

Exercises: Set A

E1A. Recognition

Jan.	15	Not recorded. An offer is not a completed transaction.
Feb.	2	Not recorded. Notice of a price increase is not a transaction.
Mar.	29	Recorded. The utilities expense has been incurred, and the liability for payment exists.
June	10	Not recorded. An order does not constitute a recognition point.
July	6	Recorded. Abril Company now records the office equipment, and a liability to pay exists.

E2A. T Accounts, Normal Balance, and the Accounting Equation

Assets	=	Liabilities	+	Owner's Equity						
				T. Captain, Capital	-	T. Captain, Withdrawals	+	Revenues	-	Expenses
Cash		Accounts Payable		T. Captain, Capital		T. Captain, Withdrawals		Service Revenue		Rent Expense
3,450		1,200		2,400		750		1,500		900
\$3,450	=	\$1,200	+	\$2,250						
\$3,450	=	\$3,450								

E3A. Classification of Accounts								
Item	Type of Account						Normal Balance	
	Asset	Liability	Owner's Equity				Debit	Credit
			D. Minimus, Capital	D. Minimus, Withdrawals	Revenue	Expense		
a.	x						x	
b.						x	x	
c.	x						x	
d.			x					x
e.	x						x	
f.	x						x	
g.		x						x
h.	x						x	
i.					x			x
j.						x	x	
k.	x						x	
l.						x	x	
m.					x			x
n.				x			x	
o.		x						x
p.		x						x
q.	x						x	
r.		x						x
s.	x						x	
t.						x	x	
u.		x						x
v.	x						x	
w.	x						x	
x.						x	x	

E4A. Transaction Analysis		
a.	The asset account Cash was increased. Increases in assets are recorded by debits. Debit Cash \$2,400. A component of Owner's Equity, M. Faubert, Capital, was increased. Increases in owner's capital are recorded by credits. Credit M. Faubert, Capital \$2,400.	
b.	The asset Prepaid Rent was increased. Increases in assets are recorded by debits. Debit Prepaid Rent \$1,680. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$1,680.	
c.	The asset Supplies was increased. Increases in assets are recorded by debits. Debit Supplies \$120. The liability Accounts Payable was increased. Increases in liabilities are recorded by credits. Credit Accounts Payable \$120.	
d.	The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash \$600. The revenue Fees Earned was increased. Increases in revenues are recorded by credits. Credit Fees Earned \$600.	
e.	The liability Accounts Payable was decreased. Decreases in liabilities are recorded by debits. Debit Accounts Payable \$120. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$120.	
f.	The expense Utilities Expense was increased. Increases in expenses are recorded by debits. Debit Utilities Expense \$72. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$72.	
g.	The owner's equity component, M. Faubert, Withdrawals, was increased. Increases in withdrawals are recorded by debits. Debit M. Faubert, Withdrawals \$100. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash \$100.	
E5A. Transaction Analysis		
	Debit	Credit
a.	Paid for supplies purchased on credit last month.	5 1
b.	Received cash from customers billed last month.	1 2
c.	Made a payment on accounts payable.	5 1
d.	Purchased supplies on credit.	3 5
e.	Billed a customer for lawn services.	2 6
f.	Made a rent payment for the current month.	8 1
g.	Received cash from customers for repair services.	1 6
h.	Paid employee wages.	7 1
i.	Ordered equipment.	No entry
j.	Received and paid for the equipment ordered in <i>i</i> .	4 1

E6A. Recording Transactions in T Accounts							
Cash				Accounts Payable			
a.	8,600	b.	800	f.	400	c.	1,000
g.	3,720	d.	600			Bal.	600
		e.	900	C. Ferdinand, Capital			
		f.	400			a.	11,800
		h.	1,200	C. Ferdinand, Withdrawals			
	12,320		3,900	h.	1,200		
Bal.	8,420			Repair Fees Earned			
Repair Supplies						g.	3,720
c.	1,000			Salaries Expense			
Repair Equipment				e.	900		
a.	3,200			Rent Expense			
d.	600			b.	800		
Bal.	3,800						
E7A. Analysis of Transactions							
a.	F. Mills, owner, invested \$10,000 in the company.						
b.	Purchased equipment with cash, \$3,750.						
c.	Billed customer for services rendered, \$2,000.						
d.	Purchased equipment on account, \$2,250.						
e.	Paid wages with cash, \$900.						
f.	Paid cash owed on account, \$1,125.						
g.	Received cash on account, \$375.						
h.	Sold equipment (at cost) for cash, \$225.						

E8A. Analysis of Unfamiliar Transactions				
May	1	Merchandise Inventory	1,200	
		Accounts Payable		1,200
		Purchased merchandise inventory on account		
Note to Instructor: The answer given here assumes the perpetual inventory method because it is most intuitive at this point in the course. The purpose of this exercise is to focus on analytical thinking.				
	2	Marketable Securities	2,800	
		Cash		2,800
		Purchased marketable securities		
	3	Accounts Payable	250	
		Merchandise Inventory		250
		Returned part of merchandise inventory for full credit		
	4	Accounts Receivable	800	
		Sales		800
		Sold merchandise inventory		
Note to Instructor: A full discussion might be held at this point on what should be done to the Merchandise Inventory account.				
	5	Land	100,000	
		Building	200,000	
		Cash		60,000
		Mortgage Payable		240,000
		Purchased land and building with partial payment in cash		
	6	Cash	4,000	
		Advance Deposit or Unearned Revenue		4,000
		Recorded deposit on services of \$12,000 to be provided		

E9A. Trial Balance		
Ferdinand Repair Service		
Trial Balance		
June 30, 2014		
Cash	8,420	
Repair Supplies	1,000	
Repair Equipment	3,800	
Accounts Payable		600
C. Ferdinand, Capital		11,800
C. Ferdinand, Withdrawals	1,200	
Repair Fees Earned		3,720
Salaries Expense	900	
Rent Expense	<u>800</u>	<u> </u>
	<u>16,120</u>	<u>16,120</u>
E10A. Preparing a Trial Balance		
Shah Company		
Trial Balance		
March 31, 2014		
Cash	5,400	
Accounts Receivable	1,800	
Prepaid Insurance	660	
Land	3,120	
Building	20,400	
Equipment	7,200	
Notes Payable		12,000
Accounts Payable		7,710*
A. Shah, Capital		<u>18,870</u>
	<u>38,580</u>	<u>38,580</u>
*\$38,580 – (\$12,000 + \$18,870) = \$7,710		
E11A. Effects of Errors on a Trial Balance		
a.	Unequal totals. The total debits would be \$54 more than the total credits.	
b.	Equal balance. However, both Accounts Receivable (an asset account) and Accounts Payable (a liability account) would be overstated by \$300.	
c.	Equal balance. However, both accounts would be incorrect. Cash would be overstated by \$756, and Office Supplies would be understated by \$756.	
d.	Equal balance. However, an error has been made by debiting the wrong asset. Therefore, Supplies would be overstated by \$900, and Equipment would be understated by \$900.	

E12A. Correcting Errors in a Trial Balance		
Hasson Services		
Trial Balance		
July 31, 2014		
Cash	2,030	
Accounts Receivable	2,890	
Supplies	120	
Prepaid Insurance	180	
Equipment	3,700	
Notes Payable		1,200
Accounts Payable		1,930
N. Hasson, Capital		5,280
N. Hasson, Withdrawals	550	
Revenues		2,960
Salaries Expense	1,300	
Rent Expense	300	
Advertising Expense	170	
Utilities Expense	<u>130</u>	
	<u>11,370</u>	<u>11,370</u>

E13A. Recording Transactions in the General Journal				
General Journal				
2014				
	a.	Cash	8,600	
		Repair Equipment	3,200	
		C. Ferdinand, Capital		11,800
		Invested cash and repair equipment in the business		
	b.	Rent Expense	800	
		Cash		800
		Paid current month rent		
	c.	Repair Supplies	1,000	
		Accounts Payable		1,000
		Purchased repair supplies on credit		
	d.	Repair Equipment	600	
		Cash		600
		Purchased additional repair equipment for cash		
	e.	Salaries Expense	900	
		Cash		900
		Paid salary to a helper		
	f.	Accounts Payable	400	
		Cash		400
		Paid \$400 of the amount purchased on credit in transaction c.		
	g.	Cash	3,720	
		Repair Fees Earned		3,720
		Accepted cash for repairs completed		
	h.	C. Ferdinand, Withdrawals	1,200	
		Cash		1,200
		Withdrew cash from the business		

E14A. Recording Transactions in the General Journal and Posting to the Ledger Accounts

General Journal					Page 10
Date	Description	Post. Ref.	Debit	Credit	
Dec. 14	Office Equipment	146	12,000		
	Cash	111		4,000	
	Accounts Payable	212		8,000	
	Purchased equipment; paid one-third in cash				
	28	Accounts Payable	212	6,000	
		Cash	111		6,000
	Paid for part of equipment purchased on credit				

General Ledger						
Cash					Account No. 111	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Dec. 13	Balance	✓			16,000	
14		J10		4,000	12,000	
28		J10		6,000	6,000	

Office Equipment					Account No. 146	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Dec. 14		J10	12,000		12,000	

Accounts Payable					Account No. 212	
Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
Dec. 14		J10		8,000		8,000
28		J10	6,000			2,000

Problems

P1. T Accounts, Normal Balance, and The Accounting Equation

Assets	=	Liabilities	+	Owner's Equity					
				R. Mehta, Capital	-	R. Mehta, Withdrawals	+	Revenues	Expenses
Cash		Accounts Payable		R. Mehta, Capital		R. Mehta, Withdrawals		Design Revenue	Rent Expense
18,400		6,420		74,000		36,000		210,000	11,880
Accounts Receivable		Loans Payable							Telephone Expense
78,000		10,000							960
Equipment		Unearned Revenue							Wages Expense
49,180		18,000							124,000
Accounting equation without Equipment:									
Equipment	+	\$96,400	=	\$145,580					
		Equipment	=	\$49,180					
Accounting equation in balance:									
\$145,580	=	\$34,420	+	\$111,160					
\$145,580	=	\$145,580							

P2. Transaction Analysis			
		Debit	Credit
a.	Paid for supplies purchased on credit last month.	7	1
b.	Received a bill for repairs.	12	7
c.	Paid the current month's rent.	11	1
d.	Purchased supplies on credit.	3	7
e.	Received cash from customers for services performed but not yet billed.	1	10
f.	Purchased equipment on account.	5	7
g.	Billed customers for services performed.	2	10
h.	Returned part of the equipment purchased in <i>f</i> for a credit.	7	5
i.	Received payments from customers previously billed.	1	2
j.	Paid the bill received in <i>b</i> .	7	1
k.	Received an order for services to be performed.	No entry	
l.	Paid for repairs with cash.	12	1
m.	Made a payment to reduce the principal of the note payable.	6	1
n.	Made a cash withdrawal.	9	1

P3. Transaction Analysis, T Accounts, and Trial Balance											
1 and 2.											
Cash				Accounts Receivable				Supplies			
a.	5,700	b.	260	f.	1,740	j.	1,080	e.	330		
j.	1,080	c.	190	Bal.	660						
		h.	330								
		i.	40								
		k.	90								
		l.	440								
		m.	300								
	6,780		1,650								
Bal.	5,130										
Computers				Office Equipment				Accounts Payable			
a.	4,300			a.	3,600			h.	330	e.	330
g.	480			g.	380					g.	860
Bal.	4,780			Bal.	3,980				330		1,190
										Bal.	860
J. Lopez, Capital				J. Lopez, Withdrawals				Tuition Revenue			
		a.	13,600	m.	300					f.	1,740
Salaries Expense				Utilities Expense				Rent Expense			
l.	440			k.	90			b.	260		
Repair Expense				Advertising Expense							
i.	40			c.	190						
d.	No entry										

P3. Transaction Analysis, T Accounts, and Trial Balance (Concluded)

3.	Lopez Office Training		
	Trial Balance		
	(Current Date)		
	Cash	5,130	
	Accounts Receivable	660	
	Supplies	330	
	Computers	4,780	
	Office Equipment	3,980	
	Accounts Payable		860
	J. Lopez, Capital		13,600
	J. Lopez, Withdrawals	300	
	Tuition Revenue		1,740
	Salaries Expense	440	
	Utilities Expense	90	
	Rent Expense	260	
Repair Expense	40		
Advertising Expense	190		
	<u>16,200</u>	<u>16,200</u>	
4.	<p>The revenues were \$1,740, and only \$1,080 of cash was received from those revenues.</p> <p>The company accepts credit sales to accommodate its students and encourage them to enroll. The company must consider the possibility that it will not receive the cash until later and that some students will not be able to pay.</p>		

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance

1.	2014				
	April	2	Cash	14,400	
			S. Patel, Capital		14,400
			For initial owner investment in Patel Rentals		
		3	Supplies	300	
			Accounts Payable		300
			To purchase supplies on account		
		4	Bicycles	5,000	
			Cash		2,400
			Accounts Payable		2,600
			To purchase bicycles; made partial payment and agreed to pay the rest later		
		5	Shed	5,800	
			Cash		5,800
			To purchase shed to store bicycles		
		8	Shed	800	
			Cash		800
			To install shed		
		9	No entry		
		10	Maintenance Expense	150	
			Cash		150
			To pay for cleanup		
		13	Cash	1,940	
			Rental Revenue		1,940
			To record rentals made for cash		
		17	Accounts Payable	300	
			Cash		300
			To pay for supplies purchased on April 3		
		18	Repair Expense	110	
			Cash		110
			To repair bicycles		
		23	Accounts Receivable	220	
			Rental Revenue		220
			To bill company for rentals		
		25	Concession Fee Expense	200	
			Cash		200
			To pay monthly concession fee		
		27	Cash	1,920	
			Rental Revenue		1,920
			To record rentals made for cash		
		29	Wages Expense	480	
			Cash		480
			To pay wages of assistant		
		30	S. Patel, Withdrawals	1,000	
			Cash		1,000
			To disburse a cash withdrawal		

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance (Continued)

2.

Cash				Accounts Receivable				Supplies			
4/2	14,400	4/4	2,400	4/23	220			4/3	300		
4/13	1,940	4/5	5,800								
4/27	1,920	4/8	800								
		4/10	150								
		4/17	300								
		4/18	110								
		4/25	200								
		4/29	480								
		4/30	1,000								
	18,260		11,240								
Bal.	7,020										
Shed				Bicycles				Accounts Payable			
4/5	5,800			4/4	5,000			4/17	300	4/3	300
4/8	800									4/4	2,600
Bal.	6,600								300		2,900
										Bal.	2,600
S. Patel, Capital				S. Patel, Withdrawals				Rental Revenue			
		4/2	14,400	4/30	1,000					4/13	1,940
										4/23	220
										4/27	1,920
										Bal.	4,080
Wages Expense				Maintenance Expense				Repair Expense			
4/29	480			4/10	150			4/18	110		
Concession Fee Expense											
4/25	200										

P4. Transaction Analysis, Journal Form, T Accounts, and Trial Balance (Concluded)

3.	Patel Rentals Trial Balance April 30, 2014		
	Cash	7,020	
	Accounts Receivable	220	
	Supplies	300	
	Shed	6,600	
	Bicycles	5,000	
	Accounts Payable		2,600
	S. Patel, Capital		14,400
	S. Patel, Withdrawals	1,000	
	Rental Revenue		4,080
	Wages Expense	480	
	Maintenance Expense	150	
	Repair Expense	110	
	Concession Fee Expense	200	
		<u>21,080</u>	<u>21,080</u>

4. April 3 and 10 are the recognition points for these transactions. April 3 is the recognition point for the purchase of supplies, because it is on April 3 when the title to the supplies passes and there is an obligation to pay. April 10 is the recognition point for the cleaning work because this is when the cleaning is done and there is an obligation to pay for it.

Both transactions are recorded at cost, the amount that the company is obligated to pay.

The supplies purchased on April 3 are classified as an asset, Supplies, because the supplies are not used immediately but will be used up in the future. The purchase of cleaning work is classified as owner's equity, Maintenance Expense, because it is necessary now in the current period for the company to continue running. Also the purchase of supplies is classified as Accounts Payable, a liability, because the supplies are to be paid for in the future. Conversely, the payment to a maintenance person is classified as Cash, an asset, because the cleaning work is paid for on the day of purchase.

