

***College Accounting A Practical Approach 14th  
edition Slater Solutions Manual***

SKU: 9780134833187-SOLUTIONS

# 2

## Debits and Credits: Analyzing and Recording Business Transactions

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

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

## SOLUTIONS TO CONCEPT CHECKS

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

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

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

2.

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

3.

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

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

## SOLUTIONS TO SET A EXERCISES

### 2A-1. Balance Sheet Accounts

#### Assets

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

#### Liabilities

- 211 Accounts Payable

#### Owner's Equity

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

### Income Statement Accounts

#### Revenue

- 411 Legal Fees

#### Expenses

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

### 2A-2.

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

**EXERCISES (CONTINUED)**

2A-3.

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

2A-4.

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

## EXERCISES (CONTINUED)

2A-5.

(1)

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

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

(2)

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

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

(3)

### HELM'S CLEANERS BALANCE SHEET MARCH 31, 201X

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

## SOLUTIONS TO SET B EXERCISES

### 2B-1. Balance Sheet Accounts

#### Assets

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

#### Liabilities

- 211 Accounts Payable

#### Owner's Equity

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

### Income Statement Accounts

#### Revenue

- 411 Legal Fees Earned

#### Expenses

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

### 2B-2.

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

**EXERCISES (CONTINUED)**

2B-3.

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

2B-4.

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

# EXERCISES (CONTINUED)

2B-5.

(1)

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

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

(2)

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

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

(3)

## HILTON'S CLEANERS BALANCE SHEET JANUARY 31, 201X

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

## SOLUTIONS TO SET A PROBLEMS

### PROBLEM 2A-1

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

\* A subdivision of Owner's Equity

## PROBLEM 2A-2

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

| Office Equipment 121 |  |
|----------------------|--|
| (B) 1,000            |  |

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

| Bud Peters, Capital 311 |            |
|-------------------------|------------|
|                         | 34,000 (A) |

| Bud Peters, Withdrawals 312 |  |
|-----------------------------|--|
| (D) 80                      |  |

| Consulting Fees Earned 411 |           |
|----------------------------|-----------|
|                            | 3,100 (C) |

| Advertising Expense 511 |  |
|-------------------------|--|
| (E) 650                 |  |

| Rent Expense 512 |  |
|------------------|--|
| (F) 900          |  |

# **PROBLEM 2A-3**

(a)

|                         |           |
|-------------------------|-----------|
| Cash 111                |           |
| (A) 17,000              | 600 (D)   |
| (G) 5,500               | 100 (E)   |
|                         | 100 (F)   |
|                         | 340 (H)   |
|                         | 320 (I)   |
| 22,500                  | 1,460     |
| Bal 21,040              |           |
| Accounts Receivable 112 |           |
| (B) 11,000              | 5,500 (G) |
| Bal 5,500               |           |
| Office Equipment 121    |           |
| (C) 1,400               |           |
| (H) 340                 |           |
| Bal 1,740               |           |

|                             |            |
|-----------------------------|------------|
| Accounts Payable 211        |            |
| (D) 600                     | 1,400 (C)  |
|                             | 800 Bal    |
| Brian Jett, Capital 311     |            |
|                             | 17,000 (A) |
| Brian Jett, Withdrawals 312 |            |
| (I) 320                     |            |

|                          |            |
|--------------------------|------------|
| Cleaning Fees Earned 411 |            |
|                          | 11,000 (B) |
| Rent Expense 511         |            |
| (F) 100                  |            |
| Utilities Expense 512    |            |
| (E) 100                  |            |

(b)

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

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

**PROBLEM 2A-4**

(a)

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

|                            |    |   |   |   |  |     |   |   |   |
|----------------------------|----|---|---|---|--|-----|---|---|---|
| <b>Revenue:</b>            |    |   |   |   |  |     |   |   |   |
| Revenue from Legal Fees    |    |   |   |   |  | \$1 | 6 | 0 | 0 |
|                            |    |   |   |   |  |     |   |   |   |
| <b>Operating Expenses:</b> |    |   |   |   |  |     |   |   |   |
| Utilities Expense          | \$ | 1 | 5 | 0 |  |     |   |   |   |
| Rent Expense               |    | 3 | 5 | 0 |  |     |   |   |   |
| Salaries Expense           |    | 1 | 5 | 0 |  |     |   |   |   |
| Total Operating Expenses   |    |   |   |   |  |     | 6 | 5 | 0 |
| Net Income                 |    |   |   |   |  | \$  | 9 | 5 | 0 |
|                            |    |   |   |   |  |     |   |   |   |

(b)

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

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

(c)

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

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

## PROBLEM 2A-5

(1, 2)

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

**PROBLEM 2A-5 (CONTINUED)**

(3)

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

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

(4a)

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

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

**PROBLEM 2A-5 (CONCLUDED)**

(4b)

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

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

(4c)

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

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

## SOLUTIONS TO SET B PROBLEMS

### PROBLEM 2B-1

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

## PROBLEM 2B-2

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

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

# **PROBLEM 2B-3**

(a)

|                                                                                                                                                                                                                                                                         |                                                                                                                        |                                                                                    |                                                                                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| <div> <div>Cash111</div> <div> <div>7,000 (A)</div> <div>2,000 (G)</div> </div> <div> <div>400 (D)</div> <div>500 (E)</div> <div>550 (F)</div> <div>550 (H)</div> <div>320 (I)</div> </div> <div> <div>9,000</div> <div>2,320</div> </div> <div>Bal. 6,680</div> </div> | <div> <div>Accounts Payable211</div> <div> <div>400 (D)</div> <div>2,100 (C)</div> <div>1,700 Bal.</div> </div> </div> | <div> <div>Cleaning Fees Earned411</div> <div> <div>11,000 (B)</div> </div> </div> | <div> <div>Brent Jane, Capital311</div> <div> <div>7,000 (A)</div> </div> </div> |
| <div> <div>Accounts Receivable112</div> <div> <div>11,000 (B)</div> <div>2,000 (G)</div> </div> <div>Bal. 9,000</div> </div>                                                                                                                                            | <div> <div>Brent Jane, Withdrawals312</div> <div> <div>320 (I)</div> </div> </div>                                     | <div> <div>Rent Expense511</div> <div> <div>550 (F)</div> </div> </div>            | <div> <div>Utility Expense512</div> <div> <div>500 (E)</div> </div> </div>       |
| <div> <div>Office Equipment121</div> <div> <div>2,100 (C)</div> <div>550 (H)</div> </div> <div>Bal. 2,650</div> </div>                                                                                                                                                  |                                                                                                                        |                                                                                    |                                                                                  |

(b)

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

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

**PROBLEM 2B-4**

(a)

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

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

(b)

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

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

(c)

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

**ASSETS**
**LIABILITIES AND OWNER'S EQUITY**

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

## PROBLEM 2B-5

(1, 2)

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

**PROBLEM 2B-5 (CONTINUED)**  
**(3)**

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

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

(4a)

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

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

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

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

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

(4c)

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

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

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

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

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

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

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

|              |  |
|--------------|--|
| 10,970 (bal) |  |
|--------------|--|

| Falco, Withdrawals 3010 |  |
|-------------------------|--|
| 1,500 (bal)             |  |

| Utilities Expense 5030 |  |
|------------------------|--|
| 100 (bal)              |  |

| Postage Expense 5070 |  |
|----------------------|--|
| 20 (r)               |  |

| Accounts Receivable 1020 |  |
|--------------------------|--|
| 1,100 (o)                |  |

| Office Equipment 1090 |  |
|-----------------------|--|
| 1,500 (bal)           |  |

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

| Phone Expense 5040 |  |
|--------------------|--|
| 200(k)             |  |

|  |  |
|--|--|
|  |  |
|--|--|

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

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

| Advertising Expense 5010 |  |
|--------------------------|--|
| 500(n)                   |  |

| Supplies Expense 5050 |  |
|-----------------------|--|
| 0                     |  |

|  |  |
|--|--|
|  |  |
|--|--|

| Computer Shop Equipment 1080 |  |
|------------------------------|--|
| 1,260 (bal)                  |  |

| Falco, Capital 3000 |              |
|---------------------|--------------|
|                     | 12,500 (bal) |

| Rent Expense 5020 |  |
|-------------------|--|
| 800 (bal)         |  |

| Insurance Expense 5060 |  |
|------------------------|--|
| 300 (l)                |  |

|  |  |
|--|--|
|  |  |
|--|--|

# Assignment 4

## SUAREZ COMPUTER CENTER TRIAL BALANCE AUGUST 31, 201X

Dr.

Cr.

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

# Assignment 5

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

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

Assignment 5 (Concluded)

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

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

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

**ASSETS**

**LIABILITIES AND OWNER'S EQUITY**

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

## **Chapter 2**

# **Debits and Credits: Analyzing and Recording Business Transactions**

### **Chapter Overview**

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

### **Learning Objectives**

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

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

## Chapter 2 Assignment Grid

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

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

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

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

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

### **Lecture Outline:**

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

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

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

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

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

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

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

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

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

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

**Lecture Outline:**

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

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

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

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

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

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

**Key Concepts:** Trial balance

### **Lecture Outline:**

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

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

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

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

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

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

**CHAPTER 2**  
**TEN-MINUTE QUIZ**

**Circle the letter of the best response.**

1. Although debits increase assets, they also
  - a. increase revenues
  - b. increase expenses
  - c. increase owner's equity
  - d. increase liabilities
  
2. The right side of a T account is the
  - a. increase side
  - b. decrease side
  - c. credit side
  - d. debit side
  
3. A compound entry is
  - a. an entry involving more than one debit or credit
  - b. an entry involving multiple transactions
  - c. an entry involving more than one date
  - d. an entry increasing and decreasing the same account
  
4. Which of the following accounts has a normal debit balance?
  - a. Mia Wong, Capital
  - b. Cash
  - c. Accounts Payable
  - d. Fees Earned
  
5. Which of the following accounts has a normal credit balance?
  - a. Office Equipment
  - b. Salaries Expense
  - c. Accounts Receivable
  - d. Accounts Payable
  
6. Payment of salaries to employees is recorded as a(n)
  - a. asset
  - b. liability
  - c. revenue
  - d. expense
  
7. The trial balance
  - a. shows the income earned during the year
  - b. shows the total amount of assets
  - c. shows the accuracy of the general ledger
  - d. is the first financial statement prepared
  
8. Which account is shown on the balance sheet?
  - a. Cash
  - b. Utilities Expense

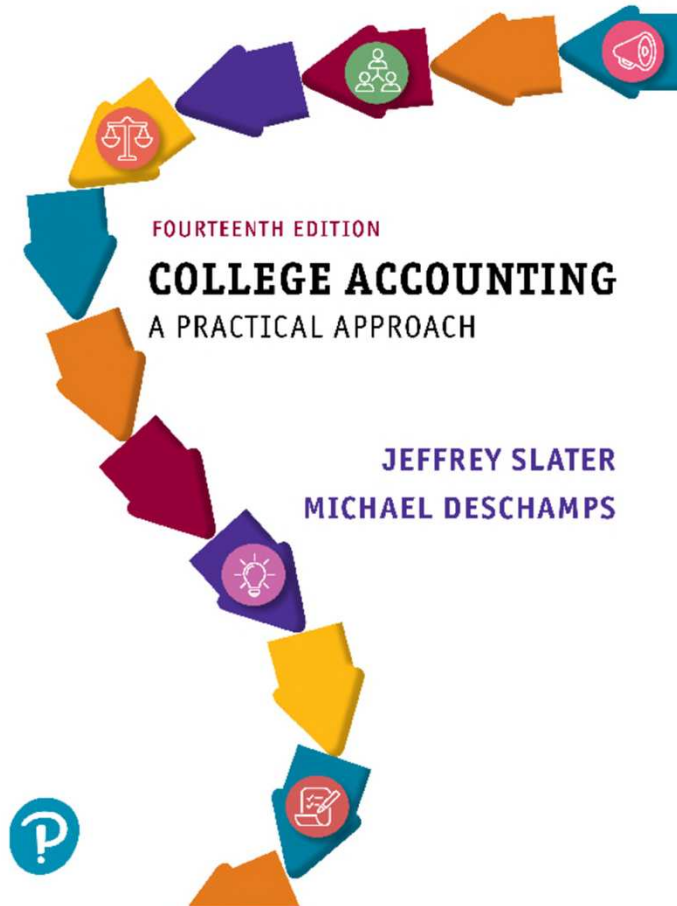
- c. Withdrawals by owner
  - d. Revenue
9. Which account is shown on the income statement?
- a. Equipment
  - b. Owner, Capital Account
  - c. Accounts Payable
  - d. Rent Expense
10. Which account is shown on the statement of owner's equity?
- a. Fees Earned
  - b. Accounts Receivable
  - c. Owner,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

**Answer Key to Chapter 2 Quiz**

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

# College Accounting: A Practical Approach

Fourteenth Edition



## Chapter 2

### Debits and Credits: Analyzing and Recording Business Transactions

# Learning Objectives

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

# Learning Objective 2.1

Explain T Accounts and How to Foot and Balance

# Standard Account (1 of 4)

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

# Standard Account (2 of 4)

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

# Standard Account (3 of 4)

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

# Standard Account (4 of 4)

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

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

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

# Balancing an Account

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

|      | Dr.          | Cr.  |            |
|------|--------------|------|------------|
| 4/2  | 5,000        | 4/3  | 400        |
| 4/20 | 600          | 4/25 | 500        |
|      | <b>5,600</b> |      | <b>900</b> |
| Bal  | <b>4,700</b> |      |            |

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

# Learning Objective 2.2

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

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

- Learn the rules

**Table 2.1** Rules of Debit and Credit

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

- Normal balance of an account is the side that increases

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

- The rules

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

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

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

# Balancing the Equation

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

# Chart of Accounts

- A numbered list of all of the business' accounts

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

---

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

---

# The Transaction Analysis (1 of 2)

- The five steps to analyzing each transaction

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

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

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

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

**Step 5:** What does the T account look like?

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

# The Transaction Analysis (2 of 2)

- The five-step analysis from another perspective

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

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

# Applying the Transaction Analysis (1 of 10)

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

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

# Compound Entries

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

# Applying the Transaction Analysis (2 of 10)

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

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

# Applying the Transaction Analysis (3 of 10)

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

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

# Applying the Transaction Analysis (4 of 10)

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

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

# Applying the Transaction Analysis (5 of 10)

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

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

# Applying the Transaction Analysis (6 of 10)

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

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

# Applying the Transaction Analysis (7 of 10)

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

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

# Applying the Transaction Analysis (8 of 10)

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

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

# Applying the Transaction Analysis (9 of 10)

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

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

# Applying the Transaction Analysis (10 of 10)

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

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

# Summary of Transactions (1 of 2)

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

## Summary of Transactions (2 of 2)

[illegible]

# Learning Objective 2.3

- Prepare a Trial Balance and the Financial Statements

# Trial Balance

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

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

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

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

# Steps in Preparing Financial Statements from a Trial Balance

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

# Figure 2.3 Steps in Preparing Financial Statements from a Trial Balance

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

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

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

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

# Summary of the Chapter (1 of 6)

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

# Summary of the Chapter (2 of 6)

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

# Summary of the Chapter (3 of 6)

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

# Summary of the Chapter (4 of 6)

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

# Summary of the Chapter (5 of 6)

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

# Summary of the Chapter (6 of 6)

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

# Questions?

# Figure 2.4 Financial Statements

4a.

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

b.

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

c.

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

# Figure 2.5 Exercise 2A-5 p. 56

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

# Figure 2.6 Exercise 2B-5 p. 57

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

# Figure 2.7 Problem 2A-4 p. 59

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

# Figure 2.8 Problem 2B-4 p. 61

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

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