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Chapter 2 The Accounting Cycle: During the Period

REVIEW QUESTIONS

Question 2-1 (LO 2-1)

External transactions are transactions between the company and a separate economic entity. Internal transactions do not include an exchange with a separate economic entity. Purchasing supplies from a local vendor is classified as an external transaction.

Question 2-2 (LO 2-1)

- 1. Use source documents to identify accounts affected by external transactions.
- 2. Analyze the impact of the transaction on the accounting equation.
- 3. Assess whether the transaction results in a debit or a credit to the account balance.
- 4. Record the transaction in the journal using debits and credits.
- 5. Post the transaction to the T-accounts in the general ledger.
- 6. Prepare a trial balance.

Question 2-3 (LO 2-2)

Dual effect refers to each transaction having an effect on at least two accounts of the accounting equation such that the accounting equation will always be in balance. If an economic event increases (decreases) one side of the equation, then it also increases (decreases) the other side of the equation by the same amount, or, it increases one account and decreases another account on the same side of the equation.

Question 2-4 (LO 2-2)

-	Assets	=	Liabilities	+	Stockholders' equity
(a)	Increase	=	Increase	+	No change

(b)	Decrease	=	No change	+	Decrease
(c)	Increase	=	No change	+	Increase
(d)	No change*	=	No change	+	No change

* One asset (equipment) increases while another asset (cash) decreases.

Question 2-5 (LO 2-2)

Jerry is not correct. While it is possible for a transaction to increase one account and decrease another, dual effect simply indicates that at least two accounts will always be affected. However, the accounting equation must always remain in balance. It is not possible for one side of the equation to increase while the other side decreases.

Solutions Manual, Chapter 2

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Answers to Review Questions (continued)

Question 2-6 (LO 2-3)

Accounts	Normal balance
Assets	Debit
Liabilities	Credit
Stockholders' equity	Credit
Revenues	Credit
Expenses	Debit

Question 2-7 (LO 2-3)

Jenny is not correct. Any account can be debited or credited. Since an asset has a normal debit balance, it would be debited when it increases and credited when it decreases. Similarly, since a liability has a normal credit balance, it would be credited when it increases and debited when it decreases.

Question 2-8 (LO 2-3)

Accounts	Increase
(a) Cash	Debit
(b) Salaries payable	Credit
(c) Utilities expense	Debit
(d) Service revenue	Credit

Question 2-9 (LO 2-3)

Accounts	Decrease*
(a) Cash	Credit
(b) Salaries payable	Debit
(c) Utilities expense	Credit
(d) Service revenue	Debit

* Answers are opposite of those in Question 2-8

Answers to Review Questions (continued)

Question 2-10 (LO 2-3)

These statements are consistent. Retained earnings has three components – revenues, expenses, and dividends. Changing the balance of any of these components changes the balance of retained earnings. Retained earnings increases with a credit and decreases with a debit. Since expenses reduce retained earnings, an increase to an expense decreases retained earnings.

Question 2-11 (LO 2-4)

A journal provides a chronological record of all transactions affecting a firm. A journal entry is used to describe the format for recording a transaction.

Question 2-12 (LO 2-4)

Date	Debit	Credit
Account Name	Amount	
Account Name		Amount
(Description of transaction)		

Question 2-13 (LO 2-4)

In each journal entry, the sum of all amounts debited equals the sum of all amounts credited.

Question 2-14 (LO 2-4)

(a)		Debit	Credit
Cash	Service Revenue (<i>Receive cash from providing services</i>	1,200	1,200
(b)		Debit	Credit
Rent E	Expense Cash (Pay rent for the current month)	500	500
(c)		Debit	Credit
Buildi	ng Notes Payable (Purchase building with note payable)	10,000	10,000

Answers to Review Questions (continued)

Question 2-15 (LO 2-4)

- (a) Purchase supplies by paying cash of \$20,000.
- (b) Provide services to customer on account for \$30,000.
- (c) Pay cash on accounts payable of \$10,000.

Question 2-16 (LO 2-5)

A T-account is an informal means to show the balance in an account. The left side is referred to as a *debit* and the right side is referred to as a *credit*.

Question 2-17 (LO 2-5)

Posting is the process of transferring the debit and credit information from the journal to individual accounts in the general ledger.

(a)	(a) Supplies		Cash		
	20,000			20,000	
(b)		ounts eivable	Service	Revenue	
	30,000			30,000	
(c) Accounts Payable			C	ash	
10,000			10,000		

Question 2-18 (LO 2-6)

The general ledger is the collection of all accounts used to record the company's transactions. A chart of accounts is a listing of all account names.

Question 2-19 (LO 2-6)

A trial balance is a list of all accounts and their balances at a particular date. Balance refers to the fact that the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

Question 2-20 (LO 2-6)

Not necessarily. While total debits equaling total credits is a good indication that all accounts have been appropriately accounted for, the accounts could contain offsetting errors. For example, if one account with a debit (credit) balance is understated by the same amount that another account with a debit (credit) balance is overstated, the trial balance will show equal debit and credit totals.

BRIEF EXERCISES

Brief Exercise 2-1 (LO 2-1)

Proper order:

- (c) Use source documents to identify accounts affected by external transactions.
- (d) Analyze the impact of the transaction on the accounting equation.
- (b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
- (f) Record transactions using debits and credits.
- (a) Post the transaction to the T-account in the general ledger.
- (e) Prepare a trial balance.

Brief Exercise 2-2 (LO 2-2)

_	Assets	=	Liabilities	+ <u>Sto</u>	ckholders' Equity	Possible (Yes/No)
(a)	Increase (Cash ↑)	= (Ac	Decrease counts Payable	+ ↓)	No change	No
(b)	No change	= (Sa	Increase alaries Payable	+ ↑) (Se	Increase ervice Revenues ↑)	No
(c)	Decrease (Cash ↓)	=	No Change	+ (Adve	Decrease ertising Expense ↑)	Yes

Brief Exercise 2-3 (LO 2-2)

	Total Assets		Total Liabilities and <u>Stockho</u> lders' Equity
Cash	\$ 7,200	Accounts Payable	\$ 1,700
Supplies	2,100	Salaries Payable	4,300
Prepaid Rent	3,200	Notes Payable	18,000
Land	9,000	Stockholders' Equity	13,500
Equipment	16,000		
	\$37,500		\$ 37,500

Brief Exercise 2-4 (LO 2-6)

	Assets	_ =	Liabilities	_ +_	Stockholders' Equity
(a)	+\$50,000	=	\$0	+	+\$50,000
(b)	+\$42,000 -\$42,000	=	\$0	+	\$0
(c)	+\$35,000	=	+\$35,000	+	\$0
(d)	-\$5,000		<mark>\$0</mark>	+	-\$5,000

Brief Exercise 2-5 (LO 2-3)

Account	Debit	Credit
Asset	+	-
Liability	-	+
Common Stock	-	+
Retained Earnings	-	+
Dividends	+	-
Revenue	-	+
Expense	+	-

Brief Exercise 2-4 (LO 2-7)

Brief Exercise 2-6 (LO 2-3)

- (a) The balance of an *asset* account increases with a <u>debit</u> and decreases with a <u>credit</u>.
- (b) The balance of a *liability* account increases with a <u>credit</u> and decreases with a <u>debit</u>.
- (c) The balance of a stockholders' equity account increases with a <u>credit</u> and decreases with a <u>debit</u>.
- (d) The balance of a *revenue* account increases with a <u>credit</u> and decreases with a <u>debit</u>.
- (e) The balance of an *expense* account increases with a <u>debit</u> and decreases with a <u>credit</u>.

Brief Exercise 2-7 (LO 2-4)

(a)	DebitCredit
Equipment Notes Payable (Purchase equipment with note pe	15,000 15,000 ayable)
(b)	
Supplies Cash (Purchase office supplies for cash	600 600 1)
(c)	
Rent Expense Cash (Pay rent for the current month)	800 800

Brief Exercise 2-8 (LO 2-8)

(a)		Debit	Credit
Cash	Service Revenue (<i>Provide services for cash</i>)	17,000	17,000
(b)			
Prepa	id Insurance Cash (Purchase prepaid insurance with o	4,200 cash)	4,200
(c)			
Equip	oment Cash (Purchase equipment with cash)	20,000	20,000
(d)			
Cash	Notes Payable (Obtain bank loan)	30,000	30,000

Brief Exercise 2-9 (LO 2-5)

Cash		
13,000	8,200	
4,400	1,900	
3,500	5,500	
5,300		

- 2. Postings on the left side (or debit side) of the cash T-account represent increases to cash, such as receiving cash from customers, selling assets, borrowing money, and issuing stock.
- 3. Postings on the right side (or credit side) of the cash T-account represent decreases to cash, such as paying cash for rent, supplies, equipment, employee salaries, utilities, repayment of debt, and dividends.

1.

Brief Exercise 2-8 (LO 2-9) Brief Exercise 2-10 (LO 2-2, 2-3, 2-4, 2-5)

	Assets	_ =	Liabilities	_ +_	Stockholders'
(a)	+\$30,000	=	\$0	+	+\$30,000
(b)	+\$20,000	=	+\$20,000	+	\$0
(c)	- \$7,000	=	<u>\$0</u>	<u> + </u>	<u> </u>

(a)		 Debit	Credit
Cash		30,000	
	Service Revenue		30,000
	(Provide services for cash)		

(b)

Supplies 20,0)00
Accounts Payable	20,000
(Purchase office supplies on account)	

(c)

Salaries Expense7,000Cash7,000(Pay salaries for the current month)7,000

	Cash	<u>Service Reven</u> ue
(a)	0 30,000	$\begin{bmatrix} 0 \\ 30,000 & (a) \end{bmatrix}$
()	7,000	

Supplies	Accounts Pay <u>ab</u> le	<u>Salaries Expense</u>
0	0	0
(b) 20,000	(b)	(c) 7,000
20,000	(b)	7,000

Brief Exercise 2-11 (LO 2-6)

Accounts	Debit	Credit
Cash	\$ 6,100	
Accounts Receivable	4,400	
Prepaid Rent	900	
Accounts Payable		\$ 2,000
Salaries Payable		700
Common Stock		6,200
Retained Earnings		2,000
Dividends	500	
Service Revenue		7,100
Salaries Expense	3,000	
Rent Expense	2,000	
Advertising Expense	1,100	
Totals	\$ 18,000	\$ 18,000

Trial Balance

Brief Exercise 2-12 (LO 2-6)

Trial Balance

Accounts	Debit	Credit
Cash	\$ 7,300	
Accounts Receivable	2,100	
Equipment	10,400	
Accounts Payable		\$ 3,900
Deferred Revenue		1,100
Common Stock		11,000
Retained Earnings		3,900
Dividends	600	
Service Revenue		4,500
Salaries Expense	3,200	
Utilities Expense	800	
Totals	\$ 24,400	\$ 24,400
	· · ·	•

Brief Exercise 2-11 (LO 2-6) EXERCISES

Exercise 2-1 (LO 2-1)

- 1. d.
- 2. b.
- 3. а.
- 4. e.
- 5. c.

Exercise 2-2 (LO 2-2)

	Assets		Liabilities	<u>+</u>	Stockholders' Equit
1.	Increase	=	No effect	+	Increase
2.	Increase	=	Increase	+	No effect
3.	Increase	=	No effect	+	Increase
4.	Decrease	=	No effect	+	Decrease
5.	Decrease	=	No effect	+	Decrease
6.	No effect*	=	No effect	+	No effect

* One asset (cash) increases while another asset (accounts receivable) decreases.

Chapter 2 - Then Apren until By CAcker Dating Chael Pelioding the Period

Exercise 22-4 (LO 2-2)

Dual Effect

1. Issue 10,000 shares of common stock in exchange for \$32,000 in cash.	Assets increase	Stockholders' equity increases
2. Purchase land for \$19,000. A note payable is signed for the full amount.	Assets increase	Liabilities increase
 Purchase storage containers for \$8,000. 	•	ntainers) increases set (cash) decreases
4. Hire three employees for \$2,000 per month.		the accounting equation
5. Receive cash of \$12,000 in rental fees for the current month.	Assets increase	Stockholders' equity increases
 Purchase office supplies for \$2,000 on account. 	Assets increase	Liabilities increase
7. Pay employees \$6,000 for the first month's salaries.	Assets decrease	Stockholders' equity decreases

Exercise 2-4 (LO 2-2)

Dual Effect

1. Paint houses in the current month for \$15,000 on account.	Assets increase	Stockholders' equity increases
 Purchase painting equipment for \$16,000 cash. 		ipment) increases et (cash) decreases
3. Purchase office supplies on account for \$2,500.	Assets increase	Liabilities increase
4. Pay employee salaries of \$3,200 for the current month.	Assets decrease	Stockholders' equity decreases
5. Purchase advertising to appear in the current month, \$1,200.	Assets decrease	Stockholders' equity decreases
6. Pay office rent of \$4,400 for the current month.	Assets decrease	Stockholders' equity decreases
		eases and another ceivable) decreases

8. Receive cash of \$5,000 in advance Assets Liabilities from a customer that plans to have his increase increase house painted in the following month.

Exercise 2-5 (LO 2-

Transaction	Balance
Retained earnings, April 1	\$13,000
1. Issue common stock for cash, \$11,000	0
2. Provide services to customers on account, \$8,500.	+8,500
3. Provide services to customers in exchange for cash, \$3,200.	+3,200
4. Purchase equipment and pay cash, \$7,600.	0
5. Pay rent for April, \$1,100.	-1,100
6. Pay employee salaries for April, \$3,500.	-3,500
7. Pay dividends to stockholders, \$2,000.	
<u>2,000</u>	
Retained earnings, April 30	\$18,100

Exercise 2-6 (LO 2-3)

Debit or Credit	Account
1. Debit	Cash
2. Credit	Service Revenue
3. Debit	Salaries Expense
4. Credit	Accounts Payable
5. Debit	Equipment
6. <u>Credit</u>	Retained Earnings
7. Debit	Utilities Expense
8. Debit	Accounts Receivable
9. Debit	Dividends
10. <u>Credit</u>	Common Stock

Exercise 2-5 (LO 2-

Exercise 2-5 (LO 2-Exercise 2-7 (LO 2-3)

Account Debited	Account Credited
Equipment	Cash
Dividends	Cash
Prepaid Rent	Cash
Accounts Receivable	Service Revenue
Supplies	Accounts Payable
Salaries Expense	Cash
Cash	Common
Cash	Stock Accounts
	Receivable
Cash	Notes
	Payable
Utilities Expense	Cash
Accounts Payable	Cash
_	Debited Equipment Equipment Dividends Prepaid Rent Accounts Receivable Supplies Salaries Expense Cash Cash Utilities Expense Accounts

Exercise 2-8 (LO 2-

(1)	Debit	Credit
Equipment Cash (Purchase equipment with cash)	23,400	23,400
(2)		
Cash Service Revenue (Provide services for cash)	6,800	6,800
(3)		
Rent Expense Cash (Pay current month's rent)	1,300	1,300
(4)		
Supplies Accounts Payable (Purchase office suppliers on account	1,000	1,000
(5)		
Salaries Expense Cash (Pay current month's salaries)	2,100	2,100

Exercise 2-8 (LO 2-

Exercise 2-9 (LO 2-4)

- 1. Purchase equipment with cash, \$8,800.
- 2. Provide services to customers on account, \$3,200.
- 3. Pay current month's salaries, \$1,900.
- 4. Receive cash from customers in advance of services, \$1,500.
- 5. Pay dividends to stockholders, \$900.

Exercise 2-10 (LO 2-4)	Dahit	Cradit
<u>February 2</u> Advertising Expense Cash (Pay advertising for current month)	<u>Debit</u> 700	<u>Credit</u>
<u>February 7</u> Supplies Accounts Payable (Purchase beauty supplies on accourt	1,300 <i>nt</i>)	1,300
<u>February 14</u> Cash Service Revenue (Provide beauty services for cash)	2,900	2,900
<u>February 15</u> Salaries Expense Cash (Pay salaries for current month)	900	900
<u>February 25</u> Accounts Receivable Service Revenue (Provide beauty services on account)	1,000	1,000
<u>February 28</u> Utilities Expense Cash (Pay utilities for current month)	300	300

Exercise 2-10 (LO 2-4) Exercise 2-11 (LO 2-4)		
March 1	Debit	Credit
Cash Common Stock (Issue common stock)	21,000	21,000
<u>March 5</u> Cash Notes Payable (Obtain bank loan)	9,000	9,000
<u>March 10</u> Equipment Cash (Purchase construction equipment for	25,000 or cash)	25,000
<u>March 15</u> Advertising Expense Cash (Purchase advertising for current m	1,100	1,100
<u>March 22</u> Accounts Receivable Service Revenue (Provide construction services on ac	18,000	18,000
March 27 Cash Accounts Receivable (Receive cash on account)	13,000	13,000
<u>March 28</u> Salaries Expense Cash (Pay salaries for current month)	6,000	6,000

Exercise 2-20 (LO 2-4)

Corrections

	External Transaction	Accounts	Debit	Credit
1.	Owners invest \$15,000 in the company and receive common stock.	Cash Common Stock	15,000	15,000
2.	Receive cash of \$4,000 for services provided in the current period.	Cash Service Revenue	4,000	4,000
3.	Purchase office supplies on account, \$300.	Supplies Accounts Payable	300	300
4.	Pay \$600 for next month's rent.	Prepaid Rent Cash	600	600
5.	Purchase office equipment with cash of \$2,200.	Equipment Cash	2,200	2,200

Note: Accounts in blue are corrected items. Accounts in black need no correction.

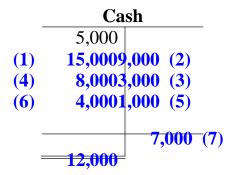
Exercise 2-21 (LO 2-4) Exercise 2-13 (LO 2-4)

Corrections

	External Transaction	Accounts	Debit	Credit
1.	Pay cash dividends of \$800 to stockholders.	Dividends Cash	800	800
2.	Provide services on account for customers, \$3,400	Accounts Receivable Service Revenue	3,400	3,400
3.	Pay a \$500 utilities bill for the current period.	Utilities Expense Cash	500	500
4.	Receive cash of \$400 from previously billed customers.	Cash Accounts Receivable	400	400
5.	Pay for supplies previously purchased on account, \$1,200.	Accounts Payable Cash	1,200	1,200

Note: Accounts in blue are corrected items. Accounts in black need no correction.

Exercise 2-14 (LO 2-5)



Transaction (8) is not posted to the Cash T-account because a purchase *on account* does not involve cash.

Exercise 2-15 (LO 2-5)

	Cash		Cash			Ac	counts R	eceivable	9
(3)	3,400 10,200	1,000	(4)	(1)	4,200 8,400	10,200	(3)		
(6)	1,100	3,700	(-,-)(5)	(1)	0,400	10,200	(3)		
	10,000				2,400				

	Supplies		
	400		
(2)_	2,300		
	2,700		

	Account	s Payable	
-		3,500	
(5)	3,700	2,300	(2)
-		2,100	

Deferred Revenue

300 1,100	(6)
1,400	

Service Revenue		
	0	
	8,400	(1)
	8,400	

	Adver Expe	0
	Ō	
(4)	1,000	
	1,000	

Exercise 2-16 (LO 2-5)

- 1. Provide services to customers for cash, \$20,000.
- 2. Provide services to customers on account, \$5,000.
- 3. Receive cash from customers on account, \$4,000.
- 4. Purchase supplies on account, \$6,000.
- 5. Pay employees for current salaries, \$14,000.
- 6. Pay cash on account, \$7,000.

Exercise 2-17 (LO 2-6)

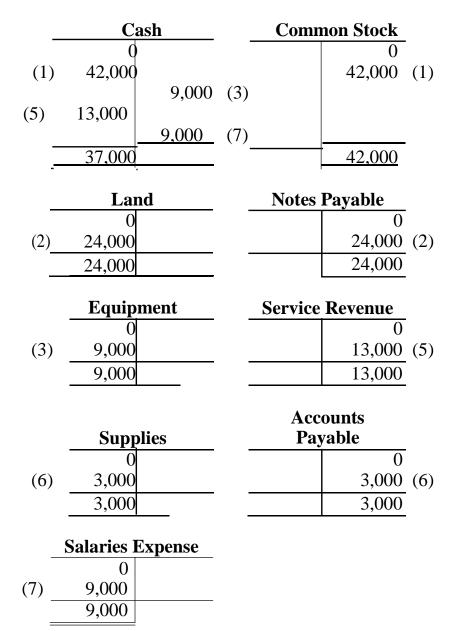
Sooner Company Trial Balance			
Арі	ril 30		
Accounts	Debit	Credit	
Cash	\$ 3,900		
Accounts Receivable	6,100		
Prepaid Rent	7,400		
Land	60,000		
Accounts Payable		\$ 4,300	
Deferred Revenue		2,300	
Common Stock		40,000	
Retained Earnings		23,000	
Service Revenue		25,400	
Supplies Expense	9,400		
Salaries Expense	8,200		
Totals	\$ 95,000	\$ 95,000	

Exercise 2-18 (LO 2-6)

Cobras Incorporated Trial Balance March 31			
Accounts	Debit	Credit	
Cash	\$ 3,500		
Accounts Receivable	4,200		
Supplies	1,000		
Prepaid Insurance	1,200		
Buildings	55,000		
Accounts Payable		\$ 2,200	
Salaries Payable		500	
Common Stock		35,000	
Retained Earnings		17,800	
Service Revenue		19,500	
Salaries Expense	6,400		
Utilities Expense	3,700		
Totals	\$ 75,000	\$ 75,000	

Exercise 2- Requirement	19 (LO 2-4, 2-5, 2-6)		
	nuary 1	Debit	Credit
Cash	Common Stock (Issue common stock)	42,000	42,000
<u>(2)</u> Ja	nuary <u>5</u>		
Land	Notes Payable (<i>Purchase land with note payable</i>)	24,000	24,000
<u>(3)</u> Ja	nuary 9		
Equip	oment Cash (Purchase storage containers)	9,000	9,000
<u>(4)</u> Jan	nuary 12		
No en	try		
<u>(5)</u> Jai	nuary 18		
Cash	Service Revenue (<i>Receive cash for current month's rent</i>	13,000	13,000
<u>(6)</u> Ja	<u>nuary 23</u>		
Supp	lies Accounts Payable (Purchase office supplies on account)	3,000	3,000
(7) Jai	nuary 31	_	
Salar	ies Expense Cash (Pay salaries for the current month)	9,000	9,000

Exercise 2-19 (continued) Requirement 2



Exercise 2-19 (concluded) Requirement 3

Green Wave Company Trial Balance

Debit	Credit
\$37,000	
3,000	
24,000	
9,000	
	\$ 3,000
	24,000
	42,000
	13,000
9,000	
\$82,000	\$ 82,000
	\$37,000 3,000 24,000 9,000 <u>9,000</u>

Exercise 2-20 (LO 2-4, 2-5, 2-6)

Requirement 1		
	Debit	Credit
Accounts Receivable Service Revenue (Provide painting on account) (2) September 8	20,000	20,000
Equipment Cash (Purchase painting equipment) (3) September 12	21,000	21,000
Supplies Accounts Payable (Purchase office supplies on account) (4) September 15	3,500	3,500
Salaries Expense Cash (Pay salaries for the current month) (5) September 19	4,200	4,200
Advertising Expense Cash (Pay advertising for the current month) (6) September 22	1,000	1,000
Rent Expense Cash (Pay rent for the current month) (7) September 26	5,400	5,400
Cash Accounts Receivable (Receive cash on account) (8) September 30	15,000	15,000
Cash Deferred Revenue (Receive cash in advance for painting)	6,000	6,000

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<i>Exercise 2-20 (c</i> Requirement 2	ontinued)				
Beg. (1)	Accounts Receivable 1,700 1,700 20,000 15,000		<u>Service</u> Reve	enue 0 Beg 0,000 (1)	5.
Beg.	<u> </u>	Beg.	Cash 26,100	<u>0.000</u> 	•
(2)	21,000			4,200 (4 1,000 (5	2) 4) 5) 6)
	28,400	(7) (8)	15,000 6,000 15,500		
Beg. (3)	Supplies 500 3,500 4,000	_		yable 1,200 Beg 3,500 (3) 4,700	<u>z</u> .
Beg. (4)	Salaries Expense 0 4,200 4,200	Beg. (5)	Advertising I 0 1,000 1,000	<u>Expense</u>	
Beg. (6)	Rent Expense 0 5,400 5,400			venue 0 Beg 5,000 (8) 5,000	5.
	Common Stock 25,000 Be	-eg. –	Retained Ea	9,500 Be	g.
	25,000			9,500	

Exercise 2-20 (concluded) Requirement 3

Boilermaker House Painting Company Trial Balance

Accounts	Debit	Credit
Cash	\$15,500	
Accounts Receivable	6,700	
Supplies	4,000	
Equipment	28,400	
Accounts Payable		\$ 4,700
Deferred Revenue		6,000
Common Stock		25,000
Retained Earnings		9,500
Service Revenue		20,000
Salaries Expense	4,200	
Advertising Expense	1,000	
Rent Expense	5,400	
Totals	\$65,200	\$ 65.200

PROBLEMS: SET A

Problem 2-1A (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash.	Increase	=	No effect	+	Increase
2. Purchase business supplies on account.	Increase	=	Increase	+	No effect
3. Pay for legal services for the current month.	Decrease	=	No effect	+	Decrease
4. Provide services to customers on account.	Increase	=	No effect	+	Increase
5. Pay employee salaries for the current month.	Decrease	=	No effect	+	Decrease
6. Provide services to customers for cash.	Increase	=	No effect	+	Increase
7. Pay for advertising for the current month.	Decrease	=	No effect	+	Decrease
8. Repay loan from the bank.	Decrease	=	Decrease	+	No effect
9. Pay dividends to stockholders.	Decrease	=	No effect	+	Decrease
10. Receive cash from customers in (4) above.	No effect*	=	No effect	+	No effect
11. Pay for supplies					
purchased in (2) above.	Decrease	=	Decrease	+	No effect

*One asset (cash) increases and another asset (accounts receivable) decreases

Solutions Manual, Chapter 2

Problem 2-2A (LO 2-2)

Transaction	Assets]	Liabilities	+ S	tockholders' Equity
1. Provide services to customers on account, \$1,600.	+\$1,600	=	\$0	+	+\$1,600
2. Pay \$400 for current		=		+	
month's rent.	-\$400		\$0		-\$400
 Hire a new employee, who will be paid \$500 at the end of each month. 	\$0	=	\$0	+	\$0
4. Pay \$100 for advertising aired in the current period.	-\$100	=	\$0	+	-\$100
5. Purchase office supplies	+ \$400		.		.
for cash. 6. Receive cash of \$1,000	-\$400	= \$0	\$0	+	\$0
from customers in (1)	+ \$1,000				
above.	-\$1,000	=	\$0	+	\$0
7. Obtain a loan from the bank for \$7,000.8. Receive a bill of \$200 for utility costs of the	+ \$7,000	=	+ \$7,000	+	\$0
for utility costs of the current period.	\$0	=	+\$200	+	-\$200
for \$10,000 cash.	+\$10,000	=	\$0	+	+\$10,000
(3) above.	- \$50 0	_ =	\$0	+	<u> </u>
Totals	<u>\$17,600</u>	=	\$7,200	- +	\$10,400

Problem 2-3A (LO 2-3)

<u>Acc</u> ounts	Type of Account	Normal Balance (Debit or Credit)
1. Salaries Payable	Liability	Credit
2. Common Stock	Stockholders' equity	Credit
3. Prepaid Rent	Asset	Debit
4. Buildings	Asset	Debit
5. Utilities Expense	Expense	Debit
6.Equipment	Asset	Debit
7.Rent Expense	Expense	Debit
8.Notes Payable	Liability	Credit
9. Salaries Expense	Expense	Debit
10. Insurance Expense	Expense	Debit
11. Cash	Asset	Debit
12. Service Revenue	Revenue	Credit

Problem 2-4A (LO 2-4)

nsactions for Jake's Lawn Maintena July 3		Credit
Accounts Receivable Service Revenue (Provide services on account) July 6	500	500
Repairs and Maintenance Expense Accounts Payable (Receive maintenance on account)	450	450
July 9 Cash Accounts Receivable (Receive cash on account)	500	500
July 14 Notes Receivable Cash (Loan cash by accepting note receivable)	600	600
<u>July 18</u> Advertising Expense Cash (Pay advertising for the current month) July 20	110	110
Accounts Payable Cash (Pay cash on account) July 27	450	450
No entry for Jake.		
<u>July 30</u>		
No entry for Jake.		
July 31 Cash Notes Receivable	600	600

Problem 2-5A (LO 2-2, 2-4)

Transactions for Luke's July 3	Debit	
	<u>500</u>	
Repairs and Maintenance Expense Accounts Payable	300	500
(Receive services on account)		300
July 6		
Accounts Receivable	450	
Service Revenue	730	45(
(Provide services on account)		
July 9		
Accounts Payable	500	
Cash	000	500
(Pay cash on account)		
July 14		
Cash	600	
Notes Payable		60
(Borrow by signing note payable)		
July 18		
No entry for Luke.		
July 20		
Cash	450	
Accounts Receivable		450
(Receive cash on account)		
July 27		
Cash	800	
Service Revenue		800
(Provide services for cash)		
July 30		
Salaries Expense	300	
Cash		300
(Pay salaries to employees)		
July 31		
Notes Payable	600	
Cash		60(
(Pay note payable)		

Problem 2-5A (concluded)

Jake	e's Lawn Ma	aintenan	ce Co	ompany		Ī	<u>.uke's Rep</u>	air	Shop
	Assets <u>= L</u> ia	bilities		cockholders' Equity	Assets	<u>=</u> <u>I</u>	Liabilities	+	Stockholders' Equity
<i>July 3</i> +	+\$500 =	\$0	+	+\$500	\$0		+\$500	+	-\$500
б	\$0 =	+\$450	+	-\$450	+\$450	=	\$0	+	+\$450
9	+\$ 500 = \$(0 + \$0 -	\$500)	-\$500	=	-\$500	+	\$0
14 -	+\$600 = \$ 0	+ \$0 -	-\$60()	+\$600	=	+\$600	+	\$0
18	-\$110 =	\$0	+ -	-\$110	\$0	=	\$0	+	\$0
20	-\$450 = -	-\$450	+	\$0	+\$450 -\$450	=	\$0	+	\$0
27	\$0 =	\$0	+	\$0	+\$800	=	\$0	+	+\$800
30	\$0 =	\$0	+	\$0	-\$300	=	\$0	+	-\$300
31	+\$600 = \$0	+ \$0 -	-\$60()	-\$600	=	-\$600	+	\$0

Problem 2-6A (LO 2-6)

Bruins Company Trial Balance November 30

Accounts	Debit	Credit
Cash	\$ 40,000	
Accounts Receivable	50,000	
Supplies	1,100	
Prepaid Rent	3,000	
Equipment	60,800	
Accounts Payable		\$ 17,000
Salaries Payable		5,000
Interest Payable		3,000
Deferred Revenue		9,000
Notes Payable		30,000
Common Stock		50,000
Retained Earnings		35,000
Dividends	1,100	
Service Revenue		65,000
Salaries Expense	30,000	
Rent Expense	12,000	
Interest Expense	3,000	
Supplies Expense	7,000	
Utilities Expense	6,000	
Totals	\$ 214,000	\$ 214,000

Problem 2-7A (LO 2-4, 2-5, 2-6) Requirement 1

Requirement 1		
Entries are numbered for posting.	D 1 · ~	
(1) <u>March 1</u>	DebitCre	edit
Cash	3,000	• • • •
Common Stock		3,000
(Issue common stock)		
(2) <u>March 3</u>		
Equipment	2,700	• = • •
Notes Payable		2,700
(Purchase sewing equipment with note pa	yable)	
(3) <u>March 5</u>		
Rent Expense	600	
Cash		600
(Pay rent for current month)		
March 7		
No entry		
(4) <u>March 12</u>		
Supplies	130	
Accounts Payable		130
(Purchase sewing supplies on account)		
(5) <u>March 15</u>		
Cash	800	
Service Revenue		800
(Provide services for cash)		
(6) <u>March 19</u>		
Cash	700	
Deferred Revenue		700
(<i>Receive cash in advance from customer</i>)		
(7) March 25		
Deferred Revenue	700	-
Service Revenue		700
(Provide services to customer)		
(8) <u>March 30</u>	~ -	
Utilities Expense	95	0.
Cash		95
(Pay utilities for current month)		
(9) <u>March 31</u>		
Dividends	150	1 50
Cash		150
(Pay dividends)		

Problem 2-7A (continued)

Requirements 2 and 3

Cash	Supplies	<u>Equipm</u> ent
(1) 3,000 600 (3)	(4) 130	(2) 2,700
(5) 800 95 (8)	130	2,700
<u>(6) 700 150 (9)</u>	·	
<u>3,655</u>	Accounts Payable	Deferred Revenue
	130 (4)	<u>(7) 700</u> 700 (6)
	130	0
<u>Notes Payable</u> 2,700 (2) 2,700	Common Stock	Dividends (9) 150 150
<u>Service Revenue</u> 800 (5) 700 (7)	<u>Rent Expense</u> (3) 600	Utilities Expense (8) 95
1,500	600	95

Problem 2-7A (concluded)

Requirement 4

Ute Sewing Shop Trial Balance March 31

Accounts	Debit	Credit
Cash	\$3,655	
Supplies	130	
Equipment	2,700	
Accounts Payable		\$ 130
Deferred Revenue		0
Notes Payable		2,700
Common Stock		3,000
Dividends	150	
Service Revenue		1,500
Rent Expense	600	
Utilities Expense	95	
Totals	\$7,330	\$ 7,330
	-	· · ·

Problem 2-8A (LO 2-4, 2-5, 2-6)		
Requirement 1		
Entries are numbered for posting.		
(1) Sep. 1	Debit	Credit
Cash	4,700	
Service Revenue	-,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	4,700
(Provide services for cash)		- ,
(2) <u>Sep. 2</u>		
Land	6,400	
Notes Payable	0,100	6,400
(Purchase land with note payable)		0,100
(3) <u>Sep. 4</u>		
Advertising Expense	500	
Accounts Payable	200	500
(Receive invoice for current advertising)	200
(4) Sep. 8)	
Accounts Receivable	6,000	
Service Revenue	0,000	6,000
(Provide services on account)		0,000
(5) Sep. 10		
Supplies	1,100	
	1,100	1 100
Accounts Payable		1,100
(Purchase supplies on account)		
(6) <u>Sep. 13</u>	1 000	
Notes Payable Cash	4,000	4 000
		4,000
(Pay note payable)		
(7) <u>Sep. 18</u> Cash	5 000	
	5,000	5 000
Accounts Receivable		5,000
(<i>Receive cash on account</i>)		
(8) <u>Sep. 20</u>	000	
Rent Expense	900	000
Cash		900
(Pay rent for current month)		
(9) <u>Sep. 30</u>	• • • • •	
Utilities Expense	2,000	• • • • •
Cash		2,000
(Pay utilities for current month)		

Problem 2-8A (continued)

(10) <u>Sep. 30</u> Salaries Expense	4,000	
Cash		4,000
(Pay salaries for current month)		
(11) <u>Sep. 30</u> Dividends	1,100	
Cash		1,100
(Pay dividends)		·

Problem 2-8A (continued)

Requirements 2 and 3

Cash	Accounts Receivable	<u>Supplies</u>
Bal. 6,500 4,000(6)	Bal. 2,500 5,000 (7)	Bal. 7,600
(1) 4,700 900(8)	(4) 6,000	(5) 1,100
(7) 5,000 2,000(9)		
4,000(10)		
<u>1,100(11)</u>		
4,200	3,500	8,700
Land	Accounts Pay <u>able</u>	Notes Payable
Bal. 11,200	7,500 Bal.	(6) 4,000 3,000 Bal.
(2) 6,400	500 (3)	6,400 (2)
	1,100 (5)	
<u> </u>	9,100	5,400
<u>Comm</u> on <u>Stock</u>	Retained Earnings	Dividends
9,000 Bal.	8,300 <u>Bal.</u>	(11) 1,100
9,000	8,300	1,100
· <u> </u>		
Service Revenue	Salaries Expense	Rent Expense
4,700 (1)	(10) 4,000	(8) 900
6,000 (4)	(10) 4,000	(8) 500
10,700	4,000	900
	· ·	
<u>Adverti</u> sin <u>g Expense</u>	<u> </u>	
(3) 500	(9) 2,000	
500	2,000	

Problem 2-8A (continued)

Requirement 4

Pirates Incorporated Trial Balance September 30

Debit	Credit
4,200	
3,500	
8,700	
17,600	
	\$ 9,100
	5,400
	9,000
	8,300
1,100	
	10,700
4,000	
900	
500	
2,000	
42,500	\$ 42,500
	3,500 8,700 17,600 1,100 4,000 900 500 2,000

Problem 2-9A (LO 2-4, 2-5, 2-6) Requirement 1		
Entries are numbered for posting.	Dahia	Cradit
(1) <u>December 1</u>	<u>Debit</u>	Credit
Rent Expense	900	000
Cash		900
(Pay rent for December)		
(2) <u>December 5</u>	• • • •	
Cash	2,800	
Service Revenue		2,800
(Provide services for cash)		
(3) <u>December 8</u>		
Cash	10,000	
Notes Payable		10,000
(Borrow by signing note payable)		,
(4) <u>December 12</u>		
Cash	3,500	
Accounts Receivable	0,000	3,500
(Receive cash from customers on ac	count)	5,500
(5) <u>December 13</u>	count)	
Cash	20,000	
Common Stock	20,000	20.000
		20,000
(Issue shares of common stock)		
(6) <u>December 15</u>	1 000	
Salaries Expense	1,200	1 000
Cash		1,200
(Pay salaries for December)		
(7) <u>December 17</u>		
Advertising Expense	1,000	
Cash		1,000
(Purchase advertising for December	r)	
(8) <u>December 22</u>		
Accounts Receivable	3,200	
Service Revenue		3,200
(Provide services on account)		
December 23		
No journal entry required		

Problem 2-9A (continued)

(9) <u>December 26</u> Equipment Cash	28,500	28,500
(Purchase equipment) (10) December 28 Accounts Payable Cash (Pay cash on account)	1,500	1,500
(11) <u>December 31</u> Dividends Cash (Pay dividends)	2,000	2,000

Problem 2-9A (continued)

Requirements 2 and 3

Bal. 9,200h 900 (1) (2) 2,800 1,200 (6) (3)10,000 1,000 (7) (4) 3,500 28,500 (9) (5) 20,000 1,500 (10)	<u>A & &</u>	<u>Prepaid Insurance</u> Bal. 400
<u> </u>	4,200	400
<u>Equipm</u> ent Bal. 24,100 (9) 28,500	Land Bal. 170,000	Accounts Payable (10) 1,500 3,300 Bal.
52,600	170,000	1,800
<u>N</u> otes Payable	Common Stock	Retaine <u>d Earnings</u>
50,000 Bal.	120,000 Bal.	14,100 Bal.
10,000 (3)	20,000 (5)	
60,000	140,000	14,100
Dividends	Service Revenue	Advertising Expense
Bal. 5,000	75,000 Bal. 2,800 (2)	Bal. 11,000 (7) 1,000
(11) 2,000	3,200 (8) 81,000	12,000
	,	

Salaries Expense	<u> </u>
Bal. 28,300	Bal. 9,900
(6) 1,200	(1) 900
29,500	10,800

Problem 2-9A (continued)

Requirement 4

RiverHawk Expeditions Trial Balance December 31

Accounts	Debit	Credit
Cash	\$ 10,400	
Accounts Receivable	4,200	
Prepaid Insurance	400	
Equipment	52,600	
Land	170,000	
Accounts Payable		\$ 1,800
Notes Payable		60,000
Common Stock		140,000
Retained Earnings		14,100
Dividends	7,000	
Service Revenue		81,000
Advertising Expense	12,000	
Salaries Expense	29,500	
Rent Expense	10,800	
Totals	<u>\$ 296,900</u>	<u>\$296,900</u>

PROBLEMS: SET B

Problem 2-1B (LO 2-2)

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*One asset (machine) increases and another asset (cash) decreases

Problem 2-50B (LO 2-

Transaction	Assets	_	Liabilities	+	Stockholders' Equity
1. Issue common stock in	+\$15,000)	<u>\$0</u>	 +	+\$15,000
exchange for cash, \$15,000.			7 -		
2. Obtain a loan from the bank for \$9,000.	+ \$9,000	=	+ \$9,000	+	\$0
3. Receive cash of \$1,200 in advance from customers.	+\$1,200	=	+ \$1,200	+	\$0
4. Purchase supplies on account \$2,400.	+\$2,400	=	+ \$2,400	+	\$0
5. Pay one year of rent in	+\$12,000	=	\$0	+	\$0
advance, \$12,000.	_\$12 000				·
6. Provide services to customers on account, \$3,000.	+\$3,000	=	\$0	+	+\$3,000
7. Repay \$4,000 of the loan in (2) above.	-\$4,000	=	-\$4,000	+	\$0
8. Pay full amount for supplies purchased in (4) above.	-\$2,400	=	-\$2,400	+	\$0
9. Provide services to customers in (3) above.	\$0	=	-\$1,200	+	+\$1,200
10. Pay cash dividends of \$1,000 to stockholders.	-\$1,000	=	\$0	+	-\$1,000
Totals	\$23,200	=	\$5,000	_ +	\$18,200

Problem 2-51B (LO 2-Problem 2-3B (LO 2-3)

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Supplies	Asset	Debit
2. Advertising Expense	Expense	Debit
3. Prepaid Insurance	Asset	Debit
4. Supplies Expense	Expense	Debit
5. Accounts Payable	Liability	Credit
6. Equipment	Asset	Debit
7. Dividends	Dividends	Debit
8. Accounts Receivable	Asset	Debit
9. Retained Earnings	Stockholders' equity	Credit
10. Deferred Revenue	Liability	Credit
11. Service Revenue	Revenue	Credit
12. Utilities Payable	Liability	Credit

Problem 2-4B (LO 2-4)

Transactions for Eli's Insura	nce Se Debit	rvices Credit
·		Clean
Cash Deferred Revenue (Receive cash in advance from custome May 5	300 r)	300
Repairs and Maintenance Expense Accounts Payable (Receive maintenance services on accound May 7	425 unt)	425
Cash Notes Payable (Receive cash and sign note payable) May 14 No entry for Eli.	500	500
<u>May 19</u> Accounts Payable Cash (Pay cash on account) <u>May 25</u>	425	425
Utilities Expense Cash (Pay utilities for the current month) May 28	135	135
Deferred Revenue Service Revenue (Provide service previously paid) May 31	300	300
Notes Payable Cash (Pay cash on note payable)	500	500

Problem 2-5B (LO 2-2, 2-4)

Transactions for Olivia's Maintena	nce Se	ervices
<u>May 2</u>	Debit	Credit
Prepaid Insurance Cash (Pay for insurance services in advance) May 5	300	300
Accounts Receivable Service Revenue (Provide services on account) May 7	425	425
Notes Receivable Cash (Loan cash and issue note receivable) May 14	500	500
Supplies Cash (Purchase maintenance supplies with can May 19	200 sh)	200
Cash Accounts Receivable (Receive cash on account) May 25	425	425
No entry for Olivia. <u>May 28</u>		
Insurance Expense Prepaid Insurance (Received services paid in advance) May 31	300	300
Cash Notes Receivable (Receive cash on note receivable)	500	500

Problem 2-5B (concluded)

Eli's Insurance Services

Olivia's Maintenance Services

		• •	<u>∠</u> iabilities +\$300	<u>+</u>	Stockholders' Equity \$0	Asset <u>s</u> +\$300 -\$300		Liabilit <u>i</u> e \$0	<u>s +</u> +	Stockholders' Equity \$0
5	\$0	=	+\$425	+	-\$425	+\$425	5 =	\$0	+	+\$425
7	+\$500	=	+\$500	+	\$0	+\$500 -\$500	=	\$0	+	\$0
14	\$0	=	\$0	+	\$0	+\$200 -\$200	=	\$0	+	\$0
19	-\$425	=	-\$425	+	\$0	+\$425 -\$425	=	\$0	+	\$0
25	-\$135	=	\$0	+	-\$135	\$0	=	\$0	+	\$0
28	\$0	=	-\$300	+	+\$300	-\$300	=	\$0	+	-\$300
31	-\$500	=	-\$500	+	\$0	+\$500 -\$500	=	\$0	+	\$0

Problem 2-6B (LO 2-6)

Ducks Company Trial Balance September 30

Accounts	Debit	Credit
Cash	\$ 25,000	
Accounts Receivable	14,000	
Supplies	7,000	
Prepaid Insurance	5,000	
Equipment	28,000	
Accounts Payable		\$ 7,000
Salaries Payable		4,000
Utilities Payable		1,100
Deferred Revenue		9,000
Common Stock		29,000
Retained Earnings		13,000
Dividends	4,000	
Service Revenue		55,100
Salaries Expense	9,000	
Insurance Expense	8,000	
Advertising Expense	1,100	
Supplies Expense	10,000	
Entertainment Expense	6,000	
Utilities Expense	1,100	
Totals	<u>\$ 118,200</u>	<u>\$118,200</u>
		•

Problem 2-7B (LO 2-4, 2-5, 2-6) Requirement 1

Requirement 1		
Entries are numbered for posting.		
(1) June 1	Debit	Credit
Cash	70,000	
Notes Payable		70,000
(Obtain loan from bank)		
(2) June 2		
Cash	40,000	
Common Stock		40,000
(Issue common stock)		
(3) <u>June 7</u>		
Equipment	75,000	
Cash		75,000
(Purchase equipment)		
(4) <u>June 10</u>	0.000	
Supplies	8,000	0.000
Accounts Payable		8,000
(Purchase cleaning supplies on acco	unt)	
$(5) \underline{\text{June 12}}$	5 000	
Cash	5,000	= 000
Service Revenue		5,000
(Provide car washes for cash)		
(6) June 16	000	
Salaries Expense Cash	900	900
		900
(Pay salaries to employees) (7) June 19		
Advertising Expense	500	
Cash	500	500
(Pay for current advertising)		200
(8) June 23		
Accounts Receivable	6,000	
Service Revenue	0,000	6,000
(Provide car washes on account)		3,000

Problem 2-7B (continued)		
(9) June 29		
Salaries Expense	950	
Cash		950
(Pay salaries to employees)		
(10) June 30		
Utilities Expense	1,400	
Cash		1,400
(Pay current utility bill)		
(11) <u>June 30</u>		
Dividends	600	
Cash		600
(Pay dividends to stockholders)		

Problem 2-7B (continued)

Requirements 2 and 3

Accounts Receivable	Supplies
(8) 6,000 <u>6,00</u> 0	(4) 8,000 <u>8,00</u> 0
Equipment	Accounts Payable
(3) 75,000	8,000 (4)
75,000	8,000
Common Stock	Dividends
40,000 (2)	(11) 600
40,000 <u>Salaries Expense</u> (6) 900 (9) 950 <u>1.850</u>	600 <u>Advertising Expense</u> (7) 500 <u>500</u>
	(8) 6,000 6,000 Equipment (3) 75,000 75,000 75,000 (3) 75,000 (3) 75,000 (3) 75,000 (3) 75,000 (3) 75,000 (40,000 (2) 40,000 (2) 40,000 (2) (6) 900 (9) 950

Utilities	Expense

(10) 1,4	00
1,4	00

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Problem 2-7B (concluded)

Requirement 4

Salukis Car Cleaning Trial Balance June 30

Accounts	Debit	Credit
Cash	\$ 35,650	
Accounts Receivable	6,000	
Supplies	8,000	
Equipment	75,000	
Accounts Payable		\$ 8,000
Notes Payable		70,000
Common Stock		40,000
Dividends	600	
Service Revenue		11,000
Salaries Expense	1,850	
Advertising Expense	500	
Utilities Expense	1,400	
Totals	<u>\$ 129,000</u>	<u>\$129,000</u>

Problem 2-8B (LO 2-4, 2-5, 2-6) Requirement 1

Requirement 1		
Entries are numbered for posting.		
(1) <u>Nov. 1</u>	Debit	t Credit
Cash	13,000	
Common Stock		13,000
(Issue common stock)		
(2) <u>Nov. 2</u>		
Equipment	3,500	
Notes Payable		3,500
(Purchase equipment with note payal	ble)	
(3) <u>Nov. 4</u>		
Supplies	1,000	
Accounts Payable		1,000
(Purchase supplies on account)		
(4) <u>Nov. 10</u>		
Accounts Receivable	9,000	
Service Revenue		9,000
(Provide services on account)		
(5) <u>Nov. 15</u>		
Accounts Payable	1,100	
Cash		1,100
(Pay cash on account)		
(6) Nov. 20		
Salaries Expense	3,000	
Cash	- ,	3,000
(Pay current salaries)		-)
(7) <u>Nov. 22</u>		
Cash	11,000	
Service Revenue		11,000
(Provide services for cash)		,
(8) <u>Nov. 24</u>		
Notes Payable	1,400	
Cash	-,	1,400
(Pay note payable)		_,
(9) <u>Nov. 26</u>		
Cash	7,000	
Accounts receivable	,	7,000
(Receive cash on account)		,

Problem 2-8B (continued) (10) Nov. 28		
Utilities Expense	1,100	
Cash		1,100
(Pay utilities for current month)		
(11) <u>Nov. 30</u>		
Rent Expense	5,000	
Cash		5,000
(Pay rent for current month)		

Problem 2-8B (continued)

Requirements 2 and 3

Cash	<u>Accounts</u> Receivable	<u> </u>
Bal. 3,200 1,100 (5)	Bal. 600 7,000 (9)	Bal. 700
(1) 13,000 3,000 (6)	(4) 9,000	(3) 1,000
(7) 11,000 1,400 (8)		
(9) 7,000 1,100 (10)		
_ 5,000 <u>(11)</u>		
22,600	2,600	1,700
Equipment	Accounts Payable	Notes P <u>ayable</u>
Bal. 9,400	2,000 Bal.	(8) 1,400 4,000 Bal.
(2) 3,500	(5)1,100 <u>1,000 (3)</u>	3,500 (2)
12,900	1,900	6,100
Common Stock 7,000 Bal. 13,000 (1) 20,000	Retained <u>Earnings</u> 900 Bal. 900	Service <u>Revenue</u> 9,000 (4) 11,000 (7) 20,000
Salaries Expens <u>e</u> (6) 3,000 3,000	<u>Utilities Expense</u> (10) 1,100 1,100	Rent Expense (11) 5,000 5,000

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Problem 2-8B (continued)

Requirement 4

Buckeye Incorporated Trial Balance November 30

Accounts	Debit	Credit
Cash	\$22,600	
Accounts Receivable	2,600	
Supplies	1,700	
Equipment	12,900	
Accounts Payable		\$ 1,900
Notes Payable		6,100
Common Stock		20,000
Retained Earnings		900
Service Revenue		20,000
Salaries Expense	3,000	
Utilities Expense	1,100	
Rent Expense	5,000	
Totals	\$48,900	\$ 48,900
	•	• • •

Problem 2-9B (LO 2-4, 2-5, 2-6)

Description of A		
Requirement 1		
Entries are numbered for posting.	5.11	~
(1) <u>December 1-31</u>		Credit
Cash	27,400	
Service Revenue		27,400
(Provide services for cash))	
(2) <u>December 4</u>		
Supplies	2,900	
Accounts Payable		2,900
(Purchase supplies on acc	ount)	
(3) December 8		
Advertising Expense	3,200	
Cash	,	3,200
(Purchase advertising for L	December	
(4) <u>December 9</u>		/
Accounts Payable	2,900	
Cash	_,> 0 0	2,900
(Pay cash on account)		_, >00
(5) <u>December 12</u>		
Cash	5,000	
Common Stock	2,000	5,000
(Issue shares of common s	tock)	5,000
(6) December 16	10CK)	
Accounts Payable	6,300	
Cash	0,000	6,300
(Pay cash on account)		-)
(1 u v cush on u ccount)		
· · · · · · · · · · · · · · · · · · ·		
(7) December 19	7,700	
(7) <u>December 19</u> Equipment	7,700	7.700
(7) <u>December 19</u> Equipment Cash	7,700	7,700
(7) <u>December 19</u> Equipment Cash (Purchase equipment)	7,700	7,700
 (7) <u>December 19</u> Equipment Cash (Purchase equipment) (8) <u>December 22</u> 		7,700
 (7) <u>December 19</u> Equipment Cash (Purchase equipment) (8) <u>December 22</u> Utilities Expense 	7,700 4,500	
 (7) <u>December 19</u> Equipment Cash (Purchase equipment) (8) <u>December 22</u> Utilities Expense Cash 	4,500	7,700 4,500
 (7) <u>December 19</u> Equipment Cash (Purchase equipment) (8) <u>December 22</u> Utilities Expense Cash (Pay utilities for current methods) 	4,500	
 (7) <u>December 19</u> Equipment Cash (Purchase equipment) (8) <u>December 22</u> Utilities Expense Cash (Pay utilities for current medication) (9) <u>December 24</u> 	4,500 wonth)	
 (7) <u>December 19</u> Equipment Cash (Purchase equipment) (8) <u>December 22</u> Utilities Expense Cash (Pay utilities for current mediation) (9) <u>December 24</u> Cash 	4,500	4,500
 (7) <u>December 19</u> Equipment Cash (Purchase equipment) (8) <u>December 22</u> Utilities Expense Cash (Pay utilities for current mediation) (9) <u>December 24</u> 	4,500 bonth) 2,300	4,500 2,300

Problem 2-9B (continued) <u>December 27</u> No journal entry is required

(10) <u>December 30</u>		
Salaries Expense	7,000	
Cash		7,000
(Pay salaries for December)		
(11) <u>December 31</u>		
Dividends	3,000	
Cash		3,000
(Pay dividends)		

Problem 2-9B (continued)

Requirements 2 and 3

Cash	<u>Supplie</u> s	Prepaid <u>Rent</u>
Bal. 19,400 3,200 (3)	Bal. 1,500	Bal. 7,200
(1) 27,400 2,900 (4)	(2) 2,900	
(5) 5,000 6,300 (6)		
(9) 2,300 7,700 (7)		
4,500 (8)		
7,000 (10)		
<u> </u>		
<u>19,500</u>	4,400	7,200
	יווי ת	
Equipment	Buildings	Accounts <u>Payable</u>
Bal. 83,700	Bal. 240,000	(4) 2,900 9,800 Bal.
<u>(7) 7,700</u>	240.000	<u>(6) 6,300</u> <u>2,900 (2)</u>
<u>91,400</u>	240,000	3,500
Deferred Revenue	Common Stock	Retained Earnings
2,000 Bal.	125,000 Bal.	75,500 Bal.
2,300 (9)	5,000 (5)	
4,300	130,000	75,500
<u>Dividends</u>	Service Revenue	<u>Salaries E</u> xpense
Bal. 9,000	264,000 Bal.	Bal. 65,000
(11) 3,000	27,400 (1)	<u>(10) 7,000</u>
12,000	291,400	<u> </u>

Advertising Expense	<u>Utilities</u> Expense
Bal. 18,200	Bal. 32,300
(3) 3,200	(8) 4,500
<u>21,400</u>	36,800

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Problem 2-9B (continued)

Requirement 4

Thunder Cat Services Trial Balance December 31

Accounts	Debit	Credit
Cash	\$ 19,500	
Supplies	4,400	
Prepaid Rent	7,200	
Equipment	91,400	
Buildings	240,000	
Accounts Payable		\$ 3,500
Deferred Revenue		4,300
Common Stock		130,000
Retained Earnings		75,500
Dividends	12,000	
Service Revenue		291,400
Salaries Expense	72,000	
Advertising Expense	21,400	
Utilities Expense	36,800	
Totals	<u>\$ 504,700</u>	<u>\$504,700</u>

ADDITIONAL PERSPECTIVES

Additional Perspective 2-1

Requirement 1

Entries are numbered for posting.		
(1) July 1, 2018	Debit	Credit
	10,000	
Common Stock	;	10,000
(Issue common stock to Suzie)		,
(2) July 1, 2018		
Cash	10,000	
Common Stock		10,000
(Issue common stock to Tony)		
(3) July 1, 2018		
Prepaid Insurance	4,800	
Cash		4,800
(Purchase one-year insurance policy)		
(4) July 2, 2018		
Legal Fees Expense	1,500	
Cash		1,500
(Pay legal fees for incorporation)		
(5) July 4, 2018	1 0 0 0	
Supplies (Office)	1,800	1 0 0 0
Accounts Payable		1,800
(Purchase office supplies on account)		
(6) July 7, 2018	200	
Advertising Expense	300	200
Cash (Bay each for a duartising)		300
(Pay cash for advertising)		
(7) July 8, 2018	12 000	
Equipment (Bikes) Cash	12,000	12 000
(Pay cash for mountain bikes)		12,000
(8) July 15, 2018		
Cash	2,000	
Service Revenue	2,000	2,000
(Receive cash for mountain bike clinic))	<i>4</i> ,000
(Acceive cush for mountain blke clinic)	1	

Additional Perspective 2-1 (continued) Requirement 1 (concluded)

(9)Jul <u>y 22, 2018</u> Cash Service Revenue (Receive cash for mountain bike clinic)	2,300	2,300
(10) July 24, 2018 Advertising Expense Cash (Pay cash for advertising)	700	700
(11) <u>July 30, 2018</u> Cash Deferred Revenue (Receive cash in advance for kayak clin	4,000 nic)	4,000

Additional Perspective P2-1 (continued)

Requirement 2

<u>Ca</u> sh	Prepaid Insura	nce Supplies
(1) 10,000 4,800	(3) (3) 4,800	(5) 1,800
(2) 10,000 1,500	(4) 4,800	1,800
(8) 2,000 300	(6)	·
(9) 2,300 12,000	(7)	
(11) 4,000 700	(10)	
9,000	Equipment	<u>Accounts</u> Payable
	(7) 12,000	1,800 (5)
	12,000	1,800

<u>Deferre</u> d Revenue	Common Stock	Service Revenue
4,000 (11)	10,000 (1)	2,000 (8)
4,000	10,000 (2)	2,300 (9)
·	20,000	4,300

Advertising Expense	Legal Fees Expense	
(6) 300	(4) 1,500	
<u>(10)</u> 700	1,500	
1,000		

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Additional Perspective 2-1 (concluded)

Requirement 3

Great Adventures, Inc. Trial Balance July 31, 2018

Accounts	Debit	Credit
Cash	\$ 9,000	
Prepaid Insurance	4,800	
Supplies	1,800	
Equipment	12,000	
Accounts Payable		\$ 1,800
Deferred Revenue		4,000
Common Stock		20,000
Service Revenue		4,300
Advertising Expense	1,000	
Legal Fees expense	1,500	
Totals	\$ 30,100	\$ 30,100
Deferred Revenue Common Stock Service Revenue Advertising Expense Legal Fees expense	1,500	4,000 20,000 4,300

Additional Perspective 2-

Requirement 1

Percentage change in total assets = (\$1,696,908 - \$1,694,164) / \$1,694,164 = 0.16%

Percentage change in net sales = (\$3,282,867 - \$3,305,802) / \$3,305,802 = -0.69%

The company is getting larger by asset size in a very small amount and sales are declining. The company may be changing its strategy.

Requirement 2

Percentage change in net income = (\$80,322 - \$82,983) / \$82,983 = -3.207%

Profitability has declined, but a quick review of the income statement shows that there was a negative effect on net income from a non-recurring loss on discontinued operations. Net income from continuing operations increased by 7%. Further reading of the annual report shows that the company had eliminated its children's division. This would support the suggestion in Requirement 1 above that the company may be changing its strategy to align its sales approach without those products.

Requirement 3

Based on the statement of stockholders' equity, American Eagle did not issue common stock in the most recent year.

Requirement 4

The terms "debit" and "credit" are not shown in the balance sheet. Asset accounts, such as cash, merchandise inventory, accounts receivable, and property and equipment, increase with a debit. Liability accounts, such as accounts payable, accrued rent, and other liabilities, increase with a credit. Stockholders' equity accounts, such as common stock and retained earnings, also increase with a credit.

Requirement 5

The terms "debit" and "credit" are not shown in the income statement. Expense accounts, such as cost of sales and selling, general, and administrative expenses, increase with a debit. Revenue accounts, such as net revenue, increase with a credit.

Additional Perspective 2-Additional Perspective 2-3

Requirement 1

Percentage change in total assets = (\$542,993 - \$546,293) / \$546,293 = -0.60%

Percentage change in net sales = (\$1,153,142 - \$1,128,001) / \$1,128,001 = 2.23%

The company is getting minimally smaller by asset size but sales are growing. The company may be using its assets more efficiently.

Requirement 2

Percentage change in net income = (\$162,564 - \$162,584) / \$162,584 = -0.01%

Since Sales have increased and net income has decreased slightly, expenses have not been maintained at a stable level. A quick look at the income statement shows that the increase in selling expenses may have been a strategy to push the increase in sales. In addition, General and administrative expenses have increased by 6.8%.

Requirement 3

Based on the statement of stockholders' equity, The Buckle did issue a small amount of common stock in the most recent year.

Requirement 4

The terms "debit" and "credit" are not shown in the balance sheet. Asset accounts, such as cash, inventory, accounts receivable, and property and equipment, increase with a debit. Liability accounts, such as accounts payable, accrued employee compensation, and income taxes payable, increase with a credit. Stockholders' equity accounts, such as common stock and retained earnings, also increase with a credit.

Requirement 5

The terms "debit" and "credit" are not shown in the income statement. Expense accounts, such as cost of sales and selling, general, and administrative expenses, increase with a debit. Revenue accounts, such as net sales, increase with a credit.

Additional Perspective 2-Additional Perspective 2-

Buckle has a higher decline in terms of total assets, but greater growth in net sales. One reason for Buckle's growth could relate to the increase in selling expenses to drive an increase in sales. American Eagle, though with a slight decline in net sales, has a much larger increase in net income from continuing operations after having changed its business strategy by removing its children's business.



Additional Perspective 2-Additional Perspective 2-

What is the issue?

Larry should understand that if he reports the additional \$75,000 of revenue, the company will no longer report a loss, but a profit of \$25,000 (ignoring any tax effects). Thus, the company's financial strength will be overstated.

Who are the parties affected?

Robert, the company's president, benefits from false reporting by maintaining the company's profitable appearance. The incentives could be income bonus plans, a desire to please stockholders, meeting analysts' earnings forecasts for the company, or maintaining good standing with creditors. Larry benefits from false reporting by keeping his friendship with Robert, keeping his job for the longer-term, and getting a free dinner tonight. However, if the false reporting is discovered by authorities, both parties face legal penalties and suffer reputational damage.

What factors should Larry consider in making his decision?

As the accountant, Larry should understand that his responsibilities are to accurately record and report the company's activities. Larry must be aware that Robert may have incentives for falsely reporting to Larry about the additional revenue. Without source documents, an important step in the measurement process, Larry should not record any transactions.

Additiontdifferspective 2-

(Note to instructor: Answers are based on items in Apple's September 27, 2014 annual report. Dollar amounts are in millions)

Requirement 1

Accounts receivable = 17,460. The accounts receivable account represents the amount owed to Apple by its customers.

Requirement 2

Accounts payable = 30,196. The accounts payable account represents the amount owed by Apple to its suppliers.

Requirement 3

Accrued expenses could include income taxes payable, salaries payable, interest payable, and rent payable.

Requirement 4

Common stock (including additional paid-in capital) = \$23,313. The common stock account represents capital contributed to the company by stockholders.

Requirement 5

Assets (\$231,839) = Liabilities (\$120,292) + Stockholders' equity (\$111,547)

Requirement 6

Net sales = \$182,795. The period of net sales is for the year ended September 27, 2014.

Requirement 7

Expenses include cost of sales; research and development; selling, general, and administrative; and provision for income taxes.

Requirement 8

Yes, the company's revenues exceed expenses. The difference is net income (\$39,510).

Additiontdifferspective 2-

For transaction (a):

- Step 1. Analyze customer invoice.
- Step 2. Determine assets increase and stockholders' equity increases (and revenues increase).
- Step 3. Increase assets with a debit and increase revenues with a credit.

Step 4. Accounts Receivable

nts Receivable 500 Service Revenue 500

(Provide services on account)

For transaction (b):

Step 1. Analyze employee paycheck.

Cash

- Step 2. Determine assets decrease and stockholders' equity decreases (and expenses increase).
- Step 3. Decrease assets with a credit and increase expenses with a debit.
- Step 4. Salaries Expense

1,200 1,200

(Pay salary for the current month)

For transaction (c):

- Step 1. Analyze purchase receipt for equipment.
- Step 2. Determine one asset increases and another asset decreases.
- Step 3. Increase assets with a debit and decrease assets with a credit.
- Step 4. Equipment 2,700 Cash 2,7

(*Purchase office equipment*)

2,700

Step 5. All transactions are posted to the general ledger accounts.

Step 6. A trial balance is prepared using the balance of each general ledger account. Total debits should equal total credits in the trial balance.