

# CHAPTER 2

## The Recording Process

### ASSIGNMENT CLASSIFICATION TABLE

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

## ASSIGNMENT CHARACTERISTICS TABLE

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

# BLOOM'S TAXONOMY TABLE

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

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

# ANSWERS TO QUESTIONS

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

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

## Questions Chapter 2 (Continued)

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

# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 2-1

		<u>(a) Debit Effect</u>	<u>(b) Credit Effect</u>	<u>(c) Normal Balance</u>
1.	Accounts Payable	Decrease	Increase	Credit
2.	Advertising Expense	Increase	Decrease	Debit
3.	Service Revenue	Decrease	Increase	Credit
4.	Accounts Receivable	Increase	Decrease	Debit
5.	A. J. Ritter, Capital	Decrease	Increase	Credit
6.	A. J. Ritter, Drawing	Increase	Decrease	Debit

## BRIEF EXERCISE 2-2

		<u>Account Debited</u>	<u>Account Credited</u>
June	1	Cash	Hank Norris, Capital
	2	Equipment	Accounts Payable
	3	Rent Expense	Cash
	12	Accounts Receivable	Service Revenue

## BRIEF EXERCISE 2-3

June	1	Cash.....	5,000	
		Hank Norris, Capital .....		5,000
	2	Equipment .....	900	
		Accounts Payable .....		900
	3	Rent Expense .....	800	
		Cash.....		800
	12	Accounts Receivable .....	300	
		Service Revenue.....		300

## BRIEF EXERCISE 2-4

The basic steps in the recording process are:

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

## BRIEF EXERCISE 2-5

	(a) <u>Effect on Accounting Equation</u>	(b) <u>Debit-Credit Analysis</u>
Aug. 1	The asset Cash is increased; the owner's equity account T. J. Carlin, Capital is increased.	Debits increase assets: debit Cash \$8,000. Credits increase owner's equity: credit T. J. Carlin, Capital \$8,000.
4	The asset Prepaid Insurance is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Insurance \$1,800. Credits decrease assets: credit Cash \$1,800.
16	The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash \$800. Credits increase revenues: credit Service Revenue \$800.
27	The expense Salaries Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries Expense \$1,000. Credits decrease assets: credit Cash \$1,000.



**BRIEF EXERCISE 2-6**

Aug. 1	Cash .....	8,000	
	T. J. Carlin, Capital .....		8,000
4	Prepaid Insurance .....	1,800	
	Cash .....		1,800
16	Cash .....	800	
	Service Revenue .....		800
27	Salaries Expense .....	1,000	
	Cash .....		1,000

**BRIEF EXERCISE 2-7**

<b>Cash</b>		<b>Service Revenue</b>	
5/12	2,400	5/5	5,000
5/15	3,000	5/15	3,000
Ending Bal.	5,400	Ending Bal.	8,000

<b>Accounts Receivable</b>			
5/5	5,000	5/12	2,400
Ending Bal.	2,600		

**BRIEF EXERCISE 2-8**

<b>Cash</b>						
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
May 12		J1	2,400		2,400	
15		J1	3,000		5,400	

**BRIEF EXERCISE 2-8 (Continued)**

**Accounts Receivable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 5		J1	5,000		5,000
12		J1		2,400	2,600

**Service Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 5		J1		5,000	5,000
15		J1		3,000	8,000

**BRIEF EXERCISE 2-9**

**CLELAND COMPANY  
Trial Balance  
June 30, 2008**

	<u><b>Debit</b></u>	<u><b>Credit</b></u>
Cash .....	\$ 8,800	
Accounts Receivable .....	3,000	
Equipment .....	17,000	
Accounts Payable .....		\$ 9,000
Cleland, Capital .....		20,000
Cleland, Drawing .....	1,200	
Service Revenue .....		8,000
Salaries Expense .....	6,000	
Rent Expense .....	1,000	
	<u><b>\$37,000</b></u>	<u><b>\$37,000</b></u>

**BRIEF EXERCISE 2-10**

**KWUN COMPANY  
Trial Balance  
December 31, 2008**

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	<u>Debit</u>	<u>Credit</u>
Cash .....	\$14,800	
Prepaid Insurance .....	3,500	
Accounts Payable .....		\$ 3,000
Unearned Revenue.....		2,200
P. Kwun, Capital.....		13,000
P. Kwun, Drawing .....	4,500	
Service Revenue .....		25,600
Salaries Expense .....	18,600	
Rent Expense.....	2,400	
	<u>\$43,800</u>	<u>\$43,800</u>

# SOLUTIONS TO EXERCISES

## EXERCISE 2-1

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

## EXERCISE 2-2

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

**EXERCISE 2-3**

**General Journal**

				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Jan. 2	Cash .....		10,000	
	D. Reyes, Capital.....			10,000
3	Equipment.....		4,000	
	Cash .....			4,000
9	Supplies .....		500	
	Accounts Payable.....			500
11	Accounts Receivable.....		1,800	
	Service Revenue .....			1,800
16	Advertising Expense .....		200	
	Cash .....			200
20	Cash .....		700	
	Accounts Receivable.....			700
23	Accounts Payable.....		300	
	Cash .....			300
28	D. Reyes, Drawing .....		1,000	
	Cash .....			1,000

**EXERCISE 2-4**

- Oct. 1   **Debits increase assets: debit Cash \$15,000.  
Credits increase owner's equity: credit Pete Hanshew, Capital \$15,000.**
- 2       **No transaction.**
- 3       **Debits increase assets: debit Office Furniture \$1,900.  
Credits increase liabilities: credit Accounts Payable \$1,900.**

## EXERCISE 2-4 (Continued)

- Oct. 6    **Debits increase assets: debit Accounts Receivable \$3,200.  
Credits increase revenues: credit Service Revenue \$3,200.**
- 27    **Debits decrease liabilities: debit Accounts Payable \$700.  
Credits decrease assets: credit Cash \$700.**
- 30    **Debits increase expenses: debit Salaries Expense \$2,500.  
Credits decrease assets: credit Cash \$2,500.**

## EXERCISE 2-5

### General Journal

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credit</b>
Oct. 1	Cash..... Pete Hanshew, Capital .....		15,000	15,000
2	No entry.			
3	Office Furniture..... Accounts Payable.....		1,900	1,900
6	Accounts Receivable..... Service Revenue .....		3,200	3,200
27	Accounts Payable .....		700	
	Cash .....			700
30	Salaries Expense..... Cash .....		2,500	2,500

## EXERCISE 2-6

- (a)
1. Increase the asset Cash, increase the liability Notes Payable.
  2. Increase the asset Computer, decrease the asset Cash.
  3. Increase the asset Supplies, increase the liability Accounts Payable.

(b)

1.	Cash.....	5,000	
	Notes Payable .....		5,000
2.	Computer .....	2,500	
	Cash.....		2,500
3.	Supplies .....	700	
	Accounts Payable .....		700

## EXERCISE 2-7

- (a) **Assets = Liabilities + Owners' Equity**
- |    |   |   |              |
|----|---|---|--------------|
| 1. | + | + | (Investment) |
| 2. | - | - | (Expense)    |
| 3. | + | + | (Revenue)    |
| 4. | - | - | (Drawings)   |

(b)

1.	Cash.....	4,000	
	A. Rowand, Capital .....		4,000
2.	Rent Expense .....	1,100	
	Cash.....		1,100
3.	Accounts Receivable .....	5,200	
	Consulting Revenue.....		5,200
4.	A. Rowand, Drawing.....	700	
	Cash.....		700

## EXERCISE 2-8

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



**EXERCISE 2-9**

(a)

Cash			
Aug. 1	5,000	Aug. 12	1,000
10	2,400		
31	900		
Bal.	7,300		

Notes Payable		
	Aug. 12	4,000
Teresa Gonzalez, Capital		
	Aug. 1	5,000

Accounts Receivable			
Aug. 25	1,600	Aug. 31	900
Bal.	700		

Service Revenue		
	Aug. 10	2,400
	25	1,600
	Bal.	4,000

Office Equipment	
Aug. 12	5,000

(b)

**TERESA GONZALEZ, INVESTMENT BROKER**  
**Trial Balance**  
**August 31, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 7,300	
Accounts Receivable.....	700	
Office Equipment.....	5,000	
Notes Payable.....		\$ 4,000
Teresa Gonzalez, Capital .....		5,000
Service Revenue .....		4,000
	<u>\$13,000</u>	<u>\$13,000</u>

**EXERCISE 2-10****(a) General Journal**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 1</b>	<b>Cash .....</b>		<b>15,000</b>	
	<b>J. Simon, Capital .....</b>			<b>15,000</b>
	<b>(Owner's investment of cash in business)</b>			
<b>12</b>	<b>Cash .....</b>		<b>900</b>	
	<b>Service Revenue .....</b>			<b>900</b>
	<b>(Received cash for services provided)</b>			
<b>15</b>	<b>Salaries Expense .....</b>		<b>600</b>	
	<b>Cash .....</b>			<b>600</b>
	<b>(Paid salaries to date)</b>			
<b>25</b>	<b>Accounts Payable.....</b>		<b>1,500</b>	
	<b>Cash .....</b>			<b>1,500</b>
	<b>(Paid creditors on account)</b>			
<b>29</b>	<b>Cash .....</b>		<b>400</b>	
	<b>Accounts Receivable.....</b>			<b>400</b>
	<b>(Received cash in payment of account)</b>			
<b>30</b>	<b>Cash .....</b>		<b>1,000</b>	
	<b>Unearned Revenue.....</b>			<b>1,000</b>
	<b>(Received cash for future services)</b>			

**EXERCISE 2-10 (Continued)**

**(b) SIMON LANDSCAPING COMPANY**  
**Trial Balance**  
**April 30, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$15,200	
Accounts Receivable .....	2,800	
Supplies.....	1,800	
Accounts Payable .....		\$ 300
Unearned Revenue .....		1,000
J. Simon, Capital .....		15,000
Service Revenue.....		4,100
Salaries Expense.....	600	
	<u>\$20,400</u>	<u>\$20,400</u>

**EXERCISE 2-11**

(a) Oct. 1	Cash .....	5,000	
	Heerey, Capital.....		5,000
	(Owner's investment of cash in business)		
10	Cash .....	650	
	Service Revenue .....		650
	(Received cash for services provided)		
10	Cash .....	4,000	
	Notes Payable .....		4,000
	(Obtained loan from bank)		
20	Cash .....	500	
	Accounts Receivable.....		500
	(Received cash in payment of account)		
20	Accounts Receivable.....	940	
	Service Revenue .....		940
	(Billed clients for services provided)		

**EXERCISE 2-11 (Continued)**

(b)

**HEEREY CO.  
Trial Balance  
October 31, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 9,200	
Accounts Receivable.....	1,240	
Supplies .....	400	
Furniture .....	2,000	
Notes Payable.....		\$ 4,000
Accounts Payable.....		500
Heerey, Capital .....		7,000
Heerey, Drawing.....	300	
Service Revenue .....		2,390
Store Wages Expense .....	500	
Rent Expense .....	250	
	<u>\$13,890</u>	<u>\$13,890</u>

**EXERCISE 2-12**

(a)

**General Journal**

				J1
<u>Date</u>	<u>Account Titles and Explanation</u>	<u>Ref.</u>	<u>Debit</u>	<u>Credit</u>
Sept. 1	Cash .....	101	10,000	
	Tina Cordero, Capital .....	301		10,000
5	Equipment .....	157	12,000	
	Cash .....	101		5,000
	Accounts Payable.....	201		7,000
25	Accounts Payable.....	201	3,000	
	Cash .....	101		3,000
30	Tina Cordero, Drawing .....	306	500	
	Cash .....	101		500

**EXERCISE 2-12 (Continued)**

(b)

<b>Cash</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1		J1	10,000		10,000
5		J1		5,000	5,000
25		J1		3,000	2,000
30		J1		500	1,500

<b>Equipment</b>					<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 5		J1	12,000		12,000

<b>Accounts Payable</b>					<b>No. 201</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 5		J1		7,000	7,000
25		J1	3,000		4,000

<b>Tina Cordero, Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1		J1		10,000	10,000

<b>Tina Cordero, Drawing</b>					<b>No. 306</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 30		J1	500		500

**EXERCISE 2-13**

<u>Error</u>	<u>(a) In Balance</u>	<u>(b) Difference</u>	<u>(c) Larger Column</u>
1.	No	\$400	Debit
2.	Yes	—	—
3.	Yes	—	—
4.	No	300	Credit
5.	Yes	—	—
6.	No	18	Credit

**EXERCISE 2-14**

**SANFORD DELIVERY SERVICE**  
**Trial Balance**  
**July 31, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash (\$82,907 – Debit total without Cash \$66,340) .....	\$16,567	
Accounts Receivable.....	7,642	
Prepaid Insurance .....	1,968	
Delivery Equipment.....	49,360	
Notes Payable.....		\$18,450
Accounts Payable.....		8,396
Salaries Payable .....		815
Sanford, Capital .....		44,636
Sanford, Drawing .....	700	
Service Revenue .....		10,610
Salaries Expense .....	4,428	
Repair Expense .....	961	
Gas and Oil Expense .....	758	
Insurance Expense .....	523	
	<u>\$82,907</u>	<u>\$82,907</u>

# SOLUTIONS TO PROBLEMS

<b>PROBLEM 2-1A</b>
---------------------

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash .....		40,000	
	C. J. Mendez, Capital .....			40,000
	(Owner's investment of cash in business)			
4	Land .....		30,000	
	Cash .....			30,000
	(Purchased land for cash)			
8	Advertising Expense .....		1,800	
	Accounts Payable .....			1,800
	(Incurred advertising expense on account)			
11	Salaries Expense .....		1,500	
	Cash .....			1,500
	(Paid salaries)			
12	No entry—Not a transaction.			
13	Prepaid Insurance .....		1,500	
	Cash .....			1,500
	(Paid for one-year insurance policy)			
17	C. J. Mendez, Drawing .....		1,000	
	Cash .....			1,000
	(Withdrew cash for personal use)			
20	Cash .....		5,700	
	Admission Revenue .....			5,700
	(Received cash for services provided)			

**PROBLEM 2-1A (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 25</b>	<b>Cash .....</b>		<b>2,500</b>	
	<b>    Unearned Admission Revenue .....</b>			<b>2,500</b>
	<b>    (Received cash for future services)</b>			
<b>30</b>	<b>Cash .....</b>		<b>8,900</b>	
	<b>    Admission Revenue .....</b>			<b>8,900</b>
	<b>    (Received cash for services provided)</b>			
<b>30</b>	<b>Accounts Payable.....</b>		<b>900</b>	
	<b>    Cash.....</b>			<b>900</b>
	<b>    (Paid creditor on account)</b>			



<b>PROBLEM 2-2A</b>
---------------------

(a)

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 1	Cash.....	101	25,000	
	Jane Kent, Capital.....	301		25,000
	(Owner's investment of cash in business)			
2	No entry—not a transaction.			
3	Supplies.....	126	2,500	
	Accounts Payable.....	201		2,500
	(Purchased supplies on account)			
7	Rent Expense.....	729	900	
	Cash .....	101		900
	(Paid office rent)			
11	Accounts Receivable .....	112	2,100	
	Service Revenue .....	400		2,100
	(Billed client for services provided)			
12	Cash.....	101	3,500	
	Unearned Revenue.....	205		3,500
	(Received cash for future services)			
17	Cash.....	101	1,200	
	Service Revenue .....	400		1,200
	(Received cash for services provided)			
31	Salaries Expense.....	726	2,000	
	Cash .....	101		2,000
	(Paid salaries)			

J1

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

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
May 31	Accounts Payable (\$2,500 X 40%).....	201	1,000	
	Cash.....	101		1,000
	(Paid creditor on account)			

(b)

<b>Cash</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 1		J1	25,000		25,000
7		J1		900	24,100
12		J1	3,500		27,600
17		J1	1,200		28,800
31		J1		2,000	26,800
31		J1		1,000	25,800

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 11		J1	2,100		2,100

<b>Supplies</b>					<b>No. 126</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 3		J1	2,500		2,500

<b>Accounts Payable</b>					<b>No. 201</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 3		J1		2,500	
31		J1	1,000		1,500

<b>Unearned Revenue</b>					<b>No. 205</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 12		J1		3,500	3,500

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

<b>Jane Kent, Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 1		J1		25,000	25,000

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 11		J1		2,100	2,100
17		J1		1,200	3,300

<b>Salaries Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31		J1	2,000		2,000

<b>Rent Expense</b>					<b>No. 729</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 7		J1	900		900

(c) **JANE KENT, CPA**  
**Trial Balance**  
**May 31, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$25,800	
Accounts Receivable .....	2,100	
Supplies.....	2,500	
Accounts Payable .....		\$ 1,500
Unearned Revenue .....		3,500
Jane Kent, Capital.....		25,000
Service Revenue.....		3,300
Salaries Expense.....	2,000	
Rent Expense .....	900	
	<u>\$33,300</u>	<u>\$33,300</u>

**PROBLEM 2-3A**

(a) & (c)

Cash		
Balance	8,000	
		(1) 1,000
		(3) 2,000
(4)	14,000	
		(5) 15,000
(7)	6,000	
		(8) 3,000
		(9) 3,000
	4,000	

Accounts Receivable		
Balance	15,000	
		(4) 14,000
(7)	9,000	
	10,000	

Parts Inventory		
Balance	13,000	
(2)	4,000	
		(6) 4,000
	13,000	

Prepaid Rent		
Balance	3,000	
	3,000	

Shop Equipment		
Balance	21,000	
	21,000	

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

Jack Shellenkamp, Capital		
	Balance	41,000
		41,000

Jack Shellenkamp, Drawing		
(9)	3,000	
	3,000	

Repair Services Revenue		
	(7)	15,000
		15,000

Advertising Expense		
(1)	1,000	
	1,000	

Miscellaneous Expense		
(3)	2,000	
	2,000	

Repair Parts Expense		
(6)	4,000	
	4,000	

Wage Expense		
(8)	3,000	
	3,000	

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

**(b)**

<b>Trans.</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
1.	Advertising Expense..... Cash.....	1,000	1,000
2.	Parts Inventory..... Accounts Payable .....	4,000	4,000
3.	Miscellaneous Expense .....	2,000	
	Cash.....		2,000
4.	Cash..... Accounts Receivable .....	14,000	14,000
5.	Accounts Payable .....	15,000	
	Cash.....		15,000
6.	Repair Parts Expense .....	4,000	
	Parts Inventory.....		4,000
7.	Cash..... Accounts Receivable .....	6,000 9,000	
	Repair Services Revenue.....		15,000
8.	Wage Expense .....	3,000	
	Cash.....		3,000
9.	Jack Shellenkamp, Drawing .....	3,000	
	Cash.....		3,000

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

**(d)**

**BYTE REPAIR SERVICE  
Trial Balance  
January 31, 2008**

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	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 4,000	
Accounts Receivable.....	10,000	
Parts Inventory .....	13,000	
Prepaid Rent.....	3,000	
Shop Equipment .....	21,000	
Accounts Payable.....		\$ 8,000
Jack Shellenkamp, Capital .....		41,000
Jack Shellenkamp, Drawing.....	3,000	
Repair Services Revenue.....		15,000
Advertising Expense .....	1,000	
Miscellaneous Expense.....	2,000	
Repair Parts Expense.....	4,000	
Wage Expense .....	3,000	
	<u>\$64,000</u>	<u>\$64,000</u>

<b>PROBLEM 2-4A</b>
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**STERLING COMPANY**  
**Trial Balance**  
**May 31, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash (\$5,850 + \$520 – \$405) .....	\$ 5,965	
Accounts Receivable (\$2,570 – \$210).....	2,360	
Prepaid Insurance (\$700 + \$100).....	800	
Supplies (\$0 + \$520) .....	520	
Equipment (\$8,000 – \$520).....	7,480	
Accounts Payable (\$4,500 – \$100 + \$520 – \$210).....		\$ 4,710
Property Taxes Payable .....		560
M. Sterling, Capital (\$11,700 + \$1,000) .....		12,700
M. Sterling, Drawing (\$0 + \$1,000).....	1,000	
Service Revenue.....		6,960
Salaries Expense (\$4,200 + \$200) .....	4,400	
Advertising Expense (\$1,100 + \$405) .....	1,505	
Property Tax Expense (\$800 + \$100) .....	900	
	<u>\$24,930</u>	<u>\$24,930</u>

<b>PROBLEM 2-5A</b>
---------------------

(a) & (c)

<b>Cash</b>					<b>No. 101</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			6,000
2		J1		800	5,200
9		J1	2,800		8,000
10		J1		3,000	5,000
12		J1		500	4,500
25		J1	5,200		9,700
29		J1		2,000	7,700
30		J1	85		7,785
30		J1		900	6,885

<b>Accounts Receivable</b>					<b>No. 112</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1	85		85

<b>Prepaid Rentals</b>					<b>No. 136</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1	900		900

<b>Land</b>					<b>No. 140</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			10,000

<b>Buildings</b>					<b>No. 145</b>
Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1	Balance	✓			8,000



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

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			6,000

**Accounts Payable** **No. 201**

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

**Mortgage Payable** **No. 275**

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

**Tony Carpino, Capital** **No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			20,000

**Admission Revenue** **No. 405**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 9		J1		2,800	2,800
25		J1		5,200	8,000

**Concession Revenue** **No. 406**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 30		J1		170	170

**PROBLEM 2-5A (Continued)**

**Advertising Expense** No. 610

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 12		J1	500		500

**Film Rental Expense** No. 632

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

**Salaries Expense** No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 29		J1	2,000		2,000

(b)

					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
Apr. 2	Film Rental Expense .....	632	800		
	Cash .....	101		800	
	(Paid film rental)				
3	No entry—not a transaction.				
9	Cash .....	101	2,800		
	Admission Revenue .....	405		2,800	
	(Received cash for services provided)				
10	Mortgage Payable .....	275	2,000		
	Accounts Payable .....	201	1,000		
	Cash .....	101		3,000	
	(Made payments on mortgage and accounts payable)				

**PROBLEM 2-5A (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 11</b>	<b>No entry—not a transaction.</b>			
<b>12</b>	<b>Advertising Expense.....</b>	<b>610</b>	<b>500</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>500</b>
	<b>        (Paid advertising expenses)</b>			
<b>20</b>	<b>Film Rental Expense .....</b>	<b>632</b>	<b>1,000</b>	
	<b>    Accounts Payable .....</b>	<b>201</b>		<b>1,000</b>
	<b>        (Rented film on account)</b>			
<b>25</b>	<b>Cash.....</b>	<b>101</b>	<b>5,200</b>	
	<b>    Admission Revenue.....</b>	<b>405</b>		<b>5,200</b>
	<b>        (Received cash for services provided)</b>			
<b>29</b>	<b>Salaries Expense.....</b>	<b>726</b>	<b>2,000</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>2,000</b>
	<b>        (Paid salaries expense)</b>			
<b>30</b>	<b>Cash.....</b>	<b>101</b>	<b>85</b>	
	<b>    Accounts Receivable .....</b>	<b>112</b>	<b>85</b>	
	<b>    Concession Revenue .....</b>	<b>406</b>		<b>170</b>
	<b>        (17% X \$1,000)</b>			
	<b>        (Received cash and balance on account for concession revenue)</b>			
<b>30</b>	<b>Prepaid Rentals .....</b>	<b>136</b>	<b>900</b>	
	<b>    Cash.....</b>	<b>101</b>		<b>900</b>
	<b>        (Paid cash for future film rentals)</b>			

**PROBLEM 2-5A (Continued)**

**(d)**

**LAKE THEATER  
Trial Balance  
April 30, 2008**

---

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 6,885	
Accounts Receivable.....	85	
Prepaid Rentals .....	900	
Land .....	10,000	
Buildings .....	8,000	
Equipment.....	6,000	
Accounts Payable.....		\$ 2,000
Mortgage Payable.....		6,000
Tony Carpino, Capital .....		20,000
Admission Revenue.....		8,000
Concession Revenue .....		170
Advertising Expense .....	500	
Film Rental Expense.....	1,800	
Salaries Expense .....	2,000	
	<u>\$36,170</u>	<u>\$36,170</u>

<b>PROBLEM 2-1B</b>
---------------------

				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash .....		50,000	
	Jerry Glover, Capital .....			50,000
	(Owner's investment of cash in business)			
3	Land .....		23,000	
	Buildings .....		9,000	
	Equipment .....		6,000	
	Cash .....			38,000
	(Purchased Lee's Golf Land)			
5	Advertising Expense .....		1,600	
	Cash .....			1,600
	(Paid for advertising)			
6	Prepaid Insurance .....		1,480	
	Cash .....			1,480
	(Paid for one-year insurance policy)			
10	Equipment .....		2,600	
	Accounts Payable .....			2,600
	(Purchased equipment on account)			
18	Cash .....		800	
	Golf Revenue .....			800
	(Received cash for services provided)			
19	Cash .....		1,500	
	Unearned Revenue .....			1,500
	(Received cash for coupon books sold)			

**PROBLEM 2-1B (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Mar. 25</b>	<b>Jerry Glover, Drawing .....</b>		<b>2,000</b>	
	<b>    Cash .....</b>			<b>2,000</b>
	<b>    (Withdrew cash for personal use)</b>			
<b>30</b>	<b>Salaries Expense .....</b>		<b>600</b>	
	<b>    Cash .....</b>			<b>600</b>
	<b>    (Paid salaries)</b>			
<b>30</b>	<b>Accounts Payable.....</b>		<b>2,600</b>	
	<b>    Cash .....</b>			<b>2,600</b>
	<b>    (Paid creditor on account)</b>			
<b>31</b>	<b>Cash .....</b>		<b>500</b>	
	<b>    Golf Revenue.....</b>			<b>500</b>
	<b>    (Received cash for services provided)</b>			

<b>PROBLEM 2-2B</b>
---------------------

(a)

Date	Account Titles and Explanation	Ref.	Debit	Credit
				J1
Apr. 1	Cash .....	101	30,000	
	Rosa Perez, Capital .....	301		30,000
	(Owner's investment of cash in business)			
1	No entry—not a transaction.			
2	Rent Expense .....	729	800	
	Cash .....	101		800
	(Paid monthly office rent)			
3	Supplies .....	126	1,500	
	Accounts Payable .....	201		1,500
	(Purchased supplies on account from Halo Company)			
10	Accounts Receivable.....	112	1,200	
	Service Revenue .....	400		1,200
	(Billed clients for services provided)			
11	Cash .....	101	500	
	Unearned Revenue .....	205		500
	(Received cash for future service)			
20	Cash .....	101	1,500	
	Service Revenue .....	400		1,500
	(Received cash for services provided)			
30	Salaries Expense .....	726	2,000	
	Cash .....	101		2,000
	(Paid monthly salary)			

**PROBLEM 2-2B (Continued)**

Date	Account Titles and Explanation	Ref.	Debits	Credit
Apr. 30	Accounts Payable .....	201	600	
	Cash .....	101		600
	(Paid Halo Company on account)			

(b)

**Cash** **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1		J1	30,000		30,000
2		J1		800	29,200
11		J1	500		29,700
20		J1	1,500		31,200
30		J1		2,000	29,200
30		J1		600	28,600

**Accounts Receivable** **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1	1,200		1,200

**Supplies** **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1	1,500		1,500

**Accounts Payable** **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1		1,500	1,500
30		J1	600		900

**Unearned Revenue** **No. 205**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 11		J1		500	500



**PROBLEM 2-2B (Continued)**

<b>Rosa Perez, Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1		J1		30,000	30,000

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 10		J1		1,200	1,200
20		J1		1,500	2,700

<b>Salaries Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 30		J1	2,000		2,000

<b>Rent Expense</b>					<b>No. 729</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 2		J1	800		800

**(c) ROSA PEREZ, ARCHITECT  
Trial Balance  
April 30, 2008**

	<u><b>Debit</b></u>	<u><b>Credit</b></u>
Cash.....	\$28,600	
Accounts Receivable .....	1,200	
Supplies.....	1,500	
Accounts Payable .....		\$ 900
Unearned Revenue .....		500
Rosa Perez, Capital .....		30,000
Service Revenue.....		2,700
Salaries Expense.....	2,000	
Rent Expense .....	800	
	<u>\$34,100</u>	<u>\$34,100</u>

<b>PROBLEM 2-3B</b>
---------------------

(a)

Trans.	Account Titles and Explanation	Debit	Credit
1.	Cash .....	100,000	
	Ronald Slocombe, Capital .....		100,000
2.	No entry—Not a transaction.		
3.	Prepaid Rent.....	36,000	
	Cash .....		36,000
4.	Furniture & Equipment .....	60,000	
	Cash .....		20,000
	Accounts Payable.....		40,000
5.	Prepaid Insurance .....	3,000	
	Cash .....		3,000
6.	Office Supplies .....	1,000	
	Cash .....		1,000
7.	Office Supplies .....	3,000	
	Accounts Payable.....		3,000
8.	Cash .....	10,000	
	Accounts Receivable .....	20,000	
	Service Revenue .....		30,000
9.	Accounts Payable .....	800	
	Cash .....		800
10.	Cash .....	5,000	
	Accounts Receivable.....		5,000
11.	Utility Expense .....	400	
	Accounts Payable.....		400

**PROBLEM 2-3B (Continued)**

<b>Trans.</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
12.	Salaries Expense .....	6,000	
	Cash .....		6,000

(b)

<b>Cash</b>	
(1)	100,000
	(3) 36,000
	(4) 20,000
	(5) 3,000
	(6) 1,000
(8)	10,000
	(9) 800
(10)	5,000
	(12) 6,000
	<b>48,200</b>

<b>Furniture &amp; Equipment</b>	
(4)	60,000
	60,000

<b>Accounts Payable</b>	
	(4) 40,000
	(7) 3,000
(9)	800
	(11) 400
	<b>42,600</b>

<b>Accounts Receivable</b>	
(8)	20,000
	(10) 5,000
	<b>15,000</b>

<b>Ronald Slocombe, Capital</b>	
	(1) 100,000
	<b>100,000</b>

<b>Office Supplies</b>	
(6)	1,000
(7)	3,000
	<b>4,000</b>

<b>Service Revenue</b>	
	(8) 30,000
	<b>30,000</b>

<b>Prepaid Insurance</b>	
(5)	3,000
	<b>3,000</b>

<b>Salaries Expense</b>	
(12)	6,000
	<b>6,000</b>

<b>Prepaid Rent</b>	
(3)	36,000
	<b>36,000</b>

<b>Utility Expense</b>	
(11)	400
	<b>400</b>

**PROBLEM 2-3B (Continued)**

**(c) SLOCOMBE SERVICES  
Trial Balance  
May 31, 2008**

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	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 48,200	
Accounts Receivable .....	15,000	
Office Supplies.....	4,000	
Prepaid Insurance .....	3,000	
Prepaid Rent .....	36,000	
Furniture & Equipment .....	60,000	
Accounts Payable .....		\$ 42,600
Ronald Slocombe, Capital.....		100,000
Service Revenue.....		30,000
Salaries Expense.....	6,000	
Utility Expense .....	400	
	<u>\$172,600</u>	<u>\$172,600</u>

<b>PROBLEM 2-4B</b>
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**DON KELSO CO.  
Trial Balance  
June 30, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash (\$2,840 + \$270).....	\$ 3,110	
Accounts Receivable (\$3,231 – \$270) .....	2,961	
Supplies (\$800 – \$340) .....	460	
Equipment (\$3,000 + \$340) .....	3,340	
Accounts Payable (\$2,666 – \$206 – \$260) .....		\$ 2,200
Unearned Revenue.....		1,200
D. Kelso, Capital.....		9,000
D. Kelso, Drawing (\$800 + \$500).....	1,300	
Service Revenue (\$2,380 + \$801).....		3,181
Salaries Expense (\$3,400 + \$600 – \$500).....	3,500	
Office Expense .....	910	
	<u>\$15,581</u>	<u>\$15,581</u>

<b>PROBLEM 2-5B</b>
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(a) & (c)

<b>Cash</b>						<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1	Balance	✓			16,000	
2		J1		3,000	13,000	
9		J1	6,500		19,500	
10		J1		7,000	12,500	
12		J1		800	11,700	
20		J1	7,200		18,900	
20		J1		3,000	15,900	
31		J1		4,800	11,100	
31		J1	400		11,500	
31		J1	11,000		22,500	

<b>Accounts Receivable</b>						<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 31		J1	400		400	

<b>Land</b>						<b>No. 140</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1	Balance	✓			42,000	

<b>Buildings</b>						<b>No. 145</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1	Balance	✓			18,000	

<b>Equipment</b>						<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1	Balance	✓			16,000	

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

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1	Balance	✓			12,000
2		J1		3,000	15,000
10		J1	7,000		8,000

**M. Quinn, Capital** **No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1	Balance	✓			80,000

**Admission Revenue** **No. 405**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 9		J1		6,500	6,500
20		J1		7,200	13,700
31		J1		11,000	24,700

**Concession Revenue** **No. 406**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar.31		J1		800	800

**Advertising Expense** **No. 610**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar.12		J1	800		800

**Film Rental Expense** **No. 632**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 2		J1	6,000		6,000
20		J1	3,000		9,000

**PROBLEM 2-5B (Continued)**

**Salaries Expense**

**No. 726**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31		J1	4,800		4,800

**(b)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
				<b>J1</b>
Mar. 2	Film Rental Expense .....	632	6,000	
	Accounts Payable.....	201		3,000
	Cash .....	101		3,000
	(Rented films for cash and on account)			
3	No entry.			
9	Cash.....	101	6,500	
	Admission Revenue.....	405		6,500
	(Received cash for services provided)			
10	Accounts Payable (\$3,000 + \$4,000).....	201	7,000	
	Cash .....	101		7,000
	(Paid creditors on account)			
11	No entry.			
12	Advertising Expense .....	610	800	
	Cash .....	101		800
	(Paid advertising expense)			
20	Cash.....	101	7,200	
	Admission Revenue.....	405		7,200
	(Received cash for services provided)			
20	Film Rental Expense .....	632	3,000	
	Cash .....	101		3,000
	(Paid film rental)			



**PROBLEM 2-5B (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
Mar.31	Salaries Expense.....	726	4,800	
	Cash.....	101		4,800
	(Paid salaries expense)			
31	Cash.....	101	400	
	Accounts Receivable.....	112	400	
	Concession Revenue.....	406		800
	(10% X \$8,000)			
	(Received cash and balance on account for concession revenue)			
31	Cash.....	101	11,000	
	Admission Revenue.....	405		11,000
	(Received cash for services provided)			

(d)

**QUINN THEATER  
Trial Balance  
March 31, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 22,500	
Accounts Receivable.....	400	
Land.....	42,000	
Buildings.....	18,000	
Equipment.....	16,000	
Accounts Payable.....		\$ 8,000
M. Quinn, Capital.....		80,000
Admission Revenue.....		24,700
Concession Revenue.....		800
Advertising Expense.....	800	
Film Rental Expense.....	9,000	
Salaries Expense.....	4,800	
	<u>\$113,500</u>	<u>\$113,500</u>

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

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

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

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

(b) The following other accounts are ordinarily involved:

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

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

(a)	May 1	Correct.		
	5	Cash.....	250	
		Lesson Revenue.....		250
	7	Cash.....	300	
		Unearned Boarding Revenue.....		300
	14	Office Equipment.....	800	
		Cash.....		800
	15	Lisa Ortega, Drawing .....	400	
		Cash.....		400
	20	Cash.....	184	
		Riding Revenue.....		184
	30	Correct.		
	31	Hay and Feed Supplies .....	1,700	
		Accounts Payable .....		1,700

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

(c)	Net income as reported .....		\$4,500
	Add: 5/15, Salaries expense (Lisa Ortega, Drawing) .....	\$ 400	
	5/31, Hay and feed expense (still on hand).....	<u>1,700</u>	<u>2,100</u>
			6,600
	Less: 5/7, Boarding revenue unearned .....		<u>300</u>
	Correct net income.....		<u>\$6,300</u>

(d)	Cash as reported.....		\$12,475
	Add: 5/20, Transposition error .....	\$ 36	
	5/31, Purchase on account .....	<u>1,700</u>	<u>1,736</u>
			<u>\$14,211</u>

**Date:** May 25, 2008

**To:** Accounting Instructor

**From:** Student

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

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

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

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

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

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

(a) The stakeholders in this situation are:

- ▶ Mary Jansen, assistant chief accountant.
- ▶ Users of the company's financial statements.
- ▶ The Casey Company.

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

(c) Mary's alternatives are:

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

- (a) Students' responses to this question will vary. It is important that the steps that they identify be as specific as possible, and clearly directed toward achieving their goal. You may wish to ask a follow-up question asking them to explain how each step will assist them in achieving their goal.
- (b) There are many sites on the Internet that provide information about preparing a résumé. For example, you can find extensive resources at: <http://www.rileyguide.com/resprep.html>. Many schools also have resources in their placement centers or writing labs. The Writing Center at Rensselaer Polytechnic Institute provides useful, concise information on its website at <http://www.rpi.edu/web/writingcenter/resume.html>. A wide variety of sample résumés can be found. For example, Monster.com provides samples for a wide variety of professions and situations at <http://content.monster.com/experts/resume/library/>
- (c) As noted in the All About You feature in chapter 2 of the text, overstating accomplishments on a résumé can result in many problems. It is important to provide accurate and complete documentation of all relevant training, education, and employment experiences so as to provide assurance to the potential employer, and also to enable that employer to do follow-up work. If you say you have certain skills, such as computer skills, try to substantiate the claim with recognized proof of proficiency. Make sure that all addresses and phone numbers are accurate and up-to-date. Also, ensure that the people you use as references have a copy of your résumé and cover letter, and that they are informed that you are interviewing so they know to expect a call.
- (d) See the sample résumés provided in the websites above for various format options. You might also mention to students that there are electronic résumé templates available on the Internet.