

# 2

## Debits and Credits: Analyzing and Recording Business Transactions

### ANSWERS TO DISCUSSION QUESTIONS AND CRITICAL THINKING/ETHICAL CASE

1. *A ledger is a group of accounts that records in monetary value data from business transactions.*
2. *Because that is always the debit side. It is an arbitrary rule.*
3. *False. Accounts with one entry will not need footings.*
4. *The end product of the accounting process is preparing financial reports.*
5. *The transaction analysis chart is a teaching device that is not used in the regular accounting process.*
6. *Accounts affected, category, ↑ ↓ , rules, update of T accounts.*
7. *The analysis of transactions results in the total of debits being equal to total of credits. A double-entry system provides a system of checks and balances.*
8. *False. Informal report; does not have the same status as financial reports.*
9. *The financial reports are prepared from the ending balances of the accounts (debit or credit) in the ledger. These ending balances are then used on financial reports. The inside columns on financial reports are for sub totaling.*
10. *It is easier to prepare the reports from the trial balance, because a list of all accounts and their balances is provided. The columns for revenue, expenses, etc., on the expanded accounting equation do not list specific titles and their balances.*
11. *The question in this case is whether Audrey should be allowed to put fictitious figures into the trial balance. Although Audrey has good intentions, this type of behavior cannot be tolerated. Her actions are extremely unprofessional and go against all accounting standards (not to mention ethics!). Instead of putting in fictitious figures, Audrey should stay late and correct the trial balance (or perhaps engage an assistant to help her so she could catch the plane).*

SOLUTIONS TO CLASSROOM DEMONSTRATION EXERCISES

1.

Cash

\$17,200

Debit Balance
- C. Clark, Capital

\$11,000

Credit Balance
2.

A. Liability

Cr.

Dr.

Cr.

B. Revenue

Cr.

Dr.

Cr.

C. Asset

Dr.

Cr.

Dr.

D. Capital

Cr.

Dr.

Cr.

E. Withdrawals

Dr.

Cr.

Dr.

F. Asset

Dr.

Cr.

Dr.

G. Expense

Dr.

Cr.

Dr.

3.

				<div>Cash</div>
Cash	Asset	↑	Dr.	<div>600</div>
Accounts Receivable	Asset	↑	Dr.	<div>Accounts Receivable</div> <div>1,900</div>
Bookkeeping Services	Revenue	↑	Cr.	<div>Bookkeeping Fees</div> <div>2,500</div>

4.

Cash

Accounts Receivable

Office Equipment

Accounts Payable

J. Joy, Capital

J. Joy, Withdrawals

Hair Salon Fees Earned

Advertising Expense

Salary Expense

Utility Expense
5.

A. BS

B. BS

C. BS

D. BS

E. OE

F. OE

G. IS

H. IS

I. IS

J. IS

K. IS

**SOLUTIONS TO EXERCISES—SET A**

**EXERCISE 2-1A.**

<i>Balance Sheet Accounts</i>
<i>Assets</i>
111 Cash
112 Accounts Receivable
121 Office Equipment
<i>Liabilities</i>
211 Accounts Payable
<i>Owner's Equity</i>
311 L. Jones, Capital
312 L. Jones, Withdrawals
<i>Income Statement Accounts</i>
<i>Revenue</i>
411 Legal Fees
<i>Expenses</i>
511 Advertising Expense
512 Repair Expense
513 Salary Expense

**EXERCISE 2-4A.**

	<i>Dr.</i>	<i>Cr.</i>
A.	8	1
B.	6	1
C.	9	4
D.	1	7
E.	10	1
F.	3	5
G.	2	7
H.	1	2
I.	3	4

**EXERCISE 2-2A.**

1. <i>Accounts Affected</i>	2. <i>Category</i>	3. ↑ ↓	4. <i>Rules</i>	5. <i>T-Account Update</i>
<i>Computer Equipment</i>	<i>Asset</i>	↑	<i>Dr.</i>	<div><div><i>Computer Equipment</i></div><div>19,000</div></div>
<i>Accounts Payable</i>	<i>Liability</i>	↑	<i>Cr.</i>	<div><div><i>Accounts Payable</i></div><div>16,000</div></div>
<i>Cash</i>	<i>Asset</i>	↓	<i>Cr.</i>	<div><div><i>Cash</i></div><div>3,000</div></div>

**EXERCISE 2-3A.**

<i>ACCOUNT</i>	<i>CATEGORY</i>	↑	↓	<i>FINANCIAL</i>
Supplies	Asset	Dr.	Cr.	Balance Sheet
Legal Fees Earned	Revenue	Cr.	Dr.	Income Statement
P. Rey, Withdrawals	Owner's Equity (Withdrawals)	Dr.	Cr.	Statement of Owner's Equity
Accounts Payable	Liability	Cr.	Dr.	Balance Sheet
Salaries Expense	Expense	Dr.	Cr.	Income Statement
Auto	Asset	Dr.	Cr.	Balance Sheet

**SOLUTIONS TO EXERCISES—SET A Cont.**

**EXERCISE 2-5A.**

HALL'S CLEANERS									
INCOME STATEMENT									
FOR THE MONTH ENDED JULY 31, 2016									
Revenue:									
Cleaning Fees							\$	4	5
Operating Expenses:									
Salaries Expense						\$	1	6	0
Utilities Expense							1	1	3
Total Operating Expenses								2	7
Net Income							\$	1	8

HALL'S CLEANERS									
STATEMENT OF OWNER'S EQUITY									
FOR THE MONTH ENDED JULY 31, 2016									
J. Hall, Capital, July 1, 2016							\$	8	0
Net Income for July						\$	1	8	5
Less: Withdrawals for July									
Decrease in Capital								1	3
J. Hall, Capital, July 31, 2016							\$	7	8

HALL'S CLEANERS									
BALANCE SHEET									
JULY 31, 2016									
ASSETS					LIABILITIES AND OWNER'S EQUITY				
Cash		\$	5	5	Liabilities:				
Equipment			6	9	Accounts Payable		\$	4	5
					Owner's Equity				
					J. Hall, Capital			7	8
					Total Liabilities and				
Total Assets		\$	1	2	Owner's Equity		\$	1	2

SOLUTIONS TO EXERCISES—SET B

EXERCISE 2-1B.

<i>Balance Sheet Accounts</i>
<i>Assets</i>
111 Cash
112 Accounts Receivable
121 Office Equipment
<i>Liabilities</i>
211 Accounts Payable
<i>Owner's Equity</i>
311 L. Jones, Capital
312 L. Jones, Withdrawals
<i>Income Statement Accounts</i>
<i>Revenue</i>
411 Legal Fees
<i>Expenses</i>
511 Cleaning Expense
512 Office Assistance Expense
513 Rent Expense

EXERCISE 2-4B.

	<i>Dr.</i>	<i>Cr.</i>
A.	11	1
B.	6	1
C.	12	4
D.	1	7
E.	2	7
F.	3	4
G.	10	4
H.	1	2
I.	3	5

EXERCISE 2-2B.

1. <i>Accounts Affected</i>	2. <i>Category</i>	3. ↑↓	4. <i>Rules</i>	5. <i>T-Account Update</i>
Computer Equipment	Asset	↑	Dr.	<div>Computer Equipment</div> <div>21,000</div>
Accounts Payable	Liability	↑	Cr.	<div>Accounts Payable</div> <div>16,000</div>
Cash	Asset	↓	Cr.	<div>Cash</div> <div>5,000</div>

EXERCISE 2-3B.

<i>ACCOUNT</i>	<i>CATEGORY</i>	↑	↓	<i>FINANCIAL</i>
Supplies	Asset	Dr.	Cr.	Balance Sheet
Legal Fees Earned	Revenue	Cr.	Dr.	Income Statement
P. Rey, Withdrawals	Owner's Equity (Withdrawals)	Dr.	Cr.	Statement of Owner's Equity
Cash	Asset	Dr.	Cr.	Balance Sheet
Accounts Receivable	Asset	Dr.	Cr.	Balance Sheet
Rent Expense	Expense	Dr.	Cr.	Income Statement

**SOLUTIONS TO EXERCISES—SET B Cont.**

**EXERCISE 2-5B.**

**HALL'S CLEANERS**

**INCOME STATEMENT**

**FOR THE MONTH ENDED JULY 31, 2016**

Revenue:															
Cleaning Fees									\$	7	4	8	0	0	
Operating Expenses:															
Salaries Expense								\$	2	5	0	0	0	0	
Utilities Expense										8	3	0	0	0	
Total Operating Expenses											3	3	3	0	0
Net Income										\$	4	1	5	0	0

**HALL'S CLEANERS**

**STATEMENT OF OWNER'S EQUITY**

**FOR THE MONTH ENDED JULY 31, 2016**

J. Hall, Capital, July 1, 2016									\$	7	0	0	0	0
Net Income for July			\$	4	1	5	0	0						
Less: Withdrawals for July				2	4	5	0	0						
Increase in Capital										1	7	0	0	0
J. Hall, Capital, July 31, 2016									\$	8	7	0	0	0

**HALL'S CLEANERS**

**BALANCE SHEET**

**JULY 31, 2016**

**ASSETS**

**LIABILITIES AND OWNER'S EQUITY**

Cash	\$	7	5	0	0	0	Liabilities:						
Equipment		6	4	5	0	0	Accounts Payable	\$	5	2	5	0	0
							Owner's Equity						
							J. Hall, Capital		8	7	0	0	0
							Total Liabilities and						
Total Assets	\$	1	3	9	5	0	Owner's Equity	\$	1	3	9	5	0

PROBLEM 2A-1.

Accounts Affected	Category	Inc. ↑	Dec. ↑	Rules	T-Account Update	
A. Cash	Asset	↑		Dr.	Cash	Bill O'Brien, Capital
Bill O'Brien, Capital	Owner's Equity		↑	Cr.	21,000	21,000
B. Delivery Trucks	Asset	↑		Dr.	Delivery Trucks	Accounts Payable
Accounts Payable	Liability		↑	Cr.	9,000	9,000
C. Rent Expense	Expense	↑		Dr.	Rent Expense	Accounts Payable
Accounts Payable	Liability		↑	Cr.	900	900
D. Cash	Asset	↑		Dr.	Cash	Fees Earned
Fees Earned	Revenue		↑	Cr.	1,400	1,400
E. Accounts Receivable	Asset	↑		Dr.	Accounts Receivable	Fees Earned
Fees Earned	Revenue		↑	Cr.	150	150
F. Bill O'Brien, Withdrawals	Owner's Equity (Withdrawals)	↑		Dr.	Bill O'Brien, Withdrawals	Cash
Cash	Asset		↑	Cr.	400	400

PROBLEM 2A-2.

Cash	111
(A) 20,000	90 (D)
(C) 900	400 (E)
	1,000 (G)
Office Equipment	121
(B) 5,000	
Accounts Payable	211
(G) 1,000	5,000 (B)
	1,400 (F)
Bernie Pillows, Capital	311
	20,000 (A)

Bernie Pillows, Withdrawals	312
(D) 90	
Consulting Fees Earned	411
	900 (C)
Advertising Expense	511
(E) 400	
Rent Expense	512
(F) 1,400	

PROBLEM 2A-3.

(a)

<i>Cash</i>	<i>111</i>	<i>Accounts Payable</i>	<i>211</i>	<i>Fees Earned</i>	<i>411</i>
(A) 7,000	200 (D)	(D) 200	1,300 (C)		8,000 (B)
(G) 3,500	200 (E)		1,100		
	400 (F)				
	200 (H)				
10,500	900 (I)				
	1,900				
8,600					
<i>Accounts Receivable</i>	<i>112</i>	<i>Barry Joy, Capital</i>	<i>311</i>	<i>Rent Expense</i>	<i>511</i>
(B) 8,000	3,500 (G)		7,000 (A)	(F) 400	
4,500					
<i>Office Equipment</i>	<i>121</i>	<i>Barry Joy, Withdrawals</i>	<i>312</i>	<i>Utilities Expense</i>	<i>512</i>
(C) 1,300		(I) 900		(E) 200	
(H) 200					
1,500					

(b)

BARRY'S CLEANING SERVICE

TRIAL BALANCE

MAY 31, 2016

	<i>Dr.</i>					<i>Cr.</i>				
<i>Cash</i>	8	6	0	0	00					
<i>Accounts Receivable</i>	4	5	0	0	00					
<i>Office Equipment</i>	1	5	0	0	00					
<i>Accounts Payable</i>						1	1	0	0	00
<i>Barry Joy, Capital</i>						7	0	0	0	00
<i>Barry Joy, Withdrawals</i>		9	0	0	00					
<i>Fees Earned</i>						8	0	0	0	00
<i>Rent Expense</i>		4	0	0	00					
<i>Utilities Expense</i>		2	0	0	00					
<i>Totals</i>	16	1	0	0	00	16	1	0	0	00



**PROBLEM 2A-4.**

(a)

<b>GRACE LANTZ</b>										
<b>BARRISTER AND SOLICITOR</b>										
<b>INCOME STATEMENT</b>										
<b>FOR THE MONTH ENDED MAY 31, 2017</b>										
<b>Revenue:</b>										
<b>Revenue from Legal Fees</b>							\$	2	3	5 0 0 0
<b>Operating Expenses:</b>										
<b>Utilities Expense</b>			\$	3	0	0 0 0 0				
<b>Rent Expense</b>				4	5	0 0 0 0				
<b>Salaries Expense</b>				1	1	5 0 0 0				
<b>Total Operating Expenses</b>								1	9	0 0 0 0
<b>Net Income</b>								\$	4	5 0 0 0

(b)

<b>GRACE LANTZ</b>										
<b>BARRISTER AND SOLICITOR</b>										
<b>STATEMENT OF OWNER'S EQUITY</b>										
<b>FOR THE MONTH ENDED MAY 31, 2017</b>										
<b>Grace Lantz, Capital, May 1, 2017</b>							\$	1	2	7 5 0 0
<b>Net Income for May</b>			\$	4	5	0 0 0 0				
<b>Less: Withdrawals for May</b>				3	0	0 0 0 0				
<b>Increase in Capital</b>								1	5	0 0 0 0
<b>Grace Lantz, Capital, May 31, 2017</b>							\$	1	4	2 5 0 0

PROBLEM 2A-4., Cont.

(c)

GRACE LANTZ
BARRISTER AND SOLICITOR
BALANCE SHEET
MAY 31, 2017

ASSETS						LIABILITIES AND OWNER'S EQUITY									
Assets:						Liabilities:									
Cash	\$	5	0	0	0	0	0	Accounts Payable	\$	4	3	0	0	0	0
Accounts Receivable		6	5	0	0	0	0	Salaries Payable		6	7	5	0	0	0
Office Equipment		7	5	0	0	0	0	Total Liabilities						\$	4 9 7 5 0 0
								Owner's Equity							
								Grace Lantz, Capital						1	4 2 5 0 0
								Total Liabilities and							
Total Assets	\$	6	4	0	0	0	0	Owner's Equity						\$	6 4 0 0 0 0

**PROBLEM 2A-5.**

1., 2., 3.

<b>Cash</b> <b>111</b>		<b>Accounts Payable</b> <b>211</b>		<b>Advertising Expense</b> <b>511</b>	
(A) 16,000	600 (C)	18,000 (B)		(D) 250	
(E) 2,600	250 (D)	700 (I)			
(J) 300	900 (F)	18,700			
	1,200 (G)				
	300 (K)	<b>Alice Angel, Capital</b> <b>311</b>		<b>Gas Expense</b> <b>512</b>	
18,900	3,250	16,000 (A)		(G) 1,200	
15,650					
<b>Accounts Receivable</b> <b>112</b>		<b>Alice Angel, Withdrawals</b> <b>312</b>		<b>Salaries Expense</b> <b>513</b>	
(H) 800	300 (J)	(K) 300		(F) 900	
500					
<b>Office Equipment</b> <b>121</b>		<b>Delivery Fees Earned</b> <b>411</b>		<b>Telephone Expense</b> <b>514</b>	
(C) 600		2,600 (E)		(I) 700	
		800 (H)			
<b>Delivery Trucks</b> <b>122</b>		3,400			
(B) 18,000					

4.

**ANGEL'S DELIVERY SERVICE**

**TRIAL BALANCE**

**MARCH 31, 2016**

	<b>Dr.</b>						<b>Cr.</b>					
<b>Cash</b>	1	5	6	5	0	0	0					
<b>Accounts Receivable</b>			5	0	0	0	0					
<b>Office Equipment</b>			6	0	0	0	0					
<b>Delivery Trucks</b>	1	8	0	0	0	0	0					
<b>Accounts Payable</b>								1	8	7	0	0
<b>Alice Angel, Capital</b>								1	6	0	0	0
<b>Alice Angel, Withdrawals</b>		3	0	0	0	0	0					
<b>Delivery Fees Earned</b>								3	4	0	0	0
<b>Advertising Expense</b>		2	5	0	0	0	0					
<b>Gas Expense</b>	1	2	0	0	0	0	0					
<b>Salaries Expense</b>		9	0	0	0	0	0					
<b>Telephone Expense</b>		7	0	0	0	0	0					
<b>Totals</b>	3	8	1	0	0	0	0	3	8	1	0	0

PROBLEM 2A-5, Cont.

5.(a)

ANGEL'S DELIVERY SERVICE									
INCOME STATEMENT									
FOR THE MONTH ENDED MARCH 31, 2016									
Revenue:									
Delivery Fees Earned						\$3	4	0	0 0 0
Operating Expenses:									
Advertising Expense		\$	2	5	0 0 0				
Gas Expense		1	2	0	0 0 0				
Salaries Expense			9	0	0 0 0				
Telephone Expense			7	0	0 0 0				
Total Operating Expenses						3	0	5	0 0 0
Net Income						\$	3	5	0 0 0

5.(b)

ANGEL'S DELIVERY SERVICE									
STATEMENT OF OWNER'S EQUITY									
FOR THE MONTH ENDED MARCH 31, 2016									
A. Angel, Capital, March 1, 2016						\$16	0	0	0 0 0
Net Income for March		\$	3	5	0 0 0				
Less: Withdrawals for March			3	0	0 0 0				
Increase in Capital							5	0	0 0 0
A. Angel, Capital, March 31, 2016						\$16	0	5	0 0 0

5.(c)

ANGEL'S DELIVERY SERVICE									
BALANCE SHEET									
MARCH 31, 2016									
ASSETS					LIABILITIES AND OWNER'S EQUITY				
Assets:					Liabilities:				
Cash	\$15	6	5	0 0 0	Accounts Payable	\$18	7	0	0 0 0
Accounts Receivable			5	0 0 0					
Office Equipment			6	0 0 0	Owner's Equity:				
Delivery Trucks	1	8	0	0 0 0	A. Angel, Capital	1	6	0	5 0 0
					Total Liabilities and				
Total Assets	\$34	7	5	0 0 0	Owner's Equity	\$34	7	5	0 0 0

PROBLEM 2B-1.

Accounts Affected	Category	Inc. ↑	Dec. ↑	Rules	T-Account Update	
A. Cash	Asset	↑		Dr.	Cash	Bill O'Brien, Capital
Bill O'Brien, Capital	Owner's Equity		↑	Cr.	2,500	2,500
B. Delivery Trucks	Asset	↑		Dr.	Delivery Trucks	Accounts Payable
Accounts Payable	Liability		↑	Cr.	900	900
C. Rent Expense	Expense	↑		Dr.	Rent Expense	Accounts Payable
Accounts Payable	Liability		↑	Cr.	250	250
D. Cash	Asset	↑		Dr.	Cash	Fees Earned
Fees Earned	Revenue		↑	Cr.	1,200	1,200
E. Accounts Receivable	Asset	↑		Dr.	Accounts Receivable	Fees Earned
Fees Earned	Revenue		↑	Cr.	700	700
F. Bill O'Brien, Withdrawals	Owner's Equity (Withdrawals)	↑		Dr.	Bill O'Brien, Withdrawals	Cash
Cash	Asset		↑	Cr.	275	275

PROBLEM 2B-2.

Cash	111
(A) 20,000	200 (D)
(C) 1,200	600 (E)
	400 (G)
Office Equipment	121
(B) 6,000	
Accounts Payable	211
(G) 400	6,000 (B)
	500 (F)
Bernie Pillows, Capital	311
	20,000 (A)

Bernie Pillows, Withdrawals	312
(D) 200	
Consulting Fees Earned	411
	1,200 (C)
Advertising Expense	511
(E) 600	
Rent Expense	512
(F) 500	

PROBLEM 2B-3.

(a)

<u>Cash</u>	<u>111</u>	<u>Accounts Payable</u>	<u>211</u>	<u>Fees Earned</u>	<u>411</u>
(A) 10,000	4,000 (C)		2,000 (B)	4,000 (F)	
(F) 4,000	310 (D)			4,000 (G)	
(G) 2,000	50 (E)			8,000	
	600 (H)				
16,000	4,960				
11,040					
<u>Accounts Receivable</u>	<u>112</u>	<u>Barry Joy, Capital</u>	<u>311</u>	<u>Rent Expense</u>	<u>511</u>
(G) 2,000		10,000 (A)		(D) 310	
<u>Office Equipment</u>	<u>121</u>	<u>Barry Joy, Withdrawals</u>	<u>312</u>	<u>Utilities Expense</u>	<u>512</u>
(B) 2,000		(H) 600		(E) 50	
(C) 4,000					
6,000					

(b)

<b>BARRY'S CLEANING SERVICE</b>
<b>TRIAL BALANCE</b>
<b>MAY 31, 2016</b>

	<b>Dr.</b>	<b>Cr.</b>
<u>Cash</u>	11 0 4 0 0 0	
<u>Accounts Receivable</u>	2 0 0 0 0 0	
<u>Office Equipment</u>	6 0 0 0 0 0	
<u>Accounts Payable</u>		2 0 0 0 0 0
<u>Barry Joy, Capital</u>		10 0 0 0 0 0
<u>Barry Joy, Withdrawals</u>	6 0 0 0 0 0	
<u>Fees Earned</u>		8 0 0 0 0 0
<u>Rent Expense</u>	3 1 0 0 0	
<u>Utilities Expense</u>	5 0 0 0	
<u>Totals</u>	20 0 0 0 0 0	20 0 0 0 0 0

**PROBLEM 2B-4.**

(a)

<b>GRACE LANTZ</b>												
<b>BARRISTER AND SOLICITOR</b>												
<b>INCOME STATEMENT</b>												
<b>FOR THE MONTH ENDED MAY 31, 2017</b>												
<b>Revenue:</b>												
<b>Revenue from Legal Fees</b>												
<b>Operating Expenses:</b>												
<b>Utilities Expense</b>												
<b>Rent Expense</b>												
<b>Salaries Expense</b>												
<b>Total Operating Expenses</b>												
<b>Net Income</b>												

(b)

<b>GRACE LANTZ</b>												
<b>BARRISTER AND SOLICITOR</b>												
<b>STATEMENT OF OWNER'S EQUITY</b>												
<b>FOR THE MONTH ENDED MAY 31, 2017</b>												
<b>Grace Lantz, Capital, May 1, 2017</b>												
<b>Net Income for May</b>												
<b>Less: Withdrawals for May</b>												
<b>Increase in Capital</b>												
<b>Grace Lantz, Capital, May 31, 2017</b>												

PROBLEM 2B-4., Cont.

(c)

GRACE LANTZ													
BARRISTER AND SOLICITOR													
BALANCE SHEET													
MAY 31, 2017													
ASSETS							LIABILITIES AND OWNER'S EQUITY						
Assets:							Liabilities:						
Cash	\$	6	0	0	0	0	Accounts Payable	\$	2	0	0	0	0
Accounts Receivable		2	4	0	0	0	Salaries Payable		6	0	0	0	0
Office Equipment		2	4	0	0	0	Total Liabilities					\$	8 0 0 0 0
							Owner's Equity						
							Grace Lantz, Capital					10	0 0 0 0 0
							Total Liabilities and						
Total Assets		\$	10	8	0	0	Owner's Equity					\$	10 8 0 0 0



**PROBLEM 2B-5.**

1., 2., 3.

<b>Cash</b> 111		<b>Accounts Payable</b> 211		<b>Advertising Expense</b> 511
(A) 40,000	2,500 (D)	25,000 (B)	(C) 800	
(E) 13,000	1,850 (F)	800 (C)		
(J) 1,600	750 (G)	25,800		
	400 (I)			
	88 (K)	<b>Alice Angel, Capital</b> 311	<b>Gas Expense</b> 512	
54,600	5,588	40,000 (A)	(G) 750	
49,012				
<b>Accounts Receivable</b> 112		<b>Alice Angel, Withdrawals</b> 312	<b>Salaries Expense</b> 513	
(H) 5,500	1,600 (J)	(K) 88	(F) 1,850	
3,900				
<b>Office Equipment</b> 121		<b>Delivery Fees Earned</b> 411	<b>Telephone Expense</b> 514	
(C) 2,500		13,000 (E)	(I) 400	
		5,500 (H)		
<b>Delivery Trucks</b> 122		18,500		
(B) 25,000				

4.

<b>ANGEL'S DELIVERY SERVICE</b>
<b>TRIAL BALANCE</b>
<b>MARCH 31, 2016</b>

	<b>Dr.</b>					<b>Cr.</b>				
<b>Cash</b>	49	0	1	2	00					
<b>Accounts Receivable</b>	3	9	0	0	00					
<b>Office Equipment</b>	2	5	0	0	00					
<b>Delivery Trucks</b>	25	0	0	0	00					
<b>Accounts Payable</b>						25	8	0	0	00
<b>Alice Angel, Capital</b>						40	0	0	0	00
<b>Alice Angel, Withdrawals</b>			8	8	00					
<b>Delivery Fees Earned</b>						18	5	0	0	00
<b>Advertising Expense</b>		8	0	0	00					
<b>Gas Expense</b>		7	5	0	00					
<b>Salaries Expense</b>		1	8	5	00					
<b>Telephone Expense</b>		4	0	0	00					
<b>Totals</b>	84	3	0	0	00	84	3	0	0	00

PROBLEM 2B-5., Cont.

5.(a)

ANGEL'S DELIVERY SERVICE									
INCOME STATEMENT									
FOR THE MONTH ENDED MARCH 31, 2016									
Revenue:									
Delivery Fees Earned						\$18	5	0	0 0 0
Operating Expenses:									
Advertising Expense					\$	8	0	0 0 0	
Gas Expense						7	5	0 0 0	
Salaries Expense						1	8	5 0 0	
Telephone Expense						4	0	0 0 0	
Total Operating Expenses							3	8 0 0	0 0 0
Net Income							\$14	7 0 0	0 0 0

5.(b)

ANGEL'S DELIVERY SERVICE									
STATEMENT OF OWNER'S EQUITY									
FOR THE MONTH ENDED MARCH 31, 2016									
A. Angel, Capital, March 1, 2016						\$40	0	0 0 0	0 0 0
Net Income for March					\$14	7	0	0 0 0	
Less: Withdrawals for March						8	8	0 0	
Increase in Capital							14	6 1 2	0 0
A. Angel, Capital, March 31, 2016						\$54	6	1 2 0	0 0

5.(c)

ANGEL'S DELIVERY SERVICE									
BALANCE SHEET									
MARCH 31, 2016									
ASSETS					LIABILITIES AND OWNER'S EQUITY				
Assets:					Liabilities:				
Cash	\$49	0	1	2 0 0	Accounts Payable	\$25	8	0 0 0	0 0 0
Accounts Receivable	3	9	0	0 0 0					
Office Equipment	2	5	0	0 0 0	Owner's Equity:				
Delivery Trucks	2	5	0	0 0 0	A. Angel, Capital	54	6	1 2 0	0 0
					Total Liabilities and				
Total Assets	\$80	4	1	2 0 0	Owner's Equity	\$80	4	1 2 0	0 0

PROBLEM 2C-1.

<i>Accounts Affected</i>	<i>Category</i>	<i>Inc.</i> ↑	<i>Dec.</i> ↑	<i>Rules</i>	<i>T-Account Update</i>	
<i>A. Cash</i>	<i>Asset</i>	↑		<i>Dr.</i>	<i>Cash</i>	<i>Jack James, Capital</i>
<i>Jack James, Capital</i>	<i>Owner's Equity</i>	↑		<i>Cr.</i>	3,500	3,500
<i>B. Office Equipment</i>	<i>Asset</i>	↑		<i>Dr.</i>	<i>Office Equipment</i>	<i>Accounts Payable</i>
<i>Accounts Payable</i>	<i>Liability</i>	↑		<i>Cr.</i>	1,875	1,875
<i>C. Rent Expense</i>	<i>Expense</i>	↑		<i>Dr.</i>	<i>Rent Expense</i>	<i>Accounts Payable</i>
<i>Accounts Payable</i>	<i>Liability</i>	↑		<i>Cr.</i>	425	425
<i>D. Cash</i>	<i>Asset</i>	↑		<i>Dr.</i>	<i>Cash</i>	<i>Editing Fees Earned</i>
<i>Editing Fees Earned</i>	<i>Revenue</i>	↑		<i>Cr.</i>	2,100	2,100
<i>E. Accounts Receivable</i>	<i>Asset</i>	↑		<i>Dr.</i>	<i>Accounts Receivable</i>	<i>Fees Earned</i>
<i>Editing Fees Earned</i>	<i>Revenue</i>	↑		<i>Cr.</i>	1,499	1,490
<i>F. Jack James, Withdrawals</i>	<i>Owner's Equity (Withdrawals)</i>	↑		<i>Dr.</i>	<i>Jack James, Withdrawals</i>	
<i>Cash</i>	<i>Asset</i>	↑		<i>Cr.</i>	175	<i>Cash</i> 175

PROBLEM 2C-2.

<i>Cash</i>	<i>111</i>
(A) 14,000	364 (D)
(C) 3,250	725 (E)
	2,750 (G)
17,250	3,839
13,411	
<i>Computer Equipment</i>	<i>121</i>
(B) 5,500	
<i>Accounts Payable</i>	<i>211</i>
(G) 2,750	5,500 (B)
	615 (F)
	6,115
	3,365
<i>Val McIntyre, Capital</i>	<i>311</i>
	14,000 (A)

<i>Val McIntyre, Withdrawals</i>	<i>312</i>
(D) 364	
<i>Graphics Fees Earned</i>	<i>411</i>
	3,250 (C)
<i>Advertising Expense</i>	<i>511</i>
(E) 725	
<i>Rent Expense</i>	<i>512</i>
(F) 615	

PROBLEM 2C-3.

(a)

<b>Cash</b>	<b>111</b>	<b>Accounts Receivable</b>	<b>112</b>	<b>Equipment</b>	<b>121</b>
(A) 6,000	4,000 (B)	(G) 1,000		(B) 4,000	
(F) 3,500	340 (D)			(C) 500	
(G) 3,000	150 (E)			4,500	
	600 (H)				
12,500	5,090				
7,410					
<b>Accounts Payable</b>	<b>211</b>	<b>Linda Miyagawa, Capital</b>	<b>311</b>	<b>Linda Miyagawa Withdrawals</b>	<b>312</b>
	500 (C)		6,000 (A)	(H) 600	
<b>Fees Earned</b>	<b>411</b>	<b>Rent Expense</b>	<b>511</b>	<b>Utilities Expense</b>	<b>512</b>
	3,500 (F)	(D) 340		(E) 150	
	4,000 (G)				
	7,500				

(b)

<b>LINDA'S CONSULTING SERVICE</b>
<b>TRIAL BALANCE</b>
<b>OCTOBER 31, 2017</b>

	<b>Dr.</b>	<b>Cr.</b>
<b>Cash</b>	7 4 1 0 0 0	
<b>Accounts Receivable</b>	1 0 0 0 0 0	
<b>Equipment</b>	4 5 0 0 0 0	
<b>Accounts Payable</b>		5 0 0 0 0 0
<b>Linda Miyagawa, Capital</b>		6 0 0 0 0 0
<b>Linda Miyagawa, Withdrawals</b>	6 0 0 0 0 0	
<b>Fees Earned</b>		7 5 0 0 0 0
<b>Rent Expense</b>	3 4 0 0 0 0	
<b>Utilities Expense</b>	1 5 0 0 0 0	
<b>Totals</b>	14 0 0 0 0 0	14 0 0 0 0 0

**PROBLEM 2C-4.**

(a)

<b>GLEND SHAVER, ARCHITECT</b>										
<b>INCOME STATEMENT</b>										
<b>FOR THE MONTH ENDED JUNE 30, 2017</b>										
<b>Revenue:</b>										
<b>Fees Earned</b>										
<b>Operating Expenses:</b>										
<b>Rent Expense</b>										
<b>Advertising Expense</b>										
<b>Utilities Expense</b>										
<b>Total Operating Expenses</b>										
<b>Net Income</b>										

(b)

<b>GLEND SHAVER, ARCHITECT</b>										
<b>STATEMENT OF OWNER'S EQUITY</b>										
<b>FOR THE MONTH ENDED JUNE 30, 2017</b>										
<b>Glenda Shaver, Capital, June 1, 2017</b>										
<b>Net Income for June</b>										
<b>Less: Withdrawals for June</b>										
<b>Increase in Capital</b>										
<b>Glenda Shaver, Capital, June 30, 2017</b>										

(c)

<b>GLEND SHAVER, ARCHITECT</b>										
<b>BALANCE SHEET</b>										
<b>JUNE 30, 2017</b>										
<b>ASSETS</b>					<b>LIABILITIES AND OWNER'S EQUITY</b>					
<b>Assets:</b>					<b>Liabilities:</b>					
<b>Cash</b>					<b>Accounts Payable</b>					
<b>Accounts Receivable</b>										
<b>Supplies</b>					<b>Owner's Equity:</b>					
					<b>Glenda Shaver, Capital</b>					
<b>Equipment</b>										
					<b>Total Liabilities and</b>					
					<b>Owner's Equity</b>					
<b>Total Assets</b>										

PROBLEM 2C-5.

1., 2., 3.

<u>Cash</u>	<u>111</u>	<u>Accounts Payable</u>	<u>211</u>	<u>Advertising Expense</u>	<u>511</u>
(A) 33,000	3,300 (D)	(L) 700	14,000 (B)	(C) 1,150	
(E) 5,900	1,720 (F)		1,150 (C)		
(J) 2,000	320 (G)	700	15,150		
	150 (I)		14,450		
	66 (K)			<u>Repair Expense</u>	<u>512</u>
	700 (L)	<u>Clara Benson, Capital</u>	<u>311</u>	(G) 320	
40,900	6,256		33,000 (A)		
34,644					
<u>Accounts Receivable</u>	<u>112</u>	<u>Clara Benson, Withdrawals</u>	<u>312</u>	<u>Salaries Expense</u>	<u>513</u>
(H) 4,300	2,000 (J)	(K) 66		(F) 1,720	
2,300					
<u>Office Equipment</u>	<u>121</u>	<u>Design Fees Earned</u>	<u>411</u>	<u>Telephone Expense</u>	<u>514</u>
(D) 3,300			5,900 (E)	(I) 150	
			4,300 (H)		
<u>Design Equipment</u>	<u>122</u>		10,200		
(B) 14,000					

4.

CLARA'S DESIGN SERVICE

TRIAL BALANCE

MARCH 31, 2017

	Dr.					Cr.				
Cash	34	6	4	4	00					
Accounts Receivable	2	3	0	0	00					
Office Equipment	3	3	0	0	00					
Design Equipment	14	0	0	0	00					
Accounts Payable						14	4	5	0	00
Clara Benson, Capital						33	0	0	0	00
Clara Benson, Withdrawals			6	6	00					
Design Fees Earned						10	2	0	0	00
Advertising Expense	1	1	5	0	00					
Repair Expense		3	2	0	00					
Salaries Expense	1	7	2	0	00					
Telephone Expense		1	5	0	00					
Totals	57	6	5	0	00	57	6	5	0	00

## CLARA'S DESIGN SERVICE

### *INCOME STATEMENT*

**FOR THE MONTH ENDED MARCH 31, 2017**

[illegible]

## CLARA'S DESIGN SERVICE

## STATEMENT OF OWNER'S EQUITY

*FOR THE MONTH ENDED MARCH 31, 2017*

[illegible]

## CLARA'S DESIGN SERVICE

## BALANCE SHEET

---

*MARCH 31, 2017*

**ASSETS**

Cash

Accounts receivable

Inventory

Prepaid expenses

Equipment

Accumulated depreciation

Land

Buildings

Accumulated depreciation

Intangible assets

Other assets

**LIABILITIES AND OWNER'S EQUITY**

Accounts payable

Notes payable

Accrued liabilities

Long-term debt

Owner's equity

[illegible]

**SOLUTIONS TO ON-THE-JOB TRAINING, #T-1.**

**RANCH COMPANY**

**TRIAL BALANCE**

**JUNE 30, 2017**

	<b>Dr.</b>					<b>Cr.</b>				
<b>Cash</b>			<b>4</b>	<b>9</b>	<b>0 0 0</b>					
<b>Accounts Receivable</b>			<b>6</b>	<b>2</b>	<b>0 0 0</b>					
<b>Office Equipment</b>			<b>3</b>	<b>6</b>	<b>5 0 0</b>					
<b>Accounts Payable</b>							<b>1</b>	<b>1</b>	<b>5 0 0</b>	
<b>Wages Payable</b>								<b>1</b>	<b>0 0 0</b>	
<b>H. Clo, Capital</b>							<b>6</b>	<b>3</b>	<b>5 0 0</b>	
<b>H. Clo, Withdrawals</b>		<b>1</b>	<b>4</b>	<b>4</b>	<b>0 0 0</b>					
<b>Professional Fees</b>							<b>2</b>	<b>4</b>	<b>2 0 0 0</b>	
<b>Rent Expense</b>			<b>2</b>	<b>4</b>	<b>0 0 0</b>					
<b>Advertising Expense</b>				<b>2</b>	<b>5 0 0</b>					
<b>Totals</b>		<b>3</b>	<b>1</b>	<b>8</b>	<b>0 0 0</b>		<b>3</b>	<b>1</b>	<b>8 0 0 0</b>	

**Note: 1. The Cash account subtraction error means the amount in Cash is overstated.**  
**2. The normal balance of Accounts Receivable is a debit. Therefore, the \$635 should have been on the debit side. (\$15 from the \$635 = \$620.) Accounts Receivable would be severely understated if not corrected.**  
**3. The normal balance of Accounts Payable, Wages Payable and Capital (H. Clo, Capital) is a credit. All understated.**  
**4. Before recording the office equipment on account, Assets and money owed (Accounts Payable) would be understated.**  
**5. Revenue being understated would mean net income would be lower than actual.**  
**6. Expense accounts are normally debit accounts. Therefore, Rent Expense would be understated.**  
**To avoid this problem, Ranch Co. might insist that Andy take a course in accounting at a local college. He obviously needs more experience/training before he can be trusted to handle the company's books. Better supervision may help somewhat, but the real solution is in getting a bookkeeper who is accurate and well trained.**

**SOLUTIONS TO ON-THE-JOB TRAINING, #T-2.**

<b>Situation</b>	<b>Totals of Trial Balance</b>	<b>Effect on Accounts</b>
<b>1</b>	<b>Will balance, but be understated by \$765.</b>	<b>Cash overstated by \$765 and equipment understated by \$765.</b>
<b>2</b>	<b>Will not balance.</b>	<b>Cash overstated by \$200.</b>
<b>3</b>	<b>Will balance but be overstated by \$400.</b>	<b>Capital and Accounts Receivable overstated by \$400.</b>
<b>4</b>	<b>Will balance but be overstated by \$360.</b>	<b>Accounts Payable overstated by \$360 and Cash overstated by \$400. Supplies understated by \$40.</b>
<b>5</b>	<b>Trial Balance will balance with the correct amount.</b>	<b>Supplies overstated and Equipment understated by \$800.</b>
<b>6</b>	<b>Trial Balance will not balance.</b>	<b>Cash overstated by \$36.</b>

**Mistakes can be avoided in the future by carefully checking entries.**



CONTINUING PROBLEM

1., 2., 3.

<b>Cash</b>	<b>1000</b>	<b>Accounts Payable</b>	<b>2000</b>	<b>Advertising Expense</b>	<b>5010</b>
3,850	150 (l)	(m) 200	335	(n) 1,400	
(p) 900	200 (m)	(q) 85	155 (k)		
	1,400 (n)		200 (s)	<b>Rent Expense</b>	<b>5020</b>
	85 (q)	285	690	400	
	50 (r)		405		
4,750	1,885				
2,865		<b>T. Freedman, Capital</b>	<b>3000</b>	<b>Utilities Expense</b>	<b>5030</b>
<b>Accounts Receivable</b>	<b>1020</b>		4,500	85	
(o) 850		<b>T. Freedman, Withdrawals</b>	<b>3010</b>	<b>Phone Expense</b>	<b>5040</b>
		100		(k) 155	
<b>Supplies</b>	<b>1030</b>				
250		<b>Service Revenue</b>	<b>4000</b>	<b>Supplies Expense</b>	<b>5050</b>
(s) 200			1,650		
450			850 (o)		
			900 (p)	<b>Insurance Expense</b>	<b>5060</b>
<b>Computer Shop Equipment</b>	<b>1080</b>		3,400	(l) 150	
1,200					
				<b>Postage Expense</b>	<b>5070</b>
<b>Office Equipment</b>	<b>1090</b>			(r) 50	
600					

4.

PRECISION COMPUTER CENTRE

TRIAL BALANCE

JUNE 30, 2016

Cash	2	8	6	5	0	0					
Accounts Receivable		8	5	0	0	0					
Supplies		4	5	0	0	0					
Computer Shop Equipment		1	2	0	0	0					
Office Equipment		6	0	0	0	0					
Accounts Payable							4	0	5	0	0
T. Freedman, Capital							4	5	0	0	0
T. Freedman, Withdrawals		1	0	0	0	0					
Service Revenue							3	4	0	0	0
Advertising Expense		1	4	0	0	0					
Rent Expense			4	0	0	0					
Utilities Expense				8	5	0					
Phone Expense			1	5	5	0					
Insurance Expense			1	5	0	0					
Postage Expense				5	0	0					
Total		8	3	0	5	0	0	8	3	0	5

**CONTINUING PROBLEM, Cont.**

**5. PRECISION COMPUTER CENTRE**  
**INCOME STATEMENT**  
**FOR THE TWO MONTHS ENDED JUNE 30, 2016**

<b>Revenue:</b>										
<i>Service Revenue</i>										\$ 3 4 0 0 0 0
<b>Operating Expenses:</b>										
<i>Advertising Expense</i>	\$	1	4	0	0	0	0			
<i>Insurance Expense</i>			1	5	0	0	0			
<i>Phone Expense</i>			1	5	5	0	0			
<i>Postage Expense</i>				5	0	0	0			
<i>Rent Expense</i>			4	0	0	0	0			
<i>Utilities Expense</i>				8	5	0	0			
<i>Total Operating Expenses</i>								2	2	4 0 0 0
<b>Net Income</b>								\$	1	1 6 0 0 0

**PRECISION COMPUTER CENTRE**  
**STATEMENT OF OWNER'S EQUITY**  
**FOR THE TWO MONTHS ENDED JUNE 30, 2016**

<i>T. Freedman, Capital Contributed, May 1, 2016</i>										\$ 4 5 0 0 0 0
<i>Net Income for the two months</i>	\$	1	1	6	0	0	0			
<i>Less: Withdrawals</i>			1	0	0	0	0			
<i>Increase in Capital</i>								1	0	6 0 0 0
<i>T. Freedman, Capital, June 30, 2016</i>								\$	5	5 6 0 0 0

**PRECISION COMPUTER CENTRE**  
**BALANCE SHEET**  
**JUNE 30, 2016**

<b>ASSETS</b>						<b>LIABILITIES AND OWNER'S EQUITY</b>					
<b>Assets:</b>						<b>Liabilities:</b>					
<i>Cash</i>	\$	2	8	6	5 0 0	<i>Accounts Payable</i>		\$	4	0	5 0 0
<i>Accounts Receivable</i>				8	5 0 0 0						
<i>Supplies</i>				4	5 0 0 0	<b>Owner's Equity:</b>					
<i>Computer Shop Equipment</i>		1	2	0	0 0 0	<i>T. Freedman, Capital</i>		5	5	6 0 0 0	
<i>Office Equipment</i>				6	0 0 0 0						
						<b>Total Liabilities and</b>					
<b>Total Assets</b>	\$	5	9	6	5 0 0	<b>Owner's Equity</b>		\$	5	9	6 5 0 0

**PROBLEM 2D-1**

<i>Accounts Affected</i>	<i>Category</i>	<i>Inc.</i> ↑	<i>Dec.</i> ↓	<i>Rules</i>	<i>T-Account Update</i>	
<b>A. Cash</b>	<i>Asset</i>	↑		<b>Dr.</b>	<u>Cash</u>	<u>A. Thomas, Capital</u>
<i>A. Thomas, Capital</i>	<i>Owner's Equity</i>		↑	<b>Cr.</b>	3,250	3,250
<b>B. Office Equipment</b>	<i>Asset</i>	↑		<b>Dr.</b>	<u>Office Equipment</u>	<u>Accounts Payable</u>
<i>Accounts Payable</i>	<i>Liability</i>		↑	<b>Cr.</b>	2,125	2,125
<b>C. Rent Expense</b>	<i>Expense</i>	↑		<b>Dr.</b>	<u>Rent Expense</u>	<u>Accounts Payable</u>
<i>Accounts Payable</i>	<i>Liability</i>		↑	<b>Cr.</b>	437	2,125 437
<b>D. Cash</b>	<i>Asset</i>	↑		<b>Dr.</b>	<u>Cash</u>	<u>Accounting Fees Earned</u>
<i>Bookkeeping Fees</i>	<i>Revenue</i>		↑	<b>Cr.</b>	3,250 2,625	2,625
<b>E. Accounts Receivable</b>	<i>Asset</i>	↑		<b>Dr.</b>	<u>Accounts Receivable</u>	<u>Accounting Fees Earned</u>
<i>Bookkeeping Fees</i>	<i>Revenue</i>		↑	<b>Cr.</b>	1,600	2,625 1,600
<b>F. A. Thomas, Withdrawals</b>	<i>Owner's Equity (Withdrawals)</i>		↓	<b>Dr.</b>	<u>A. Thomas, Withdrawals</u>	<u>Cash</u>
<i>Cash</i>	<i>Asset</i>		↓	<b>Cr.</b>	245	3,250 2,625

**PROBLEM 2D-2**

<u>Cash</u>	<u>111</u>
(A) 29,000	775 (D)
(C) 2,700	500 (E)
	3,200 (G)
<u>Computer Equipment</u>	<u>121</u>
(B) 9,600	
<u>Accounts Payable</u>	<u>211</u>
(G) 3,200	9,600 (B)
	750 (F)
<u>Val McIntyre, Capital</u>	<u>311</u>
	29,000 (A)

<u>Val McIntyre, Withdrawals</u>	<u>312</u>
(D) 775	
<u>Consulting Fees Earned</u>	<u>411</u>
	2,700 (C)
<u>Advertising Expense</u>	<u>511</u>
(E) 500	
<u>Rent Expense</u>	<u>512</u>
(F) 750	

[illegible]

(a) *HAMILTON AMES, ENGINEERING CONSULTANT*

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*INCOME STATEMENT*

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*FOR THE MONTH ENDED APRIL 30, 2017*

[illegible]

(b) *HAMILTON AMES, ENGINEERING CONSULTANT*

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*STATEMENT OF OWNER'S EQUITY*

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*FOR THE MONTH ENDED APRIL 30, 2017*

[illegible]

(c)

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*HAMILTON AMES, ENGINEERING CONSULTANT*

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*BALANCE SHEET*

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*APRIL 30, 2017*

[illegible]



### ***INCOME STATEMENT***

**FOR THE MONTH ENDED SEPTEMBER 30, 2017**

[illegible]

**CLARA BENSON ENTERPRISES**

### STATEMENT OF OWNER'S EQUITY

**FOR THE MONTH ENDED SEPTEMBER 30, 2017**

[illegible]

**CLARA BENSON ENTERPRISES**

## ***BALANCE SHEET***

**SEPTEMBER 30, 2017**

## ASSETS

### **LIABILITIES AND OWNER'S EQUITY**

[illegible]

# Chapter 2

## Class Quiz

1. List five functions of accounting.  
Answer: Analyze, record, classify, summarize, report.
2. Explain the following: Capital doesn't mean Cash.  
Answer: Capital could include other assets, such as equipment, as well as cash.
3. True or false: Revenue is reported on the balance sheet.  
Answer: False. Revenue is reported on the income statement.
4. True or false: Withdrawals are expenses on the income statement.  
Answer: False. Withdrawals are not business expenses; they are reported on the statement of owner's equity. (Withdrawals are for personal use.)
5. Complete the statement: As expenses increase, owner's equity \_\_\_\_\_.  
Answer: decreases.
6. Transaction C (p. 55) is an example of a(n) \_\_\_\_\_ in assets.  
Answer: increase.
7. Transaction F (p. 56) is an example of a(n) \_\_\_\_\_ in assets.  
Answer: shift
8. True or false: To Catherine Hall, legal fees are an asset.  
Answer: False. Legal fees are revenue, a subdivision of owner's equity.



## Accounting Recall

### A Cumulative Approach

#### PART 1 Vocabulary Review

Match each term on the left side with the appropriate definition or phrase in the right-hand column.

Page Ref.

(63)	1. Trial balance	A. Total remains the same
(48)	2. Debit	B. Entering numbers on right side
(51)	3. Normal balance	C. Subdivisions of owner's equity
(14)	4. Revenue	D. Group of accounts
(48)	5. Crediting	E. Numbering system
(11)	6. Balance sheet	F. Left side of an account
(9)	7. Shift in assets	G. Prepared as of a particular date
(52)	8. Chart of accounts	H. Not an asset
(47)	9. Ledger	I. Side of account that increases it
(21)	10. Capital, withdrawals, revenue, expenses	J. List of the ledger balances

#### PART 2 True or False (Accounting Theory)

- (48) 11. A debit always means increase.
- (63) 12. There are no debit or credit columns on financial reports.
- (63) 13. The trial balance lists only the ending figure for capital that goes on the balance sheet.
- (58) 14. An increase in a withdrawal is a credit.
- (63) 15. The trial balance is not a formal report.

## Solutions to Accounting Recall

This Examination Reviews Chapters 1 and 2.

#### PART 1

1. J    2. F    3. I    4. H    5. B    6. G    7. A    8. E    9. D    10. C

#### PART 2

- 11. False; depends on the category
- 12. True
- 13. False; the beginning balance shows up on the trial balance

- 14. False; debit
- 15. True

## Points to Stress

- 1. Stress at the outset that the words debit and credit only mean a *position*. Later we will discuss the rules of debit and credit and how they govern which side numbers are placed on.
- 2. Rules for normal balance are the same as for an increase.
- 3. Note how the rules for revenue and expenses work in the *opposite* direction.
- 4. Note that the names in Column 1 of the transaction analysis charts come from the chart of accounts, as do the account numbers in Column 5.
- 5. Go over the solutions to the Self-Review Quiz 2–2 (p. 60) to reinforce the point that arrows can go up or down but the sum of the left must equal the sum of the right.
- 6. Using the trial balance in Figure 2–2 (p. 64) have students identify the report on which each item will appear. (Example: Withdrawals go on the statement of owner's equity.)
- 7. The trial balance is an informal report used to *prepare* formal reports like the balance sheet.
- 8. The figure for net income is used to update the statement of owner's equity.
- 9. The ending figure for capital on the statement of owner's equity is used to update the balance sheet.
- 10. The two columns on the trial balance represent debit and credit; however, there are no debits or credits shown on the formal statements even if the statement has two columns.
- 11. The trial balance is listed in the same order as the ledger accounts.
- 12. On a trial balance, there is only one number for each account — the ending debit or credit balance.

## Business World Notes

1. A business may have 50 or more accounts (sometimes thousands) to keep track of and therefore it is not practical to use the equation format we used in Chapter 1 to record transactions.
2. Accountants do not actually write out a transaction analysis chart before they record a transaction, but they go through the exact same steps mentally.
3. Computers are very useful in maintaining the equality of debits and credits. But, computers are not a complete substitute for clear thinking on the part of accounting clerks and related personnel.
4. The double-entry system provides built-in protection against errors. If debits do not equal credits, then the accountant knows that there is an error in the records which must be corrected.
5. A double-entry system is not as necessary for a sole-proprietorship or partnership as it is for a corporation. Point out that if a standard double-entry system is too cumbersome for a small business there are alternative methods of keeping business records. Note, however, that the cash method is not permitted for tax purposes. Books kept on the cash basis must be converted to the accrual basis at year end.
6. If the accounts are out of balance and a trial balance is not prepared before the financial statement preparation, you would not know there was an error until all three statements were completed and you found the balance sheet wouldn't balance.
7. The trial balance does not necessarily need to be written out. Many accountants find it is sufficient to run an adding machine tape to show that debits equal credits. Computer accounting software will print a trial balance at the push of a button.

## Class Activities

1. Draw this T-account on the board:  

200	500
300	50

Show students how to balance it and foot it.
2. Have students turn to Self-Review Quiz 2–2 (p. 60) and explain which transaction in the chapter parallels Transaction D. Have them explain the difference between a withdrawal and a business expense.
3. Go back to the rules of debit and credit in Learning Unit 2–1 (p. 48) and have students review the chart out loud in class.

4. Using the information and accounts in Self-Review Quiz 2–2 (p. 60) have students categorize each account, its normal balance, and the report on which each account will be found.

Answers: Cash: Asset, Dr. balance, balance sheet

Accounts Receivable: Asset, Dr. balance, balance sheet

Equipment: Asset, Dr. balance, balance sheet

Accounts Payable: Liability, Cr. balance, balance sheet

Bill O'Malley, Capital: Capital, Cr. balance, statement of owner's equity and balance sheet

Bill O'Malley, Withdrawals: Withdrawals, Dr. balance, statement of owner's equity

Professional Fees: Revenue, Cr. balance, income statement

Utilities Expense: Expense, Dr. balance, income statement

Salaries Expense: Expense, Dr. balance, income statement

5. Have students go over pp. 53-59 to see how the ledger is built up. Discuss the footings. Show them one title at a time how the trial balance is built on p. 64 from p. 63.

## Teaching Tips

1. Talk about *arbitrary* rules. For example, in baseball there are nine innings and in football there are four quarters; the rules could be switched between the two sports and still work as long as everybody used the same ones. In accounting, the rules of debit and credit are also arbitrary; they could be switched and still work as long as the sum of the left sides equal the sum of the right sides.
2. Withdrawals are always increased by a dr (debit).
3. This is an ideal time to use the transparency or a handout that shows how to complete a transaction analysis chart.
4. Point out the position of the arrows in the two transaction charts for transactions B and C. Have students explain why arrows go up and down in the chart for transaction B, and the transaction still balances; while on the chart for transaction C, both arrows go up and that transaction also balances.

## Typical Student Misconceptions

1. “Debit is bad; credit is good.” To get students over this, emphasize instead these meanings:
  - Debit means the left side of any account.
  - Credit means the right side of any account.
2. Use the new section that details how nautical terms are in some ways similar to accounting terms, in that they have both a general meaning, as well as a meaning that is unique to that sector of the economy. You may have another example you could use here. Golf, for instance might be an understandable illustration for some students.
3. Students think that there is only one chart of accounts for all businesses. Emphasize that there are many possible charts of accounts for different businesses — in fact, there are books available that provide sample charts of accounts for all types of businesses and for whole industries (for a hair salon, for the plumbing industry, etc.). Have them turn to Chapter 12 (p. 558) to see a more complex chart of accounts than this one. You could also point out that most accounting software comes with several good and useful charts of accounts.
4. Students think that all of the arrows in the transactional analysis chart must “balance.” Emphasize that the arrows can go all up or all down or some up and some down as long as the sum of the left side equals the sum of the right side in the accounts.
5. Students think that legal fees are an asset. Stress that legal fees are revenue, which is a subdivision of owner’s equity. It is true that revenue will provide an inward flow of assets.
6. Students often think that expenses are liabilities. To clear up this misconception, point to Transaction I, showing that an expense may *create* a liability if the expense is not paid. An expense is *not* the same thing as a liability. Expenses are a subdivision of owner’s equity; liabilities are not.

## Check Figures for Exercises

### Set A

- 2-1A. Cash, 111; Accts. Rec., 112; Office Equip., 121; Accts. Pay., 211; L. Jones, Capital, 311; L. Jones, Withdrawals, 312; Legal Fees, 411; Advertising Exp., 511; Repair Exp., 512; Salary Exp., 513.
- 2-2A.
- |                    |           |
|--------------------|-----------|
| Computer Equipment | \$19,000+ |
| Accounts Payable   | \$16,000+ |
| Cash               | \$ 3,000– |
- 2-3A. P. Rey, Withdrawals: Owner’s Equity (Withdrawals), Dr., Cr., St. of O.E.  
Salaries Expense: Exp., Dr., Cr., I.S.

- 2-4A. A. 8,1 F. 3,5  
 B. 6,1 G. 2,7  
 C. 9,4 H. 1,2  
 D. 1,7 I. 3,4  
 E. 10 1

- 2-5A. Net Income: \$185  
 J. Hall, Capital, 7/31/16: \$787  
 Total Assets: \$1,242

### Set B

- 2-1B. Cash, 111; Accts. Rec., 112; Office Equip., 121; Accts. Pay., 211; L. Jones, Capital, 311; L. Jones, Withdrawals, 312; Legal Fees, 411; Cleaning Exp., 511; Office Assistance Exp., 512; Rent Exp., 513.

- 2-2B. Computer Equipment \$21,000+  
 Accounts Payable \$16,000+  
 Cash \$ 5,000–

- 2-3B. Legal Fees Earned, Rev., Cr., Dr., I.S.  
 P. Rey, Withdrawals: Owner's Equity (Withdrawals), Dr., Cr., St. of O.E.  
 Cash, Asset, Dr., Cr., B.S.  
 A/R, Asset, Dr., Cr., B.S.  
 Rent Expense: Exp., Dr., Cr., I.S.

- 2-4B. A. 4,1 F. 3,4  
 B. 6,1 G. 10,4  
 C. 10,4 H. 1,2  
 D. 1,7 I. 3,5  
 E. 7,2

- 2-5B. Net Income: \$415  
 J. Hall, Capital, 7/31/16: \$870  
 Total Assets: \$1,395

### Check Figures for On-the-Job Training

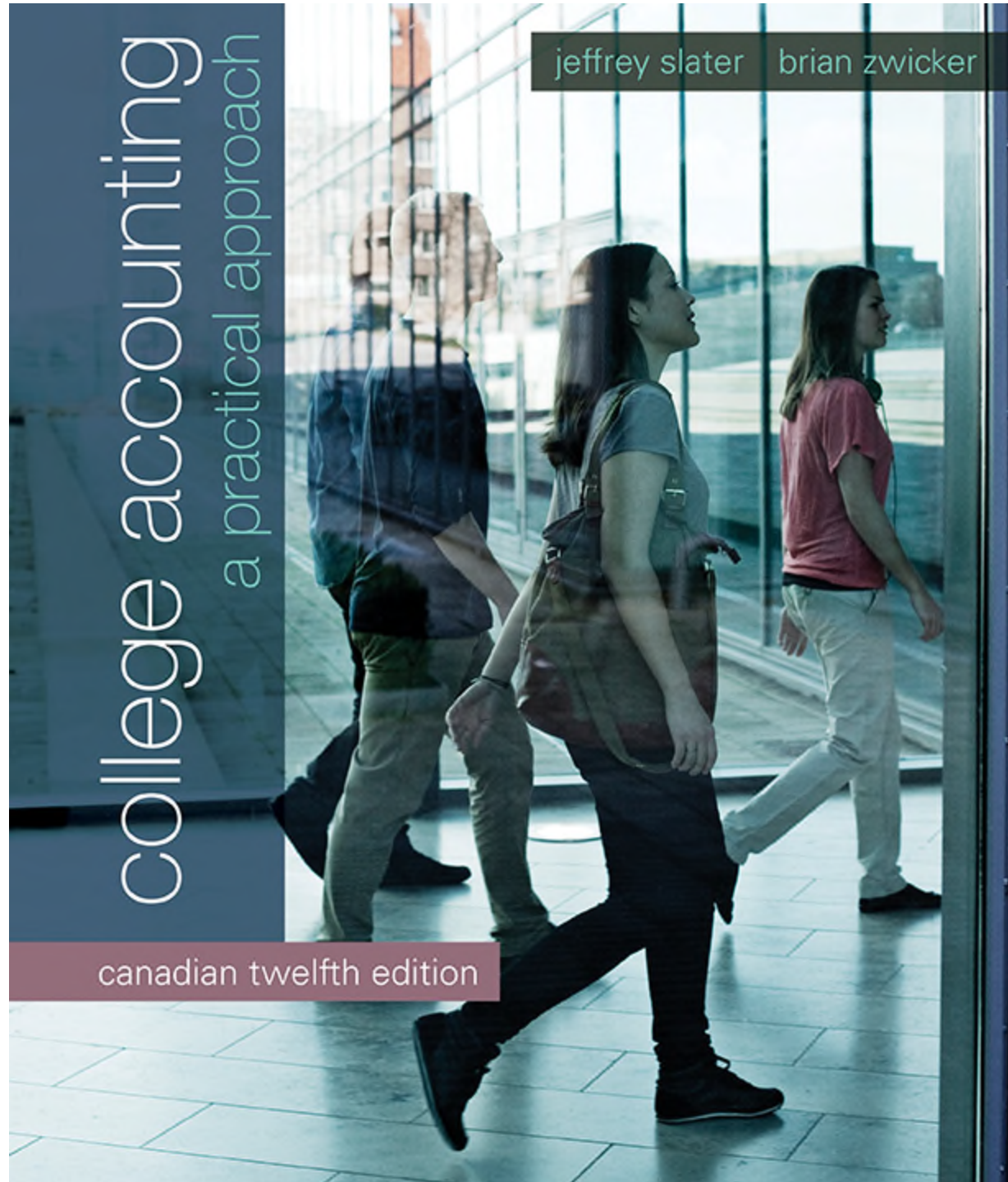
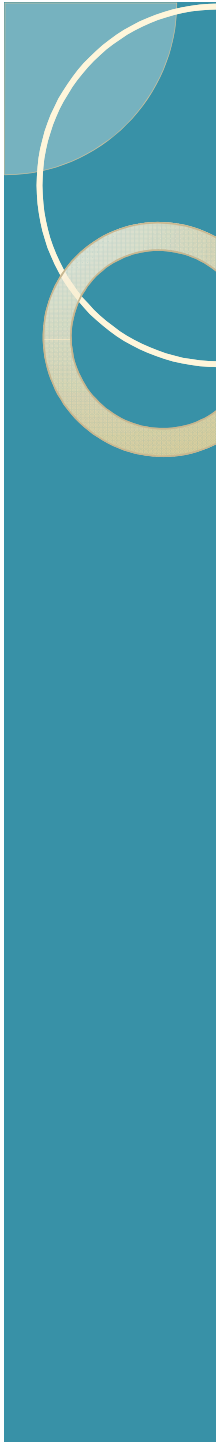
- T-1. Cash, \$490; Totals, \$3,180
- T-2. Situation 3. Trial Balance will balance but be overstated by \$400. Capital and Accounts Receivable are overstated by \$400.

### Check Figures for Continuing Problem

1., 2., 3.      Cash Dr. \$2,865.00

4.      Trial Balance   \$8,305.00

5.      Net Income      \$1,160.00  
         O/E                \$5,560.00  
         Total Assets    \$5,965.00



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## Chapter 2

# Debits and Credits: Analyzing and Recording Business Transactions



# Learning Objective 1

Recording transactions in T-accounts  
according to the rules of debit and credit

**LO1**



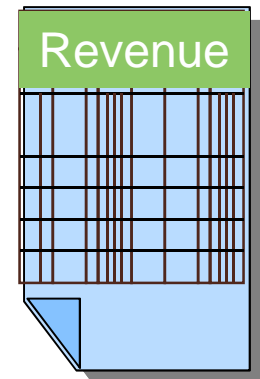
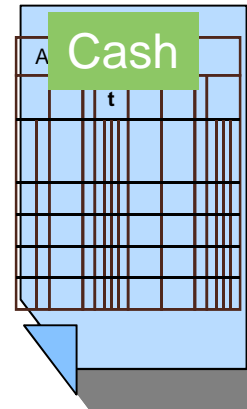
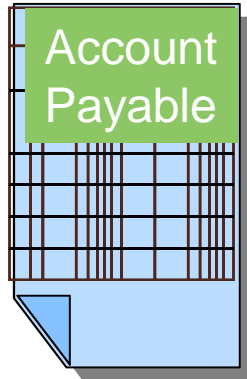
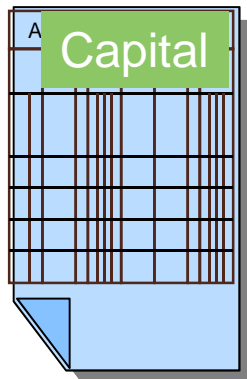
# Account

- Device used to record increases and decreases of business transaction
- Establish an account for each individual asset, liability, capital, withdrawal, revenue, expense

**LO-1**

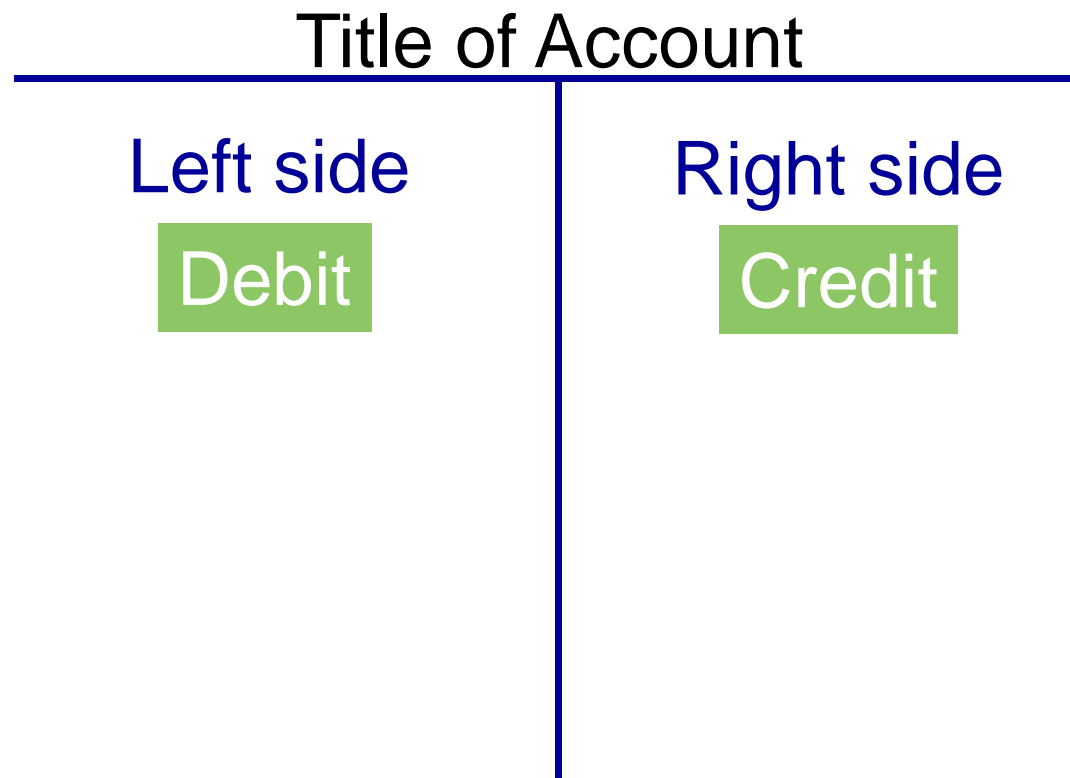
# Ledger

- Group of accounts that records data from business transactions



**LO-1**

# T-Account



**LO-1**

# T-Account

Cash	
Dr. (debit)	Cr. (credit)
Cash Coming in → { 4,000	300 ← Paid Expense
500	400 ← Paid Creditor
Footings → 4,500	700
Balance → 3,800	

LO-I

# Rules of Debit and Credit

Assets		=	Liabilities		+	Owner's Equity	
Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
+	-		-	+		-	+

LO-1

# Rules of Debit and Credit

<b>Capital</b>			
<b>Dr.</b> -		<b>Cr.</b> +	
<b>Expenses</b>		<b>Revenues</b>	
Dr.	Cr.	Dr.	Cr.
+	-	-	+
<b>Withdrawals</b>			
Dr.	Cr.		
+	-		

LO-I





## Learning Objective 2

Setting up and organizing a chart of accounts

**LO-2**

# Chart of Accounts

- A numbering system of accounts that lists the account titles and account numbers to be used by a company

Sample Chart of Accounts for a Service Co.			
Balance Sheet Accounts			
<b>Assets 100s</b>		<b>Liabilities 200s</b>	
101	Cash	201	Accounts Payable
110	Accounts Receivable	<b>Owner's Equity 300s</b>	
120	Supplies	301	Owner, Capital
		302	Owner, Withdrawals
Income Statement Accounts			
<b>Revenue 400s</b>		<b>Expenses 500s</b>	
411	Service Fees Earned	510	Advertising Expense
		514	Utilities Expense
		522	Salaries Expense

**LO-2**



# Double-Entry Bookkeeping

- System in which the recording of each transaction affects two or more accounts
- Debits and Credits must equal

**LO-2**

# Compound Entries

- A transaction that involves more than one credit or debit

Equipment	
\$10,000	
Debit	

Accounts Payable	
	\$5,000
	Credit

Cash	
	\$5,000
	Credit

Debits and credits are equivalent after a piece of equipment is purchased for \$10,000 with half being paid in cash and half being put on account.

**LO-2**



## Problem 2B-5

This comprehensive problem will be used to illustrate the steps in recording transactions and reporting financial information covered in this chapter.

**LO-2**



# The Transaction Analysis

Step 1: Determine which accounts are affected.

Step 2: Determine which category accounts belong to.

Step 3: Determine whether accounts increase or decrease.

Step 4: What do the rules of debits and credits say?

Step 5: Place amounts into T accounts.

**LO-2**

# Problem 2B-5

Chart of Accounts for Angel's Delivery Service			
Balance Sheet Accounts			
<b>Assets</b>		<b>Liabilities</b>	
111	Cash	211	Accounts Payable
112	Accounts Receivable	<b>Owner's Equity</b>	
121	Office Equipment	311	Alice Angel, Capital
122	Delivery Trucks	312	Alice Angel, Withdrawals
Income Statement Accounts			
<b>Revenue</b>		<b>Expenses</b>	
411	Delivery Fees Earned	511	Advertising Expense
		512	Gas Expense
		513	Salaries Expense
		514	Telephone Expense

**LO-2**

# Transaction A

Step 1: Which accounts are affected?

**Cash**

**Alice Angel, Capital**

Step 2: Which category does the account belong to?

**Assets**

**Owner's Equity**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Increasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**



### Cash

Dr. Cr.

A) 40,000

### Accounts Payable

Dr. Cr.

### Advertising Expense

Dr. Cr.

### Accounts Receivable

Dr. Cr.

### Angel, Capital

Dr. Cr.

A) 40,000

### Gas Expense

Dr. Cr.

### Office Equipment

Dr. Cr.

### Angel, Withdrawals

Dr. Cr.

### Salaries Expense

Dr. Cr.

### Delivery Trucks

Dr. Cr.

### Delivery Fees Earned

Dr. Cr.

### Telephone Expense

Dr. Cr.

LO-2

# Transaction B

Step 1: Which accounts are affected?

**Delivery Truck**

**Accounts Payable**

Step 2: Which category does the account belong to?

**Assets**

**Liabilities**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Increasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**

### Cash

Dr.	Cr.
A) 40,000	

### Accounts Payable

Dr.	Cr.
	B) 25,000

### Advertising Expense

Dr.	Cr.

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Gas Expense

Dr.	Cr.

### Accounts Receivable

Dr.	Cr.

### Angel, Withdrawals

Dr.	Cr.

### Salaries Expense

Dr.	Cr.

### Office Equipment

Dr.	Cr.

### Delivery Fees Earned

Dr.	Cr.

### Telephone Expense

Dr.	Cr.

### Delivery Trucks

Dr.	Cr.
B) 25,000	

LO-2

# Transaction C

Step 1: Which accounts are affected?

**Advertising Expense**

**Accounts Payable**

Step 2: Which category does the account belong to?

**Expenses**

**Liabilities**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Increasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**

### Cash

Dr.	Cr.
A) 40,000	

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800

### Advertising Expense

Dr.	Cr.
C) 800	

### Accounts Receivable

Dr.	Cr.

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Gas Expense

Dr.	Cr.

### Angel, Withdrawals

Dr.	Cr.

### Salaries Expense

Dr.	Cr.

### Office Equipment

Dr.	Cr.

### Delivery Fees Earned

Dr.	Cr.

### Telephone Expense

Dr.	Cr.

### Delivery Trucks

Dr.	Cr.
B) 25,000	

LO-2

# Transaction D

Step 1: Which accounts are affected?

**Office Equipment**

**Cash**

Step 2: Which category does the account belong to?

**Asset**

**Asset**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Decreasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**

### Cash

Dr.	Cr.
A) 40,000	D) 2,500

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800

### Advertising Expense

Dr.	Cr.
C) 800	

### Accounts Receivable

Dr.	Cr.

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Gas Expense

Dr.	Cr.

### Angel, Withdrawals

Dr.	Cr.

### Salaries Expense

Dr.	Cr.

### Office Equipment

Dr.	Cr.
D) 2,500	

### Delivery Fees Earned

Dr.	Cr.

### Telephone Expense

Dr.	Cr.

### Delivery Trucks

Dr.	Cr.
B) 25,000	

LO-2

# Transaction E

Step 1: Which accounts are affected?

**Cash**

**Delivery Fees Earned**

Step 2: Which category does the account belong to?

**Asset**

**Revenue**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Increasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**



### Cash

Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800

### Advertising Expense

Dr.	Cr.
C) 800	

### Accounts Receivable

Dr.	Cr.

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Gas Expense

Dr.	Cr.

### Office Equipment

Dr.	Cr.
D) 2,500	

### Angel, Withdrawals

Dr.	Cr.

### Salaries Expense

Dr.	Cr.

### Delivery Trucks

Dr.	Cr.
B) 25,000	

### Delivery Fees Earned

Dr.	Cr.
	E) 13,000

### Telephone Expense

Dr.	Cr.

LO-2

# Transaction F

Step 1: Which accounts are affected?

**Salaries Expense**

**Cash**

Step 2: Which category does the account belong to?

**Expense**

**Asset**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Decreasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**

### Cash

Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	<b>F) 1,850</b>

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800

### Advertising Expense

Dr.	Cr.
C) 800	

### Accounts Receivable

Dr.	Cr.

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Gas Expense

Dr.	Cr.

### Office Equipment

Dr.	Cr.
D) 2,500	

### Angel, Withdrawals

Dr.	Cr.

### Salaries Expense

Dr.	Cr.
<b>F) 1,850</b>	

### Delivery Trucks

Dr.	Cr.
B) 25,000	

### Delivery Fees Earned

Dr.	Cr.
	E) 13,000

### Telephone Expense

Dr.	Cr.

LO-2

# Transaction G

Step 1: Which accounts are affected?

**Gas Expense**

**Cash**

Step 2: Which category does the account belong to?

**Expense**

**Asset**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Decreasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**

### Cash

Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	F) 1,850
	<b>G) 750</b>

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800

### Advertising Expense

Dr.	Cr.
C) 800	

### Accounts Receivable

Dr.	Cr.
-----	-----

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Gas Expense

Dr.	Cr.
<b>G) 750</b>	

### Office Equipment

Dr.	Cr.
D) 2,500	

### Angel, Withdrawals

Dr.	Cr.
-----	-----

### Salaries Expense

Dr.	Cr.
F) 1,850	

### Delivery Trucks

Dr.	Cr.
B) 25,000	

### Delivery Fees Earned

Dr.	Cr.
	E) 13,000

### Telephone Expense

Dr.	Cr.
-----	-----

LO-2

# Transaction H

Step 1: Which accounts are affected?

**Accounts Receivable**

**Delivery Fees Earned**

Step 2: Which category does the account belong to?

**Asset**

**Revenue**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Increasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**

### Cash

Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	F) 1,850
	G) 750

### Accounts Receivable

Dr.	Cr.
H) 5,500	

### Office Equipment

Dr.	Cr.
D) 2,500	

### Delivery Trucks

Dr.	Cr.
B) 25,000	

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800
	25,800

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Angel, Withdrawals

Dr.	Cr.

### Delivery Fees Earned

Dr.	Cr.
	E) 13,000
	H) 5,500

### Advertising Expense

Dr.	Cr.
C) 800	

### Gas Expense

Dr.	Cr.
G) 750	

### Salaries Expense

Dr.	Cr.
F) 1,850	

### Telephone Expense

Dr.	Cr.

LO-2

# Transaction I

Step 1: Which accounts are affected?

**Telephone Expense**

**Cash**

Step 2: Which category does the account belong to?

**Expense**

**Asset**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Decreasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**



### Cash

Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	F) 1,850
	G) 750
	I) 400

### Accounts Receivable

Dr.	Cr.
H) 5,500	

### Office Equipment

Dr.	Cr.
D) 2,500	

### Delivery Trucks

Dr.	Cr.
B) 25,000	

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Angel, Withdrawals

Dr.	Cr.

### Delivery Fees Earned

Dr.	Cr.
	E) 13,000
	H) 5,500

### Advertising Expense

Dr.	Cr.
C) 800	

### Gas Expense

Dr.	Cr.
G) 750	

### Salaries Expense

Dr.	Cr.
F) 1,850	

### Telephone Expense

Dr.	Cr.
I) 400	

LO-2

# Transaction J

Step 1: Which accounts are affected?

**Cash**

**Accounts Receivable**

Step 2: Which category does the account belong to?

**Asset**

**Asset**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Decreasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**

### Cash

Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	F) 1,850
J) 1,600	G) 750
	I) 400

### Accounts Receivable

Dr.	Cr.
H) 5,500	J) 1,600

### Office Equipment

Dr.	Cr.
D) 2,500	

### Delivery Trucks

Dr.	Cr.
B) 25,000	

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Angel, Withdrawals

Dr.	Cr.

### Delivery Fees Earned

Dr.	Cr.
	E) 13,000
	H) 5,500

### Advertising Expense

Dr.	Cr.
C) 800	

### Gas Expense

Dr.	Cr.
G) 750	

### Salaries Expense

Dr.	Cr.
F) 1,850	

### Telephone Expense

Dr.	Cr.
I) 400	

LO-2

# Transaction K

Step 1: Which accounts are affected?

**Alice Angel, Withdrawals**

**Cash**

Step 2: Which category does the account belong to?

**Withdrawal**

**Asset**

Step 3: Is the account increasing/decreasing?

**Increasing**

**Decreasing**

Step 4: Debit or credit?

**Debit**

**Credit**

Step 5: Place amounts into accounts.

**LO-2**

### Cash

Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	F) 1,850
J) 1,600	G) 750
	I) 400
	K) 88

### Accounts Receivable

Dr.	Cr.
H) 5,500	J) 1,600

### Office Equipment

Dr.	Cr.
D) 2,500	

### Delivery Trucks

Dr.	Cr.
B) 25,000	

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Angel, Withdrawals

Dr.	Cr.
K) 88	

### Delivery Fees Earned

Dr.	Cr.
	E) 13,000
	H) 5,500

### Advertising Expense

Dr.	Cr.
C) 800	

### Gas Expense

Dr.	Cr.
G) 750	

### Salaries Expense

Dr.	Cr.
F) 1,850	

### Telephone Expense

Dr.	Cr.
I) 400	

LO-2

# Review Rules of Debit & Credit

Account Category	Increase (Normal Balance)	Decrease
Assets	Debit	Credit
Liabilities	Credit	Debit
Owner's Equity		
Capital	Credit	Debit
Withdrawals	Debit	Credit
Revenue	Credit	Debit
Expense	Debit	Credit

**LO-2**



# Learning Objective 3

## Preparing a trial balance

**LO-3**

# Footings

- Add total debits and total credits in each account
- Determine each account balance

Cash	
Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	F) 1,850
J) 1,600	G) 750
	I) 400
	K) 88

54,600

49,012

5,588

Footings

Notice the ending account balance appears on the debit side because that side is larger.

LO-3



### Cash

Dr.	Cr.
A) 40,000	D) 2,500
E) 13,000	F) 1,850
J) 1,600	G) 750
	I) 400
	K) 88
54,600	5,588
49,012	

### Accounts Receivable

Dr.	Cr.
H) 5,500	J) 1,600
3,900	

### Office Equipment

Dr.	Cr.
D) 2,500	

### Delivery Trucks

Dr.	Cr.
B) 25,000	

### Accounts Payable

Dr.	Cr.
	B) 25,000
	C) 800
	25,800

### Angel, Capital

Dr.	Cr.
	A) 40,000

### Angel, Withdrawals

Dr.	Cr.
K) 88	

### Delivery Fees Earned

Dr.	Cr.
	E) 13,000
	H) 5,500
	18,500

### Advertising Expense

Dr.	Cr.
C) 800	

### Gas Expense

Dr.	Cr.
G) 750	

### Salaries Expense

Dr.	Cr.
F) 1,850	

### Telephone Expense

Dr.	Cr.
I) 400	

LO-3



# Trial Balance

- List of the ending balances of all the accounts in a ledger
- Total debits should equal total credits
- List in same order as they appear in chart of accounts

**LO-3**



# Learning Objective 4

Preparing financial statements from a trial balance

**LO-4**

# Statement of Owner's Equity Accounts

Service

ce

00X

		Dr.	Cr.
111	Cash	49,012	
112	Accounts Receivable	3,900	
121	Office Equipment		
122	Delivery Truck		
211	Accounts Payable		
311	Alice Angel, Capital		40,000
312	Alice Angel, Withdrawals	88	
411	Delivery Fees Earned		18,500
511	Supplies	800	
512	Utilities	750	
513	Insurance	1,850	
514	Depreciation	400	
	<b>Totals</b>	<b>84,300</b>	<b>84,300</b>

## Income Statement Accounts

## Balance Sheet Accounts

LO-4

## Problem 2B-5 continued

Angel's Delivery Service		
Income Statement		
For Month Ended March 31, 200X		
Revenue:		
Delivery Fees Earned		\$18,500
Operating Expenses:		
Salaries Expense	\$1,850	
Advertising Expense	800	
Gas Expense	750	
Telephone Expense	400	
Total Operating Expenses		3,800
Net Income		\$14,700

**LO-4**

## Problem 2B-5 continued

Angel's Delivery Service		
Statement of Owner's Equity		
For Month Ended March 31, 200X		
Alice Angel, Capital, March 1, 200X		\$40,000
Net Income for March	\$14,700	
Less: Withdrawals for March	88	
Increase in Capital		14,612
Alice Angel, Capital, March 31, 200X		\$54,612

**LO-4**

## Problem 2B-5 continued

Angel's Delivery Service			
Balance Sheet			
March 31, 200X			
Assets		Liabilities and Owner's Equity	
Cash	\$49,012	Accounts Payable	\$25,800
Accounts Receivable	3,900	Owner's Equity	
Office Equipment	2,500	Alice Angel, Capital	54,612
Delivery Truck	25,000	Total Liabilities & Owner's Equity	\$80,412
Total Assets	\$80,412		

LO-4



# Additional Practice

MyAccountingLab offers excellent practice opportunities, including:

- Self Review Animations
- Student PowerPoints
- Flashcards
- Practice Tests and more

In addition to MyAccountingLab, you may wish to try the end of chapter exercises and problems, using the check figures provided in the margins of your textbook.





# End of Chapter 2