

Solution Manual for Financial Accounting 10th Edition by Harrison ISBN 0133427536 9780133427530

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Chapter 2. Processing Information.

Learning Objectives

1. **Explain** what a transaction is
2. **Define** -account and **list** and **differentiate** between different types of accounts
3. **Show** the impact of business transactions on the accounting equation
4. **Analyze** the impact of business transactions on accounts
5. **Record** (journalize and post) transactions in the books
6. **Construct and use** a trial balance

Questions You Should Be Able To Answer

Learning Objective	Question(s)	Answer	For practice
1. Explain what a transaction is	What is a business transaction?	A transaction is any event that has a financial impact on the business and can be measured reliably.	S2-3, S2-5
2. Define "account," and list and differentiate between different types of accounts	What is an account? Describe the following accounts: (1) Assets (2) Liabilities	An account, the basic summary device of accounting, is the record of all the changes in a particular asset, liability, or stockholders' equity during a period. Economic resources that provide a future benefit for a business	S2-1, S 2-12

	<p>(3) Stockholders' equity</p> <p>(4) Revenues</p> <p>(5) Expenses</p> <p>(6) Dividends</p>	<p>(2) Debts of the business, due in cash or goods/services</p> <p>(3) The owners' claims to the assets of the corporation, including common stock and retained earnings</p> <p>(4) Increases in stockholders' equity that result from delivering goods or services to customers</p> <p>(5) Decreases in stockholders' equity that result from costs of operating a business</p> <p>(6) Distributions to shareholders, usually in cash, from profitable operations; dividends decrease retained earnings</p>	
3. Show the impact of business transactions on the accounting equation			S2-4, S2-5, S2-7
4. Analyze the impact of business transactions on accounts	<p>What is the double-entry system of accounting?</p> <p>What is a T-account?</p> <p>What are the rules of debit and credit?</p>	<p>Every transaction affects at least two accounts</p> <p>The letter, T; the name of the account is written on the top. Debit entries are on the left side with credit entries on the right side of the T-account.</p> <p>Assets increase with a debit and decrease with a credit.</p>	<p>S2-4</p> <p>S2-2, S2-3, S2-13</p>

		<p>Liabilities and stockholders' equity increase with a credit and decrease with a debit. (Note that the rules are the opposite on opposite sides of the accounting equation.)</p> <p>Revenues increase with a credit and expenses increase with a debit.</p> <p>Dividends increase with a debit. (Note that revenues increase retained earnings and expenses and dividends decrease retained earnings.)</p>	
5. Record (journalize and post) transactions in the books	<p>What is a journal?</p> <p>What is the ledger?</p> <p>What occurs during posting?</p>	<p>A chronological record of business transactions; the first place a transaction is recorded</p> <p>A grouping of the T-accounts, along with their balances</p> <p>Transactions are posted or copied from the journal to the ledger (always in that order). A balance is calculated for each account in the ledger.</p>	S2-6, S2-7, S2-8
6. Construct and use a trial balance	What is a trial balance?	A list of all accounts with their balances—assets first, then liabilities and stockholders' equity	S2-9, S2-10, S2-11

		(including revenue and expense accounts). Account balances are listed in either the debit column or the credit column, and the columns are totaled. They should be equal.	
	What does a trial balance prove?	That equal debits and credits have been recorded	
	How can the trial balance be used?	To facilitate preparation of financial statements (although they will be more accurate after adjusting entries are added in the next chapter)	
	How can accounting errors be detected?	(1) Search for missing amounts (2) If the two columns of the trial balance are not equal, search for an entry of that amount (3) Divide the difference between the two columns by 9 to determine if there is a slide or transposition error	

Chapter 2 Outline

- I A Business Transaction
 - A. Any event that has a financial impact on the business and can be measured reliably
 - B. Giving something
 - C. Receiving something in return
- II Account

- A. Record of all the changes in a particular asset, liability, or stockholders' equity during a period
- B. Categories
 - 1. Assets (Examples: Cash, Accounts Receivable, Inventory)
 - 2. Liabilities (Examples: Accounts Payable, Notes Payable, Accrued Liabilities)
 - 3. Stockholders' (Owners') Equity (Examples: Common Stock, Retained Earnings, Dividends, Revenues, Expenses)
- III. Transaction Examples
 - A. Impact on the accounting equation (the equation always stays in balance)
 - B. Impact on the financial statements
- IV. Impact of Business Transactions on Accounts
 - A. Double-entry accounting system
 - B. T-account:

ACCOUNT TITLE	
Debit	Credit

- 1. Debit – -left or left-hand side
- 2. Credit – -right or right-hand side
- C. Rules of debit and credit
 - 1. Debit – Increases in assets, expenses, and dividends; decreases in liabilities, stockholders' equity, and revenues
 - 2. Credit – Increases in liabilities, stockholders' equity, and revenues; decreases in assets, expenses, and dividends
- D. Balance = amount remaining in an account
- E. Revenues (Examples: Sales Revenue, Legal Fees Earned, Service Revenue)
- F. Expenses (Examples: Cost of Goods Sold, Salaries Expense, Utilities Expense)
- V. Record Transactions in the Books
 - A. Journal – A chronological record of transactions
 - B. Journalizing example:

Account and Explanation	Debit	Credit
Cash	50,000	
Common Stock		50,000
<i>Issued common stock</i>		

- C. Ledger – Grouping of all the T-accounts, with their balances
- D. Posting – Data must be copied from the journal to the ledger
- E. Posting example:

Account and Explanation	Debit	Credit
Cash	50,000	
Common Stock		50,000
<i>Issued common stock</i>		

Cash

→ 50,000

Common Stock

50,000 ←

- F. Flow of accounting data
- VI. Construct and Use a Trial Balance
- A. Analyzing accounts
 - B. Correcting accounting errors
 - C. Chart of accounts
 - D. Normal account balances:

Account Type	Normal Balance	Increase	Decrease
Asset	Debit	Debit	Credit
Liability	Credit	Credit	Debit
Stockholders' Equity	Credit	Credit	Debit
Revenue	Credit	Credit	Debit
Expense	Debit	Debit	Credit
Common Stock	Credit	Credit	Debit
Retained Earnings	Credit	Credit	Debit
Dividends	Debit	Debit	Credit

- E. Account formats
- F. How to analyze transactions from T-accounts

Chapter Activities

1. Chapter Opener

Chapter 2 spotlights Whole Foods Market, Inc. and explains that the company is the world's leading retailer of natural and organically grown groceries. Have the students review Whole Foods' statement of operations at the company's and discuss what items might make up the company's net sales. Additionally, discuss the items that could be included in the expense figures for the corporation. This could lead to a discussion about how a company determines its net income or net loss.

2. Transactions Activity

Use the game Monopoly as an example of a business that would engage in transactions for a particular period. Examples of transactions that a player of the game might encounter include:

- 1) Receive \$1,500 in cash to be used as capital investment
- 2) Bank pays you a dividend of \$50
- 3) Purchase Park Place for \$35
- 4) Pay poor tax of \$15
- 5) Purchase house for property on Park Place for \$200
- 6) Pay rent on Baltic Avenue of \$4
- 7) Receive for services \$25
- 8) From sale of common stock, you get \$45
- 9) Pay school tax of \$150
- 10) Collect rent on Park Place of \$175
- 11) Pay rent on Pennsylvania Railroad of \$25
- 12) Pay Water Works \$60
- 13) Mortgage Park Place for \$175

Place the students into groups and use the chart of accounts below. Have the students put each of the transactions in journal entry form.

Cash

Dividend Revenue

Common Stock

House

Investment Revenue

Land

Mortgage Payable

Rent Expense

Rent Revenue

Tax Expense

Service Revenue

Utilities Expense

Difficult Topics

- Rules of debit and credit

Assignment Grid

Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	(Will have an X if available)	
					Excel Templates	General Ledger Templates
S2-1	Differentiate between different types of accounts	2	5	Easy		
S2-2	Analyze the impact of business transactions on accounts	4	5	Easy		
S2-3	Explain what a transaction is; analyze the impact of business transactions on accounts	1,4	5-10	Easy		
S2-4	Show the impact of business transactions on the accounting equation; Analyze the impact of business transactions on accounts	3,4	5	Easy		
S2-5	Explain what a transaction is; show the impact of business transactions on the	1,3	5-10	Easy		

	accounting equation					
S2-6	Record (journalize) transactions	5	10	Medium		
S2-7	Show the impact of business transactions on the accounting equation; record (journalize and post) transactions in the books	3,5	10-15	Easy		
S2-8	Record (journalize and post) transactions in the books	5	10-15	Easy		
S2-9	Construct and use a trial balance	6	10	Medium	X	
S2-10	Use a trial balance	6	10	Easy	X	
S2-11	Use a trial balance	6	10	Medium		
Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Templates	General Ledger Templates
S2-12	Define accounting terms	2	10	Medium		
S2-13	Analyze the impact of business transactions on accounts	4	5	Medium		
E2-14A	Explain what a transaction is; analyze the impact of transactions on accounts	1,4	10-15	Easy		
E2-15A	Analyze the impact of business transactions on accounts	4	10-15	Easy		
E2-16A	Show the impact of business transactions on the accounting equation	3	10-20	Medium		
E2-17A	Record (journalize) transactions in the books	5	10-15	Medium		X
E2-18A	Analyze the impact of business transactions on accounts; record (post) transactions in the books; construct and use a trial balance	4,5,6	20-30	Easy		

E2-19A	Explain what a transaction is; analyze the impact of business transactions on the accounts; record (journalize) transactions	1,4,5	10-15	Medium		
E2-20A	Construct and use a trial balance	6	10-20	Medium	X	
E2-21A	Construct and use a trial balance	6	15-25	Medium	X	
E2-22A	Analyze the impact of business transactions on accounts	4	10-15	Medium		
Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Templates	General Ledger Templates
E2-23A	Construct and use a trial balance	6	10-20	Medium		
E2-24B	Explain what a transaction is; analyze the impact of transactions on accounts	1,4	10-15	Medium		
E2-25B	Analyze the impact of transactions on accounts	4	10-15	Easy		
E2-26B	Show the impact of business transactions on the accounting equation	3	10-20	Medium		
E2-27B	Record (journalize) transactions in the books	5	10-20	Easy		
E2-28B	Analyze the impact of business transactions on accounts; record (post) transactions in the books; construct and use a trial balance	4,5,6	20-30	Medium		
E2-29B	Explain what a transaction is; analyze the impact of business	1,4,5	10-15	Medium		

	transactions on accounts; record (journalize) transactions in the books					
E2-30B	Construct and use a trial balance	6	10-20	Medium	X	
E2-31B	Construct and use a trial balance	6	15-25	Medium	X	
E2-32B	Analyze the impact of business transactions on accounts	4	10-15	Medium		
E2-33B	Construct and use a trial balance	6	10-20	Medium		

Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Templates	General Ledger Templates
E2-34	Explain what a transaction is; analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books; construct and use a trial balance	1,4,5,6	20-30	Medium		
Q2-35 to Q2-54	Quiz Exercises	All	30-50	Medium		
P2-55A	Construct and use a trial balance	6	15-30	Medium		
P2-56A	Show the impact of business transactions on the accounting equation; analyze the impact of business transactions on accounts	3,4	45-60	Medium		
P2-57A	Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books	4,5	30-40	Medium		
P2-58A	Analyze the impact of business transactions	4,5,6	50-60	Medium		X

	on accounts; record (journalize and post) transactions in the books; construct and use a trial balance					
P2-59A	Analyze the impact of business transactions on accounts; construct and use a trial balance	4,6	40-50	Medium		
P2-60B	Construct and use a trial balance	6	15-30	Medium		

Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Templates	General Ledger Templates
P2-61B	Show the impact of business transactions on the accounting equation; analyze the impact of business transactions on accounts	3,4	45-60	Medium		
P2-62B	Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books	4,5	30-40	Medium		
P2-63B	Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books; construct and use a trial balance	4,5,6	50-60	Medium		
P2-64B	Analyze the impact of business transactions on accounts; construct and use a trial balance	4,6	40-50	Medium		
E2-65	Analyze the impact of business transactions on accounts	4	20-40	Medium		
E2-66	Analyze the impact of	4,6	20-30	Medium		

	business transactions on accounts; construct and use a trial balance					
E2-67	Analyze the impact of business transactions on account	4	10-15	Medium		
P2-68	Analyze the impact of errors and compute correct amounts	3,4,5	20	Medium		

Assignment	Topic(s)	L.O.	Estimated Time (minutes)	Level of Difficulty	Excel Templates	General Ledger Templates
Decision Case 1	Analyze the impact of transactions on business accounts; construct and use a trial balance; measure net income or loss; decide whether to continue a business	4,6	40-50	Medium		
Decision Case 2	Analyze the impact of transactions on business accounts; correct erroneous financial statements; decide whether to expand a business	4	20-30	Medium		
Ethical Issue 1	Scruffy's Bar	All	20-30	Medium		
Ethical Issue 2	Academic Honesty	All	20	Medium		
Focus on Financials- Amazon.com	Record transactions; compute net income	3,4	20-30	Medium		
Focus on Analysis- Yum! Brands, Inc.	Analyze financial statements	4	20-30	Medium		
Group Project 1	Rock Concert	All	45-60	Difficult		

Group Project 2	Local Business	All	45-60	Difficult		
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Answer Key to Chapter 2 Quiz (Quiz on following pages)

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

Name _____ Date _____
Section _____

CHAPTER 2
10-MINUTE QUIZ

Circle the letter of the best response.

1. The journal is:
 - A. A listing of all open accounts and their balances.
 - B. A chronological record of transactions.
 - C. A listing of all accounts used to record the business transactions.
 - D. Not necessary to record transactions.

2. Which of the following accounts is decreased with a debit?
 - A. Accounts Payable
 - B. Equipment
 - C. Cash
 - D. Payroll Expense

3. Which of the following accounts is decreased with a credit?
 - A. Rent Revenue
 - B. Accounts Payable
 - C. Accounts Receivable
 - D. Service Revenue

4. The XYZ Company received \$1,000 for a customer on account. The entry to record this transaction is:
 - A.

Cash	1,000
Accounts Payable	1,000

 - B.

Cash	1,000
Accounts Payable	1,000

 - C.

Accounts Receivable	1,000
Cash	1,000

 - D.

Cash	1,000
Accounts Receivable	1,000

5. The ledger is:
 - A. A grouping of all T-accounts, with their balances.
 - B. An event that has an economic impact on the business.
 - C. Always expected to have a debit balance.
 - D. None of the above

6. A trial balance:
 - A. Requires that every transaction affect at least two accounts.
 - B. Mandates that the dollar sum of the debits equal that of the credits for each transaction.
 - C. Lists all accounts with their balances.
 - D. None of the above

7. When a company sells merchandise, but the customer does not pay it immediately, it should:
 - A. Credit Accounts Payable.
 - B. Make no entry.
 - C. Credit Accounts Receivable.
 - D. Debit Accounts Receivable.

8. An expense:
 - A. Is the decrease in stockholders' equity as a result of providing goods or services.
 - B. Is the decrease in liabilities as a result of providing goods or services.
 - C. Has the same normal balance as liabilities.
 - D. Is the increase in stockholders' equity as a result of providing goods or services.

9. Each of the following is revenue except:
 - A. Sales Revenue
 - B. Dividends
 - C. Legal Fees Earned
 - D. Service Revenue

10. In analyzing a transaction using the accounting equation, which account is included in the Stockholders' Equity section?
 - A. Accounts Payable
 - B. Accounts Receivable
 - C. Revenue
 - D. Cash