CH 2 — Recording Business Transactions

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Learning goals

- Recognize a business transaction and the account types it affects
- Determine a transaction's impact on the accounting equation
- Analyze transactions with T-accounts
- Record in the journal and post to the ledger
- Prepare and use a trial balance

The Accounting Equation

$A = L + SE$ (Owns = Owes)

Assets: Cash, Accounts Receivable, Inventory, (Prepaid expenses)
Liabilities: Accounts Payable, Loans/Notes Payable, (Accrued Liabilities)
Shareholders' Equity: Common shares, Retained earnings, Dividends, Revenues, Expenses

Mini example

Txn	Assets	Liabilities	Equity	Check
1	Cash +50,000	—	Common shares +50,000	$A = 50,000,$ $SE = 50,000$
2	Cash −40,000; Land +40,000	—	—	$A = 50,000,$ $SE = 50,000$
3	Office supplies +3,700	A/P +3,700	—	$A = 53,700, L = 3,700,$ $SE = 50,000$

Chart of Accounts

Assets	Liabilities	Shareholders' Equity
Cash	Accounts Payable	Common shares
Office supplies	Notes Payable	Dividends
Land	—	Retained earnings

Uses of "on account"

1) Performed services **on account** → A/R increases
2) Collected **on account** → A/R decreases
3) Purchased **on account** → A/P increases
4) Paid **on account** → A/P decreases

T-Accounts (structure)

DEBIT (left)	CREDIT (right)

- DEBIT total = CREDIT total
- Cash normally carries a **debit** balance

- Accounts payable normally carries a **credit** balance

Normal balances (quick reference)

Type	Increase with	Decrease with	Normal
Assets	Debit	Credit	Debit
Liabilities	Credit	Debit	Credit
Common shares	Credit	Debit	Credit
Retained earnings	Credit	Debit	Credit
Dividends	Debit	Credit	Debit
Revenue	Credit	Debit	Credit
Expenses	Debit	Credit	Debit

Journal Entry (example)

Date	Accounts & explanation	Debit	Credit	Notes
Apr. 1	Cash	50,000		Issued common shares
	Common shares		50,000	

Trial Balance (example layout)

Company Name
Trial Balance
April 30, 20XX

Account title	Debit	Credit
Cash	33,300	
Accounts receivable	200	
Supplies	3,700	
Land	18,000	
Accounts payable		1,800
Common shares		50,000
Dividends	2,100	
Service revenue		10,000
Rent expense	1,100	
Salary expense	1,200	
Utilities expense	400	
Total	**61,800**	**61,800**

Practice: analyze by equation

Date	A	L	SE
1	Cash +25,000	—	Common shares +25,000
2	Supplies +800	A/P +800	—
4	Cash −20,000; Land +20,000	—	—
6	Cash +5,000	—	Service revenue +5,000
9	Cash −100	A/P −100	—
17	A/R +1,500	—	Service revenue +1,500
23	Cash +1,000; A/R −1,000	—	—
31	Cash −1,500	—	Salary −1,000; Rent −500

Ledgers (clean cards)

Cash

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])

Accounts Receivable

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])

Accounts Payable

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])

Office Supplies

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])

Land

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])

Common Shares

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])

Service Revenue

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])

Salary Expense

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])

Rent Expense

..rows.map(r => [r.at(0), r.at(1), r.at(2), r.at(3)])