

Analyzing and Recording Transactions

Chapter 2

**Wild, Kwok, Venkatesh and Shaw
Fundamental Accounting Principles
3rd Edition**

Last week

Capture performance within a period (month / year)

- Income statement:

$$\text{Revenue} - \text{Expenses} = \text{Net income} / \text{Net Profit} / \text{Net Loss}$$

- Statement of changes in equity:

$$\text{Equity} = \text{Beg.} + \text{Owner's Investment} - \text{Owner's Withdrawal} + \text{Net Profit/Loss}$$

- Balance sheet:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

A snapshot of what a company worths (as at a date)

Discussion Question

Q: Define (a) assets, (b) liabilities, (c) equity, (d) net assets

Discussion Question

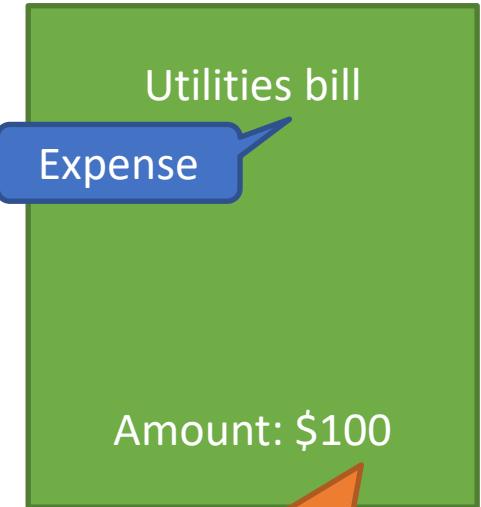
Q: Define (a) assets, (b) liabilities, (c) equity, (d) net assets

- (a) Assets are probable future economic benefits obtained or controlled by a specific entity as a result of past transactions or events.
- (b) Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.
- (c) Equity is the residual interest in the assets of an entity that remains after deducting its liabilities.
- (d) net assets = equity

Basics of Financial Statements

Business transactions and events are the starting points of financial statements. Process from transactions to financial statements is as follows:

- Step1 Identify each transaction and event from source documents.
- Step2 Analyze each transaction and event using the accounting equation.
- Step3 Record relevant transactions and events in a journal.
- Step4 Post journal information to ledger accounts.
- Step5 Prepare and analyze the trial balance and financial statements.



Dr	Utilities Exp	100
Cr	Cash	100

Source Documents

Source documents identify and describe transactions and events entering the accounting system.

Examples:

- Bills from suppliers
- Sales receipts
- Checks
- Purchase orders
- Payroll records
- Bank statements

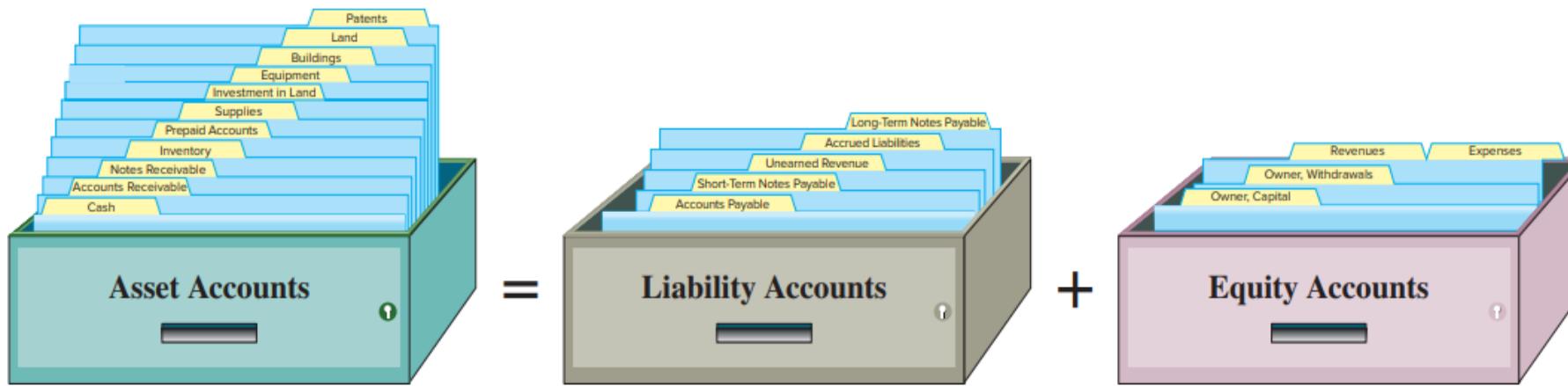
The Account Underlying Financial Statements

An **account** is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense.

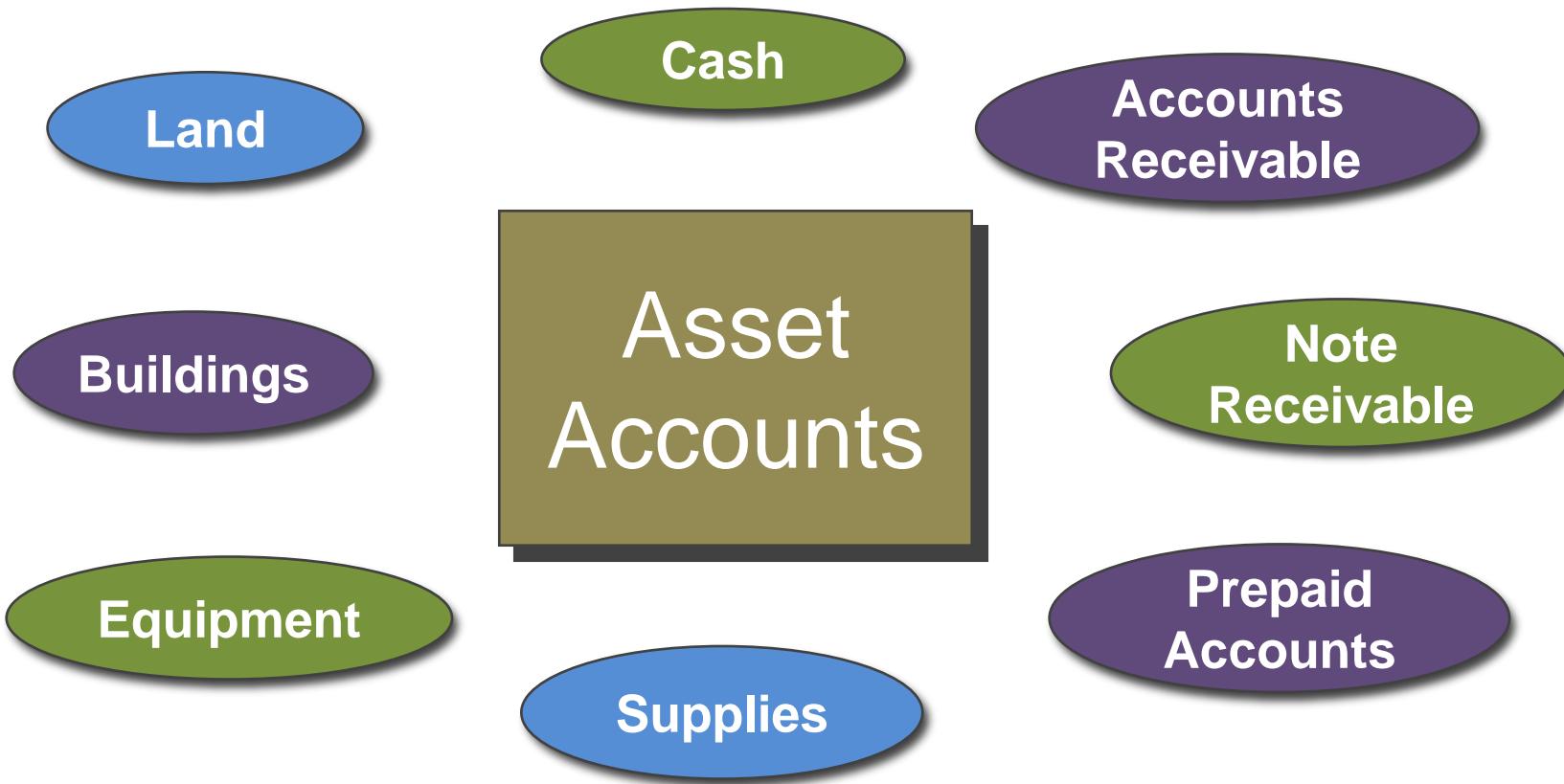
The **general ledger** is a record of all accounts used by the company.

The Account and Its Analysis

Exhibit
2.1



Asset Accounts



Liability Accounts

Accounts
Payable

Note
Payable

Liability
Accounts

Accrued
Liabilities

Unearned
Revenue

Equity Accounts

+
Owner's
capital

-
Owner's
withdrawals

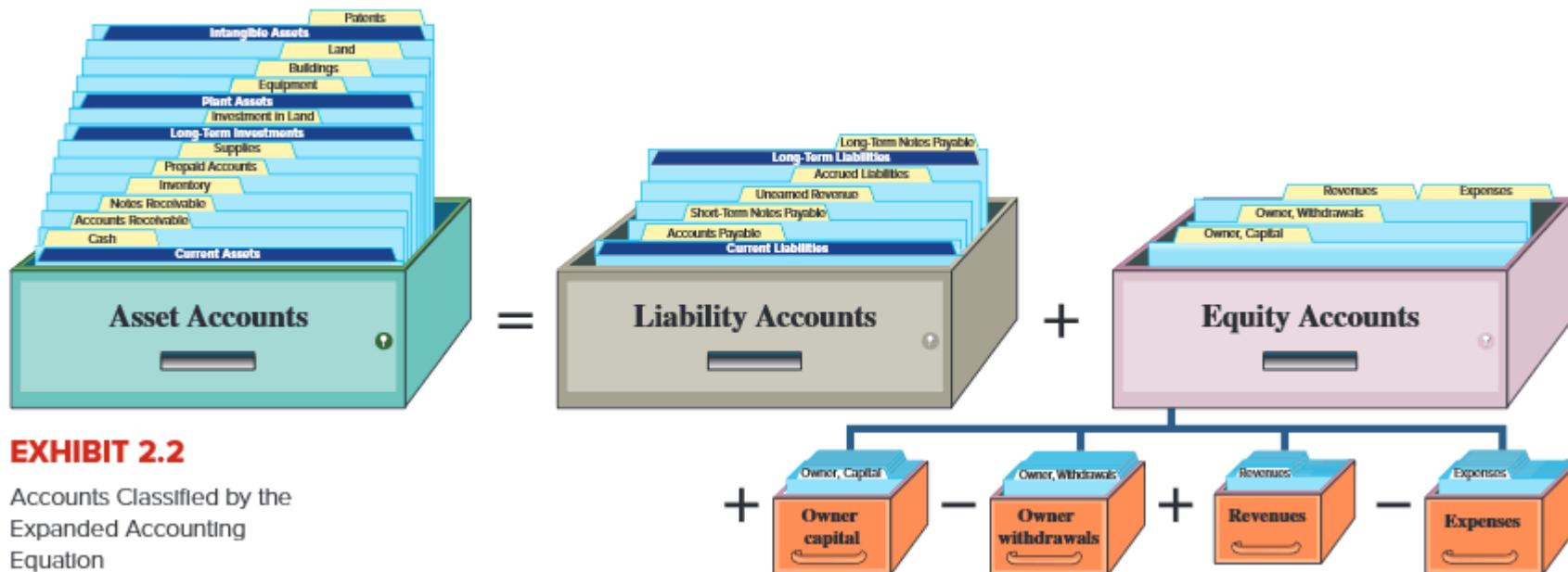
Equity
Accounts

+
Revenues

-
Expenses

Expanded Accounting Equation

Revenues and Owner capital increases equity.
Expenses and Owner withdrawals decrease equity.



Discussion Question

Q: What is the difference between a note payable and an account payable?

Discussion Question

Q: What is the difference between a note payable and an account payable?

A note payable is formal promise, usually denoted by signing a promissory note to pay a future amount. A note payable can be short-term or long-term, depending on when it is due. An account payable also references an amount owed to an entity. An account payable can be oral or implied, and often arises from the purchase of inventory, supplies, or services. An account payable is usually short-term.

Ledger and Chart of Accounts

The ledger is a collection of all accounts and their balances for an accounting system. A company's size and diversity of operations affect the number of accounts needed.

The chart of accounts is a list of all accounts and includes an identifying number for each account.

Exhibit 2.4

Chart of Accounts						
Assets		Liabilities		Equity		
				Revenues	Expenses	
101	Cash	201	Accounts payable			
106	Accounts receivable	236	Unearned consulting revenue	301 C. Taylor, Capital	403 Consulting revenue	622 Salaries expense
126	Supplies			302 C. Taylor, Withdrawals	406 Rental revenue	637 Insurance expense
128	Prepaid insurance					640 Rent expense
167	Equipment					652 Supplies expense
						690 Utilities expense

Quick Exercise

Classify each of the following accounts as either an asset (A), liability (L), or equity (EQ) account.

- A 1. Prepaid Rent
- E 2. Owner, Capital
- A 3. Note Receivable
- L 4. Accounts Payable
- A 5. Accounts Receivable
- A 6. Equipment
- L 7. Interest Payable
- L 8. Unearned Revenue
- A 9. Land
- A 10. Prepaid Insurance
- L 11. Wages Payable
- L 12. Rent Payable

Debits and Credits

A T-account represents a ledger account and is used to show the effects of transactions.

Account Title	
(Left side)	(Right side)
<i>Debit</i>	<i>Credit</i>

Exhibit
2.5

Double-Entry Accounting

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

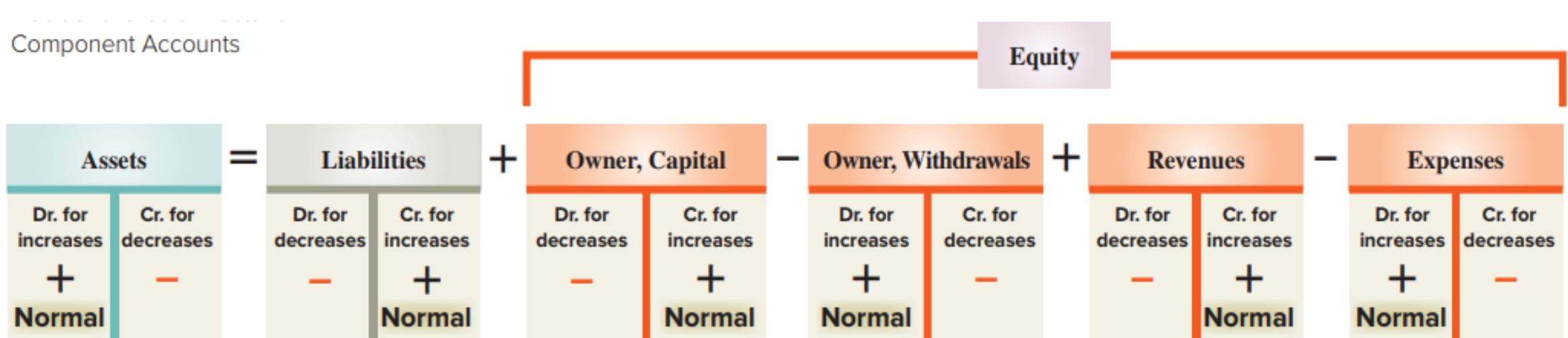
Exhibit
2.6

Assets	=	Liabilities	+	Equity
Debit for increases + Normal	Credit for decreases -	Debit for decreases - Normal	Credit for increases + Normal	Debit for decreases - Normal

Double-Entry Accounting: Expanded Accounting Equation

Here is the expanded accounting equation showing the equity section.

Exhibit
2.7



Double-Entry Accounting: Account Balance

An account balance is the difference between the increases and decreases in an account. Notice the T-Account of Cash has an account balance of \$4,800.



Cash			
36,100	{		
Receive investment by owner	30,000	Purchase of supplies	2,500
Consulting services revenue earned	4,200	Purchase of equipment	26,000
Collection of account receivable	1,900	Payment of rent	1,000
		Payment of salary	700
		Payment of account payable	900
		Withdrawal by owner	200
			31,300
Balance	4,800		
		$36,100 - 31,300$	

**Exhibit
2.8**

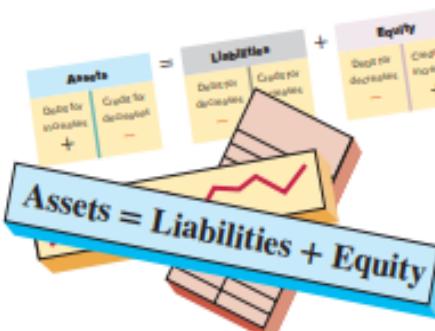
Journalizing and Posting Transactions

Exhibit
2.9

Step 1: Identify transactions and source documents.

Services Contract		
Client Billing		
Sales Receipt		
Purchase Order		
Bank Statement		
1	Deposit	30,000
	TOTAL	

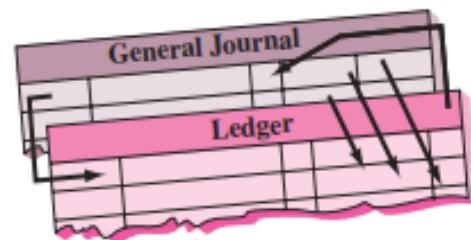
Step 2: Analyze transactions using the accounting equation.



Step 3: Record journal entry.

General Journal			
Dec. 1	Cash	30,000	
	C. Taylor, Capital		30,000
Dec. 2	Supplies	2,500	
	Cash		2,500

Step 4: Post entry to ledger.



Journalizing Transactions

a. Transaction Date

b. Titles of Affected Accounts

Exhibit
2.10

General Journal

Date	Account Titles and Explanation	PR	Debit	Credit
2019 (a) Dec. 1	(b) Cash C. Taylor, Capital <i>Receive investment by owner.</i> (d)		30,000	(c) 30,000
Dec. 2	Supplies Cash <i>Purchase supplies for cash.</i>		2,500	2,500

d. Transaction explanation

c. Dollar amount of debits and credits

Balance Column Account

Exhibit
2.11

T-accounts are useful illustrations, but balance column ledger accounts are used in practice.

General Ledger					
Cash			Account No. 101		
Date	Explanation	PR	Debit	Credit	Balance
2019					
Dec. 1		G1	30,000		30,000
Dec. 2		G1		2,500	27,500
Dec. 3		G1		26,000	1,500
Dec. 10		G1	4,200		5,700

Posting Journal Entries

Exhibit
2.12

General Journal

Date	Account Titles and Explanation	PR	Debit	Credit
2019 Dec. 1	Cash	101	30,000	
	C. Taylor, Capital	301		30,000
	Receive Investment by owner.			

General Ledger

Cash		Account No. 101		
Date	Explanation	PR	Debit	Credit
2019 Dec. 1		G1	30,000	

C. Taylor, Capital		Account No. 301		
Date	Explanation	PR	Debit	Credit
2019 Dec. 1		G1		30,000

Key:

- (A) Identify debit account in ledger: enter date, journal page, amount, and balance (red line).
- (B) Enter the debit account number from the ledger in the PR column of the journal (blue line).
- (C) Identify credit account in ledger: enter date, journal page, amount, and balance (gold line).
- (D) Enter the credit account number from the ledger in the PR column of the journal (green line).

Processing Transactions

Double-entry accounting is useful in analyzing and processing transactions. Analysis of each transaction follows these four steps.

- Step 1** Identify the transaction and any source documents.
- Step 2** Analyze the transaction using the accounting equation.
- Step 3** Record the transaction in journal entry form applying double-entry accounting.
- Step 4** Post the entry (for simplicity, we use T-accounts to represent ledger accounts).

Processing Transactions #1

1. Receive Investment by Owner

1 IDENTIFY FastForward receives \$30,000 cash from Chas Taylor as an owner contribution.

Assets	=	Liabilities	+	Equity
Cash +30,000				C. Taylor, Capital +30,000

Date	Account Titles and Explanation	PR	Debit	Credit
(1)	Cash C. Taylor, Capital	101 301	30,000	30,000

4 POST

Cash	101
(1) 30,000	

C. Taylor, Capital	301
(1) 30,000	

Processing Transactions #2

2. Purchase Supplies for Cash

1 IDENTIFY FastForward pays \$2,500 cash for supplies.

2 ANALYZE

Assets		=	Liabilities	+	Equity
Cash	Supplies				
-2,500	+2,500		0	+	0

Changes the composition of assets but not the total.

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(2)	Supplies Cash	126 101	2,500	2,500

4 POST

Supplies		126
(2)	2,500	
Cash		101
(1)	30,000	
(2)	2,500	

Processing Transactions #3

3. Purchase Equipment for Cash

1 IDENTIFY

FastForward pays \$26,000 cash for equipment.

2 ANALYZE

Assets		=	Liabilities	+	Equity
Cash	Equipment				
-26,000	+26,000		0	+	0

Changes the composition of assets but not the total.

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(3)	Equipment	167	26,000	
	Cash	101		26,000

4 POST

Equipment		167
(3)	26,000	

Cash		101
(1)	30,000	(2) 2,500
		(3) 26,000

Processing Transactions #4

4. Purchase Supplies on Credit

1 IDENTIFY FastForward purchases \$7,100 of supplies on credit from a supplier.

Assets	=	Liabilities	+	Equity
Supplies		Accounts Payable		
+7,100		+7,100		0

Date	Account Titles and Explanation	PR	Debit	Credit
(4)	Supplies	126	7,100	
	Accounts Payable	201		7,100

4 POST		Supplies	126
(2)	2,500		
(4)	7,100		

		Accounts Payable	201
		(4)	7,100

Processing Transactions #5

5. Provide Services for Cash

1 IDENTIFY FastForward provides consulting services and immediately collects \$4,200 cash.

Assets	=	Liabilities	+	Equity
Cash				Consulting Revenue
+4,200	=	0		+4,200

Date	Account Titles and Explanation	PR	Debit	Credit
(5)	Cash Consulting Revenue	101 403	4,200	4,200

4 POST

	Cash	101
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000

	Consulting Revenue	403
		(5) 4,200

Processing Transactions #6

6. Payment of Expense in Cash

1 IDENTIFY FastForward pays \$1,000 cash for December rent.

2 ANALYZE

Assets	=	Liabilities	+	Equity
				Rent Expense
Cash -1,000	=	0		-1,000

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(6)	Rent Expense	640	1,000	
	Cash	101		1,000

4 POST

	Rent Expense	640
→(6)	1,000	
	Cash	101
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000
(6)	1,000	

Processing Transactions #7

7. Payment of Expense in Cash

1 IDENTIFY

FastForward pays \$700 cash for employee salary.

2 ANALYZE

Assets	=	Liabilities	+	Equity
				Salaries Expense
Cash				622
-700				700
	=	0		-700

3 RECORD

Date	Account Titles and Explanation		PR	Debit	Credit
(7)	Salaries Expense		622	700	
	Cash		101		700

4 POST

Salaries Expense		622
→(7)	700	
Cash		101
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000
		(6) 1,000
		(7) 700

Processing Transactions #8

8. Provide Consulting and Rental Services on Credit

1 IDENTIFY FastForward provides consulting services of \$1,600 and rents its test facilities for \$300. The customer is billed \$1,900 for these services.

2 ANALYZE

Assets		=	Liabilities	=	Equity
Accounts	Receivable			Consulting Revenue	Rental Revenue
	+1,900		=	0	+1,600 +300

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(8)	Accounts Receivable	106	1,900	
	Consulting Revenue	403		1,600
	Rental Revenue	406		300

4 POST

Accounts Receivable	106
(8) 1,900	
Consulting Revenue	403
	(5) 4,200
(8) 1,600	
Rental Revenue	406
	(8) 300

Processing Transactions #9

9. Receipt of Cash on Account

1 IDENTIFY

FastForward receives \$1,900 cash from the customer billed in transaction 8.

2 ANALYZE

Assets		=	Liabilities + Equity	
		Accounts		
Cash	Receivable			
+1,900	-1,900	=	0	+ 0

4 POST

Cash		101
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000
(9)	1,900	(6) 1,000
		(7) 700

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(9)	Cash	101	1,900	
	Accounts Receivable	106		1,900

Accounts Receivable		106
(8)	1,900	(9) 1,900

Processing Transactions #10

10. Partial Payment of Accounts Payable

1 IDENTIFY

FastForward pays CalTech Supply \$900 cash toward the payable of transaction 4.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash		Accounts Payable		
-900	=	-900	+ 0	

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(10)	Accounts Payable	201	900	
	Cash	101		900

4 POST

	Accounts Payable	201
►(10)	900	(4) 7,100
	Cash	101
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000
(9)	1,900	(6) 1,000
		(7) 700
(10)	900	

Processing Transactions #11

11. Withdrawal of Cash by Owner

1 IDENTIFY

Chas Taylor withdraws \$200 cash from FastForward for personal use.

2 ANALYZE

Assets	=	Liabilities	+	Equity
Cash -200	=	0		C. Taylor, Withdrawals -200

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(11)	C. Taylor, Withdrawals	302	200	
	Cash	101		200

4 POST

C. Taylor, Withdrawals		302
►(11)	200	
Cash		
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000
(9)	1,900	(6) 1,000
(7)		700
(10)		900
(11)	200	

Processing Transactions #12

12. Receipt of Cash for Future Services

1 IDENTIFY FastForward receives \$3,000 cash in advance of providing consulting services to a customer.

Assets	=	Liabilities	+	Equity
Unearned Consulting Revenue				
Cash				
+3,000	=	+3,000		0

Accepting \$3,000 cash requires FastForward to perform future services and is a liability. No revenue is recorded until services are provided.

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(12)	Cash Unearned Consulting Revenue	101 236	3,000 3,000	

4 POST

Cash		101
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000
(9)	1,900	(6) 1,000
(12) 3,000		(7) 700
		(10) 900
		(11) 200

Unearned Consulting Revenue	236
(12) 3,000	

Processing Transactions #13

13. Pay Cash for Future Insurance Coverage

1 IDENTIFY FastForward pays \$2,400 cash (insurance premium) for a 24-month insurance policy. Coverage begins on December 1.

2 ANALYZE

Assets		=	Liabilities	+	Equity
Cash	Prepaid Insurance				
-2,400	+2,400	=	0	+	0

Changes the composition of assets from cash to prepaid insurance. Expense is recorded as insurance coverage expires.

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(13)	Prepaid Insurance	128	2,400	
	Cash	101		2,400

4 POST

	Prepaid Insurance	128
► (13)	2,400	

	Cash	101
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000
(9)	1,900	(6) 1,000
(12)	3,000	(7) 700
		(10) 900
		(11) 200
		(13) 2,400

Processing Transactions #14

14. Purchase Supplies for Cash

1 IDENTIFY FastForward pays \$120 cash for supplies.

2 ANALYZE

Assets		=	Liabilities	+	Equity
Cash	Supplies				
-120	+120	=	0	+	0

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(14)	Supplies	126	120	
	Cash	101		120

4 POST

	Supplies	126
(2)	2,500	
(4)	7,100	
(14)	120	

	Cash	101
(1)	30,000	(2) 2,500
(5)	4,200	(3) 26,000
(9)	1,900	(6) 1,000
(12)	3,000	(7) 700
		(10) 900
		(11) 200
		(13) 2,400
(14)		120

Processing Transactions #15

15. Payment of Expense in Cash

1 IDENTIFY FastForward pays \$305 cash for December utilities expense.

Assets	=	Liabilities	+	Equity
Cash				Utilities Expense
-305				-305

Date	Account Titles and Explanation	PR	Debit	Credit
(15)	Utilities Expense	690	305	
	Cash	101		305

4 POST

Utilities Expense		690
(15)	305	

Cash		101	
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200
		(13)	2,400
		(14)	120
		(15)	305

3 RECORD

Processing Transactions #16

16. Payment of Expense in Cash

1 IDENTIFY

FastForward pays \$700 cash in employee salary for work performed in the latter part of December.

2 ANALYZE

Assets	=	Liabilities +	Equity
		Salaries Expense	
Cash -700	=	0	-700

3 RECORD

Date	Account Titles and Explanation	PR	Debit	Credit
(16)	Salaries Expense	622	700	
	Cash	101		700

4 POST

Salaries Expense		622
(7)	700	
(16)	700	

Cash		101	
(1)	30,000	(2)	2,500
(5)	4,200	(3)	26,000
(9)	1,900	(6)	1,000
(12)	3,000	(7)	700
		(10)	900
		(11)	200
		(13)	2,400
		(14)	120
		(15)	305
		(16)	700

Summarizing Transactions in a Ledger

Exhibit
2.13

General Ledger									
Assets		=	Liabilities		+	Equity			
	Cash	101		Accounts Payable	201		C. Taylor, Capital	301	
(1)	30,000	(2)	2,500	(10)	900	(4)	7,100	(1)	30,000
(5)	4,200	(3)	26,000				Balance	6,200	
(9)	1,900	(6)	1,000						
(12)	3,000	(7)	700		Unearned Consulting Revenue	236			
		(10)	900			(12)	3,000		
		(11)	200						
		(13)	2,400						
		(14)	120						
		(15)	305						
		(16)	700						
	Balance	4,275							
	Accounts Receivable	106					Consulting Revenue	403	
(8)	1,900	(9)	1,900					(5)	4,200
	Balance	0						(8)	1,600
								Balance	5,800
	Supplies	126					Rental Revenue	406	
(2)	2,500							(8)	300
(4)	7,100								
(14)	120								
	Balance	9,720							
	Prepaid Insurance	128					Salaries Expense	622	
(13)	2,400							(7)	700
								(16)	700
								Balance	1,400
	Equipment	167					Rent Expense	640	
(3)	26,000							(6)	1,000
	\$42,395		=		\$9,200	+		\$33,195	
							Accounts in this white area are on the income statement.		

Preparing a Trial Balance

Preparing a trial balance has three steps:

1. List each account title and its amount (from ledger) in the trial balance. If an account has a zero balance, list it with a zero in the normal balance column (or omit it entirely).
2. Compute the total of debit balances and the total of credit balances.
3. Verify (prove) total debit balances equal total credit balances.

FastForward's Trial Balance

Exhibit
2.14

FASTFORWARD Trial Balance December 31, 2021		
	Debit	Credit
Cash	\$ 4,275	
Accounts receivable.....	0	
Supplies.....	9,720	
Prepaid insurance.....	2,400	
Equipment.....	26,000	
Accounts payable.....		\$ 6,200
Unearned consulting revenue...		3,000
C. Taylor, Capital.....		30,000
C. Taylor, Withdrawals	200	
Consulting revenue		5,800
Rental revenue		300
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense.....	305	
Totals.....	<u><u>\$45,300</u></u>	<u><u>\$45,300</u></u>

The trial balance lists all ledger accounts and their balances at a point in time. If the books are in balance, the total debits will equal the total credits.

Searching for Errors

If the trial balance does not balance, the error(s) must be found and corrected.

① Make sure the trial balance columns are correctly added.

② Make sure account balances are correctly entered from the ledger.

③ See if debit or credit accounts are mistakenly placed on the trial balance.

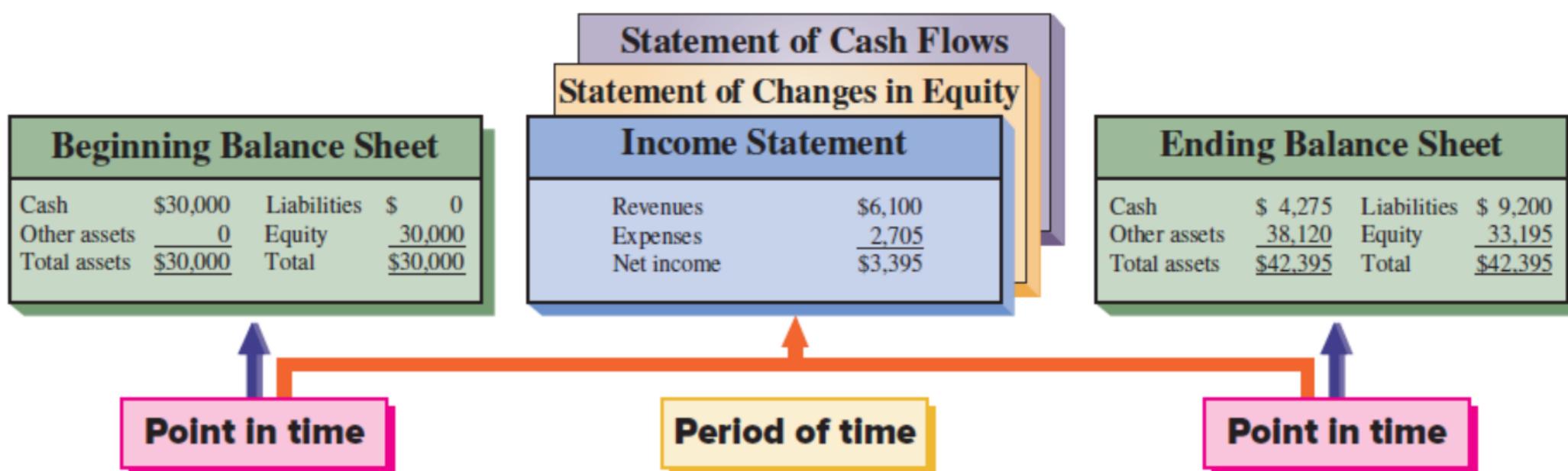
④ Recompute each account balance in the ledger.

⑤ Verify that each journal entry is posted correctly.

⑥ Verify that each original journal entry has equal debits and credits.

Financial Statements Prepared from Trial Balance

Exhibit
2.15



Financial Statements

The four financial statements and their purposes are:

- 1. Income statement** — reports revenues less expenses incurred by a business over a period of time.
- 2. Statement of Changes in Equity** — reports how equity changes over the reporting period.
- 3. Balance Sheet** — reports the financial position at a point in time.
- 4. Statement of Cash Flows** — The statement of cash flows lists the cash inflows and cash outflows for the period.

For simplicity, we do not show the statement of cash flows for FastForward in this chapter, but we do return to this statement in the next chapter.

Income Statement

Exhibit
2.16

FASTFORWARD Income Statement For Month Ended December 31, 2021		
Revenues		
Consulting revenue (\$4,200 + \$1,600)	\$ 5,800	
Rental revenue	300	<hr/>
Total revenues	\$ 6,100	
Expenses		
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	305	<hr/>
Total expenses	2,705	
Net profit	\$ 3,395	<hr/> <hr/>

Statement of Changes in Equity

FASTFORWARD Income Statement For Month Ended December 31, 2021		
Revenues		
Consulting revenue (\$4,200 + \$1,600)	\$ 5,800	
Rental revenue	300	
Total revenues		\$ 6,100
Expenses		
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	305	
Total expenses		2,705
Net profit		<u><u>\$ 3,395</u></u>

Exhibit
2.16

FASTFORWARD Statement of changes in equity For Month Ended December 31, 2021		
C. Taylor, Capital, December 1, 2021	\$ 0	
➔ Plus: Investments by owner	\$30,000	
Net profit	3,395	
➔ Less: Withdrawals by owner		
C. Taylor, Capital, December 31, 2021		\$33,195

Balance Sheet

From Income Statement

**Exhibit
2.16**

FASTFORWARD Statement of changes in equity For Month Ended December 31, 2021		
C. Taylor, Capital, December 1, 2021	\$ 0	
► Plus: Investments by owner	\$30,000	
Net profit	3,395	33,395
		33,395
► Less: Withdrawals by owner		200
C. Taylor, Capital, December 31, 2021	\$33,195	

FASTFORWARD Balance Sheet December 31, 2021			
Assets		Liabilities	
Cash	\$ 4,275	Accounts payable	\$ 6,200
Supplies	9,720	Unearned consult. revenue	3,000
Prepaid insurance ...	2,400	Total liabilities	9,200
Equipment	26,000		
		Equity	
		C. Taylor, Capital	33,195
Total assets	\$42,395	Total liabilities and equity	\$ 42,395

Presentation Issues

Dollar signs are not used in journals and ledgers. They do appear in financial statements and other reports such as trial balances. Companies commonly round amounts in reports to the nearest dollar, or even to a higher level. Apple, like many large companies, rounds its financial statement amounts to the nearest million. This decision is based on the impact of rounding for users' decisions.

E2–7/8: A new company called Pose-for-Pics has the following transactions.

Requirements:

- (1) Open T-accounts
- (2) Record journal entries
- (3) Post the general entries to these T-accounts
- (4) Prepare the August 31 trial balance.

- Pose-for-Pics uses the following accounts:

1. Cash
2. Office Supplies
3. Prepaid Insurance
4. Photography Equipment
5. M. Harris, Capital
6. Photography Fees Earned
7. Utilities Expense

This is a **Chart of Account**. It includes **ACCOUNTS** a company has.

So, when you are asked to “record the transactions”, the account names can be found here.

Open T-accounts

	Cash	
	+ Cash	-
	+ Office Supplies	-
	+ Prepaid Insurance	-
Assets		
	+ Photography Equipment	-
Equity	- M. Harris, Capital	+ M. Harris, Capital
Revenue	- Photography Fees Earned	+ Photography Fees Earned
Expenses	+ Utilities Expense	- Utilities Expense

Aug 1

Madison Harris, the owner, invested \$6,500 cash and \$33,500 of photography equipment in the company.

		Debit \$	Credit \$
Dr	Cash	6,500	
	Photography Equipment	33,500	
Cr	M. Harris, Capital		40,000

- Chart of Accounts

1.Cash ↑

2.Office Supplies

3.Prepaid Insurance

4.Photography Equipment ↑

5.M. Harris, Capital ↑

6.Photography Fees Earned

7.Utilities Expense

Aug 2

The company paid \$2,100 cash for an insurance policy covering the next 24 months.

		Debit \$	Credit \$
Dr	Prepaid Insurance	2,100	
Cr	Cash		2,100

- Chart of Accounts

1.Cash 

2.Office Supplies

3.Prepaid Insurance 

4.Photography Equipment

5.M. Harris, Capital

6.Photography Fees Earned

7.Utilities Expense

Aug 5

The company purchase office supplies for \$880 cash.

		Debit \$	Credit \$
Dr	Office Supplies	800	
Cr	Cash		800

- Chart of Accounts
- 1. Cash 
- 2. Office Supplies 
- 3. Prepaid Insurance
- 4. Photography Equipment
- 5. M. Harris, Capital
- 6. Photography Fees Earned
- 7. Utilities Expense

Aug 20 The company received \$3,331 cash in photography fees earned.

		Debit \$	Credit \$
Dr	Cash	3,331	
Cr	Photography Fees Earned		3,331

- Chart of Accounts
- 1. Cash ↑
- 2. Office Supplies
- 3. Prepaid Insurance
- 4. Photography Equipment
- 5. M. Harris, Capital
- 6. Photography Fees Earned ↑
- 7. Utilities Expense

Aug 31 The company paid \$675 cash for August utilities.

		Debit	Credit
Dr	Utilities Expense	\$ 675	
Cr	Cash		\$ 675

- Chart of Accounts
- 1. Cash 
- 2. Office Supplies
- 3. Prepaid Insurance
- 4. Photography Equipment
- 5. M. Harris, Capital
- 6. Photography Fees Earned
- 7. Utilities Expense 

Post the general entries to these T-accounts

Cash			
Aug. 1	6,500	Aug. 2	2,100
20	3,331	5	880
		31	675
Balance	6,176		

Photography Equipment		
Aug. 1	33,500	
M. Harris, Capital		
	Aug. 1	40,000

Office Supplies	
Aug. 5	880

Photography Fees Earned		
	Aug. 20	3,331

Prepaid Insurance	
Aug. 2	2,100

Utilities Expense		
Aug. 31	675	

Prepare the August 31 trial balance

POSE-FOR-PICS Trial Balance August 31		
	<i>Debit</i>	<i>Credit</i>
Cash	\$ 6,176	
Office supplies	880	
Prepaid insurance	2,100	
Photography equipment	33,500	
M. Harris, Capital		\$40,000
Photography fees earned		3,331
Utilities expense	<u>675</u>	<u> </u>
Totals	<u>\$43,331</u>	<u>\$43,331</u>

P 2-1A: Karla Tanner Opened a web consulting business called Linkworks and completed the following transactions in its first month of operations.

Requirements:

- (1) Open T-accounts
- (2) Record journal entries
- (3) Post the general entries to these T-accounts
- (4) Prepare the April 30 trial balance.

• Linkworks uses the following accounts:

1. Cash
2. Accounts Receivable
3. Office Supplies
4. Prepaid Insurance
5. Prepaid Rent
6. Office Equipment
7. Accounts Payable
8. K. Tanner, Capital
9. K. Tanner, Withdrawals
10. Service Revenue
11. Utilities Expense

This is a **Chart of Account**. It includes **ACCOUNTS** a company has.

So, when you are asked to “record the transactions”, the account names can be found here.

Open T-accounts

	Cash	
	Accounts Receivable	
	Office Supplies	
Assets		
	Prepaid Insurance	
	Prepaid Rent	
	Office Equipment	
Liability		
	Accounts Payable	
Equity		
	K. Tanner, Capital	
Withdrawals		
	K. Tanner, Withdrawals	
Revenue		
	Service Revenue	
Expenses		
	Utilities Expense	

Apr. 1 **Tanner invested \$80,000 cash along with office equipment valued at \$26,000 in the company**

		Debit \$	Credit \$
Dr	Cash	80,000	
	Office Equipment	26,000	
Cr	K. Tanner, Capital		106,000

- Chart of Accounts
- 1. Cash ↑
- 2. Accounts Receivable
- 3. Office Supplies
- 4. Prepaid Insurance
- 5. Prepaid Rent
- 6. Office Equipment ↑
- 7. Accounts Payable
- 8. K. Tanner, Capital ↑
- 9. K. Tanner, Withdrawals
- 10. Service Revenue
- 11. Utilities Expense

Apr. 2

The company prepaid \$9,000 cash for 12 months' rent for office space. Hint: Debit Prepaid Rent for \$9,000

		Debit \$	Credit \$
Dr	Prepaid Rent	9,000	
Cr	Cash		9,000

- Chart of Accounts

1. Cash 

2. Accounts Receivable

3. Office Supplies

4. Prepaid Insurance

5. Prepaid Rent 

6. Office Equipment

7. Accounts Payable

8. K. Tanner, Capital

9. K. Tanner, Withdrawals

10. Service Revenue

11. Utilities Expense

Apr. 3

The company made credit purchases for \$8,000 in office equipment and \$3,600 in office supplies. Payment is due within 10 days.

		Debit \$	Credit \$
Dr	Office Equipment	8,000	
	Office Supplies	3,600	
Cr	Accounts Payable		11,600

- Chart of Accounts
- 1. Cash
- 2. Accounts Receivable
- 3. Office Supplies ↑
- 4. Prepaid Insurance
- 5. Prepaid Rent
- 6. Office Equipment ↑
- 7. Accounts Payable ↑
- 8. K. Tanner, Capital
- 9. K. Tanner, Withdrawals
- 10. Service Revenue
- 11. Utilities Expense

Apr. 6

The company complete services for a client and immediately received \$4,000 cash.

		Debit \$	Credit \$
Dr	Cash	4,000	
Cr	Service Revenue		4,000

- Chart of Accounts

1. Cash ↑

2. Accounts Receivable

3. Office Supplies

4. Prepaid Insurance

5. Prepaid Rent

6. Office Equipment

7. Accounts Payable

8. K. Tanner, Capital

9. K. Tanner, Withdrawals

10. Service Revenue ↑

11. Utilities Expense

Apr. 9

The company completed a \$6,000 project for a client, who must pay within 30 days

		Debit \$	Credit \$
Dr	Accounts Receivable	6,000	
Cr	Service Revenue		6,000

- Chart of Accounts
- 1. Cash
- 2. Accounts Receivable ↑
- 3. Office Supplies
- 4. Prepaid Insurance
- 5. Prepaid Rent
- 6. Office Equipment
- 7. Accounts Payable
- 8. K. Tanner, Capital
- 9. K. Tanner, Withdrawals
- 10. Service Revenue ↑
- 11. Utilities Expense

Apr. 13

The company paid \$11,600 cash to settle the account payable created on April 3.

		Debit \$	Credit \$
Dr	Account Payable	11,600	
Cr	Cash		11,600

- Chart of Accounts
- 1. Cash 
- 2. Accounts Receivable
- 3. Office Supplies
- 4. Prepaid Insurance
- 5. Prepaid Rent
- 6. Office Equipment
- 7. Accounts Payable 
- 8. K. Tanner, Capital
- 9. K. Tanner, Withdrawals
- 10. Service Revenue
- 11. Utilities Expense

Apr. 19

The company paid \$2,400 cash for the premium on a 12-month insurance policy. Hint: Debit Prepaid Insurance for \$2,400.

		Debit \$	Credit \$
Dr	Prepaid Insurance	2,400	
Cr	Cash		2,400

- Chart of Accounts

1. Cash 

2. Accounts Receivable

3. Office Supplies

4. Prepaid Insurance 

5. Prepaid Rent

6. Office Equipment

7. Accounts Payable

8. K. Tanner, Capital

9. K. Tanner, Withdrawals

10. Service Revenue

11. Utilities Expense

Apr. 22

The company received \$4,400 cash as partial payment for the work completed on April 9.

		Debit \$	Credit \$
Dr	Cash	4,400	
Cr	Accounts Receivable		4,400

- Chart of Accounts

1. Cash



2. Accounts Receivable



3. Office Supplies

4. Prepaid Insurance

5. Prepaid Rent

6. Office Equipment

7. Accounts Payable

8. K. Tanner, Capital

9. K. Tanner, Withdrawals

10. Service Revenue

11. Utilities Expense

Apr. 25 The company completed work for another client for \$2,890 on credit.

		Debit \$	Credit \$
Dr	Accounts Receivable	2,890	
Cr	Service Revenue		2,890

- Chart of Accounts

- 1. Cash

- 2. Accounts Receivable



- 3. Office Supplies

- 4. Prepaid Insurance

- 5. Prepaid Rent

- 6. Office Equipment

- 7. Accounts Payable

- 8. K. Tanner, Capital

- 9. K. Tanner, Withdrawals

- 10. Service Revenue



- 11. Utilities Expense

Apr. 28

Tanner withdrew \$5,500 cash from the company for personal use.

		Debit \$	Credit \$
Dr	K. Tanner, Withdrawals	5,500	
Cr	Cash		5,500

- Chart of Accounts

- 1. Cash 

- 2. Accounts Receivable

- 3. Office Supplies

- 4. Prepaid Insurance

- 5. Prepaid Rent

- 6. Office Equipment

- 7. Accounts Payable

- 8. K. Tanner, Capital

- 9. K. Tanner, Withdrawals 

- 10. Service Revenue

- 11. Utilities Expense

Apr. 29 The company purchased \$600 of additional office supplies on credit.

		Debit \$	Credit \$
Dr	Office Supplies	600	
Cr	Accounts Payable		600

- Chart of Accounts
- 1. Cash
- 2. Accounts Receivable
- 3. Office Supplies ↑
- 4. Prepaid Insurance
- 5. Prepaid Rent
- 6. Office Equipment
- 7. Accounts Payable ↑
- 8. K. Tanner, Capital
- 9. K. Tanner, Withdrawals
- 10. Service Revenue
- 11. Utilities Expense

Apr. 30

The company paid \$435 cash for this month's utility bill.

		Debit \$	Credit \$
Dr	Utilities Expense	435	
Cr	Cash		435

- Chart of Accounts
- 1. Cash 
- 2. Accounts Receivable
- 3. Office Supplies
- 4. Prepaid Insurance
- 5. Prepaid Rent
- 6. Office Equipment
- 7. Accounts Payable
- 8. K. Tanner, Capital
- 9. K. Tanner, Withdrawals
- 10. Service Revenue
- 11. Utilities Expense 

Post the general entries to these T-accounts

	Cash		Accounts Receivable		Office Supplies
Assets	80,000	9,000	6,000	4,400	3,600
	4,000	11,600	2,890		600
	4,400	2,400	4,490		4,200
		5,500			
		435			
	59,465				
Liability	Prepaid Insurance		Prepaid Rent		Office Equipment
	2,400		9,000		26,000
					8,000
					34,000
Equity	Accounts Payable				
	11,600		11,600		
			600		
			600		
Withdrawals	K. Tanner, Capital				
			106,000		
Revenue	K. Tanner, Withdrawals				
	5,500				
Expenses	Service Revenue				
	4,000				
	6,000				
	2,890				
	12,890				
Utilities Expense					
435					

Prepare the April 30 trial balance

LINKWORKS Trial Balance April 30		Debit	Credit
Cash	\$ 59,465		
Accounts receivable	4,490		
Office supplies	4,200		
Prepaid insurance	2,400		
Prepaid rent	9,000		
Office equipment	34,000		
Accounts payable		\$ 600	
K. Tanner, Capital		106,000	
K. Tanner, Withdrawals	5,500		
Services revenue		12,890	
Utilities expense	435		
Total	<u>\$119,490</u>	<u>\$119,490</u>	

End of Chapter 2