

Week 5 Accounting 2303 Resource

Chapter 2 Transactions

Hello everyone! This week is the week of your exam so I thought it would be a good idea to circle back and cover transaction analysis. Additionally, I will be providing Accounting group tutoring sessions from 6:30-7:30pm on Tuesdays over Microsoft Teams each week. If you would like to attend those sessions or want to schedule a 1-on-1 appointment with one of our fantastic accounting tutors, please visit www.baylor.edu/tutoring to make an appointment!

-Jerry

Questions:

What are transactions?

Transaction are events that carry financial impact. They are interactions in which something is given and something is received. Accounting is used to record both sides of the transaction.

When ever you are given a transaction to record, you should think, "What is given and what is received?"

How do we record transactions?

Transactions are recorded using the **double entry system**. The double entry system impacts two or more accounts and makes sure each side of the entry totals up to the same amount

What are accounts? What are the common types of accounts?

Accounts contain a record of all changes in a specific asset, liability, or equity. The main types of accounts are

Assets: economic resources that provide future gains (ie Cash, accounts receivable, inventory, etc)

The following video explains this concept in more depth:

<https://www.youtube.com/watch?v=D2BpFbyDnyY&feature=youtu.be>

Liabilities: obligations to outside parties (ie accounts payable, notes payable)

The following video explains this concept more in depth:

https://www.youtube.com/watch?v=Dhq_R5iDtW0

Equity: the owner's claim on the assets of the company (ie common stock, retained earnings)

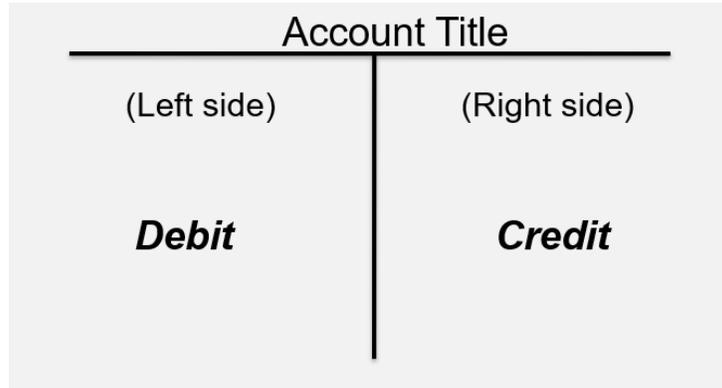
The following video explains this concept more in depth

<https://www.youtube.com/watch?v=Dmf8hVNH8cc>

How do we record changes in account?

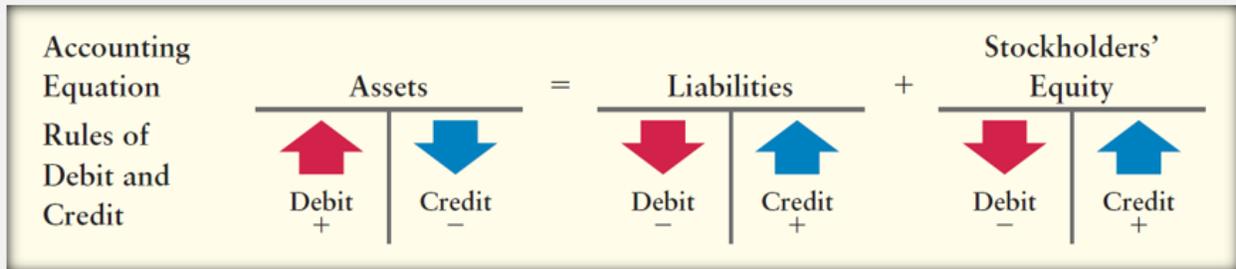
Changes in accounts are the effects of certain transactions on different accounts. We record these changes in a **T-Account** using **debits** and **credits**

This is illustrated in the following visual:



(Pearson Education 2015)

Each type of account determines whether debits or credits increase or decrease accounts. This is illustrated with the following graphic:



(Pearson Education 2015).

The following acronym DEALOR and the image below summarizes the table above in a way that is easy to remember:



(McGraw-Hill Education 2014).

The following video explains debit and credits very well, but it is longer than 5 minutes. I do think that it is worth the watch though!

<https://www.youtube.com/watch?v=cHzCOA3b9So&feature=youtu.be>

Examples:

Q: Baylor is a luxury lawn care company prepare the following JE's for each transaction

- | | | |
|-----|----|--|
| Mar | 2 | Baylor received \$200,000 cash and issued common stock to the stockholders. |
| | 3 | Purchased supplies, \$5,900, and equipment, \$9,200, both on account. |
| | 6 | Mowed the lawn of a customer for \$2,600, paid in full at the time of service. |
| | 8 | Performed \$5,200 of plumbing services for a client; \$4,200 was paid at the time of service and \$1,000 was on account. |
| | 11 | Paid for the supplies purchased March 3 on account. Baylor did <u>not</u> yet pay for the balance in equipment. |
| | 16 | Performed services for a customer and billed the customer, \$500.
Baylor expects to collect within one month. |
| | 22 | Received partial payment from the March 8th customer on account, \$500. |
| | 29 | Paid the utility bills, \$470. |
| | 31 | Paid employee salary, \$6,090. |
| | 31 | Declared and paid dividends of \$2,000. |

A:

3-2-2020:

DR: Cash \$200,000

CR: Common Stock \$200,000

3-3-2020

DR: Supplies \$5,900

DR: Equipment \$9,200

CR: Accounts Payable \$15,100

3-6-2020

DR: Cash \$2600

CR: Revenue \$2600

3-8-2020

DR: Cash \$4,200

DR: Accounts Receivable: \$1,000

CR: Service Revenue \$5,200

3-11-2020

DR: Accounts Payable \$5,900

CR: Cash \$5,900

3-16-2020

DR: Accounts Receivable \$500

CR: Service Revenue \$500

3-22-2020

DR: Cash \$500

CR: Accounts Receivable \$500

3-29-2020

DR: Utility Expense \$470

CR: Cash \$470

3-31-2020

DR: Salary Expense \$6090

CR: Cash \$6090

3-31-2020

DR: Dividends \$2000

CR: Cash \$2000

(Source: Modified from Pearson Education 2015)

Works Cited

Edspira.com

Financial Accounting by Harrison, Horngren, and Thomas, 12th Edition, Prentice Hall via Pearson Education 2015

The Accounting Cycle: During the Period Financial Accounting Chapter 2 Spiceland | Thomas | Herrmann
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