College Accounting

Chapter 2: Analyzing Transactions into Debit and Credit Parts

Goals of Chapter 2:

- Define accounting terms related to analyzing transactions into debit and credit parts

- Identify accounting practices related to analyzing transactions into debit and credit parts

- Use T accounts to analyze transactions

- Analyze how transactions used to set up a business affect accounts

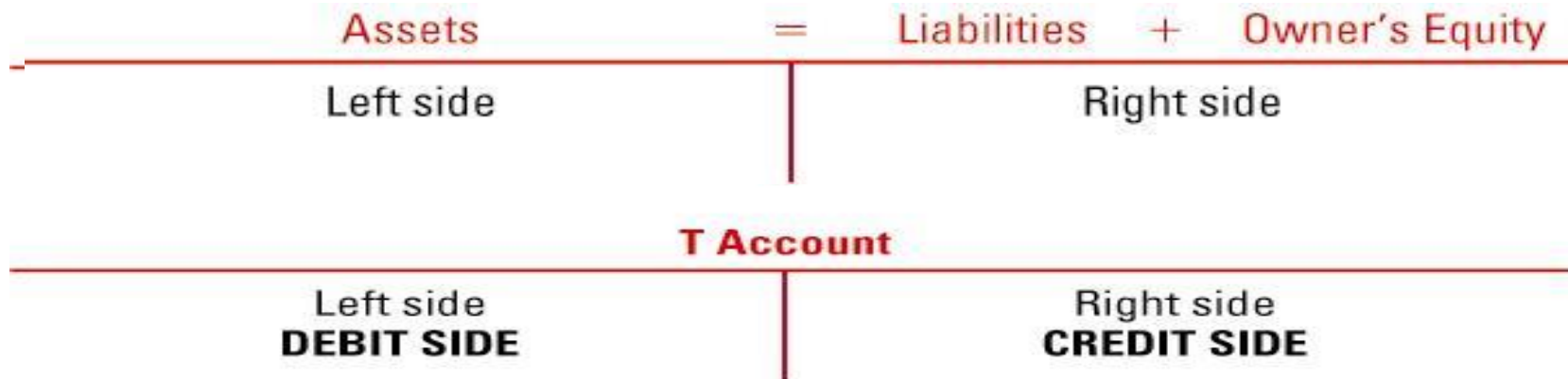- Analyze how transactions affect owner's equity accounts

2.1: USING "T" ACCOUNTS TO ANALYZE TRANSACTIONS

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- **Account:**
  - A record summarizing all the information pertaining to a single item in the accounting equation.

- **T- Account:**
  - An accounting device used to analyze transactions.
    - **Debit** – left side of T account *(abbreviated – Dr.)*
    - **Credit** – right side of T account *(abbreviated – Cr.)*

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

T Account

Left side **DEBIT SIDE**	Right side **CREDIT SIDE**

2.1: USING "T" ACCOUNTS TO ANALYZE TRANSACTIONS

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

Assets	=	Liabilities	+	Owner's Equity

Any Asset		Any Liability	
Debit **NORMAL BALANCE**	Credit	Debit	Credit **NORMAL BALANCE**

Owner's Capital Account	
Debit	Credit **NORMAL BALANCE**

2.1: INCREASES AND DECREASES IN ACCOUNTS

❑ **<u>Basic Rules for T Accounts</u>**:

1. Accounts increase on the **<u>normal</u>** side balance
2. Accounts decrease on the side **<u>opposite</u>** the normal balance side
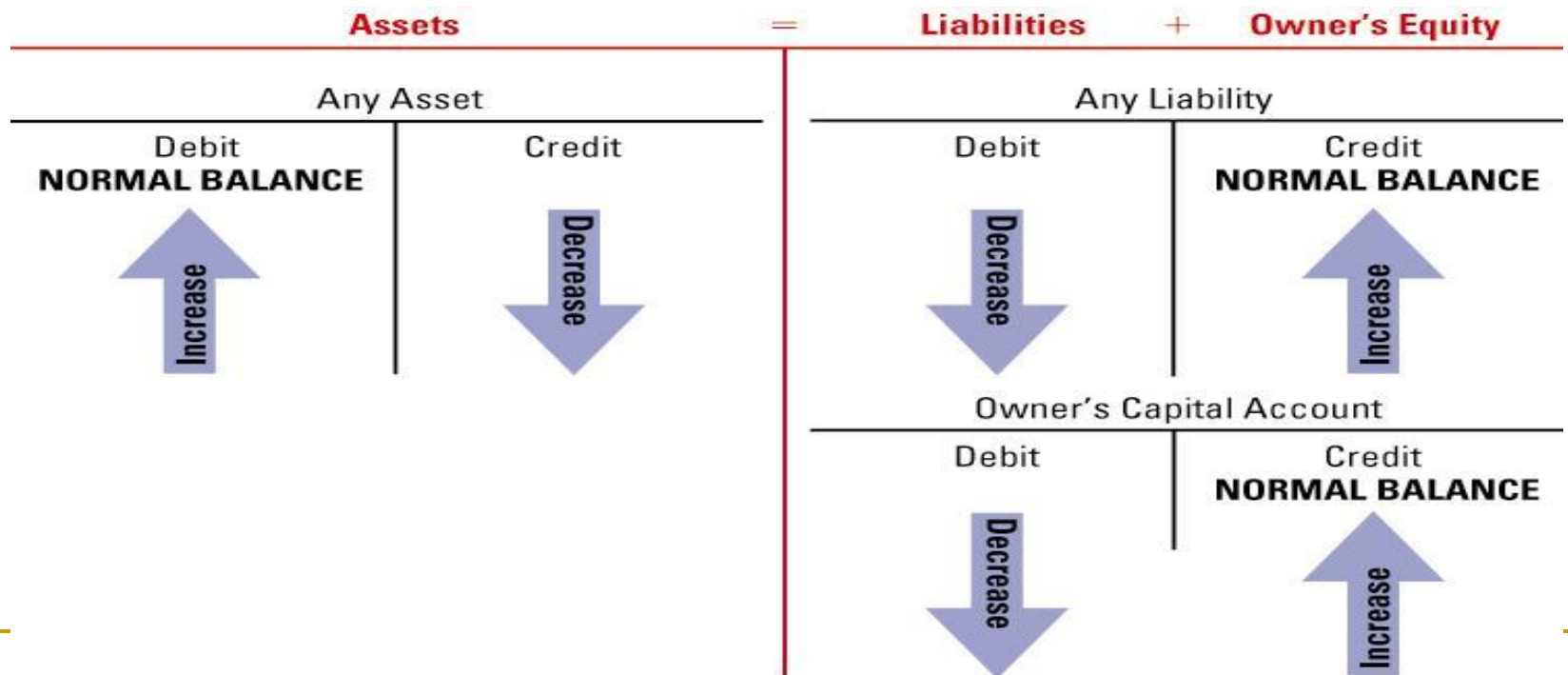
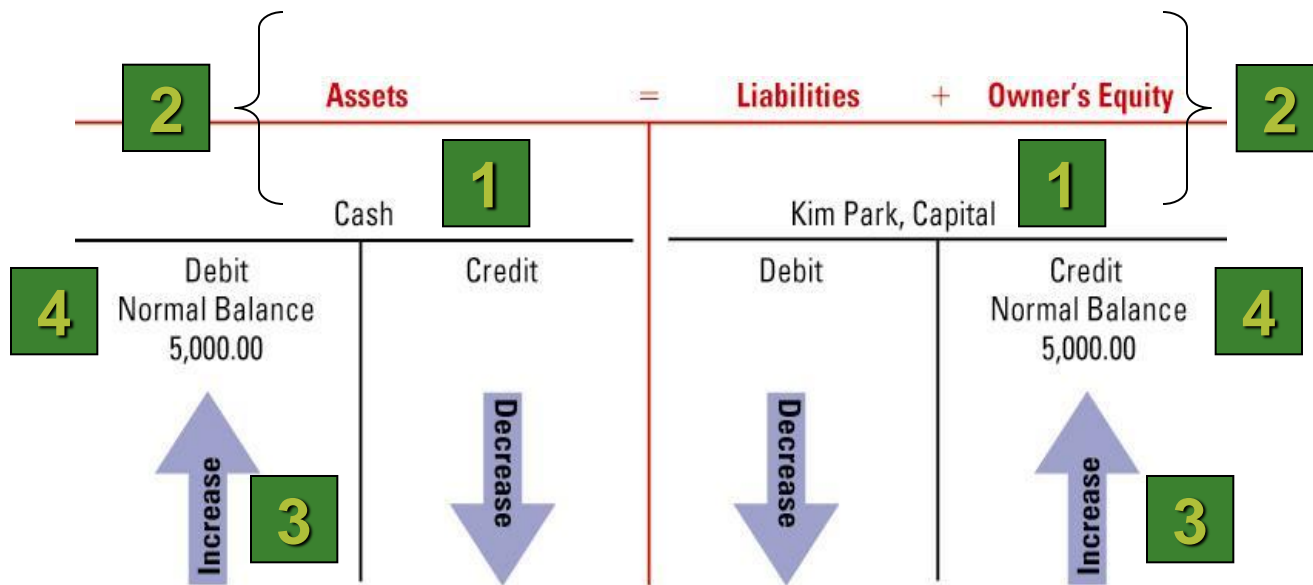# 2.2: ANALYZING HOW TRANSACTIONS AFFECT ACCOUNTS

Additional Accounting Rules:

- Every **transaction** affects the balances of at least **2 accounts**
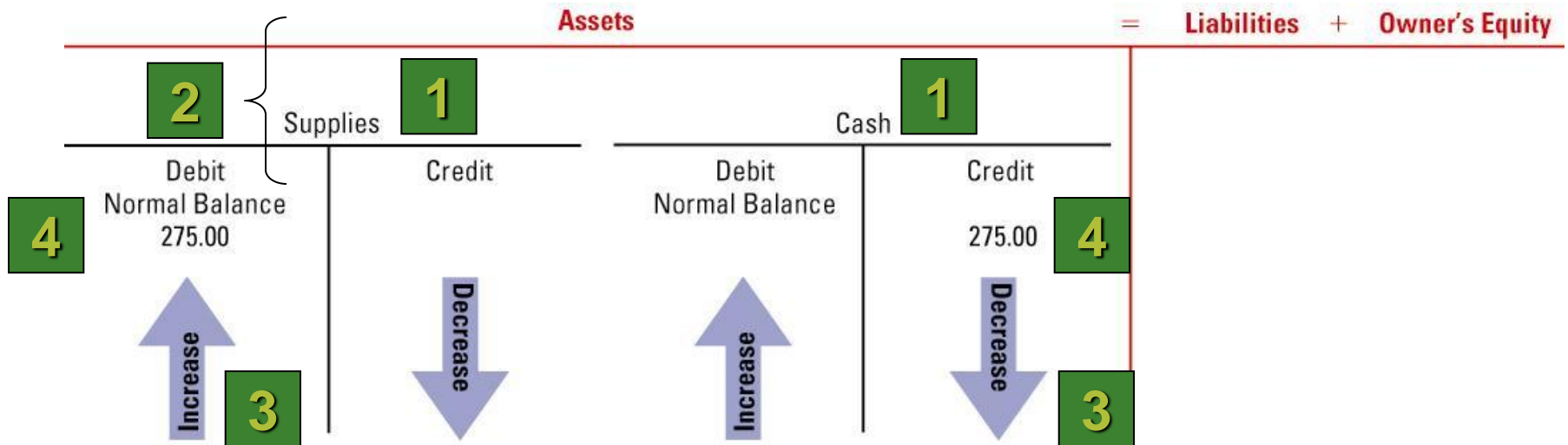- The accounting **equation** must always stay in **balance**

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.2: ANALYZING HOW TRANSACTIONS AFFECT ACCOUNTS

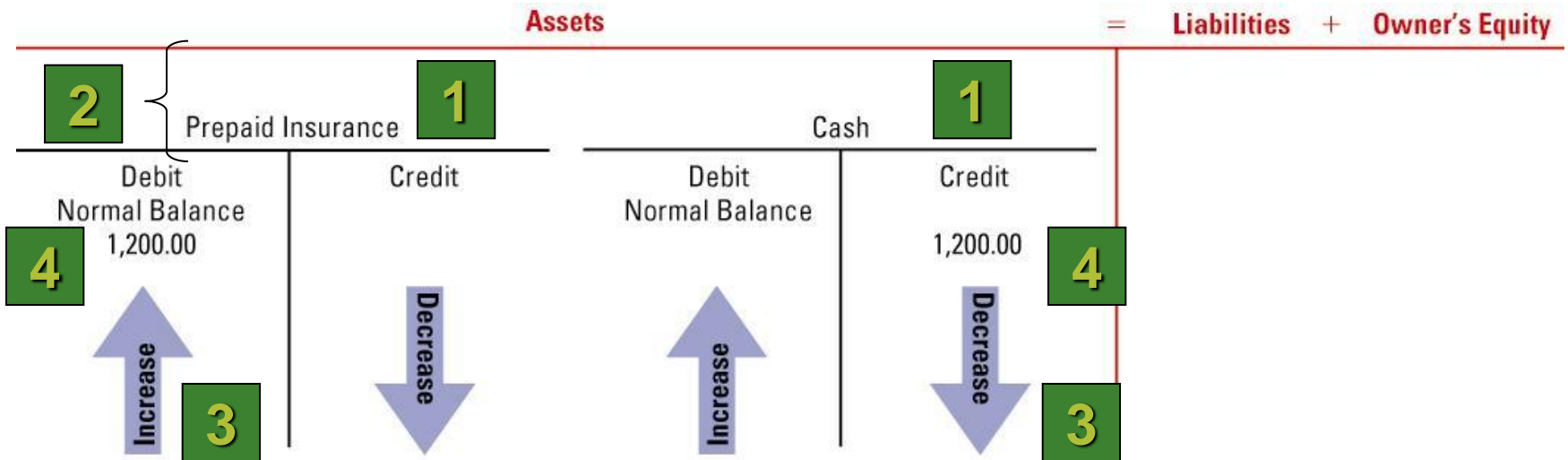*August 1. Received cash from owner as an investment, $5,000.00.*

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

August 3. Paid cash for supplies, $275.00.

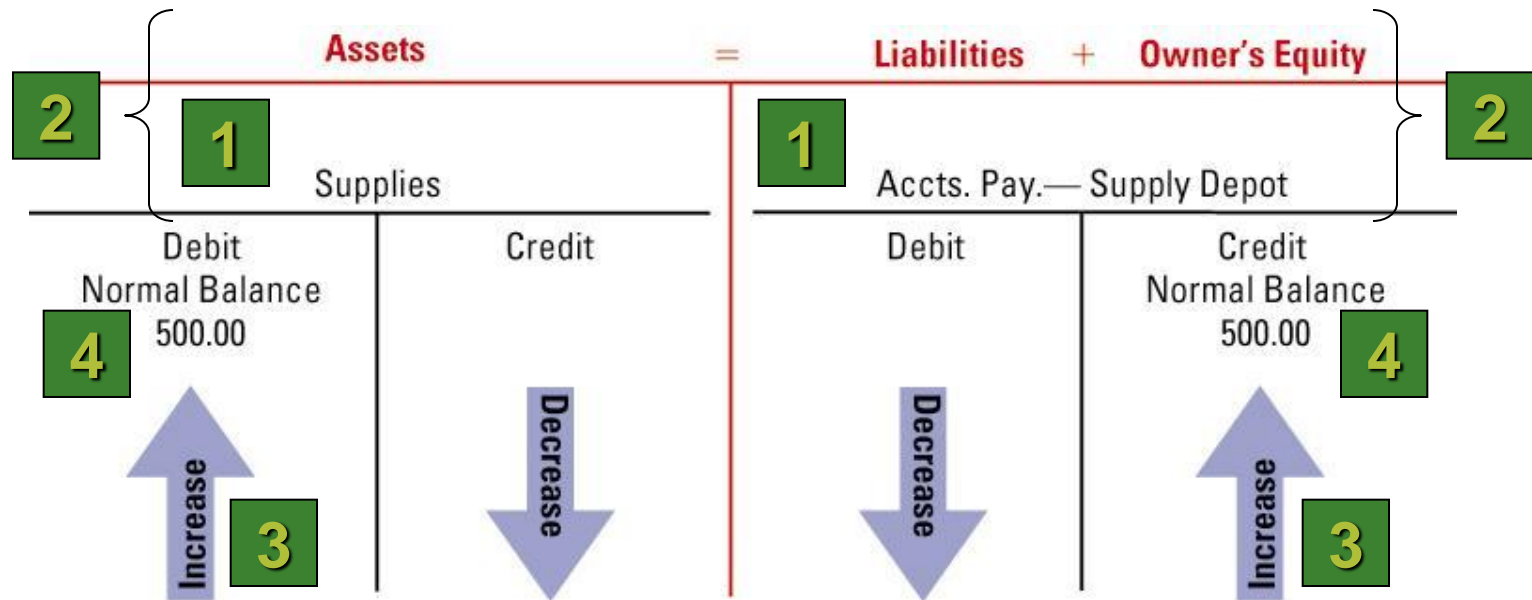**Questions for Analyzing Transactions:**

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.2: ANALYZING HOW TRANSACTIONS AFFECT ACCOUNTS

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August 4. Paid cash for insurance, $1,200.00.

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.2: ANALYZING HOW TRANSACTIONS AFFECT ACCOUNTS

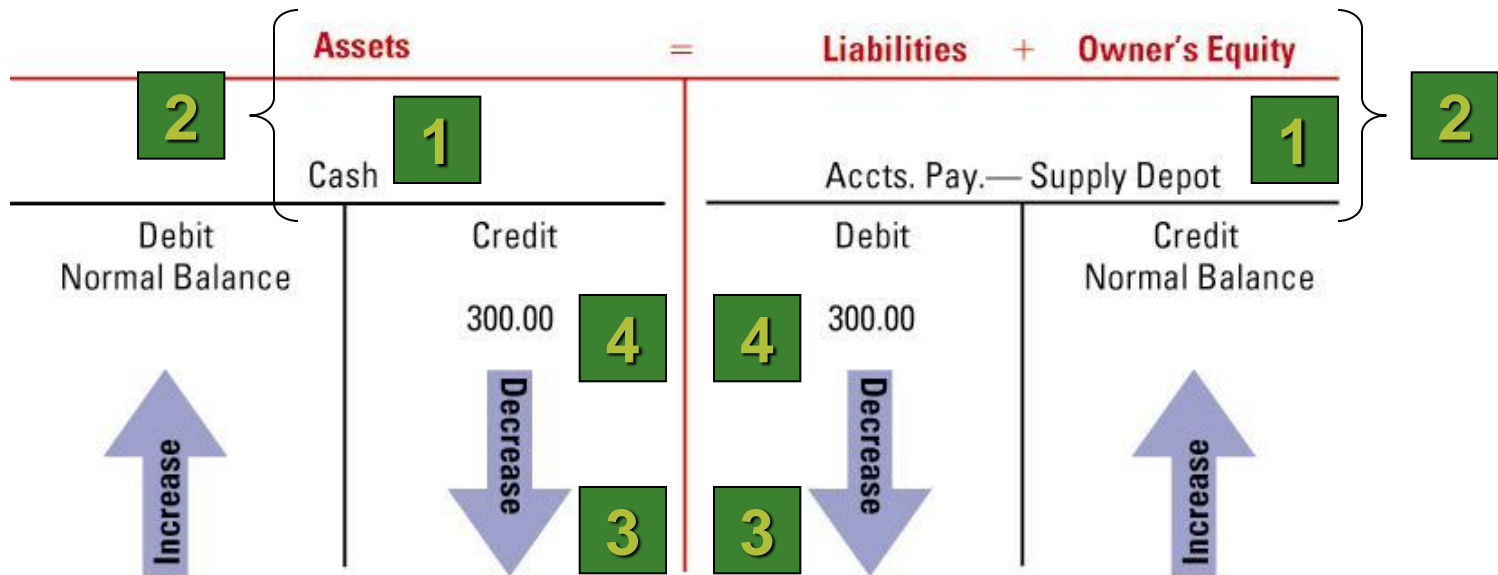*August 7. Bought supplies on account from Supply Depot, $500.00.*

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.2: ANALYZING HOW TRANSACTIONS AFFECT ACCOUNTS

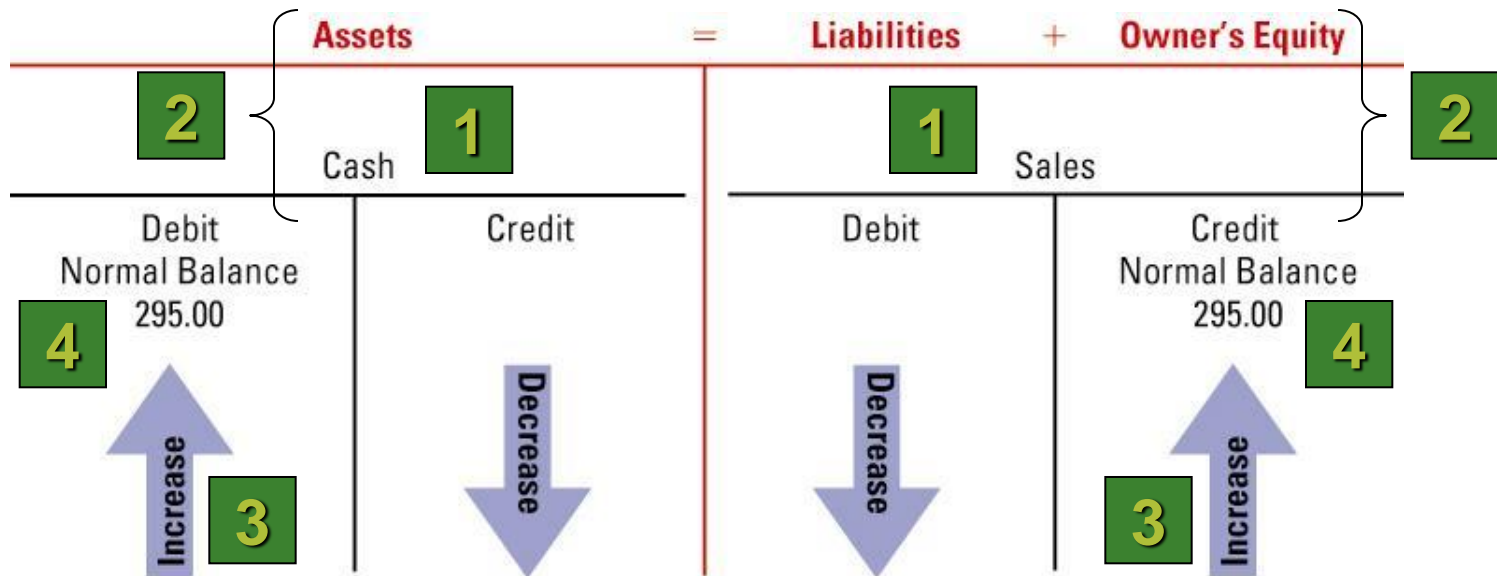*August 11. Paid cash on account to Supply Depot, $300.00.*

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.3: ANALYZING HOW TRANSACTIONS AFFECT OWNER'S EQUITY ACCOUNTS

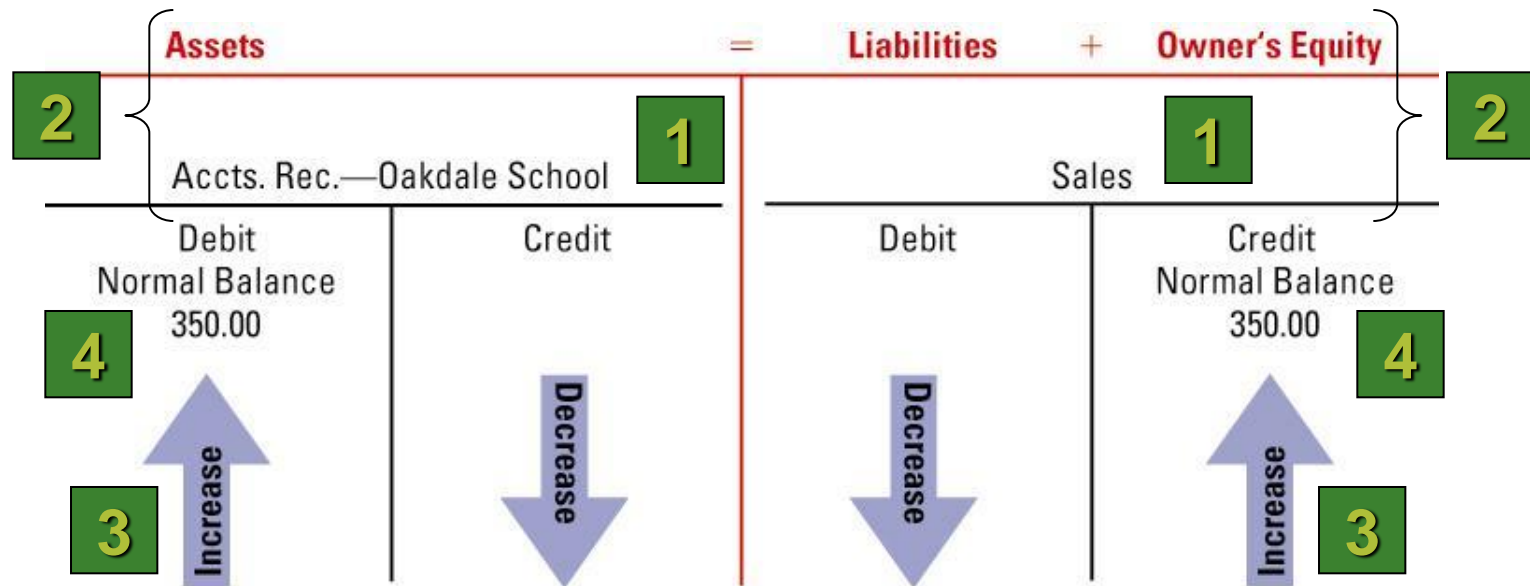*August 12. Received cash from sales, $295.00.*

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.3: ANALYZING HOW TRANSACTIONS AFFECT OWNER'S EQUITY ACCOUNTS

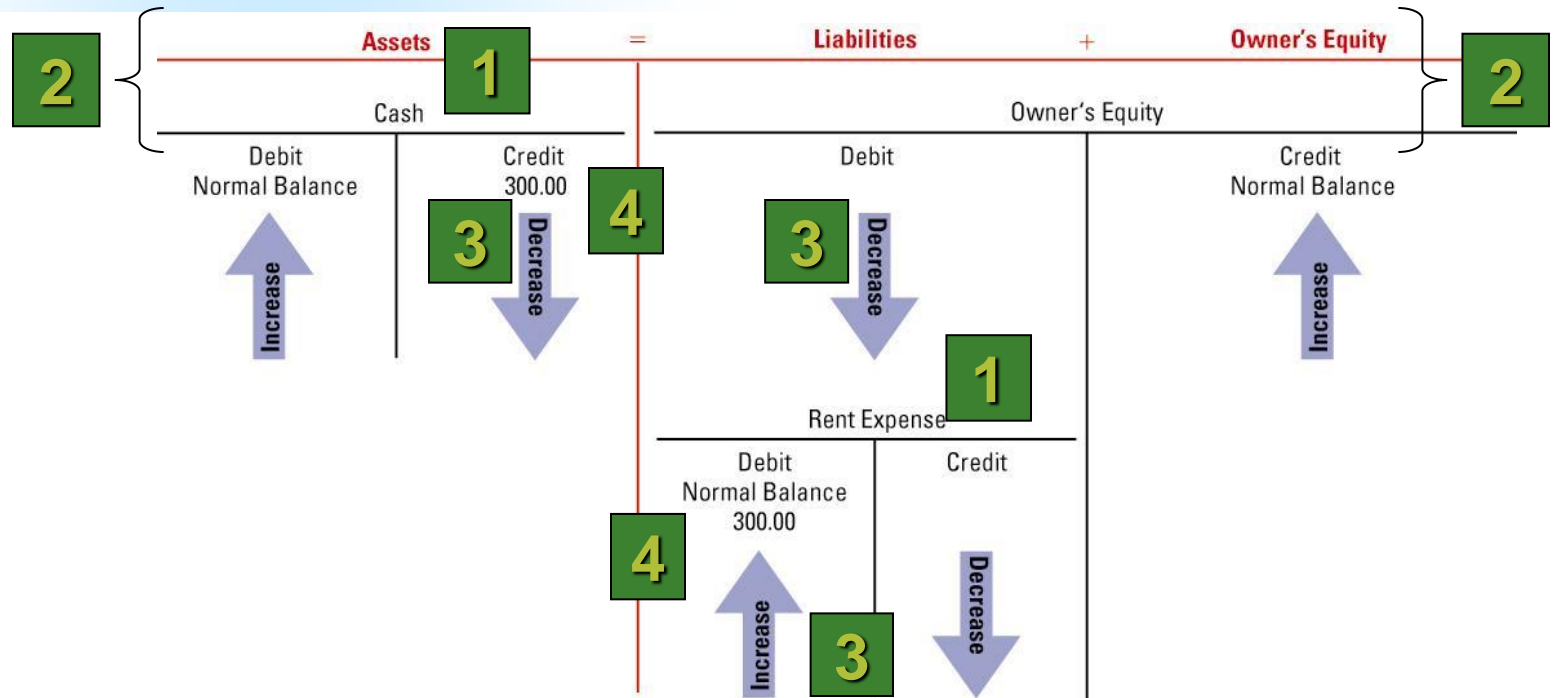*August 12. Sold services on account to Oakdale School, $350.00.*

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.3: ANALYZING HOW TRANSACTIONS AFFECT OWNER'S EQUITY ACCOUNTS

August 12. Paid cash for rent, $300.00.

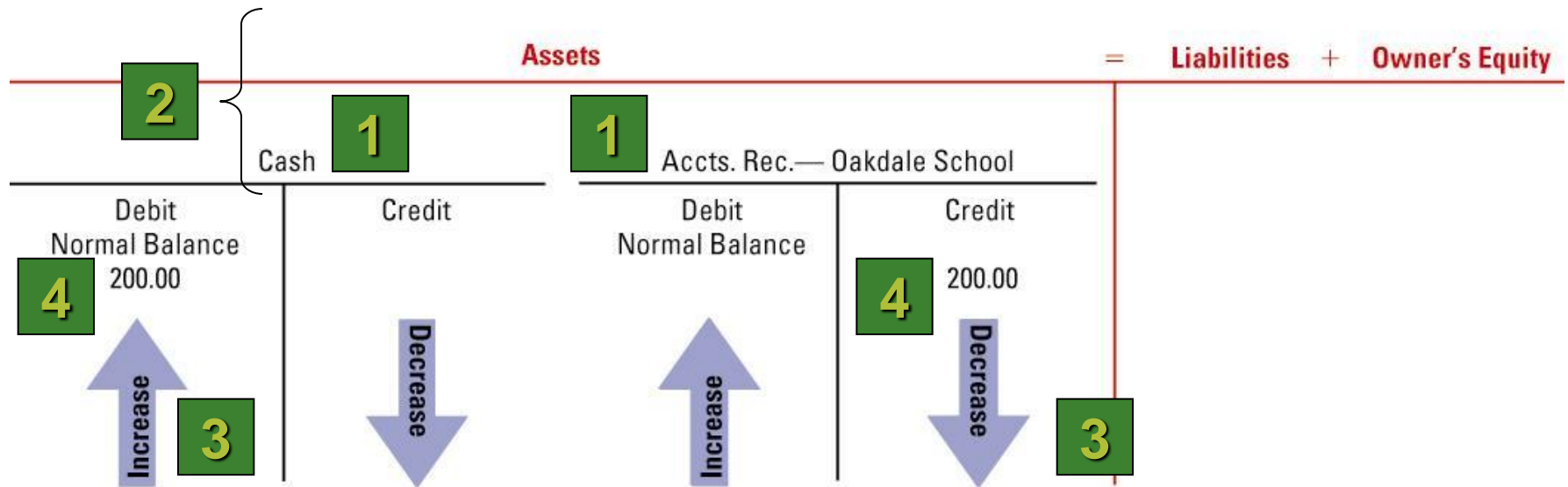**Questions for Analyzing Transactions:**

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.3: ANALYZING HOW TRANSACTIONS AFFECT OWNER'S EQUITY ACCOUNTS

August 18. Received cash on account from Oakdale School, $200.00.
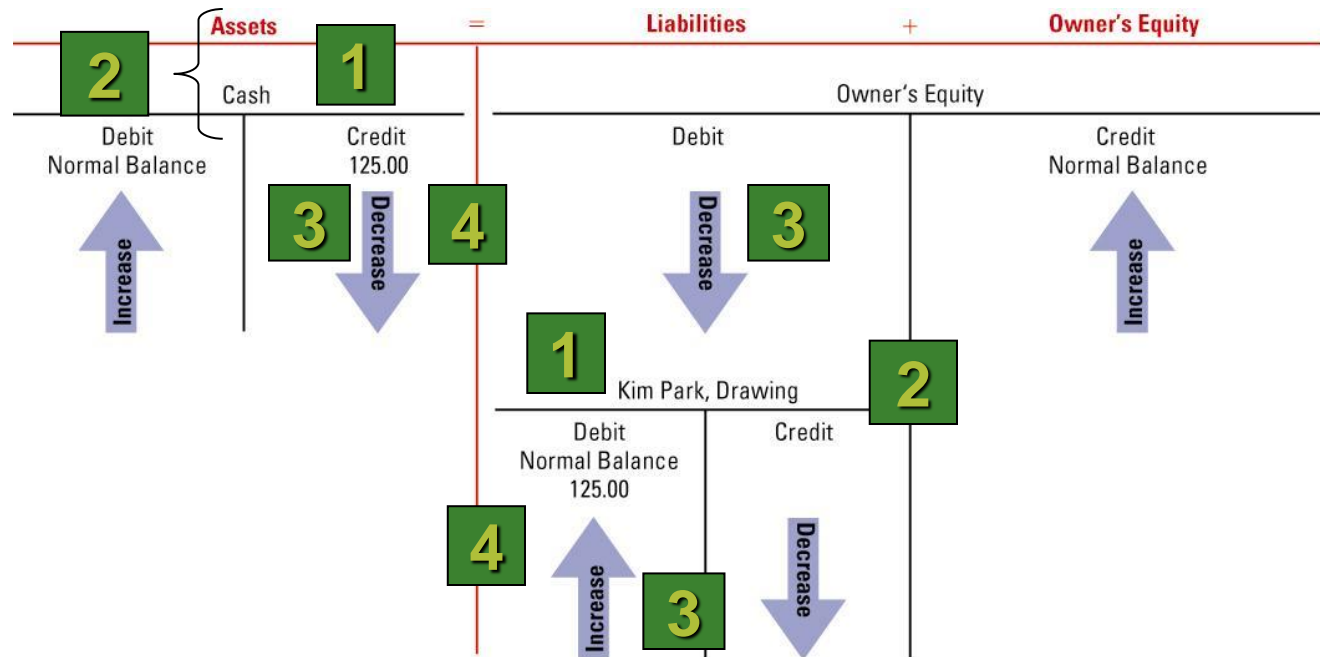**Note: This transaction does not affect Owner's Equity**

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

2.3: ANALYZING HOW TRANSACTIONS AFFECT OWNER'S EQUITY ACCOUNTS

August 12. Paid cash to owner for personal use, $125.00.

Questions for Analyzing Transactions:

1. Which accounts are affected?

2. How is each account classified?

3. How is each classification changed?

4. How is each amount entered in the accounts?

TERMS REVIEW

- T account

- debit

- credit

- normal balance

- chart of accounts