ANSWERS TO QUESTIONS

1. A T account has the following parts: (a) the title, (b) the left or debit side, and (c) the right or credit side.

2. Disagree. The terms debit and credit mean left and right respectively.

3. Jeff is incorrect. The double-entry system merely records the dual effect of a transaction on the accounting equation. A transaction is not recorded twice; it is recorded once, with a dual effect.

4. 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.

5. (a) Asset accounts are increased by debits and decreased by credits.
(b) Liability accounts are decreased by debits and increased by credits.
(c) Revenues and owner's capital are increased by credits and decreased by debits. Expenses and owner's drawing are increased by debits and decreased by credits.

6. (a) Accounts Receivable—debit balance.
(b) Cash—debit balance.
(c) Owner's Drawings—debit balance.
(d) Accounts Payable—credit balance.
(e) Service Revenue—credit balance.
(f) Salaries and Wages Expense—debit balance.
(g) Owner's Capital—credit balance.

7. (a) Accounts Receivable—asset—debit balance.
(b) Accounts Payable—liability—credit balance
(c) Equipment—asset—debit balance.
(d) Owner's Drawings—owner's equity—debit balance.
(e) Supplies—asset—debit balance.

8. (a) Debit Supplies and credit Accounts Payable.
(b) Debit Cash and credit Notes Payable.
(c) Debit Salaries and Wages Expense and credit Cash.

9. (1) Cash—both debit and credit entries.
(2) Accounts Receivable—both debit and credit entries.
(3) Owner's Drawings—debit entries only.
(4) Accounts Payable—both debit and credit entries.
(5) Salaries and Wages Expense—debit entries only.
(6) Service Revenue—credit entries only.

10. The basic steps in the recording process are:
(1) Analyze each transaction for its effect on the accounts.
(2) Enter the transaction information in a journal.
(3) Transfer the journal information to the appropriate accounts in the ledger.

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11. The advantages of using the journal in the recording process 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.

12. (a) The debit should be entered first.
(b) The credit should be indented.

13. When three or more accounts are required in one journal entry, the entry is referred to as a compound entry. An example of a compound entry is the purchase of equipment, part of which is paid for with cash and the remainder is on account.

14. (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.

15. The advantage of the last step in the posting process is to indicate that the item has been posted.

16.

(a)	Cash	9,000	
	Owner's Capital		9,000
	(Invested cash in the business)		
(b)	Prepaid Insurance	800	
	Cash		800
	(Paid one-year insurance policy)		
(c)	Supplies	2,000	
	Accounts Payable		2,000
	(Purchased supplies on account)		
(d)	Cash	7,500	
	Service Revenue		7,500
	(Received cash for services rendered)		

17. (a) The entire group of accounts maintained by a company, including all the asset, liability, and owner's equity accounts, is referred to collectively as the ledger.
(b) A chart of accounts is a list of accounts and the account numbers that identify their location in the ledger. The chart of accounts is important, particularly for a company that has a large number of accounts, because it helps organize the accounts and define the level of detail that a company desires in its accounting system.

18. A trial balance is a list of accounts and their balances at a given time. The primary purpose of a trial balance is to prove (check) that the debits equal the credits after posting. A trial balance also facilitates the discovery of errors in journalizing and posting. In addition, it is useful in preparing financial statements.

19. No, Jim is not correct. The proper sequence is as follows:
(b) Business transaction occurs.
(c) Information entered in the journal.
(a) Debits and credits posted to the ledger.
(e) Trial balance is prepared.
(d) Financial statements are prepared.

20. (a) The trial balance would balance.
(b) The trial balance would not balance.

21. The normal balances are Cash debit, Accounts Payable credit, and Interest Expense debit.

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