

Name: _____

Lesson 2-1: Using T Accounts

Objectives:

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

A. Analyzing the Accounting Equation

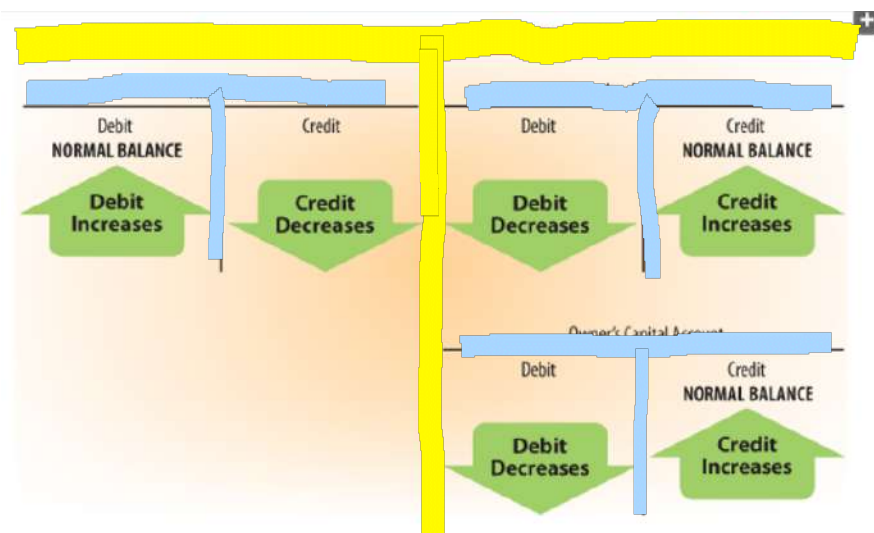
- The total of all **assets** must equal the total of all **Liabilities and Owner's Equity**
- Transactions change the balance of **accounts** in the accounting equation.
- T account: **An accounting device used to analyze transactions**
- Debit: **an amount recorded on the left side of an account.**
- Credit: **means an amount recorded on the right side of an account.**

REMEMBER IN ACCOUNTING, DEBIT AND CREDIT SIMPLY MEAN LEFT AND RIGHT!!

DEBIT IS LEFT. CREDIT IS RIGHT. How are both abbreviated? Dr and Cr

B. Increases, Decreases, and Balances in Accounts

- The accounting equation can be represented as a T (see below)



Each account also has its own T account (See BLUE above)

- Normal Balance: **side of the account that is increased**

- Assets are on the LEFT side of the accounting equation, so they INCREASE with a **DEBIT** meaning their Normal Balance is on the **DEBIT** side. They decrease on the opposite (**credit**) side. *(use the words DEBIT and CREDIT to fill in the blanks)*
- Liabilities and Owner's Equity are on the RIGHT side of the accounting equation, so they INCREASE with a **CREDIT** meaning their Normal Balance is on the **CREDIT** side. They decrease on the opposite (**DEBIT**) side. *(use the words DEBIT and CREDIT to fill in the blanks)*

CHECK YOURSELF!

1. Draw the accounting equation on a T account.

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

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

- (1) Assets are on the left side of the accounting equation. Therefore, assets increase on the left, or debit, side of the account.
- (2) Liabilities and the owner's capital account are on the right side of the accounting equation. Therefore, liabilities and the owner's capital account increase on the right, or credit, side of the account.

Lesson 2-2: Analyzing How Transactions Affect Accounts

Objectives:

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

1. *Receiving Cash from Owner as an Investment*

- Each transaction changes at least **two** accounts. Debits must **equal** credits for EACH transaction.
- Chart of Accounts: List of all accounts for a specific business

Questions for Analyzing a Transaction into Credit and Debit Parts:

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?

1. Pg. 37 January 2 – Paid cash for supplies. \$165

- ☒ Which accounts are affected? **Cash; Michael Delgado, Capital**
- ☒ How is each account classified? **Asset/Owner's Equity**
- ☒ How is each classification changed? **Increase**
- ☒ How is each amount entered in the accounts? **Debit Cash, Credit Michael Delgado, Capital**
- ☒ Accounts payable: **Amount OWED to VENDOR – pay at FUTURE date**
- ☒ **Remember – if two accounts on the left side of the accounting equation are being affected, then one must increase and one must decrease.**
- ☒ When you decrease an account, you post the amount on the opposite side of the account's **Normal balance**.

This can be on the left or right, depending on the type of account.

CHECK YOURSELF!

1. 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?

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

Supplies

Accounts Payable

Lesson 2-3: Analyzing How Transactions Affect Owner's Equity Accounts

Objectives:

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

A. Received Cash From Sales

- **Revenue** increases what a business is worth (owner's equity). This account is a branch off of Owner's Equity.
- Owner's Equity has a normal **credit** balance.
- Sales is a revenue account that affects **Owner's Equity**.
- Since Owner's Equity has a normal credit balance, so does our revenue account (sales).
- Accounts Receivable: **Sales/revenue to be received at a later date**
 - Even if a business does not receive cash on the day of a sale, we still need to record the sale. Which GAAP principle does this refer to? **Realization of Revenue**
- 1. Pg. 44, January 12. Sold Services on account to Main Street Service. Which two accounts does this affect? Increase or decrease? Credit or debit? **Accounts Receivable – Main Street Service (increase, debit); Sales (increase, credit)**
- **Expenses** reduce owner's equity. This account is a branch off of Owner's Equity. Since this account reduces Owner's Equity, (and we reduce owner's equity with a debit), this account has a Normal _____ balance.
- 2. Pg. 46 January 16. Received cash on account from Main Street Services, \$200. This transaction shows a customer sending in a payment. This customer received his/her services a few weeks ago, but received them "on account", so he/she didn't pay that day. Now, he/she has received an invoice and sent in a payment. **Which two accounts would this affect? Cash; Accounts Receivable- Main Street Services**
- Withdrawals **reduce** owner's equity. This means they have a normal **debit** balance. This account is also a branch off of owner's equity. The accounts that are affected when an owner withdraws money for personal use are?

Label the Debit and Credit sides of the accounting equation, as well as the NB (Normal Balance) sides in each account by writing "NB" in.

Assets				=	Liabilities				+	Owner's Equity			
Cash		Acc. Receivable – Myers Factory			Owner's Equity								
Debit	Credit	Debit	Credit		Debit					Credit			
NB		NB			Utilities Expense		Cal Culver, Drawing			Sales			
					Debit	Credit	Debit	Credit		Debit	Credit		
					NB		NB				NB		



CHECK YOURSELF!

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

Communications Expense, Cash

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

Accounts Receivable, Sales

Is Revenue increased with a debit or credit?

Credit

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

Cash, Accounts Receivable

Is drawing increased with a debit or credit?

Debit