

CHAPTER 2**The Recording Process****ASSIGNMENT CLASSIFICATION TABLE**

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain what an account is and how it helps in the recording process.	1			1		
2. Define debits and credits and explain their use in recording business transactions.	2, 3, 4, 5, 6, 7, 8, 9, 14, 21	1, 2, 5	1	2, 4, 6, 7, 14	1A, 2A, 3A, 5A	1B, 2B, 3B, 5B
3. Identify the basic steps in the recording process.	10, 19	4		6, 7		
4. Explain what a journal is and how it helps in the recording process.	11, 12, 13, 14, 16	3, 6	2	3, 5, 6, 7, 10, 11, 12	1A, 2A, 3A, 5A	1B, 2B, 3B, 5B
5. Explain what a ledger is and how it helps in the recording process.	17			8		
6. Explain what posting is and how it helps in the recording process.	15, 17	7, 8	3	9, 12	2A, 3A, 5A	2B, 3B, 5B
7. Prepare a trial balance and explain its purposes.	18, 20	9, 10	4	9, 10, 11, 13, 14, 15	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Journalize a series of transactions.	Simple	20–30
2A	Journalize transactions, post, and prepare a trial balance.	Simple	30–40
3A	Journalize and post transactions and prepare a trial balance.	Moderate	40–50
4A	Prepare a correct trial balance.	Moderate	30–40
5A	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50
1B	Journalize a series of transactions.	Simple	20–30
2B	Journalize transactions, post, and prepare a trial balance.	Simple	30–40
3B	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50
4B	Prepare a correct trial balance.	Moderate	30–40
5B	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50

WEYGANDT FINANCIAL and MANAGERIAL ACCOUNTING
CHAPTER 2
THE RECORDING PROCESS

Number	LO	BT	Difficulty	Time (min.)
BE1	2	C	Simple	6–8
BE2	2	C	Simple	4–6
BE3	4	AP	Simple	4–6
BE4	3	C	Moderate	4–6
BE5	2	C	Simple	6–8
BE6	4	AP	Simple	4–6
BE7	6	AP	Simple	4–6
BE8	6	AP	Simple	4–6
BE9	7	AP	Simple	4–6
BE10	7	AN	Moderate	6–8
DI1	2	C	Simple	3–5
DI2	4	AP	Simple	3–5
DI3	6	AP	Simple	2–4
DI4	7	AP	Simple	6–8
EX1	1	K	Simple	2–4
EX2	2	C	Simple	10–15
EX3	4	AP	Simple	8–10
EX4	2	C	Simple	6–8
EX5	4	AP	Simple	6–8
EX6	2–4	AP	Simple	6–8
EX7	2–4	AP	Simple	8–10
EX8	5	K	Simple	2–4
EX9	6, 7	AP	Simple	10–12
EX10	4, 7	AP	Moderate	10–12
EX11	4, 7	AP	Moderate	12–15
EX12	4, 6	AP	Moderate	12–15
EX13	7	AN	Moderate	6–8
EX14	2, 7	AP	Simple	8–10
EX15	7	C	Simple	4–6

THE RECORDING PROCESS (Continued)

Number	LO	BT	Difficulty	Time (min.)
P1A	2, 4	AP	Simple	20–30
P2A	2, 4, 6, 7	AP	Simple	30–40
P3A	2, 4, 6, 7	AP	Moderate	40–50
P4A	7	AN	Moderate	30–40
P5A	2, 4, 6, 7	AP	Moderate	40–50
P1B	2, 4	AP	Simple	20–30
P2B	2, 4, 6, 7	AP	Simple	30–40
P3B	2, 4, 6, 7	AP	Moderate	40–50
P4B	7	AN	Moderate	30–40
P5B	2, 4, 6, 7	AP	Moderate	40–50
BYP1	2	C	Simple	8–10
BYP2	2, 6	AN	Simple	8–10
BYP3	—	AP	Simple	15–20
BYP4	6, 7	AP, S	Moderate	20–30
BYP5	3, 6	S	Simple	10–15
BYP6	7	AN, E	Moderate	10–15
BYP7	—	E	Moderate	15–20
BYP8	—	E	Moderate	10–15

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what an account is and how it helps in the recording process.	Q2-1 E2-1					
2. Define debits and credits and explain their use in recording business transactions.	Q2-21	Q2-2 Q2-7 BE2-2 Q2-3 Q2-8 BE2-5 Q2-4 Q2-9 DI2-1 Q2-5 Q2-14 E2-2 Q2-6 BE2-1 E2-4	E2-6 P2-3A P2-5B E2-7 P2-5A E2-14 P2-1B P2-1A P2-2B P2-2A P2-3B			
3. Identify the basic steps in the recording process.	Q2-10	Q2-19 BE2-4	E2-6 E2-7			
4. Explain what a journal is and how it helps in the recording process.	Q2-12	Q2-11 Q2-13 Q2-14	Q2-16 E2-7 P2-5A BE2-3 E2-10 P2-1B BE2-6 E2-11 P2-2B DI2-2 E2-12 P2-3B E2-3 P2-1A P2-5B E2-5 P2-2A E2-6 P2-3A			
5. Explain what a ledger is and how it helps in the recording process.	E2-8	Q2-17				
6. Explain what posting is and how it helps in the recording process.		Q2-15 Q2-17	BE2-7 E2-12 P2-2B BE2-8 P2-2A P2-3B DI2-3 P2-3A P2-5B E2-9 P2-5A			
7. Prepare a trial balance and explain its purposes.		Q2-18 E2-15	BE2-9 E2-11 P2-5A DI2-4 E2-14 P2-2B E2-9 P2-2A P2-3B E2-10 P2-3A P2-5B	Q2-20 P2-4B BE2-10 E2-13 P2-4A		
Broadening Your Perspective		Financial Reporting	Decision-Making Across the Organization Real-World Focus	Comparative Analysis Ethics Case	Communication Decision Making Across the Organization	All About You Ethics Case

ANSWERS TO QUESTIONS

1. A T account has the following parts: (a) the title, (b) the left or debit side, and (c) the right or credit side.
2. Disagree. The terms debit and credit mean left and right respectively.
3. Jason is incorrect. The double-entry system merely records the dual effect of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once, with a dual effect.
4. Sandra is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favorable nor unfavorable.
5.
 - (a) Asset accounts are increased by debits and decreased by credits.
 - (b) Liability accounts are decreased by debits and increased by credits.
 - (c) Revenues, common stock, and retained earnings are increased by credits and decreased by debits. Expenses and dividends are increased by debits and decreased by credits.
6.
 - (a) Accounts Receivable—debit balance.
 - (b) Cash—debit balance.
 - (c) Dividends—debit balance.
 - (d) Accounts Payable—credit balance.
 - (e) Service Revenue—credit balance.
 - (f) Salaries and Wages Expense—debit balance.
 - (g) Common Stock—credit balance.
7.
 - (a) Accounts Receivable—asset—debit balance.
 - (b) Accounts Payable—liability—credit balance
 - (c) Equipment—asset—debit balance.
 - (d) Dividends—stockholders' equity—debit balance.
 - (e) Supplies—asset—debit balance.
8.
 - (a) Debit Supplies and credit Accounts Payable.
 - (b) Debit Cash and credit Notes Payable.
 - (c) Debit Salaries and Wages Expense and credit Cash.
9.
 - (1) Cash—both debit and credit entries.
 - (2) Accounts Receivable—both debit and credit entries.
 - (3) Dividends—debit entries only.
 - (4) Accounts Payable—both debit and credit entries.
 - (5) Salaries and Wages Expense—debit entries only.
 - (6) Service Revenue—credit entries only.
10. The basic steps in the recording process are:
 1. Analyze each transaction for its effect on the accounts.
 2. Enter the transaction information in a journal.
 3. Transfer the journal information to the appropriate accounts in the ledger.

Questions Chapter 2 (Continued)

11. The advantages of using the journal in the recording process are:
- It discloses in one place the complete effects of a transaction.
 - It provides a chronological record of all transactions.
 - It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
12. (a) The debit should be entered first.
(b) The credit should be indented.
13. When three or more accounts are required in one journal entry, the entry is referred to as a compound entry. An example of a compound entry is the purchase of equipment, part of which is paid for with cash and the remainder is on account.
14. (a) No, business transaction debits and credits should not be recorded directly in the ledger.
(b) The advantages of using the journal are:
- It discloses in one place the complete effects of a transaction.
 - It provides a chronological record of all transactions.
 - It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
15. The advantage of the last step in the posting process is to indicate that the item has been posted.
16. (a) Cash 9,000
Common Stock 9,000
(Issued shares of stock for cash)
- (b) Prepaid Insurance 800
Cash 800
(Paid one-year insurance policy)
- (c) Supplies 2,000
Accounts Payable 2,000
(Purchased supplies on account)
- (d) Cash 7,500
Service Revenue 7,500
(Received cash for services rendered)
17. (a) The entire group of accounts maintained by a company, including all the asset, liability, and stockholders' equity accounts, is referred to collectively as the ledger.
- (b) A chart of accounts is a list of accounts and the account numbers that identify their location in the ledger. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and define the level of detail that a company desires in its accounting system.

Questions Chapter 2 (Continued)

18. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove (check) that the debits equal the credits after posting. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.
19. No, Joe is not correct. The proper sequence is as follows:
- (b) Business transaction occurs.
 - (c) Information entered in the journal.
 - (a) Debits and credits posted to the ledger.
 - (e) Trial balance is prepared.
 - (d) Financial statements are prepared.
20. (a) The trial balance would balance.
(b) The trial balance would not balance.
21. The normal balances are Cash debit, Accounts Payable credit, and Interest Expense debit.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2-1

	(a) Debit Effect	(b) Credit Effect	(c) Normal Balance
1. Accounts Payable	Decrease	Increase	Credit
2. Advertising Expense	Increase	Decrease	Debit
3. Service Revenue	Decrease	Increase	Credit
4. Accounts Receivable	Increase	Decrease	Debit
5. Common Stock	Decrease	Increase	Credit
6. Dividends	Increase	Decrease	Debit

BRIEF EXERCISE 2-2

	<u>Account Debited</u>	<u>Account Credited</u>
June 1	Cash	Common Stock
2	Equipment	Accounts Payable
3	Rent Expense	Cash
12	Accounts Receivable	Service Revenue

BRIEF EXERCISE 2-3

June 1	Cash.....	4,000	
	Common Stock.....		4,000
2	Equipment.....	900	
	Accounts Payable		900
3	Rent Expense.....	800	
	Cash		800
12	Accounts Receivable.....	300	
	Service Revenue		300

BRIEF EXERCISE 2-4

The basic steps in the recording process are:

1. **Analyze each transaction.** In this step, business documents are examined to determine the effects of the transaction on the accounts.
2. **Enter each transaction in a journal.** This step is called journalizing and it results in making a chronological record of the transactions.
3. **Transfer journal information to ledger accounts.** This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.

BRIEF EXERCISE 2-5

	(a) <u>Effect on Accounting Equation</u>	(b) <u>Debit-Credit Analysis</u>
Aug. 1	The asset Cash is increased; the stockholders' equity account Common Stock is increased.	Debits increase assets: debit Cash \$8,000. Credits increase stockholders' equity: credit Common Stock \$8,000.
4	The asset Prepaid Insurance is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Insurance \$1,800. Credits decrease assets: credit Cash \$1,800.
16	The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash \$1,100. Credits increase revenues: credit Service Revenue \$1,100.
27	The expense Salaries and Wages Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries and Wages Expense \$1,000. Credits decrease assets: credit Cash \$1,000.

BRIEF EXERCISE 2-6

Aug. 1	Cash	5,000	
	Common Stock		5,000
4	Prepaid Insurance	1,800	
	Cash.....		1,800
16	Cash	1,100	
	Service Revenue		1,100
27	Salaries and Wages Expense	1,000	
	Cash.....		1,000

BRIEF EXERCISE 2-7

Cash		Service Revenue	
5/12	2,100	5/5	5,000
5/15	3,000	5/15	3,000
Ending Bal.	5,100	Ending Bal.	8,000

Accounts Receivable			
5/5	5,000	5/12	2,100
Ending Bal.	2,900		

BRIEF EXERCISE 2-8

Cash					
Date	Explanation	Ref.	Debit	Credit	Balance
May 12		J1	2,100		2,100
15		J1	3,000		5,100

BRIEF EXERCISE 2-8 (Continued)

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1	5,000		5,000
12		J1		2,100	2,900

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1		5,000	5,000
15		J1		3,000	8,000

BRIEF EXERCISE 2-9

STARR COMPANY Trial Balance June 30, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 6,800	
Accounts Receivable	3,000	
Equipment.....	17,000	
Accounts Payable.....		\$ 9,000
Common Stock		20,000
Dividends	1,200	
Service Revenue.....		6,000
Salaries and Wages Expense	6,000	
Rent Expense.....	1,000	
	<u>\$35,000</u>	<u>\$35,000</u>

BRIEF EXERCISE 2-10

CHENG COMPANY
Trial Balance
December 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$16,800	
Prepaid Insurance.....	3,500	
Accounts Payable.....		\$ 3,000
Unearned Service Revenue.....		4,200
Common Stock		13,000
Dividends	4,500	
Service Revenue.....		25,600
Salaries and Wages Expense.....	18,600	
Rent Expense	2,400	
	<u>\$45,800</u>	<u>\$45,800</u>

SOLUTIONS FOR DO IT! REVIEW EXERCISES**DO IT! 2-1**

Graham would likely need the following accounts in which to record the transactions necessary to ready his photography studio for opening day:

Cash (debit balance)	Notes Payable (credit balance)
Supplies (debit balance)	Accounts Payable (credit balance)
Equipment (debit balance)	Common Stock (credit balance)
	Rent Expense (debit balance)

DO IT! 2-2

Each transaction that is recorded is entered in the general journal. The three activities would be recorded as follows:

1. Cash 8,000
 Common Stock 8,000
2. Supplies 1,600
 Cash 400
 Accounts Payable 1,200
3. No entry because no transaction has occurred.

DO IT! 2-3

Cash			
4/1	1,600	4/16	600
4/3	3,700	4/20	500
4/30	4,200		

DO IT! 2-4

CHILLIN' COMPANY
Trial Balance
December 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 6,000	
Accounts Receivable	8,000	
Supplies	5,000	
Equipment.....	76,000	
Notes Payable.....		\$ 20,000
Accounts Payable.....		9,000
Salaries Wages Payable.....		3,000
Common Stock		25,000
Dividends	8,000	
Service Revenue.....		86,000
Rent Expense.....	2,000	
Salaries and Wages Expense	38,000	
	<u>\$143,000</u>	<u>\$143,000</u>

SOLUTIONS TO EXERCISES

EXERCISE 2-1

1. False. An account is an accounting record of a specific asset, liability, *or stockholders' equity item*.
2. False. An account shows *increases and decreases* in the item it relates to.
3. False. Each asset, liability, and *stockholders' equity item has a separate account*.
4. False. An account has a left, or *debit* side, and a right, or *credit* side.
5. True.

EXERCISE 2-2

Transaction	Account Debited				Account Credited			
	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance
Jan. 2	Asset	Cash	Increase	Debit	Stockholders' Equity	Common Stock	Increase	Credit
3	Asset	Equipment	Increase	Debit	Asset	Cash	Decrease	Debit
9	Asset	Supplies	Increase	Debit	Liability	Accounts Payable	Increase	Credit
11	Asset	Accounts Receivable	Increase	Debit	Stockholders' Equity	Service Revenue	Increase	Credit
16	Stockholders' Equity	Advertising Expense	Increase	Debit	Asset	Cash	Decrease	Debit
20	Asset	Cash	Increase	Debit	Asset	Accounts Receivable	Decrease	Debit
23	Liability	Accounts Payable	Decrease	Credit	Asset	Cash	Decrease	Debit
28	Stockholders' Equity	Dividends	Increase	Debit	Asset	Cash	Decrease	Debit

EXERCISE 2-3

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Jan. 2	Cash		15,000	
	Common Stock.....			15,000
3	Equipment.....		7,000	
	Cash			7,000
9	Supplies		500	
	Accounts Payable			500
11	Accounts Receivable		1,800	
	Service Revenue			1,800
16	Advertising Expense		200	
	Cash			200
20	Cash		700	
	Accounts Receivable			700
23	Accounts Payable.....		300	
	Cash			300
28	Dividends		1,000	
	Cash			1,000

EXERCISE 2-4

- Oct. 1 **Debits increase assets: debit Cash \$20,000.**
 Credits increase stockholders' equity: credit Common Stock
 \$20,000.
- 2 **No transaction.**
- 3 **Debits increase assets: debit Equipment \$1,900.**
 Credits increase liabilities: credit Accounts Payable \$1,900.

EXERCISE 2-4 (Continued)

- Oct. 6 Debits increase assets: debit Accounts Receivable \$3,200.
 Credits increase revenues: credit Service Revenue \$3,200.
- 27 Debits decrease liabilities: debit Accounts Payable \$850.
 Credits decrease assets: credit Cash \$850.
- 30 Debits increase expenses: debit Salaries and Wages Expense
 \$2,500.
 Credits decrease assets: credit Cash \$2,500.

EXERCISE 2-5

General Journal				
Date	Account Titles and Explanation	Ref.	Debits	Credit
Oct. 1	Cash		20,000	
	Common Stock			20,000
2	No entry.			
3	Equipment		1,900	
	Accounts Payable			1,900
6	Accounts Receivable		3,200	
	Service Revenue.....			3,200
27	Accounts Payable		850	
	Cash			850
30	Salaries and Wages Expense		2,500	
	Cash			2,500

EXERCISE 2-6

- (a) 1. Increase the asset Cash, increase the liability Notes Payable.
2. Increase the asset Equipment, decrease the asset Cash.
3. Increase the asset Supplies, increase the liability Accounts Payable.
- (b)
- | | | | |
|----|------------------------|-------|-------|
| 1. | Cash | 5,000 | |
| | Notes Payable | | 5,000 |
| 2. | Equipment | 2,500 | |
| | Cash | | 2,500 |
| 3. | Supplies | 450 | |
| | Accounts Payable | | 450 |

EXERCISE 2-7

- (a) **Assets = Liabilities + Stockholders' Equity**
- | | | | | |
|----|---|--|---|---------------|
| 1. | + | | + | (Issue stock) |
| 2. | - | | - | (Expense) |
| 3. | + | | + | (Revenue) |
| 4. | - | | - | (Dividends) |
- (b)
- | | | | |
|----|---------------------------|-------|-------|
| 1. | Cash | 5,000 | |
| | Common Stock | | 5,000 |
| 2. | Rent Expense | 1,100 | |
| | Cash | | 1,100 |
| 3. | Accounts Receivable | 4,700 | |
| | Service Revenue | | 4,700 |
| 4. | Dividends | 700 | |
| | Cash | | 700 |

EXERCISE 2-8

1. False. The general ledger contains all the asset, liability, *and* stockholders' *equity* accounts.
2. True.
3. False. The accounts in the general ledger are arranged in *financial statement order*: first the assets, then the liabilities, common stock, retained earnings, dividends, revenues, and expenses.
4. True.
5. False. The general ledger is not a book of original entry; transactions are first recorded in the general journal, then in the general ledger.

EXERCISE 2-9

(a)

Cash			
Aug. 1	5,000	Aug. 12	1,000
10	2,700		
31	850		
Bal.	7,550		

Notes Payable		
	Aug. 12	4,000

Common Stock		
	Aug. 1	5,000

Accounts Receivable			
Aug. 25	1,600	Aug. 31	850
Bal.	750		

Service Revenue		
	Aug. 10	2,700
	25	1,600
	Bal.	4,300

Equipment	
Aug. 12	5,000

(b)

ROBERTA MENDEZ, INVESTMENT BROKER Trial Balance August 31, 2014

	Debit	Credit
Cash.....	\$ 7,550	
Accounts Receivable.....	750	
Equipment.....	5,000	
Notes Payable		\$ 4,000
Common Stock		5,000
Service Revenue		4,300
	<u>\$13,300</u>	<u>\$13,300</u>

EXERCISE 2-10**(a)**

General Journal				
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash		10,000	
	 Common Stock			10,000
	 (Issued shares of stock for cash)			
12	Cash		900	
	 Service Revenue			900
	 (Received cash for services provided)			
15	Salaries and Wages Expense		600	
	 Cash			720
	 (Paid salaries to date)			
25	Accounts Payable		1,500	
	 Cash			1,500
	 (Paid creditors on account)			
29	Cash		400	
	 Accounts Receivable			400
	 (Received cash in payment of account)			
30	Cash		1,000	
	 Unearned Service Revenue			1,000
	 (Received cash for future services)			

EXERCISE 2-10 (Continued)

(b) **PADRE LANDSCAPING COMPANY**
Trial Balance
April 30, 2014

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$10,080	
Accounts Receivable.....	2,800	
Supplies.....	1,800	
Accounts Payable		\$ 300
Unearned Service Revenue		1,000
Common Stock		10,000
Service Revenue		4,100
Salaries and Wages Expense.....	720	
	<u>\$15,400</u>	<u>\$15,400</u>

EXERCISE 2-11

(a)	Oct. 1	Cash.....	5,000	
		Common Stock.....		5,000
		(Issued shares of stock for cash)		
	10	Cash.....	650	
		Service Revenue		650
		(Received cash for services provided)		
	10	Cash.....	3,000	
		Notes Payable.....		3,000
		(Obtained loan from bank)		
	20	Cash.....	500	
		Accounts Receivable		500
		(Received cash in payment of account)		
	20	Accounts Receivable	940	
		Service Revenue		940
		(Billed clients for services provided)		

EXERCISE 2-11 (Continued)**(b)**

SPARKS CO.
Trial Balance
October 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 8,170	
Accounts Receivable	1,240	
Supplies	400	
Equipment	2,000	
Notes Payable.....		\$ 3,000
Accounts Payable		500
Common Stock.....		7,000
Dividends	300	
Service Revenue		2,390
Salaries and Wages Expense	500	
Rent Expense	280	
	<u>\$12,890</u>	<u>\$12,890</u>

EXERCISE 2-12**(a)**

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Sept. 1	Cash	101	10,000	
	Common Stock	311		10,000
5	Equipment.....	157	12,000	
	Cash.....	101		4,000
	Accounts Payable.....	201		8,000
25	Accounts Payable	201	2,400	
	Cash.....	101		2,400
30	Dividends	332	500	
	Cash.....	101		500

EXERCISE 2-12 (Continued)**(b)****Cash** **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1	10,000		10,000
5		J1		4,000	6,000
25		J1		2,400	3,600
30		J1		500	3,100

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1	12,000		12,000

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 5		J1		8,000	8,000
25		J1	2,400		5,600

Common Stock **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1		10,000	10,000

Dividends **No. 332**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30		J1	500		500

EXERCISE 2-13

<u>Error</u>	<u>(a) In Balance</u>	<u>(b) Difference</u>	<u>(c) Larger Column</u>
1.	No	\$400	Debit
2.	Yes	—	—
3.	Yes	—	—
4.	No	300	Credit
5.	Yes	—	—
6.	No	36	Credit

EXERCISE 2-14

TEMPUS FUGIT DELIVERY SERVICE Trial Balance July 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash (\$90,907 – Debit total without Cash \$69,340)	\$21,567	
Accounts Receivable	10,642	
Prepaid Insurance	1,968	
Equipment	49,360	
Notes Payable		\$26,450
Accounts Payable		8,396
Salaries and Wages Payable		815
Common Stock		40,000
Retained Earnings		4,636
Dividends	700	
Service Revenue		10,610
Salaries and Wages Expense	4,428	
Maintenance and Repairs Expense	961	
Gasoline Expense	758	
Utilities Expense	523	
	<u>\$90,907</u>	<u>\$90,907</u>

EXERCISE 2-15

Transactions 4, 5, and 7 are operating activities
Transaction 3 is an investing activity
Transactions 1, 2 and 6 are financing activities.

SOLUTIONS TO PROBLEMS

PROBLEM 2-1A

				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash		50,000	
	Common Stock			50,000
	(Issued shares of stock for cash)			
4	Land.....		30,000	
	Cash			30,000
	(Purchased land for cash)			
8	Advertising Expense		1,800	
	Accounts Payable.....			1,800
	(Incurred advertising expense on account)			
11	Salaries and Wages Expense		1,500	
	Cash			1,500
	(Paid salaries)			
12	No entry—Not a transaction.			
13	Prepaid Insurance		1,500	
	Cash			1,500
	(Paid for one-year insurance policy)			
17	Dividends		1,400	
	Cash			1,400
	(Declared and paid cash dividends)			
20	Cash		5,700	
	Service Revenue.....			5,700
	(Received cash for services provided)			

PROBLEM 2-1A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 25	Cash.....		3,000	
	 Unearned Service Revenue			3,000
	 (Received cash for future services)			
30	Cash.....		8,900	
	 Service Revenue			8,900
	 (Received cash for services provided)			
30	Accounts Payable		900	
	 Cash			900
	 (Paid creditor on account)			

PROBLEM 2-2A

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 1	Cash	101	20,000	
	 Common Stock	311		20,000
	 (Issued shares of stock for cash)			
2	No entry—not a transaction.			
3	Supplies	126	1,500	
	 Accounts Payable.....	201		1,500
	 (Purchased supplies on account)			
7	Rent Expense.....	729	900	
	 Cash	101		900
	 (Paid office rent)			
11	Accounts Receivable	112	2,800	
	 Service Revenue.....	400		2,800
	 (Billed client for services provided)			
12	Cash	101	3,500	
	 Unearned Service Revenue.....	209		3,500
	 (Received cash for future services)			
17	Cash	101	1,200	
	 Service Revenue.....	400		1,200
	 (Received cash for services provided)			
31	Salaries and Wages Expense	726	2,000	
	 Cash	101		2,000
	 (Paid salaries)			

PROBLEM 2-2A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 31	Accounts Payable (\$1,500 X 40%)	201	600	
	Cash	101		600
	(Paid creditor on account)			

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
May 1		J1	20,000		20,000
7		J1		900	19,100
12		J1	3,500		22,600
17		J1	1,200		23,800
31		J1		2,000	21,800
31		J1		600	21,200

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
May 11		J1	2,800		2,800

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
May 3		J1	1,500		1,500

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance
May 3		J1		1,500	
31		J1	600		900

Unearned Service Revenue					No. 209
Date	Explanation	Ref.	Debit	Credit	Balance
May 12		J1		3,500	3,500

PROBLEM 2-2A (Continued)

Common Stock No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
May 1		J1		20,000	20,000

Service Revenue No. 400

Date	Explanation	Ref.	Debit	Credit	Balance
May 11		J1		2,800	2,800
17		J1		1,200	4,000

Salaries and Wages Expense No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
May 31		J1	2,000		2,000

Rent Expense No. 729

Date	Explanation	Ref.	Debit	Credit	Balance
May 7		J1	900		900

(c) **KARA SHIN, INC.**
Trial Balance
May 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$21,200	
Accounts Receivable.....	2,800	
Supplies.....	1,500	
Accounts Payable		\$ 900
Unearned Service Revenue		3,500
Common Stock		20,000
Service Revenue		4,000
Salaries and Wages Expense.....	2,000	
Rent Expense	900	
	<u>\$28,400</u>	<u>\$28,400</u>

PROBLEM 2-3A

(a) & (c)

Cash			
Balance	8,000		
		(1)	1,000
		(3)	1,700
(4)	13,000		
		(5)	15,000
(6)	5,000		
		(7)	3,000
		(8)	2,000
	3,300		

Accounts Receivable			
Balance	15,000		
		(4)	13,000
(6)	9,000		
	11,000		

Supplies			
Balance	13,000		
(2)	4,000		
	17,000		

Prepaid Rent			
Balance	3,000		
	3,000		

Equipment			
Balance	21,000		
	21,000		

Accounts Payable			
		Balance	19,000
		(2)	4,000
(5)	15,000		
			8,000

Common Stock			
		Balance	30,000
			30,000

Retained Earnings			
		Balance	11,000
			11,000

Dividends			
(8)	2,000		
	2,000		

Service Revenue			
		(6)	14,000
			14,000

Advertising Expense			
(1)	1,000		
	1,000		

Miscellaneous Expense			
(3)	1,700		
	1,700		

Salaries and Wages Expense			
(7)	3,000		
	3,000		

PROBLEM 2-3A (Continued)**(b)**

Trans.	Account Titles and Explanation	Debit	Credit
1.	Advertising Expense	1,000	
	Cash		1,000
2.	Supplies	4,000	
	Accounts Payable		4,000
3.	Miscellaneous Expense	1,700	
	Cash		1,700
4.	Cash	13,000	
	Accounts Receivable		13,000
5.	Accounts Payable	15,000	
	Cash		15,000
6.	Cash	5,000	
	Accounts Receivable	9,000	
	Service Revenue.....		14,000
7.	Salaries and Wages Expense	3,000	
	Cash		3,000
8.	Dividends	2,000	
	Cash		2,000

PROBLEM 2-3A (Continued)

(d)

**BYTE REPAIR SERVICE, INC.
Trial Balance
January 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 3,300	
Accounts Receivable	11,000	
Supplies	17,000	
Prepaid Rent	3,000	
Equipment	21,000	
Accounts Payable		\$ 8,000
Common Stock		30,000
Retained Earnings		11,000
Dividends	2,000	
Service Revenue		14,000
Advertising Expense	1,000	
Miscellaneous Expense	1,700	
Salaries and Wages Expense	3,000	
	<u>\$63,000</u>	<u>\$63,000</u>

PROBLEM 2-4A

GARLAND COMPANY
Trial Balance
May 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash (\$3,850 + \$520 – \$405)	\$ 3,965	
Accounts Receivable (\$2,570 – \$420)	2,150	
Prepaid Insurance (\$700 + \$100)	800	
Supplies (\$0 + \$520)	520	
Equipment (\$12,000 – \$520)	11,480	
Accounts Payable (\$4,500 – \$100 + \$520 – \$420)		\$ 4,500
Unearned Service Revenue		560
Common Stock (\$11,700 + \$1,000)		12,700
Dividends (\$0 + \$1,000)	1,000	
Service Revenue		8,960
Salaries and Wages Expense (\$4,200 + \$200)	4,400	
Advertising Expense (\$1,100 + \$405)	1,505	
Utilities Expense (\$800 + \$100)	900	
	<u>\$26,720</u>	<u>\$26,720</u>

PROBLEM 2-5A

(a) & (c)

Cash	No. 101
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Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			6,000
2		J1		800	5,200
9		J1	1,800		7,000
10		J1		3,000	4,000
12		J1		300	3,700
25		J1	5,200		8,900
29		J1		1,600	7,300
30		J1	90		7,390
30		J1		900	6,490

Accounts Receivable	No. 112
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Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1	90		90

Prepaid Rent	No. 136
---------------------	----------------

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1	900		900

Land	No. 140
-------------	----------------

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			10,000

Buildings	No. 145
------------------	----------------

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			8,000

PROBLEM 2-5A (Continued)**Equipment** **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			6,000

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			2,000
10		J1	1,000		1,000
20		J1		1,000	2,000

Mortgage Payable **No. 275**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			8,000
10		J1	2,000		6,000

Common Stock **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			20,000

Service Revenue **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 9		J1		1,800	1,800
25		J1		5,200	7,000

Rent Revenue **No. 429**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1		180	180

PROBLEM 2-5A (Continued)

Advertising Expense No. 610

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 12		J1	300		300

Rent Expense No. 729

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2		J1	800		800
20		J1	1,000		1,800

Salaries and Wages Expense No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 29		J1	1,600		1,600

(b)

					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
Apr. 2	Rent Expense	729	800		
	Cash	101		800	
	(Paid film rental)				
3	No entry—not a transaction.				
9	Cash	101	1,800		
	Service Revenue	400		1,800	
	(Received cash for services provided)				
10	Mortgage Payable	275	2,000		
	Accounts Payable	201	1,000		
	Cash	101		3,000	
	(Made payments on mortgage and accounts payable)				

PROBLEM 2-5A (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 11	No entry—not a transaction.			
12	Advertising Expense	610	300	
	Cash	101		300
	(Paid advertising expenses)			
20	Rent Expense.....	729	1,000	
	Accounts Payable.....	201		1,000
	(Rented film on account)			
25	Cash	101	5,200	
	Service Revenue.....	400		5,200
	(Received cash for services provided)			
29	Salaries and Wages Expense	726	1,600	
	Cash	101		1,600
	(Paid salaries expense)			
30	Cash	101	90	
	Accounts Receivable	112	90	
	Rent Revenue	429		180
	(18% X \$1,000)			
	(Received cash and balance on account for concession revenue)			
30	Prepaid Rent	136	900	
	Cash	101		900
	(Paid cash for future film rentals)			

PROBLEM 2-5A (Continued)**(d)****CLASSIC THEATER
Trial Balance
April 30, 2014**

	Debit	Credit
Cash	\$ 6,490	
Accounts Receivable	90	
Prepaid Rent	900	
Land	10,000	
Buildings	8,000	
Equipment	6,000	
Accounts Payable		\$ 2,000
Mortgage Payable		6,000
Common Stock		20,000
Service Revenue		7,000
Rent Revenue		180
Advertising Expense	300	
Rent Expense	1,800	
Salaries and Wages Expense	1,600	
	<u>\$35,180</u>	<u>\$35,180</u>

PROBLEM 2-1B

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash.....		60,000	
	Common Stock			60,000
	(Issued shares of stock			
	for cash)			
3	Land		23,000	
	Buildings		9,000	
	Equipment		6,000	
	Cash			38,000
	(Purchased Lee's Golf Land)			
5	Advertising Expense		1,600	
	Cash			1,600
	(Paid for advertising)			
6	Prepaid Insurance.....		2,400	
	Cash			2,400
	(Paid for one-year insurance			
	policy)			
10	Equipment		1,050	
	Accounts Payable.....			1,050
	(Purchased equipment on			
	account)			
18	Cash.....		340	
	Service Revenue.....			340
	(Received cash for services			
	provided)			
19	Cash.....		1,800	
	Unearned Service Revenue.....			1,800
	(Received cash for coupon			
	books sold)			

PROBLEM 2-1B (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 25	Dividends		800	
	Cash.....			800
	(Declared and paid cash dividend)			
30	Salaries and Wages Expense		250	
	Cash.....			250
	(Paid salaries)			
30	Accounts Payable		1,050	
	Cash.....			1,050
	(Paid creditor on account)			
31	Cash		200	
	Service Revenue			200
	(Received cash for services provided)			

PROBLEM 2-2B

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash.....	101	40,000	
	Common Stock	311		40,000
	(Issued shares of stock for cash)			
1	No entry—not a transaction.			
2	Rent Expense	729	1,400	
	Cash	101		1,400
	(Paid monthly office rent)			
3	Supplies.....	126	5,200	
	Accounts Payable.....	201		5,200
	(Purchased supplies on account from Halo Company)			
10	Accounts Receivable.....	112	6,600	
	Service Revenue.....	400		6,600
	(Billed clients for services provided)			
11	Cash.....	101	1,000	
	Unearned Service Revenue.....	209		1,000
	(Received cash for future service)			
20	Cash.....	101	2,100	
	Service Revenue.....	400		2,100
	(Received cash for services provided)			
30	Salaries and Wages Expense.....	726	2,400	
	Cash	101		2,400
	(Paid monthly salary)			

PROBLEM 2-2B (Continued)

Date	Account Titles and Explanation	Ref.	Debits	Credit
Apr. 30	Accounts Payable.....	201	1,900	
	Cash.....	101		1,900
	(Paid Halo Company on account)			

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1		J1	40,000		40,000
2		J1		1,400	38,600
11		J1	1,000		39,600
20		J1	2,100		41,700
30		J1		2,400	39,300
30		J1		1,900	37,400

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1	6,600		6,600

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1	5,200		5,200

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1		5,200	5,200
30		J1	1,900		3,300

Unearned Service Revenue					No. 209
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 11		J1		1,000	1,000

PROBLEM 2-2B (Continued)

Common Stock No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1		J1		40,000	40,000

Service Revenue No. 400

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1		6,600	6,600
20		J1		2,100	8,700

Salaries and Wages Expense No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1	2,400		2,400

Rent Expense No. 729

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2		J1	1,400		1,400

(c) **JUDI DENCH, DENTIST**
Trial Balance
April 30, 2014

	Debit	Credit
Cash.....	\$37,400	
Accounts Receivable.....	6,600	
Supplies.....	5,200	
Accounts Payable		\$ 3,300
Unearned Service Revenue.....		1,000
Common Stock		40,000
Service Revenue		8,700
Salaries and Wages Expense.....	2,400	
Rent Expense	1,400	
	<u>\$53,000</u>	<u>\$53,000</u>

PROBLEM 2-3B

(a)

Trans.	Account Titles and Explanation	Debit	Credit
1.	Cash.....	50,000	
	Common Stock		50,000
2.	No entry—Not a transaction.		
3.	Prepaid Rent	24,000	
	Cash.....		24,000
4.	Equipment.....	30,000	
	Cash.....		8,000
	Accounts Payable.....		22,000
5.	Prepaid Insurance.....	1,800	
	Cash.....		1,800
6.	Supplies.....	750	
	Cash.....		750
7.	Supplies.....	1,300	
	Accounts Payable		1,300
8.	Cash.....	8,000	
	Accounts Receivable.....	12,000	
	Service Revenue		20,000
9.	Accounts Payable	400	
	Cash.....		400
10.	Cash.....	3,000	
	Accounts Receivable.....		3,000
11.	Utilities Expense	260	
	Accounts Payable		260

PROBLEM 2-3B (Continued)

Trans.	Account Titles and Explanation	Debit	Credit
12.	Salaries and Wages Expense.....	5,600	
	Cash		5,600

(b)

Cash			
(1)	50,000		
		(3)	24,000
		(4)	8,000
		(5)	1,800
		(6)	750
(8)	8,000		
		(9)	400
(10)	3,000		
		(12)	5,600
	20,450		

Equipment			
(4)	30,000		
	30,000		

Accounts Payable			
		(4)	22,000
		(7)	1,300
(9)	400		
		(11)	260
			23,160

Accounts Receivable			
(8)	12,000		
		(10)	3,000
	9,000		

Common Stock			
		(1)	50,000
			50,000

Supplies			
(6)	750		
(7)	1,300		
	2,050		

Service Revenue			
		(8)	20,000
			20,000

Prepaid Insurance			
(5)	1,800		
	1,800		

Salaries and Wages Expense			
(12)	5,600		
	5,600		

Prepaid Rent			
(3)	24,000		
	24,000		

Utilities Expense			
(11)	260		
	260		

PROBLEM 2-3B (Continued)

(c)

CHAMBERLAIN SERVICES

Trial Balance

May 31, 2014

	Debit	Credit
Cash	\$20,450	
Accounts Receivable	9,000	
Supplies	2,050	
Prepaid Insurance	1,800	
Prepaid Rent	24,000	
Equipment	30,000	
Accounts Payable		\$23,160
Common Stock		50,000
Service Revenue		20,000
Salaries and Wages Expense	5,600	
Utilities Expense	260	
	<u>\$93,160</u>	<u>\$93,160</u>

PROBLEM 2-4B

RON SALEM CO. Trial Balance June 30, 2014

	<u>Debit</u>	<u>Credit</u>
Cash (\$3,840 + \$180)	\$ 4,020	
Accounts Receivable (\$2,898 – \$180)	2,718	
Supplies (\$800 – \$620)	180	
Equipment (\$3,000 + \$620)	3,620	
Accounts Payable (\$2,666 – \$309 – \$390)		\$ 1,967
Unearned Service Revenue		2,200
Common Stock		9,000
Dividends (\$800 + \$600)	1,400	
Service Revenue (\$2,380 + \$801)		3,181
Salaries and Wages Expense (\$3,400 + \$700 – \$600)	3,500	
Utilities Expense	910	
	<u>\$16,348</u>	<u>\$16,348</u>

PROBLEM 2-5B

(a) & (c)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			8,000
2		J1		1,000	7,000
9		J1	4,000		11,000
10		J1		4,100	6,900
12		J1		450	6,450
20		J1	5,000		11,450
20		J1		2,400	9,050
31		J1		2,500	6,550
31		J1	375		6,925
31		J1	9,000		15,925

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	375		375

Land					No. 140
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			21,000

Buildings					No. 145
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			10,000

Equipment					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			8,000

PROBLEM 2-5B (Continued)**Accounts Payable** **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			7,000
2		J1		2,500	9,500
10		J1	4,100		5,400

Common Stock **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1	Balance	✓			40,000

Service Revenue **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 9		J1		4,000	4,000
20		J1		5,000	9,000
31		J1		9,000	18,000

Rent Revenue **No. 429**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar.31		J1		750	750

Advertising Expense **No. 610**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar.12		J1	450		450

PROBLEM 2-5B (Continued)

Salaries and Wages Expense

No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	2,500		2,500

Rent Expense

No. 729

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 2		J1	3,500		3,500
20		J1	2,400		5,900

(b)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 2	Rent Expense	729	3,500	
	 Accounts Payable	201		2,500
	 Cash	101		1,000
	 (Rented films for cash and on account)			
3	No entry.			
9	Cash	101	4,000	
	 Service Revenue	400		4,000
	 (Received cash for services provided)			
10	Accounts Payable (\$2,500 + \$1,600)	201	4,100	
	 Cash	101		4,100
	 (Paid creditors on account)			
11	No entry.			
12	Advertising Expense	610	450	
	 Cash	101		450
	 (Paid advertising expense)			

PROBLEM 2-5B (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
20	Cash	101	5,000	
	 Service Revenue	400		5,000
	 (Received cash for services provided)			
20	Rent Expense	729	2,400	
	 Cash	101		2,400
	 (Paid film rental)			
Mar. 31	Salaries and Wages Expense.....	726	2,500	
	 Cash	101		2,500
	 (Paid salaries expense)			
31	Cash.....	101	375	
	 Accounts Receivable.....	112	375	
	 Rent Revenue.....	429		750
	 (15% X \$5,000)			
	 (Received cash and balance on account for concession revenue)			
31	Cash.....	101	9,000	
	 Service Revenue	400		9,000
	 (Received cash for services provided)			

PROBLEM 2-5B (Continued)

(d)

**RUSSO THEATER
Trial Balance
March 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$15,925	
Accounts Receivable	375	
Land	21,000	
Buildings	10,000	
Equipment	8,000	
Accounts Payable		\$ 5,400
Common Stock		40,000
Service Revenue		18,000
Rent Revenue		750
Advertising Expense	450	
Rent Expense	5,900	
Salaries and Wages Expense	2,500	
	<u>\$64,150</u>	<u>\$64,150</u>

(a)		GENERAL JOURNAL		J1
Account Titles and Explanation		Debit	Credit	
Nov. 8	No entry required for cashing U.S. Savings Bonds—this is a personal transaction.			
8	Cash	500		
	Common Stock		500	
11	Advertising Expense	65		
	Cash.....		65	
13	Supplies	125		
	Cash.....		125	
14	Equipment.....	300		
	Common Stock		300	
16	Cash	2,000		
	Notes Payable		2,000	
17	Equipment.....	900		
	Cash.....		900	
20	Cash	125		
	Service Revenue		125	
25	Cash	30		
	Unearned Service Revenue.....		30	
30	Prepaid Insurance	1,320		
	Cash.....		1,320	

CCC2 (Continued)

(b)

Cash					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 8		J1	500		500
11		J1		65	435
13		J1		125	310
16		J1	2,000		2,310
17		J1		900	1,410
20		J1	125		1,535
25		J1	30		1,565
30		J1		1,320	245

Supplies					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 13		J1	125		125

Prepaid Insurance					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 30		J1	1,320		1,320

Equipment					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 14		J1	300		300
17		J1	900		1,200

Unearned Service Revenue					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 25		J1		30	30

CCC2 (Continued)**(b) (Continued)****Notes Payable**

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 16		J1		2,000	2,000

Common Stock

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 8		J1		500	500
14		J1		300	800

Service Revenue

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 20		J1		125	125

Advertising Expense

Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 11		J1	65		65

CCC2 (Continued)**(c)****COOKIE CREATIONS
Trial Balance
November 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 245	
Supplies	125	
Prepaid Insurance.....	1,320	
Equipment.....	1,200	
Unearned Service Revenue.....		\$ 30
Notes Payable		2,000
Common Stock		800
Advertising Expense	65	
Service Revenue		125
	<u>\$2,955</u>	<u>\$2,955</u>

Note to instructors: Because the notes payable is not due for 24 months, it follows Unearned Service Revenue in the accounts and the trial balance.

(a)		(1)	(1)	(2)
	<u>Account</u>	<u>Increase Side</u>	<u>Decrease Side</u>	<u>Normal Balance</u>
	Accounts Payable	Credit	Debit	Credit
	Accounts Receivable	Debit	Credit	Debit
	Property, Plant, and Equipment	Debit	Credit	Debit
	Income Taxes Payable	Credit	Debit	Credit
	Interest Expense	Debit	Credit	Debit
	Inventory	Debit	Credit	Debit

- (b) 1. Cash is increased.
 2. Cash is decreased.
 3. Cash is decreased or Accounts Payable is increased.

- (c) 1. Cash is decreased.
 2. Cash is decreased or Notes or Mortgage Payable is increased.

(a)		PepsiCo		Coca-Cola	
1.	Inventory:	debit		1. Accounts Receivable:	debit
2.	Property, Plant, and Equipment:	debit		2. Cash and Cash Equivalents:	debit
3.	Accounts Payable:	credit		3. Cost of Goods Sold:	debit
4.	Interest Expense:	debit		4. Sales (revenue)	credit

(b) The following other accounts are ordinarily involved:

1. Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).
2. Decrease in Salaries and Wages Payable: Cash is decreased (credited).
3. Increase in Property, Plant, and Equipment: Notes Payable is increased (credited) or Cash is decreased (credited).
4. Increase in Interest Expense: Cash is decreased (credited).

The answer is dependent upon the company selected by the student.

(a) May 1 Correct.

5	Cash.....	250	
	Lesson Revenue		250
7	Cash.....	500	
	Unearned Boarding Revenue		500
14	Office Equipment.....	800	
	Cash.....		800
15	Dividends	440	
	Cash.....		440
20	Cash.....	184	
	Riding Revenue.....		184
30	Correct.		
31	Hay and Feed Supplies.....	1,500	
	Accounts Payable		1,500

(b) The errors in the entries of May 14 and 20 would prevent the trial balance from balancing.

(c) Net income as reported		\$4,600
Add: 5/15, Salaries expense (Dividends paid).....	\$ 440	
5/31, Hay and feed expense (still on hand)....	<u>1,500</u>	<u>1,940</u>
		6,540
Less: 5/7, Boarding revenue unearned.....		<u>500</u>
Correct net income.....		<u>\$6,040</u>

(d) Cash as reported		\$12,475
Add: 5/20, Transposition error	\$ 36	
5/31, Purchase on account	<u>1,500</u>	<u>1,536</u>
		<u>\$14,011</u>

Date: May 25, 2014

To: Accounting Instructor

From: Student

In the first transaction, bills totaling \$6,000 were sent to customers for services rendered. Therefore, the asset Accounts Receivable is increased \$6,000 and the revenue Service Revenue is increased \$6,000. Debits increase assets and credits increase revenues, so the journal entry is:

Accounts Receivable	6,000	
Service Revenue		6,000
(Bill customers for services provided)		

The \$6,000 amount is then posted to the debit side of the general ledger account Accounts Receivable and to the credit side of the general ledger account Service Revenue.

In the second transaction, \$2,000 was paid in salaries to employees. Therefore, the expense Salaries and Wages Expense is increased \$2,000 and the asset Cash is decreased \$2,000. Debits increase expenses and credits decrease assets, so the journal entry is:

Salaries and Wages Expense	2,000	
Cash.....		2,000
(Salaries paid)		

The \$2,000 amount is then posted to the debit side of the general ledger account Salaries and Wages Expense and to the credit side of the general ledger account Cash.

(a) The stakeholders in this situation are:

- ▶ Sara Rankin, assistant chief accountant.
- ▶ Users of the company's financial statements.
- ▶ The Hokey Company.

(b) By adding \$1,000 to the Equipment account, that account total is intentionally misstated. By not locating the error causing the imbalance, some other account may also be misstated by \$1,000. If the amount of \$1,000 is determined to be immaterial, and the intent is not to commit fraud (cover up an embezzlement or other misappropriation of assets), Sara's action might not be considered unethical in the preparation of interim financial statements. However, if Sara is violating a company accounting policy by her action, then she is acting unethically.

(c) Sara's alternatives are:

- 1. Miss the deadline but find the error causing the imbalance.**
- 2. Tell her supervisor of the imbalance and suffer the consequences.**
- 3. Do as she did and locate the error later, making the adjustment in the next quarter.**

- (a) Students' responses to this question will vary. It is important that the steps that they identify be as specific as possible, and clearly directed toward achieving their goal. You may wish to ask a follow-up question asking them to explain how each step will assist them in achieving their goal.
- (b) There are many sites on the Internet that provide information about preparing a résumé. For example, you can find extensive resources at: <http://www.rileyguide.com/resprep.html>. Many schools also have resources in their placement centers or writing labs. The Writing Center at Rensselaer Polytechnic Institute provides useful, concise information on its website at <http://www.rpi.edu/web/writingcenter/resume.html>. A wide variety of sample résumés can be found. For example, Monster.com provides samples for a wide variety of professions and situations at <http://content.monster.com/experts/resume/library/>.
- (c) As noted in the All About You feature in the chapter, overstating accomplishments on a résumé can result in many problems. It is important to provide accurate and complete documentation of all relevant training, education, and employment experiences so as to provide assurance to the potential employer, and also to enable that employer to do follow-up work. If you say you have certain skills, such as computer skills, try to substantiate the claim with recognized proof of proficiency. Make sure that all addresses and phone numbers are accurate and up-to-date. Also, ensure that the people you use as references have a copy of your résumé and cover letter, and that they are informed that you are interviewing so they know to expect a call.
- (d) See the sample résumés provided in the websites above for various format options. You might also mention to students that there are electronic résumé templates available on the Internet.

The decision whether to fire Mr. Edmondson was the responsibility of Radio Shack's board of directors, which is elected by the company's shareholders to oversee management. The board initially announced its support for the CEO. After further investigation, the board encouraged Mr. Edmondson to resign, which he did. In contrast, when Bausch & Lomb's CEO offered to resign in a similar situation, the company's board refused to accept his resignation. Board members stated that they felt he was still the best person for the position.

Radio Shack says that although it did a reference check at the time of Mr. Edmondson's hiring, it did not check his educational credentials. Under the Sarbanes-Oxley Act, companies must now perform thorough background checks as part of a check of internal controls. The bottom line: Your résumé must be a fair and accurate depiction of your past.

IFRS EXERCISE

IFRS 2-1

In deciding whether the U.S. should adopt IFRS, the SEC should consider the following.

- **Whether IFRS is sufficiently developed and consistent in application**
- **Whether the IASB is sufficiently independent**
- **Whether IFRS is established for the benefit to investors**
- **The issues involved in educating investors about IFRS**
- **The impact of a switch to IFRS on U.S. laws and regulations**
- **The impact on companies including changes to their accounting systems, contractual arrangements, corporate governance, and litigation**
- **The issues involved in educating accountants, so they can prepare statements under IFRS**

IFRS 2-2 INTERNATIONAL FINANCIAL REPORTING PROBLEM

Account	Financial Statement	Position in Financial Statement
Other administrative expenses	Consolidated Income statement	After gross profit and before operating profit
Cash at bank	Consolidated Balance Sheet	Current assets
Borrowings and overdrafts	Consolidated Balance Sheet	Current and Non-current liabilities
Finance costs	Consolidated Income Statement	After Operating profit and before Profit from continuing operations before taxations.

APPENDIX D

Time Value of Money

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE D-1

(a) $\text{Interest} = p \times i \times n$
 $I = \$9,000 \times .05 \times 12 \text{ years}$
 $I = \$5,400$

$\text{Accumulated amount} = \$9,000 + \$5,400 = \underline{\underline{\$14,400}}$

(b) Future value factor for 12 periods at 5% is 1.79586 (from Table 1)

$\text{Accumulated amount} = \$9,000 \times 1.79586 = \underline{\underline{\$16,162.74}}$

BRIEF EXERCISE D-2

(1)	Case A	5%	3 periods	(2)	Case A	3%	8 periods
	Case B	6%	8 periods		Case B	4%	12 periods

BRIEF EXERCISE D-3

$\text{FV} = p \times \text{FV of 1 factor}$
 $= \$8,400 \times 1.60103$
 $= \underline{\underline{\$13,448.65}}$

BRIEF EXERCISE D-4

$\text{FV of an annuity of 1} = p \times \text{FV of an annuity factor}$
 $= \$78,000 \times 16.86994$
 $= \underline{\underline{\$1,315,855.32}}$

BRIEF EXERCISE D-5

$$\begin{aligned}\text{FV} &= p \times \text{FV of 1 factor} + (p \times \text{FV of an annuity factor}) \\ &= (\$5,000 \times 2.40662) + (\$1,000 \times 28.13238) \\ &= \$12,033.10 + \$28,132.38 \\ &= \underline{\underline{\$40,165.48}}\end{aligned}$$

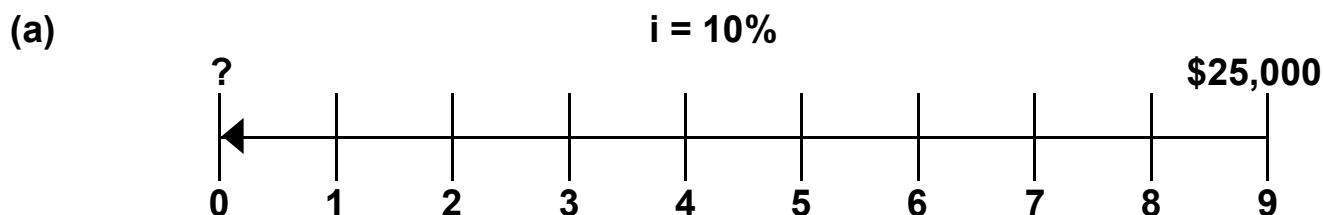
BRIEF EXERCISE D-6

$$\begin{aligned}\text{FV} &= p \times \text{FV of 1 factor} \\ &= \$35,000 \times 1.46933 \\ &= \underline{\underline{\$51,426.55}}\end{aligned}$$

BRIEF EXERCISE D-7

	(a)	(b)
(1)	12%	7 periods
	8%	11 periods
	3%	16 periods
(2)	10%	20 periods
	10%	7 periods
	4%	10 periods

BRIEF EXERCISE D-8

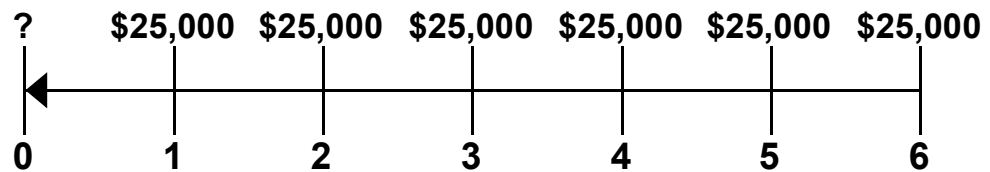


Discount rate from Table 3 is .42410 (9 periods at 10%). Present value of \$25,000 to be received in 9 years discounted at 10% is therefore \$10,602.50 (\$25,000 X .42410).

BRIEF EXERCISE D-8 (Continued)

(b)

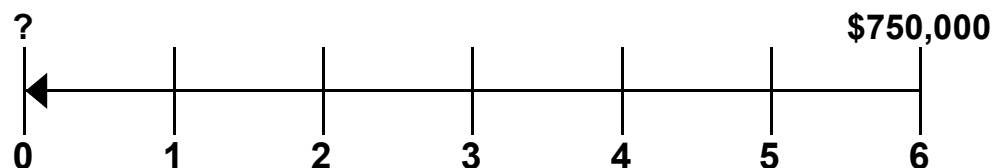
$i = 9\%$



Discount rate from Table 4 is 4.48592 (6 periods at 9%). Present value of 6 payments of \$25,000 each discounted at 9% is therefore \$112,148.00 ($\$25,000 \times 4.48592$).

BRIEF EXERCISE D-9

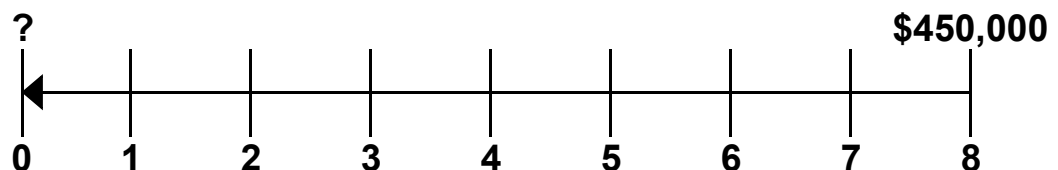
$i = 8\%$



Discount rate from Table 3 is .63017 (6 periods at 8%). Present value of \$750,000 to be received in 6 years discounted at 8% is therefore \$472,627.50 ($\$750,000 \times .63017$). Chaffee Company should therefore invest \$472,627.50 to have \$750,000 in six years.

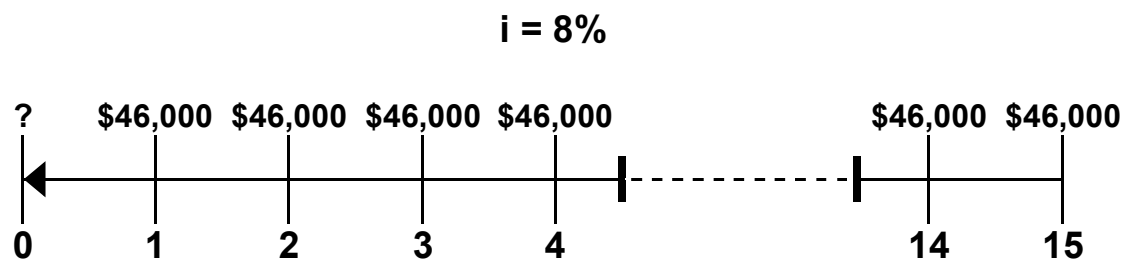
BRIEF EXERCISE D-10

$i = 6\%$



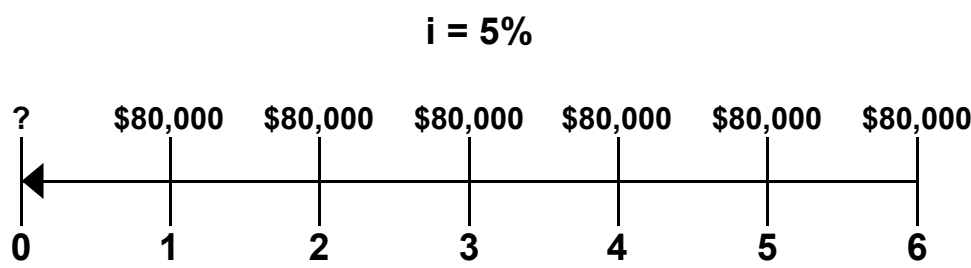
Discount rate from Table 3 is .62741 (8 periods at 6%). Present value of \$450,000 to be received in 8 years discounted at 6% is therefore \$282,334.50 ($\$450,000 \times .62741$). Lloyd Company should invest \$282,334.50 to have \$450,000 in eight years.

BRIEF EXERCISE D-11



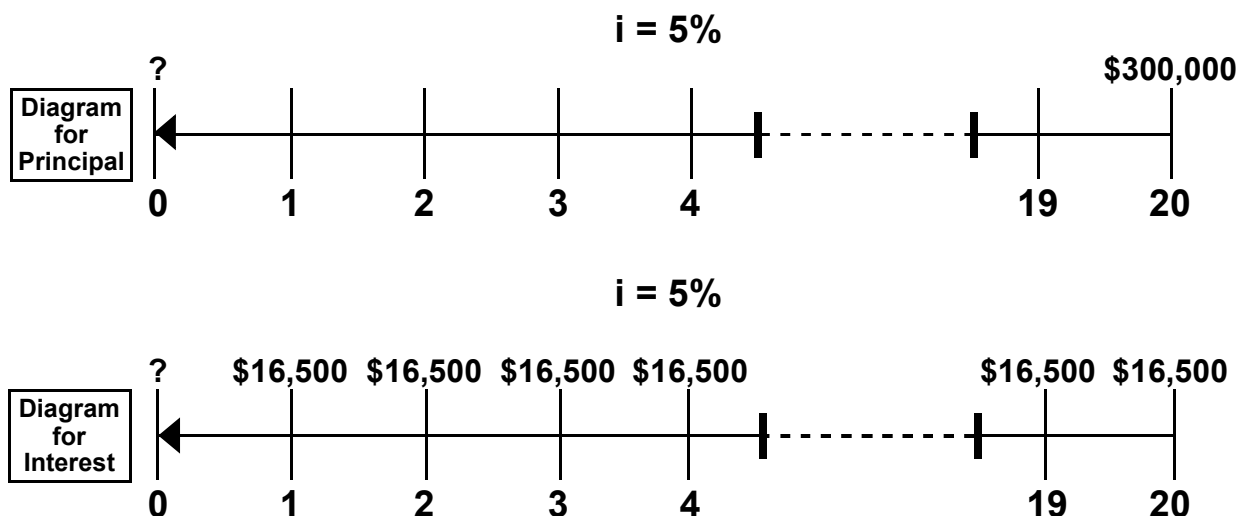
Discount rate from Table 4 is 8.55948. Present value of 15 payments of \$46,000 each discounted at 8% is therefore \$393,736.08 (\$46,000 X 8.55948). Arthur Company should pay \$393,736.08 for this annuity contract.

BRIEF EXERCISE D-12



Discount rate from Table 4 is 5.07569. Present value of 6 payments of \$80,000 each discounted at 5% is therefore \$406,055.20 (\$80,000 X 5.07569). Kaehler Enterprises invested \$406,055.20 to earn \$80,000 per year for six years.

BRIEF EXERCISE D-13



Present value of principal to be received at maturity:

$\$300,000 \times 0.37689$ (PV of \$1 due in 20 periods at 5% from Table 3)..... **\$113,067**

Present value of interest to be received periodically

over the term of the bonds: $\$16,500 \times 12.46221$

(PV of \$1 due each period for 20 periods at 5%

from Table 4) 205,626**

Present value of bonds \$318,693**

*** $\$300,000 \times .055$**

****Rounded.**

BRIEF EXERCISE D-14

The bonds will sell at a discount (for less than \$300,000). This may be proven as follows:

Present value of principal to be received at maturity:

$\$300,000 \times .31180$ (PV of \$1 due in 20 periods at 6% from Table 3)..... **\$ 93,540**

Present value of interest to be received periodically

over the term of the bonds: $\$16,500 \times 11.46992$

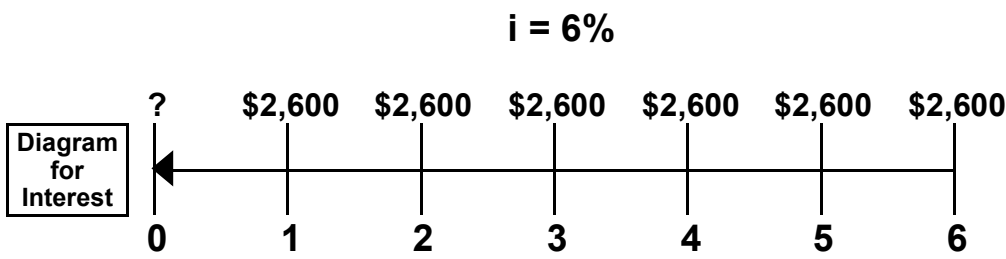
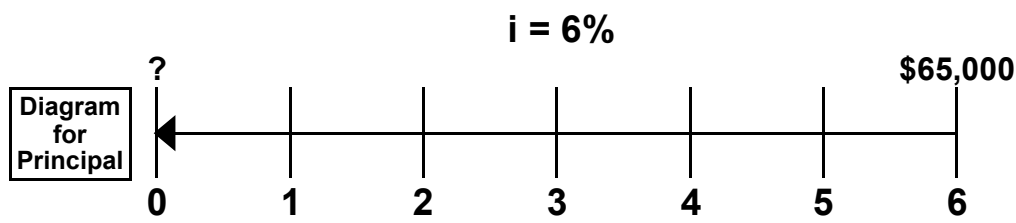
(PV of \$1 due each period for 20 periods at 6%

from Table 4) 189,254*

Present value of bonds \$282,794*

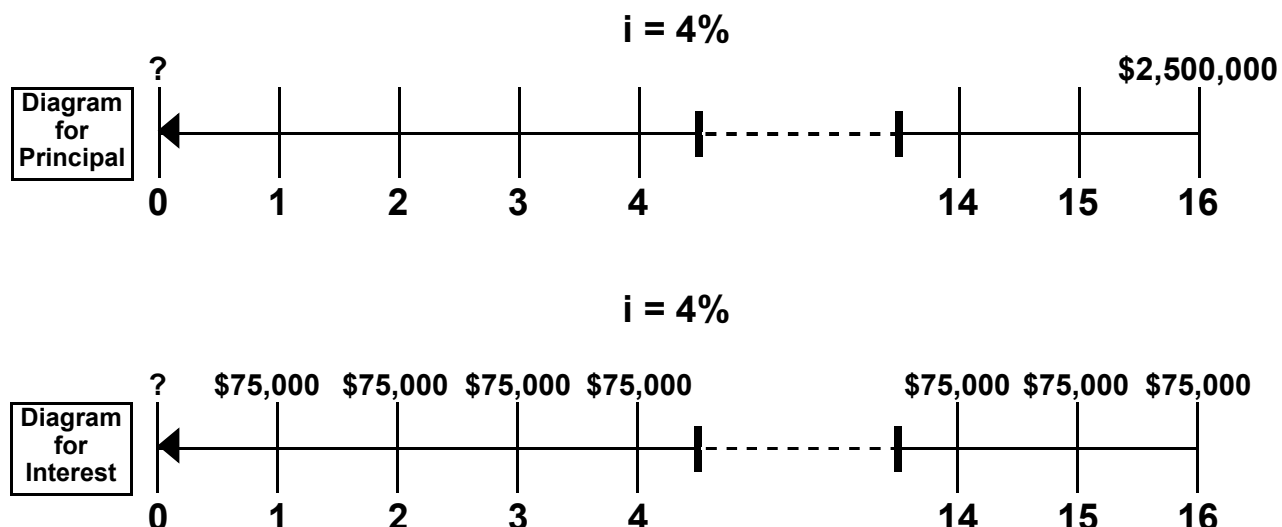
***Rounded.**

BRIEF EXERCISE D-15



Present value of principal to be received at maturity:		
\$65,000 X .70496 (PV of \$1 due in 6 periods		
at 6% from Table 3)		\$45,822.40
Present value of interest to be received annually		
over the term of the note: \$2,600* X 4.91732		
(PV of \$1 due each period for 6 periods at		
6% from Table 4)		<u>12,785.03</u>
Present value of note received		<u><u>\$58,607.43</u></u>
 *\$65,000 X .04		

BRIEF EXERCISE D-16



Present value of principal to be received at maturity:

$\$2,500,000 \times 0.53391$ (PV of \$1 due in 16 periods
at 4% from Table 3)..... **\$1,334,775**

**Present value of interest to be received periodically
over the term of the bonds: $\$75,000 \times 11.65230$
(PV of \$1 due each period for 16 periods at 4%
from Table 4).....**

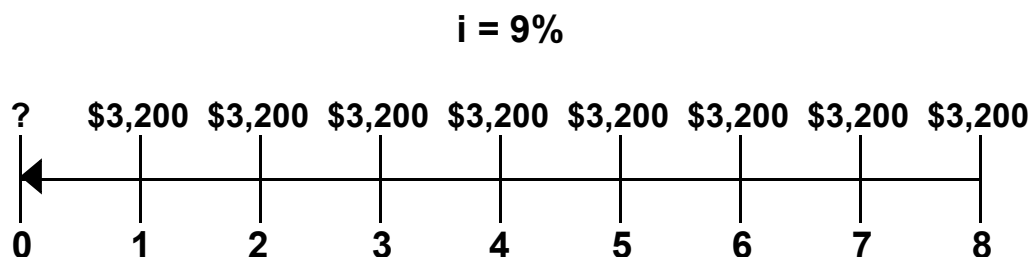
873,923**

Present value of bonds and cash proceeds..... \$2,208,698**

*($\$2,500,000 \times .06 \times 1/2$)

****Rounded**

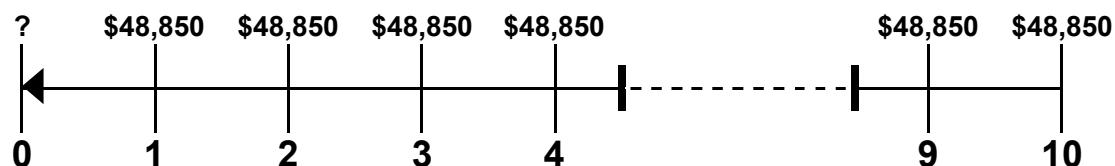
BRIEF EXERCISE D-17



Discount rate from Table 4 is 5.53482. Present value of 8 payments of \$3,200 each discounted at 9% is therefore \$17,711.42 ($\$3,200 \times 5.53482$). Mark Barton should not purchase the tire retreading machine because the present value of the future cash flows is less than the \$18,000 purchase price of the retreading machine.

BRIEF EXERCISE D-18

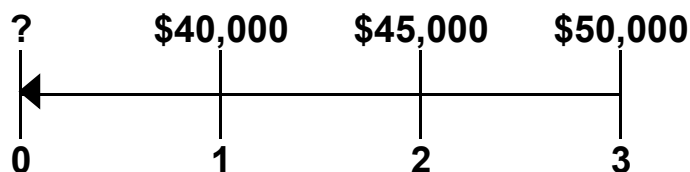
$i = 5\%$



Discount rate from Table 4 is 7.72173. Present value of 10 payments of \$48,850 each discounted at 5% is therefore \$377,206.51 (\$48,850 X 7.72173). Frazier Company should receive \$377,206.51 from the issuance of the note.

BRIEF EXERCISE D-19

$i = 8\%$

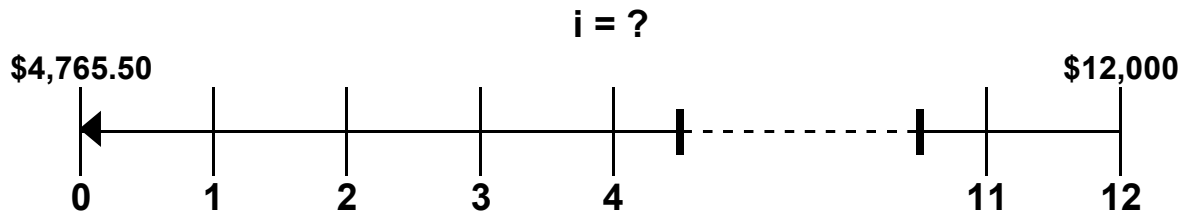


To determine the present value of the future cash inflows, discount the future cash flows at 8%, using Table 3.

Year 1 (\$40,000 X .92593) =	\$ 37,037.20
Year 2 (\$45,000 X .85734) =	38,580.30
Year 3 (\$50,000 X .79383) =	<u>39,691.50</u>
Present value of future cash inflows	<u>\$115,309.00</u>

To achieve a minimum rate of return of 8%, Leffler Company should pay no more than \$115,309.00. If Leffler pays less than \$115,309.00, its rate of return will be greater than 8%.

BRIEF EXERCISE D-20



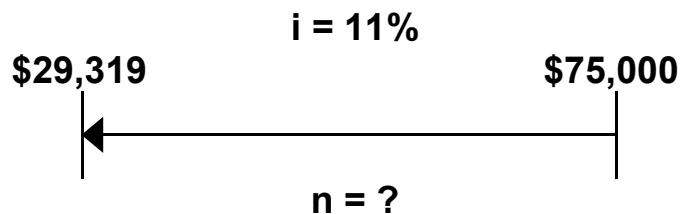
Present value = Future value X Present value of 1 factor

$$\text{\$4,765.50} = \text{\$12,000} \times \text{Present value of 1 factor}$$

$$\text{Present value of 1 factor} = \text{\$4,765.50} \div \text{\$12,000} = .39713$$

The .39713 for 12 periods approximates the value found in the 8% column (.39711). Colleen Mooney will receive a 8% return.

BRIEF EXERCISE D-21



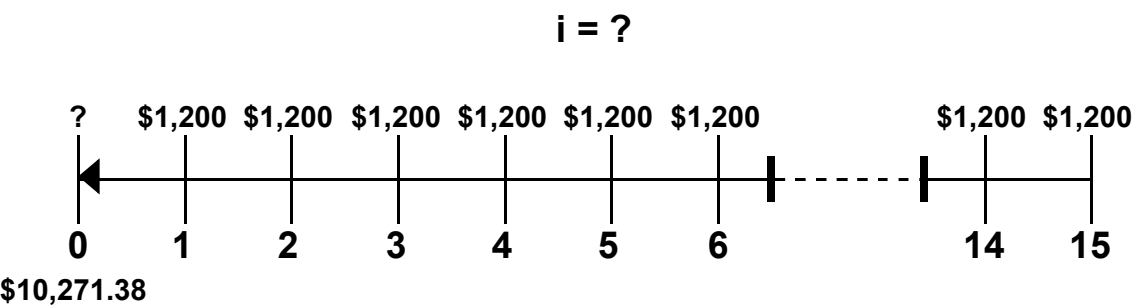
Present value = Future value X Present value of 1 factor

$$\text{\$29,319} = \text{\$75,000} \times \text{Present value of 1 factor}$$

$$\text{Present value of 1 factor} = \text{\$29,319} \div \text{\$75,000} = .39092$$

The .39092 at 11% is found in the 9 years row. Wayne Kurt therefore must wait 9 years to receive \$75,000.

BRIEF EXERCISE D-22



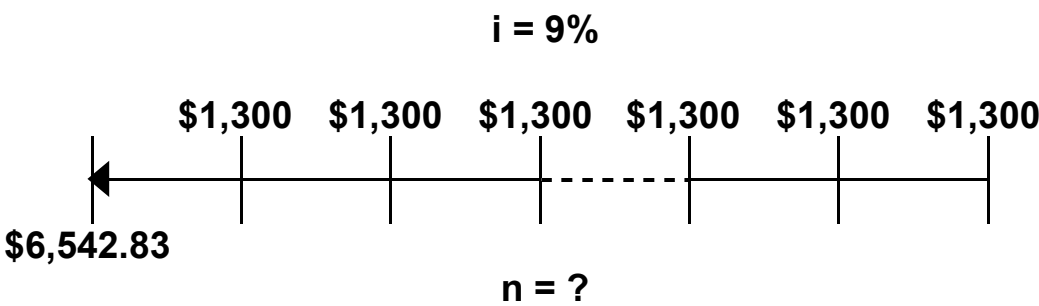
Present value = Future amount X Present value of an annuity factor

$$\$10,271.38 = \$1,200 \times \text{Present value of an annuity factor}$$

Present value of an annuity factor = $\$10,271.38 \div \$1,200 = 8.55948$

The 8.55948 for 15 periods is found in the 8% column. Joanne Quick will therefore earn a rate of return of 8%.

BRIEF EXERCISE D-23



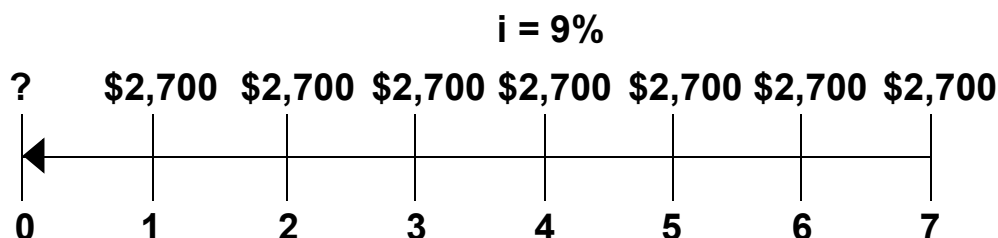
Present value = Future amount X Present value of an annuity factor

$$\$6,542.83 = \$1,300 \times \text{Present value of an annuity factor}$$

Present value of an annuity factor = $\$6,542.83 \div \$1,300 = 5.03295$

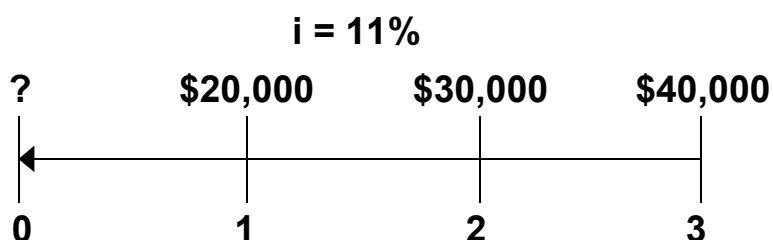
The 5.03295 at an interest rate of 9% is shown in the 7-year row. Therefore, Patty will receive 7 payments.

BRIEF EXERCISE D-24



Discount rate from Table 4 is 5.03295. Present value of 7 payments of \$2,700 each discounted at 9% is therefore \$13,588.97 ($\$2,700 \times 5.03295$). Barney Googal should purchase the tire retreading machine because the present value of the future cash flows is greater than the purchase price of the retreading machine (\$12,820).

BRIEF EXERCISE D-25



To determine the present value of the future cash flows, discount the future cash flows at 11%, using Table 3.

Year 1 ($\$20,000 \times .90090$) =	\$18,018.00
Year 2 ($\$30,000 \times .81162$) =	24,348.60
Year 3 ($\$40,000 \times .73119$) =	<u>29,247.60</u>
Present value of future cash flows	<u>\$71,614.20</u>

To achieve a minimum rate of return of 11%, Ramos Company should pay no more than \$71,614.20. If Ramos pays less than \$71,614.20, its rate of return will be greater than 11%.

BRIEF EXERCISE D-26

10*	?	−18,000	0	50,000
N	I/YR.	PV	PMT	FV
	10.76%			

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BRIEF EXERCISE D-27

10	?	60,000	−8,860	0
N	I/YR.	PV	PMT	FV
	7.80%			

BRIEF EXERCISE D-28

40	?	178,000*	−8,400	0
N	I/YR.	PV	PMT	FV
	3.55%			
	(semiannual)			

***\$198,000 – \$20,000**

BRIEF EXERCISE D-29

(a)

Inputs:	7	6.9	?	-16,000	0
	<div>N</div>	<div>I</div>	<div>PV</div>	<div>PMT</div>	<div>FV</div>
Answer:			86,530.07		

(b)

Inputs:	10	8.65	?	14,000**	200,000*
	<div>N</div>	<div>I</div>	<div>PV</div>	<div>PMT</div>	<div>FV</div>
Answer:			-178,491.52		

*200 X \$1,000

**\$200,000 X .07

BRIEF EXERCISE D-30

(a)

Note—set payments at 12 per year.

Inputs:	96	7.8	42,000	?	0
	<div>N</div>	<div>I</div>	<div>PV</div>	<div>PMT</div>	<div>FV</div>

Answer: **-589.48**

(b)

Note—set payments to 1 per year.

Inputs:	5	7.25	8,000	?	0
	<div>N</div>	<div>I</div>	<div>PV</div>	<div>PMT</div>	<div>FV</div>

Answer: **-1,964.20**