

BE2-8 Selected journal entries for Gilles Company are presented in BE2-7. Post the transactions using the standard form of account.

Post journal entries to standard form of account.

(SO 6)

BE2-9 From the ledger balances given below, prepare a trial balance for P. J. Farve Company at June 30, 2008. List the accounts in the order shown on page 60 of the text. All account balances are normal.

Prepare a trial balance.

(SO 7)

Accounts Payable \$9,000, Cash \$6,800, Common Stock \$20,000, Dividends \$1,200, Equipment \$17,000, Service Revenue \$6,000, Accounts Receivable \$3,000, Salaries Expense \$6,000, and Rent Expense \$1,000.

BE2-10 An inexperienced bookkeeper prepared the following trial balance. Prepare a correct trial balance, assuming all account balances are normal.

Prepare a correct trial balance.

(SO 7)

CHENG COMPANY

Trial Balance
December 31, 2008

	<u>Debit</u>	<u>Credit</u>
Cash	\$16,800	
Prepaid Insurance		\$3,500
Accounts Payable		3,000
Unearned Revenue	4,200	
Common Stock		13,000
Dividends		4,500
Service Revenue		25,600
Salaries Expense	18,600	
Rent Expense		2,400
	<u>\$39,600</u>	<u>\$52,000</u>

EXERCISES



E2-1 Josh Cephus has prepared the following list of statements about accounts.

Analyze statements about accounting and the recording process.

(SO 1)

1. An account is an accounting record of either a specific asset or a specific liability.
2. An account shows only increases, not decreases, in the item it relates to.
3. Some items, such as Cash and Accounts Receivable, are combined into one account.
4. An account has a left, or credit side, and a right, or debit side.
5. A simple form of an account consisting of just the account title, the left side, and the right side, is called a T-account.

Instructions

Identify each statement as true or false. If false, indicate how to correct the statement.

E2-2 Selected transactions for D. Reyes, Inc., an interior decorating firm, in its first month of business, are as follows.

Identify debits, credits, and normal balances.

(SO 2)

- Jan. 2 Invested \$10,000 cash in the business in exchange for common stock.
 3 Purchased used car for \$4,000 cash for use in business.
 9 Purchased supplies on account for \$500.
 11 Billed customers \$1,800 for services performed.
 16 Paid \$200 cash for advertising.
 20 Received \$700 cash from customers billed on January 11.
 23 Paid creditor \$300 cash on balance owed.
 28 Declared and paid a \$1,000 cash dividend.

Instructions

For each transaction indicate the following.

- (a) The basic type of account debited and credited (asset, liability, stockholders' equity).
- (b) The specific account debited and credited (cash, rent expense, service revenue, etc.).
- (c) Whether the specific account is increased or decreased.
- (d) The normal balance of the specific account.

Use the following format, in which the January 2 transaction is given as an example.

Date	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	Stock- holders' Equity	Common Stock	Increase	Credit

Journalize transactions.

(SO 4)

E2-3 Data for D. Reyes, Inc., interior decorating, are presented in E2-2.

Instructions

Journalize the transactions using journal page J1. (You may omit explanations.)

Analyze transactions and determine their effect on accounts.

(SO 2)

E2-4 Presented below is information related to Hanshew Real Estate Agency.

- Oct. 1 Pete Hanshew begins business as a real estate agent with a cash investment of \$15,000 in exchange for common stock.
 2 Hires an administrative assistant.
 3 Purchases office furniture for \$1,900, on account.
 6 Sells a house and lot for B. Kidman; bills B. Kidman \$3,200 for realty services provided.
 27 Pays \$700 on the balance related to the transaction of October 3.
 30 Pays the administrative assistant \$2,500 in salary for October.

Instructions

Prepare the debit-credit analysis for each transaction as illustrated on pages 61–66.

Journalize transactions.

(SO 4)

E2-5 Transaction data for Hanshew Real Estate Agency are presented in E2-4.

Instructions

Journalize the transactions. (You may omit explanations.)

Analyze transactions and journalize.

(SO 2, 3, 4)

E2-6 Konerko Industries had the following transactions.

- Borrowed \$5,000 from the bank by signing a note.
- Paid \$2,500 cash for a computer.
- Purchased \$700 of supplies on account.

Instructions

(a) Indicate what accounts are increased and decreased by each transaction.

(b) Journalize each transaction.

Analyze transactions and journalize.

(SO 2, 3, 4)

E2-7 Rowand Enterprises had the following selected transactions.

- Aaron Rowand invested \$4,000 cash in the business in exchange for common stock.
- Paid office rent of \$1,100.
- Performed consulting services and billed a client \$5,200.
- Paid a \$700 cash dividend.

Instructions

(a) Indicate the effect each transaction has on the basic accounting equation (Assets = Liabilities + Stockholders' Equity), using plus and minus signs.

(b) Journalize each transaction.

Analyze statements about the ledger.

(SO 5)

E2-8 Josie Feeney has prepared the following list of statements about the general ledger.

- The general ledger contains all the asset and liability accounts, but no stockholders' equity accounts.
- The general ledger is sometimes referred to as simply the ledger.
- The accounts in the general ledger are arranged in alphabetical order.
- Each account in the general ledger is numbered for easier identification.
- The general ledger is a book of original entry.

Instructions

Identify each statement as true or false. If false, indicate how to correct the statement.

Demonstration Problem

Green Thumb Lawn Care Inc. began operating on April 1. At April 30, the trial balance shows the following balances for selected accounts.

Prepaid Insurance	\$ 3,600
Equipment	28,000
Notes Payable	20,000
Unearned Revenue	4,200
Service Revenue	1,800

Analysis reveals the following additional data.

1. Prepaid insurance is the cost of a 2-year insurance policy, effective April 1.
2. Depreciation on the equipment is \$500 per month.
3. The note payable is dated April 1. It is a 6-month, 12% note.
4. Seven customers paid for the company's 6 months' lawn service package of \$600 beginning in April. The company performed services for these customers in April.
5. Lawn services provided other customers but not recorded at April 30 totaled \$1,500.

Instructions

Prepare the adjusting entries for the month of April. Show computations.

action plan

- ✓ Note that adjustments are being made for one month.
- ✓ Make computations carefully.
- ✓ Select account titles carefully.
- ✓ Make sure debits are made first and credits are indented.
- ✓ Check that debits equal credits for each entry.

Solution

GENERAL JOURNAL

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Adjusting Entries				
Apr. 30	Insurance Expense Prepaid Insurance (To record insurance expired: \$3,600 ÷ 24 = \$150 per month)		150	150
30	Depreciation Expense Accumulated Depreciation—Equipment (To record monthly depreciation)		500	500
30	Interest Expense Interest Payable (To record interest on notes payable: \$20,000 × 12% × 1/12 = \$200)		200	200
30	Unearned Revenue Service Revenue (To record service revenue: \$600 ÷ 6 = \$100; \$100 per month × 7 = \$700)		700	700
30	Accounts Receivable Service Revenue (To record revenue for services provided)		1,500	1,500

The Navigator

SUMMARY OF STUDY OBJECTIVES

- 1 **Explain the time period assumption.** The time period assumption assumes that the economic life of a business is divided into artificial time periods.
- 2 **Explain the accrual basis of accounting.** Accrual-basis accounting means that companies record events that
- 3 **Explain the reasons for adjusting entries.** Companies make adjusting entries at the end of an accounting period.

change a company's financial statements in the periods in which those events occur, rather than in the periods in which the company receives or pays cash.

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