# 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

Liabilities Equity

Assets Loan Mortgage Capital

Transaction Cash Land Building Payable Payable 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 BALANCE

Account Debit or Credit 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

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 | | | |  | LAND | | | |
| Beg. bal. | 0 |  |  |  | Beg. bal. | 0 |  |  |
|  | 140,000 |  |  |  |  | 90,000 |  |  |
|  |  |  | 90,000 |  | End. bal. | 90,000 |  |  |
|  |  |  | 30,000 |  |  |  |  |  |
|  | 180,000 |  |  |  |  |  |  |  |
|  |  |  | 80,000 |  |  |  |  |  |
| End. bal. | 120,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

PE 3–17 (LO3) (Continued)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| BUILDING | | | |  | LOAN PAYABLE | | | |
| Beg. bal. | 0 |  |  |  |  |  | Beg. bal. | 0 |
|  | 210,000 |  |  |  |  |  |  | 140,000 |
| End. bal. | 210,000 |  |  |  |  | 30,000 |  |  |
|  |  |  |  |  |  |  | End. bal. | 110,000 |
|  |  |  |  |  |  |  |  |  |
| MORTGAGE PAYABLE | | | |  | CAPITAL STOCK | | | |
|  |  | Beg. bal. | 0 |  |  |  | Beg. bal. | 0 |
|  |  |  | 130,000 |  |  |  |  | 180,000 |
|  |  | End. bal. | 130,000 |  |  |  | End. bal. | 180,000 |
|  |  |  |  |  |  |  |  |  |

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| CASH | | | |  | ACCOUNTS RECEIVABLE | | | |
| Beg. bal. | 0 |  |  |  | Beg. bal. | 0 |  |  |
|  | 200,000 |  |  |  |  | 120,000 |  |  |
|  |  |  | 54,000 |  |  |  |  | 47,000 |
|  |  |  | 25,000 |  | End. bal. | 73,000 |  |  |
|  | 50,000 |  |  |  |  |  |  |  |
|  | 47,000 |  |  |  |  |  |  |  |
|  |  |  | 110,000 |  |  |  |  |  |
|  |  |  | 17,000 |  |  |  |  |  |
| End. bal. | 91,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| EQUIPMENT | | | |  | ACCOUNTS PAYALE | | | |
| Beg. bal. | 0 |  |  |  |  |  | Beg. bal. | 0 |
|  | 260,000 |  |  |  |  |  |  | 260,000 |
| End. bal. | 260,000 |  |  |  |  | 110,000 |  |  |
|  |  |  |  |  |  |  | End. bal. | 150,000 |
|  |  |  |  |  |  |  |  |  |
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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| SERVICES REVENUE | | | |  | WAGES EXPENSE | | | |
|  |  | Beg. bal. | 0 |  | Beg. bal. | 0 |  |  |
|  |  |  | 200,000 |  |  | 54,000 |  |  |
|  |  |  | 170,000 |  | End. bal. | 54,000 |  |  |
|  |  | End. bal. | 370,000 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ADVERTISING EXPENSE | | | |  | DIVIDENDS | | | |
| Beg. bal. | 0 |  |  |  | Beg. bal. | 0 |  |  |
|  | 25,000 |  |  |  |  | 17,000 |  |  |
| End. bal. | 25,000 |  |  |  | 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 Decrease (Increase

(Car loan) 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

2. OE—R

3. A

4. OE—E

5. OE

6. L

7. OE—E

8. OE

9. L

10. L

11. OE—R

12. A

13. L

14. A

15. A

16. OE—E

17. L

18. OE—E

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

1. DR

2. CR

3. DR

4. DR

5. CR

6. CR

7. DR

8. CR

9. CR

10. CR

11. CR

12. DR

13. CR

14. DR

15. DR

16. DR

17. CR

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.

1. MileStone Co. issued shares in exchange for cash.
2. MileStone Co. purchased office equipment for NT$15,000. MileStone Co. paid NT$9,000 immediately, and the remaining balance on account.
3. MileStone Co. purchased supplies for NT$350 cash.
4. MileStone Co. performed NT$50,000 service for a customer. The customer paid half cash and half on account.
5. MileStone Co. borrowed cash from a bank on a note payable NT$1,000,000.
6. MileStone Co. paid cash dividends NT$3,500.
7. MileStone Co. paid insurance expense NT$3,000 for the month.
8. MileStone Co. received NT$18,000 from customer.
9. MileStone Co. paid interest expense NT$10,000 to the bank.
10. MileStone Co. paid NT$8,000 to employees.
11. NT$30,000 + NT$50,000 – NT$3,500 – NT$3,000 – NT$10,000 – N$8,000 = NT$ 55,500

1. 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, andequity 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 | | | |  | ACCOUNTS RECEIVABLE | | | |  | EQUIPMENT | | | |
| 7/2 | 320,000 | 7/4 | 75,000 |  | 7/18 | 81,000 | 7/20 | 8,500 |  | 7/4 | 100,000 | 7/9 | 15,000 |
| 7/9 | 15,000 | 7/5 | 2,300 |  | Bal. | 72,500 |  |  |  | Bal. | 85,000 |  |  |
| 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 |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| SUPPLIES | | | | | | |  | | | ACCOUNTS PAYABLE | | | | | |  | | | NOTES PAYABLE | | | | | | |
| 7/13 | | 250,000 | |  | |  | |  | 7/30 | | 175,000 | | 7/13 | | 175,000 | |  |  | |  | | 7/4 | | 25,000 | |
|  | |  | |  | |  | |  |  | |  | | Bal. | | 0 | |  |  | |  | |  | |  | |
| Bal. | | 250,000 | |  | |  | |  |  | |  | |  | |  | |  |  | |  | |  | |  | |
|  | |  | |  | |  | |  |  | |  | |  | |  | |  |  | |  | |  | |  | |
| CAPITAL STOCK | | | | | | |  | | | SERVICES REVENUE | | | | | |  | | | UTILITIES EXPENSE | | | | | | |
|  |  | | 7/2 | | 320,000 | |  | | |  | |  | 7/18 | 81,000 | |  | | | 7/5 | | 2,300 | |  | |  |
|  |  | |  | |  | |  | | |  | |  | 7/24 | 43,000 | |  | | |  | |  | |  | |  |
|  |  | |  | |  | |  | | |  | |  | Bal. | 124,000 | |  | | |  | |  | |  | |  |
|  |  | |  | |  | |  | | |  | |  |  |  | |  | | |  | |  | |  | |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| PROPERTY TAX EXPENSE | | | |  | INSURANCE EXPENSE | | | |  |  | | | |
| 7/27 | 1,200 |  |  |  | 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

### P**3–1 (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 | | | |  | Accounts Receivable | | | |  |  | | | |
| 1/1 | 63,000 | (b) | 33,000 |  | 1/1 | 147,000 | (a) | 42,000 |  |  |  |  |  |
| (a) | 42,000 | (c) | 12,600 |  | (d) | 37,000 |  |  |  |  |  |  |  |
| (d) | 333,000 | (e) | 50,000 |  |  |  |  |  |  |  |  |  |  |
|  |  | (f) | 120,000 |  |  |  |  |  |  |  |  |  |  |
|  |  | (g) | 10,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | 212,400 |  |  |  | Bal. | 142,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Office Building | | | |  | Accounts Payable | | | |  | Mortgage Payable | | | |
| 1/1 | 416,000 |  |  |  | (b) | 33,000 | 1/1 | 33,000 |  | (e) | 20,000 | 1/1 | 276,000 |
|  |  |  |  |  |  |  | Bal. | 0 |  |  |  | Bal. | 256,000 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Notes Payable | | | |  | Capital Stock | | | |  | Retained Earnings | | | |
| (g) | 10,000 | 1/1 | 137,000 |  |  |  | 1/1 | 115,000 |  |  |  | 1/1 | 65,000 |
|  |  | Bal. | 127,000 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Services Revenue | | | |  | Salaries Expense | | | |  |  | | | |
|  |  | (d) | 370,000 |  | (f) | 120,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Utilities Expense | | | |  | Interest Expense | | | |  |  | | | |
| (c) | 12,600 |  |  |  | (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 | | | |  | Accounts Receivable | | | |  | Equipment | | | |
| 9/1 | 200,000 | 9/2 | 23,000 |  | 9/11 | 50,000 | 9/21 | 25,000 |  | 9/4 | 75,000 |  |  |
| 9/11 | 20,000 | 9/5 | 1,800 |  |  |  |  |  |  |  |  |  |  |
| 9/21 | 25,000 | 9/9 | 1,500 |  |  |  |  |  |  |  |  |  |  |
|  |  | 9/25 | 77,500 |  |  |  |  |  |  |  |  |  |  |
| Bal. | 141,200 |  |  |  | Bal. | 25,000 |  |  |  | Bal. | 75,000 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Supplies | | | |  | Accounts Payable | | | |  | Capital Stock | | | |
| 9/15 | 5,000 |  |  |  | 9/25 | 77,500 | 9/4 | 75,000 |  |  |  | 9/1 | 200,000 |
|  |  |  |  |  |  |  | 9/15 | 5,000 |  |  |  |  |  |
|  |  |  |  |  |  |  | Bal. | 2,500 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

P 3–3 (LO2, LO3) (Continued)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Services Revenue | | | |  | Insurance Expense | | | |  |  | | | |
|  |  | 9/11 | 70,000 |  | 9/9 | 1,500 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Utilities Expense | | | |  | Wages Expense | | | |  |  | | | |
| 9/5 | 1,800 |  |  |  | 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 3–4 (LO2, LO3) (Continued)

2. Services revenue $ 90,000

Less: Wages expense (18,000)

Interest expense (3,000)

Net income $ 69,000

### 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 | | | |  | Accounts Receivable | | | |  | Supplies | | | |
| (a) | 30,000 | (c) | 6,500 |  | (b) | 32,000 |  |  |  | (a) | 2,500 |  |  |
| (b) | 20,000 | (d) | 600 |  |  |  |  |  |  | (d) | 1,400 |  |  |
|  |  | (e) | 6,000 |  |  |  |  |  |  |  |  |  |  |
|  |  | (f) | 5,000 |  |  |  |  |  |  |  |  |  |  |
| Bal. | 31,900 |  |  |  |  |  |  |  |  | Bal. | 3,900 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Land | | | |  | Building | | | |  | Equipment | | | |
| (a) | 20,000 |  |  |  | (a) | 165,000 |  |  |  | (a) | 13,500 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Office Equipment | | | |  | Truck | | | |  | Notes Payable | | | |
| (e) | 12,000 |  |  |  | (f) | 25,000 |  |  |  | (c) | 6,000 | (a) | 6,000 |
|  |  |  |  |  |  |  |  |  |  |  |  | (d) | 800 |
|  |  |  |  |  |  |  |  |  |  |  |  | (f) | 20,000 |
|  |  |  |  |  |  |  |  |  |  |  |  | Bal. | 20,800 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Capital Stock | | | |  | Services Revenue | | | |  | Interest Expense | | | |
|  |  | (a) | 225,000 |  |  |  | (b) | 52,000 |  | (c) | 500 |  |  |
|  |  | (e) | 6,000 |  |  |  |  |  |  |  |  |  |  |
|  |  | Bal. | 231,000 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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 | | | |  | Building | | | |
| Beg. bal. | 2,450 | 5/6 | 2,450 |  | Beg. bal. | 30,000 |  |  |
| 5/7 | 2,000 |  |  |  |  |  |  |  |
| End. bal. | 2,000 |  |  |  | End. bal. | 30,000 |  |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Furniture | | | |  | Notes Payable | | | |
| Beg. bal. | 2,000 |  |  |  | 5/15 | 2,500 | Beg. bal. | 12,500 |
| 5/29 | 250 |  |  |  |  |  |  |  |
| End. bal. | 2,250 |  |  |  |  |  | End. bal. | 10,000 |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Accounts Payable | | | |  | Capital Stock | | | |
| 5/3 | 3,000 | Beg. bal. | 6,000 |  |  |  | Beg. bal. | 15,000 |
|  |  |  |  |  |  |  | 5/21 | 1,000 |
|  |  | End. bal. | 3,000 |  |  |  | End. bal. | 16,000 |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Retained Earnings | | | |  | Services Revenue | | | |
|  |  | Beg. bal. | 9,000 |  |  |  | 5/7 | 5,000 |
|  |  |  |  |  |  |  | 5/23 | 3,750 |
|  |  |  |  |  |  |  | End. bal. | 8,750 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Salaries Expense | | | |  | Rent Expense | | | |
| 5/25 | 1,000 |  |  |  | 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 | | | |  | Accounts Receivable | | | |  | Notes Receivable | | | |
| (a) | 50,000 | (b) | 5,000 |  | (d) | 25,000 | (f) | 9,500 |  | (m) | 3,000 | (n) | 3,000 |
| (e) | 10,000 | (g) | 15,000 |  |  |  | (m) | 13,000 |  |  |  |  |  |
| (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 |  |  |  | Bal. | 2,500 |  |  |  | Bal. | 0 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Supplies | | | |  | Land | | | |  | Building | | | |
| (j) | 1,500 |  |  |  | (g) | 10,000 | (p) | 3,000 |  | (g) | 60,000 |  |  |
|  |  |  |  |  | Bal. | 7,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Equipment | | | |  | Truck | | | |  |  | | | |
| (b) | 5,000 |  |  |  | (c) | 18,000 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

LIABILITIES

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Accounts Payable | | | |  | Notes Payable | | | |  | Mortgage Payable | | | |
| (i) | 12,000 | (c) | 18,000 |  | (r) | 10,000 | (e) | 10,000 |  | (h) | 2,750 | (g) | 55,000 |
| (k) | 2,500 | (j) | 1,500 |  |  |  |  |  |  |  |  |  |  |
|  |  | Bal. | 5,000 |  |  |  | Bal. | 0 |  |  |  | Bal. | 52,250 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

EQUITY

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Capital Stock | | | |  |  | | | |  |  | | | |
|  |  | (a) | 50,000 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

RETAINED EARNINGS

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Services Revenue | | | |  | Rent Revenue | | | |  | Interest Revenue | | | |
|  |  | (d) | 25,000 |  |  |  | (q) | 1,500 |  |  |  | (n) | 250 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Wages Expense | | | |  | Utilities Expense | | | |  | Interest Expense | | | |
| (l) | 7,500 |  |  |  | (o) | 600 |  |  |  | (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.

1. 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.