

**Solution Manual for Accounting Volume 1 Canadian 9th Edition
Horngren Harrison Oliver Norwood Johnston Meissner
013309863X 9780133098631**

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Solution Manual:

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Chapter 2

Recording Business Transactions

Questions

1. The basic shortcut device of accounting is the *T-account*. It resembles the letter T, and its left side is called the debit side and its right side the credit side.
2. The statement is false because debit means left and credit means right. Debits and credits are used to record increases and decreases in accounts, so debits can be increases or decreases depending on the type of account involved and likewise for credits.
3. Examples:
 - a. A *debit* to an asset account indicates an increase in the asset.
 - b. To record a decrease in a liability, the accountant should record a *debit*.
 - c. *Debit* all asset accounts to record increases in them.
 - d. The accountant should *debit* Cash to record a receipt of cash.
 - e. The *debit* side of an account is the left side.
 - f. It is customary to record the *debit* side of a journal entry before recording the credit side of the entry.
4. The three basic types of accounts are ASSETS, LIABILITIES, and OWNER'S EQUITY. Two additional types of accounts are REVENUES

and EXPENSES. They are part of owner's equity; revenues increase owner's equity and expenses decrease owner's equity.

5. The dual effects of an owner's investment in her business are (1) an increase in the entity's cash and (2) an increase in the owner's equity.

6. *Business Transaction* *Entry in* *Posting to* *Trial*
→

Creates Source Document → *Journal* → *Ledger* *Balance*

7. The normal balance of an account is the side of the account—debit or credit—that records increases. Also, an account's normal balance is the side of the account that usually has the account's balance.

<i>Account Type</i>	<i>Normal Balance</i>
Assets	<u>Debit</u>
Liabilities	<u>Credit</u>
Owner's equity	<u>Credit</u>
Revenues	<u>Credit</u>
Expenses	<u>Debit</u>

9. Posting transfers amounts from the journal to the ledger. This is important because the transaction entries in the journal do not accumulate all the information related to each account. The accounts in the ledger hold that

information. The ledger groups together transactions that are similar. For example, all cash transaction from the journal are grouped together in the ledger. Therefore, the transfer of data to the accounts in the ledger—that is, posting from the journal to the ledger—makes it possible to determine the balance in each account. Posting comes after journalizing.

10. \pm a. Investment by owner 0 e. Cash payment on account
 \pm b. Invoice customer for services $=$ f. Withdrawal of cash by owner
 0 c. Purchase of supplies on credit 0 g. Borrowing money on a note payable
 $=$ d. Pay expenses with cash \pm h. Sale of services on account
11. Posting's four steps are (1) copy the date of a transaction from the journal to the ledger, (2) copy the journal page number from the journal to the ledger, (3) copy (post) the dollar amounts of the debit and the credit from the journal to the ledger, and (4) copy the account numbers from the ledger back to the journal to indicate that the transaction amount has been posted to the ledger. Step 3, transferring the transaction amount to the account, is the¹⁰ fundamental purpose of posting.
11. Sam Westman, Capital Sales
13. -Accounts Payable has a credit balance of \$2,800|| means that the entity owes \$2,800 to its creditors on a debt that is not evidenced by a formal note payable.
14. The two business transactions are (1) Spiffy Cleaners providing laundry service and earning revenue and (2) Bobby Ng paying cash to Spiffy Cleaners. The business's earning of the revenue increases the owner's equity in the company, and Ng's payment of cash increases the business's cash.
15. The *ledger* is the group of actual accounts in use that contain a record of activity in those accounts. The *chart of accounts* is a list of all the accounts set up in the ledger with their account numbers.
16. Accountants prepare a trial balance to check the accuracy of postings to accounts and determine whether the total debits equal the total credits. It is a useful summary of all the accounts and their balances and serves as an early error-detection tool.
17. A compound journal entry is one that affects more than two accounts.
18. This error does *not* cause the trial balance to be out of balance because both the total debits and the total credits are overstated by the same amount, \$5,400 (\$6,000 – \$600).
19. Collecting cash on account has no effect on total assets because the increase in cash, which increases total assets, is offset by the decrease in accounts receivable, which decreases total assets.
20. Both systems depend on the accuracy of the initial analysis of the transaction and require that the journal entry be recorded correctly. Thereafter, a number of errors could occur in a manual system (such as slides, transpositions, errors in calculating account balances); these errors will affect a manual trial balance. Most computerized systems will not allow you to post a journal entry if it does not balance. Once the journal entry has been correctly recorded, the computerized accounting system performs much the same actions as accountants do in a manual system. These routine tasks are accomplished faster

and with less risk of error with a computer. The computer does not recognize debits and credits, only increases and decreases by account type.

Starters

(5 min.) **S 2-1**

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

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

- | | | | |
|----------|-------------------|----|---|
| <u>C</u> | 1. Credit | A. | Record of transactions |
| <u>D</u> | 2. Normal balance | B. | Always an asset |
| <u>G</u> | 3. Payable | C. | Right side of an account |
| A | 4. Journal | D. | Side of an account where increases are recorded |
| B | 5. Receivable | E. | Copying data from the journal to the ledger |
| <u>J</u> | 6. Capital | F. | Increases in equity from providing goods and services |
| <u>E</u> | 7. Posting | G. | Always a liability |
| F | 8. Revenue | H. | Revenues – Expenses (where expenses exceed revenues) |
| <u>H</u> | 9. Net loss | I. | Grouping of accounts |
| I | 10. Ledger | J. | Owner's equity in the business |
-

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

Credits are *increases* in these types of accounts:

- Liabilities
- Capital
- Revenues

Credits are *decreases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *increases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *decreases* in these types of accounts:

- Liabilities
- Capital
- Revenues

(5-10 min.) **S 2-4**

a. To decrease Accounts Payable: debit	g. To increase Rent Expense: debit
b. To increase Cash: debit	h. To increase Equipment: debit
c. To increase Notes Payable: credit	i. To increase Accounts Payable: credit
d. To increase Owner, Withdrawals: debit	j. To increase Land: debit
e. To increase Service Revenue: credit	k. To increase Office Expense: debit
f. To increase Office Supplies: debit	l. To increase Owner, Capital: credit

(10 min.)

S 2-5

(10 min.) **S 2-6**

Journal

DATE		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	DATE		ACCOUNT TITLES AND EXPLANATIONS
					Oct.	22	
Sept.	1	Cash		32,000			Accounts Receivable Service Revenue Performed service for patients on account.
		Taylor Moffat, Capital				32,000	
		Received investment from owner.				30	Cash Accounts Receivable
	2	Medical Supplies		9,500			Received cash on account.
		Accounts Payable				9,500	
		Purchased supplies on account.				31	Telephone Expense Accounts Payable
	2	Rent Expense		4,100			Received telephone bill.
		Cash				4,100	
		Paid office rent for September.				31	Advertising Expense Cash
	3	Accounts Receivable		6,800			Paid advertising expense.
		Service Revenue				6,800	
		Performed service for patients on account.				31	Salary Expense Cash
							Paid salary expense.

Req. 1

(10-15 min.) **S 2-7**

Journal

DATE	ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Supplies		10,000	
	Accounts Payable			10,000
	Purchased supplies on account.			
	Accounts Payable		5,000	
	Cash			5,000
	Paid cash on account. (\$10,000 × ½)			

Req. 2

A c c o u n t s P a y a b l e	5 , 0 0 0 1 0 , 0 0		B a i . 5 , 0 0 0
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Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Accounts Receivable		12,000	
	Service Revenue			12,000
	Performed service on account.			
	Cash		5,500	
	Accounts Receivable			5,500
	Received cash on account.			

Req. 2

Cash	Accounts Receivable	Service Revenue
5,500	12,000 5,500	12,000
Bal. 5,500	Bal. 6,500	Bal. 12,000

Req. 3

a. The business earned	\$12,000:	Service Revenue	
b. Total assets	\$12,000:	Cash	\$5,500
		Accounts receivable	<u>6,500</u>
		Total assets	<u>\$ 12,000</u>

(10-15 min.) **S**
2-9

Reqs. 1 and 2

Balzy Indoor Tennis Club			
Trial Balance November			
30, 2014			
NUMBER	ACCOUNT	DEBIT	CREDIT
10002	Cash	\$23,040	
17500	Furniture	5,500	
20001	Accounts Payable		\$3,740
30001	Stan Balzy, Capital		27,000
30002	Stan Balzy, Withdrawals	1,200	
40001	Sales Revenue		5,500
51200	Supplies Expense	2,500	
53200	Rent Expense	4,000	
	Total	\$36,240	\$36,240

(10-15 min.) **S 2-10**

Cash	
32,000	4,100
<hr/>	
Bal. 27,900	

Accounts Receivable	
6,800	
<hr/>	
Bal. 6,800	

Medical Supplies	
9,500	
<hr/>	
Bal. 9,500	

Accounts Payable	
	9,500
<hr/>	
	Bal. 9,500

Taylor Moffat, Capital	
	32,000
<hr/>	
	Bal. 32,000

Service Revenue	
	6,800
<hr/>	
	Bal. 6,800

Rent Expense	
4,100	
<hr/>	
Bal. 4,100	

Req. 3

Taylor Moffat, Veterinarian		
Trial Balance		
September 3, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$27,900	
Accounts receivable	6,800	
Medical supplies	9,500	
Accounts payable		\$9,500
Taylor Moffat, capital		32,000
Service revenue		6,800
Rent expense	<u>4,100</u>	<u> </u>
Total	<u>\$48,300</u>	<u>\$48,300</u>

Redwing Floor Covering		
Trial Balance		
December 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 6,000	
Equipment	43,000	
Accounts payable		\$ 1,000
Other liabilities		17,000
Capital		25,000
Revenue		32,000
Expenses	<u>26,000</u>	<u> </u>
Total	<u>\$75,000</u>	<u>\$75,000</u>

Incorrect Trial Balance

Hunter Environmental Consulting Trial Balance April 30, 2014			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$222,000	
1200	Accounts receivable	10,000	
1400	Office supplies	7,000	
1900	Land	50,000	
2100	Accounts payable		\$ 2,000
3000	Lisa Hunter, capital	250,000*	
3100	Lisa Hunter, withdrawals	6,000	
4000	Service revenue		55,000
5100	Rent expense	4,000	
5200	Salary expense	6,500	
5300	Utilities expense	<u>1,500</u>	<u>-</u>
	Total	\$557,000	\$57,000

*Incorrect; should be listed as a credit.

To correct this error,

1. Take the difference between total debits and total credits: $\$557,000 - \$57,000 = \$500,000$
2. Divide the error by 2:
 $\$500,000 \div 2 = \$250,000$
3. Locate \$250,000 on the trial balance. This matched the balance in the Capital account. The Capital account should have a credit balance.

Incorrect Trial Balance

Hunter Environmental Consulting Trial Balance April 30, 2014			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1100	Cash	\$222,000	
1200	Accounts receivable	10,000	
1400	Office supplies	7,000	
1900	Land	50,000	
2100	Accounts payable		\$ 2,000
3000	Lisa Hunter capital		250,000
3100	Lisa Hunter, withdrawals	6,000	
4000	Service revenue		55,000
5100	Rent expense	4,000	
5200	Salary expense	6,500	
5300	Utilities expense	150*	
	Total	\$305,650	\$307,000

*Incorrect; should be listed as \$1,500.

To correct this error,

1. Take the difference between total debits and total credits: $\$305,650 - \$307,000 = \$1,350$
2. Divide the error by 9: $\$1,350 \div 9 = \150
3. Locate \$150 on the trial balance. Utilities expense, at \$150, includes the error. Trace the utilities' balance back to the ledger account, which shows the correct amount.

Exercises

(10-15 min.) **E 2-1**

TO: Office Manager

FROM: Student Name

Each time Prairie Tours received cash, accountants recorded the transaction in the *journal* by *debiting* the Cash account. Accountants recorded cash payments by making a journal entry that included a *credit* to Cash. Debits in the journal were *posted* as debits to the Cash account in the *ledger* and credits were posted as credits. At the end of the period, accountants listed each account, along with its balance, on the *trial balance*. Cash had a balance of \$57,800.

Instructional Note: Student responses may vary considerably.

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



Req. 1

<i>Debit</i>		<i>Credit</i>		<i>Credit</i>
ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
\$75,500	=	\$46,300	+	\$28,500
(\$31,200 + \$4,000				
+ \$300 + \$40,000)		(\$1,300 + \$45,000)		

This accounting equation is out of balance because the complete equity balances are not shown. Net income or loss and withdrawals balances should be included in the equation.

Req. 2

<i>Credit</i>		<i>Debit</i>		<i>Net Credit</i>
REVENUES	-	EXPENSES	=	NET INCOME
\$7,600	-	\$5,100	=	\$2,500
		(\$400 + \$1,500 + \$3,000 + \$200)		

NET INCOME would represent a net *credit* because revenues (*credit* amounts) would exceed expenses (*debit* amounts).

NET LOSS would represent a net *debit* because expenses (*debit* amounts) would exceed revenues (*credit* amounts).

Req. 3

Jim Aylmer withdrew \$1,800 during the month.

Withdrawals are a *debit* amount.

Req. 4

Increase in owner's equity (*credit* amount)

Net income	\$2,500	
Decrease in owner's equity (<i>debit</i> amount)		
Withdrawals	<u>1,800</u>	
Net increase in owner's equity (<i>credit</i> amount)	<u>\$ 700</u>	

Date	Analysis of Transactions and Journal Entries
------	--

Dec.	4	<p>The asset Cash is increased; therefore, debit Cash. The liability Note Payable is increased; therefore, credit Note Payable.</p>	<table> <tr> <td>Cash</td> <td style="text-align: right;">20,000</td> <td></td> </tr> <tr> <td> Note Payable</td> <td></td> <td style="text-align: right;">20,000</td> </tr> </table>	Cash	20,000		Note Payable		20,000
Cash	20,000								
Note Payable		20,000							
	8	<p>The asset Equipment is increased; therefore, debit Equipment. The liability Accounts Payable is increased; therefore, credit Accounts Payable.</p>	<table> <tr> <td>Equipment.....</td> <td style="text-align: right;">4,000</td> <td></td> </tr> <tr> <td> Accounts Payable</td> <td></td> <td style="text-align: right;">4,000</td> </tr> </table>	Equipment.....	4,000		Accounts Payable		4,000
Equipment.....	4,000								
Accounts Payable		4,000							
	12	<p>The asset Accounts Receivable is increased; therefore, debit Accounts Receivable. The revenue Service Revenue is increased; therefore, credit Service Revenue.</p>	<table> <tr> <td>Accounts Receivable</td> <td style="text-align: right;">6,000</td> <td></td> </tr> <tr> <td> Service Revenue</td> <td></td> <td style="text-align: right;">6,000</td> </tr> </table>	Accounts Receivable	6,000		Service Revenue		6,000
Accounts Receivable	6,000								
Service Revenue		6,000							
	19	<p>The asset Cash is increased; therefore, debit Cash. The asset Land is decreased; therefore, credit Land.</p>	<table> <tr> <td>Cash</td> <td style="text-align: right;">24,000</td> <td></td> </tr> <tr> <td> Land.....</td> <td></td> <td style="text-align: right;">24,000</td> </tr> </table>	Cash	24,000		Land.....		24,000
Cash	24,000								
Land.....		24,000							
	22	<p>The asset Supplies is increased; therefore, debit Supplies. The asset Cash is decreased; therefore, credit Cash.</p>	<table> <tr> <td>Supplies</td> <td style="text-align: right;">1,200</td> <td></td> </tr> <tr> <td> Cash</td> <td></td> <td style="text-align: right;">1,200</td> </tr> </table>	Supplies	1,200		Cash		1,200
Supplies	1,200								
Cash		1,200							
	27	<p>The liability Accounts Payable is decreased; therefore, debit Accounts Payable. The asset Cash is decreased; therefore, credit Cash.</p>	<table> <tr> <td>Accounts Payable</td> <td style="text-align: right;">4,000</td> <td></td> </tr> <tr> <td> Cash</td> <td></td> <td style="text-align: right;">4,000</td> </tr> </table>	Accounts Payable	4,000		Cash		4,000
Accounts Payable	4,000								
Cash		4,000							

Req. 1 and 2

(10-20 min.) **E 2-5**

Cash					
Dec.	1	6,000	Dec.	1	200
	4	20,000		22	1,200
	19	24,000		27	4,000
Dec.	31	44,600			

Accounts Receivable					
Dec.	1	0			
	12	6,000			
Dec.	31	6,000			

Supplies		
	22	1,200
Dec.	31	1,200

Equipment		
	8	4,000
Dec.	31	4,000

Land					
Dec.	1	24,000	Dec.	19	24,000
Dec.	31	0			

Accounts Payable					
Dec.			Dec.	1	0
				8	4,000
	27	4,000	Dec.	31	0

Notes Payable					
			Dec.	1	0
				4	20,000
			Dec.	31	20,000

R. Sama, Capital					
			Dec.	1	30,000
			Dec.	31	30,000

Service Revenue					
			Dec.	1	0
				12	6,000
			Dec.	31	6,000

Utilities Expense					
Dec.	1	0			
	1	200			
Dec.	31	200			

Req. 3

Total debits = Total credits
 \$56,000 = \$56,000

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	1	Cash		15,000	
		Yula Gregore, Capital			15,000
		Investment by owner.			
	1	Rent Expense		4,000	
		Cash			4,000
		Paid rent for yoga studio.			
	4	Studio Supplies		4,000	
		Accounts Payable			4,000
		Purchased studio supplies on account.			
	6	Cash		3,000	
		Service Revenue			3,000
		Performed services for cash.			
	9	Accounts Payable		1,000	
		Cash			1,000
		Paid cash on account.			
	17	Accounts Receivable		800	
		Service Revenue			800
		Performed service on account.			

Req. 1

(20-30 min.) **E 2-7**
Yula's Yoga

Cash					
Mar.	1	15,000	Mar.	1	4,000
	6	3,000		9	1,000
Mar.	31	13,000			

Accounts Receivable					
Mar.	17	800			
Mar.	31	800			

Studio Supplies		
Mar.	4	4,000
Mar.	31	4,000

Accounts Payable					
Mar.	9	1,000	Mar.	4	4,000
			Mar.	31	3,000

Yula Gregore, Capital			
		1	15,000
		31	15,000

Service Revenue					
Mar.	6	3,000			
	17	800			
Mar.	31	3,800			

Rent Expense		
Mar.	1	4,000
Mar.	31	4,000

(continued) **E 2-7**

Req. 2

Yula's Yoga

Yula's Yoga		
Trial Balance		
March 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$13,000	
Accounts receivable	800	
Studio supplies	4,000	
Accounts payable		\$3,000
Yula Gregore, capital		15,000
Service revenue		3,800
Rent expense	4,000	
Total	\$21,800	\$21,800

Req. 1

(20-30 min.) **E 2-8**

2014

July

- 2 Cash investment by owner
- 9 Purchase of supplies on account (on credit)
- 11 Service provided on account
- 14 Payment of rent expense
- 22 Collection on account
- 25 Payment of advertising expense
- 27 Payment on account
- 31 Receipt of a fuel bill and recording the expense on account

8

		Journal		Page 5	
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
July	2	Cash	1000	5,600	
		Tomas Misheal, Capital	3000		5,600
	9	Supplies	1400	54	
		Accounts Payable	2000		54
	11	Accounts Receivable	1200	1,620	
		Service Revenue	4000		1,620
	14	Rent Expense	5600	1,400	
		Cash	1000		1,400
	22	Cash	1000	280	
		Accounts Receivable	1200		280
	25	Advertising Expense	5100	590	
		Cash	1000		590
	27	Accounts Payable	2000	54	
		Cash	1000		54
	31	Fuel Expense	5800	564	
		Accounts Payable	2000		564

Req. 2 and 3

(continued) **E 2-8**

Cash		1000
July 2	5,600	
July 22	280	
Bal.	3,836	
Supplies		1400
July 9	54	
Bal.	54	

Accounts Receivable		1200
July 11	1,620	
Bal.	1,340	
July 22	280	
Accounts Payable		2000
July 27	54	
July 9	54	
July 31	564	
Bal.	564	

Tomas Misheal, Capital		3000
July 2	5,600	
Bal.	5,600	

Service Revenue		4000
July 11	1,620	
Bal.	1,620	

Advertising Expense		5100
July 25	590	
Bal.	590	

Rent Expense		5600
July 14	1,400	
Bal.	1,400	

Fuel Expense		5800
July 31	564	
Bal.	564	

Req. 4 (trial balance)

(continued) **E 2-8**

Alumet Defensive Driving			
Trial Balance			
July 31, 2014			
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT
1000	Cash	\$3,836	
1200	Accounts receivable	1,340	
1400	Supplies	54	
2000	Accounts payable		\$ 564
3000	Tomas Misheal, capital		5,600
4000	Service revenue		1,620
5100	Advertising expense	590	
5600	Rent expense	1,400	
5800	Fuel expense	564	
	Total	<u>\$7,784</u>	<u>\$ 7,784</u>

Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Apr.	30	Cash		7,500	
		D. Carter, Capital			7,500
		Received initial investment from owner.			
	30	Supplies		75	
		Accounts Payable			75
		Purchase of supplies on account.			
	30	Land		5,250	
		Cash			5,250
		Paid cash for land.			
	30	Cash		1,375	
		Note Payable			1,375
		Borrowed money; signed note payable.			
	30	Hockey Equipment		1,500	
		Cash			1,500
		Paid cash for equipment.			

(10-20 min.) **E 2-10**

Dash Carter Hockey School

Dash Carter Hockey School		
Trial Balance		
April 30, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$2,125	
Supplies	75	
Hockey equipment	1,500	
Land	5,250	
Accounts payable		\$ 75
Note payable		1,375
D. Carter, capital		<u>7,500</u>
Total	<u>\$8,950</u>	<u>\$ 8,950</u>

(10-20 min.) **E 2-11**

Boots Consulting

Boots Consulting		
Trial Balance		
October 31, 2014		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 30,000	
Accounts receivable	35,000	
Supplies	1,500	
Building	390,000	
Land	174,000	
Accounts payable		\$ 33,800
Notes payable		270,000
M. Boots, capital		252,800
M. Boots, withdrawals	36,000	
Services revenue		164,000
Advertising expense	9,900	
Computer rental expense	2,000	
Salary expense	36,000	
Supplies expense	3,800	
Utilities expense	2,400	
Total	\$720,600	\$720,600

		Journal			Page 9
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST .	DEBIT	CREDIT
May	2	Cash	1100	39,200	
		Office Furniture	1800	16,200	
		Florence Yarrow, Capital	3100		55,400
		Received investment from owner.			
	2	Rent Expense	5500	2,500	
		Cash	1100		2,500
		Paid monthly rent.			
	2	Office Supplies	1500	1,800	
		Accounts Payable	2100		1,800
		Purchased supplies on account.			
	15	Salary Expense	5600	4,000	
		Cash	1100		4,000
		Paid salary expense.			
	17	Accounts Payable	2100	1,200	
		Cash	1100		1,200
		Paid on account.			
	19	Accounts Receivable	1300	69,000	
		Consulting Revenue	4100		69,000
		Performed service on account.			
	30	Florence Yarrow, Withdrawals	3200	8,000	
		Cash	1100		8,000
		Withdrawal by owner.			

(continued) **E 2-12**

ACCOUNT		CASH			ACCOUNT		ACCOUNTS PAYABLE	
DATE	2014	ITEM	JRNL. REF.	DEBIT	CREDIT	DATE	2014	ITEM
						May	2	BALANCE
May	2		J9	39,200				39,200 Dr
	16		J9		2,500			36,700 Dr
	17		J9			ACCOUNT		FLORENCE YARROW, CA
	30		J9			DATE		31,500 Dr
						2014		23,500 Dr
						May	2	ITEM

ACCOUNT		ACCOUNTS RECEIVABLE			ACCOUNT		ACCOUNT NO. 1300	
DATE	2014	ITEM	JRNL. REF.	DEBIT	CREDIT	ACCOUNT	FLORENCE	YARROW, WI
May			J9	69,000		2014		BALANCE
						May	30	69,000 Dr
								ITEM

ACCOUNT		OFFICE SUPPLIES			ACCOUNT		ACCOUNT NO. 1500	
DATE	2014	ITEM	JRNL. REF.	DEBIT	CREDIT	ACCOUNT	CONSULTING REVENUE	ITEM
May	2		J9	1,800		2014		BALANCE
						May	19	1,800 Dr
								ITEM

ACCOUNT		OFFICE FURNITURE			ACCOUNT		ACCOUNT NO. 1800	
DATE	2014	ITEM	JRNL. REF.	DEBIT	CREDIT	ACCOUNT	RENT	EXPENSE
May	2		J9	16,200		2014		BALANCE
						May	2	16,200 Dr
								ITEM

ACCOUNT		SALARY EXPENSE	
DATE	2014	ITEM	
May	15		

(10-20 min.) **E 2-**

13

Consulting

Yarrow Strategic Consulting				Cash
Trial Balance				Account
May 31, 2014				Balance
ACCOUNT NUMBER	ACCOUNT	DEBIT	CREDIT	Balance
1100	Cash	\$ 23,500		
1300	Accounts receivable	69,000	Dec. 2 30,000	
1500	Office supplies	1,800	Dec. 9 2,000	
1800	Office furniture	16,200	Dec. 28 1,500	
2100	Accounts payable		\$18 600 2,000	
3100	Florence Yarrow, capital		55,400 2,000	
			Bal.	
3200	Florence Yarrow, withdrawals	8,000	500	
4100	Consulting revenue		2169,000 2,000	
5500	Rent expense	2,500	12 250	
5600	Salary expense	4,000	28 1,500	
	Total	\$125,000	\$125,000	500

(15-25 min.) **E 2-14**

Mia's Memories			
Trial Balance			
February 28, 2014			
ACCOUNT	DEBIT	CREDIT	Balance
Cash	\$ 3,500*		
Accounts receivable	1,500		
Supplies	700		
Land	26,100	Dec. 5 500	
Accounts payable		Bal. \$13,700* 500	
M. Mia, capital		12,000	
Service revenue		9600	
Rent expense	900		
Salary expense	4600		
Utilities expense	1,000*		
Total	\$35,300	\$35,300	

* Explanations:

Cash: \$3,100 + \$400 = \$3,500

Accounts receivable: \$1900 - \$400 = \$1500

Accounts payable: \$11,400 + \$2,000 - \$200 + \$500 = \$13,700

M. Mia, capital: \$11,900 + \$100 = \$12,000

Utilities expense: \$500 + \$500 = \$1,000

Dec. 4	6,000
Dec. 23	500
Dec. 4	6,000
5	500
Bal.	6,000
Bal.	6,000

Req. 1 and 3

(20-30 min.) **E 2-15**

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Kerr Consulting
Dec 21 2.0
Bal. 2,0

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Alex Kerr, Capital			
	Alex Kerr, Withdrawals		
Dec.	2	30,000	
	Bal.		30,000
Service Revenue			
Dec.	9	2,000	
	18	2,000	
	Bal.		4,000
Salaries Expense			
Utilities Expense			
Bal.		0	
Dec.	12	250	

Dec.	30	2,000	
	Bal.		2,000
Rent Expense			
Dec.	2	3,000	
	Bal.		3,000
Bal.			250

18	Cash		
	Service Revenue		
21	Cash		
	Unearned Revenue		
22	No entry required – not a trans		
	Payable		
28	Cash		
	Accounts Receivable		
30	Alex Kerr, Withdrawals		
	Cash		

Req. 2

Req. 4

(continued) **E 2-15**

(continued) **E 2-15**

K

Journal

DATE	ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT	ACCOUNT
2013					
Dec. 2	Cash		30,000		
	Alex Kerr, Capital			30,000	
					Accounts receivable
	2 Rent Expense				
	Cash				
					Equipment
					Furniture
	3 Equipment				
	Cash				
					Accounts payable
					Unearned revenue
	4 Furniture				
	Accounts Payable				Alex Kerr, capital
					Alex Kerr, withdrawals
					Service revenue
	5 Supplies				
	Accounts Payable				Rent expense
					Utilities expense
	9 Accounts Receivable				Total
	Service Revenue				

12 Utilities Expense

Cash

250

250



Challenge Exercises

a. Net income for March - Given as follows:

B. Fergus, Capital			
March Withdrawals	640	Feb. 28 Bal.	1,440
		March Net	
		Income	X = \$1,600
<hr/>		Mar. 31 Bal.	2,400

$$\begin{aligned} \$1,440 + X - \$640 &= \$2,400 \\ X &= \$1,600 \end{aligned}$$

b. Total cash paid during March:

Cash			
Feb. 28 Bal.	1,800	March Payments	X
March Receipts	10,720		
Mar. 31 Bal.	1,640		

= \$10,880

$$\begin{aligned} \$1,800 + \$10,720 - X &= \$1,640 \\ X &= \$10,880 \end{aligned}$$

c. Cash collections from customers during March:

Accounts Receivable

Feb. 28 Bal.	3,840			
March sales on account	12,160	March collections	X	= \$9,840
Mar. 31 Bal.	6,160			

$$\begin{aligned} \$3,840 + \$12,160 - X &= \$6,160 \\ X &= \$9,840 \end{aligned}$$

d. Payments on account during March:

Accounts Payable

	Feb. 28 Bal.	2,080
March payments	March purchases	

$$\boxed{X = \$28}$$

on account

X on account
Mar. 31 Bal.

508
2,560

$$\begin{aligned} \$2,080 + \$508 - X &= \$2,560 \\ X &= \$28 \end{aligned}$$

Req. 1 and 2

(20-30 min.) **E 2-17**

EFFECT ON TRIAL BALANCE	ACCOUNT(S) MISSTATED	RELEVANT JOURNAL ENTRIES (NOT REQUIRED)			
a.Total debits > Total credits	Note Payable \$5,000 too low on the trial balance only	a.	Entry made (correct):	Cash 5,000	Note Payable 5,000
b.Total debits = Total credits	Supplies \$90 too high	b.	Entry made:	Supplies 430	Accounts Payable 430
	Accounts Payable \$90 too high (\$430 – \$340 = \$90)		Correct entry:	Supplies 340	Accounts Payable 340
c.Total debits = Total credits	Supplies \$200 too high	c.	Entry made:	Supplies 200	Cash 200
	Accounts Payable \$200 too high		Correct entry:	Accounts Payable 200	Cash 200
d.Total debits < Total credits	Cash \$450 too low	d.	Entry made:	Cash 50	Service Revenue 500
			Correct entry:	Cash 500	Service Revenue 500
e.Total debits < Total credits	Utility Expense \$900 too low (\$1,000 – \$100 = \$900)	e.	Entry made (correct):	Utility Expense 1,000	Cash 1,000

Instructional Note: Presentation of answers may vary.

Beyond the Numbers

(15-20 min.) **BN 2-1**

Balance Sheet Accounts

ASSETS

Cash
Accounts receivable
Food supplies
Office supplies Baking
equipment Accumulated
amortization—
 baking equipment Office
equipment Accumulated
amortization—
 office equipment

LIABILITIES

Accounts payable
Note payable

OWNER'S EQUITY

Stan Raza, capital
Stan Raza, withdrawals

Income Statement Accounts

REVENUES

Service revenue—cupcakes
Service revenue—office catering
Service revenue—weddings

EXPENSES Advertising
expense Amortization
expense—
 office equipment
Amortization
expense— baking
equipment Insurance
expense Office supplies
expense Food supplies
expense Rent expense
Salary expense Utilities
expense

Instructional Note: Some instructors may wish to use this exercise to introduce the Prepaid Insurance, Accumulated Amortization, Salary Payable, and other liability accounts.

Ethical Issue

Is Associated Charities Inc. taking advantage of the bank's generosity or the other users of the charity?

Students who approve of the Associated Charities action can point out that the bank allows Associated Charities to overdraw its cash balance. In this view, Associated Charities is merely using a privilege the bank has granted. Most banks are civic-minded and are relatively generous with charitable organizations.

Students who disapprove may argue that Associated Charities is using the bank's money and presumably incurring interest charges. In this view, Associated Charities should curtail its spending until it has the money to cover its expenditures and maintain a positive balance. Alternatively, Associated Charities could sign a note payable to borrow the needed money. The related interest is the bank's compensation. By incurring this interest, the charity is essentially using future donations to pay the cost.

The bank is the key player in this case. Whether the bank approves or disapproves of the Associated Charities overdrafts is critical to the ethical decision. Approval by the bank turns the overdrafts into an unsecured loan to Associated Charities. Disapproval by the bank would no doubt be communicated to Mr. Glowa.

The other users (volunteers, recipients, donors, etc.) could also lose if the charity ends up in financial trouble.

Steps used to analyze ethical dilemmas:

1. Recognize an ethical situation and the ethical issues involved.
2. Identify and analyze the principal elements in the situation.
3. Identify the alternatives, and weigh the impact of each alternative on various users.

Problems

Group A

(15-30 min.) **P 2-1A**

Dear Friend,

This trial balance lists the accounts of Archer Communications, along with their balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and potential investors for decision making.

The fact that the trial balance is in balance does not mean that Archer Communications is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business.

To compute Archer Communications' net income or net loss for the current period, subtract total expenses from service revenue. In this instance, Archer Communications earned net income of \$55,000 [sales revenue of \$151,000 minus total expenses of \$96,000 ($\$4,500 + \$39,000 + \$10,500 + \$42,000$)].

Instructional Note: Student responses may vary considerably.

<u>Date</u>	<u>Analysis of Transactions</u>
2014	
Nov.1	Given in the problem; not required for Nov. 1 transaction.
1	The expense Rent Expense is increased. Increases in expenses are recorded by debits; therefore, debit Rent Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
2	The asset Land is increased. Increases in assets are recorded by debits; therefore, debit Land. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
5	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The liability Notes Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Notes Payable.
10	The asset Supplies is increased. Increases in assets are recorded by debits; therefore, debit Supplies. The liability Accounts Payable is increased. Increases in liabilities are recorded by credits; therefore, credit Accounts Payable.
16	The expense Salaries Expense is increased. Increases in expenses are recorded by debits; therefore, debit Salaries Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
22	The liability Accounts Payable is decreased. Decreases in liabilities are recorded by debits; therefore, debit Accounts Payable. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
28	The owner's equity of the business is decreased. Decreases in owner's equity are recorded by debits. Decreases due to withdrawals are debited to the withdrawals account; therefore, debit Darrell Palusky, Withdrawals. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
29	The expense Property Tax Expense is increased. Increases in expenses are recorded by debits; therefore, debit Property Tax Expense. The asset Cash is decreased. Decreases in assets are recorded by credits; therefore, credit Cash.
30	The asset Cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The revenue Service Revenue is increased. Increases in revenues are recorded by credits; therefore, credit Service Revenue.

Req. 2 (journal entries)

Baycrest Cinema Company

Journal

DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Nov.	1	Cash		350,000	
		Darrell Palusky, Capital			350,000
		Investment in the business by the owner.			
	1	Rent Expense		6,000	
		Cash			6,000
		Paid November rent on a theatre building.			
	2	Land		320,000	
		Cash			320,000
		Purchased land for a theatre site.			
	5	Cash		220,000	
		Notes Payable			220,000
		Borrowed from the bank on a note payable.			
	10	Supplies		1,000	
		Accounts Payable			1,000
		Purchased theatre supplies on account.			
	16	Salaries Expense		2,900	
		Cash			2,900
		Paid cash for salaries.			
	22	Accounts Payable		600	
		Cash			600
		Made payment on account.			
	28	Darrell Palusky, Withdrawals		8,000	
		Cash			8,000
		Owner withdrew cash from the company.			
	29	Property Tax Expense		1,400	
		Cash			1,400
		Paid property tax on the land for the new theatre.			
	30	Cash		20,000	
		Service Revenue			20,000
		Receive cash for services provided.			

Req. 1 (journal entries)

(40-50 min.) **P 2-3A**

Creature Construction

Journal					
DATE 2014		ACCOUNT TITLES AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	3	Cash		36,000	
		Z. Slipewicz, Capital			36,000
		Owner deposited a cheque to start the business.			
	4	Supplies		300	
		Furniture		2,200	
		Accounts Payable			2,500
		Purchased supplies and furniture on account.			
	5	Rent Expense		750	
		Cash			750
		Paid rent for September.			
	6	Cash		1,200	
		Service Revenue			1,200
		Performed design services and received cash.			
	7	Land		22,000	
		Cash			22,000
		Purchased land for future office site.			
	10	Accounts Receivable		2,900	
		Service Revenue			2,900
		Designed a bathroom, billed it on account.			
	14	Accounts Payable		2,200	
		Cash			2,200
		Paid for September 4 furniture purchase.			
	15	Salary Expense		470	
		Cash			470
		Paid assistant's salary.			
	17	Cash		1,700	
		Accounts Receivable			1,700
		Received cash on account.			
	22	Cash		2,500	
		Service Revenue			2,500
		Received cash for cottage renovation.			
					Cont....

	25	Accounts Receivable		800	
		Service Revenue			800
		Prepared a design for a customer on account.			
	30	Salary Expense		470	
		Cash			470
		Paid assistant's salary.			
	30	Z. Slipewicz, Withdrawals		2,800	
		Cash			2,800
		Owner withdrawal of cash from the company.			

