

CHAPTER 3

The Accounting Information System

Learning Objectives

1. Analyze the effect of business transactions on the basic accounting equation.
2. Explain what an account is and how it helps in the recording process.
3. Define debits and credits and explain how they are used to record business transactions.
4. Identify the basic steps in the recording process.
5. Explain what a journal is and how it helps in the recording process.
6. Explain what a ledger is and how it helps in the recording process.
7. Explain what posting is and how it helps in the recording process.
8. Explain the purposes of a trial balance.
9. Classify cash activities as operating, investing, or financing.

Summary of Questions by Learning Objectives and Bloom's Taxonomy

| Item | LO | BT | Item | LO | BT | Item | LO | BT | Item | LO | BT | Item | LO | BT |
|--------------------------------|------|----|------|------------|----|------|------------|----|------|------------|----|------|----|----|
| Questions | | | | | | | | | | | | | | |
| 1. | 4 | C | 6. | 3 | C | 11. | 3 | K | 16. | 5 | K | 21. | 7 | K |
| 2. | 1 | C | 7. | 3 | C | 12. | 3 | K | 17. | 5 | K | 22. | 8 | AN |
| 3. | 1 | C | 8. | 3 | C | 13. | 3 | K | 18. | 5 | AP | | | |
| 4. | 1 | K | 9. | 3 | K | 14. | 3 | K | 19. | 6 | C | | | |
| 5. | 2 | K | 10. | 3 | K | 15. | 4 | K | 20. | 8 | C | | | |
| Brief Exercises | | | | | | | | | | | | | | |
| 1. | 1 | C | 4. | 3 | K | 7. | 4 | C | 9. | 5 | AP | 11. | 8 | AP |
| 2. | 1 | AP | 5. | 3 | C | 8. | 4 | C | 10. | 7 | AP | 12. | 8 | AP |
| 3. | 1 | AP | 6. | 5 | AP | | | | | | | | | |
| Do It! Review Exercises | | | | | | | | | | | | | | |
| 1. | 1 | C | 2. | 2, 3 | C | 3. | 4, 5 | AP | 4. | 6, 7 | AP | | | |
| Exercises | | | | | | | | | | | | | | |
| 1. | 1 | C | 5. | 1 | AP | 8. | 5 | AP | 12. | 5, 8 | AP | 15. | 8 | AN |
| 2. | 1 | AP | 6. | 3, 5 | AP | 9. | 4, 5 | AP | 13. | 7, 8 | AP | 16. | 8 | AP |
| 3. | 1 | AP | 7. | 3 | C | 10. | 7, 8 | AP | 14. | 5, 8 | AP | 17. | 3 | K |
| 4. | 1 | AP | | | | 11. | 1, 5, 7 | AP | | | | 18. | 9 | AP |
| | | | | | | | | | | | | 19. | 9 | AP |
| Problems: Set A | | | | | | | | | | | | | | |
| 1. | 1 | AP | 5. | 5, 6, 7, 8 | AP | 6. | 5, 6, 7, 8 | AP | 7. | 8 | AN | 9. | 8 | AN |
| 2. | 1 | AP | | | | | | | 8. | 5, 6, 7, 8 | AP | | | |
| 3. | 1 | AP | | | | | | | | | | | | |
| 4. | 4, 5 | AP | | | | | | | | | | | | |
| Problems: Set B | | | | | | | | | | | | | | |
| 1. | 1 | AP | 5. | 5, 6, 7, 8 | AP | 6. | 5, 6, 7, 8 | AP | 7. | 8 | AN | 9. | 8 | AN |
| 2. | 1 | AP | | | | | | | 8. | 5, 6, 7, 8 | AP | | | |
| 3. | 1 | AP | | | | | | | | | | | | |
| 4. | 4, 5 | AP | | | | | | | | | | | | |

ASSIGNMENT CHARACTERISTICS TABLE

| Problem Number | Description | Difficulty Level | Time Allotted (min.) |
|-----------------------|---|-------------------------|-----------------------------|
| 1A | Analyze transactions and compute net income. | Moderate | 40–50 |
| 2A | Analyze transactions and prepare financial statements. | Moderate | 40–50 |
| 3A | Analyze transactions and prepare an income statement, retained earnings statement, and balance sheet. | Moderate | 50–60 |
| 4A | Journalize a series of transactions. | Simple | 20–30 |
| 5A | Journalize transactions, post, and prepare a trial balance. | Simple | 30–40 |
| 6A | Journalize transactions, post, and prepare a trial balance. | Moderate | 40–50 |
| 7A | Prepare a correct trial balance. | Moderate | 30–40 |
| 8A | Journalize transactions, post, and prepare a trial balance. | Moderate | 40–50 |
| 9A | Analyze errors and their effects on the trial balance. | Moderate | 30–40 |
| 1B | Analyze transactions and compute net income. | Moderate | 40–50 |
| 2B | Analyze transactions and prepare financial statements. | Moderate | 40–50 |
| 3B | Analyze transactions and prepare an income statement, retained earnings statement, and balance sheet. | Moderate | 50–60 |
| 4B | Journalize a series of transactions. | Simple | 20–30 |
| 5B | Journalize transactions, post, and prepare a trial balance. | Simple | 30–40 |
| 6B | Journalize transactions, post, and prepare a trial balance. | Moderate | 40–50 |
| 7B | Prepare a correct trial balance. | Moderate | 30–40 |
| 8B | Journalize transactions, post, and prepare a trial balance. | Moderate | 40–50 |
| 9B | Analyze errors and their effects on the trial balance | Moderate | 30–40 |

ANSWERS TO QUESTIONS

1. The system of collecting and processing transaction data and communicating financial information to decision makers is known as the accounting information system.
2. Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the equipment account which is offset by a decrease in the cash account is a specific example.
3. Accounting transactions are the economic events of the company recorded by accountants because they affect the basic accounting equation.
 - (a) The death of a major stockholder of the company is not an accounting transaction as it does not affect the basic accounting equation.
 - (b) Supplies purchased on account is an accounting transaction because it affects the basic accounting equation.
 - (c) An employee being fired is not an accounting transaction as it does not affect the basic accounting equation.
 - (d) Paying a cash dividend to stockholders is an accounting transaction as it does affect the basic accounting equation.
4.
 - (a) Decrease assets and decrease stockholders' equity.
 - (b) Increase assets and decrease assets.
 - (c) Increase assets and increase stockholders' equity.
 - (d) Decrease assets and decrease liabilities.
5. An account consists of three parts: (a) the title, (b) the left or debit side, and (c) the right or credit side. Because the alignment of these parts resembles the letter T, it is referred to as a T account.
6. Disagree. The terms debit and credit are synonymous with left and right, respectively.
7. Terry is incorrect. The double-entry system merely records the dual (two-sided) effect of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once, and must affect two or more accounts to keep the basic accounting equation in balance. In other words, for each transaction, debits must equal credits.
8. Misty is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favorable or unfavorable.
9.
 - (a) Asset accounts are increased by debits and decreased by credits.
 - (b) Liability accounts are decreased by debits and increased by credits.
 - (c) The common stock account is decreased by debits and increased by credits.

Questions Chapter 3 (Continued)

10. (a) Accounts Receivable—debit balance.
 (b) Cash—debit balance.
 (c) Dividends—debit balance.
 (d) Accounts Payable—credit balance.
 (e) Service Revenue—credit balance.
 (f) Salaries and Wages Expense—debit balance.
 (g) Common Stock—credit balance.
11. (a) Accounts Receivable—asset—debit balance.
 (b) Accounts Payable—liability—credit balance.
 (c) Equipment—asset—debit balance.
 (d) Dividends—stockholders' equity—debit balance.
 (e) Supplies—asset—debit balance.
12. (a) Debit Supplies and credit Accounts Payable.
 (b) Debit Cash and credit Notes Payable.
 (c) Debit Salaries and Wages Expense and credit Cash.
13. (a) Cash—both debit and credit entries.
 (b) Accounts Receivable—both debit and credit entries.
 (c) Dividends—debit entries only.
 (d) Accounts Payable—both debit and credit entries.
 (e) Salaries and Wages Expense—debit entries only.
 (f) Service Revenue—credit entries only.
14. Normal balances for accounts in Tootsie Roll's financial statements: Accounts Receivable—debit; Income Taxes Payable—credit; Sales—credit; Selling, Marketing, and Administrative Expenses—debit.
15. The basic steps in the recording process are:
 (1) Analyze each transaction in terms of its effect on the accounts.
 (2) Enter the transaction information in a journal.
 (3) Transfer the journal information to the appropriate accounts in the ledger.
16. (a) The debit should be entered first.
 (b) The credit should be indented.
17. (a) No, debits and credits should not be recorded directly in the ledger.
 (b) The advantages of using the journal are:
 (1) It discloses in one place the complete effect of a transaction.
 (2) It provides a chronological record of all transactions.
 (3) It helps to prevent or locate errors because the debit and credit amounts for each entry can be readily compared.
18. (a)

| | | |
|-------------------------|--------|--------|
| Cash..... | 12,000 | |
| Common Stock..... | | 12,000 |
| (Issued stock for cash) | | |
- (b)

| | | |
|----------------------------------|-----|-----|
| Prepaid Insurance..... | 800 | |
| Cash..... | | 800 |
| (Paid one-year insurance policy) | | |

Questions Chapter 3 (Continued)

- | | | | |
|--|---------------------------------------|-------|-------|
| | (c) Supplies | 1,800 | |
| | Accounts Payable | | 1,800 |
| | (Purchased supplies on account) | | |
| | (d) Cash | 7,500 | |
| | Service Revenue | | 7,500 |
| | (Received cash for services rendered) | | |
19. (a) The entire group of accounts maintained by a company, including all the asset, liability, and stockholders' equity accounts, is referred to collectively as the ledger.
(b) The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and identify their location in the ledger.
20. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove the mathematical equality of debits and credits after all journalized transactions have been posted. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.
21. The proper sequence is as follows:
(b) Accounting transaction occurs.
(c) Information is entered in the journal.
(a) Debits and credits are posted to the ledger.
(e) Trial balance is prepared.
(d) Financial statements are prepared.
22. (a) The trial balance would balance.
(b) The trial balance would not balance since the debits would be \$720 higher than the credits.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 3-1

| | <u>Assets</u> | <u>Liabilities</u> | <u>Stockholders' Equity</u> |
|-----|---------------|--------------------|-----------------------------|
| (a) | + | + | NE |
| (b) | + | NE | + |
| (c) | – | NE | – |

BRIEF EXERCISE 3-2

| | <u>Assets</u> | | | = | <u>Liabilities</u> | | + | <u>Stockholders' Equity</u> | |
|-----|---------------|----------------------------|-----------------|---|-------------------------|----------------------|---|-----------------------------|--------------------------|
| | <u>Cash</u> | <u>Accounts Receivable</u> | <u>Supplies</u> | = | <u>Accounts Payable</u> | <u>Bonds Payable</u> | + | <u>Common Stock</u> | <u>Retained Earnings</u> |
| (1) | +\$60,000 | | | | | +\$60,000 | | | |
| (2) | –9,000 | | | | | | | | –\$9,000 Paid div. |
| (3) | +13,000 | –\$13,000 | | | | | | | |
| (4) | | | +\$3,100 | | +\$3,100 | | | | |

BRIEF EXERCISE 3-3

| | <u>Assets</u> | | | = | <u>Liabilities</u> | + | <u>Stockholders' Equity</u> | |
|-----|---------------|------------------|------------------|---|-------------------------|---|-----------------------------|--------------------------|
| | <u>Cash</u> | <u>Inventory</u> | <u>Equipment</u> | = | <u>Accounts Payable</u> | + | <u>Common Stock</u> | <u>Retained Earnings</u> |
| (1) | –\$286,176 | | +\$286,176 | | | | | |
| (2) | +137,590 | | | | | | +\$137,590 | Issued stock |
| (3) | | +\$68,480 | | | +\$68,480 | | | |

BRIEF EXERCISE 3-4

| | <u>Debit Effect</u> | <u>Credit Effect</u> | <u>Normal Balance</u> |
|-------------------------|---------------------|----------------------|-----------------------|
| (a) Accounts Payable | Decrease | Increase | Credit |
| (b) Advertising Expense | Increase | Decrease | Debit |
| (c) Service Revenue | Decrease | Increase | Credit |
| (d) Accounts Receivable | Increase | Decrease | Debit |
| (e) Retained Earnings | Decrease | Increase | Credit |
| (f) Dividends | Increase | Decrease | Debit |

BRIEF EXERCISE 3-5

| | <u>Account Debited</u> | <u>Account Credited</u> |
|--------|------------------------|-------------------------|
| June 1 | Cash | Common Stock |
| 2 | Equipment | Accounts Payable |
| 3 | Rent Expense | Cash |
| 12 | Accounts Receivable | Service Revenue |

BRIEF EXERCISE 3-6

| | | | |
|--------|--------------------------|-------|-------|
| June 1 | Cash | 5,000 | |
| | Common Stock | | 5,000 |
| 2 | Equipment | 1,100 | |
| | Accounts Payable | | 1,100 |
| 3 | Rent Expense | 740 | |
| | Cash..... | | 740 |
| 12 | Accounts Receivable..... | 700 | |
| | Service Revenue..... | | 700 |

BRIEF EXERCISE 3-7

The basic steps in the recording process are:

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

BRIEF EXERCISE 3-8

| | (a) <u>Basic Analysis</u> | (b) <u>Debit-Credit Analysis</u> |
|--------|--|---|
| Aug. 1 | The asset Cash is increased; the stockholders' equity account Common Stock is increased. | Debits increase assets: debit Cash \$10,000. Credits increase stockholders' equity: credit Common Stock \$10,000. |
| 4 | The asset Prepaid Insurance is increased; the asset Cash is decreased. | Debits increase assets: debit Prepaid Insurance \$1,500. Credits decrease assets: credit Cash \$1,500. |
| 16 | The asset Cash is increased; the revenue Service Revenue is increased. | Debits increase assets: debit Cash \$900. Credits increase revenues: credit Service Revenue \$900. |
| 27 | The expense Salaries and Wages Expense is increased; the asset Cash is decreased. | Debits increase expenses: debit Salaries and Wages Expense \$620. Credits decrease assets: credit Cash \$620. |

BRIEF EXERCISE 3-9

| | | | |
|--------|----------------------------------|--------|--------|
| Aug. 1 | Cash | 10,000 | |
| | Common Stock | | 10,000 |
| 4 | Prepaid Insurance | 1,500 | |
| | Cash | | 1,500 |
| 16 | Cash | 900 | |
| | Service Revenue | | 900 |
| 27 | Salaries and Wages Expense | 620 | |
| | Cash | | 620 |

BRIEF EXERCISE 3-10

| Cash | | Service Revenue | |
|------|-------|-----------------|-------|
| 5/12 | 1,600 | 5/5 | 3,800 |
| 5/15 | 2,000 | 5/15 | 2,000 |

| Accounts Receivable | | | |
|---------------------|-------|------|-------|
| 5/5 | 3,800 | 5/12 | 1,600 |

BRIEF EXERCISE 3-11

YEAGER COMPANY Trial Balance June 30, 2014

| | Debit | Credit |
|---------------------------------|-----------------|-----------------|
| Cash..... | \$ 5,400 | |
| Accounts Receivable | 3,000 | |
| Equipment..... | 13,000 | |
| Accounts Payable | | \$ 1,000 |
| Common Stock | | 18,000 |
| Dividends | 1,200 | |
| Service Revenue..... | | 8,600 |
| Salaries and Wages Expense..... | 4,000 | |
| Rent Expense..... | 1,000 | |
| | <u>\$27,600</u> | <u>\$27,600</u> |

BRIEF EXERCISE 3-12

CINELLI COMPANY
Trial Balance
December 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|-----------------|-----------------|
| Cash | \$20,800 | |
| Prepaid Insurance..... | 3,500 | |
| Accounts Payable | | \$ 2,500 |
| Unearned Service Revenue | | 1,800 |
| Common Stock | | 10,000 |
| Retained Earnings | | 6,600 |
| Dividends..... | 5,000 | |
| Service Revenue | | 25,600 |
| Salaries and Wages Expense | 14,600 | |
| Rent Expense | 2,600 | |
| | <u>\$46,500</u> | <u>\$46,500</u> |

SOLUTIONS TO DO IT! REVIEW EXERCISES

DO IT! 3-1

| | Assets | | = | Liabilities | + | Stockholders' Equity | | |
|-----|-----------|---------------------|---|------------------|---|----------------------|-------------------|------------------------|
| | Cash | Accounts Receivable | = | Accounts Payable | + | Common Stock | Retained Earnings | |
| | Cash | + Receivable | = | Payable | + | Stock | + Revenues | – Expenses – Dividends |
| (1) | | +\$20,000 | | | | | +\$20,000 | |
| (2) | +\$20,000 | –20,000 | | | | | | |
| (3) | | | | +\$1,800 | | | | –\$1,800 |
| (4) | –3,000 | | | | | | | –\$3,000 |

DO IT! 3-2

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

| | |
|--------------------------------|-----------------------------------|
| Cash (debit balance) | Equipment (debit balance) |
| Supplies (debit balance) | Accounts Payable (credit balance) |
| Notes Payable (credit balance) | Common Stock (credit balance) |

DO IT! 3-3

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

- | | | |
|--------------------|-------|-------|
| Cash | 8,000 | |
| Common Stock | | 8,000 |
- | | | |
|------------------------|-----|-----|
| Supplies | 950 | |
| Accounts Payable | | 550 |
| Cash | | 400 |
- No entry because no transaction has occurred.

DO IT! 3-4

| Cash | | | |
|------|-------|------|-----|
| 4/1 | 1,900 | 4/16 | 500 |
| 4/3 | 3,400 | 4/20 | 300 |
| 4/30 | 4,500 | | |

SOLUTIONS TO EXERCISES

EXERCISE 3-1

1. Increase in assets and increase in stockholders' equity.
2. Decrease in assets and decrease in stockholders' equity.
3. Increase in assets and increase in stockholders' equity.
4. Increase in assets and increase in stockholders' equity.
5. Decrease in assets and decrease in stockholders' equity.
6. Increase in liabilities and decrease in stockholders' equity.
7. Increase in assets and decrease in assets.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in liabilities.

EXERCISE 3-2

| | Assets | | | = | Liabilities | + | Stockholders' Equity | | | |
|-----|-----------------|---------------------|------------------|---|------------------|---|----------------------|-------------------|----------|---------------------|
| | Cash | Accounts Receivable | Equipment | = | Accounts Payable | + | Common Stock | Retained Earnings | | |
| | | | | | | | | Revenues | – | Expenses |
| (1) | +40,000 | | | | | | +40,000 | | | Issued Stock |
| (2) | | | +\$30,000 | | +\$30,000 | | | | | |
| (3) | –\$ 4,000 | | | | | | | | –\$4,000 | Rent Expense |
| (4) | | +\$19,000 | | | | | | +\$19,000 | | Service Revenue |
| (5) | +5,000 | | | | | | | +5,000 | | Service Revenue |
| (6) | –8,000 | | | | | | | | –8,000 | Utilities Expense |
| (7) | –30,000 | | | | –30,000 | | | | | |
| (8) | | | | | +1,300 | | | | –1,300 | Advertising Expense |
| (9) | <u>+12,000</u> | <u>–12,000</u> | | | | | | | | |
| | <u>\$15,000</u> | <u>+\$7,000</u> | <u>+\$30,000</u> | = | <u>\$ 1,300</u> | + | <u>\$40,000</u> | <u>+\$24,000</u> | – | <u>\$13,300</u> |
| | \$52,000 | | | | \$52,000 | | | | | |

EXERCISE 3-4

- (a)
1. Stockholders invested \$20,000 cash in the business.
 2. Purchased equipment for \$5,000, paying \$1,000 in cash and the balance of \$4,000 on account.
 3. Paid \$750 cash for supplies.
 4. Earned \$9,500 in revenue, receiving \$4,100 cash and \$5,400 on account.
 5. Paid \$1,500 cash on accounts payable.
 6. Paid \$2,000 cash dividends to stockholders.
 7. Paid \$800 cash for rent.
 8. Collected \$450 cash from customers on account.
 9. Paid salaries of \$3,000.
 10. Incurred \$300 of utilities expense on account.

| | | |
|-----|---------------------------------------|-----------------|
| (b) | Issued common stock..... | \$20,000 |
| | Service revenue..... | 9,500 |
| | Dividends | (2,000) |
| | Rent expense | (800) |
| | Salaries and wages expense..... | (3,000) |
| | Utilities expense | <u>(300)</u> |
| | Increase in stockholders' equity..... | <u>\$23,400</u> |

| | | |
|-----|---------------------------------|-----------------|
| (c) | Service revenue..... | \$ 9,500 |
| | Rent expense | (800) |
| | Salaries and wages expense..... | (3,000) |
| | Utilities expense | <u>(300)</u> |
| | Net income | <u>\$ 5,400</u> |

EXERCISE 3-5

COLAW COMPANY
Income Statement
For the Month Ended August 31, 2014

| | | |
|----------------------------------|----------------|-----------------------|
| Revenues | | |
| Service revenue | | \$9,500 |
| Expenses | | |
| Salaries and wages expense | \$3,000 | |
| Rent expense | 800 | |
| Utilities expense | 300 | |
| Total expenses | | <u>4,100</u> |
| Net income | | <u>\$5,400</u> |

COLAW COMPANY
Retained Earnings Statement
For the Month Ended August 31, 2014

| | |
|------------------------------------|-----------------------|
| Retained earnings, August 1 | \$ 0 |
| Add: Net income | <u>5,400</u> |
| | 5,400 |
| Less: Dividends | <u>2,000</u> |
| Retained earnings, August 31 | <u>\$3,400</u> |

COLAW COMPANY
Balance Sheet
August 31, 2014

| Assets | | | |
|--|---------------------|------------------------|--|
| Current assets | | | |
| Cash | \$15,500 | | |
| Accounts receivable | 4,950 | | |
| Supplies | 750 | | |
| Total current assets | | \$21,200 | |
| Equipment | | <u>5,000</u> | |
| Total assets | | <u>\$26,200</u> | |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities | | | |
| Accounts payable | | \$ 2,800 | |
| Stockholders' equity | | | |
| Common stock | \$20,000 | | |
| Retained earnings | <u>3,400</u> | <u>23,400</u> | |
| Total liabilities and stockholders' equity | | <u>\$26,200</u> | |

EXERCISE 3-6

(a)

| Trans-action | Account Debited | | | | Account Credited | | | |
|--------------|----------------------|----------------------------|---------------|--------------------------|----------------------|----------------------------|---------------|--------------------------|
| | (a) Basic Type | (b) Specific Account | (c) Effect | (d) Normal Balance | (a) Basic Type | (b) Specific Account | (c) Effect | (d) Normal Balance |
| 1. | Asset | Cash | Increase | Debit | Stockholders' Equity | Common Stock | Increase | Credit |
| 2. | Asset | Equipment | Increase | Debit | Asset | Cash | Decrease | Debit |
| 3. | Asset | Supplies | Increase | Debit | Liability | Accounts Payable | Increase | Credit |
| 4. | Asset | Accounts Receivable | Increase | Debit | Stockholders' Equity | Service Revenue | Increase | Credit |
| 5. | Stockholders' Equity | Advertising Expense | Increase | Debit | Asset | Cash | Decrease | Debit |
| 6. | Asset | Cash | Increase | Debit | Asset | Accounts Receivable | Decrease | Debit |
| 7. | Liability | Accounts Payable | Decrease | Credit | Asset | Cash | Decrease | Debit |
| 8. | Stockholders' Equity | Dividends | Increase | Debit | Asset | Cash | Decrease | Debit |

EXERCISE 3-6 (Continued)

(b)

| General Journal | | | |
|-----------------|---------------------------|--------|--------|
| Trans. | Account Titles | Debit | Credit |
| 1. | Cash | 15,000 | |
| | Common Stock | | 15,000 |
| 2. | Equipment | 10,000 | |
| | Cash | | 10,000 |
| 3. | Supplies | 300 | |
| | Accounts Payable | | 300 |
| 4. | Accounts Receivable | 3,700 | |
| | Service Revenue | | 3,700 |
| 5. | Advertising Expense | 200 | |
| | Cash | | 200 |
| 6. | Cash | 1,100 | |
| | Accounts Receivable | | 1,100 |
| 7. | Accounts Payable | 300 | |
| | Cash | | 300 |
| 8. | Dividends | 400 | |
| | Cash | | 400 |

EXERCISE 3-7

- Oct. 1 Debits increase assets: debit Cash \$30,000.
 Credits increase stockholders' equity: credit Common Stock
 \$30,000.
- 2 No accounting transaction.
- 3 Debits increase assets: debit Equipment \$3,800.
 Credits increase liabilities: credit Accounts Payable \$3,800.

EXERCISE 3-7 (Continued)

- Oct. 6 Debits increase assets: debit Accounts Receivable \$10,800.
 Credits increase revenues: credit Service Revenue \$10,800.
- 10 Debits increase assets: debit Cash \$140.
 Credits increase revenues: credit Service Revenue \$140.
- 27 Debits decrease liabilities: debit Accounts Payable \$700.
 Credits decrease assets: credit Cash \$700.
- 30 Debits increase expenses: debit Salaries and Wages
 Expense \$3,000.
 Credits decrease assets: credit Cash \$3,000.

EXERCISE 3-8

General Journal

| Date | Account Titles | Debit | Credit |
|--------|----------------------------------|--------|--------|
| Oct. 1 | Cash | 30,000 | |
| | Common Stock..... | | 30,000 |
| 2 | No entry. | | |
| 3 | Equipment | 3,800 | |
| | Accounts Payable | | 3,800 |
| 6 | Accounts Receivable..... | 10,800 | |
| | Service Revenue | | 10,800 |
| 10 | Cash | 140 | |
| | Service Revenue | | 140 |
| 27 | Accounts Payable..... | 700 | |
| | Cash | | 700 |
| 30 | Salaries and Wages Expense | 3,000 | |
| | Cash | | 3,000 |

EXERCISE 3-9**General Journal**

| Date | Account Titles | Debit | Credit |
|--------------|--|--------------|---------------|
| May 4 | Accounts Payable | 700 | |
| | Cash | | 700 |
| 7 | Accounts Receivable | 6,800 | |
| | Service Revenue | | 6,800 |
| 8 | Supplies | 850 | |
| | Accounts Payable | | 850 |
| 9 | Equipment | 1,000 | |
| | Cash | | 1,000 |
| 17 | Salaries and Wages Expense | 530 | |
| | Cash | | 530 |
| 22 | Maintenance and Repairs Expense | 900 | |
| | Accounts Payable | | 900 |
| 29 | Prepaid Insurance | 1,200 | |
| | Cash | | 1,200 |

EXERCISE 3-10

(a)

| Cash | | | |
|--------|--------|---------|-------|
| Oct. 1 | 30,000 | Oct. 27 | 700 |
| 10 | 140 | 30 | 3,000 |
| Bal. | 26,440 | | |

| Accounts Receivable | | | |
|---------------------|--------|--|--|
| Oct. 6 | 10,800 | | |
| Bal. | 10,800 | | |

| Equipment | | | |
|-----------|-------|--|--|
| Oct. 3 | 3,800 | | |
| Bal. | 3,800 | | |

| Accounts Payable | | | |
|------------------|-----|--------|-------|
| Oct. 27 | 700 | Oct. 3 | 3,800 |
| | | Bal. | 3,100 |

| Common Stock | | | |
|--------------|--|--------|--------|
| | | Oct. 1 | 30,000 |
| | | Bal. | 30,000 |

| Service Revenue | | | |
|-----------------|--|--------|--------|
| | | Oct. 6 | 10,800 |
| | | 10 | 140 |
| | | Bal. | 10,940 |

| Salaries and Wages Expense | | | |
|----------------------------|-------|--|--|
| Oct. 30 | 3,000 | | |
| Bal. | 3,000 | | |

(b)

CROFOOT REAL ESTATE AGENCY Trial Balance October 31, 2014

| | Debit | Credit |
|----------------------------------|-----------------|-----------------|
| Cash..... | \$26,440 | |
| Accounts Receivable | 10,800 | |
| Equipment..... | 3,800 | |
| Accounts Payable | | \$ 3,100 |
| Common Stock | | 30,000 |
| Service Revenue..... | | 10,940 |
| Salaries and Wages Expense | 3,000 | |
| | <u>\$44,040</u> | <u>\$44,040</u> |

EXERCISE 3-11

(a)

| | Assets | | | = | Liabilities | + | Stockholders' Equity | | | | | | | | | | |
|---------|------------------|---|-----------------|---|----------------|---|----------------------|-------------------|-----------------|---|-----------------|---|----------------|---|--------------|--------------|--|
| | Accounts | | | | Accounts | | Common | Retained Earnings | | | | | | | | | |
| | Cash | + | Receivable | + | Equipment | = | Payable | + | Stock | + | Revenues | - | Exp. | - | Div. | | |
| Sept. 1 | +\$20,000 | | | | | | | | +\$20,000 | | | | | | | Issued stock | |
| 5 | -3,000 | | | | +\$9,000 | | +\$ 6,000 | | | | | | | | | | |
| 8 | | | +\$18,000 | | | | | | | | +\$18,000 | | | | | Ser. Rev. | |
| 14 | -1,200 | | | | | | | | | | | | -\$1,200 | | | Salar. Exp. | |
| 25 | -4,000 | | | | | | -4,000 | | | | | | | | | | |
| 30 | -500 | | | | | | | | | | | | | | -\$500 | Dividends | |
| | <u>\$ 11,300</u> | + | <u>\$18,000</u> | + | <u>\$9,000</u> | = | <u>\$ 2,000</u> | + | <u>\$20,000</u> | + | <u>\$18,000</u> | - | <u>\$1,200</u> | - | <u>\$500</u> | | |
| | \$38,300 | | | | | | \$38,300 | | | | | | | | | | |

(b)

| General Journal | | | | J1 |
|-----------------|---------------------------------|--------|--------|----|
| Date | Account Titles | Debit | Credit | |
| Sept. 1 | Cash | 20,000 | | |
| | Common Stock | | 20,000 | |
| 5 | Equipment..... | 9,000 | | |
| | Accounts Payable..... | | 6,000 | |
| | Cash..... | | 3,000 | |
| 8 | Accounts Receivable | 18,000 | | |
| | Service Revenue..... | | 18,000 | |
| 14 | Salaries and wages expense..... | 1,200 | | |
| | Cash..... | | 1,200 | |
| 25 | Accounts Payable | 4,000 | | |
| | Cash..... | | 4,000 | |
| 30 | Dividends | 500 | | |
| | Cash..... | | 500 | |

EXERCISE 3-11 (Continued)

(c)

Cash

| | | | |
|------|--------|------|-------|
| 9/1 | 20,000 | 9/5 | 3,000 |
| | | 9/14 | 1,200 |
| | | 9/25 | 4,000 |
| | | 9/30 | 500 |
| Bal. | 11,300 | | |

Accounts Receivable

| | | |
|------|--------|--|
| 9/8 | 18,000 | |
| Bal. | 18,000 | |

Equipment

| | | |
|------|-------|--|
| 9/5 | 9,000 | |
| Bal. | 9,000 | |

Accounts Payable

| | | | |
|------|-------|------|-------|
| 9/25 | 4,000 | 9/5 | 6,000 |
| | | Bal. | 2,000 |

Common Stock

| | | |
|--|------|--------|
| | 9/1 | 20,000 |
| | Bal. | 20,000 |

Dividends

| | | |
|------|-----|--|
| 9/30 | 500 | |
| Bal. | 500 | |

Service Revenue

| | | |
|--|------|--------|
| | 9/8 | 18,000 |
| | Bal. | 18,000 |

Salaries and Wages Expense

| | | |
|------|-------|--|
| 9/14 | 1,200 | |
| Bal. | 1,200 | |

EXERCISE 3-12

(a)

| General Journal | | | |
|-----------------|---|--------|--------|
| Date | Account Titles and Explanation | Debit | Credit |
| Apr. 1 | Cash..... Common Stock (Issued stock for cash) | 15,000 | 15,000 |
| 4 | Supplies Accounts Payable..... (Purchased supplies on account) | 5,200 | 5,200 |
| 7 | Accounts Receivable Service Revenue..... (Billed clients for services rendered) | 3,400 | 3,400 |
| 12 | Cash..... Service Revenue..... (Received cash for revenue earned) | 700 | 700 |
| 15 | Salaries and Wages Expense..... Cash..... (Paid salaries) | 800 | 800 |
| 25 | Accounts Payable Cash..... (Paid creditors on account) | 3,500 | 3,500 |
| 29 | Cash..... Accounts Receivable..... (Received cash in payment of account) | 800 | 800 |
| 30 | Cash..... Unearned Service Revenue (Received cash for future services) | 900 | 900 |

EXERCISE 3-12 (Continued)

(b) WHEELING GARDENING COMPANY, INC.
Trial Balance
April 30, 2014

| | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|-----------------|-----------------|
| Cash..... | \$13,100 | |
| Accounts Receivable | 2,600 | |
| Supplies | 5,200 | |
| Accounts Payable | | \$ 1,700 |
| Unearned Service Revenue | | 900 |
| Common Stock | | 15,000 |
| Service Revenue..... | | 4,100 |
| Salaries and Wages Expense | 800 | |
| | <u>\$21,700</u> | <u>\$21,700</u> |

EXERCISE 3-13

(a)

| Cash | | | |
|--------|-------|---------|-------|
| Aug. 1 | 8,000 | Aug. 12 | 1,200 |
| 10 | 1,700 | | |
| 31 | 600 | | |
| Bal. | 9,100 | | |

| Accounts Receivable | | | |
|---------------------|-------|---------|-----|
| Aug. 25 | 3,400 | Aug. 31 | 600 |
| Bal. | 2,800 | | |

| Equipment | | | |
|-----------|-------|--|--|
| Aug. 12 | 6,200 | | |
| Bal. | 6,200 | | |

| Notes Payable | | |
|---------------|---------|-------|
| | Aug. 12 | 5,000 |
| | Bal. | 5,000 |

| Common Stock | | |
|--------------|--------|-------|
| | Aug. 1 | 8,000 |
| | Bal. | 8,000 |

| Service Revenue | | |
|-----------------|---------|-------|
| | Aug. 10 | 1,700 |
| | 25 | 3,400 |
| | Bal. | 5,100 |

(b)

EBERLE INC. Trial Balance August 31, 2014

| | Debit | Credit |
|---------------------------|-----------------|-----------------|
| Cash | \$ 9,100 | |
| Accounts Receivable | 2,800 | |
| Equipment | 6,200 | |
| Notes Payable | | \$ 5,000 |
| Common Stock | | 8,000 |
| Service Revenue | | 5,100 |
| | <u>\$18,100</u> | <u>\$18,100</u> |

EXERCISE 3-14

| | | | | | |
|-----|------|----|---|-------|-------|
| (a) | Oct. | 1 | Cash..... | 7,000 | |
| | | | Common Stock | | 7,000 |
| | | | (Issued stock for cash) | | |
| | | 10 | Cash..... | 980 | |
| | | | Service Revenue | | 980 |
| | | | (Received cash for services provided) | | |
| | | 10 | Cash..... | 8,000 | |
| | | | Notes Payable | | 8,000 |
| | | | (Issued note payable for cash) | | |
| | | 20 | Cash..... | 700 | |
| | | | Accounts Receivable..... | | 700 |
| | | | (Received cash in payment of account) | | |
| | | 20 | Accounts Receivable | 920 | |
| | | | Service Revenue | | 920 |
| | | | (Billed clients for services provided) | | |

EXERCISE 3-14 (Continued)**(b)**

KEISLER CO.
Trial Balance
October 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|-----------------|-----------------|
| Cash | \$15,730 | |
| Accounts Receivable | 1,020 | |
| Supplies | 220 | |
| Equipment | 3,000 | |
| Notes Payable | | \$ 8,000 |
| Accounts Payable | | 1,500 |
| Common Stock | | 9,000 |
| Dividends | 300 | |
| Service Revenue | | 2,700 |
| Salaries and Wages Expense | 500 | |
| Supplies Expense | 180 | |
| Rent Expense | 250 | |
| | <u>\$21,200</u> | <u>\$21,200</u> |

EXERCISE 3-15

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

EXERCISE 3-16

(a) BASTIN DELIVERY SERVICE
Trial Balance
July 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|--|-----------------|-----------------|
| Cash (\$98,370 – Debit total without Cash \$85,946) | \$12,424 | |
| Accounts Receivable | 13,400 | |
| Prepaid Insurance | 2,200 | |
| Equipment..... | 59,360 | |
| Accounts Payable | | \$ 8,400 |
| Salaries and Wages Payable..... | | 820 |
| Notes Payable (due 2015)..... | | 28,450 |
| Common Stock..... | | 40,000 |
| Retained Earnings..... | | 5,200 |
| Dividends | 700 | |
| Service Revenue | | 15,500 |
| Salaries and Wages Expense..... | 7,428 | |
| Maintenance and Repairs Expense | 1,958 | |
| Insurance Expense | 900 | |
| | <u>\$98,370</u> | <u>\$98,370</u> |

EXERCISE 3-16 (Continued)

(b)

BASTIN DELIVERY SERVICE **Income Statement** **For the Month Ended July 31, 2014**

| | | |
|---------------------------------------|----------------|------------------------|
| Revenues | | |
| Service revenue | | \$15,500 |
| Expenses | | |
| Salaries and wages expense | \$7,428 | |
| Maintenance and repairs expense | 1,958 | |
| Insurance expense | 900 | |
| Total expenses | | <u>10,286</u> |
| Net income | | <u>\$ 5,214</u> |

BASTIN DELIVERY SERVICE **Retained Earnings Statement** **For the Month Ended July 31, 2014**

| | |
|----------------------------------|------------------------|
| Retained earnings, July 1 | \$ 5,200 |
| Add: Net income | <u>5,214</u> |
| | 10,414 |
| Less: Dividends | <u>700</u> |
| Retained earnings, July 31 | <u>\$ 9,714</u> |

EXERCISE 3-16 (Continued)

BASTIN DELIVERY SERVICE
Balance Sheet
July 31, 2014

| Assets | | | |
|--|--------------|-----------------|--|
| Current assets | | | |
| Cash | \$12,424 | | |
| Accounts receivable | 13,400 | | |
| Prepaid insurance | <u>2,200</u> | | |
| Total current assets | | \$28,024 | |
| Equipment | | <u>59,360</u> | |
| Total assets | | <u>\$87,384</u> | |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities | | | |
| Accounts payable | \$ 8,400 | | |
| Salaries and wages payable | <u>820</u> | | |
| Total current liabilities | | \$ 9,220 | |
| Notes payable | | <u>28,450</u> | |
| Total liabilities | | 37,670 | |
| Stockholders' equity | | | |
| Common stock | 40,000 | | |
| Retained earnings | <u>9,714</u> | | |
| Total stockholders' equity | | <u>49,714</u> | |
| Total liabilities and stockholders' equity | | <u>\$87,384</u> | |

EXERCISE 3-17

| Account | (a) Normal Balance Debit or Credit | (b) Balance Sheet or Income Statement |
|------------------------|---|--|
| Accounts payable | Credit | Balance sheet |
| Accounts receivable | Debit | Balance sheet |
| Common stock | Credit | Balance sheet |
| Depreciation expense | Debit | Income statement |
| Interest expense | Debit | Income statement |
| Interest income | Credit | Income statement |
| Inventories | Debit | Balance sheet |
| Prepaid expenses | Debit | Balance sheet |
| Property and Equipment | Debit | Balance sheet |
| Revenues | Credit | Income statement |

EXERCISE 3-18

1. Financing activity
2. Operating activity
3. Operating activity
4. Non-cash event
5. Financing activity
6. Non-cash event
7. Operating activity
8. Investing activity
9. Non-cash event

EXERCISE 3-19

1. Financing activity
2. Financing activity
3. Investing activity
4. Operating activity
5. Non-cash event
6. Operating activity
7. Non-cash event
8. Operating activity
9. Financing activity

SOLUTIONS TO PROBLEM

PROBLEM 3-1A

(a) DEDONDER TRAVEL AGENCY INC.

| | Assets | | = Liabilities + | | Stockholders' Equity | | | |
|-----|------------------|--|-----------------|--|----------------------|----------------|------------|--------------|
| | Cash | + Accounts Receivable + Supplies + Equipment | = | Accounts Payable | + Common Stock | + Revenues | - Expenses | - Dividends |
| 1. | <u>+\$30,000</u> | | | | <u>+\$30,000</u> | | | |
| 2. | -900 | | | | | | -900 | |
| 3. | -3,400 | <u>+\$3,400</u> | | | | | | |
| 4. | | | | <u>+\$200</u> | | | -200 | |
| 5. | -500 | <u>+\$500</u> | | | | | | |
| 6. | <u>+\$3,000</u> | <u>+\$9,000</u> | | | <u>+\$12,000</u> | | | |
| 7. | -400 | | | | | | | -400 |
| 8. | -200 | | | <u>-200</u> | | | | |
| 9. | -1,800 | | | | | | -1,800 | |
| 10. | <u>+\$9,000</u> | <u>-9,000</u> | | | | | | |
| | <u>\$34,800</u> | <u>+\$0</u> + <u>\$500</u> + <u>\$3,400</u> | = | <u>\$0</u> + <u>\$30,000</u> + <u>\$12,000</u> | - | <u>\$2,900</u> | - | <u>\$400</u> |
| | <u>\$38,700</u> | | | <u>\$38,700</u> | | | | |

Rent Expense

Advertising Expense

Service Revenue

Dividends

Salaries and Wages Expense

PROBLEM 3-1A (Continued)

| | | | |
|---------------------------------|------------|----------|-----------------|
| (b) Service Revenue | | \$12,000 | |
| Expenses | | | |
| Salaries and Wages Expense..... | \$1,800 | | |
| Rent Expense | 900 | | |
| Advertising Expense..... | <u>200</u> | | <u>2,900</u> |
| Net Income | | | <u>\$ 9,100</u> |

OR

| | |
|---------------------|-----------------|
| Revenues..... | \$12,000 |
| Less: Expenses..... | <u>2,900</u> |
| Net Income | <u>\$ 9,100</u> |

PROBLEM 3-2A

(a)

| Date | Assets | | | = | Liabilities | | + | Stockholders' Equity | | |
|-------|-----------------|--------------------------|----------------------|----------|------------------|---------------------|----------|----------------------|------------------|------------------|
| | Cash | Accounts + Receivable | Supplies + Equipment | | Notes Payable | Accounts Payable | | Common Stock | + Revenues | - Expenses |
| May 1 | + \$15,000 | | | | | | | + \$15,000 | | |
| 2 | -600 | | | | | | | | | |
| 3 | | | + \$500 | | | + \$500 | | | | |
| 5 | -150 | | | | | | | | | |
| 9 | +1,400 | | | | | | | | | |
| 12 | -200 | | | | | | | | | |
| 15 | | +4,200 | | | | | | | | |
| 17 | -2,500 | | | | | | | | | |
| 20 | -500 | | | | | -500 | | | | |
| 23 | +1,200 | -1,200 | | | | | | | | |
| 26 | +5,000 | | | | | | | | | |
| 29 | -200 | | + \$2,000 | | | +1,800 | | | | |
| 30 | -180 | | | | | | | | | |
| | <u>\$18,270</u> | <u>+ \$3,000</u> | <u>+ \$500</u> | <u>=</u> | <u>\$5,000</u> | <u>+ \$1,800</u> | <u>+</u> | <u>\$15,000</u> | <u>+ \$5,600</u> | <u>- \$3,430</u> |
| | <u>\$23,770</u> | | | | | | | <u>\$23,770</u> | | |
| | | | | | | | | | | |

PROBLEM 3-2A (Continued)

**(b) FINZELBERG CONSULTING INC.
Income Statement
For the Month Ended May 31, 2014**

| | | |
|---|----------------|-----------------------|
| Revenues | | |
| Service revenue (\$1,400 + \$4,200) | | \$5,600 |
| Expenses | | |
| Salaries and wages expense..... | \$2,500 | |
| Rent expense..... | 600 | |
| Utilities expense..... | 180 | |
| Advertising expense | 150 | |
| Total expenses | | <u>3,430</u> |
| Net income | | <u>\$2,170</u> |

**(c) FINZELBERG CONSULTING INC.
Balance Sheet
May 31, 2014**

| | | |
|---|-----------------|------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$18,270 | |
| Accounts receivable | 3,000 | |
| Supplies | 500 | |
| Total current assets | | \$21,770 |
| Equipment | | <u>2,000</u> |
| Total assets..... | | <u>\$23,770</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Notes payable | \$ 5,000 | |
| Accounts payable | 1,800 | |
| Total current liabilities | | \$ 6,800 |
| Stockholders' equity | | |
| Common stock..... | 15,000 | |
| Retained earnings (\$0 + \$2,170 – \$200) | 1,970 | <u>16,970</u> |
| Total liabilities and stockholders' equity..... | | <u>\$23,770</u> |

PROBLEM 3-3A

(a)

CINDY BRAUN INC.

| | Assets | | | | = | Liabilities | | + | Stockholders' Equity | | | |
|---------|----------------|--------------|----------------|-------------|--------------|---------------|----------------|---|----------------------|------------|-------------------|------------|
| | Accounts | | | | = | Notes Payable | | + | Common Stock | | Retained Earnings | |
| | Cash | + Receivable | + Supplies | + Equipment | | Payable | + Payable | | Stock | + Earnings | + Revenues | - Expenses |
| July 31 | \$4,000 | + | \$2,500 | + | \$5,000 | = | \$4,200 | + | \$6,200 | + | \$1,600 | |
| Bal. | | | | | | | | | | | | |
| Aug. 1 | +1,100 | | -1,100 | | | | | | | | | |
| 4 | -2,700 | | | | | -2,700 | | | | | | |
| 9 | +3,600 | | +1,800 | | | | | | | | | |
| 15 | -700 | | | +4,000 | | +3,300 | | | | | | |
| 19 | -2,450 | | | | | | | | | | | |
| 23 | -700 | | | | | | | | | | | |
| 26 | +5,000 | | | | | | | | | | | |
| 31 | | | | | | | | | | | | |
| | <u>\$7,150</u> | + | <u>\$3,200</u> | + | <u>\$500</u> | + | <u>\$5,000</u> | + | <u>\$6,200</u> | + | <u>\$1,600</u> | |
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PROBLEM 3-3A (Continued)

(b)

**CINDY BRAUN INC.
Income Statement
For the Month Ended August 31, 2014**

| | | |
|---------------------------------|----------------|------------------------------|
| <hr/> | | |
| Revenues | | |
| Service revenue..... | | \$5,400 |
| Expenses | | |
| Salaries and wages expense..... | \$1,400 | |
| Rent expense..... | 700 | |
| Utilities expense..... | 380 | |
| Advertising expense | 350 | |
| Total expenses | | <u>2,830</u> |
| Net income | | <u><u>\$2,570</u></u> |

**CINDY BRAUN INC.
Retained Earnings Statement
For the Month Ended August 31, 2014**

| | |
|---|------------------------------|
| <hr/> | |
| Retained earnings, August 1 | \$1,600 |
| Add: Net income..... | <u>2,570</u> |
| | 4,170 |
| Less: Dividends | <u>700</u> |
| Retained earnings, August 31 | <u><u>\$3,470</u></u> |

PROBLEM 3-3A (Continued)

**CINDY BRAUN INC.
Balance Sheet
August 31, 2014**

| Assets | | |
|---|--------------|------------------------|
| Current assets | | |
| Cash..... | \$7,150 | |
| Accounts receivable..... | 3,200 | |
| Supplies..... | <u>500</u> | |
| Total current assets..... | | \$10,850 |
| Equipment..... | | <u>9,000</u> |
| Total assets | | <u>\$19,850</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Notes payable | \$5,000 | |
| Accounts payable..... | <u>5,180</u> | |
| Total current liabilities..... | | \$10,180 |
| Stockholders' equity | | |
| Common stock..... | 6,200 | |
| Retained earnings | <u>3,470</u> | <u>9,670</u> |
| Total liabilities and stockholders' equity | | <u>\$19,850</u> |

| |
|---------------------|
| PROBLEM 3-4A |
|---------------------|

| Date | Account Titles and Explanation | Debit | Credit |
|---------------|--|---------------|---------------|
| Mar. 1 | Cash..... | 50,000 | |
| | Common Stock | | 50,000 |
| | (Issued stock for cash) | | |
| 3 | Land..... | 23,000 | |
| | Buildings | 9,000 | |
| | Equipment..... | 6,000 | |
| | Cash | | 38,000 |
| | (Purchased Arnie's Golf Land) | | |
| 5 | Advertising Expense..... | 1,200 | |
| | Cash | | 1,200 |
| | (Paid for advertising) | | |
| 6 | Prepaid Insurance | 2,400 | |
| | Cash | | 2,400 |
| | (Paid for one-year insurance policy) | | |
| 10 | Equipment..... | 5,500 | |
| | Accounts Payable..... | | 5,500 |
| | (Purchased equipment on account) | | |
| 18 | Cash..... | 1,600 | |
| | Service Revenue | | 1,600 |
| | (Received cash for revenue earned) | | |
| 19 | Cash (100 X \$25)..... | 2,500 | |
| | Unearned Service Revenue | | 2,500 |
| | (Received cash for coupon books sold) | | |
| 25 | Dividends | 500 | |
| | Cash | | 500 |
| | (Payment of cash dividend) | | |

PROBLEM 3-4A (Continued)

| Date | Account Titles and Explanation | Debit | Credit |
|----------------|---|--------------|---------------|
| Mar. 30 | Salaries and Wages Expense | 800 | |
| | Cash | | 800 |
| | (Paid salaries expense) | | |
| 30 | Accounts Payable | 5,500 | |
| | Cash | | 5,500 |
| | (Paid creditor on account) | | |
| 31 | Cash | 900 | |
| | Service Revenue | | 900 |
| | (Received cash for revenue earned) | | |

| |
|--------------|
| PROBLEM 3-5A |
|--------------|

(a)

| Date | Account Titles and Explanation | Debit | Credit |
|--------|--|--------|--------|
| Apr. 1 | Cash..... | 18,000 | |
| | Common Stock | | 18,000 |
| | (Issued shares of stock for cash) | | |
| 1 | No entry—not a transaction. | | |
| 2 | Rent Expense..... | 900 | |
| | Cash | | 900 |
| | (Paid monthly office rent) | | |
| 3 | Supplies | 1,300 | |
| | Accounts Payable..... | | 1,300 |
| | (Purchased supplies on account from Burlington Company) | | |
| 10 | Accounts Receivable | 1,900 | |
| | Service Revenue..... | | 1,900 |
| | (Billed clients for services rendered) | | |
| 11 | Cash..... | 700 | |
| | Unearned Service Revenue | | 700 |
| | (Received cash advance for future service) | | |
| 20 | Cash..... | 2,800 | |
| | Service Revenue | | 2,800 |
| | (Received cash for service performed) | | |
| 30 | Salaries and Wages Expense..... | 1,500 | |
| | Cash | | 1,500 |
| | (Paid monthly salary) | | |
| 30 | Accounts Payable | 300 | |
| | Cash | | 300 |
| | (Paid Burlington Company on account) | | |

PROBLEM 3-5A (Continued)

(b)

Cash

| | | | |
|------|--------|------|-------|
| 4/1 | 18,000 | 4/2 | 900 |
| 4/11 | 700 | 4/30 | 1,500 |
| 4/20 | 2,800 | 4/30 | 300 |
| Bal. | 18,800 | | |

Accounts Receivable

| | | | |
|------|-------|--|--|
| 4/10 | 1,900 | | |
| Bal. | 1,900 | | |

Supplies

| | | | |
|------|-------|--|--|
| 4/3 | 1,300 | | |
| Bal. | 1,300 | | |

Accounts Payable

| | | | |
|------|-----|------|-------|
| 4/30 | 300 | 4/3 | 1,300 |
| | | Bal. | 1,000 |

Unearned Service Revenue

| | | |
|--|------|-----|
| | 4/11 | 700 |
| | Bal. | 700 |

Common Stock

| | | |
|--|------|--------|
| | 4/1 | 18,000 |
| | Bal. | 18,000 |

Service Revenue

| | | |
|--|------|-------|
| | 4/10 | 1,900 |
| | 4/20 | 2,800 |
| | Bal. | 4,700 |

Salaries and Wages Expense

| | | |
|------|-------|--|
| 4/30 | 1,500 | |
| Bal. | 1,500 | |

Rent Expense

| | | |
|------|-----|--|
| 4/2 | 900 | |
| Bal. | 900 | |

PROBLEM 3-5A (Continued)

(c)

**FOYLE ARCHITECTS INC.
Trial Balance
April 30, 2014**

| | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|-----------------|-----------------|
| Cash | \$18,800 | |
| Accounts Receivable | 1,900 | |
| Supplies | 1,300 | |
| Accounts Payable | | \$ 1,000 |
| Unearned Service Revenue | | 700 |
| Common Stock | | 18,000 |
| Service Revenue | | 4,700 |
| Salaries and Wages Expense | 1,500 | |
| Rent Expense | 900 | |
| | <u>\$24,400</u> | <u>\$24,400</u> |

PROBLEM 3-6A

(a) & (c)

Cash

| | | | |
|-----------|--------|-------|-------|
| 10/1 Bal. | 19,200 | 10/15 | 1,200 |
| 10/5 | 1,300 | 10/20 | 1,900 |
| 10/17 | 600 | 10/29 | 300 |
| | | 10/31 | 400 |
| Bal. | 17,300 | | |

Accounts Receivable

| | | | |
|-----------|-------|------|-------|
| 10/1 Bal. | 2,600 | 10/5 | 1,300 |
| 10/10 | 5,100 | | |
| Bal. | 6,400 | | |

Supplies

| | | | |
|-----------|-------|--|--|
| 10/1 Bal. | 2,100 | | |
| Bal. | 2,100 | | |

Equipment

| | | | |
|-----------|-------|--|--|
| 10/1 Bal. | 8,000 | | |
| Bal. | 8,000 | | |

Accounts Payable

| | | | |
|-------|-------|-----------|-------|
| 10/20 | 1,900 | 10/1 Bal. | 4,800 |
| | | Bal. | 2,900 |

Unearned Service Revenue

| | | | |
|--|--|-----------|-------|
| | | 10/1 Bal. | 1,100 |
| | | Bal. | 1,100 |

Common Stock

| | | |
|--|-----------|--------|
| | 10/1 Bal. | 15,000 |
| | Bal. | 15,000 |

Retained Earnings

| | | |
|--|-----------|--------|
| | 10/1 Bal. | 11,000 |
| | Bal. | 11,000 |

Dividends

| | | |
|-------|-----|--|
| 10/29 | 300 | |
| Bal. | 300 | |

Service Revenue

| | | |
|--|-------|-------|
| | 10/10 | 5,100 |
| | 10/17 | 600 |
| | Bal. | 5,700 |

Salaries and Wages Expense

| | | |
|-------|-------|--|
| 10/15 | 1,200 | |
| Bal. | 1,200 | |

Utilities Expense

| | | |
|-------|-----|--|
| 10/31 | 400 | |
| Bal. | 400 | |

PROBLEM 3-6A (Continued)**(b)**

| Date | Account Titles and Explanation | Debit | Credit |
|---------------|---|--------------|---------------|
| Oct. 5 | Cash..... | 1,300 | |
| | Accounts Receivable..... | | 1,300 |
| | (Received collections from | | |
| | customers on account) | | |
| 10 | Accounts Receivable | 5,100 | |
| | Service Revenue | | 5,100 |
| | (Billed customers for services | | |
| | performed) | | |
| 15 | Salaries and Wages Expense | 1,200 | |
| | Cash | | 1,200 |
| | (Paid employee salaries) | | |
| 17 | Cash..... | 600 | |
| | Service Revenue | | 600 |
| | (Performed services for customers) | | |
| 20 | Accounts Payable | 1,900 | |
| | Cash | | 1,900 |
| | (Paid creditors on account) | | |
| 29 | Dividends | 300 | |
| | Cash | | 300 |
| | (Payment of cash dividend) | | |
| 31 | Utilities Expense..... | 400 | |
| | Cash | | 400 |
| | (Paid utilities) | | |

PROBLEM 3-6A (Continued)

(d)

**SOLIS COMPANY
Trial Balance
October 31, 2014**

| | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|-----------------|-----------------|
| Cash..... | \$ 17,300 | |
| Accounts Receivable | 6,400 | |
| Supplies | 2,100 | |
| Equipment..... | 8,000 | |
| Accounts Payable | | \$ 2,900 |
| Unearned Service Revenue | | 1,100 |
| Common Stock | | 15,000 |
| Retained Earnings..... | | 11,000 |
| Dividends | 300 | |
| Service Revenue..... | | 5,700 |
| Salaries and Wages Expense | 1,200 | |
| Utilities Expense..... | 400 | |
| | <u>\$35,700</u> | <u>\$35,700</u> |

| |
|---------------------|
| PROBLEM 3-7A |
|---------------------|

SWISHER CO.
Trial Balance
June 30, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---|-----------------|-----------------|
| Cash (\$3,090 – \$780 + \$870)..... | \$ 3,180 | |
| Accounts Receivable* | 3,910 | |
| Supplies (\$800 – \$340)..... | 460 | |
| Equipment (\$3,000 + \$340) | 3,340 | |
| Accounts Payable (\$3,686 – \$206 – \$260)..... | | \$ 3,220 |
| Unearned Service Revenue..... | | 1,200 |
| Common Stock..... | | 9,000 |
| Dividends (\$800 + \$600) | 1,400 | |
| Service Revenue | | 3,480 |
| Salaries and Wages Expense | | |
| (\$3,600 + \$700 – \$600)..... | 3,700 | |
| Utilities Expense | 910 | |
| | <u>\$16,900</u> | <u>\$16,900</u> |

*\$3,190 + \$780 – \$870 – \$90 + \$900

PROBLEM 3-8A

(a) & (c)

Cash

| | | | |
|----------|--------|------|--------|
| 3/1 Bal. | 16,000 | 3/2 | 2,000 |
| 3/9 | 9,900 | 3/10 | 10,900 |
| 3/20 | 8,300 | 3/12 | 500 |
| 3/31 | 750 | 3/20 | 5,000 |
| 3/31 | 20,000 | 3/31 | 3,800 |
| Bal. | 32,750 | | |

Accounts Receivable

| | | |
|------|-----|--|
| 3/31 | 750 | |
| Bal. | 750 | |

Land

| | | |
|----------|--------|--|
| 3/1 Bal. | 38,000 | |
| Bal. | 38,000 | |

Buildings

| | | |
|----------|--------|--|
| 3/1 Bal. | 22,000 | |
| Bal. | 22,000 | |

Equipment

| | | |
|----------|--------|--|
| 3/1 Bal. | 16,000 | |
| Bal. | 16,000 | |

Accounts Payable

| | | | |
|------|--------|----------|--------|
| 3/10 | 10,900 | 3/1 Bal. | 12,000 |
| | | 3/2 | 8,000 |
| | | Bal. | 9,100 |

Common Stock

| | | |
|--|----------|--------|
| | 3/1 Bal. | 80,000 |
| | Bal. | 80,000 |

Service Revenue

| | | |
|--|------|--------|
| | 3/9 | 9,900 |
| | 3/20 | 8,300 |
| | 3/31 | 20,000 |
| | Bal. | 38,200 |

Sales Revenue

| | | |
|--|------|-------|
| | 3/31 | 1,500 |
| | Bal. | 1,500 |

Advertising Expense

| | | |
|------|-----|--|
| 3/12 | 500 | |
| Bal. | 500 | |

Rent Expense

| | | |
|------|--------|--|
| 3/2 | 10,000 | |
| 3/20 | 5,000 | |
| Bal. | 15,000 | |

Salaries and Wages Expense

| | | |
|------|-------|--|
| 3/31 | 3,800 | |
| Bal. | 3,800 | |

PROBLEM 3-8A (Continued)

(b)

| Date | Account Titles and Explanation | Debit | Credit |
|---------------|---|---------------|---------------|
| Mar. 2 | Rent Expense | 10,000 | |
| | Accounts Payable | | 8,000 |
| | Cash..... | | 2,000 |
| | (Rented films for cash and on account) | | |
| 3 | No entry—not a transaction. | | |
| 9 | Cash | 9,900 | |
| | Service Revenue..... | | 9,900 |
| | (Received cash for admissions) | | |
| 10 | Accounts Payable (\$8,000 + \$2,900)..... | 10,900 | |
| | Cash..... | | 10,900 |
| | (Paid creditors on account) | | |
| 11 | No entry—not a transaction. | | |
| 12 | Advertising Expense..... | 500 | |
| | Cash..... | | 500 |
| | (Paid advertising expenses) | | |
| 20 | Cash | 8,300 | |
| | Service Revenue..... | | 8,300 |
| | (Received cash for admissions) | | |
| 20 | Rent Expense | 5,000 | |
| | Cash..... | | 5,000 |
| | (Paid film rental) | | |
| 31 | Salaries and Wages Expense..... | 3,800 | |
| | Cash..... | | 3,800 |
| | (Paid salaries expense) | | |

PROBLEM 3-8A (Continued)

| Date | Account Titles and Explanation | Debit | Credit |
|----------------|---|---------------|---------------|
| Mar. 31 | Cash..... | 750 | |
| | Accounts Receivable | 750 | |
| | Sales Revenue (15% X \$10,000) | | 1,500 |
| | (Received cash and balance on account for concessions) | | |
| 31 | Cash..... | 20,000 | |
| | Service Revenue | | 20,000 |
| | (Received cash for admissions) | | |

**(d) SEQUEL THEATER INC.
Trial Balance
March 31, 2014**

| | Debit | Credit |
|---|-------------------------|-------------------------|
| Cash..... | \$ 32,750 | |
| Accounts Receivable | 750 | |
| Land..... | 38,000 | |
| Buildings | 22,000 | |
| Equipment..... | 16,000 | |
| Accounts Payable | | \$ 9,100 |
| Common Stock | | 80,000 |
| Service Revenue..... | | 38,200 |
| Sales Revenue | | 1,500 |
| Advertising Expense | 500 | |
| Rent Expense..... | 15,000 | |
| Salaries and Wages Expense | 3,800 | |
| | <u>\$128,800</u> | <u>\$128,800</u> |

PROBLEM 3-9A

| Error | (a) In Balance | (b) Difference | (c) Larger Column |
|--------------|-----------------------|-----------------------|--------------------------|
| 1. | No | \$600 | Debit |
| 2. | Yes | None | N/A |
| 3. | Yes | None | N/A |
| 4. | No | \$680 | Credit |
| 5. | Yes | None | N/A |
| 6. | Yes | None | N/A |
| 7. | No | \$900 | Debit |
| 8. | Yes | None | N/A |

(a)

HYMAN INC.

| Assets | | | | = | Liabilities | + | Stockholders' Equity | | | |
|---|--------------|------------|-------------|---|--|---|----------------------|------------|------------|-------------|
| Accounts | | | | | Accounts | | Retained Earnings | | | |
| Cash | + Receivable | + Supplies | + Equipment | = | Payable | + | Common Stock | + Revenues | - Expenses | - Dividends |
| 1. | +\$30,000 | | | | | | +\$30,000 | | | |
| 2. | -10,000 | | +\$10,000 | | | | | | | |
| 3. | -700 | | | | | | | | -\$700 | |
| 4. | -300 | +\$300 | | | | | | | | |
| 5. | | | | | +\$750 | | | | -750 | |
| 6. | +8,000 | | | | | | +\$8,000 | | | |
| 7. | -500 | | | | | | | | | -\$500 |
| 8. | -1,000 | | | | | | | | -1,000 | |
| 9. | -140 | | | | | | | | -140 | |
| 10. | | +\$2,000 | | | | | +\$2,000 | | | |
| 11. | +1,000 | -1,000 | | | | | | | | |
| <u>\$26,360</u> + <u>\$1,000</u> + <u>\$300</u> + <u>\$10,000</u> | | | | = | <u>\$750</u> + <u>\$30,000</u> + <u>\$10,000</u> - <u>\$2,590</u> - <u>\$500</u> | | | | | \$37,660 |
| | | | | | | | | | | \$37,660 |

PROBLEM 3-1B

PROBLEM 3-1B (Continued)

| | | | |
|--|------------|--------------|-----------------|
| (b) Service Revenue (\$8,000 + \$2,000)..... | | | \$10,000 |
| Expenses | | | |
| Salaries and Wages Expense..... | \$1,000 | | |
| Advertising Expense..... | 750 | | |
| Rent Expense | 700 | | |
| Utilities Expense | <u>140</u> | <u>2,590</u> | |
| Net income | | | <u>\$ 7,410</u> |

OR

| | | |
|---------------------|--|-----------------|
| Revenues | | \$10,000 |
| Less: Expenses..... | | <u>2,590</u> |
| Net income | | <u>\$ 7,410</u> |

PROBLEM 3-2B

(a)

| Date | Assets | | | = | Liabilities | | + | Common Stock | Stockholders' Equity | |
|--------|-----------------|--------------------------|------------------------|-------------------|------------------|---------------------|-------------------|------------------|-----------------------|----------------|
| | Cash | Accounts + Receivable | + Supplies + Equipment | | Notes Payable | Accounts Payable | | | + Revenues – Expenses | – Dividends |
| June 1 | \$20,000 | | | | | | | \$20,000 | | |
| 2 | –2,000 | | +\$10,000 | +\$8,000 | | | | | | |
| 3 | –600 | | | | | | | | –\$600 | |
| 5 | | +\$3,000 | | | | | | +\$3,000 | | |
| 9 | –300 | | | | | | | | | –\$300 |
| 12 | | | +\$240 | | +\$240 | | | | | |
| 15 | +1,000 | –1,000 | | | | | | | | |
| 17 | | | | | | +200 | | | –200 | |
| 20 | +1,500 | | | | | | | +1,500 | | |
| 23 | –1,000 | | | –1,000 | | | | | | |
| 26 | –180 | | | | | | | | –180 | |
| 29 | –240 | | | | –240 | | | | | |
| 30 | –750 | | | | | | | | –750 | |
| | <u>\$17,430</u> | <u>+ \$2,000</u> | <u>+ \$240</u> | <u>+ \$10,000</u> | <u>= \$7,000</u> | <u>+ \$200</u> | <u>+ \$20,000</u> | <u>+ \$4,500</u> | <u>– \$1,730</u> | <u>– \$300</u> |
| | \$29,670 | | | \$29,670 | | | | | | |

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

WALZ SERVICE INC.
Income Statement
For the Month Ended June 30, 2014

| | | |
|---|-------------------|------------------------------|
| Revenues | | |
| Service revenue (\$3,000 + \$1,500) | | \$4,500 |
| Expenses | | |
| Salaries and wages expense..... | \$750 | |
| Rent expense..... | 600 | |
| Advertising expense..... | 200 | |
| Utilities expense..... | <u>180</u> | |
| Total expenses | | <u>1,730</u> |
| Net income | | <u><u>\$2,770</u></u> |

(c)

WALZ SERVICE INC.
Balance Sheet
June 30, 2014

| | | |
|--|---------------------|-------------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$17,430 | |
| Accounts receivable | 2,000 | |
| Supplies | <u>240</u> | |
| Total current assets | | \$19,670 |
| Equipment..... | | <u>10,000</u> |
| Total assets..... | | <u><u>\$29,670</u></u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Notes payable..... | \$7,000 | |
| Accounts payable | <u>200</u> | |
| Total liabilities | | \$7,200 |
| Stockholders' equity | | |
| Common stock | 20,000 | |
| Retained earnings* | <u>2,470</u> | <u>22,470</u> |
| Total liabilities and stockholders' equity | | <u><u>\$29,670</u></u> |

***(\$0 + \$2,770 – \$300)**

PROBLEM 3-3B

(a)

THYME COMPANY

| Assets | | | | = | Liabilities | | + | Stockholders' Equity | | | |
|--|--|--|--|---|-------------|----------|---|----------------------|------------|-------------------------|-----------|
| Accounts | | | | | Notes | Accounts | | Common | Retained | | |
| Cash + Receivable + Supplies + Equipment = | | | | | Payable | Payable | | Stock | + Earnings | + Revenues – Expenses – | Dividends |
| | | | | | | | | | | | |
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PROBLEM 3-3B (Continued)

(b)

THYME COMPANY
Income Statement
For the Month Ended September 30, 2014

| | | |
|---------------------------------|----------------|-----------------------|
| <hr/> | | |
| Revenues | | |
| Service revenue..... | | \$10,600 |
| Expenses | | |
| Rent expense..... | \$1,100 | |
| Salaries and wages expense..... | 900 | |
| Advertising expense..... | 250 | |
| Utilities expense..... | 220 | |
| Total expenses | | <u>2,470</u> |
| Net income | | <u>\$8,130</u> |

THYME COMPANY
Retained Earnings Statement
For the Month Ended September 30, 2014

| | |
|---------------------------------------|------------------------|
| <hr/> | |
| Retained earnings, September 1 | \$ 2,700 |
| Add: Net income | <u>8,130</u> |
| | 10,830 |
| Less: Dividends | <u>600</u> |
| Retained earnings, September 30 | <u>\$10,230</u> |

PROBLEM 3-3B (Continued)

THYME COMPANY
Balance Sheet
September 30, 2014

| Assets | | |
|---|---------------|------------------------|
| Current assets | | |
| Cash..... | \$10,250 | |
| Accounts receivable..... | 8,800 | |
| Supplies..... | <u>600</u> | |
| Total current assets..... | | \$19,650 |
| Equipment..... | | <u>10,100</u> |
| Total assets | | <u>\$29,750</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Notes payable | \$ 5,000 | |
| Accounts payable..... | <u>4,520</u> | |
| Total current liabilities..... | | \$ 9,520 |
| Stockholders' equity | | |
| Common stock..... | 10,000 | |
| Retained earnings | <u>10,230</u> | <u>20,230</u> |
| Total liabilities and stockholders' | | |
| equity | | <u>\$29,750</u> |

| |
|---------------------|
| PROBLEM 3-4B |
|---------------------|

| Date | Account Titles and Explanation | Debit | Credit |
|---------------|--|----------------|----------------|
| Apr. 1 | Cash | 100,000 | |
| | Common Stock | | 100,000 |
| | (Issued stock for cash) | | |
| 4 | Land..... | 250,000 | |
| | Cash..... | | 250,000 |
| | (Purchased land for cash) | | |
| 8 | Advertising Expense..... | 1,200 | |
| | Accounts Payable..... | | 1,200 |
| | (Incurred advertising expense on account) | | |
| 11 | Salaries and Wages Expense..... | 3,000 | |
| | Cash..... | | 3,000 |
| | (Paid salaries) | | |
| 12 | No entry—not a transaction. | | |
| 13 | Prepaid Insurance | 7,200 | |
| | Cash..... | | 7,200 |
| | (Paid for one-year insurance policy) | | |
| 17 | Dividends | 600 | |
| | Cash..... | | 600 |
| | (Payment of cash dividend) | | |
| 20 | Cash | 6,000 | |
| | Service Revenue..... | | 6,000 |
| | (Received cash for services provided) | | |
| 25 | Cash (100 X \$90)..... | 9,000 | |
| | Unearned Service Revenue | | 9,000 |
| | (Received advance for future services) | | |

PROBLEM 3-4B (Continued)

| Date | Account Titles and Explanation | Debit | Credit |
|----------------|--|--------------|---------------|
| Apr. 30 | Cash | 7,900 | |
| | Service Revenue | | 7,900 |
| | (Received cash for services provided) | | |
| 30 | Accounts Payable..... | 400 | |
| | Cash | | 400 |
| | (Paid creditor on account) | | |

| |
|---------------------|
| PROBLEM 3-5B |
|---------------------|

(a)

| Date | Account Titles and Explanation | Debit | Credit |
|-------------|--|--------------|---------------|
| May 1 | Cash..... Common Stock (Issued stock for cash) | 100,000 | 100,000 |
| 2 | No entry—not a transaction. | | |
| 3 | Supplies Accounts Payable..... (Purchased supplies on account) | 800 | 800 |
| 7 | Rent Expense..... Cash..... (Paid office rent) | 1,400 | 1,400 |
| 11 | Accounts Receivable Service Revenue..... (Billed client for services provided) | 2,500 | 2,500 |
| 12 | Cash..... Unearned Service Revenue (Received an advance for future services) | 4,200 | 4,200 |
| 17 | Cash..... Service Revenue..... (Received cash for service performed) | 3,300 | 3,300 |
| 31 | Salaries and Wages Expense..... Cash..... (Paid salaries) | 2,500 | 2,500 |
| 31 | Accounts Payable (\$800 X 50%) Cash..... (Paid creditor on account) | 400 | 400 |

PROBLEM 3-5B (Continued)

(b)

Cash

| | | | |
|------|---------|------|-------|
| 5/1 | 100,000 | 5/7 | 1,400 |
| 5/12 | 4,200 | 5/31 | 2,500 |
| 5/17 | 3,300 | 5/31 | 400 |
| Bal. | 103,200 | | |

Accounts Receivable

| | | | |
|------|-------|--|--|
| 5/11 | 2,500 | | |
| Bal. | 2,500 | | |

Supplies

| | | | |
|------|-----|--|--|
| 5/3 | 800 | | |
| Bal. | 800 | | |

Accounts Payable

| | | | |
|------|-----|------|-----|
| 5/31 | 400 | 5/3 | 800 |
| | | Bal. | 400 |

Unearned Service Revenue

| | | | |
|--|------|-------|--|
| | 5/12 | 4,200 | |
| | Bal. | 4,200 | |

Common Stock

| | | | |
|--|------|---------|--|
| | 5/1 | 100,000 | |
| | Bal. | 100,000 | |

Service Revenue

| | | | |
|--|------|-------|--|
| | 5/11 | 2,500 | |
| | 5/17 | 3,300 | |
| | Bal. | 5,800 | |

Salaries and Wages Expense

| | | | |
|------|-------|--|--|
| 5/31 | 2,500 | | |
| Bal. | 2,500 | | |

Rent Expense

| | | | |
|------|-------|--|--|
| 5/7 | 1,400 | | |
| Bal. | 1,400 | | |

PROBLEM 3-5B (Continued)

(c)

**ROYCE CONSULTING
Trial Balance
May 31, 2014**

| | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|------------------|------------------|
| Cash | \$103,200 | |
| Accounts Receivable | 2,500 | |
| Supplies | 800 | |
| Accounts Payable | | \$ 400 |
| Unearned Service Revenue | | 4,200 |
| Common Stock | | 100,000 |
| Service Revenue | | 5,800 |
| Salaries and Wages Expense | 2,500 | |
| Rent Expense | 1,400 | |
| | <u>\$110,400</u> | <u>\$110,400</u> |

PROBLEM 3-6B

(a) & (c)

Cash

| | | | |
|----------|--------|------|-------|
| 7/1 Bal. | 15,532 | 7/9 | 2,100 |
| 7/8 | 10,189 | 7/14 | 4,810 |
| 7/11 | 7,320 | 7/30 | 5,267 |
| | | 7/31 | 400 |
| Bal. | 20,464 | | |

Accounts Receivable

| | | | |
|----------|--------|-----|--------|
| 7/1 Bal. | 10,536 | 7/8 | 10,189 |
| 7/22 | 4,700 | | |
| Bal. | 5,047 | | |

Supplies

| | | | |
|----------|-------|--|--|
| 7/1 Bal. | 3,592 | | |
| 7/17 | 720 | | |
| Bal. | 4,312 | | |

Equipment

| | | | |
|----------|--------|--|--|
| 7/1 Bal. | 25,950 | | |
| Bal. | 25,950 | | |

Accounts Payable

| | | | |
|------|-------|----------|--------|
| 7/14 | 4,810 | 7/1 Bal. | 15,800 |
| | | 7/17 | 720 |
| | | Bal. | 11,710 |

Unearned Service Revenue

| | | | |
|--|--|----------|-------|
| | | 7/1 Bal. | 1,810 |
| | | Bal. | 1,810 |

Common Stock

| | | |
|--|----------|--------|
| | 7/1 Bal. | 25,000 |
| | Bal. | 25,000 |

Retained Earnings

| | | |
|--|----------|--------|
| | 7/1 Bal. | 13,000 |
| | Bal. | 13,000 |

Dividends

| | | |
|------|-----|--|
| 7/31 | 400 | |
| Bal. | 400 | |

Service Revenue

| | | |
|--|------|--------|
| | 7/11 | 7,320 |
| | 7/22 | 4,700 |
| | Bal. | 12,020 |

Maintenance and Repairs Expense

| | | |
|------|-----|--|
| 7/30 | 386 | |
| Bal. | 386 | |

Salaries and Wages Expense

| | | |
|------|-------|--|
| 7/9 | 2,100 | |
| 7/30 | 3,114 | |
| Bal. | 5,214 | |

Utilities Expense

| | | |
|------|-------|--|
| 7/30 | 1,767 | |
| Bal. | 1,767 | |

PROBLEM 3-6B (Continued)

(b)

| Date | Account Titles and Explanation | Debit | Credit |
|-------------|---------------------------------------|--------------|---------------|
| July 8 | Cash | 10,189 | |
| | Accounts Receivable | | 10,189 |
| | (Received cash on account) | | |
| 9 | Salaries and Wages Expense..... | 2,100 | |
| | Cash..... | | 2,100 |
| | (Paid salaries) | | |
| 11 | Cash | 7,320 | |
| | Service Revenue..... | | 7,320 |
| | (Received cash for services provided) | | |
| 14 | Accounts Payable | 4,810 | |
| | Cash..... | | 4,810 |
| | (Paid creditors) | | |
| 17 | Supplies | 720 | |
| | Accounts Payable..... | | 720 |
| | (Purchased supplies on account) | | |
| 22 | Accounts Receivable | 4,700 | |
| | Service Revenue..... | | 4,700 |
| | (Billed for services provided) | | |
| 30 | Salaries and Wages Expense..... | 3,114 | |
| | Utilities Expense | 1,767 | |
| | Maintenance and Repairs Expense | 386 | |
| | Cash..... | | 5,267 |
| | (Paid for various expenses) | | |
| 31 | Dividends | 400 | |
| | Cash..... | | 400 |
| | (Payment of cash dividend) | | |

PROBLEM 3-6B (Continued)

**(d) AMERICAN DRY CLEANERS
Trial Balance
July 31, 2014**

| | <u>Debit</u> | <u>Credit</u> |
|---------------------------------------|-----------------|-----------------|
| Cash..... | \$20,464 | |
| Accounts Receivable | 5,047 | |
| Supplies | 4,312 | |
| Equipment..... | 25,950 | |
| Accounts Payable | | \$11,710 |
| Unearned Service Revenue | | 1,810 |
| Common Stock | | 25,000 |
| Retained Earnings..... | | 13,000 |
| Dividends | 400 | |
| Service Revenue..... | | 12,020 |
| Maintenance and Repairs Expense | 386 | |
| Salaries and Wages Expense..... | 5,214 | |
| Utilities Expense..... | 1,767 | |
| | <u>\$63,540</u> | <u>\$63,540</u> |

| |
|---------------------|
| PROBLEM 3-7B |
|---------------------|

LINDBERGH COMPANY
Trial Balance
May 31, 2014

| | <u>Debit</u> | <u>Credit</u> |
|---|-----------------|-----------------|
| Cash (\$5,340 + \$350 – \$441) | \$ 5,249 | |
| Accounts Receivable (\$2,750 – \$180 – \$240) | 2,330 | |
| Prepaid Insurance (\$700 + \$100) | 800 | |
| Supplies (\$0 + \$350) | 350 | |
| Equipment (\$9,000 – \$350) | 8,650 | |
| Accounts Payable (\$4,100 – \$100 + \$350 – \$240) | | \$ 4,110 |
| Income Taxes Payable | | 850 |
| Common Stock (\$5,700 + \$600) | | 6,300 |
| Retained Earnings | | 6,000 |
| Dividends (\$0 + \$600) | 600 | |
| Service Revenue (\$7,690 + \$270) | | 7,960 |
| Salaries and Wages Expense (\$4,200 + \$500) | 4,700 | |
| Advertising Expense (\$1,100 + \$441) | 1,541 | |
| Income Tax Expense (\$900 + \$100) | 1,000 | |
| | <u>\$25,220</u> | <u>\$25,220</u> |

PROBLEM 3-8B

(a) & (c)

Cash

| | | | |
|----------|-------|------|-------|
| 4/1 Bal. | 6,300 | 4/2 | 1,800 |
| 4/9 | 5,700 | 4/10 | 3,200 |
| 4/25 | 3,000 | 4/12 | 410 |
| 4/30 | 170 | 4/29 | 1,900 |
| | | 4/30 | 1,200 |
| Bal. | 6,660 | | |

Accounts Receivable

| | | |
|------|-----|--|
| 4/30 | 170 | |
| Bal. | 170 | |

Prepaid Rent

| | | |
|------|-------|--|
| 4/30 | 1,200 | |
| Bal. | 1,200 | |

Land

| | | |
|----------|--------|--|
| 4/1 Bal. | 10,000 | |
| Bal. | 10,000 | |

Buildings

| | | |
|----------|--------|--|
| 4/1 Bal. | 58,000 | |
| Bal. | 58,000 | |

Equipment

| | | |
|----------|-------|--|
| 4/1 Bal. | 6,000 | |
| Bal. | 6,000 | |

Accounts Payable

| | | | |
|------|-------|----------|-------|
| 4/10 | 1,200 | 4/1 Bal. | 2,300 |
| | | 4/20 | 750 |
| | | Bal. | 1,850 |

Mortgage Payable

| | | | |
|------|-------|----------|--------|
| 4/10 | 2,000 | 4/1 Bal. | 38,000 |
| | | Bal. | 36,000 |

Common Stock

| | | | |
|--|--|----------|--------|
| | | 4/1 Bal. | 40,000 |
| | | Bal. | 40,000 |

Service Revenue

| | | | |
|--|--|------|-------|
| | | 4/9 | 5,700 |
| | | 4/25 | 3,000 |
| | | Bal. | 8,700 |

Sales Revenue

| | | | |
|--|--|------|-----|
| | | 4/30 | 340 |
| | | Bal. | 340 |

Advertising Expense

| | | |
|------|-----|--|
| 4/12 | 410 | |
| Bal. | 410 | |

PROBLEM 3-8B (Continued)

| Rent Expense | | |
|--------------|-------|--|
| 4/2 | 1,800 | |
| 4/20 | 750 | |
| Bal. | 2,550 | |

| Salaries and Wages Expense | | |
|----------------------------|-------|--|
| 4/29 | 1,900 | |
| Bal. | 1,900 | |

(b)

| Date | Account Titles and Explanation | Debit | Credit |
|--------|--|-------|--------|
| Apr. 2 | Rent Expense | 1,800 | |
| | Cash..... | | 1,800 |
| | (Paid film rental) | | |
| 3 | No entry—not a transaction. | | |
| 9 | Cash | 5,700 | |
| | Service Revenue..... | | 5,700 |
| | (Received cash for admissions) | | |
| 10 | Mortgage Payable | 2,000 | |
| | Accounts Payable | 1,200 | |
| | Cash..... | | 3,200 |
| | (Made payments on mortgage and accounts payable) | | |
| 11 | No entry—not a transaction. | | |
| 12 | Advertising Expense..... | 410 | |
| | Cash..... | | 410 |
| | (Paid advertising expenses) | | |
| 20 | Rent Expense | 750 | |
| | Accounts Payable | | 750 |
| | (Rented film on account) | | |
| 25 | Cash | 3,000 | |
| | Service Revenue..... | | 3,000 |
| | (Received cash for admissions) | | |

PROBLEM 3-8B (Continued)

| Date | Account Titles and Explanation | Debit | Credit |
|-------------|---|--------------|---------------|
| Apr. 29 | Salaries and Wages Expense | 1,900 | |
| | Cash | | 1,900 |
| | (Paid salaries expense) | | |
| 30 | Cash | 170 | |
| | Accounts Receivable | 170 | |
| | Sales Revenue (17% X \$2,000) | | 340 |
| | (Received cash and balance on account for concessions) | | |
| 30 | Prepaid Rent | 1,200 | |
| | Cash | | 1,200 |
| | (Paid cash for future film rental) | | |

(d) **ROXY THEATER INC.**
Trial Balance
April 30, 2014

| | Debit | Credit |
|----------------------------------|-----------------|-----------------|
| Cash | \$ 6,660 | |
| Accounts Receivable | 170 | |
| Prepaid Rent | 1,200 | |
| Land | 10,000 | |
| Buildings | 58,000 | |
| Equipment | 6,000 | |
| Accounts Payable | | \$ 1,850 |
| Mortgage Payable | | 36,000 |
| Common Stock | | 40,000 |
| Service Revenue | | 8,700 |
| Sales Revenue | | 340 |
| Advertising Expense | 410 | |
| Rent Expense | 2,550 | |
| Salaries and Wages Expense | 1,900 | |
| | <u>\$86,890</u> | <u>\$86,890</u> |

| |
|---------------------|
| PROBLEM 3-9B |
|---------------------|

- (a) **Correct: 2, 7**
Incorrect: 1, 3, 4, 5, 6, 8

(b)

| Error | (1) In Balance | (2) Difference | (3) Larger Column |
|--------------|-----------------------|-----------------------|--------------------------|
| 1. | No | \$270 | Credit |
| 3. | No | \$880 | Credit |
| 4. | Yes | None | N/A |
| 5. | Yes | None | N/A |
| 6. | Yes | None | N/A |
| 8. | No | \$5,000 | Credit |

(a)

General Journal

| Date | Account Titles | Debit | Credit |
|--------|--------------------------------|-------|--------|
| Nov. 8 | No journal entry required. | | |
| 8 | No journal entry required. | | |
| 8 | Cash..... | 500 | |
| | Common Stock | | 500 |
| 11 | Supplies..... | 95 | |
| | Cash | | 95 |
| 14 | Supplies..... | 125 | |
| | Cash | | 125 |
| 15 | Equipment | 300 | |
| | Common Stock | | 300 |
| 16 | Cash..... | 2,000 | |
| | Notes Payable | | 2,000 |
| 17 | Equipment | 900 | |
| | Cash | | 900 |
| 18 | No journal entry required. | | |
| 25 | Cash..... | 60 | |
| | Unearned Service Revenue | | 60 |
| 29 | Cash..... | 100 | |
| | Service Revenue | | 100 |

CONTINUING COOKIE CHRONICLE (Continued)

| Date | Account Titles | Debit | Credit |
|---------|---------------------------|-------|--------|
| Nov. 30 | Website | 600 | |
| | Accounts Payable | | 600 |
| 30 | Prepaid Insurance | 1,200 | |
| | Cash | | 1,200 |
| 30 | Accounts Receivable | 300 | |
| | Service Revenue | | 300 |
| 30 | Utilities Expense | 50 | |
| | Accounts Payable | | 50 |

(b)

| Cash | | | |
|--------------|-------|---------|-------|
| Nov. 8 | 500 | Nov. 11 | 95 |
| Nov. 16 | 2,000 | Nov. 14 | 125 |
| Nov. 25 | 60 | Nov. 17 | 900 |
| Nov. 29 | 100 | Nov. 30 | 1,200 |
| Nov. 30 Bal. | 340 | | |

| Accounts Receivable | |
|---------------------|-----|
| Nov. 30 | 300 |
| Nov. 30 Bal. | 300 |

| Supplies | |
|--------------|-----|
| Nov. 11 | 95 |
| Nov. 14 | 125 |
| Nov. 30 Bal. | 220 |

| Prepaid Insurance | |
|-------------------|-------|
| Nov. 30 | 1,200 |
| Nov. 30 Bal. | 1,200 |

| Equipment | |
|--------------|-------|
| Nov. 15 | 300 |
| Nov. 17 | 900 |
| Nov. 30 Bal. | 1,200 |

| Website | |
|--------------|-----|
| Nov. 30 | 600 |
| Nov. 30 Bal. | 600 |

| Accounts Payable | | |
|------------------|--------------|-----|
| | Nov. 30 | 600 |
| | Nov. 30 | 50 |
| | Nov. 30 Bal. | 650 |

| Unearned Service Revenue | | |
|--------------------------|--------------|----|
| | Nov. 25 | 60 |
| | Nov. 30 Bal. | 60 |

| Notes Payable | |
|---------------|----------------------|
| | Nov. 16 2,000 |
| | Nov. 30 Bal. 2,000 |

CONTINUING COOKIE CHRONICLE (Continued)

Common Stock

| | | |
|--|--------------|-----|
| | Nov. 8 | 500 |
| | Nov. 15 | 300 |
| | Nov. 30 Bal. | 800 |

Utilities Expense

| | |
|--------------|----|
| Nov. 30 | 50 |
| Nov. 30 Bal. | 50 |

Service Revenue

| | | |
|--|--------------|-----|
| | Nov. 29 | 100 |
| | Nov. 30 | 300 |
| | Nov. 30 Bal. | 300 |

(c) **COOKIE CREATIONS INC.**
Trial Balance
November 30, 2014

| | <u>Debit</u> | <u>Credit</u> |
|--------------------------------|----------------|----------------|
| Cash | \$ 340 | |
| Accounts Receivable | 300 | |
| Supplies | 220 | |
| Prepaid Insurance | 1,200 | |
| Equipment | 1,200 | |
| Website | 600 | |
| Accounts Payable | | \$ 650 |
| Unearned Service Revenue | | 60 |
| Notes Payable | | 2,000 |
| Common Stock | | 800 |
| Service Revenue | | 400 |
| Utilities Expense | 50 | |
| | <u>\$3,910</u> | <u>\$3,910</u> |

| (a) | Account | Increase Side | Decrease Side | Normal Balance |
|-----|--|------------------|------------------|-------------------|
| | Common Stock | Right/Credit | Left/Debit | Credit |
| | Accounts Payable | Right/Credit | Left/Debit | Credit |
| | Accounts Receivable | Left/Debit | Right/Credit | Debit |
| | Selling, Marketing, and Administrative Expenses | Left/Debit | Right/Credit | Debit |
| | Prepaid Expenses | Left/Debit | Right/Credit | Debit |
| | Net Property, Plant, and Equipment | Left/Debit | Right/Credit | Debit |
| | Net Product Sales | Right/Credit | Left/Debit | Credit |

- (b)
1. Cash is increased.
 2. Cash is decreased.
 3. Cash is decreased.

- (c)
1. Cash is decreased or Interest Payable is increased.
 2. Cash is decreased or Notes (or Mortgage) Payable is increased.

| (a) | | Tootsie Roll | | Hershey Company | |
|-----|------------------------------------|--------------|----|----------------------------|--------|
| 1. | Accounts Receivable | debit | 1. | Inventories | debit |
| 2. | Net Property, Plant, and Equipment | debit | 2. | Provision for Income Taxes | debit |
| 3. | Accounts Payable | credit | 3. | Accrued Liabilities | credit |
| 4. | Retained Earnings | credit | 4. | Common Stock | credit |
| 5. | Net Product Sales | credit | 5. | Interest Expense | debit |

(b) The following other accounts are ordinarily involved:

1. Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).
2. Decrease in Notes Payable: Cash is decreased (credited).
3. Increase in Machinery: Notes Payable is increased (credited) or Cash is decreased (credited).
4. Increase in Interest Revenue: Cash or Interest Receivable is increased (debited).

- (a) The reason the Green Bay Packers' issue an annual report is because they are a publicly owned, nonprofit company. They issue the report to the more than 100,000 shareholders who hold shares. None of the other teams are publicly owned, so they have no obligation to make their financial information available except to their small group of owners.**
- (b) At the time that the article was written the owners of the NFL teams and the players' labor union were negotiating a new contract. Knowing how profitable the NFL teams are would be useful information for the players to know so that they would have a better sense of how much the teams could afford to pay. The Packers are obviously a "small market" team, they are not necessarily representative of teams in general. However, the Packers' annual report does give the players some sense of the profitability of other teams.**
- (c) Since some of the cost of the stadium that the Packers play in is covered by taxpayers, the county and state government has an interest in the team's finances.**
- (d) The Packers' revenues increased during recent years. However, because the cost of players' salaries increased at a faster rate than revenues, the Packers' operating profit actually declined.**

CHIEFTAIN INTERNATIONAL, INC.

- (a) One of the primary advantages to Chieftain of having no long-term debt is that there is room for growth through the use of debt and the company's financial risk is greatly reduced. Another advantage is that profitability is enhanced when there is no interest expense. A possible disadvantage is that the company could expand more and earn a greater return if the growth had been financed with long-term debt.**
- (b) An advantage to Chieftain from having a large cash balance is that cash is available to finance such things as the drilling of new wells and the investment in new technology. New opportunities may be seized and expansions may be undertaken at the time most advantageous for the business. A disadvantage is that cash earns little or no interest. A higher rate of return might be generated on excess cash by some other type of investment.**
- (c) Accounts payable, as purchases on credit, represent interest-free loans. Business enterprises don't pay cash unless the supplier requires immediate payment. Nearly all exchange transactions are conducted on 30-day or more credit.**

- (a) CPAs work in public accounting, business and industry, government, and education.**
- (b) A CPA needs:**
 - strong leadership,**
 - communication skills,**
 - tech know-how,**
 - business savvy.**
- (c) Salary ranges are: \$51,500 – \$74,250 during the first three years for a CPA at a large firm;
\$189,750 – \$411,000 for Chief Financial Officer at a large corporation.**

| | | | | |
|-----|-------|---------------------------------------|--------|--------|
| (a) | May 1 | Cash | 15,000 | |
| | | Common Stock | | 15,000 |
| | 5 | Correct. | | |
| | 7 | Cash | 500 | |
| | | Unearned Service Revenue | | 500 |
| | 9 | Supplies | 1,500 | |
| | | Accounts Payable..... | | 1,500 |
| | 14 | Equipment..... | 800 | |
| | | Cash..... | | 800 |
| | 15 | Dividends | 400 | |
| | | Cash..... | | 400 |
| | 20 | Cash | 154 | |
| | | Service Revenue..... | | 154 |
| | 31 | Maintenance and Repairs Expense | 75 | |
| | | Accounts Payable..... | | 75 |

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

| | | | |
|-----|---|------------|-----------------|
| (c) | Net income as reported | | \$ 4,500 |
| | Add: 5/9, Supplies expense..... | \$1,500 | |
| | 5/15, Salaries and wages expense (dividends paid) | <u>400</u> | <u>1,900</u> |
| | | | 6,400 |
| | Less: 5/7, Unearned service revenue | | <u>500</u> |
| | Correct net income | | <u>\$ 5,900</u> |

| | | | |
|-----|------------------------------------|----------|-----------------|
| (d) | Cash as reported | | \$12,475 |
| | Add: 5/9, Purchase on account..... | \$1,500 | |
| | 5/20, Transposition error | <u>9</u> | <u>1,509</u> |
| | | | <u>\$13,984</u> |

To: Accounting Instructor

From: Accounting Student

Re: Steps in Recording Process

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

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

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

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

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

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

(a) The stakeholders in this situation are:

- Jennifer VanPelt, assistant chief accountant.
- Users of the company's financial statements.
- BIT Company.

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

(c) Jennifer's alternatives are:

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

- (a) Employees in the rail unit accelerated revenue in each of the fourth quarters from 2000 to 2003. That is, revenue that should have been reported in the first quarter of a year was instead reported in the fourth quarter of the previous year.**
- (b) One possible motivation for engaging in this activity is that bonuses are frequently based on annual results. If it appeared that the rail unit was not going to meet the performance level required for bonuses, the employees may have shifted the revenue recognition forward on these sales in order to boost annual results to meet performance targets.**
- (c) The employees were fired. In addition, the matter was being investigated by the Securities and Exchange Commission (SEC).**
- (d) To restate financial statements means to actually issue new financial statements to replace those that were previously issued. We are told that, for example, 2002 revenue was overstated by \$158 million, and net income was overstated by \$22 million. While these numbers seem large, to GE they are immaterial. \$22 million was less than 0.2% of the company's net income. As a percentage of GE's total results the errors are not large enough to change investors' evaluation of the company.**

We address the issue of contingent liabilities in greater detail in Chapter 10. Our primary interest in this exercise is to engage students in a discussion regarding the general nature of the financial statement elements (assets, liabilities, equity, revenues and expenses).

- (a) By taking out the bank loan your friend has incurred a liability. You do not have a liability unless your friend defaults, or unless it becomes clear that he will default. The loan application may, however, require you to disclose any guarantees that you have signed, since they represent potential liabilities.
- (b) Accounting standards have specific requirements regarding accounting for situations where there is uncertainty regarding whether a liability has been incurred. Those standards require an evaluation of the probability of an amount being owed. Without going into detail regarding those standards, the basic idea is that if it is probable that you will owe money, then you should accrue a liability. If it is not probable, but it is possible that you will owe money, then you should disclose facts regarding the situation. The most important point is that this event has the potential to materially impact your finances, and therefore you have a responsibility to disclose it to the bank in some form.
- (c) Losing your job would not create a financial liability, although it would most certainly reduce your revenues. You are obviously concerned that you might lose your job, but you don't have specific information that would suggest that it will happen. Therefore, you probably don't have an obligation to disclose this information to the bank. However, unless you are relatively certain that you would be able to find suitable employment relatively quickly, you might want to wait until your job situation has stabilized before pursuing a loan of this size.

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

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

| Account | Financial Statement | Position in Financial Statement |
|--|--|---|
| Share capital | Consolidated Balance Sheet | Equity |
| Goodwill | Consolidated Balance Sheet | Non-current assets |
| Borrowings and overdrafts | Consolidated Balance Sheet | Current and Non-current liabilities |
| Amortisation of intangible assets | Consolidated Income Statement | After Gross profit and before Operating profit |
| Derivative financial asset | Consolidated Balance Sheet | Current assets |