

Chapter 2

Recording Business Transactions

T Questions

1. The basic summary device of accounting is the *account*. It resembles the letter T, and its left side is called the debit side and its right side the credit side.
2. False. Debit means left and credit means right. Debits and credits are used to record increases and decreases in accounts. Debits can be increases or decreases depending on the type of account involved, and the same is true for credits.
3. The three basic types of accounts are ASSETS, LIABILITIES, and OWNER'S EQUITY. Two additional types of accounts are REVENUES and EXPENSES. They are most closely related to owner's equity; revenues increase owner's equity and expenses decrease owner's equity.
4.

Business	→	Source	→	Transaction	→	Entry in	→	Posting to
Transaction		Documents		Analysis		Journal		Ledger
5.

<i>Account Type</i>	<i>Normal Balance</i>
Assets	<u>Debit</u>
Liabilities	<u>Credit</u>
Capital	<u>Credit</u>
Revenues	<u>Credit</u>
Expenses	<u>Debit</u>

6. Posting copies information from the journal to the ledger. This is important because the transaction entries in the journal do not accumulate all the information related to each account. The accounts in the ledger hold that information. Therefore, the copying of data to the accounts in the ledger—that is, posting from the journal to the ledger—makes it possible to determine the balance in each account. Posting comes after journalizing.
7. \pm a. Investment by owner $\underline{!}$ f. Withdrawal by owner
 \pm b. Revenue transaction $\underline{0}$ g. Borrowing money on a
 $\underline{0}$ c. Purchase of supplies on credit note payable
 $\underline{!}$ d. Expense transaction \pm h. Sale of service on account
 $\underline{0}$ e. Cash payment on account
8. Cash Jane East, Capital
Accounts Receivable Sales Revenue
Notes Payable Salary Expense
9. “Accounts Payable has a credit balance of \$1,700” means that the entity owes \$1,700 to its creditors on a debt that is not evidenced by a formal note payable.
10. Accountants prepare a trial balance to summarize all the accounts and their balances. Before computers, the trial balance provided a check on accuracy by showing whether total debits equal total credits.
11. A compound journal entry is one that affects more than two accounts.
12. This error does *not* cause the trial balance to be out of balance because both total debits and total credits are overstated by the same amount, \$4,500 (\$5,000 ! \$500).

13. Collecting cash on account has no effect on total assets because the increase in cash, which increases total assets, is offset by the decrease in accounts receivable, which decreases total assets.
14. The advantage of “journal-less” transaction analysis is the saving of time. Transactions can be analyzed for quick decision making by recording the transactions directly in T-accounts without first recording them in the journal.

T Daily Exercises

(5-10 min.) **DE 2-1**

1. Owner's equity is the owner's claim to the assets of the business.

$$\begin{array}{rclclcl} \text{ASSETS} & = & \text{LIABILITIES} & + & \text{OWNER'S EQUITY} \\ \$8,000 & = & \$5,000 & + & \boxed{\$3,000} \end{array}$$

2. Two categories of transactions that increase owner's equity:
Investments by the owner
Revenues (or Net income)

Two categories of transactions that decrease owner's equity:
Withdrawals by the owner
Expenses (or Net loss)

3. Asset - Economic resource

Examples: Cash
Notes receivable
Accounts receivable
Prepaid expenses
Land
Building
Equipment, furniture, and fixtures

Liability - Debt

Examples: Notes payable
Accounts payable
Accrued liabilities (Taxes Payable, Interest Payable,
Salary Payable)

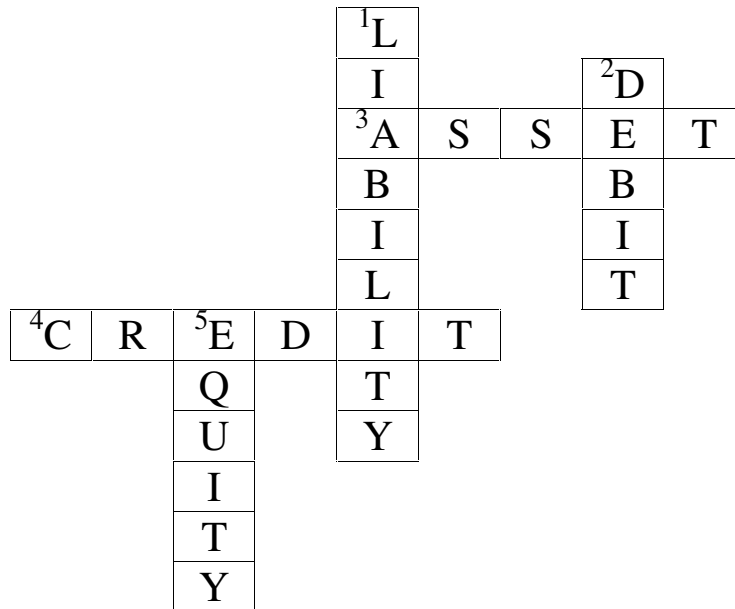
(5-10 min.) **DE 2-2**

Across:

3. Economic resource of an entity.
4. Records an increase in a liability or owner's equity.

Down:

1. A debt.
2. Records an increase in an asset or an expense.
5. Assets ! Liabilities = Owner's _____.



(5 min.) **DE 2-3**

Schmidt's payment was *not* an expense.

Schmidt acquired an asset, Equipment, because the equipment is an economic resource of the business.

(5 min.) **DE 2-4**

Erika Darby, an introductory accounting student, is describing the accounting process for a friend who is a philosophy major. Erika states, “The basic summary device in accounting is the **account**, which can be represented by the letter T. The left side of an account is called the debit side, and the right side is called the credit side.

“We record transactions first in a journal. Then we post (copy the data) to the accounts in the ledger. It is helpful to list all the accounts with their balances on a trial balance.”

- | | | |
|----------|-------------------|--|
| <u>I</u> | 1. Ledger | A. Record of transactions |
| <u>E</u> | 2. Posting | B. Always an asset |
| <u>D</u> | 3. Normal balance | C. Left side of an account |
| <u>G</u> | 4. Payable | D. Side of an account where increases are recorded |
| <u>A</u> | 5. Journal | E. Copying data from the journal to the ledger |
| <u>B</u> | 6. Receivable | F. Using up assets in the course of operating a business |
| <u>J</u> | 7. Capital | G. Always a liability |
| <u>C</u> | 8. Debit | H. Revenues ! Expenses |
| <u>F</u> | 9. Expense | I. Grouping of accounts |
| <u>H</u> | 10. Net income | J. Owner's equity in the business |

Credits are *increases* in these types of accounts:

- Liabilities
- Capital
- Revenues

Credits are *decreases* in these types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *increases* in the following types of accounts:

- Assets
- Withdrawals
- Expenses

Debits are *decreases* in these types of accounts:

- Liabilities
- Capital
- Revenues

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
June	1	Cash		25,000	
		Lee Jackson, Capital			25,000
		Received investment from owner.			
	2	Medical Supplies		10,000	
		Accounts Payable			10,000
		Purchased supplies on account.			
	2	Rent Expense		4,000	
		Cash			4,000
		Paid office rent.			
	3	Cash		1,000	
		Accounts Receivable		4,000	
		Service Revenue			5,000
		Performed service for patients.			

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
July	15	Cash		20,000	
		Note Payable			20,000
		Borrowed money from the bank.			
	22	Accounts Receivable		2,800	
		Service Revenue			2,800
		Performed service on account.			
	30	Cash		1,000	
		Accounts Receivable			1,000
		Received cash on account.			
	31	Utilities Expense		200	
		Accounts Payable			200
		Received utility bill.			
	31	Salary Expense		3,000	
		Cash			3,000
		Paid salary expense.			
	31	Interest Expense		200	
		Cash			200
		Paid interest expense.			

Normal Balance

Assets.....	Debit	
Liabilities.....		Credit
Owner's Equity – overall		Credit
Capital.....		Credit
Withdrawals.....	Debit	
Revenues.....		Credit
Expenses.....	Debit	

Req. 1

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Supplies		3,000	
	Accounts Payable			3,000
	Purchased supplies on account.			
	Accounts Payable		1,500	
	Cash ($\$3,000 \times \frac{1}{2}$)			1,500
	Paid cash on account.			

Req. 2

Accounts Payable	
1,500	3,000
Bal.	1,500

Req. 3

Vogel owes \$1,500, as shown in the Accounts Payable account.

Req. 1

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Accounts Receivable		5,000	
	Service Revenue			5,000
	Performed service on account.			
	Cash		2,700	
	Accounts Receivable			2,700
	Received cash on account.			

Req. 2

Cash	Accounts Receivable	Service Revenue
2,700	5,000	5,000
Bal. 2,700	Bal. 2,300	Bal. 5,000

Req. 3

a. Nguyen earned \$5,000:	Service Revenue	
b. Total assets \$5,000:	Cash	\$2,700
	Accounts receivable	<u>2,300</u>
	Total	<u>\$5,000</u>

(10-15 min.) **DE 2-12**

Reqs. 1 and 2

Cash	
25,000	4,000
1,000	
Bal. 22,000	

Accounts Receivable	
4,000	
Bal. 4,000	

Medical Supplies	
10,000	
Bal. 10,000	

Accounts Payable	
	10,000
Bal.	10,000

Lee Jackson, Capital	
	25,000
Bal.	25,000

Service Revenue	
	5,000
Bal.	5,000

Rent Expense	
4,000	
Bal. 4,000	

Req. 3

Lee Jackson, MD		
Trial Balance		
June 3, 20X8		
ACCOUNT	DEBIT	CREDIT
Cash	\$22,000	
Accounts receivable	4,000	
Medical supplies	10,000	
Accounts payable		\$10,000
Lee Jackson, capital		25,000
Service revenue		5,000
Rent expense	4,000	
Total	\$40,000	\$40,000

(10 min.) **DE 2-13**

Intel Corporation		
Trial Balance		
December 31, 19X9		
<i>Billions</i>		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 4	
Other assets	40	
Accounts payable		\$ 1
Other liabilities		11
Capital		25
Revenues		29
Expenses	<u>22</u>	<u> </u>
Total	<u>\$66</u>	<u>\$66</u>

Error 1*Req. 1*

Incorrect Trial Balance		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 9,380	
Accounts receivable	700	
Accounts payable		\$ 0
Jeff Hatton, capital	10,000*	
Jeff Hatton, withdrawals	1,100	
Service revenue		4,200
Rent expense	900	
Salary expense	1,500	
Utilities expense	<u>620</u>	
Total	<u>\$24,200</u>	<u>\$ 4,200</u>

*Incorrect; should be listed as a credit.

Req. 2

To correct this error,

1. Take the difference between total debits and total credits:

$$\$24,200 - \$4,200 = \$20,000$$
2. Divide the error by 2:

$$\$20,000 \div 2 = \$10,000$$
3. Locate \$10,000 on the trial balance. The Capital account normally has a credit balance.

Error 2*Req. 1*

Incorrect Trial Balance		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 9,380	
Accounts receivable	700	
Accounts payable		\$ 0
Jeff Hatton, capital		10,000
Jeff Hatton, withdrawals	1,100	
Service revenue		42,000*
Rent expense	900	
Salary expense	1,500	
Utilities expense	620	
Total	<u>\$14,200</u>	<u>\$52,000</u>

*Incorrect; should be listed at \$4,200.

Req. 2

To correct this error,

1. Take the difference between total debits and total credits:

$$\$52,000 - \$14,200 = \$37,800$$

2. Divide the error by 9:

$$\$37,800 \div 9 = \$4,200$$

3. Locate an amount on the trial balance similar to \$4,200. Service Revenue, at \$42,000, is similar. Trace Service Revenue's balance back to the ledger account, which shows \$4,200.

(5 min.) **DE 2-16**

Cash	Equipment
100,000	45,000
Accounts Payable	Marta Fraser, Capital
45,000	100,000

Total debits = \$145,000 (\$100,000 + \$45,000)

Total credits = \$145,000 (\$45,000 + \$100,000)

T Exercises

(10-15 min.) **E 2-1**

TO: Office Manager

FROM: Student Name

Each time Digitech Enterprises receives cash, accountants record the transaction in the *journal* by *debiting* the Cash account. Accountants record cash payments by making a journal entry that includes a *credit* to Cash. Debits in the journal are *posted* as debits to the Cash account in the *ledger*. Credits are posted as credits. At the end of the period, accountants list each account, along with its balance, on the *trial balance*. Cash has a balance of \$43,000.

Note: Student responses may vary.

(All amounts in billions)

Req. 1

<i>Debit</i> ASSETS	=	<i>Credit</i> LIABILITIES	+	<i>Credit</i> OWNERS' EQUITY
\$22	=	\$12	+	\$10

Req. 2

<i>Credit</i> REVENUES	!	<i>Debit</i> EXPENSES	=	<i>Net Credit</i> NET INCOME
\$20	!	\$18	=	\$2

NET INCOME represents a net *credit* because revenues (*credit* amounts) exceed expenses (*debit* amounts).

NET LOSS represents a net *debit* because expenses (*debit* amounts) exceed revenues (*credit* amounts).

Req. 3

Dividends, like Withdrawals, are a *debit* amount.

Req. 4

Increase in owners' equity (<i>credit</i> amount)	
Net income	\$2
Decrease in owners' equity (<i>debit</i> amount)	
Dividends.....	<u>(1)</u>
Net increase in owners' equity (<i>credit</i> amount).....	<u>\$1</u>

<i>Date</i>	<i>Analysis of Transactions and Journal Entries</i>		
Dec. 5	The asset Office Furniture is increased; therefore, debit Office Furniture. The liability Accounts Payable is increased; therefore, credit Accounts Payable.		
	Office Furniture.....	800	
	Accounts Payable.....		800
10	The asset Accounts Receivable is increased; therefore, debit Accounts Receivable. The revenue Service Revenue is increased; therefore, credit Service Revenue.		
	Accounts Receivable.....	1,600	
	Service Revenue.....		1,600
12	The asset Cash is increased; therefore, debit Cash. The liability Note Payable is increased; therefore, credit Note Payable.		
	Cash.....	7,000	
	Note Payable.....		7,000
19	The asset Cash is increased; therefore, debit Cash. The asset Land is decreased; therefore, credit Land.		
	Cash.....	29,000	
	Land.....		29,000
24	The asset Building is increased; therefore, debit Building. The liability Note Payable is increased; therefore, credit Note Payable.		
	Building.....	140,000	
	Note Payable.....		140,000
27	The liability Accounts Payable is decreased; therefore, debit Accounts Payable. The asset Cash is decreased; therefore, credit Cash.		
	Accounts Payable.....	800	
	Cash.....		800

(10-15 min.) **E 2-4**

Cash			
Dec. 1	6,000	Dec. 1	700
12	7,000	27	800
19	29,000		
Dec. 31	40,500		

Accounts Receivable			
Dec. 10	1,600		

Office Furniture			
Dec. 5	800		

Land			
Dec. 1	29,000	Dec. 19	29,000

Building			
Dec. 24	140,000		

Accounts Payable			
Dec. 27	800	Dec. 5	800

Notes Payable			
		Dec. 12	7,000
		24	140,000
		Dec. 31	147,000

Martha Cross, Capital			
		Dec. 1	35,000

Service Revenue			
		Dec. 10	1,600

Utilities Expense			
Dec. 1	700		

Total debits = Total credits
\$183,600 = \$183,600

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	1	Cash		55,000	
		Joy Liebermann, Capital			55,000
		Investment by owner.			
	2	Office Supplies		200	
		Accounts Payable			200
		Purchased office supplies on acct.			
	4	Building		40,000	
		Cash			40,000
		Paid cash for a building.			
	6	Cash		3,000	
		Service Revenue			3,000
		Performed services for cash.			
	9	Accounts Payable		100	
		Cash			100
		Paid cash on account.			
	17	Accounts Receivable		1,600	
		Service Revenue			1,600
		Performed service on account.			
	23	Cash		1,200	
		Accounts Receivable			1,200
		Received cash on account.			
	31	Salary Expense		1,200	
		Rent Expense		500	
		Cash			1,700
		Paid cash expenses.			

Req. 1

Cash			
Mar. 1	55,000	Mar. 4	40,000
6	3,000	9	100
23	1,200	31	1,700
Mar. 31	17,400		

Accounts Receivable			
Mar. 17	1,600	Mar. 23	1,200
Mar. 31	400		

Office Supplies	
Mar. 2	200
Mar. 31	200

Building	
Mar. 4	40,000
Mar. 31	40,000

Accounts Payable			
Mar. 9	100	Mar. 2	200
		Mar. 31	100

Joy Liebermann, Capital			
		Mar. 1	55,000
		Mar. 31	55,000

Service Revenue			
		Mar. 6	3,000
		17	1,600
		Mar. 31	4,600

Salary Expense			
Mar. 31	1,200		
Mar. 31	1,200		

Rent Expense	
Mar. 31	500
Mar. 31	500

Req. 2

New Balance Spa		
Trial Balance		
March 31, 20X3		
ACCOUNT	DEBIT	CREDIT
Cash	\$17,400	
Accounts receivable	400	
Office supplies	200	
Building	40,000	
Accounts payable		\$ 100
Joy Liebermann, capital		55,000
Service revenue		4,600
Salary expense	1,200	
Rent expense	500	
Total	<u>\$59,700</u>	<u>\$59,700</u>

(20-30 min.) **E 2-7***Req. 1*

- May 2 Investment of cash by the owner
5 Borrow cash by signing a note payable
9 Purchase of supplies on account (on credit)
11 Sale on account
14 Payment of rent expense
22 Payment on account
25 Payment of advertising expense
27 Collection on account
31 Receipt of a utility bill and recording the expense on account

Reqs. 2 and 3 (ledger accounts with balances after posting)

Cash			110		
May 2	J.5	20,000	May 14	J.5	3,200
5	J.5	15,000	22	J.5	270
27	J.5	1,400	25	J.5	350
Bal.		32,580			

Accounts Receivable			120		
May 11	J.5	2,630	May 27	J.5	1,400
Bal.		1,230			

Supplies			130		
May 9	J.5	270			
Bal.		270			

Accounts Payable			210		
May 22	J.5	270	May 9	J.5	270
			31	J.5	220
			Bal.		220

Note Payable			230		
			May 5	J.5	15,000
			Bal.		15,000

Leonard Freebin, Capital			310		
			May 2	J.5	20,000
			Bal.		20,000

Service Revenue			410		
			May 11	J.5	2,630
			Bal.		2,630

Rent Expense			510		
May 14	J.5	3,200			
Bal.		3,200			

Advertising Expense			520		
May 25	J.5	350			
Bal.		350			

Utilities Expense			530		
May 31	J.5	220			
Bal.		220			

Req. 2 (journal with posting references)

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
May	2	Cash	110	20,000	
		Leonard Freebin, Capital	310		20,000
	5	Cash	110	15,000	
		Note Payable	230		15,000
	9	Supplies	130	270	
		Accounts Payable	210		270
	11	Accounts Receivable	120	2,630	
		Service Revenue	410		2,630
	14	Rent Expense	510	3,200	
		Cash	110		3,200
	22	Accounts Payable	210	270	
		Cash	110		270
	25	Advertising Expense	520	350	
		Cash	110		350
	27	Cash	110	1,400	
		Accounts Receivable	120		1,400
	31	Utilities Expense	530	220	
		Accounts Payable	210		220

Req. 3 (trial balance)

Freebin & Associates		
Trial Balance		
May 31, 20X6		
ACCOUNT	DEBIT	CREDIT
Cash	\$32,580	
Accounts receivable	1,230	
Supplies	270	
Accounts payable		\$ 220
Note payable		15,000
Leonard Freebin, capital		20,000
Service revenue		2,630
Rent expense	3,200	
Advertising expense	350	
Utilities expense	220	
Total	<u>\$37,850</u>	<u>\$37,850</u>

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
1.	Cash		62,000	
	Tony Flores, Capital			62,000
	Investment by owner.			
2.	Supplies		400	
	Accounts Payable			400
	Purchased supplies on account.			
3.	Land		56,000	
	Cash			56,000
	Paid cash for land.			
4.	Cash		7,000	
	Note Payable			7,000
	Borrowed money; signed note payable.			
5.	Equipment		6,000	
	Cash			6,000
	Paid cash for equipment.			

(10 min.) **E 2-9**

Flores Security Company		
Trial Balance		
April 30, 20X4		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 7,000	
Supplies	400	
Equipment	6,000	
Land	56,000	
Accounts payable		\$ 400
Note payable		7,000
Tony Flores, capital		62,000
Total	<u>\$69,400</u>	<u>\$69,400</u>

(10 min.) **E 2-10**

Beaulieu Company		
Trial Balance		
December 31, 20X4		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 5,000	
Accounts receivable	9,500	
Supplies	250	
Building	65,000	
Land	29,000	
Accounts payable		\$ 4,300
Note payable		45,000
Pierre Beaulieu, capital		48,800
Pierre Beaulieu, withdrawals	6,000	
Sales commission revenue		26,000
Salary expense	6,000	
Rent expense	2,000	
Advertising expense	650	
Utilities expense	400	
Supplies expense	<u>300</u>	<u> </u>
Total	<u>\$124,100</u>	<u>\$124,100</u>

Atlantis Enterprises		
Trial Balance		
March 31, 20X9		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 4,900*	
Accounts receivable	1,600*	
Supplies	600	
Land	66,000	
Accounts payable		\$24,100*
Paige Dylan, capital		42,300*
Service revenue		9,700
Salary expense	1,700	
Rent expense	800	
Utilities expense	<u>500*</u>	
Total	<u>\$76,100</u>	<u>\$76,100</u>

*Explanations:

Cash: $\$4,500 + \$400 = \$4,900$

Accounts Receivable: $\$2,000 + \$400 = \$2,400$

Accounts Payable: $\$23,000 + \$1,000 + \$100 + \$200 = \$24,300$

Paige Dylan, Capital: $\$41,600 + \$700 = \$42,300$

Utilities Expense: $\$300 + \$200 = \$500$

Cash	
(a)	12,400
(b)	1,500
(d)	1,800
(e)	400
(g)	7,000
Bal.	1,700

Accounts Receivable	
(f)	1,600
Bal.	1,600

Office Supplies	
(c)	700
Bal.	700

Office Furniture	
(a)	5,400
Bal.	5,400

Accounts Payable	
(e)	400
(c)	700
Bal.	300

Cole Gates, Capital	
(a)	17,800
Bal.	17,800

Cole Gates, Withdrawals	
(g)	7,000
Bal.	7,000

Service Revenue	
(f)	1,600
Bal.	1,600

Salary Expense	
(d)	1,800
Bal.	1,800

Rent Expense	
(b)	1,500
Bal.	1,500

(10 min.) **E 2-13**

Cole Gates, CPA		
Trial Balance		
May 31, 20X7		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 1,700	
Accounts receivable	1,600	
Office supplies	700	
Office furniture	5,400	
Accounts payable		\$ 300
Cole Gates, capital		17,800
Cole Gates, withdrawals	7,000	
Service revenue		1,600
Salary expense	1,800	
Rent expense	<u>1,500</u>	<u> </u>
Total	<u>\$19,700</u>	<u>\$19,700</u>

Reqs. 1 and 2

Cash	Supplies	Equipment
75,000	8,000	12,000
12,000	Bal. 8,000	Bal. 12,000
5,000		
Bal. 58,000		

Accounts Payable	Lynette Moseley, Capital
5,000	75,000
8,000	Bal. 75,000
Bal. 3,000	

Req. 3

Total debits = \$78,000 (\$58,000 + \$8,000 + \$12,000)

Total credits = \$78,000 (\$3,000 + \$75,000)

Reqs. 1 and 3

Cash			
Dec. 2	14,000	Dec. 2	500
18	800	3	2,000
		12	200
Bal.	12,100		

Accounts Receivable			
Dec. 9	1,700		

Supplies			
Dec. 5	300		

Equipment			
Dec. 3	2,000		

Furniture			
Dec. 4	3,600		

Accounts Payable			
		Dec. 4	3,600
		5	300
		Bal.	3,900

Amos Faraday, Capital			
		Dec. 2	14,000

Amos Faraday, Withdrawals			

Service Revenue			
		Dec. 9	1,700
		18	800
		Bal.	2,500

Rent Expense			
Dec. 2	500		

Utilities Expense			
Dec. 12	200		

Salary Expense			

Req. 2

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	2	Cash		14,000	
		Amos Faraday, Capital			14,000
	2	Rent Expense		500	
		Cash			500
	3	Equipment		2,000	
		Cash			2,000
	4	Furniture		3,600	
		Accounts Payable			3,600
	5	Supplies		300	
		Accounts Payable			300
	9	Accounts Receivable		1,700	
		Service Revenue			1,700
	12	Utilities Expense		200	
		Cash			200
	18	Cash		800	
		Service Revenue			800

Req. 4

Amos Faraday, Consultant		
Trial Balance		
December 18, 20XX		
ACCOUNT	DEBIT	CREDIT
Cash	\$12,100	
Accounts receivable	1,700	
Supplies	300	
Equipment	2,000	
Furniture	3,600	
Accounts payable		\$ 3,900
Amos Faraday, capital		14,000
Amos Faraday, withdrawals	—	
Service revenue		2,500
Rent expense	500	
Utilities expense	200	
Salary expense	—	
Total	<u>\$20,400</u>	<u>\$20,400</u>

a. Net income for March – Given as follows:

Owner, Capital			
		Feb. 28 Bal.	9,000
March		March	
withdrawals	7,000	Net income	X
			= \$13,000
		Mar. 31 Bal.	15,000

$$\begin{aligned} \$9,000 + X - \$7,000 &= \$15,000 \\ X &= \$13,000 \end{aligned}$$

b. Total cash paid during March:

Cash			
Feb. 28 Bal.	7,000		
March receipts	61,000	March payments	X
			= \$66,000
Mar. 31 Bal.	2,000		

$$\begin{aligned} \$7,000 + \$61,000 - X &= \$ 2,000 \\ X &= \$66,000 \end{aligned}$$

c. Cash collections from customers during March:

Accounts Receivable			
Feb. 28 Bal.	24,000		
March revenues			
on account	76,000	March collections	X
Mar. 31 Bal.	26,000		= \$74,000

$$\$24,000 + \$76,000 - X = \$26,000$$

$$X = \$74,000$$

d. Cash paid on a note payable during March:

Note Payable			
		Feb. 28 Bal.	11,000
	March	March	
X = \$2,500	Payments on note	New borrowing	7,500
		Mar. 31 Bal.	16,000

$$\$11,000 + \$7,500 - X = \$16,000$$

$$X = \$2,500$$

(20-30 min.) **E 2-17**

Effect on Trial Balance	Account(s) Misstated	Relevant Journal Entries (Not Required)		
a. Total debits = Total credits	Cash \$1,000 too high Service Revenue \$1,000 too high	a. Entry made: Correct Entry:	Cash Service Revenue Cash Service Revenue	1,800 1,800 800 800
b. Total debits = Total credits	Supplies \$90 too high Accounts Payable \$90 too high (\$210 ! \$120 = \$90)	b. Entry made: Correct entry:	Supplies Accounts Payable Supplies Accounts Payable	210 210 120 120
c. Total debits > Total credits	Note Payable \$40,000 too low, on the trial balance only			
d. Total debits < Total credits	Utility Expense \$630 too low (\$700 ! \$70 = \$630)			
e. Total debits = Total credits	Cash \$400 too high Supplies \$400 too high Accounts Payable \$800 too high	e. Entry made: Correct entry:	Supplies Accounts Payable Accounts Payable Cash	400 400 400 400

