Chapter 2

Recording Business Transactions

Short Exercises

(5 min.) S 2-1

The transaction had a financial impact on the business and should be recorded. The payment for the computer was not an expense.

The payment related to the purchase of an asset, "Equipment," because the computer is an economic resource of the business. The computer will provide benefit over more than one fiscal period.

(5 min.) S 2-2

a. $12,000 (Cash $10,000–$5,000; Supplies $2,000, Computer $5,000)

b. $2,000 Accounts Payable

(5-10 min.) **S 2-3**

Cash

25,000	4,000
2,000	
Bal. 23,000	

Accounts Receivable

6,000	

Supplies

9,000	

Accounts Payable

	9,000

Rent

4,000	

Service Revenue

	8,000

Common Shares

	25,000

(5 min.) **S 2-4**

Increased total assets:	**May 1**	**(Cash)**
	May 1	**(Medical supplies)**
	May 3	**(Cash, Accounts receivable)**
Decreased total assets:	**May 2**	**(Cash)**

(10 min.) S 2-5

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
June	15	Cash	25,000	
		Note Payable		25,000
		Borrowed money from the bank.		
	22	Accounts Receivable	9,000	
		Service Revenue		9,000
		Delivered portrait to be paid on account.		
	28	Cash	5,000	
		Accounts Receivable		5,000
		Received cash on account.		
	29	Utilities Expense	600	
		Accounts Payable		600
		Received utility bill.		
	30	Salary Expense	2,500	
		Cash		2,500
		Paid salary.		

(10-15 min.) S 2-6

Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Supplies…………………………………..	5,000	
	Accounts Payable…………………		5,000
	Purchased supplies on account.		
	Accounts Payable……………………	3,000	
	Cash…………………………………		3,000
	Paid cash on account.		

Req. 2

Accounts Payable		
3,000		5,000
	Bal.	2,000

Req. 3

Biaggi's business owes $2,000, as shown in the Accounts Payable account.

(10-15 min.) S 2-7

Req. 1

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
	Accounts Receivable.......................	500	
	Service Revenue..........................		500
	Performed service on account.		
	Cash..	100	
	Accounts Receivable...................		100
	Received cash on account.		

Req. 2

Cash

	100		
Bal.	100		

Accounts Receivable

	500		100
Bal.	400		

Service Revenue

			500
		Bal.	500

Req. 3

a. The Centre earned	$500:	Service Revenue	
b. Total assets	$500:	Cash…………………..	$100
		Accounts receivable.	400
		Total assets…………	$500

(10 min.) **S 2-8**

lululemon athletica inc.
Trial Balance
December 31, 2014

ACCOUNT	DEBIT	CREDIT
	(Millions)	
Cash & other current assets	$ 53	
Other assets	101	
Accounts payable		$ 5
Other liabilities		38
Shareholders' equity		80
Revenues		275
Expenses	244	
Total	$398	$398

lululemon's net income: $31 million ($275 – $244)

(10 min.) **S 2-9**

1. Total assets = $95,000 ($6,000 + $13,000 + $4,000 + $22,000 + $50,000)
2. Total liabilities = $39,000 ($19,000 + $20,000)
3. Net income = *$38,000 ($70,000 – $21,000 – $10,000 – $1,000)
4. Total shareholders' equity = $56,000 ($10,000 + $8,000 + $38,000*)

(10 min.) S 2-10

Custom Pool Service, Inc.
Trial Balance
June 30, 2014

ACCOUNT	DEBIT	CREDIT
Cash	9,200	
Accounts receivable	15,200	
Land	29,600	
Accounts payable		$ 4,100
Loan payable		11,500
Common shares		8,300
Retained earnings		24,700
Dividends	5,800	
Service revenue		22,300
Salary expense	8,500	
Utilities expense	1,700	
Delivery expense	900	
Total	$70,900	$70,900

(10 min.) S 2-11

H	1. Debit	A.	The cost of operating a business; a decrease in shareholders' equity
A	2. Expense	B.	Always a liability
C	3. Net income	C.	Revenues – Expenses
D	4. Ledger	D.	Grouping of accounts
J	5. Posting	E.	Assets – Liabilities
I	6. Normal balance	F.	Record of transactions
B	7. Payable	G.	Always an asset
F	8. Journal	H.	Left side of an account
G	9. Receivable	I.	Side of an account where increases are recorded
E	10. Owners' equity	J.	Copying data from the journal to the ledger

(5 min.) S 2-12

Cash	
100,000	

Computer Equipment	
60,000	

Accounts Payable	
	60,000

Common Shares	
	100,000

Total debits = $160,000 ($100,000 + $60,000)

Total credits = $160,000 ($60,000 + $100,000)

Exercises

(10-15 min.) E 2-13

TO: Home Office

FROM: Store Manager

During the first week, I borrowed $170,000 on a note payable. I used the store's beginning cash plus the borrowed money to purchase land, a building, copy equipment, and supplies. After all these transactions, the store's balance sheet appears as follows:

The Gap
Ottawa Store
Balance Sheet
Date

ASSETS		LIABILITIES	
Cash	$ 10,000	Note payable	$170,000
Inventory	40,000		
Store fixtures	50,000	SHAREHOLDERS' EQUITY	
Land	40,000	Common shares	100,000
Building	130,000	Total liabilities and	
Total assets	$270,000	shareholders' equity	$270,000

Cash

Debit	Credit
100,000	50,000
	40,000
10,000	

(5-10 min.) E 2-14

a. Purchase of asset for cash
Sale of asset for cash
Collection of an account receivable
b. Payment of dividends to shareholders
Expense transaction
c. Pay a liability
Return of asset purchased on account
d. Issuance of shares
Revenue transaction
e. Purchase of asset on account
Borrow money
(Answers may vary.)

(10-15 min.) E 2-15

a. No effect on total assets. Increase in cash offsets the decrease in accounts receivable.
b. No effect (a personal transaction)
c. No effect on total assets. Increase in cash offsets the decrease in land.
d. Increased assets (cash)
e. No effect on total assets. Increase in land offsets the decrease in cash.
f. Increased assets (cash)
g. Decreased assets (cash)
h. Increased assets (equipment)
i. Increased assets (supplies)
j. Decreased assets (cash)

(10-20 min.) E 2-16

Req. 1

Analysis of Transactions

	ASSETS				= LIABILITIES	+	SHAREHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable +	Dental Supplies +	Land =	Accounts Payable +	Note Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction
Mar. 6	50,000						50,000		Issued shares
9	(30,000)			30,000					
12			3,000		3,000				
15	Not a transaction of the business.								
15-31	5,000	5,000						10,000	Service revenue
15-31	(1,400)							(1,400)	Salary expense
	(1,000)							(1,000)	Rent expense
	(300)							(300)	Utilities expense
31			(250)					(250)	Supplies Expense
31	10,000					10,000			
31	(2,000)				(2,000)				
Bal.	30,300	5,000	2,750	30,000	1,000	10,000	50,000	7,050	

$68,050 **$68,050**

NOTE: The supplies had been paid for in the $3,000 purchase, therefore not a debit to cash.

Req. 2

a. $68,050

b. $5,000

c. $11,000 ($1,000 + $10,000)

d. $57,050 ($68,050 – $11,000, or $50,000 + $7,050)

e. $7,050 (Revenue, $10,000 minus total expenses of $2,950, equals net income, $7,050.)

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
March	6	Cash	50,000	
		Common Shares		50,000
		Issued shares to owner.		
	9	Land	30,000	
		Cash		30,000
		Purchased land.		
	12	Dental Supplies	3,000	
		Accounts Payable		3,000
		Purchased supplies on account.		
	15	Not a transaction of the business.		
	15-31	Cash	5,000	
		Accounts Receivable	5,000	
		Service Revenue		10,000
		Performed service for cash and on account.		
	15-31	Salary Expense	1,400	
		Rent Expense	1,000	
		Utilities Expense	300	
		Cash		2,700
		Paid expenses.		
	31	Supplies Expense	250	
		Dental Supplies		250
		Used dental supplies.		
	31	Cash	10,000	
		Note Payable		10,000
		Borrowed money.		
	31	Accounts Payable	2,000	
		Cash		2,000
		Paid on account.		

(10-20 min.) **E 2-18**

Req. 1 (journal entries)

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Oct.	1	Cash	25,000	
		Common Shares		25,000
		Issued common shares to owner.		
	2	Office Supplies	800	
		Accounts Payable		800
		Purchased office supplies on account.		
	4	Land	20,000	
		Cash		20,000
		Paid cash for land.		
	6	Cash	5,000	
		Service Revenue		5,000
		Performed services for cash.		
	9	Accounts Payable	100	
		Cash		100
		Paid cash on account.		
	17	Accounts Receivable	1,500	
		Service Revenue		1,500
		Performed service on account.		
	23	Cash	1,000	
		Accounts Receivable		1,000
		Received cash on account.		
	31	Salary Expense	1,000	
		Rent Expense	500	
		Cash		1,500
		Paid cash expenses.		

Req. 1

Cash

Oct.	1	25,000	Oct.	4	20,000
	6	5,000		9	100
	23	1,000		31	1,500
Oct.	31	9,400			

Accounts Receivable

Oct.	17	1,500	Oct.	23	1,000
Oct.	31	500			

Office Supplies

Oct.	2	800			
Oct.	31	800			

Land

Oct.	4	20,000			
Oct.	31	20,000			

Accounts Payable

Oct.	9	100	Oct.	2	800
			Oct.	31	700

Common Shares

			Oct.	1	25,000
			Oct.	31	25,000

Service Revenue

			Oct.	6	5,000
				17	1,500
			Oct.	31	6,500

Salary Expense

Oct.	31	1,000			
Oct.	31	1,000			

Rent Expense

Oct.	31	500			
Oct.	31	500			

Req. 2

Perfect Printers, Inc.
Trial Balance
October 31, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 9,400	
Accounts receivable	500	
Office supplies	800	
Land	20,000	
Accounts payable		$ 700
Common shares		25,000
Service revenue		6,500
Salary expense	1,000	
Rent expense	500	
Total	$32,200	$32,200

Req. 3

Total assets ($9,400 + $500 + $800 + $20,000)…..	$30,700
Total liabilities…………………………………………….	(700)
Total shareholders' equity ($25,000 + $6,500 – $1,000 – $500)……	$30,000

(10-15 min.) E 2-20

Journal

DATE	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
1.	Cash	20,000	
	Common Shares		20,000
	Issued common shares.		
2.	Cash	7,000	
	Note Payable		7,000
	Borrowed money; signed note payable.		
3.	Land	31,000	
	Cash		8,000
	Note Payable		23,000
	Purchased land by paying cash and signing a note payable.		
4.	Supplies	1,000	
	Accounts Payable		1,000
	Purchased supplies on account.		
5.	Cash	100	
	Supplies		100
	Sold supplies for cash.		
6.	Equipment	8,000	
	Cash		8,000
	Paid cash for equipment.		
7.	Accounts Payable	400	
	Cash		400
	Paid cash on account.		

Cash balance = $10,700 ($20,000 + $7,000 – $8,000 + $100 – $8,000 – $400)
Company owes $30,600 ($7,000 + $23,000 + $1,000 – $400)

(10-20 min.) E 2-21

Req. 1

Victoria Garden Care Ltd.
Trial Balance
Sept. 30, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 9,000	
Accounts receivable	17,500	
Equipment	29,000	
Accounts payable		$ 4,300
Note payable		13,000
Common shares		8,500
Retained earnings		21,400
Dividends	6,000	
Service revenue		24,000
Salary expense	8,000	
Utilities expense	1,400	
Delivery expense	300	
Total	$71,200	$71,200

Req. 2

Victoria Garden Care Ltd.
Income Statement
For the Month Ended Sept. 30, 2014

Service revenue		$24,000
Salary expense.........................	$8,000	
Utilities expense	1,400	
Delivery expense	300	
Total expenses.........................		9,700
Net income		$14,300

(15-25 min.) E 2-22

Sam's Deli Inc.
Trial Balance
October 31, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 5,200*	
Accounts receivable	12,000*	
Inventory	17,000	
Supplies	600	
Land	55,000	
Accounts payable		$13,100*
Share capital		49,000*
Sales revenue		32,100
Salary expense	1,700	
Insurance expense	1,000	
Utilities expense	900*	
Rent expense	800	
Total	$94,200	$94,200

***Explanations:**

Cash: $4,200 + $1,000 = $5,200
Accounts Receivable: $13,000 – $1,000 = $12,000
Accounts Payable: $12,000 + $1,000 – $100 + $200 = $13,100
Share Capital: $47,900 + $1,100 = $49,000
Utilities Expense: $700 + $200 = $900

(5-15 min.) E 2-23

Cash

(a)	10,000	(b)	1,600
		(d)	2,000
		(e)	200
		(g)	2,000
Bal.	4,200		

Accounts Receivable

(f)	12,100		
Bal.	12,100		

Office Supplies

(c)	600		
Bal.	600		

Office Furniture

(a)	5,000		
Bal.	5,000		

Accounts Payable

(e)	200	(c)	600
		Bal.	400

Common Shares

		(a)	15,000
		Bal.	15,000

Dividends

(g)	2,000		
Bal.	2,000		

Service Revenue

		(f)	12,100
		Bal.	12,100

Salary Expense

(d)	2,000		
Bal.	2,000		

Rent Expense

(b)	1,600		
Bal.	1,600		

(10-20 min.) E 2-24

Req. 1

Sonia Rothesay, Accountant
Trial Balance
May 31, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 4,200	
Accounts receivable	12,100	
Office supplies	600	
Office furniture	5,000	
Accounts payable		$ 400
Common shares		15,000
Dividends	2,000	
Service revenue		12,100
Salary expense	2,000	
Rent expense	1,600	
Total	$27,500	$27,500

Req. 2

The business performed well during May. The result of operations was net income of $8,500, as shown by the income statement accounts:

Service revenue		$12,100
Salary expense	$2,000	
Rent expense	1,600	
Total expenses		(3,600)
Net income		$ 8,500

(20-30 min.) E 2-25

Reqs. 1 and 3

Cash

Jan. 2	5,000	Jan. 2	500
9	800	3	3,000
		12	200
Bal.	2,100		

Accounts Receivable

Jan. 18	1,700		

Supplies

Jan. 5	900		

Equipment

Jan. 3	3,000		

Furniture

Jan. 4	6,000		

Accounts Payable

		Jan. 4	6,000
		5	900
		Bal.	6,900

Common Shares

		Jan. 2	5,000

Dividends

Service Revenue

		Jan. 9	800
		18	1,700
		Bal.	2,500

Rent Expense

Jan. 2	500		

Utilities Expense

Jan. 12	200		

Salary Expense

Req. 2

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Jan.	2	Cash	5,000	
		Common Shares		5,000
	2	Rent Expense	500	
		Cash		500
	3	Equipment	3,000	
		Cash		3,000
	4	Furniture	6,000	
		Accounts Payable		6,000
	5	Supplies	900	
		Accounts Payable		900
	9	Cash	800	
		Service Revenue		800
	12	Utilities Expense	200	
		Cash		200
	18	Accounts Receivable	1,700	
		Service Revenue		1,700

Req. 4

Web Marketing Services Inc.
Trial Balance
January 18, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 2,100	
Accounts receivable	1,700	
Supplies	900	
Equipment	3,000	
Furniture	6,000	
Accounts payable		$ 6,900
Common shares		5,000
Dividends	—	
Service revenue		2,500
Rent expense	500	
Utilities expense	200	
Salary expense	—	
Total	$14,400	$14,400

(20-40 min.) E 2-26

a. Total cash paid during March:

Cash

Feb. 28 Bal.	10,000		
March receipts	80,000	March cash payments	X = $85,000
Mar. 31 Bal.	5,000		

$$\$10{,}000 + \$80{,}000 - X = \$\ 5{,}000$$
$$X = \$85{,}000$$

b. Cash collections from customers during March:

Accounts Receivable

Feb. 28 Bal.	26,000			
March sales on account	50,000	March collections	X	= $52,000
Mar. 31 Bal.	24,000			

$$\$26{,}000 + \$50{,}000 - X = \$24{,}000$$
$$X = \$52{,}000$$

c. Cash paid on a note payable during March:

Note Payable

			Feb. 28 Bal.	13,000
X =17,000	March payments on note	X	March new borrowing	25,000
			Mar. 31 Bal.	21,000

$$\$13{,}000 + \$25{,}000 - X = \$21{,}000$$
$$X = \$17{,}000$$

(20-30 min.) E 2-27

Req. 1

You Build Inc.
Trial Balance
December 31, 2014

Cash	**$ 3,900**	
Accounts receivable	**7,200**	
Land	**34,000**	
Accounts payable		**$ 5,800**
Note payable		**5,000**
Common shares		**20,000**
Retained earnings		**7,300**
Service revenue		**9,100**
Salary expense	**3,400**	
Advertising expense	**900**	
Totals	**$49,400**	**$47,200**

Out of balance by $2,200

The correct balance of Accounts Receivable is $5,000 ($7,200 – $2,200). After this correction, total debits will be $47,200 ($49,400 – $2,200), the same as total credits.

Req. 2

You Build Inc.
Trial Balance
December 31, 2014

Cash ($3,900 – $1,400).........................	$ 2,500	
Accounts receivable		
($7,200 – $2,200 + $10,000)	15,000	
Land ($34,000 + $60,000).....................	94,000	
Accounts payable ($5,800 + $1,000)...		$ 6,800
Note payable ($5,000 + $60,000).........		65,000
Common shares..................................		20,000
Retained earnings...............................		7,300
Service revenue ($9,100 + $10,000)....		19,100
Salary expense ($3,400 + $1,400)	4,800	
Advertising expense ($900 + $1,000) .	1,900	
Totals	$118,200	$118,200

Req. 3

a. Total assets = $111,500 ($2,500 + $15,000 + $94,000)

b. Total liabilities = $71,800 ($6,800 + $65,000)

c. Net income = $12,400 ($19,100 – $4,800 – $1,900)

(10-15 min.) E 2-28

City of Regina:

Income statement	August	September
Medical expense...............	$30,000	$ -0-

Balance sheet	August 31	September 30
Cash	$50,000	$25,000*
Accounts payable	30,000	5,000**

PHO:

Income statement	August	September
Service revenue................	$30,000	$ -0-

Balance sheet	August 31	September 30
Cash	$ -0-	$25,000
Accounts receivable	30,000	5,000**

Explanation:

Regina's expense is PHO's revenue.
Regina's cash payment is PHO's cash receipt.
Regina's account payable is PHO's account receivable.

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*$50,000 – $25,000 = $25,000
**$30,000 – $25,000 = $ 5,000

Quiz

Q2-29	c.
Q2-30	d.
Q2-31	c.
Q2-32	a.
Q2-33	d.
Q2-34	b.
Q2-35	c.
Q2-36	a.
Q2-37	b.
Q2-38	d.
Q2-39	d.
Q2-40	c.
Q2-41	a.
Q2-42	b.
Q2-43	a.
Q2-44	d.
Q2-45	c.
Q2-46	b.
Q2-47	a.
Q2-48	b.

Problems

Group A

(15-30 min.) P 2-49A

Dear Sue,

This trial balance lists the accounts of Amusement Specialties, Inc., along with its balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet or an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The fact that the trial balance is in balance does not mean that Amusement Specialties is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. To compute Amusement Specialties' total assets add the asset account balances (Cash $14,000 + Accounts receivable $11,000 + Prepaid expenses $4,000 + Equipment $171,000 + Building $100,000 = $300,000); For total liabilities add the liability account balances (Accounts payable $30,000 + Note payable $120,000 = $150,000).Net income or net loss for the current period is computed by subtracting total

expenses from total revenue. During the current period, Amusement Specialties earned a net income of $30,000 [service revenue of $86,000 minus total expenses of $56,000 ($14,000 + $3,000 + $32,000 + $7,000)].

Student responses may vary.

(45-60 min.) P 2-50A

Req. 1

Analysis of Transactions

	ASSETS			=	LIABILITIES	+ SHAREHOLDERS' EQUITY		
	Cash +	Accounts Receivable +	Supplies +	Land =	Accounts Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction
Bal.	1,300	1,000		12,000	8,000	4,000	2,300	
a)	5,000					5,000		Issued shares
b)	7,600						7,600	Service revenue
c)	(4,000)				(4,000)			
d)			1,500		1,500			
e)	1,000	(1,000)						
f)		2,500					2,500	Service revenue
g)	(900)						(900)	Rent expense
	(300)						(300)	Advertising expense
h)	(2,000)						(2,000)	Dividends
Bal.	7,700	2,500	1,500	12,000	5,500	9,000	9,200	

$\underbrace{\hspace{6cm}}_{\$23,700}$ $\underbrace{\hspace{6cm}}_{\$23,700}$

Req. 2

Blythe Spirit Consulting, Inc.
Income Statement
For the Month Ended June 30, 2014

Revenues:		
Service revenue ($7,600 + $2,500)..		$10,100
Expenses:		
Rent expense	$900	
Advertising expense........................	300	
Total expenses................................		1,200
Net income		$ 8,900

Req. 3

Blythe Spirit Consulting, Inc.
Statement of Retained Earnings
For the Month Ended June 30, 2014

Retained earnings, May 31, 2014................	$2,300
Add: Net income for the month	8,900
	11,200
Less: Dividends	(2,000)
Retained earnings, June 30, 2014	$9,200

Req. 4

Blythe Spirit Consulting, Inc.
Balance Sheet
June 30, 2014

ASSETS		LIABILITIES	
Cash	$ 7,700	Accounts payable	$ 5,500
Accounts receivable	2,500	SHAREHOLDERS' EQUITY	
Supplies	1,500		
Land	12,000	Common shares	9,000
		Retained earnings	9,200
		Total shareholders' equity	18,200
Total assets	$23,700	Total liabilities and shareholders' equity	$23,700

(30-40 min.) P 2-51A

Req. 1

Journal

	ACCOUNT TITLES	DEBIT	CREDIT
a.	Cash	5,000	
	Common Shares		5,000
b.	Cash	7,600	
	Service Revenue		7,600
c.	Accounts Payable	4,000	
	Cash		4,000
d.	Supplies	1,500	
	Accounts Payable		1,500
e.	Cash	1,000	
	Accounts Receivable		1,000
f.	Accounts Receivable	2,500	
	Service Revenue		2,500
g.	Rent Expense	900	
	Advertising Expense	300	
	Cash		1,200
h.	Dividends	2,000	
	Cash		2,000

Reqs. 2 and 3

Cash

1,300	4,000
5,000	1,200
7,600	2,000
1,000	
7,700	

Accounts Receivable

1,000	1,000
2,500	
2,500	

Supplies

1,500	
1,500	

Land

12,000	
12,000	

Accounts Payable

4,000	8,000
	1,500
	5,500

Common Shares

	4,000
	5,000
	9,000

Retained Earnings

	2,300
	2,300

Dividends

2,000	
2,000	

Service Revenue

	7,600
	2,500
	10,100

Rent Expense

900	
900	

Advertising Expense

300	
300	

The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-50A.

(40-50 min.) P 2-52A

Req. 1

Classification of Transactions

Sept.	**4**	**b**
	5	**c**
	6	**c**
	7	**c**
	10	**b**
	11	**b**
	12	**a**
	18	**c**
	21	**c**
	25	**c**
	30	**c**

Req. 2

Analysis of Transactions

	ASSETS				=	LIABILITIES	+	SHAREHOLDERS' EQUITY		
Date	**Cash +**	**Accounts Receivable +**	**Supplies +**	**Office Furniture**	**=**	**Accounts Payable**	**+**	**Common Shares +**	**Retained Earnings**	**Type of Shareholders' Equity Transaction**
Sept. 4*										
5	50,000							50,000		Issued shares
6	(300)		300							
7	(20,000)			25,000		5,000				
10*										
11*										
12**										
18		10,000							10,000	Service revenue
21	(2,500)					(2,500)				
25	(4,000)								(4,000)	Rent expense
28	(2,000)								(2,000)	Dividends
Bal.	21,200	10,000	300	25,000		2,500		50,000	4,000	

$\underbrace{\text{Assets}}_{\$56{,}500} = \underbrace{\text{Liabilities + Shareholders' Equity}}_{\$56{,}500}$

*Not a transaction of the business.
** A business-related event, but not a transaction to be recorded.

Req. 3

a. The business has $21,200 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from the issuance of shares. Share issuances go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, holds the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no relationship between cash and retained earnings.

b. The business's total resources (total assets) are $56,500 ($21,200 + $10,000 + $300 + $25,000). The business owes total liabilities of $2,500, so the shareholder's ownership interest in the assets of the business is $54,000 ($56,500 – $2,500, or $50,000 + $4,000).

Req. 4

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
Sept.	5	Cash	50,000	
		Common Shares		50,000
		Issued shares to shareholder.		
	6	Supplies	300	
		Cash		300
		Purchased supplies.		
	7	Office Furniture	25,000	
		Cash		20,000
		Accounts Payable		5,000
		Purchased furniture.		
	18	Accounts Receivable	10,000	
		Service Revenue		10,000
		Performed service on account.		
	21	Accounts Payable	2,500	
		Cash		2,500
		Paid on account.		
	25	Rent Expense	4,000	
		Cash		4,000
		Paid rent.		
	28	Dividends	2,000	
		Cash		2,000
		Paid dividend.		

Req. 1 (journal entries; explanations not required)

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
Oct.	1	Cash	8,000	
		Common shares		8,000
	5	Rent Expense	1,000	
		Cash		1,000
	9	Land	30,000	
		Cash		5,000
		Notes Payable		25,000
	10	Supplies	1,200	
		Accounts Payable		1,200
	19	Accounts Payable	600	
		Cash		600
	22	Cash	10,000	
		Notes Payable		10,000
	31	Cash	7,000	
		Accounts Receivable	5,000	
		Service Revenue		12,000
	31	Salary Expense	2,000	
		Advertising Expense	1,500	
		Utilities Expense	1,100	
		Cash		4,600
	31	Dividends	3,000	
		Cash		3,000

Req. 2

Cash

8,000	1,000
	5,000
10,000	600
7,000	4,600
	3,000
Bal. 10,800	

Accounts Payable

600	1,200
	Bal. 600

Notes Payable

	25,000
	10,000
	Bal. 35,000

Req. 3

Cash: $10,800 ($8,000 – $1,000 – $5,000 – $600 + $10,000 + $7,000 – $4,600 – $3,000)

Total amount owed: $35,600 ($25,000 + $1,200 – $600 + $10,000)

(50-60 min.) **P 2-54A**

Req. 1 (journal entries; explanations not required)

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
May	2	Cash	30,000	
		Common shares		30,000
	3	Supplies	1,000	
		Equipment	2,600	
		Accounts Payable		3,600
	4	Cash	1,500	
		Service Revenue		1,500
	7	Land	22,000	
		Cash		22,000
	11	Accounts Receivable	500	
		Service Revenue		500
	16	Accounts Payable	2,600	
		Cash		2,600
	17	Utilities Expense	95	
		Cash		95
	18	Cash	250	
		Accounts Receivable		250

Req. 1 (journal entries; explanations not required)

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
May	22	Utilities Expense	400	
		Cash		400
	29	Cash	2,000	
		Service Revenue		2,000
	31	Salary Expense	1,300	
		Cash		1,300
	31	Dividends	1,500	
		Cash		1,500

Req. 2 (ledger accounts)

Cash

May 2	30,000	May 7	22,000
4	1,500	16	2,600
18	250	17	95
29	2,000	22	400
		31	1,300
		31	1,500
Bal.	5,855		

Accounts Receivable

May 11	500	May 18	250
Bal.	250		

Supplies

May 3	1,000		
Bal.	1,000		

Equipment

May 3	2,600		
Bal.	2,600		

Land

May 7	22,000		
Bal.	22,000		

Accounts Payable

May 16	2,600	May 3	3,600
		Bal.	1,000

Common shares

		May 2	30,000
		Bal.	30,000

Dividends

May 31	1,500		
Bal.	1,500		

Service Revenue

		May 4	1,500
		11	500
		29	2,000
		Bal.	4,000

Salary Expense

May 31	1,300		
Bal.	1,300		

Utilities Expense

May 17	95		
22	400		
Bal.	495		

Req. 3

New Pane Windows Inc.
Trial Balance
May 31, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 5,855	
Accounts receivable	250	
Supplies	1,000	
Equipment	2,600	
Land	22,000	
Accounts payable		$ 1,000
Common shares		30,000
Dividends	1,500	
Service revenue		4,000
Salary expense	1,300	
Utilities expense	495	
Total	$35,000	$35,000

Req. 4

Total resources (assets) = $31,705 ($5,855 + $250 + $1,000 + $2,600 + $22,000)

Amount owed (total liabilities) = $1,000

Profit (net income) = $2,205 ($4,000 – $1,300 – $495)

Reqs. 1 and 2

Cash

(a)	10,000	(c)	60,000
(b)	50,000	(e)	1,500
(f)	800	(h)	100
(j)	3,100	(k)	1,800
Bal.	500		

Accounts Receivable

(g)	4,500	(j)	3,100
Bal.	1,400		

Office Supplies

(d)	1,000		
Bal.	1,000		

Music Equipment

(c)	60,000		
Bal.	60,000		

Building

(a)	50,000		
Bal.	50,000		

Accounts Payable

(h)	100	(d)	1,000
		(i)	600
		Bal.	1,500

Note Payable

		(b)	50,000
		Bal.	50,000

Common Shares

		(a)	60,000
		Bal.	60,000

Service Revenue

		(f)	800
		(g)	4,500
		Bal.	5,300

Salary Expense

(e)	1,500	
Bal.	1,500	

Rent Expense

(k)	1,000	
Bal.	1,000	

Advertising Expense

(k)	800	
Bal.	800	

Utilities Expense

(i)	600	
Bal.	600	

Req. 3

Music Services Ltd.
Trial Balance
January 31, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 500	
Accounts receivable	1,400	
Office supplies	1,000	
Music equipment	60,000	
Building	50,000	
Accounts payable		$ 1,500
Note payable		50,000
Common shares		60,000
Service revenue		5,300
Salary expense	1,500	
Rent expense	1,000	
Advertising expense	800	
Utilities expense	600	
Total	$116,800	$116,800

Req. 4

Total assets = $112,900 ($500 + $1,400 + $1,000 + $60,000 + $50,000)

Total liabilities = $51,500 ($1,500 + $50,000)

Net income = $1,400 ($5,300 – $1,500 – $1,000 – $800 – $600)

The bank manager's concerns are answered by the above information.

Problems

Group B

(15-30 min.) P 2-56B

Dear Friend,

This trial balance lists all the accounts of Opera Tours Inc., along with their balances at December 31, 2014. The trial balance is an internal document used by accountants. It is not the same as a balance sheet and an income statement. The balance sheet and the income statement are financial statements used by managers, creditors, and investors for decision making.

The Balance Sheet is made up of the Asset, Liability and Shareholders' Equity accounts. These accounts make up the accounting equation; Assets = Liabilities + Shareholder's Equity.

The balance sheet accounts of Opera Tours Inc. are as follows:

Assets		Liabilities	
Cash	$ 12,000	Accounts payable	$105,000
Accounts receivable	45,000	Note payable	92,000
Prepaid expenses	4,000		197,000
Equipment	231,000	Equity	
	$292,000	Common shares	30,000
		Retained earnings plus	32,000
		Net income	33,000
			95,000
			$292,000

The Income Statement is made up of Revenue and Expense Accounts. Revenue less Expenses equal Net Income (Loss). The income statement accounts of Opera Tours Inc. are as follows:

Service Revenue	$139,000
Expenses	
Salary expense	69,000
Tour expenses	26,000
Rent expense	7,000
Advertising expense	4,000
	106,000
Net income	$ 33,000

The fact that the trial balance is in balance does not mean that Opera Tours Inc. is a sound company. It merely means that total debits equal total credits in the company ledger. This says nothing about the soundness of the business. In this instance, Opera Tours Inc. had a net income of $33,000 as per the Income Statement outlined above.

Student responses may vary.

(45-60 min.) P 2-57B

Req. 1

Analysis of Transactions

	ASSETS				= LIABILITIES +	SHAREHOLDERS' EQUITY		
	Cash +	Accounts Receivable +	Supplies +	Land =	Accounts Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction
Bal.	1,700	2,200		24,100	5,400	10,000	12,600	
a)	30,000					30,000		Issued shares
b)	(1,000)				(1,000)			
c)	5,100						5,100	Service revenue
d)	700	(700)						
e)			800		800			
f)		15,000					15,000	Service revenue
g)	1,700					1,700		Issued shares
h)	(2,100)						(2,100)	Rent expense
	(1,600)						(1,600)	Advertising expense
i)	(2,000)						(2,000)	Dividends
Bal.	32,500	16,500	800	24,100	5,200	41,700	27,000	

$$\underbrace{\qquad\qquad\qquad}_{\$73,900} \qquad \underbrace{\qquad\qquad\qquad}_{\$73,900}$$

Req. 2

DH Designers, Inc.
Income Statement
For the Month Ended May 31, 2014

Revenues:		
Service revenue ($5,100 + $15,000)		$20,100
Expenses:		
Rent expense....................................	$2,100	
Advertising expense.........................	1,600	
Total expenses		3,700
Net income...		$16,400

Req. 3

DH Designers, Inc.
Statement of Retained Earnings
For the Month Ended May 31, 2014

Retained earnings, April 30, 2014...........	$12,600
Add: Net income for the month	16,400
	29,000
Less: Dividends.....................................	(2,000)
Retained earnings, May 31, 2014............	$27,000

Req. 4

DH Designers, Inc.
Balance Sheet
May 31, 2014

ASSETS		LIABILITIES	
Cash	$32,500	Accounts payable	$ 5,200
Accounts receivable	16,500	SHAREHOLDERS' EQUITY	
Supplies	800		
Land	24,100	Common shares	41,700
		Retained earnings	27,000
		Total shareholders' equity	68,700
		Total liabilities and	
Total assets	$73,900	shareholders' equity	$73,900

(30-40 min.) P 2-58B

Req. 1

Journal

	ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
a.	Cash	30,000	
	Common Shares		30,000
b.	Accounts Payable	1,000	
	Cash		1,000
c.	Cash	5,100	
	Service Revenue		5,100
d.	Cash	700	
	Accounts Receivable		700
e.	Supplies	800	
	Accounts Payable		800
f.	Accounts Receivable	15,000	
	Service Revenue		15,000
g.	Cash	1,700	
	Common Shares		1,700
h.	Rent Expense	2,100	
	Advertising Expense	1,600	
	Cash		3,700
i.	Dividends	2,000	
	Cash		2,000

Reqs. 2 and 3

Cash	
1,700	1,000
30,000	3,700
5,100	2,000
700	
1,700	
32,500	

Accounts Receivable	
2,200	700
15,000	
16,500	

Supplies	
800	
800	

Land	
24,100	
24,100	

Accounts Payable	
1,000	5,400
	800
	5,200

Common Shares	
	10,000
	30,000
	1,700
	41,700

Retained Earnings	
	12,600
	12,600

Dividends	
2,000	
2,000	

Service Revenue	
	5,100
	15,000
	20,100

Rent Expense	
2,100	
2,100	

Advertising Expense	
1,600	
1,600	

The balances of all the accounts Cash through Common Shares agree with the ending balances obtained in Problem 2-57B.

Req. 1

Classification of Transactions

March	**1**	**a**
	2	**a**
	3	**a**
	5	**b**
	6	**c**
	7	**b**
	9	**b**
	23	**b**
	29	**b**
	30	**b**
	31	**b**

(continued) **P 2-59B**

Req. 2

Analysis of Transactions

	ASSETS				=	LIABILITIES +	SHAREHOLDERS' EQUITY		
Date	Cash +	Accounts Receivable +	Supplies +	Office Furniture	=	Accounts Payable +	Common Shares +	Retained Earnings	Type of Shareholders' Equity Transaction
March 1*									
2*									
3*									
5	50,000						50,000		Issued shares
6**									
7	(450)		450						
9	(5,000)			15,500		10,500			
23		4,000						4,000	Service revenue
29	(5,000)					(5,000)			
30	(2,100)							(2,100)	Rent expense
31	(1,000)							(1,000)	Dividend
Bal.	36,450	4,000	450	15,500		5,500	50,000	900	

$$\underbrace{\qquad\qquad\qquad\qquad}_{\$56,400} \qquad \underbrace{\qquad\qquad\qquad\qquad}_{\$56,400}$$

*Not a transaction of the business.

** A business-related event, but not a transaction to be recorded.

Req. 3

a. **The business has $36,450 in cash. The cash balance takes into consideration all amounts received from all sources, including cash received from issuing shares. Issuances of shares go into the Common Shares account, which has nothing to do with Retained Earnings. Retained Earnings, on the other hand, records the amounts of the revenues and the expenses, which may or may not be received or paid in cash. There is, therefore, no direct relationship between cash and retained earnings.**

b. **The business's total resources (total assets) are $56,400 ($36,450 + $4,000 + $450 + $15,500). The business owes total liabilities of $5,500, so Kohler's ownership interest in the assets of the business is $50,900 ($56,400 – $5,500, or $50,000 + $900).**

Req. 4

Journal

DATE		ACCOUNT TITLES AND EXPLANATION	DEBIT	CREDIT
March	5	Cash	50,000	
		Common Shares		50,000
		Issued shares to shareholder.		
	7	Supplies	450	
		Cash		450
		Purchased supplies.		
	9	Office Furniture	15,500	
		Cash		5,000
		Accounts Payable		10,500
		Purchased furniture.		
	23	Accounts Receivable	4,000	
		Service Revenue		4,000
		Provided service on account.		
	29	Accounts Payable	5,000	
		Cash		5,000
		Paid on account.		
	30	Rent Expense	2,100	
		Cash		2,100
		Paid rent.		
	31	Dividends	1,000	
		Cash		1,000
		Paid dividend.		

(15-20 min.) P 2-60B

Req. 1 (journal entries; explanations not required)

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
June	1	Cash	25,000	
		Common Shares		25,000
	2	Land	40,000	
		Cash		10,000
		Note Payable		30,000
	7	Cash	20,000	
		Sales Revenue		20,000
	10	Supplies	1,000	
		Accounts Payable		1,000
	15	Salary Expense	2,800	
		Rent Expense	1,800	
		Cash		4,600
	15	Advertising Expense	1,100	
		Cash		1,100
	16	Accounts Payable	1,000	
		Cash		1,000
	17	Dividends	2,000	
		Cash		2,000

Req. 2

Cash

25,000	10,000
20,000	4,600
	1,100
	1,000
	2,000
26,300	

Accounts Payable

1,000	1,000
0	

Notes Payable

	30,000
	30,000

Req. 3

Cash: $26,300 ($25,000 – $10,000 + $20,000 – $4,600 – $1,100 – $1,000 – $2,000)

Total amount owed: $30,000 ($30,000 + $1,000 – $1,000)

(50-60 min.) P 2-61B

Req. 1 (journal entries; explanations not required)

Journal

DATE		ACCOUNT TITLES	DEBIT	CREDIT
Oct.	3	Cash	20,000	
		Common Shares		20,000
	4	Cash	5,000	
		Service Revenue		5,000
	6	Supplies	300	
		Furniture	2,500	
		Accounts Payable		2,800
	7	Land	15,000	
		Cash		15,000
	7	Accounts Receivable	1,500	
		Service Revenue		1,500
	16	Cash	500	
		Accounts Receivable		500
	24	Utilities Expense	110	
		Cash		110
	24	Utilities Expense	400	
		Cash		400
	28	Cash	2,500	
		Service Revenue		2,500

31	Salary Expense	1,200	
	Cash		1,200
31	Accounts Payable	2,500	
	Cash		2,500
31	Dividends	2,400	
	Cash		2,400

Req. 2 (ledger accounts)

Cash

Oct. 3	20,000	Oct. 7	15,000
4	5,000	24	110
16	500	24	400
28	2,500	31	2,500
		31	1,200
		31	2,400
Bal.	6,390		

Accounts Receivable

Oct. 7	1,500	Oct. 16	500
Bal.	1,000		

Supplies

Oct. 6	300		
Bal.	300		

Furniture

Oct. 6	2,500		
Bal.	2,500		

Land

Oct. 7	15,000		
Bal.	15,000		

Accounts Payable

Oct. 31	2,500	Oct. 6	2,800
		Bal.	300

Common Shares

		Oct. 3	20,000
		Bal.	20,000

Dividends

Oct. 31	2,400		
Bal.	2,400		

Service Revenue

		Oct. 4	5,000
		7	1,500
		28	2,500
		Bal.	9,000

Req. 2 (ledger accounts)

Salary Expense

Oct. 31	1,200	
Bal.	1,200	

Utilities Expense

Oct. 24	110	
24	400	
Bal.	510	

Req. 3

Barron Environmental Services Inc.
Trial Balance
October 31, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 6,390	
Accounts receivable	1,000	
Supplies	300	
Furniture	2,500	
Land	15,000	
Accounts payable		$ 300
Common shares		20,000
Dividends	2,400	
Service revenue		9,000
Salary expense	1,200	
Utilities expense	510	
Total	$29,300	$29,300

Req. 4

Total resources (assets) = $25,190 ($6,390 + $1,000 + $300 + $2,500 + $15,000)

Amount owed (total liabilities) = $300

Profit (net income) = $7,290 ($9,000 – $1,200 – $510)

(40-50 min.) P 2-62B

Reqs. 1 and 2

Cash

(a)	20,000	(c)	35,000
(b)	90,000	(g)	800
(f)	1,200	(j)	2,200
(i)	1,100	(k)	1,100
Bal.	73,200		

Accounts Receivable

(e)	2,500	(f)	1,200
Bal.	1,300		

Office Supplies

(d)	1,300		
Bal.	1,300		

Computer Equipment

(c)	35,000		
Bal.	35,000		

Building

(a)	60,000		
Bal.	60,000		

Accounts Payable

(g)	800	(d)	1,300
		(h)	500
		Bal.	1,000

Note Payable

		(b)	90,000
		Bal.	90,000

Common Shares

		(a)	80,000
		Bal.	80,000

Service Revenue

		(e)	2,500
		(i)	1,100
		Bal.	3,600

(continued) P 2-62B

Salary Expense

(j)	2,200	
Bal.	2,200	

Advertising Expense

(h)	500	
Bal.	500	

Rent Expense

(k)	700	
Bal.	700	

Utilities Expense

(k)	400	
Bal.	400	

Req. 3

SchulichGraphics Service Inc.
Trial Balance
June 30, 2014

ACCOUNT	DEBIT	CREDIT
Cash	$ 73,200	
Accounts receivable	1,300	
Office supplies	1,300	
Computer equipment	35,000	
Building	60,000	
Accounts payable		$ 1,000
Note payable		90,000
Common shares		80,000
Service revenue		3,600
Salary expense	2,200	
Rent expense	700	
Advertising expense	500	
Utilities expense	400	
Total	$174,600	$174,600

Decision Cases

(40-50 min.) Decision Case 1

Reqs. 1 and 2

Cash

(a)	10,000	(b)	300
(e)	5,000	(f)	2,300
(i)	2,500	(h)	1,000
(g)	1,200	(j)	800
Bal.	14,300		

Accounts Receivable

(d)	7,000	(g)	1200
Bal.	5,800		

Supplies

(b)	300		
Bal.	300		

Furniture

(c)	4,400		
Bal.	4,400		

Accounts Payable

(h)	1,000	(c)	4,400
		Bal.	3,400

Notes Payable

		(e)	5,000
		Bal.	5,000

Common Shares

		(a)	10,000
		Bal.	10,000

Service Revenue

		(d)	7,000
		(i)	2,500
		Bal.	9,500

Salary Expense

(f)	1,700		
Bal.	1,700		

Advertising Expense

(j)	800		
Bal.	800		

Rent Expense

(f)	600		
Bal.	600		

Req. 3

Tipple Networks, Inc.
Trial Balance
Current Date

ACCOUNT	DEBIT	CREDIT
Cash	$14,300	
Accounts receivable	5,800	
Supplies	300	
Furniture	4,400	
Accounts payable		$ 3,400
Notes payable		5,000
Common shares		10,000
Service revenue		9,500
Salary expense	1,700	
Advertising expense	800	
Rent expense	600	
Total	$27,900	$27,900

Req. 4 (net income or loss for first month of operations)

Revenues:		
Service revenue		**$9,500**
Expenses:		
Salary expense..................	**$1,700**	
Advertising expense.........	**800**	
Rent expense.....................	**600**	
Total expenses..................		**3,100**
Net income for month...........		**$6,400**

***Recommendation*: Continue the business. Even though first-month net income falls below the target amount, the business should grow and should be able to earn monthly net income of $10,000. Business startups require focus on non-revenue generating issues which will *not* continue into future months. Tipple needs to focus on generating revenue of at least $13,100 per month.**

(20-30 min.) Decision Case 2

Barbara Boland Blossoms, Inc.
Income Statement
For the Quarter Ended December 31, 2014

Sales revenue	$36,000
Cost of goods sold	22,000
Rent expense	6,000
Advertising expense	5,000
Total expenses	33,000
Net income	$ 3,000

Barbara Boland Blossoms, Inc.
Balance Sheet
December 31, 2014

ASSETS		LIABILITIES	
Cash	$ 6,000	Accounts payable	$ 8,000
Flower inventory	5,000	SHAREHOLDERS' EQUITY	
Store fixtures	10,000	Common shares	10,000
		Retained earnings	3,000
		Total owners' equity	13,000
Total assets	$21,000	Total liabilities and equity	$21,000

***Recommendation*: Do not expand because both net income and total assets do not reach the target amounts. Boland's cousin made some mistakes, which will affect the decision to expand the business. One issue is the high cost of goods sold (61%). If this expense could be reduced the profit target would be achievable.**

Ethical Issue 1

Req. 1

Option 1:	**Cash....... ....**	**100,000**	
	Common shares................		**100,000**
Option 2:			
	Transaction to record land transfer and issue of shares		
	Land ……………………………………	**100,000**	
	Common shares ………….		**100,000**
	Transaction to cancel shares and transfer land back to Murphy		
	Common shares	**100,000**	
	Land		**100,000**

Issue	**$100,000 common shares for cash**	**Transfer personal land to company**
Is this a valid business transaction?	**Yes. An investment of $100,000 has been made in the business.**	**No, if the intent is to transfer the land back to the shareholder during term of the loan. Questionable. Is the land worth $100,000? Will the land be used in the business?**
Who are stake-holders?	**Bank who advances loan. Murphy, owner of the business. Friend who invested in business. Loan officer.**	**Bank who advances loan. Murphy, owner of the business. Loan officer.**
Alternatives/impacts on stakeholders	**Murphy, owner of the business will receive loan based on value of shareholder equity. Friend who invested in business could increase value of investment if business expands. Bank who advances loan receives interest. Loan officer builds client relationship.**	**Murphy, owner of the business will violate bank covenant when land is transferred back to personal use and common shares are cancelled during term of loan. Bank risk on loan is increased as assets were overstated on loan application. Loan officer could be held accountable for bad risk loan.**
Decision	**This option would be ethical in the circumstances.**	**This option is misleading and unethical in the circumstances.**

Ethical Issue 2

Issue	**Is Beatrice Grand making decisions that take advantage of (abuse) the standing agreement between Community Charities (CC) and the Royal Bank of Canada (RBC)?**
Stakeholders	**Royal Bank of Canada (RBC) is the key stakeholder as its funds are being used.** **RBC Client representative who will determine whether bank can continue on this basis.** **Community charities is increasing overdraft position.** **Beatrice Grand, President, is expanding operations and initiating fundraising for CC.**
Alternatives/Impact on stakeholders	**RBC could be misled re Beatrice Grand's decisions that lead to the increasing overdraft of Community Charities' cash balance.** **RBC Client representative will be held accountable if ongoing negative bank balance is abuse of agreement with Community Charities.** **Community Charities may benefit from expansion and fundraising efforts; however, the organization's overdraft is also increasing.** **Beatrice Grand is making decisions on behalf of Community Charities**

	which could have positive or negative consequences.
Decision	**If RBC is aware of CC's expansion plans, the situation is ethically appropriate. This assumes RBC and CC are communicating openly.** **If RBC is unaware of Beatrice Grand's decisions, CC is abusing agreement with RBC. In this case, the situation is unethical.**

Focus on Financials

(20-30 min.) Telus Corporation

Reqs. 1 and 3

(All amounts in millions)

Cash & Temp Inv

	17	(d)	741
		(g)	4,113
		(h)	1,413
		(i)	3,200
(b)	6,505		
(c)	2,991		
	46		

Accounts Receivable

	1,318		
(a)	3,101	(c)	2,991
	1,428		

Inventories

	283	(e)	671
(d)	741		
	353		

Long-Term debt

(h)	1,413		5,209
			3,796

Accounts payable

(g)	4,113		1,477
		(f)	4,055
			1,419

Prop, Plant, Equip

	7,831		
(i)	3,200		
	11,031		

Service revenue

		(a)	3,101
		(b)	6,505
			9,606

Goods/Serv. Purch.

(e)	671		
(f)	4,055		
	4,726		

Req. 2

		(Millions)	
a.	Accounts Receivable	3,101	
	Service Revenue		3,101
b.	Cash	6,505	
	Service Revenue		6,505

(continued) Telus Corporation

		(Millions)	
c.	**Cash**	**2,991**	
	Accounts Receivable..........................		**2,991**
d.	**Inventories**...	**741**	
	Cash		**741**
e.	**Goods and services purchased**.............	**671**	
	Inventories..		**671**
f.	**Goods and services purchased**.............	**4,055**	
	Accounts Payable...............................		**4,055**
g.	**Accounts Payable**	**4,113**	
	Cash		**4,113**
h.	**Long–term debt**.......................................	**1,413**	
	Cash		**1,413**
i.	**Property, Plant, and Equipment**	**3,200**	
	Cash		**3,200**

Req. 4

All the selected account balances agree with Telus's actual figures on the income statement or the balance sheet.

Focus on Analysis

(20-30 min.) Telus Corporation

Req. 1

During 2011, Telus had less sales revenue than it collected in cash from customers. This is determined by analyzing Accounts Receivable, as follows:

		((Millions)
	Balance at the end of 2010	$1,318
+	Sales during 2011	S
–	Collections from customers during	(C)
=	Balance at the end of 2011	$1,428

Sales (S) must have exceeded Collections (C) because the total receivable balance increased during the year.

Req. 2

	(Millions)
Long-term debt:	
At end of 2010 (including current portion)	$ 6,056
At end of 2011 (including current portion)	6,574
Increase in long-term debt during 2011	$ 518

Long–term debt increased during 2011, so Telus must have taken on more long-term debt than it repaid during the year.

Req. 3

	2011	2010
Operating Revenues (millions)	$10,325	$9,742
	Increase = $583 6.0%	
Net Income (millions)	$1,215	$1,052
	Increase = $163 15.5%	

Net Income increased more than Service Revenues by a healthy percentage. Most investors prefer this outcome because it means that a company was able to increase its revenues while holding the increase in expenses to a lower rate of increase compared to the increase in sales. In other words, the company was able to keep a higher percentage of its revenues in 2011 than it did in 2010.

Demo Doc

Debit/Credit Transaction Analysis

To make sure you understand this material, work though the following demonstration "Demo Doc" with detailed comments to help you see the concept within the framework of a worked-through problem.

Learning Objectives 1, 2, 3, 4

On September 1, 2014, Michael Moe incorporated Moe's Mowing Inc., a company that provides mowing and landscaping services. During the month of September, the business incurred the following transactions:

a. To begin operations, Michael deposited $10,000 cash in the business's bank account. The business received the cash and issued common shares to Michael.
b. The business purchased equipment for $3,500 on account.
c. The business purchased office supplies for $800 cash.
d. The business provided $2,600 of services to a customer on account.
e. The business paid $500 cash toward the equipment previously purchased on account in transaction b.
f. The business received $2,000 in cash for services provided to a new customer.
g. The business paid $200 cash to repair equipment.
h. The business paid $900 cash in salary expense.
i. The business received $2,100 cash from a customer on account.
j. The business paid cash dividends of $1,500.

Requirements

1. **Create blank T-accounts for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Shares, Dividends, Service Revenue, Salary Expense, Repair Expense.**

2. **Journalize the transactions and then post to the T-accounts. Use the table in Exhibit 2-16 to help with the journal entries.**

EXHIBIT 2-16 The Rules of Debit and Credit

	Increase	Decrease
Assets	debit	credit
Liabilities	credit	debit
Stockholders' equity	credit	debit
Revenues	credit	debit
Expenses	debit	credit
Dividends	debit	credit

3. **Total each T-account to determine its balance at the end of the month.**

4. **Prepare the trial balance of Moe's Mowing Inc. at September 30, 2014.**

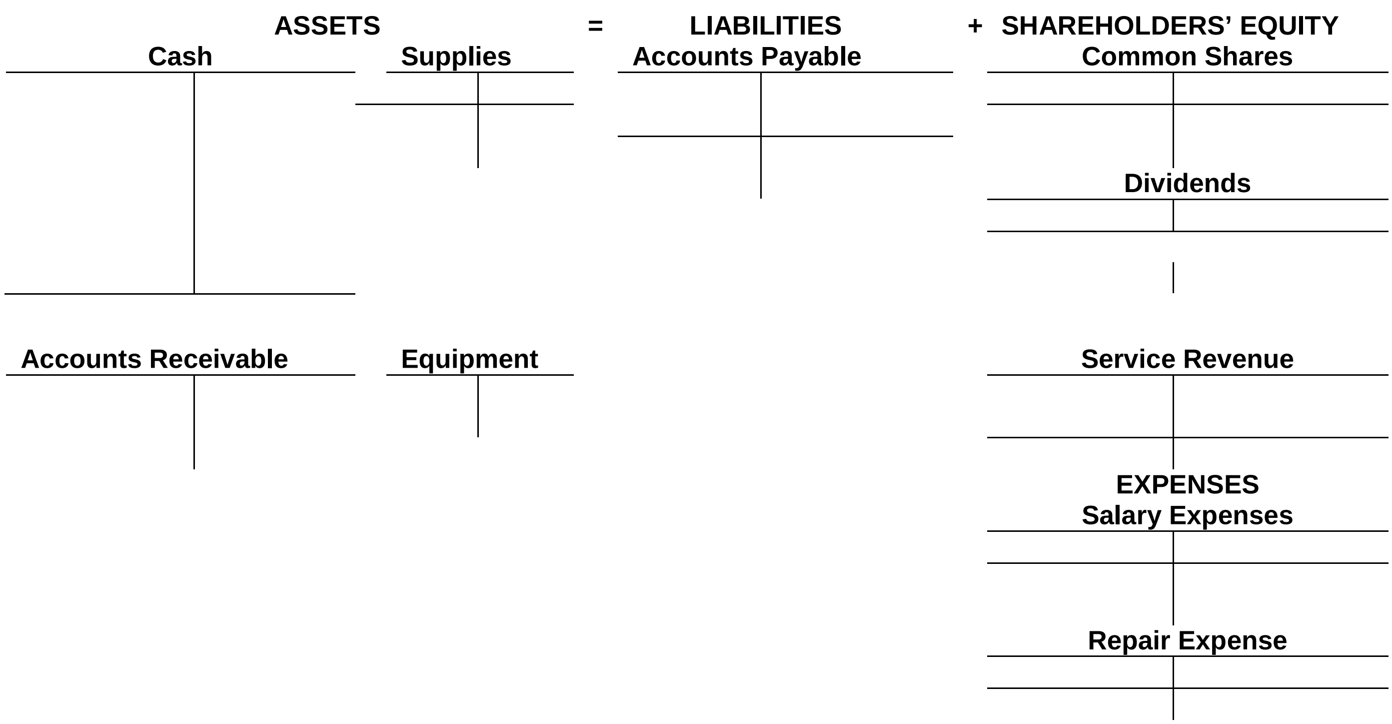
Demo Doc Solutions

Requirement 1

Create blank T-accounts for the following accounts: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Shares, Dividends, Service Revenue, Salary Expense, Repair Expense.

Part 1	Part 2	Part 3	Part 4	Demo Doc Complete

Opening a T-account means drawing a blank account that looks like a capital "T" and putting the account title across the top. T-accounts show the additions and subtractions made to each account. For easy reference, the accounts are grouped into assets, liabilities, stockholders equity, revenue, and expenses (in that order).



Requirement 2

Journalize the transactions and show how they are recorded in T-accounts.

Part 1	Part 2	Part 3	Part 4	Demo Doc Complete

a. To begin operations, Michael deposited $10,000 cash in the business's bank account. The business received the cash and issued common stock to Michael.

First, we must determine which accounts are affected by the transaction

The business received $10,000 cash from its principal shareholder (Michael Moe). In exchange, the business issued common stock to Michael. So, the accounts involved are Cash and Common Shares.

Remember that we are recording the transactions of Moe's Mowing Inc., not the transactions of Michael Moe, the person. Michael and his business are two entirely separate accounting entities.

The next step is to determine what type of accounts these are. Cash is an asset, Common Shares is part of equity.

Next, we must determine if these accounts increased or decreased. From the business point of view, Cash (an asset) has increased. Common Shares (equity) has also increased.

Now we must determine if these accounts should be debited or credited. According to the rules of debit and credit (see

Exhibit 2-16 on p.), an increase in assets is a debit, while an increase in equity is a credit.

So, Cash (an asset) increases, which requires a debit. Common Shares (equity) also increases, which requires a credit.

The journal entry follows.

a.		**Cash (Asset ↑; debit)** **Common shares (equity ↑; credit)** ***Issued common stock.***	**10,000**	 **10,000**

The total dollar amount of debits must always equal the total dollar amounts of credits.

Remember to use the transaction letter as references. This will help as we post entries to the T-accounts.

Each T-account has two sides—one for recording debits and the other for recording credits. To post the transaction to a T-account, simply transfer the amount of each debit to the correct account as a debit (left-side) entry, and transfer the amount of each credit to the correct account as a credit (right-side) entry.

This transaction includes a debit of $10,000 to cash. This means that $10,000 is posted to the left side of the Cash T-account. The transaction also includes a credit of $10,000 to Common Shares. This means that $10,000 is posted to the right side of the Common Shares account, as follows

Cash	
a. 10,000	

Common Shares	
	a. 10,000

Now the first transaction has been journalized and posted. We repeat this process for every journal entry. Let's proceed to the next transaction.

b. The business purchased equipment for $3,500 on account.

The business received equipment in exchange for a promise to pay for the $3,500 cost at a future date. So the accounts involved in the transaction are Equipment and Accounts Payable.

Equipment is an asset and Accounts Payable is a liability.

The asset Equipment has increased. The liability Accounts payable has also increased.

Looking at Exhibit 2-16, an increase in assets (in this case, the increase in Equipment) is a debit, while an increase in liabilities (in this case, Accounts Payable) is a credit.

The Journal entry follows.

b.	**Equipment (Asset ↑; debit)**	**3,500**	
	Accounts Payable (Liability ↑; credit)		**3,500**
	Purchased equipment on account.		

$3,500 is then posted to the debit (left) side of the Equipment T-account. $3,500 is posted to the credit (right) side of Accounts Payable, as follows

Equipment	
b. 3,500	

Accounts Payable	
	b. 3,500

c. The business purchased office supplies for $800 cash.

The business purchased supplies, paying cash of $800. So the accounts involved in the transaction are Supplies and Cash.

Supplies and Cash are both assets.

Supplies (an asset) have increased. Cash (an asset) has decreased.

Looking at Exhibit 2-16, an increase in assets is a debit, while a decrease in assets is a credit.

So the increase to Supplies (an asset) is a debit, while the decrease to Cash (an asset) is a credit.

The Journal entry follows:

c.	**Supplies (Asset ↑; debit)**	**800**	
	Cash (Asset ↓; credit)		**800**
	Purchased supplies for cash.		

$800 is then posted to the debit (left) side of the Supplies T-account. $800 is posted to the credit (right) side of the Cash account, as follows.

Cash

a.	**10,000**		
		c.	**800**

Supplies

c.	**800**		

Notice the $10,000 already on the debit side of the Cash account. This came from transaction a.

d. The business provided $2,600 of services to a customer on account.

The business rendered service for a customer and received a promise from the customer to pay us $2,600 cash next month. So the accounts involved in the transaction are Accounts Receivable and Service Revenue.

Accounts Receivable is an asset and Service Revenue is revenue.

Accounts Receivable (an asset) has increased. Service Revenue (revenue) has also increased.

Looking at Exhibit 2-16, an increase in assets is a debit, while an increase in revenue is a credit.

So the increase to Accounts Receivable (an asset) is a debit, while the increase to Service Revenue (revenue) is a credit.

The journal entry follows.

d.		**Accounts Receivable (Asset ↑; debit)**	**2,600**	
		Service Revenue (Revenue ↑; credit)		**2,600**
		Purchased services on account.		

$2,600 is posted to the debit (left) side of the Accounts Receivable T-account. $2,600 is posted to the credit (right) side of the Service Revenue account, as follows.

Account Receivable		**Service Revenue**	
d. 2,600			**d. 2,600**

e. The business paid $500 cash toward the equipment previously purchased on account in transaction b.

The business paid some of the money that it owed on the purchase of equipment in transaction b. The accounts involved in the transaction are Accounts Payable and Cash.

Accounts Payable is a liability that has decreased. Cash is an asset that has also decreased.
Remember that Accounts Payable shows the amount the business must pay in the future (a liability). When the business pays these creditors, Accounts Payable will decrease because the business will then owe less (in the case, Accounts Payable drops from $3,500—in transaction b—to $3,000).
Looking at Exhibit 2-16, a decrease in liabilities is a debit, while a decrease in assets is a credit.
So Accounts Payable (a liability) decreases, which is a debit. Cash (an asset) decreases, which is a credit.

e.	**Accounts Payable (Liability ↓; debit)**	**500**	
	Cash (Asset ↓; credit)		**500**
	Partial payment on account.		

$500 is posted to the debit (left) side of the Accounts Payable T-account. $500 is posted to the credit (right) side of the Cash account, as follows:

Cash		**Accounts Payable**	
a. 10,000			**b. 3,500**
	c. 800	**e. 500**	
	e. 500		

Again notice the amounts already in the T-accounts from previous transactions. The reference letters show which transaction caused each amount to appear in the T-account.

f. The business received $2,000 in cash for services provided to a new customer.

The business received $2,000 cash in exchange for mowing and landscaping services rendered to a customer. The accounts involved in the transaction are Cash and Service Revenue.

Cash is an asset that has increased and Service Revenue is revenue, which has also increased.

Looking at Exhibit 2-16, an increase in assets is a debit, while an increase in revenue is a credit.

So the increase to Cash (an asset) is a debit. The increase to Service Revenue (revenue) is a credit.

f.	**Cash (Asset ↑; debit)** **Service Revenue (Revenue ↑; credit)** ***Provided services for cash***	**2,000**	 **2,000**

$2,000 is then posted to the debit (left) side of the Cash T-account. $2,000 is posted to the credit (right) side of the Service Revenue account, as follows:

Cash			
a.	**10,000**		
		c.	**800**
f.	**2,000**	**e.**	**500**

Service Revenue		
	d.	**2,600**
	f.	**2,000**

Notice how we keep adding onto the T-accounts. The value from previous transactions remains in their places.

g. The business paid $200 cash to repair equipment.

The business paid $200 cash to have equipment repaired. Because the benefit of the repairs has already been used, the repairs are recorded as Repair Expense. Because the repairs were paid in cash, the Cash account is also involved.

Repair Expense is an expense that has increased and Cash is an asset that has decreased.

Looking at Exhibit 2-16, an increase in expenses calls for a debit, while a decrease in an asset requires a credit.

So Repair Expense (an expense) increases, which is a debit, Cash (an asset) decreases, which is a credit.

g.	**Repair Expense (Expense ↑; debit)**	**200**	
	Cash (Asset ↓; credit)		**200**
	Paid for repairs.		

\$200 is then posted to the debit (left) side of the Repair Expense T-account. \$200 is posted to the credit (right) side of the Cash account, as follows:

Cash

a. 10,000	
	c. 800
	e. 500
f. 2,000	
	g. 200

Repair Expense

g. 200	

h. The business paid \$900 cash for salary expense.

The business paid employees \$900 in cash. Because the benefit of the employees' work has already been used, their salaries are recorded as Salary Expense. Because the salaries were paid in cash, the Cash account is also involved.

Salary Expense is an expense that has increased and Cash is an asset that has decreased.

Looking at Exhibit 2-16, an increase in expenses is a debit, while a decrease in an asset is a credit.

In this case, Salary Expense (an expense) increases, which is a debit. Cash (an asset) decreases, which is a credit.

h.	**Salary Expense (Expense ↑; debit)**	**900**	
	Cash (Asset ↓; credit)		**900**
	Paid salary		

$900 is posted to the debit (left) side of the Salary Expense T-account. $900 is posted to the credit (right) side of the Cash account, as follows:

Cash

a.	**10,000**		
		c.	**800**
		e.	**500**
f.	**2,000**		
		g.	**200**
		h.	**900**

Salary Expense

h. 200	

i. The business received $2,100 cash from a customer on account.

The business received cash of $2,100 from a customer for services previously provided in transaction d. The accounts affected by this transaction are Cash and Accounts Receivable.

Cash and Accounts Receivable are both assets.

The asset Cash has increased, and the asset Accounts Receivable has decreased.

Remember, Accounts Receivable shows the amount of cash the business has coming from customers. When the business receives cash from these customers, Accounts Receivable will decrease, because the business will have less to receive in the future (in this case, it reduces from $2,600—in transaction d—to $500).

Looking Exhibit 2-10, an increase in assets is a debit, while a decrease in assets is a credit.
So Cash (an asset) increases, which is a debit. Accounts Receivable (an asset) decreases, which is a credit.

i.	**Cash (Asset ↑; debit)**	**2,100**	
	Accounts Receivable (Asset ↓; credit)		**2,100**
	Received cash an account.		

$2,100 is posted to the debit (left) side of the Cash T-account $2,100 is posted to the credit (right) side of the Accounts Receivable account, as follows:

Cash

a.	**10,000**		
		c.	**800**
		e.	**500**
f.	**2,000**		
		g.	**200**
		h.	**900**
i.	**2,100**		

Accounts Receivable

d.	**2,600**		
		i.	**2,100**

j. The business declared and paid cash dividends of $1,500.

The business paid Michael dividends from the earnings it had retained on his behalf. This caused Michael's ownership interest (equity) to decrease. The accounts involved in this transaction are Dividends and Cash.

Dividends have increased and Cash is an asset that has decreased.

Looking at Exhibit 2-16, an increase in dividends is a debit, while a decrease in an asset is a credit.

Remember that Dividends are a negative element of shareholders' equity. Therefore, when Dividends increase, shareholder's equity decrease. So in this case, Dividends decrease equity with a debit. Cash (an asset) decreases with a credit.

j.	**Dividends (Dividends ↑; debit) ↓SE**	**1,500**	
	Cash (Asset ↓; credit)		**1,500**
	Paid dividends.		

$1,500 is posted to the debit (left) side of the Dividends T-account. $1,500 is posted to the credit (right) side of the Cash account, as follows.

Cash

a.	**10,000**		
		c.	**800**
		e.	**500**
f.	**2,000**		
		g.	**200**
		h.	**900**
i.	**2,100**		
		j.	**1,500**

Dividends

j.	**1,500**	

Now we can summarize all of the journal entries during the month.

Ref.		Accounts and Explanation	Debit	Credit
a.		Cash	10,000	
		Common Shares		10,000
		Issued common Shares.		
b.		Equipment	3,500	
		Accounts Payable		3,500
		Purchased equipment on account.		
c.		Supplies	800	
		Cash		800
		Purchased supplies for cash.		
d.		Accounts Receivable	2,600	
		Service Revenue		2,600
		Provided services on account.		
e.		Accounts Payable	500	
		Cash		500
		Partial payment on account.		
f.		Cash	2,000	
		Service Revenue		2,000
		Provided services for cash.		
g.		Repair Expense	200	
		Cash		200
		Paid for repairs.		
h.		Salary Expense	900	
		Cash		900
		Paid salary.		
i.		Cash	2,100	
		Accounts Receivable		2,100
		Received cash on account.		
j.		Dividends	1,500	
		Cash		1,500
		Paid dividends.		

Requirement 3

Total each T-account to determine its balance at the end of the month.

Part 1 Part 2 Part 3 Part 4 Demo Doc Complete

To compute the balance in a T-account (total the T-account), add up the numbers on the debit/left side of the account and (separately) add the credit/right side of the account. The difference between the total debits and the total credits is the account's balance, which is placed on the side that holds the larger total. This gives the balance in the T-account.

For example, for the Cash account, the numbers on the debit/left side total $10,000 + $2,000 + $2,100 = $14,100. The credit/right side = $800 + $500 + $200 + $900 + $1,500 = $3,900. The difference is $14,100 – $3,900 = $10,200. At the end of the period Cash has a debit balance of $10,200. We put the $10,200 at the bottom of the debit side because that was the side that showed the bigger total ($14,100). This is called a debit balance.

An easy way to think of totaling T-accounts is:

Beginning balance in a T-account
+ Increase to the T-account
– Decrease to the T-account
T-account balance (net total)

T-accounts, after posting all transactions and totaling each account, are as follows:

ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY

Cash

a.	10,000		
		c.	800
f.	2,000	e	500
		g.	200
		h.	900
i.	2,100		
		j.	1,500
Bal.	10,200		

Supplies

c.	800		
Bal.	800		

Accounts Payable

		b.	3,500
e.	500		
		Bal.	3,000

Common Shares

		a.	10,000
		Bal	10,000

Dividends

j.	1,500		
Bal.	1,500		

Revenue

Accounts Receivable

d.	2,600		
		i.	2,100
Bal.	500		

Equipment

b.	3,500
Bal.	3,500

Service Revenue

		d.	2,600
		f.	2,000
		Bal.	4,600

EXPENSES

Salary Expenses

h.	900	
Bal.	900	

Repair Expense

g.	200	
Bal.	200	

Requirement 4

Part 1	Part 2	Part 3	Part 4	Demo Doc Complete

The trial balance lists all the accounts along with their balances. This listing is helpful because it summarizes all the accounts in one place. Otherwise one must plough through all the T-accounts to find the balance of Accounts Payable, Salary Expense, or any other account.

The trial balance is an *internal* accounting document that accountants and managers use to prepare the financial statements. It's not like the income statement and balance sheet, which are presented to the public.

Data for the trial balance come directly from the T-accounts that we prepared in Requirement 3. A debit balance in a T-account remains a debit in the trial balance, and likewise for credits. For example, the Accounts Payable T-account shows a $3,000 credit balance, and the trial balance lists Accounts Payable correctly.

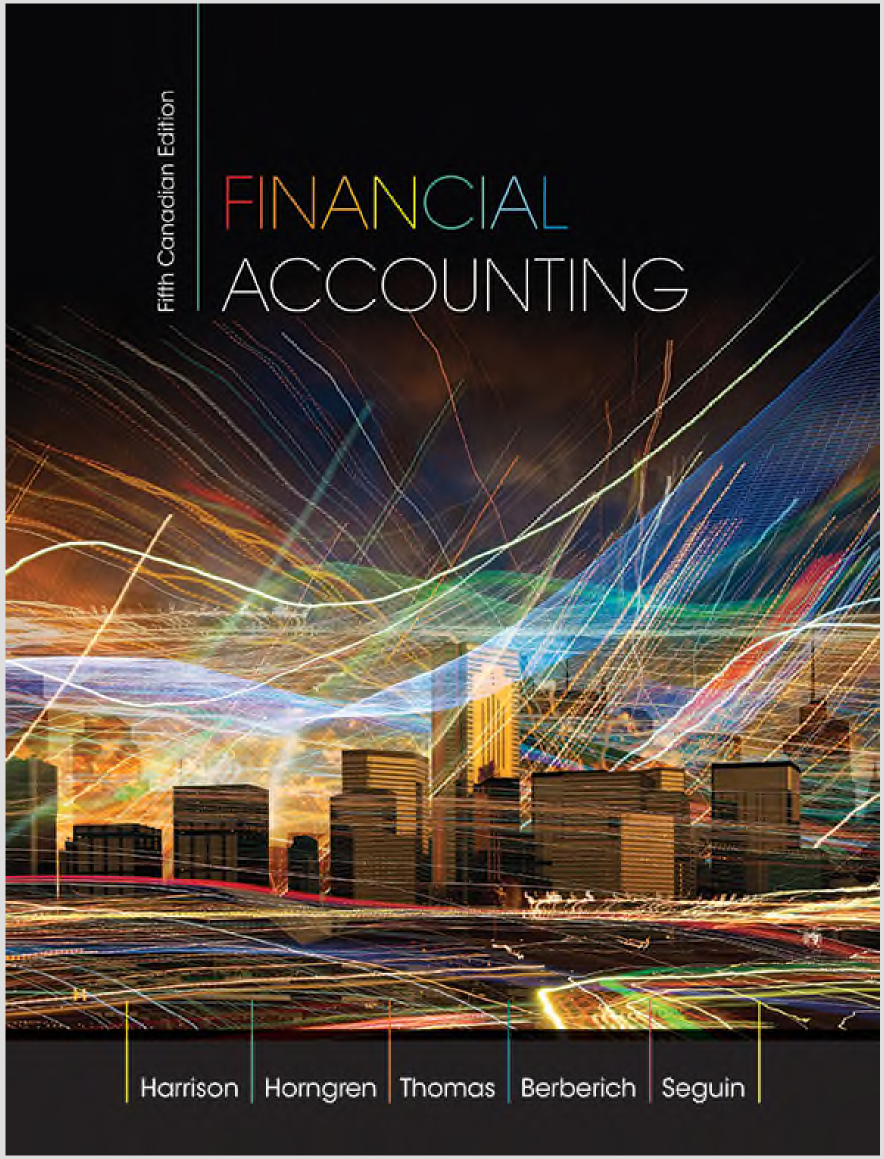
The trial balance for Moe's Mowing at September 30, 2014, appears as follows. Notice that we list the accounts in their proper order—assets, liabilities, stockholders, equity, revenues, and expenses.

Moe's Mowing, Inc.
Trial Balance
September 30, 2014

		Balance	
		Debit	**Credit**
Assets	Cash	$10,200	
	Accounts receivable	500	
	Supplies	800	
	Equipment	3,500	
Liabilities	Accounts payable		$3,000
Equity	Common shares		10,000
	Dividends	1,500	
Revenues	Service revenue		4,600
Expenses	Salary expense	900	
	Repair expense	200	
	Total	$17,600	$17,600

You should trace each account from the T-accounts to the trial balance.

Part 1	**Part 2**	**Part 3**	**Part 4**	**Demo Doc Complete**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Recording Business Transactions

Chapter 2

Learning Objective One

Describe common types of accounts

The Account

Assets = Liabilities + Stockholders' Equity

- Account is a record of each asset, liability, and stockholders' equity element
  - Basic summary device of accounting

Assets

Economic resources that provide future benefit

Cash	Accounts Receivable	Notes Receivable
Prepaid Expenses	Inventory	

Assets

Land	Buildings
Equipment	Equipment, Furniture, & Fixtures

Liabilities

- Accounts Payable
- Notes Payable
- Accrued Liabilities

Stockholders' Equity

Owners' claim to assets

- Common stock
- Retained earnings
- Dividends
- Revenues
- Expenses

Stockholders' Equity Accounts

Common stock	Owners' investment in the company
Retained earnings	Cumulative net income (loss) less dividends
Dividends	Distributions to owners
Revenues	Increase in equity from providing goods and services
Expenses	Costs of operating a business

Learning Objective Two

Record the impact of business transactions on the accounting equation

Accounting for Business Transactions

A *transaction* is an event that both affects the financial position of the business entity and can be reliably recorded.

Accounting for Business Transactions

Transaction 1:

Students invest $50,000 to begin Tara Inc., and the business issues common shares.

	Assets	=	Liabilities	+	Shareholders' Equity
(1) Cash	+ 50,000	=			+ 50,000*

*Common shares

Accounting for Business Transactions

Transaction 2:

Tara Inc. purchases land and pays $40,000 in cash.

	Assets	=	*Liabilities*	+	*Shareholders' Equity*
Balance	+ 50,000	=		+	50,000*
(2) Cash	– 40,000				
Land	+ 40,000				
	50,000	=		+	50,000*

*Common shares

Accounting for Business Transactions

Transaction 3:

The business buys stationery and other office supplies on account agreeing to pay $3700 within 30 days.

	Assets	=	Liabilities	+	Shareholders' Equity
Balance	+ 50,000	=			+ 50,000*
(3) Supplies	+ 3,700	=	+ 3,700		
	53,700	=	3,700	+	50,000

*Common shares

Accounting for Business Transactions

Transaction 4:

Tara Inc. earns service revenue of $7,000 and collects this amount in cash.

	Assets	=	Liabilities	+	Shareholders' Equity
Balance	+ 53,700	=	3,700	+	50,000*
(4) Cash	+ 7,000	=		+	7,000
	60,700	=	3,700	+	57,000

*Common shares

Accounting for Business Transactions

Transaction 5:

Tara Inc., performs service
and earns $3,000 on account.

	Assets	=	*Liabilities*	+ *Shareholders' Equity*
Balance	+ 60,700	=	3,700	+ 57,000
(5) Receivable	+ 3,000	=		+ 3,000
	63,700	=	3,700	+ 60,000

Accounting for Business Transactions

Transaction 6:

Tara Inc. pays $2,700 for the following expenses: office rent $1,100, employee salary $1,200 and utilities $400

	Assets	=	*Liabilities*	+	*Shareholders' Equity*
Balance	+ 63,700	=	3,700	+	60,000
(6) Expenses	– 2,700	=			– 2,700
	61,000	=	3,700	+	57,300

Accounting for Business Transactions

Transaction 7:

Tara pays $1,900 on account for supplies purchased in Transaction 3.

	Assets	=	*Liabilities*	+	*Shareholders' Equity*
Balance	+ 61,000	=	3,700	+	57,300
(7) Cash	– 1,900	=	– 1,900		
	59,100	=	1,800	+	57,300

Accounting for Business Transactions

Transaction 8:

The owner pays for the re-modeling of his home at a cost of $30,000.

This event is a transaction of the *personal entity*, not the business entity.

No transaction is recorded for Tara Inc.

Accounting for Business Transactions

Transaction 9:

The business collects $1,000 from a customer on account.

	Assets	=	Liabilities	+	Shareholders' Equity
Balance	+ 59,100	=	1,800	+	57,300
(9) Cash	+ 1,000				
Receivable	– 1,000				
	59,100	=	1,800	+	57,300

Accounting for Business Transactions

Transaction 10:

Tara Inc. sells part of the land purchased in Transaction 2 for $22,000 in cash.

	Assets	=	*Liabilities*	+ *Shareholders' Equity*
Balance	+ 59,100	=	1,800	+ 57,300
(10) Cash	+ 22,000			
Land	– 22,000			
	59,100	=	1,800	+ 57,300

Accounting for Business Transactions

Transaction 11:

The corporation declares a dividend and pays $2,100 cash to the shareholders.

	Assets	=	*Liabilities*	+	*Shareholders' Equity*
Balance	+ 59,100	=	1,800	+	57,300
(11) Cash	– 2,100	=			– 2,100
	57,000	=	1,800	+	55,200

Accounting for Business Transactions

	Assets						
	Cash	+	Accounts Receivable	+	Office Supplies	+	Land
(1)	+ 50,000						
(2)	– 40,000						+ 40,000
(3)					+ 3,700		
(4)	+ 7,000						
(5)			+ 3,000				
(6)	– 1,100						
	– 1,200						
	– 400						
(7)	– 1,900						
(8)	Not a transaction of the business						
(9)	+ 1,000		– 1,000				
(10)	+ 22,000						– 22,000
(11)	– 2,100						
Bal.	33,300		2,000		3,700		18,000

Accounting for Business Transactions

	Liabilities	+	*Shareholders' Equity*			
	Accounts Payable	+	Common Shares	+	Retained Earnings	*Type of Shareholders' Equity Transaction*
(1)			+ 50,000			Issued shares
(2)						
(3)	+3,700					
(4)					+ 7,000	Service revenue
(5)					+ 3,000	Service revenue
(6)					– 1,100	Rent expense
					– 1,200	Salary expense
					– 400	Utilities expense
(7)	– 1,900					
(8)						
(9)						
(10)						
(11)					– 2,100	Dividends
Bal.	1,800		50,000		5,200	

Transactions and Financial Statements

Income Statement data appear as revenues and expenses under Retained Earnings. The revenues increase retained earnings; the expenses decrease retained earnings.

Balance Sheet data are composed of the ending balances of the assets, liabilities, and shareholders' equity

Statement of Retained Earnings repeats net income (or net loss) from the income statement. Dividends are subtracted. Ending retained earnings is the final result.

Income Statement

For the Month Ended April 30, 2014

Revenue:		
Service revenue		$10,000
Expenses:		
Salary	$ 1,200	
Rent	1,100	
Utilities	400	
Total expenses		2,700
Net income		$7,300

Statement of Retained Earnings

For the Month Ended April 30, 2014

Retained earnings, April 1, 2014	$ 0
Add: Net income for the month	7,300
	$7,300
Less: Dividends	(2,100)
Retained earnings, April 30, 2014	$5,200

Balance Sheet

April 30, 2014

Assets		*Liabilities*	
Cash	$ 33,300	Accounts Payable	$ 1,800
Accounts receivable	2,000	*Shareholders' Equity*	
Office Supplies	3,700	Common shares	$50,000
Land	18,000	Retained earnings	5,200
		Total shareholders' equity	$55 200
Total assets	$ 57,000	Total liabilities and shareholders' equity	$57,000

Learning Objective Three

Record business transactions in T-accounts

Tara Inc.
Chart of Accounts

BALANCE SHEET ACCOUNTS:

Assets
101 Cash
111 Accounts Receivable
141 Office Supplies
151 Office Furniture
191 Land

Liabilities
201 Accounts Payable
231 Notes Payable

Shareholders' Equity
301 Common Shares
311 Dividends
312 Retained Earnings

INCOME STATEMENT ACCOUNTS (PART OF SHAREHOLDERS' EQUITY):

Revenues
401 Service Revenue

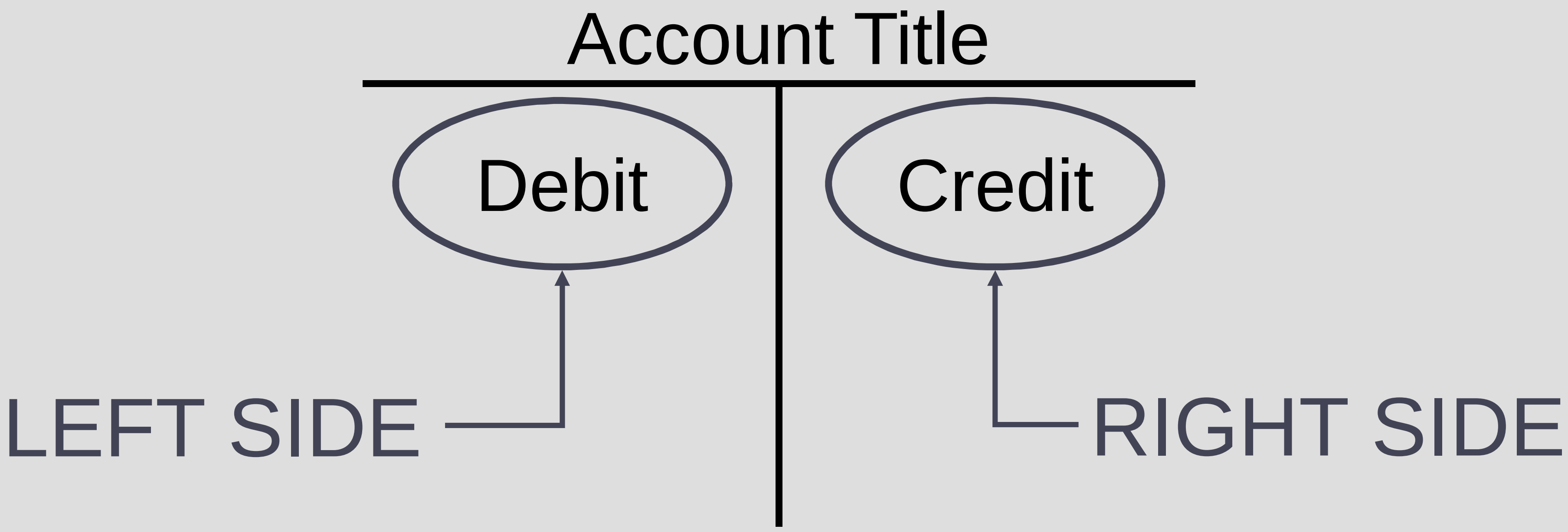
Expenses
501 Rent Expense
502 Salary Expense
503 Utilities Expense

Double-Entry Accounting

Double-entry system of accounting uses debits and credits to record the dual effects of each business transaction.

Assets = Liabilities + Shareholders' Equity

The T-Account



The Rule of Debit & Credit

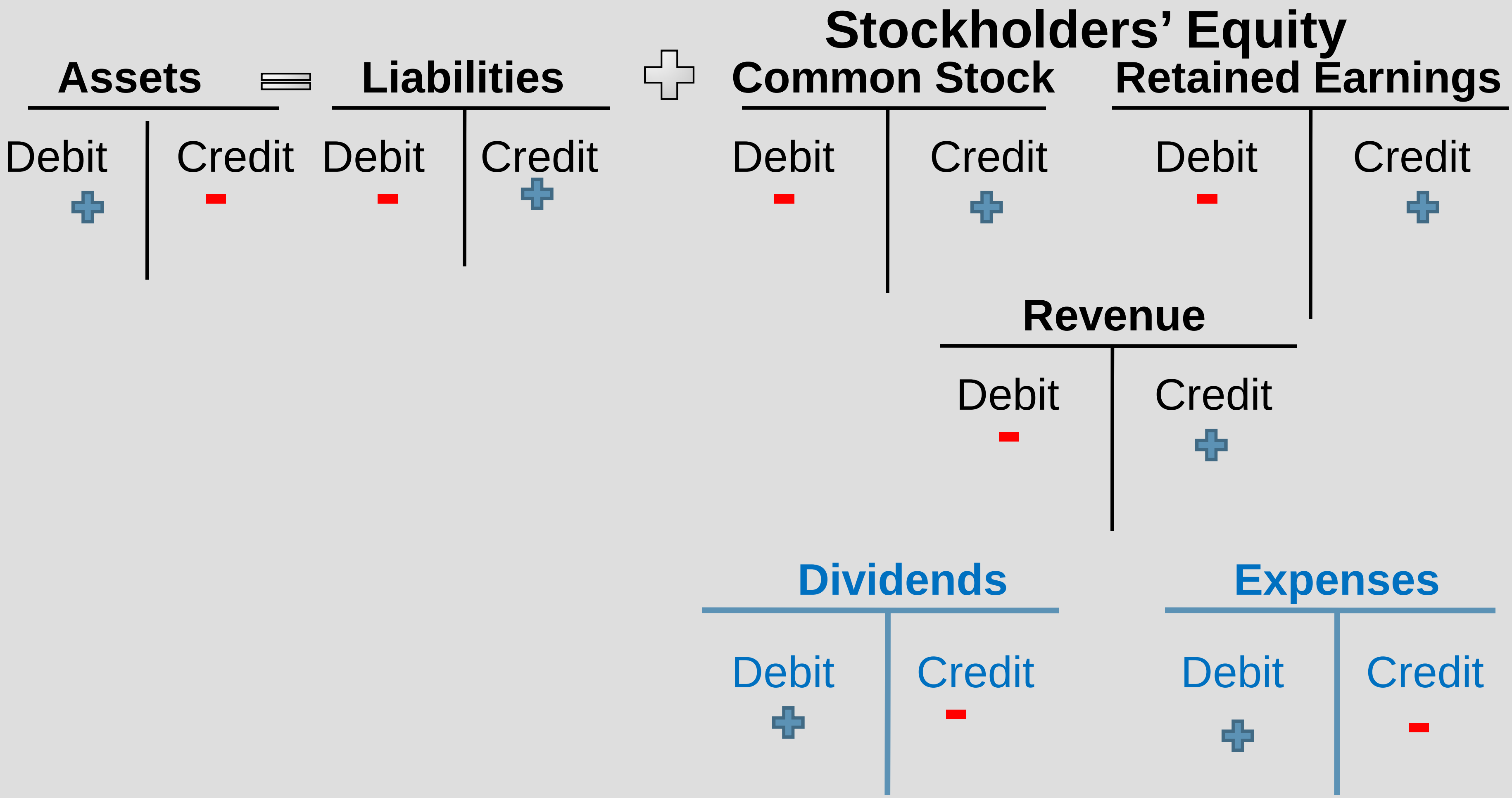
Debits	=	Credits
(Left side)		(Right side)

Assets	=	Liabilities
		+ Shareholders' Equity

Increases and Decreases in the Accounts

	Assets		=	Liabilities		+	Shareholders' Equity	
Accounting Equation:	Debit	Credit		Debit	Credit		Debit	Credit
Rules of Debit and Credit:	+	–		–	+		–	+

Rules of Debit and Credit



Normal Balances of Accounts

Assets	Debit	
Liabilities		Credit
Stockholders' Equity—overall		Credit
Common stock		Credit
Retained earnings		Credit
Dividends	Debit	
Revenues		Credit
Expenses	Debit	

Rules of Debit and Credit

Tara Inc. received $50,000 and issued shares.

Assets	=	Liabilities	+	Shareholders' Equity

Cash

Debit	Credit
Debit for Increase, 50,000	

Common shares

Debit	Credit
	Credit for Increase, 50,000

Rules of Debit and Credit

Tara Inc. purchases land for $40,000 cash.

Assets	=	Liabilities	+	Shareholders' Equity

Cash

Debit	Credit
Bal. 50,000	Credit for Decrease, 40,000

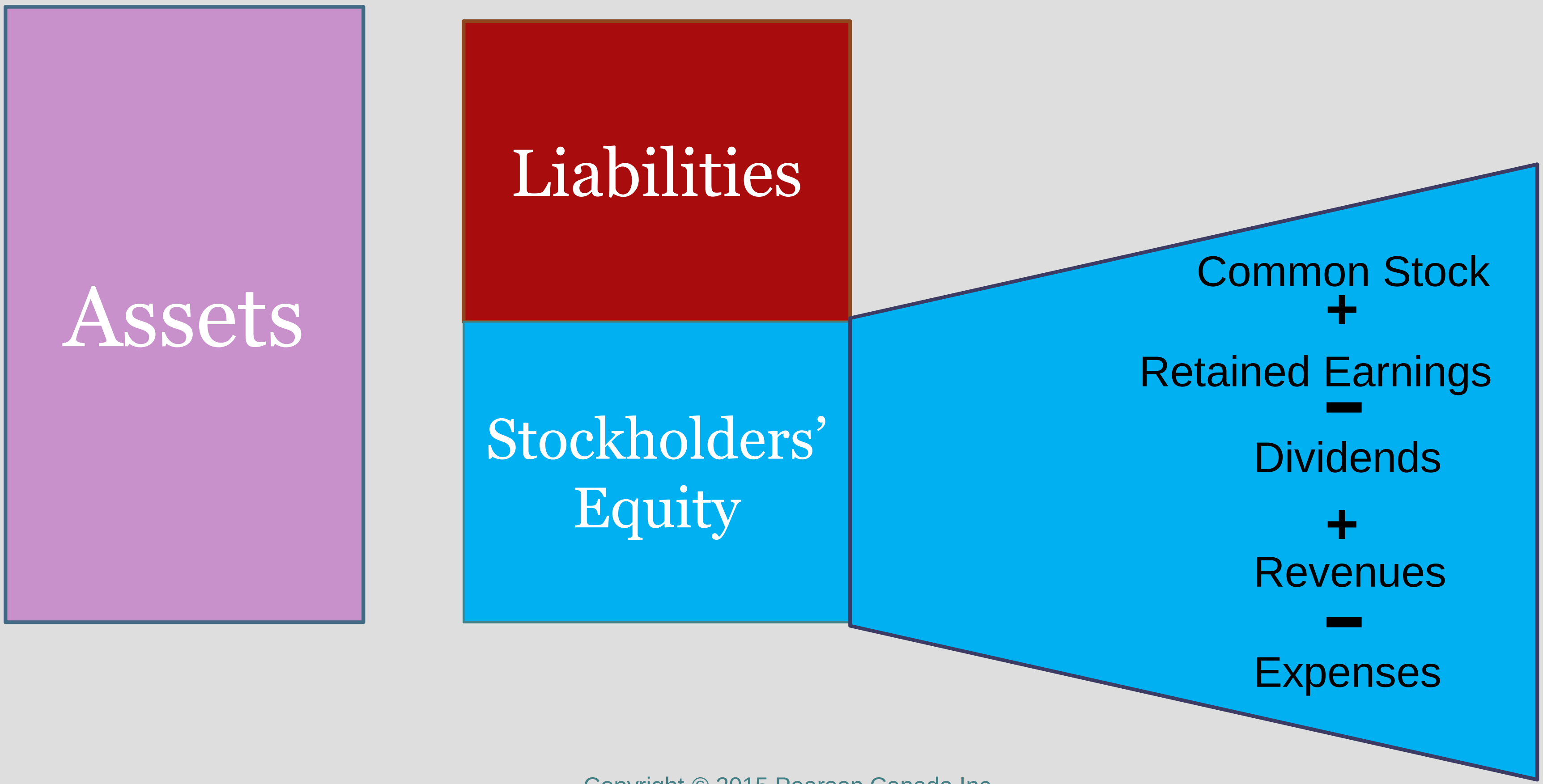
Land

Debit	Credit
Debit for Increase, 40,000	

Common shares

Debit	Credit
	Bal. 50,000

Additional Stockholders' Equity Accounts: Revenues, Expenses and Dividends



Learning Objective Four

Record business transactions in the journal and post them to the ledger

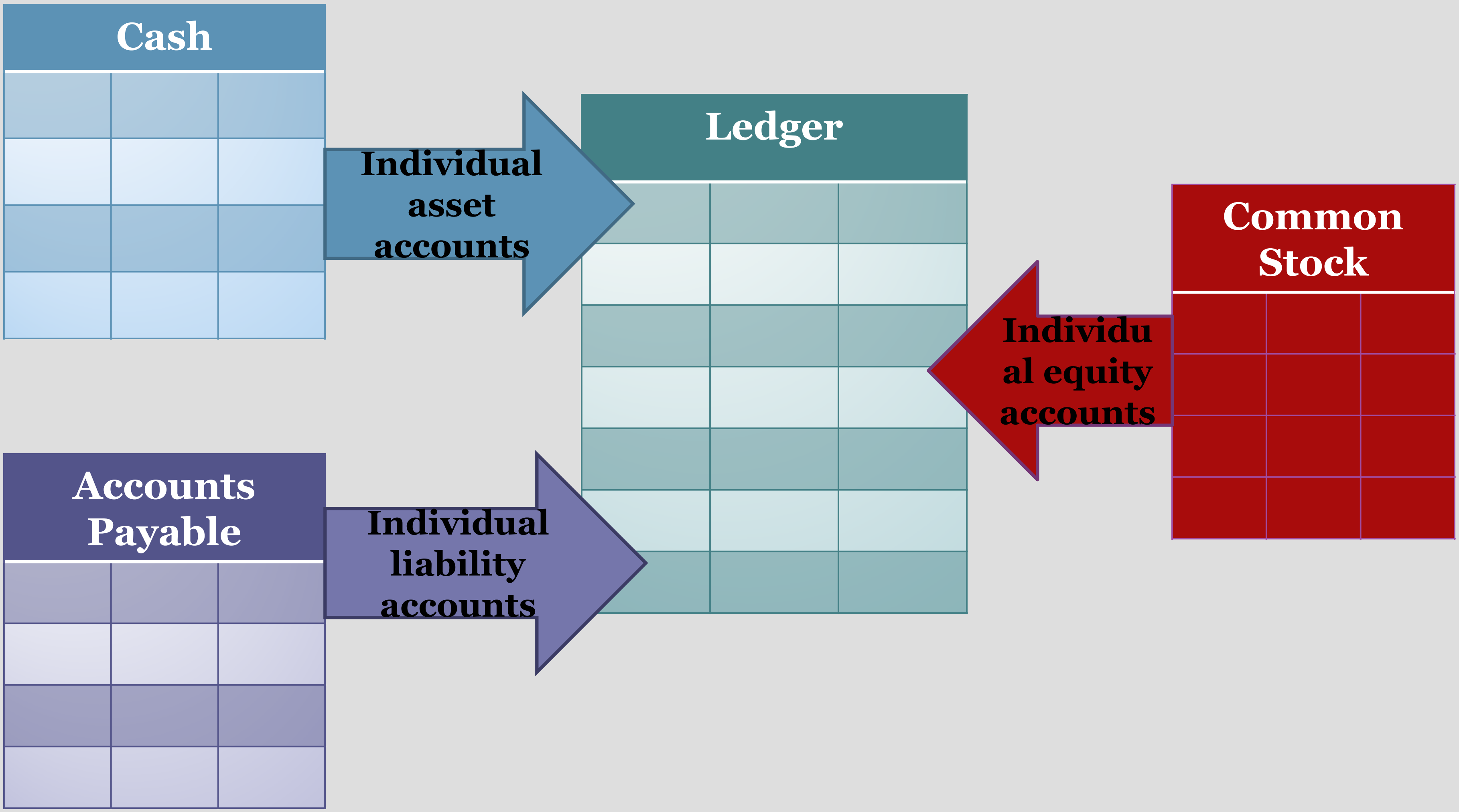
The Journal

- Chronological record of transactions
- Three steps
  - Specify each account affected by the transaction
  - Determine if each account is increased or decreased
    - Use debit credit rules
  - Record in journal

Journal Entry

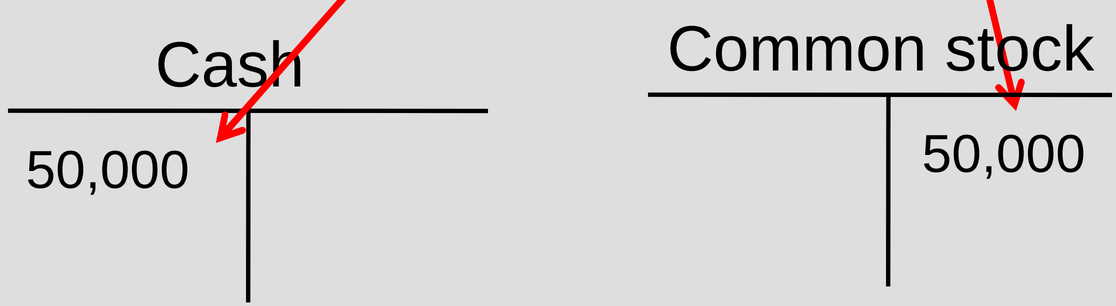
JOURNAL			
Date	Accounts and explanation	Debit	Credit
Apr. 2	Cash	50,000	
	Common Stock		50,000
	Issued common stock		

The Ledger

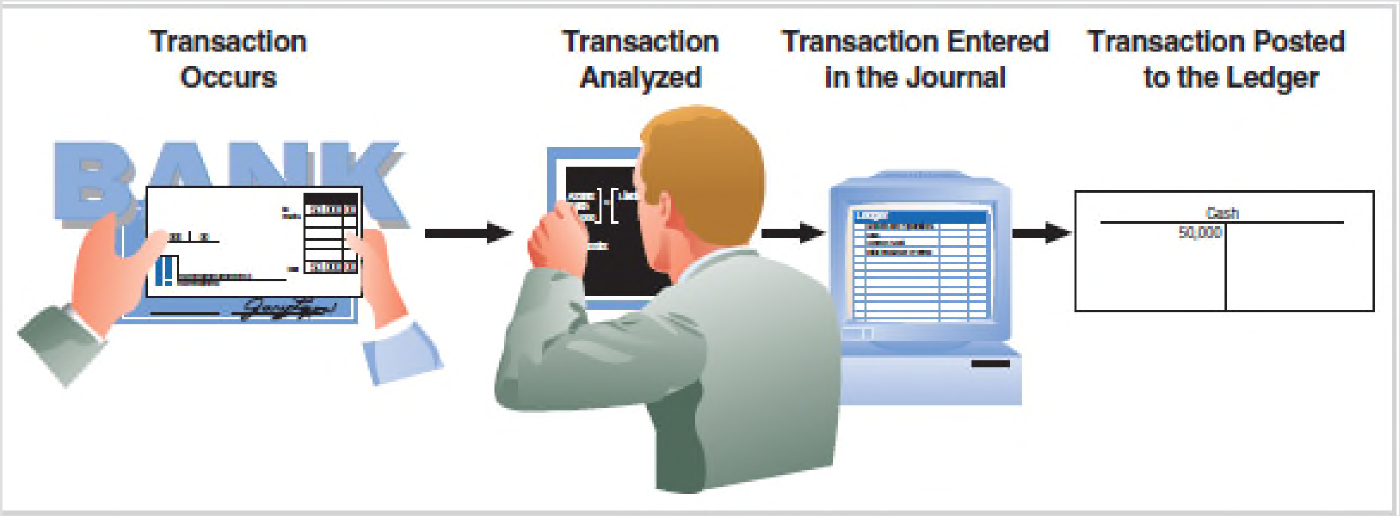

Cash
Individual asset accounts
Ledger
Common Stock
Individu al equity accounts
Accounts Payable
Individual liability accounts

Copying Information (Posting) from the Journal to the Ledger

JOURNAL			
Date	Accounts and explanation	Debit	Credit
Apr. 2	Cash	50,000	
	Common Stock		50,000
	Issued common stock		



Flow of Accounting Data



Accounts After Posting

ASSETS = LIABILITIES →

Cash

(1)	50,000	(2)	40,000
(4)	7,000	(6)	2,700
(9)	1,000	(7)	1,900
(10)	22,000	(11)	2,100
Bal.	33,300		

Accounts Receivable

(5)	3,000	(9)	1,000
Bal.	2,000		

Office Supplies

(3)	3,700		
Bal.	3,700		

Land

(2)	40,000	(10)	22,000
Bal.	18,000		

Accounts Payable

(7)	1,900	(3)	3,700
		Bal.	1,800

Accounts After Posting

+ → SHAREHOLDERS' EQUITY

Common Shares

	(1)	50,000
	Bal.	50,000

Dividends

(11)	2,100	
Bal.	2,100	

REVENUE

Service Revenue

	(4)	7,000
	(5)	3,000
	Bal.	10,000

EXPENSES

Rent Expense

(6)	1,100	
Bal.	1,100	

Salary Expense

(6)	1,200	
Bal.	1,200	

Utilities Expense

(6)	400	
Bal.	400	

Learning Objective Five

Prepare a trial balance

Trial Balance

- Lists all accounts with their balances
- Assets listed first, then liabilities and stockholders' equity
- Shows that debits equal credits
- Usually prepared at the end of the period
- Facilitates preparation of the financial statements

Tara Inc.
Trial Balance

	Debit	Credit
Cash	$33,300	
Accounts receivable	2,000	
Office supplies	3,700	
Land	18,000	
Accounts payable		$1,800
Common shares		50,000
Dividends	2,100	
Service revenue		10,000
Rent expense	1,100	
Salary expense	1,200	
Utilities expense	400	
	$61,800	$61,800

End of Chapter Two