**Chapter 2 Homework**

|  |  |  |  |
| --- | --- | --- | --- |
| K: / 4 | T: / 4 | A: / 4 | C: / 4 |

**Questions: 5, 8, 17**

**Brief Exercises: BE2-5, BE2-9**

**Wave Accounting / MirzaBooks: P2-3A**

1. State the rules of debit and credit and identify the normal balance for (a) asset accounts, (b) liability accounts, and (c) Owner’s Equity accounts.

Debit is the left side of an account and is how asset and accounts like expense accounts increase. Credit is the right side of an account and is how liability accounts and accounts like revenue accounts increase. During transactions, the debited amount of an account or accounts must equal the credited amount of another account or other accounts to uphold the fundamental accounting equation, Assets = Liabilities + Owner’s Equity, upon which all of accounting is based. The normal balances for asset, liability, and owner’s equity accounts are listed below:

1. Amounts for asset accounts are normally found as debit
2. Amounts for liability accounts are normally found as credit
3. Amounts for owner’s equity accounts are normally found as debit
4. For the following transactions, indicate the account debited and the account credited:
5. Supplies are purchased on account:

Supplies are debited

A / P is credited

1. Cash is received on signing a note payable

Cash is debited

Notes payable is credited

1. Employees are paid salaries in cash

Employees’ Salaries and Wages is debited

Cash is credited

17. What is a trial balance? What are its purposes?

A trial balance lists accounts and their values at a given time to ensure mathematical equivalence between debit and credit. It helps uncover errors that may have occurred during previous steps of the accounting cycle, such as incorrectly journalized transactions, or an incorrect recording of values on the starting trial balance.

BE2-5:

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Particulars** | **DR** | **CR** |
| June 1 | Cash | 2000 |  |
|  | Owner’s Equity |  | 2000 |
|  | Owner invested into the business |  |  |
|  |  |  |  |
| 2 | Equipment | 900 |  |
|  | A / P – Equipment store |  | 900 |
|  | Owner bought equipment on account |  |  |
|  |  |  |  |
| 3 | Rent Expense | 500 |  |
|  | Cash |  | 500 |
|  | Owner paid rent |  |  |
|  |  |  |  |
| 12 | A / R – T. Sergeant | 300 |  |
|  | Cash |  | 300 |
|  | Paid T. Sergeant for welding work |  |  |

BE2 – 9:

**Boutique Company**

**Trial Balance**

**December 31, 2002**

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit** | **Credit** |
| Cash | $16,800 |  |
| Prepaid Insurance | 3,500 |  |
| Accounts Payable |  | $3,000 |
| Unearned Revenue |  | 2,200 |
| Lee Bourque, Capital |  | 15,000 |
| Lee Bourque, Drawings | 4,500 |  |
| Service Revenue |  | 25,600 |
| Salaries Expense | 18,600 |  |
| Rent Expense | 2,400 |  |
| **Totals** | **$45,800** | **$45,800** |

P2 – 3A:

Journal:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Maria Rojas | | | |
| **JOURNAL** | | | | |
|  | Dhrumil Patel | | Mr. Mirza | |
|  |  |  |  |  |
| # | **A/C #** | **Accounts** | **$ Amount** | |
|  |  |  | **DR** | **CR** |
| 1 | 1000 | 1000 (Bank) | 15000 |  |
|  | 3001 | 3001 (Owner's investment) |  | 15000 |
|  |  |  |  |  |
| 2 | 5600 | 5600 (Rent expense) | 800 |  |
|  | 1000 | 1000 (Bank) |  | 800 |
|  |  |  |  |  |
| 3 | 1050 | 1050 (Supplies) | 1500 |  |
|  | 2200 | 2200 (Accounts Payable) |  | 1500 |
|  |  |  |  |  |
| 10 | 1020 | 1020 (Accounts receivable) | 900 |  |
|  | 4002 | 4002 (Service Revenue) |  | 900 |
|  |  |  |  |  |
| 11 | 1000 | 1000 (Bank) | 500 |  |
|  | 2100 | 2100 (Unearned revenue) |  | 500 |
|  |  |  |  |  |
| 20 | 1000 | 1000 (Bank) | 1500 |  |
|  | 4002 | 4002 (Service revenue) |  | 1500 |
|  |  |  |  |  |
| 30 | 5650 | 5650 (Salaries and wages expense) | 1200 |  |
|  | 1000 | 1000 (Bank) |  | 1200 |
|  |  |  |  |  |
| 30 | 2200 | 2200 (Accounts payable) | 600 |  |
|  | 1000 | 1000 (Bank) |  | 600 |

Balance Sheet:

|  |  |  |
| --- | --- | --- |
| Dhrumil Patel | | Mr. Mirza |
|  |  |  |
| **Maria Rojas** | | |
| **BALANCE SHEET** | | |
| **AS AT April 30th, 2003** | | |
|  |  |  |
|  |  | **2003** |
|  |  | **$** |
| **ASSETS** |  |  |
| Current |  |  |
|  | Cash | 14,400 |
|  | Accounts receivable | 900 |
|  | Supplies | 1,500 |
|  |  | 16,800 |
|  |  |  |
| Long-term |  |  |
|  |  |  |
|  |  | $ 16,800 |
|  |  |  |
| **LIABILITIES** |  |  |
| Current |  |  |
|  | Unearned revenue | 500 |
|  | Accounts payable | 900 |
|  |  | 1,400 |
|  |  |  |
| Long-term |  |  |
|  |  | 1,400 |
|  |  |  |
| **OWNER'S EQUITY** |  |  |
|  | Owner's investment | 15,000 |
|  | Net income | 400 |
|  |  | 15,400 |
|  |  |  |
|  |  | $ 16,800 |

Income Statement:

|  |  |  |  |
| --- | --- | --- | --- |
| Dhrumil Patel | | | Mr. Mirza |
|  |  |  |  |
| **Maria Rojas** | | | |
| **INCOME STATEMENT** | | | |
| **FOR THE YEAR ENDING April 30th, 2003** | | | |
|  |  |  |  |
|  |  |  | **2003** |
|  |  |  | **$** |
| Revenue |  |  |  |
|  | Revenue |  | 2,400 |
|  |  |  | $ 2,400 |
|  |  |  |  |
| Cost of goods sold |  |  |  |
|  |  |  |  |
| Gross profit |  |  | 2,400 |
|  |  |  |  |
| Operating expenses |  |  |  |
|  | Rent and maintenance |  | 800 |
|  | Salaries expense |  | 1,200 |
|  |  |  | 2,000 |
|  |  |  |  |
| Income before income taxes |  |  | 400 |
|  |  |  |  |
|  |  |  |  |
| Net income for the year |  |  | $ 400 |

**Note: use templates where needed**