

# Accounting Bellwork

**3<sup>rd</sup> Hour: Turn to p71 in your textbook and answer the two questions in the workplace connection.**



# Plans for today:

- Sort Papers
- Begin Ch4

# Transactions That Affect Assets, Liabilities and Owner's Equity

## *Making Accounting Relevant*

Accounting and finance professionals are key to every business operation.

*How might the work performed by the accountant affect the day-to-day decisions made by the business owner?*





## Section 1 Accounts and the Double-Entry Accounting System

### *What You'll Learn*

- How to use T accounts.
- Why you need a ledger.
- The rules of debit and credit.



### *Why It's Important*

The rules of debit and credit are the basis for entering transactions into the records of a business.

### *Key Terms*

- ledger
- chart of accounts
- double-entry accounting
- T-account
- debit
- credit
- normal balances



### ***The Account***

- Accounts are grouped together in a ledger.
- Ledgers will be discussed in greater detail in a later chapter.
- Account numbers have two or more digits.
  - Small Company may use a three-digit system.
  - Very large corporations may have 35 or more digits.



### ***The Account***

A typical system for numbering accounts is as follows:

- Asset accounts begin with 1
- Liability accounts begin with 2
- Owner's Equity accounts begin with 3
- Revenue accounts begin with 4
- Expense accounts begin with 5



### *The Chart of Accounts*

A list of all the accounts and their assigned account numbers. Notice how each type of account begins with a different number.

#### *Roadrunner Delivery Service*

155 Gateway Blvd.  
Sacramento, CA 94230

#### **CHART OF ACCOUNTS**

**ASSETS**101Cash in Bank

105Accounts Receivable--City News

110Accounts Receivable--Green Company

115Computer Equipment

120Office Equipment

125Delivery Equipment

**LIABILITIES**201Accounts Payable--Beacon Advertising

205Accounts Payable--North Shore Auto

**OWNER'S EQUITY**301Maria Sanchez, Capital

302Maria Sanchez, Withdrawals

303Income Summary

**REVENUE**401Delivery Revenue

**EXPENSES**501Advertising Expense

505Maintenance Expense

510Rent Expense

515Utilities Expense



# Chapter 4

## Section 1 Accounts and the Double-Entry Accounting System (con't.)

### Demonstration Problem 4-1

## PROBLEM 4-1 ORDERING AND NUMBERING A CHART OF ACCOUNTS

The following accounts are used by Gordan Enterprises.

Accounts Payable— Custom Craft Inc.	Accounts Receivable— Hanover Company	Miscellaneous Expense
Accounts Payable— Sorenson Ltd.	Advertising Expense	Office Equipment
Accounts Receivable— Beisler Inc.	Cash in Bank	Gail Gordan, Capital
	Fees Income	Gail Gordan, Withdrawals
	Income Summary	Supplies
		Utilities Expense

- (1) Rearrange the accounts in the order in which they would be listed in the chart of accounts for Gordan Enterprises.
- (2) Assign each account an account number.

### Gordan Enterprises Chart of Accounts

Assets  
(100-199)

**101**Cash In Bank  
**105**Accounts Receivable-Beisler Inc.  
**110**Accounts Receivable-Hanover Company  
**115**Supplies  
**120**Office Equipment

Liabilities  
(200-299)

**201**Accounts Payable-Custom Craft Inc.  
**205**Accounts Payable-Sorenson Ltd.

Owner's Equity  
(300-399)

**301**Gail Gordan, Capital  
**302**Gail Gordan, Withdrawals  
**303**Income Summary

Revenue  
(400-499)

**401**Fees Income

Expenses  
(500-599)

**501**Advertising Expense  
**505**Miscellaneous Expense  
**510**Utilities Expense

## ***Double-Entry Accounting***

Double-entry accounting is a system of recordkeeping in which each business transaction affects ***at least*** two accounts.

**First rule of accounting:**

**\*For every debit, there must be a credit.**



### *T-Accounts*

The T account, so called because of its T shape, shows the dollar increase or decrease in an account that is caused by a transaction.



### ***The Rules of Debit and Credit***

- Debit (DR) means left.
- Credit (CR) means right.
- The rules of debit and credit vary according to whether an account is classified as an asset, a liability, or an owner's capital account.
- Normal balance (NB) is always on the side used to record increases to the account. The word *normal* used here means *usual*.



***Rules for Asset Accounts***

<b>Asset Accounts</b>	
<b>Debit</b> + <b>(1) Increase Side</b> <b>(3) Normal Balance</b>	<b>Credit</b> - <b>(2) Decrease Side</b>



***Rules for Liability and Owner's Capital Accounts***



Liability Accounts	
Debit – (2) Decrease Side	Increase

Owner's Capital Account	
Debit – (2) Decrease Side (3) Normal Balance	Credit + (1) Increase Side (3) Normal Balance

**An easier way**

**to remember NB.**



# Chapter 4

## Section 1 Accounts and the Double-Entry Accounting System (con't.)

What does this plant have to do with accounting?

**Hint:**  
**What**  
**kind of**  
**plant is**  
**this?**



# Chapter 4

## Section 1 Accounts and the Double-Entry Accounting System (con't.)

**This is an ALOE plant.**

**What does ALOE have to do with accounting?**



# Chapter 4

## Section 1 Accounts and the Double-Entry Accounting System (con't.)

$$\text{A} = \text{L} + \text{O} \text{E}$$

**Assets = Liabilities + Owners Equity**



**The accounting equation.**

# Chapter 4

## Section 1 Accounts and the Double-Entry Accounting System (con't.)



# Chapter 4

## Section 1 Accounts and the Double-Entry Accounting System (con't.)



***Check Your Understanding***

p77

- Thinking Critically 1&2
- Computing in the Business World
- Problem 4-1, Applying the Rules of Debit and Credit

