

Quiz

- You have 10 minutes.
- You may use your computer & notes.
- **You may not talk or text!**



Accounting

CHANGES TO
THE 'CAPITAL' ACCOUNT

Our Capital Account is made up of:

- Revenue
- Expenses
- Drawings

Where else do we see Revenue and Expenses?

- The Income Statement!

Revenue
- Expenses

= Net Income (Net Loss)

There is a connection:

- Beginning Capital

+ Net Income

- Drawings

= Ending Capital

The Balance Sheet

- The Balance Sheet is where we usually see the Owner's Equity section. (And where the Capital account is listed.)
- In order to make sure it is **up to date**, we must reflect the changes to Capital (ie. the changes to Revenue, Expenses, Drawings) of that amount!

To find our new Capital amount:

we must calculate:

$$\begin{array}{r} \text{Beginning Capital} \\ + \text{Revenue} \\ - \text{Expenses} \\ - \text{Drawings} \\ \hline = \text{Ending (our new) Capital} \end{array}$$

Net Income or (Loss)

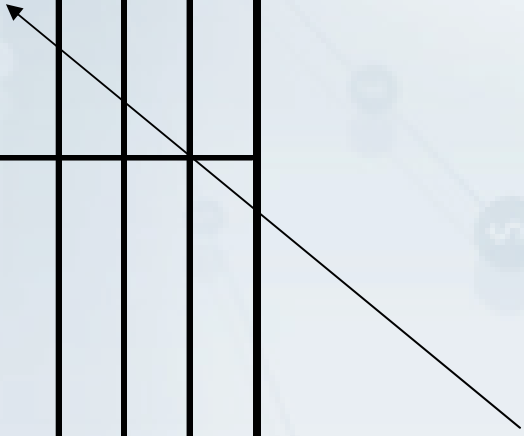
** Please write this down. **

Example 1

- Capital at the beginning of the year is \$4000.
- Net Income for the year is \$1000.
- Drawings is \$0.
- How much is the Capital account at the end of the year?

Example	Opening Capital	Net Income (Loss)	Drawings	Ending Capital
1	4000	1000	0	5000

Opening + Net Income - Drawings



Example 2

- Owner's equity at the beginning of the year is \$20,000.
- Revenue for the year is \$20,000.
- Expenses are \$5,000.
- Drawings are 5,000.
- What is the owner's equity (capital) at the end of the year?

Example	Opening Capital	Net Income (Loss)	Drawings	Ending Capital
1	4000	1000	0	5000
2	20,000	15,000	5000	30000

Example 3

- Capital starts the year at \$100,000
- There is a net loss of \$40,000
- There are drawings of \$10,000
- What is the Capital account at the end of this fiscal period?

Example	Opening Capital	Net Income (Loss)	Drawings	Ending Capital
1	4000	1000	0	5000
2	20,000	15,000	5000	30000
3	100,000	-40,000	10,000	50,000

The Equity section of the balance sheet.....

- We can show the effect of the net income and drawings in the equity section of the balance sheet.
- It is called the ‘**Expanded Equity**’ section

Owner's Equity		
Eve Bod, Capital		
Balance January 1	\$21 878	
Net Income	\$8 209	
Drawings	<u>3 950</u>	
Increase in Capital		<u>4 259</u>
Balance January 31		26 137
Total Liabilities and Owner's Equity		<u><u>\$ 32 677</u></u>

The Equity section of the balance sheet.....

Owner's Equity			
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Balance January 1	\$8 209		
Net Income	<u>3 950</u>		
Drawings			
Increase in Capital		<u>4 259</u>	
Balance January 31			<u>26 137</u>
Total Liabilities and Owner's Equity			<u><u>\$ 32 677</u></u>

*notice the 3 separate columns!

Balance Sheet

(Expanded Equity section)

EVE BOA, LLB
BALANCE SHEET
JANUARY 31, 20—

Assets			
Bank		\$ 2 439	
A/R – H. Geroux		1 420	
A/R – J. Magill		757	
A/R – E. Parsons		1 395	
Supplies		2 316	
Office Equipment		7 550	
Automobile		16 800	
Total Assets		<u>\$ 32 677</u>	
Liabilities			
A/P – OK Supply		\$ 4 400	
A/P – Computer Outlet		1 200	
Bank Loan		940	
Total Liabilities		<u>\$6 540</u>	
Owner's Equity			
Eve Boa, Capital			
Balance January 1	\$21 878		
Net Income	\$8 209		
Drawings	3 950		
Increase in Capital	<u>4 259</u>		
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1	4000	1000	0	5000
2	20,000	15,000	5000	30000
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Equity Section of the Balance Sheet.....

Owner's Equity

S. Guy, Capital

Balance, January 1

Net INcome

Drawings

Increase in Capital

Balance, December 31

Total Liabilities & Equity

20,000

15,000

-5,000

15,000

5,000

XXX

HOMEWORK

- Create a spreadsheet for Exercise 1 & 2 on page 140.
- Show the 'Equity' section of the balance sheet for company's 1,2,& 3 from exercise 2.
- Complete the 'Comprehensive Exercise' on page 149. (Parts A,C,D,E)
- (This will be due on Thursday. It must be shared with MrAlexanderCHSS@hotmail.com)

(Some of the key figures are given so you can check your work.)

Exercise 1, p. 140

Complete the schedule below by filling in the blanks.

Items	Opening Capital	Net Income or Net Loss (-)	Drawings	Ending Capital
a.	\$30 000	\$15 000	\$10 000	\$
b.	50 000	-2 000	7 000	
c.	70 000	32 000		75 500
d.		16 000	19 500	33 200
e.	56 000		30 000	40 000
f.	45 000		25 000	15 000
g.	22 000		10 000	28 000
h.		25 000	18 000	42 000
i.	120 000	42 000		112 000

Exercise 2, p. 140

Complete the following schedule by filling in the blanks for each of the five separate equity section relationships.

Financial Information	Company 1	Company 2	Company 3	Company 4	Company 5
Beginning capital	\$ 6 000	\$ 6 000	\$15 000	\$	\$62 000
Total revenues	10 000		29 000		
Total expenses	8 000	11 000		30 000	35 000
Net income or loss (--)		14 000	11 000	20 000	-5 000
Drawings	3 000	12 000		15 000	
Increase or decrease (-) in equity			-6 000		-10 000
Ending capital				10 000	

Comprehensive Exercise

- 7** N.A. James, a public accountant, decided to begin a business of his own on October 1, 20—. At that time, he invested in the business a bank balance of \$5 000 and an automobile worth \$18 000.

A: Required: Post Transactions to a T-Account Ledger.
Use the chart of accounts provided below.

N.A. James			
Chart of Accounts			
101	Bank	302	N.A. James, Drawings
110	A/R — Jenkins and Co.	401	Fees Earned
120	Office Supplies	505	Advertising Expense
125	Office Equipment	510	Car Expense
130	Automobile	515	Donations Expense
210	A/P — Office Supply Company	520	Miscellaneous Expense
301	N.A. James, Capital	525	Rent Expense

TRANSACTIONS

1. Purchased \$300 of office supplies for cash. Issued a cheque in payment.
(For now, when office supplies are purchased, debit Office Supplies instead of an expense account. You will learn more about handling supplies in Chapter 9.)

2. Issued a cheque for \$50 for an advertisement in a local newspaper.
3. Received a bill from Office Supply Company for a desk, a chair, and a filing cabinet at a total cost of \$1 100 on account.
4. Mr. James was hired by a client, Jenkins and Co. At the conclusion of the work, Mr. James charged Jenkins and Co. \$900 and issued a bill for this service performed on account.
5. B. Masters, a client, paid \$100 in cash for a bookkeeping service. W. Shields, another client, paid \$75 in cash for having her tax return prepared. The total of \$175 was deposited in the bank.
6. A cheque for \$100 was sent as a donation to the Salvation Army.
7. A cheque for \$300 was received from Jenkins and Co. on account.
8. A cheque was issued to Office Supply Company in full payment of the balance of its account.
9. Paid Louis's Service Station \$120 for gasoline and repairs to the business automobile. A cheque was issued right away.
10. Performed an accounting service for T. Wu and received \$200 cash in full payment. The owner, N.A. James, did not deposit this money in the bank, but kept it for his personal use.

11. Issued a cheque for \$750 in payment of the rent for the month of October.
12. Purchased \$120 of office supplies from Grand & Toy. The purchase was paid for by cheque.
13. Issued a cheque for \$50 for an advertisement in a local newspaper.
14. Issued a bill for \$600 to Jenkins and Co. for accounting services performed on account.
15. Issued a cheque for \$70 for postage stamps. (*Note: Stamps are not considered to be supplies.*)
16. Issued a cheque for \$500 to the owner for his personal use.

C. Balance the ledger by means of a trial balance.

D. Prepare an income statement for the period, which is the month of October 20--.

E. Prepare a balance sheet with an expanded equity section. Use the one shown in Figure 5.8 on page 138 as your guide.

Key Numbers: Trial Balance total: 24, 875
Bank Account : 2,315
Net Income 735