

## CHAPTER 2

### The Recording Process

#### ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain what an account is and how it helps in the recording process.	1			1		
2. Define debits and credits and explain their use in recording business transactions.	2, 3, 4, 5, 6, 7, 8, 9, 14, 21	1, 2, 5	1	2, 4, 6, 7, 14	1A, 2A, 3A, 5A	1B, 2B, 3B, 5B
3. Identify the basic steps in the recording process.	10, 19	4		6, 7		
4. Explain what a journal is and how it helps in the recording process.	11, 12, 13, 14, 16	3, 6	2	3, 5, 6, 7 10, 11, 12	1A, 2A, 3A, 5A	1B, 2B, 3B, 5B
5. Explain what a ledger is and how it helps in the recording process.	17			8		
6. Explain what posting is and how it helps in the recording process.	15, 17	7, 8	3	9, 12	2A, 3A, 5A	2B, 3B, 5B
7. Prepare a trial balance and explain its purposes.	18, 20	9, 10	4	9, 10, 11, 13, 14, 15	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B

## ASSIGNMENT CHARACTERISTICS TABLE

<b>Problem Number</b>	<b>Description</b>	<b>Difficulty Level</b>	<b>Time Allotted (min.)</b>
1A	Journalize a series of transactions.	Simple	20–30
2A	Journalize transactions, post, and prepare a trial balance.	Simple	30–40
3A	Journalize and post transactions and prepare a trial balance.	Moderate	40–50
4A	Prepare a correct trial balance.	Moderate	30–40
5A	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50
1B	Journalize a series of transactions.	Simple	20–30
2B	Journalize transactions, post, and prepare a trial balance.	Simple	30–40
3B	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50
4B	Prepare a correct trial balance.	Moderate	30–40
5B	Journalize transactions, post, and prepare a trial balance.	Moderate	40–50

**WEYGANDT FINANCIAL and MANAGERIAL ACCOUNTING**  
**CHAPTER 2**  
**THE RECORDING PROCESS**

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
BE1	2	C	Simple	6–8
BE2	2	C	Simple	4–6
BE3	4	AP	Simple	4–6
BE4	3	C	Moderate	4–6
BE5	2	C	Simple	6–8
BE6	4	AP	Simple	4–6
BE7	6	AP	Simple	4–6
BE8	6	AP	Simple	4–6
BE9	7	AP	Simple	4–6
BE10	7	AN	Moderate	6–8
DI1	2	C	Simple	3–5
DI2	4	AP	Simple	3–5
DI3	6	AP	Simple	2–4
DI4	7	AP	Simple	6–8
EX1	1	K	Simple	2–4
EX2	2	C	Simple	10–15
EX3	4	AP	Simple	8–10
EX4	2	C	Simple	6–8
EX5	4	AP	Simple	6–8
EX6	2–4	AP	Simple	6–8
EX7	2–4	AP	Simple	8–10
EX8	5	K	Simple	2–4
EX9	6, 7	AP	Simple	10–12
EX10	4, 7	AP	Moderate	10–12
EX11	4, 7	AP	Moderate	12–15
EX12	4, 6	AP	Moderate	12–15
EX13	7	AN	Moderate	6–8
EX14	2, 7	AP	Simple	8–10
EX15	7	C	Simple	4–6

## THE RECORDING PROCESS (Continued)

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
P1A	2, 4	AP	Simple	20–30
P2A	2, 4, 6, 7	AP	Simple	30–40
P3A	2, 4, 6, 7	AP	Moderate	40–50
P4A	7	AN	Moderate	30–40
P5A	2, 4, 6, 7	AP	Moderate	40–50
P1B	2, 4	AP	Simple	20–30
P2B	2, 4, 6, 7	AP	Simple	30–40
P3B	2, 4, 6, 7	AP	Moderate	40–50
P4B	7	AN	Moderate	30–40
P5B	2, 4, 6, 7	AP	Moderate	40–50
BYP1	2	C	Simple	8–10
BYP2	2, 6	AN	Simple	8–10
BYP3	—	AP	Simple	15–20
BYP4	6, 7	AP, S	Moderate	20–30
BYP5	3, 6	S	Simple	10–15
BYP6	7	AN, E	Moderate	10–15
BYP7	—	E	Moderate	15–20
BYP8	—	E	Moderate	10–15

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain what an account is and how it helps in the recording process.	Q2-1 E2-1					
2. Define debits and credits and explain their use in recording business transactions.	Q2-21	Q2-2 Q2-7 BE2-2 Q2-3 Q2-8 BE2-5 Q2-4 Q2-9 DI2-1 Q2-5 Q2-14 E2-2 Q2-6 BE2-1 E2-4	E2-6 P2-3A P2-5B E2-7 P2-5A E2-14 P2-1B P2-1A P2-2B P2-2A P2-3B			
3. Identify the basic steps in the recording process.	Q2-10	Q2-19 BE2-4	E2-6 E2-7			
4. Explain what a journal is and how it helps in the recording process.	Q2-12	Q2-11 Q2-13 Q2-14	Q2-16 E2-7 P2-5A BE2-3 E2-10 P2-1B BE2-6 E2-11 P2-2B DI2-2 E2-12 P2-3B E2-3 P2-1A P2-5B E2-5 P2-2A E2-6 P2-3A			
5. Explain what a ledger is and how it helps in the recording process.	E2-8	Q2-17				
6. Explain what posting is and how it helps in the recording process.		Q2-15 Q2-17	BE2-7 E2-12 P2-2B BE2-8 P2-2A P2-3B DI2-3 P2-3A P2-5B E2-9 P2-5A			
7. Prepare a trial balance and explain its purposes.		Q2-18 E2-15	BE2-9 E2-11 P2-5A DI2-4 E2-14 P2-2B E2-9 P2-2A P2-3B E2-10 P2-3A P2-5B	Q2-20 BE2-10 E2-13 P2-4A	P2-4B	
<b>Broadening Your Perspective</b>		<b>Financial Reporting</b>	<b>Decision-Making Across the Organization Real-World Focus</b>	<b>Comparative Analysis Ethics Case</b>	<b>Communication Decision Making Across the Organization</b>	<b>All About You Ethics Case</b>

# ANSWERS TO QUESTIONS

1. A T account has the following parts: (a) the title, (b) the left or debit side, and (c) the right or credit side.
2. Disagree. The terms debit and credit mean left and right respectively.
3. Jason is incorrect. The double-entry system merely records the dual effect of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once, with a dual effect.
4. Sandra is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favorable nor unfavorable.
5.
  - (a) Asset accounts are increased by debits and decreased by credits.
  - (b) Liability accounts are decreased by debits and increased by credits.
  - (c) Revenues, common stock, and retained earnings are increased by credits and decreased by debits. Expenses and dividends are increased by debits and decreased by credits.
6.
  - (a) Accounts Receivable—debit balance.
  - (b) Cash—debit balance.
  - (c) Dividends—debit balance.
  - (d) Accounts Payable—credit balance.
  - (e) Service Revenue—credit balance.
  - (f) Salaries and Wages Expense—debit balance.
  - (g) Common Stock—credit balance.
7.
  - (a) Accounts Receivable—asset—debit balance.
  - (b) Accounts Payable—liability—credit balance
  - (c) Equipment—asset—debit balance.
  - (d) Dividends—stockholders' equity—debit balance.
  - (e) Supplies—asset—debit balance.
8.
  - (a) Debit Supplies and credit Accounts Payable.
  - (b) Debit Cash and credit Notes Payable.
  - (c) Debit Salaries and Wages Expense and credit Cash.
9.
  - (1) Cash—both debit and credit entries.
  - (2) Accounts Receivable—both debit and credit entries.
  - (3) Dividends—debit entries only.
  - (4) Accounts Payable—both debit and credit entries.
  - (5) Salaries and Wages Expense—debit entries only.
  - (6) Service Revenue—credit entries only.
10. The basic steps in the recording process are:
  1. Analyze each transaction for its effect on the accounts.
  2. Enter the transaction information in a journal.
  3. Transfer the journal information to the appropriate accounts in the ledger.

**Questions Chapter 2 (Continued)**

11. The advantages of using the journal in the recording process are:  
 (a) It discloses in one place the complete effects of a transaction.  
 (b) It provides a chronological record of all transactions.  
 (c) It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
12. (a) The debit should be entered first.  
 (b) The credit should be indented.
13. When three or more accounts are required in one journal entry, the entry is referred to as a compound entry. An example of a compound entry is the purchase of equipment, part of which is paid for with cash and the remainder is on account.
14. (a) No, business transaction debits and credits should not be recorded directly in the ledger.  
 (b) The advantages of using the journal are:  
 1. It discloses in one place the complete effects of a transaction.  
 2. It provides a chronological record of all transactions.  
 3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
15. The advantage of the last step in the posting process is to indicate that the item has been posted.
16. (a) Cash..... 9,000  
     Common Stock ..... 9,000  
         (Issued shares of stock for cash)
- (b) Prepaid Insurance..... 800  
     Cash ..... 800  
         (Paid one-year insurance policy)
- (c) Supplies..... 2,000  
     Accounts Payable ..... 2,000  
         (Purchased supplies on account)
- (d) Cash..... 7,500  
     Service Revenue..... 7,500  
         (Received cash for services rendered)
17. (a) The entire group of accounts maintained by a company, including all the asset, liability, and stockholders' equity accounts, is referred to collectively as the ledger.  
 (b) A chart of accounts is a list of accounts and the account numbers that identify their location in the ledger. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and define the level of detail that a company desires in its accounting system.

## Questions Chapter 2 (Continued)

18. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove (check) that the debits equal the credits after posting. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.
19. No, Joe is not correct. The proper sequence is as follows:
- (b) Business transaction occurs.
  - (c) Information entered in the journal.
  - (a) Debits and credits posted to the ledger.
  - (e) Trial balance is prepared.
  - (d) Financial statements are prepared.
20. (a) The trial balance would balance.  
(b) The trial balance would not balance.
21. The normal balances are Cash debit, Accounts Payable credit, and Interest Expense debit.



# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 2-1

	(a) Debit Effect	(b) Credit Effect	(c) Normal Balance
1. Accounts Payable	Decrease	Increase	Credit
2. Advertising Expense	Increase	Decrease	Debit
3. Service Revenue	Decrease	Increase	Credit
4. Accounts Receivable	Increase	Decrease	Debit
5. Common Stock	Decrease	Increase	Credit
6. Dividends	Increase	Decrease	Debit

## BRIEF EXERCISE 2-2

	Account Debited	Account Credited
June 1	Cash	Common Stock
2	Equipment	Accounts Payable
3	Rent Expense	Cash
12	Accounts Receivable	Service Revenue

## BRIEF EXERCISE 2-3

June	1	Cash.....	4,000	
		Common Stock.....		4,000
	2	Equipment.....	900	
		Accounts Payable .....		900
	3	Rent Expense.....	800	
		Cash.....		800
	12	Accounts Receivable.....	300	
		Service Revenue .....		300

## BRIEF EXERCISE 2-4

The basic steps in the recording process are:

1. Analyze each transaction. In this step, business documents are examined to determine the effects of the transaction on the accounts.
2. Enter each transaction in a journal. This step is called journalizing and it results in making a chronological record of the transactions.
3. Transfer journal information to ledger accounts. This step is called posting. Posting makes it possible to accumulate the effects of journalized transactions on individual accounts.

## BRIEF EXERCISE 2-5

	(a) <u>Effect on Accounting Equation</u>	(b) <u>Debit-Credit Analysis</u>
Aug. 1	The asset Cash is increased; the stockholders' equity account Common Stock is increased.	Debits increase assets: debit Cash \$8,000. Credits increase stockholders' equity: credit Common Stock \$8,000.
4	The asset Prepaid Insurance is increased; the asset Cash is decreased.	Debits increase assets: debit Prepaid Insurance \$1,800. Credits decrease assets: credit Cash \$1,800.
16	The asset Cash is increased; the revenue Service Revenue is increased.	Debits increase assets: debit Cash \$1,100. Credits increase revenues: credit Service Revenue \$1,100.
27	The expense Salaries and Wages Expense is increased; the asset Cash is decreased.	Debits increase expenses: debit Salaries and Wages Expense \$1,000. Credits decrease assets: credit Cash \$1,000.

**BRIEF EXERCISE 2-6**

Aug. 1	Cash .....	5,000	
	Common Stock .....		5,000
4	Prepaid Insurance .....	1,800	
	Cash.....		1,800
16	Cash .....	1,100	
	Service Revenue .....		1,100
27	Salaries and Wages Expense .....	1,000	
	Cash.....		1,000

**BRIEF EXERCISE 2-7**

Cash	
5/12	2,100
5/15	3,000
Ending Bal.	5,100

Service Revenue	
5/5	5,000
5/15	3,000
Ending Bal.	8,000

Accounts Receivable			
5/5	5,000	5/12	2,100
Ending Bal.	2,900		

**BRIEF EXERCISE 2-8**

**Cash**

Date	Explanation	Ref.	Debit	Credit	Balance
May 12		J1	2,100		2,100
15		J1	3,000		5,100

**BRIEF EXERCISE 2-8 (Continued)**

**Accounts Receivable**

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1	5,000		5,000
12		J1		2,100	2,900

**Service Revenue**

Date	Explanation	Ref.	Debit	Credit	Balance
May 5		J1		5,000	5,000
15		J1		3,000	8,000

**BRIEF EXERCISE 2-9**

**STARR COMPANY  
Trial Balance  
June 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 6,800	
Accounts Receivable .....	3,000	
Equipment.....	17,000	
Accounts Payable.....		\$ 9,000
Common Stock .....		20,000
Dividends .....	1,200	
Service Revenue.....		6,000
Salaries and Wages Expense .....	6,000	
Rent Expense.....	1,000	
	<u>\$35,000</u>	<u>\$35,000</u>

**BRIEF EXERCISE 2-10**

**CHENG COMPANY**  
**Trial Balance**  
**December 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$16,800	
Prepaid Insurance.....	3,500	
Accounts Payable.....		\$ 3,000
Unearned Service Revenue.....		4,200
Common Stock.....		13,000
Dividends.....	4,500	
Service Revenue.....		25,600
Salaries and Wages Expense.....	18,600	
Rent Expense.....	2,400	
	<u>\$45,800</u>	<u>\$45,800</u>

**SOLUTIONS FOR DO IT! REVIEW EXERCISES**

**DO IT! 2-1**

Graham would likely need the following accounts in which to record the transactions necessary to ready his photography studio for opening day:

Cash (debit balance)	Notes Payable (credit balance)
Supplies (debit balance)	Accounts Payable (credit balance)
Equipment (debit balance)	Common Stock (credit balance)
	Rent Expense (debit balance)

**DO IT! 2-2**

Each transaction that is recorded is entered in the general journal. The three activities would be recorded as follows:

1.	Cash.....	8,000	
	Common Stock.....		8,000
2.	Supplies.....	1,600	
	Cash.....		400
	Accounts Payable.....		1,200
3.	No entry because no transaction has occurred.		

**DO IT! 2-3**

Cash			
4/1	1,600	4/16	600
4/3	3,700	4/20	500
4/30	4,200		

**DO IT! 2-4**

**CHILLIN' COMPANY**  
**Trial Balance**  
**December 31, 2014**

	Debit	Credit
Cash .....	\$ 6,000	
Accounts Receivable .....	8,000	
Supplies .....	5,000	
Equipment.....	76,000	
Notes Payable.....		\$ 20,000
Accounts Payable.....		9,000
Salaries Wages Payable.....		3,000
Common Stock .....		25,000
Dividends .....	8,000	
Service Revenue.....		86,000
Rent Expense.....	2,000	
Salaries and Wages Expense .....	38,000	
	<b>\$143,000</b>	<b>\$143,000</b>

# SOLUTIONS TO EXERCISES

## EXERCISE 2-1

1. **False.** An account is an accounting record of a specific asset, liability, or *stockholders' equity item*.
2. **False.** An account shows *increases and decreases* in the item it relates to.
3. **False.** Each asset, liability, and *stockholders' equity item has a separate account*.
4. **False.** An account has a left, or *debit* side, and a right, or *credit* side.
5. **True.**

Transaction	Account Debited				Account Credited			
	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance
Jan. 2	Asset	Cash	Increase	Debit	Stockholders' Equity	Common Stock	Increase	Credit
3	Asset	Equipment	Increase	Debit	Asset	Cash	Decrease	Debit
9	Asset	Supplies	Increase	Debit	Liability	Accounts Payable	Increase	Credit
11	Asset	Accounts Receivable	Increase	Debit	Stockholders' Equity	Service Revenue	Increase	Credit
16	Stockholders' Equity	Advertising Expense	Increase	Debit	Asset	Cash	Decrease	Debit
20	Asset	Cash	Increase	Debit	Asset	Accounts Receivable	Decrease	Debit
23	Liability	Accounts Payable	Decrease	Credit	Asset	Cash	Decrease	Debit
28	Stockholders' Equity	Dividends	Increase	Debit	Asset	Cash	Decrease	Debit



## EXERCISE 2-3

General Journal					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
Jan. 2	Cash .....		15,000		
	Common Stock.....			15,000	
3	Equipment.....		7,000		
	Cash .....			7,000	
9	Supplies .....		500		
	Accounts Payable .....			500	
11	Accounts Receivable .....		1,800		
	Service Revenue .....			1,800	
16	Advertising Expense .....		200		
	Cash .....			200	
20	Cash .....		700		
	Accounts Receivable .....			700	
23	Accounts Payable.....		300		
	Cash .....			300	
28	Dividends .....		1,000		
	Cash .....			1,000	

## EXERCISE 2-4

- Oct. 1   **Debits increase assets: debit Cash \$20,000.**  
**Credits increase stockholders' equity: credit Common Stock \$20,000.**
- 2   **No transaction.**
- 3   **Debits increase assets: debit Equipment \$1,900.**  
**Credits increase liabilities: credit Accounts Payable \$1,900.**

**EXERCISE 2-4 (Continued)**

- Oct. 6** Debits increase assets: debit Accounts Receivable \$3,200.  
Credits increase revenues: credit Service Revenue \$3,200.
- 27** Debits decrease liabilities: debit Accounts Payable \$850.  
Credits decrease assets: credit Cash \$850.
- 30** Debits increase expenses: debit Salaries and Wages Expense \$2,500.  
Credits decrease assets: credit Cash \$2,500.

**EXERCISE 2-5**

**General Journal**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credit</b>
<b>Oct. 1</b>	<b>Cash .....</b>		<b>20,000</b>	
	<b>    Common Stock .....</b>			<b>20,000</b>
<b>2</b>	<b>No entry.</b>			
<b>3</b>	<b>Equipment .....</b>		<b>1,900</b>	
	<b>    Accounts Payable .....</b>			<b>1,900</b>
<b>6</b>	<b>Accounts Receivable .....</b>		<b>3,200</b>	
	<b>    Service Revenue.....</b>			<b>3,200</b>
<b>27</b>	<b>Accounts Payable .....</b>		<b>850</b>	
	<b>    Cash .....</b>			<b>850</b>
<b>30</b>	<b>Salaries and Wages Expense .....</b>		<b>2,500</b>	
	<b>    Cash .....</b>			<b>2,500</b>

## EXERCISE 2-6

- (a) 1. Increase the asset Cash, increase the liability Notes Payable.  
 2. Increase the asset Equipment, decrease the asset Cash.  
 3. Increase the asset Supplies, increase the liability Accounts Payable.

(b) 1.	Cash.....	5,000	
	Notes Payable .....		5,000
2.	Equipment .....	2,500	
	Cash.....		2,500
3.	Supplies.....	450	
	Accounts Payable .....		450

## EXERCISE 2-7

- (a) **Assets = Liabilities + Stockholders' Equity**
- |    |   |  |   |               |
|----|---|--|---|---------------|
| 1. | + |  | + | (Issue stock) |
| 2. | - |  | - | (Expense)     |
| 3. | + |  | + | (Revenue)     |
| 4. | - |  | - | (Dividends)   |

(b) 1.	Cash.....	5,000	
	Common Stock.....		5,000
2.	Rent Expense .....	1,100	
	Cash.....		1,100
3.	Accounts Receivable.....	4,700	
	Service Revenue .....		4,700
4.	Dividends.....	700	
	Cash.....		700

## EXERCISE 2-8

- False. The general ledger contains all the asset, liability, *and* stockholders' *equity* accounts.
- True.
- False. The accounts in the general ledger are arranged in *financial statement order*: first the assets, then the liabilities, common stock, retained earnings, dividends, revenues, and expenses.
- True.
- False. The general ledger is not a book of original entry; transactions are first recorded in the general journal, then in the general ledger.

**EXERCISE 2-9**

(a)

Cash			
Aug. 1	5,000	Aug. 12	1,000
10	2,700		
31	850		
Bal.	7,550		

Notes Payable		
	Aug. 12	4,000

Common Stock		
	Aug. 1	5,000

Accounts Receivable			
Aug. 25	1,600	Aug. 31	850
Bal.	750		

Service Revenue		
	Aug. 10	2,700
	25	1,600
	Bal.	4,300

Equipment	
Aug. 12	5,000

(b)

**ROBERTA MENDEZ, INVESTMENT BROKER**  
**Trial Balance**  
**August 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 7,550	
Accounts Receivable.....	750	
Equipment.....	5,000	
Notes Payable.....		\$ 4,000
Common Stock.....		5,000
Service Revenue.....		4,300
	<u>\$13,300</u>	<u>\$13,300</u>

**EXERCISE 2-10**

(a)

**General Journal**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 1</b>	<b>Cash .....</b>		<b>10,000</b>	
	<b>    Common Stock .....</b>			<b>10,000</b>
	<b>        (Issued shares of stock         for cash)</b>			
<b>12</b>	<b>Cash .....</b>		<b>900</b>	
	<b>    Service Revenue .....</b>			<b>900</b>
	<b>        (Received cash for         services provided)</b>			
<b>15</b>	<b>Salaries and Wages Expense .....</b>		<b>600</b>	
	<b>    Cash .....</b>			<b>720</b>
	<b>        (Paid salaries to date)</b>			
<b>25</b>	<b>Accounts Payable .....</b>		<b>1,500</b>	
	<b>    Cash .....</b>			<b>1,500</b>
	<b>        (Paid creditors on account)</b>			
<b>29</b>	<b>Cash .....</b>		<b>400</b>	
	<b>    Accounts Receivable .....</b>			<b>400</b>
	<b>        (Received cash in payment         of account)</b>			
<b>30</b>	<b>Cash .....</b>		<b>1,000</b>	
	<b>    Unearned Service Revenue .....</b>			<b>1,000</b>
	<b>        (Received cash for future         services)</b>			

**EXERCISE 2-10 (Continued)**

**(b) PADRE LANDSCAPING COMPANY  
Trial Balance  
April 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$10,080	
Accounts Receivable.....	2,800	
Supplies.....	1,800	
Accounts Payable.....		\$ 300
Unearned Service Revenue.....		1,000
Common Stock.....		10,000
Service Revenue.....		4,100
Salaries and Wages Expense.....	720	
	<u>\$15,400</u>	<u>\$15,400</u>

**EXERCISE 2-11**

(a) Oct. 1	Cash.....	5,000	
	Common Stock.....		5,000
	(Issued shares of stock for cash)		
10	Cash.....	650	
	Service Revenue.....		650
	(Received cash for services provided)		
10	Cash.....	3,000	
	Notes Payable.....		3,000
	(Obtained loan from bank)		
20	Cash.....	500	
	Accounts Receivable.....		500
	(Received cash in payment of account)		
20	Accounts Receivable.....	940	
	Service Revenue.....		940
	(Billed clients for services provided)		

**EXERCISE 2-11 (Continued)**

(b)

**SPARKS CO.  
Trial Balance  
October 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 8,170	
Accounts Receivable .....	1,240	
Supplies .....	400	
Equipment .....	2,000	
Notes Payable.....		\$ 3,000
Accounts Payable .....		500
Common Stock.....		7,000
Dividends.....	300	
Service Revenue .....		2,390
Salaries and Wages Expense .....	500	
Rent Expense.....	280	
	<u>\$12,890</u>	<u>\$12,890</u>

**EXERCISE 2-12**

(a)

General Journal					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
Sept. 1	Cash .....	101	10,000		
	Common Stock .....	311		10,000	
5	Equipment.....	157	12,000		
	Cash.....	101		4,000	
	Accounts Payable.....	201		8,000	
25	Accounts Payable .....	201	2,400		
	Cash.....	101		2,400	
30	Dividends .....	332	500		
	Cash.....	101		500	

**EXERCISE 2-12 (Continued)**

(b)

<b>Cash</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1		J1	10,000		10,000
5		J1		4,000	6,000
25		J1		2,400	3,600
30		J1		500	3,100

<b>Equipment</b>					<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 5		J1	12,000		12,000

<b>Accounts Payable</b>					<b>No. 201</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 5		J1		8,000	8,000
25		J1	2,400		5,600

<b>Common Stock</b>					<b>No. 311</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1		J1		10,000	10,000

<b>Dividends</b>					<b>No. 332</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 30		J1	500		500



### EXERCISE 2-13

<u>Error</u>	<u>(a) In Balance</u>	<u>(b) Difference</u>	<u>(c) Larger Column</u>
1.	No	\$400	Debit
2.	Yes	—	—
3.	Yes	—	—
4.	No	300	Credit
5.	Yes	—	—
6.	No	36	Credit

### EXERCISE 2-14

#### TEMPUS FUGIT DELIVERY SERVICE Trial Balance July 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash (\$90,907 – Debit total without Cash \$69,340) .....	\$21,567	
Accounts Receivable .....	10,642	
Prepaid Insurance .....	1,968	
Equipment .....	49,360	
Notes Payable .....		\$26,450
Accounts Payable .....		8,396
Salaries and Wages Payable .....		815
Common Stock .....		40,000
Retained Earnings .....		4,636
Dividends .....	700	
Service Revenue .....		10,610
Salaries and Wages Expense .....	4,428	
Maintenance and Repairs Expense .....	961	
Gasoline Expense .....	758	
Utilities Expense .....	523	
	<u>\$90,907</u>	<u>\$90,907</u>

### EXERCISE 2-15

Transactions 4, 5, and 7 are operating activities  
 Transaction 3 is an investing activity  
 Transactions 1, 2 and 6 are financing activities.

# SOLUTIONS TO PROBLEMS

**PROBLEM 2-1A**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash .....		50,000	
	Common Stock .....			50,000
	(Issued shares of stock for cash)			
4	Land.....		30,000	
	Cash .....			30,000
	(Purchased land for cash)			
8	Advertising Expense .....		1,800	
	Accounts Payable.....			1,800
	(Incurred advertising expense on account)			
11	Salaries and Wages Expense .....		1,500	
	Cash .....			1,500
	(Paid salaries)			
12	No entry—Not a transaction.			
13	Prepaid Insurance .....		1,500	
	Cash .....			1,500
	(Paid for one-year insurance policy)			
17	Dividends .....		1,400	
	Cash .....			1,400
	(Declared and paid cash dividends)			
20	Cash .....		5,700	
	Service Revenue.....			5,700
	(Received cash for services provided)			

J1

**PROBLEM 2-1A (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 25</b>	<b>Cash.....</b>		<b>3,000</b>	
	<b>    Unearned Service Revenue .....</b>			<b>3,000</b>
	<b>        (Received cash for future services)</b>			
<b>30</b>	<b>Cash.....</b>		<b>8,900</b>	
	<b>    Service Revenue .....</b>			<b>8,900</b>
	<b>        (Received cash for services provided)</b>			
<b>30</b>	<b>Accounts Payable .....</b>		<b>900</b>	
	<b>    Cash.....</b>			<b>900</b>
	<b>        (Paid creditor on account)</b>			

**PROBLEM 2-2A**

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 1	Cash .....	101	20,000	
	Common Stock .....	311		20,000
	(Issued shares of stock for cash)			
2	No entry—not a transaction.			
3	Supplies .....	126	1,500	
	Accounts Payable.....	201		1,500
	(Purchased supplies on account)			
7	Rent Expense.....	729	900	
	Cash .....	101		900
	(Paid office rent)			
11	Accounts Receivable .....	112	2,800	
	Service Revenue.....	400		2,800
	(Billed client for services provided)			
12	Cash .....	101	3,500	
	Unearned Service Revenue.....	209		3,500
	(Received cash for future services)			
17	Cash .....	101	1,200	
	Service Revenue.....	400		1,200
	(Received cash for services provided)			
31	Salaries and Wages Expense .....	726	2,000	
	Cash .....	101		2,000
	(Paid salaries)			

**PROBLEM 2-2A (Continued)**

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 31	Accounts Payable (\$1,500 X 40%) .....	201	600	
	Cash .....	101		600
	(Paid creditor on account)			

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
May 1		J1	20,000		20,000
7		J1		900	19,100
12		J1	3,500		22,600
17		J1	1,200		23,800
31		J1		2,000	21,800
31		J1		600	21,200

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
May 11		J1	2,800		2,800

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
May 3		J1	1,500		1,500

Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance
May 3		J1		1,500	
31		J1	600		900

Unearned Service Revenue					No. 209
Date	Explanation	Ref.	Debit	Credit	Balance
May 12		J1		3,500	3,500

**PROBLEM 2-2A (Continued)**

**Common Stock** **No. 311**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 1		J1		20,000	20,000

**Service Revenue** **No. 400**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 11		J1		2,800	2,800
17		J1		1,200	4,000

**Salaries and Wages Expense** **No. 726**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31		J1	2,000		2,000

**Rent Expense** **No. 729**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 7		J1	900		900

(c) **KARA SHIN, INC.**  
**Trial Balance**  
**May 31, 2014**

	<u><b>Debit</b></u>	<u><b>Credit</b></u>
Cash.....	\$21,200	
Accounts Receivable.....	2,800	
Supplies.....	1,500	
Accounts Payable.....		\$ 900
Unearned Service Revenue.....		3,500
Common Stock.....		20,000
Service Revenue.....		4,000
Salaries and Wages Expense.....	2,000	
Rent Expense.....	900	
	<u>\$28,400</u>	<u>\$28,400</u>

**PROBLEM 2-3A**

(a) & (c)

Cash			
Balance	8,000		
		(1)	1,000
		(3)	1,700
(4)	13,000		
		(5)	15,000
(6)	5,000		
		(7)	3,000
		(8)	2,000
	3,300		

Accounts Receivable			
Balance	15,000		
		(4)	13,000
(6)	9,000		
	11,000		

Supplies			
Balance	13,000		
(2)	4,000		
	17,000		

Prepaid Rent			
Balance	3,000		
	3,000		

Equipment			
Balance	21,000		
	21,000		

Accounts Payable			
		Balance	19,000
		(2)	4,000
(5)	15,000		
			8,000

Common Stock			
		Balance	30,000
			30,000

Retained Earnings			
		Balance	11,000
			11,000

Dividends			
(8)	2,000		
	2,000		

Service Revenue			
		(6)	14,000
			14,000

Advertising Expense			
(1)	1,000		
	1,000		

Miscellaneous Expense			
(3)	1,700		
	1,700		

Salaries and Wages Expense			
(7)	3,000		
	3,000		

**PROBLEM 2-3A (Continued)**

**(b)**

<b>Trans.</b>	<b>Account Titles and Explanation</b>	<b>Debit</b>	<b>Credit</b>
1.	Advertising Expense .....	1,000	
	Cash .....		1,000
2.	Supplies .....	4,000	
	Accounts Payable .....		4,000
3.	Miscellaneous Expense .....	1,700	
	Cash .....		1,700
4.	Cash .....	13,000	
	Accounts Receivable .....		13,000
5.	Accounts Payable .....	15,000	
	Cash .....		15,000
6.	Cash .....	5,000	
	Accounts Receivable .....	9,000	
	Service Revenue.....		14,000
7.	Salaries and Wages Expense .....	3,000	
	Cash .....		3,000
8.	Dividends .....	2,000	
	Cash .....		2,000



**PROBLEM 2-3A (Continued)**

(d)

**BYTE REPAIR SERVICE, INC.  
Trial Balance  
January 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 3,300	
Accounts Receivable .....	11,000	
Supplies .....	17,000	
Prepaid Rent .....	3,000	
Equipment .....	21,000	
Accounts Payable .....		\$ 8,000
Common Stock .....		30,000
Retained Earnings .....		11,000
Dividends .....	2,000	
Service Revenue .....		14,000
Advertising Expense .....	1,000	
Miscellaneous Expense .....	1,700	
Salaries and Wages Expense .....	3,000	
	<u>\$63,000</u>	<u>\$63,000</u>

**PROBLEM 2-4A**

**GARLAND COMPANY  
Trial Balance  
May 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash (\$3,850 + \$520 – \$405) .....	\$ 3,965	
Accounts Receivable (\$2,570 – \$420) .....	2,150	
Prepaid Insurance (\$700 + \$100) .....	800	
Supplies (\$0 + \$520) .....	520	
Equipment (\$12,000 – \$520).....	11,480	
Accounts Payable (\$4,500 – \$100 + \$520 – \$420).....		\$ 4,500
Unearned Service Revenue .....		560
Common Stock (\$11,700 + \$1,000) .....		12,700
Dividends (\$0 + \$1,000).....	1,000	
Service Revenue.....		8,960
Salaries and Wages Expense (\$4,200 + \$200) .....	4,400	
Advertising Expense (\$1,100 + \$405) .....	1,505	
Utilities Expense (\$800 + \$100).....	900	
	<u>\$26,720</u>	<u>\$26,720</u>

<b>PROBLEM 2-5A</b>
---------------------

(a) & (c)

<b>Cash</b>						<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Apr. 1	Balance	✓			6,000	
2		J1		800	5,200	
9		J1	1,800		7,000	
10		J1		3,000	4,000	
12		J1		300	3,700	
25		J1	5,200		8,900	
29		J1		1,600	7,300	
30		J1	90		7,390	
30		J1		900	6,490	

<b>Accounts Receivable</b>						<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Apr. 30		J1	90		90	

<b>Prepaid Rent</b>						<b>No. 136</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Apr. 30		J1	900		900	

<b>Land</b>						<b>No. 140</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Apr. 1	Balance	✓			10,000	

<b>Buildings</b>						<b>No. 145</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Apr. 1	Balance	✓			8,000	

**PROBLEM 2-5A (Continued)****Equipment** **No. 157**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			6,000

**Accounts Payable** **No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			2,000
10		J1	1,000		1,000
20		J1		1,000	2,000

**Mortgage Payable** **No. 275**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			8,000
10		J1	2,000		6,000

**Common Stock** **No. 311**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			20,000

**Service Revenue** **No. 400**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 9		J1		1,800	1,800
25		J1		5,200	7,000

**Rent Revenue** **No. 429**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 30		J1		180	180

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

**Advertising Expense** **No. 610**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 12		J1	300		300

**Rent Expense** **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2		J1	800		800
20		J1	1,000		1,800

**Salaries and Wages Expense** **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 29		J1	1,600		1,600

(b)

Date	Account Titles and Explanation	Ref.	Debit	Credit
				<b>J1</b>
Apr. 2	Rent Expense .....	729	800	
	Cash .....	101		800
	(Paid film rental)			
3	No entry—not a transaction.			
9	Cash .....	101	1,800	
	Service Revenue .....	400		1,800
	(Received cash for services provided)			
10	Mortgage Payable .....	275	2,000	
	Accounts Payable .....	201	1,000	
	Cash .....	101		3,000
	(Made payments on mortgage and accounts payable)			

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

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 11</b>	<b>No entry—not a transaction.</b>			
<b>12</b>	<b>Advertising Expense .....</b>	<b>610</b>	<b>300</b>	
	<b>    Cash .....</b>	<b>101</b>		<b>300</b>
	<b>    (Paid advertising expenses)</b>			
<b>20</b>	<b>Rent Expense.....</b>	<b>729</b>	<b>1,000</b>	
	<b>    Accounts Payable.....</b>	<b>201</b>		<b>1,000</b>
	<b>    (Rented film on account)</b>			
<b>25</b>	<b>Cash .....</b>	<b>101</b>	<b>5,200</b>	
	<b>    Service Revenue.....</b>	<b>400</b>		<b>5,200</b>
	<b>    (Received cash for services provided)</b>			
<b>29</b>	<b>Salaries and Wages Expense .....</b>	<b>726</b>	<b>1,600</b>	
	<b>    Cash .....</b>	<b>101</b>		<b>1,600</b>
	<b>    (Paid salaries expense)</b>			
<b>30</b>	<b>Cash .....</b>	<b>101</b>	<b>90</b>	
	<b>    Accounts Receivable .....</b>	<b>112</b>	<b>90</b>	
	<b>    Rent Revenue .....</b>	<b>429</b>		<b>180</b>
	<b>    (18% X \$1,000)</b>			
	<b>    (Received cash and balance on account for concession revenue)</b>			
<b>30</b>	<b>Prepaid Rent .....</b>	<b>136</b>	<b>900</b>	
	<b>    Cash .....</b>	<b>101</b>		<b>900</b>
	<b>    (Paid cash for future film rentals)</b>			

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

(d)

**CLASSIC THEATER  
Trial Balance  
April 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 6,490	
Accounts Receivable .....	90	
Prepaid Rent .....	900	
Land .....	10,000	
Buildings .....	8,000	
Equipment .....	6,000	
Accounts Payable .....		\$ 2,000
Mortgage Payable .....		6,000
Common Stock .....		20,000
Service Revenue .....		7,000
Rent Revenue .....		180
Advertising Expense .....	300	
Rent Expense .....	1,800	
Salaries and Wages Expense .....	1,600	
	<u>\$35,180</u>	<u>\$35,180</u>

**PROBLEM 2-1B**

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash.....		60,000	
	Common Stock .....			60,000
	(Issued shares of stock for cash)			
3	Land.....		23,000	
	Buildings .....		9,000	
	Equipment .....		6,000	
	Cash .....			38,000
	(Purchased Lee's Golf Land)			
5	Advertising Expense .....		1,600	
	Cash .....			1,600
	(Paid for advertising)			
6	Prepaid Insurance.....		2,400	
	Cash .....			2,400
	(Paid for one-year insurance policy)			
10	Equipment .....		1,050	
	Accounts Payable.....			1,050
	(Purchased equipment on account)			
18	Cash.....		340	
	Service Revenue.....			340
	(Received cash for services provided)			
19	Cash.....		1,800	
	Unearned Service Revenue.....			1,800
	(Received cash for coupon books sold)			



**PROBLEM 2-1B (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Mar. 25</b>	<b>Dividends .....</b>		<b>800</b>	
	<b>    Cash.....</b>			<b>800</b>
	<b>        (Declared and paid cash dividend)</b>			
<b>30</b>	<b>Salaries and Wages Expense .....</b>		<b>250</b>	
	<b>    Cash.....</b>			<b>250</b>
	<b>        (Paid salaries)</b>			
<b>30</b>	<b>Accounts Payable .....</b>		<b>1,050</b>	
	<b>    Cash.....</b>			<b>1,050</b>
	<b>        (Paid creditor on account)</b>			
<b>31</b>	<b>Cash .....</b>		<b>200</b>	
	<b>    Service Revenue .....</b>			<b>200</b>
	<b>        (Received cash for services provided)</b>			

**PROBLEM 2-2B**

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 1	Cash.....	101	40,000	
	Common Stock .....	311		40,000
	(Issued shares of stock for cash)			
1	No entry—not a transaction.			
2	Rent Expense .....	729	1,400	
	Cash .....	101		1,400
	(Paid monthly office rent)			
3	Supplies.....	126	5,200	
	Accounts Payable.....	201		5,200
	(Purchased supplies on account from Halo Company)			
10	Accounts Receivable.....	112	6,600	
	Service Revenue.....	400		6,600
	(Billed clients for services provided)			
11	Cash.....	101	1,000	
	Unearned Service Revenue.....	209		1,000
	(Received cash for future service)			
20	Cash.....	101	2,100	
	Service Revenue.....	400		2,100
	(Received cash for services provided)			
30	Salaries and Wages Expense.....	726	2,400	
	Cash .....	101		2,400
	(Paid monthly salary)			

**PROBLEM 2-2B (Continued)**

Date	Account Titles and Explanation	Ref.	Debits	Credit
Apr. 30	Accounts Payable.....	201	1,900	
	Cash.....	101		1,900
	(Paid Halo Company on account)			

(b)

**Cash** **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1		J1	40,000		40,000
2		J1		1,400	38,600
11		J1	1,000		39,600
20		J1	2,100		41,700
30		J1		2,400	39,300
30		J1		1,900	37,400

**Accounts Receivable** **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1	6,600		6,600

**Supplies** **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1	5,200		5,200

**Accounts Payable** **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 3		J1		5,200	5,200
30		J1	1,900		3,300

**Unearned Service Revenue** **No. 209**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 11		J1		1,000	1,000

**PROBLEM 2-2B (Continued)**

**Common Stock** **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 1		J1		40,000	40,000

**Service Revenue** **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 10		J1		6,600	6,600
20		J1		2,100	8,700

**Salaries and Wages Expense** **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 30		J1	2,400		2,400

**Rent Expense** **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2		J1	1,400		1,400

(c) **JUDI DENCH, DENTIST**  
**Trial Balance**  
**April 30, 2014**

	<b>Debit</b>	<b>Credit</b>
Cash.....	\$37,400	
Accounts Receivable.....	6,600	
Supplies.....	5,200	
Accounts Payable.....		\$ 3,300
Unearned Service Revenue.....		1,000
Common Stock.....		40,000
Service Revenue.....		8,700
Salaries and Wages Expense.....	2,400	
Rent Expense.....	1,400	
	<u>\$53,000</u>	<u>\$53,000</u>

<b>PROBLEM 2-3B</b>
---------------------

(a)

Trans.	Account Titles and Explanation	Debit	Credit
1.	Cash.....	50,000	
	Common Stock .....		50,000
2.	No entry—Not a transaction.		
3.	Prepaid Rent .....	24,000	
	Cash.....		24,000
4.	Equipment.....	30,000	
	Cash.....		8,000
	Accounts Payable.....		22,000
5.	Prepaid Insurance.....	1,800	
	Cash.....		1,800
6.	Supplies.....	750	
	Cash.....		750
7.	Supplies.....	1,300	
	Accounts Payable .....		1,300
8.	Cash.....	8,000	
	Accounts Receivable.....	12,000	
	Service Revenue .....		20,000
9.	Accounts Payable .....	400	
	Cash.....		400
10.	Cash.....	3,000	
	Accounts Receivable.....		3,000
11.	Utilities Expense .....	260	
	Accounts Payable .....		260

**PROBLEM 2-3B (Continued)**

Trans.	Account Titles and Explanation	Debit	Credit
12.	Salaries and Wages Expense.....	5,600	
	Cash .....		5,600

(b)

Cash	
(1)	50,000
	(3) 24,000
	(4) 8,000
	(5) 1,800
	(6) 750
(8)	8,000
	(9) 400
(10)	3,000
	(12) 5,600
	<b>20,450</b>

Equipment	
(4)	30,000
	<b>30,000</b>

Accounts Payable	
	(4) 22,000
	(7) 1,300
(9)	400
	(11) 260
	<b>23,160</b>

Accounts Receivable	
(8)	12,000
	(10) 3,000
	<b>9,000</b>

Common Stock	
	(1) 50,000
	<b>50,000</b>

Supplies	
(6)	750
(7)	1,300
	<b>2,050</b>

Service Revenue	
	(8) 20,000
	<b>20,000</b>

Prepaid Insurance	
(5)	1,800
	<b>1,800</b>

Salaries and Wages Expense	
(12)	5,600
	<b>5,600</b>

Prepaid Rent	
(3)	24,000
	<b>24,000</b>

Utilities Expense	
(11)	260
	<b>260</b>

**PROBLEM 2-3B (Continued)**

**(c)**

**CHAMBERLAIN SERVICES  
Trial Balance  
May 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$20,450	
Accounts Receivable .....	9,000	
Supplies .....	2,050	
Prepaid Insurance .....	1,800	
Prepaid Rent .....	24,000	
Equipment .....	30,000	
Accounts Payable .....		\$23,160
Common Stock .....		50,000
Service Revenue .....		20,000
Salaries and Wages Expense .....	5,600	
Utilities Expense .....	260	
	<u>\$93,160</u>	<u>\$93,160</u>

**PROBLEM 2-4B**

**RON SALEM CO.  
Trial Balance  
June 30, 2014**

	<b>Debit</b>	<b>Credit</b>
Cash (\$3,840 + \$180) .....	\$ 4,020	
Accounts Receivable (\$2,898 – \$180) .....	2,718	
Supplies (\$800 – \$620) .....	180	
Equipment (\$3,000 + \$620).....	3,620	
Accounts Payable (\$2,666 – \$309 – \$390).....		\$ 1,967
Unearned Service Revenue .....		2,200
Common Stock .....		9,000
Dividends (\$800 + \$600) .....	1,400	
Service Revenue (\$2,380 + \$801).....		3,181
Salaries and Wages Expense (\$3,400 + \$700 – \$600)	3,500	
Utilities Expense.....	910	
	<b>\$16,348</b>	<b>\$16,348</b>



<b>PROBLEM 2-5B</b>
---------------------

(a) & (c)

<b>Cash</b>						<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1	Balance	✓			8,000	
2		J1		1,000	7,000	
9		J1	4,000		11,000	
10		J1		4,100	6,900	
12		J1		450	6,450	
20		J1	5,000		11,450	
20		J1		2,400	9,050	
31		J1		2,500	6,550	
31		J1	375		6,925	
31		J1	9,000		15,925	

<b>Accounts Receivable</b>						<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 31		J1	375		375	

<b>Land</b>						<b>No. 140</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1	Balance	✓			21,000	

<b>Buildings</b>						<b>No. 145</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1	Balance	✓			10,000	

<b>Equipment</b>						<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>	
Mar. 1	Balance	✓			8,000	

**PROBLEM 2-5B (Continued)****Accounts Payable** **No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1	Balance	✓			7,000
2		J1		2,500	9,500
10		J1	4,100		5,400

**Common Stock** **No. 311**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1	Balance	✓			40,000

**Service Revenue** **No. 400**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 9		J1		4,000	4,000
20		J1		5,000	9,000
31		J1		9,000	18,000

**Rent Revenue** **No. 429**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar.31		J1		750	750

**Advertising Expense** **No. 610**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar.12		J1	450		450

**PROBLEM 2-5B (Continued)**

**Salaries and Wages Expense**

**No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	2,500		2,500

**Rent Expense**

**No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 2		J1	3,500		3,500
20		J1	2,400		5,900

(b)

**J1**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 2	Rent Expense .....	729	3,500	
	Accounts Payable .....	201		2,500
	Cash .....	101		1,000
	(Rented films for cash and on account)			
3	No entry.			
9	Cash .....	101	4,000	
	Service Revenue .....	400		4,000
	(Received cash for services provided)			
10	Accounts Payable (\$2,500 + \$1,600) .....	201	4,100	
	Cash .....	101		4,100
	(Paid creditors on account)			
11	No entry.			
12	Advertising Expense .....	610	450	
	Cash .....	101		450
	(Paid advertising expense)			

**PROBLEM 2-5B (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
20	Cash .....	101	5,000	
	Service Revenue .....	400		5,000
	(Received cash for services provided)			
20	Rent Expense .....	729	2,400	
	Cash .....	101		2,400
	(Paid film rental)			
Mar. 31	Salaries and Wages Expense.....	726	2,500	
	Cash .....	101		2,500
	(Paid salaries expense)			
31	Cash.....	101	375	
	Accounts Receivable.....	112	375	
	Rent Revenue.....	429		750
	(15% X \$5,000)			
	(Received cash and balance on account for concession revenue)			
31	Cash.....	101	9,000	
	Service Revenue.....	400		9,000
	(Received cash for services provided)			

**PROBLEM 2-5B (Continued)**

(d)

**RUSSO THEATER  
Trial Balance  
March 31, 2014**

	<b>Debit</b>	<b>Credit</b>
Cash .....	\$15,925	
Accounts Receivable .....	375	
Land .....	21,000	
Buildings .....	10,000	
Equipment .....	8,000	
Accounts Payable .....		\$ 5,400
Common Stock .....		40,000
Service Revenue .....		18,000
Rent Revenue .....		750
Advertising Expense .....	450	
Rent Expense .....	5,900	
Salaries and Wages Expense .....	2,500	
	<b>\$64,150</b>	<b>\$64,150</b>

(a)		GENERAL JOURNAL	J1	
		Account Titles and Explanation	Debit	Credit
Nov.	8	No entry required for cashing U.S. Savings Bonds—this is a personal transaction.		
	8	Cash .....	500	
		Common Stock .....		500
	11	Advertising Expense .....	65	
		Cash.....		65
	13	Supplies .....	125	
		Cash.....		125
	14	Equipment.....	300	
		Common Stock .....		300
	16	Cash .....	2,000	
		Notes Payable .....		2,000
	17	Equipment.....	900	
		Cash.....		900
	20	Cash .....	125	
		Service Revenue .....		125
	25	Cash .....	30	
		Unearned Service Revenue.....		30
	30	Prepaid Insurance .....	1,320	
		Cash.....		1,320

CCC2 (Continued)

(b)

Cash					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 8		J1	500		500
11		J1		65	435
13		J1		125	310
16		J1	2,000		2,310
17		J1		900	1,410
20		J1	125		1,535
25		J1	30		1,565
30		J1		1,320	245

Supplies					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 13		J1	125		125

Prepaid Insurance					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 30		J1	1,320		1,320

Equipment					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 14		J1	300		300
17		J1	900		1,200

Unearned Service Revenue					
Date	Explanation	Ref.	Debits	Credits	Balance
Nov. 25		J1		30	30

**CCC2 (Continued)****(b) (Continued)****Notes Payable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credits</b>	<b>Balance</b>
Nov. 16		J1		2,000	2,000

**Common Stock**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credits</b>	<b>Balance</b>
Nov. 8		J1		500	500
14		J1		300	800

**Service Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credits</b>	<b>Balance</b>
Nov. 20		J1		125	125

**Advertising Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debits</b>	<b>Credits</b>	<b>Balance</b>
Nov. 11		J1	65		65



CCC2 (Continued)

(c)

**COOKIE CREATIONS**  
**Trial Balance**  
**November 30, 2014**

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	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 245	
Supplies .....	125	
Prepaid Insurance.....	1,320	
Equipment.....	1,200	
Unearned Service Revenue.....		\$ 30
Notes Payable .....		2,000
Common Stock .....		800
Advertising Expense .....	65	
Service Revenue.....		125
	<u>\$2,955</u>	<u>\$2,955</u>

**Note to instructors: Because the notes payable is not due for 24 months, it follows Unearned Service Revenue in the accounts and the trial balance.**

(a)	<u>Account</u>	<u>(1) Increase Side</u>	<u>(1) Decrease Side</u>	<u>(2) Normal Balance</u>
	Accounts Payable	Credit	Debit	Credit
	Accounts Receivable	Debit	Credit	Debit
	Property, Plant, and Equipment	Debit	Credit	Debit
	Income Taxes Payable	Credit	Debit	Credit
	Interest Expense	Debit	Credit	Debit
	Inventory	Debit	Credit	Debit

- (b) 1. Cash is increased.  
 2. Cash is decreased.  
 3. Cash is decreased or Accounts Payable is increased.

- (c) 1. Cash is decreased.  
 2. Cash is decreased or Notes or Mortgage Payable is increased.

(a)	PepsiCo		Coca-Cola	
1.	Inventory:	debit	1. Accounts Receivable:	debit
2.	Property, Plant, and Equipment:	debit	2. Cash and Cash Equivalents:	debit
3.	Accounts Payable:	credit	3. Cost of Goods Sold:	debit
4.	Interest Expense:	debit	4. Sales (revenue)	credit

(b) The following other accounts are ordinarily involved:

1. Increase in Accounts Receivable: Service Revenue or Sales Revenue is increased (credited).
2. Decrease in Salaries and Wages Payable: Cash is decreased (credited).
3. Increase in Property, Plant, and Equipment: Notes Payable is increased (credited) or Cash is decreased (credited).
4. Increase in Interest Expense: Cash is decreased (credited).

**The answer is dependent upon the company selected by the student.**

## (a) May 1 Correct.

5	Cash.....	250	
	Lesson Revenue .....		250
7	Cash.....	500	
	Unearned Boarding Revenue .....		500
14	Office Equipment.....	800	
	Cash.....		800
15	Dividends .....	440	
	Cash.....		440
20	Cash.....	184	
	Riding Revenue.....		184
30	Correct.		
31	Hay and Feed Supplies.....	1,500	
	Accounts Payable .....		1,500

(b) The errors in the entries of May 14 and 20 would prevent the trial balance from balancing.

(c) Net income as reported		\$4,600
Add: 5/15, Salaries expense (Dividends paid).....	\$ 440	
5/31, Hay and feed expense (still on hand)....	<u>1,500</u>	<u>1,940</u>
		6,540
Less: 5/7, Boarding revenue unearned.....		<u>500</u>
Correct net income.....		<u>\$6,040</u>

(d) Cash as reported		\$12,475
Add: 5/20, Transposition error .....	\$ 36	
5/31, Purchase on account .....	<u>1,500</u>	<u>1,536</u>
		<u>\$14,011</u>

**Date:** May 25, 2014

**To:** Accounting Instructor

**From:** Student

In the first transaction, bills totaling \$6,000 were sent to customers for services rendered. Therefore, the asset Accounts Receivable is increased \$6,000 and the revenue Service Revenue is increased \$6,000. Debits increase assets and credits increase revenues, so the journal entry is:

Accounts Receivable	6,000	
Service Revenue .....		6,000
(Bill customers for services provided)		

The \$6,000 amount is then posted to the debit side of the general ledger account Accounts Receivable and to the credit side of the general ledger account Service Revenue.

In the second transaction, \$2,000 was paid in salaries to employees. Therefore, the expense Salaries and Wages Expense is increased \$2,000 and the asset Cash is decreased \$2,000. Debits increase expenses and credits decrease assets, so the journal entry is:

Salaries and Wages Expense	2,000	
Cash.....		2,000
(Salaries paid)		

The \$2,000 amount is then posted to the debit side of the general ledger account Salaries and Wages Expense and to the credit side of the general ledger account Cash.

(a) The stakeholders in this situation are:

- ▶ Sara Rankin, assistant chief accountant.
- ▶ Users of the company's financial statements.
- ▶ The Hokey Company.

(b) By adding \$1,000 to the Equipment account, that account total is intentionally misstated. By not locating the error causing the imbalance, some other account may also be misstated by \$1,000. If the amount of \$1,000 is determined to be immaterial, and the intent is not to commit fraud (cover up an embezzlement or other misappropriation of assets), Sara's action might not be considered unethical in the preparation of interim financial statements. However, if Sara is violating a company accounting policy by her action, then she is acting unethically.

(c) Sara's alternatives are:

1. Miss the deadline but find the error causing the imbalance.
2. Tell her supervisor of the imbalance and suffer the consequences.
3. Do as she did and locate the error later, making the adjustment in the next quarter.

- (a) Students' responses to this question will vary. It is important that the steps that they identify be as specific as possible, and clearly directed toward achieving their goal. You may wish to ask a follow-up question asking them to explain how each step will assist them in achieving their goal.
- (b) There are many sites on the Internet that provide information about preparing a résumé. For example, you can find extensive resources at: <http://www.rileyguide.com/resprep.html>. Many schools also have resources in their placement centers or writing labs. The Writing Center at Rensselaer Polytechnic Institute provides useful, concise information on its website at <http://www.rpi.edu/web/writingcenter/resume.html>. A wide variety of sample résumés can be found. For example, Monster.com provides samples for a wide variety of professions and situations at <http://content.monster.com/experts/resume/library/>.
- (c) As noted in the All About You feature in the chapter, overstating accomplishments on a résumé can result in many problems. It is important to provide accurate and complete documentation of all relevant training, education, and employment experiences so as to provide assurance to the potential employer, and also to enable that employer to do follow-up work. If you say you have certain skills, such as computer skills, try to substantiate the claim with recognized proof of proficiency. Make sure that all addresses and phone numbers are accurate and up-to-date. Also, ensure that the people you use as references have a copy of your résumé and cover letter, and that they are informed that you are interviewing so they know to expect a call.
- (d) See the sample résumés provided in the websites above for various format options. You might also mention to students that there are electronic résumé templates available on the Internet.



The decision whether to fire Mr. Edmondson was the responsibility of Radio Shack's board of directors, which is elected by the company's shareholders to oversee management. The board initially announced its support for the CEO. After further investigation, the board encouraged Mr. Edmondson to resign, which he did. In contrast, when Bausch & Lomb's CEO offered to resign in a similar situation, the company's board refused to accept his resignation. Board members stated that they felt he was still the best person for the position.

Radio Shack says that although it did a reference check at the time of Mr. Edmondson's hiring, it did not check his educational credentials. Under the Sarbanes-Oxley Act, companies must now perform thorough background checks as part of a check of internal controls. The bottom line: Your résumé must be a fair and accurate depiction of your past.

## IFRS EXERCISE

### IFRS 2-1

In deciding whether the U.S. should adopt IFRS, the SEC should consider the following.

- Whether IFRS is sufficiently developed and consistent in application
- Whether the IASB is sufficiently independent
- Whether IFRS is established for the benefit to investors
- The issues involved in educating investors about IFRS
- The impact of a switch to IFRS on U.S. laws and regulations
- The impact on companies including changes to their accounting systems, contractual arrangements, corporate governance, and litigation
- The issues involved in educating accountants, so they can prepare statements under IFRS

**IFRS 2-2 INTERNATIONAL FINANCIAL REPORTING PROBLEM**

<b>Account</b>	<b>Financial Statement</b>	<b>Position in Financial Statement</b>
<b>Other administrative expenses</b>	<b>Consolidated Income statement</b>	<b>After gross profit and before operating profit</b>
<b>Cash at bank</b>	<b>Consolidated Balance Sheet</b>	<b>Current assets</b>
<b>Borrowings and overdrafts</b>	<b>Consolidated Balance Sheet</b>	<b>Current and Non-current liabilities</b>
<b>Finance costs</b>	<b>Consolidated Income Statement</b>	<b>After Operating profit and before Profit from continuing operations before taxations.</b>



# APPENDIX D

## Time Value of Money

### SOLUTIONS TO BRIEF EXERCISES

#### BRIEF EXERCISE D-1

(a) Interest =  $p \times i \times n$   
 $I = \$9,000 \times .05 \times 12 \text{ years}$   
 $I = \$5,400$

Accumulated amount =  $\$9,000 + \$5,400 = \underline{\underline{\$14,400}}$

(b) Future value factor for 12 periods at 5% is 1.79586 (from Table 1)

Accumulated amount =  $\$9,000 \times 1.79586 = \underline{\underline{\$16,162.74}}$

#### BRIEF EXERCISE D-2

(1) Case A	5%	3 periods	(2) Case A	3%	8 periods
Case B	6%	8 periods	Case B	4%	12 periods

#### BRIEF EXERCISE D-3

FV =  $p \times \text{FV of 1 factor}$   
 $= \$8,400 \times 1.60103$   
 $= \underline{\underline{\$13,448.65}}$

#### BRIEF EXERCISE D-4

FV of an annuity of 1 =  $p \times \text{FV of an annuity factor}$   
 $= \$78,000 \times 16.86994$   
 $= \underline{\underline{\$1,315,855.32}}$

### BRIEF EXERCISE D-5

$$\begin{aligned} \text{FV} &= p \times \text{FV of 1 factor} + (p \times \text{FV of an annuity factor}) \\ &= (\$5,000 \times 2.40662) + (\$1,000 \times 28.13238) \\ &= \$12,033.10 + \$28,132.38 \\ &= \underline{\underline{\$40,165.48}} \end{aligned}$$

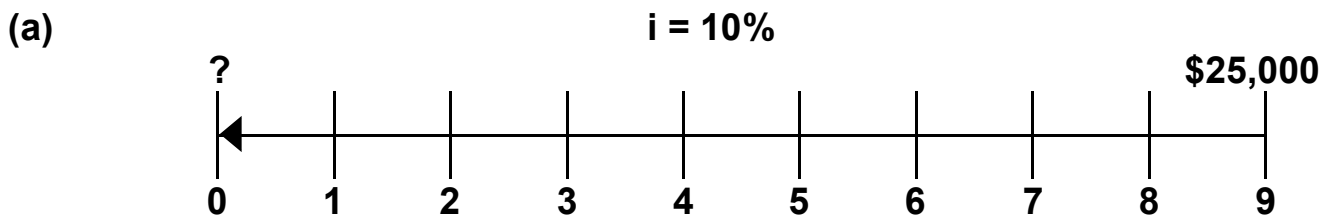
### BRIEF EXERCISE D-6

$$\begin{aligned} \text{FV} &= p \times \text{FV of 1 factor} \\ &= \$35,000 \times 1.46933 \\ &= \underline{\underline{\$51,426.55}} \end{aligned}$$

### BRIEF EXERCISE D-7

	(a)	(b)
(1)	12%	7 periods
	8%	11 periods
	3%	16 periods
(2)	10%	20 periods
	10%	7 periods
	4%	10 periods

### BRIEF EXERCISE D-8

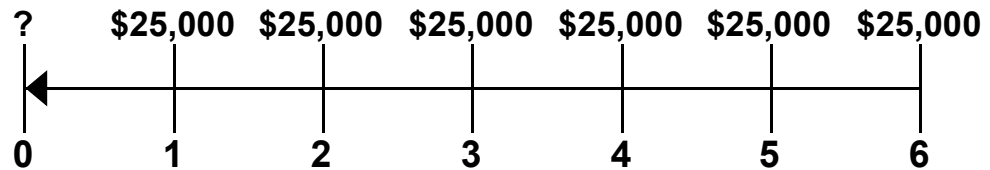


Discount rate from Table 3 is .42410 (9 periods at 10%). Present value of \$25,000 to be received in 9 years discounted at 10% is therefore \$10,602.50 ( $\$25,000 \times .42410$ ).

### BRIEF EXERCISE D-8 (Continued)

(b)

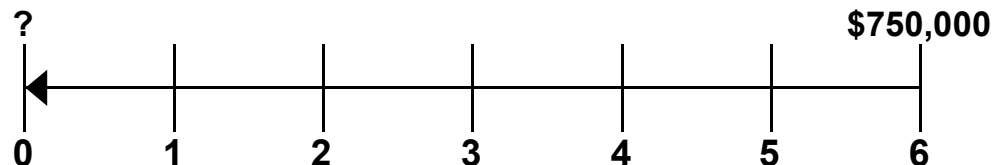
$i = 9\%$



Discount rate from Table 4 is 4.48592 (6 periods at 9%). Present value of 6 payments of \$25,000 each discounted at 9% is therefore \$112,148.00 ( $\$25,000 \times 4.48592$ ).

### BRIEF EXERCISE D-9

$i = 8\%$



Discount rate from Table 3 is .63017 (6 periods at 8%). Present value of \$750,000 to be received in 6 years discounted at 8% is therefore \$472,627.50 ( $\$750,000 \times .63017$ ). Chaffee Company should therefore invest \$472,627.50 to have \$750,000 in six years.

### BRIEF EXERCISE D-10

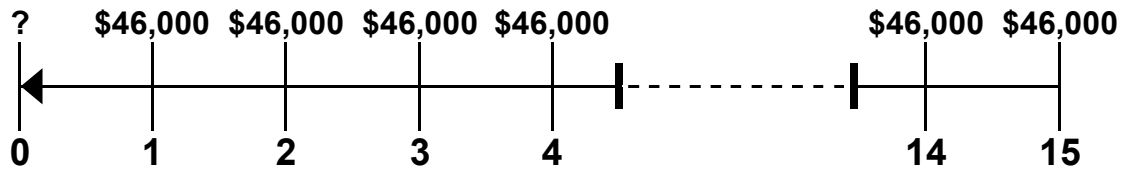
$i = 6\%$



Discount rate from Table 3 is .62741 (8 periods at 6%). Present value of \$450,000 to be received in 8 years discounted at 6% is therefore \$282,334.50 ( $\$450,000 \times .62741$ ). Lloyd Company should invest \$282,334.50 to have \$450,000 in eight years.

### BRIEF EXERCISE D-11

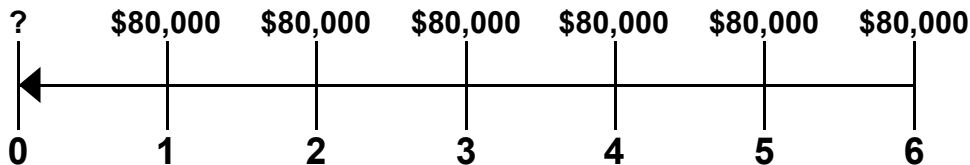
$$i = 8\%$$



Discount rate from Table 4 is 8.55948. Present value of 15 payments of \$46,000 each discounted at 8% is therefore \$393,736.08 ( $\$46,000 \times 8.55948$ ). Arthur Company should pay \$393,736.08 for this annuity contract.

### BRIEF EXERCISE D-12

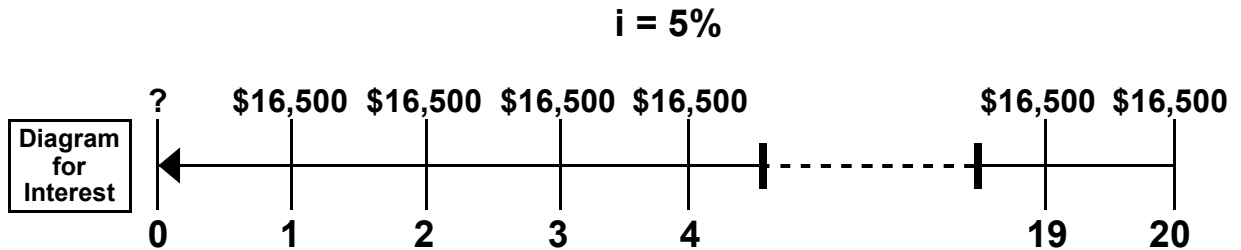
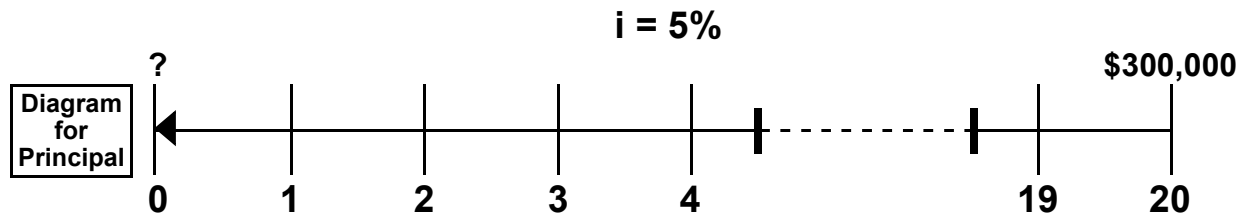
$$i = 5\%$$



Discount rate from Table 4 is 5.07569. Present value of 6 payments of \$80,000 each discounted at 5% is therefore \$406,055.20 ( $\$80,000 \times 5.07569$ ). Kaehler Enterprises invested \$406,055.20 to earn \$80,000 per year for six years.



**BRIEF EXERCISE D-13**



Present value of principal to be received at maturity: \$300,000 X 0.37689 (PV of \$1 due in 20 periods at 5% from Table 3).....	\$113,067
Present value of interest to be received periodically over the term of the bonds: \$16,500* X 12.46221 (PV of \$1 due each period for 20 periods at 5% from Table 4).....	<u>205,626**</u>
Present value of bonds .....	<u><u>\$318,693**</u></u>

\*\$300,000 X .055

\*\*Rounded.

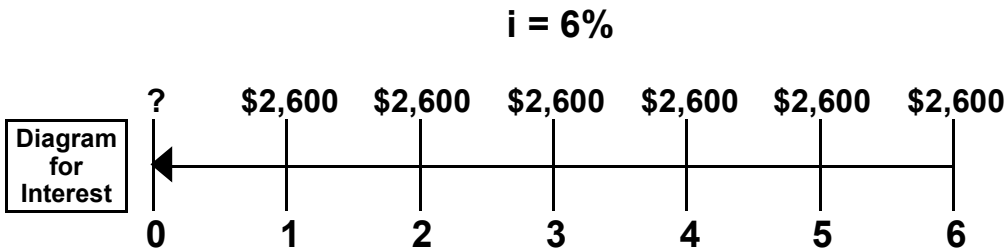
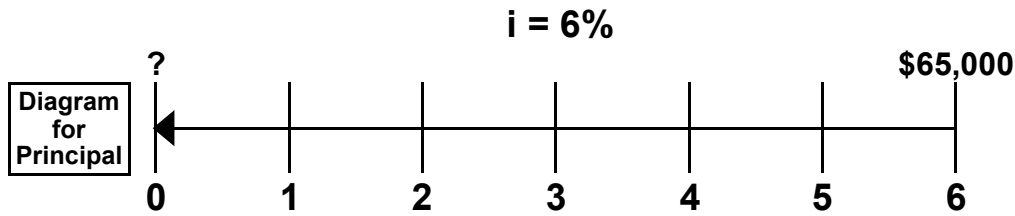
**BRIEF EXERCISE D-14**

The bonds will sell at a discount (for less than \$300,000). This may be proven as follows:

Present value of principal to be received at maturity: \$300,000 X .31180 (PV of \$1 due in 20 periods at 6% from Table 3).....	\$ 93,540
Present value of interest to be received periodically over the term of the bonds: \$16,500 X 11.46992 (PV of \$1 due each period for 20 periods at 6% from Table 4).....	<u>189,254*</u>
Present value of bonds .....	<u><u>\$282,794*</u></u>

\*Rounded.

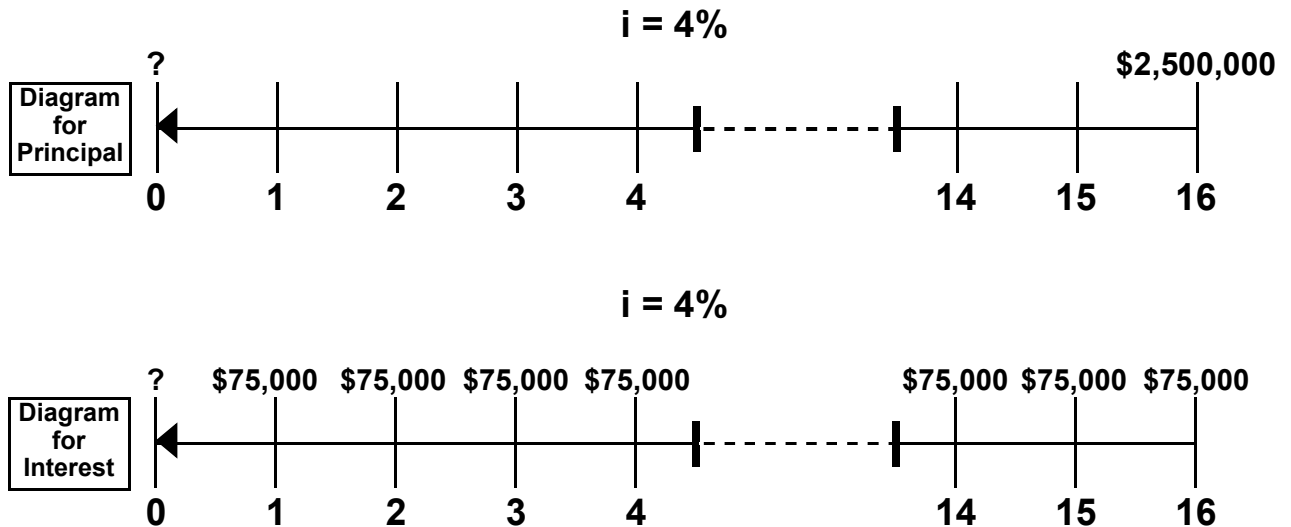
**BRIEF EXERCISE D-15**



<b>Present value of principal to be received at maturity:</b>	
\$65,000 X .70496 (PV of \$1 due in 6 periods at 6% from Table 3) .....	<b>\$45,822.40</b>
<b>Present value of interest to be received annually over the term of the note: \$2,600* X 4.91732 (PV of \$1 due each period for 6 periods at 6% from Table 4) .....</b>	<b><u>12,785.03</u></b>
<b>Present value of note received .....</b>	<b><u>\$58,607.43</u></b>

**\*\$65,000 X .04**

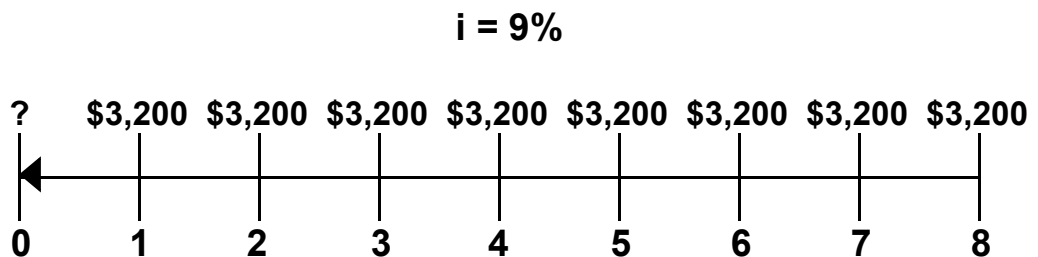
**BRIEF EXERCISE D-16**



<b>Present value of principal to be received at maturity:</b>	
\$2,500,000 X 0.53391 (PV of \$1 due in 16 periods at 4% from Table 3).....	<b>\$1,334,775</b>
<b>Present value of interest to be received periodically over the term of the bonds:</b>	
\$75,000* X 11.65230 (PV of \$1 due each period for 16 periods at 4% from Table 4).....	<b>873,923**</b>
<b>Present value of bonds and cash proceeds.....</b>	<b><u>\$2,208,698**</u></b>

\*(\$2,500,000 X .06 X 1/2)                      \*\*Rounded

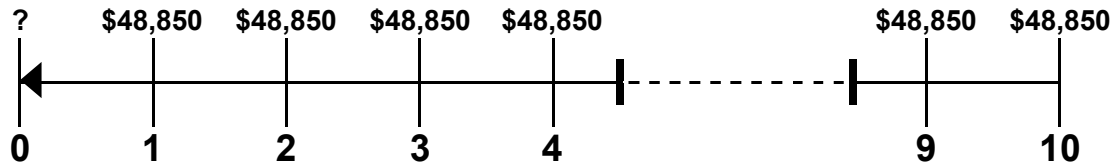
**BRIEF EXERCISE D-17**



Discount rate from Table 4 is 5.53482. Present value of 8 payments of \$3,200 each discounted at 9% is therefore \$17,711.42 (\$3,200 X 5.53482). Mark Barton should not purchase the tire retreading machine because the present value of the future cash flows is less than the \$18,000 purchase price of the retreading machine.

## BRIEF EXERCISE D-18

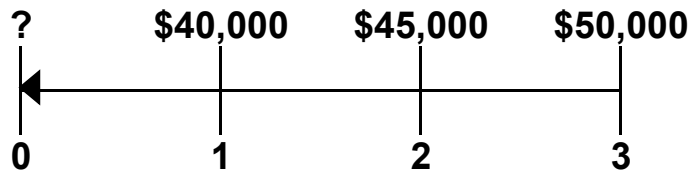
$i = 5\%$



Discount rate from Table 4 is 7.72173. Present value of 10 payments of \$48,850 each discounted at 5% is therefore \$377,206.51 ( $\$48,850 \times 7.72173$ ). Frazier Company should receive \$377,206.51 from the issuance of the note.

## BRIEF EXERCISE D-19

$i = 8\%$

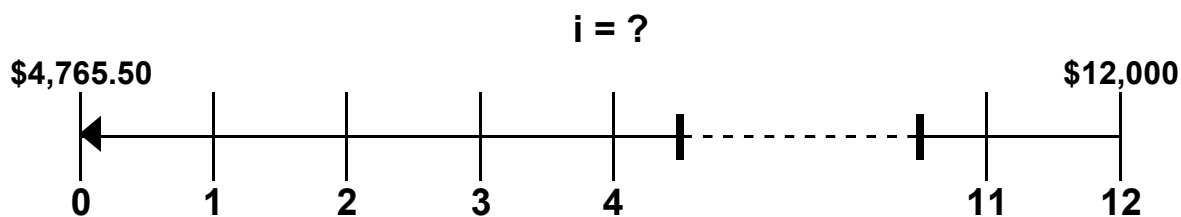


To determine the present value of the future cash inflows, discount the future cash flows at 8%, using Table 3.

Year 1 ( $\$40,000 \times .92593$ ) =	\$ 37,037.20
Year 2 ( $\$45,000 \times .85734$ ) =	38,580.30
Year 3 ( $\$50,000 \times .79383$ ) =	<u>39,691.50</u>
Present value of future cash inflows	<u>\$115,309.00</u>

To achieve a minimum rate of return of 8%, Leffler Company should pay no more than \$115,309.00. If Leffler pays less than \$115,309.00, its rate of return will be greater than 8%.

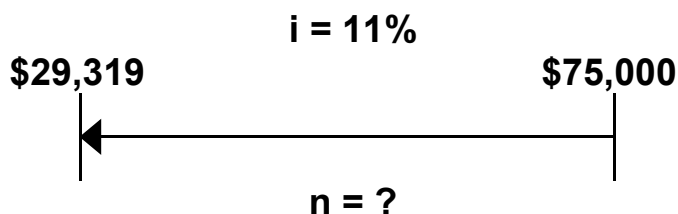
## BRIEF EXERCISE D-20



$$\begin{aligned}\text{Present value} &= \text{Future value} \times \text{Present value of 1 factor} \\ \$4,765.50 &= \$12,000 \times \text{Present value of 1 factor} \\ \text{Present value of 1 factor} &= \$4,765.50 \div \$12,000 = .39713\end{aligned}$$

The .39713 for 12 periods approximates the value found in the 8% column (.39711). Colleen Mooney will receive a 8% return.

## BRIEF EXERCISE D-21

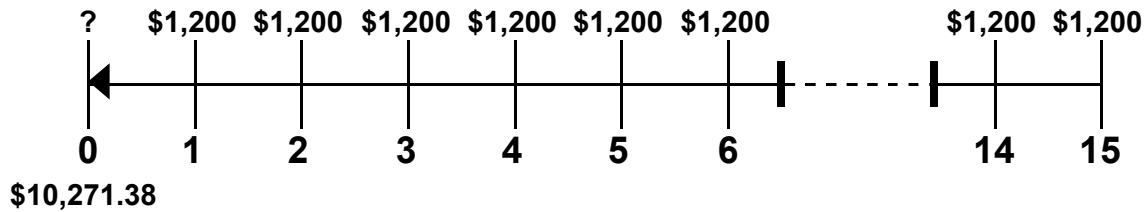


$$\begin{aligned}\text{Present value} &= \text{Future value} \times \text{Present value of 1 factor} \\ \$29,319 &= \$75,000 \times \text{Present value of 1 factor} \\ \text{Present value of 1 factor} &= \$29,319 \div \$75,000 = .39092\end{aligned}$$

The .39092 at 11% is found in the 9 years row. Wayne Kurt therefore must wait 9 years to receive \$75,000.

## BRIEF EXERCISE D-22

$$i = ?$$



Present value = Future amount X Present value of an annuity factor

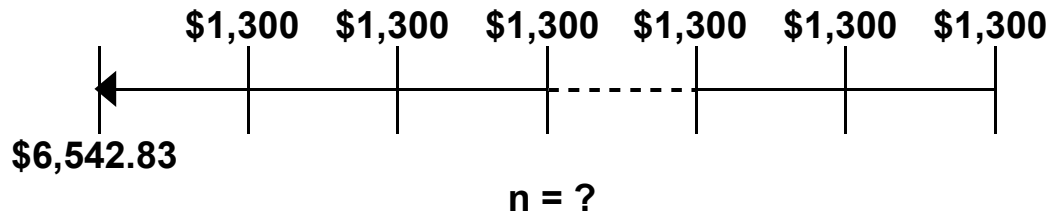
$$\$10,271.38 = \$1,200 \times \text{Present value of an annuity factor}$$

$$\text{Present value of an annuity factor} = \$10,271.38 \div \$1,200 = 8.55948$$

The 8.55948 for 15 periods is found in the 8% column. Joanne Quick will therefore earn a rate of return of 8%.

## BRIEF EXERCISE D-23

$$i = 9\%$$



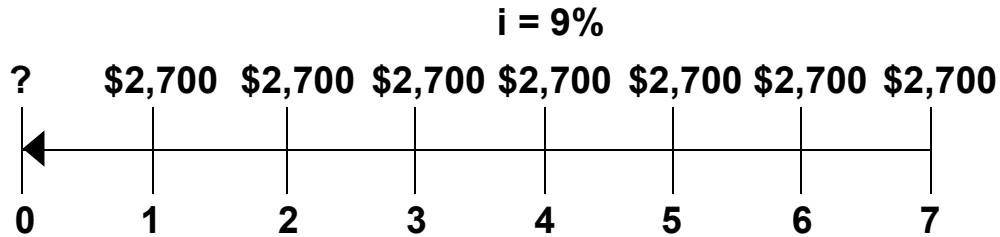
Present value = Future amount X Present value of an annuity factor

$$\$6,542.83 = \$1,300 \times \text{Present value of an annuity factor}$$

$$\text{Present value of an annuity factor} = \$6,542.83 \div \$1,300 = 5.03295$$

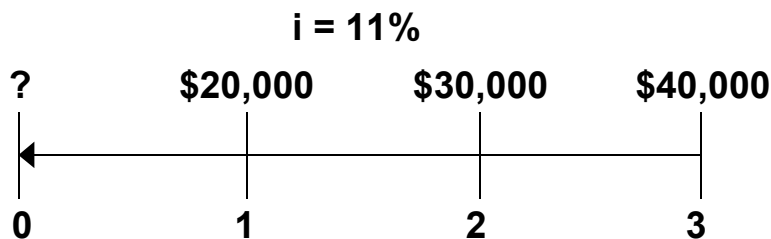
The 5.03295 at an interest rate of 9% is shown in the 7-year row. Therefore, Patty will receive 7 payments.

### BRIEF EXERCISE D-24



Discount rate from Table 4 is 5.03295. Present value of 7 payments of \$2,700 each discounted at 9% is therefore \$13,588.97 ( $\$2,700 \times 5.03295$ ). Barney Googal should purchase the tire retreading machine because the present value of the future cash flows is greater than the purchase price of the retreading machine (\$12,820).

### BRIEF EXERCISE D-25



To determine the present value of the future cash flows, discount the future cash flows at 11%, using Table 3.

Year 1 ( $\$20,000 \times .90090$ ) =	\$18,018.00
Year 2 ( $\$30,000 \times .81162$ ) =	24,348.60
Year 3 ( $\$40,000 \times .73119$ ) =	<u>29,247.60</u>
Present value of future cash flows	<u>\$71,614.20</u>

To achieve a minimum rate of return of 11%, Ramos Company should pay no more than \$71,614.20. If Ramos pays less than \$71,614.20, its rate of return will be greater than 11%.

**BRIEF EXERCISE D-26**

**10\***                      **?**                      **-18,000**                      **0**                      **50,000**

<b>N</b>	<b>I/YR.</b>	<b>PV</b>	<b>PMT</b>	<b>FV</b>
	<b>10.76%</b>			

**\*2024 – 2014**

**BRIEF EXERCISE D-27**

**10**                      **?**                      **60,000**                      **-8,860**                      **0**

<b>N</b>	<b>I/YR.</b>	<b>PV</b>	<b>PMT</b>	<b>FV</b>
	<b>7.80%</b>			

**BRIEF EXERCISE D-28**

**40**                      **?**                      **178,000\***                      **-8,400**                      **0**

<b>N</b>	<b>I/YR.</b>	<b>PV</b>	<b>PMT</b>	<b>FV</b>
	<b>3.55%</b>			

**(semiannual)**

**\*\$198,000 – \$20,000**



## BRIEF EXERCISE D-29

(a)

<b>Inputs:</b>	<b>7</b>	<b>6.9</b>	<b>?</b>	<b>-16,000</b>	<b>0</b>
	<b>N</b>	<b>I</b>	<b>PV</b>	<b>PMT</b>	<b>FV</b>
<b>Answer:</b>			<b>86,530.07</b>		

(b)

<b>Inputs:</b>	<b>10</b>	<b>8.65</b>	<b>?</b>	<b>14,000**</b>	<b>200,000*</b>
	<b>N</b>	<b>I</b>	<b>PV</b>	<b>PMT</b>	<b>FV</b>
<b>Answer:</b>			<b>-178,491.52</b>		

\*200 X \$1,000

\*\*\$200,000 X .07

**BRIEF EXERCISE D-30**

(a)

**Note—set payments at 12 per year.**

Inputs:            96                    7.8                    42,000                    ?                    0

N	I	PV	PMT	FV
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Answer:

-589.48

(b)

**Note—set payments to 1 per year.**

Inputs:            5                    7.25                    8,000                    ?                    0

N	I	PV	PMT	FV
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Answer:

-1,964.20