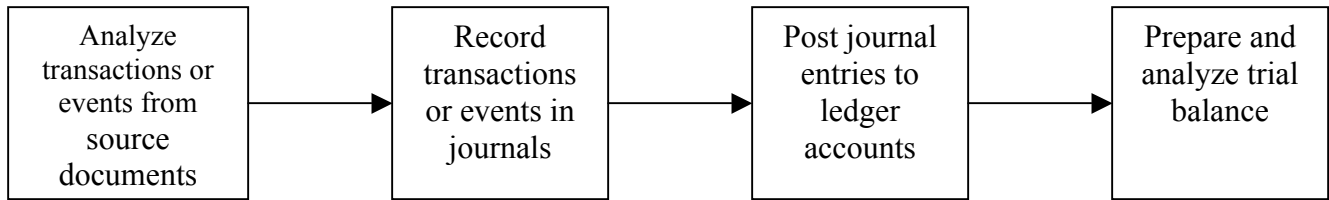


## CH 2: ANALYZING AND RECORDING TRANSACTIONS



### I. Analyzing transactions from source documents

Source documents – identify and describe transactions and events entering the accounting process. Example: purchase order, sales invoice, billing statements, etc.

Double-entry accounting - requires that each transaction affect, and be recorded in, at least two accounts (a debit and a credit). Analyzing transactions include identifying the accounts affected.

Account – a record of increases or decreases in a specific asset, liability, equity, revenue or expense item

#### Types of Accounts

- a. **ASSET** - resources owned or controlled by a company; have expected future benefits
  - **Cash** - includes money and any medium of exchange that a bank accepts for deposit (coins, checks, money orders and checking account balances)
  - **Accounts receivable** – are held by a seller and refer to promises of payment from customers to sellers; also called credit sales or sales on account
  - **Note receivable** – or promissory note; a written promise of another entity to pay a definite sum of money on a specified future date
  - **Prepaid accounts** - or prepaid expenses; assets that represent prepayments of future expenses
  - **Supplies** – may include stationery, paper, toner, pens, cartons, cleaning materials, etc. These are assets until they are used up.
  - **Equipment** – may include computers, printers, desks, cash registers, etc. Costs are gradually recorded as expenses thru depreciation.
  - **Buildings**
  - **Land**
- b. **LIABILITY** – claims by creditors against the company’s assets
  - **Accounts payable** – refer to oral or implied promises to pay later, which commonly arise from purchases of merchandise
  - **Note payable** – formal, written promise to pay a future amount
  - **Unearned revenue** – is settled in the future when a company delivers its products or services, which the customer has paid for in advance.
  - **Accrued liabilities** – amounts owed that are not yet paid
- c. **EQUITY** - claims by owners against the company’s assets; also called residual interest
  - **Owner, capital** – investments in the company made by the owner
  - **Owner, withdrawals**
  - **Revenues** - result from products or services provided to customers, increase equity
    - Sales revenue

- Interest income
- Rent income
- Commissions earned
- **Expenses** – result from assets or services used in the company’s operations, decrease equity
  - Salaries expense
  - Supplies expense
  - Utilities expense
  - Interest expense

## II. Recording transactions in journals

Accounting books – accounting records which include journals, ledgers, chart of accounts, etc.

Journal – gives a complete record of the transaction: (1) date, (2) account titles, (3) peso amount, and (4) explanation of the transaction

Journalizing – process of recording transactions in a journal

- Transactions and Balance Sheet Accounts
- Transactions and Income Accounts
- Transactions and Owner’s Accounts

**Sample Transactions:** (problem 2-6A, p. 82)

Business transactions completed by Eric Piburn during the month of September are as follows:

- a. Piburn invested \$23,000 cash along with office equipment valued at \$12,000 in a new sole proprietorship named EP Consulting.

Cash	23,000	
Office equipment	12,000	
E. Piburn, capital		35,000

- b. Purchased land valued at \$8,000 and a building valued at \$33,000. The purchase is paid with \$15,000 cash and a long-term note payable for \$26,000.

Land	8,000	
Building	33,000	
Cash		15,000
Notes payable		26,000

- c. Purchased \$600 of office supplies on credit.

Office supplies	600	
Accounts payable		600

- d. Piburn invested his personal automobile in the business. The automobile has a value of \$7,000 and is to be used exclusively in the business.

Automobiles	7,000	
E. Piburn, capital		7,000

- e. Purchased \$1,100 of additional office equipment on credit.

	Office equipment	1,100	
	Accounts payable		1,100
f.	Paid \$800 cash salary to an assistant.		
	Salaries expense	800	
	Cash		800
g.	Provided services to a client and collected \$2,700 cash.		
	Cash	2,700	
	Fees earned		2,700
h.	Paid \$430 cash for this month's utilities.		
	Utilities expense	430	
	Cash		430
i.	Paid \$600 cash to settle the accounts payable created in transaction c.		
	Accounts payable	600	
	Cash		600
j.	Purchased \$4,000 of new office equipment by paying \$2,400 cash and trading in old equipment with a recorded net cost and value of \$1,600. (Hint: Credit Office Equipment (old) for \$1,600.)		
	Office equipment (new)	4,000	
	Cash		2,400
	Office equipment (old)		1,600
k.	Completed \$2,400 of services for a client who must pay within thirty days.		
	Accounts receivable	2,400	
	Fees earned		2,400
l.	Paid \$800 cash salary to an assistant.		
	Salaries expense	800	
	Cash		800
m.	Received \$1,000 cash on the receivable created in transaction k.		
	Cash	1,000	
	Accounts receivable		1,000
n.	Piburn withdrew \$1,050 cash from the business for personal use.		
	E. Piburn, withdrawals	1,050	
	Cash		1,050

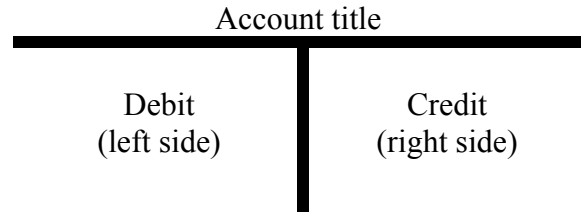
### III. Posting transactions in ledgers

Posting— process of transferring journal entry information to the ledger

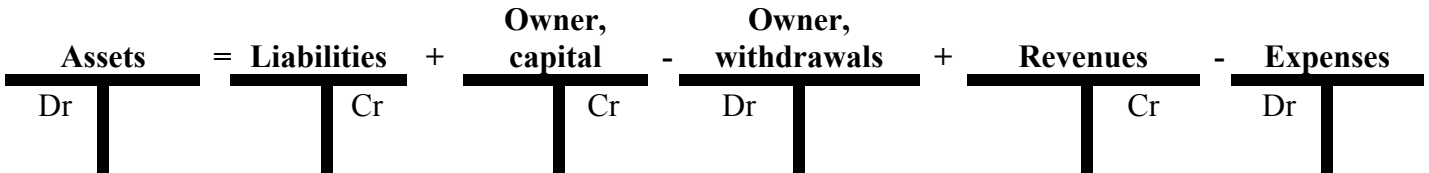
General ledger or ledger – a record containing all accounts used by a company

T-Account – represents a ledger account and is a tool used to understand the effects of one or more transactions

Debits and Credits



Normal Balance of Accounts – side of the T-account in which increases are recorded



Balance of the account – difference between the debit and the credit

**IV. Summarizing Transactions in Accounts**

Trial balance – a list of accounts and their balances at a point in time

<b>EP Consulting</b>		
<b>Trial Balance</b>		
<b>September 30</b>		
	Debit	Credit
Cash	\$ 5,620	
Accounts receivable	1,400	
Office supplies	600	
Office equipment	15,500	
Automobiles	7,000	
Building	33,000	
Land	8,000	
Accounts payable		\$ 1,100
Long-term notes payable		26,000
E. Piburn, capital		42,000
E. Piburn, withdrawals	1,050	
Fees earned		5,100
Salaries expense	1,600	
Utilities expense	430	
<b>Total</b>	<b>\$ 74,200</b>	<b>\$ 74,200</b>

**V. Discovery and Correction of Errors**

Exercise 2-17, p.78