

2

T Accounts, Debits and Credits, Trial Balance, and Financial Statements

TEACHING TIPS:

New to this edition:

This edition will provide students an opportunity to learn QuickBooks Online while they learn Accounting. QuickBooks Online topics covered in the QuickBooks Online Appendix for this chapter include, (1) establishing company settings, (2) modifying the chart of accounts, and (3) adding new customers, vendors, and employees.

Suggested in-class problems:

- Exercise 2-2 (debit and credit, normal balance)
- Exercise 2-3 (transaction analysis)
- Exercise 2-6 (financial statements)
- Demonstration Problem

Suggested homework:

- Problem 2-4 (transaction analysis and financial statements)
- Problem 2-5 (financial statements)

Suggested additional activities:

Active Learning: Create a set of two note cards for each student. Label them “Debit” and “Credit.” Call out different account effects and ask students to raise the correct note card. For example, if you call out “Increase to Prepaid Insurance,” the students should raise the note card labeled “Debit.”

Game: Have students play the DR/CR memory game. Based upon the childhood game Memory, this game tests students’ memory of the rules of debits and credits. For more information, see the Instructor’s companion site.

QuickBooks Online Activities:

- Complete the QuickBooks Online Appendix, *Accounting with QuickBooks Online*, Chapter 2, Setting Up a New Company.

The QuickBooks Online Appendix is available on the Cengage Learning companion site at CengageBrain.com

LEARNING OBJECTIVES

1. Determine balances of T accounts.
2. Present the fundamental accounting equation using the T account form, and label the plus and minus sides.
3. Present the fundamental accounting equation using the T account form, and label the debit and credit sides.
4. Record directly in T accounts a group of business transactions involving changes in asset, liability, owner’s equity, revenue, and expense accounts for a service business.
5. Prepare a trial balance.
6. Prepare (a) an income statement, (b) a statement of owner’s equity, and (c) a balance sheet.
7. Recognize the effect of errors on account balances.

ACCOUNTING LANGUAGE

Balance sheet	Normal balance
Compound entry	PDF (portable document format)
Credit	Profit and loss statement
Debit	Report form
Financial position	Slide
Financial statement	Statement of owner's equity
Footings	T account form
Income statement	Transposition
Net income	Trial balance
Net loss	

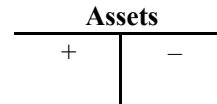
KEY POINTS

1. The T account form is compared with the column arrangement.
2. In the T account form of the fundamental accounting equation, plus (+) and minus (−) signs should be inserted on the correct side of each of the classifications of accounts.
3. The normal balance of an account is on the plus side.
4. The debit side of any T account is the left side.
5. The credit side of any T account is the right side.
6. In the recording of every transaction, the amount placed on the left, or debit, side of an account or accounts must equal the amount placed on the right, or credit, side of another account or other accounts.
7. A trial balance proves the equality of debits and credits.
8. The income statement shows the results of operations for a period of time.
9. The statement of owner's equity shows the activity in the Capital account for a period of time.
10. The balance sheet shows the position or condition of the business at a point in time.

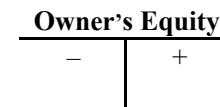
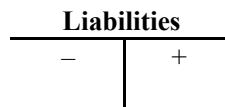
LECTURE OUTLINE

- I. The T account form: an account form shaped like the letter *T*.
 - A. Comparison of the column form with the T account form. Look at the illustration of the Cash account and the T account form in the text (page 50).
 - B. There are two sides to the T account form. One side is used for increases (+) in an account, and the other side is used for decreases in an account (-).
 - C. Footings: the totals of the amounts listed on both sides of a T account.
 - D. Balance: The balance of an account is determined after a group of transactions has been recorded over a period of time. Subtract the smaller footing on one side from the larger footing on the other side. Record the balance on the side having the larger footing. The normal balance is the increase (plus) side of any T account.
- II. Developing the full fundamental accounting equation in T account form. The T account for each of the classifications of accounts has an increase (+) and a decrease (-) side.
 - A. Assets, liabilities, owner's equity, revenue, and expenses.
 1. In Chapter 1, we introduced the equation

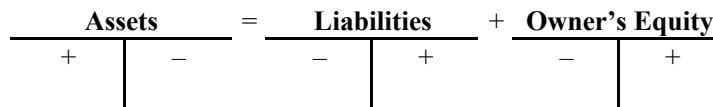
$$\text{Assets} = \text{Liabilities} + \text{Capital} - \text{Drawing} + \text{Revenue} - \text{Expenses}$$
 2. T account forms: In T account form, each classification needs to have a plus and a minus side.
 - a. Assets: As a starter, the plus side for assets is placed on the left, and the minus side is placed on the right.



- b. Liabilities and owner's equity: Because these classifications are placed on the opposite side of the equals sign, the plus and minus signs are also placed on the opposite sides (switched around).



3. Asset, liability, and owner's equity classifications together.



As shown later, we switch the plus and minus signs on the other side of the equals sign so that we can carry out double-entry accounting.

- B. Capital and Drawing: Show Capital and Drawing being placed under the umbrella of Owner's Equity.
 - C. Revenue and expenses: Show revenue and expenses being placed under the umbrella of owner's equity. Note that transactions involving revenue and expenses are usually increases in the accounts, which will be recorded on the plus sides.

- III. Recording transactions involving the account classifications using the concepts of debit and credit. Initially, stress that the left side of an account is called the debit side and the right side is called the credit side. Another word for *left* is *debit*, and another word for *right* is *credit*.
- A. Show the fundamental accounting equation with debits and credits.
 - B. Review the rules of debit and credit.
 - C. Abbreviations: Traditionally, accountants use *Dr.* and *Cr.*
 - D. Explain the steps for recording business transactions in T accounts.
 1. What accounts are involved?
 2. What are the classifications of the accounts involved?
 3. Are the accounts increased or decreased?
 4. Write the transaction as a debit to one account (or accounts) and a credit to another account (or accounts).
 5. Is the equation in balance?
- IV. The trial balance.
- A. Emphasize that the trial balance is used as a check to ensure that in recording transactions, the total of the amounts placed on the left, or debit, sides of T accounts equals the total of the amounts placed on the right, or credit, sides of T accounts.
 - B. Prepare a trial balance using account balances. Show how a trial balance is prepared from T accounts.
- V. Major financial statements.
- A. Emphasize that the income statement is the first major financial statement prepared and that it shows the results of operations for a period of time.
 - B. The statement of owner's equity is the second major financial statement prepared. It shows the activity in the Capital account for a period of time. The net income from the income statement is required to complete the statement of owner's equity.
 - C. The balance sheet is the third major financial statement prepared. It shows the condition of a business at a point in time. The ending capital amount is brought from the statement of owner's equity.
- VI. Errors exposed by the trial balance: Discuss the causes for errors listed in the text.
- A. The procedure for locating and correcting errors is to do everything in reverse.
 1. Transpositions: The digits of an amount have been transposed, or switched around.
 2. Slides: The decimal point in an amount has been misplaced.
 3. Divide by 2 the difference between two trial balance totals. See if the result matches a transaction amount.
 - B. Errors divisible by 9: If an error exists and the amount of difference between the totals of the trial balance is evenly divisible by 9, the error consists of either a transposition or a slide or both.

DEMONSTRATION PROBLEM

Dr. Christy Rene maintains an office for the practice of veterinary medicine. The account balances as of September 1 follow. All are normal balances.

Assets		Revenue	
Cash	\$ 2,459	Professional Fees	\$72,118
Accounts Receivable	18,120		
Supplies	840	Expenses	
Prepaid Insurance	980	Salary Expense	14,380
Automobile	20,650	Rent Expense	10,320
Furniture and Equipment	5,963	Automobile Expense	859
		Utilities Expense	1,213
Liabilities			
Accounts Payable	1,590		
Owner's Equity			
C. Rene, Capital	42,076		
C. Rene, Drawing	40,000		

The following transactions occurred during September of this year.

- Paid rent for the month, \$1,290.
- Paid \$1,800 for one year's coverage of liability insurance.
- Bought medical equipment on account from Bennett Surgical Supply, \$849, paying \$200 down with the balance due in 30 days.
- Billed patients for services performed, \$9,015.
- Paid employee salaries, \$1,797.
- Received and paid gas and electric bill, \$112.
- Received cash from patients previously billed, \$11,060.
- Received bill for gasoline for car, used only in the professional practice, from Garza Fuel Company, \$116.
- Paid creditors on account, \$1,590.
- Dr. Rene withdrew cash for personal use, \$5,000.

Instructions

- Correctly place plus and minus signs under each T account and label the sides of the T accounts as debit or credit in the fundamental accounting equation. Record the account balances as of September 1.
- Record the September transactions in the T accounts. Key each transaction to the letter that identifies the transaction.
- Foot the columns and determine the balance in the T accounts.
- Prepare a trial balance dated September 30, 20--.
- Prepare an income statement for two months ended September 30, 20--.
- Prepare a statement of owner's equity for two months ended September 30, 20--.
- Prepare a balance sheet as of September 30, 20--.

SOLUTION

Assets		Liabilities		Capital		Drawing		Revenue		Expenses	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash		Accounts Payable		C. Rene, Capital		C. Rene, Drawing		Professional Fees		Salary Expense	
Bal. 2,459	(a) 1,290	(i) 1,590	Bal. 1,590		Bal. 42,076				Bal. 72,118		
(g) 11,060	(b) 1,800	(c) 649	(h) 116		(i) 40,000				(d) 9,015		Bal. 14,380
13,519	(c) 200	(e) 1,797	(f) 765		Bal. 45,000				Bal. 81,133		(e) 1,797
	(f) 1,590										Bal. 16,177
	(f) 5,000										
Bal. 1,730	11,789										
Accounts Receivable		Supplies		Prepaid Insurance		Automobile		Utilities Expense			
Bal. 18,120	(g) 11,060		Bal. 840		Bal. 980		Bal. 859		Bal. 1,213		
(d) 9,015					(b) 1,800		(h) 116		(f) 112		
27,135					Bal. 2,780		Bal. 975		Bal. 1,325		
Bal. 16,075											
Accounts Receivable		Prepaid Insurance		Automobile		Furniture and Equipment					
Bal. 18,120	(g) 11,060		Bal. 20,650		Bal. 5,963						
(d) 9,015					(c) 849						
27,135					Bal. 6,812						
Bal. 16,075											

Dr. Christy Rene	
Trial Balance	
September 30, 20--	
ACCOUNT NAME	CREDIT
Cash	1,730
Accounts Receivable	16,075
Supplies	840
Prepaid Insurance	2,780
Automobile	20,650
Furniture and Equipment	6,812
Accounts Payable	765
C. Rene, Capital	42,076
C. Rene, Drawing	45,000
Professional Fees	81,133
Salary Expense	16,177
Rent Expense	11,610
Automobile Expense	975
Utilities Expense	1,325
	<u>123,974</u>
	<u>123,974</u>

Rent Expense	
Bal. 10,320	
(a) 1,290	
Bal. 11,610	

Automobile Expense	
Bal. 859	
(h) 116	
Bal. 975	

Utilities Expense	
Bal. 1,213	
(f) 112	
Bal. 1,325	

SOLUTION (concluded)

Dr. Christy Rene

Income Statement

For Two Months Ended September 30, 20--

<i>Revenue:</i>		
Professional Fees		\$81,133
<i>Expenses:</i>		
Salary Expense	\$16,177	
Rent Expense	11,610	
Automobile Expense	975	
Utilities Expense	1,325	
Total Expenses		30,087
Net Income		\$51,046

Dr. Christy Rene

Statement of Owner's Equity

For Two Months Ended September 30, 20--

C. Rene, Capital, September 1, 20--		\$42,076
Investments during August and September	\$ 0	
Net Income for August and September	51,046	
Subtotal	\$51,046	
Less Withdrawals for August and September	45,000	
Increase in Capital		6,046
C. Rene, Capital, September 30, 20--		\$48,122

Dr. Christy Rene

Balance Sheet

September 30, 20--

Assets		
Cash	\$ 1,730	
Accounts Receivable	16,075	
Supplies	840	
Prepaid Insurance	2,780	
Automobile	20,650	
Furniture and Equipment	6,812	
Total Assets		\$48,887
Liabilities		
Accounts Payable		\$ 765
Owner's Equity		
C. Rene, Capital		48,122
Total Liabilities and Owner's Equity		\$48,887

DISCUSSION QUESTIONS

Suggested Responses

1. A trial balance is a list of all account balances. It is used to prove that the total of all of the debit balances equals the total of all of the credit balances. A balance sheet shows only the balances of the asset, liability, and owner's capital accounts.
2. *Debit* means "increase" for asset accounts, the owner's drawing account, and expense accounts; however, *debit* means "decrease" for liability accounts, the owner's capital account, and revenue accounts. *Credit* means "decrease" for asset accounts, the owner's drawing account, and expense accounts; however, *credit* means "increase" for liability accounts, the owner's capital account, and revenue accounts. Debit refers to the left side of a T account, and credit refers to the right side.
3. Footings are the totals of each side of a T account.
4. The net income or net loss from the income statement flows to the statement of owner's equity, which produces the ending capital balance. The ending capital from the statement of owner's equity flows to the balance sheet owner's equity section.
5. A compound entry is a transaction that involves more than one debit and/or more than one credit.
6. The trial balance might not balance because half of a transaction was omitted or because the transaction debits do not equal its credits. The trial balance will not reveal that transactions were omitted or repeated or that an incorrect amount was used for a transaction.
7. *Slide*: \$890 for \$89. *Transposition*: \$327 for \$723. You can determine whether there has been a slide or a transposition by dividing the difference between the two balances by 9. If the difference is evenly divisible, the error is due to either a slide or a transposition.
8. Capital and drawing accounts are under the umbrella of owner's equity because if an owner invests capital, there is an increase in owner's equity and if an owner withdraws (drawing) capital, there is a decrease in owner's equity. Likewise, revenue and expense accounts are under the umbrella of owner's equity because if a business earns revenue, there is an increase in owner's equity, and if a business incurs expenses, there is a decrease in owner's equity.

SOLUTIONS TO EXERCISES AND PROBLEMS

Exercise 2-1

Assets		=	Liabilities		+	Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash		Accounts Payable		J. Davie, Capital		J. Davie, Drawing		Income from Repairs		Salary Expense						
+	-	-	+	-	+	+	-	-	+	+	+	-				
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit					
Accounts Receivable		Rent Expense														
+	-	+	-													
Debit	Credit	Debit	Credit													
Supplies		Utilities Expense														
+	-	+	-													
Debit	Credit	Debit	Credit													
Equipment		Miscellaneous Expense														
+	-	+	-													
Debit	Credit	Debit	Credit													

Exercise 2-2

ACCOUNT	CLASSIFICATION	INCREASE SIDE	NORMAL BALANCE SIDE	DECREASE SIDE
0. Cash	A	Debit	Debit	Credit
1. Salary Expense	E	Debit	Debit	Credit
2. Office Equipment	A	Debit	Debit	Credit
3. J. Samuels, Capital	OE	Credit	Credit	Debit
4. Service Revenue	R	Credit	Credit	Debit
5. J. Samuels, Drawing	OE	Debit	Debit	Credit
6. Accounts Receivable	A	Debit	Debit	Credit
7. Insurance Expense	E	Debit	Debit	Credit
8. Fees Earned	R	Credit	Credit	Debit
9. Accounts Payable	L	Credit	Credit	Debit

Exercise 2-3

a.

Utilities Expense		Cash	
+	-	+	-
Debit	Credit	Debit	Credit
175			175

f.

Accounts Receivable		Income from Tours	
+	-	-	+
Debit	Credit	Debit	Credit
1,375			1,375

b.

Supplies		Accounts Payable	
+	-	-	+
Debit	Credit	Debit	Credit
135			135

g.

Gas Expense		Cash	
+	-	+	-
Debit	Credit	Debit	Credit
130			130

c.

Prepaid Insurance		Cash	
+	-	+	-
Debit	Credit	Debit	Credit
580			580

h.

Cash		Accounts Receivable	
+	-	+	-
Debit	Credit	Debit	Credit
1,458			1,458

d.

Accounts Payable		Cash	
-	+	+	-
Debit	Credit	Debit	Credit
	65		65

i.

R. Dalberg, Drawing		Cash	
+	-	+	-
Debit	Credit	Debit	Credit
700			700

e.

Utilities Expense		Cash	
+	-	+	-
Debit	Credit	Debit	Credit
186			186

Exercise 2-4

- a. The owner invested \$5,000 cash in the business.
- b. Paid the rent for the current month, \$600.
- c. Received and paid the advertising bill, \$100.
- d. Bought supplies on account, \$720.
- e. Received and paid the bill for a miscellaneous expense, \$50.
- f. The owner invested personal equipment with a fair market value of \$4,000 in the business.
- g. Bought equipment for \$1,500, paying \$500 in cash and placing the balance on account.
- h. Sold services on account, \$1,015.
- i. Received and paid the utility bill, \$250.
- j. The owner withdrew \$750 in cash for personal use.
- k. Sold services for cash, \$2,025.

Exercise 2-5

Speedy Sewing Services

Trial Balance

December 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	3,200	
Accounts Receivable	10,700	
Supplies	1,800	
Prepaid Insurance	1,300	
Equipment	24,000	
Accounts Payable		9,500
T. Nguyen, Capital		22,800
T. Nguyen, Drawing	1,900	
Income from Services		36,000
Wages Expense	17,500	
Rent Expense	4,500	
Utilities Expense	3,400	
	68,300	68,300

Exercise 2-6

<i>Cash</i>	
(a) 8,200	(b) 350
(c) 8,400	(d) 1,600
(i) 7,580	(f) 175
24,180	(g) 3,400
	(h) 2,200
	7,725
Bal. 16,455	

<i>Accounts Payable</i>	
	(k) 2,800
	(j) 82
Bal. 2,882	

<i>Salary Expense</i>	
	(g) 3,400
Bal. 3,400	

<i>Rent Expense</i>	
	(d) 1,600
Bal. 1,600	

<i>Accounts Receivable</i>	
(e) 2,600	
Bal. 2,600	

<i>R. Landish, Capital</i>	
	(a) 8,200
Bal. 8,200	

<i>Utilities Expense</i>	
	(f) 175
Bal. 175	

<i>Supplies</i>	
(j) 82	
Bal. 82	

<i>R. Landish, Drawing</i>	
(h) 2,200	
Bal. 2,200	

<i>Office Furniture</i>	
(b) 350	
Bal. 350	

<i>Modeling Fees</i>	
	(c) 8,400
	(e) 2,600
	(i) 7,580
Bal. 18,580	

<i>Office Equipment</i>	
(k) 2,800	
Bal. 2,800	

Landish Modeling Agency

Trial Balance

March 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	16,455	
Accounts Receivable	2,600	
Supplies	82	
Office Furniture	350	
Office Equipment	2,800	
Accounts Payable		2,882
R. Landish, Capital		8,200
R. Landish, Drawing	2,200	
Modeling Fees		18,580
Salary Expense	3,400	
Rent Expense	1,600	
Utilities Expense	175	
	29,662	29,662

Exercise 2-6 (concluded)

Landish Modeling Agency
Income Statement
 For Month Ended March 31, 20--

Revenue:		
Modeling Fees		\$18,580
Expenses:		
Salary Expense	\$3,400	
Rent Expense	1,600	
Utilities Expense	175	
Total Expenses		5,175
Net Income		\$13,405

Landish Modeling Agency
Statement of Owner's Equity
 For Month Ended March 31, 20--

R. Landish, Capital, March 1, 20--		\$ 0
Investment during March	\$ 8,200	
Net Income for March	13,405	
Subtotal	\$21,605	
Less Withdrawals for March	2,200	
Increase in Capital		19,405
R. Landish, Capital, March 31, 20--		\$19,405

Landish Modeling Agency
Balance Sheet
 March 31, 20--

Assets		
Cash	\$16,455	
Accounts Receivable	2,600	
Supplies	82	
Office Furniture	350	
Office Equipment	2,800	
Total Assets		\$22,287
Liabilities		
Accounts Payable		\$ 2,882
Owner's Equity		
R. Landish, Capital		19,405
Total Liabilities and Owner's Equity		\$22,287

Exercise 2-7

DESCRIPTION	AMOUNT OF DIFFERENCE	DEBIT OR CREDIT COLUMN OF TRIAL BALANCE UNDERSTATED OR OVERSTATED
0. <i>Example: A \$149 debit to Accounts Receivable was not recorded.</i>	\$149	<i>Debit column understated</i>
a. A \$42 debit to Supplies was recorded as \$420.	378	Debit column overstated
b. A \$155 debit to Accounts Receivable was recorded twice.	155	Debit column overstated
c. A \$179 debit to Prepaid Insurance was not recorded.	179	Debit column understated
d. A \$65 credit to Cash was not recorded.	65	Debit column overstated
e. A \$190 debit to Equipment was recorded twice.	190	Debit column overstated
f. A \$57 debit to Utilities Expense was recorded as \$75.	18	Debit column overstated

Exercise 2-8

- a. **Equal totals in the trial balance because \$38 was debited to Office Equipment and \$38 was credited to Cash. Because the correct amount is \$380, Office Equipment is understated by \$342 and Cash is overstated by \$342.**
- b. **Equal totals in the trial balance because \$280 was debited to Accounts Receivable and \$280 was credited to Cash. Because the \$280 should have been debited to Accounts Payable, not Accounts Receivable, the error caused Accounts Receivable to be overstated by \$280 and Accounts Payable to be overstated by \$280.**
- c. **Equal totals in the trial balance because \$245 was debited to Equipment and \$245 was credited to Cash. Because the \$245 should have been debited to Supplies, not Equipment, the error caused Equipment to be overstated by \$245 and Supplies to be understated by \$245.**
- d. **Unequal totals in the trial balance because \$76 was debited correctly to Accounts Payable but the credit to Cash was transposed as \$67. The error caused Cash to be overstated by \$9.**

Problem 2-1A

Assets		=		Liabilities		+		Capital		-		Drawing		+		Revenue		-		Expenses			
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit		
<i>Cash</i>				<i>Accounts Payable</i>				<i>G. Elden, Capital</i>						<i>Income from Services</i>				<i>Advertising Expense</i>					
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit		
(a) 35,000	(b) 8,150	(g) 200	(c) 105	(a) 35,000				(h) 800		(c) 105		(h) 800		(c) 105		Bal. 800		Bal. 105		Bal. 800		Bal. 105	
(h) 800	(g) 200		(d) 790	(f) 1,200				Bal. 36,200				Bal. 800		Bal. 105		Bal. 800		Bal. 105		Bal. 800		Bal. 105	
35,800	8,350		(e) 185	Bal. 36,200								Bal. 800		Bal. 105		Bal. 800		Bal. 105		Bal. 800		Bal. 105	
Bal. 27,450			1,080	Bal. 880								Bal. 800		Bal. 105		Bal. 800		Bal. 105		Bal. 800		Bal. 105	
<i>Exercise Equipment</i>				<i>Store Equipment</i>				<i>Office Equipment</i>															
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit		
(b) 8,150				(d) 790				(e) 185				(d) 790		(e) 185		Bal. 790		Bal. 790		Bal. 185		Bal. 185	
(f) 1,200				Bal. 790				Bal. 185				Bal. 790		Bal. 185		Bal. 790		Bal. 790		Bal. 185		Bal. 185	
Bal. 9,350				Bal. 790				Bal. 185				Bal. 790		Bal. 185		Bal. 790		Bal. 790		Bal. 185		Bal. 185	

Problem 2-2A

Assets		Liabilities		Capital		Drawing		Revenue		Expenses	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash											
Debit	Credit	Accounts Payable		B. Kelso, Capital		B. Kelso, Drawing		Income from Services		Wages Expense	
(a) 45,000	(b) 1,800	(j) 285	(d) 1,000		(a) 45,000			(h) 1,245	(l) 925		
(h) 1,245	(c) 790		(e) 1,350		(f) 600	(n) 850		(k) 1,450	(l) 925		
(k) 1,450	(d) 1,700		(g) 365		Bal. 45,600	Bal. 850		Bal. 2,695	Bal. 925		
47,695	(i) 345		(o) 115								
	(j) 285		2,830								
	(l) 925		Bal. 2,545								
	(m) 75										
	(n) 850										
Bal. 40,925	6,770										
Supplies											
Debit	Credit										
(o) 115											
Bal. 115											
Computer Software											
Debit	Credit										
(f) 600											
Bal. 600											
Office Equipment											
Debit	Credit										
(c) 790											
(d) 2,700											
Bal. 3,490											
Neon Sign											
Debit	Credit										
(e) 1,350											
Bal. 1,350											
Rent Expense											
Debit	Credit										
(b) 1,800											
Bal. 1,800											
Advertising Expense											
Debit	Credit										
(g) 365											
Bal. 365											
Utilities Expense											
Debit	Credit										
(i) 345											
Bal. 345											
Miscellaneous Expense											
Debit	Credit										
(m) 75											
Bal. 75											

Problem 2-2A (concluded)

Computer Wizards

Trial Balance

November 30, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	40,925	
Supplies	115	
Computer Software	600	
Office Equipment	3,490	
Neon Sign	1,350	
Accounts Payable		2,545
B. Kelso, Capital		45,600
B. Kelso, Drawing	850	
Income from Services		2,695
Wages Expense	925	
Rent Expense	1,800	
Advertising Expense	365	
Utilities Expense	345	
Miscellaneous Expense	75	
	50,840	50,840

Problem 2-3A (continued)

Myers Clinic

Trial Balance

June 30, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	39,545	
Accounts Receivable	599	
Office Equipment	970	
Office Furniture	1,330	
Accounts Payable		1,800
S. Myers, Capital		40,000
S. Myers, Drawing	800	
Professional Fees		4,059
Salary Expense	880	
Rent Expense	940	
Utilities Expense	345	
Miscellaneous Expense	450	
	45,859	45,859

Myers Clinic

Income Statement

For Month Ended June 30, 20--

Revenue:		
Professional Fees		\$ 4,059
Expenses:		
Salary Expense	\$880	
Rent Expense	940	
Utilities Expense	345	
Miscellaneous Expense	450	
Total Expenses		2,615
Net Income		\$ 1,444

Myers Clinic

Statement of Owner's Equity

For Month Ended June 30, 20--

S. Myers, Capital, June 1, 20--		\$ 0
Investments during June	\$40,000	
Net Income for June	1,444	
Subtotal	\$41,444	
Less Withdrawals for June	800	
Increase in Capital		40,644
S. Myers, Capital, June 30, 20--		\$40,644

Problem 2-3A (concluded)

Myers Clinic
Balance Sheet
June 30, 20--

Assets			
Cash		\$39,545	
Accounts Receivable		599	
Office Equipment		970	
Office Furniture		1,330	
Total Assets			\$42,444
Liabilities			
Accounts Payable			\$ 1,800
Owner's Equity			
S. Myers, Capital			40,644
Total Liabilities and Owner's Equity			\$42,444

Problem 2-4A		=		+		-		+		-		+		-	
Assets		=		+		-		+		-		+		-	
Debit	Credit			Liabilities		Capital		Drawing		Revenue		Expenses			
<i>Cash</i>				<i>Accounts Payable</i>		<i>B. Bangle, Capital</i>		<i>B. Bangle, Drawing</i>		<i>Laundry Revenue</i>		<i>Wages Expense</i>			
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(a) 35,000	(b) 1,870	(h) 1,800	(c) 225	(a) 35,000		(l) 800		(f) 1,925		(k) 940		(d) 875		(i) 285	
(f) 1,925	(d) 875	(m) 225	(e) 8,900	Bal. 35,000		Bal. 800		(j) 1,835		Bal. 940		Bal. 875		Bal. 285	
(j) 1,835	(e) 3,600	2,025	9,125	Bal. 35,000		Bal. 7,100		Bal. 3,760							
38,760	(g) 1,560		Bal. 7,100												
	(h) 1,800														
	(i) 285														
	(k) 940														
	(l) 800														
	(m) 225														
	(n) 280														
Bal. 26,525	12,235														
<i>Supplies</i>				<i>Prepaid Insurance</i>		<i>Equipment</i>		<i>Furniture and Fixtures</i>		<i>Revenue</i>		<i>Expenses</i>			
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(c) 225		(g) 1,560		(e) 12,500		(b) 1,870		(n) 280		Bal. 1,925		(k) 940		(i) 285	
Bal. 225		Bal. 1,560		Bal. 12,500		Bal. 1,870		Bal. 280		Bal. 3,760		Bal. 940		Bal. 285	

Problem 2-4A (continued)

Self-Wash Laundry

Trial Balance

May 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	26,525	
Supplies	225	
Prepaid Insurance	1,560	
Equipment	12,500	
Furniture and Fixtures	1,870	
Accounts Payable		7,100
B. Bangle, Capital		35,000
B. Bangle, Drawing	800	
Laundry Revenue		3,760
Wages Expense	940	
Rent Expense	875	
Utilities Expense	285	
Miscellaneous Expense	280	
	45,860	45,860

Self-Wash Laundry

Income Statement

For Month Ended May 31, 20--

Revenue:		
Laundry Revenue		\$3,760
Expenses:		
Wages Expense	\$940	
Rent Expense	875	
Utilities Expense	285	
Miscellaneous Expense	280	
Total Expenses		2,380
Net Income		\$1,380

Problem 2-4A (concluded)

Self-Wash Laundry		
Statement of Owner's Equity		
For Month Ended May 31, 20--		
B. Bangle, Capital, May 1, 20--		\$ 0
Investments during May	\$35,000	
Plus Net Income for May	1,380	
Subtotal	\$36,380	
Withdrawals for May	800	
Increase in Capital		35,580
B. Bangle, Capital, May 31, 20--		\$35,580

Self-Wash Laundry		
Balance Sheet		
May 31, 20--		
Assets		
Cash	\$26,525	
Supplies	225	
Prepaid Insurance	1,560	
Equipment	12,500	
Furniture and Fixtures	1,870	
Total Assets		\$42,680
Liabilities		
Accounts Payable		\$ 7,100
Owner's Equity		
B. Bangle, Capital		35,580
Total Liabilities and Owner's Equity		\$42,680

Problem 2-5A

- (a) For Month Ended October 31, 20--
- (b) 5,250
- (c) Daniels' Custom Haircuts
- (d) For Month Ended October 31, 20--
- (e) 10,000
- (f) 19,750
- (g) 25,750
- (h) October 31, 20--
- (i) 36,400
- (j) 25,750
- (k) 36,400

Problem 2-1B

Assets		=		Liabilities		+		Capital		-		Drawing		+		Revenue		-		Expenses			
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit		
<i>Cash</i>				<i>Accounts Payable</i>				<i>H. Rose, Capital</i>						<i>Income from Services</i>				<i>Advertising Expense</i>					
(a) 25,000	Credit 1,525	(f) 750	Credit 325	Debit (a) 25,000				Debit (h) 250	Credit (c) 325					Debit (c) 325									
(h) 250	(e) 225		(d) 750	(g) 800				Debit (g) 800	Credit (h) 250					Bal. 250				Bal. 325					
25,250	(f) 750	(e) 400	1,475	Bal. 25,800				Bal. 25,800	Bal. 250					Bal. 325				Bal. 325					
Bal. 22,750	2,500	Bal. 725																					
<i>Shop Equipment</i>				<i>Store Equipment</i>				<i>Office Equipment</i>															
(b) 1,525		(d) 750		(e) 625				(e) 625															
(g) 800		Bal. 750		Bal. 625				Bal. 625															
Bal. 2,325		Bal. 750		Bal. 625				Bal. 625															

Problem 2-2B

Assets		=		Liabilities		+		Capital		+		Drawing		-		Revenue		-		Expenses			
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit		
Cash																							
Debit	Credit			Accounts Payable				J. Carrie, Capital				J. Carrie, Drawing				Income from Services				Wages Expense			
(a) 30,000	(b) 1,850	(j) 245	(c) 290	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	(l) 930	(e) 1,575	Debit	Credit	(l) 930	(k) 3,474		
(e) 1,575	(c) 350			(f) 900	(m) 1,000	(n) 800			(a) 30,000			(o) 800			(d) 950	(l) 380	(k) 3,474	(g) 445	(o) 75	(l) 930	(l) 930		
(k) 3,474	(d) 950			(g) 445	(h) 460	Bal. 800			(m) 1,000			Bal. 800			(d) 950	(l) 380	Bal. 5,049	(g) 445	(o) 75	(l) 930	(l) 930		
35,049	(f) 435			(h) 460	2,095	(o) 75			Bal. 31,000			Bal. 800			(d) 950	(l) 380	Bal. 5,049	(g) 445	(o) 75	(l) 930	(l) 930		
Bal. 29,034	6,015			Bal. 1,850											(d) 950	(l) 380	Bal. 5,049	(g) 445	(o) 75	(l) 930	(l) 930		
Supplies																							
				Computer Software				Office Equipment				Neon Sign											
Debit	Credit			Debit	Credit			Debit	Credit			Debit	Credit										
(h) 460					(c) 640			(b) 1,850			(f) 1,335												
Bal. 460					Bal. 640			Bal. 2,850			Bal. 1,335												
Rent Expense																							
Advertising Expense																							
Utilities Expense																							
Miscellaneous Expense																							

Problem 2-2B (concluded)

Carrie's Photo Tours

Trial Balance

June 30, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	29,034	
Supplies	460	
Computer Software	640	
Office Equipment	2,850	
Neon Sign	1,335	
Accounts Payable		1,850
J. Carrie, Capital		31,000
J. Carrie, Drawing	800	
Income from Services		5,049
Wages Expense	930	
Rent Expense	950	
Advertising Expense	445	
Utilities Expense	380	
Miscellaneous Expense	75	
	37,899	37,899

Problem 2-3B

Assets		=		Liabilities		+		Capital		+		Drawing		+		Revenue		-		Expenses	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
<i>Cash</i>																					
Debit	Credit			Debit	Credit					Debit	Credit										
(a) 35,000	(c) 835	(j) 250	(b) 560	(a) 35,000		(n) 1,200				(f) 2,255										(m) 960	
(l) 1,940	(d) 250		(d) 400	Bal. 35,000		Bal. 1,200				(l) 1,950										Bal. 960	
(l) 1,950	(e) 185		Bal. 710	Bal. 35,000		Bal. 1,200				Bal. 4,205											
38,890	(g) 445																				
	(h) 335																				
	(i) 250																				
	(k) 1,245																				
	(m) 960																				
	(n) 1,200																				
Bal. 33,185	(n) 5,705																				
<i>Accounts Receivable</i>																					
Debit	Credit																				
(f) 2,255	(l) 1,940																				
Bal. 315																					
<i>Office Equipment</i>																					
Debit	Credit																				
(b) 560																					
(d) 650																					
Bal. 1,210																					
<i>Office Furniture</i>																					
Debit	Credit																				
(c) 835																					
Bal. 835																					
<i>Accounts Payable</i>																					
Debit	Credit																				
	(b) 560																				
	(d) 400																				
	Bal. 710																				
<i>Professional Fees</i>																					
Debit	Credit																				
	(f) 2,255																				
	(l) 1,950																				
	Bal. 4,205																				
<i>Salary Expense</i>																					
Debit	Credit																				
(m) 960																					
Bal. 960																					
<i>Rent Expense</i>																					
Debit	Credit																				
(k) 1,245																					
Bal. 1,245																					
<i>Utilities Expense</i>																					
Debit	Credit																				
(e) 185																					
(h) 335																					
Bal. 520																					
<i>Miscellaneous Expense</i>																					
Debit	Credit																				
(g) 445																					
Bal. 445																					

Problem 2-3B (continued)

Johnston's Clinic

Trial Balance

July 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	33,185	
Accounts Receivable	315	
Office Equipment	1,210	
Office Furniture	835	
Accounts Payable		710
D. Johnston, Capital		35,000
D. Johnston, Drawing	1,200	
Professional Fees		4,205
Salary Expense	960	
Rent Expense	1,245	
Utilities Expense	520	
Miscellaneous Expense	445	
	39,915	39,915

Johnston's Clinic

Income Statement

For Month Ended July 31, 20--

Revenue:		
Professional Fees		\$4,205
Expenses:		
Salary Expense	\$ 960	
Rent Expense	1,245	
Utilities Expense	520	
Miscellaneous Expense	445	
Total Expenses		3,170
Net Income		\$1,035

Johnston's Clinic

Statement of Owner's Equity

For Month Ended July 31, 20--

D. Johnston, Capital, July 1, 20--		\$ 0
Investments during July	\$35,000	
Net Income for July	1,035	
Subtotal	\$36,035	
Less Withdrawals for July	1,200	
Increase in Capital		34,835
D. Johnston, Capital, July 31, 20--		\$34,835

Problem 2-3B (concluded)

Johnston's Clinic

Balance Sheet

July 31, 20--

Assets			
Cash		\$33,185	
Accounts Receivable		315	
Office Equipment		1,210	
Office Furniture		835	
Total Assets			\$35,545
Liabilities			
Accounts Payable			\$ 710
Owner's Equity			
D. Johnston, Capital			34,835
Total Liabilities and Owner's Equity			\$35,545

Assets		Liabilities		Capital		Drawing		Revenue		Expenses	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Problem 2-4B											
Cash		Accounts Payable		K. Resser, Capital		K. Resser, Drawing		Business Services Revenue		Wages Expense	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(a) 25,000	(b) 725	(h) 700	(d) 11,700	(a) 25,000		(n) 700		(f) 1,742		(m) 1,200	
(f) 1,742	(c) 1,750	(j) 315	(e) 535	Bal. 25,000		Bal. 700		(k) 820		Bal. 1,200	
(k) 820	(d) 4,000										
27,562	(g) 1,375	1,015	12,235	Bal. 25,000							
	(h) 700		Bal. 11,220								
	(i) 438										
	(j) 315										
	(l) 75										
	(m) 1,200										
Bal. 16,284	(n) 700										
	11,278										
Supplies											
Debit	Credit										
(e) 535											
Bal. 535											
Prepaid Insurance											
Debit	Credit										
(g) 1,375											
Bal. 1,375											
Equipment											
Debit	Credit										
(d) 15,700											
Bal. 15,700											
Furniture and Fixtures											
Debit	Credit										
(b) 725											
Bal. 725											
Rent Expense											
Debit	Credit										
(c) 1,750											
Bal. 1,750											
Utilities Expense											
Debit	Credit										
(l) 438											
Bal. 438											
Miscellaneous Expense											
Debit	Credit										
(l) 75											
Bal. 75											

Problem 2-4B (continued)

Resser's Business Services

Trial Balance

July 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	16,284	
Supplies	535	
Prepaid Insurance	1,375	
Equipment	15,700	
Furniture and Fixtures	725	
Accounts Payable		11,220
K. Resser, Capital		25,000
K. Resser, Drawing	700	
Business Services Revenue		2,562
Wages Expense	1,200	
Rent Expense	1,750	
Utilities Expense	438	
Miscellaneous Expense	75	
	38,782	38,782

Resser's Business Services

Income Statement

For Month Ended July 31, 20--

Revenue:		
Business Services Revenue		\$2,562
Expenses:		
Wages Expense	\$1,200	
Rent Expense	1,750	
Utilities Expense	438	
Miscellaneous Expense	75	
Total Expenses		3,463
Net Loss		\$ (901)

Problem 2-4B (concluded)

Resser's Business Services		
Statement of Owner's Equity		
For Month Ended July 31, 20--		
K. Resser, Capital, July 1, 20--		\$ 0
Investment during July	\$25,000	
Less Net Loss for July	901	
Subtotal	\$24,099	
Less Withdrawals for July	700	
Increase in Capital		23,399
K. Resser, Capital, July 31, 20--		\$23,399

Resser's Business Services		
Balance Sheet		
July 31, 20--		
Assets		
Cash	\$16,284	
Supplies	535	
Prepaid Insurance	1,375	
Equipment	15,700	
Furniture and Fixtures	725	
Total Assets		\$34,619
Liabilities		
Accounts Payable		\$11,220
Owner's Equity		
K. Resser, Capital		23,399
Total Liabilities and Owner's Equity		\$34,619

Problem 2-5B

- (a) For Month Ended April 30, 20--
- (b) 2,440
- (c) Baker Custom Catering
- (d) For Month Ended April 30, 20--
- (e) 5,000
- (f) 9,560
- (g) 13,560
- (h) April 30, 20--
- (i) 14,800
- (j) 13,560
- (k) 14,800

SOLUTIONS TO ACTIVITIES**WHY DOES IT MATTER?****Suggested Responses**

0. Owner invested cash in the business. Accounts involved: Cash and Capital. Cash is debited, and Capital is credited.
1. Bought rock-climbing equipment on account. Accounts involved: Equipment and Accounts Payable. Equipment is debited, and Accounts Payable is credited.
2. Received and paid the electric bill. Accounts involved: Utilities Expense and Cash. Utilities Expense is debited, and Cash is credited.
3. Paid the salary of employees. Accounts involved: Salary Expense and Cash. Salary Expense is debited, and Cash is credited.
4. Received cash from customers for rock-climbing services. Accounts involved: Cash and Rock-Climbing Fees. Cash is debited, and Rock-Climbing Fees is credited.
5. Owner withdrew cash for personal use. Accounts involved: Drawing and Cash. Drawing is debited, and Cash is credited.

WHAT WOULD YOU SAY?**Suggested Response**

First, debits must equal credits in a transaction. Second, it is possible to have more than one debit or credit on one side of the equation as long as they offset each other or there are debits or credits on the other side to offset them. In this case, on the left side of the equals sign, there is a \$15,000 debit to Equipment (which is a plus) and a \$5,000 credit to Cash (which is a minus); on the right side of the equals sign, there is a \$10,000 credit to Accounts Payable (which is a plus). Thus, a \$10,000 net increase to the left side of the equation is offset by a \$10,000 increase on the right side of the equation.

$$+ 15,000 - 5,000 = + 10,000$$

WHAT WOULD YOU DO?**Suggested Response**

The bookkeeper has acted irresponsibly. She should have requested assistance from her supervisor and should not have removed the materials from the business. To further complicate her situation, she has violated the privacy of the business's financial materials by having her uncle attempt to assist her. She could be fired for her unethical behavior. She should make a note of the difference as well as her efforts in attempting to find the errors. Then, she should take this information to her supervisor. Financial materials should never be removed from the business and shared with someone outside the circle of the people who have the right to see them. Additionally, a bookkeeper should never report information that is not correct. This is also unethical behavior and could result in termination.

