

Accounting Bellwork

3rd Hour: List the permanent accounts and the temporary capital accounts.



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Bellwork

- Permanent Accounts:
 - Assets
 - Liabilities
 - Owners Equity
- Temporary Capital Accounts
 - Revenue
 - Expenses
 - Withdrawals

Plans for today.

- Grade Ch5-1 Homework
- Complete Ch5-2
- Assignment



Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions

What You'll Learn

- How to analyze transactions that affect revenue, expense, and withdrawals accounts

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Why It's Important

You need to analyze revenue, expense, and owner's withdrawal transactions to record them correctly.

Key Terms

- revenue recognition

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions

Business Transaction 8

On October 15 Roadrunner provided delivery service for the Sims Corporation. A check for \$1,200 was received in full payment.

-
- ANALYSIS**
- Identify** 1. The accounts **Cash in Bank** and **Delivery Revenue** are affected.
- Classify** 2. **Cash in Bank** is an asset account. **Delivery Revenue** is a revenue account.
- + / -** 3. **Cash in Bank** is increased by \$1,200. **Delivery Revenue** is increased by \$1,200.

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions (con't.)

Business Transaction 8 (con't.)

On October 15 Roadrunner provided delivery service for the Sims Corporation. A check for \$1,200 was received in full payment.

-
- DEBIT-CREDIT RULE**
- 4. Increases in asset accounts are recorded as debits. Debit **Cash in Bank** for \$1,200.
 - 5. Increases in revenue accounts are recorded as credits. Credit **Delivery Revenue** for \$1,200.

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions (con't.)

Business Transaction 8 (con't.)

On October 15 Roadrunner provided delivery service for the Sims Corporation. A check for \$1,200 was received in full payment.

T ACCOUNTS6.

Delivery
Cash in BankRevenue

Debit	Credit	Debit	Credit
+	—	—	+
1,200			1,200

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions (con't.)

Business Transaction 9

On October 16 Roadrunner mailed Check 103 for \$700 to pay the month's rent.

ANALYSIS*Identify* 1. The accounts **Rent Expense** and **Cash in Bank** are affected.

Classify 2. **Rent Expense** is an expense account. **Cash in Bank** is an asset account.

+ / - 3. **Rent Expense** is increased by \$700. **Check in Bank** is decreased by \$700.

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions (con't.)

Business Transaction 9 (con't.)

On October 16 Roadrunner mailed Check 103 for \$700 to pay the month's rent.

-
- DEBIT-CREDIT RULE**
4. Increases in expense accounts are recorded as debits. Debit **Rent Expense** for \$700.
 5. Decreases in asset accounts are recorded as credits. Credit **Cash in Bank** for \$700.

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions (con't.)

Business Transaction 9 (con't.)

On October 16 Roadrunner mailed Check 103 for \$700 to pay the month's rent.

T ACCOUNTS6.

Rent ExpenseCash in Bank

Debit	Credit	Debit	Credit
+	—	+	—
700			700

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions (con't.)

Business Transaction 10

On October 18, Beacon Advertising prepared an advertisement for Roadrunner. Roadrunner will pay Beacon's \$75 fee later.

ANALYSIS/Identify 1. The accounts **Advertising Expense** and **Accounts Payable — Beacon Advertising** are affected.

Classify 2. **Advertising Expense** is an expense account. **Accounts Payable — Beacon Advertising** is a liability account.

+ / - 3. **Advertising Expense** is increased by \$75. **Accounts Payable — Beacon Advertising** is increased by \$75.

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions (con't.)

Business Transaction 10 (con't.)

On October 18 Beacon Advertising prepared an advertisement for Roadrunner. Roadrunner will pay Beacon's \$75 fee later.

-
- DEBIT-CREDIT RULE**
- 4. Increases in expense accounts are recorded as debits. Debit **Advertising Expense** for \$75.
 - 5. Increases in liability accounts are recorded as credits. Credit **Accounts Payable—Beacon Advertising** for \$75.

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Analyzing Transactions (con't.)

Business Transaction 10 (con't.)

On October 18 Beacon Advertising prepared an advertisement for Roadrunner. Roadrunner will pay Beacon's \$75 fee later.

T ACCOUNTS 6.

Advertising Expense Accounts Payable—Beacon Advertising

Debit	Credit	Debit	Credit
+	—	—	+
75			75

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Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Testing for the Equality of Debits and Credits

Step 1 Make a list of the account titles used by the business.

Step 2 To the right of each account title, list the balance of the account. Use two columns, one for debit balances and the other for credit balances.

Step 3 Add the amounts in each column.



Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Following the GAAP principle of **revenue recognition**, revenue should be recognized on the date earned, even if cash has not been received.



Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Testing for the Equality of Debits and Credits (con't.)

DEBITCREDIT

ACCOUNT NAMEBALANCESBALANCES

101Cash in Bank\$ 21,125

105Accounts Receivable--City News1,450

110Accounts Receivable--Green Company

115Computer Equipment3,000

120Office Equipment200

125Delivery Equipment12,000

201Accounts Payable--Beacon Advertising\$ 75

205Accounts Payable--North Shore Auto11,650

301Maria Sanchez, Capital25,400

302Maria Sanchez, Withdrawals500

303Income Summary

401Delivery Revenue2,650

501Advertising Expense75

505Maintenance Expense600

510Rent Expense700

515Utilities Expense125

\$ 39,775\$ 39,775

Permanent Account, Owners Capital

DR

—

CR

+

Expense Accounts

Dedit

+

**(1) Increase Side
(3) Normal Balance**

Credit

—

(2) Decrease Side

Revenue Accounts

Debit

—

(2) Decrease Side

Credit

+

**(1) Increase Side
(3) Normal Balance**

Withdrawal Accounts

Dedit

+

**(1) Increase Side
(3) Normal Balance**

Credit

—

(2) Decrease Side

Demonstration Problems 5-2 & 5-3

PROBLEM 5-2 ANALYZING A REVENUE TRANSACTION

On July 25, Andrews Promoters received \$4,500 in revenue from cash ticket sales.

1. Which accounts are affected?

Cash in Bank

Ticket Revenue

2. What is the classification of each account?

Cash in Bank

is a(n)

Asset

account.

Ticket Revenue

is a(n)

Revenue

account.

3. Is each account increased or decreased?

Cash in Bank

is

Increased

Ticket Revenue

is

Increased

4. Which account is debited, and for what amount?

Cash in Bank

is debited for \$

\$4,500

5. Which account is credited, and for what amount?

Ticket Revenue

is credited for \$

\$4,500

6. What is the complete entry in T-account form?

Cash in Bank

Ticket Revenue

+

-

-

+

\$4,500

\$4,500

PROBLEM 5-3 ANALYZING AN EXPENSE TRANSACTION

On July 30, Andrews Promoters issued a check for \$300 to Ace Airways for travel expenses.

1. Which accounts are affected?

Cash in Bank

Travel Expense

2. What is the classification of each account?

Cash in Bank

is a(n) Asset account.

Travel Expense

is a(n) Expense account.

3. Is each account increased or decreased?

Cash in Bank

is Decreased.

Travel Expense

is Increased.

4. Which account is debited, and for what amount?

Travel Expense

is debited for \$ \$300.

5. Which account is credited, and for what amount?

Cash in Bank

is credited for \$ \$300.

6. What is the complete entry in T-account form?

<u>Cash in Bank</u>		<u>Travel Expense</u>	
+	-	+	-
	\$300	\$300	

Assignment

Chapter 5

Section 2 Applying the Rules of Debit and Credit to Revenue, Expense, and Owner's Equity Transactions (con't.)

Check Your Understanding

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Thinking Critically 1-3

Analyzing Accounting

Problem 5-2

