

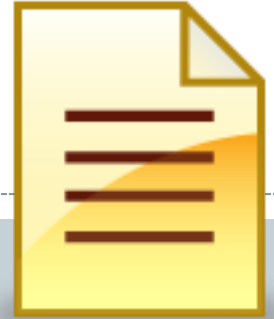
The Expanded Ledger DR/CR Rules



CHAPTER 5

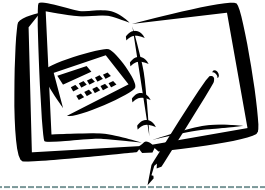


AGENDA



- The expanded ledger
- The income statement
- 2nd fundamental accounting equation
- DR/ CR Rules
- Chart of Accounts
- GAAP: the fiscal period & the time period concept, revenue recognition principle, the matching principle
- Owner's Equity and its relationships
- Balance Sheet with the Expanded Equity Section

The Expanded Ledger



- The owner's equity section has several accounts
- Each of these accounts reflect a particular kind of transaction that affects OE
 - **Revenues** – related to the sale of goods/services
 - **Expenses** – the costs related to the revenues
 - **Drawings** – the owner's withdrawals for personal use
- Purpose: to provide essential info about the progress of the business.

The Expanded Ledger



CHAPTER 4 TRIAL BALANCE



CHAPTER 5 TRIAL BALANCE

EVE BOA, LLB

Trial Balance

January 31, 20—

	Dr	Cr
Bank	2 439	
A/R – H. Geroux	1 420	
A/R – J. Magill	757	
A/R – E. Parsons	1 395	
Supplies	2 316	
Office Equipment	7 550	
Automobile	16 800	
A/P – OK Supply		4 400
A/P – Computer Outlet		1 200
Bank Loan		940
E. Boa, Capital		26 137
	<u>32 677</u>	<u>32 677</u>

EVE BOA, LLB

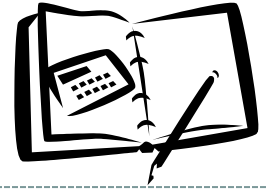
Trial Balance

January 31, 20—

	Dr	Cr
Bank	2 439	
A/R – H. Geroux	1 420	
A/R – J. Magill	757	
A/R – E. Parsons	1 395	
Supplies	2 316	
Office Equipment	7 550	
Automobile	16 800	
A/P – OK Supply		4 400
A/P – Computer Outlet		1 200
Bank Loan		940
E. Boa, Capital		21 878
E. Boa, Drawings	3 950	
Fees Earned		23 660
Advertising Expense	1 321	
Car Expense	615	
Rent Expense	3 300	
Sundry Expense	385	
Wages Expense	9 830	
	<u>52 078</u>	<u>52 078</u>

26 137

The Income Statement



- The 2nd financial statement
- Shows the revenues, expenses, and NI or NL



$$R - E = NI / NL$$

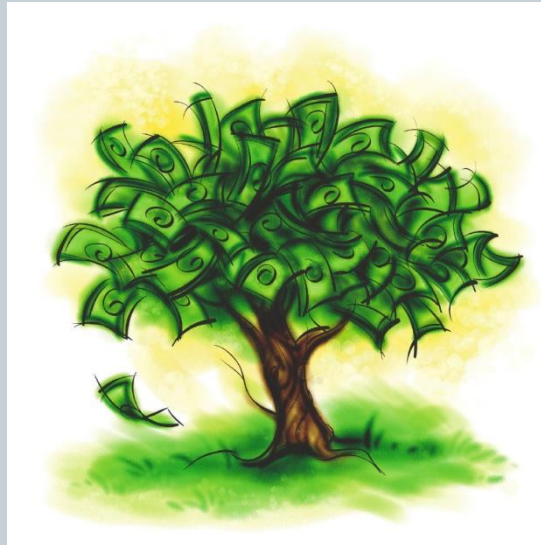
- Revenues – Expenses = Net Income or Net Loss
- **Revenues** increases owner's equity
 - Sales, fees earned, rental revenue, interest revenue
- **Expenses** decrease owner's equity
 - Rent expense, salaries & wages, utilities, office expenses
- NI or NL is the difference between revenues & expenses



The Drawings Account



- **Drawings** decrease owner's equity
- Not an expense as they are not directly related or generate the revenue
- Showed separately on the balance sheet



The Income Statement



- Who uses the income statement?
 - Owners – how much profit/loss have they made?
 - Managers – should they get a pay raise?
 - Banks – can they lend money to the business?
 - Investors – should they invest their money?
 - Income tax authorities – have they paid adequate income tax for the year?



The Income Statement

TRIAL BALANCE

EVE BOA, LLB
Trial Balance
January 31, 20–

	Dr	Cr
Bank	2 439	
A/R – H. Geroux	1 420	
A/R – J. Magill	757	
A/R – E. Parsons	1 395	
Supplies	2 316	
Office Equipment	7 550	
Automobile	16 800	
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	<u>52 078</u>	<u>52 078</u>

INCOME STATEMENT

EVE BOA, LLB
Income Statement
Month Ended January 31, 20–

Revenue

Fees Earned \$ 23 660

Expenses

Advertising Expense \$ 1 321

Car Expense 615

Rent Expense 3 300

Sundry Expense 385

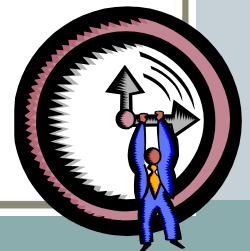
Wages Expense 9 830

Total Expenses

15 451

Net Income

\$ 8 209



DR/ CR Rules



Owner's Equity

Owner's Capital	
DR	CR
-	+



-

Owner's Drawings	
DR	CR
+	-



+

Revenues	
DR	CR
-	+



-

Expenses	
DR	CR
+	-



Chart of Accounts



- To help organize the accounts, it is tradition to create a system where all accounts are numbered separately
- These numbers are used for identification and reference only
- A chart of accounts is list of the ledger accounts and their numbers arranged as follows
- Usual system:
 - Assets 1000s
 - Liabilities 2000s
 - Equity: capital 3000s
 - Equity: drawings 3000s
 - Equity: revenues 4000s
 - Equity: expenses 5000s



Introducing GAAP



- Fiscal period: the time span of a business is broken into periods to measure accounting info and provide financial reports. Fiscal periods can be monthly, quarterly, annually (most common).
- **Time period concept**: it assumes that the economic life of a business can be divided into fiscal periods. Consistent use of the same fiscal period is required.



Introducing GAAP



- **Revenue Recognition Principle:** states that revenue must be recognized in the accounting/fiscal period in which it is earned, not when cash is received.
- **Matching Principle:** states that expenses must be matched with revenues in the same fiscal period to derive an accurate net income for that fiscal period.
Efforts (expenses) should be matched with *accomplishments* (revenues)



Owner's Equity and Its Relationships



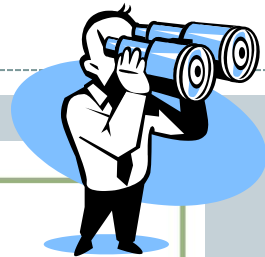
- OE Capital account is the starting point
- Has a CR balance
- B Capital + NI or NL – Drawings = E Capital

$$BC + / - NI / NL - D = EC$$

- Ending capital becomes the beginning capital for the next fiscal year



B/S with the Expanded Equity Section



EVE BOA, LLB BALANCE SHEET JANUARY 31, 20–

ASSETS

Current Assets

Bank	\$ 2 439
A/R – H. Geroux	1 420
A/R – J. Magill	757
A/R – E. Parsons	1 395
Supplies	2 316

Total Current Assets \$ 8 327

Long-Term Assets

Office Equipment	\$ 7 550
Automobile	<u>16 800</u>

Total Long-Term Assets 24 350

Total Assets \$ 32 677

LIABILITIES

Current Liabilities

A/P – OK Supply	\$ 4 400
A/P – Computer Outlet	1 200
Bank Loan	<u>940</u>
<i>Total Current Liabilities</i>	<u>\$ 6 540</u>

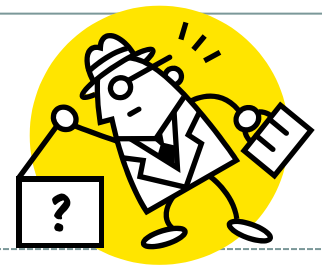
Liabilities

OWNER'S EQUITY

Eve Boa, Capital

Balance January 1	\$ 21 878
Net Income	\$ 8 209
Less: Drawings	<u>(3 950)</u>
Increase in Capital	<u>4 259</u>
<i>Balance January 31</i>	<u>26 137</u>
Total Liabilities and Owner's Equity	<u><u>\$ 32 677</u></u>

DR/CR Rules



Assets	
Debits	Credits
Increase	Decrease
Normal Balance	

Expenses	
Debits	Credits
Increase	Decrease
Normal Balance	

Owner's Drawing	
Debits	Credits
Increase	Decrease
Normal Balance	

Liabilities	
Debits	Credits
Decrease	Increase
	Normal Balance

Revenues	
Debits	Credits
Decrease	Increase
	Normal Balance

Owner's Capital	
Debits	Credits
Decrease	Increase
	Normal Balance

Sample Income Statements

SAMPLE COMPANY, INC. Income Statement For Month Ended October 31, 2007

Revenues:	
Product revenue:	\$ 3,900
Operating expenses:	
Salaries expense:	\$ 700
Rent expense:	<u>\$ 1,000</u>
Total operating expense:	<u>\$ 1,700</u>
Net Income:	<u>\$ 2,200</u>



Joint Ventures Income Statement for the Year Ended December 31, 2004

Income		
Delivery Revenue	\$ 146,500	100.00%
Expenses		
Equipment Rent	12,000	8.20%
Office Rent	6,600	4.50%
Depreciation	2,081	1.40%
Office Supplies	408	0.30%
Professional Fees	7,380	5.00%
Advertising	2,640	1.80%
Phone	2,016	1.40%
Contract Labor	26,400	18.00%
Wages	43,200	29.50%
FICA Taxes	2,678	1.80%
Medicare Taxes	626	0.40%
Unemployment Taxes	336	0.20%
Repairs & Maintenance	956	0.70%
Airplane Fuel	14,562	9.90%
Automobile	936	0.60%
Meals & Entertainment	576	0.40%
Dues & Subscriptions	195	0.10%
Continuing Education	52	0.00%
Interest Expense	350	0.20%
Bank Charges	<u>24</u>	<u>0.00%</u>
Total Expenses	<u>124,016</u>	<u>84.70%</u>
Net Income(Loss)	<u>\$ 22,484</u>	<u>15.30%</u>