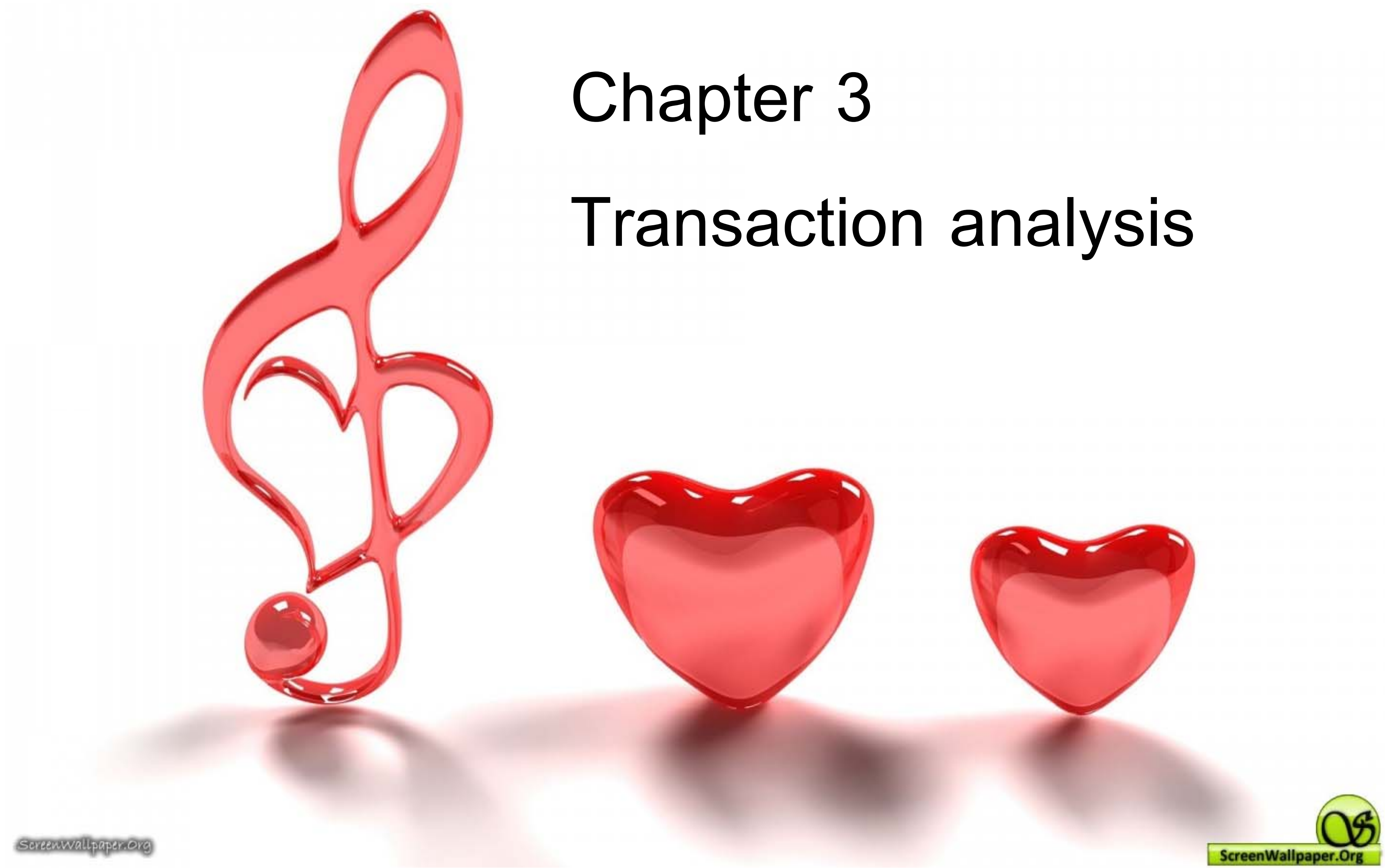
Chapter 3

Transaction analysis



8 steps of the accounting cycle include the following:

1. Transaction Analysis
2. Recoding Transactions in General Journal
3. Posting
4. Preparing Trial Balance
5. Adjusting Accounts
6. Preparing Working Papers
7. Closing Accounts
8. Preparing Financial Statements

Business transaction

A business transaction is an economic event with a third party that is recorded in an organization's accounting system.

Examples

- Borrowing from Bank
- Purchase Goods from Vendor on Credit Basis
- Rent and Electricity of Premises Paid

1. Accounting Equation

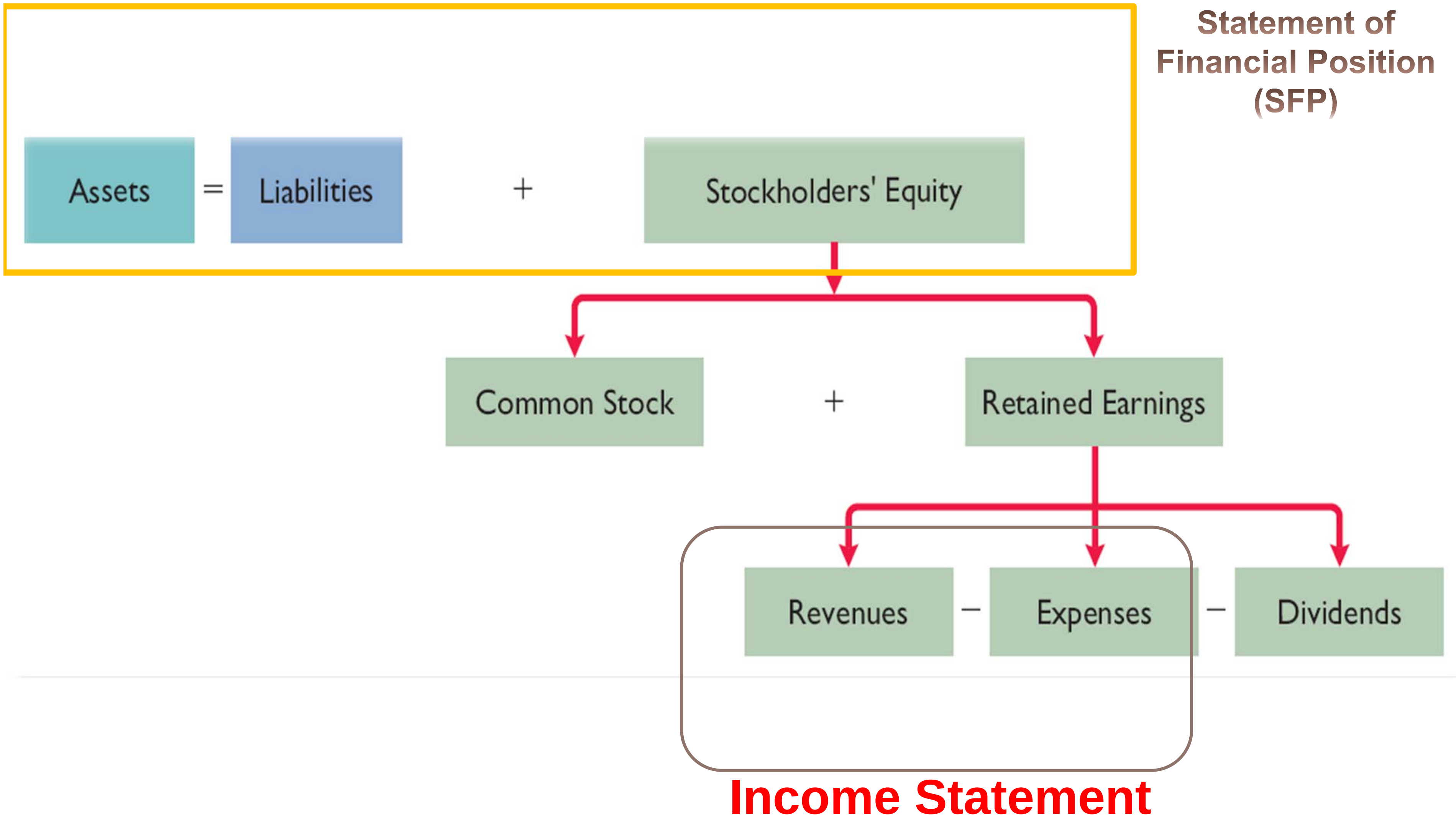
ASSETS = LIABILITIES + OWNER EQUITY

Resources

Promise

Common Stock

Accounting Equation



Exercises

#	Assets	Liabilities	Equity	Revenue	Expenses	Profit (Loss)
1	100	20	______	90	______	20
2	______	80	90	130	110	______
3	90	20	______	______	30	40
4	200	120	______	______	100	(30)
5	300	200	______	110	______	(20)
6	______	200	200	120	180	______

Exercises

#	Assets	Liabilities	Equity	Revenue	Expenses	Profit (Loss)
1	100	20	80	90	70	20
2	170	80	90	130	110	20
3	90	20	70	70	30	40
4	200	120	80	70	100	(30)
5	300	200	100	110	130	(20)
6	400	200	200	120	180	(60)

Transaction Analysis Equation

The accounting equation must remain in balance after each transaction.

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Transaction Analysis

In each succeeding example, identify whether the account balance increases or decreases.

J. Scott, the owner, contributed $20,000 cash to start the business.

The accounts involved are:

(1) Cash (asset)

(2) J. Scott, Capital (equity)

Transaction Analysis

J. Scott, the owner, contributed $20,000 cash to start the business.

	Assets			=	Liabilities		+	Equity
	Cash	Supplies	Equipment		Accounts Payable	Notes Payable		J. Scott, Capital
(1)	$ 20,000							$ 20,000
	$ 20,000	$ -	$ -		$ -	$ -		$ 20,000
		$ 20,000		=		$ 20,000		

Transaction Analysis

Purchased supplies paying $1,000 cash.

The accounts involved are:

(1) Cash (asset)

(2) Supplies (asset)

Transaction Analysis

Purchased supplies paying $1,000 cash.

	Assets			=	Liabilities		+	Equity
	Cash	Supplies	Equipment		Accounts Payable	Notes Payable		J. Scott, Capital
(1)	$ 20,000							$ 20,000
(2)	(1,000)	$ 1,000						
	$ 19,000	$ 1,000	$ -		$ -	$ -		$ 20,000
		$ 20,000		=		$ 20,000		

Transaction Analysis

Purchased equipment for $15,000 cash.

The accounts involved are:

(1) Cash (asset)

(2) Equipment (asset)

Transaction Analysis

Purchased equipment for $15,000 cash.

	Assets			=	Liabilities		+	Equity
	Cash	Supplies	Equipment		Accounts Payable	Notes Payable		J. Scott, Capital
(1)	$ 20,000							$ 20,000
(2)	(1,000)	$ 1,000						
(3)	(15,000)		$ 15,000					
	$ 4,000	$ 1,000	$ 15,000		$ -	$ -		$ 20,000
		$ 20,000		=		$ 20,000		

Transaction Analysis

Purchased Supplies of $200 and Equipment of $1,000 on account.

The accounts involved are:

(1) Supplies (asset)

(2) Equipment (asset)

(3) Accounts Payable (liability)

Transaction Analysis

Purchased Supplies of $200 and Equipment of $1,000 on account.

	Assets			=	Liabilities		+	Equity
	Cash	Supplies	Equipment		Accounts Payable	Notes Payable		J. Scott, Capital
(1)	$ 20,000							$ 20,000
(2)	(1,000)	$ 1,000						
(3)	(15,000)		$ 15,000					
(4)		200	1,000		$ 1,200			
	$ 4,000	$ 1,200	$ 16,000		$ 1,200	$ -		$ 20,000
		$ 21,200		=		$ 21,200		

Transaction Analysis

Borrowed $4,000 from 1st American Bank.

The accounts involved are:

(1) Cash (asset)

(2) Notes payable (liability)

Transaction Analysis

Borrowed $4,000 from 1st American Bank.

	Assets			=	Liabilities		+	Equity
	Cash	Supplies	Equipment		Accounts Payable	Notes Payable		J. Scott, Capital
(1)	$ 20,000							$ 20,000
(2)	(1,000)	$ 1,000						
(3)	(15,000)		$ 15,000					
(4)		200	1,000		$ 1,200			
(5)	4,000					$ 4,000		
	$ 8,000	$ 1,200	$ 16,000		$ 1,200	$ 4,000		$ 20,000
		$ 25,200		=		$ 25,200		

Transaction Analysis

The balances so far appear below. Note that the Balance Sheet Equation is still in balance.

	Assets			=	Liabilities		+	Equity
	Cash	Supplies	Equipment		Accounts Payable	Notes Payable		J. Scott, Capital
Bal.	$ 8,000	$ 1,200	$ 16,000		$ 1,200	$ 4,000		$ 20,000
	$ 8,000	$ 1,200	$ 16,000		$ 1,200	$ 4,000		$ 20,000
		$ 25,200		=		$ 25,200		

- Now let's look at transactions involving revenue, expenses and withdrawals.

Transaction Analysis

Rendered consulting services receiving $3,000 cash.

The accounts involved are:

(1) Cash (asset)

(2) Revenues (equity)

Transaction Analysis

Rendered consulting services receiving $3,000 cash.

	Assets			=	Liabilities		+	Equity	
	Cash	Supplies	Equipment		Accounts Payable	Notes Payable		J. Scott, Capital	Revenue
Bal.	$ 8,000	$ 1,200	$ 16,000		$ 1,200	$ 4,000		$ 20,000	
(6)	3,000								$ 3,000
	$ 11,000	$ 1,200	$ 16,000		$ 1,200	$ 4,000		$ 20,000	$ 3,000
		$ 28,200		=		$ 28,200			

Transaction Analysis

Paid salaries of $800 to employees.

The accounts involved are:

(1) Cash (asset)

(2) Salaries expense (equity)

Remember that the balance in the salaries expense account actually increases.

But, equity actually decreases because expenses reduce equity.

Transaction Analysis

Paid salaries of $800 to employees.

	Assets			=	Liabilities		+	Equity		
	Cash	Supplies	Equipment		Accounts Payable	Notes Payable		J. Scott, Capital	Revenue	Expenses
Bal.	$ 8,000	$ 1,200	$ 16,000		$ 1,200	$ 4,000		$ 20,000		
(6)	3,000								$ 3,000	
(7)	(800)									$ (800)
	$ 10,200	$ 1,200	$ 16,000		$ 1,200	$ 4,000		$ 20,000	$ 3,000	$ (800)
		$ 27,400		=		$ 27,400				

Remember that expenses _decrease_ equity.

Exercise

Presented here are five economic events. For each item, indicate whether the event increased (+), decreased (–), or had no effect (NE) on assets, liabilities, and stockholders' equity.

	Assets	=	Liabilities	+	Stockholders' Equity
1. Received cash for services rendered.	______		______		______
2. Purchased supplies on account.	______		______		______
3. Paid employees' salaries.	______		______		______
4. Dividends paid in cash.	______		______		______
5. Expenses paid in cash.	______		______		______

Exercise

Presented here are five economic events. For each item, indicate whether the event increased (+), decreased (–), or had no effect (NE) on assets, liabilities, and stockholders' equity.

	Assets	=	Liabilities	+	Stockholders' Equity
1. Received cash for services rendered.	+	=	NE		+
2. Purchased supplies on account.	+	=	+		NE
3. Paid employees' salaries.	-	=	NE		-
4. Dividends paid in cash.	-	=	NE		-
5. Expenses paid in cash.	-	=	NE		-