

1 Using accounting vocabulary [10–15 min]

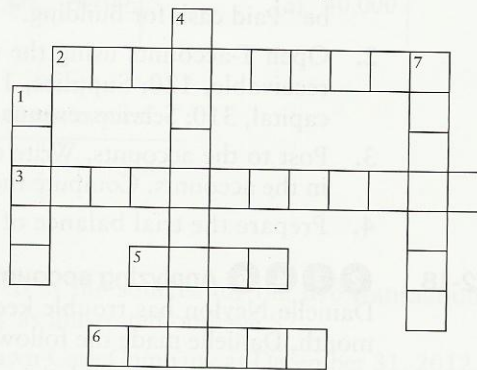
Sharpen your use of accounting terms by working this crossword puzzle.

Down:

1. Records a decrease in a liability
4. Bottom line of an income statement
7. Revenue – net income = _____

Across:

2. Amount collectible from a customer
3. Statement of financial position
5. Copy data from the journal to the ledger
6. Records a decrease in an asset

**1 2 Using debits and credits with the accounting equation [10–15 min]**

Link Back to Chapter 1 (Accounting Equation). John's Cream Soda makes specialty soft drinks. At the end of 2012, John's had total assets of \$390,000 and liabilities totaling \$260,000.

Requirements

1. Write the company's accounting equation, and label each amount as a debit or a credit.
2. The business's total revenues for 2012 were \$480,000, and total expenses for the year were \$350,000. How much was the business's net income (or net loss) for 2012? Write the equation to compute the company's net income, and indicate which element is a debit and which is a credit. Does net income represent a net debit or a net credit?

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

3 4 Analyzing and journalizing transactions [10–15 min]

The following transactions occurred for London Engineering:

- | | |
|-------|--|
| Jul 2 | Paid utilities expense of \$400. |
| 5 | Purchased equipment on account, \$2,100. |
| 10 | Performed service for a client on account, \$2,000. |
| 12 | Borrowed \$7,000 cash, signing a note payable. |
| 19 | Sold for \$29,000 land that had cost this same amount. |
| 21 | Purchased supplies for \$800 and paid cash. |
| 27 | Paid the liability from July 5. |

Requirement

1. Identify and perform the three steps to record the previously described transactions.

2 3 4 5 Describing transactions, posting to T-accounts, and preparing a trial balance [20–30 min]

The journal of Ward Technology Solutions includes the following entries for May, 2012:

- | | |
|-------|---|
| May 1 | The business received cash of \$75,000 and gave capital to the owner. |
| 2 | Purchased supplies of \$500 on account. |
| 4 | Paid \$53,000 cash for a building. |
| 6 | Performed service for customers and received cash, \$2,600. |
| 9 | Paid \$400 on accounts payable. |
| 17 | Performed service for customers on account, \$2,500. |
| 23 | Received \$1,900 cash on account from a customer. |
| 31 | Paid the following expenses: salary, \$1,100; rent, \$900. |

Requirements

1. Describe each transaction. For example, the May 4 transaction description could be "Paid cash for building."
2. Open T-accounts using the following account numbers: Cash, 110; Accounts receivable, 120; Supplies, 130; Building, 140; Accounts payable, 210; Ward, capital, 310; Service revenue, 410; Rent expense, 510; Salary expense, 520.
3. Post to the accounts. Write dates and journal references (use account numbers) in the accounts. Compute the balance of each account after posting.
4. Prepare the trial balance of Ward Technology Solutions at May 31, 2012.

E2-18**2 3 4 5 Analyzing accounting errors [20–30 min]**

Danielle Neylon has trouble keeping her debits and credits equal. During a recent month, Danielle made the following accounting errors:

- a. In preparing the trial balance, Danielle omitted a \$7,000 note payable.
- b. Danielle posted a \$90 utility expense as \$900. The credit to Cash was correct.
- c. In recording an \$800 payment on account, Danielle debited Furniture instead of Accounts payable.
- d. In journalizing a receipt of cash for service revenue, Danielle debited Cash for \$1,200 instead of the correct amount of \$120. The credit was correct.
- e. Danielle recorded a \$540 purchase of supplies on account by debiting Supplies and crediting Accounts payable for \$450.

Requirements

1. For each of these errors, state whether total debits equal total credits on the trial balance.
2. Identify each account that has an incorrect balance, and indicate the amount and direction of the error (such as "Accounts receivable \$500 too high").

Note: Exercise 2-19 should be used only after completing Exercise 2-16.

E2-19**2 4 5 Applying the rules of debit and credit, posting, and preparing a trial balance [15–25 min]**

Refer to the transactions of London Engineering in Exercise 2-16.

Requirements

1. Open the following T-accounts with their July 1 balances: Cash, debit balance \$4,000; Accounts receivable \$0; Equipment \$0; Land, debit balance \$29,000; Supplies \$0; Accounts payable \$0; Notes payable \$0; London, capital, credit balance \$33,000; Service revenue \$0; Utilities expense \$0.
2. Post the transactions of Exercise 2-16 to the T-accounts. Use the dates as posting references. Start with July 2.
3. Compute the July 31, 2012, balance for each account, and prove that total debits equal total credits by preparing a trial balance.

E2-20**2 3 4 5 Journalizing transactions, posting, and preparing a trial balance [10 min]**

In December, 2012, the first five transactions of Adams' Lawn Care Company have been posted to the accounts as follows: