



Accounting

Learning Goals for Today...

- – assess the effects that transactions have on the accounts and financial statements of a **service business**;
- – record transactions using the journals and **ledgers** of a service business;

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YOUR HOMEWORK WAS...

- **'Exercises'** 1,2,3 on page 82/83

1.

ASSETS

CASH
2000

BUILDING
45000

A/R - A. MARKS
375

EQUIPMENT
27800

A/R - C. PRENTICE
1150

TRUCK
14500

LAND
30000

LIABILITIES & OWNER'S EQUITY

BANK LOAN
20000

T. STEVENS, CAPITAL
43325

A/P - GEM LUMBER
2500

MORTGAGE PAYABLE
55000

2.

ASSETS

CASH
500

FURNITURE & EQUIPMENT
18320

A/R - P. AUUL
350

AUTOMOBILE
21040

A/R - S. WOUKE
1250

SUPPLIES
3900

LIABILITIES & OWNER'S EQUITY

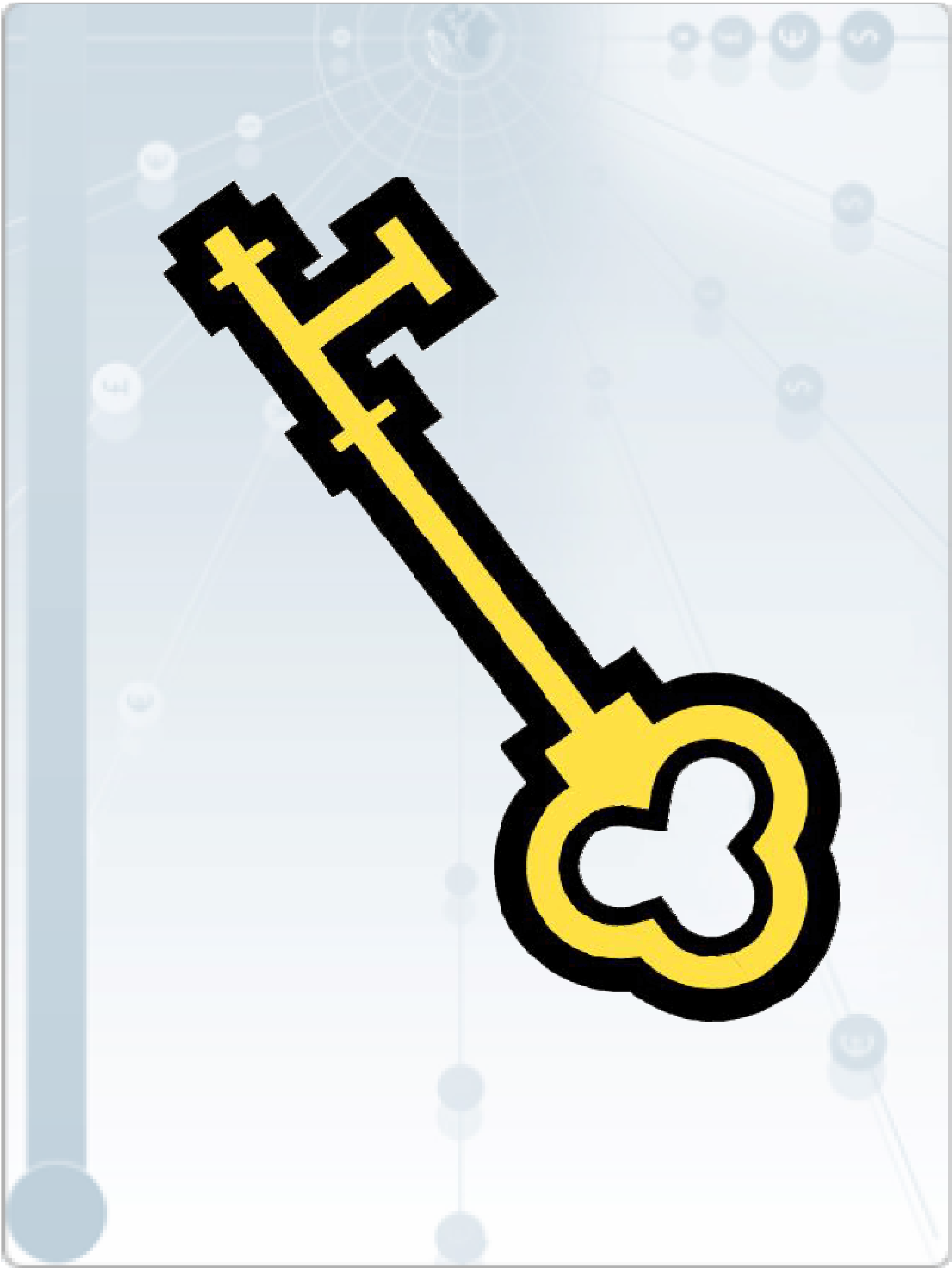
A/P - A.B. ASSOCIATES
1200

P. INABA, CAPITAL
41860

A/P - MEDICO SUPPLY
2300

3.

Assets:		Liabilities:		Owner's Equity:	
Cash	500	Bank Loan	2000		
Equipment	2800	A/P	950		
A/R	2100				
Supplies	1545			Lily Wall, Capital	<u>3995</u>
	<u>6945</u>		<u>2950</u>	equals	
			minus		



DOUBLE ENTRY ACCOUNTING!

- Double Entry Accounting
- Double Entry Accounting

Double Entry Accounting



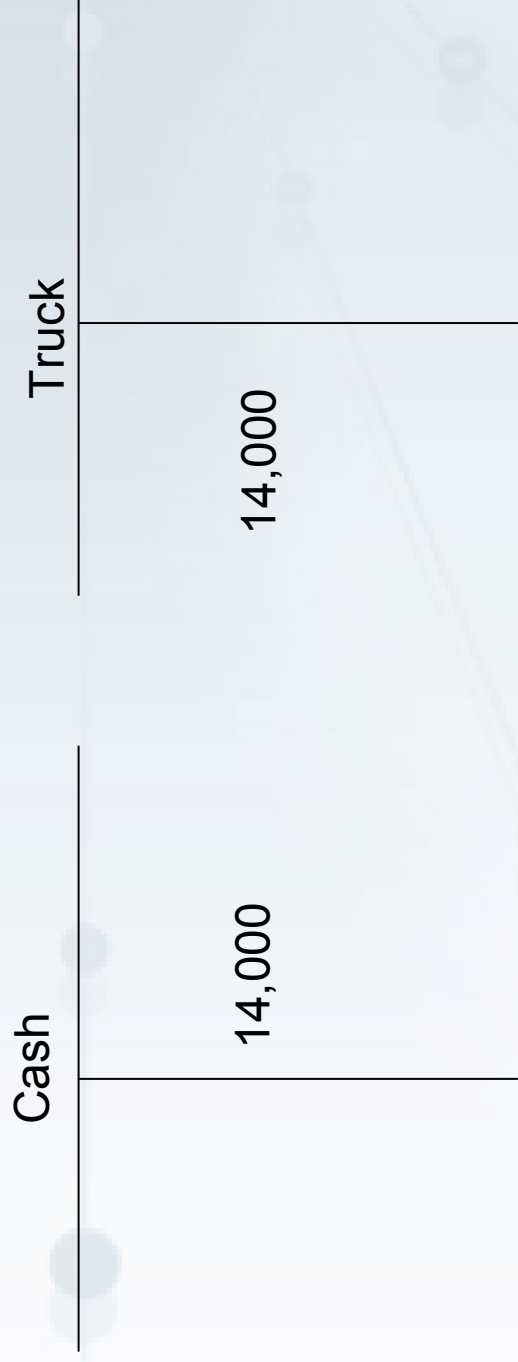
One transaction will always affect **at least two accounts!**

Think about:

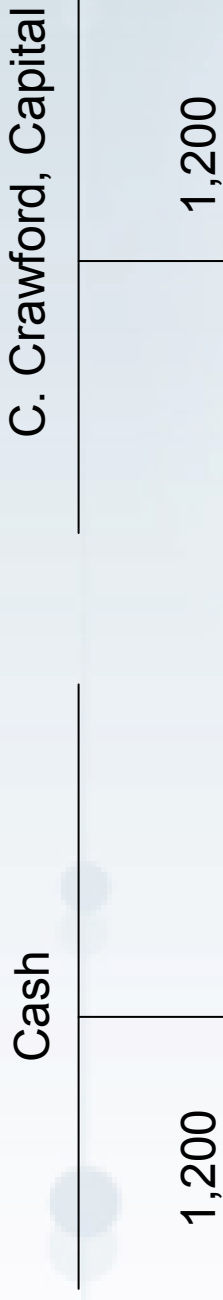
1. Purchasing a truck.....
2. Making a sale....

How would a transaction affect your T-Account ledger?

- Purchasing a truck for \$14,000 cash.



- Making a \$1,200 cash sale.



Debits and Credits

- In accounting, we will talk about **DR** (debits) and **CR** (credits)
- DR is associated with the left side of an account.
- CR is associated with the right side of an account.
- **Remember this!!!!!!!!!!!!**

- This applies to EVERY account!



- Which side is an assets opening balance on?
 - The LEFT side... so the **Debit (DR)** side
- Which side is a liability or equity account opening balance on?
 - The Right side.... so the **Credit (CR)** side!

- Debit

- CR

- DR

- Credit



• Debit

• CR

• DR

• Credit



- An **asset's** beginning balance is on the Debit (DR) side... (the left side.)
- If we want to increase the amount in that account... we DR (Debit) that amount. (Put it on the left side!!)

CASH	
2000	
100	

- **Liabilities' and equity's** beginning balances are on the Credit (CR) side... (the right side.)

- If we want to increase the amount in that account... we CR (Credit) that amount. (Put it on the right side!!)

<u>BANK LOAN</u>	
2000	
100	

Know this chart!!

- (You will need to know this for the rest of your accounting career!)

Types of Accounts	Beginning Value	Increases	Decreases
ASSETS	DR	DR	CR
LIABILITIES & OWNER'S EQUITY	CR	CR	DR

Types of Accounts	Beginning Value	Increases	Decreases
ASSETS	DR	DR	CR
LIABILITIES & OWNER'S EQUITY	CR	CR	DR

Using this chart, set up a cash T account with a beginning balance of \$10,000.
Add \$5,000 in cash to that account.



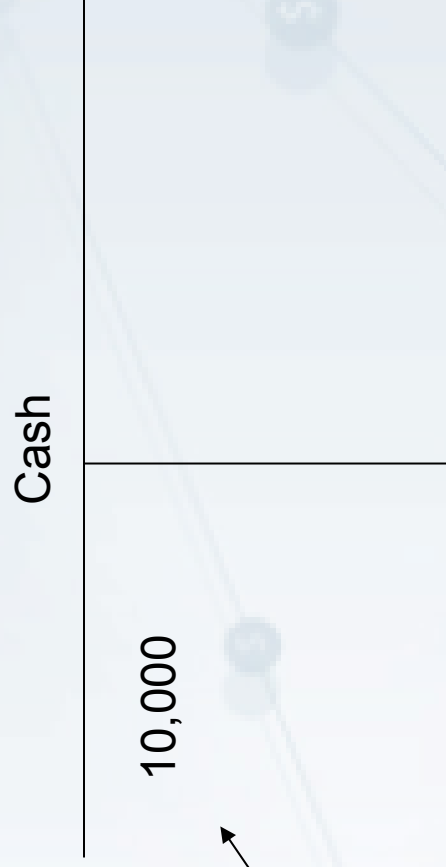
Types of Accounts	Beginning Value	Increases	Decreases
ASSETS	DR	DR	CR
LIABILITIES & OWNER'S EQUITY	CR	CR	DR

Using this chart, set up a cash T account with a beginning balance of \$10,000.
Add \$5,000 in cash to that account.

Cash	
10,000	

Types of Accounts	Beginning Value	Increases	Decreases
ASSETS	DR	DR	CR
LIABILITIES & OWNER'S EQUITY	CR	CR	DR

Using this chart, set up a cash T account with a beginning balance of \$10,000.
Add \$5,000 in cash to that account.



A 'Debit'

Double Entry accounting...

- We have said that every place in the world uses 'Double Entry' accounting.
- This means at least two accounts are always affected.
- The big benefit to this system of accounting is that:

Debits (DR) always equal Credits (CR)!!

Transaction (1): The company purchases \$200 worth of supplies & pay for it in cash.

- Our DR (Debit) is to the supplies account for \$200.
- Our CR (Credit) is to the cash account for \$200. (decreasing it.)

CASH	SUPPLIES
1000	0
200(1)	(1) 200

- Our DR = our CR !! (And always will!)

Transaction practice...

- Debit \$200 to Cash.

Cash

Transaction practice...

- Debit \$200 to Cash.

Cash

\$200

Transaction practice...

- Credit \$2000 to Bank Loan.

Bank Loan



Transaction practice...

- Credit \$2000 to Bank Loan.

Bank Loan

\$2,000



Debit

Credit

Debit

Credit

Always!!!!!!!!!!!!!!!!!!!!

Increasing the amount of an asset....

- Debit
- DR
- Left Side!!

Cash	
\$2,000	
\$3,000	
	\$5,000

Decreasing the amount of an asset....

- CR
- Credit
- Right Side!!!!



The opposite is true for Liabilities and Equity!

- Liabilities & Equity
 - Credit increases.
 - Debit decreases.

Accounts Payable	
\$500	\$3,500
	\$3,000

The opposite is true for Liabilities and Equity!

- Liabilities & Equity
 - Credit increases.
 - Debit decreases.

By the way, These totals at the bottom are called 'pencil footings'

Accounts Payable	
\$500	\$3,500
	\$3,000

Prior to computers they were quickly done in pencil to see the balance of an account.

Which brings us back to....

Types of Accounts	Beginning Value	Increases	Decreases
ASSETS	DR	DR	CR
LIABILITIES & OWNER'S EQUITY	CR	CR	DR

Which brings us back to....

Types of Accounts	Beginning Value	Increases	Decreases
ASSETS	DR	DR	CR
LIABILITIES & OWNER'S EQUITY	CR	CR	DR

Which brings us back to....

Types of Accounts	Beginning Value	Increases	Decreases
ASSETS	DR	DR	CR
LIABILITIES & OWNER'S EQUITY	CR	CR	DR

Which brings us back to....

Types of Accounts	Beginning Value	Increases	Decreases
ASSETS	DR	DR	CR
LIABILITIES & OWNER'S EQUITY	CR	CR	DR

Please answer the following...

Review Questions

1. Explain the meaning of the words “debit” and “credit.”
2. How is the beginning financial position in a ledger set up?
3. For what accounts does an increase mean “debit”?
4. For what accounts does a decrease mean “debit”?
5. For what accounts does an increase mean “credit”?
6. For what accounts does a decrease mean “credit”?
7. What is a transaction analysis sheet used for?
8. What is an accounting entry?
9. What must be true of every correct accounting entry?

‘Posting’ transactions.

- Supplies are purchased for \$35 cash.
- This affects both Cash and Supplies.

Cash

\$100

Supplies

\$0

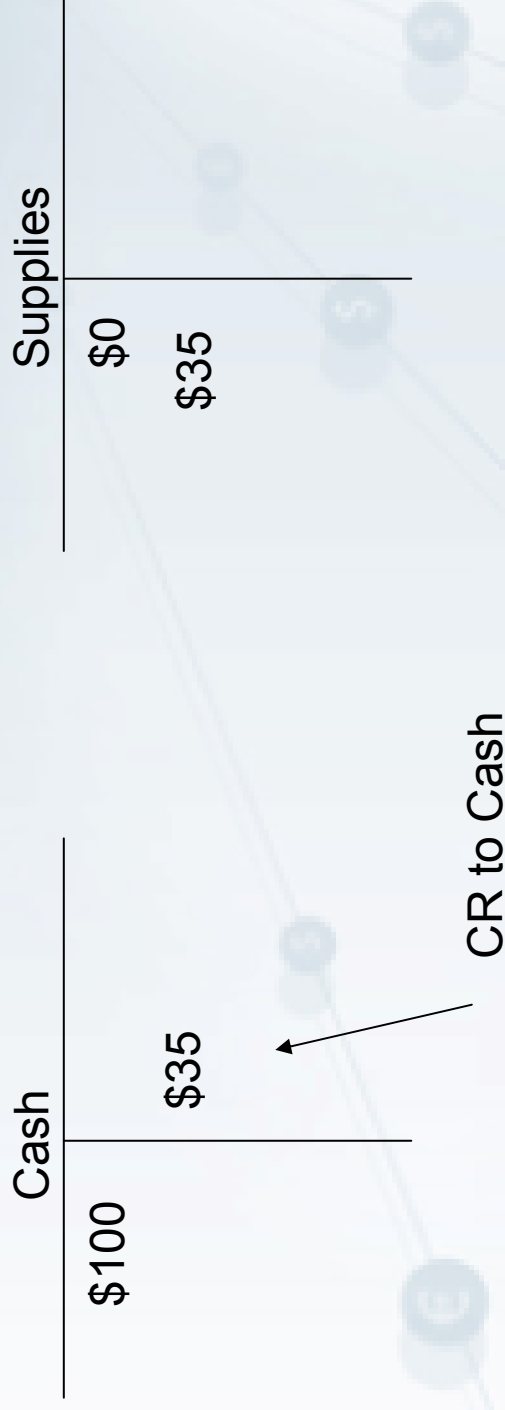
‘Posting’ transactions.

1. Supplies are purchased for \$35 cash.
- This affects both Cash and Supplies.

Cash		Supplies	
\$100		\$0	
	\$35		\$35

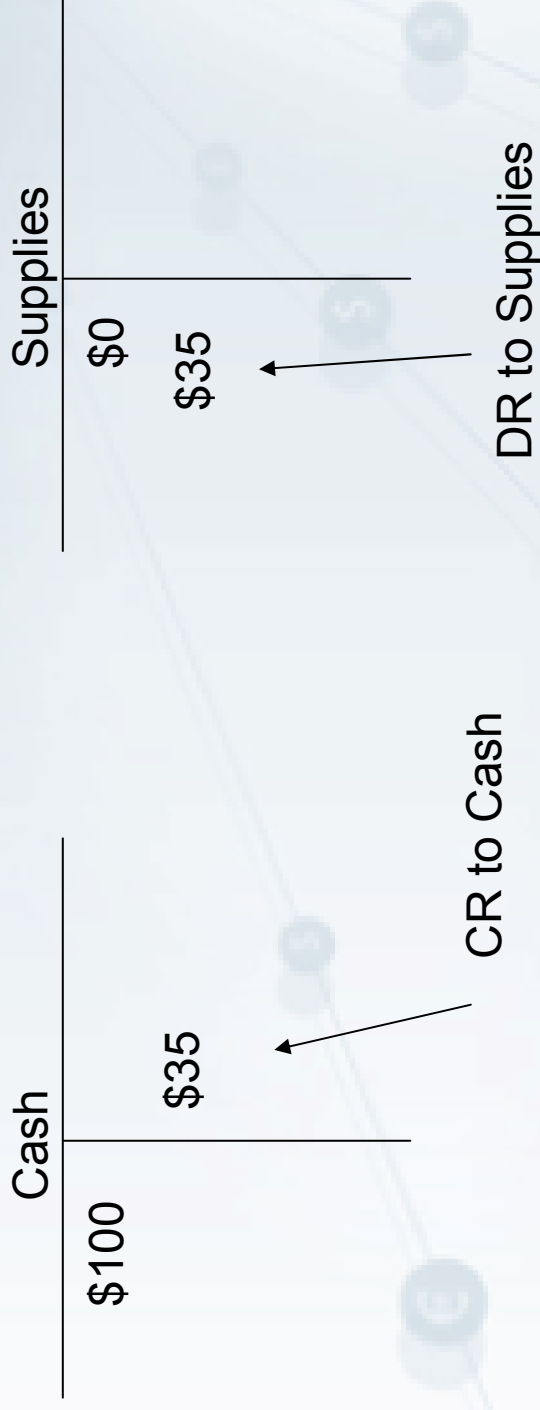
‘Posting’ transactions.

1. Supplies are purchased for \$35 cash.
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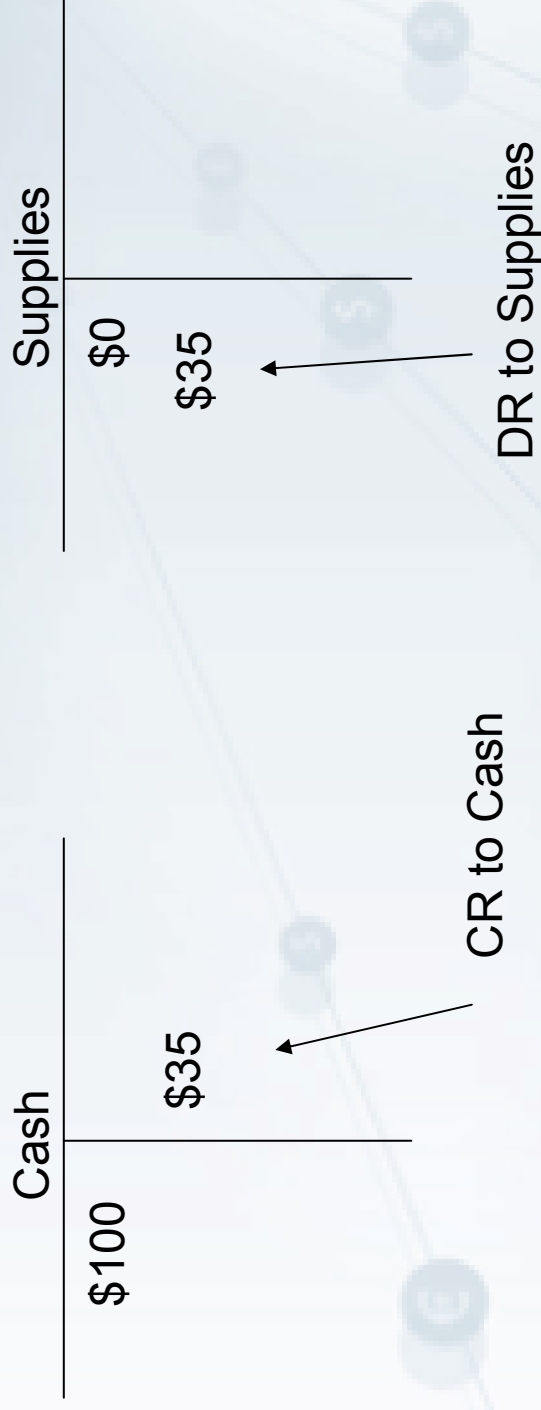
‘Posting’ transactions.

1. Supplies are purchased for \$35 cash.
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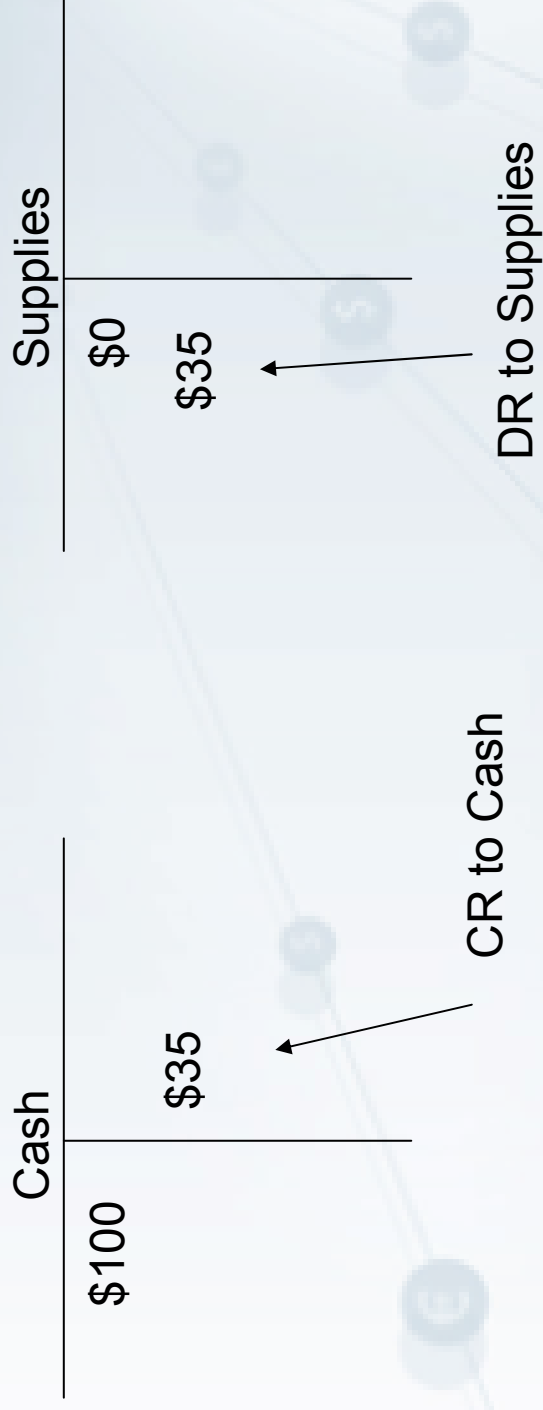
Double Entry Accounting!

(At least two entries per transaction!)



Double Entry Accounting!

Do Debits = Credits???



One other thing....

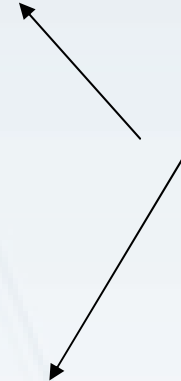
We label our transactions!!

Cash		Supplies	
\$100		\$0	
\$35 (1)		(1) \$35	

One other thing....

We label our transactions!!

Cash	Supplies
\$100	\$0
\$35 (1)	(1) \$35



We can see that Transaction 1 was a CR to Cash and DR to Supplies!

'Posting Transactions'

- Please bring up a blank T Account ledger.
- We'll do this exercise together.

3. Flora Siska is the owner-operator of a fitness clinic. The ledger used in her business contains the following accounts:

Cash	\$1,200
Accounts Receivable (several)	500
Supplies	1,400
Furniture	2,300
Equipment	1,100
Automobile	15,000
Accounts Payable (several)	\$ 500
Flora Siska, Capital	?

TRANSACTIONS

1. The business receives \$300 cash from J. Parker, one of the accounts receivable.
2. The business purchases \$200 worth of supplies for cash.
3. Little Bros., one of the accounts payable, is paid \$100.
4. The owner withdraws \$250 for her personal use.
5. A new piece of equipment costing \$500 is purchased from Champion Sports. The business pays \$125 cash at the time of purchase, with the balance of \$375 to be paid within 30 days.
6. A new customer signs up for a fitness course. The \$300 fee is paid in cash.

- i) Using the given accounts and balances, set up a ledger for The Fitness Clinic.
- ii) Remember that TWO accounts will be affected for each transaction. Post them!

Homework...

- For **all** questions, please complete them in Skydrive (as opposed to your workbook) and save them using appropriate file names.

Please share them with:

MrAlexanderCHSS@hotmail.com

In Skydrive please. 😊

1. Complete the following in your Workbook by writing either the word “increase” or the word “decrease” in the rectangles provided.

ASSETS = LIABILITIES + OWNER'S EQUITY

ASSETS		=	LIABILITIES		+	OWNER'S EQUITY	
Debit	Credit		Debit	Credit		Debit	Credit
<input type="text"/>	<input type="text"/>		<input type="text"/>	<input type="text"/>		<input type="text"/>	<input type="text"/>

2. In the following list, there are four asset accounts, three liability accounts, and one capital account. In your workbook, write each title on a T-account, enter its beginning value on the proper side, and write a note to indicate the side on which the account increases and the side on which it decreases. The first one has been done for you.

A/R—K Mak	
1 000	
Increases	Decreases

<i>Accounts</i>	
A/R—K. Mak	1 000
B. Chan, Capital	9 500
Bank Loan	9 000
Equipment	10 000
Supplies	5 000
A/P—Parry Supply Co.	500
Cash	6 000
A/P—Heiden Fashions	3 000

4. Crooks Garage is a small business operated by James Crooks. Shown below are 10 selected transactions of Crooks Garage. Analyze these transactions on pages 92 and 93 on the transaction analysis sheet in your Workbook. When performing your analysis, choose from the following accounts:

Cash	\$ 101,800
Accounts Receivable (several)	900
Supplies	450
Equipment	1,400
Truck	12,000
Bank Loan	58,000
Accounts Payable (several)	2,300
J. Crooks, Capital	?

i) Using the given accounts and balances, set up a ledger for Crooks Garage.

i) Remember that TWO accounts will be affected for each transaction. **Post** the transactions to your ledger!

TRANSACTIONS

1. A car is repaired for a customer who pays the \$450 charge in cash.
2. The business purchases \$170 of supplies for cash.
3. The business pays \$125 to Rossi Co., an account payable.
4. The business receives \$90 from G. Rawl, an account receivable.
5. A welding unit, included in the Equipment account at \$500, is run over by a truck. It is so badly damaged that it has to be thrown away.
6. A new welding unit is purchased on credit from Bly Co. at a cost of \$790.
7. For the repair of his car, F. Stefyk pays \$100 cash and owes \$250, the balance of the repair charge.
8. Arrangements are made with the bank to borrow \$6 000. A promissory note for this amount is signed by Mr. Crooks for the bank, after which the bank provides the business with \$6 000 cash.
9. Albert McCann, a mechanic employed by Crooks Garage, is paid wages of \$375.
10. A towing service is performed for a customer for \$40 cash.