Solutions Manual for Accounting 29th Warren

CHAPTER 2
ANALYZING TRANSACTIONS

DISCUSSION QUESTIONS

1. An account is a form designed to record changes in a particular asset, liability, owner's equity, revenue, or expense. A ledger is a group of related accounts.

2. The terms *debit* and *credit* may signify either an increase or a decrease, depending upon the nature of the account. For example, debits signify an increase in asset, expense, and drawing accounts but a decrease in liability, owner's capital, and revenue accounts.

3. **a.** Assuming no errors have occurred, the credit balance in the cash account resulted from writing checks for $1,850 in excess of the amount of cash on deposit.

b. The $1,850 credit balance in the cash account as of December 31 is a liability owed to the bank. It is usually referred to as an "overdraft" and should be classified on the balance sheet as a liability.

4. **a.** The revenue was earned in October.

b. (1) Debit Accounts Receivable and credit Fees Earned or another appropriately titled revenue account in October.

(2) Debit Cash and credit Accounts Receivable in November.

5. No. Errors may have been made that had the same erroneous effect on both debits and credits, such as failure to record and/or post a transaction, recording the same transaction more than once, and posting a transaction correctly but to the wrong account.

6. The Debit Balances column of the trial balance would be greater by $1,800 [($9,800 – $8,900) + ($1,000 – $100)].

7. **a.** No. Because the same error occurred on both the debit side and the credit side of the trial balance, the trial balance would not be out of balance.

b. Yes. The trial balance would not balance. The error would cause the debit total of the trial balance to exceed the credit total by $90.

8. **a.** The equality of the trial balance would not be affected.

b. On the income statement, total operating expenses (salary expense) would be overstated by $7,500, and net income would be understated by $7,500. On the statement of owner's equity, the beginning and ending owner's capital would be correct. However, net income and withdrawals would be understated by $7,500. These understatements offset one another, and thus, ending owner's capital is correct. The balance sheet is not affected by the error.

9. **a.** The equality of the trial balance would not be affected.

b. On the income statement, revenues (fees earned) would be overstated by $300,000, and net income would be overstated by $300,000. On the statement of owner's equity, the beginning owner's capital would be correct. However, net income and ending owner's capital would be overstated by $300,000. The balance sheet total assets amount is correct. However, the liabilities (notes payable) amount is understated by $300,000, and owner's equity (owner's capital) is overstated by $300,000. The understatement of liabilities is offset by the overstatement of owner's equity (owner's capital), and thus, the total liabilities and owner's equity amount is correct.

10. **a.** From the viewpoint of Surety Storage, the balance of the checking account represents an asset.

b. From the viewpoint of Ada Savings Bank, the balance of the checking account represents a liability.

BASIC EXERCISES

BE 2–1

1. **Debit and credit entries, normal credit balance**
2. **Debit and credit entries, normal debit balance**
3. **Debit entries only, normal debit balance**
4. **Debit entries only, normal debit balance**
5. **Debit entries only, normal debit balance**
6. **Credit entries only, normal credit balance**

BE 2–2

Feb.	13	Office Supplies	3,175	
		Cash		1,000
		Accounts Payable		2,175

BE 2–3

Oct.	19	Cash	8,774	
		Fees Earned		8,774

BE 2–4

May	20	Loreen O'Reilly, Drawing	75,000	
		Cash		75,000

BE 2–5

Using the following T account, solve for the amount of supplies expense (indicated by ? below).

Supplies

July 1 Bal.	1,680	?	Supplies expense
Supplies purchased	5,250		
July 31 Bal.	1,810		

$1,810 = $1,680 + $5,250 – Supplies expense
Supplies expense = $1,680 + $5,250 – $1,810 = $5,120

BE 2–6

a. **The totals are equal because both the debit and credit entries were journalized and posted for $15,000.**

b. **The totals are unequal. The credit total is higher by $2,700 ($3,000 – $300).**

c. **The totals are unequal. The debit total is higher by $900 ($2,100 – $1,200).**

BE 2–7

a.

Journal Entry That Was Made in Error		
Accounts Receivable	10,700	
Fees Earned		10,700

Journal Entry That Should Have Been Made		
Cash	10,700	
Fees Earned		10,700

Comparison

Cash instead of Accounts Receivable should have been debited.

Correcting Journal Entry

Cash	10,700	
Accounts Receivable		10,700

b.

Journal Entry That Was Made in Error		
Office Equipment	4,300	
Supplies		4,300

Journal Entry That Should Have Been Made		
Supplies	4,300	
Accounts Payable		4,300

Comparison

Supplies instead of Office Equipment should have been debited. Accounts Payable instead of Supplies should have been credited. The debit and credit amount of $4,300 is correct.

Correcting Journal Entries

Supplies	4,300	
Office Equipment		4,300
Supplies	4,300	
Accounts Payable		4,300

Note: **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

BE 2–8

Paragon Company Income Statements For the Years Ended December 31				
			Increase/(Decrease)	
	20Y7	20Y6	Amount	Percent
Fees earned	$ 1,416,000	$1,200,000	$216,000	18.0%
Expenses	(1,044,000)	(900,000)	144,000	16.0%
Net income	$ 372,000	$ 300,000	$ 72,000	24.0%

EXERCISES

Ex. 2–1

Balance Sheet Accounts	**Income Statement Accounts**
Assets	**Revenues**
Advanced Payments for Equipment[a]	Cargo Revenue
Cash	Passenger Revenue
Flight Equipment	
Fuel Inventory	**Expenses**
Parts and Supplies Inventories	Aircraft Fuel (Expense)
Prepaid Expenses	Aircraft Maintenance (Expense)
	Aircraft Rent (Expense)
Liabilities	Contract Carrier Arrangements (Expense)[d]
Accounts Payable	Landing Fees (Expense)[e]
Air Traffic Liability[b]	Passenger Commissions (Expense)[f]
Frequent Flyer (Obligations)[c]	
Taxes Payable	
Stockholders' Equity	
None	

[a] Advance payments (deposits) on aircraft to be delivered in the future
[b] Passenger ticket sales for future flights
[c] Obligations to provide frequent flyers future travel and other benefits
[d] Payments to other airlines for passenger travel under Delta tickets
[e] Fees paid to airports for landing rights
[f] Commissions paid to travel agents for passenger bookings

Ex. 2–2

Account	Account Number
Accounts Payable	21
Accounts Receivable	12
Cash	11
Fees Earned	41
Ken Lopez, Capital	31
Ken Lopez, Drawing	32
Land	13
Miscellaneous Expense	53
Supplies Expense	52
Wages Expense	51

Note: **Expense accounts are normally listed in order of magnitude from largest to smallest with Miscellaneous Expense always listed last. Since Wages Expense is normally larger than Supplies Expense, Wages Expense is listed as account number 51 and Supplies Expense as account number 52.**

Ex. 2–3

Balance Sheet Accounts

1. Assets

11 Cash
12 Accounts Receivable
13 Supplies
14 Prepaid Insurance
15 Equipment

2. Liabilities

21 Accounts Payable
22 Unearned Rent

3. Owner's Equity

31 Eduardo Ramos, Capital
32 Eduardo Ramos, Drawing

Income Statement Accounts

4. Revenue

41 Fees Earned

5. Expenses

51 Wages Expense
52 Rent Expense
53 Supplies Expense
59 Miscellaneous Expense

Note: **The order of some of the accounts within the major classifications is somewhat arbitrary, as in accounts 13–14, accounts 21–22, and accounts 51–53. In a new business, the order of magnitude of balances in such accounts is not determinable in advance. The magnitude may also vary from period to period.**

Ex. 2–4

a.	debit	g.	debit
b.	debit	h.	credit
c.	debit	i.	debit
d.	credit	j.	credit
e.	debit	k.	debit
f.	credit	l.	debit

Ex. 2–5

1. debit and credit entries (c)
2. debit and credit entries (c)
3. debit and credit entries (c)
4. credit entries only (b)
5. debit entries only (a)
6. debit entries only (a)
7. debit entries only (a)

Ex. 2–6

a. **Liability—credit**
b. **Asset—debit**
c. **Asset—debit**
d. **Owner's equity (Lee Liken, Capital)—credit**
e. **Owner's equity (Lee Liken, Drawing)—debit**
f. **Revenue—credit**
g. **Asset—debit**
h. **Expense—debit**
i. **Asset—debit**
j. **Expense—debit**

Ex. 2–7

20Y2				
Jan.	1	Rent Expense	3,000	
		Cash		3,000
	4	Advertising Expense	2,500	
		Cash		2,500
	5	Supplies	1,800	
		Cash		1,800
	6	Office Equipment	13,900	
		Accounts Payable		13,900
	12	Cash	14,770	
		Accounts Receivable		14,770
	20	Accounts Payable	1,475	
		Cash		1,475
	27	Miscellaneous Expense	700	
		Cash		700
	30	Utilities Expense	610	
		Cash		610
	31	Accounts Receivable	37,300	
		Fees Earned		37,300
	31	Utilities Expense	900	
		Cash		900
	31	B. J. Faust, Drawing	800	
		Cash		800

Ex. 2–8

a.

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Date		Description	Post. Ref.	Debit	Credit
20Y9					
Feb.	11	Supplies	15	2,250	
		Accounts Payable	21		2,250
		Purchased supplies on account.			

b., c., d.

Account: Supplies Account No. 15

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Feb.	1	Balance	✓			400	
	11		73	2,250		2,650	

Account: Accounts Payable Account No. 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
Feb.	1	Balance	✓				18,300
	11		73		2,250		20,550

e. Yes, the rules of debit and credit apply to all companies.

Ex. 2–9

a. (1)

Accounts Receivable	88,500	
Fees Earned		88,500

(2)

Supplies	3,000	
Accounts Payable		3,000

(3)

Cash	66,275	
Accounts Receivable		66,275

(4)

Accounts Payable	1,950	
Cash		1,950

Ex. 2–9 (Concluded)

b.

Cash			
(3)	66,275	(4)	1,950

Accounts Payable			
(4)	1,950	(2)	3,000

Supplies			
(2)	3,000		

Fees Earned			
		(1)	88,500

Accounts Receivable			
(1)	88,500	(3)	66,275

c. **No, an error may not have necessarily occurred. A credit balance in Accounts Receivable could occur if a customer overpaid his or her account. Regardless, the credit balance should be investigated to verify that an error has not occurred.**

Ex. 2–10

a. **The increase of $270,800 ($1,245,000 – $974,200) in the cash account does not indicate net income of that amount. Net income is the net change in all assets and liabilities from operating (revenue and expense) transactions.**

b. **$150,200 ($421,000 – $270,800)**

or

Cash	
X	974,200
1,245,000	
421,000	

X + $1,245,000 – $974,200 = $421,000
X = $421,000 – $1,245,000 + $974,200
X = $150,200

Ex. 2–11

a.

Accounts Payable			
		Feb. 1	X
	186,500		201,400
		Feb. 28	59,900

X + $201,400 – $186,500 = $59,900
X = $59,900 + $186,500 – $201,400
X = $45,000

b.

Accounts Receivable			
Oct. 1	115,800		449,600
	X		
Oct. 31	130,770		

$115,800 + X – $449,600 = $130,770
X = $130,770 + $449,600 – $115,800
X = $464,570

c.

Cash			
Apr. 1	46,220		X
	248,600		
Apr. 30	56,770		

$46,220 + $248,600 – X = $56,770
X = $46,220 + $248,600 – $56,770
X = $238,050

Ex. 2–12

a. Debit (negative) balance of $16,000 ($314,000 – $10,000 – $320,000). This negative balance means that the liabilities of the business exceed the assets.

b. Yes. The balance sheet prepared at December 31 will balance, with Shane Gerber, Capital being reported in the "Owner's Equity" section as a debit (negative) balance of $16,000.

Ex. 2–13

a. and b.

	Account Debited		Account Credited	
Transaction	**Type**	**Effect**	**Type**	**Effect**
(1)	asset	+	owner's equity	+
(2)	asset	+	asset	–
(3)	asset	+	asset	–
			liability	+
(4)	expense	+	asset	–
(5)	asset	+	revenue	+
(6)	liability	–	asset	–
(7)	asset	+	asset	–
(8)	expense	+	asset	–
(9)	drawing	+	asset	–

Ex. 2–14

(1)	Cash	50,000	
	Ted Jaeger, Capital		50,000
(2)	Supplies	4,000	
	Cash		4,000
(3)	Equipment	30,000	
	Accounts Payable		20,000
	Cash		10,000
(4)	Operating Expenses	6,175	
	Cash		6,175
(5)	Accounts Receivable	20,500	
	Service Revenue		20,500
(6)	Accounts Payable	6,000	
	Cash		6,000
(7)	Cash	13,100	
	Accounts Receivable		13,100
(8)	Operating Expenses	2,200	
	Supplies		2,200
(9)	Ted Jaeger, Drawing	1,500	
	Cash		1,500

Ex. 2–15

a.

Crazy Mountain Tours Unadjusted Trial Balance May 31, 20Y2		
	Debit Balances	**Credit Balances**
Cash	**35,425**	
Accounts Receivable	**7,400**	
Supplies	**1,800**	
Equipment	**30,000**	
Accounts Payable		**14,000**
Ted Jaeger, Capital		**50,000**
Ted Jaeger, Drawing	**1,500**	
Service Revenue		**20,500**
Operating Expenses	**8,375**	
	84,500	**84,500**

b. **Net income, $12,125 ($20,500 – $8,375)**

Ex. 2–16

Seaside Furniture Upholstering Services Unadjusted Trial Balance August 31, 20Y5		
	Debit Balances	Credit Balances
Cash	426,800	
Accounts Receivable	660,500	
Supplies	11,200	
Prepaid Insurance	21,600	
Land	1,850,000	
Accounts Payable		118,600
Unearned Rent		12,000
Notes Payable		75,000
Carroll Hillard, Capital		1,964,400
Carroll Hillard, Drawing	36,000	
Fees Earned		4,330,000
Wages Expense	2,950,000	
Rent Expense	390,000	
Utilities Expense	82,000	
Supplies Expense	23,700	
Insurance Expense	18,000	
Miscellaneous Expense	30,200	
	6,500,000	6,500,000

Cash = $6,500,000 – $30,200 – $18,000 – $23,700 – $82,000 – $390,000 – $2,950,000 – $36,000 – $1,850,000 – $21,600 – $11,200 – $660,500 = $426,800

Ex. 2–17

Inequality of trial balance totals would be caused by errors described in (c) and (e). For (c), the debit total would exceed the credit total by $9,900 ($4,950 + $4,950). For (e), the credit total would exceed the debit total by $17,100 ($19,000 – $1,900).

Errors (b), (c), (d), and (e) would require correcting entries. Although it is not a correcting entry, the entry that was not made in (a) should also be entered in the journal.

Ex. 2–18

Ranger Ticket Agency Unadjusted Trial Balance August 31, 20Y1		
	Debit Balances	**Credit Balances**
Cash	15,500	
Accounts Receivable	46,750	
Prepaid Insurance	12,000	
Equipment	190,000	
Accounts Payable		24,600
Unearned Rent		5,400
Kia Eichert, Capital		110,000
Kia Eichert, Drawing	13,000	
Service Revenue		385,000
Wages Expense	213,000	
Advertising Expense	16,350	
Miscellaneous Expense	18,400	
	525,000	525,000

Ex. 2–19

Error	(a) Out of Balance	(b) Difference	(c) Larger Total
1.	yes	$6,000	debit
2.	no	—	—
3.	yes	5,400	credit
4.	yes	480	debit
5.	no	—	—
6.	yes	90	credit
7.	yes	360	credit

Ex. 2–20

1. **The Debit column total is added incorrectly. The sum is $1,098,500 rather than $1,801,500.**
2. **The trial balance should be dated "December 31, 20Y8," not "For the Year Ending December 31, 20Y8."**
3. **The Accounts Receivable balance should be in the Debit column.**
4. **The Accounts Payable balance should be in the Credit column.**
5. **The Ty Kincaid, Drawing balance should be in the Debit column.**
6. **The Advertising Expense balance should be in the Debit column.**

A corrected trial balance would be as follows:

Ensemble Co. Unadjusted Trial Balance December 31, 20Y8		
	Debit Balances	Credit Balances
Cash	42,900	
Accounts Receivable	123,500	
Prepaid Insurance	27,000	
Equipment	300,000	
Accounts Payable		52,000
Salaries Payable		4,800
Ty Kincaid, Capital		177,200
Ty Kincaid, Drawing	5,000	
Service Revenue		1,216,000
Salary Expense	660,000	
Advertising Expense	275,000	
Miscellaneous Expense	16,600	
	1,450,000	1,450,000

Ex. 2–21

a.

Journal Entry That Was Made in Error

Insurance Expense	**12,000**	
Prepaid Insurance		**12,000**

Journal Entry That Should Have Been Made

Prepaid Insurance	**12,000**	
Cash		**12,000**

Comparison

Prepaid Insurance instead of Insurance Expense should have been debited. Cash instead of Prepaid Insurance should have been credited. The debit and credit amount of $12,000 is correct.

Correcting Journal Entries

Prepaid Insurance	**12,000**	
Insurance Expense		**12,000**
Prepaid Insurance	**12,000**	
Cash		**12,000**

Note: **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

b.

Journal Entry That Was Made in Error

Wages Expense	**8,000**	
Cash		**8,000**

Journal Entry That Should Have Been Made

Nicole Crenshaw, Drawing	**8,000**	
Cash		**8,000**

Comparison

Nicole Crenshaw, Drawing instead of Wages Expense should have been debited. The debit and credit amount of $8,000 is correct.

Correcting Journal Entry

Nicole Crenshaw, Drawing	**8,000**	
Wages Expense		**8,000**

Ex. 2–22

a.

Journal Entry That Was Made in Error			Journal Entry That Should Have Been Made		
Fees Earned	**7,550**		**Cash**	**7,550**	
Cash		**7,550**	**Accounts Receivable**		**7,550**

Comparison

Cash instead of Fees Earned should have been debited. Accounts Receivable instead of Cash should have been credited. The debit and credit amount of $7,550 is correct.

Correcting Journal Entries

Cash	**7,550**	
Fees Earned		**7,550**
Cash	**7,550**	
Accounts Receivable		**7,550**

Note: **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

b.

Journal Entry That Was Made in Error			Journal Entry That Should Have Been Made		
Supplies Expense	**1,350**		**Supplies**	**1,350**	
Accounts Payable		**1,350**	**Cash**		**1,350**

Comparison

Supplies instead of Supplies Expense should have been debited. Cash instead of Accounts Payable should have been credited. The debit and credit amount of $1,350 is correct.

Correcting Journal Entries

Accounts Payable	**1,350**	
Supplies Expense		**1,350**
Supplies	**1,350**	
Cash		**1,350**

Note: **The first entry reverses the incorrect entry, and the second entry is what should have been recorded initially. These two entries could have been combined into one entry; however, preparing two entries makes it easier for someone later to understand what happened and why the entries were necessary.**

PROBLEMS

Prob. 2–1A

1. and 2.

Cash

(a)	50,000	(b)	3,000
(g)	10,500	(c)	7,500
		(e)	1,800
		(f)	3,600
		(h)	1,500
		(i)	5,000
		(j)	750
		(m)	8,000
		(n)	550
Bal.	28,800		

Equipment

(d)	9,500		

Notes Payable

(j)	750	(c)	22,500
		Bal.	21,750

Accounts Payable

(i)	5,000	(d)	9,500
		(k)	5,500
		Bal.	10,000

Accounts Receivable

(l)	22,350		

Erin Murdoch, Capital

		(a)	50,000

Supplies

(e)	1,800		

Professional Fees

		(g)	10,500
		(l)	22,350
		Bal.	32,850

Prepaid Insurance

(f)	3,600		

Salary Expense

(m)	8,000		

Automobiles

(c)	30,000		

Blueprint Expense

(k)	5,500		

Rent Expense

(b)	3,000		

Automobile Expense

(n)	550		

Miscellaneous Expense

(h)	1,500		

Prob. 2–1A (Concluded)

3.

Modern Architects Unadjusted Trial Balance January 31, 20Y4	Debit Balances	Credit Balances
Cash	28,800	
Accounts Receivable	22,350	
Supplies	1,800	
Prepaid Insurance	3,600	
Automobiles	30,000	
Equipment	9,500	
Notes Payable		21,750
Accounts Payable		10,000
Erin Murdoch, Capital		50,000
Professional Fees		32,850
Salary Expense	8,000	
Blueprint Expense	5,500	
Rent Expense	3,000	
Automobile Expense	550	
Miscellaneous Expense	1,500	
	114,600	114,600

4. Net income, $14,300 ($32,850 – $8,000 – $5,500 – $3,000 – $550 – $1,500)

Prob. 2–2A

1.

(a)	Cash	40,000	
	Jay Crowley, Capital		40,000
(b)	Rent Expense	4,800	
	Cash		4,800
(c)	Supplies	2,150	
	Accounts Payable		2,150
(d)	Accounts Payable	1,100	
	Cash		1,100
(e)	Cash	18,750	
	Sales Commissions		18,750
(f)	Automobile Expense	1,580	
	Miscellaneous Expense	800	
	Cash		2,380
(g)	Office Salaries Expense	3,500	
	Cash		3,500
(h)	Supplies Expense	1,300	
	Supplies		1,300
(i)	Jay Crowley, Drawing	1,500	
	Cash		1,500

Prob. 2–2A (Continued)

2.

Cash

(a)	40,000	(b)	4,800
(e)	18,750	(d)	1,100
		(f)	2,380
		(g)	3,500
		(i)	1,500
Bal.	45,470		

Sales Commissions

		(e)	18,750

Rent Expense

(b)	4,800		

Supplies

(c)	2,150	(h)	1,300
Bal.	850		

Office Salaries Expense

(g)	3,500		

Accounts Payable

(d)	1,100	(c)	2,150
		Bal.	1,050

Automobile Expense

(f)	1,580		

Jay Crowley, Capital

		(a)	40,000

Supplies Expense

(h)	1,300		

Jay Crowley, Drawing

(i)	1,500		

Miscellaneous Expense

(f)	800		

Prob. 2–2A (Concluded)

3.

Affordable Realty Unadjusted Trial Balance October 31, 20Y6		
	Debit Balances	**Credit Balances**
Cash	45,470	
Supplies	850	
Accounts Payable		1,050
Jay Crowley, Capital		40,000
Jay Crowley, Drawing	1,500	
Sales Commissions		18,750
Rent Expense	4,800	
Office Salaries Expense	3,500	
Automobile Expense	1,580	
Supplies Expense	1,300	
Miscellaneous Expense	800	
	59,800	59,800

4. a. $18,750
   b. $11,980 ($4,800 + $3,500 + $1,580 + $1,300 + $800)
   c. $6,770 ($18,750 – $11,980)

5. $5,270, which is the excess of net income of $6,770 over the owner withdrawals of $1,500.

Prob. 2-3A

1.

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Date		Description	Post. Ref.	Debit	Credit
20Y6					
June	1	Cash	11	48,000	
		Hannah Ellis, Capital	31		48,000
	1	Rent Expense	53	6,510	
		Cash	11		6,510
	6	Equipment	16	19,340	
		Accounts Payable	22		19,340
	8	Van	18	39,100	
		Cash	11		6,200
		Notes Payable	21		32,900
	10	Supplies	13	3,260	
		Cash	11		3,260
	12	Cash	11	16,730	
		Fees Earned	41		16,730
	15	Prepaid Insurance	14	4,940	
		Cash	11		4,940
	23	Accounts Receivable	12	16,320	
		Fees Earned	41		16,320
	24	Van Expense	55	2,060	
		Accounts Payable	22		2,060

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Date		Description	Post. Ref.	Debit	Credit
20Y6					
June	29	Utilities Expense	54	4,250	
		Cash	11		4,250
	29	Miscellaneous Expense	59	1,300	
		Cash	11		1,300

Prob. 2-3A (Continued)

^^

	30	Cash	11	10,050	
		Accounts Receivable	12		10,050
	30	Wages Expense	51	6,950	
		Cash	11		6,950
	30	Accounts Payable	22	9,360	
		Cash	11		9,360
	30	Hannah Ellis, Drawing	32	2,200	
		Cash	11		2,200

2.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	1		1	48,000		48,000	
	1		1		6,510	41,490	
	8		1		6,200	35,290	
	10		1		3,260	32,030	
	12		1	16,730		48,760	
	15		1		4,940	43,820	
	29		2		4,250	39,570	
	29		2		1,300	38,270	
	30		2	10,050		48,320	
	30		2		6,950	41,370	
	30		2		9,360	32,010	
	30		2		2,200	29,810	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	23		1	16,320		16,320	
	30		2		10,050	6,270	

Prob. 2-3A (Continued)

Account: Supplies **Account No. 13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	10		1	3,260		3,260	

Account: Prepaid Insurance **Account No. 14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	15		1	4,940		4,940	

Account: Equipment **Account No. 16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	6		1	19,340		19,340	

Account: Van **Account No. 18**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	8		1	39,100		39,100	

Account: Notes Payable **Account No. 21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	8		1		32,900		32,900

Account: Accounts Payable **Account No. 22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	6		1		19,340		19,340
	24		1		2,060		21,400
	30		2	9,360			12,040

Prob. 2-3A (Continued)

Account: **Hannah Ellis, Capital** **Account No.** **31**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	1		1		48,000		48,000

Account: **Hannah Ellis, Drawing** **Account No.** **32**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	30		2	2,200		2,200	

Account: **Fees Earned** **Account No.** **41**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	12		1		16,730		16,730
	23		1		16,320		33,050

Account: **Wages Expense** **Account No.** **51**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	30		2	6,950		6,950	

Account: **Rent Expense** **Account No.** **53**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	1		1	6,510		6,510	

Account: **Utilities Expense** **Account No.** **54**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	29		2	4,250		4,250	

Prob. 2-3A (Continued)

Account: **Van Expense** **Account No.** **55**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	24		1	2,060		2,060	

Account: **Miscellaneous Expense** **Account No.** **59**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y6							
June	29		2	1,300		1,300	

Prob. 2-3A (Concluded)

3.

Whitworth Designs
Unadjusted Trial Balance
June 30, 20Y6

	Account No.	Debit Balances	Credit Balances
Cash	11	29,810	
Accounts Receivable	12	6,270	
Supplies	13	3,260	
Prepaid Insurance	14	4,940	
Equipment	16	19,340	
Van	18	39,100	
Notes Payable	21		32,900
Accounts Payable	22		12,040
Hannah Ellis, Capital	31		48,000
Hannah Ellis, Drawing	32	2,200	
Fees Earned	41		33,050
Wages Expense	51	6,950	
Rent Expense	53	6,510	
Utilities Expense	54	4,250	
Van Expense	55	2,060	
Miscellaneous Expense	59	1,300	
		125,990	125,990

4. **$11,980 ($33,050 – $6,950 – $6,510 – $4,250 – $2,060 – $1,300)**

5. **Some supplies may have been used during June, but no supplies expense has been recorded.**

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Whitworth Designs.

Note to Instructors: **At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.**

Prob. 2–4A

2. and 3.

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	1	Rent Expense	52	6,500	
		Cash	11		6,500
	2	Office Supplies	14	2,300	
		Accounts Payable	21		2,300
	5	Prepaid Insurance	13	6,000	
		Cash	11		6,000
	10	Cash	11	52,300	
		Accounts Receivable	12		52,300
	15	Land	16	200,000	
		Cash	11		30,000
		Notes Payable	23		170,000
	17	Accounts Payable	21	6,450	
		Cash	11		6,450
	20	Accounts Payable	21	325	
		Office Supplies	14		325
	23	Advertising Expense	53	4,300	
		Cash	11		4,300

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	27	Cash	11	2,500	
		Salary and Commission Expense	51		2,500
	28	Automobile Expense	54	1,500	
		Cash	11		1,500
	29	Miscellaneous Expense	59	1,400	
		Cash	11		1,400

Prob. 2–4A (Continued)

	30	Accounts Receivable	12	57,000	
		Fees Earned	41		57,000
	30	Salary and Commission Expense	51	11,900	
		Cash	11		11,900
	30	Alberto Harnish, Drawing	32	4,000	
		Cash	11		4,000
	30	Cash	11	10,000	
		Unearned Rent	22		10,000

1. and 3.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			26,300	
	1		18		6,500	19,800	
	5		18		6,000	13,800	
	10		18	52,300		66,100	
	15		18		30,000	36,100	
	17		18		6,450	29,650	
	23		18		4,300	25,350	
	27		19	2,500		27,850	
	28		19		1,500	26,350	
	29		19		1,400	24,950	
	30		19		11,900	13,050	
	30		19		4,000	9,050	
	30		19	10,000		19,050	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			61,500	
	10		18		52,300	9,200	
	30		19	57,000		66,200	

Prob. 2–4A (Continued)

Account: **Prepaid Insurance** Account No. **13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			3,000	
	5		18	6,000		9,000	

Account: **Office Supplies** Account No. **14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			1,800	
	2		18	2,300		4,100	
	20		18		325	3,775	

Account: **Land** Account No. **16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	15		18	200,000		200,000	

Account: **Accounts Payable** Account No. **21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				14,000
	2		18		2,300		16,300
	17		18	6,450			9,850
	20		18	325			9,525

Account: **Unearned Rent** Account No. **22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	30		19		10,000		10,000

Account: **Notes Payable** Account No. **23**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	15		18		170,000		170,000

Prob. 2–4A (Continued)

Account: **Alberto Harnish, Capital** Account No. **31**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				46,000

Account: **Alberto Harnish, Drawing** Account No. **32**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			2,000	
	30		19	4,000		6,000	

Account: **Fees Earned** Account No. **41**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓				240,000
	30		19		57,000		297,000

Account: **Salary and Commission Expense** Account No. **51**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			148,200	
	27		19		2,500	145,700	
	30		19	11,900		157,600	

Account: **Rent Expense** Account No. **52**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			30,000	
	1		18	6,500		36,500	

Prob. 2–4A (Continued)

Account: Advertising Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			17,800	
	23		18	4,300		22,100	

Account: Automobile Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			5,500	
	28		19	1,500		7,000	

Account: Miscellaneous Expense **Account No.** 59

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y3							
Apr.	1	Balance	✓			3,900	
	29		19	1,400		5,300	

4.

Elite Realty
Unadjusted Trial Balance
April 30, 20Y3

	Account No.	Debit Balances	Credit Balances
Cash	11	19,050	
Accounts Receivable	12	66,200	
Prepaid Insurance	13	9,000	
Office Supplies	14	3,775	
Land	16	200,000	
Accounts Payable	21		9,525
Unearned Rent	22		10,000
Notes Payable	23		170,000
Alberto Harnish, Capital	31		46,000
Alberto Harnish, Drawing	32	6,000	
Fees Earned	41		297,000
Salary and Commission Expense	51	157,600	
Rent Expense	52	36,500	
Advertising Expense	53	22,100	
Automobile Expense	54	7,000	
Miscellaneous Expense	59	5,300	
		532,525	532,525

Prob. 2–4A (Concluded)

5. (a) **The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.**

   (b) **The correcting entry for $7,200 ($19,100 – $11,900) would be as follows:**

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Date		Description	Post. Ref.	Debit	Credit
20Y3					
Apr.	30	Salary and Commission Expense	51	7,200	
		Cash	11		7,200

Prob. 2–5A

1.

The Lexington Co. Unadjusted Trial Balance May 31, 20Y6	Debit Balances	Credit Balances
Cash	18,750	
Accounts Receivable	53,500	
Supplies	2,225	
Prepaid Insurance	7,400	
Equipment	171,175	
Notes Payable		45,000
Accounts Payable		36,000
Sidney Lexington, Capital		139,150
Sidney Lexington, Drawing	20,000	
Fees Earned		429,850
Wages Expense	270,000	
Rent Expense	60,300	
Advertising Expense	25,200	
Gas, Electricity, and Water Expense	16,350	
Miscellaneous Expense	5,100	
	650,000	650,000

Cash = $20,350 – $7,000 (a) + $5,400 (b) = $18,750

2. **No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.**

Prob. 2–1B

1. and 2.

Cash

(a)	18,000	(b)	2,500
(g)	12,000	(c)	3,150
		(d)	1,450
		(f)	2,400
		(h)	1,800
		(i)	375
		(l)	2,800
		(m)	200
		(n)	300
		(o)	550
Bal.	14,475		

Accounts Payable

(h)	1,800	(e)	6,500
		(j)	2,500
		Bal.	7,200

Ken Jones, Capital

		(a)	18,000

Professional Fees

		(g)	12,000
		(k)	15,650
		Bal.	27,650

Accounts Receivable

(k)	15,650		

Rent Expense

(c)	3,150		

Supplies

(d)	1,450		

Salary Expense

(l)	2,800		

Prepaid Insurance

(f)	2,400		

Blueprint Expense

(j)	2,500		

Automobiles

(b)	19,500		

Automobile Expense

(o)	550		

Equipment

(e)	6,500		

Miscellaneous Expense

(i)	375		
(m)	200		
Bal.	575		

Notes Payable

(n)	300	(b)	17,000
		Bal.	16,700

Prob. 2–1B (Concluded)

3.

Jones Architects Unadjusted Trial Balance April 30, 20Y2	Debit Balances	Credit Balances
Cash	14,475	
Accounts Receivable	15,650	
Supplies	1,450	
Prepaid Insurance	2,400	
Automobiles	19,500	
Equipment	6,500	
Notes Payable		16,700
Accounts Payable		7,200
Ken Jones, Capital		18,000
Professional Fees		27,650
Rent Expense	3,150	
Salary Expense	2,800	
Blueprint Expense	2,500	
Automobile Expense	550	
Miscellaneous Expense	575	
	69,550	69,550

4. Net income, $18,075 ($27,650 – $3,150 – $2,800 – $2,500 – $550 – $575)

Prob. 2–2B

1.

(a)	Cash	17,500	
	Rafael Masey, Capital		17,500
(b)	Supplies	2,300	
	Accounts Payable		2,300
(c)	Cash	13,300	
	Sales Commissions		13,300
(d)	Rent Expense	3,000	
	Cash		3,000
(e)	Accounts Payable	1,150	
	Cash		1,150
(f)	Rafael Masey, Drawing	1,800	
	Cash		1,800
(g)	Automobile Expense	1,500	
	Miscellaneous Expense	400	
	Cash		1,900
(h)	Office Salaries Expense	2,800	
	Cash		2,800
(i)	Supplies Expense	1,050	
	Supplies		1,050

Prob. 2–2B (Continued)

2.

Cash			
(a)	17,500	(d)	3,000
(c)	13,300	(e)	1,150
		(f)	1,800
		(g)	1,900
		(h)	2,800
Bal.	20,150		

Sales Commissions			
		(c)	13,300

Rent Expense			
(d)	3,000		

Supplies			
(b)	2,300	(i)	1,050
Bal.	1,250		

Office Salaries Expense			
(h)	2,800		

Accounts Payable			
(e)	1,150	(b)	2,300
		Bal.	1,150

Automobile Expense			
(g)	1,500		

Rafael Masey, Capital			
		(a)	17,500

Supplies Expense			
(i)	1,050		

Rafael Masey, Drawing			
(f)	1,800		

Miscellaneous Expense			
(g)	400		

Prob. 2–2B (Concluded)

3.

Planet Realty Unadjusted Trial Balance August 31, 20Y7	Debit Balances	Credit Balances
Cash	20,150	
Supplies	1,250	
Accounts Payable		1,150
Rafael Masey, Capital		17,500
Rafael Masey, Drawing	1,800	
Sales Commissions		13,300
Rent Expense	3,000	
Office Salaries Expense	2,800	
Automobile Expense	1,500	
Supplies Expense	1,050	
Miscellaneous Expense	400	
	31,950	31,950

4. a. $13,300
   b. $8,750 ($3,000 + $2,800 + $1,500 + $1,050 + $400)
   c. $4,550 ($13,300 – $8,750)

5. $2,750, which is the excess of net income of $4,550 over the owner withdrawals of $1,800.

Prob. 2–3B

1.

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Date		Description	Post. Ref.	Debit	Credit
20Y4					
Oct.	1	Cash	11	18,000	
		Jay Pryor, Capital	31		18,000
	4	Rent Expense	53	3,000	
		Cash	11		3,000
	10	Truck	18	23,750	
		Cash	11		3,750
		Notes Payable	21		20,000
	13	Equipment	16	10,500	
		Accounts Payable	22		10,500
	14	Supplies	13	2,100	
		Cash	11		2,100
	15	Prepaid Insurance	14	3,600	
		Cash	11		3,600
	15	Cash	11	8,950	
		Fees Earned	41		8,950

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Date		Description	Post. Ref.	Debit	Credit
20Y4					
Oct.	21	Accounts Payable	22	2,000	
		Cash	11		2,000
	24	Accounts Receivable	12	14,150	
		Fees Earned	41		14,150
	26	Truck Expense	55	700	
		Accounts Payable	22		700
	27	Utilities Expense	54	2,240	
		Cash	11		2,240

Prob. 2–3B (Continued)

^^

	27	Miscellaneous Expense	59	1,100	
		Cash	11		1,100
	29	Cash	11	7,600	
		Accounts Receivable	12		7,600
	30	Wages Expense	51	4,800	
		Cash	11		4,800
	31	Jay Pryor, Drawing	32	3,500	
		Cash	11		3,500

2.

GENERAL LEDGER

Account: Cash Account No. 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	1		1	18,000		18,000	
	4		1		3,000	15,000	
	10		1		3,750	11,250	
	14		1		2,100	9,150	
	15		1		3,600	5,550	
	15		1	8,950		14,500	
	21		2		2,000	12,500	
	27		2		2,240	10,260	
	27		2		1,100	9,160	
	29		2	7,600		16,760	
	30		2		4,800	11,960	
	31		2		3,500	8,460	

Account: Accounts Receivable Account No. 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	24		2	14,150		14,150	
	29		2		7,600	6,550	

Prob. 2–3B (Continued)

Account: **Supplies** **Account No.** **13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	14		1	2,100		2,100	

Account: **Prepaid Insurance** **Account No.** **14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	15		1	3,600		3,600	

Account: **Equipment** **Account No.** **16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	13		1	10,500		10,500	

Account: **Truck** **Account No.** **18**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	10		1	23,750		23,750	

Account: **Notes Payable** **Account No.** **21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	10		1		20,000		20,000

Account: **Accounts Payable** **Account No.** **22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	13		1		10,500		10,500
	21		2	2,000			8,500
	26		2		700		9,200

Prob. 2–3B (Continued)

Account: Jay Pryor, Capital **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	1		1		18,000		18,000

Account: Jay Pryor, Drawing **Account No.** 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	31		2	3,500		3,500	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	15		1		8,950		8,950
	24		2		14,150		23,100

Account: Wages Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	30		2	4,800		4,800	

Account: Rent Expense **Account No.** 53

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	4		1	3,000		3,000	

Account: Utilities Expense **Account No.** 54

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	27		2	2,240		2,240	

Prob. 2–3B (Continued)

Account: **Truck Expense** **Account No.** **55**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	26		2	700		700	

Account: **Miscellaneous Expense** **Account No.** **59**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y4							
Oct.	27		2	1,100		1,100	

Prob. 2–3B (Concluded)

3.

Pioneer Designs Unadjusted Trial Balance October 31, 20Y4			
	Account No.	**Debit Balances**	**Credit Balances**
Cash	11	8,460	
Accounts Receivable	12	6,550	
Supplies	13	2,100	
Prepaid Insurance	14	3,600	
Equipment	16	10,500	
Truck	18	23,750	
Notes Payable	21		20,000
Accounts Payable	22		9,200
Jay Pryor, Capital	31		18,000
Jay Pryor, Drawing	32	3,500	
Fees Earned	41		23,100
Wages Expense	51	4,800	
Rent Expense	53	3,000	
Utilities Expense	54	2,240	
Truck Expense	55	700	
Miscellaneous Expense	59	1,100	
		70,300	70,300

4. **$11,260 ($23,100 – $4,800 – $3,000 – $2,240 – $700 – $1,100)**

5. **Some supplies may have been used during October, but no supplies expense has been recorded.**

As will be discussed in Chapter 3, adjustments are necessary at the end of the accounting period to bring the accounts up to date. For example, adjustments for supplies used, insurance expired, and depreciation would probably be required by Pioneer Designs.

Note to Instructors: **At this point, students have not been exposed to depreciation, but some insightful students might recognize the need for recording supplies used and insurance expired. You might use this as an opportunity to discuss what is coming in Chapter 3.**

Prob. 2–4B

2. and 3.

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Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	1	Office Supplies	14	3,150	
		Accounts Payable	21		3,150
	2	Rent Expense	52	7,200	
		Cash	11		7,200
	3	Cash	11	83,900	
		Accounts Receivable	12		83,900
	5	Prepaid Insurance	13	12,000	
		Cash	11		12,000
	9	Accounts Payable	21	400	
		Office Supplies	14		400
	17	Advertising Expense	53	8,000	
		Cash	11		8,000
	23	Accounts Payable	21	13,750	
		Cash	11		13,750

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Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	29	Miscellaneous Expense	59	1,700	
		Cash	11		1,700
	30	Automobile Expense	54	2,500	
		Cash	11		2,500
	31	Cash	11	2,000	
		Salary and Commission Expense	51		2,000
	31	Salary and Commission Expense	51	53,000	
		Cash	11		53,000

Prob. 2–4B (Continued)

	31	Accounts Receivable	12	183,500	
		Fees Earned	41		183,500
	31	Land	16	75,000	
		Cash	11		7,500
		Notes Payable	23		67,500
	31	Christina Utley, Drawing	32	1,000	
		Cash	11		1,000
	31	Cash	11	5,000	
		Unearned Rent	22		5,000

1. and 3.

GENERAL LEDGER

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			52,500	
	2		18		7,200	45,300	
	3		18	83,900		129,200	
	5		18		12,000	117,200	
	17		18		8,000	109,200	
	23		18		13,750	95,450	
	29		19		1,700	93,750	
	30		19		2,500	91,250	
	31		19	2,000		93,250	
	31		19		53,000	40,250	
	31		19		7,500	32,750	
	31		19		1,000	31,750	
	31		19	5,000		36,750	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			100,100	
	3		18		83,900	16,200	
	31		19	183,500		199,700	

Prob. 2–4B (Continued)

Account: **Prepaid Insurance** **Account No.** **13**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			12,600	
	5		18	12,000		24,600	

Account: **Office Supplies** **Account No.** **14**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			2,800	
	1		18	3,150		5,950	
	9		18		400	5,550	

Account: **Land** **Account No.** **16**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19	75,000		75,000	

Account: **Accounts Payable** **Account No.** **21**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				21,000
	1		18		3,150		24,150
	9		18	400			23,750
	23		18	13,750			10,000

Account: **Unearned Rent** **Account No.** **22**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19		5,000		5,000

Account: **Notes Payable** **Account No.** **23**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	31		19		67,500		67,500

Prob. 2–4B (Continued)

Account: Christina Utley, Capital **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				87,500

Account: Christina Utley, Drawing **Account No.** 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			44,800	
	31		19	1,000		45,800	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓				591,500
	31		19		183,500		775,000

Account: Salary and Commission Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			385,000	
	31		19		2,000	383,000	
	31		19	53,000		436,000	

Account: Rent Expense **Account No.** 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			49,000	
	2		18	7,200		56,200	

Prob. 2–4B (Continued)

Account: **Advertising Expense** **Account No.** **53**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			32,200	
	17		18	8,000		40,200	

Account: **Automobile Expense** **Account No.** **54**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			15,750	
	30		19	2,500		18,250	

Account: **Miscellaneous Expense** **Account No.** **59**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y8							
Aug.	1	Balance	✓			5,250	
	29		19	1,700		6,950	

Prob. 2–4B (Concluded)

4.

Valley Realty Unadjusted Trial Balance August 31, 20Y8			
	Account No.	**Debit Balances**	**Credit Balances**
Cash	11	36,750	
Accounts Receivable	12	199,700	
Prepaid Insurance	13	24,600	
Office Supplies	14	5,550	
Land	16	75,000	
Accounts Payable	21		10,000
Unearned Rent	22		5,000
Notes Payable	23		67,500
Christina Utley, Capital	31		87,500
Christina Utley, Drawing	32	45,800	
Fees Earned	41		775,000
Salary and Commission Expense	51	436,000	
Rent Expense	52	56,200	
Advertising Expense	53	40,200	
Automobile Expense	54	18,250	
Miscellaneous Expense	59	6,950	
		945,000	945,000

5. (a) The unadjusted trial balance in (4) still balances because the debits equaled the credits in the original journal entry.

(b) The correcting entry for $9,000 ($10,000 – $1,000) would be as follows:

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Date		Description	Post. Ref.	Debit	Credit
20Y8					
Aug.	31	Christina Utley, Drawing	32	9,000	
		Cash	11		9,000

Prob. 2–5B

1.

Tech Support Services Unadjusted Trial Balance January 31, 20Y5	Debit Balances	Credit Balances
Cash	20,250	
Accounts Receivable	56,400	
Supplies	6,750	
Prepaid Insurance	9,600	
Equipment	162,000	
Notes Payable		54,000
Accounts Payable		16,650
Javier Keiger, Capital		107,850
Javier Keiger, Drawing	39,000	
Fees Earned		534,000
Wages Expense	306,000	
Rent Expense	62,550	
Advertising Expense	28,350	
Gas, Electricity, and Water Expense	17,000	
Miscellaneous Expense	4,600	
	712,500	712,500

Cash = $25,550 – $8,000 (a) + $2,700 (b)

2. No. The trial balance indicates only that the debits and credits are equal. Any errors that have the same effect on debits and credits will not affect the balancing of the trial balance.

CONTINUING PROBLEM

2. and 3.

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Date		Description	Post. Ref.	Debit	Credit
20Y9					
July	1	Cash	11	5,000	
		Peyton Smith, Capital	31		5,000
	1	Office Rent Expense	51	1,750	
		Cash	11		1,750
	1	Prepaid Insurance	15	2,700	
		Cash	11		2,700
	2	Cash	11	1,000	
		Accounts Receivable	12		1,000
	3	Cash	11	7,200	
		Unearned Revenue	23		7,200
	3	Accounts Payable	21	250	
		Cash	11		250
	4	Miscellaneous Expense	59	900	
		Cash	11		900
	5	Office Equipment	17	7,500	
		Accounts Payable	21		7,500
	8	Advertising Expense	55	200	
		Cash	11		200
	11	Cash	11	1,000	
		Fees Earned	41		1,000
	13	Equipment Rent Expense	52	700	
		Cash	11		700
	14	Wages Expense	50	1,200	
		Cash	11		1,200

Continuing Problem (Continued)

2. and 3.

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Date		Description	Post. Ref.	Debit	Credit
20Y9					
July	16	Cash	11	2,000	
		Fees Earned	41		2,000
	18	Supplies	14	850	
		Accounts Payable	21		850
	21	Music Expense	54	620	
		Cash	11		620
	22	Advertising Expense	55	800	
		Cash	11		800
	23	Cash	11	750	
		Accounts Receivable	12	1,750	
		Fees Earned	41		2,500
	27	Utilities Expense	53	915	
		Cash	11		915
	28	Wages Expense	50	1,200	
		Cash	11		1,200
	29	Miscellaneous Expense	59	540	
		Cash	11		540
	30	Cash	11	500	
		Accounts Receivable	12	1,000	
		Fees Earned	41		1,500
	31	Cash	11	3,000	
		Fees Earned	41		3,000
	31	Music Expense	54	1,400	
		Cash	11		1,400
	31	Peyton Smith, Drawing	32	1,250	
		Cash	11		1,250

Continuing Problem (Continued)

1. and 3.

Account: Cash **Account No.** 11

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			3,920	
	1		1	5,000		8,920	
	1		1		1,750	7,170	
	1		1		2,700	4,470	
	2		1	1,000		5,470	
	3		1	7,200		12,670	
	3		1		250	12,420	
	4		1		900	11,520	
	8		1		200	11,320	
	11		1	1,000		12,320	
	13		1		700	11,620	
	14		1		1,200	10,420	
	16		2	2,000		12,420	
	21		2		620	11,800	
	22		2		800	11,000	
	23		2	750		11,750	
	27		2		915	10,835	
	28		2		1,200	9,635	
	29		2		540	9,095	
	30		2	500		9,595	
	31		2	3,000		12,595	
	31		2		1,400	11,195	
	31		2		1,250	9,945	

Account: Accounts Receivable **Account No.** 12

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			1,000	
	2		1		1,000	—	—
	23		2	1,750		1,750	
	30		2	1,000		2,750	

Continuing Problem (Continued)

Account: Supplies **Account No.** 14

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			170	
	18		2	850		1,020	

Account: Prepaid Insurance **Account No.** 15

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1		1	2,700		2,700	

Account: Office Equipment **Account No.** 17

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	5		1	7,500		7,500	

Account: Accounts Payable **Account No.** 21

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓				250
	3		1	250		—	—
	5		1		7,500		7,500
	18		2		850		8,350

Account: Unearned Revenue **Account No.** 23

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	3		1		7,200		7,200

Account: Peyton Smith, Capital **Account No.** 31

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓				4,000
	1		1		5,000		9,000

Continuing Problem (Continued)

Account: Peyton Smith, Drawing **Account No.** 32

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			500	
	31		2	1,250		1,750	

Account: Fees Earned **Account No.** 41

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓				6,200
	11		1		1,000		7,200
	16		2		2,000		9,200
	23		2		2,500		11,700
	30		2		1,500		13,200
	31		2		3,000		16,200

Account: Wages Expense **Account No.** 50

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			400	
	14		1	1,200		1,600	
	28		2	1,200		2,800	

Account: Office Rent Expense **Account No.** 51

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			800	
	1		1	1,750		2,550	

Account: Equipment Rent Expense **Account No.** 52

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			675	
	13		1	700		1,375	

Continuing Problem (Continued)

Account: **Utilities Expense** **Account No.** **53**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			300	
	27		2	915		1,215	

Account: **Music Expense** **Account No.** **54**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			1,590	
	21		2	620		2,210	
	31		2	1,400		3,610	

Account: **Advertising Expense** **Account No.** **55**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			500	
	8		1	200		700	
	22		2	800		1,500	

Account: **Supplies Expense** **Account No.** **56**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			180	

Account: **Miscellaneous Expense** **Account No.** **59**

Date		Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
20Y9							
July	1	Balance	✓			415	
	4		1	900		1,315	
	29		2	540		1,855	

Continuing Problem (Concluded)

4.

PS Music
Unadjusted Trial Balance
July 31, 20Y9

	Account No.	Debit Balances	Credit Balances
Cash	11	9,945	
Accounts Receivable	12	2,750	
Supplies	14	1,020	
Prepaid Insurance	15	2,700	
Office Equipment	17	7,500	
Accounts Payable	21		8,350
Unearned Revenue	23		7,200
Peyton Smith, Capital	31		9,000
Peyton Smith, Drawing	32	1,750	
Fees Earned	41		16,200
Wages Expense	50	2,800	
Office Rent Expense	51	2,550	
Equipment Rent Expense	52	1,375	
Utilities Expense	53	1,215	
Music Expense	54	3,610	
Advertising Expense	55	1,500	
Supplies Expense	56	180	
Miscellaneous Expense	59	1,855	
		40,750	40,750

MAKE A DECISION

MAD 2–1

a.

Amazon.com, Inc. Operating Income For the Years Ended December 31 (in millions)				
			Increase/(Decrease)	
	Year 2	Year 1	Amount	Percent
Revenues:				
Product sales	$ 241,787	$ 215,915	$25,872	12.0%
Service sales	228,035	170,149	57,886	34.0%
Total revenues	$ 469,822	$ 386,064	$83,758	21.7%
Operating expenses:				
Cost of sales	$(272,344)	$(233,307)	$39,037	16.7%
Fulfillment	(75,111)	(58,517)	16,594	28.4%
Technology and content	(56,052)	(42,740)	13,312	31.1%
Marketing	(32,551)	(22,008)	10,543	47.9%
General, administrative, and other	(8,885)	(6,593)	2,292	34.8%
Total operating expenses	$(444,943)	$(363,165)	$81,778	22.5%
Operating income	$ 24,879	$ 22,899	$ 1,980	8.6%

b. **The horizontal analysis shows that total revenues increased by 21.7% between the two years, with a strong increase in service sales. Service sales are revenues earned from Amazon's Web hosting, Web design, and order fulfillment services provided for other businesses. This part of Amazon apparently has been growing rapidly. Total operating expenses have grown by 22.5% between the two years, indicating that expenses are growing slightly more than revenues. The expense growth appears to be occurring across all the major expense categories with marketing showing the highest percent increase and cost of sales the lowest percent increase. The net result is an increase in operating income between the two years of 8.6%.**

MAD 2–2

a.

Chipotle Mexican Grill, Inc. Operating Income For the Years Ended December 31 (in millions)				
			Increase/(Decrease)	
	Year 2	Year 1	Amount	Percent
Revenue:				
Food and beverage	$7,457	$5,921	$1,536	25.9%
Delivery service	90	64	26	40.6%
Total revenues	$7,547	$5,985	$1,562	26.1%
Restaurant operating costs:				
Food, beverage, packing	$(2,309)	$(1,933)	$ 376	19.5%
Labor	(1,918)	(1,593)	325	20.4%
Occupancy (rent)	(416)	(388)	28	7.2%
Marketing, utilities, other	(1,197)	(1,030)	167	16.2%
General and administrative	(607)	(466)	141	30.3%
Depreciation	(255)	(238)	17	7.1%
Pre-opening costs	(21)	(16)	5	31.3%
Other	(19)	(31)	(12)	(38.7)%
Total operating expenses	$(6,742)	$(5,695)	$1,047	18.4%
Operating income	$ 805	$ 290	$ 515	177.6%

b. Total revenues increased by 26.1% in Year 2, while total operating expenses increased by only 18.4%. While delivery service revenue is a small portion of total revenue, it increased by 40.6%, indicating a potential for rapid revenue growth in this revenue stream in the future.

Food, beverage, packing and labor expenses increased by 19.5% and 20.4%, respectively. General and administrative expenses increased 30.3%, while marketing, utilities, other expenses increased by 16.2%. Pre-opening costs increased by 31.3% indicating the opening of new restaurants. Occupancy (rent) and depreciation increased by slightly more than 7%. Other expenses decreased by 38.7%, but make up a relatively small portion of total operating expenses.

The overall result is that operating income almost doubled (increased by 177.6%) in Year 2 from Year 1. Thus, Chipotle Mexican Grill had a very successful Year 2.

MAD 2–3

a.

Vera Bradley, Inc. Operating Income For the Years Ended January 31 (in millions)				
			Increase/(Decrease)	
	Year 2	Year 1	Amount	Percent
Revenues	$ 468.3	$ 495.2	$(26.9)	(5.4)%
Expenses:				
Cost of sales	$(202.8)	$(223.4)	$(20.6)	(9.2)%
Selling, general, admin. exp. (net)	(252.4)	(252.3)	0.1	0.0%
Total expenses	$(455.2)	$(475.7)	$(20.5)	(4.3)%
Operating income	$ 13.1	$ 19.5	$ (6.4)	(32.8)%

b. **Revenues decreased by 5.4%, while cost of sales decreased by 9.2%. Selling, general, administrative expenses remained the same with the result that total expenses decreased by 4.3%. Overall, operating income decreased by 32.8%.**

These results are consistent with the effects of the COVID-19 pandemic on retail operations across the United States and the world. During the pandemic, Vera Bradley closed its store locations, reduced its inventory, and expanded its e-commerce sales. The fact that selling, general, administrative expenses did not change reflects the difficulty of managing fixed expenses and costs such as corporate salaries and occupancy (rent) costs during periods of short-term, economic upheavals.

MAD 2–4

a. 1. **Revenue: $93,561 – $78,112 = $15,449**

$$\frac{\$15,449}{\$78,112} = 19.8\%$$

2. **Operating expenses: $87,022 – $73,454 = $13,568**

$$\frac{\$13,568}{\$73,454} = 18.5\%$$

3. **Operating income: $6,539 – $4,658 = $1,881**

$$\frac{\$1,881}{\$4,658} = 40.4\%$$

b. **The revenue increased by 19.8% between the two years, while the operating expenses grew by 18.5%. Thus, expenses grew less than revenues. As a result, operating income increased by 40.4% in Year 2.**

MAD 2–5

a. 1. Revenue: $559,151 – $523,964 = $35,187

$$\frac{\$35{,}187}{\$523{,}964} = 6.7\%$$

2. Operating expenses: $536,603 – $503,396 = $33,207

$$\frac{\$33{,}207}{\$503{,}396} = 6.6\%$$

3. Operating income: $22,548 – $20,568 = $1,980

$$\frac{\$1{,}980}{\$20{,}568} = 9.6\%$$

b. Revenue increased by 6.7%, while operating expenses increased by 6.6%. As a result, operating income increased by 9.6%, which is a favorable change in Year 2.

MAD 2–6

Target's percentage increase in revenue of 19.8% was almost three times that of Walmart's 6.7%. While Target's percentage increase in operating expenses of 18.5% was larger than Walmart's 6.6%, Target's percentage increase in operating expenses was 1.3% (19.8% – 18.5%) less than its percentage increase in revenues. In contrast, Walmart's operating expenses increased only 0.1% (6.7% – 6.6%) less than its revenues. As result, Target's percentage increase in operating income of 40.4% was over four times that of Walmart's 9.6%.

TAKE IT FURTHER

TIF 2–1

1. **No. For financial accounting information to be useful, it must accurately reflect an entity's business transactions and economic activity. For this to happen, each account must reflect the increases or decreases that result from each transaction. If the trial balance does not balance, it means that a transaction has not been accurately recorded in the accounts. By knowingly submitting a trial balance that does not accurately reflect the transactions in the accounts, Buddy is demonstrating a failure of individual character and is acting unethically.**
2. **The users of the financial information who rely upon this information will be affected, as the information will not be a faithful representation of the entity's economic activity.**
3. **Buddy should have discussed the issue with his supervisor and asked for more time to find the error.**

TIF 2–2

A sample solution based on Apple Inc.'s Form 10-K for the fiscal year ended September 25, 2021, follows:

1. **$351,002 million**
2. **$287,912 million**
3. **$63,090 million ($351,002 million total assets – $287,912 million total liabilities)**
4. **3**
5. **2**
6. **The income statement reports a summary of revenues and expenses for a specific period of time, such as a month or a year. The balance sheet reports a list of assets, liabilities, and stockholders' equity as of a specific date, usually at the close of the last day of a month or a year.**

TIF 2–3

Note to Instructors: **The purpose of this activity is to familiarize students with the job opportunities available in accounting, and allow them to demonstrate their ability to communicate the role of accounting in the context of a specific position that requires knowledge of accounting. An example of an advertisement for such a position is shown below. Individual student answers will vary depending on the specific scenario they select.**

ABOUT THE COMPANY

Our client is looking to add a Financial Analyst. With a large and growing finance team, there is significant opportunity for growth and advancement within the department. The company boasts a team-oriented culture and provides its employees with the tools and training necessary to perform. Our client is looking to bring on more of a junior-level candidate who is looking to gain experience in his or her field of study. There will be hands-on training for the role that will evolve from a data analyst into a financial analyst and will be reporting to the director of finance. Our client is in the consumer goods industry and is an international company that has multiple opportunities for growth.

RESPONSIBILITIES OF THE FINANCIAL ANALYST

The Financial Analyst will:

- **Conduct special studies to analyze complex financial actions and prepare recommendations for policy, procedure, control, or action.**
- **Analyze financial information to determine present and future financial performance.**
- **Evaluate complex profit plans, operating records, and financial statements.**
- **Direct preparation of studies, reports, analyses, and recommendations in areas such as budgets, forecasts, financial plans, statistical reports, and business forecasts.**
- **Coordinate with all levels of management to gather, analyze, summarize, and prepare recommendations regarding financial plans, trended future requirements, and operating forecasts.**

Source: CareerBuilder.com

TIF 2–4

The following general journal entry should be used to record the receipt of tuition payments received in advance of classes:

Cash	**XXX**	
Unearned Tuition Deposits		**XXX**

Cash is an asset account, and Unearned Tuition Deposits is a liability account. As the classes are taught throughout the term, the unearned tuition deposits become earned revenue.

TIF 2–5

The journal is called the book of original entry. It provides a time-ordered history of the transactions that have occurred for the firm. This time-ordered history is very important because it allows one to trace ledger account balances back to the original transactions that created those balances. This is called an "audit trail." If the firm recorded transactions by posting to ledgers directly, it would be nearly impossible to reconstruct actual transactions. The debits and credits would all be separated and accumulated into the ledger balances. Once the transactions become part of the ledger balances, the original transactions would be lost. That is, there would be no audit trail, and any errors that might occur in recording transactions would be almost impossible to trace. Thus, firms first record transaction debits and credits in a journal. These transactions are then posted to the ledger to update the account balances. The journal and ledger are linked using posting references. This allows an analyst to trace the transaction flow forward or backward, depending on the need.

TIF 2–6

1. **The rules of debit and credit must be memorized. Dot is correct in that the rules of debit and credit could be reversed as long as everyone accepted and abided by the rules. However, the important point is that everyone accepts the rules as the way in which transactions should be recorded. This generates uniformity across the accounting profession and reduces errors and confusion. Because the current rules of debit and credit have been used for centuries, Dot should adapt to the current rules of debit and credit, rather than devise her own.**

   The primary reason that all accounts do not have the same rules for increases and decreases is for control of the recording process. The double-entry accounting system, which includes both (1) the rules of debit and credit and (2) the accounting equation, guarantees that (1) debits always equal credits and (2) assets always equal liabilities plus owner's equity. If all increases in the account were recorded by debits, then the control that debits always equal credits would be removed. In addition, the control that the normal balance of assets is a debit would also be removed. The accounting equation would still hold, but the control over recording transactions would be weakened.

   Dot is correct that we could call the left and right sides of an account different terms, such as "LE" or "RE." Again, centuries of tradition dictate the current terminology used. One might note, however, that in Latin, *debere* (debit) means left and *credere* (credit) means right.

2. **The accounting system may be designed to capture information about the buying habits of various customers or vendors, such as the quantity normally ordered, average amount ordered, number of returns, etc. Thus, in a sense, there can be other "sides" of (information about) a transaction that are recorded by the accounting system. Such information would be viewed as supplemental to the basic double-entry accounting system.**

Cengage

Instructor Manual

Warren, Accounting, 29e, 2024, 9780357899649; Chapter 2: Analyzing Transactions

Table of Contents

Purpose and Perspective of the Chapter

Chapter 2 is the *most* important chapter in the text. Its purpose is to introduce students to the rules of debit and credit, chart of accounts, two-column journals, four-column ledgers, T accounts, journalizing and posting transactions, and the trial balance.

It is imperative that students do their best to understand the foundational accounting principles in this chapter. The chapter begins with the characteristics of an account and a chart of accounts. The double-entry accounting system is demonstrated by journalizing transactions and posting transactions to accounts. Students will learn what the normal account balances are for each category of account and how to increase or decrease the accounts based on their normal balance. The T account is a useful tool to show how accounts are posted to the ledger. Then the unadjusted trial balance is prepared, and an explanation is given on how it can be used to discover errors. Finally, horizontal analysis is illustrated to evaluate a company's performance and financial condition.

Chapter 2 builds the foundation for all that will be learned about accounting principles and describes the basic financial statements. The chapter provides multiple examples of journal entries and how they are recorded in the general journal before they are posted to the ledger.

Chapter Objectives

The following objectives are addressed in this chapter:

Obj. 1 Describe the characteristics of an account and a chart of accounts.

Obj. 2 Describe and illustrate journalizing transactions using the double-entry accounting system.

Obj. 3 Describe and illustrate the journalizing and posting of transactions to accounts.

Obj. 4 Prepare an unadjusted trial balance and explain how it can be used to discover errors.

Obj. 5 Describe and illustrate the use of horizontal analysis in evaluating a company's performance and financial condition.

List of Chapter Activities

The following table organizes activities and assessments in the PowerPoint by objective, so that you can see how all this content relates to objectives and make decisions about which content you would like to emphasize in your class based on your objectives. For additional activities, refer to the Teaching Online Guide and the Educator Guide.

Chapter Objective	Activity/Assessment	Source (i.e., PPT slide, Workbook)
Obj. 1	Knowledge Check Activity 1	PPT Slides 11–12
Obj. 2	Discussion Activity 1	PPT Slides 29–30
Obj. 3	Knowledge Check Activity 2	PPT Slides 55–56
Obj. 4	Discussion Activity 2	PPT Slides 63–64
Obj. 5	Knowledge Check Activity 3	PPT Slides 67–68

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Key Terms

Account: An accounting form used to record the increases and decreases in each financial statement item.

Account receivable: An asset, which is a claim against the customer created by selling merchandise or services on credit.

Assets: The resources owned by a business.

Balance of the account: The amount of the difference between the debits and the credits that have been entered into an account.

Capital account: The amount of the owner's equity in the business.

Chart of accounts: A list of the accounts in the ledger.

Correcting journal entry: An entry that is prepared to correct an error to an entry that has already been journalized and posted.

Credit: Amount entered on the right side of an account.

Debit: Amount entered on the left side of an account.

Double-entry accounting system: A system of accounting for recording transactions, based on recording increases and decreases in accounts so that debits equal credits.

Drawing account: The amount of withdrawals made by the owner.

Expenses: Amounts used to generate revenue; assets used up or services consumed in the process of generating revenues.

Four-column account: A form of account that has Debit and Credit columns for recording transactions as well as Balance (Debit and Credit) columns for indicating the account balance after each transaction.

Horizontal analysis: Financial analysis that compares an item in a current statement with the same item in prior statements in terms of the amount and percentage of change.

Journal: The initial record in which the effects of a transaction are recorded.

Journal entry: The record of a transaction entered in a journal, made up of at least one debit and one credit.

Journalizing: The process of recording a transaction in a journal.

Ledger: A group of accounts for a business.

Liabilities: The rights of creditors that represent debts of the business.

Normal balance of an account: The side of an account (debit or credit) in which the balance normally appears based on the type of account and whether it is increased by debits or credits.

Owner's equity: The owner's right to the assets of the business after all liabilities have been paid.

Posting: The process of transferring the debits and credits from the journal entries to the accounts.

Prepaid expenses: Assets created by making advanced payments for expense items, such as insurance premiums or supplies, that will be used in the business in the future.

Revenues: Increases in owner's equity as a result of providing services or selling goods to customers.

Rules of debit and credit: In the double-entry accounting system, specific rules for recording debits and credits based on the type of account.

T account: The simplest form of an account, which consists of an account title, a debit side, and a credit side.

Trial balance: A summary listing of the titles and balances of accounts in the ledger, which is used to verify that debits equal credits.

Two-column journal: A form of journal in which there are only two amount columns, one for debits and one for credits.

Unadjusted trial balance: A trial balance prepared at the end of an accounting period before adjusting entries are made.

Unearned revenue: The liability created by receiving revenue in advance.

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What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

- New Business Insight boxed feature entitled "Debits and Credits at the Bank" has been added.
- A new Pathways Challenge feature on recording sales transactions involving coupons has been added
- A new Using Data Analytics feature entitled "Extracting Data" has been added.
- The following end-of-chapter items have been revised with new financials: EX 2-7–EX 2-16, PR 2-1A, PR 2-2A, and PR 2-5A.
- MAD 2-1–MAD 2-6 have been added as new.
- Cases CP 2-1–CP 2-6 have been reordered and relabeled as TIF 2-1–TIF 2-6.
- Case CP 2-7 has been deleted.

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Chapter Outline

The following outline organizes activities (including any existing discussion questions in PowerPoints or other supplements) and assessments by chapter (and therefore by topic), so that you can see how all the content relates to the topics covered in the text.

I. Using Accounts to Record Transactions (2-1, PPT Slides 3–12, BUSPROG: Analytic, AICPA: FN-Measurement)

   a. The first objective describes how accounting systems are designed to show the increases and decreases in each accounting equation element as a separate record in an account.
   b. An account has three parts: a title, a space to indicate an increase, and a space to indicate a decrease.
   c. Exhibit 1 (PPT Slide 4) shows a list of transactions that will be used as examples to record transactions.
   d. T accounts are used to show amounts as debits (left side) or credits (right side).
      i. Increases in assets are shown as debits.
      ii. Decreases in assets are shown as credits.
      iii. For an asset account, the excess of debits over credits is the balance of the account.
   e. A group of accounts for a business is a ledger. The list of all the accounts in the ledger is called a chart of accounts.
      i. The balance sheet accounts are listed in the order of assets, liabilities, and owner's equity.
      ii. The income statement accounts are listed next as revenues and expenses.
   f. Assets are the rights of a business entity to economic benefits.
   g. Liabilities are obligations by a business entity to transfer assets to third parties.
   h. Owner's equity is the owner's right to the assets of the business after all liabilities have been paid.
      i. The owner's equity is represented by the balance of the owner's capital account.
      ii. A drawing account represents the amount of withdrawals made by the owner.
   i. Revenues are increases in assets and owner's equity as a result of selling services or products to customers.
   j. Expenses result from using up assets or consuming services in the process of generating revenues.

k. Exhibit 2 (PPT Slide 10) shows a sample chart of accounts.
l. **Knowledge Check Activity 1:** *Which of the following would be considered an asset in a company's chart of accounts?* (PPT Slides 11–12)
   - The answer is factory equipment.
   - Factory Equipment is a right of a business entity to economic benefits.

II. Double-Entry Accounting System (2-2, PPT Slides 13–30, BUSPROG: Analytic, AICPA: FN-Measurement)

a. All businesses use a double-entry accounting system, which records transactions in at least two accounts. The total of the debits in a transaction must equal the total of the credits.
b. There are specific rules for debits and credits when recording transactions in the accounts. Exhibit 3 (PPT Slide 17) illustrates the rules of debit and credit and the normal balances of accounts.
c. Using the rules of debit and credit, transactions are entered in journals in a process called journalizing. The five steps of journalizing transactions are listed on PPT Slide 20.
d. Exhibit 4 (PPT Slide 21) describes common transaction terminology and the accounts that are debited and credited.
e. PPT Slides 22–28 show sample transactions from NetSolutions.
f. **Discussion Activity 1:** *Most business owners and entities use accounting software to automate their journalizing and posting activity for efficiency and to minimize data entry errors. With your instructor's permission, go online to search for examples of accounting software. Share an example of an accounting software that you found with the class. In which ways do you think using accounting software will make the accounting processes better at a company?* (PPT Slides 29–30)
   - Some of the larger accounting software systems are fully integrated as part of entire business processes. There are also choices for smaller businesses such as QuickBooks. Technological advancements in accounting software offer continuous improvements in features, including cloud computing. Using automated software also helps prevent errors, increases the speed of journalizing and posting, and can also help prevent some fraudulent activities. Files will contain a history of accounting activity that can be used for data analysis or auditing of transactions.
   - What were some of the common products and vendors that students mentioned? Were you intrigued to learn more about using accounting software and to gain technical expertise?

III. Posting Journal Entries to Accounts (2-3, PPT Slides 31–56, BUSPROG: Analytic, AICPA: FN-Measurement)

a. The process of transferring the debits and credits from the journal entries to the ledger is called posting.
   i. Although T accounts are useful for illustrating the recording and posting of transactions, more formal, multi-column accounts are used in practice.
   ii. A four-column account is used, which includes spaces for the date, item, and posting reference and a column for the debit and credit amounts.

b. Multiple sample transactions for NetSolutions are shown on PPT Slides 32 and 35–51.

c. The debits and credits for each journal entry are posted to the accounts in the order in which they occur in the journal. The five steps of posting journal entries to the ledger are shown on PPT Slide 33.

d. Exhibit 5 (PPT Slide 34) diagrams the recording and posting of a debit and a credit.

e. Exhibit 6 (PPT Slides 52–54) shows the general ledger for NetSolutions after all sample transactions have been posted.

f. **Knowledge Check Activity 2:** *Which of the following is the process of transferring debits and credits from journal entries into accounts in a ledger?* (PPT Slides 55–56)
   - The answer is posting.
   - The process of transferring the debits and credits from the journal entries to the accounts is called posting.

IV. Trial Balance (2-4, PPT Slides 57–64, BUSPROG: Analytic, AICPA: FN-Measurement)

a. Errors may occur in posting debits and credits from the journal to the ledger. One way to detect such errors is by preparing a trial balance.
   i. There are four steps to prepare the trial balance (PPT Slide 58).
   ii. Exhibit 7 (PPT Slide 59) shows a trial balance prepared using the four steps.

b. If the trial balance totals are not equal, an error has occurred. The error must be found and corrected, and if necessary, the accounting process must be retraced, beginning with the last journal entry.

c. An error may occur that does not cause the trial balance totals to be unequal.
   i. Such an error must be discovered when preparing the trial balance or may be indicated by an unusual account balance.

ii. If the error has already been journalized and posted to the ledger, a correcting journal entry is normally prepared.

d. An example of a correcting entry is shown in Exhibit 8 (PPT Slide 62).

e. **Discussion Activity 2:** *Preparing the trial balance is an important step in the accounting process. Break into groups of 2–3 students. Assume you have prepared an unadjusted trial balance and the total of the debits does not equal the total of the credits. As a group, discuss what steps you could take to find out why it is out of balance. Share your findings in a class discussion with the other groups.* (PPT Slides 63–64)

- While it could be frustrating, there are several steps that can be taken to find out why the trial balance is out of balance.
- To begin with, you could calculate the difference between the total debits and the total credits. If the individual digits of that difference add up to a number that is evenly divisible by the number 9, it could be a transposition error in one of the account balances. For example, if your difference is $738, you would add 7 + 3 + 8 = 18, which is evenly divisible by 9 to equal 2. Check for an amount that could be transposed.
- You could also see if the difference is an even number, as that could indicate a debit was recorded in the credit column, or vice versa.
- Otherwise, each individual account balance could be checked back to the general ledger to see if it was recorded in the trial balance correctly, and you could also double-check your column totals.

V. Analysis for Decision Making: Horizontal Analysis (2-5, PPT Slides 65–68, BUSPROG: Analytic, AICPA: FN-Measurement)

a. A single item in a financial statement, such as net income, is often useful in interpreting the financial performance of a company.

i. A comparison with prior periods often makes the financial information even more useful.

ii. Comparing net income of the current period with the net income of the prior period will indicate whether the company's operating performance has improved.

b. In horizontal analysis, the amount of each item on a current financial statement is compared with the same item on an earlier statement.

i. The increase or decrease in the amount of the item is computed together with the percent of increase or decrease.

ii. When two statements are being compared, the earlier statement is used as the base for computing the amount and the percent of change.

c. An example of a horizontal analysis is shown on PPT Slide 66.

d. **Knowledge Check Activity 3:** *A horizontal analysis is a helpful way to compare the financial performance of a company across different reporting periods. Which of the following financial statement comparisons would be an appropriate use of horizontal analysis?* (PPT Slides 67–68)

- The answer is current year balance sheet to prior year balance sheet.
- A horizontal analysis compares current year data to one or more prior year's data for a specific line item of the same financial statement.

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Additional Discussion Questions

The following are discussion questions that do not appear in the text, PPTs, or courseware (if courseware exists)—they are for you to use as you wish. You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. Discussion: Chart of Accounts (Using Accounts to Record Transactions, 2-1, PPT Slides 8–10) Duration 5 minutes.

   a. Why are the ledger accounts in a chart of accounts listed in a specific order rather than in alphabetical order?

      i. Answer: The accounts are listed in groups that would pertain to either the balance sheet or income statement. Within these two statements, accounts are broken into assets, liabilities, owner's equity, revenue, and expense accounts. In this manner, the account balances can be added together, such as total assets. This grouping allows accountants to provide useful information on financial activities. For example, if the treasurer asks what total revenues are for the month, the accountant can add up the current month balances of all the revenue accounts as shown in the chart of accounts to provide the total. It is also helpful to have the accounts in specific categories when preparing the financial statements.

2. Discussion: Journalizing Transactions (Double-Entry Accounting System, 2-2, PPT Slides 18 and 20) Duration 10 minutes.

   a. Why are transactions recorded with a journal entry instead of directly into the ledger?

      i. Answer: There are specific rules of debit and credit, and the journal serves as a record of when and why the transactions occurred. As part of the five steps of journalizing transactions, a description is also entered, which may be helpful in the future as a reference, as well as providing an audit trail of a business activity. If the transactions were posted directly to the ledger, there would be a date and an amount, but no description of why the entry occurred.

3. Discussion: Posting Transactions to the Ledger (Posting Journal Entries to Accounts, 2-3, PPT Slides 31 and 33) Duration 10 minutes.

   a. What is the difference between journalizing and posting?

      i. Answer: Journalizing is the recording of a transaction in a journal, which includes the date, the account number, the amount of the debits and credits, a posting reference, and a description of the transaction. Posting is the transfer of the individual account amounts into their appropriate account in the ledger. After all posting is completed for a reporting period, the individual accounts have a total of all posted transactions.

4. Discussion: The Purpose of a Trial Balance (Trial Balance, 2-4, PPT Slides 57–61) Duration 10 minutes.

   a. If all the journal entries are properly posted to the ledger, why is a trial balance necessary?

      i. Answer: Unfortunately, errors can occur when posting the transactions to the individual ledger accounts. In some businesses, the volume of transactions is very heavy, so the sheer volume of transactions can lead to the vulnerability of errors. By listing the debit and credit balances of the accounts within separate columns and adding these columns to see if they are equal, the accountant can sometimes find errors. This is especially the case if there are improperly recorded amounts, transpositions, or slides. However, sometimes the trial balance appears to be in balance, but there could still be errors in the posting process. These errors can be discovered through experience, such as noticing an unusual balance for an account. Also, the trial balance can assist in preparation of the income statement and the balance sheet.

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Additional Activities and Assignments

The following are activities and assignments developed by Cengage but not included in the text, PPTs, or courseware (if courseware exists)—they are for you to use if you wish.

1. **Online Research Activity:** *The Chart of Accounts* (Technology, Critical Thinking, 2-1, PPT Slides 8–10) Duration 30 minutes.

    a. Companies structure their chart of accounts to meet the particular needs to report financial information that may be unique in their industry. Working in groups of 2–3 students, go online to search for suggestions for two charts of account from different industries. For example, searches can be for "best chart of accounts for construction company" or "suggested chart of accounts for restaurant." Be creative when thinking of why certain industries would need different accounts.

        i. Answer: Students should have various responses to what they located online. If time permits, students could share their screens with the class to show sample charts of accounts for different industries. Ask students to comment on the content of these accounts for a particular type of business or organization.

2. **Writing Exercises Activity:** *The Journal and the Ledger* (Reflective Thinking, Critical Thinking, 2-3, PPT Slides 31 and 33) Duration 20 minutes.

    a. It is important for students to understand the reason that business transactions are recorded in a journal as the book of original entry and later posted to a ledger. To check their understanding of these concepts, ask them to write a response to the following questions. Share the possible responses with them and give them an opportunity to ask questions.

        - Why are business transactions initially recorded in a journal?

            i. Answer: Student answers will vary, but one possible answer is the journal is used to record transactions in the order in which they occur. The journal shows the entire effect of the transaction and how the transaction impacts the accounting equation. Without the journal, the general ledger accounts would not reflect the entire history of the transaction.

- Why are business transactions posted from the journal to a ledger?
    i. Answer: Student answers will vary, but one possible answer is the ledger tracks the balance of the individual accounts. Without posting transactions to the ledger, the accountant would have to go back and track every individual transaction to find those that impact the account in question and track the increases and decreases over the accounting period to determine the balance in the account.

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Additional Resources

Cengage Video Resources

- 2 Quick Lesson videos
- 6 Tell Me More videos (1 for each learning objective)
- 10 Show Me How videos

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