

CHAPTER: TWO

THE RECORDING PROCESS

CHAPTER AT A GLANCE

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- How a ledger and posting help in the recording process.
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2.1: Event and transaction

Event: In ordinary language "Event" means anything that happens. Human life is full of events. So many events take place in the family and social life of a person. The events may be classified into two types:

- ✓ **Monetary events:** Events which are related with money, i.e. which change the financial position of a person are known as "monetary events". For example, daily shopping, marriage ceremony, birthday anniversary, marriage anniversary etc.
- ✓ **Non-monetary events:** Events which are not related with money i.e. which do not change the financial position of a person are known as "non-monetary events". For example, winning a game, delivering a lecture in a meeting etc.

In accounting, all monetary events of an organization are regarded as "business transactions."

Transaction: Transaction can be defined as an exchange of goods or services between two parties. In other words, transaction is a business event that has a monetary impact on an entity's financial statements, and is recorded as an entry in its accounting records. Each transaction represents some sort of change to entity's assets, liabilities or owner's equity. Example: Paying a supplier for services rendered or goods delivered.

2.2: Classification of transaction

Transactions may be classified in different groups from different points of views:

1. On the basis of organizational relationship:
 - a. External transactions
 - b. Internal transactions
 2. On the basis of exchange of cash
 - a. Cash transactions:
 - b. Credit transactions
 - c. Non-cash transactions
 3. On the basis of visibility :
 - a. Visible transactions
 - b. Invisible transactions
 4. On the basis of objectivity
 - a. Business transactions
 - b. Non-business or non-trading transactions
 - c. Personal transactions
- 1. On the basis of organizational relationship:**
- a. **External transactions:** The transactions that occur between two persons or two organizations or between a person and organization in terms of money are called external transactions.
 - b. **Internal transactions:** The transactions relating adjustment of depreciation of fixed assets, income receivable, expenditure payable or any matter after a certain period are called internal transactions or transactions relating to accounts. For example, the value of a machine decreased through uses, salary payable, etc.

2. On the basis of exchange of cash :

- a. **Cash transactions:** The transactions which are settled for cash right after their occurrence are called cash transactions. Cash means money, cheque, bank draft etc.
- b. **Credit transactions:** The transactions which are not settled for cash right after their occurrence are called credit transactions. In this case after a certain period cash payment is made.
- c. **Non- cash transactions:** All the transactions other than cash transactions and credit transactions are collectively called non-cash transactions. There is no trace of transactions anywhere except in the books of accounting. For this reason it is called transactions in papers or transactions in books of accounts. Depreciation of fixed assets, return of defective goods purchased earlier etc. are non-cash transactions.

3. On the basis of visibility :

- a. **Visible transactions:** The results of effects of those transactions which are visible are called visible transactions. For example, purchase of machine, furnitures, tools, car etc. Visible transactions are also called real transactions.
- b. **Invisible transactions:** The results of those transactions which are not visible are called invisible transactions. For example, depreciation of fixed assets, amortization of intangible assets, share discount, preliminary expenses etc.

4. On the basis of objectivity:

- a. **Business transactions:** Day to day transactions those are incurred for running the business is called business transactions. Such as sale, purchase, advertisement etc.
- b. **Non-business or non-trading transactions:** Social service oriented transactions are called non-business or non-trading transactions. For example, subscription or donation to various social organization such school, college, etc.
- c. **Personal transactions:** A person performs transactions in his personal life such as birthday expenditure, marriage ceremony expenditure, marriage day expenditure, festival expenditure, children's education expenditure, etc. which are called personal transactions.

2.3: Account and its types

Account: Account is a record of increase and decrease in specific asset, liability, or owner's equity items. It is state that "an account is a summary of relevant transactions at one place relating to a particular head"

Types of accounts/head of account: There are six types of account. These are

1. Asset Account
2. Expense Account
3. Drawing Account
4. Liability Account
5. Revenue Account
6. Capital Account

- (1) **Asset Account:** Asset is the resource owned by a business. Example: Cash Account, Land Account, Equipment Account etc.
- (2) **Expense Account:** Expense is the cost of asset consumer or service used in the process of earning revenue. Example: Advertising Expenses Rent Expense, Salary Expense, Utility Expense etc.
- (3) **Drawing Account:** Drawing is the withdrawal of cash or other asset from an unincorporated business for the personal use of the owner. Example: Cash Drawing Account, Merchandise Drawing Account etc.
- (4) **Liability Account:** Liability is the creditorship claim on total asset. Example: Salary Payable, Rent Payable etc.
- (5) **Revenue Account:** Revenue is the gross increase in owner's equity resulting from business activities. Example: Service Revenue, Concession Revenue, Rent Revenue etc.
- (6) **Capital Account:** Capital is the ownership claim on total assets. Example: Mr. Arif, Capital Mr. Azam, Additional investment etc.

2.4: The steps in recording process

The basic steps in the recording process are:

1. **Analyzing transactions for its effects on the account:** The sequence of the events in the recording process begins with the transaction. Evidence of the transaction is provided by a business document such as sales slip, a cheque, a bill, or a cash register tape. This evidence is analyzed to determine the effects of the transaction on specific accounts.
2. **Enter the transactions information in the journal:** The transaction is then entered in the journal. Each transaction is recorded in the journal on the basis of dual effect. The chronological order of occurrences of transactions is also mentioned in the journal.
3. **Transfer the journal information in a ledger:** Finally, the journal entry is transferred to the designated accounts in the ledger. In this way, the recording process ends.

2.5: Debit, credit and rules of debit and credit

Business transactions are events that have a monetary impact on the financial statements of an organization. When accounting for these transactions, we record amount in two accounts, where the debit column is on the left and the credit column is on the right.

- ✓ **Debit:** A debit is an accounting entry that either increases an asset or expense account, or decreases a liability or equity account. It is positioned to the left in an accounting entry.
- ✓ **Credit:** A credit is an accounting entry that either increases a liability or equity account, or decreases an asset or expense account. It is positioned to the right in an accounting entry.

The rules of debit and credit stated below:

1. Assets accounts are increased by debits and decreased by credits.

2. Expenses accounts are increased by debits and decreased by credits.
3. Drawings accounts are increased by debits and decreased by credits.
4. Liabilities accounts are decreased by debits and increased by credits.
5. Revenues accounts are decreased by debits and increased by credits.
6. Owner's equity accounts are decreased by debits and increased by credits.

2.6: Journal and its advantages

Journal: The word 'Jour' means day journal has been derived from the word jour. The word journal means day book or daily book of accounting. Journal is called subsidiary book.

The book where in the transactions are recorded in a chronological order of dates after determining the debit account and credit account of transactions with explanation is called journal.

Examples: Journals are of various types, such as

1. General Journal.
2. Adjusting Journal.
3. Closing Journal.
4. Reversing Journal.
5. Opening Journal.
6. Compound Journal.
7. Special Journal.

Advantage of journal:

Advantages of journal are as follows:

- Detail descriptions of transactions are available in journal.
- It is the primary and basic book for recording transactions.
- It is the daily book of transactions.
- From various subsidiary journals necessary information can be known easily.
- Increases efficiency in accounting tasks.
- It is used as future reference.
- Ledger can be kept briefly and in a neat and clean manner.
- It helps rectification of errors.

2.7: Procedure for preparing journal entries

To make a journal, the following standards are followed:

1. Date
2. Account titles
3. Explanation
4. Space between journal entries
5. Reference column
6. Debit column
7. Credit column

1. **Date:** The date of transactions is entered in the Date column. The date recorded should include the year, month, and day of transaction.
2. **Account titles:** The debit account title is entered at the extreme left margin of the column

headed "Account titles and explanation", and the credit account title is entered on the next line of debit account title, keeping a finger space.

3. **Explanation:** A brief explanation of the transaction is given on the line below the credit account title.
4. **Space between journal entries:** A space is left between journal entries. The blank space separates individual journal entries and makes the entries journal easier to read.
5. **Reference column:** The reference column is used to place the ledger account number at the time of posting.
6. **Debit column:** The amount of the debit account title is recorded in the Debit column.
7. **Credit column:** The amount of the credit account title is recorded in the Credit column.

2.8: Ledger

Ledger is the book wherein various entries of journal are posted in brief permanently according to debit and credit under separate heads of accounts is called ledger.

According to L. C. Cropper "The book which contains a classified and permanent record of all the transaction of a business is called the ledger"

2.9: Trial balance

A **trial balance** is a list of accounts and their balances at a given time.

A trial balance is a statement which is, prepared at a particular date with the ledger account balances to test the arithmetical accuracy of the ledger accounts and also to facilitate preparation of financial statements is called a trial balance. A trial balance contains the columns - serial number of ledger accounts, Account titles, Ledger folio, Debit balance and Credit balance.

2.10: Features of trial balance

The trial balance contains the following features:

- a) Trial balance is neither an account nor a part of it. It is a statement containing all balances of ledger accounts.
- b) It is not recorded in any book of account. Trial balance is prepared in a separate sheet or paper.
- c) A trial balance is prepared with the balances of account at the end of a particular accounting period.
- d) The statement contains all-kinds of accounts, irrespective of their classifications, such as assets liabilities, income expenses, etc.

2.11: Objectives of trial balance

Although trial balance is not an account, it is prepared to fulfill the following objects:

1. The main object of trial balance is to proof the arithmetical accuracy of accounts.
2. It is prepared to check whether the debit and credit accounts of each transaction have been recorded properly or not.
3. For convenient preparation of financial statements trial balance is prepared bringing debit and credit balances together.
4. To proof accurate balancing of ledger account.
5. To detect mistakes in the process of accounts, if any.

6. To provide information to the proper authority in time.
7. Help to compare the balances of various ledger accounts year with those previous years if necessary.

2.12: Advantages and limitation of trial balance

Advantages of trial balance

Following are the various advantages of trial balance:

1. Ensure the equal debits and credits.
2. Discovers the errors in journalizing.
3. Helps to find the errors of posting.
4. Locates the errors in ledger accounts.
5. Laps in preparing the financial statements.
6. Helps to make the adjustments for the non-recordable transactions.
7. Helps to test the mathematical accuracy of the recording process.

Limitation of trial balance

A trial balance does not guarantee freedom from recording errors, however. Numerous errors may exist even though the trial balance columns agree. For example, the trial balance may balance even when:

1. A transaction is not journalized.
2. A correct journal entry is not posted.
3. A journal entry is posted twice.
4. Incorrect accounts are used in journalizing or posting, or
5. Offsetting errors are made in recording the amount of a transaction.

2.13: Dual aspect concept/debit and credit

Dual aspect concept, also known as Duality Principle, is a fundamental convention of accounting that necessitates the recognition of all aspects of an accounting transaction. Dual aspect concept is the underlying basis for double entry accounting system.

Double entry accounting system is based on the duality principle and was devised to account for all aspects of a transaction. Under the system, aspects of transactions are classified under two main types:

- Debit
 - Credit
- ✓ Debit is the portion of transaction that accounts for the increase in assets and expenses, and the decrease in liabilities, equity and income.
- ✓ Credit is the portion of transaction that accounts for the increase in income, liabilities and owners equity, and the decrease in assets and expenses.

The classification of debit and credit effects is structured in such a way that for each debit there is a corresponding credit and vice versa. Hence, every transaction will have 'dual' effects.

2.14: How accounts, debits, and credits are used to record business transactions?

An account is a record of increases and decreases in specific asset, liability, and owner's equity items. The terms debit and credit are synonymous with left and right. Assets, drawings, and expenses are increased by debits and decreased by credits. Liabilities, owner's capital, and revenues are increased by credits and decreased by debits.

2.15: How a ledger and posting help in the recording process ?

The ledger is the entire group of accounts maintained by a company. The ledger provides the balance in each of the accounts as well as keeps track of changes in these balances. Posting is the transfer of journal entries to the ledger accounts. This phase of the recording process accumulates the effects of journalized transactions in the individual accounts.

GLOSSARY :

- **Account:** A record of increases and decreases in specific asset, liability, or owner's equity items.
- **Chart of accounts:** A list of accounts and the account numbers that identify their location in the ledger.
- **Compound entry:** A journal entry that involves three or more accounts.
- **Credit:** The right side of an account.
- **Debit:** The left side of an account.
- **Double-entry system:** A system that records in appropriate accounts the dual effect of each transaction.
- **General journal:** The most basic form of journal.
- **General ledger:** A ledger that contains all asset, liability, and owner's equity accounts.
- **Journal:** An accounting record in which transactions are initially recorded in chronological order.
- **Journalizing:** The entering of transaction data in the journal.
- **Ledger:** The entire group of accounts maintained by a company.
- **Normal balance:** An account balance on the side where an increase in the account is recorded.
- **Posting:** The procedure of transferring journal entries to the ledger accounts.
- **Simple entry:** A journal entry that involves only two accounts.
- **T-account:** The basic form of an account.
- **Three-column form of account:** A form with columns for debit, credit, and balance amounts in an account.
- **Trial balance:** A list of accounts and their balances at a given time.

(Ref: Accounting Principles, Weygandt, Kimmel, Kieso, Twelfth Edition)

Rules for doing Math

Recording process has three types of Account

1. Journal
2. Ledger
3. Trial balance

Journal

Journal includes following column

1. Date
2. Account Titles and Explanation
3. Reference
4. Debit
5. Credit

Ledger

Ledger are Two types

1. General ledger
2. T-format ledger

Ledger includes following column

1. Date
2. Explanation
3. Reference
4. Debit
5. Credit
6. Balance

Trial balance

Trial balance includes following column

1. Serial no.
2. Account titles/ Explanation
3. References
4. Debit
5. Credit.

Golden Rules

Assets, Expenses & Drawing	Increase	Debit
	Decrease	Credit
Liabilities & Owner's equity	Decreases	Debit
	Increase	Credit

Problems & Solutions

Problem- 1:

(Ref: Accounting Principles, Kieso, Page: 56, Practice Problems)

Presented below is information related to Hammond Real Estate Agency.

- Oct. 1. Liq Berge begins business as a real estate agent with a cash investment of \$30,000.
2. Paid rent, \$700, on office space.
3. Purchase office equipment for \$2,800, on account.
6. Sells a house and lot for Hal Smith; bills Hal Smith 4,400 for realty services performed.
27. Pays \$1,100 on the balance related to the transaction of October 3.
30. Receive bill for October utilities, \$130 (not paid at this time).

Instruction :

Journalize the transactions. (You may omit explanation).

Solution:

Hammond Real Estate Agency

General Journal

For the month of October

Date	Account Titles and Explanation	Ref.	Debit (\$)	Credit (\$)
Oct. 1	Cash Owner's capital (Invested cash in the business by the owner)		30,000	30,000
2	Rent Expense Cash (Paid office rent)		700	700
3	Office Equipment Accounts payable (Purchase office equipment on account)		2,800	2,800
6	Accounts Receivable Service revenue (Earned service revenue on account)		4,400	4,400
27	Accounts payable Cash (Paid the account payable)		1,100	1,100
30	Utilities expense Accounts payable (Incurred utility expense on account)		130	130

Problem- 2:

(Ref: Accounting Principles, Kieso , Page: 57, Practice Problem)

Bob Sample opened the Campus Laundromat on September 1, 2017. During the first month of operations, the following transaction occurred.

- Sep. 1. Bob invested \$20,000 cash in the business.
2. The company paid \$1,000 cash for store rent for September.
3. Purchased washers and dryers for \$25,000, paying \$10,000, in cash and signing a \$15,000, 6-month, 12% note payable.
4. Paid \$1,200 for a one year accident insurance policy.
10. Receive a bill from the Daily News for online advertising of the opening of the Laundromat \$200.
20. Bob withdrew \$700 cash for personal use.
30. The company determined that cash receipts for laundry services for the month were \$6,200.

Instructions

- (a) Journalize the September transactions. (Use J1 for the journal page no.)
- (b) Open ledger accounts and post the September transactions.
- (c) Prepare a trial balance at September 30, 2017.

Solution : (a)

Campus Laundromat
General Journal
For the month of September 2017

Date	Account Titles and Explanation	Ref.	Debit	Credit
2017 Sept. 1	Cash Owner's capital (Invested cash in the business by the owner)		20,000	20,000
2	Rent Expense Cash (Paid office rent)		1,000	1,000
3	Equipment Cash Notes payable (Purchase laundry equipment cash and on credit)		25,000	10,000 15,000
4	Prepaid insurance Cash (Paid one-year Insurance policy)		1,200	1,200
10	Advertising Expense Accounts payable (Received bill for advertising on account)		200	200
20	Owner's drawing Cash (Withdrew cash for personal use)		700	700

30	Cash Service revenue (Received cash for service performed)		6,200
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(b)

Campus Laundromat

(General Ledger)

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1		J1	20,000		20,000
2				1,000	19,000
3				10,000	9,000
4				1,200	7,800
20				700	7,100
30			6,200		13,300

(c)

Prepaid Insurance

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 4			1,200		1,200

Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 3			25000		25000

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Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 10				200	200

Owner's Capital

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1				20,000	20,000

Owner's Drawing

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 20			700		700

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30				6,200	6,200

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Notes Payable

Date	Explanation	Ref.	Debit	Credit	Balance

Advertising Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 10			200		200

Rent Expense					
Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 2			1000		1000

(c)

Campus Laundromat

Trial Balance

September 30, 2017

Account Title	Debit (\$)	Credit (\$)
Cash	13,300	
Prepaid Insurance	1,200	
Equipment	25,000	
Notes Payable		15,000
Accounts Payable		200
Owner's Capital		20,000
Owner's Drawing	700	
Service Revenue		6,200
Advertising Expense	200	
Rent Expense	1,000	
Totals	<u>41400</u>	<u>41,400</u>

Problem- 3:

(Ref: Accounting Principles, Kieso, Page: 63 , P2-1A)

Holz Disc Golf Course was opened On March 1 by Ian Holz. The following selected events and transactions occurred during March.

- March.
1. Invested \$20,000 cash in the business.
 3. Purchased Rainbow Golf Land for \$15,000 cash. The price consist of land \$12,000, shade \$2,000, and equipment \$1,000. (Make one compound entry.)
 5. Paid advertising expenses of \$900.
 6. Paid cash \$600 for a one-year insurance policy.
 10. Purchased golf discs and other equipment for \$1050 from Stevenson Company payable in 30 days.
 18. Received \$1,100 in cash for golf fees earned. (Holz record golf fees as service revenue).
 19. Sold 150 coupon books for \$10 each. Each book contains 4 coupons that enable the holder to play one round of disc golf.
 25. Withdrew \$800 cash for personal use.
 30. Paid salaries of \$250.
 30. Paid Stevenson Company in full.
 31. Received \$2700 cash for golf fees.

Holz Disc Golf uses the following accounts: Cash, Prepaid Insurance, Land, Buildings, Equipment, Accounts Payable, Unearned Service Revenue, Owners Capital, Owner's Drawings, Service revenue, Advertising Expense, and Salaries and Wages Expense.

Instructions

Journalize the March transactions.

Solution:

Holz Disc Golf Course
General Journal

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar.1	Cash Owner's capital (Invested cash in the business by the owner)		20000	2500
3	Land Building Equipment Cash (Purchased Rainbow Golf land)		12000 2000 1000	13000
5	Advertising expense Cash (Paid for Advertising Expense)		900	900
6	Prepaid insurance Cash (Paid one-year insurance policy)		600	600
10	Equipment Accounts Payable (Purchased equipment on account)		1050	1050
18	Cash Service revenue (Receive cash for Golf revenue)		1100	1100
19	Cash(150 x10) Unearned Service revenue (Received cash for coupon book sold)		1500	1500
25	Owner's drawings Cash (Withdraw cash for Personal use)		800	800
30	Salaries Expense Cash (Paid for salary expense)		250	250
30	Accounts payable Cash (Paid the accounts payable)		1050	1050
31	Cash Service Revenue (Received cash for golf revenue)		2700	2700

Problem- 4:

(Ref: Accounting Principles, Kieso , Page: 63 , P2-2A)
 Emily Valley is a licensed dentist. During the first month of the operation of her business, the following events and transaction occurred.

- April:
1. Invest \$20,000 cash in her business.
 1. Hired a secretary-receptionist at a salary of \$700 per week payable monthly.
 2. Paid office rent for the month \$1,100.
 3. Purchased dental supplies on account from Dazzle Company \$4,000
 10. Provided dental services and billed insurance companies \$5,100
 11. Received \$1,000 cash advanced from Leah Mataruka for an implant.
 20. Received \$2,100 cash for services performed from Michael Santos.
 30. Paid secretary-receptionist for the month \$2800.
 30. Paid \$2400 to Dazzle for accounts payable due.

Emily uses the following chart of account: No. 101 Cash, no. 112 Accounts Receivable, No. 126 Supplies, No. 201 Accounts Payable, No. 209 Unearned Service Revenue, No. 301 Owner's Capital, No. 400 Service Revenue, No. 726 Salaries and Wages Expense, and No. 729 Rent Expense.

Instructions

- Journalize the transactions.
- Post to the ledger accounts
- Prepare a trial balance on April 30, 2017

Solution: (a)

Emily Valley
General Journal

Date	Account Title and Explanations	Ref.	Debit	Credit
April 1	Cash Owner's Capital (Owner's investment of cash in business)		20,000	20,000
1	No entry—hire is not a financial transaction		-	-
2	Rent Expense Cash (Paid office rent)		1,100	1,100
3	Supplies Accounts Payable (Purchase supplies on account)		4,000	4,000
10	Accounts Receivable Service Revenue (Billed client for service provided)		5,100	5,100
11	Cash Unearned Revenue (Received cash for future service revenue)		1,000	1,000
20	Cash Service Revenue (Received cash for service provided)		2,100	2,100

30	Salaries and Wages Expense Cash (Paid for April salary)	2,800
30	Accounts Payable Cash (Paid cash for previous due)	2,400

2,800	2,300
2,400	2,400

(b)

Emily valley
(General Ledger)

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1			20000		20000
2				1100	18900
11			1000		19900
20			2100		22000
30				2800	19200
30				2400	16800

Supplies

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3			4000		4000

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10			5100		5100

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3				4000	4000
30			2400		1600

Owner's Capital

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1				20000	20000

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10				5100	5100
20				2100	7200

Unearned Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 11				1000	1000

Salary and Wages Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30			2800		2800

Rent Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2			1100		1100

(c)

Emily Valley

Trial balance

April 30, 2017

Accounts Titles	Debit (\$)	Credit (\$)
Cash	16,800	
Supplies	4,000	
Accounts Receivable	5,100	
Accounts Payable		1,600
Owner's Capital		20,000
Service Revenue		7,200
Unearned Service Revenue		1,000
Salaries and Wages expense	2,800	
Rent Expense	1,100	
Total	29,800	29,800

Problem- 5:

(Ref: Accounting Principles, Kieso , Page: 63 , P2-3A)

Maquoketa Services were formed on May 1, 2017. The following transaction took place during the first month.

Transaction on May 1:

1. Jay Bradford invested \$40,000 cash in the company, as its sole owner.
2. Hired two employees to work in the warehouse. They will each be paid a salary of \$3,050 per month.
3. Signed a 2 year rental agreement on a warehouse. Paid \$24,000 cash in advanced for the first year.
4. Purchased furnitures and equipment costing \$30,000. A cash payment of \$10,000 was made immediately; the remainder will be paid in 6 months.
5. Paid \$1,800 cash for a one year Insurance policy on the furniture and equipment.
6. Purchased basic office supplies for \$420 cash.
7. Purchased more office supplies for \$1,500 on account.
8. Total revenue earned were \$20,000, \$8,000 cash and \$12,000 on account.
9. Paid \$400 to supplies for accounts payable due.

10. Received \$3,000 from customer in payment of accounts receivable.
11. Received utility bills in the amount of \$380, to be paid next month.
12. Paid the monthly salaries of the two employees, totaling \$6,100.

Instructions

- (a) Prepare Journal entries to record each of the events listed. (Omit explanations.)
- (b) Post the journal entries to T accounts.
- (c) Prepare a trial balance as of May 31, 2017.

Solution: (a)

Maquoketa Services
General Journal

Date	Account Titles and Explanation	Ref.	Debit (\$)	Credit (\$)
May 1, 2017	Cash Owner's capital		40000	40000
2	No entry—hire is not a financial transaction			
3	Prepaid rent Cash		24000	24000
4	Furniture and equipment Cash Accounts payable		30000 10000 20000	
5	Prepaid insurance Cash		1800	1800
6	Office supplies Cash		420	420
7	Office supplies Accounts payable		1500	1500
8	Cash Accounts receivable Service revenue		8000 12000	20000
9	Accounts payable Cash		400	400
10	Cash Accounts receivable		3000	3000
11	Utilities expense Accounts payable		380	380
12	Salaries expense Cash		6100	6100

(b) Try yourself.

(c)

Maquoketa Services

Trial balance

May 31, 2017

Accounts Titles	Debit (\$)	Credit (\$)
Cash(40000-24000-10000-1800-420+8000-400+3000-6100)	8,280	
Prepaid rent	24,000	
Prepaid insurance	1,800	
Office supplies(420+1500)	1,920	
Accounts receivable (12000-3000)	9,000	
Furniture and Equipment	30,000	
Accounts payable(20000+1500-400+380)		21,480
Owner's capital		40,000
Service revenue		20,000
Utilities expense	380	
Salaries expense	6,100	
Totals	81,480	81,480

Problem- 6:

(Ref: Accounting Principles, Kieso, Page: 64 , P2-4A)

The trial balance of Avtar Sandhu Co. shown below does not balance

Avtar Sandhu Co.

Trial Balance

June 30, 2017

Accounts Title	Debit (\$)	Credit (\$)
Cash		\$3,340
Accounts receivable	\$2,812	
Supplies	1,200	
Equipment	2,600	
Accounts payable		3,666
Unearned service revenue	1,100	
Owner's capital		8,000
Owner's Drawings	800	
Service revenue		2,480
Salaries and wages expense	3,200	
Supplies expense	810	
Totals	\$12,500	\$17,486

Each of the listed accounts has a normal balance per the general ledger. An examination of the ledger and journal reveals the following errors.

1. Cash received from a customer in payment of its accounts was debited for \$580, and accounts receivable was credited for the same amount. The actual collection was for \$850.

2. The purchase of a computer on account for \$710 was recorded as a debit to supplies for \$710 and a credit to accounts payable for \$710.
3. Service were performed on account for a client for \$980. Accounts Receivable was debited for \$980, and services revenue was credited for \$98.
4. A debit posting to salaries and wages expense of \$700 was omitted.
5. A payment of a balance due for \$306 was credited to cash for \$306 and credited to accounts payable for \$360
6. The withdrawal of \$600 cash for Gould's personal use was debited to salaries and wages expense for \$600 and credited to cash for \$600.

Instruction

Prepare a corrected Trial balance.

Solution

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Avtar Sandhu Co

Trial Balance

June 30, 2017

Accounts	Debit (\$)	Credit (\$)
Cash(3340-580+850)	3,610	
Accounts receivable(2812+580-850)	2,542	
Supplies(1200-710)	490	
Equipment(2600+710)	3,310	
Accounts payable(3666-306-360)		3,000
Unearned service revenue		1,100
Owner's capital		8,000
Owner's Drawings(800+600)	1,400	
Service revenue(2480+980-98)		3,362
Salaries and wages Expense(3200+700-600)	3,300	
Utilities expense	810	
Totals	15,462	15,462

Problem- 7:

(Ref: Accounting Principles, Kieso , Page: 65 , P2-5A)

The Starr Theater, owned by Meg Vargo, will begin operation in March. The Starr will be unique in that it will show only triple feature of sequential theme movies. As of March 1, the ledger of Starr showed: No 101 Cash \$3,000, No. 140 Land \$24,000, No. 145 Buildings (Concession stand projection room, ticket booth, and screen) \$10,000, No. 157 Equipment \$10,000, No. 201 Accounts Payable \$7,000, and No. 301 Owner's Capital \$40,000. During the month of March the following events and transactions occurred.

- March 2. Rented the three Indiana Jones movies to be shown for the first 3 weeks of March. The film rental was \$3,500; \$1,500 was paid in cash and \$2,000 will be paid on March 10.
3. Ordered the Lord of the Rings movies to be shown the last 10 days of March. It will cost \$200 per night.
9. Received \$4,300 cash from admissions.
10. Paid balance due on Indiana Jones movies rental, and \$2,100 on March 1 accounts

- payable.
11. Starr Theater contracted with Adam Ladd to operate the concession stand. Ladd is to pay 15% of gross concession receipts, payable monthly, for the rental of the concession stand.
 12. Paid advertising expenses \$900.
 20. Received \$5,000 cash from customer for admissions.
 20. Received the Lord of the Rings movies and paid the rental fee of \$2,000.
 31. Paid salaries of \$3,100.
 31. Received statements from Adam Ladd showing gross receipts from concession of \$6,000 and the balance due to Starr Theater of \$900 (\$6,000 x 15%) for March.
 31. Received \$9,000 cash from customer for admission.

In addition to the account identified above, the chart of account includes: No. 112 Accounts Receivable, No. 400 Service revenue, No. 429 Rent revenue, No. 610 Advertising Expense, No. 726 Salaries and Wages Expense, and No. 729 Rent Expense.

Instructions

- (a) Enter the beginning balances in the ledger. Insert a check mark (✓) in the reference column of the ledger for the beginning balance.
- (b) Journalize the March transactions. The Starr Theater records admission revenue as service revenue, rental of the concession stand as rent revenue, and film rental expenses as rent expense.
- (c) Post the March journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.
- (d) Prepare a trial balance on March 31, 2017.

Solution: a) Ledger: try yourself

The Starr Theater**Trial balance****March 1, 2017**

Accounts Title	Debit (\$)	Credit (\$)
Cash	3,000	
Land	24,000	
Building	10,000	
Equipment	10,000	
Accounts payable		7,000
Owner's capital		40,000
Totals	47,000	47,000

b)

The Starr Theater
General Journal

Date	Account Title and Explanations	Ref.	Debit	Credit
Mar. 2	Rent expense Cash Accounts payable (Rented film for cash and on account)		3500	1500 2000
3	No entry—Order is not a financial transaction			
9	Cash Service revenue (Received cash for service provided)		4300	4300
10	Accounts payable(2100+2000) Cash (Paid creditors on account with a previous due)		4100	4100
11	No entry—Contract is not a financial transaction			
12	Advertising expense Cash (Paid advertising expense)		900	900
20	Cash Service revenue (Received cash for service provided)		5000	5000
20	Rent expense Cash (Paid film rental)		2000	2000
31	Salaries expense Cash (Paid for salary expense)		3100	3100
31	Cash(1/2 x 900) Accounts receivable (1/2x 900) Concession revenue		450 450	
31.	Cash Service revenue		9000	9000

c) Try Yourself

d)

The Starr Theater
Trial balance
March 31, 2017

Accounts	Debit (\$)	Credit (\$)
Cash(3000-15000+4300-4100-900+5000-2000-3100+450+9000)	10,150	
Land	24,000	
Building	10,000	

The Recording Process

Equipment	10,000	
Accounts receivable	450	
Accounts payable(7000+2000-4100)		4,900
Owner's capital		40,000
Rent expense(3500+2000)	5,500	
Service revenue(4300+5000+9000)		18,300
Advertising Expense	900	
Salaries expense	3,100	
Concession revenue		900
Totals	<u>64100</u>	<u>64100</u>

Problem 8:

Ref. NU Professional BBA-2007

Mr. Firoz is a licensed architect. During the first month of the operation of his business, the following events and transactions occurred:

- June 1 Invested Tk. 50,000 cash.
- 1 Hired a secretary-receptionist at a salary of Tk. 5,000 per month.
- 2 Paid office rent for the month Tk. 2,000.
- 3 Purchased architectural supplies on account from Dhaka Company Tk. 2000.
- 10 Completed blueprint on a carport and billed client Tk. 3,000 for services.
- 20 Received Tk. 5,000 cash for services completed and delivered to Salma & Co.
- 30 Paid secretary-Receptionist for the month Tk.5,000.
- 30 Paid Tk.1,000 to Dhaka Company for accounts payable due.

Instructions:

- Journalize the transaction.
- Post to the ledger account.
- Prepare a trial balance on June 30, 2008.

Solution: Requirement (a):

Mr. Firoz
General Journal

Date	Account Title and Explanations	Ref.	Debit	Credit
June 1, 2008	Cash Mr. Firoz's capital (Invested cash in the business by the owner)		50,000	50,000
1	No entry—(Hire, Order, contract, promise etc are not financial transaction)			
2	Rent expense Cash (Paid monthly office rent)		2,000	2,000
3	Supplies			2,000

	Accounts payable (Purchased architectural supplies on account from Dhaka Company)				
10	Accounts receivable Service revenue (Billed client for service rendered)			3,000	2,1
20	Cash Service revenue (Received cash for service completed)			5,000	3,1
30	Salaries expense Cash (Paid monthly salary)			5,000	5,
30	Accounts payable Cash (Paid for previous due)			1,000	1,

Mr.Firoz

Ledger

Firoj's capital

Date	Explanation	Ref	Debit	Credit	Balance
June 1				50,000	50,000 Cr.

Office rent exp.

Date	Explanation	Ref	Debit	Credit	Balance
June 2			2,000		2,000 Dr.

Supplies

Date	Explanation	Ref	Debit	Credit	Balance
June 3			2,000		2,000 Dr.

Accounts payable

Date	Explanation	Ref	Debit	Credit	Balance
June 3				2,000	2,000 Cr.
30			1,000		1,000 Cr.

Accounts receivable

Date	Explanation	Ref	Debit	Credit	Balance
June 10			3,000		3,000 Dr.

Service revenue

Date	Explanation	Ref	Debit	Credit	Balance
June 10				3,000	3,000 Cr.
20				5,000	8,000 Cr.

Cash

Date	Explanation	Ref	Debit	Credit	Balance
June 1			5,000		50,000 Dr.
2				2,000	48,000 Dr.

20			5,000		53,000 Dr.
30				5,000	48,000 Dr.
30				1,000	47,000 Dr.

Salaries exp.					
Date	Explanation	Ref	Debit	Credit	Balance
June 30			5,000		5,000 Dr.

Mr.Firoz
Trial Balance
June 30, 2008

Sl. No.	Account Titles	Ref	Debit (Tk.)	Credit (Tk.)
1	Cash		47,000	
2	Firoz's capital			50,000
3	Office rent exp.		2,000	
4	Supplies		2,000	
5	Accounts payable			1,000
6	Accounts receivable		3,000	
7	Service revenue			8,000
8	Salaries exp.		5,000	
			<u>59,000</u>	<u>59,000</u>

Problem-9:

Ref. NU Professional BBA-2008

Sohana started her own consulting firm, named Consult Sohana, on January 1, 2008. During the first month of operation the following transactions occurred.

- January
1. Sohana invested Tk.10, 000 in cash in the business.
 10. Paid Tk.800 for the monthly rent.
 15. Purchased office equipment of account Tk.3000.
 19. Rendered consulting services to the clients for cash Tk.1500.
 22. Borrowed Tk.700 cash on a note payable.
 25. Rendered consulting services to the clients on credit Tk.2000
 28. Paid monthly salary Tk.500
 29. Paid monthly utilities Tk.400
 30. Paid Tk. 1000 for equipment purchased on January 15.
 31. Cash received Tk. 1000 for services rendered on January 25.
 31. Sohana withdrew Tk. 200 for personal use.

Required:

1. Prepare journal for the above transaction in the books of Consult Sohana.
2. Prepare ledgers in the books of Consult Sohana from the Journal.
3. Prepare trial balance in the books of Consult Sohana as January 31, 2008.