Chapter 2

The Recording Process

STUDY OBJECTIVES

After studying this chapter, you should be able to:

1. Explain what an account is and how it helps in the recording process.
2. Define debits and credits and explain their use in recording business transactions.
3. Identify the basic steps in the recording process.
4. Explain what a journal is and how it helps in the recording process.
5. Explain what a ledger is and how it helps in the recording process.
6. Explain what posting is and how it helps in the recording process.
7. Prepare a trial balance and explain its purposes.

The Navigator

The Navigator

- Scan **Study Objectives**
- Read **Feature Story**
- Read **Preview**
- Read text and answer **Before You Go On** p. 53 p. 56 p. 66 p. 70
- Work **Demonstration Problem**
- Review **Summary of Study Objectives**
- Answer **Self-Study Questions**
- Complete **Assignments**

Feature Story

ACCIDENTS HAPPEN

How organized are you financially? Take a short quiz. Answer *yes* or *no* to each question:

- Does your wallet contain so many cash machine receipts that you've been declared a walking fire hazard?
- Is your wallet such a mess that it is often faster to fish for money in the crack of your car seat than to dig around in your wallet?
- Was LeBron James playing high school basketball the last time you balanced your checkbook?

If you think it is hard to keep track of the many transactions that make up *your* life, imagine what it is like for a major corporation like Fidelity Investments (*www.fidelity.com*). Fidelity is one of the largest mutual fund management firms in the world. If you had your life savings invested at Fidelity Investments, you might be just slightly displeased if, when you called to find out your balance, the representative said, "You know, I kind of remember someone with a name like yours sending us some money—now what did we do with that?"

To ensure the accuracy of your balance and the security of your funds, Fidelity Investments, like all other companies large and small, relies on a sophisticated accounting information system. That's not to say that Fidelity or any other company is error-free. In fact, if you've ever really messed up your checkbook register, you may take some comfort from one accountant's mistake at Fidelity Investments. The accountant failed to include a minus sign while doing a calculation, making what was actually a $1.3 billion loss look like a $1.3 billion gain! Fortunately, like most accounting errors, it was detected before any real harm was done.

No one expects that kind of mistake at a company like Fidelity, which has sophisticated computer systems and top investment managers. In explaining the mistake to shareholders, a spokesperson wrote, "Some people have asked how, in this age of technology, such a mistake could be made. While many of our processes are computerized, accounting systems are complex and dictate that some steps must be handled manually by our managers and accountants, and people can make mistakes."

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Inside Chapter 2

- **New Xbox Contributes to Profitability** (p. 56)
- **What Would Sam Do?** (p. 58)
- **Sarbanes-Oxley Comes to the Rescue** (p. 70)
- ***All About You*: Your Personal Annual Report** (p. 71)

Preview of Chapter 2

In Chapter 1, we analyzed business transactions in terms of the accounting equation, and we presented the cumulative effects of these transactions in tabular form. Imagine a company like Fidelity Investments (as in the Feature Story) using the same tabular format as Softbyte to keep track of its transactions. In a single day, Fidelity engages in thousands of business transactions. To record each transaction this way would be impractical, expensive, and unnecessary. Instead, companies use a set of procedures and records to keep track of transaction data more easily. This chapter introduces and illustrates these basic procedures and records.

The content and organization of Chapter 2 are as follows.

The Recording Process

The Account
- Debits and credits
- Debit and credit procedure
- Stockholders' equity relationships
- Expansion of basic equation

Steps in the Recording Process
- Journal
- Ledger

The Recording Process Illustrated
- Summary illustration of journalizing and posting

The Trial Balance
- Limitations of a trial balance
- Locating errors
- Use of dollar signs

The Navigator

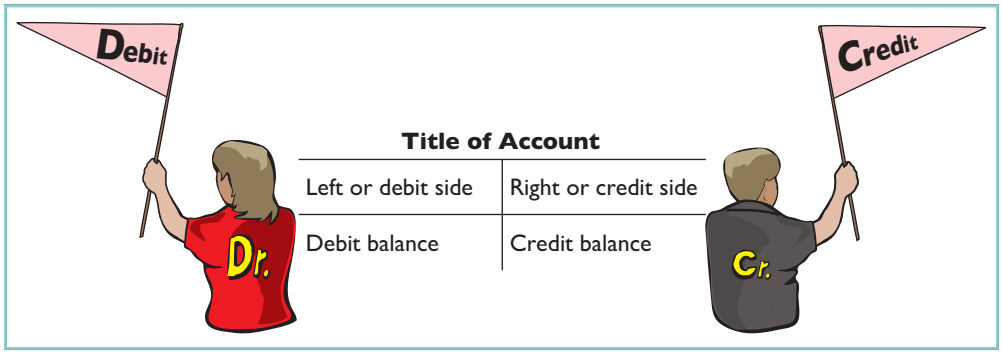
THE ACCOUNT

STUDY OBJECTIVE 1

Explain what an account is and how it helps in the recording process.

An **account** is an accounting record of increases and decreases in a specific asset, liability, or owner's equity item. For example, Softbyte (the company discussed in Chapter 1) would have separate accounts for Cash, Accounts Receivable, Accounts Payable, Service Revenue, and Salaries Expense. In its simplest form, an account consists of three parts: (1) a title, (2) a left or debit side, and (3) a right or credit side. Because the format of an account resembles the letter T, we refer to it as a **T account**. Illustration 2-1 shows the basic form of an account.

Illustration 2-1
Basic form of account



The T account is a standard shorthand in accounting, which helps make clear the effects of transactions on individual accounts. We will use it often throughout this book to explain basic accounting relationships.

Debits and Credits

STUDY OBJECTIVE 2
Define debits and credits and explain their use in recording business transactions.

The terms debit and credit are directional signals: **Debit** indicates left, and **credit** indicates right. They indicate which side of a T account a number will be recorded on. Entering an amount on the left side of an account is called **debiting** the account; making an entry on the right side is **crediting** the account. We commonly abbreviate debit as Dr. and credit as Cr.

Having debits on the left and credits on the right is an accounting custom, or rule, like the custom of driving on the right-hand side of the road in the United States. **This rule applies to all accounts.**

Illustration 2-2 shows the recording of debits and credits in an account for the cash transactions of Softbyte. The data are taken from the cash column of the tabular summary in Illustration 1-8 (from page 19), which is reproduced here.

Tabular Summary

Cash
$15,000
–7,000
1,200
1,500
–1,700
–250
600
–1,300
$ 8,050

Account Form

Cash			
(Debits)	15,000	**(Credits)**	7,000
	1,200		1,700
	1,500		250
	600		1,300
Balance **(Debit)**	8,050		

Illustration 2-2
Tabular summary compared to account form

In the tabular summary, every positive item represents Softbyte's receipt of cash; every negative amount represents a payment of cash. In the account form we record the increases in cash as debits, and the decreases in cash as credits. Having increases on one side and decreases on the other helps determine the total of each side as well as the overall account balance. The balance, a debit of $8,050, indicates that Softbyte has had $8,050 more increases than decreases in cash.

When the totals of the two sides of an account are compared, an account will have a **debit balance** if the total of the debit amounts exceeds the credits. An account will have a **credit balance** if the credit amounts exceed the debits. The account in Illustration 2-2 has a debit balance.

Debit and Credit Procedure

In Chapter 1 you learned the effect of a transaction on the basic accounting equation. Remember that each transaction must affect two or more accounts to keep the basic accounting equation in balance. In other words, for each transaction, debits must equal credits in the accounts. The equality of debits and credits provides the basis for the **double-entry system** of recording transactions.

In the double-entry system the dual (two-sided) effect of each transaction is recorded in appropriate accounts. This system provides a logical method for recording transactions. It also helps ensure the accuracy of the recorded amounts. The sum of all the debits to the accounts must equal the sum of all the credits.

The double-entry system for determining the equality of the accounting equation is much more efficient than the plus/minus procedure used in Chapter 1. On the following pages, we will illustrate debit and credit procedures in the double-entry system.

ASSETS AND LIABILITIES

Both sides of the accounting equation (Assets = Liabilities + Stockholders' equity) must be equal. It follows, then, that we must record increases and decreases in

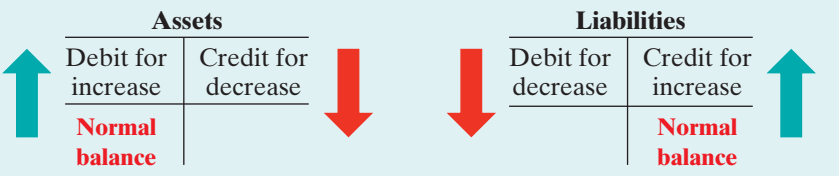
assets opposite from each other. In Illustration 2-2, Softbyte entered increases in cash—an asset—on the left side, and decreases in cash on the right side. Therefore, we must enter increases in liabilities on the right or credit side, and decreases in liabilities on the left or debit side. Illustration 2-3 summarizes the effects that debits and credits have on assets and liabilities.

Illustration 2-3
Debit and credit effects—assets and liabilities

Debits	Credits
Increase assets	Decrease assets
Decrease liabilities	Increase liabilities

Debits to a specific asset account should exceed the credits to that account. Credits to a liability account should exceed debits to that account. **The normal balance of an account is on the side where an increase in the account is recorded.** Thus, asset accounts normally show debit balances, and liability accounts normally show credit balances. Illustration 2-4 shows the normal balances for assets and liabilities.

Illustration 2-4
Normal balances—assets and liabilities



Knowing the normal balance in an account may help you trace errors. For example, a credit balance in an asset account such as Land would indicate a recording error. Similarly, a debit balance in a liability account such as Wages Payable would indicate an error. Occasionally, though, an abnormal balance may be correct. The Cash account, for example, will have a credit balance when a company has overdrawn its bank balance (i.e., written a "bad" check). (Notice that when we are referring to a specific account, we capitalize its name.)

STOCKHOLDERS' EQUITY

As Chapter 1 indicated, there are five subdivisions of stockholders' equity: common stock, retained earnings, dividends, revenues, and expenses. In a double-entry system, companies keep accounts for each of these subdivisions, as explained below.

Common Stock. Companies issue **common stock** in exchange for the owners' investment paid into the corporation. Credits increase the Common Stock account, and debits decrease it. For example, when an owner invests cash in the business in exchange for shares of the corporation's stock, the company debits (increases) Cash and credits (increases) Common Stock.

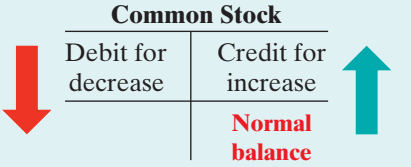
Illustration 2-5 shows the rules of debit and credit for the Common Stock account.

Illustration 2-5
Debit and credit effects—common stock

Debits	Credits
Decrease Common Stock	Increase Common Stock

We can diagram the normal balance in Common Stock as follows.

Illustration 2-6
Normal balance—common stock



Retained Earnings. **Retained earnings** is net income that is retained in the business. It represents the portion of stockholders' equity that the company has accumulated through the profitable operation of the business. Credits (net income) increases the Retained Earnings account, and debits (dividends or net losses) decrease it, as Illustration 2-7 shows.

HELPFUL HINT
The rules for debit and credit and the normal balance of common stock are the same as for liabilities.

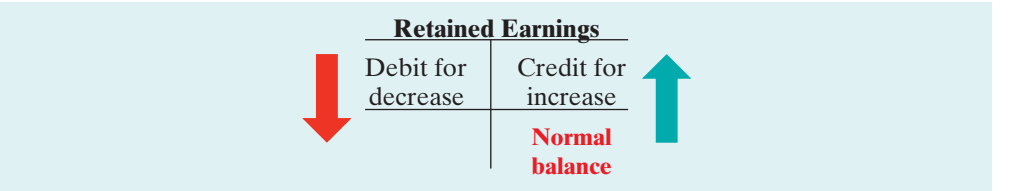


Illustration 2-7
Debit and credit effects and normal balance—retained earnings

Dividends. A **dividend** is a company's distribution to its stockholders on a pro rata (equal) basis. The most common form of a distribution is a **cash dividend**. Dividends reduce the stockholders' claims on retained earnings. Debits increase the Dividends account, and credits decrease it. Illustration 2-8 shows that this account normally has a debit balance.

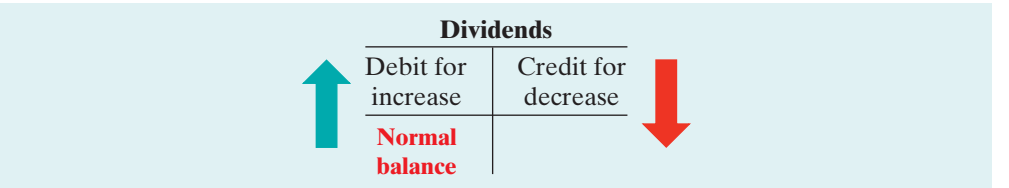


Illustration 2-8
Debit and credit effect and normal balance—dividends

REVENUES AND EXPENSES

The purpose of earning revenues is to benefit the stockholders of the business. When a company earns revenues, stockholders' equity increases. Revenues are a subdivision of stockholders' equity that provides information as to **why** stockholders' equity increased. Credits increase revenue accounts and debits decrease them. Therefore, **the effect of debits and credits on revenue accounts is the same as their effect on stockholders' equity**.

Expenses have the opposite effect: expenses decrease stockholders' equity. Since expenses decrease net income, and revenues increase it, it is logical that the increase and decrease sides of expense accounts should be the reverse of revenue accounts. Thus, debits increase expense accounts, and credits decrease them.

Illustration 2-9 shows the effect of debits and credits on revenues and expenses.

HELPFUL HINT
Because revenues increase stockholders' equity, a revenue account has the same debit/credit rules as the Common Stock account. Expenses have the opposite effect.

Debits	Credits
Decrease revenues	Increase revenues
Increase expenses	Decrease expenses

Illustration 2-9
Debit and credit effects—revenues and expenses

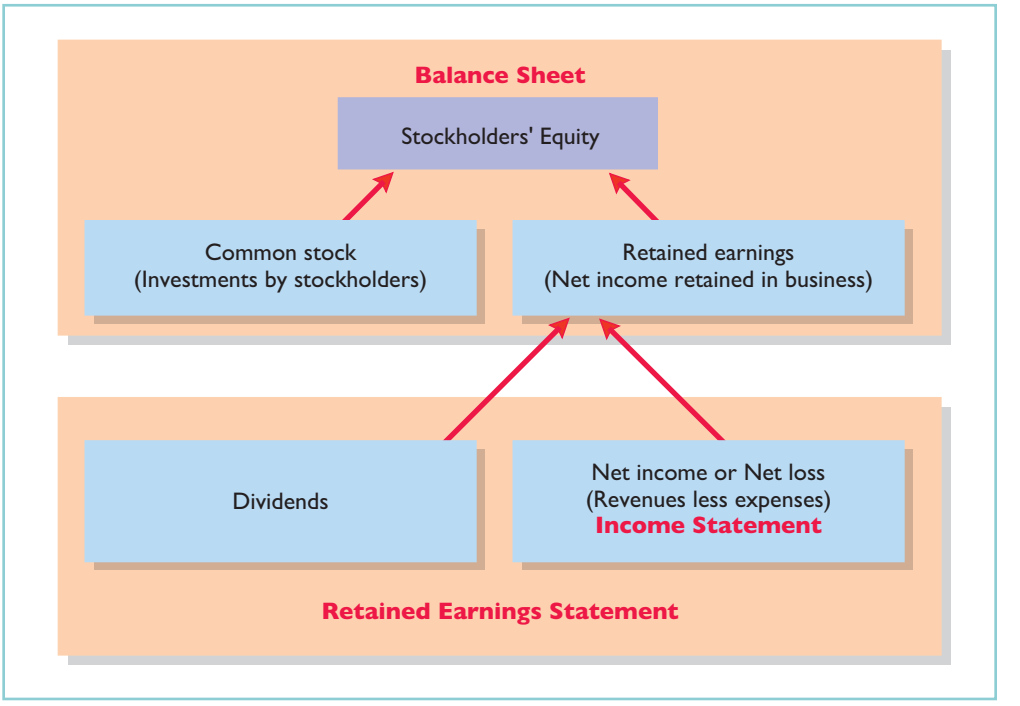
Credits to revenue accounts should exceed debits. Debits to expense accounts should exceed credits. Thus, revenue accounts normally show credit balances, and expense accounts normally show debit balances. We can diagram the normal balance as follows.

Illustration 2-10
Normal balances—revenues and expenses

Stockholders' Equity Relationships

As Chapter 1 indicated, companies report common stock and retained earnings in the stockholders' equity section of the balance sheet. They report dividends on the retained earnings statement. And they report revenues and expenses on the income statement. Dividends, revenues, and expenses are eventually transferred to retained earnings at the end of the period. As a result, a change in any one of these three items affects stockholders' equity. Illustration 2-11 shows the relationships related to stockholders' equity.

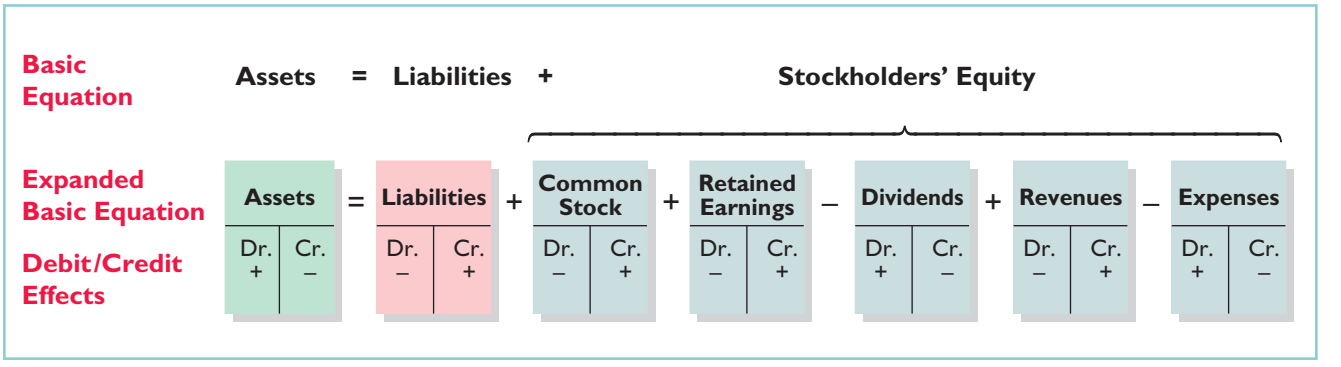
Illustration 2-11
Stockholders' equity relationships



Expansion of the Basic Equation

You have already learned the basic accounting equation. Illustration 2-12 expands this equation to show the accounts that comprise stockholders' equity. Like the basic equation, the expanded basic equation must be in balance (total debits equal

Illustration 2-12
Expanded basic equation and debit/credit rules and effects



total credits). In addition, it illustrates the debit/credit rules and effects on each type of account. Study this diagram carefully. It will help you understand the fundamentals of the double-entry system.

Before You Go On...

REVIEW IT

1. What do the terms *debit* and *credit* mean?
2. What are the debit and credit effects on assets, liabilities, and stockholders' equity?
3. What are the debit and credit effects on revenues, expenses, and dividends?
4. What are the normal balances for PepsiCo's Cash, Accounts Payable, and Interest Expense accounts? (The answer to this question appears on page 90.)

DO IT

Kate Browne, president of Hair It Is, Inc., has just rented space in a shopping mall in which she will open and operate a beauty salon. A friend has advised Kate to set up a double-entry set of accounting records in which to record all of her business transactions.

Identify the balance sheet accounts that Hair It Is, Inc., will likely need to record the transactions needed to establish and open the business. Also, indicate whether the normal balance of each account is a debit or a credit.

Action Plan

- Determine the types of accounts needed: Kate will need asset accounts for each type of asset she invests in the business, and liability accounts for any debts she incurs.
- Understand the types of stockholders' equity accounts: When Kate begins the business, she will need only Common Stock. Later, she will need other stockholders' equity accounts.

Solution Hair It Is, Inc., would likely need the following accounts to record the transactions needed to ready the beauty salon for opening day:

Cash (debit balance)	Equipment (debit balance)
Supplies (debit balance)	Accounts Payable (credit balance)
Notes Payable (credit balance), if the business borrows money	Common Stock (credit balance)

Related exercise material: *BE2-1, BE2-2, BE2-5, E2-1, E2-2, and E2-4.*

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STEPS IN THE RECORDING PROCESS

STUDY OBJECTIVE 3
Identify the basic steps in the recording process.

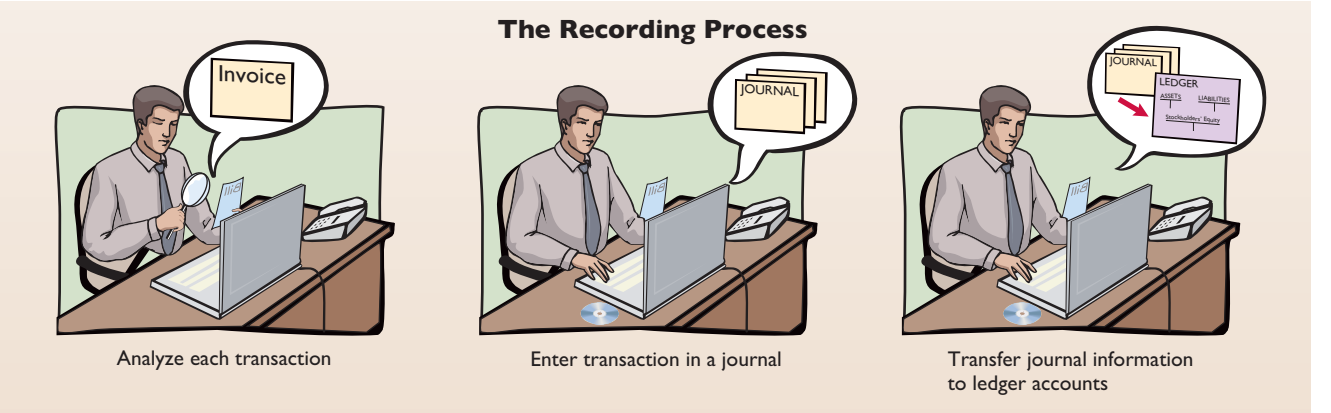
In practically every business, there are three basic steps in the recording process:

1. Analyze each transaction for its effects on the accounts.
2. Enter the transaction information in a *journal*.
3. Transfer the journal information to the appropriate accounts in the *ledger*.

Although it is possible to enter transaction information directly into the accounts without using a journal, few businesses do so.

The recording process begins with the transaction. **Business documents**, such as a sales slip, a check, a bill, or a cash register tape, provide evidence of the transaction. The company analyzes this evidence to determine the transaction's effects on specific accounts. The company then enters the transaction in the journal. Finally, it transfers the journal entry to the designated accounts in the ledger. Illustration 2-13 shows the recording process.

Illustration 2-13
The recording process



The steps in the recording process occur repeatedly. We illustrated the first step, the analysis of transactions, in Chapter 1, and will give further examples in this and later chapters. The other two steps in the recording process are explained in the next sections.

The Journal

STUDY OBJECTIVE 4
Explain what a journal is and how it helps in the recording process.

Companies initially record transactions in chronological order (the order in which they occur). Thus, the **journal** is referred to as the book of original entry. For each transaction the journal shows the debit and credit effects on specific accounts.

Companies may use various kinds of journals, but every company has the most basic form of journal, a **general journal**. Typically, a general journal has spaces for dates, account titles and explanations, references, and two amount columns. See the format of the journal in Illustration 2-14 on page 55. Whenever we use the term "journal" in this textbook without a modifying adjective, we mean the general journal.

The journal makes several significant contributions to the recording process:

1. It discloses in one place the complete effects of a transaction.
2. It provides a chronological record of transactions.
3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.

JOURNALIZING

Entering transaction data in the journal is known as **journalizing**. Companies make separate journal entries for each transaction. A complete entry consists of: (1) the date of the transaction, (2) the accounts and amounts to be debited and credited, and (3) a brief explanation of the transaction.

Illustration 2-14 shows the technique of journalizing, using the first two transactions of Softbyte Inc. On September 1, stockholders invested $15,000 cash in the corporation in exchange for shares of stock, and Softbyte purchased computer equipment for $7,000 cash. The number J1 indicates that the company records these two entries on the first page of the general journal. (The boxed numbers correspond to explanations in the list below the illustration.)

Illustration 2-14
Technique of journalizing

GENERAL JOURNAL J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2008		5		
Sept. 1	2 Cash		15,000	
1	3 Common Stock			15,000
	4 (Issued shares of stock for cash)			
1	Computer Equipment		7,000	
	Cash			7,000
	(Purchase equipment for cash)			

1 The date of the transaction is entered in the Date column.

2 The debit account title (that is, the account to be debited) is entered first at the extreme left margin of the column headed "Account Titles and Explanation," and the amount of the debit is recorded in the Debit column.

3 The credit account title (that is, the account to be credited) is indented and entered on the next line in the column headed "Account Titles and Explanation," and the amount of the credit is recorded in the Credit column.

4 A brief explanation of the transaction appears on the line below the credit account title. A space is left between journal entries. The blank space separates individual journal entries and makes the entire journal easier to read.

5 The column titled Ref. (which stands for Reference) is left blank when the journal entry is made. This column is used later when the journal entries are transferred to the ledger accounts.

It is important to use correct and specific account titles in journalizing. The main criterion is that each title must appropriately describe the content of the account. For example, a company might use Delivery Equipment, Delivery Trucks, or Trucks as the account title used for the cost of delivery trucks. Once a company chooses the specific title to use, it should record under that account title all later transactions involving the account.[1]

SIMPLE AND COMPOUND ENTRIES

Some entries involve only two accounts, one debit and one credit. (See, for example, the entries in Illustration 2-14.) An entry like these is considered a **simple entry**. Some transactions, however, require more than two accounts in journalizing. An entry that requires three or more accounts is a **compound entry**. To illustrate,

[1] In homework problems, you should use specific account titles when they are given. When account titles are not given, you may select account titles that identify the nature and content of each account. The account titles used in journalizing should not contain explanations such as Cash Paid or Cash Received.

assume that on July 1, Butler Company purchases a delivery truck costing $14,000. It pays $8,000 cash now and agrees to pay the remaining $6,000 on account (to be paid later). The compound entry is as follows.

Illustration 2-15
Compound journal entry

GENERAL JOURNAL J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2008				
July 1	Delivery Equipment		14,000	
	Cash			8,000
	Accounts Payable			6,000
	(Purchased truck for cash with balance on account)			

In a compound entry, the standard format requires that all debits be listed before the credits.

ACCOUNTING ACROSS THE ORGANIZATION

New Xbox Contributes to Profitability

Bryan Lee is head of finance at Microsoft's Home and Entertainment Division. In recent years the division has lost over $4 billion, mostly due to losses on the original Xbox videogame player. With the new Xbox 360 videogame player, Mr. Lee hopes the division will become profitable. He has set strict goals for sales, revenue, and profit. "A manager seeking to spend more on a feature such as a disk drive has to find allies in the group to cut spending elsewhere, or identify new revenue to offset the increase," he explains.

For example, Microsoft originally designed the new Xbox to have 256 megabytes of memory. But the design department said that amount of memory wouldn't support the best special effects. The purchasing department said that adding more memory would cost $30—which is 10% of the estimated selling price of $300. But the marketing department "determined that adding the memory would let Microsoft reduce marketing costs and attract more game developers, boosting royalty revenue. It would also extend the life of the console, generating more sales." Microsoft doubled the memory to 512 megabytes.

Source: Robert A. Guth, "New Xbox Aim for Microsoft: Profitability," *Wall Street Journal*, May 24, 2005, p. C1.

? In what ways is this Microsoft division using accounting to assist in its effort to become more profitable?

Before You Go On...

REVIEW IT

1. What is the sequence of the steps in the recording process?
2. How does the journal benefit the recording process?
3. What is the standard form and content of a journal entry in the general journal?

DO IT

As president and sole stockholder, Kate Browne engaged in the following activities in establishing her beauty salon, Hair It Is, Inc.

1. Opened a bank account in the name of Hair It Is, Inc. and deposited $20,000 of her own money in this accounting exchange for shares of common stock.
2. Purchased equipment on account (to be paid in 30 days) for a total cost of $4,800.
3. Interviewed three applicants for the position of beautician.

In what form (type of record) should Hair It Is, Inc., record these three activities? Prepare the entries to record the transactions.

Action Plan

- Understand which activities need to be recorded and which do not. Any that have economic effects should be recorded in a journal.
- Analyze the effects of transactions on asset, liability, and stockholder's equity accounts.

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

1. Cash	20,000	
Common Stock		20,000
(Issued shares of stock for cash)		
2. Equipment	4,800	
Accounts Payable		4,800
(Purchase equipment on account)		
3. No entry because no transaction has occurred.		

Related exercise material: *BE2-3, BE2-6, E2-3, E2-5, E2-6, and E2-7.*

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The Ledger

STUDY OBJECTIVE 5
Explain what a ledger is and how it helps in the recording process.

The entire group of accounts maintained by a company is the **ledger**. The ledger keeps in one place all the information about changes in specific account balances.

Companies may use various kinds of ledgers, but every company has a general ledger. A **general ledger** contains all the asset, liability, and stockholder's equity accounts, as shown in Illustration 2-16. Whenever we use the term "ledger" in this textbook without a modifying adjective, we mean the general ledger.

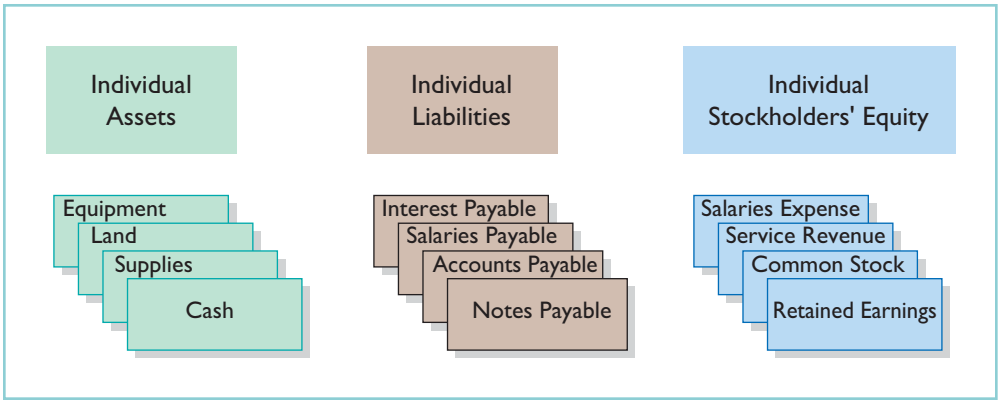


Illustration 2-16
The general ledger

Companies arrange the ledger in the sequence in which they present the accounts in the financial statements, beginning with the balance sheet accounts. First in order are the asset accounts, followed by liability accounts, stockholders' equity accounts, revenues, and expenses. Each account is numbered for easier identification.

The ledger provides the balances in various accounts. For example, the Cash account shows the amount of cash available to meet current obligations. Accounts Receivable shows amounts due from customers. Accounts Payable shows amounts owned to creditors.

ACCOUNTING ACROSS THE ORGANIZATION

What Would Sam Do?

In his autobiography Sam Walton described the double-entry accounting system he used when Wal-Mart was just getting started: "We kept a little pigeonhole on the wall for the cash receipts and paperwork of each [Wal-Mart] store. I had a blue binder ledger book for each store. When we added a store, we added a pigeonhole. We did this at least up to twenty stores. Then once a month, the bookkeeper and I would enter the merchandise, enter the sales, enter the cash, and balance it."

Source: Sam Walton, *Made in America* (New York: Doubleday, 1992), p. 53.

? Why did Sam Walton keep separate pigeonholes and blue binders? Why bother to keep separate records for each store?

STANDARD FORM OF ACCOUNT

The simple T-account form used in accounting textbooks is often very useful for illustration purposes. However, in practice, the account forms used in ledgers are much more structured. Illustration 2-17 shows a typical form, using assumed data from a cash account.

Illustration 2-17
Three-column form of account

CASH					NO. 101
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
2008					
June 1			25,000		25,000
2				8,000	17,000
3			4,200		21,200
9			7,500		28,700
17				11,700	17,000
20				250	16,750
30				7,300	9,450

This is called the **three-column form of account**. It has three money columns—debit, credit, and balance. The balance in the account is determined after each transaction. Companies use the explanation space and reference columns to provide special information about the transaction.

POSTING

Transferring journal entries to the ledger accounts is called **posting**. This phase of the recording process accumulates the effects of journalized transactions into the individual accounts. Posting involves the following steps.

STUDY OBJECTIVE 6
Explain what posting is and how it helps in the recording process.

1. In the ledger, enter, in the appropriate columns of the account(s) debited, the date, journal page, and debit amount shown in the journal.
2. In the reference column of the journal, write the account number to which the debit amount was posted.
3. In the ledger, enter, in the appropriate columns of the account(s) credited, the date, journal page, and credit amount shown in the journal.
4. In the reference column of the journal, write the account number to which the credit amount was posted.

Illustration 2-18 shows these four steps using Softbyte Inc.'s first journal entry. The boxed numbers indicate the sequence of the steps.

Illustration 2-18
Posting a journal entry

GENERAL JOURNAL J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2008 Sept. 1	Cash	101	15,000	
	Common Stock	311		15,000
	(Issued shares of stock for cash)			

GENERAL LEDGER

Cash No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
2008 Sept. 1		J1	15,000		15,000

Common Stock No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
2008 Sept. 1		J1		15,000	15,000

Key: 1 Post to debit account–date, journal page number, and amount.
2 Enter debit account number in journal reference column.
3 Post to credit account–date, journal page number, and amount.
4 Enter credit account number in journal reference column.

Posting should be performed in chronological order. That is, the company should post all the debits and credits of one journal entry before proceeding to the next journal entry. Postings should be made on a timely basis to ensure that the ledger is up to date.[2]

[2] In homework problems, you can journalize all transactions before posting any of the journal entries.

The reference column **of a ledger** account indicates the journal page from which the transaction was posted.[3] The explanation space of the ledger account is used infrequently because an explanation already appears in the journal.

CHART OF ACCOUNTS

The number and type of accounts differ for each company. The number of accounts depends on the amount of detail management desires. For example, the management of one company may want a single account for all types of utility expense. Another may keep separate expense accounts for each type of utility, such as gas, electricity, and water. Similarly, a small company like Softbyte Inc. will have fewer accounts than a corporate giant like Dell. Softbyte may be able to manage and report its activities in twenty to thirty accounts, while Dell may require thousands of accounts to keep track of its worldwide activities.

Most companies have a **chart of accounts**. This chart lists the accounts and the account numbers that identify their location in the ledger. The numbering system that identifies the accounts usually starts with the balance sheet accounts and follows with the income statement accounts.

In this and the next two chapters, we will be explaining the accounting for Pioneer Advertising Agency Inc. (a service enterprise). The ranges of the account numbers are as follows:

- Accounts 101–199 indicate asset accounts
- 200–299 indicate liabilities
- 300–399 indicate stockholder's equity accounts
- 400–499, revenues
- 500–799, expenses
- 800–899, other revenues
- 900–999, other expenses.

Illustration 2-19 shows the chart of accounts for Pioneer Advertising Inc. Accounts shown in red are used in this chapter; accounts shown in black are explained in later chapters.

Illustration 2-19
Chart of accounts for Pioneer Advertising Agency Inc.

PIONEER ADVERTISING AGENCY INC.
Chart of Accounts

Assets	Stockholders' Equity
101 Cash	**311 Common Stock**
112 Accounts Receivable	320 Retained Earnings
126 Advertising Supplies	**332 Dividends**
130 Prepaid Insurance	350 Income Summary
157 Office Equipment	
158 Accumulated Depreciation—Office Equipment	**Revenues**
	400 Service Revenue
Liabilities	**Expenses**
200 Notes Payable	631 Advertising Supplies Expense
201 Accounts Payable	711 Depreciation Expense
209 Unearned Revenue	722 Insurance Expense
212 Salaries Payable	**726 Salaries Expense**
230 Interest Payable	**729 Rent Expense**
	905 Interest Expense

[3] After the last entry has been posted, the accountant should scan the reference column **in the journal**, to confirm that all postings have been made.

You will notice that there are gaps in the numbering system of the chart of accounts for Pioneer Advertising. Gaps are left to permit the insertion of new accounts as needed during the life of the business.

THE RECORDING PROCESS ILLUSTRATED

Illustrations 2-20 through 2-29 show the basic steps in the recording process, using the October transactions of Pioneer Advertising Agency Inc. Pioneer's accounting period is a month. A basic analysis and a debit-credit analysis precede the journalizing and posting of each transaction. For simplicity, we use the T-account form in the illustrations instead of the standard account form.

Study these transaction analyses carefully. **The purpose of transaction analysis is first to identify the type of account involved, and then to determine whether to make a debit or a credit to the account.** You should always perform this type of analysis before preparing a journal entry. Doing so will help you understand the journal entries discussed in this chapter as well as more complex journal entries in later chapters.

In addition, an Accounting Cycle Tutorial at the book's website, **www.wiley.com/college/weygandt**, provides an interactive presentation of the steps in the accounting cycle, using the examples in the illustrations on the following pages.

Illustration 2-20
Investment of cash by stockholders

Transaction

On October 1, C. R. Byrd invests $10,000 cash in an advertising company to be known as Pioneer Advertising Agency Inc.

Basic Analysis

The asset Cash increases $10,000, and stockholders' equity (specifically, Common Stock) increases $10,000.

Equation Analysis

Assets	=	Liabilities	+	Stockholders' Equity
				Common Stock
Cash	=			
+10,000				+10,000

Debit–Credit Analysis

Debits increase assets: debit Cash $10,000.
Credits increase stockholders' equity: credit Common Stock $10,000.

Journal Entry

Oct. 1	Cash	101	10,000	
	Common Stock	311		10,000
	(Issued shares of stock for cash)			

Posting

Cash 101	
Oct. 1 10,000	

Common Stock 311	
	Oct. 1 10,000

HELPFUL HINT

Follow these steps:
1. Determine what type of account is involved.
2. Determine what items increased or decreased and by how much.
3. Translate the increases and decreases into debits and credits.

Illustration 2-21
Purchase of office equipment

Transaction

On October 1, Pioneer purchases office equipment costing $5,000 by signing a 3-month, 12%, $5,000 note payable.

Basic Analysis

The asset Office Equipment increases $5,000, and the liability Notes Payable increases $5,000.

Equation Analysis

Assets	=	Liabilities	+	Stockholders' Equity
Office Equipment	=	Notes Payable		
+5,000		+5,000		

Debit–Credit Analysis

Debits increase assets: debit Office Equipment $5,000.
Credits increase liabilities: credit Notes Payable $5,000.

Journal Entry

Oct. 1	Office Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for office equipment)			

Posting

Office Equipment 157	
Oct. 1 5,000	

Notes Payable 200	
	Oct. 1 5,000

Illustration 2-22
Receipt of cash for future service

Transaction

On October 2, Pioneer receives a $1,200 cash advance from R. Knox, a client, for advertising services that are expected to be completed by December 31.

Basic Analysis

The asset Cash increases $1,200; the liability Unearned Revenue increases $1,200 because the service has not been provided yet. That is, when Pioneer receives an advance payment, it should record an unearned revenue (a liability) in order to recognize the obligation that exists. Note also that although many liabilities have the word "payable" in their title, unearned revenue is considered a liability even though the word payable is not used.

Equation Analysis

Assets	=	Liabilities	+	Stockholders' Equity
Cash	=	Unearned Revenue		
+1,200		+1,200		

Debit–Credit Analysis

Debits increase assets: debit Cash $1,200.
Credits increase liabilities: credit Unearned Revenue $1,200.

Journal Entry

Oct. 2	Cash	101	1,200	
	Unearned Revenue	209		1,200
	(Received cash from R. Knox for future service)			

Posting

Cash 101	
Oct. 1 10,000	
2 1,200	

Unearned Revenue 209	
	Oct. 2 1,200

Illustration 2-23
Payment of monthly rent

Transaction

On October 3, Pioneer pays office rent for October in cash, $900.

Basic Analysis

The expense account Rent Expense increases $900 because the payment pertains only to the current month; the asset Cash decreases $900.

Equation Analysis

Assets	=	Liabilities	+	Stockholders' Equity
				Rent Expense
Cash	=			
−900				−900

Debit–Credit Analysis

Debits increase expenses: debit Rent Expense $900.
Credits decrease assets: credit Cash $900.

Journal Entry

Oct. 3	Rent Expense	729	900	
	Cash	101		900
	(Paid October rent)			

Posting

Cash		101	
Oct. 1	10,000	Oct. 3	900
2	1,200		

Rent Expense		729	
Oct. 3	900		

Illustration 2-24
Payment for insurance

Transaction

On October 4, Pioneer pays $600 for a one-year insurance policy that will expire next year on September 30.

Basic Analysis

The asset Prepaid Insurance increases $600 because the payment extends to more than the current month; the asset Cash decreases $600. Payments of expenses that will benefit more than one accounting period are prepaid expenses or prepayments. When a company makes a payment, it debits an asset account in order to show the service or benefit that will be received in the future.

Equation Analysis

Assets			=	Liabilities	+	Stockholders' Equity
		Prepaid Insurance				
Cash	+					
−600		+600				

Debit–Credit Analysis

Debits increase assets: debit Prepaid Insurance $600.
Credits decrease assets: credit Cash $600.

Journal Entry

Oct. 4	Prepaid Insurance	130	600	
	Cash	101		600
	(Paid one-year policy; effective date October 1)			

Posting

Cash		101	
Oct. 1	10,000	Oct. 3	900
2	1,200	4	600

Prepaid Insurance		130	
Oct. 4	600		

Illustration 2-25
Purchase of supplies on credit

Transaction

On October 5, Pioneer purchases an estimated 3-month supply of advertising materials on account from Aero Supply for $2,500.

Basic Analysis

The asset Advertising Supplies increases $2,500; the liability Accounts Payable increases $2,500.

Equation Analysis

Assets	=	Liabilities	+	Stockholders' Equity
Advertising Supplies	=	Accounts Payable		
+2,500		+2,500		

Debit–Credit Analysis

Debits increase assets: debit Advertising Supplies $2,500.
Credits increase liabilities: credit Accounts Payable $2,500.

Journal Entry

Oct. 5	Advertising Supplies	126	2,500	
	Accounts Payable	201		2,500
	(Purchased supplies on account from Aero Supply)			

Posting

Advertising Supplies 126	
Oct. 5 2,500	

Accounts Payable 201	
	Oct. 5 2,500

Illustration 2-26
Hiring of employees

Event

On October 9, Pioneer hires four employees to begin work on October 15. Each employee is to receive a weekly salary of $500 for a 5-day work week, payable every 2 weeks—first payment made on October 26.

Basic Analysis

A business transaction has not occurred. There is only an agreement between the employer and the employees to enter into a business transaction beginning on October 15. Thus, a debit–credit analysis is not needed because there is no accounting entry. (See transaction of October 26 for first entry.)

Illustration 2-27
Declaration and payment of dividend

Transaction	On October 20, Pioneer's board of directors declares and pays a $500 cash dividend to stockholders.
Basic Analysis	The Dividends account increases $500; the asset Cash decreases $500.
Equation Analysis	**Assets** = **Liabilities** + **Stockholders' Equity** Cash −500 = Dividends −500
Debit–Credit Analysis	Debits increase dividends: debit Dividends $500. Credits decrease assets: credit Cash $500.
Journal Entry	Oct. 20 Dividends 332 500 Cash 101 500 (Declared and paid a cash dividend)
Posting	Cash 101: Oct. 1 10,000; 2 1,200; Oct. 3 900; 4 600; 20 500 Dividends 332: Oct. 20 500

Illustration 2-28
Payment of salaries

Transaction	On October 26, Pioneer owes employee salaries of $4,000 and pays them in cash. (See October 9 transaction.)
Basic Analysis	The expense account Salaries Expense increases $4,000; the asset Cash decreases $4,000.
Equation Analysis	**Assets** = **Liabilities** + **Stockholders' Equity** Cash −4,000 = Salaries Expense −4,000
Debit–Credit Analysis	Debits increase expenses: debit Salaries Expense $4,000. Credits decrease assets: credit Cash $4,000.
Journal Entry	Oct. 26 Salaries Expense 726 4,000 Cash 101 4,000 (Paid salaries to date)
Posting	Cash 101: Oct. 1 10,000; 2 1,200; Oct. 3 900; 4 600; 20 500; 26 4,000 Salaries Expense 726: Oct. 26 4,000

Illustration 2-29
Receipt of cash for services provided

Transaction

On October 31, Pioneer receives $10,000 in cash from Copa Company for advertising services provided in October.

Basic Analysis

The asset Cash increases $10,000; the revenue account Service Revenue increases $10,000.

Equation Analysis

Assets	=	Liabilities	+	Stockholders' Equity
				Service Revenue
Cash	=			
+10,000				+10,000

Debit–Credit Analysis

Debits increase assets: debit Cash $10,000.
Credits increase revenues: credit Service Revenue $10,000.

Journal Entry

Oct. 31	Cash	101	10,000	
	Service Revenue	400		10,000
	(Received cash for services provided)			

Posting

Cash			101
Oct. 1	10,000	Oct. 3	900
2	1,200	4	600
31	10,000	20	500
		26	4,000

Service Revenue			400
		Oct. 31	10,000

Before You Go On...

REVIEW IT

1. How does journalizing differ from posting?
2. What is the purpose of (a) the ledger and (b) a chart of accounts?
3. Why do companies leave gaps in the chart of accounts numbering system?

DO IT

Kate Brown recorded the following transactions in a general journal during the month of March.

Mar. 4	Cash	2,280	
	Service Revenue		2,280
Mar. 15	Wages Expense	400	
	Cash		400
Mar. 19	Utilities Expense	92	
	Cash		92

Post these entries to the Cash account of the general ledger to determine the ending balance in cash. The beginning balance in cash on March 1 was $600.

Action Plan

- Recall that posting involves transferring the journalized debits and credits to specific accounts in the ledger.
- Determine the ending balance by netting the total debits and credits.

Solution

Cash			
3/1	600	3/15	400
3/4	2,280	3/19	92
3/31 Bal.	2,388		

Related exercise material: *BE2-7, BE2-8, E2-8, and E2-12.*

The Navigator

Summary Illustration of Journalizing and Posting

Illustration 2-30 shows the journal for Pioneer Advertising Agency for October. Illustration 2-31, on page 68, shows the ledger, with all balances in color.

Illustration 2-30
General journal entries

GENERAL JOURNAL PAGE J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2008				
Oct. 1	Cash	101	10,000	
	Common Stock	311		10,000
	(Issued shares of stock for cash)			
1	Office Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for office equipment)			
2	Cash	101	1,200	
	Unearned Revenue	209		1,200
	(Received cash from R. Knox for future service)			
3	Rent Expense	729	900	
	Cash	101		900
	(Paid October rent)			
4	Prepaid Insurance	130	600	
	Cash	101		600
	(Paid one-year policy; effective date October 1)			
5	Advertising Supplies	126	2,500	
	Accounts Payable	201		2,500
	(Purchased supplies on account from Aero Supply)			
20	Dividends	332	500	
	Cash	101		500
	(Declared and paid a cash dividend)			
26	Salaries Expense	726	4,000	
	Cash	101		4,000
	(Paid salaries to date)			
31	Cash	101	10,000	
	Service Revenue	400		10,000
	(Received cash for services provided)			

GENERAL LEDGER

Cash — **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 1		J1	10,000		10,000
2		J1	1,200		11,200
3		J1		900	10,300
4		J1		600	9,700
20		J1		500	9,200
26		J1		4,000	5,200
31		J1	10,000		**15,200**

Advertising Supplies — **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 5		J1	2,500		**2,500**

Prepaid Insurance — **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 4		J1	600		**600**

Office Equipment — **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 1		J1	5,000		**5,000**

Notes Payable — **No. 200**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 1		J1		5,000	**5,000**

Accounts Payable — **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 5		J1		2,500	**2,500**

Unearned Revenue — **No. 209**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 2		J1		1,200	**1,200**

Common Stock — **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 1		J1		10,000	**10,000**

Dividends — **No. 332**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 20		J1	500		**500**

Service Revenue — **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 31		J1		10,000	**10,000**

Salaries Expense — **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 26		J1	4,000		**4,000**

Rent Expense — **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Oct. 3		J1	900		**900**

Illustration 2-31
General ledger

THE TRIAL BALANCE

STUDY OBJECTIVE 7
Prepare a trial balance and explain its purposes.

A **trial balance** is a list of accounts and their balances at a given time. Customarily, companies prepare a trial balance at the end of an accounting period. They list accounts in the order in which they appear in the ledger. Debit balances appear in the left column and credit balances in the right column.

The primary purpose of a trial balance is to prove (check) that the debits equal the credits after posting. The sum of the debit balances in the trial balance should equal the sum of the credit balances. If the debits and credits do not agree, the company can use the trial balance to uncover errors in journalizing and posting. In addition, the trial balance is useful in preparing financial statements, as we will explain in the next two chapters.

The steps for preparing a trial balance are:

1. List the account titles and their balances.
2. Total the debit and credit columns.
3. Prove the equality of the two columns.

Illustration 2-32 shows the trial balance prepared from Pioneer Advertising's ledger. Note that the total debits ($28,700) equal the total credits ($28,700).

PIONEER ADVERTISING AGENCY INC.
Trial Balance
October 31, 2008

	Debit	Credit
Cash	$15,200	
Advertising Supplies	2,500	
Prepaid Insurance	600	
Office Equipment	5,000	
Notes Payable		$ 5,000
Accounts Payable		2,500
Unearned Revenue		1,200
Common Stock		10,000
Dividends	500	
Service Revenue		10,000
Salaries Expense	4,000	
Rent Expense	900	
	$28,700	$28,700

Illustration 2-32
A trial balance

HELPFUL HINT
To sum a column of figures is sometimes referred to as to *foot* the column. The column is then said to be *footed*.

HELPFUL HINT
A trial balance is so named because it is a test to see if the sum of the debit balances equals the sum of the credit balances.

A trial balance is a necessary checkpoint for uncovering certain types of errors before you proceed to other steps in the accounting process. For example, if only the debit portion of a journal entry has been posted, the trial balance would bring this error to light.

Limitations of a Trial Balance

A trial balance does not guarantee freedom from recording errors. Numerous errors may exist even though the trial balance columns agree. For example, the trial balance may balance even when (1) a transaction is not journalized, (2) a correct journal entry is not posted, (3) a journal entry is posted twice, (4) incorrect accounts are used in journalizing or posting, or (5) offsetting errors are made in recording the amount of a transaction. As long as equal debits and credits are posted, even to the wrong account or in the wrong amount, the total debits will equal the total credits. **The trial balance does not prove that the company has recorded all transactions or that the ledger is correct.**

ETHICS NOTE
An *error* is the result of an unintentional mistake; it is neither ethical nor unethical. An *irregularity* is an intentional misstatement, which *is* viewed as unethical.

Locating Errors

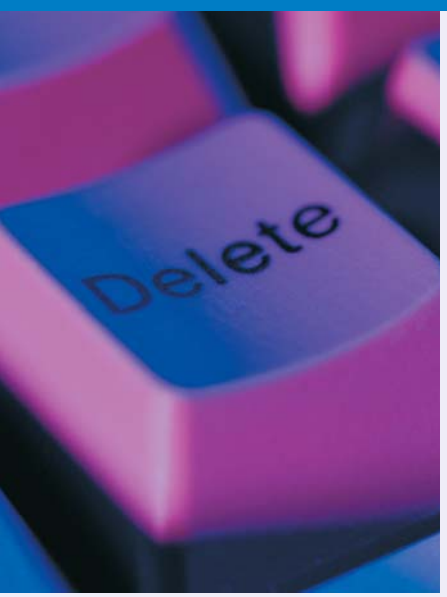
Errors in a trial balance generally result from mathematical mistakes, incorrect postings, or simply transcribing data incorrectly. What do you do if you are faced with a trial balance that does not balance? First determine the amount of the difference between the two columns of the trial balance. After this amount is known, the following steps are often helpful:

1. If the error is $1, $10, $100, or $1,000, re-add the trial balance columns and re-compute the account balances.
2. If the error is divisible by 2, scan the trial balance to see whether a balance equal to half the error has been entered in the wrong column.
3. If the error is divisible by 9, retrace the account balances on the trial balance to see whether they are incorrectly copied from the ledger. For example, if a balance was $12 and it was listed as $21, a $9 error has been made. Reversing the order of numbers is called a **transposition error**.
4. If the error is not divisible by 2 or 9, scan the ledger to see whether an account balance in the amount of the error has been omitted from the trial balance, and scan the journal to see whether a posting of that amount has been omitted.

Use of Dollar Signs

Note that dollar signs do not appear in journals or ledgers. Dollar signs are typically used only in the trial balance and the financial statements. Generally, a dollar sign is shown only for the first item in the column and for the total of that column. A single line is placed under the column of figures to be added or subtracted; the total amount is double-underlined to indicate the final sum.

ETHICS INSIGHT



Sarbanes-Oxley Comes to the Rescue

While most companies record transactions very carefully, the reality is that mistakes still happen: Bank regulators fined Bank One Corporation (now Chase) $1.8 million; they felt that the unreliability of the bank's accounting system caused it to violate regulatory requirements. Also, in recent years Fannie Mae, the government-chartered mortgage association, announced large accounting errors. These announcements caused investors, regulators, and politicians to fear larger, undetected problems. Such problems could spill over into the home-mortgage market, which depends on Fannie Mae to buy hundreds of billions of dollars of mortgages each year. Finally, before a major overhaul of its accounting system, the financial records of Waste Management Company were in such disarray that of the company's 57,000 employees, 10,000 were receiving pay slips that were in error.

The Sarbanes-Oxley Act of 2002 was created to minimize the occurrence of errors like these by increasing every employee's responsibility for accurate financial reporting.

? In order for these companies to prepare and issue financial statements, their accounting equations (debits and credits) must have been in balance at year-end. How could these errors or misstatements have occurred?

Before You Go On...

REVIEW IT

1. What is a trial balance, and what is its primary purpose?
2. How is a trial balance prepared?
3. What are the limitations of a trial balance?

The Navigator

Be sure to read **ALL ABOUT YOU: *Your Personal Annual Report*** on the next page for information on how topics in this chapter apply to you.

Your Personal Annual Report

If you haven't already done so, in the not-too-distant future you will prepare a résumé. In some ways your résumé is like a company's annual report. Its purpose is to enable others to evaluate your past, in an effort to predict your future.

A résumé is your opportunity to create a positive first impression. It is important that it be impressive—but it should also be accurate. In order to increase their job prospects, some people are tempted to "inflate" their résumés by overstating the importance of some past accomplishments or positions. In fact, you might even think that "everybody does it" and that if you don't do it, you will be at a disadvantage.

Some Facts

Before you turn your résumé into a world-class work of fiction, consider the following:

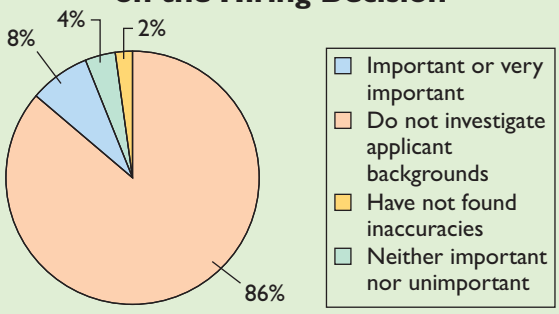
* David Edmondson, the president and CEO of well-known electronics retailer Radio Shack, overstated his accomplishments by claiming that he had earned a bachelor's of science degree, when in fact he had not. Apparently his employer had not done a background check to ensure the accuracy of his résumé.
* A chief financial officer of Veritas Software lied about having an M.B.A. from Stanford University.
* A former president of the U.S. Olympic Committee, lied about having a Ph.D. from Arizona State University. When the truth was discovered, she resigned.
* The University of Notre Dame discovered that its football coach, George O'Leary, lied about his education and football history. He was forced to resign after only five days.
* Jeffrey Papows was chairman of Lotus, a $1.4 billion subsidiary of IBM. When it came out that he had made up facts about his life, including a Ph.D. and a black belt in the martial arts, Papows resigned.
* Quincy Troupe, former California poet laureate, was well-respected within the California artistic and academic communities—until lies about his college background were exposed.

Tips on resume writing can be found at many websites, such as ***http://resume.monster.com/.***

About the Numbers

- A survey by Automatic Data Processing reported that 40% of applicants misrepresented their education or employment history.
- A survey by the Society for Human Resource Management of human resource professionals reported the following responses to the question, "*When investigating the backgrounds of job candidates, how important or unimportant is the discovery of inaccuracies in the job candidate's résumé on your decision to extend a job offer?*"

Importance of Résumé Inaccuracies on the Hiring Decision



Source: Society for Human Resource Management, press release, August 31, 2004, *http://www.shrm.org/press/ntu_published/cms_009624.asp.*

What Do You Think?

Using Radio Shack as an example, what should the company have done when it learned of the falsehoods on Mr. Edmondson's résumé? Should Radio Shack have fired him?

NO: Mr. Edmondson had been a Radio Shack employee for 11 years. He had served the company in a wide variety of positions, and had earned the position of CEO through exceptional performance. While the fact that he lied 11 years earlier on his résumé was unfortunate, his service since then made this past transgression irrelevant. In addition, the company was in the midst of a massive restructuring, which included closing 700 of its 7,000 stores. It could not afford additional upheaval at this time.

YES: Radio Shack is a publicly traded company. Investors, creditors, employees, and others doing business with the company will not trust it if its leader is known to have poor integrity. The "tone at the top" is vital to creating an ethical organization.

Sources: E. White and T. Herrick, "Ethical Breaches Pose Dilemma for Boards: When to Fire a CEO?" *Wall Street Journal,* February 15, 2006; and T. Hanrahan, "Résumé Trouble," *Wall Street Journal,* March 3, 2006.

The authors' comments on this situation appear on page 90.

Demonstration Problem

Bob Sample and other student investors opened Campus Laundromat Inc. on September 1, 2008. During the first month of operations the following transactions occurred.

Sept. 1 Stockholders invested $20,000 cash in the business.
2 Paid $1,000 cash for store rent for the month of September.
3 Purchased washers and dryers for $25,000, paying $10,000 in cash and signing a $15,000, 6-month, 12% note payable.
4 Paid $1,200 for a one-year accident insurance policy.
10 Received a bill from the *Daily News* for advertising the opening of the laundromat $200.
20 Declared and paid a cash dividend to stockholders $700.
30 Determined that cash receipts for laundry fees for the month were $6,200.

The chart of accounts for the company is the same as for Pioneer Advertising Agency Inc. except for the following: No. 154 Laundry Equipment and No. 610 Advertising Expense.

Instructions

(a) Journalize the September transactions. (Use **J1** for the journal page number.)
(b) Open ledger accounts and post the September transactions.
(c) Prepare a trial balance at September 30, 2008.

action plan

- ✔ Make separate journal entries for each transaction.
- ✔ In journalizing, make sure debits equal credits.
- ✔ In journalizing, use specific account titles taken from the chart of accounts.
- ✔ Provide appropriate description of journal entry.
- ✔ Arrange ledger in statement order, beginning with the balance sheet accounts.
- ✔ Post in chronological order.
- ✔ Use numbers in the reference column to indicate the amount has been posted.
- ✔ In the trial balance, list accounts in the order in which they appear in the ledger.
- ✔ List debit balances in the left column, and credit balances in the right column.

Solution

(a) GENERAL JOURNAL **J1**

Date	Account Titles and Explanation	Ref.	Debit	Credit
2008				
Sept. 1	Cash	101	20,000	
	Common Stock	311		20,000
	(Stockholders investment of cash in business)			
2	Rent Expense	729	1,000	
	Cash	101		1,000
	(Paid September rent)			
3	Laundry Equipment	154	25,000	
	Cash	101		10,000
	Notes Payable	200		15,000
	(Purchased laundry equipment for cash and 6-month, 12% note payable)			
4	Prepaid Insurance	130	1,200	
	Cash	101		1,200
	(Paid one-year insurance policy)			
10	Advertising Expense	610	200	
	Accounts Payable	201		200
	(Received bill from *Daily News* for advertising)			
20	Dividends	332	700	
	Cash	101		700
	(Declared and paid a cash dividend)			
30	Cash	101	6,200	
	Service Revenue	400		6,200
	(Received cash for laundry fees earned)			

(b) GENERAL LEDGER

Cash **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 1		J1	20,000		20,000
2		J1		1,000	19,000
3		J1		10,000	9,000
4		J1		1,200	7,800
20		J1		700	7,100
30		J1	6,200		13,300

Prepaid Insurance **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 4		J1	1,200		1,200

Laundry Equipment **No. 154**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 3		J1	25,000		25,000

Service Revenue **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 30		J1		6,200	6,200

Notes Payable **No. 200**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 3		J1		15,000	15,000

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 10		J1		200	200

Common Stock **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 1		J1		20,000	20,000

Dividends **No. 332**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 30		J1	700		700

Advertising Expense **No. 610**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 10		J1	200		200

Rent Expense **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
2008					
Sept. 2		J1	1,000		1,000

(c) CAMPUS LAUNDROMAT INC.

Trial Balance
September 30, 2008

	Debit	Credit
Cash	$13,300	
Prepaid Insurance	1,200	
Laundry Equipment	25,000	
Notes Payable		$15,000
Accounts Payable		200
Common Stock		20,000
Dividends	700	
Service Revenue		6,200
Advertising Expense	200	
Rent Expense	1,000	
	$41,400	$41,400

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SUMMARY OF STUDY OBJECTIVES

WILEY PLUS

1 **Explain what an account is and how it helps in the recording process.** An account is a record of increases and decreases in a specific asset, liability, or stockholders' equity item.

2 **Define debits and credits and explain how they are used to record business transactions.** The terms debit and credit are synonymous with left and right. Assets, dividends, and expenses are increased by debits and decreased by

credits. Liabilities, common stock, retained earnings, and revenues are increased by credits and decreased by debits.

3 **Identify the basic steps in the recording process.** The basic steps in the recording process are: (a) analyze each transaction for its effects on the accounts, (b) enter the transaction information in a journal, (c) transfer the journal information to the appropriate accounts in the ledger.

4 **Explain what a journal is and how it helps in the recording process.** The initial accounting record of a transaction is entered in a journal before the data are entered in the accounts. A journal (a) discloses in one place the complete effects of a transaction, (b) provides a chronological record of transactions, and (c) prevents or locates errors because the debit and credit amounts for each entry can be easily compared.

5 **Explain what a ledger is and how it helps in the recording process.** The ledger is the entire group of accounts maintained by a company. The ledger keeps in one place all the information about changes in specific account balances.

6 **Explain what posting is and how it helps in the recording process.** Posting is the transfer of journal entries to the ledger accounts. This phase of the recording process accumulates the effects of journalized transactions in the individual accounts.

7 **Prepare a trial balance and explain its purposes.** A trial balance is a list of accounts and their balances at a given time. Its primary purpose is to prove the equality of debits and credits after posting. A trial balance also uncovers errors in journalizing and posting and is useful in preparing financial statements.

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GLOSSARY

Account A record of increases and decreases in specific asset, liability, or stockholders' equity items. (p. 48).

Chart of accounts A list of accounts and the account numbers that identify their location in the ledger. (p. 60).

Common stock Issued in exchange for the owners' investment paid in to the corporation. (p. 50).

Compound entry A journal entry that involves three or more accounts. (p. 55).

Credit The right side of an account. (p. 49).

Debit The left side of an account. (p. 49).

Dividend A distribution by a corporation to its stockholders on a pro rata (equal) basis. (p. 51).

Double-entry system A system that records in appropriate accounts the dual effect of each transaction. (p. 49).

General journal The most basic form of journal. (p. 54).

General ledger A ledger that contains all asset, liability, and stockholders' equity accounts. (p. 57).

Journal An accounting record in which transactions are initially recorded in chronological order. (p. 54).

Journalizing The entering of transaction data in the journal. (p. 54).

Ledger The entire group of accounts maintained by a company. (p. 57).

Normal balance An account balance on the side where an increase in the account is recorded. (p. 50).

Posting The transfer of journal entries to the ledger accounts. (p. 59).

Retained earnings Net income that is kept (retained) in the business. (p. 51).

Simple entry A journal entry that involves only two accounts. (p. 55).

T account The basic form of an account. (p. 48).

Three-column form of account A form with columns for debit, credit, and balance amounts in an account. (p. 58).

Trial balance A list of accounts and their balances at a given time. (p. 68).

SELF-STUDY QUESTIONS

Answers are at the end of the chapter.

(SO 1) **1.** Which of the following statements about an account is true?
- **a.** In its simplest form, an account consists of two parts.
- **b.** An account is an individual accounting record of increases and decreases in specific asset, liability, and owner's equity items.
- **c.** There are separate accounts for specific assets and liabilities but only one account for owner's equity items.
- **d.** The left side of an account is the credit or decrease side.

(SO 2) **2.** Debits:
- **a.** increase both assets and liabilities.
- **b.** decrease both assets and liabilities.
- **c.** increase assets and decrease liabilities.
- **d.** decrease assets and increase liabilities.

3. A revenue account: (SO 2)
- **a.** is increased by debits.
- **b.** is decreased by credits.
- **c.** has a normal balance of a debit.
- **d.** is increased by credits.

4. Accounts that normally have debit balances are: (SO 2)
- **a.** assets, expenses, and revenues.
- **b.** assets, expenses, and common stock.
- **c.** assets, liabilities, and dividends.
- **d.** assets, dividends, and expenses.

5. Which of the following is *not* part of the recording process? (SO 3)
- **a.** Analyzing transactions.
- **b.** Preparing a trial balance.
- **c.** Entering transactions in a journal.
- **d.** Posting transactions.

(SO 4) **6.** Which of the following statements about a journal is *false*?
a. It is not a book of original entry.
b. It provides a chronological record of transactions.
c. It helps to locate errors because the debit and credit amounts for each entry can be readily compared.
d. It discloses in one place the complete effect of a transaction.

(SO 5) **7.** A ledger:
a. contains only asset and liability accounts.
b. should show accounts in alphabetical order.
c. is a collection of the entire group of accounts maintained by a company.
d. is a book of original entry.

(SO 6) **8.** Posting:
a. normally occurs before journalizing.
b. transfers ledger transaction data to the journal.
c. is an optional step in the recording process.
d. transfers journal entries to ledger accounts.

9. A trial balance: (SO 7)
a. is a list of accounts with their balances at a given time.
b. proves the mathematical accuracy of journalized transactions.
c. will not balance if a correct journal entry is posted twice.
d. proves that all transactions have been recorded.

10. A trial balance will not balance if: (SO 7)
a. a correct journal entry is posted twice.
b. the purchase of supplies on account is debited to Supplies and credited to Cash.
c. a $100 cash withdrawal by the president is debited to Dividends for $1,000 and credited to Cash for $100.
d. a $450 payment on account is debited to Accounts Payable for $45 and credited to Cash for $45.

Go to the book's website, **www.wiley.com/college/weygandt**, for Additional Self-Study questions.

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QUESTIONS

1. Describe the parts of a T account.

2. "The terms *debit* and *credit* mean increase and decrease, respectively." Do you agree? Explain.

3. Jeff Hiller, a fellow student, contends that the double-entry system means each transaction must be recorded twice. Is Jeff correct? Explain.

4. Maria Alvarez, a beginning accounting student, believes debit balances are favorable and credit balances are unfavorable. Is Maria correct? Discuss.

5. State the rules of debit and credit as applied to (a) asset accounts, (b) liability accounts, and (c) the stockholders' equity accounts (revenues, expenses, dividends, common stock, and retained earnings).

6. What is the normal balance for each of the following accounts? (a) Accounts Receivable. (b) Cash. (c) Dividends. (d) Accounts Payable. (e) Service Revenue. (f) Salaries Expense. (g) Common Stock.

7. Indicate whether each of the following accounts is an asset, a liability, or a stockholders' equity account and whether it has a normal debit or credit balance: (a) Accounts Receivable, (b) Accounts Payable, (c) Equipment, (d) Dividends, (e) Supplies.

8. For the following transactions, indicate the account debited and the account credited.
(a) Supplies are purchased on account.
(b) Cash is received on signing a note payable.
(c) Employees are paid salaries in cash.

9. Indicate whether the following accounts generally will have (a) debit entries only, (b) credit entries only, or (c) both debit and credit entries.
(1) Cash.
(2) Accounts Receivable.
(3) Dividends.
(4) Accounts Payable.
(5) Salaries Expense.
(6) Service Revenue.

10. What are the basic steps in the recording process?

11. What are the advantages of using a journal in the recording process?

12. **(a)** When entering a transaction in the journal, should the debit or credit be written first?
(b) Which should be indented, the debit or credit?

13. Describe a compound entry, and provide an example.

14. **(a)** Should business transaction debits and credits be recorded directly in the ledger accounts?
(b) What are the advantages of first recording transactions in the journal and then posting to the ledger?

15. The account number is entered as the last step in posting the amounts from the journal to the ledger. What is the advantage of this step?

16. Journalize the following business transactions.
(a) Hector Molina invests $9,000 cash in the business in exchange for shares of common stock.
(b) Insurance of $800 is paid for the year.
(c) Supplies of $2,000 are purchased on account.
(d) Cash of $7,500 is received for services rendered.

17. **(a)** What is a ledger?
(b) What is a chart of accounts and why is it important?

18. What is a trial balance and what are its purposes?

19. Jim Benes is confused about how accounting information flows through the accounting system. He believes the flow of information is as follows.
(a) Debits and credits posted to the ledger.
(b) Business transaction occurs.
(c) Information entered in the journal.
(d) Financial statements are prepared.
(e) Trial balance is prepared.
Is Jim correct? If not, indicate to Jim the proper flow of the information.

20. Two students are discussing the use of a trial balance. They wonder whether the following errors, each considered separately, would prevent the trial balance from balancing.

(a) The bookkeeper debited Cash for $600 and credited Wages Expense for $600 for payment of wages.

(b) Cash collected on account was debited to Cash for $900 and Service Revenue was credited for $90.

What would you tell them?

BRIEF EXERCISES

Indicate debit and credit effects and normal balance.
(SO 2)

BE2-1 For each of the following accounts indicate the effects of (a) a debit or a credit on the accounts and (b) the normal balance of the account.

1. Accounts Payable.
2. Advertising Expense.
3. Service Revenue.
4. Accounts Receivable.
5. Common Stock.
6. Dividends.

Identify accounts to be debited and credited.
(SO 2)

BE2-2 Transactions for Kaustav Sen Company, which provides welding services, for the month of June are presented below. Identify the accounts to be debited and credited for each transaction.

June 1 Kaustav Sen invests $4,000 cash in exchange for shares of common stock in a small welding business.
2 Purchases equipment on account for $900.
3 Pays $800 cash to landlord for June rent.
12 Bills J. Kronsnoble $300 for welding work done on account.

Journalize transactions.
(SO 4)

BE2-3 Using the data in BE2-2, journalize the transactions. (You may omit explanations.)

Identify and explain steps in recording process.
(SO 3)

BE2-4 Tim Weber, a fellow student, is unclear about the basic steps in the recording process. Identify and briefly explain the steps in the order in which they occur.

Indicate basic and debit-credit analysis.
(SO 2)

BE2-5 J. A. Motzek Inc. has the following transactions during August of the current year. Indicate (a) the effect on the accounting equation and (b) the debit-credit analysis illustrated on pages 61–66 of the text.

Aug. 1 Opens an office as a financial advisor, investing $5,000 in cash in exchange for common stock.
4 Pays insurance in advance for 6 months, $1,800 cash.
16 Receives $800 from clients for services provided.
27 Pays secretary $1,000 salary.

Journalize transactions.
(SO 4)

BE2-6 Using the data in BE2-5, journalize the transactions. (You may omit explanations.)

Post journal entries to T accounts.
(SO 6)

BE2-7 Selected transactions for Gilles Company are presented in journal form below. Post the transactions to T accounts. Make one T account for each item and determine each account's ending balance.

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 5	Accounts Receivable		6,000	
	Service Revenue			6,000
	(Billed for services provided)			
12	Cash		2,400	
	Accounts Receivable			2,400
	(Received cash in payment of account)			
15	Cash		3,000	
	Service Revenue			3,000
	(Received cash for services provided)			

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.

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.

Prepare a trial balance.
(SO 7)

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

	Debit	Credit
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
	$39,600	$52,000

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.

	Account Debited				Account Credited			
Date	(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.

1. Borrowed $5,000 from the bank by signing a note.
2. Paid $2,500 cash for a computer.
3. 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.

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

1. The general ledger contains all the asset and liability accounts, but no stockholders' equity accounts.
2. The general ledger is sometimes referred to as simply the ledger.
3. The accounts in the general ledger are arranged in alphabetical order.
4. Each account in the general ledger is numbered for easier identification.
5. 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.

E2-9 Selected transactions from the journal of Teresa Gonzalez, investment broker, are presented below.

Post journal entries and prepare a trial balance. (SO 6, 7)

Date	Account Titles and Explanation	Ref.	Debit	Credit
Aug. 1	Cash		5,000	
	Common Stock			5,000
	(Investment of cash for stock)			
10	Cash		2,400	
	Service Revenue			2,400
	(Received cash for services provided)			
12	Office Equipment		5,000	
	Cash			1,000
	Notes Payable			4,000
	(Purchased office equipment for cash and notes payable)			
25	Accounts Receivable		1,600	
	Service Revenue			1,600
	(Billed clients for services provided)			
31	Cash		900	
	Accounts Receivable			900
	(Receipt of cash on account)			

Instructions

(a) Post the transactions to T accounts.

(b) Prepare a trial balance at August 31, 2008.

E2-10 The T accounts below summarize the ledger of Simon Landscaping Company at the end of the first month of operations.

Journalize transactions from account data and prepare a trial balance. (SO 4, 7)

Cash			No. 101
4/1	15,000	4/15	600
4/12	900	4/25	1,500
4/29	400		
4/30	1,000		

Unearned Revenue			No. 205
		4/30	1,000

Accounts Receivable			No. 112
4/7	3,200	4/29	400

Common Stock			No. 311
		4/1	15,000

Supplies			No. 126
4/4	1,800		

Service Revenue			No. 400
		4/7	3,200
		4/12	900

Accounts Payable			No. 201
4/25	1,500	4/4	1,800

Salaries Expense			No. 726
4/15	600		

Instructions

(a) Prepare the complete general journal (including explanations) from which the postings to Cash were made.

(b) Prepare a trial balance at April 30, 2008.

E2-11 Presented below and on the next page is the ledger for Heerey Co.

Journalize transactions from account data and prepare a trial balance. (SO 4, 7)

Cash			No. 101
10/1	5,000	10/4	400
10/10	650	10/12	1,500
10/10	4,000	10/15	250
10/20	500	10/30	300
10/25	2,000	10/31	500

Common Stock			No. 311
		10/1	5,000
		10/25	2,000

Dividends			No. 332
10/30	300		

Accounts Receivable			No. 112
10/6	800	10/20	500
10/20	940		

Service Revenue			No. 407
		10/6	800
		10/10	650
		10/20	940

Supplies			No. 126
10/4	400		

Store Wages Expense			No. 628
10/31	500		

Furniture			No. 149
10/3	2,000		

Rent Expense			No. 729
10/15	250		

Notes Payable			No. 200
		10/10	4,000

Accounts Payable			No. 201
10/12	1,500	10/3	2,000

Instructions

(a) Reproduce the journal entries for the transactions that occurred on October 1, 10, and 20, and provide explanations for each.

(b) Determine the October 31 balance for each of the accounts above, and prepare a trial balance at October 31, 2008.

Prepare journal entries and post using standard account form.

(SO 4, 6)

E2-12 Selected transactions for Tina Cordero Company during its first month in business are presented below.

Sept. 1 Invested $10,000 cash in the business in exchange for common stock.
5 Purchased equipment for $12,000 paying $5,000 in cash and the balance on account.
25 Paid $3,000 cash on balance owed for equipment.
30 Declared and paid a $500 cash dividend.

Cordero's chart of accounts shows: No. 101 Cash, No. 157 Equipment, No. 201 Accounts Payable, No. 311 Common Stock, No. 332 Dividends.

Instructions

(a) Journalize the transactions on page J1 of the journal.

(b) Post the transactions using the standard account form.

Analyze errors and their effects on trial balance.

(SO 7)

E2-13 The bookkeeper for Sam Kaplin Equipment Repair made a number of errors in journalizing and posting, as described below.

1. A credit posting of $400 to Accounts Receivable was omitted.
2. A debit posting of $750 for Prepaid Insurance was debited to Insurance Expense.
3. A collection from a customer of $100 in payment of its account owed was journalized and posted as a debit to Cash $100 and a credit to Service Revenue $100.
4. A credit posting of $300 to Property Taxes Payable was made twice.
5. A cash purchase of supplies for $250 was journalized and posted as a debit to Supplies $25 and a credit to Cash $25.
6. A debit of $475 to Advertising Expense was posted as $457.

Instructions

For each error:

(a) Indicate whether the trial balance will balance.

(b) If the trial balance will not balance, indicate the amount of the difference.

(c) Indicate the trial balance column that will have the larger total.

Consider each error separately. Use the following form, in which error (1) is given as an example.

Error	(a) In Balance	(b) Difference	(c) Larger Column
(1)	No	$400	debit

E2-14 The accounts in the ledger of Sanford Delivery Service contain the following balances on July 31, 2008.

Prepare a trial balance.
(SO 2, 7)

Accounts Receivable	$ 7,642	Prepaid Insurance	$1,968
Accounts Payable	8,396	Repair Expense	961
Cash	?	Service Revenue	10,610
Delivery Equipment	49,360	Dividends	700
Gas and Oil Expense	758	Common Stock	40,000
Insurance Expense	523	Salaries Expense	4,428
Notes Payable	18,450	Salaries Payable	815
		Retained Earnings	4,636

Instructions
Prepare a trial balance with the accounts arranged as illustrated in the chapter and fill in the missing amount for Cash.

EXERCISES: SET B

Visit the book's website at **www.wiley.com/college/weygandt**, and choose the Student Companion site, to access Exercise Set B.

PROBLEMS: SET A

P2-1A Frontier Park was started on April 1 by C. J. Mendez and associates. The following selected events and transactions occurred during April.

Journalize a series of transactions.
(SO 2, 4)

Apr. 1 Stockholders invested $40,000 cash in the business in exchange for common stock.
4 Purchased land costing $30,000 for cash.
8 Incurred advertising expense of $1,800 on account.
11 Paid salaries to employees $1,500.
12 Hired park manager at a salary of $4,000 per month, effective May 1.
13 Paid $1,500 cash for a one-year insurance policy.
17 Declared and paid a $1,000 cash dividend.
20 Received $5,700 in cash for admission fees.
25 Sold 100 coupon books for $25 each. Each book contains 10 coupons that entitle the holder to one admission to the park.
30 Received $8,900 in cash admission fees.
30 Paid $900 on balance owed for advertising incurred on April 8.

Mendez uses the following accounts: Cash; Prepaid Insurance; Land; Accounts Payable; Unearned Admission Revenue; Common Stock; Dividends; Admission Revenue; Advertising Expense; and Salaries Expense.

Instructions
Journalize the April transactions.

P2-2A Jane Kent is a licensed CPA. During the first month of operations of her business, Jane Kent, Inc., the following events and transactions occurred.

Journalize transactions, post, and prepare a trial balance.
(SO 2, 4, 6, 7)

May 1 Stockholders invested $25,000 cash in exchange for common stock.
2 Hired a secretary-receptionist at a salary of $2,000 per month.
3 Purchased $2,500 of supplies on account from Read Supply Company.
7 Paid office rent of $900 cash for the month.
11 Completed a tax assignment and billed client $2,100 for services provided.
12 Received $3,500 advance on a management consulting engagement.
17 Received cash of $1,200 for services completed for H. Arnold Co.
31 Paid secretary-receptionist $2,000 salary for the month.
31 Paid 40% of balance due Read Supply Company.

Jane uses the following chart of accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 126 Supplies, No. 201 Accounts Payable, No. 205 Unearned Revenue, No. 311 Common Stock, No. 400 Service Revenue, No. 726 Salaries Expense, and No. 729 Rent Expense.

Trial balance totals $33,300

Instructions

(a) Journalize the transactions.
(b) Post to the ledger accounts.
(c) Prepare a trial balance on May 31, 2008.

Journalize and post transactions and prepare a trial balance.
(SO 2, 4, 6, 7)

P2-3A Jack Shellenkamp owns and manages a computer repair service, which had the following trial balance on December 31, 2007 (the end of its fiscal year).

BYTE REPAIR SERVICE INC.
Trial Balance
December 31, 2007

Cash	$ 8,000	
Accounts Receivable	15,000	
Parts Inventory	13,000	
Prepaid Rent	3,000	
Shop Equipment	21,000	
Accounts Payable		$19,000
Common Stock		30,000
Retained Earnings		11,000
	$60,000	$60,000

Summarized transactions for January 2008 were as follows:

1. Advertising costs, paid in cash, $1,000.
2. Additional repair parts inventory acquired on account $4,000.
3. Miscellaneous expenses, paid in cash, $2,000.
4. Cash collected from customers in payment of accounts receivable $14,000.
5. Cash paid to creditors for accounts payable due $15,000.
6. Repair parts used during January $4,000. (*Hint*: Debit this to Repair Parts Expense.)
7. Repair services performed during January: for cash $6,000; on account $9,000.
8. Wages for January, paid in cash, $3,000.
9. Dividends paid in January were $3,000.

Instructions

(a) Open T accounts for each of the accounts listed in the trial balance, and enter the opening balances for 2008.
(b) Prepare journal entries to record each of the January transactions.
(c) Post the journal entries to the accounts in the ledger. (Add accounts as needed.)
(d) Prepare a trial balance as of January 31, 2008.

Trial balance totals $64,000

Prepare a correct trial balance.
(SO 7)

P2-4A The trial balance of the Sterling Company shown below does not balance.

STERLING COMPANY
Trial Balance
May 31, 2008

	Debit	Credit
Cash	$5,850	
Accounts Receivable		$2,750
Prepaid Insurance	700	
Equipment	8,000	
Accounts Payable		4,500
Property Taxes Payable	560	
Common Stock		11,700
Service Revenue	6,690	
Salaries Expense	4,200	
Advertising Expense		1,100
Property Tax Expense	800	
	$26,800	$20,050

Your review of the ledger reveals that each account has a normal balance. You also discover the following errors (page 83).

1. The totals of the debit sides of Prepaid Insurance, Accounts Payable, and Property Tax Expense were each understated $100.
2. Transposition errors were made in Accounts Receivable and Service Revenue. Based on postings made, the correct balances were $2,570 and $6,960, respectively.
3. A debit posting to Salaries Expense of $200 was omitted.
4. A $1,000 cash dividend was debited to Common Stock for $1,000 and credited to Cash for $1,000.
5. A $520 purchase of supplies on account was debited to Equipment for $520 and credited to Cash for $520.
6. A cash payment of $450 for advertising was debited to Advertising Expense for $45 and credited to Cash for $45.
7. A collection from a customer for $210 was debited to Cash for $210 and credited to Accounts Payable for $210.

Instructions

Prepare a correct trial balance. Note that the chart of accounts includes the following: Dividends, and Supplies. (*Hint:* It helps to prepare the correct journal entry for the transaction described and compare it to the mistake made.)

Trial balance totals $24,930

P2-5A The Lake Theater opened on April 1. All facilities were completed on March 31. At this time, the ledger showed: No. 101 Cash $6,000; No. 140 Land $10,000; No. 145 Buildings (concession stand, projection room, ticket booth, and screen) $8,000; No. 157 Equipment $6,000; No. 201 Accounts Payable $2,000; No. 275 Mortgage Payable $8,000; and No. 311 Common Stock $20,000. During April, the following events and transactions occurred.

Journalize transactions, post, and prepare a trial balance.

(SO 2, 4, 6, 7)

GLS

Apr. 2 Paid film rental of $800 on first movie.
3 Ordered two additional films at $1,000 each.
9 Received $2,800 cash from admissions.
10 Made $2,000 payment on mortgage and $1,000 for accounts payable due.
11 Lake Theater contracted with R. Wynns Company to operate the concession stand. Wynns is to pay 17% of gross concession receipts (payable monthly) for the right to operate the concession stand.
12 Paid advertising expenses $500.
20 Received one of the films ordered on April 3 and was billed $1,000. The film will be shown in April.
25 Received $5,200 cash from admissions.
29 Paid salaries $2,000.
30 Received statement from R. Wynns showing gross concession receipts of $1,000 and the balance due to The Lake Theater of $170 ($1,000 × 17%) for April. Wynns paid one-half of the balance due and will remit the remainder on May 5.
30 Prepaid $900 rental on special film to be run in May.

In addition to the accounts identified above, the chart of accounts shows: No. 112 Accounts Receivable, No. 136 Prepaid Rentals, No. 405 Admission Revenue, No. 406 Concession Revenue, No. 610 Advertising Expense, No. 632 Film Rental Expense, and No. 726 Salaries Expense.

Instructions

(a) Enter the beginning balances in the ledger as of April 1. Insert a check mark (✓) in the reference column of the ledger for the beginning balance.
(b) Journalize the April transactions.
(c) Post the April journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.
(d) Prepare a trial balance on April 30, 2008.

Trial balance totals $36,170

PROBLEMS: SET B

P2-1B Surepar Miniature Golf and Driving Range was opened on March 1 by Jerry Glover. The following selected events and transactions occurred during March.

Journalize a series of transactions.

(SO 2, 4)

GLS

Mar. 1 Invested $50,000 cash in the business in exchange for common stock.
3 Purchased Lee's Golf Land for $38,000 cash. The price consists of land $23,000, building $9,000, and equipment $6,000. (Make one compound entry.)

5 Advertised the opening of the driving range and miniature golf course, paying advertising expenses of $1,600.
6 Paid cash $1,480 for a one-year insurance policy.
10 Purchased golf clubs and other equipment for $2,600 from Palmer Company payable in 30 days.
18 Received $800 in cash for golf fees earned.
19 Sold 100 coupon books for $15 each. Each book contains 10 coupons that enable the holder to play one round of miniature golf or to hit one bucket of golf balls.
25 Declared and paid a $2,000 cash dividend.
30 Paid salaries of $600.
30 Paid Palmer Company in full.
31 Received $500 cash for fees earned.

Jerry Glover uses the following accounts: Cash; Prepaid Insurance; Land; Buildings; Equipment; Accounts Payable; Unearned Revenue; Common Stock; Dividends; Golf Revenue; Advertising Expense; and Salaries Expense.

Instructions
Journalize the March transactions.

Journalize transactions, post, and prepare a trial balance.
(SO 2, 4, 6, 7)

P2-2B Rosa Perez is a licensed architect. During the first month of the operation of her business, the following events and transactions occurred.

April 1 Stockholders invested $30,000 cash in exchange for common stock.
1 Hired a secretary-receptionist at a salary of $500 per week payable monthly.
2 Paid office rent for the month $800.
3 Purchased architectural supplies on account from Halo Company $1,500.
10 Completed blueprints on a carport and billed client $1,200 for services.
11 Received $500 cash advance from R. Welk for the design of a new home.
20 Received $1,500 cash for services completed and delivered to P. Donahue.
30 Paid secretary-receptionist for the month $2,000.
30 Paid $600 to Halo Company for accounts payable due.

Rosa uses the following chart of accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 126 Supplies, No. 201 Accounts Payable, No. 205 Unearned Revenue, No. 311 Common Stock, No. 400 Service Revenue, No. 726 Salaries Expense, and No. 729 Rent Expense.

Instructions
Trial balance totals $34,100
(a) Journalize the transactions.
(b) Post to the ledger accounts.
(c) Prepare a trial balance on April 30, 2008.

Journalize transactions, post, and prepare a trial balance.
(SO 2, 4, 6, 7)

P2-3B Slocombe Services was formed on May 1, 2008. The following transactions took place during the first month.

Transactions on May 1:

1. Stockholders invested $100,000 cash in the company in exchange for common stock.
2. Hired two employees to work in the warehouse. They will each be paid a salary of $3,000 per month.
3. Signed a 2-year rental agreement on a warehouse; paid $36,000 cash in advance for the first year.
4. Purchased furniture and equipment costing $60,000. A cash payment of $20,000 was made immediately; the remainder will be paid in 6 months.
5. Paid $3,000 cash for a one-year insurance policy on the furniture and equipment.

Transactions during the remainder of the month:

6. Purchased basic office supplies for $1,000 cash.
7. Purchased more office supplies for $3,000 on account.
8. Total revenues earned were $30,000—$10,000 cash and $20,000 on account.
9. Paid $800 to suppliers for accounts payable due.
10. Received $5,000 from customers in payment of accounts receivable.
11. Received utility bills in the amount of $400, to be paid next month.
12. Paid the monthly salaries of the two employees, totalling $6,000.

Instructions
Trial balance totals $172,600
(a) Prepare journal entries to record each of the events listed.

(b) Post the journal entries to T accounts.
(c) Prepare a trial balance as of May 31, 2008.

P2-4B The trial balance of Don Kelso Co. shown below does not balance.

Prepare a correct trial balance. (SO 7)

DON KELSO CO.
Trial Balance
June 30, 2008

	Debit	Credit
Cash		$ 2,840
Accounts Receivable	$ 3,231	
Supplies	800	
Equipment	3,000	
Accounts Payable		2,666
Unearned Revenue	1,200	
Common Stock		9,000
Dividends	800	
Service Revenue		2,380
Salaries Expense	3,400	
Office Expense	910	
	$13,341	$16,886

Each of the listed accounts has a normal balance per the general ledger. An examination of the ledger and journal reveals the following errors.

1. Cash received from a customer in payment of its account was debited for $470, and Accounts Receivable was credited for the same amount. The actual collection was for $740.
2. The purchase of a printer on account for $340 was recorded as a debit to Supplies for $340 and a credit to Accounts Payable for $340.
3. Services were performed on account for a client for $890. Accounts Receivable was debited for $890, and Service Revenue was credited for $89.
4. A debit posting to Salaries Expense of $600 was omitted.
5. A payment of a balance due for $206 was credited to Cash for $206 and credited to Accounts Payable for $260.
6. The payment of a $500 cash dividend was debited to Salaries Expense for $500 and credited to Cash for $500.

Instructions

Prepare a correct trial balance. (*Hint:* It helps to prepare the correct journal entry for the transaction described and compare it to the mistake made).

Trial balance totals $15,581

P2-5B The Quinn Theater, owned by Mike Quinn, will begin operations in March. The Quinn will be unique in that it will show only triple features of sequential theme movies. As of March 1, the ledger of Quinn showed: No. 101 Cash $16,000; No. 140 Land $42,000; No. 145 Buildings (concession stand, projection room, ticket booth, and screen) $18,000; No. 157 Equipment $16,000; No. 201 Accounts Payable $12,000; and No. 311 Common Stock $80,000. During the month of March the following events and transactions occurred.

Journalize transactions, post, and prepare a trial balance. (SO 2, 4, 6, 7)

GLS

Mar. 2 Rented the three *Star Wars* movies (*Star Wars, The Empire Strikes Back,* and *The Return of the Jedi*) to be shown for the first 3 weeks of March. The film rental was $6,000; $3,000 was paid in cash and $3,000 will be paid on March 10.
3 Ordered the first three *Star Trek* movies to be shown the last 10 days of March. It will cost $300 per night.
9 Received $6,500 cash from admissions.
10 Paid balance due on *Star Wars* movies rental and $4,000 on March 1 accounts payable.
11 Quinn Theater contracted with M. Brewer Company to operate the concession stand. Brewer is to pay 10% of gross concession receipts (payable monthly) for the right to operate the concession stand.
12 Paid advertising expenses $800.
20 Received $7,200 cash from customers for admissions.

20 Received the *Star Trek* movies and paid the rental fee of $3,000.
31 Paid salaries of $4,800.
31 Received statement from M. Brewer showing gross receipts from concessions of $8,000 and the balance due to Quinn Theater of $800 ($8,000 × 10%) for March. Brewer paid one-half the balance due and will remit the remainder on April 5.
31 Received $11,000 cash from customers for admissions.

In addition to the accounts identified above, the chart of accounts includes: No. 112 Accounts Receivable, No. 405 Admission Revenue, No. 406 Concession Revenue, No. 610 Advertising Expense, No. 632 Film Rental Expense, and No. 726 Salaries Expense.

Instructions

(a) Enter the beginning balances in the ledger. Insert a check mark (✓) in the reference column of the ledger for the beginning balance.
(b) Journalize the March transactions.
(c) Post the March journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.
Trial balance totals $113,500 **(d)** Prepare a trial balance on March 31, 2008.

PROBLEMS: SET C

Visit the book's website at **www.wiley.com/college/weygandt**, and choose the Student Companion site, to access Problem Set C.

CONTINUING COOKIE CHRONICLE

(*Note*: This is a continuation of the Cookie Chronicle from Chapter 1.)

CCC2 After researching the different forms of business organization, Natalie Koebel decides to operate "Cookie Creations" as a corporation. She then starts the process of getting the business running.

Go to the book's website, **www.wiley.com/college/weygandt**, *to see the completion of this problem.*

BROADENING YOUR PERSPECTIVE

FINANCIAL REPORTING AND ANALYSIS

Financial Reporting Problem

PepsiCo, Inc.

BYP2-1 The financial statements of PepsiCo are presented in Appendix A. The notes accompanying the statements contain the following selected accounts, stated in millions of dollars.

Accounts Payable	$1,799	Income Taxes Payable	$ 546
Accounts Receivable	3,261	Interest Expense	256
Property, Plant, and Equipment	8,681	Inventory	1,693

Instructions

(a) Answer the following questions.
(1) What is the increase and decrease side for each account?
(2) What is the normal balance for each account?
(b) Identify the probable other account in the transaction and the effect on that account when:
(1) Accounts Receivable is decreased.
(2) Accounts Payable is decreased.
(3) Inventory is increased.

(c) Identify the other account(s) that ordinarily would be involved when:
(1) Interest Expense is increased.
(2) Property, Plant, and Equipment is increased.

Comparative Analysis Problem

PepsiCo, Inc. vs. The Coca-Cola Company

BYP2-2 PepsiCo's financial statements are presented in Appendix A. Coca-Cola's financial statements are presented in Appendix B.

Instructions

(a) Based on the information contained in the financial statements, determine the normal balance of the listed accounts for each company.

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

(b) Identify the other account ordinarily involved when:
(1) Accounts Receivable is increased.
(2) Wages Payable is decreased.
(3) Property, Plant, and Equipment is increased.
(4) Interest Expense is increased.

Exploring the Web

BYP2-3 Much information about specific companies is available on the World Wide Web. Such information includes basic descriptions of the company's location, activities, industry, financial health, and financial performance.

Address: biz.yahoo.com/i, or go to **www.wiley.com/college/weygandt**

Steps

1. Type in a company name, or use index to find company name.
2. Choose **Profile**. Perform instructions (a)–(c) below.
3. Click on the company's specific industry to identify competitors. Perform instructions (d)–(g) below.

Instructions

Answer the following questions.

(a) What is the company's industry?
(b) What was the company's total sales?
(c) What was the company's net income?
(d) What are the names of four of the company's competitors?
(e) Choose one of these competitors.
(f) What is this competitor's name? What were its sales? What was its net income?
(g) Which of these two companies is larger by size of sales? Which one reported higher net income?

CRITICAL THINKING

Decision Making Across the Organization

BYP2-4 Lisa Ortega is president of Ortega Riding Academy, Inc. The academy's primary sources of revenue are riding fees and lesson fees, which are paid on a cash basis. Lisa also boards horses for owners, who are billed monthly for boarding fees. In a few cases, boarders pay in advance of expected use. For its revenue transactions, the academy maintains the following accounts: No. 1 Cash, No. 5 Boarding Accounts Receivable, No. 27 Unearned Boarding Revenue, No. 51 Riding Revenue, No. 52 Lesson Revenue, and No. 53 Boarding Revenue.

The academy owns 10 horses, a stable, a riding corral, riding equipment, and office equipment. These assets are accounted for in accounts No. 11 Horses, No. 12 Building, No. 13 Riding Corral, No. 14 Riding Equipment, and No. 15 Office Equipment.

For its expenses, the academy maintains the following accounts: No. 6 Hay and Feed Supplies, No. 7 Prepaid Insurance, No. 21 Accounts Payable, No. 60 Salaries Expense, No. 61 Advertising Expense, No. 62 Utilities Expense, No. 63 Veterinary Expense, No. 64 Hay and Feed Expense, and No. 65 Insurance Expense.

Ortega makes periodic payments of cash dividends to stockholders. To record stockholders' equity transactions in the business, Ortega maintains three accounts: No. 50 Common Stock, No. 51 Retained Earnings, and No. 52 Dividends.

During the first month of operations an inexperienced bookkeeper was employed. Lisa Ortega asks you to review the following eight entries of the 50 entries made during the month. In each case, the explanation for the entry is correct.

May 1	Cash	18,000	
	Common Stock		18,000
	(Invested $18,000 cash in exchange for stock)		
5	Cash	250	
	Riding Revenue		250
	(Received $250 cash for lessons provided)		
7	Cash	300	
	Boarding Revenue		300
	(Received $300 for boarding of horses beginning June 1)		
14	Riding Equipment	80	
	Cash		800
	(Purchased desk and other office equipment for $800 cash)		
15	Salaries Expense	400	
	Cash		400
	(Issued dividend checks to stockholders)		
20	Cash	148	
	Riding Revenue		184
	(Received $184 cash for riding fees)		
30	Veterinary Expense	75	
	Accounts Payable		75
	(Received bill of $75 from veterinarian for services rendered)		
31	Hay and Feed Expense	1,700	
	Cash		1,700
	(Purchased an estimated 2 months' supply of feed and hay for $1,700 on account)		

Instructions

With the class divided into groups, answer the following.

(a) Identify each journal entry that is correct. For each journal entry that is incorrect, prepare the entry that should have been made by the bookkeeper.

(b) Which of the incorrect entries would prevent the trial balance from balancing?

(c) What was the correct net income for May, assuming the bookkeeper reported net income of $4,500 after posting all 50 entries?

(d) What was the correct cash balance at May 31, assuming the bookkeeper reported a balance of $12,475 after posting all 50 entries (and the only errors occurred in the items listed above)?

Communication Activity

BYP2-5 Woderson's Maid Company offers home cleaning service. Two recurring transactions for the company are billing customers for services rendered and paying employee salaries. For example, on March 15, bills totaling $6,000 were sent to customers and $2,000 was paid in salaries to employees.

Instructions

Write a memo to your instructor that explains and illustrates the steps in the recording process for each of the March 15 transactions. Use the format illustrated in the text under the heading, "The Recording Process Illustrated" (p. 61).

Ethics Case

BYP2-6 Mary Jansen is the assistant chief accountant at Casey Company, a manufacturer of computer chips and cellular phones. The company presently has total sales of $20 million. It is the end of the first quarter. Mary is hurriedly trying to prepare a general ledger trial balance so that quarterly financial statements can be prepared and released to management and the regulatory agencies. The total credits on the trial balance exceed the debits by $1,000. In order to meet the 4 p.m. deadline, Mary decides to force the debits and credits into balance by adding the amount of the difference to the Equipment account. She chose Equipment because it is one of the larger account balances; percentage-wise, it will be the least misstated. Mary "plugs" the difference! She believes that the difference will not affect anyone's decisions. She wishes that she had another few days to find the error but realizes that the financial statements are already late.

Instructions

(a) Who are the stakeholders in this situation?
(b) What are the ethical issues involved in this case?
(c) What are Mary's alternatives?

"All About You" Activity

BYP2-7 Every company needs to plan in order to move forward. Its top management must consider where it wants the company to be in three to five years. Like a company, you need to think about where you want to be three to five years from now, and you need to start taking steps now in order to get there. With some forethought, you can help yourself avoid a situation, like those described in the "All About You" feature in this chapter (p. 71), in which your résumé seems to need creative writing.

Instructions

Provide responses to each of the following items.

(a) Where would you like to be working in three to five years? Describe your plan for getting there by identifying between five and 10 specific steps that you need to take in order to get there.
(b) In order to get the job you want, you will need a résumé. Your résumé is the equivalent of a company's annual report. It needs to provide relevant and reliable information about your past accomplishments so that employers can decide whether to "invest" in you. Do a search on the Internet to find a good résumé format. What are the basic elements of a résumé?
(c) A company's annual report provides information about a company's accomplishments. In order for investors to use the annual report, the information must be reliable; that is, users must have faith that the information is accurate and believable. How can you provide assurance that the information on your résumé is reliable?
(d) Prepare a résumé assuming that you have accomplished the five to 10 specific steps you identified in part (a). Also, provide evidence that would give assurance that the information is reliable.

Answers to Insight and Accounting Across the Organization Questions

New Xbox Contributes to Profitability, p. 56

Q: In what ways is this Microsoft division using accounting to assist in its effort to become more profitable?

A: *The division has used accounting to set very strict sales, revenue, and profit goals. In addition, the division managers use accounting to keep a tight rein on product costs. Also, accounting serves as the basis of communication, so that the marketing managers and product designers can work with production managers, engineers, and accountants to achieve an exciting product within specified cost constraints.*

What Would Sam Do?, p. 58

Q: Why did Sam Walton keep separate pigeonholes and blue binders?

A: *Using separate pigeonholes and blue binders for each store enabled Walton to accumulate and track the performance of each individual store easily.*

Q: Why bother to keep separate records for each store?

A: *Keeping separate records for each store provided Walton with more information about performance of individual stores and managers, and greater control. Walton would want and need the same advantages if he were starting his business today. The difference is that he might now use a computerized system for small businesses.*

Sarbanes-Oxley Comes to the Rescue, p. 70

Q: In order for these companies to prepare and issue financial statements, their accounting equations (debits and credits) must have been in balance at year-end. How could these errors or misstatements have occurred?

A: *A company's accounting equation (as expressed in its books) can be in balance yet its financial statements have errors or misstatements because of the following: entire transactions were not recorded, transactions were recorded at wrong amounts; transactions were recorded in the wrong accounts; transactions were recorded in the wrong accounting period. Audits of financial statements uncover some, but not all, errors or misstatements.*

Authors' Comments on *All About You:* Your Personal Annual Report, p. 71

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 and 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 of 2002, 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.

Answer to PepsiCo Review It Question 4, p. 53

Normal balances for PepsiCo (or any company) are: Cash—debit; Accounts Payable—credit; Interest Expense—debit.

Answers to Self-Study Questions

1. b **2.** c **3.** d **4.** d **5.** b **6.** a **7.** c **8.** d **9.** a **10.** c

Remember to go back to the Navigator box on the chapter-opening page and check off your completed work.