

**The Accounting Equation:**

**Assets = Liabilities + Owners' Equity**

Assets = Something that the business owns that provide a future benefit

Liabilities = Things that are owed. Claims against the business

Owner's Equity = Net Assets of the Business.

Debit means to FALSE

Any Account

Left-Side	Right-Side
Debit	Credit

**Rules of Debits and Credits**

Assets		=	Liabilities		+	Owners' Equity				
Left-Side <b>Debit</b> Increase	Right-Side <b>Credit</b> Decrease		Left-Side <b>Debit</b> Decrease	Right-Side <b>Credit</b> Increase		Left-Side Debit	Right-Side Credit			
<b>Owner's Drawings</b>						Impact:				
Left-Side <b>Debit</b> Increase	Right-Side <b>Credit</b> Decrease					2 Increases:				
						Owner's Capital				
						Revenues				
						2 Decreases:				
						Owner's Drawings				
						Expenses				
<b>Expenses</b>										
Left-Side <b>Debit</b> Increase	Right-Side <b>Credit</b> Decrease									
Assets		= +	Liabilities		+	Owner's Capital		+	Revenues	
						Left-Side Debit Decrease	Right-Side <b>Credit</b> <b>Increase</b>		Left-Side Debit Decrease	Right-Side Credit Increase
						- Owner's Drawings			- Expenses	

**Normal Balance of an account??**

Side of the account that you record increases.

When preparing journal entries, the following 3 statements must be true:

- 1) You must have at least TWO Accounts.
- 2) You must have at least one Debit and at least one Credit
- 3) Total debits in dollars equal total credit in dollars

### Problem #1 - Analysis of each Business Transaction

During the month of September 2020, Madison Service Company had the following transactions:

Sept. 3 The owner, W. Madison, invested cash of \$35,000 and repair equipment of \$15,000 into the business.

Cash	Asset	Increasing	Debit	35,000	<b>50,000</b>
Repair Equipment	Asset	Increasing	Debit	15,000	
W. Madison, Capital	Capital	Increasing	Credit	<b>50,000</b>	

5 Purchased office supplies for cash, \$3,900.

Office Supplies	Asset	Increasing	Debit	3,900	
Cash	Asset	Decreasing	Credit	3,900	

8 Purchased a one-year insurance policy in advance, \$7,200.

Cash	Asset	Decreasing	Credit	7,200	
Prepaid Insurance	Asset	Increasing	Debit	7,200	

10 Purchased repair equipment **on credit**, \$5,000.

Repair Equipment	Asset	Increasing	Debit	5,000	
Accounts Payable	Liability	Increasing	Credit	5,000	

12 Performed repair service and received cash from clients, \$10,800.

Cash	Asset	Increasing	Debit	10,800	
Repair Service Revenue	Revenue	Increasing	Credit	10,800	

15 The business made a partial payment for the repair equipment purchased on Sept. 10, \$2,500.

Accounts Payable	Liability	Decreasing	Debit	2,500	
Cash	Asset	Decreasing	Credit	2,500	

**17 Billed clients for repair service performed on credit, \$9,200.**

Accounts Receivable	Asset	Increasing	Debit	9,200	
Repair Service Revenue	Revenue	Increasing	Credit	9,200	

19 Paid for advertisement, \$4,600.

Cash	Asset	Decreasing	Credit	4,600	
Advertising Expense	Expense	Increasing	Debit	4,600	

23 Paid utility bills for the month, \$800.

Cash	Asset	Decreasing	Credit	800
Utilities Expense	Expense	Increasing	Debit	800

25 Received cash from clients that were billed previously on September 17, \$5,200.

Cash	Asset	Increasing	Debit	5,200
Accounts Receivable	Asset	Decreasing	Credit	5,200

28 Paid the employee wages, \$6,700.

Cash	Asset	Decreasing	Credit	6,700
Wages Expense	Expense	Increasing	Debit	6,700

28 W. Madison withdrew cash for personal use, \$2,800.

Cash	Asset	Decreasing	Credit	2,800
W. Madison, Drawings	Drawings	Increasing	Debit	2,800

**Problem #1 - Requirement #2**

**General Journal**

Date		Account Name/Explanation	P.R	Debit	Credit
<b>2020</b>					
Sept.	3	Cash	x	35,000	
		Repair Equipment	x	15,000	
		W. Madison, Capital	x		50,000
	5	Office Supplies	x	3,900	
		Cash	x		3,900
	8	Prepaid Insurance	x	7,200	
		Cash	x		7,200
	10	Repair Equipment	x	5,000	
		Accounts Payable	x		5,000
	12	Cash	x	10,800	
		Repair Service Revenue	x		10,800
	15	Accounts Payable	x	2,500	
		Cash	x		2,500
	17	Accounts Receivable	x	9,200	
		Repair Service Revenue	x		9,200
	19	Advertising Expense	x	4,600	
		Cash	x		4,600
	23	Utilities Expense	x	800	
		Cash	x		800
	25	Cash	x	5,200	
		Accounts Receivable	x		5,200
	28	Wages Expense	x	6,700	
		Cash	x		6,700
	28	W. Madison, Drawings	x	2,800	
		Cash	x		2,800



## **The Trial Balance**

Purpose: The Trial Balance is prepared to check if total debits equal to total credits.

How are accounts listed on the Trial Balance?

Assets	Liquidity
Liabilities	When they are due
Owner's Capital	
Owner's Drawings	
Revenues	
Expenses	



## Problem #2 Notes

### Financial Statements

Income Statement

Revenues

Less: Total Expenses

Net Income or Net Loss

Statement of Owner's Equity - It captures the change(s) in the Owner's Capital Account

Beginning Capital

Add:

Investment made by the Owner

Net Income

Subtotal

Less:

Owner's Drawings

Net Loss

Ending Capital

OR

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graph LR; OR[OR] --> NI[Net Income]; OR --> NL[Net Loss];
```

Balance Sheet

Assets

Liabilities

Owners' Equity



**Problem #1 - Preparing the Financial Statements***(For the Income Statement)*

1

2

Nicholas Jay Company		
Income Statement		
For the Month Ended September 30, 2020		
<b>Revenues:</b>		
Service Fees Revenue		\$ 126,000
<b>Expenses:</b>		
Wages Expense	\$ 19,200	
Utilities Expense	5,000	
Rent Expense	31,000	
Insurance Expense	2,500	
Advertising Expense	4,000	
Total Expenses		<u>(61,700)</u>
<b>Net Income</b>		<b>\$ 64,300</b>

*(For the Owners' Equity Statement)*

Nicholas Jay Company		
Statement of Owners' Equity		
For the Month Ended September 30, 2020		
Nicholas Jay, Capital, Beginning		\$150,000
<b>Add:</b>		
Investment made by Owner	\$ 32,000	
Net Income	<u>64,300</u>	<u>96,300</u>
Subtotal		\$ 246,300
<b>Less:</b>		
Nicholas Jay, Drawings		<u>(7,000)</u>
<b>Nicholas Jay, Capital, Ending</b>		<b>\$ 239,300</b>

(For the Balance Sheet)

Nicholas Jay Company		
Balance Sheet		
September 30, 2020		
<b>Assets:</b>		
Cash		\$190,000
Notes Receivable		12,000
Accounts Receivable		25,000
Store Supplies		7,500
Prepaid Rent		4,000
Store Equipment		6,000
Building		<u>102,000</u>
<b>Total Assets</b>		<b>\$ 346,500</b>
<b>Liabilities and Owners' Equity</b>		
<b>Liabilities:</b>		
Accounts Payable		\$ 45,200
Mortgage Payable		<u>62,000</u>
Total Liabilities		\$ 107,200
<b>Owners' Equity:</b>		
Nicholas Jay, Capital		<u>239,300</u>
<b>Total Liabilities and Owners' Equity</b>		<b>\$ 346,500</b>

## Problem #3 Notes

### Adjusting Entries:

Three categories of adjusting entries:

#### 1) Prepaid Expenses and Unearned Revenues

Prepaid Asset/Expenses:

Dr: \_\_\_\_\_ Expense

Cr: Prepaid Asset

**Incurred/Expired/Used**

Unearned Revenues:

Dr: Unearned Revenues

Cr: Revenue Account

**Amount Earned**

#### 2) Accrued Expenses and Accrued Revenues

Accrued Expenses:

Dr: \_\_\_\_\_ Expense

Cr: \_\_\_\_\_ Payable

**Incurred (taken place)**

Accrued Revenues:

Dr: \_\_\_\_\_ Receivable

Cr: Revenue Account

**Amount Earned**

#### 3) Estimated Items

Dr: Depreciation Expenses, **Name of Asset**

Amount Given

Cr: Accumulated Depreciation, **Name of Asset**

**Bad Debts - We will cover this later in the semester.**

**Problem #3 - Preparing Adjusting Entries**

**General Journal**

Date		Account Name/Explanation	P.R	Debit	Credit
<b>2020</b>					
Aug.	31	Office Supplies Expense		900	
		Office Supplies			900
		(\$1,500 - \$600 = \$900)			
	31	Depreciation Expense, Office Equipment		1,000	
		Accumulated Depreciation, Office Equipment			1,000
	31	Insurance Expense		2,400	
		Prepaid Insurance			2,400
	31	Unearned Rental Revenue		9,000	
		Rental Revenue			9,000
	31	Salaries Expense		4,500	
		Salaries Payable			4,500
	31	Accounts Receivable		3,200	
		Rental Revenue			3,200
	31	Rent Expense		5,000	
		Prepaid Rent			5,000
		(\$9,200 - \$4,200 = \$5,000)			
	31	Interest Receivable		800	
		Interest Revenue			800
	31	Interest Expense		500	
		Interest Payable			500