

CHAPTER 2—Solutions

ANALYZING AND RECORDING BUSINESS TRANSACTIONS

Discussion Questions

DQ1. All equipment needs normal repairs. These are considered an ongoing cost of business and, thus, are expenses. However, it may be argued that if the repair is major, such as a major overhaul that is done every five years, the expenditure will benefit future years and, thus, could be recorded as an asset.

DQ2. No issue is more important than another. Each must be resolved satisfactorily for a transaction to be recorded correctly.

DQ3. Owner's Capital is the most likely account to have an abnormal balance. When expenses exceed revenues (net loss) and contributed capital, it will create an abnormal balance (debit) in owner's capital.

DQ4. A retail company selling promotional products would have an account called inventory.

DQ5. Assets and expenses are closely related because many assets are expenses that have not yet been used. Examples are prepaid assets and plant and equipment. As a result, debits *increase* assets and expenses, and credits *decrease* assets and expenses. They appear on opposite sides of the accounting equation.

DQ6. With unearned revenues (a liability), cash is *received* in advance of *providing* a service. With prepaid expenses (an asset), cash is paid in advance of *receiving* a service.

DQ7. The most common violation of the recognition concept is when a revenue is recognized before the earnings process is complete. For instance, the recording of an order as revenue before the service is performed or the product is delivered to the customer would overstate revenues.

DQ8. To maintain liquidity it can seek more time from creditors, sell long-term investments (e.g., unused equipment), or get a loan from a bank.

Short Exercises

SE1. Classification of Accounts

a.	Liability	e.	Expense
b.	Asset	f.	Asset
c.	None (Owner's Equity)	g.	Liability
d.	Revenue	h.	Asset

SE2. Recognition, Valuation, and Classification

The concept of recognition is applied by recording the transaction at the recognition point on June 1 when the transaction takes place. Supplies are purchased with cash, and the buyer takes title to the supplies.

The concept of valuation is applied by recording the supplies at cost of \$1,000.

The classification concept is applied by reducing the asset Cash and increasing the asset Supplies. Supplies are classified as an asset because they have not been used up and will benefit future operations. If they were used up immediately, they could be classified as Supplies Expense.

SE3. Recognition

Jan.	10	Do not recognize because an order is not a complete transaction. There is no obligation on the part of either party at this point.
Feb.	15	Recognize the purchase. Delivery has been made; there is an obligation to pay.
Mar.	1	Recognize the payment. Cash is paid, and the obligation no longer exists.

SE4. Normal Balances

a.	Credit	e.	Debit
b.	Debit	f.	Debit
c.	Debit	g.	Credit
d.	Credit	h.	Debit

SE5. Transaction Analysis

May	2	Debit Cash; credit S. Michael, Capital
	5	Debit Office Equipment; credit Cash
	7	Debit Supplies; credit Accounts Payable
	19	Debit Cash; credit Programming Service Revenue
	22	Debit Cash; credit Unearned Programming Service Revenue
	25	Debit Rent Expense; credit Cash
	31	Debit Accounts Receivable; credit Programming Service Revenue

SE6. Recording Transactions in T Accounts					
Cash					
May	2	10,000	May	5	5,000
	19	1,000		25	1,300
	22	1,200			
		<u>12,200</u>			<u>6,300</u>
Bal.		5,900			
Accounts Receivable					
May	31	500			
Supplies					
May	7	600			
Office Equipment					
May	5	5,000			
Accounts Payable					
			May	7	600
Unearned Programming Service Revenue					
			May	22	1,200
S. Michael, Capital					
			May	2	10,000
Programming Service Revenue					
			May	19	1,000
				31	500
			Bal.		1,500
Rent Expense					
May	25	1,300			
SE7. Preparing a Trial Balance					
Michael's Programming Service					
Trial Balance					
May 31, 2014					
Cash			5,900		
Accounts Receivable			500		
Supplies			600		
Office Equipment			5,000		
Accounts Payable				600	
Unearned Programming Service Revenue					1,200
S. Michael, Capital					10,000
Programming Service Revenue					1,500
Rent Expense			<u>1,300</u>		
			<u>13,300</u>		<u>13,300</u>

SE8. Recording Transactions in the General Journal

General Journal					Page 4
Date		Description	Post. Ref.	Debit	Credit
Sept.	6	Accounts Receivable		3,800	
		Service Revenue			3,800
		Billed customer for services performed			
	16	Cash		1,800	
		Accounts Receivable			1,800
		Received cash on account from customer billed on Sept. 6			

SE9. Posting to the Ledger Accounts

Cash					Account No. 111	
					Balance	
Date		Item	Post. Ref.	Debit	Credit	
Sept.	16		J4	1,800		1,800

Accounts Receivable					Account No. 113	
					Balance	
Date		Item	Post. Ref.	Debit	Credit	
Sept.	6		J4	3,800		3,800
	16		J4		1,800	2,000

Service Revenue					Account No. 411	
					Balance	
Date		Item	Post. Ref.	Debit	Credit	
Sept.	6		J4		3,800	3,800

Note: At this point, the account numbers would also be posted to the accounts in the general journal in SE8.

Michael's Programming Service		
Trial Balance		
September 30, 2014		
Cash	\$ 7,700	
Accounts Receivable	2,500	
Supplies	600	
Office Equipment	5,000	
Accounts Payable		\$ 600
Unearned Programming Service Revenue		5,000
L. Stoker, Capital		10,000
Programming Service Revenue		1,500
Rent Expense	<u>1,300</u>	<u> </u>
	<u>\$17,100</u>	<u>\$17,100</u>

Exercises: Set A

E1A. Recognition

Jan.	15	Not recorded. An offer is not a completed transaction.
Feb.	2	Not recorded. Notice of a price increase is not a transaction.
Mar.	29	Recorded. The utilities expense has been incurred, and the liability for payment exists.
June	10	Not recorded. An order does not constitute a recognition point.
July	6	Recorded. Abril Company now records the office equipment, and a liability to pay exists.

E2A. T Accounts, Normal Balance, and the Accounting Equation

Assets	=	Liabilities	+	Owner's Equity						
				T. Captain, Capital	-	T. Captain, Withdrawals	+	Revenues	-	Expenses
Cash		Accounts Payable		T. Captain, Capital		T. Captain, Withdrawals		Service Revenue		Rent Expense
3,450		1,200		2,400		750		1,500		900
\$3,450	=	\$1,200	+	\$2,250						
\$3,450	=	\$3,450								

E3A. Classification of Accounts								
Item	Type of Account						Normal Balance	
	Asset	Liability	Owner's Equity				Debit	Credit
			D. Minimus, Capital	D. Minimus, Withdrawals	Revenue	Expense		
a.	x						x	
b.						x	x	
c.	x						x	
d.			x					x
e.	x						x	
f.	x						x	
g.		x						x
h.	x						x	
i.					x			x
j.						x	x	
k.	x						x	
l.						x	x	
m.					x			x
n.				x			x	
o.		x						x
p.		x						x
q.	x						x	
r.		x						x
s.	x						x	
t.						x	x	
u.		x						x
v.	x						x	
w.	x						x	
x.						x	x	

E4A. Transaction Analysis		
a.	The asset account Cash was increased. Increases in assets are recorded by debits. Debit Cash \$2,400. A component of Owner's Equity, M. Faubert, Capital, was increased. Increases in owner's capital are recorded by credits. Credit M. Faubert, Capital \$2,400.	
b.	The asset Prepaid Rent was increased. Increases in assets are recorded by debits. Debit Prepaid Rent \$1,680. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$1,680.	
c.	The asset Supplies was increased. Increases in assets are recorded by debits. Debit Supplies \$120. The liability Accounts Payable was increased. Increases in liabilities are recorded by credits. Credit Accounts Payable \$120.	
d.	The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash \$600. The revenue Fees Earned was increased. Increases in revenues are recorded by credits. Credit Fees Earned \$600.	
e.	The liability Accounts Payable was decreased. Decreases in liabilities are recorded by debits. Debit Accounts Payable \$120. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$120.	
f.	The expense Utilities Expense was increased. Increases in expenses are recorded by debits. Debit Utilities Expense \$72. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$72.	
g.	The owner's equity component, M. Faubert, Withdrawals, was increased. Increases in withdrawals are recorded by debits. Debit M. Faubert, Withdrawals \$100. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$100.	
E5A. Transaction Analysis		
	Debit	Credit
a.	Paid for supplies purchased on credit last month.	5 1
b.	Received cash from customers billed last month.	1 2
c.	Made a payment on accounts payable.	5 1
d.	Purchased supplies on credit.	3 5
e.	Billed a customer for lawn services.	2 6
f.	Made a rent payment for the current month.	8 1
g.	Received cash from customers for repair services.	1 6
h.	Paid employee wages.	7 1
i.	Ordered equipment.	No entry
j.	Received and paid for the equipment ordered in <i>i</i> .	4 1

E6A. Recording Transactions in T Accounts							
Cash				Accounts Payable			
a.	8,600	b.	800	f.	400	c.	1,000
g.	3,720	d.	600			Bal.	600
		e.	900	C. Ferdinand, Capital			
		f.	400			a.	11,800
		h.	1,200	C. Ferdinand, Withdrawals			
	12,320		3,900	h.	1,200		
Bal.	8,420			Repair Fees Earned			
Repair Supplies						g.	3,720
c.	1,000			Salaries Expense			
Repair Equipment				e.	900		
a.	3,200			Rent Expense			
d.	600			b.	800		
Bal.	3,800						
E7A. Analysis of Transactions							
a.	F. Mills, owner, invested \$10,000 in the company.						
b.	Purchased equipment with cash, \$3,750.						
c.	Billed customer for services rendered, \$2,000.						
d.	Purchased equipment on account, \$2,250.						
e.	Paid wages with cash, \$900.						
f.	Paid cash owed on account, \$1,125.						
g.	Received cash on account, \$375.						
h.	Sold equipment (at cost) for cash, \$225.						

E8A. Analysis of Unfamiliar Transactions				
May	1	Merchandise Inventory	1,200	
		Accounts Payable		1,200
		Purchased merchandise inventory on account		
Note to Instructor: The answer given here assumes the perpetual inventory method because it is most intuitive at this point in the course. The purpose of this exercise is to focus on analytical thinking.				
	2	Marketable Securities	2,800	
		Cash		2,800
		Purchased marketable securities		
	3	Accounts Payable	250	
		Merchandise Inventory		250
		Returned part of merchandise inventory for full credit		
	4	Accounts Receivable	800	
		Sales		800
		Sold merchandise inventory		
Note to Instructor: A full discussion might be held at this point on what should be done to the Merchandise Inventory account.				
	5	Land	100,000	
		Building	200,000	
		Cash		60,000
		Mortgage Payable		240,000
		Purchased land and building with partial payment in cash		
	6	Cash	4,000	
		Advance Deposit or Unearned Revenue		4,000
		Recorded deposit on services of \$12,000 to be provided		

E9A. Trial Balance		
Ferdinand Repair Service		
Trial Balance		
June 30, 2014		
Cash	8,420	
Repair Supplies	1,000	
Repair Equipment	3,800	
Accounts Payable		600
C. Ferdinand, Capital		11,800
C. Ferdinand, Withdrawals	1,200	
Repair Fees Earned		3,720
Salaries Expense	900	
Rent Expense	<u>800</u>	<u> </u>
	<u>16,120</u>	<u>16,120</u>
E10A. Preparing a Trial Balance		
Shah Company		
Trial Balance		
March 31, 2014		
Cash	5,400	
Accounts Receivable	1,800	
Prepaid Insurance	660	
Land	3,120	
Building	20,400	
Equipment	7,200	
Notes Payable		12,000
Accounts Payable		7,710*
A. Shah, Capital		<u>18,870</u>
	<u>38,580</u>	<u>38,580</u>
*\$38,580 – (\$12,000 + \$18,870) = \$7,710		
E11A. Effects of Errors on a Trial Balance		
a.	Unequal totals. The total debits would be \$54 more than the total credits.	
b.	Equal balance. However, both Accounts Receivable (an asset account) and Accounts Payable (a liability account) would be overstated by \$300.	
c.	Equal balance. However, both accounts would be incorrect. Cash would be overstated by \$756, and Office Supplies would be understated by \$756.	
d.	Equal balance. However, an error has been made by debiting the wrong asset. Therefore, Supplies would be overstated by \$900, and Equipment would be understated by \$900.	

E12A. Correcting Errors in a Trial Balance		
Hasson Services		
Trial Balance		
July 31, 2014		
Cash	2,030	
Accounts Receivable	2,890	
Supplies	120	
Prepaid Insurance	180	
Equipment	3,700	
Notes Payable		1,200
Accounts Payable		1,930
N. Hasson, Capital		5,280
N. Hasson, Withdrawals	550	
Revenues		2,960
Salaries Expense	1,300	
Rent Expense	300	
Advertising Expense	170	
Utilities Expense	<u>130</u>	
	<u>11,370</u>	<u>11,370</u>

E13A. Recording Transactions in the General Journal				
General Journal				
2014				
	a.	Cash	8,600	
		Repair Equipment	3,200	
		C. Ferdinand, Capital		11,800
		Invested cash and repair equipment in the business		
	b.	Rent Expense	800	
		Cash		800
		Paid current month rent		
	c.	Repair Supplies	1,000	
		Accounts Payable		1,000
		Purchased repair supplies on credit		
	d.	Repair Equipment	600	
		Cash		600
		Purchased additional repair equipment for cash		
	e.	Salaries Expense	900	
		Cash		900
		Paid salary to a helper		
	f.	Accounts Payable	400	
		Cash		400
		Paid \$400 of the amount purchased on credit in transaction c.		
	g.	Cash	3,720	
		Repair Fees Earned		3,720
		Accepted cash for repairs completed		
	h.	C. Ferdinand, Withdrawals	1,200	
		Cash		1,200
		Withdrew cash from the business		

E14A. Recording Transactions in the General Journal and Posting to the Ledger Accounts

General Journal					Page 10
Date	Description	Post. Ref.	Debit	Credit	
Dec. 14	Office Equipment	146	12,000		
	Cash	111		4,000	
	Accounts Payable	212		8,000	
	Purchased equipment; paid one-third in cash				
28	Accounts Payable	212	6,000		
	Cash	111		6,000	
	Paid for part of equipment purchased on credit				

General Ledger						
Cash					Account No. 111	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Dec. 13	Balance	✓			16,000	
14		J10		4,000	12,000	
28		J10		6,000	6,000	

Office Equipment					Account No. 146	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Dec. 14		J10	12,000		12,000	

Accounts Payable					Account No. 212	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Dec. 14		J10		8,000		8,000
28		J10	6,000			2,000

E15A. Application of Recognition Point

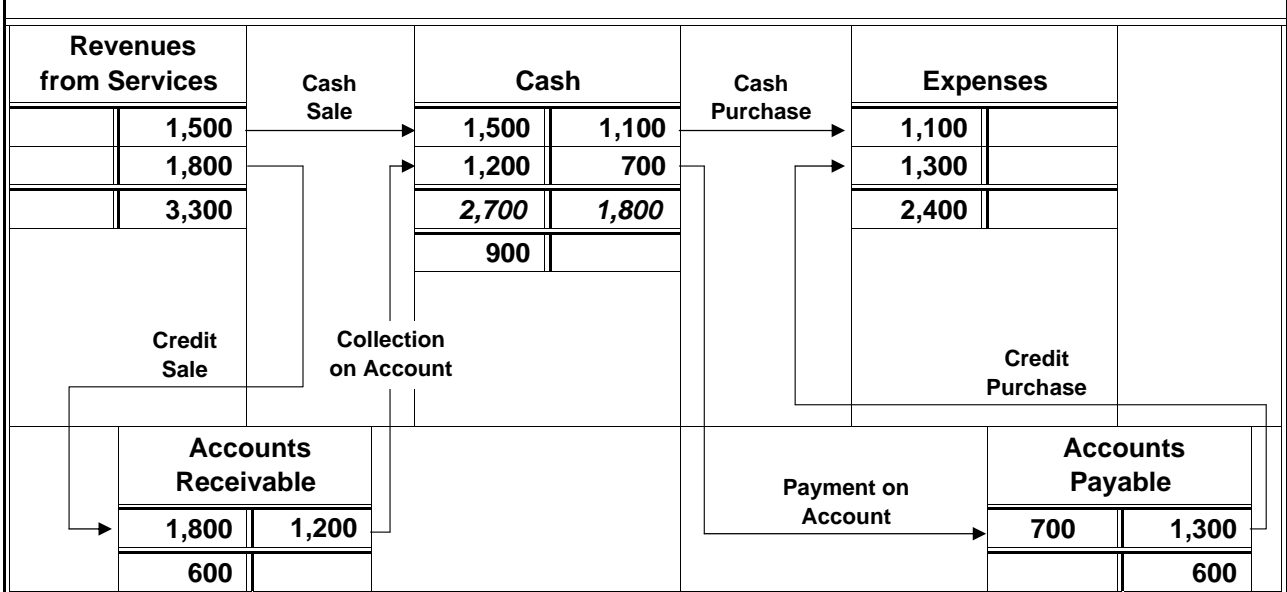
1. Purchases recognized on date shipped

Order	Date Shipped		Date Received		Amount
b	July	10	July	15	\$1,500
c		16		22	800
d		23		30	1,200
e		27	Aug.	1	<u>1,500</u>
Total July purchases					<u>\$5,000</u>

2. Purchases recognized on date received

Order	Date Shipped		Date Received		Amount
a	June	26	July	5	\$ 600
b	July	10		15	1,500
c		16		22	800
d		23		30	<u>1,200</u>
Total July purchases					<u>\$4,100</u>

E16A. Cash Flow Analysis



The cash balance after these transactions is \$900. The amount still to be received (the balance of Accounts Receivable) is \$600. The amount still to be paid (the balance of Accounts Payable) is \$600.

Note to Instructor: Solutions for Exercises: Set B are provided separately on the Instructor's Resource CD and website.

Problems

P1. T Accounts, Normal Balance, and The Accounting Equation

Assets	=	Liabilities	Owner's Equity				
			R. Mehta, Capital	-	R. Mehta, Withdrawals	+	Revenues
Cash		Accounts Payable	R. Mehta, Capital		R. Mehta, Withdrawals	Design Revenue	Rent Expense
18,400		6,420	74,000		36,000	210,000	11,880
Accounts Receivable		Loans Payable					Telephone Expense
78,000		10,000					960
Equipment		Unearned Revenue					Wages Expense
49,180		18,000					124,000
Accounting equation without Equipment:							
Equipment	+	\$96,400	=	\$145,580			
		Equipment	=	\$49,180			
Accounting equation in balance:							
\$145,580	=	\$34,420	+	\$111,160			
\$145,580	=	\$145,580					

P2. Transaction Analysis			
		Debit	Credit
a.	Paid for supplies purchased on credit last month.	7	1
b.	Received a bill for repairs.	12	7
c.	Paid the current month's rent.	11	1
d.	Purchased supplies on credit.	3	7
e.	Received cash from customers for services performed but not yet billed.	1	10
f.	Purchased equipment on account.	5	7
g.	Billed customers for services performed.	2	10
h.	Returned part of the equipment purchased in <i>f</i> for a credit.	7	5
i.	Received payments from customers previously billed.	1	2
j.	Paid the bill received in <i>b</i> .	7	1
k.	Received an order for services to be performed.	No entry	
l.	Paid for repairs with cash.	12	1
m.	Made a payment to reduce the principal of the note payable.	6	1
n.	Made a cash withdrawal.	9	1

P3. Transaction Analysis, T Accounts, and Trial Balance											
1 and 2.											
Cash				Accounts Receivable				Supplies			
a.	5,700	b.	260	f.	1,740	j.	1,080	e.	330		
j.	1,080	c.	190	Bal.	660						
		h.	330								
		i.	40								
		k.	90								
		l.	440								
		m.	300								
	6,780		1,650								
Bal.	5,130										
Computers				Office Equipment				Accounts Payable			
a.	4,300			a.	3,600			h.	330	e.	330
g.	480			g.	380					g.	860
Bal.	4,780			Bal.	3,980				330		1,190
										Bal.	860
J. Lopez, Capital				J. Lopez, Withdrawals				Tuition Revenue			
		a.	13,600	m.	300					f.	1,740
Salaries Expense				Utilities Expense				Rent Expense			
l.	440			k.	90			b.	260		
Repair Expense				Advertising Expense							
i.	40			c.	190						
d.	No entry										

P3. Transaction Analysis, T Accounts, and Trial Balance (Concluded)

3.	Lopez Office Training		
	Trial Balance		
	(Current Date)		
	Cash	5,130	
	Accounts Receivable	660	
	Supplies	330	
	Computers	4,780	
	Office Equipment	3,980	
	Accounts Payable		860
	J. Lopez, Capital		13,600
	J. Lopez, Withdrawals	300	
	Tuition Revenue		1,740
	Salaries Expense	440	
	Utilities Expense	90	
	Rent Expense	260	
Repair Expense	40		
Advertising Expense	190		
	<u>16,200</u>	<u>16,200</u>	
4.	<p>The revenues were \$1,740, and only \$1,080 of cash was received from those revenues.</p> <p>The company accepts credit sales to accommodate its students and encourage them to enroll. The company must consider the possibility that it will not receive the cash until later and that some students will not be able to pay.</p>		

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance

1.	2014				
	April	2	Cash	14,400	
			S. Patel, Capital		14,400
			For initial owner investment in Patel Rentals		
		3	Supplies	300	
			Accounts Payable		300
			To purchase supplies on account		
		4	Bicycles	5,000	
			Cash		2,400
			Accounts Payable		2,600
			To purchase bicycles; made partial payment and agreed to pay the rest later		
		5	Shed	5,800	
			Cash		5,800
			To purchase shed to store bicycles		
		8	Shed	800	
			Cash		800
			To install shed		
		9	No entry		
		10	Maintenance Expense	150	
			Cash		150
			To pay for cleanup		
		13	Cash	1,940	
			Rental Revenue		1,940
			To record rentals made for cash		
		17	Accounts Payable	300	
			Cash		300
			To pay for supplies purchased on April 3		
		18	Repair Expense	110	
			Cash		110
			To repair bicycles		
		23	Accounts Receivable	220	
			Rental Revenue		220
			To bill company for rentals		
		25	Concession Fee Expense	200	
			Cash		200
			To pay monthly concession fee		
		27	Cash	1,920	
			Rental Revenue		1,920
			To record rentals made for cash		
		29	Wages Expense	480	
			Cash		480
			To pay wages of assistant		
		30	S. Patel, Withdrawals	1,000	
			Cash		1,000
			To disburse a cash withdrawal		

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance (Continued)

2.

Cash				Accounts Receivable				Supplies			
4/2	14,400	4/4	2,400	4/23	220			4/3	300		
4/13	1,940	4/5	5,800								
4/27	1,920	4/8	800								
		4/10	150								
		4/17	300								
		4/18	110								
		4/25	200								
		4/29	480								
		4/30	1,000								
	18,260		11,240								
Bal.	7,020										
Shed				Bicycles				Accounts Payable			
4/5	5,800			4/4	5,000			4/17	300	4/3	300
4/8	800									4/4	2,600
Bal.	6,600								300		2,900
										Bal.	2,600
S. Patel, Capital				S. Patel, Withdrawals				Rental Revenue			
		4/2	14,400	4/30	1,000					4/13	1,940
										4/23	220
										4/27	1,920
										Bal.	4,080
Wages Expense				Maintenance Expense				Repair Expense			
4/29	480			4/10	150			4/18	110		
Concession Fee Expense											
4/25	200										

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance (Concluded)

3.	Patel Rentals Trial Balance April 30, 2014		
	Cash	7,020	
	Accounts Receivable	220	
	Supplies	300	
	Shed	6,600	
	Bicycles	5,000	
	Accounts Payable		2,600
	S. Patel, Capital		14,400
	S. Patel, Withdrawals	1,000	
	Rental Revenue		4,080
	Wages Expense	480	
	Maintenance Expense	150	
	Repair Expense	110	
	Concession Fee Expense	200	
		<u>21,080</u>	<u>21,080</u>

4. April 3 and 10 are the recognition points for these transactions. April 3 is the recognition point for the purchase of supplies, because it is on April 3 when the title to the supplies passes and there is an obligation to pay. April 10 is the recognition point for the cleaning work because this is when the cleaning is done and there is an obligation to pay for it.

Both transactions are recorded at cost, the amount that the company is obligated to pay.

The supplies purchased on April 3 are classified as an asset, Supplies, because the supplies are not used immediately but will be used up in the future. The purchase of cleaning work is classified as owner's equity, Maintenance Expense, because it is necessary now in the current period for the company to continue running. Also the purchase of supplies is classified as Accounts Payable, a liability, because the supplies are to be paid for in the future. Conversely, the payment to a maintenance person is classified as Cash, an asset, because the cleaning work is paid for on the day of purchase.

P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance				
3. (Requirements 1, 2, 4, and 5 follow)				
General Journal				Page 22
Date		Description	Post. Ref.	Debit Credit
2014				
Sept.	2	Rent Expense	514	650
		Cash	111	650
		To pay September rent		
	3	Cash	111	2,300
		Accounts Receivable	113	2,300
		To record receipt of cash on account		
	7	No entry		
	10	Accounts Receivable	113	2,800
		Marketing Fees	411	2,800
		To bill customers for services		
	12	Accounts Payable	212	1,300
		Cash	111	1,300
		To pay on account		
	14	Office Supplies	116	380
		Accounts Payable	212	380
		To purchase supplies on credit		
	17	Accounts Payable	212	80
		Office Supplies	116	80
		To return supplies for credit		
	19	Cash	111	4,800
		Marketing Fees	411	4,800
		To record receipt of payment for services		
	24	Utilities Expense	512	250
		Cash	111	250
		To pay September utility bill		
	26	Advertising Expense	516	700
		Accounts Payable	212	700
		To record receipt of September advertising bill		
	29	Accounts Receivable	113	2,700
		Marketing Fees	411	2,700
		To bill customer for services		
	30	Salaries Expense	511	3,800
		Cash	111	3,800
		To pay salaries for September		
	30	D. Guetta, Withdrawals	313	1,200
		Cash	111	1,200
		To record a withdrawal		

P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
1, 2, and 4.							
Cash					Account No. 111		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Aug.	31	Balance			10,590		
Sept.	2			650	9,940		
	3	J22	2,300		12,240		
	12	J22		1,300	10,940		
	19	J22	4,800		15,740		
	24	J22		250	15,490		
	30	J22		3,800	11,690		
	30	J22		1,200	10,490		
Accounts Receivable					Account No. 113		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Aug.	31	Balance			5,500		
Sept.	3	J22		2,300	3,200		
	10	J22	2,800		6,000		
	29	J22	2,700		8,700		
Office Supplies					Account No. 116		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Aug.	31	Balance			610		
Sept.	14	J22	380		990		
	17	J22		80	910		
Office Equipment					Account No. 146		
					Balance		
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Aug.	31	Balance			4,200		

P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
Accounts Payable						Account No. 212	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Aug.	31					2,600	
Sept.	12	J22	1,300			1,300	
	14	J22		380		1,680	
	17	J22	80			1,600	
	26	J22		700		2,300	
D. Guetta, Capital						Account No. 311	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Aug.	31					18,300	
D. Guetta, Withdrawals						Account No. 313	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	30	J22	1,200		1,200		
Marketing Fees						Account No. 411	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	10	J22		2,800		2,800	
	19	J22		4,800		7,600	
	29	J22		2,700		10,300	
Salaries Expense						Account No. 511	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	30	J22	3,800		3,800		
Utilities Expense						Account No. 512	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	24	J22	250		250		

P5. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
Rent Expense						Account No. 514	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	2	J22	650		650		
Advertising Expense						Account No. 516	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Sept.	26	J22	700		700		
5.	Nordtown Company						
	Trial Balance						
	September 30, 2014						
	Cash				10,490		
	Accounts Receivable				8,700		
	Office Supplies				910		
	Office Equipment				4,200		
	Accounts Payable					2,300	
	D. Guetta, Capital					18,300	
	D. Guetta, Withdrawals				1,200		
	Marketing Fees					10,300	
	Salaries Expense				3,800		
	Rent Expense				650		
	Utilities Expense				250		
	Advertising Expense				700		
					<u>30,900</u>		<u>30,900</u>
6.	<p>The revenues were \$10,300, and only \$4,800 of cash was received from those revenues. Also, the company received \$2,300 of cash for services provided in previous months. Not all customers pay on time, and the company has to finance them. Also, \$5,500 was billed to customers that was not received at September 30.</p>						

Alternate Problems

P6. T Accounts, Normal Balance, and the Accounting Equation

Assets	=	Liabilities	+	Owner's Equity						
				B. Carlson, Capital	-	B. Carlson, Withdrawals	+	Revenues	-	Expenses
Cash		Accounts Payable		B. Carlson, Capital		B. Carlson, Withdrawals		Revenue Earned		Supplies Expense
13,760		3,900		40,000		7,000		17,400		7,200
Accounts Receivable		Notes Payable								Utilities Expense
10,120		20,000								420
Supplies										Wages Expense
6,500										8,800
Equipment										
27,500										

Accounting equation without Cash:

Cash	+	\$44,120	=	\$57,880
Cash	=	\$13,760		

Accounting equation in balance:

\$57,880	=	\$23,900	+	\$33,980
\$57,880	=	\$57,880		

P7. Transaction Analysis			
		Debit	Credit
a.	Paid for supplies purchased on credit last month.	7	1
b.	Billed customers for services performed.	2	10
c.	Paid the current month's rent.	11	1
d.	Purchased supplies on credit.	3	7
e.	Received cash from customers for services performed but not yet billed.	1	10
f.	Purchased equipment on account.	5	7
g.	Received a bill for repairs.	12	7
h.	Returned part of the equipment purchased in <i>f</i> for a credit.	7	5
i.	Received payments from customers previously billed.	1	2
j.	Paid the bill received in <i>g</i>.	7	1
k.	Received an order for services to be performed.	No entry	
l.	Paid for repairs with cash.	12	1
m.	Made a payment to reduce the principal of the note payable.	6	1
n.	Made a cash withdrawal.	9	1

P8. Transaction Analysis, T Accounts, and Trial Balance

1 and 2.

Cash				Accounts Receivable				Supplies			
a.	11,400	b.	520	f.	3,480	j.	2,160	e.	660		
j.	2,160	c.	380	Bal.	1,320						
		h.	660								
		i.	80								
		k.	180								
		l.	880								
		m.	600								
	13,560		3,300								
Bal.	10,260										
Computers				Office Equipment				Accounts Payable			
a.	8,600			a.	7,200			h.	660	e.	660
g.	960			g.	760					g.	1,720
Bal.	9,560			Bal.	7,960				660		2,380
										Bal.	1,720
B. Turner, Capital				B. Turner, Withdrawals				Tuition Revenue			
		a.	27,200	m.	600					f.	3,480
Salaries Expense				Utilities Expense				Rent Expense			
l.	880			k.	180			b.	520		
Repair Expense				Advertising Expense							
i.	80			c.	380						
d.	No entry										

P8. Transaction Analysis, T Accounts, and Trial Balance (Concluded)

Blitz Secretarial Training			
Trial Balance			
(Current Date)			
3.	Cash	10,260	
	Accounts Receivable	1,320	
	Supplies	660	
	Computers	9,560	
	Office Equipment	7,960	
	Accounts Payable		1,720
	B. Turner, Capital		27,200
	B. Turner, Withdrawals	600	
	Tuition Revenue		3,480
	Salaries Expense	880	
	Utilities Expense	180	
	Rent Expense	520	
	Repair Expense	80	
	Advertising Expense	380	
		<u>32,400</u>	<u>32,400</u>

4. The revenues were \$3,480, and only \$2,160 of cash was received from those revenues. The company accepts credit sales to accommodate its students and encourage them to enroll. The company must consider the possibility that it will not receive the cash until later and that some students will not be able to pay.

P9. Transaction Analysis, T Accounts, and Trial Balances											
1 and 2.											
Cash						Accounts Receivable					
Aug.	1	30,000	Aug.	3	5,600	Aug.	21	2,680	Aug.	27	1,200
	12	1,920		4	2,400	Bal.		1,480			
	27	1,200		9	2,160						
				17	3,000						
				24	160						
				31	1,400						
		33,120			14,720						
Bal.		18,400									
Cleaning Supplies						Prepaid Lease					
Aug.	7	6,000				Aug.	4	2,400			
Cleaning Equipment						Accounts Payable					
Aug.	3	5,600				Aug.	17	3,000	Aug.	7	6,000
									Bal.		3,000
D. Roberts, Capital						D. Roberts, Withdrawals					
			Aug.	1	30,000	Aug.	31	1,400			
Cleaning Revenue						Repair Expense					
			Aug.	12	1,920	Aug.	9	2,160			
				21	2,680		24	160			
			Bal.		4,600	Bal.		2,320			
Aug.	2	No entry									

P9. Transaction Analysis, T Accounts, and Trial Balances (Continued)

Roberts Upholstery Cleaning		
Trial Balance		
August 31, 2014		
Cash	18,400	
Accounts Receivable	1,480	
Cleaning Supplies	6,000	
Prepaid Lease	2,400	
Cleaning Equipment	5,600	
Accounts Payable		3,000
D. Roberts, Capital		30,000
D. Roberts, Withdrawals	1,400	
Cleaning Revenue		4,600
Repair Expense	<u>2,320</u>	<u> </u>
	<u>37,600</u>	<u>37,600</u>

4. August 7 and 9 are the recognition points for these transactions. August 7 is the recognition point for the purchase of supplies rather than August 2 when the supplies were ordered, because it is on August 7 when title to the supplies passes and there is an obligation to pay. August 9 is the recognition point for the repairs because this is when the repairs are done and there is an obligation to pay for them.

Both transactions are recorded at cost, the amount that the company is obligated to pay.

The supplies purchased on August 7 are classified as an asset, Supplies, because the supplies are not used immediately but will be used up in the future. On the other hand, the purchase of repairs is classified as Repairs Expense, an owner's equity account, because they are necessary now in the current period for the van to continue running. Also, the purchase of supplies is classified as Accounts Payable, a liability, because the supplies are to be paid for in the future. Conversely, the purchase of repairs is classified as Cash, an asset, because the repairs are paid for on the day of purchase.

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance				
3. (Requirements 1, 2, 4, 5, and 6 follow)				
General Journal				Page 17
Date	Description	Post. Ref.	Debit	Credit
2014				
Feb. 2	Rent Expense	511	270	
	Cash	111		270
	To pay February rent			
	3 Cash	111	650	
	Service Revenue	411		650
	To record receipt of fees for this month's services			
	4 Supplies	115	85	
	Accounts Payable	212		85
	To purchase supplies on account			
	5 Gas and Oil Expense	512	40	
	Cash	111		40
	To reimburse bus driver for gas			
	6 No entry			
	8 Accounts Payable	212	170	
	Cash	111		170
	To make payment to creditors			
	9 Cash	111	1,200	
	Accounts Receivable	113		1,200
	To record receipt of cash on account			
	10 Accounts Receivable	113	700	
	Service Revenue	411		700
	To bill customers for services			
	11 Accounts Payable	212	85	
	Cash	111		85
	To make payment to creditors			
	13 Equipment	141	1,000	
	Cash	111		1,000
	To purchase equipment			
	17 Equipment	141	290	
	Accounts Payable	212		290
	To purchase equipment on account			
	19 Utilities Expense	514	145	
	Cash	111		145
	To pay February utility bill			

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)				
General Journal				Page 18
Date		Description	Post. Ref.	Debit Credit
2014				
Feb.	22	Cash	111	500
		 Accounts Receivable	113	500
		 To record receipt of cash on account from customers		
	26	Wages Expense	513	460
		 Cash	111	460
		 To pay part-time assistants		
	27	Gas and Oil Expense	512	325
		 Accounts Payable	212	325
		 To purchase gas and oil for bus on account		
	28	J. Ziden, Withdrawals	313	110
		 Cash	111	110
		 To make a cash withdrawal		

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
1, 2, and 4.							
Cash					Account No. 111		
					Balance		
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2014							
Jan.	31	Balance				1,870	
Feb.	2		J17		270	1,600	
	3		J17	650		2,250	
	5		J17		40	2,210	
	8		J17		170	2,040	
	9		J17	1,200		3,240	
	11		J17		85	3,155	
	13		J17		1,000	2,155	
	19		J17		145	2,010	
	22		J18	500		2,510	
	26		J18		460	2,050	
	28		J18		110	1,940	
Accounts Receivable					Account No. 113		
					Balance		
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2014							
Jan.	31	Balance				1,700	
Feb.	9		J17		1,200	500	
	10		J17	700		1,200	
	22		J18		500	700	
Supplies					Account No. 115		
					Balance		
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2014							
Feb.	4		J17	85		85	
Equipment					Account No. 141		
					Balance		
Date		Item	Post. Ref.	Debit	Credit	Debit	Credit
2014							
Jan.	31	Balance				1,040	
Feb.	13		J17	1,000		2,040	
	17		J17	290		2,330	

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
Buses						Account No. 143	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Jan.	31	Balance			17,400		
Notes Payable						Account No. 211	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Jan.	31	Balance				15,000	
Accounts Payable						Account No. 212	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Jan.	31	Balance				1,640	
Feb.	4	J17		85		1,725	
	8	J17	170			1,555	
	11	J17	85			1,470	
	17	J17		290		1,760	
	27	J18		325		2,085	
J. Ziden, Capital						Account No. 311	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Jan.	31	Balance				5,370	
J. Ziden, Withdrawals						Account No. 313	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	28	J18	110		110		
Service Revenue						Account No. 411	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	3	J17		650		650	
	10	J17		700		1,350	

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)							
Rent Expense						Account No. 511	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	2	J17	270		270		
Gas and Oil Expense						Account No. 512	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	5	J17	40		40		
	27	J18	325		365		
Wages Expense						Account No. 513	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	26	J18	460		460		
Utilities Expense						Account No. 514	
						Balance	
Date	Item	Post. Ref.	Debit	Credit	Debit	Credit	
2014							
Feb.	19	J17	145		145		

P10. Transaction Analysis, General Journal, Ledger Accounts, and Trial Balance (Continued)

5. Mount Prospect Nursery School Company		
Trial Balance		
February 28, 2014		
Cash	1,940	
Accounts Receivable	700	
Supplies	85	
Equipment	2,330	
Buses	17,400	
Notes Payable		15,000
Accounts Payable		2,085
J. Ziden, Capital		5,370
J. Ziden, Withdrawals	110	
Service Revenue		1,350
Rent Expense	270	
Gas and Oil Expense	365	
Wages Expense	460	
Utilities Expense	145	
	<u>23,805</u>	<u>23,805</u>

6. Revenues were earned on February 3 (\$650) and February 10 (\$700) for a total of \$1,350. Cash was received on account on February 9 from last month (\$1,200) and February 22 (\$500) for a total of \$1,700. Revenues and cash received do not correspond when a company sells on credit.

The main business issue that arises from this situation is that the company may need to arrange for a loan or other financing to pay expenses until the accounts receivable are collected.

Cases	
C1. Conceptual Understanding: Valuation and Classification of Business Transactions	
Memorandum	
Date:	Today's date
To:	Owners
From:	Student's name
Re:	Accounting Policy for Delivery Trucks
<p>You have asked me to record our newly purchased delivery trucks at current market value. However, to do this will not be in accord with the cost principle. This principle holds that assets should be recorded initially at cost because it is a verifiable amount. Market values are more subjective and thus are not as reliable and do not represent the actual cost that we have incurred.</p>	
<p>The entry to record the purchase should be made as follows:</p>	
Delivery Trucks	xxx
Cash	xxx
<p>Note that the delivery trucks are an asset on our balance sheet because they will benefit future periods. The fact that we made a bargain purchase will be reflected in increased profits as we allocate a lower expense over the life of the asset.</p>	
C2. Conceptual Understanding: Recording of Rebates	
<p>This case raises classification issues. Rebates, as the SEC says, should not be classified as revenues. They should be classified as a reduction of costs and expenses. Think of it this way: If you buy a product for \$100 with a mail-in rebate of \$30, you would consider its cost to be \$70, not a cost of \$100 and revenue of \$30. The latter would not affect your income, but you would be overstating costs and revenues by the same amount. The same situation applies to the companies. The SEC does not want them to overstate revenues through incorrect classification.</p>	

C3. Interpreting Financial Statements: Interpreting a Bank's Financial Statements					
1.	Cash and Due from Banks			Asset	
	Loans to Customers			Asset	
	Securities Available for Sale			Asset	
	Deposits by Customers			Liability	
2.	Cash and Due from Banks				
	(b)	2,000	(a)	2,000	
			(c)	5,000	
	Securities Available for Sale				
	(a)	2,000			
	Loans to Customers				
	(c)	5,000			
	Deposits by Customers				
			(b)	2,000	
	C4. Interpreting Financial Statements: Cash Flows				
<p>Financial statements are prepared on the accrual basis, which will differ from cash flows. In this case, it appears that the company is making sales on credit, which increases accounts receivable and delays the receipt of cash. It is also paying off accounts payable, which uses cash. The company could make more of an effort to collect its accounts receivable and possibly change its credit policies to encourage more cash sales and faster payments. With regard to accounts payable, the company could work with its suppliers to get better terms. Although it cannot be determined from the facts, the company may be increasing inventory or investing in long-term assets, both of which use cash.</p>					
C5. Annual Report Case: Recognition, Valuation, and Classification					
1.	CVS's notes to the financial statements state that "Advertising costs are expensed when the related advertising takes place."				
2.	CVS's notes to the financial statements state that "Inventory is stated at the lower of cost or market."				
3.	CVS's notes to the financial statements state that "Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased."				

C6. Comparison Analysis: Revenue Recognition
CVS's revenues are \$107,100 million. Southwest's revenues are \$15,658 million.
The way in which these companies earn revenue is quite different. CVS sells mainly to retail customers who pay directly for prescriptions or CVS bills the insurance company and receives payment later after the revenue is recognized when the prescription is filled. Southwest, on the other hand, receives payment from most of its customers in advance as unearned income. These payments do not become revenue until the customer takes the flight.
C7. Ethical Dilemma: Recognition Point and Ethical Considerations
In a normal sale, which this appears to be, title passes when the sale is made. So the transaction was recorded properly as a sale when shipment was made on December 31. But Shah undoubtedly was taking advantage of the company's accounting policy. In some companies, a very liberal return policy is offered to encourage customers to buy. Other companies limit returns, especially of commodities like copier paper, to a small percentage of a sale. We do not know the company's policy in this case, but it is unlikely that an office supply firm would routinely accept such a large return. If a company is in a business in which substantial returns are usual—publishing, for example—it is appropriate to estimate returns in the financial statements.
Opinions will vary about the ethics of Shah's action. Most students will argue that his behavior was not ethical. Others may insist that the action fell within the company's rules and that the conversation with the buyer was simply an aggressive sales tactic. They may claim that the purchaser might very well have kept the large order. However, if both transactions stand, Quality Office Supplies Corporation loses in two ways: First, it must pay Shah a bonus that he did not earn; second, it incurs the costs associated with the return (possibly shipping, insurance, handling, or even damage).
C8: Continuing Case: Annual Report Project
<i>Note to Instructor: Answers will vary depending on the company selected by the students.</i>

