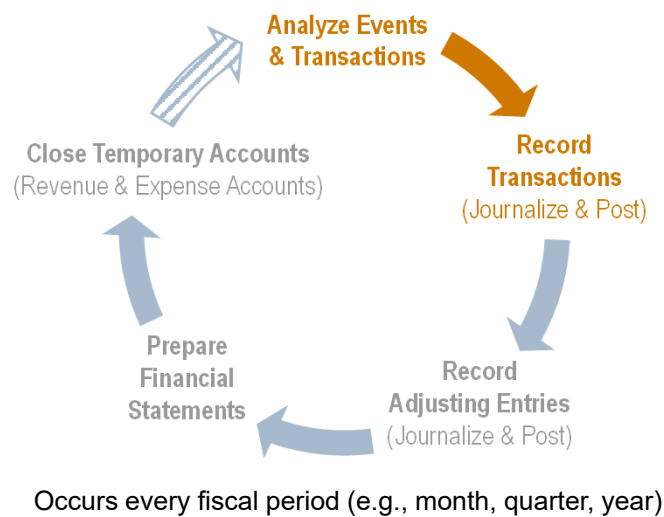


# Introduction to Recording Transactions

## The Accounting Cycle



## 3 Tools for Recording Transactions

**1. T-account**

**2. Journal entry**

**3. Balance sheet equation**



Recording Transactions:  
Your Turn

## Your Turn: Record the Transaction

**ABC Company buys \$15,000 of inventory on account**

### Journal Entry

Inventory (A)	(inc) \$15,000
Accounts Payable (L)	(inc) \$15,000

### Impact on T-Accounts

Inventory (A)	Accounts Payable (L)
\$15,000	\$15,000



## Your Turn: Record the Transaction

**ABC Company pays suppliers \$5,000 for inventory previously purchased on account**

### Journal Entry

Accounts Payable (L)	(dec) \$5,000
Cash (A)	(dec) \$5,000

### Impact on T-Accounts

Cash (A)	Accounts Payable (L)
\$5,000	\$5,000



## Your Turn: Record the Transaction

**ABC Company purchases \$50,000 in equipment for cash**

### Journal Entry

Equipment (A)	(inc) \$50,000
Cash (A)	(dec) \$50,000

### Impact on T-Accounts

Cash (A)	Equipment (A)
\$50,000	\$50,000



## Your Turn: Record the Transaction

**ABC Company issues 1,000 shares of common stock for \$10 cash per share**

### Journal Entry

Cash (A)	(inc) \$10,000
Capital Stock (OE)	(inc) \$10,000

### Impact on T-Accounts

Cash (A)	Capital Stock (OE)
\$10,000	\$10,000



## Your Turn: Record the Transaction

**ABC Company obtains a \$10,000 loan from the bank**

### Journal Entry

Cash (A)	(inc) \$10,000
Loan Payable (L)	(inc) \$10,000

### Impact on T-Accounts

Cash (A)	Loan Payable (L)
\$10,000	\$10,000



## Your Turn: Record the Transaction

**ABC Company purchases a building for \$120,000 with a loan from the bank**

### Journal Entry

Building (A)	(inc) \$120,000
Loan Payable (L)	(inc) \$120,000

### Impact on T-Accounts

Building (A)	Loan Payable (L)
\$120,000	\$120,000



## Your Turn: Record the Transaction

**ABC Company purchased a 5-year insurance policy for \$10,000 and paid the premium in advance**

### Journal Entry

Prepaid Insurance (A)	(inc) \$10,000
Cash (A)	(dec) \$10,000

### Impact on T-Accounts

Cash (A)		Prepaid Insurance (A)	
	\$10,000	\$10,000	

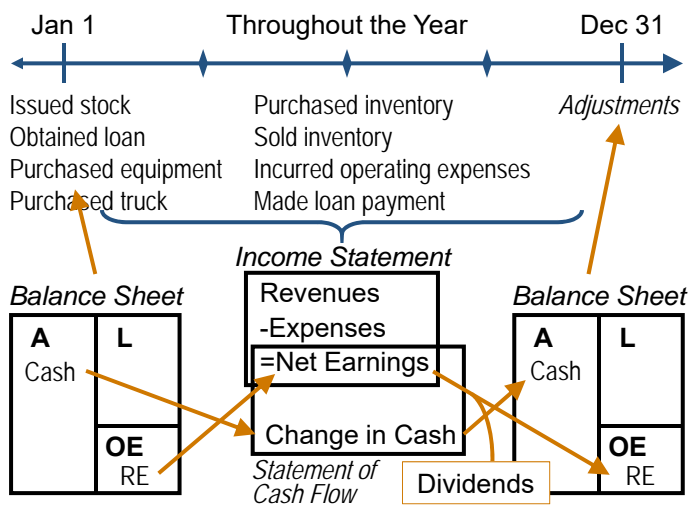


## Introduction to TGS Year 1

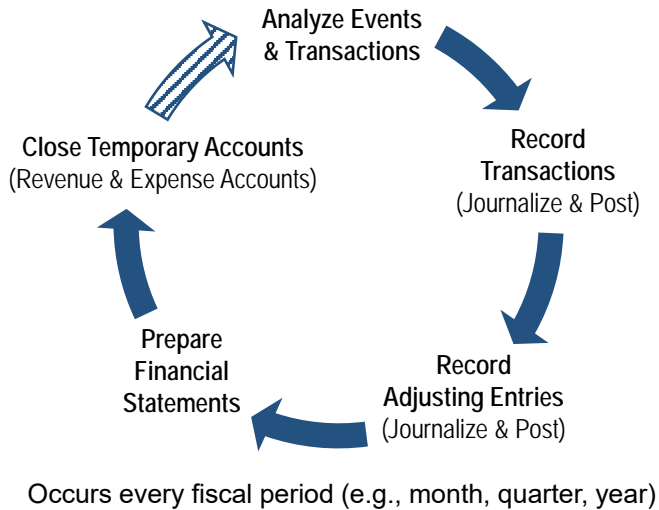
## A Simple Case: The Garden Spot

- Mary Jo started The Garden Spot on January 1
- Mary Jo needs to record transactions to capture the effect of things that happened during the year
- Mary Jo needs to prepare financial statements for the year
  - Income statement
  - Balance sheet
  - Statement of cash flow

## Financial Statement Framework



## The Accounting Cycle



## TGS Year 1: Transactions 1-5 and a Summary



Mary Jo met with her lawyer to incorporate the business, and she and Josh invested \$60,000 in the company in exchange for shares of common stock. They had contemplated borrowing the \$60,000 from Mary Jo's parents but had decided instead to use some of the money they had saved over the past 10 years.

**Journal Entry**

She met with a loan officer from National Bank and obtained a \$40,000 loan. The loan was to be repaid in equal principal payments over four years. The interest rate was 10%, and interest was payable at the end of each year when the principal payment was made.

## Journal Entry

## The Garden Spot: Transaction 3

She visited a local used car dealer and purchased a truck for \$12,000 cash. The truck seemed in excellent condition, and Mary Jo expected she would be able to use it for 5 years.

<b>A</b>		<b>=</b>	<b>L</b>	<b>+</b>	<b>OE</b>
Cash (A)			Loan Payable (L)		Capital Stock (OE)
BB	0				0 BB
(1)	60,000		40,000 (2)		60,000 (1)
(2)	40,000				

**Journal Entry**

## The Garden Spot: Transaction 4

She went to a local hardware store to buy the necessary equipment for her business, paying \$10,000 cash for equipment she also expected she could use for 5 years.

<b>A</b>		<b>=</b>	<b>L</b>	<b>+</b>	<b>OE</b>
Cash (A)			Truck (A)		Loan Payable (L)
BB	0		BB	0	0 BB
(1)	60,000		(3) 12,000		40,000 (2)
(2)	40,000				
	12,000 (3)				

**Journal Entry**

## The Garden Spot: Transaction 5

Purchases of inventory throughout the year costing \$260,000, \$235,000 of which was paid in cash and \$25,000 was purchased on account.

A		=	L	+	OE
Cash (A)			Truck (A)		Loan Payable (L)
BB	0		BB	0	BB
(1) 60,000	12,000 (3)		(3) 12,000		40,000 (2)
(2) 40,000	10,000 (4)				
			Equipment (A)		Capital Stock (OE)
			BB	0	0 BB
			(4) 10,000		60,000 (1)

<b>Journal Entry</b>
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## The Garden Spot: After recording transactions 1-5

A		=	L	+	OE
Cash (A)			Truck (A)		Loan Payable (L)
BB	0		BB	0	BB
(1) 60,000	12,000 (3)		(3) 12,000		40,000 (2)
(2) 40,000	10,000 (4)				
	235,000 (5)				
			Equipment (A)		Accounts Payable (L)
			BB	0	0 BB
			(5) 260,000	(4) 10,000	25,000 (5)

<b>Journal Entry</b>
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