

## Quick Review

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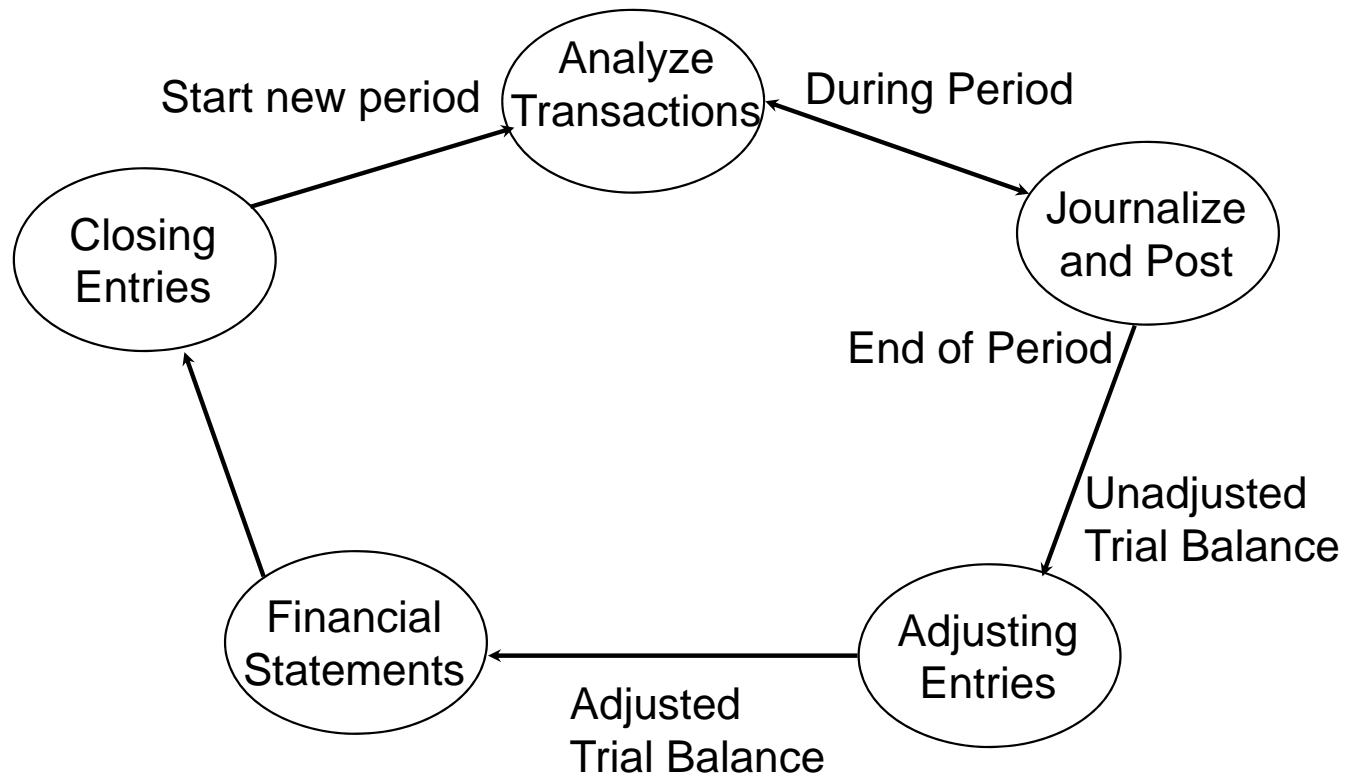
- **Journal entries and T-accounts are used to track the effects of transactions**
  - **Sum of Debits = Sum of Credits**  
**=> Assets = Liabilities + Stockholders' Equity**
- **Debit = left-side entry; Credit = right-side entry**
  - **Assets and Expenses have Debit balances**
    - Debits increase assets and expenses
    - Credits decrease these accounts
  - **Liabilities, Shareholders' Equity, and Revenues have Credit balances**
    - Credits increase liabilities, shareholders' equity, and revenues
    - Debits decrease these accounts

## Quick Review: Super T-account

Assets		Liabilities & Shareholders' Equity			
Assets		Liabilities		Contributed Capital	
Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
+	-	-	+	-	+
		Retained Earnings			
		Dr.		Cr.	
		-		+	
		Expenses		Revenues	
		Dr.	Cr.	Dr.	Cr.
		+	-	-	+

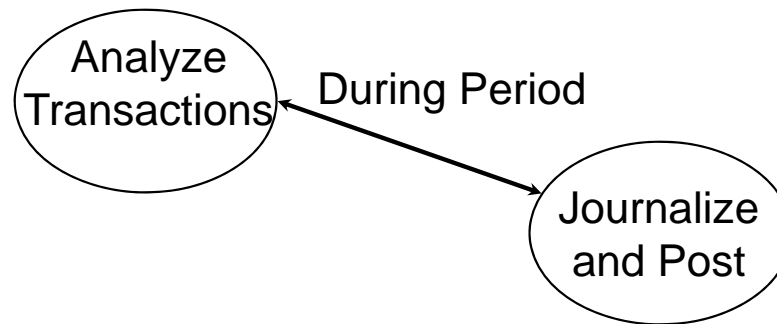
# The Accounting Cycle

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# The Accounting Cycle

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1. **Journalize:** recording each transaction as a journal entry in the *general journal*
2. **Post:** journal entries are transferred to the T-accounts or *general ledger*

## Relic Spotter Inc. Case

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- In March 2012, Rebecca Park identified an excellent business opportunity while she was a first-year MBA student at Wharton
- She read a story about an MBA student who tripped while jogging in Fairmount Park and found an ancient gold coin in the underbrush. It was an old Viking coin that was appraised at \$77,500
- She realized that she could set up a profitable business that rented out portable Metal Detectors to people that wanted to search Fairmount Park for more Viking relics
- Also, Park had the idea of stocking her store with “sundries,” such as water bottles and energy bars, that she could sell at a huge mark-up to renters before their expedition into the park

## Relic Spotter Inc. Case

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- Park prepared a business plan and approached a fellow student, Jay Girard, who had a sizable trust fund and who she believed would invest in this new venture
- Due to his myriad of other investments, and his heavy course load, Girard agreed to invest as a silent partner and allow Park to run the business, which she named Relic Spotter Inc.
- We will now record journal entries and post to t-accounts for all of the transactions of this start-up company
  - After each transaction is read, you should pause the video and try to do the journal entry. Think about (1) what accounts are involved? (2) did they increase or decrease? (3) do we debit or credit?
  - Then, resume the video to see the answer and the explanation

## Relic Spotter Inc. Case: Transaction 1

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- (1) On April 1, 2012, Girard decided to invest \$200,000 and Park put up \$50,000 to purchase a total of 25,000 shares in the new company. The par value of the shares was \$1.00

- Journal Entry

(1)	4/1/12	Dr. Cash (+A)	250,000	
		Cr. Common Stock (+SE)		25,000
		Cr. Additional Paid-in-capital (+SE)		225,000

## Relic Spotter Inc. Case: Transaction 1

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- Journal Entry

(1)	4/1/12	Dr. Cash (+A)	250,000	
		Cr. Common Stock (+SE)		25,000
		Cr. Additional Paid-in-capital (+SE)		225,000

Cash (A)		Common Stock (SE)		Add'l Paid-in-Capital (SE)	
(1)	250,000		25,000 (1)		225,000 (1)



## Relic Spotter Inc. Case: Transaction 2

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- (2) Lacking the funds for her initial investment, Park borrowed the \$50,000 from the Imperial Bank of Philadelphia on April 1, using her parent's house as collateral
- Journal Entry
  - (2) 4/1/12 Park's loan of \$50,000 not recorded by Relic Spotter because it is a loan to Park personally, not to the business

## Relic Spotter Inc. Case: Transaction 3

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- (3) On April 2, Park hired a lawyer to have the business incorporated. Because this was a fairly simple organization, the legal fees were only \$3,900

- Journal Entry

(3)	4/2/12	Dr. Legal Fee Expense (+E, -SE)	3,900	
		Cr. Cash (-A)		3,900

## Relic Spotter Inc. Case: Transaction 3

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- Journal Entry

(3)	4/2/12	Dr. Legal Fee Expense (+E, -SE)	3,900	
		Cr. Cash (-A)		3,900

Cash (A)			Legal Fee Expense (E, SE)		
(1)	250,000	3,900	(3)	3,900	

## Relic Spotter Inc. Case: Transaction 4

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- (4) To house the business, Park bought an abandoned pizza parlor near Fairmount Park for \$155,000 on April 7. The building was old and needed renovation work. The purchase documents allocated \$103,000 to the land and \$52,000 to the building. Park paid for the building with \$31,000 cash and a \$124,000 mortgage from the Imperial Bank

- Journal Entry

(4)	4/7/12	Dr. Building (+A)	52,000
		Dr. Land (+A)	103,000
		Cr. Mortgage Payable (+L)	124,000
		Cr. Cash (-A)	31,000

## Relic Spotter Inc. Case: Transaction 4

- Journal Entry

(4)	4/7/12	Dr. Building (+A)	52,000
		Dr. Land (+A)	103,000
		Cr. Mortgage Payable (+L)	124,000
		Cr. Cash (-A)	31,000

Cash (A)			Building (A)		Land (A)		Mortgage Payable (L)	
(1)	250,000	3,900	(3)	(4) 52,000	(4) 103,000			124,000 (4)
		31,000	(4)					

## Relic Spotter Inc. Case: Transaction 5

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- (5) Park felt that some renovation work would extend the life of the building to 25 years (with an expected salvage value of \$10,000). She ordered the renovation work, costing \$33,000, to begin immediately. The work was completed on May 25, at which time she paid in cash the amount owed for the renovations

- Journal Entry

(5)	5/25/12	Dr. Building (+A)	33,000	
		Cr. Cash (-A)		33,000

## Relic Spotter Inc. Case: Transaction 5

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- Journal Entry

(5)	5/25/12	Dr. Building (+A)	33,000	
		Cr. Cash (-A)		33,000

Cash (A)				
(1)	250,000	3,900	(3)	
		31,000	(4)	
		<b>33,000</b>	<b>(5)</b>	

Building (A)		
(4)	52,000	
<b>(5)</b>	<b>33,000</b>	

## Relic Spotter Inc. Case: Transaction 6

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- (6) Park phoned a number of metal detector vendors until she found one that was willing to give her a volume discount. On June 2, Park purchased 240 metal detectors at an average cost of \$500 per unit (\$120,000 total). The innovation in the industry is so rapid that Park felt the units would only last for two years, at which time they would have no remaining value

- Journal Entry

(6)	6/2/12	Dr. Metal Detectors (+A)	120,000	
		Cr. Cash (-A)		120,000



## Relic Spotter Inc. Case: Transaction 6

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- Journal Entry

(6)	6/2/12	Dr. Metal Detectors (+A)	120,000	
		Cr. Cash (-A)		120,000

Cash (A)			
(1)	250,000	3,900	(3)
		31,000	(4)
		33,000	(5)
		<b>120,000</b>	<b>(6)</b>

Metal Detectors (A)	
<b>(6)</b>	<b>120,000</b>