

# Chapter 2

## The Accounting Cycle: During the Period

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### REVIEW QUESTIONS

#### Question 2-1 (LO 2-1)

External transactions are transactions between the company and a separate economic entity. Internal transactions do not include an exchange with a separate economic entity. Purchasing supplies from a local vendor is classified as an external transaction.

#### Question 2-2 (LO 2-1)

1. Use source documents to identify accounts affected by external transactions.
2. Analyze the impact of the transaction on the accounting equation.
3. Assess whether the transaction results in a debit or a credit to the account balance.
4. Record the transaction in the journal using debits and credits.
5. Post the transaction to the T-accounts in the general ledger.
6. Prepare a trial balance.

#### Question 2-3 (LO 2-2)

Dual effect refers to each transaction having an effect on at least two accounts of the accounting equation such that the accounting equation will always be in balance. If an economic event increases (decreases) one side of the equation, then it also increases (decreases) the other side of the equation by the same amount, or, it increases one account and decreases another account on the same side of the equation.

#### Question 2-4 (LO 2-2)

	Assets	=	Liabilities	+	Stockholders' equity
(a)	<b>Increase</b>	=	<b>Increase</b>	+	<b>No change</b>
(b)	<b>Decrease</b>	=	<b>No change</b>	+	<b>Decrease</b>
(c)	<b>Increase</b>	=	<b>No change</b>	+	<b>Increase</b>
(d)	<b>No change*</b>	=	<b>No change</b>	+	<b>No change</b>

\* One asset (equipment) increases while another asset (cash) decreases.

#### Question 2-5 (LO 2-2)

Jerry is not correct. While it is possible for a transaction to increase one account and decrease another, dual effect simply indicates that at least two accounts will always be affected. However, the accounting equation must always remain in balance. It is not possible for one side of the equation to increase while the other side decreases.

*Answers to Review Questions (continued)*

**Question 2-6** (LO 2-3)

<b>Accounts</b>	<b>Normal balance</b>
Assets	<b>Debit</b>
Liabilities	<b>Credit</b>
Stockholders' equity	<b>Credit</b>
Revenues	<b>Credit</b>
Expenses	<b>Debit</b>

**Question 2-7** (LO 2-3)

Jenny is not correct. Any account can be debited or credited. Since an asset has a normal debit balance, it would be debited when it increases and credited when it decreases. Similarly, since a liability has a normal credit balance, it would be credited when it increases and debited when it decreases.

**Question 2-8** (LO 2-3)

<b>Accounts</b>	<b>Increase</b>
(a) Cash	<b>Debit</b>
(b) Salaries payable	<b>Credit</b>
(c) Utilities expense	<b>Debit</b>
(d) Service revenue	<b>Credit</b>

**Question 2-9** (LO 2-3)

<b>Accounts</b>	<b>Decrease*</b>
(a) Cash	<b>Credit</b>
(b) Salaries payable	<b>Debit</b>
(c) Utilities expense	<b>Credit</b>
(d) Service revenue	<b>Debit</b>

\* Answers are opposite of those in Question 2-8

*Answers to Review Questions (continued)*

**Question 2-10 (LO 2-3)**

These statements are consistent. Retained earnings has three components – revenues, expenses, and dividends. Changing the balance of any of these components changes the balance of retained earnings. Retained earnings increases with a credit and decreases with a debit. Since expenses reduce retained earnings, an increase to an expense decreases retained earnings.

**Question 2-11 (LO 2-4)**

A journal provides a chronological record of all transactions affecting a firm. A journal entry is used to describe the format for recording a transaction.

**Question 2-12 (LO 2-4)**

Date	Debit	Credit
Account Name .....	Amount	Amount
Account Name .....		
<i>(Description of transaction)</i>		

**Question 2-13 (LO 2-4)**

In each journal entry, the sum of all amounts debited equals the sum of all amounts credited.

**Question 2-14 (LO 2-4)**

(a)		Debit	Credit
	<b>Cash</b>	<b>1,200</b>	
	<b>Service Revenue</b>		<b>1,200</b>
	<i>(Receive cash from providing services)</i>		
(b)		Debit	Credit
	<b>Rent Expense</b>	<b>500</b>	
	<b>Cash</b>		<b>500</b>
	<i>(Pay rent for the current month)</i>		
(c)		Debit	Credit
	<b>Building</b>	<b>10,000</b>	
	<b>Notes Payable</b>		<b>10,000</b>
	<i>(Purchase building with note payable)</i>		

**Answers to Review Questions (continued)**

**Question 2-15 (LO 2-4)**

- (a) Purchase supplies by paying cash of \$20,000.
- (b) Provide services to customer on account for \$30,000.
- (c) Pay cash on accounts payable of \$10,000.

**Question 2-16 (LO 2-5)**

A T-account is an informal means to show the balance in an account. The left side is referred to as a *debit* and the right side is referred to as a *credit*.

**Question 2-17 (LO 2-5)**

Posting is the process of transferring the debit and credit information from the journal to individual accounts in the general ledger.

<p>(a) <b>Supplies</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-top: 1px solid black; border-left: 1px solid black; border-right: 1px solid black;">20,000</td> <td style="width: 50%; border-top: 1px solid black; border-right: 1px solid black;"></td> </tr> </table>	20,000		<p><b>Cash</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-top: 1px solid black; border-left: 1px solid black; border-right: 1px solid black;"></td> <td style="width: 50%; border-top: 1px solid black; border-right: 1px solid black;">20,000</td> </tr> </table>		20,000
20,000					
	20,000				
<p>(b) <b>Accounts Receivable</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-top: 1px solid black; border-left: 1px solid black; border-right: 1px solid black;">30,000</td> <td style="width: 50%; border-top: 1px solid black; border-right: 1px solid black;"></td> </tr> </table>	30,000		<p><b>Service Revenue</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-top: 1px solid black; border-left: 1px solid black; border-right: 1px solid black;"></td> <td style="width: 50%; border-top: 1px solid black; border-right: 1px solid black;">30,000</td> </tr> </table>		30,000
30,000					
	30,000				
<p>(c) <b>Accounts Payable</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-top: 1px solid black; border-left: 1px solid black; border-right: 1px solid black;">10,000</td> <td style="width: 50%; border-top: 1px solid black; border-right: 1px solid black;"></td> </tr> </table>	10,000		<p><b>Cash</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-top: 1px solid black; border-left: 1px solid black; border-right: 1px solid black;"></td> <td style="width: 50%; border-top: 1px solid black; border-right: 1px solid black;">10,000</td> </tr> </table>		10,000
10,000					
	10,000				

**Question 2-18 (LO 2-6)**

The general ledger is the collection of all accounts used to record the company’s transactions. A chart of accounts is a listing of all account names.

**Question 2-19 (LO 2-6)**

A trial balance is a list of all accounts and their balances at a particular date. Balance refers to the fact that the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

**Question 2-20 (LO 2-6)**

Not necessarily. While total debits equaling total credits is a good indication that all accounts have been appropriately accounted for, the accounts could contain offsetting errors. For example, if one account with a debit (credit) balance is understated by the same amount that another account with a debit (credit) balance is overstated, the trial balance will show equal debit and credit totals.

## BRIEF EXERCISES

### Brief Exercise 2-1 (LO 2-1)

Proper order:

- (c) Use source documents to identify accounts affected by external transactions.
- (d) Analyze the impact of the transaction on the accounting equation.
- (b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
- (f) Record transactions using debits and credits.
- (a) Post the transaction to the T-accounts in the general ledger.
- (e) Prepare a trial balance.

### Brief Exercise 2-2 (LO 2-2)

	Assets	=	Liabilities	+	Stockholders' Equity	Possible (Yes/No)
(a)	Increase (Cash ↑)	=	Decrease (Accounts Payable ↓)	+	No change	<b>No</b>
(b)	No change	=	Increase (Salaries Payable ↑)	+	Increase (Service Revenues ↑)	<b>No</b>
(c)	Decrease (Cash ↓)	=	No Change	+	Decrease (Advertising Expense ↑)	<b>Yes</b>

### Brief Exercise 2-3 (LO 2-2)

	<u>Total Assets</u>		<u>Total Liabilities and Stockholders' Equity</u>
Cash	\$ 7,200	Accounts Payable	\$ 1,700
Supplies	2,100	Salaries Payable	4,300
Prepaid Rent	3,200	Notes Payable	<b>18,000</b>
Land	9,000	Stockholders' Equity	13,500
Equipment	<b>16,000</b>		
	<u>\$37,500</u>		<u>\$37,500</u>

### Brief Exercise 2-4 (LO 2-2)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
(a)	<b>+\$50,000</b>	=	<b>\$0</b>	+	<b>+\$50,000</b>
(b)	<b>+\$42,000</b> <b>-\$42,000</b>	=	<b>\$0</b>	+	<b>\$0</b>
(c)	<b>+\$35,000</b>	=	<b>+\$35,000</b>	+	<b>\$0</b>
(d)	<b>-\$5,000</b>	=	<b>\$0</b>	+	<b>-\$5,000</b>

### Brief Exercise 2-5 (LO 2-3)

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Asset	+	-
Liability	-	+
Common Stock	-	+
Retained Earnings	-	+
Dividends	+	-
Revenue	-	+
Expense	+	-

## Brief Exercise 2-6 (LO 2-3)

- (a) The balance of an *asset* account increases with a **debit** and decreases with a **credit**.
- (b) The balance of a *liability* account increases with a **credit** and decreases with a **debit**.
- (c) The balance of a stockholders' equity account increases with a **credit** and decreases with a **debit**.
- (d) The balance of a *revenue* account increases with a **credit** and decreases with a **debit**.
- (e) The balance of an *expense* account increases with a **debit** and decreases with a **credit**.

## Brief Exercise 2-7 (LO 2-4)

	Debit	Credit
(1)		
<b>Equipment</b>	<b>15,000</b>	
<b>Notes Payable</b>		<b>15,000</b>
<i>(Purchase equipment with note payable)</i>		
(2)		
<b>Supplies</b>	<b>600</b>	
<b>Cash</b>		<b>600</b>
<i>(Purchase office supplies for cash)</i>		
(3)		
<b>Rent Expense</b>	<b>800</b>	
<b>Cash</b>		<b>800</b>
<i>(Pay rent for the current month)</i>		

### Brief Exercise 2-8 (LO 2-4)

	Debit	Credit
(1)		
<b>Cash</b>	<b>17,000</b>	
<b>Service Revenue</b>		<b>17,000</b>
<i>(Provide services for cash)</i>		
(2)		
<b>Prepaid Insurance</b>	<b>4,200</b>	
<b>Cash</b>		<b>4,200</b>
<i>(Purchase one year of prepaid insurance with cash)</i>		
(3)		
<b>Equipment</b>	<b>20,000</b>	
<b>Cash</b>		<b>20,000</b>
<i>(Purchase equipment with cash)</i>		
(4)		
<b>Cash</b>	<b>30,000</b>	
<b>Notes Payable</b>		<b>30,000</b>
<i>(Obtain bank loan)</i>		

### Brief Exercise 2-9 (LO 2-5)

1.

Cash	
13,000	8,200
4,400	1,900
3,500	5,500
<b>5,300</b>	

2. Postings on the left side (or debit side) of the cash T-account represent increases to cash, such as receiving cash from customers, selling assets, borrowing money, and issuing stock.
3. Postings on the right side (or credit side) of the cash T-account represent decreases to cash, such as paying cash for rent, supplies, equipment, employee salaries, utilities, repayment of debt, and dividends.



**Brief Exercise 2-10** (LO 2-2, 2-3, 2-4, 2-5)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
(a)	<b>+\$30,000</b>	=	<b>\$0</b>	+	<b>+\$30,000</b>
(b)	<b>+\$20,000</b>	=	<b>+\$20,000</b>	+	<b>\$0</b>
(c)	<b>-\$7,000</b>	=	<b>\$0</b>	+	<b>-\$7,000</b>

(a)		<u>Debit</u>	<u>Credit</u>
	<b>Cash</b>	<b>30,000</b>	
	<b>Service Revenue</b>		<b>30,000</b>
	<i>(Provide services for cash)</i>		

(b)		<u>Debit</u>	<u>Credit</u>
	<b>Supplies</b>	<b>20,000</b>	
	<b>Accounts Payable</b>		<b>20,000</b>
	<i>(Purchase office supplies on account)</i>		

(c)		<u>Debit</u>	<u>Credit</u>
	<b>Salaries Expense</b>	<b>7,000</b>	
	<b>Cash</b>		<b>7,000</b>
	<i>(Pay salaries for the current month)</i>		

	<u>Cash</u>		<u>Service Revenue</u>	
	0		0	
(a)	30,000		30,000	(a)
		7,000 (c)		
	<u>23,000</u>		<u>30,000</u>	

	<u>Supplies</u>		<u>Accounts Payable</u>		<u>Salaries Expense</u>
	0		0		0
(b)	20,000		20,000 (b)	(c)	7,000
					7,000
	<u>20,000</u>		<u>20,000</u>		<u>7,000</u>

**Brief Exercise 2-11** (LO 2-6)**Trial Balance**

Accounts	Debit	Credit
Cash	\$ 6,100	
Accounts Receivable	4,400	
Prepaid Rent	900	
Accounts Payable		\$ 2,000
Salaries Payable		700
Common Stock		6,200
Retained Earnings		2,000
Dividends	500	
Service Revenue		7,100
Salaries Expense	3,000	
Rent Expense	2,000	
Advertising Expense	1,100	
Totals	\$18,000	\$18,000

**Brief Exercise 2-12** (LO 2-6)**Trial Balance**

Accounts	Debit	Credit
Cash	\$ 7,300	
Accounts Receivable	2,100	
Equipment	10,400	
Accounts Payable		\$ 3,900
Deferred Revenue		1,100
Common Stock		11,000
Retained Earnings		3,900
Dividends	600	
Service Revenue		4,500
Salaries Expense	3,200	
Utilities Expense	800	
Totals	\$24,400	\$24,400

## EXERCISES

### Exercise 2-1 (LO 2-1)

1. d.
2. b.
3. a.
4. e.
5. c.

### Exercise 2-2 (LO 2-2)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
1.	<i>Increase</i>	=	<i>No effect</i>	+	<i>Increase</i>
2.	<b>Increase</b>	=	<b>Increase</b>	+	<b>No effect</b>
3.	<b>Increase</b>	=	<b>No effect</b>	+	<b>Increase</b>
4.	<b>Decrease</b>	=	<b>No effect</b>	+	<b>Decrease</b>
5.	<b>Decrease</b>	=	<b>No effect</b>	+	<b>Decrease</b>
6.	<b>No effect*</b>	=	<b>No effect</b>	+	<b>No effect</b>

\* One asset (cash) increases while another asset (accounts receivable) decreases.

## Exercise 2-3 (LO 2-2)

### Dual Effect

1. Issue 10,000 shares of common stock in exchange for \$32,000 in cash.	<b>Assets increase</b>	<b>Stockholders' equity increases</b>
2. Purchase land for \$19,000. A note payable is signed for the full amount.	<b>Assets increase</b>	<b>Liabilities increase</b>
3. Purchase storage containers for \$8,000.	<b>One asset (containers) increases and another asset (cash) decreases</b>	
4. Hire three employees for \$2,000 per month.	<b>No effect on the accounting equation</b>	
5. Receive cash of \$12,000 in rental fees for the current month.	<b>Assets increase</b>	<b>Stockholders' equity increases</b>
6. Purchase office supplies for \$2,000 on account.	<b>Assets increase</b>	<b>Liabilities increase</b>
7. Pay employees \$6,000 for the first month's salaries.	<b>Assets decrease</b>	<b>Stockholders' equity decreases</b>

## Exercise 2-4 (LO 2-2)

	<b>Dual Effect</b>	
1. Paint houses in the current month for \$15,000 on account.	<b>Assets increase</b>	<b>Stockholders' equity increases</b>
2. Purchase painting equipment for \$16,000 cash.	<b>One asset (equipment) increases and another asset (cash) decreases</b>	
3. Purchase office supplies on account for \$2,500.	<b>Assets increase</b>	<b>Liabilities increase</b>
4. Pay employee salaries of \$3,200 for the current month.	<b>Assets decrease</b>	<b>Stockholders' equity decreases</b>
5. Purchase advertising to appear in the current month, \$1,200.	<b>Assets decrease</b>	<b>Stockholders' equity decreases</b>
6. Pay office rent of \$4,400 for the current month.	<b>Assets decrease</b>	<b>Stockholders' equity decreases</b>
7. Receive \$10,000 from customers in (1) above.	<b>One asset (cash) increases and another asset (accounts receivable) decreases</b>	
8. Receive cash of \$5,000 in advance from a customer that plans to have his house painted in the following month.	<b>Assets increase</b>	<b>Liabilities increase</b>

## Exercise 2-5 (LO 2-2)

Transaction	Balance
Retained earnings, April 1	<b>\$13,000</b>
1. Issue common stock for cash, \$11,000	<b>0</b>
2. Provide services to customers on account, \$8,500.	<b>+8,500</b>
3. Provide services to customers in exchange for cash, \$3,200.	<b>+3,200</b>
4. Purchase equipment and pay cash, \$7,600.	<b>0</b>
5. Pay rent for April, \$1,100.	<b>-1,100</b>
6. Pay employee salaries for April, \$3,500.	<b>-3,500</b>
7. Pay dividends to stockholders, \$2,000.	<b>-2,000</b>
Retained earnings, April 30	<b><u>\$18,100</u></b>

## Exercise 2-6 (LO 2-3)

Debit or Credit	Account
1. <u>Debit</u>	Cash
2. <u>Credit</u>	Service Revenue
3. <u>Debit</u>	Salaries Expense
4. <u>Credit</u>	Accounts Payable
5. <u>Debit</u>	Equipment
6. <u>Credit</u>	Retained Earnings
7. <u>Debit</u>	Utilities Expense
8. <u>Debit</u>	Accounts Receivable
9. <u>Debit</u>	Dividends
10. <u>Credit</u>	Common Stock

**Exercise 2-7** (LO 2-3)

	Account Debited	Account Credited
<i>Example: Purchase equipment in exchange for cash.</i>	<i>Equipment</i>	<i>Cash</i>
1. Pay a cash dividend.	<b>Dividends</b>	<b>Cash</b>
2. Pay rent in advance for the next three months.	<b>Prepaid Rent</b>	<b>Cash</b>
3. Provide services to customers on account.	<b>Accounts Receivable</b>	<b>Service Revenue</b>
4. Purchase office supplies on account.	<b>Supplies</b>	<b>Accounts Payable</b>
5. Pay salaries for the current month.	<b>Salaries Expense</b>	<b>Cash</b>
6. Issue common stock in exchange for cash.	<b>Cash</b>	<b>Common Stock</b>
7. Collect cash from customers for services provided in (3) above.	<b>Cash</b>	<b>Accounts Receivable</b>
8. Borrow cash from the bank and sign a note.	<b>Cash</b>	<b>Notes Payable</b>
9. Pay for the current month's utilities.	<b>Utilities Expense</b>	<b>Cash</b>
10. Pay for office supplies purchased in (4) above.	<b>Accounts Payable</b>	<b>Cash</b>

**Exercise 2-8** (LO 2-4)

	Debit	Credit
(1)		
<b>Equipment</b>	<b>23,400</b>	
<b>Cash</b>		<b>23,400</b>
<i>(Purchase equipment with cash)</i>		
(2)		
<b>Cash</b>	<b>6,800</b>	
<b>Service Revenue</b>		<b>6,800</b>
<i>(Provide services for cash)</i>		
(3)		
<b>Rent Expense</b>	<b>1,300</b>	
<b>Cash</b>		<b>1,300</b>
<i>(Pay current month's rent)</i>		
(4)		
<b>Supplies</b>	<b>1,000</b>	
<b>Accounts Payable</b>		<b>1,000</b>
<i>(Purchase office supplies on account)</i>		
(5)		
<b>Salaries Expense</b>	<b>2,100</b>	
<b>Cash</b>		<b>2,100</b>
<i>(Pay current month's salaries)</i>		



**Exercise 2-9** (LO 2-4)

1. Purchase equipment with cash, \$8,800.
2. Provide services to customers on account, \$3,200.
3. Pay current month's salaries, \$1,900.
4. Receive cash from customers in advance of services, \$1,500.
5. Pay dividends to stockholders, \$900.

**Exercise 2-10** (LO 2-4)

<u>February 2</u>	<u>Debit</u>	<u>Credit</u>
<b>Advertising Expense</b>	<b>700</b>	
<b>Cash</b>		<b>700</b>
<i>(Pay advertising for current month)</i>		
<u>February 7</u>		
<b>Supplies</b>	<b>1,300</b>	
<b>Accounts Payable</b>		<b>1,300</b>
<i>(Purchase beauty supplies on account)</i>		
<u>February 14</u>		
<b>Cash</b>	<b>2,900</b>	
<b>Service Revenue</b>		<b>2,900</b>
<i>(Provide beauty services for cash)</i>		
<u>February 15</u>		
<b>Salaries Expense</b>	<b>900</b>	
<b>Cash</b>		<b>900</b>
<i>(Pay salaries for current month)</i>		
<u>February 25</u>		
<b>Accounts Receivable</b>	<b>1,000</b>	
<b>Service Revenue</b>		<b>1,000</b>
<i>(Provide beauty services on account)</i>		
<u>February 28</u>		
<b>Utilities Expense</b>	<b>300</b>	
<b>Cash</b>		<b>300</b>
<i>(Pay utilities for current month)</i>		

**Exercise 2-11** (LO 2-4)

March 1	Debit	Credit
<b>Cash</b>	<b>21,000</b>	
<b>Common Stock</b> <i>(Issue common stock)</i>		<b>21,000</b>
March 5		
<b>Cash</b>	<b>9,000</b>	
<b>Notes Payable</b> <i>(Obtain bank loan)</i>		<b>9,000</b>
March 10		
<b>Equipment</b>	<b>25,000</b>	
<b>Cash</b> <i>(Purchase construction equipment for cash)</i>		<b>25,000</b>
March 15		
<b>Advertising Expense</b>	<b>1,100</b>	
<b>Cash</b> <i>(Purchase advertising for current month)</i>		<b>1,100</b>
March 22		
<b>Accounts Receivable</b>	<b>18,000</b>	
<b>Service Revenue</b> <i>(Provide construction services on account)</i>		<b>18,000</b>
March 27		
<b>Cash</b>	<b>13,000</b>	
<b>Accounts Receivable</b> <i>(Receive cash on account)</i>		<b>13,000</b>
March 28		
<b>Salaries Expense</b>	<b>6,000</b>	
<b>Cash</b> <i>(Pay salaries for current month)</i>		<b>6,000</b>

**Exercise 2-12** (LO 2-4)**Corrections**

	External Transaction	Accounts	Debit	Credit
1.	Owners invest \$15,000 in the company and receive common stock.	<b>Cash</b> <b>Common Stock</b>	<b>15,000</b>	<b>15,000</b>
2.	Receive cash of \$4,000 for services provided in the current period.	Cash Service Revenue	4,000	4,000
3.	Purchase office supplies on account, \$300.	Supplies <b>Accounts Payable</b>	300	<b>300</b>
4.	Pay \$600 for next month's rent.	<b>Prepaid Rent</b> Cash	<b>600</b>	600
5.	Purchase office equipment with cash of \$2,200.	<b>Equipment</b> <b>Cash</b>	<b>2,200</b>	<b>2,200</b>

Note: Accounts in blue are corrected items.  
Accounts in black need no correction.

**Exercise 2-13** (LO 2-4)**Corrections**

	External Transaction	Accounts	Debit	Credit
1.	Pay cash dividends of \$800 to stockholders.	<b>Dividends</b> <b>Cash</b>	<b>800</b>	<b>800</b>
2.	Provide services on account for customers, \$3,400	<b>Accounts Receivable</b> Service Revenue	<b>3,400</b>	3,400
3.	Pay a \$500 utilities bill for the current period.	Utilities Expense Cash	500	500
4.	Receive cash of \$400 from previously billed customers.	Cash <b>Accounts Receivable</b>	400	<b>400</b>
5.	Pay for supplies previously purchased on account, \$1,200.	<b>Accounts Payable</b> Cash	<b>1,200</b>	1,200

Note: Accounts in blue are corrected items.  
Accounts in black need no correction.

**Exercise 2-14** (LO 2-5)

<b>Cash</b>			
	5,000		
(1)	<b>15,000</b>	<b>9,000</b>	(2)
(4)	<b>8,000</b>	<b>3,000</b>	(3)
(6)	<b>4,000</b>	<b>1,000</b>	(5)
		<b>7,000</b>	(7)
	<b>12,000</b>		

Transaction (8) is not posted to the Cash T-account because a purchase *on account* does not involve cash.

**Exercise 2-15** (LO 2-5)

<b>Cash</b>				<b>Accounts Receivable</b>			
	3,400				4,200		
(3)	10,200	1,000	(4)	(1)	8,400	10,200	(3)
(6)	1,100	3,700	(5)				
	<b>10,000</b>				<b>2,400</b>		

<b>Supplies</b>				<b>Accounts Payable</b>			
	400				3,500		
(2)	2,300			(5)	3,700	2,300	(2)
	<b>2,700</b>					<b>2,100</b>	

<b>Deferred Revenue</b>				<b>Service Revenue</b>			
		300				0	
		1,100	(6)			8,400	(1)
		<b>1,400</b>				<b>8,400</b>	

<b>Advertising Expense</b>			
	0		
(4)	1,000		
	<b>1,000</b>		

### Exercise 2-16 (LO 2-5)

1. Provide services to customers for cash, \$20,000.
2. Provide services to customers on account, \$5,000.
3. Receive cash from customers on account, \$4,000.
4. Purchase supplies on account, \$6,000.
5. Pay employees for current salaries, \$14,000.
6. Pay cash on account, \$7,000.

### Exercise 2-17 (LO 2-6)

**Sooner Company  
Trial Balance  
April 30**

Accounts	Debit	Credit
Cash	\$ 3,900	
Accounts Receivable	6,100	
Prepaid Rent	7,400	
Land	60,000	
Accounts Payable		\$ 4,300
Deferred Revenue		2,300
Common Stock		40,000
Retained Earnings		23,000
Service Revenue		25,400
Supplies Expense	9,400	
Salaries Expense	8,200	
Totals	\$95,000	\$95,000

**Exercise 2-18** (LO 2-6)

**Cobras Incorporated**  
**Trial Balance**  
**March 31**

Accounts	Debit	Credit
Cash	\$ 3,500	
Accounts Receivable	4,200	
Supplies	1,000	
Prepaid Insurance	1,200	
Buildings	55,000	
Accounts Payable		\$ 2,200
Salaries Payable		500
Common Stock		35,000
Retained Earnings		17,800
Service Revenue		19,500
Salaries Expense	6,400	
Utilities Expense	3,700	
Totals	\$75,000	\$75,000



**Exercise 2-19** (LO 2-4, 2-5, 2-6)**Requirement 1**

	Debit	Credit
<u>(1) January 1</u>		
<b>Cash</b>	<b>42,000</b>	
<b>Common Stock</b>		<b>42,000</b>
<i>(Issue common stock)</i>		
 <u>(2) January 5</u>		
<b>Land</b>	<b>24,000</b>	
<b>Notes Payable</b>		<b>24,000</b>
<i>(Purchase land with note payable)</i>		
 <u>(3) January 9</u>		
<b>Equipment</b>	<b>9,000</b>	
<b>Cash</b>		<b>9,000</b>
<i>(Purchase storage containers)</i>		
 <u>(4) January 12</u>		
<b>No entry</b>		
 <u>(5) January 18</u>		
<b>Cash</b>	<b>13,000</b>	
<b>Service Revenue</b>		<b>13,000</b>
<i>(Receive cash for current month's rent)</i>		
 <u>(6) January 23</u>		
<b>Supplies</b>	<b>3,000</b>	
<b>Accounts Payable</b>		<b>3,000</b>
<i>(Purchase office supplies on account)</i>		
 <u>(7) January 31</u>		
<b>Salaries Expense</b>	<b>9,000</b>	
<b>Cash</b>		<b>9,000</b>
<i>(Pay salaries for the current month)</i>		

**Exercise 2-19 (continued)**

**Requirement 2**

<b>Cash</b>		<b>Common Stock</b>	
	0		0
(1)	42,000	42,000	(1)
	9,000		
(3)			
(5)	13,000		
	9,000		
(7)			
	37,000		42,000
<b>Land</b>		<b>Notes Payable</b>	
	0		0
(2)	24,000	24,000	(2)
	24,000		24,000
	24,000		24,000
<b>Equipment</b>		<b>Service Revenue</b>	
	0		0
(3)	9,000	13,000	(5)
	9,000		13,000
	9,000		13,000
<b>Supplies</b>		<b>Accounts Payable</b>	
	0		0
(6)	3,000	3,000	(6)
	3,000		3,000
	3,000		3,000
<b>Salaries Expense</b>			
	0		
(7)	9,000		
	9,000		
	9,000		

*Exercise 2-19 (concluded)*

**Requirement 3**

**Green Wave Company  
Trial Balance**

Accounts	Debit	Credit
Cash	\$37,000	
Supplies	3,000	
Land	24,000	
Equipment	9,000	
Accounts Payable		\$ 3,000
Notes Payable		24,000
Common Stock		42,000
Service Revenue		13,000
Salaries Expense	9,000	
Totals	\$82,000	\$82,000

**Exercise 2-20** (LO 2-4, 2-5, 2-6)**Requirement 1**

	Debit	Credit
<u>(1) September 3</u>		
<b>Accounts Receivable</b>	<b>20,000</b>	
<b>Service Revenue</b>		<b>20,000</b>
<i>(Provide painting on account)</i>		
<u>(2) September 8</u>		
<b>Equipment</b>	<b>21,000</b>	
<b>Cash</b>		<b>21,000</b>
<i>(Purchase painting equipment)</i>		
<u>(3) September 12</u>		
<b>Supplies</b>	<b>3,500</b>	
<b>Accounts Payable</b>		<b>3,500</b>
<i>(Purchase office supplies on account)</i>		
<u>(4) September 15</u>		
<b>Salaries Expense</b>	<b>4,200</b>	
<b>Cash</b>		<b>4,200</b>
<i>(Pay salaries for the current month)</i>		
<u>(5) September 19</u>		
<b>Advertising Expense</b>	<b>1,000</b>	
<b>Cash</b>		<b>1,000</b>
<i>(Pay advertising for the current month)</i>		
<u>(6) September 22</u>		
<b>Rent Expense</b>	<b>5,400</b>	
<b>Cash</b>		<b>5,400</b>
<i>(Pay rent for the current month)</i>		
<u>(7) September 26</u>		
<b>Cash</b>	<b>15,000</b>	
<b>Accounts Receivable</b>		<b>15,000</b>
<i>(Receive cash on account)</i>		
<u>(8) September 30</u>		
<b>Cash</b>	<b>6,000</b>	
<b>Deferred Revenue</b>		<b>6,000</b>
<i>(Receive cash in advance for painting)</i>		

**Exercise 2-20 (continued)**

**Requirement 2**

<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Accounts Receivable</th> <td></td> </tr> <tr> <td style="width: 10%;">Beg.</td> <td style="width: 40%; text-align: right;">1,700</td> <td></td> </tr> <tr> <td style="width: 10%;">(1)</td> <td style="width: 40%; text-align: right;">20,000</td> <td></td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">6,700</td> <td style="width: 50%; text-align: right; vertical-align: bottom;">15,000 (7)</td> </tr> </table>	Accounts Receivable			Beg.	1,700		(1)	20,000			6,700	15,000 (7)	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Service Revenue</th> <td></td> </tr> <tr> <td style="width: 10%;"></td> <td style="width: 40%; text-align: right;">0</td> <td style="width: 50%;">Beg.</td> </tr> <tr> <td style="width: 10%;">(1)</td> <td style="width: 40%; text-align: right;">20,000</td> <td style="width: 50%;">(1)</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">20,000</td> <td></td> </tr> </table>	Service Revenue				0	Beg.	(1)	20,000	(1)		20,000																
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*Exercise 2-20 (concluded)*

**Requirement 3**

**Boilermaker House Painting Company  
Trial Balance**

Accounts	Debit	Credit
Cash	\$35,500	
Accounts Receivable	6,700	
Supplies	4,000	
Equipment	28,400	
Accounts Payable		\$ 4,700
Deferred Revenue		6,000
Common Stock		25,000
Retained Earnings		29,500
Service Revenue		20,000
Salaries Expense	4,200	
Advertising Expense	1,000	
Rent Expense	5,400	
Totals	\$85,200	\$85,200

## PROBLEMS: SET A

### Problem 2-1A (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash.	Increase	=	No effect	+	Increase
2. Purchase business supplies on account.	Increase	=	Increase	+	No effect
3. Pay for legal services for the current month.	Decrease	=	No effect	+	Decrease
4. Provide services to customers on account.	Increase	=	No effect	+	Increase
5. Pay employee salaries for the current month.	Decrease	=	No effect	+	Decrease
6. Provide services to customers for cash.	Increase	=	No effect	+	Increase
7. Pay for advertising for the current month.	Decrease	=	No effect	+	Decrease
8. Repay loan from the bank.	Decrease	=	Decrease	+	No effect
9. Pay dividends to stockholders.	Decrease	=	No effect	+	Decrease
10. Receive cash from customers in (4) above.	No effect*	=	No effect	+	No effect
11. Pay for supplies purchased in (2) above.	Decrease	=	Decrease	+	No effect

**\*One asset (cash) increases and another asset (accounts receivable) decreases**

**Problem 2-2A** (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Provide services to customers on account, \$1,600.	+\$1,600	=	\$0	+	+\$1,600
2. Pay \$400 for current month's rent.	-\$400	=	\$0	+	-\$400
3. Hire a new employee, who will be paid \$500 at the end of each month.	\$0	=	\$0	+	\$0
4. Pay \$100 for advertising aired in the current period.	-\$100	=	\$0	+	-\$100
5. Purchase office supplies for cash.	+\$400 -\$400	=	\$0	+	\$0
6. Receive cash of \$1,000 from customers in (1) above.	+\$1,000 -\$1,000	=	\$0	+	\$0
7. Obtain a loan from the bank for \$7,000.	+\$7,000	=	+\$7,000	+	\$0
8. Receive a bill of \$200 for utility costs of the current period.	\$0	=	+\$200	+	-\$200
9. Issue common stock for \$10,000 cash.	+\$10,000	=	\$0	+	+\$10,000
10. Pay \$500 to employee in (3) above.	-\$500	=	\$0	+	-\$500
Totals	\$17,600	=	\$7,200	+	\$10,400



**Problem 2-3A** (LO 2-3)

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Salaries Payable	<b>Liability</b>	<b>Credit</b>
2. Common Stock	<b>Stockholders' equity</b>	<b>Credit</b>
3. Prepaid Rent	<b>Asset</b>	<b>Debit</b>
4. Buildings	<b>Asset</b>	<b>Debit</b>
5. Utilities Expense	<b>Expense</b>	<b>Debit</b>
6. Equipment	<b>Asset</b>	<b>Debit</b>
7. Rent Expense	<b>Expense</b>	<b>Debit</b>
8. Notes Payable	<b>Liability</b>	<b>Credit</b>
9. Salaries Expense	<b>Expense</b>	<b>Debit</b>
10. Insurance Expense	<b>Expense</b>	<b>Debit</b>
11. Cash	<b>Asset</b>	<b>Debit</b>
12. Service Revenue	<b>Revenue</b>	<b>Credit</b>

**Problem 2-4A** (LO 2-4)**Transactions for Jake's Lawn Maintenance Company**

<u>July 3</u>	<u>Debit</u>	<u>Credit</u>
<b>Accounts Receivable</b>	<b>500</b>	
<b>Service Revenue</b>		<b>500</b>
<i>(Provide services on account)</i>		
<u>July 6</u>		
<b>Repairs and Maintenance Expense</b>	<b>450</b>	
<b>Accounts Payable</b>		<b>450</b>
<i>(Receive maintenance on account)</i>		
<u>July 9</u>		
<b>Cash</b>	<b>500</b>	
<b>Accounts Receivable</b>		<b>500</b>
<i>(Receive cash on account)</i>		
<u>July 14</u>		
<b>Notes Receivable</b>	<b>600</b>	
<b>Cash</b>		<b>600</b>
<i>(Loan cash by accepting note receivable)</i>		
<u>July 18</u>		
<b>Advertising Expense</b>	<b>110</b>	
<b>Cash</b>		<b>110</b>
<i>(Pay advertising for the current month)</i>		
<u>July 20</u>		
<b>Accounts Payable</b>	<b>450</b>	
<b>Cash</b>		<b>450</b>
<i>(Pay cash on account)</i>		
<u>July 27</u>		
No entry for Jake.		
<u>July 30</u>		
No entry for Jake.		
<u>July 31</u>		
<b>Cash</b>	<b>600</b>	
<b>Notes Receivable</b>		<b>600</b>
<i>(Receive cash on note receivable)</i>		

**Problem 2-5A** (LO 2-2, 2-4)**Transactions for Luke's Repair Shop**

<u>July 3</u>	Debit	Credit
<b>Repairs and Maintenance Expense</b>	<b>500</b>	
<b>Accounts Payable</b>		<b>500</b>
<i>(Receive services on account)</i>		
<u>July 6</u>		
<b>Accounts Receivable</b>	<b>450</b>	
<b>Service Revenue</b>		<b>450</b>
<i>(Provide services on account)</i>		
<u>July 9</u>		
<b>Accounts Payable</b>	<b>500</b>	
<b>Cash</b>		<b>500</b>
<i>(Pay cash on account)</i>		
<u>July 14</u>		
<b>Cash</b>	<b>600</b>	
<b>Notes Payable</b>		<b>600</b>
<i>(Borrow by signing note payable)</i>		
<u>July 18</u>		
No entry for Luke.		
<u>July 20</u>		
<b>Cash</b>	<b>450</b>	
<b>Accounts Receivable</b>		<b>450</b>
<i>(Receive cash on account)</i>		
<u>July 27</u>		
<b>Cash</b>	<b>800</b>	
<b>Service Revenue</b>		<b>800</b>
<i>(Provide services for cash)</i>		
<u>July 30</u>		
<b>Salaries Expense</b>	<b>300</b>	
<b>Cash</b>		<b>300</b>
<i>(Pay salaries to employees)</i>		
<u>July 31</u>		
<b>Notes Payable</b>	<b>600</b>	
<b>Cash</b>		<b>600</b>
<i>(Pay note payable)</i>		

**Problem 2-5A (concluded)**

<u>Jake's Lawn Maintenance Company</u>				<u>Luke's Repair Shop</u>			
	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>		
July 3	+\$500	=	\$0	+	+\$500	\$0	= +\$500 + -\$500
6	\$0	=	+\$450	+	-\$450	+\$450	= \$0 + +\$450
9	+\$500 -\$500	=	\$0	+	\$0	-\$500	= -\$500 + \$0
14	+\$600 -\$600	=	\$0	+	\$0	+\$600	= +\$600 + \$0
18	-\$110	=	\$0	+	-\$110	\$0	= \$0 + \$0
20	-\$450	=	-\$450	+	\$0	+\$450 -\$450	= \$0 + \$0
27	\$0	=	\$0	+	\$0	+\$800	= \$0 + +\$800
30	\$0	=	\$0	+	\$0	-\$300	= \$0 + -\$300
31	+\$600 -\$600	=	\$0	+	\$0	-\$600	= -\$600 + \$0

**Problem 2-6A** (LO 2-6)

**Bruins Company**  
**Trial Balance**  
**November 30**

Accounts	Debit	Credit
Cash	\$ 40,000	
Accounts Receivable	50,000	
Supplies	1,100	
Prepaid Rent	3,000	
Equipment	<b>60,800</b>	
Accounts Payable		\$ 17,000
Salaries Payable		5,000
Interest Payable		3,000
Deferred Revenue		9,000
Notes Payable		30,000
Common Stock		50,000
Retained Earnings		35,000
Dividends	1,100	
Service Revenue		65,000
Salaries Expense	30,000	
Rent Expense	12,000	
Interest Expense	3,000	
Supplies Expense	7,000	
Utilities Expense	6,000	
Totals	<u>\$214,000</u>	<u>\$214,000</u>

**Problem 2-7A** (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>March 1</u>		
<b>Cash</b>	<b>3,000</b>	
<b>Common Stock</b>		<b>3,000</b>
<i>(Issue common stock)</i>		
(2) <u>March 3</u>		
<b>Equipment</b>	<b>2,700</b>	
<b>Notes Payable</b>		<b>2,700</b>
<i>(Purchase sewing equipment with note payable)</i>		
(3) <u>March 5</u>		
<b>Rent Expense</b>	<b>600</b>	
<b>Cash</b>		<b>600</b>
<i>(Pay rent for current month)</i>		
<u>March 7</u>		
No entry		
(4) <u>March 12</u>		
<b>Supplies</b>	<b>130</b>	
<b>Accounts Payable</b>		<b>130</b>
<i>(Purchase sewing supplies on account)</i>		
(5) <u>March 15</u>		
<b>Cash</b>	<b>800</b>	
<b>Service Revenue</b>		<b>800</b>
<i>(Provide services for cash)</i>		
(6) <u>March 19</u>		
<b>Cash</b>	<b>700</b>	
<b>Deferred Revenue</b>		<b>700</b>
<i>(Receive cash in advance from customer)</i>		
(7) <u>March 25</u>		
<b>Deferred Revenue</b>	<b>700</b>	
<b>Service Revenue</b>		<b>700</b>
<i>(Provide services to customer)</i>		
(8) <u>March 30</u>		
<b>Utilities Expense</b>	<b>95</b>	
<b>Cash</b>		<b>95</b>
<i>(Pay utilities for current month)</i>		
(9) <u>March 31</u>		
<b>Dividends</b>	<b>150</b>	
<b>Cash</b>		<b>150</b>
<i>(Pay dividends)</i>		

**Problem 2-7A (continued)**

**Requirements 2 and 3**

<b>Cash</b>	
(1) 3,000	600 (3)
(5) 800	95 (8)
(6) 700	150 (9)
<hr/>	
3,655	
<hr/>	

<b>Supplies</b>	
(4) 130	
<hr/>	
130	
<hr/>	

<b>Equipment</b>	
(2) 2,700	
<hr/>	
2,700	
<hr/>	

<b>Accounts Payable</b>	
	130 (4)
<hr/>	
	130
<hr/>	

<b>Deferred Revenue</b>	
(7) 700	700 (6)
<hr/>	
	0
<hr/>	

<b>Notes Payable</b>	
	2,700 (2)
<hr/>	
	2,700
<hr/>	

<b>Common Stock</b>	
	3,000 (1)
<hr/>	
	3,000
<hr/>	

<b>Dividends</b>	
(9) 150	
<hr/>	
150	
<hr/>	

<b>Service Revenue</b>	
	800 (5)
	700 (7)
<hr/>	
1,500	
<hr/>	

<b>Rent Expense</b>	
(3) 600	
<hr/>	
600	
<hr/>	

<b>Utilities Expense</b>	
(8) 95	
<hr/>	
95	
<hr/>	

**Problem 2-7A (concluded)**

**Requirement 4**

**Ute Sewing Shop  
Trial Balance  
March 31**

Accounts	Debit	Credit
Cash	\$3,655	
Supplies	130	
Equipment	2,700	
Accounts Payable		\$ 130
Deferred Revenue		0
Notes Payable		2,700
Common Stock		3,000
Dividends	150	
Service Revenue		1,500
Rent Expense	600	
Utilities Expense	95	
Totals	\$7,330	\$7,330



**Problem 2-8A** (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>Sep. 1</u>		
<b>Cash</b>	<b>4,700</b>	
<b>Service Revenue</b>		<b>4,700</b>
<i>(Provide services for cash)</i>		
(2) <u>Sep. 2</u>		
<b>Land</b>	<b>6,400</b>	
<b>Notes Payable</b>		<b>6,400</b>
<i>(Purchase land with note payable)</i>		
(3) <u>Sep. 4</u>		
<b>Advertising Expense</b>	<b>500</b>	
<b>Accounts Payable</b>		<b>500</b>
<i>(Receive invoice for current advertising)</i>		
(4) <u>Sep. 8</u>		
<b>Accounts Receivable</b>	<b>6,000</b>	
<b>Service Revenue</b>		<b>6,000</b>
<i>(Provide services on account)</i>		
(5) <u>Sep. 10</u>		
<b>Supplies</b>	<b>1,100</b>	
<b>Accounts Payable</b>		<b>1,100</b>
<i>(Purchase supplies on account)</i>		
(6) <u>Sep. 13</u>		
<b>Notes Payable</b>	<b>4,000</b>	
<b>Cash</b>		<b>4,000</b>
<i>(Pay note payable)</i>		
(7) <u>Sep. 18</u>		
<b>Cash</b>	<b>5,000</b>	
<b>Accounts Receivable</b>		<b>5,000</b>
<i>(Receive cash on account)</i>		
(8) <u>Sep. 20</u>		
<b>Rent Expense</b>	<b>900</b>	
<b>Cash</b>		<b>900</b>
<i>(Pay rent for current month)</i>		
(9) <u>Sep. 30</u>		
<b>Utilities Expense</b>	<b>2,000</b>	
<b>Cash</b>		<b>2,000</b>
<i>(Pay utilities for current month)</i>		

**Problem 2-8A (continued)**

(10)	<u>Sep. 30</u>		
	<b>Salaries Expense</b>	<b>4,000</b>	
	<b>Cash</b>		<b>4,000</b>
	<i>(Pay salaries for current month)</i>		
(11)	<u>Sep. 30</u>		
	<b>Dividends</b>	<b>1,100</b>	
	<b>Cash</b>		<b>1,100</b>
	<i>(Pay dividends)</i>		

*Problem 2-8A (continued)*

**Requirements 2 and 3**

<b>Cash</b>	
Bal. 6,500	4,000 (6)
(1) 4,700	900 (8)
(7) 5,000	2,000 (9)
	4,000 (10)
	1,100 (11)
<b>4,200</b>	

<b>Accounts Receivable</b>	
Bal. 2,500	5,000 (7)
(4) 6,000	
<b>3,500</b>	

<b>Supplies</b>	
Bal. 7,600	
(5) 1,100	
<b>8,700</b>	

<b>Land</b>	
Bal. 11,200	
(2) 6,400	
<b>17,600</b>	

<b>Accounts Payable</b>	
	7,500 Bal.
	500 (3)
	1,100 (5)
	<b>9,100</b>

<b>Notes Payable</b>	
(6) 4,000	3,000 Bal.
	6,400 (2)
	<b>5,400</b>

<b>Common Stock</b>	
	9,000 Bal.
	<b>9,000</b>

<b>Retained Earnings</b>	
	8,300 Bal.
	<b>8,300</b>

<b>Dividends</b>	
(11) 1,100	
<b>1,100</b>	

<b>Service Revenue</b>	
	4,700 (1)
	6,000 (4)
	<b>10,700</b>

<b>Salaries Expense</b>	
(10) 4,000	
<b>4,000</b>	

<b>Rent Expense</b>	
(8) 900	
<b>900</b>	

<b>Advertising Expense</b>	
(3) 500	
<b>500</b>	

<b>Utilities Expense</b>	
(9) 2,000	
<b>2,000</b>	

**Problem 2-8A (continued)****Requirement 4**

**Pirates Incorporated**  
**Trial Balance**  
**September 30**

Accounts	Debit	Credit
Cash	\$ 4,200	
Accounts Receivable	3,500	
Supplies	8,700	
Land	17,600	
Accounts Payable		\$ 9,100
Notes Payable		5,400
Common Stock		9,000
Retained Earnings		8,300
Dividends	1,100	
Service Revenue		10,700
Salaries Expense	4,000	
Rent Expense	900	
Advertising Expense	500	
Utilities Expense	2,000	
Totals	\$42,500	\$42,500

**Problem 2-9A** (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>December 1</u>		
<b>Rent Expense</b>	<b>900</b>	
<b>Cash</b>		<b>900</b>
<i>(Pay rent for December)</i>		
(2) <u>December 5</u>		
<b>Cash</b>	<b>2,800</b>	
<b>Service Revenue</b>		<b>2,800</b>
<i>(Provide services for cash)</i>		
(3) <u>December 8</u>		
<b>Cash</b>	<b>10,000</b>	
<b>Notes Payable</b>		<b>10,000</b>
<i>(Borrow by signing note payable)</i>		
(4) <u>December 12</u>		
<b>Cash</b>	<b>3,500</b>	
<b>Accounts Receivable</b>		<b>3,500</b>
<i>(Receive cash from customers on account)</i>		
(5) <u>December 13</u>		
<b>Cash</b>	<b>20,000</b>	
<b>Common Stock</b>		<b>20,000</b>
<i>(Issue shares of common stock)</i>		
(6) <u>December 15</u>		
<b>Salaries Expense</b>	<b>1,200</b>	
<b>Cash</b>		<b>1,200</b>
<i>(Pay salaries for December)</i>		
(7) <u>December 17</u>		
<b>Advertising Expense</b>	<b>1,000</b>	
<b>Cash</b>		<b>1,000</b>
<i>(Purchase advertising for December)</i>		
(8) <u>December 22</u>		
<b>Accounts Receivable</b>	<b>3,200</b>	
<b>Service Revenue</b>		<b>3,200</b>
<i>(Provide services on account)</i>		
<u>December 23</u>		
<b>No journal entry required</b>		

**Problem 2-9A (continued)**

(9)	<u>December 26</u>		
	<b>Equipment</b>	<b>28,500</b>	
	<b>Cash</b>		<b>28,500</b>
	<i>(Purchase equipment)</i>		
(10)	<u>December 28</u>		
	<b>Accounts Payable</b>	<b>1,500</b>	
	<b>Cash</b>		<b>1,500</b>
	<i>(Pay cash on account)</i>		
(11)	<u>December 31</u>		
	<b>Dividends</b>	<b>2,000</b>	
	<b>Cash</b>		<b>2,000</b>
	<i>(Pay dividends)</i>		

*Problem 2-9A (continued)*

**Requirements 2 and 3**

<b>Cash</b>	
Bal. 9,200	900 (1)
(2) 2,800	1,200 (6)
(3) 10,000	1,000 (7)
(4) 3,500	28,500 (9)
(5) 20,000	1,500 (10)
	2,000 (11)
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>10,400</b></span> </div>	

<b>Accounts Receivable</b>	
Bal. 4,500	3,500 (4)
(8) 3,200	
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>4,200</b></span> </div>	

<b>Prepaid Insurance</b>	
Bal. 400	
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>400</b></span> </div>	

<b>Equipment</b>	
Bal. 24,100	
(9) 28,500	
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>52,600</b></span> </div>	

<b>Land</b>	
Bal. 170,000	
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>170,000</b></span> </div>	

<b>Accounts Payable</b>	
(10) 1,500	3,300 Bal.
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>1,800</b></span> </div>	

<b>Notes Payable</b>	
	50,000 Bal.
	10,000 (3)
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>60,000</b></span> </div>	

<b>Common Stock</b>	
	120,000 Bal.
	20,000 (5)
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>140,000</b></span> </div>	

<b>Retained Earnings</b>	
	14,100 Bal.
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>14,100</b></span> </div>	

<b>Dividends</b>	
Bal. 5,000	
(11) 2,000	
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>7,000</b></span> </div>	

<b>Service Revenue</b>	
	75,000 Bal.
	2,800 (2)
	3,200 (8)
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>81,000</b></span> </div>	

<b>Advertising Expense</b>	
Bal. 11,000	
(7) 1,000	
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>12,000</b></span> </div>	

<b>Salaries Expense</b>	
Bal. 28,300	
(6) 1,200	
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>29,500</b></span> </div>	

<b>Rent Expense</b>	
Bal. 9,900	
(1) 900	
<div style="display: flex; justify-content: space-between;"> <span style="width: 60%;"><b>10,800</b></span> </div>	

**Problem 2-9A (continued)****Requirement 4**

**RiverHawk Expeditions**  
**Trial Balance**  
**December 31, 2021**

Accounts	Debit	Credit
Cash	\$ 10,400	
Accounts Receivable	4,200	
Prepaid Insurance	400	
Equipment	52,600	
Land	170,000	
Accounts Payable		\$ 1,800
Notes Payable		60,000
Common Stock		140,000
Retained Earnings		14,100
Dividends	7,000	
Service Revenue		81,000
Advertising Expense	12,000	
Salaries Expense	29,500	
Rent Expense	10,800	
Totals	\$296,900	\$296,900



## PROBLEMS: SET B

### Problem 2-1B (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank	Increase	=	Increase	+	No effect
2. Purchase a machine to use in operations for cash.	No effect*	=	No effect	+	No effect
3. Provide services to customers for cash.	Increase	=	No effect	+	Increase
4. Pay employee salaries for the current month.	Decrease	=	No effect	+	Decrease
5. Repay loan from the bank in (1) above.	Decrease	=	Decrease	+	No effect
6. Customers pay cash in advance of services.	Increase	=	Increase	+	No effect
7. Pay for maintenance costs in the current month.	Decrease	=	No effect	+	Decrease
8. Pay for advertising in the current month.	Decrease	=	No effect	+	Decrease
9. Purchase office supplies on account.	Increase	=	Increase	+	No effect
10. Provide services to customers on account.	Increase	=	No effect	+	Increase
11. Pay dividends to stockholders.	Decrease	=	No effect	+	Decrease

**\*One asset (machine) increases and another asset (cash) decreases**

**Problem 2-2B** (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash, \$15,000.	+\$15,000	=	\$0	+	+\$15,000
2. Obtain a loan from the bank for \$9,000.	+\$9,000	=	+\$9,000	+	\$0
3. Receive cash of \$1,200 in advance from customers.	+\$1,200	=	+\$1,200	+	\$0
4. Purchase supplies on account, \$2,400.	+\$2,400	=	+\$2,400	+	\$0
5. Pay one year of rent in advance, \$12,000.	+\$12,000 -\$12,000	=	\$0	+	\$0
6. Provide services to customers on account, \$3,000.	+\$3,000	=	\$0	+	+\$3,000
7. Repay \$4,000 of the loan in (2) above.	-\$4,000	=	-\$4,000	+	\$0
8. Pay full amount for supplies purchased in (4) above.	-\$2,400	=	-\$2,400	+	\$0
9. Provide services to customers in (3) above.	\$0	=	-\$1,200	+	+\$1,200
10. Pay cash dividends of \$1,000 to stockholders.	-\$1,000	=	\$0	+	-\$1,000
Totals	<u>\$23,200</u>	=	<u>\$5,000</u>	+	<u>\$18,200</u>

**Problem 2-3B** (LO 2-3)

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Supplies	<b>Asset</b>	<b>Debit</b>
2. Advertising Expense	<b>Expense</b>	<b>Debit</b>
3. Prepaid Insurance	<b>Asset</b>	<b>Debit</b>
4. Supplies Expense	<b>Expense</b>	<b>Debit</b>
5. Accounts Payable	<b>Liability</b>	<b>Credit</b>
6. Equipment	<b>Asset</b>	<b>Debit</b>
7. Dividends	<b>Dividends</b>	<b>Debit</b>
8. Accounts Receivable	<b>Asset</b>	<b>Debit</b>
9. Retained Earnings	<b>Stockholders' equity</b>	<b>Credit</b>
10. Deferred Revenue	<b>Liability</b>	<b>Credit</b>
11. Service Revenue	<b>Revenue</b>	<b>Credit</b>
12. Utilities Payable	<b>Liability</b>	<b>Credit</b>

**Problem 2-4B** (LO 2-4)**Transactions for Eli's Insurance Services**

<u>May 2</u>	<u>Debit</u>	<u>Credit</u>
<b>Cash</b>	<b>300</b>	
<b>Deferred Revenue</b>		<b>300</b>
<i>(Receive cash in advance from customer)</i>		
<u>May 5</u>		
<b>Repairs and Maintenance Expense</b>	<b>425</b>	
<b>Accounts Payable</b>		<b>425</b>
<i>(Receive maintenance services on account)</i>		
<u>May 7</u>		
<b>Cash</b>	<b>500</b>	
<b>Notes Payable</b>		<b>500</b>
<i>(Receive cash and sign note payable)</i>		
<u>May 14</u>		
No entry for Eli.		
<u>May 19</u>		
<b>Accounts Payable</b>	<b>425</b>	
<b>Cash</b>		<b>425</b>
<i>(Pay cash on account)</i>		
<u>May 25</u>		
<b>Utilities Expense</b>	<b>135</b>	
<b>Cash</b>		<b>135</b>
<i>(Pay utilities for the current month)</i>		
<u>May 28</u>		
<b>Deferred Revenue</b>	<b>300</b>	
<b>Service Revenue</b>		<b>300</b>
<i>(Provide service previously paid)</i>		
<u>May 31</u>		
<b>Notes Payable</b>	<b>500</b>	
<b>Cash</b>		<b>500</b>
<i>(Pay cash on note payable)</i>		

**Problem 2-5B** (LO 2-2, 2-4)**Transactions for Olivia's Maintenance Services**

<u>May 2</u>	Debit	Credit
<b>Prepaid Insurance</b>	<b>300</b>	
<b>Cash</b>		<b>300</b>
<i>(Pay for insurance services in advance)</i>		
<u>May 5</u>		
<b>Accounts Receivable</b>	<b>425</b>	
<b>Service Revenue</b>		<b>425</b>
<i>(Provide services on account)</i>		
<u>May 7</u>		
<b>Notes Receivable</b>	<b>500</b>	
<b>Cash</b>		<b>500</b>
<i>(Loan cash and issue note receivable)</i>		
<u>May 14</u>		
<b>Supplies</b>	<b>200</b>	
<b>Cash</b>		<b>200</b>
<i>(Purchase maintenance supplies with cash)</i>		
<u>May 19</u>		
<b>Cash</b>	<b>425</b>	
<b>Accounts Receivable</b>		<b>425</b>
<i>(Receive cash on account)</i>		
<u>May 25</u>		
No entry for Olivia.		
<u>May 28</u>		
<b>Insurance Expense</b>	<b>300</b>	
<b>Prepaid Insurance</b>		<b>300</b>
<i>(Received services paid in advance)</i>		
<u>May 31</u>		
<b>Cash</b>	<b>500</b>	
<b>Notes Receivable</b>		<b>500</b>
<i>(Receive cash on note receivable)</i>		

**Problem 2-5B (concluded)**

	<u>Eli's Insurance Services</u>				<u>Olivia's Maintenance Services</u>			
	<u>Assets</u>	=	<u>Liabilities</u>	+ <u>Stockholders' Equity</u>	<u>Assets</u>	=	<u>Liabilities</u>	+ <u>Stockholders' Equity</u>
May 2	+\$300	=	+\$300	+ \$0	+\$300 -\$300	=	\$0	+ \$0
5	\$0	=	+\$425	+ -\$425	+\$425	=	\$0	+ +\$425
7	+\$500	=	+\$500	+ \$0	+\$500 -\$500	=	\$0	+ \$0
14	\$0	=	\$0	+ \$0	+\$200 -\$200	=	\$0	+ \$0
19	-\$425	=	-\$425	+ \$0	+\$425 -\$425	=	\$0	+ \$0
25	-\$135	=	\$0	+ -\$135	\$0	=	\$0	+ \$0
28	\$0	=	-\$300	+ +\$300	-\$300	=	\$0	+ -\$300
31	-\$500	=	-\$500	+ \$0	+\$500 -\$500	=	\$0	+ \$0

**Problem 2-6B** (LO 2-6)

**Ducks Company  
Trial Balance  
September 30**

Accounts	Debit	Credit
Cash	\$ 25,000	
Accounts Receivable	14,000	
Supplies	7,000	
Prepaid Insurance	5,000	
Equipment	28,000	
Accounts Payable		\$ 7,000
Salaries Payable		4,000
Utilities Payable		1,100
Deferred Revenue		9,000
Common Stock		29,000
Retained Earnings		13,000
Dividends	4,000	
Service Revenue		<b>55,100</b>
Salaries Expense	9,000	
Insurance Expense	8,000	
Advertising Expense	1,100	
Supplies Expense	10,000	
Entertainment Expense	6,000	
Utilities Expense	1,100	
Totals	\$118,200	\$118,200

**Problem 2-7B** (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>June 1</u>		
<b>Cash</b>	<b>70,000</b>	
<b>Notes Payable</b>		<b>70,000</b>
<i>(Obtain loan from bank)</i>		
(2) <u>June 2</u>		
<b>Cash</b>	<b>40,000</b>	
<b>Common Stock</b>		<b>40,000</b>
<i>(Issue common stock)</i>		
(3) <u>June 7</u>		
<b>Equipment</b>	<b>75,000</b>	
<b>Cash</b>		<b>75,000</b>
<i>(Purchase equipment)</i>		
(4) <u>June 10</u>		
<b>Supplies</b>	<b>8,000</b>	
<b>Accounts Payable</b>		<b>8,000</b>
<i>(Purchase cleaning supplies on account)</i>		
(5) <u>June 12</u>		
<b>Cash</b>	<b>5,000</b>	
<b>Service Revenue</b>		<b>5,000</b>
<i>(Provide car washes for cash)</i>		
(6) <u>June 16</u>		
<b>Salaries Expense</b>	<b>900</b>	
<b>Cash</b>		<b>900</b>
<i>(Pay salaries to employees)</i>		
(7) <u>June 19</u>		
<b>Advertising Expense</b>	<b>500</b>	
<b>Cash</b>		<b>500</b>
<i>(Pay for current advertising)</i>		
(8) <u>June 23</u>		
<b>Accounts Receivable</b>	<b>6,000</b>	
<b>Service Revenue</b>		<b>6,000</b>
<i>(Provide car washes on account)</i>		



**Problem 2-7B (continued)**

(9)	<u>June 29</u>		
	<b>Salaries Expense</b>	<b>950</b>	
	<b>Cash</b>		<b>950</b>
	<i>(Pay salaries to employees)</i>		
(10)	<u>June 30</u>		
	<b>Utilities Expense</b>	<b>1,400</b>	
	<b>Cash</b>		<b>1,400</b>
	<i>(Pay current utility bill)</i>		
(11)	<u>June 30</u>		
	<b>Dividends</b>	<b>600</b>	
	<b>Cash</b>		<b>600</b>
	<i>(Pay dividends to stockholders)</i>		

**Problem 2-7B (continued)**

**Requirements 2 and 3**

<b>Cash</b>	
<b>(1) 70,000</b>	<b>75,000 (3)</b>
<b>(2) 40,000</b>	<b>900 (6)</b>
<b>(5) 5,000</b>	<b>500 (7)</b>
	<b>950 (9)</b>
	<b>1,400 (10)</b>
	<b>600 (11)</b>
<b>35,650</b>	

<b>Accounts Receivable</b>	
<b>(8) 6,000</b>	
<b>6,000</b>	
<b>6,000</b>	

<b>Supplies</b>	
<b>(4) 8,000</b>	
<b>8,000</b>	
<b>8,000</b>	

<b>Equipment</b>	
<b>(3) 75,000</b>	
<b>75,000</b>	
<b>75,000</b>	

<b>Accounts Payable</b>	
	<b>8,000 (4)</b>
	<b>8,000</b>
<b>8,000</b>	

<b>Notes Payable</b>	
	<b>70,000 (1)</b>
	<b>70,000</b>
<b>70,000</b>	

<b>Common Stock</b>	
	<b>40,000 (2)</b>
	<b>40,000</b>
<b>40,000</b>	

<b>Dividends</b>	
<b>(11) 600</b>	
<b>600</b>	
<b>600</b>	

<b>Service Revenue</b>	
	<b>5,000 (5)</b>
	<b>6,000 (8)</b>
<b>11,000</b>	

<b>Salaries Expense</b>	
<b>(6) 900</b>	
<b>(9) 950</b>	
<b>1,850</b>	

<b>Advertising Expense</b>	
<b>(7) 500</b>	
<b>500</b>	
<b>500</b>	

<b>Utilities Expense</b>	
<b>(10) 1,400</b>	
<b>1,400</b>	
<b>1,400</b>	

**Problem 2-7B (concluded)**

**Requirement 4**

**Salukis Car Cleaning  
Trial Balance  
June 30**

Accounts	Debit	Credit
Cash	\$ 35,650	
Accounts Receivable	6,000	
Supplies	8,000	
Equipment	75,000	
Accounts Payable		\$ 8,000
Notes Payable		70,000
Common Stock		40,000
Dividends	600	
Service Revenue		11,000
Salaries Expense	1,850	
Advertising Expense	500	
Utilities Expense	1,400	
Totals	\$129,000	\$129,000

**Problem 2-8B** (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>Nov. 1</u>		
<b>Cash</b>	<b>13,000</b>	
<b>Common Stock</b>		<b>13,000</b>
<i>(Issue common stock)</i>		
(2) <u>Nov. 2</u>		
<b>Equipment</b>	<b>3,500</b>	
<b>Notes Payable</b>		<b>3,500</b>
<i>(Purchase equipment with note payable)</i>		
(3) <u>Nov. 4</u>		
<b>Supplies</b>	<b>1,000</b>	
<b>Accounts Payable</b>		<b>1,000</b>
<i>(Purchase supplies on account)</i>		
(4) <u>Nov. 10</u>		
<b>Accounts Receivable</b>	<b>9,000</b>	
<b>Service Revenue</b>		<b>9,000</b>
<i>(Provide services on account)</i>		
(5) <u>Nov. 15</u>		
<b>Accounts Payable</b>	<b>1,100</b>	
<b>Cash</b>		<b>1,100</b>
<i>(Pay cash on account)</i>		
(6) <u>Nov. 20</u>		
<b>Salaries Expense</b>	<b>3,000</b>	
<b>Cash</b>		<b>3,000</b>
<i>(Pay current salaries)</i>		
(7) <u>Nov. 22</u>		
<b>Cash</b>	<b>11,000</b>	
<b>Service Revenue</b>		<b>11,000</b>
<i>(Provide services for cash)</i>		
(8) <u>Nov. 24</u>		
<b>Notes Payable</b>	<b>1,400</b>	
<b>Cash</b>		<b>1,400</b>
<i>(Pay note payable)</i>		
(9) <u>Nov. 26</u>		
<b>Cash</b>	<b>7,000</b>	
<b>Accounts receivable</b>		<b>7,000</b>
<i>(Receive cash on account)</i>		

**Problem 2-8B (continued)**

(10)	<u>Nov. 28</u>		
	<b>Utilities Expense</b>	<b>1,100</b>	
	<b>Cash</b>		<b>1,100</b>
	<i>(Pay utilities for current month)</i>		
(11)	<u>Nov. 30</u>		
	<b>Rent Expense</b>	<b>5,000</b>	
	<b>Cash</b>		<b>5,000</b>
	<i>(Pay rent for current month)</i>		

**Problem 2-8B (continued)**

**Requirements 2 and 3**

Cash	
Bal. 3,200	1,100 (5)
(1) 13,000	3,000 (6)
(7) 11,000	1,400 (8)
(9) 7,000	1,100 (10)
	5,000 (11)
<b>22,600</b>	

Accounts Receivable	
Bal. 600	7,000 (9)
(4) 9,000	
<b>2,600</b>	

Supplies	
Bal. 700	
(3) 1,000	
<b>1,700</b>	

Equipment	
Bal. 9,400	
(2) 3,500	
<b>12,900</b>	

Accounts Payable	
	2,000 Bal.
(5) 1,100	1,000 (3)
	<b>1,900</b>

Notes Payable	
(8) 1,400	4,000 Bal.
	3,500 (2)
	<b>6,100</b>

Common Stock	
	7,000 Bal.
	13,000 (1)
	<b>20,000</b>

Retained Earnings	
	900 Bal.
	<b>900</b>

Service Revenue	
	9,000 (4)
	11,000 (7)
	<b>20,000</b>

Salaries Expense	
(6) 3,000	
<b>3,000</b>	

Utilities Expense	
(10) 1,100	
<b>1,100</b>	

Rent Expense	
(11) 5,000	
<b>5,000</b>	

*Problem 2-8B (continued)*

**Requirement 4**

**Buckeye Incorporated  
Trial Balance  
November 30**

Accounts	Debit	Credit
Cash	\$22,600	
Accounts Receivable	2,600	
Supplies	1,700	
Equipment	12,900	
Accounts Payable		\$ 1,900
Notes Payable		6,100
Common Stock		20,000
Retained Earnings		900
Service Revenue		20,000
Salaries Expense	3,000	
Utilities Expense	1,100	
Rent Expense	5,000	
Totals	\$48,900	\$48,900

**Problem 2-9B** (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>December 1-31</u>		
<b>Cash</b>	<b>27,400</b>	
<b>Service Revenue</b>		<b>27,400</b>
<i>(Provide services for cash)</i>		
(2) <u>December 4</u>		
<b>Supplies</b>	<b>2,900</b>	
<b>Accounts Payable</b>		<b>2,900</b>
<i>(Purchase supplies on account)</i>		
(3) <u>December 8</u>		
<b>Advertising Expense</b>	<b>3,200</b>	
<b>Cash</b>		<b>3,200</b>
<i>(Purchase advertising for December)</i>		
(4) <u>December 9</u>		
<b>Accounts Payable</b>	<b>2,900</b>	
<b>Cash</b>		<b>2,900</b>
<i>(Pay cash on account)</i>		
(5) <u>December 12</u>		
<b>Cash</b>	<b>5,000</b>	
<b>Common Stock</b>		<b>5,000</b>
<i>(Issue shares of common stock)</i>		
(6) <u>December 16</u>		
<b>Accounts Payable</b>	<b>6,300</b>	
<b>Cash</b>		<b>6,300</b>
<i>(Pay cash on account)</i>		
(7) <u>December 19</u>		
<b>Equipment</b>	<b>7,700</b>	
<b>Cash</b>		<b>7,700</b>
<i>(Purchase equipment)</i>		
(8) <u>December 22</u>		
<b>Utilities Expense</b>	<b>4,500</b>	
<b>Cash</b>		<b>4,500</b>
<i>(Pay utilities for current month)</i>		
(9) <u>December 24</u>		
<b>Cash</b>	<b>2,300</b>	
<b>Deferred Revenue</b>		<b>2,300</b>
<i>(Receive cash in advance from customers)</i>		



**Problem 2-9B (continued)**

December 27

**No journal entry is required**

(10) December 30

**Salaries Expense**

**7,000**

**Cash**

**7,000**

*(Pay salaries for December)*

(11) December 31

**Dividends**

**3,000**

**Cash**

**3,000**

*(Pay dividends)*

**Problem 2-9B (continued)**

**Requirements 2 and 3**

<b>Cash</b>	
Bal. 19,400	3,200 (3)
(1) 27,400	2,900 (4)
(5) 5,000	6,300 (6)
(9) 2,300	7,700 (7)
	4,500 (8)
	7,000 (10)
	3,000 (11)
<b>19,500</b>	

<b>Supplies</b>	
Bal. 1,500	
(2) 2,900	
<b>4,400</b>	

<b>Prepaid Rent</b>	
Bal. 7,200	
<b>7,200</b>	

<b>Equipment</b>	
Bal. 83,700	
(7) 7,700	
<b>91,400</b>	

<b>Buildings</b>	
Bal. 240,000	
<b>240,000</b>	

<b>Accounts Payable</b>	
(4) 2,900	9,800 Bal.
(6) 6,300	2,900 (2)
	<b>3,500</b>

<b>Deferred Revenue</b>	
	2,000 Bal.
	2,300 (9)
<b>4,300</b>	

<b>Common Stock</b>	
	125,000 Bal.
	5,000 (5)
<b>130,000</b>	

<b>Retained Earnings</b>	
	75,500 Bal.
<b>75,500</b>	

<b>Dividends</b>	
Bal. 9,000	
(11) 3,000	
<b>12,000</b>	

<b>Service Revenue</b>	
	264,000 Bal.
	27,400 (1)
<b>291,400</b>	

<b>Salaries Expense</b>	
Bal. 65,000	
(10) 7,000	
<b>72,000</b>	

<b>Advertising Expense</b>	
Bal. 18,200	
(3) 3,200	
<b>21,400</b>	

<b>Utilities Expense</b>	
Bal. 32,300	
(8) 4,500	
<b>36,800</b>	

*Problem 2-9B (continued)*

**Requirement 4**

**Thunder Cat Services  
Trial Balance  
December 31, 2021**

Accounts	Debit	Credit
Cash	\$ 19,500	
Supplies	4,400	
Prepaid Rent	7,200	
Equipment	91,400	
Buildings	240,000	
Accounts Payable		\$ 3,500
Deferred Revenue		4,300
Common Stock		130,000
Retained Earnings		75,500
Dividends	12,000	
Service Revenue		291,400
Salaries Expense	72,000	
Advertising Expense	21,400	
Utilities Expense	36,800	
Totals	\$504,700	\$504,700

# ADDITIONAL PERSPECTIVES

## Additional Perspective 2-1

### Requirement 1

Entries are numbered for posting.

	<u>Debit</u>	<u>Credit</u>
(1) <u>July 1, 2021</u>		
<b>Cash</b>	<b>10,000</b>	
<b>Common Stock</b>		<b>10,000</b>
<i>(Issue common stock to Suzie)</i>		
(2) <u>July 1, 2021</u>		
<b>Cash</b>	<b>10,000</b>	
<b>Common Stock</b>		<b>10,000</b>
<i>(Issue common stock to Tony)</i>		
(3) <u>July 1, 2021</u>		
<b>Prepaid Insurance</b>	<b>4,800</b>	
<b>Cash</b>		<b>4,800</b>
<i>(Purchase one-year insurance policy)</i>		
(4) <u>July 2, 2021</u>		
<b>Legal Fees Expense</b>	<b>1,500</b>	
<b>Cash</b>		<b>1,500</b>
<i>(Pay legal fees for incorporation)</i>		
(5) <u>July 4, 2021</u>		
<b>Supplies (Office)</b>	<b>1,800</b>	
<b>Accounts Payable</b>		<b>1,800</b>
<i>(Purchase office supplies on account)</i>		
(6) <u>July 7, 2021</u>		
<b>Advertising Expense</b>	<b>300</b>	
<b>Cash</b>		<b>300</b>
<i>(Pay cash for advertising)</i>		
(7) <u>July 8, 2021</u>		
<b>Equipment (Bikes)</b>	<b>12,000</b>	
<b>Cash</b>		<b>12,000</b>
<i>(Pay cash for mountain bikes)</i>		
(8) <u>July 15, 2021</u>		
<b>Cash</b>	<b>2,000</b>	
<b>Service Revenue</b>		<b>2,000</b>
<i>(Receive cash for mountain bike clinic)</i>		

*Additional Perspective 2-1 (continued)*

**Requirement 1 (concluded)**

(9)	<u>July 22, 2021</u>		
	<b>Cash</b>	<b>2,300</b>	
	<b>Service Revenue</b>		<b>2,300</b>
	<i>(Receive cash for mountain bike clinic)</i>		
(10)	<u>July 24, 2021</u>		
	<b>Advertising Expense</b>	<b>700</b>	
	<b>Cash</b>		<b>700</b>
	<i>(Pay cash for advertising)</i>		
(11)	<u>July 30, 2021</u>		
	<b>Cash</b>	<b>4,000</b>	
	<b>Deferred Revenue</b>		<b>4,000</b>
	<i>(Receive cash in advance for kayak clinic)</i>		

*Additional Perspective P2-1 (continued)*

**Requirement 2**

<b>Cash</b>		<b>Prepaid Insurance</b>		<b>Supplies</b>	
(1) 10,000	4,800 (3)	(3) 4,800		(5) 1,800	
(2) 10,000	1,500 (4)	4,800		1,800	
(8) 2,000	300 (6)				
(9) 2,300	12,000 (7)				
(11) 4,000	700 (10)				
<b>9,000</b>					
		<b>Equipment</b>		<b>Accounts Payable</b>	
		(7) 12,000			1,800 (5)
		12,000			1,800
<b>Deferred Revenue</b>		<b>Common Stock</b>		<b>Service Revenue</b>	
	4,000 (11)		10,000 (1)		2,000 (8)
	4,000		10,000 (2)		2,300 (9)
			20,000		4,300
<b>Advertising Expense</b>		<b>Legal Fees Expense</b>			
(6) 300		(4) 1,500			
(10) 700		1,500			
<b>1,000</b>					

*Additional Perspective 2-1 (concluded)*

**Requirement 3**

**Great Adventures, Inc.  
Trial Balance  
July 31, 2021**

Accounts	Debit	Credit
Cash	\$ 9,000	
Prepaid Insurance	4,800	
Supplies	1,800	
Equipment	12,000	
Accounts Payable		\$ 1,800
Deferred Revenue		4,000
Common Stock		20,000
Service Revenue		4,300
Advertising Expense	1,000	
Legal Fees expense	1,500	
Totals	\$30,100	\$30,100

## Additional Perspective 2-2

(\$ in thousands)

### Requirement 1

Percentage change in total assets =  $(\$1,816,313 - \$1,782,660) / \$1,782,660 = 1.9\%$

Percentage change in net sales =  $(\$3,795,549 - \$3,609,865) / \$3,609,865 = 5.1\%$

### Requirement 2

Percentage change in net income =  $(\$204,163 - \$212,449) / \$212,449 = -3.9\%$

### Requirement 3

**No.** Based on the statement of stockholders' equity, American Eagle did not issue common stock in the most recent year.

### Requirement 4

**No.** The terms "debit" and "credit" are not shown in the balance sheet. **Asset** accounts, such as cash, merchandise inventory, accounts receivable, and property and equipment, increase with a debit. **Liability** accounts, such as accounts payable, accrued rent, and other liabilities increase with a credit. **Stockholders' equity** accounts, such as common stock and retained earnings, also increase with a credit.

### Requirement 5

**No.** The terms "debit" and "credit" are not shown in the income statement. **Expense** accounts, such as cost of sales and selling, general and administrative expenses increase with a debit. **Revenue** accounts, such as net revenue, increase with a credit.



## Additional Perspective 2-3

(\$ in thousands)

### Requirement 1

Percentage change in total assets =  $(\$538,116 - \$579,847) / \$579,847 = -7.2\%$

Percentage change in net sales =  $(\$913,380 - \$974,873) / \$974,873 = -6.3\%$

### Requirement 2

Percentage change in net income =  $(\$89,707 - \$97,961) / \$97,961 = -8.4\%$

### Requirement 3

**Yes.** Based on the statement of stockholders' equity, The Buckle did issue a small amount of common stock in the most recent year.

### Requirement 4

**No.** The terms "debit" and "credit" are not shown in the balance sheet. **Asset** accounts, such as cash, inventory, accounts receivable, and property and equipment increase with a debit. **Liability** accounts, such as accounts payable, accrued employee compensation, and income taxes increase with a credit. **Stockholders' equity** accounts, such as common stock and retained earnings, also increase with a credit.

### Requirement 5

**No.** The terms "debit" and "credit" are not shown in the income statement. **Expense** accounts, such as cost of sales and selling, general, and administrative expenses, increase with a debit. **Revenue** accounts, such as net sales, increase with a credit.

## Additional Perspective 2-4

**American Eagle** for all three. American Eagle has a larger increase in terms of total assets, and also showed growth in net sales whereas Buckle's net sales declined. Buckle's net income declined by a larger percentage.

Without reading more of the financial reports at this point, it appears from the financial statements that the apparel business is slumping and Buckle is struggling to find its place, having already shown operations that it discontinued and perhaps a need to re-strategize its operations.

## Additional Perspective 2-5

1. Increases reported profit by \$75,000, from a loss of \$50,000 to a profit of \$25,000 (ignoring any tax effects).

2. Yes.

Robert, the company's president, benefits from false reporting by maintaining the company's profitable appearance. The incentives could be bonus compensation plans, a desire to please stockholders, meeting analysts' earnings forecasts for the company, or maintaining good standing with creditors. Larry benefits from false reporting by keeping his friendship with Robert, keeping his job for the longer-term, and getting a free dinner tonight. However, if the false reporting is discovered by authorities, both parties face legal penalties and suffer reputational damage.

3. Yes.

Outside decisions makers, such as investors and creditors, view companies that report a profit instead of a loss as being more financially stable.

4. No.

As the accountant, Larry should understand that his responsibilities are to accurately record and report the company's activities. Larry must be aware that Robert may have incentives for falsely reporting to Larry about the additional revenue. Without source documents, an important step in the measurement process, Larry should not record any transactions.

## Additional Perspective 2-6

(Note to instructor: Answers are based on items in Apple's September 30, 2017 annual report. Dollar amounts are in millions)

### Requirement 1

Accounts receivable = \$17,874. The accounts receivable account represents the amount owed to Apple by its customers.

### Requirement 2

Accounts payable = \$49,049. The accounts payable account represents the amount owed by Apple to its suppliers.

### Requirement 3

Accrued expenses could include income taxes payable, salaries payable, interest payable, and rent payable.

### Requirement 4

Common stock (including additional paid-in capital) = \$35,867. The common stock account represents capital contributed to the company by stockholders.

### Requirement 5

Assets (\$375,319) = Liabilities (\$241,272) + Stockholders' equity (\$134,047)

### Requirement 6

Net sales = \$229,234. The period of net sales is for the year ended September 30, 2017.

### Requirement 7

Expenses include cost of sales; research and development; selling, general, and administrative; and provision for income taxes.

### Requirement 8

Yes, the company's revenues exceed expenses. The difference is net income of \$48,351.

## Additional Perspective 2-7

For transaction (a):

Step 1. Analyze customer invoice.

Step 2. Determine assets increase and stockholders' equity increases (and revenues increase).

Step 3. Increase assets with a debit and increase revenues with a credit.

Step 4. <b>Accounts Receivable</b>	<b>500</b>	
<b>Service Revenue</b>		<b>500</b>
<i>(Provide services on account)</i>		

For transaction (b):

Step 1. Analyze employee paycheck.

Step 2. Determine assets decrease and stockholders' equity decreases (and expenses increase).

Step 3. Decrease assets with a credit and increase expenses with a debit.

Step 4. <b>Salaries Expense</b>	<b>1,200</b>	
<b>Cash</b>		<b>1,200</b>
<i>(Pay salary for the current month)</i>		

For transaction (c):

Step 1. Analyze purchase receipt for equipment.

Step 2. Determine one asset increases and another asset decreases.

Step 3. Increase assets with a debit and decrease assets with a credit.

Step 4. <b>Equipment</b>	<b>2,700</b>	
<b>Cash</b>		<b>2,700</b>
<i>(Purchase office equipment)</i>		

Step 5. All transactions are posted to the general ledger accounts.

Step 6. A trial balance is prepared using the balance of each general ledger account.

Total debits should equal total credits in the trial balance.