

Solution Manual for Financial and Managerial Accounting 14th Edition by Warren Reeve and Duchac ISBN 1337119202 9781337119207

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Solution Manual:

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CHAPTER 2 ANALYZING TRANSACTIONS

DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, stockholders' equity, revenue, or expense. A ledger is a group of related accounts.
2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset, expense, and dividends accounts but a decrease in liability, common stock, retained earnings, and revenue accounts.
3. **A.** Assuming no errors have occurred, the credit balance in the cash account resulted from writing checks for \$1,850 in excess of the amount of cash on deposit.
B. The \$1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.
4. **A.** The revenue was earned in October.
B. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.
(2) Debit Cash and credit Accounts Receivable in November.
5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.
6. The listing of \$9,800 is a transposition; the listing of \$100 is a slide.
7. **A.** No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.
B. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by \$90.

8. A. The equality of the trial balance would not be affected.
B. On the income statement, total operating expenses (salary expense) would be overstated by

\$7,500, and net income would be understated by \$7,500. On the retained earnings statement, the beginning and ending retained earnings would be correct. However, net income and dividends would be understated by \$7,500. These understatements offset one another, and thus, ending retained earnings is correct. The balance sheet is not affected by the error.

9.
 - A. The equality of the trial balance would not be affected.
 - B. On the income statement, revenues (fees earned) would be overstated by \$300,000, and net income would be overstated by \$300,000. On the retained earnings statement, the beginning retained earnings would be correct. However, net income and ending retained earnings would be overstated by \$300,000. The balance sheet total assets is correct. However, liabilities (notes payable) is understated by \$300,000, and stockholders' equity (retained earnings) is overstated by \$300,000. The understatement of liabilities is offset by the overstatement of stockholders' equity (retained earnings), and thus, total liabilities and stockholders' equity is correct.
10.
 - A. From the viewpoint of Surety Storage, the balance of the checking account represents an asset.
 - B. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

BASIC EXERCISES

BE 2-1

1. Debit and credit entries, normal credit balance
2. Debit and credit entries, normal debit balance
3. Debit entries only, normal debit balance
4. Debit entries only, normal debit balance
5. Debit entries only, normal debit balance
6. Credit entries only, normal credit balance

BE 2-2

| | | | | | |
|------|---|------------------|--|-------|-------|
| Mar. | 9 | Office Supplies | | 1,775 | |
| | | Cash | | | 275 |
| | | Accounts Payable | | | 1,500 |

BE 2-3

| | | | | | |
|------|----|-------------|--|-------|-------|
| Aug. | 13 | Cash | | 9,000 | |
| | | Fees Earned | | | 9,000 |

BE 2-4

| | | | | | |
|------|----|-----------|--|--------|--------|
| June | 30 | Dividends | | 11,500 | |
| | | Cash | | | 11,500 |

BE 2-5

Using the following T account, solve for the amount of supplies expense (indicated by ? below).

| Supplies | | | |
|--------------------|-------|---|------------------|
| Aug. 1 Bal. | 1,025 | ? | Supplies expense |
| Supplies purchased | 3,110 | | |
| Aug. 31 Bal. | 1,324 | | |

$\$1,324 = \$1,025 + \$3,110 - \text{Supplies expense}$
 $\text{Supplies expense} = \$1,025 + \$3,110 - \$1,324 = \$2,811$

BE 2–6

- A. The totals are equal because both the debit and credit entries were journalized and posted for \$12,900.
- B. The totals are unequal. The credit total is higher by \$1,656 (\$1,840 – \$184).
- C. The totals are unequal. The debit total is higher by \$4,500 (\$8,300 – \$3,800).

BE 2–7

| | | | |
|----|---------------------|-------|-------|
| A. | Cash | 8,400 | |
| | Accounts Receivable | | 8,400 |
| B. | Supplies | 2,500 | |
| | Office Equipment | | 2,500 |
| | Supplies | 2,500 | |
| | Accounts Payable | | 2,500 |

Note: The first entry in (B) reverses the incorrect entry, and the second entry records the correct entry. These two entries could also be combined into one entry as shown below; however, preparing two entries would make it easier for someone to understand later what happened and why the entries were necessary.

| | | |
|------------------|-------|-------|
| Supplies | 5,000 | |
| Office Equipment | | 2,500 |
| Accounts Payable | | 2,500 |

EXERCISES

Ex. 2-1

| Balance Sheet Accounts | Income Statement Accounts |
|--|--|
| <u>Assets</u> | <u>Revenue</u> |
| Advanced Payments for Equipment ^a | Cargo Revenue |
| Cash | Passenger Revenue |
| Flight Equipment | |
| Fuel Inventory | |
| Parts and Supplies Inventories | |
| Prepaid Expenses | |
| <u>Liabilities</u> | <u>Expenses</u> |
| Accounts Payable | Aircraft Fuel (Expense) |
| Air Traffic Liability ^b | Aircraft Maintenance (Expense) |
| Frequent Flyer (Obligations) ^c | Aircraft Rent (Expense) |
| Taxes Payable | Contract Carrier Arrangements (Expense) ^d |
| | Landing Fees (Expense) ^e |
| | Passenger Commissions (Expense) ^f |
| <u>Stockholders' Equity</u> | |
| None | |

^a Advance payments (deposits) on aircraft to be delivered in the future

^b Passenger ticket sales for future flights

^c Obligations to provide frequent flyers future travel and other benefits

^d Payments to other airlines for passenger travel under Delta tickets

^e Fees paid to airports for landing rights

^f Commissions paid to travel agents for passenger bookings

Ex. 2-2

| Account | Account Number |
|-----------------------|----------------|
| Accounts Payable | 21 |
| Accounts Receivable | 12 |
| Cash | 11 |
| Common Stock | 31 |
| Dividends | 33 |
| Fees Earned | 41 |
| Land | 13 |
| Miscellaneous Expense | 53 |
| Retained Earnings | 32 |
| Supplies Expense | 52 |
| Wages Expense | 51 |

Note: Expense accounts are normally listed in order of magnitude from largest to smallest with Miscellaneous Expense always listed last. Since Wages Expense is

normally larger than Supplies Expense, Wages Expense is listed as account number 51 and Supplies Expense as account number 52.

Ex. 2-3

| Balance Sheet Accounts | Income Statement Accounts |
|---------------------------------------|---------------------------|
| <u>1. Assets</u> | <u>4. Revenue</u> |
| 11 Cash | 41 Fees Earned |
| 12 Accounts Receivable | |
| 13 Supplies | <u>5. Expenses</u> |
| 14 Prepaid Insurance | 51 Wages Expense |
| 15 Equipment | 52 Rent Expense |
| | 53 Supplies Expense |
| <u>2. Liabilities</u> | 59 Miscellaneous Expense |
| 21 Accounts Payable | |
| 22 Unearned Rent | |
| | |
| <u>3. Stockholders' Equity</u> | |
| 31 Common Stock | |
| 32 Retained Earnings | |
| 33 Dividends | |

Note: The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14, accounts 21–22, and accounts 51–53. In a new business, the order of magnitude of balances in such accounts is not determinable in advance. The magnitude may also vary from period to period.

Ex. 2-4

- | | |
|-----------|-----------|
| A. debit | G. credit |
| B. credit | H. debit |
| C. credit | I. debit |
| D. credit | J. credit |
| E. debit | K. debit |
| F. credit | L. debit |

Ex. 2-5

- debit and credit entries (C)
- debit and credit entries (C)
- debit and credit entries (C)
- credit entries only (B)
- debit entries only (A)
- debit entries only (A)
- debit entries only (A)

Ex. 2-6

- A. Liability—credit
- B. Asset—debit
- C. Asset—debit
- D. Stockholders' equity (Common Stock)—credit
- E. Stockholders' equity (Dividends)—debit
- F. Revenue—credit
- G. Asset—debit
- H. Expense—debit
- I. Asset—debit
- J. Expense—debit

Ex. 2-7

| | | | | |
|--------------|-----------|------------------------------|---------------|---------------|
| 2018 | | | | |
| March | 1 | Rent Expense | 4,000 | |
| | | Cash | | 4,000 |
| | 3 | Advertising Expense | 1,350 | |
| | | Cash | | 1,350 |
| | 5 | Supplies | 1,800 | |
| | | Cash | | 1,800 |
| | 6 | Office Equipment | 11,500 | |
| | | Accounts Payable | | 11,500 |
| | 10 | Cash | 8,600 | |
| | | Accounts Receivable | | 8,600 |
| | 15 | Accounts Payable | 3,180 | |
| | | Cash | | 3,180 |
| | 27 | Miscellaneous Expense | 700 | |
| | | Cash | | 700 |
| | 30 | Utilities Expense | 550 | |
| | | Cash | | 550 |
| | 31 | Accounts Receivable | 37,200 | |
| | | Fees Earned | | 37,200 |
| | 31 | Utilities Expense | 830 | |
| | | Cash | | 830 |

| | | | | |
|--|-----------|------------------|--------------|--------------|
| | 31 | Dividends | 2,000 | |
| | | Cash | | 2,000 |

Ex. 2-8

A.

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| Date | Description | Post. Ref. | Debit | Credit |
|--------|--------------------------------|------------|-------|--------|
| 2018 | | | | |
| Oct. 3 | Supplies | 15 | 3,600 | |
| | Accounts Payable | 21 | | 3,600 |
| | Purchased supplies on account. | | | |

B., C., D.

Account: Supplies

Account No. 15

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 1 | Balance | ✓ | | | 770 | |
| | 3 | 91 | 3,600 | | 4,370 | |

Account: Accounts Payable

Account No. 21

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 1 | Balance | ✓ | | | | 26,200 |
| | 3 | 91 | | 3,600 | | 29,800 |

E. Yes, the rules of debit and credit apply to all companies.

Ex. 2-9

A. (1)

| | | |
|---------------------|--------|--------|
| Accounts Receivable | 54,100 | |
| Fees Earned | | 54,100 |

(2)

| | | |
|------------------|-------|-------|
| Supplies | 1,250 | |
| Accounts Payable | | 1,250 |

(3)

| | | |
|---------------------|--------|--------|
| Cash | 43,800 | |
| Accounts Receivable | | 43,800 |

(4)

| | | |
|------------------|-----|-----|
| Accounts Payable | 600 | |
| Cash | | 600 |

Ex. 2-9 (Concluded)

| | | | |
|----------------------------|--------|-------------------------|--------|
| B. | | | |
| Cash | | Accounts Payable | |
| (3) | 43,800 | (4) | 600 |
| | | (4) | 600 |
| | | (2) | 1,250 |
| Supplies | | Fees Earned | |
| (2) | 1,250 | (1) | 54,100 |
| | | | |
| Accounts Receivable | | | |
| (1) | 54,100 | (3) | 43,800 |

C. No, an error may not have necessarily occurred. A credit balance in Accounts Receivable could occur if a customer overpaid his or her account. Regardless, the credit balance should be investigated to verify that an error has not occurred.

Ex. 2-10

- A. The increase of \$140,000 (\$515,000 – \$375,000) in the cash account does not indicate net income of that amount. Net income is the net change in all assets and liabilities from operating (revenue and expense) transactions.
- B. \$60,000 (\$200,000 – \$140,000)

or

| | |
|----------------|---------|
| Cash | |
| X | 375,000 |
| <u>515,000</u> | |
| 200,000 | |

$$\begin{aligned}
 X + \$515,000 - \$375,000 &= \$200,000 \\
 X &= \$200,000 - \$515,000 + \$375,000 \\
 X &= \$60,000
 \end{aligned}$$

Ex. 2-11

A.

| Accounts Payable | | |
|------------------|---------|---------------|
| | Feb. 1 | X |
| | | 201,400 |
| | Feb. 28 | <u>59,900</u> |

$$X + \$201,400 - \$186,500 = \$59,900$$

$$X = \$59,900 + \$186,500 - \$201,400$$

$$X = \$45,000$$

B.

| Accounts Receivable | | |
|---------------------|----------------|---------|
| Oct. 1 | 115,800 | 449,600 |
| | X | |
| Oct. 31 | <u>130,770</u> | |

$$\$115,800 + X - \$449,600 = \$130,770$$

$$X = \$130,770 + \$449,600 - \$115,800$$

$$X = \$464,570$$

C.

| Cash | | |
|---------|---------------|---|
| Apr. 1 | 46,220 | X |
| | 248,600 | |
| Apr. 30 | <u>56,770</u> | |

$$\$46,220 + \$248,600 - X = \$56,770$$

$$X = \$46,220 + \$248,600 - \$56,770$$

$$X = \$238,050$$

Ex. 2-12

- A. Debit (negative) balance of \$16,000 (\$314,000 - \$10,000 - \$320,000). This negative balance means that the liabilities of the business exceed the assets.
- B. Yes. The balance sheet prepared at December 31 will balance, with Retained Earnings being reported in the stockholders' equity section as a debit (negative) balance of \$16,000.

Ex. 2-13

A. and B.

| Transaction | Account Debited | | Account Credited | |
|-------------|-----------------|--------|----------------------|--------|
| | Type | Effect | Type | Effect |
| (1) | asset | + | stockholders' equity | + |
| (2) | asset | + | asset | - |
| (3) | asset | + | asset | - |
| | | | liability | + |
| (4) | expense | + | asset | - |
| (5) | asset | + | revenue | + |
| (6) | liability | - | asset | - |
| (7) | asset | + | asset | - |
| (8) | expense | + | asset | - |
| (9) | dividend | + | asset | - |

Ex. 2-14

| | | | |
|-----|---------------------|--------|--------|
| (1) | Cash | 50,000 | |
| | Common Stock | | 50,000 |
| (2) | Supplies | 3,400 | |
| | Cash | | 3,400 |
| (3) | Equipment | 15,000 | |
| | Accounts Payable | | 10,000 |
| | Cash | | 5,000 |
| (4) | Operating Expenses | 4,850 | |
| | Cash | | 4,850 |
| (5) | Accounts Receivable | 18,200 | |
| | Service Revenue | | 18,200 |
| (6) | Accounts Payable | 2,500 | |
| | Cash | | 2,500 |
| (7) | Cash | 8,700 | |
| | Accounts Receivable | | 8,700 |
| (8) | Operating Expenses | 1,100 | |
| | Supplies | | 1,100 |
| (9) | Dividends | 1,000 | |
| | Cash | | 1,000 |

Ex. 2-15

A.

| Napa Tours Co. Unadjusted Trial Balance April 30, 2018 | | |
|---|---------------------------|----------------------------|
| | Debit Balances | Credit Balances |
| Cash | 41,950 | |
| Accounts Receivable | 9,500 | |
| Supplies | 2,300 | |
| Equipment | 15,000 | |
| Accounts Payable | | 7,500 |
| Common Stock | | 50,000 |
| Dividends | 1,000 | |
| Service Revenue | | 18,200 |
| Operating Expenses | 5,950 | |
| | 75,700 | 75,700 |

B. Net income, \$12,250 (\$18,200 – \$5,950)

Ex. 2-16

| Atlantic Furniture Company | | |
|-----------------------------------|---------------------------|----------------------------|
| Unadjusted Trial Balance | | |
| July 31, 2018 | | |
| | Debit Balances | Credit Balances |
| Cash | 207,325 | |
| Accounts Receivable | 483,600 | |
| Supplies | 3,975 | |
| Prepaid Insurance | 21,600 | |
| Land | 50,000 | |
| Accounts Payable | | 92,400 |
| Unearned Rent | | 6,000 |
| Notes Payable | | 25,000 |
| Common Stock | | 75,000 |
| Retained Earnings | | 311,600 |
| Dividends | 24,000 | |
| Fees Earned | | 2,750,000 |
| Wages Expense | 2,250,000 | |
| Rent Expense | 140,000 | |
| Utilities Expense | 49,100 | |
| Supplies Expense | 11,200 | |
| Insurance Expense | 9,000 | |
| Miscellaneous Expense | 10,200 | |
| | 3,260,000 | 3,260,000 |

Cash = \$3,260,000 – \$10,200 – \$9,000 – \$11,200 – \$49,100 – \$140,000 – \$2,250,000 – \$24,000 – \$50,000 – \$21,600 – \$3,975 – \$483,600 = \$207,325

Ex. 2-17

Inequality of trial balance totals would be caused by errors described in (C) and (E). For (C), the debit total would exceed the credit total by \$9,900 (\$4,950 + \$4,950). For (E), the credit total would exceed the debit total by \$17,100 (\$19,000 – \$1,900).

Errors (B), (C), (D), and (E) would require correcting entries. Although it is not a correcting entry, the entry that was not made in (A) should also be entered in the journal.

Ex. 2-18

| Ranger Co. Unadjusted Trial Balance August 31, 2018 | | |
|--|---------------------------|----------------------------|
| | Debit Balances | Credit Balances |
| Cash | 15,500 | |
| Accounts Receivable | 46,750 | |
| Prepaid Insurance | 12,000 | |
| Equipment | 190,000 | |
| Accounts Payable | | 24,600 |
| Unearned Rent | | 5,400 |
| Common Stock | | |
| Retained Earnings | | 70,000 |
| Dividends | 13,000 | |
| Service Revenue | | 385,000 |
| Wages Expense | 213,000 | |
| Advertising Expense | 16,350 | |
| Miscellaneous Expense | 18,400 | |
| | 525,000 | 525,000 |

Ex. 2-19

| Error | (A) Out of Balance | (B) Difference | (C) Larger Total |
|--------------|-------------------------------|---------------------------|-----------------------------|
| 1. | yes | \$6,000 | debit |
| 2. | no | — | — |
| 3. | yes | 5,400 | credit |
| 4. | yes | 480 | debit |
| 5. | no | — | — |
| 6. | yes | 90 | credit |
| 7. | yes | 360 | credit |

Ex. 2–20

1. The Debit column total is added incorrectly. The sum is \$1,098,500 rather than \$1,801,500.
2. The trial balance should be dated “December 31, 2018,” not “For the Year Ending December 31, 2018.”
3. The Accounts Receivable balance should be in the Debit column.
4. The Accounts Payable balance should be in the Credit column.
5. The Dividends balance should be in the Debit column.
6. The Advertising Expense balance should be in the Debit column.

A corrected trial balance would be as follows:

| Ensemble Co. Unadjusted Trial Balance December 31, 2018 | | |
|---|-------------------|--------------------|
| | Debit Balances | Credit Balances |
| Cash | 42,900 | |
| Accounts Receivable | 123,500 | |
| Prepaid Insurance | 27,000 | |
| Equipment | 300,000 | |
| Accounts Payable | | 52,000 |
| Salaries Payable | | 4,800 |
| Common Stock | | 40,000 |
| Retained Earnings | | 137,200 |
| Dividends | 5,000 | |
| Service Revenue | | 1,216,000 |
| Salary Expense | 660,000 | |
| Advertising Expense | 275,000 | |
| Miscellaneous Expense | 16,600 | |
| | 1,450,000 | 1,450,000 |

Ex. 2–21

- A. The correction could be made with one or two entries as shown below.

| | | |
|-------------------|--------|--------|
| Prepaid Insurance | 36,000 | |
| Insurance Expense | | 18,000 |
| Cash | | 18,000 |

or (reverses original entry)

| | | |
|-------------------|--------|--------|
| Prepaid Insurance | 18,000 | |
| Insurance Expense | | 18,000 |
| Prepaid Insurance | 18,000 | |
| Cash | | 18,000 |

B.

| | | |
|---------------|--------|--------|
| Dividends | 10,000 | |
| Wages Expense | | 10,000 |

Ex. 2-22

| | | | |
|----|----------------------------|---------------|--------------|
| A. | Cash | 17,600 | |
| | Fees Earned | | 8,800 |
| | Accounts Receivable | | 8,800 |
| B. | Accounts Payable | 1,760 | |
| | Supplies Expense | | 1,760 |
| | Supplies | 1,760 | |
| | Cash | | 1,760 |

Note: The first entry reverses the original entry. The second entry is the entry that should have been made initially.

PROBLEMS

Prob. 2-1A

1. and 2.

| | | | |
|-------------|-----------|------------------|--|
| Cash | | Equipment | |
| (A) 30,000 | (B) 2,500 | (D) 8,000 | |
| (G) 9,000 | (C) 6,000 | | |
| | (E) 2,100 | | |
| | (F) 3,600 | | |
| | (H) 2,600 | | |
| | (I) 4,000 | | |
| | (J) 1,875 | | |
| | (M) 6,000 | | |
| | (N) 1,300 | | |
| Bal. 9,025 | | | |

| | |
|----------------------|-------------|
| Notes Payable | |
| (J) 1,875 | (C) 22,500 |
| | Bal. 20,625 |

| | |
|-------------------------|------------|
| Accounts Payable | |
| (I) 4,000 | (D) 8,000 |
| | (K) 5,500 |
| | Bal. 9,500 |

| | |
|----------------------------|--|
| Accounts Receivable | |
| (L) 31,400 | |

| | |
|-----------------|--|
| Supplies | |
| (E) 2,100 | |

| | |
|--------------------------|-------------|
| Professional Fees | |
| | (G) 9,000 |
| | (L) 31,400 |
| | Bal. 40,400 |

| | |
|--------------------------|--|
| Prepaid Insurance | |
| (F) 3,600 | |

| | |
|-----------------------|--|
| Salary Expense | |
| (M) 6,000 | |

| | |
|--------------------|--|
| Automobiles | |
| (C) 28,500 | |

| | |
|--------------------------|--|
| Blueprint Expense | |
| (K) 5,500 | |

| | |
|---------------------|--|
| Rent Expense | |
| (B) 2,500 | |

| | |
|---------------------------|--|
| Automobile Expense | |
| (N) 1,300 | |

| | |
|------------------------------|--|
| Miscellaneous Expense | |
| (H) 2,600 | |

Prob. 2-1A (Concluded)

3.

| Knaus Architects | | |
|---------------------------------|---------------------------|----------------------------|
| Unadjusted Trial Balance | | |
| January 31, 2018 | | |
| | Debit Balances | Credit Balances |
| Cash | 9,025 | |
| Accounts Receivable | 31,400 | |
| Supplies | 2,100 | |
| Prepaid Insurance | 3,600 | |
| Automobiles | 28,500 | |
| Equipment | 8,000 | |
| Notes Payable | | 20,625 |
| Accounts Payable | | 9,500 |
| Common Stock | | |
| Professional Fees | | 40,400 |
| Salary Expense | 6,000 | |
| Blueprint Expense | 5,500 | |
| Rent Expense | 2,500 | |
| Automobile Expense | 1,300 | |
| Miscellaneous Expense | 2,600 | |
| | 100,525 | 100,525 |

4. Net income, \$22,500 ($\$40,400 - \$6,000 - \$5,500 - \$2,500 - \$1,300 - \$2,600$)

Prob. 2-2A

| | | | |
|--------|-------------------------|--------|--------|
| 1. (A) | Cash | 40,000 | |
| | Common Stock | | 40,000 |
| (B) | Rent Expense | 4,800 | |
| | Cash | | 4,800 |
| (C) | Supplies | 2,150 | |
| | Accounts Payable | | 2,150 |
| (D) | Accounts Payable | 1,100 | |
| | Cash | | 1,100 |
| (E) | Cash | 18,750 | |
| | Sales Commissions | | 18,750 |
| (F) | Automobile Expense | 1,580 | |
| | Miscellaneous Expense | 800 | |
| | Cash | | 2,380 |
| (G) | Office Salaries Expense | 3,500 | |
| | Cash | | 3,500 |
| (H) | Supplies Expense | 1,300 | |
| | Supplies | | 1,300 |
| (I) | Dividends | 1,500 | |
| | Cash | | 1,500 |

Prob. 2-2A (Continued)

| Cash | |
|--------------------|-----------|
| (A) 40,000 | (B) 4,800 |
| (E) 18,750 | (D) 1,100 |
| | (F) 2,380 |
| | (G) 3,500 |
| | (I) 1,500 |
| Bal. 45,470 | |

| Sales Commissions | |
|-------------------|------------|
| | (E) 18,750 |

| Rent Expense | |
|--------------|--|
| (B) 4,800 | |

| Supplies | |
|-----------------|-----------|
| (C) 2,150 | (H) 1,300 |
| Bal. 850 | |

| Office Salaries Expense | |
|-------------------------|--|
| (G) 3,500 | |

| Accounts Payable | |
|------------------|-------------------|
| (D) 1,100 | (C) 2,150 |
| | Bal. 1,050 |

| Automobile Expense | |
|--------------------|--|
| (F) 1,580 | |

| Common Stock | |
|--------------|------------|
| | (A) 40,000 |

| Supplies Expense | |
|------------------|--|
| (H) 1,300 | |

| Dividends | |
|-----------|--|
| (I) 1,500 | |

| Miscellaneous Expense | |
|-----------------------|--|
| (F) 800 | |

Prob. 2-2A (Concluded)

| Affordable Realty Unadjusted Trial Balance October 31, 2018 | | |
|--|---------------------------|----------------------------|
| | Debit Balances | Credit Balances |
| Cash | 45,470 | |
| Supplies | 850 | |
| Accounts Payable | | 1,050 |
| Common Stock | | 40,000 |
| Dividends | | |
| Sales Commissions | | 18,750 |
| Rent Expense | 4,800 | |
| Office Salaries Expense | 3,500 | |
| Automobile Expense | 1,580 | |
| Supplies Expense | 1,300 | |
| Miscellaneous Expense | 800 | |
| | 59,800 | 59,800 |

4. A. \$18,750
 B. \$11,980 ($\$4,800 + \$3,500 + \$1,580 + \$1,300 + \800)
 C. \$6,770 ($\$18,750 - \$11,980$)
5. \$5,270, which is the excess of net income of \$6,770 over the dividends of \$1,500.

Prob. 2-3A

1.

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| Date | Description | Post. Ref. | Debit | Credit |
|--------|------------------------|------------|--------|--------|
| 2018 | | | | |
| Nov. 1 | Cash | 11 | 36,000 | |
| | Common Stock | 31 | | 36,000 |
| | 1 Rent Expense | 53 | 4,000 | |
| | Cash | 11 | | 4,000 |
| | 6 Equipment | 16 | 16,000 | |
| | Accounts Payable | 22 | | 16,000 |
| | 8 Truck | 18 | 43,000 | |
| | Cash | 11 | | 4,300 |
| | Notes Payable | 21 | | 38,700 |
| | 10 Supplies | 13 | 1,860 | |
| | Cash | 11 | | 1,860 |
| | 12 Cash | 11 | 8,000 | |
| | Fees Earned | 41 | | 8,000 |
| | 15 Prepaid Insurance | 14 | 2,400 | |
| | Cash | 11 | | 2,400 |
| | 23 Accounts Receivable | 12 | 15,500 | |
| | Fees Earned | 41 | | 15,500 |
| | 24 Truck Expense | 55 | 1,250 | |
| | Accounts Payable | 22 | | 1,250 |

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| Date | Description | Post. Ref. | Debit | Credit |
|---------|--------------------------|------------|-------|--------|
| 2018 | | | | |
| Nov. 29 | Utilities Expense | 54 | 3,660 | |
| | Cash | 11 | | 3,660 |
| | 29 Miscellaneous Expense | 59 | 1,700 | |
| | Cash | 11 | | 1,700 |

Prob. 2-3A(Continued)

Account: Supplies Account No. 13

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 10 | | 1 | 1,860 | | 1,860 | |

Account: Prepaid Insurance Account No. 14

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 15 | | 1 | 2,400 | | 2,400 | |

Account: Equipment Account No. 16

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 6 | | 1 | 16,000 | | 16,000 | |

Account: Truck Account No. 18

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 8 | | 1 | 43,000 | | 43,000 | |

Account: Notes Payable Account No. 21

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 8 | | 1 | | 38,700 | | 38,700 |

Account: Accounts Payable Account No. 22

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 6 | | 1 | | 16,000 | | 16,000 |
| | 24 | 1 | | 1,250 | | 17,250 |
| | 30 | 2 | 4,000 | | | 13,250 |

Prob. 2-3A(Continued)

Account: Common Stock Account No. 31

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 1 | | 1 | | 36,000 | | 36,000 |

Account: Dividends Account No. 33

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 30 | | 2 | 1,600 | | 1,600 | |

Account: Fees Earned Account No. 41

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 12 | | 1 | | 8,000 | | 8,000 |
| | 23 | 1 | | 15,500 | | 23,500 |

Account: Wages Expense Account No. 51

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 30 | | 2 | 4,750 | | 4,750 | |

Account: Rent Expense Account No. 53

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 1 | | 1 | 4,000 | | 4,000 | |

Account: Utilities Expense Account No. 54

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. 29 | | 2 | 3,660 | | 3,660 | |

Prob. 2-3A(Continued)

Account: Truck Expense Account No. 55

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|---------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. | 24 | 1 | 1,250 | | 1,250 | |

Account: Miscellaneous Expense Account No. 59

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|---------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Nov. | 29 | 2 | 1,700 | | 1,700 | |

Prob. 2–3A (Concluded)

3.

| Modern Designs | | | |
|---------------------------------|----------------|-------------------|--------------------|
| Unadjusted Trial Balance | | | |
| November 30, 2018 | | | |
| | Account No. | Debit Balances | Credit Balances |
| Cash | 11 | 26,230 | |
| Accounts Receivable | 12 | 5,000 | |
| Supplies | 13 | 1,860 | |
| Prepaid Insurance | 14 | 2,400 | |
| Equipment | 16 | 16,000 | |
| Truck | 18 | 43,000 | |
| Notes Payable | 21 | | 38,700 |
| Accounts Payable | 22 | | 13,250 |
| Common Stock | 31 | | |
| Dividends | 33 | 1,600 | |
| Fees Earned | 41 | | 23,500 |
| Wages Expense | 51 | 4,750 | |
| Rent Expense | 53 | 4,000 | |
| Utilities Expense | 54 | 3,660 | |
| Truck Expense | 55 | 1,250 | |
| Miscellaneous Expense | 59 | 1,700 | |
| | | 111,450 | 111,450 |

4. \$8,140 (\$23,500 – \$4,750 – \$4,000 – \$3,660 – \$1,250 – \$1,700)
5. Some supplies may have been used during November, but no supplies expense has been recorded.

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Modern Designs.

Note to Instructors: At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.

Prob. 2-4A
2. and 3.

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| Date | Description | Post. Ref. | Debit | Credit |
|---------------|---------------------|------------|---------|---------|
| 2018 | | | | |
| Apr. 1 | Rent Expense | 52 | 6,500 | |
| | Cash | 11 | | 6,500 |
| | | | | |
| 2 | Office Supplies | 14 | 2,300 | |
| | Accounts Payable | 21 | | 2,300 |
| | | | | |
| 5 | Prepaid Insurance | 13 | 6,000 | |
| | Cash | 11 | | 6,000 |
| | | | | |
| 10 | Cash | 11 | 52,300 | |
| | Accounts Receivable | 12 | | 52,300 |
| | | | | |
| 15 | Land | 16 | 200,000 | |
| | Cash | 11 | | 30,000 |
| | Notes Payable | 23 | | 170,000 |
| | | | | |
| 17 | Accounts Payable | 21 | 6,450 | |
| | Cash | 11 | | 6,450 |
| | | | | |
| 20 | Accounts Payable | 21 | 325 | |
| | Office Supplies | 14 | | 325 |
| | | | | |
| 23 | Advertising Expense | 53 | 4,300 | |
| | Cash | 11 | | 4,300 |

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| Date | Description | Post. Ref. | Debit | Credit |
|----------------|-------------------------------|------------|-------|--------|
| 2018 | | | | |
| Apr. 27 | Cash | 11 | 2,500 | |
| | Salary and Commission Expense | 51 | | 2,500 |
| | | | | |
| 28 | Automobile Expense | 54 | 1,500 | |
| | Cash | 11 | | 1,500 |
| | | | | |

| | | | | | |
|--|-----------|------------------------------|-----------|--------------|--------------|
| | 29 | Miscellaneous Expense | 59 | 1,400 | |
| | | Cash | 11 | | 1,400 |

Prob. 2-4A (Continued)

Account: Prepaid Insurance

Account No. 13

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 3,000 | |
| | 5 | 18 | 6,000 | | 9,000 | |

Account: Office Supplies

Account No. 14

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 1,800 | |
| | 2 | 18 | 2,300 | | 4,100 | |
| | 20 | 18 | | 325 | 3,775 | |

Account: Land

Account No. 16

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|---------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 15 | | 18 | 200,000 | | 200,000 | |

Account: Accounts Payable

Account No. 21

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 1 | Balance | ✓ | | | | 14,000 |
| | 2 | 18 | | 2,300 | | 16,300 |
| | 17 | 18 | 6,450 | | | 9,850 |
| | 20 | 18 | 325 | | | 9,525 |

Account: Unearned Rent

Account No. 22

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 30 | | 19 | | 10,000 | | 10,000 |

Account: Notes Payable

Account No. 23

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|---------|---------|---------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 15 | | 18 | | 170,000 | | 170,000 |

Prob. 2-4A(Continued)

Prob. 2-4A(Continued)

Account: Common Stock Account No. 31

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. | 1 Balance | ✓ | | | | 10,000 |

Account: Retained Earnings Account No. 32

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. | 1 Balance | ✓ | | | | 36,000 |

Account: Dividends Account No. 33

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. | 1 Balance | ✓ | | | 2,000 | |
| | 30 | 19 | 4,000 | | 6,000 | |

Account: Fees Earned Account No. 41

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|---------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. | 1 Balance | ✓ | | | | 240,000 |
| | 30 | 19 | | 57,000 | | 297,000 |

Account: Salary and Commission Expense Account No. 51

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. | 1 Balance | ✓ | | | 148,200 | |
| | 27 | 19 | | 2,500 | 145,700 | |
| | 30 | 19 | 11,900 | | 157,600 | |

Account: Rent Expense Account No. 52

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. | 1 Balance | ✓ | | | 30,000 | |
| | 1 | 18 | 6,500 | | 36,500 | |

Prob. 2-4A (Continued)

Account: Advertising Expense

Account No. 53

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 17,800 | |
| | 23 | 18 | 4,300 | | 22,100 | |

Account: Automobile Expense

Account No. 54

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 5,500 | |
| | 28 | 19 | 1,500 | | 7,000 | |

Account: Miscellaneous Expense

Account No. 59

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 3,900 | |
| | 29 | 19 | 1,400 | | 5,300 | |

4.

| Elite Realty Unadjusted Trial Balance April 30, 2018 | | | |
|--|-------------|----------------|-----------------|
| | Account No. | Debit Balances | Credit Balances |
| Cash | 11 | 19,050 | |
| Accounts Receivable | 12 | 66,200 | |
| Prepaid Insurance | 13 | 9,000 | |
| Office Supplies | 14 | 3,775 | |
| Land | 16 | 200,000 | |
| Accounts Payable | 21 | | 9,525 |
| Unearned Rent | 22 | | 10,000 |
| Notes Payable | 23 | | 170,000 |
| Common Stock | 31 | | 10,000 |
| Retained Earnings | 32 | | 36,000 |
| Dividends | 33 | 6,000 | |
| Fees Earned | 41 | | 297,000 |
| Salary and Commission Expense | 51 | 157,600 | |
| Rent Expense | 52 | 36,500 | |
| Advertising Expense | 53 | 22,100 | |
| Automobile Expense | 54 | 7,000 | |
| Miscellaneous Expense | 59 | 5,300 | |
| | | 532,525 | 532,525 |

Prob. 2-4A(Continued)

Prob. 2-4A (Concluded)

5. (A) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.
- (B) The correcting entry for \$7,200 (\$19,100 – \$11,900) would be as follows:

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| Date | | Description | Post. Ref. | Debit | Credit |
|------|----|-------------------------------|------------|-------|--------|
| 2018 | | | | | |
| Apr. | 30 | Salary and Commission Expense | 51 | 7,200 | |
| | | Cash | 11 | | 7,200 |

(C) Transposition

Prob. 2-5A

1.

| The Lexington Group Unadjusted Trial Balance May 31, 2018 | | |
|--|---------------------------|----------------------------|
| | Debit Balances | Credit Balances |
| Cash | 18,750 | |
| Accounts Receivable | 53,500 | |
| Supplies | 2,225 | |
| Prepaid Insurance | 7,400 | |
| Equipment | 171,175 | |
| Notes Payable | | 45,000 |
| Accounts Payable | | 36,000 |
| Common Stock | | 50,000 |
| Retained Earnings | | 89,150 |
| Dividends | 20,000 | |
| Fees Earned | | 429,850 |
| Wages Expense | 270,000 | |
| Rent Expense | 60,300 | |
| Advertising Expense | 25,200 | |
| Gas, Electricity, and Water Expense | 16,350 | |
| Miscellaneous Expense | 5,100 | |
| | 650,000 | 650,000 |

Cash = \$20,350 – \$7,000 (A) + \$5,400 (B) = \$18,750

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

Prob. 2-1B

1. and 2.

| Cash | | Accounts Payable | |
|-------------|-----------|-------------------|-------------|
| (A) 18,000 | (B) 2,500 | (H) 1,800 | (E) 6,500 |
| (G) 12,000 | (C) 3,150 | | (J) 2,500 |
| | (D) 1,450 | | Bal. 7,200 |
| | (F) 2,400 | Common Stock | |
| | (H) 1,800 | | (A) 18,000 |
| | (I) 375 | Professional Fees | |
| | (L) 2,800 | | (G) 12,000 |
| | (M) 200 | | (K) 15,650 |
| | (N) 300 | | Bal. 27,650 |
| | (O) 550 | | |
| Bal. 14,475 | | | |

| Accounts Receivable | | Rent Expense | |
|---------------------|--|--------------|--|
| (K) 15,650 | | (C) 3,150 | |

| Supplies | | Salary Expense | |
|-----------|--|----------------|--|
| (D) 1,450 | | (L) 2,800 | |

| Prepaid Insurance | | Blueprint Expense | |
|-------------------|--|-------------------|--|
| (F) 2,400 | | (J) 2,500 | |

| Automobiles | | Automobile Expense | |
|-------------|--|--------------------|--|
| (B) 19,500 | | (O) 550 | |

| Equipment | | Miscellaneous Expense | |
|-----------|--|-----------------------|--|
| (E) 6,500 | | (I) 375 | |
| | | (M) 200 | |
| | | Bal. 575 | |

| Notes Payable | | | |
|---------------|-------------|--|--|
| (N) 300 | (B) 17,000 | | |
| | Bal. 16,700 | | |

Prob. 2-1B (Concluded)

3.

| Jones Architects | | |
|---------------------------------|---------------------------|----------------------------|
| Unadjusted Trial Balance | | |
| April 30, 2018 | | |
| | Debit Balances | Credit Balances |
| Cash | 14,475 | |
| Accounts Receivable | 15,650 | |
| Supplies | 1,450 | |
| Prepaid Insurance | 2,400 | |
| Automobiles | 19,500 | |
| Equipment | 6,500 | |
| Notes Payable | | 16,700 |
| Accounts Payable | | 7,200 |
| Common Stock | | |
| Professional Fees | | 27,650 |
| Rent Expense | 3,150 | |
| Salary Expense | 2,800 | |
| Blueprint Expense | 2,500 | |
| Automobile Expense | 550 | |
| Miscellaneous Expense | 575 | |
| | 69,550 | 69,550 |

4. Net income, \$18,075 ($\$27,650 - \$3,150 - \$2,800 - \$2,500 - \$550 - \575)

Prob. 2-2B

| | | | |
|--------|-------------------------|--------|--------|
| 1. (A) | Cash | 17,500 | |
| | Common Stock | | 17,500 |
| (B) | Supplies | 2,300 | |
| | Accounts Payable | | 2,300 |
| (C) | Cash | 13,300 | |
| | Sales Commissions | | 13,300 |
| (D) | Rent Expense | 3,000 | |
| | Cash | | 3,000 |
| (E) | Accounts Payable | 1,150 | |
| | Cash | | 1,150 |
| (F) | Dividends | 1,800 | |
| | Cash | | 1,800 |
| (G) | Automobile Expense | 1,500 | |
| | Miscellaneous Expense | 400 | |
| | Cash | | 1,900 |
| (H) | Office Salaries Expense | 2,800 | |
| | Cash | | 2,800 |
| (I) | Supplies Expense | 1,050 | |
| | Supplies | | 1,050 |

Prob. 2-2B (Continued)

2.

| Cash | |
|-------------|-----------|
| (A) 17,500 | (D) 3,000 |
| (C) 13,300 | (E) 1,150 |
| | (F) 1,800 |
| | (G) 1,900 |
| | (H) 2,800 |
| Bal. 20,150 | |

| Supplies | |
|------------|-----------|
| (B) 2,300 | (I) 1,050 |
| Bal. 1,250 | |

| Accounts Payable | |
|------------------|------------|
| (E) 1,150 | (B) 2,300 |
| | Bal. 1,150 |

| Common Stock | |
|--------------|------------|
| | (A) 17,500 |

| Dividends | |
|-----------|--|
| (F) 1,800 | |

| Sales Commissions | |
|-------------------|------------|
| | (C) 13,300 |

| Rent Expense | |
|--------------|--|
| (D) 3,000 | |

| Office Salaries Expense | |
|-------------------------|--|
| (H) 2,800 | |

| Automobile Expense | |
|--------------------|--|
| (G) 1,500 | |

| Supplies Expense | |
|------------------|--|
| (I) 1,050 | |

| Miscellaneous Expense | |
|-----------------------|--|
| (G) 400 | |

Prob. 2-2B (Concluded)

3.

| Planet Realty Unadjusted Trial Balance August 31, 2018 | | |
|---|---------------------------|----------------------------|
| | Debit Balances | Credit Balances |
| Cash | 20,150 | |
| Supplies | 1,250 | |
| Accounts Payable | | 1,150 |
| Common Stock | | 17,500 |
| Dividends | | |
| Sales Commissions | | 13,300 |
| Rent Expense | 3,000 | |
| Office Salaries Expense | 2,800 | |
| Automobile Expense | 1,500 | |
| Supplies Expense | 1,050 | |
| Miscellaneous Expense | 400 | |
| | 31,950 | 31,950 |

4. A. \$13,300
 B. \$8,750 (\$3,000 + \$2,800 + \$1,500 + \$1,050 + \$400)
 C. \$4,550 (\$13,300 - \$8,750)
5. \$2,750, which is the excess of net income of \$4,550 over the dividends of \$1,800.

Prob. 2-3B

1.

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Page 1

| Date | Description | Post. Ref. | Debit | Credit |
|--------|----------------------|------------|--------|--------|
| 2018 | | | | |
| Oct. 1 | Cash | 11 | 18,000 | |
| | Common Stock | 31 | | 18,000 |
| | | | | |
| | 4 Rent Expense | 53 | 3,000 | |
| | Cash | 11 | | 3,000 |
| | | | | |
| | 10 Truck | 18 | 23,750 | |
| | Cash | 11 | | 3,750 |
| | Notes Payable | 21 | | 20,000 |
| | | | | |
| | 13 Equipment | 16 | 10,500 | |
| | Accounts Payable | 22 | | 10,500 |
| | | | | |
| | 14 Supplies | 13 | 2,100 | |
| | Cash | 11 | | 2,100 |
| | | | | |
| | 15 Prepaid Insurance | 14 | 3,600 | |
| | Cash | 11 | | 3,600 |
| | | | | |
| | 15 Cash | 11 | 8,950 | |
| | Fees Earned | 41 | | 8,950 |

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| Date | Description | Post. Ref. | Debit | Credit |
|---------|------------------------|------------|--------|--------|
| 2018 | | | | |
| Oct. 21 | Accounts Payable | 22 | 2,000 | |
| | Cash | 11 | | 2,000 |
| | | | | |
| | 24 Accounts Receivable | 12 | 14,150 | |
| | Fees Earned | 41 | | 14,150 |
| | | | | |
| | 26 Truck Expense | 55 | 700 | |
| | Accounts Payable | 22 | | 700 |
| | | | | |
| | 27 Utilities Expense | 54 | 2,240 | |

| | | | | |
|-------------------|--|------|----|-------|
| Prob. 2-3B | | | | |
| 1. | | Cash | 11 | 2,240 |

Prob. 2-3B(Continued)

Account: Supplies Account No. 13

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 14 | | 1 | 2,100 | | 2,100 | |

Account: Prepaid Insurance Account No. 14

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 15 | | 1 | 3,600 | | 3,600 | |

Account: Equipment Account No. 16

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 13 | | 1 | 10,500 | | 10,500 | |

Account: Truck Account No. 18

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 10 | | 1 | 23,750 | | 23,750 | |

Account: Notes Payable Account No. 21

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 10 | | 1 | | 20,000 | | 20,000 |

Account: Accounts Payable Account No. 22

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 13 | | 1 | | 10,500 | | 10,500 |
| | 21 | 2 | 2,000 | | | 8,500 |
| | 26 | 2 | | 700 | | 9,200 |

Prob. 2-3B(Continued)

Account: Supplies

Account No. 13

Account: Common Stock

Account No. 31

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 1 | | 1 | | 18,000 | | 18,000 |

Account: Dividends

Account No. 33

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 31 | | 2 | 3,500 | | 3,500 | |

Account: Fees Earned

Account No. 41

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 15 | | 1 | | 8,950 | | 8,950 |
| Oct. 24 | | 2 | | 14,150 | | 23,100 |

Account: Wages Expense

Account No. 51

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 30 | | 2 | 4,800 | | 4,800 | |

Account: Rent Expense

Account No. 53

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 4 | | 1 | 3,000 | | 3,000 | |

Account: Utilities Expense

Account No. 54

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Oct. 27 | | 2 | 2,240 | | 2,240 | |

Prob. 2–3B(Continued)

Account: Truck Expense Account No. 55

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|-------------|-----------|------|---------------|------------|--------|------------|--------|
| | | | | | | Debit | Credit |
| 2018 | | | | | | | |
| Oct. | 26 | | 2 | 700 | | 700 | |

Account: Miscellaneous Expense Account No. 59

| Date | | Item | Post. Ref. | Debit | Credit | Balance | |
|-------------|-----------|------|---------------|--------------|--------|--------------|--------|
| | | | | | | Debit | Credit |
| 2018 | | | | | | | |
| Oct. | 27 | | 2 | 1,100 | | 1,100 | |

Prob. 2-3B (Concluded)

3.

| Pioneer Designs | | | |
|---------------------------------|----------------|-------------------|--------------------|
| Unadjusted Trial Balance | | | |
| October 31, 2018 | | | |
| | Account No. | Debit Balances | Credit Balances |
| Cash | 11 | 8,460 | |
| Accounts Receivable | 12 | 6,550 | |
| Supplies | 13 | 2,100 | |
| Prepaid Insurance | 14 | 3,600 | |
| Equipment | 16 | 10,500 | |
| Truck | 18 | 23,750 | |
| Notes Payable | 21 | | 20,000 |
| Accounts Payable | 22 | | 9,200 |
| Common Stock | 31 | | |
| Dividends | 33 | 3,500 | |
| Fees Earned | 41 | | 23,100 |
| Wages Expense | 51 | 4,800 | |
| Rent Expense | 53 | 3,000 | |
| Utilities Expense | 54 | 2,240 | |
| Truck Expense | 55 | 700 | |
| Miscellaneous Expense | 59 | 1,100 | |
| | | 70,300 | 70,300 |

4. \$11,260 (\$23,100 – \$4,800 – \$3,000 – \$2,240 – \$700 – \$1,100)
5. Some supplies may have been used during October, but no supplies expense has been recorded.

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Pioneer Designs.

Note to Instructors: At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.

Prob. 2-4B

2. and 3.

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| Date | Description | Post. Ref. | Debit | Credit |
|--------|------------------------|------------|--------|--------|
| 2018 | | | | |
| Aug. 1 | Office Supplies | 14 | 3,150 | |
| | Accounts Payable | 21 | | 3,150 |
| | | | | |
| | 2 Rent Expense | 52 | 7,200 | |
| | Cash | 11 | | 7,200 |
| | | | | |
| | 3 Cash | 11 | 83,900 | |
| | Accounts Receivable | 12 | | 83,900 |
| | | | | |
| | 5 Prepaid Insurance | 13 | 12,000 | |
| | Cash | 11 | | 12,000 |
| | | | | |
| | 9 Accounts Payable | 21 | 400 | |
| | Office Supplies | 14 | | 400 |
| | | | | |
| | 17 Advertising Expense | 53 | 8,000 | |
| | Cash | 11 | | 8,000 |
| | | | | |
| | 23 Accounts Payable | 21 | 13,750 | |
| | Cash | 11 | | 13,750 |

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| Date | Description | Post. Ref. | Debit | Credit |
|---------|----------------------------------|------------|--------|--------|
| 2018 | | | | |
| Aug. 29 | Miscellaneous Expense | 59 | 1,700 | |
| | Cash | 11 | | 1,700 |
| | | | | |
| | 30 Automobile Expense | 54 | 2,500 | |
| | Cash | 11 | | 2,500 |
| | | | | |
| | 31 Cash | 11 | 2,000 | |
| | Salary and Commission Expense | 51 | | 2,000 |
| | | | | |
| | 31 Salary and Commission Expense | 51 | 53,000 | |
| | Cash | 11 | | 53,000 |

| | | | | | | | |
|--|-----------|--|-----------|----------------|--|----------------|--|
| | 31 | | 19 | 183,500 | | 199,700 | |
|--|-----------|--|-----------|----------------|--|----------------|--|

Prob. 2-4B (Continued)

Account: Prepaid Insurance Account No. 13

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. 1 | Balance | ✓ | | | 12,600 | |
| | 5 | 18 | 12,000 | | 24,600 | |

Account: Office Supplies Account No. 14

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. 1 | Balance | ✓ | | | 2,800 | |
| | 1 | 18 | 3,150 | | 5,950 | |
| | 9 | 18 | | 400 | 5,550 | |

Account: Land Account No. 16

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. 31 | | 19 | 75,000 | | 75,000 | |

Account: Accounts Payable Account No. 21

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|--------|---------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. 1 | Balance | ✓ | | | | 21,000 |
| | 1 | 18 | | 3,150 | | 24,150 |
| | 9 | 18 | 400 | | | 23,750 |
| | 23 | 18 | 13,750 | | | 10,000 |

Account: Unearned Rent Account No. 22

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|---------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. 31 | | 19 | | 5,000 | | 5,000 |

Account: Notes Payable Account No. 23

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| | | | | | | |

| | | | | | | |
|-------------|-----------|--|-----------|--|---------------|---------------|
| 2018 | | | | | | |
| Aug. | 31 | | 19 | | 67,500 | 67,500 |

Prob. 2-4B(Continued)

Account: Common Stock Account No. 31

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | | 17,500 |

Account: Retained Earnings Account No. 32

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | | 70,000 |

Account: Dividends Account No. 33

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | 44,800 | |
| | 31 | 19 | 1,000 | | 45,800 | |

Account: Fees Earned Account No. 41

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|---------|---------|---------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | | 591,500 |
| | 31 | 19 | | 183,500 | | 775,000 |

Account: Salary and Commission Expense Account No. 51

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|--------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | 385,000 | |
| | 31 | 19 | | 2,000 | 383,000 | |
| | 31 | 19 | 53,000 | | 436,000 | |

Account: Rent Expense Account No. 52

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | 49,000 | |
| | 2 | 18 | 7,200 | | 56,200 | |

Prob. 2-4B (Continued)

Account: Advertising Expense Account No. 53

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | 32,200 | |
| | 17 | 18 | 8,000 | | 40,200 | |

Account: Automobile Expense Account No. 54

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | 15,750 | |
| | 30 | 19 | 2,500 | | 18,250 | |

Account: Miscellaneous Expense Account No. 59

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| Aug. | 1 Balance | ✓ | | | 5,250 | |
| | 29 | 19 | 1,700 | | 6,950 | |

Prob. 2-4B (Concluded)

4.

| Valley Realty Unadjusted Trial Balance August 31, 2018 | | | |
|---|----------------|-------------------|--------------------|
| | Account No. | Debit Balances | Credit Balances |
| Cash | 11 | 36,750 | |
| Accounts Receivable | 12 | 199,700 | |
| Prepaid Insurance | 13 | 24,600 | |
| Office Supplies | 14 | 5,550 | |
| Land | 16 | 75,000 | |
| Accounts Payable | 21 | | 10,000 |
| Unearned Rent | 22 | | 5,000 |
| Notes Payable | 23 | | |
| Common Stock | 31 | | 17,500 |
| Retained Earnings | 32 | | 70,000 |
| Dividends | 33 | 45,800 | |
| Fees Earned | 41 | | 775,000 |
| Salary and Commission Expense | 51 | 436,000 | |
| Rent Expense | 52 | 56,200 | |
| Advertising Expense | 53 | 40,200 | |
| Automobile Expense | 54 | 18,250 | |
| Miscellaneous Expense | 59 | 6,950 | |
| | | 945,000 | 945,000 |

5. (A) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(B) The correcting entry for \$9,000 (\$10,000 – \$1,000) would be as follows:

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| Date | Description | Post. Ref. | Debit | Credit |
|---------|-------------|---------------|-------|--------|
| 2018 | | | | |
| Aug. 31 | Dividends | 33 | 9,000 | |
| | Cash | 11 | | 9,000 |

(C) Slide

Prob. 2-5B

1.

| Tech Support Services Unadjusted Trial Balance January 31, 2018 | | |
|--|---------------------------|----------------------------|
| | Debit Balances | Credit Balances |
| Cash | 20,250 | |
| Accounts Receivable | 56,400 | |
| Supplies | 6,750 | |
| Prepaid Insurance | 9,600 | |
| Equipment | 162,000 | |
| Notes Payable | | 54,000 |
| Accounts Payable | | 16,650 |
| Common Stock | | 18,000 |
| Retained Earnings | | 89,850 |
| Dividends | 39,000 | |
| Fees Earned | | 534,000 |
| Wages Expense | 306,000 | |
| Rent Expense | 62,550 | |
| Advertising Expense | 28,350 | |
| Gas, Electricity, and Water Expense | 17,000 | |
| Miscellaneous Expense | 4,600 | |
| | 712,500 | 712,500 |

Cash = \$25,550 – \$8,000 (A) + \$2,700 (B)

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

CONTINUING PROBLEM

2. and 3.

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| Date | Description | Post. Ref. | Debit | Credit |
|-------------|------------------------|------------|-------|--------|
| 2018 | | | | |
| July | | | | |
| 1 | Cash | 11 | 5,000 | |
| | Common Stock | 31 | | 5,000 |
| 1 | Office Rent Expense | 51 | 1,750 | |
| | Cash | 11 | | 1,750 |
| 1 | Prepaid Insurance | 15 | 2,700 | |
| | Cash | 11 | | 2,700 |
| 2 | Cash | 11 | 1,000 | |
| | Accounts Receivable | 12 | | 1,000 |
| 3 | Cash | 11 | 7,200 | |
| | Unearned Revenue | 23 | | 7,200 |
| 3 | Accounts Payable | 21 | 250 | |
| | Cash | 11 | | 250 |
| 4 | Miscellaneous Expense | 59 | 900 | |
| | Cash | 11 | | 900 |
| 5 | Office Equipment | 17 | 7,500 | |
| | Accounts Payable | 21 | | 7,500 |
| 8 | Advertising Expense | 55 | 200 | |
| | Cash | 11 | | 200 |
| 11 | Cash | 11 | 1,000 | |
| | Fees Earned | 41 | | 1,000 |
| 13 | Equipment Rent Expense | 52 | 700 | |
| | Cash | 11 | | 700 |
| 14 | Wages Expense | 50 | 1,200 | |
| | Cash | 11 | | 1,200 |

Continuing Problem (Continued)

2. and 3.

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| Date | | Description | Post. Ref. | Debit | Credit |
|-------------|-----------|------------------------------|------------|--------------|--------------|
| 2018 | | | | | |
| July | 16 | Cash | 11 | 2,000 | |
| | | Fees Earned | 41 | | 2,000 |
| | 18 | Supplies | 14 | 850 | |
| | | Accounts Payable | 21 | | 850 |
| | 21 | Music Expense | 54 | 620 | |
| | | Cash | 11 | | 620 |
| | 22 | Advertising Expense | 55 | 800 | |
| | | Cash | 11 | | 800 |
| | 23 | Cash | 11 | 750 | |
| | | Accounts Receivable | 12 | 1,750 | |
| | | Fees Earned | 41 | | 2,500 |
| | 27 | Utilities Expense | 53 | 915 | |
| | | Cash | 11 | | 915 |
| | 28 | Wages Expense | 50 | 1,200 | |
| | | Cash | 11 | | 1,200 |
| | 29 | Miscellaneous Expense | 59 | 540 | |
| | | Cash | 11 | | 540 |
| | 30 | Cash | 11 | 500 | |
| | | Accounts Receivable | 12 | 1,000 | |
| | | Fees Earned | 41 | | 1,500 |
| | 31 | Cash | 11 | 3,000 | |
| | | Fees Earned | 41 | | 3,000 |
| | 31 | Music Expense | 54 | 1,400 | |
| | | Cash | 11 | | 1,400 |
| | 31 | Dividends | 33 | 1,250 | |

| | | | | | |
|--|--|-------------|-----------|--|--------------|
| | | Cash | 11 | | 1,250 |
|--|--|-------------|-----------|--|--------------|

Continuing Problem (Continued)

1. and 3.

Account: Cash Account No. 11

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | 3,920 | |
| | 1 | 1 | 5,000 | | 8,920 | |
| | 1 | 1 | | 1,750 | 7,170 | |
| | 1 | 1 | | 2,700 | 4,470 | |
| | 2 | 1 | 1,000 | | 5,470 | |
| | 3 | 1 | 7,200 | | 12,670 | |
| | 3 | 1 | | 250 | 12,420 | |
| | 4 | 1 | | 900 | 11,520 | |
| | 8 | 1 | | 200 | 11,320 | |
| | 11 | 1 | 1,000 | | 12,320 | |
| | 13 | 1 | | 700 | 11,620 | |
| | 14 | 1 | | 1,200 | 10,420 | |
| | 16 | 2 | 2,000 | | 12,420 | |
| | 21 | 2 | | 620 | 11,800 | |
| | 22 | 2 | | 800 | 11,000 | |
| | 23 | 2 | 750 | | 11,750 | |
| | 27 | 2 | | 915 | 10,835 | |
| | 28 | 2 | | 1,200 | 9,635 | |
| | 29 | 2 | | 540 | 9,095 | |
| | 30 | 2 | 500 | | 9,595 | |
| | 31 | 2 | 3,000 | | 12,595 | |
| | 31 | 2 | | 1,400 | 11,195 | |
| | 31 | 2 | | 1,250 | 9,945 | |

Account: Accounts Receivable Account No. 12

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | 1,000 | |
| | 2 | 1 | | 1,000 | — | — |
| | 23 | 2 | 1,750 | | 1,750 | |
| | 30 | 2 | 1,000 | | 2,750 | |

Continuing Problem (Continued)

Account: Supplies Account No. 14

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | 170 | |
| | 18 | 2 | 850 | | 1,020 | |

Account: Prepaid Insurance Account No. 15

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 | 1 | 2,700 | | 2,700 | |

Account: Office Equipment Account No. 17

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 5 | 1 | 7,500 | | 7,500 | |

Account: Accounts Payable Account No. 21

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | | 250 |
| | 3 | 1 | 250 | | — | — |
| | 5 | 1 | | 7,500 | | 7,500 |
| | 18 | 2 | | 850 | | 8,350 |

Account: Unearned Revenue Account No. 23

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 3 | 1 | | 7,200 | | 7,200 |

Account: Common Stock Account No. 31

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | | 4,000 |
| | 1 | 1 | | 5,000 | | 9,000 |

Continuing Problem (Continued)

Account: Dividends Account No. 33

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | 500 | |
| | 31 | 2 | 1,250 | | 1,750 | |

Account: Fees Earned Account No. 41

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | | 6,200 |
| | 11 | 1 | | 1,000 | | 7,200 |
| | 16 | 2 | | 2,000 | | 9,200 |
| | 23 | 2 | | 2,500 | | 11,700 |
| | 30 | 2 | | 1,500 | | 13,200 |
| | 31 | 2 | | 3,000 | | 16,200 |

Account: Wages Expense Account No. 50

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | 400 | |
| | 14 | 1 | 1,200 | | 1,600 | |
| | 28 | 2 | 1,200 | | 2,800 | |

Account: Office Rent Expense Account No. 51

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | 800 | |
| | 1 | 1 | 1,750 | | 2,550 | |

Account: Equipment Rent Expense Account No. 52

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|-----------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 Balance | ✓ | | | 675 | |
| | 13 | 1 | 700 | | 1,375 | |

Continuing Problem (Continued)

Account: Utilities Expense Account No. 53

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 | Balance | | | 300 | |
| | 27 | | 915 | | 1,215 | |

Account: Music Expense Account No. 54

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 | Balance | | | 1,590 | |
| | 21 | | 620 | | 2,210 | |
| | 31 | | 1,400 | | 3,610 | |

Account: Advertising Expense Account No. 55

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 | Balance | | | 500 | |
| | 8 | | 200 | | 700 | |
| | 22 | | 800 | | 1,500 | |

Account: Supplies Expense Account No. 56

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 | Balance | | | 180 | |

Account: Miscellaneous Expense Account No. 59

| Date | Item | Post. Ref. | Debit | Credit | Balance | |
|------|------|------------|-------|--------|---------|--------|
| | | | | | Debit | Credit |
| 2018 | | | | | | |
| July | 1 | Balance | | | 415 | |
| | 4 | | 900 | | 1,315 | |
| | 29 | | 540 | | 1,855 | |

Continuing Problem (Concluded)

4.

| PS Music Unadjusted Trial Balance July 31, 2018 | | | |
|--|------------------------|---------------------------|----------------------------|
| | Account No. | Debit Balances | Credit Balances |
| Cash | 11 | 9,945 | |
| Accounts Receivable | 12 | 2,750 | |
| Supplies | 14 | 1,020 | |
| Prepaid Insurance | 15 | 2,700 | |
| Office Equipment | 17 | 7,500 | |
| Accounts Payable | 21 | | 8,350 |
| Unearned Revenue | 23 | | 7,200 |
| Common Stock | 31 | | |
| Dividends | 33 | 1,750 | |
| Fees Earned | 41 | | 16,200 |
| Wages Expense | 50 | 2,800 | |
| Office Rent Expense | 51 | 2,550 | |
| Equipment Rent Expense | 52 | 1,375 | |
| Utilities Expense | 53 | 1,215 | |
| Music Expense | 54 | 3,610 | |
| Advertising Expense | 55 | 1,500 | |
| Supplies Expense | 56 | 180 | |
| Miscellaneous Expense | 59 | 1,855 | |
| | | 40,750 | 40,750 |

ANALYSIS FOR DECISION MAKING

ADM-1

A.

| Amazon.com, Inc. Operating Income Statements For the Years Ended December 31 (in millions) | | | | |
|---|-----------------|-----------------|------------------------|----------------|
| | Year 2 | Year 1 | Increase (Decrease) | Percent |
| Product sales | \$70,080 | \$60,903 | \$ 9,177 | 15.1% |
| Service sales | 18,908 | 13,549 | 5,359 | 39.6% |
| Total sales | \$88,988 | \$74,452 | \$14,536 | 19.5% |
| Cost of sales | \$62,752 | \$54,181 | 8,571 | 15.8% |
| Fulfillment | 10,766 | 8,585 | 2,181 | 25.4% |
| Marketing | 4,332 | 3,133 | 1,199 | 38.3% |
| Technology and content | 9,275 | 6,565 | 2,710 | 41.3% |
| General and administrative | 1,552 | 1,129 | 423 | 37.5% |
| Other operating expense (income), net | 133 | 114 | 19 | 16.7% |
| Total operating expenses | \$88,810 | \$73,707 | \$15,103 | 20.5% |
| Income from operations | \$ 178 | \$ 745 | \$ (567) | (76.1)% |

B. The horizontal analysis shows that total sales increased by 19.5% between the two years, with a strong increase in service sales. Service sales are revenues earned from Amazon’s Web hosting, Web design, and order fulfillment services provided for other businesses. This part of Amazon apparently has been growing rapidly. Total operating expenses have grown by 20.5% between the two years, indicating that expenses are growing faster than revenues. The expense growth appears to be occurring across all the major expense categories, with cost of sales (purchase price of merchandise resold) growing closest to the revenue growth. The net result is a significant decline in income from operations between the two years. Income from operations declined over 76% between the two years. Thus, Amazon demonstrates significant revenue growth, but is unable to translate that growth into operating income. This may be due to Amazon’s strategy to promote revenue growth above profitability in this stage of its life cycle.

ADM-2

A.

| Chipotle Mexican Grill, Inc. | | | | |
|---|--------------------|--------------------|------------------------|--------------|
| Balance Sheets | | | | |
| December 31 | | | | |
| (in thousands) | | | | |
| | Year 2 | Year 1 | Increase (Decrease) | Percent |
| Assets | | | | |
| Current assets | | | | |
| Cash | \$ 419,465 | \$ 323,203 | \$ 96,262 | 29.8% |
| Accounts receivable, net | 34,839 | 24,016 | 10,823 | 45.1% |
| Inventory | 15,332 | 13,044 | 2,288 | 17.5% |
| Other current assets | 70,251 | 51,073 | 19,178 | 37.6% |
| Investments | 338,592 | 254,971 | 83,621 | 32.8% |
| Total current assets | \$ 878,479 | \$ 666,307 | \$ 212,172 | 31.8% |
| Property, plant, and equipment | 1,106,984 | 963,238 | 143,746 | 14.9% |
| Long-term investments | 496,106 | 313,863 | 182,243 | 58.1% |
| Other assets | 64,716 | 65,872 | (1,156) | (1.8)% |
| Total assets | \$2,546,285 | \$2,009,280 | \$537,005 | 26.7% |
| | | | | |
| Liabilities and Stockholders' Equity | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 69,613 | \$ 59,022 | \$ 10,591 | 17.9% |
| Other current liabilities | 176,097 | 140,206 | 35,891 | 25.6% |
| Total current liabilities | \$ 245,710 | \$ 199,228 | \$ 46,482 | 23.3% |
| Long-term liabilities | 288,206 | 271,764 | 16,442 | 6.1% |
| Total liabilities | \$ 533,916 | \$ 470,992 | \$ 62,924 | 13.4% |
| | | | | |
| Stockholders' Equity | | | | |
| Common stock | \$ 354 | \$ 352 | \$ 2 | 0.6% |
| Additional paid-in capital | 1,038,932 | 919,840 | 119,092 | 12.9% |
| Retained earnings | 1,722,271 | 1,276,897 | 445,374 | 34.9% |
| Treasury stock | (748,759) | (660,421) | 88,338 | 13.4% |
| Other adjustments | (429) | 1,620 | (2,049) | (126.5)% |
| Total stockholders' equity | \$2,012,369 | \$1,538,288 | \$474,081 | 30.8% |
| Total liabilities and stockholders' equity | \$2,546,285 | \$2,009,280 | \$537,005 | 26.7% |

B. Total assets increased by 26.7%. Part of this increase is explained by a 32% increase in current assets, of which current investments increased by 32.8% and cash increased by 29.8%. Long-term investments increased by 58%, while property, plant, and equipment increased by only 14.9%. It would seem Chipotle is able to create

excess earnings that can be invested in short- and long-term investments after providing for growth.

ADM-2 (Concluded)

The total liabilities increased by 13.4%, with a 23.3% increase in current liabilities and 6.1% increase in long-term liabilities. These increases suggest that Chipotle is increasing debt modestly, but does not rely significantly upon debt to finance growth.

Total stockholders' equity increased by 30.8%, mostly explained by a 34.9% increase in retained earnings. Year 2 earnings explain the increase in retained earnings. The earnings provide sufficient resources to finance growth while providing additional cash for purchasing investments and treasury stock.

ADM-3

- A. 1. Revenue: $\$72,618 - \$71,279 = \$1,339$

$$\frac{\$1,339}{\$71,279} = 1.9\%$$

2. Operating expenses: $\$67,857 - \$66,320 = \$1,537$

$$\frac{\$1,537}{\$66,320} = 2.3\%$$

3. Operating income: $\$4,761 - \$4,959 = -\$198$

$$\frac{\$(-198)}{\$4,959} = (4.0)\%$$

- B. The revenue increased by 1.9% between the two years; however, the operating expenses grew by 2.3% in the same period. Thus, expenses grew faster than revenues. As a result, operating income fell 4.0% between the two years.

ADM-4

- A. 1. Revenue: $\$485,651 - \$476,294 = \$9,357$

$$\frac{\$9,357}{\$476,294} = 2.0\%$$

2. Operating expenses: $\$458,504 - \$449,422 = \$9,082$

$$\frac{\$9,082}{\$449,422} = 2.0\%$$

3. Operating income: $\$27,147 - \$26,872 = \$275$

$$\frac{\$275}{\$26,872} = 1.0\%$$

ADM-4 (Concluded)

- B. The revenue and operating expenses both increased by 2.0% between the two years. The net result was operating income increased by 1.0% between the two years. Walmart was able to keep revenue and expense growth in line with each other.**
- C. Walmart was able to increase operating income between the two years because revenues and expenses grew at the same rate. Target had nearly the same revenue growth as Walmart (approximately 2%), but was not able keep expense growth in line with the revenue growth. Target's expenses grew by 2.3% while Walmart's were lower at only 2.0%. Thus, Target actually had a decline in operating income, while Walmart was able to increase operating income between the two years.**

TAKE IT FURTHER

TIF 2-1

1. **No.** For financial accounting information to be useful, it must accurately reflect an entity's business transactions and economic activity. For this to happen, each account must reflect the increases or decreases that result from each transaction. If the trial balance does not balance, it means that a transaction has not been accurately recorded in the accounts. By knowingly submitting a trial balance that does not accurately reflect the transactions in the accounts, Buddy is demonstrating a failure of individual character and is acting unethically.
2. The users of the financial information who rely upon this information will be affected, as the information will not be a faithful representation of the entity's economic activity.
3. Buddy should have discussed the issue with his supervisor and asked for more time to find the error.

TIF 2-2

A sample solution based on Nike Inc.'s Form 10-K for the fiscal year ended May 31, 2015, follows:

1. \$21,600 million
2. \$8,893 (\$21,600 million total assets – \$12,707 million total liabilities)
3. \$12,707 million
4. 3
5. 2
6. The income statement reports a summary of revenues and expenses for a specific period of time, such as a month or a year. The balance sheet reports a list of assets, liabilities, and stockholders' equity as of a specific date, usually at the close of the last day of a month or a year.

TIF 2-3

Note to Instructors: The purpose of this activity is to familiarize students with the job opportunities available in accounting, and allow them to demonstrate their ability to communicate the role of accounting in the context of a specific position that requires knowledge of accounting. An example of an advertisement for such a position is shown below. Individual student answers will vary depending on the specific scenario they select.

ABOUT THE COMPANY

Our client is looking to add a Financial Analyst. With a large and growing finance team, there is significant opportunity for growth and advancement within the department. The company boasts a team-oriented culture and provides its employees with the tools and training necessary to perform. Our client is looking to bring on more of a junior-level candidate who is looking to gain experience in his or her field of study. There will be hands-on training for the role that will evolve from a data analyst into a financial analyst and will be reporting to the director of finance. Our client is in the consumer goods industry and is an international company that has multiple opportunities for growth.

RESPONSIBILITIES OF THE FINANCIAL ANALYST

The Financial Analyst will:

- Conduct special studies to analyze complex financial actions and prepare recommendations for policy, procedure, control, or action.
- Analyze financial information to determine present and future financial performance.
- Evaluate complex profit plans, operating records, and financial statements.
- Direct preparation of studies, reports, analyses, and recommendations in areas such as budgets, forecasts, financial plans, statistical reports, and business forecasts.
- Coordinate with all levels of management to gather, analyze, summarize, and prepare recommendations regarding financial plans, trended future requirements, and operating forecasts.

Source: CareerBuilder.com

Analyzing Transactions

OPENING COMMENTS

Chapter 2 is the *most* important chapter in the text. It introduces students to the rules of debit and credit, chart of accounts, two-column journals, four-column ledgers, T accounts, and the trial balance. Quite frankly, if students fail to grasp the concepts in this chapter, the first seeds of destruction will be sown for those students who will ultimately withdraw from or fail the course.

Emphasize that Chapter 2 builds the foundation for all that will be learned about accounting principles. Unlike many other college courses, it is impossible to understand Chapter 3 and beyond if the principles of Chapter 2 are not mastered. You need to dispel the false belief that “maybe I’ll get the next chapter—even though I’m totally lost now.”

Also encourage your students to seek help immediately if they begin to struggle with course content. Make them aware of the resources available at your institution: tutorial services, peer assistance, your office hours, use of CengageNOW, and support services, etc. Too frequently, students wait until after they have failed their first examination to seek help. For those who heed them, these simple suggestions will help students avoid failure.

Reinforce the fact that accounting is best learned by doing. Students must work the exercises to grasp the concepts introduced in this chapter.

The chapter ends with an explanation and demonstration of analyzing financial statements using horizontal analysis. Interpretation explains possible relationships among the changes revealed in the analysis.

After studying the chapter, your students should be able to:

1. Describe the characteristics of an account and a chart of accounts.
2. Describe and illustrate journalizing transactions using the double-entry accounting system.
3. Describe and illustrate the journalizing and posting of transactions to accounts.

4. Prepare an unadjusted trial balance and explain how it can be used to discover errors.

ADM Describe and illustrate the use of horizontal analysis in evaluating a company's performance and financial condition.

KEY TERMS

account
account receivable
assets
balance of the account
chart of accounts
common stock
correcting journal entry
credit
debit
dividends
double-entry accounting system
expenses
horizontal analysis
journal
journal entry
journalizing
ledger
liabilities
normal balance of an account
posting
retained earnings
revenues
rules of debit and credit
slide
stockholders' equity
T account
transposition
trial balance
unadjusted trial balance
unearned revenue

STUDENT FAQs

- Why does Cash have a debit balance instead of a credit? My bank tells me they are crediting my account when I put money in. This question has to be answered several times until the student realizes that to the bank it is a liability, and they are telling the student what they are doing to their books.
- Why is the abbreviation for a debit "Dr" when there is no "r" in the spelling?
- Why can't the normal balances of all the accounts be opposite what they are?
- Who dreamed this accounting system up?

- Who uses these statements, and what do they do with the information?
- What is the difference between journalizing and posting?
- What is the difference between an expense and a liability?
- Aren't assets and revenue the same? If a business works for someone and gets paid, aren't Cash and Revenue exactly the same thing?
- Aren't expenses and liabilities the same? If a business gets a utility bill and hasn't paid it yet, aren't Utility Expense and Utility Payable exactly the same account?
- Why do they call it a credit card? Who is crediting what?
- "I work in a bank and we use debits and credits, but you have them all reversed in the book. The bank where I work does everything exactly the opposite."
- Why can't we just record the transactions directly into the ledger?
- Why are the ledger accounts in a specific order? Why aren't they listed in alphabetical order?
- Why aren't increases (+) always a debit and decreases (–) always a credit? Wouldn't that make more sense?
- Why can't you wait until the end of the month to compute the balance of each account in the ledger? Isn't it a lot of work to re-compute a new balance after each posting?
- In business, we say that we need to raise capital to start a business, so why aren't cash and capital the same thing?
- How do I know whether to use wages expense or wages payable?
- Do small businesses really need to do all this work to keep track of their income? Can't they just add and subtract from their bank account?

OBJECTIVE 1

Describe the characteristics of an account and a chart of accounts.

SYNOPSIS

In the previous chapter, transactions were recorded using the accounting equation format. Exhibit 1 presents a summary of the transactions we analyzed in the previous chapter for NetSolutions. This chapter demonstrates how to record transactions using accounts. Accounts make it easy to track increases and decreases in a company's assets, liabilities, stockholders' equity, revenues, expenses, and dividends. For example, NetSolutions will need 12 accounts, one for each of the financial statement items shown in Exhibit 1. Basically, accounts have two sides, a left side and a right side. Because the letter "T" has a left side and a right side, the term "T account" is often used to refer to accounts. Debits are recorded on the left side of the T, and credits are recorded on the right side of the T. The balance of the account is the amount of the difference between the debits and the credits that have been entered into an account. All the accounts used in a business are grouped together in a ledger. A list of the accounts maintained in the ledger is

known as a chart of accounts. Exhibit 2 presents the chart of accounts for NetSolutions. Assets are the resources owned by a business. Liabilities are the rights of creditors that represent debts of the

business. Stockholders' equity represents the rights of owners to the assets of the business. For a corporation, stockholders' equity in the business is composed of common stock and retained earnings. The dividends account represents distributions of earnings to stockholders. Revenues are increases in assets and stockholders' equity as a result of selling services or products to customers. Expenses are assets used up or services consumed in the process of generating revenues. Each account in the chart of accounts is assigned an account number. These accounts are used to record the business's transactions.

Key Terms and Definitions

- **Account** - An accounting form that is used to record the increases and decreases in each financial statement item.
- **Assets** - The resources owned by a business.
- **Balance of the Account** - The amount of the difference between the debits and the credits that have been entered into an account.
- **Chart of Accounts** - A list of the accounts in the ledger.
- **Common Stock** - The stock outstanding when a corporation has issued only one class of stock.
- **Credit** - Amount entered on the right side of an account.
- **Debit** - Amount entered on the left side of an account.
- **Dividends** - Distribution of a corporation's earnings to stockholders.
- **Expenses** - Assets used up or services consumed in the process of generating revenues.
- **Ledger** - A group of accounts for a business.
- **Liabilities** - The rights of creditors that represent debts of the business.
- **Retained Earnings** - Net income retained in a corporation that is reported as part of stockholders' equity.
- **Revenues** - Increases in assets and equity as a result of selling services or products to customers.
- **Stockholders' Equity** - The owners' equity in a corporation.
- **T account** - The simplest form of an account.

Relevant Exhibits

- Exhibit 1 – NetSolutions' November Transactions
- Exhibit 2 – Chart of Accounts for NetSolutions

SUGGESTED APPROACH

Remind students that accounts are used to record business transactions. An account is simply a record of all the increases and decreases in a financial statement item (such as cash, supplies, and accounts payable). A group of accounts is called a ledger.

Point out that only a very small enterprise with very few transactions (such as a lawn-mowing service run by students) could use the accounting system illustrated in Chapter 1. For most businesses, this system would be inefficient. For example, in the prior chapter, all business transactions affecting stockholders' equity were recorded as stockholders' equity. In Chapter 2, these different types of transactions will be separated and recorded in the common stock, retained earnings, dividends, revenue, and expense accounts. Issuance of common stock and revenue accounts increase stockholders' equity; dividends and

expense accounts reduce stockholders' equity. This separation will make it easier to prepare financial statements. Transparency Master (TM) 2-1 can be used to highlight this change.

T accounts are introduced as a convenient way to track increases and decreases in accounts. You may want to stress that T accounts are a representation of the general ledger, which is the official place to record and track account balances.

GROUP LEARNING ACTIVITY—Chart of Accounts

Objective 1 also introduces a chart of accounts and a flexible system of numbering accounts. Under the text's indexing system, accounts are assigned a two-digit number. The first digit indicates the account's classification (1 = assets, 2 = liabilities, 3 = stockholders' equity, 4 = revenue, and 5 = expenses). Stress that all enterprises will have the same categories of accounts; however, the account titles used and the number of accounts will vary. You can emphasize this variety by asking students to bring in charts of accounts from businesses where they or a relative work.

TM 2-2 presents information related to the business transactions of Larry Sharp, M.D. Divide students into small groups and ask them to use the information to develop a chart of accounts for Dr. Sharp. Also ask them to assign a number to each account.

This activity will test whether your students can identify the accounts needed to record Dr. Sharp's typical business transactions and apply the concept of a flexible numbering system. The group activity may be assigned before discussing the information related to charts of accounts presented in the text. This will force students to recall some information from their reading assignment and reinforce your expectation that all reading assignments are to be completed prior to classroom discussion.

TM 2-3 presents a suggested chart of accounts that you may want to share with the class after they have completed their group work. Remind them that the chart of accounts is different for every company, reflecting each company's typical business transactions.

You will notice that the suggested solution in TM 2-3 does not include insurance expense or depreciation expense accounts. These accounts, although necessary for preparing adjusting entries, have been omitted since that step in the accounting cycle will not be introduced until Chapter 3.

The first account form introduced in Chapter 2 is the T account. Draw a T account on the board, and remind students that the left side will be called the debit or Dr. side and the right side will be called the credit or Cr. side. Each T account has a name as well as a normal balance side.

To demonstrate how a T account works, you may want to use the Cash account and record the increases and decreases to the account from one of the problems worked in Chapter 1 (1-3A, for example). Show how the balance is recorded and compare it to the balance reached in the Chapter 1 problem.

INTERNET ACTIVITY—Chart of Accounts

There are organizations that post recommended charts of accounts on the Internet, so your students can see some real-world examples. A standard chart of accounts is provided by Small Business Notes. The Web address is:

<http://www.smallbusinessnotes.com/operating/finmgmt/financialstmts/cofa.html>

You might also want to encourage your students to search for other suggested charts of accounts.

OBJECTIVE 2

Describe and illustrate journalizing transactions using the double-entry accounting system.

SYNOPSIS

Businesses use the double-entry accounting system for recording transactions, based on recording increases and decreases in accounts so that debits equal credits. In this system, the rules of debit and credit specify how to record increases and decreases in the accounts. The normal balance of an account can be either a debit or a credit depending on whether increases in the account are recorded as debits or credits. For asset and expense accounts, a debit increases the account, and a credit decreases the account. For liability, stockholders' equity, and revenue accounts, a debit decreases the account, and a credit increases the account. The word *debit* can be abbreviated as Dr., and *credit* can be abbreviated as Cr. Exhibit 3 summarizes the debit/credit rules and indicates the normal balance in each type of account. Using the rules of debit and credit, transactions are entered in a journal chronologically as they occur; this is the initial record in which the effects of a transaction are recorded. The process of entering a transaction is called journaling. Each such record is known as a journal entry. Exhibit 4 summarizes terminology that is often used to describe common transactions along with the specific accounts that would be debited and credited. The transaction is recorded using the following steps: the date of the transaction is recorded in the date column, the title of the account to be debited is entered first in the description column, and the amount to be debited is entered in the debit column. The title of the account to be credited is listed under the account debited and indented and the amount to be credited is entered in the credit column. A brief description may be entered at this time in the description column below the account credited. The Post. Ref. column is not used until the entry is transferred to the ledger.

Key Terms and Definitions

- **Double-Entry Accounting System** - A system of accounting for recording transactions, based on recording increases and decreases in accounts so that debits equal credits.
- **Journal** - The initial record in which the effects of a transaction are recorded.
- **Journal Entry** - The form of recording a transaction in a journal.
- **Journalizing** - The process of recording a transaction in the journal.
- **Normal Balance of an Account** - The normal balance of an account can be either a debit or a credit depending on whether increases in the account are recorded as debits or credits.
- **Rules of Debit and Credit** - In the double-entry accounting system, specific rules for recording debits and credits based on the type of account.

Relevant Check Up Corners and Exhibits

- Exhibit 3 – Rules of Debit and Credit, Normal Balances of Accounts
- Check Up Corner 2-1 – Balance Sheet Accounts
- Exhibit 4 – Transaction Terminology and Related Journal Entry Accounts
- Check Up Corner 2-2 – Journal Entries

SUGGESTED APPROACH

Learning the rules of debit and credit is one of the first major hurdles for students in accounting principles. Remind students that debit and credit simply represent the left and right sides of an account. The trick is remembering which accounts are increased with debits and which are increased with credits.

LECTURE AID—Rules of Debit and Credit

Three approaches to explain the rules of debit and credit follow. You may want to present all methods to your class and encourage each student to use the approach that he or she understands best.

“Mirror Image” Approach: One way to explain the rules of debit and credit is to draw the following equation on the board.

$$\begin{array}{c}
 \text{Assets} \\
 \hline
 + \quad | \quad - \\
 \hline
 \end{array}
 =
 \begin{array}{c}
 \text{Liabilities} \\
 \hline
 - \quad | \quad + \\
 \hline
 \end{array}
 +
 \begin{array}{c}
 \text{Stockholders' Equity} \\
 \hline
 - \quad | \quad + \\
 \hline
 \end{array}$$

Point out that the rules for increasing and decreasing liabilities and stockholders' equity accounts are the mirror image of the rules for assets. Therefore, if students can remember the rules for assets, they can deduce the rules for the remaining accounts. This method requires that the student understand that the negative effect of the dividends and expense accounts on stockholders' equity requires the opposite treatment of the rules of debit and credit for these types of accounts. Exhibit 3 from the text is excellent to help explain this concept.

Although this is the most simplistic approach, some students become very confused by the treatment of the dividends and expense accounts. Increases to these accounts are debits because they reduce stockholders' equity. However, some students want to record expenses and dividends as credits because the schematic has a + sign on the credit side of stockholders' equity accounts.

“After Eating Dinner” Approach: The rules of debit and credit can also be explained with the following saying: “After eating dinner, let's relax and snooze.”

Here's how it works.

| | |
|--|---|
| <p><u>A</u>fter <u>E</u>ating <u>D</u>inner, Accounts increased with a debit: <u>A</u>ssets <u>E</u>xpenses <u>D</u>ividends</p> | <p><u>L</u>et's <u>R</u>elax and <u>S</u>nooze Accounts increased with a credit: <u>L</u>iabilities <u>R</u>evenues <u>S</u>tockholders' Equity</p> |
|--|---|

“ALSIE” Approach: The rules of debit and credit can also be explained using the acronym “ALSIE.”

List the types of classifications of accounts:

- A = Assets
- L = Liabilities
- S = Stockholders' Equity
- I = Income (Revenue)
- E = Expense

Arrange the letters to read “ALSIE.” Then list normal balances by the side of each.

- A = Dr.
- L = Cr.
- S = Cr.
- I = Cr.
- E = Dr.

Note that ALSIE begins and ends with normal Dr. balance accounts, while the three middle classifications are normal Cr. balance accounts. The dividends account is not included in this explanation, so the student must memorize the proper treatment of this account.

No matter which approach the student uses to learn the rules, you will need to reinforce the categories and the proper treatment of increases and decreases over and over. Start by emphasizing that half of the accounts are increased with debits (assets, dividends, and expenses) and half are increased with credits (liabilities, stockholders' equity, and revenue). It is also important to discuss the meaning of normal balance. Normal balance is the side of the account in which increases are recorded. At this point in the learning process, the student can assume that typically only assets and liabilities will have both debit and credit entries. Dividends and expense accounts will typically have only debit entries, and stockholders' equity and revenue accounts will have only credit entries. This generalization will hold true until Chapter 4. By that time, the student should be comfortable with the debit and credit rules.

GROUP LEARNING ACTIVITY—Rules of Debit and Credit

After explaining the rules of debit and credit, it is important to reinforce those concepts with an example.

Remind students that business transactions are initially recorded in a record called a journal. After each entry is journalized, it is posted to the proper account in the ledger. In this group exercise, students will post entries into T accounts.

Ask your students to draw the following T accounts on a sheet of paper:

- | | |
|---------------------|----------------------------|
| Cash | Retained Earnings |
| Accounts Receivable | Dividends |
| Supplies | Fees Earned Stereo |
| Equipment | Wages Expense Accounts |
| Payable | Advertising Expense Common |
| Stock | |

TM 2-4 lists several business transactions. Illustrate the process by recording the first two or three transactions in a journal format and by posting them to the appropriate T account. As you work these examples, emphasize that there is a three-step process in analyzing each entry: (1) determine which accounts are affected, (2) decide whether each account should be increased or decreased, and (3) translate the increase or decrease into a debit or a credit.

Students may find it helpful when initially analyzing transactions to first see if the transaction involves cash. Most transactions in this stage of learning involve cash. If cash is being received, the debit portion of the transaction is cash. If cash is being given, the credit portion of the transaction is cash. This will provide students with half the transaction entry and allow them to focus on determining the other account to complete the journal entry.

After completing your examples, ask students to work in small groups to complete the transactions. TM 2-5 presents the solution to this exercise.

LECTURE AID—Double-Entry Accounting

To help the student understand the effect of double-entry accounting, it can be helpful to illustrate examples of some of the more common transactions, such as the ones below, as you lecture.

| TRANSACTION | AFFECTED ACCOUNTS | |
|-----------------------|-------------------|--------------|
| | Cash | Common Stock |
| | Dr. Cr. | Dr. Cr. |
| Issued stock for cash | Increase | Increase |

| | | | |
|-------------------------------------|---------------------|----------|---------------------|
| | Cash | | Fees Earned |
| | Dr. Cr. | | Dr. Cr. |
| | | | |
| Received cash for services rendered | Increase | | Increase |
| | | | |
| | Accounts Receivable | | Fees Earned |
| | Dr. Cr. | | Dr. Cr. |
| | | | |
| Billed customers on account | Increase | | Increase |
| | | | |
| | Cash | | Expense Account |
| | Dr. Cr. | | Dr. Cr. |
| | | | |
| Paid for expenses | | Decrease | Increase |
| | | | |
| | Cash | | Accounts Receivable |
| | Dr. Cr. | | Dr. Cr. |
| | | | |
| Received cash on account | Increase | | Decrease |
| | | | |
| | Cash | | Accounts Payable |
| | Dr. Cr. | | Dr. Cr. |
| | | | |
| Paid on account | | Decrease | Decrease |
| | | | |
| | Supplies | | Accounts Payable |
| | Dr. Cr. | | Dr. Cr. |
| | | | |
| Purchased on account | Increase | | Increase |
| | | | |
| | Cash | | Dividends |
| | Dr. Cr. | | Dr. Cr. |
| | | | |
| Paid cash dividends | | Decrease | Increase |

LECTURE AID—Journalizing

At this point, it is time to introduce your students to the standard journal format. It is interesting to point out that while T accounts are not actually used to record business transactions, accountants frequently use them to analyze complex transactions. In the same way, students will find the T account a useful tool throughout this and future accounting courses.

You may wish to point out the useful table that summarizes common transaction terminology in Exhibit 4 of the text.

TM 2-6 shows a series of transactions recorded in a two-column journal. Use this exhibit to review the two-column journal format with your students. You may want to stress the following format issues:

1. *Date:* The year is entered only at the top of the Date column. The month is entered on the first line of the date column on each page; it is also entered for the first transaction when changing to a new month. The date is entered for each transaction.
2. *Description:* The Description column is where account names are entered. Debited accounts should be on top, and credited accounts should be on the bottom and indented to the right (credits are always on the right).
3. *Description:* A brief description of the transaction should be written below the debit and credit account titles. This description may be omitted if the transaction is a normal business occurrence and its nature is obvious from the entry. When calculations are required, they should be noted here.
4. *Debit and Credit:* Proper journalizing always has at least one debit and one credit, and total debits must always equal total credits. Proper journalizing will keep the accounting equation in balance.
5. *Blank Lines:* A blank line should separate all transactions in a manual journal to make them easier to read. Computerized systems are normally designed to separate journal entries without special input.

It is also helpful to emphasize the importance of using the correct journal entry format of left justifying debits and indenting credits by writing the following entry on the board and asking students to identify what is wrong:

| | |
|----------|-----|
| Supplies | 500 |
| Cash | 500 |

Because the credit in the entry is not indented, it is difficult to identify the debit and the credit. Were supplies purchased using cash, or were they sold for cash?

In most computerized systems, the indentation of the names of accounts credited is not necessary because debits and credits are recorded in separate columns.

OBJECTIVE 3

Describe and illustrate the journalizing and posting of transactions to accounts.

SYNOPSIS

This objective continues with journalizing and demonstrates how to post the journal entries to the ledger. Posting is the process of transferring the debits and credits from the journal entries to the accounts in the ledger. Exhibit 5 illustrates this process. Using the company NetSolutions, the chapter shows the journalizing of a transaction in a standard account form and then demonstrates how to record each entry in the ledger. The debits and credits from each entry are transferred to the ledger in the order in which they occurred. The ledger account is located for the first line of the entry, the date is transferred first, then the amount of the debit is entered in the Debit column, the journal page is entered in the Post Reference (Post. Ref.) column of the ledger, and the account number is entered in the Post. Ref. column in the journal. The ledger account is located for the second line of the entry, the date is transferred first, then the amount of the credit is entered in the Credit column, the journal page is entered in the Post. Ref. column of the ledger, and the account number is entered in the Post. Ref. column in the journal. Thus, the Post. Ref. notations serve to link the journal and ledger and provide an easy way to trace transactions from the journal to the ledger or vice versa.

Several transactions are analyzed with the text showing both the journal entry and its posting to the ledger. The transaction in which NetSolutions rents land to another entity for three months introduces the concept of unearned revenue. This transaction creates a liability by receiving revenue in advance. As the three months pass, the liability will decrease and become revenue. The transaction in which NetSolutions agrees that a customer may receive services and pay at a later date creates an account receivable. This is a claim against the customer created by selling merchandise or services on credit. This account is an asset, and the revenue is earned even though no cash is yet received. Exhibit 6 presents the general ledger for NetSolutions after all of the transactions have been posted. Notice the use of the four-column account format, which facilitates the determination of account balances.

Key Terms and Definitions

- **Account Receivable** - A claim against the customer created by selling merchandise or services on credit.
- **Posting** - The process of transferring the debits and credits from the journal entries to the accounts in the ledger.
- **Unearned Revenue** - The liability created by receiving revenue in advance.

Relevant Exhibits

- Exhibit 5 – Diagram of the Recording and Posting of a Debit and a Credit
- Exhibit 6 – General Ledger for NetSolutions

SUGGESTED APPROACH

Remind students that journalizing transactions is a sequential record of business dealings and posting is the updating of individual account balances. Getting the journal entry correct is the bigger challenge; the posting is merely a process of transferring the information from the journal to the proper ledger accounts. Although posting can be a tedious process, it is critical that the student follow the process and not resort to shortcuts; otherwise, information may be omitted, resulting in incorrect account balances.

DEMONSTRATION PROBLEM—The Ledger

TM 2-7 is a series of four-column ledger accounts. Use these blank accounts to demonstrate posting of the first three transactions from TM 2-6. As you post the transactions, remind students that a posting reference must be entered in the appropriate columns of both the journal and the ledger. Also emphasize that transactions should be posted carefully to avoid errors. Careless posting may result in a lot of time being wasted trying to find errors. Emphasize that with a software package, posting will usually be done automatically, so there is less chance of making mistakes in posting.

WRITING EXERCISE—The Journal and the Ledger

It is important for students to understand the reason that business transactions are recorded in a journal as the book of original entry and later posted to a ledger. To check their understanding of these concepts, ask them to write a response to the following questions. These questions are also found on TM 2-8.

1. Why are business transactions initially recorded in a journal?
2. Why are business transactions posted from the journal to a ledger?

Question 1 possible response: The journal is used to record transactions in the order in which they occur. The journal shows the entire effect of the transaction and how the transaction impacts the accounting equation. Without the journal, the general ledger accounts would not reflect the entire history of the transaction.

Question 2 possible response: The ledger tracks the balance of the individual accounts. Without posting transaction to the ledger, the accountant would have to go back and track every individual transaction to find those that impact the account in question and track the increases and decreases over the accounting period to determine the balance in the account.

GROUP LEARNING ACTIVITY—The Journal and the Ledger

This activity presents another method to emphasize the purpose of the journal and the ledger in the accounting process. TM 2-9 lists questions a business owner might ask that can be answered by examining the company's accounting records. Your students' task is to determine which accounting record holds the answer: the journal or the ledger. Answers to this activity are provided on TM 2-10.

OBJECTIVE 4

Prepare an unadjusted trial balance and explain how it can be used to discover errors.

SYNOPSIS

This objective explains the purpose and the steps in the preparation of the trial balance. The trial balance is a summary listing of the titles and balances of accounts in the ledger, and it verifies the equality of the debits and the credits, which double-entry accounting requires. The first step in preparing a trial balance is to create the heading. This includes the company name, the title of the document, and the date it is prepared. Next, list all the accounts from the ledger, in order, and enter their debit or credit balances. Total the debit and credit columns and verify the totals match. The trial balance shown in Exhibit 7 is an unadjusted trial balance, which distinguishes it from other trial balances that will be introduced later. An unadjusted trial balance is a summary listing of the titles and balances of accounts in the ledger *prior* to the posting of adjusting entries.

If the trial balance does not show equality, an error occurred. Several errors are common and easy to find. If the difference between the columns is 10, 100, or 1,000, an addition error may exist. Recalculate the totals. If the same error exists, recalculate the account balances. If the difference between the totals is divisible by 2, a debit may have been entered as a credit or vice versa. A transposition error may have occurred if the difference is divisible by 9. This is an error in which the order of the digits is changed, such as writing \$542 as \$452 or \$524. A similar error is called a slide. In a slide, the entire number is moved one or more spaces to the right or the left, such as writing \$542.00 as \$54.20 or \$5,420.00. If the difference is not divisible by 2 or 9, review the ledger to see if accounts have been omitted. If no accounts have been omitted from the ledger, review the journal to see if the postings are complete.

Some errors do not cause the trial balance to be unequal. These may be discovered at any time. An entry that is prepared when an error has already been journalized and posted is called a correcting journal entry.

Key Terms and Definitions

- **Correcting Journal Entry** - An entry that is prepared when an error has already been journalized and posted.
- **Slide** - An error in which the entire number is moved one or more spaces to the right or the left, such as writing \$542.00 as \$54.20 or \$5,420.00.
- **Transposition** - An error in which the order of the digits is changed, such as writing \$542 as \$452 or \$524.
- **Trial Balance** - A summary listing of the titles and balances of accounts in the ledger used to detect errors.
- **Unadjusted Trial Balance** - A summary listing of the titles and balances of accounts in the ledger prior to the posting of adjusting entries.

Relevant Check Up Corner and Exhibit

- Exhibit 7 – Trial Balance
- Check Up Corner 2-3 – Trial Balance

SUGGESTED APPROACH

Remind students that a trial balance is simply a listing of accounts and their balances. It is used to check the accuracy of posting by testing to see that total debits equal total credits. At this point, students have learned two controls over recording entries in a double-entry accounting system: (1) Debits = Credits and (2) Assets = Liabilities + Stockholders' Equity.

You may point out that this is the first of three times in the accounting cycle that the trial balance will be completed.

DEMONSTRATION PROBLEM—Preparing a Trial Balance

To demonstrate how to prepare a trial balance, show TM 2-5 (the T accounts from the group learning activity under Objective 2). Ask your students to work in small groups to complete a trial balance using these account balances. TM 2-11 shows the completed trial balance.

GROUP LEARNING ACTIVITY—Errors in a Trial Balance

The goal of this activity is to demonstrate the use of a trial balance in detecting errors made while recording journal entries, posting, and computing account balances. TM 2-12 presents journal entries, T accounts, and a trial balance. Several errors have been made in posting the journal entries, and as a result, the trial balance does not balance. Ask your students to work in small groups to uncover the errors and correct the trial balance. TM 2-13 shows the corrected trial balance.

You may want to give your students the following hints to help them detect the errors:

1. Re-add the columns of the trial balance to check for math errors. This usually is not a problem with a computerized program.
2. Look for accounts with abnormal balances on the trial balance. This usually points to an error.
3. Compare account balances on the trial balance with those in the ledger. Watch for omitted accounts, slide errors, or transposition errors.
4. Re-compute the balance of each account to check for math errors. Again, this usually doesn't happen with a computerized program.
5. Trace each posting back to the journal entry to make sure the proper amount was posted. Watch for slide or transposition errors.

You will also want to point out that the trial balance does not catch every possible accounting error. The following errors will not be discovered simply by preparing a trial balance:

1. Failing to record a transaction or to post a transaction.
2. Recording the same erroneous amount for both the debit and the credit parts of a transaction.
3. Recording the same transaction more than once.

4. Posting part of a transaction correctly as a debit or credit but to the wrong account.

As an example, ask your class the following question: Would recording an \$800 sale on account as a debit to Cash and a credit to Fees Earned cause the columns of a trial balance to be unequal? Answer: No.

ADM OBJECTIVE

Describe and illustrate the use of horizontal analysis in evaluating a company's performance and financial condition.

SYNOPSIS

It is useful in business to compare a company's performance with its past performance. Financial analysis that compares an item in a current statement with the same item in prior statements is called horizontal analysis. The financial statements being compared are arranged next to each other to facilitate the comparison. Two additional columns are presented to the right. The first column shows the numerical difference between the amounts, and the second displays the percentage difference as an increase or a decrease. The significance of these changes should be investigated to determine if operations can be improved. The example in the chapter shows a comparison of income statements; however, this analysis can be used on any financial statement.

Key Term and Definition

- **Horizontal Analysis** - Financial analysis that compares an item in a current statement with the same item in prior statements.

SUGGESTED APPROACH

This objective introduces the value of horizontal analysis as a tool to indicate trends in a company's performance. Remind students that financial statements are a "snapshot" in time without any means of comparison to other time periods. The horizontal analysis indicates changes (increase or decrease) in both amounts and percentages.

TM 2-14 shows an example of a horizontal analysis of income statements for Music Express using figures from TM 2-11. Note that while the June expenditures were greater than those in May so, too, were the fees earned—enough to show increases in the amount and percentage of net income for Music Express.

| | | Tagging | | | | | | | | Associated Assets | | | Focus | | | |
|------|------|---|-------|-------------|-----------|----------|------------------|------------------------|---------------|-------------------|-------|------|-------|------------|---------|--------|
| Type | Item | Description | LO(s) | Difficulty | Time Est | BUSPROG | AICPA | ACBSP - Primary | Bloom's | Video | Excel | CLGL | ADM | Real World | Writing | Ethics |
| MC | 1 | | 1 | Easy | 5 min. | Analytic | FN - Measurement | GAAP | Remembering | | | | | | | |
| MC | 2 | | 1 | Easy | 5 min. | Analytic | FN - Measurement | GAAP | Remembering | | | | | | | |
| MC | 3 | | 1 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Understanding | | | | | | | |
| MC | 4 | | 2, 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| MC | 5 | | 4 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| LREX | 1 | Rules of debit and credit and normal balances | 2 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | x | | | | | | |
| LREX | 2 | Journal entry for asset purchase | 2, 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | x | | | | | | |
| LREX | 3 | Journal entry for fees earned | 2, 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| LREX | 4 | Journal entry for dividends | 2, 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| LREX | 5 | Missing amount from an account | 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| LREX | 6 | Trial balance errors | 4 | Moderate | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| LREX | 7 | Correcting entries | 4 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| PP | | Problem | n/a | Challenging | 1.5 hours | Analytic | FN - Measurement | Financial Statements | Applying | | | | | | | |
| DQ | 1 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | GAAP | Remembering | | | | | | | |
| DQ | 2 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | GAAP | Remembering | | | | | | | |
| DQ | 3 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| DQ | 4 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| DQ | 5 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| DQ | 6 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| DQ | 7 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| DQ | 8 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| DQ | 9 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| DQ | 10 | | n/a | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | | | | | | | |
| BE | 1 | Rules of debit and credit and normal balances | 2 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Remembering | x | | | | | | |
| BE | 2 | Journal entry for asset purchase | 2, 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| BE | 3 | Journal entry for fees earned | 2, 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| BE | 4 | Journal entry for dividends | 2, 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| BE | 5 | Missing amount from an account | 3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| BE | 6 | Trial balance errors | 4 | Moderate | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| BE | 7 | Correcting entries | 4 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| EX | 1 | Chart of accounts | 1 | Easy | 5 min. | Analytic | FN - Measurement | GAAP | Remembering | | | | | x | | |
| EX | 2 | Chart of accounts | 1 | Easy | 5 min. | Analytic | FN - Measurement | GAAP | Remembering | | | | | | | |
| EX | 3 | Chart of accounts | 1 | Easy | 10 min. | Analytic | FN - Measurement | GAAP | Remembering | | | | | | | |
| EX | 4 | Rules of debit and credit | 1,2 | Easy | 5 min. | Analytic | FN - Measurement | GAAP | Remembering | | | | | | | |
| EX | 5 | Normal entries for accounts | 2 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| EX | 6 | Normal balances of accounts | 1,2 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| EX | 7 | Transactions | 2 | Moderate | 15 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| EX | 8 | Journalizing and posting | 2,3 | Easy | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | x | |
| EX | 9 | Transactions and T accounts | 2,3 | Easy | 15 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | x | | | | x | |
| EX | 10 | Cash account balance | 1,2,3 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | x | |
| EX | 11 | Accounts balances | 1,2,3 | Moderate | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| EX | 12 | Retained earnings account balance | 1,2 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | x | |
| EX | 13 | Identifying transactions | 1,2 | Easy | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| EX | 14 | Journal entries | 1,2 | Easy | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| EX | 15 | Trial balance | 4 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | x | | | | | |
| EX | 16 | Trial balance | 4 | Moderate | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| EX | 17 | Effect of errors on trial balance | 4 | Moderate | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| EX | 18 | Errors in trial balance | 4 | Easy | 15 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |

| Type | Item | Description | Tagging | | | | | | | Associated Assets | | | Focus | | | |
|------|------|---|---------|-------------|-----------|---------------------|------------------|------------------------|------------|-------------------|-------|-----|-------|------------|---------|--------|
| | | | LO(s) | Difficulty | Time Est | BUSPROG | AICPA | ACBSP - Primary | Bloom's | Video | Excel | CLG | ADM | Real World | Writing | Ethics |
| EX | 19 | Effect of errors on trial balance | 4 | Moderate | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| EX | 20 | Errors in trial balance | 4 | Easy | 10 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| EX | 21 | Entries to correct errors | 4 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| EX | 22 | Entries to correct errors | 4 | Easy | 5 min. | Analytic | FN - Measurement | Recording Transactions | Applying | x | | | | | | |
| PR | 1A | Entries into T accounts and trial balance | 1,2,3,4 | Moderate | 1.5 hours | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| PR | 2A | Journal entries and trial balance | 1,2,3,4 | Moderate | 1.5 hours | Analytic | FN - Measurement | Recording Transactions | Applying | x | x | x | | | | |
| PR | 3A | Journal entries and trial balance | 1,2,3,4 | Moderate | 1.5 hours | Analytic | FN - Measurement | Recording Transactions | Applying | x | x | x | | | x | |
| PR | 4A | Journal entries and trial balance | 1,2,3,4 | Moderate | 2 hours | Analytic | FN - Measurement | Recording Transactions | Applying | | | x | | | | |
| PR | 5A | Corrected trial balance | 4 | Challenging | 1.5 hours | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | x | |
| PR | 1B | Entries into T accounts and trial balance | 1,2,3,4 | Moderate | 1.5 hours | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | | |
| PR | 2B | Journal entries and trial balance | 1,2,3,4 | Moderate | 1.5 hours | Analytic | FN - Measurement | Recording Transactions | Applying | x | x | x | | | | |
| PR | 3B | Journal entries and trial balance | 1,2,3,4 | Moderate | 1.5 hours | Analytic | FN - Measurement | Recording Transactions | Applying | x | x | x | | | x | |
| PR | 4B | Journal entries and trial balance | 1,2,3,4 | Moderate | 2 hours | Analytic | FN - Measurement | Recording Transactions | Applying | | | x | | | | |
| PR | 5B | Corrected trial balance | 4 | Challenging | 1.5 hours | Analytic | FN - Measurement | Recording Transactions | Applying | | | | | | x | |
| CP | | Continuing Problem | n/a | Challenging | 2.0 hours | Analytic | FN - Measurement | Recording Transactions | Applying | | | x | | | | |
| ADM | | Continuing Company Analysis | ADM | Challenging | 35 min. | Analytic | FN - Measurement | Recording Transactions | Evaluating | | | | x | x | x | |
| ADM | | Chipotle: Horizontal Analysis | ADM | Challenging | 1 hour | Analytic | FN - Measurement | Recording Transactions | Evaluating | | | | x | x | x | |
| ADM | | Target: Horizontal Analysis | ADM | Challenging | 30 min. | Analytic | FN - Measurement | Recording Transactions | Evaluating | | | | x | x | x | |
| ADM | | Walmart and Target: Horizontal Analysis | ADM | Challenging | 45 min. | Analytic | FN - Measurement | Recording Transactions | Evaluating | | | | x | x | x | |
| TIF | | Ethics in action | n/a | Challenging | 30 min. | Ethics | BB - Industry | Purpose | Analyzing | | | | | | x | x |
| TIF | | Team Activity | n/a | Challenging | 1 hour | Analytic | FN - Measurement | Financial Statements | Analyzing | | | | | x | x | |
| TIF | | Communication and Decision Making | n/a | Challenging | 45 min. | Reflective Thinking | FN-Research | Purpose | Analyzing | | | | | | x | |

EXERCISE 2-1

- Accounts Payable: _____
- Advanced Payments for Equipment: _____
- Air Traffic Liability: _____
- Aircraft Fuel (Expense): _____
- Aircraft Maintenance (Expense): _____
- Aircraft Rent (Expense): _____
- Cargo Revenue: _____
- Cash: _____
- Contract Carrier Arrangements (Expense): _____
- Flight Equipment: _____
- Frequent Flyer (Obligations): _____
- Fuel Inventory: _____
- Landing Fees (Expense): _____
- Parts and Supplies Inventories: _____
- Passenger Commissions (Expense): _____
- Passenger Revenue: _____
- Prepaid Expenses: _____
- Taxes Payable: _____

EXERCISE 2-2

| Account | Account Number |
|-----------------------------|----------------|
| Accounts Payable..... | _____ |
| Accounts Receivable..... | _____ |
| Cash | _____ |
| Common Stock..... | _____ |
| Dividends..... | _____ |
| Fees Earned..... | _____ |
| Land | _____ |
| Miscellaneous Expense | _____ |
| Retained Earnings..... | _____ |
| Supplies Expense | _____ |
| Wages Expense..... | _____ |

EXERCISE 2-3

| Balance Sheet Accounts | | Income Statement Accounts | |
|------------------------|-------------------------|---------------------------|--------------|
| Acct. # | Account Name | Acct. # | Account Name |
| | 1. Assets | | 4. Revenue |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | 2. Liabilities | | 5. Expenses |
| | | | |
| | | | |
| | | | |
| | | | |
| | 3. Stockholders' Equity | | |
| | | | |
| | | | |

EXERCISE 2-4

| | Increase | Decrease | Normal Balance |
|-----------------------------------|----------|----------|----------------|
| Balance sheet accounts: | | | |
| Asset | A. _____ | B. _____ | Debit |
| Liability | C. _____ | Debit | D. _____ |
| Stockholders' Equity: | | | |
| Common Stock | Credit | E. _____ | F. _____ |
| Retained Earnings | G. _____ | H. _____ | Credit |
| Dividends | Debit | Credit | I. _____ |
| Income statement accounts: | | | |
| Revenue..... | J. _____ | K. _____ | Credit |
| Expense | L. _____ | Credit | Debit |

EXERCISE 2-5

- 1. Accounts Payable: _____
- 2. Accounts Receivable: _____
- 3. Cash: _____
- 4. Fees Earned: _____
- 5. Insurance Expense: _____
- 6. Dividends: _____
- 7. Utilities Expense: _____

EXERCISE 2-6

- A. Accounts Payable: _____
- B. Accounts Receivable: _____
- C. Cash: _____
- D. Common Stock: _____
- E. Dividends: _____
- F. Fees Earned: _____
- G. Office Equipment: _____
- H. Rent Expense: _____
- I. Supplies: _____
- J. Wages Expense: _____

EXERCISE 2-7

JOURNAL

PAGE

| DATE | | DESCRIPTION | POST. REF. | DEBIT | CREDIT | PAGE |
|------|--|-------------|---------------|-------|--------|------|
| 1 | | | | | | 1 |
| 2 | | | | | | 2 |
| 3 | | | | | | 3 |
| 4 | | | | | | 4 |
| 5 | | | | | | 5 |
| 6 | | | | | | 6 |
| 7 | | | | | | 7 |
| 8 | | | | | | 8 |
| 9 | | | | | | 9 |
| 10 | | | | | | 10 |
| 11 | | | | | | 11 |
| 12 | | | | | | 12 |
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EXERCISE 2-8

A.

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PAGE 33

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B., C., and D.

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EXERCISE 2-9

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Accounts Receivable

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C. _____

EXERCISE 2-10

- A. _____

- B. _____

EXERCISE 2-11

A.

Accounts Payable

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EXERCISE 2-11, Concluded

C.

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EXERCISE 2-12

A. _____

B. _____

EXERCISE 2-13

A. and B.

| Transaction | Account Debited | | Account Credited | |
|-------------|-----------------|--------|----------------------|--------|
| | Type | Effect | Type | Effect |
| (1) | asset | + | stockholders' equity | + |
| (2) | _____ | _____ | _____ | _____ |
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EXERCISE 2-14

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EXERCISE 2-21

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EXERCISE 2-22

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PROBLEM 2-1____, Continued

Equipment

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Notes Payable

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Accounts Payable

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Common Stock

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Rent Expense

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PROBLEM 2-1____, Continued

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| <i>Salary Expense</i> | |
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| <i>Blueprint Expense</i> | |
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| <i>Automobile Expense</i> | |
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| <i>Miscellaneous Expense</i> | |
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PROBLEM 2-2 ____

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PROBLEM 2-2____, Continued

2.

| <i>Cash</i> | |
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| <i>Supplies</i> | |
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| <i>Accounts Payable</i> | |
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| <i>Common Stock</i> | |
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| <i>Dividends</i> | |
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| <i>Sales Commissions</i> | |
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PROBLEM 2-2____, Continued

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| <i>Rent Expense Office</i> | |
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| <i>Salaries Expense</i> | |
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| <i>Automobile Expense</i> | |
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| <i>Supplies Expense</i> | |
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| <i>Miscellaneous Expense</i> | |
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PROBLEM 2-3 ____

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PROBLEM 2-3____, Continued

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PROBLEM 2-3 ____, Continued

| ACCOUNT <i>Equipment</i> | | | | | ACCOUNT NO. 16 | |
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| ACCOUNT <i>Truck</i> | | | | | ACCOUNT NO. 18 | |
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| ACCOUNT <i>Notes Payable</i> | | | | | ACCOUNT NO. 21 | |
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| ACCOUNT <i>Accounts Payable</i> | | | | | ACCOUNT NO. 22 | |
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| ACCOUNT <i>Common Stock</i> | | | | | ACCOUNT NO. 31 | |
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PROBLEM 2-3 ____, Continued

| ACCOUNT <i>Dividends</i> | | | | | ACCOUNT NO. 33 | | |
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| ACCOUNT <i>Fees Earned</i> | | | | | ACCOUNT NO. 41 | | |
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| ACCOUNT <i>Wages Expense</i> | | | | | ACCOUNT NO. 51 | | |
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| ACCOUNT <i>Rent Expense</i> | | | | | ACCOUNT NO. 53 | | |
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| ACCOUNT <i>Utilities Expense</i> | | | | | ACCOUNT NO. 54 | | |
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PROBLEM 2-3____, Continued

| ACCOUNT <i>Truck Expense</i> | | | | | ACCOUNT NO. 55 | |
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| ACCOUNT <i>Miscellaneous Expense</i> | | | | | ACCOUNT NO. 59 | |
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PROBLEM 2-4 ____

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PROBLEM 2-4____, Continued

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PROBLEM 2-4 ____, Continued

| ACCOUNT <i>Office Supplies</i> | | | | | ACCOUNT NO. 14 | |
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| ACCOUNT <i>Land</i> | | | | | ACCOUNT NO. 16 | |
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| ACCOUNT <i>Accounts Payable</i> | | | | | ACCOUNT NO. 21 | |
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| ACCOUNT <i>Unearned Rent</i> | | | | | ACCOUNT NO. 22 | |
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| ACCOUNT <i>Notes Payable</i> | | | | | ACCOUNT NO. 23 | |
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PROBLEM 2-4 ____, Continued

| ACCOUNT | | | | | <i>Common Stock</i> | | | ACCOUNT NO. 31 | |
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| ACCOUNT | | | | | <i>Retained Earnings</i> | | | ACCOUNT NO. 32 | |
|---------|------|------------|-------|--------|--------------------------|--|-------|----------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
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| ACCOUNT | | | | | <i>Dividends</i> | | | ACCOUNT NO. 33 | |
|---------|------|------------|-------|--------|------------------|--|-------|----------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
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| ACCOUNT | | | | | <i>Fees Earned</i> | | | ACCOUNT NO. 41 | |
|---------|------|------------|-------|--------|--------------------|--|-------|----------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
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| ACCOUNT | | | | | <i>Salary and Commission Expense</i> | | | ACCOUNT NO. 51 | |
|---------|------|------------|-------|--------|--------------------------------------|--|-------|----------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
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PROBLEM 2-4 ____, Continued

| ACCOUNT <i>Rent Expense</i> | | | | | ACCOUNT NO. 52 | |
|-----------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT <i>Advertising Expense</i> | | | | | ACCOUNT NO. 53 | |
|------------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT <i>Automobile Expense</i> | | | | | ACCOUNT NO. 54 | |
|-----------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT <i>Miscellaneous Expense</i> | | | | | ACCOUNT NO. 59 | |
|--------------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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PROBLEM 2-5 ____

1.

Corrected Unadjusted Trial Balance

| | DEBIT BALANCES | CREDIT BALANCES |
|--|-------------------|--------------------|
| <i>Cash</i> | | |
| <i>Accounts Receivable</i> | | |
| <i>Supplies</i> | | |
| <i>Prepaid Insurance</i> | | |
| <i>Equipment Notes</i> | | |
| <i>Payable Accounts</i> | | |
| <i>Payable Common</i> | | |
| <i>Stock Retained</i> | | |
| <i>Earnings</i> | | |
| <i>Dividends</i> | | |
| <i>Fees Earned Wages</i> | | |
| <i>Expense Rent</i> | | |
| <i>Expense Advertising</i> | | |
| <i>Expense</i> | | |
| <i>Gas, Electricity, and Water Expense</i> | | |
| <i>Miscellaneous Expense</i> | | |
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CONTINUING PROBLEM

2. and 3.

JOURNAL

PAGE 1

| | DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
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CONTINUING PROBLEM, Continued

JOURNAL

PAGE 2

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CONTINUING PROBLEM, Continued

JOURNAL

| | DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
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| 36 | | | | | | | 36 |
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CONTINUING PROBLEM, Continued

| ACCOUNT | | <i>Accounts Receivable</i> | | | ACCOUNT NO. 12 | | |
|---------|------|----------------------------|-------|--------|----------------|--------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | |
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| ACCOUNT | | <i>Supplies</i> | | | ACCOUNT NO. 14 | |
|---------|------|-----------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT | | <i>Prepaid Insurance</i> | | | ACCOUNT NO. 15 | |
|---------|------|--------------------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT | | <i>Office Equipment</i> | | | ACCOUNT NO. 17 | |
|---------|------|-------------------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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CONTINUING PROBLEM, Continued

| ACCOUNT <i>Accumulated Depreciation— Office Equipment</i> | | | | | ACCOUNT NO. 18 | |
|---|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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(This account is not used in Chapter 2.)

| ACCOUNT <i>Accounts Payable</i> | | | | | ACCOUNT NO. 21 | |
|---------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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| ACCOUNT <i>Wages Payable</i> | | | | | ACCOUNT NO. 22 | |
|------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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(This account is not used in Chapter 2.)

| ACCOUNT <i>Unearned Revenue</i> | | | | | ACCOUNT NO. 23 | |
|---------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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CONTINUING PROBLEM, Continued

| ACCOUNT | | | | | <i>Common Stock</i> | | | ACCOUNT NO. 31 | |
|---------|------|------------|-------|--------|---------------------|--|-------|----------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
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| ACCOUNT | | | | | <i>Dividends</i> | | | ACCOUNT NO. 33 | |
|---------|------|------------|-------|--------|------------------|--|-------|----------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
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| ACCOUNT | | | | | <i>Fees Earned</i> | | | ACCOUNT NO. 41 | |
|---------|------|------------|-------|--------|--------------------|--|-------|----------------|--|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | | DEBIT | CREDIT | |
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CONTINUING PROBLEM, Continued

| ACCOUNT <i>Wages Expense</i> | | | | | ACCOUNT NO. 50 | |
|------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT <i>Office Rent Expense</i> | | | | | ACCOUNT NO. 51 | |
|------------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT <i>Equipment Rent Expense</i> | | | | | ACCOUNT NO. 52 | |
|---------------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT <i>Utilities Expense</i> | | | | | ACCOUNT NO. 53 | |
|----------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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CONTINUING PROBLEM, Continued

| ACCOUNT <i>Music Expense</i> | | | | | ACCOUNT NO. <u>54</u> | |
|------------------------------|------|------------|-------|--------|-----------------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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| ACCOUNT <i>Advertising Expense</i> | | | | | ACCOUNT NO. <u>55</u> | |
|------------------------------------|------|------------|-------|--------|-----------------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT <i>Supplies Expense</i> | | | | | ACCOUNT NO. <u>56</u> | |
|---------------------------------|------|------------|-------|--------|-----------------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
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| ACCOUNT <i>Insurance Expense</i> | | | | | ACCOUNT NO. <u>57</u> | |
|----------------------------------|------|------------|-------|--------|-----------------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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(This account is not used in Chapter 2.)

CONTINUING PROBLEM, Continued

| ACCOUNT <i>Depreciation Expense</i> | | | | | ACCOUNT NO. 58 | |
|-------------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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(This account is not used in Chapter 2.)

| ACCOUNT <i>Miscellaneous Expense</i> | | | | | ACCOUNT NO. 59 | |
|--------------------------------------|------|------------|-------|--------|----------------|--------|
| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
| | | | | | DEBIT | CREDIT |
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INSTRUCTOR'S GUIDE

There are two options for using this practice set:

1. Business Forms
2. Narrative of Transactions

Either option or a combination of both options may be used. If you specify that only the business forms be used, you may ask students to hand in the Narrative of Transactions pages from Booklet 3 before they begin the practice set.

Business Forms Method

The Business Forms approach requires the student to analyze various business documents and decide how to enter the transactions in the journal. There are seven types of business forms:

1. Vendor Invoices for Purchases
2. Sales Invoices
3. Credit Memos
4. Checks from Customers
5. Interoffice Memos
6. Bank Deposit Slips
7. Checkbook

The documents are presented in Booklet 3 in order of occurrence, numbered 1 through 61. Some documents have accompanying notes to assist the student in analyzing how to record the transactions.

Narrative of Transactions Method

Using the Narrative of Transactions approach requires the student to enter each business transaction using the same method as the problems presented in the text. Each transaction is listed in order by date with all necessary information given in narrative form. The student analyzes the information given in each transaction and enters it in the appropriate journal.

Combining Methods

Since there are advantages to both methods, using both may be desirable. In this approach, students could use the business forms as the primary source of information and use the Narrative of Transactions to support the accuracy of their entries. This would allow students to experience the paper flow of a business and provide some assurance that entries contain the appropriate amounts.

Using Special Journals

This practice set utilizes special journals to record the daily transactions of the business. The journals are similar to those presented in the special journals online appendix to the text; however, they contain additional columns to accommodate entries for a merchandising operation, such as *Cost of Goods Sold* and *Inventory*. There are five types of journals contained in the practice set:

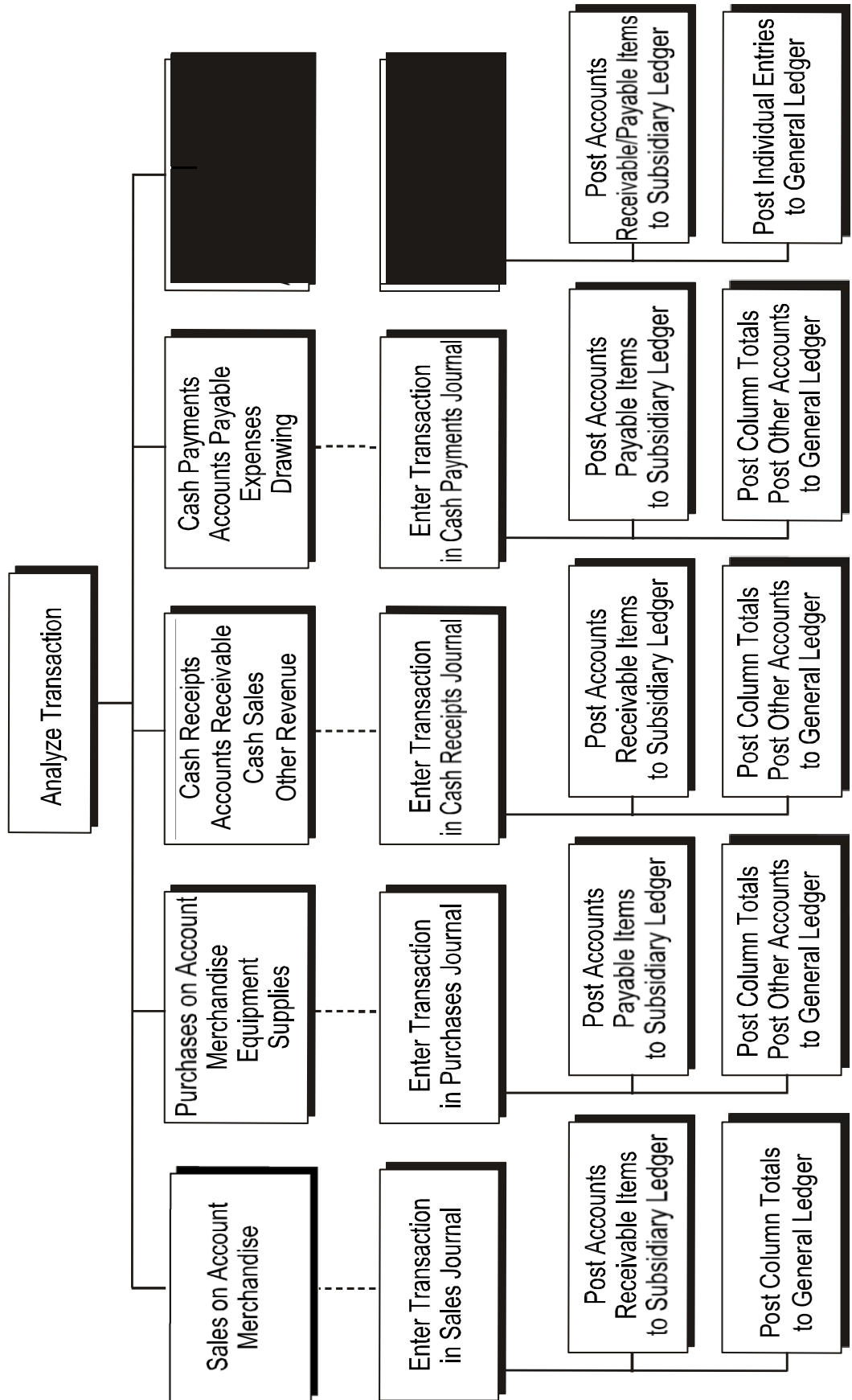
1. Revenue Journal (also called a Sales Journal)
2. Purchases Journal
3. Cash Payments Journal
4. Cash Receipts Journal
5. General (two-column) Journal

Pages 3 through 7 of this guide provide diagrams of the overall process of using these journals in a merchandising enterprise. Pages 4 through 7 diagram each type of special journal. These can be made into transparencies, if desired, and used to help guide the students through the various types of transactions contained in the set.

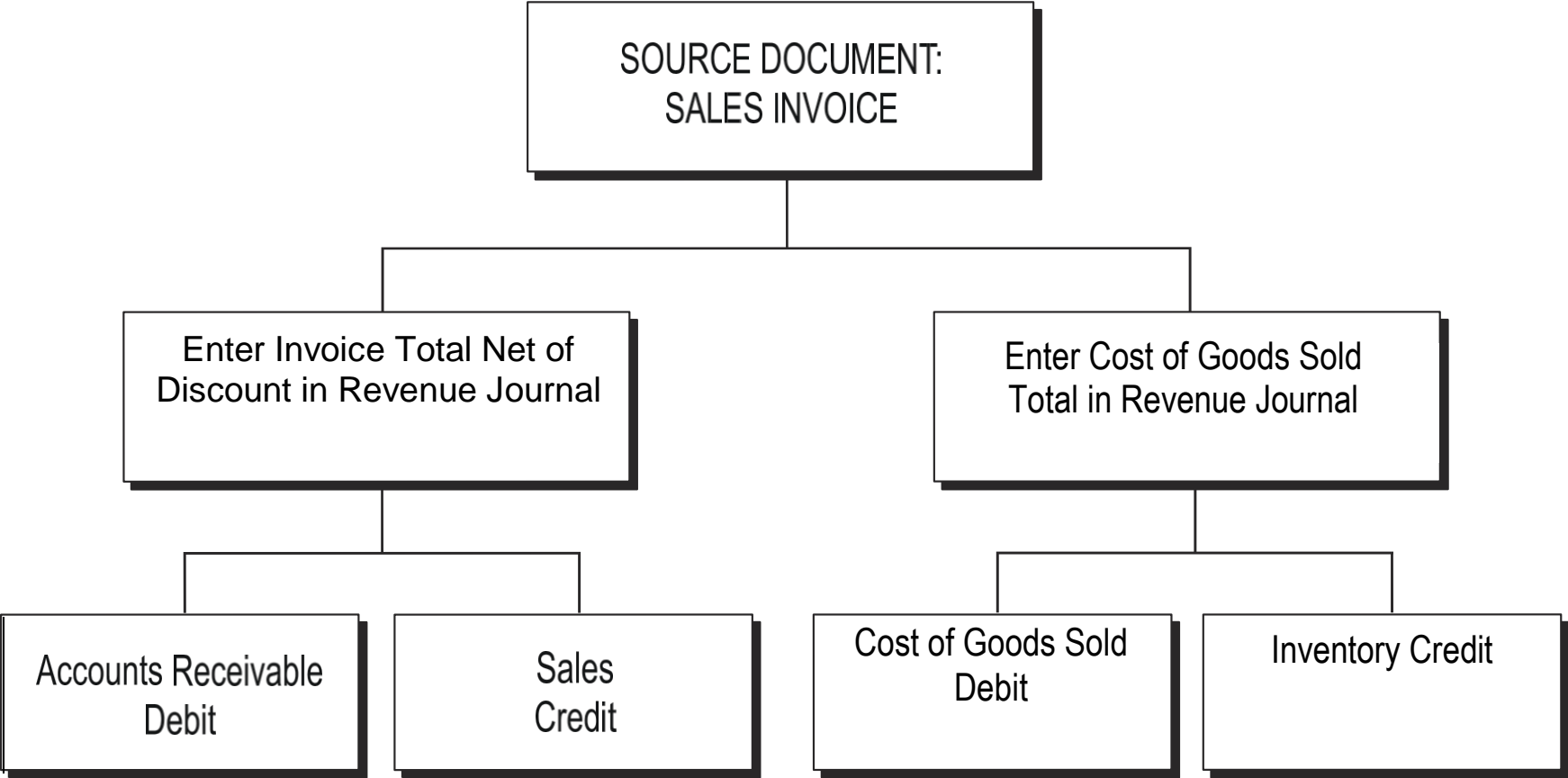
Analysis Test

A form for recording amounts in the practice set is also included on page 9 of this guide. This form may be copied and distributed to students, and you may instruct students to hand in a completed form with their completed set.

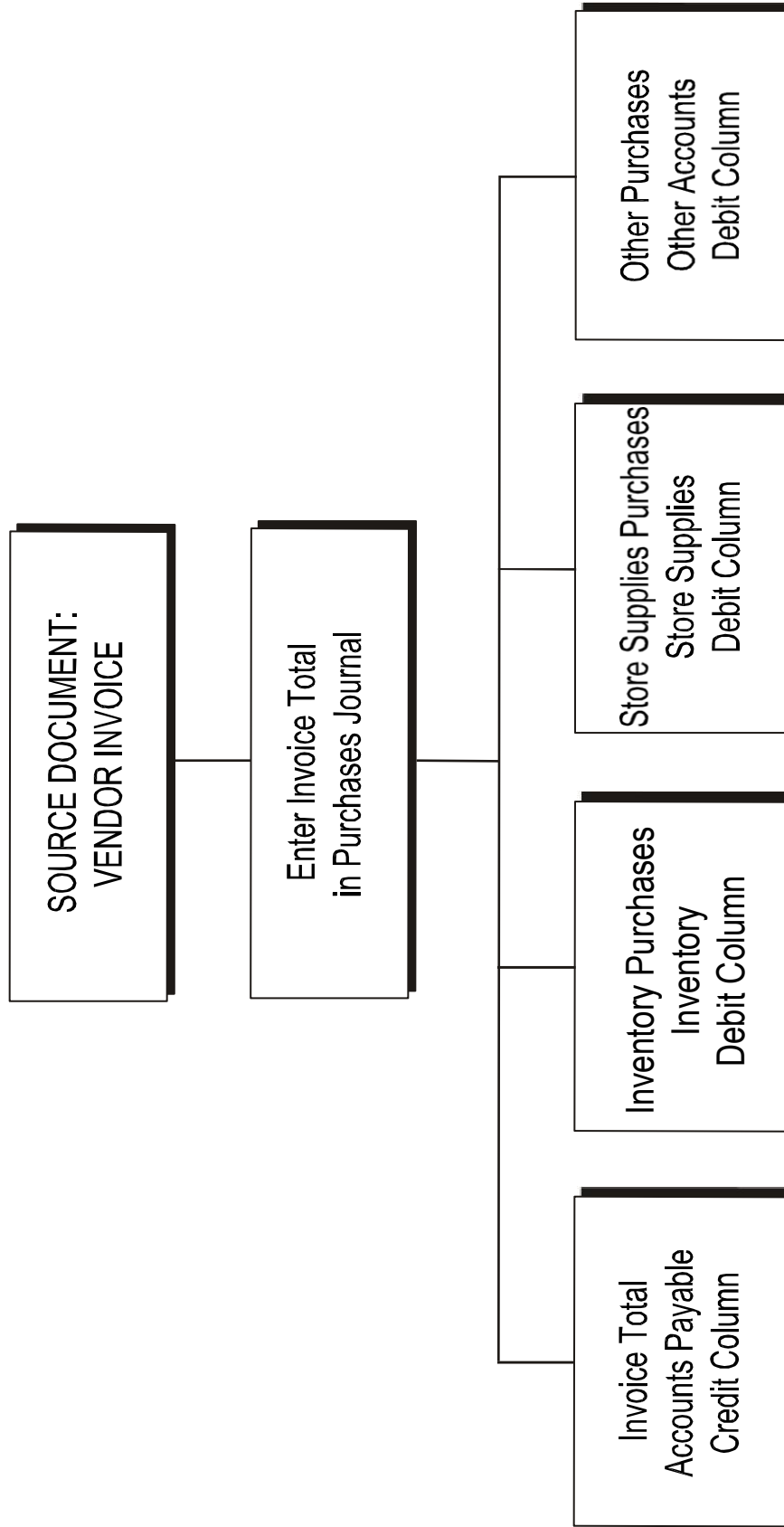
SPECIAL JOURNALS IN MERCHANDISING OPERATIONS



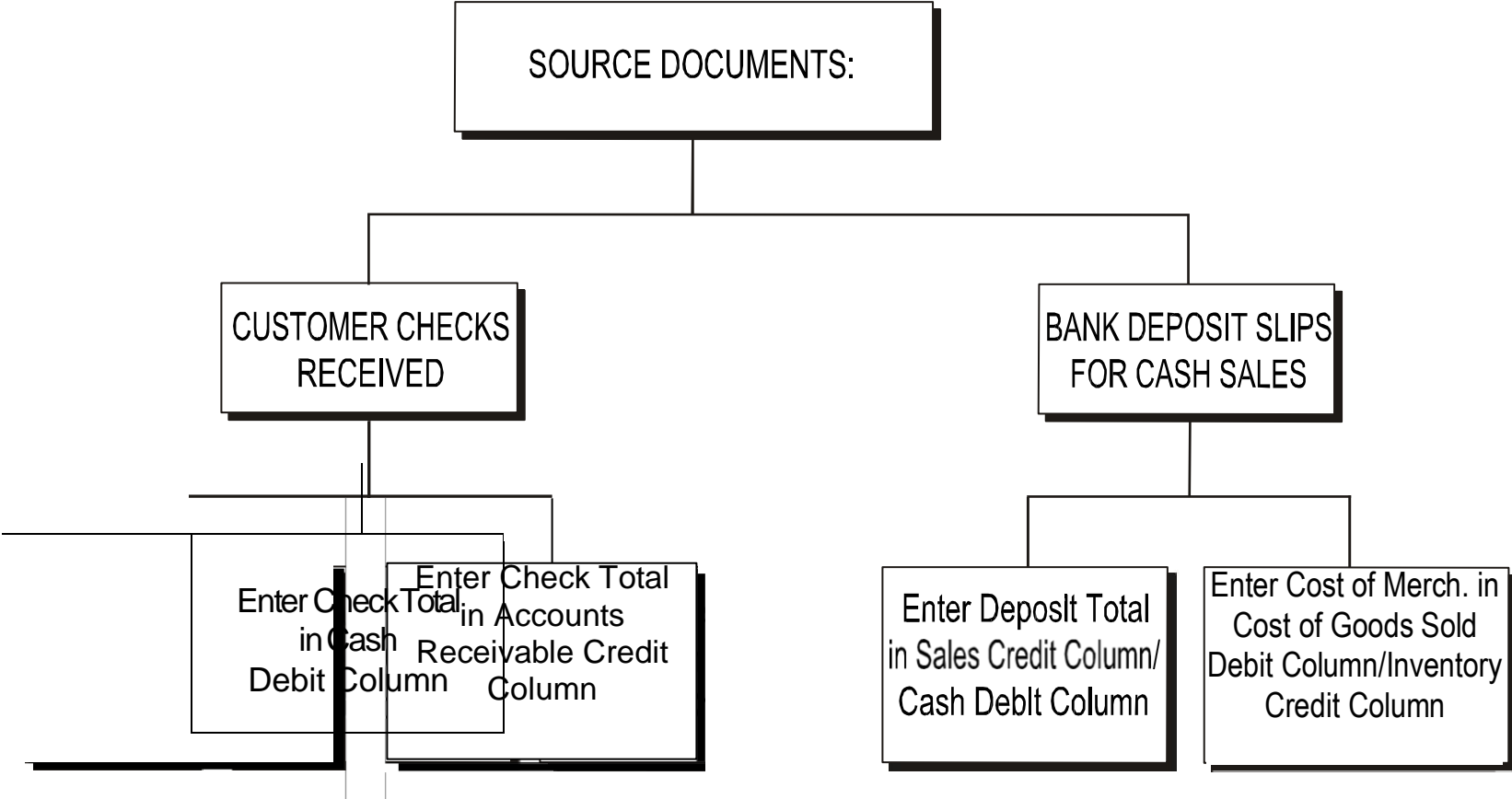
Revenue Journal



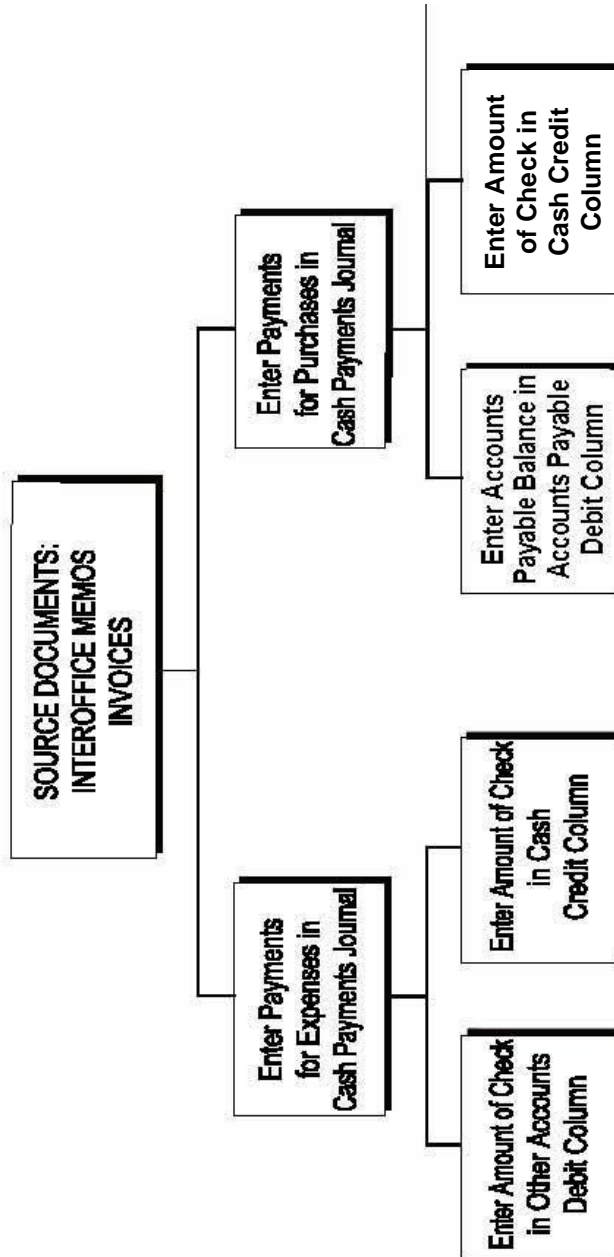
Purchases Journal



Cash Receipts Journal



Cash Payments Journal



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ANALYSIS TEST

Journals

| | | |
|----|---|----------|
| 1. | Total Merchandise Purchases during April | \$ _____ |
| 2. | Total Cash Sales during April | \$ _____ |
| 3. | Total Sales on Account for April | \$ _____ |
| 4. | Total Accounts Payable Credits during April | \$ _____ |

Accounts Receivable Ledger

| | | |
|----|---|----------|
| 5. | All Access Fitness Center Balance on April 30 | \$ _____ |
| 6. | Miami Health Club Balance on April 30 | \$ _____ |

Accounts Payable Ledger

| | | |
|----|---|----------|
| 7. | Alexus Fitness Connection Balance on April 30 | \$ _____ |
| 8. | Sports Magic Warehouse Balance on April 30 | \$ _____ |

Income Statement

| | | |
|-----|--------------------------|----------|
| 9. | Sales | \$ _____ |
| 10. | Cost of Goods Sold | \$ _____ |
| 11. | Gross Profit | \$ _____ |
| 12. | Total Operating Expenses | \$ _____ |
| 13. | Net Income | \$ _____ |

Statement of Owner's Equity

| | | |
|-----|--|----------|
| 14. | Change in Owner's Equity | \$ _____ |
| 15. | Ending Balance of Owner's Equity, April 30 | \$ _____ |

Balance Sheet

| | | |
|-----|--------------------------------------|----------|
| 16. | Total Current Assets | \$ _____ |
| 17. | Total Property, Plant, and Equipment | \$ _____ |
| 18. | Total Current Liabilities | \$ _____ |

Adjustments

| | | |
|-----|------------------------------------|----------|
| 19. | Adjustment to Office Supplies | \$ _____ |
| 20. | Adjustment to Prepaid Insurance | \$ _____ |
| 21. | Adjustment to Unearned Rent | \$ _____ |
| 22. | Adjustment for Inventory Shrinkage | \$ _____ |

Closing

| | | |
|-----|--|----------|
| 23. | Amount Closed to Capital from Income Summary | \$ _____ |
| 24. | Post-Closing Trial Balance Total | \$ _____ |
| 25. | Amount Closed from Drawing to Capital | \$ _____ |

S O L U T I O N S

REVENUE JOURNAL

| | DATE | INV. NO. | ACCOUNT DEBITED | POST. REF. | ACCOUNTS RECEIVABLE DEBIT | COST OF GOODS SOLD DEBIT | |
|----|-------|----------|-----------------|-------------------------------|---------------------------|--------------------------|----|
| | | | | | SALES CREDIT | INVENTORY CREDIT | |
| 1 | 20Y8 | | | | | | 1 |
| 2 | April | 1 | 301 | Miami Health Club | 5,301.60 | 3,864.00 | 2 |
| 3 | | 3 | 302 | All Access Fitness Center | 9,364.29 | 6,825.00 | 3 |
| 4 | | 5 | 303 | Westwood Boxing Gym | 27,306.48 | 19,903.68 | 4 |
| 5 | | 8 | 304 | The Sun Set Recreation Center | 21,756.88 | 15,858.00 | 5 |
| 6 | | 10 | 305 | Rockdale Gym | 13,373.86 | 9,412.00 | 6 |
| 7 | | 16 | 306 | Miami Health Club | 5,649.80 | 4,115.20 | 7 |
| 8 | | 23 | 307 | All Access Fitness Center | 13,770.64 | 10,040.00 | 8 |
| 9 | | 25 | 308 | Cory's Gym in the Grove | 5,186.36 | 3,780.00 | 9 |
| 10 | | 26 | 309 | Body Excellence Fitness Club | 3,789.17 | 2,640.00 | 10 |
| 11 | | 30 | | | 105,499.08 | 76,437.88 | 11 |
| 12 | | | | | (1112) (4100) | (5100) (1114) | 12 |

PURCHASES JOURNAL

| DATE | ACCOUNT CREDITED | POST. REF. | ACCOUNTS PAYABLE CREDIT | INVENTORY DEBIT | STORE SUPPLIES DEBIT | OTHER ACCOUNTS DEBIT | | | |
|-------|-------------------------------|------------|-------------------------|-----------------|----------------------|-------------------------------|------------|--------|----|
| | | | | | | ACCOUNT DEBITED | POST. REF. | AMOUNT | |
| 20Y8 | | | | | | | | | 1 |
| April | 1 Alexis Fitness Corporation | ✓ | 13,865.00 | 13,865.00 | | | | | 2 |
| | 5 Sports Magic Warehouse | ✓ | 49,519.75 | 49,519.75 | | | | | 3 |
| | 8 Fit & Fab Health Products | ✓ | 5,125.40 | 5,125.40 | | | | | 4 |
| | 9 Fizzy-Cal Network | ✓ | 11,400.00 | 9,600.00 | 1,800.00 | | | | 5 |
| | 16 Alexis Fitness Corporation | ✓ | 10,105.00 | 9,180.00 | 250.00 | Miscellaneous Selling Expense | 5290 | 675 | 6 |
| | 17 Sports Magic Warehouse | ✓ | 16,900.00 | 16,900.00 | | | | | 7 |
| | 20 Fizzy-Cal Network | ✓ | 5,350.00 | 5,125.00 | 225.00 | | | | 8 |
| | 22 HeartFit Enterprises | ✓ | 3,400.00 | 3,400.00 | | | | | 9 |
| | 22 Fizzy-Cal Network | ✓ | 10,800.00 | 10,800.00 | | | | | 10 |
| | 24 Sports Magic Warehouse | ✓ | 2,400.00 | 2,400.00 | | | | | 11 |
| | 30 | | 128,865.15 | 125,915.15 | 2,275.00 | | | 675.00 | 12 |
| | | | (2100) | (1115) | (1117) | | | (✓) | 13 |

CASH RECEIPTS JOURNAL

| DATE | ACCOUNT | POST. REF. | OTHER ACCOUNTS CREDIT | COST OF GOODS SOLD | | SALES CREDIT | ACCOUNTS RECEIVABLE CREDIT | CASH DEBIT | |
|---------|----------------------------------|------------|-----------------------|--------------------|--------|--------------|----------------------------|------------|----|
| | | | | DEBIT | CREDIT | | | | |
| 1 20Y8 | | | | | | | | | 1 |
| 2 April | 2 Body Excellence Fitness Club | ✓ | | | | | 14,406.00 | 14,406.00 | 2 |
| 3 | 3 Cory's Gym in the Grove | ✓ | | | | | 12,348.00 | 12,348.00 | 3 |
| 4 | 4 The Sun Set Recreation Center | ✓ | | | | | 6,174.00 | 6,174.00 | 4 |
| 5 | 6 Cash Sales | ✓ | | 18,024.00 | | 26,600.00 | | 26,600.00 | 5 |
| 6 | 8 Westwood Boxing Gym | ✓ | | | | | 8,232.00 | 8,232.00 | 6 |
| 7 | 8 Pine Bay Fitness Club | ✓ | | | | | 10,976.00 | 10,976.00 | 7 |
| 8 | 11 Store Supplies | 1117 | 300.00 | | | | | 300.00 | 8 |
| 9 | 11 Miami Health Club | ✓ | | | | | 5,301.60 | 5,301.60 | 9 |
| 10 | 12 All Access Fitness Center | ✓ | | | | | 9,364.29 | 9,364.29 | 10 |
| 11 | 13 Cash Sales | ✓ | | 24,910.80 | | 36,120.00 | | 36,120.00 | 11 |
| 12 | 15 Westwood Boxing Gym | ✓ | | | | | 27,306.48 | 27,306.48 | 12 |
| 13 | 18 The Sun Set Recreation Center | ✓ | | | | | 20,933.68 | 20,933.68 | 13 |
| 14 | 19 Rockdale Gym | ✓ | | | | | 13,373.86 | 13,373.86 | 14 |
| 15 | 20 Cash Sales | ✓ | | 19,292.80 | | 27,020.00 | | 27,020.00 | 15 |
| 16 | 30 Notes Receivable | 1111 | 3,000.00 | | | | | 3,060.00 | 16 |
| 17 | Interest Revenue | 6100 | 60.00 | | | | | | 17 |
| 18 | 30 Cash Sales | ✓ | | 19,099.20 | | 28,280.00 | | 28,280.00 | 18 |
| 19 | 30 | | 3,360.00 | 81,326.80 | | 118,020.00 | 128,415.91 | 249,795.91 | 19 |
| 20 | | | (✓) | (1114) (5100) | | (4100) | (1112) | (1110) | 20 |

CASH PAYMENTS JOURNAL

| | DATE | CK. NO. | ACCOUNT DEBITED | POST. REF. | OTHER ACCOUNTS DEBIT | ACCOUNTS PAYABLE DEBIT | CASH CREDIT | | |
|----|-------|---------|-----------------|--------------------------------------|----------------------|------------------------|-------------|------------|----|
| 1 | 20Y8 | | | | | | | 1 | |
| 2 | April | 1 | 2201 | Alexus Fitness Connection | ✓ | | 14,268.80 | 14,268.80 | 2 |
| 3 | | 2 | 2202 | Prepaid Insurance | 1118 | 5,700.00 | | 5,700.00 | 3 |
| 4 | | 3 | 2203 | Fizzy-Cal Network | ✓ | | 46,480.00 | 46,480.00 | 4 |
| 5 | | 4 | 2204 | HeartFit Enterprises | ✓ | | 14,000.00 | 14,000.00 | 5 |
| 6 | | 10 | 2205 | Miscellaneous Selling Expense | 5290 | 175.00 | | 175.00 | 6 |
| 7 | | 13 | 2206 | Sales Salaries Expense | 5200 | 8,000.00 | | | 7 |
| 8 | | | | Office Salaries Expense | 5300 | 5,000.00 | | 13,000.00 | 8 |
| 9 | | 17 | 2207 | Marty Chavez, Drawing | 3110 | 4,200.00 | | 4,200.00 | 9 |
| 10 | | 17 | 2208 | Advertising Expense | 5210 | 441.00 | | 441.00 | 10 |
| 11 | | 18 | 2209 | Fit & Fab Health Products | ✓ | | 4,267.90 | 4,267.90 | 11 |
| 12 | | 18 | 2210 | Muscles Rx Distributors | ✓ | | 53,200.00 | 53,200.00 | 12 |
| 13 | | 18 | 2211 | Advertising Expense | 5210 | 185.00 | | 185.00 | 13 |
| 14 | | 20 | 2212 | Miscellaneous Selling Expense | 5290 | 231.00 | | 231.00 | 14 |
| 15 | | 24 | 2213 | Miscellaneous Administrative Expense | 5390 | 287.00 | | 287.00 | 15 |
| 16 | | 26 | 2214 | Sales Salaries Expense | 5200 | 8,000.00 | | | 16 |
| 17 | | | | Office Salaries Expense | 5300 | 5,000.00 | | 13,000.00 | 17 |
| 18 | | 27 | 2215 | Miscellaneous Administrative Expense | 5390 | 340.00 | | 340.00 | 18 |
| 19 | | 27 | 2216 | Alexus Fitness Connection | ✓ | | 13,865.00 | 13,865.00 | 19 |
| 20 | | 27 | 2217 | Marty Chavez, Drawing | 3110 | 2,500.00 | | 2,500.00 | 20 |
| 21 | | 29 | 2218 | Miscellaneous Administrative Expense | 5390 | 204.00 | | | 21 |
| 22 | | | | Miscellaneous Selling Expense | 5290 | 408.00 | | 612.00 | 22 |
| 23 | | 29 | 2219 | Miscellaneous Administrative Expense | 5390 | 360.00 | | 360.00 | 23 |
| 24 | | 30 | 2220 | Interest Expense | 7100 | 700.00 | | 700.00 | 24 |
| 25 | | 30 | | | | 41,731.00 | 146,081.70 | 187,812.70 | 25 |
| 26 | | | | | (✓) | (2100) | (1110) | | 26 |

GENERAL JOURNAL

| | DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
|----|---------|--|------------|--------|--------|----|
| 1 | 20Y8 | | | | | 1 |
| 2 | April 9 | Customer Refunds Payable | 2120 | 823.20 | | 2 |
| 3 | | Accounts Rec./The Sun Set Rec. Center | 1112/√ | | 823.20 | 3 |
| 4 | | | | | | 4 |
| 5 | 9 | Inventory | 1114 | 600.00 | | 5 |
| 6 | | Estimated Returns Inventory | 1115 | | 600.00 | 6 |
| 7 | | | | | | 7 |
| 8 | 11 | Accounts Payable/Fit & Fab Health Products | 2100/√ | 857.50 | | 8 |
| 9 | | Inventory | 1114 | | 857.50 | 9 |
| 10 | | | | | | 10 |
| 11 | 19 | Customer Refunds Payable | 2120 | 416.50 | | 11 |
| 12 | | Accounts Receivable/Miami Health Club | 1112/√ | | 416.50 | 12 |
| 13 | | | | | | 13 |
| 14 | 19 | Inventory | 1114 | 304.00 | | 14 |
| 15 | | Estimated Returns Inventory | 1115 | | 304.00 | 15 |
| 16 | | | | | | 16 |
| 17 | 25 | Accounts Payable/HeartFit Enterprises | 2100/√ | 400.00 | | 17 |
| 18 | | Inventory | 1114 | | 400.00 | 18 |

GENERAL JOURNAL

| | DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
|----|----------|------------------------------------|------------|----------|----------|----|
| 1 | 20Y8 | Adjusting Entries | | | | 1 |
| 2 | April 30 | Cost of Goods Sold | 5100 | 142.22 | | 2 |
| 3 | | Inventory | 1114 | | 142.22 | 3 |
| 4 | | | | | | 4 |
| 5 | 30 | Office Supplies Expense | 5340 | 500.00 | | 5 |
| 6 | | Office Supplies | 1116 | | 500.00 | 6 |
| 7 | | | | | | 7 |
| 8 | 30 | Store Supplies Expense | 5220 | 650.00 | | 8 |
| 9 | | Store Supplies | 1117 | | 650.00 | 9 |
| 10 | | | | | | 10 |
| 11 | 30 | Insurance Expense | 5330 | 475.00 | | 11 |
| 12 | | Prepaid Insurance | 1118 | | 475.00 | 12 |
| 13 | | | | | | 13 |
| 14 | 30 | Depreciation Expense—Equipment | 5320 | 1,250.00 | | 14 |
| 15 | | Accumulated Depreciation—Equipment | 1125 | | 1,250.00 | 15 |
| 16 | | | | | | 16 |
| 17 | 30 | Depreciation Expense—Building | 5350 | 2,475.00 | | 17 |
| 18 | | Accumulated Depreciation—Building | 1123 | | 2,475.00 | 18 |
| 19 | | | | | | 19 |
| 20 | 30 | Interest Receivable | 1113 | 30.00 | | 20 |
| 21 | | Interest Revenue | 6100 | | 30.00 | 21 |
| 22 | | | | | | 22 |
| 23 | 30 | Sales Salaries Expense | 5200 | 1,200.00 | | 23 |
| 24 | | Office Salaries Expense | 5300 | 500.00 | | 24 |
| 25 | | Salaries Payable | 2110 | | 1,700.00 | 25 |
| 26 | | | | | | 26 |
| 27 | 30 | Sales | 4100 | 4,470.00 | | 27 |
| 28 | | Customer Refunds Payable | 2120 | | 4,470.00 | 28 |
| 29 | | | | | | 29 |
| 30 | 30 | Estimated Returns Inventory | 1115 | 3,190.00 | | 30 |
| 31 | | Cost of Goods Sold | 5100 | | 3,190.00 | 31 |
| 32 | | | | | | 32 |
| 33 | | | | | | 33 |
| 34 | | | | | | 34 |
| 35 | | | | | | 35 |

GENERAL JOURNAL

| | DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
|----|---------|--------------------------------------|------------|------------|------------|----|
| 1 | 20Y8 | Closing Entries | | | | 1 |
| 2 | Apr. 30 | Sales | 4100 | 219,049.08 | | 2 |
| 3 | | Interest Revenue | 6100 | 90.00 | | 3 |
| 4 | | Income Summary | 3120 | | 219,139.08 | 4 |
| 5 | | | | | | 5 |
| 6 | 30 | Income Summary | 3120 | 191,772.90 | | 6 |
| 7 | | Cost of Goods Sold | 5100 | | 154,716.90 | 7 |
| 8 | | Sales Salaries Expense | 5200 | | 17,200.00 | 8 |
| 9 | | Advertising Expense | 5210 | | 626.00 | 9 |
| 10 | | Store Supplies Expense | 5220 | | 650.00 | 10 |
| 11 | | Miscellaneous Selling Expense | 5290 | | 1,489.00 | 11 |
| 12 | | Office Salaries Expense | 5300 | | 10,500.00 | 12 |
| 13 | | Depreciation Expense—Equipment | 5320 | | 1,250.00 | 13 |
| 14 | | Insurance Expense | 5330 | | 475.00 | 14 |
| 15 | | Office Supplies Expense | 5340 | | 500.00 | 15 |
| 16 | | Depreciation Expense—Building | 5350 | | 2,475.00 | 16 |
| 17 | | Miscellaneous Administrative Expense | 5390 | | 1,191.00 | 17 |
| 18 | | Interest Expense | 7100 | | 700.00 | 18 |
| 19 | | | | | | 19 |
| 20 | 30 | Income Summary | 3120 | 27,366.18 | | 20 |
| 21 | | Marty Chavez, Capital | 3100 | | 27,366.18 | 21 |
| 22 | | | | | | 22 |
| 23 | 30 | Marty Chavez, Capital | 3100 | 6,700.00 | | 23 |
| 24 | | Marty Chavez, Drawing | 3110 | | 6,700.00 | 24 |
| 25 | | | | | | 25 |
| 26 | | | | | | 26 |
| 27 | | | | | | 27 |
| 28 | | | | | | 28 |

GENERAL LEDGER

ACCOUNT *Cash*

ACCOUNT NO. *1110*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|---------|------------|------------|------------|------------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 84,147.80 | |
| | 30 | CR2 | 249,795.91 | | 333,943.71 | |
| | 30 | CP2 | | 187,812.70 | 146,131.01 | |

ACCOUNT *Notes Receivable*

ACCOUNT NO. *1111*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|---------|------------|-------|----------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 9,800.00 | |
| | 30 | CR2 | | 3,000.00 | 6,800.00 | |

ACCOUNT *Accounts Receivable*

ACCOUNT NO. *1112*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|---------|------------|------------|------------|------------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 52,136.00 | |
| | 9 | J5 | | 823.20 | 51,312.80 | |
| | 19 | J5 | | 416.50 | 50,896.30 | |
| | 30 | R2 | 105,499.08 | | 156,395.38 | |
| | 30 | CR2 | | 128,415.91 | 27,979.47 | |

ACCOUNT *Interest Receivable*

ACCOUNT NO. *1113*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|-----------|------------|-------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 30 | Adjusting | J6 | 30.00 | | 30.00 | |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|-----------|------------|------------|-----------|------------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 240,900.00 | |
| 9 | | J5 | 600.00 | | 241,500.00 | |
| 11 | | J5 | | 857.50 | 240,642.50 | |
| 19 | | J5 | 304.00 | | 240,946.50 | |
| 25 | | J5 | | 400.00 | 240,546.50 | |
| 30 | | R2 | | 76,437.88 | 164,108.62 | |
| 30 | | P2 | 125,915.15 | | 290,023.77 | |
| 30 | | CR2 | | 81,326.80 | 208,696.97 | |
| 30 | Adjusting | J6 | | 142.22 | 208,554.75 | |

ACCOUNT *Estimated Returns Inventory*

ACCOUNT NO. *1115*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|-----------|------------|----------|--------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 2,357.00 | |
| 9 | | J5 | | 600.00 | 1,757.00 | |
| 19 | | J5 | | 304.00 | 1,453.00 | |
| 30 | Adjusting | J6 | 3,190.00 | | 4,643.00 | |

ACCOUNT *Office Supplies*

ACCOUNT NO. *1116*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|-----------|------------|-------|--------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 2,100.00 | |
| 30 | Adjusting | J6 | | 500.00 | 1,600.00 | |

ACCOUNT *Store Supplies*

ACCOUNT NO. *1117*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|-----------|------------|----------|--------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 1,680.00 | |
| 11 | | CR2 | | 300.00 | 1,380.00 | |
| 30 | | P2 | 2,275.00 | | 3,655.00 | |
| 30 | Adjusting | J6 | | 650.00 | 3,005.00 | |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|--------------|------------|----------|--------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 2 | | CP2 | 5,700.00 | | 5,700.00 | |
| | 30 Adjusting | J6 | | 475.00 | 5,225.00 | |

ACCOUNT *Land*

ACCOUNT NO. 1120

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|---------|------------|-------|--------|------------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 210,000.00 | |

ACCOUNT *Building*

ACCOUNT NO. 1122

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|---------|------------|-------|--------|------------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 439,000.00 | |

ACCOUNT *Accumulated Depreciation—Building*

ACCOUNT NO. 1123

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|--------------|------------|-------|----------|---------|------------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | | 140,200.00 |
| | 30 Adjusting | J6 | | 2,475.00 | | 142,675.00 |

ACCOUNT *Equipment*

ACCOUNT NO. 1124

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|---------|------------|-------|--------|-----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | 98,350.00 | |

ACCOUNT *Accumulated Depreciation—Equipment*

ACCOUNT NO. 1125

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|--------|--------------|------------|-------|----------|---------|-----------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 1 | Balance | ✓ | | | | 34,540.00 |
| | 30 Adjusting | J6 | | 1,250.00 | | 35,790.00 |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|------------|------------|------------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 1 | Balance | ✓ | | | 127,948.80 |
| | 11 | | J5 | 857.50 | | 127,091.30 |
| | 25 | | J5 | 400.00 | | 126,691.30 |
| | 30 | | P2 | | 128,865.15 | 255,556.45 |
| | 30 | | CP2 | 146,081.70 | | 109,474.75 |

ACCOUNT *Salaries Payable*ACCOUNT NO. *2110*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|--------|----------|----------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 30 | Adjusting | J6 | | 1,700.00 | 1,700.00 |

ACCOUNT *Customer Refunds Payable*ACCOUNT NO. *2120*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|--------|----------|----------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 1 | Balance | ✓ | | | 3,300.00 |
| | 9 | | J5 | 823.20 | | 2,476.80 |
| | 19 | | J5 | 416.50 | | 2,060.30 |
| | 30 | Adjusting | J6 | | 4,470.00 | 6,530.30 |

ACCOUNT *Notes Payable*ACCOUNT NO. *2150*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|--------|---------|------------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 1 | Balance | ✓ | | | 168,000.00 |

ACCOUNT *Marty Chavez, Capital*ACCOUNT NO. *3100*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|----------|-----------|------------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 1 | Balance | ✓ | | | 666,482.00 |
| | 30 | Closing | J7 | | 27,366.18 | 693,848.18 |
| | 30 | Closing | J7 | 6,700.00 | | 687,148.18 |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------|------------|----------|----------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 17 | | CP2 | 4,200.00 | | 4,200.00 | |
| | 27 | CP2 | 2,500.00 | | 6,700.00 | |
| | 30 | Closing | | 6,700.00 | — | — |

ACCOUNT *Income Summary*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|---------|------------|------------|------------|---------|------------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 30 | Closing | J7 | | 219,139.08 | | 219,139.08 |
| | 30 | Closing | 191,772.90 | | | 27,366.18 |
| | 30 | Closing | 27,366.18 | | — | — |

ACCOUNT *Sales*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------|------------|------------|------------|---------|------------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 30 | | R2 | | 105,499.08 | | 105,499.08 |
| | 30 | CR2 | | 118,020.00 | | 223,519.08 |
| | 30 | Adjusting | 4,470.00 | | | 219,049.08 |
| | 30 | Closing | 219,049.08 | | — | — |

ACCOUNT *Cost of Goods Sold*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------|------------|-----------|------------|------------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 30 | | R2 | 76,437.88 | | 76,437.88 | |
| | 30 | CR2 | 81,326.80 | | 157,764.68 | |
| | 30 | Adjusting | 142.22 | | 157,906.90 | |
| | 30 | Adjusting | | 3,190.00 | 154,716.90 | |
| | 30 | Closing | | 154,716.90 | — | — |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------|--------------|----------|-----------|-----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 13 | | CP2 | 8,000.00 | | 8,000.00 | |
| | 26 | CP2 | 8,000.00 | | 16,000.00 | |
| | 30 | Adjusting J6 | 1,200.00 | | 17,200.00 | |
| | 30 | Closing J7 | | 17,200.00 | — | — |

ACCOUNT *Advertising Expense*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------|------------|--------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 17 | | CP2 | 441.00 | | 441.00 | |
| | 18 | CP2 | 185.00 | | 626.00 | |
| | 30 | Closing J7 | | 626.00 | — | — |

ACCOUNT *Store Supplies Expense*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|-----------|------------|--------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 30 | Adjusting | J6 | 650.00 | | 650.00 | |
| | 30 | Closing J7 | | 650.00 | — | — |

ACCOUNT *Miscellaneous Selling Expense*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------|------------|--------|----------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 10 | | CP2 | 175.00 | | 175.00 | |
| | 16 | P2 | 675.00 | | 850.00 | |
| | 20 | CP2 | 231.00 | | 1,081.00 | |
| | 29 | CP2 | 408.00 | | 1,489.00 | |
| | 30 | Closing J7 | | 1,489.00 | — | — |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------|------------|----------|-----------|-----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 13 | | CP2 | 5,000.00 | | 5,000.00 | |
| | 26 | CP2 | 5,000.00 | | 10,000.00 | |
| | 30 | Adjusting | 500.00 | | 10,500.00 | |
| | 30 | Closing | | 10,500.00 | — | — |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|-----------|------------|----------|----------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 30 | Adjusting | J6 | 1,250.00 | | 1,250.00 | |
| | Closing | J7 | | 1,250.00 | — | — |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|-----------|------------|--------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 30 | Adjusting | J6 | 475.00 | | 475.00 | |
| | 30 | Closing | | 475.00 | — | — |

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|-----------|------------|--------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. 30 | Adjusting | J6 | 500.00 | | 500.00 | |
| | 30 | Closing | | 500.00 | — | — |

ACCOUNT *Depreciation Expense—Building*ACCOUNT NO. **5350**

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|--------------|------------|----------|----------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 30 Adjusting | J6 | 2,475.00 | | 2,475.00 | |
| | 30 Closing | J7 | | 2,475.00 | — | — |

ACCOUNT *Miscellaneous Administrative Expense*ACCOUNT NO. **5390**

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------------|------------|--------|----------|----------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 24 | CP2 | 287.00 | | 287.00 | |
| | 27 | CP2 | 340.00 | | 627.00 | |
| | 29 | CP2 | 204.00 | | 831.00 | |
| | 29 | CP2 | 360.00 | | 1,191.00 | |
| | 30 Closing | J7 | | 1,191.00 | — | — |

ACCOUNT *Interest Revenue*ACCOUNT NO. **6100**

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|--------------|------------|-------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 30 | CR2 | | 60.00 | | 60.00 |
| | 30 Adjusting | J6 | | 30.00 | | 90.00 |
| | 30 Closing | J7 | 90.00 | | — | — |

ACCOUNT *Interest Expense*ACCOUNT NO. **7100**

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------------|------------|--------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| 20Y8 | | | | | | |
| Apr. | 30 | CP2 | 700.00 | | 700.00 | |
| | 30 Closing | J7 | | 700.00 | — | — |

ACCOUNTS RECEIVABLE LEDGER

NAME *All Access Fitness Center*

ADDRESS *1 South Park Blvd., South Miami, FL 33143*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|--------|------|------------|-----------|----------|-----------|
| 20Y8 | | | | | |
| Apr. 3 | | R2 | 9,364.29 | | 9,364.29 |
| 12 | | CR2 | | 9,364.29 | — |
| 23 | | R2 | 13,770.64 | | 13,770.64 |

NAME *Body Excellence Fitness Club*

ADDRESS *9 Key Biscayne Ave., Suite 100, Key Biscayne, FL 33149*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|--------|---------|------------|----------|-----------|-----------|
| 20Y8 | | | | | |
| Apr. 1 | Balance | ✓ | | | 14,406.00 |
| 2 | | CR2 | | 14,406.00 | — |
| 26 | | R2 | 3,789.17 | | 3,789.17 |

NAME *Cory's Gym in the Grove*

ADDRESS *20 Main Highway, Coconut Grove, FL 33133*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|--------|---------|------------|----------|-----------|-----------|
| 20Y8 | | | | | |
| Apr. 1 | Balance | ✓ | | | 12,348.00 |
| 3 | | CR2 | | 12,348.00 | — |
| 25 | | R2 | 5,186.36 | | 5,186.36 |

NAME *Miami Health Club*

ADDRESS *8050 SW 8th Street, Miami, FL 33130*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|--------|------|------------|----------|----------|----------|
| 20Y8 | | | | | |
| Apr. 1 | | R2 | 5,301.60 | | 5,301.60 |
| 11 | | CR2 | | 5,301.60 | — |
| 16 | | R2 | 5,649.80 | | 5,649.80 |
| 19 | | J5 | | 416.50 | 5,233.30 |

NAME *Pine Bay Fitness Club*

ADDRESS *8 SW 57th Ave., Miami, FL 33156*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|------|------|------------|-------|-----------|-----------|
| 20Y8 | | | | | |
| Apr. | 1 | Balance | ✓ | | 10,976.00 |
| | 8 | | CR2 | 10,976.00 | — |

NAME *Rockdale Gym*

ADDRESS *162 S. Dixie Hwy., Rockdale, FL 33157*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|------|------|------------|-------|-----------|-----------|
| 20Y8 | | | | | |
| Apr. | 10 | | R2 | 13,373.86 | 13,373.86 |
| | 26 | | CR2 | 13,373.86 | — |

NAME *The Sun Set Recreation Center*

ADDRESS *50 Snapper Creek Dr., Sunset, FL 33173*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|------|------|------------|-------|-----------|-----------|
| 20Y8 | | | | | |
| Apr. | 1 | Balance | ✓ | | 6,174.00 |
| | 4 | | CR2 | 6,174.00 | — |
| | 8 | | R2 | 21,756.88 | 21,756.88 |
| | 9 | | J5 | 823.20 | 20,933.68 |
| | 18 | | CR2 | 20,933.68 | — |

NAME *Westwood Boxing Gym*

ADDRESS *50 Westwood Lake Dr., Miami, FL 33165*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|------|------|------------|-------|-----------|-----------|
| 20Y8 | | | | | |
| Apr. | 1 | Balance | ✓ | | 8,232.00 |
| | 11 | | R2 | 27,306.48 | 35,538.48 |
| | 16 | | CR2 | 8,232.00 | 27,306.48 |
| | 19 | | CR2 | 27,306.48 | — |

ACCOUNTS PAYABLE LEDGER

NAME *Alexus Fitness Connection*

ADDRESS *100 Coral Way, Miami, FL 33129*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|-------|------------------|------------|-----------|-----------|-----------|
| 20Y8 | | | | | |
| April | 1 <i>Balance</i> | ✓ | | | 14,268.80 |
| | 1 | P2 | | 13,865.00 | 28,133.80 |
| | 1 | CP2 | 14,268.80 | | 13,865.00 |
| | 16 | P2 | | 10,105.00 | 23,970.00 |
| | 27 | CP2 | 13,865.00 | | 10,105.00 |

NAME *Fit & Fab Health Products*

ADDRESS *15 Park Avenue, 115th Floor, New York, NY 10154*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|-------|------|------------|----------|----------|----------|
| 20Y8 | | | | | |
| April | 8 | P2 | | 5,125.40 | 5,125.40 |
| | 11 | J5 | 857.50 | | 4,267.90 |
| | 18 | CP2 | 4,267.90 | | — |

NAME *Fizzy-Cal Network*

ADDRESS *45 Caribbean Avenue, Los Angeles, CA 90001*

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|-------|------------------|------------|-----------|-----------|-----------|
| 20Y8 | | | | | |
| April | 1 <i>Balance</i> | ✓ | | | 46,480.00 |
| | 3 | CP2 | 46,480.00 | | — |
| | 9 | P2 | | 11,400.00 | 11,400.00 |
| | 20 | P2 | | 5,350.00 | 16,750.00 |
| | 22 | P2 | | 10,800.00 | 27,550.00 |

NAME HeartFit Enterprises

ADDRESS 15 Brickell Ave. #150, Miami, FL 33129

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|-------|-----------|------------|-----------|----------|-----------|
| 20Y8 | | | | | |
| April | 1 Balance | ✓ | | | 14,000.00 |
| | 4 | CP2 | 14,000.00 | | — |
| | 22 | P2 | | 3,400.00 | 3,400.00 |
| | 25 | J5 | 400.00 | | 3,000.00 |

NAME Muscles R_x Distributors

ADDRESS 80 Commercial Blvd., Fort Lauderdale, FL 33310

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|-------|-----------|------------|-----------|--------|-----------|
| 20Y8 | | | | | |
| April | 1 Balance | ✓ | | | 53,200.00 |
| | 18 | CP2 | 53,200.00 | | — |

NAME Sports Magic Warehouse

ADDRESS 246 Santa Monica Blvd., Santa Monica, CA 90403

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE |
|-------|------|------------|-------|-----------|-----------|
| 20Y8 | | | | | |
| April | 5 | P2 | | 49,519.75 | 49,519.75 |
| | 17 | P2 | | 16,900.00 | 66,419.75 |
| | 24 | P2 | | 2,400.00 | 68,819.75 |

| |
|------------------------------|
| Fit & Fashionable |
| DEPOSIT TICKETS |

April 6

| | | |
|----------------|-------------------------------|-----------|
| CHECKS: | Body Excellence Fitness Club | 14,406.00 |
| | Cory's Gym in the Grove | 12,348.00 |
| | The Sun Set Recreation Center | 6,174.00 |
| | TOTAL | 32,928.00 |

April 13

| | | |
|----------------|---------------------------|-----------|
| CHECKS: | Westwood Boxing Gym | 8,232.00 |
| | Pine Bay Fitness Club | 10,976.00 |
| | SupplyMax | 300.00 |
| | Miami Health Club | 5,301.60 |
| | All Access Fitness Center | 9,364.29 |
| | TOTAL | 34,173.89 |

April 20

| | | |
|----------------|-------------------------------|-----------|
| CHECKS: | Westwood Boxing Gym | 27,306.48 |
| | The Sun Set Recreation Center | 20,933.68 |
| | Rockdale Gym | 13,373.86 |
| | TOTAL | 61,614.02 |

April 30

| | | |
|----------------|------------------------|----------|
| CHECKS: | Blue Water Enterprises | 3,060.00 |
| | TOTAL | 3,060.00 |

| Fit & Fashionable | | | | |
|------------------------------|------|--------------|-----------|------------|
| CHECK STUBS FOR APRIL | | | | |
| Check Number | Date | Check Amount | Deposits | Balance |
| | | | | 84,147.80 |
| 2201 | 1 | 14,268.80 | | 69,879.00 |
| 2202 | 2 | 5,700.00 | | 64,179.00 |
| 2203 | 3 | 46,480.00 | | 17,699.00 |
| 2204 | 4 | 14,000.00 | | 3,699.00 |
| | 6 | | 26,600.00 | 30,299.00 |
| | 6 | | 32,928.00 | 63,227.00 |
| 2205 | 10 | 175.00 | | 63,052.00 |
| 2206 | 13 | 13,000.00 | | 50,052.00 |
| | 13 | | 36,120.00 | 86,172.00 |
| | 13 | | 34,173.89 | 120,345.89 |
| 2207 | 17 | 4,200.00 | | 116,145.89 |
| 2208 | 17 | 441.00 | | 115,704.89 |
| 2209 | 18 | 4,267.90 | | 111,436.99 |
| 2210 | 18 | 53,200.00 | | 58,236.99 |
| 2211 | 18 | 185.00 | | 58,051.99 |
| 2212 | 20 | 231.00 | | 57,820.99 |
| | 20 | | 27,020.00 | 84,840.99 |
| | 20 | | 61,614.02 | 146,455.01 |
| 2213 | 24 | 287.00 | | 146,168.01 |
| 2214 | 26 | 13,000.00 | | 133,168.01 |
| 2215 | 27 | 340.00 | | 132,828.01 |
| 2216 | 27 | 13,865.00 | | 118,963.01 |
| 2217 | 27 | 2,500.00 | | 116,463.01 |
| 2218 | 29 | 612.00 | | 115,851.01 |
| 2219 | 29 | 360.00 | | 115,491.01 |
| 2220 | 30 | 700.00 | | 114,791.01 |
| | 30 | | 28,280.00 | 143,071.01 |
| | 30 | | 3,060.00 | 146,131.01 |

| <i>Fit & Fashionable</i> | |
|--|--------------|
| <i>Schedule of Accounts Receivable</i> | |
| <i>April 30, 20Y8</i> | |
| All Access Fitness Center | \$ 13,770.64 |
| Body Excellence Fitness Club | 3,789.17 |
| Cory's Gym in the Grove | 5,186.36 |
| Miami Health Club | 5,233.30 |
| Total Accounts Receivable | \$ 27,979.47 |
| | |

| <i>Fit & Fashionable</i> | |
|-------------------------------------|---------------|
| <i>Schedule of Accounts Payable</i> | |
| <i>April 30, 20Y8</i> | |
| Alexus Fitness Connection | \$ 10,105.00 |
| Fizzy-Cal Network | 27,550.00 |
| HeartFit Enterprises | 3,000.00 |
| Sports Magic Warehouse | 68,819.75 |
| Total Accounts Payable | \$ 109,474.75 |
| | |

| <i>Fit & Fashionable</i> | | | |
|--------------------------------------|-----------|----------------|-----------------|
| <i>Trial Balance (Preadjusting)</i> | | | |
| <i>April 30, 20Y8</i> | | | |
| ACCOUNT | ACCT. NO. | DEBIT BALANCES | CREDIT BALANCES |
| Cash | 1110 | 146,131.01 | |
| Notes Receivable | 1111 | 6,800.00 | |
| Accounts Receivable | 1112 | 27,979.47 | |
| Interest Receivable | 1113 | | |
| Inventory | 1114 | 208,696.97 | |
| Estimated Returns Inventory | 1115 | 1,453.00 | |
| Office Supplies | 1116 | 2,100.00 | |
| Store Supplies | 1117 | 3,655.00 | |
| Prepaid Insurance | 1118 | 5,700.00 | |
| Land | 1120 | 210,000.00 | |
| Building | 1122 | 439,000.00 | |
| Accumulated Depreciation—Building | 1123 | | 140,200.00 |
| Equipment | 1124 | 98,350.00 | |
| Accumulated Depreciation—Equipment | 1125 | | 34,540.00 |
| Accounts Payable | 2100 | | 109,474.75 |
| Salaries Payable | 2110 | | |
| Customer Refunds Payable | 2120 | | 2,060.30 |
| Notes Payable | 2150 | | 168,000.00 |
| Marty Chavez, Capital | 3100 | | 666,482.00 |
| Marty Chavez, Drawing | 3110 | 6,700.00 | |
| Sales | 4100 | | 223,519.08 |
| Cost of Goods Sold | 5100 | 157,764.68 | |
| Sales Salaries Expense | 5200 | 16,000.00 | |
| Advertising Expense | 5210 | 626.00 | |
| Store Supplies Expense | 5220 | | |
| Miscellaneous Selling Expense | 5290 | 1,489.00 | |
| Office Salaries Expense | 5300 | 10,000.00 | |
| Depreciation Expense—Equipment | 5320 | | |
| Insurance Expense | 5330 | | |
| Office Supplies Expense | 5340 | | |
| Depreciation Expense—Building | 5350 | | |
| Miscellaneous Administrative Expense | 5390 | 1,191.00 | |
| Interest Revenue | 6100 | | 60.00 |
| Interest Expense | 7100 | 700.00 | |
| | | 1,344,336.13 | 1,344,336.13 |
| | | | |

*Fit &
Work
April 30,*

| | ACCOUNT TITLE | TRIAL BALANCE | | ADJUSTMENTS | | |
|----|-------------------------------|---------------|--------------|--------------|--------------|----|
| | | DEBIT | CREDIT | DEBIT | CREDIT | |
| 1 | Cash | 146,131.01 | | | | 1 |
| 2 | Notes Receivable | 6,800.00 | | | | 2 |
| 3 | Accounts Receivable | 27,979.47 | | | | 3 |
| 4 | Interest Receivable | | | (g) 30.00 | | 4 |
| 5 | Inventory | 208,696.97 | | | (a) 142.22 | 5 |
| 6 | Estimated Returns Inventory | 1,453.00 | | (j) 3,190.00 | | 6 |
| 7 | Office Supplies | 2,100.00 | | | (b) 500.00 | 7 |
| 8 | Store Supplies | 3,655.00 | | | (c) 650.00 | 8 |
| 9 | Prepaid Insurance | 5,700.00 | | | (d) 475.00 | 9 |
| 10 | Land | 210,000.00 | | | | 10 |
| 11 | Building | 439,000.00 | | | | 11 |
| 12 | Accum. Depreciation—Building | | 140,200.00 | | (f) 2,475.00 | 12 |
| 13 | Equipment | 98,350.00 | | | | 13 |
| 14 | Accum. Depreciation—Equipment | | 34,540.00 | | (e) 1,250.00 | 14 |
| 15 | Accounts Payable | | 109,474.75 | | | 15 |
| 16 | Salaries Payable | | | | (h) 1,700.00 | 16 |
| 17 | Customer Refunds Payable | | 2,060.30 | | (i) 4,470.00 | 17 |
| 18 | Notes Payable | | 168,000.00 | | | 18 |
| 19 | Marty Chavez, Capital | | 666,482.00 | | | 19 |
| 20 | Marty Chavez, Drawing | 6,700.00 | | | | 20 |
| 21 | Sales | | 223,519.08 | (i) 4,470.00 | | 21 |
| 22 | Cost of Goods Sold | 157,764.68 | | (a) 142.22 | (j) 3,190.00 | 22 |
| 23 | Sales Salaries Expense | 16,000.00 | | (h) 1,200.00 | | 23 |
| 24 | Advertising Expense | 626.00 | | | | 24 |
| 25 | Store Supplies Expense | | | (c) 650.00 | | 25 |
| 26 | Miscellaneous Selling Expense | 1,489.00 | | | | 26 |
| 27 | Office Salaries Expense | 10,000.00 | | (h) 500.00 | | 27 |
| 28 | Depr. Expense—Equipment | | | (e) 1,250.00 | | 28 |
| 29 | Insurance Expense | | | (d) 475.00 | | 29 |
| 30 | Office Supplies Expense | | | (b) 500.00 | | 30 |
| 31 | Depr. Expense—Building | | | (f) 2,475.00 | | 31 |
| 32 | Miscellaneous Admin. Expense | 1,191.00 | | | | 32 |
| 33 | Interest Revenue | | 60.00 | | (g) 30.00 | 33 |
| 34 | Interest Expense | 700.00 | | | | 34 |
| 35 | Totals | 1,344,336.13 | 1,344,336.13 | 14,882.22 | 14,882.22 | 35 |
| 36 | Net Income | | | | | 36 |
| 37 | | | | | | 37 |
| 38 | | | | | | 38 |
| 39 | | | | | | 39 |

Fashionable
Sheet
 20Y8

| | ADJUSTED TRIAL BALANCE | | INCOME STATEMENT | | BALANCE SHEET | | |
|----|------------------------|--------------|------------------|------------|---------------|--------------|----|
| | DEBIT | CREDIT | DEBIT | CREDIT | DEBIT | CREDIT | |
| 1 | 146,131.01 | | | | 146,131.01 | | 1 |
| 2 | 6,800.00 | | | | 6,800.00 | | 2 |
| 3 | 27,979.47 | | | | 27,979.47 | | 3 |
| 4 | 30.00 | | | | 30.00 | | 4 |
| 5 | 208,554.75 | | | | 208,554.75 | | 5 |
| 6 | 4,643.00 | | | | 4,643.00 | | 6 |
| 7 | 1,600.00 | | | | 1,600.00 | | 7 |
| 8 | 3,005.00 | | | | 3,005.00 | | 8 |
| 9 | 5,225.00 | | | | 5,225.00 | | 9 |
| 10 | 210,000.00 | | | | 210,000.00 | | 10 |
| 11 | 439,000.00 | | | | 439,000.00 | | 11 |
| 12 | | 142,675.00 | | | | 142,675.00 | 12 |
| 13 | 98,350.00 | | | | 98,350.00 | | 13 |
| 14 | | 35,790.00 | | | | 35,790.00 | 14 |
| 15 | | 109,474.75 | | | | 109,474.75 | 15 |
| 16 | | 1,700.00 | | | | 1,700.00 | 16 |
| 17 | | 6,530.30 | | | | 6,530.30 | 17 |
| 18 | | 168,000.00 | | | | 168,000.00 | 18 |
| 19 | | 666,482.00 | | | | 666,482.00 | 19 |
| 20 | 6,700.00 | | | | 6,700.00 | | 20 |
| 21 | | 219,049.08 | | 219,049.08 | | | 21 |
| 22 | 154,716.90 | | 154,716.90 | | | | 22 |
| 23 | 17,200.00 | | 17,200.00 | | | | 23 |
| 24 | 626.00 | | 626.00 | | | | 24 |
| 25 | 650.00 | | 650.00 | | | | 25 |
| 26 | 1,489.00 | | 1,489.00 | | | | 26 |
| 27 | 10,500.00 | | 10,500.00 | | | | 27 |
| 28 | 1,250.00 | | 1,250.00 | | | | 28 |
| 29 | 475.00 | | 475.00 | | | | 29 |
| 30 | 500.00 | | 500.00 | | | | 30 |
| 31 | 2,475.00 | | 2,475.00 | | | | 31 |
| 32 | 1,191.00 | | 1,191.00 | | | | 32 |
| 33 | | 90.00 | | 90.00 | | | 33 |
| 34 | 700.00 | | 700.00 | | | | 34 |
| 35 | 1,349,791.13 | 1,349,791.13 | 191,772.90 | 219,139.08 | 1,158,018.23 | 1,130,652.05 | 35 |
| 36 | | | 27,366.18 | | | 27,366.18 | 36 |
| 37 | | | 219,139.08 | 219,139.08 | 1,158,018.23 | 1,158,018.23 | 37 |
| 38 | | | | | | | 38 |
| 39 | | | | | | | 39 |

| <i>Fit & Fashionable</i> | | | |
|---|--------------|--------------|---------------|
| <i>Income Statement</i> | | | |
| <i>For the Month Ended April 30, 20Y8</i> | | | |
| Revenues: | | | |
| Sales | | | \$ 219,049.08 |
| Cost of goods sold | | | 154,716.90 |
| Gross profit | | | \$ 64,332.18 |
| Operating expenses: | | | |
| Selling expenses: | | | |
| Sales salaries expense | \$ 17,200.00 | | |
| Advertising expense | 626.00 | | |
| Store supplies expense | 650.00 | | |
| Miscellaneous selling expense | 1,489.00 | | |
| Total selling expenses | | \$ 19,965.00 | |
| Administrative expenses: | | | |
| Office salaries expense | \$ 10,500.00 | | |
| Depreciation expense—equipment | 1,250.00 | | |
| Insurance expense | 475.00 | | |
| Office supplies expense | 500.00 | | |
| Depreciation expense—building | 2,475.00 | | |
| Miscellaneous administrative expense | 1,191.00 | | |
| Total administrative expenses | | 16,391.00 | |
| Total operating expenses | | | 36,356.00 |
| Income from operations | | | \$ 27,976.18 |
| Other revenue and expense: | | | |
| Interest revenue | | \$ 90.00 | |
| Interest expense | | (700.00) | (610.00) |
| Net income | | | \$ 27,366.18 |

| <i>Fit & Fashionable</i> | | |
|---|--------------|---------------|
| <i>Statement of Owner's Equity</i> | | |
| <i>For the Month Ended April 30, 20Y8</i> | | |
| Marty Chavez, capital, March 31, 20Y8 | | \$ 666,482.00 |
| Net income for the month | \$ 27,366.18 | |
| Withdrawals | (6,700.00) | |
| Change in owner's equity | | 20,666.18 |
| Marty Chavez, capital, April 30, 20Y8 | | \$ 687,148.18 |
| | | |

Fit & Fashionable

Balance Sheet

April 30, 20Y8

| Assets | | | |
|--------------------------------------|---------------|---------------|---------------|
| Current assets: | | | |
| Cash | | \$ 146,131.01 | |
| Notes receivable | | 6,800.00 | |
| Accounts receivable | | 27,979.47 | |
| Interest receivable | | 30.00 | |
| Inventory | | 208,554.75 | |
| Estimated returns inventory | | 4,643.00 | |
| Office supplies | | 1,600.00 | |
| Store supplies | | 3,005.00 | |
| Prepaid insurance | | 5,225.00 | |
| Total current assets | | | \$ 403,968.23 |
| Property, plant, and equipment: | | | |
| Land | | \$ 210,000.00 | |
| Building | \$ 439,000.00 | | |
| Accumulated depreciation | (142,675.00) | | |
| Building, book value | | 296,325.00 | |
| Equipment | \$ 98,350.00 | | |
| Accumulated depreciation | (35,790.00) | | |
| Equipment, book value | | 62,560.00 | |
| Total property, plant, and equipment | | | 568,885.00 |
| Total assets | | | \$ 972,853.23 |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | | \$ 109,474.75 | |
| Salaries payable | | 1,700.00 | |
| Customer refunds payable | | 6,530.30 | |
| Total current liabilities | | | \$ 117,705.05 |
| Long-term liabilities: | | | |
| Notes payable | | | 168,000.00 |
| Total liabilities | | | \$ 285,705.05 |
| Owner's Equity | | | |
| Marty Chavez, capital | | | 687,148.18 |
| Total liabilities and owner's equity | | | \$ 972,853.23 |

| <i>Fit & Fashionable</i> | | | |
|------------------------------------|-----------|----------------|-----------------|
| <i>Post-Closing Trial Balance</i> | | | |
| <i>April 30, 20Y8</i> | | | |
| ACCOUNT | ACCT. NO. | DEBIT BALANCES | CREDIT BALANCES |
| Cash | 1110 | 146,131.01 | |
| Notes Receivable | 1111 | 6,800.00 | |
| Accounts Receivable | 1112 | 27,979.47 | |
| Interest Receivable | 1113 | 30.00 | |
| Inventory | 1114 | 208,554.75 | |
| Estimated Returns Inventory | 1115 | 4,643.00 | |
| Office Supplies | 1116 | 1,600.00 | |
| Store Supplies | 1117 | 3,005.00 | |
| Prepaid Insurance | 1118 | 5,225.00 | |
| Land | 1120 | 210,000.00 | |
| Building | 1122 | 439,000.00 | |
| Accumulated Depreciation—Building | 1123 | | 142,675.00 |
| Equipment | 1124 | 98,350.00 | |
| Accumulated Depreciation—Equipment | 1125 | | 35,790.00 |
| Accounts Payable | 2100 | | 109,474.75 |
| Salaries Payable | 2110 | | 1,700.00 |
| Customer Refunds Payable | 2120 | | 6,530.30 |
| Notes Payable | 2150 | | 168,000.00 |
| Marty Chavez, Capital | 3100 | | 687,148.18 |
| | | 1,151,318.23 | 1,151,318.23 |
| | | | |

Fit & Fashionable

ANALYSIS TEST

Journals

| | | |
|----|---|----------------------|
| 1. | Total Merchandise Purchases during April | <u>\$ 125,915.15</u> |
| 2. | Total Cash Sales during April | <u>\$ 118,020.00</u> |
| 3. | Total Sales on Account for April | <u>\$ 105,499.08</u> |
| 4. | Total Accounts Payable Credits during April | <u>\$ 128,865.15</u> |

Accounts Receivable Ledger

| | | |
|----|---|---------------------|
| 5. | All Access Fitness Center Balance on April 30 | <u>\$ 13,770.64</u> |
| 6. | Miami Health Club Balance on April 30 | <u>\$ 5,233.30</u> |

Accounts Payable Ledger

| | | |
|----|--|---------------------|
| 7. | Alexus Fitness Center Balance on April 30 | <u>\$ 10,105.00</u> |
| 8. | Sports Magic Warehouse Balance on April 30 | <u>\$ 68,819.75</u> |

Income Statement

| | | |
|-----|--------------------------|----------------------|
| 9. | Sales | <u>\$ 219,049.08</u> |
| 10. | Cost of Goods Sold | <u>\$ 154,716.90</u> |
| 11. | Gross Profit | <u>\$ 64,332.18</u> |
| 12. | Total Operating Expenses | <u>\$ 36,356.00</u> |
| 13. | Net Income | <u>\$ 27,366.18</u> |

Statement of Owner's Equity

| | | |
|-----|--|----------------------|
| 14. | Change in Owner's Equity | <u>\$ 20,666.18</u> |
| 15. | Ending Balance of Owner's Equity, April 30 | <u>\$ 687,148.18</u> |

Balance Sheet

| | | |
|-----|--------------------------------------|----------------------|
| 16. | Total Current Assets | <u>\$ 403,968.23</u> |
| 17. | Total Property, Plant, and Equipment | <u>\$ 568,885.00</u> |
| 18. | Total Current Liabilities | <u>\$ 117,705.05</u> |

Adjustments

| | | |
|-----|------------------------------------|------------------|
| 19. | Adjustment to Office Supplies | |
| 20. | Adjustment to Prepaid Insurance | <u>\$ 500.00</u> |
| 21. | Adjustment to Store Supplies | <u>\$ 475.00</u> |
| 22. | Adjustment for Inventory Shrinkage | <u>\$ 650.00</u> |
| | | <u>\$ 142.22</u> |

Closing

| | | |
|-----|--|------------------------|
| 23. | Amount Closed to Capital from Income Summary | <u>\$ 27,366.18</u> |
| 24. | Post-Closing Trial Balance Total | <u>\$ 1,151,318.23</u> |
| 25. | Amount Closed from Drawing to Capital | <u>\$ 6,700.00</u> |

Assets = Liabilities + Stockholders' Equity

STOCKHOLDERS' EQUITY ACCOUNTS

| Account | Used to Record |
|--------------------------|--|
| Common Stock | Owner's Investments |
| Retained Earnings | Earnings That Have Not Been Paid Out as Divi- dends to Shareholders |
| Dividends | Earnings Distributions to Owners |
| Revenue | Revenues from Customers |
| Expense | Expenses Incurred in the Process of Generating Revenues |

CHART OF ACCOUNTS

Larry Sharp, M.D.

The following information pertains to the medical practice of Larry Sharp, M.D. Using the information, develop a chart of accounts for Dr. Sharp. Remember to number the accounts using a flexible system of indexing, as described in your textbook.

1. Dr. Sharp is the sole shareholder of his medical practice.
2. Dr. Sharp has the following assets that are used in the business: \$15,000 in cash, \$1,200 worth of supplies, and medical equipment that cost \$8,900.
3. Dr. Sharp buys all of his medical supplies on account and pays for them within 30 days of the purchase.
4. In payment for his services, Dr. Sharp will accept cash or will bill his patients.
5. Dr. Sharp rents his office space. His lease agreement requires him to pay his own utilities.
6. Dr. Sharp is required to carry malpractice insurance, which is paid at the beginning of each year.
7. Dr. Sharp has one receptionist and one medical assistant who work for him full time. Each year, he buys the receptionist and the assistant flowers on their birthdays.
8. To keep current on medical advances, Dr. Sharp frequently attends medical seminars. These seminars can cost as much as \$10,000 each year.

SAMPLE CHART OF ACCOUNTS

Larry Sharp, M.D.

Assets

- 10 Cash**
- 11 Accounts Receivable**
- 12 Supplies**
- 13 Prepaid Insurance**
- 14 Medical Equipment**

Liabilities

- 21 Accounts Payable**

Stockholders' Equity

- 31 Common Stock**
- 32 Retained Earnings**
- 33 Dividends**

Revenues

- 41 Fees Earned**

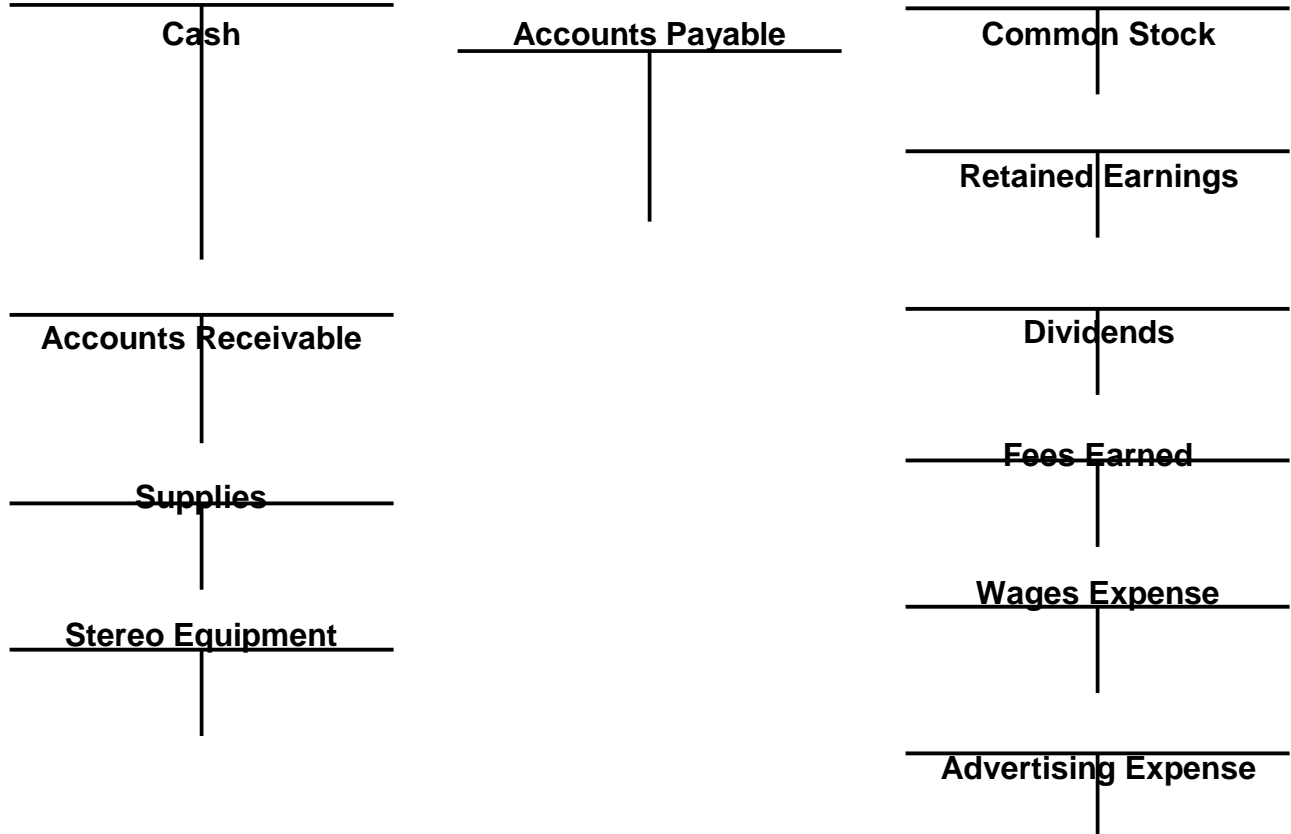
Expenses

- 51 Wages Expense**
- 52 Rent Expense**
- 53 Utilities Expense**
- 54 Medical Seminars Expense**
- 55 Supplies Expense**
- 56 Miscellaneous Expense**

POSTING ENTRIES INTO T ACCOUNTS

Mark Gordon decided to start a business as a disc jockey for wedding receptions, reunions, and other parties. His business is called Music Express. Record the following journal entries for Music Express and post these entries to the appropriate T accounts.

- a. Issued common stock to Mark for \$7,000.
- b. Purchased \$5,700 of stereo equipment on account.
- c. Paid for an advertisement in local newspapers, \$500.
- d. Paid cash for supplies, \$75.
- e. Received \$1,000 cash from customers for music provided at class reunions.
- f. Paid for stereo equipment purchased in (b).
- g. Provided music at a wedding reception; the bride's father was billed \$300. Payment is due in 30 days.
- h. Paid wages of an assistant, \$150.
- i. Received cash from the customer billed in (g).
- j. Paid cash dividend to Mark, \$575.



POSTING ENTRIES INTO T ACCOUNTS

Solution

Mark Gordon decided to start a business as a disc jockey for wedding receptions, reunions, and other parties. His business is called Music Express. Record the following journal entries for Music Express and post these entries to the appropriate T accounts.

- a. Issued common stock to Mark for \$7,000.
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- d. Paid cash for supplies, \$75.
- e. Received \$1,000 cash from customers for music provided at class reunions.
- f. Paid for stereo equipment purchased in (b).
- g. Provided music at a wedding reception; the bride's father was billed \$300. Payment is due in 30 days.
- h. Paid wages of an assistant, \$150.
- i. Received cash from the customer billed in (g).
- j. Paid cash dividend to Mark, \$575.

| | | |
|---|--|---|
| Cash | Accounts Payable | Common Stock |
| a. 7,000 e. 1,000 i. 300 <hr/> 1,300 Accounts Receivable g. 300 <hr/> 0 Supplies d. 75 <hr/> Stereo Equipment b. 5,700 | c. 500 d. 75 f. 5,700 <hr/> 0 | a. 7,000 <hr/> Retained Earnings <hr/> Dividends j. 575 <hr/> Fees Earned e. 1,000 g. 300 <hr/> 1,300 <hr/> Wages Expense h. 150 <hr/> Advertising Expense c. 500 |

JOURNAL

| DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT |
|-----------------|--|---------------|-------|--------|
| 20Y1 Sept. 1 | Cash Common Stock Owner's initial invest- ment. | | 8,000 | 8,000 |
| 3 | Supplies Cash Purchased supplies. | | 200 | 200 |
| 7 | Cash Fees Earned Received from cash customers. | | 500 | 500 |
| 12 | Wages Expense Cash Paid wages of assistant. | | 100 | 100 |
| 15 | Office Equipment Accounts Payable Purchased fax machine. | | 275 | 275 |
| 20 | Accounts Receivable Fees Earned Billed credit customers. | | 1,310 | 1,310 |

Transparency Master 2-7

ACCOUNT Cash

ACCOUNT NO. 10

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

ACCOUNT Supplies

ACCOUNT NO. 12

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

ACCOUNT Common Stock

ACCOUNT NO. 31

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

ACCOUNT Fees Earned

ACCOUNT NO. 41

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|------|------|---------------|-------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

WRITING EXERCISE

- 1. Why are business transactions initially recorded in a journal?**
- 2. Why are business transactions posted from the journal to a ledger?**

Where Is the Answer— The Journal or the Ledger?

The answers to the following business questions can be determined by examining accounting records. For each question, state whether the answer can be found in the journal or the ledger.

- 1. A business owner has decided to purchase a piece of equipment costing \$1,500. He wants to know whether the business has enough cash to pay for the equipment.**
- 2. The company checkbook shows that a \$750 check was written on March 28. The owner wants to know why that check was written.**
- 3. A personnel manager wants to know the total her company has spent on employee wages so far this month.**
- 4. The marketing manager of a company wants to know the cost of a special full-page ad placed in *The Wall Street Journal* during the first week of December last year. The company frequently advertises in a variety of newspapers and magazines.**

Where Is the Answer— The Journal or the Ledger?

Solution

1. A business owner has decided to purchase a piece of equipment costing \$1,500. He wants to know whether the business has enough cash to pay for the equipment.
The ledger will show the current balance in the cash account.
2. The company checkbook shows that a \$750 check was written on March 28. The owner wants to know why that check was written.
The journal will show the account debited when the check was written and a brief description of the transaction.
3. A personnel manager wants to know the total her company has spent on employee wages so far this month.
The ledger will show the current balance in the wages expense account.
4. The marketing manager of a company wants to know the cost of a special full-page ad placed in *The Wall Street Journal* during the first week of December last year. The company frequently advertises in a variety of newspapers and magazines.
The journal entries around the first week of December will need to be searched for the cost of this ad. The description accompanying the entry should identify The Wall Street Journal ad.

TRIAL BALANCE

Music Express Trial Balance May 31, 20Y1

| | Debit Balances | Credit Balances |
|--------------------------|-------------------|--------------------|
| Cash | 1,300 | |
| Supplies | 75 | |
| Stereo Equipment..... | 5,700 | |
| Common Stock | | 7,000 |
| Dividends | 575 | |
| Fees Earned | | 1,300 |
| Wages Expense | 150 | |
| Advertising Expense..... | <u>500</u> | |
| | <u>8,300</u> | <u>8,300</u> |

WHAT'S WRONG WITH THIS?

Journal Entries:

| | | |
|-----------------------------|-------|-------|
| a. Cash | 8,000 | |
| Common Stock... | | 8,000 |
| b. Supplies | 200 | |
| Cash | | 200 |
| c. Cash | 550 | |
| Fees Earned | | 550 |
| d. Wages Expense..... | 1,340 | |
| Cash | | 1,340 |
| e. Accounts Receivable..... | 810 | |
| Fees Earned | | 810 |

T Accounts:

| | | | |
|---------------------|--|---------------|--------|
| Cash | | Common Stock | |
| a. 8,000 | | | 8,000 |
| | | b. 200 | 810 |
| c. 550 | | | |
| 6,970 | | d. 1,340 | |
| | | | |
| Accounts Receivable | | Fees Earned | |
| <hr/> | | | |
| e. 810 | | | c. 500 |
| | | | |
| Supplies | | Wages Expense | |
| <hr/> | | | |
| b. 200 | | d. 1,340 | |

Trial Balance

| | Debit Balances | Credit Balances |
|--------------------------|-------------------|--------------------|
| Cash | 6,970 | |
| Accounts Receivable..... | 810 | |
| Supplies | 200 | |
| Common Stock | | 8,810 |
| Fees Earned | 500 | |
| Wages Expense | <u>1,340</u> | |
| | <u>9,810</u> | <u>8,810</u> |

