

***College Accounting A Practical Approach 14th
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 records in monetary value the data from business transactions.
2. The left-hand side is always the debit side. It is an arbitrary rule.
3. False. Accounts with one entry will not need footings.
4. The financial statements are the end products of the accounting process.
5. The transaction analysis chart is a teaching device that is not used in the regular accounting process.
6. Which accounts are affected? In which categories do the accounts belong? Are the accounts increasing or decreasing? What do the rules of debit and credit say? What does the T-account look like?
7. Disagree. Computers will record debits and credits based on the account type.
8. False. The trial balance is an informal report that does not have the same status as financial statements. The trial balance is used to verify the equality of total debits and credits and prepare the financial statements.
9. The financial statements are prepared from the ending balances of the accounts (debit or credit) in the ledger. The columns on financial statements are used for listing amounts and for subtotaling.
10. It is easier to prepare the reports from the trial balance rather than the expanded accounting equation because the trial balance lists all accounts and their balances. The columns for revenue, expenses, etc., in the expanded accounting equation do not list specific titles and their balances.
11. The question in this case is whether Joshua should be allowed to put fictitious figures into the trial balance. I would not support this type of behavior. His behavior is extremely unprofessional and goes against professional ethical standards. Instead of putting in fictitious figures, Joshua should stay late and correct the trial balance. He could also ask for help.

SOLUTIONS TO CONCEPT CHECKS

1. The ending balance in Cash is \$19,500(debit balance). The ending balance in C. Rice, Capital is \$18,000(credit balance).

Cash 110	
6/24 8,000	500 6/26
6/28 12,000	
20,000	500
Bal. 19,500	

C. Rice, Capital 311	
	11,000 6/1
	6,000 6/8
	1,000 6/22
	18,000 Bal.

2.

Category	Incr.	Decr.	Normal Bal.
A. Liability	Cr.	Dr.	Cr.
B. Revenue	Cr.	Dr.	Cr.
C. Asset	Dr.	Cr.	Dr.
D. Capital	Cr.	Dr.	Cr.
E. Withdrawal	Dr.	Cr.	Dr.
F. Asset	Dr.	Cr.	Dr.
G. Expense	Dr.	Cr.	Dr.

3.

Account	Category	Increase/Decrease	Dr. or Cr.	T Accounts	
				Cash 600	
Cash	Asset	↑	Dr.		
				Acc. Rec. 2,900	
Accounts Receivable	Asset	↑	Dr.		
				Design Fees Earned 3,500	
Design Fees Earned	Revenue	↑	Cr.		

4. Cash
Accounts Receivable
Office Equipment
Accounts Payable
B. O'Mally, Capital
B. O'Mally, Withdrawals
Hair Salon Fees Earned
Selling Expense
Salary Expense
Advertising Expense
5. A.BS
B.BS
C.BS
D.BS
E.OE
F.OE
G.IS
H.IS
I. IS
J.IS
K.IS

SOLUTIONS TO SET A EXERCISES

2A-1. Balance Sheet Accounts

Assets

- 111 Cash
- 112 Accounts Receivable
- 121 Office Equipment (Microsoft Surface Tablet)

Liabilities

- 211 Accounts Payable

Owner's Equity

- 311 L. Janas, Capital
- 312 L. Janas, Withdrawals

Income Statement Accounts

Revenue

- 411 Legal Fees

Expenses

- 511 Salary Expense
- 512 Repair Expense
- 513 Advertising Expense

2A-2.

1. Accounts Affected	2. Category	3. ↑↓	4. Rules	5. T-Account Update
Computer Equipment	Asset	↑	Dr.	Computer Equipment 26,000
Cash	Asset	↓	Cr.	Cash 9,000
Accounts Payable	Liability	↑	Cr.	Accounts Payable 17,000

EXERCISES (CONTINUED)

2A-3.

ACCOUNT	CATEGORY	↑	↓	FINANCIAL STATEMENT
Computer Supplies	Asset	Dr.	Cr.	Balance Sheet
Legal Fees Earned	Revenue	Cr.	Dr.	Income Statement
P. Roy, Withdrawals	Withdrawal	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

2A-4.

	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

EXERCISES (CONTINUED)

2A-5.

(1)

HELM'S CLEANERS INCOME STATEMENT FOR MONTH ENDED MARCH 31, 201X

Revenue:									
Cleaning Fees						\$	4	6	6
Operating Expenses:									
Salaries Expense	\$	1	2	5					
Utilities Expense		1	6	2					
Total Operating Expenses							2	8	7
Net Income						\$	1	7	9

(2)

HELM'S CLEANERS STATEMENT OF OWNER'S EQUITY FOR MONTH ENDED MARCH 31, 201X

J. Helm, Capital, March 1, 201X						\$	7	2	6
Net Income for March	\$	1	7	9					
Less: Withdrawals for March		(	5	5)					
Increase in Capital							1	2	4
J. Helm, Capital, March 31, 201X						\$	8	5	0

(3)

HELM'S CLEANERS BALANCE SHEET MARCH 31, 201X

ASSETS					LIABILITIES AND OWNER'S EQUITY				
Cash	\$	7	5	0	Liabilities				
Equipment		5	0	0	Accounts Payable	\$	4	0	0
					Owner's Equity				
					J. Helm, Capital		8	5	0
					Total Liabilities and				
Total Assets	\$1	2	5	0	Owner's Equity	\$1	2	5	0

SOLUTIONS TO SET B EXERCISES

2B-1. Balance Sheet Accounts

Assets

- 111 Cash
- 112 Accounts Receivable
- 121 Office Equipment (Apple iPad)

Liabilities

- 211 Accounts Payable

Owner's Equity

- 311 L. Jones, Capital
- 312 L. Jones, Withdrawals

Income Statement Accounts

Revenue

- 411 Legal Fees Earned

Expenses

- 511 Salary Expense
- 512 Rent Expense
- 513 Advertising Expense

2B-2.

1. Accounts Affected	2. Category	3. ↑↓	4. Rules	5. T-Account Update
Computer Equipment	Asset	↑	Dr.	Computer Equipment 28,000
Cash	Asset	↓	Cr.	Cash 8,000
Accounts Payable	Liability	↑	Cr.	Accounts Payable 20,000

EXERCISES (CONTINUED)

2B-3.

ACCOUNT	CATEGORY	↑	↓	FINANCIAL STATEMENT
Office Supplies	Asset	Dr.	Cr.	Balance Sheet
Rental Fees Earned	Revenue	Cr.	Dr.	Income Statement
A. Troy, Withdrawals	Withdrawal	Dr.	Cr.	Statement of Owner's Equity
Accounts Payable	Liability	Cr.	Dr.	Balance Sheet
Wage Expense	Expense	Dr.	Cr.	Income Statement
Computer	Asset	Dr.	Cr.	Balance Sheet

2B-4.

	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

EXERCISES (CONTINUED)

2B-5.

(1)

HILTON'S CLEANERS INCOME STATEMENT FOR MONTH ENDED JANUARY 31, 201X

Revenue:									
Cleaning Fees						\$	4	6	0
Operating Expenses:									
Salaries Expense	\$	1	1	0					
Utilities Expense		1	7	1					
Total Operating Expenses							2	8	1
Net Income						\$	1	7	9

(2)

HILTON'S CLEANERS STATEMENT OF OWNER'S EQUITY FOR MONTH ENDED JANUARY 31, 201X

J. Hilton, Capital, January 1, 201X						\$	8	6	6
Net Income for January	\$	1	7	9					
Less: Withdrawals for January		(2	5	0)					
Decrease in Capital							(7	1)	
J. Hilton, Capital, January 31, 201X						\$	7	9	5

(3)

HILTON'S CLEANERS BALANCE SHEET JANUARY 31, 201X

ASSETS					LIABILITIES AND OWNER'S EQUITY				
Cash	\$	7	5	0	Liabilities				
Equipment		5	0	0	Accounts Payable	\$	4	5	5
					Owner's Equity				
					J. Hilton, Capital		7	9	5
					Total Liabilities and				
Total Assets	\$1	2	5	0	Owner's Equity	\$1	2	5	0

SOLUTIONS TO SET A PROBLEMS

PROBLEM 2A-1

Accounts Affected	Category	Inc. ↑	Dec. ↓	Rules	T-Account update	
A. Cash	Asset	↑		Dr.	Cash	Brent Omara, Capital
					(A) 45,000	45,000 (A)
Brent Omara, Capital	Capital*	↑		Cr.		
B. Delivery Trucks	Asset	↑		Dr.	Delivery Trucks	Accounts Payable
					(B) 5,000	5,000 (B)
Accounts Payable	Liability	↑		Cr.		
C. Rent Expense	Expense	↑		Dr.	Rent Expense	Accounts Payable
					(C) 1,000	5,000 (B) 1,000 (C)
Accounts Payable	Liability	↑		Cr.		
D. Cash	Asset	↑		Dr.	Cash	Delivery Fees Earned
					(A) 45,000 (D) 1,200	1,200 (D)
Delivery Fees Earned	Revenue	↑		Cr.		
E. Accounts Receivable	Asset	↑		Dr.	Accounts Receivable	Delivery Fees Earned
					(E) 1,010	1,200 (D) 1,010 (E)
Delivery Fees Earned	Revenue	↑		Cr.		
F. Brent Omara, Withdrawals	Withdrawal*	↑		Dr.	Brent Omara, Withdrawals	Cash
					(F) 1,000	(A) 45,000 (D) 1,200 1,000 (F)
Cash	Asset	↓		Cr.		

* A subdivision of Owner's Equity

PROBLEM 2A-2

Cash 111	
(A) 34,000	80 (D)
(C) 3,100	650 (E)
	600 (G)

Office Equipment 121	
(B) 1,000	

Accounts Payable 211	
(G) 600	1,000 (B)
	900 (F)

Bud Peters, Capital 311	
	34,000 (A)

Bud Peters, Withdrawals 312	
(D) 80	

Consulting Fees Earned 411	
	3,100 (C)

Advertising Expense 511	
(E) 650	

Rent Expense 512	
(F) 900	

PROBLEM 2A-3

(a)

Cash 111	Accounts Payable 211	Cleaning Fees Earned 411
(A) 17,000	(D) 600	
(G) 5,500	1,400 (C)	11,000 (B)
	800 Bal	
22,500		
Bal 21,040		
1,460		
Accounts Receivable 112	Brian Jett, Capital 311	Rent Expense 511
(B) 11,000	17,000 (A)	(F) 100
Bal 5,500		
Office Equipment 121	Brian Jett, Withdrawals 312	Utilities Expense 512
(C) 1,400	(I) 320	(E) 100
(H) 340		
Bal 1,740		

(b)

BRIAN'S CLEANING SERVICE TRIAL BALANCE OCTOBER 31, 201X

	Dr.	Cr.
Cash	21 0 4 0	
Accounts Receivable	5 5 0 0	
Office Equipment	1 7 4 0	
Accounts Payable		8 0 0
Brian Jett, Capital		17 0 0 0
Brian Jett, Withdrawals	3 2 0	
Cleaning Fees Earned		11 0 0 0
Rent Expense	1 0 0	
Utilities Expense	1 0 0	
Totals	28 8 0 0	28 8 0 0

PROBLEM 2A-4

(a)

GABRIELLA LEITZ, ATTORNEY AT LAW
INCOME STATEMENT
FOR MONTH ENDED JANUARY 31, 201X

Revenue:									
Revenue from Legal Fees						\$1	6	0	0
Operating Expenses:									
Utilities Expense	\$	1	5	0					
Rent Expense		3	5	0					
Salaries Expense		1	5	0					
Total Operating Expenses							6	5	0
Net Income						\$	9	5	0

(b)

GABRIELLA LEITZ, ATTORNEY AT LAW
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED JANUARY 31, 201X

G. Leitz, Capital, January 1, 201X						\$4	6	0	0
Net Income for January	\$	9	5	0					
Less: Withdrawals for January		(4	0	0)					
Increase in Capital							5	5	0
G. Leitz, Capital, January 31, 201X						\$5	1	5	0

(c)

GABRIELLA LEITZ, ATTORNEY AT LAW
BALANCE SHEET
JANUARY 31, 201X

ASSETS					LIABILITIES AND OWNER'S EQUITY									
Cash	\$7	0	0	0		Liabilities								
Accounts Receivable		8	0	0		Accounts Payable				\$2	2	0	0	
Office Equipment		5	0	0		Salaries Payable					9	5	0	
						Total Liabilities								
										\$3	1	5	0	
						Owner's Equity								
						G. Leitz, Capital					5	1	5	0
						Total Liabilities and								
Total Assets	\$8	3	0	0		Owner's Equity								
										\$8	3	0	0	

PROBLEM 2A-5

(1, 2)

Cash 111		Accounts Payable 211		Advertising Expense 511	
(A) 20,000	1,300 (C)		6,000 (B)	(D) 250	
(E) 2,600	250 (D)		700 (I)		
(J) 100	650 (F)		6,700		
	1,600 (G)				
	700 (K)				
22,700	4,500				
18,200					
Accounts Receivable 112		Amy Alto, Capital 311		Gas Expense 512	
(H) 1,500	100 (J)		20,000 (A)	(G) 1,600	
1,400					
Office Equipment 121		Amy Alto, Withdrawals 312		Salaries Expense 513	
(C) 1,300		(K) 700		(F) 650	
Delivery Trucks 122		Delivery Fees Earned 411		Telephone Expense 514	
(B) 6,000			2,600 (E)	(I) 700	
			1,500 (H)		
			4,100		

PROBLEM 2A-5 (CONTINUED)

(3)

**ALTO'S DELIVERY SERVICE
TRIAL BALANCE
OCTOBER 31, 201X**

	Dr.					Cr.				
Cash	18	2	0	0						
Accounts Receivable	1	4	0	0						
Office Equipment	1	3	0	0						
Delivery Trucks	6	0	0	0						
Accounts Payable						6	7	0	0	
A. Alto, Capital						20	0	0	0	
A. Alto, Withdrawals		7	0	0						
Delivery Fees Earned						4	1	0	0	
Advertising Expense		2	5	0						
Gas Expense	1	6	0	0						
Salaries Expense		6	5	0						
Telephone Expense		7	0	0						
Totals	30	8	0	0		30	8	0	0	

(4a)

**ALTO'S DELIVERY SERVICE
INCOME STATEMENT
FOR MONTH ENDED OCTOBER 31, 201X**

Revenue:										
Delivery Fees Earned						\$4	1	0	0	
Operating Expenses:										
Advertising Expense	\$	2	5	0						
Gas Expense	1	6	0	0						
Salaries Expense		6	5	0						
Telephone Expense		7	0	0						
Total Operating Expenses						3	2	0	0	
Net Income						\$	9	0	0	

PROBLEM 2A-5 (CONCLUDED)

(4b)

**ALTO'S DELIVERY SERVICE
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED OCTOBER 31, 201X**

A. Alto, Capital, October 1, 201X						\$			0	
Investment in October						20	0	0	0	
Total investment for October						20	0	0	0	
Net Income for October	\$	9	0	0						
Less: Withdrawals for October		(7	0	0)						
Increase in Capital							2	0	0	
A. Alto, Capital, October 31, 201X						\$20	2	0	0	

(4c)

**ALTO'S DELIVERY SERVICE
BALANCE SHEET
OCTOBER 31, 201X**

ASSETS					LIABILITIES AND OWNER'S EQUITY				
Cash	\$18	2	0	0	Liabilities				
Accounts Receivable	_1	4	0	0	Accounts Payable	\$ 6	7	0	0
Office Equipment	_1	3	0	0					
Delivery Trucks	_6	0	0	0	Owner's Equity				
					A. Alto, Capital	20	2	0	0
					Total Liabilities and				
Total Assets	\$26	9	0	0	Owner's Equity	\$26	9	0	0

SOLUTIONS TO SET B PROBLEMS

PROBLEM 2B-1

Accounts Affected	Category	Inc. ↑	Dec. ↓	Rules	T-Account update	
A. Cash	Asset	↑		Dr.	Cash	B. Orwell, Capital
					(A) 50,000	50,000 (A)
B. Orwell, Capital	Capital	↑		Cr.		
B. Delivery Trucks	Asset	↑		Dr.	Delivery Trucks	Accounts Payable
					(B) 13,000	13,000 (B)
Accounts Payable	Liability	↑		Cr.		
C. Rent Expense	Expense	↑		Dr.	Rent Expense	Accounts Payable
					(C) 1,100	13,000 (B) 1,100 (C)
Accounts Payable	Liability	↑		Cr.		
D. Cash	Asset	↑		Dr.	Cash	Delivery Fees Earned
					(A) 50,000 (D) 2,500	2,500 (D)
Delivery Fees Earned	Revenue	↑		Cr.		
E. Accounts Receivable	Asset	↑		Dr.	Accounts Receivable	Delivery Fees Earned
					(E) 1,200	2,500 (D) 1,200 (E)
Delivery Fees Earned	Revenue	↑		Cr.		
F. B. Orwell, Withdrawals	Withdrawal	↑		Dr.	B. Orwell, Withdrawals	Cash
					(F) 400	(A) 50,000 (D) 2,500 400 (F)
Cash	Asset	↓		Cr.		

PROBLEM 2B-2

Cash 111	
(A) 33,000	150 (D)
(C) 2,000	250 (E)
	600 (G)
Office Equipment 121	
(B) 2,500	
Accounts Payable 211	
(G) 600	2,500 (B)
	500 (F)
Brad Piascik, Capital 311	
	33,000 (A)

Brad Piascik, Withdrawals 312	
(D) 150	
Consulting Fees Earned 411	
	2,000 (C)
Advertising Expense 511	
(E) 250	
Rent Expense 512	
(F) 500	

PROBLEM 2B-3

(a)

Cash 111		Accounts Payable 211		Cleaning Fees Earned 411	
7,000 (A)	400 (D)	400 (D)	2,100 (C)		11,000 (B)
2,000 (G)	500 (E)		1,700 Bal.		
	550 (F)				
	550 (H)				
	320 (I)				
9,000	2,320				
Bal. 6,680					
Accounts Receivable 112		Brent Jane, Capital 311		Rent Expense 511	
11,000 (B)	2,000 (G)		7,000 (A)	550 (F)	
Bal. 9,000					
Office Equipment 121		Brent Jane, Withdrawals 312		Utility Expense 512	
2,100 (C)		320 (I)		500 (E)	
550 (H)					
Bal. 2,650					

(b)

BRENT'S CLEANING SERVICE TRIAL BALANCE JULY 31, 201X

	Dr.					Cr.				
Cash	6	6	8	0						
Accounts Receivable	9	0	0	0						
Office Equipment	2	6	5	0						
Accounts Payable						1	7	0	0	
Brent Jane, Capital						7	0	0	0	
Brent Jane, Withdrawals		3	2	0						
Cleaning Fees Earned						11	0	0	0	
Rent Expense		5	5	0						
Utilities Expense		5	0	0						
Totals	19	7	0	0		19	7	0	0	

PROBLEM 2B-4

(a)

GAIL LANTZ, ATTORNEY AT LAW
INCOME STATEMENT
FOR MONTH ENDED JULY 31, 201X

Revenue:										
Revenue from Legal Fees						\$1	6	0	0	
Operating Expenses:										
Utilities Expense	\$	1	0	0						
Rent Expense		4	5	0						
Salaries Expense		2	0	0						
Total Operating Expenses							7	5	0	
Net Income						\$	8	5	0	

(b)

GAIL LANTZ, ATTORNEY AT LAW
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED JULY 31, 201X

G. Lantz, Capital, July 1, 201X						\$4	7	0	0	
Net Income for July	\$	8	5	0						
Less: Withdrawals for July	(1	1	0	0)						
Decrease in Capital							(2	5	0)	
G. Lantz, Capital, July 31, 201X						\$4	4	5	0	

(c)

GAIL LANTZ, ATTORNEY AT LAW
BALANCE SHEET
JULY 31, 201X

ASSETS
LIABILITIES AND OWNER'S EQUITY

Cash	\$5	0	0	0		Liabilities									
Accounts Receivable		7	5	0		Accounts Payable	\$3	0	0	0					
Office Equipment	2	7	0	0		Salaries Payable	1	0	0	0					
						Total Liabilities					\$4	0	0	0	
						Owner's Equity									
						G. Lantz, Capital					4	4	5	0	
						Total Liabilities and									
Total Assets	\$8	4	5	0		Owner's Equity					\$8	4	5	0	

PROBLEM 2B-5

(1, 2)

Cash111 (A) 33,000 (E) 3,500 (J) 100 36,600 Bal. 32,800 1,100 (C) 250 (D) 750 (F) 1,000 (G) 700 (K) 3,800	Accounts Payable211 13,000 (B) 50 (I) Bal. 13,050	Advertising Expense511 (D) 250
Accounts Receivable112 (H) 800 Bal. 700 100 (J)	Audrey Avery, Capital311 33,000 (A)	Gas Expense512 (G) 1,000
Office Equipment121 (C) 1,100	Audrey Avery, Withdrawals312 (K) 700	Salaries Expense513 (F) 750
Delivery Trucks122 (B) 13,000	Delivery Fees Earned411 3,500 (E) 800 (H) Bal. 4,300	Telephone Expense514 (I) 50

PROBLEM 2B-5 (CONTINUED)
(3)

AVERY'S DELIVERY SERVICE
TRIAL BALANCE
OCTOBER 31, 201X

	Dr.				Cr.			
Cash	32	8	0	0				
Accounts Receivable		7	0	0				
Office Equipment	1	1	0	0				
Delivery Trucks	13	0	0	0				
Accounts Payable					13	0	5	0
Audrey Avery, Capital					33	0	0	0
Audrey Avery, Withdrawals		7	0	0				
Delivery Fees Earned					4	3	0	0
Advertising Expense		2	5	0				
Gas Expense	1	0	0	0				
Salaries Expense		7	5	0				
Telephone Expense			5	0				
Totals	50	3	5	0	50	3	5	0

(4a)

AVERY'S DELIVERY SERVICE
INCOME STATEMENT
FOR MONTH ENDED OCTOBER 31, 201X

Revenue:									
Delivery Fees Earned						\$4	3	0	0
Operating Expenses:									
Advertising Expense	\$	2	5	0					
Gas Expense	1	0	0	0					
Salaries Expense		7	5	0					
Telephone Expense			5	0					
Total Operating Expenses						2	0	5	0
Net Income						\$2	2	5	0

PROBLEM 2B-5 (CONCLUDED)
(4b)

**AVERY'S DELIVERY SERVICE
STATEMENT OF OWNER'S EQUITY
FOR MONTH ENDED OCTOBER 31, 201X**

Audrey Avery, Capital, October 1, 201X						\$			0	
Investment in October						33	0	0	0	
Total investment for October						33	0	0	0	
Net Income for October	\$2	2	5	0						
Less: Withdrawals for October		(7	0	0)						
Increase in Capital						1	5	5	0	
Audrey Avery, Capital, October 31, 201X						\$34	5	5	0	

(4c)

**AVERY'S DELIVERY SERVICE
BALANCE SHEET
OCTOBER 31, 201X**

ASSETS					LIABILITIES AND OWNER'S EQUITY				
Cash	\$32	8	0	0	Liabilities				
Accounts Receivable		7	0	0	Accounts Payable	\$13	0	5	0
Office Equipment	1	1	0	0	Owner's Equity				
Delivery Trucks	13	0	0	0	Audrey Avery, Capital	34	5	5	0
					Total Liabilities and				
Total Assets	\$47	6	0	0	Owner's Equity	\$47	6	0	0

FINANCIAL REPORT PROBLEM SOLUTION—2016 Amazon.com's Annual Report

Year	Accounts Payable
2016	\$25,309 million
2015	<u>\$20,397 million</u>
Increase	<u>\$4,912 million</u>

Accounts Payable increased by \$4.912 billion in 2016. The change means Amazon.com, Inc. owes more to suppliers in 2016 than 2015. Accounts Payable is a liability that increases with a credit.

KEEPING IT REAL--Suarez Computer Center Solution
Assignments 1-3

Cash 1000	
10,540 (bal)	300 (l)
1,400 (p)	50 (m)
	500 (n)
	100 (q)
	20 (r)
11,940	970

10,970 (bal)	
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Falco, Withdrawals 3010	
1,500 (bal)	

Utilities Expense 5030	
100 (bal)	

Postage Expense 5070	
20 (r)	

Accounts Receivable 1020	
1,100 (o)	

Office Equipment 1090	
1,500 (bal)	

Service Revenue 4000	
	3,100 (bal)
	1,100 (o)
	1,400 (p)
	5,600 (bal)

Phone Expense 5040	
200(k)	

|--|--|

Supplies 1030	
500 (bal)	
500 (s)	
1,000 (bal)	

Accounts Payable 2000	
50 (m)	600 (bal)
100 (q)	200 (k)
	500 (s)
150	1,300
	1,150 (bal)

Advertising Expense 5010	
500(n)	

Supplies Expense 5050	
0	

|--|--|

Computer Shop Equipment 1080	
1,260 (bal)	

Falco, Capital 3000	
	12,500 (bal)

Rent Expense 5020	
800 (bal)	

Insurance Expense 5060	
300 (l)	

|--|--|

Assignment 4

SUAREZ COMPUTER CENTER TRIAL BALANCE AUGUST 31, 201X

Dr.

Cr.

Cash	10	9	7	0	00					
Accounts Receivable	_1	1	0	0	00					
Supplies	_1	0	0	0	00					
Computer Shop Equipment	_1	2	6	0	00					
Office Equipment	_1	5	0	0	00					
Accounts Payable						_1	1	5	0	00
Falco, Capital						12	5	0	0	00
Falco, Withdrawals	_1	5	0	0	00					
Service Revenue						_5	6	0	0	00
Advertising Expense		5	0	0	00					
Rent Expense		8	0	0	00					
Utilities Expense		1	0	0	00					
Phone Expense		2	0	0	00					
Insurance Expense		3	0	0	00					
Postage Expense			2	0	00					
Totals	19	2	5	0	00	19	2	5	0	00

Assignment 5

SUAREZ COMPUTER CENTER INCOME STATEMENT FOR THE TWO MONTHS ENDED AUGUST 31, 201X

Revenue:										
Service Revenue						\$ 5	6	0	0	00
Operating Expenses:										
Advertising Expense	\$	5	0	0	00					
Rent Expense		8	0	0	00					
Utilities Expense		1	0	0	00					
Phone Expense		2	0	0	00					
Insurance Expense		3	0	0	00					
Postage Expense			2	0	00					
Total Operating Expenses						1	9	2	0	00
Net Income						\$ 3	6	8	0	00

Assignment 5 (Concluded)

**SUAREZ COMPUTER CENTER
STATEMENT OF OWNER'S EQUITY
FOR THE TWO MONTHS ENDED AUGUST 31, 201X**

Falco, Capital, July 1, 201X						\$			0	00
Investment in July						12	5	0	0	00
Total investment for July						12	5	0	0	00
Net Income	\$ 3	6	8	0	00					
Less: Falco Withdrawals	(1	5	0	0	00)					
Net Increase Capital						2	1	8	0	00
Falco, Capital, August 31, 201X						\$14	6	8	0	00

**SUAREZ COMPUTER CENTER
BALANCE SHEET
AUGUST 31, 201X**

ASSETS

LIABILITIES AND OWNER'S EQUITY

Cash	\$10	9	7	0	00	Liabilities:					
Accounts Receivable	1	1	0	0	00	Accounts Payable	\$ 1	1	5	0	00
Supplies	1	0	0	0	00						
Computer Shop Equipment	1	2	6	0	00	Owner's Equity:					
Office Equipment	1	5	0	0	00	Falco, Capital	14	6	8	0	00
						Total Liabilities and					
Total Assets	\$15	8	3	0	00	Owner's Equity	\$15	8	3	0	00

Chapter 2

Debits and Credits: Analyzing and Recording Business Transactions

Chapter Overview

This chapter transitions from analyzing transactions and listing each account in a potentially long accounting equation to double entry accounting. There are five steps used to analyze a transaction: 1) determining which accounts are affected; 2) determining which categories the accounts belong to (assets, liabilities, capital, withdrawals, revenue, or expenses); 3) determining whether the accounts increase or decrease; 4) using the debit and credit rules to determine if the result of steps 2 and 3 results in a journal entry debit or credit; and 5) computing the balance in the T account. T accounts are used to illustrate debits and credits and how to evaluate each account's balance. A T account is a simpler way to illustrate an account. It has a debit and credit side and can be used to compute the balance in that account. Several examples are used to illustrate transaction analysis and the resulting journal entry and T account balance. Next, how to use the balances in the T accounts to prepare a trial balance is illustrated. A trial balance is a listing of a company's accounts and its resulting debit or credit balance in the proper debit or credit column. The information from the trial balance is used to prepare financial statements. Finally, the interrelationship between the financial statements is emphasized. The income or loss from the income statement is carried to the statement of owner's equity. The ending balance in the statement of owner's equity is carried to the balance sheet.

Learning Objectives

After studying Chapter 2, your students should gain proficiency in the following:

1. Explain T Accounts and How to Foot and Balance.
2. Use a Chart of Accounts to Record Transactions in T Accounts According to the Rules of Debits and Credits.
3. Prepare a Trial Balance and the Financial Statements.

Chapter 2 Assignment Grid

Assignment	Topic(s)	Learning Objective(s)	Estimated Time in Minutes	Level of Difficulty
<i>Discussion Questions and Critical Thinking/Ethical Case</i>				
1	Define ledger	1	5	Easy
2	Debit	1	5	Easy
3	Footings	1	5	Easy
4	Accounting cycle	2	5	Easy
5	Transaction Analysis Chart	2	5	Easy
6	Transaction Analysis Chart	2	5	Easy
7	Double Entry bookkeeping	2	5	Easy
8	Trial Balance	3	5	Easy
9	Financial Statements	3	5	Easy
10	Financial Statements	3	5	Easy
11	Trial Balance	3	5	Medium
<i>Concept Checks</i>				
1	The T account	1	5	Easy
2	Transaction Analysis	2	5	Easy
3	Transaction Analysis	2	5	Easy
4	Trial Balance	3	5	Easy
5	Trial Balance/ Financial Statements	3	10	Easy
<i>Exercises (Set A)</i>				
2A-1	Chart of accounts	2	10	Easy
2A-2	Transaction analysis	2	5	Easy
2A-3	Transaction analysis	2	5	Easy
2A-4	Account analysis	2	20	Medium
2A-5	Financial Statements	3	20	Medium
<i>Exercises (Set B)</i>				
2B-1	Chart of accounts	2	10	Easy
2B-2	Transaction analysis	2	5	Easy
2B-3	Transaction analysis	2	5	Easy
2B-4	Account analysis	2	20	Medium
2B-5	Financial Statements	3	20	Medium
<i>Problems (Set A)</i>				
2A-1	Transaction Analysis	2	20	Medium
2A-2	Transaction Analysis	2	20	Medium
2A-3	Trial Balance	1, 3	20	Medium
2A-4	Financial Statements	3	40	Hard
2A-5	Transactions, Trial Balance, & Financial Prep	2, 3	60	Hard
<i>Problems (Set B)</i>				
2B-1	Transaction Analysis	2	20	Medium
2B-2	Transaction Analysis	2	20	Medium
2B-3	Trial Balance	1, 3	20	Medium
2B-4	Financial Statements	3	40	Hard
2B-5	Transactions, Trial Balance, & Financial Prep	2, 3	60	Hard

Assignment	Topic(s)	Learning Objective(s)	Estimated Time in Minutes	Level of Difficulty
<i>Financial Report Problem</i>				
Reading Amazon's Annual Report		2	5	Easy
<i>Keeping It Real</i>				
Suarez Computer Center		1, 2, 3	60	Medium

Learning Unit 2-1: The T Account and How to Foot and Balance

Summary: The **T account** is a tool to demonstrate the increases and decreases in each account. The T account is a skeleton version of a standard account. A **standard account** form is the formal structure required for each account. All T accounts have three parts: account title, **debit** (left) and **credit** (right). The T accounts are footed to determine the balance or ending balance for the specific account. Foot is to (sum) add all debits and add (sum) all credits, and **footing** is totaling each individual column. The column balances are subtracted to compute the final total or ending balance for each account. The ending balance is always presented on the bigger or **normal side**. To record transactions, the accountant determines which accounts are credited or debited utilizing the debit and credit rules. The double-entry bookkeeping is an accounting system in which the recording of each transaction affects two or more accounts. You must include at least one debit and one credit per transaction, and the total amount of debits is equal to the total amount of credits.

Key Concepts: account, standard account, ledger, T account, debit, credit, footings, ending balance

Lecture Outline:

- 1) Each transaction is recorded in the accounting equation under specific accounts: assets, liabilities, capital, withdrawals, revenue, expenses, and so on.
- 2) Accounts are used to record increases and decreases of business transactions relating to individual elements of the accounting equation:
 - a) assets,
 - b) liabilities,
 - c) capital,
 - d) withdrawals,
 - e) revenue,
 - f) and expenses.
- 3) The subdivisions or account categories (account classification) are:
 - a) asset accounts,
 - b) liability accounts,
 - c) owner's equity accounts,
 - d) revenue accounts,
 - e) and expense accounts.
- 4) The standard account form includes:
 - a) columns for date,
 - b) explanation,
 - c) posting reference,
 - d) debit,

- e) credit,
- f) and total columns.
- 5) The ledger has all the individual accounts, and all transactions affecting an account are recorded on the form.
 - a) A ledger is a book of accounts that records data from business transactions.
 - b) Prepared manually in a traditional accounting format.
 - c) Ledger accounts in a computerized system are updated automatically by software.
- 6) For simplicity sake, use the T account form for demonstration purposes. T account simple form includes:
 - a) the title, which expresses the name of the account
 - b) debit (left) side or Dr.
 - c) credit (right) side or Cr.
- 7) Footing: (the totals for each column)
 - a) process of adding all items on the debit side,
 - b) adding all items on the credit side
 - c) calculate the T account ending balance.
 - d) Balance the difference between the amounts on each side of the T account.
 - i) Total the debits (Dr.)
 - ii) Total the credits (Cr.)
 - iii) Subtract the debits and credits
 - iv) The ending balance will be on the side that has the greater number.

Teaching Tips/Strategy: Use the “Success Coach” LU 2-1 to assess the understanding of the following concepts: T account, rules of debit and credit, and the account normal balance. Explain the basic accounting equation elements ($\text{Assets} = \text{Liabilities} + \text{Equity}$) and how the debit and credits are presented. For example: items to the left of the equal sign are assets. Normally the assets will increase by the left or debit. Items to the right of the equal sign, such as liabilities and equity, increase by the right. The subdivisions of equity (revenue, expenses, capital and withdrawals) will increase or decrease based on their relationship to equity. The revenue or capital accounts, will increase the equity. Therefore, the account increases by the right or credit. If the account is an expense or a withdrawal, it decreases equity. The account increases by left or debit.

For lecture practice, utilize the Concept Check #1 to use T accounts to foot and balance each account.

Use the “Ten-Minute Quiz” question #2 to reinforce T accounting concepts.

Learning Unit 2-2: The Chart of Accounts: Recording Transactions in T Accounts According to Rules of Debits and Credits.

Summary: The accounting recording process starts with a business transaction, an exchange between two or more parties, sharing items of equal value. The double-entry analysis of transactions presents two or more accounts that are affected and the total of debits and credits that are equal. This double-entry system helps in checking the recording of business transactions. All business transactions are recorded in accounts. An **account** is a tool used to record and summarize the effects of the organization’s transactions. The basic accounting equation contains the following account categories: assets, liabilities, capital, withdrawals, revenues and expenses. The chart of accounts is a system of accounts that summarizes increases and decreases of all individual accounts. This numbering system of accounts allows accounts to be located quickly. For example, 100s are assets, 200s are liabilities, 300s are equity, 400s are revenues and 500s are expenses (See Table 2.2). A **compound entry** is a transaction that involves more than one debit or more than one credit.

The debit and credit rules are: all assets increase by debit side (left) and decrease by credit side (right), liabilities increase by credit side (right) and decrease by debit side (left), and equity accounts increase by credit side (right) and decrease by debit side (left). The equity subdivisions or categories will use the debit and credit rules to present the effect on the organization's equity. The equity subdivision rules are:

1. Revenues increase the organization's equity in the business. Revenue accounts increase by credit and decrease by debit (same as the equity).
2. The expenses decrease the organization's equity. Therefore, all expense accounts will increase by debit and decrease by credit. (Note that any item that decreases the equity, the behavior is opposite to the main equity account.)
3. Capital accounts increase the organization's equity. Therefore, any capital transaction will increase by credit and decrease by debit. Withdrawals by owner decrease the organization's equity. Therefore, any withdrawal increases are recorded on the debit side.

Key Concepts: normal balance of an account, chart of accounts, compound entry, double-entry bookkeeping

Lecture Outline:

- 1) Refer to Table 2.1 for the rules of debit and credit using T accounts affecting the accounting equation.
 - a) For assets increases are on the debit (left) side.
 - b) For liabilities increases are on the credit (right) side.
 - c) For capital increases are on the credit (right) side.
 - d) For revenue increases are on the credit side which is the same as for capital.
 - e) For withdrawals and expenses increases are on the debit side which is the opposite of how capital increases are.
 - f) A normal balance of an account is the side that increases by the rules of debit and credit.
 - g) The accounting equation balance must be maintained when transactions occur.
- 2) A chart of accounts is a numbered list of all of a business's accounts.
 - a) Assets use 100s (as an example).
 - b) Liabilities use 200s.
 - c) Owner's Equity uses 300s.
 - d) Revenues use 400s.
 - e) Expenses use 500s.
- 3) Transaction analysis: five steps:
 - a) Determine which accounts are affected.
 - b) Determine which categories the accounts belong to: assets, liabilities, capital, withdrawals, revenue, or expenses.
 - c) Determine whether the accounts increase or decrease.
 - d) What do the rules of debit and credit say?
 - e) What does the T account look like?
- 4) Compound entry is a transaction involving more than one debit or credit.
- 5) Double-entry bookkeeping refers to an accounting system in which the recording of each transaction affects two or more accounts, and the total of the debits is equal to the total of credits.

Teaching Tips/Strategy: Use the "Success Coach" LU 2-2 (end of the chapter) to review the debit and credit rules. After reviewing the concepts, complete the Concept Checks #2 and #3 to check the debit and credit rules. Exercises 2A-1, 2A-2, 2A-3, and 2A-4 are excellent classroom practice to reinforce the objective #2 concepts.

Use the "Ten-Minute Quiz" questions #1 - #5 to reinforce the Learning Objective #2.

Learning Unit 2-3: The Trial Balance and Preparation of Financial Statements

Summary: The **trial balance** is a list of all accounts with their balances in the same order as they appear in the chart of accounts. A trial balance is not a financial statement although it is used to prepare financial statements. A trial balance is a listing of each account with each account balance listed in its proper debit or credit column. Balances on the trial balance are taken directly from footings and ending balances on the T accounts. The total of the debit column should equal the total of the credit column.

The financial statements include: income statement, statement of owner's equity, and the balance sheet. All financial statements have two columns. The columns are used for subtotals and NOT for debit and credit format. There are no debits and credits on the financial statements. The income statement summarizes the revenues and expenses to calculate the net income or net loss. The statement of owner's equity updates the ending capital balance for the period. It includes the beginning and ending balances of capital accounts, the net income or net loss, and the withdrawals account. The balance sheet is the representation of the accounting equation as the last day of the period or as a "snapshot". The balance sheet includes all assets, liabilities, and the ending balance of equity.

Key Concepts: Trial balance

Lecture Outline:

- 2) The trial balance:
 - a) is a list of all accounts with their balances,
 - b) the order of accounts is the same as they appear in the chart of accounts,
 - c) is not a financial statement but is a tool used to prepare financial statements,
 - d) is a list of ending balances from the ledger,
 - e) and the total of the debit column should equal the total of the credit column.
- 6) Preparing financial statements:
 - a) All financial statements are related:
 - i) the net income or net loss from the income statement flows to the statements of owner's equity,
 - ii) the ending balance of capital on the owner's equity statement flows to the balance sheet.
 - b) The dollar sign or currency sign is used at the top of each column and on the final total amounts.
 - c) One underline represents a list to subtotal
 - d) Two underlines represent the end of the statement or the final "bottom line" number.
- 7) The Income Statement: (is generally prepared first)
 - f) includes revenues and expenses
 - g) includes gains or losses
 - h) Net Income – revenues are greater than expenses. (Revenues – Expenses)
 - i) Net Loss – expenses are greater than revenues. (Expenses – Revenues)
 - j) The net income or net loss is carried to the statement of owner's equity.
- 8) The Statement of Owner's Equity:
 - a) Start with the capital balance as of the beginning of the period
 - b) Add: Net income (from the income statement)
 - c) Add: additional investments from the owners
 - d) Deduct: Net Loss (from the income statement)
 - e) Deduct: any withdrawals
 - f) Calculate the new ending balance for the capital account or owner's equity.
 - g) The new balance for owner's equity is carried to the Balance Sheet.
- 9) The Balance Sheet:

- a) Lists all assets, liabilities and the new equity or capital account balance.
- b) The total of assets = total of liabilities and equity.

Teaching Tips/Strategy: Use the “Success Coach” LU 2-3 to review trial balance and financial statement concepts. After reviewing the concepts, complete the Concept Checks #4 to illustrate the process needed to build a trial balance.

The instructor can use the Concept Check #5 as a demonstration exercise to explain the importance of accounts and the proper classification within the financial statements. Exercises 2A-5 and 2B-5 are excellent classroom practice to reinforce the objective #3 concepts.

Use the “Ten-Minute Quiz” questions #7, #8, #9 and #10 to reinforce the Learning Unit 2-3 concepts.

Teaching Tips/Strategy: Each chapter contains a Try It! at the end of each Learning Unit. The Try its! are intended as practice for students and/or as checking of student understanding. There is also a Demonstration Summary Problem with each chapter to provide an overview of all the chapter concepts. Students can study and review this problem to view how all the chapter concepts fit together.

CHAPTER 2
TEN-MINUTE QUIZ

Circle the letter of the best response.

1. Although debits increase assets, they also
 - a. increase revenues
 - b. increase expenses
 - c. increase owner's equity
 - d. increase liabilities

2. The right side of a T account is the
 - a. increase side
 - b. decrease side
 - c. credit side
 - d. debit side

3. A compound entry is
 - a. an entry involving more than one debit or credit
 - b. an entry involving multiple transactions
 - c. an entry involving more than one date
 - d. an entry increasing and decreasing the same account

4. Which of the following accounts has a normal debit balance?
 - a. Mia Wong, Capital
 - b. Cash
 - c. Accounts Payable
 - d. Fees Earned

5. Which of the following accounts has a normal credit balance?
 - a. Office Equipment
 - b. Salaries Expense
 - c. Accounts Receivable
 - d. Accounts Payable

6. Payment of salaries to employees is recorded as a(n)
 - a. asset
 - b. liability
 - c. revenue
 - d. expense

7. The trial balance
 - a. shows the income earned during the year
 - b. shows the total amount of assets
 - c. shows the accuracy of the general ledger
 - d. is the first financial statement prepared

8. Which account is shown on the balance sheet?
 - a. Cash
 - b. Utilities Expense

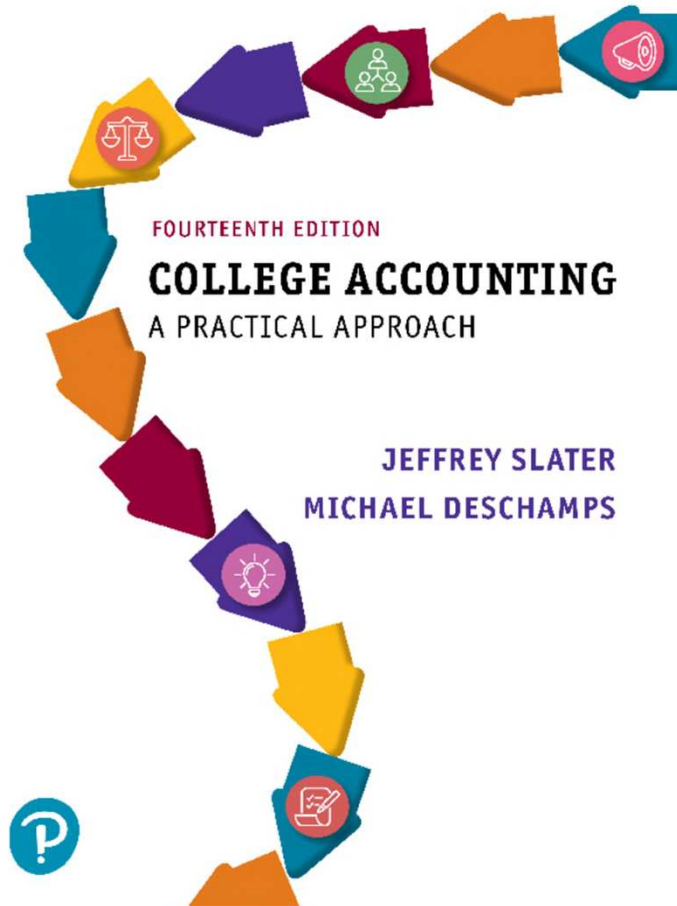
- c. Withdrawals by owner
 - d. Revenue
9. Which account is shown on the income statement?
- a. Equipment
 - b. Owner, Capital Account
 - c. Accounts Payable
 - d. Rent Expense
10. Which account is shown on the statement of owner's equity?
- a. Fees Earned
 - b. Accounts Receivable
 - c. Owner, Withdrawals
 - d. Accounts Payable

Answer Key to Chapter 2 Quiz

- 1. b
- 2. c
- 3. a
- 4. b
- 5. d
- 6. d
- 7. c
- 8. a
- 9. d
- 10. c

College Accounting: A Practical Approach

Fourteenth Edition



Chapter 2

Debits and Credits: Analyzing and Recording Business Transactions

Learning Objectives

- 2.1** Explain T Accounts and How to Foot and Balance
- 2.2** Use a Chart of Accounts to Record Transactions in T Accounts According to the Rules of Debits and Credits
- 2.3** Prepare a Trial Balance and the Financial Statements

Learning Objective 2.1

Explain T Accounts and How to Foot and Balance

Standard Account (1 of 4)

- A business transaction is recorded in the accounting equation under a specific account
- Different accounts are used for each subdivisions of the accounting equation:
 - Assets
 - Liabilities
 - Equity
 - Expenses
 - Revenues

Standard Account (2 of 4)

- Needed
 - A way to record the increases and decreases
 - In specific account categories
 - Keeping them together in one place
- Standard account
 - Formal account that includes columns for:
 - Date
 - Item
 - Posting reference
 - Debits
 - Credits

Standard Account (3 of 4)

- Accounts have a separate form
- Each form contains all transactions affecting it
- All forms kept together in a ledger (book-like)
- Each page contains one account

Standard Account (4 of 4)

Figure 2.1 The Standard Account Form Is the Source of the T Account's Shape

Account Title				Account No.			
Date	Item	PR	Debit	Date	Item	PR	Credit
Debit				Credit			

- All T accounts have this structure.
- Left side is called debit side.
- Right side is called credit side.
- Debit and credit indicates position only.

Balancing an Account

- The procedure used to balance an account is the same for all accounts

	Dr.	Cr.	
4/2	5,000	4/3	400
4/20	600	4/25	500
	5,600		900
Bal	4,700		

- Add the items listed on the left side and foot (subtotal)
- Add the items listed on the right side and foot (subtotal)
- Subtract the smaller number from the larger number
- The result is the account balance, listed on the side with the larger amount (**5,600 – 900 = 4,700**)

Learning Objective 2.2

Use a Chart of Accounts to Record Transactions in T Accounts According to the Rules of Debits and Credits

Recording Business Transactions: Debits and Credits (1 of 2)

- Learn the rules

Table 2.1 Rules of Debit and 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
Expenses	Debit	Credit

- Normal balance of an account is the side that increases

Recording Business Transactions: Debits and Credits (2 of 2)

- The rules

Assets		=	Liabilities		+	Owner's Equity										
Dr.	Cr.		Dr.	Cr.	+	Capital		-	Withdrawals		+	Revenue		-	Expenses	
+	-		-	+		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
						-	+		+	-		-	+		+	-

- Rules for withdrawals and expenses are the opposite of those for capital and revenue

Assets		+	Withdrawals		+	Expenses		=	Liabilities		+	Capital		+	Revenue	
Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
+	-		+	-		+	-		-	+		-	+		-	+

Balancing the Equation

- Amount(s) entered on the debit side of one account(s) must be on the credit side of another account(s).
- This ensures the accounting equation is in balance.
 - You can have multiple debits with one credit.
 - You can have multiple credits with one debit.
 - You can have multiple debits with multiple credits.
- Debit totals must equal credit totals.

Chart of Accounts

- A numbered list of all of the business' accounts

Table 2.2 Chart of Accounts for Jess Bora's Consulting Firm

Balance Sheet Accounts	
Assets	Liabilities
111 Cash	211 Accounts Payable
112 Accounts Receivable	Owner's Equity
121 Computer Equipment	311 Jess Bora, Capital
	312 Jess Bora, Withdrawals
Income Statement Accounts	
Revenue	Expenses
411 Consulting Fees	511 Salaries Expense
	512 Rent Expense
	513 Advertising Expense

The Transaction Analysis (1 of 2)

- The five steps to analyzing each transaction

Step 1: Determine which accounts are affected. Example: Cash, Accounts Payable, Rent Expense. A transaction always affects at least two accounts.

Step 2: Determine which categories the accounts belong to: assets, liabilities, capital, withdrawals, revenue, or expenses.

Step 3: Determine whether the accounts increase or decrease. Example: If you receive cash, that account increases.

Step 4: What do the rules of debit and credit say?

Step 5: What does the T account look like?

Place amounts into accounts either on the left or right side depending on the rules.

The Transaction Analysis (2 of 2)

- The five-step analysis from another perspective

1	2	3	4	5
Accounts Affected	Category	↓ ↑ (decrease) (increase)	Rules of Dr. and Cr.	Appearance of T Accounts

- Do not try to debit or credit an account until you go through the first three steps of the transaction analysis

Applying the Transaction Analysis (1 of 10)

- Transaction A Aug. 28: Jess Bora invests \$6,000 cash and \$200 of computer equipment in the business.

1	2	3	4	5
Accounts Affected	Category	↓↑	Rules of Dr. and Cr.	Appearance of T Accounts
Cash	Asset	↑	Dr.	Cash 111
				(A) 6,000
Computer Equipment	Asset	↑	Dr.	Computer Equipment 121
				(A) 200
Jess Bora , Capital	Capital	↑	Cr.	Jess Bora, Capital 311
				6,200 (A)

Compound Entries

- A transaction that involves more than one debit or more than one credit
- Example
 - A debit of \$6,000 to Cash and a debit of \$200 to Computer Equipment for a credit of \$6,200 to Jess Bora's Capital
- The name for this is double-entry bookkeeping.

Applying the Transaction Analysis (2 of 10)

- Transaction B Aug. 29: Computer consulting firm bought computer equipment for cash, \$500.

1	2	3	4	5
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update
Computer Equipment	Asset	↑	Dr.	Computer Equipment 121 (A) 200 (B) 500
Cash	Asset	↓	Cr.	Cash 111 (A) 6,000 500 (B)

Applying the Transaction Analysis (3 of 10)

- Transaction C Aug. 30: Bought more computer equipment on account, \$300.

1	2	3	4	5
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update
Computer Equipment	Asset	↑	Dr.	Computer Equipment 121 (A) 200 (B) 500 (C) 300
Accounts Payable	Liability	↑	Cr.	Accounts Payable 211 300 (C)

Applying the Transaction Analysis (4 of 10)

- Transaction D Sept. 1–30: Provided consulting services for cash, \$2,000.

1	2	3	4	5								
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update								
Cash	Asset	↑	Dr.	Cash 111 <table><tr><td>(A)</td><td>6,000</td><td>500</td><td>(B)</td></tr><tr><td>(D)</td><td>2,000</td><td></td><td></td></tr></table>	(A)	6,000	500	(B)	(D)	2,000		
(A)	6,000	500	(B)									
(D)	2,000											
Consulting Fees	Revenue	↑	Cr.	Consulting Fees 411 <table><tr><td></td><td></td><td>2,000</td><td>(D)</td></tr></table>			2,000	(D)				
		2,000	(D)									

Applying the Transaction Analysis (5 of 10)

- Transaction E Sept. 1–30: Provided consulting services on account, \$3,000.

1	2	3	4	5
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update
Accounts Receivable	Asset	↑	Dr.	Accounts Receivable 112
				(E) 3,000
Consulting Fees	Revenue	↑	Cr.	Consulting Fees 411
				2,000 (D)
				3,000 (E)

Applying the Transaction Analysis (6 of 10)

- Transaction F - Sept. 1–30: Received \$900 cash from clients for services rendered previously on account.

1	2	3	4	5												
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update												
Cash	Asset	↑	Dr.	Cash 111 <table><tr><td>(A)</td><td>6,000</td><td>500</td><td>(B)</td></tr><tr><td>(D)</td><td>2,000</td><td></td><td></td></tr><tr><td>(F)</td><td>900</td><td></td><td></td></tr></table>	(A)	6,000	500	(B)	(D)	2,000			(F)	900		
(A)	6,000	500	(B)													
(D)	2,000															
(F)	900															
Accounts Receivable	Asset	↓	Cr.	Accounts Receivable 112 <table><tr><td>(E)</td><td>3,000</td><td>900</td><td>(F)</td></tr></table>	(E)	3,000	900	(F)								
(E)	3,000	900	(F)													

Applying the Transaction Analysis (7 of 10)

- Transaction G Sept. 1–30: Paid Salaries Expense, \$700.

1	2	3	4	5
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update
Salaries Expense	Expense	↑	Dr.	Salaries Expense 511
				(G) 700
Cash	Asset	↓	Cr.	Cash 111
				(A) 6,000 500 (B)
				(D) 2,000 700 (G)
				(F) 900

Applying the Transaction Analysis (8 of 10)

- Transaction H Sept. 1–30: Paid Rent Expense, \$400.

1	2	3	4	5
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update
Rent Expense	Expense	↑	Dr.	Rent Expense 512
				(H) 400
Cash	Asset	↓	Cr.	Cash 111
				(A) 6,000 500 (B)
				(D) 2,000 700 (G)
				(F) 900 400 (H)

Applying the Transaction Analysis (9 of 10)

- Transaction I Sept. 1–30: Received a bill for Advertising Expense (to be paid next month), \$200.

1	2	3	4	5
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update
Advertising Expense	Expense	↑	Dr.	Advertising Expense 513
				(I) 200
Accounts Payable	Liability	↑	Cr.	Accounts Payable 211
				300 (C)
				200 (I)

Applying the Transaction Analysis (10 of 10)

- Transaction J Sept. 1–30: Bora withdrew cash for personal use, \$100.

1	2	3	4	5
Accounts Affected	Category	↓ ↑	Rules of Dr. and Cr.	T Account Update
Jess Bora, Withdrawals	Withdrawals	↑	Dr.	Jess Bora, Withdrawals 312
Cash	Asset	↓	Cr.	(J) 100 Cash 111 (A) 6,000 (D) 2,000 (F) 900 500 700 400 100 (B) (G) (H) (J)

Summary of Transactions (1 of 2)

Summary of Transactions for Jess Bora												
Assets		=	Liabilities		+	Owner's Equity						
Cash 111		=	Accounts Payable 211		+	Capital	−	Withdrawals	+	Revenue	−	Expenses
(A) 6,000	500 (B)				+	Jess Bora, Capital 311	−	Jess Bora, Withdrawals 312	+	Consulting Fees 411	−	Salaries Expense 511
(D) 2,000	700 (G)		300 (C)		+		−		+		−	
(F) 900	400 (H)		200 (I)									
	100 (J)					6,200 (A)		(J) 100		2,000 (D)		(G) 700
										3,000 (E)		
Accounts Receivable 112											−	Rent Expense 512
(E) 3,000	900 (F)											(H) 400
Computer Equipment 121											−	Advertising Expense 513
(A) 200												(I) 200
(B) 500												
(C) 300												

Summary of Transactions (2 of 2)

Cash 111

(A) 6,000

(D) 2,000

(F) 900

8,900

7,200

Accounts Payable 211

300 (C)

200 (I)

500

Footings

New Balance

Accounts Receivable 112

(E) 3,000

2,100

Computer Equipment 121

(A) 200

(B) 500

(C) 300

1,000

Capital

Jess Bora, Capital 311

6,200 (A)

Withdrawals

Jess Bora, Withdrawals 312

(J) 100

Revenue

Consulting Fees 411

2,000 (D)

3,000 (E)

5,000

Expenses

Salaries Expenses 511

(G) 700

Rent Expense 512

(H) 400

Advertising Expense 513

(I) 200

Learning Objective 2.3

- Prepare a Trial Balance and the Financial Statements

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

Figure 2.2 Trial Balance for Jess Bora's Computer Consulting Firm

JESS BORA, COMPUTER CONSULTING TRIAL BALANCE SEPTEMBER 30, 201X											
		Dr.					Cr.				
Cash		7	2	0	0	0					
Accounts Receivable		2	1	0	0	0					
Computer Equipment		1	0	0	0	0					
Accounts Payable							5	0	0	0	0
Jess Bora, Capital							6	2	0	0	0
Jess Bora, Withdrawals		1	0	0	0	0					
Consulting Fees							5	0	0	0	0
Salaries Expense		7	0	0	0	0					
Rent Expense		4	0	0	0	0					
Advertising Expense		2	0	0	0	0					
Totals		11	7	0	0	0	11	7	0	0	0

When a trial balance is complete, the total of all the debits must equal the total of all the credits.

Steps in Preparing Financial Statements from a Trial Balance

- **Income Statement:** Once the trial balance is complete, the first report to make is the income statement, which is made up of only revenue and expense.
- **Statement of Owner's Equity:** The second report to prepare is the statement of owner's equity, which shows how to calculate a new figure for capital.
- **Balance Sheet:** The third report is the balance sheet, which lists out each asset, liability, and the new figure for capital.

Figure 2.3 Steps in Preparing Financial Statements from a Trial Balance

JESS BORA, COMPUTER CONSULTING INCOME STATEMENT FOR MONTH ENDED SEPTEMBER 30, 201X									
Revenue:									
Consulting Fees								\$ 5 0 0 0 0 0	
Operating Expenses:									
Salaries Expense	\$ 7 0 0 0 0								
Rent Expense	4 0 0 0 0								
Advertising Expense	2 0 0 0 0								
Total Operating Expenses								1 3 0 0 0 0	
Net Income								\$ 3 7 0 0 0 0	

JESS BORA, COMPUTER CONSULTING TRIAL BALANCE SEPTEMBER 30, 201X									
		Dr.				Cr.			
Cash		7 2 0 0 0 0							
Accounts Receivable		2 1 0 0 0 0							
Office Equipment		1 0 0 0 0 0							
Accounts Payable						5 0 0 0 0 0			
Jess Bora, Capital						6 2 0 0 0 0			
Jess Bora, Withdrawals		1 0 0 0 0 0							
Consulting Fees						5 0 0 0 0 0			
Salaries Expense		7 0 0 0 0 0							
Rent Expense		4 0 0 0 0 0							
Advertising Expense		2 0 0 0 0 0							
Totals		11 7 0 0 0 0				11 7 0 0 0 0			

JESS BORA, COMPUTER CONSULTING STATEMENT OF OWNER'S EQUITY FOR MONTH ENDED SEPTEMBER 30, 201X									
Jess Bora, Capital									
September 1, 201X								\$ 6 2 0 0 0 0	
Net Income for September	\$ 3 7 0 0 0 0								
Less: Withdrawals									
for September	- 1 0 0 0 0 0								
Increase in Capital								3 6 0 0 0 0	
Jess Bora, Capital									
September 30, 201X								\$ 9 8 0 0 0 0	

JESS BORA, COMPUTER CONSULTING BALANCE SHEET SEPTEMBER 30, 201X									
Assets						Liabilities and Owner's Equity			
Cash	\$ 7 2 0 0 0 0					Liabilities			
Accts. Receivable	2 1 0 0 0 0					Accounts Payable	\$ 5 0 0 0 0 0		
Computer Equipm.	1 0 0 0 0 0					Owner's Equity			
						Jess Bora, Capital	9 8 0 0 0 0		
Total Assets	\$10 3 0 0 0 0					Total Liab. and Owner's Eq.	\$10 3 0 0 0 0		

Summary of the Chapter (1 of 6)

- The chart of accounts aids in locating and identifying accounts quickly.
- The rules of debit and credit only tell us on which side to place information.
 - Whether the debit or credit represents increases or decreases depends on the account category: assets, liabilities, capital, and so on.
 - Think of a business transaction as an exchange: You get something and you give or part with something.
- A transaction that involves more than one debit or more than one credit is called a **compound entry**.

Summary of the Chapter (2 of 6)

- You will notice that assets, withdrawals, and expenses increase when you put amounts on the left, or debit, side of these accounts.
- The accounting system balances because liabilities, capital, and revenue increase when you put amounts on the right, or credit, side of these accounts.
- The increase side of any account will represent its normal balance.

Summary of the Chapter (3 of 6)

- Footings are used to obtain the totals of each side of every T account that has more than one entry.
 - The **footings** are used to find the ending balance.
 - The ending balances are used to prepare a **trial balance**.
- The trial balance is not a financial statement, although it is used to prepare financial statements.
 - The trial balance lists all the accounts with their balances in the same order as they appear in the chart of accounts.

Summary of the Chapter (4 of 6)

- The trial balance is a list of ending balances of ledger accounts.
 - These balances are used to prepare the three financial reports.
- Financial reports have no debits or credits.
 - The inside columns are used to subtotal numbers.
 - Revenue and expenses go on the income statement.
 - Withdrawals and either net income or net loss go on the statement of owner's equity to calculate a new figure for capital.

Summary of the Chapter (5 of 6)

- The balance sheet is a list of assets, liabilities, and the new amount for ending capital.
- Remember that the trial balance has debit or credits, not the financial reports.
- All we are taking are the ending balances of each title from the trial balance.
- Once the trial balance is complete, the first statement to make is the income statement.
 - It is made up of only revenue and expenses.
- Remember that there are no debits or credits on financial statements.

Summary of the Chapter (6 of 6)

- For the income statement:
 - List fees as the revenue and then list the expense titles in the inside column.
 - Total operating expenses are then subtracted from the fees to arrive at a net income or a net loss.
- The second statement to prepare is the statement of owner's equity, which shows how to calculate a new figure for capital.
- The third report is the balance sheet, which lists out each asset, liability, and the new figure for capital.

Questions?

Figure 2.4 Financial Statements

4a.

MEL'S DELIVERY SERVICE INCOME STATEMENT FOR MONTH ENDED JULY 31, 201X									
Revenue:									
Delivery Fees Earned						\$	19	0	0 0 0 0
Operating Expenses:									
Advertising Expense	\$	7	0	0 0 0					
Gas Expense		1	2	5 0 0					
Salaries Expense		3	0	0 0 0					
Telephone Expense		3	0	0 0 0					
Total Operating Expenses							5	2	5 0 0 0
Net Income							\$	13	7 5 0 0 0

b.

MEL'S DELIVERY SERVICE STATEMENT OF OWNER'S EQUITY FOR MONTH ENDED JULY 31, 201X									
Mel Free, Capital									
July 1, 201X						\$	10	0	0 0 0 0
Net Income for July	\$	13	7	5 0 0 0					
Less: Withdrawals for July		-	1	5 0 0 0					
Increase in Capital						\$	13	6	0 0 0 0
Mel Free, Capital									
July 31, 201X						\$	23	6	0 0 0 0

c.

MEL'S DELIVERY SERVICE BALANCE SHEET JULY 31, 201X									
Assets					Liabilities and Owner's Equity				
Cash	\$	22	1	0 0 0 0	Liabilities				
Accounts Receivable		1	0	0 0 0 0	Accounts Payable	\$	17	7	0 0 0 0
Office Equipment		1	2	0 0 0 0					
Delivery Trucks		17	0	0 0 0 0					
					Owner's Equity				
					Mel Free, Capital		\$	23	6 0 0 0 0
					Total Liab. and				
Total Assets	\$	41	3	0 0 0 0	Owner's Equity		\$	41	3 0 0 0 0

Figure 2.5 Exercise 2A-5 p. 56

HELM'S CLEANERS TRIAL BALANCE MARCH 31, 201X									
		Dr.				Cr.			
Cash		7	5	0	0	0			
Equipment		5	0	0	0	0			
Accounts Payable							4	0	0
J. Helm, Capital							7	2	6
J. Helm, Withdrawals			5	5	0	0			
Cleaning Fees							4	6	6
Salaries Expense		1	2	5	0	0			
Utilities Expense		1	6	2	0	0			
Totals		1	5	9	2	0	0	1	5

Figure 2.6 Exercise 2B-5 p. 57

HILTON'S CLEANERS TRIAL BALANCE JANUARY 31, 201X									
		Dr.				Cr.			
Cash		7	5	0	0	0			
Equipment		5	0	0	0	0			
Accounts Payable						4	5	5	0
J. Hilton, Capital						8	6	6	0
J. Hilton, Withdrawals		2	5	0	0	0			
Cleaning Fees						4	6	0	0
Salaries Expense		1	1	0	0	0			
Utilities Expense		1	7	1	0	0			
Totals		1	7	8	1	0	0	1	7

Figure 2.7 Problem 2A-4 p. 59

GABRIELLA LEITZ, ATTORNEY-AT-LAW TRIAL BALANCE JANUARY 31, 201X											
	Account	Debit					Credit				
	Cash	7	0	0	0	0					
	Accounts Receivable	8	0	0	0	0					
	Office Equipment	5	0	0	0	0					
	Accounts Payable						2	2	0	0	0
	Salaries Payable						9	5	0	0	0
	G. Leitz, Capital						4	6	0	0	0
	G. Leitz, Withdrawals	4	0	0	0	0					
	Revenue from Legal Fees						1	6	0	0	0
	Utilities Expense	1	5	0	0	0					
	Rent Expense	3	5	0	0	0					
	Salaries Expense	1	5	0	0	0					
	Totals	9	3	5	0	0	9	3	5	0	0

Figure 2.8 Problem 2B-4 p. 61

GAIL LANTZ, ATTORNEY-AT-LAW TRIAL BALANCE JULY 31, 201X											
	Account	Dr.				Cr.					
	Cash	5	0	0	0	0	0				
	Accounts Receivable	7	5	0	0	0					
	Office Equipment	2	7	0	0	0	0				
	Accounts Payable							3	0	0	0
	Salaries Payable							1	0	0	0
	G. Lantz, Capital							4	7	0	0
	G. Lantz, Withdrawals	1	1	0	0	0	0				
	Revenue from Legal Fees							1	6	0	0
	Utilities Expense		1	0	0	0	0				
	Rent Expense		4	5	0	0	0				
	Salaries Expense		2	0	0	0	0				
	Totals	10	3	0	0	0	0	10	3	0	0

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