

## SOLUTIONS

## Learning Goal 24

## Multiple Choice

1. a
2. d
3. a Total assets are the same, but Supplies is understated by \$100 and Prepaid Insurance is overstated by \$100.
4. c Account balances are only found in the ledger.
5. c Because increasing an expense is a debit entry, and debits are placed first. All the other examples are credits.
6. c
7. a
8. d (a) is incorrect because the rule for which item to record first is to record debits before credits. (b) is incorrect because a line should be skipped between transactions, not between each debit and credit. (c) is incorrect because the date to use is the date the transaction occurred, not the date it was recorded.
9. c
10. c
11. c
12. d
13. d
14. d All the entries are either debited or credited incorrectly, or they do not balance.
15. b

## Reinforcement Problems

## LG 24-1. T account analysis for transactions:

- a. The owner of the Sacramento Company invests \$15,000 in his business.

A	=	L	+	OE
Cash ↑				B. Gasoway, Capital ↑
15,000				15,000

- b. Palomar Company uses up \$200 of supplies.

A	=	L	+	OE
Supplies ↓				Supplies Expense ↑
200				200

*Note:* An increase in an expense decreases the owner's equity, and the equation stays in balance.

- c. Mira Costa Enterprises collects \$850 owing from customers.

A	=	L	+	OE
Cash ↑		Accounts Receivable ↓		
850		850		

**SOLUTIONS**

**Learning Goal 24, continued**

**LG 24-1, continued**

d. Santa Monica Company purchases \$10,000 of equipment by paying \$1,000 cash and signing a \$9,000 note payable.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
Cash ↓		Equipment ↑		Notes Payable ↑
-----		-----		-----
1,000		10,000		9,000

e. Fairfield Partnership prepays three months' office rent for \$12,000.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
Cash ↓		Prepaid Rent ↑		
-----		-----		
12,000		12,000		

f. Sonoma Company receives a three-month advance payment from a customer in the amount of \$5,000.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
Cash ↑		Unearned Revenue ↑		
-----		-----		
5,000		5,000		

g. Salinas Enterprises pays a \$400 account payable.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
Cash ↓		Accounts Payable ↓		
-----		-----		
400		400		

h. Fairfield Company, (f) above, uses up one month of the prepaid office rent.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
Prepaid Rent ↓				Rent Expense ↑
-----				-----
4,000				4,000

*Note:* An increase in an expense decreases the owner's equity, and the equation is still in balance.

**SOLUTIONS****Learning Goal 24, continued****LG 24-1, continued**

- i. Riverside Enterprises performs \$500 of services on account.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
Accounts Receivable ↑				Service Revenue ↑
500				500

- j. Crescent City Company receives a \$450 bill for utility services. The bill will be paid later.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
		Accounts Payable ↑		Utility Expense ↑
		450		450

*Note:* Remember that an increase in an expense decreases the owner's equity, and the equation stays in balance.

- k. Sonoma Company, (f) above, performs \$1,200 of services.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
		Unearned Revenue ↓		Service Revenue ↑
		1,200		1,200

- l. Atascadero Company makes a \$1,000 loan payment. The payment includes \$200 of interest expense.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>
Cash ↓		Notes Payable ↓		Interest Expense ↑
1,000		800		200

*Note:* Remember that an increase in an expense is decreasing owner's equity. Therefore, the equation remains in balance.

## SOLUTIONS

## Learning Goal 24, continued

## LG 24-1, continued

## General Journal

Date	Account Name and Explanation	Dr.	Cr.
200X			
a.	Cash	15,000	
	B. Gasway, Capital		15,000
b.	Supplies Expense	200	
	Supplies		200
c.	Cash	850	
	Accounts Receivable		850
d.	Equipment	10,000	
	Cash		1,000
	Notes Payable		9,000
e.	Prepaid Rent	12,000	
	Cash		12,000
f.	Cash	5,000	
	Unearned Revenue		5,000
g.	Accounts Payable	400	
	Cash		400
h.	Rent Expense	4,000	
	Prepaid Rent		4,000
i.	Accounts Receivable	500	
	Service Revenue		500
j.	Utility Expense	450	
	Accounts Payable		450
k.	Unearned Revenue	1,200	
	Service Revenue		1,200
l.	Notes Payable	800	
	Interest Expense	200	
	Cash		1,000

**SOLUTIONS****Learning Goal 24, continued****LG 24-2. T account analysis for transactions:**

- a. Abilene Company purchased \$750 of supplies by paying cash.

<b>A</b>	<b>=</b>	<b>L</b>	<b>+</b>	<b>OE</b>
Cash ↓		Supplies ↑		
750		750		

- b. Pecos Enterprises purchased \$600 of supplies on account.

<b>A</b>	<b>=</b>	<b>L</b>	<b>+</b>	<b>OE</b>
Supplies ↑		Accounts Payable ↑		
600		600		

- c. Houston Corporation used \$900 of supplies in operations for the month.

<b>A</b>	<b>=</b>	<b>L</b>	<b>+</b>	<b>OE</b>
Supplies ↓				Supplies Expense ↑
900				900

*Note:* An increase in an expense decreases the owner's equity, and the equation stays in balance.

- d. Dallas Partnership received a \$2,250 advance payment from a customer.

<b>A</b>	<b>=</b>	<b>L</b>	<b>+</b>	<b>OE</b>
Cash ↑		Unearned Revenue ↑		
2,250		2,250		

**SOLUTIONS**

**Learning Goal 24, continued**

**LG 24-2, continued**

- e. Austin Enterprises purchased \$350,000 land and building. The cost allocated to the land is \$100,000. Payment was made by signing a \$225,000 note payable and paying cash for the balance.

A		=	L		+	OE
Cash ↓			Building ↑	Land ↑		Notes Payable ↑
125,000			250,000	100,000		225,000

- f. Dave Smiley, owner of Fort Worth Sales Company, withdrew \$2,500 from his business.

A	=	L	+	OE
Cash ↓				Dave Smiley, ↑ Withdrawals
2,500				2,500

*Note:* An increase in withdrawals decreases the owner's equity, and the equation stays in balance.

- g. El Paso Partnership prepaid \$800 of fire insurance.

A		=	L	+	OE
Cash ↓			Prepaid Insurance ↑		
800			800		

- h. Dallas Partnership, (d) above, completed \$1,500 of services for the customer who paid in advance.

A	=	L	+	OE
		Unearned Revenue ↓		Service Revenue ↑
		1,500		1,500

**SOLUTIONS****Learning Goal 24, continued****LG 24-2, continued**

- i. Arlington Company received a \$700 bill for repair services. The bill was not paid immediately.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>	
		Accounts Payable ↑		Repairs Expense ↑	
		700		700	

*Note:* Remember that an increase in an expense decreases the owner's equity, and the equation stays in balance.

- j. Beaumont Enterprises provided \$3,500 of services to customers on account.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>	
Accounts Receivable ↑				Service Revenue ↑	
3,500				3,500	

- k. Beaumont Enterprises collected \$2,000 owing from customers on account.

<b>A</b>	=	<b>L</b>	+	<b>OE</b>	
Cash ↑		Accounts Receivable ↓			
2,000		2,000			

## SOLUTIONS

## Learning Goal 24, continued

LG 24-2, *continued*

- l. El Paso Partnership, (g) above, used up \$200 of the prepaid fire insurance.

A	=	L	+	OE
Prepaid Insurance ↓				Insurance Expense ↑
200				200

*Note:* An increase in an expense decreases the owner's equity, and the equation is still in balance.

- m. Corpus Christi Corporation purchased \$2,000 of supplies and \$7,500 of equipment on account as one purchase from a single supplier.

A	=	L	+	OE
Supplies ↑		Equipment ↑		Accounts Payable ↑
2,000		7,500		9,500

- n. In the following month, Corpus Christi Corporation paid the supplier in full.

A	=	L	+	OE
Cash ↓		Accounts Payable ↓		
9,500		9,500		

## SOLUTIONS

## Learning Goal 24, continued

## LG 24-2, continued

## General Journal

Date	Account Name and Explanation	Dr.	Cr.
200X			
a.	Supplies	750	
	Cash		750
b.	Supplies	600	
	Accounts Payable		600
c.	Supplies Expense	900	
	Supplies		900
d.	Cash	2,250	
	Unearned Revenue		2,250
e.	Building	250,000	
	Land	100,000	
	Cash		125,000
	Notes Payable		225,000
f.	Dave Smiley, Withdrawals	2,500	
	Cash		2,500
g.	Prepaid Insurance	800	
	Cash		800
h.	Unearned Revenue	1,500	
	Service Revenue		1,500
i.	Repairs Expense	700	
	Accounts Payable		700
j.	Accounts Receivable	3,500	
	Service Revenue		3,500
k.	Cash	2,000	
	Accounts Receivable		2,000
l.	Insurance Expense	200	
	Prepaid Insurance		200
m.	Supplies	2,000	
	Equipment	7,500	
	Accounts Payable		9,500
n.	Accounts Payable	9,500	
	Cash		9,500

## SOLUTIONS

## Learning Goal 24, continued

## LG 24-3.

Date	Account	Dr.	Cr.
2008			
Nov. 1	Cash	8,500	
	Laurie Shelby, Capital		8,500
1	Prepaid Rent	1,050	
	Cash		1,050
3	Cash	750	
	Unearned Revenue		750
4	Office Equipment	2,300	
	Office Supplies	700	
	Cash		1,000
	Notes Payable		2,000
5	Cleaning Expense	100	
	Cash		100
6	Advertising Expense	500	
	Accounts Payable		500
7	Accounts Receivable	980	
	Service Revenue		980
11	Wages Expense	700	
	Cash		700
12	Accounts Receivable	1,500	
	Service Revenue		1,500
14	Cash	5,000	
	Office Equipment	4,000	
	Laurie Shelby, Capital		9,000
15	Accounts Payable	500	
	Cash		500
17	Cash	980	
	Accounts Receivable		980

## SOLUTIONS

## Learning Goal 24, continued

LG 24-3, *continued*

Date	Account	Dr.	Cr.
19	Laurie Mason, Drawing	250	
	Cash		250
23	Unearned Revenue	750	
	Service Revenue		750
24	Cash	2,000	
	Service Revenue		2,000
27	Laurie Mason, Drawing	500	
	Cash		500
30	Supplies Expense	1,200	
	Supplies		1,200

## LG 24-4.

## 1. Analysis and error identification

**Sept. 1:** The owner investment entry is correct.

**Sept. 2:** The debit should be to Prepaid Insurance. Nothing has been used up yet.

**Sept. 3:** The office supplies are not used up yet; they should be recorded as an asset, not an expense.

**Sept. 3:** The entry is correct.

**Sept. 4:** The credit should be to Notes Payable, not Accounts Payable.

**Sept. 6:** The entry is correct.

**Sept. 7:** There is no recordable transaction. Nothing has affected the accounting equation because the assistant has not provided any services yet.

**Sept. 7:** The amount recorded should be \$150, not \$15.

**Sept. 8:** The entry is backwards. Also, the correct liability is Notes Payable, not Accounts Payable.

**Sept. 10:** The credit should be to Unearned Revenue. No services have been provided to the client yet.

**Sept. 12:** The entry is correct.

**Sept. 18:** The transaction has not been recorded—probably because the bookkeeper did not understand that an expense should be recorded even if no cash is paid. Debit Repairs Expense, credit Accounts Payable.

**Sept. 21:** The credit should be to Accounts Receivable, not Service Revenue. No revenue occurs with the collection of a receivable. The revenue occurred sometime previously, which created the receivable.

**Sept. 26:** Same problem as September 18. Debit Internet Expense, credit Accounts Payable.

**Sept. 30:** The debit should be to Emily Heath, Withdrawals. Owner withdrawals are never an expense.

**SOLUTIONS****Learning Goal 24, continued****LG 24-5.**

<b>Date</b>	<b>Account</b>	<b>Dr.</b>	<b>Cr.</b>
2008			
Feb. 8	Cash	25,000	
	Ken Peters, Capital		25,000
	Ken Peters invested \$25,000 cash to begin his new business, Du Page Delivery Enterprises.		
9	Prepaid Insurance	1,500	
	Cash		1,500
	Prepaid 1 year of insurance for \$1,500.		
10	Office Supplies	250	
	Accounts Payable		250
	Purchased office supplies from Joliet Company, \$250 on account.		
12	Office Equipment	3,000	
	Cash		1,000
	Notes Payable		2,000
	Paid \$1,000 and signed a \$2,000 note payable for an office computer.		
14	Cash	5,000	
	Van	15,000	
	Notes Payable		7,000
	Ken Peters, Capital		13,000
	Ken Peters invested an additional \$5,000 cash in the business, plus a van worth \$15,000. With the van is a note payable of \$7,000.		
15	Accounts Receivable	575	
	Service Revenue		575
	Billed Morraine Valley Company for services, \$575 on account.		

**SOLUTIONS****Learning Goal 24, continued****LG 24-5, continued**

<b>Date</b>	<b>Account</b>	<b>Dr.</b>	<b>Cr.</b>
17	Accounts Payable	200	
	Cash		200
	Paid \$200 owing to Jolliet Company from February 10.		
20	Supplies Expense	200	
	Supplies		200
	Used up \$200 of supplies.		
24	Ken Peters, Drawing	520	
	Cash		520
	Wrote \$520 check to Sunshine Day Care for owner's child-care expense.		
27	Cash	300	
	Accounts Receivable		300
	Collected \$300 from Morraine Valley Company on account.		

**LG 24-6.**

- July 11: Paid an account owing to Grants Pass Company.  
 July 12: The owner (or possibly, partner) Andrea Sheaffer, withdrew cash.  
 July 14: The business used up supplies.  
 July 15: Collected cash on account owing from Portland Enterprises.  
 July 17: Earned service revenue on account from Gresham Corporation.  
 July 20: Purchased computer equipment by paying \$2,500 cash down and signing a \$7,800 note payable for the balance.  
 July 22: Received an advance payment from a customer.  
 July 24: Used up prepaid rent, for the period of \_\_\_\_\_.  
 July 25: Purchased \$145,000 of land and \$90,000 building by paying \$50,000 cash and signing a note payable for the balance.  
 July 27: Used repair services. Balance owing on account for the service is \$175.

## SOLUTIONS

## Learning Goal 24, continued

## LG 24-7.

Date	Account	Dr.	Cr.
2008			
May 5	Wages Expense	900	
	Cash		900
	Paid wages.		
6	Cash	330	
	Accounts Receivable		330
	Collected amount owing on account from xxxx.		
7	Supplies	250	
	Accounts Payable		250
	Purchased supplies on account from xxxx.		
10	Advertising Expense	1,500	
	Accounts Payable		1,500
	Used advertising services. Balance owing to xxxx.		
10	Cash	750	
	Service Revenue		750
	Completed services for xxxx.		
12	Accounts Payable	450	
	Cash		450
	Paid on account owing to xxxx.		
15	Accounts Receivable	500	
	Service Revenue		500
	Completed services on account to xxxx.		
17	Supplies	250	
	Equipment	2,800	
	Cash		1,050
	Notes Payable		2,000
	Purchased supplies and equipment for \$1,050 cash down payment and \$2,000 note payable for the balance.		
18	Rent Expense	700	
	Prepaid Rent		700
	Used up Prepaid Rent.		

**SOLUTIONS****Learning Goal 24, continued****LG 24-8.**

<b>Date</b>	<b>Account</b>	<b>Ref.</b>	<b>Dr.</b>	<b>Cr.</b>
2008				
June				
1	Cash		25,000	
	David Washington, Capital			25,000

June 2

<b>Classification</b>	<b>Valuation</b>	<b>Timing</b>
Office Supplies	500	June 2
Furniture	2,700	
Accounts Payable	3,200	

2	Office Supplies		500	
	Furniture		2,700	
	Accounts Payable			3,200

2	No entry—not a recordable transaction			
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June 3

<b>Classification</b>	<b>Valuation</b>	<b>Timing</b>
Cash	15,000	June 3
Notes Payable	15,000	

3	Cash		15,000	
	Notes Payable			15,000

**SOLUTIONS****Learning Goal 24, continued****LG 24-8, continued**

June 5

Classification	Valuation	Timing
Cash	2,250	June 5
Service Revenue	2,250	

5	Cash		2,250	
	Service Revenue			2,250

June 6

Classification	Valuation	Timing
Cleaning Expense	150	June 6
Cash	(150)	

6	Cleaning Expense		150	
	Cash			150

June 8

Classification	Valuation	Timing
Computer Equipment	7,000	June 8
Cash	(3,000)	
Notes Payable	4,000	

8	Computer Equipment		7,000	
	Cash			3,000
	Notes Payable			4,000

**SOLUTIONS****Learning Goal 24, continued****LG 24-8, continued**

June 10

<b>Classification</b>	<b>Valuation</b>	<b>Timing</b>
Cash	3,000	June 10
Unearned Revenue	3,000	

10	Cash		3,000	
	Unearned Revenue			3,000

June 12

<b>Classification</b>	<b>Valuation</b>	<b>Timing</b>
Accounts Receivable	2,500	June 12
Service Revenue	2,500	

12	Accounts Receivable		2,500	
	Service Revenue			2,500

June 15

<b>Classification</b>	<b>Valuation</b>	<b>Timing</b>
Wages Expense	1,120	June 15
Cash	(1,120)	

15	Wages Expense		1,120	
	Cash			1,120

**SOLUTIONS****Learning Goal 24, continued****LG 24-8, continued**

June 15

Classification	Valuation	Timing
Accounts Payable	(1,000)	June 15
Cash	(1,000)	

15	Accounts Payable		1,000	
	Cash			1,000

June 15

Classification	Valuation	Timing
Rent Expense	1,500	June 15
Cash	(1,500)	

15	Rent Expense		1,500	
	Cash			1,500

June 18

Classification	Valuation	Timing
Advertising Expense	800	June 18
Accounts Payable	800	

18	Advertising Expense		800	
	Accounts Payable			800

**SOLUTIONS****Learning Goal 24, continued****LG 24-8, continued**

June 22

<b>Classification</b>	<b>Valuation</b>	<b>Timing</b>
Accounts Receivable	750	June 22
Service Revenue	750	

22	Accounts Receivable		750	
	Service Revenue			750

June 25

<b>Classification</b>	<b>Valuation</b>	<b>Timing</b>
Cash	1,000	June 25
Accounts Receivable	(1,000)	

25	Cash		1,000	
	Accounts Receivable			1,000

June 28

<b>Classification</b>	<b>Valuation</b>	<b>Timing</b>
Internet Expense	500	June 28
Accounts Payable	500	

28	Internet Expense		500	
	Accounts Payable			500

**SOLUTIONS****Learning Goal 24, continued****LG 24-8, continued**

June 29

Classification	Valuation	Timing
Accounts Receivable	2,000	June 29
Unearned Revenue	(3,000)	
Service Revenue	5,000	

29	Accounts Receivable		2,000	
	Unearned Revenue		3,000	
	Service Revenue			5,000

June 30

Classification	Valuation	Timing
Office Supplies Expense	125	June 30
Office Supplies	(125)	

30	Office Supplies Expense		125	
	Office Supplies			125

June 30

Classification	Valuation	Timing
Interest Expense	500	June 30
Notes Payable	(250)	
Cash	(750)	

30	Interest Expense		500	
	Notes Payable		250	
	Cash			750

**SOLUTIONS****Learning Goal 24, continued****LG 24-8, continued**

Classification	Valuation	Timing
David Washington, Withdrawals	2,000	June 30
Cash	(2,000)	

30	David Washington, Withdrawals		2,000	
	Cash			2,000

June 30

Classification	Valuation	Timing
Telephone Expense	210	June 30
Accounts Payable	210	

30	Telephone Expense		210	
	Accounts Payable			210

**LG 24-9.**

	In a journal . . .	In a ledger . . .
meets these information needs . . .	<ul style="list-style-type: none"> <li>■ you can find a transaction by date.</li> <li>■ you can easily see all parts of each transaction.</li> <li>■ you can see if the equation stays in balance for each transaction.</li> </ul>	<ul style="list-style-type: none"> <li>■ you can see the historical detail of each account item.</li> <li>■ you can determine the balance of each account item.</li> </ul>
and does not meet these information needs . . .	<ul style="list-style-type: none"> <li>■ you cannot see the historical detail of each account item.</li> <li>■ you cannot determine the balance of each account item.</li> </ul>	<ul style="list-style-type: none"> <li>■ you cannot find a transaction by date.</li> <li>■ you cannot easily see all parts of each transaction.</li> <li>■ you cannot see if the equation stays in balance.</li> </ul>
and the data is primarily arranged by . . .	transaction	account