

Solution Manual for Financial Accounting Canadian 6th Edition by  
Harrison ISBN 0134141091 9780134141091

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## **Chapter 2**

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### **Recording Business Transactions**

#### **Short Exercises**

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**The transaction had a financial impact on the business and should be recorded. The payment for the computer was not an expense.**

**The payment related to the purchase of an asset, “Equipment,” because the computer is an economic resource of the business. The computer will provide benefit over more than one fiscal period.**

- a. \$12,000 (Cash \$10,000–\$5,000; Supplies \$2,000, Computer \$5,000)**

**b. \$2,000 Accounts Payable**

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

<b>Cash</b>	
25,000	4,000
2,000	
<b>Bal.</b>	<b>23,000</b>

<b>Accounts Receivable</b>	
6,000	

<b>Supplies</b>	
9,000	

<b>Accounts Payable</b>	
	9,000

<b>Rent</b>	
4,000	

<b>Service Revenue</b>	
	8,000

<b>Common Shares</b>	
	25,000

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

**Increased total assets: May 1 (Cash)  
May 1 (Medical supplies)  
May 3 (Cash, Accounts receivable)**

**Decreased total assets: May 2 (Cash)**

### Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
June 15	Cash..... Note Payable ..... Borrowed money from the bank.	25,000	25,000
22	Accounts Receivable..... Service Revenue ..... Delivered portrait to be paid on account.	9,000	9,000
28	Cash ..... Accounts Receivable..... Received cash on account.	5,000	5,000
29	Utilities Expense ..... Accounts Payable ..... Received utility bill.	600	600
30	Salary Expense ..... Cash ..... Paid salary.	2,500	2,500

**Req. 1**

**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies.....	5,000	
	Accounts Payable.....		5,000
	Purchased supplies on account.		
	Accounts Payable.....	3,000	
	Cash.....		3,000
	Paid cash on account.		

**Req. 2**

Accounts Payable	
3,000	5,000
	Bal. 2,000

**Req. 3**

Biaggi's business owes \$2,000, as shown in the Accounts Payable account.

**Req. 1****Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable.....	500	
	Service Revenue .....		500
	Performed service on account.		
	Cash .....	100	
	Accounts Receivable.....		100
	Received cash on account.		

**Req. 2**

Cash		Accounts Receivable		Service Revenue	
	100	500	100		500
Bal.	100	Bal.	400	Bal.	500

**Req. 3**

a. The Centre earned \$500: Service Revenue

b. Total assets           \$500: Cash..... \$100  
Accounts receivable. 400  
Total assets ..... \$500

(10 min.) S 2-8

**Lululemon Athletica Inc.  
Trial Balance  
December 31, 2017**

ACCOUNT	DEBIT	CREDIT
	<i>(Millions)</i>	
Cash & other current assets	\$ 53	
Other assets .....	101	
Accounts payable .....		\$ 5
Other liabilities.....		38
Shareholders' equity .....		80
Revenues.....		275
Expenses .....	<u>244</u>	
Total .....	<u>\$398</u>	<u>\$398</u>

Lululemon's net income: \$31 million (\$275 – \$244)

(10 min.) S 2-9

1. Total assets = \$95,000 (\$6,000 + \$13,000 + \$4,000 + \$22,000 + \$50,000)
  2. Total liabilities = \$39,000 (\$19,000 + \$20,000)
  3. Net income = \*\$38,000 (\$70,000 – \$21,000 – \$10,000 – \$1,000)
  4. Total shareholders' equity = \$56,000 (\$10,000 + \$8,000 + \$38,000\*)
- Alternate solution = \$56,000 (\$95,000 - \$39,000)

**Custom Pool Service, Inc.  
Trial Balance  
June 30, 2017**

ACCOUNT	DEBIT	CREDIT
Cash .....	9,200	
Accounts receivable.....	15,200	
Land .....	29,600	
Accounts payable .....		\$ 4,100
Loan payable.....		11,500
Common shares.....		8,300
Retained earnings.....		24,700
Dividends.....	5,800	
Service revenue .....		22,300
Salary expense.....	8,500	
Utilities expense.....	1,700	
Delivery expense .....	900	
<b>Total .....</b>	<b><u>\$70,900</u></b>	<b><u>\$70,900</u></b>



- |          |                    |    |  |
|----------|--------------------|----|--|
| <u>H</u> | 1. Debit           | A. | The cost of operating a business; a decrease in shareholders' equity |
| <u>A</u> | 2. Expense         | B. | Always a liability   |
| <u>C</u> | 3. Net income      | C. | Revenues – Expenses  |
| <u>D</u> | 4. Ledger          | D. | Grouping of accounts   |
| <u>J</u> | 5. Posting         | E. | Assets – Liabilities   |
| <u>I</u> | 6. Normal balance  | F. | Record of transactions   |
| <u>B</u> | 7. Payable         | G. | Always an asset  |
| <u>F</u> | 8. Journal         | H. | Left side of an account  |
| <u>G</u> | 9. Receivable      | I. | Side of an account where increases are recorded                      |
| <u>E</u> | 10. Owners' equity | J. | Copying data from the journal to the ledger                          |

(5 min.) S 2-12

<b>Cash</b>		<b>Computer Equipment</b>	
100,000		60,000	
<hr/>		<hr/>	
<b>Accounts Payable</b>		<b>Common Shares</b>	
	60,000		100,000
<hr/>		<hr/>	

**Total debits = \$160,000 (\$100,000 + \$60,000)**

**Total credits = \$160,000 (\$60,000 + \$100,000)**

# Exercises

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(10-15 min.) E 2-13

TO: Home Office

FROM: Store Manager

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During the first week, I borrowed \$170,000 on a note payable. I used the store's beginning cash plus the borrowed money to purchase land, a building, copy equipment, and supplies. After all these transactions, the store's balance sheet appears as follows:

**The Gap  
Ottawa Store  
Balance Sheet  
Date**

	<b>ASSETS</b>		<b>LIABILITIES</b>
Cash	\$ 10,000	Note payable	\$170,000
Inventory	40,000		
Store fixtures	50,000	<b>SHAREHOLDERS' EQUITY</b>	
Land	40,000	Common shares	100,000
Building	<u>130,000</u>	Total liabilities and	
Total assets	<u>\$270,000</u>	shareholders' equity	<u>\$270,000</u>

Cash	
100,000	50,000
	40,000
10,000	

(5-10 min.) E 2-14

- a. Purchase of asset for cash  
Sale of asset for cash  
Collection of an account receivable
- b. Payment of dividends to shareholders  
Expense transaction
- c. Pay a liability  
Return of asset purchased on account
- d. Issuance of shares  
Revenue transaction
- e. Purchase of asset on account  
Borrow money  
(Answers may vary.)

(5 min.) E 2-15

	<u>Assets</u>		<u>Liabilities</u>		<u>Stk. Equity</u>	
	<u>Incr</u>	<u>Decr</u>	<u>Incr</u>	<u>Decr</u>	<u>Incr</u>	<u>Decr</u>
Jan 2	X		X			
Jan 4	X				X	
Jan 10	X				X	
Jan 15		X		X		
Jan 18	X				X	
Jan 21	X	X				
Jan 31		X		X		

**(10-15 min.) E 2-16**

- a. No effect on total assets. Increase in cash offsets the decrease in accounts receivable.**
- b. No effect (a personal transaction)**
- c. No effect on total assets. Increase in cash offsets the decrease in land.**
- d. Increased assets (cash)**
- e. No effect on total assets. Increase in land offsets the decrease in cash.**
- f. Increased assets (cash)**
- g. Decreased assets (cash)**
- h. Increased assets (equipment)**
- i. Increased assets (supplies)**
- j. Decreased assets (cash)**

## Req. 1

## Analysis of Transactions

Date	ASSETS				=	LIABILITIES +		SHARE OLDERS' EQUITY	
	Cash +	Accounts Receivable +	Dental Supplies +	Land =	Accounts Payable +	Note Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction
Mar. 6	50,000						50,000		Issued shares
9	(30,000)			30,000					
12			3,000		3,000				
15	Not a transaction of the business.								
15-31	5,000	5,000						10,000	Service revenue
15-31	(1,400)							(1,400)	Salary expense
	(1,000)							(1,000)	Rent expense
	(300)							(300)	Utilities expense
31			(250)					(250)	Supplies Expense
31	10,000					10,000			
31	(2,000)				(2,000)				
Bal.	<u>30,300</u>	<u>5,000</u>	<u>2,750</u>	<u>30,000</u>	<u>1,000</u>	<u>10,000</u>	<u>50,000</u>	<u>7,050</u>	

\$68,050

\$68,050

NOTE: The supplies had been paid for in the \$3,000 purchase, therefore not a debit to cash.



**Req. 2**

**a. \$68,050**

**b. \$5,000**

**c. \$11,000 (\$1,000 + \$10,000)**

**d. \$57,050 (\$68,050 – \$11,000, or \$50,000 + \$7,050)**

**e. \$7,050 (Revenue, \$10,000 minus total expenses of \$2,950, equals net income, \$7,050.)**



**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
March 6	Cash..... Common Shares ..... Issued shares to owner.	50,000	50,000
9	Land..... Cash ..... Purchased land.	30,000	30,000
12	Dental Supplies..... Accounts Payable..... Purchased supplies on account.	3,000	3,000
15	Not a transaction of the business.		
15-31	Cash..... Accounts Receivable ..... Service Revenue ..... Performed service for cash and on account.	5,000 5,000	10,000
15-31	Salary Expense ..... Rent Expense..... Utilities Expense..... Cash ..... Paid expenses.	1,400 1,000 300	2,700
31	Supplies Expense ..... Dental Supplies ..... Used dental supplies.	250	250
31	Cash..... Note Payable ..... Borrowed money.	10,000	10,000
31	Accounts Payable..... Cash ..... Paid on account.	2,000	2,000

**Req. 1 (journal entries)****Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Oct. 1	Cash .....	25,000	
	Common Shares .....		25,000
	Issued common shares to owner.		
2	Office Supplies .....	800	
	Accounts Payable.....		800
	Purchased office supplies on account.		
4	Land.....	20,000	
	Cash.....		20,000
	Paid cash for land.		
6	Cash .....	5,000	
	Service Revenue.....		5,000
	Performed services for cash.		
9	Accounts Payable .....	100	
	Cash.....		100
	Paid cash on account.		
17	Accounts Receivable .....	1,500	
	Service Revenue.....		1,500
	Performed service on account.		
23	Cash .....	1,000	
	Accounts Receivable .....		1,000
	Received cash on account.		
31	Salary Expense.....	1,000	
	Rent Expense .....	500	
	Cash.....		1,500
	Paid cash expenses.		

**Req. 1**

<b>Cash</b>			
Oct. 1	25,000	Oct. 4	20,000
6	5,000	9	100
23	1,000	31	1,500
Oct. 31	9,400		

<b>Accounts Receivable</b>			
Oct. 17	1,500	Oct. 23	1,000
Oct. 31	500		

<b>Office Supplies</b>			
Oct. 2	800		
Oct. 31	800		

<b>Land</b>			
Oct. 4	20,000		
Oct. 31	20,000		

<b>Accounts Payable</b>			
Oct. 9	100	Oct. 2	800
		Oct. 31	700

<b>Common Shares</b>			
		Oct. 1	25,000
		Oct. 31	25,000

<b>Service Revenue</b>			
		Oct. 6	5,000
		17	1,500
		Oct. 31	6,500

<b>Salary Expense</b>			
Oct. 31	1,000		
Oct. 31	1,000		

<b>Rent Expense</b>			
Oct. 31	500		
Oct. 31	500		

Req. 2

Perfect Printers, Inc.  
Trial Balance  
October 31, 2017

ACCOUNT	DEBIT	CREDIT
Cash .....	\$ 9,400	
Accounts receivable.....	500	
Office supplies .....	800	
Land .....	20,000	
Accounts payable .....		\$ 700
Common shares.....		25,000
Service revenue .....		6,500
Salary expense.....	1,000	
Rent expense.....	500	
Total .....	<u>\$32,200</u>	<u>\$32,200</u>

Req. 3

Total assets (\$9,400 + \$500 + \$800 + \$20,000).....	\$30,700
Total liabilities .....	<u>(700)</u>
Total shareholders' equity (\$25,000 + \$6,500 - \$1,000 - \$500).....	<u>\$30,000</u>

**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash..... Common Shares..... Issued common shares.	20,000	20,000
2.	Cash..... Note Payable..... Borrowed money; signed note payable.	7,000	7,000
3.	Land..... Cash..... Note Payable..... Purchased land by paying cash and signing a note payable.	31,000	8,000 23,000
4.	Supplies..... Accounts Payable..... Purchased supplies on account.	1,000	1,000
5.	Cash..... Supplies..... Sold supplies for cash.	100	100
6.	Equipment..... Cash..... Paid cash for equipment.	8,000	8,000
7.	Accounts Payable..... Cash..... Paid cash on account.	400	400

Cash balance = \$10,700 (\$20,000 + \$7,000 - \$8,000 + \$100 - \$8,000 - \$400)

Company owes \$30,600 (\$7,000 + \$23,000 + \$1,000 - \$400)

Req. 1

Victoria Garden Care Ltd.  
Trial Balance  
Sept. 30, 2017

ACCOUNT	DEBIT	CREDIT
Cash .....	\$ 9,000	
Accounts receivable.....	17,500	
Equipment .....	29,000	
Accounts payable .....		\$ 4,300
Note payable.....		13,000
Common shares.....		8,500
Retained earnings.....		21,400
Dividends.....	6,000	
Service revenue .....		24,000
Salary expense.....	8,000	
Utilities expense.....	1,400	
Delivery expense.....	300	
Total .....	<u>\$71,200</u>	<u>\$71,200</u>

**Req. 2**

**Victoria Garden Care Ltd.  
Income Statement  
For the Month Ended Sept. 30, 2017**

<b>Service revenue.....</b>		<b>\$24,000</b>
<b>Salary expense.....</b>	<b>\$8,000</b>	
<b>Utilities expense .....</b>	<b>1,400</b>	
<b>Delivery expense .....</b>	<b><u>300</u></b>	
<b>Total expenses.....</b>		<b><u>9,700</u></b>
<b>Net income .....</b>		<b><u>\$14,300</u></b>

**Sam's Deli Inc.**  
**Trial Balance**  
**October 31, 2017**

ACCOUNT	DEBIT	CREDIT
Cash .....	\$ 5,200*	
Accounts receivable.....	12,000*	
Inventory.....	17,000	
Supplies.....	600	
Land .....	55,000	
Accounts payable .....		\$13,100*
Share capital.....		49,000*
Sales revenue.....		32,100
Salary expense.....	1,700	
Insurance expense.....	1,000	
Utilities expense.....	900*	
Rent expense.....	800	
<b>Total .....</b>	<b><u>\$94,200</u></b>	<b><u>\$94,200</u></b>

**\*Explanations:**

**Cash: \$4,200 + \$1,000 = \$5,200**

**Accounts Receivable: \$13,000 – \$1,000 = \$12,000**

**Accounts Payable: \$12,000 + \$1,000 – \$100 + \$200 = \$13,100**

**Share Capital: \$47,900 + \$1,100 = \$49,000**

**Utilities Expense: \$700 + \$200 = \$900**



<b>Cash</b>			
(a)	10,000	(b)	1,600
		(d)	2,000
		(e)	200
		(g)	2,000
Bal.	4,200		

<b>Accounts Receivable</b>			
(f)	12,100		
Bal.	12,100		

<b>Office Supplies</b>			
(c)	600		
Bal.	600		

<b>Office Furniture</b>			
(a)	5,000		
Bal.	5,000		

<b>Accounts Payable</b>			
(e)	200	(c)	600
		Bal.	400

<b>Common Shares</b>			
		(a)	15,000
		Bal.	15,000

<b>Dividends</b>			
(g)	2,000		
Bal.	2,000		

<b>Service Revenue</b>			
		(f)	12,100
		Bal.	12,100

<b>Salary Expense</b>			
(d)	2,000		
Bal.	2,000		

<b>Rent Expense</b>			
(b)	1,600		
Bal.	1,600		

**Req. 1**

**Sonia Rothesay, Accountant  
Trial Balance  
May 31, 2017**

ACCOUNT	DEBIT	CREDIT
Cash .....	\$ 4,200	
Accounts receivable.....	12,100	
Office supplies .....	600	
Office furniture.....	5,000	
Accounts payable.....		\$ 400
Common shares.....		15,000
Dividends.....	2,000	
Service revenue .....		12,100
Salary expense.....	2,000	
Rent expense.....	<u>1,600</u>	
<b>Total .....</b>	<b><u>\$27,500</u></b>	<b><u>\$27,500</u></b>

**Req. 2**

The business performed well during May. The result of operations was net income of \$8,500, as shown by the income statement accounts:

Service revenue.....	\$12,100
Salary expense .....	\$2,000
Rent expense .....	<u>1,600</u>
Total expenses.....	<u>(3,600)</u>
Net income.....	<b><u>\$ 8,500</u></b>

**Req. 1**

**4AC, Inc.  
Trial Balance**

**October 31, 2017**

Cash.....	\$ 3,900	
Accounts receivable.....	7,100	
Land.....	30,100	
Accounts payable.....		\$ 6,200
Note payable.....		5,900
Common stock.....		24,100
Retained earnings.....		1,700
Service revenue.....		9,400
Salary expense.....	2,900	
Advertising expense.....	<u>1,400</u>	
Totals.....	<u>\$45,400</u>	<u>\$47,300</u>

Out of balance by \$1,900

The correct balance of Accounts Receivable is \$9,000\* (\$7,100 + \$1,900). After this correction, total debits will be \$47,300 (\$45,400 + \$1,900), the same as total credits.

**Req. 2**

- a. Total assets = \$43,000 (\$3,900 + \$9,000\* + \$30,100)
- b. Total liabilities = \$12,100 (\$6,200 + \$5,900)
- c. Net income = \$ 5,100 (\$9,400 – \$2,900 – \$1,400)

**Req. 1**

<b>Date</b>	<b>Effect on Cash</b>	<b>Effect on Total Assets</b>	<b>Effect on Net Income</b>
<b>May 1</b>	<b>Understated \$100</b>	<b>Overstated \$100</b>	<b>Overstated \$100</b>
<b>2</b>	<b>Understated \$18,000</b>	<b>Understated \$18,000</b>	<b>Understated \$18,000</b>
<b>5</b>	<b>Correct</b>	<b>Understated \$2,800</b>	<b>Understated \$2,800</b>
<b>10</b>	<b>Correct</b>	<b>Correct</b>	<b>Correct</b>
<b>16</b>	<b>Correct</b>	<b>Correct</b>	<b>Overstated \$5,600</b>
<b>25</b>	<b>Correct</b>	<b>Overstated \$5,400</b>	<b>Correct</b>

**Req. 2**

**Correct cash balance, \$24,500 (\$6,400 + \$100 + \$18,000)**

**Req. 3**

**Correct total assets, \$43,300 (\$28,000 + \$18,000 - \$5,400 + \$2,800 - \$100)**

**Req. 4**

**Correct net income, \$23,100 (\$8,000 - \$100 + \$2,800 - \$5,600 + \$18,000)**

**Reqs. 1 and 3**

<b>Cash</b>			
Jan. 2	5,000	Jan. 2	500
9	800	3	3,000
		12	200
Bal.	2,100		

<b>Accounts Receivable</b>	
Jan. 18	1,700

<b>Supplies</b>	
Jan. 5	900

<b>Equipment</b>	
Jan. 3	3,000

<b>Furniture</b>	
Jan. 4	6,000

<b>Accounts Payable</b>		
	Jan. 4	6,000
	5	900
	Bal.	6,900

<b>Common Shares</b>	
	Jan. 2 5,000

<b>Dividends</b>	
------------------	--

<b>Service Revenue</b>		
	Jan. 9	800
	18	1,700
	Bal.	2,500

<b>Rent Expense</b>	
Jan. 2	500

<b>Utilities Expense</b>	
Jan. 12	200

<b>Salary Expense</b>	
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Req. 2

**Journal**

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Jan. 2	Cash .....	5,000	
	Common Shares.....		5,000
2	Rent Expense.....	500	
	Cash .....		500
3	Equipment.....	3,000	
	Cash .....		3,000
4	Furniture .....	6,000	
	Accounts Payable.....		6,000
5	Supplies .....	900	
	Accounts Payable.....		900
9	Cash .....	800	
	Service Revenue.....		800
12	Utilities Expense.....	200	
	Cash .....		200
18	Accounts Receivable.....	1,700	
	Service Revenue.....		1,700

**Req. 4**

**Web Marketing Services Inc.  
Trial Balance  
January 18, 2017**

ACCOUNT	DEBIT	CREDIT
Cash .....	\$ 2,100	
Accounts receivable.....	1,700	
Supplies.....	900	
Equipment .....	3,000	
Furniture .....	6,000	
Accounts payable.....		\$ 6,900
Common shares.....		5,000
Dividends.....	—	
Service revenue .....		2,500
Rent expense .....	500	
Utilities expense .....	200	
Salary expense.....	—	
<b>Total .....</b>	<b><u>\$14,400</u></b>	<b><u>\$14,400</u></b>

a. Total cash paid during March:

Cash			
Feb. 28 Bal.	10,000		
March receipts	80,000	March cash payments	X = \$85,000
Mar. 31 Bal.	5,000		

$$\begin{aligned} \$10,000 + \$80,000 - X &= \$ 5,000 \\ X &= \$85,000 \end{aligned}$$

b. Cash collections from customers during March:

Accounts Receivable			
Feb. 28 Bal.	26,000		
March sales on account	50,000	March collections	X = \$52,000
Mar. 31 Bal.	24,000		

$$\begin{aligned} \$26,000 + \$50,000 - X &= \$24,000 \\ X &= \$52,000 \end{aligned}$$

c. Cash paid on a note payable during March:

Note Payable			
		Feb. 28 Bal.	13,000
	March	March	
X = 17,000	payments on note	new borrowing	25,000
		Mar. 31 Bal.	21,000

$$\begin{aligned} \$13,000 + \$25,000 - X &= \$21,000 \\ X &= \$17,000 \end{aligned}$$



**Req. 1**

**You Build Inc.  
Trial Balance  
December 31, 2017**

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Cash .....	\$ 3,900	
Accounts receivable.....	7,200	
Land .....	34,000	
Accounts payable.....		\$ 5,800
Note payable .....		5,000
Common shares.....		20,000
Retained earnings.....		7,300
Service revenue .....		9,100
Salary expense.....	3,400	
Advertising expense.....	900	
Totals .....	<u>\$49,400</u>	<u>\$47,200</u>

Out of balance  
by \$2,200

The correct balance of Accounts Receivable is \$5,000 (\$7,200 – \$2,200). After this correction, total debits will be \$47,200 (\$49,400 – \$2,200), the same as total credits.

**Req. 2**

**You Build Inc.  
Trial Balance  
December 31, 2017**

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Cash (\$3,900 – \$1,400).....	\$ 2,500	
Accounts receivable (\$7,200 – \$2,200 + \$10,000) .....	15,000	
Land (\$34,000 + \$60,000).....	94,000	
Accounts payable (\$5,800 + \$1,000)...		\$ 6,800
Note payable (\$5,000 + \$60,000).....		65,000
Common shares.....		20,000
Retained earnings.....		7,300
Service revenue (\$9,100 + \$10,000)....		19,100
Salary expense (\$3,400 + \$1,400) .....	4,800	
Advertising expense (\$900 + \$1,000) .	1,900	
Totals .....	<u>\$118,200</u>	<u>\$118,200</u>

**Req. 3**

**a. Total assets = \$111,500 (\$2,500 + \$15,000 + \$94,000)**

**b. Total liabilities = \$71,800 (\$6,800 + \$65,000)**

**c. Net income = \$12,400 (\$19,100 – \$4,800 – \$1,900)**

**City of Regina:**

	<u>August</u>	<u>September</u>
Income statement		
Medical expense .....	\$30,000	\$ -0-

	<u>August 31</u>	<u>September 30</u>
Balance sheet		
Cash .....	\$50,000	\$25,000*
Accounts payable .....	30,000	5,000**

**PHO:**

	<u>August</u>	<u>September</u>
Income statement		
Service revenue .....	\$30,000	\$ -0-

	<u>August 31</u>	<u>September 30</u>
Balance sheet		
Cash .....	\$ -0-	\$25,000
Accounts receivable.....	30,000	5,000**

**Explanation:**

Regina's expense is PHO's revenue.

Regina's cash payment is PHO's cash receipt.

Regina's account payable is PHO's account receivable.

\*\$50,000 - \$25,000 = \$25,000

\*\*\$30,000 - \$25,000 = \$ 5,000

# Problems

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## Group A

(15-30 min.) P 2-32A

Dear Sue,

This trial balance lists the accounts of Amusement Specialties, Inc., along with its balances at December 31, 2017. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The fact that the trial balance is in balance does not mean that Amusement Specialties is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute Amusement Specialties' total assets add the asset account balances (Cash \$14,000 + Accounts receivable \$11,000 + Prepaid expenses \$4,000 + Equipment \$171,000 + Building \$100,000 = \$300,000); For total liabilities add the liability account balances (Accounts payable \$30,000 + Note payable \$120,000 = \$150,000). Net income or net loss for the current period is computed by subtracting total expenses from total revenue. During the current period, Amusement Specialties earned a net income of \$30,000 [service revenue of \$86,000 minus total expenses of \$56,000 (\$14,000 + \$3,000 + \$32,000 + \$7,000)].

Student responses may vary.

## Req. 1

## Analysis of Transactions

	ASSETS				=	LIABILITIES		+	SHAREHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Supplies	+ Land	=	Accounts Payable	+ Common Shares	+ Retained Earnings	Type of Shareholders' Equity Transaction		
Bal.	1,300	1,000		12,000	=	8,000	4,000	2,300			
a)	5,000						5,000		Issued shares		
b)	7,600							7,600	Service revenue		
c)	(4,000)					(4,000)					
d)			1,500			1,500					
e)	1,000	(1,000)									
f)		2,500						2,500	Service revenue		
g)	(900)							(900)	Rent expense		
	(300)							(300)	Advertising expense		
h)	(2,000)							(2,000)	Dividends		
Bal.	<u>7,700</u>	<u>2,500</u>	<u>1,500</u>	<u>12,000</u>	=	<u>5,500</u>	<u>9,000</u>	<u>9,200</u>			
		\$23,700				\$23,700					

**Req. 2**

**Blythe Spirit Consulting, Inc.  
Income Statement  
For the Month Ended June 30, 2017**

---

<b>Revenues:</b>		
Service revenue (\$7,600 + \$2,500) ..		<b>\$10,100</b>
<b>Expenses:</b>		
Rent expense.....	<b>\$900</b>	
Advertising expense.....	<u><b>300</b></u>	
Total expenses.....		<u><b>1,200</b></u>
Net income.....		<u><u><b>\$ 8,900</b></u></u>

**Req. 3**

**Blythe Spirit Consulting, Inc.  
Statement of Retained Earnings  
For the Month Ended June 30, 2017**

---

Retained earnings, May 31, 2017.....	<b>\$2,300</b>
Add: Net income for the month .....	<u><b>8,900</b></u>
	<b>11,200</b>
Less: Dividends.....	<u><b>(2,000)</b></u>
Retained earnings, June 30, 2017 .....	<u><u><b>\$9,200</b></u></u>

**Req. 4**

**Blythe Spirit Consulting, Inc.  
Balance Sheet  
June 30, 2017**

<b>ASSETS</b>		<b>LIABILITIES</b>	
Cash.....	\$ 7,700	Accounts payable .....	\$ 5,500
Accounts receivable.....	2,500	<b>SHAREHOLDERS'</b>	
Supplies.....	1,500	<b>EQUITY</b>	
Land .....	12,000	Common shares.....	9,000
		Retained earnings.....	<u>9,200</u>
		Total shareholders' equity.	18,200
		<b>Total liabilities and</b>	
Total assets .....	<u>\$23,700</u>	shareholders' equity ....	<u>\$23,700</u>

Req. 1

### Journal

	ACCOUNT TITLES	DEBIT	CREDIT
a.	Cash.....	5,000	
	Common Shares.....		5,000
b.	Cash.....	7,600	
	Service Revenue.....		7,600
c.	Accounts Payable.....	4,000	
	Cash.....		4,000
d.	Supplies.....	1,500	
	Accounts Payable.....		1,500
e.	Cash.....	1,000	
	Accounts Receivable.....		1,000
f.	Accounts Receivable.....	2,500	
	Service Revenue.....		2,500
g.	Rent Expense.....	900	
	Advertising Expense .....	300	
	Cash.....		1,200
h.	Dividends.....	2,000	
	Cash.....		2,000



**Reqs. 2 and 3**

<b>Cash</b>		<b>Accounts Receivable</b>		<b>Supplies</b>		<b>Land</b>	
1,300	4,000	1,000	1,000	1,500		12,000	
5,000	1,200	2,500		1,500		12,000	
7,600	2,000	2,500					
1,000							
7,700							

<b>Accounts Payable</b>		<b>Common Shares</b>		<b>Retained Earnings</b>		<b>Dividends</b>	
4,000	8,000		4,000		2,300	2,000	
	1,500		5,000		2,300	2,000	
	5,500		9,000				

<b>Service Revenue</b>		<b>Rent Expense</b>		<b>Advertising Expense</b>	
	7,600	900		300	
	2,500	900		300	
	10,100				

**The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-33A.**

**Req. 1**

***Classification of Transactions***

<b>Sept.</b>	<b>4</b>	<b>b</b>
	<b>5</b>	<b>c</b>
	<b>6</b>	<b>c</b>
	<b>7</b>	<b>c</b>
	<b>10</b>	<b>b</b>
	<b>11</b>	<b>b</b>
	<b>12</b>	<b>a</b>
	<b>18</b>	<b>c</b>
	<b>21</b>	<b>c</b>
	<b>25</b>	<b>c</b>
	<b>30</b>	<b>c</b>

## Req. 2

## Analysis of Transactions

		ASSETS				=	LIABILITIES		+	SHAREHOLDERS' EQUITY		
Date	Cash	+ Accounts Receivable	+ Supplies	+ Office Furniture	=	Accounts Payable	+ Common Shares	+ Retained Earnings	Type of Shareholders' Equity Transaction			
Sept. 4*												
5	50,000						50,000				Issued shares	
6	(300)		300									
7	(20,000)			25,000		5,000						
10*												
11*												
12**												
18		10,000						10,000			Service revenue	
21	(2,500)					(2,500)						
25	(4,000)							(4,000)			Rent expense	
28	(2,000)							(2,000)			Dividends	
Bal.	<u>21,200</u>	<u>10,000</u>	<u>300</u>	<u>25,000</u>		<u>2,500</u>	<u>50,000</u>	<u>4,000</u>				
	\$56,500					\$56,500						

\*Not a transaction of the business.

\*\* A business-related event, but not a transaction to be recorded.

**Req. 3**

- a. The business has \$21,200 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from the issuance of shares. Share issuances go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, holds the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no relationship between cash and retained earnings.
- b. The business's total resources (total assets) are \$56,500 ( $\$21,200 + \$10,000 + \$300 + \$25,000$ ). The business owes total liabilities of \$2,500, so the shareholder's ownership interest in the assets of the business is \$54,000 ( $\$56,500 - \$2,500$ , or  $\$50,000 + \$4,000$ ).

**Req. 4****Journal**

<b>DATE</b>	<b>ACCOUNT TITLES AND EXPLANATION</b>	<b>DEBIT</b>	<b>CREDIT</b>
<b>Sept. 5</b>	<b>Cash .....</b>	<b>50,000</b>	
	<b>    Common Shares.....</b>		<b>50,000</b>
	<b>    Issued shares to shareholder.</b>		
<b>6</b>	<b>Supplies.....</b>	<b>300</b>	
	<b>    Cash.....</b>		<b>300</b>
	<b>    Purchased supplies.</b>		
<b>7</b>	<b>Office Furniture.....</b>	<b>25,000</b>	
	<b>    Cash.....</b>		<b>20,000</b>
	<b>    Accounts Payable.....</b>		<b>5,000</b>
	<b>    Purchased furniture.</b>		
<b>18</b>	<b>Accounts Receivable.....</b>	<b>10,000</b>	
	<b>    Service Revenue.....</b>		<b>10,000</b>
	<b>    Performed service on account.</b>		
<b>21</b>	<b>Accounts Payable.....</b>	<b>2,500</b>	
	<b>    Cash.....</b>		<b>2,500</b>
	<b>    Paid on account.</b>		
<b>25</b>	<b>Rent Expense.....</b>	<b>4,000</b>	
	<b>    Cash.....</b>		<b>4,000</b>
	<b>    Paid rent.</b>		
<b>28</b>	<b>Dividends.....</b>	<b>2,000</b>	
	<b>    Cash.....</b>		<b>2,000</b>
	<b>    Paid dividend.</b>		

*Req. 1 (journal entries; explanations not required)*

## Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Oct. 1	Cash .....	8,000	
	Common shares.....		8,000
5	Rent Expense.....	1,000	
	Cash .....		1,000
9	Land .....	30,000	
	Cash .....		5,000
	Notes Payable .....		25,000
10	Supplies .....	1,200	
	Accounts Payable.....		1,200
19	Accounts Payable.....	600	
	Cash .....		600
22	Cash .....	10,000	
	Notes Payable.....		10,000
31	Cash .....	7,000	
	Accounts Receivable.....	5,000	
	Service Revenue.....		12,000
31	Salary Expense .....	2,000	
	Advertising Expense .....	1,500	
	Utilities Expense.....	1,100	
	Cash .....		4,600
31	Dividends.....	3,000	
	Cash .....		3,000

**Req. 2**

<b>Cash</b>	
8,000	1,000
	5,000
10,000	600
7,000	4,600
	3,000
<b>Bal. 10,800</b>	

<b>Accounts Payable</b>	
600	1,200
	<b>Bal. 600</b>

<b>Notes Payable</b>	
	25,000
	10,000
	<b>Bal. 35,000</b>

**Req. 3**

**Cash: \$10,800 (\$8,000 – \$1,000 – \$5,000 – \$600 + \$10,000 + \$7,000 – \$4,600 – \$3,000)**

**Total amount owed:**

**\$35,600 (\$25,000 + \$1,200 – \$600 + \$10,000)**

*Req. 1 (journal entries; explanations not required)*

## Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
May 2	Cash .....	30,000	
	Common shares.....		30,000
3	Supplies.....	1,000	
	Equipment.....	2,600	
	Accounts Payable.....		3,600
4	Cash .....	1,500	
	Service Revenue.....		1,500
7	Land .....	22,000	
	Cash .....		22,000
11	Accounts Receivable.....	500	
	Service Revenue.....		500
16	Accounts Payable.....	2,600	
	Cash .....		2,600
17	Utilities Expense.....	95	
	Cash .....		95
18	Cash .....	250	
	Accounts Receivable.....		250



*Req. 1 (journal entries; explanations not required)*

### Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
May 22	Utilities Expense.....	400	
	Cash.....		400
29	Cash .....	2,000	
	Service Revenue.....		2,000
31	Salary Expense.....	1,300	
	Cash.....		1,300
31	Dividends.....	1,500	
	Cash.....		1,500

(continued) P 2-37A

Req. 2 (ledger accounts)

**Cash**

May 2	30,000	May 7	22,000
4	1,500	16	2,600
18	250	17	95
29	2,000	22	400
		31	1,300
		31	1,500
Bal.	5,855		

**Equipment**

May 3	2,600		
Bal.	2,600		

**Accounts Payable**

May 16	2,600	May 3	3,600
		Bal.	1,000

**Service Revenue**

	May 4	1,500	
	11	500	
	29	2,000	
	Bal.	4,000	

**Accounts Receivable**

May 11	500	May 18	250
Bal.	250		

**Supplies**

May 3	1,000		
Bal.	1,000		

**Land**

May 7	22,000		
Bal.	22,000		

**Common shares**

	May 2	30,000	
	Bal.	30,000	

**Dividends**

May 31	1,500		
Bal.	1,500		

**Salary Expense**

May 31	1,300		
Bal.	1,300		

**Utilities Expense**

May 17	95		
22	400		
Bal.	495		

**Req. 3**

**New Pane Windows Inc.  
Trial Balance  
May 31, 2017**

<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash .....	\$ 5,855	
Accounts receivable.....	250	
Supplies.....	1,000	
Equipment .....	2,600	
Land .....	22,000	
Accounts payable.....		\$ 1,000
Common shares.....		30,000
Dividends.....	1,500	
Service revenue .....		4,000
Salary expense.....	1,300	
Utilities expense .....	495	
<b>Total .....</b>	<b><u>\$35,000</u></b>	<b><u>\$35,000</u></b>

**Req. 4**

**Total resources (assets) = \$31,705 (\$5,855 + \$250 + \$1,000 + \$2,600 + \$22,000)**

**Amount owed (total liabilities) = \$1,000**

**Profit (net income) = \$2,205 (\$4,000 – \$1,300 – \$495)**

(40-50 min.) P 2-38A

Reqs. 1 and 2

<b>Cash</b>			
(a)	10,000	(c)	60,000
(b)	50,000	(e)	1,500
(f)	800	(h)	100
(j)	3,100	(k)	1,800
Bal.	500		

<b>Accounts Receivable</b>			
(g)	4,500	(j)	3,100
Bal.	1,400		

<b>Office Supplies</b>	
(d)	1,000
Bal.	1,000

<b>Music Equipment</b>	
(c)	60,000
Bal.	60,000

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

<b>Accounts Payable</b>			
(h)	100	(d)	1,000
		(i)	600
		Bal.	1,500

<b>Note Payable</b>	
	(b) 50,000
	Bal. 50,000

<b>Common Shares</b>	
	(a) 60,000
	Bal. 60,000

<b>Service Revenue</b>	
	(f) 800
	(g) 4,500
	Bal. 5,300

(continued) P 2-38A

Salary Expense	
(e)	1,500
Bal.	1,500

Rent Expense	
(k)	1,000
Bal.	1,000

Advertising Expense	
(k)	800
Bal.	800

Utilities Expense	
(i)	600
Bal.	600

Req. 3

**Music Services Ltd.  
Trial Balance  
January 31, 2017**

ACCOUNT	DEBIT	CREDIT
Cash.....	\$ 500	
Accounts receivable.....	1,400	
Office supplies.....	1,000	
Music equipment .....	60,000	
Building .....	50,000	
Accounts payable .....		\$ 1,500
Note payable .....		50,000
Common shares.....		60,000
Service revenue .....		5,300
Salary expense.....	1,500	
Rent expense .....	1,000	
Advertising expense.....	800	
Utilities expense .....	600	
Total .....	<u>\$116,800</u>	<u>\$116,800</u>

**Req. 4**

**Total assets = \$112,900 (\$500 + \$1,400 + \$1,000 + \$60,000 + \$50,000)**

**Total liabilities = \$51,500 (\$1,500 + \$50,000)**

**Net income = \$1,400 (\$5,300 – \$1,500 – \$1,000 – \$800 – \$600)**

**The bank manager's concerns are answered by the above information.**

# Problems

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## Group B

(15-30 min.) P 2-39B

Dear Friend,

This trial balance lists all the accounts of Opera Tours Inc., along with their balances at December 31, 2017. The trial balance is an internal document used by accountants. It is not the same as a balance sheet and an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The Balance Sheet is made up of the Asset, Liability and Shareholders' Equity accounts. These accounts make up the accounting equation;  $\text{Assets} = \text{Liabilities} + \text{Shareholder's Equity}$ .

The balance sheet accounts of Opera Tours Inc. are as follows:

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 12,000	Accounts payable	\$105,000
Accounts receivable	45,000	Note payable	<u>92,000</u>
Prepaid expenses	4,000		197,000
Equipment	<u>231,000</u>	<u>Equity</u>	
	<u>\$292,000</u>	Common shares	30,000
		Retained earnings	<u>65,000*</u>
			<u>95,000</u>
			<u>\$292,000</u>

\*(32,000 + 33,000)

The Income Statement is made up of Revenue and Expense Accounts. Revenue less Expenses equal Net Income (Loss). The income statement accounts of Opera Tours Inc. are as follows:

Service Revenue	\$139,000
<u>Expenses</u>	
Salary expense	69,000
Tour expenses	26,000
Rent expense	7,000
Advertising expense	<u>4,000</u>
	<u>106,000</u>
Net income	<u>\$ 33,000</u>

The fact that the trial balance is in balance does not mean that Opera Tours Inc. is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. In this instance, Opera Tours Inc. had a net income of \$33,000 as per the Income Statement outlined above.

Student responses may vary.



## Req. 1

## Analysis of Transactions

	ASSETS				=	LIABILITIES		+	SHAREHOLDERS' EQUITY		
	Cash	+ Accounts Receivable	+ Supplies	+ Land	=	Accounts Payable	+ Common Shares	+ Retained Earnings	Type of Shareholders' Equity Transaction		
Bal.	1,700	2,200		24,100	=	5,400	10,000	12,600			
a)	30,000				=		30,000		Issued shares		
b)	(1,000)				=	(1,000)					
c)	5,100				=			5,100	Service revenue		
d)	700	(700)			=						
e)			800		=	800					
f)		15,000			=			15,000	Service revenue		
g)	1,700				=		1,700		Issued shares		
h)	(2,100)				=			(2,100)	Rent expense		
	(1,600)				=			(1,600)	Advertising expense		
i)	(2,000)				=			(2,000)	Dividends		
Bal.	<u>32,500</u>	<u>16,500</u>	<u>800</u>	<u>24,100</u>	=	<u>5,200</u>	<u>41,700</u>	<u>27,000</u>			
	\$73,900					\$73,900					

**Req. 2**

**DH Designers, Inc.  
Income Statement  
For the Month Ended May 31, 2017**

---

<b>Revenues:</b>		
Service revenue (\$5,100 + \$15,000)		<b>\$20,100</b>
<b>Expenses:</b>		
Rent expense.....	<b>\$2,100</b>	
Advertising expense.....	<u><b>1,600</b></u>	
Total expenses.....		<u><b>3,700</b></u>
Net income.....		<u><b>\$16,400</b></u>

**Req. 3**

**DH Designers, Inc.  
Statement of Retained Earnings  
For the Month Ended May 31, 2017**

---

Retained earnings, April 30, 2017.....	<b>\$12,600</b>
Add: Net income for the month .....	<u><b>16,400</b></u>
	<b>29,000</b>
Less: Dividends.....	<u><b>(2,000)</b></u>
Retained earnings, May 31, 2017.....	<u><b>\$27,000</b></u>

Req. 4

DH Designers, Inc.  
Balance Sheet  
May 31, 2017

ASSETS		LIABILITIES	
Cash.....	\$32,500	Accounts payable .....	\$ 5,200
Accounts receivable...	16,500	SHAREHOLDERS'	
Supplies.....	800	EQUITY	
Land .....	24,100	Common shares .....	41,700
		Retained earnings .....	<u>27,000</u>
		Total shareholders' equity	68,700
Total assets .....	<u>\$73,900</u>	Total liabilities and	
		shareholders' equity .....	<u>\$73,900</u>

Req. 1

**Journal**

ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
a. <b>Cash</b> .....	<b>30,000</b>	
<b>Common Shares</b> .....		<b>30,000</b>
b. <b>Accounts Payable</b> .....	<b>1,000</b>	
<b>Cash</b> .....		<b>1,000</b>
c. <b>Cash</b> .....	<b>5,100</b>	
<b>Service Revenue</b> .....		<b>5,100</b>
d. <b>Cash</b> .....	<b>700</b>	
<b>Accounts Receivable</b> .....		<b>700</b>
e. <b>Supplies</b> .....	<b>800</b>	
<b>Accounts Payable</b> .....		<b>800</b>
f. <b>Accounts Receivable</b> .....	<b>15,000</b>	
<b>Service Revenue</b> .....		<b>15,000</b>
g. <b>Cash</b> .....	<b>1,700</b>	
<b>Common Shares</b> .....		<b>1,700</b>
h. <b>Rent Expense</b> .....	<b>2,100</b>	
<b>Advertising Expense</b> .....	<b>1,600</b>	
<b>Cash</b> .....		<b>3,700</b>
i. <b>Dividends</b> .....	<b>2,000</b>	
<b>Cash</b> .....		<b>2,000</b>

**Reqs. 2 and 3**

<b>Cash</b>		<b>Accounts Receivable</b>		<b>Supplies</b>		<b>Land</b>	
1,700	1,000	2,200	700	800	24,100		
30,000	3,700	15,000		800	24,100		
5,100	2,000	16,500					
700							
1,700							
32,500							

<b>Accounts Payable</b>		<b>Common Shares</b>		<b>Retained Earnings</b>		<b>Dividends</b>	
1,000	5,400		10,000		12,600	2,000	
	800		30,000		12,600	2,000	
	5,200		1,700				
			41,700				

<b>Service Revenue</b>		<b>Rent Expense</b>		<b>Advertising Expense</b>	
	5,100	2,100		1,600	
	15,000	2,100		1,600	
	20,100				

**The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-57B.**

**Req. 1**

***Classification of Transactions***

<b>March</b>	<b>1</b>	<b>a</b>
	<b>2</b>	<b>a</b>
	<b>3</b>	<b>a</b>
	<b>5</b>	<b>b</b>
	<b>6</b>	<b>c</b>
	<b>7</b>	<b>b</b>
	<b>9</b>	<b>b</b>
	<b>23</b>	<b>b</b>
	<b>29</b>	<b>b</b>
	<b>30</b>	<b>b</b>
	<b>31</b>	<b>b</b>

Req. 2

Analysis of Transactions

ASSETS		= LIABILITIES			+ SHAREHOLDERS' EQUITY				
Date	Cash +	Accounts Receivable +	Supplies +	Office Furniture =	Accounts Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction	
March 1*									
2*									
3*									
5	50,000					50,000		Issued shares	
6**									
7	(450)		450						
9	(5,000)			15,500	10,500				
23		4,000					4,000	Service revenue	
29	(5,000)				(5,000)				
30	(2,100)						(2,100)	Rent expense	
31	(1,000)						(1,000)	Dividend	
Bal.	<u>36,450</u>	<u>4,000</u>	<u>450</u>	<u>15,500</u>	<u>5,500</u>	<u>50,000</u>	<u>900</u>		
	\$56,400				\$56,400				

\*Not a transaction of the business.

\*\* A business-related event, but not a transaction to be recorded.

**Req. 3**

- a. The business has \$36,450 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from issuing shares. Issuances of shares go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, records the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no direct relationship between cash and retained earnings.
- b. The business's total resources (total assets) are \$56,400 ( $\$36,450 + \$4,000 + \$450 + \$15,500$ ). The business owes total liabilities of \$5,500, so Kohler's ownership interest in the assets of the business is \$50,900 ( $\$56,400 - \$5,500$ , or  $\$50,000 + \$900$ ).



## Req. 4

## Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
March 5	Cash .....	50,000	
	Common Shares.....		50,000
	Issued shares to shareholder.		
7	Supplies.....	450	
	Cash .....		450
	Purchased supplies.		
9	Office Furniture.....	15,500	
	Cash .....		5,000
	Accounts Payable.....		10,500
	Purchased furniture.		
23	Accounts Receivable.....	4,000	
	Service Revenue.....		4,000
	Provided service on account.		
29	Accounts Payable.....	5,000	
	Cash .....		5,000
	Paid on account.		
30	Rent Expense.....	2,100	
	Cash .....		2,100
	Paid rent.		
31	Dividends.....	1,000	
	Cash .....		1,000
	Paid dividend.		

Req. 1 (journal entries; explanations not required)

### Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
June 1	Cash .....	25,000	
	Common Shares.....		25,000
2	Land .....	40,000	
	Cash .....		10,000
	Note Payable .....		30,000
7	Cash .....	20,000	
	Sales Revenue .....		20,000
10	Supplies .....	1,000	
	Accounts Payable.....		1,000
15	Salary Expense .....	2,800	
	Rent Expense.....	1,800	
	Cash .....		4,600
15	Advertising Expense.....	1,100	
	Cash .....		1,100
16	Accounts Payable.....	1,000	
	Cash .....		1,000
17	Dividends.....	2,000	
	Cash .....		2,000

**Req. 2**

<b>Cash</b>	
<b>25,000</b>	<b>10,000</b>
<b>20,000</b>	<b>4,600</b>
	<b>1,100</b>
	<b>1,000</b>
	<b>2,000</b>
<b>26,300</b>	

<b>Accounts Payable</b>	
<b>1,000</b>	<b>1,000</b>
<b>0</b>	

<b>Notes Payable</b>	
	<b>30,000</b>
	<b>30,000</b>

**Req. 3**

**Cash: \$26,300 (\$25,000 – \$10,000 + \$20,000 –  
\$4,600 – \$1,100 – \$1,000 – \$2,000)**

**Total amount owed: \$30,000 (\$30,000 + \$1,000 –  
\$1,000)**

Req. 1 (journal entries; explanations not required)

### Journal

DATE	ACCOUNT TITLES	DEBIT	CREDIT
Oct. 3	Cash .....	20,000	
	Common Shares.....		20,000
4	Cash .....	5,000	
	Service Revenue.....		5,000
6	Supplies .....	300	
	Furniture .....	2,500	
	Accounts Payable .....		2,800
7	Land.....	15,000	
	Cash .....		15,000
7	Accounts Receivable.....	1,500	
	Service Revenue.....		1,500
16	Cash .....	500	
	Accounts Receivable.....		500
24	Utilities Expense .....	110	
	Cash .....		110
24	Utilities Expense .....	400	
	Cash .....		400
28	Cash .....	2,500	
	Service Revenue.....		2,500
31	Salary Expense .....	1,200	
	Cash .....		1,200
31	Accounts Payable .....	2,500	
	Cash .....		2,500
31	Dividends .....	2,400	
	Cash .....		2,400

*Req. 2 (ledger accounts)*

<b>Cash</b>			
Oct. 3	20,000	Oct. 7	15,000
4	5,000	24	110
16	500	24	400
28	2,500	31	2,500
		31	1,200
		31	2,400
Bal.	6,390		

<b>Furniture</b>	
Oct. 6	2,500
Bal.	2,500

<b>Accounts Payable</b>			
Oct. 31	2,500	Oct. 6	2,800
		Bal.	300

<b>Dividends</b>	
Oct. 31	2,400
Bal.	2,400

<b>Accounts Receivable</b>			
Oct. 7	1,500	Oct. 16	500
Bal.	1,000		

<b>Supplies</b>	
Oct. 6	300
Bal.	300

<b>Land</b>	
Oct. 7	15,000
Bal.	15,000

<b>Common Shares</b>			
		Oct. 3	20,000
		Bal.	20,000

<b>Service Revenue</b>			
		Oct. 4	5,000
		7	1,500
		28	2,500
		Bal.	9,000

*Req. 2 (ledger accounts)*

<b>Salary Expense</b>	
Oct. 31	1,200
Bal.	1,200

<b>Utilities Expense</b>	
Oct. 24	110
24	400
Bal.	510

**Req. 3**

**Barron Environmental Services Inc.  
Trial Balance  
October 31, 2017**

<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash .....	\$ 6,390	
Accounts receivable.....	1,000	
Supplies.....	300	
Furniture .....	2,500	
Land .....	15,000	
Accounts payable .....		\$ 300
Common shares.....		20,000
Dividends.....	2,400	
Service revenue .....		9,000
Salary expense.....	1,200	
Utilities expense.....	510	
<b>Total .....</b>	<b><u>\$29,300</u></b>	<b><u>\$29,300</u></b>

**Req. 4**

**Total resources (assets) = \$25,190 (\$6,390 + \$1,000 + \$300 + \$2,500 + \$15,000)**

**Amount owed (total liabilities) = \$300**

**Profit (net income) = \$7,290 (\$9,000 – \$1,200 – \$510)**

(40-50 min.) P 2-45B

Reqs. 1 and 2

<b>Cash</b>			
(a)	20,000	(c)	35,000
(b)	90,000	(g)	800
(f)	1,200	(j)	2,200
(i)	1,100	(k)	1,100
<hr/>			
Bal.	73,200		

<b>Accounts Receivable</b>			
(e)	2,500	(f)	1,200
Bal.	1,300		

<b>Office Supplies</b>	
(d)	1,300
Bal.	1,300

<b>Computer Equipment</b>	
(c)	35,000
Bal.	35,000

<b>Building</b>	
(a)	60,000
Bal.	60,000

<b>Accounts Payable</b>			
(g)	800	(d)	1,300
		(h)	500
<hr/>			
		Bal.	1,000

<b>Note Payable</b>	
	(b) 90,000
Bal.	90,000

<b>Common Shares</b>	
	(a) 80,000
Bal.	80,000

<b>Service Revenue</b>	
	(e) 2,500
	(i) 1,100
Bal.	3,600

(continued) P 2-45B

Salary Expense	
(j)	2,200
Bal.	2,200

Advertising Expense	
(h)	500
Bal.	500

Rent Expense	
(k)	700
Bal.	700

Utilities Expense	
(k)	400
Bal.	400

**Req. 3**

**SchulichGraphics Service Inc.  
Trial Balance  
June 30, 2017**

ACCOUNT	DEBIT	CREDIT
Cash .....	\$ 73,200	
Accounts receivable.....	1,300	
Office supplies .....	1,300	
Computer equipment.....	35,000	
Building.....	60,000	
Accounts payable .....		\$ 1,000
Note payable.....		90,000
Common shares.....		80,000
Service revenue .....		3,600
Salary expense.....	2,200	
Rent expense.....	700	
Advertising expense.....	500	
Utilities expense.....	400	
<b>Total .....</b>	<b><u>\$174,600</u></b>	<b><u>\$174,600</u></b>



# Decision Cases

---

## (40-50 min.) Decision Case 1

*Reqs. 1 and 2*

Cash	
(a) 10,000	(b) 300
(e) 5,000	(f) 2,300
(i) 2,500	(h) 1,000
(g) 1,200	(j) 800
Bal. 14,300	

Accounts Receivable	
(d) 7,000	(g) 1200
Bal. 5,800	

Supplies	
(b) 300	
Bal. 300	

Furniture	
(c) 4,400	
Bal. 4,400	

Accounts Payable	
(h) 1,000	(c) 4,400
	Bal. 3,400

Notes Payable	
	(e) 5,000
	Bal. 5,000

Common Shares	
	(a) 10,000
	Bal. 10,000

Service Revenue	
	(d) 7,000
	(i) 2,500
	Bal. 9,500

Salary Expense	
(f) 1,700	
Bal. 1,700	

Advertising Expense	
(j) 800	
Bal. 800	

Rent Expense	
(f) 600	
Bal. 600	

Req. 3

**Tipple Networks, Inc.  
Trial Balance  
Current Date**

<b>ACCOUNT</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash .....	\$14,300	
Accounts receivable.....	5,800	
Supplies.....	300	
Furniture .....	4,400	
Accounts payable .....		\$ 3,400
Notes payable.....		5,000
Common shares.....		10,000
Service revenue .....		9,500
Salary expense.....	1,700	
Advertising expense.....	800	
Rent expense.....	600	
<b>Total .....</b>	<b><u>\$27,900</u></b>	<b><u>\$27,900</u></b>

**Req. 4 (net income or loss for first month of operations)**

<b>Revenues:</b>		
Service revenue .....		<b>\$9,500</b>
<b>Expenses:</b>		
Salary expense.....	<b>\$1,700</b>	
Advertising expense.....	<b>800</b>	
Rent expense .....	<b><u>600</u></b>	
Total expenses.....		<b><u>3,100</u></b>
Net income for month.....		<b><u>\$6,400</u></b>

**Recommendation:** Continue the business. Even though first-month net income falls below the target amount, the business should grow and should be able to earn monthly net income of \$10,000. Business startups require focus on non-revenue generating issues which will *not* continue into future months. Tipple needs to focus on generating revenue of at least \$13,100 per month.

(20-30 min.) Decision Case 2

**Barbara Boland Blossoms, Inc.**  
**Income Statement**  
**For the Quarter Ended December 31, 2017**

---

Sales revenue.....	\$36,000
Cost of goods sold .....	22,000
Rent expense.....	6,000
Advertising expense.....	<u>5,000</u>
Total expenses.....	<u>33,000</u>
Net income.....	<u>\$ 3,000</u>

**Barbara Boland Blossoms, Inc.**  
**Balance Sheet**  
**December 31, 2017**

---

<b>ASSETS</b>		<b>LIABILITIES</b>	
Cash.....	\$ 6,000	Accounts payable .....	\$ 8,000
Flower inventory....	5,000	<b>SHAREHOLDERS' EQUITY</b>	
Store fixtures .....	<u>10,000</u>	Common shares .....	10,000
		Retained earnings .....	<u>3,000</u>
		Total owners' equity....	<u>13,000</u>
		Total liabilities	
Total assets.....	<u>\$21,000</u>	and equity .....	<u>\$21,000</u>

**Recommendation:** Do not expand because both net income and total assets do not reach the target amounts. Boland's cousin made some mistakes, which will affect the decision to expand the business. One issue is the high cost of goods sold (61% = 22,000/36,000). If this expense could be reduced the profit target would be achievable.

# Ethical Issue 1

---

**Req. 1**

Option 1:                   Cash ..... 100,000  
   Common shares ..... 100,000

Option 2:  
   Transaction to record land transfer  
   and issue of shares  
  
   Land..... 100,000  
   Common shares ..... 100,000

  Transaction to cancel shares and  
   transfer land back to Murphy  
   Common shares .....  
   100,000  
   Land ..... 100,000

<b>Issue</b>	<b>\$100,000 common shares for cash</b>	<b>Transfer personal land to company</b>
<b>Is this a valid business transaction?</b>	Yes. An investment of \$100,000 has been made in the business.	No, if the intent is to transfer the land back to the shareholder during term of the loan. Questionable. Is the land worth \$100,000? Will the land be used in the business?
<b>Who are stakeholders?</b>	Bank who advances loan. Murphy, owner of the business. Friend who invested in business. Loan officer.	Bank who advances loan. Murphy, owner of the business. Loan officer.
<b>Alternatives/impacts on stakeholders</b>	Murphy, owner of the business will receive loan based on value of shareholder equity. Friend who invested in business could increase value of investment if business expands. Bank who advances loan receives interest. Loan officer builds client relationship.	Murphy, owner of the business will violate bank covenant when land is transferred back to personal use and common shares are cancelled during term of loan. Bank risk on loan is increased as assets were overstated on loan application. Loan officer could be held accountable for bad risk loan.
<b>Decision</b>	This option would be ethical in the circumstances.	This option is misleading and unethical in the circumstances.

## **Ethical Issue 2**

---

<b>Issue</b>	<b>Is Beatrice Grand making decisions that take advantage of (abuse) the standing agreement between Community Charities (CC) and the Royal Bank of Canada (RBC)?</b>
<b>Stakeholders</b>	<b>Royal Bank of Canada (RBC) is the key stakeholder as its funds are being used. RBC Client representative who will determine whether bank can continue on this basis. Community charities is increasing overdraft position. Beatrice Grand, President, is expanding operations and initiating fundraising for CC.</b>
<b>Alternatives/Impact on stakeholders</b>	<b>RBC could be misled re Beatrice Grand's decisions that lead to the increasing overdraft of Community Charities' cash balance. RBC Client representative will be held accountable if ongoing negative bank balance is abuse of agreement with Community Charities. Community Charities may benefit from expansion and fundraising efforts; however, the organization's overdraft is also increasing. Beatrice Grand is making decisions on behalf of Community Charities which could have positive or negative consequences.</b>
<b>Decision</b>	<b>If RBC is aware of CC's expansion plans, the situation is ethically appropriate. This assumes RBC and CC are communicating openly.  If RBC is unaware of Beatrice Grand's decisions, CC is abusing agreement with RBC. In this case, the situation is unethical.</b>

# Focus on Financials

(20-30 min.) Canadian Tire Corporation

**Reqs. 1 and 3**

*(All amounts in millions)*

Cash & Cash Equiv.	Trade Receivables	Merch. Inventories
643.2 (d) 7,695.9 (g) 3,911.2 (h) 207.5 (i) 227	758.5 (a) 3,101 (c) 2,979.3	1,481.0 (e) 7,553.1 (d) 7,695.9
(b) 9,361.9 (c) 2,979.3 942.8	880.2 <b>Long-Term debt</b> (h) 207.5	1,623.8 <b>Trade payables</b> (g) 3,911.2 1,817.4 (f) 4,055
	2,339.1 2,131.6	1,961.2

Prop & Equip	Revenue	Cost of Prod. Rev.
3,516.1 (i) 227 3,743.1	(a) 3,101 (b) 9,361.9 12,462.9	(e) 7,553.1 7,553.1

**Sell., Gen. & Admin.**

(f) 4,055.0
4,055.0

(continued) Canadian Tire Corporation

Req. 2

		<i>(Millions)</i>
a.	Trade Receivables .....	3,101
	Revenue.....	3,101
b.	Cash .....	9,361.9
	Revenue.....	9,361.9
c.	Cash .....	2,979.3
	Trade Receivables .....	2,979.3
d.	Merch. Inventories .....	7,695.9
	Cash.....	7,695.9
e.	Cost of Producing Revenue.....	7,553.1
	Merch. Inventories.....	7,553.1
f.	Selling, Gen and Admin Expenses.....	4,055
	Accounts Payable.....	4,055
g.	Trade Payables.....	4,113
	Cash.....	4,113
h.	Long-term debt.....	207.5
	Cash.....	207.5
i.	Property and Equipment .....	227
	Cash.....	227

Req. 4

All the selected account balances agree with Canadian Tire's actual figures on the income statement or the balance sheet.



## Focus on Analysis

(20-30 min.) Canadian Tire Corporation

### *Req. 1*

During 2014, Canadian Tire had more credit sales than it collected in cash from customers. This is determined by analyzing Trade and Other Receivables, as follows:

	<i>(Millions)</i>
Balance at the end of 2013.....	\$758.5
+ Sales during 2014 .....	S
– Collections from customers during .....	<u>(C)</u>
= Balance at the end of 2014.....	<u>\$880.2</u>

Sales (S) must have exceeded Collections (C) because the total receivable balance increased during the year.

### *Req. 2*

	<i>(Millions)</i>
Long-term debt:	
At end of 2013 (including current portion) .....	\$ 2,611.3
At end of 2014 (including current portion) .....	<u>2,719.1</u>
Increase in long-term debt during 2014 .....	<u>\$ 107.8</u>

Long-term debt increased during 2014, so Canadian Tire must have taken on more long-term debt than it repaid during the year.

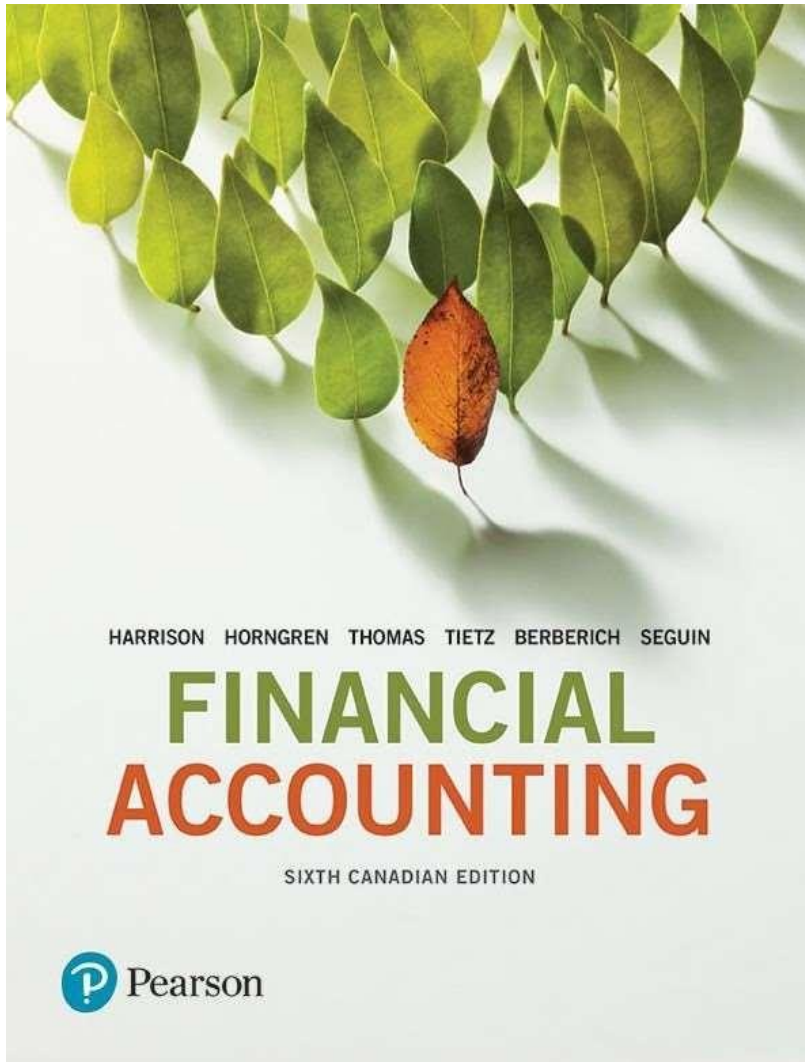
**Req. 3**

	<b>2014</b>	<b>2013</b>
<b>Revenues (millions)</b>	<b>\$12,462.9</b>	<b>\$11,785.6</b>
	-----	
	<b>Increase = \$677.3</b>	
	<b>5.7%</b>	
<b>Net Income (millions)</b>	<b>\$639.3</b>	<b>\$564.4</b>
	-----	
	<b>Increase = \$74.9</b>	
	<b>13.3%</b>	

Net Income increased more than Revenues by a healthy percentage. Most investors prefer this outcome because it means that a company was able to increase its revenues while holding the increase in expenses to a lower rate of increase compared to the increase in sales. In other words, the company was able to keep a higher percentage of its revenues in 2014 than it did in 2013.

# Financial Accounting

Sixth Canadian Edition



## Chapter 2 Recording Business Transactions

# Learning Objective One

**Describe** common types of accounts

# The Account

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

- Account is a record of each asset, liability, and shareholders' equity element
  - Basic summary device of accounting

# Assets (1 of 2)

Economic resources that provide future benefit

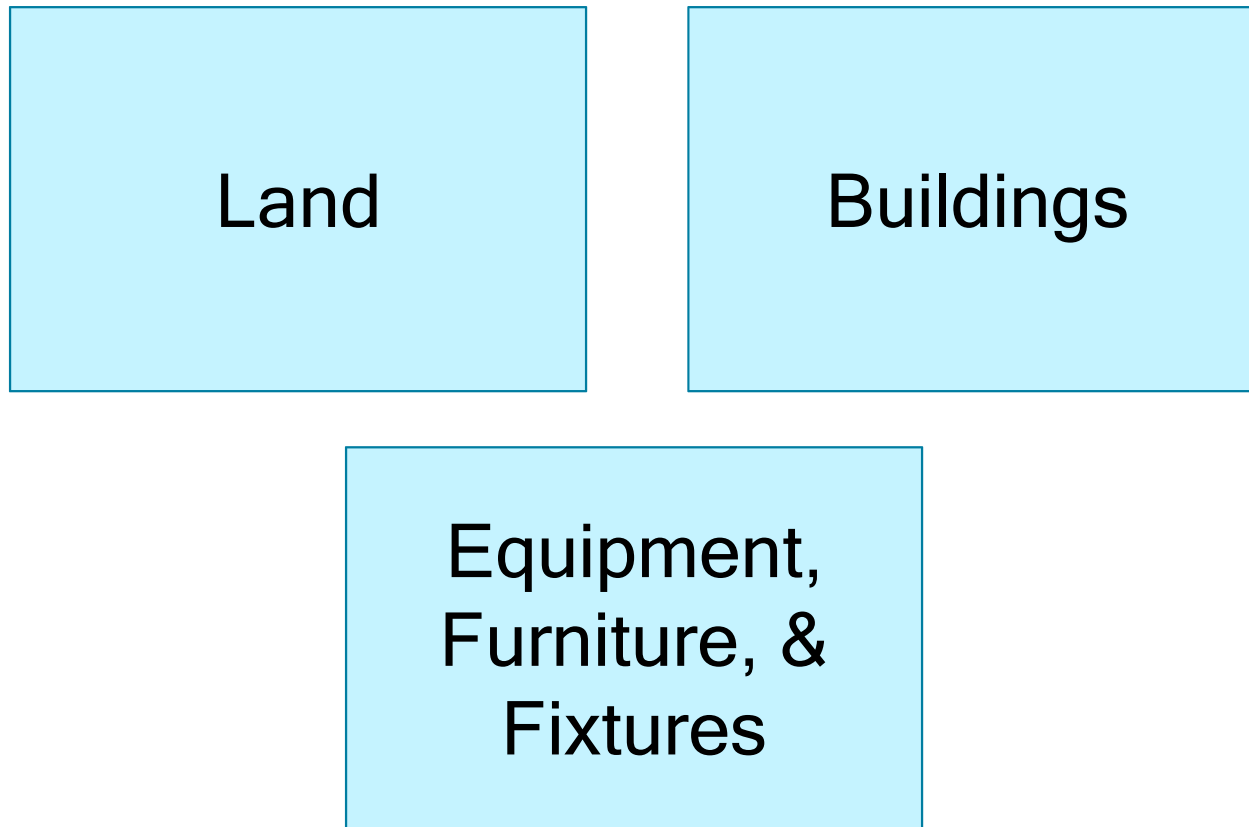
Cash

Accounts  
Receivable

Prepaid  
Expenses

Inventory

# Assets (2 of 2)



# Liabilities

Accounts  
Payable

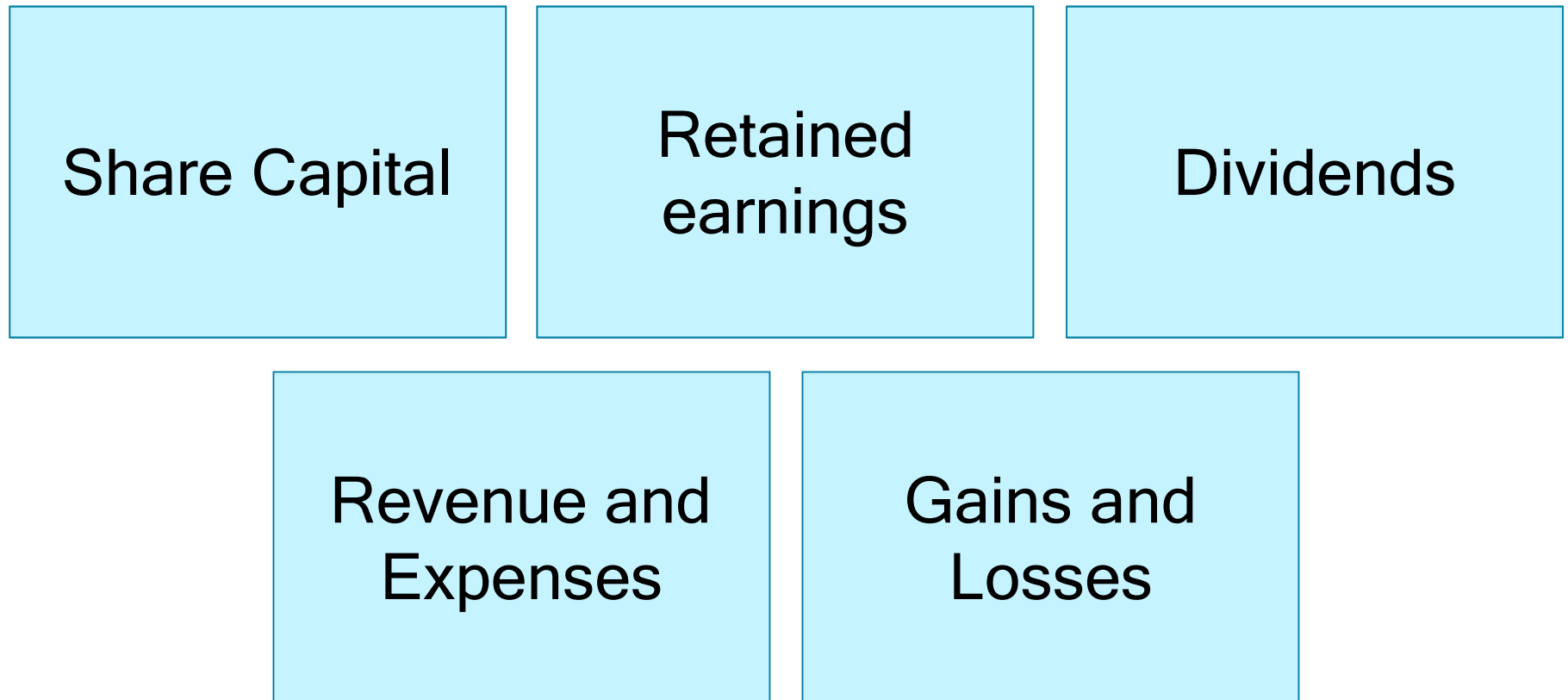
Loans Payable

Accrued  
Liabilities



# Shareholders' Equity

Owners' claim to assets



# Shareholders' Equity Accounts

Share capital	Owners' investment in the company
Retained earnings	Cumulative net income (loss) less dividends
Dividends	Distributions to owners
Revenues	Income from providing goods and services
Gains	Income outside the company' s normal operations
Expenses	Costs of operating a business
Losses	Expenses outside the company' s normal operations

# Learning Objective Two

**Illustrate** the impact of business transactions on the accounting equation

# Accounting for Business Transactions (1 of 14)

*A transaction* is an event that both affects the financial position of the business entity and can be reliably recorded.

# Accounting for Business Transactions (2 of 14)

## Transaction 1:

Students invest \$50,000 to begin Tara Inc., and the business issues share capital.

<b>ASSETS</b>		<b>LIABILITIES</b>	+	<b>SHAREHOLDERS' EQUITY</b>
Cash				
+ 50,000	=			Share Capital
				+50,000
(1)				Issued common shares

# Accounting for Business Transactions (3 of 14)

## Transaction 2:

Tara Inc. purchases land and pays \$40,000 in cash.

	ASSETS			LIABILITIES	+	SHAREHOLDERS' EQUITY
	Cash	Land				Share Capital
Balance	50,000		=			50,000
(2)	-40,000	+ 40,000				
Bal.	10,000	40,000				50,000
	50,000					50,000

# Accounting for Business Transactions (4 of 14)

## Transaction 3:

The business buys stationery and other office supplies on account agreeing to pay \$3700 within 30 days.

ASSETS				=	LIABILITIES	+	SHAREHOLDERS' EQUITY
	Cash	+	Office Supplies		Accounts Payable	+	Share Capital
Bal.	10,000						50,000
(3)	10,000		+3700 3,700		+3,700		
Bal.	10,000		3,700 40,000		3,700		50,000
			53,700		3,700		50,000
					53,700		

# Accounting for Business Transactions (5 of 14)

## Transaction 4:

Tara Inc. earns service revenue of \$7,000 and collects this amount in cash.

ASSETS			+	LIABILITIES		+	SHAREHOLDERS' EQUITY			
Cash	+	Office Supplies	+	Land	+	Accounts Payable	+	Share Capital	+	Retained Earnings
Bal. 10,000		3,700		40,000		3,700		50,000		
(4) + 7,000										7,000
Bal. 17,000		3,700		40,000	=	3,700		50,000		7,000
<div style="border-top: 1px solid black; width: 100%;"></div>						<div style="border-top: 1px solid black; width: 100%;"></div>				
<div style="border-top: 1px solid black; width: 100%;"></div>						<div style="border-top: 1px solid black; width: 100%;"></div>				
60,700						60,700				



# Accounting for Business Transactions (6 of 14)

## Transaction 5:

Tara Inc., performs service and earns \$3,000 on account.

ASSETS					=	LIABILITIES	+	SHAREHOLDERS' EQUITY				
Cash	+	Accounts Receivable	+	Office Supplies	+	Land		Accounts Payable	+	Share Capital	+	Retained Earnings
Bal.	17,000			3,700		40,000		3,700		50,000		7,000
(5)		+ 3,000										+3,000
Bal.	17,000	3,000		3,700		40,000		3,700		50,000		10,000
	63,700							63,700				

# Accounting for Business Transactions (7 of 14)

## Transaction 6:

Tara Inc. pays \$2,700 for the following expenses:  
 office rent \$1,100, employee salary \$1,200  
 and utilities \$400

ASSETS					=	LIABILITIES	+	SHAREHOLDERS' EQUITY				
Cash	+	Accounts Receivable	+	Office Supplies	+	Land	=	Accounts Payable	+	Share Capital	+	Retained Earnings
Bal. 17,000		3,000		3,700		40,000		3,700		50,000		10,000
(6) -1,100												-1,100
-1,200												-1,200
<u>- 400</u>												<u>- 400</u>
Bal. 14,300		3,000		3,700		40,000		3,700		50,000		7,300
		} 61,000						} 61,000				

# Accounting for Business Transactions (8 of 14)

## Transaction 7:

Tara pays \$1,900 on account for supplies purchased in Transaction 3.

ASSETS					=	LIABILITIES	+	SHAREHOLDERS' EQUITY		
Cash	+	Accounts Receivable	+	Office Supplies	+	Accounts Payable	+	Share Capital	+	Retained Earnings
Bal. 14,300		3,000		3,700		3,700		50,000		7,300
(7) -1,900						-1,900				
Bal. 12,400		3,000		3,700		1,800		50,000		7,300
59,100						59,100				

# Accounting for Business Transactions (9 of 14)

## Transaction 8:

The owner pays for the re-modeling of his home at a cost of \$30,000.

This event is a transaction of the *personal entity*, not the business entity.

No transaction is recorded for Tara Inc.

# Accounting for Business Transactions (10 of 14)

## Transaction 9:

The business collects \$1,000 from a customer on account.

ASSETS					=	LIABILITIES	+	SHAREHOLDERS' EQUITY					
	Cash	+	Accounts Receivable	+	Office Supplies	+	Land		Accounts Payable	+	Share Capital	+	Retained Earnings
Bal.	12,400		3,000		3,700		40,000		1,800		50,000		7,300
(9)	+1,900		-1,000										
Bal.	13,400		2,000		3,700		40,000		1,800		50,000		7,300
	59,100								59,100				

# Accounting for Business Transactions (11 of 14)

## Transaction 10:

Tara Inc. sells part of the land purchased in Transaction 2 for \$22,000 in cash.

ASSETS					=	LIABILITIES + SHAREHOLDERS' EQUITY						
Cash	+	Accounts Receivable	+	Office Supplies	+	Land	=	Accounts Payable	+	Share Capital	+	Retained Earnings
Bal. 13,400		2,000		3,700		40,000		1,800		50,000		7,300
(10) <del>+22,000</del>		<del>_____</del>		<del>_____</del>		<del>-22,000</del>		<del>_____</del>		<del>_____</del>		<del>_____</del>
Bal. 35,400		2,000		3,700		18,000		1,800		50,000		7,300
59,100								59,100				

# Accounting for Business Transactions (12 of 14)

## Transaction 11:

The corporation declares a dividend and pays \$2,100 cash to the shareholders.

ASSETS					=	LIABILITIES	+	SHAREHOLDERS' EQUITY		
Cash	+	Accounts Receivable	+	Office Supplies		Accounts Payable	+	Share Capital	+	Retained Earnings
Bal. 35,400		2,000		3,700		1,800		50,000		7,300
(11) <del>22,000</del>		<u>2,000</u>		<u>3,700</u>		<u>1,800</u>		<u>50,000</u>		<del>2,100</del>
Bal. <u>33,300</u>		<u>2,000</u>		<u>3,700</u>		<u>1,800</u>		<u>50,000</u>		<u>5,200</u>
57,000						57,000				

# Accounting for Business Transactions (13 of 14)

<b>Assets</b>				
<b>Trans</b>	<b>Cash</b>	<b>AR</b>	<b>Supplies</b>	<b>Land</b>
1	50,000			
2	(40,000)			40,000
3			3,700	
4	7,000			
5		3,000		
6	(2,700)			
7	(1,900)			
9	1,000	(1,000)		
10	22,000			(22,000)
11	(2,100)			
Bal	33,300	2,000	3,700	18,000
Totals		57,000		



# Accounting for Business Transactions (14 of 14)

<b>= Liabilities + Shareholders' Equity</b>			
	<b>AP</b>	<b>C Shares</b>	<b>RE</b>
		50,000	
	3,700		
			7,000
			3,000
			(1,100)
			(1,200)
			(400)
	(1,900)		
			(2,100)
	1,800	50,000	5,200
		57,000	

# Transactions and Financial Statements

Income Statement data appear as revenues and expenses under Retained Earnings. The revenues increase retained earnings; the expenses decrease retained earnings.

Balance Sheet data are composed of the ending balances of the assets, liabilities, and shareholders' equity

Statement of Retained Earnings repeats net income (or net loss) from the income statement. Dividends are subtracted. Ending retained earnings is the final result.

# Income Statement

<b>Tara Inc.</b>		
<b>Income Statement</b>		
<b>Month Ended April 30, 2017</b>		
<b>Revenues</b>		
Service revenue (\$7,000 + \$3,000)		\$ 10,000
<b>Expenses</b>		
Salary expense	\$ 1,200	
Rent expense	1,100	
Utilities expense	400	
Total expenses		2,700
Net income		\$ 7,300

# Statement of Retained Earnings

<b>Tara Inc.</b> Statement of Retained Earnings Month Ended April 30, 2017		
Retained earnings, April 1, 2017		\$ 0
Add: Net income for the month		7,300
Subtotal		7,300
Less: Dividends declared		(2,100)
Retained earnings, April 30, 2017		<b>\$5,200</b>

# Balance Sheet

<b>Tara Inc.</b>			
Balance Sheet			
April 30, 2017			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 33,300	Accounts payable	\$ 1,800
Accounts receivable	2,000	<b>Shareholders' Equity</b>	
Office supplies	3,700	Common shares	50,000
Land	18,000	Retained earnings	5,200
		Total shareholders' equity	55,200
<b>Total assets</b>	<b>\$ 57,000</b>	<b>Total liabilities and shareholders' equity</b>	<b>\$ 57,000</b>

# Learning Objective Three

**Analyze** business transactions using T-accounts

# Tara Inc.

## Chart of Accounts

BALANCE SHEET ACCOUNTS:		
<i>Assets</i>	<i>Liabilities</i>	<i>Shareholders' Equity</i>
101 Cash	201 Accounts Payable	301 Share Capital
111 Accounts Receivable	231 Notes Payable	311 Dividends
141 Office Supplies		312 Retained Earnings
151 Office Furniture		
191 Land		

INCOME STATEMENT ACCOUNTS (PART OF SHAREHOLDERS' EQUITY):	
<i>Revenues</i>	<i>Expenses</i>
401 Service Revenue	501 Rent Expense
	502 Salary Expense
	503 Utilities Expense

# Double-Entry Accounting

Double-entry system of accounting uses debits and credits to record the dual effects of each business transaction.

**Assets = Liabilities + Shareholders' Equity**



# The T-Account

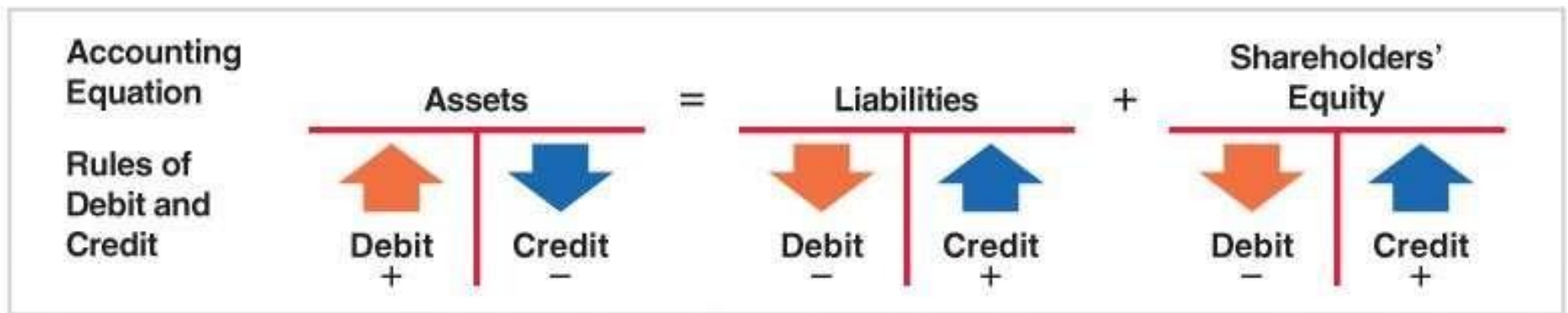
Account Title	
LEFT SIDE	RIGHT SIDE
Debit	Credit

# The Rule of Debit & Credit

Debits = Credits  
(Left side) (Right side)

Assets = Liabilities + Shareholders' Equity

# Increases and Decreases in the Accounts



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# Rules of Debit and Credit

**Assets = Liabilities + Shareholders' Equity**

<b>Assets</b>		<b>Liabilities</b>		<b>Share Capital</b>		<b>Retained Earnings</b>	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
+	-	-	+	-	+	-	+

<b>Revenue</b>	
Debit	Credit
-	+

<b>Dividends</b>		<b>Expenses</b>	
Debit	Credit	Debit	Credit
+	-	+	-

# Normal Balances of Accounts

Assets	Debit	
Liabilities		Credit
Shareholders' Equity—overall		Credit
Share capital		Credit
Retained earnings		Credit
Dividends	Debit	
Revenues		Credit
Expenses	Debit	

# Rules of Debit and Credit (1 of 2)

Tara Inc. received \$50,000 and issued shares.

Assets = Liabilities + Shareholders' Equity

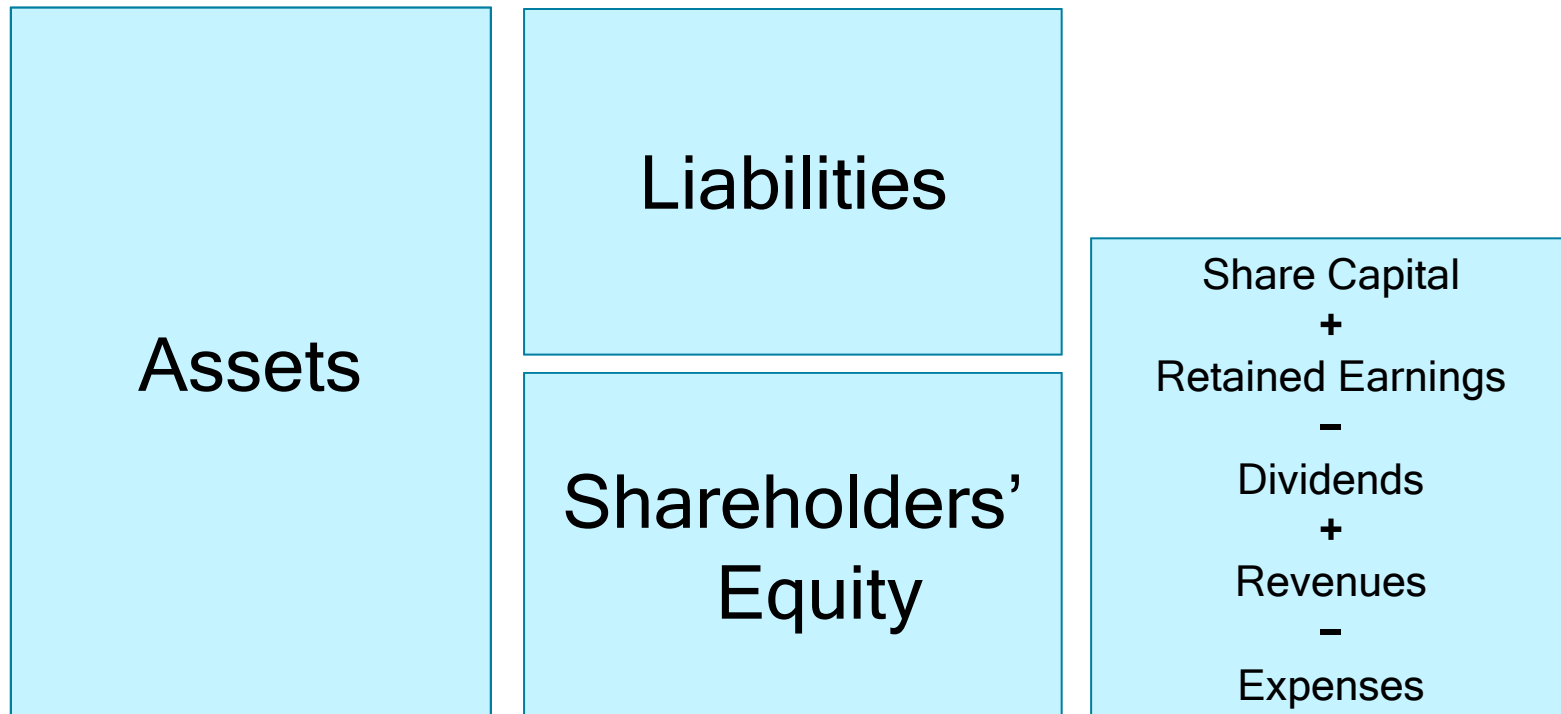
Cash		Share Capital	
Debit for Increase, 50,000			Credit for Increase, 50,000

# Rules of Debit and Credit (2 of 2)

Tara Inc. purchases land for \$40,000 cash.

Assets	=	Liabilities + Shareholders' Equity
Cash		Share Capital
Bal. 50,000	Credit for Decrease, 40,000	Bal. 50,000
Land		
Debit for Increase, 40,000		

# Additional Shareholders' Equity Accounts: Revenues, Expenses and Dividends





# Learning Objective Four

**Record** business transactions in the journal and post them to the ledger

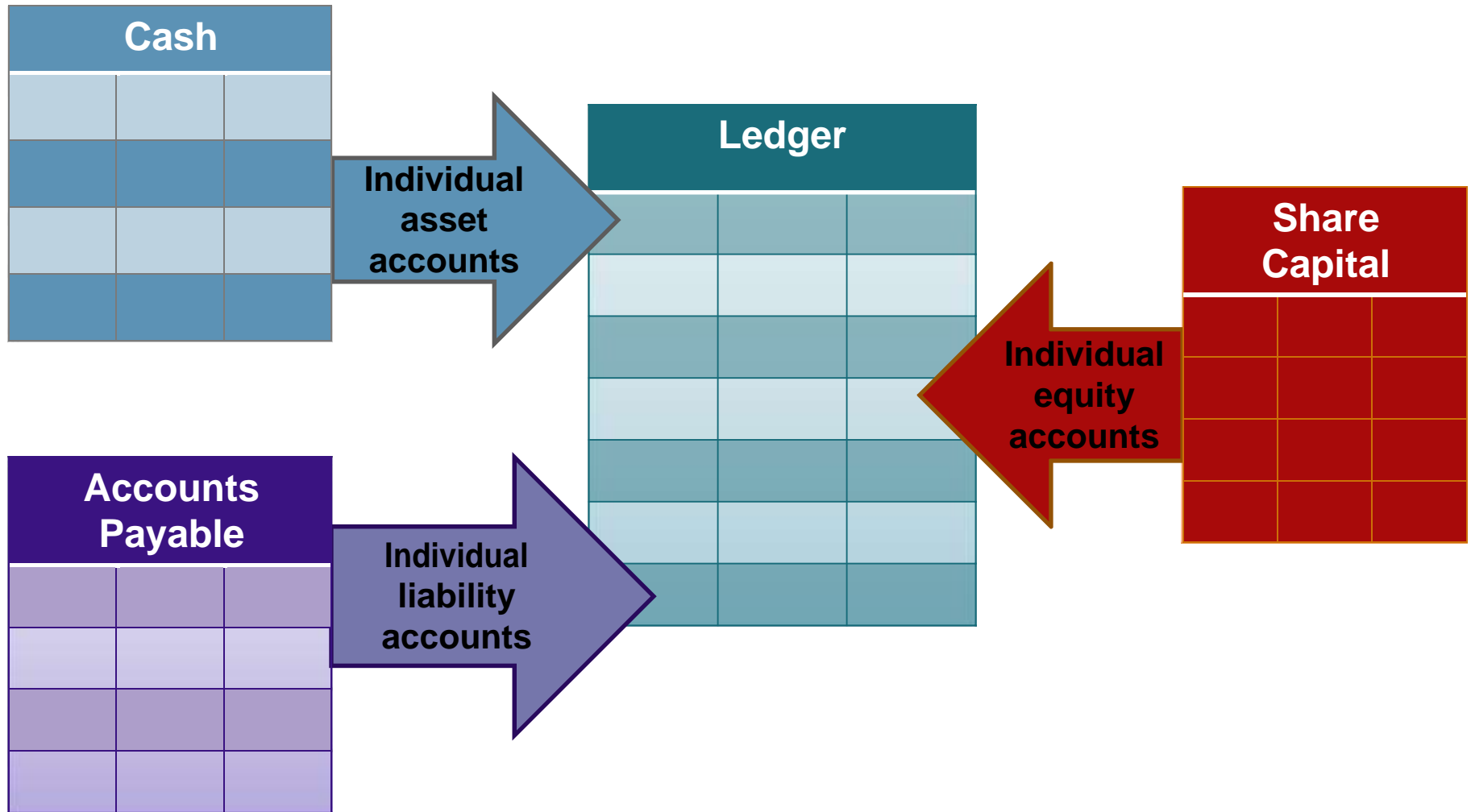
# The Journal

- Chronological record of transactions
- Three steps
  - Specify each account affected by the transaction
  - Determine if each account is increased or decreased
    - Use debit credit rules
  - Record in journal

# Journal Entry

JOURNAL			
Date	Accounts and explanation	Debit	Credit
Apr. 2	Cash	50,000	
	Share Capital		50,000
	<i>Issued common share</i>		

# The Ledger

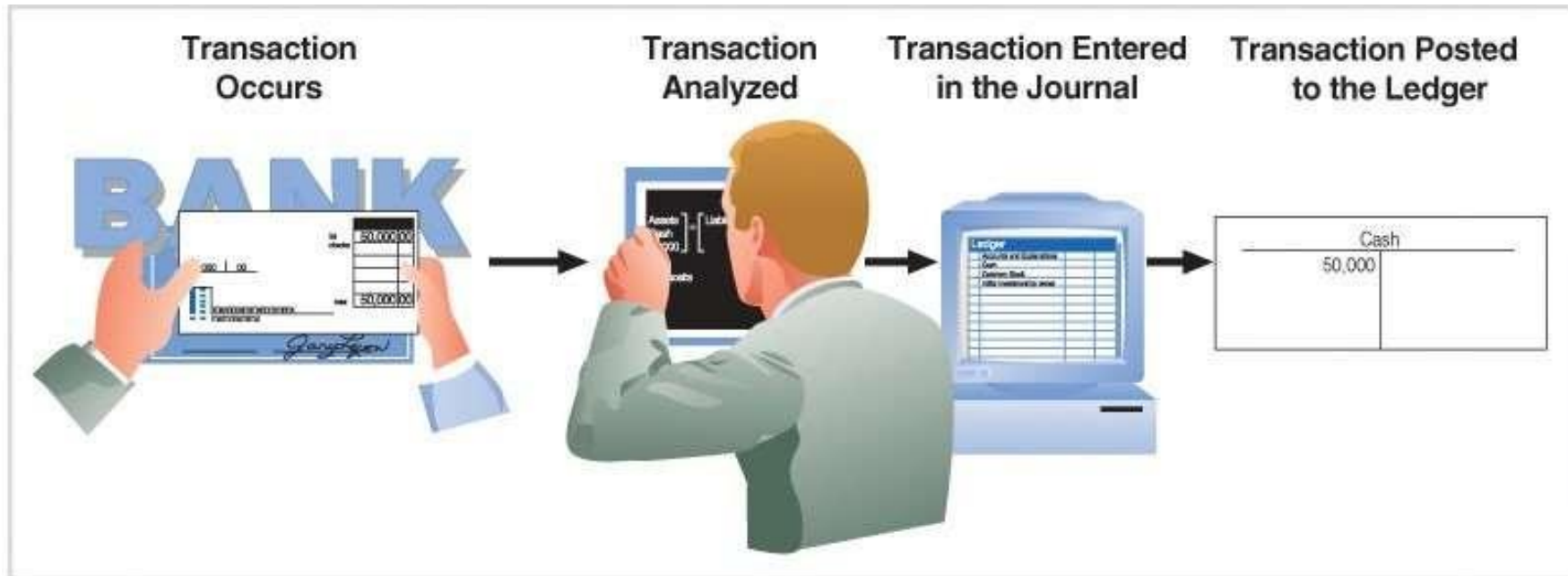


# Copying Information (Posting) from the Journal to the Ledger

JOURNAL			
Date	Accounts and explanation	Debit	Credit
Apr. 2	Cash	50,000	
	Share Capital		50,000
	<i>Issued common share</i>		

Cash	Share Capital
50,000	50,000

# Flow of Accounting Data



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# Accounts After Posting (1 of 2)

<b>Assets</b>		=	<b>Liabilities</b>	
<b>Cash</b>			<b>Accounts Payable</b>	
(1) 50,000	(2) 40,000		(7) 1,900	(3) 3,700
(4) 7,000	(6) 2,700			
(9) 1,000	(7) 1,900			
(10) 22,000	(11) 2,100			Bal. 1,800
Bal. 33,300				
<b>Accounts Receivable</b>				
(5) 3,000	(9) 1,000			
Bal. 2,000				
<b>Office Supplies</b>				
(3) 3,700				
Bal. 3,700				
<b>Land</b>				
(2) 40,000	(10) 22,000			

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Bal. 18,000



# Accounts After Posting (2 of 2)

+	<b>Shareholders' Equity</b>	
	<b>Share Capital</b>	<b>Dividends</b>
	(1) 50,000	(11) 2,100
	Bal. 50,000	Bal. 2,100
	<b>REVENUE</b>	<b>EXPENSES</b>
	<b>Service Revenue</b>	<b>Rent Expense</b>
	(4) 7,000	(6) 1,100
	(5) 3,000	Bal. 1,100
	Bal. 10,000	<b>Salary Expense</b>
		(6) 1,200
		Bal. 1,200
		<b>Utilities Expense</b>
		(6) 400
		Bal. 400

# Learning Objective Five

**Prepare** and use a trial balance

# Trial Balance

- Lists all accounts with their balances
- Assets listed first, then liabilities and shareholders' equity
- Shows that debits equal credits
- Usually prepared at the end of the period
- Facilitates preparation of the financial statements

# Tara Inc.

## Trial Balance

Tara Inc. Trial Balance April 30, 2017		
Account Title	Balance	
	Debit	Credit
Cash	\$33,300	
Accounts receivable	2,000	
Supplies	3,700	
Land	18,000	
Accounts payable		\$1,800
Common shares		50,000
Dividends	2,100	
Service revenue		10,000
Rent expense	1,100	
Salary expense	1,200	
Utilities expense	<u>400</u>	
<b>Total</b>	<u><b>\$61,800</b></u>	<u><b>\$61,800</b></u>

# End of Chapter Two