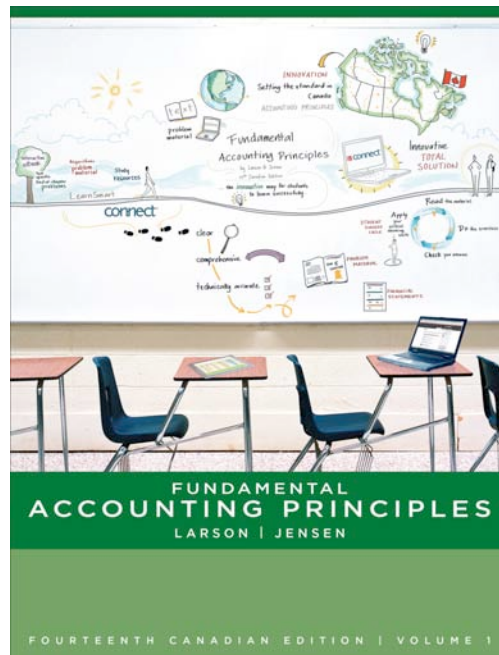


SOLUTIONS MANUAL
to accompany
Fundamental Accounting Principles
14th Canadian Edition
by Larson/Jensen



Prepared by:

Tilly Jensen, Athabasca University

Wendy Popowich, Northern Alberta Institute of Technology

Susan Hurley, Northern Alberta Institute of Technology

Ruby So Koumarelas, Northern Alberta Institute of Technology

Technical checks by:

Ross Meacher

Betty Young, Red River College,

ANSR Source

Chapter 2 Analyzing and Recording Transactions

Chapter Opening Critical Thinking Challenge Questions*

“Financial health” can be interpreted in a number of ways. It could refer to an organization’s ability to meet long-term goals. One of the key factors in predicting long-term viability is to have an accurate understanding of the organization’s financial position. From an operational perspective, “financial health” could mean having adequate resources and systems in place to meet current objectives.

***The Chapter 2 Critical Thinking Challenge questions are asked at the beginning of the chapter. Students are reminded at the conclusion of the chapter, to refer to the Critical Thinking Challenge questions at the beginning of the chapter. The solutions to the Critical Thinking Challenge questions are available here in the Solutions Manual and accessible to students on the Online Learning Centre.**

Concept Review Questions

1. The fundamental steps in the accounting process are those involved in the accounting cycle: Analyze transactions to determine if an economic exchange has taken place and, if so, journalize and post the transaction. An unadjusted trial balance is then prepared to help identify potential adjustments. Appropriate adjusting entries are journalized and posted and an adjusted trial balance is generated from which the financial statements are prepared. Closing entries are then journalized and posted. Finally, a post-closing trial balance is prepared.
2. A note receivable is a document that specifies the fixed amount due to a company on a fixed date or on demand. An account receivable is also an amount due to a company, but the amount can be increased by the debtor by making additional purchases. An account receivable is not a single document but represents the result of several written, oral, or implied promises to pay the creditor.
3. Fifteen possible expense accounts might be: Utilities Expense, Telephone Expense, Internet Expense, Office Supplies Expense, Salaries Expense, Wages Expense, Entertainment Expense, Travel Expense, Repair Expense, Postage Expense, Printing Expense, Advertising Expense, Interest Expense, Equipment Repair Expense, Insurance Expense, and any number of others.
4. Four different asset accounts would include any of the following from Danier's June 25, 2011 balance sheet: Cash, Accounts receivable, Inventories, Prepaid expenses, Future income taxes asset, Property and equipment, or Intangible assets. Three different liability accounts would include any of the following: Accounts payable and accrued liabilities; Income taxes payable; or Deferred lease inducements and rent liability.
5. Expense accounts have debit balances because they reflect decreases in equity.
6. Three debit balance accounts from WestJet's December 31, 2011 balance sheet might include any of the following: Cash and cash equivalents; Restricted cash; Accounts receivable; Prepaid expenses, deposits and other; Inventory; Property and equipment; Intangible assets; or Other assets. Three credit balance accounts might include any of the following: Accounts payable and accrued liabilities; Advance ticket sales; Non-refundable guest credits; Current portion of long-term debt; Current portion of obligations under finance leases; Maintenance provisions; Long-term debt; Obligations under finance leases; Other liabilities; Deferred income tax; Share capital; Equity reserves; or Retained earnings.
7. A General Journal can be used to record any economic transaction.
8. Debited accounts are recorded first. The credited accounts are indented.
9. A transaction should first be recorded in a journal to create a complete record of the transaction in one place. Then the transaction is posted to the ledger where entries are summarized by type, i.e., cash, accounts payable, interest expense, etc., to enable analysis by account. This arrangement also means that fewer errors will be made in the accounts.
10. The bookkeeper prepares a trial balance to summarize the contents of the ledger and to determine whether equal debits and credits have been recorded. The trial balance also serves as a helpful internal document for preparing the financial statements.

QUICK STUDY**Quick Study 2-1**

Answer	Answer Detail	Account
A	Asset	1. Buildings
E	Expenses (Equity)	2. Building Repair Expense
E	Expenses (Equity)	3. Wages Expense
L	Liability	4. Wages Payable
A	Asset	5. Notes Receivable
L	Liability	6. Notes Payable
A	Asset	7. Prepaid Advertising
E	Expenses (Equity)	8. Advertising Expense
L	Liability	9. Advertising Payable
L	Liability	10. Unearned Advertising
R	Revenues (Equity)	11. Advertising Fees Earned
R	Revenues (Equity)	12. Interest Earned
E	Expenses (Equity)	13. Interest Expense
L	Liability	14. Interest Payable
R	Revenues (Equity)	15. Earned Subscription Fees
L	Liability	16. Unearned Subscription Fees
A	Asset	17. Prepaid Subscription Fees
A	Asset	18. Supplies
E	Expenses (Equity)	19. Supplies Expense
R	Revenues (Equity)	20. Rent Revenue
L	Liability	21. Unearned Rent Revenue
A	Asset	22. Prepaid Rent
L	Liability	23. Rent Payable
R	Revenues (Equity)	24. Service Fees Earned
W	Owner's Withdrawals (Equity)	25. Jan Sted, Withdrawals
OE	Owner's Capital (Equity)	26. Jan Sted, Capital
E	Expenses (Equity)	27. Salaries Expense
L	Liability	28. Salaries Payable
A	Asset	29. Furniture
A	Asset	30. Equipment

Quick Study 2-2

Accounts Receivable		Accounts Payable		Service Revenue	
1,000	650	250	250		13,000
400	920	900	1,800		2,500
920	1,500	650	1,400		810
3,000			650		3,500
Bal. 2,250			2,300 Bal.		19,810 Bal.

Utilities Expense		Cash		Notes Payable	
610		3,900	2,400	4,000	50,000
520		17,800	3,900	8,000	
390		14,500	21,800		38,000 Bal.
275		340			
Bal. 1,795		Bal. 8,440			

Quick Study 2-3

- a. Equipment..... Debit
- b. Land..... Debit
- c. Al Tait, Withdrawals Debit
- d. Rent Expense Debit
- e. Interest Revenue Credit
- f. Prepaid Rent..... Debit
- g. Accounts Receivable..... Debit
- h. Office Supplies..... Debit
- i. Notes Receivable Debit
- j. Notes Payable Credit
- k. Al Tait, Capital Credit
- l. Rent Earned Credit
- m. Rent Payable Credit
- n. Interest Expense Debit
- o. Interest Payable Credit

Quick Study 2-4

- | | | |
|-----------|-----------|-----------|
| a. Credit | f. Credit | k. Debit |
| b. Credit | g. Debit | l. Credit |
| c. Credit | h. Credit | m. Debit |
| d. Debit | i. Debit | n. Debit |
| e. Credit | j. Debit | o. Debit |

Quick Study 2-5

- | | | |
|-----------|-----------|-----------|
| a. Credit | f. Debit | k. Credit |
| b. Debit | g. Credit | l. Debit |
| c. Credit | h. Credit | m. Debit |
| d. Debit | i. Credit | n. Credit |
| e. Credit | j. Debit | o. Credit |

Quick Study 2-6

Note: Students could choose any account number within the specified range.

- | | | |
|--------|--------|--------|
| a. 173 | f. 203 | k. 629 |
| b. 409 | g. 106 | l. 219 |
| c. 302 | h. 622 | m. 222 |
| d. 301 | i. 124 | n. 170 |
| e. 128 | j. 403 | o. 115 |

Quick Study 2-7

1.

Cash 101		Accounts Receivable 106		Furniture 161	
(a) 15,000	500 (c)	(e) 700	300 (g)	(b) 2,000	
(d) 1,000	500 (f)	(h) 400		(c) 500	
(g) 300					
Bal. 15,300		Bal. 800		Bal. 2,500	

Accounts Payable 201		Del Martin, Capital 301		Revenue 403	
(f) 500	2,000 (b)		15,000 (a)	1,000 (d)	
				700 (e)	
				400 (h)	
	1,500 Bal.		15,000 Bal.	2,100 Bal.	

2. The account balance for each T-account is shown above. The accounting equation (Assets = Liabilities + Equity) is proved as follows: \$18,600 = \$1,500 + \$17,100

Quick Study 2-8

1 & 2.

Cash 101				Accounts Receivable 106				Car 150				Accounts Payable 202			
Apr 30	15,000	6,000	May 15	Apr 30	3,200	4,000	May 16	May 2	8,000			May 22	3,000	6,000	Apr 30
May 12	10,000	3,000	May 22	May 10	4,000			Bal.	8,000					3,000	Bal.
May 16	4,000			Bal.	3,200										
Bal.	20,000														
Unearned Revenue 205				Dee Bell, Capital 301				Revenue 410				Wages Expense 650			
	1,800	Apr 30			8,900	Apr 30			3,000	Apr 30		Apr 30	1,500		
	10,000	May 12			8,000	May 2			4,000	May 10		May 15	6,000		
	11,800	Bal.			16,900	Bal.			7,000	Bal.		Bal.	7,500		

3. The account balance for each T-account is shown above. The accounting equation (Assets = Liabilities + Equity) is proved as follows: $\$31,200 = \$14,800 + \$16,400$

Quick Study 2-9

		General Journal		Page 1	
Date		Account Titles and Explanations	Debit		Credit
2014					
May	1	Equipment..... Accounts Payable <i>Purchased equipment on account.</i>	500		500
	2	Accounts Payable Cash <i>Paid for the equipment purchased May 1.</i>	500		500
	3	Supplies Cash <i>Purchased supplies for cash.</i>	100		100
	4	Wages Expense..... Cash <i>Paid wages to employees.</i>	2,000		2,000
	5	Cash Service Revenue <i>Performed services for a client for cash.</i>	750		750
	6	Accounts Receivable..... Service Revenue <i>Did work for a customer on credit.</i>	2,500		2,500
	7	Cash Accounts Receivable..... <i>Collected May 6 customer account.</i>	2,500		2,500

Quick Study 2-10

		General Journal		Page 1
Date		Account Titles and Explanations	Debit	Credit
2014				
Jan.	3	Cash	60,000	
		Equipment.....	40,000	
		 Stan Adams, Capital.....		100,000
		 <i>Investment by owner.</i>		
	4	Office Supplies	340	
		 Accounts Payable		340
		 <i>Purchased office supplies on credit.</i>		
	6	Cash	5,200	
		 Landscaping Services Revenue		5,200
		 <i>Received cash for landscaping services.</i>		
	15	Accounts Payable	200	
		 Cash		200
		 <i>Paid part of the January 4 credit purchase.</i>		
	16	Office Supplies	700	
		 Accounts Payable		700
		 <i>Purchased supplies on account.</i>		
	30	Accounts Payable	140	
		 Cash		140
		 <i>Paid the balance owing re January 4 credit</i>		
		 <i>purchase; 340 – 200 paid on Jan. 15 = 140.</i>		

Quick Study 2-11

Cash			Account No. 101		
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 3			60,000		60,000
6			5,200		65,200
15				200	65,000
30				140	64,860

Office Supplies			Account No. 124		
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 4			340		340
16			700		1,040

Equipment			Account No. 163		
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 3			40,000		40,000

Accounts Payable			Account No. 201		
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 4				340	340
15			200		140
16				700	840
30			140		700

Stan Adams, Capital			Account No. 301		
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 3				100,000	100,000

Landscaping Services Revenue			Account No. 403		
Date	Explanation	PR	Debit	Credit	Balance
2014					
Jan. 6				5,200	5,200

Quick Study 2-12

**Vahn Landscaping
Trial Balance
January 31, 2014**

Acct. No.	Account	Debit	Credit
101	Cash	\$ 7,000	
163	Equipment	9,000	
233	Unearned fees		\$ 2,000
301	Brea Vahn, capital.....		14,000
302	Brea Vahn, withdrawals.....	1,000	
401	Fees earned		11,000
640	Rent expense.....	6,000	
690	Utilities expense.....	4,000	
	Totals	<u>\$27,000</u>	<u>\$27,000</u>

Quick Study 2-13

The correct answer is c. If a \$2,250 debit to Rent Expense is incorrectly posted as a credit, the effect is to understate the Rent Expense debit balance by \$4,500. This causes the Debit column total on the trial balance to be \$4,500 less than the Credit column total.

Quick Study 2-14

1. Subtract total debits in the trial balance from total credits
 $24,250 - 21,550 = 2,700$
2. Divide the difference by 9
 $2,700 \div 9 = 300$
3. The quotient equals the difference between the two transposed numbers.
 300 is the difference between the two transposed numbers.
4. The number of digits in the quotient tells us the location of the transposition
 Look for a difference of 3 between the third number from the right and the fourth number from the right.

Through a process of elimination, the incorrect value is Rent Expense for \$4,100. The correct value must be \$1,400.

Proof: Recalculate the trial balance replacing \$1,400 for the incorrect \$4,100 and the trial balance now balances at \$21,550.

Quick Study 2-15

1. Subtract total debits in the trial balance from total credits

$$728 - 503 = 225$$

2. Divide the difference by 9

$$225 \div 9 = 25$$

The quotient equals the incorrect number.

Through a review of the values in the trial balance, the incorrect value is Notes Payable for \$25. The correct value must be \$250.

Proof: Recalculate the trial balance replacing \$250 for the incorrect \$25 and the trial balance now balances at \$728.

EXERCISES

Exercise 2-1 (30 minutes)

Cash			
(a)	32,600	925	(b)
(d)	3,000	13,600	(e)
(h)	5,400	3,500	(g)
		5,000	(i)
Balance	17,975		

Accounts Receivable			
(f)	5,400	5,400	(h)
Balance	0		

Office Supplies		
(b)	925	
Balance	925	

Office Equipment		
(c)	13,600	
Balance	13,600	

Accounts Payable			
(e)	13,600	13,600	(c)
		0	Balance

Sandra Moses, Capital		
	32,600	(a)
	32,600	Balance

Sandra Moses, Withdrawals		
(i)	5,000	
Balance	5,000	

Fees Earned			
		3,000	(d)
		5,400	(f)
		8,400	Balance

Rent Expense		
(g)	3,500	
Balance	3,500	

Exercise 2-2 (10 minutes)

Cash			
Jan. 31	890	4,000	Feb. 14
Feb. 2	3,100	125	23
20	2,400	1,000	25
22	10,000	1,600	26
Bal.	9,665		

Accounts Receivable			
Jan. 31	1,200	2,400	Feb. 20
Feb. 12	15,000	10,000	Feb. 22
18	1,900		
Bal.	5,700		

Prepaid Insurance	
Jan. 31	-0-
Feb. 14	4,000
Bal.	4,000

Computer Equipment	
Jan. 31	480
Feb. 10	7,600
Bal.	8,080

Accounts Payable			
Feb. 23	125	250	Jan. 31
		125	Bal.

Notes Payable			
	-0-		Jan. 31
	7,600		Feb. 10
	7,600		Bal.

Neil Poundmaker, Capital		
	800	Jan. 31
	800	Bal.

Neil Poundmaker, Withdrawals		
Jan. 31	-0-	
Feb. 25	1,000	
Bal.	1,000	

Service Revenue			
	2,600	Jan. 31	
	3,100	Feb. 2	
	15,000	12	
	1,900	18	
	22,600	Bal.	

Wages Expense		
Jan. 31	1,080	
Feb. 26	1,600	
Bal.	2,680	

NOTE: There is no entry to be recorded for February 21.

Analysis component:

Revenue recognition requires that when work has been completed, it must be recorded whether cash has been received or not. A transaction has occurred when there has been an economic exchange — when something has been given up or received. On February 12, services were performed and, although cash will not be received until a future date, a revenue must be recorded because an economic exchange has occurred.

Exercise 2-3 (10 minutes)

Cash			
Mar. 31	1,800	1,000	Apr. 10
Apr. 2	2,100	950	15
19	2,800	1,500	29
Bal.	3,250		

Accounts Receivable			
Mar. 31	4,800	2,800	Apr. 19
Apr. 18	1,200		
Bal.	3,200		

Repair Supplies		
Mar. 31	1,400	
Apr. 9	1,500	
Bal.	2,900	

Equipment		
Mar. 31	7,400	
Apr. 15	950	
Bal.	8,350	

Accounts Payable			
Apr. 10	1,000	500	Mar. 31
		1,500	Apr. 9
		820	25
		1,820	Bal.

Nels Sigurdson, Capital		
	2,350	Mar. 31
	2,350	Bal.

Nels Sigurdson, Withdrawals		
Mar. 31	500	
Apr. 29	1,500	
Bal.	2,000	

Repair Revenue		
	14,000	Mar. 31
	2,100	Apr. 2
	1,200	18
	17,300	Bal.

Rent Expense		
Mar. 31	950	
Apr. 25	820	
Bal.	1,770	

NOTE: There is no entry to be recorded for April 5.

Exercise 2-4 (45 minutes)**2.**

GENERAL JOURNAL					Page 1
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
July	1	Cash	101	5,000	
		 Mira Delco, Capital	301		5,000
		<i>To record investment by owner.</i>			
	10	Equipment.....	150	2,500	
		 Accounts Payable	201		2,500
		<i>Purchased equipment on credit.</i>			
	12	Cash	101	10,000	
		 Revenue	401		10,000
		<i>Performed services for cash.</i>			
	14	Expenses	501	3,500	
		 Cash.....	101		3,500
		<i>Paid expenses.</i>			
	15	Accounts Receivable	106	1,500	
		 Revenue	401		1,500
		<i>Completed services on account.</i>			
	31	Mira Delco, Withdrawals.....	302	250	
		 Cash.....	101		250
		<i>Owner withdrew cash.</i>			

Note: The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Part 3 of this exercise.

Exercise 2-4 (continued)

***Note:** The student could use T-accounts or balance column format accounts as their general ledger. Both are shown in this solution.

1 and 3.

Cash		101
July 1	5,000	3,500 July 14
12	10,000	250 31
Balance	11,250	

Accts. Receivable		106
July 15	1,500	

Equipment		150
July 10	2,500	

Accounts Payable		201
	2,500	July 10

Mira Delco, Capital		301
	5,000	July 1

Mira Delco, Withdrawals		302
July 31	250	

Revenue		401
	10,000	July 12
	1,500	15
	11,500	Balance

Expenses		501
July 14	3,500	

Exercise 2-4 (continued)**1 and 3.**

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
July 1		G1	5,000		5,000
12		G1	10,000		15,000
14		G1		3,500	11,500
31		G1		250	11,250

Accounts Receivable				Account No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
July 15		G1	1,500		1,500

Equipment				Account No. 150	
Date	Explanation	PR	Debit	Credit	Balance
2014					
July 10		G1	2,500		2,500

Accounts Payable				Account No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014					
July 10		G1		2,500	2,500

Mira Delco, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014					
July 1		G1		5,000	5,000

Mira Delco, Withdrawals				Account No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014					
July 31		G1	250		250

Revenue				Account No. 401	
Date	Explanation	PR	Debit	Credit	Balance
2014					
July 12		G1		10,000	10,000
15		G1		1,500	11,500

Expenses				Account No. 501	
Date	Explanation	PR	Debit	Credit	Balance
2014					
July 14		G1	3,500		3,500

Exercise 2-4 (continued)

4.

MiraCom Trial Balance July 31, 2014			
Acct. No.	Account Title	Debit	Credit
101	Cash	\$11,250	
106	Accounts receivable	1,500	
150	Equipment	2,500	
201	Accounts payable		\$ 2,500
301	Mira Delco, capital		5,000
302	Mira Delco, withdrawals	250	
401	Revenue		11,500
501	Expenses	3,500	
	Totals	<u>\$19,000</u>	<u>\$19,000</u>

Exercise 2-4 (concluded)

5.

MiraCom
Income Statement
For Month Ended July 31, 2014

Revenue.....	\$11,500
Expenses	<u>3,500</u>
Net income	<u>\$ 8,000</u>

MiraCom
Statement of Changes in Equity
For Month Ended July 31, 2014

Mira Delco, capital, July 1	\$ 0
Add: Investments by owner	\$5,000
Net income	<u>8,000</u>
Total	<u>13,000</u>
Less: Withdrawals by owner	<u>13,000</u>
Mira Delco, capital, July 31	<u>250</u>
	<u>\$12,750</u>

*The arrows are
imaginary but
emphasize the
link between
statements.*

MiraCom
Balance Sheet
July 31, 2014

Assets		Liabilities	
Cash.....	\$11,250	Accounts payable	\$ 2,500
Accounts receivable.....	1,500		
Equipment	<u>2,500</u>		
		Equity	
		Mira Delco, capital.....	<u>12,750</u>
		Total liabilities and	
Total assets.....	<u>\$15,250</u>	equity.....	<u>\$15,250</u>

Analysis component:

Accounts receivable result from credit sales to customers (debit accounts receivable and credit a revenue). Sales, or revenue, is part of equity. As revenues on account are recorded, assets on the left side of the accounting equation increase and equity on the opposite side of the accounting equation also increases. Therefore, accounts receivable are financed by, or created by, an equity transaction.

Exercise 2-5 (10 minutes)

Note: Students could choose any account number within the specified range.

Account Number	Account Name
101	Cash
115	Accounts Receivable
160	Office Equipment
210	Accounts Payable
215	Unearned Revenue
310	Aaron Paquette, Capital
320	Aaron Paquette, Withdrawals
410	Consulting Revenues
510	Salaries Expense
520	Rent Expense
530	Utilities Expense

Exercise 2-6 (30 minutes)

1.		General Journal			Page G1	
Date		Account Titles and Explanations	PR	Debit	Credit	
2014						
Feb.	1	Cash	101	8,500		
		Consulting Revenues.....	410		8,500	
		<i>Performed work for cash.</i>				
	5	Accounts Payable	210	5,000		
		Cash.....	101		5,000	
		<i>Paid account.</i>				
	10	Cash	101	3,600		
		Unearned Revenue.....	215		3,600	
		<i>Received cash in advance.</i>				
	12	No entry.				
	17	Aaron Paquette, Withdrawals	320	3,000		
		Cash.....	101		3,000	
		<i>Owner withdrew cash.</i>				
	28	Salaries Expense.....	510	10,000		
		Cash.....	101		10,000	
		<i>Paid salaries.</i>				

Note: The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Part 2 of this exercise.

Exercise 2-6 (continued)

2.

Cash 101				Accounts Receivable 115				Office Equipment 160				Accounts Payable 210			
Bal	15,000	5,000	Feb 5	Bal	3,800			Bal	22,500			Feb 5	5,000	8,000	Bal
Feb 1	8,500	3,000	17											3,000	Bal
10	3,600	10,000	28												
Bal	9,100														
Unearned Revenue 215				Aaron Paquette, Capital 310				Aaron Paquette, Withdrawals 320				Consulting Revenues 410			
		2,600	Bal			9,500	Bal	Bal	2,000					41,700	Bal
		3,600	Feb 10					Feb 17	3,000					8,500	Feb 1
		6,200	Bal					Bal	5,000					50,200	Bal
Salaries Expense 510				Rent Expense 520				Utilities Expense 530							
Bal	10,000			Bal	7,500			Bal	1,000						
Feb 28	10,000														
Bal	20,000														

3.

**Paquette Advisors
Trial Balance
February 28, 2014**

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 9,100	
115	Accounts receivable	3,800	
160	Office equipment.....	22,500	
210	Accounts payable		\$ 3,000
215	Unearned revenue.....		6,200
310	Aaron Paquette, capital		9,500
320	Aaron Paquette, withdrawals	5,000	
410	Consulting revenues.....		50,200
510	Salaries expense	20,000	
520	Rent expense.....	7,500	
530	Utilities expense.....	1,000	
	Totals.....	<u>\$68,900</u>	<u>\$68,900</u>

4.

**Paquette Advisors
Income Statement
For Two Months Ended February 28, 2014**

Revenues:

Consulting revenues **\$50,200**

Operating expenses:

Salaries expense..... **\$20,000**

Rent expense **7,500**

Utilities expense **1,000**

Total operating expenses **28,500**

Net income **\$21,700**

The arrows are imaginary
but emphasize the link
between statements.

5.

**Paquette Advisors
Statement of Changes in Equity
For Two Months Ended February 28, 2014**

Aaron Paquette, capital, March 1 **\$ 0**

Add: Investments by owner **\$ 9,500**

Net income **21,700** **31,200**

Total **\$31,200**

Less: Withdrawals by owner **5,000**

Aaron Paquette, capital, February 28 **\$26,200**

6.

**Paquette Advisors
Balance Sheet
February 28, 2014**

Assets

Cash..... **\$ 9,100**

Accounts receivable..... **3,800**

Office equipment **22,500**

Total assets..... **\$35,400**

Liabilities

Accounts payable **\$ 3,000**

Unearned revenue **6,200**

Total liabilities..... **\$ 9,200**

Equity

Aaron Paquette, capital..... **26,200**

Total liabilities and equity **\$35,400**

Analysis component:

Unearned revenue occurs when cash is received from a customer in advance of the work being done. The collection is not recorded as revenue because it has not been earned until the work is done. Unearned revenue is therefore a liability because the business owes the customer a service (or work). For example, WestJet receives cash from customers in advance of the customer actually flying and records it as advance ticket revenue, a type of unearned revenue. These cash collections are recorded as advance ticket revenue, a liability, because the cash doesn't belong to WestJet until they have earned it which occurs when the customer takes their flight.

Exercise 2-7 (30 minutes)

a.	Cash	7,000	
	Equipment	5,600	
	Automobiles	11,000	
	Jerry Steiner, Capital		23,600
	<i>The owner invested cash, an automobile, and equipment.</i>		
b.	Prepaid Insurance	3,600	
	Cash		3,600
	<i>Purchased insurance coverage in advance.</i>		
c.	Office Supplies	600	
	Cash		600
	<i>Purchased supplies with cash.</i>		
d.	Office Supplies	200	
	Equipment	9,400	
	Accounts Payable		9,600
	<i>Purchased supplies and equipment on credit.</i>		
e.	Cash	2,500	
	Delivery Services Revenue		2,500
	<i>Received cash from customer for work done.</i>		
f.	Accounts Payable	2,400	
	Cash		2,400
	<i>Made payment on payables.</i>		
g.	Gas and Oil Expense	700	
	Cash		700
	<i>Paid for gas and oil.</i>		

Exercise 2-8 (20 minutes)**2014**

April 5	Cash	4,600	
	Surgical Revenues		4,600
	<i>Performed surgery and collected cash.</i>		
8	Supplies	19,000	
	Accounts Payable		19,000
	<i>Purchased surgical supplies on credit.</i>		
15	Salaries Expense	41,000	
	Cash		41,000
	<i>Paid salaries.</i>		
20	Accounts Payable	19,000	
	Cash		19,000
	<i>Paid for the credit purchase of April 8.</i>		
21	No entry.		
22	Accounts Receivable	22,800	
	Surgical Revenues		22,800
	<i>Performed six surgeries on credit;</i>		
	<i>\$3,800 x 6 = \$22,800</i>		
29	Cash	15,200	
	Accounts Receivable		15,200
	<i>Collection from four credit customers of April 22;</i>		
	<i>\$3,800 x 4 = \$15,200.</i>		
30	Utilities Expense	1,800	
	Cash		1,800
	<i>Paid the April utilities.</i>		

Exercise 2-9 (20 minutes)

b.	Accounts Receivable	2,700	
	Services Revenue		2,700
	<i>Provided services on credit.</i>		
c.	Cash	3,150	
	Services Revenue		3,150
	<i>Provided services for cash.</i>		

Revenues are inflows of assets (or decreases in liabilities) received in exchange for goods or services provided to customers. The other transactions did not create revenues for the following reasons:

- a. This transaction brought in cash, but it was an owner investment in the company.
- d. This transaction brought in cash, but it also created a liability because the services have not yet been provided to the client.
- e. This transaction changed the form of the asset from accounts receivable to cash. Total assets were not increased. Revenue was not generated.
- f. This transaction brought cash into the company and increased assets, but it also increased a liability by the same amount.

Exercise 2-10 (20 minutes)

b.	Salaries Expense	1,125	
	Cash		1,125
	<i>Paid the salary of the receptionist.</i>		
d.	Utilities Expense	930	
	Cash		930
	<i>Paid the utilities bill for the office.</i>		

Expenses are outflows or using up of assets (or the creation of liabilities) that occur in the process of providing goods or services to customers. The transactions labelled a, c, and e were not expenses for the following reasons:

- a. This transaction decreased assets in settlement of a previously existing liability. Thus, the using up of assets did not reduce equity.
- c. This transaction was the purchase of an asset. The form of the company's assets changed, but total assets did not change, and the equity did not decrease.
- e. This transaction was a distribution of cash to the owner. Even though equity decreased, the decrease did not occur in the process of providing goods or services to customers.

Exercise 2-11 (25 minutes)**Parts a and b:**

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				850
2014					
Jan. 1		G1	3,500		4,350
20		G1		2,000	2,350
31		G1	5,000		7,350
31		G1		3,000	4,350
31		G1		750	3,600

Accounts Receivable				Account No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				300
2014					
Jan. 12		G1	9,000		9,300
31		G1		5,000	4,300

Equipment				Account No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				1,500
2014					
Jan. 20		G1	12,000		13,500

Accounts Payable				Account No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				325
2014					
Jan. 20		G1		10,000	10,325

Jay Walker, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				2,325
2014					
Jan. 1		G1		3,500	5,825

Exercise 2-11 (Parts a and b continued)

Jay Walker, Withdrawals					Account No. 302
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				300
2014					
Jan. 31		G1	750		1,050

Fees Earned					Account No. 401
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				1,800
2014					
Jan. 12		G1		9,000	10,800

Salaries Expense					Account No. 622
Date	Explanation	PR	Debit	Credit	Balance
2013					
Dec. 31	Beginning balance				1,500
2014					
Jan. 31		G1	3,000		4,500

Exercise 2-11 (Parts a and b continued)

Note: After posting the journal entries, the PR column in the General Journal would appear as follows:

General Journal					Page 1
Date	Account Titles and Explanations	PR	Debit		Credit
2014					
Jan. 1	Cash	101	3,500		
	Jay Walker, Capital	301			3,500
	<i>Additional owner investment.</i>				
12	Accounts Receivable	106	9,000		
	Fees Earned	401			9,000
	<i>Performed work for a customer on account.</i>				
20	Equipment	167	12,000		
	Cash	101			2,000
	Accounts Payable	201			10,000
	<i>Purchased equipment by paying cash and the balance on credit.</i>				
31	Cash	101	5,000		
	Accounts Receivable	106			5,000
	<i>Collected cash from credit customer.</i>				
31	Salaries Expense	622	3,000		
	Cash	101			3,000
	<i>Paid month-end salaries.</i>				
31	Jay Walker, Withdrawals	302	750		
	Cash	101			750
	<i>Jay Walker withdrew cash for personal use.</i>				

Analysis component:

All of the details regarding a transaction, such as serial numbers or invoice numbers, form part of the journal entry recorded in the journal and provide a chronological picture of what has happened in the business. The general ledger does not accommodate these kinds of very necessary details. Therefore, we need to journalize to ensure important details are readily available.

The general ledger summarizes by account all of the transactions recorded in the journal. For example, without the ledger, we would not be able to determine the balance in cash without going through the journal and adding/subtracting all of the individual transactions. The ledger allows us to have account balance information.

In summary, although it appears that journalizing and posting are recording the same information twice, the journal and ledger each serve different and important functions in the accounting system.

Exercise 2-12 (25 minutes)

General Journal					Page G1
Date	Account Titles and Explanations	PR	Debit		Credit
2014					
Aug. 1	Cash.....	101	20,000		
	Photography Equipment.....	167	42,000		
	Joseph Eetok, Capital	301		62,000	
	<i>Investment by owner.</i>				
1	Prepaid Rent	131	12,000		
	Cash.....	101		12,000	
	<i>Rented studio space.</i>				
5	Office Supplies	124	1,800		
	Cash.....	101		1,800	
	<i>Purchased office supplies.</i>				
20	Cash.....	101	9,200		
	Photography Fees Earned	401		9,200	
	<i>Collected photography fees.</i>				
31	Utilities Expense.....	690	1,400		
	Cash.....	101		1,400	
	<i>Paid for August utilities.</i>				

Note: The account numbers in the PR column above would be included only during the posting of these journal entries into the ledger accounts in Exercise 2-13.

Exercise 2-13 (30 minutes)

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Aug. 1		G1	20,000		20,000
1		G1		12,000	8,000
5		G1		1,800	6,200
20		G1	9,200		15,400
31		G1		1,400	14,000

Office Supplies				Account No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Aug. 5		G1	1,800		1,800

Prepaid Rent				Account No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Aug. 1		G1	12,000		12,000

Photography Equipment				Account No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Aug. 1		G1	42,000		42,000

Joseph Eetok, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Aug. 1		G1		62,000	62,000

Photography Fees Earned				Account No. 401	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Aug. 20		G1		9,200	9,200

Utilities Expense				Account No. 690	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Aug. 31		G1	1,400		1,400

Exercise 2-13 (concluded)

THE PIXEL SHOP
Trial Balance
August 31, 2014

Acct No.	Account Title	Debit	Credit
101	Cash	\$ 14,000	
124	Office supplies	1,800	
131	Prepaid rent	12,000	
167	Photography equipment.....	42,000	
301	Joseph Eetok, capital		\$62,000
401	Photography fees earned		9,200
690	Utilities expense.....	1,400	
	Totals.....	<u>\$71,200</u>	<u>\$71,200</u>

Analysis component:

The trial balance is not a financial statement; it is an internal working paper used to verify that debits and credits in the general ledger are equal and to review account balances. The trial balance format does not readily communicate information such as financial performance and financial position, information that is desired by external decision makers. Financial statements are used for external reporting because the formats of these communicate information desired by external users. For example, the income statement reports financial performance while the balance sheet reports financial position.

Exercise 2-14 (20 minutes)

Cash 101				Office Supplies 124		Prepaid Rent 131	
Aug. 1	20,000	12,000	Aug. 1	Aug. 5	1,800	Aug. 1	12,000
20	9,200	1,800	5				
		1,400	31				
Bal	14,000						

Photography Equipment 167		Joseph Eetok, Capital 301	
Aug. 1	42,000		62,000 Aug. 1

Photography Fees Earned 401		Utilities Expense 690	
	9,200 Aug. 20	Aug. 31	1,400

THE PIXEL SHOP
Trial Balance
August 31, 2014

Acct. No.	Account Title	Debit	Credit
101	Cash	\$14,000	
124	Office supplies	1,800	
131	Prepaid rent	12,000	
167	Photography equipment.....	42,000	
301	Joseph Eetok, capital		\$62,000
401	Photography fees earned		9,200
690	Utilities expense.....	1,400	
	Totals.....	<u>\$71,200</u>	<u>\$71,200</u>

Analysis component:

The trial balance is an internal working paper used to verify that debits and credits in the general ledger are equal and to review account balances. The trial balance format does not readily communicate information such as financial performance and financial position, information that is desired by external decision makers. Financial statements are used for external reporting because the formats of these communicate information desired by external users. For example, the income statement reports financial performance while the balance sheet reports financial position.

Exercise 2-15 (20 minutes)

**Hogan's Consulting
Income Statement
For Year Ended December 31, 2014**

Revenues:		
Consulting fees earned		\$18,000
Operating expenses:		
Wages expense	\$29,000	
Rent expense	<u>8,000</u>	
Total operating expenses		37,000
Net loss		<u>\$19,000</u>

**Hogan's Consulting
Statement of Changes in Equity
For Year Ended December 31, 2014**

Lisa Hogan, capital, January 1		\$ 0
Add: Investments by owner		<u>50,000</u>
Total		\$50,000
Less: Withdrawals by owner	\$2,000	
Net loss	<u>19,000</u>	21,000
Lisa Hogan, capital, December 31		<u>\$29,000</u>

The arrows are imaginary
but emphasize the link
between statements.

**Hogan's Consulting
Balance Sheet
December 31, 2014**

Assets		Liabilities	
Cash	\$18,000	Accounts payable	\$ 17,300
Accounts receivable	5,200	Notes payable	<u>47,000</u>
Prepaid rent	13,000	Total liabilities	\$ 64,300
Machinery	<u>57,100</u>	Equity	
		Lisa Hogan, capital	<u>29,000</u>
		Total liabilities and	
Total assets	<u>\$93,300</u>	equity	<u>\$ 93,300</u>

Analysis component:

Losses cause equity to decrease. If equity decreases, either assets have to decrease and/or liabilities must increase to keep the balance sheet in balance. Therefore, if Hogan's Consulting continues to experience losses, there are two short-term alternatives available to prevent a decrease in assets. First, the business could borrow which would increase liabilities and temporarily increase assets until payments had to be made. Second, Lisa Hogan, the owner, could invest additional assets into the business which would increase equity and assets. However, for the long-term, the owner does not want to support the business through continual investments; the business must be able to support itself through positive performance (net income).

Exercise 2-16 (20 minutes)

JenCo
Income Statement
For Month Ended March 31, 2014

Revenues:	
Service revenue	\$1,650
Operating expenses:	
Salaries expense	\$ 800
Interest expense	<u>10</u>
Total operating expenses	810
Net income	<u>\$ 840</u>

JenCo
Statement of Changes in Equity
For Month Ended March 31, 2014

Marie Jensen, capital, March 1	\$ 0
Add: Investment by owner	\$2,050
Net income	<u>840</u>
Total	2,890
Less: Withdrawal by owner	<u>1,500</u>
Marie Jensen, capital, March 31	<u>\$1,390</u>

JenCo
Balance Sheet
March 31, 2014

Assets		Liabilities	
Cash	\$ 500	Accounts payable	\$ 500
Accounts receivable	1,950	Unearned service revenue	460
Prepaid insurance	300	Notes payable	<u>1,100</u>
Equipment	<u>700</u>	Total liabilities	<u>\$2,060</u>
Total assets		Equity	
	<u>\$3,450</u>	Marie Jensen, capital	<u>1,390</u>
		Total liabilities and equity	<u>\$3,450</u>

The arrows are imaginary but emphasize the link between statements.

Exercise 2-17 (20 minutes)

**Nanimahoo Marketing Services
Income Statement
For Month Ended March 31, 2014**

Revenues:	
Fees earned	\$126,000
Operating expenses:	
Wages expense	\$146,000
Office supplies expense	<u>7,000</u>
Total operating expenses	153,000
Net loss	<u>\$ 27,000</u>

**Nanimahoo Marketing Services
Statement of Changes in Equity
For Month Ended March 31, 2014**

Dee Nanimahoo, capital, March 1	\$87,000*
Add: Investment by owner	35,000
Total	\$122,000
Less: Withdrawal by owner	\$ 18,000
Net loss	<u>27,000</u>
Dee Nanimahoo, capital, March 31	<u>\$77,000</u>

**Nanimahoo Marketing Services
Balance Sheet
March 31, 2014**

Assets		Liabilities	
Cash	\$ 17,000	Accounts payable	\$ 46,000
Accounts receivable	3,000	Notes payable	114,000
Office supplies	3,000	Total liabilities	\$ 160,000
Building	80,000		
Land	84,000		
Machinery	<u>50,000</u>		
Total assets	<u>\$237,000</u>		

		Equity	
		Dee Nanimahoo, capital	77,000
		Total liabilities and equity	<u>\$237,000</u>

*The arrows are imaginary
but emphasize the link
between statements.*

***\$122,000 March 31/14 Balance - \$35,000 invested in March = \$87,000 March 1/14 Balance**

Exercise 2-18 (20 minutes)

	(1) Difference Between Debit and Credit Columns	(2) Column With the Larger Total	(3) Identify Account(s) Incorrectly Stated	(4) Amount That Account(s) is Overstated or Understated
Description				
a. A \$2,400 debit to Rent Expense was posted as a \$1,590 debit.	\$810	Credit	Rent Expense	Rent Expense is understated by \$810
b. A \$42,000 debit to Machinery was posted as a debit to Accounts Payable.	\$0	—	Machinery Accounts Payable	Machinery is understated by \$42,000 and Accounts Payable is understated by \$42,000
c. A \$4,950 credit to Services Revenue was posted as a \$495 credit.	\$4,455	Debit	Services Revenue	Services Revenue is understated by \$4,455
d. A \$1,440 debit to Store Supplies was not posted at all.	\$1,440	Credit	Store Supplies	Store Supplies is understated by \$1,440
e. A \$2,250 debit to Prepaid Insurance was posted as a debit to Insurance Expense.	\$0	—	Prepaid Insurance Insurance Expense	Prepaid Insurance is understated by \$2,250 and Insurance Expense is overstated by \$2,250
f. A \$4,050 credit to Cash was posted twice as two credits to the Cash account.	\$4,050	Credit	Cash	Cash is understated by \$4,050
g. A \$9,900 debit to the owner's withdrawals account was debited to the owner's capital account.	\$0	—	Owner's Capital Owner's Withdrawals	Owner's Capital account is understated by \$9,900 Owner's Withdrawals is understated by \$9,900

Exercise 2-19 (15 minutes)

- a. 1. Dr = Cr
2. Accounts Receivable is understated (too low) by \$3,500 and Revenue is understated by \$3,500.
- b. 1. Dr = Cr
2. Accounts Payable is overstated (too high) by \$600 and Cash is overstated by \$600.
- c. 1. Dr ≠ Cr
2. Cash is overstated by \$180.
- d. 1. Dr ≠ Cr
2. Accounts Receivable is overstated by \$750.
- e. 1. Dr = Cr
2. Accounts Payable is understated by \$2,000 and Equipment is understated by \$2,000.

Exercise 2-20 (15 minutes)

Case A:

- 1. Subtract total debits in the trial balance from total credits
 $5,010 - 4,290 = 720$
- 2. Divide the difference by 9
 $720 \div 9 = 80$
- 3. The quotient equals the difference between the two transposed numbers.
80 is the difference between the two transposed numbers.
- 4. The number of digits in the quotient tells us the location of the transposition.
Look for a difference of 8 between the second number from the right and the third number from the right.

Through a process of elimination, the incorrect value is Accounts Payable of \$190. The correct value must be \$910.

Proof: Recalculate the trial balance replacing \$910 for the incorrect \$190 and the trial balance now balances at \$5,010.

Exercise 2-20 (concluded)

Case B:

1. Subtract total debits in the trial balance from total credits
 $34,400 - 28,100 = 6,300$
2. Divide the difference by 9 to reveal a slide error
 $6,300 \div 9 = 700$
3. The quotient identifies a slide error and equals the correct value.

Through a process of elimination, the incorrect value is Withdrawals for \$7,000. The correct value must be \$700.

Proof: Recalculate the trial balance replacing \$700 for the incorrect \$7,000 and the trial balance now balances at \$28,100.

Case C:

1. Subtract total debits in the trial balance from total credits
 $942 - 906 = 36$
2. Divide the difference by 9
 $36 \div 9 = 4$
3. The quotient equals the difference between the two transposed numbers.
4 is the difference between the two transposed numbers.
4. The number of digits in the quotient tells us the location of the transposition.
Look for a difference of 4 between the first number from the right and the second number from the right.

Through a process of elimination, the incorrect value is Cash for \$59. The correct value must be \$95.

Proof: Recalculate the trial balance replacing \$95 for the incorrect \$59 and the trial balance now balances at \$942.

PROBLEMS

Problem 2-1A (40 minutes) *Parts 1 and 2*

Cash			
(a)	100,000	80,000	(b)
(g)	16,000	3,200	(f)
(n)	1,900	1,800	(h)
		4,600	(j)
		9,300	(k)
		3,200	(m)
		3,200	(o)
Bal	12,600		

Accounts Receivable			
(l)	5,100	1,900	(n)
Bal	3,200		

Office Supplies		
(c)	4,600	

Automobiles		
(d)	9,000	

Office Equipment			
(a)	9,000	700	(k)
(e)	3,000		
(k)	10,000		
Bal.	21,300		

Building		
(b)	85,000	

Land		
(b)	115,000	

Accounts Payable			
(j)	4,600	4,600	(c)
		3,000	(e)
		3,000	Bal

Long-Term Notes Payable		
	120,000	(b)

Joel Douglas, Capital		
	109,000	(a)
	9,000	(d)
	118,000	Bal.

Joel Douglas, Withdrawals		
(o)	3,200	

Fees Earned		
	16,000	(g)
	5,100	(l)
	21,100	Bal

Wages Expense		
(f)	3,200	
(m)	3,200	
Bal	6,400	

Utilities Expense		
(h)	1,800	

Note: There is no entry for (i) since it is not a transaction.

Problem 2-2A (30 minutes)

		General Journal		Page 1	
Date	Account Titles and Explanations	Debit		Credit	
2014					
May 1	Equipment	46,000			
	Cash			14,000	
	Notes Payable.....			32,000	
	<i>Purchased new equipment paying cash and signing a 90-day note payable.</i>				
2	Prepaid Insurance	24,000			
	Cash			24,000	
	<i>Purchased 12 months of insurance to begin May 2.</i>				
3	Cash	6,000			
	Design Revenue			6,000	
	<i>Completed a fitness contract for a group of customers and collected cash.</i>				
4	Office Supplies	3,750			
	Accounts Payable			3,750	
	<i>Purchased office supplies on account.</i>				
6	Accounts Payable	750			
	Office Supplies			750	
	<i>Returned defective supplies to supplier.</i>				
10	Accounts Receivable	11,500			
	Fitness Contract Revenue.....			11,500	
	<i>Did work for a client today on account.</i>				
15	Accounts Payable	3,000			
	Cash			3,000	
	<i>Paid for the May 4 purchase less the return of May 6; \$3,750 - \$750 return = \$3,000.</i>				
20	Cash	11,500			
	Accounts Receivable			11,500	
	<i>Received payment from the client of May 10.</i>				

Problem 2-2A (concluded)

May 25	Cash	2,500	
	 Unearned Revenue.....		2,500
	 Received cash for work to be done in June.		
31	Salaries Expense	47,000	
	 Cash		47,000
	 Paid month-end salaries.		
31	Telephone Expense	2,250	
	 Cash		2,250
	 Paid the May telephone bill.		
31	Utilities Expense	3,100	
	 Accounts Payable (or Utilities Payable).....		3,100
	 May electrical bill to be paid June 15.		

Note: Assume that all entries were journalized on Page 1 of the General Journal.

Problem 2-3A (90 minutes)

		General Journal			Page 1
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
Mar.	1	Cash	101	50,000	
		Office Equipment	163	12,000	
		Abe Factor, Capital.....	301		62,000
		<i>Invested cash and equipment to start the business.</i>			
	1	Prepaid Rent	131	9,000	
		Cash.....	101		9,000
		<i>Prepaid three months' rent.</i>			
	3	Office Equipment	163	6,000	
		Office Supplies	124	1,200	
		Accounts Payable	201		7,200
		<i>Purchased equipment and supplies on credit.</i>			
	5	Cash	101	6,200	
		Accounting Fees Earned	401		6,200
		<i>Received cash from client for completed work.</i>			
	9	Accounts Receivable	106	4,000	
		Accounting Fees Earned	401		4,000
		<i>Billed client for completed work.</i>			
	11	Accounts Payable	201	7,200	
		Cash.....	101		7,200
		<i>Paid balance due on accounts payable.</i>			
	15	Prepaid Insurance	128	3,000	
		Cash.....	101		3,000
		<i>Paid annual premium for insurance.</i>			
	20	Cash	101	1,500	
		Accounts Receivable	106		1,500
		<i>Collected part of the amount owed by a client.</i>			

Problem 2-3A (concluded)

Mar. 22 No entry.

23	Accounts Receivable	106	2,850	
	Accounting Fees Earned	401		2,850
	<i>Billed client for completed work.</i>			
27	Abe Factor, Withdrawals	302	3,600	
	Cash.....	101		3,600
	<i>Owner's withdrawal of cash.</i>			
30	Office Supplies	124	650	
	Accounts Payable	201		650
	<i>Purchased supplies.</i>			
31	Utilities Expense	690	860	
	Cash.....	101		860
	<i>Paid monthly utility bill.</i>			

Note: The account numbers in the PR column above would be included only when these journal entries are being posted in Problem 3-4A. Assume that all entries were journalized on Page 1 of the General Journal.

Problem 2-4A (45 minutes)**Parts 1 and 2**

Cash					Acct. No. 101
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 1		G1	50,000		50,000
1		G1		9,000	41,000
5		G1	6,200		47,200
11		G1		7,200	40,000
15		G1		3,000	37,000
20		G1	1,500		38,500
27		G1		3,600	34,900
31		G1		860	34,040

Accounts Receivable					Acct. No. 106
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 9		G1	4,000		4,000
20		G1		1,500	2,500
23		G1	2,850		5,350

Office Supplies					Acct. No. 124
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 3		G1	1,200		1,200
30		G1	650		1,850

Prepaid Insurance					Acct. No. 128
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 15		G1	3,000		3,000

Prepaid Rent					Acct. No. 131
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 1		G1	9,000		9,000

Office Equipment					Acct. No. 163
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 1		G1	12,000		12,000
3		G1	6,000		18,000

Problem 2-4A (continued)

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 3		G1		7,200	7,200
11		G1	7,200		0
30		G1		650	650

Abe Factor, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 1		G1		62,000	62,000

Abe Factor, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 27		G1	3,600		3,600

Accounting Fees Earned					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 5		G1		6,200	6,200
9		G1		4,000	10,200
23		G1		2,850	13,050

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2014					
Mar. 31		G1	860		860

Problem 2-4A (concluded)

Part 3

X-FACTOR ACCOUNTING

Trial Balance

March 31, 2014

Acct. No.	Account Title	Debit	Credit
101	Cash	\$34,040	
106	Accounts receivable	5,350	
124	Office supplies	1,850	
128	Prepaid insurance	3,000	
131	Prepaid rent	9,000	
163	Office equipment.....	18,000	
201	Accounts payable		\$ 650
301	Abe Factor, capital.....		62,000
302	Abe Factor, withdrawals.....	3,600	
401	Accounting fees earned		13,050
690	Utilities expense.....	860	
	Totals	<u>\$75,700</u>	<u>\$75,700</u>

Problem 2-5A (20 minutes)

X-FACTOR ACCOUNTING
Income Statement
For Month Ended March 31, 2014

Revenues:	
Accounting fees earned	\$13,050
Operating expenses:	
Utilities expense	<u>860</u>
Net income	<u><u>\$12,190</u></u>

X-FACTOR ACCOUNTING
Statement of Changes in Equity
For Month Ended March 31, 2014

Abe Factor, capital, March 1	\$ 0
Add: Investments by owner	\$62,000
Net income	<u>12,190</u>
Total	74,190
Less: Withdrawals by owner	<u>3,600</u>
Abe Factor, capital, March 31	<u><u>\$70,590</u></u>

The arrows are imaginary
but emphasize the link
between statements.

X-FACTOR ACCOUNTING
Balance Sheet
March 31, 2014

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$34,040	Accounts payable	\$ 650
Accounts receivable.....	5,350		
Office supplies.....	1,850		
Prepaid insurance	3,000		
Prepaid rent.....	9,000		
Office equipment	<u>18,000</u>		
Total assets	<u><u>\$71,240</u></u>		
		<i>Equity</i>	
		Abe Factor, capital	<u>70,590</u>
		Total liabilities and equity	<u><u>\$71,240</u></u>

Problem 2-6A (90 minutes)**Part 1**

General Journal				Page 1
Date	Account Titles and Explanations	PR	Debit	Credit
2011				
May 1	Cash	101	75,000	
	Office Equipment	163	48,000	
	Jill Wahpoosywan, Capital	301		123,000
	<i>Invested cash and equipment to start the business.</i>			
1	Prepaid Rent.....	131	14,400	
	Cash	101		14,400
	<i>Prepaid three months' rent.</i>			
2	Office Equipment	163	24,000	
	Office Supplies.....	124	4,800	
	Accounts Payable	201		28,800
	<i>Purchased equipment and supplies on credit.</i>			
6	Cash	101	8,000	
	Services Revenue	403		8,000
	<i>Received cash from client for services performed.</i>			
9	Accounts Receivable.....	106	16,000	
	Services Revenue	403		16,000
	<i>Billed client for completed work.</i>			
10	Accounts Payable	201	14,400	
	Cash	101		14,400
	<i>Paid one-half of balance due on accounts payable.</i>			
19	Prepaid Insurance.....	128	7,500	
	Cash	101		7,500
	<i>Paid annual premium for insurance.</i>			
22	Cash	101	12,800	
	Accounts Receivable	106		12,800
	<i>Collected part of the amount owed by a client.</i>			
25	Accounts Receivable.....	106	5,280	
	Services Revenue	403		5,280
	<i>Billed client for completed work.</i>			
25	Wages expense	623	34,000	
	Cash	101		34,000
	<i>Paid wage expense.</i>			

Problem2-6A, Part 1 (continued)

May	31	Jill Wahpoosywan, Withdrawals.....	302	5,000	
		Cash	101		5,000
		<i>Owner withdrew cash.</i>			
	31	Office Supplies.....	124	1,600	
		Accounts Payable	201		1,600
		<i>Purchased supplies on credit.</i>			
	31	Utilities Expense	690	1,400	
		Cash	101		1,400
		<i>Paid monthly utility bill.</i>			

Note: Assume that all entries were journalized on Page 1 of the General Journal.

Parts 2 and 3

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
May 1		G1	75,000		75,000
1		G1		14,400	60,600
6		G1	8,000		68,600
10		G1		14,400	54,200
19		G1		7,500	46,700
22		G1	12,800		59,500
25		G1		34,000	25,500
31		G1		5,000	20,500
31		G1		1,400	19,100

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
May 9		G1	16,000		16,000
22		G1		12,800	3,200
25		G1	5,280		8,480

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2014					
May 2		G1	4,800		4,800
31		G1	1,600		6,400

Problem 2-6A (continued) Parts 2 and 3

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 19		G1	7,500		7,500

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 1		G1	14,400		14,400

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 1		G1	48,000		48,000
2		G1	24,000		72,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 2		G1		28,800	28,800
10		G1	14,400		14,400
31		G1		1,600	16,000

Jill Wahpoosywan, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 1		G1		123,000	123,000

Jill Wahpoosywan, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 31		G1	5,000		5,000

Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 6		G1		8,000	8,000
9		G1		16,000	24,000
25		G1		5,280	29,280

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2014 May 25		G1	34,000		34,000

Problem 2-6A (continued) Parts 2 and 3

Utilities Expense				Acct. No. 690	
Date	Explanation	PR	Debit	Credit	Balance
2014					
May 31		G1	1,400		1,400

Part 4**TECHNO WIZARDS**

Trial Balance

May 31, 2014

Acct. No.	Account Title	Debit	Credit
101	Cash.....	\$ 19,100	
106	Accounts receivable	8,480	
124	Office supplies.....	6,400	
128	Prepaid insurance	7,500	
131	Prepaid rent	14,400	
163	Office equipment	72,000	
201	Accounts payable.....		\$ 16,000
301	Jill Wahpoosywan, capital.....		123,000
302	Jill Wahpoosywan, withdrawals.....	5,000	
403	Services revenue.....		29,280
623	Wages expense.....	34,000	
690	Utilities expense	1,400	
	Totals.....	<u>\$168,280</u>	<u>\$168,280</u>

Analysis component:

Equity represents how much of Techno Wizards' assets belong to the owner, Jill Wahpoosywan. Services Revenue is an equity account because as revenues are realized, the business's net worth (assets – liabilities, or equity) increases either through the receipt of an asset (cash or accounts receivable) or satisfying a liability (unearned revenues). Utilities Expense is an equity account because as expenses are realized, net worth (what belongs to the owner) decreases either through the use of an asset (such as prepaid insurance) or increase in a liability (such as rent payable). Jill Wahpoosywan, Withdrawals is an equity account because as the owner withdraws assets, Jill Wahpoosywan's equity in the business (what belongs to the owner) decreases. The owner's objective is for the business to generate sufficient revenues to cover all expenses, provide sufficient assets for the purpose of withdrawals, and at the same time maintain or preferably increase equity (because excess revenues remained after deducting expenses and withdrawals).

Problem 2-7A

TECHNO WIZARDS
Income Statement
For Month Ended May 31, 2014

Revenues:	
Service revenue	\$29,280
Operating expenses:	
Wages expense	\$34,000
Utilities expense	<u>1,400</u>
Total operating expenses	35,400
Net loss	<u>\$ 6,120</u>

TECHNO WIZARDS
Statement of Changes in Equity
For Month Ended May 31, 2014

Jill Wahpoosywan, capital, May 1	\$ 0
Add: Investments by owner	123,000
Less: Withdrawals by owner	\$5,000
Net loss	<u>6,120</u>
Jill Wahpoosywan, capital, May 31	11,120
	<u>\$111,880</u>

The arrows are imaginary
but emphasize the link
between statements.

TECHNO WIZARDS
Balance Sheet
May 31, 2014

Assets		Liabilities	
Cash	\$ 19,100	Accounts payable	\$ 16,000
Accounts receivable	8,480		
Office supplies	6,400		
Prepaid insurance	7,500		
Prepaid rent	14,400		
Office equipment	72,000		
Total assets	<u>\$127,880</u>		
		Equity	
		Jill Wahpoosywan, capital	111,880
		Total liabilities and equity	<u>\$127,880</u>

Problem 2-8A (25 minutes)

WILDCAT OPTICIANS
Income Statement
For Month Ended May 31, 2014

Revenues:	
Service revenue	\$25,280
Operating expenses:	
Wages expense	\$15,000
Rent expense	4,300
Utilities expense	1,400
Total operating expenses	<u>20,700</u>
Net income	<u>\$ 4,580</u>

WILDCAT OPTICIANS
Statement of Changes in Equity
For Month Ended May 31, 2014

Bo Wildcat, capital, May 1	\$ -0-
Add: Owner investment	\$ 56,300
Net income	<u>4,580</u>
Total	<u>60,880</u>
Less: Withdrawals by owner	1,480
Bo Wildcat, capital, May 31	<u>\$59,400</u>

The arrows are imaginary
but emphasize the link
between statements.

WILDCAT OPTICIANS
Balance Sheet
May 31, 2014

Assets		Liabilities	
Cash	\$18,500	Accounts payable	\$ 1,600
Accounts receivable	8,480	Unearned service revenue	<u>7,800</u>
Office supplies	6,400	Total liabilities	\$ 9,400
Prepaid insurance	9,820		
Office equipment	<u>25,600</u>		
		Equity	
		Bo Wildcat, capital	<u>59,400</u>
		Total liabilities and equity	<u>\$68,800</u>
Total assets	<u>\$68,800</u>		

Analysis component:**2014**

May	31	Utilities Expense	1,400	
		Cash		1,400
		<i>Paid the May utilities.</i>		
	31	Utilities Expense	1,400	
		Accounts Payable		1,400
		<i>Received the May utility bill which will be paid next month.</i>		

Problem 2-9A (90 minutes)**Part 1**

		General Journal			Page 1
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
July	1	Cash	101	300,000	
		Office Equipment	163	12,000	
		Drafting Equipment.....	167	90,000	
		Bishr Binbutti, Capital.....	301		402,000
		<i>Investment by owner.</i>			
	2	Land.....	183	108,000	
		Cash.....	101		10,800
		Long-Term Notes Payable	251		97,200
		<i>Purchased land.</i>			
	3	Building.....	173	150,000	
		Cash.....	101		150,000
		<i>Purchased a building.</i>			
	5	Prepaid Insurance	128	12,000	
		Cash.....	101		12,000
		<i>Purchased two one-year insurance policies.</i>			
	7	Cash	101	1,400	
		Engineering Fees Earned	401		1,400
		<i>Completed services for cash.</i>			
	9	Drafting Equipment.....	167	45,000	
		Cash.....	101		21,000
		Long-Term Notes Payable	251		24,000
		<i>Purchased drafting equipment.</i>			
	10	Accounts Receivable	106	4,000	
		Engineering Fees Earned	401		4,000
		<i>Completed services on credit.</i>			

Problem 2-9A (continued)

July	12	Office Equipment	163	4,500	
		Accounts Payable	201		4,500
		<i>Purchased office equipment on credit.</i>			
	15	Accounts Receivable	106	7,000	
		Engineering Fees Earned	401		7,000
		<i>Completed services on credit.</i>			
	16	Equipment Rental Expense	645	13,800	
		Accounts Payable	201		13,800
		<i>Equipment rental to be paid in 30 days.</i>			
	17	Cash	101	400	
		Accounts Receivable	106		400
		<i>Collection from credit customer.</i>			
	19	Wages Expense	623	12,000	
		Cash	101		12,000
		<i>Paid drafting assistants.</i>			
	22	Accounts Payable	201	4,500	
		Cash	101		4,500
		<i>Paid July 12 transaction.</i>			
	25	Repairs Expense	684	1,350	
		Cash	101		1,350
		<i>Paid for repairs on drafting equipment.</i>			
	26	Bishr Binbutti, Withdrawals	302	800	
		Cash	101		800
		<i>Owner withdrawal.</i>			
	30	Wages Expense	623	12,000	
		Cash	101		12,000
		<i>Paid drafting assistants.</i>			
	31	Advertising Expense	655	6,000	
		Cash	101		6,000
		<i>Paid for advertising in local newspaper.</i>			

Note: Assume all entries were journalized on Page 1 of the General Journal.

Problem 2-9A (continued)**Parts 2 and 3**

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				26,000
July 1		G1	300,000		326,000
2		G1		10,800	315,200
3		G1		150,000	165,200
5		G1		12,000	153,200
7		G1	1,400		154,600
9		G1		21,000	133,600
17		G1	400		134,000
19		G1		12,000	122,000
22		G1		4,500	117,500
25		G1		1,350	116,150
26		G1		800	115,350
30		G1		12,000	103,350
31		G1		6,000	97,350

Accounts Receivable				Account No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				3,000
July 10		G1	4,000		7,000
15		G1	7,000		14,000
17		G1		400	13,600

Prepaid Insurance				Account No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				500
July 5		G1	12,000		12,500

Office Equipment				Account No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,700
July 1		G1	12,000		13,700
12		G1	4,500		18,200

Problem 2-9A (continued)**Parts 2 and 3 (continued)**

Drafting Equipment					Account No. 167
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,200
July 1		G1	90,000		91,200
9		G1	45,000		136,200

Building					Account No. 173
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				42,000
July 3		G1	150,000		192,000

Land					Account No. 183
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				28,000
July 2		G1	108,000		136,000

Accounts Payable					Account No. 201
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,740
July 12		G1		4,500	6,240
16		G1		13,800	20,040
22		G1	4,500		15,540

Long-Term Notes Payable					Account No. 251
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				24,000
July 2		G1		97,200	121,200
9		G1		24,000	145,200

Bishr Binbutti, Capital					Account No. 301
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				54,000
July 1		G1		402,000	456,000

Problem 2-9A (continued)**Parts 2 and 3 (continued)**

Bishr Binbutti, Withdrawals					Account No. 302
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,000
July 26		G1	800		1,800

Engineering Fees Earned					Account No. 401
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				29,600
July 7		G1		1,400	31,000
10		G1		4,000	35,000
15		G1		7,000	42,000

Wages Expense					Account No. 623
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				4,000
July 19		G1	12,000		16,000
30		G1	12,000		28,000

Equipment Rental Expense					Account No. 645
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,000
July 16		G1	13,800		14,800

Advertising Expense					Account No. 655
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				640
July 31		G1	6,000		6,640

Repairs Expense					Account No. 684
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				300
July 25		G1	1,350		1,650

Problem 2-9A (concluded)**Part 4**

BINBUTTI ENGINEERING
Trial Balance
July 31, 2014

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 97,350	
106	Accounts receivable	13,600	
128	Prepaid insurance	12,500	
163	Office equipment	18,200	
167	Drafting equipment	136,200	
173	Building	192,000	
183	Land	136,000	
201	Accounts payable		\$ 15,540
251	Long-term notes payable		145,200
301	Bishr Binbutti, capital		456,000
302	Bishr Binbutti, withdrawals	1,800	
401	Engineering fees earned		42,000
623	Wages expense	28,000	
645	Equipment rental expense	14,800	
655	Advertising expense	6,640	
684	Repairs expense	1,650	
	Totals	<u>\$658,740</u>	<u>\$658,740</u>

Problem 2-11A (45 minutes) Part 1

General Journal					Page 1
Date	Account Titles and Explanations	PR	Debit		Credit
2014					
July	1				
	Supplies	126	100		
	Accounts Payable	201			100
	<i>Purchased supplies on account.</i>				
	2				
	Cash	101	4,000		
	Unearned Teaching Revenue	233			4,000
	<i>Collected teaching fees for August.</i>				
	3				
	Cash	101	2,000		
	Teaching Revenue	401			2,000
	<i>Collected teaching fees for July.</i>				
	4				
	Rent Expense	640	3,000		
	Cash	101			3,000
	<i>Paid July rent.</i>				
	5				
	Accounts Payable	201	500		
	Cash	101			500
	<i>Paid for supplies purchased on account.</i>				
	15				
	Ted Ng, Withdrawals	302	500		
	Cash	101			500
	<i>The owner withdrew cash.</i>				
	20				
	Wages Expense	623	1,300		
	Cash	101			1,300
	<i>Paid wages.</i>				
	31				
	Furniture	161	300		
	Accounts Payable	201			300
	<i>Purchased a new chair on account.</i>				

Problem 2-11A (continued)

Parts 2 and 3

Cash 101		Supplies 126		Furniture 161		Accounts Payable 201	
Bal. 6,000		Bal. 950		Bal. 8,000		1,500 Bal.	
Jul. 2 4,000	3,000 Jul. 4	Jul. 1 100		Jul. 31 300		Jul. 5 500	100 Jul. 1
3 2,000	500 Jul. 5	Bal. 1,050		Bal. 8,300			300 Jul. 31
	500 Jul. 15						1,400 Bal.
	1,300 Jul. 20						
Bal. 6,700							
Unearned Teaching Rev 233		Ted Ng, Capital 301		Ted Ng, Withdrawals 302		Teaching Revenue 401	
	9,800 Bal.		3,000 Bal.	Bal. 13,000			46,000 Bal.
	4,000 Jul. 2			Jul. 15 500			2,000 Jul. 3
	13,800 Bal.			Bal. 13,500			48,000 Bal.
Wages Expense 623		Rent Expense 640					
Bal. 26,350		Bal. 6,000					
Jul. 20 1,300		Jul. 4 3,000					
Bal. 27,650		Bal. 9,000					

Problem 2-11A (continued)

Part 4

**NG'S ENGLISH SCHOOL
Trial Balance
July 31, 2014**

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 6,700	
126	Supplies	1,050	
161	Furniture	8,300	
201	Accounts payable		\$ 1,400
233	Unearned teaching revenue		13,800
301	Ted Ng, capital		3,000
302	Ted Ng, withdrawals	13,500	
401	Teaching revenue		48,000
623	Wages expense	27,650	
640	Rent expense	9,000	
	Totals	<u>\$66,200</u>	<u>\$66,200</u>

Problem 2-11A (concluded)**Part 5**

NG'S ENGLISH SCHOOL
Income Statement
For Three Months Ended July 31, 2014

Teaching revenue		\$48,000
Operating expenses:		
Wages expense	\$27,650	
Rent expense	<u>9,000</u>	
Total operating expenses		36,650
Net income		<u>\$11,350</u>

NG'S ENGLISH SCHOOL
Statement of Changes in Equity
For Three Months Ended July 31, 2014

Ted Ng, capital, May 1		\$ -0-
Add: Owner investment	\$ 3,000	
Net income	<u>11,350</u>	
Total		14,350
Less: Withdrawals by owner		<u>13,500</u>
Ted Ng, capital, July 31		<u>\$ 850</u>

The arrows are imaginary
but emphasize the link
between statements.

NG'S ENGLISH SCHOOL
Balance Sheet
July 31, 2014

Assets		Liabilities	
Cash.....	\$ 6,700	Accounts payable	\$ 1,400
Supplies.....	1,050	Unearned teaching revenue	<u>13,800</u>
Furniture.....	<u>8,300</u>	Total liabilities	\$15,200
		Equity	
		Ted Ng, capital.....	<u>850</u>
		Total liabilities and	
Total assets.....	<u>\$16,050</u>	equity.....	<u>\$16,050</u>

Problem 2-12A (25 minutes)

FELINE PET CARE
Income Statement
For Year Ended July 31, 2014

Revenues:	
Fees earned	\$117,000
Operating expenses:	
Wages expense	\$58,000
Equipment rental expense	34,000
Pet food expense	17,800
Advertising expense	<u>9,200</u>
Total operating expenses	119,000
Net loss	<u>\$ 2,000</u>

FELINE PET CARE
Statement of Changes in Equity
For Year Ended July 31, 2014

Betty Lark, capital, August 1	\$ 0
Add: Investments by owner	292,760
Total	292,760
Less: Withdrawals by owner	\$ 5,000
Net loss	<u>2,000</u>
Betty Lark, capital, July 31	<u>\$285,760</u>

The arrows are
imaginary but
emphasize the link
between
statements.

FELINE PET CARE
Balance Sheet
July 31, 2014

<i>Assets</i>		<i>Liabilities</i>	
Cash	\$ 23,000	Accounts payable	\$ 15,540
Accounts receivable	11,600	Unearned fees	92,000
Prepaid insurance	12,500	Total liabilities	107,540
Equipment	18,200		
Building	192,000		
Land	<u>136,000</u>		
Total assets	<u>\$393,300</u>		
		<i>Equity</i>	
		Betty Lark, capital	285,760
		Total liabilities and equity	<u>\$393,300</u>

Problem 2-12A (concluded)**Analysis component:****2014**

July	31	Cash	117,000	
		Fees Earned		117,000
		<i>Received cash for completing work for clients.</i>		
	31	Accounts Receivable	117,000	
		Fees Earned		117,000
		<i>Completed work for clients on account.</i>		

Problem 2-13A (15 minutes)**Wilm's Window Washing Services****Trial Balance****January 31, 2014**

	Debit	Credit
Cash ($11,600 + 2,800^b - 4,400^d$)	\$ 10,000	
Accounts receivable ($9,240 - 2,800^b + 3,600^c$)	10,040	
Prepaid insurance	2,400	
Equipment ($24,000 + 4,000^a$)	28,000	
Accounts payable ($5,400 + 4,000^a$)		\$ 9,400
Wilm Schmidt, capital		45,000
Wilm Schmidt, withdrawals	8,960	
Service revenues ($60,400 + 3,600^e$)		64,000
Salaries expense	32,000	
Insurance expense	5,200	
Maintenance expense ($13,000 + 3,600^e$)	16,600	
Utilities expense	5,200	
Totals	<u>\$118,400</u>	<u>\$118,400</u>

Note: The superscripts (a) to (e) are references to items (a) to (e) listed in Problem 2-13A.

ALTERNATE PROBLEMS**Problem 2-1B (40 minutes) Parts 1 and 2**

Cash			
(a)	46,000	30,000	(b)
(g)	2,700	1,800	(f)
(m)	1,000	1,430	(h)
		600	(i)
		2,400	(j)
		1,800	(l)
		1,050	(n)
Balance	10,620		

Accounts Receivable			
(k)	2,400	1,000	(m)
Balance	1,400		

Office Supplies	
(c)	600

Automobiles	
(d)	7,000

Office Equipment			
(a)	24,000	1,600	(j)
(e)	4,600		
(j)	4,000		
Balance	31,000		

Building	
(b)	66,000

Land	
(b)	268,000

Accounts Payable			
(i)	600	600	(c)
		4,600	(e)
		4,600	Balance

Long-Term Notes Payable	
	304,000 (b)

Trevor Peeters, Capital		
	70,000	(a)
	7,000	(d)
	77,000	Balance

Trevor Peeters, Withdrawals	
(n)	1,050

Fees Earned		
	2,700	(g)
	2,400	(k)
	5,100	Balance

Salaries Expense		
(f)	1,800	
(l)	1,800	
Balance	3,600	

Utilities Expense	
(h)	1,430

Problem 2-2B

		General Journal		Page 1	
Date		Accounts Titles and Explanations	Debit	Credit	
2014					
March	1	Building.....	375,000		
		Cash.....		75,000	
		Note Payable.....		300,000	
		<i>Purchased new portable building paying cash and signing a five-year note payable.</i>			
	1	Prepaid Insurance	5,700		
		Cash.....		5,700	
		<i>Purchased six months of insurance to begin March 1.</i>			
	2	No entry.			
	4	Cleaning Supplies	450		
		Accounts Payable		450	
		<i>Purchased cleaning supplies on account.</i>			
	15	Accounts Payable	450		
		Cash.....		450	
		<i>Paid for the March 4 purchase.</i>			
	19	Accounts Receivable	35,000		
		Advertising Revenue (or other revenue account)		35,000	
		<i>Performed work for a client on account.</i>			
	20	Cash	8,000		
		Unearned Revenue.....		8,000	
		<i>Collected cash from a customer for work to be done in April.</i>			
	28	Hotel Expense or Travel Expense	240		
		Cash		240	
		<i>Paid for a hotel regarding a business meeting.</i>			

Problem 2-2B (concluded)

March	29	Cash	5,000	
		Advertising Revenue (or other revenue account)		5,000
		<i>Provided advertising services and collected cash.</i>		
	30	Salaries Expense.....	25,600	
		Cash.....		25,600
		<i>Paid month-end salaries.</i>		
	30	Telephone Expense	1,300	
		Accounts Payable		1,300
		<i>March telephone bill to be paid on April 14.</i>		
	30	Cash	17,500	
		Accounts Receivable		17,500
		<i>Collected half of the amount owed by the customer of March 19.</i>		

Note: Assume all entries were journalized on Page 1 of the General Journal.

Problem 2-3B (60 minutes)

		General Journal			Page 1
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
Sept.	1	Cash	101	20,000	
		Office Equipment	163	9,200	
		Susan Hurley, Capital	301		29,200
		<i>Investment by owner.</i>			
	1	Prepaid Rent	131	5,600	
		Cash	101		5,600
		<i>Paid two months' rent.</i>			
	2	Office Supplies	124	1,380	
		Office Equipment	163	3,800	
		Accounts Payable	201		5,180
		<i>Purchased items on credit.</i>			
	4	Cash	101	2,900	
		Accounting Fees Earned	401		2,900
		<i>Sold accounting services for cash.</i>			
	8	Accounts Receivable	106	5,080	
		Accounting Fees Earned	401		5,080
		<i>Sold accounting services on credit.</i>			
	10	Accounts Payable	201	5,180	
		Cash	101		5,180
		<i>Paid for credit purchase.</i>			
	14	Prepaid Insurance	128	3,300	
		Cash	101		3,300
		<i>Paid insurance premium.</i>			
	15	Professional Development Expense	680	1,250	
		Cash	101		1,250
		<i>Paid for seminar.</i>			

Problem 2-3B (concluded)

Sept.	18	Cash	101	5,080	
		Accounts Receivable	106		5,080
		<i>Received cash from credit customer.</i>			
	20	No entry.			
	24	Accounts Receivable	106	5,000	
		Accounting Fees Earned	401		5,000
		<i>Sold accounting services on credit.</i>			
	28	Susan Hurley, Withdrawals	302	2,500	
		Cash	101		2,500
		<i>Owner withdrew cash.</i>			
	29	Office Supplies	124	450	
		Accounts Payable	201		450
		<i>Purchased supplies on credit.</i>			
	30	Utilities Expense	690	1,750	
		Cash	101		1,750
		<i>Paid utilities bill.</i>			

Note: The account numbers in the PR column above would be included only when these journal entries are being posted in Problem 2-4B. Assume that all entries were journalized on Page 1 of the General Journal.

Problem 2-4B**Parts 1 and 2**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 1		G1	20,000		20,000
1		G1		5,600	14,400
4		G1	2,900		17,300
10		G1		5,180	12,120
14		G1		3,300	8,820
15		G1		1,250	7,570
18		G1	5,080		12,650
28		G1		2,500	10,150
30		G1		1,750	8,400

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 8		G1	5,080		5,080
18		G1		5,080	0
24		G1	5,000		5,000

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 2		G1	1,380		1,380
29		G1	450		1,830

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 14		G1	3,300		3,300

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 1		G1	5,600		5,600

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 1		G1	9,200		9,200
2		G1	3,800		13,000

Problem 2-4B (continued)**Parts 1 and 2**

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 2		G1		5,180	5,180
10		G1	5,180		0
29		G1		450	450

Susan Hurley, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 1		G1		29,200	29,200

Susan Hurley, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 28		G1	2,500		2,500

Accounting Fees Earned					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 4		G1		2,900	2,900
8		G1		5,080	7,980
24		G1		5,000	12,980

Professional Development Expense					Acct. No. 680
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 15		G1	1,250		1,250

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2014					
Sept. 30		G1	1,750		1,750

Problem 2-4B (concluded)

Part 3

**SUSAN HURLEY, PUBLIC ACCOUNTANT
Trial Balance
September 30, 2014**

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 8,400	
106	Accounts receivable	5,000	
124	Office supplies	1,830	
128	Prepaid insurance	3,300	
131	Prepaid rent	5,600	
163	Office equipment.....	13,000	
201	Accounts payable		\$ 450
301	Susan Hurley, capital.....		29,200
302	Susan Hurley, withdrawals	2,500	
401	Accounting fees earned		12,980
680	Professional development expense.....	1,250	
690	Utilities expense.....	1,750	
	Totals	<u>\$42,630</u>	<u>\$42,630</u>

Problem 2-5B (25 minutes)

SUSAN HURLEY, PUBLIC ACCOUNTANT
Income Statement
For Month Ended September 30, 2014

Revenues:

Accounting fees earned **\$12,980**

Operating expenses:

Utilities expense **\$1,750**

Professional development expense..... **1,250**

Total operating expenses **3,000**

Net income **\$ 9,980**

SUSAN HURLEY, PUBLIC ACCOUNTANT
Statement of Changes in Equity
For Month Ended September 30, 2014

Susan Hurley, capital, September 1 **\$ 0**

Add: Investments by owner **\$29,200**

Net income **9,980**

Total **39,180**

Less: Withdrawals by owner **2,500**

Susan Hurley, capital, September 30..... **\$36,680**

The arrows are
imaginary but
emphasize the
link between
statements.

SUSAN HURLEY, PUBLIC ACCOUNTANT
Balance Sheet
September 30, 2014

Assets

Cash..... **\$ 8,400**

Accounts receivable..... **5,000**

Office supplies..... **1,830**

Prepaid insurance **3,300**

Prepaid rent..... **5,600**

Office equipment **13,000**

Total assets..... **\$37,130**

Liabilities

Accounts payable **\$ 450**

Equity

Susan Hurley, capital..... **36,680**

Total liabilities and
equity..... **\$37,130**

Problem 2-6B (90 minutes)**Part 1**

		General Journal			Page 1
Date		Account Titles and Explanations		Debit	Credit
2014					
Nov.	1	Cash 101	62,000		
		Office Equipment 163	19,000		
		Tait Unger, Capital 301			81,000
		<i>Owner invested in the business.</i>			
	2	Prepaid Rent..... 131	21,000		
		Cash 101			21,000
		<i>Prepaid three months' rent.</i>			
	4	Office Equipment 163	9,000		
		Office Supplies..... 124	1,650		
		Accounts Payable 201			10,650
		<i>Purchased equipment and supplies on credit.</i>			
	8	Cash 101	5,200		
		Service Fees Earned 401			5,200
		<i>Received cash from client for completed work.</i>			
	12	Accounts Receivable..... 106	4,800		
		Service Fees Earned 401			4,800
		<i>Billed client for completed work.</i>			
	13	Accounts Payable 201	10,650		
		Cash 101			10,650
		<i>Paid balance due on accounts payable.</i>			
	19	Prepaid Insurance..... 128	3,750		
		Cash 101			3,750
		<i>Paid annual premium for insurance.</i>			
	22	Cash 101	2,000		
		Accounts Receivable 106			2,000
		<i>Collected part of the amount owed by a client.</i>			
	24	Accounts Receivable..... 106	3,600		
		Service Fees Earned 401			3,600
		<i>Billed client for completed work.</i>			

Problem 2-6B (continued)

Part 1

Nov.	28	Tait Unger, Withdrawals	302	5,300	
		Cash	101		5,300
		<i>Owner withdrew cash for personal use.</i>			
	29	Office Supplies.....	124	1,700	
		Accounts Payable	201		1,700
		<i>Purchased supplies on credit.</i>			
	30	Wages Expense.....	680	19,000	
		Cash	101		19,000
		<i>Paid wages.</i>			
	30	Utilities Expense	690	1,650	
		Cash	101		1,650
		<i>Paid monthly utility bill.</i>			

Note: Assume all entries were journalized on Page 1 of the General Journal.

Problem 2-6B (continued)**Parts 2 and 3**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 1		G1	62,000		62,000
2		G1		21,000	41,000
8		G1	5,200		46,200
13		G1		10,650	35,550
19		G1		3,750	31,800
22		G1	2,000		33,800
28		G1		5,300	28,500
30		G1		19,000	9,500
30		G1		1,650	7,850

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 12		G1	4,800		4,800
22		G1		2,000	2,800
24		G1	3,600		6,400

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 4		G1	1,650		1,650
29		G1	1,700		3,350

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 19		G1	3,750		3,750

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 2		G1	21,000		21,000

Problem 2-6B (continued)**Parts 2 and 3**

Office Equipment					Acct. No. 163
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 1		G1	19,000		19,000
4		G1	9,000		28,000

Accounts Payable					Acct. No. 201
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 4		G1		10,650	10,650
13		G1	10,650		0
29		G1		1,700	1,700

Tait Unger, Capital					Acct. No. 301
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 1		G1		81,000	81,000

Tait Unger, Withdrawals					Acct. No. 302
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 28		G1	5,300		5,300

Service Fees Earned					Acct. No. 401
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 8		G1		5,200	5,200
12		G1		4,800	10,000
24		G1		3,600	13,600

Wages Expense					Acct. No. 680
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 30		G1	19,000		19,000

Utilities Expense					Acct. No. 690
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 30		G1	1,650		1,650

Problem 2-6B (concluded)**Part 4**

WiCOM SERVICING
Trial Balance
November 30, 2011

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 7,850	
106	Accounts receivable.....	6,400	
124	Office supplies	3,350	
128	Prepaid insurance	3,750	
131	Prepaid rent.....	21,000	
163	Office equipment	28,000	
201	Accounts payable.....		\$ 1,700
301	Tait Unger, capital		81,000
302	Tait Unger, withdrawals	5,300	
401	Service fees earned		13,600
680	Wages expense.....	19,000	
690	Utilities expense	1,650	
	Totals	<u>\$96,300</u>	<u>\$96,300</u>

Analysis component:

The November 29 purchase of office supplies is recorded as a debit to an asset account because they have not yet been used. Assets are economic resources held by the business. The supplies will remain on the books as an asset until they are used. Once used, the supplies will become an expense.

Problem 2-7B (25 minutes)

WiCOM SERVICING
Income Statement
For Month Ended November 30, 2014

Revenues:	
Service fees earned	\$13,600
Operating expenses:	
Wages expense	\$19,000
Utilities expense	<u>1,650</u>
Total operating expenses	<u>20,650</u>
Net loss	<u>\$ 7,050</u>

WiCOM SERVICING
Statement of Changes in Equity
For Month Ended November 30, 2014

Tait Unger, capital, November 1	\$ 0
Add: Investments by owner	<u>81,000</u>
Total	<u>81,000</u>
Less: Withdrawals by owner	\$5,300
Net loss	<u>7,050</u>
Tait Unger, capital, November 30	<u>\$68,650</u>

The arrows are
imaginary but
emphasize the link
between
statements.

WiCOM SERVICING
Balance Sheet
November 30, 2014

Assets		Liabilities	
Cash	\$ 7,850	Accounts payable	\$ 1,700
Accounts receivable	6,400		
Office supplies	3,350		
Prepaid insurance	3,750		
Prepaid rent	21,000		
Office equipment	<u>28,000</u>		
Total assets	<u>\$70,350</u>		
		Equity	
		Tait Unger, capital	<u>68,650</u>
		Total liabilities and	
		equity	<u>\$70,350</u>

Problem 2-8B (25 minutes)

RUSH INNOVATIONS
Income Statement
For Month Ended November 30, 2014

Service fees earned		\$15,800
Operating expenses:		
Wages expense	\$16,000	
Utilities expense	<u>2,920</u>	
Total operating expenses		<u>18,920</u>
Net loss		<u>\$ 3,120</u>

RUSH INNOVATIONS
Statement of Changes in Equity
For Month Ended November 30, 2014

Jay Rush, capital, November 1		\$ 0
Add: Investments by owner		<u>146,000</u>
Total		<u>146,000</u>
Less: Withdrawals by owner	\$10,600	
Net loss	<u>3,120</u>	<u>13,720</u>
Jay Rush, capital, November 30		<u>\$132,280</u>

The arrows are
imaginary but
emphasize the link
between
statements.

RUSH INNOVATIONS
Balance Sheet
November 30, 2014

<i>Assets</i>		<i>Liabilities</i>	
Cash	\$ 23,480	Accounts payable	\$ 3,400
Accounts receivable	7,000		
Office supplies	5,800		
Prepaid insurance	10,400		
Prepaid rent	21,000		
Office equipment	<u>68,000</u>		
Total assets	<u>\$135,680</u>		
		<i>Equity</i>	
		Jay Rush, capital	<u>132,280</u>
		Total liabilities and	
		equity	<u>\$135,680</u>

Problem 2-8B (concluded)

Analysis component:

2014

Nov.	30	Accounts Receivable	XXX	
		Service Fees Earned		XXX
		<i>Did work for a customer on account.</i>		
	30	Cash	XXX	
		Accounts Receivable		XXX
		<i>Collected an amount owing from a credit customer.</i>		

Problem 2-9B (90 minutes)**Part 1**

General Journal					Page 1
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
July	1	Office Equipment	163	9,000	
		Trucks	153	56,000	
		Long-Term Notes Payable	251		65,000
		<i>Purchased assets on credit.</i>			
	2	Land.....	183	124,000	
		Cash.....	101		40,800
		Long-Term Notes Payable	251		83,200
		<i>Purchased land.</i>			
	3	Building.....	173	21,000	
		Cash.....	101		21,000
		<i>Purchased a building.</i>			
	5	Prepaid Insurance	128	9,600	
		Cash.....	101		9,600
		<i>Purchased two one-year insurance policies.</i>			
	9	Cash	101	3,200	
		Fees Earned	401		3,200
		<i>Performed services for cash.</i>			
	12	Office Equipment	163	6,500	
		Cash.....	101		700
		Long-Term Notes Payable	251		5,800
		<i>Purchased office equipment.</i>			
	15	Accounts Receivable	106	3,750	
		Fees Earned	401		3,750
		<i>Performed services on credit.</i>			
	20	Accounts Receivable	106	9,200	
		Fees Earned	401		9,200
		<i>Performed services on credit.</i>			

Problem 2-9B (continued)**Part 1**

General Journal					Page 2
Date	Account Titles and Explanations	PR	Debit	Credit	
2014					
July 21	Truck Rental Expense.....	645	1,300		
	Accounts Payable	201		1,300	
	<i>Rented truck on credit.</i>				
22	Cash	101	5,000		
	Accounts Receivable	106		5,000	
	<i>Collected cash from credit customer.</i>				
23	Wages Expense.....	623	1,600		
	Cash.....	101		1,600	
	<i>Paid wages to assistant.</i>				
24	Accounts Payable	201	1,300		
	Cash.....	101		1,300	
	<i>Paid for July 21 rental on account.</i>				
25	Repairs Expense	684	1,425		
	Cash.....	101		1,425	
	<i>Paid for truck repairs.</i>				
26	Brett Wilson, Withdrawals.....	302	3,875		
	Cash.....	101		3,875	
	<i>Owner withdrawal.</i>				
27	Wages Expense.....	623	1,600		
	Cash.....	101		1,600	
	<i>Paid wages to assistant.</i>				
28	Advertising Expense.....	655	800		
	Cash.....	101		800	
	<i>Paid for advertising in local newspaper.</i>				
29	Cash	101	1,400		
	Unearned Fees.....	233		1,400	
	<i>Received cash for services to be performed in August.</i>				

Problem 2-9B (continued)**Parts 2 and 3**

Cash				Account No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				75,000
July 2		G1		40,800	34,200
3		G1		21,000	13,200
5		G1		9,600	3,600
9		G1	3,200		6,800
12		G1		700	6,100
22		G2	5,000		11,100
23		G2		1,600	9,500
24		G2		1,300	8,200
25		G2		1,425	6,775
26		G2		3,875	2,900
27		G2		1,600	1,300
28		G2		800	500
29		G2	1,400		1,900

Accounts Receivable				Account No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				950
July 15		G1	3,750		4,700
20		G1	9,200		13,900
22		G2		5,000	8,900

Prepaid Insurance				Account No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				275
July 5		G1	9,600		9,875

Trucks				Account No. 153	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				20,800
July 1		G1	56,000		76,800

Problem 2-9B (continued)**Parts 2 and 3**

Office Equipment				Account No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				1,200
July 1		G1	9,000		10,200
12		G1	6,500		16,700

Building				Account No. 173	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				-0-
July 3		G1	21,000		21,000

Land				Account No. 183	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				-0-
July 2		G1	124,000		124,000

Accounts Payable				Account No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				725
July 21		G1		1,300	2,025
24		G2	1,300		725

Unearned Fees				Account No. 233	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				0
July 29		G2		1,400	1,400

Long-Term Notes Payable				Account No. 251	
Date	Explanation	PR	Debit	Credit	Balance
2014					
June 30	Beginning balance				7,000
July 1		G1		65,000	72,000
2		G1		83,200	155,200
12		G1		5,800	161,000

Problem 2-9B (continued)**Parts 2 and 3**

Brett Wilson, Capital				Account No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				83,825

Brett Wilson, Withdrawals				Account No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				600
July 26		G2	3,875		4,475

Fees Earned				Account No. 401	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				8,400
July 9		G1		3,200	11,600
15		G1		3,750	15,350
20		G1		9,200	24,550

Wages Expense				Account No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				780
July 23		G2	1,600		2,380
27		G2	1,600		3,980

Truck Rental Expense				Account No. 645	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				230
July 21		G2	1,300		1,530

Advertising Expense				Account No. 655	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				75
July 28		G2	800		875

Repairs Expense				Account No. 684	
Date	Explanation	PR	Debit	Credit	Balance
2014 June 30	Beginning balance				40
July 25		G2	1,425		1,465

Problem 2-9B (concluded)**Part 4**

FROG BOX COMPANY
Trial Balance
July 31, 2014

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 1,900	
106	Accounts receivable	8,900	
128	Prepaid insurance	9,875	
153	Trucks	76,800	
163	Office equipment.....	16,700	
173	Building.....	21,000	
183	Land.....	124,000	
201	Accounts payable		\$ 725
233	Unearned fees		1,400
251	Long-term notes payable		161,000
301	Brett Wilson, capital.....		83,825
302	Brett Wilson, withdrawals	4,475	
401	Fees earned		24,550
623	Wages expense	3,980	
645	Truck rental expense	1,530	
655	Advertising expense	875	
684	Repairs expense	1,465	
	Totals.....	<u>\$271,500</u>	<u>\$271,500</u>

Problem 2-10B

FROG BOX COMPANY
Income Statement
For Month Ended July 31, 2014

Revenues:		
Fees earned		\$24,550
Operating expenses:		
Wages expense	\$3,980	
Truck rental expense	1,530	
Repairs expense	1,465	
Advertising expense	<u>875</u>	
Total operating expenses		7,850
Net income		<u>\$16,700</u>

FROG BOX COMPANY
Statement of Changes in Equity
For Month Ended July 31, 2014

Brett Wilson, capital, July 1	\$ 83,825
Add: Net income	16,700
Total	<u>\$100,525</u>
Less: Withdrawals by owner	4,475
Brett Wilson, capital, July 31	<u>\$ 96,050</u>

The arrows are
imaginary but
emphasize the link
between
statements.

FROG BOX COMPANY
Balance Sheet
July 31, 2014

Assets		Liabilities	
Cash	\$ 1,900	Accounts payable	\$ 725
Accounts receivable	8,900	Unearned fees	1,400
Prepaid insurance	9,875	Long-term notes payable	161,000
Trucks	76,800	Total liabilities	\$163,125
Office equipment	16,700		
Building	21,000		
Land	<u>124,000</u>		
Total assets	<u>\$259,175</u>		
		Equity	
		Brett Wilson, capital	96,050
		Total liabilities and equity	<u>\$259,175</u>

Problem 2-11B (45 minutes)**Part 1**

General Journal					Page 1
Date	Account Titles and Explanations	PR	Debit		Credit
2014					
Nov. 1	Accounts Payable	201	10,000		
	Cash	101			10,000
	<i>Paid for purchase made on account.</i>				
2	Office Equipment	163	34,000		
	Cash	101			6,000
	Notes Payable.....	205			28,000
	<i>Purchased a photocopier.</i>				
3	Office Supplies	124	800		
	Cash	101			800
	<i>Purchased supplies for cash.</i>				
14	Wages Expense	623	6,000		
	Cash.....	101			6,000
	<i>Paid wages.</i>				
20	Cash	101	14,000		
	Travel Revenue.....	401			14,000
	<i>Collected cash for November travel.</i>				
25	Ike Petrov, Withdrawals.....	302	2,000		
	Cash.....	101			2,000
	<i>The owner withdrew cash.</i>				
30	Interest Expense	633	150		
	Cash	101			150
	<i>Paid interest on notes payable.</i>				

Note: There is no entry to record for November 4 as this does not represent an economic exchange.

Problem 2-11B (continued)

Parts 2 and 3

Cash 101				Office Supplies 124			Office Equipment 163			Accounts Payable 201			
Bal.	26,000	10,000	Nov. 1	Bal.	900		Bal.	36,000		Nov. 1	10,000	43,000	Bal.
Nov. 20	14,000	6,000	2	Nov. 3	800		Nov. 2	34,000					
		800	3										
		6,000	14										
		2,000	25										
		150	30										
Bal.	15,050			Bal.	1,700		Bal.	70,000				33,000	Bal.

Notes Payable 205			Ike Petrov, Capital 301			Ike Petrov, Withdrawals 302			Travel Revenue 401		
	20,000	Bal.		8,000	Bal.	Bal.	4,000			34,000	Bal.
	28,000	Nov. 2				Nov. 25	2,000			14,000	Nov. 20
	48,000	Bal.				Bal.	6,000			48,000	Bal.

Wages Expense 623			Interest Expense 633		
Bal.	38,000		Bal.	100	
Nov. 14	6,000		Nov. 30	150	
Bal.	44,000		Bal.	250	

Problem 2-11B (continued)

Part 4

**TOUR-ALONG
Trial Balance
November 30, 2014**

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 15,050	
124	Office supplies	1,700	
163	Office equipment.....	70,000	
201	Accounts payable		\$ 33,000
205	Notes payable.....		48,000
301	Ike Petrov, capital		8,000
302	Ike Petrov, withdrawals	6,000	
401	Travel revenue.....		48,000
623	Wages expense	44,000	
633	Interest expense.....	250	
	Totals	<u>\$137,000</u>	<u>\$137,000</u>

Problem 2-11B (continued)

Part 5

TOUR-ALONG
Income Statement
For Two Months Ended November 30, 2014

Travel revenue		\$48,000
Operating expenses:		
Wages expense	\$44,000	
Interest expense	<u>250</u>	
Total operating expenses		44,250
Net income		<u>\$ 3,750</u>

TOUR-ALONG
Statement of Changes in Equity
For Two Months Ended November 30, 2014

Ike Petrov, capital, October 1		\$ -0-
Add: Owner investment	\$8,000	
Net income	<u>3,750</u>	
Total		11,750
Less: Withdrawals by owner		\$11,750
Ike Petrov, capital, November 30.....		<u>6,000</u>
		<u>\$ 5,750</u>

The arrows are imaginary
but emphasize the link
between statements.

TOUR-ALONG
Balance Sheet
November 30, 2014

Assets		Liabilities	
Cash	\$15,050	Accounts payable.....	\$33,000
Office supplies	1,700	Notes payable	<u>48,000</u>
Office equipment	<u>70,000</u>	Total liabilities	\$81,000
		Equity	
		Ike Petrov, capital.....	<u>5,750</u>
		Total liabilities and	
Total assets	<u>\$86,750</u>	equity	<u>\$86,750</u>

Analysis component:

The \$8,000 October 31 balance in Ike Petrov, Capital represents investments made by the owner, Ike Petrov, into the business.

Problem 2-12B

LINCOLN LANDSCAPING
Income Statement
For Three Months Ended July 31, 2014

Revenues:	
Fees earned	\$29,100
Operating expenses:	
Wages expense	\$59,000
Advertising expense	1,750
Rental expense	1,100
Repairs expense	930
Total operating expenses	<u>62,780</u>
Net loss	<u>\$33,680</u>

LINCOLN LANDSCAPING	
Statement of Changes in Equity	
For Three Months Ended July 31, 2014	
Brielle Lincoln, capital, May 1	\$ 0
Add: Investments by owner	<u>65,000</u>
Total	65,000
Less: Withdrawals by owner	\$ 8,950
Net loss	<u>33,680</u>
Brielle Lincoln, capital, July 31	<u>\$22,370</u>

The arrows are
imaginary but
emphasize the link
between
statements.

LINCOLN LANDSCAPING			
Balance Sheet			
July 31, 2014			
Assets		Liabilities	
Cash	\$ 23,720	Accounts payable	\$ 37,500
Accounts receivable	18,600	Unearned fees	2,800
Prepaid insurance	13,750	Long-term notes payable	<u>58,000</u>
Equipment	<u>64,600</u>	Total liabilities	<u>\$98,300</u>
		Equity	
		Brielle Lincoln, capital	<u>22,370</u>
		Total liabilities and	
Total assets	<u>\$120,670</u>	equity	<u>\$120,670</u>

Analysis component:

- a) Assets financed by debt = $(\$98,300 / \$120,670) \times 100 = 81.5\%$
b) Assets financed by equity = $(\$22,370 / \$120,670) \times 100 = 18.5\%$

Problem 2-13B

**DANCE-A-LOT
Trial Balance
December 31, 2014**

Account Title	Debit	Credit
Cash (\$37,175 ^a - \$30,540 ^a).....	\$ 6,635	
Accounts receivable (\$7,900 - \$275 ^b).....	7,625	
Office supplies (\$2,650 + 400 ^c).....	3,050	
Office equipment	20,500	
Accounts payable (\$9,465 + 400 ^c)		\$ 9,865
Bev Horricks, capital (a credit balance account).....		16,745
Services revenue (\$23,250 ^d not \$22,350)		23,250
Wages expense (a debit balance account)	6,000	
Rent expense (a debit balance account).....	4,800	
Advertising expense (a debit balance account)	1,250	
Totals	<u>\$49,860</u>	<u>\$49,860</u>

Note: The superscripts (a) to (d) are references to items (a) to (d) listed in Problem 2-13B.

ANALYTICAL AND REVIEW PROBLEMS

A&R Problem 2-1 (35 minutes)

YOUNG ENGINEERING
Trial Balance
March 31, 2014

Account Title	Debit	Credit
Cash.....	\$26,660	
Office supplies.....	660	
Prepaid insurance	3,200	
Office equipment	16,500	
Accounts payable.....		\$16,500
Carlos Young, capital.....		17,000
Carlos Young, withdrawals.....	3,740	
Consulting fees earned.....		24,000
Rent expense	6,740	
Totals.....	<u>\$57,500</u>	<u>\$57,500</u>

1. Purchased \$660 of office supplies for cash.
2. Paid \$3,200 insurance premium in advance.
3. Purchased \$16,500 office equipment on credit.
4. Carlos Young invested \$17,000 cash in the business.
5. Carlos Young withdrew \$3,740 cash from the business for personal use.
6. Earned \$24,000 in consulting services and was paid in cash.
7. Paid \$6,740 rent expense with cash.

A&R 2-2 (30 minutes)

Nice-n-Fresh Drycleaning
Statement of Changes in Equity
For Months Ended

	April 30, 2014	March 31, 2014
Ed Fresh, capital, beginning.....	\$ 34,400	\$ 0
Add: Investment by owner	0	10,000
Net income	48,500 ⁴	25,400 ³
Total	\$ 82,900	\$35,400
Less: Withdrawals by owner	25,100	1,000
Ed Fresh, capital, ending	<u>\$57,800</u>	<u>\$34,400</u>

Nice-n-Fresh Drycleaning
Balance Sheet

Assets	April 30, 2014	March 31, 2014	Liabilities	April 30, 2014	March 31, 2014
Cash.....	\$ 7,000	\$ 3,000	Accounts payable.....	\$ 700	\$ 500
Cleaning supplies.....	3,500	900	Notes payable	40,000	15,000
Prepaid rent.....	12,000	16,000	Total liabilities	\$40,700	\$15,500
Equipment	<u>76,000</u>	<u>30,000</u>	Equity		
			Ed Fresh, capital.....	57,800 ²	34,400 ¹
			Total liabilities and		
Total assets.....	<u>\$98,500</u>	<u>\$49,900</u>	equity	<u>\$98,500</u>	<u>\$49,900</u>

Calculations:

1. $49,900 - 15,500 = 34,400$
2. $98,500 - 40,700 = 57,800$
3. $34,400 + 1,000 - 10,000 = 25,400$
4. $57,800 + 25,100 - 34,400 = 48,500$

Analysis component:

- a. Liabilities increased because of the \$200 increase in accounts payable and the \$25,000 increase in notes payable used, most probably, to finance the purchase of equipment (equipment increased by \$46,000).
- b. Equity increased by a larger amount in March than April because the owner invested \$10,000 during March and nothing during April. Also, during April, the owner made a withdrawal of \$25,100 and only \$1,000 in March. Net income in April was almost twice as much as that reported for March but the large withdrawal and no investments during April caused equity to increase by a smaller amount than in March.

ETHICS CHALLENGE

This problem emphasizes the importance of source documents.

1. There are advantages to the process proposed by the manager. They include improved customer service, less delays, and less work for you. However, you should have serious concerns about the potential for fraud. In particular, there is no control over the possibility of embezzlement by the manager because there are no ***source documents**** being prepared at the time of sale. The manager could steal cash and simply prepare sales receipts to match the remaining cash.

This case involves a conflict between the need for efficiency and the need for control in the form of ***source documents****. While it makes sense to take and process sales receipts quickly, this efficiency is being accomplished by a shortcut that greatly weakens control over cash receipts. That is, cash could be received and lost because there would be no source documents to verify the sales and cash received.

**Recall from Chapter 1 that source documents identify and describe transactions entering the accounting process and are the source of accounting information, whether in paper or electronic form.*

2. The manager's explanation that the owner does not arrive until 3:00 p.m. suggests that the owner does not know about the proposed shortcut. Thus, the new employee is faced with the dilemma of deciding whether to accept the manager's instructions, to confront the manager with the argument that the shortcut seems wrong, or to ask the owner to confirm the instructions. Each of these alternatives involves personal risk.

Initially, the best thing may be to simply work as instructed for a while in order to get an idea of whether the shortcut is being abused by the manager and perhaps to find out discreetly whether the owner knows about it. The relationship that develops between you and the manager may be of a nature that will allow you to explain your concern and convince the manager that the shortcut should be avoided. Even if the manager is not abusing this shortcut, there are other reasons for doing away with it, such as maintaining accurate records for tax reports and gathering marketing information. Also, the shortcut may result in fraud by other employees who might not be as honest as you and the manager.

If you conclude that the manager is committing fraud, you should report the situation to the owner as quickly as possible.

FFS 2-1

McALLISTER SURVEYING
Income Statement
For Month Ended May 31, 2014

Revenue:		
Surveying fees earned		\$18,000
Operating expenses:		
Advertising expense	\$3,200	
Rent expense	3,100	
Salaries expense	3,000	
Insurance expense	900	
Telephone expense	600	
Utilities expense	<u>300</u>	
Total operating expenses.....		11,100
Net income		<u>\$ 6,900</u>

McALLISTER SURVEYING
Statement of Changes in Equity
For Month Ended May 31, 2014

Travis McAllister, capital, May 1		\$75,000
Add: Investments by owner.....	\$3,000	
Net income... ..	<u>6,900</u>	<u>9,900</u>
Total		\$84,900
Less: Withdrawals by owner		<u>6,000</u>
Travis McAllister, capital, May 31		<u>\$78,900</u>

McALLISTER SURVEYING
Balance Sheet
May 31, 2014

Assets		Liabilities	
Cash.....	\$ 3,900	Accounts payable	\$ 2,400
Accounts receivable	2,700	Unearned surveying fees	6,000
Office supplies.....	300	Short-term notes payable	<u>48,000</u>
Prepaid insurance	1,800	Total liabilities	\$ 56,400
Prepaid rent	4,200		
Surveying equipment.....	5,400		
Buildings	81,000	Equity	
Land.....	<u>36,000</u>	Travis McAllister, capital.....	<u>78,900</u>
Total assets.....	<u>\$135,300</u>	Total liabilities and equity.....	<u>\$135,300</u>

Analysis component:

Withdrawals are how an owner takes assets out of the business for personal use.

McAllister Surveying realized a \$6,900 net income during the month which caused equity to increase. It is reasonable for the owner to benefit from that net income by making a withdrawal even though withdrawals cause equity to decrease.

FFS 2-2

1(a)(i)

Accounts Receivable	XXX	
Guest Revenues		XXX
<i>Provided services to customers on account.</i>		
Cash	XXX	
Guest Revenues		XXX
<i>Provided services to customers for cash.</i>		

1(a)(ii) Revenues affect the balance sheet because they cause equity to increase.

1(a)(iii) The Revenue Recognition Principle assures us that revenues on the income statement are for the year ended December 31, 2011.

1(b)(i)

Interest Expense	XXX	
Cash		XXX
<i>Paid interest expense..</i>		

1(b)(ii) Yes, expenses affect the balance sheet because they cause equity to decrease.

2(a) *Advance ticket sales* represent airline tickets sold in advance to customers.

2(b)

Cash	XXX	
Advance Ticket Sales		XXX
<i>Cash received in advance from customers for airline tickets sold</i>		

Critical Thinking Question

CT 2-1

Note to instructor: *Student responses will vary and therefore the answer here is only suggested and not inclusive of all possibilities; it is presented in point form for brevity.*

Problem(s):

- information that is available does not provide adequate detail to enable analysis and resulting decision making (from the Western Canadian Sales Division Manager's perspective; from the perspective of the sales and admin staff, the limited detail would make recording information very straightforward/easy since there are only 2 accounts — 1 revenue and 1 expense)

Goal(s)*:

- Sales Division Manager would want to maximize sales, minimize costs, and at the same time accurately record and report with sufficient detail to assist decision making process

Assumption(s)/Principle(s):

- division results have been deteriorating but because of a lack of detail, appropriate questions were not being asked and consequently inappropriate decisions were likely being made
- the disclosure principle (introduced in Chapter 6) requires that appropriate detail be provided and the materiality principle (introduced in Chapter 7) suggests that anything of significance be disclosed/reported

Facts:

- as presented in the sales reports
- by converting the dollars to percentages, we see that from July to September, although net income is increasing in total dollars, expenses are increasing as a percentage of sales causing net income to shrink as a percentage of sales which is unfavourable

Prairie Insurance – Western Canadian Division Sales Report Month Ended						
	Sept. 30, 2014	%	Aug. 31, 2014	%	July 31, 2014	%
Sales revenue	\$680,000	100	\$510,000	100	\$440,000	100
Expenses	544,000	80	382,500	75	321,200	73
Net income	\$136,000	20	\$127,500	25	\$118,800	27

CT 2-1 (*concluded*)

Conclusion(s)/Consequence(s):

- **more revenue and expense accounts are required to provide sufficient detail to allow appropriate monitoring/questions and resulting decisions; this will require a restructuring of the accounting including submission of expense reports which requires resources including expertise**

***The goal is highly dependent on “perspective.”**

Serial Problem, Echo Systems (120 minutes) Part A**2.**

				General	
Journal		Page 1			
Date		Account Titles and Explanations	PR	Debit	Credit
2014					
Oct.	1	Cash	101	90,000	
		Office Equipment	163	18,000	
		Computer Equipment	167	36,000	
		Mary Graham, Capital	301		144,000
		<i>Owner invested in the business.</i>			
	2	Prepaid Rent.....	131	9,000	
		Cash	101		9,000
		<i>Paid rent in advance.</i>			
	3	Computer Supplies	126	2,640	
		Accounts Payable	201		2,640
		<i>Purchased supplies on credit.</i>			
	5	Prepaid Insurance.....	128	4,320	
		Cash	101		4,320
		<i>Paid 12 months' premium in advance.</i>			
	6	Accounts Receivable.....	106	6,600	
		Computer Services Revenue	403		6,600
		<i>Billed customer for services.</i>			
	8	Accounts Payable	201	2,640	
		Cash	101		2,640
		<i>Paid balance due on account payable.</i>			
	10	No entry recorded in the journal.			
	12	Accounts Receivable.....	106	2,400	
		Computer Services Revenue	403		2,400
		<i>Billed customer for services.</i>			
	15	Cash	101	6,600	
		Accounts Receivable	106		6,600
		<i>Collected accounts receivable.</i>			
	17	Repairs Expense, Computer	684	1,410	
		Cash	101		1,410
		<i>Paid for computer repairs.</i>			
	20	Advertising Expense	655	3,720	
		Cash	101		3,720
		<i>Purchased ad in local newspaper.</i>			
	22	Cash	101	2,400	
		Accounts Receivable	106		2,400
		<i>Collected accounts receivable.</i>			

Serial Problem, Echo Systems (continued)**Part A**

General Journal				Page 2
Date	Account Titles and Explanations	PR	Debit	Credit
2014				
Oct. 28	Accounts Receivable.....	106	6,450	
	Computer Services Revenue	403		6,450
	<i>Billed customer for services.</i>			
31	Wages Expense.....	623	1,400	
	Cash	101		1,400
	<i>Paid employee for part-time work.</i>			
31	Mary Graham, Withdrawals.....	302	7,200	
	Cash	101		7,200
	<i>Owner withdrew cash.</i>			

1 and 3.

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	90,000		90,000
2		G1		9,000	81,000
5		G1		4,320	76,680
8		G1		2,640	74,040
15		G1	6,600		80,640
17		G1		1,410	79,230
20		G1		3,720	75,510
22		G1	2,400		77,910
31		G2		1,400	76,510
31		G2		7,200	69,310

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 6		G1	6,600		6,600
12		G1	2,400		9,000
15		G1		6,600	2,400
22		G1		2,400	0
28		G2	6,450		6,450

Serial Problem, Echo Systems (continued)**Part A**

Computer Supplies				Acct. No. 126	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 3		G1	2,640		2,640

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 5		G1	4,320		4,320

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 2		G1	9,000		9,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	18,000		18,000

Computer Equipment				Acct. No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	36,000		36,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 3		G1		2,640	2,640
8		G1	2,640		0

Mary Graham, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1		144,000	144,000

Mary Graham, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 31		G2	7,200		7,200

Serial Problem, Echo Systems (continued)**Part A**

Computer Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 6		G1		6,600	6,600
12		G1		2,400	9,000
28		G2		6,450	15,450

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 31		G2	1,400		1,400

Advertising Expense				Acct. No. 655	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 20		G1	3,720		3,720

Mileage Expense				Acct. No. 676	
Date	Explanation	PR	Debit	Credit	Balance
2014					

Repairs Expense, Computer				Acct. No. 684	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 17		G1	1,410		1,410

Charitable Donations Expense				Acct. No. 699	
Date	Explanation	PR	Debit	Credit	Balance
2014					

Serial Problem, Echo Systems (continued)**Part A**

4.

ECHO SYSTEMS Trial Balance October 31, 2014			
Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 69,310	
106	Accounts receivable	6,450	
126	Computer supplies.....	2,640	
128	Prepaid insurance.....	4,320	
131	Prepaid rent	9,000	
163	Office equipment.....	18,000	
167	Computer equipment	36,000	
201	Accounts payable		\$ -0-
301	Mary Graham, capital.....		144,000
302	Mary Graham, withdrawals	7,200	
403	Computer services revenue		15,450
623	Wages expense	1,400	
655	Advertising expense	3,720	
676	Mileage expense	-0-	
684	Repairs expense, computer	1,410	
699	Charitable donations expense	-0-	
	Totals.....	<u>\$159,450</u>	<u>\$159,450</u>

NOTE: Accounts with zero balance may be omitted.

Serial Problem, Echo Systems (continued)**Part A**

5.

ECHO SYSTEMS
Income Statement
For Month Ended October 31, 2014

Revenues:	
Computer services revenue.....	\$15,450
Operating expenses:	
Advertising expense.....	\$3,720
Repairs expense, computer.....	1,410
Wages expense.....	<u>1,400</u>
Total operating expenses	6,530
Net income	<u>\$ 8,920</u>

ECHO SYSTEMS
Statement of Changes in Equity
For Month Ended October 31, 2014

Mary Graham, capital, October 1.....	\$ 0
Add: Investments by owner	\$144,000
Net income	<u>8,920</u>
Total	152,920
Less: Withdrawals by owner	<u>7,200</u>
Mary Graham, capital, October 31.....	<u>\$145,720</u>

The arrows are
imaginary but
emphasize the link
between
statements.

ECHO SYSTEMS
Balance Sheet
October 31, 2014

Assets		Liabilities	
Cash.....	\$ 69,310	Accounts payable	\$ -0-
Accounts receivable.....	6,450		
Computer supplies.....	2,640		
Prepaid insurance	4,320		
Prepaid rent.....	9,000		
Office equipment	18,000		
Computer equipment	<u>36,000</u>		
Total assets.....	<u>\$ 145,720</u>		
		Equity	
		Mary Graham, capital.....	<u>145,720</u>
		Total liabilities and equity.....	<u>\$145,720</u>

Serial Problem, Echo Systems (continued)**Part B****6.****2014**

Nov.	1	Mileage Expense	676	1,000	
		Cash	101		1,000
		<i>Reimbursed Mary Graham for business usage.</i>			
	2	Cash	101	9,300	
		Computer Services Revenue	403		9,300
		<i>Collected cash revenue from customer.</i>			
	5	Computer Supplies	126	1,920	
		Cash	101		1,920
		<i>Purchased computer supplies for cash.</i>			
	8	Accounts Receivable.....	106	8,700	
		Computer Services Revenue	403		8,700
		<i>Billed customer for services.</i>			
	13	No entry recorded in the journal.			
	18	Cash	101	3,750	
		Accounts Receivable.....	106		3,750
		<i>Collected accounts receivable.</i>			
	22	Charitable Donations Expense	699	1,500	
		Cash	101		1,500
		<i>Made a donation.</i>			
	24	Accounts Receivable.....	106	7,500	
		Computer Services Revenue	403		7,500
		<i>Billed customer for services.</i>			
	25	No entry recorded in the journal.			
	28	Mileage Expense	676	1,200	
		Cash	101		1,200
		<i>Reimbursed Mary Graham for business usage.</i>			
	30	Wages Expense.....	623	2,800	
		Cash	101		2,800
		<i>Paid employee for part-time work.</i>			
	30	Mary Graham, Withdrawals.....	302	3,600	
		Cash	101		3,600
		<i>Owner withdrew cash.</i>			

Serial Problem, Echo Systems (continued)**Part B****7.****General Ledger accounts:**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	90,000		90,000
2		G1		9,000	81,000
5		G1		4,320	76,680
8		G1		2,640	74,040
15		G1	6,600		80,640
17		G1		1,410	79,230
20		G1		3,720	75,510
22		G1	2,400		77,910
31		G2		1,400	76,510
31		G2		7,200	69,310
Nov. 1		G2		1,000	68,310
2		G2	9,300		77,610
5		G2		1,920	75,690
18		G2	3,750		79,440
22		G2		1,500	77,940
28		G2		1,200	76,740
30		G2		2,800	73,940
30		G2		3,600	70,340

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 6		G1	6,600		6,600
12		G1	2,400		9,000
15		G1		6,600	2,400
22		G1		2,400	0
28		G2	6,450		6,450
Nov. 8		G2	8,700		15,150
18		G2		3,750	11,400
24		G2	7,500		18,900

Serial Problem, Echo Systems (continued) Part B

Computer Supplies				Acct. No. 126	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 3		G1	2,640		2,640
Nov. 5		G2	1,920		4,560

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 5		G1	4,320		4,320

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 2		G1	9,000		9,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	18,000		18,000

Computer Equipment				Acct. No. 167	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1	36,000		36,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 3		G1		2,640	2,640
8		G1	2,640		0

Mary Graham, Capital				Acct. No. 301	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 1		G1		144,000	144,000

Mary Graham, Withdrawals				Acct. No. 302	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 31		G2	7,200		7,200
Nov. 30		G3	3,600		10,800

Serial Problem, Echo Systems (continued)**Part B**

Computer Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 6		G1		6,600	6,600
12		G1		2,400	9,000
28		G2		6,450	15,450
Nov. 2		G2		9,300	24,750
8		G2		8,700	33,450
24		G2		7,500	40,950

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 31		G2	1,400		1,400
Nov. 30		G2	2,800		4,200

Advertising Expense				Acct. No. 655	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 20		G1	3,720		3,720

Mileage Expense				Acct. No. 676	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 1		G2	1,000		1,000
28		G2	1,200		2,200

Repairs Expense, Computer				Acct. No. 684	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Oct. 17		G1	1,410		1,410

Charitable Donations Expense				Acct. No. 699	
Date	Explanation	PR	Debit	Credit	Balance
2014					
Nov. 22		G2	1,500		1,500

Serial Problem, Echo Systems (continued)**Part B****8.**

ECHO SYSTEMS
Trial Balance
November 30, 2014

Acct. No.	Account Title	Debit	Credit
101	Cash	\$ 70,340	
106	Accounts receivable	18,900	
126	Computer supplies.....	4,560	
128	Prepaid insurance	4,320	
131	Prepaid rent	9,000	
163	Office equipment.....	18,000	
167	Computer equipment	36,000	
201	Accounts payable		\$ -0-
301	Mary Graham, capital.....		144,000
302	Mary Graham, withdrawals	10,800	
403	Computer services revenue		40,950
623	Wages expense	4,200	
655	Advertising expense	3,720	
676	Mileage expense	2,200	
684	Repairs expense, computer	1,410	
699	Charitable donations expense	1,500	
	Totals.....	<u>\$184,950</u>	<u>\$184,950</u>

Serial Problem, Echo Systems (concluded)**Part B**

9.

ECHO SYSTEMS
Income Statement
For Two Months Ended November 30, 2014

Computer services revenue.....		\$40,950
Operating expenses:		
Wages expense.....	\$4,200	
Advertising expense.....	3,720	
Mileage expense	2,200	
Charitable donations expense.....	1,500	
Repairs expense, computer	1,410	
Total operating expenses		13,030
Net income		<u>\$27,920</u>

ECHO SYSTEMS
Statement of Changes in Equity
For Two Months Ended November 30, 2014

Mary Graham, capital, October 1.....		\$ -0-
Add: Investments by owner	\$144,000	
Net income	27,920	171,920
Total		\$171,920
Less: Withdrawals by owner		10,800
Mary Graham, capital, November 30.....		<u>\$161,120</u>

ECHO SYSTEMS
Balance Sheet
November 30, 2014

Assets		Liabilities	
Cash.....	\$ 70,340	Accounts payable	\$ -0-
Accounts receivable.....	18,900		
Computer supplies	4,560		
Prepaid insurance	4,320		
Prepaid rent.....	9,000		
Office equipment	18,000		
Computer equipment	36,000		
Total assets	<u>\$161,120</u>		
		Equity	
		Mary Graham, capital.....	161,120
		Total liabilities and	
		equity	<u>\$161,120</u>