# Solution Manual for Financial Accounting 4th Edition by Spiceland Thomas Herrmann ISBN 12593079569781259307959 

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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)
$\frac{\text { Assets }}{\text { Increase }}=\frac{\text { Liabilities }}{\text { Increase }}+\frac{+}{\text { Stockholders' equity }}$
(b) Decrease $=$ No change + Decrease
(c) Increase $=$ No change + Increase
(d) No change* $=$ No change $+\quad$ No change

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

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.

## 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 $\quad$ Debit Credit

## Account Name <br> 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)

Cash

| $\frac{\text { Debit }}{1,200} \xrightarrow{\text { Credit }}$ |
| :--- |

Service Revenue
(Receive cash from providing services)

Rent Expense
Cash

| $\frac{\text { Debit }}{500}$ | Credit |
| :---: | :---: |
|  | 500 |

(c)

Building
Notes Payable Debit Credit
(Purchase building with note payable)

## 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)

$\frac{\text { Supplies }}{20,000} \ldots$| Cash |
| :--- |
| 20,000 |

(b) Accounts

(c) Accounts Payable


## 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 | + Stockholders' Equity |
| :--- | :--- | :--- | :--- | :--- | | Possible |
| :---: |
| (Yes/No) |

Brief Exercise 2-3 (LO 2-2)

Total Assets
Cash
Supplies
Prepaid Rent
Land
Equipment
\$ 7,200
2,100
3,200

9,000 Stockholders' Equity


Total Liabilities and Stockholders' Equity \$ 1,700

4,300
18,000
13,500

## Brief Exercise 2-4 (LO 2-6)

|  | Assets | = | Liabilities | + Stockholders' Equity |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| (a) | +\$50,000 | = | \$0 | + | +\$50,000 |
| (b) | $\begin{aligned} & +\$ 42,000 \\ & -\$ 42,000 \end{aligned}$ | = | \$0 | + | \$0 |
| (c) | +\$35,000 | $=$ | +\$35,000 | + | \$0 |
| (d) | -\$5,000 | = | \$0 | $\pm$ | -\$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 debit and decreases with a credit.
(b) The balance of a liability account increases with a credit and decreases with a debit.
(c) The balance of a stockholders' equity account increases with a credit and decreases with a debit.
(d) The balance of a revenue account increases with a credit and decreases with a debit.
(e) The balance of an expense account increases with a debit and decreases with a credit.

Brief Exercise 2-7 (LO 2-4)
(a)

DebitCredit
Equipment
15,000
Notes Payable
15,000
(Purchase equipment with note payable)
(b)

Supplies
600
Cash
600
(Purchase office supplies for cash)
(c)

| Rent Expense <br> Cash <br> (Pay rent for the current month) | $\mathbf{8 0 0}$ | $\mathbf{8 0 0}$ |
| :--- | :---: | :---: |
|  |  |  |

## Brief Exercise 2-8 (LO 2-8)

(a)

Cash
Service Revenue
(Provide services for cash)
$\qquad$
17,000
17,000
(b)
Prepaid Insurance
4,200

## Cash

4,200
(Purchase prepaid insurance with cash)
(c)

Equipment
20,000
Cash
(Purchase equipment with cash)
(d)

Cash
30,000
Notes Payable
30,000
(Obtain bank loan)

Brief Exercise 2-9 (LO 2-5)
1.

| Cash |  |
| ---: | ---: |
| 13,000 | 8,200 |
| 4,400 | 1,900 |
| 3,500 | 5,500 |
| $\mathbf{5 , 3 0 0}$ |  |

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.

## Brief Exercise 2-8(LiO 29) ${ }^{9}$ (LO 2-2, 2-3, 2-4, 2-5)

| Assets = Liabilities |  | Stockholders' Equity |  |
| :---: | :---: | :---: | :---: |
| (a) | +\$30,000 = \$0 |  | +\$30,000 |
| (b) | +\$20,000 = +\$20,000 | + | \$0 |
| (c) | $-\$ 7,000=-\$ 0$ | $+$ | -\$7,000 |
| (a) |  | Debit | Credit |
| Cash |  | 30,000 |  |
|  | Service Revenue <br> (Provide services for cash) |  | 30,000 |
| (b) |  |  |  |
| Supp |  | 20,000 |  |
|  | Accounts Payable <br> (Purchase office supplies on acc | $n t)$ | 20,000 |
| (c) |  |  |  |
| Salar | es Expense | 7,000 |  |
| (Pay salaries for the current month) |  |  |  |




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

Trial Balance

| Accounts | Debit | Credit |  |
| :--- | ---: | ---: | ---: |
| Cash | $\$ 6,100$ |  |  |
| Accounts Receivable | 4,400 |  |  |
| Prepaid Rent | 900 |  | 2,000 |
| Accounts Payable |  |  | $\$ 00$ |
| Salaries Payable |  |  |  |
| Common Stock |  | 6,200 |  |
| Retained Earnings |  |  | 2,000 |
| Dividends |  |  | 7,100 |
| Service Revenue |  |  |  |
| Salaries Expense | 3,000 |  |  |
| Rent Expense | 2,000 |  |  |
| Advertising Expense | 1,100 |  |  |
| Totals | $\$ 18,000$ | $\$ 18,000$ |  |

## Brief Exercise 2-12 (LO 2-6)

Trial Balance

| Accounts | Debit | Credit |
| :--- | ---: | ---: |
| Cash | $\$ \quad 7,300$ |  |
| Accounts Receivable | 2,100 |  |
| Equipment | 10,400 |  |
| Accounts Payable |  | $\$ 3,900$ |
| Deferred Revenue |  |  |
| Common Stock |  | 1,100 |
| Retained Earnings |  | 3,000 |
| Dividends |  |  |
| Service Revenue |  |  |
| Salaries Expense | 3,200 |  |
| Utilities Expense | 800 |  |
| $\quad$ Totals | $\$ 24,400$ | $\$ 24,400$ |

## Brief Exercise 2-11 (LO 2-6) <br> EXERCISES

Exercise 2-1 (LO 2-1)

1. d.
2. b.
3. a.
4. e.
5. c.

Exercise 2-2 (LO 2-2)


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


## Exerciserelase 2-4 (LO 2-2)

## Dual Effect

1. Issue 10,000 shares of common stock in exchange for $\$ 32,000$ in cash.
2. Purchase land for $\$ 19,000$. A note payable is signed for the full amount.
3. Purchase storage containers for $\$ 8,000$.
4. Hire three employees for $\$ 2,000$ per month.
5. Receive cash of $\$ 12,000$ in rental fees for the current month.
6. Purchase office supplies for $\$ 2,000$ on account.
7. Pay employees $\$ 6,000$ for the first month's salaries.

Assets increase

Assets increase

Stockholders' equity increases

Liabilities
increase

One asset (containers) increases and another asset (cash) decreases

No effect on the accounting equation

Assets increase

Assets increase

Assets decrease

Stockholders' equity increases

Liabilities increase

Stockholders' equity decreases

## Exercisentiseoz4 (LO 2-2)

## Dual Effect

1. Paint houses in the current month for $\$ 15,000$ on account.
2. Purchase painting equipment for \$16,000 cash.
3. Purchase office supplies on account for \$2,500.
4. Pay employee salaries of $\$ 3,200$ for the current month.
5. Purchase advertising to appear in the current month, \$1,200.
6. Pay office rent of $\$ 4,400$ for the current month.

Assets increase

Stockholders' equity increases

One asset (equipment) increases and another asset (cash) decreases

## Assets

 increaseAssets decrease

Assets decrease

Assets
decrease

Liabilities increase

Stockholders' equity decreases

Stockholders' equity decreases

Stockholders' equity decreases
7. Receive $\$ 10,000$ from customers One asset (cash) increases and another in (1) above. asset (accounts receivable) decreases
8. Receive cash of $\$ 5,000$ in advance Assets from a customer that plans to have his increase Liabilities increase house painted in the following month.

Exercise 2-5 (LO 2-

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

Exercise 2-6 (LO 2-3)

| Debit or Credit | Account |
| :--- | :--- |
| 1. Debit | Cash |
| 2. | Credit |$\quad$ Service Revenue

Chapter 2 - Thenateountinge Acheountimingothel\&.effioning the Period

## Exercise 2-5 (LO 2-

## Exercise 2-5 <br> Exercise 2-7 (LO 2-3)

Account Account Debited Credited

Example: Purchase equipment in exchange for Equipment Cash cash.

1. Pay a cash dividend.

Dividends
Cash
2. Pay rent in advance for the next three months.
3. Provide services to customers on account.
4. rurcnase orite suppiles on account.

Prepaid Rent

Accounts
Service Receivable

Revenue
Supplies
accounts Payable
5. Pay salaries for the current month.
6. Issue common stock in exchange for cash.
7. Collect cash from customers for services provided in (3) above.
8. Borrow cash from the bank and sign a note.

Salaries
Expense
Cash

Cash

Cash

Utilities
Expense
10. Pay for office supplies purchased in (4) above. Accounts
9. Pay for the current month's utilities.

## Exercise 2-8 (LO 2-

## (1)

## Equipment

Cash
(Purchase equipment with cash)
$\qquad$
Debit Credit
23,400
23,400
(2)

Cash
Service Revenue
6,800
(Provide services for cash)
(3)

| Rent Expense | $\mathbf{1 , 3 0 0}$ |  |
| :--- | :--- | :--- |
| Cash <br> (Pay current month's rent) |  | $\mathbf{1 , 3 0 0}$ |

(4)

Supplies $\quad \mathbf{1 , 0 0 0}$
Accounts Payable
(Purchase office suppliers on account)
(5)
$\begin{array}{lll}\begin{array}{l}\text { Salaries Expense } \\ \text { Cash } \\ \text { (Pay current month's salaries) }\end{array} & \mathbf{2 , 1 0 0} & \mathbf{2 , 1 0 0}\end{array}$

## 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)
February 2
Advertising Expense
_ Debit CreditCash700(Pay advertising for current month)
February 7
Supplies ..... 1,300 Accounts Payable ..... 1,300
(Purchase beauty supplies on account)
February 14
Cash ..... 2,900
Service Revenue ..... 2,900(Provide beauty services for cash)February 15
Salaries Expense ..... 900
Cash ..... 900(Pay salaries for current month)
February 25
Accounts Receivable ..... 1,000Service Revenue1,000(Provide beauty services on account)
February 28
Utilities Expense ..... 300
Cash ..... 300
(Pay utilities for current month)

Exercise 2-10 (LO 2-4)
Exercise 2-11 (LO 2-4)
March 1
Cash
Common Stock
(Issue common stock)
March 5
Cash 9,000
Notes Payable
(Obtain bank loan)
March 10
Equipment 25,000
Cash
(Purchase construction equipment for cash)
March 15
Advertising Expense 1,100
Cash
1,100
(Purchase advertising for current month)
March 22
Accounts Receivable 18,000
Service Revenue
18,000
(Provide construction services on account)
March 27
Cash
13,000
Accounts Receivable
13,000
(Receive cash on account)
March 28
Salaries Expense
6,000
$\begin{array}{ll}\text { Cash } & \mathbf{6 , 0 0 0} \\ \text { (Pay salaries for current month) } & \end{array}$

## 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 <br> Service Revenue | 4,000 | 4,000 |
| 3. Purchase office supplies on account, $\$ 300$. | Supplies <br> 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.

Chapter 2 - Thenateountingeacheountimiggthele.errioring the Period

## Exercise 2-15 (LO 2-5)



## 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 <br> Trial Balance <br> April 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 <br> Trial Balance <br> 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 2-19 (LO 2-4, 2-5, 2-6)

## Requirement 1

(1) January 1

## Cash

 Debit Credit 42,000Common Stock
(Issue common stock)

## (2) January 5

Land
24,000
Notes Payable
(Purchase land with note payable)
(3) January 9

Equipment 9,000
Cash
9,000
(Purchase storage containers)
(4) January 12

No entry
(5) January 18

Cash |  | $\mathbf{1 3 , 0 0 0}$ |  |
| :--- | :--- | :--- |
|  | $\mathbf{S e r v i c e ~ R e v e n u e ~}$ |  |
| (Receive cash for current month's rent) |  |  |$\quad 1000$

(6) January 23

Supplies $\quad \mathbf{3 , 0 0 0}$
Accounts Payable
3,000
(Purchase office supplies on account)
(7) January 31

Salaries Expense $\quad 9,000$
Cash
9,000
(Pay salaries for the current month)

## Exercise 2-19 (continued)

## Requirement 2



Chapter 2 - Thatheteountitige AckeombiniggthelP.eftioning the Period

Exercise 2-19 (concluded)

## Requirement 3

## Green Wave Company Trial Balance

| Accounts | Debit | Credit |
| :--- | ---: | ---: |
| Cash | $\$ 37,000$ |  |
| Supplies | 3,000 |  |
| Land | 24,000 |  |
| Equipment | 9,000 |  |
| Accounts Payable |  | $\$ 3,000$ |
| Notes Payable |  | 24,000 |
| Common Stock |  | 42,000 |
| Service Revenue | 9,000 | 13,000 |
| Salaries Expense | $\$ 82,000$ | $\$ 82,000$ |
| Totals |  |  |

Exercise 2-20 (LO 2-4, 2-5, 2-6)
Requirement 1
(1) September 3
Accounts Receivable
Service Revenue
Debit Credit
20,000
(Provide painting on account)
(2) September 8

Equipment 21,000
Cash
21,000
(Purchase painting equipment)
(3) September 12

Supplies $\quad \mathbf{3 , 5 0 0}$
Accounts Payable
3,500
(Purchase office supplies on account)
(4) September 15

Salaries Expense $\quad 4,200$
Cash
(Pay salaries for the current month)
(5) September 19

Advertising Expense $\mathbf{1 , 0 0 0}$
Cash
1,000
(Pay advertising for the current month)
(6) September 22

Rent Expense
Cash
(Pay rent for the current month)
(7) September 26

Cash
15,000
Accounts Receivable
(Receive cash on account)
(8) September 30

Cash
Deferred Revenue
6,000
(Receive cash in advance for painting)

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## Exercise 2-20 (continued)

## Requirement 2



| Service Revenue |
| :--- |
| $\qquad$0 Beg. <br> 20,000 $(1)$ |
| 20,000 |

Beg. $-\frac{\text { Equipment }}{7,400}$




| Beg. | 26,100 |  |
| :--- | ---: | ---: |
|  |  | 21,000 |
|  |  | 4,200 |
|  | 1,000 |  |
| (7) | 15,000 | 5,400 |
| (8) | 6,000 |  |
|  | 15,500 |  |

\[

\]

$$
\begin{array}{cr} 
& \\
\text { Beg. } & \frac{\text { Advertising Expense }}{0} \\
\text { (5) } & 1,000 \\
\hline & 1,000
\end{array}
$$

$$
-\begin{array}{c|r}
\text { Deferred Revenue } \\
\hline & 0 \\
\hline, 000 & \text { Beg. } \\
\hline 6,000 & \\
\hline
\end{array}
$$

\[

\]

## 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 |  | $\$ 8,700$ |
| Deferred Revenue |  | 6,000 |
| Common Stock |  | 25,000 |
| Retained Earnings |  | 9,500 |
| Service Revenue | 4,200 | 20,000 |
| Salaries Expense | 1,000 |  |
| Advertising Expense | 5,400 |  |
| Rent Expense | $\$ 65,200$ | $\$ 65,200$ |
| Totals |  |  |

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## 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

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## Problem 2-2A (LO 2-2)

Transaction Assets $=$ Liabilities +| Stockholders' |
| :---: |
| Equity |

1. Provide services to customers on account, \$1,600.
2. Pay $\$ 400$ for current month's rent.
3. Hire a new employee, who will be paid $\$ 500$ at the end of each month.
4. Pay $\$ 100$ for advertising aired in the current period.
5. Purchase office supplies for cash.
6. Receive cash of $\$ 1,000$ from customers in (1) above.
7. Obtain a loan from the bank for \$7,000.
8. Receive a bill of $\$ 200$ for utility costs of the current period.
for $\$ 10,000$ cash.
(3) above.

Totals
$-\$ 100=\$ 0+-\$ 100$
+\$400
$-\$ 400 \quad=\$ 0 \quad+\$ 0$

$$
+\$ 1,600=\$ 0++\$ 1,600
$$

$=\quad+$

$$
\begin{array}{lll}
-\$ 400 & \$ 0 & -\$ 400
\end{array}
$$

$\$ 0 \quad=\$ 0 \quad+\quad \$ 0$
+\$1,000
$\underset{-\$ 1,000}{+\$ 1,000}=\$ 0 \quad+\$ 0$

$$
+\$ 7,000=+\$ 7,000 \quad+\$ 0
$$

$$
\$ 0 \quad=+\$ 200+-\$ 200
$$

$$
+\$ 10,000=\$ 0 \quad+\quad+\$ 10,000
$$

$$
-\$ 500=-\$ 0 \quad+\quad-\$ 500
$$

$\$ 17,600=\underline{\$ 7,200}+\underline{\$ 10,400}$

Chapter 2 - Thatheteountitige AckeombiniggthelP.eftioning the Period

## Problem 2-3A (LO 2-3)

| Accounts | Type of Account | Normal Balance <br> (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)Transactions for Jake's Lawn Maintenance CompanyService Revenue
(Provide services on account)
July 6
Repairs and Maintenance Expense ..... 450
Accounts PayableDebit Credit
Accounts Receivable ..... 500(Receive maintenance on account)
July 9
Cash ..... 500
Accounts Receivable ..... 500(Receive cash on account)
July 14
Notes Receivable ..... 600
Cash ..... 600(Loan cash by accepting note receivable)
July 18
Advertising Expense ..... 110
Cash(Pay advertising for the current month)
July 20
Accounts Payable ..... 450
Cash ..... 450(Pay cash on account)
July 27
No entry for Jake.
July 30
No entry for Jake.
July 31
Cash ..... 600
Notes Receivable ..... 600(Receive cash on note receivable)
Problem 2-5A (Lo 2-2, 2-4)Transactions for Luke's Repair Shop
July 3
Repairs and Maintenance ExpenseAccounts Payable(Receive services on account)
July 6
Accounts Receivable ..... 450
Service Revenue(Provide services on account)
July 9
Accounts Payable ..... 500
Cash(Pay cash on account)
July 14
Cash ..... 600Notes Payable(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
(Provide services for cash)
July 30
Salaries Expense ..... 300
Cash ..... 300
(Pay salaries to employees)
July 31
Notes Payable ..... 600
Cash ..... 600(Pay note payable)

## Problem 2-5A (concluded)



## 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 2-7 A (LO 2-4, 2-5, 2-6)

## Requirement 1

Entries are numbered for posting.
(1) March 1

Cash
Common Stock
(Issue common stock)
(2) March 3

Equipment
2,700
Notes Payable $\quad \mathbf{2 , 7 0 0}$
(Purchase sewing equipment with note payable)
(3) March 5

Rent Expense 600
Cash
(Pay rent for current month)
$\frac{\text { March } 7}{\text { No entry }}$
(4) March 12

Supplies 130
Accounts Payable
(Purchase sewing supplies on account)
(5) March 15

Cash
800
Service Revenue
(Provide services for cash)
(6) March 19

Cash
700
Deferred Revenue
(Receive cash in advance from customer)
(7) March 25

Deferred Revenue 700
Service Revenue
(Provide services to customer)
(8) March 30

Utilities Expense 95
Cash
(Pay utilities for current month)
(9) March 31

Dividends
150
Cash
150
(Pay dividends)

## Problem 2-7A (continued)

## Requirements 2 and 3



Supplies


## Common Stock

$3,000(1)$
3,000 -

Equipment


## Dividends



Service Revenue


| Rent Expense |  |
| ---: | ---: |
| (3) 600 |  |
| 600 |  |


| Utilities | Expense |
| ---: | ---: |
| $(8) 95$ |  |
| 95 |  |

## Problem 2-7A (concluded)

## Requirement 4

## Ute Sewing Shop <br> Trial Balance <br> March 31

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

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## Problem 2-8A (LO 2-4, 2-5, 2-6)

Requirement 1

## Entries are numbered for posting.

(1) Sep. 1

Cash
Service Revenue
(Provide services for cash)
(2)Sep. 2

Land
Notes Payable
(Purchase land with note payable)
(3) Sep. 4

Advertising Expense 500 Accounts Payable
(Receive invoice for current advertising)
(4)Sep. 8

Accounts Receivable 6,000
Service Revenue $\mathbf{6 , 0 0 0}$
(Provide services on account)
(5) Sep. 10

Supplies
1,100
Accounts Payable
(Purchase supplies on account)
(6) Sep. 13

Notes Payable
4,000
Cash
(Pay note payable)
(7) Sep. 18

Cash
5,000
Accounts Receivable
(Receive cash on account)
(8)Sep. 20

Rent Expense
900
Cash
(Pay rent for current month)
(9)Sep. 30

Utilities Expense
2,000
Cash
(Pay utilities for current month)

6,400
Debit Credit
4,700
4,700

6,400
-
500

## Problem 2-8A (continued)

(10) Sep. 30

Salaries Expense $\quad 4,000$

| Cash | $\mathbf{4 , 0 0 0}$ |
| :--- | :--- |

(Pay salaries for current month)
(11) Sep. 30

Dividends
1,100
Cash
1,100
(Pay dividends)

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Problem 2-8A (continued)
Requirements 2 and 3

| Cash |  |
| ---: | ---: |
| Bal. 6,500 | $\mathbf{4 , 0 0 0 ( 6 )}$ |
| $(\mathbf{1 )} \mathbf{4 , 7 0 0}$ | $\mathbf{9 0 0 ( 8 )}$ |
| $\mathbf{( 7 ) 5 , 0 0 0}$ | $\mathbf{2 , 0 0 0 ( 9 )}$ |
|  | $\mathbf{4 , 0 0 0 ( 1 0 )}$ |
|  | $\mathbf{1 , 1 0 0 ( 1 1 )}$ |
| $\mathbf{4 , 2 0 0}$ |  |

Accounts Receivable
Bal. 2,500 5,000 (7)
(4) $\mathbf{6 , 0 0 0}$

|  |
| :--- |
| $\mathbf{3 , 5 0 0}$ |



Supplies
Bal. 7,600
(5) 1,100

8,700 $\square$

| Notes Payable |  |
| :---: | :--- |
| (6) 4,000 | $3,000 ~ B a l$. <br> $\mathbf{6 , 4 0 0}(2)$ |
|  | 5,400 |

Dividends

| (11) 1,100 |
| ---: |
| 1,100 |

Rent Expense



## Problem 2-8A (continued)

## Requirement 4

## Pirates Incorporated <br> Trial Balance <br> September 30

| Accounts | Debit |  | Credit |  |
| :--- | ---: | ---: | ---: | ---: |
| Cash | $\$ 4,200$ |  |  |  |
| Accounts Receivable | 3,500 |  |  |  |
| Supplies | 8,700 |  |  |  |
| Land | 17,600 |  | 9,100 |  |
| Accounts Payable |  |  | 5,400 |  |
| Notes Payable |  |  | 9,000 |  |
| Common Stock |  | 8,300 |  |  |
| Retained Earnings | 1,100 |  | 10,700 |  |
| Dividends |  |  |  |  |
| Service Revenue | 4,000 |  |  |  |
| Salaries Expense | 900 |  |  |  |
| Rent Expense | 500 |  |  |  |
| Advertising Expense | 2,000 |  |  |  |
| Utilities Expense | $\$ 42,500$ | $\$ 42,500$ |  |  |
| Totals |  |  |  |  |

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Problem 2-9A (LO 2-4, 2-5, 2-6)Requirement 1Entries are numbered for posting.
(1)$\frac{\text { December } 1}{\text { Rent Expense }}$
Debit Credit
$\mathbf{9 0 0}$Cash900(Pay rent for December)
(2) December 5
Cash ..... 2,800
Service Revenue ..... 2,800(Provide services for cash)
(3) December 8
Cash10,000
Notes Payable ..... 10,000(Borrow by signing note payable)
(4) December 12Cash3,500
Accounts Receivable ..... 3,500(Receive cash from customers on account)
(5) December 13
Cash20,000
Common Stock20,000
(Issue shares of common stock)(6) December 15Salaries Expense1,200
Cash(Pay salaries for December)
(7) December 17
Advertising Expense ..... 1,000
Cash ..... 1,000(Purchase advertising for December)
(8) December 22
Accounts Receivable ..... 3,200
Service Revenue ..... 3,200(Provide services on account)
December 23
No journal entry required

## Problem 2-9A (continued)

(9) December 26

Equipment
Cash
28,500
(Purchase equipment)
(10) December 28

Accounts Payable 1,500
Cash
(Pay cash on account)
(11) December 31

Dividends $\mathbf{2 , 0 0 0}$
Cash $\mathbf{2 , 0 0 0}$
(Pay dividends)

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## Problem 2-9A (continued)

## Requirements 2 and 3

| Bal. 9, $\mathrm{EASh}^{\text {a }}$ | 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) |
|  | 2,000 (11) |
| 10,400 |  |
|  |  |

Equipment


Salaries Expense
Bal. 28,300

(6) \begin{tabular}{r}
1,200 <br>
\hline

$\quad$

29,500 <br>
\hline
\end{tabular}


(8) 3,200


Land
Bal. 170,000

|  |  |
| :--- | :--- |
| $\mathbf{1 7 0 , 0 0 0}$ |  |
|  |  |

Common Stock


Service Revenue

|  | 75,000 Bal. |
| :---: | :---: |
|  | $\mathbf{2 , 8 0 0}(2)$ |
|  | $\mathbf{3 , 2 0 0}(\mathbf{8})$ |
|  | $\mathbf{8 1 , 0 0 0}$ |

Prepaid Insurance
Bal. 400

Accounts Payable
(10) 1,500 3,300 Bal.


Retained Earnings 14,100 Bal.


## Advertising Expense

Bal. 11,000
(7) 1,000

Rent Expense

| Bal. 9,900 |
| ---: |
| (1) 900 |
| 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 | \$ 296,900 | \$296,900 |

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## PROBLEMS: SET B

## Problem 2-1B (LO 2-2)

Stockholders'
Transaction Assets $=$ Liabilities $+\ldots$ Equity

1. Obtain a loan at the bank

Increase $=$ Increase + Noeffect
2. Purchase a machine to use in
operations for cash. $\quad$ No effect* $=\quad$ No effect $\quad+\quad$ No effect
3. Provide services to customers for cash.
4. Pay employee salaries for the current month. Decrease $=$ No effect + Decrease
5. Repay loan from the bank in (1) above. Decrease = Decrease + No effect
6. Customers pay cash in advance of services. Increase $=$ Increase + No effect
7. Pay for maintenance costs Decrease $=$ No effect + Decrease in the current month.
8. Pay for advertising in the Decrease $=$ No effect + Decrease current month.
9. Purchase office supplies on account.
10. Provide services to customers on account.
11. Pay dividends to stockholders.

Increase $=$ No effect + Increase
Increase $=$ Increase + No effect

Decrease $=$ No effect + Decrease

[^0]
## Problem 2-50B (LO 2-

| Transaction | Assets | $=$ | Liabilities | + | Stockholders' Equity |
| :---: | :---: | :---: | :---: | :---: | :---: |
| 1. Issue common stock in exchange for cash, \$15,000. | +\$15,000 | $=$ | \$0 | + | +\$15,000 |
| 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 advance, $\$ 12,000$. | $\begin{aligned} & +\$ 12,000 \\ & -\mathbb{C} 9 \\ & \hline \end{aligned}$ | $=$ | \$0 | + | \$0 |
| 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 2-32

| Accounts | Type of Account | Normal Balance <br> (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)


Problem 2-5B (LO 2-2, 2-4)
Transactions for Olivia's Maintenance Services
May 2Debit Credit
Prepaid Insurance300
Cash ..... 300
(Pay for insurance services in advance)
May 5
Accounts Receivable ..... 425Service Revenue(Provide services on account)
May 7
Notes Receivable ..... 500
Cash ..... 500(Loan cash and issue note receivable)
May 14
Supplies ..... 200
Cash ..... 200(Purchase maintenance supplies with cash)
May 19
Cash ..... 425Accounts Receivable425(Receive cash on account)
May 25
No entry for Olivia.
May 28
Insurance Expense ..... 300
Prepaid Insurance ..... 300(Received services paid in advance)
May 31
Cash ..... 500
Notes Receivable ..... 500
(Receive cash on note receivable)

## Problem 2-5B (concluded)

Eli's Insurance Services
Olivia's Maintenance Services

|  | Assets = Liabilities + |  |  |  | Stockholders'$\qquad$ Equity \$0 | Assets = Liabilities + |  |  | Stockholders' <br> $+\quad$ Equity |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Ma | \$300 | $=$ | +\$300 | $+$ |  | +\$300 |  |  |  |
|  |  |  |  |  |  | $-\$ 300=$ | \$0 | + | \$0 |
| 5 | \$0 | = | +\$425 | + | -\$425 | +\$425 = | \$0 | + | +\$425 |
| 7 | +\$500 | = | +\$500 | $+$ | \$0 | $\underset{-\$ 500}{+\$ 500}=$ | \$0 | + | \$0 |
| 14 | \$0 | = | \$0 | + | \$0 | $+\begin{aligned} & +\$ 200 \\ & -\$ 200 \end{aligned}=$ | \$0 | + | \$0 |
| 19 | -\$425 | $=$ | -\$425 | + | \$0 | $\underset{-\$ 425}{+\$ 425}=$ | \$0 | + | \$0 |
| 25 | -\$135 | $=$ | \$0 | + | -\$135 | \$0 | \$0 | + | \$0 |
| 28 | \$0 | = | -\$300 | $+$ | +\$300 | $-\$ 300=$ | \$0 | + | -\$300 |
| 31 | -\$500 | = | -\$500 | + | \$0 | $\begin{aligned} & +\$ 500 \\ & -\$ 500 \end{aligned}=$ | \$0 | + | \$0 |

## Problem 2-6B (LO 2-6)

## Ducks Company <br> Trial Balance <br> 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 | \$ 118,200 | \$118,200 |

Problem 2-7B (LO 2-4, 2-5, 2-6)
Requirement 1
Entries are numbered for posting.
(1) June 1

Cash
Notes Payable
(Obtain loan from bank)
(2) June 2

Cash
Common Stock
(Issue common stock)
(3) June 7

Equipment
Cash
(Purchase equipment)
(4) June 10

Supplies
8,000
Accounts Payable
(Purchase cleaning supplies on account)
(5) June 12

5,000
Service Revenue
(Provide car washes for cash)
(6) June 16

Salaries Expense
900
Cash 900
(Pay salaries to employees)
(7) June 19

Advertising Expense 500
Cash
(Pay for current advertising)
(8) June 23

Accounts Receivable $\quad \mathbf{6 , 0 0 0}$
Service Revenue
$\mathbf{6 , 0 0 0}$
(Provide car washes on account)

Debit Credit 70,000

70,000

40,000
40,000

75,000
75,000
教

8,000


## Problem 2-7B (continued)

(9) June 29
Salaries Expense 950

Cash
950 (Pay salaries to employees)
(10) June 30

Utilities Expense $\quad \mathbf{1 , 4 0 0}$
Cash
1,400
(Pay current utility bill)
(11) June 30

Dividends 600
Cash
600
(Pay dividends to stockholders)

## Problem 2-7B (continued)

Requirements 2 and 3

| Cash |  |
| :---: | :---: |
| (1) 70,000 | 75,000 (3) |
| (2) 40,000 | 900 (6) |
| (5) 5,000 | 500 (7) |
|  | 950 (9) |
|  | $\begin{array}{r} 1,400(10) \\ 600(11) \end{array}$ |
| 35,650 |  |

Accounts Receivable
(8) $\mathbf{6 , 0 0 0}$
$\mathbf{6 , 0 0 0}$


| Dividends |  |
| ---: | ---: |
| $(\mathbf{1 1 )} \mathbf{6 0 0}$ |  |
| $\mathbf{6 0 0}$ |  |



Utilities Expense

| (10) 1,400 |
| ---: |
| 1,400 |

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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 |  | 8,000 |
| Accounts Payable |  |  | $\$$ |
| Notes Payable |  |  | 70,000 |
| Common Stock |  |  | 40,000 |
| Dividends |  |  | 11,000 |
| Service Revenue |  |  |  |
| Salaries Expense |  | 500 |  |
| Advertising Expense |  | 1,400 |  |
| Utilities Expense | $\underline{\$ 129,000}$ | $\$ 129,000$ |  |

Problem 2-8B (LO 2-4, 2-5, 2-6)
Requirement 1
Entries are numbered for posting.
(1) Nov. 1

Debit Credit
Cash
13,000
Common Stock
13,000
(Issue common stock)
(2) Nov. 2

Equipment
3,500
Notes Payable
3,500
(Purchase equipment with note payable)
(3) Nov. 4

Supplies $\quad \mathbf{1 , 0 0 0}$
Accounts Payable
(Purchase supplies on account)
(4) Nov. 10

Accounts Receivable 9,000
Service Revenue 9,000
(Provide services on account)
(5) Nov. 15

Accounts Payable 1,100
Cash
(Pay cash on account)
(6) Nov. 20

Salaries Expense $\mathbf{3 , 0 0 0}$
Cash
(Pay current salaries)
(7) Nov. 22

Cash
11,000
Service Revenue
11,000
(Provide services for cash)
(8) Nov. 24

Notes Payable
1,400
Cash
1,400
(Pay note payable)
(9) Nov. 26

Cash
7,000
Accounts receivable
7,000
(Receive cash on account)
Problem 2-8B (continued)
(10) Nov. 28
Utilities Expense $\mathbf{1 , 1 0 0}$ Cash
1,100
(Pay utilities for current month)
(11) Nov. 30
Rent Expense 5,000
Cash
5,000
(Pay rent for current month)

## Problem 2-8B (continued)

Requirements 2 and 3

| Cash |  | Accounts Receivable |  |
| :---: | :---: | :---: | :---: |
| Bal. 3,200 | 1,100 (5) | Bal. 600 | 7,000 (9) |
| (1) 13,000 | 3,000 (6) | (4) 9,000 |  |
| (7) 11,000 | 1,400 (8) |  |  |
| (9) 7,000 | 1,100 (10) |  |  |
| - | 5,000 (11) |  |  |
| 22,600 |  | 2,600 |  |



Common Stock


Accounts Payable

| (5)1,100 | 2,000 Bal. <br> $1,000(3)$$\underline{\underline{1,900}}$ |
| ---: | :--- |


| Retained |  |
| :---: | :--- |
|  | $\mathbf{9 0 0}$ Earnings |
|  | $\underline{900}$ |


| Utilities Expense |  |
| ---: | :---: |
| $(10) 1,100$ |  |
| 1,100 |  |


| Service Revenue |  |
| :---: | :---: |
|  | $\mathbf{9 , 0 0 0}(4)$ |
|  | $\mathbf{1 1 , 0 0 0}(7)$ |
|  | $\mathbf{2 0 , 0 0 0}$ |

Supplies
Bal. 700
(3) $\mathbf{1 , 0 0 0}$

Notes Pavable
(8) 1,400 4,000 Bal.


Service Revenue


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## Problem 2-8B (continued)

## Requirement 4

## Buckeye Incorporated <br> Trial Balance <br> November 30

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

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

Requirement 1
Entries are numbered for posting.
(1) December 1-31 Cash Service Revenue

Debit Credit
27,400 27,400
(Provide services for cash)
(2) December 4
Supplies $\quad \mathbf{2 , 9 0 0}$

Accounts Payable
(Purchase supplies on account)
(3) December 8

Advertising Expense $\quad \mathbf{3 , 2 0 0}$
Cash
(Purchase advertising for December)
(4) December 9

Accounts Payable $\quad \mathbf{2 , 9 0 0}$
Cash
(Pay cash on account)
(5) December 12

Cash
$\mathbf{5 , 0 0 0}$
Common Stock
(Issue shares of common stock)
(6) December 16

Accounts Payable $\quad \mathbf{6 , 3 0 0}$
Cash
6,300
(Pay cash on account)
(7) December 19

Equipment $\quad \mathbf{7 , 7 0 0}$
Cash
7,700
(Purchase equipment)
(8) December 22
Utilities Expense $\quad \mathbf{4 , 5 0 0}$

Cash
4,500
(Pay utilities for current month)
(9) December 24

Cash
2,300
Deferred Revenue
2,300
(Receive cash in advance from customers)

## Problem 2-9B (continued)

December 27
No journal entry is required

| (10) $\frac{\text { December } 30}{\text { Salaries Expense }}$Cash <br> (Pay salaries for December) | $\mathbf{7 , 0 0 0}$ |  |
| :--- | :--- | :--- |
| (11) December 31   <br> Dividends <br> Cash <br> (Pay dividends) $\mathbf{3 , 0 0 0}$  | $\mathbf{3 , 0 0 0}$ |  |

## Problem 2-9B (continued)

Requirements 2 and 3

| Cash |  |
| :---: | :---: |
| Bal. 19,400 | 3,200 (3) |
| (1) 27,400 | 2,900 (4) |
| (5) 5,000 | 6,300 (6) |
| (9) 2,300 | 7,700 (7) |
|  | 4,500 (8) |
|  | 7,000 (10) |
|  | 3,000 (11) |
| 19,500 |  |


| Supplie |
| :---: |
| Bal. 1,500 <br> (2) 2,900 |
|  |  |
|  |  |
|  |  |
|  |

Prepaid Rent
$\begin{array}{r}\hline \text { Bal. 7,200 } \\ \\ \hline \mathbf{7 , 2 0 0} \\ \hline\end{array}$

Equipment

| Bal. 83,700 |
| ---: |
| $(7) 7,700$ |
| 91,400 |

Deferred Revenue

|  | 2,000 Bal. <br> $\mathbf{2 , 3 0 0}(9)$ |
| :--- | :--- |

Dividends

| Bal. 9,000 <br> (11) 3,000 |  |
| ---: | :--- |
| $\mathbf{1 2 , 0 0 0}$ |  |


| Buildings | Accounts Pavable |  |
| :---: | :---: | :---: |
| Bal. 240,000 | (4) 2,900 <br> (6) 6,300 | $\begin{aligned} & 9,800 \text { Bal. } \\ & \mathbf{2 , 9 0 0 ( 2 )} \end{aligned}$ |
| 240,000 |  | 3,500 |


| Common Stock |  |
| :---: | :---: |
|  | $\mathbf{1 2 5 , 0 0 0}$ Bal. |
|  | $\mathbf{5 , 0 0 0}(5)$ |
|  | $\mathbf{1 3 0 , 0 0 0}$ |


| Retained Earnings |  |
| :--- | :--- |
|  | 75,500 Bal. |
|  | $\mathbf{7 5 , 5 0 0}$ |

Service Revenue

|  | 264,000 <br> 27,400 <br> $(1)$ |
| :---: | :---: |
|  | 291,400 |


| Salaries Expense |  |
| ---: | ---: |
| Bal. 65,000 <br> $(10) 7,000$ |  |
| $\mathbf{7 2 , 0 0 0}$ |  |



| Utilities Expense |
| :--- |
| Bal. 32,300 <br> (8) 4,500 |
| $\mathbf{3 6 , 8 0 0}$ |

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## Problem 2-9B (continued)

## Requirement 4

## Thunder Cat Services <br> Trial Balance <br> 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 | \$ 504,700 | \$504,700 |

ADDITIONAL PERSPECTIVES
Additional Perspective 2-1
Requirement 1
Entries are numbered for posting.
(1) July 1, 2018

Cash Common Stock
(Issue common stock to Suzie)
(2) July 1, 2018
Cash
Common Stock
(Issue common stock to Tony)
Common Stock
(Issue common stock to Tony)
(3) July 1, 2018
Prepaid Insurance
Cash
(Purchase one-year insurance policy)
Cash
(Purchase one-year insurance policy)
(4) July 2, 2018
Legal Fees Expense
1,500
Cash
(Pay legal fees for incorporation)
(5) July 4, 2018
Supplies (Office)
1,800
Accounts Payable $\quad \mathbf{1 , 8 0 0}$
(Purchase office supplies on account)
(6) July 7, 2018
Advertising Expense 300
Cash
4,800
10,000
10,000 Credit 10,000
10,000
(Pay cash for advertising)
(7) July 8, 2018
Equipment (Bikes) 12,000
Cash
(Pay cash for mountain bikes)
(8) July 15, 2018 Cash
2,000
Service Revenue
(Receive cash for mountain bike clinic)

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

(9)July 22, 2018

Cash
2,300
Service Revenue
(Receive cash for mountain bike clinic)
(10) July 24, 2018

Advertising Expense 700
Cash
700
(Pay cash for advertising)
(11) July 30, 2018

Cash $\quad 4,000$
Deferred Revenue
4,000
(Receive cash in advance for kayak clinic)

## Additional Perspective P2-1 (continued)

## Requirement 2

| Cash |  | Prepaid Insurance | 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 | Accounts Payable |
|  |  | (7) 12,000 | 1,800 (5) |
|  |  | 12,000 | 1,800 |


| Deferred Revenue |
| ---: |
|  |
| $\mathbf{4 , 0 0 0 ( 1 1 )}$ |
| $\mathbf{4 , 0 0 0}$ |

Common Stock

| $10,000(1)$ |
| :--- |
| $10,000(2)$ |
| 20,000 |

Service Revenue

| $2,000(8)$ |
| :--- |
| $2,300(9)$ |
| 4,300 |

Advertising Expense
(6) 300
(10) 700

Legal Fees Expense (4) 1,500

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## Additional Perspective 2-1 (concluded)

## Requirement 3

## Great Adventures, Inc. <br> Trial Balance <br> 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 |

## 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 2Additional 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 2Additional 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.

## Addelitioningppeerspecotive 2Additional Perspective 2-

## Additional.Perspective 2- <br> 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.

## Additid千ddiliersp\&Rairspertive 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 $(\$ 39,510)$.

## AdditiofoddiRerछp\&Raizspetive 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
Service Revenue
500
(Provide services on account)

For transaction (b):
Step 1. Analyze employee paycheck.
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 $\quad \mathbf{1 , 2 0 0}$
Cash
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 $\quad \mathbf{2 , 7 0 0}$
Cash
2,700
(Purchase office equipment)
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.


[^0]:    *One asset (machine) increases and another asset (cash) decreases

[^1]:    1,000

