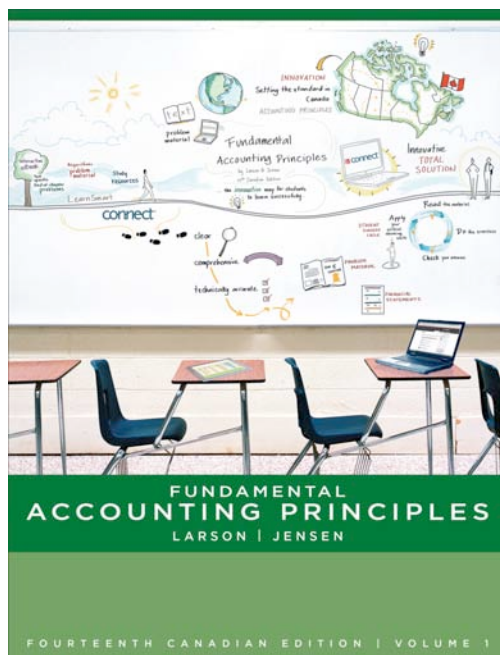


**SOLUTIONS MANUAL**  
to accompany  
***Fundamental Accounting Principles***  
**14<sup>th</sup> Canadian Edition**  
**by Larson/Jensen**



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## **Chapter 2                      Analyzing and Recording Transactions**

### **Chapter Opening Critical Thinking Challenge Questions\***

**“Financial health” can be interpreted in a number of ways. It could refer to an organization’s ability to meet long-term goals. One of the key factors in predicting long-term viability is to have an accurate understanding of the organization’s financial position. From an operational perspective, “financial health” could mean having adequate resources and systems in place to meet current objectives.**

**\*The Chapter 2 Critical Thinking Challenge questions are asked at the beginning of the chapter. Students are reminded at the conclusion of the chapter, to refer to the Critical Thinking Challenge questions at the beginning of the chapter. The solutions to the Critical Thinking Challenge questions are available here in the Solutions Manual and accessible to students on the Online Learning Centre.**



## Concept Review Questions

1. The fundamental steps in the accounting process are those involved in the accounting cycle: Analyze transactions to determine if an economic exchange has taken place and, if so, journalize and post the transaction. An unadjusted trial balance is then prepared to help identify potential adjustments. Appropriate adjusting entries are journalized and posted and an adjusted trial balance is generated from which the financial statements are prepared. Closing entries are then journalized and posted. Finally, a post-closing trial balance is prepared.
2. A note receivable is a document that specifies the fixed amount due to a company on a fixed date or on demand. An account receivable is also an amount due to a company, but the amount can be increased by the debtor by making additional purchases. An account receivable is not a single document but represents the result of several written, oral, or implied promises to pay the creditor.
3. Fifteen possible expense accounts might be: Utilities Expense, Telephone Expense, Internet Expense, Office Supplies Expense, Salaries Expense, Wages Expense, Entertainment Expense, Travel Expense, Repair Expense, Postage Expense, Printing Expense, Advertising Expense, Interest Expense, Equipment Repair Expense, Insurance Expense, and any number of others.
4. Four different asset accounts would include any of the following from Danier's June 25, 2011 balance sheet: Cash, Accounts receivable, Inventories, Prepaid expenses, Future income taxes asset, Property and equipment, or Intangible assets. Three different liability accounts would include any of the following: Accounts payable and accrued liabilities; Income taxes payable; or Deferred lease inducements and rent liability.
5. Expense accounts have debit balances because they reflect decreases in equity.
6. Three debit balance accounts from WestJet's December 31, 2011 balance sheet might include any of the following: Cash and cash equivalents; Restricted cash; Accounts receivable; Prepaid expenses, deposits and other; Inventory; Property and equipment; Intangible assets; or Other assets. Three credit balance accounts might include any of the following: Accounts payable and accrued liabilities; Advance ticket sales; Non-refundable guest credits; Current portion of long-term debt; Current portion of obligations under finance leases; Maintenance provisions; Long-term debt; Obligations under finance leases; Other liabilities; Deferred income tax; Share capital; Equity reserves; or Retained earnings.
7. A General Journal can be used to record any economic transaction.
8. Debited accounts are recorded first. The credited accounts are indented.
9. A transaction should first be recorded in a journal to create a complete record of the transaction in one place. Then the transaction is posted to the ledger where entries are summarized by type, i.e., cash, accounts payable, interest expense, etc., to enable analysis by account. This arrangement also means that fewer errors will be made in the accounts.
10. The bookkeeper prepares a trial balance to summarize the contents of the ledger and to determine whether equal debits and credits have been recorded. The trial balance also serves as a helpful internal document for preparing the financial statements.



**QUICK STUDY****Quick Study 2-1**

<b>Answer</b>	<b>Answer Detail</b>	<b>Account</b>
<b>A</b>	<b>Asset</b>	<b>1. Buildings</b>
<b>E</b>	<b>Expenses (Equity)</b>	<b>2. Building Repair Expense</b>
<b>E</b>	<b>Expenses (Equity)</b>	<b>3. Wages Expense</b>
<b>L</b>	<b>Liability</b>	<b>4. Wages Payable</b>
<b>A</b>	<b>Asset</b>	<b>5. Notes Receivable</b>
<b>L</b>	<b>Liability</b>	<b>6. Notes Payable</b>
<b>A</b>	<b>Asset</b>	<b>7. Prepaid Advertising</b>
<b>E</b>	<b>Expenses (Equity)</b>	<b>8. Advertising Expense</b>
<b>L</b>	<b>Liability</b>	<b>9. Advertising Payable</b>
<b>L</b>	<b>Liability</b>	<b>10. Unearned Advertising</b>
<b>R</b>	<b>Revenues (Equity)</b>	<b>11. Advertising Fees Earned</b>
<b>R</b>	<b>Revenues (Equity)</b>	<b>12. Interest Earned</b>
<b>E</b>	<b>Expenses (Equity)</b>	<b>13. Interest Expense</b>
<b>L</b>	<b>Liability</b>	<b>14. Interest Payable</b>
<b>R</b>	<b>Revenues (Equity)</b>	<b>15. Earned Subscription Fees</b>
<b>L</b>	<b>Liability</b>	<b>16. Unearned Subscription Fees</b>
<b>A</b>	<b>Asset</b>	<b>17. Prepaid Subscription Fees</b>
<b>A</b>	<b>Asset</b>	<b>18. Supplies</b>
<b>E</b>	<b>Expenses (Equity)</b>	<b>19. Supplies Expense</b>
<b>R</b>	<b>Revenues (Equity)</b>	<b>20. Rent Revenue</b>
<b>L</b>	<b>Liability</b>	<b>21. Unearned Rent Revenue</b>
<b>A</b>	<b>Asset</b>	<b>22. Prepaid Rent</b>
<b>L</b>	<b>Liability</b>	<b>23. Rent Payable</b>
<b>R</b>	<b>Revenues (Equity)</b>	<b>24. Service Fees Earned</b>
<b>W</b>	<b>Owner's Withdrawals (Equity)</b>	<b>25. Jan Sted, Withdrawals</b>
<b>OE</b>	<b>Owner's Capital (Equity)</b>	<b>26. Jan Sted, Capital</b>
<b>E</b>	<b>Expenses (Equity)</b>	<b>27. Salaries Expense</b>
<b>L</b>	<b>Liability</b>	<b>28. Salaries Payable</b>
<b>A</b>	<b>Asset</b>	<b>29. Furniture</b>
<b>A</b>	<b>Asset</b>	<b>30. Equipment</b>



**Quick Study 2-2**

<b>Accounts Receivable</b>		<b>Accounts Payable</b>		<b>Service Revenue</b>	
1,000	650	250	250		13,000
400	920	900	1,800		2,500
920	1,500	650	1,400		810
3,000			650		3,500
Bal. 2,250			2,300 Bal.		19,810 Bal.

<b>Utilities Expense</b>		<b>Cash</b>		<b>Notes Payable</b>	
610		3,900	2,400	4,000	50,000
520		17,800	3,900	8,000	
390		14,500	21,800		38,000 Bal.
275		340			
Bal. 1,795		Bal. 8,440			

**Quick Study 2-3**

- a. Equipment..... Debit
- b. Land..... Debit
- c. Al Tait, Withdrawals ..... Debit
- d. Rent Expense ..... Debit
- e. Interest Revenue ..... Credit
- f. Prepaid Rent..... Debit
- g. Accounts Receivable..... Debit
- h. Office Supplies..... Debit
- i. Notes Receivable ..... Debit
- j. Notes Payable ..... Credit
- k. Al Tait, Capital ..... Credit
- l. Rent Earned ..... Credit
- m. Rent Payable ..... Credit
- n. Interest Expense ..... Debit
- o. Interest Payable ..... Credit

**Quick Study 2-4**

- |           |           |           |
|-----------|-----------|-----------|
| a. Credit | f. Credit | k. Debit  |
| b. Credit | g. Debit  | l. Credit |
| c. Credit | h. Credit | m. Debit  |
| d. Debit  | i. Debit  | n. Debit  |
| e. Credit | j. Debit  | o. Debit  |



### Quick Study 2-5

- |           |           |           |
|-----------|-----------|-----------|
| a. Credit | f. Debit  | k. Credit |
| b. Debit  | g. Credit | l. Debit  |
| c. Credit | h. Credit | m. Debit  |
| d. Debit  | i. Credit | n. Credit |
| e. Credit | j. Debit  | o. Credit |

### Quick Study 2-6

Note: Students could choose any account number within the specified range.

- |        |        |        |
|--------|--------|--------|
| a. 173 | f. 203 | k. 629 |
| b. 409 | g. 106 | l. 219 |
| c. 302 | h. 622 | m. 222 |
| d. 301 | i. 124 | n. 170 |
| e. 128 | j. 403 | o. 115 |

### Quick Study 2-7

1.

Cash 101		Accounts Receivable 106		Furniture 161	
(a) 15,000	500 (c)	(e) 700	300 (g)	(b) 2,000	
(d) 1,000	500 (f)	(h) 400		(c) 500	
(g) 300					
Bal. 15,300		Bal. 800		Bal. 2,500	

Accounts Payable 201		Del Martin, Capital 301		Revenue 403	
(f) 500	2,000 (b)		15,000 (a)	1,000 (d)	
				700 (e)	
				400 (h)	
	1,500 Bal.		15,000 Bal.	2,100 Bal.	

2. The account balance for each T-account is shown above. The accounting equation (Assets = Liabilities + Equity) is proved as follows: \$18,600 = \$1,500 + \$17,100



## Quick Study 2-8

1 & 2.

Cash 101				Accounts Receivable 106				Car 150				Accounts Payable 202			
Apr 30	15,000	6,000	May 15	Apr 30	3,200	4,000	May 16	May 2	8,000			May 22	3,000	6,000	Apr 30
May 12	10,000	3,000	May 22	May 10	4,000			Bal.	8,000					3,000	Bal.
May 16	4,000			Bal.	3,200										
Bal.	20,000														
Unearned Revenue 205				Dee Bell, Capital 301				Revenue 410				Wages Expense 650			
	1,800	Apr 30			8,900	Apr 30			3,000	Apr 30		Apr 30	1,500		
	10,000	May 12			8,000	May 2			4,000	May 10		May 15	6,000		
	11,800	Bal.			16,900	Bal.			7,000	Bal.		Bal.	7,500		

3. The account balance for each T-account is shown above. The accounting equation (Assets = Liabilities + Equity) is proved as follows:  $\$31,200 = \$14,800 + \$16,400$



**Quick Study 2-9**

		<b>General Journal</b>		<b>Page 1</b>	
<b>Date</b>		<b>Account Titles and Explanations</b>	<b>Debit</b>		<b>Credit</b>
<b>2014</b>					
<b>May</b>	<b>1</b>	<b>Equipment.....</b>	<b>500</b>		
		<b>    Accounts Payable .....</b>			<b>500</b>
		<b>        Purchased equipment on account.</b>			
	<b>2</b>	<b>Accounts Payable .....</b>	<b>500</b>		
		<b>    Cash .....</b>			<b>500</b>
		<b>        Paid for the equipment purchased May 1.</b>			
	<b>3</b>	<b>Supplies .....</b>	<b>100</b>		
		<b>    Cash .....</b>			<b>100</b>
		<b>        Purchased supplies for cash.</b>			
	<b>4</b>	<b>Wages Expense.....</b>	<b>2,000</b>		
		<b>    Cash .....</b>			<b>2,000</b>
		<b>        Paid wages to employees.</b>			
	<b>5</b>	<b>Cash .....</b>	<b>750</b>		
		<b>    Service Revenue .....</b>			<b>750</b>
		<b>        Performed services for a client for cash.</b>			
	<b>6</b>	<b>Accounts Receivable .....</b>	<b>2,500</b>		
		<b>    Service Revenue .....</b>			<b>2,500</b>
		<b>        Did work for a customer on credit.</b>			
	<b>7</b>	<b>Cash .....</b>	<b>2,500</b>		
		<b>    Accounts Receivable .....</b>			<b>2,500</b>
		<b>        Collected May 6 customer account.</b>			



**Quick Study 2-10**

		<b>General Journal</b>		<b>Page 1</b>
<b>Date</b>		<b>Account Titles and Explanations</b>	<b>Debit</b>	<b>Credit</b>
<b>2014</b>				
<b>Jan.</b>	<b>3</b>	<b>Cash .....</b>	<b>60,000</b>	
		<b>Equipment.....</b>	<b>40,000</b>	
		<b>    Stan Adams, Capital.....</b>		<b>100,000</b>
		<b>        <i>Investment by owner.</i></b>		
	<b>4</b>	<b>Office Supplies .....</b>	<b>340</b>	
		<b>    Accounts Payable .....</b>		<b>340</b>
		<b>        <i>Purchased office supplies on credit.</i></b>		
	<b>6</b>	<b>Cash .....</b>	<b>5,200</b>	
		<b>    Landscaping Services Revenue .....</b>		<b>5,200</b>
		<b>        <i>Received cash for landscaping services.</i></b>		
	<b>15</b>	<b>Accounts Payable .....</b>	<b>200</b>	
		<b>    Cash .....</b>		<b>200</b>
		<b>        <i>Paid part of the January 4 credit purchase.</i></b>		
	<b>16</b>	<b>Office Supplies .....</b>	<b>700</b>	
		<b>    Accounts Payable .....</b>		<b>700</b>
		<b>        <i>Purchased supplies on account.</i></b>		
	<b>30</b>	<b>Accounts Payable .....</b>	<b>140</b>	
		<b>    Cash .....</b>		<b>140</b>
		<b>        <i>Paid the balance owing re January 4 credit purchase; 340 – 200 paid on Jan. 15 = 140.</i></b>		



## Quick Study 2-11

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 3			60,000		60,000
6			5,200		65,200
15				200	65,000
30				140	64,860

Office Supplies				Account No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 4			340		340
16			700		1,040

Equipment				Account No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 3			40,000		40,000

Accounts Payable				Account No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 4				340	340
15			200		140
16				700	840
30			140		700

Stan Adams, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 3				100,000	100,000

Landscaping Services Revenue				Account No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 6				5,200	5,200



**Quick Study 2-12**

**Vahn Landscaping  
Trial Balance  
January 31, 2014**

Acct. No.	Account	Debit	Credit
101	Cash .....	\$ 7,000	
163	Equipment .....	9,000	
233	Unearned fees .....		\$ 2,000
301	Brea Vahn, capital.....		14,000
302	Brea Vahn, withdrawals.....	1,000	
401	Fees earned .....		11,000
640	Rent expense.....	6,000	
690	Utilities expense.....	4,000	
	Totals .....	<u>\$27,000</u>	<u>\$27,000</u>

**Quick Study 2-13**

The correct answer is c. If a \$2,250 debit to Rent Expense is incorrectly posted as a credit, the effect is to understate the Rent Expense debit balance by \$4,500. This causes the Debit column total on the trial balance to be \$4,500 less than the Credit column total.

**Quick Study 2-14**

1. Subtract total debits in the trial balance from total credits  
 $24,250 - 21,550 = 2,700$
2. Divide the difference by 9  
 $2,700 \div 9 = 300$
3. The quotient equals the difference between the two transposed numbers.  
 300 is the difference between the two transposed numbers.
4. The number of digits in the quotient tells us the location of the transposition  
 Look for a difference of 3 between the third number from the right and the fourth number from the right.

Through a process of elimination, the incorrect value is Rent Expense for \$4,100. The correct value must be \$1,400.

**Proof:** Recalculate the trial balance replacing \$1,400 for the incorrect \$4,100 and the trial balance now balances at \$21,550.



### Quick Study 2-15

1. Subtract total debits in the trial balance from total credits

$$728 - 503 = 225$$

2. Divide the difference by 9

$$225 \div 9 = 25$$

The quotient equals the incorrect number.

Through a review of the values in the trial balance, the incorrect value is Notes Payable for \$25. The correct value must be \$250.

**Proof:** Recalculate the trial balance replacing \$250 for the incorrect \$25 and the trial balance now balances at \$728.



## EXERCISES

### Exercise 2-1 (30 minutes)

Cash			
(a)	32,600	925	(b)
(d)	3,000	13,600	(e)
(h)	5,400	3,500	(g)
		5,000	(i)
Balance	17,975		

Accounts Receivable			
(f)	5,400	5,400	(h)
Balance	0		

Office Supplies		
(b)	925	
Balance	925	

Office Equipment		
(c)	13,600	
Balance	13,600	

Accounts Payable			
(e)	13,600	13,600	(c)
		0	Balance

Sandra Moses, Capital		
	32,600	(a)
	32,600	Balance

Sandra Moses, Withdrawals		
(i)	5,000	
Balance	5,000	

Fees Earned			
		3,000	(d)
		5,400	(f)
		8,400	Balance

Rent Expense		
(g)	3,500	
Balance	3,500	



**Exercise 2-2 (10 minutes)**

Cash			
Jan. 31	890	4,000	Feb. 14
Feb. 2	3,100	125	23
20	2,400	1,000	25
22	10,000	1,600	26
Bal.	9,665		

Accounts Receivable			
Jan. 31	1,200	2,400	Feb. 20
Feb. 12	15,000	10,000	Feb. 22
18	1,900		
Bal.	5,700		

Prepaid Insurance	
Jan. 31	-0-
Feb. 14	4,000
Bal.	4,000

Computer Equipment	
Jan. 31	480
Feb. 10	7,600
Bal.	8,080

Accounts Payable			
Feb. 23	125	250	Jan. 31
		125	Bal.

Notes Payable			
	-0-		Jan. 31
	7,600		Feb. 10
	7,600		Bal.

Neil Poundmaker, Capital		
	800	Jan. 31
	800	Bal.

Neil Poundmaker, Withdrawals		
Jan. 31	-0-	
Feb. 25	1,000	
Bal.	1,000	

Service Revenue			
	2,600	Jan. 31	
	3,100	Feb. 2	
	15,000	12	
	1,900	18	
	22,600	Bal.	

Wages Expense		
Jan. 31	1,080	
Feb. 26	1,600	
Bal.	2,680	

**NOTE:** There is no entry to be recorded for February 21.

**Analysis component:**

Revenue recognition requires that when work has been completed, it must be recorded whether cash has been received or not. A transaction has occurred when there has been an economic exchange — when something has been given up or received. On February 12, services were performed and, although cash will not be received until a future date, a revenue must be recorded because an economic exchange has occurred.



**Exercise 2-3 (10 minutes)**

Cash			
Mar. 31	1,800	1,000	Apr. 10
Apr. 2	2,100	950	15
19	2,800	1,500	29
Bal.	3,250		

Accounts Receivable			
Mar. 31	4,800	2,800	Apr. 19
Apr. 18	1,200		
Bal.	3,200		

Repair Supplies		
Mar. 31	1,400	
Apr. 9	1,500	
Bal.	2,900	

Equipment		
Mar. 31	7,400	
Apr. 15	950	
Bal.	8,350	

Accounts Payable			
Apr. 10	1,000	500	Mar. 31
		1,500	Apr. 9
		820	25
		1,820	Bal.

Nels Sigurdson, Capital		
	2,350	Mar. 31
	2,350	Bal.

Nels Sigurdson, Withdrawals		
Mar. 31	500	
Apr. 29	1,500	
Bal.	2,000	

Repair Revenue		
	14,000	Mar. 31
	2,100	Apr. 2
	1,200	18
	17,300	Bal.

Rent Expense		
Mar. 31	950	
Apr. 25	820	
Bal.	1,770	

**NOTE:** There is no entry to be recorded for April 5.



**Exercise 2-4 (45 minutes)****2.**

<b>GENERAL JOURNAL</b>					<b>Page 1</b>
<b>Date</b>		<b>Account Titles and Explanations</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>
<b>2014</b>					
<b>July</b>	<b>1</b>	<b>Cash .....</b>	<b>101</b>	<b>5,000</b>	
		<b>Mira Delco, Capital .....</b>	<b>301</b>		<b>5,000</b>
		<i>To record investment by owner.</i>			
	<b>10</b>	<b>Equipment.....</b>	<b>150</b>	<b>2,500</b>	
		<b>Accounts Payable .....</b>	<b>201</b>		<b>2,500</b>
		<i>Purchased equipment on credit.</i>			
	<b>12</b>	<b>Cash .....</b>	<b>101</b>	<b>10,000</b>	
		<b>Revenue .....</b>	<b>401</b>		<b>10,000</b>
		<i>Performed services for cash.</i>			
	<b>14</b>	<b>Expenses .....</b>	<b>501</b>	<b>3,500</b>	
		<b>Cash.....</b>	<b>101</b>		<b>3,500</b>
		<i>Paid expenses.</i>			
	<b>15</b>	<b>Accounts Receivable .....</b>	<b>106</b>	<b>1,500</b>	
		<b>Revenue .....</b>	<b>401</b>		<b>1,500</b>
		<i>Completed services on account.</i>			
	<b>31</b>	<b>Mira Delco, Withdrawals.....</b>	<b>302</b>	<b>250</b>	
		<b>Cash.....</b>	<b>101</b>		<b>250</b>
		<i>Owner withdrew cash.</i>			

**Note:** The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Part 3 of this exercise.



**Exercise 2-4 (continued)**

**\*Note:** The student could use T-accounts or balance column format accounts as their general ledger. Both are shown in this solution.

**1 and 3.**

<b>Cash</b>		<b>101</b>
<b>July 1</b>	<b>5,000</b>	<b>3,500 July 14</b>
<b>12</b>	<b>10,000</b>	<b>250 31</b>
<b>Balance</b>	<b>11,250</b>	

<b>Accts. Receivable</b>		<b>106</b>
<b>July 15</b>	<b>1,500</b>	

<b>Equipment</b>		<b>150</b>
<b>July 10</b>	<b>2,500</b>	

<b>Accounts Payable</b>		<b>201</b>
	<b>2,500</b>	<b>July 10</b>

<b>Mira Delco, Capital</b>		<b>301</b>
	<b>5,000</b>	<b>July 1</b>

<b>Mira Delco, Withdrawals</b>		<b>302</b>
<b>July 31</b>	<b>250</b>	

<b>Revenue</b>		<b>401</b>
	<b>10,000</b>	<b>July 12</b>
	<b>1,500</b>	<b>15</b>
	<b>11,500</b>	<b>Balance</b>

<b>Expenses</b>		<b>501</b>
<b>July 14</b>	<b>3,500</b>	



**Exercise 2-4 (continued)****1 and 3.**

<b>Cash</b>				<b>Account No. 101</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
July 1		G1	5,000		5,000
12		G1	10,000		15,000
14		G1		3,500	11,500
31		G1		250	11,250

<b>Accounts Receivable</b>				<b>Account No. 106</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
July 15		G1	1,500		1,500

<b>Equipment</b>				<b>Account No. 150</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
July 10		G1	2,500		2,500

<b>Accounts Payable</b>				<b>Account No. 201</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
July 10		G1		2,500	2,500

<b>Mira Delco, Capital</b>				<b>Account No. 301</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
July 1		G1		5,000	5,000

<b>Mira Delco, Withdrawals</b>				<b>Account No. 302</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
July 31		G1	250		250

<b>Revenue</b>				<b>Account No. 401</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
July 12		G1		10,000	10,000
15		G1		1,500	11,500

<b>Expenses</b>				<b>Account No. 501</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
July 14		G1	3,500		3,500



**Exercise 2-4 (continued)**

4.

MiraCom Trial Balance July 31, 2014			
Acct. No.	Account Title	Debit	Credit
101	Cash .....	\$11,250	
106	Accounts receivable .....	1,500	
150	Equipment .....	2,500	
201	Accounts payable .....		\$ 2,500
301	Mira Delco, capital .....		5,000
302	Mira Delco, withdrawals .....	250	
401	Revenue .....		11,500
501	Expenses .....	3,500	
	Totals .....	<u>\$19,000</u>	<u>\$19,000</u>



**Exercise 2-4 (concluded)**

5.

**MiraCom**  
**Income Statement**  
**For Month Ended July 31, 2014**

Revenue.....	\$11,500
Expenses .....	<u>3,500</u>
Net income .....	<u>\$ 8,000</u>

**MiraCom**  
**Statement of Changes in Equity**  
**For Month Ended July 31, 2014**

Mira Delco, capital, July 1 .....	\$ 0
Add: Investments by owner .....	\$5,000
Net income .....	<u>8,000</u>
Total .....	<u>13,000</u>
Less: Withdrawals by owner .....	<u>13,000</u>
Mira Delco, capital, July 31 .....	<u>250</u>
	<u>\$12,750</u>

*The arrows are  
imaginary but  
emphasize the  
link between  
statements.*

**MiraCom**  
**Balance Sheet**  
**July 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$11,250	Accounts payable .....	\$ 2,500
Accounts receivable.....	1,500		
Equipment .....	<u>2,500</u>		
		<b>Equity</b>	
		Mira Delco, capital.....	<u>12,750</u>
		Total liabilities and	
Total assets.....	<u>\$15,250</u>	equity.....	<u>\$15,250</u>

**Analysis component:**

Accounts receivable result from credit sales to customers (debit accounts receivable and credit a revenue). Sales, or revenue, is part of equity. As revenues on account are recorded, assets on the left side of the accounting equation increase and equity on the opposite side of the accounting equation also increases. Therefore, accounts receivable are financed by, or created by, an equity transaction.



**Exercise 2-5 (10 minutes)**

**Note:** Students could choose any account number within the specified range.

<b>Account Number</b>	<b>Account Name</b>
<b>101</b>	<b>Cash</b>
<b>115</b>	<b>Accounts Receivable</b>
<b>160</b>	<b>Office Equipment</b>
<b>210</b>	<b>Accounts Payable</b>
<b>215</b>	<b>Unearned Revenue</b>
<b>310</b>	<b>Aaron Paquette, Capital</b>
<b>320</b>	<b>Aaron Paquette, Withdrawals</b>
<b>410</b>	<b>Consulting Revenues</b>
<b>510</b>	<b>Salaries Expense</b>
<b>520</b>	<b>Rent Expense</b>
<b>530</b>	<b>Utilities Expense</b>



**Exercise 2-6 (30 minutes)**

1.		General Journal			Page G1	
Date		Account Titles and Explanations	PR	Debit	Credit	
2014						
Feb.	1	Cash .....	101	8,500		
		Consulting Revenues.....	410		8,500	
		<i>Performed work for cash.</i>				
	5	Accounts Payable .....	210	5,000		
		Cash.....	101		5,000	
		<i>Paid account.</i>				
	10	Cash .....	101	3,600		
		Unearned Revenue.....	215		3,600	
		<i>Received cash in advance.</i>				
	12	No entry.				
	17	Aaron Paquette, Withdrawals .....	320	3,000		
		Cash.....	101		3,000	
		<i>Owner withdrew cash.</i>				
	28	Salaries Expense.....	510	10,000		
		Cash.....	101		10,000	
		<i>Paid salaries.</i>				

**Note:** The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Part 2 of this exercise.



## Exercise 2-6 (continued)

2.

<b>Cash</b> <b>101</b>				<b>Accounts Receivable</b> <b>115</b>				<b>Office Equipment</b> <b>160</b>				<b>Accounts Payable</b> <b>210</b>			
Bal	15,000	5,000	Feb 5	Bal	3,800			Bal	22,500			Feb 5	5,000	8,000	Bal
Feb 1	8,500	3,000	17											3,000	Bal
10	3,600	10,000	28												
Bal	9,100														
<b>Unearned Revenue</b> <b>215</b>				<b>Aaron Paquette, Capital</b> <b>310</b>				<b>Aaron Paquette, Withdrawals</b> <b>320</b>				<b>Consulting Revenues</b> <b>410</b>			
		2,600	Bal			9,500	Bal	Bal	2,000					41,700	Bal
		3,600	Feb 10					Feb 17	3,000					8,500	Feb 1
		6,200	Bal					Bal	5,000					50,200	Bal
<b>Salaries Expense</b> <b>510</b>				<b>Rent Expense</b> <b>520</b>				<b>Utilities Expense</b> <b>530</b>							
Bal	10,000			Bal	7,500			Bal	1,000						
Feb 28	10,000														
Bal	20,000														



3.

**Paquette Advisors  
Trial Balance  
February 28, 2014**

<b>Acct. No.</b>	<b>Account Title</b>	<b>Debit</b>	<b>Credit</b>
101	Cash .....	\$ 9,100	
115	Accounts receivable .....	3,800	
160	Office equipment.....	22,500	
210	Accounts payable .....		\$ 3,000
215	Unearned revenue.....		6,200
310	Aaron Paquette, capital .....		9,500
320	Aaron Paquette, withdrawals .....	5,000	
410	Consulting revenues.....		50,200
510	Salaries expense .....	20,000	
520	Rent expense.....	7,500	
530	Utilities expense.....	1,000	
	<b>Totals.....</b>	<b><u>\$68,900</u></b>	<b><u>\$68,900</u></b>



4.

**Paquette Advisors  
Income Statement  
For Two Months Ended February 28, 2014**

**Revenues:**

Consulting revenues ..... **\$50,200**

**Operating expenses:**

Salaries expense..... **\$20,000**

Rent expense ..... **7,500**

Utilities expense ..... **1,000**

Total operating expenses ..... **28,500**

Net income ..... **\$21,700**

The arrows are imaginary  
but emphasize the link  
between statements.

5.

**Paquette Advisors  
Statement of Changes in Equity  
For Two Months Ended February 28, 2014**

Aaron Paquette, capital, March 1 ..... **\$ 0**

Add: Investments by owner ..... **\$ 9,500**

Net income ..... **21,700** **31,200**

Total ..... **\$31,200**

Less: Withdrawals by owner ..... **5,000**

Aaron Paquette, capital, February 28 ..... **\$26,200**

6.

**Paquette Advisors  
Balance Sheet  
February 28, 2014**

**Assets**

Cash..... **\$ 9,100**

Accounts receivable..... **3,800**

Office equipment ..... **22,500**

Total assets..... **\$35,400**

**Liabilities**

Accounts payable ..... **\$ 3,000**

Unearned revenue ..... **6,200**

Total liabilities..... **\$ 9,200**

**Equity**

Aaron Paquette, capital..... **26,200**

Total liabilities and equity ..... **\$35,400**

**Analysis component:**

Unearned revenue occurs when cash is received from a customer in advance of the work being done. The collection is not recorded as revenue because it has not been earned until the work is done. Unearned revenue is therefore a liability because the business owes the customer a service (or work). For example, WestJet receives cash from customers in advance of the customer actually flying and records it as advance ticket revenue, a type of unearned revenue. These cash collections are recorded as advance ticket revenue, a liability, because the cash doesn't belong to WestJet until they have earned it which occurs when the customer takes their flight.



**Exercise 2-7 (30 minutes)**

a.	Cash .....	7,000	
	Equipment .....	5,600	
	Automobiles .....	11,000	
	Jerry Steiner, Capital .....		23,600
	<i>The owner invested cash, an automobile, and equipment.</i>		
b.	Prepaid Insurance .....	3,600	
	Cash .....		3,600
	<i>Purchased insurance coverage in advance.</i>		
c.	Office Supplies .....	600	
	Cash .....		600
	<i>Purchased supplies with cash.</i>		
d.	Office Supplies .....	200	
	Equipment .....	9,400	
	Accounts Payable .....		9,600
	<i>Purchased supplies and equipment on credit.</i>		
e.	Cash .....	2,500	
	Delivery Services Revenue .....		2,500
	<i>Received cash from customer for work done.</i>		
f.	Accounts Payable .....	2,400	
	Cash .....		2,400
	<i>Made payment on payables.</i>		
g.	Gas and Oil Expense .....	700	
	Cash .....		700
	<i>Paid for gas and oil.</i>		



**Exercise 2-8 (20 minutes)****2014**

<b>April 5</b>	<b>Cash .....</b>	<b>4,600</b>	
	<b>Surgical Revenues .....</b>		<b>4,600</b>
	<i>Performed surgery and collected cash.</i>		
<b>8</b>	<b>Supplies .....</b>	<b>19,000</b>	
	<b>Accounts Payable .....</b>		<b>19,000</b>
	<i>Purchased surgical supplies on credit.</i>		
<b>15</b>	<b>Salaries Expense .....</b>	<b>41,000</b>	
	<b>Cash .....</b>		<b>41,000</b>
	<i>Paid salaries.</i>		
<b>20</b>	<b>Accounts Payable .....</b>	<b>19,000</b>	
	<b>Cash .....</b>		<b>19,000</b>
	<i>Paid for the credit purchase of April 8.</i>		
<b>21</b>	<b>No entry.</b>		
<b>22</b>	<b>Accounts Receivable .....</b>	<b>22,800</b>	
	<b>Surgical Revenues .....</b>		<b>22,800</b>
	<i>Performed six surgeries on credit;</i>		
	<i>\$3,800 x 6 = \$22,800</i>		
<b>29</b>	<b>Cash .....</b>	<b>15,200</b>	
	<b>Accounts Receivable .....</b>		<b>15,200</b>
	<i>Collection from four credit customers of April 22;</i>		
	<i>\$3,800 x 4 = \$15,200.</i>		
<b>30</b>	<b>Utilities Expense .....</b>	<b>1,800</b>	
	<b>Cash .....</b>		<b>1,800</b>
	<i>Paid the April utilities.</i>		



**Exercise 2-9 (20 minutes)**

b.	Accounts Receivable .....	2,700	
	Services Revenue .....		2,700
	<i>Provided services on credit.</i>		
c.	Cash .....	3,150	
	Services Revenue .....		3,150
	<i>Provided services for cash.</i>		

Revenues are inflows of assets (or decreases in liabilities) received in exchange for goods or services provided to customers. The other transactions did not create revenues for the following reasons:

- a. This transaction brought in cash, but it was an owner investment in the company.
- d. This transaction brought in cash, but it also created a liability because the services have not yet been provided to the client.
- e. This transaction changed the form of the asset from accounts receivable to cash. Total assets were not increased. Revenue was not generated.
- f. This transaction brought cash into the company and increased assets, but it also increased a liability by the same amount.

**Exercise 2-10 (20 minutes)**

b.	Salaries Expense .....	1,125	
	Cash .....		1,125
	<i>Paid the salary of the receptionist.</i>		
d.	Utilities Expense .....	930	
	Cash .....		930
	<i>Paid the utilities bill for the office.</i>		

Expenses are outflows or using up of assets (or the creation of liabilities) that occur in the process of providing goods or services to customers. The transactions labelled a, c, and e were not expenses for the following reasons:

- a. This transaction decreased assets in settlement of a previously existing liability. Thus, the using up of assets did not reduce equity.
- c. This transaction was the purchase of an asset. The form of the company's assets changed, but total assets did not change, and the equity did not decrease.
- e. This transaction was a distribution of cash to the owner. Even though equity decreased, the decrease did not occur in the process of providing goods or services to customers.



**Exercise 2-11 (25 minutes)****Parts a and b:**

<b>Cash</b>				<b>Account No. 101</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2013</b>					
<b>Dec. 31</b>	<b>Beginning balance</b>				<b>850</b>
<b>2014</b>					
<b>Jan. 1</b>		<b>G1</b>	<b>3,500</b>		<b>4,350</b>
<b>20</b>		<b>G1</b>		<b>2,000</b>	<b>2,350</b>
<b>31</b>		<b>G1</b>	<b>5,000</b>		<b>7,350</b>
<b>31</b>		<b>G1</b>		<b>3,000</b>	<b>4,350</b>
<b>31</b>		<b>G1</b>		<b>750</b>	<b>3,600</b>

<b>Accounts Receivable</b>				<b>Account No. 106</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2013</b>					
<b>Dec. 31</b>	<b>Beginning balance</b>				<b>300</b>
<b>2014</b>					
<b>Jan. 12</b>		<b>G1</b>	<b>9,000</b>		<b>9,300</b>
<b>31</b>		<b>G1</b>		<b>5,000</b>	<b>4,300</b>

<b>Equipment</b>				<b>Account No. 167</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2013</b>					
<b>Dec. 31</b>	<b>Beginning balance</b>				<b>1,500</b>
<b>2014</b>					
<b>Jan. 20</b>		<b>G1</b>	<b>12,000</b>		<b>13,500</b>

<b>Accounts Payable</b>				<b>Account No. 201</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2013</b>					
<b>Dec. 31</b>	<b>Beginning balance</b>				<b>325</b>
<b>2014</b>					
<b>Jan. 20</b>		<b>G1</b>		<b>10,000</b>	<b>10,325</b>

<b>Jay Walker, Capital</b>				<b>Account No. 301</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2013</b>					
<b>Dec. 31</b>	<b>Beginning balance</b>				<b>2,325</b>
<b>2014</b>					
<b>Jan. 1</b>		<b>G1</b>		<b>3,500</b>	<b>5,825</b>



**Exercise 2-11 (Parts a and b continued)**

Jay Walker, Withdrawals					Account No. 302
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				300
2014					
Jan. 31		G1	750		1,050

Fees Earned					Account No. 401
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				1,800
2014					
Jan. 12		G1		9,000	10,800

Salaries Expense					Account No. 622
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				1,500
2014					
Jan. 31		G1	3,000		4,500



**Exercise 2-11 (Parts a and b continued)**

**Note:** After posting the journal entries, the PR column in the General Journal would appear as follows:

General Journal					Page 1
Date	Account Titles and Explanations	PR	Debit		Credit
2014					
Jan. 1	Cash .....	101	3,500		
	Jay Walker, Capital .....	301			3,500
	<i>Additional owner investment.</i>				
12	Accounts Receivable .....	106	9,000		
	Fees Earned .....	401			9,000
	<i>Performed work for a customer on account.</i>				
20	Equipment .....	167	12,000		
	Cash .....	101			2,000
	Accounts Payable .....	201			10,000
	<i>Purchased equipment by paying cash and the balance on credit.</i>				
31	Cash .....	101	5,000		
	Accounts Receivable .....	106			5,000
	<i>Collected cash from credit customer.</i>				
31	Salaries Expense .....	622	3,000		
	Cash .....	101			3,000
	<i>Paid month-end salaries.</i>				
31	Jay Walker, Withdrawals .....	302	750		
	Cash .....	101			750
	<i>Jay Walker withdrew cash for personal use.</i>				

**Analysis component:**

All of the details regarding a transaction, such as serial numbers or invoice numbers, form part of the journal entry recorded in the journal and provide a chronological picture of what has happened in the business. The general ledger does not accommodate these kinds of very necessary details. Therefore, we need to journalize to ensure important details are readily available.

The general ledger summarizes by account all of the transactions recorded in the journal. For example, without the ledger, we would not be able to determine the balance in cash without going through the journal and adding/subtracting all of the individual transactions. The ledger allows us to have account balance information.

In summary, although it appears that journalizing and posting are recording the same information twice, the journal and ledger each serve different and important functions in the accounting system.



**Exercise 2-12 (25 minutes)**

<b>General Journal</b>					<b>Page G1</b>
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>PR</b>	<b>Debit</b>		<b>Credit</b>
<b>2014</b>					
<b>Aug. 1</b>	<b>Cash.....</b>	<b>101</b>	<b>20,000</b>		
	<b>Photography Equipment.....</b>	<b>167</b>	<b>42,000</b>		
	<b>Joseph Eetok, Capital .....</b>	<b>301</b>		<b>62,000</b>	
	<i>Investment by owner.</i>				
<b>1</b>	<b>Prepaid Rent .....</b>	<b>131</b>	<b>12,000</b>		
	<b>Cash.....</b>	<b>101</b>		<b>12,000</b>	
	<i>Rented studio space.</i>				
<b>5</b>	<b>Office Supplies .....</b>	<b>124</b>	<b>1,800</b>		
	<b>Cash.....</b>	<b>101</b>		<b>1,800</b>	
	<i>Purchased office supplies.</i>				
<b>20</b>	<b>Cash.....</b>	<b>101</b>	<b>9,200</b>		
	<b>Photography Fees Earned .....</b>	<b>401</b>		<b>9,200</b>	
	<i>Collected photography fees.</i>				
<b>31</b>	<b>Utilities Expense.....</b>	<b>690</b>	<b>1,400</b>		
	<b>Cash.....</b>	<b>101</b>		<b>1,400</b>	
	<i>Paid for August utilities.</i>				

**Note:** The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Exercise 2-13.



**Exercise 2-13 (30 minutes)**

<b>Cash</b>				<b>Account No. 101</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Aug. 1</b>		<b>G1</b>	<b>20,000</b>		<b>20,000</b>
<b>1</b>		<b>G1</b>		<b>12,000</b>	<b>8,000</b>
<b>5</b>		<b>G1</b>		<b>1,800</b>	<b>6,200</b>
<b>20</b>		<b>G1</b>	<b>9,200</b>		<b>15,400</b>
<b>31</b>		<b>G1</b>		<b>1,400</b>	<b>14,000</b>

<b>Office Supplies</b>				<b>Account No. 124</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Aug. 5</b>		<b>G1</b>	<b>1,800</b>		<b>1,800</b>

<b>Prepaid Rent</b>				<b>Account No. 131</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Aug. 1</b>		<b>G1</b>	<b>12,000</b>		<b>12,000</b>

<b>Photography Equipment</b>				<b>Account No. 167</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Aug. 1</b>		<b>G1</b>	<b>42,000</b>		<b>42,000</b>

<b>Joseph Eetok, Capital</b>				<b>Account No. 301</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Aug. 1</b>		<b>G1</b>		<b>62,000</b>	<b>62,000</b>

<b>Photography Fees Earned</b>				<b>Account No. 401</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Aug. 20</b>		<b>G1</b>		<b>9,200</b>	<b>9,200</b>

<b>Utilities Expense</b>				<b>Account No. 690</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Aug. 31</b>		<b>G1</b>	<b>1,400</b>		<b>1,400</b>



**Exercise 2-13 (concluded)**

**THE PIXEL SHOP**  
**Trial Balance**  
**August 31, 2014**

Acct No.	Account Title	Debit	Credit
101	Cash .....	\$ 14,000	
124	Office supplies .....	1,800	
131	Prepaid rent .....	12,000	
167	Photography equipment.....	42,000	
301	Joseph Eetok, capital .....		\$62,000
401	Photography fees earned .....		9,200
690	Utilities expense.....	1,400	
	Totals.....	<u>\$71,200</u>	<u>\$71,200</u>

***Analysis component:***

The trial balance is not a financial statement; it is an internal working paper used to verify that debits and credits in the general ledger are equal and to review account balances. The trial balance format does not readily communicate information such as financial performance and financial position, information that is desired by external decision makers. Financial statements are used for external reporting because the formats of these communicate information desired by external users. For example, the income statement reports financial performance while the balance sheet reports financial position.



**Exercise 2-14 (20 minutes)**

Cash 101				Office Supplies 124		Prepaid Rent 131	
Aug. 1	20,000	12,000	Aug. 1	Aug. 5	1,800	Aug. 1	12,000
20	9,200	1,800	5				
		1,400	31				
Bal	14,000						

Photography Equipment 167		Joseph Eetok, Capital 301	
Aug. 1	42,000		62,000 Aug. 1

Photography Fees Earned 401		Utilities Expense 690	
	9,200 Aug. 20	Aug. 31	1,400

**THE PIXEL SHOP**  
**Trial Balance**  
**August 31, 2014**

Acct. No.	Account Title	Debit	Credit
101	Cash .....	\$14,000	
124	Office supplies .....	1,800	
131	Prepaid rent .....	12,000	
167	Photography equipment.....	42,000	
301	Joseph Eetok, capital .....		\$62,000
401	Photography fees earned .....		9,200
690	Utilities expense.....	1,400	
	Totals.....	<u>\$71,200</u>	<u>\$71,200</u>

**Analysis component:**

The trial balance is an internal working paper used to verify that debits and credits in the general ledger are equal and to review account balances. The trial balance format does not readily communicate information such as financial performance and financial position, information that is desired by external decision makers. Financial statements are used for external reporting because the formats of these communicate information desired by external users. For example, the income statement reports financial performance while the balance sheet reports financial position.



**Exercise 2-15 (20 minutes)**

**Hogan's Consulting  
Income Statement  
For Year Ended December 31, 2014**

<b>Revenues:</b>		
Consulting fees earned .....		\$18,000
<b>Operating expenses:</b>		
Wages expense .....	\$29,000	
Rent expense .....	<u>8,000</u>	
Total operating expenses .....		37,000
Net loss .....		<u>\$19,000</u>

**Hogan's Consulting  
Statement of Changes in Equity  
For Year Ended December 31, 2014**

Lisa Hogan, capital, January 1 .....	\$ 0
Add: Investments by owner .....	50,000
Total .....	50,000
Less: Withdrawals by owner .....	2,000
Net loss .....	<u>19,000</u>
Lisa Hogan, capital, December 31 .....	<u>\$29,000</u>

The arrows are imaginary  
but emphasize the link  
between statements.

**Hogan's Consulting  
Balance Sheet  
December 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash .....	\$18,000	Accounts payable .....	\$ 17,300
Accounts receivable .....	5,200	Notes payable .....	47,000
Prepaid rent .....	13,000	Total liabilities .....	\$ 64,300
Machinery .....	<u>57,100</u>	<b>Equity</b>	
		Lisa Hogan, capital .....	29,000
		Total liabilities and	
Total assets .....	<u>\$93,300</u>	equity .....	<u>\$ 93,300</u>

**Analysis component:**

Losses cause equity to decrease. If equity decreases, either assets have to decrease and/or liabilities must increase to keep the balance sheet in balance. Therefore, if Hogan's Consulting continues to experience losses, there are two short-term alternatives available to prevent a decrease in assets. First, the business could borrow which would increase liabilities and temporarily increase assets until payments had to be made. Second, Lisa Hogan, the owner, could invest additional assets into the business which would increase equity and assets. However, for the long-term, the owner does not want to support the business through continual investments; the business must be able to support itself through positive performance (net income).



**Exercise 2-16 (20 minutes)**

**JenCo**  
**Income Statement**  
**For Month Ended March 31, 2014**

<b>Revenues:</b>	
Service revenue .....	\$1,650
<b>Operating expenses:</b>	
Salaries expense .....	\$ 800
Interest expense .....	<u>10</u>
Total operating expenses .....	810
Net income .....	<u>\$ 840</u>

**JenCo**  
**Statement of Changes in Equity**  
**For Month Ended March 31, 2014**

Marie Jensen, capital, March 1 .....	\$ 0
Add: Investment by owner .....	\$2,050
Net income .....	<u>840</u>
Total .....	2,890
Less: Withdrawal by owner .....	<u>1,500</u>
Marie Jensen, capital, March 31 .....	<u>\$1,390</u>

**JenCo**  
**Balance Sheet**  
**March 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash .....	\$ 500	Accounts payable .....	\$ 500
Accounts receivable .....	1,950	Unearned service revenue .....	460
Prepaid insurance .....	300	Notes payable .....	<u>1,100</u>
Equipment .....	<u>700</u>	Total liabilities .....	<u>\$2,060</u>
Total assets .....		<b>Equity</b>	
	<u>\$3,450</u>	Marie Jensen, capital .....	<u>1,390</u>
		Total liabilities and equity .....	<u>\$3,450</u>

*The arrows are imaginary but emphasize the link between statements.*



**Exercise 2-17 (20 minutes)**

**Nanimahoo Marketing Services  
Income Statement  
For Month Ended March 31, 2014**

<b>Revenues:</b>	
Fees earned .....	\$126,000
<b>Operating expenses:</b>	
Wages expense .....	\$146,000
Office supplies expense .....	<u>7,000</u>
Total operating expenses .....	153,000
Net loss .....	<u>\$ 27,000</u>

**Nanimahoo Marketing Services  
Statement of Changes in Equity  
For Month Ended March 31, 2014**

Dee Nanimahoo, capital, March 1 .....	\$87,000*
Add: Investment by owner .....	35,000
Total .....	\$122,000
Less: Withdrawal by owner .....	\$ 18,000
Net loss .....	<u>27,000</u>
Dee Nanimahoo, capital, March 31 .....	<u>\$77,000</u>

**Nanimahoo Marketing Services  
Balance Sheet  
March 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash .....	\$ 17,000	Accounts payable .....	\$ 46,000
Accounts receivable ....	3,000	Notes payable .....	114,000
Office supplies .....	3,000	Total liabilities .....	<u>\$ 160,000</u>
Building .....	80,000		
Land .....	84,000		
Machinery .....	<u>50,000</u>		
Total assets .....	<u>\$237,000</u>		
		<b>Equity</b>	
		Dee Nanimahoo, capital .....	77,000
		Total liabilities and equity .....	<u>\$237,000</u>

*The arrows are imaginary  
but emphasize the link  
between statements.*

**\*\$122,000 March 31/14 Balance - \$35,000 invested in March = \$87,000 March 1/14 Balance**



**Exercise 2-18 (20 minutes)**

	<i>Description</i>	<i>(1) Difference Between Debit and Credit Columns</i>	<i>(2) Column With the Larger Total</i>	<i>(3) Identify Account(s) Incorrectly Stated</i>	<i>(4) Amount That Account(s) is Overstated or Understated</i>
a.	A \$2,400 debit to Rent Expense was posted as a \$1,590 debit.	\$810	Credit	Rent Expense	Rent Expense is understated by \$810
b.	A \$42,000 debit to Machinery was posted as a debit to Accounts Payable.	\$0	—	Machinery  Accounts Payable	Machinery is understated by \$42,000 and Accounts Payable is understated by \$42,000
c.	A \$4,950 credit to Services Revenue was posted as a \$495 credit.	\$4,455	Debit	Services Revenue	Services Revenue is understated by \$4,455
d.	A \$1,440 debit to Store Supplies was not posted at all.	\$1,440	Credit	Store Supplies	Store Supplies is understated by \$1,440
e.	A \$2,250 debit to Prepaid Insurance was posted as a debit to Insurance Expense.	\$0	—	Prepaid Insurance  Insurance Expense	Prepaid Insurance is understated by \$2,250 and Insurance Expense is overstated by \$2,250
f.	A \$4,050 credit to Cash was posted twice as two credits to the Cash account.	\$4,050	Credit	Cash	Cash is understated by \$4,050
g.	A \$9,900 debit to the owner's withdrawals account was debited to the owner's capital account.	\$0	—	Owner's Capital  Owner's Withdrawals	Owner's Capital account is understated by \$9,900  Owner's Withdrawals is understated by \$9,900



**Exercise 2-19 (15 minutes)**

- a. 1. Dr = Cr  
2. Accounts Receivable is understated (too low) by \$3,500 and Revenue is understated by \$3,500.
- b. 1. Dr = Cr  
2. Accounts Payable is overstated (too high) by \$600 and Cash is overstated by \$600.
- c. 1. Dr ≠ Cr  
2. Cash is overstated by \$180.
- d. 1. Dr ≠ Cr  
2. Accounts Receivable is overstated by \$750.
- e. 1. Dr = Cr  
2. Accounts Payable is understated by \$2,000 and Equipment is understated by \$2,000.

**Exercise 2-20 (15 minutes)**

**Case A:**

- 1. Subtract total debits in the trial balance from total credits  
 $5,010 - 4,290 = 720$
- 2. Divide the difference by 9  
 $720 \div 9 = 80$
- 3. The quotient equals the difference between the two transposed numbers.  
80 is the difference between the two transposed numbers.
- 4. The number of digits in the quotient tells us the location of the transposition.  
Look for a difference of 8 between the second number from the right and the third number from the right.

Through a process of elimination, the incorrect value is Accounts Payable of \$190. The correct value must be \$910.

**Proof:** Recalculate the trial balance replacing \$910 for the incorrect \$190 and the trial balance now balances at \$5,010.



### Exercise 2-20 (*concluded*)

#### Case B:

1. Subtract total debits in the trial balance from total credits  
 $34,400 - 28,100 = 6,300$
2. Divide the difference by 9 to reveal a slide error  
 $6,300 \div 9 = 700$
3. The quotient identifies a slide error and equals the correct value.

Through a process of elimination, the incorrect value is Withdrawals for \$7,000. The correct value must be \$700.

Proof: Recalculate the trial balance replacing \$700 for the incorrect \$7,000 and the trial balance now balances at \$28,100.

#### Case C:

1. Subtract total debits in the trial balance from total credits  
 $942 - 906 = 36$
2. Divide the difference by 9  
 $36 \div 9 = 4$
3. The quotient equals the difference between the two transposed numbers.  
4 is the difference between the two transposed numbers.
4. The number of digits in the quotient tells us the location of the transposition.  
Look for a difference of 4 between the first number from the right and the second number from the right.

Through a process of elimination, the incorrect value is Cash for \$59. The correct value must be \$95.

Proof: Recalculate the trial balance replacing \$95 for the incorrect \$59 and the trial balance now balances at \$942.



**PROBLEMS****Problem 2-1A (40 minutes) Parts 1 and 2**

Cash			
(a)	100,000	80,000	(b)
(g)	16,000	3,200	(f)
(n)	1,900	1,800	(h)
		4,600	(j)
		9,300	(k)
		3,200	(m)
		3,200	(o)
Bal	12,600		

Accounts Receivable			
(l)	5,100	1,900	(n)
Bal	3,200		

Office Supplies		
(c)	4,600	

Automobiles		
(d)	9,000	

Office Equipment			
(a)	9,000	700	(k)
(e)	3,000		
(k)	10,000		
Bal.	21,300		

Building		
(b)	85,000	

Land		
(b)	115,000	

Accounts Payable			
(j)	4,600	4,600	(c)
		3,000	(e)
		3,000	Bal

Long-Term Notes Payable		
	120,000	(b)

Joel Douglas, Capital		
	109,000	(a)
	9,000	(d)
	118,000	Bal.

Joel Douglas, Withdrawals		
(o)	3,200	

Fees Earned		
	16,000	(g)
	5,100	(l)
	21,100	Bal

Wages Expense		
(f)	3,200	
(m)	3,200	
Bal	6,400	

Utilities Expense		
(h)	1,800	

**Note:** There is no entry for (i) since it is not a transaction.



**Problem 2-2A (30 minutes)**

		<b>General Journal</b>		<b>Page 1</b>
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>Debit</b>		<b>Credit</b>
<b>2014</b>				
<b>May 1</b>	Equipment .....	<b>46,000</b>		
	Cash .....			<b>14,000</b>
	Notes Payable.....			<b>32,000</b>
	<i>Purchased new equipment paying cash and signing a 90-day note payable.</i>			
<b>2</b>	Prepaid Insurance .....	<b>24,000</b>		
	Cash .....			<b>24,000</b>
	<i>Purchased 12 months of insurance to begin May 2.</i>			
<b>3</b>	Cash .....	<b>6,000</b>		
	Design Revenue .....			<b>6,000</b>
	<i>Completed a fitness contract for a group of customers and collected cash.</i>			
<b>4</b>	Office Supplies .....	<b>3,750</b>		
	Accounts Payable .....			<b>3,750</b>
	<i>Purchased office supplies on account.</i>			
<b>6</b>	Accounts Payable .....	<b>750</b>		
	Office Supplies .....			<b>750</b>
	<i>Returned defective supplies to supplier.</i>			
<b>10</b>	Accounts Receivable .....	<b>11,500</b>		
	Fitness Contract Revenue.....			<b>11,500</b>
	<i>Did work for a client today on account.</i>			
<b>15</b>	Accounts Payable .....	<b>3,000</b>		
	Cash .....			<b>3,000</b>
	<i>Paid for the May 4 purchase less the return of May 6; \$3,750 - \$750 return = \$3,000.</i>			
<b>20</b>	Cash .....	<b>11,500</b>		
	Accounts Receivable .....			<b>11,500</b>
	<i>Received payment from the client of May 10.</i>			



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

<b>May 25</b>	<b>Cash .....</b>	<b>2,500</b>	
	<b>    Unearned Revenue.....</b>		<b>2,500</b>
	<b>    Received cash for work to be done in June.</b>		
<b>31</b>	<b>Salaries Expense .....</b>	<b>47,000</b>	
	<b>    Cash .....</b>		<b>47,000</b>
	<b>    Paid month-end salaries.</b>		
<b>31</b>	<b>Telephone Expense .....</b>	<b>2,250</b>	
	<b>    Cash .....</b>		<b>2,250</b>
	<b>    Paid the May telephone bill.</b>		
<b>31</b>	<b>Utilities Expense .....</b>	<b>3,100</b>	
	<b>    Accounts Payable (or Utilities Payable).....</b>		<b>3,100</b>
	<b>    May electrical bill to be paid June 15.</b>		

**Note: Assume that all entries were journalized on Page 1 of the General Journal.**



**Problem 2-3A (90 minutes)**

		General Journal			Page 1
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
Mar.	1	Cash .....	101	50,000	
		Office Equipment .....	163	12,000	
		Abe Factor, Capital.....	301		62,000
		<i>Invested cash and equipment to start the business.</i>			
	1	Prepaid Rent .....	131	9,000	
		Cash.....	101		9,000
		<i>Prepaid three months' rent.</i>			
	3	Office Equipment .....	163	6,000	
		Office Supplies .....	124	1,200	
		Accounts Payable .....	201		7,200
		<i>Purchased equipment and supplies on credit.</i>			
	5	Cash .....	101	6,200	
		Accounting Fees Earned .....	401		6,200
		<i>Received cash from client for completed work.</i>			
	9	Accounts Receivable .....	106	4,000	
		Accounting Fees Earned .....	401		4,000
		<i>Billed client for completed work.</i>			
	11	Accounts Payable .....	201	7,200	
		Cash.....	101		7,200
		<i>Paid balance due on accounts payable.</i>			
	15	Prepaid Insurance .....	128	3,000	
		Cash.....	101		3,000
		<i>Paid annual premium for insurance.</i>			
	20	Cash .....	101	1,500	
		Accounts Receivable .....	106		1,500
		<i>Collected part of the amount owed by a client.</i>			



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

**Mar. 22 No entry.**

<b>23</b>	<b>Accounts Receivable .....</b>	<b>106</b>	<b>2,850</b>	
	<b>Accounting Fees Earned .....</b>	<b>401</b>		<b>2,850</b>
	<b><i>Billed client for completed work.</i></b>			
<b>27</b>	<b>Abe Factor, Withdrawals .....</b>	<b>302</b>	<b>3,600</b>	
	<b>Cash.....</b>	<b>101</b>		<b>3,600</b>
	<b><i>Owner's withdrawal of cash.</i></b>			
<b>30</b>	<b>Office Supplies .....</b>	<b>124</b>	<b>650</b>	
	<b>Accounts Payable .....</b>	<b>201</b>		<b>650</b>
	<b><i>Purchased supplies.</i></b>			
<b>31</b>	<b>Utilities Expense .....</b>	<b>690</b>	<b>860</b>	
	<b>Cash.....</b>	<b>101</b>		<b>860</b>
	<b><i>Paid monthly utility bill.</i></b>			

**Note:** The account numbers in the PR column above would be included only when these journal entries are being posted in Problem 3-4A. Assume that all entries were journalized on Page 1 of the General Journal.



**Problem 2-4A (45 minutes)****Parts 1 and 2**

<b>Cash</b>					<b>Acct. No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Mar. 1</b>		<b>G1</b>	<b>50,000</b>		<b>50,000</b>
<b>1</b>		<b>G1</b>		<b>9,000</b>	<b>41,000</b>
<b>5</b>		<b>G1</b>	<b>6,200</b>		<b>47,200</b>
<b>11</b>		<b>G1</b>		<b>7,200</b>	<b>40,000</b>
<b>15</b>		<b>G1</b>		<b>3,000</b>	<b>37,000</b>
<b>20</b>		<b>G1</b>	<b>1,500</b>		<b>38,500</b>
<b>27</b>		<b>G1</b>		<b>3,600</b>	<b>34,900</b>
<b>31</b>		<b>G1</b>		<b>860</b>	<b>34,040</b>

<b>Accounts Receivable</b>					<b>Acct. No. 106</b>
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Mar. 9</b>		<b>G1</b>	<b>4,000</b>		<b>4,000</b>
<b>20</b>		<b>G1</b>		<b>1,500</b>	<b>2,500</b>
<b>23</b>		<b>G1</b>	<b>2,850</b>		<b>5,350</b>

<b>Office Supplies</b>					<b>Acct. No. 124</b>
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Mar. 3</b>		<b>G1</b>	<b>1,200</b>		<b>1,200</b>
<b>30</b>		<b>G1</b>	<b>650</b>		<b>1,850</b>

<b>Prepaid Insurance</b>					<b>Acct. No. 128</b>
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Mar. 15</b>		<b>G1</b>	<b>3,000</b>		<b>3,000</b>

<b>Prepaid Rent</b>					<b>Acct. No. 131</b>
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Mar. 1</b>		<b>G1</b>	<b>9,000</b>		<b>9,000</b>

<b>Office Equipment</b>					<b>Acct. No. 163</b>
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Mar. 1</b>		<b>G1</b>	<b>12,000</b>		<b>12,000</b>
<b>3</b>		<b>G1</b>	<b>6,000</b>		<b>18,000</b>



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

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 3		G1		7,200	7,200
11		G1	7,200		0
30		G1		650	650

Abe Factor, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 1		G1		62,000	62,000

Abe Factor, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 27		G1	3,600		3,600

Accounting Fees Earned					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 5		G1		6,200	6,200
9		G1		4,000	10,200
23		G1		2,850	13,050

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 31		G1	860		860



**Problem 2-4A (concluded)**

**Part 3**

**X-FACTOR ACCOUNTING**

**Trial Balance**

**March 31, 2014**

<b>Acct. No.</b>	<b>Account Title</b>	<b>Debit</b>	<b>Credit</b>
101	Cash .....	\$34,040	
106	Accounts receivable .....	5,350	
124	Office supplies .....	1,850	
128	Prepaid insurance .....	3,000	
131	Prepaid rent .....	9,000	
163	Office equipment.....	18,000	
201	Accounts payable .....		\$ 650
301	Abe Factor, capital.....		62,000
302	Abe Factor, withdrawals.....	3,600	
401	Accounting fees earned .....		13,050
690	Utilities expense.....	860	
	<b>Totals .....</b>	<b><u>\$75,700</u></b>	<b><u>\$75,700</u></b>







**Problem 2-6A (90 minutes)****Part 1**

General Journal				Page 1
Date	Account Titles and Explanations	PR	Debit	Credit
2011				
May 1	Cash .....	101	75,000	
	Office Equipment .....	163	48,000	
	Jill Wahpoosywan, Capital .....	301		123,000
	<i>Invested cash and equipment to start the business.</i>			
1	Prepaid Rent.....	131	14,400	
	Cash .....	101		14,400
	<i>Prepaid three months' rent.</i>			
2	Office Equipment .....	163	24,000	
	Office Supplies.....	124	4,800	
	Accounts Payable .....	201		28,800
	<i>Purchased equipment and supplies on credit.</i>			
6	Cash .....	101	8,000	
	Services Revenue .....	403		8,000
	<i>Received cash from client for services performed.</i>			
9	Accounts Receivable.....	106	16,000	
	Services Revenue .....	403		16,000
	<i>Billed client for completed work.</i>			
10	Accounts Payable .....	201	14,400	
	Cash .....	101		14,400
	<i>Paid one-half of balance due on accounts payable.</i>			
19	Prepaid Insurance.....	128	7,500	
	Cash .....	101		7,500
	<i>Paid annual premium for insurance.</i>			
22	Cash .....	101	12,800	
	Accounts Receivable .....	106		12,800
	<i>Collected part of the amount owed by a client.</i>			
25	Accounts Receivable.....	106	5,280	
	Services Revenue .....	403		5,280
	<i>Billed client for completed work.</i>			
25	Wages expense .....	623	34,000	
	Cash .....	101		34,000
	<i>Paid wage expense.</i>			



**Problem2-6A, Part 1 (continued)**

May	31	Jill Wahpoosywan, Withdrawals.....	302	5,000	
		Cash .....	101		5,000
		<i>Owner withdrew cash.</i>			
	31	Office Supplies.....	124	1,600	
		Accounts Payable .....	201		1,600
		<i>Purchased supplies on credit.</i>			
	31	Utilities Expense .....	690	1,400	
		Cash .....	101		1,400
		<i>Paid monthly utility bill.</i>			

Note: Assume that all entries were journalized on Page 1 of the General Journal.

**Parts 2 and 3**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
May 1		G1	75,000		75,000
1		G1		14,400	60,600
6		G1	8,000		68,600
10		G1		14,400	54,200
19		G1		7,500	46,700
22		G1	12,800		59,500
25		G1		34,000	25,500
31		G1		5,000	20,500
31		G1		1,400	19,100

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
May 9		G1	16,000		16,000
22		G1		12,800	3,200
25		G1	5,280		8,480

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2014					
May 2		G1	4,800		4,800
31		G1	1,600		6,400



**Problem 2-6A (continued) Parts 2 and 3**

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 19		G1	7,500		7,500

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 1		G1	14,400		14,400

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 1		G1	48,000		48,000
2		G1	24,000		72,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 2		G1		28,800	28,800
10		G1	14,400		14,400
31		G1		1,600	16,000

Jill Wahpoosywan, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 1		G1		123,000	123,000

Jill Wahpoosywan, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 31		G1	5,000		5,000

Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 6		G1		8,000	8,000
9		G1		16,000	24,000
25		G1		5,280	29,280

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 25		G1	34,000		34,000



**Problem 2-6A (continued) Parts 2 and 3**

Utilities Expense				Acct. No. 690	
Date	Explanation	PR	Debit	Credit	Balance
2014					
May 31		G1	1,400		1,400

**Part 4****TECHNO WIZARDS**

Trial Balance

May 31, 2014

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 19,100	
106	Accounts receivable .....	8,480	
124	Office supplies.....	6,400	
128	Prepaid insurance .....	7,500	
131	Prepaid rent .....	14,400	
163	Office equipment .....	72,000	
201	Accounts payable.....		\$ 16,000
301	Jill Wahpoosywan, capital.....		123,000
302	Jill Wahpoosywan, withdrawals.....	5,000	
403	Services revenue.....		29,280
623	Wages expense.....	34,000	
690	Utilities expense .....	1,400	
	Totals.....	<u>\$168,280</u>	<u>\$168,280</u>

**Analysis component:**

Equity represents how much of Techno Wizards' assets belong to the owner, Jill Wahpoosywan. Services Revenue is an equity account because as revenues are realized, the business's net worth (assets – liabilities, or equity) increases either through the receipt of an asset (cash or accounts receivable) or satisfying a liability (unearned revenues). Utilities Expense is an equity account because as expenses are realized, net worth (what belongs to the owner) decreases either through the use of an asset (such as prepaid insurance) or increase in a liability (such as rent payable). Jill Wahpoosywan, Withdrawals is an equity account because as the owner withdraws assets, Jill Wahpoosywan's equity in the business (what belongs to the owner) decreases. The owner's objective is for the business to generate sufficient revenues to cover all expenses, provide sufficient assets for the purpose of withdrawals, and at the same time maintain or preferably increase equity (because excess revenues remained after deducting expenses and withdrawals).



## Problem 2-7A

**TECHNO WIZARDS**  
**Income Statement**  
**For Month Ended May 31, 2014**

<b>Revenues:</b>		
Service revenue .....		\$29,280
<b>Operating expenses:</b>		
Wages expense .....	\$34,000	
Utilities expense .....	<u>1,400</u>	
Total operating expenses .....		<u>35,400</u>
Net loss .....		<u>\$ 6,120</u>

**TECHNO WIZARDS**  
**Statement of Changes in Equity**  
**For Month Ended May 31, 2014**

Jill Wahpoosywan, capital, May 1 .....	\$ 0
Add: Investments by owner .....	123,000
Less: Withdrawals by owner .....	\$5,000
Net loss .....	<u>6,120</u>
Jill Wahpoosywan, capital, May 31 .....	<u>11,120</u>
	<u>\$111,880</u>

The arrows are imaginary  
but emphasize the link  
between statements.

**TECHNO WIZARDS**  
**Balance Sheet**  
**May 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash .....	\$ 19,100	Accounts payable .....	\$ 16,000
Accounts receivable .....	8,480		
Office supplies .....	6,400		
Prepaid insurance .....	7,500		
Prepaid rent .....	14,400		
Office equipment .....	72,000		
Total assets .....	<u>\$127,880</u>		
		<b>Equity</b>	
		Jill Wahpoosywan, capital .....	<u>111,880</u>
		Total liabilities and equity .....	<u>\$127,880</u>



**Problem 2-8A (25 minutes)**

**WILDCAT OPTICIANS**  
**Income Statement**  
**For Month Ended May 31, 2014**

<b>Revenues:</b>		
Service revenue .....		\$25,280
<b>Operating expenses:</b>		
Wages expense .....	\$15,000	
Rent expense .....	4,300	
Utilities expense .....	1,400	
Total operating expenses .....		<u>20,700</u>
Net income .....		<u>\$ 4,580</u>

**WILDCAT OPTICIANS**  
**Statement of Changes in Equity**  
**For Month Ended May 31, 2014**

Bo Wildcat, capital, May 1 .....		\$ -0-
Add: Owner investment .....	\$ 56,300	
Net income .....	<u>4,580</u>	<u>60,880</u>
Total .....		<u>\$60,880</u>
Less: Withdrawals by owner .....		<u>1,480</u>
Bo Wildcat, capital, May 31 .....		<u>\$59,400</u>

The arrows are imaginary  
but emphasize the link  
between statements.

**WILDCAT OPTICIANS**  
**Balance Sheet**  
**May 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash .....	\$18,500	Accounts payable .....	\$ 1,600
Accounts receivable .....	8,480	Unearned service revenue .....	<u>7,800</u>
Office supplies .....	6,400	Total liabilities .....	<u>\$ 9,400</u>
Prepaid insurance .....	9,820		
Office equipment .....	<u>25,600</u>		
		<b>Equity</b>	
		Bo Wildcat, capital .....	<u>59,400</u>
		Total liabilities and	
Total assets .....	<u>\$68,800</u>	equity .....	<u>\$68,800</u>



**Analysis component:****2014**

May	31	Utilities Expense .....	1,400	
		Cash .....		1,400
		<i>Paid the May utilities.</i>		
	31	Utilities Expense .....	1,400	
		Accounts Payable .....		1,400
		<i>Received the May utility bill which will be paid next month.</i>		

**Problem 2-9A (90 minutes)****Part 1**

		General Journal			Page 1
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
July	1	Cash .....	101	300,000	
		Office Equipment .....	163	12,000	
		Drafting Equipment.....	167	90,000	
		Bishr Binbutti, Capital.....	301		402,000
		<i>Investment by owner.</i>			
	2	Land.....	183	108,000	
		Cash.....	101		10,800
		Long-Term Notes Payable .....	251		97,200
		<i>Purchased land.</i>			
	3	Building.....	173	150,000	
		Cash.....	101		150,000
		<i>Purchased a building.</i>			
	5	Prepaid Insurance .....	128	12,000	
		Cash.....	101		12,000
		<i>Purchased two one-year insurance policies.</i>			
	7	Cash .....	101	1,400	
		Engineering Fees Earned .....	401		1,400
		<i>Completed services for cash.</i>			
	9	Drafting Equipment.....	167	45,000	
		Cash.....	101		21,000
		Long-Term Notes Payable .....	251		24,000
		<i>Purchased drafting equipment.</i>			
	10	Accounts Receivable .....	106	4,000	
		Engineering Fees Earned .....	401		4,000
		<i>Completed services on credit.</i>			



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

July	12	Office Equipment .....	163	4,500	
		Accounts Payable .....	201		4,500
		<i>Purchased office equipment on credit.</i>			
	15	Accounts Receivable .....	106	7,000	
		Engineering Fees Earned .....	401		7,000
		<i>Completed services on credit.</i>			
	16	Equipment Rental Expense .....	645	13,800	
		Accounts Payable .....	201		13,800
		<i>Equipment rental to be paid in 30 days.</i>			
	17	Cash .....	101	400	
		Accounts Receivable .....	106		400
		<i>Collection from credit customer.</i>			
	19	Wages Expense .....	623	12,000	
		Cash .....	101		12,000
		<i>Paid drafting assistants.</i>			
	22	Accounts Payable .....	201	4,500	
		Cash .....	101		4,500
		<i>Paid July 12 transaction.</i>			
	25	Repairs Expense .....	684	1,350	
		Cash .....	101		1,350
		<i>Paid for repairs on drafting equipment.</i>			
	26	Bishr Binbutti, Withdrawals .....	302	800	
		Cash .....	101		800
		<i>Owner withdrawal.</i>			
	30	Wages Expense .....	623	12,000	
		Cash .....	101		12,000
		<i>Paid drafting assistants.</i>			
	31	Advertising Expense .....	655	6,000	
		Cash .....	101		6,000
		<i>Paid for advertising in local newspaper.</i>			

**Note:** Assume all entries were journalized on Page 1 of the General Journal.



**Problem 2-9A (continued)****Parts 2 and 3**

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				26,000
July 1		G1	300,000		326,000
2		G1		10,800	315,200
3		G1		150,000	165,200
5		G1		12,000	153,200
7		G1	1,400		154,600
9		G1		21,000	133,600
17		G1	400		134,000
19		G1		12,000	122,000
22		G1		4,500	117,500
25		G1		1,350	116,150
26		G1		800	115,350
30		G1		12,000	103,350
31		G1		6,000	97,350

Accounts Receivable				Account No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				3,000
July 10		G1	4,000		7,000
15		G1	7,000		14,000
17		G1		400	13,600

Prepaid Insurance				Account No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				500
July 5		G1	12,000		12,500

Office Equipment				Account No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,700
July 1		G1	12,000		13,700
12		G1	4,500		18,200



**Problem 2-9A (continued)****Parts 2 and 3 (continued)**

Drafting Equipment					Account No. 167
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,200
July 1		G1	90,000		91,200
9		G1	45,000		136,200

Building					Account No. 173
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				42,000
July 3		G1	150,000		192,000

Land					Account No. 183
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				28,000
July 2		G1	108,000		136,000

Accounts Payable					Account No. 201
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,740
July 12		G1		4,500	6,240
16		G1		13,800	20,040
22		G1	4,500		15,540

Long-Term Notes Payable					Account No. 251
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				24,000
July 2		G1		97,200	121,200
9		G1		24,000	145,200

Bishr Binbutti, Capital					Account No. 301
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				54,000
July 1		G1		402,000	456,000



**Problem 2-9A (continued)****Parts 2 and 3 (continued)**

Bishr Binbutti, Withdrawals					Account No. 302
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,000
July 26		G1	800		1,800

Engineering Fees Earned					Account No. 401
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				29,600
July 7		G1		1,400	31,000
10		G1		4,000	35,000
15		G1		7,000	42,000

Wages Expense					Account No. 623
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				4,000
July 19		G1	12,000		16,000
30		G1	12,000		28,000

Equipment Rental Expense					Account No. 645
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,000
July 16		G1	13,800		14,800

Advertising Expense					Account No. 655
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				640
July 31		G1	6,000		6,640

Repairs Expense					Account No. 684
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				300
July 25		G1	1,350		1,650



**Problem 2-9A (concluded)****Part 4**

**BINBUTTI ENGINEERING**  
**Trial Balance**  
**July 31, 2014**

<b>Acct. No.</b>	<b>Account Title</b>	<b>Debit</b>	<b>Credit</b>
101	Cash .....	\$ 97,350	
106	Accounts receivable .....	13,600	
128	Prepaid insurance .....	12,500	
163	Office equipment .....	18,200	
167	Drafting equipment .....	136,200	
173	Building .....	192,000	
183	Land .....	136,000	
201	Accounts payable .....		\$ 15,540
251	Long-term notes payable .....		145,200
301	Bishr Binbutti, capital .....		456,000
302	Bishr Binbutti, withdrawals .....	1,800	
401	Engineering fees earned .....		42,000
623	Wages expense .....	28,000	
645	Equipment rental expense .....	14,800	
655	Advertising expense .....	6,640	
684	Repairs expense .....	1,650	
	<b>Totals .....</b>	<b><u>\$658,740</u></b>	<b><u>\$658,740</u></b>







**Problem 2-11A (45 minutes) Part 1**

<b>General Journal</b>					<b>Page 1</b>
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>PR</b>	<b>Debit</b>		<b>Credit</b>
<b>2014</b>					
<b>July</b>	<b>1</b>				
	Supplies .....	126	100		
	Accounts Payable .....	201			100
	<i>Purchased supplies on account.</i>				
	<b>2</b>				
	Cash .....	101	4,000		
	Unearned Teaching Revenue .....	233			4,000
	<i>Collected teaching fees for August.</i>				
	<b>3</b>				
	Cash .....	101	2,000		
	Teaching Revenue .....	401			2,000
	<i>Collected teaching fees for July.</i>				
	<b>4</b>				
	Rent Expense .....	640	3,000		
	Cash .....	101			3,000
	<i>Paid July rent.</i>				
	<b>5</b>				
	Accounts Payable .....	201	500		
	Cash .....	101			500
	<i>Paid for supplies purchased on account.</i>				
	<b>15</b>				
	Ted Ng, Withdrawals .....	302	500		
	Cash .....	101			500
	<i>The owner withdrew cash.</i>				
	<b>20</b>				
	Wages Expense .....	623	1,300		
	Cash .....	101			1,300
	<i>Paid wages.</i>				
	<b>31</b>				
	Furniture .....	161	300		
	Accounts Payable .....	201			300
	<i>Purchased a new chair on account.</i>				



**Problem 2-11A (continued)**

**Parts 2 and 3**

Cash 101		Supplies 126		Furniture 161		Accounts Payable 201	
Bal. 6,000		Bal. 950		Bal. 8,000		1,500 Bal.	
Jul. 2 4,000	3,000 Jul. 4	Jul. 1 100		Jul. 31 300		Jul. 5 500	100 Jul. 1
3 2,000	500 Jul. 5	Bal. 1,050		Bal. 8,300			300 Jul. 31
	500 Jul. 15						1,400 Bal.
	1,300 Jul. 20						
Bal. 6,700							
Unearned Teaching Rev 233		Ted Ng, Capital 301		Ted Ng, Withdrawals 302		Teaching Revenue 401	
	9,800 Bal.		3,000 Bal.	Bal. 13,000			46,000 Bal.
	4,000 Jul. 2			Jul. 15 500			2,000 Jul. 3
	13,800 Bal.			Bal. 13,500			48,000 Bal.
Wages Expense 623		Rent Expense 640					
Bal. 26,350		Bal. 6,000					
Jul. 20 1,300		Jul. 4 3,000					
Bal. 27,650		Bal. 9,000					



**Problem 2-11A (continued)**

**Part 4**

**NG'S ENGLISH SCHOOL  
Trial Balance  
July 31, 2014**

Acct. No.	Account Title	Debit	Credit
101	Cash .....	\$ 6,700	
126	Supplies .....	1,050	
161	Furniture .....	8,300	
201	Accounts payable .....		\$ 1,400
233	Unearned teaching revenue .....		13,800
301	Ted Ng, capital .....		3,000
302	Ted Ng, withdrawals .....	13,500	
401	Teaching revenue .....		48,000
623	Wages expense .....	27,650	
640	Rent expense .....	9,000	
	Totals .....	<u>\$66,200</u>	<u>\$66,200</u>



**Problem 2-11A (concluded)****Part 5**

**NG'S ENGLISH SCHOOL**  
**Income Statement**  
**For Three Months Ended July 31, 2014**

Teaching revenue .....		\$48,000
Operating expenses:		
Wages expense .....	\$27,650	
Rent expense .....	<u>9,000</u>	
Total operating expenses .....		36,650
Net income .....		<u>\$11,350</u>

**NG'S ENGLISH SCHOOL**  
**Statement of Changes in Equity**  
**For Three Months Ended July 31, 2014**

Ted Ng, capital, May 1 .....		\$ -0-
Add: Owner investment .....	\$ 3,000	
Net income .....	<u>11,350</u>	
Total .....		14,350
Less: Withdrawals by owner .....		<u>13,500</u>
Ted Ng, capital, July 31 .....		<u>\$ 850</u>

The arrows are imaginary  
but emphasize the link  
between statements.

**NG'S ENGLISH SCHOOL**  
**Balance Sheet**  
**July 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$ 6,700	Accounts payable .....	\$ 1,400
Supplies.....	1,050	Unearned teaching revenue .....	<u>13,800</u>
Furniture.....	<u>8,300</u>	Total liabilities .....	\$15,200
		<b>Equity</b>	
		Ted Ng, capital.....	<u>850</u>
		Total liabilities and	
Total assets.....	<u>\$16,050</u>	equity.....	<u>\$16,050</u>



**Problem 2-12A (25 minutes)**

**FELINE PET CARE**  
**Income Statement**  
**For Year Ended July 31, 2014**

<b>Revenues:</b>	
Fees earned .....	\$117,000
<b>Operating expenses:</b>	
Wages expense .....	\$58,000
Equipment rental expense .....	34,000
Pet food expense .....	17,800
Advertising expense .....	<u>9,200</u>
Total operating expenses .....	119,000
Net loss .....	<u>\$ 2,000</u>

**FELINE PET CARE**  
**Statement of Changes in Equity**  
**For Year Ended July 31, 2014**

Betty Lark, capital, August 1 .....	\$ 0
Add: Investments by owner .....	292,760
Total .....	292,760
Less: Withdrawals by owner .....	\$ 5,000
Net loss .....	<u>2,000</u>
Betty Lark, capital, July 31 .....	<u>\$285,760</u>

The arrows are  
imaginary but  
emphasize the link  
between  
statements.

**FELINE PET CARE**  
**Balance Sheet**  
**July 31, 2014**

<i>Assets</i>		<i>Liabilities</i>	
Cash .....	\$ 23,000	Accounts payable .....	\$ 15,540
Accounts receivable .....	11,600	Unearned fees .....	92,000
Prepaid insurance .....	12,500	Total liabilities .....	107,540
Equipment .....	18,200		
Building .....	192,000		
Land .....	<u>136,000</u>		
Total assets .....	<u>\$393,300</u>		
		<b><i>Equity</i></b>	
		Betty Lark, capital .....	285,760
		Total liabilities and equity .....	<u>\$393,300</u>



**Problem 2-12A (concluded)****Analysis component:****2014**

July	31	Cash .....	117,000	
		Fees Earned .....		117,000
		<i>Received cash for completing work for clients.</i>		
	31	Accounts Receivable .....	117,000	
		Fees Earned .....		117,000
		<i>Completed work for clients on account.</i>		

**Problem 2-13A (15 minutes)****Wilm's Window Washing Services****Trial Balance****January 31, 2014**

	Debit	Credit
Cash ( $11,600 + 2,800^b - 4,400^d$ ) .....	\$ 10,000	
Accounts receivable ( $9,240 - 2,800^b + 3,600^c$ ) .....	10,040	
Prepaid insurance .....	2,400	
Equipment ( $24,000 + 4,000^a$ ) .....	28,000	
Accounts payable ( $5,400 + 4,000^a$ ) .....		\$ 9,400
Wilm Schmidt, capital .....		45,000
Wilm Schmidt, withdrawals .....	8,960	
Service revenues ( $60,400 + 3,600^e$ ) .....		64,000
Salaries expense .....	32,000	
Insurance expense .....	5,200	
Maintenance expense ( $13,000 + 3,600^e$ ) .....	16,600	
Utilities expense .....	5,200	
Totals .....	<u>\$118,400</u>	<u>\$118,400</u>

**Note:** The superscripts (a) to (e) are references to items (a) to (e) listed in Problem 2-13A.



**ALTERNATE PROBLEMS****Problem 2-1B (40 minutes) Parts 1 and 2**

Cash			
(a)	46,000	30,000	(b)
(g)	2,700	1,800	(f)
(m)	1,000	1,430	(h)
		600	(i)
		2,400	(j)
		1,800	(l)
		1,050	(n)
Balance	10,620		

Accounts Receivable			
(k)	2,400	1,000	(m)
Balance	1,400		

Office Supplies	
(c)	600

Automobiles	
(d)	7,000

Office Equipment			
(a)	24,000	1,600	(j)
(e)	4,600		
(j)	4,000		
Balance	31,000		

Building	
(b)	66,000

Land	
(b)	268,000

Accounts Payable			
(i)	600	600	(c)
		4,600	(e)
		4,600	Balance

Long-Term Notes Payable	
	304,000 (b)

Trevor Peeters, Capital		
	70,000	(a)
	7,000	(d)
	77,000	Balance

Trevor Peeters, Withdrawals	
(n)	1,050

Fees Earned		
	2,700	(g)
	2,400	(k)
	5,100	Balance

Salaries Expense		
(f)	1,800	
(l)	1,800	
Balance	3,600	

Utilities Expense	
(h)	1,430



## Problem 2-2B

		General Journal		Page 1	
Date		Accounts Titles and Explanations	Debit	Credit	
2014					
March	1	Building.....	375,000		
		Cash.....		75,000	
		Note Payable.....		300,000	
		<i>Purchased new portable building paying cash and signing a five-year note payable.</i>			
	1	Prepaid Insurance .....	5,700		
		Cash.....		5,700	
		<i>Purchased six months of insurance to begin March 1.</i>			
	2	No entry.			
	4	Cleaning Supplies .....	450		
		Accounts Payable .....		450	
		<i>Purchased cleaning supplies on account.</i>			
	15	Accounts Payable .....	450		
		Cash.....		450	
		<i>Paid for the March 4 purchase.</i>			
	19	Accounts Receivable .....	35,000		
		Advertising Revenue (or other revenue account) .....		35,000	
		<i>Performed work for a client on account.</i>			
	20	Cash .....	8,000		
		Unearned Revenue.....		8,000	
		<i>Collected cash from a customer for work to be done in April.</i>			
	28	Hotel Expense or Travel Expense .....	240		
		Cash .....		240	
		<i>Paid for a hotel regarding a business meeting.</i>			



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

<b>March</b>	<b>29</b>	Cash .....	<b>5,000</b>	
		Advertising Revenue (or other revenue account) .....		<b>5,000</b>
		<i>Provided advertising services and collected cash.</i>		
	<b>30</b>	Salaries Expense.....	<b>25,600</b>	
		Cash.....		<b>25,600</b>
		<i>Paid month-end salaries.</i>		
	<b>30</b>	Telephone Expense .....	<b>1,300</b>	
		Accounts Payable .....		<b>1,300</b>
		<i>March telephone bill to be paid on April 14.</i>		
	<b>30</b>	Cash .....	<b>17,500</b>	
		Accounts Receivable .....		<b>17,500</b>
		<i>Collected half of the amount owed by the customer of March 19.</i>		

**Note: Assume all entries were journalized on Page 1 of the General Journal.**



**Problem 2-3B (60 minutes)**

		General Journal			Page 1
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
Sept.	1	Cash .....	101	20,000	
		Office Equipment .....	163	9,200	
		Susan Hurley, Capital .....	301		29,200
		<i>Investment by owner.</i>			
	1	Prepaid Rent .....	131	5,600	
		Cash .....	101		5,600
		<i>Paid two months' rent.</i>			
	2	Office Supplies .....	124	1,380	
		Office Equipment .....	163	3,800	
		Accounts Payable .....	201		5,180
		<i>Purchased items on credit.</i>			
	4	Cash .....	101	2,900	
		Accounting Fees Earned .....	401		2,900
		<i>Sold accounting services for cash.</i>			
	8	Accounts Receivable .....	106	5,080	
		Accounting Fees Earned .....	401		5,080
		<i>Sold accounting services on credit.</i>			
	10	Accounts Payable .....	201	5,180	
		Cash .....	101		5,180
		<i>Paid for credit purchase.</i>			
	14	Prepaid Insurance .....	128	3,300	
		Cash .....	101		3,300
		<i>Paid insurance premium.</i>			
	15	Professional Development Expense .....	680	1,250	
		Cash .....	101		1,250
		<i>Paid for seminar.</i>			



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

Sept.	18	Cash .....	101	5,080	
		Accounts Receivable .....	106		5,080
		<i>Received cash from credit customer.</i>			
	20	No entry.			
	24	Accounts Receivable .....	106	5,000	
		Accounting Fees Earned .....	401		5,000
		<i>Sold accounting services on credit.</i>			
	28	Susan Hurley, Withdrawals .....	302	2,500	
		Cash .....	101		2,500
		<i>Owner withdrew cash.</i>			
	29	Office Supplies .....	124	450	
		Accounts Payable .....	201		450
		<i>Purchased supplies on credit.</i>			
	30	Utilities Expense .....	690	1,750	
		Cash .....	101		1,750
		<i>Paid utilities bill.</i>			

**Note:** The account numbers in the PR column above would be included only when these journal entries are being posted in Problem 2-4B. Assume that all entries were journalized on Page 1 of the General Journal.



**Problem 2-4B****Parts 1 and 2**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 1		G1	20,000		20,000
1		G1		5,600	14,400
4		G1	2,900		17,300
10		G1		5,180	12,120
14		G1		3,300	8,820
15		G1		1,250	7,570
18		G1	5,080		12,650
28		G1		2,500	10,150
30		G1		1,750	8,400

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 8		G1	5,080		5,080
18		G1		5,080	0
24		G1	5,000		5,000

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 2		G1	1,380		1,380
29		G1	450		1,830

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 14		G1	3,300		3,300

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 1		G1	5,600		5,600

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 1		G1	9,200		9,200
2		G1	3,800		13,000



**Problem 2-4B (continued)****Parts 1 and 2**

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 2		G1		5,180	5,180
10		G1	5,180		0
29		G1		450	450

Susan Hurley, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 1		G1		29,200	29,200

Susan Hurley, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 28		G1	2,500		2,500

Accounting Fees Earned					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 4		G1		2,900	2,900
8		G1		5,080	7,980
24		G1		5,000	12,980

Professional Development Expense					Acct. No. 680
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 15		G1	1,250		1,250

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 30		G1	1,750		1,750



**Problem 2-4B (concluded)**

**Part 3**

**SUSAN HURLEY, PUBLIC ACCOUNTANT**  
**Trial Balance**  
**September 30, 2014**

Acct. No.	Account Title	Debit	Credit
101	Cash .....	\$ 8,400	
106	Accounts receivable .....	5,000	
124	Office supplies .....	1,830	
128	Prepaid insurance .....	3,300	
131	Prepaid rent .....	5,600	
163	Office equipment.....	13,000	
201	Accounts payable .....		\$ 450
301	Susan Hurley, capital.....		29,200
302	Susan Hurley, withdrawals .....	2,500	
401	Accounting fees earned .....		12,980
680	Professional development expense.....	1,250	
690	Utilities expense.....	1,750	
	Totals .....	<u>\$42,630</u>	<u>\$42,630</u>



**Problem 2-5B (25 minutes)**

**SUSAN HURLEY, PUBLIC ACCOUNTANT**  
**Income Statement**  
**For Month Ended September 30, 2014**

**Revenues:**

Accounting fees earned ..... \$12,980

**Operating expenses:**

Utilities expense ..... \$1,750

Professional development expense..... 1,250

Total operating expenses ..... 3,000

Net income ..... \$ 9,980

**SUSAN HURLEY, PUBLIC ACCOUNTANT**  
**Statement of Changes in Equity**  
**For Month Ended September 30, 2014**

Susan Hurley, capital, September 1 ..... \$ 0

Add: Investments by owner ..... \$29,200

Net income ..... 9,980

Total ..... 39,180

Less: Withdrawals by owner ..... 2,500

Susan Hurley, capital, September 30..... \$36,680

The arrows are  
imaginary but  
emphasize the  
link between  
statements.

**SUSAN HURLEY, PUBLIC ACCOUNTANT**  
**Balance Sheet**  
**September 30, 2014**

**Assets**

Cash..... \$ 8,400

Accounts receivable..... 5,000

Office supplies..... 1,830

Prepaid insurance ..... 3,300

Prepaid rent..... 5,600

Office equipment ..... 13,000

Total assets..... \$37,130

**Liabilities**

Accounts payable ..... \$ 450

**Equity**

Susan Hurley, capital..... 36,680

Total liabilities and  
equity..... \$37,130



**Problem 2-6B (90 minutes)****Part 1**

		<b>General Journal</b>			<b>Page 1</b>
<b>Date</b>		<b>Account Titles and Explanations</b>		<b>Debit</b>	<b>Credit</b>
<b>2014</b>					
<b>Nov.</b>	<b>1</b>	Cash ..... 101	62,000		
		Office Equipment ..... 163	19,000		
		Tait Unger, Capital ..... 301			81,000
		<i>Owner invested in the business.</i>			
	<b>2</b>	Prepaid Rent ..... 131	21,000		
		Cash ..... 101			21,000
		<i>Prepaid three months' rent.</i>			
	<b>4</b>	Office Equipment ..... 163	9,000		
		Office Supplies ..... 124	1,650		
		Accounts Payable ..... 201			10,650
		<i>Purchased equipment and supplies on credit.</i>			
	<b>8</b>	Cash ..... 101	5,200		
		Service Fees Earned ..... 401			5,200
		<i>Received cash from client for completed work.</i>			
	<b>12</b>	Accounts Receivable ..... 106	4,800		
		Service Fees Earned ..... 401			4,800
		<i>Billed client for completed work.</i>			
	<b>13</b>	Accounts Payable ..... 201	10,650		
		Cash ..... 101			10,650
		<i>Paid balance due on accounts payable.</i>			
	<b>19</b>	Prepaid Insurance ..... 128	3,750		
		Cash ..... 101			3,750
		<i>Paid annual premium for insurance.</i>			
	<b>22</b>	Cash ..... 101	2,000		
		Accounts Receivable ..... 106			2,000
		<i>Collected part of the amount owed by a client.</i>			
	<b>24</b>	Accounts Receivable ..... 106	3,600		
		Service Fees Earned ..... 401			3,600
		<i>Billed client for completed work.</i>			



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

**Part 1**

Nov.	28	Tait Unger, Withdrawals .....	302	5,300	
		Cash .....	101		5,300
		<i>Owner withdrew cash for personal use.</i>			
	29	Office Supplies.....	124	1,700	
		Accounts Payable .....	201		1,700
		<i>Purchased supplies on credit.</i>			
	30	Wages Expense.....	680	19,000	
		Cash .....	101		19,000
		<i>Paid wages.</i>			
	30	Utilities Expense .....	690	1,650	
		Cash .....	101		1,650
		<i>Paid monthly utility bill.</i>			

**Note:** Assume all entries were journalized on Page 1 of the General Journal.



**Problem 2-6B (continued)****Parts 2 and 3**

<b>Cash</b>				<b>Acct. No. 101</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Nov. 1</b>		<b>G1</b>	<b>62,000</b>		<b>62,000</b>
<b>2</b>		<b>G1</b>		<b>21,000</b>	<b>41,000</b>
<b>8</b>		<b>G1</b>	<b>5,200</b>		<b>46,200</b>
<b>13</b>		<b>G1</b>		<b>10,650</b>	<b>35,550</b>
<b>19</b>		<b>G1</b>		<b>3,750</b>	<b>31,800</b>
<b>22</b>		<b>G1</b>	<b>2,000</b>		<b>33,800</b>
<b>28</b>		<b>G1</b>		<b>5,300</b>	<b>28,500</b>
<b>30</b>		<b>G1</b>		<b>19,000</b>	<b>9,500</b>
<b>30</b>		<b>G1</b>		<b>1,650</b>	<b>7,850</b>

<b>Accounts Receivable</b>				<b>Acct. No. 106</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Nov. 12</b>		<b>G1</b>	<b>4,800</b>		<b>4,800</b>
<b>22</b>		<b>G1</b>		<b>2,000</b>	<b>2,800</b>
<b>24</b>		<b>G1</b>	<b>3,600</b>		<b>6,400</b>

<b>Office Supplies</b>				<b>Acct. No. 124</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Nov. 4</b>		<b>G1</b>	<b>1,650</b>		<b>1,650</b>
<b>29</b>		<b>G1</b>	<b>1,700</b>		<b>3,350</b>

<b>Prepaid Insurance</b>				<b>Acct. No. 128</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Nov. 19</b>		<b>G1</b>	<b>3,750</b>		<b>3,750</b>

<b>Prepaid Rent</b>				<b>Acct. No. 131</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Nov. 2</b>		<b>G1</b>	<b>21,000</b>		<b>21,000</b>



**Problem 2-6B (continued)****Parts 2 and 3**

Office Equipment					Acct. No. 163
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 1		G1	19,000		19,000
4		G1	9,000		28,000

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 4		G1		10,650	10,650
13		G1	10,650		0
29		G1		1,700	1,700

Tait Unger, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 1		G1		81,000	81,000

Tait Unger, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 28		G1	5,300		5,300

Service Fees Earned					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 8		G1		5,200	5,200
12		G1		4,800	10,000
24		G1		3,600	13,600

Wages Expense					Acct. No. 680
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 30		G1	19,000		19,000

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 30		G1	1,650		1,650



**Problem 2-6B (concluded)****Part 4**

**WiCOM SERVICING**  
**Trial Balance**  
**November 30, 2011**

Acct. No.	Account Title	Debit	Credit
101	Cash .....	\$ 7,850	
106	Accounts receivable.....	6,400	
124	Office supplies .....	3,350	
128	Prepaid insurance .....	3,750	
131	Prepaid rent.....	21,000	
163	Office equipment .....	28,000	
201	Accounts payable.....		\$ 1,700
301	Tait Unger, capital .....		81,000
302	Tait Unger, withdrawals .....	5,300	
401	Service fees earned .....		13,600
680	Wages expense.....	19,000	
690	Utilities expense .....	1,650	
	Totals .....	<u>\$96,300</u>	<u>\$96,300</u>

**Analysis component:**

The November 29 purchase of office supplies is recorded as a debit to an asset account because they have not yet been used. Assets are economic resources held by the business. The supplies will remain on the books as an asset until they are used. Once used, the supplies will become an expense.







**Problem 2-8B (25 minutes)**

**RUSH INNOVATIONS**  
**Income Statement**  
**For Month Ended November 30, 2014**

Service fees earned .....		\$15,800
Operating expenses:		
Wages expense .....	\$16,000	
Utilities expense .....	<u>2,920</u>	
Total operating expenses .....		<u>18,920</u>
Net loss .....		<u>\$ 3,120</u>

**RUSH INNOVATIONS**  
**Statement of Changes in Equity**  
**For Month Ended November 30, 2014**

Jay Rush, capital, November 1 .....		\$ 0
Add: Investments by owner .....		<u>146,000</u>
Total .....		<u>146,000</u>
Less: Withdrawals by owner .....	\$10,600	
Net loss .....	<u>3,120</u>	<u>13,720</u>
Jay Rush, capital, November 30 .....		<u>\$132,280</u>

The arrows are  
imaginary but  
emphasize the link  
between  
statements.

**RUSH INNOVATIONS**  
**Balance Sheet**  
**November 30, 2014**

<i>Assets</i>		<i>Liabilities</i>	
Cash .....	\$ 23,480	Accounts payable .....	\$ 3,400
Accounts receivable .....	7,000		
Office supplies .....	5,800		
Prepaid insurance .....	10,400		
Prepaid rent .....	21,000		
Office equipment .....	<u>68,000</u>		
Total assets .....	<u>\$135,680</u>		
		<i>Equity</i>	
		Jay Rush, capital .....	<u>132,280</u>
		Total liabilities and	
		equity .....	<u>\$135,680</u>



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

**Analysis component:**

**2014**

<b>Nov.</b>	<b>30</b>	<b>Accounts Receivable .....</b>	<b>XXX</b>	
		<b>Service Fees Earned .....</b>		<b>XXX</b>
		<i>Did work for a customer on account.</i>		
	<b>30</b>	<b>Cash .....</b>	<b>XXX</b>	
		<b>Accounts Receivable .....</b>		<b>XXX</b>
		<i>Collected an amount owing from a credit customer.</i>		



**Problem 2-9B (90 minutes)****Part 1**

<b>General Journal</b>					<b>Page 1</b>
<b>Date</b>		<b>Account Titles and Explanations</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>
<b>2014</b>					
<b>July</b>	<b>1</b>	<b>Office Equipment .....</b>	<b>163</b>	<b>9,000</b>	
		<b>Trucks .....</b>	<b>153</b>	<b>56,000</b>	
		<b>Long-Term Notes Payable .....</b>	<b>251</b>		<b>65,000</b>
		<b><i>Purchased assets on credit.</i></b>			
	<b>2</b>	<b>Land.....</b>	<b>183</b>	<b>124,000</b>	
		<b>Cash.....</b>	<b>101</b>		<b>40,800</b>
		<b>Long-Term Notes Payable .....</b>	<b>251</b>		<b>83,200</b>
		<b><i>Purchased land.</i></b>			
	<b>3</b>	<b>Building.....</b>	<b>173</b>	<b>21,000</b>	
		<b>Cash.....</b>	<b>101</b>		<b>21,000</b>
		<b><i>Purchased a building.</i></b>			
	<b>5</b>	<b>Prepaid Insurance .....</b>	<b>128</b>	<b>9,600</b>	
		<b>Cash.....</b>	<b>101</b>		<b>9,600</b>
		<b><i>Purchased two one-year insurance policies.</i></b>			
	<b>9</b>	<b>Cash .....</b>	<b>101</b>	<b>3,200</b>	
		<b>Fees Earned .....</b>	<b>401</b>		<b>3,200</b>
		<b><i>Performed services for cash.</i></b>			
	<b>12</b>	<b>Office Equipment .....</b>	<b>163</b>	<b>6,500</b>	
		<b>Cash.....</b>	<b>101</b>		<b>700</b>
		<b>Long-Term Notes Payable .....</b>	<b>251</b>		<b>5,800</b>
		<b><i>Purchased office equipment.</i></b>			
	<b>15</b>	<b>Accounts Receivable .....</b>	<b>106</b>	<b>3,750</b>	
		<b>Fees Earned .....</b>	<b>401</b>		<b>3,750</b>
		<b><i>Performed services on credit.</i></b>			
	<b>20</b>	<b>Accounts Receivable .....</b>	<b>106</b>	<b>9,200</b>	
		<b>Fees Earned .....</b>	<b>401</b>		<b>9,200</b>
		<b><i>Performed services on credit.</i></b>			



**Problem 2-9B (continued)****Part 1**

General Journal					Page 2
Date	Account Titles and Explanations	PR	Debit	Credit	
2014					
July 21	Truck Rental Expense.....	645	1,300		
	Accounts Payable .....	201		1,300	
	<i>Rented truck on credit.</i>				
22	Cash .....	101	5,000		
	Accounts Receivable .....	106		5,000	
	<i>Collected cash from credit customer.</i>				
23	Wages Expense.....	623	1,600		
	Cash.....	101		1,600	
	<i>Paid wages to assistant.</i>				
24	Accounts Payable .....	201	1,300		
	Cash.....	101		1,300	
	<i>Paid for July 21 rental on account.</i>				
25	Repairs Expense .....	684	1,425		
	Cash.....	101		1,425	
	<i>Paid for truck repairs.</i>				
26	Brett Wilson, Withdrawals.....	302	3,875		
	Cash.....	101		3,875	
	<i>Owner withdrawal.</i>				
27	Wages Expense.....	623	1,600		
	Cash.....	101		1,600	
	<i>Paid wages to assistant.</i>				
28	Advertising Expense.....	655	800		
	Cash.....	101		800	
	<i>Paid for advertising in local newspaper.</i>				
29	Cash .....	101	1,400		
	Unearned Fees.....	233		1,400	
	<i>Received cash for services to be performed in August.</i>				



**Problem 2-9B (continued)****Parts 2 and 3**

<b>Cash</b>				<b>Account No. 101</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>June 30</b>	<b>Beginning balance</b>				<b>75,000</b>
<b>July 2</b>		<b>G1</b>		<b>40,800</b>	<b>34,200</b>
<b>3</b>		<b>G1</b>		<b>21,000</b>	<b>13,200</b>
<b>5</b>		<b>G1</b>		<b>9,600</b>	<b>3,600</b>
<b>9</b>		<b>G1</b>	<b>3,200</b>		<b>6,800</b>
<b>12</b>		<b>G1</b>		<b>700</b>	<b>6,100</b>
<b>22</b>		<b>G2</b>	<b>5,000</b>		<b>11,100</b>
<b>23</b>		<b>G2</b>		<b>1,600</b>	<b>9,500</b>
<b>24</b>		<b>G2</b>		<b>1,300</b>	<b>8,200</b>
<b>25</b>		<b>G2</b>		<b>1,425</b>	<b>6,775</b>
<b>26</b>		<b>G2</b>		<b>3,875</b>	<b>2,900</b>
<b>27</b>		<b>G2</b>		<b>1,600</b>	<b>1,300</b>
<b>28</b>		<b>G2</b>		<b>800</b>	<b>500</b>
<b>29</b>		<b>G2</b>	<b>1,400</b>		<b>1,900</b>

<b>Accounts Receivable</b>				<b>Account No. 106</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>June 30</b>	<b>Beginning balance</b>				<b>950</b>
<b>July 15</b>		<b>G1</b>	<b>3,750</b>		<b>4,700</b>
<b>20</b>		<b>G1</b>	<b>9,200</b>		<b>13,900</b>
<b>22</b>		<b>G2</b>		<b>5,000</b>	<b>8,900</b>

<b>Prepaid Insurance</b>				<b>Account No. 128</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>June 30</b>	<b>Beginning balance</b>				<b>275</b>
<b>July 5</b>		<b>G1</b>	<b>9,600</b>		<b>9,875</b>

<b>Trucks</b>				<b>Account No. 153</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>June 30</b>	<b>Beginning balance</b>				<b>20,800</b>
<b>July 1</b>		<b>G1</b>	<b>56,000</b>		<b>76,800</b>



**Problem 2-9B (continued)****Parts 2 and 3**

Office Equipment				Account No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,200
July 1		G1	9,000		10,200
12		G1	6,500		16,700

Building				Account No. 173	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				-0-
July 3		G1	21,000		21,000

Land				Account No. 183	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				-0-
July 2		G1	124,000		124,000

Accounts Payable				Account No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				725
July 21		G1		1,300	2,025
24		G2	1,300		725

Unearned Fees				Account No. 233	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				0
July 29		G2		1,400	1,400

Long-Term Notes Payable				Account No. 251	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				7,000
July 1		G1		65,000	72,000
2		G1		83,200	155,200
12		G1		5,800	161,000



**Problem 2-9B (continued)****Parts 2 and 3**

Brett Wilson, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				83,825

Brett Wilson, Withdrawals				Account No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				600
July 26		G2	3,875		4,475

Fees Earned				Account No. 401	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				8,400
July 9		G1		3,200	11,600
15		G1		3,750	15,350
20		G1		9,200	24,550

Wages Expense				Account No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				780
July 23		G2	1,600		2,380
27		G2	1,600		3,980

Truck Rental Expense				Account No. 645	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				230
July 21		G2	1,300		1,530

Advertising Expense				Account No. 655	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				75
July 28		G2	800		875

Repairs Expense				Account No. 684	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				40
July 25		G2	1,425		1,465



**Problem 2-9B (concluded)****Part 4**

**FROG BOX COMPANY**  
**Trial Balance**  
**July 31, 2014**

<b>Acct. No.</b>	<b>Account Title</b>	<b>Debit</b>	<b>Credit</b>
101	Cash .....	\$ 1,900	
106	Accounts receivable .....	8,900	
128	Prepaid insurance .....	9,875	
153	Trucks .....	76,800	
163	Office equipment.....	16,700	
173	Building.....	21,000	
183	Land.....	124,000	
201	Accounts payable .....		\$ 725
233	Unearned fees .....		1,400
251	Long-term notes payable .....		161,000
301	Brett Wilson, capital.....		83,825
302	Brett Wilson, withdrawals .....	4,475	
401	Fees earned .....		24,550
623	Wages expense .....	3,980	
645	Truck rental expense .....	1,530	
655	Advertising expense .....	875	
684	Repairs expense .....	1,465	
	<b>Totals.....</b>	<b><u>\$271,500</u></b>	<b><u>\$271,500</u></b>



## Problem 2-10B

**FROG BOX COMPANY**  
**Income Statement**  
**For Month Ended July 31, 2014**

<b>Revenues:</b>		
Fees earned .....		\$24,550
<b>Operating expenses:</b>		
Wages expense .....	\$3,980	
Truck rental expense .....	1,530	
Repairs expense .....	1,465	
Advertising expense .....	<u>875</u>	
Total operating expenses .....		7,850
Net income .....		<u>\$16,700</u>

**FROG BOX COMPANY**  
**Statement of Changes in Equity**  
**For Month Ended July 31, 2014**

Brett Wilson, capital, July 1 .....	\$ 83,825
Add: Net income .....	16,700
Total .....	<u>\$100,525</u>
Less: Withdrawals by owner .....	4,475
Brett Wilson, capital, July 31 .....	<u>\$ 96,050</u>

The arrows are  
imaginary but  
emphasize the link  
between  
statements.

**FROG BOX COMPANY**  
**Balance Sheet**  
**July 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash .....	\$ 1,900	Accounts payable .....	\$ 725
Accounts receivable .....	8,900	Unearned fees .....	1,400
Prepaid insurance .....	9,875	Long-term notes payable .....	161,000
Trucks .....	76,800	Total liabilities .....	\$163,125
Office equipment .....	16,700		
Building .....	21,000		
Land .....	<u>124,000</u>		
Total assets .....	<u>\$259,175</u>		
		<b>Equity</b>	
		Brett Wilson, capital .....	96,050
		Total liabilities and equity .....	<u>\$259,175</u>



**Problem 2-11B (45 minutes)****Part 1**

<b>General Journal</b>					<b>Page 1</b>
<b>Date</b>	<b>Account Titles and Explanations</b>	<b>PR</b>	<b>Debit</b>		<b>Credit</b>
<b>2014</b>					
<b>Nov. 1</b>	<b>Accounts Payable .....</b>	<b>201</b>	<b>10,000</b>		
	<b>Cash .....</b>	<b>101</b>			<b>10,000</b>
	<i><b>Paid for purchase made on account.</b></i>				
<b>2</b>	<b>Office Equipment .....</b>	<b>163</b>	<b>34,000</b>		
	<b>Cash .....</b>	<b>101</b>			<b>6,000</b>
	<b>Notes Payable.....</b>	<b>205</b>			<b>28,000</b>
	<i><b>Purchased a photocopier.</b></i>				
<b>3</b>	<b>Office Supplies .....</b>	<b>124</b>	<b>800</b>		
	<b>Cash .....</b>	<b>101</b>			<b>800</b>
	<i><b>Purchased supplies for cash.</b></i>				
<b>14</b>	<b>Wages Expense .....</b>	<b>623</b>	<b>6,000</b>		
	<b>Cash.....</b>	<b>101</b>			<b>6,000</b>
	<i><b>Paid wages.</b></i>				
<b>20</b>	<b>Cash .....</b>	<b>101</b>	<b>14,000</b>		
	<b>Travel Revenue.....</b>	<b>401</b>			<b>14,000</b>
	<i><b>Collected cash for November travel.</b></i>				
<b>25</b>	<b>Ike Petrov, Withdrawals.....</b>	<b>302</b>	<b>2,000</b>		
	<b>Cash.....</b>	<b>101</b>			<b>2,000</b>
	<i><b>The owner withdrew cash.</b></i>				
<b>30</b>	<b>Interest Expense .....</b>	<b>633</b>	<b>150</b>		
	<b>Cash .....</b>	<b>101</b>			<b>150</b>
	<i><b>Paid interest on notes payable.</b></i>				

**Note:** There is no entry to record for November 4 as this does not represent an economic exchange.



**Problem 2-11B (continued)**

**Parts 2 and 3**

Cash 101				Office Supplies 124			Office Equipment 163			Accounts Payable 201			
Bal.	26,000	10,000	Nov. 1	Bal.	900		Bal.	36,000		Nov. 1	10,000	43,000	Bal.
Nov. 20	14,000	6,000	2	Nov. 3	800		Nov. 2	34,000					
		800	3										
		6,000	14										
		2,000	25										
		150	30										
Bal.	15,050			Bal.	1,700		Bal.	70,000				33,000	Bal.

Notes Payable 205			Ike Petrov, Capital 301			Ike Petrov, Withdrawals 302			Travel Revenue 401		
	20,000	Bal.		8,000	Bal.	Bal.	4,000			34,000	Bal.
	28,000	Nov. 2				Nov. 25	2,000			14,000	Nov. 20
	48,000	Bal.				Bal.	6,000			48,000	Bal.

Wages Expense 623		Interest Expense 633	
Bal.	38,000	Bal.	100
Nov. 14	6,000	Nov. 30	150
Bal.	44,000	Bal.	250



**Problem 2-11B (continued)**

**Part 4**

**TOUR-ALONG  
Trial Balance  
November 30, 2014**

<b>Acct. No.</b>	<b>Account Title</b>	<b>Debit</b>	<b>Credit</b>
101	Cash .....	\$ 15,050	
124	Office supplies .....	1,700	
163	Office equipment.....	70,000	
201	Accounts payable .....		\$ 33,000
205	Notes payable.....		48,000
301	Ike Petrov, capital .....		8,000
302	Ike Petrov, withdrawals .....	6,000	
401	Travel revenue.....		48,000
623	Wages expense .....	44,000	
633	Interest expense.....	250	
	<b>Totals .....</b>	<b><u>\$137,000</u></b>	<b><u>\$137,000</u></b>



**Problem 2-11B (continued)**

**Part 5**

**TOUR-ALONG**  
**Income Statement**  
**For Two Months Ended November 30, 2014**

Travel revenue .....		\$48,000
Operating expenses:		
Wages expense .....	\$44,000	
Interest expense .....	<u>250</u>	
Total operating expenses .....		44,250
Net income .....		<u>\$ 3,750</u>

**TOUR-ALONG**  
**Statement of Changes in Equity**  
**For Two Months Ended November 30, 2014**

Ike Petrov, capital, October 1 .....		\$ -0-
Add: Owner investment .....	\$8,000	
Net income .....	<u>3,750</u>	
Total .....		11,750
Less: Withdrawals by owner .....		\$11,750
Ike Petrov, capital, November 30.....		<u>6,000</u>
		<u>\$ 5,750</u>

The arrows are imaginary  
but emphasize the link  
between statements.

**TOUR-ALONG**  
**Balance Sheet**  
**November 30, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash .....	\$15,050	Accounts payable.....	\$33,000
Office supplies .....	1,700	Notes payable .....	<u>48,000</u>
Office equipment .....	<u>70,000</u>	Total liabilities .....	\$81,000
		<b>Equity</b>	
		Ike Petrov, capital.....	<u>5,750</u>
		Total liabilities and	
Total assets .....	<u>\$86,750</u>	equity .....	<u>\$86,750</u>

**Analysis component:**

The \$8,000 October 31 balance in Ike Petrov, Capital represents investments made by the owner, Ike Petrov, into the business.



## Problem 2-12B

**LINCOLN LANDSCAPING**  
**Income Statement**  
**For Three Months Ended July 31, 2014**

<b>Revenues:</b>	
Fees earned .....	\$29,100
<b>Operating expenses:</b>	
Wages expense .....	\$59,000
Advertising expense .....	1,750
Rental expense .....	1,100
Repairs expense .....	930
Total operating expenses .....	<u>62,780</u>
Net loss .....	<u>\$33,680</u>

<b>LINCOLN LANDSCAPING</b>	
<b>Statement of Changes in Equity</b>	
<b>For Three Months Ended July 31, 2014</b>	
Brielle Lincoln, capital, May 1 .....	\$ 0
Add: Investments by owner .....	<u>65,000</u>
Total .....	65,000
Less: Withdrawals by owner .....	\$ 8,950
Net loss .....	<u>33,680</u>
Brielle Lincoln, capital, July 31 .....	<u>\$22,370</u>

The arrows are  
imaginary but  
emphasize the link  
between  
statements.

<b>LINCOLN LANDSCAPING</b>			
<b>Balance Sheet</b>			
<b>July 31, 2014</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash .....	\$ 23,720	Accounts payable .....	\$ 37,500
Accounts receivable .....	18,600	Unearned fees .....	2,800
Prepaid insurance .....	13,750	Long-term notes payable .....	<u>58,000</u>
Equipment .....	<u>64,600</u>	Total liabilities .....	<u>\$98,300</u>
		<b>Equity</b>	
		Brielle Lincoln, capital .....	<u>22,370</u>
		Total liabilities and	
Total assets .....	<u>\$120,670</u>	equity .....	<u>\$120,670</u>

**Analysis component:**

- a) Assets financed by debt =  $(\$98,300 / \$120,670) \times 100 = 81.5\%$   
b) Assets financed by equity =  $(\$22,370 / \$120,670) \times 100 = 18.5\%$



**Problem 2-13B**

**DANCE-A-LOT  
Trial Balance  
December 31, 2014**

Account Title	Debit	Credit
Cash (\$37,175 <sup>a</sup> - \$30,540 <sup>a</sup> ).....	\$ 6,635	
Accounts receivable (\$7,900 - \$275 <sup>b</sup> ).....	7,625	
Office supplies (\$2,650 + 400 <sup>c</sup> ).....	3,050	
Office equipment .....	20,500	
Accounts payable (\$9,465 + 400 <sup>c</sup> ) .....		\$ 9,865
Bev Horricks, capital (a credit balance account).....		16,745
Services revenue (\$23,250 <sup>d</sup> not \$22,350) .....		23,250
Wages expense (a debit balance account) .....	6,000	
Rent expense (a debit balance account).....	4,800	
Advertising expense (a debit balance account) .....	1,250	
Totals .....	<u>\$49,860</u>	<u>\$49,860</u>

**Note:** The superscripts (a) to (d) are references to items (a) to (d) listed in Problem 2-13B.



## ANALYTICAL AND REVIEW PROBLEMS

### A&R Problem 2-1 (35 minutes)

**YOUNG ENGINEERING**  
Trial Balance  
March 31, 2014

Account Title	Debit	Credit
Cash.....	\$26,660	
Office supplies.....	660	
Prepaid insurance .....	3,200	
Office equipment .....	16,500	
Accounts payable.....		\$16,500
Carlos Young, capital.....		17,000
Carlos Young, withdrawals.....	3,740	
Consulting fees earned.....		24,000
Rent expense .....	6,740	
Totals .....	<u>\$57,500</u>	<u>\$57,500</u>

1. Purchased \$660 of office supplies for cash.
2. Paid \$3,200 insurance premium in advance.
3. Purchased \$16,500 office equipment on credit.
4. Carlos Young invested \$17,000 cash in the business.
5. Carlos Young withdrew \$3,740 cash from the business for personal use.
6. Earned \$24,000 in consulting services and was paid in cash.
7. Paid \$6,740 rent expense with cash.



**A&R 2-2 (30 minutes)**

**Nice-n-Fresh Drycleaning**  
**Statement of Changes in Equity**  
**For Months Ended**

	April 30, 2014	March 31, 2014
Ed Fresh, capital, beginning.....	\$ 34,400	\$ 0
Add: Investment by owner .....	0	10,000
Net income .....	48,500 <sup>4</sup>	25,400 <sup>3</sup>
Total .....	\$ 82,900	\$35,400
Less: Withdrawals by owner .....	25,100	1,000
Ed Fresh, capital, ending .....	<u>\$57,800</u>	<u>\$34,400</u>

**Nice-n-Fresh Drycleaning**  
**Balance Sheet**

<b>Assets</b>	<b>April 30, 2014</b>	<b>March 31, 2014</b>	<b>Liabilities</b>	<b>April 30, 2014</b>	<b>March 31, 2014</b>
Cash.....	\$ 7,000	\$ 3,000	Accounts payable.....	\$ 700	\$ 500
Cleaning supplies.....	3,500	900	Notes payable .....	40,000	15,000
Prepaid rent.....	12,000	16,000	Total liabilities .....	\$40,700	\$15,500
Equipment .....	<u>76,000</u>	<u>30,000</u>	<b>Equity</b>		
			Ed Fresh, capital.....	57,800 <sup>2</sup>	34,400 <sup>1</sup>
			Total liabilities and		
Total assets.....	<u>\$98,500</u>	<u>\$49,900</u>	equity .....	<u>\$98,500</u>	<u>\$49,900</u>

**Calculations:**

1.  $49,900 - 15,500 = 34,400$
2.  $98,500 - 40,700 = 57,800$
3.  $34,400 + 1,000 - 10,000 = 25,400$
4.  $57,800 + 25,100 - 34,400 = 48,500$

**Analysis component:**

- a. Liabilities increased because of the \$200 increase in accounts payable and the \$25,000 increase in notes payable used, most probably, to finance the purchase of equipment (equipment increased by \$46,000).
- b. Equity increased by a larger amount in March than April because the owner invested \$10,000 during March and nothing during April. Also, during April, the owner made a withdrawal of \$25,100 and only \$1,000 in March. Net income in April was almost twice as much as that reported for March but the large withdrawal and no investments during April caused equity to increase by a smaller amount than in March.



## ETHICS CHALLENGE

This problem emphasizes the importance of source documents.

1. There are advantages to the process proposed by the manager. They include improved customer service, less delays, and less work for you. However, you should have serious concerns about the potential for fraud. In particular, there is no control over the possibility of embezzlement by the manager because there are no ***source documents***\* being prepared at the time of sale. The manager could steal cash and simply prepare sales receipts to match the remaining cash.

This case involves a conflict between the need for efficiency and the need for control in the form of ***source documents***\*. While it makes sense to take and process sales receipts quickly, this efficiency is being accomplished by a shortcut that greatly weakens control over cash receipts. That is, cash could be received and lost because there would be no source documents to verify the sales and cash received.

*\*Recall from Chapter 1 that source documents identify and describe transactions entering the accounting process and are the source of accounting information, whether in paper or electronic form.*

2. The manager's explanation that the owner does not arrive until 3:00 p.m. suggests that the owner does not know about the proposed shortcut. Thus, the new employee is faced with the dilemma of deciding whether to accept the manager's instructions, to confront the manager with the argument that the shortcut seems wrong, or to ask the owner to confirm the instructions. Each of these alternatives involves personal risk.

Initially, the best thing may be to simply work as instructed for a while in order to get an idea of whether the shortcut is being abused by the manager and perhaps to find out discreetly whether the owner knows about it. The relationship that develops between you and the manager may be of a nature that will allow you to explain your concern and convince the manager that the shortcut should be avoided. Even if the manager is not abusing this shortcut, there are other reasons for doing away with it, such as maintaining accurate records for tax reports and gathering marketing information. Also, the shortcut may result in fraud by other employees who might not be as honest as you and the manager.

If you conclude that the manager is committing fraud, you should report the situation to the owner as quickly as possible.



**FFS 2-1**

**McALLISTER SURVEYING**  
**Income Statement**  
**For Month Ended May 31, 2014**

<b>Revenue:</b>		
Surveying fees earned .....		<b>\$18,000</b>
<b>Operating expenses:</b>		
Advertising expense .....	\$3,200	
Rent expense .....	3,100	
Salaries expense .....	3,000	
Insurance expense .....	900	
Telephone expense .....	600	
Utilities expense .....	<u>300</u>	
Total operating expenses.....		<b>11,100</b>
<b>Net income .....</b>		<b><u>\$ 6,900</u></b>

**McALLISTER SURVEYING**  
**Statement of Changes in Equity**  
**For Month Ended May 31, 2014**

Travis McAllister, capital, May 1 .....		<b>\$75,000</b>
Add: Investments by owner.....	\$3,000	
Net income... ..	<u>6,900</u>	<u>9,900</u>
<b>Total .....</b>		<b>\$84,900</b>
Less: Withdrawals by owner .....		<u>6,000</u>
<b>Travis McAllister, capital, May 31 .....</b>		<b><u>\$78,900</u></b>

**McALLISTER SURVEYING**  
**Balance Sheet**  
**May 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$ 3,900	Accounts payable .....	\$ 2,400
Accounts receivable .....	2,700	Unearned surveying fees .....	6,000
Office supplies.....	300	Short-term notes payable .....	<u>48,000</u>
Prepaid insurance .....	1,800	<b>Total liabilities .....</b>	<b>\$ 56,400</b>
Prepaid rent .....	4,200		
Surveying equipment.....	5,400		
Buildings .....	81,000	<b>Equity</b>	
Land.....	<u>36,000</u>	Travis McAllister, capital.....	<u>78,900</u>
<b>Total assets.....</b>	<b><u>\$135,300</u></b>	<b>Total liabilities and equity.....</b>	<b><u>\$135,300</u></b>

**Analysis component:**

Withdrawals are how an owner takes assets out of the business for personal use.

McAllister Surveying realized a \$6,900 net income during the month which caused equity to increase. It is reasonable for the owner to benefit from that net income by making a withdrawal even though withdrawals cause equity to decrease.



## FFS 2-2

### 1(a)(i)

Accounts Receivable .....	XXX	
Guest Revenues .....		XXX
<i>Provided services to customers on account.</i>		
Cash .....	XXX	
Guest Revenues .....		XXX
<i>Provided services to customers for cash.</i>		

1(a)(ii) Revenues affect the balance sheet because they cause equity to increase.

1(a)(iii) The Revenue Recognition Principle assures us that revenues on the income statement are for the year ended December 31, 2011.

### 1(b)(i)

Interest Expense .....	XXX	
Cash .....		XXX
<i>Paid interest expense..</i>		

1(b)(ii) Yes, expenses affect the balance sheet because they cause equity to decrease.

2(a) *Advance ticket sales* represent airline tickets sold in advance to customers.

### 2(b)

Cash .....	XXX	
Advance Ticket Sales .....		XXX
<i>Cash received in advance from customers for             airline tickets sold</i>		



## Critical Thinking Question

### CT 2-1

**Note to instructor:** *Student responses will vary and therefore the answer here is only suggested and not inclusive of all possibilities; it is presented in point form for brevity.*

#### Problem(s):

- information that is available does not provide adequate detail to enable analysis and resulting decision making (from the Western Canadian Sales Division Manager's perspective; from the perspective of the sales and admin staff, the limited detail would make recording information very straightforward/easy since there are only 2 accounts — 1 revenue and 1 expense)

#### Goal(s)\*:

- Sales Division Manager would want to maximize sales, minimize costs, and at the same time accurately record and report with sufficient detail to assist decision making process

#### Assumption(s)/Principle(s):

- division results have been deteriorating but because of a lack of detail, appropriate questions were not being asked and consequently inappropriate decisions were likely being made
- the disclosure principle (introduced in Chapter 6) requires that appropriate detail be provided and the materiality principle (introduced in Chapter 7) suggests that anything of significance be disclosed/reported

#### Facts:

- as presented in the sales reports
- by converting the dollars to percentages, we see that from July to September, although net income is increasing in total dollars, expenses are increasing as a percentage of sales causing net income to shrink as a percentage of sales which is unfavourable

Prairie Insurance – Western Canadian Division Sales Report Month Ended						
	Sept. 30, 2014	%	Aug. 31, 2014	%	July 31, 2014	%
Sales revenue	\$680,000	100	\$510,000	100	\$440,000	100
Expenses	544,000	80	382,500	75	321,200	73
Net income	\$136,000	20	\$127,500	25	\$118,800	27



**CT 2-1 (*concluded*)**

**Conclusion(s)/Consequence(s):**

- **more revenue and expense accounts are required to provide sufficient detail to allow appropriate monitoring/questions and resulting decisions; this will require a restructuring of the accounting including submission of expense reports which requires resources including expertise**

**\*The goal is highly dependent on “perspective.”**



**Serial Problem, Echo Systems (120 minutes) Part A****2.**

				<b>General</b>	
<b>Journal</b>		<b>Page 1</b>			
<b>Date</b>		<b>Account Titles and Explanations</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>
<b>2014</b>					
<b>Oct.</b>	<b>1</b>	<b>Cash .....</b>	<b>101</b>	<b>90,000</b>	
		<b>Office Equipment .....</b>	<b>163</b>	<b>18,000</b>	
		<b>Computer Equipment .....</b>	<b>167</b>	<b>36,000</b>	
		<b>Mary Graham, Capital .....</b>	<b>301</b>		<b>144,000</b>
		<b><i>Owner invested in the business.</i></b>			
	<b>2</b>	<b>Prepaid Rent.....</b>	<b>131</b>	<b>9,000</b>	
		<b>Cash .....</b>	<b>101</b>		<b>9,000</b>
		<b><i>Paid rent in advance.</i></b>			
	<b>3</b>	<b>Computer Supplies .....</b>	<b>126</b>	<b>2,640</b>	
		<b>Accounts Payable .....</b>	<b>201</b>		<b>2,640</b>
		<b><i>Purchased supplies on credit.</i></b>			
	<b>5</b>	<b>Prepaid Insurance.....</b>	<b>128</b>	<b>4,320</b>	
		<b>Cash .....</b>	<b>101</b>		<b>4,320</b>
		<b><i>Paid 12 months' premium in advance.</i></b>			
	<b>6</b>	<b>Accounts Receivable.....</b>	<b>106</b>	<b>6,600</b>	
		<b>Computer Services Revenue .....</b>	<b>403</b>		<b>6,600</b>
		<b><i>Billed customer for services.</i></b>			
	<b>8</b>	<b>Accounts Payable .....</b>	<b>201</b>	<b>2,640</b>	
		<b>Cash .....</b>	<b>101</b>		<b>2,640</b>
		<b><i>Paid balance due on account payable.</i></b>			
	<b>10</b>	<b>No entry recorded in the journal.</b>			
	<b>12</b>	<b>Accounts Receivable.....</b>	<b>106</b>	<b>2,400</b>	
		<b>Computer Services Revenue .....</b>	<b>403</b>		<b>2,400</b>
		<b><i>Billed customer for services.</i></b>			
	<b>15</b>	<b>Cash .....</b>	<b>101</b>	<b>6,600</b>	
		<b>Accounts Receivable .....</b>	<b>106</b>		<b>6,600</b>
		<b><i>Collected accounts receivable.</i></b>			
	<b>17</b>	<b>Repairs Expense, Computer .....</b>	<b>684</b>	<b>1,410</b>	
		<b>Cash .....</b>	<b>101</b>		<b>1,410</b>
		<b><i>Paid for computer repairs.</i></b>			
	<b>20</b>	<b>Advertising Expense .....</b>	<b>655</b>	<b>3,720</b>	
		<b>Cash .....</b>	<b>101</b>		<b>3,720</b>
		<b><i>Purchased ad in local newspaper.</i></b>			
	<b>22</b>	<b>Cash .....</b>	<b>101</b>	<b>2,400</b>	
		<b>Accounts Receivable .....</b>	<b>106</b>		<b>2,400</b>
		<b><i>Collected accounts receivable.</i></b>			



**Serial Problem, Echo Systems (continued)****Part A**

General Journal				Page 2
Date	Account Titles and Explanations	PR	Debit	Credit
2014				
Oct. 28	Accounts Receivable.....	106	6,450	
	Computer Services Revenue .....	403		6,450
	<i>Billed customer for services.</i>			
31	Wages Expense.....	623	1,400	
	Cash .....	101		1,400
	<i>Paid employee for part-time work.</i>			
31	Mary Graham, Withdrawals.....	302	7,200	
	Cash .....	101		7,200
	<i>Owner withdrew cash.</i>			

1 and 3.

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	90,000		90,000
2		G1		9,000	81,000
5		G1		4,320	76,680
8		G1		2,640	74,040
15		G1	6,600		80,640
17		G1		1,410	79,230
20		G1		3,720	75,510
22		G1	2,400		77,910
31		G2		1,400	76,510
31		G2		7,200	69,310

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 6		G1	6,600		6,600
12		G1	2,400		9,000
15		G1		6,600	2,400
22		G1		2,400	0
28		G2	6,450		6,450



**Serial Problem, Echo Systems (continued)****Part A**

Computer Supplies				Acct. No. 126	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 3		G1	2,640		2,640

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 5		G1	4,320		4,320

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 2		G1	9,000		9,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	18,000		18,000

Computer Equipment				Acct. No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	36,000		36,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 3		G1		2,640	2,640
8		G1	2,640		0

Mary Graham, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1		144,000	144,000

Mary Graham, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 31		G2	7,200		7,200



**Serial Problem, Echo Systems (continued)****Part A**

Computer Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 6		G1		6,600	6,600
12		G1		2,400	9,000
28		G2		6,450	15,450

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 31		G2	1,400		1,400

Advertising Expense				Acct. No. 655	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 20		G1	3,720		3,720

Mileage Expense				Acct. No. 676	
Date	Explanation	PR	Debit	Credit	Balance
2014					

Repairs Expense, Computer				Acct. No. 684	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 17		G1	1,410		1,410

Charitable Donations Expense				Acct. No. 699	
Date	Explanation	PR	Debit	Credit	Balance
2014					



**Serial Problem, Echo Systems (continued)****Part A**

4.

ECHO SYSTEMS Trial Balance October 31, 2014			
Acct. No.	Account Title	Debit	Credit
101	Cash .....	\$ 69,310	
106	Accounts receivable .....	6,450	
126	Computer supplies.....	2,640	
128	Prepaid insurance.....	4,320	
131	Prepaid rent .....	9,000	
163	Office equipment.....	18,000	
167	Computer equipment .....	36,000	
201	Accounts payable .....		\$ -0-
301	Mary Graham, capital.....		144,000
302	Mary Graham, withdrawals .....	7,200	
403	Computer services revenue .....		15,450
623	Wages expense .....	1,400	
655	Advertising expense .....	3,720	
676	Mileage expense .....	-0-	
684	Repairs expense, computer .....	1,410	
699	Charitable donations expense .....	-0-	
	Totals.....	<u>\$159,450</u>	<u>\$159,450</u>

**NOTE: Accounts with zero balance may be omitted.**



**Serial Problem, Echo Systems (continued)****Part A**

5.

**ECHO SYSTEMS**  
**Income Statement**  
**For Month Ended October 31, 2014**

<b>Revenues:</b>	
Computer services revenue.....	\$15,450
<b>Operating expenses:</b>	
Advertising expense.....	\$3,720
Repairs expense, computer.....	1,410
Wages expense.....	1,400
Total operating expenses .....	<u>6,530</u>
Net income .....	<u>\$ 8,920</u>

**ECHO SYSTEMS**  
**Statement of Changes in Equity**  
**For Month Ended October 31, 2014**

Mary Graham, capital, October 1.....	\$ 0
Add: Investments by owner .....	\$144,000
Net income .....	<u>8,920</u>
Total .....	<u>152,920</u>
Less: Withdrawals by owner .....	<u>7,200</u>
Mary Graham, capital, October 31.....	<u>\$145,720</u>

The arrows are  
imaginary but  
emphasize the link  
between  
statements.

**ECHO SYSTEMS**  
**Balance Sheet**  
**October 31, 2014**

<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$ 69,310	Accounts payable .....	\$ -0-
Accounts receivable.....	6,450		
Computer supplies.....	2,640		
Prepaid insurance .....	4,320		
Prepaid rent.....	9,000		
Office equipment .....	18,000		
Computer equipment .....	<u>36,000</u>		
Total assets.....	<u>\$ 145,720</u>		
		<b>Equity</b>	
		Mary Graham, capital.....	<u>145,720</u>
		Total liabilities and equity.....	<u>\$145,720</u>



**Serial Problem, Echo Systems (continued)****Part B****6.****2014**

<b>Nov.</b>	<b>1</b>	<b>Mileage Expense .....</b>	<b>676</b>	<b>1,000</b>	
		<b>Cash .....</b>	<b>101</b>		<b>1,000</b>
		<i>Reimbursed Mary Graham for business usage.</i>			
	<b>2</b>	<b>Cash .....</b>	<b>101</b>	<b>9,300</b>	
		<b>Computer Services Revenue .....</b>	<b>403</b>		<b>9,300</b>
		<i>Collected cash revenue from customer.</i>			
	<b>5</b>	<b>Computer Supplies .....</b>	<b>126</b>	<b>1,920</b>	
		<b>Cash .....</b>	<b>101</b>		<b>1,920</b>
		<i>Purchased computer supplies for cash.</i>			
	<b>8</b>	<b>Accounts Receivable.....</b>	<b>106</b>	<b>8,700</b>	
		<b>Computer Services Revenue .....</b>	<b>403</b>		<b>8,700</b>
		<i>Billed customer for services.</i>			
	<b>13</b>	<b>No entry recorded in the journal.</b>			
	<b>18</b>	<b>Cash .....</b>	<b>101</b>	<b>3,750</b>	
		<b>Accounts Receivable.....</b>	<b>106</b>		<b>3,750</b>
		<i>Collected accounts receivable.</i>			
	<b>22</b>	<b>Charitable Donations Expense .....</b>	<b>699</b>	<b>1,500</b>	
		<b>Cash .....</b>	<b>101</b>		<b>1,500</b>
		<i>Made a donation.</i>			
	<b>24</b>	<b>Accounts Receivable.....</b>	<b>106</b>	<b>7,500</b>	
		<b>Computer Services Revenue .....</b>	<b>403</b>		<b>7,500</b>
		<i>Billed customer for services.</i>			
	<b>25</b>	<b>No entry recorded in the journal.</b>			
	<b>28</b>	<b>Mileage Expense .....</b>	<b>676</b>	<b>1,200</b>	
		<b>Cash .....</b>	<b>101</b>		<b>1,200</b>
		<i>Reimbursed Mary Graham for business usage.</i>			
	<b>30</b>	<b>Wages Expense.....</b>	<b>623</b>	<b>2,800</b>	
		<b>Cash .....</b>	<b>101</b>		<b>2,800</b>
		<i>Paid employee for part-time work.</i>			
	<b>30</b>	<b>Mary Graham, Withdrawals.....</b>	<b>302</b>	<b>3,600</b>	
		<b>Cash .....</b>	<b>101</b>		<b>3,600</b>
		<i>Owner withdrew cash.</i>			



**Serial Problem, Echo Systems (continued)****Part B****7.****General Ledger accounts:**

<b>Cash</b>				<b>Acct. No. 101</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Oct. 1</b>		<b>G1</b>	<b>90,000</b>		<b>90,000</b>
<b>2</b>		<b>G1</b>		<b>9,000</b>	<b>81,000</b>
<b>5</b>		<b>G1</b>		<b>4,320</b>	<b>76,680</b>
<b>8</b>		<b>G1</b>		<b>2,640</b>	<b>74,040</b>
<b>15</b>		<b>G1</b>	<b>6,600</b>		<b>80,640</b>
<b>17</b>		<b>G1</b>		<b>1,410</b>	<b>79,230</b>
<b>20</b>		<b>G1</b>		<b>3,720</b>	<b>75,510</b>
<b>22</b>		<b>G1</b>	<b>2,400</b>		<b>77,910</b>
<b>31</b>		<b>G2</b>		<b>1,400</b>	<b>76,510</b>
<b>31</b>		<b>G2</b>		<b>7,200</b>	<b>69,310</b>
<b>Nov. 1</b>		<b>G2</b>		<b>1,000</b>	<b>68,310</b>
<b>2</b>		<b>G2</b>	<b>9,300</b>		<b>77,610</b>
<b>5</b>		<b>G2</b>		<b>1,920</b>	<b>75,690</b>
<b>18</b>		<b>G2</b>	<b>3,750</b>		<b>79,440</b>
<b>22</b>		<b>G2</b>		<b>1,500</b>	<b>77,940</b>
<b>28</b>		<b>G2</b>		<b>1,200</b>	<b>76,740</b>
<b>30</b>		<b>G2</b>		<b>2,800</b>	<b>73,940</b>
<b>30</b>		<b>G2</b>		<b>3,600</b>	<b>70,340</b>

<b>Accounts Receivable</b>				<b>Acct. No. 106</b>	
<b>Date</b>	<b>Explanation</b>	<b>PR</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
<b>Oct. 6</b>		<b>G1</b>	<b>6,600</b>		<b>6,600</b>
<b>12</b>		<b>G1</b>	<b>2,400</b>		<b>9,000</b>
<b>15</b>		<b>G1</b>		<b>6,600</b>	<b>2,400</b>
<b>22</b>		<b>G1</b>		<b>2,400</b>	<b>0</b>
<b>28</b>		<b>G2</b>	<b>6,450</b>		<b>6,450</b>
<b>Nov. 8</b>		<b>G2</b>	<b>8,700</b>		<b>15,150</b>
<b>18</b>		<b>G2</b>		<b>3,750</b>	<b>11,400</b>
<b>24</b>		<b>G2</b>	<b>7,500</b>		<b>18,900</b>



**Serial Problem, Echo Systems (continued) Part B**

Computer Supplies				Acct. No. 126	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 3		G1	2,640		2,640
Nov. 5		G2	1,920		4,560

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 5		G1	4,320		4,320

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 2		G1	9,000		9,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	18,000		18,000

Computer Equipment				Acct. No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	36,000		36,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 3		G1		2,640	2,640
8		G1	2,640		0

Mary Graham, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1		144,000	144,000

Mary Graham, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 31		G2	7,200		7,200
Nov. 30		G3	3,600		10,800



**Serial Problem, Echo Systems (continued)****Part B**

Computer Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
<b>2014</b>					
Oct. 6		G1		6,600	6,600
12		G1		2,400	9,000
28		G2		6,450	15,450
Nov. 2		G2		9,300	24,750
8		G2		8,700	33,450
24		G2		7,500	40,950

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
<b>2014</b>					
Oct. 31		G2	1,400		1,400
Nov. 30		G2	2,800		4,200

Advertising Expense				Acct. No. 655	
Date	Explanation	PR	Debit	Credit	Balance
<b>2014</b>					
Oct. 20		G1	3,720		3,720

Mileage Expense				Acct. No. 676	
Date	Explanation	PR	Debit	Credit	Balance
<b>2014</b>					
Nov. 1		G2	1,000		1,000
28		G2	1,200		2,200

Repairs Expense, Computer				Acct. No. 684	
Date	Explanation	PR	Debit	Credit	Balance
<b>2014</b>					
Oct. 17		G1	1,410		1,410

Charitable Donations Expense				Acct. No. 699	
Date	Explanation	PR	Debit	Credit	Balance
<b>2014</b>					
Nov. 22		G2	1,500		1,500



**Serial Problem, Echo Systems (continued)****Part B****8.**

**ECHO SYSTEMS**  
**Trial Balance**  
**November 30, 2014**

Acct. No.	Account Title	Debit	Credit
101	Cash .....	\$ 70,340	
106	Accounts receivable .....	18,900	
126	Computer supplies.....	4,560	
128	Prepaid insurance .....	4,320	
131	Prepaid rent .....	9,000	
163	Office equipment.....	18,000	
167	Computer equipment .....	36,000	
201	Accounts payable .....		\$ -0-
301	Mary Graham, capital.....		144,000
302	Mary Graham, withdrawals .....	10,800	
403	Computer services revenue .....		40,950
623	Wages expense .....	4,200	
655	Advertising expense .....	3,720	
676	Mileage expense .....	2,200	
684	Repairs expense, computer .....	1,410	
699	Charitable donations expense .....	1,500	
	<b>Totals.....</b>	<b><u>\$184,950</u></b>	<b><u>\$184,950</u></b>



**Serial Problem, Echo Systems (concluded)****Part B**

9.

**ECHO SYSTEMS**  
**Income Statement**  
**For Two Months Ended November 30, 2014**

Computer services revenue.....		\$40,950
Operating expenses:		
Wages expense.....	\$4,200	
Advertising expense.....	3,720	
Mileage expense .....	2,200	
Charitable donations expense.....	1,500	
Repairs expense, computer .....	1,410	
Total operating expenses .....		13,030
Net income .....		<u>\$27,920</u>

**ECHO SYSTEMS**  
**Statement of Changes in Equity**  
**For Two Months Ended November 30, 2014**

Mary Graham, capital, October 1.....		\$ -0-
Add: Investments by owner .....	\$144,000	
Net income .....	27,920	171,920
Total .....		\$171,920
Less: Withdrawals by owner .....		10,800
Mary Graham, capital, November 30.....		<u>\$161,120</u>

**ECHO SYSTEMS**  
**Balance Sheet**  
**November 30, 2014**

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$ 70,340	Accounts payable .....	\$ -0-
Accounts receivable.....	18,900		
Computer supplies .....	4,560		
Prepaid insurance .....	4,320		
Prepaid rent.....	9,000		
Office equipment .....	18,000		
Computer equipment .....	36,000		
Total assets .....	<u>\$161,120</u>		
		<i>Equity</i>	
		Mary Graham, capital.....	161,120
		Total liabilities and	
		equity .....	<u>\$161,120</u>