

Solution Manual for Financial Accounting Canadian 2nd Edition by Waybright ISBN 0133375536 9780133375534

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Chapter 2: Analyzing and Recording Business Transactions

ACCOUNTING PRACTICE

Discussion Questions: Key Points

1. Assets are listed in order of liquidity, or closeness to cash.
2. When the company pays for something in advance that won't be used up in this accounting period, it would record a prepaid asset. In a sense, plant assets are a type of prepaid asset, although it would not be classified as such. All prepaid assets would be used up, eventually. That is, they all become expenses over time or with use. An example would be Prepaid Rent, Prepaid Insurance, etc.
3. Revenue increases retained earnings. By definition, when revenue is increased as assets are acquired (or liabilities reduced) as a result of activities relating to the company's line of business, the owners have a claim on those assets that are acquired. This ownership interest is reflected in the Retained Earnings account.
4. Not all events are transactions. A transaction is an event that has a financial impact on a company. In other words a transaction affects at least two accounts in the accounting equation. If no accounts are affected then it is an event, not a transaction. Journal entries are recorded for all transactions.
5. The normal balance of an account is the side that increases the account.
 - a. Debit
 - b. Debit
 - c. Credit
 - d. Credit
 - e. Debit
6. The bank is keeping its own books, not yours. When you give the bank cash or deposit your paycheque, the bank needs to keep track of its liability to you. It is increasing its liability account with a credit (the debit that it makes is to its own cash account).
7. A credit balance in the Cash account would indicate a negative cash balance. Negative cash does not make sense. If a company overdraws its Cash account, it now has a liability to the bank. Rather than showing a credit balance in its Cash account, it should show a credit balance in a liability account. Sometimes, a negative "credit" cash balance is acceptable in case the

company had signed an overdraft agreement with its bank. Interest is usually charged in such case on the amount overdrawn.

8. Journalizing is the process of recording a transaction in the journal. Posting is the process of

transferring the information from the journal to the appropriate amounts in the ledger or to t-accounts.

9. False. A balanced trial balance is a necessary but not sufficient condition for accurate financial statements. If a debit to Supplies is improperly recorded as a debit to Supplies Expense, for example, the trial balance will balance but the financial statements will be inaccurate.
10. The financial statement numbers generally come from the trial balance. However, the numbers on the trial balance come from the general ledger. So, the numbers on the trial balance really come from the general ledger.

Short Exercises

(5–10 min.) S2-1

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

(5–10 min.) S2-2

- | | |
|---------------------|----|
| 1. Accounts Payable | L |
| 2. Cash | A |
| 3. Service Revenue | R |
| 4. Prepaid Rent | A |
| 5. Rent Expense | E |
| 6. Common Shares | SE |

(5–10 min.) S2-3

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

(5–10 min.) S2-4

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

(5–10 min.) S2-5

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

(5–10 min.) S2-6

<u>DR</u>	1.	Rent Expense
<u>CR</u>	2.	Accounts Payable
<u>CR</u>	3.	Service Revenue
<u>DR</u>	4.	Office Furniture
<u>CR</u>	5.	Common Shares
<u>DR</u>	6.	Land
<u>DR</u>	7.	Dividends

(5–10 min.) S2-7

Supplies				Note Payable			
3/8	400	3/27	600	3/20	2,000	3/5	10,000
3/17	500			3/31	4,000		
Bal	300					Bal	4,000

(5–10 min.) S2-8

Account	Type	Normal Balance	▲	▼
Office Equipment	Asset	Dr.	Dr.	Cr.
Dividends	Contra Equity	Dr.	Dr.	Cr.
Service Revenue	Revenue	Cr.	Cr.	Dr.
Accounts Payable	Liability	Cr.	Cr.	Dr.
Rent Expense	Expense	Dr.	Dr.	Cr.
Cash	Asset	Dr.	Dr.	Cr.

(15–20 min.) S2-9

Transaction	Account Affected	Type	Normal Balance	▲	▼	Dr. or Cr.
(1)	Cash	Asset	Dr.	Increase		Dr.
	Common Shares	Shareholders' Equity	Cr.	Increase		Cr.
(2)	Equipment	Asset	Dr.	Increase		Dr.
	Cash	Asset	Dr.	Decrease		Cr.
(3)	Supplies	Asset	Dr.	Increase		Dr.
	Accounts Payable	Liability	Cr.	Increase		Cr.
(4)	Accounts Receivable	Asset	Dr.	Increase		Dr.

	Service Revenue	Revenue	Cr.	Increase	Cr.
(5)	Accounts Payable	Liability	Cr.	Decrease	Dr.
	Cash	Asset	Dr.	Decrease	Cr.
(6)	Operating Expenses	Expense	Dr.	Increase	Dr.
	Cash	Asset	Dr.	Decrease	Cr.
(7)	Dividends	Contra Equity	Dr.	Increase	Dr.
	Cash	Asset	Dr.	Decrease	Cr.

(10–15 min.) S2-10

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
June	1	Cash		20,000	
		Common Shares			20,000
		Sold shares.			
	5	Party Supplies		4,600	
		Accounts Payable			4,600
		Purchased supplies on account.			
	7	Rent Expense		2,400	
		Cash			2,400
		Paid office rent.			
	10	Cash		1,700	

	Accounts Receivable		2,300	
	Service revenue			4,000
	Performed service for patients.			

(10–15 min.) S2-11

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
July	3	Cash		40,000	
		Note Payable			40,000
		Borrowed money from the bank.			
	9	Accounts Receivable		1,600	
		Service Revenue			1,600
		Performed service on account.			
	16	Cash		400	
		Accounts Receivable			400
		Received cash on account.			
	22	Utilities Expense		475	
		Accounts Payable			475
		Received utility bill.			
	31	Salary Expense		2,600	
		Cash			2,600
		Paid salary expense.			
	31	Interest Expense		110	
		Cash			110
		Paid interest expense.			

(10–15 min.) S2-12

AMAZING SOUNDS, CORP.		
Trial Balance		
April 30, 2015		
	BALANCE	
	<i>(Millions)</i>	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$16,400	
Prepaid Rent	500	
Equipment	19,000	
Accounts Payable		\$ 1,000
Note Payable		10,000
Common Shares		17,900
Dividends	21,000	
Service Revenues		87,000
Rent Expense	40,000	-
Utilities Expense	<u>19,000</u>	
Total	<u>\$115,900</u>	<u>\$115,900</u>

(5–10 min.) S2-13

Wirt’s Dirt, Inc.

**Trial Balance
December 31, 2015**

	ACCOUNT		DEBIT		CREDIT
SFP	Cash		\$13,900		
SFP	Accounts Receivable		2,100		
SFP	Supplies		400		
SFP	Equipment		5,200		
SFP	Accounts Payable				\$1,900
SFP	Notes Payable				11,000
SFP	Common Shares				8,000
SCE	Dividends		500		
IS	Service Revenues				3,300
IS	Wages Expense		1,300		
IS	Rent Expense		600		
IS	Utilities Expense		200		
	Total		<u>\$24,200</u>		<u>\$24,200</u>

(5–10 min.) S2-14

- e 1 Posting
- d 2 Normal balance
- g 3 Payable
- a 4 Journal
- b 5 Receivable
- h 6 Chart of accounts
- c 7 Debit
- f 8 Trial balance
- i 9 Credit

(10–15 min.) S2-15

Account Classification	Increase	Decrease	Normal Balance	Financial Statement	Account
Liability	Credit	Debit	Credit	SFP	Accounts Payable
Asset	Debit	Credit	Debit	SFP	Accounts Receivable
Contra-Equity	Debit	Credit	Debit	SCE	Dividends
Asset	Debit	Credit	Debit	SFP	Building
Revenue	Credit	Debit	Credit	IS	Consulting Revenue
Asset	Debit	Credit	Debit	SFP	Inventory
Asset	Debit	Credit	Debit	SFP	License
Shareholders' Equity	Credit	Debit	Credit	SFP/SCE	Preferred Shares
Expense	Debit	Credit	Debit	IS	Salary Expense
Liability	Credit	Debit	Credit	SFP	Unearned Revenue
Asset	Debit	Credit	Debit	SFP	Prepaid Rent

Exercises

(10–15 min.) E2-1A

Transaction	Account Affected	Type	↑	▼	Dr. or Cr.
Jul 1	Advertising Expense	Expense	Increase		Dr.
	Cash	Asset	Decrease		Cr.
3	Cash	Asset	Increase		Dr.
	Service Revenue	Revenue	Increase		Cr.

5	Supplies	Asset	Increase	Dr.
	Accounts Payable	Liability	Increase	Cr.
9	Cash	Asset	Increase	Dr.
	Accounts Receivable	Asset	Decrease	Cr.
12	Accounts Payable	Liability	Decrease	Dr.
	Cash	Asset	Decrease	Cr.
17	Accounts Receivable	Asset	Increase	Dr.
	Service Revenue	Revenue	Increase	Cr.

(15–20 min.) E2-2A

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Feb	1	Interest Expense		300	
		Cash			300
	5	Office Furniture		2,200	
		Accounts Payable			2,200
	10	Accounts Receivable		1,700	
		Service Revenue			1,700
	12	Cash		4,500	
		Notes Payable			4,500

	19	Cash		85,000	
		Land			85,000
	21	Building		290,000	
		Notes Payable			290,000
	27	Accounts Payable		1,500	
		Cash			1,500

(15–20 min.) E2-3A

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Oct	1	Cash		50,000	
		Common Shares			50,000
	3	Supplies		300	
		Accounts Payable			300
	5	Building		42,000	
		Cash			42,000
	6	Cash		1,600	
		Service Revenue			1,600
	11	Accounts Payable		200	
		Cash			200
	18	Accounts Receivable		2,400	
		Service Revenue			2,400
	24	Cash		800	
		Accounts Receivable			800

	31	Salary Expense			500
		Rent Expense			1,200
		Cash			1,700

(10–15 min.) E2-4A

Req. 1

Cash			
Jan. 1	25,000	Jan. 4	6,800
6	3,000	9	100
23	1,200	29	700
Bal	21,600		

Accounts Payable			
Jan. 9	100	Jan. 2	200
		Bal	100

Accounts Receivable		Common Shares	
Jan. 17	1,600	Jan. 23	1,200
Bal	400	Jan. 1	25,000
		Bal	25,000

Supplies	
Jan. 2	200
Bal	200

Service Revenue		
	Jan. 6	3,000
	17	1,600
	Bal	4,600

Equipment	
Jan. 4	6,800
Bal	6,800

Salary Expense	
Jan. 29	700
Bal	700

Req. 2

Little Tykes Daycare, Inc.		
Trial Balance		
January 31, 2015		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$21,600	
Accounts Receivable	400	

Supplies	200	
Equipment	6,800	
Accounts Payable		\$100
Common Shares		25,000
Service Revenue		4,600
Salary Expense	700	
Total	<u>\$29,700</u>	<u>\$29,700</u>

(15–20 min.) E2-5A

Req. 1

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
May	2	Rent Expense		600	
		Cash			600
	4	Cash		1,000	
		Service Revenue			1,000
	8	Supplies		400	
		Accounts Payable			400
	11	Cash		1,200	
		Accounts Receivable			1,200
	15	Cash		5,000	
		Common Shares			5,000
	19	Accounts Payable		500	
		Cash			500
	27	Accounts Receivable		1,600	
		Service Revenue			1,600

	31	Notes Payable		3,000	
		Cash			3,000

Reqs. 2 & 3

Cash

May 1	3,000	May 2	600
May 4	1,000	May 19	500
May 11	1,200	May 31	3,000
May 15	5,000		
Bal	6,100		

Accounts Payable

May 19	500	May 1	800
		May 8	400
		Bal	700

Accounts Receivable

May 1	1,800	May 11	1,200
May 27	1,600		
Bal	2,200		

Notes Payable

May 31	3,000	May 1	10,000
		Bal	7,000

Supplies

May 1	300		
May 8	400		
Bal	700		

Common Shares

		May 1	30,000
		May 15	5,000
		Bal	35,000

Office Furniture

May 1	1,200		
Bal	1,200		

Service Revenue

		May 1	2,100
		May 4	1,000
		May 27	1,600
		Bal	4,700

Building

May 1	36,000		
Bal	36,000		

Rent Expense

May 1	600		
May 2	600		
Bal	1,200		

Req. 4

Baldwin Realty, Inc.		
Trial Balance		
May 31, 2015		
ACCOUNT TITLE	DEBIT	CREDIT

Cash	\$6,100	
Accounts Receivable	2,200	
Supplies	700	
Office Furniture	1,200	
Building	36,000	
Accounts Payable		\$700
Notes Payable		7,000
Common Shares		35,000
Service Revenue		4,700
Rent Expense	<u>1,200</u>	<u> </u>
Total	<u>\$47,400</u>	<u>\$47,400</u>

(20–25 min.) E2-6A

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
June	1	Cash		16,000	
		Common Shares			16,000
		Sold Share.			
	2	Supplies		800	
		Accounts Payable			800
		Purchased Supplies on Acct.			
	3	Building		60,000	
		Notes Payable			60,000
		Purchased Building Signing Note Payable.			
	4	Equipment		8,000	
		Cash			8,000
		Paid Cash to Purchase Equipment			
	5	Notes Payable		5,000	
		Cash			5,000
		Made Payment on Note Payable.			
	6	Accounts Payable		300	
		Cash			300
		Made Payment on Account.			

Req. 2

Cash	
(1) 16,000	(4) 8,000
	(5) 5,000
	(6) 300
Bal 2,700	

Accounts Payable	
(6) 300	(2) 800
	Bal 500

Supplies	
(2) 800	
Bal 800	

Notes Payable	
(5) 5,000	(3) 60,000
	Bal 55,000

Equipment	
(4)	8,000
Bal	8,000

Common Shares	
	(1) 16,000
	Bal 16,000

Building	
(3)	60,000
Bal	60,000

Req. 3

Crazy Curlz, Inc.		
Trial Balance		
June 30, 2015		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$2,700	
Supplies	800	
Equipment	8,000	
Building	60,000	
Accounts Payable		\$500
Notes Payable		55,000
Common Shares		<u>16,000</u>
Total	<u>\$71,500</u>	<u>\$71,500</u>

Req. 4

Crazy Curlz, Inc.			
Statement of Financial Position			
June 30, 2015			
ASSETS		LIABILITIES	
Cash	\$2,700	Accounts Payable	\$500
Supplies	800	Notes Payable	<u>55,000</u>
Equipment	8,000	Total Liabilities	55,500
Building	<u>60,000</u>	Shareholders' Equity	
		Common Shares	<u>16,000</u>
		Total Liabilities &	
Total assets	<u>\$71,500</u>	Shareholders' Equity	<u>\$71,500</u>

(10–15 min.) E2-7A

- The amount of salary paid in April was \$5,200.
- The amount of receipt from customers in April was \$7,700.
- (1) represents the salary expense that was owed to employees, and (3) represents the credit sales.
- Cash ending balance was \$11,150.

Cash	Accounts Receivable	Salary Payable
8,650	3,780	(2) 5,200
5,200 (2)	7,700 (4)	4,200
(4) 7,700	(3) 8,270	4,600 (1)
(5) 11,150	4,350	3,600

(25–30 min.) E2-8A

Req. 2

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Dec.	2	Cash		10,000	
		Common Shares			10,000
	3	Rent Expense		800	
		Cash			800
	6	Equipment		1,600	
		Cash			1,600
	8	Furniture		2,100	
		Accounts Payable			2,100
	11	Supplies		200	
		Accounts Payable			200
	19	Accounts Receivable		900	
		Service Revenue			900
	20	Utility Expense		300	
		Cash			300
	28	Cash		1,100	
		Service Revenue			1,100

Reqs. 1 & 3

Cash			
Dec. 2	10,000	Dec. 3	800
28	1,100	6	1,600
		20	300
Bal	8,400		

Accounts Payable		
	Dec. 8	2,100
	11	200
	Bal	2,300

Accounts Receivable	
Dec. 19	900
Bal	900

Common Shares	
Dec. 2	10,000
Bal	10,000

Supplies	
Dec. 11	200
Bal	200

Service Revenue	
Dec. 19	900
28	1,100
Bal	2,000

Equipment	
Dec. 6	1,600
Bal	1,600

Rent Expense	
Dec. 3	800
Bal	800

Furniture	
Dec. 8	2,100
Bal	2,100

Utility Expense	
Dec 20	300
Bal	300

Req. 4

McDonald Consulting, Inc.		
Trial Balance		
December 31, 2015		
ACCOUNT TITLE	BALANCE	
	DEBIT	CREDIT
Cash	\$8,400	
Accounts Receivable	900	
Supplies	200	
Equipment	1,600	
Furniture	2,100	

Accounts Payable		\$2,300
Common Shares		10,000
Service Revenue		2,000
Rent Expense	800	
Utilities Expense	<u>300</u>	<u> </u>
Total	<u>\$14,300</u>	<u>\$14,300</u>

Req. 5

McDonald Consulting, Inc.		
Income Statement		
Month Ended December 31, 2015		
Service revenue		\$2,000
Expenses:		
Rent expense	\$800	
Utilities expense	300	
Total expenses		<u>1,100</u>
Net Income		<u>\$900</u>

McDonald Consulting, Inc.
Statement of Changes in Equity
Month Ended December 31, 2015

	Common Shares	Retained Earnings	Total
Balance, December 1	\$0	\$0	\$0
Issued shares	10,000		10,000
Net income		900	900
Balance, December 31	<u>\$10,000</u>	<u>\$900</u>	<u>\$10,900</u>

Note: There were no dividends during the month of December

McDonald Consulting, Inc.

Statement of Financial Position

December 31, 2015

ASSETS		LIABILITIES	
Cash	\$8,400	Accounts Payable	\$2,300
Accounts Receivable	900		
Supplies	200	SHAREHOLDERS' EQUITY	
Equipment	1,600	Common Shares	10,000
Furniture	<u>2,100</u>	Retained Earnings	<u>900</u>
		Total Shareholders' Equity	<u>10,900</u>
		Total Liabilities &	
Total Assets	<u>\$13,200</u>	Shareholders' Equity	<u>\$13,200</u>

(20–25 min.) E2-9A

Effect on Trial Balance	Account(s) Misstated
a. Total debits = Total credits	Cash \$675 too high Rent expense \$675 too low
b. Total debits = Total credits	Accounts receivable \$250 too high Accounts Payable \$250 too high
c. Total debits = Total credits	Cash \$180 too low Service revenue \$180 too low
d. Total debits = Total credits	Supplies \$240 too low Accounts payable \$240 too low
e. Total debits > Total credits	Notes payable \$15,000 too low

(20–25 min.) E2-10A

Reqs. 1 & 2

1. The Supplies account needs to be increased by \$2,000 and the Supplies Expense account needs to be decreased by \$2,000. But there will be no overall change in the debit and credit balances (the total of the trial balance will not change) because the amount of the journal entry was correct, it was simply to the wrong account. So instead of a \$2,000 debit balance in Supplies Expense, there will be a \$2,000 balance in Supplies.
2. The Unearned Revenue account needs to be decreased by \$90 and the Cash account needs to be decreased by \$90. This means that there will be an overall change in the debit and credit balances. The credit balance for Unearned Revenues will decrease by \$90 and the debit balance for Cash will decrease by \$90 overall.
3. The Salary Payable account was debited in error instead of the Salary Expense account. Therefore, the Salary Payable account needs to be increased by \$2,500 and the Salary Expense account needs to be increased by \$2,500. This will not create a change in the overall debit and credit balances because the original entry had the correct amount for the journal entry, it was simply to the wrong account.
4. The Loan from Shareholder account will need to be increased by \$10,000 and the Common Shares account will need to be decreased by \$10,000. This will not create a change in the overall debit and credit balances because the right amount of debits and credits were recorded, but simply one of the accounts was incorrect. Once fixed, the trial balance would still have the same total balance of debits and credits.
5. The Dividends account would be too high by \$3,500 and the Salary Expense account would be too low. Therefore a journal entry would be needed to increase the Salary Expense account and to decrease the Dividends account. The result would be no change to the overall debit and credit balances on the trial balance though, because the correct amounts had been recorded, but the wrong account had been used.

Overall, there is only one transaction (#2) that impacts the debit and credit balances on the trial balance. Therefore, the new balance will be \$95,010 (96,000 – 90).-

1	Dr.	Cr.	2 Changes to the Overall
Balance	96,000	96,000	Dr. & Cr. Balance
Supplies (+)	2,000		No
Supplies Expense (-)		2,000	
Unearned Revenue (-)	90		Yes
Cash (-)		90	
Salary Expense (+)	2,500		Yes
Salary Payable (+)		2,500	
Loan from Shareholder (+)		10,000	No

Common Shares (-)	10,000		
Salary Expense (+)	3,500		No
Dividends (-)		3,500	
New Balance	114,090	114,090	

Req. 3

Impact on Accounts

	Assets	Liabilities	Shareholders' Equity
1	+2,000	No	+2,000
2	-90	-90	No
3	No	+2,500	-2,500
4	No	+10,000	-10,000
5	No	No	No

(10–15 min.) E2-1B

Transaction	Account Affected	Type	↑ ▼	Dr. or Cr.
Apr. 1	Advertising Expense	Expense	Increase	Dr.
	Cash	Asset	Decrease	Cr.
3	Equipment	Asset	Increase	Dr.
	Cash	Asset	Decrease	Cr.
5	Cash	Asset	Increase	Dr.
	Common Shares	Shareholders' Equity	Increase	Cr.
9	Cash	Asset	Increase	Dr.
	Notes Payable	Liability	Increase	Cr.
12	Utilities Expense	Expense	Increase	Dr.

	Cash	Asset	Decrease	Cr.
17	Supplies	Asset	Increase	Dr.
	Cash	Asset	Decrease	Cr.

(15–20 min.) E2-2B

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
May	1	Interest Expense		500	
		Cash			500
	5	Office Furniture		2,500	
		Accounts Payable			2,500
	10	Accounts Receivable		2,700	
		Service Revenue			2,700
	12	Cash		4,500	
		Notes Payable			4,500
	19	Cash		50,000	
		Land			50,000
	21	Building		800,000	
		Notes Payable			800,000
	27	Accounts Payable		700	
		Cash			700

(15–20 min.) E2-3B

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Sep	1	Cash		40,000	
		Common Shares			40,000
	3	Supplies		200	
		Accounts Payable			200
	5	Building		32,000	
		Cash			32,000
	6	Cash		3,000	
		Service Revenue			3,000
	11	Accounts Payable		100	
		Cash			100
	18	Accounts Receivable		2,900	
		Service Revenue			2,900
	24	Cash		1,500	
		Accounts Receivable			1,500
	30	Salary Expense		650	
		Rent Expense		1,100	
		Cash			1,750

(10–15 min.) E2-4B

Req. 1

Cash				
	May 1	45,000	May 4	12,700
	6	7,500	9	200
	23	900	29	1,100
	Bal	39,400		

Accounts Payable				
	May 9	200	May 2	700
			Bal	500

Accounts Receivable

Common Shares

May 17	3,600	May 23	900	May 1	45,000
Bal	2,700			Bal	45,000

Supplies	
May 2	700
Bal	700

Service Revenue		
	May 6	7,500
	17	3,600
	Bal	11,100

Equipment	
May 4	12,700
Bal	12,700

Salary Expense	
May 29	1,100
Bal	1,100

Req. 2

Learning Fun Daycare, Inc.		
Trial Balance		
May 31, 2015		
ACCOUNT TITLE	BALANCE	
	DEBIT	CREDIT
Cash	\$39,400	
Accounts Receivable	2,700	
Supplies	700	
Equipment	12,700	
Accounts Payable		\$500
Common Shares		45,000
Service Revenue		11,100
Salary Expense	<u>1,100</u>	
Total	<u>\$56,600</u>	<u>\$56,600</u>

(15–20 min.) E2-5B

Req. 1

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Jun	2	Rent Expense		900	
		Cash			900
	4	Cash		1,500	
		Service Revenue			1,500
	8	Supplies		900	
		Accounts Payable			900
	11	Cash		1,100	
		Accounts Receivable			1,100
	15	Cash		15,000	
		Common Shares			15,000
	19	Accounts Payable		600	
		Cash			600
	27	Accounts Receivable		3,000	
		Service Revenue			3,000
	30	Notes Payable		3,500	
		Cash			3,500

Reqs. 2 & 3

Cash			
June 1	9,000	Jun 2	900
Jun 4	1,500	Jun 19	600
Jun 11	1,100	Jun 30	3,500
Jun 15	15,000		
Bal	21,600		

Accounts Payable			
Jun 19	600	Jun 1	2,600
		Jun 8	900
		Bal	2,900

Accounts Receivable			
Jun 1	1,800	Jun 11	1,100
Jun 27	3,000		
Bal	3,700		

Notes Payable			
Jun 30	3,500	Jun 1	10,000
		Bal	6,500

Supplies			
Jun 1	600		
Jun 8	900		
Bal	1,500		

Common Shares			
		Jun 1	34,500
		Jun 15	15,000
		Bal	49,500

Office Furniture			
Jun 1	1,900		
Bal	1,900		

Service Revenue			
		Jun 1	3,700
		Jun 4	1,500
		Jun 27	3,000
		Bal	8,200

Building			
Jun 1	36,000		
Bal	36,000		

Rent Expense			
Jun 1	1,500		
Jun 2	900		
Bal	2,400		

Req. 4

Spadina Realty, Inc.		
Trial Balance		
June 30, 2015		
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$21,600	
Accounts Receivable	3,700	
Supplies	1,500	
Office Furniture	1,900	
Building	36,000	
Accounts Payable		\$2,900
Notes Payable		6,500
Common Shares		49,500
Service Revenue		8,200
Rent Expense	<u>2,400</u>	<u> </u>
Total	<u>\$67,100</u>	<u>\$67,100</u>

(20–25 min.) E2-6B

Req. 1

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Sep	1	Cash		28,000	
		Common Shares			28,000
		Sold Share.			
	2	Supplies		600	
		Accounts Payable			600
		Purchased supplies on acct.			
	3	Building		80,000	
		Notes Payable			80,000
		Purchased building signing note payable.			
	4	Equipment		2,000	
		Cash			2,000
		Paid cash to purchase equipment			
	5	Notes Payable		6,000	
		Cash			6,000
		Made payment on note payable.			
	6	Accounts Payable		150	
		Cash			150
		Made payment on account.			

Req. 2

Cash			
	(1)	28,000	
		(4)	2,000
		(5)	6,000
		(6)	150
Bal		19,850	

Accounts Payable			
	(6)	150	
		(2)	600
		Bal	450

Supplies	
(2)	600
Bal	<u>600</u>

Notes Payable			
(5)	6,000	(3)	80,000
		Bal	<u>74,000</u>

Equipment	
(4)	2,000
Bal	<u>2,000</u>

Common Shares			
		(1)	28,000
		Bal	<u>28,000</u>

Building	
(3)	80,000
Bal	<u>80,000</u>

Req. 3

Dancing Antz, Inc.		
Trial Balance		
September 30, 2015		
ACCOUNT TITLE	BALANCE	
	DEBIT	CREDIT
Cash	\$19,850	
Supplies	600	
Equipment	2,000	
Building	80,000	
Accounts Payable		\$450
Notes Payable		74,000
Common Shares		<u>28,000</u>
Total	<u>\$102,450</u>	<u>\$102,450</u>

Req. 4

Dancing Antz, Inc.			
Statement of Financial Position			
September 30, 2015			
ASSETS		LIABILITIES	
Cash	\$19,850	Accounts Payable	\$450
Supplies	600	Notes Payable	<u>74,000</u>
Equipment	2,000	Total Liabilities	74,450
Building	<u>80,000</u>	SHAREHOLDERS' EQUITY	
		Common Shares	<u>28,000</u>
Total Assets	<u>\$102,450</u>	Total Liabilities & Shareholders' Equity	<u>\$102,450</u>

(10–15 min.) E2-7B

1. The amount of interest paid in May was \$2,400.
2. The amount of receipt from customers in May was \$6,450.
3. (1) represents the interest expense that was owed to creditors, and (3) represents the credit sales.
4. Cash ending balance was \$8,900.

Cash	Accounts Receivable	Interest Payable
4,850	2,480	(2) 2,400
2,400 (2)	6,450 (4)	2,200
(4) 6,450	(3) 5,700	1,600 (1)
(5) 8,900	1,730	1,400

(25–30 min.) E2-8B

Req. 1

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Feb	2	Cash		65,000	
		Common Shares			65,000
	3	Rent Expense		800	
		Cash			800
	6	Equipment		1,900	
		Cash			1,900
	8	Furniture		2,500	
		Accounts Payable			2,500
	11	Supplies		500	
		Accounts Payable			500
	19	Accounts Receivable		2,700	
		Service Revenue			2,700
	20	Utility Expense		450	
		Cash			450
	28	Cash		2,000	
		Service Revenue			2,000

Req. 2

Cash			
Feb 2	65,000	Feb 3	800
28	2,000	6	1,900
		20	450
Bal	63,850		

Accounts Payable			
		Feb 8	2,500
		11	500
		Bal	3,000

Accounts Receivable			
Feb 19	2,700		

Common Shares			
		Feb 2	65,000
		Bal	65,000

Bal	2,700	
Supplies		
Feb 11	500	
Bal	500	

Equipment		
Feb 6	1,900	
Bal	1,900	

Furniture		
Feb 8	2,500	
Bal	2,500	

Service Revenue		
	Feb 19	2,700
	28	2,000
	Bal	4,700

Rent Expense		
Feb 3	800	
Bal	800	

Utility Expense		
Feb 20	450	
Bal	450	

Req. 3

Meo Consulting, Inc.		
Trial Balance		
February 28, 2015		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$63,850	
Accounts Receivable	2,700	
Supplies	500	
Equipment	1,900	
Furniture	2,500	
Accounts Payable		\$3,000
Common Shares		65,000
Service Revenue		4,700
Rent Expense	800	
Utilities Expense	450	—
Total	<u>\$72,700</u>	<u>\$72,700</u>

Req. 4

Meo Consulting, Inc.		
Income Statement		
Month Ended February 28, 2015		
Service Revenue		\$4,700
Expenses:		
Rent Expense	\$800	
Utilities Expense	450	
Total Expenses		<u>1,250</u>
Net Income		<u>\$3,450</u>

Meo Consulting, Inc.			
Statement of Changes in Equity			
Month Ended February 28, 2015			
	Common Shares	Retained Earnings	Total
Balance, December 1	\$0	\$0	\$0
Issued shares	65,000		65,000
Net income		3,450	3,450
Balance, December 31	<u>\$65,000</u>	<u>\$3,450</u>	<u>\$68,450</u>

Note: There were no dividends during the month of February

Meo Consulting, Inc.			
Statement of Financial Position			
February 28, 2015			
ASSETS		LIABILITIES	
Cash	\$63,850	Accounts Payable	\$3,000
Accounts Receivable	2,700		
Supplies	500	SHAREHOLDERS' EQUITY	
Equipment	1,900	Common Shares	65,000
Furniture	<u>2,500</u>	Retained Earnings	<u>3,450</u>
		Total Shareholders' Equity	<u>68,450</u>
Total Assets	<u>\$71,450</u>	Total Liabilities & Shareholders' Equity	<u>\$71,450</u>

(10–15 min.) E2-9B

Effect on Trial Balance	Account(s) Misstated
a. Total debits = Total credits	Cash \$765 too high Rent expense \$765 too low
b. Total debits = Total credits	Accounts Receivable \$600 too high Accounts Payable

\$600 too high

c. Total debits = Total credits

Cash

\$540 too low

Service Revenue

\$540 too low

d. Total debits = Total credits

Supplies

\$700 too low

Accounts Payable

\$700 too low

e. Total debits > Total credits

Notes Payable

\$50,000 too low

(20–25 min.) E2-10B

Reqs. 1 & 2

1. The Accounts Payable account needs to be increased by \$2,000 and the Cash account needs to be increased by \$2,000. But there will be no overall change in the debit and credit balances (the total of the trial balance will not change) because the amount of the journal entry was correct, it was simply to the wrong account. So instead of a \$2,000 credit to Cash, there should be a \$2,000 credit to Accounts Payable.
2. The Accounts Payable account needs to be increased by \$900 and the Cash account needs to be increased by \$900. This means that there will be an overall change in the debit and credit balances. The credit balance for Accounts Payable will increase by \$900 and the debit balance for Cash will increase by \$900 overall.
3. The Salary Expense account was debited in error instead of the Dividends account. Therefore, the Salary Expense account needs to be decreased by \$1,500 and the Dividends account needs to be increased by \$1,500. This will not create a change in the overall debit and credit balances because the original entry had the correct amount for the journal entry, it was simply to the wrong account.
4. The Common Shares account will need to be increased by \$6,000 and the Revenue account will need to be decreased by \$6,000. This will not create a change in the overall

debit and credit balances because the right amount of debits and credits were recorded, but simply one of the accounts was incorrect. Once fixed, the trial balance would still have the same total balance of debits and credits.

Overall, there is only one transaction (#2) that impacts the debit and credit balances on the trial balance. Therefore, the new balance will be \$41,100 (42,000 – 900).

Req. 3

Impact on Accounts

	Assets	Liabilities	Shareholders' Equity
1	+2,000	+2,000	No
2	+900	+900	No
3	No	No	No
4	No	No	No

Problems

(15–20 min.) P2-1A

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
June	1	Cash		40,000	
		Common Shares			40,000
	3	Supplies		600	
		Cash			600
	8	Land		28,000	
		Cash			28,000
	12	Office Equipment		1,800	
		Accounts Payable			1,800
	17	Cash		5,000	

		Notes Payable			5,000
	26	Accounts Payable		2,600	
		Cash			2,600
	30	Cash		15,000	
		Accounts Receivable		27,000	
		Service Revenue			42,000
	30	Salary Expense		2,900	
		Rent Expense		1,400	
		Utilities Expense		700	
		Cash			5,000
	30	Dividends		9,000	
		Cash			9,000

(15–20 min.) P2-2A

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Nov	1	Cash		200,000	
		Notes Payable			200,000
	3	Building		145,000	
		Cash			145,000
	6	Accounts Receivable		14,700	
		Service Revenue			14,700
	9	Supplies		1,600	
		Accounts Payable			1,600
	13	Cash		8,100	
		Service Revenue			8,100
	15	Dividends		6,000	
		Cash			6,000
	17	Cash		6,600	
		Accounts Receivable			6,600

	18	Property Tax Expense		1,600	
		Cash			1,600
	22	Salary Expense		2,800	
		Cash			2,800
	26	Supplies		700	
		Cash			700
	30	Accounts Payable		2,000	
		Cash			2,000

(20–25 min.) P2-3A

Req. 2

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Mar	1	Cash		40,000	
		Common Shares			40,000
	3	Supplies		400	
		Furniture		2,100	
		Accounts Payable			2,500
	5	Cash		1,700	
		Service Revenue			1,700
	8	Land		18,000	
		Cash			18,000
	11	Accounts Receivable		500	
		Service Revenue			500
	14	Salary Expense		1,100	
		Cash			1,100
	16	Accounts Payable		2,100	
		Cash			2,100
	19	Cash		800	
		Service Revenue			800
	23	Accounts Receivable		1,300	

		Service Revenue			1,300
	28	Cash		300	
		Accounts Receivable			300
	31	Salary Expense		900	
		Cash			900
	31	Rent Expense		1,200	
		Cash			1,200
	31	Dividends		1,800	
		Cash			1,800

Reqs. 1, 3, & 4

Cash			
Mar 1	40,000	Mar 8	18,000
5	1,700	14	1,100
19	800	16	2,100
28	300	31	900
		31	1,200
		31	1,800
Bal	17,700		

Accounts Payable			
Mar 16	2,100	Mar 3	2,500
		Bal	400

Common Shares	
Mar 1	40,000
Bal	40,000

Accounts Receivable			
Mar 11	500	Mar 28	300
23	1,300		
Bal	1,500		

Dividends		
Mar 31	1,800	
Bal	1,800	

Supplies	
Mar 3	400
Bal	400

Service Revenue			
	Mar 5	1,700	
	11	500	
	19	800	
	23	1,300	
	Bal	4,300	

Furniture	
Mar 3	2,100
Bal	2,100

Salary Expense		
Mar 14	1,100	
31	900	
Bal	2,000	

Land	
Mar 8	18,000

Rent Expense	
Mar 31	1,200

			REF.		
Jul	16	Cash	110	2,500	
		Accounts Receivable	112		2,500
		Received payment on account.			
	18	Accounts Receivable	112	1,900	
		Service Revenue	411		1,900
		Performed service on account.			
	21	Cash	110	1,700	
		Service Revenue	411		1,700
		Performed service for cash.			
	23	Supplies	115	600	
		Accounts Payable	210		600
		Purchased supplies on account.			
	25	Dividends	315	1,400	
		Cash	110		1,400
		Paid dividends.			
	27	Accounts Payable	210	3,200	
		Cash	110		3,200
		Made payment on account.			
	29	Cash	110	2,900	
		Service Revenue	411		2,900
		Received cash for services performed.			
	30	Rent Expense	515	1,200	
		Cash	110		1,200
		Paid rent.			
	30	Salary Expense	511	2,500	
		Cash	110		2,500
		Paid employee salaries.			

Req. 2

CASH				ACCOUNT NO. 110
		POST.		BALANCE

DATE		ITEM	REF.	DEBIT	CREDIT	DEBIT	CREDIT
Jul	15	Bal	√			3,500	
	16		J.6	2,500		6,000	
	21		J.6	1,700		7,700	
	25		J.6		1,400	6,300	
	27		J.6		3,200	3,100	
	29		J.6	2,900		6,000	
	30		J.6		1,200	4,800	
	30		J.6		2,500	2,300	

ACCOUNTS RECEIVABLE						ACCOUNT NO. 112	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√			7,700	
	16		J.6		2,500	5,200	
	18		J.6	1,900		7,100	

SUPPLIES						ACCOUNT NO. 115	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√			700	
	23		J.6	600		1,300	

EQUIPMENT						ACCOUNT NO. 140	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√			13,200	

ACCOUNTS PAYABLE						ACCOUNT NO. 210	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√				4,500
	23		J.6		600		5,100
	27		J.6	3,200			1,900

ACCOUNT NO. 311							
COMMON SHARES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√				20,000

ACCOUNT NO. 315							
DIVIDENDS							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√			2,600	
	25		J.6	1,400		4,000	

ACCOUNT NO. 411							
SERVICE REVENUE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√				6,700
	18		J.6		1,900		8,600
	21		J.6		1,700		10,300
	29		J.6		2,900		13,200

ACCOUNT NO. 511						
SALARY EXPENSE						

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√			2,200	
	30		J.6	2,500		4,700	

RENT EXPENSE						ACCOUNT NO. 515	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jul	15	Bal	√			1,300	
	30		J.6	1,200		2,500	

Req. 3

TDR Systems, Inc.			
Trial Balance			
July 31, 2015			
	ACCOUNT	DEBIT	CREDIT
	Cash	\$2,300	
	Accounts Receivable	7,100	
	Supplies	1,300	
	Equipment	13,200	
	Accounts Payable		\$1,900
	Common Shares		20,000
	Dividends	4,000	
	Service Revenue		13,200

	Salary Expense	4,700	
	Rent Expense	<u>2,500</u>	<u> </u>
	Total	<u>\$35,100</u>	<u>\$35,100</u>

(20–25 min.) P2-5A

Req. 1

Cascade Consulting, Inc.		
Trial Balance		
December 31, 2015		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	\$8,300	
Accounts Receivable	6,500	
Supplies	400	
Building	110,000	
Land	24,000	
Accounts Payable		\$3,700
Notes Payable		76,000
Common Shares		65,000
Retained Earnings		9,700
Dividends	13,500	
Service Revenue		83,000
Salary Expense	51,000	
Rent Expense	12,800	

Utilities Expense	6,400	
Supplies Expense	2,800	
Insurance Expense	<u>1,700</u>	<u> </u>
Total	<u>\$237,400</u>	<u>\$237,400</u>

Req. 2

Cascade Consulting, Inc.		
Income Statement		
Year Ended December 31, 2015		
Service Revenue		\$83,000
Expenses		
Salary Expense	\$51,000	
Rent Expense	12,800	
Utilities Expense	6,400	
Supplies Expense	2,800	
Insurance Expense	<u>1,700</u>	
Total Expenses		<u>74,700</u>
Net Income		<u>\$8,300</u>

Cascade Consulting, Inc.			
Statement of Changes in Equity			
Year Ended December 31, 2015			
	Common Shares	Retained Earnings	Total
Balance, December 1	\$65,000	\$9,700	\$74,700
Net income		8,300	8,300
Dividends		(13,500)	(13,500)
Balance, December 31	<u>\$65,000</u>	<u>\$4,500</u>	<u>\$69,500</u>

Cascade Consulting, Inc.			
Statement of Financial Position			
December 31, 2015			
ASSETS		LIABILITIES	
Cash	\$8,300	Accounts Payable	\$3,700
Accounts Receivable	6,500	Note Payable	<u>76,000</u>
Supplies	400	Total Liabilities	79,700
Land	24,000	SHAREHOLDERS' EQUITY	
Building	<u>110,000</u>	Common Shares	65,000
		Retained Earnings	<u>4,500</u>
		Total Shareholders' Equity	<u>69,500</u>
		Total Liabilities And	
Total Assets	<u>\$149,200</u>	Shareholders' Equity	<u>\$149,200</u>

Req. 3

It was a profitable year for Cascade Consulting, Inc. from the standpoint that the business generated \$8,300 of net income. However, \$8,300 was not very much income for a whole year.

(15–20 min.) P2-6A

Req. 1

Journal Page 3				
DATE	ACCOUNTS	POST. REF.	DR.	CR.
	a. Cash		90	
	Service Revenue			90

		($\$980 - \$890 = \$90$)			
	b.	Supplies		540	
		Accounts Payable			540
		The original entry was recorded “backwards” so an entry for double the amount needs to be made.			
	c.	Cash		10,800	
		Rent Expense			10,800
		($\$12,000 - \$1,200 = \$10,800$)			
	d.	Accounts Payable		850	
		Accounts Receivable			850

Req. 2

- a. Net income is understated because Service Revenue was credited (increased) by only \$890 instead of the correct amount of \$980.
- b. Net income would be unchanged because the entry did not affect a revenue or an expense.
- c. Net income would be understated because Rent Expense was debited (increased) by \$12,000 instead of the correct amount of \$1,200.
- d. Net income would be unchanged because the entry did not effect a revenue or an expense.

(20–25 min.) P2-7A

Req. 1

Cash		Accounts Payable		Revenue	
5,000	2,500	900	2,400		(2) 4,900
(1) 2,500	900		(4) 1,200		
4,100			2,700		
Accounts Receivable		Unearned Revenue		Utilities Expense	
2,400			(1) 2,500	(4) 1,200	
(2) 4,900	5,000				
2,300					
Equipment		Note Payable			
3,200		2,500	3,200		
(3) 4,000			(3) 4,000		
7,200			4,700		

Req. 2

1. Received cash of \$2,500 from customers for services to be delivered in the future.
2. Provided services worth \$4,900 for customers on account.
3. Purchased equipment worth \$4,000 by signing a note payable.
4. Utilities expense of \$1,200 was not paid.

Req. 3

KopyKat, Inc.		
Trial Balance		
As of March 31, 2015		
	Dr.	Cr.
Cash	4,100	
Accounts Receivable	2,300	
Equipment	7,200	
Accounts Payable		2,700
Unearned Revenue		2,500
Note Payable		4,700
Revenue		4,900
Utilities Expense	<u>1,200</u>	
Total	<u>14,800</u>	<u>14,800</u>

(30–40 min.) P2-8A

Req. 2

DATE	ACCOUNT TITLE	DR.	CR.
Oct 02	Prepaid Rent	2,400	
	Rent Expense	1,200	
	Cash		3,600
3	No entry		
10	Cash	14,000	
	Common Shares		5,000

	Preferred Shares		9,000
14	Accounts Payable	2,500	
	Cash		2,500
20	Cash	6,500	
	Unearned Advertising		6,500
30	Cash	3,100	
	Accounts Receivable	6,200	
	Advertising Revenue		9,300
31	Advertising Expense	1,800	
	Accounts Payable		1,800
31	Salary Expense	4,300	
	Cash		4,300
31	Dividends	2,400	
	Cash		2,400

Reqs. 1 & 2

Cash		Accounts Payable		Retained Earnings	
8,600	3,600	2,500	5,000		6,000
14,000	2,500		1,800		
6,500	4,300		4,300		
3,100	2,400				Dividends
32,200	12,800				2,400
<u>19,400</u>					
Accounts Receivable		Unearned Advertising Revenue			Advertising Revenue
			3,000		
4,200			6,500		
6,200			9,500		9,300
10,400		Long-Term Note Payable			Advertising Expense
Prepaid Insurance					
			32,000		
1,200					1,800
Prepaid Rent		Preferred Shares			
					Salary Expense
2,400			9,000		
Equipment		Common Shares			4,300
42,000			10,000		Rent Expense
			5,000		
			15,000		1,200

Req. 3

Gleaner Advertising, Inc.			
Trial Balance			
October 31, 2015			
Account #	Account Title	Dr.	Cr.
1010	Cash	19,400	
1020	Accounts Receivable	10,400	
1030	Prepaid Insurance	1,200	
1040	Prepaid Rent	2,400	
1400	Equipment	42,000	
2010	Accounts Payable		4,300
2020	Unearned Advertising Revenue		9,500
2100	Long-term Note Payable		32,000
3010	Preferred Shares		9,000
3015	Common Shares (5,000 shares)		15,000
3030	Retained Earnings		6,000
3040	Dividends	2,400	
4010	Advertising Revenue		9,300
5010	Advertising Expense	1,800	
5020	Salary Expense	4,300	
5030	Rent Expense	<u>1,200</u>	
	Total	<u>85,100</u>	<u>\$85,100</u>

Req. 4

Gleaner Advertising, Inc.		
Income Statement		
For month ended Oct. 31, 2015		
Revenue		
Advertising Revenue		\$9,300
Expenses		
Advertising Expense	1,800	
Salary Expense	4,300	
Rent Expense	<u>1,200</u>	
Total Expenses		\$7,300
Net Income		<u>\$2,000</u>

Gleaner Advertising, Inc.						
Statement of Changes in Equity						
For month ended Oct. 31, 2015						
	<u>Preferred Shares</u>		<u>Common Shares</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u># of Shares</u>	<u>\$</u>	<u># of Shares</u>	<u>\$</u>		
Balance, Oct. 1, 2015	0	\$0	5,000	10,000	\$6,000	\$16,000
Issued Preferred Shares	3,000	9,000				\$9,000
Issued Common Shares			2,000	5,000		\$5,000
Net Income					2,000	\$2,000
Dividends					-2,400	-\$2,400

Balance, Oct. 31, 2015	3,000	\$9,000	7,000	\$15,000	\$5,600	\$29,600
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(15–20 min.) P2-1B

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Nov	1	Cash		50,000	
		Common Shares			50,000
	3	Supplies		300	
		Cash			300
	8	Land		32,000	
		Cash			32,000
	12	Office Equipment		3,000	
		Accounts Payable			3,000
	17	Cash		45,000	
		Notes Payable			45,000
	26	Accounts Payable		2,500	
		Cash			2,500
	30	Cash		9,000	
		Accounts Receivable		11,000	
		Service Revenue			20,000
	30	Salary Expense		2,650	
		Rent Expense		1,200	
		Utilities Expense		600	
		Cash			4,450
	30	Dividends		2,500	
		Cash			2,500

(15–20 min.) P2-2B

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
July	1	Cash		190,000	
		Notes Payable			190,000
	3	Building		110,000	
		Cash			110,000
	6	Accounts Receivable		18,400	
		Service Revenue			18,400
	9	Supplies		1,200	
		Accounts Payable			1,200
	13	Cash		8,500	
		Service Revenue			8,500
	15	Dividends		3,000	
		Cash			3,000
	17	Cash		2,900	
		Accounts Receivable			2,900
	18	Property Tax Expense		1,400	
		Cash			1,400
	22	Salary Expense		3,150	
		Cash			3,150
	26	Supplies		500	
		Cash			500
	31	Accounts Payable		2,200	
		Cash			2,200

(20–25 min.) P2-3B

Req. 2

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
May	1	Cash		80,000	
		Common Shares			80,000
	3	Supplies		500	
		Furniture		1,200	
		Accounts Payable			1,700
	5	Cash		2,700	
		Service Revenue			2,700
	8	Land		22,000	
		Cash			22,000
	11	Accounts Receivable		2,500	
		Service Revenue			2,500
	14	Salary Expense		1,200	
		Cash			1,200
	16	Accounts Payable		1,200	
		Cash			1,200
	19	Cash		700	
		Service Revenue			700
	23	Accounts Receivable		1,300	
		Service Revenue			1,300
	28	Cash		400	
		Accounts Receivable			400
	31	Salary Expense		1,200	
		Cash			1,200
	31	Rent Expense		1,700	
		Cash			1,700
	31	Dividends		1,200	
		Cash			1,200

Reqs. 1, 3, & 4

Cash			
May 1	80,000	May 8	22,000
5	2,700	14	1,200
19	700	16	1,200
28	400	31	1,200
		31	1,700
		31	1,200
Bal	55,300		

Accounts Payable			
May 16	1,200	May 3	1,700
		Bal	500

Common Shares		
	May 1	80,000
	Bal	80,000

Accounts Receivable			
May 11	2,500	May 28	400
23	1,300		
Bal	3,400		

Dividends		
May 31	1,200	
Bal	1,200	

Supplies		
May 3	500	
Bal	500	

Service Revenue		
	May 5	2,700
	11	2,500
	19	700
	23	1,300
	Bal	7,200

Furniture		
May 3	1,200	
Bal	1,200	

Salary Expense		
May 14	1,200	
31	1,200	
Bal	2,400	

Land		
May 8	22,000	
Bal	22,000	

Rent Expense		
May 31	1,700	
Bal	1,700	

Req. 5

Sargent & Associates, Inc.		
Trial Balance		
May 31, 2015		
	BALANCE	
ACCOUNT TITLE	DEBIT	CREDIT
Cash	\$55,300	
Accounts Receivable	3,400	
Supplies	500	
Furniture	1,200	
Land	22,000	
Accounts Payable		\$500
Common Shares		80,000
Dividends	1,200	
Service Revenue		7,200
Salary Expense	2,400	
Rent Expense	<u>1,700</u>	<u> </u>
Total	<u>\$87,700</u>	<u>\$87,700</u>

(25–30 min.) P2-4B

Req. 1

Journal Page 6					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Mar	16	Cash	1010	1,700	
		Accounts Receivable	1020		1,700
		Received payment on account.			
	18	Accounts Receivable	1020	1,900	
		Service Revenue	4010		1,900
		Performed service on account.			
	21	Cash	1010	1,500	
		Service Revenue	4010		1,500
		Performed service for cash.			
	23	Supplies	1030	700	
		Accounts Payable	2010		700
		Purchased supplies on account.			
	25	Dividends	3020	1,300	
		Cash	1010		1,300
		Paid dividends.			
	27	Accounts Payable	1020	3,300	
		Cash	1010		3,300
		Made payment on account.			
	29	Cash	1010	2,500	
		Service Revenue	4010		2,500
		Received cash for services performed.			
	30	Rent Expense	5050	1,600	
		Cash	1010		1,600
		Paid rent.			
	30	Salary Expense	5010	2,600	
		Cash	1010		2,600
		Paid employee salaries.			

Req. 2

CASH					ACCOUNT NO. 110		
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√			4,400	
	16		J.6	1,700		6,100	
	21		J.6	1,500		7,600	
	25		J.6		1,300	6,300	
	27		J.6		3,300	3,000	
	29		J.6	2,500		5,500	
	30		J.6		1,600	3,900	
	30		J.6		2,600	1,300	

ACCOUNTS RECEIVABLE					ACCOUNT NO. 112		
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√			8,900	
	16		J.6		1,700	7,200	
	18		J.6	1,900		9,100	

SUPPLIES					ACCOUNT NO. 115		
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√			100	
	23		J.6	700		800	

EQUIPMENT						ACCOUNT NO. 140	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√			16,000	

ACCOUNTS PAYABLE						ACCOUNT NO. 210	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√				4,100
	23		J.6		700		4,800
	27		J.6	3,300			1,500

COMMON SHARES						ACCOUNT NO. 311	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√				23,900

DIVIDENDS						ACCOUNT NO. 315	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√			2,800	
	25		J.6	1,300		4,100	

SERVICE REVENUE						ACCOUNT NO. 411	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√				7,700
	18		J.6		1,900		9,600
	21		J.6		1,500		11,100
	29		J.6		2,500		13,600

SALARY EXPENSE						ACCOUNT NO. 511	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√			2,200	
	30		J.6	2,600		4,800	

RENT EXPENSE						ACCOUNT NO. 515	
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Mar	15	Bal	√			1,300	
	30		J.6	1,600		2,900	

Req. 3

BFF Systems, Inc.			
Trial Balance			
March 31, 2015			
	ACCOUNT	DEBIT	CREDIT
	Cash	\$1,300	
	Accounts Receivable	9,100	
	Supplies	800	
	Equipment	16,000	
	Accounts Payable		\$1,500
	Common Shares		23,900
	Dividends	4,100	
	Service Revenue		13,600
	Salary Expense	4,800	
	Rent Expense	<u>2,900</u>	<u> </u>
	Total	<u>\$39,000</u>	<u>\$39,000</u>

(20–25 min.) P2-5B

Req. 1

Highland Consulting, Inc.		
Trial Balance		
August 31, 2015		
	BALANCE	
ACCOUNT	DEBIT	CREDIT
Cash	\$9,200	
Accounts Receivable	5,500	
Supplies	600	
Building	91,000	
Land	89,000	
Accounts Payable		\$4,000
Notes Payable		68,000
Common Shares		107,700
Retained Earnings		13,600
Dividends	10,000	
Service Revenue		86,500
Salary Expense	56,000	
Rent Expense	8,700	
Utilities Expense	5,400	
Supplies Expense	3,100	
Insurance Expense	<u>1,300</u>	<u>—</u>
Total	<u>\$279,800</u>	<u>\$279,800</u>

Req. 2

Highland Consulting, Inc.		
Income Statement		
Year Ended August 31, 2015		
Service Revenue		\$86,500
Expenses		
Salary Expense	\$56,000	
Rent Expense	8,700	
Utilities Expense	5,400	
Supplies Expense	3,100	
Insurance Expense	<u>1,300</u>	
Total Expenses		<u>74,500</u>
Net Income		<u>\$12,000</u>

Highland Consulting, Inc.			
Statement of Changes in Equity			
Year Ended August 31, 2015			
	Common Shares	Retained Earnings	Total
Balance, September 1, 2014	\$107,700	\$13,600	\$121,300
Net income		12,000	12,000
Dividends		(10,000)	(10,000)
Balance, August 31, 2015	<u>\$107,700</u>	<u>\$15,600</u>	<u>\$123,300</u>

Highland Consulting, Inc.
Statement of Financial Position

August 31, 2015			
ASSETS		LIABILITIES	
Cash	\$9,200	Accounts Payable	\$4,000
Accounts Receivable	5,500	Note Payable	<u>68,000</u>
Supplies	600	Total Liabilities	72,000
Land	89,000	SHAREHOLDERS' EQUITY	
Building	<u>91,000</u>	Common Shares	107,700
		Retained Earnings	<u>15,600</u>
		Total Shareholders' Equity	<u>123,300</u>
		Total Liabilities &	
Total Assets	<u>\$195,300</u>	Shareholders' Equity	<u>\$195,300</u>

Req. 3

It was a profitable year for Highland Consulting, Inc. from the standpoint that the business generated \$12,000 of Net income. However, \$12,000 was not very much income for a whole year.

(15–20 min.) P2-6B

Req. 1

Journal Page 3				
DATE	ACCOUNTS	POST. REF.	DR.	CR.
	a. Cash		270	
	Service Revenue			270
	(\$1,410 – \$1,140 = \$270)			
	b. Supplies		300	
	Accounts Payable			300
	The original entry was recorded “backwards” so an entry for double the amount needs to be			

		made.			
	c.	Cash		7,200	
		Rent Expense			7,200
		(\$8,000 – \$800 = \$7,200)			
	d.	Accounts Payable		815	
		Accounts Receivable			815

Req. 2

- a. Net income is understated because Service Revenue was credited (increased) by only \$1,140 instead of the correct amount of \$1,410.
- b. Net income would be unchanged because the entry did not affect a revenue or an expense.
- c. Net income would be understated because Rent expense was debited (increased) by \$8,000 instead of the correct amount of \$800.
- d. Net income would be unchanged because the entry did not affect a revenue or an expense.

(20–25 min.) P2-7B

Req. 1

Cash		Accounts Payable		Revenue	
2,000	2,500	800	1,300		(1) 5,800
5,900	800		(2) 1,600		
	(4) 3,000		2,100		Salary Expense
1,600		Salary Payable		(3) 4,200	
Accounts Receivable		2,500	4,400		
2,400			(3) 4,200		
(1) 5,800	5,900		6,100		
2,300		Dividends			
Supplies		(4) 3,000			
1,300					
(2) 1,600					
2,900					

Req. 2

1. Provided services worth \$5,800 for customers on account.
2. Purchased supplies of \$1,600 on account.
3. Salary expense of \$4,200 incurred and has not yet been paid.
4. Paid \$3,000 of dividends.

Req. 3

Dragon Boat, Inc.		
Trial Balance		
As of July 31, 2015		
	Dr.	Cr.
Cash	1,600	
Accounts Receivable	2,300	
Supplies	2,900	
Accounts Payable		2,100
Salary Payable		6,100
Dividends	3,000	
Revenue		5,800
Salary Expense	4,200	
Total	<u>14,000</u>	<u>14,000</u>

(30–40 min.) P2-8B

Req. 2

DATE	ACCOUNT TITLE	DR.	CR.
Mar 01	No entry		
3	Accounts Payable	2,200	
	Cash		2,200
4	Prepaid Rent	4,500	
	Rent Expense	1,500	

	Cash		6,000
10	Cash	16,800	
	Common Shares		6,800
	Preferred Shares		10,000
14	No entry		
20	Cash	4,800	
	Unearned Cleaning Revenue		4,800
25	Cleaning Supplies	1,700	
	Cleaning Supplies Expense	1,700	
	Accounts Payable		3,400
30	Cash	6,300	
	Accounts Receivable	2,100	
	Cleaning Revenue		8,400
31	Salary Expense	3,600	
	Cash		3,600
31	Dividends	1,800	
	Cash		1,800

Reqs. 1 & 2

Cash		Accounts Payable		Retained Earnings	
7,200	2,200	2,200	6,600		6,500
16,800	6,000		3,400		
4,800	3,600		7,800		
6,300	1,800				
35,100	13,600	Unearned Cleaning Revenue		Dividends	
<u>21,500</u>			4,400	1,800	
Accounts Receivable			4,800		
3,800			9,200		
2,100		Long-Term Note Payable		Cleaning Revenue	
5,900			34,000		8,400
Cleaning Supplies					
500				Cleaning Supplies Exp	
1,700		Preferred Shares		1,700	
2,200			10,000		
Prepaid Rent				Salary Expense	
4,500				3,600	
		Common Shares			
Truck			12,000	Rent Expense	
52,000			6,800	1,500	
			18,800		

Req. 3

Smile Maids, Inc.			
Trial Balance			
March 31, 2015			
Account #	Account Title	Dr.	Cr.
1010	Cash	21,500	
1020	Accounts Receivable	5,900	
1030	Cleaning Supplies	2,200	
1040	Prepaid Rent	4,500	
1400	Truck	52,000	
2010	Accounts Payable		7,800
2020	Unearned Cleaning Revenue		9,200
2100	Long-term Note Payable		34,000
3010	Preferred Shares (2,500 shares)		10,000
3015	Common Shares (46,000 shares)		18,800
3030	Retained Earnings		6,500
3040	Dividends	1,800	
4010	Cleaning Revenue		8,400
5010	Cleaning Supplies Expense	1,700	
5020	Salary Expense	3,600	
5030	Rent Expense	1,500	
	Total	<u>94,700</u>	<u>\$94,700</u>

Req. 4

Smile Maids, Inc.		
Income Statement		
For month ended March 31, 2015		
Revenue		
Cleaning Revenue		\$8,400
Expenses		
Cleaning Supplies Expense	1,700	
Salary Expense	3,600	
Rent Expense	<u>1,500</u>	
Total Expenses		<u>\$6,800</u>
Net Income		<u>\$1,600</u>

Smile Maids, Inc.						
Statement of Changes in Equity						
For month ended March 31, 2015						
	Preferred Shares		Common Shares		Retained Earnings	Total
	# of Shares	\$	# of Shares	\$		
Balance, Oct. 1, 2015	0	\$0	4,000	\$12,000	\$6,500	\$18,500
Issued Preferred Shares	2,500	10,000				\$10,000
Issued Common Shares			2,000	6,800		\$6,800
Net Income					1,600	\$1,600
Dividends					- 1,800	-\$1,800

Balance, Oct. 31, 2015	2,500	\$10,000	6,000	\$18,800	\$6,300	\$35,100
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Continuing Exercise

Req. 2

6/1	Cash	1,000	
	Common Shares		1,000
6/3	Equipment	1,400	
	Accounts Payable		1,400
6/5	Fuel Expense	20	
	Cash		20
6/6	Accounts Receivable	200	
	Service Revenue		200
6/8	Lawn Supplies	50	
	Cash		50
6/17	Cash	500	
	Service Revenue		500
6/30	Cash	50	
	Accounts Receivable		50

Req. 3

Assets				=	Liabilities		+	Shareholders' Equity	
Cash					Lawn Supplies			Accounts Payable	
								Common Shares	
6/1	1,000	20	6/5	6/8	50			1,400	6/3
6/17	500	50	6/8						
6/30	50								
Bal	1,480			Bal	50			1,400	Bal
					Equipment			Retained Earnings	
				6/3	1,400				
				Bal	1,400				
Accounts Receivable								Service Revenue	
6/6	200	50	6/30					200	6/6
Bal	150							500	6/17
								700	Bal
								Fuel Expense	
				6/5	20				
				Bal	20				

Req. 4

**Graham's YardCare, Inc.
Trial Balance
June 30, 2015**

ACCOUNT	DEBIT	CREDIT
Cash	\$1,480	
Accounts Receivable	150	
Lawn Supplies	50	
Equipment	1,400	
Accounts Payable		\$1,400
Common Shares		1,000
Service Revenue		700
Fuel Expense	20	
Total	<u>\$3,100</u>	<u>\$3,100</u>

Continuing Problem

Req. 1

Journal Page 6					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Jun	1	Salary Expense		675	
		Cash			675
	2	Land		15,000	
		Cash			15,000
	3	Rent Expense		1,800	
		Cash			1,800
	4	Cash		1,700	
		Service Revenue			1,700
	5	Cash		500	
		Accounts Receivable			500
	8	Supplies		750	
		Accounts Payable			750
	11	Accounts Receivable		3,800	

		Service Revenue			3,800
	13	Cash		10,000	
		Common Shares			10,000
	16	Salary Expense		675	
		Cash			675
	17	Cash		1,350	
		Service Revenue			1,350
	18	Cash		1,500	
		Accounts Receivable			1,500
	19	Advertising Expense		325	
		Cash			325
	21	Accounts Payable		1,000	
		Cash			1,000
	22	Office Furniture		3,300	
		Accounts Payable			3,300
	24	Miscellaneous Expense		275	

		Cash			275
	26	Accounts Receivable		1,100	
		Service Revenue			1,100
	28	Cash		300	
		Accounts Receivable			300
	30	Utilities Expense		745	
		Cash			745
	30	Salary Expense		675	
		Cash			675
	30	Dividends		1,800	
		Cash			1,800

Req. 2

CASH							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal				24,475	
Jun	1				675	23,800	
	2				15,000	8,800	
	3				1,800	7,000	
	4			1,700		8,700	
	5			500		9,200	
	13			10,000		19,200	
	16				675	18,525	
	17			1,350		19,875	
	18			1,500		21,375	
	19				325	21,050	
	21				1,000	20,050	
	24				275	19,775	
	28			300		20,075	
	30				745	19,330	
	30				675	18,655	
	30				1,800	16,855	

ACCOUNTS RECEIVABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal				1,200	
Jun	5				500	700	
	11			3,800		4,500	
	18				1,500	3,000	
	26			1,100		4,100	
	28				300	3,800	

SUPPLIES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal				860	
Jun	8			750		1,610	

LAND							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jun	2			15,000		15,000	

OFFICE FURNITURE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jun	22			3,300		3,300	

EQUIPMENT							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal				4,700	

VEHICLES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal				31,000	

ACCOUNTS PAYABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal					840
Jun	8				750		1,590
	21			1,000			590
	22				3,300		3,890

NOTES PAYABLE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal					31,000

COMMON SHARES							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal					28,500
Jun	13				10,000		38,500

DIVIDENDS							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal				1,000	
Jun	30			1,800		2,800	

SERVICE REVENUE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal					4,050
Jun	4				1,700		5,750
	11				3,800		9,550
	17				1,350		10,900
	26				1,100		12,000

SALARY EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal				675	
Jun	1			675		1,350	
	16			675		2,050	
	30			675		2,700	

RENT EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jun	3			1,800		1,800	

UTILITIES EXPENSE							
DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
May	31	Bal				480	
Jun	30			745		1,225	

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

MISCELLANEOUS EXPENSE						
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jun	24		275		275	

Req. 3

Aqua Elite, Inc.			
Trial Balance			
June 30, 2015			
	ACCOUNT	DEBIT	CREDIT
	Cash	\$16,855	
	Accounts Receivable	3,800	
	Supplies	1,610	
	Land	15,000	
	Office Furniture	3,300	
	Equipment	4,700	
	Vehicles	31,000	
	Accounts Payable		\$3,890
	Notes Payable		31,000
	Common Shares		38,500
	Dividends	2,800	
	Service Revenue		12,000

Salary Expense	2,700	
Rent Expense	1,800	
Utilities Expense	1,225	
Advertising Expense	325	
Miscellaneous Expense	<u>275</u>	<u> </u>
Total	<u>\$85,390</u>	<u>\$85,390</u>

APPLY YOUR KNOWLEDGE

Ethics in Action

Case #1

- Jamie should not debit the Dividends account rather than the Legal Expense account. It would be wrong to debit the Dividends account because the transaction was *not* a dividend but rather the payment of an expense.
- It does matter how the \$5,000 payment is recorded. By debiting the Dividends account rather than the proper expense account, the net income will be higher on the income statement. While it is true that the trial balance will show that total debits equal total credits either way, it will not reveal inaccurate or improper individual account balances. The purpose of properly recording each business transaction is to provide a set of financial statements that accurately reflect the results of operations and related financial position.
- Jamie does have an ethical responsibility to accurately record the transactions as she is providing financial statements to the bank. Since the bank is relying on the accuracy of the financial statements, it assumes that the income statement properly includes all the expenses for the business. By omitting the \$5,000 expense, Jamie is giving the bank an inaccurate and misleading income statement.

Case #2

- Jim's actions were not justified. The journal is where all the business transactions are initially entered into the accounting records. It is important that transactions are correctly

entered and posted to ultimately ensure accurate financial statements. Even though the expense total is the same, Wage Expense will not reflect the true amount of wages actually incurred and thus will not be accurate.

- There are ethical concerns. Jim has a responsibility to ensure that all the business transactions are properly recorded. He cannot misclassify expense transactions to obtain account balances that reflect what he feels they should reflect rather than the reality of what actually happened. This is misleading. Users of financial information depend upon the accountants to properly record and post all transactions to provide accurate information; therefore, accountants have an ethical duty to ensure accurate financial reporting.
- As the owner of ProCare Lawnservice you should have a problem with Jim’s actions. You need to have accurate financial information for decision-making purposes. Accordingly, by Jim reducing the actual amount of Wage Expense, you may not be aware of the actual labour costs and may decide to hire additional employees. You depend upon the accountant to provide accurate financial reports, and thus, Jim has not fulfilled his obligation as an accountant.

KNOW YOUR BUSINESS

Financial Analysis

The journal entries would be as follows:

Journal					
DATE		ACCOUNTS	POST. REF.	DR.	CR.
Jan	3	Equipment		485,000	
		Cash			485,000
	7	Wages Expense		45,000	
		Cash			45,000

	10	Inventories		500,000	
		Accounts Payable			500,000
	15	Accounts Receivable		642,000	
		Sales Revenue			642,000
	29	Accounts Payable		167,500	
		Cash			167,500

Industry Analysis

1. The relevant statement to evaluate is the statement of income. The revenues are higher for Boeing (\$81.6Bn) than Bombardier (\$16.7Bn) based on 2012 results.
2. The relevant statement to evaluate is the consolidated statement of financial position. The assets are higher for Boeing (\$88.8Bn) than for Bombardier (\$25.7Bn) based on 2012 results.
3. The relevant statement to evaluate is the consolidated balance sheet. The total liabilities are higher for Boeing (\$74.8Bn) than for Bombardier (\$24.4Bn) based on 2012 results.
4. In 2010, the gross profit margin for Boeing (2012) is 15.9% and the gross profit margin for Bombardier is 14.9% in 2012. The market conditions (i.e., recession) and input costs will have the most significant impact on the gross profit margins of both companies. In addition, as different products have different margins, the mix of products that are sold during the year will also impact the overall gross profit margin.
5. Boeing paid dividends of 1.322Bn in 2012 while Bombardier paid \$249 million for their fiscal year ended 2012. This is found on the statement of cash flows under financing activities.
6. The solution to this question will depend on your risk tolerance and investment objectives. One answer could be that you are investing to earn dividends, which are usually of lower risk than capital gains. Boeing pays 44.2% of its net earnings out as dividends, and Bombardier pays 41.6%. Given this, you might be more interested in owning Boeing. However, before making any investment, you would want to look at the

price of each of the company's shares and determine what the dividend yield was on each. You would want to invest in the company with the higher dividend yield.

On the other hand, Bombardier has more debt as a percentage of assets than Boeing. Bombardier's total liabilities are 94.7% of assets compared to Boeing's, which are 93.3% of total assets. Both of these amounts are very high for a company, which increases the risk for shareholders. Before making any investment decisions, we would need a lot more information than this preliminary analysis has provided.

Small Business Analysis

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

DATE	ACCOUNTS	POST REF.	DR.	CR.
May 5	Supplies		400	
	Cash			400
	To remove the original debit card transaction			

DATE	ACCOUNTS	POST REF.	DR.	CR.
May 5	Supplies		400	
	Cash			400
	To record debit card transaction			

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

DATE	ACCOUNTS	POST REF.	DR.	CR.
May 5	Cash		250	
	Credit Card Payable			250
	Correct posting using credit card			

Written Communication

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

Dear friend:

I want to address the two concerns you had in your email to me last week. The first one was about the credit balance in your cash account. Even after I made the corrections to your trial balance, the cash was still showing in the credit column. And yes, you are correct that the normal balance of the cash account should be a debit balance. But it is possible to have your cash balance in the credit column if your chequeing account is overdrawn. If you have overdrawn your account, you will need to contact the bank to make sure that they did not return any of your

cheques. Plus, you will have to deposit some funds into your account to bring it to the positive (debit) side.

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

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

Financial Accounting

Second Canadian Edition

Chapter 2 Analyzing and Recording Business Transactions

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CHAPTER 2

Analyzing and Recording Business Transactions

Learning Objectives

1. Define accounts and understand how they are used in accounting
2. Explain debits, credits, and the double entry system of accounting
3. Demonstrate the use of the general journal and the general ledger to record business transactions
4. Use a trial balance to prepare financial statements

How are accounts used to keep business transactions organized?

L.O. 1: DEFINE ACCOUNTS AND UNDERSTAND HOW THEY ARE USED IN ACCOUNTING

Organizing Accounts

- Accounts are assigned **account numbers** to help organization
 - Account numbers usually have two or more digits
 - The first digit indicates the type of account
 - Other digits specify the exact account

Chart of Accounts

The **Chart of Accounts** lists all accounts in order by account number.

Super Trader - Chart of Accounts			
ACCT #	Account Title	ACCT #	Account Title
1100	Cash	4100	Sales Revenue
1200	Accounts Receivable	4200	Other Revenues
1300	Inventory		
1500	Notes Receivable	5100	Cost of Goods Sold
1600	Prepaid Expenses	5200	Salaries Expense
1700	Land	5300	Supplies Expense
1800	Buildings	5400	Rent Expense
1890	Acc. Depreciation Buildings	5500	Depreciation Expense
1900	Equipment		
1990	Acc. Depreciation Equip.	6100	Advertising Expense
		6200	Insurance Expense
2100	Accounts Payable		
2200	Wages Payable	7100	Interest Expense
2300	Interest Payable	7200	Income Tax Expense
2400	Unearned Revenue		
2500	Notes Payable		
3100	Common Stock		
3200	Retained Earnings		
3300	Dividends		

Exhibit 2-1 ▲

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Assets

- Economic resources or properties **owned** or **controlled** by a business
- Will generate **future benefits**

Assets

- Common assets include:
 - Cash
 - Accounts Receivable (A/R)
 - Inventory
 - Notes Receivable
 - Prepaid Expenses
 - Land
 - Buildings
 - Equipment, Furniture, and Fixtures

Assets

- **Current Assets** are ones that are expected to be converted to cash, sold, or consumed within a year or operating cycle
- **Long-term** assets are those that the business will hold for more than one year or longer than the operating cycle
 1. Long-Term Investments
 2. Property, Plant, and Equipment
 3. Intangible Assets

Liabilities

- Amounts owed to third parties
- Will result in a future sacrifice of economic resources

Liabilities

- Common assets include:
 - Accounts Payable
 - Unearned Revenue
 - Notes Payable
 - Accrued Liabilities

Liabilities

- **Current Liabilities** are ones that are expected to be paid or obligations fulfilled within a year or operating cycle
- **Long-term** liabilities are those expected to be paid after more than one year or operating cycle
 - Example: mortgage payable

Shareholders' Equity

- Owners' claim to the assets of the business
- Includes:
 - **Share capital:**
 - Represents the investment of assets, usually cash, the shareholders have invested into a business in exchange for the company's shares.
 - A business may issue different classes of shares, for example, preferred shares and/or common shares.

Shareholders' Equity

- Owners' claim to the assets of the business
- Includes:
 - **Retained Earnings:** The Retained Earnings account tracks the cumulative earnings of the business since it began, less any dividends given to shareholders.

Shareholders' Equity

- Owners' claim to the assets of the business
- Includes:
 - **Revenues:**
 - Increases in retained earnings created by selling goods or services
 - Represents amounts *earned* by the company even if payment has not yet been received
 - A business may have several revenue accounts depending on how many ways it earns its revenue.

Shareholders' Equity

- Owners' claim to the assets of the business
- Includes:
 - **Expenses:**
 - Decreases in retained earnings from using resources to deliver goods and services to customers
 - Incurred when resources or services are consumed, not when paid

Shareholders' Equity

- Owners' claim to the assets of the business
- Includes:
 - **Dividends:**
 - This account reflects the amount of earnings that have been distributed to the shareholders.
 - Dividends decrease retained earnings (and, therefore, shareholders' equity).

What are debits, credits, and T-accounts?

L.O. 2: EXPLAIN DEBITS, CREDITS, AND THE
DOUBLE ENTRY SYSTEM OF ACCOUNTING

Double-Entry Accounting

- Every transaction impacts two or more accounts
- The **debit** side of an account is the left side
- The **credit** side of an account is the right side
- The **normal balance** is the side that increases the account

T-Accounts

- We visualize accounts as a large “T”
- These are called **T-accounts**

Account Title	
Debit = left side Dr.	Credit = right side Cr.

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Exhibit 2-2 ▲

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How are the general journal and general ledger used to keep track of business transactions?

L.O. 3: DEMONSTRATE THE USE OF THE GENERAL JOURNAL AND THE GENERAL LEDGER TO RECORD BUSINESS TRANSACTIONS

General Journal

- A chronological record of transactions of business
- The general journal is a place to record events that have affected the business
- Recording a transaction in the general journal is referred to as journalizing the transaction

General Ledger

- A grouping of all the accounts of a business with their balances in balance sheet order
- It shows the amount of assets, liabilities, and the shareholders' equity accounts on a given date

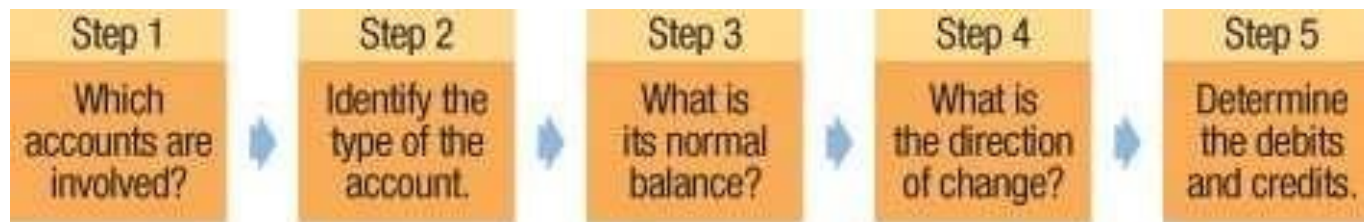
Posting

- Once transactions have been entered in the general journal, the information is then transferred to the general ledger
- The process of transferring information from the general journal to the general ledger is called posting

Transaction Analysis and Recording

- **General Journal:** a chronological (organized by date) record of transactions of a business
- **Journalizing:** recording a transaction in the general journal

Transaction Analysis and Recording



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Transaction Analysis and Recording

To record a journal entry:

1. Record the date
2. Record the debit entry by entering the account title and then entering the amount in the debit column
3. Record the credit entry on the next line by indenting the account title and then entering the amount in the credit column
4. Write an explanation describing the entry.

Balancing the T-Accounts

- After transactions are posted to T-Accounts, you will calculate each account's *balance*
- The beginning balance for the current period equals the ending balance from the prior period
- If an account's total debits are more than its total credits, it has a **debit** balance.
- If an account's total credits are more than its total debits, it has a **credit** balance.

T-Accounts

Cash		1010	
(1) Bal	0	(3)	300
(2)	1,000		
(4) Bal	700		

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How is a trial balance prepared, and what is it used for?

L.O. 4: USE A TRIAL BALANCE TO PREPARE FINANCIAL STATEMENTS

What Is a Trial Balance?

- It is NOT an official financial statement
- Most commonly prepared at the end of the **accounting period**

Sample Trial Balance

A **trial balance** is a list of all the accounts of a business and their balances at a specific point in time.

Hooray Consulting, Inc. Trial Balance January 31, 2015			
ACCT #	ACCOUNT	DEBIT	CREDIT
1010	Cash	\$16,850	
1020	Accounts Receivable	1,900	
1030	Supplies	350	
1040	Equipment	4,000	
2010	Accounts Payable		\$ 200
2050	Notes Payable		12,000
3010	Common Shares		10,000
3030	Retained Earnings		0
3040	Dividends	500	
4010	Service Revenues		3,100
5010	Wages Expense	900	
5020	Rent Expense	600	
5030	Utilities Expense	200	
	Total	\$25,300	\$25,300

Exhibit 2-4 ▲

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Correcting Errors

- If error has occurred, steps required to correct it depend on type of error that was made
- If journal entry made to wrong accounts or for wrong amount, easiest to reverse the incorrect entry, and then enter the correct entry
- To correct entry that has been made twice, reverse one of the entries
- If the entry has been wrongly omitted, it simply needs to be entered

Preparation of Financial Statements

- Financial statements are prepared after completing the trial balance
- We prepare the statements in the following order:
 1. Income Statement
 2. Statement of Changes of Equity
 3. Statement of Financial Position

Preparing Financial Statements

Always check to ensure your Statement of Financial Position is in balance

Hooray Consulting, Inc. Income Statement Month Ended January 31, 2015			
Revenue:			
Service Revenues			\$3,100
Expenses:			
Wages Expense	\$900		
Rent Expense	600		
Utilities Expense	200		
Total Expenses			1,700
Net Income			\$1,400

Hooray Consulting, Inc. Statement of Changes in Equity Month Ended January 31, 2015				
	Common Shares		Retained Earnings	Total
	Number of Shares	\$		
Balance, January 1, 2015	—	\$ 0	\$ 0	\$ 0
Issued Common Shares	1,000	\$10,000		10,000
Net Income			\$1,400	1,400
Dividends			(500)	(500)
Balance, January 31, 2015	1,000	\$10,000	\$ 900	\$10,900

Hooray Consulting, Inc. Statement of Financial Position As of January 31, 2015			
ASSETS		LIABILITIES	
Cash	\$16,850	Accounts Payable	\$ 200
Accounts Receivable	1,900	Note Payable	12,000
Supplies	350	Total Liabilities	12,200
Equipment	4,000		
		SHAREHOLDERS' EQUITY	
		Common Shares	10,000
		Retained Earnings	900
		Total Shareholders' Equity	10,900
Total Assets:	\$23,100	Total Liabilities & Shareholders' Equity	\$23,100

Exhibit 2-5 ▲

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The Accounting Cycle



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