College Accounting A Career Approach 13th edition Scott Solutions Manual

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2 T Accounts, Debits and Credits, Trial Balance, and Financial Statements

TEACHING TIPS:

New to this edition:

This edition will provide students an opportunity to learn QuickBooks Online while they learn Accounting. QuickBooks Online topics covered in the QuickBooks Online Appendix for this chapter include, (1) establishing company settings, (2) modifying the chart of accounts, and (3) adding new customers, vendors, and employees.

Suggested in-class problems:

- Exercise 2-2 (debit and credit, normal balance)
- Exercise 2-3 (transaction analysis)
- Exercise 2-6 (financial statements)
- Demonstration Problem

Suggested homework:

- Problem 2-4 (transaction analysis and financial statements)
- Problem 2-5 (financial statements)

Suggested additional activities:

Active Learning: Create a set of two note cards for each student. Label them “Debit” and “Credit.” Call out different account effects and ask students to raise the correct note card. For example, if you call out “Increase to Prepaid Insurance,” the students should raise the note card labeled “Debit.”

Game: Have students play the DR/CR memory game. Based upon the childhood game Memory, this game tests students’ memory of the rules of debits and credits. For more information, see the Instructor’s companion site.

QuickBooks Online Activities:

- Complete the QuickBooks Online Appendix, *Accounting with QuickBooks Online,* Chapter 2, Setting Up a New Company.

  The QuickBooks Online Appendix is available on the Cengage Learning companion site at CengageBrain.com

LEARNING OBJECTIVES

1. Determine balances of T accounts.
2. Present the fundamental accounting equation using the T account form, and label the plus and minus sides.
3. Present the fundamental accounting equation using the T account form, and label the debit and credit sides.
4. Record directly in T accounts a group of business transactions involving changes in asset, liability, owner’s equity, revenue, and expense accounts for a service business.
5. Prepare a trial balance.
6. Prepare (a) an income statement, (b) a statement of owner’s equity, and (c) a balance sheet.
7. Recognize the effect of errors on account balances.

ACCOUNTING LANGUAGE

- Balance sheet
- Compound entry
- Credit
- Debit
- Financial position
- Financial statement
- Footings
- Income statement
- Net income
- Net loss
- Normal balance
- PDF (portable document format)
- Profit and loss statement
- Report form
- Slide
- Statement of owner's equity
- T account form
- Transposition
- Trial balance

KEY POINTS

1. The T account form is compared with the column arrangement.
2. In the T account form of the fundamental accounting equation, plus (+) and minus (–) signs should be inserted on the correct side of each of the classifications of accounts.
3. The normal balance of an account is on the plus side.
4. The debit side of any T account is the left side.
5. The credit side of any T account is the right side.
6. In the recording of every transaction, the amount placed on the left, or debit, side of an account or accounts must equal the amount placed on the right, or credit, side of another account or other accounts.
7. A trial balance proves the equality of debits and credits.
8. The income statement shows the results of operations for a period of time.
9. The statement of owner's equity shows the activity in the Capital account for a period of time.
10. The balance sheet shows the position or condition of the business at a point in time.

LECTURE OUTLINE

I. The T account form: an account form shaped like the letter *T*.

   A. Comparison of the column form with the T account form. Look at the illustration of the Cash account and the T account form in the text (page 50).

   B. There are two sides to the T account form. One side is used for increases (+) in an account, and the other side is used for decreases in an account (–).

   C. Footings: the totals of the amounts listed on both sides of a T account.

   D. Balance: The balance of an account is determined after a group of transactions has been recorded over a period of time. Subtract the smaller footing on one side from the larger footing on the other side. Record the balance on the side having the larger footing. The normal balance is the increase (plus) side of any T account.

II. Developing the full fundamental accounting equation in T account form. The T account for each of the classifications of accounts has an increase (+) and a decrease (–) side.

   A. Assets, liabilities, owner's equity, revenue, and expenses.

      1. In Chapter 1, we introduced the equation
         Assets = Liabilities + Capital – Drawing + Revenue – Expenses

      2. T account forms: In T account form, each classification needs to have a plus and a minus side.

         a. Assets: As a starter, the plus side for assets is placed on the left, and the minus side is placed on the right.

Assets	
+	–

         b. Liabilities and owner's equity: Because these classifications are placed on the opposite side of the equals sign, the plus and minus signs are also placed on the opposite sides (switched around).

Liabilities			**Owner's Equity**	
–	+		–	+

      3. Asset, liability, and owner's equity classifications together.

Assets		=	**Liabilities**		+	**Owner's Equity**	
+	–		–	+		–	+

         As shown later, we switch the plus and minus signs on the other side of the equals sign so that we can carry out double-entry accounting.

   B. Capital and Drawing: Show Capital and Drawing being placed under the umbrella of Owner's Equity.

   C. Revenue and expenses: Show revenue and expenses being placed under the umbrella of owner's equity. Note that transactions involving revenue and expenses are usually increases in the accounts, which will be recorded on the plus sides.

III. Recording transactions involving the account classifications using the concepts of debit and credit. Initially, stress that the left side of an account is called the debit side and the right side is called the credit side. Another word for *left* is *debit,* and another word for *right* is *credit.*

A. Show the fundamental accounting equation with debits and credits.

B. Review the rules of debit and credit.

C. Abbreviations: Traditionally, accountants use *Dr.* and *Cr.*

D. Explain the steps for recording business transactions in T accounts.

1. What accounts are involved?

2. What are the classifications of the accounts involved?

3. Are the accounts increased or decreased?

4. Write the transaction as a debit to one account (or accounts) and a credit to another account (or accounts).

5. Is the equation in balance?

IV. The trial balance.

A. Emphasize that the trial balance is used as a check to ensure that in recording transactions, the total of the amounts placed on the left, or debit, sides of T accounts equals the total of the amounts placed on the right, or credit, sides of T accounts.

B. Prepare a trial balance using account balances. Show how a trial balance is prepared from T accounts.

V. Major financial statements.

A. Emphasize that the income statement is the first major financial statement prepared and that it shows the results of operations for a period of time.

B. The statement of owner's equity is the second major financial statement prepared. It shows the activity in the Capital account for a period of time. The net income from the income statement is required to complete the statement of owner's equity.

C. The balance sheet is the third major financial statement prepared. It shows the condition of a business at a point in time. The ending capital amount is brought from the statement of owner's equity.

VI. Errors exposed by the trial balance: Discuss the causes for errors listed in the text.

A. The procedure for locating and correcting errors is to do everything in reverse.

1. Transpositions: The digits of an amount have been transposed, or switched around.

2. Slides: The decimal point in an amount has been misplaced.

3. Divide by 2 the difference between two trial balance totals. See if the result matches a transaction amount.

B. Errors divisible by 9: If an error exists and the amount of difference between the totals of the trial balance is evenly divisible by 9, the error consists of either a transposition or a slide or both.

DEMONSTRATION PROBLEM

Dr. Christy Rene maintains an office for the practice of veterinary medicine. The account balances as of September 1 follow. All are normal balances.

Assets		**Revenue**	
Cash	$ 2,459	Professional Fees	$72,118
Accounts Receivable	18,120		
Supplies	840	**Expenses**	
Prepaid Insurance	980	Salary Expense	14,380
Automobile	20,650	Rent Expense	10,320
Furniture and Equipment	5,963	Automobile Expense	859
		Utilities Expense	1,213
Liabilities			
Accounts Payable	1,590		
Owner's Equity			
C. Rene, Capital	42,076		
C. Rene, Drawing	40,000		

The following transactions occurred during September of this year.

a. Paid rent for the month, $1,290.

b. Paid $1,800 for one year's coverage of liability insurance.

c. Bought medical equipment on account from Bennett Surgical Supply, $849, paying $200 down with the balance due in 30 days.

d. Billed patients for services performed, $9,015.

e. Paid employee salaries, $1,797.

f. Received and paid gas and electric bill, $112.

g. Received cash from patients previously billed, $11,060.

h. Received bill for gasoline for car, used only in the professional practice, from Garza Fuel Company, $116.

i. Paid creditors on account, $1,590.

j. Dr. Rene withdrew cash for personal use, $5,000.

Instructions

1. Correctly place plus and minus signs under each T account and label the sides of the T accounts as debit or credit in the fundamental accounting equation. Record the account balances as of September 1.
2. Record the September transactions in the T accounts. Key each transaction to the letter that identifies the transaction.
3. Foot the columns and determine the balance in the T accounts.
4. Prepare a trial balance dated September 30, 20--.
5. Prepare an income statement for two months ended September 30, 20--.
6. Prepare a statement of owner's equity for two months ended September 30, 20--.
7. Prepare a balance sheet as of September 30, 20--.

SOLUTION

Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+ Debit	− Credit		− Debit	+ Credit		− Debit	+ Credit		+ Debit	− Credit		− Debit	+ Credit		+ Debit	− Credit

Cash

+		−	
Bal.	2,459	**(a)**	1,290
(g)	11,060	**(b)**	1,800
	13,519	**(c)**	200
		(e)	1,797
		(f)	112
		(i)	1,590
		(j)	5,000
			11,789
Bal.	1,730		

Accounts Receivable

+		−	
Bal.	18,120	**(g)**	11,060
(d)	9,015		
	27,135		
Bal.	16,075		

Supplies

+		−	
Bal.	840		

Prepaid Insurance

+		−	
Bal.	980		
(b)	1,800		
Bal.	2,780		

Automobile

+		−	
Bal.	20,650		

Furniture and Equipment

+		−	
Bal.	5,963		
(c)	849		
Bal.	6,812		

Accounts Payable

−		+	
(i)	1,590	**Bal.**	1,590
		(c)	649
		(h)	116
			2,355
		Bal.	765

C. Rene, Capital

−		+	
		Bal.	42,076

C. Rene, Drawing

+		−	
Bal.	40,000		
(j)	5,000		
Bal.	45,000		

Professional Fees

−		+	
		Bal.	72,118
		(d)	9,015
		Bal.	81,133

Salary Expense

+		−	
Bal.	14,380		
(e)	1,797		
Bal.	16,177		

Rent Expense

+		−	
Bal.	10,320		
(a)	1,290		
Bal.	11,610		

Automobile Expense

+		−	
Bal.	859		
(h)	116		
Bal.	975		

Utilities Expense

+		−	
Bal.	1,213		
(f)	112		
Bal.	1,325		

Dr. Christy Rene
Trial Balance
September 30, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	1,730	
Accounts Receivable	16,075	
Supplies	840	
Prepaid Insurance	2,780	
Automobile	20,650	
Furniture and Equipment	6,812	
Accounts Payable		765
C. Rene, Capital		42,076
C. Rene, Drawing	45,000	
Professional Fees		81,133
Salary Expense	16,177	
Rent Expense	11,610	
Automobile Expense	975	
Utilities Expense	1,325	
	123,974	123,974

SOLUTION (concluded)

Dr. Christy Rene
Income Statement
For Two Months Ended September 30, 20--

Revenue:		
Professional Fees		*$81,133*
Expenses:		
Salary Expense	*$16,177*	
Rent Expense	*11,610*	
Automobile Expense	*975*	
Utilities Expense	*1,325*	
Total Expenses		*30,087*
Net Income		*$51,046*

Dr. Christy Rene
Statement of Owner's Equity
For Two Months Ended September 30, 20--

C. Rene, Capital, September 1, 20--		*$42,076*
Investments during August and September	*$ 0*	
Net Income for August and September	*51,046*	
Subtotal	*$51,046*	
Less Withdrawals for August and September	*45,000*	
Increase in Capital		*6,046*
C. Rene, Capital, September 30, 20--		*$48,122*

Dr. Christy Rene
Balance Sheet
September 30, 20--

Assets		
Cash	*$ 1,730*	
Accounts Receivable	*16,075*	
Supplies	*840*	
Prepaid Insurance	*2,780*	
Automobile	*20,650*	
Furniture and Equipment	*6,812*	
Total Assets		*$48,887*
Liabilities		
Accounts Payable		*$ 765*
Owner's Equity		
C. Rene, Capital		*48,122*
Total Liabilities and Owner's Equity		*$48,887*

DISCUSSION QUESTIONS

Suggested Responses

1. A trial balance is a list of all account balances. It is used to prove that the total of all of the debit balances equals the total of all of the credit balances. A balance sheet shows only the balances of the asset, liability, and owner's capital accounts.
2. *Debit* means "increase" for asset accounts, the owner's drawing account, and expense accounts; however, *debit* means "decrease" for liability accounts, the owner's capital account, and revenue accounts. *Credit* means "decrease" for asset accounts, the owner's drawing account, and expense accounts; however, *credit* means "increase" for liability accounts, the owner's capital account, and revenue accounts. Debit refers to the left side of a T account, and credit refers to the right side.
3. Footings are the totals of each side of a T account.
4. The net income or net loss from the income statement flows to the statement of owner's equity, which produces the ending capital balance. The ending capital from the statement of owner's equity flows to the balance sheet owner's equity section.
5. A compound entry is a transaction that involves more than one debit and/or more than one credit.
6. The trial balance might not balance because half of a transaction was omitted or because the transaction debits do not equal its credits. The trial balance will not reveal that transactions were omitted or repeated or that an incorrect amount was used for a transaction.
7. *Slide:* $890 for $89. *Transposition:* $327 for $723. You can determine whether there has been a slide or a transposition by dividing the difference between the two balances by 9. If the difference is evenly divisible, the error is due to either a slide or a transposition.
8. Capital and drawing accounts are under the umbrella of owner's equity because if an owner invests capital, there is an increase in owner's equity and if an owner withdraws (drawing) capital, there is a decrease in owner's equity. Likewise, revenue and expense accounts are under the umbrella of owner's equity because if a business earns revenue, there is an increase in owner's equity, and if a business incurs expenses, there is a decrease in owner's equity.

SOLUTIONS TO EXERCISES AND PROBLEMS

Exercise 2-1

Assets		=	Liabilities		+	Capital		–	Drawing		+	Revenue		–	Expenses	
+	–		–	+		–	+		+	–		–	+		+	–
Debit	**Credit**		**Debit**	**Credit**		**Debit**	**Credit**		**Debit**	**Credit**		**Debit**	**Credit**		**Debit**	**Credit**

Cash		Accounts Payable		J. Davie, Capital		J. Davie, Drawing		Income from Repairs		Salary Expense	
+	–	–	+	–	+	+	–	–	+	+	–
Debit	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**	**Debit**	**Credit**

Accounts Receivable		Rent Expense	
+	–	+	–
Debit	**Credit**	**Debit**	**Credit**

Supplies		Utilities Expense	
+	–	+	–
Debit	**Credit**	**Debit**	**Credit**

Equipment		Miscellaneous Expense	
+	–	+	–
Debit	**Credit**	**Debit**	**Credit**

Exercise 2-2

ACCOUNT	CLASSIFICATION	INCREASE SIDE	NORMAL BALANCE SIDE	DECREASE SIDE
0. Cash	*A*	*Debit*	*Debit*	*Credit*
1. Salary Expense	**E**	**Debit**	**Debit**	**Credit**
2. Office Equipment	**A**	**Debit**	**Debit**	**Credit**
3. J. Samuels, Capital	**OE**	**Credit**	**Credit**	**Debit**
4. Service Revenue	**R**	**Credit**	**Credit**	**Debit**
5. J. Samuels, Drawing	**OE**	**Debit**	**Debit**	**Credit**
6. Accounts Receivable	**A**	**Debit**	**Debit**	**Credit**
7. Insurance Expense	**E**	**Debit**	**Debit**	**Credit**
8. Fees Earned	**R**	**Credit**	**Credit**	**Debit**
9. Accounts Payable	**L**	**Credit**	**Credit**	**Debit**

Exercise 2-3

a.

Utilities Expense	
+ Debit	– Credit
175	

Cash	
+ Debit	– Credit
	175

b.

Supplies	
+ Debit	– Credit
135	

Accounts Payable	
– Debit	+ Credit
	135

c.

Prepaid Insurance	
+ Debit	– Credit
580	

Cash	
+ Debit	– Credit
	580

d.

Accounts Payable	
– Debit	+ Credit
65	

Cash	
+ Debit	– Credit
	65

e.

Utilities Expense	
+ Debit	– Credit
186	

Cash	
+ Debit	– Credit
	186

f.

Accounts Receivable	
+ Debit	– Credit
1,375	

Income from Tours	
– Debit	+ Credit
	1,375

g.

Gas Expense	
+ Debit	– Credit
130	

Cash	
+ Debit	– Credit
	130

h.

Cash	
+ Debit	– Credit
1,458	

Accounts Receivable	
+ Debit	– Credit
	1,458

i.

R. Dalberg, Drawing	
+ Debit	– Credit
700	

Cash	
+ Debit	– Credit
	700

Exercise 2-4

a. **The owner invested $5,000 cash in the business.**

b. **Paid the rent for the current month, $600.**

c. **Received and paid the advertising bill, $100.**

d. **Bought supplies on account, $720.**

e. **Received and paid the bill for a miscellaneous expense, $50.**

f. **The owner invested personal equipment with a fair market value of $4,000 in the business.**

g. **Bought equipment for $1,500, paying $500 in cash and placing the balance on account.**

h. **Sold services on account, $1,015.**

i. **Received and paid the utility bill, $250.**

j. **The owner withdrew $750 in cash for personal use.**

k. **Sold services for cash, $2,025.**

Exercise 2-5

Speedy Sewing Services
Trial Balance
December 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	3,200	
Accounts Receivable	10,700	
Supplies	1,800	
Prepaid Insurance	1,300	
Equipment	24,000	
Accounts Payable		9,500
T. Nguyen, Capital		22,800
T. Nguyen, Drawing	1,900	
Income from Services		36,000
Wages Expense	17,500	
Rent Expense	4,500	
Utilities Expense	3,400	
	68,300	68,300

Exercise 2-6

Cash

(a)	8,200	(b)	350
(c)	8,400	(d)	1,600
(i)	7,580	(f)	175
	24,180	(g)	3,400
		(h)	2,200
			7,725
Bal.	**16,455**		

Accounts Payable

		(k)	2,800
		(j)	82
		Bal.	**2,882**

Salary Expense

(g)	3,400		
Bal.	**3,400**		

Rent Expense

(d)	1,600		
Bal.	**1,600**		

Accounts Receivable

(e)	2,600		
Bal.	**2,600**		

R. Landish, Capital

		(a)	8,200
		Bal.	**8,200**

Utilities Expense

(f)	175		
Bal.	**175**		

Supplies

(j)	82		
Bal.	**82**		

R. Landish, Drawing

(h)	2,200		
Bal.	**2,200**		

Office Furniture

(b)	350		
Bal.	**350**		

Modeling Fees

		(c)	8,400
		(e)	2,600
		(i)	7,580
		Bal.	**18,580**

Office Equipment

(k)	2,800		
Bal.	**2,800**		

Landish Modeling Agency
Trial Balance
March 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	**16,455**	
Accounts Receivable	**2,600**	
Supplies	**82**	
Office Furniture	**350**	
Office Equipment	**2,800**	
Accounts Payable		**2,882**
R. Landish, Capital		**8,200**
R. Landish, Drawing	**2,200**	
Modeling Fees		**18,580**
Salary Expense	**3,400**	
Rent Expense	**1,600**	
Utilities Expense	**175**	
	29,662	**29,662**

Exercise 2-6 *(concluded)*

Landish Modeling Agency
Income Statement
For Month Ended March 31, 20--

Revenue:		
Modeling Fees		$18,580
Expenses:		
Salary Expense	$3,400	
Rent Expense	1,600	
Utilities Expense	175	
Total Expenses		5,175
Net Income		$13,405

Landish Modeling Agency
Statement of Owner's Equity
For Month Ended March 31, 20--

R. Landish, Capital, March 1, 20--		$ 0
Investment during March	$ 8,200	
Net Income for March	13,405	
Subtotal	$21,605	
Less Withdrawals for March	2,200	
Increase in Capital		19,405
R. Landish, Capital, March 31, 20--		$19,405

Landish Modeling Agency
Balance Sheet
March 31, 20--

Assets		
Cash	$16,455	
Accounts Receivable	2,600	
Supplies	82	
Office Furniture	350	
Office Equipment	2,800	
Total Assets		$22,287
Liabilities		
Accounts Payable		$ 2,882
Owner's Equity		
R. Landish, Capital		19,405
Total Liabilities and Owner's Equity		$22,287

Exercise 2-7

DESCRIPTION	AMOUNT OF DIFFERENCE	DEBIT OR CREDIT COLUMN OF TRIAL BALANCE UNDERSTATED OR OVERSTATED
0. Example: A $149 debit to Accounts Receivable was not recorded.	*$149*	*Debit column understated*
a. A $42 debit to Supplies was recorded as $420.	**378**	**Debit column overstated**
b. A $155 debit to Accounts Receivable was recorded twice.	**155**	**Debit column overstated**
c. A $179 debit to Prepaid Insurance was not recorded.	**179**	**Debit column understated**
d. A $65 credit to Cash was not recorded.	**65**	**Debit column overstated**
e. A $190 debit to Equipment was recorded twice.	**190**	**Debit column overstated**
f. A $57 debit to Utilities Expense was recorded as $75.	**18**	**Debit column overstated**

Exercise 2-8

a. Equal totals in the trial balance because $38 was debited to Office Equipment and $38 was credited to Cash. Because the correct amount is $380, Office Equipment is understated by $342 and Cash is overstated by $342.

b. Equal totals in the trial balance because $280 was debited to Accounts Receivable and $280 was credited to Cash. Because the $280 should have been debited to Accounts Payable, not Accounts Receivable, the error caused Accounts Receivable to be overstated by $280 and Accounts Payable to be overstated by $280.

c. Equal totals in the trial balance because $245 was debited to Equipment and $245 was credited to Cash. Because the $245 should have been debited to Supplies, not Equipment, the error caused Equipment to be overstated by $245 and Supplies to be understated by $245.

d. Unequal totals in the trial balance because $76 was debited correctly to Accounts Payable but the credit to Cash was transposed as $67. The error caused Cash to be overstated by $9.

Problem 2-1A

Assets		=	*Liabilities*		+	*Capital*		−	*Drawing*		+	*Revenue*		−	*Expenses*	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Cash

+ Debit		− Credit	
(a)	35,000	(b)	8,150
(h)	800	(g)	200
	35,800		8,350
Bal.	27,450		

Accounts Payable

− Debit		+ Credit	
(g)	200	(c)	105
		(d)	790
		(e)	185
			1,080
		Bal.	880

G. Elden, Capital

− Debit		+ Credit	
		(a)	35,000
		(f)	1,200
		Bal.	36,200

Income from Services

− Debit		+ Credit	
		(h)	800
		Bal.	800

Advertising Expense

+ Debit		− Credit	
(c)	105		
Bal.	105		

Exercise Equipment

+ Debit		− Credit	
(b)	8,150		
(f)	1,200		
Bal.	9,350		

Store Equipment

+ Debit		− Credit	
(d)	790		
Bal.	790		

Office Equipment

+ Debit		− Credit	
(e)	185		
Bal.	185		

Problem 2-2A

Assets		=	*Liabilities*		+	*Capital*		−	*Drawing*		+	*Revenue*		−	*Expenses*	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*

Cash

+ Debit		− Credit	
(a)	45,000	(b)	1,800
(h)	1,245	(c)	790
(k)	1,450	(d)	1,700
	47,695	(i)	345
		(j)	285
		(l)	925
		(m)	75
		(n)	850
			6,770
Bal.	40,925		

Supplies

+ Debit		− Credit	
(o)	115		
Bal.	115		

Computer Software

+ Debit		− Credit	
(f)	600		
Bal.	600		

Office Equipment

+ Debit		− Credit	
(c)	790		
(d)	2,700		
Bal.	3,490		

Neon Sign

+ Debit		− Credit	
(e)	1,350		
Bal.	1,350		

Accounts Payable

− Debit		+ Credit	
(j)	285	(d)	1,000
		(e)	1,350
		(g)	365
		(o)	115
			2,830
		Bal.	2,545

B. Kelso, *Capital*

− Debit		+ Credit	
		(a)	45,000
		(f)	600
		Bal.	45,600

B. Kelso, *Drawing*

+ Debit		− Credit	
(n)	850		
Bal.	850		

Income from Services

− Debit		+ Credit	
		(h)	1,245
		(k)	1,450
		Bal.	2,695

Wages Expense

+ Debit		− Credit	
(l)	925		
Bal.	925		

Rent Expense

Debit		Credit	
(b)	1,800		
Bal.	1,800		

Advertising Expense

+ Debit		− Credit	
(g)	365		
Bal.	365		

Utilities Expense

+ Debit		− Credit	
(i)	345		
Bal.	345		

Miscellaneous Expense

+ Debit		− Credit	
(m)	75		
Bal.	75		

Problem 2-2A (concluded)

Computer Wizards
Trial Balance
November 30, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	**40,925**	
Supplies	**115**	
Computer Software	**600**	
Office Equipment	**3,490**	
Neon Sign	**1,350**	
Accounts Payable		**2,545**
B. Kelso, Capital		**45,600**
B. Kelso, Drawing	**850**	
Income from Services		**2,695**
Wages Expense	**925**	
Rent Expense	**1,800**	
Advertising Expense	**365**	
Utilities Expense	**345**	
Miscellaneous Expense	**75**	
	50,840	**50,840**

Problem 2-3A

Assets		=	*Liabilities*		+	*Capital*		−	*Drawing*		+	*Revenue*		−	*Expenses*	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*

Cash

+ Debit		− Credit	
(a)	40,000	(c)	200
(i)	2,575	(e)	155
(n)	885	(g)	190
	43,460	(h)	450
		(j)	300
		(k)	940
		(l)	880
		(m)	800
			3,915
Bal.	39,545		

Accounts Receivable

+ Debit		− Credit	
(f)	1,484	(n)	885
Bal.	599		

Office Equipment

+ Debit		− Credit	
(c)	595		
(d)	375		
Bal.	970		

Office Furniture

+ Debit		− Credit	
(b)	1,330		
Bal.	1,330		

Accounts Payable

− Debit		+ Credit	
(j)	300	(b)	1,330
		(c)	395
		(d)	375
			2,100
		Bal.	1,800

S. Myers, *Capital*

− Debit		+ Credit	
		(a)	40,000
		Bal.	40,000

S. Myers, *Drawing*

+ Debit		− Credit	
(m)	800		
Bal.	800		

Professional Fees

− Debit		+ Credit	
		(f)	1,484
		(i)	2,575
		Bal.	4,059

Salary Expense

+ Debit		− Credit	
(l)	880		
Bal.	880		

Rent Expense

+ Debit		− Credit	
(k)	940		
Bal.	940		

Utilities Expense

+ Debit		− Credit	
(e)	155		
(g)	190		
Bal.	345		

Miscellaneous Expense

+ Debit		− Credit	
(h)	450		
Bal.	450		

Problem 2-3A (continued)

Myers Clinic
Trial Balance
June 30, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	39,545	
Accounts Receivable	599	
Office Equipment	970	
Office Furniture	1,330	
Accounts Payable		1,800
S. Myers, Capital		40,000
S. Myers, Drawing	800	
Professional Fees		4,059
Salary Expense	880	
Rent Expense	940	
Utilities Expense	345	
Miscellaneous Expense	450	
	45,859	45,859

Myers Clinic
Income Statement
For Month Ended June 30, 20--

Revenue:		
Professional Fees		$ 4,059
Expenses:		
Salary Expense	$880	
Rent Expense	940	
Utilities Expense	345	
Miscellaneous Expense	450	
Total Expenses		2,615
Net Income		$ 1,444

Myers Clinic
Statement of Owner's Equity
For Month Ended June 30, 20--

S. Myers, Capital, June 1, 20--		$ 0
Investments during June	$40,000	
Net Income for June	1,444	
Subtotal	$41,444	
Less Withdrawals for June	800	
Increase in Capital		40,644
S. Myers, Capital, June 30, 20--		$40,644

Problem 2-3A (concluded)

Myers Clinic
Balance Sheet
June 30, 20--

Assets		
Cash	$39,545	
Accounts Receivable	599	
Office Equipment	970	
Office Furniture	1,330	
Total Assets		$42,444
Liabilities		
Accounts Payable		$ 1,800
Owner's Equity		
S. Myers, Capital		40,644
Total Liabilities and Owner's Equity		$42,444

Problem 2-4A

Assets		=	*Liabilities*		+	*Capital*		−	*Drawing*		+	*Revenue*		−	*Expenses*	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*

Cash

+ Debit		− Credit	
(a)	35,000	(b)	1,870
(f)	1,925	(d)	875
(j)	1,835	(e)	3,600
	38,760	(g)	1,560
		(h)	1,800
		(i)	285
		(k)	940
		(l)	800
		(m)	225
		(n)	280
			12,235
Bal.	26,525		

Supplies

+ Debit		− Credit	
(c)	225		
Bal.	225		

Prepaid Insurance

+ Debit		− Credit	
(g)	1,560		
Bal.	1,560		

Equipment

+ Debit		− Credit	
(e)	12,500		
Bal.	12,500		

Furniture and Fixtures

+ Debit		− Credit	
(b)	1,870		
Bal.	1,870		

Accounts Payable

− Debit		+ Credit	
(h)	1,800	(c)	225
(m)	225	(e)	8,900
	2,025		9,125
		Bal.	7,100

B. Bangle, Capital

− Debit		+ Credit	
		(a)	35,000
		Bal.	35,000

B. Bangle, Drawing

+ Debit		− Credit	
(l)	800		
Bal.	800		

Laundry Revenue

− Debit		+ Credit	
		(f)	1,925
		(j)	1,835
		Bal.	3,760

Wages Expense

+ Debit		− Credit	
(k)	940		
Bal.	940		

Rent Expense

+ Debit		− Credit	
(d)	875		
Bal.	875		

Utilities Expense

+ Debit		− Credit	
(i)	285		
Bal.	285		

Miscellaneous Expense

+ Debit		− Credit	
(n)	280		
Bal.	280		

Problem 2-4A (continued)

Self-Wash Laundry
Trial Balance
May 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	26,525	
Supplies	225	
Prepaid Insurance	1,560	
Equipment	12,500	
Furniture and Fixtures	1,870	
Accounts Payable		7,100
B. Bangle, Capital		35,000
B. Bangle, Drawing	800	
Laundry Revenue		3,760
Wages Expense	940	
Rent Expense	875	
Utilities Expense	285	
Miscellaneous Expense	280	
	45,860	45,860

Self-Wash Laundry
Income Statement
For Month Ended May 31, 20--

Revenue:		
Laundry Revenue		$3,760
Expenses:		
Wages Expense	$940	
Rent Expense	875	
Utilities Expense	285	
Miscellaneous Expense	280	
Total Expenses		2,380
Net Income		$1,380

Problem 2-4A (concluded)

Self-Wash Laundry
Statement of Owner's Equity
For Month Ended May 31, 20--

B. Bangle, Capital, May 1, 20--		$ 0
Investments during May	$35,000	
Plus Net Income for May	1,380	
Subtotal	$36,380	
Withdrawals for May	800	
Increase in Capital		35,580
B. Bangle, Capital, May 31, 20--		$35,580

Self-Wash Laundry
Balance Sheet
May 31, 20--

Assets		
Cash	$26,525	
Supplies	225	
Prepaid Insurance	1,560	
Equipment	12,500	
Furniture and Fixtures	1,870	
Total Assets		$42,680
Liabilities		
Accounts Payable		$ 7,100
Owner's Equity		
B. Bangle, Capital		35,580
Total Liabilities and Owner's Equity		$42,680

Problem 2-5A

(a) For Month Ended October 31, 20--
(b) 5,250
(c) Daniels' Custom Haircuts
(d) For Month Ended October 31, 20--
(e) 10,000
(f) 19,750
(g) 25,750
(h) October 31, 20--
(i) 36,400
(j) 25,750
(k) 36,400

Problem 2-1B

Assets		=	*Liabilities*		+	*Capital*		−	*Drawing*		+	*Revenue*		−	*Expenses*	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Cash

+ Debit		− Credit	
(a)	25,000	(b)	1,525
(h)	250	(e)	225
	25,250	(f)	750
			2,500
Bal.	22,750		

Accounts Payable

− Debit		+ Credit	
(f)	750	(c)	325
		(d)	750
		(e)	400
			1,475
		Bal.	725

H. Rose, Capital

− Debit		+ Credit	
		(a)	25,000
		(g)	800
		Bal.	25,800

Income from Services

− Debit		+ Credit	
		(h)	250
		Bal.	250

Advertising Expense

+ Debit		− Credit	
(c)	325		
Bal.	325		

Shop Equipment

+ Debit		− Credit	
(b)	1,525		
(g)	800		
Bal.	2,325		

Store Equipment

+ Debit		− Credit	
(d)	750		
Bal.	750		

Office Equipment

+ Debit		− Credit	
(e)	625		
Bal.	625		

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Problem 2-2B

Assets		=	*Liabilities*		+	*Capital*		−	*Drawing*		+	*Revenue*		−	*Expenses*	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*

Cash

+ Debit		− Credit	
(a)	30,000	(b)	1,850
(e)	1,575	(c)	350
(k)	3,474	(d)	950
	35,049	(f)	435
		(i)	380
		(j)	245
		(l)	930
		(n)	800
		(o)	75
			6,015
Bal.	29,034		

Supplies

+ Debit		− Credit
(h)	460	
Bal.	460	

Computer Software

+ Debit		− Credit
(c)	640	
Bal.	640	

Office Equipment

+ Debit		− Credit
(b)	1,850	
(m)	1,000	
Bal.	2,850	

Neon Sign

+ Debit		− Credit
(f)	1,335	
Bal.	1,335	

Accounts Payable

− Debit		+ Credit	
(j)	245	(c)	290
		(f)	900
		(g)	445
		(h)	460
			2,095
		Bal.	1,850

J. Carrie, Capital

− Debit	+ Credit	
	(a)	30,000
	(m)	1,000
	Bal.	31,000

J. Carrie, Drawing

+ Debit		− Credit
(n)	800	
Bal.	800	

Income from Services

− Debit	+ Credit	
	(e)	1,575
	(k)	3,474
	Bal.	5,049

Wages Expense

+ Debit		− Credit
(l)	930	
Bal.	930	

Rent Expense

+ Debit		− Credit
(d)	950	
Bal.	950	

Advertising Expense

+ Debit		− Credit
(g)	445	
Bal.	445	

Utilities Expense

+ Debit		− Credit
(i)	380	
Bal.	380	

Miscellaneous Expense

+ Debit		− Credit
(o)	75	
Bal.	75	

Problem 2-2B (concluded)

Carrie's Photo Tours
Trial Balance
June 30, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	29,034	
Supplies	460	
Computer Software	640	
Office Equipment	2,850	
Neon Sign	1,335	
Accounts Payable		1,850
J. Carrie, Capital		31,000
J. Carrie, Drawing	800	
Income from Services		5,049
Wages Expense	930	
Rent Expense	950	
Advertising Expense	445	
Utilities Expense	380	
Miscellaneous Expense	75	
	37,899	37,899

Problem 2-3B

Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*		*Debit*	*Credit*

Cash

+ Debit		− Credit	
(a)	35,000	(c)	835
(i)	1,940	(d)	250
(l)	1,950	(e)	185
	38,890	(g)	445
		(h)	335
		(j)	250
		(k)	1,245
		(m)	960
		(n)	1,200
			5,705
Bal.	33,185		

Accounts Receivable

+ Debit		− Credit	
(f)	2,255	(i)	1,940
Bal.	315		

Office Equipment

+ Debit		− Credit	
(b)	560		
(d)	650		
Bal.	1,210		

Office Furniture

+ Debit		− Credit	
(c)	835		
Bal.	835		

Accounts Payable

− Debit		+ Credit	
(j)	250	(b)	560
		(d)	400
			960
		Bal.	710

D. Johnston, *Capital*

− Debit		+ Credit	
		(a)	35,000
		Bal.	35,000

D. Johnston, *Drawing*

+ Debit		− Credit	
(n)	1,200		
Bal.	1,200		

Professional Fees

− Debit		+ Credit	
		(f)	2,255
		(l)	1,950
		Bal.	4,205

Salary Expense

+ Debit		− Credit	
(m)	960		
Bal.	960		

Rent Expense

+ Debit		− Credit	
(k)	1,245		
Bal.	1,245		

Utilities Expense

+ Debit		− Credit	
(e)	185		
(h)	335		
Bal.	520		

Miscellaneous Expense

+ Debit		− Credit	
(g)	445		
Bal.	445		

Problem 2-3B (continued)

Johnston's Clinic
Trial Balance
July 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	33,185	
Accounts Receivable	315	
Office Equipment	1,210	
Office Furniture	835	
Accounts Payable		710
D. Johnston, Capital		35,000
D. Johnston, Drawing	1,200	
Professional Fees		4,205
Salary Expense	960	
Rent Expense	1,245	
Utilities Expense	520	
Miscellaneous Expense	445	
	39,915	39,915

Johnston's Clinic
Income Statement
For Month Ended July 31, 20--

Revenue:		
Professional Fees		$4,205
Expenses:		
Salary Expense	$ 960	
Rent Expense	1,245	
Utilities Expense	520	
Miscellaneous Expense	445	
Total Expenses		3,170
Net Income		$1,035

Johnston's Clinic
Statement of Owner's Equity
For Month Ended July 31, 20--

D. Johnston, Capital, July 1, 20--		$ 0
Investments during July	$35,000	
Net Income for July	1,035	
Subtotal	$36,035	
Less Withdrawals for July	1,200	
Increase in Capital		34,835
D. Johnston, Capital, July 31, 20--		$34,835

Problem 2-3B (concluded)

Johnston's Clinic
Balance Sheet
July 31, 20--

Assets		
Cash	$33,185	
Accounts Receivable	315	
Office Equipment	1,210	
Office Furniture	835	
Total Assets		$35,545
Liabilities		
Accounts Payable		$ 710
Owner's Equity		
D. Johnston, Capital		34,835
Total Liabilities and Owner's Equity		$35,545

Problem 2-4B

Assets		=	*Liabilities*		+	*Capital*		−	*Drawing*		+	*Revenue*		−	*Expenses*	
+ *Debit*	− *Credit*		− *Debit*	+ *Credit*		− *Debit*	+ *Credit*		+ *Debit*	− *Credit*		− *Debit*	+ *Credit*		+ *Debit*	− *Credit*

Cash

+ Debit		− Credit	
(a)	25,000	(b)	725
(f)	1,742	(c)	1,750
(k)	820	(d)	4,000
	27,562	(g)	1,375
		(h)	700
		(i)	438
		(j)	315
		(l)	75
		(m)	1,200
		(n)	700
			11,278
Bal.	16,284		

Supplies

+ Debit		− Credit	
(e)	535		
Bal.	535		

Prepaid Insurance

+ Debit		− Credit	
(g)	1,375		
Bal.	1,375		

Equipment

+ Debit		− Credit	
(d)	15,700		
Bal.	15,700		

Furniture and Fixtures

+ Debit		− Credit	
(b)	725		
Bal.	725		

Accounts Payable

− Debit		+ Credit	
(h)	700	(d)	11,700
(j)	315	(e)	535
	1,015		12,235
		Bal.	11,220

K. Resser, *Capital*

− Debit		+ Credit	
		(a)	25,000
		Bal.	25,000

K. Resser, *Drawing*

+ Debit		− Credit	
(n)	700		
Bal.	700		

Business Services Revenue

− Debit		+ Credit	
		(f)	1,742
		(k)	820
		Bal.	2,562

Wages Expense

+ Debit		− Credit	
(m)	1,200		
Bal.	1,200		

Rent Expense

+ Debit		− Credit	
(c)	1,750		
Bal.	1,750		

Utilities Expense

+ Debit		− Credit	
(i)	438		
Bal.	438		

Miscellaneous Expense

+ Debit		− Credit	
(l)	75		
Bal.	75		

Problem 2-4B (continued)

Resser's Business Services
Trial Balance
July 31, 20--

ACCOUNT NAME	DEBIT	CREDIT
Cash	16,284	
Supplies	535	
Prepaid Insurance	1,375	
Equipment	15,700	
Furniture and Fixtures	725	
Accounts Payable		11,220
K. Resser, Capital		25,000
K. Resser, Drawing	700	
Business Services Revenue		2,562
Wages Expense	1,200	
Rent Expense	1,750	
Utilities Expense	438	
Miscellaneous Expense	75	
	38,782	38,782

Resser's Business Services
Income Statement
For Month Ended July 31, 20--

Revenue:		
Business Services Revenue		$2,562
Expenses:		
Wages Expense	$1,200	
Rent Expense	1,750	
Utilities Expense	438	
Miscellaneous Expense	75	
Total Expenses		3,463
Net Loss		$ (901)

Problem 2-4B (concluded)

Resser's Business Services
Statement of Owner's Equity
For Month Ended July 31, 20--

K. Resser, Capital, July 1, 20--		$ 0
Investment during July	$25,000	
Less Net Loss for July	901	
Subtotal	$24,099	
Less Withdrawals for July	700	
Increase in Capital		23,399
K. Resser, Capital, July 31, 20--		$23,399

Resser's Business Services
Balance Sheet
July 31, 20--

Assets		
Cash	$16,284	
Supplies	535	
Prepaid Insurance	1,375	
Equipment	15,700	
Furniture and Fixtures	725	
Total Assets		$34,619
Liabilities		
Accounts Payable		$11,220
Owner's Equity		
K. Resser, Capital		23,399
Total Liabilities and Owner's Equity		$34,619

Problem 2-5B

(a) For Month Ended April 30, 20--
(b) 2,440
(c) Baker Custom Catering
(d) For Month Ended April 30, 20--
(e) 5,000
(f) 9,560
(g) 13,560
(h) April 30, 20--
(i) 14,800
(j) 13,560
(k) 14,800

SOLUTIONS TO ACTIVITIES

WHY DOES IT MATTER?

Suggested Responses

0. *Owner invested cash in the business. Accounts involved: Cash and Capital. Cash is debited, and Capital is credited.*
1. Bought rock-climbing equipment on account. Accounts involved: Equipment and Accounts Payable. Equipment is debited, and Accounts Payable is credited.
2. Received and paid the electric bill. Accounts involved: Utilities Expense and Cash. Utilities Expense is debited, and Cash is credited.
3. Paid the salary of employees. Accounts involved: Salary Expense and Cash. Salary Expense is debited, and Cash is credited.
4. Received cash from customers for rock-climbing services. Accounts involved: Cash and Rock-Climbing Fees. Cash is debited, and Rock-Climbing Fees is credited.
5. Owner withdrew cash for personal use. Accounts involved: Drawing and Cash. Drawing is debited, and Cash is credited.

WHAT WOULD YOU SAY?

Suggested Response

First, debits must equal credits in a transaction. Second, it is possible to have more than one debit or credit on one side of the equation as long as they offset each other or there are debits or credits on the other side to offset them. In this case, on the left side of the equals sign, there is a $15,000 debit to Equipment (which is a plus) and a $5,000 credit to Cash (which is a minus); on the right side of the equals sign, there is a $10,000 credit to Accounts Payable (which is a plus). Thus, a $10,000 net increase to the left side of the equation is offset by a $10,000 increase on the right side of the equation.

$$+15{,}000 - 5{,}000 = +10{,}000$$

WHAT WOULD YOU DO?

Suggested Response

The bookkeeper has acted irresponsibly. She should have requested assistance from her supervisor and should not have removed the materials from the business. To further complicate her situation, she has violated the privacy of the business's financial materials by having her uncle attempt to assist her. She could be fired for her unethical behavior. She should make a note of the difference as well as her efforts in attempting to find the errors. Then, she should take this information to her supervisor. Financial materials should never be removed from the business and shared with someone outside the circle of the people who have the right to see them. Additionally, a bookkeeper should never report information that is not correct. This is also unethical behavior and could result in termination.

Review It with QuickBooks Online - Solutions

Chapter 2 – Setting Up a New Company

1. c
2. b
3. a

College Accounting: A Career Approach

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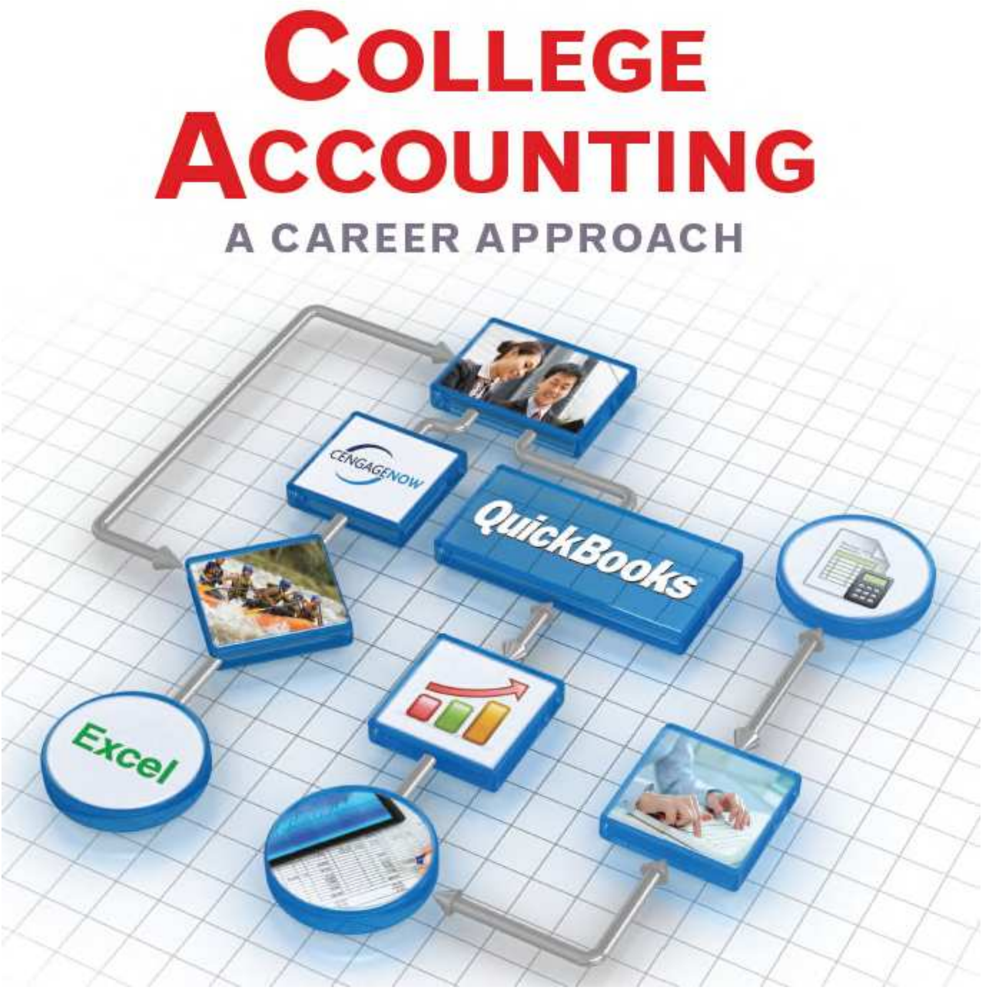


Chapter 2

T Accounts, Debits and Credits, Trial Balance, and Financial Statements

Learning Objectives (1 of 2)

- Determine balances of T accounts
- Present the fundamental accounting equation using the T account form and label the plus and minus sides
- Present the fundamental accounting equation using the T account form and label the debit and credit sides
- Record directly in T accounts a group of business transactions involving changes in asset, liability, owner’s equity, revenue, and expense accounts for a service business

Learning Objectives (2 of 2)

- Prepare a trial balance
- Prepare (a) an income statement, (b) a statement of owner's equity, and (c) a balance sheet
- Recognize the effect of errors on account balances

Learning Objective - 1

- Determine balances of T accounts

T Account Form (1 of 2)

- Has the advantage of providing two sides for each account
  - One side is used to record increases in the account
  - Other side is used to record decreases
- Plus side of a T account represents the **normal balance** of that account

T Account Form (2 of 2)

Cash T Account:			
Cash			
	+	−	
(a)	90,000	(b)	38,000
(f)	8,000	(d)	2,000
(q)	2,500	(g)	1,250
(r)	8,570	(i)	1,875
	109,070	(l)	1,500
		(m)	225
		(n)	620
		(o)	2,360
Footings		(p)	1,850
		(s)	3,500
			53,180
Bal.	**55,890**		

Practice Exercise 1 (1 of 2)

- Using the T accounts presented below, determine the balances.

Cash

(a)	90,000	(b)	38,000
		(f)	1,200

Accounts Payable

(d)	1,500	(c)	4,500

J. Jay, Capital

		(a)	90,000
		(e)	5,000

J. Jay, Drawing

(f)	1,200		

Equipment

(b)	38,000	(d)	1,500
(c)	4,500		
(e)	5,000		

Practice Exercise 1 (2 of 2)

PRACTICE EXERCISE 1 • SOLUTION

Cash

(a)	90,000	(b)	38,000
		(f)	1,200
			39,200
Bal.	**50,800**		

Accounts Payable

(d)	1,500	(c)	4,500
		Bal.	**3,000**

J. Jay, Capital

		(a)	90,000
		(e)	5,000
		Bal.	**95,000**

J. Jay, Drawing

(f)	1,200		
Bal.	**1,200**		

Equipment

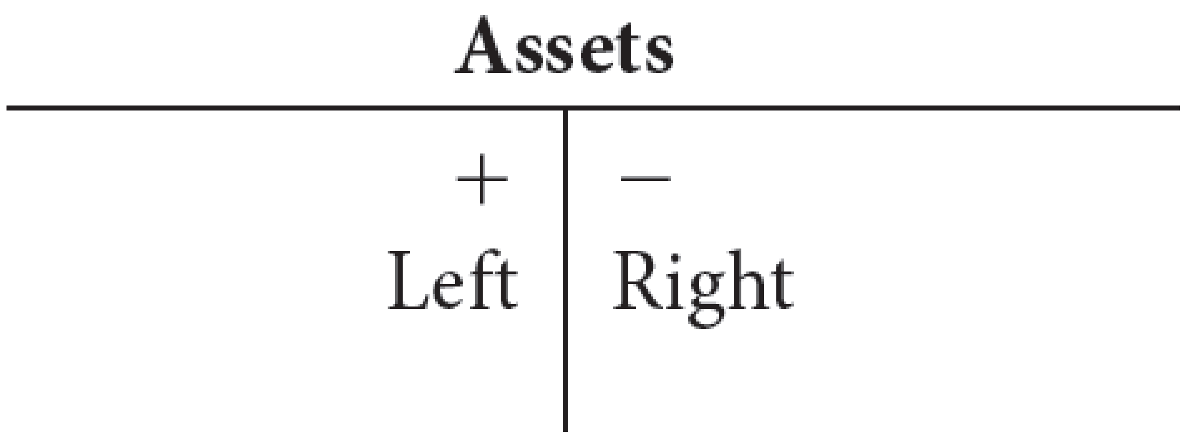
(b)	38,000	(d)	1,500
(c)	4,500		
(e)	5,000		
	47,500		
Bal.	**46,000**		

Learning Objective - 2

- Present the fundamental accounting equation using the T account form and label the plus and minus sides

T Account for Assets

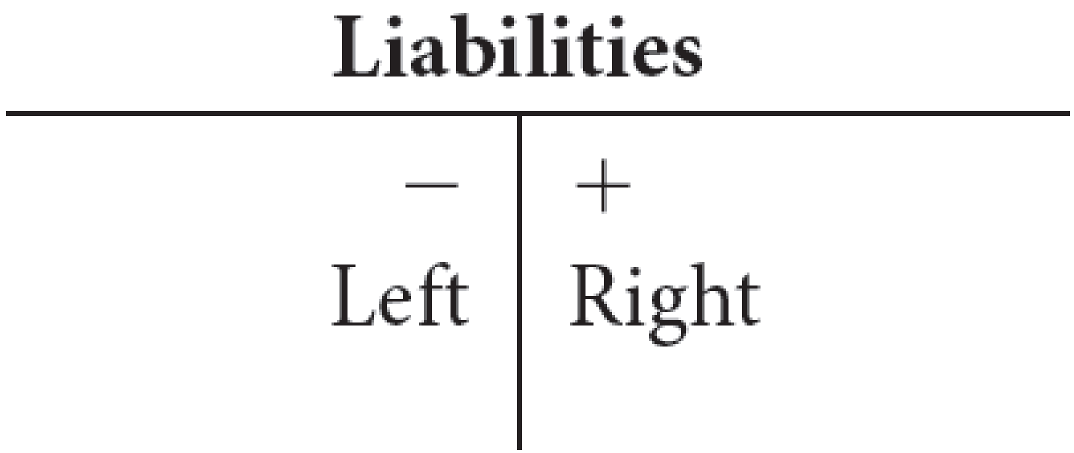
- The T account has a title (such as **Cash**)



- Assets increase on the left side
- Assets decrease on the right side

T Account for Liabilities

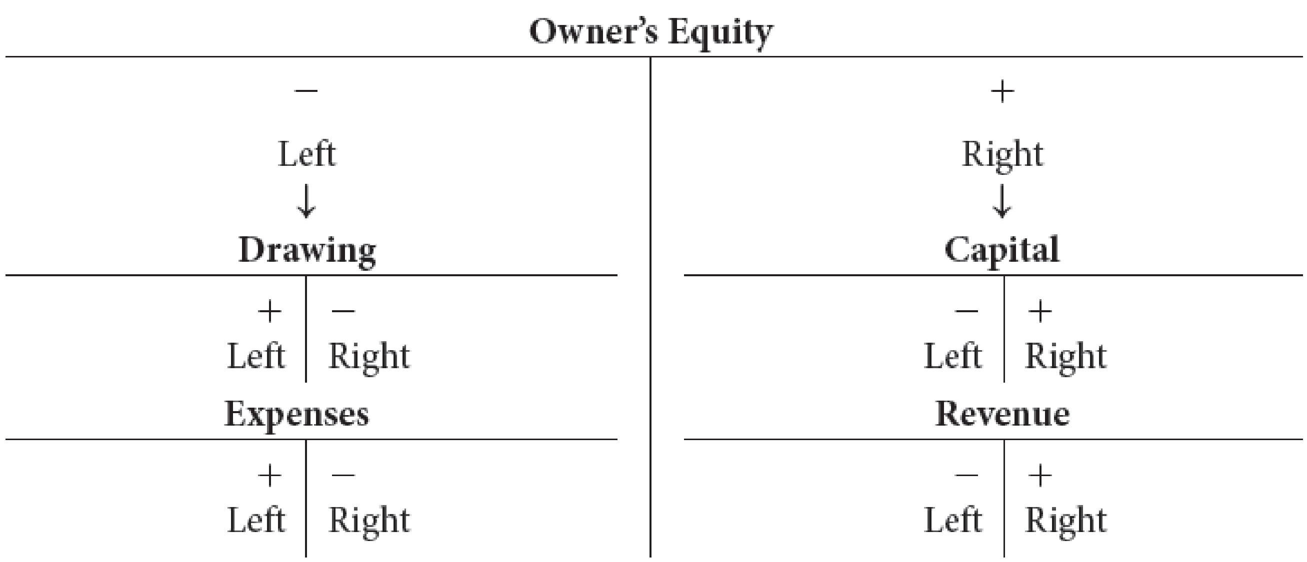
- T account title



- Liabilities decrease on the left side
- Liabilities increase on the right side

T Account for Owner's Equity

- Left: Drawing and expenses cause a decrease in owner’s equity
- Right: Owner’s investments (capital) and revenues cause an increase in owner’s equity



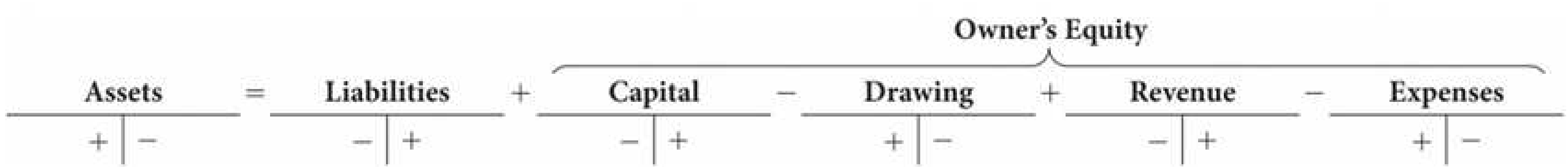
Expanded Fundamental Accounting Equation

						Owner's Equity										
Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+	−		−	+		−	+		+	−		−	+		+	−
Left	Right		Left	Right		Left	Right		Left	Right		Left	Right		Left	Right

- Assets – The *left* side is the increase side
- Liabilities – The *right* side is the increase side
- Capital - The *right* side is the increase side
- Drawing - The *left* side is the increase side
- Revenue - The *right* side is the increase side
- Expenses - The *left* side is the increase side

Practice Exercise 2

- Using the fundamental accounting equation in T account form, label each side with plus and minus
- **PRACTICE EXERCISE 2** • SOLUTION



Learning Objective - 3

- Present the fundamental accounting equation using the T account form and label the debit and credit sides

T Accounts with Debits and Credits

- **Debit**: Left side of a T account
- **Credit**: Right side of a T account

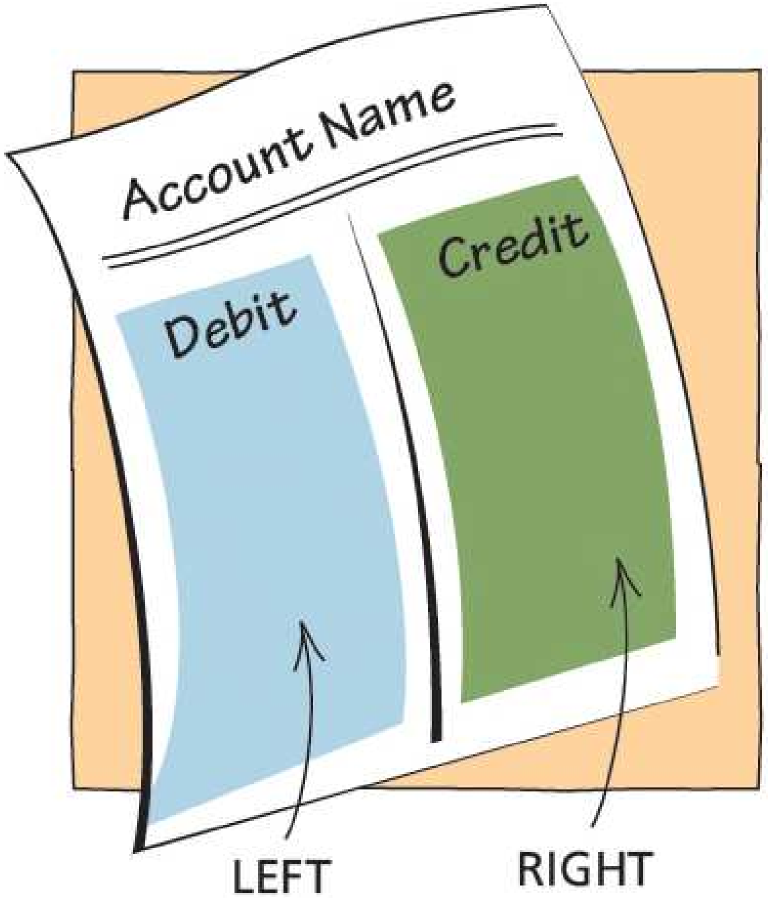
						Owner's Equity										
Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

T Account Form with Debit and Credit (1 of 2)

Debits Signify		Credits Signify	
Increases in	Assets Drawing Expenses	Decreases in	Assets Drawing Expenses
Decreases in	Liabilities Capital Revenue	Increases in	Liabilities Capital Revenue

- Amount placed on the debit side of one or more accounts must equal the amount placed on the credit side of another account or other accounts

T Account Form with Debit and Credit (2 of 2)



Practice Exercise 3

- Using the fundamental accounting equation in T account form, label each side as debit and credit
- **PRACTICE EXERCISE 3•** SOLUTION

						Owner's Equity										
Assets		=	**Liabilities**		+	**Capital**		−	**Drawing**		+	**Revenue**		−	**Expenses**	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Learning Objective - 4

- Record directly in T accounts a group of business transactions involving changes in asset, liability, owner’s equity, revenue, and expense accounts for a service business

Recording Business Transactions in T Accounts (1 of 3)

- Transaction (a) - Conner deposited $90,000 in a bank account in the name of the business
- Step 1: What accounts are involved?
  - Answer 1: Cash and J. Conner, Capital
- Step 2: What are the classifications of the accounts involved (asset, liability, capital, drawing, revenue, expense)?
  - Answer 2: Cash is an asset account, and J. Conner, Capital, is an owner's equity account

Recording Business Transactions in T Accounts (2 of 3)

- Step 3: Are the accounts increased or decreased?
  - Answer 3: Cash is being deposited in the bank account, an increase to Cash
    The owner has invested that cash in the business and has increased J. Conner, Capital
- Step 4: Write the transaction as a debit to one account (or accounts) and a credit to another account (accounts)?
  - Answer 4: Because Cash is an asset account and Cash is increased, Cash is debited
    J. Conner, Capital, is an owner's equity account and is increased Thus, J. Conner, Capital, is credited

Recording Business Transactions in T Accounts (3 of 3)

- Step 5: Is the equation in balance after the transaction has been recorded?
  - Answer 5: At least one account is debited, and at least one account is credited
    The total amount(s) debited equals the total amount(s) credited

Transaction (a) in T Account Form

Owner's Equity

Assets	=	Liabilities	+	Capital	−	Drawing	+	Revenue	−	Expenses
+ | −		− | +		− | +		+ | −		− | +		+ | −
Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit

Cash		J. Conner, Capital	
+	−	−	+
Debit	Credit	Debit	Credit
(a) 90,000			(a) 90,000

Transaction (b): Conner's Whitewater Adventures Bought Equipment, Paying Cash of $38,000

Owner's Equity

Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

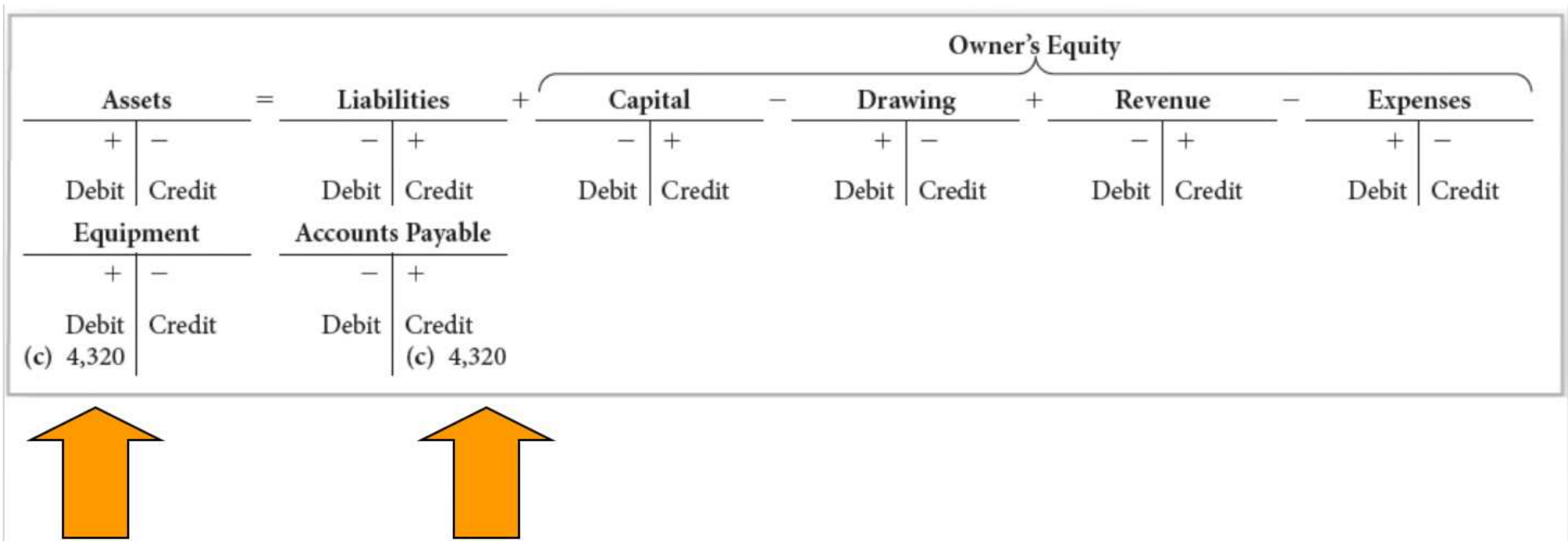
Cash

+	−
Debit	Credit
	(b) 38,000

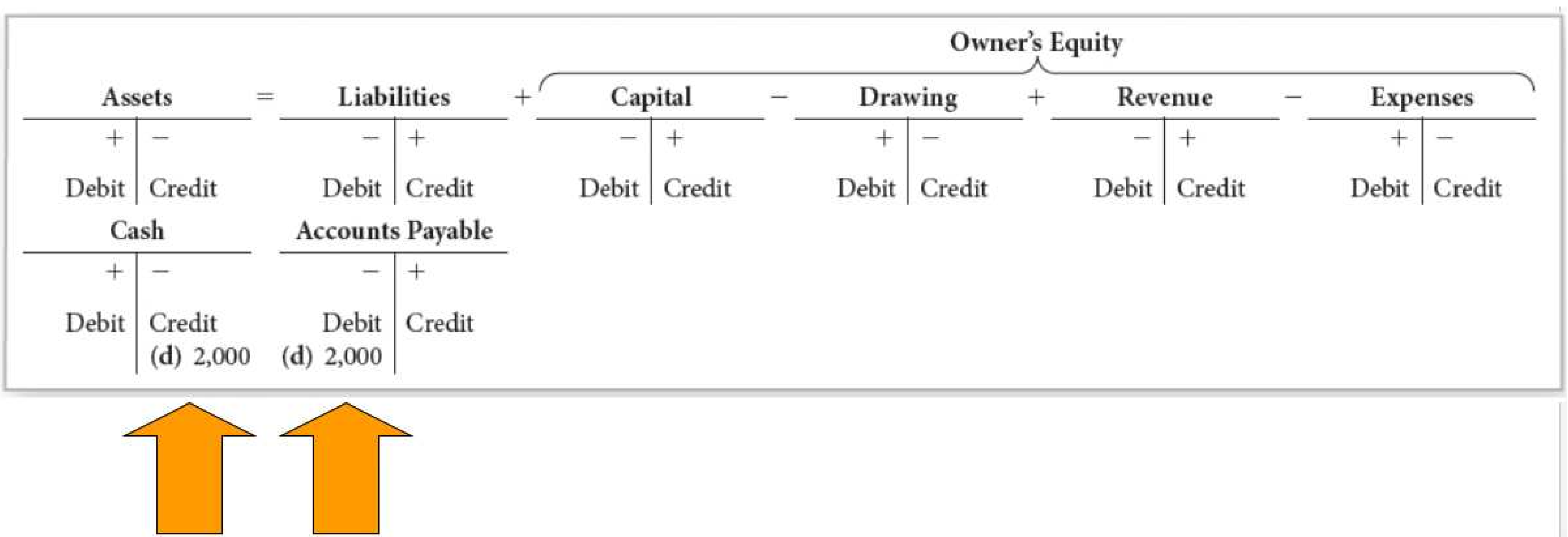
Equipment

+	−
Debit	Credit
(b) 38,000	

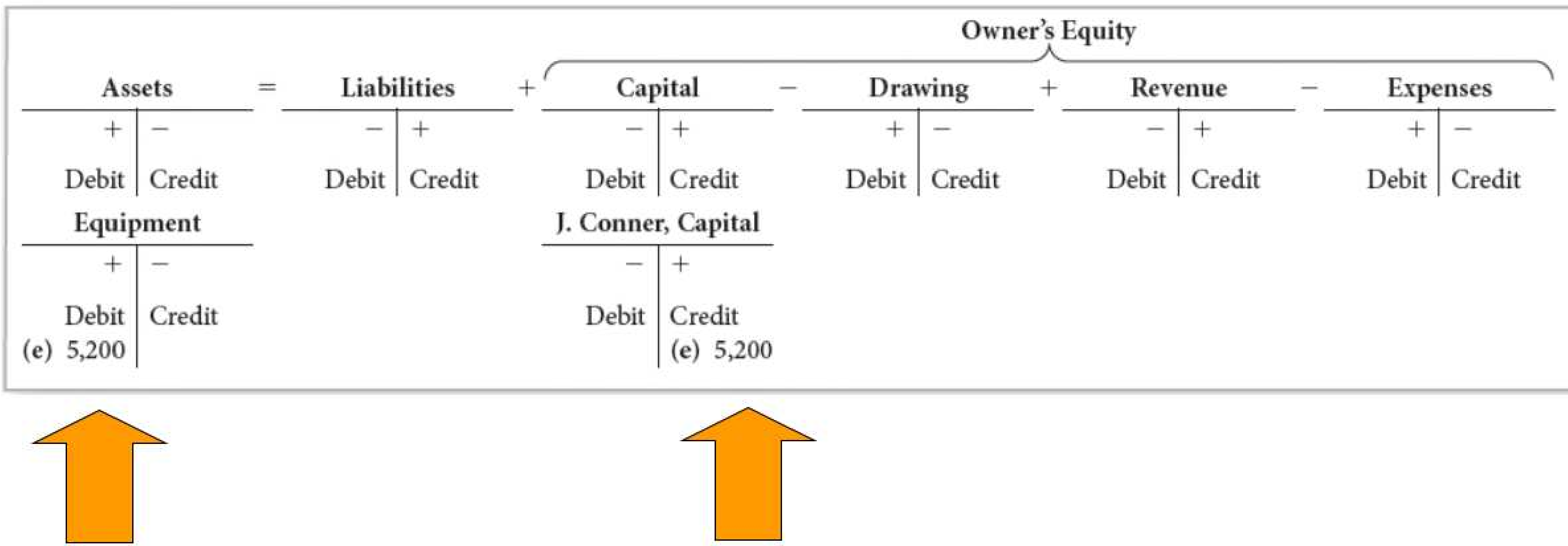
Transaction (c): Conner’s Whitewater Adventures Bought Equipment on Account for $4,320



Transaction (d): Conner's Whitewater Adventures Paid Signal Products, a Creditor, $2,000



Transaction (e): J. Conner Invests Her Personal Computer, with a Fair Market Value of $5,200

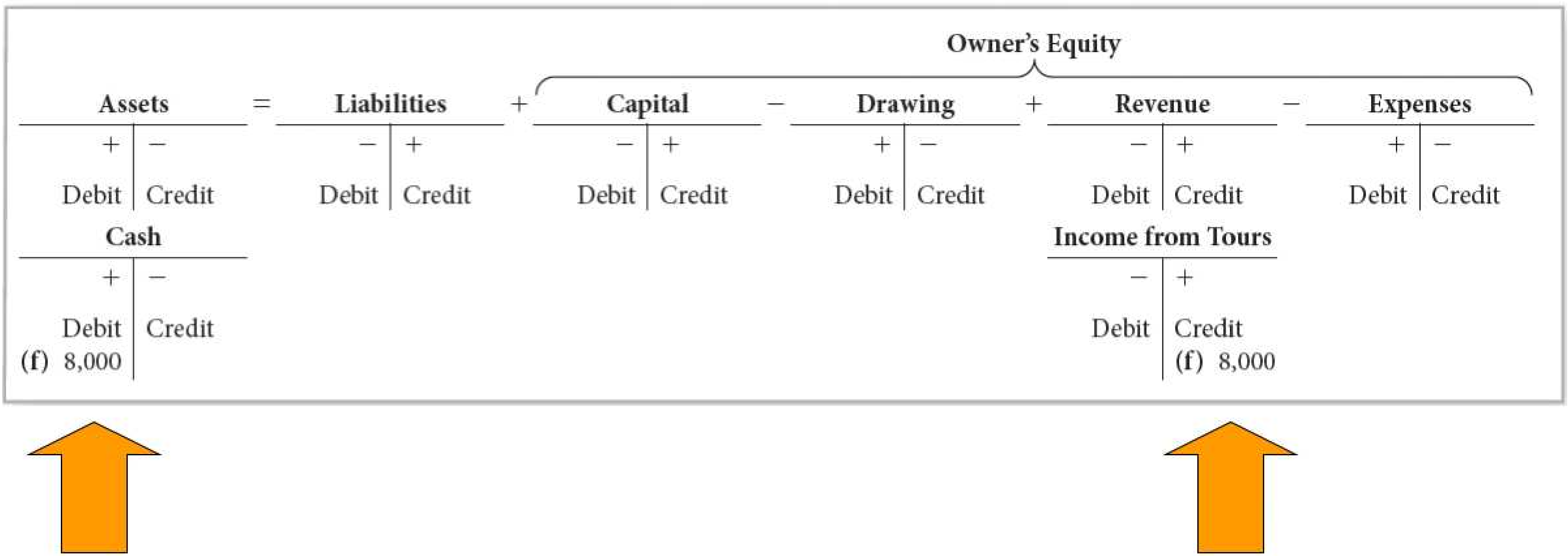


Checking the Balances of Accounts

Account Name	Accounts with Normal Balances on the Left, or Debit, Side	Accounts with Normal Balances on the Right, or Credit, Side
	Assets Drawing Expenses	Liabilities Capital Revenue
Cash	$50,000	
Equipment	47,520	
Accounts Payable		$ 2,320
J. Conner, Capital		95,200
	$97,520	$97,520

Equal

Transaction (f): Conner's Whitewater Adventures Sold Rafting Tours for Cash, $8,000



Transaction (g): Conner's Whitewater Adventures Paid Rent for the Month, $1,250

						Owner's Equity				
Assets	=	**Liabilities**	+	**Capital**	−	**Drawing**	+	**Revenue**	−	**Expenses**
+ | −		− | +		− | +		+ | −		− | +		+ | −
Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit

Cash

+	−
Debit	Credit
	(g) 1,250

Rent Expense

+	−
Debit	Credit
(g) 1,250	

Transaction (h): Conner's Whitewater Adventures Bought Items on Account, $675

									Owner's Equity							
Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Supplies			Accounts Payable	
+	−		−	+
Debit	Credit		Debit	Credit
(h) 675				(h) 675

Transaction (i): Three-Month Liability Insurance Policy, $1,875

Owner's Equity

Assets	=	Liabilities	+	Capital	−	Drawing	+	Revenue	−	Expenses
+ / −		− / +		− / +		+ / −		− / +		+ / −
Debit / Credit		Debit / Credit		Debit / Credit		Debit / Credit		Debit / Credit		Debit / Credit

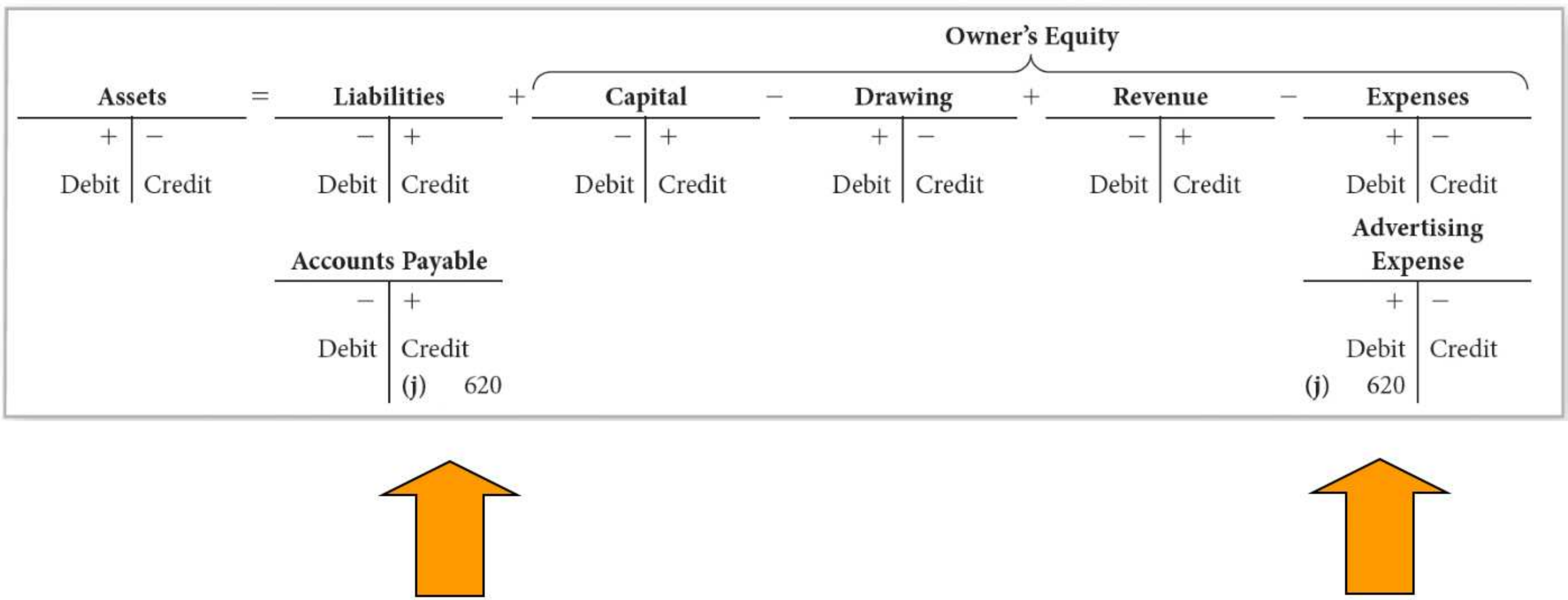
Cash

+	−
Debit	Credit
	(i) 1,875

Prepaid Insurance

+	−
Debit	Credit
(i) 1,875	

Transaction (j): Bill for Newspaper Advertisement from The Times, $620



Transaction (k): Providing 27 One-Day Rafting Tours and Billing Crystal River Lodge for $6,750

				Owner's Equity				
Assets	=	Liabilities	+	Capital	−	Drawing	+	Revenue	−	Expenses

Assets		Liabilities		Capital		Drawing		Revenue		Expenses	
+	−	−	+	−	+	+	−	−	+	+	−
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit

Accounts Receivable	
+	−
Debit	Credit
(k) 6,750	

Income from Tours	
−	+
Debit	Credit
	(k) 6,750

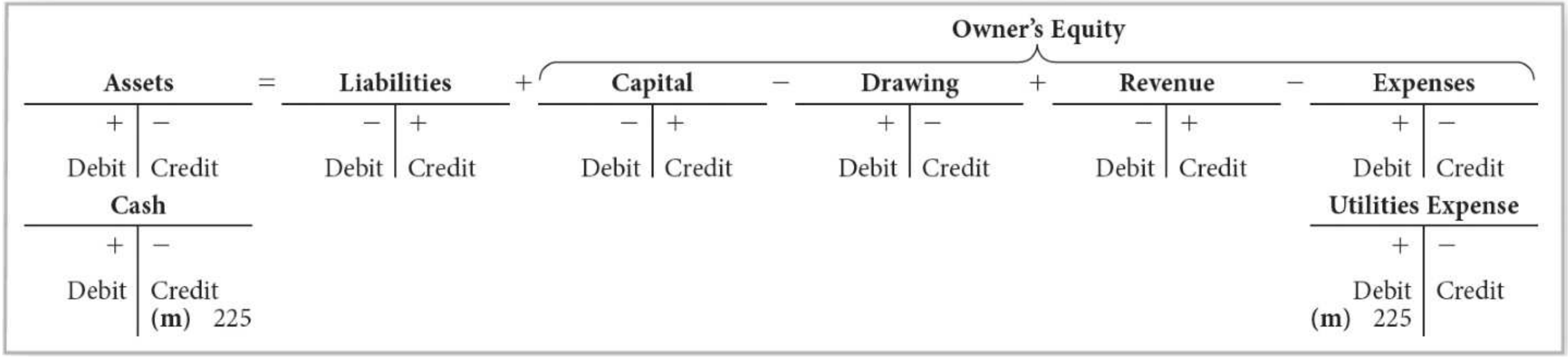
Transaction (l): Conner's Whitewater Adventures Pays on Account to Signal Products, $1,500

Owner's Equity

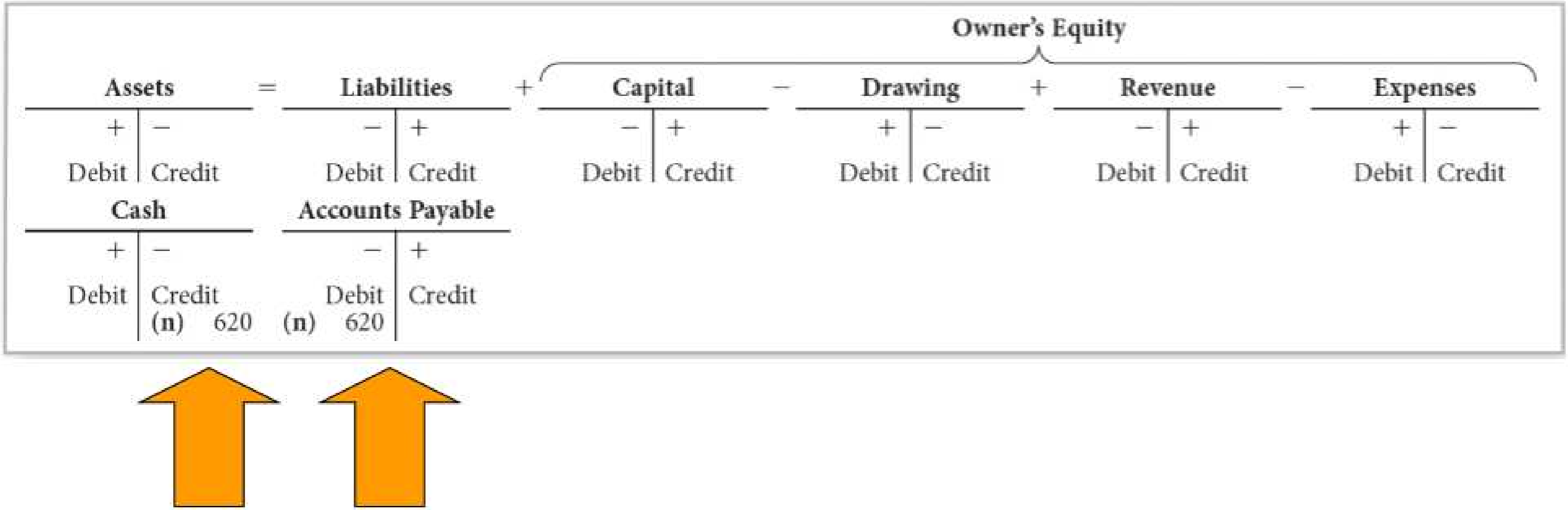
Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Cash		Accounts Payable	
+	−	−	+
Debit	Credit	Debit	Credit
	(l) 1,500	(l) 1,500	

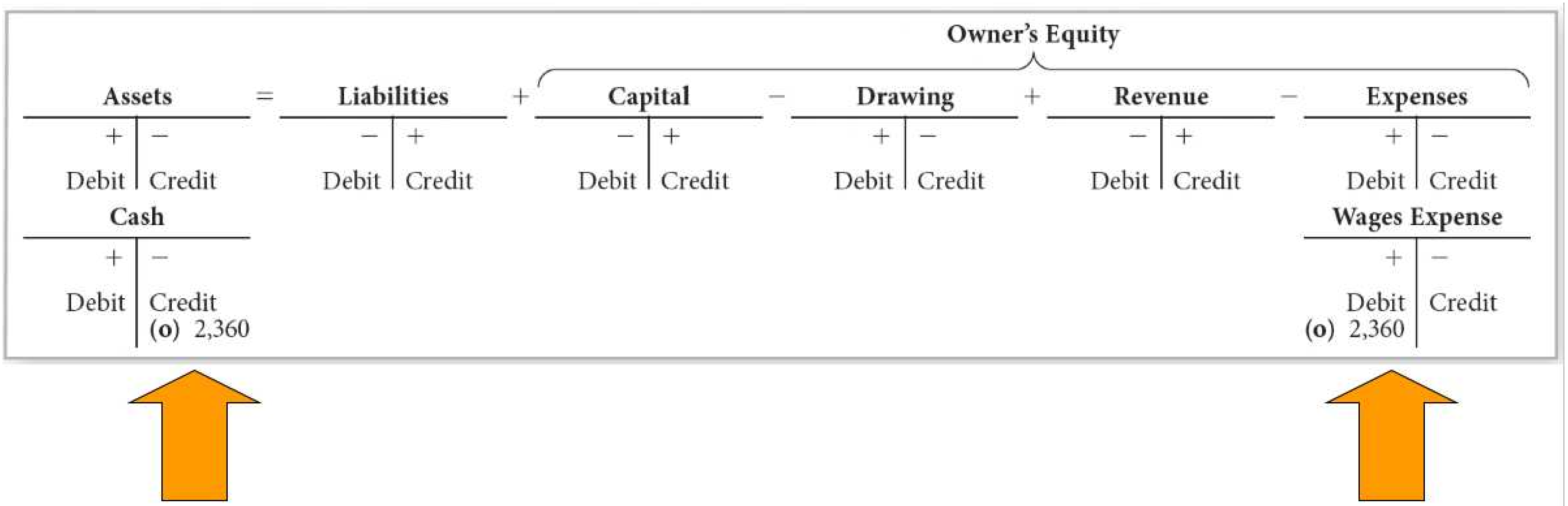
Transaction (m): Conner's Whitewater Adventures Received and Paid Solar Power, Inc., for the Electric Bill, $225



Transaction (n): Conner's Whitewater Adventures Paid on Account to The Times, $620



Transaction (o): Conner's Whitewater Adventures Paid the Wages of a Part-Time Employee, $2,360



Transaction (p): Equipment from Signal Products, $3,780, paying $1,850 in Cash and Placing the Balance on Account

				Owner's Equity						
Assets	=	Liabilities	+	Capital	−	Drawing	+	Revenue	−	Expenses
+ | −		− | +		− | +		+ | −		− | +		+ | −
Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit

Cash			Accounts Payable	
+	−		−	+
Debit	Credit		Debit	Credit
	(p) 1,850			(p) 1,930

Equipment	
+	−
Debit	Credit
(p) 3,780	

Compound entry

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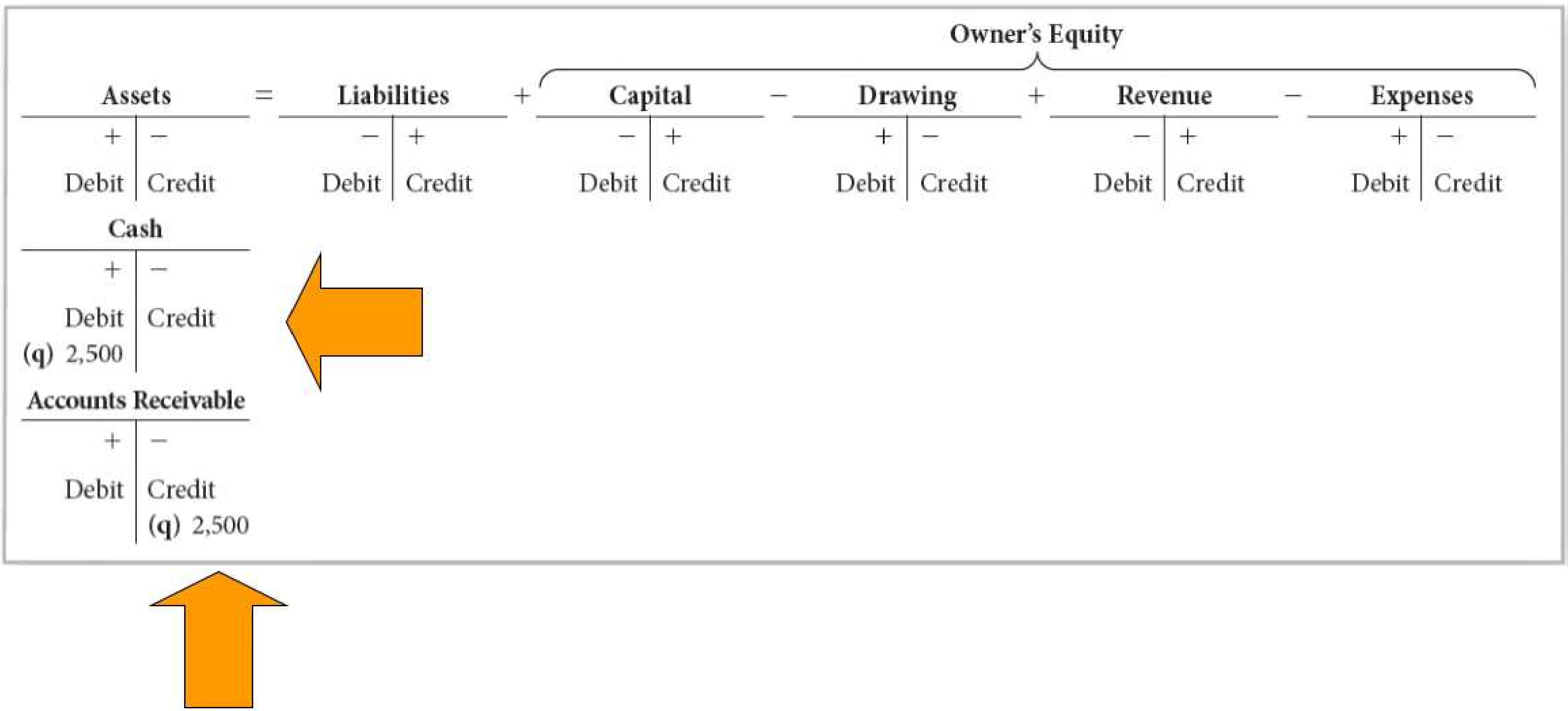
Transaction (q): Received $2,500 Cash from Crystal River Lodge to Apply against the Amount Billed in Transaction (K)



Transaction (r): Sold Tours for Cash, $8,570

Owner's Equity

Assets	=	Liabilities	+	Capital	−	Drawing	+	Revenue	−	Expenses
+ | −		− | +		− | +		+ | −		− | +		+ | −
Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit		Debit | Credit

Cash		Income from Tours	
+	−	−	+
Debit	Credit	Debit	Credit
(r) 8,570			**(r)** 8,570

Transaction (s): J. Conner Withdrew Cash for Her Personal Use, $3,500

Owner's Equity

Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+	−		−	+		−	+		+	−		−	+		+	−
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Cash	
+	−
Debit	Credit
	(s) 3,500

J. Conner, Drawing	
+	−
Debit	Credit
(s) 3,500	

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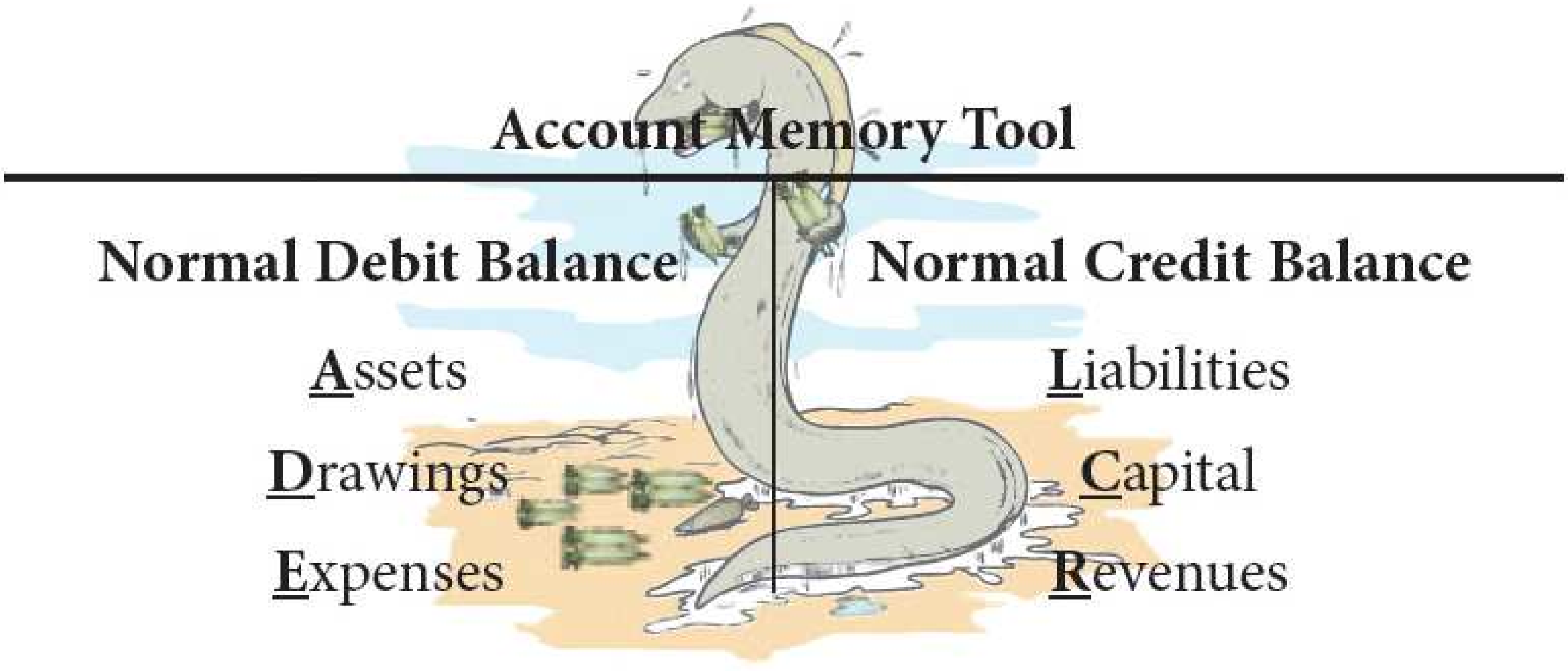
Figure 1 - Accounting Memory Tool



Practice Exercise 4 (1 of 2)

- Record the following transactions directly into the appropriate T accounts and determine the balance in each account

a. J. Molson deposited $90,000 in the name of the business
b. Bought equipment for cash, $38,000
c. Bought advertising on account, $4,320
d. Paid $2,000 on account
e. J. Molson invested his personal equipment, valued at $5,200, in the business

Practice Exercise 4 (2 of 2)

f. The business received cash from customers, $4,000

g. J. Molson withdrew $1,200 from the business for personal use

Practice Exercise 4 - Complete the T Accounts

PRACTICE EXERCISE 4 • SOLUTION

Assets		=	Liabilities		+	Capital		−	Drawing		+	Revenue		−	Expenses	
+ Debit	− Credit		− Debit	+ Credit		− Debit	+ Credit		+ Debit	− Credit		− Debit	+ Credit		+ Debit	− Credit

Cash

+ Debit		− Credit	
(a)	90,000	(b)	38,000
(f)	4,000	(d)	2,000
	94,000	(g)	1,200
			41,200
Bal.	**52,800**		

Accounts Payable

− Debit		+ Credit	
(d)	2,000	(c)	4,320
		Bal.	**2,320**

J. Molson, Capital

− Debit		+ Credit	
		(a)	90,000
		(e)	5,200
		Bal.	**95,200**

J. Molson, Drawing

+ Debit		− Credit
(g)	1,200	
Bal.	**1,200**	

Fees Earned

− Debit	+ Credit	
	(f)	4,000
	Bal.	**4,000**

Advertising Expense

+ Debit		− Credit
(c)	4,320	
Bal.	**4,320**	

Equipment

+ Debit		− Credit
(b)	38,000	
(e)	5,200	
Bal.	**43,200**	

Learning Objective - 5

- Prepare a trial balance

Trial Balance (1 of 2)

- Listing of account balances in two columns
  - Left column - Debits
  - Right column - Credits
- Needs to be prepared in the order in which the items appear in the chart of accounts
  - Assets
  - Liabilities
  - Owner's Equity
  - Revenue
  - Expenses

Figure 2 - Trial Balance

	TRIAL BALANCE	
Account Titles	**Left, or Debit, Balances**	**Right, or Credit, Balances**
Assets	Assets	
Liabilities		Liabilities
Capital		Capital
Drawing	Drawing	
Revenue		Revenue
Expenses	Expenses	
Totals		

- Normal balance of each account is on its plus side

Trial Balance (2 of 2)

Column headings identify information in each column

Conner's Whitewater Adventures Trial Balance June 30, 20--		
Account Name	**Debit**	**Credit**
Cash	55,890	
Accounts Receivable	4,250	
Supplies	675	
Prepaid Insurance	1,875	
Equipment	51,300	
Accounts Payable		3,425
J. Conner, Capital		95,200
J. Conner, Drawing	3,500	
Income from Tours		23,320
Wages Expense	2,360	
Rent Expense	1,250	
Advertising Expense	620	
Utilities Expense	225	
	121,945	121,945

Accounts listed in order of the chart of accounts

Dollar signs not used on a trial balance

Single underline beneath figures to be added

Double underline beneath column totals

Practice Exercise 5

- Using the following account balances, prepare a trial balance for Collins's Backpack Adventures as of July 31, 20--

Accounts Payable	$ 3,325	J. Collins, Drawing	$3,400
Accounts Receivable	4,150	Prepaid Insurance	1,675
Advertising Expense	680	Rent Expense	1,350
Cash	55,830	Supplies	575
Equipment	51,500	Utilities Expense	325
Income from Treks	23,220	Wages Expense	2,460
J. Collins, Capital	95,400		

Practice Exercise 5 - Complete the Trial Balance

Collins's Backpack Adventures
Trial Balance
July 31, 20—

Account Name	Debit	Credit
Cash		
Accounts Receivable		
Supplies		
Prepaid Insurance		
Equipment		
Accounts Payable		
J. Collins, Capital		
J. Collins, Drawing		
Income from Treks		
Wages Expense		
Rent Expense		
Advertising Expense		
Utilities Expense		

Practice Exercise 5 - Solution

Collins's Backpack Adventures
Trial Balance
July 31, 20—

Account Name	Debit	Credit
Cash	55,830	
Accounts Receivable	4,150	
Supplies	575	
Prepaid Insurance	1,675	
Equipment	51,500	
Accounts Payable		3,325
J. Collins, Capital		95,400
J. Collins, Drawing	3,400	
Income from Treks		23,220
Wages Expense	2,460	
Rent Expense	1,350	
Advertising Expense	680	
Utilities Expense	325	
	121,945	121,945

Learning Objective - 6

- Prepare (a) an income statement, (b) a statement of owner’s equity, and (c) a balance sheet

Income Statement

- Shows total revenue minus total expenses, which yields the net income or net loss
- Reports how the business has performed over a period of time, usually a month or a year
- When total revenue exceeds total expenses over the period, the result is a **net income**, or profit
- When the total revenue is less than total expenses, the result is a **net loss**

Figure 3 - Income Statement

a
Conner's Whitewater Adventures 1
Income Statement 2
For Month Ended June 30, 20-- 3

Revenue:		
Income from Tours c		b $23,320
Expenses:		
Wages Expense c, d	b $2,360	
Rent Expense	1,250	
Advertising Expense	620	
Utilities Expense	e 225	
Total Expenses c		4,455 e
Net Income		$18,865 f

Transfer net income figure to statement of owner's equity.

1 Name of company
2 Title of statement
3 Period of time
a Three-line heading
b Dollar sign at head of column or to show subtotal or total
c Indent to indicate listing within a section
d Listed in order of chart of accounts
e Single underline beneath the final figure
f Double underline beneath grand total

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Statement of Owner's Equity

- Shows how—and why—the owner's equity or Capital account has changed over a stated period of time
- Prepared after the accountant has determined the net income or net loss on the income statement

Figure 4 - Statement of Owner's Equity

Conner's Whitewater Adventures		
Statement of Owner's Equity		
For Month Ended June 30, 20--		
J. Conner, Capital, June 1, 20--		$ 0
Investment during June	$ 95,200	
Net Income for June	18,865	
Subtotal	$ 114,065	
Less Withdrawals for June	3,500	
Increase in Capital		110,565
J. Conner, Capital, June 30, 20--		$110,565

Carried from income statement

Transfer ending capital to balance sheet

1 Name of company
2 Title of statement
3 Period of time
a Three-line heading

b Dollar sign at head of column or to show subtotal or total
c Single underline beneath the final figure
d Double underline beneath grand total

Balance Sheet

- Shows the financial position of a business's assets offset by claims against them as of a particular date
- Balance sheet summarizes the balances of the asset, liability, and owner's equity accounts on a given date (usually the end of a month or year)

Figure 5 - Balance Sheet

Conner's Whitewater Adventures
Balance Sheet
June 30, 20--

Assets		
Cash	$ 55,890	
Accounts Receivable	4,250	
Supplies	675	
Prepaid Insurance	1,875	
Equipment	51,300	
Total Assets		$113,990
Liabilities		
Accounts Payable		$ 3,425
Owner's Equity		
J. Conner, Capital		110,565
Total Liabilities and Owner's Equity		$113,990

Total assets = Total liabilities and owner's equity

Carried from statement of owner's equity

1 Name of company
2 Title of statement
3 Period of time
a Three-line heading
b Dollar sign at head of column or to show subtotal or total
c Listed in order of chart of accounts
d Single underline beneath the final figure
e Double underline beneath grand total

Practice Exercise 6

- Use the trial balance in Practice Exercise 5 to prepare (a) an income statement, (b) a statement of owner's equity, and (c) a balance sheet. Assume that Collins's Backpack Adventures started business on July 1, 20--.

Collins's Backpack Adventures
Trial Balance
July 31, 20—

Account Name	Debit	Credit
Cash	55,830	
Accounts Receivable	4,150	
Supplies	575	
Prepaid Insurance	1,675	
Equipment	51,500	
Accounts Payable		3,325
J. Collins, Capital		95,400
J. Collins, Drawing	3,400	
Income from Treks		23,220
Wages Expense	2,460	
Rent Expense	1,350	
Advertising Expense	680	
Utilities Expense	325	
	121,945	121,945

Practice Exercise 6 (a) - Complete the Income Statement

(a)

Collins's Backpack Adventures Income Statement For Month Ended July 31, 20--		
Revenue:		
Income from Treks		
Expenses:		
Wages Expense		
Rent Expense		
Advertising Expense		
Utilities Expense		
Total Expenses		
Net Income		

Practice Exercise 6 (a) - Solution

(a)

Collins's Backpack Adventures Income Statement For Month Ended July 31, 20--		
Revenue:		
Income from Treks		$23,220
Expenses:		
Wages Expense	$2,460	
Rent Expense	1,350	
Advertising Expense	680	
Utilities Expense	325	
Total Expenses		4,815
Net Income		$18,405

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Practice Exercise 6 (b) - Complete the Statement of Owner's Equity

(b)

Collins's Backpack Adventures Statement of Owner's Equity For Month Ended July 31, 20--		
J. Collins, Capital, July 1, 20--		
Investments during July		
Net Income for July		
Subtotal		
Less Withdrawals for July		
Increase in Capital		
J. Collins, Capital, July 31, 20--		

Practice Exercise 6 (b) - Solution

(b)

Collins's Backpack Adventures Statement of Owner's Equity For Month Ended July 31, 20--		
J. Collins, Capital, July 1, 20--		$ 0
Investments during July	$ 95,400	
Net Income for July	18,405	
Subtotal	$113,805	
Less Withdrawals for July	3,400	
Increase in Capital		110,405
J. Collins, Capital, July 31, 20--		$ 110,405

Practice Exercise 6 (c) - Complete the Balance Sheet

(c)

Collins's Backpack Adventures Balance Sheet July 31, 20--		
Assets		
Cash	$	
Accounts Receivable		
Supplies		
Prepaid Insurance		
Equipment		
Total Assets		
Liabilities		
Accounts Payable		$
Owner's Equity		
J. Collins, Capital		
Total Liabilities and Owner's Equity		

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Practice Exercise 6 (c) - Solution

(c)

Collins's Backpack Adventures Balance Sheet July 31, 20--		
Assets		
Cash	$55,830	
Accounts Receivable	4,150	
Supplies	575	
Prepaid Insurance	1,675	
Equipment	51,500	
Total Assets		$ 113,730
Liabilities		
Accounts Payable		$ 3,325
Owner's Equity		
J. Collins, Capital		110,405
Total Liabilities and Owner's Equity		$ 113,730

Learning Objective - 7

- Recognize the effect of errors on account balances

Errors Exposed by the Trial Balance

- Evident when the debit and credit columns in a trial balance are not equal
- Include:
  - Making errors in arithmetic
  - Recording only half an entry
  - Recording both halves of the entry on the same side
  - Recording one or more amounts incorrectly

Procedure for Locating Errors

- Effective method for locating errors is to do everything in reverse
  - Involves:
    - Looking at the pattern of the balances to see if a normal balance was placed in the wrong column on the trial balance
    - Re-adding the trial balance columns
    - Checking the transferring of the figures from the accounts to the trial balance
    - Verifying the footings and balances of the accounts

Transpositions

- Digits being transposed, or switched around, when the numbers are copied from one place to another
  - Example - Writing 619 for 916 (the difference of 297 is evenly divisible by 9)

Slides

- Errors in placing the decimal point
  - Example - Writing $27,000 for $2,700 (the difference of 24,300 is evenly divisible by 9)
- An error may be a combination of a transposition and a slide
  - Example - Writing $54 for $450 (the difference of $396 is evenly divisible by 9 with no remainder)

Practice Exercise 7

- Identify the following errors as transpositions or slides and indicate the amount of the difference and whether it is divisible by 9
  a. The amount of supplies bought totaled $341, but it was written as $431
  b. Equipment was purchased for $3,500, but it was written as $35
  c. An error was made in the trial balance because $35 was written as $530

Practice Exercise 7 – Solution (1 of 2)

a. Transposition: The difference is $90 and can be evenly divided by 9

Correct Number	Number Copied	Difference	Difference Divided by 9
$341	$431	$90	$90 ÷ 9 = $10

b. Slide: The difference is $3,465 and can be evenly divided by 9

Correct Number	Number Copied	Difference	Difference Divided by 9
$3,500	$35	$3,465	$3,465 ÷ 9 = $385

Practice Exercise 7 – Solution (2 of 2)

c. Transposition and slide: The difference is $495 and can be evenly divided by 9

Correct Number	Number Copied	Difference	Difference Divided by 9
$35	$530	$495	$495 ÷ 9 = $55