

Financial Accounting Chapter 2

Summary: Cheat Sheet

SYSTEMS OF ACCOUNTS

Asset Accounts

Cash: A company's cash balance.

Accounts receivable: Held by a seller; promises of payment from customers to sellers. Accounts receivable are increased by credit sales; often phrased as sales on account or on credit.

Notes receivable: Held by a lender; a borrower's written promise to pay the lender a specific sum of money on a specified future date.

Prepaid accounts (or expenses): Assets that arise from prepayment of future expenses. Examples are prepaid insurance and prepaid rent.

More assets: Supplies, equipment, buildings, and land.

Liability Accounts

Accounts payable: Held by a buyer; a buyer's promise to pay a seller for goods or services received. More generally, payables arise from purchases of merchandise for resale, supplies, services, and other items.

Notes payable: Held by a borrower; a written promissory note to pay a future amount at a future date.

Unearned revenue: A liability to be settled in the future when a company delivers its products or services. When a customer pays in advance for products or services, the seller records this receipt as unearned revenue.

Accrued liabilities: Amounts owed that are not yet paid. Exemplified are wages payable, taxes payable, and interest payable.

Equity Accounts

Common stock: When an owner invests in a company in exchange for stock, the company increases both assets and equity.

Dividends: When a company pays dividends, it decreases both company assets and total equity.

Revenue: Amounts received from sales of products and services to customers. Revenue increases equity.

Expenses: Costs of providing products and services. Expenses decrease equity.

DEBITS AND CREDITS

The left side of an account is called the debit side or Dr.

The right side is called the credit side or Cr.

Double-entry accounting transaction rules:

- At least two accounts are involved, with at least one debit and one credit.
- Total amount debited must equal total amount credited.

Debits and credits in accounting equation:

Assets		=		Liabilities		+		Common Stock		-		Dividends		+		Revenues		-		Expenses	
Dr. for	Cr. for			Dr. for	Cr. for			Dr. for	Cr. for			Dr. for	Cr. for			Dr. for	Cr. for			Dr. for	Cr. for
Increases	Decreases			Decreases	Increases			Decreases	Increases			Decreases	Increases			Decreases	Increases			Increases	Decreases
+	-			-	+			-	+			-	+			-	+			+	-
Normal				Normal	Normal			Normal	Normal			Normal	Normal			Normal	Normal			Normal	Normal

Net increases or decreases on one side have equal net effects on the other side.

Left side is the normal balance side for assets.

Right side is the normal side for liabilities and equity.

RECORDING TRANSACTIONS

Receive owner investment for stock:

Date	Account Titles and Explanation	PR	Debit	Credit
(1)	Cash	101	30,000	
	Common Stock	307		30,000

Purchase supplies for cash:

Date	Account Titles and Explanation	PR	Debit	Credit
(2)	Supplies	126	2,500	
	Cash	101		2,500

Purchase equipment for cash:

Date	Account Titles and Explanation	PR	Debit	Credit
(3)	Equipment	167	26,000	
	Cash	101		26,000

Purchase supplies on credit:

Date	Account Titles and Explanation	PR	Debit	Credit
(4)	Supplies	126	7,100	
	Accounts Payable	201		7,100

Provide services for cash:

Date	Account Titles and Explanation	PR	Debit	Credit
(5)	Cash	101	4,200	
	Consulting Revenue	403		4,200

Payment of expenses in cash:

Date	Account Titles and Explanation	PR	Debit	Credit
(6)	Rent Expense	640	1,000	
	Cash	101		1,000

Date	Account Titles and Explanation	PR	Debit	Credit
(7)	Salaries Expense	622	700	
	Cash	101		700

Date	Account Titles and Explanation	PR	Debit	Credit
(15)	Utilities Expense	690	305	
	Cash	101		305

Provide consulting and rental services on credit:

Date	Account Titles and Explanation	PR	Debit	Credit
(8)	Accounts Receivable	106	1,900	
	Consulting Revenue	403		1,600
	Rental Revenue	406		300

Receipt of cash from receivable:

Date	Account Titles and Explanation	PR	Debit	Credit
(9)	Cash	101	1,900	
	Accounts Receivable	106		1,900

Partial payment of accounts payable:

Date	Account Titles and Explanation	PR	Debit	Credit
(10)	Accounts Payable	201	900	
	Cash	101		900

Payment of cash dividend:

Date	Account Titles and Explanation	PR	Debit	Credit
(11)	Dividends	319	200	
	Cash	101		200

Receipt of cash for future services:

Date	Account Titles and Explanation	PR	Debit	Credit
(12)	Cash	101	3,000	
	Unearned Consulting Revenue	236		3,000

Pay cash for future insurance coverage:

Date	Account Titles and Explanation	PR	Debit	Credit
(13)	Prepaid Insurance	128	2,400	
	Cash	101		2,400

FINANCIAL STATEMENTS

FASTFORWARD Trial Balance December 31		
	Debit	Credit
Cash	\$ 4,275	
Accounts receivable	0	
Supplies	9,720	
Prepaid insurance	2,400	
Equipment	26,000	
Accounts payable		\$ 6,200
Unearned consulting revenue		3,000
Common stock		30,000
Dividends	200	
Consulting revenue		5,800
Rental revenue		300
Salaries expense	1,400	
Rent expense	1,000	
Utilities expense	305	
Totals	<u>\$45,300</u>	<u>\$45,300</u>

FASTFORWARD Income Statement For Month Ended December 31	
Revenues	
Consulting revenue {\$4,200 + \$1,600}	\$5,800
Rental revenue	<u>300</u>
Total revenues	\$6,100
Expenses	
Salaries expense	1,400
Rent expense	1,000
Utilities expense	<u>305</u>
Total expenses	<u>2,705</u>
Net income	<u>\$3,395</u>

FASTFORWARD Statement of Retained Earnings For Month Ended December 31	
Retained earnings, December 1	\$ 0
Plus: Net income	<u>3,395</u>
	3,395
Less: Dividends	<u>200</u>
Retained earnings, December 31	<u>\$3,195</u>

Each account on the trial balance is either an asset (to balance sheet), liability (to balance sheet), or equity (to income statement or to statement of retained earnings).

FASTFORWARD Balance Sheet December 31			
Assets		Liabilities	
Cash	\$4,275	Accounts Payable	\$6,200
Supplies	9,720	Unearned consulting revenue ..	<u>3,000</u>
Prepaid insurance	2,400	Total liabilities	9,200
Equipment	26,000		
		Equity	
		Common stock	30,000
		Retained earnings	<u>3,195</u>
		Total equity	<u>33,195</u>
Total assets	<u>\$42,395</u>	Total liabilities and equity	<u>\$42,395</u>