

Cihan University / Sulaymaniyah
Faculty of Administration and Financial Sciences
Business Administration Department



Principle of Accounting (I)

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Chapter One

Accounting in Action

Financial Accounting, IFRS Edition
Weygandt • Kimmel • Kieso

Learning Objectives

1. Explain what accounting is.
2. Identify the activities and users associated with accounting.
3. Explain accounting standards and the measurement principles.
4. Explain the monetary unit assumption and the economic entity assumption.
5. State the accounting equation, and define its components.
6. Analyze the effects of business transactions on the accounting equation.

What is Accounting?

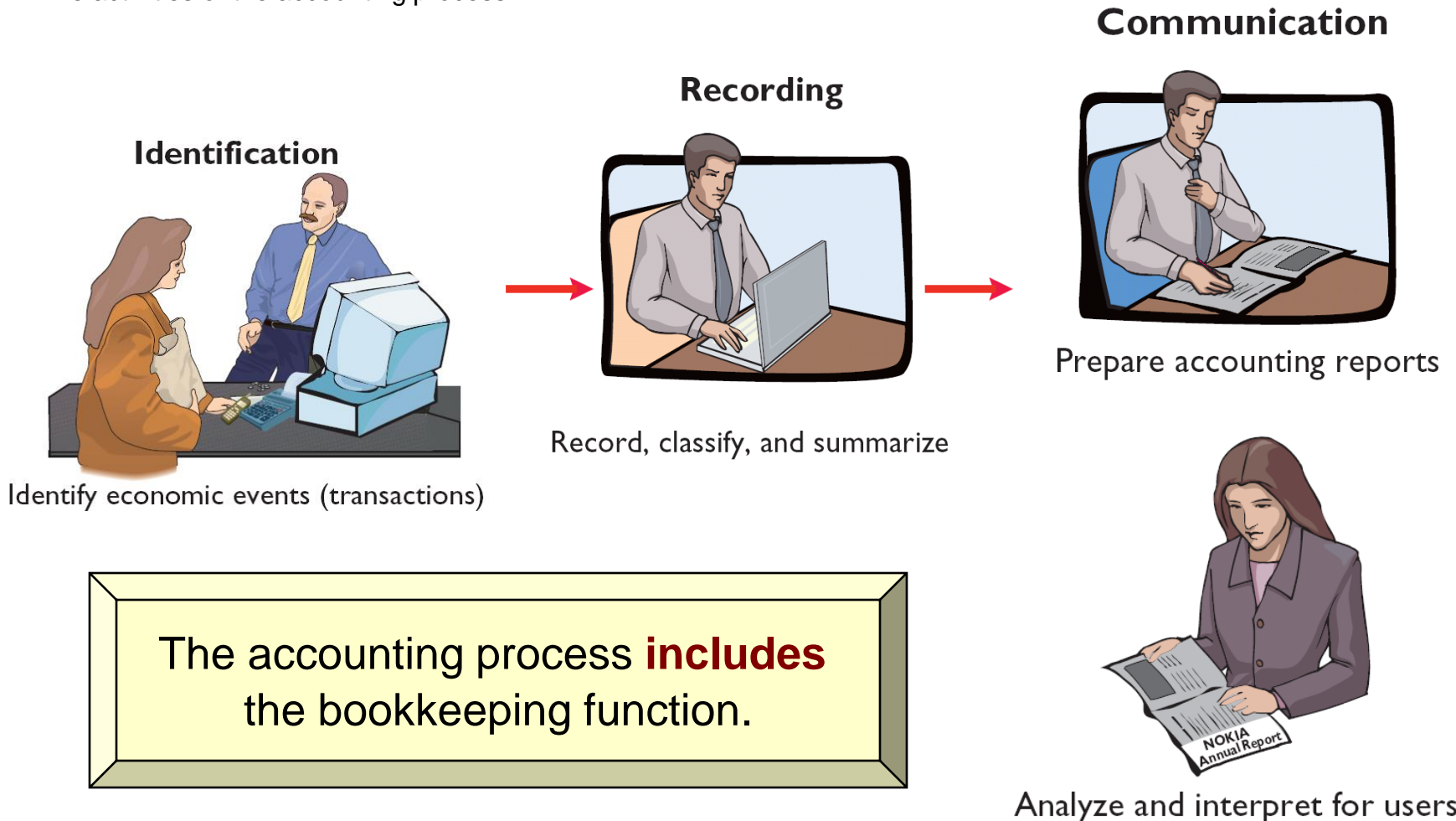
Accounting is “an information system that:

- (1) identifies, records, and communicates** the economic events of an
- (2) organization to**
- (3) interested users.**

Three Activities

Illustration 1-1

The activities of the accounting process



Who Uses Accounting Data

INTERNAL USERS



Marketing

What price should **Apple** charge for an iPod to maximize the company's net income?



Snack chips

Beverages

Management

Which **PepsiCo** product line is the most profitable? Should any product lines be eliminated?



Finance

Is cash sufficient to pay dividends to **Microsoft** stockholders?



Human Resources

Can **General Motors** afford to give its employees pay raises this year?

Illustration 1-2

Questions that internal users ask

Who Uses Accounting Data

EXTERNAL USERS



Investors

Is **General Electric** earning satisfactory income?

Illustration 1-3
Questions that external
users ask



Creditors

Will **United Airlines** be able to pay its debts as they come due?







Investors

How does **Disney** compare in size and profitability with **Time Warner**?

Who Uses Accounting Data

Common Questions Asked

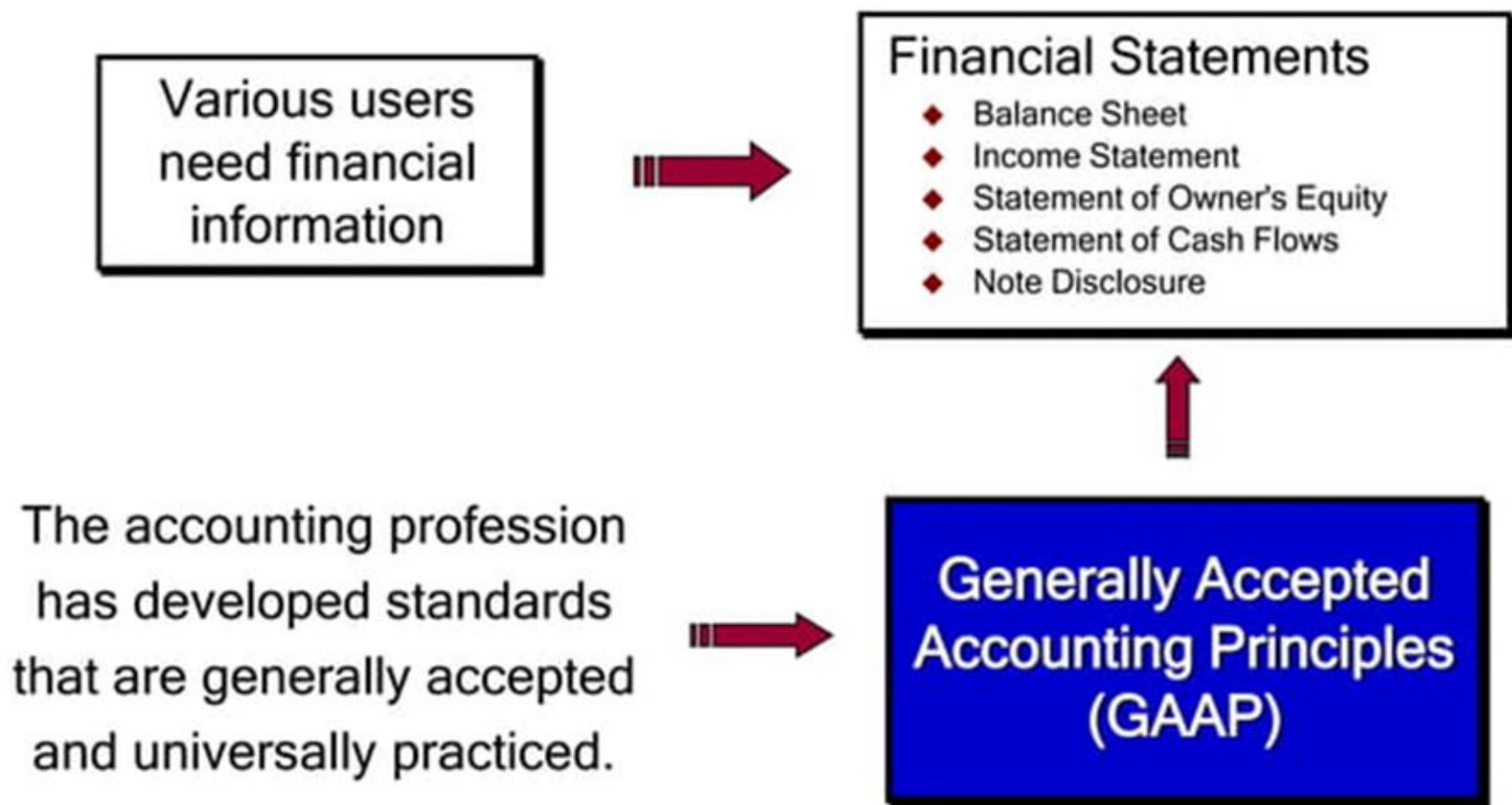
User

- | | | |
|---|--|------------------------|
| 1. Can we afford to give our employees a pay raise? |  | Human Resources |
| 2. Did the company earn a satisfactory income? |  | Investors |
| 3. Should any product lines be eliminated? |  | Management |
| 4. Is cash sufficient to pay dividends to shareholders? |  | Finance |
| 5. What price for our product will maximize net income? |  | Marketing |
| 6. Will the company be able to pay its debts? |  | Creditors |

Indicate whether the following statements are **true** or **false**.

1. The three steps in the accounting process are identification, recording, and communication.
2. Bookkeeping encompasses all steps in the accounting process.
3. Accountants prepare, but do not interpret, financial reports.
4. The two most common types of external users are investors and company officers.
5. Managerial accounting activities focus on reports for internal users.

Generally Accepted Accounting Principles



Generally Accepted Accounting Principles

Generally Accepted Accounting Principles (GAAP) - Standards that are generally accepted and universally practiced. These standards indicate how to report economic events.

Standard-setting bodies:

- ▶ **Financial Accounting Standards Board (FASB)**
- ▶ **Securities and Exchange Commission (SEC)**
- ▶ **International Accounting Standards Board (IASB)**

International Note



Over 100 countries use International Financial Reporting Standards (called IFRS). For example, all companies in the European Union follow international standards. The differences between U.S. and international standards are not generally significant.

Measurement Principles

HISTORICAL COST PRINCIPLE (or cost principle) dictates that companies record assets at their cost.

FAIR VALUE PRINCIPLE states that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

Selection of which principle to follow generally relates to trade-offs between **relevance** and **faithful representation**.

Helpful Hint

Relevance and faithful representation are two primary qualities that make accounting information useful for decision-making.

Assumptions

MONETARY UNIT ASSUMPTION requires that companies include in the accounting records only transaction data that can be expressed in terms of money.

ECONOMIC ENTITY ASSUMPTION requires that activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

- ◆ Proprietorship
- ◆ Partnership
- ◆ Corporation



Forms of Business
Ownership

Forms of Business Ownership

Proprietorship

- ◆ Owned by one person
- ◆ Owner is often manager/operator
- ◆ Owner receives any profits, suffers any losses, and is personally liable for all debts

Partnership

- ◆ Owned by two or more persons
- ◆ Often retail and service-type businesses
- ◆ Generally unlimited personal liability
- ◆ Partnership agreement

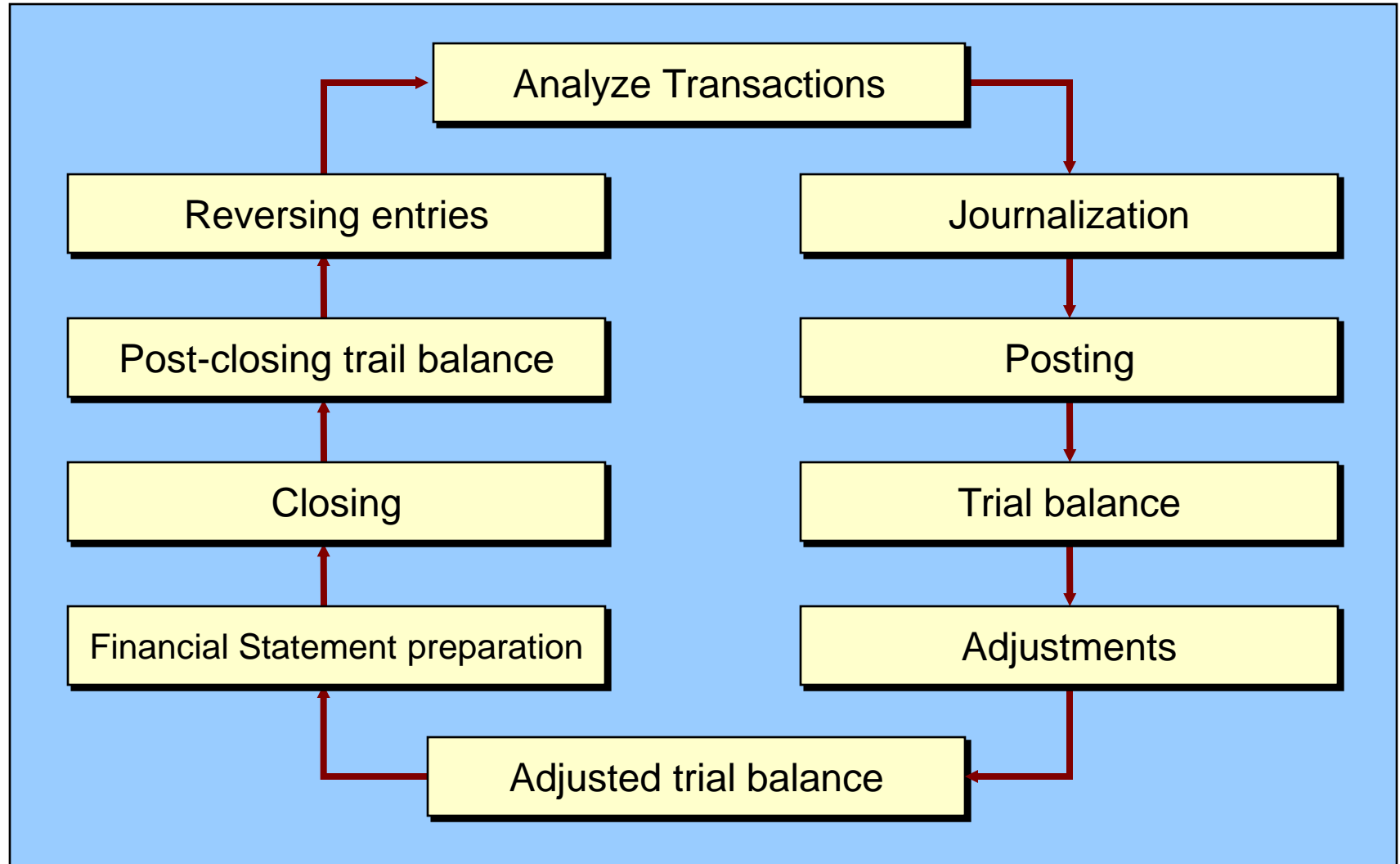
Corporation

- ◆ Ownership divided into shares of stock
- ◆ Separate legal entity organized under state corporation law
- ◆ Limited liability

Indicate whether each of the following statements presented below is true or false.

1. The cost principle dictates that companies record assets at their cost. In later periods, however, the fair value of the asset must be used if fair value is higher than its cost.
2. A business organized as a separate legal entity under state law having ownership divided into shares is a corporation.
3. Relevance means that financial information matches what really happened: the information is factual.
4. A business owner's personal expenses must be separated from expenses of the business to comply with accounting's economic entity assumptions.

The Accounting Cycle



The Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Owner's Equity}}$$

- Provides the **underlying framework** for recording and summarizing economic events.
- Applies to all economic entities regardless of size.

Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Owner's Equity}}$$

Assets

- ◆ Resources a business owns.
- ◆ Provide future services or benefits.
- ◆ Cash, Supplies, Equipment, etc.

Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Owner's Equity}}$$

Liabilities

- ◆ Claims against assets (debts and obligations).
- ◆ Creditors (party to whom money is owed).
- ◆ Accounts Payable, Notes Payable, Salaries and Wages Payable, etc.

Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Owner's Equity}}$$

Owner's Equity

- ◆ Ownership claim on total assets.
- ◆ Referred to as residual equity.
- ◆ Investment by owners and revenues (+)
- ◆ Drawings and expenses (-).

Owner's Equity

Illustration 1-6
Expanded accounting
equation

Basic Equation	Assets = Liabilities	+	Owner's Equity			
Expanded Equation	Assets = Liabilities	+	Owner's Capital	– Owner's Drawings	+ Revenues	– Expenses

Increases in Owner's Equity

- ◆ **Investments by owner** are the assets the owner puts into the business.
- ◆ **Revenues** result from business activities entered into for the purpose of earning income.
 - ▶ **Common sources of revenue** are: sales, fees, services, commissions, interest, dividends, royalties, and rent.

Owner's Equity

Illustration 1-6
Expanded accounting
equation

Basic Equation	Assets = Liabilities	+	Owner's Equity			
Expanded Equation	Assets = Liabilities	+	Owner's Capital	-	Owner's Drawings	+ Revenues - Expenses

Decreases in Owner's Equity

- ◆ **Drawings** An owner may withdraw cash or other assets for personal use.
- ◆ **Expenses** are the cost of assets consumed or services used in the process of earning revenue.
 - ▶ Common expenses are: salaries expense, rent expense, utilities expense, tax expense, etc.

Classify the following items as investment by owner, owner's drawings, revenue, or expenses. Then indicate whether each item increases or decreases owner's equity.

	<u>Classification</u>	<u>Effect on Equity</u>
1. Rent Expense	<input type="text"/>	<input type="text"/>
2. Service Revenue	<input type="text"/>	<input type="text"/>
3. Drawings	<input type="text"/>	<input type="text"/>
4. Salaries and Wages Expense	<input type="text"/>	<input type="text"/>

Analyze the effects of business transactions on the accounting equation

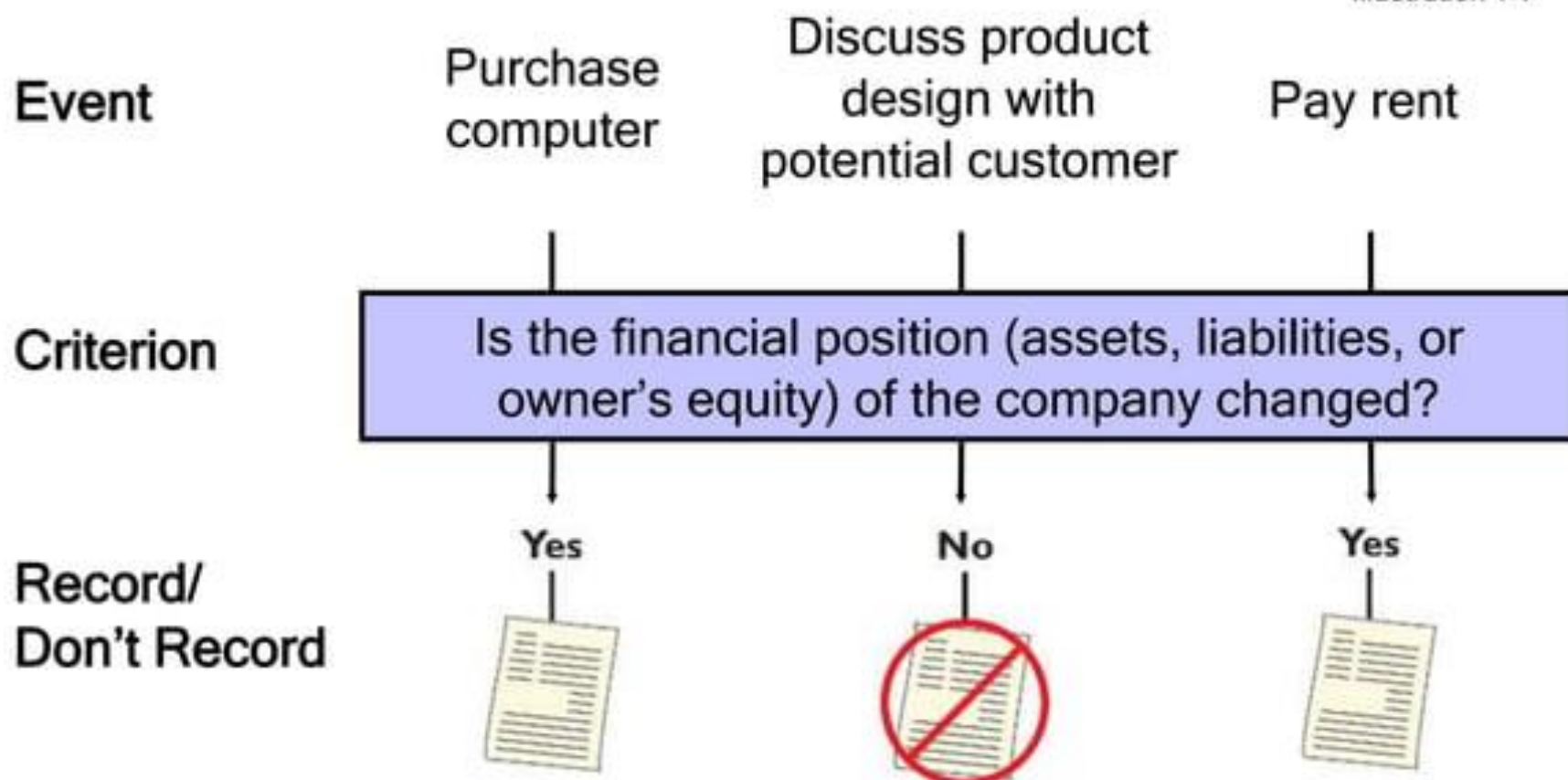
Transactions are a business's economic events *recorded* by accountants.

- May be external or internal.
- Not all activities represent transactions.
- Each transaction has a **dual effect** on the accounting equation.

Transaction Analysis

Illustration: Are the following events recorded in the accounting records?

Illustration 1-7



Transaction Analysis

TRANSACTION 1. INVESTMENT BY OWNER Ray Neal decides to start a smartphone app development company which he names Softbyte. On September 1, 2017, he invests **\$15,000 cash** in the business. This transaction results in an equal increase in assets and owner's equity.

Trans- action	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.
1.	+15,000					+15,000			

Illustration 1-8

Tabular summary of
Softbyte transactions

TRANSACTION 2. PURCHASE OF EQUIPMENT FOR CASH Softbyte Inc. purchases computer equipment for \$7,000 cash.

Illustration 1-8

Trans- action	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.
1.	+15,000					+15,000			
2.	-7,000			+7,000					

TRANSACTION 3. PURCHASE OF SUPPLIES ON CREDIT Softbyte Inc. purchases for \$1,600 headsets and other accessories expected to last several months. The supplier allows Softbyte to pay this bill in October.

Illustration 1-8

Trans- action	Assets				= Liabilities +		Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	-	Exp.
1.	+15,000					+15,000				
2.	-7,000			+7,000						
3.			+1,600		+1,600					

TRANSACTION 4. SERVICES PERFORMED FOR CASH Softbyte Inc. receives \$1,200 cash from customers for app development services it has performed.

Illustration 1-8

Trans- action	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.
1.	+15,000					+15,000			
2.	-7,000			+7,000					
3.			+1,600		+1,600				
4.	+1,200							+1,200	

TRANSACTION 5. PURCHASE OF ADVERTISING ON CREDIT Softbyte Inc. receives a bill for \$250 from the *Daily News* for advertising on its online website but postpones payment until a later date.

Illustration 1-8

Trans- action	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.
1.	+15,000					+15,000			
2.	-7,000			+7,000					
3.			+1,600		+1,600				
4.	+1,200							+1,200	
5.					+250				-250

TRANSACTION 6. SERVICES PERFORMED FOR CASH AND CREDIT.

Softbyte performs \$3,500 of **services**. The company receives cash of \$1,500 from customers, and it bills the balance of \$2,000 on account.

Illustration 1-8

Trans- action	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.
1.	+15,000					+15,000			
2.	-7,000			+7,000					
3.			+1,600		+1,600				
4.	+1,200							+1,200	
5.					+250				-250
6.	+1,500	+2,000						+3,500	

TRANSACTION 7. PAYMENT OF EXPENSES Softbyte Inc. pays the following expenses in cash for September: office rent \$600, salaries and wages of employees \$900, and utilities \$200.

Illustration 1-8

Trans- action	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.
1.	+15,000					+15,000			
2.	-7,000			+7,000					
3.			+1,600		+1,600				
4.	+1,200							+1,200	
5.					+250				-250
6.	+1,500	+2,000						+3,500	
7.	-1,700								-600
									-900
									-200

TRANSACTION 8. PAYMENT OF ACCOUNTS PAYABLE Softbyte Inc. pays its \$250 *Daily News* bill in cash. The company previously (in Transaction 5) recorded the bill as an increase in Accounts Payable.

Illustration 1-8

Trans- action	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.
1.	+15,000					+15,000			
2.	-7,000			+7,000					
3.			+1,600		+1,600				
4.	+1,200							+1,200	
5.					+250				-250
6.	+1,500	+2,000						+3,500	
7.	-1,700								-600 -900 -200
8.	-250				-250				

TRANSACTION 9. RECEIPT OF CASH ON ACCOUNT Softbyte Inc. receives \$600 in cash from customers who had been billed for services (in Transaction 6).

Illustration 1-8

Trans- action	Assets				= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.
1.	+15,000					+15,000			
2.	-7,000			+7,000					
3.			+1,600		+1,600				
4.	+1,200							+1,200	
5.					+250				-250
6.	+1,500	+2,000						+3,500	
7.	-1,700								-600
									-900
									-200
8.	-250				-250				
9.	+600	-600							

TRANSACTION 10. WITHDRAWAL OF CASH BY OWNER Ray Neal withdraws \$1,300 in cash in cash from the business for his personal use.

Illustration 1-8

Illustration 1-8		Assets				= Liabilities +	Owner's Equity				
Trans- action	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Owner's Capital	+ Owner's Drawings	+ Rev.	- Exp.	
1.	+15,000						+15,000				
2.	-7,000			+7,000							
3.			+1,600			+1,600					
4.	+1,200								+1,200		
5.						+250				-250	
6.	+1,500	+2,000							+3,500		
7.	-1,700									-600	
										-900	
										-200	
8.	-250					-250					
9.	+600	-600									
10.	-1,300							-1,300			
<hr/>											

Summary of Transactions

1. Each transaction is analyzed in terms of its effect on:
 - a. The three components of the basic accounting equation.
 - b. Specific of items within each component.
2. The two sides of the equation must always be equal.

Transactions made by Virmari & Co., a public accounting firm, for the month of August are shown below. Prepare a tabular analysis which shows the effects of these transactions on the expanded accounting equation, similar to that shown in Illustration 1-8.

1. The owner invested \$25,000 cash in the business.
2. The company purchased \$7,000 of office equipment on credit.
3. The company received \$8,000 cash in exchange for services performed.
4. The company paid \$850 for this month's rent.
5. The owner withdrew \$1,000 cash for personal use.

Exercises

Ex 1: Selected transactions for Fabulous Flora Company are listed below.

1. Made cash investment to start business.
2. Purchased equipment on account.
3. Paid salaries.
4. Billed customers for services performed.
5. Received cash from customers billed in (4).
6. Withdrew cash for owner's personal use.
7. Incurred advertising expense on account.
8. Purchased additional equipment for cash.
9. Received cash from customers when service was performed.

Required: List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and owner's equity. For example, the first answer is: (1) Increase in assets and increase in owner's equity.

Ex 2: Falske Computer Timeshare Company entered into the following transactions during May 2017.

1. Purchased computers for \$20,000 from Digital Equipment on account.
2. Paid \$4,000 cash for May rent on storage space.
3. Received \$17,000 cash from customers for contracts billed in April.
4. Performed computer services for Viking Construction Company for \$4,000 cash.
5. Paid Tri-State Power Co. \$11,000 cash for energy usage in May.
6. Falske invested an additional \$29,000 in the business.
7. Paid Digital Equipment for the computers purchased in (1) above.
8. Incurred advertising expense for May of \$1,200 on account.

Required: Show the effects of the previous transactions on the accounting equation.

Ex 3: Trixie Maye started her own consulting firm, Matrix Consulting, on May 1, 2017. The following transactions occurred during the month of May.

May 1 Trixie invested \$7,000 cash in the business.

2 Paid \$900 for office rent for the month.

3 Purchased \$600 of supplies on account.

5 Paid \$125 to advertise in the County News.

9 Received \$4,000 cash for services performed.

12 Withdrew \$1,000 cash for personal use.

15 Performed \$5,400 of services on account.

17 Paid \$2,500 for employee salaries.

20 Paid for the supplies purchased on account on May 3.

23 Received a cash payment of \$4,000 for services performed on account on May 15.

26 Borrowed \$5,000 from the bank on a note payable.

29 Purchased equipment for \$4,200 on account.

30 Paid \$275 for utilities.

Required: Show the effects of the previous transactions on the accounting equation.

Ex 4: The following transactions occurred during the month of May:

May 1: Killy invested \$80,000 cash in the business.

May 2: paid \$8,000 cash for office rent for the month.

May 3: purchased \$5,000 of supplies on credit.

May 5: paid \$600 cash to advertise in the country news.

May 9: received \$10,000 cash for services provided.

May 15: withdrew \$700 cash for personal use.

May 17 : paid \$2,500 cash for employee salaries.

May 21: borrowed \$ 5,000 from the bank on a note payable.

May 31: purchased office equipment for \$2,400 on account.

Required: Show the effects of the previous transaction on the accounting equation.

Ex 5: Transactions made by Raz Co. for the month of May 2014 are shown below. Prepare a tabular analysis which shows the effects of these transactions on the expanded accounting equation.

The owner invested \$25,000 cash in the business.

The company purchased \$7,000 of office equipment on credit.

The company received \$8,000 cash in exchange for services performance.

The company paid \$850 for May's rent.

The owner withdrew \$1,000 cash for personal use.

Chapter Two

The Recording Process

Learning Objectives

1. Describe how accounts, debits, and credits are used to record business transactions.
2. Indicate how a journal is used in the recording process.
3. Explain how a ledger and posting help in the recording process.
4. Prepare a trial balance.

The Account



- ◆ Record of increases and decreases in a specific asset, liability, owners' equity, revenue, or expense item.
- ◆ Debit = "Left"
- ◆ Credit = "Right"

An account can be illustrated in a T-account form.



Account Name	
Debit / Dr.	Credit / Cr.

The Account

DEBIT AND CREDIT PROCEDURES



Double-entry system



- ◆ Each transaction must affect two or more accounts to keep the basic accounting equation in balance.
- ◆ Recording done by debiting at least one account and crediting at least one other account.
- ◆ **DEBITS must equal CREDITS.**

Debits and Credits

Owner's Equity	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

- ◆ Owner's investments and revenues increase owner's equity (credit).
- ◆ Owner's drawings and expenses decrease owner's equity (debit).

Owner's Capital	
Debit / Dr.	Credit / Cr.
	
	Normal Balance



Owner's Drawing	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Helpful Hint Because revenues increase owner's equity, a revenue account has the same debit/credit rules as the Owner's Capital account. Expenses have the opposite effect.

Debits and Credits

Revenue	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

- ◆ The purpose of earning **revenues** is to benefit the owner(s).
- ◆ The effect of debits and credits on revenue accounts is the **same** as their effect on Owner's Capital.
- ◆ **Expenses** have the opposite effect: expenses decrease owner's equity.

Expense	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Debits/Credits Rules

Normal
Balance
Debit

Normal
Balance
Credit

Liabilities

Debit / Dr.	Credit / Cr.
	
	Normal Balance

Assets

Debit / Dr.	Credit / Cr.
	
Normal Balance	

Owner's Equity

Debit / Dr.	Credit / Cr.
	
	Normal Balance

Expense

Debit / Dr.	Credit / Cr.
	
Normal Balance	

Revenue

Debit / Dr.	Credit / Cr.
	
	Normal Balance

Debits/Credits Rules

Balance Sheet

Income Statement

Asset = Liability + Equity

Revenue - Expense

Debit



Credit



Debits/Credits Rules

Question

Debits:

- a. Increase both assets and liabilities.
- b. Decrease both assets and liabilities.
- c. Increase assets and decrease liabilities.
- d. Decrease assets and increase liabilities.

Question

Accounts that normally have debit balances are:

- a. Assets, expenses, and revenues.
- b. Assets, expenses, and equity.
- c. Assets, liabilities, and owner's drawings .
- d. Assets, owner's drawings, and expenses.

Summary of Debit/Credit Rules

Relationship among the assets, liabilities and owner's equity of a business:

Illustration 2-11

Basic
Equation

Assets = Liabilities +

Owner's Equity

Expanded
Equation

Debit/Credit
Effects

Assets	=	Liabilities	+	Owner's Capital	-	Owner's Drawing	+	Revenues	-	Expenses
Dr. + Cr. -		Dr. - Cr. +		Dr. - Cr. +		Dr. + Cr. -		Dr. - Cr. +		Dr. + Cr. -

The equation must be in balance after every transaction. Total **Debits** must equal total **Credits**.

DO IT!

1

Normal Account Balances

Kate Browne has just rented space in a shopping mall. In this space, she will open a hair salon to be called "Hair It Is." A friend has advised Kate to set up a double-entry set of accounting records in which to record all of her business transactions. Identify the balance sheet accounts that Kate will likely need to record the transactions needed to open her business. Indicate whether the normal balance of each account is a debit or a credit.

Assets	Liabilities	Equity
Cash (debit)	Notes payable (credit)	Owner's Capital (credit)
Supplies (debit)	Accounts payable	
Equipment (debit)	(credit)	

Steps in the Recording Process

Illustration 2-12



Business documents, such as a sales slip, a check, or a bill, provide evidence of the transaction.

2-15

LO 2

Practically every business uses three basic steps in the recording process:

- 1. Analyze each transaction for its effects on the accounts.**
- 2. Enter the transaction information in a journal.**
- 3. Transfer the journal information to the appropriate accounts in the ledger**

Steps in the Recording Process

The Journal

- ◆ Book of original entry.
- ◆ Transactions recorded in chronological order.
- ◆ Contributions to the recording process:
 1. Discloses the **complete effects of a transaction**.
 2. Provides a **chronological record** of transactions.
 3. Helps to **prevent or locate errors** because the debit and credit amounts can be easily compared.

Steps in the Recording Process

JOURNALIZING - Entering transaction data in the journal.

Illustration: On September 1, Ray Neal invested \$15,000 cash in the business, and Softbyte purchased computer equipment for \$7,000 cash.

Illustration 2-13

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
Sept. 1	Cash		15,000	
	Owner's Capital			15,000
	Equipment		7,000	
	Cash			7,000

Steps in the Recording Process

SIMPLE AND COMPOUND ENTRIES

Simple Entry - Two accounts, one debit and one credit.

Compound Entry - Three or more accounts.

Illustration: On July 1, Butler Company purchases a delivery truck costing \$14,000. It pays \$8,000 cash now and agrees to pay the remaining \$6,000 on account.

Illustration 2-14
Compound journal entry

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
July 1	Equipment		14,000	
	Cash			8,000
	Accounts payable			6,000

Kate Browne engaged in the following activities in establishing her salon, Hair It Is:

1. Opened a bank account in the name of Hair It Is and deposited \$20,000 of her own money in this account as her initial investment.
2. Purchased equipment on account (to be paid in 30 days) for a total cost of \$4,800.
3. Interviewed three persons for the position of hair stylist.

Prepare the entries to record the transactions.

Exercises

Ex 1: Tom Rast started his own consulting firm, Rast Consulting, on April 1, 2017. The following transactions occurred during the month of April.

April 1 Tom invested \$10,000 cash in the business.

2 Paid \$500 for office rent for the month.

3 Purchased \$400 of supplies on account.

5 Paid \$250 to advertise in the County News.

9 Received \$5,000 cash for services performed.

12 Withdrew \$1,200 cash for personal use.

15 Performed \$6,400 of services on account.

17 Paid \$2,500 for employee salaries.

20 Paid for the supplies purchased on account on May 3.

23 Received a cash payment of \$4,000 for services performed on account on April 15.

26 Borrowed \$6,000 from the bank by signing a note.

29 Purchased equipment for \$4,200 on account.

Required: Prepare journal entries to record the above transactions.

Ex 2: Maicy Services was formed on May 1, 2017. The following transactions took place during the first month.

Transactions on May 1:

1. Jay Bradford invested \$40,000 cash in the company, as its sole owner.
2. Hired two employees to work in the warehouse. They will each be paid a salary of \$3,050 per month.
3. Signed a 2-year rental agreement on a warehouse; paid \$24,000 cash in advance for the first year.
4. Purchased furniture and equipment costing \$30,000. A cash payment of \$10,000 was made immediately; the remainder will be paid in 6 months.
5. Paid \$1,800 cash for a one-year insurance policy on the furniture and equipment.
6. Purchased basic office supplies for \$420 cash.
7. Purchased more office supplies for \$1,500 on account.
8. Total revenues earned were \$20,000 - \$8,000 cash and \$12,000 on account.
9. Paid \$400 to suppliers for accounts payable due.
10. Received \$3,000 from customers in payment of accounts receivable.
11. Received utility bills in the amount of \$380, to be paid next month.
12. Paid the monthly salaries of the two employees, totaling \$6,100.

Required: Prepare journal entries to record each of the events listed.

The Ledger

- ◆ **General Ledger** contains all the asset, liability, and owner's equity accounts.

Illustration 2-15



The Ledger

STANDARD FORM OF ACCOUNT

Illustration 2-16
Three-column form
of account

CASH					NO. 101
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 1			25,000		25,000
2				8,000	17,000
3			4,200		21,200
9			7,500		28,700
17				11,700	17,000
20				250	16,750
30				7,300	9,450

Ledger

POSTING

Transferring journal entries to the ledger accounts.

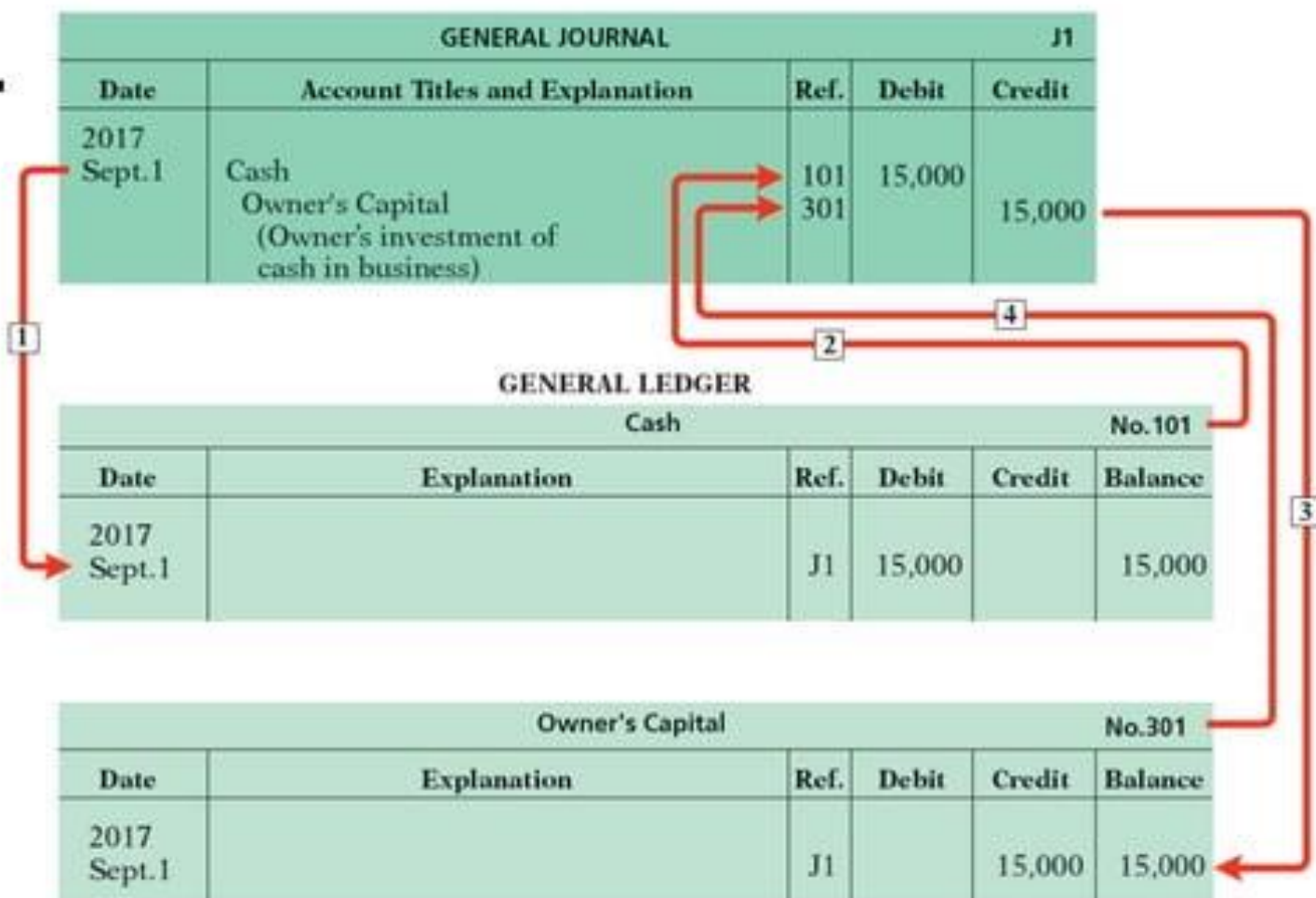


Illustration 2-17
Posting a journal entry

Key: 1 Post to debit account—date, journal page number, and amount.
 2 Enter debit account number in journal reference column.
 3 Post to credit account—date, journal page number, and amount.
 4 Enter credit account number in journal reference column.

Follow these steps:

1. Determine what type of account is involved.
2. Determine what items increased or decreased and by how much.
3. Translate the increases and decreases into debits and credits.

Transaction

On October 1, C. R. Byrd invests \$10,000 cash in an advertising company called Pioneer Advertising Agency.

Basic Analysis

The asset Cash increases \$10,000, and owner's equity C. R. Byrd, Capital increases \$10,000.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
				C.R. Byrd,
				Capital
Cash	=			
+10,000				+10,000

Debit – Credit Analysis

Debits increase assets: debit Cash \$10,000.
Credits increase owner's equity: credit C. R. Byrd, Capital \$10,000.

Journal Entry

Oct. 1	Cash	101	10,000	
	C. R. Byrd, Capital	301		10,000
	(Owner's investment of cash in business)			

Posting

Cash 101		C. R. Byrd, Capital 301	
Oct. 1	10,000		Oct. 1 10,000

Kate Brown recorded the following transactions in a general journal during the month of March. Post these entries to the Cash account.

Mar. 4	Cash	2,280	
	Service Revenue		2,280
Mar. 15	Salaries and Wages Expense	400	
	Cash		400
Mar. 19	Utilities Expense	92	
	Cash		92

Cash	
3/1	600

Exercises

Ex 1: The following information relates to Sam Real Estate Agency.

Oct. 1 Alan Sam begins business as a real estate agent with a cash investment of \$15,000.

2 Hires an administrative assistant.

3 Purchases office furniture for \$1,900, on account.

6 Sells a house and lot for R. Craig; bills R. Craig \$3,800 for realty services performed.

27 Pays \$1,100 on the balance related to the transaction of October 3.

30 Pays the administrative assistant \$2,500 in salary for October

Required: prepare the following,

1. Record the above transactions in the General journal.
2. Post all the accounts to the General Ledger.

Ex 2: Smith Enterprises had the following selected transactions.

1. John Smith started the business with \$40000 cash, and \$10,000 building in the business.
2. Paid office rent of \$950.
3. Performed consulting services and billed a client \$5,200.
4. John Smith withdrew \$750 cash for personal use.
5. Borrowed \$3,000 from the bank by signing a note.
6. Paid \$3,100 cash for a computer.
7. Purchased \$850 of supplies on account.

Required: prepare the following,

1. Record the above transactions in the General journal.
2. Post all the accounts to the General Ledger.

Ex 3: Selected transactions from the journal of June Feldman, investment broker, are presented below:

Date	Account Titles and Explanation	Ref.	Debit	Credit
Aug. 1	Cash Owner's Capital (Owner's investment of cash in business)		5,000	5,000
10	Cash Service Revenue (Received cash for services performed)		2,600	2,600
12	Equipment Cash Notes Payable (Purchased equipment for cash and notes payable)		5,000	2,300 2,700
25	Accounts Receivable Service Revenue (Billed clients for services performed)		1,700	1,700
31	Cash Accounts Receivable (Receipt of cash on account)		900	900

Required: post the transactions to T-accounts.

The Trial Balance


- Trial balance is a list of accounts and their balances at a given time.
- Purpose is to prove that debits equal credits.
- A trial balance may also uncover errors in journalizing and posting.

Steps for Preparing a Trial Balance

The steps for preparing a trial balance are:

1. List the account titles and their balances in the appropriate debit or credit column.
2. Total the debit and credit columns.
3. Prove the equality of the two columns.

Illustration shows the trial balance prepared from Pioneer Advertising's ledger. **Note that the total debits equal the total credits.**

<div>  <div> PIONEER ADVERTISING Trial Balance October 31, 2017 </div> </div>		
	<u>Debit</u>	<u>Credit</u>
Cash	\$ 15,200	
Supplies	2,500	
Prepaid Insurance	600	
Equipment	5,000	
Notes Payable		\$ 5,000
Accounts Payable		2,500
Unearned Service Revenue		1,200
Owner's Capital		10,000
Owner's Drawings	500	
Service Revenue		10,000
Salaries and Wages Expense	4,000	
Rent Expense	900	
	<u>\$28,700</u>	<u>\$28,700</u>

The Trial Balance

Limitations of a Trial Balance

The trial balance may balance even when

1. a transaction is not journalized,
2. a correct journal entry is not posted,
3. a journal entry is posted twice,
4. incorrect accounts are used in journalizing or posting, or
5. offsetting errors are made in recording the amount of a transaction.

Exercises

Ex 1: Selected transactions for A. Mane, an interior decorator, in her first month of business,
are as follows.

Jan. 2 Invested \$10,000 cash in business.

3 Purchased used car for \$3,000 cash for use in business.

9 Purchased supplies on account for \$500.

11 Billed customers \$2,400 for services performed.

16 Paid \$350 cash for advertising.

20 Received \$700 cash from customers billed on January 11.

23 Paid creditor \$300 cash on balance owed.

28 Withdrew \$1,000 cash for personal use by owner.

Required: prepare the following,

1. Record the above transactions in the General journal.
2. Post all the accounts to the General Ledger.
3. Prepare the Trial Balance.

Ex 2: The following accounts come from the ledger of SnowGo Company at December 31, 2017:

Equipment \$88,000

Owner's Capital \$20,000

Salaries and Wages expense 42000

Owner's Drawings 8,000

Prepaid Insurance 6,000

Service Revenue 95,000

Salaries and Wages Payable 2,000

Utilities Expense 3,000

Notes Payable (due in 3 months) 19,000

Accounts Payable 22,000

Accounts Receivable 4,000

Cash 7,000

Required: Prepare a trial balance in good form.

Ex 3: The T-accounts below summarize the ledger of Daggett Landscaping Company at the end of the first month of operations.

Cash		No. 101	
10/1	3,000	10/4	400
10/10	750	10/12	1,500
10/10	4,000	10/15	350
10/20	500	10/30	300
10/25	2,000	10/31	500

Accounts Receivable		No. 112	
10/6	800	10/20	500
10/20	940		

Supplies		No. 126	
10/4	400		

Equipment		No. 157	
10/3	2,000		

Notes Payable		No. 200	
		10/10	4,000

Accounts Payable		No. 201	
10/12	1,500	10/3	2,000

Owner's Capital		No. 301	
		10/1	3,000
		10/25	2,000

Owner's Drawings		No. 306	
10/30	300		

Service Revenue		No. 400	
		10/6	800
		10/10	750
		10/20	940

Salaries and Wages Expense		No. 726	
10/31	500		

Rent Expense		No. 729	
10/15	350		

Required: determine the April 30 balance for each of the accounts above and prepare a trial balance at April 30, 2017.