

# Accounting I

## Chapter 2

### Analyzing Transactions into Debit and Credit Parts

Review:

Review the Accounting Equation (left side/right side)

--Must Equal

Assign Students to Read Ch. 2 (p. 26-43) and complete the terms p. 26 *(Students may hand-write them on handout or do on word processor)*

#### **Discuss Section 2-1: Using T Accounts**

An Accounting device used to analyze transactions is called a T-Account.

An amount recorded on the left side is called a Debit.

An amount recorded on the right side is called a Credit.

The side of the account that is increased is called the Normal Balance.

--see chart p. 29

#### **Assets = Liabilities + Owner's Equity**

Assets are on the left side of the accounting equation so they have a left side or debit balance

Liabilities are on the right side of the accounting equation so they have a right side or credit balance.

Owner's Equity is on the right side of the accounting equation so it has a right side or credit balance.

Two Rules:

1. Account balances increase on the side of the normal balance.
2. Account balances decrease on the side opposite the normal balance.

Practice: Complete Work Together/On Your Own p. 31

Assign: Application Problem 2-1 p. 46

## **Discuss Section 2-2: Analyzing How Transactions Affect Accounts**

A list of accounts used by a business is called a Chart of Accounts.

--*Encore Techknow Consulting on Page 3*

Questions for Analyzing Transactions into debit and credit parts.

1. Which accounts are affected?
2. How is each account classified?
3. How is each classification changed?
4. How is each amount entered into accounts?

### ***Notes:***

*\*\*\*when both accounts affected are on the same side of the accounting equation, one must be increased and one must be decreased\*\*\**

*\*\*\*when accounts affected are on opposite sides of the accounting equation, both either increase or both decrease\*\*\**

*\*\*\*accounts are always decreased on the opposite side of the normal balance\*\*\**

Transaction #1: Received cash from owner as an investment. (p. 32)

D-Cash (increase asset)

C-Capital (increase owner's equity)

Transaction #2: Paid cash for supplies (p. 33)

D-Supplies (increase asset)

C-Cash (decrease asset)

Transaction #3: Paid Cash for insurance (p. 34)

D-Prepaid Insurance (increase asset)

C-Cash (decrease asset)

Transaction #4: Bought supplies on account from Supply Depot (p. 35)

D-Supplies (increase asset)

C-Accounts Payable— Supply Depot (increase liability)

Transaction #5: Paid cash on account to Supply Depot (p. 36)

D-Accounts Payable-- Supply Depot (decrease liability)

C-Cash (decrease asset)

Practice: Complete Work Together/On Your Own p. 37

Assign: Application Problem 2-2 p. 46

### **Discuss Section 2-3: Analyzing How Transactions Affect Owner's Equity Accounts**

Revenue increases owner's equity. Most businesses use a separate revenue account such as Sales. Increases in OE are credits; therefore, sales (revenue account) has a normal credit balance.

#### **Revenue (Sales)**

*Normal Credit Balance Increase Credit Side Decrease Debit Side*

Transaction # 6: Received cash from sales (p. 38)

D-Cash (increase asset)

C-Sales (increase revenue/oe)

Transaction #7: Sold Services on Account to Oakdale School (p. 39)

D-Accounts Receivable/Oakdale School (increase asset)

C-Sales (increase revenue/oe)

Expenses decrease owner's equity. Businesses use separate expense accounts. Decreases in OE are debits; therefore, expenses have a normal debit balance. All expenses are recorded the same way. (see chart of accounts p. 3)

### **Expense Account**

*Normal Debit Balance Increase Debit Side Decrease Credit Side*

Transaction #8: Paid Cash for Rent (p. 40)

D-Rent Expense (decrease oe)

C-Cash (decrease asset)

Transaction #9: Received cash on account from Oakdale School (p. 41)

D-Cash (increase asset)

C-Accounts Receivable/Oakdale School (decrease asset)

Withdrawals decrease Owner's Equity. Businesses use a separate account called Drawing. Decreases in OE are debits; therefore, drawing has a normal debit balance.

Discuss Owner Withdrawals, p. 42

### **Drawing Account**

*Normal Debit Balance Increase Debit Side Decrease Credit Side*

Transaction #10: Paid Cash to owner for personal use (p. 42)

D-Kim Park, Drawing (decrease oe)

C-Cash (decrease asset)

Practice: Complete Work Together/On Your Own p. 44

Assign: Application Problem 2-3/2-4 p. 47

Formative Assessment: Assign Mastery Problem 2-5 p. 48

Additional Practice if needed: Assign Challenge Problem 3-6 p. 49.

Prepare for Summative Assessment: Complete Study Guide 2--  
Review for Exam

Summative Assessment--Ch. 2 Quiz--Concept & Application