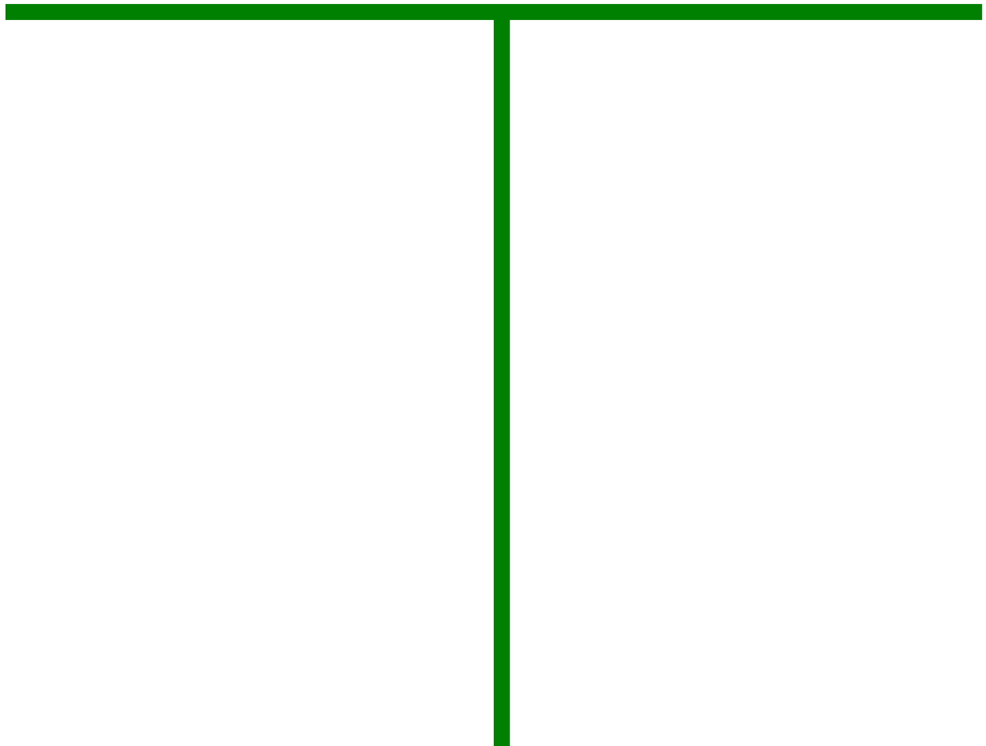
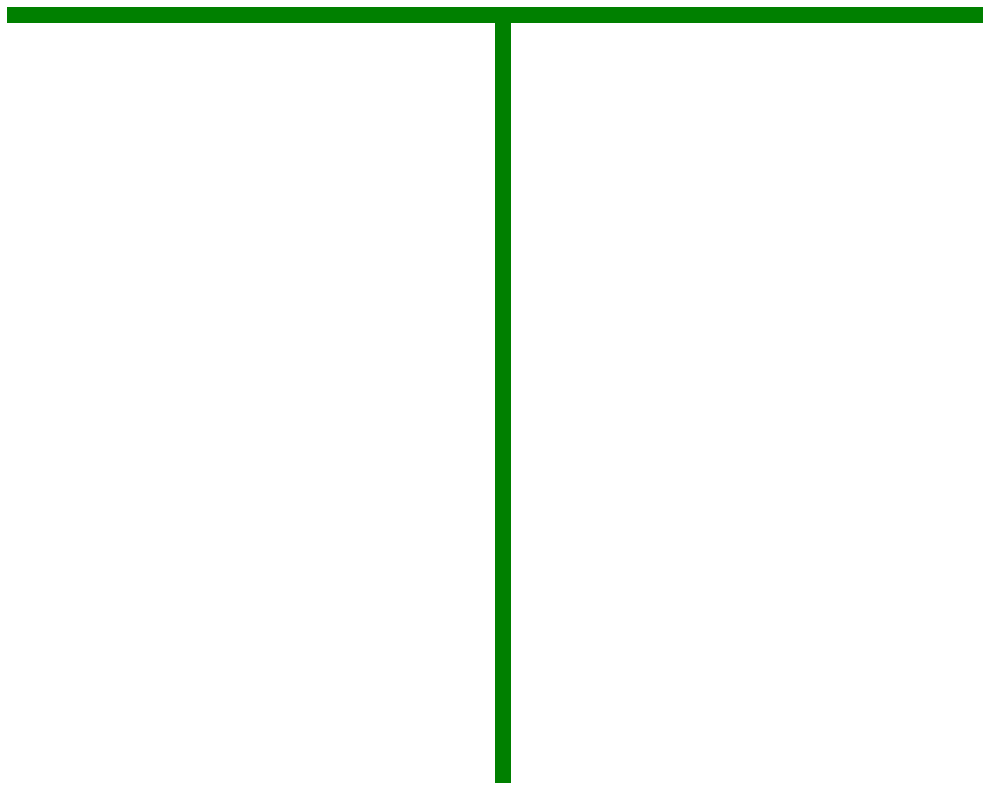
Chapter 5

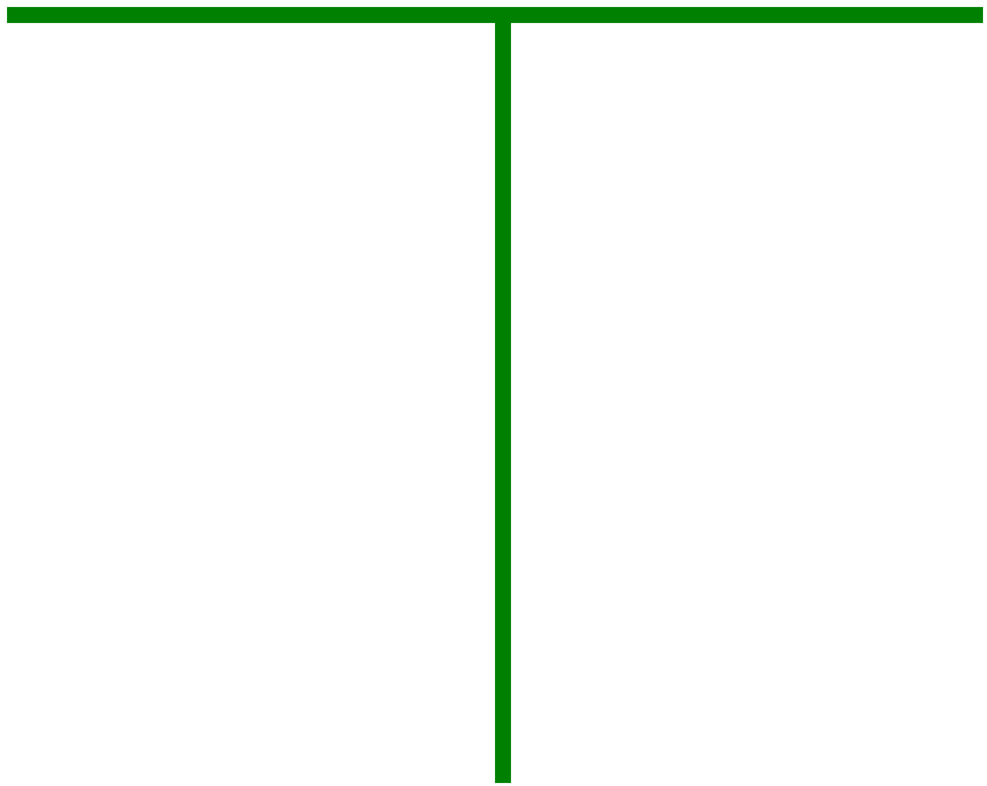
Accounting Bellwork

3rd Hour: Draw and label the three T-accounts representing ALOE.

- **ie. One T-account heading will be Assets.**







Plans for today.

- Begin Ch5

Introduction to Ch5

- Turn to p94 in your Text Book
- Wendy’s Old Fashioned Hamburgers
- http://www.wendys.com/w-1-0.shtml

Chapter 5

Transactions That Affect Revenue, Expenses, and Withdrawals

Making Accounting Relevant

Businesses earn revenue by selling products or services. Think of a business in your community.

Jenkins Gas Station

How does this business earn its revenue?

Section 1 Relationship of Revenue, Expenses, and Withdrawals to Owner's Equity

What You'll Learn

- The reason for having temporary and permanent accounts.
- The rules of debit and credit for the revenue, expense, and withdrawals accounts.

Why It's Important

The proper handling of transactions that affect temporary and permanent accounts is essential to maintaining accurate financial records.

Key Terms

- temporary capital accounts
- permanent accounts

Temporary Capital Accounts

- Revenue, expense, and withdrawals accounts are used to collect information for a single accounting period.

What is the length of an accounting period?

One month, three months, one year.

- At the end of that period, the balances in the temporary capital accounts are transferred to the owner's capital account.

The Relationship of Temporary Capital Accounts to the Owner's Capital Account

Utilities Expense

Accumulated telephone costs for accounting period$2,857 Accumulated electricity costs for accounting period5,141 Total for accounting period$7,998	

Utilities Expense balance transferred to Owner's Capital at end of accounting period. Expenses decrease owner's capital.

Owner's Capital

Balance of Utilities Expense$7,998	Balance at Beginning of Accounting Period$90,000 Balance at End of Accounting Period$82,002

Permanent Accounts

- Owner's capital account
- Asset and liability accounts
- Permanent accounts are continuous from one accounting period to the next.

Temporary Capital Accounts

- What affect does Revenue have on the capital account?
- What affect does Expenses have on the capital account?
- What affect does Withdrawals have on the capital account?
- We are simply totaling those accounts for an accounting period and transferring them to the capital account.

Rules for Revenue Accounts

Revenue earned from selling goods or services increases owner's capital.

Revenue Accounts

Debit	Credit
–	+
(2) Decrease Side	(1) Increase Side
	(3) Normal Balance

Rules for Expense Accounts

Expenses decrease owner's capital.

Expense Accounts

Debit	Credit
+	–
(1) Increase Side	(2) Decrease Side
(3) Normal Balance	

Rules for the Withdrawals Accounts

A withdrawal is an amount of money or an asset the owner takes out of the business.

Withdrawals Accounts

Debit	Credit
+	–
(1) Increase Side	(2) Decrease Side
(3) Normal Balance	

Permanent Account, Owners Capital

DR	CR
–	+

Expense Accounts

Dedit	Credit
+	–
(1) Increase Side	(2) Decrease Side
(3) Normal Balance	

Withdrawal Accounts

Dedit	Credit
+	–
(1) Increase Side	(2) Decrease Side
(3) Normal Balance	

Revenue Accounts

Debit	Credit
–	+
(2) Decrease Side	(1) Increase Side
	(3) Normal Balance

Demonstration Problem 5-1

PROBLEM 5–1 ANALYZING PERMANENT AND TEMPORARY CAPITAL ACCOUNTS

The large T account below represents the capital account for Maxine Andrews. The smaller T accounts are for the temporary capital accounts. Place the following account names on the appropriate T account.

Maxine Andrews, Capital	Ticket Sales
Maxine Andrews, Withdrawals	Travel Expense

For each T account:

(1) Indicate the increase (+) and decrease (−) sides.

(2) Indicate the normal balance side.

Maxine Andrews, Capital

Travel Expense

DR	CR
+	-

Ticket Sales

DR	CR
-	+

Maxine Andrews, Withdrawals

DR	CR
+	-

Assignment

Check Your Understanding

p103

1. **Thinking Critically 1&2**
2. **Problem 5-1, Applying the Rules of Debit and Credit**
3. **A Matter of Ethics p102**
    - **Using the 800 Number**