CH 2: ANALYZING AND RECORDING TRANSACTIONS

Analyze transactions or events from source documents → Record transactions or events in journals → Post journal entries to ledger accounts → Prepare and analyze trial balance

I. Analyzing transactions from source documents

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

<u>Double-entry accounting</u> - 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.

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

<u>Types of Accounts</u>

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 <u>written</u> 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 <u>creditors</u> 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 <u>owners</u> 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

<u>Posting</u>– process of transferring journal entry information to the ledger

<u>General ledger or ledger</u> – a record containing all accounts used by a company

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

Debits and Credits

Account title	
Debit (left side)	Credit (right side)

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

Assets	=	**Liabilities**	+	**Owner, capital**	-	**Owner, withdrawals**	+	**Revenues**	-	**Expenses**
Dr		Cr		Cr		Dr		Cr		Dr

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

EP Consulting		
Trial Balance		
September 30		
	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	
Total	**$ 74,200**	**$ 74,200**

V. Discovery and Correction of Errors

Exercise 2-17, p.78