

Chapter 2

The Accounting Cycle: During the Period

REVIEW QUESTIONS

Question 2-1 (LO 2-1)

External transactions are transactions between the company and a separate economic entity. Internal transactions do not include an exchange with a separate economic entity. Purchasing supplies from a local vendor is classified as an external transaction.

Question 2-2 (LO 2-1)

1. Use source documents to identify accounts affected by external transactions.
2. Analyze the impact of the transaction on the accounting equation.
3. Assess whether the transaction results in a debit or a credit to the account balance.
4. Record the transaction in the journal using debits and credits.
5. Post the transaction to the T-accounts in the general ledger.
6. Prepare a trial balance.

Question 2-3 (LO 2-2)

Dual effect refers to each transaction having an effect on at least two accounts of the accounting equation such that the accounting equation will always be in balance. If an economic event increases (decreases) one side of the equation, then it also increases (decreases) the other side of the equation by the same amount, or, it increases one account and decreases another account on the same side of the equation.

Question 2-4 (LO 2-2)

	Assets	=	Liabilities	+	Stockholders' equity
(a)	Increase	=	Increase	+	No change
(b)	Decrease	=	No change	+	Decrease
(c)	Increase	=	No change	+	Increase
(d)	No change*	=	No change	+	No change

* One asset (equipment) increases while another asset (cash) decreases.

Question 2-5 (LO 2-2)

Jerry is not correct. While it is possible for a transaction to increase one account and decrease another, dual effect simply indicates that at least two accounts will always be affected. However, the accounting equation must always remain in balance. It is not possible for one side of the equation to increase while the other side decreases.

Answers to Review Questions (continued)

Question 2-6 (LO 2-3)

Accounts	Normal balance
Assets	Debit
Liabilities	Credit
Stockholders' equity	Credit
Revenues	Credit
Expenses	Debit

Question 2-7 (LO 2-3)

Jenny is not correct. Any account can be debited or credited. Since an asset has a normal debit balance, it would be debited when it increases and credited when it decreases. Similarly, since a liability has a normal credit balance, it would be credited when it increases and debited when it decreases.

Question 2-8 (LO 2-3)

Accounts	Increase
(a) Cash	Debit
(b) Salaries payable	Credit
(c) Utilities expense	Debit
(d) Service revenue	Credit

Question 2-9 (LO 2-3)

Accounts	Decrease*
(a) Cash	Credit
(b) Salaries payable	Debit
(c) Utilities expense	Credit
(d) Service revenue	Debit

* Answers are opposite of those in Question 2-8

Answers to Review Questions (continued)

Question 2-10 (LO 2-3)

These statements are consistent. Retained earnings has three components – revenues, expenses, and dividends. Changing the balance of any of these components changes the balance of retained earnings. Retained earnings increases with a credit and decreases with a debit. Since expenses reduce retained earnings, an increase to an expense decreases retained earnings.

Question 2-11 (LO 2-4)

A journal provides a chronological record of all transactions affecting a firm. A journal entry is used to describe the format for recording a transaction.

Question 2-12 (LO 2-4)

<u>Date</u>	<u>Debit</u>	<u>Credit</u>
Account Name	Amount	Amount
Account Name		Amount
<i>(Description of transaction)</i>		

Question 2-13 (LO 2-4)

In each journal entry, the sum of all amounts debited equals the sum of all amounts credited.

Question 2-14 (LO 2-4)

(a)	<u>Debit</u>	<u>Credit</u>
Cash	1,200	
Service Revenue		1,200
<i>(Receive cash from providing services)</i>		
(b)	<u>Debit</u>	<u>Credit</u>
Rent Expense	500	
Cash		500
<i>(Pay rent for the current month)</i>		
(c)	<u>Debit</u>	<u>Credit</u>
Building	10,000	
Notes Payable		10,000
<i>(Purchase building with note payable)</i>		

Answers to Review Questions (continued)

Question 2-15 (LO 2-4)

- (a) Purchase supplies by paying cash of \$20,000.
- (b) Provide services to customer on account for \$30,000.
- (c) Pay cash on accounts payable of \$10,000.

Question 2-16 (LO 2-5)

A T-account is an informal means to show the balance in an account. The left side is referred to as a *debit* and the right side is referred to as a *credit*.

Question 2-17 (LO 2-5)

Posting is the process of transferring the debit and credit information from the journal to individual accounts in the general ledger.

<p>(a) Supplies</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 1px solid black; width: 50%;"></td> <td style="border-top: 1px solid black; border-bottom: 1px solid black; width: 50%;"></td> </tr> <tr> <td style="text-align: center; border-right: 1px solid black;">20,000</td> <td style="text-align: center;">20,000</td> </tr> </table>			20,000	20,000	<p>Cash</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 1px solid black; width: 50%;"></td> <td style="border-top: 1px solid black; border-bottom: 1px solid black; width: 50%;"></td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td style="text-align: center;">20,000</td> </tr> </table>				20,000
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	20,000								
<p>(b) Accounts Receivable</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 1px solid black; width: 50%;"></td> <td style="border-top: 1px solid black; border-bottom: 1px solid black; width: 50%;"></td> </tr> <tr> <td style="text-align: center; border-right: 1px solid black;">30,000</td> <td style="border-right: 1px solid black;"></td> </tr> </table>			30,000		<p>Service Revenue</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 1px solid black; width: 50%;"></td> <td style="border-top: 1px solid black; border-bottom: 1px solid black; width: 50%;"></td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td style="text-align: center;">30,000</td> </tr> </table>				30,000
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10,000									
	10,000								

Question 2-18 (LO 2-6)

The general ledger is the collection of all accounts used to record the company's transactions. A chart of accounts is a listing of all account names.

Question 2-19 (LO 2-6)

A trial balance is a list of all accounts and their balances at a particular date. Balance refers to the fact that the sum of the accounts with debit balances should equal the sum of the accounts with credit balances.

Question 2-20 (LO 2-6)

Not necessarily. While total debits equaling total credits is a good indication that all accounts have been appropriately accounted for, the accounts could contain offsetting errors. For example, if one account with a debit (credit) balance is understated by the same amount that another account with a debit (credit) balance is overstated, the trial balance will show equal debit and credit totals.

BRIEF EXERCISES

Brief Exercise 2-1 (LO 2-1)

Proper order:

- (c) Use source documents to identify accounts affected by external transactions.
- (d) Analyze the impact of the transaction on the accounting equation.
- (b) Assess whether the impact of the transaction results in a debit or credit to the account balance.
- (f) Record transactions using debits and credits.
- (a) Post the transaction to the T-accounts in the general ledger.
- (e) Prepare a trial balance.

Brief Exercise 2-2 (LO 2-2)

	Assets	=	Liabilities	+	Stockholders' Equity	Possible (Yes/No)
(a)	Increase (Cash ↑)	=	Decrease (Accounts Payable ↓)	+	No change	No
(b)	No change	=	Increase (Salaries Payable ↑)	+	Increase (Service Revenues ↑)	No
(c)	Decrease (Cash ↓)	=	No Change	+	Decrease (Advertising Expense ↑)	Yes

Brief Exercise 2-3 (LO 2-2)

	<u>Total Assets</u>		<u>Total Liabilities and Stockholders' Equity</u>
Cash	\$ 7,200	Accounts Payable	\$ 1,700
Supplies	2,100	Salaries Payable	4,300
Prepaid Rent	3,200	Notes Payable	18,000
Land	9,000	Stockholders' Equity	13,500
Equipment	16,000		
	<u>\$37,500</u>		<u>\$37,500</u>

Brief Exercise 2-4 (LO 2-2)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
(a)	+\$50,000	=	\$0	+	+\$50,000
(b)	+\$42,000 -\$42,000	=	\$0	+	\$0
(c)	+\$35,000	=	+\$35,000	+	\$0
(d)	-\$5,000	=	\$0	+	-\$5,000

Brief Exercise 2-5 (LO 2-3)

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Asset	+	-
Liability	-	+
Common Stock	-	+
Retained Earnings	-	+
Dividends	+	-
Revenue	-	+
Expense	+	-

Brief Exercise 2-6 (LO 2-3)

- (a) The balance of an *asset* account increases with a **debit** and decreases with a **credit**.
- (b) The balance of a *liability* account increases with a **credit** and decreases with a **debit**.
- (c) The balance of a stockholders' equity account increases with a **credit** and decreases with a **debit**.
- (d) The balance of a *revenue* account increases with a **credit** and decreases with a **debit**.
- (e) The balance of an *expense* account increases with a **debit** and decreases with a **credit**.

Brief Exercise 2-7 (LO 2-4)

	Debit	Credit
(1)		
Equipment	15,000	
Notes Payable		15,000
<i>(Purchase equipment with note payable)</i>		
(2)		
Supplies	600	
Cash		600
<i>(Purchase office supplies for cash)</i>		
(3)		
Rent Expense	800	
Cash		800
<i>(Pay rent for the current month)</i>		

Brief Exercise 2-8 (LO 2-4)

	Debit	Credit
(1)		
Cash	17,000	
Service Revenue		17,000
<i>(Provide services for cash)</i>		
(2)		
Prepaid Insurance	4,200	
Cash		4,200
<i>(Purchase one year of prepaid insurance with cash)</i>		
(3)		
Equipment	20,000	
Cash		20,000
<i>(Purchase equipment with cash)</i>		
(4)		
Cash	30,000	
Notes Payable		30,000
<i>(Obtain bank loan)</i>		

Brief Exercise 2-9 (LO 2-5)

1.

Cash	
13,000	8,200
4,400	1,900
3,500	5,500
5,300	

2. Postings on the left side (or debit side) of the cash T-account represent increases to cash, such as receiving cash from customers, selling assets, borrowing money, and issuing stock.
3. Postings on the right side (or credit side) of the cash T-account represent decreases to cash, such as paying cash for rent, supplies, equipment, employee salaries, utilities, repayment of debt, and dividends.

Brief Exercise 2-10 (LO 2-2, 2-3, 2-4, 2-5)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
(a)	+\$30,000	=	\$0	+	+\$30,000
(b)	+\$20,000	=	+\$20,000	+	\$0
(c)	-\$7,000	=	\$0	+	-\$7,000

(a)		<u>Debit</u>	<u>Credit</u>
	Cash	30,000	
	Service Revenue		30,000
	<i>(Provide services for cash)</i>		

(b)		<u>Debit</u>	<u>Credit</u>
	Supplies	20,000	
	Accounts Payable		20,000
	<i>(Purchase office supplies on account)</i>		

(c)		<u>Debit</u>	<u>Credit</u>
	Salaries Expense	7,000	
	Cash		7,000
	<i>(Pay salaries for the current month)</i>		

	Cash		Service Revenue	
	<u>0</u>		<u>0</u>	
(a)	30,000		30,000	(a)
		7,000 (c)		
	<u>23,000</u>		<u>30,000</u>	

	Supplies		Accounts Payable		Salaries Expense
	<u>0</u>		<u>0</u>		<u>0</u>
(b)	20,000		20,000 (b)	(c)	7,000
					7,000
	<u>20,000</u>		<u>20,000</u>		<u>7,000</u>

Brief Exercise 2-11 (LO 2-6)**Trial Balance**

Accounts	Debit	Credit
Cash	\$ 6,100	
Accounts Receivable	4,400	
Prepaid Rent	900	
Accounts Payable		\$ 2,000
Salaries Payable		700
Common Stock		6,200
Retained Earnings		2,000
Dividends	500	
Service Revenue		7,100
Salaries Expense	3,000	
Rent Expense	2,000	
Advertising Expense	1,100	
Totals	\$18,000	\$18,000

Brief Exercise 2-12 (LO 2-6)**Trial Balance**

Accounts	Debit	Credit
Cash	\$ 7,300	
Accounts Receivable	2,100	
Equipment	10,400	
Accounts Payable		\$ 3,900
Deferred Revenue		1,100
Common Stock		11,000
Retained Earnings		3,900
Dividends	600	
Service Revenue		4,500
Salaries Expense	3,200	
Utilities Expense	800	
Totals	\$24,400	\$24,400

EXERCISES

Exercise 2-1 (LO 2-1)

1. d.
2. b.
3. a.
4. e.
5. c.

Exercise 2-2 (LO 2-2)

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>
1.	<i>Increase</i>	=	<i>No effect</i>	+	<i>Increase</i>
2.	Increase	=	Increase	+	No effect
3.	Increase	=	No effect	+	Increase
4.	Decrease	=	No effect	+	Decrease
5.	Decrease	=	No effect	+	Decrease
6.	No effect*	=	No effect	+	No effect

* One asset (cash) increases while another asset (accounts receivable) decreases.

Exercise 2-3 (LO 2-2)

Dual Effect

1. Issue 10,000 shares of common stock in exchange for \$32,000 in cash.	Assets increase	Stockholders' equity increases
2. Purchase land for \$19,000. A note payable is signed for the full amount.	Assets increase	Liabilities increase
3. Purchase storage containers for \$8,000.	One asset (containers) increases and another asset (cash) decreases	
4. Hire three employees for \$2,000 per month.	No effect on the accounting equation	
5. Receive cash of \$12,000 in rental fees for the current month.	Assets increase	Stockholders' equity increases
6. Purchase office supplies for \$2,000 on account.	Assets increase	Liabilities increase
7. Pay employees \$6,000 for the first month's salaries.	Assets decrease	Stockholders' equity decreases

Exercise 2-4 (LO 2-2)

	Dual Effect	
1. Paint houses in the current month for \$15,000 on account.	Assets increase	Stockholders' equity increases
2. Purchase painting equipment for \$16,000 cash.	One asset (equipment) increases and another asset (cash) decreases	
3. Purchase office supplies on account for \$2,500.	Assets increase	Liabilities increase
4. Pay employee salaries of \$3,200 for the current month.	Assets decrease	Stockholders' equity decreases
5. Purchase advertising to appear in the current month, \$1,200.	Assets decrease	Stockholders' equity decreases
6. Pay office rent of \$4,400 for the current month.	Assets decrease	Stockholders' equity decreases
7. Receive \$10,000 from customers in (1) above.	One asset (cash) increases and another asset (accounts receivable) decreases	
8. Receive cash of \$5,000 in advance from a customer that plans to have his house painted in the following month.	Assets increase	Liabilities increase

Exercise 2-5 (LO 2-2)

Transaction	Balance
Retained earnings, April 1	\$13,000
1. Issue common stock for cash, \$11,000	0
2. Provide services to customers on account, \$8,500.	+8,500
3. Provide services to customers in exchange for cash, \$3,200.	+3,200
4. Purchase equipment and pay cash, \$7,600.	0
5. Pay rent for April, \$1,100.	-1,100
6. Pay employee salaries for April, \$3,500.	-3,500
7. Pay dividends to stockholders, \$2,000.	-2,000
Retained earnings, April 30	<u>\$18,100</u>

Exercise 2-6 (LO 2-3)

Debit or Credit	Account
1. <u>Debit</u>	Cash
2. <u>Credit</u>	Service Revenue
3. <u>Debit</u>	Salaries Expense
4. <u>Credit</u>	Accounts Payable
5. <u>Debit</u>	Equipment
6. <u>Credit</u>	Retained Earnings
7. <u>Debit</u>	Utilities Expense
8. <u>Debit</u>	Accounts Receivable
9. <u>Debit</u>	Dividends
10. <u>Credit</u>	Common Stock

Exercise 2-7 (LO 2-3)

	Account Debited	Account Credited
<i>Example: Purchase equipment in exchange for cash.</i>	<i>Equipment</i>	<i>Cash</i>
1. Pay a cash dividend.	Dividends	Cash
2. Pay rent in advance for the next three months.	Prepaid Rent	Cash
3. Provide services to customers on account.	Accounts Receivable	Service Revenue
4. Purchase office supplies on account.	Supplies	Accounts Payable
5. Pay salaries for the current month.	Salaries Expense	Cash
6. Issue common stock in exchange for cash.	Cash	Common Stock
7. Collect cash from customers for services provided in (3) above.	Cash	Accounts Receivable
8. Borrow cash from the bank and sign a note.	Cash	Notes Payable
9. Pay for the current month's utilities.	Utilities Expense	Cash
10. Pay for office supplies purchased in (4) above.	Accounts Payable	Cash

Exercise 2-8 (LO 2-4)

	Debit	Credit
(1)		
Equipment	23,400	
Cash		23,400
<i>(Purchase equipment with cash)</i>		
(2)		
Cash	6,800	
Service Revenue		6,800
<i>(Provide services for cash)</i>		
(3)		
Rent Expense	1,300	
Cash		1,300
<i>(Pay current month's rent)</i>		
(4)		
Supplies	1,000	
Accounts Payable		1,000
<i>(Purchase office supplies on account)</i>		
(5)		
Salaries Expense	2,100	
Cash		2,100
<i>(Pay current month's salaries)</i>		

Exercise 2-9 (LO 2-4)

1. Purchase equipment with cash, \$8,800.
2. Provide services to customers on account, \$3,200.
3. Pay current month's salaries, \$1,900.
4. Receive cash from customers in advance of services, \$1,500.
5. Pay dividends to stockholders, \$900.

Exercise 2-10 (LO 2-4)

<u>February 2</u>	<u>Debit</u>	<u>Credit</u>
Advertising Expense	700	
Cash		700
<i>(Pay advertising for current month)</i>		
<u>February 7</u>		
Supplies	1,300	
Accounts Payable		1,300
<i>(Purchase beauty supplies on account)</i>		
<u>February 14</u>		
Cash	2,900	
Service Revenue		2,900
<i>(Provide beauty services for cash)</i>		
<u>February 15</u>		
Salaries Expense	900	
Cash		900
<i>(Pay salaries for current month)</i>		
<u>February 25</u>		
Accounts Receivable	1,000	
Service Revenue		1,000
<i>(Provide beauty services on account)</i>		
<u>February 28</u>		
Utilities Expense	300	
Cash		300
<i>(Pay utilities for current month)</i>		

Exercise 2-11 (LO 2-4)

March 1	Debit	Credit
Cash	21,000	
Common Stock <i>(Issue common stock)</i>		21,000
March 5		
Cash	9,000	
Notes Payable <i>(Obtain bank loan)</i>		9,000
March 10		
Equipment	25,000	
Cash <i>(Purchase construction equipment for cash)</i>		25,000
March 15		
Advertising Expense	1,100	
Cash <i>(Purchase advertising for current month)</i>		1,100
March 22		
Accounts Receivable	18,000	
Service Revenue <i>(Provide construction services on account)</i>		18,000
March 27		
Cash	13,000	
Accounts Receivable <i>(Receive cash on account)</i>		13,000
March 28		
Salaries Expense	6,000	
Cash <i>(Pay salaries for current month)</i>		6,000

Exercise 2-12 (LO 2-4)**Corrections**

	External Transaction	Accounts	Debit	Credit
1.	Owners invest \$15,000 in the company and receive common stock.	Cash Common Stock	15,000	15,000
2.	Receive cash of \$4,000 for services provided in the current period.	Cash Service Revenue	4,000	4,000
3.	Purchase office supplies on account, \$300.	Supplies Accounts Payable	300	300
4.	Pay \$600 for next month's rent.	Prepaid Rent Cash	600	600
5.	Purchase office equipment with cash of \$2,200.	Equipment Cash	2,200	2,200

Note: Accounts in blue are corrected items.
Accounts in black need no correction.

Exercise 2-13 (LO 2-4)**Corrections**

	External Transaction	Accounts	Debit	Credit
1.	Pay cash dividends of \$800 to stockholders.	Dividends Cash	800	800
2.	Provide services on account for customers, \$3,400	Accounts Receivable Service Revenue	3,400	3,400
3.	Pay a \$500 utilities bill for the current period.	Utilities Expense Cash	500	500
4.	Receive cash of \$400 from previously billed customers.	Cash Accounts Receivable	400	400
5.	Pay for supplies previously purchased on account, \$1,200.	Accounts Payable Cash	1,200	1,200

Note: Accounts in blue are corrected items.
Accounts in black need no correction.

Exercise 2-14 (LO 2-5)

Cash			
	5,000		
(1)	15,000	9,000	(2)
(4)	8,000	3,000	(3)
(6)	4,000	1,000	(5)
		7,000	(7)
	12,000		

Transaction (8) is not posted to the Cash T-account because a purchase *on account* does not involve cash.

Exercise 2-15 (LO 2-5)

Cash			
	3,400		
(3)	10,200	1,000	(4)
(6)	1,100	3,700	(5)
	10,000		

Accounts Receivable			
	4,200		
(1)	8,400	10,200	(3)
	2,400		

Supplies			
	400		
(2)	2,300		
	2,700		

Accounts Payable			
		3,500	
(5)	3,700	2,300	(2)
		2,100	

Deferred Revenue			
		300	
		1,100	(6)
		1,400	

Service Revenue			
		0	
		8,400	(1)
		8,400	

Advertising Expense			
		0	
(4)	1,000		
	1,000		

Exercise 2-16 (LO 2-5)

1. Provide services to customers for cash, \$20,000.
2. Provide services to customers on account, \$5,000.
3. Receive cash from customers on account, \$4,000.
4. Purchase supplies on account, \$6,000.
5. Pay employees for current salaries, \$14,000.
6. Pay cash on account, \$7,000.

Exercise 2-17 (LO 2-6)

**Sooner Company
Trial Balance
April 30**

Accounts	Debit	Credit
Cash	\$ 3,900	
Accounts Receivable	6,100	
Prepaid Rent	7,400	
Land	60,000	
Accounts Payable		\$ 4,300
Deferred Revenue		2,300
Common Stock		40,000
Retained Earnings		23,000
Service Revenue		25,400
Supplies Expense	9,400	
Salaries Expense	8,200	
Totals	\$95,000	\$95,000

Exercise 2-18 (LO 2-6)

Cobras Incorporated
Trial Balance
March 31

Accounts	Debit	Credit
Cash	\$ 3,500	
Accounts Receivable	4,200	
Supplies	1,000	
Prepaid Insurance	1,200	
Buildings	55,000	
Accounts Payable		\$ 2,200
Salaries Payable		500
Common Stock		35,000
Retained Earnings		17,800
Service Revenue		19,500
Salaries Expense	6,400	
Utilities Expense	3,700	
Totals	\$75,000	\$75,000

Exercise 2-19 (LO 2-4, 2-5, 2-6)**Requirement 1**

	Debit	Credit
<u>(1) January 1</u>		
Cash	42,000	
Common Stock		42,000
<i>(Issue common stock)</i>		
 <u>(2) January 5</u>		
Land	24,000	
Notes Payable		24,000
<i>(Purchase land with note payable)</i>		
 <u>(3) January 9</u>		
Equipment	9,000	
Cash		9,000
<i>(Purchase storage containers)</i>		
 <u>(4) January 12</u>		
No entry		
 <u>(5) January 18</u>		
Cash	13,000	
Service Revenue		13,000
<i>(Receive cash for current month's rent)</i>		
 <u>(6) January 23</u>		
Supplies	3,000	
Accounts Payable		3,000
<i>(Purchase office supplies on account)</i>		
 <u>(7) January 31</u>		
Salaries Expense	9,000	
Cash		9,000
<i>(Pay salaries for the current month)</i>		

Exercise 2-19 (continued)

Requirement 2

Cash				Common Stock	
	0			0	
(1)	42,000			42,000	(1)
		9,000	(3)		
(5)	13,000				
		9,000	(7)		
	<u>37,000</u>			<u>42,000</u>	

Land				Notes Payable	
	0			0	
(2)	24,000			24,000	(2)
	<u>24,000</u>			<u>24,000</u>	

Equipment				Service Revenue	
	0			0	
(3)	9,000			13,000	(5)
	<u>9,000</u>			<u>13,000</u>	

Supplies				Accounts Payable	
	0			0	
(6)	3,000			3,000	(6)
	<u>3,000</u>			<u>3,000</u>	

Salaries Expense			
	0		
(7)	9,000		
	<u>9,000</u>		

Exercise 2-19 (concluded)

Requirement 3

**Green Wave Company
Trial Balance**

Accounts	Debit	Credit
Cash	\$37,000	
Supplies	3,000	
Land	24,000	
Equipment	9,000	
Accounts Payable		\$ 3,000
Notes Payable		24,000
Common Stock		42,000
Service Revenue		13,000
Salaries Expense	9,000	
Totals	\$82,000	\$82,000

Exercise 2-20 (LO 2-4, 2-5, 2-6)

Requirement 1

	Debit	Credit
<u>(1) September 3</u>		
Accounts Receivable	20,000	
Service Revenue		20,000
<i>(Provide painting on account)</i>		
<u>(2) September 8</u>		
Equipment	21,000	
Cash		21,000
<i>(Purchase painting equipment)</i>		
<u>(3) September 12</u>		
Supplies	3,500	
Accounts Payable		3,500
<i>(Purchase office supplies on account)</i>		
<u>(4) September 15</u>		
Salaries Expense	4,200	
Cash		4,200
<i>(Pay salaries for the current month)</i>		
<u>(5) September 19</u>		
Advertising Expense	1,000	
Cash		1,000
<i>(Pay advertising for the current month)</i>		
<u>(6) September 22</u>		
Rent Expense	5,400	
Cash		5,400
<i>(Pay rent for the current month)</i>		
<u>(7) September 26</u>		
Cash	15,000	
Accounts Receivable		15,000
<i>(Receive cash on account)</i>		
<u>(8) September 30</u>		
Cash	6,000	
Deferred Revenue		6,000
<i>(Receive cash in advance for painting)</i>		

Exercise 2-20 (continued)

Requirement 2

<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Accounts Receivable</th> <th style="width: 20px;"></th> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Service Revenue</th> </tr> <tr> <td style="width: 10%; vertical-align: top;">Beg.</td> <td style="width: 15%; text-align: right;">1,700</td> <td style="width: 10%;"></td> <td style="width: 15%;"></td> <td style="width: 10%; vertical-align: top;">Beg.</td> </tr> <tr> <td style="vertical-align: top;">(1)</td> <td style="text-align: right;">20,000</td> <td></td> <td style="text-align: right;">0</td> <td style="vertical-align: top;">(1)</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">15,000</td> <td style="text-align: right;">20,000</td> <td></td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">6,700</td> <td style="vertical-align: bottom;">(7)</td> <td style="border-top: 1px solid black; text-align: right;">20,000</td> <td></td> </tr> </table>	Accounts Receivable			Service Revenue		Beg.	1,700			Beg.	(1)	20,000		0	(1)			15,000	20,000			6,700	(7)	20,000		<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Equipment</th> <th style="width: 20px;"></th> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Cash</th> </tr> <tr> <td style="width: 10%; vertical-align: top;">Beg.</td> <td style="width: 15%; text-align: right;">7,400</td> <td style="width: 10%;"></td> <td style="width: 15%;"></td> <td style="width: 10%; vertical-align: top;">Beg.</td> </tr> <tr> <td style="vertical-align: top;">(2)</td> <td style="text-align: right;">21,000</td> <td></td> <td style="text-align: right;">46,100</td> <td style="vertical-align: top;">(2)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">21,000</td> <td style="vertical-align: top;">(4)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">4,200</td> <td style="vertical-align: top;">(5)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">1,000</td> <td style="vertical-align: top;">(6)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">5,400</td> <td style="vertical-align: top;">(7)</td> </tr> <tr> <td></td> <td></td> <td style="vertical-align: bottom;">(8)</td> <td style="text-align: right;">15,000</td> <td></td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; text-align: right;">28,400</td> <td></td> <td style="text-align: right;">6,000</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="border-top: 1px solid black; text-align: right;">35,500</td> <td></td> </tr> </table>	Equipment			Cash		Beg.	7,400			Beg.	(2)	21,000		46,100	(2)				21,000	(4)				4,200	(5)				1,000	(6)				5,400	(7)			(8)	15,000			28,400		6,000					35,500	
Accounts Receivable			Service Revenue																																																																									
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	25,000		29,500																																																																									
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Exercise 2-20 (concluded)

Requirement 3

**Boilermaker House Painting Company
Trial Balance**

Accounts	Debit	Credit
Cash	\$35,500	
Accounts Receivable	6,700	
Supplies	4,000	
Equipment	28,400	
Accounts Payable		\$ 4,700
Deferred Revenue		6,000
Common Stock		25,000
Retained Earnings		29,500
Service Revenue		20,000
Salaries Expense	4,200	
Advertising Expense	1,000	
Rent Expense	5,400	
Totals	\$85,200	\$85,200

PROBLEMS: SET A

Problem 2-1A (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash.	Increase	=	No effect	+	Increase
2. Purchase business supplies on account.	Increase	=	Increase	+	No effect
3. Pay for legal services for the current month.	Decrease	=	No effect	+	Decrease
4. Provide services to customers on account.	Increase	=	No effect	+	Increase
5. Pay employee salaries for the current month.	Decrease	=	No effect	+	Decrease
6. Provide services to customers for cash.	Increase	=	No effect	+	Increase
7. Pay for advertising for the current month.	Decrease	=	No effect	+	Decrease
8. Repay loan from the bank.	Decrease	=	Decrease	+	No effect
9. Pay dividends to stockholders.	Decrease	=	No effect	+	Decrease
10. Receive cash from customers in (4) above.	No effect*	=	No effect	+	No effect
11. Pay for supplies purchased in (2) above.	Decrease	=	Decrease	+	No effect

***One asset (cash) increases and another asset (accounts receivable) decreases**

Problem 2-2A (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Provide services to customers on account, \$1,600.	+\$1,600	=	\$0	+	+\$1,600
2. Pay \$400 for current month's rent.	-\$400	=	\$0	+	-\$400
3. Hire a new employee, who will be paid \$500 at the end of each month.	\$0	=	\$0	+	\$0
4. Pay \$100 for advertising aired in the current period.	-\$100	=	\$0	+	-\$100
5. Purchase office supplies for cash.	+\$400 -\$400	=	\$0	+	\$0
6. Receive cash of \$1,000 from customers in (1) above.	+\$1,000 -\$1,000	=	\$0	+	\$0
7. Obtain a loan from the bank for \$7,000.	+\$7,000	=	+\$7,000	+	\$0
8. Receive a bill of \$200 for utility costs of the current period.	\$0	=	+\$200	+	-\$200
9. Issue common stock for \$10,000 cash.	+\$10,000	=	\$0	+	+\$10,000
10. Pay \$500 to employee in (3) above.	-\$500	=	\$0	+	-\$500
Totals	\$17,600	=	\$7,200	+	\$10,400

Problem 2-3A (LO 2-3)

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Salaries Payable	Liability	Credit
2. Common Stock	Stockholders' equity	Credit
3. Prepaid Rent	Asset	Debit
4. Buildings	Asset	Debit
5. Utilities Expense	Expense	Debit
6. Equipment	Asset	Debit
7. Rent Expense	Expense	Debit
8. Notes Payable	Liability	Credit
9. Salaries Expense	Expense	Debit
10. Insurance Expense	Expense	Debit
11. Cash	Asset	Debit
12. Service Revenue	Revenue	Credit

Problem 2-4A (LO 2-4)

Transactions for Jake's Lawn Maintenance Company

<u>July 3</u>	Debit	Credit
Accounts Receivable	500	
Service Revenue <i>(Provide services on account)</i>		500
<u>July 6</u>		
Repairs and Maintenance Expense	450	
Accounts Payable <i>(Receive maintenance on account)</i>		450
<u>July 9</u>		
Cash	500	
Accounts Receivable <i>(Receive cash on account)</i>		500
<u>July 14</u>		
Notes Receivable	600	
Cash <i>(Loan cash by accepting note receivable)</i>		600
<u>July 18</u>		
Advertising Expense	110	
Cash <i>(Pay advertising for the current month)</i>		110
<u>July 20</u>		
Accounts Payable	450	
Cash <i>(Pay cash on account)</i>		450
<u>July 27</u>		
No entry for Jake.		
<u>July 30</u>		
No entry for Jake.		
<u>July 31</u>		
Cash	600	
Notes Receivable <i>(Receive cash on note receivable)</i>		600

Problem 2-5A (LO 2-2, 2-4)**Transactions for Luke's Repair Shop**

<u>July 3</u>	Debit	Credit
Repairs and Maintenance Expense	500	
Accounts Payable		500
<i>(Receive services on account)</i>		
<u>July 6</u>		
Accounts Receivable	450	
Service Revenue		450
<i>(Provide services on account)</i>		
<u>July 9</u>		
Accounts Payable	500	
Cash		500
<i>(Pay cash on account)</i>		
<u>July 14</u>		
Cash	600	
Notes Payable		600
<i>(Borrow by signing note payable)</i>		
<u>July 18</u>		
No entry for Luke.		
<u>July 20</u>		
Cash	450	
Accounts Receivable		450
<i>(Receive cash on account)</i>		
<u>July 27</u>		
Cash	800	
Service Revenue		800
<i>(Provide services for cash)</i>		
<u>July 30</u>		
Salaries Expense	300	
Cash		300
<i>(Pay salaries to employees)</i>		
<u>July 31</u>		
Notes Payable	600	
Cash		600
<i>(Pay note payable)</i>		

Problem 2-5A (concluded)

<u>Jake's Lawn Maintenance Company</u>				<u>Luke's Repair Shop</u>			
	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Stockholders' Equity</u>		
July 3	+\$500	=	\$0	+	+\$500	\$0	= +\$500 + -\$500
6	\$0	=	+\$450	+	-\$450	+\$450	= \$0 + +\$450
9	+\$500 -\$500	=	\$0	+	\$0	-\$500	= -\$500 + \$0
14	+\$600 -\$600	=	\$0	+	\$0	+\$600	= +\$600 + \$0
18	-\$110	=	\$0	+	-\$110	\$0	= \$0 + \$0
20	-\$450	=	-\$450	+	\$0	+\$450 -\$450	= \$0 + \$0
27	\$0	=	\$0	+	\$0	+\$800	= \$0 + +\$800
30	\$0	=	\$0	+	\$0	-\$300	= \$0 + -\$300
31	+\$600 -\$600	=	\$0	+	\$0	-\$600	= -\$600 + \$0

Problem 2-6A (LO 2-6)

Bruins Company
Trial Balance
November 30

Accounts	Debit	Credit
Cash	\$ 40,000	
Accounts Receivable	50,000	
Supplies	1,100	
Prepaid Rent	3,000	
Equipment	60,800	
Accounts Payable		\$ 17,000
Salaries Payable		5,000
Interest Payable		3,000
Deferred Revenue		9,000
Notes Payable		30,000
Common Stock		50,000
Retained Earnings		35,000
Dividends	1,100	
Service Revenue		65,000
Salaries Expense	30,000	
Rent Expense	12,000	
Interest Expense	3,000	
Supplies Expense	7,000	
Utilities Expense	6,000	
Totals	<u>\$214,000</u>	<u>\$214,000</u>

Problem 2-7A (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

	Debit	Credit
(1) <u>March 1</u>		
Cash	3,000	
Common Stock		3,000
<i>(Issue common stock)</i>		
(2) <u>March 3</u>		
Equipment	2,700	
Notes Payable		2,700
<i>(Purchase sewing equipment with note payable)</i>		
(3) <u>March 5</u>		
Rent Expense	600	
Cash		600
<i>(Pay rent for current month)</i>		
<u>March 7</u>		
No entry		
(4) <u>March 12</u>		
Supplies	130	
Accounts Payable		130
<i>(Purchase sewing supplies on account)</i>		
(5) <u>March 15</u>		
Cash	800	
Service Revenue		800
<i>(Provide services for cash)</i>		
(6) <u>March 19</u>		
Cash	700	
Deferred Revenue		700
<i>(Receive cash in advance from customer)</i>		
(7) <u>March 25</u>		
Deferred Revenue	700	
Service Revenue		700
<i>(Provide services to customer)</i>		
(8) <u>March 30</u>		
Utilities Expense	95	
Cash		95
<i>(Pay utilities for current month)</i>		
(9) <u>March 31</u>		
Dividends	150	
Cash		150
<i>(Pay dividends)</i>		

Problem 2-7A (continued)

Requirements 2 and 3

Cash	
(1) 3,000	600 (3)
(5) 800	95 (8)
(6) 700	150 (9)
<hr/>	
3,655	
<hr/>	

Supplies	
(4) 130	
<hr/>	
130	
<hr/>	

Equipment	
(2) 2,700	
<hr/>	
2,700	
<hr/>	

Accounts Payable	
	130 (4)
<hr/>	
	130
<hr/>	

Deferred Revenue	
(7) 700	700 (6)
<hr/>	
	0
<hr/>	

Notes Payable	
	2,700 (2)
<hr/>	
	2,700
<hr/>	

Common Stock	
	3,000 (1)
<hr/>	
	3,000
<hr/>	

Dividends	
(9) 150	
<hr/>	
150	
<hr/>	

Service Revenue	
	800 (5)
	700 (7)
<hr/>	
1,500	
<hr/>	

Rent Expense	
(3) 600	
<hr/>	
600	
<hr/>	

Utilities Expense	
(8) 95	
<hr/>	
95	
<hr/>	

Problem 2-7A (concluded)

Requirement 4

**Ute Sewing Shop
Trial Balance
March 31**

Accounts	Debit	Credit
Cash	\$3,655	
Supplies	130	
Equipment	2,700	
Accounts Payable		\$ 130
Deferred Revenue		0
Notes Payable		2,700
Common Stock		3,000
Dividends	150	
Service Revenue		1,500
Rent Expense	600	
Utilities Expense	95	
Totals	\$7,330	\$7,330

Problem 2-8A (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

	Debit	Credit
(1) <u>Sep. 1</u>		
Cash	4,700	
Service Revenue		4,700
<i>(Provide services for cash)</i>		
(2) <u>Sep. 2</u>		
Land	6,400	
Notes Payable		6,400
<i>(Purchase land with note payable)</i>		
(3) <u>Sep. 4</u>		
Advertising Expense	500	
Accounts Payable		500
<i>(Receive invoice for current advertising)</i>		
(4) <u>Sep. 8</u>		
Accounts Receivable	6,000	
Service Revenue		6,000
<i>(Provide services on account)</i>		
(5) <u>Sep. 10</u>		
Supplies	1,100	
Accounts Payable		1,100
<i>(Purchase supplies on account)</i>		
(6) <u>Sep. 13</u>		
Notes Payable	4,000	
Cash		4,000
<i>(Pay note payable)</i>		
(7) <u>Sep. 18</u>		
Cash	5,000	
Accounts Receivable		5,000
<i>(Receive cash on account)</i>		
(8) <u>Sep. 20</u>		
Rent Expense	900	
Cash		900
<i>(Pay rent for current month)</i>		
(9) <u>Sep. 30</u>		
Utilities Expense	2,000	
Cash		2,000
<i>(Pay utilities for current month)</i>		

Problem 2-8A (continued)

(10)	<u>Sep. 30</u>		
	Salaries Expense	4,000	
	Cash		4,000
	<i>(Pay salaries for current month)</i>		
(11)	<u>Sep. 30</u>		
	Dividends	1,100	
	Cash		1,100
	<i>(Pay dividends)</i>		

Problem 2-8A (continued)

Requirements 2 and 3

Cash	
Bal. 6,500	4,000 (6)
(1) 4,700	900 (8)
(7) 5,000	2,000 (9)
	4,000 (10)
	1,100 (11)
4,200	

Accounts Receivable	
Bal. 2,500	5,000 (7)
(4) 6,000	
3,500	

Supplies	
Bal. 7,600	
(5) 1,100	
8,700	

Land	
Bal. 11,200	
(2) 6,400	
17,600	

Accounts Payable	
	7,500 Bal.
	500 (3)
	1,100 (5)
	9,100

Notes Payable	
(6) 4,000	3,000 Bal.
	6,400 (2)
	5,400

Common Stock	
	9,000 Bal.
	9,000

Retained Earnings	
	8,300 Bal.
	8,300

Dividends	
(11) 1,100	
1,100	

Service Revenue	
	4,700 (1)
	6,000 (4)
	10,700

Salaries Expense	
(10) 4,000	
4,000	

Rent Expense	
(8) 900	
900	

Advertising Expense	
(3) 500	
500	

Utilities Expense	
(9) 2,000	
2,000	

Problem 2-8A (continued)**Requirement 4**

Pirates Incorporated
Trial Balance
September 30

Accounts	Debit	Credit
Cash	\$ 4,200	
Accounts Receivable	3,500	
Supplies	8,700	
Land	17,600	
Accounts Payable		\$ 9,100
Notes Payable		5,400
Common Stock		9,000
Retained Earnings		8,300
Dividends	1,100	
Service Revenue		10,700
Salaries Expense	4,000	
Rent Expense	900	
Advertising Expense	500	
Utilities Expense	2,000	
Totals	\$42,500	\$42,500

Problem 2-9A (LO 2-4, 2-5, 2-6)

Requirement 1

Entries are numbered for posting.

	Debit	Credit
(1) <u>December 1</u>		
Rent Expense	900	
Cash		900
<i>(Pay rent for December)</i>		
(2) <u>December 5</u>		
Cash	2,800	
Service Revenue		2,800
<i>(Provide services for cash)</i>		
(3) <u>December 8</u>		
Cash	10,000	
Notes Payable		10,000
<i>(Borrow by signing note payable)</i>		
(4) <u>December 12</u>		
Cash	3,500	
Accounts Receivable		3,500
<i>(Receive cash from customers on account)</i>		
(5) <u>December 13</u>		
Cash	20,000	
Common Stock		20,000
<i>(Issue shares of common stock)</i>		
(6) <u>December 15</u>		
Salaries Expense	1,200	
Cash		1,200
<i>(Pay salaries for December)</i>		
(7) <u>December 17</u>		
Advertising Expense	1,000	
Cash		1,000
<i>(Purchase advertising for December)</i>		
(8) <u>December 22</u>		
Accounts Receivable	3,200	
Service Revenue		3,200
<i>(Provide services on account)</i>		
<u>December 23</u>		
No journal entry required		

Problem 2-9A (continued)

(9)	<u>December 26</u>		
	Equipment	28,500	
	Cash		28,500
	<i>(Purchase equipment)</i>		
(10)	<u>December 28</u>		
	Accounts Payable	1,500	
	Cash		1,500
	<i>(Pay cash on account)</i>		
(11)	<u>December 31</u>		
	Dividends	2,000	
	Cash		2,000
	<i>(Pay dividends)</i>		

Problem 2-9A (continued)

Requirements 2 and 3

Cash	
Bal. 9,200	900 (1)
(2) 2,800	1,200 (6)
(3) 10,000	1,000 (7)
(4) 3,500	28,500 (9)
(5) 20,000	1,500 (10)
	2,000 (11)
10,400	

Accounts Receivable	
Bal. 4,500	3,500 (4)
(8) 3,200	
4,200	

Prepaid Insurance	
Bal. 400	
400	

Equipment	
Bal. 24,100	
(9) 28,500	
52,600	

Land	
Bal. 170,000	
170,000	

Accounts Payable	
(10) 1,500	3,300 Bal.
1,800	

Notes Payable	
	50,000 Bal.
	10,000 (3)
60,000	

Common Stock	
	120,000 Bal.
	20,000 (5)
140,000	

Retained Earnings	
	14,100 Bal.
14,100	

Dividends	
Bal. 5,000	
(11) 2,000	
7,000	

Service Revenue	
	75,000 Bal.
	2,800 (2)
	3,200 (8)
81,000	

Advertising Expense	
Bal. 11,000	
(7) 1,000	
12,000	

Salaries Expense	
Bal. 28,300	
(6) 1,200	
29,500	

Rent Expense	
Bal. 9,900	
(1) 900	
10,800	

Problem 2-9A (continued)**Requirement 4**

RiverHawk Expeditions
Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	\$ 10,400	
Accounts Receivable	4,200	
Prepaid Insurance	400	
Equipment	52,600	
Land	170,000	
Accounts Payable		\$ 1,800
Notes Payable		60,000
Common Stock		140,000
Retained Earnings		14,100
Dividends	7,000	
Service Revenue		81,000
Advertising Expense	12,000	
Salaries Expense	29,500	
Rent Expense	10,800	
Totals	\$296,900	\$296,900

PROBLEMS: SET B

Problem 2-1B (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Obtain a loan at the bank	Increase	=	Increase	+	No effect
2. Purchase a machine to use in operations for cash.	No effect*	=	No effect	+	No effect
3. Provide services to customers for cash.	Increase	=	No effect	+	Increase
4. Pay employee salaries for the current month.	Decrease	=	No effect	+	Decrease
5. Repay loan from the bank in (1) above.	Decrease	=	Decrease	+	No effect
6. Customers pay cash in advance of services.	Increase	=	Increase	+	No effect
7. Pay for maintenance costs in the current month.	Decrease	=	No effect	+	Decrease
8. Pay for advertising in the current month.	Decrease	=	No effect	+	Decrease
9. Purchase office supplies on account.	Increase	=	Increase	+	No effect
10. Provide services to customers on account.	Increase	=	No effect	+	Increase
11. Pay dividends to stockholders.	Decrease	=	No effect	+	Decrease

***One asset (machine) increases and another asset (cash) decreases**

Problem 2-2B (LO 2-2)

Transaction	Assets	=	Liabilities	+	Stockholders' Equity
1. Issue common stock in exchange for cash, \$15,000.	+\$15,000	=	\$0	+	+\$15,000
2. Obtain a loan from the bank for \$9,000.	+\$9,000	=	+\$9,000	+	\$0
3. Receive cash of \$1,200 in advance from customers.	+\$1,200	=	+\$1,200	+	\$0
4. Purchase supplies on account, \$2,400.	+\$2,400	=	+\$2,400	+	\$0
5. Pay one year of rent in advance, \$12,000.	+\$12,000 -\$12,000	=	\$0	+	\$0
6. Provide services to customers on account, \$3,000.	+\$3,000	=	\$0	+	+\$3,000
7. Repay \$4,000 of the loan in (2) above.	-\$4,000	=	-\$4,000	+	\$0
8. Pay full amount for supplies purchased in (4) above.	-\$2,400	=	-\$2,400	+	\$0
9. Provide services to customers in (3) above.	\$0	=	-\$1,200	+	+\$1,200
10. Pay cash dividends of \$1,000 to stockholders.	-\$1,000	=	\$0	+	-\$1,000
Totals	<u>\$23,200</u>	=	<u>\$5,000</u>	+	<u>\$18,200</u>

Problem 2-3B (LO 2-3)

Accounts	Type of Account	Normal Balance (Debit or Credit)
1. Supplies	Asset	Debit
2. Advertising Expense	Expense	Debit
3. Prepaid Insurance	Asset	Debit
4. Supplies Expense	Expense	Debit
5. Accounts Payable	Liability	Credit
6. Equipment	Asset	Debit
7. Dividends	Dividends	Debit
8. Accounts Receivable	Asset	Debit
9. Retained Earnings	Stockholders' equity	Credit
10. Deferred Revenue	Liability	Credit
11. Service Revenue	Revenue	Credit
12. Utilities Payable	Liability	Credit

Problem 2-4B (LO 2-4)**Transactions for Eli's Insurance Services**

<u>May 2</u>	<u>Debit</u>	<u>Credit</u>
Cash	300	
Deferred Revenue		300
<i>(Receive cash in advance from customer)</i>		
<u>May 5</u>		
Repairs and Maintenance Expense	425	
Accounts Payable		425
<i>(Receive maintenance services on account)</i>		
<u>May 7</u>		
Cash	500	
Notes Payable		500
<i>(Receive cash and sign note payable)</i>		
<u>May 14</u>		
No entry for Eli.		
<u>May 19</u>		
Accounts Payable	425	
Cash		425
<i>(Pay cash on account)</i>		
<u>May 25</u>		
Utilities Expense	135	
Cash		135
<i>(Pay utilities for the current month)</i>		
<u>May 28</u>		
Deferred Revenue	300	
Service Revenue		300
<i>(Provide service previously paid)</i>		
<u>May 31</u>		
Notes Payable	500	
Cash		500
<i>(Pay cash on note payable)</i>		

Problem 2-5B (LO 2-2, 2-4)**Transactions for Olivia's Maintenance Services**

<u>May 2</u>	<u>Debit</u>	<u>Credit</u>
Prepaid Insurance	300	
Cash		300
<i>(Pay for insurance services in advance)</i>		
<u>May 5</u>		
Accounts Receivable	425	
Service Revenue		425
<i>(Provide services on account)</i>		
<u>May 7</u>		
Notes Receivable	500	
Cash		500
<i>(Loan cash and issue note receivable)</i>		
<u>May 14</u>		
Supplies	200	
Cash		200
<i>(Purchase maintenance supplies with cash)</i>		
<u>May 19</u>		
Cash	425	
Accounts Receivable		425
<i>(Receive cash on account)</i>		
<u>May 25</u>		
No entry for Olivia.		
<u>May 28</u>		
Insurance Expense	300	
Prepaid Insurance		300
<i>(Received services paid in advance)</i>		
<u>May 31</u>		
Cash	500	
Notes Receivable		500
<i>(Receive cash on note receivable)</i>		

Problem 2-5B (concluded)

	<u>Eli's Insurance Services</u>				<u>Olivia's Maintenance Services</u>			
	<u>Assets</u>	=	<u>Liabilities</u>	+ <u>Stockholders' Equity</u>	<u>Assets</u>	=	<u>Liabilities</u>	+ <u>Stockholders' Equity</u>
May 2	+\$300	=	+\$300	+ \$0	+\$300 -\$300	=	\$0	+ \$0
5	\$0	=	+\$425	+ -\$425	+\$425	=	\$0	+ +\$425
7	+\$500	=	+\$500	+ \$0	+\$500 -\$500	=	\$0	+ \$0
14	\$0	=	\$0	+ \$0	+\$200 -\$200	=	\$0	+ \$0
19	-\$425	=	-\$425	+ \$0	+\$425 -\$425	=	\$0	+ \$0
25	-\$135	=	\$0	+ -\$135	\$0	=	\$0	+ \$0
28	\$0	=	-\$300	+ +\$300	-\$300	=	\$0	+ -\$300
31	-\$500	=	-\$500	+ \$0	+\$500 -\$500	=	\$0	+ \$0

Problem 2-6B (LO 2-6)

**Ducks Company
Trial Balance
September 30**

Accounts	Debit	Credit
Cash	\$ 25,000	
Accounts Receivable	14,000	
Supplies	7,000	
Prepaid Insurance	5,000	
Equipment	28,000	
Accounts Payable		\$ 7,000
Salaries Payable		4,000
Utilities Payable		1,100
Deferred Revenue		9,000
Common Stock		29,000
Retained Earnings		13,000
Dividends	4,000	
Service Revenue		55,100
Salaries Expense	9,000	
Insurance Expense	8,000	
Advertising Expense	1,100	
Supplies Expense	10,000	
Entertainment Expense	6,000	
Utilities Expense	1,100	
Totals	\$118,200	\$118,200

Problem 2-7B (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>June 1</u>		
Cash	70,000	
Notes Payable		70,000
<i>(Obtain loan from bank)</i>		
(2) <u>June 2</u>		
Cash	40,000	
Common Stock		40,000
<i>(Issue common stock)</i>		
(3) <u>June 7</u>		
Equipment	75,000	
Cash		75,000
<i>(Purchase equipment)</i>		
(4) <u>June 10</u>		
Supplies	8,000	
Accounts Payable		8,000
<i>(Purchase cleaning supplies on account)</i>		
(5) <u>June 12</u>		
Cash	5,000	
Service Revenue		5,000
<i>(Provide car washes for cash)</i>		
(6) <u>June 16</u>		
Salaries Expense	900	
Cash		900
<i>(Pay salaries to employees)</i>		
(7) <u>June 19</u>		
Advertising Expense	500	
Cash		500
<i>(Pay for current advertising)</i>		
(8) <u>June 23</u>		
Accounts Receivable	6,000	
Service Revenue		6,000
<i>(Provide car washes on account)</i>		

Problem 2-7B (continued)

(9)	<u>June 29</u>		
	Salaries Expense	950	
	Cash		950
	<i>(Pay salaries to employees)</i>		
(10)	<u>June 30</u>		
	Utilities Expense	1,400	
	Cash		1,400
	<i>(Pay current utility bill)</i>		
(11)	<u>June 30</u>		
	Dividends	600	
	Cash		600
	<i>(Pay dividends to stockholders)</i>		

Problem 2-7B (continued)

Requirements 2 and 3

Cash	
(1) 70,000	75,000 (3)
(2) 40,000	900 (6)
(5) 5,000	500 (7)
	950 (9)
	1,400 (10)
	600 (11)
35,650	

Accounts Receivable	
(8) 6,000	
6,000	
6,000	

Supplies	
(4) 8,000	
8,000	
8,000	

Equipment	
(3) 75,000	
75,000	
75,000	

Accounts Payable	
	8,000 (4)
	8,000
8,000	

Notes Payable	
	70,000 (1)
	70,000
70,000	

Common Stock	
	40,000 (2)
	40,000
40,000	

Dividends	
(11) 600	
600	
600	

Service Revenue	
	5,000 (5)
	6,000 (8)
11,000	

Salaries Expense	
(6) 900	
(9) 950	
1,850	

Advertising Expense	
(7) 500	
500	
500	

Utilities Expense	
(10) 1,400	
1,400	
1,400	

Problem 2-7B (concluded)

Requirement 4

**Salukis Car Cleaning
Trial Balance
June 30**

Accounts	Debit	Credit
Cash	\$ 35,650	
Accounts Receivable	6,000	
Supplies	8,000	
Equipment	75,000	
Accounts Payable		\$ 8,000
Notes Payable		70,000
Common Stock		40,000
Dividends	600	
Service Revenue		11,000
Salaries Expense	1,850	
Advertising Expense	500	
Utilities Expense	1,400	
Totals	\$129,000	\$129,000

Problem 2-8B (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>Nov. 1</u>		
Cash	13,000	
Common Stock		13,000
<i>(Issue common stock)</i>		
(2) <u>Nov. 2</u>		
Equipment	3,500	
Notes Payable		3,500
<i>(Purchase equipment with note payable)</i>		
(3) <u>Nov. 4</u>		
Supplies	1,000	
Accounts Payable		1,000
<i>(Purchase supplies on account)</i>		
(4) <u>Nov. 10</u>		
Accounts Receivable	9,000	
Service Revenue		9,000
<i>(Provide services on account)</i>		
(5) <u>Nov. 15</u>		
Accounts Payable	1,100	
Cash		1,100
<i>(Pay cash on account)</i>		
(6) <u>Nov. 20</u>		
Salaries Expense	3,000	
Cash		3,000
<i>(Pay current salaries)</i>		
(7) <u>Nov. 22</u>		
Cash	11,000	
Service Revenue		11,000
<i>(Provide services for cash)</i>		
(8) <u>Nov. 24</u>		
Notes Payable	1,400	
Cash		1,400
<i>(Pay note payable)</i>		
(9) <u>Nov. 26</u>		
Cash	7,000	
Accounts receivable		7,000
<i>(Receive cash on account)</i>		

Problem 2-8B (continued)

(10)	<u>Nov. 28</u>		
	Utilities Expense	1,100	
	Cash		1,100
	<i>(Pay utilities for current month)</i>		
(11)	<u>Nov. 30</u>		
	Rent Expense	5,000	
	Cash		5,000
	<i>(Pay rent for current month)</i>		

Problem 2-8B (continued)

Requirements 2 and 3

Cash	
Bal. 3,200	1,100 (5)
(1) 13,000	3,000 (6)
(7) 11,000	1,400 (8)
(9) 7,000	1,100 (10)
	5,000 (11)
<hr/>	
22,600	

Accounts Receivable	
Bal. 600	7,000 (9)
(4) 9,000	
<hr/>	
2,600	

Supplies	
Bal. 700	
(3) 1,000	
<hr/>	
1,700	

Equipment	
Bal. 9,400	
(2) 3,500	
<hr/>	
12,900	

Accounts Payable	
	2,000 Bal.
(5) 1,100	1,000 (3)
<hr/>	
	1,900

Notes Payable	
(8) 1,400	4,000 Bal.
	3,500 (2)
<hr/>	
	6,100

Common Stock	
	7,000 Bal.
	13,000 (1)
<hr/>	
	20,000

Retained Earnings	
	900 Bal.
<hr/>	
	900

Service Revenue	
	9,000 (4)
	11,000 (7)
<hr/>	
	20,000

Salaries Expense	
(6) 3,000	
<hr/>	
3,000	

Utilities Expense	
(10) 1,100	
<hr/>	
1,100	

Rent Expense	
(11) 5,000	
<hr/>	
5,000	

Problem 2-8B (continued)

Requirement 4

**Buckeye Incorporated
Trial Balance
November 30**

Accounts	Debit	Credit
Cash	\$22,600	
Accounts Receivable	2,600	
Supplies	1,700	
Equipment	12,900	
Accounts Payable		\$ 1,900
Notes Payable		6,100
Common Stock		20,000
Retained Earnings		900
Service Revenue		20,000
Salaries Expense	3,000	
Utilities Expense	1,100	
Rent Expense	5,000	
Totals	\$48,900	\$48,900

Problem 2-9B (LO 2-4, 2-5, 2-6)**Requirement 1**

Entries are numbered for posting.

	Debit	Credit
(1) <u>December 1-31</u>		
Cash	27,400	
Service Revenue		27,400
<i>(Provide services for cash)</i>		
(2) <u>December 4</u>		
Supplies	2,900	
Accounts Payable		2,900
<i>(Purchase supplies on account)</i>		
(3) <u>December 8</u>		
Advertising Expense	3,200	
Cash		3,200
<i>(Purchase advertising for December)</i>		
(4) <u>December 9</u>		
Accounts Payable	2,900	
Cash		2,900
<i>(Pay cash on account)</i>		
(5) <u>December 12</u>		
Cash	5,000	
Common Stock		5,000
<i>(Issue shares of common stock)</i>		
(6) <u>December 16</u>		
Accounts Payable	6,300	
Cash		6,300
<i>(Pay cash on account)</i>		
(7) <u>December 19</u>		
Equipment	7,700	
Cash		7,700
<i>(Purchase equipment)</i>		
(8) <u>December 22</u>		
Utilities Expense	4,500	
Cash		4,500
<i>(Pay utilities for current month)</i>		
(9) <u>December 24</u>		
Cash	2,300	
Deferred Revenue		2,300
<i>(Receive cash in advance from customers)</i>		

Problem 2-9B (continued)

December 27

No journal entry is required

(10) December 30

Salaries Expense

7,000

Cash

7,000

(Pay salaries for December)

(11) December 31

Dividends

3,000

Cash

3,000

(Pay dividends)

Problem 2-9B (continued)

Requirements 2 and 3

Cash	
Bal. 19,400	3,200 (3)
(1) 27,400	2,900 (4)
(5) 5,000	6,300 (6)
(9) 2,300	7,700 (7)
	4,500 (8)
	7,000 (10)
	3,000 (11)
19,500	

Supplies	
Bal. 1,500	
(2) 2,900	
4,400	

Prepaid Rent	
Bal. 7,200	
7,200	

Equipment	
Bal. 83,700	
(7) 7,700	
91,400	

Buildings	
Bal. 240,000	
240,000	

Accounts Payable	
	9,800 Bal.
(4) 2,900	2,900 (2)
(6) 6,300	
	3,500

Deferred Revenue	
	2,000 Bal.
	2,300 (9)
4,300	

Common Stock	
	125,000 Bal.
	5,000 (5)
130,000	

Retained Earnings	
	75,500 Bal.
75,500	

Dividends	
Bal. 9,000	
(11) 3,000	
12,000	

Service Revenue	
	264,000 Bal.
	27,400 (1)
291,400	

Salaries Expense	
Bal. 65,000	
(10) 7,000	
72,000	

Advertising Expense	
Bal. 18,200	
(3) 3,200	
21,400	

Utilities Expense	
Bal. 32,300	
(8) 4,500	
36,800	

Problem 2-9B (continued)

Requirement 4

**Thunder Cat Services
Trial Balance
December 31, 2021**

Accounts	Debit	Credit
Cash	\$ 19,500	
Supplies	4,400	
Prepaid Rent	7,200	
Equipment	91,400	
Buildings	240,000	
Accounts Payable		\$ 3,500
Deferred Revenue		4,300
Common Stock		130,000
Retained Earnings		75,500
Dividends	12,000	
Service Revenue		291,400
Salaries Expense	72,000	
Advertising Expense	21,400	
Utilities Expense	36,800	
Totals	\$504,700	\$504,700

ADDITIONAL PERSPECTIVES

Additional Perspective 2-1

Requirement 1

Entries are numbered for posting.

	<u>Debit</u>	<u>Credit</u>
(1) <u>July 1, 2021</u>		
Cash	10,000	
Common Stock		10,000
<i>(Issue common stock to Suzie)</i>		
(2) <u>July 1, 2021</u>		
Cash	10,000	
Common Stock		10,000
<i>(Issue common stock to Tony)</i>		
(3) <u>July 1, 2021</u>		
Prepaid Insurance	4,800	
Cash		4,800
<i>(Purchase one-year insurance policy)</i>		
(4) <u>July 2, 2021</u>		
Legal Fees Expense	1,500	
Cash		1,500
<i>(Pay legal fees for incorporation)</i>		
(5) <u>July 4, 2021</u>		
Supplies (Office)	1,800	
Accounts Payable		1,800
<i>(Purchase office supplies on account)</i>		
(6) <u>July 7, 2021</u>		
Advertising Expense	300	
Cash		300
<i>(Pay cash for advertising)</i>		
(7) <u>July 8, 2021</u>		
Equipment (Bikes)	12,000	
Cash		12,000
<i>(Pay cash for mountain bikes)</i>		
(8) <u>July 15, 2021</u>		
Cash	2,000	
Service Revenue		2,000
<i>(Receive cash for mountain bike clinic)</i>		

Additional Perspective 2-1 (continued)

Requirement 1 (concluded)

(9)	<u>July 22, 2021</u>		
	Cash	2,300	
	Service Revenue		2,300
	<i>(Receive cash for mountain bike clinic)</i>		
(10)	<u>July 24, 2021</u>		
	Advertising Expense	700	
	Cash		700
	<i>(Pay cash for advertising)</i>		
(11)	<u>July 30, 2021</u>		
	Cash	4,000	
	Deferred Revenue		4,000
	<i>(Receive cash in advance for kayak clinic)</i>		

Additional Perspective P2-1 (continued)

Requirement 2

Cash		Prepaid Insurance		Supplies	
(1) 10,000	4,800 (3)	(3) 4,800		(5) 1,800	
(2) 10,000	1,500 (4)	4,800		1,800	
(8) 2,000	300 (6)				
(9) 2,300	12,000 (7)				
(11) 4,000	700 (10)				
9,000					
		Equipment		Accounts Payable	
		(7) 12,000			1,800 (5)
		12,000			1,800
Deferred Revenue		Common Stock		Service Revenue	
	4,000 (11)		10,000 (1)		2,000 (8)
	4,000		10,000 (2)		2,300 (9)
			20,000		4,300
Advertising Expense		Legal Fees Expense			
(6) 300		(4) 1,500			
(10) 700		1,500			
1,000					

Additional Perspective 2-1 (concluded)

Requirement 3

**Great Adventures, Inc.
Trial Balance
July 31, 2021**

Accounts	Debit	Credit
Cash	\$ 9,000	
Prepaid Insurance	4,800	
Supplies	1,800	
Equipment	12,000	
Accounts Payable		\$ 1,800
Deferred Revenue		4,000
Common Stock		20,000
Service Revenue		4,300
Advertising Expense	1,000	
Legal Fees expense	1,500	
Totals	\$30,100	\$30,100

Additional Perspective 2-2

(\$ in thousands)

Requirement 1

Percentage change in total assets = $(\$1,816,313 - \$1,782,660) / \$1,782,660 = 1.9\%$

Percentage change in net sales = $(\$3,795,549 - \$3,609,865) / \$3,609,865 = 5.1\%$

Requirement 2

Percentage change in net income = $(\$204,163 - \$212,449) / \$212,449 = -3.9\%$

Requirement 3

No. Based on the statement of stockholders' equity, American Eagle did not issue common stock in the most recent year.

Requirement 4

No. The terms "debit" and "credit" are not shown in the balance sheet. **Asset** accounts, such as cash, merchandise inventory, accounts receivable, and property and equipment, increase with a debit. **Liability** accounts, such as accounts payable, accrued rent, and other liabilities increase with a credit. **Stockholders' equity** accounts, such as common stock and retained earnings, also increase with a credit.

Requirement 5

No. The terms "debit" and "credit" are not shown in the income statement. **Expense** accounts, such as cost of sales and selling, general and administrative expenses increase with a debit. **Revenue** accounts, such as net revenue, increase with a credit.

Additional Perspective 2-3

(\$ in thousands)

Requirement 1

Percentage change in total assets = $(\$538,116 - \$579,847) / \$579,847 = -7.2\%$

Percentage change in net sales = $(\$913,380 - \$974,873) / \$974,873 = -6.3\%$

Requirement 2

Percentage change in net income = $(\$89,707 - \$97,961) / \$97,961 = -8.4\%$

Requirement 3

Yes. Based on the statement of stockholders' equity, The Buckle did issue a small amount of common stock in the most recent year.

Requirement 4

No. The terms "debit" and "credit" are not shown in the balance sheet. **Asset** accounts, such as cash, inventory, accounts receivable, and property and equipment increase with a debit. **Liability** accounts, such as accounts payable, accrued employee compensation, and income taxes increase with a credit. **Stockholders' equity** accounts, such as common stock and retained earnings, also increase with a credit.

Requirement 5

No. The terms "debit" and "credit" are not shown in the income statement. **Expense** accounts, such as cost of sales and selling, general, and administrative expenses, increase with a debit. **Revenue** accounts, such as net sales, increase with a credit.

Additional Perspective 2-4

American Eagle for all three. American Eagle has a larger increase in terms of total assets, and also showed growth in net sales whereas Buckle's net sales declined. Buckle's net income declined by a larger percentage.

Without reading more of the financial reports at this point, it appears from the financial statements that the apparel business is slumping and Buckle is struggling to find its place, having already shown operations that it discontinued and perhaps a need to re-strategize its operations.

Additional Perspective 2-5

1. Increases reported profit by \$75,000, from a loss of \$50,000 to a profit of \$25,000 (ignoring any tax effects).

2. Yes.

Robert, the company's president, benefits from false reporting by maintaining the company's profitable appearance. The incentives could be bonus compensation plans, a desire to please stockholders, meeting analysts' earnings forecasts for the company, or maintaining good standing with creditors. Larry benefits from false reporting by keeping his friendship with Robert, keeping his job for the longer-term, and getting a free dinner tonight. However, if the false reporting is discovered by authorities, both parties face legal penalties and suffer reputational damage.

3. Yes.

Outside decisions makers, such as investors and creditors, view companies that report a profit instead of a loss as being more financially stable.

4. No.

As the accountant, Larry should understand that his responsibilities are to accurately record and report the company's activities. Larry must be aware that Robert may have incentives for falsely reporting to Larry about the additional revenue. Without source documents, an important step in the measurement process, Larry should not record any transactions.

Additional Perspective 2-6

(Note to instructor: Answers are based on items in Apple's September 30, 2017 annual report. Dollar amounts are in millions)

Requirement 1

Accounts receivable = \$17,874. The accounts receivable account represents the amount owed to Apple by its customers.

Requirement 2

Accounts payable = \$49,049. The accounts payable account represents the amount owed by Apple to its suppliers.

Requirement 3

Accrued expenses could include income taxes payable, salaries payable, interest payable, and rent payable.

Requirement 4

Common stock (including additional paid-in capital) = \$35,867. The common stock account represents capital contributed to the company by stockholders.

Requirement 5

Assets (\$375,319) = Liabilities (\$241,272) + Stockholders' equity (\$134,047)

Requirement 6

Net sales = \$229,234. The period of net sales is for the year ended September 30, 2017.

Requirement 7

Expenses include cost of sales; research and development; selling, general, and administrative; and provision for income taxes.

Requirement 8

Yes, the company's revenues exceed expenses. The difference is net income of \$48,351.

Additional Perspective 2-7

For transaction (a):

Step 1. Analyze customer invoice.

Step 2. Determine assets increase and stockholders' equity increases (and revenues increase).

Step 3. Increase assets with a debit and increase revenues with a credit.

Step 4. Accounts Receivable	500	
Service Revenue		500
<i>(Provide services on account)</i>		

For transaction (b):

Step 1. Analyze employee paycheck.

Step 2. Determine assets decrease and stockholders' equity decreases (and expenses increase).

Step 3. Decrease assets with a credit and increase expenses with a debit.

Step 4. Salaries Expense	1,200	
Cash		1,200
<i>(Pay salary for the current month)</i>		

For transaction (c):

Step 1. Analyze purchase receipt for equipment.

Step 2. Determine one asset increases and another asset decreases.

Step 3. Increase assets with a debit and decrease assets with a credit.

Step 4. Equipment	2,700	
Cash		2,700
<i>(Purchase office equipment)</i>		

Step 5. All transactions are posted to the general ledger accounts.

Step 6. A trial balance is prepared using the balance of each general ledger account.

Total debits should equal total credits in the trial balance.