



CHAPTER 2

ANALYZING TRANSACTIONS
(INTO DEBIT/CREDIT PARTS





T-ACCOUNTS

- Show the relationship between the accounting equation and a T account.
- Identify the debit and credit side, the increase and decrease side, and the balance side of various accounts.
- Restate and apply the two rules that are associated with the increase side of an account.



ANALYZING THE ACCOUNTING EQUATION

Assets	=	Liabilities	+	Owner's Equity
Left side				Right side

- ✗ Total of all **ASSETS (RIGHT)** must = Total of all **LIABILITIES and OWNER'S EQUITY (LEFT)**
- ✗ Transactions change the balance of **accounts**
 - ✗ affects accounting equation



ACCOUNTS

Assets	=	Liabilities	+	Owner's Equity
Left side				Right side

- ✗ Account
 - ✗ record summarizing all transactions affecting single item
- ✗ T- Account
 - ✗ device used to analyze transactions
- ✗ DEBIT = LEFT
- ✗ CREDIT = RIGHT

Assets	=	Liabilities	+	Owner's Equity
Left side		Right side		
T Account				
Left side DEBIT SIDE		Right side CREDIT SIDE		

Dr.

Cr.



INCREASES, DECREASES, AND BALANCES IN ACCOUNTS

Assets

Left side of Acct Equation

INCREASE on **Left/DEBIT**

Liabilities & Owner's Equity

Right side of Acct Equation

INCREASE on **Right/CREDIT**



NORMAL ACCOUNT BALANCES

✕ Normal Balance side

○ The side the account increases on

■ Assets – LEFT/DEBIT

■ Liabilities/Owner's Equity (capital) – RIGHT/CREDIT

Assets		=	Liabilities	+	Owner's Equity
Any Asset			Any Liability		
Debit NORMAL BALANCE	Credit		Debit	Credit NORMAL BALANCE	
Debit Increases	Credit Decreases		Debit Decreases	Credit Increases	
			Owner's Capital Account		
			Debit	Credit NORMAL BALANCE	
			Debit Decreases	Credit Increases	

NORMAL ACCOUNT BALANCES



CHECK YOURSELF!

Draw the Accounting Equation on a T-Account.

(Assets (Left) = Liab+ OE (RIGHT))

What are the two accounting rules that explain increases of account balances?

Assets LEFT – increase on LEFT (DEBIT) side

Liabilities and Owner's Capital Account (EQUITY) – increase RIGHT (CREDIT) side



HOW TRANSACTIONS AFFECT ACCOUNTS

- Restate and apply the four questions necessary to analyze transactions for starting a business into debit and credit parts.



CHART OF ACCOUNTS

✗ Each transaction affects at least **TWO** accounts

✗ DEBITS = CREDITS ALWAYS!

✗ Chart of Accounts

✗ List of all accounts for a specific business

CHART OF ACCOUNTS

DELGADO WEB SERVICES

Balance Sheet Accounts

(100) ASSETS

- 110 Cash
- 120 Petty Cash
- 130 Accounts Receivable—Main Street Services
- 140 Accounts Receivable—Valley Landscaping
- 150 Supplies
- 160 Prepaid Insurance

(200) LIABILITIES

- 210 Accounts Payable—Canyon Office Supplies
- 220 Accounts Payable—Mountain Graphic Arts

(300) OWNER'S EQUITY

- 310 Michael Delgado, Capital
- 320 Michael Delgado, Drawing
- 330 Income Summary

Income Statement Accounts

(400) REVENUE

- 410 Sales

(500) EXPENSES

- 510 Advertising Expense
- 520 Cash Short and Over
- 530 Communications Expense
- 540 Equipment Rental Expense
- 550 Insurance Expense
- 560 Miscellaneous Expense
- 570 Supplies Expense

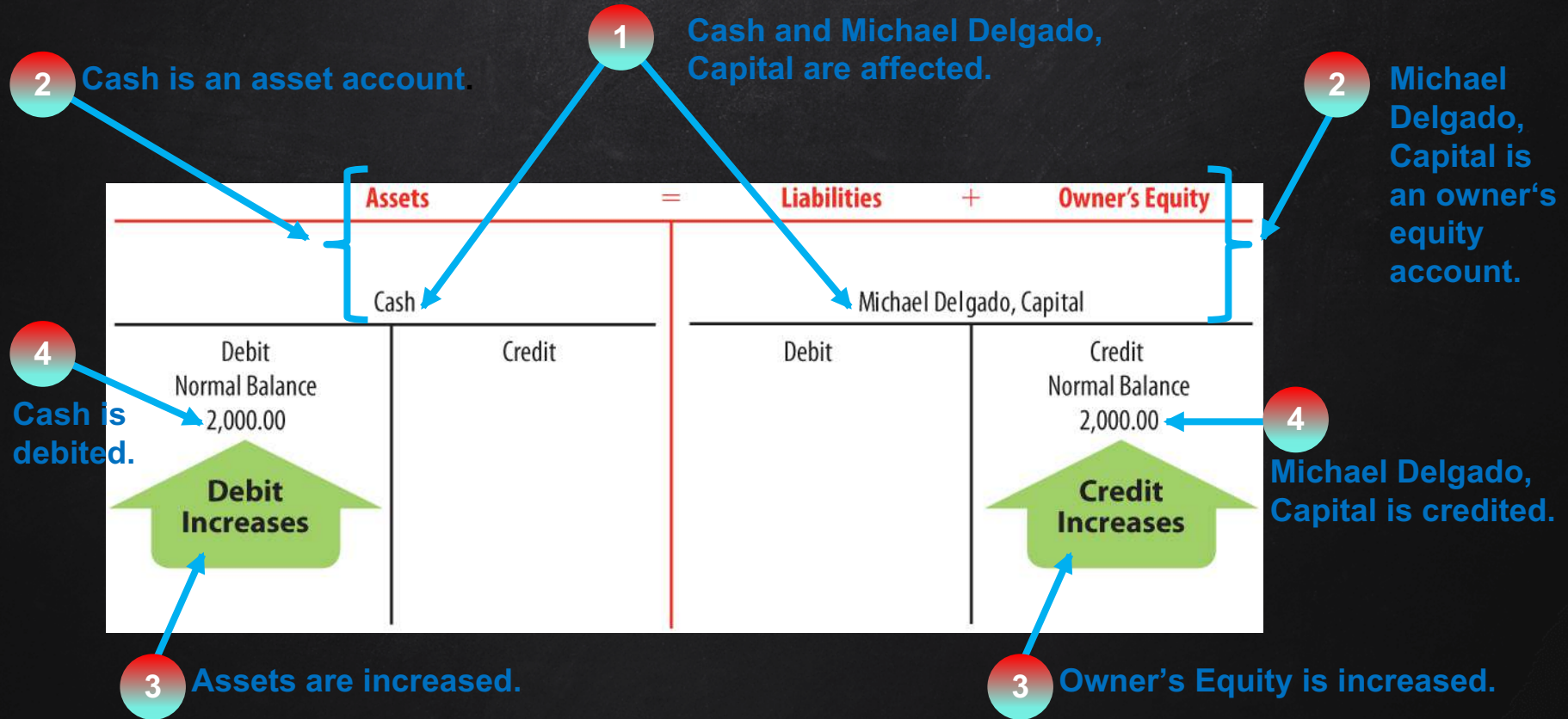


ANALYZING TRANSACTIONS

FOUR QUESTIONS

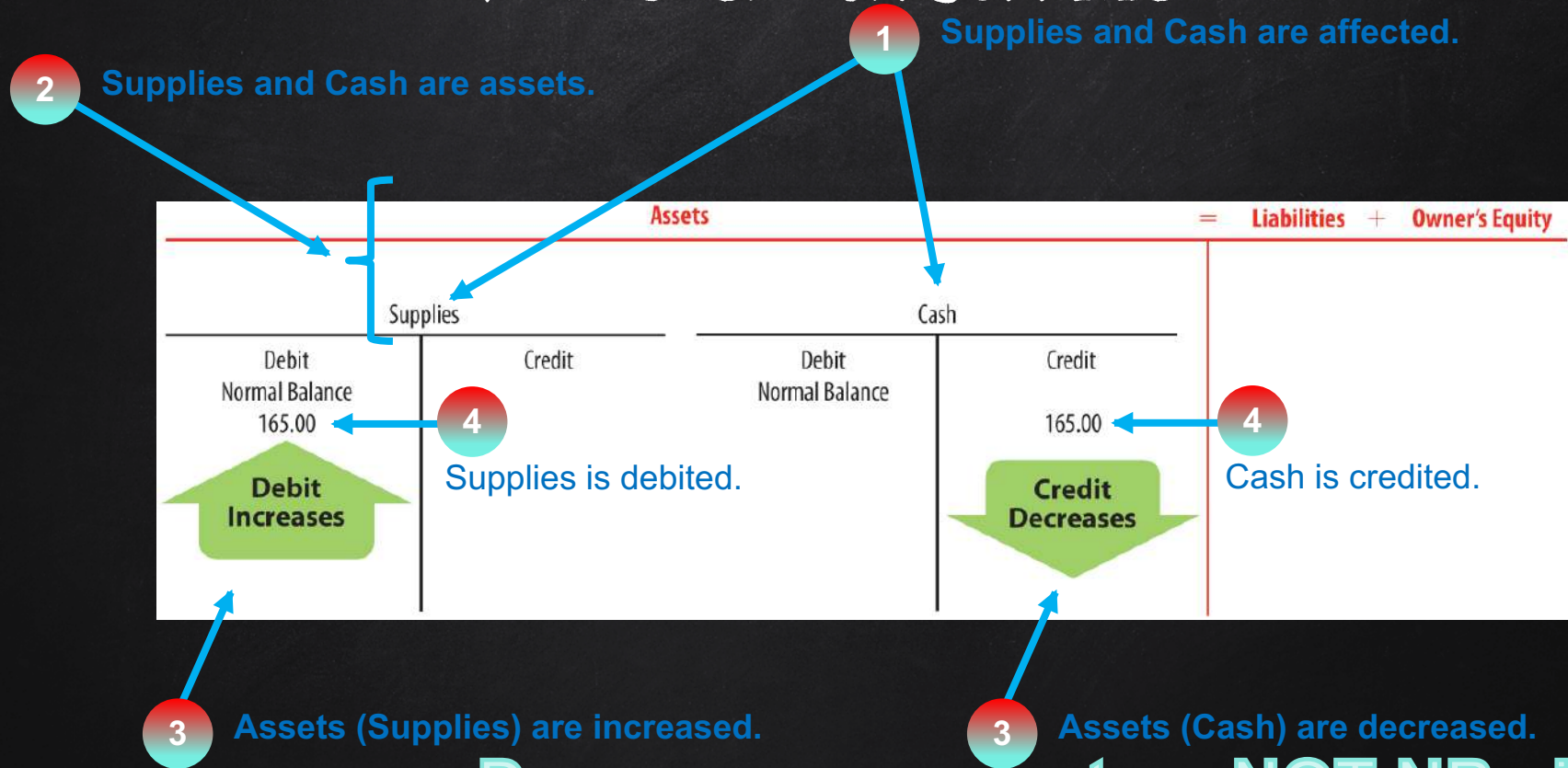
1. Which Accounts are affected?
2. How are they classified?
3. How is the classification changing (increase or decrease)?
4. How do I record it?

RECEIVED CASH FROM OWNER AS INVESTMENT



January 2. Received cash from owner as an investment, \$2,000.00.

PAID CASH FOR SUPPLIES



Decrease = amount on NOT NB side!

January 2. Paid cash for supplies, \$165.00.

PAID CASH FOR INSURANCE

- 2 Prepaid Insurance and Cash are assets.
- 1 Prepaid Insurance and Cash are affected.

Assets				=	Liabilities	+	Owner's Equity
Prepaid Insurance		Cash					
Debit	Credit	Debit	Credit				
Normal Balance		Normal Balance					
900.00			900.00				
Debit Increases		Credit Decreases					

- 4 Prepaid Insurance is debited.

- 4 Cash is credited.

- 3 Assets (Prepaid Insurance) are increased.

- 3 Assets (Cash) are decreased.

January 3. Paid cash for insurance, \$900.00.



ACCOUNTS PAYABLE

✗ LIABILITY

✗ Amount **OWED** to **VENDOR** – pay at **FUTURE** date

BOUGHT SUPPLIES ON ACCOUNT

Supplies and Accounts
Payable—Canyon Office
Supplies are affected.

Accounts
Payable—
Canyon Office
Supplies is a
liability.

Supplies is an asset.

Supplies
is debited.

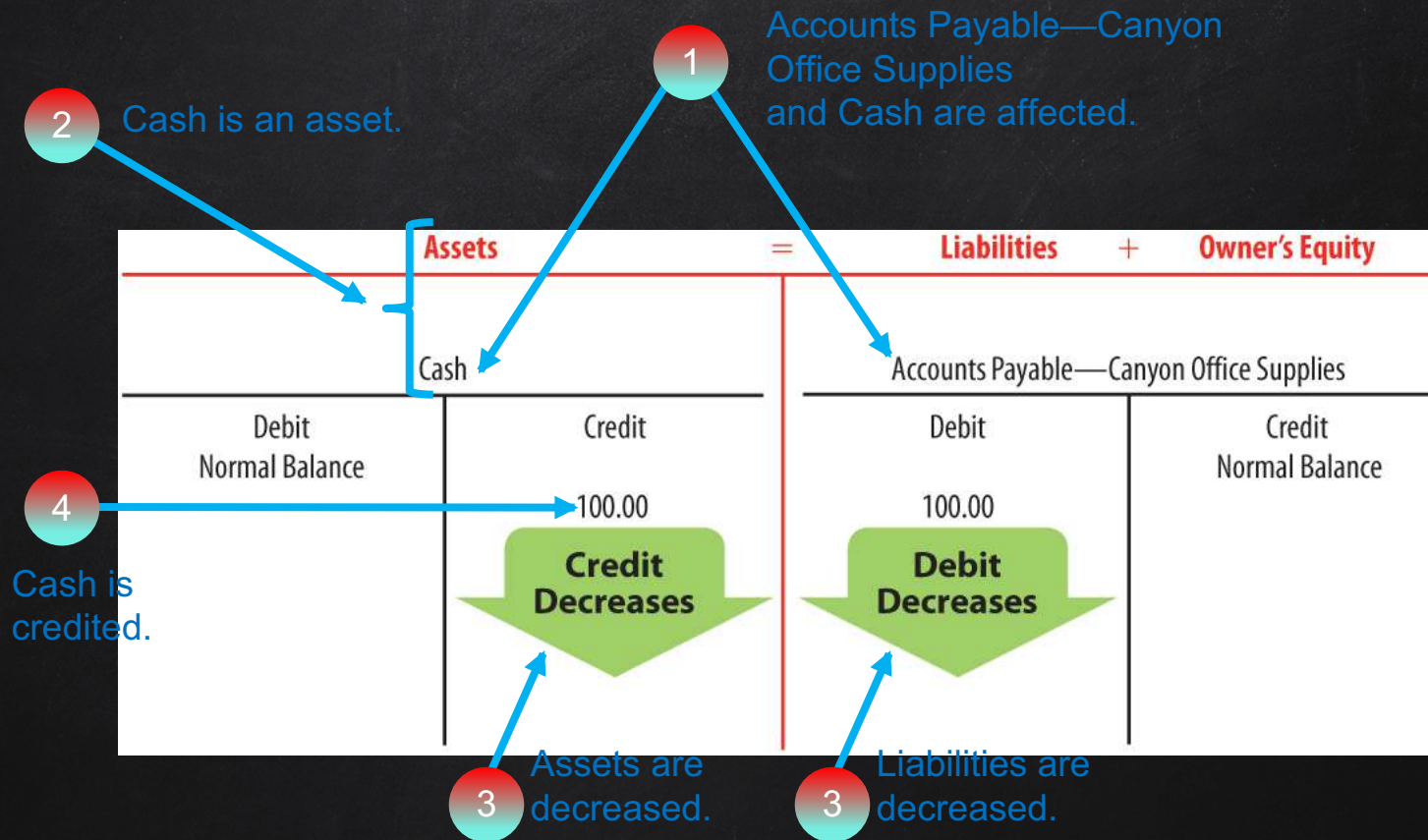
Assets		=	Liabilities	+	Owner's Equity
Supplies			Accounts Payable—Canyon Office Supplies		
Debit	Credit		Debit		Credit
Normal Balance					Normal Balance
220.00					220.00
Debit Increases			Credit Increases		

Assets are increased.

Liabilities are increased.

January 5. Bought supplies on account from Canyon Office Supplies, \$220.00.

PAID CASH ON ACCOUNT



January 9. Paid cash on account to Canyon Office Supplies, \$100.00.



CHECK YOURSELF!

What are the **FOUR** questions for analyzing transactions?

Which Accounts are affected?

How are they classified?

How is the classification changing (increase or decrease)?

How do I record it?

What two accounts are affected when a business buys supplies on account?

Supplies

Accounts Payable



ANALYZING TRANSACTIONS THAT AFFECT OWNER'S EQUITY

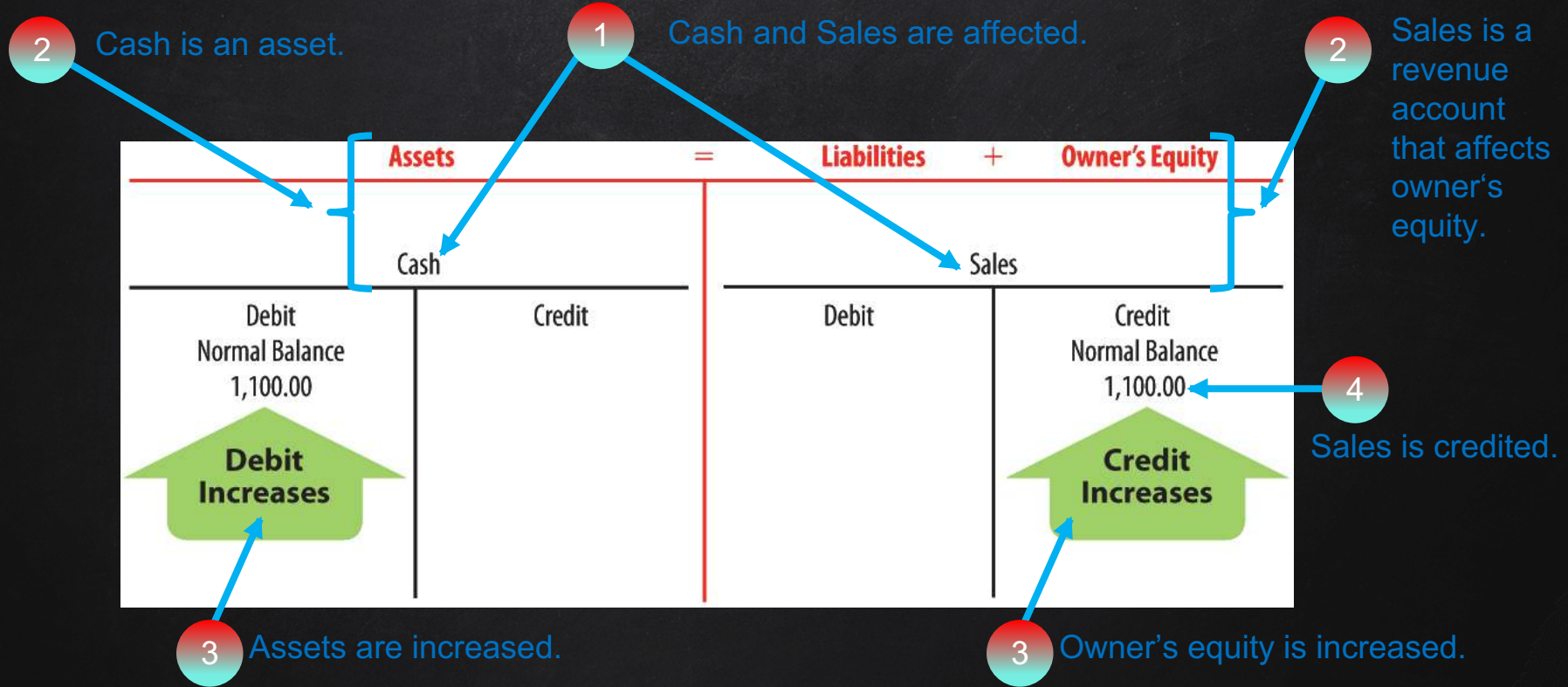
- Analyze transactions for operating a business into debit and credit parts.



REVENUE/SALES

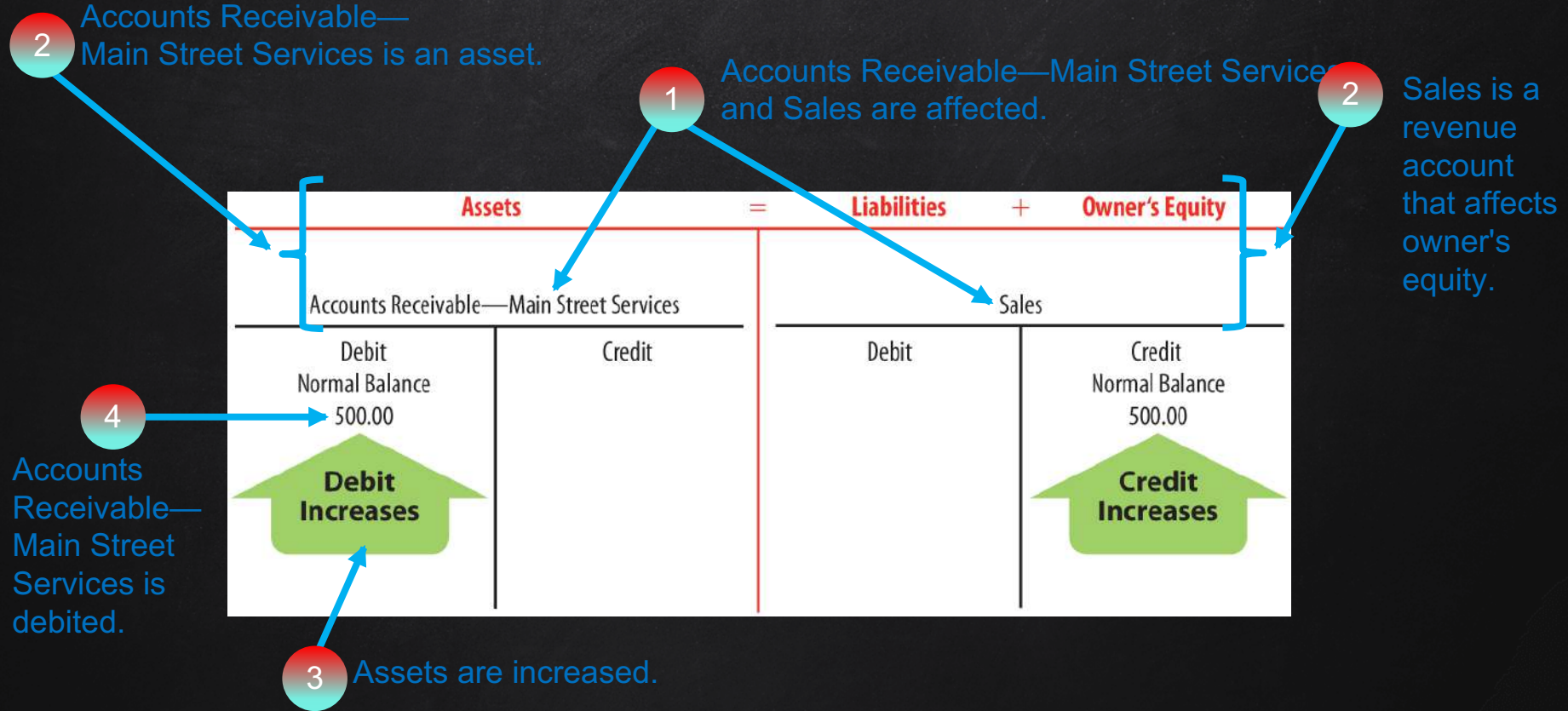
- ✗ REVENUE increases Owner's Equity (Capital)
 - how much our business is worth goes up when sales happen right?
- ✗ OE → Credit NB
- ✗ Since Sales increases our OE, it also has a → NB = Credit

RECEIVED CASH FROM SALES



January 10. Received cash from sales, \$1,100.00.

SOLD SERVICES ON ACCOUNT



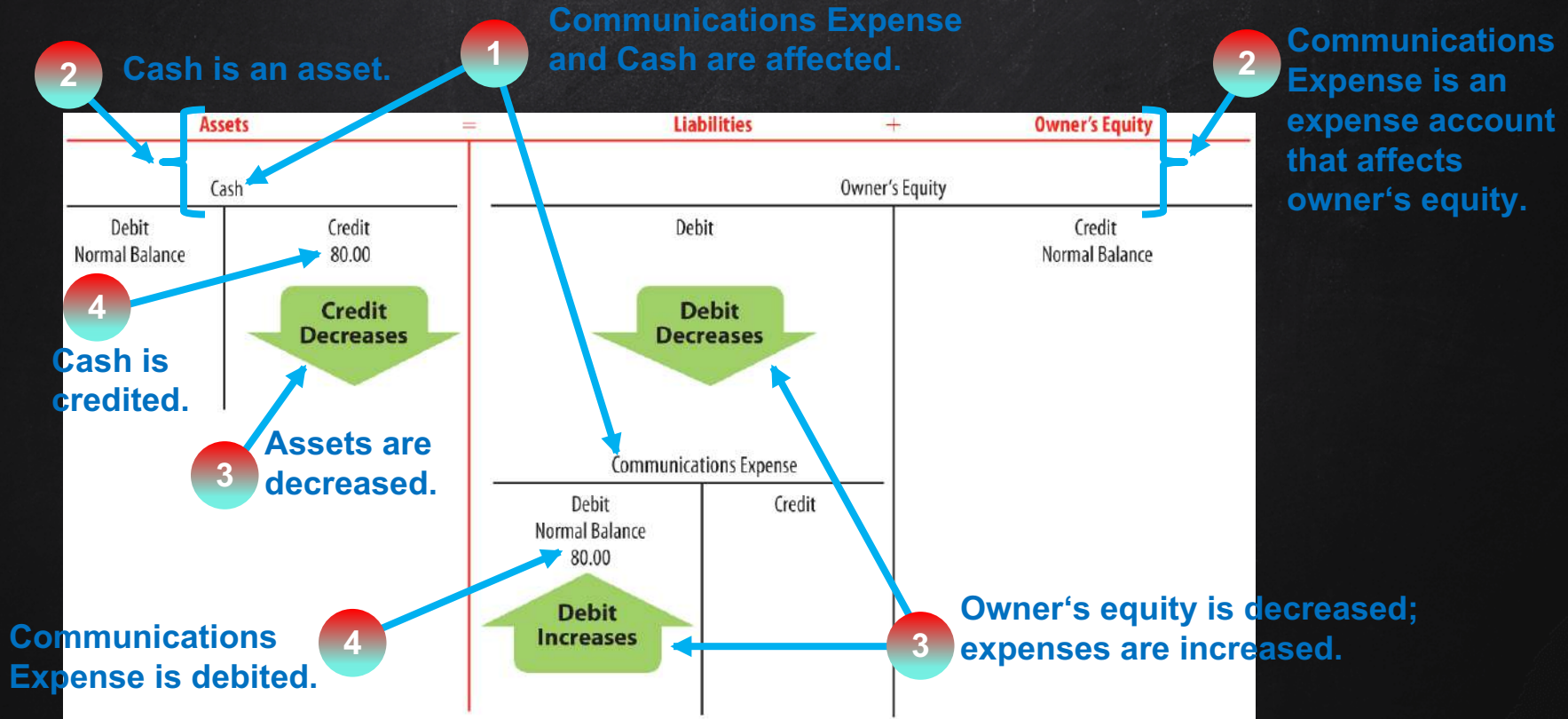
January 12. Sold services on account to Main Street Services, \$500.00.



ACCOUNTS RECEIVABLE

- ✗ Sales/revenue to be received at a later date
 - Item is bought or service performed, but no cash payment on that date.
 - Instead, bill and pay later

PAID CASH FOR EXPENSE



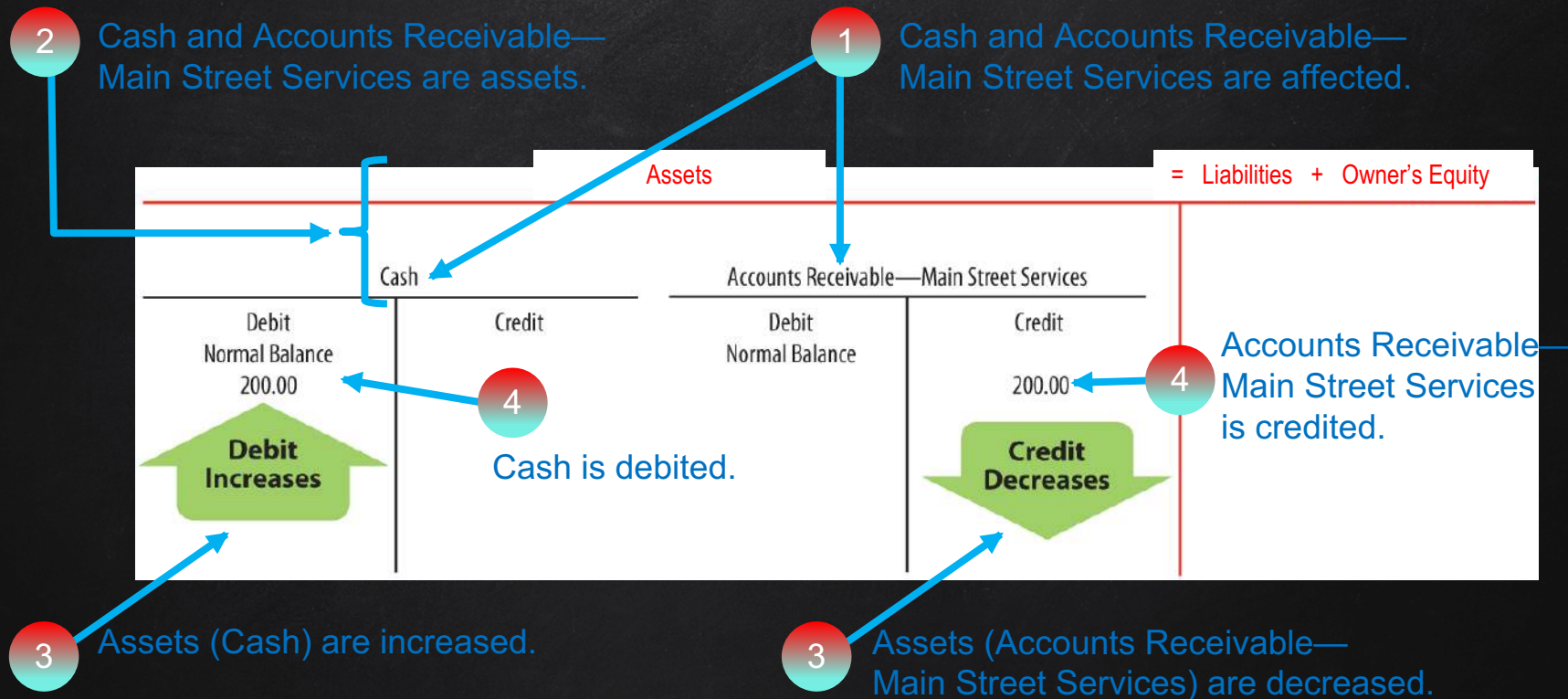
January 12. Paid cash for communications bill for cell phone and Internet service, \$80.00.



EXPENSES

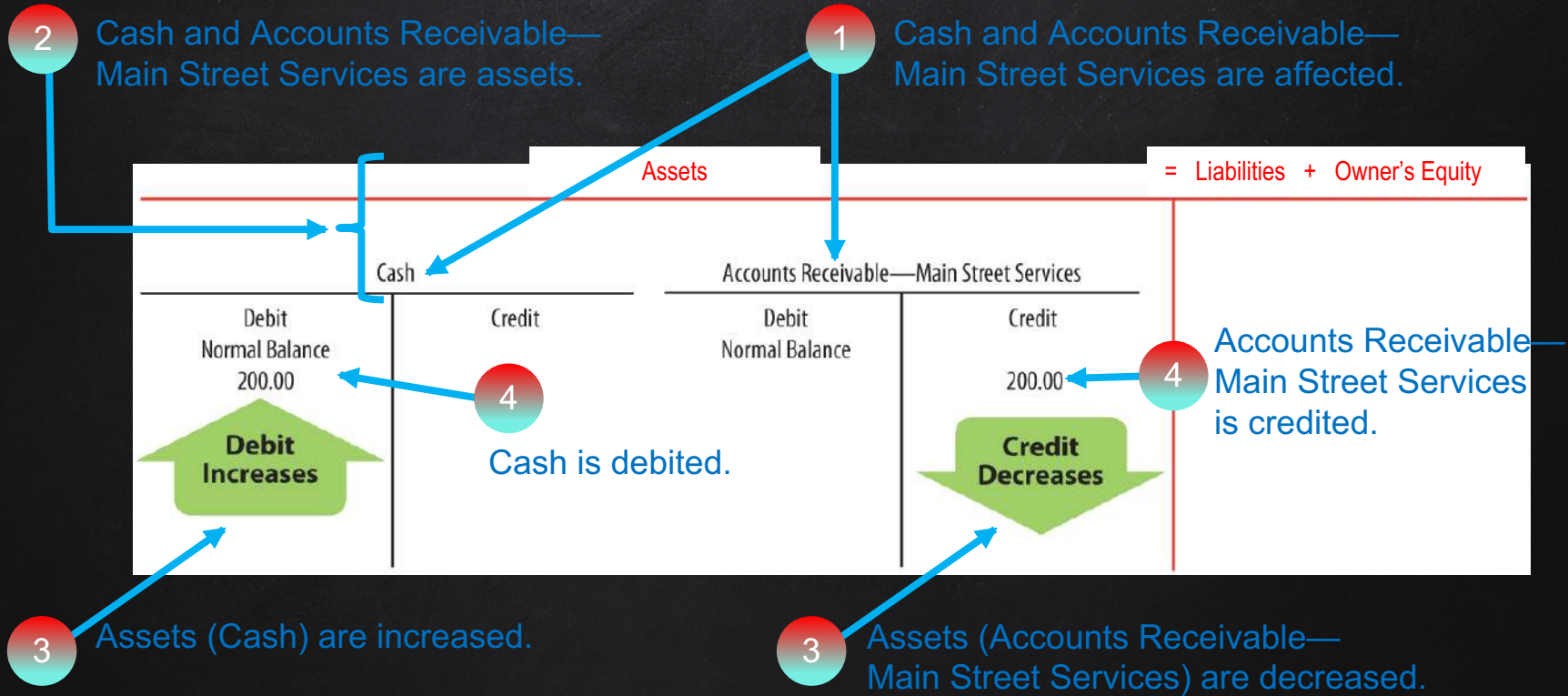
- ✗ Cost to keep business running.
- ✗ REDUCE Owner's Equity (Capital)
 - Has a NB that is DEBIT (as debit decreases OE)

RECEIVED CASH ON ACCOUNT



January 16. Received cash on account from Main Street Services, \$200.00

PAID CASH TO OWNER FOR PERSONAL USE



January 16. Received cash on account from Main Street Services, \$200.00



WITHDRAWAL

- ✗ The business owner taking money for personal use
- ✗ NOT a cost to keep business running
- ✗ REDUCE Owner's Equity (Capital)
 - Has a NB that is DEBIT (as debit decreases OE)



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CHECK YOURSELF!

Which two accounts are affected when a business pays cash for a cell phone bill?

Communications Expense, Cash

What two accounts are affected when a business receives cash on account?

Cash, Accounts Receivable

Which two accounts are affected when a business sells services on account?

Accounts Receivable, Sales

Is drawing increased with a debit or credit?

Debit

Is Revenue increased with a debit or credit?

Credit