

LESSON
2-1 Using T Accounts

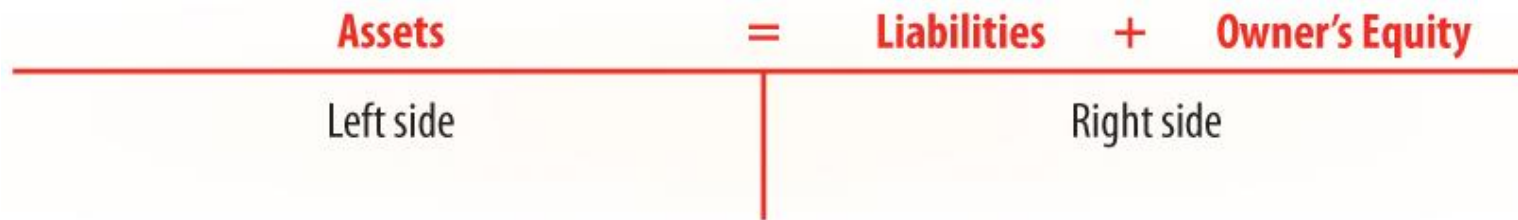


Learning Objectives

- LO1** Show the relationship between the accounting equation and a T account.
- LO2** Identify the debit and credit side, the increase and decrease side, and the balance side of various accounts.
- LO3** Restate and apply the two rules that are associated with the increase side of an account.

Analyzing the Accounting Equation

LO1



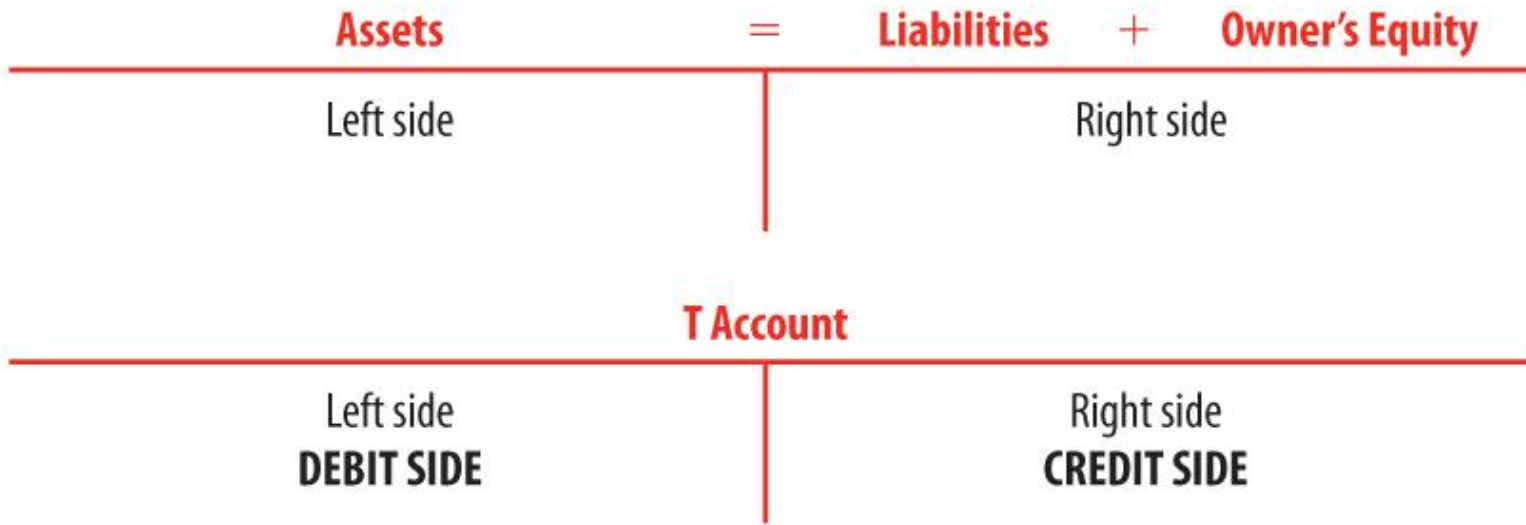
Accounts

LO2

- A record summarizing all the information affecting a single item in the accounting equation is known as an *account*.
- An accounting device used to analyze transactions is called a **T account**.
- **Debit** means an amount recorded on the left side of an account.
- **Credit** means an amount recorded on the right side of an account.

Accounts

LO2



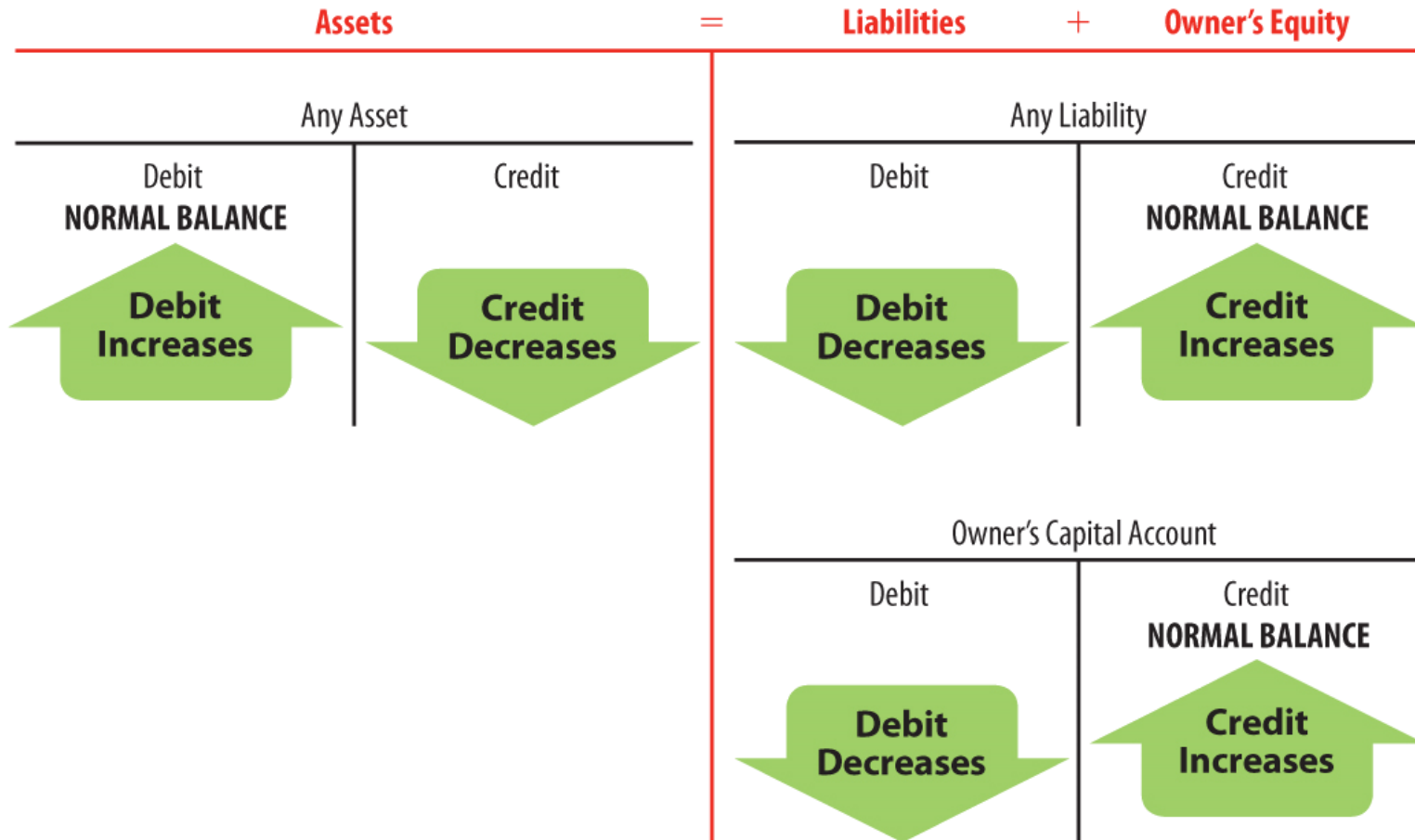
Increases, Decreases, and Balances in Accounts

LO3

- Assets
 - On the left side of the accounting equation
 - Increase on the left, or debit, side of the account
- Liabilities and the owner's capital account
 - On the right side of the accounting equation
 - Increase on the right, or credit, side of the account
- Normal balance
 - The side of the account that is increased is called the **normal balance** of the account.
 - Assets have normal debit balances
 - Liabilities and the owner's capital account have normal credit balances

Increases, Decreases, and Balances in Accounts

LO3



Lesson 2-1 Audit Your Understanding

1. Draw the accounting equation on a T account.

ANSWER

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

Lesson 2-1 Audit Your Understanding

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

ANSWER

- (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



Learning Objectives

- LO4** Restate and apply the four questions necessary to analyze transactions for starting a business into debit and credit parts.

Chart of Accounts

- Each transaction changes the balances of at least two accounts.
- A list of accounts used by a business is called a **chart of accounts**.

Chart of Accounts for 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

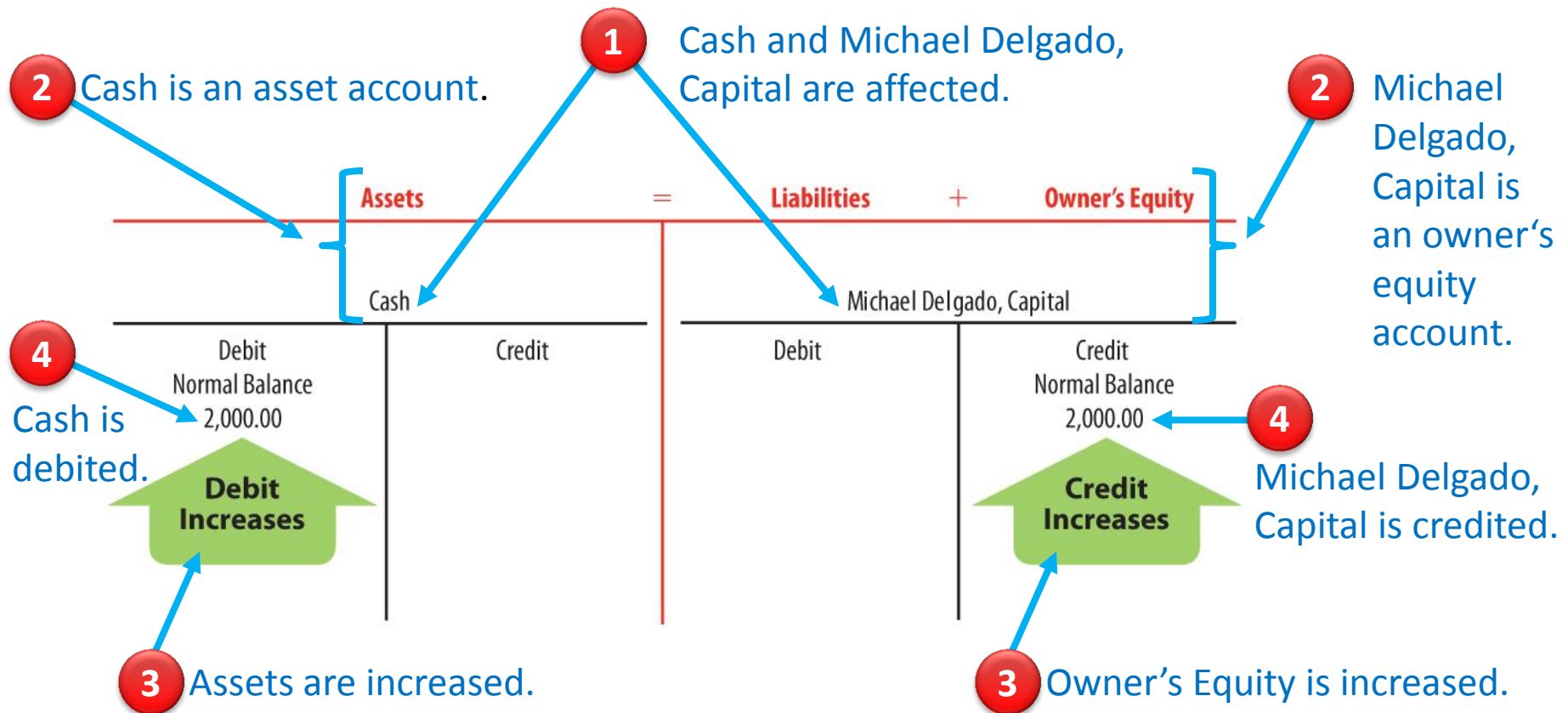
(500) EXPENSES

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

Received Cash from Owner as an Investment

LO4

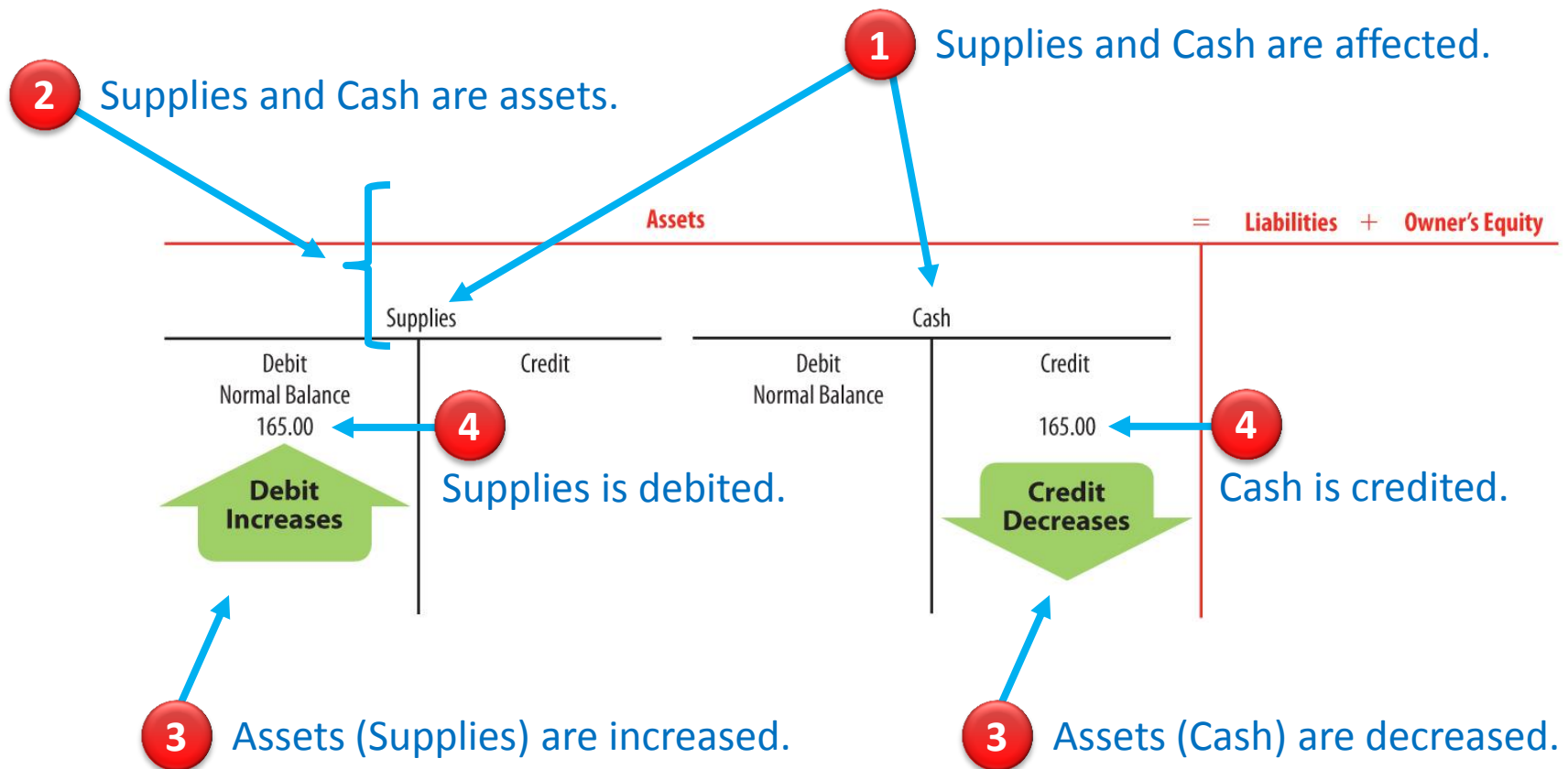
January 2. Received cash from owner as an investment, \$2,000.00.



Paid Cash for Supplies

LO4

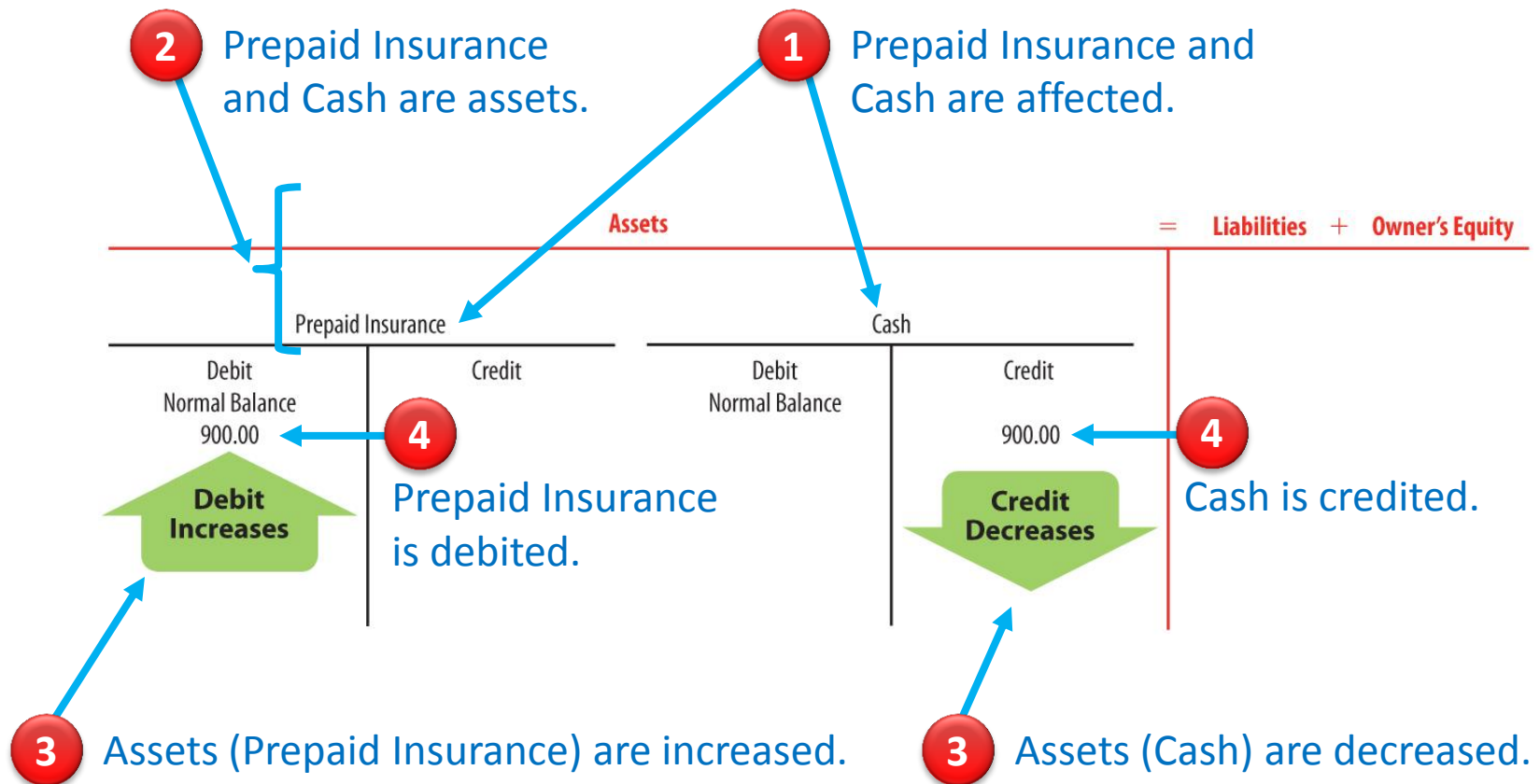
January 2. Paid cash for supplies, \$165.00.



Paid Cash for Insurance

LO4

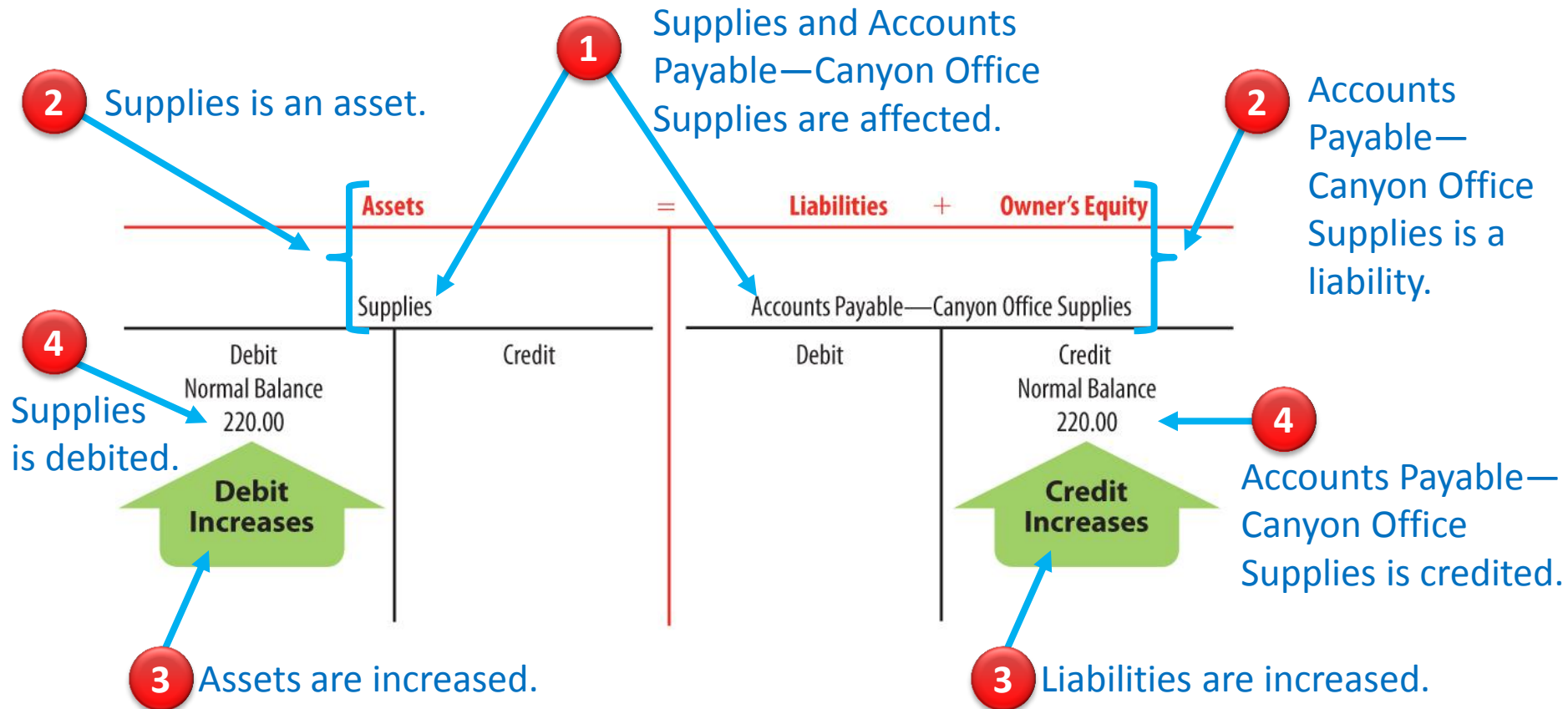
January 3. Paid cash for insurance, \$900.00.



Bought Supplies on Account

LO4

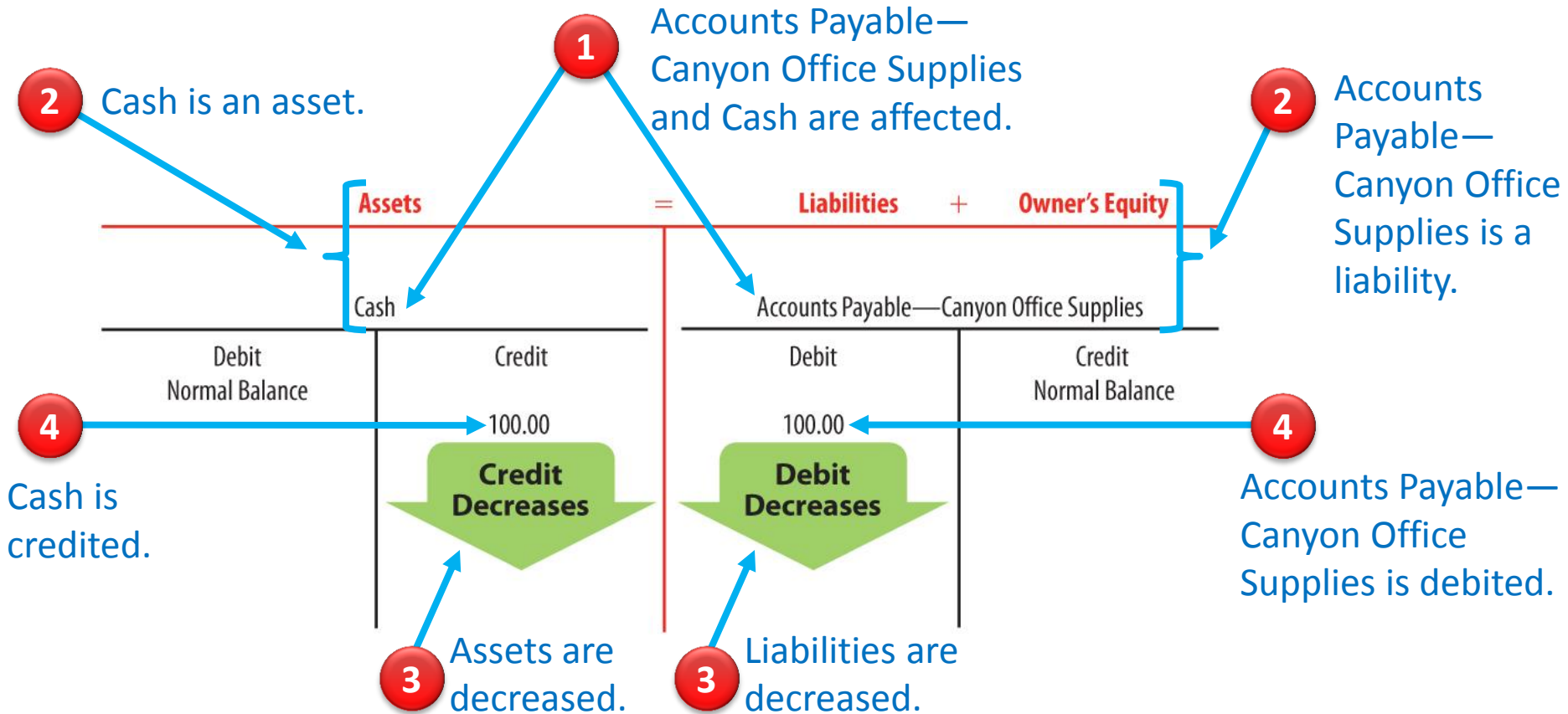
January 5. Bought supplies on account from Canyon Office Supplies, \$220.00.



Paid Cash on Account

LO4

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



Lesson 2-2 Audit Your Understanding

1. State the four questions used to analyze a transaction.

ANSWER

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?

Lesson 2-2 Audit Your Understanding

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

ANSWER

Supplies

Accounts Payable

LESSON

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



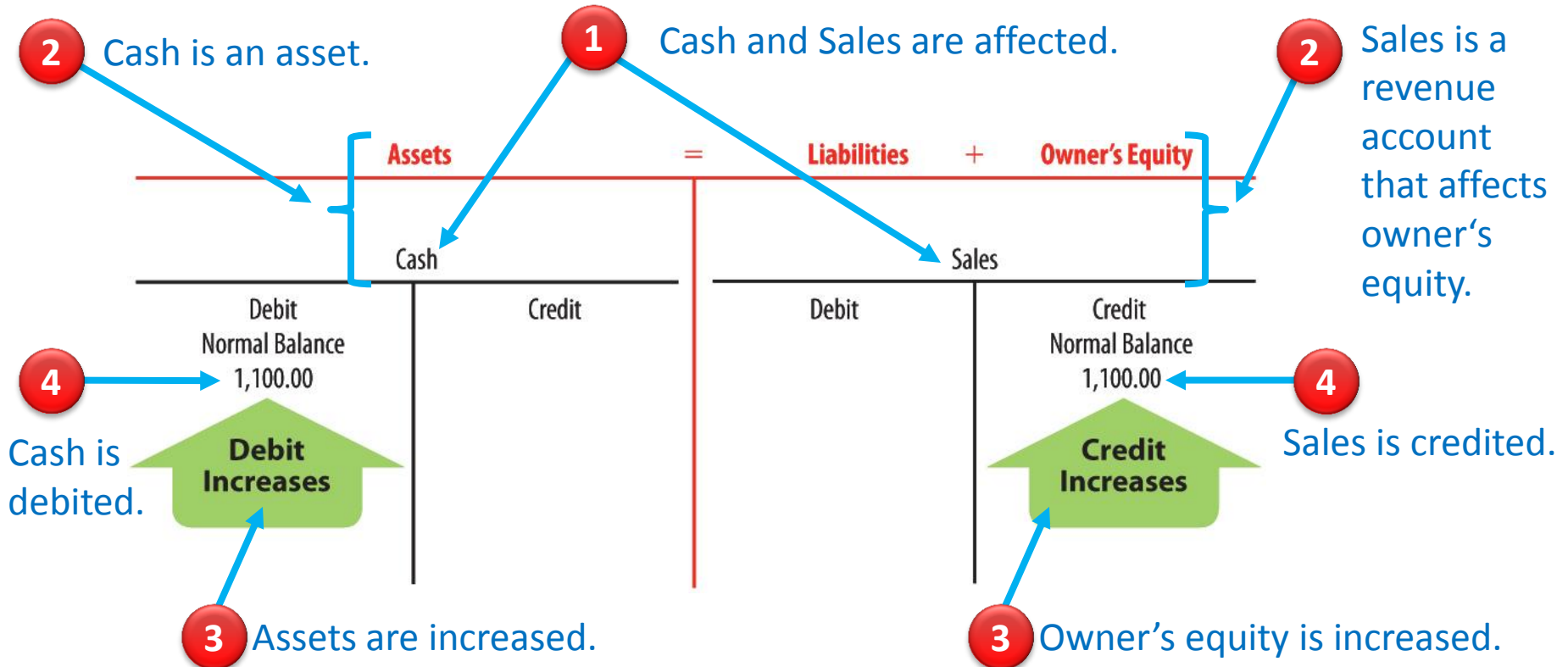
Learning Objectives

- LO5** Analyze transactions for operating a business into debit and credit parts.

Received Cash from Sales

LO5

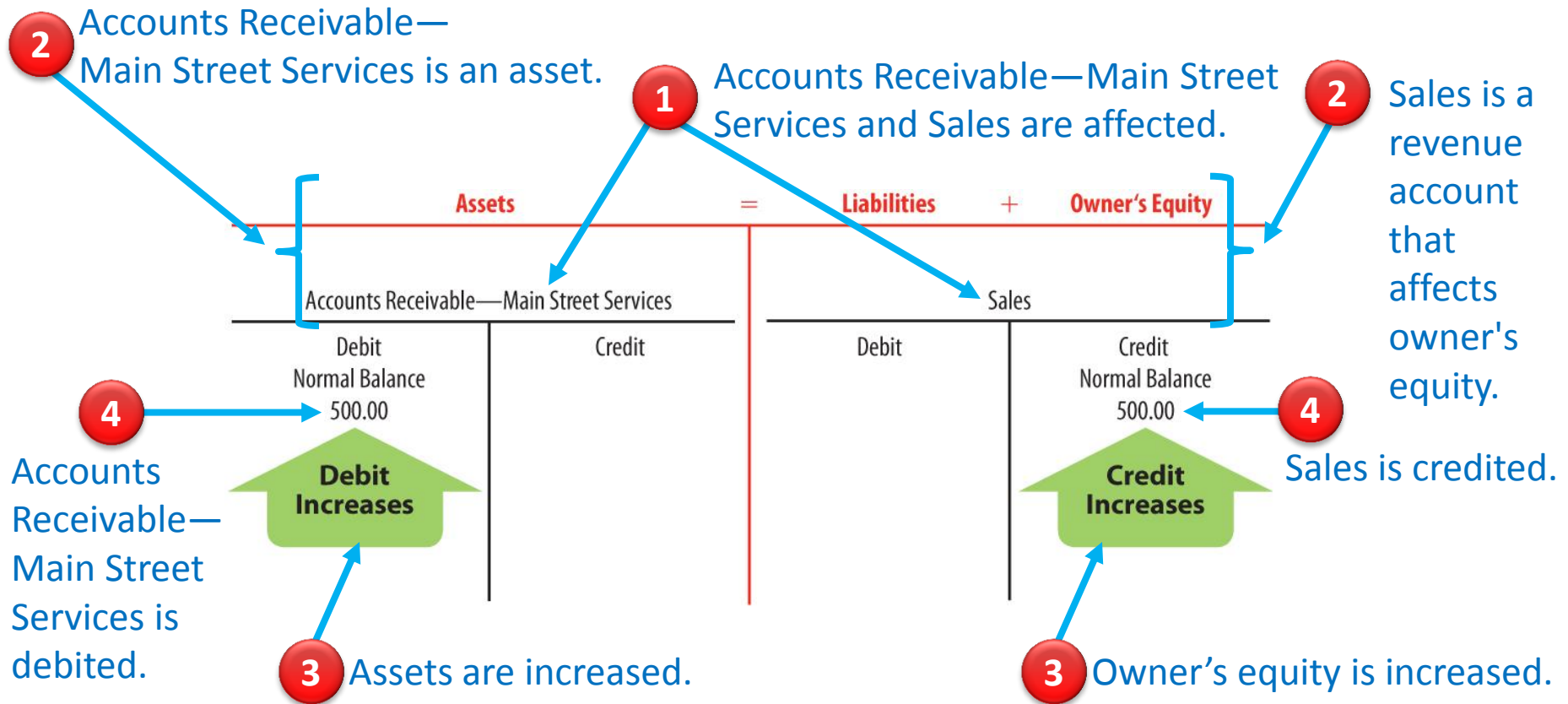
January 10. Received cash from sales, \$1,100.00.



Sold Services on Account

LO5

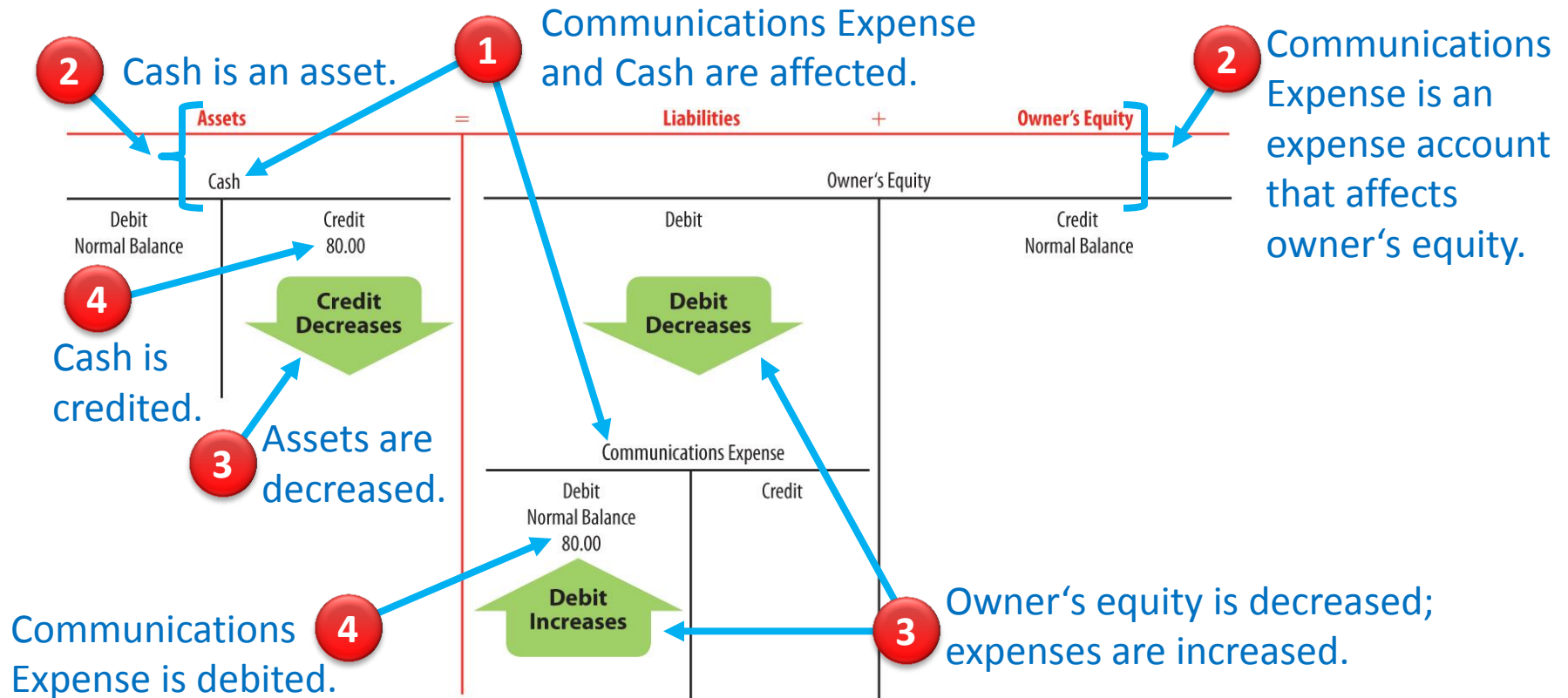
January 12. Sold services on account to Main Street Services, \$500.00.



Paid Cash for an Expense

LO5

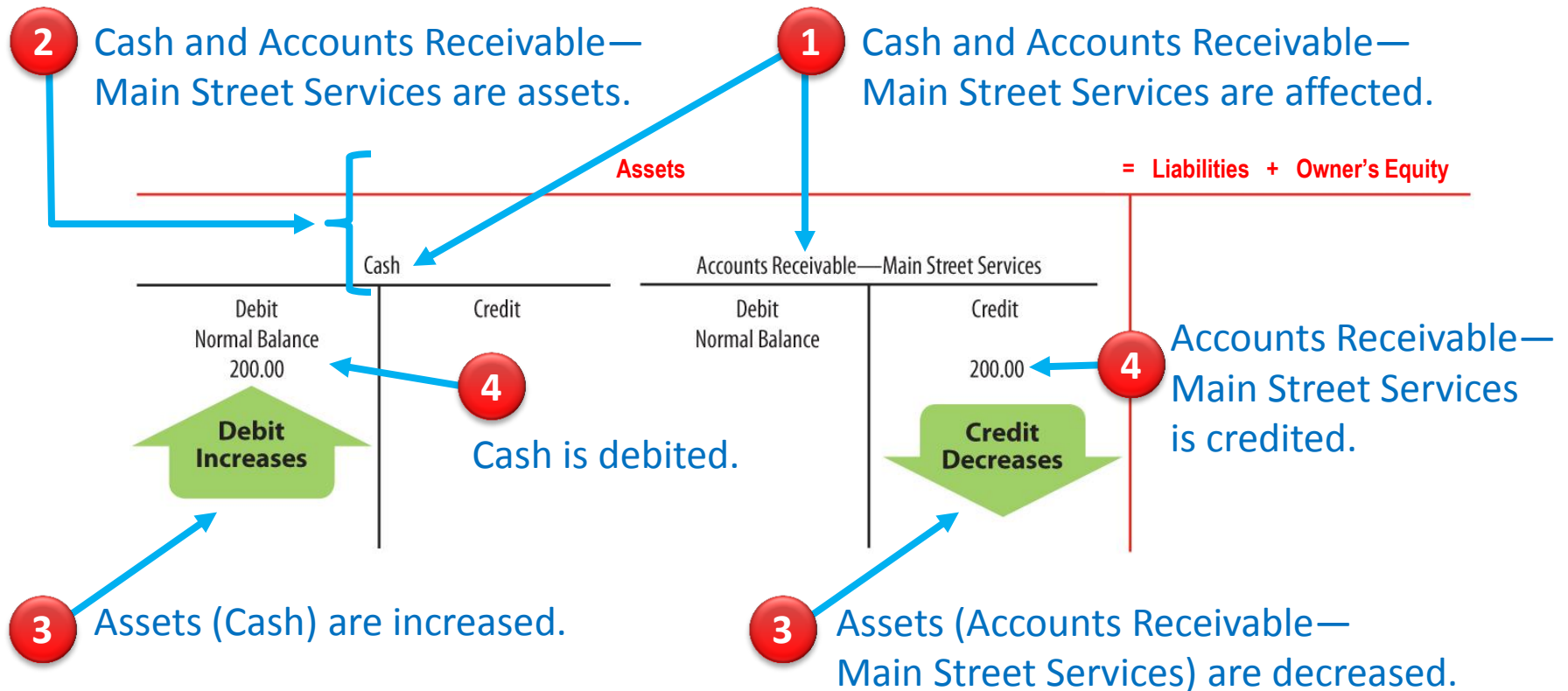
January 12. Paid cash for communications bill for cell phone and Internet service, \$80.00.



Received Cash on Account

LO5

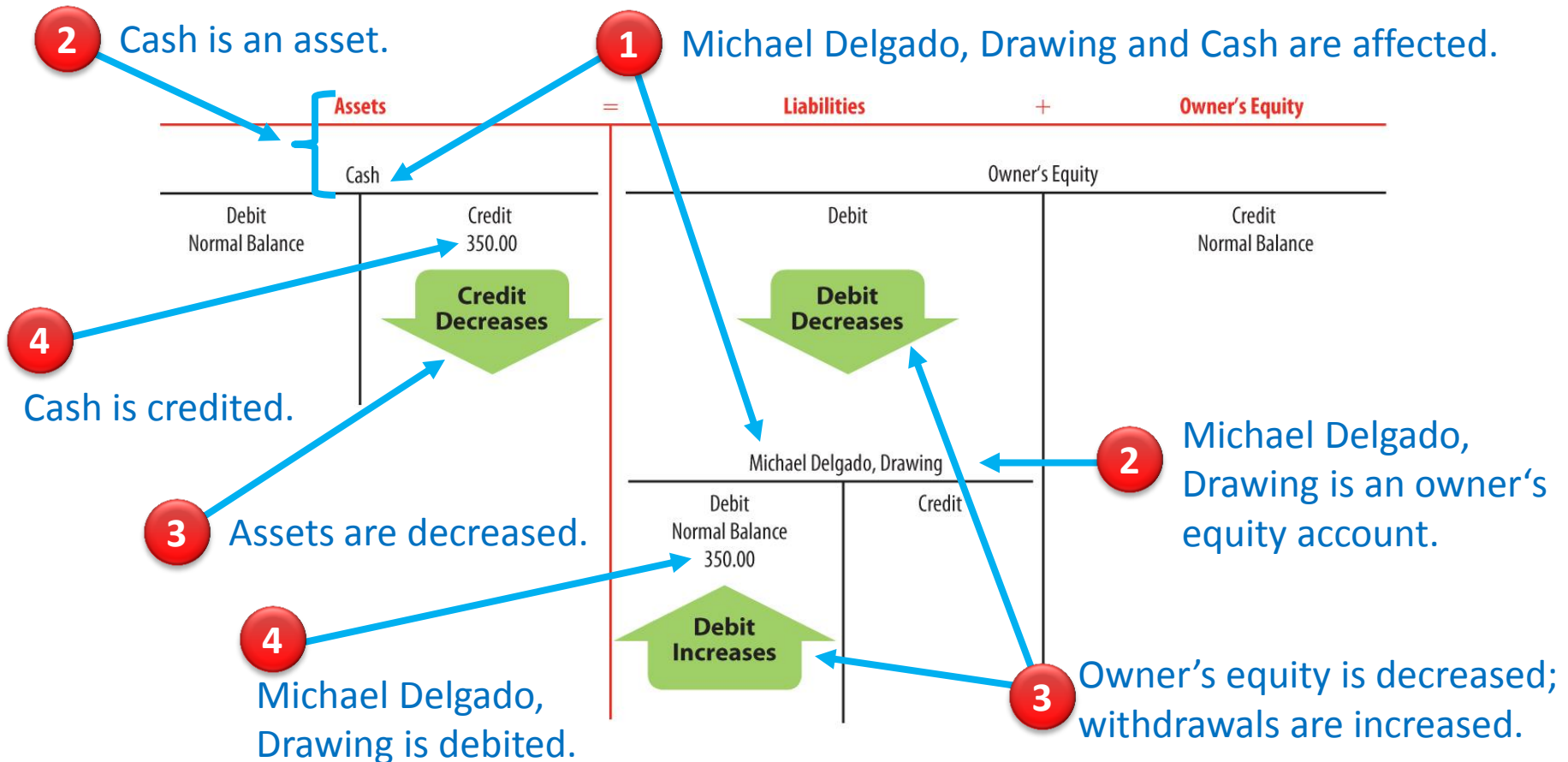
January 16. Received cash on account from Main Street Services, \$200.00.



Paid Cash to Owner for Personal Use

LO5

January 16. Michael Delgado withdrew equity in the form of cash, \$350.00.



Lesson 2-3 Audit Your Understanding

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

ANSWER

Communications Expense

Cash

Lesson 2-3 Audit Your Understanding

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

ANSWER

Accounts Receivable
Sales

Lesson 2-3 Audit Your Understanding

3. Which two accounts are affected when a business receives cash on account?

ANSWER

Cash

Accounts Receivable

Lesson 2-3 Audit Your Understanding

4. Is the drawing account increased on the debit side or credit side?

ANSWER

Debit because withdrawals decrease owner's equity

Lesson 2-3 Audit Your Understanding

5. Are revenue accounts increased on the debit side or credit side?

ANSWER

Credit because revenue increases owner's equity