



Accounting

TO TAKE UP....

- **Page 38, Review Exercises**

- 1 A-E, 2-5

- **Page 50, Exercises**

- 1 and 4

Page 38, Review Exercises

- 1. A. The financial position of a business is:
 - a. The difference between total assets and total liabilities
- B. If the total assets increase by \$10,000 and total liabilities decrease by \$10,000, the capital will:
 - a. increase by \$20,000

- C. This following is not true:
 - c. $A + L = E$
- D. A balance sheet shows:
 - b. The financial picture of a business on a certain date.
- E. The following is not true:
 - e. A truck that cost \$10,000 and for which \$6,000 is owed is listed on the balance sheet at \$4,000.

Page 39, Review Exercise 2, 3, 4

Assets	increase by 10,000	An increase in assets of 10,000 would increase equity by 10,000
Liabilities	?	The increase of only \$3,000 (how much the business is worth)
Equity	increase by 3,000	would be from a increase in liabilities of 7,000

Assets	increase by 26,000	An increase in assets of 26,000 would increase equity by 26,000
Liabilities	?	The extra 16,000 increase in equity (how much the business is worth)
Equity	increase by 42,000	would be from a decrease in liabilities of 16,000

Assets	?	An increase in liabilities of 15,000 would decrease how
Liabilities	increase by 15,000	much the business is worth (equity) by 15,000
Equity	decrease by 5,000	It only decreased by 5,000 though, so there must have been an increase in assets of 10,000

Page 40, Review Exercise 5, A.

- 'Balance Sheet' should be second line of title.
- 'Assets' should be used as a heading instead of A/R.
- Accounts Receivable should be in alphabetical order
- Cash should be first because it is the most liquid
- Supplies should come before equipment because it is more liquid
- There should not be decimals used on columnar paper
- The single line for total assets should be right above the asset number
- Total assets should be directly across from Total Liabilities and Equity
- Owner's Equity should be underlined
- Dollar signs are not necessary. (Unless used consistently)
- Equity should list 'Carmen Ing, Capital'
- Accounts Payable Sub Heading should be used.
- Total Liabilities should not have a double underline
- Did anyone check that the numbers are correct?

Page 40, Review Exercise 5. B.

Carmen's Web Creations Balance Sheet September 30, 20--

<u>Assets</u>		<u>Liabilities</u>	
Cash	3652.80	A/P	
A/R		- Drive Computer	676.98
- Nina's	460.50	- Wilson's Supply	100.90
- Tse	1780.00	- Zip Software	412.00
Supplies	900.25	Bank Loan	3500.00
Equipment	6500.30	Total Liabilities	<u>4689.88</u>
Total Assets	<u><u>13293.85</u></u>	<u>Owner's Equity</u>	
		Carmen Ing, Capital	8603.97
		Total Liabilities & Capital	<u><u>13293.85</u></u>

* Decimals are not to be used when using columnar paper

Review Questions

1. What is a business transaction?
2. Give an example of a transaction, other than the ones noted in this section.
3. Give an example of an event in a business, other than the one noted in this section, that is not a transaction.
4. What is a source document?
5. Give several examples of source documents
6. What happens to source documents after the accounting entries have been completed?
7. State and explain the objectivity principle. Give an example.

1. A transaction is a financial event that requires changing the statement of financial position (balance sheet).

(Let's take up the rest orally..)

Box 500, Horseshoe Valley, Ontario L3V 3B0

THE DAVEY COMPANY

TROPHIES GIFTWARE ENGRAVERS

Sold to: Smokey Valley Ski Club
R.R. #1
Horseshoe Valley, ON L3V 3B0
Date Dec. 5, 20-

PURCH. ORDER NO.	GST	PST	DELIVERY DATE	TERMS	SHIP VIA
6506	10.36	11.84	12/5	30 days	CPX

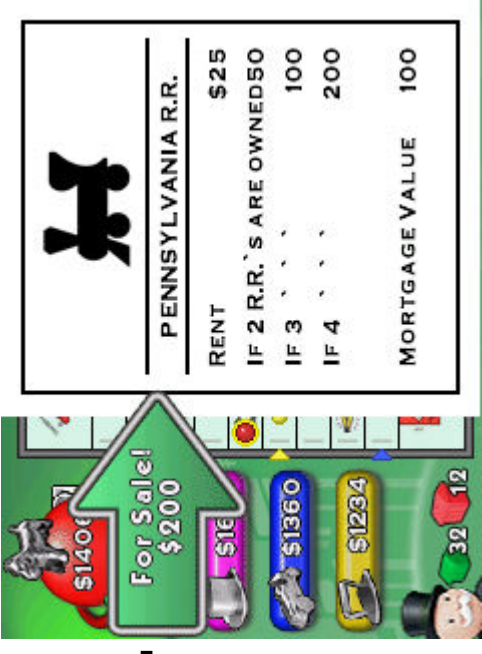
35	Name tags	148.00
	Tax	22.20
		170.20

- A. Who issued the bill?
- B. Who received the bill?
- C. When was the bill issued?
- D. When were the goods delivered? How were they delivered?
- E. When is this bill due for payment?
- F. Why was this bill issued?
- G. Was this a cash sale transaction?
- H. Why does the bill represent good objective evidence?

- 4.
 - A. The Davey Company
 - B. Smokey Valley Ski Club
 - C. Dec 5, 20—
 - D. December 5, Shipped by CPX
 - E. In 30 days
 - F. Purchase of Name Tags
 - G. No (Would say 'Paid')
 - H. Objective – Paper record of Dates /
Amounts / Terms /

Transactions...

Monopoly.....



Beginning Balance Sheet

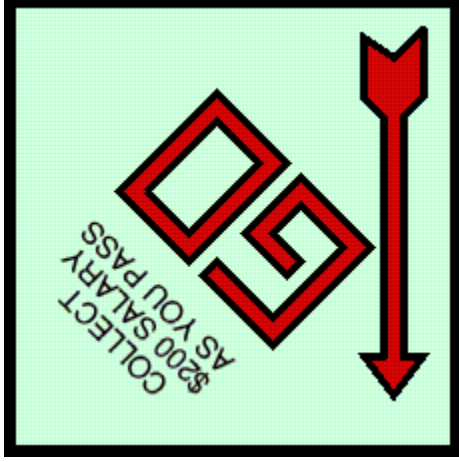
These were different because of the various transactions that had occurred...

Ending Balance Sheet

Transactions...

- like 'passing go'
- buying a property
- paying taxes
- building houses
- Anything that changed your financial position! (Changed the way your balance sheet would have looked.)

Playing monopoly...



Example:

When you passed go, you received \$200.

This increased your Cash amount by \$200.

What else, on your balance sheet, did it change?

In general, how do transactions affect the balance sheet?

- If we pay \$25,000 cash for a new delivery truck?
 - Cash decreases by \$25,000
 - Truck (Equipment) increases by \$25,000
- If we buy \$5,000 worth of supplies on credit from Supply Co. ?
 - Supplies increases by \$5,000
 - Accounts Payable (Supply Co.) increases by \$5,000

- Its not only Assets and Liabilities that are affected.....

Changes to Equity (Capital)

- What if we make a sale?
 - Our business is worth more! (or ‘pass go’)
- What if we have expenses, or what if we take money out of the company?
 - Our business will be worth less!

These transactions affect the Equity (Capital) account! (because they change how much the business is actually worth.)

- As business transactions occur, there are changes in the value of assets, liabilities, and capital.
- **We could not show all of the calculations on the balance sheet – it would get too cluttered and messy obviously.**
- For now, we will use an equation analysis sheet.

Equation Analysis Sheet for 'Metropolitan Movers'

	Cash		A/R		Equipment	Truck	A/P	Loan Pay.	J. Hofner, Capital
	B.Cava	1,300	K. Lincoln	2,500	11,500	24,500	1,750	18,370	33,180
Beginning Balances									

*This is the same information available to us on a balance sheet, but in a form that is easier to work with.

Let's go through the following transactions together, and see how they affect the different balance sheet accounts!

	Cash		A/R		Equipment	Truck	A/P	Loan Pay.		J. Hofner, Capital
	B.Cava	1,300	K. Lincoln	2,500				Merc. Fin.		
Beginning Balances	13,500				11,500	24,500	1,750	18,370		33,180
	-1,200							-1,200		

- Transaction 1. Metropolitan Movers pay \$1,200 cash to Mercury Finance.

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Beginning Balances	13,500				11,500	24,500	1,750	18,370	33,180
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	B.Cava	K. Lincoln						Merc. Fin.		
Beginning Balances	13,500	1,300	2,500	11,500	24,500	1,750	18,370		33,180	
	-1,200						-1,200			
	12,300	1,300	2,500	11,500	24,500	1,750	17,170		33,180	

- Each of these cells are calculated by adding up the two cells above.

- ... before we go any further...
- download the excel file 'MetroTransactionSheet' from the class website, and open it in Skydrive.

We'll go through the rest of the transactions together, and see how they affect the different balance sheet accounts!

- 2. K. Lincoln, who owes Metropolitan Movers \$2,500, pays \$1,100 in partial payment of the debt.
- 3. Equipment costing \$1,950 is purchased for cash.
- 4. A new pick-up truck is purchased at a cost of \$18,000. Metropolitan movers pays \$10,000 cash and arranges a loan from Mercury Finance to cover the balance of the purchase price.

- 5. Metropolitan Movers completes a storage service for B. Cava at a price of \$1,500. A bill is sent to Cava to indicate the additional amount Cava owes.
 - (hint: the company is worth more now. Which account will that affect?)
- 6. J. Hofner, the owner, withdraws \$500 for personal use.
 - (hint: the company is now worth less)

- 7. One of the trucks requires engine repairs of \$75. It is paid for in cash.
 - (hint: the truck is not worth \$75 more. We have had to pay that \$75, and now have \$75 less in our business.)
- Do we still balance?
- Do Assets – Liabilities = Owner's Equity?
- (Check!)

HOMWORK

- Exercise 1 on page 59

In an excel file called 'KostiukTransactionSheet', create and complete a transaction analysis sheet with the transactions provided.

Do your $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$?

	ASSETS						LIABILITIES		OWNER'S EQUITY
	Cash	Accounts Receivable	Supplies	Office Furniture	Truck	Accounts Payable		S. Kostiuk Capital	
		D. Murray				Ace Supply	Pine Motors		
Opening balances	1 000	50						1 050	

TRANSACTIONS

- Stationery and supplies are purchased from Ace Supply on credit for \$75. They will be paid for within 30 days.
- A new desk for the office is purchased for \$450 cash.
- D. Murray, a debtor, pays her debt in full.
- A \$100 service is performed for a customer who pays immediately in cash.
- A used truck costing \$6 500 is purchased from Pine Motors. A down payment of \$500 is made. It is agreed that the remainder of the purchase price will be paid within three months.
- Ace Supply, a creditor, is paid \$75.
- The owner, Sheila Kostiuk, withdraws \$100 from the business for her own use.