# *College Accounting A Practical Approach (Canadian) 13th edition Slater Solutions Manual*

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# 2

# Debits and Credits: Analyzing and Recording Business Transactions

## *ANSWERS TO DISCUSSION QUESTIONS AND CRITICAL THINKING/ETHICAL CASE*

1. *A ledger is a group of accounts that record in monetary value data from business transactions.*
2. *It is from the Latin word debere which means left side.*
3. *False. Accounts with one entry will not need footings.*
4. *The end product of the accounting process is preparing financial reports.*
5. *The transaction analysis chart is a teaching device that is not used in the regular accounting process.*
6. *Accounts affected, category, ↑ ↓ , rules, update of T accounts.*
7. *The analysis of transactions results in the total of debits being equal to total of credits. A double-entry system provides a system of checks and balances.*
8. *False. Informal report; does not have the same status as financial reports and is not shared with the public.*
9. *The financial reports are prepared from the ending balances of the accounts (debit or credit) in the ledger. These ending balances are then used in financial reports. The inside columns in financial reports are for sub-totaling.*
10. *It is easier to prepare the reports from the trial balance, because a list of all accounts and their balances is provided. The columns for revenue, expenses, etc., on the expanded accounting equation do not list specific titles and their balances.*
11. *The question in this case is whether Audrey should be allowed to put fictitious figures into the trial balance. Although Audrey has good intentions, this type of behavior cannot be tolerated. Her actions are extremely unprofessional and go against all accounting standards (not to mention ethics!). Instead of putting in fictitious figures, Audrey should stay late and correct the trial balance (or perhaps engage an assistant to help her so she could catch the plane).*

## *SOLUTIONS TO CLASSROOM DEMONSTRATION EXERCISES*

| | | | | |
|---|---|---|---|---|
| *CDE1.* | *Cash* | *$17 ,200* | | *Debit Balance* |
| | *C. Clark, Capital* | *$11,000* | | *Credit Balance* |

| | | | | | |
|---|---|---|---|---|---|
| *CDE2.* | *A.* *Liability* | *Cr.* | *Dr.* | *Cr.* |
| | *B.* *Revenue* | *Cr.* | *Dr.* | *Cr.* |
| | *C.* *Asset* | *Dr.* | *Cr.* | *Dr.* |
| | *D.* *Capital* | *Cr.* | *Dr.* | *Cr.* |
| | *E.* *Withdrawals* | *Dr.* | *Cr.* | *Dr.* |
| | *F.* *Expense* | *Dr.* | *Cr.* | *Dr.* |
| | *G.* *Expense* | *Dr.* | *Cr.* | *Dr.* |

*CDE3.*

| | | | | |
|---|---|---|---|---|
| *Cash* | *Asset* | ↑ | *Dr.* | *Cash*<br>*600* \| |
| *Accounts Receivable* | *Asset* | ↑ | *Dr.* | *Accounts Receivable*<br>*1,900* \| |
| *Bookkeeping Services* | *Revenue* | ↑ | *Cr.* | *Bookkeeping Fees*<br>\| *2,500* |

*CDE4.*
*Cash*
*Accounts Receivable*
*Office Equipment*
*Accounts Payable*
*J. Joy, Capital*
*J. Joy, Withdrawals*
*Hair Salon Fees Earned*
*Advertising Expense*
*Salary Expense*
*Utility Expense*

*CDE5.*

| | |
|---|---|
| *A.* | *BS* |
| *B.* | *BS* |
| *C.* | *BS* |
| *D.* | *BS* |
| *E.* | *OE/BS* |
| *F.* | *OE* |
| *G.* | *IS* |
| *H.* | *IS* |
| *I.* | *IS* |
| *J.* | *IS* |
| *K.* | *IS* |

## *SOLUTIONS TO EXERCISES—SET A*

### *E2-1A.*

| *Balance Sheet Accounts* |
|---|
| *Assets* |
| *111 Cash* |
| *112 Accounts Receivable* |
| *121 Office Equipment* |
| *Liabilities* |
| *211 Accounts Payable* |
| *Owner's Equity* |
| *311 L. Jones, Capital* |
| *312 L. Jones, Withdrawals* |
| *Income Statement Accounts* |
| *Revenue* |
| *411 Legal Fees* |
| *Expenses* |
| *511 Advertising Expense* |
| *512 Repair Expense* |
| *513 Salary Expense* |

### *E2-2A.*

| *1. Accounts Affected* | *2. Category* | *3. ↑ ↓* | *4. Rules* | *5. T-Account Update* |
|---|---|---|---|---|
| *Computer Equipment* | *Asset* | ↑ | *Dr.* | *Computer Equipment*: Dr. *19,000* |
| *Accounts Payable* | *Liability* | ↑ | *Cr.* | *Accounts Payable*: Cr. *16,000* |
| *Cash* | *Asset* | ↓ | *Cr.* | *Cash*: Cr. *3,000* |

### *E2-3A.*

| *ACCOUNT* | *CATEGORY* | ↑ | ↓ | *FINANCIAL* |
|---|---|---|---|---|
| *Supplies* | *Asset* | *Dr.* | *Cr.* | *Balance Sheet* |
| *Legal Fees Earned* | *Revenue* | *Cr.* | *Dr.* | *Income Statement* |
| *P. Rey, Withdrawals* | *Owner's Equity (Withdrawals)* | *Dr.* | *Cr.* | *Statement of Owner's Equity* |
| *Accounts Payable* | *Liability* | *Cr.* | *Dr.* | *Balance Sheet* |
| *Salaries Expense* | *Expense* | *Dr.* | *Cr.* | *Income Statement* |
| *Auto* | *Asset* | *Dr.* | *Cr.* | *Balance Sheet* |

## *E2-4A.*

| | Dr. | Cr. |
|---|---|---|
| A. | 8 | 1 |
| B. | 6 | 1 |
| C. | 9 | 4 |
| D. | 1 | 7 |
| E. | 10 | 1 |
| F. | 3 | 5 |
| G. | 2 | 7 |
| H. | 1 | 2 |
| I. | 3 | 4 |

## *E2-5A.*

*HUGO'S CLEANERS*
*INCOME STATEMENT*
*FOR THE MONTH ENDED JULY 31, 2019*

| | | |
|---|---|---|
| Revenue: | | |
| Cleaning Fees | | $ 504 00 |
| Operating Expenses: | | |
| Salaries Expense | $ 175 00 | |
| Utilities Expense | 75 00 | |
| Total Operating Expenses | | 250 00 |
| Net Income | | $ 254 00 |

## *SOLUTIONS TO EXERCISES—SET A Cont.*

**HUGO'S CLEANERS**
**STATEMENT OF OWNER'S EQUITY**
**FOR THE MONTH ENDED JULY 31, 2019**

| | | |
|---|---|---|
| J. Hugo, Capital, July 1, 2019 | | $853.00 |
| Net Income for July | $254.00 | |
| Less: Withdrawals for July | 115.00 | |
| Decrease in Capital | | 139.00 |
| J. Hugo Capital, July 31, 2019 | | $992.00 |

**HUGO'S CLEANERS**
**BALANCE SHEET**
**JULY 31, 2019**

| ASSETS | | LIABILITIES AND OWNER'S EQUITY | |
|---|---|---|---|
| Cash | $600.00 | Liabilities: | |
| Equipment | 692.00 | Accounts Payable | $300.00 |
| | | Owner's Equity | |
| | | J. Hugo Capital | 992.00 |
| | | Total Liabilities and | |
| Total Assets | $1292.00 | Owner's Equity | $1292.00 |

## *SOLUTIONS TO EXERCISES—SET B*

### *E2-1B.*

| *Balance Sheet Accounts* |
|---|
| *Assets* |
| *111 Cash* |
| *112 Accounts Receivable* |
| *121 Office Equipment* |
| *Liabilities* |
| *211 Accounts Payable* |
| *Owner's Equity* |
| *311 L. Jones, Capital* |
| *312 L. Jones, Withdrawals* |
| *Income Statement Accounts* |
| *Revenue* |
| *411 Legal Fees* |
| *Expenses* |
| *511 Cleaning Expense* |
| *512 Office Assistance Expense* |
| *513 Rent Expense* |

### *E2-2B.*

| *1. Accounts Affected* | *2. Category* | *3. ↑↓* | *4. Rules* | *5. T-Account Update* |
|---|---|---|---|---|
| *Computer Equipment* | *Asset* | ↑ | *Dr.* | *Computer Equipment*: Dr. *21,000* |
| *Cash* | *Asset* | ↓ | *Cr.* | *Cash*: Cr. *5,000* |
| *Accounts Payable* | *Liability* | ↑ | *Cr.* | *Accounts Payable*: Cr. *16,000* |

### *E2-3B.*

| *ACCOUNT* | *CATEGORY* | ↑ | ↓ | *FINANCIAL* |
|---|---|---|---|---|
| *Supplies* | *Asset* | *Dr.* | *Cr.* | *Balance Sheet* |
| *Legal Fees Earned* | *Revenue* | *Cr.* | *Dr.* | *Income Statement* |
| *P. Rey, Withdrawals* | *Owner's Equity (Withdrawals)* | *Dr.* | *Cr.* | *Statement of Owner's Equity* |
| *Cash* | *Asset* | *Dr.* | *Cr.* | *Balance Sheet* |
| *Accounts Receivable* | *Asset* | *Dr.* | *Cr.* | *Balance Sheet* |
| *Rent Expense* | *Expense* | *Dr.* | *Cr.* | *Income Statement* |

### *E2-4B.*

| | Dr. | Cr. |
|---|---|---|
| A. | 8 | 1 |
| B. | 6 | 1 |
| C. | 9 | 4 |
| D. | 1 | 7 |
| E. | 10 | 1 |
| F. | 3 | 5 |
| G. | 2 | 7 |
| H. | 1 | 2 |
| I. | 3 | 4 |

### *E2-5B.*

**HALL'S CLEANERS**
**INCOME STATEMENT**
**FOR THE MONTH ENDED JULY 31, 2019**

| | | |
|---|---|---|
| Revenue: | | |
| Cleaning Fees | | $748.00 |
| Operating Expenses: | | |
| Salaries Expense | $250.00 | |
| Utilities Expense | 83.00 | |
| Total Operating Expenses | | 333.00 |
| Net Income | | $415.00 |

## *SOLUTIONS TO EXERCISES—SET B Cont.*

**HALL'S CLEANERS**
**STATEMENT OF OWNER'S EQUITY**
**FOR THE MONTH ENDED JULY 31, 2019**

| | | |
|---|---|---|
| J. Hall, Capital, July 1, 2019 | | $ 7 0 0 00 |
| Net Income for July | $ 4 1 5 00 | |
| Less: Withdrawals for July | 2 4 5 00 | |
| Increase in Capital | | 1 7 0 00 |
| J. Hall, Capital, July 31, 2019 | | $ 8 7 0 00 |

**HALL'S CLEANERS**
**BALANCE SHEET**
**JULY 31, 2019**

| ASSETS | | LIABILITIES AND OWNER'S EQUITY | |
|---|---|---|---|
| Cash | $ 7 5 0 00 | Liabilities: | |
| Equipment | 6 4 5 00 | Accounts Payable | $ 5 2 5 00 |
| | | Owner's Equity | |
| | | J. Hall, Capital | 8 7 0 00 |
| | | Total Liabilities and | |
| Total Assets | $1 3 9 5 00 | Owner's Equity | $1 3 9 5 00 |

## P2-1A.

| Accounts Affected | Category | Inc. ↑ Dec. ↑ | Rules | T-Account Update |
|---|---|---|---|---|
| A. Cash | Asset | ↑ | Dr. | Cash<br>21,000 │ |
| Bill O'Brien, Capital | Owner's Equity | ↑ | Cr. | Bill O'Brien, Capital<br>│ 21,000 |
| B. Delivery Trucks | Asset | ↑ | Dr. | Delivery Trucks<br>9,000 │ |
| Accounts Payable | Liability | ↑ | Cr. | Accounts Payable<br>│ 9,000 |
| C. Rent Expense | Expense | ↑ | Dr. | Rent Expense<br>900 │ |
| Accounts Payable | Liability | ↑ | Cr. | Accounts Payable<br>│ 900 |
| D. Cash | Asset | ↑ | Dr. | Cash<br>21,000 │<br>1,400 │ |
| Fees Earned | Revenue | ↑ | Cr. | Fees Earned<br>│ 1,400 |
| E. Accounts Receivable | Asset | ↑ | Dr. | Accounts Receivable<br>150 │ |
| Fees Earned | Revenue | ↑ | Cr. | Fees Earned<br>│ 1,400<br>│ 150 |
| F. Bill O'Brien, Withdrawals | Owner's Equity (Withdrawals) | ↑ | Dr. | Bill O'Brien, Withdrawals<br>400 │ |
| Cash | Asset | ↑ | Cr. | Cash<br>21,000 │ 400<br>1,400 │ |

## P2-2A.

**Cash 111**

| Dr. | Cr. |
|---|---|
| (A) 20,000 | 90 (D) |
| (C) 900 | 400 (E) |
| | 1,000 (G) |

**Office Equipment 121**

| Dr. | Cr. |
|---|---|
| (B) 5,000 | |

**Accounts Payable 211**

| Dr. | Cr. |
|---|---|
| (G) 1,000 | 5,000 (B) |
| | 1,400 (F) |

**Bernie Pillows, Capital 311**

| Dr. | Cr. |
|---|---|
| | 20,000 (A) |

**Bernie Pillows, Withdrawals 312**

| Dr. | Cr. |
|---|---|
| (D) 90 | |

**Consulting Fees Earned 411**

| Dr. | Cr. |
|---|---|
| | 900 (C) |

**Advertising Expense 511**

| Dr. | Cr. |
|---|---|
| (E) 400 | |

**Rent Expense 512**

| Dr. | Cr. |
|---|---|
| (F) 1,400 | |

## P2-3A.

*(a)*

| Cash | 111 |
|---|---|
| (A) 7,000 | 200 (D) |
| (G) 3,500 | 200 (E) |
| | 400 (F) |
| | 200 (H) |
| 10,500 | 900 (I) |
| | 1,900 |
| 8,600 | |

| Accounts Payable | 211 |
|---|---|
| (D) 200 | 1,300 (C) |
| | 1,100 |

| Fees Earned | 411 |
|---|---|
| | 8,000 (B) |

| Accounts Receivable | 112 |
|---|---|
| (B) 8,000 | 3,500 (G) |
| 4,500 | |

| Barry Joy, Capital | 311 |
|---|---|
| | 7,000 (A) |

| Rent Expense | 511 |
|---|---|
| (F) 400 | |

| Office Equipment | 121 |
|---|---|
| (C) 1,300 | |
| (H) 200 | |
| 1,500 | |

| Barry Joy, Withdrawals | 312 |
|---|---|
| (I) 900 | |

| Utilities Expense | 512 |
|---|---|
| (E) 200 | |

*(b)*

**BARRY'S CLEANING SERVICE**

**TRIAL BALANCE**

**MAY 31, 2019**

| | Dr. | Cr. |
|---|---|---|
| Cash | 8600 00 | |
| Accounts Receivable | 4500 00 | |
| Office Equipment | 1500 00 | |
| Accounts Payable | | 1100 00 |
| Barry Joy, Capital | | 70 00 |
| Barry Joy, Withdrawals | 900 00 | |
| Fees Earned | | 8000 00 |
| Rent Expense | 400 00 | |
| Utilities Expense | 200 00 | |
| Totals | 16100 00 | 16100 00 |

*P2-4A.*

*(a)*

**GRACE LANTZ, BARRISTER AND SOLICITOR**

**INCOME STATEMENT**

**FOR THE MONTH ENDED MAY 31, 2019**

| | | |
|---|---|---|
| Revenue: | | |
| Revenue from Legal Fees | | $ 2,350.00 |
| | | |
| Operating Expenses: | | |
| Utilities Expense | $ 300.00 | |
| Rent Expense | 450.00 | |
| Salaries Expense | 1,150.00 | |
| Total Operating Expenses | | 1,900.00 |
| Net Income | | $ 450.00 |

*(b)*

**GRACE LANTZ**

**BARRISTER AND SOLICITOR**

**STATEMENT OF OWNER'S EQUITY**

**FOR THE MONTH ENDED MAY 31, 2019**

| | | |
|---|---|---|
| Grace Lantz, Capital, May 1, 2019 | | $1,275.00 |
| Net Income for May | $ 450.00 | |
| Less: Withdrawals for May | 300.00 | |
| Increase in Capital | | 150.00 |
| Grace Lantz, Capital, May 31, 2019 | | $1,425.00 |

*P2-4A., Cont.*

*(c)*

**GRACE LANTZ, BARRISTER AND SOLICITOR**

**BALANCE SHEET**

**MAY 31, 2019**

| ASSETS | | LIABILITIES AND OWNER'S EQUITY | | |
|---|---|---|---|---|
| *Assets:* | | *Liabilities:* | | |
| Cash | $5 0 0 0 00 | Accounts Payable | $4 3 0 0 00 | |
| Accounts Receivable | 6 5 0 00 | Salaries Payable | 6 7 5 00 | |
| Office Equipment | 7 5 0 00 | Total Liabilities | | $ 4 9 7 5 00 |
| | | | | |
| | | *Owner's Equity* | | |
| | | Grace Lantz, Capital | | 1 4 2 5 00 |
| | | | | |
| | | Total Liabilities and | | |
| Total Assets | $6 4 0 0 00 | Owner's Equity | | $6 4 0 0 00 |
| | | | | |
| | | | | |
| | | | | |

*P2-5A.*

*1. 2.*

| Cash | 111 |
|---|---|
| (A) 30,000 | 1,500 (C) |
| (E) 2,400 | 500 (D) |
| (J) 600 | 900 (F) |
| | 1,100 (G) |
| | 250 (K) |
| 33,000 | 4,250 |
| 28,750 | |

| Accounts Receivable | 112 |
|---|---|
| (H) 900 | 600 (J) |
| 300 | |

| Office Equipment | 121 |
|---|---|
| (C) 1,500 | |

| Delivery Trucks | 122 |
|---|---|
| (B) 14,000 | |

| Accounts Payable | 211 |
|---|---|
| | 14,000 (B) |
| | 100 (I) |
| | 14,100 |

| G. Adler, Capital | 311 |
|---|---|
| | 30,000 (A) |

| T. Adler, Withdrawals | 312 |
|---|---|
| (K) 250 | |

| Delivery Fees Earned | 411 |
|---|---|
| | 2,400 (E) |
| | 900 (H) |
| | 3,300 |

| Advertising Expense | 511 |
|---|---|
| (D) 500 | |

| Gas Expense | 512 |
|---|---|
| (G) 1,100 | |

| Salaries Expense | 513 |
|---|---|
| (F) 900 | |

| Telephone Expense | 514 |
|---|---|
| (I) 100 | |

(3)

**ADLER'S DELIVERY SERVICE**

**TRIAL BALANCE**

**JULY 31, 2020**

| | Dr. | Cr. |
|---|---|---|
| Cash | 28,750.00 | |
| Accounts Receivable | 300.00 | |
| Office Equipment | 1,500.00 | |
| Delivery Trucks | 14,000.00 | |
| Accounts Payable | | 14,100.00 |
| G. Adler, Capital | | 30,000.00 |
| G. Adler, Withdrawals | 250.00 | |
| Delivery Fees Earned | | 3,300.00 |
| Advertising Expense | 5.00 | |
| Gas Expense | 1,100.00 | |
| Salaries Expense | 900.00 | |
| Telephone Expense | 100.00 | |
| Totals | 47,400.00 | 47,400.00 |

## P2-5A, Cont.

*(4a)*

**ADLER'S DELIVERY SERVICE**
**INCOME STATEMENT**
**FOR THE MONTH ENDED JULY 31, 2020**

| | | |
|---|---|---|
| *Revenue:* | | |
| Delivery Fees Earned | | $ 3300.00 |
| | | |
| *Operating Expenses:* | | |
| Advertising Expense | $ 500.00 | |
| Gas Expense | 1100.00 | |
| Salaries Expense | 900.00 | |
| Telephone Expense | 100.00 | |
| Total Operating Exenses | | 2600.00 |
| Net Income | | $ 700.00 |
| | | |

*(4b)*

**ADLER'S DELIVERY SERVICE**
**STATEMENT OF OWNER'S EQUITY**
**FOR THE MONTH ENDED JULY 31, 2020**

| | | |
|---|---|---|
| G. Adler, Capital, July 1, 2020 | | $ .00 |
| Investment in July | | 30000.00 |
| Total investment for July | | 30000.00 |
| Net Income for July | $ 700.00 | |
| Less: Withdrawals for July | 250.00 | |
| Increase in Capital | | 450.00 |
| G. Adler, Capital, July 31, 2020 | | $30450.00 |

*(4c)*

**ADLER'S DELIVERY SERVICE**
**BALANCE SHEET**
**JULY 31, 2020**

| ASSETS | | LIABILITIES AND OWNER'S EQUITY | |
|---|---|---|---|
| | | *Liabilities* | |
| Cash | $28750.00 | Accounts Payable | $14100.00 |
| Accounts Receivable | 300.00 | | |
| Office Equipment | 1500.00 | *Owner's Equity* | |
| Delivery Trucks | 14000.00 | A. Adler, Capital | 30450.00 |
| | | | |
| | | Total Liabilities and | |
| Total Assets | $44550.00 | Owner's Equity | $44550.00 |
| | | | |

## P2-1B.

| Accounts Affected | Category | Inc. ↑ / Dec. ↓ | Rules | T-Account Update |
|---|---|---|---|---|
| A. Cash | Asset | ↑ | Dr. | Cash: (A) 25,000 (debit) |
| L. Saunders, Capital | Capital | ↑ | Cr. | L. Saunders, Capital: 25,000 (A) (credit) |
| B. Delivery Trucks | Asset | ↑ | Dr. | Delivery Trucks: (B) 12,000 (debit) |
| Accounts Payable | Liability | ↑ | Cr. | Accounts Payable: 12,000 (B) (credit) |
| C. Rent Expense | Expense | ↑ | Dr. | Rent Expense: (C) 1,100 (debit) |
| Accounts Payable | Liability | ↑ | Cr. | Accounts Payable: 12,000 (B); 1,100 (C) (credit) |
| D. Cash | Asset | ↑ | Dr. | Cash: (A) 25,000; (D) 1,500 (debit) |
| Delivery Fees Earned | Revenue | ↑ | Cr. | Delivery Fees Earned: 1,500 (D) (credit) |
| E. Accounts Receivable | Asset | ↑ | Dr. | Accounts Receivable: (E) 600 (debit) |
| Delivery Fees Earned | Revenue | ↑ | Cr. | Delivery Fees Earned: 1,500 (D); 600 (E) (credit) |
| F. L. Saunders, Withdrawals | Withdrawals | ↑ | Dr. | L. Saunders, Withdrawals: (F) 700 (debit) |
| Cash | Asset | ↓ | Cr. | Cash: (A)25,000; (D) 1,500 (debit) / 700 (F) (credit) |

## P2-2B.

**BAUMAN'S CONSTRUCTION REPAIR SHOP**

**BALANCE SHEET**

**APRIL 30, 2020**

| Assets | | Liabilities and Equity | |
|---|---|---|---|
| Cash | 12,600.00 | Accounts payable | $69,300.00 |
| Accounts receivable | 94,500.00 | Loan Payable | 56,700.00 |
| Construction Supplies | 28,350.00 | Total Liabilites | 126,000.00 |
| Equipment | 44,100.00 | R. Bauman, Capital | 53,550.00 |
| Total Assets | $179,550.00 | Total Liabilities and Equity | $179,550.00 |

*P2-3B.*

*(a)*

| *Cash* | *111* |
|---|---|
| (A) 10,000 | 4,000 (C) |
| (F) 4,000 | 310 (D) |
| (G) 2,000 | 50 (E) |
| | 600 (H) |
| 16,000 | 4,960 |
| 11,040 | |

| *Accounts Payable* | *211* |
|---|---|
| | 2,000 (B) |

| *Fees Earned* | *411* |
|---|---|
| | 4,000 (F) |
| | 4,000 (G) |
| | 8,000 |

| *Accounts Receivable* | *112* |
|---|---|
| (G) 2,000 | |

| *Barry Joy, Capital* | *311* |
|---|---|
| | 10,000 (A) |

| *Rent Expense* | *511* |
|---|---|
| (D) 310 | |

| *Office Equipment* | *121* |
|---|---|
| (B) 2,000 | |
| (C) 4,000 | |
| 6,000 | |

| *Barry Joy, Withdrawals* | *312* |
|---|---|
| (H) 600 | |

| *Utilities Expense* | *512* |
|---|---|
| (E) 50 | |

*(b)*

*BARRY'S CLEANING SERVICE*

*TRIAL BALANCE*

*MAY 31, 2019*

| | *Dr.* | *Cr.* |
|---|---|---|
| *Cash* | 11,040.00 | |
| *Accounts Receivable* | 2,000.00 | |
| *Office Equipment* | 6,000.00 | |
| *Accounts Payable* | | 2,000.00 |
| *Barry Joy, Capital* | | 10,000.00 |
| *Barry Joy, Withdrawals* | 600.00 | |
| *Fees Earned* | | 8,000.00 |
| *Rent Expense* | 310.00 | |
| *Utilities Expense* | 50.00 | |
| *Totals* | 20,000.00 | 20,000.00 |

*P2-4B.*

*(a)*

*GRETCHEN LYMAN, BARRISTER AND SOLICITOR*

*INCOME STATEMENT*

*FOR THE MONTH ENDED MAY 31, 2020*

| | | |
|---|---|---|
| *Revenue:* | | |
| *Revenue from Legal Fees* | | *1 3 5 0 00* |
| | | |
| *Operating Expenses:* | | |
| *Utilities Expense* | *$ 3 0 0 00* | |
| *Rent Expense* | *30 0 0 0 00* | |
| *Salaries Expense* | *1 0 0 00* | |
| *Total Operating Expenses* | | *7 0 0 00* |
| *Net Income* | | *6 5 0 00* |
| | | |
| | | |

*(b)*

*GRETCHEN LYMAN*

*BARRISTER AND SOLICITOR*

*STATEMENT OF OWNER'S EQUITY*

*FOR THE MONTH ENDED MAY 31, 2020*

| | | |
|---|---|---|
| *Gretchen Lyman, Capital, May 1, 2020* | | *5 7 9 5 00* |
| *Net Income for May* | *$ 6 5 0 00* | |
| *Less: Withdrawals for May* | *1 7 5 00* | |
| *Increase in Capital* | | *4 7 5 00* |
| *Gretchen Lyman, Capital, May 31, 2020* | | *6 2 7 0 00* |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

*P2-4B., Cont.*

*(c)*

**GRETCHEN LYMAN**

**BARRISTER AND SOLICITOR**

**BALANCE SHEET**

**MAY 31, 2020**

| ASSETS | | LIABILITIES AND OWNER'S EQUITY | | |
|---|---|---|---|---|
| *Assets:* | | *Liabilities:* | | |
| Cash | 7 000 00 | Accounts Payable | 2 900 00 | |
| Accounts Receivable | 800 00 | Salaries Payable | 930 00 | |
| Office Equipment | 2 300 00 | Total Liabilities | | 3 830 00 |
| | | | | |
| | | *Owner's Equity* | | |
| | | Gretchen Lyman, Capital | | 6 270 00 |
| | | | | |
| | | Total Liabilities and | | |
| Total Assets | 10 100 00 | Owner's Equity | | 10 100 00 |

## P2-5B.

1., 2., 3.

**Cash 111**

| | |
|---|---|
| (A) 40,000 | 2,500 (D) |
| (E) 13,000 | 1,850 (F) |
| (J) 1,600 | 750 (G) |
| | 400 (I) |
| | 88 (K) |
| 54,600 | 5,588 |
| 49,012 | |

**Accounts Receivable 112**

| | |
|---|---|
| (H) 5,500 | 1,600 (J) |
| 3,900 | |

**Office Equipment 121**

| | |
|---|---|
| (C) 2,500 | |

**Delivery Trucks 122**

| | |
|---|---|
| (B) 25,000 | |

**Accounts Payable 211**

| | |
|---|---|
| | 25,000 (B) |
| | 800 (C) |
| | 25,800 |

**Alice Angel, Capital 311**

| | |
|---|---|
| | 40,000 (A) |

**Alice Angel, Withdrawals 312**

| | |
|---|---|
| (K) 88 | |

**Delivery Fees Earned 411**

| | |
|---|---|
| | 13,000 (E) |
| | 5,500 (H) |
| | 18,500 |

**Advertising Expense 511**

| | |
|---|---|
| (C) 800 | |

**Gas Expense 512**

| | |
|---|---|
| (G) 750 | |

**Salaries Expense 513**

| | |
|---|---|
| (F) 1,850 | |

**Telephone Expense 514**

| | |
|---|---|
| (I) 400 | |

4.

ANGEL'S DELIVERY SERVICE
TRIAL BALANCE
MARCH 31, 2019

| | Dr. | Cr. |
|---|---|---|
| Cash | 49 012 00 | |
| Accounts Receivable | 3 900 00 | |
| Office Equipment | 2 500 00 | |
| Delivery Trucks | 25 000 00 | |
| Accounts Payable | | 25 800 00 |
| Alice Angel, Capital | | 40 000 00 |
| Alice Angel, Withdrawals | 88 00 | |
| Delivery Fees Earned | | 18 500 00 |
| Advertising Expense | 800 00 | |
| Gas Expense | 750 00 | |
| Salaries Expense | 1 850 00 | |
| Telephone Expense | 400 00 | |
| Totals | 84 300 00 | 84 300 00 |

## P2-5B., Cont.

5.(a)

**ANGEL'S DELIVERY SERVICE**
**INCOME STATEMENT**
**FOR THE MONTH ENDED MARCH 31, 2019**

| | | |
|---|---|---|
| Revenue: | | |
| Delivery Fees Earned | | $18500 00 |
| | | |
| Operating Expenses: | | |
| Advertising Expense | $800 00 | |
| Gas Expense | 750 00 | |
| Salaries Expense | 1850 00 | |
| Telephone Expense | 400 00 | |
| Total Operating Exenses | | 3800 00 |
| Net Income | | $14700 00 |

5.(b)

**ANGEL'S DELIVERY SERVICE**
**STATEMENT OF OWNER'S EQUITY**
**FOR THE MONTH ENDED MARCH 31, 2019**

| | | |
|---|---|---|
| A. Angel, Capital, March 1, 2019 | | $40000 00 |
| Net Income for March | $14700 00 | |
| Less: Withdrawals for March | 88 00 | |
| Increase in Capital | | 14612 00 |
| A. Angel, Capital, March 31, 2019 | | $54612 00 |

5.(c)

**ANGEL'S DELIVERY SERVICE**
**BALANCE SHEET**
**MARCH 31, 2019**

| ASSETS | | LIABILITIES AND OWNER'S EQUITY | |
|---|---|---|---|
| Assets: | | Liabilities: | |
| Cash | $49012 00 | Accounts Payable | $25800 00 |
| Accounts Receivable | 3900 00 | | |
| Office Equipment | 2500 00 | Owner's Equity: | |
| Delivery Trucks | 25000 00 | A. Angel, Capital | 54612 00 |
| | | | |
| | | Total Liabilities and | |
| Total Assets | $80412 00 | Owner's Equity | $80412 00 |

## P2-1C.

| | | Balance Sheet | | | Income Statement |
|---|---|---|---|---|---|
| | | Total Assets | Total Liab. | Equity | Net Income |
| 1 | Owner invests cash............................ | + | | + | |
| 2 | Pay wages with cash.......................... | – | | – | – |
| 3 | Perform services on credit................. | + | | + | + |
| 4 | Buy store equipment for cash............ | +/– | | | |
| 5 | Borrow cash with note payable.......... | + | + | | |
| 6 | Perform services for cash.................. | + | | + | + |
| 7 | Perform services on credit................. | + | | + | + |
| 8 | Pay rent with cash............................. | – | | – | – |
| 9 | Owner withdraws cash....................... | – | | – | |
| 10 | Collect receivable from (7)................ | +/– | | | |

## P2-2C.

JORDAN'S DELVERY SERVICE
BALANCE SHEET
DECEMBER 31, 2018

| ASSETS | | | | | | LIABILITIES | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash | $2 8 | 0 | 0 | 0 | 0 0 | Accounts payable | $10 | 0 | 0 | 0 | 0 0 |
| Accounts receivable | 5 0 | 0 | 0 | 0 | 0 0 | | | | | | |
| Office supplies | 2 0 | 0 | 0 | 0 | 0 0 | | | | | | |
| Computer equipment | 1 2 0 | 0 | 0 | 0 | 0 0 | Equity | | | | | |
| Delivery equip. | 6 1 | 0 | 0 | 0 | 0 0 | J. Good, capital | 269 | 0 | 0 | 0 | 0 0[1] |
| | | | | | | | | | | | |
| Total assets | $279 | 0 | 0 | 0 | 0 0 | Total liabilities and equity | $279 | 0 | 0 | 0 | 0 0 |

JORDAN'S DELVERY SERVICE
BALANCE SHEET
DECEMBER 31, 2019

| ASSETS | | | | | | LIABILITIES | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash | $2 0 | 0 | 0 | 0 | 0 0 | Accounts payable | $3 0 | 0 | 0 | 0 | 0 0 |
| Accounts receivable | 6 0 | 0 | 0 | 0 | 0 0 | Loan payable | 5 2 0 | 0 | 0 | 0 | 0 0 |
| Office supplies | 2 5 | 0 | 0 | 0 | 0 0 | Total liabilities | 5 5 0 | 0 | 0 | 0 | 0 0 |
| Computer equipment | 1 2 0 | 0 | 0 | 0 | 0 0 | | | | | | |
| Delivery equip. | 6 1 | 0 | 0 | 0 | 0 0 | | | | | | |
| Building | 6 5 0 | 0 | 0 | 0 | 0 0 | Equity | | | | | |
| | | | | | | J. Good, capital | 3 8 6 | 0 | 0 | 0 | 0 0[2] |
| Total assets | $936 | 0 | 0 | 0 | 0 0 | Total liabilities and equity | $936 | 0 | 0 | 0 | 0 0 |

Calculations:

1. \$279,000 – \$10,000 = \$269,000 (calculation of unknown capital amount)
2. \$936,000 – \$550,000 = \$386,000 (calculation of unknown capital amount)

Part 2

Calculation of net income for 2019:

| | |
|---|---|
| J. Good, Capital December 31, 2018 | \$269,000 |
| + Owner investment | 50,000 |
| + Net income (loss) | ? |
| – Owner withdrawals | 24,000 |
| = J. Good, capital December 31, 2019 | \$386,000 |

*OR*

\$269,000 + \$50,000 + ? – \$24,000 = \$386,000; ? = \$91,000

***P2-3C.***

***(a)***

| *Cash* | *111* |
|---|---|
| *(A) 6,000* | *4,000 (B)* |
| *(F) 3,500* | *340 (D)* |
| *(G) 3,000* | *150 (E)* |
| | *600 (H)* |
| *12,500* | *5,090* |
| *7,410* | |

| *Accounts Receivable* | *112* |
|---|---|
| *(G) 1,000* | |

| *Equipment* | *121* |
|---|---|
| *(B) 4,000* | |
| *(C) 500* | |
| *4,500* | |

| *Accounts Payable* | *211* |
|---|---|
| | *500 (C)* |

| *Linda Miyagawa, Capital* | *311* |
|---|---|
| | *6,000 (A)* |

| *Linda Miyagawa Withdrawals* | *312* |
|---|---|
| *(H) 600* | |

| *Fees Eearned* | *411* |
|---|---|
| | *3,500 (F)* |
| | *4,000 (G)* |
| | *7,500* |

| *Rent Expense* | *511* |
|---|---|
| *(D) 340* | |

| *Utilities Expense* | *512* |
|---|---|
| *(E) 150* | |

*(b)*

*LINDA'S CONSULTING SERVICE*

*TRIAL BALANCE*

*OCTOBER 31, 2020*

| | Dr. | Cr. |
|---|---|---|
| *Cash* | *7 4 1 0 00* | |
| *Accounts Receivable* | *1 0 0 0 00* | |
| *Equipment* | *4 5 0 0 00* | |
| *Accounts Payable* | | *5 0 0 00* |
| *Linda Miyagawa, Capital* | | *6 0 0 0 00* |
| *Linda Miyagawa, Withdrawals* | *6 0 0 00* | |
| *Fees Earned* | | *7 5 0 0 00* |
| *Rent Expense* | *3 4 0 00* | |
| *Utilities Expense* | *1 5 0 00* | |
| *Totals* | *14 0 0 0 00* | *14 0 0 0 00* |

*P2-4C.*

***HOLLY'S ACCOUNTING SERVICES***
***INCOME STATEMENT***
***FOR THE MONTH ENDED JULY 31, 2020***

| | | |
|---|---|---|
| *Revenue:* | | |
| *Accounting Fees Earned* | | *$2000 00* |
| *Expenses:* | | |
| *Salaries Expense* | *$1600 00* | |
| *Rent Expense* | *600 00* | |
| *Total Expenses* | | *($2200) 00* |
| *Net Loss* | | *($ 200) 00* |

***HOLLY'S ACCOUNTING SERVICE***
***STATEMENT OF OWNERS' EQUITY***
***FOR THE MONTH ENDED JULY 31, 2020***

| | | |
|---|---|---|
| *Beg. Capital Balance, H. Good* | | *$5480 00* |
| *Less: Net Loss* | *$ 200 00* | |
| *Withdrawls* | *1500 00* | *(1700) 00* |
| *End Capital Balance, H. Good* | | *$3780 00* |

***HOLLY'S ACCOUNTING SERVICE***
***BALANCE SHEET***
***JULY 31, 2020***

| *Assets* | | *Liabilities & Equity* | |
|---|---|---|---|
| *Cash* | *$2000 00* | *Accounts Payable* | *$ 520 00* |
| *Accounts Receivable* | *1900 00* | *Loan Payable* | *1600 00* |
| *Prepaid Insurance* | *600 00* | *Total Liabilites* | *2120 00* |
| *Office Equipment* | *1400 00* | *H. Good, Capital* | *3780 00* |
| *Total Assets* | *$5900 00* | *Total Liabilities & Equity* | *$5900 00* |

## *P2-5C*

**RANCH COMPANY**
**TRIAL BALANCE**
**JUNE 30, 2020**

| | Dr. | Cr. |
|---|---|---|
| *Cash* | 490.00 | |
| *Accounts Receivable* | 620.00 | |
| *Office Equipment* | 365.00 | |
| *Accounts Payable* | | 115.00 |
| *Wages Payable* | | 10.00 |
| *H. Clo, Capital* | | 635.00 |
| *H. Clo, Withdrawals* | 1,440.00 | |
| *Professional Fees* | | 2,420.00 |
| *Rent Expense* | 240.00 | |
| *Advertising Expense* | 25.00 | |
| *Totals* | 3,180.00 | 3,180.00 |

*Note: 1. The Cash account subtraction error means the amount in Cash is overstated.*
*2. The normal balance of Accounts Receivable is a debit. Therefore, the $635 should have been on the debit side. ($15 from the $635 = $620.) Accounts Receivable would be severely understated if not corrected.*
*3. The normal balance of Accounts Payable, Wages Payable and Capital (H. Clo, Capital) is a credit. All understated.*
*4. Before recording the office equipment on account, Assets and money owed (Accounts Payable) would be understated.*
*5. Revenue being understated would mean net income would be lower than actual.*
*6. Expense accounts are normally debit accounts. Therefore, Rent Expense would be understated.*
*To avoid this problem, Ranch Co. might insist that Andy take a course in accounting at a local college. He obviously needs more experience/training before he can be trusted to handle the company's books. Better supervision may help somewhat, but the real solution is in getting a bookkeeper who is accurate and well trained.*

## *P2-6C*

| Situation | Totals of Trial Balance | Effect on Accounts |
|---|---|---|
| 1 | Will balance, but be understated by $765. | Cash overstated by $765 and equipment understated by $765. |
| 2 | Will not balance. | Cash overstated by $200. |
| 3 | Will balance but be overstated by $400. | Capital and Accounts Receivable overstated by $400. |
| 4 | Will balance but be overstated by $360. | Accounts Payable overstated by $360 and Cash overstated by $400. Supplies understated by $40. |
| 5 | Trial Balance will balance with the correct amount. | Supplies overstated and Equipment understated by $800. |
| 6 | Trial Balance will not balance. | Cash overstated by $36. |

*Mistakes can be avoided in the future by carefully checking entries.*

## *CONTINUING PROBLEM*

*1., 2., 3.*

| *Cash* | *1000* |
|---|---|
| 3,850 | 150 (l) |
| (p) 900 | 200 (m) |
| | 1,400 (n) |
| | 85 (q) |
| | 50 (r) |
| 4,750 | 1,885 |
| 2,865 | |

| *Accounts Receivable* | *1020* |
|---|---|
| (o) 850 | |

| *Supplies* | *1030* |
|---|---|
| 250 | |
| (s) 200 | |
| 450 | |

| *Computer Shop Equipment* | *1080* |
|---|---|
| 1,200 | |

| *Office Equipment* | *1090* |
|---|---|
| 600 | |

| *Accounts Payable* | *2000* |
|---|---|
| (m) 200 | 335 |
| (q) 85 | 155 (k) |
| | 200 (s) |
| 285 | 690 |
| | 405 |

| *T. Freedman, Capital* | *3000* |
|---|---|
| | 4,500 |

| *T. Freedman, Withdrawals* | *3010* |
|---|---|
| 100 | |

| *Service Revenue* | *4000* |
|---|---|
| | 1,650 |
| | 850 (o) |
| | 900 (p) |
| | 3,400 |

| *Advertising Expense* | *5010* |
|---|---|
| (n) 1,400 | |

| *Rent Expense* | *5020* |
|---|---|
| 400 | |

| *Utilities Expense* | *5030* |
|---|---|
| 85 | |

| *Phone Expense* | *5040* |
|---|---|
| (k) 155 | |

| *Supplies Expense* | *5050* |
|---|---|
| | |

| *Insurance Expense* | *5060* |
|---|---|
| (l) 150 | |

| *Postage Expense* | *5070* |
|---|---|
| (r) 50 | |

*4.*

### *PRECISION COMPUTER CENTRE*
### *TRIAL BALANCE*
### *JUNE 30, 2019*

| | | |
|---|---|---|
| *Cash* | 2865 00 | |
| *Accounts Receivable* | 850 00 | |
| *Supplies* | 450 00 | |
| *Computer Shop Equipment* | 1200 00 | |
| *Office Equipment* | 600 00 | |
| *Accounts Payable* | | 405 00 |
| *T. Freedman, Capital* | | 4500 00 |
| *T. Freedman, Withdrawals* | 100 00 | |
| *Service Revenue* | | 3400 00 |
| *Advertising Expense* | 1400 00 | |
| *Rent Expense* | 400 00 | |
| *Utilities Expense* | 85 00 | |
| *Phone Expense* | 155 00 | |
| *Insurance Expense* | 150 00 | |
| *Postage Expense* | 50 00 | |
| *Total* | 8305 00 | 8305 00 |

## *CONTINUING PROBLEM, Cont.*

5.

**PRECISION COMPUTER CENTRE**

**INCOME STATEMENT**

**FOR THE TWO MONTHS ENDED JUNE 30, 2019**

| | | |
|---|---|---|
| Revenue: | | |
| Service Revenue | | $ 3,400.00 |
| Operating Expenses: | | |
| Advertising Expense | $ 1,400.00 | |
| Insurance Expense | 150.00 | |
| Phone Expense | 155.00 | |
| Postage Expense | 50.00 | |
| Rent Expense | 400.00 | |
| Utilities Expense | 85.00 | |
| Total Operating Expenses | | 2,240.00 |
| Net Income | | $ 1,160.00 |

**PRECISION COMPUTER CENTRE**

**STATEMENT OF OWNER'S EQUITY**

**FOR THE TWO MONTHS ENDED JUNE 30, 2019**

| | | |
|---|---|---|
| T. Freedman, Capital Contributed, May 1, 2019 | | $ 4,500.00 |
| Net Income for the two months | $ 1,160.00 | |
| Less: Withdrawals | 100.00 | |
| Increase in Capital | | 1,060.00 |
| T. Freedman, Capital, June 30, 2019 | | $ 5,560.00 |
| | | |

*PRECISION COMPUTER CENTRE*

*BALANCE SHEET*

*JUNE 30, 2019*

| *ASSETS* | | *LIABILITIES AND OWNER'S EQUITY* | |
|---|---|---|---|
| *Assets:* | | *Liabilities:* | |
| *Cash* | *$ 2 8 6 5 00* | *Accounts Payable* | *$ 4 0 5 00* |
| *Accounts Receivable* | *8 5 0 00* | | |
| *Supplies* | *4 5 0 00* | *Owner's Equity:* | |
| *Computer Shop Equipment* | *1 2 0 0 00* | *T. Freedman, Capital* | *5 5 6 0 00* |
| *Office Equipment* | *6 0 0 00* | | |
| | | *Total Liabilities and* | |
| *Total Assets* | *$ 5 9 6 5 00* | *Owner's Equity* | *$ 5 9 6 5 00* |
| | | | |
| | | | |
| | | | |

# Chapter 2

## Class Quiz

1. Explain the following: Capital doesn't mean Cash.
   Answer: Capital could include other assets, such as equipment, as well as cash.

2. True or false: Revenue is reported on the balance sheet.
   Answer: False. Revenue is reported on the income statement.

3. True or false: Withdrawals are expenses on the income statement.
   Answer: False. Withdrawals are not business expenses; they are reported on the statement of owner's equity. (Withdrawals are for personal use.)

4. Complete the statement: As expenses increase, owner's equity _____.
   Answer: decreases.

5. Transaction C (p. 55) is an example of a(n) _____ in assets.
   Answer: increase.

6. Transaction F (p. 56) is an example of a(n) _____ in assets.
   Answer: shift

7. True or false: To Catherine Hall, legal fees are an asset.
   Answer: False. Legal fees are revenue, a subdivision of owner's equity.

8. A debit goes on the left side of the T-Account
   Answer: False. Debits are on the right side of the T-Account.

## Accounting Recall

A Cumulative Approach

**PART 1 - Vocabulary Review**

Match each term on the left side with the appropriate definition or phrase in the right-hand column.

| Page Ref. | | | | |
|---|---|---|---|---|
| (63) | 1. | Trial balance | A. | Total remains the same |
| (48) | 2. | Debit | B. | Entering numbers on right side |
| (52) | 3. | Normal balance | C. | Subdivisions of owner's equity |
| (14) | 4. | Revenue | D. | Group of accounts |
| (48) | 5. | Crediting | E. | Numbering system |
| (12) | 6. | Balance sheet | F. | Left side of an account |
| (9) | 7. | Shift in assets | G. | Prepared as of a particular date |
| (52) | 8. | Chart of accounts | H. | Not an asset |
| (47) | 9. | Ledger | I. | Side of account that increases it |
| (18) | 10. | Capital, withdrawals, revenue, expenses | J. | List of the ledger balances |

**PART 2 - True or False (Accounting Theory)**

(48) 11. A debit always means increase.
(64) 12. There are no debit or credit columns on financial statements.
(63) 13. The trial balance lists only the ending figure for capital that goes on the balance sheet.
(59) 14. An increase in a withdrawal is a credit.
(63) 15. The trial balance is not a formal report.

## Solutions to Accounting Recall

This Examination Reviews Chapters 1 and 2

**PART 1**

1. J 2. F 3. I 4. H 5. B 6. G 7. A 8. E 9. D 10. C

**PART 2**

11. False; depends on the category
12. True
13. False; the beginning balance shows up on the trial balance

14. False; debit
15. True

## Points to Stress

1. Stress at the outset that the words debit and credit only mean a *position*. Later we will discuss the rules of debit and credit and how they govern which side numbers are placed on.

2. Rules for normal balance are the same as for an increase.

3. Note how the rules for revenue and expenses work in the *opposite* direction.

4. Note that the names in Column 1 of the transaction analysis charts come from the chart of accounts, as do the account numbers in Column 5.

5. Go over the solutions to the Self-Review Quiz 2–2 (p. 60) to reinforce the point that arrows can go up or down but the sum of the left must equal the sum of the right.

6. Using the trial balance in Figure 2–2 (p. 64) have students identify the report on which each item will appear. (Example: Withdrawals go on the statement of owner's equity.)

7. The trial balance is an informal report used to *prepare* formal reports like the balance sheet.

8. The figure for net income is used to update the statement of owner's equity.

9. The ending figure for capital on the statement of owner's equity is used to update the balance sheet.

10. The two columns on the trial balance represent debit and credit; however, there are no debits or credits shown on the formal statements even if the statement has two columns.

11. The trial balance is listed in the same order as the ledger accounts.

12. On a trial balance, there is only one number for each account — the ending debit or credit balance.

## Business World Notes

1. A business may have 50 or more accounts (sometimes thousands) to keep track of and therefore it is not practical to use the equation format we used in Chapter 1 to record transactions.

2. Accountants do not actually write out a transaction analysis chart before they record a transaction, but they go through the exact same steps mentally.

3. Computers are very useful in maintaining the equality of debits and credits. But, computers are not a complete substitute for clear thinking on the part of accounting clerks and related personnel.

4. The double-entry system provides built-in protection against errors. If debits do not equal credits, then the accountant knows that there is an error in the records which must be corrected.

5. A double-entry system is not as necessary for a sole-proprietorship or partnership as it is for a corporation. Point out that if a standard double-entry system is too cumbersome for a small business there are alternative methods of keeping business records. Note, however, that the cash method is not permitted for tax purposes. Books kept on the cash basis must be converted to the accrual basis at year end.

6. If the accounts are out of balance and a trial balance is not prepared before the financial statement preparation, you would not know there was an error until all three statements were completed and you found the balance sheet wouldn't balance.

7. The trial balance does not necessarily need to be written out. Many accountants find it is sufficient to run an adding machine tape to show that debits equal credits. Computer accounting software will print a trial balance at the push of a button.

## Class Activities

1. Draw this T-account on the board:

   | | |
   |---|---|
   | 200 | 500 |
   | 300 | 50 |

   Show students how to balance it and foot it.

2. Have students turn to Self-Review Quiz 2–2 (p. 60) and explain which transaction in the chapter parallels Transaction D. Have them explain the difference between a withdrawal and a business expense.

3. Go back to the rules of debit and credit in Learning Unit 2–1 (p. 48) and have students review the chart out loud in class.

4. Using the information and accounts in Self-Review Quiz 2–2 (p. 60) have students categorize each account, its normal balance, and the report on which each account will be found.

   Answers: Cash: Asset, Dr. balance, balance sheet
   Accounts Receivable: Asset, Dr. balance, balance sheet
   Equipment: Asset, Dr. balance, balance sheet
   Accounts Payable: Liability, Cr. balance, balance sheet
   Jamie King, Capital: Capital, Cr. balance, statement of owner's equity and balance sheet
   Jamie King, Withdrawals: Withdrawals, Dr. balance, statement of owner's equity
   Professional Fees: Revenue, Cr. balance, income statement
   Utilities Expense: Expense, Dr. balance, income statement
   Salaries Expense: Expense, Dr. balance, income statement

5. Have students go over pp. 53-59 to see how the ledger is built up. Discuss the footings. Show them one title at a time how the trial balance is built on p. 64 from p. 63.

## Teaching Tips

1. Talk about *arbitrary* rules. For example, in baseball there are nine innings and in football there are four quarters; the rules could be switched between the two sports and still work as long as everybody used the same ones. In accounting, the rules of debit and credit are also arbitrary; they could be switched and still work as long as the sum of the left sides equal the sum of the right sides.

2. Withdrawals are always increased by a dr (debit).

3. Use the acronym:

| **Debit** | **Credit** |
|---|---|
| Assets | Capital |
| Withdrawals | Liabilities |
| Expenses | Revenue |

   Now it's all clear!

4. This is an ideal time to use the transparency or a handout that shows how to complete a transaction analysis chart.

5. Point out the position of the arrows in the two transaction charts for transactions B and C. Have students explain why arrows go up and down in the chart for transaction B, and the transaction still balances; while on the chart for transaction C, both arrows go up and that transaction also balances.

## Typical Student Misconceptions

1. Students tend to think of the debit and credit at their bank meaning debit is money coming out and credit is money going in. They also believe that "Debit is bad; credit is good." To get students over this, emphasize instead these meanings:
   - Debit means the left side of any account.
   - Credit means the right side of any account.

2. Use the new section that details how nautical terms are in some ways similar to accounting terms, in that they have both a general meaning, as well as a meaning that is unique to that sector of the economy. You may have another example you could use here Golf, for instance might be an understandable illustration for some students.

3. Students think that there is only one chart of accounts for all businesses. Emphasize that there are many possible charts of accounts for different businesses — in fact, there are books available that provide sample charts of accounts for all types of businesses and for whole industries (for a hair salon, for the plumbing industry, etc.). Have them turn to Chapter 12 (p. 545) to see a more complex chart of accounts than this one. You could also point out that most accounting software comes with several good and useful charts of accounts.

4. Students think that all of the arrows in the transactional analysis chart must "balance." Emphasize that the arrows can go all up or all down or some up and some down as long as the sum of the left side equals the sum of the right side in the accounts.

5. Students think that legal fees are an asset. Stress that legal fees are revenue, which is a subdivision of owner's equity. It is true that revenue will provide an inward flow of assets.

6. Students often think that expenses are liabilities. To clear up this misconception, point to Transaction I, showing that an expense may *create* a liability if the expense is not paid. An expense is *not* the same thing as a liability. Expenses are a subdivision of owner's equity; liabilities are not.

## Check Figures for Exercises

### Set A

E2-1A. Cash, 111; Accts. Rec., 112; Office Equip., 121; Accts. Pay., 211; L. Jones, Capital, 311; L. Jones, Withdrawals, 312; Legal Fees, 411; Advertising Exp., 511; Repair Exp., 512; Salary Exp., 513.

| | | |
|---|---|---|
| E2-2A. | Computer Equipment | $19,000 Dr |
| | Accounts Payable | $16,000 Dr |
| | Cash | $ 3,000 Cr |

E2-3A. Legal Fees Earned: Revenue, Cr, Dr, IS; P. Rey, Withdrawals: Owner's Equity (Withdrawals), Dr, Cr, SOE; Accounts Payable, Liab, Cr, Dr, BS; Salaries Expense: Exp., Dr., Cr, I.S.; Auto, Asset, Dr, Cr, BS

| | | | | |
|---|---|---|---|---|
| E2-4A. | A. | 8,1 | F. | 3,5 |
| | B. | 6,1 | G. | 2,7 |
| | C. | 9,4 | H. | 1,2 |
| | D. | 1,7 | I. | 3,4 |
| | E. | 10 1 | | |

| | | |
|---|---|---|
| E2-5A. | Net Income: | $254 |
| | J. Hall, Capital, 7/31/19: | $992 |
| | Total Assets: | $1,292 |

**Set B**

E2-1B. Cash, 111; Accts. Rec., 112; Office Equip., 121; Accts. Pay., 211; L. Jones, Capital, 311; L. Jones, Withdrawals, 312; Legal Fees, 411; Cleaning Exp., 511; Office Assistance Exp., 512; Rent Exp., 513.

| | | |
|---|---|---|
| E2-2B. | Computer Equipment | $21,000 Dr |
| | Accounts Payable | $16,000 Cr |
| | Cash | $ 5,000 Cr |

E2-3B. Legal Fees Earned, Rev., Cr., Dr., IS
P. Rey, Withdrawals: Owner's Equity (Withdrawals), Dr., Cr., SOE
Cash, Asset, Dr., Cr., BS
A/R, Asset, Dr., Cr., BS
Rent Expense: Exp., Dr., Cr., IS

| | | | | |
|---|---|---|---|---|
| E2-4B. | A. | 8,1 | F. | 3,5 |
| | B. | 6,1 | G. | 2,7 |
| | C. | 9,4 | H. | 1,2 |
| | D. | 1,7 | I. | 3,4 |
| | E. | 10,1 | | |

| | | |
|---|---|---|
| E2-5B. | Net Income: | $415 |
| | J. Hall, Capital, 7/31/16: | $870 |
| | Total Assets: | $1,395 |

## Check Figures for Continuing Problem

1. Cash Dr. $2,865.00

2. Trial Balance $8,305.00

3. 

| | |
|---|---|
| Net Income | $1,160.00 |
| O/E | $5,560.00 |
| Total Assets | $5,965.00 |

# Chapter 3

## Class Quiz

1. Complete these statements: (Review of Chapter 2)

   a. Assets are increased by _____. (debits)
   b. Liabilities are decreased by _____. (debits)
   c. Withdrawals are increased by _____. (debits)
   d. Revenue is increased by _____. (credits)
   e. The normal balance of an expense is a _____. (debit)
   f. Accounts are located in a book called a _____. (ledger)
   g. A _____ _____ is a list of the ledger ending balances. (trial balance)

2. True or false:

   a. A fiscal year is 8 months. (false)
   b. A year end report is called an interim report. (false)
   c. A ledger "links" debit and credit transactions together for one account on one page. (true)
   d. The chart of accounts aids in the journalizing and posting process. (true)
   e. An expense can create a liability. (true)

3. What is the normal balance of each of the following?

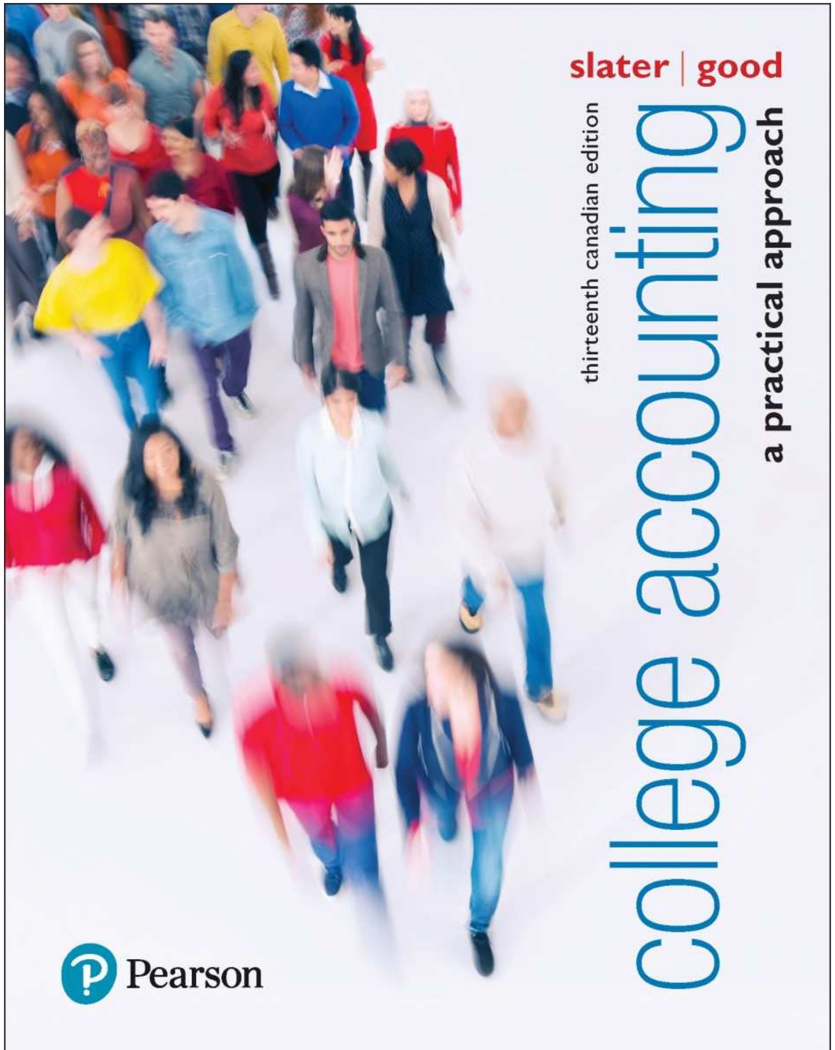
   Cash (Dr.)
   Accounts Payable (Cr.)
   Jones, Capital (Cr.)
   Pizza Revenue (Cr.)
   Salary Expense (Dr.)
   Jones, Withdrawals (Dr.)

4. True or false:

   a. A trial balance is a formal report. (false)
   b. A transposition is the result of adding or deleting zeroes in writing numbers. (false)
   c. The balance of each account on the trial balance must be its normal balance. (false)

# College Accounting

## Thirteenth Canadian Edition




# Chapter 2

## Debits and Credits: Analyzing and Recording Business Transactions

Pearson

# Learning Objective 1 – LO-1

Recording transactions in T accounts according to the rules of debit and credit

LO-1

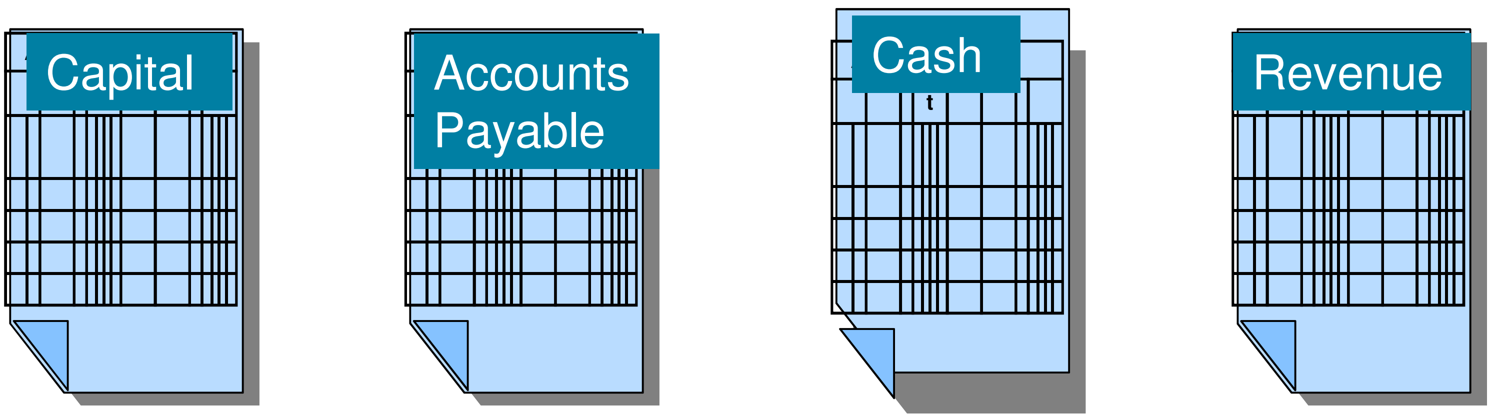
# T Account (1 of 2)

- Device used to record increases and decreases of business transactions
- Establish an account for each individual asset, liability, capital, withdrawal, revenue, expense

LO-1

# General Ledger

- Group of accounts that records data from business transactions




LO-1

# T Account (2 of 2)

Title of Account

| Left side | Right side |
|---|---|
| Debit | Credit |

LO-1

# General Ledger – T Account

- T Account looks like the General Ledger Account and is used for learning purposes

Telephone Expense | Acct. No. 513

| Date | | Explanation | PR | Debit | Credit | Dr. or Cr. | Balance |
|---|---|---|---|---|---|---|---|
| 2019 May | 29 | | GJ3 | 180 00 | | Dr. | 180 00 |
| | | | | | | | |
| | | | | | | | |



LO-1

# Footings and Balance

Cash

| | Dr. (debit) | Cr. (credit) | |
|---|---|---|---|
| Cash Coming in | 4,000 | 300 | Paid Expense |
| | 500 | 400 | Paid Creditor |
| Footings | 4,500 | 700 | |
| Balance | 3,800 | | |

LO-1

# Learning Objective 2 – LO-2

Setting up and organizing a chart of accounts

LO-2

# Rules of Debit and Credit (1 of 2)

| Assets | | = | Liabilities | | + | Owner’s Equity | |
|---|---|---|---|---|---|---|---|
| Dr. | Cr. | | Dr. | Cr. | | Dr. | Cr. |
| + | − | | − | + | | − | + |

LO-2

# Rules of Debit and Credit (2 of 2)

**Capital**

| Dr. | Cr. |
|---|---|
| − | + |

**Expenses**

| Dr. | Cr. |
|---|---|
| + | − |

**Revenues**

| Dr. | Cr. |
|---|---|
| − | + |

**Withdrawals**

| Dr. | Cr. |
|---|---|
| + | − |

LO-1

# Normal Balances

| Dr. | Cr. |
|---|---|
| Assets | Capital |
| Withdrawals | Liabilities |
| Expenses | Revenue |

LO-2

Pearson

# Chart of Accounts

- A numbering system of accounts that lists the account titles and account numbers to be used by a company

**Sample Chart of Accounts for a Service Co.**

Balance Sheet Accounts

| | | | |
|---|---|---|---|
| ***Assets 100s*** | | ***Liabilities 200s*** | |
| 101 | Cash | 201 | Accounts Payable |
| 110 | Accounts Receivable | ***Owner's Equity 300s*** | |
| 120 | Supplies | 301 | Owner, Capital |
| | | 302 | Owner, Withdrawals |

Income Statement Accounts

| | | | |
|---|---|---|---|
| ***Revenue 400s*** | | ***Expenses 500s*** | |
| 411 | Ser vice Fees Earned | 510 | Advertising Expense |
| | | 514 | Utilities Expense |
| | | 522 | Salaries Expense |

LO-2

Pearson

# Double-Entry Bookkeeping

- System in which the recording of each transaction affects two or more accounts
- Debits and Credits must equal

LO-2

# Compound Entries

- A transaction that involves more than one credit or debit

**Equipment**

| Debit | Credit |
| --- | --- |
| $10,000 | |

**Cash**

| Debit | Credit |
| --- | --- |
| | $5,000 |

**Accounts Payable**

| Debit | Credit |
| --- | --- |
| | $5,000 |

**Debits and credits are equal after a piece of equipment is purchased for $10,000 with half being paid in cash and half being put on account.**

LO-2

# Problem P2-5B (1 of 2)

This comprehensive problem will be used to illustrate the steps in recording transactions and reporting financial information covered in this chapter.

LO-2

# The Transaction Analysis

Step 1: Which accounts are affected?

Step 2: Determine which category accounts belong to.

Step 3: Determine whether accounts increase or decrease.

Step 4: What do the rules of debits and credits say?

Step 5: Place amounts into T accounts.

LO-2

Pearson

# Problem P2-5B (2 of 2)

| Chart of Accounts for Angel's Delivery Service | | | |
|---|---|---|---|
| Balance Sheet Accounts | | | |
| ***Assets*** | | ***Liabilities*** | |
| 111 | Cash | 211 | Accounts Payable |
| 112 | Accounts Receivable | ***Owner's Equity*** | |
| 121 | Office Equipment | 311 | Alice Angel, Capital |
| 122 | Delivery Trucks | 312 | Alice Angel, Withdrawals |
| Income Statement Accounts | | | |
| ***Revenue*** | | ***Expenses*** | |
| 411 | Delivery Fees Earned | 511 | Advertising Expense |
| | | 512 | Gas Expense |
| | | 513 | Salaries Expense |
| | | 514 | Telephone Expense |

LO-2

# Transaction A

| Step 1: Which accounts are affected? | |
|---|---|
| **Cash** | **Alice Angel, Capital** |
| Step 2: Which category does the account belong to? | |
| **Assets** | **Owner's Equity** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Increasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

**LO-2**

Pearson

**Cash**

| Dr. | Cr. |
|---|---|
| A) 40,000 | |

**Accounts Payable**

| Dr. | Cr. |
|---|---|
| | |

**Advertising Expense**

| Dr. | Cr. |
|---|---|
| | |

**Accounts Receivable**

| Dr. | Cr. |
|---|---|
| | |

**Angel, Capital**

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

**Gas Expense**

| Dr. | Cr. |
|---|---|
| | |

**Office Equipment**

| Dr. | Cr. |
|---|---|
| | |

**Angel, Withdrawals**

| Dr. | Cr. |
|---|---|
| | |

**Salaries Expense**

| Dr. | Cr. |
|---|---|
| | |

**Delivery Trucks**

| Dr. | Cr. |
|---|---|
| | |

**Delivery Fees Earned**

| Dr. | Cr. |
|---|---|
| | |

**Telephone Expense**

| Dr. | Cr. |
|---|---|
| | |

LO-2

# Transaction B

| | |
|---|---|
| Step 1: Which accounts are affected? | |
| **Delivery Truck** | **Accounts Payable** |
| Step 2: Which category does the account belong to? | |
| **Assets** | **Liabilities** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Increasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

LO-2

**Cash**

| Dr. | Cr. |
|---|---|
| A) 40,000 | |

**Accounts Payable**

| Dr. | Cr. |
|---|---|
| | B) 25,000 |

**Advertising Expense**

| Dr. | Cr. |
|---|---|

**Accounts Receivable**

| Dr. | Cr. |
|---|---|

**Angel, Capital**

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

**Gas Expense**

| Dr. | Cr. |
|---|---|

**Office Equipment**

| Dr. | Cr. |
|---|---|

**Angel, Withdrawals**

| Dr. | Cr. |
|---|---|

**Salaries Expense**

| Dr. | Cr. |
|---|---|

**Delivery Trucks**

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

**Delivery Fees Earned**

| Dr. | Cr. |
|---|---|

**Telephone Expense**

| Dr. | Cr. |
|---|---|

LO-2

# Transaction C

| Step 1: Which accounts are affected? | |
|---|---|
| **Advertising Expense** | **Accounts Payable** |
| Step 2: Which category does the account belong to? | |
| **Expenses** | **Liabilities** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Increasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

LO-2

Pearson

**Cash**

| Dr. | Cr. |
|---|---|
| A) 40,000 | |

**Accounts Payable**

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

**Advertising Expense**

| Dr. | Cr. |
|---|---|
| C) 800 | |

**Accounts Receivable**

| Dr. | Cr. |
|---|---|
| | |

**Angel, Capital**

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

**Gas Expense**

| Dr. | Cr. |
|---|---|
| | |

**Office Equipment**

| Dr. | Cr. |
|---|---|
| | |

**Angel, Withdrawals**

| Dr. | Cr. |
|---|---|
| | |

**Salaries Expense**

| Dr. | Cr. |
|---|---|
| | |

**Delivery Trucks**

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

**Delivery Fees Earned**

| Dr. | Cr. |
|---|---|
| | |

**Telephone Expense**

| Dr. | Cr. |
|---|---|
| | |

LO-2

# Transaction D

| Step 1: Which accounts are affected? | |
|---|---|
| **Office Equipment** | **Cash** |
| Step 2: Which category does the account belong to? | |
| **Asset** | **Asset** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Decreasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

LO-2

### Cash

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |

### Accounts Payable

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

### Advertising Expense

| Dr. | Cr. |
|---|---|
| C) 800 | |

### Accounts Receivable

| Dr. | Cr. |
|---|---|

### Angel, Capital

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

### Gas Expense

| Dr. | Cr. |
|---|---|

### Office Equipment

| Dr. | Cr. |
|---|---|
| D) 2,500 | |

### Angel, Withdrawals

| Dr. | Cr. |
|---|---|

### Salaries Expense

| Dr. | Cr. |
|---|---|

### Delivery Trucks

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

### Delivery Fees Earned

| Dr. | Cr. |
|---|---|

### Telephone Expense

| Dr. | Cr. |
|---|---|

LO-2

Pearson

# Transaction E

| | |
|---|---|
| Step 1: Which accounts are affected? | |
| **Cash** | **Delivery Fees Earned** |
| Step 2: Which category does the account belong to? | |
| **Asset** | **Revenue** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Increasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

LO-2

Pearson

### Cash

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |
| E) 13,000 | |

### Accounts Payable

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

### Advertising Expense

| Dr. | Cr. |
|---|---|
| C) 800 | |

### Accounts Receivable

| Dr. | Cr. |
|---|---|

### Angel, Capital

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

### Gas Expense

| Dr. | Cr. |
|---|---|

### Office Equipment

| Dr. | Cr. |
|---|---|
| D) 2,500 | |

### Angel, Withdrawals

| Dr. | Cr. |
|---|---|

### Salaries Expense

| Dr. | Cr. |
|---|---|

### Delivery Trucks

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

### Delivery Fees Earned

| Dr. | Cr. |
|---|---|
| | E) 13,000 |

### Telephone Expense

| Dr. | Cr. |
|---|---|

LO-2

# Transaction F

| Step 1: Which accounts are affected? | |
|---|---|
| Salaries Expense | Cash |
| **Step 2: Which category does the account belong to?** | |
| Expense | Asset |
| **Step 3: Is the account increasing/decreasing?** | |
| Increasing | Decreasing |
| **Step 4: Debit or credit?** | |
| Debit | Credit |
| **Step 5: Place amounts into accounts.** | |

LO-2

## Cash

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |
| E) 13,000 | F) 1,850 |

## Accounts Payable

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

## Advertising Expense

| Dr. | Cr. |
|---|---|
| C) 800 | |

## Accounts Receivable

| Dr. | Cr. |
|---|---|

## Angel, Capital

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

## Gas Expense

| Dr. | Cr. |
|---|---|

## Office Equipment

| Dr. | Cr. |
|---|---|
| D) 2,500 | |

## Angel, Withdrawals

| Dr. | Cr. |
|---|---|

## Salaries Expense

| Dr. | Cr. |
|---|---|
| F) 1,850 | |

## Delivery Trucks

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

## Delivery Fees Earned

| Dr. | Cr. |
|---|---|
| | E) 13,000 |

## Telephone Expense

| Dr. | Cr. |
|---|---|

LO-2

# Transaction G

| | |
|---|---|
| Step 1: Which accounts are affected? | |
| **Gas Expense** | **Cash** |
| Step 2: Which category does the account belong to? | |
| **Expense** | **Asset** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Decreasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

LO-2

### Cash

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |
| E) 13,000 | F) 1,850 |
| | G) 750 |

### Accounts Payable

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

### Advertising Expense

| Dr. | Cr. |
|---|---|
| C) 800 | |

### Accounts Receivable

| Dr. | Cr. |
|---|---|
| | |

### Angel, Capital

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

### Gas Expense

| Dr. | Cr. |
|---|---|
| G) 750 | |

### Office Equipment

| Dr. | Cr. |
|---|---|
| D) 2,500 | |

### Angel, Withdrawals

| Dr. | Cr. |
|---|---|
| | |

### Salaries Expense

| Dr. | Cr. |
|---|---|
| F) 1,850 | |

### Delivery Trucks

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

### Delivery Fees Earned

| Dr. | Cr. |
|---|---|
| | E) 13,000 |

### Telephone Expense

| Dr. | Cr. |
|---|---|
| | |

LO-2

# Transaction H

| | |
|---|---|
| Step 1: Which accounts are affected? | |
| **Accounts Receivable** | **Delivery Fees Earned** |
| Step 2: Which category does the account belong to? | |
| **Asset** | **Revenue** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Increasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

LO-2

Pearson

### Cash

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |
| E) 13,000 | F) 1,850 |
| | G) 750 |

### Accounts Payable

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

### Advertising Expense

| Dr. | Cr. |
|---|---|
| C) 800 | |

### Accounts Receivable

| Dr. | Cr. |
|---|---|
| H) 5,500 | |

### Angel, Capital

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

### Gas Expense

| Dr. | Cr. |
|---|---|
| G) 750 | |

### Office Equipment

| Dr. | Cr. |
|---|---|
| | |

### Angel, Withdrawals

| Dr. | Cr. |
|---|---|
| | |

### Salaries Expense

| Dr. | Cr. |
|---|---|
| F) 1,850 | |

### Delivery Trucks

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

### Delivery Fees Earned

| Dr. | Cr. |
|---|---|
| | E) 13,000 |
| | H) 5,500 |

### Telephone Expense

| Dr. | Cr. |
|---|---|
| | |

**LO-2**

Pearson

# Transaction I

| | |
|---|---|
| Step 1: Which accounts are affected? | |
| **Telephone Expense** | **Cash** |
| Step 2: Which category does the account belong to? | |
| **Expense** | **Asset** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Decreasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

LO-2

### Cash

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |
| E) 13,000 | F) 1,850 |
| | G) 750 |
| | I) 400 |

### Accounts Payable

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

### Advertising Expense

| Dr. | Cr. |
|---|---|
| C) 800 | |

### Accounts Receivable

| Dr. | Cr. |
|---|---|
| H) 5,500 | |

### Angel, Capital

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

### Gas Expense

| Dr. | Cr. |
|---|---|
| G) 750 | |

### Office Equipment

| Dr. | Cr. |
|---|---|
| | |

### Angel, Withdrawals

| Dr. | Cr. |
|---|---|
| | |

### Salaries Expense

| Dr. | Cr. |
|---|---|
| F) 1,850 | |

### Delivery Trucks

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

### Delivery Fees Earned

| Dr. | Cr. |
|---|---|
| | E) 13,000 |
| | H) 5,500 |

### Telephone Expense

| Dr. | Cr. |
|---|---|
| I) 400 | |

LO-2

# Transaction J

| Step 1: Which accounts are affected? | |
|---|---|
| Cash | Accounts Receivable |
| **Step 2: Which category does the account belong to?** | |
| Asset | Asset |
| **Step 3: Is the account increasing/decreasing?** | |
| Increasing | Decreasing |
| **Step 4: Debit or credit?** | |
| Debit | Credit |
| **Step 5: Place amounts into accounts.** | |

LO-2

### Cash

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |
| E) 13,000 | F) 1,850 |
| J) 1,600 | G) 750 |
| | I) 400 |

### Accounts Receivable

| Dr. | Cr. |
|---|---|
| H) 5,500 | J) 1,600 |

### Office Equipment

| Dr. | Cr. |
|---|---|
| D) 2,500 | |

### Delivery Trucks

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

### Accounts Payable

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

### Angel, Capital

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

### Angel, Withdrawals

| Dr. | Cr. |
|---|---|
| | |

### Delivery Fees Earned

| Dr. | Cr. |
|---|---|
| | E) 13,000 |
| | H) 5,500 |

### Advertising Expense

| Dr. | Cr. |
|---|---|
| C) 800 | |

### Gas Expense

| Dr. | Cr. |
|---|---|
| G) 750 | |

### Salaries Expense

| Dr. | Cr. |
|---|---|
| F) 1,850 | |

### Telephone Expense

| Dr. | Cr. |
|---|---|
| I) 400 | |

LO-2

# Transaction K

| | |
|---|---|
| Step 1: Which accounts are affected? | |
| **Alice Angel, Withdrawals** | **Cash** |
| Step 2: Which category does the account belong to? | |
| **Withdrawal** | **Asset** |
| Step 3: Is the account increasing/decreasing? | |
| **Increasing** | **Decreasing** |
| Step 4: Debit or credit? | |
| **Debit** | **Credit** |
| Step 5: Place amounts into accounts. | |

LO-2

Pearson

**Cash**

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |
| E) 13,000 | F) 1,850 |
| J) 1,600 | G) 750 |
| | I) 400 |
| | K) 88 |

**Accounts Receivable**

| Dr. | Cr. |
|---|---|
| H) 5,500 | J) 1,600 |

**Office Equipment**

| Dr. | Cr. |
|---|---|
| D) 2,500 | |

**Delivery Trucks**

| Dr. | Cr. |
|---|---|
| B) 25,000 | |

**Accounts Payable**

| Dr. | Cr. |
|---|---|
| | B) 25,000 |
| | C) 800 |

**Angel, Capital**

| Dr. | Cr. |
|---|---|
| | A) 40,000 |

**Angel, Withdrawals**

| Dr. | Cr. |
|---|---|
| K) 88 | |

**Delivery Fees Earned**

| Dr. | Cr. |
|---|---|
| | E) 13,000 |
| | H) 5,500 |

**Advertising Expense**

| Dr. | Cr. |
|---|---|
| C) 800 | |

**Gas Expense**

| Dr. | Cr. |
|---|---|
| G) 750 | |

**Salaries Expense**

| Dr. | Cr. |
|---|---|
| F) 1,850 | |

**Telephone Expense**

| Dr. | Cr. |
|---|---|
| I) 400 | |

LO-2

Pearson

# Review Rules of Debit & Credit

| Account Category | Increase (Normal Balance) | Decrease |
|---|---|---|
| Assets | Debit | Credit |
| Liabilities | Credit | Debit |
| Owner's Equity | | |
| Capital | Credit | Debit |
| Withdrawals | Debit | Credit |
| Revenue | Credit | Debit |
| Expense | Debit | Credit |

LO-2

Pearson

# Learning Objective 3 – LO-3

Preparing a trial balance

LO-3

# Footing

- Add total debits and total credits in each account
- Determine each account balance

**Cash**

| Dr. | Cr. |
|---|---|
| A) 40,000 | D) 2,500 |
| E) 13,000 | F) 1,850 |
| J) 1,600 | G) 750 |
| | I) 400 |
| | K) 88 |
| 54,600 | 5,588 |
| 49,012 | |

**Footings**

**Notice the ending account balance appears on the debit side because that side is larger.**

**LO-3**

### Cash

| Dr. | Cr. |
| --- | --- |
| A) 40,000 | D) 2,500 |
| E) 13,000 | F) 1,850 |
| J) 1,600 | G) 750 |
| | I) 400 |
| | K) 88 |
| 54,600 | 5,588 |
| 49,012 | |

### Accounts Receivable

| Dr. | Cr. |
| --- | --- |
| H) 5,500 | J) 1,600 |
| 3,900 | |

### Office Equipment

| Dr. | Cr. |
| --- | --- |
| D) 2,500 | |

### Delivery Trucks

| Dr. | Cr. |
| --- | --- |
| B) 25,000 | |

### Accounts Payable

| Dr. | Cr. |
| --- | --- |
| | B) 25,000 |
| | C) 800 |
| | 25,800 |

### Angel, Capital

| Dr. | Cr. |
| --- | --- |
| | A) 40,000 |

### Angel, Withdrawals

| Dr. | Cr. |
| --- | --- |
| K) 88 | |

### Delivery Fees Earned

| Dr. | Cr. |
| --- | --- |
| | E) 13,000 |
| | H) 5,500 |
| | 18,500 |

### Advertising Expense

| Dr. | Cr. |
| --- | --- |
| C) 800 | |

### Gas Expense

| Dr. | Cr. |
| --- | --- |
| G) 750 | |

### Salaries Expense

| Dr. | Cr. |
| --- | --- |
| F) 1,850 | |

### Telephone Expense

| Dr. | Cr. |
| --- | --- |
| I) 400 | |

LO-3

# Trial Balance

- List of the ending balances of all the accounts in a ledger
- Total debits should equal total credits
- List in same order as they appear in chart of accounts

LO-3

Pearson

# Learning Objective 4 – LO-4

Preparing financial statements from a trial balance

LO-4

| Angel's Delivery Service | | | |
|---|---|---|---|
| Trial Balance | | | |
| March 31, 2019 | | | |
| Acct # | | Dr. | Cr. |
| 111 | Cash | 49,012 | |
| 112 | Accounts Receivable | 3,900 | |
| 121 | Office Equipment | 2,500 | |
| 122 | Delivery Truck | 25,000 | |
| 211 | Accounts Payable | | 25,800 |
| 311 | Alice Angel, Capital | | 40,000 |
| 312 | Alice Angel, Withdrawals | 88 | |
| 411 | Delivery Fees Earned | | 18,500 |
| 511 | Advertising Expense | 800 | |
| 512 | Gas Expense | 750 | |
| 513 | Salaries Expense | 1,850 | |
| 514 | Telephone Expense | 400 | |
| | Totals | 84,300 | 84,300 |

Balance Sheet Accounts

Statement of Owner's Equity Accounts

Income Statement Accounts

Pearson

# Problem P2-5B continued (1 of 3)

Angel's Delivery Service
Income Statement
For the Month Ended March 31, 2019

| | | |
|---|---|---|
| Revenue: | | |
| Delivery Fees Earned | | $18,500 |
| Operating Expenses: | | |
| Advertising Expense | $ 800 | |
| Gas Expense | 750 | |
| Telephone Expense | 400 | |
| Salaries Expense | 1,850 | |
| Total Operating Expenses | | 3,800 |
| Net Income | | $ 14,700 |

LO-4

# Problem P2-5B continued (2 of 3)

Angel's Delivery Service
Statement of Owner's Equity
For the Month Ended March 31, 2019

| | | |
|---|---|---|
| Alice Angel, Capital, March 1, 2019 | | $40,000 |
| Net Income for March | $14,700 | |
| Less: Withdrawals for March | 88 | |
| Increase in Capital | | 14,612 |
| Alice Angel, Capital, March 31, 2019 | | $54,612 |

LO-4

# Problem P2-5B continued (3 of 3)

**Angel's Delivery Service**
**Balance Sheet**
**March 31, 2019**

| Assets | | Liabilities and Owner's Equity | |
|---|---|---|---|
| Cash | $49,012 | Accounts Payable | $25,800 |
| Accounts Receivable | 3,900 | Owner's Equity | |
| Office Equipment | 2,500 | Alice Angel, Capital | 54,612 |
| Delivery Truck | 25,000 | Total Liabilities & | |
| Total Assets | $80,412 | Owner's Equity | $80,412 |

LO-4

# Additional Practice

MyAccountingLab offers excellent practice opportunities, including:

- Self Review Videos
- Student PowerPoints
- Flashcards
- Practice Tests and more

In addition to MyAccountingLab, there are exercises and problems at the end of chapter, using the check figures provided in the margins of your textbook.

*The more you practice, the more fluid you become.*

# End of Chapter 2