

Solution Manual for College Accounting Chapters 1 27 22nd Edition by Heintz and Parry ISBN 130566616X 9781305666160

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CHAPTER 2

ANALYZING TRANSACTIONS: THE ACCOUNTING EQUATION

REVIEW QUESTIONS

1. It is necessary to distinguish between business assets and liabilities and nonbusiness assets and liabilities of a single proprietor because, according to the business entity concept, nonbusiness assets and liabilities are not included in the business entity's accounting records. These distinctions allow the owner to make decisions based on the financial condition and results of the business apart from nonbusiness activities.
2. The six major elements of the accounting equation are listed below.
 - a. Assets are items owned by a business that will provide future benefits.
 - b. Liabilities are items owed to another business.
 - c. Owner's equity is the amount by which the business assets exceed the business liabilities. Other terms used for owner's equity include net worth and capital.
 - d. Revenues represent the amount a business charges customers for products sold or services performed.
 - e. Expenses represent the decrease in assets (or increase in liabilities) as a result of efforts made to produce revenues.
 - f. Withdrawals, or drawing, reduce owner's equity as a result of the owner taking cash or other assets out of the business for personal use.
3. The three basic questions that must be answered when analyzing the effects of a business transaction on the accounting equation are as follows:
 - a. What happened?
 - b. Which accounts are affected?
 - c. How is the accounting equation affected?
4. The function of an income statement is to report the profitability of business operations for a specific period of time.
5. The function of a statement of owner's equity is to report the investments and withdrawals by the owner and the profits and losses generated through operating activities for a specific period of time.
6. The function of a balance sheet is to report the assets, liabilities, and owner's equity on a specific date. It is called a balance sheet because it confirms that the accounting equation is in balance.
7. The three basic phases of the accounting process are listed below.

Input—Business transactions are used as input to the accounting process.

Processing—The transactions are processed by recognizing their effects on assets, liabilities, owner's equity, revenues, and expenses.

Output—Output from the accounting process is provided in the form of financial statements.

Exercise 2-1A

<u>Item</u>	<u>Account</u>	<u>Classification</u>
Money in bank	Cash	<u>A</u>
Office supplies	Supplies	<u>A</u>
Money owed	Accounts Payable	<u>L</u>
Office chairs	Office Furniture	<u>A</u>
Net worth of owner	John Smith, Capital	<u>OE</u>
Money withdrawn by owner	John Smith, Drawing	<u>OE</u>
Money owed by customers	Accounts Receivable	<u>A</u>

Exercise 2-2A

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
<u>\$44,000</u>	=	\$ 27,000	+	\$17,000
\$32,000	=	\$18,000	+	<u>\$14,000</u>
\$27,000	=	<u>\$ 7,000</u>	+	\$20,000

Exercise 2-3A

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
(a)	<u>27,000</u>				<u>27,000</u>
Bal.	<u>27,000</u>				<u>27,000</u>
(b)	<u>7,500</u>		<u>7,500</u>		
Bal.	<u>34,500</u>		<u>7,500</u>		<u>27,000</u>
(c)	<u>(1,600)</u>				
	<u>1,600</u>				
Bal.	<u>34,500</u>		<u>7,500</u>		<u>27,000</u>
(d)	<u>(2,300)</u>		<u>(2,300)</u>		
Bal.	<u>32,200</u>		<u>5,200</u>		<u>27,000</u>

Exercise 2-4A

Owner's Equity											
Assets	=	Liabilities	+	Capital	-	Drawing	+	Revenues	-	Expenses	Description
Bal. from 2-3A											
(d)											
(e)	1,500							1,500			Service fees
(f)	(600)								(600)		Rent expense
g	(64)								(64)		Phone expense
(h)	(1,000)					(1,000)					
(i)	750							750			Service fees
(j)	(1,200)								(1,200)		Wages expense
(k)	400										
	(400)										
Bal.	<u>31,586</u>		<u>5,200</u>		<u>27,000</u>	<u>(1,000)</u>		<u>2,250</u>		<u>(1,864)</u>	
Total Assets		\$31,586		Total Liabilities				\$ 5,200			
				Capital				27,000			
				Drawing				(1,000)			
				Revenues				2,250			
				Expenses				(1,864)			
				Total Liabilities and Owner's Equity				\$31,586			

Betsy Ray's Accounting Service

Statement of Owner's Equity For

Month Ended June 30, 20--

<u>Account</u>	<u>Classification</u>	<u>Financial Statement</u>
Cash	<u>A</u>	<u>BS</u>
Rent Expense	<u>E</u>	<u>IS</u>
Accounts Payable	<u>L</u>	<u>BS</u>
Service Fees	<u>R</u>	<u>IS</u>
Supplies	<u>A</u>	<u>BS</u>
Wages Expense	<u>E</u>	<u>IS</u>
Ramon Martinez, Drawing	<u>OE</u>	<u>SOE</u>
Ramon Martinez, Capital	<u>OE</u>	<u>SOE, BS</u>
Prepaid Insurance	<u>A</u>	<u>BS</u>
Accounts Receivable	<u>A</u>	<u>BS</u>

Exercise 2-6A

Betsy Ray's Accounting Service

Statement of Owner's Equity

For Month Ended June 30, 20--

<i>Betsy Ray, capital, June 1, 20--</i>			\$	<i>---</i>
<i>Investment during June</i>				<i>20,000</i>
<i>Total investment</i>				<i>\$20,000</i>
<i>Net income for June</i>		<i>\$10,000</i>		<i>---</i>
<i>Less withdrawals for June</i>		<i>8,000</i>		<i>---</i>
<i>Increase in capital</i>				<i>2,000</i>
<i>Betsy Ray, capital, June 30, 20--</i>				<i>\$22,000</i>

Betsy Ray's Accounting Service
Statement of Owner's Equity For
Month Ended June 30, 20--

Betsy Ray, capital, June 1, 20--		\$ <u> </u>
Investment during June		20,000
Total investment		\$20,000
Less: Net loss for June	\$3,000	<u> </u>
Withdrawals for June	8,000	<u> </u>
Decrease in capital		(11, 00)
Betsy Ray, capital, June 30, 20--		<u>\$ 9,000</u>

Problem 2-8A

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1. <u>\$26.960</u>		<u>\$ 7,550</u>		<u>\$19,410</u>
2. <u>\$35.500</u>		<u>\$ 10,910</u>		<u>\$24,590</u>
3. <u>\$32.040</u>		<u>\$ 12,910</u>		<u>\$19.130</u>

Problem 2-9A: See page 10
 Problem 2-10A

Jay Pembroke
Income Statement
For Month Ended April 30, 20--

Revenues:		
Service fees		\$3,300
Expenses:		
Rent expense		750
Net income		<u>\$2,550</u>

Problem 2-9A

Assets				=	Liabilities		+	Owner's Equity		
(Amts.)	(Items Owned)			Owed	(Owner's Investment)		(Earnings)			
	Accounts	Office	Prepaid	Accounts	J. Pembroke,	J. Pembroke,				
	Cash	+ Receivable	+ Supplies	+ Insurance	= Payable	+ Capital	= Drawing	+ Revenues	- Expenses	Description
						1				
						8				
						,				
						0				
						0				
						0				
(a)	<u>18,000</u>									
	(
	2									
	,									
	0									
	0									
	0									
(b)			<u>4,600</u>		<u>2,600</u>					
(c)	<u>(1,200)</u>			<u>1,200</u>						
	1	2								
	,	,								
	3	0								
	0	0								
(d)	<u>0</u>	<u>0</u>						<u>3,300</u>		<u>Service fees</u>
	(
	2									
	,									
	3									
	0									
	0									
(e)					<u>(2,300)</u>					
	(
	7									
	5									
	0									
(f)									<u>750</u>	<u>Rent expense</u>
	(
	1									
	0									
	0									
(g)										
	(
	100									
Bal.	<u>12,950</u>	<u>2,000</u>	<u>4,600</u>	<u>1,200</u>	<u>300</u>	<u>18,000</u>	<u>100</u>	<u>3,300</u>	<u>750</u>	

Cash	\$12,950
Accounts Receivable	2,000
Office Supplies	4,600
Prepaid Insurance	<u>1,200</u>
Total Assets	<u>\$20,750</u>

Accounts Payable	\$ 300
Jay Pembroke, Capital	18,000
Jay Pembroke, Drawing	(100)
Service Fees	3,300
Rent Expense	<u>(750)</u>
Total Liabilities and Owner's Equity	<u>\$20,750</u>

Exercise 2-1B

Problem 2-11A

**Jay Pembroke Statement of
Owner's Equity For Month**

Ended April 30, 20--

Jay Pembroke, capital, April 1, 20--		\$
Investment during April		18,
Total investment		\$18,000
Net income for April	\$2,550	
Less withdrawals for April	100	
Increase in capital		2,450
Jay Pembroke, capital, April 30, 20--		\$20,450

Problem 2-12A

**Jay Pembroke
Balance Sheet**

April 30, 20--

Assets		Liabilities	
Cash	\$12,950	Accounts payable	\$ 300
Accounts receivable	2,000		
Office supplies	4,600	Owner's Equity	
Prepaid insurance	1,200	Jay Pembroke, capital	20,450
Total assets	\$20,750	Total liab. & owner's equity	\$ 20,750

Exercise 2-1B

<u>Account</u>	<u>Classification</u>
Cash	_____ <u>A</u>
Accounts Payable	_____ <u>L</u>
Supplies	_____ <u>A</u>
Bill Jones, Drawing	_____ <u>OE</u>
Prepaid Insurance	_____ <u>A</u>
Accounts Receivable	_____ <u>A</u>
Bill Jones, Capital	_____ <u>OE</u>

Exercise 2-2B

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
<u>\$25,000</u>	=	\$20,000	+	\$ 5,000
\$30,000	=	\$15,000	+	<u>\$ 15,000</u>
\$20,000	=	<u>\$10,000</u>	+	\$ 10,000

Exercise 2-3B

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
(a) <u>30,000</u>	=	_____	+	<u>30,000</u>
Bal. <u>30,000</u>		_____		<u>30,000</u>
(b) <u>4,500</u>		<u>4,500</u>		_____
Bal. <u>34,500</u>		<u>4,500</u>		<u>30,000</u>
(c) <u>1,600</u>		_____		_____
<u>(1,600)</u>		_____		_____
Bal. <u>34,500</u>		<u>4,500</u>		<u>30,000</u>
(d) <u>(2,000)</u>		<u>(2,000)</u>		_____
Bal. <u>32,500</u>		<u>2,500</u>		<u>30,000</u>

Exercise 2-4B

	Assets	=	Liabilities	+	Owner's Equity		Description
					Capital	Drawing+Revenues	
Bal. from 2-3B							
(d)	<u>34,000</u>		<u>2,500</u>		<u>30,000</u>		
(e)	<u>3,000</u>					<u>3,000</u>	<i>Service fees</i>
(f)	<u>(1,000)</u>					<u>1,000</u>	<i>Rent expense</i>
g	<u>(68)</u>					<u>68</u>	<i>Phone expense</i>
(h)	<u>(800)</u>				<u>800</u>		
(i)	<u>900</u>					<u>900</u>	<i>Service fees</i>
(j)	<u>(500)</u>					<u>500</u>	<i>Wages expense</i>
(k)	<u>500</u>						
	<u>(500)</u>						
Bal.	<u>34,032</u>		<u>2,500</u>		<u>30,000</u>	<u>3,900</u>	<u>1,568</u>
Total Assets			\$34,032		Total Liabilities	\$ 2,500	
					Capital	30,000	
					Drawing	(800)	
					Revenues	3,900	
					Expenses	(1,568)	
					Total Liabilities and Owner's Equity	\$ 34,032	

Exercise 2-5B
Exercise 2-7B

Lopez Financial Consulting
Statement of Owner's Equity

For Month Ended June 30, 20--

<i>Efran Lopez capital, June 1, 20--</i>		\$
<i>Investment during June</i>		<u>15,000</u>
<i>Total investment</i>		<u>\$15,000</u>
<i>Less: Net loss for June</i>	<u>2,000</u>	
<i>Withdrawals for June</i>	<u>7,000</u>	
<i>Decrease in capital</i>		<u>(9,000)</u>
<i>Efran Lopez capital, June 30, 20--</i>		<u>\$ 6,000</u>

Problem 2-8B

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
1.	<u>\$22,860</u>		<u>\$ 4,605</u>		<u>\$18,255</u>
2.	<u>\$27,425</u>		<u>\$ 8,515</u>		<u>\$18,910</u>
3.	<u>\$25,235</u>		<u>\$ 10,165</u>		<u>\$15,070</u>

Problem 2-9B: See page 16

Problem 2-10B

David Segal

Income Statement

For Month Ended October 31, 20--

<i>Revenues:</i>		
<i>Service fees</i>		<u>\$2,700</u>
<i>Expenses:</i>		
<i>Rent expense</i>		<u>650</u>
<i>Net income</i>		<u>\$2,050</u>

Problem 2-9B

	Assets				=	Liabilities	+	Owner's Equity			Description
	(Items Owned)					(Amts. Owed)		(Owner's Investment)		(Earnings)	
	Cash	+ Accounts Receivable	+ Office Supplies	+ Prepaid Insurance	=	Accounts Payable	+	D. Segal, Capital	- D. Segal, Drawing	+ Revenues - Expenses	
(a)	15,000							15,000			
(b)	(1,800)		3,800			2,000					
(c)	(1,000)			1,000							
(d)	1,700	1,000								2,700	Service fees
(e)	(1,800)					(1,800)					
(f)	(650)									650	Rent expense
(g)	(150)							150			
Bal.	11,300	1,000	3,800	1,000		200		15,000	150	2,700	650

Cash \$11,300
Accounts Receivable 1,000
Office Supplies 3,800
Prepaid Insurance 1,000
Total Assets \$17,100

Accounts Payable \$ 200
David Segal, Capital 15,000
David Segal, Drawing (150)
Service Fees 2,700
Rent Expense (650)
Total Liabilities and Owner's Equity \$17,100

MANAGING YOUR WRITING

The students should focus on the following differences:

1. An expense is an outflow of assets or increase in liabilities as a result of the efforts made to earn revenues. A withdrawal is an outflow of assets for the owner's personal use. The withdrawal is not related to the earning process.
2. A withdrawal that increases a liability would be unusual. Expenses often increase liabilities.

The student should focus on the following similarity:

1. Expenses and withdrawals reduce owner's equity.

Mastery Problem

1.

	Assets						=	Liabilities	+	Owner's Equity				Description
	Cash	Accts. Rec.	(Items Owned)		+ Tools	+ Van		(Amts. Owed)		(Owner's Investment)		(Earnings)		
			+ Sup-plies	+ Prepaid Ins.						Accts. Payable	L. Vozniak, Capital	L. Vozniak, Drawing	+ Rev.	
(a)	8,000							8,000						
(b)	(150)											150	Rent expense	
c	(5,000)				5,000									
(d)					600	600								
(e)	(200)		300			100								
(f)	(100)											100	Wages expense	
(g)	(75)											75	Adver. expense	
(h)	(480)			480										
(i)	800										800		Cleaning fees	
(j)		500									500		Cleaning fees	
(k)	(40)											40	Phone expense	
(l)	200	(200)												
(m)	(150)											150	Wages expense	
n	(200)					(200)								
(o)	600	200									800		Cleaning fees	
(p)	(100)									100				
2.														
Bal.	3,105	500	300	480	600	5,000	500	8,000	100	2,100	515			

Challenge Problem

Cash from customers		\$3,700
Cash paid for wages	\$450	
Cash paid for rent	300	
Cash paid for utilities	50	
Cash paid for insurance	600	
Cash paid for supplies	100	
Cash paid for phone	35	
Total cash paid for operating items		1,535
Difference between cash received from customers and cash paid for goods and services		\$2,165

Yes, there is a difference of \$2,000. Net income does a better job of measuring profits because it offers a better matching of revenues and expenses. However, cash flows are important. If you don't have enough cash to pay your bills, you will go out of business.

Exercise 6

	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
(a)	15,000				15,000
Bal.	15,000				15,000
(b)	(4,000)				
	4,000				
Bal.	15,000				15,000
(c)	9,000		9,000		
Bal.	24,000		9,000		15,000
(d)	(2,000)		(2,000)		
Bal.	<u>22,000</u>	=	<u>7,000</u>	+	<u>15,000</u>

Exercise 7

	ASSETS (Items Owned)	=	LIABILITIES + (Amts. Owed)	+	OWNER'S EQUITY (Owner's Investment)			OWNER'S EQUITY (Earnings)				
	Cash		Accounts Payable		Glen Ross, Capital	-	Glen Ross, Drawing	+	Revenues	-	Expenses	Description
Bal.	28,000		8,000		20,000							
(a)	4,000								4,000			Service Fees
(b)	(1,200)										1,200	Rent Exp.
(c)	(200)										200	Utilities Exp.
(d)	(600)						600					
Bal.	<u>30,000</u>	=	<u>8,000</u>	+	<u>20,000</u>	-	<u>600</u>	+	<u>4,000</u>	-	<u>1,400</u>	
	<u>30,000</u>	=					<u>30,000</u>					

Exercise 8

1.

	ASSETS (Items Owned)		=	LIABILITIES +	OWNER'S EQUITY (Earnings)				
	Cash	Office Equipment	=	Accounts Payable	J. Moore, + Capital	J. Moore, - Drawing	+ Revenues	- Expenses	Description
(a)	10,000		=		10,000				
(b)		5,500	=	5,500					
(c)	900		=				900		Service Fees
(d)	(6,000)	6,000	=						
(e)	1,500		=				1,500		Service Fees
(f)	(800)		=					800	Rent Exp.
(g)	(75)		=					75	Phone. Exp.
(h)	(100)		=	(100)					
(i)	(500)		=			500			
Bal.	<u>4,925</u>	+ <u>11,500</u>	=	<u>5,400</u>	+ <u>10,000</u>	- <u>500</u>	+ <u>2,400</u>	- <u>875</u>	
	<u>16,425</u>		=	<u>16,425</u>					

2.

Total assets.....	\$ 16,425
Total liabilities.....	\$ 5,400
Owner's equity.....	\$ 11,025
Owner's equity in excess of original investment.....	\$ 1,025
Total revenues.....	\$ 2,400
Total expenses.....	\$ 875
Net income.....	\$ 1,525

Exercise 9**Judith Moore Enterprises****Income Statement****For Month Ended July 31, 20--**

Revenue:		
Service fees		\$2,400
Expenses:		
Rent expense	\$800	
Phone expense	75	
Total expenses		875
Net income		<u>\$1,525</u>

Exercise 10**Judith Moore Enterprises****Statement of Owner's Equity****For Month Ended July 31, 20--**

Judith Moore, capital, July 1, 20--		\$ <u> </u>
Investment in July		1,000
Total investment		<u>\$10,000</u>
Net income for July	\$1,525	
Less withdrawals for July	500	
Increase in capital		1,025
Judith Moore, capital, July 31, 20--		<u>\$11,025</u>

Exercise 11

Judith Moore Enterprises

Balance Sheet

July 31, 20--

ASSETS			LIABILITIES	
Cash	\$ 4,925	Accounts payable	\$ 5,400	
Office equipment	11,500			
		OWNER'S EQUITY		
		Judith Moore, capital	11,025	
Total assets	\$ 16,425	Total liabilities and owner's equity	\$ 16,425	

PROBLEMS

Problem 12

	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
1.	\$18,800		\$4,700		\$14,100
2.	\$23,400		\$7,200		\$16,200
3.	\$21,900		\$6,000		\$15,900
4.	Net income for January = \$2,100 Net loss for February = \$300				

Problem 13

1.

	ASSETS			=	LIABILITIES + (Amts. Owed)		OWNER'S EQUITY			Description
	Cash	(Items Owned)		=	(Owner's Investment)		(Earnings)			
		Office Equip.	+ Prepaid Insur.	=	Accounts Payable	+ J. Moore, Capital	- J. Moore, Drawing	+ Revenues	- Expenses	
(a)	12,000					12,000				
(b)		7,500			7,500					
(c)	(800)	800								
(d)	700							700		Cons. Fees
(e)	(600)								600	Rent Exp.
(f)	(150)								150	Wages Exp.
(g)	(200)		200							
(h)	(3,000)				(3,000)					
(i)	(100)	==	==				<u>100</u>	==	==	
Bal.	7,850	+ 8,300	+ 200		= 4,500	+ <u>12,000</u>	- 100	+ 700	- 750	
		<u>16,350</u>				<u>16,350</u>				

Problem 13 (Concluded)

2.

Total assets.....	\$ 16,350
Total liabilities	\$ 4,500
Owner’s equity.....	\$ 11,850
Change in owner’s equity from original investment.....	\$ (150)
Total revenues	\$ 700
Total expenses.....	\$ 750
Net income (loss)	\$ (50)

Problem 14

Susan Cole Consulting Services		
Income Statement		
For Month Ended October 31, 20—		
Revenue:		
Consulting fees		\$700
Expenses:		
Rent expense	\$600	
Wages expense	150	
Total expenses		750
Net income (loss)		\$ (50)

Problem 15**Susan Cole Consulting Services****Statement of Owner's Equity****For Month Ended October 31, 20--**

Susan Cole, capital, October 1, 20--		\$ —
Investment in October		12,000
Total investment		\$12,000
Less: Net loss for October	\$ 50	
Withdrawals for October	100	
Decrease in capital		(150)
Susan Cole, capital, October 31, 20--		\$11,850

Problem 16**Susan Cole Consulting Services****Balance Sheet****October 31, 20--**

ASSETS		LIABILITIES	
Cash	\$ 7,850	Accounts payable	\$ 4,500
Prepaid insurance	200		
Office equipment	8,300	OWNER'S EQUITY	
		Susan Cole, capital	11,850
Total assets	\$ 16,350	Total liabilities and owner's equity	\$ 16,350

Problem 17

1.										
ASSETS				=	LIABILITIES +		OWNER'S EQUITY			
(Items Owned)				(Amts. Owed)	(Owner's Investment)		(Earnings)			
Cash	+ Accounts Receivable.	+ Office Supplies	=	Accounts Payable	+ S. Cassady, Capital	- S. Cassady, Drawing	+ Revenues	- Expenses	Description	
(a)	10,000					10,000				
(b)	(200)							200		
(c)	(400)				400					
(d)	300							300	Typing Fees	
(e)	(600)							600	Rent Exp.	
(f)	(100)							100		
(g)	200	400						600	Typing Fees	
(h)	(200)				(200)					
(i)	200	(200)								
Bal.	<u>9,200</u>	+ <u>200</u>	+ <u>1,000</u>	=	<u>200</u>	+ <u>10,000</u>	- <u>100</u>	+ <u>900</u>	- <u>600</u>	
	<u>10,400</u>			=	<u>10,400</u>					

Problem 17 (Concluded)

2.

Stuart Cassady Typing Service

Income Statement

For Month Ended April 30, 20--

Revenue:		
Typing fees		\$900
Expense:		
Rent expense		600
Net income		\$300

Stuart Cassady Typing Service

Statement of Owner's Equity

For Month Ended April 30, 20--

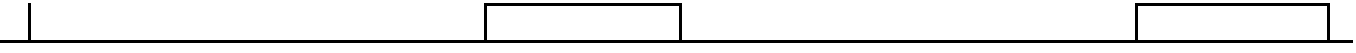
Stuart Cassady, capital, April 1, 20--		\$ —
Investment in April		10,000
Total investment		\$10,000
Net income for April	\$300	
Less withdrawals for April	100	
Increase in owner's equity		200
Stuart Cassady, capital, April 30, 20--		\$10,200

Stuart Cassady Typing Service

Balance Sheet

April 30, 20--

ASSETS		LIABILITIES	
Cash	\$ 9,200	Accounts payable	\$ 200
Accounts receivable	200		
Office supplies	1,000	OWNER'S EQUITY	
		Stuart Cassady, capital	10,200
Total assets	\$10,400	Total liabilities and owner's equity	\$10,400



M-4
Exercise M-2A

COMBINATION JOURNAL

DATE		CASH				DESCRIPTION	POST. REF.
20--		DEBIT		CREDIT			
1	Oct. 1	15	00	00		Bill Rakes, Capital	1
2	2				3 00	Rent Expense	2
3	3					Bicycle Parts	3
4						Accounts Payable—Tracker's Bicycle Parts	4
5	5					Office Supplies	5
6						Accounts Payable—Downtown Office Supplies	6
7	8				3 80	Phone Expense	7
8	9	1	40	00			— 8
9	11				1 50	Miscellaneous Expense	9
10	12				1 00	Accounts Payable—Tracker's Bicycle Parts	10
11	14				3 00		— 11
12	15	3	50	00			— 12
13	16				4 80	Utilities Expense	13
14	19	2	50	00			— 14
15	23				5 00	Bill Rakes, Drawing	15
16	25				5 00	Accounts Payable—Downtown Office Supplies	16
17	29				3 00		— 17
18		15	74	00	1 20		18
19							19
20							20
21							21
22							22
23							23
24							24
25							25
26							26
27							27
28							28

Proving the Combination Journal:

Debit columns:

Credit columns:

Cash	\$15,740	Cash	\$ 1,201
General	2,851	General	17,250
Wages Expense	600	Repair Fees	740
	\$19,191		\$19,191

MODULE
Exercise M-2A (Concluded)

	GENERAL				REPAIR FEES CREDIT	WAGES EXPENSE DEBIT
	DEBIT		CREDIT			
1			15 0 0 0 00			1
2	3 00	00				2
3	2 0 0 0	00				3
4			2 0 0 0 00			4
5	2 50	00				5
6			2 5 0 0 00			6
7	38	00				7
8				1 4 0 0 00		8
9	15	00				9
10	1 00	00				10
11					3 0 0 0 00	11
12				3 5 0 0 00		12
13	48	00				13
14				2 5 0 0 00		14
15	50	00				15
16	50	00				16
17					3 0 0 0 00	17
18	2 8 5 1	00	17 2 5 0 00	7 4 0 0 00	6 0 0 0 00	18
19						19
20						20
21						21
22						22
23						23
24						24
25						25
26						26
27						27
28						28

Chapter 2

Analyzing Transactions: The Accounting Equation

Learning Objectives

- LO1** Define the accounting elements.
- LO2** Construct the accounting equation.
- LO3** Analyze business transactions.
- LO4** Show the effects of business transactions on the accounting equation.
- LO5** Prepare and describe the purposes of a simple income statement, statement of owner's equity, and balance sheet.
- LO6** Define the three basic phases of the accounting process.

Teaching Tips

The definitions for the accounting elements are very important. Often students find memorizing definitions to be boring. Be sure to spend sufficient class time to ensure a solid understanding of these definitions. Throughout the course, students should be expected to identify the accounting elements represented by the accounts used in transactions.

Now would be a good time to point out to your students that, at the end of this chapter and all subsequent chapters, there is a fully worked-out demonstration problem, which will aid them in completing and understanding their assignments.

LO1

- I. The Accounting Elements
 - A. A **business entity** is an individual, association, or organization that engages in economic activities and controls specific economic resources.
 - B. **Assets**
 - 1. Items owned by the business entity and will provide future benefits.
 - 2. Cash, merchandise, fixtures, machinery, buildings, and land are examples of assets.
 - 3. **Accounts receivable**—money owed to the business by its customers —on account or —on credit
 - C. **Liabilities**
 - 1. Amounts owed to another business entity.
 - 2. **Accounts payable** an unwritten promise to pay a supplier for assets.
 - 3. **Notes payable** a formal written promise to pay a supplier or lender.
 - D. **Owner's Equity**
 - 1. The amount by which all business assets exceed the business liabilities.
 - 2. Also called **net worth** and/or **capital**.
 - 3. The owner may have business assets/liabilities and nonbusiness assets/liabilities. According to the **business entity concept**, nonbusiness

assets/liabilities must not be included in the business entity's accounting records.

In-Class Exercise: Complete Exercises E2-1A, E2-1B (5 minutes each)

LO2

II. The **Accounting Equation**

A. $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$

Teaching Tip

The left side of the equation represents the assets. The right side of the equation shows where the money came from to buy the assets. When two elements are known, the third can always be calculated.

In-Class Exercise: Complete Exercises E2-2A, E2-2B (5 minutes each)

In-Class Exercise: Complete Problems P2-8A, P2-8B (5 minutes each)

LO3

III. Analyzing Business Transactions

- A. A **business transaction** is an economic event; an event measured in dollars and has a direct impact on the business.
- B. All transactions affect at least two **accounts**, which are separate records used to summarize changes in each asset, liability, and owner's equity of the business.
- C. **Account titles** provide a description of each type of account.
- D. Three basic questions must be answered for each transaction:
 - 1. What happened?
 - 2. Which accounts are affected?
 - a) Identify the accounts.
 - b) Classify the accounts.
 - 3. How is the accounting equation affected?
 - a) Determine which accounts increased or decreased.
 - b) Ensure the accounting equation remains balanced.

LO4

Teaching Tip

At the end of this Learning Objective (**LO4**), **Figure 2-1 Summary of Transactions Illustrated** can be used by students to see how the following transactions fit into the "big picture" on a step-by-step basis.

IV. Summary of Transactions Illustrated (See Figure 2-1)

Effect of Transactions on the Accounting Equation

A. Transaction (a): Investment by owner

1. An increase in an asset (Cash) is offset by an increase in owner's equity (Rohan Macsen, Capital).

Teaching Tip

Remember, Capital does not mean Cash. The cash is shown in the cash account.

B. Transaction-(b): Purchase of an asset for cash

1. An increase in an asset (Delivery Equipment) is offset by a decrease in another asset (Cash).

Teaching Tip

Students often think that both sides of the accounting equation must be affected by a transaction. Point out that this is not true.

C. Transaction (c): Purchase of an asset on account

1. An increase in an asset (Delivery Equipment) is offset by an increase in a liability (Accounts Payable).

Teaching Tip

Many students find Accounts Payable and Accounts Receivable and payments on those accounts confusing. It may be advisable to spend extra time explaining what "payment on account" means. One idea is to stress that whatever purchase or sale created the liability or receivable **was in the past**. The transaction has been completed. Accounts Receivable refers to a transaction between the business and its customers and Accounts Payable refers to a transaction between a vendor/creditor and the business.

D. Transaction (d): Payment on a loan

1. A decrease in an asset (Cash) is offset by a decrease in a liability (Accounts Payable).

In-Class Exercise: Complete Exercises E2-3A, E2-3B (10 minutes each)

V. Expanding the Accounting Equation: Revenue, Expenses, and Withdrawals

A. Revenues

1. The amount charged to customers for goods and services.
2. Separate revenue accounts may be used.
3. Revenues increase both assets and owner's equity.

Teaching Tip

Revenue is not Cash. Revenue is recorded when earned through the sale of a product or providing a service. If cash is received as a result, the cash

account is increased. If not, another asset, Accounts Receivable, is increased.

B. Expenses

1. Created as a result of business operating activities that involve selling a product or providing services.
2. Expenses either decrease assets or increase liabilities.
3. Expenses reduce owner's equity.

Teaching Tips

Students often confuse expenses and liabilities. Reinforce the definitions. An expense is the outflow of resources (decrease in assets or increase in liabilities) as a result of efforts made to produce revenues. The main purposes of recognizing an expense are to keep track of the amount and types of expenses incurred and to show the reduction in owner's equity. Note that an expense *can cause* a reduction in assets *or* an increase in liabilities. Wages earned by employees is a good example. If paid, the expense reduces an asset, Cash. If not paid, it increases a liability, Wages Payable.

Students often think that the expense account should be decreased when expenses are incurred. Stress that each time an expense is incurred, it is recorded and added to the previous amount so that total expenses can be determined.

4. **Net income or net loss**
 - a) If revenues are greater than expenses, the business has a net income.
 - b) If revenues are less than expenses, the business has a net loss.
5. **Fiscal year**
 - a) The concept that income determination can be made on a periodic basis is the **accounting period concept**.
 - b) Any accounting period for 12 consecutive months for which business records are kept; generally coinciding with a calendar year.

C. Withdrawals or Drawing

1. Amounts taken from the business by the owner for personal use.
2. Withdrawals reduce assets.
3. Withdrawals reduce owner's equity.

VI. Effect of Revenue, Expense, and Withdrawal Transactions on the Accounting Equation

A. Transaction (e): Delivery revenues earned in cash

1. An increase in an asset (Cash) is offset by an increase in owner's equity resulting from an increase in the revenue account (Delivery Fees).

B. Transaction (f): Paid rent for month

1. A decrease in an asset (Cash) is offset by a decrease in owner's equity resulting from an increase in an expense account (Rent Expense).

Teaching Tip

Students often think that expenses and drawing should have minus signs. Point out that as these items increase, owner's equity decreases.

- C. Transaction (g): Paid phone bill
 - 1. A decrease in an asset (Cash) is offset by a decrease in owner's equity resulting from an increase in an expense account (Phone Expense).

- D. Transaction (h): Delivery revenues earned on account
 - 1. An increase in an asset (Accounts Receivable) is offset by an increase in owner's equity resulting from an increase in the revenue account (Delivery Fees).

- E. Transaction (i): Purchase of supplies
 - 1. An increase in an asset (Supplies) is offset by a decrease in an asset (Cash).

- F. Transaction (j): Payment of insurance premium
 - 1. An increase in an asset (Prepaid Insurance) is offset by a decrease in an asset (Cash).

Teaching Tip

If you think that the students are ready, you might mention that supplies and insurance used (expired) during this accounting period will be recognized as expenses. These "adjustments" will be discussed later.

- G. Transaction (k): Cash receipts from prior sales on account
 - 1. An increase in an asset (Cash) is offset by a decrease in an asset (Accounts Receivable).
 - 2. The accounting equation is unchanged, an asset, cash, increases and another, accounts receivable, decreases in an equal amount.

- H. Transaction (l): Purchase of an asset on account making a partial payment
 - 1. An increase in an asset (Equipment) is offset by a decrease in an asset (Cash) and an increase in a liability (Accounts Payable).

- I. Transaction (m): Payment of wages
 - 1. A decrease in an asset (Cash) is offset by a decrease in owner's equity resulting from an increase in an expense account (Wages Expense).

- J. Transaction (n): Deliveries made for cash and on account
 - 1. An increase in two assets (Cash and Accounts Receivable) is offset by an increase in owner's equity from an increase in a revenue account (Delivery Fees).

- K. Transaction (o): Withdrawal of cash from business
 - 1. A decrease in an asset (Cash) is offset by a decrease in owner's equity (Rohan Macsen, Drawing) resulting from a withdrawal by the owner.

Teaching Tip

Point out that the owner does not receive a salary from the business. Cash or other assets are withdrawn to meet living expenses. The amount withdrawn depends on the personal needs of the owner. This amount may be more or less than net income in any given year.

In-Class Exercise: Complete Exercises E2-4A, E2-4B (20 minutes each)

In-Class Exercise: Complete Problems P2-9A, P2-9B (5 minutes each)

LO5

VII. Financial Statements

Teaching Tip

It may be helpful to tell students that the headings to the financial statements answer three questions: Who? What? When?

A. The **Income Statement** (See Figure 2-2)

1. Sometimes called the **profit and loss statement** or **operating statement**.
2. Reports the profitability of a business for a specific time period.
3. Revenue – Expenses = Net Income or Net Loss.

In-Class Exercise: Complete Problems P2-10A, P2-10B (10 minutes each)

B. The **Statement of Owner's Equity** (See Figure 2-2)

1. Reports the activities in the owner's equity for a specific time period.
2. Investments and Net Income increase capital.
3. Withdrawals and Net Losses decrease capital. (See Figure 2-3)

In-Class Exercise: Complete Exercises E2-6A, E2-6B (10 minutes each)

In-Class Exercise: Complete Exercises E2-7A, E2-7B (10 minutes each)

In-Class Exercise: Complete Problems P2-11A, P2-11B (15 minutes each)

C. The **Balance Sheet** (See Figure 2-2)

1. Reports the assets, liabilities, and owner's equity on a specific date.
2. Sometimes called a **statement of financial position** or **statement of financial condition**.
3. Assets = Liabilities + Owner's Equity

In-Class Exercise: Complete Problems P2-12A, P2-12B (10 minutes each)

D. Guidelines for Preparing Financial Statements

1. Standard formats should be used.
2. Headings should be used on all statements.
3. Single underlines should be used to add or subtract numbers above the line; double underlines indicate a total.

4. Dollar signs are used at the top of columns and beneath single (subtotal) underlines.
5. Expenses may be listed from highest to lowest dollar amount.
6. Assets are listed from most liquid to least liquid.
7. Liabilities are listed from most current to the least current.

In-Class Exercise: Complete Exercises E2-5A, E2-5B (10 minutes each)

LO6

VIII. Overview of the Accounting Process (See Figure 2-4)

- A. **Input.** Business transactions provide the necessary information for input.
- B. **Processing.** Recognizing the effect of transactions on the assets, liabilities, owner's equity, revenues, and expenses of a business.
- C. **Output.** Recording the processed information on financial statements.

Learning Activities

1. Ask students to talk with the manager of a small business to identify the types of expenses in the business.
2. Students should be able to identify the difference between the six different types of accounts. Classifying accounts correctly in these early chapters is a must. The instructor should ask the students to give numerous examples of the types of accounts. Find out if the students know the difference between an asset and an expense. Ask the students to explain the difference between Accounts Payable and Accounts Receivable. Have them explain the effect of a —payment on account by the business and by a customer.

Critical Thinking Activity

Mark Hahn invested \$26,000 in cash to open a law office on April 28 of the current year. On April 29, he purchased office equipment for \$10,800. He paid cash for all but \$1,550 of the office equipment. On April 30, Mark paid \$1,200 for six months' insurance for his law practice. Mark wants to know the financial condition of his business as of April 30.

Solution

Mark Hahn, Attorney at Law
Balance Sheet
April 30, 20--

Assets		Liabilities	
Cash	\$15,550	Accounts Payable	\$ 1,550
Prepaid Insurance	1,200	Owner's Equity	
Office Equipment	<u>10,800</u>	Mark Hahn, Capital	<u>\$26,000</u>
Total Assets	<u>\$27,550</u>	Total Liabilities and Owner's Equity	<u>\$27,550</u>

Homework Suggestions

- LO1** Study Guide Review Questions 2, 3, 4, 5, 7; End of Chapter Review Question 1, 2
- LO2** Study Guide Review Questions 1, 6, 8, 9, 10; Study Guide Exercises 1, 4, 5; Study Guide Problem 12
- LO3** End of Chapter Review Question 3
- LO4** Study Guide Review Questions 11, 12, 13, 14, 15; Study Guide Exercises 2, 6, 7, 8; Study Guide Problem 13; End of Chapter Review Question 2
- LO5** Study Guide Review Questions 16, 17, 18, 19; Study Guide Exercises 3, 9, 10, 11; Study Guide Problems 14, 15, 16, 17; End of Chapter Review Questions 4, 5, 6
- LO6** End of Chapter Review Question 7
- Entire Chapter:**
Managing Your Writing, Mastery Problem, and Challenge Problem

Ten Questions Your Students Will Always Ask

1. Can people be an asset?
2. Can an asset be something you cannot touch or see?
3. Is a lease you are obligated to pay a liability?
4. Do you always use two or more accounts in a journal entry?
5. Is capital the same as cash?
6. Shouldn't liabilities be subtracted?
7. How do we keep track of different receipts of cash from different people who owe us?
8. Whom do we ask if we don't understand what a particular transaction means?
9. Do all businesses use these formal statements?
10. Isn't this an unwieldy approach to keeping track of transactions?

Part 1: September 1-17

Coolspring Furniture Chart of Accounts 8/31/2014					
Classification	Account Number	Account Title	Classification	Account Number	Account Title
Assets			Revenue		
	101	Cash		401	Sales
	103	Payroll Cash		402	Sales Returns & Allow.
	105	Petty Cash	Cost		
	122	Accounts Receivable		501	Purchases
	131	Merchandise Inventory		502	Purch. Returns & Allow.
	141	Office Supplies		503	Purchases Discounts
	142	Store Supplies		504	Freight-In
	145	Prepaid Insurance	Expenses		
Long-Term Assets				511	Sales Salaries Expense
	161	Land		512	Advertising Expense
	171	Building		513	Bank Credit Card Expense
	172	Accum. Depr. - Building		514	Store Supplies Expense
	181	Store Equipment		515	Travel & Entertain. Exp.
	182	Accum. Depr. -Store Equip.		519	Depr. Expense-Store Equip.
	183	Office Equipment		522	Office Salaries Expense
	184	Accum. Depr. -Office Equip.		523	Office Supplies Expense
Liabilities				525	Telephone Expense
	202	Accounts Payable		530	Payroll Taxes Expense
	211	Emp. Fed. Inc. Tax Payable		533	Utilities Expense
	212	Soc. Sec. Tax Payable		534	Charitable Contrib. Exp.
	213	Medicare Tax Payable		535	Insurance Expense
	214	Emp. State Inc. Tax Payable		540	Depr. Expense - Building
	215	Emp. City Inc. Tax Payable		541	Depr. Expense-Office Equip.
	218	Sales Salaries Payable		549	Miscellaneous Expense
	219	Office Salaries Payable	Other Revenue		
	221	FUTA Tax Payable		550	Rent Revenue
	222	SUTA Tax Payable	Other Expenses		
	231	Sales Tax Payable		551	Interest Expense
	241	Unearned Rent Revenue		552	Cash Short and Over
Long-Term Liabilities					
	251	Mortgage Payable			
Capital					
	311	Oliver Hayden, Capital			
	312	Oliver Hayden, Drawing			
	313	Income Summary			

2 Coolspring Furniture – Set A General Journal - Key

Coolspring Furniture A				
Trial Balance				
9/17/2014				
Account Number	Account Title	Debit	Credit	
101	Cash	106,396.97	-	
103	Payroll Cash	1,000.00	-	
105	Petty Cash	350.00	-	
122	Accounts Receivable	8,658.75	-	
131	Merchandise Inventory	115,750.00	-	
141	Office Supplies	1,580.00	-	
142	Store Supplies	1,459.15	-	
145	Prepaid Insurance	8,100.00	-	
161	Land	75,000.00	-	
171	Building	200,000.00	-	
172	Accum. Depr. - Building	-	20,500.00	
181	Store Equipment	10,275.00	-	
182	Accum. Depr.-Store Equip.	-	1,225.00	
183	Office Equipment	13,525.00	-	
184	Accum. Depr.-Office Equip.	-	1,850.00	
202	Accounts Payable	-	16,966.85	
211	Emp. Fed. Inc. Tax Payable	-	565.00	
212	Soc. Sec. Tax Payable	-	1,021.02	
213	Medicare Tax Payable	-	238.80	
214	Emp. State Inc. Tax Payable	-	1,212.30	
215	Emp. City Inc. Tax Payable	-	380.60	
221	FUTA Tax Payable	-	44.69	
222	SUTA Tax Payable	-	193.55	
231	Sales Tax Payable	-	10,520.39	
241	Unearned Rent Revenue	-	15,000.00	
251	Mortgage Payable	-	248,724.74	
311	Oliver Hayden, Capital	-	176,914.46	
312	Oliver Hayden, Drawing	26,575.00	-	
401	Sales	-	927,561.70	
402	Sales Returns & Allowances	12,675.00	-	
501	Purchases	549,570.00	-	
502	Purch. Returns & Allowances	-	3,584.45	
503	Purchases Discounts	-	7,094.49	
504	Freight-In	11,551.00	-	
511	Sales Salaries Expense	134,550.00	-	
512	Advertising Expense	9,819.00	-	
513	Bank Credit Card Expense	31,999.09	-	
515	Travel & Entertain. Expense	22,650.00	-	

COMPREHENSIVE PROBLEM 2: ACCOUNTING CYCLE WITH SUBSIDIARY LEDGERS GENERAL JOURNAL INSTRUCTIONS

PART 1: DECEMBER

1. Restore the file TJ's Specialty Shop CP2 (Backup).QBB.

From the **File** menu, click **Open or Restore Company**. Select **Restore a backup copy** and click **Next**. Select **Local backup**, and then select **TJ's Specialty Shop CP2 (Backup).QBB** from the CD on which your data files are provided. Click **Next** when the Open or Restore Company window appears. Key a new file name of **TJ's Specialty Shop CP2 Your Name.QBW** (for example, TJ's Specialty Shop CP2 John Doe.QBW).

2. The accounts listed in your text for this problem have already been opened for you.

To view the Chart of Accounts, select **Chart of Accounts** from the **Lists** menu or click on **Chart of Accounts** under **Company** from the home page. To view a list of customer accounts, click on **Customer Center** and select the **Customers & Jobs** tab. All active customers will be listed at the left of the window. To view a list of vendor accounts, click on **Vendor Center** and select the **Vendors** tab. All active vendors will be listed at the left of the window.

3. Enter the December 16-30 transactions in the General Journal, using a base year of 2015.

From the **Company** menu, select **Make General Journal Entries**. When a message window appears, click **OK**. Key the date of the transaction in the Date field, or click on the calendar icon and select the date. *For Year 1, use a date of 2015 for all entries.* Click in the Account column and select the account to be debited from the drop-down list. Tab to the Debit column and key the amount. Tab to the Memo column and key an explanation to the entry. Tab to the Name column and select a customer or vendor from the drop-down list if applicable. Tab to the next row and in the Account field, select the account to be credited. Tab over and enter the amount in the Credit column. Select a customer or vendor from the drop-down list if applicable. Click **Save and New** to continue to the next transaction or **Save and Close** if you are finished entering transactions. If a Retained Earnings or Fixed Assets alert window pops up, click **OK** and continue. For all Sales Tax Payable transactions, you must select a vendor; assume all taxes will be paid through Connecticut State Bank.

4. Generate a General Journal report.

From the **Reports** menu, select **Accountant & Taxes** and then **Journal**. When the Journal window appears, select **December 16, 2015** in the From field and **December 30, 2015** in the To field. Click on **Modify Report** and unselect **Trans#, Type, and Num.** and click **OK**. Then click the **Refresh** button. For columns in which copy is getting truncated, you may wish to expand the width of the column. Do this by placing the cursor on the diamonds between the column heads, and when it turns to a cross with left and right arrows, drag the cross right to expand the width of the column. To print the report, click on the **Print** button.

5. Make corrections if necessary.

To correct general journal entries, click the **Previous** button in the General Journal window until the transaction you wish to correct appears. Make the needed changes and click **Save and New** or **Save and Close** as appropriate. Click **Yes** when asked to verify the change. To delete an entry, right click while the cursor is anywhere in the entry and select **Delete General Journal** (only the current entry will be deleted). Click **Yes** when asked to verify the deletion.

6. Generate a pre-adjusted Trial Balance report.

From the Reports menu, select **Accountant & Taxes** and then **Trial Balance**. When the Trial Balance window appears, click on **Modify Report** and select **December 16, 2015** in the From field and **December**

31, 2015 in the To field. Click on the **Advanced** button in the Modify Report window and under Display Rows, select **Non-zero**. Click **OK** to close the Advance Options window, and then click **OK** again to close the Modify Reports window. Then click the **Refresh** button to display the report with the new settings. To print the report, click on the **Print** button.

7. Prepare adjusting entries for the year ended December 31, 2015.

Using the Trial Balance report and the adjustment information provided in the text, enter the adjusting entries in the General Journal. For each entry, key "Adjusting Entry" in the Memo column. In QuickBooks, you will need to adjust inventory in a different manner than shown in the text. First, determine the amount of the adjustment by deducting the new inventory balance from the old inventory balance. In the General Journal window, click on the **Account** drop-down list and select **<Add New>**. Select **Other Account Types** and **Cost of Goods Sold**. Click **Continue**, and then key **Inventory Adjustment** as the new account name. Click **Save & Close**. Continue entering the journal entry, debiting Inventory Adjustment and crediting Merchandise Inventory for the adjustment amount.

8. Generate an adjusted Trial Balance report.

Generate the Trial Balance report as instructed in Step 6.

9. Generate a schedule of accounts payable.

From the **Reports** menu, select **Vendors & Payables** and then **Vendor Balance Summary**. When the Vendor Balance Summary window appears, click on **Modify Report**. Select **December 16, 2015** in the From field and **December 31, 2015** in the To field. Click **OK** to close the Modify Reports window. Then click the **Refresh** button to display the report with the new settings. To print the report, click on the **Print** button.

10. Generate a schedule of accounts receivable.

From the **Reports** menu, select **Customers & Receivables** and then **Customer Balance Summary**. When the Vendor Balance Summary window appears, select **December 16, 2015** in the From field and **December 31, 2015** in the To field. Then click the **Refresh** button (or press Enter). To print the report, click on the **Print** button.

11. Generate an income statement.

From the **Reports** menu, select **Company & Financial** and then **Profit & Loss Standard**. When the Profit and Loss window appears, select **January 1, 2015** in the From field and **December 31, 2015** in the To field. Then click the **Refresh** button (or press Enter). To print the report, click on the **Print** button.

12. Generate a statement of owner's equity

The statement of owner's equity is not a standard option. To display the desired information, customize a Balance Sheet report. From the **Reports** menu, select **Company & Financial** and then **Balance Sheet Standard**. When the Balance Sheet window appears, select **December 31, 2015** in the As of field. Click the **Refresh** button (or press Enter). Then click on **Modify Report** and the **Filters Tab**. In the Account drop-down list, select **All equity and income/expense** and click **OK**. To print the report, click on the **Print** button.

13. Prepare closing entries for the year ended December 31.

Using information from the adjusted Trial Balance report, enter the closing entries in the General Journal. For each entry, key "Closing Entry" in the Memo column. Remember to close out the Inventory Adjustment account with the other expenses.

14. Generate a post-closing Trial Balance report.

Generate the Trial Balance report as instructed in Step 6.

15. Generate a Balance Sheet report.

From the **Reports** menu, select **Company & Financial** and then **Balance Sheet Standard**. When the Balance Sheet window appears, select **December 31, 2015** in the As of field. Click the **Refresh** button (or press Enter). To print the report, click on the **Print** button.

16. Enter the reversing entry in the General Journal.

Reverse the adjusting entry for wages payable as of January 1, 2016. Key "Reversing Entry" in the Memo column.

17. Save a backup file of your work.

From the **File** menu, select **Save copy or backup**. Select **Backup copy** and click **Next**. Select **Local backup** and click **Next**. Select **Save it now** and click **Next**. Choose the drive/folder in which you want to save your work and key a file name, such as **TJ's Specialty Shop CP2 Dec Your Name (Backup).QBB**, and click **Save**. Submit your backup file to your instructor if requested.

PART 2: JANUARY

1. Enter the January 1-27 transactions in the General Journal, using the year 2016.

From the **Company** menu, select **Make General Journal Entries**. When a message window appears, click OK. Key the date of the transaction in the Date field, or click on the calendar icon and select the date. *For Year 2, use a date of 2016 for all entries.* Click in the Account column and select the account to be debited from the drop-down list. Tab to the Debit column and key the amount. Tab to the Memo column and key an explanation to the entry. Tab to the Name column and select a customer or vendor from the drop-down list if applicable. Tab to the next row and in the Account field, select the account to be credited. Tab over and enter the amount in the Credit column. Select a customer or vendor from the drop-down list if applicable. Click **Save and New** to continue to the next transaction or **Save and Close** if you are finished entering transactions. If a Retained Earnings or Fixed Assets alert window pops up, click **OK** and continue. For all Sales Tax Payable transactions, you must select a vendor; assume all taxes will be paid through Connecticut State Bank.

2. Generate a General Journal report.

From the **Reports** menu, select **Accountant & Taxes** and then **Journal**. When the Journal window appears, select **January 1, 2016** in the From field and **January 27, 2016** in the To field. Click on **Modify Report** and unselect **Trans#, Type, and Num.**, and click **OK**. Then click the **Refresh** button. For columns in which copy is getting truncated, you may wish to expand the width of the column. Do this by placing the cursor on the diamonds between the column heads, and when it turns to a cross with left and right arrows, drag the cross right to expand the width of the column. To print the report, click on the **Print** button.

3. Make corrections if necessary.

To correct general journal entries, click the **Previous** button in the General Journal window until the transaction you wish to correct appears. Make the needed changes and click **Save and New** or **Save and Close** as appropriate. Click **Yes** when asked to verify the change. To delete an entry, right click while the cursor is anywhere in the entry and select **Delete General Journal** (only the current entry will be deleted). Click **Yes** when asked to verify the deletion.

4. Generate a pre-adjusted Trial Balance report.

From the Reports menu, select **Accountant & Taxes** and then **Trial Balance**. When the Trial Balance window appears, click on **Modify Report**. select **January 1, 2016** in the From field and **January 31, 2016** in the To field (be sure to select dates of the year used for Part 2 journal entries). Click on the **Advanced** button in the Modify Report window and under Display Rows, select **Non-zero**. Click **OK** to close the Advance Options window, and then click **OK** again to close the Modify Reports window. Then click the **Refresh** button to display the report with the new settings. To print the report, click on the **Print** button.

5. Prepare adjusting entries for January.

Using the Trial Balance report and the adjustment information provided in the text, enter the adjusting entries in the General Journal. For each entry, key "Adjusting Entry" in the Memo column. Remember to use the Inventory Adjustment account for the Merchandise Inventory adjustment, as described in Part 1, Step 7.

6. Generate an adjusted Trial Balance report.

Generate the Trial Balance report as instructed in Step 4.

7. Generate a schedule of accounts payable.

From the **Reports** menu, select **Vendors & Payables** and then **Vendor Balance Summary**. When the Vendor Balance Summary window appears, click on **Modify Report**. Select **January 1, 2016** in the From field and **January 31, 2016** in the To field. Click **OK** to close the Modify Reports window. Then click the **Refresh** button to display the report with the new settings. To print the report, click on the **Print** button.

8. Generate a schedule of accounts receivable.

From the **Reports** menu, select **Customers & Receivables** and then **Customer Balance Summary**. When the Vendor Balance Summary window appears, select **January 1, 2016** in the From field and **January 31, 2016** in the To field. Then click the **Refresh** button (or press Enter). To print the report, click on the **Print** button.

9. Generate an income statement.

From the **Reports** menu, select **Company & Financial** and then **Profit & Loss Standard**. When the Profit and Loss window appears, select **January 1** in the From field and **January 31** in the To field. Then click the **Refresh** button (or press Enter). To print the report, click on the **Print** button.

10. Generate a statement of owner's equity

The statement of owner's equity is not a standard option. To display the desired information, customize a Balance Sheet report. From the **Reports** menu, select **Company & Financial** and then **Balance Sheet Standard**. When the Balance Sheet window appears, select **January 31, 2016** in the As of field. Click the **Refresh** button (or press Enter). Then click on **Modify Report** and the **Filters Tab**. In the Account drop-down list, select **All equity and income/expense** and click **OK**. To print the report, click on the **Print** button.

11. Prepare closing entries for January, 2016.

Using information from the adjusted Trial Balance report, enter the closing entries in the General Journal. For each entry, key "Closing Entry" in the Memo column.

12. Generate a post-closing Trial Balance report.

Generate the Trial Balance report as instructed in Step 4.

13. Generate a Balance Sheet report.

From the **Reports** menu, select **Company & Financial** and then **Balance Sheet Standard**. When the Balance Sheet window appears, select **January 31, 2016** in the As of field. Click the **Refresh** button (or press Enter). To print the report, click on the **Print** button.

14. Save a backup file of your work.

From the **File** menu, select **Save copy or backup**. Select **Backup copy** and click **Next**. Select **Local backup** and click **Next**. Select **Save it now** and click **Next**. Choose the drive/folder in which you want to save your work and key a file name, such as **TJ's Specialty Shop CP2 Jan Your Name (Backup).QBB**, and click **Save**. Submit your backup file to your instructor if requested.

COMPREHENSIVE PROBLEM 2: ACCOUNTING CYCLE WITH SUBSIDIARY LEDGERS SPECIAL JOURNALS INSTRUCTIONS

PART 1: DECEMBER

1. Restore the file TJ's Specialty Shop CP2 Special Journals (Backup).QBB.

From the **File** menu, click **Open or Restore Company**. Select **Restore a backup copy** and click **Next**. Select **Local backup**, and then select **TJ's Specialty Shop CP2 Special Journals (Backup).QBB** from the CD on which your data files are provided. Click **Next** when the Open or Restore Company window appears. Key a new file name of **TJ's Specialty Shop CP2 Special Journals Your Name.QBW** (for example, TJ's Specialty Shop CP2 Special Journals John Doe.QBW).

2. The accounts listed in your text for this problem have already been opened for you.

To view the Chart of Accounts, select **Chart of Accounts** from the **Lists** menu or click on **Chart of Accounts** under **Company** from the home page. To view a list of customer accounts, click on **Customer Center** and select the **Customers & Jobs** tab. All active customers will be listed at the left of the window. To view a list of vendor accounts, click on **Vendor Center** and select the **Vendors** tab. All active vendors will be listed at the left of the window.

3. Enter the December 16-30 transactions as

follows: a. For cash receipts:

- (1) **From customers on account:** Select **Receive Payments** from the **Customers** menu. (If prompted to complete an interview, click **No**.) In the **Received From** field, select a customer from the drop-down list. Enter/select a date in the **Date** field. (**Caution:** For all Part 1 transactions, be sure to choose a date for December **2015**.) In the **Memo** field, key **Cash Receipt** (key in exactly this way for all transactions to aid in generating the Cash Receipts Journal report later). In the **Deposit to** field, select **Cash**. (If asked if you want QuickBooks to automatically determine payment amounts, click **No**.) Key the amount received in the **Amount** field, which should also automatically populate the **Payment** column/field below, but if necessary, key the amount in both places. All other fields may be left blank. (If alerted that the payment is less than the full amount owed, select to **Leave this as an underpayment**.) Click **Save & Close**.
- (2) **From cash customers:** Enter this transaction in the general journal, as described for "e. To record all other transactions" below. In the **Memo** field, key **Cash Receipt** (key in exactly this way for all transactions to aid in generating the Cash Receipts Journal report later).

Your first cash receipt on account transaction should appear as follows:

T.J.'s Specialty Shop - QuickBooks Accountant Desktop 2015 - [Receive Payments]

File Edit View Lists Favorites Accountant Company Customers Vendors Employees Banking Reports Window Help

Home My Company Income Tracker Calendar Snapshots Customers Vendors Employees Bank Feeds Upgrade Client Review App Center

Main Reports Payments

Find New Delete Print Email Attach File Look up Customers/Invoicing Use Apply Payment Discounts And Credits Record Statement Check Process payment Add Credit Card Processing

Customer Payment

CUSTOMER BALANCE 2,800.00

RECEIVED FROM: Lucy Greene

PAYMENT AMOUNT: 1,960.00

DATE: 12/15/2015

REFERENCE #

DEPOSIT TO: Cash

CASH CHECK CREDIT DEBIT E-CHECK MORE

DATE	NUMBER	DRG. AMT	AMT. DUE	PAID/DEBT
12/15/2015			2,800.00	2,800.00
				1,960.00
Totals			2,800.00	2,800.00

UNDERPAYMENT \$ 840.00

WHEN FINISHED

LEAVE THIS AS AN UNDERPAYMENT

WRITE OFF THE EXTRA AMOUNT

VIEW CUSTOMER CONTACT INFORMATION

REMARKS

AMOUNTS FOR SELECTED INVOICES

AMOUNT DUE 2,800.00

APPLIED 1,960.00

DISCOUNT AND CREDITS APPLIED 0.00

Save & Close Save & New Clear

WHAT'S NEW

b. For sales on account:

Select **Create Invoices** from the **Customers** menu. In the **Customer** field, select a customer from the drop-down list. Enter/select a date in the **Date** field. (**Caution:** For all Part 1 transactions, be sure to choose a date for December **2015**.) Key the invoice number in the **Invoice #** field. Key a **1** in the **Qty.** field. In the **Item Code** field, select the code for the group of merchandise that matches the invoice number (for Invoice 640, this is Item Code **640**). The description, price, tax, and total invoice amount should immediately be entered/calculated for you. (If sales tax is not included, be sure **Tax** is selected in the **Tax** column (at right of Amount column) and **Sales Tax** is selected in **Tax** field near bottom.) All other fields may be left blank. Click **Save &**

Close. Your first sale on account transaction should appear as follows: