

CHAPTER 2 ANALYZING TRANSACTIONS

DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, stockholders' equity, revenue, or expense. A ledger is a group of related accounts.
2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset, expense, and dividends accounts but a decrease in liability, common stock, retained earnings, and revenue accounts.
3.
 - A. Assuming no errors have occurred, the credit balance in the cash account resulted from writing checks for \$1,850 in excess of the amount of cash on deposit.
 - B. The \$1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.
4.
 - A. The revenue was earned in October.
 - B. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.
(2) Debit Cash and credit Accounts Receivable in November.
5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.
6. The listing of \$9,800 is a transposition; the listing of \$100 is a slide.
7.
 - A. No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.
 - B. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by \$90.
8.
 - A. The equality of the trial balance would not be affected.
 - B. On the income statement, total operating expenses (salary expense) would be overstated by \$7,500, and net income would be understated by \$7,500. On the retained earnings statement, the beginning and ending retained earnings would be correct. However, net income and dividends would be understated by \$7,500. These understatements offset one another, and thus, ending retained earnings is correct. The balance sheet is not affected by the error.
9.
 - A. The equality of the trial balance would not be affected.
 - B. On the income statement, revenues (fees earned) would be overstated by \$300,000, and net income would be overstated by \$300,000. On the retained earnings statement, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by \$300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by \$300,000, and stockholders' equity (retained earnings) is overstated by \$300,000. The understatement of liabilities is offset by the overstatement of stockholders' equity (retained earnings), and thus, total liabilities and stockholders' equity is correct.
10.
 - A. From the viewpoint of Surety Storage, the balance of the checking account represents an asset.
 - B. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

BASIC EXERCISES

BE 2-1

1. Debit and credit entries, normal credit balance
2. Debit and credit entries, normal debit balance
3. Debit entries only, normal debit balance
4. Debit entries only, normal debit balance
5. Debit entries only, normal debit balance
6. Credit entries only, normal credit balance

BE 2-2

Mar.	9	Office Supplies		1,775	
		Cash			275
		Accounts Payable			1,500

BE 2-3

Aug.	13	Cash		9,000	
		Fees Earned			9,000

BE 2-4

June	30	Dividends		11,500	
		Cash			11,500

BE 2-5

Using the following T account, solve for the amount of supplies expense (indicated by ? below).

		Supplies	
Aug. 1 Bal.	1,025	?	Supplies expense
Supplies purchased	3,110		
Aug. 31 Bal.	1,324		

$$\$1,324 = \$1,025 + \$3,110 - \text{Supplies expense}$$

$$\text{Supplies expense} = \$1,025 + \$3,110 - \$1,324 = \$2,811$$

BE 2–6

- A. The totals are equal because both the debit and credit entries were journalized and posted for \$12,900.
- B. The totals are unequal. The credit total is higher by \$1,656 (\$1,840 – \$184).
- C. The totals are unequal. The debit total is higher by \$4,500 (\$8,300 – \$3,800).

BE 2–7

A.

Cash	8,400	
Accounts Receivable		8,400

B.

Supplies	2,500	
Office Equipment		2,500
Supplies	2,500	
Accounts Payable		2,500

Note: The first entry in (B) reverses the incorrect entry, and the second entry records the correct entry. These two entries could also be combined into one entry as shown below; however, preparing two entries would make it easier for someone to understand later what happened and why the entries were necessary.

Supplies	5,000	
Office Equipment		2,500
Accounts Payable		2,500

EXERCISES**Ex. 2-1**

<u>Balance Sheet Accounts</u>	<u>Income Statement Accounts</u>
<u>Assets</u>	<u>Revenue</u>
Advanced Payments for Equipment ^a	Cargo Revenue
Cash	Passenger Revenue
Flight Equipment	
Fuel Inventory	
Parts and Supplies Inventories	
Prepaid Expenses	
<u>Liabilities</u>	<u>Expenses</u>
Accounts Payable	Aircraft Fuel (Expense)
Air Traffic Liability ^b	Aircraft Maintenance (Expense)
Frequent Flyer (Obligations) ^c	Aircraft Rent (Expense)
Taxes Payable	Contract Carrier Arrangements (Expense) ^d
	Landing Fees (Expense) ^e
	Passenger Commissions (Expense) ^f
<u>Stockholders' Equity</u>	
None	

^a Advance payments (deposits) on aircraft to be delivered in the future

^b Passenger ticket sales for future flights

^c Obligations to provide frequent flyers future travel and other benefits

^d Payments to other airlines for passenger travel under Delta tickets

^e Fees paid to airports for landing rights

^f Commissions paid to travel agents for passenger bookings

Ex. 2-2

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

Note: Expense accounts are normally listed in order of magnitude from largest to smallest with Miscellaneous Expense always listed last. Since Wages Expense is normally larger than Supplies Expense, Wages Expense is listed as account number 51 and Supplies Expense as account number 52.

Ex. 2-3

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

Note: The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13-14, accounts 21-22, and accounts 51-53. In a new business, the order of magnitude of balances in such accounts is not determinable in advance. The magnitude may also vary from period to period.

Ex. 2-4

- | | |
|-----------|-----------|
| A. debit | G. credit |
| B. credit | H. debit |
| C. credit | I. debit |
| D. credit | J. credit |
| E. debit | K. debit |
| F. credit | L. debit |

Ex. 2-5

1. debit and credit entries (C)
2. debit and credit entries (C)
3. debit and credit entries (C)
4. credit entries only (B)
5. debit entries only (A)
6. debit entries only (A)
7. debit entries only (A)

Ex. 2-6

- | | |
|--|-------------------|
| A. Liability—credit | F. Revenue—credit |
| B. Asset—debit | G. Asset—debit |
| C. Asset—debit | H. Expense—debit |
| D. Stockholders' equity
(Common Stock)—credit | I. Asset—debit |
| E. Stockholders' equity
(Dividends)—debit | J. Expense—debit |

Ex. 2-7

2018				
March	1	Rent Expense	4,000	
		Cash		4,000
	3	Advertising Expense	1,350	
		Cash		1,350
	5	Supplies	1,800	
		Cash		1,800
	6	Office Equipment	11,500	
		Accounts Payable		11,500
	10	Cash	8,600	
		Accounts Receivable		8,600
	15	Accounts Payable	3,180	
		Cash		3,180
	27	Miscellaneous Expense	700	
		Cash		700
	30	Utilities Expense	550	
		Cash		550
	31	Accounts Receivable	37,200	
		Fees Earned		37,200
	31	Utilities Expense	830	
		Cash		830
	31	Dividends	2,000	
		Cash		2,000

Ex. 2-8

A.

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Date	Description	Post. Ref.	Debit	Credit
2018				
Oct. 3	Supplies	15	3,600	
	Accounts Payable	21		3,600
	Purchased supplies on account.			

B., C., D.

Account: Supplies

Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct. 1	Balance	✓			770	
	3	91	3,600		4,370	

Account: Accounts Payable

Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct. 1	Balance	✓				26,200
	3	91		3,600		29,800

E. Yes, the rules of debit and credit apply to all companies.

Ex. 2-9

A. (1)	Accounts Receivable	54,100	
	Fees Earned		54,100
(2)	Supplies	1,250	
	Accounts Payable		1,250
(3)	Cash	43,800	
	Accounts Receivable		43,800
(4)	Accounts Payable	600	
	Cash		600

Ex. 2-9 (Concluded)

B.

Cash		Accounts Payable	
(3)	43,800	(4)	600
Supplies		Fees Earned	
(2)	1,250	(1)	54,100
Accounts Receivable			
(1)	54,100	(3)	43,800

C. No, an error may not have necessarily occurred. A credit balance in Accounts Receivable could occur if a customer overpaid his or her account. Regardless, the credit balance should be investigated to verify that an error has not occurred.

Ex. 2-10

A. The increase of \$140,000 (\$515,000 – \$375,000) in the cash account does not indicate net income of that amount. Net income is the net change in all assets and liabilities from operating (revenue and expense) transactions.

B. \$60,000 (\$200,000 – \$140,000)

or

Cash	
X	375,000
515,000	_____
200,000	

$$X + \$515,000 - \$375,000 = \$200,000$$

$$X = \$200,000 - \$515,000 + \$375,000$$

$$X = \$60,000$$

Ex. 2-11

A.

Accounts Payable		
	<u>186,500</u>	Feb. 1 X
		<u>201,400</u>
		Feb. 28 59,900

$$X + \$201,400 - \$186,500 = \$59,900$$

$$X = \$59,900 + \$186,500 - \$201,400$$

$$X = \$45,000$$

B.

Accounts Receivable		
Oct. 1	115,800	449,600
	<u>X</u>	
Oct. 31	130,770	

$$\$115,800 + X - \$449,600 = \$130,770$$

$$X = \$130,770 + \$449,600 - \$115,800$$

$$X = \$464,570$$

C.

Cash		
Apr. 1	46,220	X
	<u>248,600</u>	
Apr. 30	56,770	

$$\$46,220 + \$248,600 - X = \$56,770$$

$$X = \$46,220 + \$248,600 - \$56,770$$

$$X = \$238,050$$

Ex. 2-12

- A. Debit (negative) balance of \$16,000 (\$314,000 - \$10,000 - \$320,000). This negative balance means that the liabilities of the business exceed the assets.
- B. Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the stockholders' equity section as a debit (negative) balance of \$16,000.

Ex. 2-13

A. and B.

Transaction	Account Debited		Account Credited	
	Type	Effect	Type	Effect
(1)	asset	+	stockholders' equity	+
(2)	asset	+	asset	-
(3)	asset	+	asset	-
			liability	+
(4)	expense	+	asset	-
(5)	asset	+	revenue	+
(6)	liability	-	asset	-
(7)	asset	+	asset	-
(8)	expense	+	asset	-
(9)	dividend	+	asset	-

Ex. 2-14

(1)	Cash	50,000	
	Common Stock		50,000
(2)	Supplies	3,400	
	Cash		3,400
(3)	Equipment	15,000	
	Accounts Payable		10,000
	Cash		5,000
(4)	Operating Expenses	4,850	
	Cash		4,850
(5)	Accounts Receivable	18,200	
	Service Revenue		18,200
(6)	Accounts Payable	2,500	
	Cash		2,500
(7)	Cash	8,700	
	Accounts Receivable		8,700
(8)	Operating Expenses	1,100	
	Supplies		1,100
(9)	Dividends	1,000	
	Cash		1,000

Ex. 2-15

A.

Napa Tours Co.		
Unadjusted Trial Balance		
April 30, 2018		
	Debit Balances	Credit Balances
Cash	41,950	
Accounts Receivable	9,500	
Supplies	2,300	
Equipment	15,000	
Accounts Payable		7,500
Common Stock		50,000
Dividends	1,000	
Service Revenue		18,200
Operating Expenses	5,950	
	75,700	75,700

B. Net income, \$12,250 (\$18,200 – \$5,950)

Ex. 2-16

Atlantic Furniture Company Unadjusted Trial Balance July 31, 2018		
	Debit Balances	Credit Balances
Cash	207,325	
Accounts Receivable	483,600	
Supplies	3,975	
Prepaid Insurance	21,600	
Land	50,000	
Accounts Payable		92,400
Unearned Rent		6,000
Notes Payable		25,000
Common Stock		75,000
Retained Earnings		311,600
Dividends	24,000	
Fees Earned		2,750,000
Wages Expense	2,250,000	
Rent Expense	140,000	
Utilities Expense	49,100	
Supplies Expense	11,200	
Insurance Expense	9,000	
Miscellaneous Expense	10,200	
	3,260,000	3,260,000

$$\text{Cash} = \$3,260,000 - \$10,200 - \$9,000 - \$11,200 - \$49,100 - \$140,000 - \$2,250,000 - \$24,000 - \$50,000 - \$21,600 - \$3,975 - \$483,600 = \$207,325$$

Ex. 2-17

Inequality of trial balance totals would be caused by errors described in (C) and (E). For (C), the debit total would exceed the credit total by \$9,900 (\$4,950 + \$4,950). For (E), the credit total would exceed the debit total by \$17,100 (\$19,000 - \$1,900).

Errors (B), (C), (D), and (E) would require correcting entries. Although it is not a correcting entry, the entry that was not made in (A) should also be entered in the journal.

Ex. 2-18

Ranger Co.		
Unadjusted Trial Balance		
August 31, 2018		
	Debit Balances	Credit Balances
Cash	15,500	
Accounts Receivable	46,750	
Prepaid Insurance	12,000	
Equipment	190,000	
Accounts Payable		24,600
Unearned Rent		5,400
Common Stock		40,000
Retained Earnings		70,000
Dividends	13,000	
Service Revenue		385,000
Wages Expense	213,000	
Advertising Expense	16,350	
Miscellaneous Expense	18,400	
	525,000	525,000

Ex. 2-19

Error	(A) Out of Balance	(B) Difference	(C) Larger Total
1.	yes	\$6,000	debit
2.	no	—	—
3.	yes	5,400	credit
4.	yes	480	debit
5.	no	—	—
6.	yes	90	credit
7.	yes	360	credit

Ex. 2-20

1. The Debit column total is added incorrectly. The sum is \$1,098,500 rather than \$1,801,500.
2. The trial balance should be dated "December 31, 2018," not "For the Year Ending December 31, 2018."
3. The Accounts Receivable balance should be in the Debit column.
4. The Accounts Payable balance should be in the Credit column.
5. The Dividends balance should be in the Debit column.
6. The Advertising Expense balance should be in the Debit column.

A corrected trial balance would be as follows:

Ensemble Co.		
Unadjusted Trial Balance		
December 31, 2018		
	Debit Balances	Credit Balances
Cash	42,900	
Accounts Receivable	123,500	
Prepaid Insurance	27,000	
Equipment	300,000	
Accounts Payable		52,000
Salaries Payable		4,800
Common Stock		40,000
Retained Earnings		137,200
Dividends	5,000	
Service Revenue		1,216,000
Salary Expense	660,000	
Advertising Expense	275,000	
Miscellaneous Expense	16,600	
	1,450,000	1,450,000

Ex. 2-21

- A. The correction could be made with one or two entries as shown below.

Prepaid Insurance	36,000	
Insurance Expense		18,000
Cash		18,000

or (reverses original entry)

Prepaid Insurance	18,000	
Insurance Expense		18,000
Prepaid Insurance	18,000	
Cash		18,000

B.

Dividends	10,000	
Wages Expense		10,000

Ex. 2-22

A.

Cash	17,600	
Fees Earned		8,800
Accounts Receivable		8,800

B.

Accounts Payable	1,760	
Supplies Expense		1,760

Supplies	1,760	
Cash		1,760

Note: The first entry reverses the original entry. The second entry is the entry that should have been made initially.

PROBLEMS

Prob. 2-1A

1. and 2.

Cash	
(A) 30,000	(B) 2,500
(G) 9,000	(C) 6,000
	(E) 2,100
	(F) 3,600
	(H) 2,600
	(I) 4,000
	(J) 1,875
	(M) 6,000
	(N) 1,300
Bal. 9,025	

Equipment	
(D) 8,000	

Notes Payable	
(J) 1,875	(C) 22,500
	Bal. 20,625

Accounts Payable	
(I) 4,000	(D) 8,000
	(K) 5,500
	Bal. 9,500

Accounts Receivable	
(L) 31,400	

Common Stock	
	(A) 30,000

Supplies	
(E) 2,100	

Professional Fees	
	(G) 9,000
	(L) 31,400
	Bal. 40,400

Prepaid Insurance	
(F) 3,600	

Salary Expense	
(M) 6,000	

Automobiles	
(C) 28,500	

Blueprint Expense	
(K) 5,500	

Rent Expense	
(B) 2,500	

Automobile Expense	
(N) 1,300	

Miscellaneous Expense	
(H) 2,600	

Prob. 2-1A (Concluded)

3.

Knaus Architects		
Unadjusted Trial Balance		
January 31, 2018		
	Debit Balances	Credit Balances
Cash	9,025	
Accounts Receivable	31,400	
Supplies	2,100	
Prepaid Insurance	3,600	
Automobiles	28,500	
Equipment	8,000	
Notes Payable		20,625
Accounts Payable		9,500
Common Stock		30,000
Professional Fees		40,400
Salary Expense	6,000	
Blueprint Expense	5,500	
Rent Expense	2,500	
Automobile Expense	1,300	
Miscellaneous Expense	2,600	
	100,525	100,525

4. Net income, \$22,500 ($\$40,400 - \$6,000 - \$5,500 - \$2,500 - \$1,300 - \$2,600$)

Prob. 2–2A

1. (A)	Cash	40,000	
	Common Stock		40,000
(B)	Rent Expense	4,800	
	Cash		4,800
(C)	Supplies	2,150	
	Accounts Payable		2,150
(D)	Accounts Payable	1,100	
	Cash		1,100
(E)	Cash	18,750	
	Sales Commissions		18,750
(F)	Automobile Expense	1,580	
	Miscellaneous Expense	800	
	Cash		2,380
(G)	Office Salaries Expense	3,500	
	Cash		3,500
(H)	Supplies Expense	1,300	
	Supplies		1,300
(I)	Dividends	1,500	
	Cash		1,500

Prob. 2-2A (Concluded)

3.

Affordable Realty Unadjusted Trial Balance October 31, 2018		
	Debit Balances	Credit Balances
Cash	45,470	
Supplies	850	
Accounts Payable		1,050
Common Stock		40,000
Dividends	1,500	
Sales Commissions		18,750
Rent Expense	4,800	
Office Salaries Expense	3,500	
Automobile Expense	1,580	
Supplies Expense	1,300	
Miscellaneous Expense	800	
	59,800	59,800

4. A. \$18,750
 B. \$11,980 (\$4,800 + \$3,500 + \$1,580 + \$1,300 + \$800)
 C. \$6,770 (\$18,750 – \$11,980)
5. \$5,270, which is the excess of net income of \$6,770 over the dividends of \$1,500.

Prob. 2-3A

1.

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Date	Description	Post. Ref.	Debit	Credit
2018				
Nov. 1	Cash	11	36,000	
	Common Stock	31		36,000
	1 Rent Expense	53	4,000	
	Cash	11		4,000
	6 Equipment	16	16,000	
	Accounts Payable	22		16,000
	8 Truck	18	43,000	
	Cash	11		4,300
	Notes Payable	21		38,700
	10 Supplies	13	1,860	
	Cash	11		1,860
	12 Cash	11	8,000	
	Fees Earned	41		8,000
	15 Prepaid Insurance	14	2,400	
	Cash	11		2,400
	23 Accounts Receivable	12	15,500	
	Fees Earned	41		15,500
	24 Truck Expense	55	1,250	
	Accounts Payable	22		1,250

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Date	Description	Post. Ref.	Debit	Credit
2018				
Nov. 29	Utilities Expense	54	3,660	
	Cash	11		3,660
	29 Miscellaneous Expense	59	1,700	
	Cash	11		1,700

Prob. 2–3A (Continued)

Account: Supplies Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	10	1	1,860		1,860	

Account: Prepaid Insurance Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	15	1	2,400		2,400	

Account: Equipment Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	6	1	16,000		16,000	

Account: Truck Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	8	1	43,000		43,000	

Account: Notes Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	8	1		38,700		38,700

Account: Accounts Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	6	1		16,000		16,000
	24	1		1,250		17,250
	30	2	4,000			13,250

Prob. 2–3A (Continued)

Account: Common Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	1	1		36,000		36,000

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	30	2	1,600		1,600	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	12	1		8,000		8,000
	23	1		15,500		23,500

Account: Wages Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	30	2	4,750		4,750	

Account: Rent Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	1	1	4,000		4,000	

Account: Utilities Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	29	2	3,660		3,660	

Prob. 2–3A (Continued)

Account: Truck Expense

Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	24	1	1,250		1,250	

Account: Miscellaneous Expense

Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Nov.	29	2	1,700		1,700	

Prob. 2–3A (Concluded)

3.

Modern Designs			
Unadjusted Trial Balance			
November 30, 2018			
	Account No.	Debit Balances	Credit Balances
Cash	11	26,230	
Accounts Receivable	12	5,000	
Supplies	13	1,860	
Prepaid Insurance	14	2,400	
Equipment	16	16,000	
Truck	18	43,000	
Notes Payable	21		38,700
Accounts Payable	22		13,250
Common Stock	31		36,000
Dividends	33	1,600	
Fees Earned	41		23,500
Wages Expense	51	4,750	
Rent Expense	53	4,000	
Utilities Expense	54	3,660	
Truck Expense	55	1,250	
Miscellaneous Expense	59	1,700	
		111,450	111,450

4. \$8,140 (\$23,500 – \$4,750 – \$4,000 – \$3,660 – \$1,250 – \$1,700)
5. Some supplies may have been used during November, but no supplies expense has been recorded.

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Modern Designs.

Note to Instructors: At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.

Prob. 2-4A

2. and 3.

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Date	Description	Post. Ref.	Debit	Credit
2018				
Apr. 1	Rent Expense	52	6,500	
	Cash	11		6,500
	2 Office Supplies	14	2,300	
	Accounts Payable	21		2,300
	5 Prepaid Insurance	13	6,000	
	Cash	11		6,000
	10 Cash	11	52,300	
	Accounts Receivable	12		52,300
	15 Land	16	200,000	
	Cash	11		30,000
	Notes Payable	23		170,000
	17 Accounts Payable	21	6,450	
	Cash	11		6,450
	20 Accounts Payable	21	325	
	Office Supplies	14		325
	23 Advertising Expense	53	4,300	
	Cash	11		4,300

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Date	Description	Post. Ref.	Debit	Credit
2018				
Apr. 27	Cash	11	2,500	
	Salary and Commission Expense	51		2,500
	28 Automobile Expense	54	1,500	
	Cash	11		1,500
	29 Miscellaneous Expense	59	1,400	
	Cash	11		1,400

Prob. 2-4A (Continued)

Account: Prepaid Insurance Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓			3,000	
	5	18	6,000		9,000	

Account: Office Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓			1,800	
	2	18	2,300		4,100	
	20	18		325	3,775	

Account: Land Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	15	18	200,000		200,000	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓				14,000
	2	18		2,300		16,300
	17	18	6,450			9,850
	20	18	325			9,525

Account: Unearned Rent Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	30	19		10,000		10,000

Account: Notes Payable Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	15	18		170,000		170,000

Prob. 2-4A (Continued)

Account: Common Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓				10,000

Account: Retained Earnings Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓				36,000

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓			2,000	
	30	19	4,000		6,000	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓				240,000
	30	19		57,000		297,000

Account: Salary and Commission Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓			148,200	
	27	19		2,500	145,700	
	30	19	11,900		157,600	

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr.	1 Balance	✓			30,000	
	1	18	6,500		36,500	

Prob. 2-4A (Continued)

Account: Advertising Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr. 1	Balance	✓			17,800	
	23	18	4,300		22,100	

Account: Automobile Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr. 1	Balance	✓			5,500	
	28	19	1,500		7,000	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Apr. 1	Balance	✓			3,900	
	29	19	1,400		5,300	

4.

Elite Realty Unadjusted Trial Balance April 30, 2018			
	Account No.	Debit Balances	Credit Balances
Cash	11	19,050	
Accounts Receivable	12	66,200	
Prepaid Insurance	13	9,000	
Office Supplies	14	3,775	
Land	16	200,000	
Accounts Payable	21		9,525
Unearned Rent	22		10,000
Notes Payable	23		170,000
Common Stock	31		10,000
Retained Earnings	32		36,000
Dividends	33	6,000	
Fees Earned	41		297,000
Salary and Commission Expense	51	157,600	
Rent Expense	52	36,500	
Advertising Expense	53	22,100	
Automobile Expense	54	7,000	
Miscellaneous Expense	59	5,300	
		532,525	532,525

Prob. 2–4A (Concluded)

5. (A) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(B) The correcting entry for \$7,200 (\$19,100 – \$11,900) would be as follows:

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Date		Description	Post. Ref.	Debit	Credit
2018					
Apr.	30	Salary and Commission Expense	51	7,200	
		Cash	11		7,200

(C) Transposition

Prob. 2-5A

1.

The Lexington Group Unadjusted Trial Balance May 31, 2018		
	Debit Balances	Credit Balances
Cash	18,750	
Accounts Receivable	53,500	
Supplies	2,225	
Prepaid Insurance	7,400	
Equipment	171,175	
Notes Payable		45,000
Accounts Payable		36,000
Common Stock		50,000
Retained Earnings		89,150
Dividends	20,000	
Fees Earned		429,850
Wages Expense	270,000	
Rent Expense	60,300	
Advertising Expense	25,200	
Gas, Electricity, and Water Expense	16,350	
Miscellaneous Expense	5,100	
	650,000	650,000

Cash = \$20,350 - \$7,000 (A) + \$5,400 (B) = \$18,750

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

Prob. 2-1B

1. and 2.

Cash			
(A)	18,000	(B)	2,500
(G)	12,000	(C)	3,150
		(D)	1,450
		(F)	2,400
		(H)	1,800
		(I)	375
		(L)	2,800
		(M)	200
		(N)	300
		(O)	550
Bal.	14,475		

Accounts Payable			
(H)	1,800	(E)	6,500
		(J)	2,500
		Bal.	7,200
Common Stock			
		(A)	18,000
Professional Fees			
		(G)	12,000
		(K)	15,650
		Bal.	27,650

Accounts Receivable	
(K)	15,650

Rent Expense	
(C)	3,150

Supplies	
(D)	1,450

Salary Expense	
(L)	2,800

Prepaid Insurance	
(F)	2,400

Blueprint Expense	
(J)	2,500

Automobiles	
(B)	19,500

Automobile Expense	
(O)	550

Equipment	
(E)	6,500

Miscellaneous Expense	
(I)	375
(M)	200
Bal.	575

Notes Payable			
(N)	300	(B)	17,000
		Bal.	16,700

Prob. 2-1B (Concluded)

3.

Jones Architects Unadjusted Trial Balance April 30, 2018		
	Debit Balances	Credit Balances
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Notes Payable		16,700
Accounts Payable		7,200
Common Stock		18,000
Professional Fees		27,650
Rent Expense	3,150	
Salary Expense	2,800	
Blueprint Expense	2,500	
Automobile Expense	550	
Miscellaneous Expense	575	
	69,550	69,550

4. Net income, \$18,075 ($\$27,650 - \$3,150 - \$2,800 - \$2,500 - \$550 - \575)

Prob. 2-2B

1. (A)	Cash	17,500	
	Common Stock		17,500
(B)	Supplies	2,300	
	Accounts Payable		2,300
(C)	Cash	13,300	
	Sales Commissions		13,300
(D)	Rent Expense	3,000	
	Cash		3,000
(E)	Accounts Payable	1,150	
	Cash		1,150
(F)	Dividends	1,800	
	Cash		1,800
(G)	Automobile Expense	1,500	
	Miscellaneous Expense	400	
	Cash		1,900
(H)	Office Salaries Expense	2,800	
	Cash		2,800
(I)	Supplies Expense	1,050	
	Supplies		1,050

Prob. 2–2B (Continued)

2.

Cash		Sales Commissions	
(A)	17,500	(D)	3,000
(C)	13,300	(E)	1,150
		(F)	1,800
		(G)	1,900
		(H)	2,800
Bal.	20,150		

Rent Expense	
(D)	3,000

Supplies	
(B)	2,300
Bal.	1,250

Office Salaries Expense	
(H)	2,800

Accounts Payable	
(E)	1,150
Bal.	1,150

Automobile Expense	
(G)	1,500

Common Stock	
(A)	17,500

Supplies Expense	
(I)	1,050

Dividends	
(F)	1,800

Miscellaneous Expense	
(G)	400

Prob. 2-2B (Concluded)

3.

Planet Realty Unadjusted Trial Balance August 31, 2018		
	Debit Balances	Credit Balances
Cash	20,150	
Supplies	1,250	
Accounts Payable		1,150
Common Stock		17,500
Dividends	1,800	
Sales Commissions		13,300
Rent Expense	3,000	
Office Salaries Expense	2,800	
Automobile Expense	1,500	
Supplies Expense	1,050	
Miscellaneous Expense	400	
	31,950	31,950

4. A. \$13,300
 B. \$8,750 (\$3,000 + \$2,800 + \$1,500 + \$1,050 + \$400)
 C. \$4,550 (\$13,300 – \$8,750)
5. \$2,750, which is the excess of net income of \$4,550 over the dividends of \$1,800.

Prob. 2-3B

1.

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Date	Description	Post. Ref.	Debit	Credit
2018				
Oct. 1	Cash	11	18,000	
	Common Stock	31		18,000
	4 Rent Expense	53	3,000	
	Cash	11		3,000
	10 Truck	18	23,750	
	Cash	11		3,750
	Notes Payable	21		20,000
	13 Equipment	16	10,500	
	Accounts Payable	22		10,500
	14 Supplies	13	2,100	
	Cash	11		2,100
	15 Prepaid Insurance	14	3,600	
	Cash	11		3,600
	15 Cash	11	8,950	
	Fees Earned	41		8,950

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Date	Description	Post. Ref.	Debit	Credit
2018				
Oct. 21	Accounts Payable	22	2,000	
	Cash	11		2,000
	24 Accounts Receivable	12	14,150	
	Fees Earned	41		14,150
	26 Truck Expense	55	700	
	Accounts Payable	22		700
	27 Utilities Expense	54	2,240	
	Cash	11		2,240

Prob. 2–3B (Continued)

Account: Supplies Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct. 14		1	2,100		2,100	

Account: Prepaid Insurance Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct. 15		1	3,600		3,600	

Account: Equipment Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct. 13		1	10,500		10,500	

Account: Truck Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct. 10		1	23,750		23,750	

Account: Notes Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct. 10		1		20,000		20,000

Account: Accounts Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct. 13		1		10,500		10,500
	21	2	2,000			8,500
	26	2		700		9,200

Prob. 2-3B (Continued)

Account: Common Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct.	1	1		18,000		18,000

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct.	31	2	3,500		3,500	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct.	15	1		8,950		8,950
	24	2		14,150		23,100

Account: Wages Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct.	30	2	4,800		4,800	

Account: Rent Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct.	4	1	3,000		3,000	

Account: Utilities Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Oct.	27	2	2,240		2,240	

Prob. 2–3B (Continued)

Account: Truck Expense Account No. 55

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2018							
Oct.	26		2	700		700	

Account: Miscellaneous Expense Account No. 59

Date		Item	Post. Ref.	Debit	Credit	Balance	
						Debit	Credit
2018							
Oct.	27		2	1,100		1,100	

Prob. 2–3B (Concluded)

3.

Pioneer Designs			
Unadjusted Trial Balance			
October 31, 2018			
	Account No.	Debit Balances	Credit Balances
Cash	11	8,460	
Accounts Receivable	12	6,550	
Supplies	13	2,100	
Prepaid Insurance	14	3,600	
Equipment	16	10,500	
Truck	18	23,750	
Notes Payable	21		20,000
Accounts Payable	22		9,200
Common Stock	31		18,000
Dividends	33	3,500	
Fees Earned	41		23,100
Wages Expense	51	4,800	
Rent Expense	53	3,000	
Utilities Expense	54	2,240	
Truck Expense	55	700	
Miscellaneous Expense	59	1,100	
		70,300	70,300

4. \$11,260 ($\$23,100 - \$4,800 - \$3,000 - \$2,240 - \$700 - \$1,100$)
5. Some supplies may have been used during October, but no supplies expense has been recorded.

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Pioneer Designs.

Note to Instructors: At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.

Prob. 2-4B

2. and 3.

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Date	Description	Post. Ref.	Debit	Credit
2018				
Aug. 1	Office Supplies	14	3,150	
	Accounts Payable	21		3,150
2	Rent Expense	52	7,200	
	Cash	11		7,200
3	Cash	11	83,900	
	Accounts Receivable	12		83,900
5	Prepaid Insurance	13	12,000	
	Cash	11		12,000
9	Accounts Payable	21	400	
	Office Supplies	14		400
17	Advertising Expense	53	8,000	
	Cash	11		8,000
23	Accounts Payable	21	13,750	
	Cash	11		13,750

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Date	Description	Post. Ref.	Debit	Credit
2018				
Aug. 29	Miscellaneous Expense	59	1,700	
	Cash	11		1,700
30	Automobile Expense	54	2,500	
	Cash	11		2,500
31	Cash	11	2,000	
	Salary and Commission Expense	51		2,000
31	Salary and Commission Expense	51	53,000	
	Cash	11		53,000

Prob. 2-4B (Continued)

Account: Prepaid Insurance Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓			12,600	
	5	18	12,000		24,600	

Account: Office Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓			2,800	
	1	18	3,150		5,950	
	9	18		400	5,550	

Account: Land Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	31	19	75,000		75,000	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓				21,000
	1	18		3,150		24,150
	9	18	400			23,750
	23	18	13,750			10,000

Account: Unearned Rent Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	31	19		5,000		5,000

Account: Notes Payable Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	31	19		67,500		67,500

Prob. 2-4B (Continued)

Account: Common Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓				17,500

Account: Retained Earnings Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓				70,000

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓			44,800	
	31	19	1,000		45,800	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓				591,500
	31	19		183,500		775,000

Account: Salary and Commission Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓			385,000	
	31	19		2,000	383,000	
	31	19	53,000		436,000	

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓			49,000	
	2	18	7,200		56,200	

Prob. 2-4B (Continued)

Account: Advertising Expense

Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓			32,200	
	17	18	8,000		40,200	

Account: Automobile Expense

Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓			15,750	
	30	19	2,500		18,250	

Account: Miscellaneous Expense

Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
Aug.	1 Balance	✓			5,250	
	29	19	1,700		6,950	

Prob. 2-4B (Concluded)

4.

Valley Realty Unadjusted Trial Balance August 31, 2018			
	Account No.	Debit Balances	Credit Balances
Cash	11	36,750	
Accounts Receivable	12	199,700	
Prepaid Insurance	13	24,600	
Office Supplies	14	5,550	
Land	16	75,000	
Accounts Payable	21		10,000
Unearned Rent	22		5,000
Notes Payable	23		67,500
Common Stock	31		17,500
Retained Earnings	32		70,000
Dividends	33	45,800	
Fees Earned	41		775,000
Salary and Commission Expense	51	436,000	
Rent Expense	52	56,200	
Advertising Expense	53	40,200	
Automobile Expense	54	18,250	
Miscellaneous Expense	59	6,950	
		945,000	945,000

5. (A) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(B) The correcting entry for \$9,000 (\$10,000 – \$1,000) would be as follows:

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Date		Description	Post. Ref.	Debit	Credit
2018					
Aug.	31	Dividends	33	9,000	
		Cash	11		9,000

(C) Slide

Prob. 2–5B

1.

Tech Support Services Unadjusted Trial Balance January 31, 2018		
	Debit Balances	Credit Balances
Cash	20,250	
Accounts Receivable	56,400	
Supplies	6,750	
Prepaid Insurance	9,600	
Equipment	162,000	
Notes Payable		54,000
Accounts Payable		16,650
Common Stock		18,000
Retained Earnings		89,850
Dividends	39,000	
Fees Earned		534,000
Wages Expense	306,000	
Rent Expense	62,550	
Advertising Expense	28,350	
Gas, Electricity, and Water Expense	17,000	
Miscellaneous Expense	4,600	
	712,500	712,500

Cash = \$25,550 – \$8,000 (A) + \$2,700 (B)

2. **No.** The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

CONTINUING PROBLEM

2. and 3.

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Date		Description	Post. Ref.	Debit	Credit
2018					
July	1	Cash	11	5,000	
		Common Stock	31		5,000
	1	Office Rent Expense	51	1,750	
		Cash	11		1,750
	1	Prepaid Insurance	15	2,700	
		Cash	11		2,700
	2	Cash	11	1,000	
		Accounts Receivable	12		1,000
	3	Cash	11	7,200	
		Unearned Revenue	23		7,200
	3	Accounts Payable	21	250	
		Cash	11		250
	4	Miscellaneous Expense	59	900	
		Cash	11		900
	5	Office Equipment	17	7,500	
		Accounts Payable	21		7,500
	8	Advertising Expense	55	200	
		Cash	11		200
	11	Cash	11	1,000	
		Fees Earned	41		1,000
	13	Equipment Rent Expense	52	700	
		Cash	11		700
	14	Wages Expense	50	1,200	
		Cash	11		1,200

Continuing Problem (Continued)

2. and 3.

JOURNAL

Date	Description	Post. Ref.	Debit	Credit
2018				
July 16	Cash	11	2,000	
	Fees Earned	41		2,000
	18 Supplies	14	850	
	Accounts Payable	21		850
	21 Music Expense	54	620	
	Cash	11		620
	22 Advertising Expense	55	800	
	Cash	11		800
	23 Cash	11	750	
	Accounts Receivable	12	1,750	
	Fees Earned	41		2,500
	27 Utilities Expense	53	915	
	Cash	11		915
	28 Wages Expense	50	1,200	
	Cash	11		1,200
	29 Miscellaneous Expense	59	540	
	Cash	11		540
	30 Cash	11	500	
	Accounts Receivable	12	1,000	
	Fees Earned	41		1,500
	31 Cash	11	3,000	
	Fees Earned	41		3,000
	31 Music Expense	54	1,400	
	Cash	11		1,400
	31 Dividends	33	1,250	
	Cash	11		1,250

Continuing Problem (Continued)

1. and 3.

Account: Cash

Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1	✓			3,920	
	1	1	5,000		8,920	
	1	1		1,750	7,170	
	1	1		2,700	4,470	
	2	1	1,000		5,470	
	3	1	7,200		12,670	
	3	1		250	12,420	
	4	1		900	11,520	
	8	1		200	11,320	
	11	1	1,000		12,320	
	13	1		700	11,620	
	14	1		1,200	10,420	
	16	2	2,000		12,420	
	21	2		620	11,800	
	22	2		800	11,000	
	23	2	750		11,750	
	27	2		915	10,835	
	28	2		1,200	9,635	
	29	2		540	9,095	
	30	2	500		9,595	
	31	2	3,000		12,595	
	31	2		1,400	11,195	
	31	2		1,250	9,945	

Account: Accounts Receivable

Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1	✓			1,000	
	2	1		1,000	—	—
	23	2	1,750		1,750	
	30	2	1,000		2,750	

Continuing Problem (Continued)

Account: Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1 Balance	✓			170	
	18	2	850		1,020	

Account: Prepaid Insurance Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1	1	2,700		2,700	

Account: Office Equipment Account No. 17

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	5	1	7,500		7,500	

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1 Balance	✓				250
	3	1	250		—	—
	5	1		7,500		7,500
	18	2		850		8,350

Account: Unearned Revenue Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	3	1		7,200		7,200

Account: Common Stock Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1 Balance	✓				4,000
	1	1		5,000		9,000

Continuing Problem (Continued)

Account: Dividends Account No. 33

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1 Balance	✓			500	
	31	2	1,250		1,750	

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1 Balance	✓				6,200
	11	1		1,000		7,200
	16	2		2,000		9,200
	23	2		2,500		11,700
	30	2		1,500		13,200
	31	2		3,000		16,200

Account: Wages Expense Account No. 50

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1 Balance	✓			400	
	14	1	1,200		1,600	
	28	2	1,200		2,800	

Account: Office Rent Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1 Balance	✓			800	
	1	1	1,750		2,550	

Account: Equipment Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1 Balance	✓			675	
	13	1	700		1,375	

Continuing Problem (Continued)

Account: Utilities Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1	Balance			300	
	27		915		1,215	

Account: Music Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1	Balance			1,590	
	21		620		2,210	
	31		1,400		3,610	

Account: Advertising Expense Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1	Balance			500	
	8		200		700	
	22		800		1,500	

Account: Supplies Expense Account No. 56

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1	Balance			180	

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2018						
July	1	Balance			415	
	4		900		1,315	
	29		540		1,855	

Continuing Problem (Concluded)

4.

PS Music			
Unadjusted Trial Balance			
July 31, 2018			
	Account No.	Debit Balances	Credit Balances
Cash	11	9,945	
Accounts Receivable	12	2,750	
Supplies	14	1,020	
Prepaid Insurance	15	2,700	
Office Equipment	17	7,500	
Accounts Payable	21		8,350
Unearned Revenue	23		7,200
Common Stock	31		9,000
Dividends	33	1,750	
Fees Earned	41		16,200
Wages Expense	50	2,800	
Office Rent Expense	51	2,550	
Equipment Rent Expense	52	1,375	
Utilities Expense	53	1,215	
Music Expense	54	3,610	
Advertising Expense	55	1,500	
Supplies Expense	56	180	
Miscellaneous Expense	59	1,855	
		40,750	40,750

ANALYSIS FOR DECISION MAKING

ADM-1

A.

Amazon.com, Inc.				
Operating Income Statements				
For the Years Ended December 31				
(in millions)				
	Year 2	Year 1	Increase (Decrease)	Percent
Product sales	\$70,080	\$60,903	\$ 9,177	15.1%
Service sales	18,908	13,549	5,359	39.6%
Total sales	\$88,988	\$74,452	\$14,536	19.5%
Cost of sales	\$62,752	\$54,181	8,571	15.8%
Fulfillment	10,766	8,585	2,181	25.4%
Marketing	4,332	3,133	1,199	38.3%
Technology and content	9,275	6,565	2,710	41.3%
General and administrative	1,552	1,129	423	37.5%
Other operating expense (income), net	133	114	19	16.7%
Total operating expenses	\$88,810	\$73,707	\$15,103	20.5%
Income from operations	\$ 178	\$ 745	\$ (567)	(76.1)%

B. The horizontal analysis shows that total sales increased by 19.5% between the two years, with a strong increase in service sales. Service sales are revenues earned from Amazon's Web hosting, Web design, and order fulfillment services provided for other businesses. This part of Amazon apparently has been growing rapidly. Total operating expenses have grown by 20.5% between the two years, indicating that expenses are growing faster than revenues. The expense growth appears to be occurring across all the major expense categories, with cost of sales (purchase price of merchandise resold) growing closest to the revenue growth. The net result is a significant decline in income from operations between the two years. Income from operations declined over 76% between the two years. Thus, Amazon demonstrates significant revenue growth, but is unable to translate that growth into operating income. This may be due to Amazon's strategy to promote revenue growth above profitability in this stage of its life cycle.

ADM-2

A.

Chipotle Mexican Grill, Inc. Balance Sheets December 31 (in thousands)				
	Year 2	Year 1	Increase (Decrease)	Percent
Assets				
Current assets				
Cash	\$ 419,465	\$ 323,203	\$ 96,262	29.8%
Accounts receivable, net	34,839	24,016	10,823	45.1%
Inventory	15,332	13,044	2,288	17.5%
Other current assets	70,251	51,073	19,178	37.6%
Investments	338,592	254,971	83,621	32.8%
Total current assets	\$ 878,479	\$ 666,307	\$212,172	31.8%
Property, plant, and equipment	1,106,984	963,238	143,746	14.9%
Long-term investments	496,106	313,863	182,243	58.1%
Other assets	64,716	65,872	(1,156)	(1.8)%
Total assets	\$2,546,285	\$2,009,280	\$537,005	26.7%
Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	\$ 69,613	\$ 59,022	\$ 10,591	17.9%
Other current liabilities	176,097	140,206	35,891	25.6%
Total current liabilities	\$ 245,710	\$ 199,228	\$ 46,482	23.3%
Long-term liabilities	288,206	271,764	16,442	6.1%
Total liabilities	\$ 533,916	\$ 470,992	\$ 62,924	13.4%
Stockholders' Equity				
Common stock	\$ 354	\$ 352	\$ 2	0.6%
Additional paid-in capital	1,038,932	919,840	119,092	12.9%
Retained earnings	1,722,271	1,276,897	445,374	34.9%
Treasury stock	(748,759)	(660,421)	88,338	13.4%
Other adjustments	(429)	1,620	(2,049)	(126.5)%
Total stockholders' equity	\$2,012,369	\$1,538,288	\$474,081	30.8%
Total liabilities and stockholders' equity	\$2,546,285	\$2,009,280	\$537,005	26.7%

B. Total assets increased by 26.7%. Part of this increase is explained by a 32% increase in current assets, of which current investments increased by 32.8% and cash increased by 29.8%. Long-term investments increased by 58%, while property, plant, and equipment increased by only 14.9%. It would seem Chipotle is able to create excess earnings that can be invested in short- and long-term investments after providing for growth.

ADM-2 (Concluded)

The total liabilities increased by 13.4%, with a 23.3% increase in current liabilities and 6.1% increase in long-term liabilities. These increases suggest that Chipotle is increasing debt modestly, but does not rely significantly upon debt to finance growth.

Total stockholders' equity increased by 30.8%, mostly explained by a 34.9% increase in retained earnings. Year 2 earnings explain the increase in retained earnings. The earnings provide sufficient resources to finance growth while providing additional cash for purchasing investments and treasury stock.

ADM-3

- A. 1. Revenue: $\$72,618 - \$71,279 = \$1,339$

$$\frac{\$1,339}{\$71,279} = 1.9\%$$

2. Operating expenses: $\$67,857 - \$66,320 = \$1,537$

$$\frac{\$1,537}{\$66,320} = 2.3\%$$

3. Operating income: $\$4,761 - \$4,959 = -\$198$

$$\frac{\$198}{\$4,959} = (4.0)\%$$

- B. The revenue increased by 1.9% between the two years; however, the operating expenses grew by 2.3% in the same period. Thus, expenses grew faster than revenues. As a result, operating income fell 4.0% between the two years.

ADM-4

- A. 1. Revenue: $\$485,651 - \$476,294 = \$9,357$

$$\frac{\$9,357}{\$476,294} = 2.0\%$$

2. Operating expenses: $\$458,504 - \$449,422 = \$9,082$

$$\frac{\$9,082}{\$449,422} = 2.0\%$$

3. Operating income: $\$27,147 - \$26,872 = \$275$

$$\frac{\$275}{\$26,872} = 1.0\%$$

ADM-4 (Concluded)

- B. The revenue and operating expenses both increased by 2.0% between the two years. The net result was operating income increased by 1.0% between the two years. Walmart was able to keep revenue and expense growth in line with each other.**
- C. Walmart was able to increase operating income between the two years because revenues and expenses grew at the same rate. Target had nearly the same revenue growth as Walmart (approximately 2%), but was not able keep expense growth in line with the revenue growth. Target's expenses grew by 2.3% while Walmart's were lower at only 2.0%. Thus, Target actually had a decline in operating income, while Walmart was able to increase operating income between the two years.**

TAKE IT FURTHER

TIF 2-1

1. **No. For financial accounting information to be useful, it must accurately reflect an entity's business transactions and economic activity. For this to happen, each account must reflect the increases or decreases that result from each transaction. If the trial balance does not balance, it means that a transaction has not been accurately recorded in the accounts. By knowingly submitting a trial balance that does not accurately reflect the transactions in the accounts, Buddy is demonstrating a failure of individual character and is acting unethically.**
2. **The users of the financial information who rely upon this information will be affected, as the information will not be a faithful representation of the entity's economic activity.**
3. **Buddy should have discussed the issue with his supervisor and asked for more time to find the error.**

TIF 2-2

A sample solution based on Nike Inc.'s Form 10-K for the fiscal year ended May 31, 2015, follows:

1. **\$21,600 million**
2. **\$8,893 (\$21,600 million total assets – \$12,707 million total liabilities)**
3. **\$12,707 million**
4. **3**
5. **2**
6. **The income statement reports a summary of revenues and expenses for a specific period of time, such as a month or a year. The balance sheet reports a list of assets, liabilities, and stockholders' equity as of a specific date, usually at the close of the last day of a month or a year.**

TIF 2–3

Note to Instructors: The purpose of this activity is to familiarize students with the job opportunities available in accounting, and allow them to demonstrate their ability to communicate the role of accounting in the context of a specific position that requires knowledge of accounting. An example of an advertisement for such a position is shown below. Individual student answers will vary depending on the specific scenario they select.

ABOUT THE COMPANY

Our client is looking to add a Financial Analyst. With a large and growing finance team, there is significant opportunity for growth and advancement within the department. The company boasts a team-oriented culture and provides its employees with the tools and training necessary to perform. Our client is looking to bring on more of a junior-level candidate who is looking to gain experience in his or her field of study. There will be hands-on training for the role that will evolve from a data analyst into a financial analyst and will be reporting to the director of finance. Our client is in the consumer goods industry and is an international company that has multiple opportunities for growth.

RESPONSIBILITIES OF THE FINANCIAL ANALYST

The Financial Analyst will:

- Conduct special studies to analyze complex financial actions and prepare recommendations for policy, procedure, control, or action.
- Analyze financial information to determine present and future financial performance.
- Evaluate complex profit plans, operating records, and financial statements.
- Direct preparation of studies, reports, analyses, and recommendations in areas such as budgets, forecasts, financial plans, statistical reports, and business forecasts.
- Coordinate with all levels of management to gather, analyze, summarize, and prepare recommendations regarding financial plans, trended future requirements, and operating forecasts.

Source: CareerBuilder.com