# HANDOUT 2–1

# ANALYZING TRANSACTIONS

Analyze each of the following transactions by answering each of the questions. Use the spreadsheet on the following page to keep track of the amount in each account:

(a) Stockholder invests $10,000 into the business in exchange for common stock.

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

(b) Company borrows $15,000 signing a note payable to the bank that is due in three months.

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

(c) Receives and pays for a $15,000 truck and $5,000 of equipment.

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

# HANDOUT 2–1, continued

(d) Purchases $300 of supplies on account.

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

(e) Signs contract for first website design for $10,000.

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

# Spreadsheet

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | = | Liabilities | | | + | | SE | |
| Ref. | Cash | + | Supplies | + | Property, Plant & Equipment | = | Accounts Payable | + | Notes Payable | + | Common Stock | |
| (a) |  |  |  |  |  |  |  |  |  |  |  | |
| (b) |  |  |  |  |  |  |  |  |  |  |  | |
| (c) |  |  |  |  |  |  |  |  |  |  |  | |
| (d) |  |  |  |  |  |  |  |  |  |  |  | |
| (e) |  |  |  |  |  |  |  |  |  |  |  | |

# HANDOUT 2–2

# ANALYZING TRANSACTIONS

Analyze the following transactions as set forth below. Use the spreadsheet on the next page to keep track of the amount in each account:

(f) Pays $300 to the supplier in (d).

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

(g) Purchases and pays for $600 of supplies.

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

(h) Purchases and pays for equipment costing $1,000.

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

(i) Orders a $900 lawn mower, to be delivered next month.

|  |  |  |
| --- | --- | --- |
| 1. | Does a transaction exist? |  |
| 2. | Examine it for accounts affected. |  |
| 3. | Classify each account affected. |  |
| 4. | Identify direction and amount. |  |
| 5. | Ensure the equation still balances. |  |

# HANDOUT 2–2, continued

# Spreadsheet

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Assets | | | | | = | Liabilities | | | + | Stockholders’ Equity |
| Ref. | Cash | + | Supplies | + | Equipment | = | Accounts Payable | + | Notes Payable | + | Common Stock |
| (a) | +10,000 |  |  |  |  | = |  |  |  |  | +10,000 |
| (b) | +15,000 |  |  |  |  | = |  |  | +15,000 |  |  |
| (c) | –20,000 |  |  |  | +20,000 | = |  |  |  |  |  |
| (d) |  |  | +300 |  |  | = | +300 |  |  |  |  |
| (f) |  |  |  |  |  |  |  |  |  |  |  |
| (g) |  |  |  |  |  |  |  |  |  |  |  |
| (h) |  |  |  |  |  |  |  |  |  |  |  |
| (i) |  |  |  |  |  |  |  |  |  |  |  |

# HANDOUT 2–3

# THE DEBIT/CREDIT FRAMEWORK

## The following activities occurred during January 2016. Prepare a journal entry for ensure that the basic accounting equation balances for each transaction.

(a) Stockholder invests $10,000 into the business in exchange for common stock.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

(b) Company borrows $15,000 signing a note payable to the bank that is due in three months.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

(c) Receives and pays for a $15,000 truck and $5,000 of equipment.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

# HANDOUT 2–3, continued

(d) Purchases $300 of supplies on account.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

(e) Signs contract for first website design for $10,000.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

# HANDOUT 2–4

# THE DEBIT/CREDIT FRAMEWORK

(f) Pays $300 to the supplier in (d).

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

(g) Purchases and pays for $600 of supplies.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

(h) Purchases and pays for equipment costing $1,000.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

# HANDOUT 2–4, continued

(i) Orders a $900 computer, to be delivered in 90 days.

|  |
| --- |
| Debit and credit the accounts affected |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| Ensure the equation still balances and debits = credits |
| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Assets | | = | Liabilities | | + | Stockholders’ Equity | | |  |  |  |  |  |  |  |  | |

# HANDOUT 2–5

# POSTING TO T-ACCOUNTS

## Post the transactions from handouts 2–3 and 2–4 to and then determine the ending balances of each of the following T-accounts.

|  |  |  |
| --- | --- | --- |
| Assets | Liabilities | Stockholders’ Equity |
| + Cash –   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | | − Accounts Payable +   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | | − Common Stock +   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |
| + Supplies –   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | | − Notes Payable +   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | | − Retained Earnings +   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |
| + Equipment –   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |

# HANDOUT 2–6

# PREPARING A TRIAL BALANCE AND A BALANCE SHEET

## Use the ending balances from the T-accounts on Handout 2–5 to prepare a trial balance. Assume a year-end of December 31, 2016.

World Wide Webster

Trial Balance

At December 31, 2016

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
| Cash |  |  |
| Supplies |  |  |
| Equipment |  |  |
| Notes Payable |  |  |
| Common Stock |  |  |
| Retained Earnings |  |  |
| **Totals** |  |  |

## Use the trial balance to prepare a classified balance sheet.

# HANDOUT 2–7

# CURRENT RATIO

# Refer to the classified balance sheet from Handout 2–6 and calculate the current ratio of World Wide Webster as of December 31, 2016. Then, interpret the current ratio.

# Calculation:

Interpretation: