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## Solutions to Lecture 3 – Tutorial Questions

### *Tutorial List:*

3-1, 3-2, 3-3, 3-4, 3-5, 3-6, 3-7, 3-8, 3-9

- 3-1.** Maria is incorrect. A debit balance only means that debit amounts exceed credit amounts in an account. Conversely, a credit balance only means that credit amounts are greater than debit amounts in an account. Thus, a debit or credit balance is neither favorable nor unfavorable.
- 3-2.** (a) The debit should be entered first.  
(b) The credit should be indented.
- 3-3.** (a) No, debits and credits should not be recorded directly in the ledger.  
(b) The advantages of using the journal are:  
1. It discloses in one place the complete effects of a transaction.  
2. It provides a chronological record of all transactions.  
3. It helps to prevent or locate errors because the debit and credit amounts for each entry can be easily compared.
- 3-4.** (a) The trial balance would balance.  
(b) The trial balance would not balance.

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- 3-5. Rowand Enterprises had the following selected transactions.
1. Aaron Rowand invested \$4,000 in the business in exchange for ordinary shares.
  2. Paid office rent of \$1,100.
  3. Performed consulting services and billed a client \$5,200.
  4. Declared and paid a \$700 cash dividend.

**Instructions**

- (a) Indicate the effect each transaction has on the accounting equation (Assets = Liabilities + Equity), using plus and minus signs.

Ans.

Assets = Liabilities + Equity			
1.	+	+	(Issue shares)
2.	-	-	(Expense)
3.	+	+	(Revenue)
4.	-	-	(Dividends)

- (b) Journalize each transaction. (Omit explanations.)

Ans.

		<u>Debit</u>	<u>Credit</u>
1.	Cash .....	4,000	
	Share Capital—Ordinary .....		4,000
2.	Rent Expense .....	1,100	
	Cash .....		1,100
3.	Accounts Receivable .....	5,200	
	Consulting Revenue.....		5,200
4.	Dividends .....	700	
	Cash .....		700

## 3-6.

(a)

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
May 1	Cash.....	101	25,000	
	Share Capital—Ordinary .....	311		25,000
	(Issued shares for cash)			
2	No entry—not a transaction.			
3	Supplies .....	126	2,500	
	Accounts Payable.....	201		2,500
	(Purchased supplies on account)			
7	Rent Expense.....	729	900	
	Cash .....	101		900
	(Paid office rent)			
11	Accounts Receivable .....	112	2,100	
	Service Revenue .....	400		2,100
	(Billed client for services provided)			
12	Cash .....	101	3,500	
	Unearned Revenue.....	209		3,500
	(Received cash for future services)			
17	Cash .....	101	1,200	
	Service Revenue .....	400		1,200
	(Received cash for services provided)			
31	Salaries Expense.....	726	2,000	
	Cash .....	101		2,000
	(Paid salaries)			
31	Accounts Payable (€2,500 X 40%) .....	201	1,000	
	Cash .....	101		1,000
	(Paid creditor on account)			

## 3-6. (Continued)

(b)

Cash						No. 101
Date	Explanation	Ref.	Debit	Credit	Balance	
May 1		J1	25,000		25,000	
7		J1		900	24,100	
12		J1	3,500		27,600	
17		J1	1,200		28,800	
31		J1		2,000	26,800	
31		J1		1,000	25,800	

Accounts Receivable						No. 112
Date	Explanation	Ref.	Debit	Credit	Balance	
May 11		J1	2,100		2,100	

Supplies						No. 126
Date	Explanation	Ref.	Debit	Credit	Balance	
May 3		J1	2,500		2,500	

Accounts Payable						No. 201
Date	Explanation	Ref.	Debit	Credit	Balance	
May 3		J1		2,500		
31		J1	1,000		1,500	

Unearned Revenue						No. 209
Date	Explanation	Ref.	Debit	Credit	Balance	
May 12		J1		3,500	3,500	

3-6. (Continued)

Share Capital—Ordinary No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
May 1		J1		25,000	25,000

Service Revenue No. 400

Date	Explanation	Ref.	Debit	Credit	Balance
May 11		J1		2,100	2,100
17		J1		1,200	3,300

Salaries Expense No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
May 31		J1	2,000		2,000

Rent Expense No. 729

Date	Explanation	Ref.	Debit	Credit	Balance
May 7		J1	900		900

(c) JANE KENT ACCOUNTANT  
Trial Balance  
May 31, 2011

	<u>Debit</u>	<u>Credit</u>
Cash.....	€25,800	
Accounts Receivable.....	2,100	
Supplies.....	2,500	
Accounts Payable.....		€ 1,500
Unearned Revenue.....		3,500
Share Capital—Ordinary.....		25,000
Service Revenue.....		3,300
Salaries Expense.....	2,000	
Rent Expense.....	900	
	<u>€33,300</u>	<u>€33,300</u>

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3-7. 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 Share Capital – Ordinary \$20,000. During April, the following events and transactions occurred.

- 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 x 17%) for April. Wynns paid one-half of the balance due (\$85 = \$170 x ½) 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

- 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.
- Journalize the April transactions
- Post the April journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.
- Prepare a trial balance on April 30, 2011.

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**3-7. (Continued)**

Answer

**(b) Journalize the April transactions**

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Apr. 2	Film Rental Expense .....	632	800	
	Cash .....	101		800
	(Paid film rental)			
3	No entry—not a transaction.			
9	Cash .....	101	2,800	
	Admission Revenue .....	405		2,800
	(Received cash for services provided)			
10	Mortgage Payable.....	275	2,000	
	Accounts Payable.....	201	1,000	
	Cash .....	101		3,000
	(Made payments on mortgage and accounts payable)			
11	No entry—not a transaction.			
12	Advertising Expense.....	610	500	
	Cash .....	101		500
	(Paid advertising expenses)			
20	Film Rental Expense .....	632	1,000	
	Accounts Payable.....	201		1,000
	(Rented film on account)			
25	Cash .....	101	5,200	
	Admission Revenue .....	405		5,200
	(Received cash for services provided)			
29	Salaries Expense .....	726	2,000	
	Cash .....	101		2,000
	(Paid salaries expense)			

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**3-7. (Continued)**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Apr. 30</b>	<b>Cash.....</b>	<b>101</b>	<b>85</b>	
	<b>Accounts Receivable .....</b>	<b>112</b>	<b>85</b>	
	<b>    Concession Revenue (17% X \$1,000)</b>	<b>406</b>		<b>170</b>
	<b>    (Received cash and balance on</b>			
	<b>    account for concession revenue)</b>			
<b>30</b>	<b>Prepaid Rentals .....</b>	<b>136</b>	<b>900</b>	
	<b>Cash .....</b>	<b>101</b>		<b>900</b>
	<b>    (Paid cash for future film rentals)</b>			



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**3-7. (Continued)**

- (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.
- (c) Post the April journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.

<b>Cash</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 1</b>	<b>Balance</b>	✓			<b>6,000</b>
2		J1		800	<b>5,200</b>
9		J1	2,800		<b>8,000</b>
10		J1		3,000	<b>5,000</b>
12		J1		500	<b>4,500</b>
25		J1	5,200		<b>9,700</b>
29		J1		2,000	<b>7,700</b>
30		J1	85		<b>7,785</b>
30		J1		900	<b>6,885</b>

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 30</b>		J1	85		<b>85</b>

<b>Prepaid Rentals</b>					<b>No. 136</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 30</b>		J1	900		<b>900</b>

<b>Land</b>					<b>No. 140</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 1</b>	<b>Balance</b>	✓			<b>10,000</b>

<b>Buildings</b>					<b>No. 145</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Apr. 1</b>	<b>Balance</b>	✓			<b>8,000</b>

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**3-7. (Continued)**

<b>Equipment</b>					<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			6,000

<b>Accounts Payable</b>					<b>No. 201</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			2,000
10		J1	1,000		1,000
20		J1		1,000	2,000

<b>Mortgage Payable</b>					<b>No. 275</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			8,000
10		J1	2,000		6,000

<b>Share Capital—Ordinary</b>					<b>No. 311</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 1	Balance	✓			20,000

<b>Admission Revenue</b>					<b>No. 405</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 9		J1		2,800	2,800
25		J1		5,200	8,000

<b>Concession Revenue</b>					<b>No. 406</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Apr. 30		J1		170	170

3-7. (Continued)

**Advertising Expense** No. 610

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 12		J1	500		500

**Film Rental Expense** No. 632

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 2		J1	800		800
20		J1	1,000		1,800

**Salaries Expense** No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Apr. 29		J1	2,000		2,000

(d) Prepare a trial balance on April 30, 2011.

**LAKE THEATER**  
**Trial Balance**  
**April 30, 2011**

	Debit	Credit
Cash .....	\$ 6,885	
Accounts Receivable.....	85	
Prepaid Rentals .....	900	
Land.....	10,000	
Buildings.....	8,000	
Equipment.....	6,000	
Accounts Payable.....		\$ 2,000
Mortgage Payable.....		6,000
Share Capital—Ordinary .....		20,000
Admission Revenue .....		8,000
Concession Revenue .....		170
Advertising Expense.....	500	
Film Rental Expense .....	1,800	
Salaries Expense .....	2,000	
	<u>\$36,170</u>	<u>\$36,170</u>

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