

# **Solution Manual for Financial Accounting 2nd Edition by Kemp Waybright ISBN 0132771586 9780132771580**

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

### **Discussion Questions: Key Points**

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1. Assets are listed in order of liquidity, or closeness to cash. Discuss the steps that the business would have to go through in order to convert each asset to cash in the normal course of business.
2. When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although it would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use.
3. Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the retained earnings account.
4. Not all events are transactions. A transaction is an event that has a financial impact on a company. Journal entries are recorded for all transactions.
5. The normal balance of an account is the side that increases the account.
  - a. Debit
  - b. Debit
  - c. Credit
  - d. Credit
  - e. Debit
6. The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheck, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account).

7. A credit balance in the cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its checking account, it now has a liability to the bank. Rather than showing a credit balance in its cash account, it should show a credit balance in a liability account.

8. Journalizing is the process of recording a transaction in the journal. Posting is the process of transferring the information from the journal to the appropriate accounts in the ledger or to T-accounts.
9. False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to supplies is improperly recorded as a debit to supplies expense, for example, the trial balance will balance but the financial statements will be inaccurate.
10. The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger.

## Short Exercises

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### (5-10 min.) S 2-1

1. b
2. c
3. e
4. g
5. d
6. f
7. a

### (5-10 min.) S 2-2

- |                     |    |
|---------------------|----|
| 1. Accounts payable | L  |
| 2. Cash             | A  |
| 3. Service revenue  | R  |
| 4. Prepaid rent     | A  |
| 5. Rent expense     | E  |
| 6. Common stock     | SE |

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

1. Transactions occur.
5. Prepare the financial statements
4. Prepare the trial balance.
3. Post the transactions from the journal to the ledger.
2. Record the transactions in the journal.

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

Example	A, 1
1.	R, 4
2.	SE, 3
3.	A, 1
4.	E, 5
5.	L, 2
6.	SE, 3
7.	E, 5

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

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

**(5-10 min.) S 2-6**

- DR            1. Rent expense
- CR            2. Accounts payable
- CR            3. Service revenue
- DR            4. Office furniture
- CR            5. Common stock
- DR            6. Land
- DR            7. Dividends

**(5-10 min.) S 2-7**

<b>Supplies</b>			
3/8	2,700	3/27	300
3/17	1,000		
Bal.	3,400		

<b>Note payable</b>			
3/20	1,300	3/5	10,000
3/31	4,000		
		Bal.	4,700

**(5-10 min.) S 2-8**

<b>Account</b>	<b>Type</b>	<b>↑</b>	<b>↓</b>
Office equipment	Asset	Dr.	Cr.
Dividends	Stockholder's Equity	Dr.	Cr.
Service revenue	Revenue	Cr.	Dr.
Accounts payable	Liability	Cr.	Dr.
Rent expense	Expense	Dr.	Cr.
Cash	Asset	Dr.	Cr.

**(15-20 min.) S 2-9**

<b>Transaction</b>	<b>Account Affected</b>	<b>Type</b>	<b>↑</b>	<b>↓</b>	<b>Dr. or Cr.</b>
(1)	Cash	Asset	Increase		Dr
	Common stock	Stockholders' Equity	Increase		Cr
(2)	Equipment	Asset	Increase		Dr
	Cash	Asset	Decrease		Cr
(3)	Supplies	Asset	Increase		Dr
	Accounts payable	Liability	Increase		Cr
(4)	Accounts receivable	Asset	Increase		Dr
	Service revenue	Revenue	Increase		Cr
(5)	Accounts payable	Liability	Decrease		Dr
	Cash	Asset	Decrease		Cr
(6)	Operating expenses	Expense	Increase		Dr

Cash	Asset	Decrease	Cr
(7) Dividends	Stockholders' Equity Increase		Dr
Cash	Asset	Decrease	Cr

**(10-15 min.) S 2-10**

<b>Journal</b>				
<b>DATE</b>	<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Aug 1	Cash		60,000	
	Common stock			60,000
	Sold stock.			
5	Dental supplies		4,600	
	Accounts payable			4,600
	Purchased supplies on account.			
	Rent Expense		1.200	
	Cash 1.200 Paid office rent.			
10	Cash		300	
	Accounts receivable		3.000	
	Service revenue			3.300
	Performed service for patients.			

**(10-15 min.) S 2-11**

<b>Journal</b>					
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Sep	3	Cash		40,000	
		Note payable			40,000
		Borrowed money from the bank.			
	9	Accounts receivable		1,600	
		Service revenue			1,600
		Performed service on account.			
	16	Cash		400	
		Accounts receivable			400
		Received cash on account.			
	22	Utilities expense		475	
		Accounts payable			475
		Received utility bill.			
	30	Salaries expense		2,600	
		Cash			2,600
		Paid salary expense.			
	30	Interest expense		110	
		Cash			110
		Paid interest expense.			

**(10-15 min.) S 2-12**

<b>Amazing Sounds Corp</b>		
<b>Trial Balance</b>		
<b>April 30, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$16,400	
Prepaid rent	500	
Equipment	19,000	
Accounts payable		\$ 1,000
Note payable		10,000
Common stock		17,900
Dividends	21,000	
Service revenue		87,000
Rent expense	40,000	
Utilities expense	19,000	
Total	\$115,900	\$115,900

**(5-10 min.) S 2-13**

**Wirt's Dirt, Inc.**  
**Trial Balance**  
**December 31, 2012**

	ACCOUNT		DEBIT		CREDIT
<b>BS</b>	Cash		\$13,900		
<b>BS</b>	Accounts Receivable		2,100		
<b>BS</b>	Supplies		400		
<b>BS</b>	Equipment		5,200		
<b>BS</b>	Accounts Payable				\$1,900
<b>BS</b>	Notes Payable				11,000
<b>BS</b>	Common Stock				8,000
<b>RE</b>	Dividends		500		
<b>IS</b>	Service Revenue				3,300
<b>IS</b>	Salaries Expense		1,300		
<b>IS</b>	Rent Expense		600		
<b>IS</b>	Utilities Expense		200		
	Total		<u>\$24,200</u>		<u>\$24,200</u>

**(5-10 min.) S 2-14**

e 1 Posting

d 2 Normal balance

g3 Payable

a4 Journal

b5 Receivable

h6 Chart of accounts c7

Debit

f8 Trial balance i9

Credit

## Exercises

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### (10-15 min.) E 2-15A

Transaction	Account Affected	Type	▲	Dr. or Cr.
Jul 1	Advertising expense	Stockholders' Equity	Increase	Dr
	Cash	Asset	Decrease	Cr
3	Cash	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr
5	Supplies	Asset	Increase	Dr
	Accounts payable	Liability	Increase	Cr
9	Cash	Asset	Increase	Dr
	Accounts receivable	Asset	Decrease	Cr
12	Accounts Payable	Liability	Decrease	Dr
	Cash	Asset	Decrease	Cr
17	Accounts receivable	Asset	Increase	Dr
	Service revenue	Stockholders' Equity	Increase	Cr

**(15-20 min.) E 2-16A**

<b>Journal</b>					
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Apr.1		Interest expense		400	
		Cash			400
	5	Office furniture		3,000	
		Accounts payable			3,000
	10	Accounts receivable		2,700	
		Service revenue			2,700
	12	Cash		22,000	
		Notes payable			22,000
	19	Cash		60,000	
		Land			60,000
	21	Building		400,000	
		Notes payable			400,000
	27	Accounts Payable		450	
		Cash			450

(15-20 min.) E 2-17A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Nov.	1	Cash		85,000	
		Common stock			85,000
	3	Supplies		400	
		Accounts Payable			400
	5	Building		40,000	
		Cash			40,000
	6	Cash		1,600	
		Service revenue			1,600
	11	Accounts payable		350	
		Cash			350
	18	Accounts receivable		2,600	
		Service revenue			2,600
	24	Cash		1,300	
		Accounts receivable			1,300
	30	Salaries expense		700	
		Rent expense		1,800	
		Cash			2,500

(10-15 min.) E 2-18A

Req. 1

<b>Cash</b>			
Oct. 1	30,000	Oct. 4	12,700
6	8,000	9	200
23	1,200	29	1,300
<i>Bal.</i>	<u>25,000</u>		

<b>Accounts Payable</b>			
Oct. 9	200	Oct. 2	500
		<i>Bal.</i>	<u>300</u>

<b>Accounts Receivable</b>			
Oct. 17	1,900	Oct. 23	1,200
<i>Bal.</i>	<u>700</u>		

<b>Common stock</b>			
		Oct. 1	30,000
		<i>Bal.</i>	<u>30,000</u>

<b>Supplies</b>	
Oct. 2	500
<i>Bal.</i>	<u>500</u>

<b>Service revenue</b>			
		Oct. 6	8,000
		17	1,900
		<i>Bal.</i>	<u>9,900</u>

<b>Equipment</b>	
Oct. 4	12,700
<i>Bal.</i>	<u>12,700</u>

<b>Salaries Expense</b>	
Oct. 29	1,300
<i>Bal.</i>	<u>1,300</u>

**Req. 2**

<b>Safe Harbor Daycare, Inc.</b>		
<b>Trial Balance</b>		
<b>October 31, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$25,000	
Accounts receivable	700	
Supplies	500	
Equipment	12,700	
Accounts payable		\$ 300
Common stock		30,000
Service revenue		9,900
Salaries expense	1,300	
Total	<u>\$40,200</u>	<u>\$40,200</u>

**(15-20 min.) E 2-19A**

**Req 1**

<b>Journal</b>					
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Mar.	2	Rent expense		1,000	
		Cash			1,000
	4	Cash		1,100	
		Service revenue			1,100
	8	Supplies		100	
		Accounts payable			100
	11	Cash		2,600	
		Accounts receivable			2,600
	15	Cash		45,000	
		Common stock			45,000
	19	Accounts payable		450	
		Cash			450
	27	Accounts receivable		3,300	
		Service revenue			3,300
	31	Notes payable		6,000	
		Cash			6,000

**Req 2 & 3**

<u>Cash</u>			
Mar 1	5,000	Mar 2	1,000
Mar 4	1,100	Mar 19	450
Mar 11	2,600	Mar 31	6,000
<u>Mar 15</u>	<u>45,000</u>		
<i>Bal.</i>	46,250		

		<u>Accounts payable</u>	
Mar 19	450	Mar 1	400
		Mar 8	100
		<i>Bal.</i>	50

**Accounts receivable**

Mar 1	2,800	Mar 11	2,600
Mar 27	3,300		
<i>Bal.</i>	3,500		

**Notes payable**

Mar 31	6,000	Mar 1	9,000
		<i>Bal.</i>	3,000

**Supplies**

Mar 1	550
Mar 8	100
<i>Bal.</i>	650

**Common stock**

	Mar 1	30,750
	Mar 15	45,000
	<i>Bal.</i>	75,750

**Office furniture**

Mar 1	2,900
<i>Bal.</i>	2,900

**Service revenue**

	Mar 1	2,600
	Mar 4	1,100
	Mar 27	3,300
	<i>Bal.</i>	7,000

**Building**

Mar 1	30,000
<i>Bal.</i>	30,000

**Rent expense**

Mar 1	1,500
Mar 2	1,000
<i>Bal.</i>	2,500

**Req 4**

<b>Baily Realty, Inc.</b>		
<b>Trial Balance</b>		
<b>March 31, 2012</b>		
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 46,250	
Accounts receivable	3,500	
Supplies	650	
Office furniture	2,900	
Building	30,000	
Accounts payable		\$ 50
Notes payable		3,000
Common stock		75,750
Service revenue		7,000
Rent expense	2,500	
Total	<u>\$85,800</u>	<u>\$85,800</u>

(20-25 min.) E 2-20A

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep.	1	Cash		48,000	
		Common stock			48,000
		Sold stock.			
	2	Supplies		800	
		Accounts Payable			800
		Purchased supplies on acct.			
	3	Building		75,000	
		Notes payable			75,000
		Purchased building signing note payable.			
	4	Equipment		6,000	
		Cash			6,000
		Paid cash to purchase equipment			
	5	Notes Payable		5,500	
		Cash			5,500
		Made payment on note payable.			
	6	Accounts payable		300	
		Cash			300
		Made payment on account.			

**Req. 2**

**Cash**

	(1) 48,000		(4) 6,000		(5) 5,500		(6) 300
	<i>Bal.</i>		36,200				

**Accounts payable**

	(6) 300		(2) 800		<i>Bal.</i> 500
--	---------	--	---------	--	-----------------

**Supplies**

	(2) 800		<i>Bal.</i> 800
--	---------	--	-----------------

**Notes payable**

	(5) 5,500		(3) 75,000		<i>Bal.</i>
--	-----------	--	------------	--	-------------

69,500

**Equipment**

(4)	6,000	
<i>Bal.</i>		<i>6,000</i>

**Common stock**

	(1)	48,000
<i>Bal.</i>		<i>48,000</i>

**Building**

(3)	75,000	
<i>Bal.</i>		<i>75,000</i>


**Req. 3**

<b>Mulberry, Inc.</b>		
<b>Trial Balance</b>		
<b>September 30, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$36,200	
Supplies	800	
Equipment	6,000	
Building	75,000	
Accounts payable		\$ 500
Notes payable		69,500
Common stock		48,000
Total	\$118,000	\$118,000

**Req. 4**

<b>Mulberry, Inc.</b>			
<b>Balance Sheet</b>			
<b>September 30, 2012</b>			
ASSETS		LIABILITIES	
Cash	\$ 36,200	Accounts payable	\$ 500
Supplies	800	Notes payable	<u>69,500</u>
Equipment	6,000	Total liabilities	70,000
Building	<u>75,000</u>	STOCKHOLDERS' EQUITY	
		Common stock	<u>48,000</u>
		Total liabilities and	
Total assets	<u>\$118,000</u>	stockholder's equity	<u>\$118,000</u>

**(25-30 min.) E 2-21A**

**Req. 2**

<b>Journal</b>					
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Nov.	2	Cash		80,000	
		Common stock			80,000
	3	Rent expense		1,700	
		Cash			1,700
	6	Equipment		1,800	
		Cash			1,800
	8	Furniture		1,200	
		Accounts payable			1,200
	11	Supplies		400	
		Accounts payable			400
	19	Accounts receivable		2,600	
		Service revenue			2,600
	20	Utility expense		500	
		Cash			500
	28	Cash		1,600	
		Service revenue			1,600

**Req. 1, and 3**

<b>Cash</b>		<b>Accounts payable</b>	
Nov. 2	80,000	Nov. 3	1,700
28	1,600	6	1,800
		20	500
<i>Bal.</i>	<i>77,600</i>		

<b>Cash</b>		<b>Accounts payable</b>	
		Nov. 8	1,200
		11	400
		<i>Bal</i>	<i>1,600</i>

**Accounts receivable**

Nov. 19	2,600	
<i>Bal.</i>	2,600	

**Supplies**

Nov. 11	400	
<i>Bal.</i>	400	

**Equipment**

Nov. 6	1,800	
<i>Bal.</i>	1,800	

**Furniture**

Nov. 8	1,200	
<i>Bal.</i>	1,200	

**Common stock**

		Nov. 2	80,000
		<i>Bal.</i>	80,000

**Service revenue**

		Nov. 19	2,600
		28	1,600
		<i>Bal.</i>	4,200

**Rent Expense**

	Nov. 3	1,700	
	<i>Bal.</i>	1,700	

**Utilities expense**

	Nov 20	500	
	<i>Bal.</i>	500	

**Req. 4**

<b>Munro Consulting, Inc.</b>		
<b>Trial Balance</b>		
<b>November 30, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 77,600	
Accounts receivable	2,600	
Supplies	400	
Equipment	1,800	
Furniture	1,200	
Accounts payable		\$ 1,600
Common stock		80,000
Service revenue		4,200
Rent expense	1,700	
Utilities expense	<u>500</u>	<u>      </u>
Total	<u>\$85,800</u>	<u>\$85,800</u>

**Req. 5**

<b>Munro Consulting, Inc.</b>		
<b>Income Statement</b>		
<b>Month Ended November 30, 2012</b>		
Service revenue		\$4,200
Expenses:		
Rent expense	\$1,700	
Utilities expense	<u>500</u>	
Total expenses		<u>2,200</u>
Net Income		<u>\$2,000</u>

<b>Munro Consulting, Inc.</b>		
<b>Statement of Retained Earnings</b>		
<b>Month Ended November 30, 2012</b>		
Retained earnings, November 1		\$0
Add: Net income		<u>2,000</u>
Retained earnings, November 30		\$2,000

Note: There were no dividends during the month of November

**Munro Consulting, Inc.****Balance Sheet****November 30, 2012**

ASSETS		LIABILITIES	
Cash	\$ 77,600	Accounts payable	\$ 1,600
Accounts receivable	2,600		
Supplies	400	STOCKHOLDERS' EQUITY	
Equipment	1,800	Common stock	80,000
Furniture	<u>1,200</u>	Retained earnings	<u>2,000</u>
		Total Stockholders' equity	<u>82,000</u>
		Total liabilities and	
Total assets	<u>\$83,600</u>	stockholder's equity	<u>\$83,600</u>

**(20-25 min.) E 2-22A**

<b>Effect on Trial Balance</b>	<b>Account(s) Misstated</b>
a. Total debits = Total credits	Cash \$495 too high Rent expense \$495 too low
b. Total debits = Total credits	Accounts receivable \$1,000 too high Accounts Payable \$1,000 too high
c. Total debits = Total credits	Cash \$540 too low Service revenue \$540 too low
d. Total debits = Total credits	Supplies \$700 too low Accounts payable \$700 too low
e. Total debits > Total credits	Notes payable \$40,000 too low

**(10-15 min.) E 2-23B**

<b>Transaction</b>	<b>Account Affected</b>	<b>Type</b>	<b>↑</b>	<b>↓</b>	<b>Dr. or</b>
<b>Cr.</b>					
Apr. 1	Advertising expense	Stockholders' Equity	Increase		Dr
	Cash	Asset	Decrease		Cr
3	Equipment	Asset	Increase		Dr
	Cash	Asset	Decrease		Cr
5	Cash	Asset	Increase		Dr
	Common stock	Stockholders' Equity	Increase		Cr
9	Cash	Asset	Increase		Dr
	Notes payable	Liability	Increase		Cr
12	Utilities expense	Stockholders' Equity	Increase		Dr
	Cash	Asset	Decrease		Cr
17	Supplies	Asset	Increase		Dr
	Cash	Asset	Decrease		Cr

**(15-20 min.) E 2-24B**

<b>Journal</b>					
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Apr.	1	Interest expense		1,000	
		Cash			1,000
	5	Office furniture		3,000	
		Accounts payable			3,000
	10	Accounts receivable		2,400	
		Service revenue			2,400
	12	Cash		20,000	
		Notes payable			20,000
	19	Cash		75,000	
		Land			75,000
	21	Building		300,000	
		Notes payable			300,000
	27	Accounts Payable		1,500	
		Cash			1,500

**(15-20 min.) E 2-25B**

<b>Journal</b>					
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Dec.	1	Cash		70,000	
		Common stock			70,000
	3	Supplies		100	
		Accounts payable			100
	5	Building		30,000	
		Cash			30,000
	6	Cash		3,000	
		Service revenue			3,000
	11	Accounts payable		50	
		Cash			50
	18	Accounts receivable		3,100	
		Service revenue			3,100
	24	Cash		800	
		Accounts receivable			800
	31	Salaries expense		950	
		Rent expense		1,600	
		Cash			2,550

(10-15 min.) E 2-26B

Req. 1

<b>Cash</b>			
May 1	35,000	May. 4	12,700
6	3,000	9	600
23	750	29	1,500
<i>Bal.</i>	23,950		

<b>Accounts Payable</b>			
May 9	600	May 2	900
		<i>Bal.</i>	300

<b>Accounts Receivable</b>			
May 17	5,100	May 23	750
<i>Bal.</i>	4,350		

<b>Common stock</b>			
		May 1	35,000
		<i>Bal.</i>	35,000

<b>Supplies</b>			
May 2	900		
<i>Bal.</i>	900		

<b>Service revenue</b>			
		May 6	3,000
		17	5,100
		<i>Bal.</i>	8,100

<b>Equipment</b>			
May 4	12,700		
<i>Bal.</i>	12,700		

<b>Salaries Expense</b>			
May 29	1,500		
<i>Bal.</i>	1,500		

**Req. 2**

<b>Fun Time Daycare, Inc.</b>		
<b>Trial Balance</b>		
<b>May 31, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$23,950	
Accounts receivable	4,350	
Supplies	900	
Equipment	12,700	
Accounts payable		\$ 300
Common stock		35,000
Service revenue		8,100
Salaries expense	1,500	
Total	<u>\$43,400</u>	<u>\$43,400</u>

**(15-20 min.) E 2-27B**

**Req 1**

<b>Journal</b>				
<b>DATE</b>	<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Dec 2	Rent expense		1,400	
	Cash			1,400
4	Cash		1,200	
	Service revenue			1,200
8	Supplies		900	
	Accounts payable			900
11	Cash		1,100	
	Accounts receivable			1,100
15	Cash		10,000	
	Common stock			10,000
19	Accounts payable		150	
	Cash			150
27	Accounts receivable		1,800	
	Service revenue			1,800
28	Notes payable		3,500	
	Cash			3,500

**Req 2 & 3**

<b>Cash</b>	
Dec 1      6,000	Dec 2      1,400
Dec 4      1,200	Dec 19      150
Dec 11     1,100	Dec 28     3,500
Dec 15     10,000	
<i>Bal.</i> 13,250	

<b>Accounts payable</b>	
	2,000
Dec 19      150	Dec 1      900
	Dec 8      2,750
	<i>Bal.</i>

<b>Accounts receivable</b>	
Dec 1	4,100
Dec 27	1,800
<i>Bal.</i>	4,800

<b>Notes payable</b>	
Dec 28	3,500
Dec 1	14,000
<i>Bal.</i>	10,500

<b>Supplies</b>	
Dec 1	300
Dec 8	900
<i>Bal.</i>	1,200

<b>Common stock</b>	
Dec 1	31,900
Dec 15	10,000
<i>Bal.</i>	41,900

<b>Office furniture</b>	
Dec 1	2,300
<i>Bal.</i>	2,300

<b>Service revenue</b>	
Dec 1	4,300
Dec 4	1,200
Dec 27	1,800
<i>Bal.</i>	7,300

<b>Building</b>	
Dec 1	38,000
<i>Bal.</i>	38,000

<b>Rent expense</b>	
Dec 1	1,500
Dec 2	1,400
<i>Bal.</i>	2,900

**Req 4**

<b>Beckett Realty, Inc.</b>		
<b>Trial Balance</b>		
<b>December 31, 2012</b>		
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 13,250	
Accounts receivable	4,800	
Supplies	1,200	
Office furniture	2,300	
Building	38,000	
Accounts payable		\$ 2,750
Notes payable		10,500
Common stock		41,900
Service revenue		7,300
Rent expense	2,900	
<b>Total</b>	<b>\$ 62,450</b>	<b>\$ 62,450</b>

**(20-25 min.) E 2-28B**

**Req. 1**

<b>Journal</b>					
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Jun	1	Cash		28,000	
		Common stock			28,000
		Sold stock.			
	2	Supplies		1,100	
		Accounts Payable			1,100
		Purchased supplies on acct.			
	3	Building		50,000	
		Notes payable			50,000
		Purchased building signing note payable.			
	4	Equipment		9,000	
		Cash			9,000
		Paid cash to purchase equipment			
	5	Notes Payable		2,500	
		Cash			2,500
		Made payment on note payable.			
	6	Accounts payable		500	
		Cash			500
		Made payment on account.			

**Req. 2**

<b>Cash</b>	<b>Accounts payable</b>												
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: right;">(1) 28,000</td> <td style="width: 50%; text-align: left;">(4) 9,000</td> </tr> <tr> <td></td> <td style="text-align: left;">(5) 2,500</td> </tr> <tr> <td></td> <td style="text-align: left;">(6) 500</td> </tr> <tr> <td style="border-top: 1px solid black; text-align: right;"><i>Bal.</i> 16,000</td> <td></td> </tr> </table>	(1) 28,000	(4) 9,000		(5) 2,500		(6) 500	<i>Bal.</i> 16,000		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: right;">(6) 500</td> <td style="width: 50%; text-align: left;">(2) 1,100</td> </tr> <tr> <td></td> <td style="text-align: left;"><i>Bal.</i> 600</td> </tr> </table>	(6) 500	(2) 1,100		<i>Bal.</i> 600
(1) 28,000	(4) 9,000												
	(5) 2,500												
	(6) 500												
<i>Bal.</i> 16,000													
(6) 500	(2) 1,100												
	<i>Bal.</i> 600												

<b>Supplies</b>	
(2) 1,100	
<i>Bal. 1,100</i>	

<b>Notes payable</b>	
(5) 2,500	(3) 50,000
	<i>Bal. 47,500</i>

<b>Equipment</b>	
(4) 9,000	
<i>Bal. 9,000</i>	

<b>Common stock</b>	
	(1) 28,000
	<i>Bal. 28,000</i>

<b>Building</b>	
(3) 50,000	
<i>Bal. 50,000</i>	


**Req. 3**

<b>Grinko, Inc.</b>		
<b>Trial Balance</b>		
<b>June 30, 2012</b>		
ACCOUNT TITLE	BALANCE	
	DEBIT	CREDIT
Cash	\$16,000	
Supplies	1,100	
Equipment	9,000	
Building	50,000	
Accounts payable		\$ 600
Notes payable		47,500
Common stock		28,000
<b>Total</b>	<b><u>\$76,100</u></b>	<b><u>\$76,100</u></b>

**Req. 4**

<b>Grinko, Inc.</b>			
<b>Balance Sheet</b>			
<b>June 30, 2012</b>			
<b>ASSETS</b>		<b>LIABILITIES</b>	
Cash	\$ 16,000	Accounts payable	\$ 600
Supplies	1,100	Notes payable	<u>47,500</u>
Equipment	9,000	Total liabilities	48,100
Building	<u>50,000</u>	<b>STOCKHOLDERS' EQUITY</b>	
		Common stock	<u>28,000</u>
		Total liabilities and	
Total assets	<u><u>\$76,100</u></u>	stockholder's equity	<u><u>\$76,100</u></u>

**(25-30 min.) E 2-29B**

**Req. 1**

<b>Journal</b>					
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Sep	2	Cash		40,000	
		Common stock			40,000
	3	Rent expense		1,500	
		Cash			1,500
	6	Equipment		2,300	
		Cash			2,300
	8	Furniture		2,000	
		Accounts payable			2,000
	11	Supplies		100	
		Accounts payable			100
	19	Accounts receivable		1,100	
		Service revenue			1,100
	20	Utility expense		150	
		Cash			150
	28	Cash		1,800	
		Service revenue			1,800

**Req. 2**

<b>Cash</b>				<b>Accounts payable</b>			
Sep 2	40,000			Sep 3	1,500		
28	1,800			6	2,300		
				20	150		
<i>Bal.</i>	37,850					<i>Bal</i>	2,100

Accounts receivable	
Sep 19	1,100
<i>Bal.</i>	<i>1,100</i>
Sep 11	100
<i>Bal.</i>	<i>Supplies 100</i>

Equipment	
Sep 6	2,300
<i>Bal.</i>	<i>2,300</i>

Furniture	
Sep 8	2,000
<i>Bal.</i>	<i>2,000</i>

Common stock	
Sep 2	40,000
<i>Bal.</i>	<i>40,000</i>

Service revenue	
Sep 19	1,100
28	1,800
<i>Bal.</i>	<i>2,900</i>

Rent Expense	
Sep 3	1,500
<i>Bal.</i>	<i>1,500</i>

Utilities expense	
Sep 20	150
<i>Bal.</i>	<i>150</i>

**Req. 3**

Marty Consulting, Inc.		
Trial Balance		
September 30, 2012		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$ 37,850	
Accounts receivable	1,100	
Supplies	100	
Equipment	2,300	
Furniture	2,000	
Accounts payable		\$ 2,100
Common stock		40,000
Service revenue		2,900
Rent expense	1,500	
Utilities expense	150	
Total	\$45,000	\$45,000

**Req. 4**

<b>Marty Consulting, Inc.</b>		
<b>Income Statement</b>		
<b>Month Ended September 30, 2012</b>		
Service revenue		\$2,900
Expenses:		
Rent expense	\$1,500	
Utilities expense	<u>150</u>	
Total expenses		<u>1,650</u>
Net Income		<u>\$1,250</u>

<b>Marty Consulting, Inc.</b>		
<b>Statement of Retained Earnings</b>		
<b>Month Ended September 30, 2012</b>		
Retained earnings, September 1, 2012		\$0
Add: Net income		<u>1,250</u>
Retained earnings, September 30, 2012		\$1,250

Note: There were no dividends during the month of September

<b>Marty Consulting, Inc.</b>			
<b>Balance Sheet</b>			
<b>September 30, 2012</b>			
ASSETS		LIABILITIES	
Cash	\$ 37,850	Accounts payable	\$ 2,100
Accounts receivable	1,100		
Supplies	100	STOCKHOLDERS' EQUITY	
Equipment	2,300	Common stock	40,000
Furniture	<u>2,000</u>	Retained earnings	<u>1,250</u>
		Total Stockholders' equity	<u>41,250</u>
		Total liabilities and	
Total assets	<u>\$43,350</u>	stockholder's equity	<u>\$43,350</u>

**(10-15 min.) E 2-30B**

<b>Effect on Trial Balance</b>	<b>Account(s) Misstated</b>
a. Total debits = Total credits	Cash \$810 too high Rent expense \$810 too low
b. Total debits = Total credits	Accounts receivable \$700 too high Accounts Payable \$700 too high
c. Total debits = Total credits	Cash \$90 too low Service revenue \$90 too low
d. Total debits = Total credits	Supplies \$380 too low Accounts payable \$380 too low
e. Total debits > Total credits	Notes payable \$95,000 too low

## Problems

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**(15-20 min.) P 2-31A**

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Apr.	1	Cash		40,000	
		Common stock			40,000
	3	Supplies		600	
		Cash			600
	8	Land		28,000	
		Cash			28,000
	12	Office equipment		1,800	
		Accounts payable			1,800
	17	Cash		5,000	
		Notes payable			5,000
	26	Accounts payable		2,600	
		Cash			2,600
	30	Cash		15,000	
		Accounts receivable		27,000	
		Service revenue			42,000
	30	Salaries expense		2,900	
		Rent expense		1,400	
		Utilities expense		700	
		Cash			5,000
	30	Dividends		9,000	
		Cash			9,000

(15-20 min.) P 2-32A

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
July	1	Cash	325,000	
		Notes payable		325,000
	3	Building	200,000	
		Cash		200,000
	6	Accounts receivable	16,900	
		Service revenue		16,900
	9	Supplies	1,000	
		Accounts payable		1,000
	13	Cash	6,300	
		Service revenue		6,300
	15	Dividends	4,000	
		Cash		4,000
	17	Cash	4,400	
		Accounts Receivable		4,400
	18	Property tax expense	1,400	
		Cash		1,400
	22	Salaries expense	3,600	
		Cash		3,600
	26	Supplies	800	
		Cash		800
	31	Accounts payable	3,500	
		Cash		3,500

**(20-25 min.) P2-33A**

**Req. 2**

<b>Journal</b>				
<b>DATE</b>	<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
Oct	1	Cash	50,000	
		Common stock		50,000
	3	Supplies	300	
		Furniture	1,300	
		Accounts payable		1,600
	5	Cash	1,800	
		Service revenue		1,800
	8	Land	25,000	
		Cash		25,000
	11	Accounts receivable	2,500	
		Service revenue		2,500
	14	Salaries expense	600	
		Cash		600
	16	Accounts payable	1,300	
		Cash		1,300
	19	Cash	300	
		Service revenue		300
	23	Accounts receivable	1,700	
		Service revenue		1,700
	28	Cash	400	
		Accounts receivable		400
	31	Salaries expense	600	
		Cash		600
	31	Rent expense	1,500	
		Cash		1,500
	31	Dividends	1,800	
		Cash		1,800

**Req. 1, 3, and 4**

<b>Cash</b>			
Oct 1	50,000		
5	1,800	Oct 8	25,000
19	300	14	600
28	400	16	1,300
		31	600
		31	1,500
<i>Bal.</i>	21,700	31	1,800

<b>Accounts Payable</b>			
Oct 16	1,300	Oct 3	1,600
		<i>Bal.</i>	300

<b>Common stock</b>			
		Oct 1	50,000
		<i>Bal.</i>	50,000

<b>Accounts Receivable</b>			
Oct 11	2,500	Oct 28	400
23	1,700		
<i>Bal.</i>	3,800		

<b>Dividends</b>			
Oct 31	1,800		
<i>Bal.</i>	1,800		

<b>Supplies</b>			
Oct 3	300		
<i>Bal.</i>	300		

<b>Service revenue</b>			
		Oct 5	1,800
		11	2,500
		19	300
		23	1,700
		<i>Bal.</i>	6,300

<b>Furniture</b>			
Oct 3	1,300		
<i>Bal.</i>	1,300		

<b>Salaries Expense</b>			
Oct 14		600	
	31	600	
<i>Bal.</i>	1,200		

<b>Land</b>			
Oct 8	25,000		
<i>Bal.</i>	25,000		

<b>Rent Expense</b>			
Oct 31	1,500		
<i>Bal.</i>	1,500		

**Req. 5**

<b>Stevens &amp; Associates, Inc.</b>		
<b>Trial Balance</b>		
<b>October 31, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 21,700	
Accounts receivable	3,800	
Supplies	300	
Furniture	1,300	
Land	25,000	
Accounts payable		\$ 300
Common stock		50,000
Dividends	1,800	
Service revenue		6,300
Salaries expense	1,200	
Rent expense	1,500	
Total	<u>\$56,600</u>	<u>\$ 56,600</u>

(25-30 min.) P 2-34A

Req. 1

		Journal		Page 6	
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep.	16	Cash	110	2,900	
		Accounts receivable	112		2,900
		Received payment on account.			
	18	Accounts receivable	112	2,800	
		Service revenue	411		2,800
		Performed service on account.			
	21	Cash	110	1,200	
		Service revenue	411		1,200
		Performed service for cash.			
	23	Supplies	115	300	
		Accounts Payable	210		300
		Purchased supplies on account.			
	25	Dividends	315	1,600	
		Cash	110		1,600
		Paid dividends.			
	27	Accounts payable	210	2,100	
		Cash	110		2,100
		Made payment on account.			
	29	Cash	110	2,700	
		Service revenue	411		2,700
		Received cash for services performed.			
	30	Rent Expense	515	1,800	
		Cash	110		1,800
		Paid rent.			
	30	Salaries Expense	511	2,600	
		Cash	110		2,600
		Paid employee salaries.			



**Req. 2**

<b>CASH</b>					<b>ACCOUNT NO. 110</b>		
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√			4,500	
	16		J.6	2,900		7,400	
	21		J.6	1,200		8,600	
	25		J.6		1,600	7,000	
	27		J.6		2,100	4,900	
	29		J.6	2,700		7,600	
	30		J.6		1,800	5,800	
	30		J.6		2,600	3,200	

<b>ACCOUNTS RECEIVABLE</b>					<b>ACCOUNT NO. 112</b>		
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√			7,500	
	16		J.6		2,900	4,600	
	18		J.6	2,800		7,400	

<b>SUPPLIES</b>						<b>ACCOUNT NO. 115</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√			100	
	23		J.6	300		400	

<b>EQUIPMENT</b>						<b>ACCOUNT NO. 140</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√			13,000	

<b>ACCOUNTS PAYABLE</b>						<b>ACCOUNT NO. 210</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√				4,500
	23		J.6		300		4,800
	27		J.6	2,100			2,700

<b>COMMON STOCK</b>						<b>ACCOUNT NO. 311</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√				20,200

<b>DIVIDENDS</b>						<b>ACCOUNT NO. 315</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√			2,000	
	25		J.6	1,600		3,600	

<b>SERVICE REVENUE</b>						<b>ACCOUNT NO. 411</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√				6,500
	18		J.6		2,800		9,300
	21		J.6		1,200		10,500
	29		J.6		2,700		13,200

<b>SALARIES EXPENSE</b>						<b>ACCOUNT NO. 511</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√			2,900	
	30		J.6	2,600		5,500	

<b>RENT EXPENSE</b>						<b>ACCOUNT NO. 515</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Sep	15	Bal.	√			1,200	
	30		J.6	1,800		3,000	

*Req. 3*

<b>BFF Systems, Inc.</b>			
<b>Trial Balance</b>			
<b>September 30, 2012</b>			
	<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
	Cash	\$ 3,200	
	Accounts receivable	7,400	
	Supplies	400	
	Equipment	13,000	
	Accounts payable		\$ 2,700
	Common stock		20,200
	Dividends	3,600	
	Service revenue		13,200
	Salaries expense	5,500	
	Rent expense	<u>3,000</u>	-----
	Total	<u>\$ 36,100</u>	<u>\$ 36,100</u>

(20-25 min.) P 2-35A

Req. 1

<b>Apex Consulting, Inc.</b>		
<b>Trial Balance</b>		
<b>January 31, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 7,600	
Accounts receivable	5,500	
Supplies	200	
Building	99,000	
Land	54,000	
Accounts payable		\$ 4,500
Notes payable		85,000
Common stock		34,300
Retained earnings		10,400
Dividends	14,000	
Service revenue		126,500
Salaries expense	62,000	
Rent expense	7,500	
Utilities expense	5,400	
Supplies expense	3,500	
Insurance expense	2,000	
Total	<u>\$ 260,700</u>	<u>\$ 260,700</u>

**Req. 2**

<b>Apex Consulting, Inc.</b>		
<b>Income Statement</b>		
<b>Year Ended January 31, 2012</b>		
Service revenue		\$126,500
Expenses		
Salaries expense	\$62,000	
Rent expense	7,500	
Utilities expense	5,400	
Supplies expense	3,500	
Insurance expense	<u>2,000</u>	
Total expenses		<u>80,400</u>
Net Income		<u>\$46,100</u>

<b>Apex Consulting , Inc.</b>	
<b>Statement of Retained Earnings</b>	
<b>Year Ended January31, 2012</b>	
Retained earnings, Feb. 1, 2011	\$10,400
Add: Net income	<u>46,100</u>
Subtotal	56,500
Less: Dividends	<u>14,000</u>
Retained earnings, Jan. 31, 2012	<u>\$42,500</u>

<b>Apex Consulting, Inc.</b>			
<b>Balance Sheet</b>			
<b>January 31, 2012</b>			
ASSETS		LIABILITIES	
Cash	\$ 7,600	Accounts payable	\$ 4,500
Accounts receivable	5,500	Notes payable	<u>85,000</u>
Supplies	200	Total liabilities	89,500
Land	54,000	STOCKHOLDERS' EQUITY	
Building	<u>99,000</u>	Common stock	34,300
		Retained earnings	<u>42,500</u>
		Total stockholders' equity	<u>76,800</u>
		Total liabilities and	
Total assets	<u>\$166,300</u>	stockholders' equity	<u>\$ 166,300</u>

**Req 3**

It was a profitable year for Apex Consulting, Inc. from the standpoint that the business generated \$46,100 of Net income.

**(15-20 min.) P 2-36A**

*Req. 1*

		Journal		Page 3	
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
	a.	Cash		360	
		Service revenue			360
		( $\$730 - \$370 = \$360$ )			
	b.	Supplies		1,000	
		Accounts payable			1,000
		The original entry was recorded —backwards! so an entry for double the amount needs to be made.			
	c.	Cash		15,750	
		Rent expense			15,750
		( $\$17,500 - \$1,750 = \$15,750$ )			
	d.	Accounts payable		870	
		Accounts receivable			870

**Req 2**

- a. Net income is understated because Service revenue was credited (increased) by only \$370 instead of the correct amount of \$730.
- b. Net income would be unchanged because the entry did not effect a revenue or an expense.
- c. Net income would be understated because Rent expense was debited (increased) by \$17,500 instead of the correct amount of \$1,750.
- d. Net income would be unchanged because the entry did not effect a revenue or an expense.

(15-20 min.) P 2-37B

Journal					
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Sep	1	Cash		50,000	
		Common stock			50,000
	3	Supplies		300	
		Cash			300
	8	Land		32,000	
		Cash			32,000
	12	Office equipment		3,000	
		Accounts payable			3,000
	17	Cash		45,000	
		Notes payable			45,000
	26	Accounts payable		2,500	
		Cash			2,500
	30	Cash		9,000	
		Accounts receivable		11,000	
		Service revenue			20,000
	30	Salaries expense		2,650	
		Rent expense		1,200	
		Utilities expense		600	
		Cash			4,450
	30	Dividends		2,500	
		Cash			2,500

(15-20 min.) P 2-38B

Journal				
DATE	ACCOUNTS	POST. REF.	Dr.	Cr.
May	1	Cash	150,000	
		Notes payable		150,000
	3	Building	135,000	
		Cash		135,000
	6	Accounts receivable	11,800	
		Service revenue		11,800
	9	Supplies	1,100	
		Accounts payable		1,100
	13	Cash	8,100	
		Service revenue		8,100
	15	Dividends	5,000	
		Cash		5,000
	17	Cash	7,500	
		Accounts Receivable		7,500
	18	Property tax expense	1,250	
		Cash		1,250
	22	Salaries expense	3,350	
		Cash		3,350
	26	Supplies	1,300	
		Cash		1,300
	31	Accounts payable	5,000	
		Cash		5,000

(20-25 min.) P2-39B

Req. 2

Journal

		POST.		
DATE	ACCOUNTS	REF.	Dr.	Cr.
July 1	Cash		95,000	
	Common stock			95,000
3	Supplies		600	
	Furniture		2,100	
	Accounts payable			2,700
5	Cash		2,700	
	Service revenue			2,700
8	Land		23,000	
	Cash			23,000
11	Accounts receivable		2,200	
	Service revenue			2,200
14	Salaries expense		500	
	Cash			500
16	Accounts payable		2,100	
	Cash			2,100
19	Cash		2,000	
	Service revenue			2,000
23	Accounts receivable		1,500	
	Service revenue			1,500
28	Cash		700	
	Accounts receivable			700
31	Salaries expense		500	
	Cash			500
31	Rent expense		1,400	
	Cash			1,400
31	Dividends		1,700	
	Cash			1,700

**Req. 1, 3, and 4**

**Cash**

		Jul 8	23,000
Jul 1	95,000	14	500
5	2,700	16	2,100
19	2,000	31	500
28	700	31	1,400
		31	1,700
<i>Bal.</i>	71,200		

**Accounts Receivable**

Jul 11	2,200	Jul 28	700
23	1,500		
<i>Bal.</i>	3,000		

**Supplies**

Jul 3	600
<i>Bal.</i>	600

**Furniture**

Jul 3	2,100
<i>Bal.</i>	2,100

**Land**

Jul 8	23,000
<i>Bal.</i>	23,000

**Accounts Payable**

Jul 16	2,100	Jul 3	600
		<i>Bal.</i>	2,700

**Common stock**

Jul 1	95,000
<i>Bal.</i>	95,000

**Dividends**

Jul 31	1,700
<i>Bal.</i>	1,700

**Service revenue**

Jul 5	2,700
11	2,200
19	2,000
23	1,500
<i>Bal.</i>	8,400

**Salaries Expense**

Jul 14	500
31	500
<i>Bal.</i>	1,000

**Rent Expense**

Jul 31	1,400
<i>Bal.</i>	1,400

**Req. 5**

<b>Sarsfield &amp; Associates, Inc.</b>		
<b>Trial Balance</b>		
<b>July 31, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT TITLE</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 71,200	
Accounts receivable	3,000	
Supplies	600	
Furniture	2,100	
Land	23,000	
Accounts payable		\$ 600
Common stock		95,000
Dividends	1,700	
Service revenue		8,400
Salaries expense	1,000	
Rent expense	1,400	
Total	<u>\$104,000</u>	<u>\$104,000</u>

(25-30 min.) P 2-40B

Req. 1

		Journal		Page 6	
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Jan	16	Cash	110	3,400	
		Accounts receivable	112		3,400
		Received payment on account.			
	18	Accounts receivable	112	1,200	
		Service revenue	411		1,200
		Performed service on account.			
	21	Cash	110	2,700	
		Service revenue	411		2,700
		Performed service for cash.			
	23	Supplies	115	400	
		Accounts Payable	210		400
		Purchased supplies on account.			
	25	Dividends	315	1,400	
		Cash	110		1,400
		Paid dividends.			
	27	Accounts payable	210	2,100	
		Cash	110		2,100
		Made payment on account.			
	29	Cash	110	3,800	
		Service revenue	411		3,800
		Received cash for services performed.			
	30	Rent Expense	515	1,000	
		Cash	110		1,000
		Paid rent.			
	30	Salaries Expense	511	2,400	
		Cash	110		2,400
		Paid employee salaries.			

**Req. 2**

<b>CASH</b>					<b>ACCOUNT NO. 110</b>		
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jan	15	Bal.	√			2,700	
	16		J.6	3,400		6,100	
	21		J.6	2,700		8,800	
	25		J.6		1,400	7,400	
	27		J.6		2,100	5,300	
	29		J.6	3,800		9,100	
	30		J.6		1,000	8,100	
	30		J.6		2,400	5,700	

<b>ACCOUNTS RECEIVABLE</b>					<b>ACCOUNT NO. 112</b>		
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jan	15	Bal.	√			8,000	
	16		J.6		3,400	4,600	
	18		J.6	1,200		5,800	

<b>SUPPLIES</b>						<b>ACCOUNT NO. 115</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jan	15	Bal.	√			1,000	
	23		J.6	400		1,400	

<b>EQUIPMENT</b>						<b>ACCOUNT NO. 140</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jan	15	Bal.	√			14,600	

<b>ACCOUNTS PAYABLE</b>						<b>ACCOUNT NO. 210</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jan	15	Bal.	√				4,500
	23		J.6		400		4,900
	27		J.6	2,100			2,800

COMMON STOCK						ACCOUNT NO. 311	
DATE		ITEM	POST.	DEBIT	CREDIT	BALANCE	
			REF.			DEBIT	CREDIT
Jan	15	Bal.	√				21,600

DIVIDENDS						ACCOUNT NO. 315	
DATE		ITEM	POST.	DEBIT	CREDIT	BALANCE	
			REF.			DEBIT	CREDIT
Jan	15	Bal.	√			2,800	
	25		J.6	1,400		4,200	

SERVICE REVENUE						ACCOUNT NO. 411	
DATE		ITEM	POST.	DEBIT	CREDIT	BALANCE	
			REF.			DEBIT	CREDIT
Jan	15	Bal.	√				6,600
	18		J.6		1,200		7,800
	21		J.6		2,700		10,500
	29		J.6		3,800		14,300

<b>SALARIES EXPENSE</b>						<b>ACCOUNT NO. 511</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jan	15	Bal.	√			2,300	
	30		J.6	2,400		4,700	

<b>RENT EXPENSE</b>						<b>ACCOUNT NO. 515</b>	
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jan	15	Bal.	√			1,300	
	30		J.6	1,000		2,300	

*Req. 3*

<b>XYZ Systems, Inc.</b>			
<b>Trial Balance</b>			
<b>January 31, 2012</b>			
	<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
	Cash	<u>\$ 5,700</u>	
	Accounts receivable	<u>5,800</u>	
	Supplies	<u>1,400</u>	
	Equipment	<u>14,600</u>	
	Accounts payable		<u>\$ 2,800</u>
	Common stock		<u>21,600</u>
	Dividends	<u>4,200</u>	
	Service revenue		<u>14,300</u>
	Salaries expense	<u>4,700</u>	
	Rent expense	<u>2,300</u>	
	Total	<u>\$ 38,700</u>	<u>\$ 38,700</u>

**(20-25 min.) P 2-41B**

**Req. 1**

<b>Cascade Consulting, Inc.</b>		
<b>Trial Balance</b>		
<b>December 31, 2012</b>		
	<b>BALANCE</b>	
<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$ 5,900	
Accounts receivable	6,500	
Supplies	700	
Building	145,000	
Land	89,000	
Accounts payable		\$ 3,700
Notes payable		87,000
Common stock		133,600
Retained earnings		12,900
Dividends	14,000	
Service revenue		96,200
Salaries expense	52,000	
Rent expense	9,900	
Utilities expense	5,400	
Supplies expense	2,600	
Insurance expense	2,400	
Total	<u>\$ 333,400</u>	<u>\$ 333,400</u>

**Req. 2**

<b>Cascade Consulting, Inc.</b>		
<b>Income Statement</b>		
<b>Year Ended December 31, 2012</b>		
Service revenue		\$96,200
Expenses		
Salaries expense	\$52,000	
Rent expense	9,900	
Utilities expense	5,400	
Supplies expense	2,600	
Insurance expense	<u>2,400</u>	
Total expenses		<u>72,300</u>
Net Income		<u>23,900</u>

<b>Cascade Consulting , Inc.</b>	
<b>Statement of Retained Earnings</b>	
<b>Year Ended December 31, 2012</b>	
Retained earnings, January 1, 2012	\$12,900
Add: Net income	<u>23,900</u>
Subtotal	36,800
Less: Dividends	<u>14,000</u>
Retained earnings, December 31, 2012	<u>\$22,800</u>

<b>Cascade Consulting, Inc.</b>			
<b>Balance Sheet</b>			
<b>December 31, 2012</b>			
ASSETS		LIABILITIES	
Cash	\$ 5,900	Accounts payable	\$ 3,700
Accounts receivable	6,500	Note payable	<u>87,000</u>
Supplies	700	Total liabilities	90,700
Land	89,000	STOCKHOLDERS' EQUITY	
Building	<u>145,000</u>	Common stock	133,600
		Retained earnings	<u>22,800</u>
		Total stockholders' equity	<u>156,400</u>
		Total liabilities and	
Total assets	<u>\$247,100</u>	stockholders' equity	<u>\$ 247,100</u>

**Req 3**

It was a profitable year for Cascade Consulting, Inc. from the standpoint that the business generated \$23,900 of Net income.

**(15-20 min.) P 2-42B**

**Req. 1**

		<b>Journal</b>		<b>Page 3</b>	
<b>DATE</b>		<b>ACCOUNTS</b>	<b>POST. REF.</b>	<b>Dr.</b>	<b>Cr.</b>
	a.	Cash		270	
		Service revenue			270
		(\$740 - \$470 = \$270)			
	b.	Supplies		450	
		Accounts payable			450
		The original entry was recorded —backwards  so an entry for double the amount needs to be made			
	c.	Cash		10,800	
		Rent expense			10,800
		(\$12,000 - \$1,200 = \$10,800)			
	d.	Accounts payable		825	
		Accounts receivable			825

**Req 2**

- a. Net income is understated because Service revenue was credited (increased) by only \$470 instead of the correct amount of \$740.
- b. Net income would be unchanged because the entry did not effect a revenue or an expense.
- c. Net income would be understated because Rent expense was debited (increased) by \$12,000 instead of the correct amount of \$1,200.
- d. Net income would be unchanged because the entry did not effect a revenue or an expense.

## Continuing Exercise

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### Req 2

4/1	Cash	1,500	
	Common Stock		1,500
4/3	Equipment	1,200	
	Accounts payable		1,200
4/5	Fuel expense	60	
	Cash		60
4/6	Accounts receivable	200	
	Service revenue		200
4/8	Lawn supplies	75	
	Cash		75
4/17	Cash	700	
	Service revenue		700
4/30	Cash	150	
	Accounts receivable		150

**Req. 3**

				=	<b>Liabilities</b>		+	<b>Stockholders' equity</b>	
<b>Assets</b>				<b>Lawn</b>				<b>Common</b>	
				<b>supplies</b>		<b>Accounts payable</b>		<b>stock</b>	
<b>Cash</b>									
4/1	1,500	60	4/5	4/8	75	1,200		1,500	4/1
4/17	700	75	4/8						
4/30	150			Bal.	75				
Bal.	2,215					1,200	Bal.	1,500	Bal.
				<b>Equipment</b>				<b>Retained earnings</b>	
				4/3	1,200				
				Bal.	1,200				
<b>Accounts receivable</b>								<b>Service revenue</b>	
4/6	200	150	4/30					200	4/6
Bal.	50							700	4/17
								900	Bal.
								<b>Fuel Expense</b>	
				4/5	60				
				Bal.	60				

**Req 4**

**Lydon's Yard Care, Inc.  
Trial Balance  
April 30, 2012**

<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	\$2,215	
Accounts receivable	50	
Lawn supplies	75	
Equipment	1,200	
Accounts payable		\$1,200
Common stock		1,500
Service revenue		900
Fuel expense	<u>60</u>	<u>.</u>
Total	<u>\$3,600</u>	<u>\$3,600</u>

## Continuing Problem

---

*Req. 1*

		Journal	Page 6		
DATE		ACCOUNTS	POST. REF.	Dr.	Cr.
Jun	1	Salaries expense		550	
		Cash			550
	2	Land		17,000	
		Cash			17,000
	3	Rent expense		1,800	
		Cash			1,800
	4	Cash		1,900	
		Service revenue			1,900
	5	Cash		400	
		Accounts receivable			400
	8	Supplies		600	
		Accounts payable			600

	11	Accounts receivable		2,800	
		Service revenue			2,800
	13	Cash		10,000	
		Common stock			10,000
	16	Salaries Expense		550	
		Cash			550
	17	Cash		1,400	
		Service revenue			1,400
	18	Cash		900	
		Accounts receivable			900
	19	Advertising expense		325	
		Cash			325
	21	Accounts payable		800	
		Cash			800
	22	Office furniture		3,600	
		Accounts payable			3,600

	24	Miscellaneous expense		250	
		Cash			250
	26	Accounts receivable		1,300	
		Service revenue			1,300
	28	Cash		1,600	
		Accounts receivable			1,600
	30	Utilities expense		690	
		Cash			690
	30	Salaries expense		550	
		Cash			550
	30	Dividends		3,100	
		Cash			3,100

*Req. 2*

<b>CASH</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
May	31	Bal.				40,050	
Jun	1				550	39,500	
	2				17,000	22,500	
	3				1,800	20,700	
	4			1,900		22,600	
	5			400		23,000	
	13			10,000		33,000	
	16				550	32,450	
	17			1,400		33,850	
	18			900		34,750	
	19				325	34,425	
	21				800	33,625	
	24				250	33,375	
	28			1,600		34,975	
	30				690	34,285	
	30				550	33,735	
	30				3,100	30,635	

<b>ACCOUNTS RECEIVABLE</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
May	31	Bal.				1,100	
Jun	5				400	700	
	11			2,800		3,500	
	18				900	2,600	
	26			1,300		3,900	
	28				1,600	2,300	

<b>SUPPLIES</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
May	31	Bal.				770	
Jun	8			600		1,370	

<b>LAND</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jun	2			17,000		17,000	

OFFICE FURNITURE							
DATE		ITEM	POST.	DEBIT	CREDIT	BALANCE	
			REF.			DEBIT	CREDIT
Jun	22			3,600		3,600	

EQUIPMENT							
DATE		ITEM	POST.	DEBIT	CREDIT	BALANCE	
			REF.			DEBIT	CREDIT
May	31	Bal.				2,400	

VEHICLES							
DATE		ITEM	POST.	DEBIT	CREDIT	BALANCE	
			REF.			DEBIT	CREDIT
May	31	Bal.				35,800	

ACCOUNTS PAYABLE							
DATE		ITEM	POST.	DEBIT	CREDIT	BALANCE	
			REF.			DEBIT	CREDIT
May	31	Bal.					980
Jun	8				600		1,580
	21			800			780
	22				3,600		4,380

<b>NOTES PAYABLE</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
May	31	Bal.					35,800

<b>COMMON STOCK</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
May	31	Bal.					42,500
Jun	13				10,000		52,500

<b>DIVIDENDS</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
May	31	Bal.				2,200	
Jun	30			3,100		5,300	

<b>SERVICE REVENUE</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
May	31	Bal.					4,200
Jun	4				1,900		6,100
	11				2,800		8,900
	17				1,400		10,300
	26				1,300		11,600

<b>SALARIES EXPENSE</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
May	31	Bal.				550	
Jun	1			550		1,100	
	16			550		1,650	
	30			550		2,200	

<b>RENT EXPENSE</b>							
<b>DATE</b>		<b>ITEM</b>	<b>POST. REF.</b>	<b>DEBIT</b>	<b>CREDIT</b>	<b>BALANCE</b>	
						<b>DEBIT</b>	<b>CREDIT</b>
Jun	3			1,800		1,800	

UTILITIES EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal.				610	
Jun	30			690		1,300	

ADVERTISING EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jun	19			325		325	

MISCELLANEOUS EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jun	24			250		250	

**Req. 3**

<b>Pure Water, Inc.</b>			
<b>Trial Balance</b>			
<b>June 30, 2012</b>			
	<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
	Cash	\$ 30,635	
	Accounts receivable	2,300	
	Supplies	1,370	
	Land	17,000	
	Office furniture	3,600	
	Equipment	2,400	
	Vehicles	35,800	
	Accounts payable		\$ 4,380
	Notes payable		35,800
	Common stock		52,500
	Dividends	5,300	
	Service revenue		11,600
	Salaries expense	2,200	
	Rent expense	1,800	
	Utilities expense	1,300	
	Advertising expense	325	
	Miscellaneous expense	250	
	Total	<u>\$104,280</u>	<u>\$104,280</u>

## Continuing Financial Statement Analysis Problem

- a. Cash and cash equivalents would increase by \$50 million and unsecured debt and other borrowings would increase by \$50 million. This would cause Total assets and Total liabilities and shareholders' investment to each increase by \$50 million.

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		\$50 million	
	Unsecured debt and other borrowings			\$50 million
	Borrowed \$50,000,000 in unsecured debt.			

- b. There would be no net change in Total assets. Cash would decrease by \$50 million and Buildings and improvements would increase by \$50 million. This causes Total current assets to decrease by \$50 million and Property and equipment, net to increase by \$50 million for a net affect on Total assets of zero.

Date	Accounts	Post Ref.	Dr.	Cr.
	Buildings and improvements		\$50 million	
	Cash			\$50 million
	Purchased building for \$50 million.			

- c. On the income statement, Sales would increase by \$10 billion, which would cause Net earnings to increase by \$10 billion. Net earnings would then be added to the previous year's Retained earnings, which would increase Retained earnings on the balance sheet by \$10 billion. Cash would also increase by \$10 billion on the balance sheet. This transaction would cause Total assets to increase by \$10 billion and Total shareholders' investment to increase by \$10 billion.

Date	Accounts	Post Ref.	Dr.	Cr.
	Cash		\$10 billion	
	Sales			\$10 billion
	To record cash sales.			

**Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (The Sales account is closed to Retained Earnings.)**

- d. The salary expense increase of \$1 billion would cause an increase of \$1 billion in Selling, general and administrative expenses on the income statement. This would cause net earnings to decrease by \$1 billion. Net earnings would then be added to the previous year's Retained earnings, which would decrease Retained earnings on the balance sheet by \$1 billion. Cash would also decrease by \$1 billion on the balance sheet. This transaction would cause Total assets to decrease by \$1 billion and Total shareholders' investment to decrease by \$1 billion.

<b>Date</b>	<b>Accounts</b>	<b>Post Ref.</b>	<b>Dr.</b>	<b>Cr.</b>
	Salaries Expense		\$1 billion	
	Cash			\$1 billion
	Salaries of \$1 billion are paid.			

**Note: This topic is covered in Chapter 3 in more depth, but is here to challenge students to think about how the income statement affects the balance sheet. (Salaries expense is closed to Retained Earnings.)**

# Ethics in Action

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## Case #1

Jamie should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was *not* a dividend but rather the payment of an expense.

It does matter how the \$5,000 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.

Jamie does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the \$5,000 expense, Jamie is giving the bank an inaccurate and misleading income statement.

## Case #2

Jim's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.

There are ethical concerns. Jim has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions in order to provide accurate

information; therefore, accountants have an ethical duty to ensure accurate financial reporting.

As the owner of ProCare Lawnservice you should have a problem with Jim's actions.

You need to have accurate financial information for decision-making purposes. Accordingly, by Jim reducing the actual amount of Wage Expense, you may not be aware of the actual labor costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Jim has not fulfilled his obligation as an accountant.

## Financial Analysis

Journal			
DATE		Dr.	Cr.
Jan 3	Property, Plant and Equipment	485,000	
	Cash		485,000
7	Cash	26,360,000	
	Net Sales		26,360,000
10	Inventory	32,845,000	
	Accounts Payable		32,845,000
15	Accounts Receivable	642,000	
	Net Sales		642,000
29	Accounts Payable	16,750,000	
	Cash		16,750,000

2. No solution.

## Industry Analysis

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1. Columbia Sportswear is the larger company in terms of revenue, with approximately \$1.5 billion in net sales for 2010 as compared to approximately \$1.1 billion for Under Armour. This information is on the Consolidated Statement of Operations/Income.
2. Columbia Sportswear is also the larger of the two in terms of total assets with about \$1.3 billion at December 31, 2010, compared to about \$675 million for Under Armour. This information is on the Consolidated Balance Sheet.
3. Once again, Columbia Sportswear has more debt at the end of 2010 with approximately \$293 million. Under Armour only had around \$178 million in debt at the end of the year. This information is also located on the Consolidated Balance Sheet. Note that the terms total liabilities and total debt mean the same thing.
4. Under Armour wins this one with a gross profit percentage of 49.9% as compared to only 42.4% for Columbia Sportswear. In terms of gross profit percentage, the higher the number, the better. This percentage indicates that Under Armour is doing a little better job of making profit from selling their products.
5. Columbia Sportswear paid out more dividends to their stockholders in 2010. They paid \$75,439,000 in dividends. This number can be found on one of two financial statements. It's shown on either the Consolidated Statement of Cash Flows or the Consolidated Statements of Shareholders' Equity. Again note that the terms Stockholder and Shareholder mean the same thing. What about Under Armour? They did not pay out any dividends in any of the years covered by these financial statements.
6. Student's response to this question will obviously vary.

## Small Business Analysis

There are two mistakes here affecting the cash account. The first mistake is the cash transaction utilizing the debit card. When cash is decreased, it must be credited. Your client debited cash for the transaction using the logic that they were using a **debit** card. To correct this transaction, you will need to remove the original transaction and journalize the transaction correctly. These journal entries look the same. They are as follows:

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Supplies		400	
	Cash			400
	To remove the original debit card transaction.			

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Supplies		400	
	Cash			400
	To record purchase of supplies using debit card.			

The next error is that the credit card transaction doesn't have any effect on Cash until the credit card bill is paid. When the original transaction took place, a liability account, such as Credit Card Payable, should have been credited. To correct this, the following entry needs to be made.

Date	Accounts	Post Ref.	Dr.	Cr.
May 7	Cash		250	
	Credit Card Payable			250
	Correcting entry—used credit card instead of cash for utility bill.			

## Written Communication

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Although student's responses will vary widely, here is a suggested memo to address the two situations.

Dear Client:

I want to address the two concerns you had in your e-mail to me last week. The first one was about the credit balance in your cash account. Even after corrections are made, the cash was still showing a credit balance. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have a credit balance in your cash account if your checking account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your checks unpaid. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

The second situation was concerning the use of debit cards versus credit cards. The terminology does get very confusing. Without going into an accounting lesson on the differences between debits and credits, let me explain what happens when you use the two cards. When you use your debit card, there have to be funds available in whatever account that card is attached to because the use of this card will automatically withdraw that amount of money from the account. The bank —debitsl your account which, in banking terms, means they removed the money from your account. On the other hand, you have to credit cash because you are decreasing your cash account.

A credit card transaction, on the other hand, does not automatically remove the cash from your account. It sets up a liability to the credit card company which will have to be paid when you get the credit card statement. So the credit card transaction itself does not affect cash. You are not crediting cash when you use your credit card. You are crediting a liability to the credit card company which means you owe them money.