Exercise: Double Entry Accounting

# Introduction

This exercise introduces you to the process of double-entry accounting. This understanding will aid you for your third assignment.

# Instructions

1. Working in groups, as directed by your instructor, complete the following steps:
   1. Review the *Accounting Notes* document on Brightspace.
   2. Complete the tasks identified in the *Updating Balances* section of this document outside of class time, as indicated by your instructor.
2. Review the solutions provided by your instructor.

## Notes:

* No submission is required for this exercise.
* This exercise is ungraded but completing it will help you in Assignment 3.

# Updating Balances

## Scenario:

Your company has the following accounts and balances as of October 10, 2023 (assume this is the current date):

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Name** | **Account Number** | **Account Type** | **Balance** |
| Accounts Payable | 2050 | Liability | 1,500 |
| Accounts Receivable | 1150 | Asset | 2,340 |
| Cash | 1250 | Asset | 9,810 |
| Internet Expense | 4007 | Expense | 0 |
| Payroll Expense | 4045 | Expense | 0 |
| Payroll Liability | 2051 | Liability | 0 |
| Product Revenue | 3006 | Revenue | 700 |
| Owner’s Equity | 5555 | Owner’s Equity | 9,950 |

1. Document the following transactions.

**Note:** Assume it is still October 10, 2023:

* 1. Your internet service provider has billed us for their monthly services ($80). You don’t pay our invoice until the last day of the month, but you need to enter this liability into your system.
     1. Debit on Internet Expense
     2. Credit on Accounts Payable
  2. Midmonth payroll ($2,125) will occur in five days. At this point you document the liability, but the company doesn’t not pay out until the 15th of the month.
     1. Debit on Payroll Expense
     2. Credit on Payroll Liability
  3. One of your customers has paid cash ($3,980) for product they purchased from the company.
     1. Debit on Cash
     2. Credit on Product Revenue
  4. One of your customers has ordered product ($520), and you will invoice them the bill to be paid at the end of the month.
     1. Debit on Accounts Receivable
     2. Credit on Product Revenue

1. Based on the transactions above, what are the new balances?

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Name** | **Account Number** | **Account Type** | **Balance** |
| Accounts Payable | 2050 | Liability |  |
| Accounts Receivable | 1150 | Asset |  |
| Cash | 1250 | Asset |  |
| Internet Expense | 4007 | Expense |  |
| Payroll Expense | 4045 | Expense |  |
| Payroll Liability | 2051 | Liability |  |
| Product Revenue | 3006 | Revenue |  |
| Owner’s Equity | 5555 | Owner’s Equity |  |

1. The date is now October 15, 2023. Document the following:
   1. You pay out our midmonth payroll ($2,125).
      1. Debit on Payroll Liability
      2. Credit on Cash
2. Based on the transaction above, what are the new balances?

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Name** | **Account Number** | **Account Type** | **Balance** |
| Accounts Payable | 2050 | Liability |  |
| Accounts Receivable | 1150 | Asset |  |
| Cash | 1250 | Asset |  |
| Internet Expense | 4007 | Expense |  |
| Payroll Expense | 4045 | Expense |  |
| Payroll Liability | 2051 | Liability |  |
| Product Revenue | 3006 | Revenue |  |
| Owner’s Equity | 5555 | Owner’s Equity |  |

1. The date is now October 31, 2023. Document the following:
   1. It is time to pay our internet service provider for their monthly services ($80).
      1. Debit on Accounts Payable
      2. Credit on Cash
   2. One of our customers has paid their invoice ($520) for product ordered earlier in the month.
      1. Debit on Cash
      2. Credit on Accounts Receivable
   3. One of our customers has paid part of their product purchase in cash ($340) and the rest ($110) will be invoiced for the customer to pay at the end of next month.
      1. Debit on Cash
      2. Debit on Accounts Receivable
      3. Credit on Product Revenue
2. Based on the transactions above, what are the new balances?

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Name** | **Account Number** | **Account Type** | **Balance** |
| Accounts Payable | 2050 | Liability |  |
| Accounts Receivable | 1150 | Asset |  |
| Cash | 1250 | Asset |  |
| Internet Expense | 4007 | Expense |  |
| Payroll Expense | 4045 | Expense |  |
| Payroll Liability | 2051 | Liability |  |
| Product Revenue | 3006 | Revenue |  |
| Owner’s Equity | 5555 | Owner’s Equity |  |