**Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Accounting**

**Ch. 3 - Analyzing Transactions in Debit and Credit Parts**

**3-1 Using T Accounts**

A. Accounts - A reco­­­­­rd summarizing all the information pertaining to a single item in the Accounting Equation.

*Examples: cash, supplies, accounts payable, capital*

 1. Transaction

a. Used to change the balances of accounts in the accounting equation.

 b. Must be analyzed to determine how account

balances are changed

 2. T Account - Used to analyze transactions.

 a. **Debit (DR)** - Amount recorded on the **left** side

 of a T Account.

b. **Credit (CR)** - Amount recorded on the **right** side of a T Account.

 Assets = Liabilities + Owner's Equity

 T Account

 Left Side Right Side

 DEBIT SIDE CREDIT SIDE

B. Account Balances

 1. Normal Balance - The side of the account that

 is increased.

 2. Assets

 a. **Left** side of the Accounting Equation

 b. Normal DEBIT Balance

 3. Liabilities

 a. **Right** side of the Accounting Equation

 b. Normal CREDIT Balance

 4. Owner's Capital

 a. **Right** side of the Accounting Equation

 b. Normal CREDIT Balance

 Assets = Liabilities + Owner's Equity

 Any Asset Any Liability

 Debit Credit Debit Credit

 **NORMAL NORMAL**

 **BALANCE BALANCE**

 Owner's (Equity) Capital

 Debit Credit

 **NORMAL**

 **BALANCE**

C. Increases & Decreases in Accounts

 1. The sides of the T Accounts are used to show

 *increases* and *decreases* in account balances.

 2. Accounting **Rules** Regulating increases and decreases

 a. Account balances *increase* on the *Normal* Balance

side of an account.

 b. Account balances *decrease* on the side opposite the

*Normal* balance side of an account.

 3. Asset Accounts

*Examples: cash, supplies, Accounts Receivable,*

*Pre Paid Insurance.*

 a. Normal Debit Balances (left side)

 b. Increase on the **Debit** side. A

 c. Decrease on the **Credit** side.

 4. Liability Accounts (accounts payable)

 a. Normal Credit Balances (right side) L

 b. Increase on the **Credit** side.

 c. Decrease on the **Debit** side.

 5. Owner's Capital (Equity) Account

 a. Normal Credit Balances (right side) OE

 b. Increase on the **Credit** side.

 c. Decrease on the **Debit** side.

 Assets = Liabilities & Owner's Equity

 Any Asset Account Any Liability Account

 Debit Credit Debit Credit

increase decrease decrease increase

 Any Owner's Equity Account

 Debit Credit

 decrease increase

**3-2 Analyzing How Transactions Effect Accounts**

1. Chart of Accounts - List of Accounts used by a business.

**Encore Music Chart of Accounts** *(pg. 3 in book)*

|  |
| --- |
| *General Ledger* |
| **Balance Sheet Accounts** | **Income Statement Accts.** |
| **(100) Assets**110 Cash120 Petty Cash130 A/R - Kids Time140 A/R - Learn N Play150 Supplies160 Prepaid Insurance**(200) Liabilities**210 A/P - Ling Music Supplies220 A/P - Sullivan Office Supplies**(300) Owner's Equity**310 Barb Trevino, Capital320 Barb Trevino, Drawing330 Income Summary | **(400) Revenue**410 Sales**(500) Expenses**510 Advertising Expense520 Insurance Expense530 Miscellaneous Expense540 Rent Expense550 Supplies Expense560 Utilities Expense |

2. Questions Used to Analyze Transactions into Debit & Credit

 Parts. (Total DR Must = Total CR)

 **a. Which accounts are affected?**

 **b. How is each account classified?**

 **c. How is each classification changed?**

 **d. How is each amount entered in the accounts?**

3. Not all transactions affect each side of the Accounting Equation. It may be on the same side.

4. The same four questions are used every time a transaction

is analyzed.

5. When you decrease an account balance, record that decrease on the **side opposite the Normal balance** side of the account.

6. The side opposite the Normal balance side can be on the

left or the right depending on the type of account.

**B. Received Cash from Owner as Investment**

*Transaction - August 1, Received* ***cash*** *from* ***owner*** *as an*

*investment, $10,000.00*

**1. Which accounts are affected?**

* *Cash & BT, Capital*

**2. How is each account classified?**

* *Cash is an Asset Account*
* *BT, Capital is an Owner's Equity Account*

**3. How is each classification changed?**

* *Assets are increased*
* *Owner's Equity is increased*

**4. How is each amount entered in the accounts?**

* *Assets increase on DR side. (DR Cash)*
* *Owner's Equity increase on CR side. (CR Capital)*

**B. Paid Cash for Supplies**

*Transaction - August 3, Paid Cash for Supplies, $1,577.00*

**1. Which accounts are affected?**

* *Supplies & Cash*

**2. How is each account classified?**

* *Supplies is an Asset Account*
* *Cash is an Asset Account*

**3. How is each classification changed?**

* *Assets (Supplies) are increased*
* *Assets (Cash) are decreased*

**4. How is each amount entered in the accounts?**

* *Assets increase on the DR side (Supplies = DR)*
* *Assets decreased on the CR side (Cash = CR)*

C. **Paid Cash for Insurance**

*Transaction - Paid Cash for Insurance, $1,200.00*

**1. Which accounts are affected?**

* *Prepaid Insurance & Cash*

**2. How is each account classified?**

* *Prepaid Insurance is an Asset Account*
* *Cash is an Asset Account*

**3. How is each classification changed?**

* *Assets (Prepaid Ins.) are increased*
* *Asset (Cash) is decreased*

**4. How is each amount entered in the accounts?**

* *Assets increase on the DR side (Ppd. Ins = DR)*
* *Assets decrease on the CR side (Cash = CR)*

**D. Bought Supplies on Account**

*Transaction - August 7, Bought supplies on account from Ling*

*Music Supplies for $2,720.00.*

**1. Which accounts are affected?**

* *Supplies*
* *Accounts Payable - Ling Music Supplies*

**2. How is each account classified?**

* *Supplies is an Asset Account*
* *AP - Ling Music Supplies is a liability account.*

**3. How is each classification changed?**

* *Assets are increased*
* *Liabilities are increased*

**4. How is each amount entered in the accounts?**

* *Assets increase on DR side. (Supplies = DR)*
* *Liabilities increased on the CR side (AP = CR)*

**E. Paid Cash on Account**

*Transaction - August 11, paid cash on account to Ling Music*

*Supplies, $1,360.00*

**1. Which accounts are affected?**

* *Accounts Payable - Ling Music Supplies & Cash*

**2. How is each account classified?**

* *A/P - Ling Music Supplies is a Liability Account*
* *Cash is an Asset Account*

**3. How is each classification changed?**

* *Liabilities are decreased*
* *Assets are decreased*

**4. How is each amount entered in the accounts?**

* *Liabilities decrease on DR side (A/P Ling = DR)*
* *Assets decrease on CR side (Cash =CR)*

**3 - 3 Analyzing How Transactions Affect Owner's Equity Accounts.**

A. Revenue

 1. Revenues increase Owner's Equity

 2. Recorded under **Sales** (new OE account)

 3. NORMAL Credit Balance because it increases OE

B. Expenses – **CONTRA ACCOUNT**

 1. Expenses decrease Owner's Equity

 2. Recorded under individual Expense

 3. NORMAL Debit Balance because it decreases OE

 4. Example: Rent Expense

C. Withdrawals –**CONTRA ACCOUNT**

 1. Withdrawals decrease Owner's Equity

 2. Recorded under Drawings

 3. NORMAL Debit Balance because it decreases OE

 4. Example: Barbara Trevino, Drawing

D. REMEMBER: Owners Equity is recorded on the right side of

the Accounting Equation.

1. Right side of a T Account is the credit side.

2. Owner's equity has a normal credit balance.

**E. Received Cash From Sales**

*Transaction - August 12, Received Cash from Sales, $325.00*

**1. Which accounts are affected?**

* *Cash & Sales (capital)*

**2. How is each account classified?**

* *Cash is an Asset Account.*
* ***Sales*** *is a Revenue Account (under OE)*

**3. How is each classification changed?**

* *Assets are Increased*
* *Owner's Equity is Increased*

**4. How is each amount entered in the accounts?**

* *Assets increase on the debit side. (Cash = DR)*
* *OE Accts. increase on credit side. (Sales = CR)*

**F. Sold Services on Account**

*Transaction - August 12,* ***sold services*** *on account to Kids*

*Time for $200.00.*

**1. Which accounts are affected?**

* *A/R - Kids Time & Sales* (*capital*)

**2. How is each account classified?**

* *A/R - Kids Time is an Asset Account.*
* *Sales is a Revenue Account (OE)*

**3. How is each classification changed?**

* *Assets are Increased*
* *OE is Increased*

**4. How is each amount entered in the accounts?**

* *Assets increase the DR side (A/R = DR)*
* *OE Accounts increase on CR side. Revenue increases OE, therefore Sales = CR.*

**G. Paid Cash for an Expense**

*Transaction - August 12. Paid for rent, $250.00*

**1. Which accounts are affected?**

* *Rent Expense & Cash*

**2. How is each account classified?**

* *Rent Expense is an contra Expense Account (OE)*
* *Cash is an Asset Account*

**3. How is each classification changed?**

* *OE is decreased by increase in expense.*
* *Assets are decreased.*

**4. How is each amount entered in the accounts?**

* *OE decrease on debit side. An increase in expenses decreases owner's equity. Expense accounts have a normal DR balance. (Rent Expense = DR)*
* *Assets decrease on the credit side. (Cash = CR)*

**H. Received Cash on Account**

*Transaction - August 12, Received cash on account from Kids*

*Time $100.00*

-Realization of Revenue Concept -

**1. Which accounts are affected?**

* *Cash & A/R - Kids Time*

**2. How is each account classified?**

* *Cash is an Asset Account*
* *A/R - Kids Time is an Asset Account.*

**3. How is each classification changed?**

* *Asset (cash) is increased.*
* *Asset (A/R - Kids Time) is decreased.*

**4. How is each amount entered in the accounts?**

* *Assets increase on the DR side. (Cash = DR)*
* *Assets decrease on the CR side (A/R = CR)*

**I. Paid Cash to Owner for Personal Use**

*Transaction - August 12. Paid cash to owner for personal use,*

*$100.00*

**1. Which accounts are affected?**

* *Barbara Trevino, Drawing & Cash*

**2. How is each account classified?**

* *BT, Drawing is an OE Account*
* *Cash is an Asset Account*

**3. How is each classification changed?**

* *OE is decreased by an increase in withdrawals.*
* *Assets are decreased.*

**4. How is each amount entered in the accounts?**

* *OE decrease on the debit side. An increase in withdrawals decreases owner's equity. Withdrawal accounts have normal debit balances. (BT Drawing = DR)*
* *Assets decrease on the credit side. (Cash = CR)*

For Your Information

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1. T Accounts get their names from the arrangement of the lines

making up the account. The horizontal line on top of the

centered vertical line together look like a capital T.

2. Paying cash for insurance and buying supplies for cash are

examples of transactions that affect only one side of the

accounting equation. All the accounts involved in these transactions are assets.

3. A Chart of Accounts is sometimes referred to by its initials

COA. Many accounting terms are often abbreviated or

referred to by initials. For example, accounts payable is sometimes referred to as A/P.

4. The Small Business Administration (SBA) offers two major

types of loans to small businesses. One type of loan is made

by private lending institutions. Another type of loan is made

directly by the SBA.

5. When drawing T Accounts, stack the accounts instead of

writing them horizontally. Stacking the accounts will make it

easier to recognize debits and credits.

**Encore Music Chart of Accounts**

|  |
| --- |
| *General Ledger* |
| Balance Sheet Accounts | Income Statement Accts. |
| **(100) Assets**110 Cash120 Petty Cash130 A/R - Kids Time140 A/R - Learn N Play150 Supplies160 Prepaid Insurance**(200) Liabilities**210 A/P - Ling Music Supplies220 A/P - Sullivan Office Supplies**(300) Owner's Equity**310 Barb Trevino, Capital320 Barb Trevino, Drawing330 Income Summary | **(400) Revenue**410 Sales**(500) Expenses**510 Advertising Expense520 Insurance Expense530 Miscellaneous Expense540 Rent Expense550 Supplies Expense560 Utilities Expense |

**Final Transaction Review Sheet**

**Received Cash from Owner as an Investment**

Transaction 1 – August 1, received $10, 000 Cash from owner as an initial investment

DR +Cash CR +Capital

# Paid Cash for Supplies

Transaction 2 – August 3, paid $1,577 Cash for Supplies

CR -Cash DR +Supplies

# Paid Cash for Insurance

Transaction 3 – August 4, paid $1,200 Cash for Pre-Paid Insurance

 CR -Cash DR +Prepaid Insurance

**Bought Supplies on Account**

Transaction 4 – August 7, bought supplies for $ 2,720 on account from Ling Music Supplies.

DR +Supplies CR +Accounts Payable, Ling Music Supplies

**Pay Cash on Account**

Transaction 5 – August 11, Paid $1,360.00 on Account to Ling Music Supplies.

 CR -Cash DR -Accounts Payable, Ling Music Supplies

**Received Cash for Sales**

Transaction 6

August 12, received $325.00 cash from sales.

 DR +Cash CR +Sales

**Sold Services on Account**

Transaction 7

August 12, sold $200.00 services on account to Kids Time.

 DR +Accounts Receivable, Kids Time CR +Sales

**Paid Cash for Expenses**

Transaction 8

August 12, paid $250.00 cash for rent.

 CR -Cash DR +Rent Expense

**Paid Cash for Expenses**

Transaction 9

August 12, paid $45.00 cash for telephone bill

 CR -Cash DR +Utilities Expense

**Received Cash on Account**

Transaction 10

August 12, received $100.00 cash on account from Kids Time.

 DR +Cash CR -Accounts Receivable, Kids Time

**Paid Cash to Owner for Personal Use**

Transaction 11

August 12, paid $100.00 cash to owner for personal use.

 CR -Cash DR -Drawing