

An Introduction to Financial Accounting

Summary of Common Transactions and
Accounts

Examples of Common Transactions

- The following slides review the most commonly-used accounts and shows the transactions that generally affect these accounts
- Note that you will learn additional transactions for many of these accounts later on—these are just the basic transactions
- Also, there are additional accounts that we will learn later on—this is the basic set to get you started.

Typical Current Assets

Cash

Marketable Securities (short-term, liquid investments)

Accounts Receivable (amounts owed by customers on sales)

Notes Receivable (amounts owed by noncustomers on loans)

Interest Receivable (accrued revenue not yet received in cash)

Inventory (costs of goods available for sale)

Prepaid Expenses (rent, insurance, etc.—deferred expenses)

Accounts Receivable

- Sell products to customers

Dr. Accounts Receivable (+A) 100

Cr. Sales (+R, +SE) 100

- Collect cash from customers

Dr. Cash (+A) 80

Cr. Accounts Receivable (-A) 80

Accounts Receivable			
Beg. Balance	1,000		
Sales (Revenue)	100	80	Collections (Cash)
End. Balance	1,020		

Notes Receivable

- Lend money

Dr. Notes Receivable (+A)	100	
Cr. Cash (-A)		100

- Collect cash principal on loan

Dr. Cash (+A)	100	
Cr. Notes Receivable (-A)		100

Notes Receivable			
Beg. Balance	1,000		
Cash payment	100	100	Collect Cash Principal
End. Balance	1,000		

Interest Receivable (Accrued Revenue)

- Recognize accrued interest receivable on a loan

Dr. Interest Receivable (+A)	100
------------------------------	-----

Cr. Interest Revenue (+R , +SE) 100

- Collect cash for interest

Dr. Cash (+A)	80
---------------	----

Cr. Interest Receivable (-A)	80
------------------------------	----

Interest Receivable			
Beg. Balance	1,000		
Accrued Revenue	100	80	Collection in Cash
End. Balance	1,020		

Inventory

- Purchase inventory

Dr. Inventory (+A) 100
 Cr. Accounts Payable (+L) or Cash (-A) 100

- Sell inventory

Dr. Cost of Goods Sold (+E , -SE) 80
 Cr. Inventory (-A) 80

Inventory			
Beg. Balance	1,000		
Purchases (Cash or AP)	100	80	Sales (COGS Expense)
End. Balance	1,020		

Prepaid Expenses

- Pay for rent (or other expense) in advance of use

Dr. Prepaid Rent (+A)	100	
Cr. Cash (-A)		100

- Occupy space and recognize expense

Dr. Rent Expense (+E , -SE)	80	
Cr. Prepaid Rent (-A)		80

Prepaid Rent			
Beg. Balance	1,000		
Prepayment (Cash)	100	80	Recognize Expense
End. Balance	1,020		

Typical Long-Term Assets

Land (tangible asset, not depreciated)

Buildings, Equipment (tangible assets that are depreciated)

Accumulated Depreciation (contra asset—sum of past depreciation)

Investments (long-term investments)

Notes Receivable (could also be noncurrent)

Intangible assets (patents, goodwill, etc.)

Land

- Purchase Land

Dr. Land (+A)	100	
Cr. Cash (-A) or Notes payable (+L)		100

- Sell Land (assumes no gain or loss on sale)

Dr. Cash (+A)	100	
Cr. Land (-A)		100

(note: no depreciation on Land)

Land

Beg. Balance	1,000	
Purchase (Cash or NP)	100	100 Cash Sales (Not Revenue!)
End. Balance	1,000	

Buildings & Equipment

- Purchase Buildings & Equipment
 Dr. Buildings & Equipment (+A) 100
 Cr. Cash (-A) or Notes payable (+L) 100
- Sell Bldgs & Equip (assumes no gain/loss on sale)
 Dr. Cash (+A) 20
 Dr. Accumulated Depreciation (-XA, +A) 80
 Cr. Buildings & Equipment (-A) 100

Buildings and Equipment

Beg. Balance	1,000	
Purchase (Cash)	100	100 Cash Sales (Not Revenue!)
End. Balance	1,000	

Accumulated Depreciation (XA)

- Recognize Depreciation Expense (period cost)
 Dr. Depreciation Expense (+E, -SE) 10
 Cr. Accumulated Depreciation (+XA, -A) 10
- Sell Buildings & Equipment (no gain/loss)
 Dr. Cash (+A) 20
 Dr. Accumulated Depreciation (-XA, +A) 80
 Cr. Buildings & Equipment (-A) 100

Accumulated Depreciation

		1,000	Beg. Balance
Sales of Bld & Equip	80	10	Depreciation Expense
		930	End. Balance

Intangible Assets

- Purchase Patent

Dr. Patent (+A)	100	
Cr. Cash (-A)		100

- Recognize Amortization Expense (period cost)

Dr. Amortization Expense (+E, -SE)	10	
Cr. Patent (-A)		10

Patents			
Beg. Balance	0		
Purchase (Cash)	100	10	Amortization
End. Balance	90		

Typical Liabilities

Accounts Payable (amounts owed to suppliers on purchases)

Notes Payable (or mortgage payable—amounts owed to creditors [banks] on loans—could be current or noncurrent)

Accrued Payables (or Accrued Expenses) (wages, salaries, interest, dividends, taxes, warranties, etc.—accrued expenses not yet paid in cash)

Unearned Revenue (also advances from customers—deferred revenues)

Accounts Payable

- Purchase inventory (or another asset) on account

Dr. Inventory (+A)	100	
Cr. Accounts Payable (+L)		100

- Pay cash to supplier

Dr. Accounts Payable (-L)	80	
Cr. Cash (-A)		80

Accounts Payable			
		1,000	Beg. Balance
Payments (Cash)	80	100	Purchases (Receive Asset)
		1,020	End. Balance

Notes Payable

- Borrow money on a loan from a bank/creditor

Dr. Cash (+A)	100	
Cr. Notes Payable (+L)		100

- Pay cash principal to creditor

Dr. Notes Payable (-L)	80	
Cr. Cash (-A)		80

Notes Payable			
		1,000	Beg. Balance
Repayments (Cash)	80	100	Receive Cash
		1,020	End. Balance

Accrued Payables – Settled in Cash

- Recognized expense for unpaid wages (or other Exp.)

Dr. Wages Expense (+E, -SE) 100

Cr. Wages Payable (+L) 100

- Pay cash to satisfy liability

Dr. Wages Payable (-L) 80

Cr. Cash (-A) 80

Wages Payable			
		1,000	Beg. Balance
Payments (Cash)	80	100	Recognize Expense
		1,020	End. Balance

Accrued Payables – Settled with Goods

- Recognized expense for warranties at time of sale

Dr. Warranties Expense (+E, -SE) 100

Cr. Warranties Payable (+L) 100

- Delivery new inventory to satisfy liability

Dr. Warranties Payable (-L) 80

Cr. Inventory (-A) 80

Wages Payable

		1,000	Beg. Balance
Deliver inventory	80	100	Recognize Expense
		1,020	End. Balance

Unearned Revenues

- Receive cash in advance of delivering goods/services

Dr. Cash (+A)	100	
Cr. Unearned Revenue (+L)		100

- Recognized revenue upon delivery

Dr. Unearned Revenue (-L)	80	
Cr. Revenue (+R, +SE)		80

Unearned Revenue			
		1,000	Beg. Balance
Delivery (Revenue)	80	100	Receive cash
		1,020	End. Balance

Typical Stockholders Equity

Common Stock (at Par) (Shares issued times par value)

Additional Paid-in-Capital (Shares issued times [market price
– par value])

Retained Earnings (Equals prior retained earnings plus
revenues minus expenses minus dividends)

Common Stock at Par

- Issue 100 shares of \$1 par value stock for \$10/share

Dr. Cash (+A)	1000	
Cr. Common Stock (+SE)		100
Cr. Additional Paid-In-Capital (+SE)		900

Common Stock		
	1,000	Beg. Balance
	100	Receive Cash
	1,100	End. Balance

Additional Paid-in-Capital

- Issue 100 shares of \$1 par value stock for \$10/share

Dr. Cash (+A)	1000	
Cr. Common Stock (+SE)		100
Cr. Additional Paid-In-Capital (+SE)		900

Additional Paid-in-Capital

	1,000	Beg. Balance
	900	Receive Cash
	1,900	End. Balance

Retained Earnings

- Declare dividends

Dr. Retained Earnings (-SE)	10	
Cr. Cash (-A) or Dividends Payable (+L)		10
- Close Revenue accounts

Dr. Revenue Accounts (-R, -SE)	100	
Cr. Retained Earnings (+SE)		100
- Close Expense accounts

Dr. Retained Earnings (-SE)	80	
Cr. Expense Accounts (-E, +SE)		80

Retained Earnings			
Declare dividends	10	1,000	Beg. Balance
Close Expenses	80	100	Close Revenues
		1,010	End. Balance