

## Chapter 2

### Recording Business Transactions

#### Questions

1. The basic shortcut device of accounting is the *T-account*. It resembles the letter T, and its left side is called the debit side and its right side the credit side.
2. The statement is false because debit means left and credit means right. Debits and credits are used to record increases and decreases in accounts, so debits can be increases or decreases depending on the type of account involved and likewise for credits.
3. Examples:
  - a. A *debit* to an asset account indicates an increase in the asset.
  - b. To record a decrease in a liability, the accountant should record a *debit*.
  - c. *Debit* all asset accounts to record increases in them.
  - d. The accountant should *debit* Cash to record a receipt of cash.
  - e. The *debit* side of an account is the left side.
  - f. It is customary to record the *debit* side of a journal entry before recording the credit side of the entry.
4. The three basic types of accounts are ASSETS, LIABILITIES, and OWNER'S EQUITY. Two additional types of accounts are REVENUES and EXPENSES. They are part of owner's equity; revenues increase owner's equity and expenses decrease owner's equity.
5. The dual effects of an owner's investment in her business are (1) an increase in the entity's cash and (2) an increase in the owner's equity.
6. *Business Transaction* → *Entry in Journal* → *Posting to Ledger* → *Trial Balance*  
*Creates Source Document*
7. The normal balance of an account is the side of the account—debit or credit—that records increases. Also, an account's normal balance is the side of the account that usually has the account's balance.
8. 

<i>Account Type</i>	<i>Normal Balance</i>
Assets	<u>Debit</u>
Liabilities	<u>Credit</u>
Owner's equity	<u>Credit</u>
Revenues	<u>Credit</u>
Expenses	<u>Debit</u>
9. Posting transfers amounts from the journal to the ledger. This is important because the transaction entries in the journal do not accumulate all the information related to each account. The accounts in the ledger hold that

information. The ledger groups together transactions that are similar. For example, all cash transaction from the journal are grouped together in the ledger. Therefore, the transfer of data to the accounts in the ledger—that is, posting from the journal to the ledger—makes it possible to determine the balance in each account. Posting comes after journalizing.

10. 

<u>+</u>	a. Investment by owner	<u>0</u>	e. Cash payment on account
<u>+</u>	b. Invoice customer for services	<u>—</u>	f. Withdrawal of cash by owner
<u>0</u>	c. Purchase of supplies on credit	<u>0</u>	g. Borrowing money on a note payable
<u>—</u>	d. Pay expenses with cash	<u>+</u>	h. Sale of services on account
11. Posting's four steps are (1) copy the date of a transaction from the journal to the ledger, (2) copy the journal page number from the journal to the ledger, (3) copy (post) the dollar amounts of the debit and the credit from the journal to the ledger, and (4) copy the account numbers from the ledger back to the journal to indicate that the transaction amount has been posted to the ledger. Step 3, transferring the transaction amount to the account, is the fundamental purpose of posting.
12. 

Cash	Sam Westman, Capital
Accounts Receivable	Sales Revenue
Note Payable	Salary Expense
13. "Accounts Payable has a credit balance of \$2,800" means that the entity owes \$2,800 to its creditors on a debt that is not evidenced by a formal note payable.
14. The two business transactions are (1) Spiffy Cleaners providing laundry service and earning revenue and (2) Bobby Ng paying cash to Spiffy Cleaners. The business's earning of the revenue increases the owner's equity in the company, and Ng's payment of cash increases the business's cash.
15. The *ledger* is the group of actual accounts in use that contain a record of activity in those accounts. The *chart of accounts* is a list of all the accounts set up in the ledger with their account numbers.
16. Accountants prepare a trial balance to check the accuracy of postings to accounts and determine whether the total debits equal the total credits. It is a useful summary of all the accounts and their balances and serves as an early error-detection tool.
17. A compound journal entry is one that affects more than two accounts.
18. This error does *not* cause the trial balance to be out of balance because both the total debits and the total credits are overstated by the same amount, \$5,400 (\$6,000 – \$600).
19. Collecting cash on account has no effect on total assets because the increase in cash, which increases total assets, is offset by the decrease in accounts receivable, which decreases total assets.
20. Both systems depend on the accuracy of the initial analysis of the transaction and require that the journal entry be recorded correctly. Thereafter, a number of errors could occur in a manual system (such as slides, transpositions, errors in calculating account balances); these errors will affect a manual trial balance. Most computerized systems will not allow you to post a journal entry if it does not balance. Once the journal entry has been correctly recorded, the computerized accounting system performs much the same actions as accountants do in a manual system. These routine tasks are accomplished faster

and with less risk of error with a computer. The computer does not recognize debits and credits, only increases and decreases by account type.

## Starters

(5 min.) **S 2-1**

“The basic summary device in accounting is the account. The left side is called the debit side, and the right side is called the credit side. We record transactions first in a journal. Then we post (copy the data) to the ledger. It is helpful to list all the accounts with their balances on a trial balance.”

(10 min.) **S 2-2**

- |          |                   |    |   |
|----------|-------------------|----|---|
| <u>C</u> | 1. Credit         | A. | Record of transactions                                |
| <u>D</u> | 2. Normal balance | B. | Always an asset                                       |
| <u>G</u> | 3. Payable        | C. | Right side of an account                              |
| <u>A</u> | 4. Journal        | D. | Side of an account where increases are recorded       |
| <u>B</u> | 5. Receivable     | E. | Copying data from the journal to the ledger           |
| <u>J</u> | 6. Capital        | F. | Increases in equity from providing goods and services |
| <u>E</u> | 7. Posting        | G. | Always a liability                                    |
| <u>F</u> | 8. Revenue        | H. | Revenues – Expenses (where expenses exceed revenues)  |
| <u>H</u> | 9. Net loss       | I. | Grouping of accounts                                  |
| <u>I</u> | 10. Ledger        | J. | Owner’s equity in the business                        |

(5-10 min.) **S 2-3**

Credits are *increases* in these types of accounts:

- Liabilities
- Capital
- Revenues

Credits are *decreases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *increases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *decreases* in these types of accounts:

- Liabilities
- Capital
- Revenues

(5-10 min.) **S 2-4**

a. To decrease Accounts Payable: debit	g. To increase Rent Expense: debit
b. To increase Cash: debit	h. To increase Equipment: debit
c. To increase Notes Payable: credit	i. To increase Accounts Payable: credit
d. To increase Owner, Withdrawals: debit	j. To increase Land: debit
e. To increase Service Revenue: credit	k. To increase Office Expense: debit
f. To increase Office Supplies: debit	l. To increase Owner, Capital: credit

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	1	Cash		32,000	
		Taylor Moffat, Capital			32,000
		Received investment from owner.			
	2	Medical Supplies		9,500	
		Accounts Payable			9,500
		Purchased supplies on account.			
	2	Rent Expense		4,100	
		Cash			4,100
		Paid office rent for September.			
	3	Accounts Receivable		6,800	
		Service Revenue			6800
		Performed service for patients on account.			

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Oct.	22	Accounts Receivable		6,000	
		Service Revenue			6,000
		Performed service on account.			
	30	Cash		4,500	
		Accounts Receivable			4,500
		Received cash on account.			
	31	Telephone Expense		150	
		Accounts Payable			150
		Received telephone bill.			
	31	Advertising Expense		900	
		Cash			900
		Paid advertising expense.			
	31	Salary Expense		3,900	
		Cash			3,900
		Paid salary expense for the month.			

*Req. 1*

Journal					
DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Supplies		10,000	
		Accounts Payable			10,000
		Purchased supplies on account.			
		Accounts Payable		5,000	
		Cash			5,000
		Paid cash on account. (\$10,000 × ½)			

*Req. 2*

Accounts Payable			
	5,000		10,000
		Bal.	5,000



*Req. 1*

Journal				
DATE	ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Accounts Receivable		12,000	
	Service Revenue			12,000
	Performed service on account.			
	Cash		5,500	
	Accounts Receivable			5,500
	Received cash on account.			

*Req. 2*

Cash		Accounts Receivable		Service Revenue	
5,500		12,000	5,500		12,000
Bal. 5,500		Bal. 6,500			Bal. 12,000

*Req. 3*

a.	The business earned	\$12,000:	Service Revenue	
b.	Total assets	\$12,000:	Cash	\$5,500
			Accounts receivable	<u>6,500</u>
			Total assets	<u>\$12,000</u>

Balzy Indoor Tennis Club Trial Balance November 30, 2014			
NUMBER	ACCOUNT	DEBIT	CREDIT
10002	Cash	\$23,040	
17500	Furniture	5,500	
20001	Accounts Payable		\$3,740
30001	Stan Balzy, Capital		27,000
30002	Stan Balzy, Withdrawals	1,200	
40001	Sales Revenue		5,500
51200	Supplies Expense	2,500	
53200	Rent Expense	4,000	
	Total	<u>\$36,240</u>	<u>\$36,240</u>

*Reqs. 1 and 2*

Cash	
32,000	4,100
Bal. 27,900	

Accounts Receivable	
6,800	
Bal. 6,800	

Medical Supplies	
9,500	
Bal. 9,500	

Accounts Payable	
	9,500
	Bal. 9,500

Taylor Moffat, Capital	
	32,000
	Bal. 32,000

Service Revenue	
	6,800
	Bal. 6,800

Rent Expense	
4,100	
Bal. 4,100	

(continued) **S 2-10**

Req. 3

Taylor Moffat, Veterinarian		
Trial Balance		
September 3, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$27,900	
Accounts receivable	6,800	
Medical supplies	9,500	
Accounts payable		\$9,500
Taylor Moffat, capital		32,000
Service revenue		6,800
Rent expense	<u>4,100</u>	<u>        </u>
Total	<u>\$48,300</u>	<u>\$48,300</u>

(10 min.) **S 2-11**

Redwing Floor Covering		
Trial Balance		
December 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 6,000	
Equipment	43,000	
Accounts payable		\$ 1,000
Other liabilities		17,000
Capital		25,000
Revenue		32,000
Expenses	<u>26,000</u>	<u>        </u>
Total	<u>\$75,000</u>	<u>\$75,000</u>

## Incorrect Trial Balance

Hunter Environmental Consulting Trial Balance April 30, 2014			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$222,000	
1200	Accounts receivable	10,000	
1400	Office supplies	7,000	
1900	Land	50,000	
2100	Accounts payable		\$ 2,000
3000	Lisa Hunter, capital	250,000*	
3100	Lisa Hunter, withdrawals	6,000	
4000	Service revenue		55,000
5100	Rent expense	4,000	
5200	Salary expense	6,500	
5300	Utilities expense	<u>1,500</u>	<u>          </u>
	Total	<u>\$557,000</u>	<u>\$57,000</u>

\*Incorrect; should be listed as a credit.

To correct this error,

1. Take the difference between total debits and total credits:  
 $\$557,000 - \$57,000 = \$500,000$
2. Divide the error by 2:  
 $\$500,000 \div 2 = \$250,000$
3. Locate \$250,000 on the trial balance. This matched the balance in the Capital account. The Capital account should have a credit balance.

## Incorrect Trial Balance

Hunter Environmental Consulting Trial Balance April 30, 2014			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$222,000	
1200	Accounts receivable	10,000	
1400	Office supplies	7,000	
1900	Land	50,000	
2100	Accounts payable		\$ 2,000
3000	Lisa Hunter capital		250,000
3100	Lisa Hunter, withdrawals	6,000	
4000	Service revenue		55,000
5100	Rent expense	4,000	
5200	Salary expense	6,500	
5300	Utilities expense	<u>150*</u>	<u>          </u>
	Total	<u>\$305,650</u>	<u>\$307,000</u>

\*Incorrect; should be listed as \$1,500.

To correct this error,

1. Take the difference between total debits and total credits:  
 $\$305,650 - \$307,000 = \$1,350$
2. Divide the error by 9:  
 $\$1,350 \div 9 = \$150$
3. Locate \$150 on the trial balance. Utilities expense, at \$150, includes the error. Trace the utilities' balance back to the ledger account, which shows the correct amount.

## Exercises

(10-15 min.) **E 2-1**

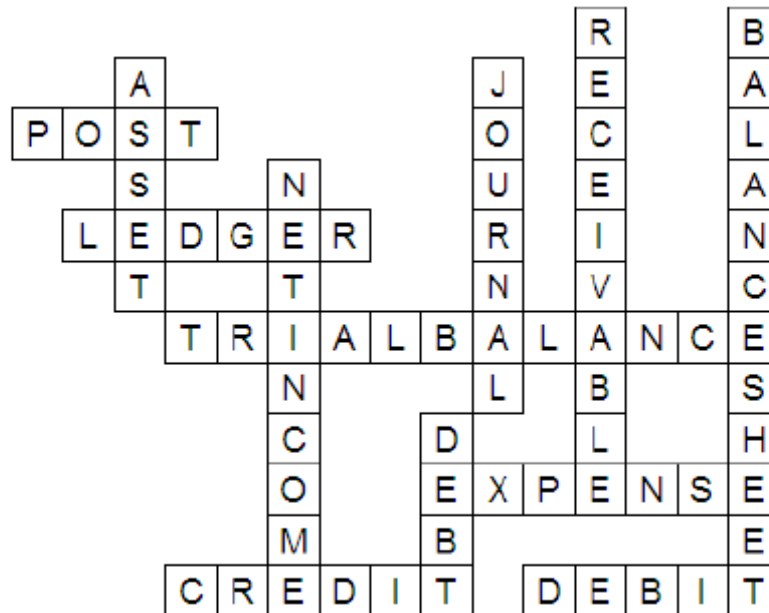
TO: Office Manager

FROM: Student Name

Each time Prairie Tours received cash, accountants recorded the transaction in the *journal* by *debiting* the Cash account. Accountants recorded cash payments by making a journal entry that included a *credit* to Cash. Debits in the journal were *posted* as debits to the Cash account in the *ledger* and credits were posted as credits. At the end of the period, accountants listed each account, along with its balance, on the *trial balance*. Cash had a balance of \$57,800.

*Instructional Note:* Student responses may vary considerably.

(15 min.) **E 2-2**



**Req. 1**

<i>Debit</i>		<i>Credit</i>		<i>Credit</i>
ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
\$75,500	=	\$46,300	+	\$28,500
(\$31,200 + \$4,000 + \$300 + \$40,000)		(\$1,300 + \$45,000)		

This accounting equation is out of balance because the complete equity balances are not shown. Net income or loss and withdrawals balances should be included in the equation.

**Req. 2**

<i>Credit</i>		<i>Debit</i>		<i>Net Credit</i>
REVENUES	–	EXPENSES	=	NET INCOME
\$7,600	–	\$5,100	=	\$2,500
		(\$400 + \$1,500 + \$3,000 + \$200)		

NET INCOME would represent a net *credit* because revenues (*credit* amounts) would exceed expenses (*debit* amounts).

NET LOSS would represent a net *debit* because expenses (*debit* amounts) would exceed revenues (*credit* amounts).

**Req. 3**

Jim Aylmer withdrew \$1,800 during the month.

Withdrawals are a *debit* amount.



**Req. 4**

Increase in owner's equity ( <i>credit</i> amount)	
Net income	\$2,500
Decrease in owner's equity ( <i>debit</i> amount)	
Withdrawals	<u>1,800</u>
Net increase in owner's equity ( <i>credit</i> amount)	<u>\$ 700</u>

<u>Date</u>	<u>Analysis of Transactions and Journal Entries</u>		
Dec. 4	The asset Cash is increased; therefore, debit Cash. The liability Note Payable is increased; therefore, credit Note Payable.		
	Cash .....	20,000	
	Note Payable .....		20,000
8	The asset Equipment is increased; therefore, debit Equipment. The liability Accounts Payable is increased; therefore, credit Accounts Payable.		
	Equipment.....	4,000	
	Accounts Payable .....		4,000
12	The asset Accounts Receivable is increased; therefore, debit Accounts Receivable. The revenue Service Revenue is increased; therefore, credit Service Revenue.		
	Accounts Receivable .....	6,000	
	Service Revenue.....		6,000
19	The asset Cash is increased; therefore, debit Cash. The asset Land is decreased; therefore, credit Land.		
	Cash .....	24,000	
	Land.....		24,000
22	The asset Supplies is increased; therefore, debit Supplies. The asset Cash is decreased; therefore, credit Cash.		
	Supplies .....	1,200	
	Cash.....		1,200
27	The liability Accounts Payable is decreased; therefore, debit Accounts Payable. The asset Cash is decreased; therefore, credit Cash.		
	Accounts Payable .....	4,000	
	Cash.....		4,000

Req. 1 and 2

(10-20 min.) **E 2-5**

Cash			
Dec.	1	6,000	
	4	20,000	
	19	24,000	
Dec.	31	44,600	

Accounts Receivable			
Dec.	1	0	
	12	6,000	
Dec.	31	6,000	

Supplies			
	22	1,200	
Dec.	31	1,200	

Equipment			
	8	4,000	
Dec.	31	4,000	

Land			
Dec.	1	24,000	
	19	24,000	
Dec.	31	0	

Accounts Payable			
Dec.			
	1	0	
	8	4,000	
	27	4,000	
Dec.	31	0	

Notes Payable			
	Dec.	1	0
		4	20,000
	Dec.	31	20,000

R. Sama, Capital			
	Dec.	1	30,000
	Dec.	31	30,000

Service Revenue			
	Dec.	1	0
		12	6,000
	Dec.	31	6,000

Utilities Expense			
Dec.	1	0	
	1	200	
Dec.	31	200	

Req. 3

Total debits = Total credits  
\$56,000 = \$56,000

<b>Journal</b>					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	1	Cash		15,000	
		Yula Gregore, Capital			15,000
		Investment by owner.			
	1	Rent Expense		4,000	
		Cash			4,000
		Paid rent for yoga studio.			
	4	Studio Supplies		4,000	
		Accounts Payable			4,000
		Purchased studio supplies on account.			
	6	Cash		3,000	
		Service Revenue			3,000
		Performed services for cash.			
	9	Accounts Payable		1,000	
		Cash			1,000
		Paid cash on account.			
	17	Accounts Receivable		800	
		Service Revenue			800
		Performed service on account.			

Req. 1

(20-30 min.) **E 2-7**  
Yula's Yoga

Cash					
Mar.	1	15,000	Mar.	1	4,000
	6	3,000		9	1,000
Mar.	31	13,000			

Accounts Receivable				
Mar.	17	800		
Mar.	31	800		

Studio Supplies				
Mar.	4	4,000		
Mar.	31	4,000		

Accounts Payable					
Mar.	9	1,000	Mar.	4	4,000
			Mar.	31	3,000

Yula Gregore, Capital				
	Mar.	1	15,000	
	Mar.	31	15,000	

Service Revenue				
	Mar.	6	3,000	
		17	800	
	Mar.	31	3,800	

Rent Expense				
Mar.	1	4,000		
Mar.	31	4,000		

(continued) **E 2-7**

Req. 2

Yula's Yoga

Yula's Yoga		
Trial Balance		
March 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$13,000	
Accounts receivable	800	
Studio supplies	4,000	
Accounts payable		\$3,000
Yula Gregore, capital		15,000
Service revenue		3,800
Rent expense	<u>4,000</u>	<u>      </u>
Total	<u>\$21,800</u>	<u>\$21,800</u>

Req. 1

(20-30 min.) **E 2-8**

2014

- |      |    |   |
|------|----|---|
| July | 2  | Cash investment by owner                                    |
|      | 9  | Purchase of supplies on account (on credit)                 |
|      | 11 | Service provided on account                                 |
|      | 14 | Payment of rent expense                                     |
|      | 22 | Collection on account                                       |
|      | 25 | Payment of advertising expense                              |
|      | 27 | Payment on account  |
|      | 31 | Receipt of a fuel bill and recording the expense on account |

Req. 2 (journal with posting references—not required)

(continued) **E 2-8**

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
July	2	Cash	1000	5,600	
		Tomas Misheal, Capital	3000		5,600
	9	Supplies	1400	54	
		Accounts Payable	2000		54
	11	Accounts Receivable	1200	1,620	
		Service Revenue	4000		1,620
	14	Rent Expense	5600	1,400	
		Cash	1000		1,400
	22	Cash	1000	280	
		Accounts Receivable	1200		280
	25	Advertising Expense	5100	590	
		Cash	1000		590
	27	Accounts Payable	2000	54	
		Cash	1000		54
	31	Fuel Expense	5800	564	
		Accounts Payable	2000		564

Req. 2 and 3

(continued) **E 2-8**

Cash			1000
July	2	5,600	July 14 1,400
	22	280	25 590
			27 54
Bal.		3,836	

Supplies			1400
July	9	54	
Bal.		54	

Tomas Misheal, Capital			3000
	July	2	5,600
	Bal.		5,600

Advertising Expense			5100
July	25	590	
Bal.		590	

Fuel Expense			5800
July	31	564	
Bal.		564	

Accounts Receivable			1200
July	11	1,620	July 22 280
Bal.		1,340	

Accounts Payable			2000
July	27	54	July 9 54
			31 564
			Bal. 564

Service Revenue			4000
	July	11	1,620
	Bal.		1,620

Rent Expense			5600
July	14	1,400	
Bal.		1,400	

Req. 4 (trial balance)

(continued) **E 2-8**

Alumet Defensive Driving			
Trial Balance			
July 31, 2014			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1000	Cash	\$3,836	
1200	Accounts receivable	1,340	
1400	Supplies	54	
2000	Accounts payable		\$ 564
3000	Tomas Misheal, capital		5,600
4000	Service revenue		1,620
5100	Advertising expense	590	
5600	Rent expense	1,400	
5800	Fuel expense	<u>564</u>	<u>      </u>
	Total	<u>\$7,784</u>	<u>\$7,784</u>



<b>Journal</b>					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Apr.	30	Cash		7,500	
		D. Carter, Capital			7,500
		Received initial investment from owner.			
	30	Supplies		75	
		Accounts Payable			75
		Purchase of supplies on account.			
	30	Land		5,250	
		Cash			5,250
		Paid cash for land.			
	30	Cash		1,375	
		Note Payable			1,375
		Borrowed money; signed note payable.			
	30	Hockey Equipment		1,500	
		Cash			1,500
		Paid cash for equipment.			

Dash Carter Hockey School		
Trial Balance		
April 30, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$2,125	
Supplies	75	
Hockey equipment	1,500	
Land	5,250	
Accounts payable		\$ 75
Note payable		1,375
D. Carter, capital		<u>7,500</u>
Total	<u>\$8,950</u>	<u>\$8,950</u>

Boots Consulting		
Trial Balance		
October 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 30,000	
Accounts receivable	35,000	
Supplies	1,500	
Building	390,000	
Land	174,000	
Accounts payable		\$ 33,800
Notes payable		270,000
M. Boots, capital		252,800
M. Boots, withdrawals	36,000	
Services revenue		164,000
Advertising expense	9,900	
Computer rental expense	2,000	
Salary expense	36,000	
Supplies expense	3,800	
Utilities expense	<u>2,400</u>	<u>          </u>
Total	<u>\$720,600</u>	<u>\$720,600</u>

Journal						Page 9
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
May	2	Cash	1100	39,200		
		Office Furniture	1800	16,200		
		Florence Yarrow, Capital	3100		55,400	
		Received investment from owner.				
	2	Rent Expense	5500	2,500		
		Cash	1100		2,500	
		Paid monthly rent.				
	2	Office Supplies	1500	1,800		
		Accounts Payable	2100		1,800	
		Purchased supplies on account.				
	15	Salary Expense	5600	4,000		
		Cash	1100		4,000	
		Paid salary expense.				
	17	Accounts Payable	2100	1,200		
		Cash	1100		1,200	
		Paid on account.				
	19	Accounts Receivable	1300	69,000		
		Consulting Revenue	4100		69,000	
		Performed service on account.				
	30	Florence Yarrow, Withdrawals	3200	8,000		
		Cash	1100		8,000	
		Withdrawal by owner.				

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	39,200		39,200 Dr
	2		J9		2,500	36,700 Dr
	15		J9		4,000	32,700 Dr
	17		J9		1,200	31,500 Dr
	30		J9		8,000	23,500 Dr

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1300
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	19		J9	69,000		69,000 Dr

ACCOUNT		OFFICE SUPPLIES				ACCOUNT NO. 1500
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	1,800		1,800 Dr

ACCOUNT		OFFICE FURNITURE				ACCOUNT NO. 1800
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
May	2		J9	16,200		16,200 Dr

ACCOUNT		ACCOUNTS PAYABLE			ACCOUNT NO. 2100	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
2014						
May	2		J9		1,800	1,800 Cr
	17		J9	1,200		600 Cr

ACCOUNT		FLORENCE YARROW, CAPITAL			ACCOUNT NO. 3100	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
2014						
May	2		J9		55,400	55,400 Cr

ACCOUNT		FLORENCE YARROW, WITHDRAWALS			ACCOUNT NO. 3200	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
2014						
May	30		J9	8,000		8,000 Dr

ACCOUNT		CONSULTING REVENUE			ACCOUNT NO. 4100	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
2014						
May	19		J9		69,000	69,000 Cr

ACCOUNT		RENT EXPENSE			ACCOUNT NO. 5500	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
2014						
May	2		J9	2,500		2,500 Dr

ACCOUNT		SALARY EXPENSE			ACCOUNT NO. 5600	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
2014						
May	15		J9	4,000		4,000 Dr

(10-20 min.) **E 2-13**  
Yarrow Strategic Consulting

Yarrow Strategic Consulting			
Trial Balance			
May 31, 2014			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 23,500	
1300	Accounts receivable	69,000	
1500	Office supplies	1,800	
1800	Office furniture	16,200	
2100	Accounts payable		\$ 600
3100	Florence Yarrow, capital		55,400
3200	Florence Yarrow, withdrawals	8,000	
4100	Consulting revenue		69,000
5500	Rent expense	2,500	
5600	Salary expense	4,000	
	Total	<u>\$125,000</u>	<u>\$125,000</u>

(15-25 min.) **E 2-14**  
Mia's Memories

Mia's Memories		
Trial Balance		
February 28, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 3,500*	
Accounts receivable	1,500*	
Supplies	700	
Land	26,100	
Accounts payable		\$13,700*
M. Mia, capital		12,000
Service revenue		9600
Rent expense	900	
Salary expense	1600	
Utilities expense	<u>1,000*</u>	
Total	<u>\$35,300</u>	<u>\$35,300</u>

\* Explanations:  
 Cash:  $\$3,100 + \$400 = \$3,500$   
 Accounts receivable:  $\$1,900 - \$400 = \$1,500$   
 Accounts payable:  $\$11,400 + \$2,000 - \$200 + \$500 = \$13,700$   
 M. Mia, capital:  $\$11,900 + \$100 = \$12,000$   
 Utilities expense:  $\$500 + \$500 = \$1,000$

Req. 1 and 3

(20-30 min.) **E 2-15**  
Kerr Consulting

Cash					
Dec.	2	30,000	Dec.	2	3,000
	18	2,000		3	2,000
	21	2,000		12	250
	28	1,500		23	500
				30	2,000
Bal.		27,750			

Accounts Receivable					
Dec.	9	2,000	Dec	28	1,500
Bal.		500			

Supplies		
Dec.	5	500
Bal.		500

Equipment		
Dec.	3	2,000
Bal.		2,000

Furniture		
Dec.	4	6,000
Bal.		6,000

Accounts Payable					
Dec	23	500	Dec.	4	6,000
				5	500
			Bal.		6,000

Unearned Revenue				
	Dec.	21	2,000	
	Bal.		2,000	

Alex Kerr, Capital				
	Dec.	2	30,000	
	Bal.		30,000	

Alex Kerr, Withdrawals				
Dec.	30	2,000		
Bal.		2,000		

Service Revenue				
	Dec.	9	2,000	
		18	2,000	
	Bal.		4,000	

Rent Expense				
Dec.	2	3,000		
Bal.		3,000		

Salaries Expense				
Bal.		0		

Utilities Expense				
Dec.	12	250		
Bal.		250		



<b>Journal</b>					Page 1
DATE 2013		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	2	Cash		30,000	
		Alex Kerr, Capital			30,000
	2	Rent Expense		3,000	
		Cash			3,000
	3	Equipment		2,000	
		Cash			2,000
	4	Furniture		6,000	
		Accounts Payable			6,000
	5	Supplies		500	
		Accounts Payable			500
	9	Accounts Receivable		2,000	
		Service Revenue			2,000
	12	Utilities Expense		250	
		Cash			250
	18	Cash		2,000	
		Service Revenue			2,000
	21	Cash		2,000	
		Unearned Revenue			2,000
	22	No entry required – not a transaction			
	23	Accounts Payable		500	
		Cash			500
	28	Cash		1,500	
		Accounts Receivable			1,500
	30	Alex Kerr, Withdrawals		2,000	
		Cash			2,000

Req. 4

(continued) **E 2-15**

Kerr Consulting		
Trial Balance		
December 31, 2013		
ACCOUNT	DEBIT	CREDIT
Cash	\$27,750	
Accounts receivable	500	
Supplies	500	
Equipment	2,000	
Furniture	6,000	
Accounts payable		\$6,000
Unearned revenue		2,000
Alex Kerr, capital		30,000
Alex Kerr, withdrawals	2,000	
Service revenue		4,000
Rent expense	3,000	
Utilities expense	<u>250</u>	<u>        </u>
Total	<u>\$42,000</u>	<u>\$42,000</u>

## Challenge Exercises

(30-50 min.) **E 2-16**

- a. Net income for March - Given as follows:

B. Fergus, Capital			
March Withdrawals	640	Feb. 28 Bal.	1,440
		March Net Income	X
		Mar. 31 Bal.	2,400

= \$1,600

$$\begin{aligned} \$1,440 + X - \$640 &= \$2,400 \\ X &= \$1,600 \end{aligned}$$

- b. Total cash paid during March:

Cash			
Feb. 28 Bal.	1,800	March Payments	X
March Receipts	10,720		
Mar. 31 Bal.	1,640		

= \$10,880

$$\begin{aligned} \$1,800 + \$10,720 - X &= \$1,640 \\ X &= \$10,880 \end{aligned}$$

c. Cash collections from customers during March:

Accounts Receivable			
Feb. 28 Bal.	3,840		
March sales on account	12,160	March collections	X
Mar. 31 Bal.	6,160		

= \$9,840

$$\begin{aligned} \$3,840 + \$12,160 - X &= \$6,160 \\ X &= \$9,840 \end{aligned}$$

d. Payments on account during March:

Accounts Payable			
		Feb. 28 Bal.	2,080
March payments on account	X	March purchases on account	508
		Mar. 31 Bal.	2,560

X = \$28

$$\begin{aligned} \$2,080 + \$508 - X &= \$2,560 \\ X &= \$28 \end{aligned}$$

Req. 1 and 2

(20-30 min.) **E 2-17**

EFFECT ON TRIAL BALANCE	ACCOUNT(S) MISSTATED	RELEVANT JOURNAL ENTRIES (NOT REQUIRED)			
a. Total debits > Total credits	Note Payable \$5,000 too low on the trial balance only	a. Entry made (correct):	Cash Note Payable	5,000	5,000
b. Total debits = Total credits	Supplies \$90 too high	b. Entry made:	Supplies Accounts Payable	430	430
	Accounts Payable \$90 too high (\$430 – \$340 = \$90)	Correct entry:	Supplies Accounts Payable	340	340
c. Total debits = Total credits	Supplies \$200 too high	c. Entry made:	Supplies Cash	200	200
	Accounts Payable \$200 too high	Correct entry:	Accounts Payable Cash	200	200
d. Total debits < Total credits	Cash \$450 too low	d. Entry made:	Cash Service Revenue	50	500
		Correct entry:	Cash Service Revenue	500	500
e. Total debits < Total credits	Utility Expense \$900 too low (\$1,000 – \$100 = \$900)	e. Entry made (correct):	Utility Expense Cash	1,000	1,000

*Instructional Note:* Presentation of answers may vary.

## Beyond the Numbers

(15-20 min.) **BN 2-1**

### Balance Sheet Accounts

#### ASSETS

Cash  
Accounts receivable  
Food supplies  
Office supplies  
Baking equipment  
Accumulated amortization—  
    baking equipment  
Office equipment  
Accumulated amortization—  
    office equipment

#### LIABILITIES

Accounts payable  
Note payable

#### OWNER'S EQUITY

Stan Raza, capital  
Stan Raza, withdrawals

### Income Statement Accounts

#### REVENUES

Service revenue—cupcakes  
Service revenue—office catering  
Service revenue—weddings

#### EXPENSES

Advertising expense  
Amortization expense—  
    office equipment  
Amortization expense—  
    baking equipment  
Insurance expense  
Office supplies expense  
Food supplies expense  
Rent expense  
Salary expense  
Utilities expense

*Instructional Note:* Some instructors may wish to use this exercise to introduce the Prepaid Insurance, Accumulated Amortization, Salary Payable, and other liability accounts.

## Ethical Issue

Is Associated Charities Inc. taking advantage of the bank's generosity or the other users of the charity?

Students who approve of the Associated Charities action can point out that the bank allows Associated Charities to overdraw its cash balance. In this view, Associated Charities is merely using a privilege the bank has granted. Most banks are civic-minded and are relatively generous with charitable organizations.

Students who disapprove may argue that Associated Charities is using the bank's money and presumably incurring interest charges. In this view, Associated Charities should curtail its spending until it has the money to cover its expenditures and maintain a positive balance. Alternatively, Associated Charities could sign a note payable to borrow the needed money. The related interest is the bank's compensation. By incurring this interest, the charity is essentially using future donations to pay the cost.

The bank is the key player in this case. Whether the bank approves or disapproves of the Associated Charities overdrafts is critical to the ethical decision. Approval by the bank turns the overdrafts into an unsecured loan to Associated Charities. Disapproval by the bank would no doubt be communicated to Mr. Glowa.

The other users (volunteers, recipients, donors, etc.) could also lose if the charity ends up in financial trouble.

Steps used to analyze ethical dilemmas:

1. Recognize an ethical situation and the ethical issues involved.
2. Identify and analyze the principal elements in the situation.
3. Identify the alternatives, and weigh the impact of each alternative on various users.

## Problems

### Group A

(15-30 min.) **P 2-1A**

Dear Friend,

This trial balance lists the accounts of Archer Communications, along with their balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and potential investors for decision making.

The fact that the trial balance is in balance does not mean that Archer Communications is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business.

To compute Archer Communications' net income or net loss for the current period, subtract total expenses from service revenue. In this instance, Archer Communications earned net income of \$55,000 [sales revenue of \$151,000 minus total expenses of \$96,000 (\$4,500 + \$39,000 + \$10,500 + \$42,000)].

*Instructional Note:* Student responses may vary considerably.



<u>Date</u>	<u>Analysis of Transactions</u>
2014	
Nov. 1	Given in the problem; not required for Nov. 1 transaction.
1	The expense Rent Expense is increased. Increases in expenses are recorded by debits; therefore, debit Rent Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
2	The asset Land is increased. Increases in assets are recorded by debits; therefore, debit Land. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
5	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The liability Notes Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Notes Payable.
10	The asset Supplies is increased. Increases in assets are recorded by debits; therefore, debit Supplies. The liability Accounts Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Accounts Payable.
16	The expense Salaries Expense is increased. Increases in expenses are recorded by debits; therefore, debit Salaries Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
22	The liability Accounts Payable is decreased. Decreases in liabilities are recorded by debits; therefore, debit Accounts Payable. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
28	The owner's equity of the business is decreased. Decreases in owner's equity are recorded by debits. Decreases due to withdrawals are debited to the withdrawals account; therefore, debit Darrell Palusky, Withdrawals. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
29	The expense Property Tax Expense is increased. Increases in expenses are recorded by debits; therefore, debit Property Tax Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
30	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The revenue Service Revenue is increased. Increases in revenues are recorded by credits; therefore, credit Service Revenue.

Req. 2 (journal entries)

Baycrest Cinema Company

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Nov.	1	Cash		350,000	
		Darrell Palusky, Capital			350,000
		Investment in the business by the owner.			
	1	Rent Expense		6,000	
		Cash			6,000
		Paid November rent on a theatre building.			
	2	Land		320,000	
		Cash			320,000
		Purchased land for a theatre site.			
	5	Cash		220,000	
		Notes Payable			220,000
		Borrowed from the bank on a note payable.			
	10	Supplies		1,000	
		Accounts Payable			1,000
		Purchased theatre supplies on account.			
	16	Salaries Expense		2,900	
		Cash			2,900
		Paid cash for salaries.			
	22	Accounts Payable		600	
		Cash			600
		Made payment on account.			
	28	Darrell Palusky, Withdrawals		8,000	
		Cash			8,000
		Owner withdrew cash from the company.			
	29	Property Tax Expense		1,400	
		Cash			1,400
		Paid property tax on the land for the new theatre.			
	30	Cash		20,000	
		Service Revenue			20,000
		Receive cash for services provided.			

Req. 1 (journal entries)

(40-50 min.) **P 2-3A**  
Creature Construction

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	3	Cash		36,000	
		Z. Slipewicz, Capital			36,000
		Owner deposited a cheque to start the business.			
	4	Supplies		300	
		Furniture		2,200	
		Accounts Payable			2,500
		Purchased supplies and furniture on account.			
	5	Rent Expense		750	
		Cash			750
		Paid rent for September.			
	6	Cash		1,200	
		Service Revenue			1,200
		Performed design services and received cash.			
	7	Land		22,000	
		Cash			22,000
		Purchased land for future office site.			
	10	Accounts Receivable		2,900	
		Service Revenue			2,900
		Designed a bathroom, billed it on account.			
	14	Accounts Payable		2,200	
		Cash			2,200
		Paid for September 4 furniture purchase.			
	15	Salary Expense		470	
		Cash			470
		Paid assistant's salary.			
	17	Cash		1,700	
		Accounts Receivable			1,700
		Received cash on account.			
	22	Cash		2,500	
		Service Revenue			2,500
		Received cash for cottage renovation.			
					Cont....

	25	Accounts Receivable		800	
		Service Revenue			800
		Prepared a design for a customer on account.			
	30	Salary Expense		470	
		Cash			470
		Paid assistant's salary.			
	30	Z. Slipewicz, Withdrawals		2,800	
		Cash			2,800
		Owner withdrawal of cash from the company.			

Req. 2 (ledger accounts)

(continued) **P 2-3A**

Creature Construction

Cash			
Sept.	3	36,000	
	6	1,200	
	17	1,700	
	22	2,500	
Bal.		12,710	

Accounts Receivable			
Sept.	10	2,900	
	25	800	
Bal.		2,000	

Supplies			
Sept.	4	300	
Bal.		300	

Furniture			
Sept.	4	2,200	
Bal.		2,200	

Land			
Sept.	7	22,000	
Bal.		22,000	

Accounts Payable			
Sept.	14	2,200	
Bal.			

Z. Slipewicz, Capital			
	Sept.	3	36,000
Bal.			36,000

Z. Slipewicz, Withdrawals			
Sept.	30	2,800	
Bal.		2,800	

Service Revenue			
	Sept.	6	1,200
		10	2,900
		22	2,500
		25	800
Bal.			7,400

Rent Expense			
Sept.	5	750	
Bal.		750	

Salary Expense			
Sept.	15	470	
	30	470	
Bal.		940	

Req. 3

Creature Construction

Creature Construction		
Trial Balance		
September 30, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$12,710	
Accounts receivable	2,000	
Supplies	300	
Furniture	2,200	
Land	22,000	
Accounts payable		\$ 300
Zeb Slipewicz, capital		36,000
Zeb Slipewicz, withdrawals	2,800	
Service revenue		7,400
Rent expense	750	
Salary expense	<u>940</u>	<u>          </u>
Total	<u>\$43,700</u>	<u>\$43,700</u>

Req. 1 (journal entries)

(45-60 min.) **P 2-4A**

Thomson Engineering

<b>Journal</b>					
PAGE 3					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	4	Cash	1100	600	
		Accounts Receivable	1200		600
		Received cash on account.			
	8	Accounts Receivable	1200	580	
		Service Revenue	5000		580
		Performed service on account.			
	13	Accounts Payable	2000	320	
		Cash	1100		320
		Paid on account.			
	18	Supplies	1300	120	
		Accounts Payable	2000		120
		Purchased supplies on account.			
	20	R. Thomson, Withdrawals	3100	200	
		Cash	1100		200
		Withdrawal for personal use.			
	21	Verbal promise only; not a transaction of the business.			
	22	Cash	1100	620	
		Service Revenue	5000		620
		Performed service for cash.			
	31	Salary Expense	6200	1,300	
		Cash	1100		1,300
		Paid employee salaries.			

Req. 2 (ledger accounts)

(continued) **P 2-4A**

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			4,000 (Dr)
Mar.	4		J.3	600		4,600 (Dr)
	13		J.3		320	4,280 (Dr)
	20		J.3		200	4,080 (Dr)
	22		J.3	620		4,700 (Dr)
	31		J.3		1,300	3,400 (Dr)

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1200
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			16,000 (Dr)
Mar.	4		J.3		600	15,400 (Dr)
	8		J.3	580		15,980 (Dr)

ACCOUNT		SUPPLIES				ACCOUNT NO. 1300
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			3,600 (Dr)
Mar.	18		J.3	120		3,720 (Dr)

ACCOUNT		AUTOMOBILE				ACCOUNT NO. 1600
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			37,200 (Dr)

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 2000
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			8,000 (Cr)
Mar.	13		J.3	320		7,680 (Cr)
	18		J.3		120	7,800 (Cr)



Req. 2 (ledger accounts)

(continued) **P 2-4A**

ACCOUNT		R. THOMSON, CAPITAL				ACCOUNT NO. 3000
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			50,000 (Cr)

ACCOUNT		R. THOMSON, WITHDRAWALS				ACCOUNT NO. 3100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			4,400 (Dr)
Mar.	20		J.3	200		4,600 (Dr)

ACCOUNT		SERVICE REVENUE				ACCOUNT NO. 5000
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			16,400 (Cr)
Mar.	8		J.3		580	16,980 (Cr)
	22		J.3		620	17,600 (Cr)

ACCOUNT		RENT EXPENSE				ACCOUNT NO. 6100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			2,000 (Dr)

ACCOUNT		SALARY EXPENSE				ACCOUNT NO. 6200
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Feb.	28	Bal.	✓			7,200 (Dr)
Mar.	31		J.3	1,300		8,500 (Dr)

Req. 3

Thomson Engineering

Thomson Engineering			
Trial Balance			
March 31, 2014			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 3,400	
1200	Accounts receivable	15,980	
1300	Supplies	3,720	
1600	Automobile	37,200	
2000	Accounts payable		\$ 7,800
3000	R. Thomson, capital		50,000
3100	R. Thomson, withdrawals	4,600	
5000	Service revenue		17,600
6100	Rent expense	2,000	
6200	Salary expense	<u>8,500</u>	<u>      </u>
	Total	<u>\$75,400</u>	<u>\$75,400</u>

Req. 1

(40-50 min.) **P 2-5A**  
Vaillancourt Management

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a.	Cash	1100	20,000	
		Land	1800	60,000	
		Building	1700	120,000	
		Sophie Vaillancourt, Capital	3100		200,000
		Received investment by owner.			
	b.	Office Supplies	1400	2,600	
		Accounts Payable	2100		2,600
		Purchased supplies on account.			
	c.	Office Furniture	1500	15,000	
		Cash	1100		15,000
		Purchased furniture.			
	d.	Salary Expenses	5500	2,200	
		Cash	1100		2,200
		Paid salary.			
	e.	Accounts Receivable	1300	12,100	
		Service Revenue	4100		12,100
		Performed service on account.			
	f.	Accounts Payable	2100	800	
		Cash	1100		800
		Paid on account			
	g.	Advertising Expense	5100	2,000	
		Accounts Payable	2100		2,000
		Received advertising bill.			
	h.	Cash	1100	5,600	
		Service Revenue	4100		5,600
		Performed services and received cash.			

<b>Journal</b>					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	i.	Cash	1100	2,400	
		Accounts Receivable	1300		2,400
		Collected cash on account.			
	j.	Equipment Rental Expense	5300	1,700	
		Utilities Expense	5700	400	
		Cash	1100		2,100
		Paid expenses.			
	k.	Sophie Vaillancourt, Withdrawals	3200	6,500	
		Cash	1100		6,500
		Withdrawal by owner.			

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				20,000		20,000 Dr
c.					15,000	5,000 Dr
d.					2,200	2,800 Dr
f.					800	2,000 Dr
h.				5,600		7,600 Dr
i.				2,400		10,000 Dr
j.					2,100	7,900 Dr
k.					6,500	1,400Dr

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1300
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.				12,100		12,100 Dr
i.					2,400	9,700 Dr

ACCOUNT		OFFICE SUPPLIES				ACCOUNT NO. 1400
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
b.				2,600		2,600 Dr

ACCOUNT		OFFICE FURNITURE				ACCOUNT NO. 1500
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.				15,000		15,000 Dr

Reqs. 2 and 3

(continued) **P 2-5A**

ACCOUNT		BUILDING				ACCOUNT NO. 1700
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				120,000		120,000 Dr

ACCOUNT		LAND				ACCOUNT NO. 1800
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				60,000		60,000 Dr

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 2100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
b.					2,600	2,600 Cr
f.				800		1,800 Cr
g.					2,000	3,800 Cr

ACCOUNT		SOPHIE VAILLANCOURT, CAPITAL				ACCOUNT NO. 3100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.					200,000	200,000 Cr

ACCOUNT		SOPHIE VAILLANCOURT, WITHDRAWALS				ACCOUNT NO. 3200
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
k.				6,500		6,500 Dr

(continued) **P 2-5A**

ACCOUNT		SERVICE REVENUE			ACCOUNT NO. 4100	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.					12,100	12,100 Cr
h.					5,600	17,700 Cr

ACCOUNT		ADVERTISING EXPENSE			ACCOUNT NO. 5100	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
g.				2,000		2,000 Dr

ACCOUNT		EQUIPMENT RENTAL EXPENSE			ACCOUNT NO. 5300	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				1,700		1,700 Dr

ACCOUNT		SALARY EXPENSE			ACCOUNT NO. 5500	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
d.				2,200		2,200 Dr

ACCOUNT		UTILITIES EXPENSE			ACCOUNT NO. 5700	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				400		400 Dr

Req. 4

Vaillancourt Management

Vaillancourt Management			
Trial Balance			
June 30, 2014			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 1,400	
1300	Accounts receivable	9,700	
1400	Office supplies	2,600	
1500	Office furniture	15,000	
1700	Building	120,000	
1800	Land	60,000	
2100	Accounts payable		\$ 3,800
3100	Sophie Vaillancourt, capital		200,000
3200	Sophie Vaillancourt, withdrawals	6,500	
4100	Service revenue		17,700
5100	Advertising expense	2,000	
5300	Equipment rental expense	1,700	
5500	Salary expense	2,200	
5700	Utilities expense	<u>400</u>	<u>          </u>
	Total	<u>\$221,500</u>	<u>\$221,500</u>



Minter Landscape Consulting		
Trial Balance		
June 30, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 2,900	
Accounts receivable	10,270	
Supplies	1,300	
Office furniture	3,600	
Land	44,600	
Accounts payable		\$ 4,200
Notes payable		23,000
R. Minter, capital		32,500
R. Minter, withdrawals	2,900	
Consulting service revenue		10,300
Advertising expense	600	
Rent expense	1,400	
Salary expense	2,100	
Utilities expense	<u>330</u>	<u>        </u>
Total	<u>\$70,000</u>	<u>\$70,000</u>

*Explanations:*

Cash:  $\$1,600 + \$1,300 = \$2,900$

Accounts receivable:  $\$10,000 - \$30 + \$300 = \$10,270$

Supplies:  $\$900 + \$400 = \$1,300$

Land:  $\$44,600$  (amount given)

Accounts payable:  $\$3,800 + \$400 = \$4,200$

R. Minter, capital:  $\$31,600 + \$900 = \$32,500$

R. Minter, withdrawals:  $\$2,000 + \$900 = \$2,900$

Consulting service revenue:  $\$7,300 + \$3,000 = \$10,300$

Advertising expense:  $\$600$  (amount given)

Rent expense:  $\$1,000 + \$200 + \$200 = \$1,400$

Utilities expense:  $\$410 - \$80 = \$330$

Req. 1

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	17	Accounts Receivable		4,600	
		Moving Fees Income			4,000
		Storage Fees Income			600
		Earned moving fees and one month's storage fees on account.			
	18	Cash		16,800	
		Notes Receivable			15,000
		Interest Income			1,800
		Collected a note receivable and the related interest income.			
	19	H. Martinez, Withdrawals		400	
		Cash			400
		To record payment of hydro bill belonging to H. Martinez.			
	21	Storage Equipment		12,000	
		Cash			3,600
		Moving Fees Income			1,500
		Accounts Payable			6,900
		Purchased storage racks and paid for them partly with cash, moving fees provided, and the remainder on Accounts Payable.			
	23	Cash		3,000	
		Accounts Receivable			2,600
		Storage Fees Income			400
		To record cash collected on account and for storage fees.			
	24	Mortgage Payable		18,000	
		Cash			18,000
		To record cash payment on the mortgage.			
	27	H. Martinez, Withdrawals		5,000	
		Cash			5,000
		To record owner withdrawal of cash.			

<b>Journal</b>					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	29	Cash		1,500	
		Legal Expense		900	
		Moving Fees Income			2,400
		Moving services provided for cash and \$900 of legal work.			
	31	No Entry			

Note: December 16—No entry required. However, the amounts posted must be corrected.

Req. 2

Cash				
Dec.	15	7,200	Dec.	19 400
	18	16,800		21 3,600
	23	3,000		24 18,000
	29	1,500		27 5,000
Bal.		1,500		

Accounts Receivable				
Dec.	15	17,400	Dec.	23 2,600
	17	4,600		
Bal.		19,400		

Notes Receivable				
Dec.	15	45,000	Dec.	18 15,000
Bal.		30,000		

Office Supplies				
Dec.	15	9,600		

Office Equipment				
Dec.	15	12,300		

Moving Equipment				
Dec.	15	132,200		

Storage Equipment				
Dec.	15	12,000		

Accounts Payable				
			Dec.	15 33,000
				21 6,900
			Bal.	39,900

Mortgage Payable				
Dec.	14	18,000	Dec.	15 39,000
			Bal.	21,000

H. Martinez, Capital				
			Dec.	15 53,000

H. Martinez, Withdrawals				
Dec.	19	400		
	27	5,000		
Bal.		5,400		

Moving Fees Income				
			Dec.	15 259,800*
				17 4,000
				21 1,500
				29 2,400
			Bal.	267,700

\*Corrected for error on Dec. 16

Storage Fees Income				
			Dec.	15 57,900
				17 600
				23 400
			Bal.	58,900

Interest Income				
			Dec.	18 1,800

*Req. 2 (continued)*

Insurance Expense			
Dec.	15	6,300	

Legal Expense			
Dec.	29	900	

Office Supplies Expense			
Dec.	15	2,100	

Rent Expense			
Dec.	15	47,100	

Salaries Expense			
Dec.	15	161,100	

Utilities Expense			
Dec.	15	2,400	

*Req. 3*

Cross Country Movers		
Trial Balance		
December 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 1,500	
Accounts receivable	19,400	
Notes receivable	30,000	
Office supplies	9,600	
Office equipment	12,300	
Moving equipment	132,200	
Storage equipment	12,000	
Accounts payable		\$ 39,900
Mortgage payable		21,000
H. Martinez, capital		53,000
H. Martinez, withdrawals	5,400	
Moving fees income		267,700
Storage fees income		58,900
Interest earned		1,800
Insurance expense	6,300	
Legal expense	900	
Office supplies expense	2,100	
Rent expense	47,100	
Salaries expense	161,100	
Utilities expense	<u>2,400</u>	<u>          </u>
Total	<u>\$442,300</u>	<u>\$442,300</u>

## Problems

### Group B

(15-30 min.) **P 2-1B**

Dear Friend,

This trial balance lists the accounts of City Designs, along with their balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and potential investors for decision making.

The fact that the trial balance is in balance does not mean that City Designs is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute City Designs' net income or net loss for the current period, subtract total expenses from service revenue. As a matter of fact, City Designs has experienced a net loss of \$34,000 [service revenue of \$120,000 minus total expenses of \$154,000 (\$16,000 + \$24,000 + \$18,000 + \$96,000)].

*Instructional Note:* Student responses may vary considerably.

Gladys Yuan Engineering

<u>Date</u>	<u>Analysis of Transactions</u>
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2014

Apr. 1	Given in the problem; not required for Apr. 1 transaction.
5	The expense Equipment Rental Expense is increased. Increases in expenses are recorded by debits; therefore, debit Equipment Rental Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
10	The asset Supplies is increased. Increases in assets are recorded by debits; therefore, debit Supplies. The liability Accounts Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Accounts Payable.
19	The liability Accounts Payable is decreased. Decreases in liabilities are recorded by debits; therefore, debit Accounts Payable. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
21	The asset Land is increased. Increases in assets are recorded by debits; therefore, debit Land. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
22	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The liability Notes Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Notes Payable.
30	The expenses Salaries Expense, Office Rent Expense, and Utilities Expense are increased. Increases in expenses are recorded by debits; therefore, debit Salaries Expense, Office Rent Expense, and Utilities Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash for the sum of the three debit amounts.
30	The assets Cash and Accounts Receivable are increased. Increases in assets are recorded by debits; therefore, debit Cash and Accounts Receivable. The revenue Service Revenue is increased. Increases in revenues are recorded by credits; therefore, credit Service Revenue for the sum of the debits to Cash and Accounts Receivable.
30	The owner's equity of the business is decreased. Decreases in owner's equity are recorded by debits. Decreases due to withdrawals by the owner are debited to the owner, withdrawals account; therefore, debit G. Yuan, Withdrawals. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.



Journal						Page 1
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
Apr.	1	Cash		40,000		
		G. Yuan, Capital			40,000	
		Initial investment by owner in the business.				
	5	Equipment Rental Expense		200		
		Cash			200	
		Paid the month's rental for equipment.				
	10	Supplies		600		
		Accounts Payable			600	
		Purchased supplies on account.				
	19	Accounts Payable		100		
		Cash			100	
		Paid for some of the supplies purchased on April 10.				
	22	Land		25,000		
		Cash			25,000	
		Purchased land for an office site.				
	22	Cash		15,000		
		Notes Payable			15,000	
		Borrowed from the bank with a note payable.				
	30	Salaries Expense		3,500		
		Office Rent Expense		2,700		
		Utilities Expense		350		
		Cash			6,550	
		Paid expenses with cash.				
	30	Cash		1,300		
		Accounts Receivable		2,400		
		Service Revenue			3,700	
		Revenues earned during the month.				
	30	G. Yuan, Withdrawals		1,200		
		Cash			1,200	
		Cash withdrawal by owner.				

<b>Journal</b>					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	2	Cash		60,000	
		Scott Jameson, Capital			60,000
		Initial investment in business by the owner.			
	3	Supplies		750	
		Furniture		2,800	
		Accounts Payable			3,550
		Purchased supplies and furniture on account.			
	3	Rent Expense		1,100	
		Cash			1,100
		Paid rent for January.			
	4	Cash		2,250	
		Translation Revenue			2,250
		Performed translation services for cash.			
	7	Land		38,000	
		Cash			38,000
		Acquired land for future office site.			
	11	Accounts Receivable		1,200	
		Translation Revenue			1,200
		Performed translation services on account.			
	15	Salary Expense		975	
		Cash			975
		Paid salary of secretary.			
	16	Accounts Payable		2,800	
		Cash			2,800
		Paid for furniture purchased on January 3.			
	18	Cash		600	
		Accounts Receivable			600
		Received partial payment on client account.			
	19	Accounts Receivable		11,350	
		Translation Revenue			11,350
		Performed translation services on account.			
	22	Utilities Expense		300	
		Cash			300
		Paid water and electricity bills.			

Journal						Page 2
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	
	29	Cash		2,700		
		Translation Revenue			2,700	
		Performed translation services for cash.				
	31	Salary Expense		975		
		Cash			975	
		Paid secretary's salary.				
	31	Scott Jameson, Withdrawals		12,000		
		Cash			12,000	
		Owner withdrew cash for personal use.				

Req. 2 (ledger accounts)

(continued) **P 2-3B**  
Jameson Translation Service

Cash					
Jan.	2	60,000	Jan.	3	1,100
	4	2,250		7	38,000
	18	600		15	975
	29	2,700		16	2,800
				22	300
				31	975
				31	12,000
Bal.		9,400			

Accounts Receivable					
Jan.	11	1,200	Jan.	18	600
	19	11,350			
Bal.		11,950			

Supplies				
Jan.	3	750		
Bal.		750		

Furniture				
Jan.	3	2,800		
Bal.		2,800		

Land				
Jan.	7	38,000		
Bal.		38,000		

Accounts Payable					
Jan.	16	2,800	Jan.	3	3,550
			Bal.	750	

Scott Jameson, Capital		
	Jan. 2	60,000
	Bal.	60,000

Scott Jameson, Withdrawals				
Jan.	31	12,000		
Bal.		12,000		

Translation Revenue				
	Jan.	4	2,250	
		11	1,200	
		19	11,350	
		29	2,700	
	Bal.		17,500	

Rent Expense				
Jan.	3	1,100		
Bal.		1,100		

Salary Expense				
Jan.	15	975		
	31	975		
Bal.		1,950		

Utilities Expense				
Jan.	22	300		
Bal.		300		

**Req. 3**

Jameson Translation Service

Jameson Translation Service		
Trial Balance		
January 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$9,400	
Accounts receivable	11,950	
Supplies	750	
Furniture	2,800	
Land	38,000	
Accounts payable		\$ 750
Scott Jameson, capital		60,000
Scott Jameson, withdrawals	12,000	
Translation revenue		17,500
Rent expense	1,100	
Salary expense	1,950	
Utilities expense	<u>300</u>	<u>      </u>
Total	<u>\$78,250</u>	<u>\$78,250</u>

**Req. 4**

The learning from this problem will help a manager

1. Understand the accounting process. Transactions are recorded in the journal and then posted to the ledger. At the end of the period, the account balances are summarized on the trial balance.
2. Use accounting terminology: account, journal, ledger, trial balance, and so on.
3. Take the actual steps in the accounting process that lead to the financial statements.

*Instructional Note:* Student responses may vary considerably.

Req. 1 (journal entries)

(45-60 min.) **P 2-4B**

Sunshine Publishing

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Nov.	16	Cash	1100	6,000	
		Accounts Receivable	1200		6,000
		Received on account.			
	17	Accounts Receivable	1200	2,100	
		Service Revenue	5000		2,100
		Performed services on account.			
	21	Accounts Payable	2100	2,600	
		Cash	1100		2,600
		Paid on account.			
	22	Supplies	1300	4,600	
		Accounts Payable	2100		4,600
		Purchased supplies on account.			
	23	B. Singh, Withdrawals	4100	2,100	
		Cash	1100		2,100
		Withdrew funds for personal use.			
	24	Not a business transaction.			
	26	Cash	1100	11,900	
		Service Revenue	5000		11,900
		Performed service for cash.			
	30	Salaries Expense	6100	2,700	
		Cash	1100		2,700
		Paid employee salaries.			

Req. 2 (ledger accounts)

(continued) **P 2-4B**

Sunshine Publishing

ACCOUNT		CASH	ACCOUNT NO. 1100			
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			16,000 (Dr)
	16		J.6	6,000		22,000 (Dr)
	21		J.6		2,600	19,400 (Dr)
	23		J.6		2,100	17,300 (Dr)
	26		J.6	11,900		29,200 (Dr)
	30		J.6		2,700	26,500 (Dr)

ACCOUNT		ACCOUNTS RECEIVABLE	ACCOUNT NO. 1200			
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			16,000 (Dr)
	16		J.6		6,000	10,000 (Dr)
	17		J.6	2,100		12,100 (Dr)

ACCOUNT		SUPPLIES	ACCOUNT NO. 1300			
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			1,200 (Dr)
	22		J.6	4,600		5,800 (Dr)

ACCOUNT		EQUIPMENT	ACCOUNT NO. 1900			
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			70,000 (Dr)

ACCOUNT		ACCOUNTS PAYABLE	ACCOUNT NO. 2100			
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			9,200 (Cr)
	21		J.6	2,600		6,600 (Cr)
	22		J.6		4,600	11,200 (Cr)

Req. 2 (ledger accounts)

(continued) **P 2-4B**

ACCOUNT		B. SINGH, CAPITAL				ACCOUNT NO. 4000
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			90,000 (Cr)

ACCOUNT		B. SINGH, WITHDRAWALS				ACCOUNT NO. 4100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			4,600 (Dr)
	23		J.6	2,100		6,700 (Dr)

ACCOUNT		SERVICE REVENUE				ACCOUNT NO. 5000
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			14,200 (Cr)
	17		J.6		2,100	16,300 (Cr)
	26		J.6		11,900	28,200 (Cr)

ACCOUNT		RENT EXPENSE				ACCOUNT NO. 6000
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			2,000 (Dr)

ACCOUNT		SALARIES EXPENSE				ACCOUNT NO. 6100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
Nov.	15	Bal.	✓			3,600 (Dr)
	30		J.6	2,700		6,300(Dr)



Req. 3

Sunshine Publishing

Sunshine Publishing			
Trial Balance			
November 30, 2014			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 26,500	
1200	Accounts receivable	12,100	
1300	Supplies	5,800	
1900	Equipment	70,000	
2100	Accounts payable		\$ 11,200
4000	B. Singh, capital		90,000
4100	B. Singh, withdrawals	6,700	
5000	Service revenue		28,200
6000	Rent expense	2,000	
6100	Salary expense	<u>6,300</u>	<u>        </u>
	Total	<u>\$129,400</u>	<u>\$129,400</u>

Req. 1

(40-50 min.) **P 2-5B**  
Blue Ribbon Catering

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a.	Cash	1100	50,000	
		Automobile	1700	26,000	
		B. Ronalds, Capital	3100		76,000
		Received investment by owner.			
	b.	Food Service Equipment	1600	8,000	
		Cash	1100		8,000
		Purchased equipment.			
	c.	Supplies	1500	14,800	
		Accounts Payable	2100		14,800
		Purchased supplies on account.			
	d.	Salary Expense	5800	12,600	
		Cash	1100		12,600
		Paid salary.			
	e.	Cash	1100	4,000	
		Service Revenue	4100		4,000
		Performed service and received cash.			
	f.	Accounts Receivable	1300	8,600	
		Service Revenue	4100		8,600
		Performed service on account.			
	g.	Accounts Payable	2100	12,000	
		Cash	1100		12,000
		Paid on account.			
	h.	Advertising Expense	5100	1,600	
		Accounts Payable	2100		1,600
		Received advertising bill.			

Req. 1

(continued) **P 2-5B**  
Blue Ribbon Catering

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	i.	Cash	1100	2,200	
		Accounts Receivable	1300		2,200
		Collected cash on account.			
	j.	Rent Expense	5700	3,000	
		Insurance Expense	5500	1,600	
		Cash	1100		4,600
		Paid expenses.			
	k.	B. Ronalds, Withdrawals	3200	12,000	
		Cash	1100		12,000
		Withdrawal by owner.			

ACCOUNT		CASH				ACCOUNT NO. 1100
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				50,000		50,000 Dr
b.					8,000	42,000 Dr
d.					12,600	29,400 Dr
e.				4,000		33,400 Dr
g.					12,000	21,400 Dr
i.				2,200		23,600 Dr
j.					4,600	19,000 Dr
k.					12,000	7,000 Dr

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 1300
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
f.				8,600		8,600 Dr
i.					2,200	6,400 Dr

ACCOUNT		SUPPLIES				ACCOUNT NO. 1500
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.				14,800		14,800 Dr

ACCOUNT		FOOD SERVICE EQUIPMENT				ACCOUNT NO. 1600
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
b.				8,000		8,000 Dr

ACCOUNT		AUTOMOBILE			ACCOUNT NO. 1700	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.				26,000		26,000 Dr

ACCOUNT		ACCOUNTS PAYABLE			ACCOUNT NO. 2100	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
c.					14,800	14,800 Cr
g.				12,000		2,800 Cr
h.					1,600	4,400 Cr

ACCOUNT		B. RONALDS, CAPITAL			ACCOUNT NO. 3100	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
a.					76,000	76,000 Cr

ACCOUNT		B. RONALDS, WITHDRAWALS			ACCOUNT NO. 3200	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
k.				12,000		12,000 Dr

ACCOUNT		SERVICE REVENUE			ACCOUNT NO. 4100	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
e.					4,000	4,000 Cr
f.					8,600	12,600 Cr

ACCOUNT		ADVERTISING EXPENSE			ACCOUNT NO. 5100	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
h.				1,600		1,600 Dr

ACCOUNT		INSURANCE EXPENSE			ACCOUNT NO. 5500	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				1,600		1,600 Dr

ACCOUNT		RENT EXPENSE			ACCOUNT NO. 5700	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
j.				3,000		3,000 Dr

ACCOUNT		SALARY EXPENSE			ACCOUNT NO. 5800	
DATE 2014		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
d.				12,600		12,600 Dr

Req. 4

Blue Ribbon Catering

Blue Ribbon Catering			
Trial Balance			
January 31, 2014			
ACTT. NO.	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$ 7,000	
1300	Accounts receivable	6,400	
1500	Supplies	14,800	
1600	Food service equipment	8,000	
1700	Automobile	26,000	
2100	Accounts payable		\$ 4,400
3100	B. Ronalds, capital		76,000
3200	B. Ronalds, withdrawals	12,000	
4100	Service revenue		12,600
5100	Advertising expense	1,600	
5500	Insurance expense	1,600	
5700	Rent expense	3,000	
5800	Salary expense	<u>12,600</u>	<u>          </u>
	Total	<u>\$93,000</u>	<u>\$93,000</u>

Mackle Fitness		
Trial Balance		
July 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 41,000	
Accounts receivable	38,100	
Supplies	9,000	
Office furniture	19,500	
Fitness equipment	600,000	
Accounts payable		\$ 31,500
Notes payable		194,500
G. Mackle, capital		462,000
G. Mackle, withdrawals	75,000	
Service revenue		160,500
Advertising expense	4,500	
Rent expense	15,000	
Salary expense	42,500	
Utilities expense	<u>3,900</u>	<u>          </u>
Total	<u>\$848,500</u>	<u>\$848,500</u>

*Explanations:*

Cash:  $\$47,000 - \$6,000 = \$41,000$

Accounts receivable:  $\$30,000 - \$900 + \$9,000 = \$38,100$

Supplies:  $\$7,500 + \$1,500 = \$9,000$

Office furniture: \$19,500 (amount given)

Accounts payable:  $\$30,000 + \$1,500 = \$31,500$

G. Mackle, capital:  $\$442,500 + \$19,500 = \$462,000$

G. Mackle, withdrawals:  $\$55,500 + \$19,500 = \$75,000$

Service revenue:  $\$73,500 + \$87,000 = \$160,500$

Advertising expense: \$4,500 (amount given)

Rent expense:  $\$9,000 + \$3,000 + \$3,000 = \$15,000$

Utilities expense:  $\$3,000 + \$900 = \$3,900$



Req. 1

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	17	Cash		1,550	
		Guest Revenue			1,550
		Paid cash for rental to the end of December.			
	18	Cash		20,400	
		Notes Receivable			18,000
		Interest Earned			2,400
		Collected an \$18,000 note and related interest.			
	21	Boating Equipment		14,000	
		Cash			5,000
		Guest Revenue			1,600
		Accounts Payable			7,400
		Purchased boating equipment.			
	23	Cash		2,800	
		Guest Revenue			2,800
		Guest revenue earned from a conference.			
	24	Mortgage Payable		2,000	
		Cash			2,000
		Made a payment to reduce the mortgage.			
	27	B. Palmiter, Withdrawals		14,000	
		Cash			14,000
		Owner withdrew cash for personal use.			
	29	Cash		1,100	
		Legal Expense		900	
		Guest Revenue			2,000
		Meeting rooms paid for in cash and in legal work.			

Note: December 16—No entry required. However, the amounts posted must be corrected.

Req. 2

Cash					
Dec.	15	3,800	Dec.	21	5,000
	17	1,550		24	2,000
	18	20,400		27	14,000
	23	2,800			
	29	1,100			
Bal.		8,650			

Accounts Receivable				
Dec.	15	8,800		

Notes Receivable					
Dec.	15	26,000	Dec.	18	18,000
Bal.		8,000			

Supplies Inventory				
Dec.	15	5,800		

Office Equipment				
Dec.	15	10,200		

Boating Equipment				
Dec.	15	96,800		
	21	14,000		
Bal.		110,800		

Furniture				
Dec.	15	57,800		

Building				
Dec.	15	200,000		

Land				
Dec.	15	30,000		

Accounts Payable				
	Dec.	15	12,000	
		21	7,400	
	Bal.		19,400	

Mortgage Payable					
Dec.	24	2,000	Dec.	15	30,000
			Bal.		28,000

B. Palmiter, Capital				
	Dec.	15	209,800	

B. Palmiter, Withdrawals				
Dec.	27	14,000		

Guest Revenue				
	Dec.	15	310,800*	
		17	1,550	
		21	1,600	
		23	2,800	
		29	2,000	
	Bal.		318,750	

\*adjusted for Dec 16 note

Interest Earned			
	Dec.	18	2,400

Equipment Rental Expense			
	Dec.	15	11,800

Insurance Expense			
	Dec.	15	6,800

Legal Expense			
	Dec.	29	900

Salaries Expense			
	Dec.	15	81,000

Supplies Expense			
	Dec.	15	2,800

Utilities Expense			
	Dec.	15	21,000

Req. 3

Maquina Lodge		
Trial Balance		
December 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$8,650	
Accounts receivable	8,800	
Notes receivable	8,000	
Supplies inventory	5,800	
Office equipment	10,200	
Boating equipment	110,800	
Furniture	57,800	
Building	200,000	
Land	30,000	
Accounts payable		\$ 19,400
Mortgage payable		28,000
B. Palmiter, capital		209,800
B. Palmiter, withdrawals	14,000	
Guest revenue		318,750
Interest revenue		2,400
Equipment rental expense	11,800	
Insurance expense	6,800	
Legal expense	900	
Salaries expense	81,000	
Supplies expense	2,800	
Utilities expense	<u>21,000</u>	<u>          </u>
Total	<u>\$578,350</u>	<u>\$578,350</u>

## Challenge Problems

(15-20 min.) **P 2-1C**

### Req. 1

The students may need a hint. Use the statement of Owner's Equity as a model.

$$\begin{array}{ccccccc} \text{Owner's Equity} & + & \text{Owner's} & - & \text{Owner's equity} & = & \text{Income during} \\ \text{at the end of the} & & \text{withdrawals or} & & \text{at the beginning} & & \text{the year} \\ \text{year} & & \text{expenditures} & & \text{of the year} & & \\ \text{(A-L)} & & & & \text{(A-L)} & & \end{array}$$

In other words, Canada Revenue Agency values what Donna has at the end of the year and subtracts what she had at the beginning (\$8,000 in this case) plus an estimate of what she spent on herself during the year; the remainder is the income she must have earned during the year and the amount on which she should be taxed.

### Req. 2

Note – no additional owner's investments have occurred.

The accounting concept is the accounting equation restated. Use the statement of Owner's Equity equation.

$$\begin{array}{ccccccccc} \text{Beg OE} & & \text{investment} & & \text{withdrawals} & & \text{net income} & & \text{End OE} \\ 8,000 & + & 0 & - & 0 & \pm & X & = & ? \end{array}$$

(15-20 min.) **P 2-2C**

While Jack Russell may know his income each year, he doesn't know where his income came from (crops? calves? lambs?) nor what expenses he incurred to earn the income. He doesn't know whether each part of his operation is profitable or not. He doesn't know whether he paid too much tax because of missing expenses he could have deducted.

A formal accounting system would allow Jack to keep track of revenues and expenses by product line. In other words, it would provide the details of his income.

It is true that such a system would be more costly in terms of time and money than the present system. Jack would have to assess whether the additional information is worth the additional cost. There are many inexpensive accounting packages available on the market that are easy to use. Continuing using the present system is a questionable decision as the cash basis is not acceptable as an accounting process.

**Req. 1**

a. Cash	180	
Accounts Receivable		180
b. Equipment	350	
Supplies		350
c. Ledger should be corrected by increasing Fees Income by \$801		
d. Ledger corrected by debiting Salaries Expense by \$900.		
e. Ledger for Accounts Payable must be corrected by debiting the account for \$466 (\$206 + \$260).		
f. K. Kala, Withdrawals	600	
Salaries Expense		600

**Req. 2**

Kala's Kabinet Konnection		
Trial Balance		
December 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$3,020 <sup>a</sup>	
Accounts receivable	3,151 <sup>b</sup>	
Supplies	450 <sup>c</sup>	
Equipment	3,350 <sup>d</sup>	
Accounts payable		2,200 <sup>e</sup>
Notes payable		1,200
K. Kala, capital		8,400 <sup>h</sup>
K. Kala, withdrawals	400	
Fees income		3,181 <sup>f</sup>
Salaries expense	3,700 <sup>g</sup>	
Office expense	910	
Total	<u>\$14,981</u>	<u>\$14,981</u>

*Explanations:*

a.  $\$2,840 + \$180 = \$3,020$

b.  $\$3,331 - \$180 = \$3,151$

c.  $\$800 - \$350 = \$450$

d.  $\$3,000 + \$350 = \$3,350$

e.  $\$2,666 - (\$206 + \$260) = \$2,200$

f.  $\$2,380 + \$801 = \$3,181$

g.  $\$3,400 + \$900 - \$600 = \$3,700$

h. This is the "plug" figure to balance the trial balance.

## Decision Problems

*Req. 1 and 2*

*(40-50 min.)* **Decision Problem 1**

Car Finders

Cash			
(a)	50,000	(d)	1,600
(b)	8,000	(e)	1,200
(h)	7,500	(f)	15,000
(i)	2,400	(c)	27,000
Bal.	23,100		

Accounts Receivable			
(g)	20,600	(i)	2,400
Bal.	18,200		

Supplies			
(d)	1,600		
Bal.	1,600		

Vehicle			
(c)	27,000		
Bal.	27,000		

Notes Payable			
		(b)	8,000
		Bal.	8,000

Amin Akmal, Capital			
		(a)	50,000
		Bal.	50,000

Advising Revenue			
		(g)	20,600
		(h)	7,500
		Bal.	28,100

Advertising Expense			
(e)	1,200		
Bal.	1,200		

Interest Expense			
(f)	200		
Bal.	200		

Rent Expense			
(f)	800		
Bal.	800		

Commission Expense			
(f)	12,400		
Bal.	12,400		

Utilities Expense			
(f)	600		
Bal.	600		

Gas Expense			
(f)	1,000		
Bal.	1,000		



(continued) **Decision Problem 1**

Req. 3

Car Finders

Car Finders		
Trial Balance		
March 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$23,100	
Accounts receivable	18,200	
Supplies	1,600	
Vehicle	27,000	
Notes payable		\$ 8,000
Amin Akmal, capital		50,000
Advising revenue		28,100
Advertising expense	1,200	
Commission expense	12,400	
Gas expense	1,000	
Interest expense	200	
Rent expense	800	
Utilities expense	<u>600</u>	
Total	<u>\$86,100</u>	<u>\$86,100</u>

Req. 4 (Net income or loss for first month of operations)

Car Finders

Car Finders		
Income Statement		
For the Month Ended March 31, 2014		
Revenue:		
Advising revenue		\$28,100
Expenses:		
Advertising expense	\$1,200	
Commission expense	12,400	
Gas expense	1,000	
Interest expense	200	
Rent expense	800	
Utilities expense	<u>600</u>	
Total expenses		<u>16,200</u>
Net income		<u>\$11,900</u>

Recommendations: Continue the business because expected net income exceeds the target amount. Consideration should be given for the fact that the income is not very high.

(15-30 min.) **Decision Problem 2**

1. Double-entry bookkeeping has the advantage that it records both sides (the “giving” side and the “receiving” side) of a business transaction. It is easy to spot errors in a double-entry system because total debits must always equal total credits.
2. The bank is not misusing the term *credit*. When you deposit money in the bank, the bank debits Cash (received from you) and credits Deposits Payable (to you). It is the liability account, Deposits Payable, that is the source of the term *credit*. This is why a bank *credit* is good for the depositor. It means you have more money in the bank.
3. Revenues are credits because they indicate an increase in owner’s equity, which is a credit-balance account. Expenses are debits because they indicate a decrease in owner’s equity. (Confusion arises with these relationships because of the other side of revenue and expense transactions. For example, Cash may be received for a revenue transaction. Cash is debited as Revenue is credited to account for the transaction. Cash may be paid for an expense transaction. Cash is credited as Expense is debited.)\*

\* *Instructional Note:* Students probably will not include this parenthetical information in their answers.

## Financial Statement Cases

### *(15-20 min.)* **Financial Statement Case 1**

1. Gildan Activewear presents its financial statements in U.S. Dollars. This is called the “functional currency.”
2. Amounts are recorded in thousands of dollars. The amount of other current assets is \$9,307,000.
3. October 2, 2011 is the date of the most recent financial statement. In 2010 it was dated October 3. The notes to the statements explain that the fiscal year ends on the first Sunday following September 28.
4. No. The current financial statements follow Canadian generally accepted accounting principles for publicly accountable enterprises. Gildan is a publicly traded company so it must follow IFRS for all statements for fiscal years that start after January 1, 2011. It states so in Note 1 (b).

Req. 2

<b>Journal</b>					
DATE 2011		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	a.	Trade and Other Accounts Receivable		400,435	
		Revenue			400,435
	b.	General and Administration Expenses		13,613	
		Cash			13,613
	c.	Interest Expense		421,440	
		Cash			421,440
	d.	Cash		7,567	
		Accounts Receivable			7,567
	e.	Prepaid Expenses and Deposits		36,330	
		Cash			36,330
	f.	Property, Plant and Equipment		5,000	
		Accounts Payable and Accrued Liabilities			5,000
	g.	General, and Administration Expenses		15,440	
		Cash			15,440

(continued) **Financial Statement Case 2**

*Req. 1, 3, 4 – partial list of accounts*

Cash			
Bal.	7,165,119	b.	13,613
d.	7,567	c.	421,440
		e.	36,330
		g.	15,440
6,685,863			

Trade and Other Accounts Receivable			
Bal.	14,150,696	d.	7,567
a.	400,435		
14,543,564			

Prepaid Expenses and Deposits			
Bal.	1,303,881		
f.	5,000		
1,308,881			

Property, Plant, and Equipment			
Bal.	2,788,992		
f.	5,000		
2,793,992			

Accounts Payable and Accrued Liabilities			
	Bal.	1,303,881	
	f.	5,000	
	1,308,881		

Revenue			
	Bal.	18,427,019	
	a.	400,435	
	18,827,454		

General and Administration Expenses			
Bal.	1,236,871		
b.	13,613		
g.	15,440		
1,265,924			

Interest Expense			
c.	421,440		

*Req. 5*

Examples of a few accounts that could be summarized in each category.

- a) Property, plant and equipment:  
Land, buildings, machinery, equipment, automobiles, computer equipment.
- b) Accounts payable and accrued liabilities:  
Utilities payable, rent payable, income tax payable, interest payable.
- c) General and administration expenses:  
Advertising expense, telephone expense, utilities expense, rent expense

## CHAPTER 2

### Recording Business Transactions

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#### Chapter Overview

Chapters 2, 3, and 4 demonstrate the accounting process, which is introduced to students at the beginning of this chapter. Chapter 2 examines the first 4 steps of the accounting process:

- Identify and analyze transactions (introduced in Chapter 1)
- Record transactions in a journal
- Post (copy) from the journal to the accounts in the ledger
- Prepare the trial balance

Specifically, Chapter 2 includes the following topics (in this order):

- Key accounting terms are introduced:
  - Accounts (assets, liabilities, and owner's equity, which are described)
  - The ledger, the journal, and the chart of accounts
  - Appendix B at the end of the textbook gives an expanded chart of accounts.
- Identify and analyze transactions
  - Due to the “double-entry system,” every transaction will affect at least two accounts and each account has a left and a right side, which is explained.
    - Every transaction will result in an equal amount being entered on the left and right side.
    - Accounting terms “debit” and “credit” are introduced as describing entries on the left side and on the right side of the account
    - It is linked to the accounting equation; assets (left side) = liabilities + equity (right side)
    - The rules for “debits” and “credits” for each type of account and the normal balances of accounts are explained.
- Record transactions in a journal
  - Source documents are described before the journal is introduced and a four-step process of recording transactions (journalizing) is illustrated.
- Post (copy) from the journal to the accounts in the ledger
  - Journalizing and posting is demonstrated using the same 11 transactions from Chapter 1 for HEC (source documents are provided for some of the transactions).
  - Exhibit 2-12 shows the end result after posting the transactions.
  - Details of journals, ledgers, and the posting process are presented, including an illustration of a three-column account with a running balance. Exhibit 2-13 illustrates the details and the important links between the journal and the ledger.
- Prepare the trial balance
  - Trial balance is defined and prepared
  - The reason for preparing the trial balance is explained
  - Some accounting errors revealed by a trial balance are described.
- The procedures described are also followed by companies reporting under IFRS.

**JUST CHECKING** questions appear at the end of each Learning Objective for students to test their understanding of the Learning Objective just completed. The answers appear on MyAccountingLab.

Students should be directed to [www.myaccountinglab.com](http://www.myaccountinglab.com). It includes a number of tutorials (Accounting Cycle Tutorials) covering various topics in Chapter 2: 1. Balance Sheet Accounts and Transactions, 2. Income Statement Accounts and Transactions, and 3. The Journal and the Ledger. Also included on MyAccountingLab are Excel templates for Exercise 2-6 and 2-11.

The *Assignment Grid* recommends “Pre-Test” questions in MyAccountingLab that can be assigned before a test or exam to ensure students understand the topics, as well as “Post-Test” questions that students can complete after a test or exam to check understanding before moving on.

**Connecting Learning Objectives, Key Questions, and the Canadian Financial Accounting Learning Outcomes**

	Learning Objective	Key Question	Canadian Financial Accounting Learning Outcome
1	Define and use key accounting terms	What are the key terms used when recording transactions?	A-1 Identify and apply accounting concepts and principles found in the Conceptual Framework
2	Apply the rules of debit and credit	How do we track changes in accounts?	A-3 Analyze and record transactions and their effects on the financial statements
3	Analyze and record transactions in the journal	How do we record business transactions?	A-3 Analyze and record transactions and their effects on the financial statements
4	Post from the journal to the ledger	What is the next step after recording the transaction?	A-2 Describe the components of and prepare the four basic financial statements
5	Prepare and use a trial balance	How can we check if the records are in balance?	A-2 Describe the components of and prepare the four basic financial statements
6	Apply international financial reporting standards (IFRS) to recording business transactions	How does IFRS apply to transactions?	A-18 Compare and contrast IFRS and ASPE

### **Suggested Priority of Chapter Topics**

#### *Must Cover*

- Terminology and description of the accounts
- Double-entry accounting
- Transaction analysis
- The debit and credit rules
- Recording transactions in the journal
- Expanding the rules of debit and credit to include revenue and expense accounts
- Posting from the journal to the ledger accounts
- Details of ledgers and journals
- The trial balance

#### *Recommended*

- The T-account
- Chart of accounts
- Normal balance of an account
- Source Documents

#### *If time permits*

- Correcting trial balance errors
- Recording business transactions under international financial reporting standards (IFRS)



## **Chapter Outline**

### ***Learning Objective 1: Define and use key accounting terms***

*(What are the key terms used when recording transactions?)*

- A. **Account** — a basic component of an accounting system. The account shows all the increases and decreases in a particular asset, liability, or owner's equity during a period. Accounts are grouped based on the accounting equation,  $A = L + O/E$ .
- B. **Ledger** — a group of accounts. All the accounts of a business grouped together form a book called the ledger. Exhibit 2-1 shows how accounts are grouped in the ledger. (Note that **Journal** is introduced later in Learning Objective 3, during the study of how to record a business transaction.)
- C. **Assets** — economic resources that will benefit the business in the future. Cash, accounts and notes receivable, prepaid expenses, land, building, furniture, and equipment are examples of assets.
- D. **Liabilities** — debts or other obligations of the business that must be satisfied in the future. Examples of liabilities are accounts and notes payable, and other accrued liabilities such as taxes payable, salary payable, and interest payable. **Accrued liabilities** are expenses that have not been paid.
- E. **Owner's Equity** — in a proprietorship, the owner's claims to the assets owned by the business. Capital, withdrawals, revenues, and expenses are owner's equity accounts.
  - 1. **Capital** — the owner's claim to the business. The owner's investments and net income increase capital and therefore increase owner's equity.
  - 2. **Withdrawals** — the owner's withdrawals of cash or other assets from the business for personal use. Withdrawals decrease owner's equity.
  - 3. **Revenues** — increases in owner's equity from performing services or selling products. Service revenue, interest revenue, and rent revenue are examples.
  - 4. **Expenses** — costs incurred in operating a business. Expenses decrease owner's equity. A business may have many different expenses, including salary, rent, interest, repairs, and so on.

#### **Teaching Tip**

Accounting is based on these six types of accounts: Assets, Liabilities, Capital, Withdrawals, Revenues, and Expenses. Students should have a good understanding of each before continuing.

- F. **The chart of accounts** lists all the accounts by account number. (An example is given in Exhibit 2-3.) Accounts are numbered beginning with assets, then liabilities, owner's equity, revenues, and finally expenses; accounts in the ledger are always in this same order.

### Teaching Tip

Assets are normally numbered in the 100s or 1000s, Liabilities 200 or 2000s, Owner's Equity 300 or 3000s, Revenues 400 or 4000s, and Expenses 500 or 5000s. The fact that accounts of similar nature are grouped using similar numbers and that many companies use these groupings is a helpful learning tip that might help students identify the type of account when they find the title of the account confusing.

### **Learning Objective 2: Apply the rules of debit and credit**

*(How do we track changes in accounts?)*

- A. **Double-entry accounting** — records the dual effects of a business transaction. The dual effects of a transaction can also be described as having a “receiving side” and a “giving side” Each transaction affects at least two accounts. One account “receives” while the other “gives” Consider the purchase of a Building for Cash. A Building was “received” and Cash was “given.”
- B. The **T-account** is an abbreviated form of a ledger account used to help illustrate the effect of transactions. Students should be reminded that the T-account is a “tool” used by accountants and accounts are presented slightly differently in the ledger.

Account Name	
<b>Debit</b> entries (left side)	<b>Credit</b> entries (right side)

- C. The type of account determines the side on which increases and decreases are recorded; the **rules of debit and credit** keep the accounting equation in balance.
1. **Increases in assets** are recorded on the **left (debit)** side of the account. **Decreases in assets** are recorded on the **right (credit)** side.

Asset	
<b>Debit</b> entries (left side) Increases	<b>Credit</b> entries (right side) Decreases

2. Rules for liabilities and owner's equity accounts are the opposite of the rules for assets. **Increases in liabilities** and **owner's equity** accounts are recorded on the **right (credit)** side of an account, and **decreases** are recorded on the **left (debit)** side.

Liability and Owner's Equity	
<b>Debit</b> entries (left side) Decreases	<b>Credit</b> entries (right side) Increases

- D. Summaries of the **rules of debit and credit** are found in Exhibits 2-4 and 2-7. Assets, liabilities, and owner's equity are listed first in Exhibit 2-4, and then revenues, expenses, and withdrawals are added in Exhibit 2-7.

- E. Double-entry accounting and the rules of debit and credit are based on the **accounting equation**,  $A = L + O/E$ . After each transaction is recorded, the equation must remain in balance, as illustrated in Exhibit 2-5.
- F. After increases and decreases in an account are recorded, the amount remaining in the account is its **balance**. Account balances are computed by adding the beginning balance and the increases, and subtracting the decreases. (The balance equals the difference between total debit entries and total credit entries.)
- G. Create or **open** new accounts as needed when recording transactions.
- H. An expanded accounting equation, in Exhibit 2-6, illustrates how beginning capital, withdrawals, revenues, and expenses are all part of owner's equity.
  - 1. An expense is recorded with a debit to a specific expense account.
  - 2. A revenue is recorded with a credit to a specific revenue account.
  - 3. Withdrawals are recorded with a debit to the Withdrawals account.
- I. The **normal balance** of an account is the side used to record increases; Exhibit 2-8 lists the normal balances for all types of accounts. An account that has a **negative balance** (the opposite of its normal balance) may indicate that an error has been made.

#### Teaching Tip

Students must become thoroughly familiar with the rules of debits and credits, and the normal balances of accounts, if they are going to be successful in this course and in future accounting courses. There are many memory tricks available to aid students in remembering the rules of debits and credits. Some have been created by students themselves and can be found on YouTube. Encourage students to find them on YouTube.

#### ***Learning Objective 3: Analyze and record transactions in the journal*** (How do we record business transactions?)

- A. Transactions are **recorded first in the journal**, a chronological listing of all the entity's business transactions. (Refer to Exhibit 2-9 for an illustration of the journal.) Most transactions are recorded based on a **source document**, which provides the evidence that a transaction has taken place.

#### Teaching Tip

In the electronic world we live in, more and more source documents are being replaced by clicks on a computer screen. Therefore, only your mature students (over 30), may have seen a source document. Copies of source documents have been provided in the text and should be highlighted in the classroom, especially if you have a particularly young class.

- B. **Analysis of each transaction** involves these 4 steps and is illustrated in the text using the first two transactions of Hunter Environmental Consulting (HEC) from Chapter 1:
  - 1. **Identify the transaction** from the source document, such as a sales invoice or cheque stub.

2. **Identify the types of accounts** affected by the transaction, such as asset or expense.
  3. **Determine which accounts increase and which decrease.** (Some transactions may require *only* increases or *only* decreases.) **Apply the rules of debit and credit.**
  4. **Write the transaction in the journal**, listing first the debit and then the credit. Include a brief explanation. Verify that total debits equal total credits.
- C. The journal shows the **complete effect of each transaction**, not just one part of it. The journal provides more information than the ledger.
- D. Personal transactions of the owner and transactions of other businesses are not included on the financial statements of a business. (This is due to the economic entity assumption, which was studied in Chapter One).

### Teaching Tip

Refer students to MyAccountingLab to work through the Accounting Cycle Tutorials (they can be found under “Animation”, Chapter Two) for The Journal and The Ledger. There are additional resources under Animation that students can view 24/7, and they should be encouraged to do so.

### ***Learning Objective 4: Post from the journal to the ledger***

*(What is the next step after recording the transaction?)*

- A. **Posting** — the process of transferring data from the journal to the accounts in the ledger.
1. Debits in the journal are posted as debits to the appropriate accounts; credits in the journal are posted as credits to the appropriate accounts.
  2. All transactions must be keyed by date or number to link information. (Exhibit 2-10 illustrates the flow of accounting information, from journalizing the original entry to posting it to the accounts in the ledger.)
- B. Posting may be performed manually, or a computerized accounting program may be used to perform the task quickly and error-free.
- C. Students gain practice examining source documents, journalizing, and posting to T-accounts by analyzing various transactions for Hunter Environmental Consulting (HEC).

### Teaching Tip

Walk through the journalizing and posting process with students from the first step of identifying source documents to recording the account numbers in the journal after amounts have been posted to the ledger. Try using Exhibit 2-13 as a visual aid during this walk through. Also try giving students a one page journal of the 11 transactions (the same 11 transactions from Chapter One) and a blank ledger, and ask students to post with you as you walk through the transactions.

D. Posting provides a **cross-reference** between the journal and the ledger.

1. Exhibit 2-13 illustrates a journal and ledger, including several transactions, showing in full the details of the posting process, references, and account numbers. The three-column format of ledger with a running balance is most often used in practice and is shown in Exhibit 2-13.
2. **“Journal reference”** tells which journal and page number the entry comes *from*.
3. **“Posting reference”** tells which account number the entry is posted *to*.
4. The reference columns indicate which transactions or parts of transactions have been posted.

**Learning Objective 5: Prepare and use a trial balance**

*(How can we check if the records are in balance?)*

- A. The **trial balance** is a listing, in general ledger order, of the debit or credit balance in each account. (Refer to Exhibit 2-14.) The trial balance is *not* one of the four financial statements, but merely a **tool** for the accountant.
- B. The trial balance proves whether debit balances in the accounts equal credit balances.
- C. Unequal column totals indicate at least one error. Some **common errors** are:
  1. Posting incorrectly.
  2. Mathematical errors.
    - a. **Transposition** means digits are written in the wrong order. (For example, instead of \$567, the number is written as \$657.) A transposition error is always evenly divisible by 9 ( $\$657 - \$567 = \$90$ , which is divisible by 9).
    - b. A **slide** means that one or more zeroes are added to, or left off, a number (\$1,000 is written as \$100). A slide is always evenly divisible by 9.
  3. Omitting or entering account balances in the wrong column of the trial balance.
- D. Equal trial balance totals prove only that debits posted to accounts equal credits posted to accounts. Errors in transactions that have equal debits and credits will not be revealed by unequal trial balance totals.

**Teaching Tip**

Emphasize the trial balance as a “tool” used to ensure that the dollar amount of debits equal credits. Proof of this is the fact that in real life, financial statements do not show every account to external users; rather, they show highly summarized balances of assets, liabilities, and equity. Since examples in introductory accounting textbooks don’t illustrate this, students often confuse the trial balance with the balance sheet. Point out the differences between them and emphasize their role in the accounting reporting process. If possible, show a real-life example.

***Learning Objective 6: Apply international financial reporting standards (IFRS) to recording business transactions***

*(How does IFRS apply to transactions?)*

- A. The procedures of identifying and recording business transactions described in this chapter are followed by companies that report their results using IFRS.
- B. Under certain circumstances, the accounts used to record the transactions may differ. These differences will be described as they appear in future chapters.

**Answer Key to Chapter 2 Quiz**

1. C    2. C    3. D    4. A    5. C    6. B    7. D    8.D    9.B    10. C

**Assignment Grid** (2nd column: \* = Excel Template available, W = writing required)

<b>Assignment</b>		<b>Topic(s)</b>	<b>Learning Objective</b>	<b>Time in Minutes</b>	<b>Level of Difficulty</b>	<b>MAL Pre-Test/ (Post-Test)</b>
S 2-1		Use accounting terms	1	5-10	Easy	
S 2-2		Use accounting terms	1	5-10	Easy	Pre-Test
S 2-3	W	Explaining the rules of debit and credit	2	5-10	Easy	
S 2-4		The rules of debit and credit	2			Pre-Test
S 2-5		Recording transactions	3	10-15	Medium	Pre-Test
S 2-6		Recording transactions	3	10-15	Medium	
S 2-7		Journalizing transactions, posting	3,4	10-15	Medium	
S 2-8		Journalizing transactions, posting	3,4	10-15	Medium	
S 2-9		Preparing a trial balance from T-accounts	5			Pre-Test
S 2-10		Posting, preparing a trial balance	4,5	10-15	Medium	
S 2-11		Preparing a trial balance	4,5	10-15	Medium	
S 2-12		Correcting a trial balance	5	10-15	Difficult	
S 2-13		Correcting a trial balance	5	10-15	Difficult	
E2-1	W	Using accounting vocabulary	1	10-15	Easy	
E2-2		Using accounting vocabulary	1	10-15	Easy	
E2-3		Using debits and credits with the accounting equation	1,2	10-15	Easy	
E2-4		Analyzing and journalizing transactions	2,3	10-20	Easy	
E2-5		Posting transactions using T-accounts	4	10-20	Medium	
E2-6	*	Journalizing transactions	3	10-25	Medium	Post-Test
E2-7		Posting transactions using T-accounts, preparing a trial balance	4,5	20-30	Medium	Post-Test
E2-8	W	Describing transactions and posting using T-accounts	3,4	20-30	Medium	
E2-9		Journalizing transactions	3	10-20	Medium	Post-Test
E2-10		Preparing a trial balance	5	10-20	Medium	Post-Test
E2-11	*	Preparing a trial balance	5	10-20	Medium	
E2-12		Journalizing and posting	3,4	20-25	Medium	
E2-13		Preparing a trial balance	5	10-20	Medium	
E2-14		Correcting errors in a trial balance	5	15-25	Medium	
E2-15		Recording transactions and preparing a trial balance—Serial Exercise	2,3,4,5	20-30	Medium	
E2-16		Computing financial statement amounts – Challenge Exercise	2,5	30-50	Difficult	
E2-17		Analyzing accounting errors – Challenge Exercise	2,3,5	20-30	Difficult	
BN2-1	W	Identifying the accounts of a new business	1	15-20	Difficult	
Ethical Issue	W					
P2-1A		Analyzing a trial balance	1,5	15-30	Easy	
P2-2A		Analyzing and journalizing	2,3	20-30	Medium	

<i>Assignment</i>		<i>Topic(s)</i>	<i>Learning Objective</i>	<i>Time in Minutes</i>	<i>Level of Difficulty</i>	<i>MAL Pre-Test/ (Post-Test)</i>
		transactions				
P2-3A		Journalizing transactions, posting to T-accounts, and preparing a trial balance	2,3,4,5	40-50	Medium	Post-Test
P2-4A		Journalizing transactions, posting to ledger accounts, and preparing a trial balance	2,3,4,5	45-60	Medium	
P2-5A		Recording transactions; using three-column ledger accounts; preparing a trial balance	2,3,4,5	40-50	Difficult	
P2-6A		Correcting errors in a trial balance	2,5	15-20	Difficult	
P2-7A		Journalizing transactions, posting to T-accounts, and preparing a trial balance	2,3,4,5	45-60	Medium	
P2-1B		Analyzing a trial balance	1,5	15-30	Easy	
P2-2B		Analyzing and journalizing transactions	2,3	20-30	Medium	
P2-3B		Journalizing transactions, posting to T-accounts, and preparing a trial balance	2,3,4,5	40-50	Medium	
P2-4B		Journalizing transactions, posting to three-column ledger accounts, and preparing a trial balance	2,3,4,5	45-60	Medium	
P2-5B		Recording transactions, using three-column ledger accounts, preparing a trial balance	2,3,5	40-50	Difficult	
P2-6B		Correcting errors in a trial balance	2,5	15-20	Medium	
P2-7B		Journalizing transactions, posting to T-accounts, and preparing a trial balance	2,3,4,5	45-60	Medium	
P2-1C		Understanding the rules of debit and credit	2	15-20	Medium	
P2-2C		Using a formal accounting system	3,4	15-20	Medium	
P2-3C		Understanding the rules of debit and credit; preparing a trial balance	2,5	20-30	Difficult	
Decision P-1		Recording transactions directly in the ledger, preparing a trial balance, and measuring net income or loss	2,3,4,5,	40-50	Difficult	
Decision P-2		Using the accounting equation	2	15-30	Medium	
FS Case-1	W	Applying the rules of debit and credit, journalizing transactions	2,3,6	15-20	Medium	
FS Case-2		Journalizing transactions	2,3	30-40	Medium	



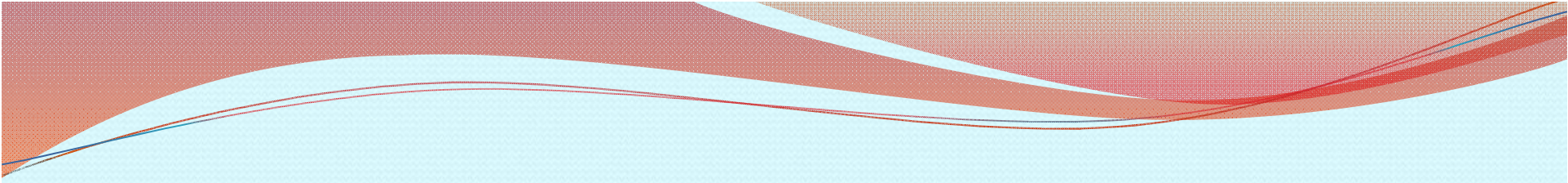
Name \_\_\_\_\_ Date \_\_\_\_\_ Section \_\_\_\_\_

**CHAPTER 2**  
**TEN-MINUTE QUIZ**

**Circle the letter of the best response.**

1. Which of these is (are) an example of a liability account?
  - A. Withdrawals
  - B. Telephone Expense
  - C. Salary Payable
  - D. All of the above are liabilities
2. Davie Services purchased \$500 of office furniture on account. The effect of this transaction on the accounting equation is to:
  - A. Have no effect on total assets.
  - B. Increase assets and decrease owner's equity.
  - C. Increase assets and increase liabilities.
  - D. Decrease assets and decrease owner's equity.
3. Which of these statements is true?
  - A. Decreases in assets and increases in liabilities are recorded with a debit.
  - B. Decreases in liabilities and increases in revenues are recorded with a credit.
  - C. Increases in assets and increases in owner's equity are recorded with a credit.
  - D. Increases in both assets and expenses are recorded with a debit.
4. Which of these accounts has a normal credit balance?
  - A. Capital
  - B. Withdrawals
  - C. Cash
  - D. Salary Expense
5. Accounts Payable has a normal beginning balance of \$18,500. During the period, purchases on account total \$50,500 and payments on account total \$45,600. Determine the correct ending balance in Accounts Payable.
  - A. \$23,400, debit
  - B. \$13,600, debit
  - C. \$23,400, credit
  - D. \$13,600, credit
6. The beginning Cash account balance is \$98,100. During the period, cash receipts are \$32,800. If ending Cash is \$44,200, then cash payments must have been:
  - A. \$21,100
  - B. \$86,700
  - C. \$109,500
  - D. \$175,100

7. The journal entry to record the payment of \$600 to a vendor on account is:
- |                        |     |     |
|------------------------|-----|-----|
| A. Accounts Receivable | 600 |     |
| Cash                   |     | 600 |
| B. Cash                | 600 |     |
| Accounts Payable       |     | 600 |
| C. Cash                | 600 |     |
| Accounts Receivable    |     | 600 |
| D. Accounts Payable    | 600 |     |
| Cash                   |     | 600 |
8. Which of these statements is correct?
- The chart of accounts is the first place accounting transactions are written.
  - A business transaction is recorded first in the ledger and then posted to the journal.
  - The ledger is a chronological listing of all transactions.
  - Posting is the copying of transactions from the journal to the ledger.
9. A list of all accounts with their current debit or credit balances is the:
- Chart of accounts
  - Trial balance
  - Ledger
  - Journal
10. Use the following selected information for Martinez Company to calculate the correct debit column total for a trial balance:
- |                     |          |
|---------------------|----------|
| Accounts receivable | \$ 3,450 |
| Accounts payable    | 3,600    |
| Building            | 89,800   |
| Cash                | 7,800    |
| Capital             | 32,000   |
| Insurance expense   | 3,300    |
| Salary expense      | 28,000   |
| Salary payable      | 1,800    |
| Service revenue     | 95,250   |
- \$164,500
  - \$132,500
  - \$132,350
  - \$101,200



# **Recording Business Transactions**

## Chapter 2



# Learning Objective 1

## Define and use key accounting terms

What are the key terms used when recording transactions?



# The Accounting Process

1. Identify and analyze transactions
2. Record transactions in a journal
3. Post (copy) from the journal to the accounts in the ledger
4. Prepare the trial balance
5. Journalize and post adjusting entries
6. Prepare the financial statements
7. Journalize and post the closing entries
8. Prepare the postclosing trial balance

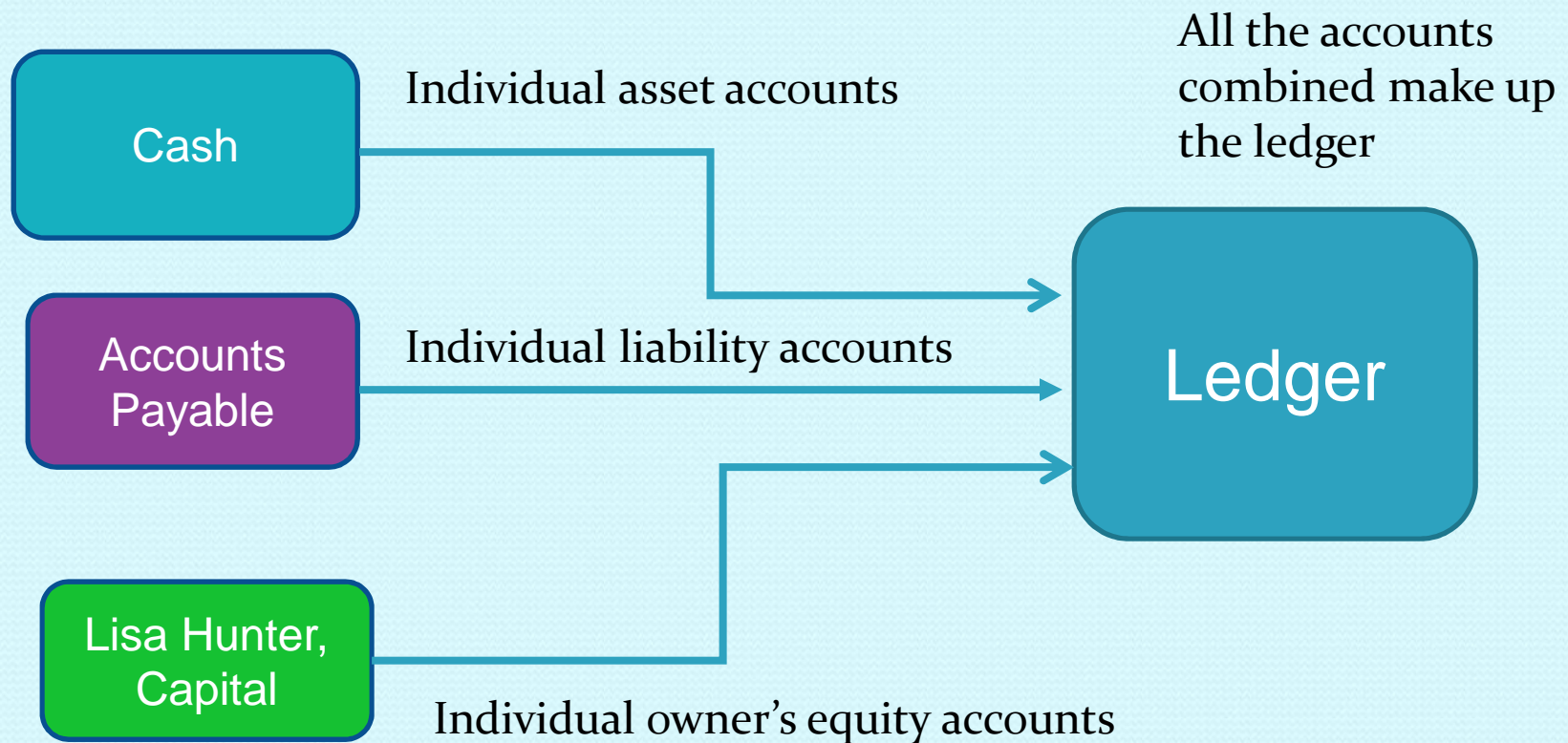


# The Account, the Ledger, and the Journal

- The account is the detailed record of the changes that have occurred in a particular:
  - Asset
  - Liability
  - Item of Owner's Equity



# The Ledger





# The Journal

- Accountants record transactions in a **journal**
- This is the chronological record of transactions
- The information is then **posted (copied)** to individual accounts

Journal

Page 1

Date	Accounts and Explanations	Post Ref.	Debit	Credit
Apr. 2	Cash		250,000	
	Lisa Hunter, Capital			250,000
	Received initial investment from owner.			



# Assets

- Assets are economic resources that will benefit the business in the future.
- Assets include:
  - Cash
  - Accounts receivable
  - Notes receivable
  - Prepaid expenses
  - Land
  - Building
  - Equipment, Furniture, and Fixtures



# Liabilities

- Liabilities are debts incurred by the business
- Liabilities include:
  - Bank loan
  - Accounts payable
  - Notes payable
  - Accrued liabilities (taxes payable, salary payable, interest payable)



# Owner's Equity

- The owner's claims to the assets of a business
- Owner's equity includes:
  - Capital
  - Withdrawals
  - Revenues
  - Expenses



# Capital Account

## Items affecting the Capital Account

Capital  
account  
(ending  
balance)

Beginning Capital

+ Investments

+ Net Income (revenues > expenses)

– Net loss (expenses > revenues)

– Withdrawals



# Chart of Accounts

- Lists all accounts. In many cases, the account names are listed along with the account numbers.
- One example has assets begin with 1000, liabilities with 2000, owner's equity with 3000, revenues with 4000, and expenses with 5000



# Chart of Accounts – Hunter Environmental Services

## Assets

1100 Cash  
1200 Accounts Receivable  
1400 Office Supplies  
1500 Office Furniture  
1900 Land

## Liabilities

2100 Accounts Payable  
2300 Notes Payable

## Owner's Equity

3000 Lisa Hunter, Capital  
3100 Lisa Hunter, Withdrawals

Income Statement  
Accounts (part of  
owner's equity)

## Revenue

4000 Service Revenue

## Expenses

5100 Rent Expense  
5200 Salary Expense  
5300 Utilities Expense

## Learning Objective 2

Apply the rules of debit and credit

How do we track changes in accounts?



# Double-Entry Accounting

- Double entry accounting = dual (or two) effects of each transaction, the receiving side and the giving side
- Each transaction affects *at least two accounts*
- The owner invests \$250,000 into a new business

ASSETS = LIABILITIES + OWNER'S EQUITY

+250,000



The business  
received cash  
of \$250,000

+\$250,000

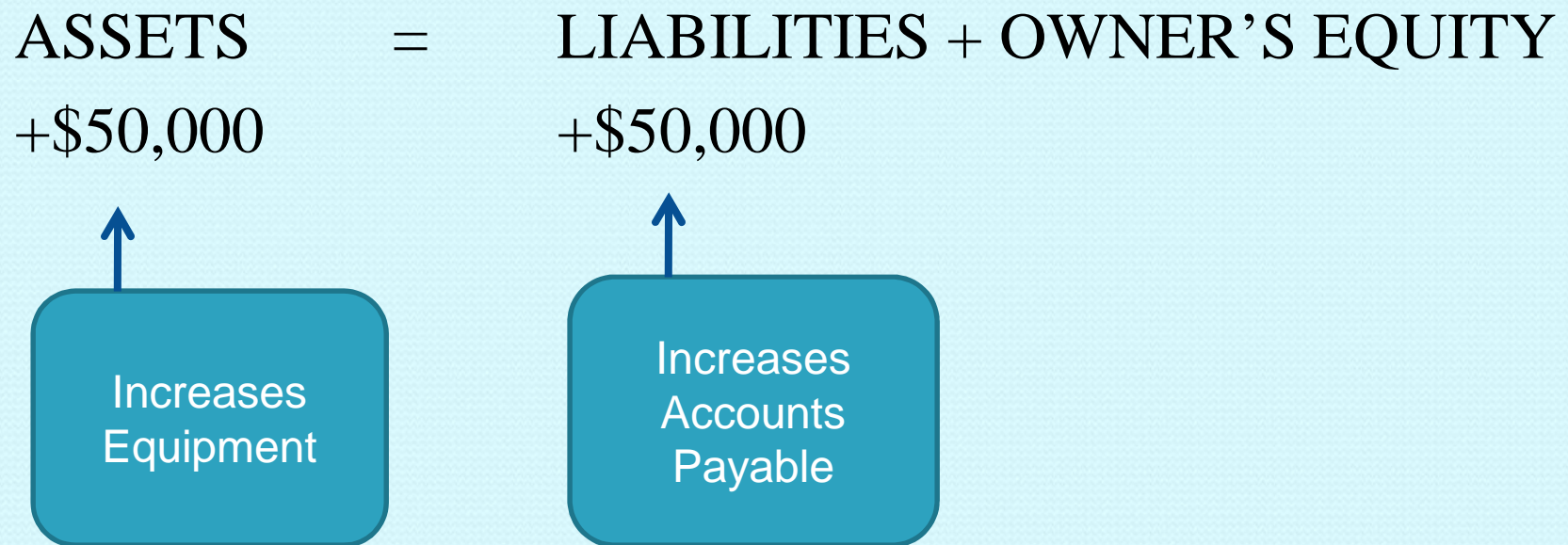


Gave Lisa Hunter \$250,000 of  
owner's equity in the business



# Double-Entry Accounting: An Example

- Credit purchase of a truck for \$50,000





# The T-Account

Account Title	
Debit	Credit
<b>LEFT SIDE</b>	<b>RIGHT SIDE</b>



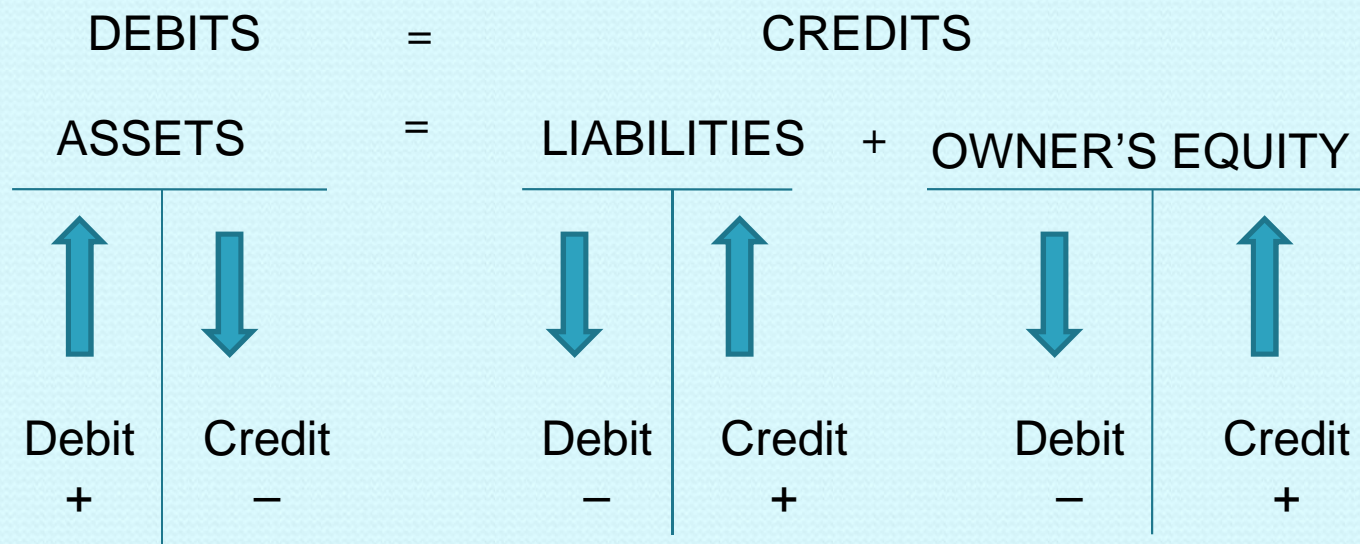
# Increases and Decreases in the Accounts

Assets		Liabilities and Owner's Equity	
Increase = Debit	Decrease = Credit	Decrease = Debit	Increase = Credit

ASSET = LIABILITIES + OWNER'S EQUITY  
DEBITS = CREDITS



# The Accounting Equation and the Rules of Debit and Credit



**TOTAL DEBITS MUST EQUAL TOTAL CREDITS**



# An Example

- Lisa Hunter invested \$250,000 cash to start her business

Assets = Liabilities + Owner' Equity

Cash
Debit for increase, \$250,000

L. Hunter, Capital
Credit for increase, \$250,000



## An Example, continued

- Lisa Hunter invested \$250,000 cash to begin HES
- \$100,000 cash purchase of land

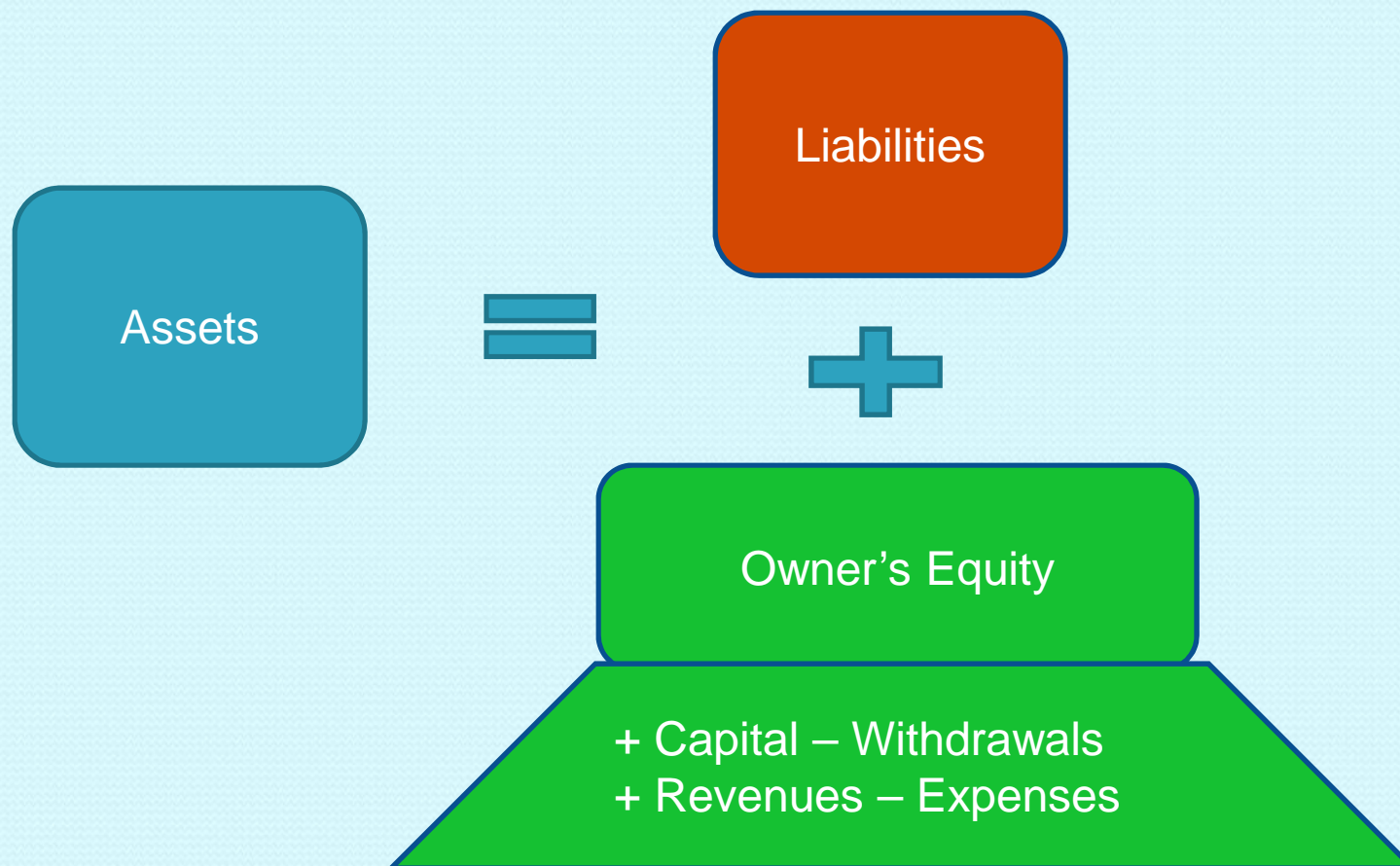
Assets = Liabilities + Owner' Equity

Cash	
250,000	100,000
Balance 150,000	
Land	
100,000	

L. Hunter, Capital	
	250,000



# Expanding the Rules of Debit and Credit: Revenues and Expenses





# Normal Balance of an Account

- The normal balance for asset accounts = debit
- The normal balance for liability accounts = credit
- The normal balance for capital accounts = credit
- The normal balance for revenue accounts = credit
- The normal balance for expense accounts = debit
- The normal balance for withdrawal accounts = debit



## Learning Objective 3

Analyze and record transactions in the journal

How do we record business transactions?



# Source Documents – The Origin of Transactions

- Source documents are the evidence of transactions
- Journalizing a transaction is the chronological record of the entity's transaction
- Process of journalizing transactions is as follows:
  - Identify the transaction from the source document
  - Identify each account affected by the transaction
  - Apply the rules of debit and credit
  - Record the transaction in the journal with an explanation or description



## Journal Entries include....

- The date of the transaction
- The title of the account debited, along with the dollar amount
- Title of the account credited, along with the dollar amount
- A short explanation of the transaction



# Recording Transactions

Journal

Page 1

Date	Accounts and Explanations	Post Ref.	Debit	Credit
Apr. 2	Cash		250,000	
	Lisa Hunter, Capital			250,000
	Received initial investment from owner.			

Insert the ledger account in the journal



## Learning Objective 4

### Post from the journal to the ledger

What is the next step in recording a transaction?



# Posting (Transferring Information) from the Journal to the Ledger

- Posting is the transferring of the data from the journal to the ledger

Account: Cash

Date	Item	Jrnl. Ref.	Debit	Credit	Balance
2014					
Apr. 2			250,000		250,000 Dr.

Account: Lisa Hunter, Capital

Date	Item	Jrnl. Ref.	Debit	Credit	Balance
2014					
Apr. 2				250,000	250,000 Cr

Insert the journal page number



## Learning Objective 5

### Prepare and use a trial balance

How can we check if the records are in balance?



# The Trial Balance

- A trial balance summarizes the ledger by listing all accounts with their balances
- Before computers, the trial balance provided a check on accuracy by showing whether total debits equal total credits



# The Trial Balance

## HUNTER ENVIRONMENT SERVICES

Trial Balance

April 30, 2014

Account Number	Account	Balance	
		Debit	Credit
1100	Cash	\$222,000	
1200	Accounts Receivable	10,000	
1400	Office supplies	7,000	
1900	Land	50,000	
2100	Accounts Payable		\$ 2,000
3000	Lisa Hunter, capital		250,000
3100	Lisa Hunter, Withdrawals	6,000	



# The Trial Balance, Continued

## HUNTER ENVIRONMENT SERVICES

Trial Balance

April 30, 2014

Account Number	Account	Balance	
		Debit	Credit
4999	Service Revenue		55,000
5100	Rent Expense	6,000	
5200	Salary Expense	6,500	
5300	Utilities Expense	1,500	
	Totals	\$307,000	\$307,000



# Correcting Trial Balance Errors

- Search for missing accounts
- Search the journal for the amount of the difference
- Divide the difference between total debits and total credits by 2
- Divide the out-of-balance amount by 9



## Learning Objective 6

Apply international financial reporting standards (IFRS) to recording business transactions

How does IFRS apply to transactions?



# Recording Business Transactions Under IFRS

- The procedures that identify and record business transactions described previously are followed by companies that report their results using international financial reporting standards (IFRS) and those using accounting standards for private enterprises (ASPE).
- All companies must ensure that debits and credits are equal for all transactions.