....	\$ 800
Salaries expense.....	18,000
Supplies expense .....	<u>1,280</u>
Total expenses .....	<u>20,080</u>
<b>Profit.....</b>	<b><u>\$70,520</u></b>

b.

**EDDEN ELECTRICAL  
Statement of Owner's Equity  
Year Ended April 30, 2021**

---

N. Edden, capital, May 1, 2020.....	\$27,500
Add: Profit.....	<u>70,520</u>
	98,020
Less: Drawings .....	<u>29,500</u>
N. Edden, capital, April 30, 2021.....	<b><u>\$68,520</u></b>

**PROBLEM 2.12B (Continued)**

c.

**EDDEN ELECTRICAL**  
**Balance Sheet**  
**April 30, 2021**

---

<u>Assets</u>	
Cash .....	\$15,425
Accounts receivable .....	13,680
Supplies .....	1,150
Prepaid insurance .....	1,600
Equipment.....	<u>48,000</u>
<b>Total assets.....</b>	<b><u>\$79,855</u></b>
 <u>Liabilities and Owner's Equity</u>  	
<b>Liabilities</b>	
Accounts payable .....	\$ 3,085
Unearned revenue .....	<u>8,250</u>
<b>Total liabilities .....</b>	<b>11,335</b>
 <b>Owner's Equity</b>	
N. Edden, capital.....	<u>68,520</u>
 <b>Total liabilities and owner's equity .....</b>	 <b><u>\$79,855</u></b>

**Taking It Further**

**Edden would not be able to retire and take out cash from the business in an amount equal to his capital account balance of \$68,520. The cash balance is only \$15,425. All other assets would need to be converted to cash, and the debts paid first. Edden would have the right to whatever cash remained.**

LO 4 BT: AP Difficulty: S Time: 25 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.13B</b>
----------------------

a.

**LAZDOWSKI MARKETING SERVICES**  
**Trial Balance**  
**October 31, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 4,930	
Accounts receivable .....	6,010	
Supplies .....	1,240	
Prepaid rent .....	975	
Furniture .....	56,685	
Equipment.....	25,970	
Notes payable.....		\$48,850
Accounts payable.....		4,403
Unearned revenue .....		3,555
I. Lazdowski, capital.....		57,410
I. Lazdowski, drawings .....	75,775	
Service revenue (to balance*).....		114,047
Advertising expense .....	14,970	
Insurance expense .....	2,020	
Interest expense .....	2,445	
Supplies expense .....	5,000	
Rent expense.....	11,700	
Salaries expense .....	20,545	
	<u>\$228,265</u>	<u>\$228,265</u>

**\*Total credits without service revenue = \$114,218**

**\$228,265 – \$114,218 = \$114,047**



**PROBLEM 2.13B (Continued)**

b.

**LAZDOWSKI MARKETING SERVICES  
Income Statement  
Year Ended October 31, 2021**

---

<b>Revenues</b>	
Service revenue .....	<b>\$114,047</b>
<b>Expenses</b>	
Advertising expense.....	\$14,970
Insurance expense .....	2,020
Interest expense .....	2,445
Supplies expense .....	5,000
Rent expense .....	11,700
Salaries expense.....	<u>20,545</u>
Total expenses .....	<u>56,680</u>
Profit .....	<u><u>\$57,367</u></u>

**LAZDOWSKI MARKETING SERVICES  
Statement of Owner's Equity  
Year Ended October 31, 2021**

---

I. Lazdowski, capital, November 1, 2020.....	\$57,410
Add: Profit .....	<u>57,367</u>
	114,777
Less: Drawings.....	<u>75,775</u>
I. Lazdowski, capital, October 31, 2021.....	<u><u>\$39,002</u></u>

**PROBLEM 2.13B (Continued)****b. (Continued)**

**LAZDOWSKI MARKETING SERVICES**  
**Balance Sheet**  
**October 31, 2021**

---

<u>Assets</u>	
Cash .....	\$ 4,930
Accounts receivable .....	6,010
Supplies .....	1,240
Prepaid rent .....	975
Furniture .....	56,685
Equipment.....	<u>25,970</u>
 Total assets.....	 <u>\$95,810</u>
 <u>Liabilities and Owner's Equity</u>	
<b>Liabilities</b>	
Notes payable .....	\$48,850
Accounts payable .....	4,403
Unearned revenue .....	<u>3,555</u>
Total liabilities .....	56,808
<b>Owner's Equity</b>	
I. Lazdowski, capital .....	<u>39,002</u>
 Total liabilities and owner's equity .....	 <u>\$95,810</u>

## **PROBLEM 2.13B (Continued)**

### **Taking It Further**

**Drawings exceeded profit. This has resulted in a net decrease to the owner's capital account. Inga's drawings have left the company with a low level of liquid assets (Cash of \$4,930 + Accounts receivable of \$6,010 = \$10,940) to pay off liabilities (Notes payable of \$48,850 + Accounts payable of \$4,403 = \$53,253). Inga's drawings should be based on her cash budget for the coming year and should leave the company with sufficient cash to able to meet its liabilities and grow.**

LO 4 BT: AP Difficulty: S Time: 45 min. AACSB: None CPA: cpa-t001 CM: Reporting

<b>PROBLEM 2.14B</b>
----------------------

- a.
1. Incorrect
  2. Incorrect
  3. Correct
  4. Incorrect
  5. Incorrect
  6. Incorrect
  7. Incorrect
  8. Incorrect
  9. Incorrect
  10. Incorrect

b.

Trans	1	2	3	4	5
1	No	Prepaid Insurance	Understated \$3,600	Increase by \$3,600	Yes
2	Yes	Accounts Receivable Accounts Payable	Understated \$500 Understated \$500	Increase by \$500	Increase by \$500
3					
4	Yes	Salaries Payable Cash	Understated \$1,200 Understated \$1,200	Increase by \$1,200	Increase by \$1,200
5	No	Cash	Understated \$250	Increase by \$250	Yes
6	Yes	Drawings Salaries Expense	Understated \$1,200 Overstated \$1,200	Yes	Yes

**PROBLEM 2.14B (Continued)****b. (Continued)**

<b>Trans</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>7</b>	<b>Yes</b>	<b>Unearned Revenue</b> <b>Service Revenue</b>	<b>Understated \$400</b> <b>Overstated \$400</b>	<b>Yes</b>	<b>Yes</b>
<b>8</b>	<b>No</b>	<b>Accounts Payable</b>	<b>Understated \$750 =</b> <b>(\$375 × 2)</b>	<b>Yes</b>	<b>Increase by \$750</b>
<b>9</b>	<b>No</b>	<b>Equipment</b>  <b>Cash</b>  <b>Accounts Payable</b>	<b>Overstated \$1,800</b> <b>Overstated \$8,600</b> <b>Understated \$6,800</b>	<b>Decrease by \$10,400</b>	<b>Increase by \$6,800</b>
<b>10</b>	<b>Yes</b>	<b>Accounts Receivable</b> <b>Service Revenue</b>	<b>Understated \$950</b> <b>Understated \$950</b>	<b>Increase by \$950</b>	<b>Increase by \$950</b>

## **PROBLEM 2.14B (Continued)**

### **Taking It Further**

- 2. This error understates Accounts Receivable and Accounts Payable. It may lead to liabilities being unpaid and receivables being uncollected.**
- 4. This error may lead to salaries to employees not being paid since the transaction was posted as a credit to Cash. It would show as already being paid. The error would also understate the company's liabilities.**
- 6. This error overstates Salaries Expense. It results in lower profits on the income statement because of the additional expense.**
- 7. This error shows lower liabilities by understating Unearned Revenue. It results in higher profit on the income statement because of the overstated Service Revenue.**
- 10. This error understates the asset Accounts Receivable and understates Service Revenue. It results in a lower profit on the income statement because of the unrecorded revenue.**

LO 4 BT: AN Difficulty: M Time: 35 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

**PROBLEM 2.15B****SHAWNEE SLOPES COMPANY**  
**Trial Balance**  
**June 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash (\$5,875 + \$210 – \$120 + \$650) .....	\$ 6,615	
Accounts receivable (\$3,620 – \$385 – \$385).....	2,850	
Supplies (\$0 + \$650) .....	650	
Equipment (\$14,020 – \$650 + \$2,000).....	15,370	
Notes payable (\$0 + \$2,000).....		\$ 2,000
Accounts payable (\$5,290 – \$165 – \$165 + \$650)		5,610
Property tax payable (\$500 – \$500) .....		0
A. Shawnee, capital (\$17,900 + \$750).....		18,650
A. Shawnee, drawings (\$0 + \$750) .....	750	
Service revenue (\$7,027 – \$560 + \$650).....		7,117
Advertising expense (\$1,132 – \$210 + \$120) ....	1,042	
Property tax expense (\$1,100 + \$500).....	1,600	
Salaries expense (\$4,150 + \$350) .....	4,500	
	<u>\$33,377</u>	<u>\$33,377</u>

**Taking It Further**

There could still be errors after correcting the items identified. The errors could be counter-balancing errors that affect both the debit and credit side equally, such as a transposition error in recording a journal entry that affects both the debit and credit sides (item #6), or errors that counter-balance on the debit side or on the credit side of the trial balance. The trial balance could also be in balance and not show transactions that have been omitted but that should have been recorded.

LO 4 BT: AN Difficulty: M Time: 40 min. AACSB: Analytic CPA: cpa-t001 CM: Reporting

<b>BYP2.1 FINANCIAL REPORTING PROBLEM</b>
---

a.	(1) Financial Statement	(2) Account	(3) Normal Balance	(4) Increase Side	(4) Decrease Side
Finance Expense	Income Statement	Expense	Debit	Debit	Credit
Cash and Cash Equivalents	Balance Sheet	Asset	Debit	Debit	Credit
Intangible Assets	Balance Sheet	Asset	Debit	Debit	Credit
Inventory	Balance Sheet	Asset	Debit	Debit	Credit
Long-Term Debt	Balance Sheet	Liability	Credit	Credit	Debit
Prepaid Expenses and Other Current Assets	Balance Sheet	Asset	Debit	Debit	Credit
Net Revenue	Income Statement	Revenue	Credit	Credit	Debit
Accounts Payable and Accrued Liabilities	Balance Sheet	Liability	Credit	Credit	Debit



## **BYP2.1 (Continued)**

- b.**
  - 1. Cash is decreased.**
  - 2. Cash is increased.**
  - 3. Cash and/or Accounts Receivable are increased.**
  - 4. Accounts Payable and Accrued Expenses is increased or Cash is decreased.**
  - 5. Cash is decreased.**

## **BYP2.2 INTERPRETING FINANCIAL STATEMENTS**

**a.**

- 1. Deferred income tax liability.**
- 2. Income tax expense.**
- 3. Also, in a corporation the owners are called shareholders. So, the final two amounts have different names in a proprietorship.**

**BYP2.2 (Continued)****b.****WESTJET AIRLINES LTD.****Trial Balance****December 31, 2016**

<b>Cash and cash equivalents</b>	<b>\$1,520,822</b>	
<b>Restricted cash</b>	<b>102,649</b>	
<b>Accounts receivable</b>	<b>127,785</b>	
<b>Inventory</b>	<b>33,535</b>	
<b>Prepaid expenses and deposits</b>	<b>181,070</b>	
<b>Property and equipment</b>	<b>4,036,880</b>	
<b>Intangibles</b>	<b>66,187</b>	
<b>Other assets</b>	<b>95,368</b>	
<b>Accounts payable and accrued liabilities</b>		<b>547,490</b>
<b>Advance ticket sales liability</b>		<b>626,635</b>
<b>Deferred rewards program</b>		<b>155,567</b>
<b>Non-refundable guest credits liability</b>		<b>42,942</b>
<b>Maintenance provisions liability</b>		<b>366,234</b>
<b>Other liabilities</b>		<b>8,374</b>
<b>Deferred income tax liability</b>		<b>309,694</b>
<b>Long-term debt</b>		<b>2,046,658</b>
<b>Shareholders' (owners') equity, January 1, 2016</b>		<b>1,832,211</b>
<b>Shareholders' (owners') "drawings"</b>	<b>66,967</b>	
<b>Guest revenues</b>		<b>3,556,941</b>
<b>Other revenues</b>		<b>565,918</b>
<b>Aircraft fuel, leasing, and maintenance expense</b>	<b>1,153,538</b>	
<b>Rates and fees expense</b>	<b>617,573</b>	
<b>Salaries and benefits expense</b>	<b>854,056</b>	
<b>Other expenses</b>	<b>291,024</b>	
<b>Depreciation and amortization expense</b>	<b>350,484</b>	
<b>Sales and marketing expense</b>	<b>356,745</b>	
<b>Employee profit share expense</b>	<b>59,342</b>	
<b>Non-operating expenses</b>	<b>23,864</b>	
<b>Income tax expense</b>	<b>120,775</b>	
	<b><u>\$10,058,664</u></b>	<b><u>\$10,058,664</u></b>

## **BYP2.2 (Continued)**

- c. Items have been grouped on the WestJet income statement based on the nature of the expenses such as salaries and benefits expenses. Preparing a more condensed statement of income is preferable for large organizations such as WestJet as the users of the financial statements are generally investors who are not interested in any greater detail concerning expenses than what has been presented by management.**
  
- d. Most customers using WestJet services book their flights well in advance of their trip. The customers also pay for their tickets before the flight. The cash obtained by WestJet represents unearned revenue until the service of the flight has been delivered to the customer.**

**WestJet has used two main accounts for unearned revenue: Advance Ticket Sales Liability and Non-refundable Guest Credits Liability.**

## **BYP2.3 COLLABORATIVE LEARNING ACTIVITY**

**All of the material supplementing the collaborative learning activity, including a suggested solution, can be found in the Collaborative Learning section of the Instructor Resources site accompanying this textbook.**

**BYP2.4 COMMUNICATION ACTIVITY**

**e-mail:**

**Hello instructor,**

**As requested, following is an explanation and illustration of the steps in the recording process as they relate to the March 15 events for White Glove Company:**

- (1) In the first example, a transaction has not yet taken place. White Glove’s financial position (assets, liabilities, and owner’s equity) is not changed as a result of the contract. There has been no exchange between the parties involved in the event.**
  
- (2) In the second example, bills totalling \$6,000 were sent to customers for services performed. First, we analyze the transaction to determine the accounts involved and the debits/credits required. We determine that the asset Accounts Receivable is increased \$6,000 and Service Revenue is increased \$6,000. Debits increase assets and credits increase revenues, so the next step is preparing the journal entry:**

<b>Accounts Receivable .....</b>	<b>6,000</b>
<b>Service Revenue .....</b>	<b>6,000</b>
<b>Billed customer for services performed.</b>	

**The third step is posting the entry. 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.**

**BYP2.4 (Continued)**

**(3) In the third example, \$2,000 was paid in salaries to employees. First, we analyze the transaction to determine the accounts involved and the debits/credits required. We determine that the expense Salaries Expense is increased \$2,000 and the asset Cash is decreased \$2,000. Debits increase expenses and credits decrease assets, so the next step is preparing the journal entry:**

<b>Salaries Expense.....</b>	<b>2,000</b>
<b>Cash.....</b>	<b>2,000</b>
<b>    Paid employee salaries.</b>	

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

**I trust that the foregoing is satisfactory. Please let me know if anything further is required.**

**BYP2.5 “All About You” Activity**

a. On September 1, 2021, my personal equity would be as follows:

Cash (\$4,000 + \$14,000) .....	\$18,000
Clothes.....	1,000
Cell phone.....	<u>200</u>
<b>Total assets .....</b>	<b>19,200</b>
<b>Less Student loan .....</b>	<b><u>(14,000)</u></b>
<b>Personal equity, Sept. 1, 2021</b>	<b><u>\$5,200</u></b>

b.

**Personal Trial Balance  
December 15, 2021**

---

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$6,000	
Clothes (\$1,000 + \$1,500).....	2,500	
Cell phone.....	200	
Computer .....	1,000	
Damage deposit on apartment .....	400	
Unused bus pass.....	250	
Student loan .....		\$14,000
Personal equity .....		5,200
Rent expense.....	1,600	
Groceries expense .....	1,200	
Tuition for September to December.....	2,800	
Textbooks for September to December.....	600	
Entertainment expense.....	1,500	
Cell phone expense.....	250	
Internet expense.....	200	
Bus pass expense .....	250	
Airfare .....	<u>450</u>	
	<b><u>\$19,200</u></b>	<b><u>\$19,200</u></b>



**BYP2.5 (Continued)**

**b. (Continued)**

**Errors in the Trial Balance:**

- The cash amount should be the amount in the bank account at December 15.
- The computer was recorded at \$100 rather than the actual cost of \$1,000.
- Rent expense of \$2,000 should be split between the actual expense of \$1,600 (\$400 per month for September to December inclusive) and the damage deposit on the apartment which is an asset and not an expense.
- Groceries are an expense and should be listed in the debit column.
- Bus pass expense of \$500 should be split between the amount used for September through December 2021 of \$250 and the amount of the bus pass that represents an asset as at the end of December 2021 of \$250.
- The airfare is \$450, not \$540.

<b>c. Personal equity, September 1</b>	<b>\$5,200</b>
<b>Net loss *</b>	<b><u>(8,850)</u></b>
<b>Personal equity (deficit), December 15</b>	<b><u><u>\$(3,650)</u></u></b>
Rent expense.....	\$1,600
Groceries expense .....	1,200
Tuition for September to December.....	2,800
Textbooks for September to December.....	600
Entertainment expense.....	1,500
Cell phone expense .....	250
Internet expense.....	200
Bus pass for September to December.....	250
Airfare expense .....	<u>450</u>
<b>* Net loss.....</b>	<b><u><u>\$8,850</u></u></b>

**BYP2.5 (Continued)**

d.

**Personal Balance Sheet**  
**December 15, 2021**

<u>Assets</u>	
Cash .....	\$6,000
Clothes .....	2,500
Cell phone.....	200
Damage deposit on apartment .....	400
Unused bus pass.....	250
Computer .....	<u>1,000</u>
<b>Total assets</b> .....	<b><u>\$10,350</u></b>
<u>Liability and Deficit</u>	
<b>Liability</b>	
Student loan.....	\$14,000
<b>Personal equity (deficit)</b> .....	<b><u>(3,650)</u></b>
<b>Total liabilities and owner's equity</b> .....	<b><u>\$10,350</u></b>

- e. The amount of expenses in the September to December semester totalled \$8,850. It will not be necessary to use cash to pay for the \$250 bus pass next semester as it has already been purchased. If the other expenses are kept at the same level, I will need \$8,600 (\$8,850 – \$250) of cash which exceeds my current cash balance of \$6,000 by \$2,600. The cash balance is inadequate.
- f. Expenses that can be avoided in the second semester include entertainment expenses of \$1,500 and the airfare of \$450. Another expense that can be reduced but not eliminated is the cell phone expense.
- g. Additional cash expenditures that could occur in the second semester may possibly include repair to the computer or the loss of the damage deposit and additional payments to the landlord for damage to the apartment. Textbooks may exceed \$600 in the second semester.

### **BYP2.5 (Continued)**

- h. Unless I get a part-time job or cut expenses in addition to the entertainment and airfare expenses mentioned in f., it will be necessary to ask for more money from my parents.**

**BYP2.6 Santé Smoothie Saga**

a.

<b>Apr. 12</b>	<b>No entry required for cashing Canada Savings Bonds—this is a personal transaction.</b>		
<b>13</b>	<b>Cash .....</b>	<b>900</b>	
	<b>    N. Koebel, Capital .....</b>		<b>900</b>
	<b>    Invested cash in business.</b>		
<b>15</b>	<b>Cash .....</b>	<b>3,000</b>	
	<b>    Notes Payable .....</b>		<b>3,000</b>
	<b>    Borrowed cash and signed a note.</b>		
<b>18</b>	<b>Advertising Expense.....</b>	<b>325</b>	
	<b>    Cash.....</b>		<b>325</b>
	<b>    Paid advertising expense.</b>		
<b>20</b>	<b>Supplies .....</b>	<b>198</b>	
	<b>    Cash.....</b>		<b>198</b>
	<b>    Purchased supplies for cash.</b>		
<b>22</b>	<b>Equipment .....</b>	<b>825</b>	
	<b>    N. Koebel, Capital .....</b>		<b>825</b>
	<b>    Invested equipment in business.</b>		
<b>23</b>	<b>Account Receivable .....</b>	<b>300</b>	
	<b>    Revenue .....</b>		<b>300</b>
	<b>    Billed customer for smoothies.</b>		
<b>24</b>	<b>Telephone Expense.....</b>	<b>98</b>	
	<b>    Accounts Payable.....</b>		<b>98</b>
	<b>    Received invoice for cell phone.</b>		
<b>28</b>	<b>Cash .....</b>	<b>125</b>	
	<b>    Unearned Revenue .....</b>		<b>125</b>
	<b>    Received cash for services in advance.</b>		

**BYP2.6 (Continued)**

b.

<b>Cash</b>			
<b>Apr. 13</b>	<b>900</b>		
<b>Apr. 15</b>	<b>3,000</b>	<b>Apr. 18</b>	<b>325</b>
<b>Apr. 28</b>	<b>125</b>	<b>Apr. 20</b>	<b>198</b>
<hr/>			
<b>Bal.</b>	<b>3,502</b>		

<b>Accounts Receivable</b>	
<b>Apr. 23</b>	<b>300</b>

<b>Supplies</b>	
<b>Apr. 20</b>	<b>198</b>

<b>Equipment</b>	
<b>Apr. 22</b>	<b>825</b>

<b>Accounts Payable</b>	
	<b>Apr. 24 98</b>

<b>Unearned Revenue</b>	
	<b>Apr. 28 125</b>

<b>Notes Payable</b>	
	<b>Apr. 15 3,000</b>

<b>N. Koebel, Capital</b>	
	<b>Apr. 13 900</b>
	<b>Apr. 22 825</b>
<b>Bal.</b>	<b>1,725</b>

**BYP2.6 (Continued)**

**b. (Continued)**

<b>Revenue</b>		
	Apr. 23	300
<b>Advertising Expense</b>		
Apr. 18	325	
<b>Telephone Expense</b>		
Apr. 24	98	

**c.**

**SANTÉ SMOOTHIES  
Trial Balance  
April 30, 2021**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$3,502	
Accounts receivable .....	300	
Supplies .....	198	
Equipment.....	825	
Accounts payable.....		\$ 98
Unearned revenue .....		125
Notes payable.....		3,000
N. Koebel, capital .....		1,725
Revenue .....		300
Advertising expense .....	325	
Telephone expense .....	98	
	<u>\$5,248</u>	<u>\$5,248</u>

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