

CHAPTER 4**The Simple Ledger****SECTION 4.1 REVIEW QUESTIONS** (page 90)

1. *An account is a record that documents each change to items in the accounting equation.*

2. *A ledger is a group or file of accounts.*

3. *A ledger can be an electronic computer file, loose-leaf pages in a binder, or cards in a tray.*

4. *The accounting records are often referred to as the books because accounting was done in ledger books until recently. Accounting software frequently identifies ledger accounts with a book symbol.*

5. *The beginning amounts for a ledger are usually taken from a balance sheet because a balance sheet is prepared at the start of a business to give a balanced record of the company's assets and liabilities.*

6. *The principle use of T-accounts is to help students understand accounting theory.*

7. *For any item, the correct side for its beginning value is the side on which the item itself would appear in the accounting equation. The beginning dollar amounts for the assets are placed on the left side of their T-accounts. The beginning dollar amounts for the liabilities and the owner's equity are placed on the right side of their T-accounts.*

SECTION 4.1 EXERCISES (page 91)**Exercise 1, p. 91**

Cash	A/R—A. Marks	A/R—C. Prentice
2 000	375	1 150
Land	Building	Equipment
130 000	245 000	27 800
Truck	Bank Loan	A/P—Gem Lumber
14 500	20 000	2 500
Mortgage Payable	T. Stevens, Capital	
255 000	143 325	

SECTION 4.1 EXERCISES (continued)**Exercise 2, p. 91**

Cash	A/R—P. Auul	A/R—S. Wouke
500	350	1 250
Supplies	Furniture and Equipment	Automobile
3 900	18 320	21 040
A/P—A.B. Associates	A/P—Medico Supply	Pauline Inaba, Capital
1 200	2 300	41 860

Exercise 3, p. 92

Assets: $500 + 2100 + 1545 + 500 = 4645$

Liabilities: $1350 + 2400 = 3750$

Lilly Wall's Capital: $4645 - 3750 = 895$

The fundamental accounting equation for Lilly Wall is Assets = Liabilities + Owner's Equity or
 $4645 = 3750 + 895$.

Exercise 4, p. 92

A. *Assets:* $1386 + 320 + 480 + 655 + 6809 + 3300 = 12\,950$

Liabilities: $1345 + 984 + 6000 = 8329$

Marcy Vigiani's Capital: $12\,950 - 8329 = 4621$

Cash	A/R—J. Goertzen	A/R—L. Tyler
1 386	320	480
Supplies	Equipment	Furniture
655	6 809	3 300
A/P—Body-Works Supply	A/P—Live Well Equipment	Bank Loan
1 345	984	6 000
M. Vigiani, Capital		
4 621		

SECTION 4.1 EXERCISES (continued)**Exercise 4, p. 92** (continued)

B.

*MARCI'S MASSAGE THERAPIES**BALANCE SHEET**JUNE 30, 20–*

<i>Assets</i>						<i>Liabilities</i>							
<i>Cash</i>	\$	1	3	8	6	–	<i>A/P—Body-Works Supply</i>	\$	1	3	4	5	–
<i>A/R—J. Goertzen</i>			3	2	0	–	<i>A/P—Live Well Equipment</i>			9	8	4	–
<i>A/R—L. Tyler</i>			4	8	0	–	<i>Bank Loan</i>		6	0	0	0	–
<i>Supplies</i>			6	5	5	–	<i>Total Liabilities</i>	\$	8	3	2	9	–
<i>Equipment</i>			6	8	0	9	–						
<i>Furniture</i>			3	3	0	0	–	<i>Owner's Equity</i>					
							<i>M. Vigiani, Capital</i>		4	6	2	1	–
<i>Total Assets</i>	\$	12	9	5	0	–	<i>Total Liabilities and Equity</i>	\$	12	9	5	0	–

SECTION 4.2 REVIEW QUESTIONS (page 102)

- Debit means the left side of an account and credit means the right side of an account.*

- The beginning financial position of a ledger is set up by recording the assets on the left side of their accounts and the liabilities and the capital on the right side of their accounts.*

- An increase means a debit in the asset accounts.*

- A decrease means a debit in the liability and capital accounts.*

- An increase means a credit in the liability and capital accounts.*

- A decrease means a credit in the asset accounts.*

- A transaction analysis sheet is used to help students learn to work out the accounting entry for a transaction.*

- An accounting entry represents all of the changes for a transaction in terms of debits and credits in balanced form.*

SECTION 4.2 REVIEW QUESTIONS (continued)

9. *Every correct accounting entry must balance.*
-
10. *An accounting entry that does not balance cannot be correct.*
-
11. *An accounting entry that does balance is probably correct, but not necessarily.*
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12. *The double-entry system of accounting got its name because every transaction is recorded in the accounts in two steps. It is recorded first as a debit (or debits) and second as a credit (or credits), so that the total of the debit entries equals the total of the credit entries.*
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SECTION 4.2 EXERCISES (page 102)**Exercise 1, p. 102**

Transaction No.	Account Names	Asset, Liability, or Owner's Equity	Increase (+) or Decrease (-)	Debit or Credit	Amount
1	Cash	Asset	+	Dr	300-
	A/R—J. Parker	Asset	-	Cr	300-
2	Supplies	Asset	+	Dr	200-
	Cash	Asset	-	Cr	200-
3	A/P—Little Bros.	Liability	-	Dr	100-
	Cash	Asset	-	Cr	100-
4	F. Siska, Capital	Owner's Equity	-	Dr	250-
	Cash	Asset	-	Cr	250-
5	Equipment	Asset	+	Dr	500-
	Cash	Asset	-	Cr	125-
	A/P—Champion Sports	Liability	+	Cr	375-
6	Cash	Asset	+	Dr	300-
	F. Siska, Capital	Owner's Equity	+	Cr	300-

SECTION 4.2 EXERCISES (continued)**Exercise 2, p. 103**

Transaction No.	Account Names	Asset, Liability, or Owner's Equity	Increase (+) or Decrease (-)	Debit or Credit	Amount
1	Cash	Asset	+	Dr	450-
	J. Cooks, Capital	Owner's Equity	+	Cr	450-
2	Supplies	Asset	+	Dr	170-
	Cash	Asset	-	Cr	170-
3	A/P—Rossi Co.	Liability	-	Dr	125-
	Cash	Asset	-	Cr	125-
4	Cash	Asset	+	Dr	90-
	A/R—G. Rawl	Asset	-	Cr	90-
5	J. Cooks, Capital	Owner's Equity	-	Dr	500-
	Equipment	Asset	-	Cr	500-
6	Equipment	Asset	+	Dr	790-
	A/P—Bly Co.	Liability	+	Cr	790-
7	Cash	Asset	+	Dr	100-
	A/R—F. Stefryk	Asset	+	Dr	250-
	J. Cooks, Capital	Owner's Equity	+	Cr	350-
8	Cash	Asset	+	Dr	6 000-
	Bank Loan	Liability	+	Cr	6 000-
9	J. Cooks, Capital	Owner's Equity	-	Dr	375-
	Cash	Asset	-	Cr	375-
10	Cash	Asset	+	Dr	40-
	J. Cooks, Capital	Owner's Equity	+	Cr	40-

SECTION 4.2 EXERCISES (continued)

Exercise 3, p. 103

A., B.

Cash		<i>A/R—K. Mak</i>		<i>Supplies</i>	
+	-	+	-	+	-
6 000	3 000 ①	1 000	600 ②	5 000	400 ⑦
② 600	250 ⑤				
④ 1 000	750 ⑥				
⑧ 375					

<i>Equipment</i>		<i>A/P—Heiden Fashions</i>		<i>A/P—Parry Supply Co.</i>	
+	-	-	+	-	+
10 000		① 3 000	3 000		500
③ 980					980 ③

<i>Bank Loan</i>		<i>B. Chan, Capital</i>	
-	+	-	+
	9 000	⑤ 250	9 500
	1 000 ④	⑥ 750	375 ⑧
		⑦ 400	

C.

	Assets		=	Liabilities		+	Owner's Equity	
	Debit +	Credit -		Debit -	Credit +		Debit -	Credit +
Transaction 1		3 000	=	3 000		+		
Transaction 2	600	600	=			+		
Transaction 3	980		=		980	+		
Transaction 4	1 000		=		1 000	+		
Transaction 5		250	=			+	250	
Transaction 6		750	=			+	750	
Transaction 7		400	=			+	400	
Transaction 8	375		=			+		375

SECTION 4.2 EXERCISES (continued)**Exercise 4, p. 105**

Cash		A/R—J. Goertzen		A/R—L. Tyler	
1 386	1 000 ④	320	320 ②	420	
② 320	152 ⑤			⑥ 120	
③ 360					
⑦ 3 000					
⑧ 400					

Supplies		Equipment		Furniture	
655		6 809		3 300	1 300 ⑧
		① 498			

A/P—Body-Works Supply		A/P—Live Well Equipment		Bank Loan	
④ 1 000	1 345		984		6 000
			498 ①		3 000 ⑦

M. Vigiani, Capital	
⑤ 152	4 621
⑧ 900	360 ③
	120 ⑥

SECTION 4.3 REVIEW QUESTIONS (page 110)

- An account contains the following three pieces of information: the account name, the dollar value or balance of the account, and whether the account balance is debit or credit.
- To calculate the balance of a T-account, first, add up the totals of the two columns of the T-account and write the amounts in pin totals. Next, calculate the difference between the two pin totals, write the amount of the difference on the same side as the larger of the two totals, and then circle the amount.
- You can tell which type of balance an account has by looking at the column totals in the T-account. If the debit side has the larger total, the account has a debit balance. If the credit side has the larger total, the account has a credit balance.

SECTION 4.3 REVIEW QUESTIONS (continued)

4. *An asset account has a debit balance.*
5. *A liability account and a capital account have a credit balance.*
6. *An account with an exceptional balance has a balance that is opposite to the normal one. For an asset account, this means it has a credit balance. For a liability or capital account, this means it has a debit balance.*
7. *Examples will vary. A customer overpays their account, resulting in a credit balance when the account normally has a debit balance. The owner withdraws funds from her bank account before several cheques have cleared, resulting in a credit balance when the bank account normally has a debit balance.*
8. *Overdraft protection allows a bank account balance to go below zero. This allows businesses to avoid service charges and embarrassment if their account is overdrawn.*
9. *Businesses prefer to make purchases on credit because it is convenient and it allows them to check that the merchandise is in good condition before paying for it.*
10. *A purchase on account means the goods or services are not paid for at the time of purchase and will be paid for later. A sale on account means the goods or services are sold on credit and will be paid for later. A payment on account is a sum of money paid to a creditor for an amount owing for a purchase on account. A receipt on account is a sum of money paid by a debtor for an amount owing for a sale on account.*

SECTION 4.3 EXERCISES (page 110)**Exercise 1, p. 110**

A.

Bank		A/R—H. Devrie		A/P—P. Helka		R. Smart, Capital	
250	190	25	175	30	75	150	3 140
1 210	48	150		45	40		
360	512	70			175	150	3 140
29		35					(2 990)
<u>1 849</u>	<u>750</u>	<u>280</u>	<u>175</u>	<u>75</u>	<u>290</u>		
(1 099)		(105)			(215)		

- B. *The debit balance in the H. Devrie account means that this account is an asset.*
- C. *The credit balance in the P. Helka account means that this account is a liability.*

SECTION 4.3 EXERCISES (continued)**Exercise 2, p. 110**

- A. *The Bank account and A/R—P. Chu account are both unusual because they have a credit balance when asset accounts usually have debit balances. The A/P—J. Reicher account is unusual because it has a debit account and liability accounts usually have credit balances.*
- B. *The Bank account might have a credit balance because the business temporarily withdrew more money than there was in the account. For the Account Receivable, P. Chu may have overpaid the account balance and the business has yet to issue a refund. For the Account Payable, the business might have returned merchandise to J. Reicher and gotten a refund, which shows as a debit balance.*

Exercise 3, p. 110

	Debit	Credit
A. The left side of an account.	✓	
B. The balance of an account receivable.	✓	
C. The balance of a supplier's account.		✓
D. A decrease in a liability.	✓	
E. An exceptional balance in the Bank account.		✓
F. The balance in the equipment account.	✓	
G. The right side of an account.		✓
H. The balance in the Bank Loan account.		✓
I. An exceptional balance in an account payable.	✓	
J. The larger side of a liability account.		✓
K. A creditor's account.		✓
L. A customer's account.	✓	
M. An increase in an asset.	✓	
N. A debtor's account.	✓	
O. The effect on accounts receivable when we sell on account.	✓	
P. The effect on accounts payable when we pay on account.	✓	
Q. The effect on accounts receivable when we have a receipt on account.		✓
R. The effect on accounts payable when we purchase on account.		✓

SECTION 4.3 EXERCISES (continued)

Exercise 4, p. 111

<i>Cash</i>		<i>A/R—K. Mak</i>		<i>Supplies</i>		<i>Equipment</i>	
6 000	3 000 ①	1 000	600 ②	5 000	400 ⑦	10 000	
② 600	250 ⑤	1 000	600	5 000	400	③ 980	
④ 1 000	750 ⑥	④00		④ 600		10 980	
⑧ 375						⑩ 980	
7 975	4 000						
③ 975							

<i>A/P—Heiden Fashions</i>		<i>A/P—Parry Supply Co.</i>		<i>Bank Loan</i>		<i>B. Chan, Capital</i>	
① 3 000	3 000		500		9 000	⑤ 250	9 500
0			980 ③		1 000 ④	⑥ 750	375 ⑧
			1 480		10 000	⑦ 400	
			① 480		⑩ 000	1 400	9 875
							⑧ 475

Exercise 5, p. 111

<i>Cash</i>		<i>A/R—J. Goertzen</i>		<i>A/R—L. Tyler</i>		<i>Supplies</i>	
1 386	1 000 ④	320	320 ②	480		655	
② 320	152 ⑤	0		⑥ 120			
③ 360				600			
⑦ 3 000				⑥00			
⑧ 400							
5 466	1 152						
④ 314							

<i>Equipment</i>		<i>Furniture</i>		<i>A/P—Body-Works Supply</i>		<i>A/P—Live Well Equipment</i>	
6 809		3 300	1 300 ⑧	④ 1 000	1 345		984
① 498		3 300	1 300	1 000	1 345		498 ①
7 307		② 000			③ 45		1 482
⑦ 307							① 482

<i>Bank Loan</i>		<i>M. Vigiani, Capital</i>	
6 000		⑤ 152	4 621
3 000 ⑦		⑧ 900	360 ③
9 000			120 ⑥
⑨ 000		1 052	5 101
		④ 049	

SECTION 4.4 REVIEW QUESTIONS (page 115)

1. *The initial amounts for the ledger are taken from the balance sheet, which is in balance, so the ledger accounts start off with debit totals equalling credit totals. The changes caused by business transactions are all in the form of balanced accounting entries (debits = credits). Therefore, a correct ledger will always show debit account balances equalling credit account balances.*

2. *To balance a ledger, first write the heading (company name, Trial Balance, and date) at the top of a sheet of columnar paper. List all the accounts. Write the debit balances in the debit column and the credit balance in the credit column. Add the two columns. Check that the two column totals are the same. If they are, draw a single line above and a double line below each total. If the totals are not the same, find the errors and correct the ledger and trial balance.*

3. *To take off a trial balance using an electronic calculator, first clear the calculator. Enter the balances in order, using a + for debits and a – for credits. Once all the balances are entered, press the enter key. If the ledger is in balance, the total will be zero. If the total is not zero, find the errors and correct the ledger.*

4. *It is important for the ledger to be in balance because this helps prove the accounts are accurate. If the ledger is not in balance there is at least one error in the ledger that must be found and corrected.*

5. *A completed trial balance is filed for future reference.*

6. *If you complete the procedure for balancing the ledger and the ledger is still not in balance, you must find and correct the errors. The ledger is not accurate unless it is in balance.*

7. *To balance a trial balance that is out of balance, first add the trial balance columns again. Next, check the trial balance figures against the ledger figures. Are all the numbers listed, are they accurate and are they in the right column? Next, recalculate the account balances in each ledger account. Finally, check that there is a balanced accounting entry in the accounts for each transaction.*

SECTION 4.4 EXERCISES (page 115)**Exercise 1, p. 115***J. STROM**TRIAL BALANCE**DECEMBER 31, 20-*

ACCOUNTS	DEBIT					CREDIT				
<i>Bank</i>	3	0	0	0	-					
<i>A/R—Jones</i>	10	9	4	0	-					
<i>Supplies</i>	3	4	0	0	-					
<i>Office Equipment</i>	15	3	5	0	-					
<i>Automobile</i>	21	2	0	0	-					
<i>Land</i>	250	0	0	0	-					
<i>Building</i>	240	0	0	0	-					
<i>A/P—Smith</i>						5	1	6	0	-
<i>Bank Loan</i>						52	0	0	0	-
<i>Mortgage Payable</i>						278	5	0	0	-
<i>J. Strom, Capital</i>						208	2	3	0	-
	543	8	9	0	-	543	8	9	0	-

Exercise 2, p. 116*C. HERNANDEZ**TRIAL BALANCE**JUNE 30, 20-*

ACCOUNTS	DEBIT					CREDIT				
<i>Bank</i>	5	0	0	0	-					
<i>A/R—P. Onno</i>	8	5	0	0	-					
<i>A/R—G. Slaught</i>	1	1	2	4	-					
<i>A/R—R. Tamo</i>	3	5	0	0	-					
<i>Supplies</i>	1	5	8	5	-					
<i>Equipment</i>	25	3	5	0	-					
<i>Automobiles</i>	22	8	0	0	-					
<i>A/P—J. Batt</i>						7	8	5	0	-
<i>A/P—W. Parker</i>						1	0	0	0	-
<i>A/P—H. White</i>						1	2	0	0	-
<i>Bank Loan</i>						25	0	0	0	-
<i>C. Hernandez, Capital</i>						32	2	2	4	-
	60	2	0	9	-	60	2	0	9	-

SECTION 4.4 EXERCISES (continued)**Exercise 3, p. 116***CECO CO.**TRIAL BALANCE**JUNE 30, 20-*

ACCOUNTS	DEBIT	CREDIT
<i>Bank</i>	7 0 0 0 -	
<i>A/R—M. Legris</i>	3 5 0 0 -	
<i>A/R—W. Nishi</i>	8 5 0 -	
<i>Supplies</i>	1 9 2 5 -	
<i>Equipment</i>	7 2 9 6 -	
<i>Automobile</i>	22 5 0 0 -	
<i>A/P—Jondahl Co.</i>		1 3 5 0 -
<i>A/P—P. Swartz</i>		4 2 5 0 -
<i>Bank Loan</i>		10 0 0 0 -
<i>C. Oke, Capital</i>		27 4 7 1 -
	43 0 7 1 -	43 0 7 1 -

Exercise 4, p. 116*SEW WHAT ALTERATIONS**TRIAL BALANCE**OCTOBER 31, 20-*

ACCOUNTS	DEBIT	CREDIT
<i>Bank</i>	3 9 7 5 -	
<i>A/R—K. Mak</i>	4 0 0 -	
<i>Supplies</i>	4 6 0 0 -	
<i>Equipment</i>	10 9 8 0 -	
<i>A/P—Parry Supply Co.</i>		1 4 8 0 -
<i>Bank Loan</i>		10 0 0 0 -
<i>B. Chan, Capital</i>		8 4 7 5 -
	19 9 5 5 -	19 9 5 5 -

SECTION 4.4 EXERCISES (continued)

Exercise 5, p. 117

MARCI'S MASSAGE THERAPIES

TRIAL BALANCE

JULY 2, 20–

ACCOUNTS	DEBIT					CREDIT				
<i>Bank</i>	4	3	1	4	–					
<i>A/R—L. Tyler</i>		6	0	0	–					
<i>Supplies</i>		6	5	5	–					
<i>Equipment</i>		7	3	0	7	–				
<i>Furniture</i>		2	0	0	0	–				
<i>A/P—Body-Works Supply</i>							3	4	5	–
<i>A/P—Live Well Equipment</i>							1	4	8	2
<i>Bank Loan</i>							9	0	0	0
<i>M. Vigiani, Capital</i>							4	0	4	9
	14	8	7	6	–	14	8	7	6	–

SECTION 4.5 EXERCISES (page 120)

Exercise 1, p. 120

This is a spreadsheet exercise.

Antonelli's Accounting Services October 31, 20–

ASSETS

Bank		A/R—Jones Travel		A/R—F. Leone!	
Dr	Cr	Dr	Cr	Dr	Cr
275	1 300	300	200	350	
2 000	600	500		500	
200	225				
150	152				
200					
548		600		850	
Supplies		Equipment			
Dr	Cr	Dr	Cr		
700		900	900		
225		1 300	50		
925		1 250			

LIABILITIES and EQUITY

A/P—Best Offices		A/P—Eastside News		Bank Loan	
Dr	Cr	Dr	Cr	Dr	Cr
50	175		360	225	500
152	225				2 000
	198		360		2 275
A. Antonelli, Capital					
Dr	Cr				
750	1 850				
600	500				
360	700				
	1 340				

EQUATION EQUALITY CHECK

ASSETS	=	LIABILITIES	+	EQUITY
4 173	=	2 833	+	1 340
4 173	=			4 173

SECTION 4.5 SPREADSHEET EXTENSIONS (page 121)

A.

Antonelli's Accounting Services Trial Balance October 31, 20—		
	<i>Debits</i>	<i>Credits</i>
Bank	548	
A/R—Jones Travel	600	
A/R—F. Leonel	850	
Supplies	925	
Equipment	1 250	
A/P—Best Offices		198
A/P—Eastside News		360
Bank Loan		2 275
A. Antonelli, Capital		1 340
	4 173	4 173

SECTION 4.5 SPREADSHEET EXTENSIONS (continued)

B.

SecEx4-5-Extensions-B-D.xls

Home Layout Tables Charts SmartArt Formulas Data Review

W77

Antonelli's Accounting Services November 30, 20__

ASSETS

Bank		A/R—Jones Travel		A/R—F. Leonel	
Dr	Cr	Dr	Cr	Dr	Cr
275	1 300	300	200	350	350
2 000	600	500	300	500	
200	225				
150	152				
200	20				
250	360				
300	198				
350	600				
1 200	400				
1 070		300		500	

Supplies		Equipment	
Dr	Cr	Dr	Cr
700		900	900
225		1 300	50
110			
1 035		1 250	

LIABILITIES and EQUITY

A/P—Best Offices		A/P—Eastside News		Bank Loan	
Dr	Cr	Dr	Cr	Dr	Cr
50	175	360	360	225	500
152	225		240		2 000
198	110				
	110		240		2 275

A. Antonelli, Capital	
Dr	Cr
750	1 850
600	500
360	700
20	250
600	1 200
400	
240	
	1 530

ASSETS	=	LIABILITIES	+	EQUITY
4 155	=	2 625	+	1 530
4 155	=	4 155		
		0		

T-Account Ledger Trial Balance Balance Sheet

SECTION 4.5 SPREADSHEET EXTENSIONS (continued)

C.

	<i>Debits</i>	<i>Credits</i>
Bank	1 070	
A/R—Jones Travel	300	
A/R—F. Leonel	500	
Supplies	1 035	
Equipment	1 250	
A/P—Best Offices		110
A/P—Eastside News		240
Bank Loan		2 275
A. Antonelli, Capital		1 530
	4 155	4 155

D.

Assets		Liabilities	
Cash	\$ 1 070	Accounts Payable	
Accounts Receivable		— Best Offices	\$ 110
— Jones Travel	300	— Eastside News	240
— F. Leonel	500	Bank Loan	2 275
Supplies	1 035	Total Liabilities	\$ 2 625
Equipment	1 250		
		Owner's Equity	
		A. Antonelli, Capital	1 530
Total Assets	\$ 4 155	Total Liabilities and Equity	\$ 4 155

CHAPTER 4**REVIEW EXERCISES** (page 123)**Using Your Knowledge****Exercise 1, p. 123**

Indicate whether each of the following statements is true or false by entering a T or an F in the space provided. Explain the reason for each F response in the space provided.

- A. An account may not keep track of more than two balance sheet items at any one time because it has only two sides. F
- B. Many accountants use the equation analysis sheet instead of the ledger. F
- C. There is an account in the ledger for the total assets figure. F
- D. T-accounts are ideal for small businesses. F
- E. The first dollar amount recorded in an account is placed on the same side as that account would appear in the fundamental accounting equation. T
- F. There is no account for capital because it can always be found by subtracting the total assets from the total liabilities. F
- G. A transaction analysis sheet serves as an accounting source document. F
- H. For every transaction, there is always one debit amount and one credit amount, which are equal. F
- I. A balanced accounting entry is a correct accounting entry. F
- J. The balance of an account that is not zero must be either a debit or a credit. T
- K. The J.R. Dahl account in the ledger of ABC Company is either an account payable or an account receivable. T
- L. Eric Lai is our customer whose account has a credit balance. The credit balance means that he purchased our services on credit. F
- M. An exceptional balance is opposite to what would be normal. T
- N. A credit customer is given a cash refund because of unsatisfactory service. The account of this customer will now have an exceptional balance. F
- O. A ledger contains an exceptional balance. A trial balance cannot be taken until the exceptional item is transferred to another part of the ledger. F
- P. A trial balance that is in balance proves that there are no errors in the accounts. F
- Q. A trial balance is taken using an electronic calculator. When the Total key is pressed, the figure 89.00 comes up. Therefore, the accountant must discover one error in the amount of \$89. F
- R. The business buys supplies and pays cash. The accounting entry made in the accounts is debit Bank and credit Supplies. This causes the ledger to be out of balance. F

CHAPTER 4 REVIEW EXERCISES (continued)**Exercise 1, p. 123** (continued)**Explanations for F Responses**

- A. An account keeps track of only one balance sheet item because it represents the debits and credits for that one item.*
- B. Students use equation analysis sheets as a tool for understanding accounting theory. Accountants use the ledger to organize the accounts.*
- C. A total assets figure is not found in the ledger because it is not an individual account. It is found on the balance sheet as a total of all the asset accounts.*
- D. T-accounts are used to teach accounting theory. They are not used by small businesses.*
- F. There is a capital account in the ledger.*
- G. The transaction analysis sheet is not a source document. It is a tool used to teach transaction analysis.*
- H. For every transaction, the debit side must equal the credit side but there could be more than one debit or credit amount.*
- I. A balanced accounting entry is not always correct. Debit and credit amounts may equal each other, but they could represent the wrong amounts, or they could be placed in the wrong accounts.*
- L. If Eric Lai is a customer, the credit balance in his account means that he likely overpaid the amount that he owed us.*
- N. Since a refund is cash, it would not affect the customer's account.*
- O. The exceptional balance means the balance is opposite to what is normal not that the account is out of balance or incorrect. A trial balance can be taken without any adjustment to the exceptional balance.*
- P. A balanced trial balance does not prove there are no errors. For example, if a value were in the wrong account, the ledger would balance but it would be inaccurate.*
- Q. The \$89 may not be the amount of the error. It only proves that there are one or more errors in the ledger and that the total difference is \$89.*
- R. The ledger is in balance because the debit and credit match; it is inaccurate because the amounts are entered backwards.*

Exercise 2, p. 124

- A. The Bank account was overstated. The debit side of the Bank account has \$500 too much; the credit side has \$500 too little. The net effect is a \$1000 overstatement.*
- B. The total of the debit column of the trial balance was overstated by \$1000, the same amount that Bank was overstated.*
- C. The total of the credit column of the trial balance was correctly stated. The errors occurred on the debit column, as only asset accounts were affected.*

CHAPTER 4 REVIEW EXERCISES (continued)

Exercise 3, p. 124

Answers will vary. The debit balance could still exist on the records because the cheque was not recorded. Or there may have been two bills for the same amount and M. Finney received payment on only the first one. Or the \$375 may have been entered in the wrong account.

Exercise 4, p. 124

- A. *A credit without a debit (or debits) of equal value will always cause the trial balance to be out of balance. The trial balance would be out by \$1500, the value of the missing debit.*
- B. *The debit and credit amounts are equal so the trial balance would balance.*
- C. *The debit and credit amounts are not equal so the trial balance would be out of balance. The trial balance would be out \$90, the difference between the debit and the credit (\$100 – \$10).*
- D. *The debit and credit amounts are equal so the trial balance would balance.*

Comprehensive Exercises

Exercise 5, p. 125

A. to C.

<p>Bank</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: right;">2 216</td><td style="text-align: right;">500</td><td style="text-align: right;">②</td></tr> <tr><td style="text-align: right;">① 200</td><td style="text-align: right;">1 000</td><td style="text-align: right;">⑤</td></tr> <tr><td style="text-align: right;">③ 402</td><td style="text-align: right;">50</td><td style="text-align: right;">⑥</td></tr> <tr><td style="text-align: right;">④ 100</td><td style="text-align: right;">875</td><td style="text-align: right;">⑦</td></tr> <tr><td style="border-top: 1px solid black; text-align: right;">2 918</td><td style="border-top: 1px solid black; text-align: right;">2 425</td><td></td></tr> <tr><td style="text-align: right;">④ 493</td><td></td><td></td></tr> </table> </td> <td style="width: 50%; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center; border-top: 1px solid black; border-bottom: 1px solid black;">A/R—G. 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CHAPTER 4 REVIEW EXERCISES (continued)

Exercise 5, p. 125 (continued)

A., C. (continued)

A/P—Consumers' Supply		A/P—Nu-Style Furniture		Loan Payable, M. Hoysted		A. Hoysted, Capital	
② 500	1375		2951		11 980	④ 200	12 359
⑦ 875			225 ⑧			⑥ 50	200 ①
<u>1 375</u>			<u>3 176</u>				<u>12 559</u>
0							<u>12 309</u>

D.

HOYSTED DESIGNS

TRIAL BALANCE

DECEMBER 31, 20–

ACCOUNTS	DEBIT				CREDIT			
<i>Bank</i>	4	9	3	–				
<i>A/R—G. Anderson</i>	3	5	7	–				
<i>A/R—G. Brand</i>	1	5	0	–				
<i>Office Supplies</i>	2	9	8	0				
<i>Painting Supplies</i>	4	1	2	0				
<i>Office Furniture</i>	4	8	6	5				
<i>Automobile</i>	20	0	0	0				
<i>Bank Loan</i>					5	5	0	0
<i>A/P—Nu-Style Furniture</i>					3	1	7	6
<i>Loan Payable, M. Hoysted</i>					11	9	8	0
<i>A. Hoysted, Capital</i>					12	3	0	9
	32	9	6	5	32	9	6	5

Exercise 6, p. 125

Bank		A/R—V. Morris		A/R—D. Murray		A/R—A. Niemi	
1 056	95 ③	② 4 150	2 000 ⑩	1 351	800 ⑧	2 516	516 ①
① 516	15 000 ⑤						
④ 70 000	520 ⑥	<u>2 150</u>		<u>551</u>		<u>2 000</u>	
⑧ 800	40 ⑦						
⑨ 2 000	500 ⑨						
⑬ 5 100	1 000 ④						
79 472	17 155						
<u>62 317</u>							

CHAPTER 4 REVIEW EXERCISES (continued)

Exercise 6, p. 125 (continued)

Office Supplies	Furniture and Equipment	Properties Owned	Automobile
1 115	11 916	168 042	27 965
③ 95	⑫ 600	50 000 ④	
① 210	⑫ 516	⑪ 042	
Bank Loan	A/P—Pioneer Furniture	A/P—Tuck Corporation	Cathy Geraci, Capital
⑤ 15 000		⑥ 520	⑦ 40 * 193 441
19 000	600 ⑫	⑪ 1 000	⑨ 500 4 150 ②
④ 000		1 520	20 000 ④
		0	5 100 ⑬
			540 222 691
			⑫ 151

* Calculate opening capital

RAINBOW REAL ESTATE

TRIAL BALANCE

APRIL 30, 20–

ACCOUNTS	DEBIT	CREDIT
<i>Bank</i>	62 3 1 7 –	
<i>A/R—V. Morris</i>	2 1 5 0 –	
<i>A/R—D. Murray</i>	5 5 1 –	
<i>A/R—A. Niemi</i>	2 0 0 0 –	
<i>Office Supplies</i>	1 2 1 0 –	
<i>Furniture and Equipment</i>	12 5 1 6 –	
<i>Properties Owned</i>	118 0 4 2 –	
<i>Automobile</i>	27 9 6 5 –	
<i>Bank Loan</i>		4 0 0 0 –
<i>A/P—Pioneer Furniture</i>		6 0 0 –
<i>Cathy Geraci, Capital</i>		222 1 5 1 –
	226 7 5 1 –	226 7 5 1 –

CHAPTER 4 REVIEW EXERCISES (continued)

PERSONALIZE IT (page 126)

A. *Answers will vary. Students should describe their service business.*

B. *Answers will vary. Students should list five or six assets, three liabilities, and one equity item.*

C., E., F. *Answers will vary.*

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CHAPTER 4 REVIEW EXERCISES (continued)

PERSONALIZE IT (continued)

D. 1. *Answers will vary. Transactions should be descriptive and there should be at least one transaction with more than one debit and credit.*

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

10. _____

11. _____

12. _____

Name _____

Date _____

CHAPTER 4 REVIEW EXERCISES (continued)

PERSONALIZE IT (continued)

G. *Answers will vary.*

ACCOUNTS	DEBIT				CREDIT			

Name _____

Date _____

CHAPTER 4 REVIEW EXERCISES (continued)

SHARE IT (page 127)

Ledger Accounts *Answers will vary.*

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Name _____

Date _____

CHAPTER 4 REVIEW EXERCISES (continued)

SHARE IT (continued)

Trial Balance *Answers will vary.*

ACCOUNTS	DEBIT					CREDIT				

Balance Sheet *Answers will vary.*

ENJOY IT (page 127)

Attach a copy of the lyrics for your song or rap, or the script for your music video to your Workbook.

CHAPTER 4 REVIEW EXERCISES (continued)**Questions for Further Thought, p. 127**

1. *To determine whether a ledger account is an asset, a liability, or an equity account, examine its account title and especially its balance. Asset accounts have debit balances. Liability accounts have credit balances. The equity account also has a credit balance but has the word capital in its title.*
2. *The normal side for an asset is left because it normally has a debit balance. The normal side for a liability and equity is right because they normally have credit balances.*
3. *The rules of debit and credit are identical for liabilities and equity because both originate on the right side of the accounting equation and both normally have a credit balance. This means debits and credits affect both types of accounts in the same way.*
4. *You do not debit Automobiles when you pay to get a fender straightened on the company automobile because the value of the automobile has not increased. The business is not better off as a result of the transaction. A cost has been incurred and, because of the reduced cash, there are actually fewer assets for the owner to claim.*
5. *No, the statement is not perfectly true. An accounting entry could have more than one debit and one credit, so long as the total value of all the debits equals the total value of all the credits.*
6. *In a handwritten ledger, pin totals make it easy to calculate an account balance and to put that balance on the proper side of the account. They are written in pencil to allow changes, if needed.*
7. *If you were given an account balance without being told if it is a debit or a credit balance, you would assume that the account has a normal balance.*
8. *No, you could not tell if Sarah Jones is a debtor or a creditor without knowing if the \$350 account balance is the debit or credit. She could be a customer who owes the company money or a professional who sold the company accounting or legal services, for example.*
9. *An exceptional account balance is one where the balance is the opposite to what is normal. Unusual, opposite, and abnormal all describe an exceptional account because the balance is unusual, is opposite to what is usual, and it is abnormal for such a situation to arise.*
10. *The method of taking off a trial balance using an electronic calculator is called the zero-proof method because, if the ledger is balanced, the result of all your calculations should be zero.*

CASE STUDIES (page 128)**Case 1** Are Debits and Credits Confusing? (p. 128)

1. *No, Yolanda is not correct in assuming an error has been made. Banks treat customers' accounts as liabilities. Customers are only lending their money to the bank and could make withdrawals at any time. So when the bank credited Yolanda's account, it was increasing a liability. The same account is treated as an asset by the customer, who owns the money.*
2. *Yes, the bank always increases personal bank balances by crediting the accounts.*
3. *Answers will vary. The note to Yolanda should explain that banks view money on deposit as a liability, so they would increase their liability to her with a credit entry.*

Case 2 Property Value: A Matter of Opinion? (p. 128)

1. *The property should not be listed at \$375 000. It should be listed at the purchase price of \$180 000. Listing the property at an inflated price will bring accounting standards into the discussion. The objectivity principle, the cost principle, and the revaluation model (IFRS) all have something to contribute. The objectivity principle states that business records must be based on clear, verifiable evidence, such as the receipt showing Gary bought the property for \$180 000 after it was listed for sale for over two years. His personal opinion is of little value. The cost principle states that assets should be listed at their historical or original price not at their market value. Under the revaluation model of IFRS, Gary could list the property at its fair market value, but he would have to gather some objective evidence of its real market value and follow the guidelines established by the IFRS to ensure his valuation is reliable.*
2. *Answers will vary. The note to Gary should use the accounting principles from Question 1 to explain that he must show the property at its real value of \$180 000.*
3. *Answers will vary. Students should conclude that lending Gary the money is a bad idea and use points above and from the case study in their letter. Letters should be written in acceptable business format.*

Case 3: Challenge Choosing Between Two Companies (p. 129)

1. *No, the balance sheets do not reflect the actual cash values of the asset, because the assets are listed at their historical values. The businesses have not recently been operating; market conditions will have changed.*
2. *Yes, there are several problems associated with selling the assets. The equipment might be specialty equipment that is hard to sell or it might be outdated and worthless. The buildings might be fitted for a specialized industry so that it is hard to adapt to other uses. Even if the properties are sold for more than their listed values, both have large mortgages against them.*

CASE STUDIES (continued)**Case 3: Challenge** *Choosing Between Two Companies*, p. 129 (continued)

3. *Reports will vary. Students should conclude that Company A would be better to own because it has fewer problems affecting the sale of assets. It has more money in Bank, a smaller Accounts Receivable and Accounts Payable, less investment in Equipment, and has paid off more of its mortgage.*

CAREER

Holly Henderson/Real Estate Sales Representative

(page 130)

Discussion (p. 130)

1. *Holly uses accounting to sell commercial properties and to manage her own business.*
2. *Holly thinks knowledge of accounting is important because it helps her assess the properties she deals with and determine realistic prices.*
3. *Answers will vary. Sample list: Partnerships, Section 12.1; income statement, Section 5.1; balance sheet, Chapter 2; cash flow, Section 9.4; debt ratio, Section 12.3; gross profit margin, Section 10.1; budgeting, Section 12.5; payroll, Payroll Accounting (appendix).*
4. *Some of Holly's overhead expenses are marketing, office supplies and equipment, and salaries.*
5. *Real estate representatives need to work hard, cope with long hours, assess the value of properties, and negotiate.*