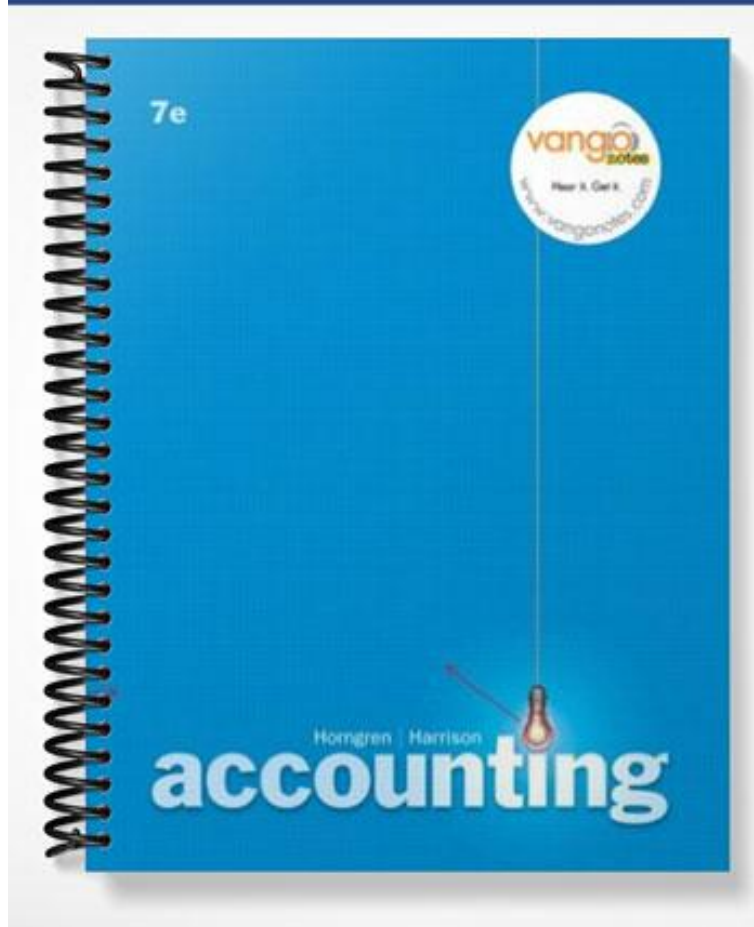
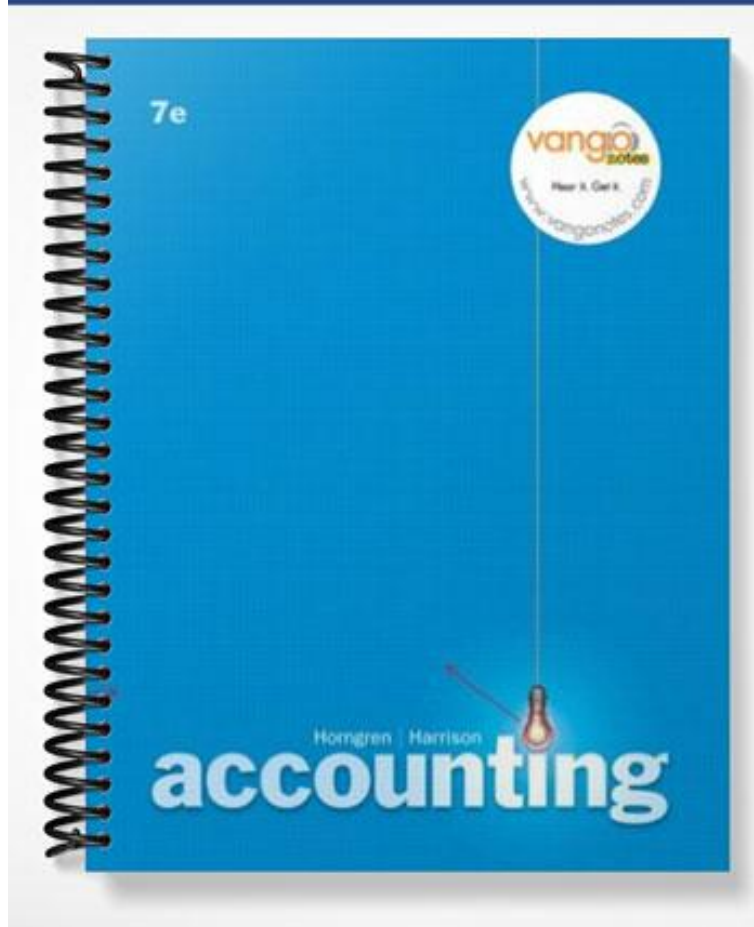


SOLUTIONS MANUAL



SOLUTIONS MANUAL



Chapter 2

Recording Business Transactions

✓ Quick Check

Answers:

- | | | | | |
|------|------|------|------|-------|
| 1. a | 3. b | 5. d | 7. d | 9. c |
| 2. c | 4. c | 6. a | 8. a | 10. b |

Explanations:

3. b. Owner's equity is \$130,000 (\$50,000 + \$60,000 + \$200,000 – \$80,000 – \$100,000).

7. d. Supplies balance is \$1,200 (\$500 + \$700). The payment of accounts payable does not affect supplies.

9. c. Ending equity is \$70,000, computed as follows:

Beginning owner's equity.....	\$ 50,000
Add: Net income:	
Revenues.....	\$110,000
Less: Expenses.....	<u>(30,000)</u>
Net income.....	80,000
Less: Withdrawals.....	<u>(60,000)</u>
Ending owner's equity.....	<u>\$ 70,000</u>



Short Exercises

(5 min.) S 2-1

Debits are increases for the following types of accounts:

- **Assets**
- **Withdrawals**
- **Expenses**

Debits are decreases for these types of accounts:

- **Liabilities**
- **Capital**
- **Revenues**

Credits are increases for these types of accounts:

- **Liabilities**
- **Capital**
- **Revenues**

Credits are decreases for these types of accounts:

- **Assets**
- **Withdrawals**
- **Expenses**

(5 min.) S 2-2

“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 2-3

- | | | |
|----------|-------------------|--|
| <u>J</u> | 1. Capital | A. Record of transactions |
| <u>C</u> | 2. Debit | B. An asset |
| <u>E</u> | 3. Expense | C. Left side of an account |
| <u>H</u> | 4. Net income | D. Side of an account where increases are recorded |
| <u>I</u> | 5. Ledger | E. Copying data from the journal to the ledger |
| <u>E</u> | 6. Posting | F. Using up assets in the course of operating a business |
| <u>D</u> | 7. Normal balance | G. Always a liability |
| <u>G</u> | 8. Payable | H. Revenues – Expenses |
| <u>A</u> | 9. Journal | I. Book of accounts |
| <u>B</u> | 10. Receivable | J. Owner's equity |

Normal Balance

Assets.....	Debit	
Liabilities.....		Credit
Owner's Equity—overall.....		Credit
Capital.....		Credit
Withdrawal.....	Debit	
Revenues.....		Credit
Expenses.....	Debit	

(10 min.) S 2-5

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
June	1	Cash		25,000	
		Mark Brown, Capital			25,000
		Received investment from owner.			
	2	Medical Supplies		10,000	
		Accounts Payable			10,000
		Purchased supplies on account.			
	2	Rent Expense		4,000	
		Cash			4,000
		Paid office rent.			
	3	Accounts Receivable		12,000	
		Service Revenue			12,000
		Performed service on account.			

Req. 1

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Supplies		1,000	
	Accounts Payable			1,000
	Purchased supplies on account.			
	Accounts Payable		500	
	Cash (\$1,000 × ½)			500
	Paid on account.			

Req. 2

Accounts Payable	
500	1,000
Bal.	500

(10 min.) S 2-7

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	22	Accounts Receivable		6,000	
		Service Revenue			6,000
		Performed service on account.			
	30	Cash		2,000	
		Accounts Receivable			2,000
		Received cash on account.			
	31	Utilities Expense		200	
		Accounts Payable			200
		Received utility bill.			
	31	Salary Expense		3,000	
		Cash			3,000
		Paid salary expense.			
	31	Advertising Expense		900	
		Cash			900
		Paid advertising expense.			

Req. 1

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Accounts Receivable		5,000	
	Service Revenue			5,000
	Performed service on account.			
	Cash		3,500	
	Accounts Receivable			3,500
	Received cash on account.			

Req. 2

Cash		Accounts Receivable		Service Revenue	
3,500		5,000	3,500		5,000
Bal. 3,500		Bal. 1,500			Bal. 5,000

Req. 3

a.	Hughes earned	\$5,000:	Service Revenue	
b.	Total assets	\$5,000:	Cash	\$3,500
			Accounts receivable	<u>1,500</u>
			Total assets	<u>\$5,000</u>

Reqs. 1 and 2

Cash		
	25,000	4,000
Bal.	21,000	

Accounts Receivable		
	12,000	
Bal.	12,000	

Medical Supplies		
	10,000	
Bal.	10,000	

Accounts Payable		
		10,000
	Bal.	10,000

Mark Brown, Capital		
		25,000
	Bal.	25,000

Service Revenue		
		12,000
	Bal.	12,000

Rent Expense		
	4,000	
Bal.	4,000	

(continued) S 2-9

Req. 3

Mark Brown, MD		
Trial Balance		
June 3, 2008		
ACCOUNT	DEBIT	CREDIT
Cash	\$21,000	
Accounts receivable	12,000	
Medical supplies	10,000	
Accounts payable		\$10,000
Mark Brown, capital		25,000
Service revenue		12,000
Rent expense	4,000	
Total	<u>\$47,000</u>	<u>\$47,000</u>

(10 min.) S 2-10

Redbird Floor Coverings		
Trial Balance		
December 31, 2007		
ACCOUNT	DEBIT	CREDIT
Cash	\$12,000	
Equipment	40,000	
Accounts payable		\$ 1,000
Other liabilities		19,000
Capital		25,000
Revenues		29,000
Expenses	22,000	
Total	<u>\$74,000</u>	<u>\$74,000</u>

Incorrect Trial Balance		
ACCOUNT	DEBIT	CREDIT
Cash	\$21,000	
Accounts receivable	1,000	
Office supplies	500	
Land	11,000	
Accounts payable		\$ 300
Cookie Lapp, capital	30,000*	
Cookie Lapp, withdrawals	2,000	
Service revenue		8,500
Rent expense, computer	600	
Rent expense, office	1,000	
Salary expense	1,200	
Utilities expense	500	
Total	<u>\$68,800</u>	<u>\$8,800</u>

*Incorrect; should be listed as a credit.

To correct this error,

1. Take the difference between total debits and total credits:

$$\$68,800 - \$8,800 = \$60,000$$

2. Divide the error by 2:

$$\$60,000 \div 2 = \$30,000$$

3. Locate \$30,000 on the trial balance. Cookie Lapp, capital should have a credit balance.

Incorrect Trial Balance		
ACCOUNT	DEBIT	CREDIT
Cash	\$21,000	
Accounts receivable	1,000	
Office supplies	500	
Land	11,000	
Accounts payable		\$ 300
Cookie Lapp, capital		30,000
Cookie Lapp, withdrawals	200*	
Service revenue		8,500
Rent expense, computer	600	
Rent expense, office	1,000	
Salary expense	1,200	
Utilities expense	500	
Total	<u>\$37,000</u>	<u>\$38,800</u>

*Incorrect; should be listed as \$2,000.

To correct this error,

1. Take the difference between total debits and total credits:

$$\$38,800 - \$37,000 = \$1,800$$

2. Divide the error by 9:

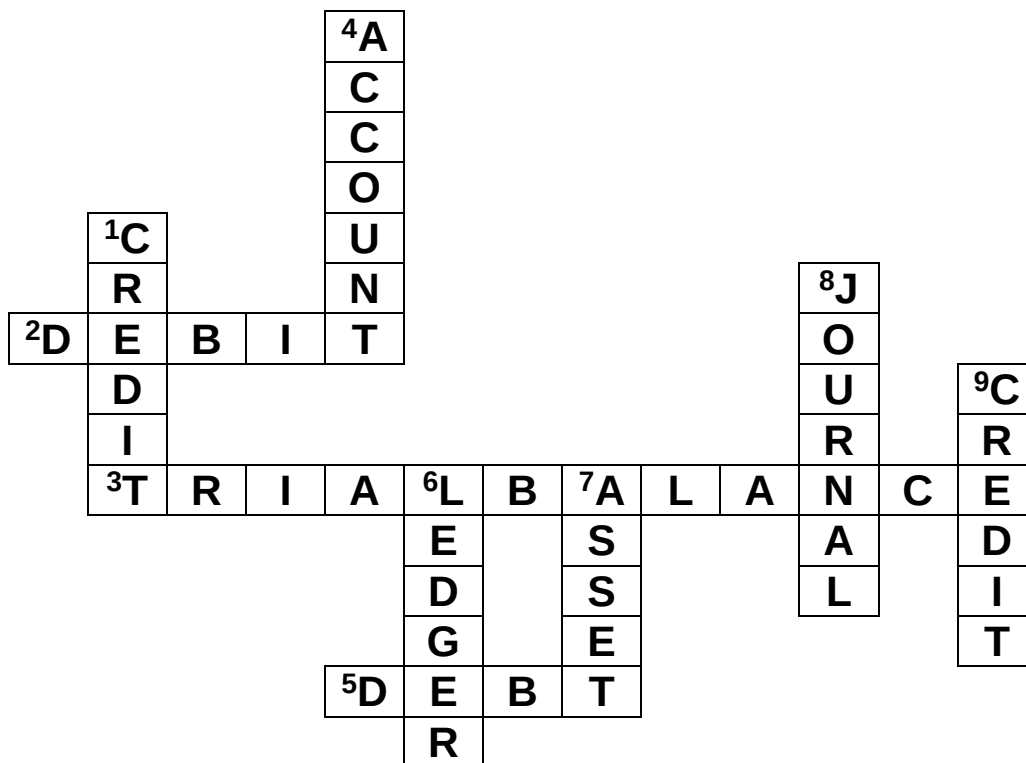
$$\$1,800 \div 9 = \$200$$

3. Locate \$200 on the trial balance. Withdrawals, at \$200, holds the error. Trace Withdrawals' balance back to the ledger account, which shows the correct amount, \$2,000.



Exercises

(10 min.) E 2-13



				⁴ N								
		² R	E	C	E	I	V	A	B	L	⁷ E	
¹ D					T						X	
E					I						P	
³ B	A	L	A	N	C	E	S	H	E	E	T	
I				C							N	
T					⁵ P	O	S	T			S	
					M						E	
		⁶ C	R	E	D	I	T					

Req. 1

Debit		Credit		Credit
ASSETS	=	LIABILITIES	+	OWNERS' EQUITY
\$180,000	=	\$100,000	+	\$80,000

Req. 2

Credit		Debit		Net Credit
REVENUES	-	EXPENSES	=	NET INCOME
\$240,000	-	\$200,000	=	\$40,000

NET INCOME represents a net credit because revenues (credits) exceed expenses (debits).

NET LOSS represents a net debit because expenses (debits) exceed revenues (credits).

(10-15 min.) E 2-16

Journal				
DATE		ACCOUNTS AND EXPLANATIONS	DEBIT	CREDIT
Dec.	2	Utilities Expense	300	
		Cash		300
	5	Equipment	2,000	
		Accounts Payable		2,000
	10	Accounts Receivable	1,600	
		Service Revenue		1,600
	12	Cash	7,000	
		Note Payable		7,000
	19	Cash	29,000	
		Land		29,000
	21	Supplies	600	
		Cash		600
	27	Accounts Payable	2,000	
		Cash		2,000

(10-15 min.) E 2-17

Cash

Dec. 1	3,000	Dec. 2	300
12	7,000	21	600
19	29,000	27	2,000
Dec. 31	36,100		

Accounts Receivable

Dec. 10	1,600		
---------	-------	--	--

Equipment

Dec. 5	2,000		
--------	-------	--	--

Land

Dec. 1	29,000	Dec. 19	29,000
--------	--------	---------	--------

Supplies

Dec. 21	600		
---------	-----	--	--

Accounts Payable

Dec. 27	2,000	Dec. 5	2,000
---------	-------	--------	-------

Notes Payable

		Dec. 12	7,000
--	--	---------	-------

Rex Blackwell, Capital

		Dec. 1	32,000
--	--	--------	--------

Service Revenue

		Dec. 10	1,600
--	--	---------	-------

Utilities Expense

Dec. 2	300		
--------	-----	--	--

Total debits	=	Total credits
\$40,600	=	\$40,600

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Aug.	1	Cash		60,000	
		Ron Woodward, Capital			60,000
		Investment by owner.			
	2	Supplies		200	
		Accounts Payable			200
		Purchased supplies on acct.			
	4	Building		50,000	
		Cash			50,000
		Paid cash for a building.			
	6	Cash		3,000	
		Service Revenue			3,000
		Performed services for cash.			
	9	Accounts Payable		100	
		Cash			100
		Paid cash on account.			
	17	Accounts Receivable		2,100	
		Service Revenue			2,100
		Performed service on account.			
	23	Cash		1,200	
		Accounts Receivable			1,200
		Received cash on account.			
	31	Salary Expense		1,200	
		Rent Expense		500	
		Cash			1,700
		Paid expenses.			

Req. 1

Cash

Aug. 1	60,000	Aug. 4	50,000
6	3,000	9	100
23	1,200	31	1,700
Aug. 31	12,400		

Accounts Receivable

Aug. 17	2,100	Aug. 23	1,200
Aug. 31	900		

Supplies

Aug. 2	200		
Aug. 31	200		

Building

Aug. 4	50,000		
Aug. 31	50,000		

Accounts Payable

Aug. 9	100	Aug. 2	200
		Aug. 31	100

Ron Woodward, Capital

	Aug. 1	60,000
	Aug. 31	60,000

Service Revenue

	Aug. 6	3,000
	17	2,100
	Aug. 31	5,100

Salary Expense

Aug. 31	1,200	
Aug. 31	1,200	

Rent Expense

Aug. 31	500	
Aug. 31	500	

Req. 2

Woodward Technology Solutions		
Trial Balance		
August 31, 2007		
ACCOUNT	DEBIT	CREDIT
Cash	\$12,400	
Accounts receivable	900	
Supplies	200	
Building	50,000	
Accounts payable		\$ 100
Ron Woodward, capital		60,000
Service revenue		5,100
Salary expense	1,200	
Rent expense	500	
Total	<u>\$65,200</u>	<u>\$65,200</u>

Req. 1

May	2	Investment of cash by the owner
	9	Purchase of supplies on account (on credit)
	11	Revenue on account
	14	Payment of rent expense
	22	Payment on account
	25	Payment of advertising expense
	27	Collection on account
	31	Receipt of a fuel bill and recording the expense on account

Reqs. 2 and 3

Cash			110
May 2	J.5	20,000	May 14 J.5 3,200
27	J.5	1,400	22 J.5 300
			25 J.5 400
Bal.		17,500	

Accounts Receivable			120
May 11	J.5	2,600	May 27 J.5 1,400
Bal.		1,200	

Supplies			130
May 9	J.5	200	
Bal.		200	

Accounts Payable			210
May 22	J.5	300	May 9 J.5 200
			31 J.5 100
			Bal. -0-

Betty Sawyer, Capital			310
	May 2	J.5 20,000	
	Bal.		20,000

Service Revenue			410
	May 11	J.5 2,600	
	Bal.		2,600

Rent Expense			510
	May 14	J.5 3,200	
	Bal.		3,200

Advertising Expense			520
May 25	J.5	400	
Bal.		400	

Fuel Expense			530
May 31	J.5	100	
Bal.		100	

Req. 4

Alert Defensive Driving		
Trial Balance		
May 31, 2006		
ACCOUNT	DEBIT	CREDIT
Cash	\$17,500	
Accounts receivable	1,200	
Supplies	200	
Accounts payable		\$ -0-
Betty Sawyer, capital		20,000
Service revenue		2,600
Rent expense	3,200	
Advertising expense	400	
Fuel expense	100	
Total	<u>\$22,600</u>	<u>\$22,600</u>

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	1. Cash		12,000	
	Harry Reid, Capital			12,000
	Investment by owner.			
	2. Supplies		400	
	Accounts Payable			400
	Purchased supplies on account.			
	3. Building		40,000	
	Cash			40,000
	Paid cash for building.			
	4. Cash		37,000	
	Note Payable			37,000
	Borrowed money; signed note payable.			
	5. Equipment		6,000	
	Cash			6,000
	Paid cash for equipment.			

(10 min.) E 2-22

Reed's Home Care		
Trial Balance		
October 31, 2007		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 3,000	
Supplies	400	
Equipment	6,000	
Building	40,000	
Accounts payable		\$ 400
Note payable		37,000
Harry Reed, capital		12,000
Total	<u>\$49,400</u>	<u>\$49,400</u>

Mayflower Moving Company		
Trial Balance		
December 31, 2006		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 5,000	
Accounts receivable	9,400	
Supplies	200	
Trucks	125,000	
Building	44,000	
Accounts payable		\$ 4,300
Note payable		60,000
Joe Mayflower, capital		48,700
Joe Mayflower, withdrawals	6,000	
Service revenue		86,000
Salary expense	6,000	
Fuel expense	2,000	
Insurance expense	700	
Utilities expense	400	
Supplies expense	300	
Total	<u>\$199,000</u>	<u>\$199,000</u>

(20-25 min.) E 2-24

ACCOUNT		CASH				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
a.				15,000		15,000	
b.					1,500	13,500	
d.					1,800	11,700	
e.					400	11,300	
g.					7,000	4,300	

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
f.				5,600		5,600	

ACCOUNT		OFFICE SUPPLIES				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
c.				700		700	

ACCOUNT		OFFICE FURNITURE				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
a.				5,400		5,400	

(continued) E 2-24

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
c.					700		700
e.				400			300

ACCOUNT		LEE BIVONA, CAPITAL				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
a.					20,400		20,400

ACCOUNT		LEE BIVONA, WITHDRAWALS				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
g.				7,000		7,000	

ACCOUNT		SERVICE REVENUE				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
f.					5,600		5,600

(continued) E 2-24

ACCOUNT		SALARY EXPENSE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
d.				1,800		1,800	

ACCOUNT		RENT EXPENSE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
b.				1,500		1,500	

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	Cash		15,000	
	Office Furniture		5,400	
	Lee Bivona, Capital			20,400
	Received investment from owner.			
b.	Rent Expense		1,500	
	Cash			1,500
	Paid monthly rent.			
c.	Office Supplies		700	
	Accounts Payable			700
	Purchased supplies on account.			
d.	Salary Expense		1,800	
	Cash			1,800
	Paid salary expense.			
e.	Accounts Payable		400	
	Cash			400
	Paid on account.			
f.	Accounts Receivable		5,600	
	Service Revenue			5,600
	Performed service on account.			
g.	Lee Bivona, Withdrawals		7,000	
	Cash			7,000
	Withdrawal by owner.			

Lee Bivona, CPA		
Trial Balance		
December 31, 2007		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 4,300	
Accounts receivable	5,600	
Office supplies	700	
Office furniture	5,400	
Accounts payable		\$ 300
Lee Bivona, capital		20,400
Lee Bivona, withdrawals	7,000	
Service revenue		5,600
Salary expense	1,800	
Rent expense	1,500	
Total	<u>\$26,300</u>	<u>\$26,300</u>

Joy McDowell Tutoring Service		
Trial Balance		
March 31, 2009		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 3,400*	
Accounts receivable	1,600*	
Supplies	600	
Computer equipment	26,000	
Accounts payable		\$12,600*
Joy McDowell, capital		12,300*
Service revenue		9,700
Salary expense	1,700	
Rent expense	800	
Utilities expense	500*	
Total	<u>\$34,600</u>	<u>\$34,600</u>

***Explanations:**

Cash: $\$3,000 + \$400 = \$3,400$

Accounts Receivable: $\$2,000 - \$400 = \$1,600$

Accounts Payable: $\$11,500 + \$1,000 - \$100 + \$200 = \$12,600$

Joy McDowell, Capital: $\$11,600 + \$700 = \$12,300$

Utilities Expense: $\$300 + \$200 = \$500$

Effect on Trial Balance	Account(s) Misstated	Journal Entries (Not Required)			
a. Total debits > Total credits	Note Payable \$5,000 too low, on the trial balance only				
b. Total debits < Total credits	Utility Expense \$630 too low (\$700 – \$70 = \$630)				
c. Total debits = Total credits	Supplies \$400 too high Accounts Payable \$400 too high	e. Entry made: Correct entry:	Supplies Cash Accounts Payable Cash	400 400 400	400 400
d. Total debits < Total credits	Cash \$720 too low	a. Entry made: Correct entry:	Cash Service Revenue Cash Service Revenue	80 800 800	800 800
e. Total debits = Total credits	Supplies \$90 too high Accounts Payable \$90 too high (\$210 – \$120 = \$90)	b. Entry made: Correct entry:	Supplies Accounts Payable Supplies Accounts Payable	210 120 120	210 120

a. Net income for July – Given as follows:

Owner, Capital			
		June 30 Bal.	9,000
July		July	
withdrawals	4,000	Net income	X
		July 31 Bal.	22,000

= \$17,000

$$\$9,000 + X - \$4,000 = \$22,000$$

$$X = \$17,000$$

b. Total cash paid during July:

Cash			
June 30 Bal.	7,000		
July receipts	50,000	July payments	X
July 31 Bal.	2,000		

= \$55,000

$$\$7,000 + \$50,000 - X = \$2,000$$

$$X = \$55,000$$

c. Cash collections from customers during July:

Accounts Receivable			
June 30 Bal.	24,000		
July revenues on account	75,000	July collections	X
July 31 Bal.	26,000		

= \$73,000

$$\begin{aligned}
 \$24,000 + \$75,000 - X &= \$26,000 \\
 X &= \$73,000
 \end{aligned}$$

c. Payments on account during July:

Accounts Payable			
		June 30 Bal.	11,000
July		July	
		Purchases on	
		acct.	40,000
		July 31 Bal.	20,000

X = 31,000

$$\begin{aligned}
 \$11,000 + \$40,000 - X &= \$20,000 \\
 X &= \$31,000
 \end{aligned}$$

a. Your transaction:

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Repair Expense		484.02	
		Cash			484.02
		Paid repair bill.			

b. Advanced Automotive's transaction:

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		Cash		484.02	
		Service Revenue			484.02
		Performed service and received cash.			

✓ Problems

Group A

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

Req. 1

Total assets \$74,000 (\$12,000 + \$27,000 + \$4,000 + \$31,000)
Total liabilities \$35,000
Net income \$62,000 (\$121,000 – \$26,000 – \$3,000 –
 \$23,000 – \$7,000)

Req. 2

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Accounts Receivable		121,000	
	Service Revenue			121,000

Accounts Receivable
121,000

Service Revenue
121,000

Req. 3

Shea records transactions in the journal, posts to the accounts in the ledger, computes each account balance, and lists all the accounts along with their balances on the trial balance. Cash has an ending balance of \$12,000.

Student responses may vary.

Req. 4

The new business will be a partnership.

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
July	1	Cash		350,000	
		Darrel Palusky, Capital			350,000
	2	Building		300,000	
		Cash			300,000
	5	Cash		220,000	
		Notes Payable			220,000
	10	Supplies		1,700	
		Accounts Payable			1,700
	15	Accounts Payable		800	
		Cash			800
	15	Property Tax Expense		1,200	
		Cash			1,200
	16	Salary Expense		2,800	
		Rent Expense		1,800	
		Cash			4,600
	28	Darrel Palusky, Withdrawals		6,000	
		Cash			6,000
	31	Cash		20,000	
		Service Revenue			20,000

Req. 1

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	1	Cash		25,000	
		Doris Higgins, Capital			25,000
	4	Supplies		200	
		Furniture		1,800	
		Accounts Payable			2,000
	6	Cash		4,000	
		Service Revenue			4,000
	7	Land		20,000	
		Cash			20,000
	10	Accounts Receivable		800	
		Service Revenue			800
	14	Accounts Payable		1,800	
		Cash			1,800
	15	Salary Expense		600	
		Cash			600
	17	Cash		500	
		Accounts Receivable			500
	20	Accounts Receivable		800	
		Service Revenue			800

Req. 1

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Sept.	28	Cash		1,500	
		Service Revenue			1,500
	30	Salary Expense		600	
		Cash			600
	30	Rent Expense		500	
		Cash			500
	30	Doris Higgins, Withdrawals		2,000	
		Cash			2,000

Req. 2

Cash

Sept. 1	25,000	Sept. 7	20,000
6	4,000	14	1,800
17	500	15	600
28	1,500	30	600
		30	500
		30	2,000
Bal.	5,500		

Accounts Receivable

Sept. 10	800	Sept. 17	500
20	800		
Bal.	1,100		

Supplies

Sept. 4	200		
Bal.	200		

Furniture

Sept. 4	1,800		
Bal.	1,800		

Land

Sept. 7	20,000		
Bal.	20,000		

Accounts Payable

Sept. 14	1,800	Sept. 4	2,000
		Bal.	200

Doris Higgins, Capital

	Sept. 1	25,000
	Bal.	25,000

Doris Higgins, Withdrawals

Sept. 30	2,000		
Bal.	2,000		

Service Revenue

	Sept. 6	4,000
	10	800
	20	800
	28	1,500
	Bal.	7,100

Salary Expense

Sept. 15	600		
30	600		
Bal.	1,200		

Rent Expense

Sept. 30	500		
Bal.	500		

Req. 3

Doris Higgins, Designer		
Trial Balance		
September 30, 20XX		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 5,500	
Accounts receivable	1,100	
Supplies	200	
Furniture	1,800	
Land	20,000	
Accounts payable		\$ 200
Doris Higgins, capital		25,000
Doris Higgins, withdrawals	2,000	
Service revenue		7,100
Salary expense	1,200	
Rent expense	500	
Total	<u>\$32,300</u>	<u>\$32,300</u>

Req. 1

Journal					Page 3
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Feb.	4	Cash	11	3,500	
		Accounts Receivable	12		3,500
		Received on account.			
	8	Accounts Receivable	12	7,000	
		Service Revenue	41		7,000
		Performed service on account.			
	13	Accounts Payable	21	1,000	
		Cash	11		1,000
		Paid on account.			
	18	Supplies	13	100	
		Accounts Payable	21		100
		Purchased supplies on account.			
	20	John Hilton, Withdrawals	32	1,200	
		Cash	11		1,200
		Withdrew cash for personal use.			
	21	Paid for deck for residence; not a transaction of the business.			
	22	Cash	11	5,500	
		Service Revenue	41		5,500
		Performed service for cash.			
	28	Rent Expense	52	800	
		Cash	11		800
		Paid rent.			
	28	Salary Expense	51	1,800	
		Cash	11		1,800
		Paid employee salary.			

Req. 2

ACCOUNT		CASH				ACCOUNT NO. 11	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan.	31	Bal.	√			2,000	
Feb.	4		J.3	3,500		5,500	
	13		J.3		1,000	4,500	
	20		J.3		1,200	3,300	
	22		J.3	5,500		8,800	
	28		J.3		800	8,000	
	28		J.3		1,800	6,200	

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO. 12	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan.	31	Bal.	√			9,500	
Feb.	4		J.3		3,500	6,000	
	8		J.3	7,000		13,000	

ACCOUNT		SUPPLIES				ACCOUNT NO. 13	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan.	31	Bal.	√			800	
Feb.	18		J.3	100		900	

Req. 2

ACCOUNT		LAND				ACCOUNT NO. 14	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan.	31	Bal.	√			18,600	

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 21	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan.	31	Bal.	√				3,000
Feb.	13		J.3	1,000			2,000
	18		J.3		100		2,100

ACCOUNT		JOHN HILTON, CAPITAL				ACCOUNT NO. 31	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Jan.	31	Bal.	√				27,900

ACCOUNT		JOHN HILTON, WITHDRAWALS				ACCOUNT NO. 32	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Feb.	20		J.3	1,200		1,200	

Req. 2

ACCOUNT		SERVICE REVENUE				ACCOUNT NO. 41	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Feb.	8		J.3		7,000		7,000
	22		J.3		5,500		12,500

ACCOUNT		SALARY EXPENSE				ACCOUNT NO. 51	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Feb.	28		J.3	1,800		1,800	

ACCOUNT		RENT EXPENSE				ACCOUNT NO. 52	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Feb.	28		J.3	800		800	

Req. 3

John Hilton, CPA			
Trial Balance			
February 28, 2007			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
11	Cash	\$ 6,200	
12	Accounts receivable	13,000	
13	Supplies	900	
14	Land	18,600	
21	Accounts payable		\$ 2,100
31	John Hilton, capital		27,900
32	John Hilton, withdrawals	1,200	
41	Service revenue		12,500
51	Salary expense	1,800	
52	Rent expense	800	
	Total	<u>\$42,500</u>	<u>\$42,500</u>

Reqs. 1 and 3

ACCOUNT CASH				ACCOUNT NO.			
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
a.				25,000		25,000	
c.					18,000	7,000	
d.					2,200	4,800	
f.					800	4,000	
h.				1,600		5,600	
i.				1,200		6,800	
j.					1,100	5,700	
k.					5,000	700	

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
e.				5,100		5,100	
i.					1,200	3,900	

ACCOUNT				OFFICE SUPPLIES		ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
b.				2,100		2,100	

ACCOUNT		OFFICE FURNITURE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
c.				18,000		18,000	

(continued) P 2-34A

ACCOUNT		BUILDING			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
a.				30,000		30,000

ACCOUNT		ACCOUNTS PAYABLE			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
b.					2,100	2,100
f.				800		1,300
g.					600	1,900

ACCOUNT		MAURY WILLS, CAPITAL			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
a.					55,000	55,000

ACCOUNT		MAURY WILLS, WITHDRAWALS			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
k.				5,000		5,000

ACCOUNT		SERVICE REVENUE			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
e.					5,100	5,100
h.					1,600	6,700

(continued) P 2-34A

ACCOUNT		SALARY EXPENSE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
d.				2,200		2,200	

ACCOUNT		RENT EXPENSE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
j.				700		700	

ACCOUNT		ADVERTISING EXPENSE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
g.				600		600	

ACCOUNT		UTILITIES EXPENSE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
j.				400		400	

Req. 2

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	Cash		25,000	
	Building		30,000	
	Maury Wills, Capital			55,000
	Received investment by owner.			
b.	Office Supplies		2,100	
	Accounts Payable			2,100
	Purchased supplies on account.			
c.	Office Furniture		18,000	
	Cash			18,000
	Purchased furniture.			
d.	Salary Expense		2,200	
	Cash			2,200
	Paid salary.			
e.	Accounts Receivable		5,100	
	Service Revenue			5,100
	Performed service on account.			
f.	Accounts Payable		800	
	Cash			800
	Paid on account.			
g.	Advertising Expense		600	
	Accounts Payable			600
	Received advertising bill.			

Req. 2 (continued)

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
h.		Cash		1,600	
		Service Revenue			1,600
		Performed service and received cash.			
i.		Cash		1,200	
		Accounts Receivable			1,200
		Collected cash on account.			
j.		Rent Expense		700	
		Utilities Expense		400	
		Cash			1,100
		Paid expenses.			
k.		Maury Wills, Withdrawals		5,000	
		Cash			5,000
		Withdrawal by owner.			

Req. 4

Wills Environmental Consulting		
Trial Balance		
June 30, 2008		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 700	
Accounts receivable	3,900	
Office supplies	2,100	
Office furniture	18,000	
Building	30,000	
Accounts payable		\$ 1,900
Maury Wills, capital		55,000
Maury Wills, withdrawals	5,000	
Service revenue		6,700
Salary expense	2,200	
Rent expense	700	
Advertising expense	600	
Utilities expense	400	
Total	<u>\$63,600</u>	<u>\$63,600</u>

Req. 1

Wills Environmental Consulting		
Income Statement		
Month Ended June 30, 2008		
Revenues:		
Service revenue		\$6,700
Expenses:		
Salary expense	\$2,200	
Rent expense	700	
Advertising expense	600	
Utilities expense	400	
Total expenses		<u>3,900</u>
Net income		<u>\$2,800</u>

Req. 2

Wills Environmental Consulting	
Statement of Owner's Equity	
Month Ended June 30, 2008	
Maury Wills, capital, June 1, 2008	\$ -0-
Add: Investment by owner	55,000
Net income for the month	<u>2,800</u>
	57,800
Less: Withdrawals by owner	<u>(5,000)</u>
Maury Wills, capital, June 30, 2008	<u>\$52,800</u>

Req. 3

Wills Environmental Consulting			
Balance Sheet			
June 30, 2008			
ASSETS		LIABILITIES	
Cash	\$ 700	Accounts payable	\$ 1,900
Accounts receivable	3,900	Total liabilities	1,900
Office supplies	2,100		
Office furniture	18,000	OWNER'S EQUITY	
Building	30,000	Maury Wills, capital	52,800
		Total liabilities and	
Total assets	<u>\$54,700</u>	owner's equity	<u>\$54,700</u>

URNO.1 Child Care		
Trial Balance		
June 30, 20XX		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 4,000*	
Accounts receivable	14,000*	
Supplies	1,900*	
Equipment	75,000	
Accounts payable		\$ 56,000*
Mary Hulse, capital		38,500
Mary Hulse, withdrawals	2,100	
Service revenue		6,500
Salary expense	3,000*	
Rent expense	1,000	
Total	<u>\$101,000</u>	<u>\$101,000</u>

***Explanations:**

Cash: $\$3,000 + \$1,000 = \$4,000$

Accounts receivable: $\$10,000 + \$2,000 + \$2,000 = \$14,000$

Supplies: $\$900 + \$1,000 = \$1,900$

Accounts payable: $\$55,000 + \$1,000 = \$56,000$

Salary expense: $\$3,100 - \$100 = \$3,000$

✓ Problems

Group B

(15-30 min.) P 2-37B

Req. 1

Total assets	\$147,000 (\$7,000 + \$6,000 + \$4,000 + \$130,000)
Total liabilities	\$ 76,000 (\$31,000 + \$45,000)
Net income	\$ 59,000 (\$112,000 – \$38,000 – \$8,000 – \$7,000)

Req. 2

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Accounts Receivable		112,000	
	Service Revenue			112,000

Accounts Receivable

112,000

Service Revenue

112,000

Req. 3

A+ records transactions in the journal, posts to the accounts in the ledger, computes each account balance, and lists all the accounts along with their balances on the trial balance. Cash has an ending balance of \$7,000.

Student responses may vary.

Req. 4

The new business would be a partnership.

(15 min.) P 2-38B

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
June	1	Cash		70,000	
		Dan Bell, Capital			70,000
	5	Rent Expense		700	
		Cash			700
	9	Land		22,000	
		Cash			22,000
	10	Supplies		1,200	
		Accounts Payable			1,200
	19	Cash		20,000	
		Notes Payable			20,000
	22	Accounts Payable		1,000	
		Cash			1,000
	30	Cash		6,000	
		Accounts Receivable		5,000	
		Service Revenue			11,000
	30	Salary Expense		2,400	
		Rent Expense		1,500	
		Utilities Expense		400	
		Cash			4,300
	30	Dan Bell, Withdrawals		10,000	
		Cash			10,000

Req. 1

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	2	Cash		36,000	
		Laura Knipper, Capital			36,000
	3	Supplies		500	
		Furniture		2,600	
		Accounts Payable			3,100
	4	Cash		1,500	
		Service Revenue			1,500
	7	Land		22,000	
		Cash			22,000
	11	Accounts Receivable		900	
		Service Revenue			900
	15	Salary Expense		570	
		Cash			570
	16	Accounts Payable		2,600	
		Cash			2,600
	18	Cash		1,800	
		Service Revenue			1,800
	19	Accounts Receivable		800	
		Service Revenue			800

Req. 1

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Jan.	29	Cash		400	
		Accounts Receivable			400
	31	Salary Expense		570	
		Cash			570
	31	Rent Expense		700	
		Cash			700
	31	Laura Knipper, Withdrawals		2,200	
		Cash			2,200

Req. 2

Cash

Jan. 2	36,000	Jan. 7	22,000
4	1,500	15	570
18	1,800	16	2,600
29	400	31	570
		31	700
		31	2,200
Bal.	11,060		

Furniture

Jan. 3	2,600		
Bal.	2,600		

Accounts Payable

Jan. 16	2,600	Jan. 3	3,100
		Bal.	500

Service Revenue

	Jan. 4	1,500
	11	900
	18	1,800
	19	800
	Bal.	5,000

Rent Expense

Jan. 31	700	
Bal.	700	

Accounts Receivable

Jan. 11	900	Jan. 29	400
19	800		
Bal.	1,300		

Supplies

Jan. 3	500		
Bal.	500		

Land

Jan. 7	22,000		
Bal.	22,000		

Laura Knipper, Capital

	Jan. 2	36,000
	Bal.	36,000

Laura Knipper, Withdrawals

Jan. 31	2,200	
Bal.	2,200	

Salary Expense

Jan. 15	570	
31	570	
Bal.	1,140	

Req. 3

Laura Knipper, Attorney		
Trial Balance		
January 31, 20XX		
ACCOUNT	DEBIT	CREDIT
Cash	\$11,060	
Accounts receivable	1,300	
Supplies	500	
Furniture	2,600	
Land	22,000	
Accounts payable		\$ 500
Laura Knipper, capital		36,000
Laura Knipper, withdrawals	2,200	
Service revenue		5,000
Salary expense	1,140	
Rent expense	700	
Total	<u>\$41,500</u>	<u>\$41,500</u>

Req. 1

Journal					Page 6
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Nov.	4	Cash	11	6,000	
		Accounts Receivable	12		6,000
		Received on account.			
	7	Accounts Receivable	12	5,700	
		Service Revenue	41		5,700
		Performed services on account.			
	12	Paid for residence renovation; not a transaction of the business.			
	16	Supplies	13	800	
		Accounts Payable	21		800
		Purchased supplies on account.			
	19	Stephanie Stouse, Withdrawals	32	2,100	
		Cash	11		2,100
		Withdrew for personal use.			
	20	Accounts Payable	21	2,600	
		Cash	11		2,600
		Paid on account.			
	24	Cash	11	1,900	
		Service Revenue	41		1,900
		Performed service for cash.			
	30	Rent Expense	52	700	
		Cash	11		700
		Paid rent.			
	30	Salary Expense	51	2,000	
		Cash	11		2,000
		Paid employee salary.			

Req. 2

ACCOUNT CASH						ACCOUNT NO. 11	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Oct.	31	Bal.	√			3,000	
Nov.	4		J.6	6,000		9,000	
	19		J.6		2,100	6,900	
	20		J.6		2,600	4,300	
	24		J.6	1,900		6,200	
	30		J.6		700	5,500	
	30		J.6		2,000	3,500	

ACCOUNT ACCOUNTS RECEIVABLE						ACCOUNT NO. 12	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Oct.	31	Bal.	√			8,000	
Nov.	4		J.6		6,000	2,000	
	7		J.6	5,700		7,700	

ACCOUNT SUPPLIES						ACCOUNT NO. 13	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Oct.	31	Bal.	√			600	
Nov.	16		J.6	800		1,400	

Req. 2

ACCOUNT		EQUIPMENT				ACCOUNT NO. 14	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Oct.	31	Bal.	✓			15,000	

ACCOUNT		ACCOUNTS PAYABLE				ACCOUNT NO. 21	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Oct.	31	Bal.	✓				4,600
Nov.	16		J.6		800		5,400
	20		J.6	2,600			2,800

ACCOUNT		STEPHANIE STOUSE, CAPITAL				ACCOUNT NO. 31	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Oct.	31	Bal.	✓				22,000

ACCOUNT		STEPHANIE STOUSE, WITHDRAWALS				ACCOUNT NO. 32	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Nov.	19		J.6	2,100		2,100	

Req. 2

ACCOUNT		SERVICE REVENUE				ACCOUNT NO. 41	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Nov.	7		J.6		5,700		
	24		J.6		1,900		7,600

ACCOUNT		SALARY EXPENSE				ACCOUNT NO. 51	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Nov.	30		J.6	2,000		2,000	

ACCOUNT		RENT EXPENSE				ACCOUNT NO. 52	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
Nov.	30		J.6	700		700	

Req. 3

Stephanie Stouse, Registered Dietician			
Trial Balance			
November 30, 2007			
ACCT. NO.	ACCOUNT	DEBIT	CREDIT
11	Cash	\$ 3,500	
12	Accounts receivable	7,700	
13	Supplies	1,400	
14	Equipment	15,000	
21	Accounts payable		\$ 2,800
31	Stephanie Stouse, capital		22,000
32	Stephanie Stouse, withdrawals	2,100	
41	Service revenue		7,600
51	Salary expense	2,000	
52	Rent expense	700	
	Total	<u>\$32,400</u>	<u>\$32,400</u>

Reqs. 1 and 3

ACCOUNT CASH				ACCOUNT NO.			
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
a.				40,000		40,000	
b.					32,000	8,000	
d.					1,300	6,700	
e.				800		7,500	
g.					400	7,100	
i.				1,100		8,200	
j.					1,600	6,600	
k.					2,600	4,000	

ACCOUNT		ACCOUNTS RECEIVABLE				ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
h.				3,300		3,300	
i.					1,100	2,200	

ACCOUNT SUPPLIES				ACCOUNT NO.			
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
c.				400		400	

ACCOUNT		EQUIPMENT			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
b.				32,000		32,000	

(continued) P 2-41B

ACCOUNT		AUTOMOBILE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
a.				20,000		20,000	

ACCOUNT		ACCOUNTS PAYABLE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
c.					400		400
f.					500		900
g.				400			500

ACCOUNT		VINCE SERRANO, CAPITAL			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
a.					60,000		60,000

ACCOUNT		VINCE SERRANO, WITHDRAWALS			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
k.				2,600		2,600	

ACCOUNT		SERVICE REVENUE			ACCOUNT NO.		
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE	
						DEBIT	CREDIT
e.					800		800
h.					3,300		4,100

(continued) **P 2-41B**

ACCOUNT		SALARY EXPENSE			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
d.				1,300		1,300

ACCOUNT		RENT EXPENSE			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
j.				1,000		1,000

ACCOUNT		INSURANCE EXPENSE			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
j.				600		600

ACCOUNT		ADVERTISING EXPENSE			ACCOUNT NO.	
DATE		ITEM	JRNL. REF.	DEBIT	CREDIT	BALANCE
						DEBIT CREDIT
f.				500		500

Req. 2

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	Cash		40,000	
	Automobile		20,000	
	Vince Serrano, Capital			60,000
	Received investment by owner.			
b.	Equipment		32,000	
	Cash			32,000
	Purchased equipment.			
c.	Supplies		400	
	Accounts Payable			400
	Purchased supplies on account.			
d.	Salary Expense		1,300	
	Cash			1,300
	Paid salary.			
e.	Cash		800	
	Service Revenue			800
	Performed service and received cash.			
f.	Advertising Expense		500	
	Accounts Payable			500
	Received advertising bill.			
g.	Accounts Payable		400	
	Cash			400
	Paid on account.			

Req. 2 (continued)

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
h.		Accounts Receivable		3,300	
		Service Revenue			3,300
		Performed service on account.			
i.		Cash		1,100	
		Accounts Receivable			1,100
		Collected cash on account.			
j.		Rent Expense		1,000	
		Insurance Expense		600	
		Cash			1,600
		Paid expenses.			
k.		Vince Serrano, Withdrawals		2,600	
		Cash			2,600
		Withdrawal by owner.			

Req. 4

Serrano Carpet Installers		
Trial Balance		
January 31, 2007		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 4,000	
Accounts receivable	2,200	
Supplies	400	
Equipment	32,000	
Automobile	20,000	
Accounts payable		\$ 500
Vince Serrano, capital		60,000
Vince Serrano, withdrawals	2,600	
Service revenue		4,100
Salary expense	1,300	
Rent expense	1,000	
Insurance expense	600	
Advertising expense	500	
Total	<u>\$64,600</u>	<u>\$64,600</u>

Req. 1

Serrano Carpet Installers		
Income Statement		
Month Ended January 31, 2007		
Revenues:		
Service revenue		\$4,100
Expenses:		
Salary expense	\$1,300	
Rent expense	1,000	
Insurance expense	600	
Advertising expense	500	
Total expenses		<u>3,400</u>
Net income		<u>\$ 700</u>

Serrano Carpet Installers	
Statement of Owner's Equity	
Month Ended January 31, 2007	
Vince Serrano, capital, January 1, 2007	\$ -0-
Add: Investment by owner	60,000
Net income for the month	<u>700</u>
	60,700
Less: Withdrawals by owner	<u>(2,600)</u>
Vince Serrano, capital, January 31, 2007	<u>\$58,100</u>

Serrano Carpet Installers			
Balance Sheet			
January 31, 2007			
ASSETS		LIABILITIES	
Cash	\$ 4,000	Accounts payable	\$ 500
Accounts receivable	2,200	Total liabilities	500
Supplies	400		
Equipment	32,000	OWNER'S EQUITY	
Automobile	20,000	Vince Serrano, capital	58,100
		Total liabilities and	
Total assets	<u>\$58,600</u>	owner's equity	<u>\$58,600</u>

Missing Link Exploration Company		
Trial Balance		
March 31, 2007		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 5,200*	
Accounts receivable	2,540*	
Supplies	600*	
Exploration equipment	21,300	
Computers	46,000	
Accounts payable		\$ 2,800*
Note payable		18,300
Jack Ballard, capital		50,800
Jack Ballard, withdrawals	5,000	
Service revenue		11,800*
Salary expense	1,300	
Rent expense	1,200*	
Advertising expense	300	
Utilities expense	260*	
Total	<u>\$83,700</u>	<u>\$83,700</u>

***Explanations:**

Cash: $\$6,200 - \$1,000 = \$5,200$

Accounts receivable: $\$2,000 - \$60 + \$600 = \$2,540$

Supplies: $\$500 + \$100 = \$600$

Accounts payable: $\$2,700 + \$100 = \$2,800$

Service revenue: $\$4,900 + \$6,900 = \$11,800$

Rent expense: $\$500 + \$350 + \$350 = \$1,200$

Utilities expense: $\$200 + \$60 = \$260$

✓ Continuing Problem

(20-30 min.) P 2-44

Reqs. 1 and 3

Cash			
Dec. 2	10,000	Dec. 2	500
18	800	3	2,000
		12	200
Bal.	8,100		

Accounts Receivable			
Dec. 9	1,700		
Bal.	1,700		

Supplies			
Dec. 5	300		
Bal.	300		

Equipment			
Dec. 3	2,000		
Bal.	2,000		

Furniture			
Dec. 4	3,600		
Bal.	3,600		

Accounts Payable			
		Dec. 4	3,600
		5	300
		Bal.	3,900

Carl Redmon, Capital			
		Dec. 2	10,000
		Bal.	10,000

Carl Redmon, Withdrawals			

Service Revenue			
		Dec. 9	1,700
		18	800
		Bal.	2,500

Rent Expense			
Dec. 2	500		
Bal.	500		

Utilities Expense			
Dec. 12	200		
Bal.	200		

Salary Expense			

Req. 2

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	2	Cash		10,000	
		Carl Redmon, Capital			10,000
	2	Rent Expense		500	
		Cash			500
	3	Equipment		2,000	
		Cash			2,000
	4	Furniture		3,600	
		Accounts Payable			3,600
	5	Supplies		300	
		Accounts Payable			300
	9	Accounts Receivable		1,700	
		Service Revenue			1,700
	12	Utilities Expense		200	
		Cash			200
	18	Cash		800	
		Service Revenue			800

Req. 4

Redmon Consulting		
Trial Balance		
December 31, 20XX		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 8,100	
Accounts receivable	1,700	
Supplies	300	
Equipment	2,000	
Furniture	3,600	
Accounts payable		\$ 3,900
Carl Redmon, capital		10,000
Carl Redmon, withdrawals	—	
Service revenue		2,500
Rent expense	500	
Utilities expense	200	
Salary expense	—	
Total	<u>\$16,400</u>	<u>\$16,400</u>

✓ Decision Cases

(40-50 min.) Decision Case 1

Reqs. 1 and 2

Cash			
(a)	10,000	(b)	300
(f)	1,200	(d)	2,500
Bal.	8,400		

Accounts Receivable			
(e)	8,800	(f)	1,200
Bal.	7,600		

Supplies			
(b)	300		
Bal.	300		

Accounts Payable			
		(c)	700

Dean McChesney, Capital			
		(a)	10,000

Service Revenue			
		(e)	8,800

Salary Expense			
(d)	1,400		

Rent Expense			
(d)	1,100		

Advertising Expense			
(c)	700		

Req. 3

A-Plus Travel Planners		
Trial Balance		
June 30, 2009		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 8,400	
Accounts receivable	7,600	
Supplies	300	
Accounts payable		\$ 700
Dean McChesney, capital		10,000
Service revenue		8,800
Salary expense	1,400	
Rent expense	1,100	
Advertising expense	700	
Total	<u>\$19,500</u>	<u>\$19,500</u>

(continued) Decision Case 1

Req. 4

A-Plus Travel Planners

Revenues:		
Service revenue		\$8,800
Expenses:		
Salary expense	\$1,400	
Rent expense	1,100	
Advertising expense	<u>700</u>	
Total expenses		<u>3,200</u>
Net income for month		<u>\$5,600</u>

Recommendation: Discontinue the business, because net income falls below the target amount.

(15-20 min.) Decision Case 2

- 1. Double-entry bookkeeping has the advantage that it records both sides (the “giving” side and the “receiving” side) of a business transaction. Single-entry records only one side (the “giving” side), which makes it harder to keep track of what is received. Also it is easier to spot errors in a double-entry system because total debits should always equal total credits.**
- 2. The bank is not misusing the term credit. When you deposit money in the bank, the bank debits Cash (received from you) and credits a payable (to you). It is this payable, a liability account, that is the source of the term credit. This is why a bank credit is good for the depositor. It means you have more money in the bank.**

***Students probably will not be this complete.**



Ethical Issue

The ethical issue is whether Better Days Ahead is taking advantage of the bank's generosity.

Students who approve of the Better Days Ahead action can point out that the bank allows Better Days Ahead to overdraw its cash balance. In this view, Better Days Ahead 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 Better Days Ahead is using the bank's money without adequately compensating the bank—a subtle form of stealing. In this view, Better Days Ahead should curtail its spending until it has the money to cover its expenditures and maintain a positive balance. Alternatively, Better Days Ahead could sign a note payable to borrow the needed money. The related interest is the bank's compensation.

The bank is the key player in this case. Whether the bank approves or disapproves of the Better Days Ahead overdrafts is critical to the ethical decision. Approval by the bank turns the overdrafts into a gift to Better Days Ahead. Disapproval by the bank would no doubt be communicated to Mr. Henson.



Financial Statement Case

(20-30 min.)

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	1	Cash		60,000	
		Sales Revenue			60,000
	9	Cash		200,000	
		Note Payable			200,000
	12	Equipment		10,000	
		Accounts Payable			10,000
	22	Accounts Payable		5,000	
		Cash ($\$10,000 \times \frac{1}{2}$)			5,000
	28	Administrative Expense		3,000	
		Cash			3,000
	31	Note Payable		100,000	
		Interest Expense		1,000	
		Cash			101,000



Team Project

Suggested Answer

Student answers will vary widely, as the various groups use the charts of accounts of different businesses. The financial statements that the students prepare should be consistent with the business's chart of accounts.