CHAPTER 3

DISCUSSION QUESTIONS

1. The basic objective of the accounting cycle is to transform accounting data into financial statements and other accounting reports. These outputs help individuals make better economic decisions.

2. The first three steps in the accounting cycle include the following:

   a. *Analyze transactions*—verify the dates, amounts, and authenticity of the transactions and supporting business documents from which accounting entries are made.
   b. *Record the effects of transactions*—record the nature and amounts of business exchanges with journal entries, usually in chronological order.
   c. *Summarize the effects of transactions.*
      (1) *Post journal entries*—classify and group similar transactions into common accounts.
      (2) *Determine account balances and prepare a trial balance*—list the balances of all accounts to verify that total debits equal total credits.

3. Each time accounts are debited; other accounts have to be credited for the same amount. This is a major characteristic of a double-entry accounting system. The total debits must always equal the total credits. This procedure ensures that assets are always equal to liabilities plus equity.

4. Asset accounts are increased by debits and decreased by credits. Liability and equity accounts are increased by credits and decreased by debits. Thus, A = L + E and debits equal credits in a double-entry accounting system.

5. Revenues provide resource inflows, and expenses represent resource outflows. The net result of revenues less expenses is income, which is reflected in equity. Revenue accounts are increased by credits and increase equity; expense accounts are increased by debits and reduce equity. Dividends also reduce equity, since they are distributions of earnings to the owners. Therefore, the dividends account is also increased by debits. However, dividends do not enter into the determination of net income.

6. The dividends account is similar to expense accounts in that dividends and expenses reduce equity through the retained earnings account. Therefore, they have the same debit (increase) and credit (decrease) relationships. Dividends and expenses are different in that dividends are a distribution of earnings; they do not enter into the determination of net income, and therefore, dividends are not reported on the statement of comprehensive income. Expenses, on the other hand, are subtracted from revenues to determine net income; expenses are reported on the statement of comprehensive income.

7. Understanding the mechanics of accounting helps a businessperson understand the shorthand debit/credit language that is often used when talking about a company's accounts. In addition, people who understand the accounting cycle are better able to understand the flow of information through a business.

8. A journal (a book of original entry) provides a chronological record of all transactions of an entity. It shows the dates of the transactions, the amounts involved, and the accounts affected. Usually, an explanation of the transaction is also included.

   A ledger is a "book of accounts" that lists each account and all entries made to it. The balance of an account can be found by examining the ledger.

9. a. Increase asset (Supplies); increase liability (Accounts Payable).

   b. Decrease asset (Cash); decrease equity (by increasing Wages Expense).

   c. Decrease asset (Cash); decrease equity (by increasing Utilities Expense).

   d. Increase asset (Building); decrease another asset (Cash); and increase a liability (Mortgage Payable).

   e. Increase asset (Cash); increase equity (Capital Stock).

   f. Decrease asset (Cash); decrease equity (by increasing Dividends, which reduces Retained Earnings).

   g. Decrease asset (increase in Cash with a greater decrease in Land); decrease equity (Loss on Sale because proceeds are less than cost).

10. A chart of accounts is a list of all accounts, along with assigned account numbers, used by a particular entity in its accounting system. The purpose of a chart of accounts is to numerically classify, or categorize, the accounts for easy reference. In practice, the account numbers are used much more than the account names, especially in an automated system.

11. In a trial balance, if total debits equal total credits; there is some assurance that the recording and posting functions have been performed satisfactorily. Even if the trial balance appears correct, however, there may be errors. A transaction may have been omitted completely, or it may have been recorded incorrectly or posted to the wrong account. These types of errors usually will not be identified by preparing a trial balance.

12. A trial balance is an internal document used to summarize all of the account balances (assets, liabilities, equity, revenues, expenses, and dividends) in a company's accounting system. The balance sheet, on the other hand, is a summary list of a company's assets, liabilities, and equity; the balance sheet is frequently provided to interested parties both inside and outside a company.

13. Computers have not eliminated the need to analyze transactions. Computer accounting systems can be programmed to handle the great bulk of routine transactions, such as credit sales, collections on account, and so forth. However, as illustrated in the remainder of this text, many accounting journal entries involve the exercise of judgment by the accountant. For example, as explained in Chapter 6, at the end of each year the accountant must estimate the amount of outstanding accounts receivable that will never be collected. A computer can aid this process, but ultimately the decision must be made by a human being.

PRACTICE EXERCISES

PE 3–1 (LO1) Impact of a Transaction

a., b., and c.

Account	Increase or Decrease	Amount
Cash	Increase	$200,000
Loan Payable	Increase	200,000

d.

Total assets	Increase by $200,000
Total liabilities	Increase by $200,000
Total equity	No impact

PE 3–2 (LO1) Impact of a Transaction

a., b., and c.

Account	Increase or Decrease	Amount
Cash	Decrease	$90,000
Land	Increase	90,000

d.

Total assets	Increase by $90,000, decrease by $90,000; no net impact
Total liabilities	No impact
Total equity	No impact

PE 3–3 (LO1) Impact of a Transaction

a., b., and c.

Account	Increase or Decrease	Amount
Cash	Decrease	$30,000
Loan Payable	Decrease	30,000

d.

Total assets	Decrease by $30,000
Total liabilities	Decrease by $30,000
Total equity	No impact

PE 3–4 (LO1) Impact of a Transaction

a., b., and c.

Account	Increase or Decrease	Amount
Cash	Increase	$180,000
Capital Stock	Increase	180,000

d.	Total assets	Increase by $180,000
	Total liabilities	No impact
	Total equity	Increase by $180,000

PE 3–5 (LO1) Impact of a Transaction

a., b., and c.

Account	Increase or Decrease	Amount
Cash	Decrease	$ 80,000
Building	Increase	210,000
Mortgage Payable	Increase	130,000

d.	Total assets	Increase by $130,000
	Total liabilities	Increase by $130,000
	Total equity	No impact

PE 3–6 (LO1) Computing Ending Account Balances

	Assets			Liabilities		Equity
Transaction	Cash	Land	Building	Loan Payable	Mortgage Payable	Capital Stock
3–1	+ 200,000			+200,000		
3–2	– 90,000	+ 90,000				
3–3	– 30,000			– 30,000		
3–4	+ 180,000					+ 180,000
3–5	– 80,000		+ 210,000		+ 130,000	
Total	$ 180,000	$ 90,000	$ 210,000	$170,000	$ 130,000	$ 180,000

PE 3–7 (LO1) Understanding Debits

	Account	DEBIT Increases or Decreases?
1.	Accounts Payable	Decreases
2.	Capital Stock	Decreases
3.	Land	Increases
4.	Loan Payable	Decreases
5.	Mortgage Payable	Decreases
6.	Building	Increases

PE 3–8 (LO1) Understanding Credits

	Account	CREDIT Increases or Decreases?
1.	Accounts Receivable	Decreases
2.	Capital Stock	Increases
3.	Equipment	Decreases
4.	Accounts Payable	Increases
5.	Building	Decreases
6.	Notes Payable	Increases

PE 3–9 (LO1) Understanding Debits, Credits, and Retained Earnings

	Account	Debit or Credit	ACCOUNT BALANCE Increased or Decreased?
1.	Retained Earnings	Debit	Decreased
2.	Insurance Expense	Credit	Decreased
3.	Dividends	Credit	Decreased
4.	Interest Revenue	Debit	Decreased
5.	Advertising Expense	Debit	Increased
6.	Rent Revenue	Credit	Increased

PE 3–10 (LO1) Understanding Retained Earnings

Note: In this solution, the revenue, expense, and dividend account balances are shown as additions to or subtractions from the retained earnings account, as appropriate. As shown in Chapter 4, the actual process by which these account balances are reflected in the ending Retained Earnings balance is called the closing process and is done in a summary fashion rather than account by account, as illustrated here.

RETAINED EARNINGS

Debit (–)		Credit (+)	
		Beg. bal.	16,000
Insurance Expense	2,400		
Advertising Expense	3,100		
Dividends	1,200		
		Interest Revenue	600
		End. bal.	9,900

PE 3–11 (LO2) Journal Entries

Cash	140,000	
Loan Payable		140,000

PE 3–12 (LO2) Journal Entries

Land	90,000	
Cash		90,000

PE 3–13 (LO2) Journal Entries

Loan Payable	30,000	
Cash		30,000

PE 3–14 (LO2) Journal Entries

Cash	180,000	
Capital Stock		180,000

PE 3–15 (LO2) Journal Entries

Building	210,000	
Cash		80,000
Mortgage Payable		130,000

PE 3–16 (LO2) Journal Entries with Revenues, Expenses, and Dividends

		Debit	Credit
a.	Equipment	260,000	
	Accounts Payable		260,000
b.	Cash	200,000	
	Services Revenue		200,000
c.	Wages Expense	54,000	
	Cash		54,000
d.	Advertising Expense	25,000	
	Cash		25,000
e.	Cash	50,000	
	Accounts Receivable	120,000	
	Services Revenue		170,000
f.	Cash	47,000	
	Accounts Receivable		47,000
g.	Accounts Payable	110,000	
	Cash		110,000
h.	Dividends	17,000	
	Cash		17,000

PE 3–17 (LO3) Posting

CASH

	Debit	Credit
Beg. bal.	0	
	140,000	
		90,000
		30,000
	180,000	
		80,000
End. bal.	120,000	

LAND

	Debit	Credit
Beg. bal.	0	
	90,000	
End. bal.	90,000	

PE 3–17 (LO3) (Continued)

BUILDING

Beg. bal.	0		
	210,000		
End. bal.	210,000		

LOAN PAYABLE

		Beg. bal.	0
			140,000
	30,000		
		End. bal.	110,000

MORTGAGE PAYABLE

		Beg. bal.	0
			130,000
		End. bal.	130,000

CAPITAL STOCK

		Beg. bal.	0
			180,000
		End. bal.	180,000

PE 3–18 (LO3) Posting with Revenues, Expenses, and Dividends

CASH

Beg. bal.	0		
	200,000		
			54,000
			25,000
	50,000		
	47,000		
			110,000
			17,000
End. bal.	91,000		

ACCOUNTS RECEIVABLE

Beg. bal.	0		
	120,000		
			47,000
End. bal.	73,000		

EQUIPMENT

Beg. bal.	0		
	260,000		
End. bal.	260,000		

ACCOUNTS PAYALE

		Beg. bal.	0
			260,000
	110,000		
		End. bal.	150,000

SERVICES REVENUE

		Beg. bal.	0
			200,000
			170,000
		End. bal.	370,000

WAGES EXPENSE

Beg. bal.	0		
	54,000		
End. bal.	54,000		

ADVERTISING EXPENSE

Beg. bal.	0		
	25,000		
End. bal.	25,000		

DIVIDENDS

Beg. bal.	0		
	17,000		
End. bal.	17,000		

PE 3–19 (LO3) Preparing a Trial Balance

	Debit	Credit
Cash	$211,000	
Land	90,000	
Building	210,000	
Accounts Receivable	73,000	
Equipment	260,000	
Accounts Payable		$150,000
Mortgage Payable		130,000
Loan Payable		110,000
Capital Stock		180,000
Dividends	17,000	
Services Revenue		370,000
Wages Expense	54,000	
Advertising Expense	25,000	
Totals	$940,000	$940,000

PE 3–20 (LO3) Using a Trial Balance to Prepare a Statement of Comprehensive Income

Services revenue		$400,000
Expenses:		
Wages expense	$255,000	
Utilities expense	43,000	
Rental expense	25,000	323,000
Net income		$ 77,000
Other comprehensive income		0
Comprehensive income		$ 77,000

PE 3–21 (LO3) Using a Trial Balance to Prepare a Balance Sheet

Assets

Cash	$ 98,000
Accounts receivable	96,000
Land	90,000
Building	250,000
Total assets	$534,000

Liabilities and Equity

Accounts payable	$ 104,000
Loan Payable	120,000

Capital stock	250,000
Retained earnings	60,000*
Total liabilities and equity	$534,000

*Beginning retained earnings $0 + Net income $77,000 (see PE 3–20) – Dividends $17,000=$60,000

PE 3–22 (LO3) Preparing a Statement of Cash Flows

Operating activities:		
Collections from customers ($200,000+ $50,000+ $47,000)	$297,000	
Payments for wages	(54,000)	
Payments for advertising	(25,000)	
Net cash provided by operating activities		$218,000
Investing activities:		
Purchase of land	$ (90,000)	
Purchase of building (cash down payment only)	(80,000)	
Purchase of equipment (payment of $260,000 payable)	(110,000)	
Net cash used by investing activities		(280,000)
Financing activities:		
Borrowed from bank	$140,000	
Repaid loan	(30,000)	
Received from stockholders	180,000	
Paid cash dividends	(17,000)	
Net cash provided by financing activities		273,000
Net increase in cash		$211,000
Beginning cash balance		0
Ending cash balance		$211,000

EXERCISES

E 3–1 (LO1) Accounting Equation

Transaction	Assets	=	Liabilities	+	Equity
1. Took out school loan	Increase (Cash)		Increase (School loan)		
2. Paid month's rent	Decrease (Cash)				Decrease (Increase in expenses)
3. Sold computer	Increase (Cash) Decrease (Computer)				
4. Received paycheck	Increase (Cash)				Increase (Increase in revenues)
5. Received interest	Increase (Cash)				Increase (Increase in revenues)
6. Made car payment	Decrease (Cash)		Decrease (Car loan)		Decrease (Increase in expenses)

E 3–2 (LO1) Accounting Elements: Increase/Decrease, Debit/Credit Relationships

Item	Increased with	Transaction
Assets	Debit entry	Purchased equipment on credit.
Liabilities	Credit entry	Took out a bank loan.
Equity	Credit entry	Recorded net income for the year.
Capital stock	Credit entry	Issued new shares of company stock.
Retained earnings	Credit entry	Recorded net income for the year.
Revenues	Credit entry	Recorded monthly rent revenue.
Expenses	Debit entry	Paid monthly salary expense.
Dividends	Debit entry	Paid cash dividend.

E 3–3 (LO1) **Expanded Accounting Equation**

Transaction	Assets	=	Liabilities	+	Equity
1	+ (Supplies)		+ (Accounts Payable)		0
2	+ (Cash)		0		+ (Revenue)
3	+ (Cash)		+ (Loan Payable)		0
4	+ (Land)		+ (Notes Payable)		0
	– (Cash)				
5	+ (Cash)		0		+ (Capital Stock)
6	– (Cash)		0		– (Expense)
7	– (Cash)		– (Accounts Payable)		0
8	+ (Cash)		0		0
	+ (Notes Receivable)				
	– (Building)				
9	– (Cash)		0		– (Dividends)
10	– (Cash)		0		– (Expense)

E 3–4 (LO1) **Classification of Accounts**

1.	A	7.	OE—E	13.	L
2.	OE—R	8.	OE	14.	A
3.	A	9.	L	15.	A
4.	OE—E	10.	L	16.	OE—E
5.	OE	11.	OE—R	17.	L
6.	L	12.	A	18.	OE—E

E 3–5 (LO1) **Normal Account Balances**

1.	DR	7.	DR	13.	CR
2.	CR	8.	CR	14.	DR
3.	DR	9.	CR	15.	DR
4.	DR	10.	CR	16.	DR
5.	CR	11.	CR	17.	CR
6.	CR	12.	DR	18.	DR

E 3-6 (LO1) Analyzing the Statements about Accounting and the Recording Process.

1. False. An account is an accounting record of a specific asset, liability, or equity item.
2. False. An account shows increases and decreases in the item it relates to.
3. False. Each asset, liability, and equity item has a separate account.
4. True. An account has a left, or debit side, and a right, or credit side.
5. True.

E 3-7 (LO1) Impact of a Transaction

1.(3) 2.(4) 3.(1) 4.(2) 5.(2) 6.(6) 7.(5)

E 3-8 (LO1) Relationships between Transactions and Accounting Equation

1.

(a) MileStone Co. issued shares in exchange for cash.
(b) MileStone Co. purchased office equipment for NT$15,000. MileStone Co. paid NT$9,000 immediately, and the remaining balance on account.
(c) MileStone Co. purchased supplies for NT$350 cash.
(d) MileStone Co. performed NT$50,000 service for a customer. The customer paid half cash and half on account.
(e) MileStone Co. borrowed cash from a bank on a note payable NT$1,000,000.
(f) MileStone Co. paid cash dividends NT$3,500.
(g) MileStone Co. paid insurance expense NT$3,000 for the month.
(h) MileStone Co. received NT$18,000 from customer.
(i) MileStone Co. paid interest expense NT$10,000 to the bank.
(j) MileStone Co. paid NT$8,000 to employees.

2. NT$30,000 + NT$50,000 – NT$3,500 – NT$3,000 – NT$10,000 – N$8,000 = NT$ 55,500

3. NT$50,000 - (NT$3,000 + NT$10,000 + NT$8,000) = NT$29,000

E 3–9 (LO1) **Relationships of the Expanded Accounting Equation**

1. December 31, 2016:

Total assets	$ 250,000
Less total liabilities	115,000
Total equity	$ 135,000
Less retained earnings	95,000
Capital stock	$ 40,000

2. December 31, 2017:

Total assets	$ 300,000
Less total liabilities	125,000
Total equity	$ 175,000
Less capital stock	60,000
Retained earnings	$ 115,000

3.

Retained earnings, December 31,2016	$ 95,000
Plus net income for 2017	X
Less dividends for 2017	(6,500)
Retained earnings, December 31, 2017	$ 115,000
Net income	$ 26,500*

*($95,000 + X – $6,500 = $115,000; X = $21,500)

Revenues for 2017	$ X
Less expenses for 2017	(135,500)
Net income for 2017	$ 26,500
Revenues	$ 162,000**

**(X – $135,500 = $26,500; X = $162,000)

Alternative solution:

Increase in Retained Earnings during year = $20,000 ($115,000 – $95,000)
$20,000 = Revenues (X) – Expenses ($135,500) – Dividends ($6,500) =
Revenues ($162,000)

E 3–10 (LO2) Journalizing Transactions

1.	Building	100,000	
	Cash		20,000
	Notes Payable		80,000
2.	Truck	12,000	
	Accounts Payable		12,000
3.	Accounts Receivable	17,500	
	Services Revenue		17,500
4.	Accounts Payable	12,000	
	Cash		12,000
5.	Cash	70,000	
	Capital Stock		70,000
6.	Cash	9,500	
	Accounts Receivable		9,500
7.	Utilities Expense	500	
	Cash		500
8.	Cash	18,000	
	Notes Receivable	44,000	
	Building		62,000
9.	Dividends	3,000	
	Cash		3,000

E 3–11 (LO2) Journal Entries

July	2	Cash	320,000	
		Capital Stock		320,000
		Issued 80,000 shares of capital stock.		
	4	Equipment	100,000	
		Cash		75,000
		Notes Payable		25,000
		Purchased equipment with 75% cash and 25% on a note payable.		
	5	Utilities Expense	2,300	

Cash		2,300
Paid utilities.		
9 Cash	15,000	
Equipment		15,000
Sold equipment at no gain or loss.		
13 Supplies	250,000	
Cash		75,000
Accounts Payable		175,000
Purchased supplies, 30% cash and 70% on account.		
14 Insurance Expense	6,000	
Cash		6,000
Paid insurance premium.		
18 Accounts Receivable	81,000	
Services Revenue		81,000
Provided service on account.		
20 Cash	8,500	
Accounts Receivable		8,500
Collected accounts receivable.		
24 Cash	43,000	
Services Revenue		43,000
Provided service for cash.		
27 Property Tax Expense	1,200	
Cash		1,200
Paid property taxes.		
30 Accounts Payable	175,000	
Cash		175,000
Paid accounts payable.		

E 3–12 (LO2, LO3) Journalizing and Posting Transactions

July	1	Paid advertising expense, $3,420.
	5	Collected $9,500 cash from customers as payments on accounts.
	10	Purchased $20,000 of supplies on credit.
	14	Provided services on account for $18,000.
	23	Paid rent of $2,000.
	25	Paid $5,000 to creditors as payments on account.

28 Collected $8,000 cash from customers as payments on account.
30 Purchased equipment for $1,500 and land for $4,000 in cash.

E 3-13(LO 3) Concepts about the Ledger

1. False. The general ledger contains all the asset, liability, and equity accounts.
2. True.
3. False. The accounts in the general ledger are arranged in financial statement order: first the assets, then the liabilities, share capital, retained earnings, dividends, revenues, and expenses.
4. False. The general ledger is not a book of original entry; transactions are first recorded in the general journal, then in the general ledger.

E 3-14(LO3) Preparing Trial Balance

Bin Music Inc.
Trial Balance
December 31, 2017

	Debit	Credit
Cash ($95,670 – Debit total without Cash $71,016)	$24,654	
Accounts Receivable	11,576	
Prepaid Insurance	2,000	
Equipment	50,000	
Notes Payable		$27,640
Accounts Payable		9,500
Salaries and Wages Payable		900
Capital Stock-Common		40,000
Retained Earnings		5,630
Dividends	700	
Service Revenue		12,000
Salaries and Wages Expense	4,500	
Maintenance and Repairs Expense	860	
Gasoline Expense	600	
Utilities Expense	780	
	$95,670	$95,670

E 3–15 (LO3) Posting Journal Entries

CASH

7/2	320,000	7/4	75,000
7/9	15,000	7/5	2,300
7/20	8,500	7/13	75,000
7/24	43,000	7/14	6,000
		7/27	1,200
		7/30	175,000
Bal.	52,000		

ACCOUNTS RECEIVABLE

7/18	81,000	7/20	8,500
Bal.	72,500		

EQUIPMENT

7/4	100,000	7/9	15,000
Bal.	85,000		

SUPPLIES

7/13	250,000		
Bal.	250,000		

ACCOUNTS PAYABLE

7/30	175,000	7/13	175,000
		Bal.	0

NOTES PAYABLE

		7/4	25,000

CAPITAL STOCK

		7/2	320,000

SERVICES REVENUE

		7/18	81,000
		7/24	43,000
		Bal.	124,000

UTILITIES EXPENSE

7/5	2,300		

PROPERTY TAX EXPENSE

7/27	1,200		

INSURANCE EXPENSE

7/14	6,000		

E 3–16 (LO3) Trial Balance

Molly, Inc.
Trial Balance
July 31, 2017

	Debits	Credits
Cash	$ 22,300	
Accounts Receivable	9,700	
Supplies	350	
Land	27,000	
Buildings	56,000	
Equipment	18,000	
Accounts Payable		$ 14,200
Mortgage Payable (due 2020)		28,000
Capital Stock		30,000
Retained Earnings		31,350*
Fees Earned		49,900
Rent Expense	2,500	
Insurance Expense	4,800	
Miscellaneous Expenses	3,100	
Salary Expense	8,000	
Utilities Expense	1,700	
Totals	$153,450	$153,450

*X + $122,100 = $153,450; X = $31,350

E 3–17 (LO3) Trial Balance

Marshall, Inc.
Trial Balance
November 30, 2017

	Debits	Credits
Cash	$ 35,000	
Short-Term Investments	15,000	
Accounts Receivable	125,000	
Notes Receivable	20,000	
Land	125,000	
Buildings	150,000	
Equipment	55,000	
Accounts Payable		$ 55,000
Mortgage Payable		95,000
Notes Payable		150,000
Salaries Payable		2,000
Capital Stock		173,000*
Retained Earnings		40,000
Services Revenue		187,000
Advertising Expense	5,000	
Other Expenses	1,000	
Property Tax Expense	1,500	
Rent Expense	7,500	
Salaries Expense	155,000	
Utilities Expense	7,000	
Totals	$702,000	$702,000

*Capital Stock is the difference between the total given credits and total debits:

Total debits	$ 702,000
Total given credits	(529,000)
Capital Stock	$ 173,000

PROBLEMS

P3–1 (LO1, LO2) Transaction Analysis and Journal Entries

1.	(a)	Equipment	115,600	
		Cash		57,800
		Accounts Payable		57,800
	(b)	Supplies	3,300	
		Accounts Payable		3,300
	(c)	Utilities Expense	720	
		Cash		720
	(d)	Cash	500	
		Accounts Receivable	1,000	
		Rent Revenue		1,500
	(e)	Repairs Expense	5,120	
		Cash		5,120
	(f)	Cash	800	
		Rent Revenue		800
	(g)	Cash	30,000	
		Notes Payable (Loan Payable)		30,000

P 3–2 (LO2, LO3) Journal Entries and Trial Balance

1.	a.	Cash	42,000	
		Accounts Receivable		42,000
	b.	Accounts Payable	33,000	
		Cash		33,000
	c.	Utilities Expense	12,600	
		Cash		12,600
	d.	Cash	333,000	
		Accounts Receivable	37,000	
		Services Revenue		370,000
	e.	Interest Expense	30,000	
		Mortgage Payable	20,000	
		Cash		50,000

P 3–2 (LO2, LO3) (Continued)

f.	Salaries Expense	120,000	
	Cash		120,000
g.	Notes Payable	10,000	
	Cash		10,000

2.

Cash

1/1	63,000	(b)	33,000
(a)	42,000	(c)	12,600
(d)	333,000	(e)	50,000
		(f)	120,000
		(g)	10,000
Bal.	212,400		

Accounts Receivable

1/1	147,000	(a)	42,000
(d)	37,000		
Bal.	142,000		

Office Building

1/1	416,000		

Accounts Payable

(b)	33,000	1/1	33,000
		Bal.	0

Mortgage Payable

(e)	20,000	1/1	276,000
		Bal.	256,000

Notes Payable

(g)	10,000	1/1	137,000
		Bal.	127,000

Capital Stock

		1/1	115,000

Retained Earnings

		1/1	65,000

Services Revenue

		(d)	370,000

Salaries Expense

(f)	120,000		

Utilities Expense

(c)	12,600		

Interest Expense

(e)	30,000		

P 3–2 (LO2, LO3) (Continued)

Gammon Corporation
Trial Balance
December 31, 2017

	Debits	Credits
Cash	$ 212,400	
Accounts Receivable	142,000	
Office Building	416,000	
Mortgage Payable		$ 256,000
Notes Payable		127,000
Capital Stock		115,000
Retained Earnings		65,000
Services Revenue		370,000
Salaries Expense	120,000	
Utilities Expense	12,600	
Interest Expense	30,000	
Totals	$ 933,000	$ 933,000

3. The purpose of the trial balance is to determine only whether total debits equal total credits. Thus, several types of errors can exist even though total debits equal total credits. These errors could include completely omitting a transaction, recording a transaction incorrectly, and posting a transaction to the wrong accounts.

P 3–3 (LO2, LO3) Journalizing and Posting

1. Sept.	1	Cash	200,000	
		Capital Stock		200,000
	2	Wages Expense	23,000	
		Cash		23,000
	4	Equipment	75,000	
		Accounts Payable		75,000
	5	Utilities Expense	1,800	
		Cash		1,800
	9	Insurance Expense	1,500	
		Cash		1,500
	11	Cash	20,000	
		Accounts Receivable	50,000	
		Services Revenue		70,000
	15	Supplies	5,000	
		Accounts Payable		5,000
	21	Cash	25,000	
		Accounts Receivable		25,000
	25	Accounts Payable	77,500	
		Cash		77,500

2.

Cash

9/1	200,000	9/2	23,000
9/11	20,000	9/5	1,800
9/21	25,000	9/9	1,500
		9/25	77,500
Bal.	141,200		

Accounts Receivable

9/11	50,000	9/21	25,000
Bal.	25,000		

Equipment

9/4	75,000		
Bal.	75,000		

Supplies

9/15	5,000		

Accounts Payable

9/25	77,500	9/4	75,000
		9/15	5,000
		Bal.	2,500

Capital Stock

		9/1	200,000

P 3–3 (LO2, LO3) (Continued)

Services Revenue			
		9/11	70,000

Insurance Expense			
9/9	1,500		

Utilities Expense			
9/5	1,800		

Wages Expense			
9/2	23,000		

3. The owners should look at the cash account in the general ledger. The general ledger is a "book of accounts" in which data from transactions recorded in journals are posted and summarized. Thus, the owners would find the amount of cash on hand in the general ledger cash account.

P 3–4 (LO2, LO3) Journal Entries from Ledger Analysis

1. (a)	Cash	150,000	
	Capital Stock		150,000
(b)	Building	210,000	
	Cash		80,000
	Mortgage Payable		130,000
(c)	Cash	60,000	
	Notes Payable		60,000
(d)	Supplies	43,000	
	Cash		8,000
	Accounts Payable		35,000
(e)	Cash	45,000	
	Accounts Receivable	45,000	
	Services Revenue		90,000
(f)	Wages Expense	18,000	
	Cash		18,000
(g)	Notes Payable	60,000	
	Interest Expense	3,000	
	Cash		63,000
(h)	Accounts Payable	35,000	
	Cash		35,000
(i)	Cash	35,000	
	Accounts Receivable		35,000

P 3–5 (LO2, LO3) Unifying Concepts: Compound Journal Entries, Posting, Trial Balance

1.	(a)	Cash	30,000	
		Supplies	2,500	
		Land	20,000	
		Building	165,000	
		Equipment	13,500	
		Notes Payable		6,000
		Capital Stock		225,000
	(b)	Cash	20,000	
		Accounts Receivable	32,000	
		Services Revenue		52,000
	(c)	Notes Payable	6,000	
		Interest Expense	500	
		Cash		6,500
	(d)	Supplies	1,400	
		Cash		600
		Notes Payable		800
	(e)	Office Equipment	12,000	
		Cash		6,000
		Capital Stock		6,000
	(f)	Truck	25,000	
		Cash		5,000
		Notes Payable		20,000

P 3–5 (LO2, LO3) (Continued)

2.

Cash

(a)	30,000	(c)	6,500
(b)	20,000	(d)	600
		(e)	6,000
		(f)	5,000
Bal.	31,900		

Accounts Receivable

(b)	32,000		

Supplies

(a)	2,500		
(d)	1,400		
Bal.	3,900		

Land

(a)	20,000		

Building

(a)	165,000		

Equipment

(a)	13,500		

Office Equipment

(e)	12,000		

Truck

(f)	25,000		

Notes Payable

(c)	6,000	(a)	6,000
		(d)	800
		(f)	20,000
		Bal.	20,800

Capital Stock

		(a)	225,000
		(e)	6,000
		Bal.	231,000

Services Revenue

		(b)	52,000

Interest Expense

(c)	500		

3.

Shaw Company
Trial Balance
December 31, 2017

	Debits	Credits
Cash	$ 31,900	
Accounts Receivable	32,000	
Supplies	3,900	
Land	20,000	
Building	165,000	
Equipment	13,500	
Office Equipment	12,000	
Truck	25,000	
Notes Payable		$ 20,800
Capital Stock		231,000
Services Revenue		52,000
Interest Expense	500	
Totals	$303,800	$303,800

P 3–6 (LO2, LO3) Unifying Concepts: Journal Entries, T-Accounts, Trial Balance

1.

2017				
May	3	Accounts Payable	3,000	
		Cash		3,000
	6	Cash	2,450	
		Accounts Receivable		2,450
	7	Cash	3,000	
		Accounts Receivable	2,000	
		Services Revenue		5,000
	15	Notes Payable	2,500	
		Cash		2,500
	21	Cash	1,000	
		Capital Stock		1,000
	23	Cash	3,750	
		Services Revenue		3,750
	25	Salaries Expense	1,000	
		Cash		1,000
	26	Rent Expense	250	
		Cash		250
	29	Furniture	250	
		Cash		250

2.

Cash

Beg. bal.	8,050	5/3	3,000
5/6	2,450	5/15	2,500
5/7	3,000	5/25	1,000
5/21	1,000	5/26	250
5/23	3,750	5/29	250
End. bal.	11,250		

P 3–6 (LO2, LO3) (Continued)

Accounts Receivable

Beg. bal.	2,450	5/6	2,450
5/7	2,000		
End. bal.	2,000		

Building

Beg. bal.	30,000		
End. bal.	30,000		

Furniture

Beg. bal.	2,000		
5/29	250		
End. bal.	2,250		

Notes Payable

5/15	2,500	Beg. bal.	12,500
		End. bal.	10,000

Accounts Payable

5/3	3,000	Beg. bal.	6,000
		End. bal.	3,000

Capital Stock

		Beg. bal.	15,000
		5/21	1,000
		End. bal.	16,000

Retained Earnings

		Beg. bal.	9,000

Services Revenue

		5/7	5,000
		5/23	3,750
		End. bal.	8,750

Salaries Expense

5/25	1,000		

Rent Expense

5/26	250		

3.

Chris Company
Trial Balance
May 31, 2017

	Debits	Credits
Cash	$11,250	
Accounts Receivable	2,000	
Building	30,000	
Furniture	2,250	
Notes Payable		$10,000
Accounts Payable		3,000
Capital Stock		16,000
Retained Earnings		9,000
Services Revenue		8,750
Salaries Expense	1,000	
Rent Expense	250	
Totals	$46,750	$46,750

P 3–7 (LO1, LO3) Unifying Concepts: T-Accounts, Trial Balance, and Statement of Comprehensive Income

1.

ASSETS

Cash

(a)	50,000	(b)	5,000
(e)	10,000	(g)	15,000
(f)	9,500	(h)	5,500
(m)	10,000	(i)	12,000
(n)	3,250	(k)	2,500
(p)	3,000	(l)	7,500
(q)	1,500	(o)	600
		(r)	11,200
Bal.	27,950		

Accounts Receivable

(d)	25,000	(f)	9,500
		(m)	13,000
Bal.	2,500		

Notes Receivable

(m)	3,000	(n)	3,000
Bal.	0		

Supplies

(j)	1,500		

Land

(g)	10,000	(p)	3,000
Bal.	7,000		

Building

(g)	60,000		

Equipment

(b)	5,000		

Truck

(c)	18,000		

LIABILITIES

Accounts Payable

(i)	12,000	(c)	18,000
(k)	2,500	(j)	1,500
		Bal.	5,000

Notes Payable

(r)	10,000	(e)	10,000
		Bal.	0

Mortgage Payable

(h)	2,750	(g)	55,000
		Bal.	52,250

EQUITY

Capital Stock

		(a)	50,000

RETAINED EARNINGS

Services Revenue

		(d)	25,000

Rent Revenue

		(q)	1,500

Interest Revenue

		(n)	250

Wages Expense

(l)	7,500		

Utilities Expense

(o)	600		

Interest Expense

(h)	2,750		
(r)	1,200		
Bal.	3,950		

P 3–7 (LO1, LO3) (Continued)

2.

GOGOLA, Inc.
Trial Balance
December 31, 2017

	Debits	Credits
Cash	$ 27,950	
Accounts Receivable	2,500	
Notes Receivable	0	
Supplies	1,500	
Land	7,000	
Building	60,000	
Truck	18,000	
Equipment	5,000	
Accounts Payable		$ 5,000
Notes Payable		0
Mortgage Payable		52,250
Capital Stock		50,000
Services Revenue		25,000
Rent Revenue		1,500
Interest Revenue		250
Wages Expense	7,500	
Utilities Expense	600	
Interest Expense	3,950	
Totals	$134,000	$134,000

3.

GOGOLA, Inc.
Statement of Comprehensive Income
For the Year Ended December 31, 2017

Services revenue		$25,000
Operating expenses:		
Wages expense	$7,500	
Utilities expense	600	(8,100)
Operating income		$16,900
Other revenues and expenses:		
Interest expense	$(3,950)	
Rent revenue	1,500	
Interest revenue	250	(2,200)
Net income		$14,700
Other comprehensive income		0
Comprehensive income		$14,700

P 3–8 (LO3) Correcting a Trial Balance

Jacubs Company, Inc.
Trial Balance
November 30, 2017

	Debits	Credits
Cash	$ 18,700	
Notes Receivable	12,000	
Accounts Receivable	60,450	
Land	95,850	
Buildings	210,700	
Equipment	37,900	
Furniture	18,000	
Accounts Payable		$ 23,450
Notes Payable		198,350
Wages Payable		12,000
Mortgage Payable		75,200
Capital Stock		110,000
Retained Earnings		21,400
Services Revenue		125,600
Advertising Expense	10,400	
Wages Expense	87,900	
Rent Expense	8,700	
Other Expenses	2,000	
Property Tax Expense	1,300	
Utilities Expense	2,100	
Totals	$566,000	$566,000

P 3–9 (LO3) From Transactions to Financial Statements

1.

Units: NT Dollars

Date	Cash	+	Accounts Receivable	+	Supplies	+	Machines	=	Accounts Payable	+	Notes Payable	+	Capital Stock	-	Dividends	+	Revenues	-	Expenses	Explanations for changes in retained earnings
7/2	+$60,000							=				+	$60,000							
7/4	-5,000					+	$36,000	=		+	$31,000									
7/5	-6,000							=										-	$6,000	Rent expense
7/7				+	$7,000			=	$7,000											
7/12	-1,000							=										-	1,000	Advertising expense
7/14		+	$80,000					=								+	$80,000			Service revenue
7/16	30,000							=								+	30,000			Service revenue
7/18	-7,000							=	-7,000											
7/23	50,000	-	50,000					=												
7/27	-40,000							=										-	40,000	Salary expense
7/29	-2,000																	-	2,000	Utility expense
7/31	-10,000													-	$10,000					Dividneds

P 3–9 (LO3) (Continued)

2.

Shinny Laundry
Statement of Comprehensive Income
For One Month Ended July 31, 2017

Service revenue		$110,000
Expenses:		
Rent expense	$ 6,000	
Advertising expense	1,000	
Salary expense	40,000	
Utilities expense	2,000	49,000
Net income		$ 61,000
Other comprehensive income		0
Comprehensive income		$ 61,000

3.

Shinny Laundry
Balance Sheet
July 31,2017

Assets		
Current assets:		
Cash	$ 69,000	
Accounts receivable	30,000	
Supplies	7,000	
Total current assets		$106,000
Long-term assets:		
Machines		36,000
Total assets		$142,000
Liabilities and Equity		
Current liabilities:		
Notes payable	$ 31,000	
Total liabilities		$ 31,000
Equity:		
Capital stock	$ 60,000	
Retained earnings	51,000	
Total equity		111,000
Total liabilities and equity		$142,000

P 3–10 (LO3) Relationships of Account Items in the Trial Balance

1.
(a) 40,000 (b) $105,000 (c) $15,000 (d) 49,000 (e)72,100 (f) 18,000
(g) $108,000 (h) 85,000 (i) 405,000 (j) 44,000 (k) $172,000 (l) 497,000

2.

Mayday Company
Statement of Retained Earnings
For the Year Ended December 31, 2017

Retained earnings, January 1, 2017	$	32,900
Plus: Net income		28,100
Less: Dividends		
(18,000)		
Retained earnings, December 31, 2017		$43,000

P 3-11 (LO3) Preparing Correct Trial Balance

Paradise Inc.
Trial Balance
April 30, 2017

	Debit	Credit
Cash ($3,840 + $270)	$ 4,110	
Accounts Receivable ($2,898 – $270)	2,628	
Supplies ($800 – $510)	290	
Equipment ($3,000 + $510)	3,510	
Accounts Payable ($2,666 – $390 – $309)		$ 1,967
Unearned Service Revenue		2,200
Capital Stock-Common		9,000
Dividends ($800 + $400)	1,200	
Service Revenue ($2,380 + $801)		3,181
Salaries and Wages Expense ($3,400 + $700 – $400)	3,700	
Utilities Expense	910	
	$16,348	$16,348

ANALYTICAL ASSIGNMENTS

AA 3–1 How Does Wal-Mart (and Other Companies) Do It?

Discussion

Wal-Mart and other companies—whether large or small—use a systematic process referred to as the accounting cycle to transform transaction data into summarized financial reports. The steps in the accounting cycle include analyzing transactions, recording the effects of transactions, summarizing those effects, and preparing financial statements and other reports for use by various internal and external users.

AA 3–2 Understanding the Mechanics of Accounting

Discussion

Jay McMahon should not be hired. He apparently has not understood which accounts have debit balances and which have credit balances. He has not prepared a proper trial balance: the title is incorrect; the accounts are not listed in logical order; and total debits do not equal total credits. A corrected trial balance is as follows:

Rollins Engineering Company
Trial Balance

For the Year Ended December 31, 2016

	Debits	Credits
Cash	$ 93,100	
Accounts Receivable	44,000	
Supplies	11,000	
Office Equipment	15,000	
Accounts Payable		$ 5,500
Salaries Payable		34,000
Capital Stock		76,000
Retained Earnings		24,000
Consulting Revenues		280,000
Salaries Expense	175,000	
Utilities Expense	10,000	
Rent Expense	32,000	
Supplies Expense	33,000	
Other Expenses	6,400	
Totals	$419,500	$419,500

The accounts are usually listed in the order they would appear on the balance sheet and income statement. Total debits should equal total credits for all accounts.

AA 3–2 (Continued)

Double-entry accounting is based on the basic accounting equation: Assets = Liabilities + Equity. Since the equation is equality, it must always remain in balance. This means that for every transaction, there must be equal debit and credit entries. Assets are increased by debits, while liabilities and equity are increased by credits; this keeps the equation in balance. Since revenues increase equity, revenue accounts are also increased by credits; expenses reduce equity and therefore are increased by debits, just like assets. Thus, at any time under a double-entry system of accounting, it is possible to check the accounting records to see that Assets = Liabilities + Equity, and that debits equal credits.

AA 3–3 *You Decide:* Is understanding the accounting cycle essential to being a good accountant, or is it a waste of time?

Judgment Call

Issues to be discussed are:

1. Today, computer programs such as QuickBooks can perform the accounting cycle. All that is necessary is to input the original data.
2. However, without understanding what the computer program is doing, it will never be possible to understand what is going on, where the risks are, and whether or not you can have confidence in the output.
3. Because technology can perform most of the duties of the accounting cycle, it isn't necessary to go into as much detail in memorizing procedures and processes as it used to be. What is necessary now is a general understanding of what the computer is doing and where it can go wrong.
4. The most important skills for today's accountants are being able to interpret and use the output of the accounting cycle to make better decisions.

AA 3–4 *You Decide:* If you major in accounting, will you enjoy a rewarding career, or will the field be extinct in 20 years?

Judgment Call

Issues to be discussed are:

1. While the work of accountants might change, accountants will always be needed.
2. As computers become smarter and smarter, they will replace some of the duties of accountants, but they can never use the output to make decisions as well as a human being can.
3. There will always be a need for accountants who can think analytically, communicate well, and participate in value-added decision making.
4. Accountants of the future will be more involved in interpreting financial information, planning, and understanding risks.
5. Today, more and more accountants are becoming part of top management teams because of the increased importance of understanding financial information.

AA 3–5 Should You Go the Extra Mile?

Ethics

Many people don't view this situation as a question of ethics. They would contend that your employer is paying you to take care of customers as they come into the store and that you have no further responsibility.

Others view this situation not as a question of ethics but as an opportunity to strengthen your résumé. If you can get involved in an "information system redesign," your prospects for improved employment in the future will go up.

The ethical question is whether you owe your employer your best effort, including any ideas that will improve operations. The answer isn't a clear one. But what is certain is that your job will be much more interesting and fulfilling if you are constantly trying to improve it.

SOLUTIONS TO "STOP & THINK"

Stop & Think (p. 84): Why are dividends NOT considered to be an expense?

Dividends are distributions to owners and are not considered a cost of doing business. Taxes must be paid (or the government gets upset) and interest must be paid (or creditors are distressed), but dividends are optional. If owners are concerned about dividends not being paid, they can sell their investment in the company.