

# PART 2

## Accounting systems and processes

Recording transactions	3
Adjusting the accounts and preparing financial statements	4
Completing the accounting cycle	5
Accounting for retailing	6
Accounting systems	7

# CHAPTER 3

## Recording transactions

### CONTENTS

Demonstration problem

- 3.1 Recording transactions and preparing financial statements
- 3.2 Transaction analysis and journalising
- 3.3 Preparation of trial balance
- 3.4 Effect of errors on trial balance
- 3.5 Journal entries, entering beginning account balances, posting to a T account, and trial balance
- 3.6 Journal entries, posting to running balance ledger accounts, and trial balance for 2 consecutive months

## DEMONSTRATION PROBLEM

Mike Johnson established an interior decorating service to be operated from his home, called the Johnson Decorating Service. During the first month of operation, he completed the following transactions.

2003

- July    1    Deposited \$20 000 in the business cheque account.  
           1    Purchased office equipment on credit for \$6000.  
           2    Purchased a used motor vehicle for \$21 000, paying \$6000 by cheque  
                  and signing a loan agreement for the balance.  
           2    Paid \$900 for a 1-year insurance policy on the vehicle.  
           8    Purchased office supplies on credit, \$700.  
          15    Completed a decorating assignment for client and received \$1400  
          17    cash.  
          28    Received deposit from customer for services to be performed in  
                  August, \$400.  
                  Invoiced a client for services completed in July, \$1200.

**Required:**

A. Set up a general ledger in T-account format using these account titles and numbers:

Cash at Bank	1-100	Accounts Payable	2-100
Accounts Receivable	1-105	Unearned Service Fees	2-200
Office Supplies Inventory	1-120	Loan Payable	2-300
Prepaid Insurance	1-131	Mike Johnson, Capital	3-100
Motor Vehicle	1-160	Service Fee Revenue	4-100
Office Equipment	1-180		

- B. 1. Journalise the above transactions.  
 2. Post the entries to the T accounts, and balance the accounts after all entries are posted.  
 3. Prepare a trial balance as at 31 July 2003.

(continued)

*Solution to demonstration problem*

- B. 1. Recording transactions in the general journal. The posting reference column of the journal shows the account numbers progressively as the entries are posted in part B.2.

General Journal					Page 1
Date		Particulars	Post Ref.	Debit	Credit
2003					
July	1	Cash at Bank Mike Johnson, Capital To record the investment of cash by owner in the business.	1-100 3-100	20 000	20 000
	1	Office Equipment Accounts Payable To record the purchase of office equipment on account.	1-180 2-100	6 000	6 000
	2	Motor Vehicle Cash at Bank Loan Payable To record the purchase of a motor vehicle for \$6000 and signing of a \$15 000 loan agreement.	1-160 1-100 2-300	21 000	6 000 15 000
	2	Prepaid Insurance Cash at Bank To record the purchase of a 1-year insurance policy on the motor vehicle.	1-131 1-100	900	900
	8	Office Supplies Inventory Accounts Payable To record the purchase of office supplies on account.	1-120 2-100	700	700
	15	Cash at Bank Service Fee Revenue To record revenue received on completion of assignment.	1-100 4-100	1 400	1 400
	17	Cash at Bank Unearned Service Fees To record receipt of an advance payment for services.	1-100 2-200	400	400
	28	Accounts Receivable Service Fee Revenue To record invoicing customers for services rendered.	1-105 4-100	1 200	1 200

(continued)



WILEY

A. and B. 2.

Cash at Bank				1-100	
1/7	Mike Johnson, Capital	20 000	2/7	Motor Vehicle	6 000
15/7	Service Fee Revenue	1 400	2/7	Prepaid Insurance	900
17/7	Unearned Service Fees	400	31/7	Balance c/d	14 900
		<u>21 800</u>			<u>21 800</u>
31/7	Balance b/d	14 900			
Accounts Receivable				1-105	
28/7	Service Fee Revenue	1 200			
Office Supplies Inventory				1-120	
8/7	Accounts Payable	700			
Prepaid Insurance				1-131	
2/7	Cash at Bank	900			
Motor Vehicle				1-160	
2/7	Cash at Bank/Loan Payable	21 000			
Office Equipment				1-180	
1/7	Accounts Payable	6 000			
Accounts Payable				2-100	
31/7	Balance c/d	6 700	1/7	Office Equipment	6 000
		<u>6 700</u>	8/7	Office Supplies Inventory	700
			31/7	Balance b/d	6 700
Unearned Service Fees				2-200	
			17/7	Cash at Bank	400
Loan Payable				2-300	
			2/7	Motor Vehicle	15 000
Mike Johnson, Capital				3-100	
			1/7	Cash at Bank	20 000
Service Fee Revenue				4-100	
31/7	Balance c/d	2 600	15/7	Cash at Bank	1 400
		<u>2 600</u>	28/7	Accounts Receivable	1 200
			31/7	Balance b/d	2 600

The T accounts are balanced as shown on page 72 of the text.

## B. 3. Preparation of trial balance on 31 July 2003.

JOHNSON DECORATING SERVICE			
Trial Balance			
as at 31 July 2003			
Account title	Account No.	Debit	Credit
Cash at bank	1-100	\$ 14 900	
Accounts receivable	1-105	1 200	
Office supplies inventory	1-120	700	
Prepaid insurance	1-131	900	
Motor vehicle	1-160	21 000	
Office equipment	1-180	6 000	
Accounts payable	2-100		\$ 6 700
Unearned service fees	2-200		400
Loan payable	2-300		15 000
Mike Johnson, Capital	3-100		20 000
Service fee revenue	4-100		2 600
		<u>\$44 700</u>	<u>\$44 700</u>

At this stage, it would now be possible to prepare a statement of financial performance for the period ending 31 July 2003 and a statement of financial position as at 31 July 2003.

## ADDITIONAL PROBLEMS

### Problem 3.1

 Recording transactions and preparing financial statements

Statement of financial position item balances for Jackie Wong's business on 30 June 2003 are given below in accounting equation form similar to the chapter illustrations.

Assets				=	Liabilities		+	Owner's Equity
Cash at Bank	Accounts Receivable	Office Supplies	Office Equipment	=	Accounts Payable	Loan Payable	+	Jackie Wong, Capital
Bal. \$7 925	\$13 250	\$1 000	\$19 875	=	\$2 425	\$8 750	+	\$30 875

During the early part of July, Jackie Wong entered into the following transactions:

1. Paid \$2150 on accounts payable.
2. Collected \$7400 of the accounts receivable.
3. Purchased office equipment for \$4200. Paid \$1500 in cash and signed a loan agreement for \$2700.
4. Billed customers for services performed, \$5450.
5. Purchased supplies on credit, \$340.
6. Paid expenses in cash \$4250 (advertising, \$600; rent, \$2000; wages, \$1650).
7. Used \$500 of supplies during the period.
8. Collected \$6750 of accounts receivable.
9. Jackie Wong withdrew \$600 for his personal use.

**Required:**

- A. List the 30 June balances for assets, liabilities and owner's equity in table form as shown above.
- B. Record the effects of each transaction. Show the total of each column after recording each transaction as illustrated in the text.
- C. Prepare a statement of financial performance and statement of owner's equity for the month and a statement of financial position in account format as at 31 July 2003.

### Solution

A. and B.

	Assets								=	Liabilities			+	Owner's Equity
	Cash at Bank	+	Accounts Receivable	+	Office Supplies	+	Office Equipment	+	Accounts Payable	+	Loan Payable	+	J. Wong, Capital	
(1)	\$7 925	+	13 250	+	1 000	+	19 875	=	2 425	+	8 750	+	\$30 875	
	-2 150								-2 150					
(2)	5 775	+	13 250	+	1 000	+	19 875	=	275	+	8 750	+	30 875	
	+7 400	-	7 400											
(3)	13 175	+	5 850	+	1 000	+	19 875	=	275	+	8 750	+	30 875	
	-1 500					+	4 200			+	2 700			
(4)	11 675	+	5 850	+	1 000	+	24 075	=	275	+	11 450	+	30 875	
		+	5 450						+ 340			+	5 450	
(5)	11 675	+	11 300	+	1 000	+	24 075	=	615	+	11 450	+	36 325	
					340									
(6)	11 675	+	11 300	+	1 340	+	24 075	=	615	+	11 450	+	36 325	
	-4 725											-	4 250	
(7)	7 425	+	11 300	+	1 340	+	24 075	=	615	+	11 450	+	32 075	
				-	500							-	500	
(8)	7 425	+	11 300	+	840	+	24 075	=	615	+	11 450	+	31 575	
	- 600											-	600	
	<u>6 825</u>	+	<u>11 300</u>	+	<u>840</u>	+	<u>24 075</u>	=	<u>615</u>	+	<u>11 450</u>	+	<u>3 975</u>	

C.

JACKIE WONG		
Statement of Financial Performance		
for the month ended 31 July 2003		
<i>Revenues</i>		
Service revenue		\$5 450
<i>Expenses</i>		
Wages expense	\$1 650	
Rent expense	2 000	
Advert expense	600	
Supplies expense	<u>500</u>	
		<u>4 750</u>
Net Profit		<u>\$ 700</u>

JACKIE WONG	
Statement of Owner's Equity	
for the month ended 31 July 2003	
Jackie Wong, Capital - 30 June 2003	\$30 875
Add: Net profit for the month	<u>700</u>
	31 575
Less: Drawings during the month	<u>600</u>
Jackie Wong, Capital - 31 July 2003	<u>\$30 975</u>

JACKIE WONG			
Statement of Financial Position			
as at 31 July 2003			
<i>Assets</i>		<i>Liabilities</i>	
Cash at Bank	\$6 825	Accounts payable	\$615
Accounts receivable	11 300	Loan payable	11 450
Office Supplies	840	<i>Owner's Equity</i>	
Office Equipment	<u>24 075</u>	Jackie Wong, Capital	<u>30 975</u>
	<u>\$43 040</u>		<u>\$43 040</u>





**Problem 3.2****Transaction analysis and journalising**

- A. Reproduce general journal entries for each of the five transactions that took place during July.
- B. Prepare appropriate T accounts showing all details reflecting the above transactions.
- The following transactions relate to a business:
1. Owner contributed additional cash resources, \$10 000.
  2. Purchased office supplies on account, \$500.
  3. Sold office equipment for cash, \$4000.
  4. Billed customer for services performed, \$1500.
  5. Issued cheque, \$3000, and took out a loan payable, \$2000, to purchase office equipment.
  6. Paid creditor by cheque, \$750.
  7. Owner withdrew money from business bank account by cheque for private use, \$1000.
  8. Cash payment made for a 12-month insurance policy in advance, \$750.
  9. Paid for an advertisement that appeared in last week's newspaper, \$350.
  10. Received payment on an account receivable, \$450.

**Required:**

- A. Analyse each of the above transactions. Indicate whether each of the accounts affected is an asset, a liability, an owner's equity, a revenue or an expense. Also indicate whether the account is being increased or decreased and whether the increase or decrease is a debit or credit.
- Example: Paid salaries in cash  
Increase an expense (debit), decrease an asset (credit)
- B. Enter the above transactions in the general journal.

## Solution

A.

1. Increase an asset (debit), increase owner's equity (credit)
2. Increase an asset (debit), increase a liability (credit)
3. Increase an asset (debit), decrease an asset (credit)
4. Increase an asset (debit), increase a revenue (credit)
5. Increase an asset (debit), decrease an asset (credit), increase a liability (credit)
6. Decrease a liability (debit), decrease an asset (credit)
7. Decrease owner's equity (debit), decrease an asset (credit)
8. Increase an asset (debit), decrease an asset (credit)
9. Increase an expense (debit), decrease an asset (credit)
10. Increase an asset (debit), decrease an asset (credit).

B.

- |   |        |        |
|---|--------|--------|
| 1. Cash at Bank   | 10 000 |        |
| Capital   |        | 10 000 |
| Owner invested \$10 000 in the business                                 |        |        |
| 2. Office Supplies  | 500    |        |
| Account Payable   |        | 500    |
| To record purchase of office supplies on credit.                        |        |        |
| 3. Cash at bank   | 4 000  |        |
| Office equipment  |        | 4 000  |
| To record purchase of office supplies on credit.                        |        |        |
| 4. Account Receivable   | 1 500  |        |
| Service Fees Revenue  |        | 1 500  |
| Billed customers for services performed                                 |        |        |
| 5. Office equipment   | 5 000  |        |
| Loan payable  |        | 2 000  |
| Cash at Bank  |        | 3 000  |
| To record purchase of equipment for \$5 000 for cash and a loan payable |        |        |
| 6. Accounts Payable   | 750    |        |
| Cash at Bank  |        | 750    |
| Paid creditor by cheque   |        |        |
| 7. Drawings   | 1 000  |        |
| Cash at Bank  |        | 1 000  |
| Owner withdrew cash for his own use                                     |        |        |
| 8. Prepaid insurance  | 750    |        |
| Cash at Bank  |        | 750    |
| Paid for insurance policy in advance                                    |        |        |
| 9. Advertising expense  | 350    |        |
| Cash at Bank  |        | 350    |
| Paid for advertising  |        |        |
| 10. Cash at Bank  | 450    |        |
| Account receivable  |        | 450    |
| Received payment from account receivable                                |        |        |



### Problem 3.3 Preparation of trial balance

The ledger of the Redlands Laundry contains the following account titles and balances at 30 April 2003. Each account has a normal balance. The balance in the Cash at Bank account has been intentionally omitted and will therefore be a balancing item.

Accounts Payable	\$ 3 000	A. West, Capital	\$35 500
Accounts Receivable	2 000	A. West, Drawings	18 700
Alterations Revenue	10 200	Bills Payable	15 000
Washing Machines	36 000	Prepaid Rent	600
Dryers	12 000	Rent Expense	15 400
Interest Expense	450	Salary Expense	28 800
Interest Payable	400	Supplies Inventory	470
Power and Light Expense	3 600	Supplies Expense	2 400
Laundry Revenue	62 500	Cash at Bank	X

**Required:**

Prepare a trial balance as at 30 April 2003. Include the correct balance in the Cash at Bank account. List the accounts in the proper order.

### Solution

REDLANDS LAUNDRY Trial Balance as at 30 April 2003		
	Debit	Credit
Cash at Bank	\$6 180	
Accounts Receivable	2 000	
Prepaid Rent	600	
Supplies Inventory	470	
Washing Machines	36 000	
Dryers	12 000	
Accounts Payable		\$3 000
Interest Payable		400
Bills Payable		15 000
A. West, Capital		35 500
A. West, Drawings	18 700	
Laundry Revenue		62 500
Alterations Revenue		10 200
Salary Expense	28 800	
Rent Expense	15 400	
Supplies Expense	2 400	
Power and Light Expense	3 600	
Interest Expense	450	
<b>TOTAL</b>	<b><u>\$126 600</u></b>	<b><u>\$126 600</u></b>

### Problem 3.4 Effect of errors on trial balance

- A. For each of the following errors: (a) indicate whether the error would cause the trial balance to have unequal totals; (b) determine the amount by which the trial balance totals would differ; and (c) determine if the error would cause the debit total or the credit total to be larger.
1. Receipt of a payment on account from a customer was recorded as a debit to Cash at Bank for \$850 and a credit to Accounts Payable for \$850.
  2. A \$210 debit to Cash at Bank was posted as a credit.
  3. A purchase of supplies for \$780 was recorded as a debit to Supplies Inventory for \$780 and a credit to Accounts Payable for \$870.
  4. A \$237 credit to Service Revenue was not posted.
  5. A \$315 debit to the Drawings account was debited to the Capital account.
  6. A \$650 debit to Rent Expense was posted as a \$65 debit.
  7. The Accounts Payable balance of \$22 800 was entered into the trial balance as \$28 200.
  8. The Electricity Expense account was omitted completely from the trial balance.
  9. The purchase of equipment on credit was not recorded in the accounting records at all.
  10. A debit to Accounts Receivable for \$750 was posted as a debit of \$570 to Accounts Receivable.
- B. Explain how each error would be corrected. Where appropriate, give the general journal entry.

### Solution

A.

Error	(a) Would the error cause the trial balance to be out of balance?		(b) Difference between trial balance totals (\$)	(c) Column having largest total	
	Yes	No		Debit	Credit
1.		✓	equal		
2.	✓		420		✓
3.	✓		90		✓
4.	✓		237		
5.		✓	585	✓	
6.	✓		5 400	✓	
7.	✓		Balance of		✓
8.	✓		electricity expense		✓
9.		✓	account		
10.	✓		equal		✓
			180		

B.

1. Accounts Payable 850  
Account Receivable 850  
To correct error made in posting to accounts payable
2. Cross out credit and post as debit to Cash at bank
3. Cross out posting of \$870 credit to accounts payable and change to \$780.
4. Post \$237 credit to Service Revenue account.
5. Drawings 315  
Capital 315  
To correct error caused by posting to the wrong account.
6. Change posting of \$65 to \$650 debit in Rent expense account.
7. Change trial balance amount to \$22 800
8. Add Electricity Expense to debit side of trial balance.
9. Equipment xxx  
Accounts Payable or Cash at Bank xxx  
To record equipment purchased and not previously recorded
10. Change posting to Accounts Receivable to \$750 debit.

**Problem 3.5****Journal entries, entering beginning account balances, posting to T account, and trial balance**

Sue Walsh, public accountant, recently started her own practice. The trial balance at 31 March 2003 is shown below:

S. WALSH, PUBLIC ACCOUNTANT		
Trial Balance		
as at 31 March 2003		
Account title	Debit	Credit
Cash at bank	\$ 1 065	
Accounts receivable	1 605	
Office supplies inventory	315	
Prepaid insurance	234	
Office equipment	6 712	
Accounts payable		\$ 457
Loan payable		2 250
S. Walsh, Capital		6 900
S. Walsh, Drawings	5 310	
Fees revenue		10 202
Wages expense	3 150	
Rent expense	1 110	
Interest expense	72	
Cleaning expense	236	
	<u>\$ 19 809</u>	<u>\$ 19 809</u>

The following transactions were completed during April.

- |     |    |  |
|-----|----|--|
| Ap  | 2  | Paid the rent for April of \$555.  |
| ril | 3  | Received \$1056 from clients as payment on account.                        |
|     | 6  | Purchased office supplies on credit for \$172.                             |
|     | 8  | Billed clients for fees, \$2526.   |
|     | 13 | Withdrew from the business for personal use, \$590 cash.                   |
|     | 15 | Paid wages of \$735.   |
|     | 17 | Received \$1545 from clients as payment on account.                        |
|     | 20 | Paid \$96 in cash for cleaning the office.                                 |
|     | 23 | Paid accounts payable \$155.   |
|     | 25 | Paid \$375 on the loan payable plus interest of \$32.                      |
|     | 29 | Purchased office equipment for \$360 on credit.                            |
|     | 30 | Paid \$70 for a 3-month insurance policy with cover commencing 1 May 2001. |

**Required:**

- A. Prepare general journal entries to record the transactions.
- B.
  1. Open T accounts for the accounts shown in the trial balance.
  2. Enter the 1 April balance in each account.
  3. Post the April journal entries to the T accounts.
- A. Prepare a trial balance as at 30 April 2003.



## Solution

A.

### S. WALSH, PUBLIC ACCOUNTANT General Journal

April	2	Rent Expense	555	
		Cash at Bank		555
		To record payment of rent		
	3	Cash at Bank	1 056	
		Accounts Receivable		1 056
		To record cash received from patients		
	6	Supplies Inventory	172	
		Accounts Payable		172
		To record purchase of supplies on credit		
	8	Accounts Receivable	2 526	
		Fees Revenue		2 526
		To record revenue received and on account		
	13	S.Walsh, Drawings	590	
		Cash at Bank		590
		To record drawings by owner		
	15	Wages Expense	735	
		Cash at Bank		735
		To record payment of wages		
	17	Cash at Bank	1 545	
		Account Receivable		1 545
		To record receipt of cash from customers		
	20	Cleaning Expense	96	
		Cash at Bank		96
		To record payment of cleaning expense		
	23	Accounts Payable	155	
		Cash at Bank		155
		To record payment of accounts payable		
	25	Loan Payable	375	
		Interest expense	32	
		Cash at Bank		407
		To record payment of loan and interest		
	29	Office Equipment	360	
		Accounts payable		360
		Bought office equipment on credit		
	30	Prepaid Insurance	70	
		Cash at Bank		70
		To record purchase of insurance commencing 1 May 2003		



B.

## Cash at bank

31/3	Balance b/d	1 065	2/4	Rent Expense	555
3/4	Accts Receivable	1 056	13/4	S.Walsh, Drawings	590
17/4	Accts Receivable	1 545	15/4	Wages Expense	735
			20/4	Cleaning Expense	96
			23/4	Accounts Payable	155
			25/4	Loan Payable / Interest Exp	407
			30/4	Prepaid Insurance	70
			30/4	Balance c/d	1 058
		<u>3 666</u>			<u>3 666</u>
1/4	Balance b/d	1 058			

## Accounts receivable

31/3	Balance b/d	1 605	3/4	Cash at Bank	1 056
8/4	Fees Revenue	2 526	17/4	Cash at Bank	1 545
			30/4	Balance c/d	1 530
		<u>4 131</u>			<u>4 131</u>
1/5	Balance b/d	1 530			

## Office Supplies Inventory

31/3	Balance b/d	315			
6/4	Accounts payable	172	30/4	Balance c/d	487
		<u>487</u>			<u>487</u>
1/5	Balance b/d	487			

## Prepaid Insurance

31/3	Balance b/d	234			
30/4	Cash at Bank	70	30/4	Balance c/d	304
		<u>304</u>			<u>304</u>
1/5	Balance b/d	304			

(continued)

## Office Equipment

31/3	Balance b/d	6 712			
29/4	Accounts Payable	360	30/4	Balance c/d	7 072
		<u>7 072</u>			<u>7 072</u>
1/5	Balance b/d	7 072			

## Accounts Payable

23/4	Cash at Bank	155	31/3	Balance b/d	457
			6/4	Supplies Inventory	172
30/4	Balance c/d	834	29/4	Office Equipment	360
		<u>989</u>			<u>989</u>
			1/5	Balance b/d	834

## Loan Payable

25/4	Cash at Bank	375	31/3	Balance b/d	2 250
30/4	Balance c/d	1 875			
		<u>1 875</u>	1/5	Balance b/d	1 875

## S. Walsh, Capital

			31/3	Balance b/d	6 900
--	--	--	------	-------------	-------

## S. Walsh, Drawings

31/3	Balance b/d	5 310			
13/4	Cash at Bank	590	30/4	Balance c/d	5 900
		<u>5 900</u>			<u>5 900</u>
1/5	Balance b/d	5 900			

## Fees Revenue

			31/3	Balance b/d	10 202
			8/4	Accts Receivable	2 526
30/4	Balance c/d	12 728			
		<u>12 728</u>			<u>12 728</u>
			30/4	Balance b/d	12 728

(continued)



## Wages Expense

31/3	Balance b/d	3 150			
15/4	Cash at Bank	735	30/4	Balance c/d	3 885
		<u>3 885</u>			<u>3 885</u>

## Rent Expense

31/3	Balance b/d	1 110			
2/4	Cash at Bank	555	30/4	Balance c/d	1 665
		<u>1 665</u>			<u>1 665</u>
30/4	Balance b/d	1 665			

## Interest Expense

31/3	Balance b/d	72			
25/4	Cash at Bank	32	30/4	Balance c/d	104
		104			104
30/4	Balance b/d	104			

## Cleaning Expense

31/3	Balance b/d	236			
20/4	Cash at Bank	96	30/4	Balance c/d	332
		<u>332</u>			<u>332</u>

C.

S.WALSH, ACCOUNTANT  
Trial Balance  
as at 30 April 2003

	Debit	Credit
Cash at bank	\$1 058	
Accounts receivable	1 530	
Supplies inventory	487	
Prepaid insurance	304	
Office equipment	7 072	
Accounts payable		\$834
Loan payable		1 875
S.Walsh, Capital		6 900
S.Walsh, Drawings	5 900	
Services revenue		12 728
Wages expense	3 885	
Rent expense	1 665	
Interest expense	104	
Cleaning expense	332	
	<u>\$22 337</u>	<u>\$22 337</u>

**Problem 3.6****Journal entries, posting to running balance ledger accounts, and trial balance for 2 consecutive months**

Doug Blue opened Bluey's Billiards Saloon during July 2002 and completed the following transactions during the month.

July	1	Invested \$20 500 capital in the business.
	1	Paid rent for July of \$620 in advance.
	2	Purchased pool tables and other equipment with a cheque for \$13 500 and signed a loan agreement for \$20 000.
	4	Paid \$145 for advertising.
	6	Purchased supplies on credit for \$253.
	15	Recorded cash revenue for the first half of the month of \$1275.
	24	Withdrew \$500 from the business bank account for personal use.
	31	Recorded cash revenue for the second half of the month of \$1720.
	31	Paid wages of \$700.

Use the following account titles and numbers:

Cash at Bank, 1-100	Doug Blue, Capital, 3-100
Supplies Inventory, 1-110	Doug Blue, Drawings, 3-110
Equipment, 1-120	Revenue, 4-100
Accounts Payable, 2-100	Rent Expense, 5-100
Loan Payable, 2-110	Advertising Expense, 5-110
	Wages Expense, 5-120

**Required:**

- Prepare general journal entries to record the July transactions.
- Post the entries from the general journal to running balance general ledger accounts and enter the posting references in the journal.
- Prepare a trial balance as at 31 July 2002.

The following transactions took place in August:

Aug.	1	Paid rent for August of \$525.
	4	Paid \$160 of the amount owed for supplies.
	8	Paid \$83 for advertisements in local newspaper.
	13	Blue withdrew \$475 from the business for personal use.
	14	Recorded cash revenue for the first half of August of \$1640.
	15	Paid wages of \$825 in cash.
	21	Purchased supplies on credit for \$174.
	31	Recorded cash revenue for the second half of August of \$1720.

**Required:**

- Prepare journal entries to record the August transactions.
- Post the entries to the ledger.
- Prepare a trial balance as at 31 August 2002.



## Solution

A.

BLUEY'S BILLIARDS SALOON

GENERAL JOURNAL

2002

July.

1	Cash at Bank	1-100	20 500	
	Doug Blue, Capital	3-100		20 500
	To record cash invested by owner			
1	Rent Expense	5-100	620	
	Cash at Bank	1-100		620
	To record rent paid			
2	Equipment	1-120	33 500	
	Cash at Bank	1-100		13 500
	Loan Payable	2-110		20 000
	To record equipment purchased for cash and bill payable			
4	Advertising Expense	5-110	145	
	Cash at Bank	1-100		145
	To record cash paid for advertising			
6	Supplies Inventory	1-110	253	
	Accounts Payable	2-100		253
	To record supplies purchased on credit			
15	Cash at Bank	1-100	1 275	
	Revenue	4-100		1 275
	To record cash revenue for first half of month			
24	Doug Blue, Drawings	3-110	500	
	Cash at Bank	1-100		500
	To record cash drawings by owner			
31	Cash at Bank	1-100	1 720	
	Revenue	4-100		1 720
	To record cash revenue for second part of month			
31	Wages Expense	5-120	700	
	Cash at Bank	1-100		700
	To record wages paid			

B. and E.

ACCOUNT Cash at Bank

Account No. 1-100

Date	Explanation	Post. Ref.	Debit	Credit	Balance
1 7			20 500		20 500
1 7				620	19 880
2 7				13 500	6 380
4 7				145	6 235
15 7				1 275	7 510
24 7				500	7 010
31 7			1 720		8 730
31 7				700	8 030
1 8				525	7 505
4 8				160	7 345
8 8				83	7 262
13 8				475	6 787
14 8			1 640		8 427
15 8				825	7 602
31 7			1 720		9 322



WILEY

**ACCOUNT: Supplies Inventory**

Account No. 1-110

Date	Explanation	Post. Ref.	Debit	Credit	Balance
6 7			253		253
21 8			174		427

**ACCOUNT: Equipment**

Account No. 1-120

Date	Explanation	Post. Ref.	Debit	Credit	Balance
2 7			33 500		33 500

**ACCOUNT Accounts Payable**

Account No. 2-100

Date	Explanation	Post. Ref.	Debit	Credit	Balance
6 7				253	253
4 8			160		93
21 8				174	267

**ACCOUNT Loan Payable**

Account No. 2-110

Date	Explanation	Post. Ref.	Debit	Credit	Balance
2 7			33 500		33 500

**ACCOUNT Doug Blue, Capital**

Account No. 3-100

Date	Explanation	Post. Ref.	Debit	Credit	Balance
1 7				20 500	20 500

**ACCOUNT Doug Blue, Drawings**

Account No. 3-110

Date	Explanation	Post. Ref.	Debit	Credit	Balance
24 7			500		500
13 8			475		975

**ACCOUNT Revenue**

Account No. 4-100

Date	Explanation	Post. Ref.	Debit	Credit	Balance
15 7				1 275	1 275
31 7				1 720	2 995
14 8				1 640	4 635
31 8				1 720	6 355

**ACCOUNT Rent Expense**

Account No. 5-100

Date	Explanation	Post. Ref.	Debit	Credit	Balance
1 7			620		620
1 8			525		1 145

**ACCOUNT Advertising Expense**

Account No. 5-110

Date	Explanation	Post. Ref.	Debit	Credit	Balance
4 7			145		145
8 8			83		228

**ACCOUNT Wages Expense**

Account No. 5-120

Date	Explanation	Post. Ref.	Debit	Credit	Balance
31 7			700		700
15 8			825		1 525



C.

BLUEY'S BILLIARDS SALOON			
Trial Balance			
as at 31 July 2002			
		Debit	Credit
Cash at bank		\$8 030	
Supplies inventory		253	
Equipment		33 500	
Accounts payable			\$253
Loan payable			20 000
Doug Blue, Capital			20 500
Doug Blue, Drawings		500	
Revenue			2 995
Rent expense		620	
Advertising expense		145	
Wages expense		700	
		<u>\$43 748</u>	<u>\$43 748</u>

D.

Aug.	1	Rent Expense	5-100	525	
		Cash at Bank	1-100		525
		To record rent paid for September			
	4	Accounts Payable	2-100	160	
		Cash at Bank	1-100		160
		To record payment for supplies			
	8	Advertising Expense	5-110	83	
		Cash at Bank	1-100		83
		To record payment for advertising			
	13	Doug Blue, Drawings	3-110	475	
		Cash at Bank	1-100		475
		To record withdrawal by owner			
	14	Cash at Bank	1-100	1 640	
		Revenue	4-100		1 640
		To record cash revenue for first half of month			
	15	Wages Expense	5-120	825	
		Cash at Bank	1-100		825
		To record payment for wages			
	21	Supplies Inventory	1-110	174	
		Accounts Payable	2-100		174
		To record supplies purchased on credit			
	31	Cash at Bank	1-100	1 720	
		Revenue	4-100		1 720
		To record cash revenue for second half of month			



F.

## BLUEY'S BILLIARDS SALOON

## Trial Balance

as at 31 August 2002

	Debit	Credit
Cash at bank	\$9 322	
Supplies inventory	427	
Equipment	33 500	
Accounts payable		\$267
Loan payable		20 000
Doug Blue, Capital		20 500
Doug Blue, Drawings	975	
Revenue		6 355
Rent expense	1 145	
Advertising expense	228	
Wages expense	1 525	
	<u>\$47 122</u>	<u>\$47 122</u>