

ACC101 – CHAPTER 2

Accounting for Transactions



Key Terms and Concepts to Know

Double–entry accounting:

Debits and Credits

Total debits must always equal total credits

Accounting Books:

Accounts

General Journal

General Ledger (T account)

Chart of Accounts

Business Transactions:

Impact on the accounting equation

Impact on accounts and financial statements

Journalizing (Recording) transactions in the General Journal

Posting (Recording) Transactions from the General Journal to the General Ledger

Trial Balance:

Prepare a Trial Balance

Use the trial balance to prepare financial statements

Find and correct errors using the trial balance

Debt Ratio

DEBIT SIDE	CREDIT SIDE
After Eating Dinner	Let's Read Comics

Assets, Expenses and Dividends
 Normal balance on the DEBIT side
 Increase on the DEBIT side
 Decrease on the CREDIT side

Liabilities, Revenues, and Capital
 Normal balance on the CREDIT side
 Increase on the CREDIT side
 Decrease on the DEBIT side

Example #1:

1) Journalize the transactions below using the following account titles:

Cash Accounts Receivable Supplies Accounts Payable	Capital Stock Dividends Sales Commissions Office Salaries Expense	Rent Expense Automobile Expense Supplies Expense Misc. Expense
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2) Prepare T-accounts and post the entries to the appropriate accounts. Determine balances after all entries are posted.

- a. Issued capital stock for \$16,000.
- b. Paid rent on office building for the month, \$3,000.
- c. Purchased supplies on account, \$1,200.
- d. Paid creditor on account, \$800.
- e. Earned sales commissions and sent invoices to customers, \$22,500.
- f. Paid automobile expenses for month, \$2,900, and miscellaneous expenses, \$1,450.
- g. Paid office salaries, \$4,200.
- h. Determined the cost of supplies used was \$960.
- i. Paid cash dividends, \$1,400.

Solution #1

a. Cash	16,000	
Capital Stock		16,000
b. Rent Expense	3,000	
Cash		3,000
c. Supplies	1,200	
Accounts Payable		1,200
d. Accounts Payable	800	
Cash		800
e. Accounts Receivable	22,500	
Sales Commissions		22,500

f. Automobile Expenses	2,900	
Misc. Expenses	1,450	
Cash		4,350
g. Salaries Expense	4,200	
Cash		4,200
h. Supplies Expense	960	
Supplies		960
i. Dividends	1,400	
Cash		1,400

Cash	
a) 16,000	b) 3,000
	d) 800
	f) 4,350
	g) 4,200
	i) 1,400
2,250	Balance

A/R
e) 22,500

Supplies	
c) 1,200	h) 960
240	Balance

A/P	
d) 800	c) 1,200
	400
	Balance

Capital Stock	
	a) 16,000

Dividends	
i) 1,400	

Sales Commissions	
	e) 22,500

Office Salaries Exp.	
g) 4,200	

Rent Exp.	
b) 3,000	

Auto Exp.	
f) 2,900	

Supplies Exp.	
h) 960	

Misc. Exp.	
f) 1,450	

Practice Problem #1: Journalize each of the following transactions in a two-column journal and post the entries to T-accounts. Use the chart of accounts below.

Cash	Accounts Payable	Rent Expense
Accounts Receivable	Capital Stock	Utilities Expense
Supplies	Dividends	
Prepaid Insurance	Fees Earned	
Equipment		

- a) Issued capital stock for cash, \$27,500
- b) Paid rent on office for month, \$2,500
- c) Purchased office supplies for cash, \$2,225
- d) Paid insurance premiums, \$1,500
- e) Purchased office equipment on account, \$10,000
- f) Received cash for services completed, \$3,800
- g) Received an invoice for utilities, \$475
- h) Billed customers for services completed, \$1,800
- i) Received cash from customers on account, \$900
- j) Paid \$4,200 on account
- k) Paid cash dividends, \$2,800

Example #2: The debit and credit totals of the following Trial Balance are unequal as a result of the following errors. Prepare a corrected trial balance as of June 30 of the current year.

Trial Balance		
Cash	26,500	
Accounts Receivable	37,775	
Prepaid Insurance	800	
Office Supplies	960	
Land	0	
Accounts Payable		11,410
Notes Payable		6,000
Capital Stock		7,500
Retained Earnings		25,340
Dividends		2000
Fees Earned		126,500
Wages Expense	84,100	
Rent Expense	5,500	
Advertising Expense	3,900	
Automobile Expense	275	
Miscellaneous Expense	1,550	
Totals	161,360	178,750

- a. The balance of cash was understated by \$750. (Cash +750)
- b. A cash receipt of \$2,100 was posted as a debit to Cash of \$1,200. (Cash +900)
- c. A debit of \$3,000 for a cash dividend was posted as a credit to Retained Earnings. (Dividends +3,000; RE -3,000)
- d. The balance of \$2,750 in Automobile Expense was entered in the trial balance as \$275. (Auto Exp. = 2,750)
- e. A debit of \$975 to Accounts Receivable was not posted. (A/R +975)
- f. A return of \$125 of defective supplies was erroneously posted as a \$215 credit to Supplies. (Supplies +90)
- g. An insurance policy acquired at a cost of \$150 was posted as a credit to Prepaid Insurance. (Prepaid Ins. +300)
- h. A debit of \$900 in Accounts Payable was overlooked when determining the balance of the account. (A/P -900)
- i. The balance of Notes Payable was overstated by \$5,000. (Notes Payable -5,000)

Solution #2:

Trial Balance		
Cash	28,150	
Accounts Receivable	38,750	
Prepaid Insurance	1,100	
Office Supplies	1,050	
Land	0	
Accounts Payable		10,510
Notes Payable		1,000
Capital Stock		7,500
Retained Earnings		22,340
Dividends	1,000	
Fees Earned		126,500
Wages Expense	84,100	
Rent Expense	5,500	
Advertising Expense	3,900	
Automobile Expense	2,750	
Miscellaneous Expense	1,550	
Total	167,850	167,850

Practice Problem #2: The debit and credit totals of the following Trial Balance are unequal as a result of the following errors. Prepare a corrected trial balance as of September 30 of the current year.

- a. The balance of cash was overstated by \$850.
- b. A cash payment of \$3,600 was posted as a credit to Cash of \$6,300.
- c. A debit of \$3,000 for a cash dividend was posted as a credit to Delivery Expense.
- d. The balance of \$8,900 in Advertising Expense was entered as \$890 in the Trial Balance.
- e. A credit of \$250 to Accounts Receivable was not posted.
- f. A purchase of \$250 in supplies was posted as a credit to Supplies.
- g. The balance of Retained Earnings was overstated by \$1,500.
- h. An insurance policy acquired at a cost of \$315 was erroneously posted as a \$135 debit to Prepaid Insurance.
- i. Rent Expense, with a balance of \$19,000 was omitted from the trial balance.
- j. A credit of \$700 in Accounts Payable was overlooked when determining the balance of the account.

Trial Balance		
Cash	27,650	
Accounts Receivable	38,850	
Prepaid Insurance	570	
Supplies	125	
Land	0	
Accounts Payable		12,550
Capital Stock		15,000
Retained Earnings		49,525
Dividends	7,000	
Fees Earned		158,725
Salary Expense	123,075	
Advertising Expense	890	
Delivery Expense	950	
Miscellaneous Expense	600	
Total	199,710	235,800

SAMPLE MULTIPLE CHOICE QUESTIONS

1. Accounts:
 - a. Are records of increases and decreases in individual financial statement items.
 - b. Are only used by large entities with many transactions.
 - c. Do not reflect money amounts.
 - d. Are used only by entities that manufacture products.

2. Which of the following accounts is an asset account?
 - a. Dividends
 - b. Accounts Payable
 - c. Equipment
 - d. Salaries Expense

3. Which of the following accounts is a liability account?
 - a. Dividends
 - b. Cash
 - c. Accounts Payable
 - d. Capital Stock

4. The gross increase in stockholder's equity attributable to business activities are called:
 - a. Dividends
 - b. Revenues
 - c. Expenses
 - d. Assets

5. The debit side of an account:
 - a. Is the right-hand side of the account.
 - b. Is the left-hand side of the account.
 - c. Depends on whether the account is an asset, liability, or stockholder's equity.
 - d. Can be either side of the account depending on how the accountant set up the system.

6. A debit may signify a(n):
 - a. Increase in asset accounts
 - b. Increase in liability accounts
 - c. Increase in the capital account
 - d. Decrease in expense accounts

7. A credit may signify a(n):
 - a. Increase in assets
 - b. Increase in liabilities
 - c. Decrease in capital
 - d. Decrease in revenue

8. Which of the following applications of the rules of debit and credit is true?
 - a. Increase rent expense with debits and the normal balance is a debit.
 - b. Decrease accounts receivable with credits and the normal balance is a credit.
 - c. Increase accounts payable with credits and the normal balance is a debit.
 - d. Decrease cash with debits and the normal balance is a credit.

9. In which of the following types of accounts are increases recorded by credits?
 - a. Liability, Revenue
 - b. Dividends, Asset
 - c. Expense, Liability
 - d. Revenue, Dividends

10. A credit balance in which of the following accounts would indicate a likely error?
 - a. Dividends
 - b. Accounts Payable
 - c. Fees Earned
 - d. Capital Stock

11. Which of the following entries records the payment of an account payable?
 - a. Debit Accounts Payable, credit Cash
 - b. Debit Cash, credit Accounts Payable
 - c. Debit Expense, credit Cash
 - d. Debit Cash, credit Expense

12. Which of the following entries records the receipt of a utilities bill from the power company?
 - a. Debit Utilities Payable, credit Accounts Payable
 - b. Debit Accounts Payable, credit Utilities Payable
 - c. Debit Utilities Expense, credit Accounts Payable
 - d. Debit Accounts Payable, credit Utilities Expense

13. The process of initially recording a business transaction is called:
 - a. Sliding
 - b. Posting
 - c. Journalizing
 - d. Transposing

14. Which of the following entries records the payment of rent for the current month?
 - a. Cash, debit; Rent Expense, credit
 - b. Rent Expense, debit; Cash, credit
 - c. Rent Expense, debit; Accounts Payable, credit
 - d. Accounts Payable, debit; Rent Expense, credit

15. Which of the following entries records the collection of cash from cash customers?
 - a. Accounts Receivable, debit; Fees Earned, credit
 - b. Fees Earned, debit; Accounts Receivable, credit
 - c. Fees Earned, debit; Cash credit
 - d. Cash, debit; Fees Earned, credit

16. The verification that the sum of the debits and the sum of the credits in the ledger are equal is called:
 - a. A journal
 - b. A ledger
 - c. Posting
 - d. A trial balance

17. An error was discovered in computing and paying the wages of an employee of Allen Appliance Repair. Allen received cash from the employee for the amount of the overpayment. Which of the following entries for Allen records this transaction?
 - a. Wages Payable, debit; Wages Expense, credit
 - b. Wages Expense, debit; Wages Payable, credit
 - c. Wages Expense, debit; Cash, credit
 - d. Cash, debit; Wages Expense, credit

18. Which of the following errors, each considered individually, would cause the trial balance totals to be unequal?
 - a. A payment of \$248 to a creditor was posted as a debit of \$248 to Accounts Payable and a debit of \$248 to Accounts Receivable.
 - b. Cash received from customers on account was posted as a debit of \$450 to Cash and a credit of \$450 to Accounts Payable.
 - c. A payment of \$79 for supplies was posted as a debit of \$97 to Supplies and a credit of \$97 to Cash.
 - d. A transaction was not posted.

19. Every transaction affects at least two accounts.
 - a. True
 - b. False

20. Transactions are recorded in chronological order in the general journal.
 - a. True
 - b. False

21. If an expense is incurred but not paid, then
 - a. Liabilities will increase
 - b. Stockholder's equity will increase
 - c. Assets will decrease
 - d. Expenses will decrease

22. Accounts with normal debit balances include:
 - a. Assets and liabilities
 - b. Liabilities and expenses
 - c. Stockholder's equity and revenues
 - d. Expenses and assets

23. Accounts with normal credit balances include:
 - a. Assets and liabilities
 - b. Revenues and expenses
 - c. Liabilities and stockholder's equity
 - d. Revenues and assets

24. The process of transferring entries from the journal to the ledger is called:
 - a. Journalizing
 - b. Transferring
 - c. Posting
 - d. Balancing

25. The entire group of accounts maintained by a company is collectively referred to as the:
 - a. Ledger
 - b. Journal
 - c. Financial statements
 - d. Basic equation

26. The chart of accounts lists a company's accounts in what order?
 - a. Assets, liabilities, revenues, expenses, stockholders' equity
 - b. Assets, revenues, expenses, liabilities, stockholders' equity
 - c. Assets, liabilities, stockholders' equity, expenses, revenue
 - d. Assets, liabilities, stockholders' equity, revenues, expenses

27. When a trial balance balances, it is an indication that:
- a. All journal entries have been posted.
 - b. The account balances are correct.
 - c. Debits equal credits.
 - d. All transactions have been journalized.
28. Accounts are listed on the trial balance in:
- a. Chronological order
 - b. The order that they appear in the ledger
 - c. Alphabetical order
 - d. The order in which they are posted

SOLUTIONS TO PRACTICE PROBLEMS

Practice Problem #1

a. Cash	27,500	
Capital Stock		27,500
b. Rent Expense	2,500	
Cash		2,500
c. Supplies	2,225	
Cash		2,225
d. Prepaid Insurance	1,500	
Cash		1,500
e. Equipment	10,000	
Accounts Payable		10,000
f. Cash	3,800	
Fees Earned		3,800

g. Utilities Expense	475	
Accounts Payable		475
h. A/R	1,800	
Fees Earned		1,800
i. Cash	900	
A/R		900
j. Accounts Payable	4,200	
Cash		4,200
k. Dividends	2,800	
Cash		2,800

Cash	
a) 27,500 f) 3,800 i) 900 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> 18,975	b) 2,500 c) 2,225 d) 1,500 j) 4,200 k) 2,800 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> Balance

Accounts Receivable	
h) 1,800 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> 900	i) Balance

Supplies
c) 2,225

Prepaid Insurance
d) 1,500

Equipment
e) 10,000

Accounts Payable	
j) 4,200	e) 10,000 g) 475 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> 6,275
	Balance

Capital Stock
27,500 a)

Dividends
k) 2,800

Fees Earned	
3,800 f) 1,800 h) <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> 5,600	
	Balance

Rent Expense
b) 2,500

Utilities Expense
g) 475

Practice Problem #2

- a. Cash -850
- b. Cash +2,700
- c. Dividend +3,000; Delivery Expense +3,000
- d. Advertising Expense change to 8,900
- e. A/R -250
- f. Supplies +500
- g. Retained Earnings -1,500
- h. Prepaid Expenses +180
- i. Rent Expense should be included at \$19,000
- j. A/P +700

Trial Balance		
Cash	29,500	
Accounts Receivable	38,600	
Prepaid Insurance	750	
Supplies	625	
Land	0	
Accounts Payable		13,250
Capital Stock		15,000
Retained Earnings		48,025
Dividends	10,000	
Fees Earned		158,725
Salary Expense	123,075	
Rent Expense	19,000	
Advertising Expense	8,900	
Delivery Expense	3,950	
Miscellaneous Expense	600	
Total	235,000	235,000

SOLUTIONS TO MULTIPLE CHOICE QUESTIONS

1. A
2. C
3. C
4. B
5. B
6. A
7. B
8. A
9. A
10. A
11. A
12. C
13. C
14. B
15. D
16. D
17. D
18. A
19. A
20. A
21. A
22. D
23. C
24. C
25. A
26. D
27. C
28. B