

CHAPTER 2

The Recording Process

ASSIGNMENT CLASSIFICATION TABLE

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

ASSIGNMENT CHARACTERISTICS TABLE

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

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CHAPTER 2
THE RECORDING PROCESS

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

THE RECORDING PROCESS (Continued)

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

BLOOM'S TAXONOMY TABLE

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

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

ANSWERS TO QUESTIONS

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

Questions Chapter 2 (Continued)

11. The advantages of using a journal in the recording process are:
- (a) It discloses in one place the complete effects of a transaction.
 - (b) It provides a chronological record of transactions.
 - (c) 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 in cash and the remainder is on account.
14. (a) No, business transaction debits and credits should not be recorded directly in the ledger.
(b) The advantages of using a journal are:
1. It discloses in one place the complete effects of a transaction.
 2. It provides a chronological record of 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
Share Capital—Ordinary 9,000
(Issued ordinary shares for cash)
- (b) Prepaid Insurance 800
Cash 800
(Paid one-year insurance policy)
- (c) Supplies 2,000
Accounts Payable 2,000
(Purchased supplies on account)
- (d) Cash 7,500
Service Revenue 7,500
(Received cash for services rendered)
17. (a) The entire group of accounts maintained by a company, including all the asset, liability, and equity accounts, is referred to collectively as the ledger.
- (b) A chart of accounts is a list of accounts and the account numbers that identify their location in the ledger. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and define the level of detail that a company desires in its accounting system.

Questions Chapter 2 (Continued)

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

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2-1

| | (a) Debit Effect | (b) Credit Effect | (c) Normal Balance |
|---------------------------|------------------------|-------------------------|--------------------------|
| 1. Accounts Payable | Decrease | Increase | Credit |
| 2. Advertising Expense | Increase | Decrease | Debit |
| 3. Service Revenue | Decrease | Increase | Credit |
| 4. Accounts Receivable | Increase | Decrease | Debit |
| 5. Share Capital—Ordinary | Decrease | Increase | Credit |
| 6. Dividends | Increase | Decrease | Debit |

BRIEF EXERCISE 2-2

| | Account Debited | Account Credited |
|--------|---------------------|------------------------|
| June 1 | Cash | Share Capital—Ordinary |
| 2 | Equipment | Accounts Payable |
| 3 | Rent Expense | Cash |
| 12 | Accounts Receivable | Service Revenue |

BRIEF EXERCISE 2-3

| | | | |
|--------|------------------------------|-------|-------|
| June 1 | Cash..... | 4,000 | |
| | Share Capital—Ordinary | | 4,000 |
| 2 | Equipment | 900 | |
| | Accounts Payable | | 900 |
| 3 | Rent Expense | 800 | |
| | Cash | | 800 |
| 12 | Accounts Receivable | 300 | |
| | Service Revenue | | 300 |

BRIEF EXERCISE 2-4

The basic steps in the recording process are:

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

BRIEF EXERCISE 2-5

| | (a) <u>Effect on Accounting Equation</u> | (b) <u>Debit-Credit Analysis</u> |
|--------|--|--|
| Aug. 1 | The asset Cash is increased; the equity account Share Capital—Ordinary is increased. | Debits increase assets: debit Cash R\$5,000. Credits increase equity: credit Share Capital—Ordinary R\$5,000. |
| 4 | The asset Prepaid Insurance is increased; the asset Cash is decreased. | Debits increase assets: debit Prepaid Insurance R\$1,800. Credits decrease assets: credit Cash R\$1,800. |
| 16 | The asset Cash is increased; the revenue Service Revenue is increased. | Debits increase assets: debit Cash R\$1,100. Credits increase revenues: credit Service Revenue R\$1,100. |
| 27 | The expense Salaries and Wages Expense is increased; the asset Cash is decreased. | Debits increase expenses: debit Salaries and Wages Expense R\$1,000. Credits decrease assets: credit Cash R\$1,000. |

BRIEF EXERCISE 2-6

| | | | |
|--------|----------------------------------|-------|-------|
| Aug. 1 | Cash | 5,000 | |
| | Share Capital—Ordinary | | 5,000 |
| 4 | Prepaid Insurance | 1,800 | |
| | Cash | | 1,800 |
| 16 | Cash | 1,100 | |
| | Service Revenue | | 1,100 |
| 27 | Salaries and Wages Expense | 1,000 | |
| | Cash | | 1,000 |

BRIEF EXERCISE 2-7

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

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

BRIEF EXERCISE 2-8

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

BRIEF EXERCISE 2-8 (Continued)

Accounts Receivable

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

Service Revenue

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

BRIEF EXERCISE 2-9

STARR COMPANY Trial Balance June 30, 2014

| | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|-----------------|-----------------|
| Cash | \$ 6,800 | |
| Accounts Receivable | 3,000 | |
| Equipment | 17,000 | |
| Accounts Payable | | \$ 9,000 |
| Share Capital—Ordinary | | 20,000 |
| Dividends | 1,200 | |
| Service Revenue | | 6,000 |
| Salaries and Wages Expense | 6,000 | |
| Rent Expense | 1,000 | |
| | <u>\$35,000</u> | <u>\$35,000</u> |

BRIEF EXERCISE 2-10

CHENG COMPANY Trial Balance December 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------|----------------|----------------|
| Cash | £16,800 | |
| Prepaid Insurance | 3,500 | |
| Accounts Payable | | £ 3,000 |
| Unearned Service Revenue..... | | 4,200 |
| Share Capital—Ordinary | | 13,000 |
| Dividends | 4,500 | |
| Service Revenue | | 25,600 |
| Salaries and Wages Expense..... | 18,600 | |
| Rent Expense | 2,400 | |
| | <u>£45,800</u> | <u>£45,800</u> |

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 2-1

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

| | |
|------------------------------|---|
| Cash (debit balance) | Notes Payable (credit balance) |
| Supplies (debit balance) | Accounts Payable (credit balance) |
| Equipment (debit balance) | Share Capital—Ordinary (credit balance) |
| | Rent Expense (debit balance) |

DO IT! 2-2

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

- | | | |
|------------------------------|-------|-------|
| Cash | 8,000 | |
| Share Capital—Ordinary | | 8,000 |
- | | | |
|------------------------|-------|-------|
| Supplies | 1,600 | |
| Cash | | 400 |
| Accounts Payable | | 1,200 |
- No entry because no transaction has occurred.

DO IT! 2-3

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

DO IT! 2-4

CHILLIN' COMPANY
Trial Balance
December 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|-------------------|-------------------|
| Cash | R\$ 6,000 | |
| Accounts Receivable | 8,000 | |
| Supplies | 5,000 | |
| Equipment | 76,000 | |
| Notes Payable | | R\$ 20,000 |
| Accounts Payable | | 9,000 |
| Salaries and Wages Payable | | 3,000 |
| Share Capital—Ordinary | | 25,000 |
| Dividends | 8,000 | |
| Service Revenue | | 86,000 |
| Rent Expense | 2,000 | |
| Salaries and Wages Expense | 38,000 | |
| | <u>R\$143,000</u> | <u>R\$143,000</u> |

SOLUTIONS TO EXERCISES

EXERCISE 2-1

1. False. An account is an accounting record of a specific asset, liability, *or equity item*.
2. False. An account shows *increases and decreases* in the item it relates to.
3. False. Each asset, liability, and 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

| Date | 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 | Equity | Share Capital— Ordinary | 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 | Equity | Service Revenue | Increase | Credit |
| 16 | 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 | Equity | Dividends | Increase | Debit | Asset | Cash | Decrease | Debit |

EXERCISE 2-3

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

EXERCISE 2-4

- Oct. 1 **Debits increase assets: debit Cash ¥200,000.**
 Credits increase equity: credit Share Capital—Ordinary ¥200,000.
- 2 **No transaction.**
- 3 **Debits increase assets: debit Equipment ¥19,000.**
 Credits increase liabilities: credit Accounts Payable ¥19,000.

EXERCISE 2-4 (Continued)

- Oct. 6 Debits increase assets: debit Accounts Receivable ¥32,000.
 Credits increase revenues: credit Service Revenue ¥32,000.
- 27 Debits decrease liabilities: debit Accounts Payable ¥8,500.
 Credits decrease assets: credit Cash ¥8,500.
- 30 Debits increase expenses: debit Salaries and Wages Expense
 ¥25,000.
 Credits decrease assets: credit Cash ¥25,000.

EXERCISE 2-5

| General Journal | | | | |
|-----------------|---------------------------------|------|---------|---------|
| Date | Account Titles | Ref. | Debit | Credit |
| Oct. 1 | Cash..... | | 200,000 | |
| | Share Capital—Ordinary | | | 200,000 |
| 2 | No entry. | | | |
| 3 | Equipment | | 19,000 | |
| | Accounts Payable | | | 19,000 |
| 6 | Accounts Receivable | | 32,000 | |
| | Service Revenue..... | | | 32,000 |
| 27 | Accounts Payable | | 8,500 | |
| | Cash..... | | | 8,500 |
| 30 | Salaries and Wages Expense..... | | 25,000 | |
| | Cash..... | | | 25,000 |

EXERCISE 2-6

- (a) 1. Increase the asset Cash, increase the liability Notes Payable.
 2. Increase the asset Equipment, decrease the asset Cash.
 3. Increase the asset Supplies, increase the liability Accounts Payable.
- (b)
- | | | | |
|----|------------------------|--------|--------|
| 1. | Cash | 50,000 | |
| | Notes Payable | | 50,000 |
| 2. | Equipment | 25,000 | |
| | Cash | | 25,000 |
| 3. | Supplies | 4,500 | |
| | Accounts Payable | | 4,500 |

EXERCISE 2-7

- (a) **Assets = Liabilities + Equity**
- | | | | |
|----|---|---|-----------------|
| 1. | + | + | (Issued shares) |
| 2. | – | – | (Expense) |
| 3. | + | + | (Revenue) |
| 4. | – | – | (Dividends) |
- (b)
- | | | | |
|----|------------------------------|-------|-------|
| 1. | Cash | 5,000 | |
| | Share Capital—Ordinary | | 5,000 |
| 2. | Rent Expense | 1,100 | |
| | Cash | | 1,100 |
| 3. | Accounts Receivable | 4,700 | |
| | Service Revenue | | 4,700 |
| 4. | Dividends | 700 | |
| | Cash | | 700 |

EXERCISE 2-8

- False. The general ledger contains all the asset, liability, *and equity* accounts.
- True.
- False. The accounts in the general ledger are arranged in *financial statement order*: first the assets, then the liabilities, share capital, retained earnings, dividends, revenues, and expenses.
- True.
- False. The general ledger is not a book of original entry; transactions are first recorded in the general journal, then in the general ledger.

EXERCISE 2-9

(a)

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

| Notes Payable | | |
|---------------|---------|-------|
| | Aug. 12 | 4,000 |

| Share Capital—Ordinary | | |
|------------------------|--------|-------|
| | Aug. 1 | 5,000 |

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

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

| Equipment | |
|-----------|-------|
| Aug. 12 | 5,000 |

(b)

ROBERTA MENDEZ, INVESTMENT BROKER Trial Balance August 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|------------------------------|-----------------|-----------------|
| Cash | \$ 7,550 | |
| Accounts Receivable | 750 | |
| Equipment..... | 5,000 | |
| Notes Payable..... | | \$ 4,000 |
| Share Capital—Ordinary | | 5,000 |
| Service Revenue | | 4,300 |
| | <u>\$13,300</u> | <u>\$13,300</u> |

EXERCISE 2-10**(a)**

| General Journal | | | | |
|------------------------|--|-------------|---------------|---------------|
| Date | Account Titles and Explanation | Ref. | Debit | Credit |
| Apr. 1 | Cash | 101 | 10,000 | |
| | Share Capital—Ordinary | 311 | | 10,000 |
| | (Issued shares for cash) | | | |
| 12 | Cash | 101 | 900 | |
| | Service Revenue | 400 | | 900 |
| | (Received cash for services provided) | | | |
| 15 | Salaries and Wages Expense | 726 | 720 | |
| | Cash | 101 | | 720 |
| | (Paid salaries to date) | | | |
| 25 | Accounts Payable | 201 | 1,500 | |
| | Cash | 101 | | 1,500 |
| | (Paid creditors on account) | | | |
| 29 | Cash | 101 | 400 | |
| | Accounts Receivable | 112 | | 400 |
| | (Received cash in payment of account) | | | |
| 30 | Cash | 101 | 1,000 | |
| | Unearned Service Revenue | 209 | | 1,000 |
| | (Received cash for future services) | | | |

EXERCISE 2-10 (Continued)

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

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

EXERCISE 2-11

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

EXERCISE 2-11 (Continued)

(b)

SPARKS CO. Trial Balance October 31, 2014

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

EXERCISE 2-12

(a)

| General Journal | | | | J1 |
|-----------------|-----------------------------|------|--------|--------|
| Date | Account Titles | Ref. | Debit | Credit |
| Sept. 1 | Cash..... | 101 | 10,000 | |
| | Share Capital—Ordinary..... | 311 | | 10,000 |
| 5 | Equipment..... | 157 | 12,000 | |
| | Cash..... | 101 | | 4,000 |
| | Accounts Payable..... | 201 | | 8,000 |
| 25 | Accounts Payable | 201 | 2,400 | |
| | Cash..... | 101 | | 2,400 |
| 30 | Dividends | 332 | 500 | |
| | Cash..... | 101 | | 500 |

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

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

Equipment **No. 157**

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

Accounts Payable **No. 201**

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

Share Capital—Ordinary **No. 311**

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

Dividends **No. 332**

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

EXERCISE 2-13

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

EXERCISE 2-14

TEMPUS FUGIT DELIVERY SERVICE Trial Balance July 31, 2014

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

EXERCISE 2-15

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

SOLUTIONS TO PROBLEMS

PROBLEM 2-1A

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

PROBLEM 2-1A (Continued)

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

PROBLEM 2-2A

(a)

J1

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|-------|---------------------------------------|------|--------|--------|
| 2014 | | | | |
| May 1 | Cash | 101 | 20,000 | |
| | Share Capital—Ordinary | 311 | | 20,000 |
| | (Issued shares for cash) | | | |
| 2 | No entry—not a transaction. | | | |
| 3 | Supplies | 126 | 1,500 | |
| | Accounts Payable | 201 | | 1,500 |
| | (Purchased supplies on account) | | | |
| 7 | Rent Expense | 729 | 900 | |
| | Cash | 101 | | 900 |
| | (Paid office rent) | | | |
| 11 | Accounts Receivable | 112 | 2,800 | |
| | Service Revenue | 400 | | 2,800 |
| | (Billed client for services provided) | | | |
| 12 | Cash | 101 | 3,500 | |
| | Unearned Service Revenue | 209 | | 3,500 |
| | (Received cash for future services) | | | |
| 17 | Cash | 101 | 1,200 | |
| | Service Revenue | 400 | | 1,200 |
| | (Received cash for services provided) | | | |
| 31 | Salaries and Wages Expense | 726 | 2,000 | |
| | Cash | 101 | | 2,000 |
| | (Paid salaries) | | | |

PROBLEM 2-2A (Continued)

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

(b)

Cash No. 101

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------|-------------|------|--------|--------|---------|
| 2014 | | | | | |
| May 1 | | J1 | 20,000 | | 20,000 |
| 7 | | J1 | | 900 | 19,100 |
| 12 | | J1 | 3,500 | | 22,600 |
| 17 | | J1 | 1,200 | | 23,800 |
| 31 | | J1 | | 2,000 | 21,800 |
| 31 | | J1 | | 600 | 21,200 |

Accounts Receivable No. 112

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| May 11 | | J1 | 2,800 | | 2,800 |

Supplies No. 126

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| May 3 | | J1 | 1,500 | | 1,500 |

Accounts Payable No. 201

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| May 3 | | J1 | | 1,500 | |
| 31 | | J1 | 600 | | 900 |

Unearned Service Revenue No. 209

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| May 12 | | J1 | | 3,500 | 3,500 |

PROBLEM 2-2A (Continued)

Share Capital—Ordinary No. 311

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| May 1 | | J1 | | 20,000 | 20,000 |

Service Revenue No. 400

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| May 11 | | J1 | | 2,800 | 2,800 |
| 17 | | J1 | | 1,200 | 4,000 |

Salaries and Wages Expense No. 726

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| May 31 | | J1 | 2,000 | | 2,000 |

Rent Expense No. 729

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| May 7 | | J1 | 900 | | 900 |

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

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------|----------------|----------------|
| Cash | €21,200 | |
| Accounts Receivable | 2,800 | |
| Supplies | 1,500 | |
| Accounts Payable | | € 900 |
| Unearned Service Revenue | | 3,500 |
| Share Capital—Ordinary | | 20,000 |
| Service Revenue | | 4,000 |
| Salaries and Wages Expense..... | 2,000 | |
| Rent Expense | 900 | |
| | <u>€28,400</u> | <u>€28,400</u> |

PROBLEM 2-3A

(a) & (c)

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

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

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

| Prepaid Rent | | | |
|--------------|-------|--|--|
| Balance | 3,000 | | |
| | 3,000 | | |

| Equipment | | | |
|-----------|--------|--|--|
| Balance | 21,000 | | |
| | 21,000 | | |

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

Share Capital—Ordinary

| | | |
|--|---------|--------|
| | Balance | 30,000 |
| | | 30,000 |

Retained Earnings

| | | |
|--|---------|--------|
| | Balance | 11,000 |
| | | 11,000 |

Dividends

| | | |
|-----|-------|--|
| (8) | 2,000 | |
| | 2,000 | |

Service Revenue

| | | |
|--|-----|--------|
| | (6) | 14,000 |
| | | 14,000 |

Advertising Expense

| | | |
|-----|-------|--|
| (1) | 1,000 | |
| | 1,000 | |

Miscellaneous Expense

| | | |
|-----|-------|--|
| (3) | 1,700 | |
| | 1,700 | |

Salaries and Wages Expense

| | | |
|-----|-------|--|
| (7) | 3,000 | |
| | 3,000 | |

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

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

PROBLEM 2-3A (Continued)

(d)

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

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

PROBLEM 2-4A

GARLAND COMPANY
Trial Balance
May 31, 2014

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

| |
|---------------------|
| PROBLEM 2-5A |
|---------------------|

(a) & (c)

| Cash | | | | | No. 101 |
|-------------|--|--|--|--|----------------|
|-------------|--|--|--|--|----------------|

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 1 | Balance | ✓ | | | 6,000 |
| 2 | | J1 | | 800 | 5,200 |
| 9 | | J1 | 1,800 | | 7,000 |
| 10 | | J1 | | 3,000 | 4,000 |
| 12 | | J1 | | 300 | 3,700 |
| 25 | | J1 | 5,200 | | 8,900 |
| 29 | | J1 | | 1,600 | 7,300 |
| 30 | | J1 | 90 | | 7,390 |
| 30 | | J1 | | 900 | 6,490 |

| Accounts Receivable | | | | | No. 112 |
|----------------------------|--|--|--|--|----------------|
|----------------------------|--|--|--|--|----------------|

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 30 | | J1 | 90 | | 90 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 30 | | J1 | 900 | | 900 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 1 | Balance | ✓ | | | 10,000 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 1 | Balance | ✓ | | | 8,000 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Apr. 1 | Balance | ✓ | | | 6,000 |

Accounts Payable **No. 201**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Apr. 1 | Balance | ✓ | | | 2,000 |
| 10 | | J1 | 1,000 | | 1,000 |
| 20 | | J1 | | 1,000 | 2,000 |

Mortgage Payable **No. 275**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Apr. 1 | Balance | ✓ | | | 8,000 |
| 10 | | J1 | 2,000 | | 6,000 |

Share Capital—Ordinary **No. 311**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Apr. 1 | Balance | ✓ | | | 20,000 |

Service Revenue **No. 400**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Apr. 9 | | J1 | | 1,800 | 1,800 |
| 25 | | J1 | | 5,200 | 7,000 |

Rent Revenue **No. 429**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Apr. 30 | | J1 | | 180 | 180 |

PROBLEM 2-5A (Continued)

Advertising Expense No. 610

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 12 | | J1 | 300 | | 300 |

Salaries and Wages Expense No. 726

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 29 | | J1 | 1,600 | | 1,600 |

Rent Expense No. 729

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 2 | | J1 | 800 | | 800 |
| 20 | | J1 | 1,000 | | 1,800 |

(b)

J1

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|--------|--|------|-------|--------|
| 2014 | | | | |
| Apr. 2 | Rent Expense | 729 | 800 | |
| | Cash | 101 | | 800 |
| | (Paid film rental) | | | |
| 3 | No entry—not a transaction. | | | |
| 9 | Cash | 101 | 1,800 | |
| | Service Revenue | 400 | | 1,800 |
| | (Received cash for services provided) | | | |
| 10 | Mortgage Payable | 275 | 2,000 | |
| | Accounts Payable | 201 | 1,000 | |
| | Cash | 101 | | 3,000 |
| | (Made payments on mortgage and accounts payable) | | | |

PROBLEM 2-5A (Continued)

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

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

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

| |
|---------------------|
| PROBLEM 2-1B |
|---------------------|

J1

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

PROBLEM 2-1B (Continued)

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

| |
|--------------|
| PROBLEM 2-2B |
|--------------|

(a)

J1

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|--------|---|------|--------|--------|
| 2014 | | | | |
| Apr. 1 | Cash | 101 | 40,000 | |
| | Share Capital—Ordinary..... (Issued shares for cash) | 311 | | 40,000 |
| 1 | No entry—not a transaction. | | | |
| 2 | Rent Expense | 729 | 1,400 | |
| | Cash..... (Paid monthly office rent) | 101 | | 1,400 |
| 3 | Supplies | 126 | 5,200 | |
| | Accounts Payable..... (Purchased supplies on account from Halo Company) | 201 | | 5,200 |
| 10 | Accounts Receivable..... | 112 | 6,600 | |
| | Service Revenue..... (Billed clients for services provided) | 400 | | 6,600 |
| 11 | Cash | 101 | 1,000 | |
| | Unearned Service Revenue | 209 | | 1,000 |
| | (Received cash for future service) | | | |
| 20 | Cash | 101 | 2,100 | |
| | Service Revenue..... (Received cash for services provided) | 400 | | 2,100 |
| 30 | Salaries and Wages Expense..... | 726 | 2,400 | |
| | Cash..... (Paid monthly salary) | 101 | | 2,400 |

PROBLEM 2-2B (Continued)

| Date | Account Titles | Ref. | Debit | Credit |
|---------|--------------------------------|------|-------|--------|
| Apr. 30 | Accounts Payable..... | 201 | 1,900 | |
| | Cash..... | 101 | | 1,900 |
| | (Paid Halo Company on account) | | | |

(b)

Cash No. 101

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|--------|--------|---------|
| 2014 | | | | | |
| Apr. 1 | | J1 | 40,000 | | 40,000 |
| 2 | | J1 | | 1,400 | 38,600 |
| 11 | | J1 | 1,000 | | 39,600 |
| 20 | | J1 | 2,100 | | 41,700 |
| 30 | | J1 | | 2,400 | 39,300 |
| 30 | | J1 | | 1,900 | 37,400 |

Accounts Receivable No. 112

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 10 | | J1 | 6,600 | | 6,600 |

Supplies No. 126

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 3 | | J1 | 5,200 | | 5,200 |

Accounts Payable No. 201

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 3 | | J1 | | 5,200 | 5,200 |
| 30 | | J1 | 1,900 | | 3,300 |

Unearned Service Revenue No. 209

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 11 | | J1 | | 1,000 | 1,000 |

PROBLEM 2-2B (Continued)

Share Capital—Ordinary No. 311

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 1 | | J1 | | 40,000 | 40,000 |

Service Revenue No. 400

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 10 | | J1 | | 6,600 | 6,600 |
| 20 | | J1 | | 2,100 | 8,700 |

Salaries and Wages Expense No. 726

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 30 | | J1 | 2,400 | | 2,400 |

Rent Expense No. 729

| Date | Explanation | Ref. | Debit | Credit | Balance |
|--------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Apr. 2 | | J1 | 1,400 | | 1,400 |

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

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

| |
|---------------------|
| PROBLEM 2-3B |
|---------------------|

(a)

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

PROBLEM 2-3B (Continued)

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

(b)

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

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

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

| Prepaid Insurance | | | |
|-------------------|-------|--|--|
| (5) | 1,800 | | |
| | 1,800 | | |

| Prepaid Rent | | | |
|--------------|--------|--|--|
| (3) | 24,000 | | |
| | 24,000 | | |

| Equipment | | | |
|-----------|--------|--|--|
| (4) | 30,000 | | |
| | 30,000 | | |

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

| Share Capital—Ordinary | | | |
|------------------------|--|-----|--------|
| | | (1) | 50,000 |
| | | | 50,000 |

| Service Revenue | | | |
|-----------------|--|-----|--------|
| | | (8) | 20,000 |
| | | | 20,000 |

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

| Utilities Expense | | | |
|-------------------|-----|--|--|
| (11) | 260 | | |
| | 260 | | |

PROBLEM 2-3B (Continued)

(c)

CHAMBERLAIN SERVICES
Trial Balance
May 31, 2014

| | Debit | Credit |
|----------------------------------|-----------------------|-----------------------|
| Cash..... | £20,450 | |
| Accounts Receivable | 9,000 | |
| Supplies | 2,050 | |
| Prepaid Insurance | 1,800 | |
| Prepaid Rent | 24,000 | |
| Equipment..... | 30,000 | |
| Accounts Payable | | £23,160 |
| Share Capital—Ordinary | | 50,000 |
| Service Revenue..... | | 20,000 |
| Salaries and Wages Expense | 5,600 | |
| Utilities Expense..... | 260 | |
| | <u>£93,160</u> | <u>£93,160</u> |

| |
|---------------------|
| PROBLEM 2-4B |
|---------------------|

RON SALEM CO.
Trial Balance
June 30, 2014

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

| |
|---------------------|
| PROBLEM 2-5B |
|---------------------|

(a) & (c)

| Cash | | | | | No. 101 |
|-------------|--|--|--|--|----------------|
|-------------|--|--|--|--|----------------|

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Mar. 1 | Balance | ✓ | | | 8,000 |
| 2 | | J1 | | 1,000 | 7,000 |
| 9 | | J1 | 4,000 | | 11,000 |
| 10 | | J1 | | 4,100 | 6,900 |
| 12 | | J1 | | 450 | 6,450 |
| 20 | | J1 | 5,000 | | 11,450 |
| 20 | | J1 | | 2,400 | 9,050 |
| 31 | | J1 | | 2,500 | 6,550 |
| 31 | | J1 | 375 | | 6,925 |
| 31 | | J1 | 9,000 | | 15,925 |

| Accounts Receivable | | | | | No. 112 |
|----------------------------|--|--|--|--|----------------|
|----------------------------|--|--|--|--|----------------|

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Mar. 31 | | J1 | 375 | | 375 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Mar. 1 | Balance | ✓ | | | 21,000 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Mar. 1 | Balance | ✓ | | | 10,000 |

| Equipment | | | | | No. 157 |
|------------------|--|--|--|--|----------------|
|------------------|--|--|--|--|----------------|

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|-------------|------|-------|--------|---------|
| 2014 | | | | | |
| Mar. 1 | Balance | ✓ | | | 8,000 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Mar. 1 | Balance | ✓ | | | 7,000 |
| 2 | | J1 | | 2,500 | 9,500 |
| 10 | | J1 | 4,100 | | 5,400 |

Share Capital—Ordinary **No. 311**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Mar. 1 | Balance | ✓ | | | 40,000 |

Service Revenue **No. 400**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Mar. 9 | | J1 | | 4,000 | 4,000 |
| 20 | | J1 | | 5,000 | 9,000 |
| 31 | | J1 | | 9,000 | 18,000 |

Rent Revenue **No. 429**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Mar.31 | | J1 | | 750 | 750 |

Advertising Expense **No. 610**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Mar.12 | | J1 | 450 | | 450 |

PROBLEM 2-5B (Continued)

Salaries and Wages Expense

No. 726

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Mar. 31 | | J1 | 2,500 | | 2,500 |

Rent Expense

No. 729

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Mar. 2 | | J1 | 3,500 | | 3,500 |
| 20 | | J1 | 2,400 | | 5,900 |

(b)

J1

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|---------------|---|-------------|--------------|---------------|
| 2014 | | | | |
| Mar. 2 | Rent Expense | 729 | 3,500 | |
| | Accounts Payable | 201 | | 2,500 |
| | Cash | 101 | | 1,000 |
| | (Rented films for cash and | | | |
| | on account) | | | |
| 3 | No entry. | | | |
| 9 | Cash | 101 | 4,000 | |
| | Service Revenue | 400 | | 4,000 |
| | (Received cash for services | | | |
| | provided) | | | |
| 10 | Accounts Payable (\$2,500 + \$1,600) | 201 | 4,100 | |
| | Cash | 101 | | 4,100 |
| | (Paid creditors on account) | | | |
| 11 | No entry. | | | |
| 12 | Advertising Expense | 610 | 450 | |
| | Cash | 101 | | 450 |
| | (Paid advertising expense) | | | |

PROBLEM 2-5B (Continued)

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

PROBLEM 2-5B (Continued)

(d)

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

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

| (a) | | GENERAL JOURNAL | J1 | |
|-------------|-----------|--|--------------|--------------|
| | | Account Titles | Debit | Credit |
| 2014 | | | | |
| Nov. | 8 | No entry required for selling her investments—this is a personal transaction. | | |
| | 8 | Cash..... | 500 | |
| | | Share Capital—Ordinary | | 500 |
| | 11 | Advertising Expense | 65 | |
| | | Cash | | 65 |
| | 13 | Supplies..... | 125 | |
| | | Cash | | 125 |
| | 14 | Equipment | 300 | |
| | | Share Capital—Ordinary | | 300 |
| | 16 | Cash..... | 2,000 | |
| | | Notes Payable | | 2,000 |
| | 17 | Equipment | 900 | |
| | | Cash | | 900 |
| | 20 | Cash..... | 125 | |
| | | Service Revenue | | 125 |
| | 25 | Cash..... | 30 | |
| | | Unearned Service Revenue..... | | 30 |
| | 30 | Prepaid Insurance | 1,320 | |
| | | Cash | | 1,320 |

CCC2 (Continued)

(b)

| Cash | | | | | |
|--------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| 2014 | | | | | |
| Nov. 8 | | J1 | 500 | | 500 |
| 11 | | J1 | | 65 | 435 |
| 13 | | J1 | | 125 | 310 |
| 16 | | J1 | 2,000 | | 2,310 |
| 17 | | J1 | | 900 | 1,410 |
| 20 | | J1 | 125 | | 1,535 |
| 25 | | J1 | 30 | | 1,565 |
| 30 | | J1 | | 1,320 | 245 |

| Supplies | | | | | |
|----------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| 2014 | | | | | |
| Nov. 13 | | J1 | 125 | | 125 |

| Prepaid Insurance | | | | | |
|-------------------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| 2014 | | | | | |
| Nov. 30 | | J1 | 1,320 | | 1,320 |

| Equipment | | | | | |
|-----------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| 2014 | | | | | |
| Nov. 14 | | J1 | 300 | | 300 |
| 17 | | J1 | 900 | | 1,200 |

| Unearned Service Revenue | | | | | |
|--------------------------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| 2014 | | | | | |
| Nov. 25 | | J1 | | 30 | 30 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Nov. 16 | | J1 | | 2,000 | 2,000 |

Share Capital—Ordinary

| Date | Explanation | Ref. | Debit | Credit | Balance |
|---------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Nov. 8 | | J1 | | 500 | 500 |
| 14 | | J1 | | 300 | 800 |

Service Revenue

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Nov. 20 | | J1 | | 125 | 125 |

Advertising Expense

| Date | Explanation | Ref. | Debit | Credit | Balance |
|----------------|--------------------|-------------|--------------|---------------|----------------|
| 2014 | | | | | |
| Nov. 11 | | J1 | 65 | | 65 |

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

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

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

| (a) | (1) | (1) | (2) |
|---------------------------------|------------------------|------------------------|-----------------------|
| <u>Account</u> | <u>Increase</u> | <u>Decrease</u> | <u>Normal</u> |
| | <u>Side</u> | <u>Side</u> | <u>Balance</u> |
| Accounts (Trade) Payable | Credit | Debit | Credit |
| Accounts (Trade) Receivable | Debit | Credit | Debit |
| Property, Plant, and Equipment | Debit | Credit | Debit |
| Tax Payable | Credit | Debit | Credit |
| Interest Expense (finance cost) | Debit | Credit | Debit |
| Inventories | Debit | Credit | Debit |

- (b) 1. Cash is increased.
 2. Cash is decreased.
 3. Cash is decreased or Accounts Payable is increased.
- (c) 1. Cash is decreased or Interest Payable is increased.
 2. Cash is decreased or Notes or Mortgage Payable or Share Capital—Ordinary is increased.

| (a) | | Nestlé | | Zetar | |
|-----|----------------------------------|--------|----|-------------------------------|--------|
| 1. | Inventory: | debit | 1. | Accounts (Trade) Receivable: | debit |
| 2. | Property, Plant, and Equipment: | debit | 2. | Cash and Cash Equivalents: | debit |
| 3. | Accounts (Trade) Payable: | credit | 3. | Cost of Goods Sold (expense): | debit |
| 4. | Interest Expense (Finance Cost): | debit | 4. | Sales (revenue) | credit |

(b) The following other accounts are ordinarily involved:

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

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

(a) May 1 Correct.

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

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

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

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

Date: May 25, 2014

To: Accounting Instructor

From: Student

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

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

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

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

| | | |
|----------------------------------|-------|-------|
| Salaries and Wages Expense | 2,000 | |
| Cash | | 2,000 |
| (Salaries paid) | | |

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

(a) The stakeholders in this situation are:

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

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

(c) Sara's alternatives are:

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

GAAP EXERCISE

GAAP 2-1

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

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

GAAP FINANCIAL REPORTING PROBLEM

GAAP 2-2

(a)

| | (1) | | (2) |
|---------------------|------------------|------------------|-------------------|
| | Increase Side | Decrease Side | Normal Balance |
| Accounts Payable | Credit | Debit | Credit |
| Accounts Receivable | Debit | Credit | Debit |
| Buildings | Debit | Credit | Debit |
| Inventories | Debit | Credit | Debit |
| Rent Revenue | Credit | Debit | Credit |
| Rent Expense | Debit | Credit | Debit |

(b) The following other accounts are ordinarily involved:

1. Accounts Receivable is decreased: Cash is increased (debited).
2. Accounts Payable is decreased: Cash is decreased (credited).
3. Inventories is increased: Cash is decreased (credited) or Accounts Payable is increased (credited).

