

## Chapter 2

# Recording Business Transactions

### *Review Questions*

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1. The three categories of the accounting equation are assets, liabilities, and equity. Assets include Cash, Accounts Receivable, Notes Receivable, Prepaid Expenses, Land, Building, Equipment, Furniture, and Fixtures. Liabilities include Accounts Payable, Notes Payable, Accrued Liability, and Unearned Revenue. Equity includes Owner's Capital, Owner's Withdrawals, Revenue, and Expenses.
2. Companies need a way to organize their accounts so they use a chart of accounts. Accounts starting with 1 are usually Assets, 2 – Liabilities, 3 – Equity, 4 – Revenues, and 5 – Expenses. The second and third digits in account number indicate where the account fits within the category.
3. A chart of accounts and a ledger are similar in that they both list the account names and account numbers of the business. A ledger, though, provides more detail. It includes the increases and decreases of each account for a specific period and the balance of each account at a specific point in time.
4. With a double-entry you need to record the dual effects of each transaction. Every transaction affects at least two accounts.
5. A T-account is a shortened form of each account in the ledger. The debit is on the left side, credit on the right side, and the account name is shown on top.
6. Debits are increases for assets, owner's withdrawals, and expenses. Debits are decreases for liabilities, owner's capital, and revenue.
7. Credits are increases for liabilities, owner's capital, and revenue. Credits are decreases for assets, owner's withdrawal, and expenses.
8. Assets, owner's withdrawal, and expenses have a normal debit balance. Liabilities, owner's capital, and revenue have a normal credit balance.
9. Source documents provide the evidence and data for accounting transactions. Examples of source documents a business would have are: bank deposit slips, purchase invoices, bank checks, and sales invoices
10. Transactions are first recorded in a journal, which is the record of transactions in date order.

- 11.** Step 1: Identify the accounts and the account type. You need this information before you can complete the next step. Step 2: Decide if each account increases or decreases using the rules of debits and credits. Reviewing the rules of debits and credits, we use the accounting equation to help determine debits and credits for each account. Step 3: Record transactions in the journal using journal entries. Step 4: Post the journal entry to the ledger. When journal entries are posted from the journal to the ledger, the dollar amount is transferred from the debit and credit columns to the specific accounts in the ledger. The date on the journal entry should also be transferred to the accounts in the ledger. Step 5: Determine whether the accounting equation is in balance. After each entry the accounting equation should always be in balance.
- 12.** Part 1: Date of the transaction. Part 2: Debit account name and dollar amount. Part 3: Credit account name and dollar amount. The credit account name is indented. Part 4: Brief explanation.
- 13.** When transactions are posted from the journal to the ledger, the dollar amount is transferred from the debit and credit columns to the specific accounts in the ledger. The date of the journal entry is also transferred to the accounts in the ledger. The posting reference columns in the journal and ledger are also completed. In a computerized system, this step is completed automatically when the transaction is recorded in the journal.
- 14.** The trial balance is used to prove the equality of total debits and total credits of all accounts in the ledger; it is also used to prepare the financial statements.
- 15.** A trial balance verifies the equality of total debits and total credits of all accounts on the trial balance and is an internal document used only by employees of the company. The balance sheet, on the other hand, presents the business's accounting equation and is a financial statement that can be used by both internal and external users.
- 16.** If total debits equal total credits on the trial balance, it does not mean that the trial balance is error-free. An incorrect amount could have been used, an entry could have been completely missed, or the wrong account title could have been debited or credited .
- 17.** The debt ratio is calculated by dividing total liabilities by total assets and shows the proportion of assets financed with debt. It can be used to evaluate a business's ability to pay its debts.

## Short Exercises

### S2-1

- |                          |                             |
|--------------------------|-----------------------------|
| a. Notes Receivable (A)  | f. Taxes Payable (L)        |
| b. Nations, Capital (E)  | g. Rent Expense (E)         |
| c. Prepaid Insurance (A) | h. Furniture (A)            |
| d. Notes Payable (L)     | i. Nations, Withdrawals (E) |
| e. Rent Revenue (E)      | j. Unearned Revenue (L)     |

### S2-2

- |   |                                      |
|---|--------------------------------------|
| a. Increase to Accounts Receivable (DR) | f. Decrease to Prepaid Rent (CR)     |
| b. Decrease to Unearned Revenue (DR)    | g. Increase to Perez, Capital (CR)   |
| c. Decrease to Cash (CR)                | h. Increase to Notes Receivable (DR) |
| d. Increase to Interest Expense (DR)    | i. Decrease to Accounts Payable (DR) |
| e. Increase to Salaries Payable (CR)    | j. Increase to Interest Revenue (CR) |

### S2-3

- |                             |                             |
|-----------------------------|-----------------------------|
| a. Notes Payable (CR)       | f. Harris, Capital (CR)     |
| b. Harris, Withdrawals (DR) | g. Utilities Expense (DR)   |
| c. Service Revenue (CR)     | h. Office Supplies (DR)     |
| d. Land (DR)                | i. Advertising Expense (DR) |
| e. Unearned Revenue (CR)    | j. Interest Payable (CR)    |

### S2-4

Date	Accounts and Explanation	Debit	Credit
Jan. 1	Cash Brown, Capital <i>Received cash from Brown in exchange for capital.</i>	29,000	29,000
2	Medical Supplies Accounts Payable <i>Purchased medical supplies on account.</i>	14,000	14,000
4	Cash Service Revenue <i>Performed services for patients.</i>	1,400	1,400
12	Rent Expense Cash <i>Paid rent with cash.</i>	2,600	2,600
15	Accounts Receivable Service Revenue	8,000	8,000

	<i>Performed services for patients on account.</i>		
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**S2-5**

Date	Accounts and Explanation	Debit	Credit
Jan. 22	Accounts Receivable Service Revenue <i>Performed services for customers on account.</i>	8,000	8,000
30	Cash Accounts Receivable <i>Received cash on account from customers.</i>	7,000	7,000
31	Utilities Expense Utilities Payable <i>Received a utility bill due in February.</i>	180	180
31	Salaries Expense Cash <i>Paid monthly salary to salesman.</i>	2,000	2,000
31	Cash Unearned Revenue <i>Received 3 months consulting services in advance.</i>	1,500	1,500
31	Hansen, Withdrawals Cash <i>Owner withdrawal of cash.</i>	1,000	1,000

**S2-6**

Accounts Payable			
May 2	6,000	14,000	May 1
May 22	12,000	1,000	May 5
		7,000	May 15
		500	May 23
		4,500	Bal.

**S2-7**

**Requirement 1**

Date	Accounts and Explanation	Debit	Credit
Mar. 15	Office Supplies Accounts Payable <i>Purchased office supplies on account.</i>	3,400	3,400
28	Accounts Payable Cash <i>Paid cash on account.</i>	1,200	1,200

**Requirement 2**

Cash			
Bal.	14,000	1,200	Mar. 28
Bal.	12,800		

Accounts Payable			
Mar. 28	1,200	3,400	Mar. 15
		2,200	Bal.

Office Supplies	
Mar. 15	3,400
Bal.	3,400

**S2-8**

OAKLAND FLOOR COVERINGS		
Trial Balance		
December 31, 2014		
Account Title	Balance	
	Debit	Credit
Cash	\$ 8,000	
Accounts Receivable	4,000	
Equipment	45,000	
Accounts Payable		\$ 2,000
Salaries Payable		12,000
Interest Payable		6,000
Oakland, Capital		22,000
Oakland, Withdrawals	1,800	
Service Revenue		34,000
Rent Expense	14,000	
Salaries Expense	2,000	
Utilities Expense	1,200	
<b>Total</b>	<b>\$ 76,000</b>	<b>\$ 76,000</b>

**S2-9**

Debt ratio = Total liabilities / Total assets = \$69,000 / \$230,000 = 0.30 = 30%

***Exercises*****E2-10**

1. g
2. a
3. e
4. d
5. j
6. i
7. f
8. b
9. h
10. c

**E2-11**

Assets	Equity
100 – Cash	300 – Richard, Capital
110 – Automotive Supplies	310 – Richard, Withdrawals
120 – Equipment	Revenues
Liabilities	400 – Service Revenue
200 – Accounts Payable	Expenses
210 – Unearned Revenue	500 – Utilities Expense
	510 – Advertising Expense

**E2-12**

		<b>Requirement 1</b>	<b>Requirement 2</b>	<b>Requirement 3</b>
	<b>Account Name</b>	<b>Type of Account</b>	<b>Increase with Debit/Credit</b>	<b>Normal Balance Debit/Credit</b>
a.	Interest Revenue	E	CR	CR
b.	Accounts Payable	L	CR	CR
c.	Chapman, Capital	E	CR	CR
d.	Office Supplies	A	DR	DR
e.	Advertising Expense	E	DR	DR
f.	Unearned Revenue	L	CR	CR
g.	Prepaid Rent	A	DR	DR
h.	Utilities Expense	E	DR	DR
i.	Chapman, Withdrawals	E	DR	DR
j.	Service Revenue	E	CR	CR

**E2-13**

(a) Assets		=	Liabilities		+	(b) Equity										
Assets		=	(c) Liabilities		+	Owner's Capital		-	(d) Owner's Withdrawals		+	Revenues		-	Expenses	
(e) Incr.	Decr.	=	Decr.	(f) Incr.	+	(g) Decr.	(h) Incr.	-	(i) Incr.	(j) Decr.	+	(k) Decr.	(l) Incr.	-	Incr.	(m) Decr.
Debit	(n) Credit	=	(o) Debit	Credit	+	(p) Debit	Credit	-	(q) Debit	Credit	+	Debit	Credit	-	(r) Debit	Credit

- (a) Assets
- (b) Equity
- (c) Liabilities
- (d) Owner's Withdrawals
- (e) Incr.
- (f) Incr.
- (g) Decr.
- (h) Incr.
- (i) Incr.
- (j) Decr.
- (k) Decr.
- (l) Incr.
- (m) Decr.
- (n) Credit
- (o) Debit
- (p) Debit
- (q) Debit
- (r) Debit



**E2-14**

- a. Bank deposit slip
- b. Purchase invoice
- c. Sales invoice

**E2-15**

- a. Purchased equipment with cash.
- b. The owner, Fernandez, withdrew cash from the business.
- c. Paid wages owed to employees, previously recorded.
- d. The owner, Fernandez, gave equipment to the business in exchange for capital.
- e. Received cash from customer for work to be completed in the future.
- f. Paid for advertising with cash.
- g. Performed services that were paid by the customer.

**E2-16**

<b>Date</b>	<b>Accounts and Explanation</b>	<b>Debit</b>	<b>Credit</b>
Jul. 2	Cash London, Capital <i>Owner contributed cash to business in exchange for capital.</i>	10,000	10,000
4	Utilities Expense Cash <i>Paid utility expense.</i>	400	400
5	Equipment Accounts Payable <i>Purchased equipment on account.</i>	2,100	2,100
10	Accounts Receivable Service Revenue <i>Performed services for client on account.</i>	2,000	2,000
12	Cash Notes Payable <i>Borrowed cash by signing note.</i>	7,000	7,000
19	London, Withdrawals Cash <i>Owner withdrew money from the business.</i>	500	500

**E2-16, cont.**

21	Office Supplies Cash <i>Purchased office supplies with cash.</i>	800	800
27	Accounts Payable Cash <i>Paid cash on account.</i>	2,100	2,100

**E2-17**

**Requirements 1, 2, and 3**

Cash			
Jul. 2	10,000	400	Jul. 4
Jul. 12	7,000	500	Jul. 19
		800	Jul. 21
		2,100	Jul. 27
Balance	13,200		

Accounts Payable			
Jul. 27	2,100	2,100	Jul. 5
		0	Balance

Accounts Receivable		
Jul. 10	2,000	
Balance	2,000	

Notes Payable		
	7,000	Jul. 12
	7,000	Balance

Office Supplies		
Jul. 21	800	
Balance	800	

London, Capital		
	10,000	Jul. 2
	10,000	Balance

Equipment		
Jul. 5	2,100	
Balance	2,100	

London, Withdrawals		
Jul. 19	500	
Balance	500	

Service Revenue		
	2,000	Jul. 10
	2,000	Balance

Utilities Expense		
Jul. 4	400	
Balance	400	

## E2-18

<b>Date</b>	<b>Accounts and Explanation</b>	<b>Post. Ref.</b>	<b>Debit</b>	<b>Credit</b>
May 1	Cash Ward, Capital. <i>Owner contributed cash to business in exchange for capital.</i>		75,000	75,000
2	Office Supplies Accounts Payable <i>Purchased office supplies on account.</i>		500	500
4	Building Land Cash <i>Purchased building and land for cash.</i>		45,000 8,000	53,000
6	Cash Service Revenue <i>Performed services for customers for cash.</i>		2,600	2,600
9	Accounts Payable Cash <i>Paid cash on account.</i>		400	400
17	Accounts Receivable Service Revenue <i>Performed services for customers on account.</i>		2,500	2,500
19	Rent Expense Cash <i>Paid rent for the month.</i>		900	900
20	Cash Unearned Revenue <i>Received cash from customers for services to be performed next month.</i>		1,200	1,200
21	Prepaid Advertising Cash <i>Paid for next month's advertising.</i>		500	500

**E2-18, cont.**

23	Cash Accounts Receivable <i>Received cash on account from customer.</i>	1,900	1,900
31	Salaries Expense Cash <i>Paid salaries.</i>	1,100	1,100

**E2-19**

**Requirement 2**

Date	Accounts and Explanation	Post. Ref.	Debit	Credit
May 1	Cash Ward, Capital <i>Owner contributed cash to business in exchange for capital.</i>	110 310	75,000	75,000
2	Office Supplies Accounts Payable <i>Purchased office supplies on account.</i>	130 210	500	500
4	Building Land Cash <i>Purchased building and land for cash.</i>	150 160 110	45,000 8,000	53,000
6	Cash Service Revenue <i>Performed services for customers for cash.</i>	110 410	2,600	2,600
9	Accounts Payable Cash <i>Paid cash on account.</i>	210 110	400	400
17	Accounts Receivable Service Revenue <i>Performed services for customers on account.</i>	120 410	2,500	2,500

**E2-19, cont.**

19	Rent Expense	510	900	
	Cash	110		900
	<i>Paid rent for the month.</i>			
20	Cash	110	1,200	
	Unearned Revenue	220		1,200
	<i>Received cash from customers for services to be performed next month.</i>			
21	Prepaid Advertising	140	500	
	Cash	110		500
	<i>Paid for next month's advertising.</i>			
23	Cash	110	1,900	
	Accounts Receivable	120		1,900
	<i>Received cash on account from customer.</i>			
31	Salaries Expense	520	1,100	
	Cash	110		1,100
	<i>Paid salaries.</i>			

**Requirements 1 and 2**

**CASH**

Account No. 110

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 1		J10	75,000		75,000	
May 4		J10		53,000	22,000	
May 6		J10	2,600		24,600	
May 9		J10		400	24,200	
May 19		J10		900	23,300	
May 20		J10	1,200		24,500	
May 21		J10		500	24,000	
May 23		J10	1,900		25,900	
May 31		J10		1,100	24,800	

**ACCOUNTS RECEIVABLE**

Account No. 120

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 17		J10	2,500		2,500	
May 23		J10		1,900	600	

**E2-19, cont.****OFFICE SUPPLIES**

Account No. 130

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 2		J10	500		500	

**PREPAID ADVERTISING**

Account No. 140

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 21		J10	500		500	

**BUILDING**

Account No. 150

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 4		J10	45,000		45,000	

**LAND**

Account No. 160

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 4		J10	8,000		8,000	

**ACCOUNTS PAYABLE**

Account No. 210

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 2		J10		500		500
May 9		J10	400			100

**UNEARNED REVENUE**

Account No. 220

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 20		J10		1,200		1,200

**WARD, CAPITAL**

Account No. 310

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 1		J10		75,000		75,000

**E2-19, cont.****SERVICE REVENUE**

Account No. 410

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 6		J10		2,600		2,600
May 17		J10		2,500		5,100

**RENT EXPENSE**

Account No. 510

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 19		J10	900		900	

**SALARIES EXPENSE**

Account No. 520

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
May 31		J10	1,100		1,100	

**E2-20**

1. The business received cash of \$370,000 from the owner and gave capital to Coughlato, the owner.
2. Paid \$360,000 cash for a building.
3. Borrowed \$260,000 cash, signing a notes payable.
4. Purchased office supplies on account, \$1,500.
5. Paid \$1,200 on accounts payable.
6. Paid property tax expense, \$1,500.
7. Paid rent \$1,400 and salaries \$2,500.
8. The owner, Coughlato withdrew \$7,000 cash from the business.
9. Performed services for customers and received cash, \$21,000.

## E2-21

<b>Date</b>	<b>Accounts and Explanation</b>	<b>Posting Ref.</b>	<b>Debit</b>	<b>Credit</b>
1.	Cash Adams, Capital <i>Owner contributed cash to business in exchange for capital.</i>		53,000	53,000
2.	Office Supplies Accounts Payable <i>Purchased office supplies on account.</i>		700	700
3.	Building Cash <i>Purchased building for cash.</i>		40,000	40,000
4.	Cash Notes Payable <i>Borrowed money signing a note payable.</i>		50,000	50,000
5.	Equipment Cash <i>Purchased equipment for cash.</i>		4,700	4,700



## E2-22

ATKINS MOVING COMPANY Trial Balance August 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 4,000	
Accounts Receivable	8,800	
Office Supplies	300	
Trucks	132,000	
Building	48,000	
Accounts Payable		\$ 4,000
Notes Payable		54,000
Atkins, Capital		72,000
Atkins, Withdrawals	5,400	
Service Revenue		80,000
Salaries Expense	7,000	
Fuel Expense	3,000	
Insurance Expense	600	
Utilities Expense	500	
Advertising Expense	400	
<b>Total</b>	<b>\$ 210,000</b>	<b>\$ 210,000</b>

**E2-23**

MCDONALD FARM EQUIPMENT REPAIR		
Trial Balance		
May 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 2,400	
Accounts Receivable	3,700	
Equipment	14,000	
Building	35,000	
Land	10,000	
Accounts Payable		\$ 4,000
Notes Payable		30,000
McDonald, Capital		34,000
McDonald, Withdrawals	1,800	
Service Revenue		6,500
Salaries Expense	6,500	
Property Tax Expense	800	
Advertising Expense	300	
<b>Total</b>	<b>\$ 74,500</b>	<b>\$ 74,500</b>

**E2-24**

**Requirement 2**

Date	Accounts and Explanation	Post Ref.	Debit	Credit
June 1	Cash	110	14,000	
	Office Furniture	140	5,200	
	Parker, Capital	310		19,200
5	Rent Expense	520	1,500	
	Cash	110		1,500
9	Office Supplies	130	900	
	Accounts Payable	210		900
14	Salaries Expense	510	1,700	
	Cash	110		1,700
18	Utilities Expense	530	250	
	Utilities Payable	220		250

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**E2-24, cont.**

21	Accounts Payable	210	700	
	Cash	110		700
25	Accounts Receivable	120	5,900	
	Service Revenue	410		5,900
28	Parker, Withdrawals	320	6,700	
	Cash	110		6,700

**Requirements 1 & 2**

**CASH**

Account No. 110

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 1		J10	14,000		14,000	
June 5		J10		1,500	12,500	
June 14		J10		1,700	10,800	
June 21		J10		700	10,100	
June 28		J10		6,700	3,400	

**ACCOUNTS RECEIVABLE**

Account No. 120

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 25		J10	5,900		5,900	

**OFFICE SUPPLIES**

Account No. 130

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 9		J10	900		900	

**OFFICE FURNITURE**

Account No. 140

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 1		J10	5,200		5,200	

**E2-24, cont.****ACCOUNTS PAYABLE**

Account No. 210

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 9		J10		900		900
June 21		J10	700			200

**UTILITIES PAYABLE**

Account No. 220

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 18		J10		250		250

**PARKER, CAPITAL**

Account No. 310

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 1		J10		19,200		19,200

**PARKER, WITHDRAWALS**

Account No. 320

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 28		J10	6,700		6,700	

**SERVICE REVENUE**

Account No. 410

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 25		J10		5,900		5,900

**SALARIES EXPENSE**

Account No. 510

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 14		J10	1,700		1,700	

**RENT EXPENSE**

Account No. 520

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 5		J10	1,500		1,500	

**E2-24, cont.**

**UTILITIES EXPENSE**

Account No. 530

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
June 18		J10	250		250	

**Requirement 3**

TERESA PARKER, CPA Trial Balance June 30, 2015			
Acct. No.	Account Title	Balance	
		Debit	Credit
110	Cash	\$ 3,400	
120	Accounts Receivable	5,900	
130	Office Supplies	900	
140	Office Furniture	5,200	
210	Accounts Payable		\$ 200
220	Utilities Payable		250
310	Parker, Capital		19,200
320	Parker, Withdrawals	6,700	
410	Service Revenue		5,900
510	Salaries Expense	1,700	
520	Rent Expense	1,500	
530	Utilities Expense	250	
	<b>Total</b>	<b>\$ 25,550</b>	<b>\$ 25,550</b>

**E2-25**  
**Requirements 1 and 2**

<b>Debits equal Credits,</b>				
	<b>Yes or No</b>	<b>Accounts</b>	<b>Amount</b>	<b>High or Low</b>
<b>a.</b>	No	Notes Payable	\$7,000	Low
<b>b.</b>	No	Utilities Expense	810	High
<b>c.</b>	Yes	Furniture	800	High
		Accounts Payable	800	High
<b>d.</b>	No	Cash	1,080	High
<b>e.</b>	Yes	Office Supplies	90	Low
		Accounts Payable	90	Low

**E2-26**

<b>METRO PAINTING SPECIALISTS</b> Trial Balance November 30, 2015		
<b>Account Title</b>	<b>Balance</b>	
	Debit	Credit
Cash	\$ 12,600	
Accounts Receivable	1,200	
Office Supplies	200	
Painting Equipment	14,500	
Accounts Payable		\$ 3,500
Unearned Revenue		2,000
White, Capital		15,000
White, Withdrawals	7,000	
Service Revenue		19,750
Advertising Expense	550	
Rent Expense	1,800	
Salaries Expense	2,100	
Utilities Expense	300	
<b>Total</b>	<b>\$ 40,250</b>	<b>\$ 40,250</b>

E2-27

JOY MCDOWELL TUTORING SERVICE		
Trial Balance		
May 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 3,500	
Accounts Receivable	1,500	
Office Supplies	600	
Computer Equipment	15,800	
Accounts Payable		\$ 12,000
Utilities Payable		700
McDowell, Capital		12,200
McDowell, Withdrawals	10,000	
Service Revenue		9,800
Salaries Expense	1,700	
Rent Expense	700	
Utilities Expense	900	
<b>Total</b>	<b>\$ 34,700</b>	<b>\$ 34,700</b>

Explanation:

- a. Increase Cash by \$500, decrease Accounts Receivable by \$500.
- b. Increase Accounts Payable by \$900 (\$1,000 – \$100).
- c. Increase Utilities Expense and Utilities Payable by \$400 each.
- d. Increase McDowell, Capital by \$600.

**E2-28**

## Liabilities:

Accounts Payable	\$ 2,000
Utilities Payable	935
Unearned Revenue	14,000
Notes Payable	<u>75,000</u>
Total liabilities	<u>\$ 91,935</u>

## Assets:

Cash	\$ 35,000
Accounts Receivable	7,250
Office Supplies	3,000
Office Equipment	25,000
Building	80,000
Land	<u>20,000</u>
Total assets	<u>\$ 170,250</u>

Debt ratio = Total liabilities / Total assets = \$91,935 / \$170,250 = 0.54 = 54%



## Problems (Group A)

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P2-29A

### Requirement 1

Date	Accounts and Explanation	Post Ref.	Debit	Credit
July 1	Cash		68,000	
	Yung, Capital			68,000
5	Rent Expense		560	
	Cash			560
9	Land		16,000	
	Cash			16,000
10	Office Supplies		1,600	
	Accounts Payable			1,600
19	Cash		23,000	
	Notes Payable			23,000
22	Accounts Payable		1,300	
	Cash			1,300
28	Advertising Expense		240	
	Advertising Payable			240
31	Cash		6,500	
	Accounts Receivable		5,800	
	Service Revenue			12,300
31	Salaries Expense		2,500	
	Rent Expense		1,000	
	Utilities Expense		400	
	Cash			3,900
31	Cash		1,140	
	Unearned Revenue			1,140
31	Yung, Withdrawals		7,000	

	Cash			7,000
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**P2-29A, cont.**  
**Requirement 2**

Cash			
Jul. 1	68,000	560	Jul. 5
Jul. 19	23,000	16,000	Jul. 9
Jul. 31	6,500	1,300	Jul. 22
Jul. 31	1,140	3,900	Jul. 31
		7,000	Jul. 31
Bal.	69,880		

Accounts Payable			
Jul. 22	1,300	1,600	Jul. 10
		300	Bal.

Advertising Payable		
	240	Jul. 28
	240	Bal.

Accounts Receivable	
Jul. 31	5,800
Bal.	5,800

Unearned Revenue		
	1,140	Jul. 31
	1,140	Bal.

Office Supplies	
Jul. 10	1,600
Bal.	1,600

Notes Payable		
	23,000	Jul. 19
	23,000	Bal.

Land	
Jul. 9	16,000
Bal.	16,000

Yung, Capital		
	68,000	Jul. 1
	68,000	Bal.

Yung, Withdrawals		
Jul. 31	7,000	
Bal.	7,000	

Service Revenue		
	12,300	Jul. 31
	12,300	Bal.

Salaries Expense		
Jul. 31	2,500	
Bal.	2,500	

Rent Expense		
Jul. 5	560	
Jul. 31	1,000	
Bal.	1,560	

Utilities Expense		
Jul. 31	400	
Bal.	400	

Advertising Expense

Jul. 28	240	
Bal.	240	

**P2-29A, cont.**  
**Requirement 3**

VERNON YUNG, MD Trial Balance July 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 69,880	
Accounts Receivable	5,800	
Office Supplies	1,600	
Land	16,000	
Accounts Payable		\$ 300
Advertising Payable		240
Unearned Revenue		1,140
Notes Payable		23,000
Yung, Capital		68,000
Yung, Withdrawals	7,000	
Service Revenue		12,300
Salaries Expense	2,500	
Rent Expense	1,560	
Utilities Expense	400	
Advertising Expense	240	
<b>Total</b>	<b>\$ 104,980</b>	<b>\$ 104,980</b>

**P2-30A**  
**Requirement 1**

<b>Date</b>	<b>Accounts and Explanation</b>	<b>Posting Ref.</b>	<b>Debit</b>	<b>Credit</b>
Sep. 1	Cash Stewart, Capital		42,000	42,000
4	Office Supplies Furniture Accounts Payable		700 1,900	2,600
6	Cash Service Revenue		1,400	1,400
7	Land Cash		24,000	24,000
10	Accounts Receivable Service Revenue		1,000	1,000
14	Accounts Payable Cash		1,900	1,900
15	Salaries Expense Cash		1,490	1,490
17	Cash Accounts Receivable		400	400
20	Accounts Receivable Service Revenue		700	700
25	Cash Unearned Revenue		1,800	1,800
28	Cash Service Revenue		2,100	2,100
29	Prepaid Insurance Cash		1,200	1,200
30	Salaries Expense Cash		1,490	1,490
30	Rent Expense Cash		650	650

**P2-30A, cont.**

30	Utilities Expense		350	
	Utilities Payable			350
30	Stewart, Withdrawals		3,000	
	Cash			3,000

**Requirements 2 and 3**

Sep. 1	42,000	24,000	Sep. 7
Sep. 6	1,400	1,900	Sep. 14
Sep. 17	400	1,490	Sep. 15
Sep. 25	1,800	1,200	Sep. 29
Sep. 28	2,100	1,490	Sep. 30
		650	Sep. 30
		3,000	Sep. 30
Bal.	13,970		

Sep. 14	1,900	2,600	Sep. 4
		700	Bal.

	350	Sep. 30
	350	Bal.

Sep. 10	1,000	400	Sep. 17
Sep. 20	700		
Bal.	1,300		

	1,800	Sep. 25
	1,800	Bal.

Sep. 4	700	
Bal.	700	

	42,000	Sep. 1
	42,000	Bal.

Sep. 29	1,200	
Bal.	1,200	

Sep. 30	3,000	
Bal.	3,000	

Sep. 4	1,900	
Bal.	1,900	

	1,400	Sep. 6
	1,000	Sep. 10
	700	Sep. 20
	2,100	Sep. 28
	5,200	Bal.

Sep. 7	24,000	
Bal.	24,000	

**P2-30A, cont.**

Salaries Expense	
Sep. 15	1,490
Sep. 30	1,490
Bal.	2,980

Rent Expense	
Sep. 30	650
Bal.	650

Utilities Expense	
Sep. 30	350
Bal.	350

**Requirement 4**

DORIS STEWART, DESIGNER Trial Balance September 30, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 13,970	
Accounts Receivable	1,300	
Office Supplies	700	
Prepaid Insurance	1,200	
Furniture	1,900	
Land	24,000	
Accounts Payable		\$ 700
Utilities Payable		350
Unearned Revenue		1,800
Stewart, Capital		42,000
Stewart, Withdrawals	3,000	
Service Revenue		5,200
Salaries Expense	2,980	
Rent Expense	650	
Utilities Expense	350	
<b>Total</b>	<b>\$ 50,050</b>	<b>\$ 50,050</b>

**P2-31A**

**Requirements 1 and 3**

<b>Date</b>	<b>Accounts and Explanation</b>	<b>Posting Ref.</b>	<b>Debit</b>	<b>Credit</b>
Jan. 1	Cash	101	59,000	
	Moore, Capital	301		59,000
3	Office Supplies	121	600	
	Furniture	141	2,000	
	Accounts Payable	201		2,600
4	Cash	101	1,300	
	Service Revenue	411		1,300
7	Building	151	100,000	
	Land	161	20,000	
	Cash	101		40,000
	Notes Payable	221		80,000
11	Accounts Receivable	111	700	
	Service Revenue	411		700
15	Salaries Expense	511	1,180	
	Cash	101		1,180
16	Accounts Payable	201	600	
	Cash	101		600
18	Cash	101	2,400	
	Service Revenue	411		2,400
19	Accounts Receivable	111	800	
	Service Revenue	411		800
25	Utilities Expense	531	400	
	Utilities Payable	211		400
29	Cash	101	700	
	Accounts Receivable	111		700
30	Prepaid Insurance	131	2,400	
	Cash	101		2,400
30	Salaries Expense	511	1,180	
	Cash	101		1,180

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**P2-31A, cont.**

31	Rent Expense	521	1,500	
	Cash	101		1,500
31	Moore, Withdrawals	311	2,400	
	Cash	101		2,400

**Requirements 2 and 3**

**CASH**

Account No. 101

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 1		J1	59,000		59,000	
Jan. 4		J1	1,300		60,300	
Jan. 7		J1		40,000	20,300	
Jan. 15		J1		1,180	19,120	
Jan. 16		J1		600	18,520	
Jan. 18		J1	2,400		20,920	
Jan. 29		J1	700		21,620	
Jan. 30		J1		2,400	19,220	
Jan. 30		J1		1,180	18,040	
Jan. 31		J1		1,500	16,540	
Jan. 31		J1		2,400	14,140	

**ACCOUNTS RECEIVABLE**

Account No. 111

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 11		J1	700		700	
Jan. 19		J1	800		1,500	
Jan. 29		J1		700	800	

**OFFICE SUPPLIES**

Account No. 121

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1	600		600	



**P2-31A, cont.****PREPAID INSURANCE**

Account No. 131

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 30		J1	2,400		2,400	

**FURNITURE**

Account No. 141

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1	2,000		2,000	

**BUILDING**

Account No. 151

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1	100,000		100,000	

**LAND**

Account No. 161

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1	20,000		20,000	

**ACCOUNTS PAYABLE**

Account No. 201

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 3		J1		2,600		2,600
Jan. 16		J1	600			2,000

**UTILITIES PAYABLE**

Account No. 211

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 25		J1		400		400

**NOTES PAYABLE**

Account No. 221

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 7		J1		80,000		80,000



**P2-31A, cont.**

**MOORE, CAPITAL**

Account No. 301

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 1		J1		59,000		59,000

**MOORE, WITHDRAWALS**

Account No. 311

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31		J1	2,400		2,400	

**SERVICE REVENUE**

Account No. 411

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 4		J1		1,300		1,300
Jan. 11		J1		700		2,000
Jan. 18		J1		2,400		4,400
Jan. 19		J1		800		5,200

**SALARIES EXPENSE**

Account No. 511

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 15		J1	1,180		1,180	
Jan. 30		J1	1,180		2,360	

**RENT EXPENSE**

Account No. 521

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31		J1	1,500		1,500	

**UTILITIES EXPENSE**

Account No. 531

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 25		J1	400		400	

**P2-31A, cont.**  
**Requirement 4**

TREVOR MOORE, ATTORNEY Trial Balance January 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 14,140	
Accounts Receivable	800	
Office Supplies	600	
Prepaid Insurance	2,400	
Furniture	2,000	
Building	100,000	
Land	20,000	
Accounts Payable		\$ 2,000
Utilities Payable		400
Notes Payable		80,000
Moore, Capital		59,000
Moore, Withdrawals	2,400	
Service Revenue		5,200
Salaries Expense	2,360	
Rent Expense	1,500	
Utilities Expense	400	
<b>Total</b>	<b>\$ 146,600</b>	<b>\$ 146,600</b>

**P2-32A**  
**Requirement 1**

Date	Accounts and Explanation	Post. Ref.	Debit	Credit
Feb. 4	Cash	11	4,000	
	Accounts Receivable	12		4,000
	<i>Received cash from client on account.</i>			
8	Accounts Receivable	12	4,600	
	Service Revenue	41		4,600
	<i>Performed tax services for client on account.</i>			
13	Accounts Payable	21	2,400	
	Cash	11		2,400

	<i>Paid cash on account.</i>			
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**P2-32A, cont.**

Feb. 14	Furniture	14	3,000	
	Accounts Payable	21		3,000
	<i>Purchased furniture on account.</i>			
15	Automobile	15	8,500	
	Mitchell, Capital	31		8,500
	<i>Owner contributed automobile to the business in exchange for capital.</i>			
18	Office Supplies	13	900	
	Accounts Payable	21		900
	<i>Purchased office supplies on account.</i>			
19	Cash	11	2,300	
	Accounts Receivable	12		2,300
	<i>Received cash on account.</i>			
20	Mitchell, Withdrawals	32	2,200	
	Cash	11		2,200
	<i>The owner withdrew cash from the business.</i>			
21	Cash	11	2,300	
	Service Revenue	41		2,300
	<i>Received cash for consulting work.</i>			
24	Cash	11	1,000	
	Unearned Revenue	22		1,000
	<i>Received payment for services to be performed next month.</i>			
27	Rent Expense	52	500	
	Cash	11		500
	<i>Paid office rent.</i>			
28	Salaries Expense	51	1,600	
	Cash	11		1,600
	<i>Paid employee salary.</i>			

**P2-32A, cont.**  
**Requirements 2 and 3**

**CASH**

Account No. 11

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31	Balance				7,000	
Feb. 4		J5	4,000		11,000	
Feb. 13		J5		2,400	8,600	
Feb. 19		J5	2,300		10,900	
Feb. 20		J5		2,200	8,700	
Feb. 21		J5	2,300		11,000	
Feb. 24		J5	1,000		12,000	
Feb. 27		J5		500	11,500	
Feb. 28		J5		1,600	9,900	

**ACCOUNTS RECEIVABLE**

Account No. 12

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31	Balance				10,500	
Feb. 4		J5		4,000	6,500	
Feb. 8		J5	4,600		11,100	
Feb. 19		J5		2,300	8,800	

**OFFICE SUPPLIES**

Account No. 13

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31	Balance				600	
Feb. 18		J5	900		1,500	

**FURNITURE**

Account No. 14

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Feb. 14		J5	3,000		3,000	

**AUTOMOBILE**

Account No. 15

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Feb. 15		J5	8,500		8,500	



**P2-32A, cont.**

**LAND**

Account No. 16

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31	Balance				17,000	

**ACCOUNTS PAYABLE**

Account No. 21

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31	Balance					4,700
Feb. 13		J5	2,400			2,300
Feb. 14		J5		3,000		5,300
Feb. 18		J5		900		6,200

**UNEARNED REVENUE**

Account No. 22

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Feb. 24		J5		1,000		1,000

**MITCHELL, CAPITAL**

Account No. 31

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Jan. 31	Balance					30,400
Feb. 15		J5		8,500		38,900

**MITCHELL, WITHDRAWALS**

Account No. 32

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Feb. 20		J5	2,200		2,200	

**SERVICE REVENUE**

Account No. 41

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Feb. 8		J5		4,600		4,600
Feb. 21		J5		2,300		6,900



**P2-32A, cont.**

**SALARIES EXPENSE**

Account No. 51

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Feb. 28		J5	1,600		1,600	

**RENT EXPENSE**

Account No. 52

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Feb. 27		J5	500		500	

**Requirement 4**

SAM MITCHELL, CPA Trial Balance February 28, 2015			
Acct. No.	Account Title	Balance	
		Debit	Credit
11	Cash	\$ 9,900	
12	Accounts Receivable	8,800	
13	Office Supplies	1,500	
14	Furniture	3,000	
15	Automobile	8,500	
16	Land	17,000	
21	Accounts Payable		\$ 6,200
22	Unearned Revenue		1,000
31	Mitchell, Capital		38,900
32	Mitchell, Withdrawals	2,200	
41	Service Revenue		6,900
51	Salaries Expense	1,600	
52	Rent Expense	500	
	<b>Total</b>	<b>\$ 53,000</b>	<b>\$ 53,000</b>

**P2-33A**

SMART TOTS CHILD CARE Trial Balance August 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 10,100	
Accounts Receivable	15,000	
Office Supplies	1,700	
Prepaid Insurance	3,200	
Equipment	78,500	
Accounts Payable		\$ 4,000
Notes Payable		50,000
Tilley, Capital		51,700
Tilley, Withdrawals	2,600	
Service Revenue		9,700
Salaries Expense	3,400	
Rent Expense	500	
Advertising Expense	400	
<b>Total</b>	<b>\$ 115,400</b>	<b>\$ 115,400</b>

Explanations:

- a. Increase Cash by \$1,000.
- b. Increase Accounts Receivable by \$8,000 ( $\$4,000 \times 2$ ).
- c. Increase Office Supplies and Accounts Payable by \$1,000 each.
- d. Decrease Equipment by \$8,500 ( $\$87,000 - \$78,500$ ).
- e. Decrease Salaries Expense by \$200.
- f. Advertising Expense should have a debit balance of \$400. Decrease Cash by \$400.
- g. Tilley, Withdrawals should decrease by \$1,800 and Cash should increase by \$1,800 ( $\$2,000 - \$200$ ).
- h. Service Revenue should increase by \$5,000.
- i. Prepaid Insurance should increase by \$2,400 ( $\$1,200 \times 2$ ).

**P2-34A**

TREASURE HUNT EXPLORATION COMPANY		
Trial Balance		
February 28, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 1,300	
Accounts Receivable	6,360	
Office Supplies	1,300	
Computers	16,490	
Exploration Equipment	49,000	
Accounts Payable		\$ 3,700
Notes Payable		18,500
Jones, Capital		50,000
Jones, Withdrawals	4,000	
Service Revenue		10,900
Salaries Expense	1,400	
Rent Expense	1,480	
Advertising Expense	900	
Utilities Expense	870	
<b>Total</b>	<b>\$ 83,100</b>	<b>\$ 83,100</b>

Explanations:

- a. Decrease cash by \$5,000.
- b. Increase Rent Expense by \$680 ( $\$340 \times 2$ ).
- c. Increase Service Revenue by \$6,800.
- d. Increase Accounts Receivable by \$360 ( $\$400 - \$40$ ).
- e. Increase Utilities Expense by \$70.
- f. Increase Office Supplies and Accounts Payable by \$900 each.
- g. Decrease Computers by \$5,810 ( $\$22,300 - \$16,490$ ).

**P2-35A**

**Requirement 1**

---

SHARON SILVER, REGISTERED DIETICIAN  
Income Statement  
Month Ended July 31, 2015

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Revenues:		
Service Revenue		\$ 8,800
Expenses:		
Salaries Expense	\$ 1,700	
Rent Expense	500	
Utilities Expense	150	
Total Expenses	<u>2,350</u>	
Net Income		<u>\$ 6,450</u>

---

**Requirement 2**

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SHARON SILVER, REGISTERED DIETICIAN  
Statement of Owner's Equity  
Month Ended July 31, 2015

---

Silver, Capital, July 1, 2015	\$ 0
Owner contribution	23,150
Net income for the month	<u>6,450</u>
	29,600
Owner withdrawal	<u>(2,300)</u>
Silver, Capital, July 31, 2015	<u>\$ 27,300</u>

---

**P2-35A, cont.**  
**Requirements 3**

---

SHARON SILVER, REGISTERED DIETICIAN  
 Balance Sheet  
 July 31, 2015

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	Assets		Liabilities
Cash	\$ 36,200	Accounts Payable	\$ 3,300
Accounts Receivable	9,100	Unearned Revenue	1,500
Office Supplies	1,800	Notes Payable	30,000
Prepaid Insurance	2,000	Total Liabilities	34,800
Equipment	13,000		
		Owner's Equity	
		Silver, Capital	27,300
Total Assets	\$ 62,100	Total Liabilities and Owner's Equity	\$ 62,100

---

**Requirement 4**

Debt ratio = Total liabilities / Total assets = \$34,800 / \$62,100 = 0.56\* = 56%

\*rounded

## Problems (Group B)

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### P2-36B

#### Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Mar. 1	Cash Rockford, Capital		74,000	74,000
5	Rent Expense Cash		560	560
9	Land Cash		24,000	24,000
10	Office Supplies Accounts Payable		1,300	1,300
19	Cash Notes Payable		19,000	19,000
22	Accounts Payable Cash		900	900
28	Advertising Expense Advertising Payable		120	120
31	Cash Accounts Receivable Service Revenue		7,100 4,700	11,800
31	Salaries Expense Rent Expense Utilities Expense Cash		2,000 1,600 320	3,920
31	Cash Unearned Revenue		1,400	1,400
31	Rockford, Withdrawals Cash		8,000	8,000

**P2-36B, cont.**  
**Requirement 2**

Cash			
Mar. 1	74,000	560	Mar. 5
Mar. 19	19,000	24,000	Mar. 9
Mar. 31	7,100	900	Mar. 22
Mar. 31	1,400	3,920	Mar. 31
		8,000	Mar. 31
Bal. 64,120			

Accounts Receivable	
Mar. 31	4,700
Bal.	4,700

Office Supplies	
Mar. 10	1,300
Bal.	1,300

Land	
Mar. 9	24,000
Bal.	24,000

Accounts Payable			
Mar. 22	900	1,300	Mar. 10
		400	Bal.

Advertising Payable		
	120	Mar. 28
	120	Bal.

Unearned Revenue		
	1,400	Mar. 31
	1,400	Bal.

Notes Payable		
	19,000	Mar. 19
	19,000	Bal.

Rockford, Capital		
	74,000	Mar. 1
	74,000	Bal.

Rockford, Withdrawals		
Mar. 31	8,000	
Bal.	8,000	

Service Revenue		
	11,800	Mar. 31
	11,800	Bal.

Salaries Expense		
Mar. 31	2,000	
Bal.	2,000	

Rent Expense		
Mar. 5	560	
Mar. 31	1,600	
Bal.	2,160	

Utilities Expense		
Mar. 31	320	
Bal.	320	

Advertising Expense		
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Mar. 28	120	
Bal.	120	



**P2-36B, cont.**  
**Requirement 3**

VINCE ROCKFORD, MD Trial Balance March 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 64,120	
Accounts Receivable	4,700	
Office Supplies	1,300	
Land	24,000	
Accounts Payable		\$ 400
Advertising Payable		120
Unearned Revenue		1,400
Notes Payable		19,000
Rockford, Capital		74,000
Rockford, Withdrawals	8,000	
Service Revenue		11,800
Salaries Expense	2,000	
Rent Expense	2,160	
Utilities Expense	320	
Advertising Expense	120	
<b>Total</b>	<b>\$ 106,720</b>	<b>\$ 106,720</b>

**P2-37B**

**Requirement 1**

<b>Date</b>	<b>Accounts and Explanation</b>	<b>Posting Ref.</b>	<b>Debit</b>	<b>Credit</b>
Nov. 1	Cash Nelson, Capital		34,000	34,000
4	Office Supplies Furniture Accounts Payable		500 1,900	2,400
6	Cash Service Revenue		1,200	1,200
7	Land Cash		25,000	25,000
10	Accounts Receivable Service Revenue		1,200	1,200
14	Accounts Payable Cash		1,900	1,900
15	Salaries Expense Cash		1,080	1,080
17	Cash Accounts Receivable		500	500
20	Accounts Receivable Service Revenue		800	800
25	Cash Unearned Revenue		1,800	1,800
28	Cash Service Revenue		2,200	2,200
29	Prepaid Insurance Cash		2,400	2,400
30	Salaries Expense Cash		1,080	1,080
30	Rent Expense		830	

	Cash			830
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**P2-37B, cont.**

Nov. 30	Utilities Expense		250	
	Utilities Payable			250
30	Nelson, Withdrawals		2,700	
	Cash			2,700

**Requirements 2 and 3**

Nov. 1	34,000	25,000	Nov. 7
Nov. 6	1,200	1,900	Nov. 14
Nov. 17	500	1,080	Nov. 15
Nov. 25	1,800	2,400	Nov. 29
Nov. 28	2,200	1,080	Nov. 30
		830	Nov. 30
		2,700	Nov. 30
Bal.	4,710		

Nov. 14	1,900	2,400	Nov. 4
		500	Bal.

	250	Nov. 30
	250	Bal.

Nov. 10	1,200	500	Nov. 17
Nov. 20	800		
Bal.	1,500		

	1,800	Nov. 25
	1,800	Bal.

Nov. 4	500	
Bal.	500	

	34,000	Nov. 1
	34,000	Bal.

Nov. 29	2,400	
Bal.	2,400	

Nov. 30	2,700	
Bal.	2,700	

Nov. 4	1,900	
Bal.	1,900	

	1,200	Nov. 6
	1,200	Nov. 10
	800	Nov. 20
	2,200	Nov. 28
	5,400	Bal.

Nov. 7	25,000	
Bal.	25,000	

Nov. 15	1,080	
Nov. 30	1,080	

Bal.	2,160	
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**P2-37B, cont.**

Rent Expense		
Nov. 30	830	
Bal.	830	

Utilities Expense		
Nov. 30	250	
Bal.	250	

**Requirement 4**

BETH NELSON, DESIGNER Trial Balance November 30, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 4,710	
Accounts Receivable	1,500	
Office Supplies	500	
Prepaid Insurance	2,400	
Furniture	1,900	
Land	25,000	
Accounts Payable		\$ 500
Utilities Payable		250
Unearned Revenue		1,800
Nelson, Capital		34,000
Nelson, Withdrawals	2,700	
Service Revenue		5,400
Salaries Expense	2,160	
Rent Expense	830	
Utilities Expense	250	
<b>Total</b>	<b>\$ 41,950</b>	<b>\$ 41,950</b>

**P2-38B**

**Requirement 1**

<b>Date</b>	<b>Accounts and Explanation</b>	<b>Posting Ref.</b>	<b>Debit</b>	<b>Credit</b>
Apr. 1	Cash	101	62,000	
	Perez, Capital	301		62,000
3	Office Supplies	121	500	
	Furniture	141	2,000	
	Accounts Payable	201		2,500
4	Cash	101	1,900	
	Service Revenue	411		1,900
7	Building	151	120,000	
	Land	161	30,000	
	Cash	101		50,000
	Notes Payable	221		100,000
11	Accounts Receivable	111	1,100	
	Service Revenue	411		1,100
15	Salaries Expense	511	920	
	Cash	101		920
16	Accounts Payable	201	500	
	Cash	101		500
18	Cash	101	1,700	
	Service Revenue	411		1,700
19	Accounts Receivable	111	700	
	Service Revenue	411		700
25	Utilities Expense	531	300	
	Utilities Payable	211		300
28	Cash	101	800	
	Accounts Receivable	111		800
29	Prepaid Insurance	131	1,200	
	Cash	101		1,200
29	Salaries Expense	511	920	
	Cash	101		920

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**P2-38B, cont.**

Apr. 30	Rent Expense	521	730	
	Cash	101		730
30	Perez, Withdrawals	311	2,700	
	Cash	101		2,700

**Requirements 2 and 3**

**CASH**

Account No. 101

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 1		J1	62,000		62,000	
Apr. 4		J1	1,900		63,900	
Apr. 7		J1		50,000	13,900	
Apr. 15		J1		920	12,980	
Apr. 16		J1		500	12,480	
Apr. 18		J1	1,700		14,180	
Apr. 28		J1	800		14,980	
Apr. 29		J1		1,200	13,780	
Apr. 29		J1		920	12,860	
Apr. 30		J1		730	12,130	
Apr. 30		J1		2,700	9,430	

**ACCOUNTS RECEIVABLE**

Account No. 111

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 11		J1	1,100		1,100	
Apr. 19		J1	700		1,800	
Apr. 28		J1		800	1,000	

**OFFICE SUPPLIES**

Account No. 121

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 3		J1	500		500	

**PREPAID INSURANCE**

Account No. 131

Date	Item	Post Ref.	Debit	Credit	Balance
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					Debit	Credit
Apr. 29		J1	1,200		1,200	

**P2-38B, cont.**

**FURNITURE**

Account No. 141

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 3		J1	2,000		2,000	

**BUILDING**

Account No. 151

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1	120,000		120,000	

**LAND**

Account No. 161

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1	30,000		30,000	

**ACCOUNTS PAYABLE**

Account No. 201

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 3		J1		2,500		2,500
Apr. 16		J1	500			2,000

**UTILITIES PAYABLE**

Account No. 211

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 25		J1		300		300

**NOTES PAYABLE**

Account No. 221

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 7		J1		100,000		100,000

**PEREZ, CAPITAL**

Account No. 301

Date	Item	Post Ref.	Debit	Credit	Balance
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					Debit	Credit
Apr. 1		J1		62,000		62,000

**P2-38B, cont.**

PEREZ, WITHDRAWALS

Account No. 311

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 30		J1	2,700		2,700	

SERVICE REVENUE

Account No. 411

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 4		J1		1,900		1,900
Apr. 11		J1		1,100		3,000
Apr. 18		J1		1,700		4,700
Apr. 19		J1		700		5,400

SALARIES EXPENSE

Account No. 511

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 15		J1	920		920	
Apr. 29		J1	920		1,840	

RENT EXPENSE

Account No. 521

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 30		J1	730		730	

UTILITIES EXPENSE

Account No. 531

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 25		J1	300		300	

**P2-38B, cont.**  
**Requirement 4**

VINCE PEREZ, ATTORNEY Trial Balance April 30, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 9,430	
Accounts Receivable	1,000	
Office Supplies	500	
Prepaid Insurance	1,200	
Furniture	2,000	
Building	120,000	
Land	30,000	
Accounts Payable		\$ 2,000
Utilities Payable		300
Notes Payable		100,000
Perez, Capital		62,000
Perez, Withdrawals	2,700	
Service Revenue		5,400
Salaries Expense	1,840	
Rent Expense	730	
Utilities Expense	300	
<b>Total</b>	<b>\$ 169,700</b>	<b>\$ 169,700</b>

**P2-39B**

**Requirement 1**

<b>Date</b>	<b>Accounts and Explanation</b>	<b>Posting Ref.</b>	<b>Debit</b>	<b>Credit</b>
Apr. 4	Cash Accounts Receivable <i>Received cash from client on account.</i>	11 12	7,000	7,000
8	Accounts Receivable Service Revenue <i>Performed tax services for client on account.</i>	12 41	5,000	5,000
13	Accounts Payable Cash <i>Paid cash on account.</i>	21 11	2,500	2,500
14	Furniture Accounts Payable <i>Purchased furniture on account.</i>	14 21	4,000	4,000
15	Automobile Hilton, Capital <i>Owner contributed automobile to the business in exchange for capital.</i>	15 31	10,500	10,500
18	Office Supplies Accounts Payable <i>Purchased office supplies on account.</i>	13 21	600	600
19	Cash Accounts Receivable <i>Received cash on account.</i>	11 12	2,100	2,100
20	Hilton, Withdrawals Cash <i>The owner withdrew cash from the business.</i>	32 11	2,300	2,300
21	Cash Service Revenue <i>Received cash for consulting work.</i>	11 41	2,100	2,100
24	Cash Unearned Revenue <i>Received payment for services to be</i>	11 22	3,000	3,000

	<i>performed next month.</i>			
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**P2-39B, cont.**

Apr. 27	Rent Expense	52	300	
	Cash	11		300
	<i>Paid office rent.</i>			
28	Salaries Expense	51	1,300	
	Cash	11		1,300
	<i>Paid employee salary.</i>			

**Requirements 2 and 3**

**CASH**

Account No. 11

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				5,000	
Apr. 4		J5	7,000		12,000	
Apr. 13		J5		2,500	9,500	
Apr. 19		J5	2,100		11,600	
Apr. 20		J5		2,300	9,300	
Apr. 21		J5	2,100		11,400	
Apr. 24		J5	3,000		14,400	
Apr. 27		J5		300	14,100	
Apr. 28		J5		1,300	12,800	

**ACCOUNTS RECEIVABLE**

Account No. 12

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				8,100	
Apr. 4		J5		7,000	1,100	
Apr. 8		J5	5,000		6,100	
Apr. 19		J5		2,100	4,000	

**OFFICE SUPPLIES**

Account No. 13

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				800	
Apr. 18		J5	600		1,400	

**P2-39B, cont.**

**FURNITURE**

Account No. 14

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 14		J5	4,000		4,000	

**AUTOMOBILE**

Account No. 15

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 15		J5	10,500		10,500	

**LAND**

Account No. 16

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance				14,000	

**ACCOUNTS PAYABLE**

Account No. 21

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					4,200
Apr. 13		J5	2,500			1,700
Apr. 14		J5		4,000		5,700
Apr. 18		J5		600		6,300

**UNEARNED REVENUE**

Account No. 22

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 24		J5		3,000		3,000

**HILTON, CAPITAL**

Account No. 31

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Mar. 31	Balance					23,700
Apr. 15		J5		10,500		34,200

**HILTON, WITHDRAWALS**

Account No. 32

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit

Apr. 20		J5	2,300		2,300	
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**P2-39B, cont.**

**SERVICE REVENUE**

Account No. 41

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 8		J5		5,000		5,000
Apr. 21		J5		2,100		7,100

**SALARIES EXPENSE**

Account No. 51

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 28		J5	1,300		1,300	

**RENT EXPENSE**

Account No. 52

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
Apr. 27		J5	300		300	

**Requirement 4**

		JOHN HILTON, CPA Trial Balance April 30, 2015	
Acct. No.	Account Title	Balance	
		Debit	Credit
11	Cash	\$ 12,800	
12	Accounts Receivable	4,000	
13	Office Supplies	1,400	
14	Furniture	4,000	
15	Automobile	10,500	
16	Land	14,000	
21	Accounts Payable		\$ 6,300
22	Unearned Revenue		3,000
31	Hilton, Capital		34,200
32	Hilton, Withdrawals	2,300	
41	Service Revenue		7,100
51	Salaries Expense	1,300	
52	Rent Expense	300	
	<b>Total</b>	<b>\$ 50,600</b>	<b>\$ 50,600</b>

**P2-40B**

BUILDING BLOCKS CHILD CARE		
Trial Balance		
May 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 10,900	
Accounts Receivable	7,000	
Office Supplies	1,900	
Prepaid Insurance	4,400	
Equipment	87,700	
Accounts Payable		\$ 8,200
Notes Payable		50,000
Estella, Capital		50,800
Estella, Withdrawals	1,700	
Service Revenue		8,700
Salaries Expense	3,100	
Rent Expense	700	
Advertising Expense	300	
<b>Total</b>	<b>\$ 117,700</b>	<b>\$ 117,700</b>

Explanations:

- a. Increase Cash by \$4,000.
- b. Increase Accounts Receivable by \$4,000 ( $\$2,000 \times 2$ ).
- c. Increase Office Supplies and Accounts Payable by \$1,200 each.
- d. Decrease Equipment by \$300 ( $\$88,000 - \$87,700$ ).
- e. Decrease Salaries Expense by \$100.
- f. Advertising Expense should have a debit balance of \$300. Decrease Cash by \$300.
- g. Estella, Withdrawals should decrease by \$900 and Cash should increase by \$900 ( $\$1,000 - \$100$ ).
- h. Service Revenue should increase by \$4,000.
- i. Prepaid Insurance should increase by \$4,000 ( $\$2,000 \times 2$ ).

**P2-41B**

OCEAN DIVERS EXPLORATION COMPANY		
Trial Balance		
July 31, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 5,600	
Accounts Receivable	9,450	
Office Supplies	800	
Computers	17,160	
Exploration Equipment	46,000	
Accounts Payable		\$ 3,500
Notes Payable		18,900
Indiana, Capital		50,100
Indiana, Withdrawals	1,000	
Service Revenue		10,900
Salaries Expense	1,800	
Rent Expense	700	
Advertising Expense	100	
Utilities Expense	790	
<b>Total</b>	<b>\$ 83,400</b>	<b>\$ 83,400</b>

Explanations:

- a. Decrease cash by \$1,000.
- b. Increase Rent Expense by \$600 ( $\$300 \times 2$ ).
- c. Increase Service Revenue by \$6,000.
- d. Increase Accounts Receivable by \$450 ( $\$500 - \$50$ ).
- e. Increase Utilities Expense by \$90.
- f. Increase Office Supplies and Accounts Payable by \$600 each.
- g. Decrease Computers by \$5,440 ( $\$22,600 - \$17,160$ ).



**P2-42B****Requirement 1**

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SHERMANA PETERS, REGISTERED DIETICIAN  
Income Statement  
Month Ended July 31, 2015

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## Revenues:

Service Revenue	\$ 7,000
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## Expenses:

Salaries Expense	\$ 1,500
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Rent Expense	300
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Utilities Expense	200
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Total Expenses	<u>2,000</u>
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Net Income	<u>\$ 5,000</u>
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**Requirement 2**

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SHERMANA PETERS, REGISTERED DIETICIAN  
Statement of Owner's Equity  
Month Ended July 31, 2015

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Peters, Capital, July 1, 2015	\$ 0
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Owner contribution	21,700
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Net income for the month	<u>5,000</u>
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	\$ 26,700
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Owner withdrawal	<u>(2,200)</u>
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Peters, Capital, July 31, 2015	<u>\$ 24,500</u>
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**P2-42B, cont.**  
**Requirement 3**

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SHERMANA PETERS, REGISTERED DIETICIAN  
 Balance Sheet  
 July 31, 2015

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	Assets		Liabilities
Cash	\$ 36,800	Accounts Payable	\$ 3,700
Accounts Receivable	5,500	Unearned Revenue	2,500
Office Supplies	1,400	Notes Payable	30,000
Prepaid Insurance	1,000	Total Liabilities	\$ 36,200
Equipment	16,000		
		Owner's Equity	
		Peters, Capital	\$ 24,500
Total Assets	\$ 60,700	Total Liabilities and Owner's Equity	\$ 60,700

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**Requirement 4**

Debt ratio = Total liabilities / Total assets = \$36,200 / \$60,700 = 0.60\* = 60%

\* rounded

## Continuing Problem

P2-43

Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Dec. 2	Cash Davis, Capital		18,000	18,000
2	Rent Expense Cash		550	550
3	Equipment Cash		1,800	1,800
4	Furniture Accounts Payable		4,200	4,200
5	Office Supplies Accounts Payable		900	900
9	Accounts Receivable Service Revenue		1,500	1,500
12	Utilities Expense Cash		250	250
18	Cash Service Revenue		1,100	1,100
21	Cash Unearned Revenue		1,400	1,400
21	<i>No entry needed</i>			
26	Accounts Payable Cash		400	400
28	Cash Accounts Receivable		300	300
30	Davis, Withdrawals Cash		1,400	1,400



**P2-43, cont.**

**Requirements 2 and 3**

Cash			
Dec. 2	18,000	550	Dec. 2
Dec. 18	1,100	1,800	Dec. 3
Dec. 21	1,400	250	Dec. 12
Dec. 28	300	400	Dec. 26
		1,400	Dec. 30
Balance	16,400		

Accounts Payable			
Dec. 26	400	4,200	Dec. 4
		900	Dec. 5
		4,700	Balance

Accounts Receivable			
Dec. 9	1,500	300	Dec. 28
Balance	1,200		

Unearned Revenue		
	1,400	Dec. 21
	1,400	Balance

Office Supplies		
Dec. 5	900	
Balance	900	

Davis, Capital		
	18,000	Dec. 2
	18,000	Balance

Equipment		
Dec. 3	1,800	
Balance	1,800	

Davis, Withdrawals		
Dec. 30	1,400	
Balance	1,400	

Furniture		
Dec. 4	4,200	
Balance	4,200	

Service Revenue		
	1,500	Dec. 9
	1,100	Dec. 18
	2,600	Balance

Rent Expense		
Dec. 2	550	
Balance	550	

Utilities Expense		
Dec. 12	250	
Balance	250	

**P2-43, cont.**  
**Requirement 4**

DAVIS CONSULTING Trial Balance December 31, 2014		
Account Title	Balance	
	Debit	Credit
Cash	\$ 16,400	
Accounts Receivable	1,200	
Office Supplies	900	
Equipment	1,800	
Furniture	4,200	
Accounts Payable		\$ 4,700
Unearned Revenue		1,400
Davis, Capital		18,000
Davis, Withdrawals	1,400	
Service Revenue		2,600
Rent Expense	550	
Utilities Expense	250	
<b>Total</b>	<b>\$ 26,700</b>	<b>\$ 26,700</b>

**Requirement 5**

DAVIS CONSULTING Income Statement Month Ended December 31, 2014		
Revenues:		
Service Revenue		\$ 2,600
Expenses:		
Rent Expense	\$ 550	
Utilities Expense	250	
Total Expenses		<u>800</u>
Net Income		<u><u>\$ 1,800</u></u>

**P2-43, cont.**  
**Requirement 6**

DAVIS CONSULTING	
Statement of Owner's Equity	
Month Ended December 31, 2014	
Davis, Capital, December 1, 2014	\$ 0
Owner contribution	18,000
Net income for the month	1,800
	<u>\$ 19,800</u>
Owner withdrawal	(1,400)
Davis, Capital, December 31, 2014	<u>\$ 18,400</u>

**Requirement 7**

DAVIS CONSULTING				
Balance Sheet				
December 31, 2014				
	Assets		Liabilities	
Cash	\$ 16,400	Accounts Payable		\$ 4,700
Accounts Receivable	1,200	Unearned Revenue		1,400
Office Supplies	900	Total Liabilities		<u>\$ 6,100</u>
Equipment	1,800			
Furniture	<u>4,200</u>			
		Owner's Equity		
		Davis, Capital		\$ 18,400
Total Assets	<u>\$ 24,500</u>	Total Liabilities and Owner's Equity		<u>\$ 24,500</u>

**Requirement 8**

Debt ratio = Total liabilities / Total assets = \$6,100 / \$24,500 = 0.25\* = 25%

\* rounded

## Practice Set

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P2-44

### Requirement 1

Date	Accounts and Explanation	Posting Ref.	Debit	Credit
Nov. 1	Cash		35,000	
	Truck		8,000	
	Hudson, Capital			43,000
2	Prepaid Rent		2,000	
	Cash			2,000
3	Prepaid Insurance		2,400	
	Cash			2,400
4	Cleaning Supplies		270	
	Accounts Payable			270
5	Equipment		1,000	
	Accounts Payable			1,000
7	Equipment		1,200	
	Cash			1,200
9	Accounts Receivable		3,000	
	Service Revenue			3,000
10	Cash		100	
	Accounts Receivable			100
15	Salaries Expense		500	
	Cash			500
16	Cash		3,600	
	Unearned Revenue			3,600
17	Cash		800	
	Service Revenue			800
18	Utilities Expense		175	
	Accounts Payable			175
20	Cash		40,000	
	Notes Payable			40,000





**P2-44, cont.**

Nov. 21	Cash		900	
	Accounts Receivable			900
25	Accounts Payable		500	
	Cash			500
29	Advertising Expense		100	
	Cash			100
30	Hudson, Withdrawals		600	
	Cash			600

**P2-44, cont.**  
**Requirements 2 and 3**

Cash			
Nov. 1	35,000	2,000	Nov. 2
Nov. 10	100	2,400	Nov. 3
Nov. 16	3,600	1,200	Nov. 7
Nov. 17	800	500	Nov. 15
Nov. 20	40,000	500	Nov. 25
Nov. 21	900	100	Nov. 29
		600	Nov. 30
Balance	73,100		

Accounts Payable			
Nov. 25	500	270	Nov. 4
		1,000	Nov. 5
		175	Nov. 18
		945	Balance

Accounts Receivable			
Nov. 9	3,000	100	Nov. 10
		900	Nov. 21
Balance	2,000		

Unearned Revenue		
	3,600	Nov. 16
	3,600	Balance

Cleaning Supplies		
Nov. 4	270	
Balance	270	

Notes Payable		
	40,000	Nov. 20
	40,000	Balance

Prepaid Rent		
Nov. 2	2,000	
Balance	2,000	

Hudson, Capital		
	43,000	Nov. 1
	43,000	Balance

Prepaid Insurance		
Nov. 3	2,400	
Balance	2,400	

Hudson, Withdrawals		
Nov. 30	600	
Balance	600	

Equipment		
Nov. 5	1,000	
Nov. 7	1,200	
Balance	2,200	

Service Revenue		
	3,000	Nov. 9
	800	Nov. 17
	3,800	Balance

Truck		
Nov. 1	8,000	
Balance	8,000	

Salaries Expense		
Nov. 15	500	
Balance	500	

Advertising Expense		
Nov. 29	100	
Balance	100	

Utilities Expense		
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Nov. 18	175	
Balance	175	

**P2-44, cont.**  
**Requirement 4**

SHINE KING CLEANING Trial Balance November 30, 2015		
Account Title	Balance	
	Debit	Credit
Cash	\$ 73,100	
Accounts Receivable	2,000	
Cleaning Supplies	270	
Prepaid Rent	2,000	
Prepaid Insurance	2,400	
Equipment	2,200	
Truck	8,000	
Accounts Payable		\$ 945
Unearned Revenue		3,600
Notes Payable		40,000
Hudson, Capital		43,000
Hudson, Withdrawals	600	
Service Revenue		3,800
Salaries Expense	500	
Advertising Expense	100	
Utilities Expense	175	
<b>Total</b>	<b>\$ 91,345</b>	<b>\$ 91,345</b>

## Critical Thinking

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### Decision Case 2-1 Requirements 1 and 2

Cash	
a. 10,000	300 b.
f. 1,200	2,400 d.
Bal. 8,500	

Accounts Payable	
	700 c.
	700 Bal.

Accounts Receivable	
e. 8,800	1,200 f.
Bal. 7,600	

McChesney, Capital	
	10,000 a.
	10,000 Bal.

Office Supplies	
b. 300	
Bal. 300	

Service Revenue	
	8,800 e.
	8,800 Bal.

Salaries Expense	
d. 1,400	
Bal. 1,400	

Rent Expense	
d. 1,000	
Bal. 1,000	

Advertising Expense	
c. 700	
Bal. 700	

**Decision Case 2-1, cont.**  
**Requirement 3**

A-PLUS TRAVEL PLANNERS Trial Balance June 30, 2016		
Account Title	Balance	
	Debit	Credit
Cash	\$ 8,500	
Accounts Receivable	7,600	
Office Supplies	300	
Accounts Payable		\$ 700
McChesney, Capital		10,000
Service Revenue		8,800
Salaries Expense	1,400	
Rent Expense	1,000	
Advertising Expense	700	
<b>Total</b>	<b>\$ 19,500</b>	<b>\$ 19,500</b>

**Requirement 4**

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Revenues:		
Service Revenue		\$ 8,800
Expenses:		
Salaries Expense	\$ 1,400	
Rent Expense	1,000	
Advertising Expense	700	
Total Expenses		3,100
Net Income		\$ 5,700

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McChesney should discontinue the business because net income falls below the target amount.

## **Decision Case 2-2**

### **Requirement 1**

The advantage of double-entry bookkeeping is that it provides an arithmetic check on the accounting transactions; the total debits and total credits have to equal, and something is wrong if they don't. Double-entry bookkeeping can also handle a higher number of transactions than using the accounting equation.

### **Requirement 2**

The bank uses the term "credit your account" when you deposit money, because it is crediting a liability on their books. They owe you the funds that you just deposited.

## **Ethical Issue 2-1**

The bank has a standing agreement with Better Days Ahead for overdrafts, so as long as transactions are compliant with terms of the agreement, there is no ethical issue. The exercise refers to Better Days Ahead managing funds "wisely." However, whether funds are managed wisely or not is a matter of prudent business management and not an ethical issue. Presumably if Better Days Ahead was exceeding the terms of the agreement, the bank would cancel the arrangement.

Some students may point out that the agreement was for times when donations were running low, whereas the reasons given for the overdraft are for expansion and fundraising. If this is interpreted to mean that Better Days Ahead is abusing the privilege according to the terms of the agreement, then there may be an ethical issue involved, but that is not made clear by the information given.

Students may approve of Henson's cash management if the arrangement is beneficial to Better Days Ahead, and thus helps them accomplish their charitable mission more effectively. Students may disapprove of Henson's cash management if (a) they feel it is "unwise" (poor business management), or (b) if they believe he is exceeding the terms of the agreement.

## **Fraud Case 2-1**

### **Requirement 1**

By changing an expense to an asset, the total expenses will decrease and net income will increase.

### **Requirement 2**

The CEO gained by earning a bonus, and the accounting manager may have gained by getting favorable treatment from the CEO. The shareholders of the company lost, because the company paid out the bonus under fraudulent conditions.



### **Financial Statement Case 2-1**

#### **Requirement 1**

Debt ratio = Total liabilities / Total assets  
= \$2,973.1 (in millions) / \$7,360.4 (in millions)  
= 0.403\* = 40.3%  
\* rounded

#### **Requirement 2**

Starbucks has approximately the same debt ratio than Green Mountain (40.0%).

### **Team Project 2-1**

#### **Requirements 1 and 2**

Student answers will vary widely, as the various groups use the charts of accounts of different businesses. The financial statements that the students prepare should be consistent with the business's chart of accounts.

#### **Communication Activity 2-1**

Debits are on the left, credits are on the right. Normal balance for assets, expenses, and withdrawals is a debit. For liability, equity, and revenue accounts, the normal balance is a credit.