

2 RECORDING BUSINESS TRANSACTIONS

CONNECTING CHAPTER 2

LEARNING OBJECTIVE 1 Define and use key accounting terms

What are the key terms used when recording transactions?

The Accounting Cycle, page 60
Chart of Accounts, page 61

LEARNING OBJECTIVE 2 Apply the rules of debit and credit

How do we track changes in accounts?

Double-Entry Accounting, page 63
The T-Account
Increases and Decreases in the Accounts
Expanding the Rules of Debit and Credit: Revenues and Expenses
Normal Balance of an Account

LEARNING OBJECTIVE 3 Analyze and record transactions in the journal

How do we record business transactions?

Source Documents—The Origin of Transactions, page 67
Recording Transactions in the Journal, page 67

LEARNING OBJECTIVE 4 Post from the journal to the ledger

What is the next step after recording the transaction?

Posting (Transferring Information) from the Journal to the Ledger, page 69
Accounting for Business Transactions, page 70
The T-Accounts after Posting
Details of Journals and Ledgers

LEARNING OBJECTIVE 5 Prepare and use a trial balance

How can we check if the records are in balance?

The Trial Balance, page 80
Correcting Trial Balance Errors

MyAccountingLab The **Summary** for Chapter 2 appears on page 86. This lists all of the MyAccountingLab resources. **Accounting Vocabulary** with definitions for this chapter's material appears on page 87.



A car dealership can be found in almost every town. Some are owned by local businesspeople while others are owned by larger corporations with owners in towns far away. Guelph Toyota is a prime example of a small business that has grown to be a large company. It started in 1983 and is now owned by Barry Dohms. He bought the business in 2005 and also owns three other dealerships.

Guelph Toyota uses financial information to make its business decisions. Its owners and managers rely on the accounting system to provide them with daily and monthly financial statements to run their business. Are the managers accountants? No! They are smart businesspeople who know that they need to understand the daily and monthly revenues and expenses so that the business can survive in the short term and grow in the long term. Guelph Toyota has been around for over 30 years, so it must be doing something right!

The accounting department must provide timely information for decision making by recording transactions as they occur. Most businesses prepare financial reports on a monthly basis. Managers in this dealership get daily financial reports. The managers read them, see how their department is doing, and make changes immediately—reducing expenses and identifying opportunities—based on the statements. The result? Guelph Toyota is profitable. The company's profits are used not only to expand the business, but also to support worthwhile community programs and events. Guelph Toyota and its partners, Kiwanis Club of Guelph and Co-operators Insurance, sponsor the Guelph Police Department's VIP Program, which teaches youth about a number of personal safety issues.

This chapter shows how Guelph Toyota and other companies record their business transactions. The procedures outlined in this chapter are followed by entities ranging from giant multinational corporations like Ford Canada, to regional businesses such as Guelph Toyota, to local owner-managed businesses like Hunter Environmental Consulting.

> Chapter 1

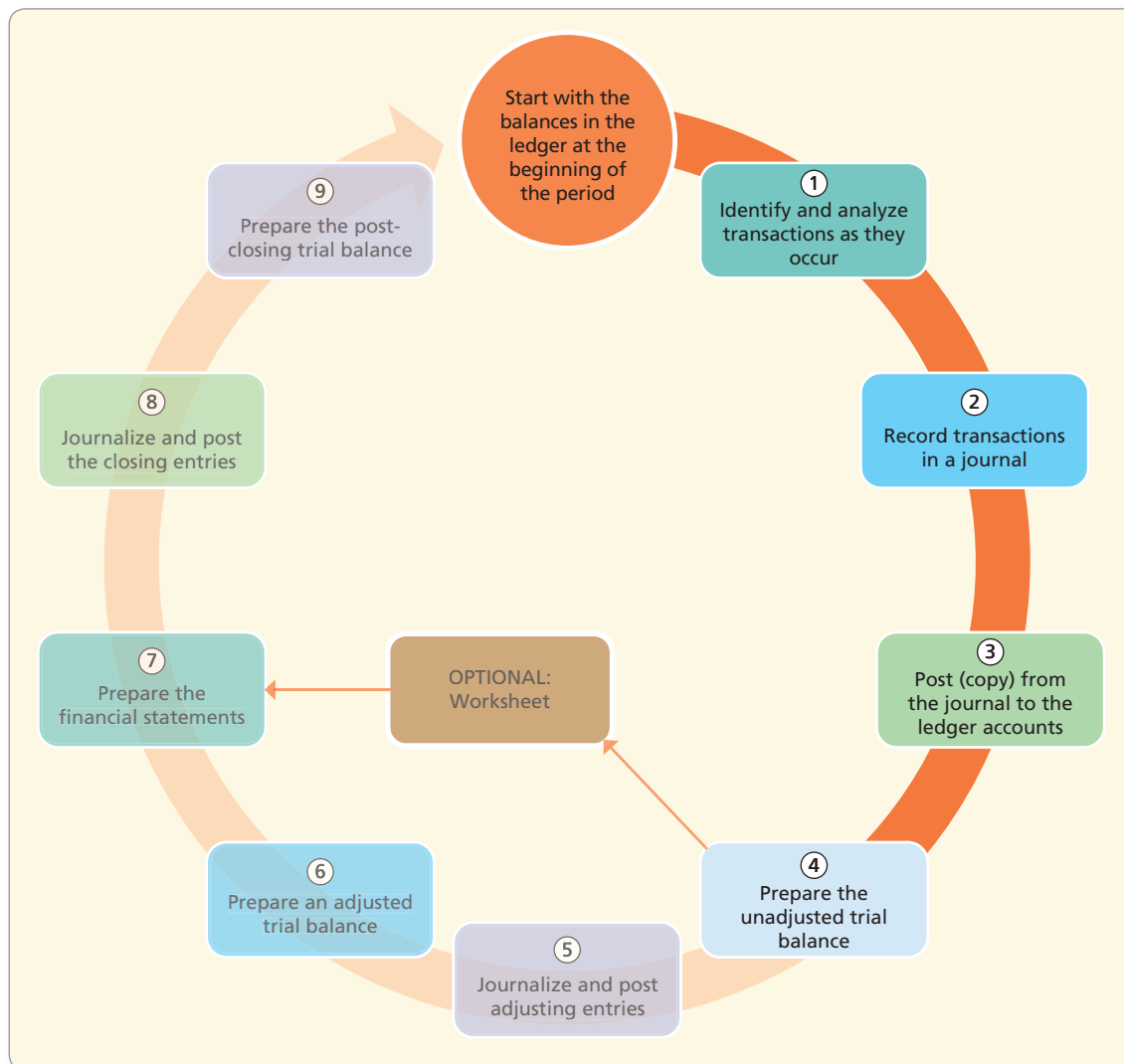
introduced transaction analysis and the financial statements by using a table based on the accounting equation to list all of the transactions. This method of tracking account balances was useful to show how accounts and statements connect, but there are too many transactions in a typical business to record information this way. In this chapter we will look at the way bookkeeping is done in the real world. First we look at the entire process and then we will go back and do it step by step.

THE ACCOUNTING CYCLE

LO 1
What are the key terms used when recording transactions?

The **accounting cycle** is the formal process by which companies produce their financial statements and update their financial records for a specific period of time. Exhibit 2-1 outlines the complete accounting cycle. In this chapter, we will look at steps 1 through 4, which represent what is done *during* the **accounting period**. The next two chapters will introduce the last steps in the cycle, which are done *at the end* of the period.

EXHIBIT 2-1 | The Accounting Cycle



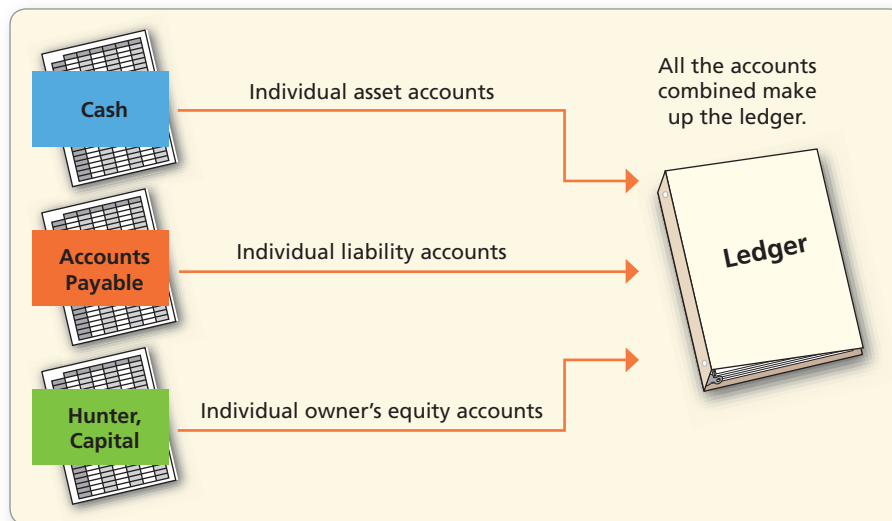
START Recall that the basic summary device of accounting is the account, which is the detailed record of the changes that have occurred in a particular asset, liability, or item of owner's equity during a period of time. Business transactions cause these changes.

For a new business, the cycle begins with setting up (opening) the ledger accounts. Lisa Hunter started Hunter Environmental Consulting (HEC) on April 2, 2016, so the first step in the cycle was to plan and open the accounts.

Account balances carry over from period to period until the accounting cycle is complete, for example, at the end of one year. Therefore, the accounting cycle usually starts with the account balances at the beginning of the period.

- 1 Our first step is to analyze the transaction to identify changes in accounts.
- 2 Accountants record transactions first in a **journal**, which is the chronological record of transactions.
- 3 Accountants then copy (post) the data to a record of all the accounts called the **ledger**. (One way to think of a ledger is as a binder, with each page in the binder representing one account.) In the phrase "keeping the books," *books* refers to the ledger. Exhibit 2-2 shows how asset, liability, and owner's equity accounts can be grouped into the ledger.

EXHIBIT 2-2 | The Ledger (Asset, Liability, and Owner's Equity Accounts)



- 4 Then a list of all the ledger accounts and their balances is prepared. This is called a **trial balance**, or more precisely, an unadjusted trial balance at this stage.

CHART OF ACCOUNTS

Companies use a **chart of accounts** to list all their accounts. This is just a list and not a financial statement. In many cases, the account names are listed along with the account numbers. Account numbers are just shorthand versions of the account names. One number equals one account name—just like your social insurance number is unique to you. This numbering system makes it easy to locate individual accounts in the ledger and to key in entries in an accounting software program.

Accounts are identified by account numbers with two or more digits. Assets are often numbered beginning with 1, liabilities with 2, owner's equity with 3, revenues with 4, and expenses with 5. The second, third, and higher digits in an account number indicate the position of the individual account within the category.

The chart of accounts for Hunter Environmental Consulting appears in Exhibit 2-3. Notice the gap in account numbers between 1200 and 1400. Lisa Hunter realizes that at some later date the business may need to add another category of



LEARNING TIPS

It would be helpful to make your own list of accounts as you learn new account names.

EXHIBIT 2-3 | Chart of Accounts—Hunter Environmental Consulting



REAL WORLD EXAMPLE

Companies do not need to use the numbering system illustrated here. They can develop any system that makes sense to them. For example, a Ford dealership uses account 7630 for Parts Department Advertising Expense and a General Motors dealership uses account number 065-07 for the exact same expense.

| Balance Sheet Accounts | | |
|---|-----------------------|-------------------------------|
| Assets | Liabilities | Owner's Equity |
| 1100 Cash | 2100 Accounts Payable | 3000 Lisa Hunter, Capital |
| 1200 Accounts Receivable | 2300 Notes Payable | 3100 Lisa Hunter, Withdrawals |
| 1400 Office Supplies | | |
| 1500 Furniture | | |
| 1900 Land | | |
| Income Statement Accounts (part of Owner's Equity) | | |
| | Revenues | Expenses |
| | 4000 Service Revenue | 5100 Rent Expense |
| | | 5200 Salaries Expense |
| | | 5300 Utilities Expense |

receivables—for example, Notes Receivable—to be numbered 1210. This company chose to use a four-digit numbering system. However, each company chooses its own account numbering system.

The expense accounts are listed in alphabetical order throughout this chapter. Many businesses follow such a scheme for their records and financial statements. Computer programs list accounts alphabetically or by account number. Other systems of ordering are by size or by type (e.g., listing selling costs then listing administrative costs).

> Try It!

1. Indicate whether each account listed below is a(n) asset (A), liability (L), owner's equity (OE), revenue (R), or expense (E) account.

| | | | |
|--------------------|-------|------------------------|-------|
| Salary Payable | _____ | Salary Expense | _____ |
| Land | _____ | Rent Revenue | _____ |
| L. Graham, Capital | _____ | Computer Equipment | _____ |
| Rent Expense | _____ | Notes Payable | _____ |
| Supplies | _____ | Prepaid Rent | _____ |
| Accounts Payable | _____ | L. Graham, Withdrawals | _____ |

2. Create a chart of accounts by matching each of the following account names with an appropriate account number. Assume this company uses a system similar to that described in the chapter, with asset numbers beginning with 1 and expense numbers beginning with 5.

| | |
|------------------------|-------|
| Accounts Payable | 30200 |
| Rent Expense | 10100 |
| Furniture and Fixtures | 50600 |
| Service Revenue | 20100 |
| L. Starks, Capital | 40100 |
| Accounts Receivable | 10400 |
| Cash | 30100 |
| Income Taxes Payable | 20500 |
| L. Starks, Withdrawals | 10200 |

Solutions appear at the end of this chapter and on [MyAccountingLab](#)

DOUBLE-ENTRY ACCOUNTING

Accounting uses the *double-entry system*, which means that we record the dual, or two, effects of each transaction. As a result, *every transaction affects at least two accounts*.

Consider a cash purchase of supplies. What are the dual effects of this transaction? A cash purchase of supplies:

1. Increases supplies (the business *received* supplies)
2. Decreases cash (the business *gave* cash)

Similarly, a credit purchase of a truck (a purchase made with a bank loan):

1. Increases vehicles (the business *received* the truck)
2. Increases the bank loan payable (the business *gave* a promise to pay in the future)

The T-Account

The form of account used for most illustrations in this book is called the *T-account* because it takes the form of the capital letter “T.”

The vertical line divides the account into its left and right sides, with the account title at the top. For example, the Cash account appears in the following T-account format:

| | |
|--------------------|---------------------|
| Cash | |
| (Left side) | (Right side) |
| <i>Debit</i> | <i>Credit</i> |

The left side of the account is called the **debit** side, and the right side is called the **credit** side.

Even though *left side* and *right side* may be more convenient, *debit* and *credit* are what they are called in a business environment.¹ Debit and credit are abbreviated as follows:

| | |
|------------|-------------|
| Dr = Debit | Cr = Credit |
|------------|-------------|

Increases and Decreases in the Accounts

The type of an account (asset, liability, owner’s equity) determines how we record increases and decreases. For any given type of account, all increases are recorded on one side, and all decreases are recorded on the other side. Increases in *assets* are recorded in the left (debit) side of the account. Decreases in assets are recorded in the right (credit) side of the account. Conversely, increases in liabilities and owner’s equity are recorded by *credits*. Decreases in liabilities and owner’s equity

LO 2

How do we track changes in accounts?

One way to think about this is to remember the old adage... “you don’t get something for nothing.” In accounting, money does not just appear and goods are not received without payment. There are always at least two sides to each transaction.



KEY POINTS

A T-account is a quick way to show the effect of transactions on a particular account—a useful shortcut or tool used in accounting. T-accounts are *not* part of the formal accounting records.

Debits are not “good” or “bad.” Neither are credits. Debits are not always increases and credits are not always decreases. Debit simply means left side, and credit means right side.

¹ The words *debit* and *credit* abbreviate the Latin terms *debitum* and *creditum*. Luca Pacioli, the Italian monk who wrote about accounting in the 15th century, used these terms.

are recorded by *debits*. These are the *rules of debit and credit* and can be summarized as follows:

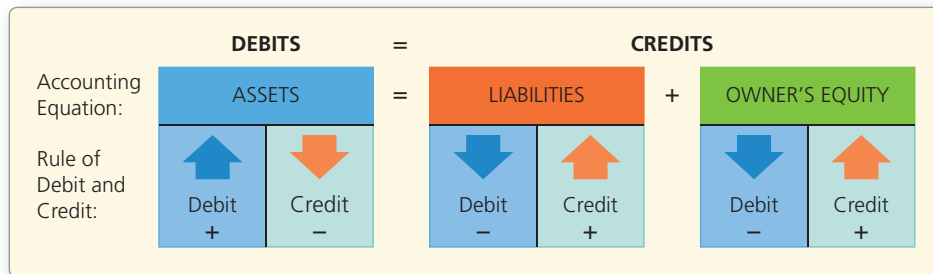
| Assets | | Liabilities and Owner's Equity | |
|------------------|-------------------|--------------------------------|-------------------|
| Increase = Debit | Decrease = Credit | Decrease = Debit | Increase = Credit |

This pattern of recording debits and credits is based on the accounting equation:

ASSETS = LIABILITIES + OWNER'S EQUITY
DEBITS = CREDITS

Assets are on the opposite side of the accounting equation from liabilities and owner's equity. Therefore, increases and decreases in assets are recorded in the opposite manner from increases and decreases in liabilities and owner's equity. Liabilities and owner's equity are on the same side of the equal sign, so they are treated in the same way. Exhibit 2-4 shows the relationship between the accounting equation and the rules of debit and credit.

EXHIBIT 2-4 | The Accounting Equation and the Rules of Debit and Credit (The Effects of Debits and Credits on Assets, Liabilities, and Owner's Equity)



REAL WORLD EXAMPLE

In a computerized accounting system, the software interprets debits and credits as increases or decreases based on the account type that is programmed into it. For example, software reads a debit to Cash as an increase because it is an asset account, and it reads a debit to Accounts Payable as a decrease because it is a liability account.

KEY POINTS

In each transaction, total debits must equal total credits.

To demonstrate the rules shown in Exhibit 2-4, reconsider Transactions 1 and 2 from Chapter 1 on pages 15-16. In Transaction 1, Lisa Hunter invested \$250,000 cash to begin her environmental consulting firm. The company received \$250,000 cash from Hunter and gave her the owner's equity. We are accounting for the business entity, Hunter Environmental Consulting (HEC). What accounts of HEC are affected? By what amounts? On what side (debit or credit)? The answer is that assets and owner's equity would increase by \$250,000, as the following T-accounts show:

| ASSETS | | = | LIABILITIES + OWNER'S EQUITY | |
|-----------------------------|--|---|------------------------------|--|
| Cash | | | Lisa Hunter, Capital | |
| Debit for increase, 250,000 | | | Credit for increase, 250,000 | |

The amount remaining in an account is called its *balance*. Transaction 1 gives Cash a \$250,000 debit balance and Lisa Hunter, Capital a \$250,000 credit balance.

Transaction 2 is a \$100,000 cash purchase of land. This transaction affects two assets: Cash and Land. It decreases (credits) Cash and increases (debits) Land, as shown in the T-accounts:

| ASSETS | | = LIABILITIES + OWNER'S EQUITY | |
|-----------------------------|------------------------------|--------------------------------|-----------------|
| Cash | | Lisa Hunter, Capital | |
| Balance 250,000 | Credit for decrease, 100,000 | | Balance 250,000 |
| Balance 150,000 | | | |
| Land | | | |
| Debit for increase, 100,000 | | | |
| Balance 100,000 | | | |

After this transaction, Cash has a \$150,000 debit balance (\$250,000 debit balance from the previous transaction reduced by the \$100,000 credit amount), Land has a debit balance of \$100,000, and Lisa Hunter, Capital has a \$250,000 credit balance, as shown in the section of Exhibit 2–5 labelled Transaction 2. Notice that the debits still equal the credits, but there are now two accounts on the left side.

EXHIBIT 2-5 | Debits and Credits for the First Two Transactions of Hunter Environmental Consulting

| Transaction 1 | | Transaction 2 | |
|---|-----------------------------------|--------------------------------------|-----------------------------------|
| Received \$250,000 cash that the owner invested in the business | | Paid \$100,000 cash to purchase land | |
| DEBITS | CREDITS | DEBITS | CREDITS |
| Cash \$250,000 | Lisa Hunter, Capital \$250,000 | Cash \$150,000 | Lisa Hunter, Capital \$250,000 |
| | | Land \$100,000 | |

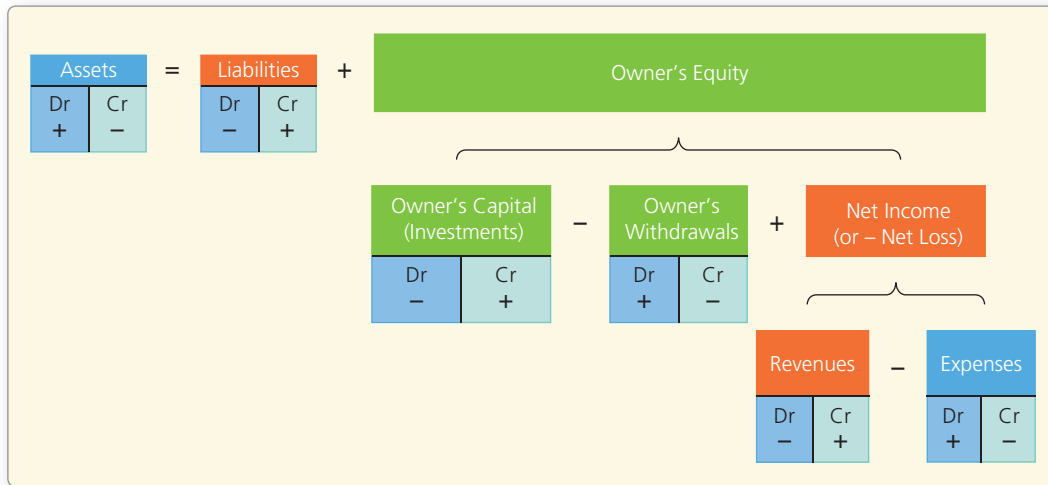
We create accounts as they are needed. The process of creating a new account in preparation for recording a transaction is called *opening the account*. For Transaction 1, we opened the Cash account and the Lisa Hunter, Capital account. For Transaction 2, we opened the Land account.

Expanding the Rules of Debit and Credit: Revenues and Expenses

Owner's equity includes revenues and expenses because revenues and expenses make up net income or net loss, which flows into owner's equity. As we discussed in Chapter 1, *revenues* are increases in owner's equity from providing goods and

services to customers. *Expenses* are decreases in owner's equity from using assets or increasing liabilities in the course of operating the business. Therefore, we must expand the accounting equation as we did in Exhibit 1–10 (page 15). Exhibit 2–6 shows revenues and expenses under equity because they directly affect owner's equity.

EXHIBIT 2–6 | Expanded Accounting Equation



Normal Balance of an Account

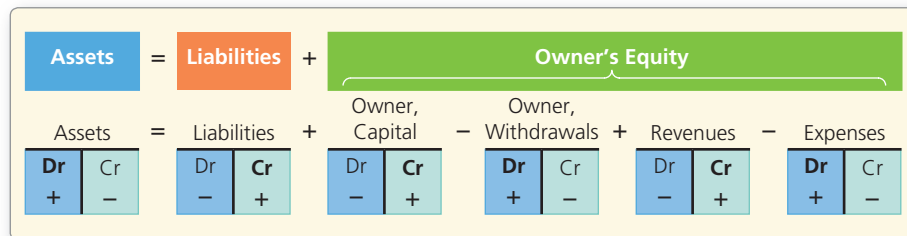
An account's **normal balance** appears on the side of the account—debit or credit—where *increases* are recorded. For example, Cash and other assets usually have a debit balance, so the normal balance of assets is on the debit side. Conversely, liabilities and owner's equity usually have a credit balance, so their normal balances are on the credit side. Exhibit 2–7 illustrates the normal balances by highlighting the side where the balance is increased.

One way to memorize this is to use an acronym, such as AWE RDL. In this case, the (A)sset, (W)ithdrawal, and (E)xpense accounts all have debit balances, while the (R)evenue, (D)wner's Equity, and (L)iability accounts all have credit balances.

Or memorize which side has the "+" (increase), and then all the "-" (decreases) are the opposite. This way you only have to memorize half of them!

Try DR. AWE—the debits (dr) belong with the (A)sset, (W)ithdrawal, and (E)xpense accounts.

EXHIBIT 2–7 | Final Rules of Debit and Credit



An account that normally has a debit balance may occasionally have a credit balance, which indicates a negative amount of the item. For example, Cash will have a credit balance if the entity **overdraws** its bank account. Similarly, the liability Accounts Payable—normally a credit balance account—will have a debit balance if the entity overpays its accounts payable. In other instances, the shift of a balance amount away from its normal column may indicate an accounting error. For example, a credit balance in Office Supplies, Furniture, or Buildings is an error because negative amounts of these assets cannot exist.

> Try It!

3. Indicate whether each account listed below is a(n) asset (A), liability (L), owner's equity (OE), revenue (R), or expense (E) account. Next to each answer, indicate whether the account's normal balance is a debit (Dr) or a credit (Cr).

| | | | |
|-------------------------|----------|---------------------|----------|
| Accounts Payable | ___; ___ | Cash | ___; ___ |
| Service Revenue | ___; ___ | Rent Expense | ___; ___ |
| K. Lockyer, Withdrawals | ___; ___ | Vehicles | ___; ___ |
| Rent Revenue | ___; ___ | Notes Payable | ___; ___ |
| Accounts Receivable | ___; ___ | Land | ___; ___ |
| Insurance Expense | ___; ___ | K. Lockyer, Capital | ___; ___ |

4. a. Indicate on which side of these accounts—debit (Dr) or credit (Cr)—you would record an increase.

| | |
|----------------------------|------------------------|
| _____ Accounts Receivable | _____ Salary Expense |
| _____ John Ladner, Capital | _____ Interest Payable |
| _____ Service Revenue | _____ Furniture |

- b. Indicate on which side of these accounts—debit (Dr) or credit (Cr)—you would record a decrease.

| | |
|--------------------------|--------------------------|
| _____ Notes Payable | _____ Land |
| _____ Cash | _____ Accounts Payable |
| _____ Income Tax Payable | _____ Income Tax Expense |

Solutions appear at the end of this chapter and on [MyAccountingLab](#)

SOURCE DOCUMENTS—THE ORIGIN OF TRANSACTIONS

Accounting data come from **source documents**, which are the evidence of a transaction. For example, when Hunter Environmental Consulting (HEC) receives cash or a cheque, it deposits the money into its bank account. The **bank deposit slip** is the document that shows the amount of money received by the business and deposited in its bank account. Based on this document, the company can record this transaction in the accounting records.

Other source documents that businesses use include:

- **Purchase invoice:** A document that tells the business how much to pay and when to pay the vendor.
- **Bank cheque:** A document that tells the amount and the date of cash payments.
- **Sales invoice:** A document sent to the customer when a business sells goods or services and tells the business how much revenue to record.

LO 3

How do we record business transactions?

RECORDING TRANSACTIONS IN THE JOURNAL

We could record all transactions directly in the ledger accounts, as we have shown for the first two HEC transactions. However, that way of accounting does not leave a clear record of each transaction. You may have to search through all the accounts to find both sides of a particular transaction. To stay organized and keep all information about a transaction in one place, accountants first keep a record of each transaction in a *journal*, the chronological (listed by date) record of the entity's transactions. They then transfer this information from the journal into the accounts.

The process for thinking through how to write a journal entry is as follows:

- Transaction:* Identify the transactions from source documents.
- Analysis:* Identify each account affected by the transaction and its type (asset, liability, owner's equity, revenue, or expense). Determine whether each account is increased or decreased by the transaction. Using the rules of debit and credit, determine whether to debit or credit the account to record its increase or decrease.
- Accounting Equation:* Verify that the increases and decreases result in an accounting equation that is still in balance.
- Journal Entry:* Record the transaction in the journal, as explained in Exhibit 2–8. Total debits must always equal total credits. This step is also called “making the journal entry” or “journalizing the transaction.”

EXHIBIT 2–8 | The Journal

| Journal | | | Page 1 | |
|---------|---|---------|---------|--|
| Date | Account Titles and Explanation | Debit | Credit | |
| 2016 | | | | |
| Apr. 2 | Cash | 250,000 | | |
| | Lisa Hunter, Capital | | 250,000 | |
| | Received initial investment from owner. | | | |

Callouts:

- Date of the transaction (points to Apr. 2)
- Debit account name and dollar amount. Debits are always listed first. (points to Cash 250,000)
- Brief explanation (points to Received initial investment from owner.)
- Credit account name and dollar amount. The credit account name is indented. (points to Lisa Hunter, Capital 250,000)
- Dollar signs are omitted in the money columns because it is understood that the amounts are in dollars. (points to 250,000 in both debit and credit columns)

Regardless of the accounting system in use—computerized or manual—an accountant must analyze every business transaction in the manner we are presenting in these opening chapters. Accounting software performs the same actions as accountants do in a manual system. For example, when a sales clerk swipes your VISA card through the credit card reader, the accounting system records both the store’s sales revenue and the receivable from VISA. The software automatically records the transaction as a journal entry, but an accountant had to program the computer to do so. A computer’s ability to perform routine tasks and mathematical operations quickly and without error frees accountants for decision making.

MyAccountingLab

Video: Journalizing Transactions
Video: Operating Activities and Their Impact on the Accounting Equation
Video: Financing and Investing Activities and Their Impact on the Accounting Equation

> Try It!

- For each of the following transactions, select the source document that provides the best evidence of the transaction. Choose from these source documents: bank deposit slip, bank cheque, invoice received from a vendor, or invoice sent to a customer.
 - A company purchases supplies on account.
 - A company pays for the supplies it purchased in Transaction a.

- c. A company performs services on account for a college.
 - d. The college pays the company for the services performed in Transaction c.
 - e. A customer pays the company immediately for services performed.
 - f. The company hires a student to provide office support during the summer.
6. Analyze the following transactions of Peterson Engineering in the manner shown for the September 1 transaction.
- Sep. 1 Paid monthly utilities expense of \$140.
(Analysis: The expense for utilities is increased; therefore, debit Utilities Expense. The asset, cash, is decreased; therefore, credit Cash.)
 - 4 Borrowed \$10,000 cash, signing a note payable.
 - 8 Performed service on account for a customer, \$3,000.
 - 12 Purchased equipment on account, \$2,000.
 - 24 Purchased supplies for \$600 and paid cash.
 - 27 Paid the liability created on September 12.

Solutions appear at the end of this chapter and on [MyAccountingLab](#)

POSTING (TRANSFERRING INFORMATION) FROM THE JOURNAL TO THE LEDGER

Journalizing a transaction records the data only in the journal—but not in the ledger. Remember, the ledger tracks all transactions related to an account. To appear in the ledger, the data must be copied or transferred there. The process of transferring data from the journal to the ledger is called **posting**.

Posting really just means *copying* a debit in the journal to a debit in the ledger and a credit in the journal to a credit in the ledger. The first transaction of Hunter Environmental Consulting is posted to the ledger as shown in Exhibit 2–9. Here we are using a T-account as a short form for a ledger. In Exhibit 2–11 we illustrate posting the same transaction in a three-column ledger, which is used in formal accounting records.

LO 4

What is the next step after recording the transaction?

EXHIBIT 2-9 | Making a Journal Entry and Posting to the Ledger

Panel A – Journal Entry

| Journal | | | | Page 1 |
|---------|---|------------|---------|---------|
| Date | Account Titles and Explanation | Post. Ref. | Debit | Credit |
| 2016 | | | | |
| Apr. 2 | Cash | | 250,000 | |
| | Lisa Hunter, Capital | | | 250,000 |
| | Received initial investment from owner. | | | |

Panel B – Posting to the Ledger

| Cash | | Lisa Hunter, Capital | |
|------|---------|----------------------|---------|
| (1) | 250,000 | (1) | 250,000 |

ACCOUNTING FOR BUSINESS TRANSACTIONS

So, to recap, steps ① – ③ of the accounting cycle are as follows:

- ① Identify and analyze transactions as they occur.
- ② Record transactions in a journal.
- ③ Post (copy) from the journal to the ledger accounts.

In the pages that follow, we record the transactions of Hunter Environmental Consulting (HEC) from Chapter 1. Keep in mind that we are accounting for the business entity and not recording Lisa Hunter's personal transactions.

We temporarily ignore the date of each transaction in order to focus on the accounts and their dollar amounts. We will also post the transactions to T-accounts instead of ledger accounts for the same reason.

1. Transaction: Lisa Hunter invested \$250,000 cash to begin her environmental consulting business, Hunter Environmental Consulting. The money was deposited in the company's bank account, as shown by the following deposit slip:

| CREDIT ACCOUNT OF: HUNTER ENVIRONMENTAL CONSULTING 10300 004 06000303600 | | | | BUSINESS ACCOUNT DEPOSIT SLIP BANK OF THE PEOPLE SHOPPING CONCOURSE BRANCH VANCOUVER, BC Y2R 2X1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-------------------|----------|----------|--|--------|------|------|-------|---------------|---------|---|---|------|-------------------|----------|----------|---|------|---|--|--|--|------|---|--|--|--|-------|---|--|--|--|------------|---|--|--|--|------------|---|--|--|--|-------------|---|--|--|--|-------------|---|--|--|--|-----------------|----|--|--|---|--|----|--|--|--|--|----|--|--|--|--|----|--|--|--|--|------------------------|-------------------|----------|----------|--|--|--|--|--|------------|---------|----|----|
| DATE <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 25%;">DAY</th> <th style="width: 25%;">MONTH</th> <th style="width: 25%;">YEAR</th> <th style="width: 25%;"></th> </tr> <tr> <td style="text-align: center;">02</td> <td style="text-align: center;">04</td> <td style="text-align: center;">16</td> <td></td> </tr> </table> | | | | DAY | MONTH | YEAR | | 02 | 04 | 16 | | CREDIT ACCOUNT OF: HUNTER ENVIRONMENTAL CONSULTING 10300 004 06000303600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DAY | MONTH | YEAR | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 02 | 04 | 16 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LIST OF CHEQUES CHEQUE IDENTIFICATION | | | | DATE <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 25%;">DAY</th> <th style="width: 25%;">MONTH</th> <th style="width: 25%;">YEAR</th> <th style="width: 25%;"></th> </tr> <tr> <td style="text-align: center;">02</td> <td style="text-align: center;">04</td> <td style="text-align: center;">16</td> <td></td> </tr> </table> | | | | DAY | MONTH | YEAR | | 02 | 04 | 16 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DAY | MONTH | YEAR | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 02 | 04 | 16 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 30%;">CHEQUE IDENTIFICATION</th> <th style="width: 15%;">AMOUNT</th> <th style="width: 15%;">TENS</th> <th style="width: 15%;">ONES</th> <th style="width: 15%;">CENTS</th> </tr> <tr> <td>1 Lisa Hunter</td> <td style="text-align: right;">250,000</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td></td> </tr> <tr><td>2</td><td></td><td></td><td></td><td></td></tr> <tr><td>3</td><td></td><td></td><td></td><td></td></tr> <tr><td>4</td><td></td><td></td><td></td><td></td></tr> <tr><td>5</td><td></td><td></td><td></td><td></td></tr> <tr><td>6</td><td></td><td></td><td></td><td></td></tr> <tr><td>7</td><td></td><td></td><td></td><td></td></tr> <tr><td>8</td><td></td><td></td><td></td><td></td></tr> <tr><td>9</td><td></td><td></td><td></td><td></td></tr> <tr><td>10</td><td></td><td></td><td></td><td></td></tr> <tr><td>11</td><td></td><td></td><td></td><td></td></tr> <tr><td>12</td><td></td><td></td><td></td><td></td></tr> <tr><td>13</td><td></td><td></td><td></td><td></td></tr> <tr> <td>CHEQUE SUBTOTAL</td> <td style="text-align: right;">\$ 250,000</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td></td> </tr> </table> | | | | CHEQUE IDENTIFICATION | AMOUNT | TENS | ONES | CENTS | 1 Lisa Hunter | 250,000 | 0 | 0 | | 2 | | | | | 3 | | | | | 4 | | | | | 5 | | | | | 6 | | | | | 7 | | | | | 8 | | | | | 9 | | | | | 10 | | | | | 11 | | | | | 12 | | | | | 13 | | | | | CHEQUE SUBTOTAL | \$ 250,000 | 0 | 0 | | INITIALS <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 50%;">DEPOSITORS</th> <th style="width: 50%;">TELLERS</th> </tr> <tr> <td style="text-align: center;">LH</td> <td style="text-align: center;">SM</td> </tr> </table> | | | | DEPOSITORS | TELLERS | LH | SM |
| CHEQUE IDENTIFICATION | AMOUNT | TENS | ONES | CENTS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 Lisa Hunter | 250,000 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| 9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CHEQUE SUBTOTAL | \$ 250,000 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DEPOSITORS | TELLERS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| LH | SM | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CASH COUNT | | | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">× 5</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr><td>× 10</td><td></td><td></td><td></td><td></td></tr> <tr><td>× 20</td><td></td><td></td><td></td><td></td></tr> <tr><td>× 50</td><td></td><td></td><td></td><td></td></tr> <tr><td>× 100</td><td></td><td></td><td></td><td></td></tr> <tr><td>× \$2 COIN</td><td></td><td></td><td></td><td></td></tr> <tr><td>× \$1 COIN</td><td></td><td></td><td></td><td></td></tr> <tr> <td>COIN</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>CASH</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>SUBTOTAL</td> <td></td> <td></td> <td></td> <td style="text-align: right;">0</td> </tr> </table> | | | | × 5 | | | | | × 10 | | | | | × 20 | | | | | × 50 | | | | | × 100 | | | | | × \$2 COIN | | | | | × \$1 COIN | | | | | COIN | | | | | CASH | | | | | SUBTOTAL | | | | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| × 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| × 10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| × 50 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| × 100 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| × \$2 COIN | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| × \$1 COIN | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| COIN | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CASH | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SUBTOTAL | | | | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DEPOSIT ENTER CREDIT CARD VOUCHER TOTAL | | | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">0</td> </tr> </table> | | | | | | | | | | | | | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| CASH SUBTOTAL | | | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">0</td> </tr> </table> | | | | | | | | | | | | | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| CHEQUE SUBTOTAL | | | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td style="text-align: right;">250,000</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td></td> </tr> </table> | | | | | | | | | | 250,000 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| | 250,000 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DEPOSIT TOTAL | | | | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td style="text-align: right;">\$ 250,000</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td></td> </tr> </table> | | | | | | | | | | \$ 250,000 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| | \$ 250,000 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Analysis: Hunter's investment in Hunter Environmental Consulting increased its asset cash; to record this increase, debit Cash. The investment also increased its owner's equity; to record this increase, credit Lisa Hunter, Capital.

| | | | | | |
|-----------------------------|----------|---|-------------|---|----------------------|
| <i>Accounting Equation:</i> | ASSETS | = | LIABILITIES | + | OWNER'S EQUITY |
| | Cash | | | | Lisa Hunter, Capital |
| | +250,000 | = | 0 | + | 250,000 |



LEARNING TIPS

Don't forget!

The journal entry records the same information that you learned by using the accounting equation in Chapter 1. Both accounts—Cash and Lisa Hunter, Capital—increased because the business received \$250,000 cash and gave Hunter \$250,000 of capital (owner's equity) in the business.

| | | | |
|-------------------------|---|---------|-----------------------------|
| <i>Journal Entry:</i> | Cash..... | 250,000 | |
| | Lisa Hunter, Capital..... | | 250,000 |
| | Received initial investment from owner. | | |
| <i>Ledger Accounts:</i> | Cash | | Lisa Hunter, Capital |
| | (1) 250,000 | | (1) 250,000 |

| Assets | |
|--------------------|----|
| Dr | Cr |
| + | - |
| Liabilities | |
| Dr | Cr |
| - | + |
| Owner, Capital | |
| Dr | Cr |
| - | + |
| Owner, Withdrawals | |
| Dr | Cr |
| + | - |
| Revenues | |
| Dr | Cr |
| - | + |
| Expenses | |
| Dr | Cr |
| + | - |

2. Transaction: Hunter Environmental Consulting paid \$100,000 cash for land as a future office location.

Analysis: The purchase decreased cash; therefore, credit Cash. The purchase increased the entity's asset, land; to record this increase, debit Land.

| | | | | | |
|-----------------------------|-------------------|---|-------------|---|----------------|
| <i>Accounting Equation:</i> | ASSETS | = | LIABILITIES | + | OWNER'S EQUITY |
| | Cash Land | | | | |
| | -100,000 +100,000 | = | 0 | + | 0 |

This transaction increased one asset, land, and decreased another asset, cash. The net effect on the business's total assets was zero, and there was no effect on liabilities or owner's equity. We use the term *net* in business to mean an amount after a subtraction.

| | | | |
|-------------------------|---------------------|-------------|-------------|
| <i>Journal Entry:</i> | Land | 100,000 | |
| | Cash..... | | 100,000 |
| | Paid cash for land. | | |
| <i>Ledger Accounts:</i> | Cash | | Land |
| | (1) 250,000 | (2) 100,000 | (2) 100,000 |

3. Transaction: The business purchased office supplies for \$7,000 on account, as shown by the purchase invoice on the next page.

Analysis: The purchase of office supplies increased this asset, so we debit Office Supplies. The purchase was *on account*, so it also increased a liability; to record this increase, credit Accounts Payable.

| | | | | | |
|-----------------------------|-----------------|---|------------------|---|----------------|
| <i>Accounting Equation:</i> | ASSETS | = | LIABILITIES | + | OWNER'S EQUITY |
| | Office Supplies | | Accounts Payable | | |
| | +7,000 | = | +7,000 | + | 0 |

INVOICE (purchase)

**WHOLESALE OFFICE SUPPLY
500 HENDERSON ROAD
VANCOUVER, BC**

Date: April 3, 2016 Invoice No: 9623
 Terms: 30 days
 Sold to: **Hunter Environmental Consulting
281 Wave Avenue
Vancouver, BC V6R 9C8**

| Quantity | Item | Price | Total |
|--------------------------|----------------|-------|-------------------|
| 580 | Laser paper | \$10 | \$5,800.00 |
| 80 | Desk calendars | 15 | 1,200.00 |
| Total amount due: | | | \$7,000.00 |

| | | | |
|-------------------------|---------------------------------------|-------|-------------------------|
| <i>Journal Entry:</i> | Office Supplies | 7,000 | |
| | Accounts Payable..... | | 7,000 |
| | Purchased office supplies on account. | | |
| <i>Ledger Accounts:</i> | Office Supplies | | Accounts Payable |
| | (3) 7,000 | | (3) 7,000 |

4. Transaction: The business provided environmental consulting services for clients and received \$30,000 cash. The source document is Hunter Environmental Consulting's sales invoice shown below. There would also be a deposit slip like the one on page 70.

INVOICE (sale)

**Hunter Environmental Consulting
281 Wave Avenue
Vancouver, BC V2R 9C8**

Date: April 8, 2016
 Sold to: **Allied Energy Corporation
325 Brooks Street
Vancouver, BC**

Invoice No: **0001**
 Service: 1000 DVD0503 service for all locations

PAID

Total amount due: \$30,000

All accounts are due and payable within 30 days.

Analysis: The asset, cash, is increased; therefore, debit Cash. The revenue account, service revenue, is increased; credit Service Revenue.

| | | | | | |
|-----------------------------|---------|---|-------------|---|-----------------|
| <i>Accounting Equation:</i> | ASSETS | = | LIABILITIES | + | OWNER'S EQUITY |
| | Cash | | | + | REVENUES |
| | +30,000 | = | 0 | + | Service Revenue |
| | | | | | 30,000 |

Journal Entry:

| | |
|--------------------------------------|--------|
| Cash..... | 30,000 |
| Service Revenue..... | 30,000 |
| Performed service and received cash. | |

| | | | | |
|-------------------------|-------------|-------------|------------------------|--|
| <i>Ledger Accounts:</i> | Cash | | Service Revenue | |
| | (1) 250,000 | (2) 100,000 | (4) 30,000 | |
| | (4) 30,000 | | | |

5. Transaction: The business provided environmental consulting services of \$25,000 to clients who will pay for the services within one month.

Analysis: The asset, accounts receivable, is increased; therefore, debit Accounts Receivable. Service revenue is increased; credit Service Revenue.

| | | | | | |
|-----------------------------|---------------------|---|-------------|---|-----------------|
| <i>Accounting Equation:</i> | ASSETS | = | LIABILITIES | + | OWNER'S EQUITY |
| | Accounts Receivable | | | + | REVENUES |
| | +25,000 | = | 0 | + | Service Revenue |
| | | | | | 25,000 |

Journal Entry:

| | |
|-------------------------------|--------|
| Accounts Receivable..... | 25,000 |
| Service Revenue..... | 25,000 |
| Performed service on account. | |

| | | | | |
|-------------------------|----------------------------|--|------------------------|--|
| <i>Ledger Accounts:</i> | Accounts Receivable | | Service Revenue | |
| | (5) 25,000 | | (4) 30,000 | |
| | | | (5) 25,000 | |

Notice the differences and the similarities between Transactions 4 and 5. In both transactions, Service Revenue was increased because in both cases the company earned revenue. However, in Transaction 4 the company was paid at the time of service. In Transaction 5 the company will receive cash later (Accounts Receivable). This is key, because the amount of earnings is not determined by when the company receives cash. Earnings (revenue) are recorded when the company does the work, or earns revenue.

6. Transaction: The business paid the following expenses: office rent, \$4,000; employee salaries, \$6,500; and utilities, \$1,500.

Analysis: The asset cash is decreased; therefore, credit Cash for each of the three expense amounts. The following expenses are increased: Rent Expense, Salaries Expense, and Utilities Expense. Each should be debited for the appropriate amount.

| | | | | | | | | | | | | | | | |
|-----------------------------|---|---|-------------|---|---|-------------|---------------------|---------------------------|-----------|-------------------------|--|-------------------------|--------------------------|-----------|-----------|
| <i>Accounting Equation:</i> | ASSETS | = | LIABILITIES | + | OWNER'S EQUITY | | | | | | | | | | |
| | | | | - | EXPENSES | | | | | | | | | | |
| | Cash | | | | Rent Expense Salaries Expense Utilities Expense | | | | | | | | | | |
| | -12,000 | = | 0 | | -4,000 -6,500 -1,500 | | | | | | | | | | |
| <i>Journal Entry:</i> | Rent Expense..... 4,000 Salaries Expense 6,500 Utilities Expense 1,500 Cash 12,000 Paid cash for expenses. | | | | | | | | | | | | | | |
| <i>Ledger Accounts:</i> | <table border="0" style="width: 100%;"> <tr> <td style="width: 50%; text-align: center;">Cash</td> <td style="width: 50%; text-align: center;">Rent Expense</td> </tr> <tr> <td>(1) 250,000 (2) 100,000</td> <td>(6) 4,000</td> </tr> <tr> <td>(4) 30,000 (6) 12,000</td> <td></td> </tr> <tr> <td style="text-align: center;">Salaries Expense</td> <td style="text-align: center;">Utilities Expense</td> </tr> <tr> <td>(6) 6,500</td> <td>(6) 1,500</td> </tr> </table> | | | | | Cash | Rent Expense | (1) 250,000 (2) 100,000 | (6) 4,000 | (4) 30,000 (6) 12,000 | | Salaries Expense | Utilities Expense | (6) 6,500 | (6) 1,500 |
| Cash | Rent Expense | | | | | | | | | | | | | | |
| (1) 250,000 (2) 100,000 | (6) 4,000 | | | | | | | | | | | | | | |
| (4) 30,000 (6) 12,000 | | | | | | | | | | | | | | | |
| Salaries Expense | Utilities Expense | | | | | | | | | | | | | | |
| (6) 6,500 | (6) 1,500 | | | | | | | | | | | | | | |

In practice, the business would record these three transactions separately if they are all paid with separate cheques. To save space, we can record them together to illustrate a **compound journal entry**. See the Summary Problem for Your Review on page 82 for the separate journal entries. No matter how many accounts a compound entry affects—there may be any number—total debits must equal total credits and all the debits must be listed before all the credits.

7. Transaction: The business paid \$5,000 on the account payable created in Transaction 3. The paid cheque is Hunter Environmental Consulting's source document, or proof, for this transaction.

HUNTER ENVIRONMENTAL CONSULTING 001
 281 Wave Avenue
 Vancouver, BC V2R 9C8

Date 20160420
Y Y Y Y M M D D

Pay to the Order of Wholesale Office Supply \$ 5,000.00

Five Thousand 00/100 Dollars Security features are in black. Only on back.

BP Bank of the People
 Shopping Concourse Branch
 Vancouver, BC Y2R 2X1

MEMO Payment on account Lisa Hunter MP

⑆ 10300 ⑆ 004⑆ 0600 ⑆ 0303600 ⑆

HUNTER ENVIRONMENTAL CONSULTING
 281 Wave Avenue
 Vancouver, BC V2R 9C8

| | | | |
|----------------------|--|-------------------|---------------------------|
| Vendor Number 023 | Vendor Name Wholesale Office Supply | Cheque No. 001 | Cheque Date 2016-04-20 |
|----------------------|--|-------------------|---------------------------|

Partial Payment of Invoice 9623 \$5,000.00

Analysis: The payment decreased the asset cash; therefore, credit Cash. The payment also decreased the liability accounts payable, so we debit Accounts Payable.

| | | | | | |
|-----------------------------|--------|---|------------------|---|----------------|
| <i>Accounting Equation:</i> | ASSETS | = | LIABILITIES | + | OWNER'S EQUITY |
| | Cash | | Accounts Payable | | |
| | -5,000 | = | -5,000 | + | 0 |

Journal Entry:

| | | |
|-----------------------|-------|-------|
| Accounts Payable..... | 5,000 | |
| Cash..... | | 5,000 |
| Paid cash on account. | | |

| | | | | |
|-------------------------|-------------|-------------|-------------------------|-----------|
| <i>Ledger Accounts:</i> | Cash | | Accounts Payable | |
| | (1) 250,000 | (2) 100,000 | (7) 5,000 | (3) 7,000 |
| | (4) 30,000 | (6) 12,000 | | |
| | | (7) 5,000 | | |

8. Transaction: Lisa Hunter remodelled her personal residence with personal funds. This is not a business transaction of the environmental consulting business, so no journal entry is made.

9. Transaction: The business received \$15,000 cash from one of the clients discussed in Transaction 5.

Analysis: The asset cash is increased; therefore, debit Cash. The asset accounts receivable is decreased; therefore, credit Accounts Receivable.

| | | | | | |
|-----------------------------|---------|---|---------------------|---|----------------|
| <i>Accounting Equation:</i> | ASSETS | = | LIABILITIES | + | OWNER'S EQUITY |
| | Cash | | Accounts Receivable | | |
| | +15,000 | = | -15,000 | + | 0 |

Journal Entry:

| | | |
|---------------------------|--------|--------|
| Cash..... | 15,000 | |
| Accounts Receivable | | 15,000 |
| Received cash on account. | | |

This transaction has no effect on revenue; the related revenue is accounted for in Transaction 5.

| | | | | |
|-------------------------|-------------|-------------|----------------------------|------------|
| <i>Ledger Accounts:</i> | Cash | | Accounts Receivable | |
| | (1) 250,000 | (2) 100,000 | (5) 25,000 | (9) 15,000 |
| | (4) 30,000 | (6) 12,000 | | |
| | (9) 15,000 | (7) 5,000 | | |

10. Transaction: Lisa Hunter withdrew \$6,000 cash for personal living expenses.

Analysis: The withdrawal decreased the entity's cash; therefore, credit Cash. The transaction also decreased the owner's equity of the entity. Decreases in the owner's equity of a proprietorship that result from owner withdrawals are debited to a separate owner's equity account entitled Withdrawals. Therefore, debit Lisa Hunter, Withdrawals.



LEARNING TIPS

This is an example of the *entity concept*. The personal expenses of the owner are not reported as expenses for the business.



LEARNING TIPS

Since T-accounts are not formal documents, the conventions vary for how they are recorded. Sometimes dates are used (with or without explanations), sometimes numbers or letters, and sometimes there are just amounts. You will see different versions throughout the chapters in this book.

Accounting Equation:

| | | | | |
|--------|---|-------------|---|--------------------------|
| ASSETS | = | LIABILITIES | + | OWNER'S EQUITY |
| Cash | | | | Lisa Hunter, Withdrawals |
| -6,000 | = | 0 | | -6,000 |

Journal Entry:

| | | |
|-------------------------------|-------|-------|
| Lisa Hunter, Withdrawals..... | 6,000 | |
| Cash | | 6,000 |
| Withdrawal of cash by owner. | | |

Ledger Accounts:

| Cash | | Lisa Hunter, Withdrawals | |
|-------------|-------------|--------------------------|--|
| (1) 250,000 | (2) 100,000 | (11) 6,000 | |
| (4) 30,000 | (6) 12,000 | | |
| (9) 15,000 | (7) 5,000 | | |
| | (10) 6,000 | | |

Each journal entry posted to the T-accounts (representing the ledger) is identified by date or by transaction number (in this example, the transaction numbers have been in brackets). In this way any transaction can be traced from the journal to the ledger, and, if need be, back to the journal. This helps to locate efficiently any information you may need.

The T-Accounts after Posting

Exhibit 2-10 shows the accounts of Hunter Environmental Consulting after posting. Each account has a balance that is the difference between the account's total debits and its total credits. We set a balance apart by a horizontal line. If an account has only one entry, you can total the account and label its balance, but you do not have to since the balance is obvious.

Cash #1100

| | |
|--------------|-------------|
| (1) 250,000 | (2) 100,000 |
| (4) 30,000 | (6) 12,000 |
| (9) 15,000 | (7) 5,000 |
| | (10) 6,000 |
| Bal. 172,000 | |

Annotations:
 - Total debits: 295,000
 - Total credits: 123,000
 - Balance calculation: 295,000 - 123,000 = 172,000
 - Note: Notice that the account number is sometimes included with the name.
 - Note: The balance of the account is labelled Bal. to save space.

> Why It's Done This Way



Companies record transactions, summarize them, and report them in a format that is recognizable to user groups and *communicates useful information* for them. The financial statements produced by a company are the end result of the accounting cycle. The starting point, as you have seen in this chapter, is to properly record transactions.

The first question that must be asked is whether the transaction represents a financial event that should be recorded in the company's ledger. If the answer to that question is yes, then we say it is *recognized*.

If the transaction is recognized, then we use the *elements* of the financial statements—the accounts—to record information in a way that is *understandable* to everyone.

EXHIBIT 2-10 | Hunter Environmental Consulting's Ledger Accounts after Posting

| Assets | | = | Liabilities | | + | Owner's Equity | |
|----------------------------------|-------------|---|-------------------------------|------------|------------|---------------------------------------|--|
| Cash #1100 | | | Accounts Payable #2100 | | | Lisa Hunter, Capital #3000 | |
| (1) 250,000 | (2) 100,000 | | (7) 5,000 | (3) 7,000 | | (1) 250,000 | |
| (4) 30,000 | (6) 12,000 | | | Bal. 2,000 | | Bal. 250,000 | |
| (9) 15,000 | (7) 5,000 | | | | | | |
| | (10) 6,000 | | | | | | |
| Bal. 172,000 | | | | | | | |
| Accounts Receivable #1200 | | | | | | Lisa Hunter, Withdrawals #3100 | |
| (5) 25,000 | (9) 15,000 | | | | (11) 6,000 | | |
| Bal. 10,000 | | | | | Bal. 6,000 | | |
| Office Supplies #1400 | | | | | | REVENUE | |
| (3) 7,000 | | | | | | Service Revenue #4000 | |
| Bal. 7,000 | | | | | | (4) 30,000 | |
| | | | | | | (5) 25,000 | |
| | | | | | | Bal. 55,000 | |
| Land #1900 | | | | | | EXPENSES | |
| (2) 100,000 | | | | | | Rent Expense #5100 | |
| Bal. 100,000 | | | | | (6) 4,000 | | |
| | | | | | Bal. 4,000 | | |
| | | | | | | Salaries Expense #5200 | |
| | | | | | (6) 6,500 | | |
| | | | | | Bal. 6,500 | | |
| | | | | | | Utilities Expense #5300 | |
| | | | | | (6) 1,500 | | |
| | | | | | Bal. 1,500 | | |

> Try It!

7. Refer to Try It #6 on page 69 for the transactions of Peterson Engineering.
 - a. Create the following T-accounts with their September 1 balances: Cash #101, debit balance \$3,000; Accounts Receivable #103, \$0; Supplies #105, \$0; Equipment #107, \$0; Land #110, debit balance \$29,000; Accounts Payable #201, \$0; Notes Payable #205, \$0; R. Peterson, Capital #301, credit balance \$32,000; Service Revenue #401, \$0; Utilities Expense #501, \$0.
 - b. Record the transactions directly in the T-accounts affected. Use dates as posting references in the T-accounts. Journal entries are not required. (Or you may use the answer to Try It #9 and post those journal entries.)
 - c. Compute the September 30 balance for each account, then add the balances to prove that total debits equal total credits.

(continued)

8. Calculate the account balance for each of the following:

| Supplies Expense | | Accounts Payable | | Cash | |
|------------------|--|------------------|-------|--------|-----|
| 110 | | 150 | 400 | 5,000 | 150 |
| 290 | | 800 | 2,900 | 12,600 | 800 |
| 544 | | 475 | 1,600 | 926 | 475 |
| | | | 750 | 6,200 | 290 |

9. Compute the missing amount represented by *X* in each account:

| (1) Cash | | | (2) Accounts Payable | | |
|----------|--------|--------|----------------------|------|--------|
| Bal. | 10,000 | 13,000 | X | Bal. | 12,800 |
| | 20,000 | | | | 45,600 |
| Bal. | X | | | Bal. | 23,500 |

10. Refer to Try It #6 on page 69 for the transactions of Peterson Engineering. Record each transaction on Page 1 of the journal. Include an explanation for each journal entry.

Solutions appear at the end of this chapter and on [MyAccountingLab](#)

Details of Journals and Ledgers

Posting means transferring information from the journal to the ledger accounts. We saw how to do this in Exhibit 2–9. In practice, the journal and the ledger provide additional details that create a “trail” through the accounting records for future reference. For example, suppose we wanted to find out where the \$250,000 in cash came from that is listed in the ledger of the Cash account of Hunter Environmental Consulting. We would need to know where to find the original journal entry. The system of cross-referencing that is explained in detail in Exhibit 2–11 is how accountants trace through the accounting records to find information.

The Journal Exhibit 2–11, Panel A, describes two transactions, and Panel B presents a widely used *journal* format. Notice the following:

- The journal page number appears in the upper right corner.
- The year appears directly under the Date heading at the top of each journal page or when the year has changed.
- The date of the transaction is recorded for every transaction. ①
- A blank line is left between journal entries to make it easier to read.
- The **posting reference**, abbreviated Post. Ref. (or sometimes PR) tells the reader in which ledger (and in which account in that ledger) the information was posted. ④ The account number (1100) indicates that the \$250,000 debit to Cash has been posted to the Cash account in the ledger. The account number (3000) for Lisa Hunter, Capital below it shows that the \$250,000 amount of the credit has been posted to the ledger. As mentioned earlier, the account numbers come from the chart of accounts, as shown in Exhibit 2–3 on page 62.

The Ledger Exhibit 2–11, Panel C, presents the *ledger* in the **three-column format**. Each account has its own record in the ledger. Our example shows Hunter Environmental Consulting’s Cash account; Land account; and Lisa Hunter, Capital account. These are the steps to posting:

- ① The date is transferred from the journal to the ledger.
- The Item column is often left blank because special notations are rarely used. Typically, the only item notation used is an indication of an opening balance or a balance brought forward from a previous period.

EXHIBIT 2-11 | Details of Journalizing and Posting

Video: The Details of Journalizing and Posting

Panel A – Two of Hunter Environmental Consulting’s Transactions

| Date | Transaction |
|--------------|---|
| Apr. 2, 2016 | Lisa Hunter invested \$250,000 in the business. The business received cash and gave Hunter owner’s equity in the business. |
| Apr. 3, 2016 | Paid \$100,000 cash for land. |

Panel B – The Journal

| Date | Account Titles and Explanations | Post. Ref. | Debit | Credit |
|--------|---|------------|---------|---------|
| 2016 | | | | |
| Apr. 2 | Cash | 1100 | 250,000 | |
| | Lisa Hunter, Capital | 3000 | | 250,000 |
| | Received initial investment from owner. | | | |
| Apr. 3 | Land | 1900 | 100,000 | |
| | Cash | 1100 | | 100,000 |
| | Purchased land. | | | |

Panel C – The Ledger

| Account: Cash | | | | Account No. 1100 | |
|---------------|------|------------|---------|------------------|------------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| 2016 | | | | | |
| Apr. 2 | | J1 | 250,000 | | 250,000 Dr |
| Apr. 3 | | J1 | | 100,000 | 150,000 Dr |

1 Transfer the date of the transaction from the journal to the ledger.

2 Transfer the page number from the journal to the journal reference column of the ledger. “J1” signifies Journal Page 1.

3 Post the debit figure from the journal as a debit figure in the ledger account.

4 Enter the account number in the posting reference column of the journal once the figure has been posted to the ledger.

| Account: Land | | | | Account No. 1900 | |
|---------------|------|------------|---------|------------------|------------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| 2016 | | | | | |
| Apr. 3 | | J1 | 100,000 | | 100,000 Dr |

| Account: Lisa Hunter, Capital | | | | Account No. 3000 | |
|-------------------------------|------|------------|-------|------------------|------------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| 2016 | | | | | |
| Apr. 2 | | J1 | | 250,000 | 250,000 Cr |

- **2** The Jrnl. Ref. means Journal Reference. J1 refers to Page 1 of the journal it comes from. In later chapters you will see other journals and cross-reference codes.
- **3** Post (copy) the debit amount in a journal entry to the debit column of the ledger. A credit amount will get copied to the credit column.
- The balance column keeps a running total of the account balance. The balance can be followed by the letters Dr or Cr (indicating a debit or credit, respectively); however, this is not always required.
- **4** Now go back to the journal and update the posting reference. This makes a link to show *where* the journal information was posted.

LO 5
How can we check if the records are in balance?

MyAccountingLab

Video: Preparation of a Trial Balance
Video: Real World Accounting

THE TRIAL BALANCE

A *trial balance* summarizes the ledger by listing all accounts with their balances—assets first, followed by liabilities, and then owner’s equity. Before computers, the trial balance provided an accuracy check by showing whether the total debits equalled the total credits. The trial balance is still useful as a summary of all the accounts and their balances. A trial balance may be created at any time the postings are up to date. The most common time is at the end of the accounting period. Exhibit 2–12 is the trial balance of Hunter Environmental Consulting at April 30, 2016, the end of the first month of operations before any adjustments are made. Therefore it is more accurately called the *unadjusted trial balance* at this stage. (Other trial balances will be introduced in later chapters.) The totals on this report came from the balances in Exhibit 2–10. Most trial balances include the account numbers from the chart of accounts. Accounts with zero balances typically are not listed on the trial balance.

EXHIBIT 2–12 Trial Balance

Note: Do not confuse the trial balance with the balance sheet. A trial balance is an internal document seen only by the company’s owners, managers, and accountants. The company reports its financial position—both inside the business and to the public—on the balance sheet, a formal financial statement. The trial balance is merely a step in the preparation of the financial statements.

| HUNTER ENVIRONMENTAL CONSULTING | | | |
|---------------------------------|--------------------------|------------------|------------------|
| Unadjusted Trial Balance | | | |
| April 30, 2016 | | | |
| Account Number | Account | Balance | |
| | | Debit | Credit |
| 1100 | Cash | \$222,000 | |
| 1200 | Accounts receivable | 10,000 | |
| 1400 | Office supplies | 7,000 | |
| 1900 | Land | 50,000 | |
| 2100 | Accounts payable | | \$ 2,000 |
| 3000 | Lisa Hunter, capital | | 250,000 |
| 3100 | Lisa Hunter, withdrawals | 6,000 | |
| 4000 | Service revenue | | 55,000 |
| 5100 | Rent expense | 4,000 | |
| 5200 | Salaries expense | 6,500 | |
| 5300 | Utilities expense | 1,500 | |
| | Total | <u>\$307,000</u> | <u>\$307,000</u> |

Correcting Trial Balance Errors

Throughout the accounting process, total debits should always equal total credits. If they are not equal, then accounting errors exist. Computerized accounting systems eliminate many errors because most software will not let you make a journal

entry that doesn't balance. But computers cannot eliminate *all* errors because humans sometimes input the wrong data or input data to the wrong accounts.

If you are working with a manual system—such as in your course work—you might appreciate some strategies to help you figure out errors:

- Search the trial balance for a missing account. For example, suppose the accountant omitted Lisa Hunter, Withdrawals from the trial balance in Exhibit 2–12. Total debits would then be \$301,000 (\$307,000 – \$6,000) and total credits would be \$307,000, a difference of \$6,000. Look through the ledger to see if all the accounts are listed in the trial balance and if they are showing the correct amounts.
- Search the journal for the amount of the difference. For example, suppose the total credits on Hunter Environmental Consulting's trial balance equal \$307,000 and total debits equal \$306,000. A \$1,000 transaction may have been posted incorrectly to the ledger by omitting the debit entry. Search the journal for a \$1,000 transaction and check its posting to the ledger.
- Divide the difference between total debits and total credits by 2. A debit treated as a credit, or vice versa, doubles the amount of error. Suppose the accountant paid \$1,000 cash for the utilities expenses. This transaction was recorded correctly in the journal, but was posted as a debit to Cash and a debit to Utilities Expense. Thus, \$2,000 appears on the debit side of the trial balance, and there is nothing on the credit side relating to this transaction. The out-of-balance amount is \$2,000, and dividing by 2 reveals that the relevant transaction may have had a value of \$1,000. Search the journal for a \$1,000 transaction and check the posting to the ledger.
- Divide the out-of-balance amount by 9. If the result is evenly divisible by 9, the error may be a **slide**, which is adding or deleting one or several zeros in a figure (e.g., writing \$61 as \$610), or a **transposition** (e.g., treating \$61 as \$16). Suppose the accountant listed the \$6,000 balance in Lisa Hunter, Withdrawals as \$60,000 on the trial balance—a slide-type error. Total debits would differ from total credits by \$54,000 (i.e., \$60,000 – \$6,000 = \$54,000). Dividing \$54,000 by 9 yields \$6,000, the correct amount of the withdrawals. Trace this amount through the ledger until you reach the Lisa Hunter, Withdrawals account with a balance of \$6,000. Dividing by 9 can give the correct transaction amount for a slide, but not for a transposition.

> Try It!

11. Shiny Floor Cleaning's accounting records reported the following data on December 31, 2016. Accounts appear in no particular order.

| | | | |
|------------------------|----------|---------------------------|----------|
| Supplies | \$ 7,500 | S. Shaw, Withdrawals..... | \$ 5,000 |
| Equipment..... | 2,000 | Cash..... | 13,000 |
| Accounts Payable..... | 1,000 | Supplies Expense..... | 6,000 |
| S. Shaw, Capital..... | 15,000 | Accounts Receivable..... | 12,500 |
| Cleaning Revenue | 30,000 | | |

Prepare the trial balance of Shiny Floor Cleaning at December 31, 2016. List the accounts in proper order, as shown in Exhibit 2–12.

12. Refer to the trial balance for Shiny Floor Cleaning created in Try It #11. Suppose Susan Shaw, the owner, accidentally listed equipment as \$200 instead of the correct amount of \$2,000. Compute the incorrect trial balance totals for debits and credits. Then show how to correct this error, which is called a *slide*.

Solutions appear at the end of this chapter and on [MyAccountingLab](#)

SUMMARY PROBLEM FOR YOUR REVIEW

The trial balance of Bancroft Management Consulting on March 1, 2016, lists the company's assets, liabilities, and owner's equity on that date.

| BANCROFT MANAGEMENT CONSULTING | | | |
|--------------------------------|-----------------------|-----------------|-----------------|
| Trial Balance | | | |
| March 1, 2016 | | | |
| Account Number | Account Title | Balance | |
| | | Debit | Credit |
| 1100 | Cash | \$26,000 | |
| 1200 | Accounts receivable | 4,500 | |
| 2100 | Accounts payable | | \$ 2,000 |
| 3100 | John Cassiar, capital | | 28,500 |
| | Total | <u>\$30,500</u> | <u>\$30,500</u> |

During March the business engaged in the following transactions:

- Mar. 3 Borrowed \$45,000 from the bank and signed a note payable in the name of the business.
- 5 Paid cash of \$40,000 to a real estate company to acquire land in the town of Bancroft.
- 11 Performed service for a customer and received cash of \$5,000.
- 12 Purchased supplies on account, \$300.
- 14 Performed customer service and earned revenue on account, \$2,600.
- 17 Paid \$1,200 of the Accounts Payable balance from the March 1, 2017, trial balance.
- 19 Paid the following cash expenses: salaries, \$3,000; rent, \$1,500; and interest, \$400.
- 20 Received \$3,100 of the Accounts Receivable balance from the March 1, 2017, trial balance.
- 24 Received a \$200 utility bill that will be paid next week.
- 28 John Cassiar withdrew \$1,800 for personal use.

Required

Prepare a ledger account for each account name. Place the opening balance in the ledger account, remembering that the normal balance is a debit for asset and expense accounts, and a credit for liability, equity, and revenue accounts.

Refer to the rules of debit and credit shown in Exhibit 2–7 on page 66.

- Open the following accounts, with the balances indicated, in the ledger of Bancroft Management Consulting. Use the three-column ledger format.
 - Assets: Cash, #1100, \$26,000; Accounts Receivable, #1200, \$4,500; Supplies, #1400, no balance; Land, #1900, no balance
 - Liabilities: Accounts Payable, #2100, \$2,000; Notes Payable, #2300, no balance
 - Owner's Equity: John Cassiar, Capital, #3000, \$28,500; John Cassiar, Withdrawals, #3100, no balance
 - Revenues: Service Revenue, #4000, no balance
 - Expenses: Interest Expense, #5100; Rent Expense, #5200; Salaries Expense, #5300; Utilities Expense, #5400 (none have balances)
- Journalize the preceding transactions on Page 2 of the journal.
- Post the transactions to the ledger.

4. Prepare the unadjusted trial balance of Bancroft Management Consulting at March 31, 2016.

SOLUTION

Requirement 1 is combined with Requirement 3

Requirement 2

When a transaction involves cash, always first decide whether cash increased or decreased. An increase is a debit to Cash. A decrease is a credit to Cash. Then decide which other accounts are affected.

“On account” means no cash was used in the transaction. Therefore, use Accounts Payable or Accounts Receivable since cash will be paid or collected in the future.

“Paid” means a cheque was written, so Cash is credited.

Ensure total debits equal total credits in each journal entry. Selected journal entries are explained more fully.

| Page 2 | | | | |
|---------|--|------------|--------|--------|
| Date | Account Titles and Explanations | Post. Ref. | Debit | Credit |
| Mar. 3 | Cash | 1100 | 45,000 | |
| | Notes Payable | 2300 | | 45,000 |
| | Borrowed cash on note payable. | | | |
| Mar. 5 | Land | 1900 | 40,000 | |
| | Cash | 1100 | | 40,000 |
| | Purchased land for cash. | | | |
| Mar. 11 | Cash | 1100 | 5,000 | |
| | Service Revenue | 4000 | | 5,000 |
| | Performed service and received cash. | | | |
| Mar. 12 | Supplies | 1400 | 300 | |
| | Accounts Payable | 2100 | | 300 |
| | Purchased supplies on account. | | | |
| Mar. 14 | Accounts Receivable | 1200 | 2,600 | |
| | Service Revenue | 4000 | | 2,600 |
| | Performed service on account. | | | |
| Mar. 17 | Accounts Payable | 2100 | 1,200 | |
| | Cash | 1100 | | 1,200 |
| | Paid cash to reduce accounts payable. | | | |
| Mar. 19 | Salaries Expense | 5300 | 3,000 | |
| | Cash | 1100 | | 3,000 |
| | Issued cheque to pay salaries expense. | | | |
| Mar. 19 | Rent Expense | 5200 | 1,500 | |
| | Cash | 1100 | | 1,500 |
| | Issued cheque to pay rent expense. | | | |
| Mar. 19 | Interest Expense | 5100 | 400 | |
| | Cash | 1100 | | 400 |
| | Issued cheque to pay interest expense. | | | |
| Mar. 20 | Cash | 1100 | 3,100 | |
| | Accounts Receivable | 1200 | | 3,100 |
| | Received cash on account. | | | |

“On account” means no cash was used in the transaction. Therefore, use Accounts Payable or Accounts Receivable since cash will be paid or collected in the future.

“Paid” usually means a cheque was written, so Cash is credited.

Receiving a bill indicates an amount is owed for goods or services received. Increase the liability Accounts Payable, since cash will be paid for the utility bill in the future.

| Page 2 | | | | |
|---------|---------------------------------|------------|-------|--------|
| Date | Account Titles and Explanations | Post. Ref. | Debit | Credit |
| Mar. 24 | Utilities Expense | 5400 | 200 | |
| | Accounts Payable | 2100 | | 200 |
| | Received utility bill. | | | |
| Mar. 28 | John Cassiar, Withdrawals | 3100 | 1,800 | |
| | Cash | 1100 | | 1,800 |
| | Withdrew cash for personal use. | | | |

Requirements 1 and 3

Transfer amounts from the journal entries in Requirement 2 into the ledger accounts here.

Make sure each transaction is posted to the proper ledger account, and make sure no transactions were missed.

Remember to add up the balance after each transaction. The Accounts Receivable balance is $\$4,500 + 2,600 = \$7,100$; $\$7,100 - 3,100 = \$4,000$.

| Account: Cash | | Account No. 1100 | | | |
|---------------|-------------------|------------------|--------|--------|-----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 1 | Beginning balance | | | | 26,000 Dr |
| Mar. 3 | | J2 | 45,000 | | 71,000 Dr |
| Mar. 5 | | J2 | | 40,000 | 31,000 Dr |
| Mar. 11 | | J2 | 5,000 | | 36,000 Dr |
| Mar. 17 | | J2 | | 1,200 | 34,800 Dr |
| Mar. 19 | | J2 | | 3,000 | 31,800 Dr |
| Mar. 19 | | J2 | | 1,500 | 30,300 Dr |
| Mar. 19 | | J2 | | 400 | 29,900 Dr |
| Mar. 20 | | J2 | 3,100 | | 33,000 Dr |
| Mar. 28 | | J2 | | 1,800 | 31,200 Dr |

| Account: Accounts Receivable | | Account No. 1200 | | | |
|------------------------------|-------------------|------------------|-------|--------|----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 1 | Beginning balance | | | | 4,500 Dr |
| Mar. 14 | | J2 | 2,600 | | 7,100 Dr |
| Mar. 20 | | J2 | | 3,100 | 4,000 Dr |

| Account: Supplies | | Account No. 1400 | | | |
|-------------------|------|------------------|-------|--------|---------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 12 | | J2 | 300 | | 300 Dr |

| Account: Land | | Account No. 1900 | | | |
|---------------|------|------------------|--------|--------|-----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 5 | | J2 | 40,000 | | 40,000 Dr |

| Account: Accounts Payable | | Account No. 2100 | | | |
|---------------------------|-------------------|------------------|-------|--------|----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 1 | Beginning balance | | | | 2,000 Cr |
| Mar. 12 | | J2 | | 300 | 2,300 Cr |
| Mar. 17 | | J2 | 1,200 | | 1,100 Cr |
| Mar. 24 | | J2 | | 200 | 1,300 Cr |

| Account: Notes Payable | | | Account No. 2300 | | |
|------------------------|------|------------|------------------|--------|-----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 3 | | J2 | | 45,000 | 45,000 Cr |

| Account: John Cassiar, Capital | | | Account No. 3000 | | |
|--------------------------------|-------------------|------------|------------------|--------|-----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 1 | Beginning balance | | | | 28,500 Cr |

| Account: John Cassiar, Withdrawals | | | Account No. 3100 | | |
|------------------------------------|------|------------|------------------|--------|----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 28 | | J2 | 1,800 | | 1,800 Dr |

| Account: Service Revenue | | | Account No. 4000 | | |
|--------------------------|------|------------|------------------|--------|----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 11 | | J2 | 5,000 | | 5,000 Cr |
| Mar. 14 | | J2 | 2,600 | | 7,600 Cr |

| Account: Interest Expense | | | Account No. 5100 | | |
|---------------------------|------|------------|------------------|--------|---------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 19 | | J2 | 400 | | 400 Dr |

| Account: Rent Expense | | | Account No. 5200 | | |
|-----------------------|------|------------|------------------|--------|----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 19 | | J2 | 1,500 | | 1,500 Dr |

| Account: Salaries Expense | | | Account No. 5300 | | |
|---------------------------|------|------------|------------------|--------|----------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 19 | | J2 | 3,000 | | 3,000 Dr |

| Account: Utilities Expense | | | Account No. 5400 | | |
|----------------------------|------|------------|------------------|--------|---------|
| Date | Item | Jrnl. Ref. | Debit | Credit | Balance |
| Mar. 24 | | J2 | 200 | | 200 Dr |

Requirement 4

The title must include the name of the company, "Unadjusted Trial Balance," and the date of the trial balance. It shows the account balances on one specific date.

List all the accounts that have a balance in their ledger accounts. Accounts with a zero balance typically are not listed on the trial balance. Write the final balance amount for each account from Requirement 3 into the debit or credit column of the trial balance. Make sure that the total of the Debit column equals the total of the Credit column.

Double underline the totals to show that the columns have been added and the totals are final.

| BANCROFT MANAGEMENT CONSULTING | | | | |
|--------------------------------|---------------------------|-----------------|-----------------|--|
| Unadjusted Trial Balance | | | | |
| March 31, 2016 | | | | |
| Account Number* | Account Title | Balance | | |
| | | Debit | Credit | |
| 1100 | Cash | \$31,200 | | |
| 1200 | Accounts receivable | 4,000 | | |
| 1400 | Supplies | 300 | | |
| 1900 | Land | 40,000 | | |
| 2100 | Accounts payable | | \$ 1,300 | |
| 2300 | Notes payable | | 45,000 | |
| 3000 | John Cassiar, capital | | 28,500 | |
| 3100 | John Cassiar, withdrawals | 1,800 | | |
| 4000 | Service revenue | | 7,600 | |
| 5100 | Interest expense | 400 | | |
| 5200 | Rent expense | 1,500 | | |
| 5300 | Salaries expense | 3,000 | | |
| 5400 | Utilities expense | 200 | | |
| | Total | <u>\$82,400</u> | <u>\$82,400</u> | |

* Note: Listing the account numbers is optional.

SUMMARY

LEARNING OBJECTIVE 1 Define and use key accounting terms

What are the key terms used when recording transactions?

Pg. 60

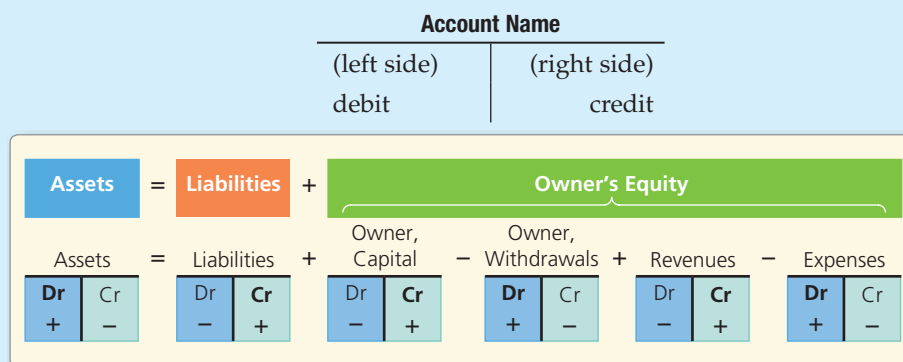
- A *transaction* is an event that affects the financial position of a particular entity and may be reliably measured.
- A *journal* is a chronological accounting record of transactions.
- The *ledger* contains a record for each account.
- A *chart of accounts* lists all the accounts in the ledger and their account numbers in the following order: assets, liabilities, and owner's equity (and its subparts: revenues and expenses).

LEARNING OBJECTIVE 2 Apply the rules of debit and credit

How do we track changes in accounts?

Pg. 63

- Transactions are recorded in accounts, which can be viewed either in the form of the letter "T" or in a three-column format.



MyAccountingLab Video: Rules of Debits and Credits

LEARNING OBJECTIVE 3 Analyze and record transactions in the journal

How do we record business transactions?

Pg. 67

- The accountant begins the recording process by analyzing the transaction, deciding if it is a transaction, and then entering the transaction's information in the *journal*, a chronological list of all the entity's transactions.

MyAccountingLab Video: Journalizing Transactions

Video: Operating Activities and Their Impact on the Accounting Equation

Video: Financing and Investing Activities and Their Impact on the Accounting Equation

LEARNING OBJECTIVE 4 Post from the journal to the ledger

What is the next step after recording the transaction?

Pg. 69

- Posting* means transferring information from the journal to the *ledger* accounts. We often use T-accounts as a shortcut to represent ledgers in this book. Posting references are used to trace amounts back and forth between the journal and the ledger.

MyAccountingLab Video: The Details of Journalizing and Posting

LEARNING OBJECTIVE 5 Prepare and use a trial balance

How can we check if the records are in balance?

Pg. 80

- The *trial balance* is a summary of all the non-zero account balances in the ledger. When *double-entry accounting* has been done correctly, the total debits and the total credits in the trial balance are equal.
- We can now trace the flow of accounting information through these steps: Business Transaction → Source Documents → Journal Entry → Posting to Ledger Accounts → Unadjusted Trial Balance

MyAccountingLab Video: Preparation of a Trial Balance

Video: Real World Accounting

Check **Accounting Vocabulary** for all key terms used in Chapter 2 and the **Glossary** at the back of the book for all key terms used in the textbook.

MORE CHAPTER REVIEW MATERIAL

MyAccountingLab

DemoDoc covering Debit/Credit Transaction Analysis

Accounting Cycle Tutorial

Student PowerPoint Slides

Audio Chapter Summary

Note: All MyAccountingLab resources can be found in the Chapter Resources section and the Multimedia Library.

ACCOUNTING VOCABULARY

Accounting cycle The process by which accountants produce an entity's financial statements and update the financial reports for a period of time (p. 60).

Accounting period The time frame, or period of time, covered by financial statements and other reports (p. 60).

Bank cheque A document that instructs the bank to pay the designated person or business the specified amount of money (p. 67).

Bank deposit slip A document that shows the amount of cash deposited into a person's or business's bank account (p. 67).

Chart of accounts A list of all the accounts and their account numbers in the ledger (p. 61).

Compound journal entry A journal entry with more than one debit and credit (p. 74).

Credit The right side of an account (p. 63).

Debit The left side of an account (p. 63).

Journal The chronological accounting record of an entity's transactions (p. 61).

Ledger The book (or printout) of accounts (p. 61).

Normal balance The balance that appears on the side of an account—debit or credit—where we record increases (p. 66).

Overdraw To remove more money from a bank account than exists in the bank account. This puts the bank account into a negative balance. This becomes a loan from the bank (p. 66).

Posting Transferring of amounts from the journal to the ledger (p. 69).

Posting reference A column in the journal that indicates to the reader to which account the journal entry has been posted (p. 78).

Purchase invoice A document from a vendor that shows a customer what was purchased, when it was purchased, and how much it cost (p. 67).

Sales invoice A seller's request for cash from the purchaser. This document gives the seller the amount of revenue to record (p. 67).

Slide A type of error in which one or several zeros are added or deleted in a figure; for example, writing \$30 as \$300 (p. 81).

Source document A document that is evidence of a transaction, such as an invoice (p. 67).

Three-column format One common type of ledger format that includes three columns for dollar amounts—one for debit amounts, one for credit amounts, and the other for a running balance (p. 78).

Transposition A type of error in which two digits in a number are shown in reverse order (p. 81).

Trial balance A list of all the ledger accounts with their balances (p. 61).

SIMILAR ACCOUNTING TERMS

| | |
|---------------------------------------|--|
| Cr | Credit; right |
| Dr | Debit; left |
| Entering the transaction in a journal | Making the journal entry; journalizing the transaction |
| J1 | Page 1 of the journal |
| Jrnl. Ref. | Journal reference |
| The Journal | A general journal; a book of original entry |
| The Ledger | The books; the general ledger |
| Open the accounts | Set up the accounts; create the ledger accounts |
| Post. Ref. | Posting reference |
| P.R. | Posting reference |

SELF-STUDY QUESTIONS

Test your understanding of the chapter by marking the correct answer for each of the following questions:

- A T-account has two sides called the (p. 63)
 - Debit and credit
 - Asset and liability
 - Revenue and expense
 - Journal and ledger
- Increases in liabilities are recorded by (p. 64)
 - Debits
 - Credits
- Why do accountants record transactions in the journal? (p. 67)
 - To ensure that all transactions are posted to the ledger
 - To ensure that total debits equal total credits
 - To have a chronological record of all transactions
 - To help prepare the financial statements
- Posting is the process of transferring information from the (p. 69)
 - Journal to the trial balance
 - Ledger to the trial balance
 - Ledger to the financial statements
 - Journal to the ledger
- The purchase of land for cash is recorded by a (p. 71)
 - Debit to Cash and a credit to Land
 - Debit to Cash and a debit to Land
 - Debit to Land and a credit to Cash
 - Credit to Cash and a credit to Land
- The purpose of the trial balance is to (p. 80)
 - List all accounts with their balances
 - Ensure that all transactions have been recorded
 - Speed up the collection of cash receipts from customers
 - Increase assets and owner's equity
- What is the normal balance of the Accounts Receivable, Office Supplies, and Rent Expense accounts? (p. 66)
 - Debit
 - Credit
- A business has Cash of \$3,000, Notes Payable of \$2,500, Accounts Payable of \$4,300, Service Revenue of \$7,000, and Rent Expense of \$2,400. Based on these data, how much are its total liabilities? (p. 64)
 - \$4,600
 - \$6,800
 - \$9,800
 - \$13,800

9. Simpson Transport earned revenue on account. The earning of revenue on account is recorded by a (p. 73)
- Debit to Cash and a credit to Revenue
 - Debit to Accounts Receivable and a credit to Revenue
 - Debit to Accounts Payable and a credit to Revenue
 - Debit to Revenue and a credit to Accounts Receivable
10. The account credited for a receipt of cash on account is (p. 73)
- Cash
 - Accounts Payable
 - Service Revenue
 - Accounts Receivable

Answers to Self-Study Questions

1. a 2. b 3. c 4. d 5. c 6. a 7. a 8. b (\$6,800 = \$2,500 + \$4,300) 9. b 10. d

ASSIGNMENT MATERIAL

QUESTIONS

- Name the basic shortcut device or tool used in accounting. What letter of the alphabet does it resemble? Name its two sides.
- Is the following statement true or false? Debit means decrease and credit means increase. Explain your answer.
- Explain the rules of debits and credits for each type of account.
- What are the three basic types of accounts? Name two additional types of accounts. To which one of the three basic types are these two additional types of accounts most closely related?
- Suppose you are the accountant for Whistler Marketing Enterprises. Keeping in mind double-entry bookkeeping, identify the *dual effects* of Sasha Chandler's investment of \$10,000 cash in her business.
- Briefly describe the flow of accounting information using the accounting cycle.
- To what does the *normal balance* of an account refer?
- Indicate the normal balance of the five types of accounts.

| Account Type | Normal Balance |
|----------------|----------------|
| Assets | _____ |
| Liabilities | _____ |
| Owner's equity | _____ |
| Revenues | _____ |
| Expenses | _____ |
- What does posting accomplish? Why is it important? Does it come before or after journalizing?
- Label each of the following transactions as increasing owner's equity (+), decreasing owner's equity (-), or having no effect on owner's equity (0). Write the appropriate symbol in the space provided.

| | |
|-------|-----------------------------------|
| _____ | Investment by owner |
| _____ | Invoice customer for services |
| _____ | Purchase of supplies on credit |
| _____ | Pay expenses with cash |
| _____ | Cash payment on account |
| _____ | Withdrawal of cash by owner |
| _____ | Borrowing money on a note payable |
| _____ | Sale of services on account |
- What four steps does the posting process include? Which step is the fundamental purpose of posting?
- Rearrange the following accounts in their logical sequence in the chart of accounts:

| | |
|---------------------|----------------------|
| Note Payable | Salary Expense |
| Accounts Receivable | Cash |
| Sales Revenue | Sam Westman, Capital |
- What is the meaning of the statement "Accounts Payable has a credit balance of \$2,800"?
- Spiffy Cleaners launders the shirts of customer Bobby Ng, who has a charge account at the cleaners. When Ng picks up his clothes and is short of cash, he charges it. Later, when he receives his monthly statement from the cleaners, Ng writes a cheque on his bank account and mails the cheque to the cleaners. Identify the two business transactions described here for Spiffy Cleaners. Which transaction increases the business's owner's equity? Which transaction increases Spiffy Cleaners's cash?
- Explain the difference between the ledger and the chart of accounts.
- Why do accountants prepare a trial balance?

17. What is a compound journal entry?
18. The accountant for Wingers Construction mistakenly recorded a \$600 purchase of supplies on account as \$6,000. He debited Supplies and credited Accounts Payable for \$6,000. Does this error cause the trial balance to be out of balance? Explain your answer.
19. What is the effect on total assets of collecting cash on account from customers?
20. Briefly summarize the similarities and differences between manual and computer-based accounting systems in terms of journalizing, posting, and preparing a trial balance.

MyAccountingLab

Make the grade with MyAccountingLab: The Starters, Exercises, and Problems marked in **red** can be found on MyAccountingLab. You can practise them as often as you want, and most feature step-by-step guided instructions to help you find the right answer.

STARTERS

The accounting cycle

1

Starter 2-1

Put the steps in the accounting cycle in the proper sequence by inserting the numbers 1 to 11.

- a. Prepare a post-closing trial balance _____
- b. Prepare an adjusted trial balance _____
- c. Identify and analyze the transaction _____
- d. Prepare the unadjusted trial balance _____
- e. Post adjusting journal entries to the ledger _____
- f. Post from the journal to the ledger accounts _____
- g. Journalize adjusting journal entries _____
- h. Journalize closing entries _____
- i. Prepare financial statements _____
- j. Post closing entries to the ledger _____
- k. Record transaction in a journal _____

Using accounting terms

1

Starter 2-2

Fill in the blanks to review some key definitions.

Josh Stone is describing the accounting process to a friend who is a philosophy major. Josh states, "The basic summary device in accounting is the _____. The left side is called the _____ side, and the right side is called the _____ side. We record transactions first in a _____. Then we post (copy the data) to the _____. It is helpful to list all the accounts with their balances on a _____."

Using accounting terms

1

Starter 2-3

Accounting has its own vocabulary and basic relationships. Match the accounting terms at left with the corresponding definitions at right.

- | | |
|-------------------------|--|
| _____ 1. Credit | A. Record of transactions |
| _____ 2. Normal balance | B. Always an asset |
| _____ 3. Payable | C. Right side of an account |
| _____ 4. Journal | D. Side of an account where increases are recorded |
| _____ 5. Receivable | E. Copying data from the journal to the ledger |
| _____ 6. Capital | F. Increases in equity from providing goods and services |
| _____ 7. Posting | G. Always a liability |
| _____ 8. Revenue | H. Revenues – Expenses (where expenses exceed revenues) |
| _____ 9. Net loss | I. Grouping of accounts |
| _____ 10. Ledger | J. Owner's equity in the business |

Starter 2-4 Jose Suarez is tutoring Blaine McCormick, who is taking introductory accounting. Jose explains to Blaine that *debits* are used to record increases in accounts and *credits* record decreases. Blaine is confused and seeks your advice.

- When are credits increases? When are credits decreases?
- When are debits increases? When are debits decreases?

Explaining the rules of debit and credit

2

Starter 2-5 For each of the following changes, indicate whether a debit or credit entry would be made to the balance sheet account:

- | | |
|---------------------------------|---------------------------------|
| a. To decrease Accounts Payable | e. To increase Equipment |
| b. To increase Cash | f. To increase Accounts Payable |
| c. To increase Notes Payable | g. To increase Land |
| d. To increase Office Supplies | h. To increase Owner, Capital |

Explaining the rules of debit and credit

2

Starter 2-6 For each of the following accounts, identify whether the normal balance is a debit or a credit:

- | | |
|-------------------------|------------------------|
| a. Accounts Payable | e. Service Revenue |
| b. J. Yuen, Withdrawals | f. Rent Expense |
| c. Utilities Expense | g. Accounts Receivable |
| d. Cash | |

Normal balances

2

Starter 2-7 State the account to be debited and the account to be credited for the following transactions. Choose from the following list of accounts: Cash, Accounts Receivable, Supplies, Equipment, Land, Accounts Payable, Note Payable, Capital, Withdrawals, Service Revenue, Utilities Expense, and Salaries Expense.
(Hint: Not all accounts will be used.)

Identifying accounts

3

| | Debit | Credit |
|---|-------|--------|
| a. Owner invests cash into the business. | _____ | _____ |
| b. Purchased supplies for cash. | _____ | _____ |
| c. Performed services for cash. | _____ | _____ |
| d. Purchased equipment by issuing a note payable. | _____ | _____ |
| e. Purchased supplies on account. | _____ | _____ |
| f. Performed services on account. | _____ | _____ |
| g. Received cash on account. | _____ | _____ |
| h. Paid a creditor on account. | _____ | _____ |

Starter 2-8 Lochlan Mystrie opened a wedding planning business. Record the following transactions in the journal of the business. Include an explanation with each journal entry.

Recording transactions

3

- Sep. 1 Mystrie invested \$29,000 cash in a business bank account to start his business. The business received the cash and gave Mystrie owner's equity in the business.
- 2 Purchased decorating supplies on account, \$9,500.
- 2 Paid cash for September's office rent of \$4,100.
- 3 Recorded \$6,800 revenue for services rendered to clients on account.

Starter 2-9 After operating for a month, Lochlan Mystrie's business completed the following transactions during the latter part of September:

Recording transactions

3

- Sep. 22 Performed service for clients on account, \$6,000.
- 30 Received cash on account from clients, \$4,500.
- 30 Received a telephone bill, \$150, which will be paid during November.
- 30 Paid cash for advertising expense of \$900.
- 30 Paid cash for monthly salary to his assistant, \$3,900.

Journalize the business transactions. Include an explanation with each journal entry.

Posting to accounts and calculating balances

4

Starter 2-10 Your co-worker wanted the afternoon off and you graciously agreed to finish up his work for him. Use the completed journal entries provided and post them to their T-accounts. Assume all accounts start with a zero balance. Compute the balance of each account and mark it as *Bal.*

| Journal | | | | |
|---------|--|------------|--------|--------|
| Date | Account Titles and Explanations | Post. Ref. | Debit | Credit |
| Apr. 1 | Cash | | 32,000 | |
| | Taylor Moffat, Capital | | | 32,000 |
| | Received investment from owner. | | | |
| 2 | Medical Supplies | | 9,500 | |
| | Accounts Payable | | | 9,500 |
| | Purchased supplies on account. | | | |
| 2 | Rent Expense | | 4,100 | |
| | Cash | | | 4,100 |
| | Paid office rent for April. | | | |
| 3 | Cash | | 6,800 | |
| | Service Revenue | | | 6,800 |
| | Performed service for cash. | | | |
| 5 | Accounts Payable | | 2,700 | |
| | Cash | | | 2,700 |
| | Partial payment of balance on account. | | | |

Journalizing transactions; posting to T-accounts

3 4

Starter 2-11 Nancy Carpenter Optical Dispensary bought supplies on account for \$10,000 on September 8. On September 22, the company paid half on account.

1. Journalize the two transactions for Nancy Carpenter Optical Dispensary. Include an explanation for each transaction.
2. Open the Accounts Payable T-account and post to Accounts Payable. Compute the balance and denote it as *Bal.*

Journalizing transactions; posting to T-accounts

3 4

3. a. Earned \$12,000

Starter 2-12 On October 5, Tina Serelio performed legal services for a client who could not pay immediately. The business expected to collect the \$12,000 the following month. On November 18, the business received \$5,500 cash from the client.

1. Record the two transactions for Tina Serelio, Lawyer. Include an explanation for each transaction.
2. Open these T-accounts: Cash; Accounts Receivable; Service Revenue. Post to all three accounts. Compute each account's balance and denote it as *Bal.*
3. Answer these questions based on your analysis:
 - a. How much did the business earn? Which account shows this amount?
 - b. How much in total assets did the business acquire as a result of the two transactions? Identify each asset and show its amount.

Calculate T-account balances

4

Starter 2-13 Calculate the account balance for each of the following T-accounts:

| Accounts Receivable | | Cash | | Accounts Payable | |
|---------------------|-------|--------|--------|------------------|-------|
| 2,700 | 2,700 | 67,500 | 4,200 | 1,100 | 4,600 |
| 5,800 | 1,100 | 16,800 | 12,300 | | 700 |
| 4,900 | 850 | | | | |
| | 4,090 | | | | |

Starter 2–14 Compute the missing amount represented by X in each account:

| R. Glennie, Capital | | Accounts Receivable | |
|---------------------|-------------|---------------------|---|
| 22,000 | Bal. X | Bal. 21,800 | X |
| | 56,000 | 55,100 | |
| | 15,000 | Bal. 47,000 | |
| | Bal. 73,000 | | |

Find missing amounts

4

Starter 2–15 Use the information shown below to prepare a trial balance for Balzy Indoor Tennis Club at November 30, 2017.

Preparing a trial balance from T-accounts

4 5

Trial balance total, \$36,240

| Balzy Indoor Tennis Club General Ledger | | | | | | | |
|--|-------|---------------|-------|------------------|-------|---------------------|--------|
| Cash | 10002 | Furniture | 17500 | Accounts Payable | 20001 | Stan Balzy, Capital | 30001 |
| 5,000 | 150 | 5,500 | | 3,000 | 9,640 | | 27,000 |
| 12,600 | 800 | | | 3,000 | 100 | | |
| 955 | 475 | | | | | | |
| 6,200 | 290 | | | | | | |
| Stan Balzy, Withdrawals | 30002 | Sales Revenue | 40001 | Supplies Expense | 51200 | Rent Expense | 53200 |
| 1,200 | | | 5,500 | 2,500 | | 4,000 | |

Starter 2–16 Redwing Floor Covering reported the following summarized data at December 31, 2017. Accounts appear in no particular order.

Preparing a trial balance

5

Trial bal. total, \$75,000

| | | | |
|-----------------------|----------|------------------------|----------|
| Revenue..... | \$32,000 | Other Liabilities..... | \$17,000 |
| Equipment..... | 43,000 | Cash..... | 6,000 |
| Accounts Payable..... | 1,000 | Expenses..... | 26,000 |
| Capital..... | 25,000 | | |

Prepare the trial balance of Redwing Floor Covering at December 31, 2017. List the accounts in proper order, as in Exhibit 2–12 on page 80.

Starter 2–17 Hunter Environmental Consulting prepared its unadjusted trial balance on page 80. Suppose Lisa Hunter made an error: She listed the Capital balance of \$250,000 as a debit rather than a credit by mistake.

Correcting a trial balance

5

Incorrect trial bal. total debits, \$557,000

Compute the incorrect trial balance totals for debits and credits. Then refer to the discussion of correcting errors on pages 80 and 81 and show how to correct this error.

Starter 2–18 Return to Hunter Environmental Consulting’s unadjusted trial balance on page 80. Assume that Lisa Hunter accidentally listed her utilities expense as \$150 instead of the correct amount of \$1,500. Compute the incorrect trial balance totals for debits and credits. Then show how to correct this error, which is called a *slide*.

Correcting a trial balance

5

Incorrect trial bal. total debits, \$305,650

EXERCISES

MyAccountingLab

Exercise 2–1

Your employer, Prairie Tours, has just hired an office manager who does not understand accounting. The Prairie Tours trial balance lists Cash of \$57,800. Write a short memo to the office manager explaining the accounting process that produced this listing on the trial balance. Mention *debits*, *credits*, *journal*, *ledger*, *posting*, and *trial balance*.

Using accounting vocabulary

1

Using accounting vocabulary

1

Exercise 2-2

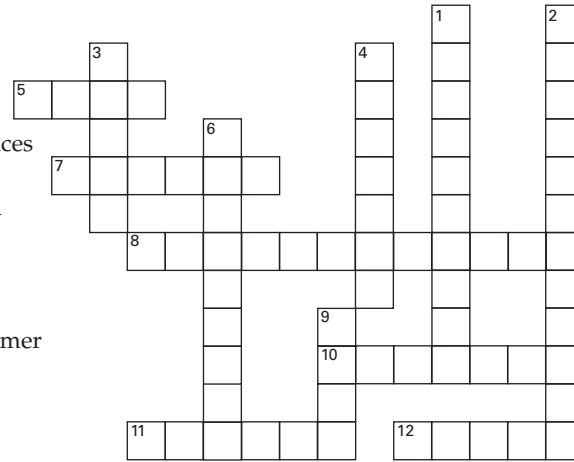
Review accounting terms by completing the following crossword puzzle.

Across:

- Copy data from the journal to the ledger
- Book of accounts
- List of accounts with their balances
- Revenue – net income
- Records an increase in a liability
- Left side of an account

Down:

- Amount collectible from a customer
- Statement of financial position
- An economic resource
- Record of transactions
- “Bottom line” of an income statement
- Another word for liability



Using debits and credits with the accounting equation

1 2

2. Net income, \$2,500

Exercise 2-3

Refer to the Summary Problem for Your Review, specifically the unadjusted trial balance on page 86.

Required

- Write the company’s accounting equation and label each element as a debit amount or a credit amount. If you use \$28,500 for the owner’s equity, why is the accounting equation out of balance?
- Write the equation to compute Bancroft Management Consulting’s net income or net loss for March 2016. Indicate which element is a debit amount and which element is a credit amount. Does net income represent a net debit or a net credit? Does net loss represent a net debit or a net credit?
- How much did the owner, John Cassiar, withdraw during March 2016? Did the withdrawal represent a debit amount or a credit amount?
- Considering both the net income (or net loss) and withdrawal for March 2016, by how much did the company’s owner’s equity increase or decrease? Was the change in owner’s equity a debit amount or a credit amount?

Exercise 2-4

Normal balances

2

For each of the following accounts, indicate the type of account and whether the normal balance of the account is a debit or a credit:

- Interest Revenue
- Accounts Payable
- Chapman Li, Capital
- Office Supplies
- Advertising Expense
- Service Revenue
- Chapman Li, Withdrawals

Exercise 2-5

Analyzing and journalizing transactions

2 3

The following transactions occurred for London Engineering:

- Jul. 2 Received \$10,000 contribution from Bill London in exchange for capital
4 Paid utilities expense of \$400
5 Purchased equipment on account for \$2,100

- 10 Performed services for a client on account, \$2,000
- 12 Borrowed \$7,000 cash, signing a note payable
- 19 The owner, Bill London, withdrew \$500 cash from the business
- 21 Purchased office supplies for \$800 and paid cash.
- 27 Paid the liability from July 5.

Required Journalize the transactions of London Engineering. Include an explanation with each journal entry. Use the following accounts: Cash; Accounts Receivable; Office Supplies; Equipment; Accounts Payable; Notes Payable; B. London, Capital; B. London, Withdrawals; Service Revenue; Utilities Expense.

Exercise 2-6

Analyze the following transactions of Pretty Party Planners in the manner shown for the December 1 transaction. Also, record each transaction in the journal.

Analyzing and journalizing transactions

2 3

- Dec. 1 Paid monthly utilities expense of \$200.
(Analysis: The expense, utilities expense, is increased; therefore, debit Utilities Expense. The asset, cash, is decreased; therefore, credit Cash.)
- | | | | |
|---|-------------------|-----|-----|
| 1 | Utilities Expense | 200 | |
| | Cash | | 200 |
- 4 Borrowed \$20,000 cash, signing a note payable.
 - 8 Purchased equipment on account, \$4,000.
 - 12 Performed service on account for a customer, \$6,000.
 - 19 Sold land for \$24,000 cash that had cost this same amount.
 - 22 Purchased supplies for \$1,200 and paid cash.
 - 27 Paid the liability created on December 8.

Exercise 2-7

Yula's Yoga engaged in the following transactions during March 2017, its first month of operations:

Excel Spreadsheet Template

Journalizing transactions

3

- Mar. 1 The business received a \$15,000 cash investment from Yula Gregore to start Yula's Yoga.
- 1 Paid \$4,000 cash to rent a yoga studio for the month of March.
- 4 Purchased studio supplies for \$4,000 on account.
- 6 Presented a wellness seminar for a corporate customer and received cash, \$3,000.
- 9 Paid \$1,000 on accounts payable.
- 17 Taught yoga classes for customers on account, \$800.

Required Record the preceding transactions in the journal of Yula's Yoga. Identify transactions by their date and include an explanation for each entry, as illustrated in the chapter. Use the following accounts: Cash; Accounts Receivable; Studio Supplies; Accounts Payable; Yula Gregore, Capital; Service Revenue; Rent Expense.

Exercise 2-8

Journalize the following transactions for DJ Services:

Journalize transactions

3

- a. Owner, Liam Deresh, invested \$2,500 cash into the business.
- b. Rented a sound system and paid one month's rent, \$1,100.
- c. Performed DJ services on account, \$1,700.
- d. Paid \$600 cash for equipment.
- e. Owner, Liam Deresh, withdrew \$500 cash for personal use.
- f. Purchased \$40 of supplies for cash.

Journalizing transactions **3**

Exercise 2–9

The first five transactions of Lin’s Tai Chi Retreat have been posted to the company’s accounts as shown here:

| | | | | | |
|------------------------|-----------|-------------------------|---------|---------------------------|-----------|
| Cash | | Supplies | | Exercise Equipment | |
| (1) 7,500 | (3) 5,250 | (2) 275 | | (5) 1,500 | |
| (4) 1,375 | (5) 1,500 | | | | |
| Land | | Accounts Payable | | Note Payable | |
| (3) 5,250 | | | (2) 275 | | (4) 1,375 |
| S. Lin, Capital | | | | | |
| | | | | | (1) 7,500 |

Required Prepare the journal entries that served as the sources for posting the five transactions. Date each entry April 30, 2017, and include an explanation for each entry as illustrated in the chapter.

Describing transactions, posting using T-accounts **3 4**

Exercise 2–10

The journal of Alumet Defensive Driving for July 2016 is shown below:

| Journal | | Page 5 | | |
|---------|---------------------------------|------------|-------|--------|
| 2016 | Account Titles and Explanations | Post. Ref. | Debit | Credit |
| Jul. 2 | Cash | | 5,600 | |
| | Tomas Misheal, Capital | | | 5,600 |
| 9 | Supplies | | 54 | |
| | Accounts Payable | | | 54 |
| 11 | Accounts Receivable | | 1,620 | |
| | Service Revenue | | | 1,620 |
| 14 | Rent Expense | | 1,400 | |
| | Cash | | | 1,400 |
| 22 | Cash | | 280 | |
| | Accounts Receivable | | | 280 |
| 25 | Advertising Expense | | 590 | |
| | Cash | | | 590 |
| 27 | Accounts Payable | | 54 | |
| | Cash | | | 54 |
| 31 | Fuel Expense | | 564 | |
| | Accounts Payable | | | 564 |

Required

1. Describe each transaction.
2. Set up T-accounts using the following account numbers: Cash, #1000; Accounts Receivable, #1200; Supplies, #1400; Accounts Payable, #2000; Tomas Misheal, Capital, #3000; Service Revenue, #4000; Advertising Expense, #5100; Rent Expense, #5600; Fuel Expense, #5800.
3. Post to the T-accounts. Identify each transaction by date. You may write the account numbers as posting references directly in the journal in your book unless directed otherwise by your instructor. Compute the balance in each account after posting.

Exercise 2–11

Practise using a three-column ledger **4**

On July 2, 2017, Efficient Energy Services performed an energy audit for an industrial client and earned \$4,000 of revenue on account. On July 14, 2017, the company received a cheque for the entire amount.

Required

1. Journalize the two transactions on the sixth page of the journal. Include an explanation for each transaction.
2. Create the Accounts Receivable three-column ledger and post the two transactions. The account number for Accounts Receivable is 12001.

Exercise 2–12

Open the following three-column ledger accounts for Yarrow Strategic Consulting at May 1, 2017: Cash, #1100; Accounts Receivable, #1300; Office Supplies, #1500; Office Furniture, #1800; Accounts Payable, #2100; Florence Yarrow, Capital, #3100; Florence Yarrow, Withdrawals, #3200; Consulting Revenue, #4100; Rent Expense, #5500; Salary Expense, #5600.

Journalize the following May 2017 transactions on the ninth page of the journal, then post to the ledger accounts. Use the dates to identify the transactions.

- May 2 Florence Yarrow opened a strategic consulting firm by investing \$39,200 cash and office furniture valued at \$16,200.
- 2 Paid cash for May’s rent of \$2,500.
- 2 Purchased office supplies on account, \$1,800.
- 15 Paid employee salary, \$4,000 cash.
- 17 Paid \$1,200 of the account payable from May 2.
- 19 Performed consulting service on account, \$69,000.
- 30 Withdrew \$8,000 cash for personal use.

Journalizing and posting transactions to a three-column ledger

3 4

Exercise 2–13

Refer to Exercise 2–7 for the transactions of Yula’s Yoga.

Required

1. After journalizing the transactions of Exercise 2–7, post the entries to T-accounts. Identify transactions by their date. Date the ending balance of each account Mar. 31.
2. Prepare the unadjusted trial balance of Yula’s Yoga at March 31, 2017.

Posting transactions using T-accounts, preparing a trial balance

4 5

2. Trial bal. total, \$21,800

Exercise 2–14

Prepare the unadjusted trial balance of Lin’s Tai Chi Retreat at April 30, 2017, using the account data from Exercise 2–9.

Preparing a trial balance

5

Trial bal. total, \$8,950

Exercise 2–15

The accounts of Boots Consulting are listed below with their normal balances at October 31, 2017. The accounts are listed in no particular order.

Excel Spreadsheet Template

Preparing a trial balance

5

Trial bal. total, \$720,600

| Account | Balance |
|-------------------------|-----------|
| M. Boots, capital | \$252,800 |
| Advertising expense | 9,900 |
| Accounts payable | 33,800 |
| Service revenue | 164,000 |
| Land | 174,000 |
| Notes payable | 270,000 |
| Cash | 30,000 |
| Salary expense | 36,000 |
| Building | 390,000 |
| Computer rental expense | 2,000 |
| M. Boots, withdrawals | 36,000 |
| Utilities expense | 2,400 |
| Accounts receivable | 35,000 |
| Supplies expense | 3,800 |
| Supplies | 1,500 |

Required Prepare the company's trial balance at October 31, 2017, listing accounts in the sequence illustrated in the chapter. (Hints: Supplies comes before Building and Land. List the expenses alphabetically.)

Exercise 2–16

Preparing a trial balance
5
 Trial bal. total, \$125,000

After recording the transactions in Exercise 2–12, prepare the unadjusted trial balance of Yarrow Strategic Consulting at May 31, 2017.

Exercise 2–17

Correcting errors in a trial balance
5
 Trial bal. total, \$35,300

The trial balance of Mia's Memories at February 28, 2017, does not balance.

| | | |
|---------------------|-----------------|-----------------|
| Cash | \$ 3,100 | |
| Accounts receivable | 1,900 | |
| Supplies | 700 | |
| Land | 26,100 | |
| Accounts payable | | \$11,400 |
| M. Mia, capital | | 11,900 |
| Service revenue | | 9,600 |
| Rent expense | 900 | |
| Salary expense | 1,600 | |
| Utilities expense | 500 | |
| Total | <u>\$34,800</u> | <u>\$32,900</u> |

Investigation of the accounting records reveals that the bookkeeper made the following errors:

- Recorded a \$400 cash revenue transaction by debiting Accounts Receivable. The credit entry was correct.
- Posted a \$2,000 credit to Accounts Payable as \$200.
- Did not record utilities expense or the related account payable in the amount of \$500.
- Understated M. Mia, Capital by \$100.

Required Prepare the corrected trial balance at February 28, 2017, complete with a heading. Journal entries are not required.

SERIAL EXERCISE

Exercise 2–18 continues with the consulting business of Michael Lee, begun in Serial Exercise 1–17. Here you will account for Lee Management Consulting's transactions as it is actually done in practice.

Exercise 2–18

Recording transactions, preparing a trial balance
2 3 4 5
 4. Trial bal. total, \$37,000

Lee Management Consulting began operations and completed the following transactions during June 2016:

- | | | |
|------|----|--|
| Jun. | 2 | Received \$25,000 cash from owner Michael Lee. The business gave owner's equity in the business to Lee. |
| | 2 | Lee found a great downtown loft from which to operate. He paid cash for rent for the month of June, \$3,000. |
| | 3 | Paid cash for a laptop, \$1,000. The computer is expected to remain in service for four years. (Use the Equipment account for this transaction.) |
| | 4 | Purchased office furniture on account, \$5,000. The furniture is expected to last for five years. |
| | 5 | Purchased supplies on account, \$500. |
| | 9 | Performed consulting services for a client on account, \$3,000. |
| | 12 | Paid utility expenses with cash, \$250. |

- 18 Performed consulting services for a client and received cash of \$2,000.
- 21 Received \$2,000 in advance for client services to be performed at a rate of \$100 per day for a period of 20 days. (Use the liability account Unearned Revenue for this transaction. We will learn more about this account in Chapter 3.)
- 22 Hired an office manager on a part-time basis. She will be paid \$2,000 per month. She started work on Monday, June 25.
- 23 Paid \$500 cash for the account related to supplies purchased on June 5.
- 26 Collected a partial payment of \$1,500 from the consulting client invoiced on June 9.
- 28 Michael Lee withdrew \$2,000 cash for personal use.

Required

1. Open T-accounts in the ledger for Cash; Accounts Receivable; Supplies; Equipment; Furniture; Accounts Payable; Unearned Revenue; Michael Lee, Capital; Michael Lee, Withdrawals; Service Revenue; Rent Expense; Salaries Expense; and Utilities Expense.
2. Journalize the transactions. No explanations are required (to save time).
3. Post to the T-accounts. Identify all items by date and label an account balance as Bal. Formal posting references are not required.
4. Prepare an unadjusted trial balance at June 30, 2016.

CHALLENGE EXERCISES

Exercise 2–19

The owner of Fergus Technical Services is an architect with little understanding of accounting. She needs to compute the following summary information from the accounting records:

- a. Net income for the month of March
- b. Total cash paid during March
- c. Cash collections from customers during March
- d. Payments on account during March

The quickest way to compute these amounts is to analyze the following accounts:

| Account | Balance | | Additional Information for the Month of March |
|-----------------------------|---------|---------|---|
| | Feb. 28 | Mar. 31 | |
| a. B. Fergus, Capital..... | \$1,440 | \$2,400 | Withdrawals, \$640 |
| b. Cash..... | 1,800 | 1,640 | Cash receipts, \$10,720 |
| c. Accounts Receivable..... | 3,840 | 6,160 | Sales on account, \$12,160 |
| d. Accounts Payable..... | 2,080 | 2,560 | Purchases on account, \$508 |

The net income for March can be computed as follows:

| B. Fergus, Capital | | | |
|--------------------|-----|------------------|---------------|
| March Withdrawals | 640 | Feb. 28 Bal. | 1,440 |
| | | March Net Income | $x = \$1,600$ |
| | | March 31 Bal. | 2,400 |

Use a similar approach to compute the other three items.

Exercise 2–20

Bridget Battle has trouble keeping her debits and credits equal. During a recent month, Bridget made the following errors:

- a. In preparing the trial balance, Bridget omitted a \$5,000 note payable.

Computing financial statement amounts

- 2 5
- b. Cash paid, \$10,880

Analyzing accounting errors

- 2 3 5

- b. Bridget recorded a \$340 purchase of supplies on account by debiting Supplies and crediting Accounts Payable for \$430.
- c. In recording a \$200 payment on account, Bridget debited Supplies instead of Accounts Payable.
- d. In journalizing a receipt of cash from service revenue, Bridget debited Cash for \$50 instead of the correct amount of \$500. The credit was correct.
- e. Bridget posted a \$1,000 utility expense as \$100. The credit to Cash was correct.

Required

1. For each of these errors, state whether the total debits equal total credits on the trial balance.
2. Identify each account that has an incorrect balance and indicate the amount and direction of the error (e.g., "Accounts Receivable \$500 too high").

BEYOND THE NUMBERS

Beyond the Numbers 2-1

Creating a chart of accounts

1

Stan Raza asks your advice in setting up the accounting records for his new business, Stan's Bake Shop. The business will be a bakery and will operate in a rented building. Stan's Bake Shop will need office equipment and baking equipment. The business will borrow money using a note payable to buy the needed equipment. Stan's Bake Shop will purchase on account food supplies and office supplies. Each asset has a related expense account, some of which have not yet been discussed. For example, equipment wears out (amortizes) and thus needs an amortization account. As supplies are used up, the business must record a supplies expense.

The business will need an office manager. This person will be paid a weekly salary of \$1,800. Other expenses will include advertising and insurance. Since Stan's Bake Shop will want to know which aspects of the business generate the most and the least revenue, it will use separate service revenue accounts for cupcakes (his specialty!), office catering, and wedding cakes. Stan's Bake Shop's better customers will be allowed to open accounts with the business.

Required List all the accounts Stan's Bake Shop will need, starting with the assets and ending with the expenses. Indicate which accounts will be reported on the balance sheet and which accounts will appear on the income statement.

ETHICAL ISSUE

Associated Charities Trust, a charitable organization in Brandon, Manitoba, has a standing agreement with Prairie Bank. The agreement allows Associated Charities Trust to overdraw its cash balance at the bank when donations are running low. In the past, Associated Charities Trust managed funds wisely and rarely used this privilege. Greg Glowa has recently become the president of Associated Charities Trust. To expand operations, Glowa is acquiring office equipment and spending large amounts for fundraising. During his presidency, Associated Charities Trust has maintained a negative bank balance (a credit Cash balance) of approximately \$28,000.

Required What is the ethical issue in this situation? State why you approve or disapprove of Glowa's management of Associated Charities Trust's funds.

PROBLEMS (GROUP A)

MyAccountingLab

Problem 2–1A

Baycrest Cinema Company owns movie theatres. Baycrest Cinema engaged in the following transactions in November 2016:

- | | | |
|------|----|--|
| Nov. | 1 | Darrell Palusky invested \$350,000 personal cash in the business by depositing that amount in a bank account titled Baycrest Cinema Company. The business gave capital to Palusky. |
| | 1 | Paid November's rent on a theatre building with cash, \$6,000. |
| | 2 | Paid \$320,000 cash to purchase land for a theatre site. |
| | 5 | Borrowed \$220,000 from the bank to finance the first phase of construction of the new theatre. Palusky signed a note payable to the bank in the name of Baycrest Cinema Company. |
| | 10 | Purchased theatre supplies on account, \$1,000. |
| | 16 | Paid employees' salaries of \$2,900 cash. |
| | 22 | Paid \$600 on account. |
| | 28 | Palusky withdrew \$8,000 cash. |
| | 29 | Paid property tax expense on the land for the new theatre, cash of \$1,400. |
| | 30 | Received \$20,000 cash from service revenue and deposited that amount in the bank. |

Baycrest uses the following accounts: Cash; Supplies; Land; Accounts Payable; Notes Payable; Darrell Palusky, Capital; Darrell Palusky, Withdrawals; Service Revenue; Property Tax Expense; Rent Expense; Salaries Expense.

Required

1. Prepare an analysis of each business transaction of Baycrest Cinema Company as shown for the November 1 transaction:

| | |
|--------|---|
| Nov. 1 | The asset cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The owner's equity of the entity is increased. Increases in owner's equity are recorded by credits; therefore, credit Darrell Palusky, Capital. |
|--------|---|
2. Record each transaction in the journal with an explanation, using the account titles given. Identify each transaction by its date.

Problem 2–2A

Zeb Slipewicz opened a renovation business called WeReDoIt Construction on September 3, 2017. During the first month of operations, the business completed the following transactions:

- | | | |
|------|----|---|
| Sep. | 3 | Zeb deposited a cheque for \$72,000 into the business bank account to start the business. |
| | 4 | Purchased supplies, \$600, and furniture, \$4,400, on account. |
| | 5 | Paid September rent expense, \$1,500 cash. |
| | 6 | Performed design services for a client and received \$2,400 cash. |
| | 7 | Paid \$44,000 cash to acquire land for a future office site. |
| | 10 | Designed a bathroom for a client, billed the client, and received her promise to pay the \$5,800 within one week. |
| | 14 | Paid for the furniture purchased September 4 on account. |
| | 15 | Paid assistant's salary, \$940 cash. |
| | 17 | Received cash on account, \$3,400. |
| | 22 | Received \$5,000 cash from a client for renovation of a cottage. |
| | 25 | Prepared a recreation room design for a client on account, \$1,600. |
| | 30 | Paid assistant's salary, \$940 cash. |
| | 30 | Zeb withdrew \$5,600 cash for personal use. |

Analyzing and journalizing transactions

2 3

Journalizing transactions

2 3

Journalizing transactions and posting to ledger accounts

2 3 4

Required Record each transaction in the journal with an explanation. Identify each transaction by date. Use the following accounts: Cash; Accounts Receivable; Supplies; Furniture; Land; Accounts Payable; Z. Slipewicz, Capital; Z. Slipewicz, Withdrawals; Service Revenue; Rent Expense; Salary Expense.

Problem 2–3A

The trial balance of Thomson Engineering at February 28, 2017, is shown below:

| THOMSON ENGINEERING | | | |
|---------------------|-------------------------|-----------------|-----------------|
| Trial Balance | | | |
| February 28, 2017 | | | |
| Account Number | Account | Debit | Credit |
| 1100 | Cash | \$ 4,000 | |
| 1200 | Accounts receivable | 16,000 | |
| 1300 | Supplies | 3,600 | |
| 1600 | Automobile | 37,200 | |
| 2000 | Accounts payable | | \$ 8,000 |
| 3000 | R. Thomson, Capital | | 50,000 |
| 3100 | R. Thomson, Withdrawals | 4,400 | |
| 5000 | Service revenue | | 16,400 |
| 6100 | Rent expense | 2,000 | |
| 6200 | Salary expense | 7,200 | |
| | Total | <u>\$74,400</u> | <u>\$74,400</u> |

During March, Thomson Engineering completed the following transactions:

- Mar. 4 Collected \$600 cash from a client on account.
- 8 Designed a system for a client on account, \$580.
- 13 Paid cash for items purchased on account, \$320.
- 18 Purchased supplies on account, \$120.
- 20 R. Thomson withdrew \$200 cash for personal use.
- 21 Received a verbal promise of a \$2,000 contract.
- 22 Received cash of \$620 for consulting work just completed.
- 31 Paid employees' salaries, \$1,300 cash.

Required

- Record the March transactions in Page 3 of the journal. Include an explanation for each entry.
- Open three-column ledger accounts for the accounts listed in the trial balance, together with their balances at February 28. Enter Bal. (for previous balance) in the Item column, and place a check mark (✓) in the journal reference column for the February 28 balance in each account.
- Post the transactions to the ledger, using dates, account numbers, journal references, and posting references.

Problem 2–4A

Recording transactions, using three-column ledger accounts, preparing a trial balance

2 3 4 5

Sophie Vaillancourt started an investment management business, Vaillancourt Management, on June 1, 2017. During the first month of operations, the business completed the following selected transactions:

- Sophie began the business with an investment of \$20,000 cash, land valued at \$60,000, and a building valued at \$120,000. The business gave Sophie owner's equity in the business for the value of the cash, land, and building.
- Purchased office supplies on account, \$2,600.

- c. Paid \$15,000 cash for office furniture.
- d. Paid employee salary, \$2,200 cash.
- e. Performed consulting service on account for clients, \$12,100.
- f. Paid in cash \$800 of the account payable created in Transaction b.
- g. Received a \$2,000 bill for advertising expense that will be paid in the near future.
- h. Performed consulting services for customers and received cash, \$5,600.
- i. Received cash on account, \$2,400.
- j. Paid the following cash expenses:
 - (1) Rent of photocopier, \$1,700.
 - (2) Utilities, \$400.
- k. Sophie withdrew \$6,500 cash for personal use.

Required

1. Record each transaction in the journal. Use the letters to identify the transactions.
2. Open the following three-column ledger accounts: Cash, #1100; Accounts Receivable, #1300; Office Supplies, #1400; Office Furniture, #1500; Building, #1700; Land, #1800; Accounts Payable, #2100; Sophie Vaillancourt, Capital, #3100; Sophie Vaillancourt, Withdrawals, #3200; Service Revenue, #4100; Advertising Expense, #5100; Equipment Rental Expense, #5300; Salary Expense, #5500; Utilities Expense, #5700.
3. Post to the accounts and keep a running balance for each account.
4. Prepare the unadjusted trial balance of Vaillancourt Management at June 30, 2017.

Problem 2-5A

The owner of Archer Communications, Nancy Archer, is selling the business. She offers the trial balance shown below to prospective buyers.

Analyzing a trial balance

\$
Net income, \$55,000

| ARCHER COMMUNICATIONS | | |
|------------------------------|------------------|------------------|
| Trial Balance | | |
| December 31, 2017 | | |
| Cash | \$ 28,000 | |
| Accounts receivable | 30,500 | |
| Prepaid expenses | 6,000 | |
| Land | 64,000 | |
| Accounts payable | | \$ 62,500 |
| Note payable | | 38,000 |
| N. Archer, capital | | 45,000 |
| N. Archer, withdrawals | 72,000 | |
| Service revenue | | 151,000 |
| Advertising expense | 4,500 | |
| Rent expense | 39,000 | |
| Supplies expense | 10,500 | |
| Wages expense | 42,000 | |
| Total | <u>\$296,500</u> | <u>\$296,500</u> |

Your best friend is considering buying Archer Communications. He seeks your advice in interpreting this information. Specifically, he asks whether this trial balance is the same as a balance sheet and an income statement. He also wonders whether Archer Communications is a sound company because all the accounts are in balance.

Required Write a short note to answer your friend's questions. To aid his decision, state how he can use the information on the trial balance to compute Archer Communications's net income or net loss for the current period. State the amount of net income or net loss in your note.

Correcting errors in a trial balance

2 5

Trial bal. total, \$70,000

Problem 2-6A

The following trial balance does not balance:

| MINTER LANDSCAPE CONSULTING | | |
|-----------------------------|-----------------|-----------------|
| Trial Balance | | |
| June 30, 2017 | | |
| Cash | \$ 1,600 | |
| Accounts receivable | 10,000 | |
| Supplies | 900 | |
| Office furniture | 3,600 | |
| Land | 46,600 | |
| Accounts payable | | \$ 3,800 |
| Notes payable | | 23,000 |
| R. Minter, capital | | 31,600 |
| R. Minter, withdrawals | 2,000 | |
| Consulting service revenue | | 7,300 |
| Advertising expense | 400 | |
| Rent expense | 1,000 | |
| Salary expense | 2,100 | |
| Utilities expense | 410 | |
| Total | <u>\$68,610</u> | <u>\$65,700</u> |

The following errors were detected:

- a. The cash balance is understated by \$1,300.
- b. The cost of the land was \$44,600, not \$46,600.
- c. A \$400 purchase of supplies on account was neither journalized nor posted.
- d. A \$3,000 credit to Consulting Service Revenue was not posted.
- e. Rent Expense of \$200 was posted as a credit rather than a debit.
- f. The balance of Advertising Expense is \$600, but it was listed as \$400 on the trial balance.
- g. A \$300 debit to Accounts Receivable was posted as \$30. The credit to Consulting Service Revenue was correct.
- h. The balance of Utilities Expense is overstated by \$80.
- i. A \$900 debit to the R. Minter, Withdrawals account was posted as a debit to R. Minter, Capital.

Required Prepare the corrected trial balance at June 30, 2017. Journal entries are not required.

Problem 2-7A

Journalizing entries, posting to ledger accounts, preparing a trial balance

2 3 4 5

Trial bal. total, \$452,300

CrossCountry Movers had the following account balances, in random order, on December 15, 2017 (all accounts have their "normal" balances):

| | | | |
|------------------------------|-----------|--------------------------|-----------|
| Moving fees income..... | \$261,600 | Cash..... | \$ 17,200 |
| Accounts receivable..... | 17,400 | Storage fees income..... | 57,900 |
| Rent expense..... | 47,100 | Notes receivable..... | 45,000 |
| H. Martinez, capital..... | 63,000 | Utilities expense..... | 2,400 |
| Office supplies expense..... | 2,100 | Office supplies..... | 9,600 |
| Mortgage payable..... | 39,000 | Accounts payable..... | 33,000 |
| Salaries expense..... | 161,100 | Office equipment..... | 12,300 |
| Insurance expense..... | 6,300 | Moving equipment..... | 132,200 |

The following events took place during the final weeks of the year:

- Dec. 16 The accountant discovered that an error had been made in posting an entry to the Moving Fees Income account. The entry was correctly journalized, but \$2,400 was accidentally posted as \$4,200 in the account.
- 17 Moved a customer's goods to CrossCountry's rented warehouse for storage. The moving fees were \$4,000. Storage fees are \$600 per month. The customer was billed for one month's storage and the moving fees.
- 18 Collected a \$15,000 note owed to CrossCountry Movers and collected interest income of \$1,800 cash.
- 19 Used a company cheque to pay for Martinez's hydro bill in the amount of \$400.
- 21 Purchased storage racks for \$12,000. Paid \$3,600 cash, provided moving services for \$1,500, and promised to pay the balance in 60 days.
- 23 Collected \$3,000 cash; \$2,600 of this was for moving goods on December 15 (recorded as an account receivable at that time) and the balance was for storage fees for the period of December 16 to 23.
- 24 CrossCountry Movers paid cash of \$18,000 owing on the mortgage.
- 27 Martinez withdrew \$5,000 cash for personal use.
- 29 Provided moving services to a lawyer for \$2,400. The lawyer paid CrossCountry Movers \$1,500 and provided legal work for the balance.
- 31 Martinez, the owner of CrossCountry Movers, sold 2,000 shares he held in Brandon Haulage Inc. for \$12,000.

Required

1. Where appropriate, record each transaction from December 16 to 31 in the journal. Include an explanation for each journal entry.
2. Post entries in T-accounts and calculate the balance of each one.
3. Prepare the unadjusted trial balance of CrossCountry Movers at December 31, 2017.

PROBLEMS (GROUP B)

MyAccountingLab

Problem 2-1B

Gladys Yuan is a research analyst who operates under the business title Yuan Research. During April 2017, the company engaged in the following transactions:

Analyzing and journalizing transactions

2 3

- Apr. 1 Yuan deposited \$40,000 cash in the business bank account. The business gave Yuan owner's equity in the business.
- 5 Paid April's rent on a shared office space with cash, \$400.
- 10 Purchased supplies on account, \$600.
- 19 Paid \$100 on account for supplies purchased on April 10.
- 21 Paid \$25,000 cash to purchase land for a future office location.
- 22 Borrowed \$15,000 from the bank for business use. Yuan signed a note payable to the bank in the name of the business.
- 30 Paid cash for employee salaries of \$3,500 and utilities of \$350.
- 30 Revenues earned during the month included \$1,300 cash and \$2,400 on account.
- 30 Yuan withdrew \$1,200 cash from the business for personal use.

Yuan Research uses the following accounts: Cash; Accounts Receivable; Supplies; Land; Accounts Payable; Notes Payable; G. Yuan, Capital; G. Yuan, Withdrawals; Service Revenue; Office Rent Expense; Salaries Expense; Utilities Expense.

Required

1. Prepare an analysis of each business transaction of Yuan Research, as shown for the April 1 transaction:
 - Apr. 1 The asset cash is increased. Increases in assets are recorded by debits; therefore, debit Cash. The owner's equity is increased. Increases in owner's equity are recorded by credits; therefore, credit G. Yuan, Capital.
2. Record each transaction in the journal with an explanation, using the dates and account titles given.

Problem 2-2B

Journalizing transactions

2 3

Scott Jameson opened a translation business on January 2, 2017. During the first month of operations, the business completed the following transactions:

- Jan. 2 The business received \$60,000 cash from Jameson, which was deposited in a business bank account entitled Jameson Translation Service.
- 3 Purchased supplies, \$750, and furniture, \$2,800, on account.
- 3 Paid January's rent expense with cash, \$1,100.
- 4 Performed translation services for a client and received cash, \$2,250.
- 7 Paid \$38,000 cash to acquire land for a future office site.
- 11 Translated a brochure for a client and billed the client \$1,200.
- 15 Paid secretary salary, \$975 cash.
- 16 Paid cash for the furniture purchased January 3 on account.
- 18 Received partial payment from a client on account, \$600 cash.
- 19 Translated legal documents for a client on account, \$11,350.
- 22 Paid cash for the water and electricity bills, \$300.
- 29 Received \$2,700 cash for translation for a client in an overseas business transaction.
- 31 Paid secretary salary, \$975 cash.
- 31 Jameson withdrew \$12,000 cash for personal use.

Required Record each transaction in the journal with an explanation, using the account titles given. Use the following accounts: Cash; Accounts Receivable; Supplies; Furniture; Land; Accounts Payable; Scott Jameson, Capital; Scott Jameson, Withdrawals; Translation Revenue; Rent Expense; Salary Expense; Utilities Expense.

Problem 2-3B

Journalizing transactions and posting to three-column ledger accounts

2 3 4

The trial balance of the online book publishing business of Bobbie Singh at November 15, 2017, is shown below:

| SUNSHINE PUBLISHING | | | |
|---------------------|-----------------------|------------------|------------------|
| Trial Balance | | | |
| November 15, 2017 | | | |
| Account Number | Account | Debit | Credit |
| 1100 | Cash | \$ 16,000 | |
| 1200 | Accounts receivable | 16,000 | |
| 1300 | Supplies | 1,200 | |
| 1900 | Equipment | 70,000 | |
| 2100 | Accounts payable | | \$ 9,200 |
| 4000 | B. Singh, Capital | | 90,000 |
| 4100 | B. Singh, Withdrawals | 4,600 | |
| 5000 | Service revenue | | 14,200 |
| 6000 | Rent expense | 2,000 | |
| 6100 | Salaries expense | 3,600 | |
| | Total | <u>\$113,400</u> | <u>\$113,400</u> |

During the remainder of November, the business completed the following transactions:

- Nov. 16 Collected \$6,000 cash from a client on account.
- 17 Performed publishing services for a client on account, \$2,100.
- 21 Made a payment on account in the amount of \$2,600.
- 22 Purchased supplies on account, \$4,600.
- 23 Singh withdrew \$2,100 cash for personal use.
- 24 Was advised that Desk Top Inc. was prepared to buy all of Sunshine Publishing for \$67,800.
- 26 Received \$11,900 cash for design work just completed.
- 30 Paid employees' salaries, \$2,700 cash.

Required

1. Record the transactions that occurred during November 16 through 30 on Page 6 of the journal. Include an explanation for each entry.
2. Post the transactions to three-column accounts in the ledger, using dates, account numbers, journal references, and posting references. Open the ledger accounts listed in the trial balance together with their balances at November 15. Enter *Bal.* (for previous balance) in the Item column, and place a check mark (✓) in the journal reference column for the November 15 balance of each account.

Problem 2-4B

Bill Ronalds started a catering service called Blue Ribbon Catering. During the first month of operations, January 2017, the business completed the following selected transactions:

- a. Ronalds began the company with an investment of \$50,000 cash and a van (automobile) valued at \$26,000. The business gave Ronalds owner's equity in the business.
- b. Paid \$8,000 cash for food service equipment.
- c. Purchased supplies on account, \$14,800.
- d. Paid employee salary, \$12,600 cash.
- e. Received \$4,000 cash for a catering job.
- f. Performed services at a wedding on account, \$8,600.
- g. Paid \$12,000 cash as a partial payment for Transaction c.
- h. Received a \$1,600 bill for advertising expense that will be paid in the near future.
- i. Received cash on account, \$2,200.
- j. Paid the following cash expenses:
 - (1) Rent, \$3,000.
 - (2) Insurance, \$1,600.
- k. Ronalds withdrew \$12,000 cash for personal use.

Recording transactions, using three-column ledger accounts, preparing a trial balance

2 3 4 5

Required

1. Record the transactions in the journal. Use the letters to identify the transactions.
2. Open the following three-column ledger accounts: Cash, #1100; Accounts Receivable, #1300; Supplies, #1500; Food Service Equipment, #1600; Automobile, #1700; Accounts Payable, #2100; B. Ronalds, Capital, #3100; B. Ronalds, Withdrawals, #3200; Service Revenue, #4100; Advertising Expense, #5100; Insurance Expense, #5500; Rent Expense, #5700; Salary Expense, #5800.
3. Post to the accounts and keep a running balance for each account.
4. Prepare the unadjusted trial balance of Blue Ribbon Catering at January 31, 2017.

Analyzing a trial balance

5

Problem 2-5B

Ricky Ricardo, the owner of Online Designs, is selling the business. He offers the trial balance below to prospective buyers.

| ONLINE DESIGNS Trial Balance December 31, 2017 | | |
|--|------------------|------------------|
| Cash | \$ 36,000 | |
| Accounts receivable | 10,000 | |
| Prepaid expenses | 4,000 | |
| Land | 78,000 | |
| Accounts payable | | \$ 72,000 |
| Note payable | | 44,000 |
| R. Ricardo, capital | | 76,000 |
| R. Ricardo, withdrawals | 30,000 | |
| Service revenue | | 130,000 |
| Advertising expense | 26,000 | |
| Rent expense | 24,000 | |
| Supplies expense | 18,000 | |
| Wages expense | 96,000 | |
| Total | <u>\$322,000</u> | <u>\$322,000</u> |

Your best friend is considering buying Online Designs. She seeks your advice in interpreting this information. Specifically, she asks whether this trial balance is the same as a balance sheet and an income statement. She also wonders whether Online Designs is a sound company. She thinks it must be because the accounts are in balance.

Required Write a short note to answer your friend's questions. To aid her decision, state how she can use the information on the trial balance to compute Online Designs's net income or net loss for the current period. State the amount of net income or net loss in your note.

Problem 2-6B

Correcting errors in a trial balance

2 5

The trial balance for Mackle Fitness, shown below, does not balance.

| MACKLE FITNESS Trial Balance July 31, 2017 | | |
|--|------------------|------------------|
| Cash | \$ 47,000 | |
| Accounts receivable | 30,000 | |
| Supplies | 7,500 | |
| Office furniture | 34,500 | |
| Fitness equipment | 600,000 | |
| Accounts payable | | \$ 30,000 |
| Notes payable | | 194,500 |
| G. Mackle, Capital | | 442,500 |
| G. Mackle, Withdrawals | 55,500 | |
| Service revenue | | 73,500 |
| Salary expense | 42,500 | |
| Rent expense | 9,000 | |
| Advertising expense | 6,000 | |
| Utilities expense | 3,000 | |
| Total | <u>\$835,000</u> | <u>\$740,500</u> |

The following errors were detected:

- The cash balance is overstated by \$6,000.
- Rent expense of \$3,000 was posted as a credit rather than a debit.

- c. The balance of Advertising Expense is \$4,500, but it is listed as \$6,000 on the trial balance.
- d. A \$9,000 debit to Accounts Receivable was posted as \$900.
- e. The balance of Utilities Expense is understated by \$900.
- f. A \$19,500 debit to the G. Mackle, Withdrawals account was posted as a debit to G. Mackle, Capital.
- g. A \$1,500 purchase of supplies on account was neither journalized nor posted.
- h. An \$87,000 credit to Service Revenue was not posted.
- i. Office furniture should be listed in the amount of \$19,500.

Required Prepare the corrected trial balance at July 31, 2017. Journal entries are not required.

Problem 2-7B

Maquina Lodge, owned by Bob Palmiter, had the following account balances, in random order, on December 15, 2017 (all accounts have their “normal” balances):

| | | | |
|-------------------------------|-----------|-------------------------|----------|
| Guest revenue..... | \$309,000 | Furniture..... | \$57,800 |
| Accounts receivable..... | 8,800 | Cash..... | 3,800 |
| Equipment rental expense..... | 11,800 | Notes receivable..... | 26,000 |
| B. Palmiter, capital..... | 209,800 | Utilities expense..... | 21,000 |
| Supplies expense..... | 2,800 | Supplies inventory..... | 5,800 |
| Mortgage payable..... | 30,000 | Accounts payable..... | 12,000 |
| Salaries expense..... | 81,000 | Office equipment..... | 10,200 |
| Insurance expense..... | 6,800 | Boating equipment..... | 96,800 |
| Building..... | 200,000 | Land..... | 30,000 |

Journalizing entries, posting to ledger accounts, preparing a trial balance

2 3 4 5

The following events also took place during the final weeks of the year:

- Dec. 16 The accountant discovered that an error had been made in posting an entry to the Guest Revenue account. The entry was correctly journalized, but \$4,200 was accidentally posted as \$2,400 in the account.
- 17 Signed an agreement to let a retired professor move in during the off season for a long stay, beginning today. The monthly rate is \$3,200 payable at the beginning of each month. The professor paid \$1,550 cash for the remainder of December.
- 18 Collected an \$18,000 note owed to Maquina and collected interest of \$2,400 cash.
- 21 Purchased boating equipment for \$14,000 from Boats Unlimited. Maquina Lodge paid \$5,000 cash, provided room rentals for \$1,600 to Boats Unlimited, and promised to pay the balance in 60 days.
- 23 Collected \$2,800 cash for rooms for a conference held from December 16 to 23.
- 24 Maquina Lodge paid \$2,000 cash owing on the mortgage.
- 27 Palmiter withdrew \$14,000 cash for personal use.
- 29 Provided meeting rooms to a lawyer for \$2,000. The lawyer paid Maquina Lodge \$1,100 cash and provided legal work for the balance.

Required

1. Where appropriate, record each transaction from December 16 to 29 in the journal. Include an explanation for each entry.
2. Post entries in T-accounts and calculate the balance of each one.
3. Prepare the unadjusted trial balance of Maquina Lodge at December 31, 2017.

CHALLENGE PROBLEMS

Understanding the rules of debit and credit

2

Problem 2–1C

Some individuals, for whatever reason, do not pay income tax or pay less than they should. Often their business transactions are cash transactions, so there is no paper trail to prove how much or how little they actually earned. Canada Revenue Agency, however, has a way of dealing with these individuals; they use a model (based on the accounting equation) to calculate how much the individual must have earned.

Canada Revenue Agency is about to audit Donna Wynn for the period January 1, 2017, to December 31, 2017. Wynn buys and sells collectible coins for cash. Wynn had \$8,000 cash and no other assets or liabilities at January 1, 2017.

Required

1. Use the accounting equation (specifically owner's equity) to explain how the Canada Revenue Agency model will be used to audit Donna.
2. What do you think are the accounting concepts underlying the model?

Problem 2–2C

Using a formal accounting system

3 4

Over the years you have become friendly with a farmer, Jack Russell, who raises crops, which he sells, and has small herds of beef cattle and sheep. Russell maintains his basic herds and markets the calves and lambs each fall. His accounting system is quite simple; all his transactions are in cash. Russell pays tax each year on his income, which he estimates. He indicated to you once that he must be doing it right because Canada Revenue Agency audited him recently and assessed no additional tax.

You are taking your first accounting course and are quite impressed with the information one can gain from a formal accounting system.

Required Explain to Russell why it would be to his advantage to have a more formal accounting system with accounts, ledgers, and journals.

Problem 2–3C

Understanding the rules of debit and credit, preparing a trial balance

2 5

Trial bal. total, \$14,981

| | | | |
|--------------------------|---------|-----------------------|---------|
| Cash..... | \$2,840 | Notes Payable..... | \$1,200 |
| Accounts Receivable..... | 3,331 | Fees Income..... | 2,380 |
| Supplies..... | 800 | Salaries Expense..... | 3,400 |
| Equipment..... | 3,000 | Office Expense..... | 910 |
| Accounts Payable..... | 2,666 | | |

Each of the above accounts has a normal balance in the ledger of Kala's Cabinet Konnection at December 31, 2017. An examination of the ledger and journal reveals the following errors:

- a. Cash received from a customer on account was debited for \$570 and Accounts Receivable was credited for the same amount. The actual collection was for \$750.
- b. The purchase of a computer monitor on account for \$350 was recorded as a debit to Supplies for \$350 and a credit to Accounts Payable for \$350.
- c. Services were performed on account for a client for \$890. Accounts Receivable was debited for \$890 and Fees Income was credited for \$89.
- d. A debit posting to Salaries Expense of \$900 was omitted.
- e. A payment on account for \$206 was credited to Cash for \$206 and credited to Accounts Payable for \$260.
- f. The withdrawal of \$600 cash for Kat Kala's personal use was debited to Salaries Expense for \$600 and credited to Cash for \$600.

Required

1. For each item above, describe how a correction would be made, either by giving a correcting journal entry or by describing how a posting error would be corrected in the ledger.
2. Prepare the trial balance for Kala's Cabinet Konnection after the corrections are made.

EXTENDING YOUR KNOWLEDGE

DECISION PROBLEMS

Decision Problem 1

Your friend, Amin Akmal, has asked your advice about the effects that certain business transactions will have on his business. His business, Car Finders, finds the best deals on automobiles for clients. Time is short, so you cannot journalize transactions. Instead, you must analyze the transactions and post them directly to T-accounts. Akmal will continue in the business only if he can expect to earn monthly net income of \$8,000. The business had the following transactions during March 2017:

- Akmal deposited \$50,000 cash in a business bank account.
- The business borrowed \$8,000 cash from the bank, which is recorded as a note payable due within one year.
- Purchased for cash a vehicle to drive clients to appointments, \$27,000.
- Paid \$1,600 cash for supplies.
- Paid cash for advertising in the local newspaper, \$1,200.
- Paid the following cash expenses for one month: commission, \$12,400; office rent, \$800; utilities, \$600; gas, \$1,000; interest, \$200.
- Earned revenue on account, \$20,600.
- Earned \$7,500 revenue and received cash.
- Collected cash from customers on account, \$2,400.

Required

- Open the following T-accounts: Cash; Accounts Receivable; Supplies; Vehicle; Notes Payable; Amin Akmal, Capital; Advertising Revenue; Advertising Expense; Interest Expense; Rent Expense; Commission Expense; Gas Expense; Utilities Expense.
- Record the transactions directly in the T-accounts without using a journal. Identify each transaction by its letter.
- Prepare an unadjusted trial balance at March 31, 2017. List expenses alphabetically.
- Compute the amount of net income or net loss for this first month of operations. Would you recommend Akmal continue in business?

Decision Problem 2

Although all the following questions deal with the accounting equation, they are not related:

- Explain the advantages of double-entry bookkeeping to a friend who is opening a used-book store.
- When you deposit money in your bank account, the bank credits your account. Is the bank misusing the word *credit* in this context? Why does the bank use the term *credit* to refer to your deposit and not *debit*?
- Your friend asks, "When revenues increase assets and expenses decrease assets, why are revenues credits and expenses debits and not the other way around?" Explain to your friend why revenues are credits and expenses are debits.

Recording transactions directly in the ledger, preparing a trial balance, measuring net income or loss

2 3 4 5

3. Trial bal. total, \$86,100

Using the accounting equation

2

FINANCIAL STATEMENT CASES

Examining financial statements

1

Financial Statement Case 1

Refer to the Indigo Books & Music Inc.'s (Indigo) financial statements in Appendix A at the end of this book or on MyAccountingLab. Answer the following questions:

1. In what currency are Indigo's financial statements presented?
2. How are the dollar amounts on the Indigo financial statements presented?
3. On what exact date were the most recent Indigo financial statements prepared?
4. Does Indigo follow IFRS? How do you know?

Journalizing transactions

2 3

Financial Statement Case 2

This problem helps to develop journalizing skills by using an actual company's account titles for a selected set of accounts. Refer to the TELUS Corporation's (TELUS) financial statements that appear on MyAccountingLab. Assume TELUS completed the following selected (fictitious) transactions during December 2013:

- a. Made sales on account, \$950.
- b. Paid cash for goods, \$1,100.
- c. Paid annual financing costs of \$447.
- d. Collected accounts receivable of \$2,100.
- e. Paid cash for prepaid rent, \$24.
- f. Purchased equipment on account for \$550.
- g. Paid cash for services, \$1,800.

Required

1. Set up T-accounts for Cash (debit balance of \$1,607); Accounts Receivable (debit balance of \$2,611); Prepaid Expenses (debit balance of \$144); Property, Plant, and Equipment (debit balance of \$7,878); Accounts Payable and Accrued Liabilities (credit balance of \$1,185); Service Revenue (credit balance of \$9,651); Goods and Services Purchased (debit balance of \$2,062); Financing Costs (\$0 balance).
2. Journalize TELUS's Transactions a to g. Explanations are not required.
3. Post to T-accounts and compute the balance for each account. Identify each posting by its transaction letter.
4. For each of the accounts, compare your balances to TELUS's actual balances as shown on the December 31, 2013, balance sheet and income statement. All your amounts should agree with the actual figures rounded to the nearest dollar.

Cash

Accounts receivable

Prepaid expenses

Property, plant, and equipment

Accounts payable and accrued liabilities

Service revenue

Goods and services purchased

Financing costs

5. Balance sheet and income statement accounts listed are really categories representing summarized account balances. List three accounts that would be reflected in each of the following categories:
 - a. Property, plant, and equipment
 - b. Accounts payable and accrued liabilities
 - c. General and administration expenses

>Try It! SOLUTIONS FOR CHAPTER 2

1. Salary Payable L Salary Expense E
 Land A Rent Revenue R
 L. Graham, Capital OE Computer Equipment A
 Rent Expense E Notes Payable L
 Supplies A Prepaid Rent A
 Accounts Payable L L. Graham, Withdrawals OE

2. 10100 Cash
 10200 Accounts Receivable
 10400 Furniture and Fixtures
 20100 Accounts Payable
 20500 Income Taxes Payable
 30100 L. Starks, Capital
 30200 L. Starks, Withdrawals
 40100 Service Revenue
 50600 Rent Expense

3. Accounts Payable L; Cr Cash A; Dr
 Service Revenue R; Cr Rent Expense E; Dr
 K. Lockyer, Withdrawals OE; Dr Vehicles A; Dr
 Rent Revenue R; Cr Notes Payable L; Cr
 Accounts Receivable A; Dr Land A; Dr
 Insurance Expense E; Dr K. Lockyer, Capital OE; Cr

4. a. Increases
 Dr Accounts Receivable Dr Salary Expense
 Cr John Ladner, Capital Cr Interest Payable
 Cr Service Revenue Dr Furniture
 b. Decreases
 Dr Notes Payable Cr Land
 Cr Cash Dr Accounts Payable
 Dr Income Tax Payable Cr Income Tax Expense

5. a. A company purchases supplies on account—invoice received from a vendor
 b. A company pays for the supplies it purchased in Transaction a.—bank cheque
 c. A company performs services on account for a college—invoice sent to a customer
 d. The college pays the company for the services performed in Transaction c.—bank deposit slip
 e. A customer pays the company immediately for services performed—bank deposit slip
 f. The company hires a student to provide office support during the summer—no source document since this is not a transaction.

6. Sep. 4 The asset, cash, is increased; therefore, debit Cash.
 The liability, note payable, is increased; therefore, credit Notes Payable.
 Sep. 8 The asset, accounts receivable, is increased; therefore, debit Accounts Receivable.
 The revenue, service revenue, is increased; therefore, credit Service Revenue.
 Sep. 12 The asset, equipment, is increased; therefore, debit Equipment.
 The liability, accounts payable, is increased; therefore, credit Accounts Payable.
 Sep. 24 The asset, supplies, is increased; therefore, debit Supplies.
 The asset, cash, is decreased; therefore, credit Cash.
 Sep. 27 The liability, accounts payable, is decreased; therefore, debit Accounts Payable.
 The asset, cash, is decreased; therefore, credit Cash.

7. a., b., and c.

| Cash # 101 | |
|------------|--------|
| Bal. | 3,000 |
| Sep. 4 | 10,000 |
| Bal. | 10,260 |

| Accounts Receivable # 103 | |
|---------------------------|-------|
| Sep. 8 | 3,000 |
| Bal. | 3,000 |

| Supplies # 105 | |
|----------------|-----|
| Sep. 24 | 600 |
| Bal. | 600 |

| Equipment # 107 | |
|-----------------|-------|
| Sep. 12 | 2,000 |
| Bal. | 2,000 |

| Land # 110 | |
|------------|--------|
| Bal. | 29,000 |
| Bal. | 29,000 |

| Accounts Payable # 201 | |
|------------------------|-------|
| Sep. 27 | 2,000 |
| Sep. 12 | 2,000 |
| Bal. | 0 |

| Notes Payable # 205 | |
|---------------------|--------|
| Sep. 4 | 10,000 |
| Bal. | 10,000 |

| R. Peterson, Capital # 301 | |
|----------------------------|--------|
| Bal. | 32,000 |
| Bal. | 32,000 |

| Service Revenue # 401 | |
|-----------------------|-------|
| Sep. 8 | 3,000 |
| Bal. | 3,000 |

| Utilities Expense # 501 | |
|-------------------------|-----|
| Sep. 1 | 140 |
| Bal. | 140 |

Total debits: \$10,260 + \$3,000 + \$600 + \$2,000 + \$29,000 + \$140 = \$45,000

Total credits: \$10,000 + \$32,000 + \$3,000 = \$45,000

8.

| Supplies Expense | | Accounts Payable | | Cash | |
|------------------|--|------------------|--------------|---------------|------------|
| 110 | | 150 | 400 | 5,000 | 150 |
| 290 | | 800 | 2,900 | 12,600 | 800 |
| 544 | | 475 | 1,600 | 926 | 475 |
| 944 | | | 750 | 6,200 | 290 |
| | | | 4,225 | 23,011 | |

Supplies Expense = \$110 + 290 + 544 = \$944

Accounts Payable = \$400 + 2,900 + 1,600 + 750 - 150 - 800 - 475 = \$4,225

Cash = \$5,000 + 12,600 + 926 + 6,200 - 150 - 800 - 475 - 290 = \$23,011

9. (1) The ending balance (X) for Cash is:

$$X = \$10,000 + 20,000 - \$13,000$$

$$X = \$17,000$$

(2) We are given the beginning and ending balances. We can

compute the debit entry as follows:

$$\$12,800 + \$45,600 - X = \$23,500$$

$$\$12,800 + \$45,600 - \$23,500 = X$$

$$X = \$34,900$$

10.

| Journal | | | | | Page 1 |
|---------|-----------------------------------|------------|--------|--------|--------|
| Date | Account Titles and Explanations | Post. Ref. | Debit | Credit | |
| Sep. 1 | Utilities Expense | | 140 | | |
| | Cash | | | 140 | |
| | Paid monthly utilities expense. | | | | |
| 4 | Cash | | 10,000 | | |
| | Note Payable | | | 10,000 | |
| | Borrowed cash on a note payable. | | | | |
| 8 | Accounts Receivable | | 3,000 | | |
| | Service Revenue | | | 3,000 | |
| | Performed service on account. | | | | |
| 12 | Equipment | | 2,000 | | |
| | Accounts Payable | | | 2,000 | |
| | Purchased equipment on account. | | | | |
| 24 | Supplies | | 600 | | |
| | Cash | | | 600 | |
| | Purchased supplies and paid cash. | | | | |
| 27 | Accounts Payable | | 2,000 | | |
| | Cash | | | 2,000 | |
| | Paid the September 12 liability. | | | | |

11.

| SHINY FLOOR CLEANING | | |
|----------------------|-----------------|-----------------|
| Trial Balance | | |
| December 31, 2016 | | |
| Account | Debit | Credit |
| Cash | \$13,000 | |
| Accounts receivable | 12,500 | |
| Supplies | 7,500 | |
| Equipment | 2,000 | |
| Accounts payable | | \$ 1,000 |
| S. Shaw, capital | | 15,000 |
| S. Shaw, withdrawals | 5,000 | |
| Cleaning revenue | | 30,000 |
| Supplies expense | 6,000 | |
| Total | <u>\$46,000</u> | <u>\$46,000</u> |

12.

| SHINY FLOOR CLEANING | | |
|-------------------------|-----------------|-----------------|
| Incorrect Trial Balance | | |
| December 31, 2016 | | |
| Account | Debit | Credit |
| Cash | \$13,000 | |
| Accounts receivable | 12,500 | |
| Supplies | 7,500 | |
| Equipment | 200* | |
| Accounts payable | | \$ 1,000 |
| S. Shaw, capital | | 15,000 |
| S. Shaw, withdrawals | 5,000 | |
| Cleaning revenue | | 30,000 |
| Supplies expense | 6,000 | |
| Total | <u>\$44,200</u> | <u>\$46,000</u> |

* Incorrect; should be listed as \$2,000.

To correct this error:

1. Take the difference between total debits and total credits: $\$44,200 - \$46,000 = \$1,800$
2. Divide the error by 9: $\$1,800/9 = \200
3. Locate \$200 on the trial balance. Equipment, at \$200, holds the error. Trace the Equipment balance back to the ledger account, which shows the correct amount of \$2,000.
4. Correct the trial balance.