LIFEPAC®

Accounting

Student Book

Unit 3

Alpha Omega Publications

ACCOUNTING LIFEPAC 3

ANALYZING & JOURNALIZING TRANSACTIONS

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ACCOUNTING LIFEPAC 3

ANALYZING & JOURNALIZING TRANSACTIONS

OVERVIEW

LIFEPACS 1 and 2 gave you an overview of the accounting system, including preparing a beginning balance sheet, recording the opening entry in the journal and posting the opening entry to the ledger. This LIFEPAC® will take you a step further into the accounting process as you learn how to expand the accounting equation to include income statement items. You will also use the T account to analyze transactions into debits and credits. You will learn about the double-entry accounting system as you journalize, using the general journal.

OBJECTIVES

When you have completed this LIFEPAC you will be able to:

1. Define accounting terms associated with analyzing business transactions.
2. Identify accounting concepts.
3. Understand the expanded accounting equation.
4. Identify balance sheet items.
5. Identify income statement items.
6. Understand the process of analyzing transactions into debit and credit parts.
7. Use the T account to analyze business transactions, indicating which accounts are debited or credited.
8. Prove the debits and credits for each transaction.
9. Record transactions in the general journal.

VOCABULARY

Account – a record that summarizes all the characteristics of a single item of the equation.

Account Balance – the computed balance of an account after all debits and credits have been posted.

Account Title – the name given to any account.

Accounting Equation – a mathematical equation that illustrates the relationship between assets, liabilities and owner's equity (capital): Assets = Liabilities + Capital.

Asset – anything of value owned by a business.

Balance Sheet – a form that shows the financial position of a business on a specific date.

Chart of Accounts – a list of all accounts used by an entity indicating the identifying number, the account title and classification of each accounting equation item.

Chronological – in order by date.

Compound Entry – a journal entry that contains more than two accounts.

Contra Account – an account that has a negative effect on a controlling account.

Credit – refers to any entry made in the right-hand amount column.

Debit – refers to any entry made in the left-hand amount column.

Double-entry Accounting – each financial transaction has a double effect and is recorded so that the total of the debit amounts is always equal to the total of the credit amounts.

Entry – a transaction recorded in journal.

Expenses – the cost of goods and services used in the operation of a business.

General Ledger – contains all the accounts needed to prepare financial statements.

Income – the difference between revenue from the sale of goods and services and the expenses that come from operating the business and making the sales.

Income Statement – a financial statement that reports the revenue, expenses and net income or net loss of a business for a specific period of time.

Journal – a business form used for recording accounting information in chronological order with transactions analyzed in terms of the accounts to be debited and credited.

Journalizing – recording information in chronological order in the journal, using the source document as evidence of the business transaction.

Ledger – a group of accounts.

Opening an Account – writing the account name and number as the heading for the account.

Permanent Accounts – balance sheet accounts (assets, liabilities & capital) that provide data from one accounting period to the next.

Posting – the process of transferring the information from a journal entry to the ledger account.

Revenue – the increase in owner's equity caused by the inflow of assets from the sale of goods and services.

Source Document – a written or printed paper that provides evidence that a transaction occurred and gives the information needed to analyze the transaction; e.g., a purchase invoice, a check stub, a receipt, a memorandum, etc.

T Account – an accounting device used to analyze business transactions.

Temporary Accounts – accounts (such as Revenue and Expenses) that gather data for one accounting period only; accounts used to compute net income for each accounting period.

Transaction – changes the value of the assets, liabilities and capital of a business entity.

SECTION I. ANALYZING TRANSACTIONS

Using the T Account

Any business transaction will change the balances of accounts in the accounting equation. Therefore, each transaction must be analyzed to determine how the account balances are changed. Transaction analysis is the first step in the financial process. The relationship between a T account and each single item of the accounting equation is shown below.

The Accounting Equation

ASSETS	LIABILITIES + CAPITAL
On the left side of the equation.	On the right side of the equation.

The T Account

LEFT SIDE	RIGHT SIDE
Debit Side	Credit Side
Assets have a normal debit balance.	Liabilities & Capital have a normal credit balance.

The left side of the T account is the **debit** side. The right side of the T account is the **credit** side. Amounts recorded on the left and right sides of a T account are called **debits** and **credits**, respectively.

Determining whether an increase in a single item is credit or debit depends on its classification. Items on the left side of the accounting equation are classified as **assets**. *Assets* have a normal *debit balance*, therefore *decreases* must be recorded on the opposite side or the *credit side*. Items recorded on the right side of the accounting equation are classified as liabilities and capital. Since **liabilities** and **capital** have a normal *credit balance*, *decreases* are recorded on the opposite side or *debit side*.

The following illustration shows the relationship between placement of assets, liabilities and owner's equity (capital) on the accounting equation and each account's normal balance side.

ASSETS = LIABILITIES + CAPITAL

Asset Accounts

Left Side (Debit)	**Right Side (Credit)**
Balance Side	

Liability Accounts

Left Side (Debit)	**Right Side (Credit)**
	Balance Side

Owner's Capital Accounts

Left Side (Debit)	**Right Side (Credit)**
	Balance Side

The effect debits and credits have on the balances of these accounts is shown below:

ASSETS = LIABILITIES + CAPITAL

Asset Accounts

Debits increase	Credits decrease

Capital Accounts

Debits decrease	Credits increase

Liability Accounts

Debits decrease	Credits increase

Transactions Affecting Balance Sheet Items

In LIFEPAC 2 you learned that the **chart of accounts** is a systematic method of identifying and classifying ledger accounts. The first digit of each account number in the chart of accounts denotes the *division*. The second and third digits denote the *position* of the account in the division.

Generally, blocks of numbers are assigned to various groups of accounts such as assets, liabilities and capital. For example:

Asset Accounts	110–199
Liability Accounts	210–299
Capital Accounts	310–399

Shown below is the chart of accounts for **John Jones Enterprises**. Two new divisions have been added: **Revenue** and **Expenses**. Their division in the chart of accounts numbering system is shown below:

Revenue Accounts	410–499
Expense Accounts	510–599

Revenue increases the owner's equity in a business, while expenses decrease the owner's equity. Revenue and expense accounts are explained in greater detail a little later in this LIFEPAC.

JOHN JONES ENTERPRISES
Chart of Accounts

Assets		**Liabilities**	
Cash	110	Accounts Payable	210
Supplies	120	**Capital**	
Prepaid Insurance	130	John Jones, Capital	310
Equipment	140	John Jones, Drawing	320
		Revenue	
		Sales	410
		Expenses	
		Advertising Expense	510
		Miscellaneous Expense	520
		Rent Expense	530
		Salary Expense	540
		Utilities Expense	550

Since business transactions change the balances of the accounts in the accounting equation, each transaction should be analyzed to see which account balances are changed and how they are changed.

When analyzing transactions affecting the balance sheet items (assets, liabilities and owner's equity), there are four questions that must be asked:

1. What accounts are affected?
2. What is the account classification?

3. How is the balance affected (increase or decrease)?
4. How is each amount entered in the T account?

Following are several transactions for John Jones Enterprises. Each transaction is analyzed by answering the above four questions. The effect on the T accounts is shown below the analysis. In the first transaction the owner, John Jones, invested additional capital in his business. Using the above questions we can analyze this transaction:

1. What accounts are affected? *Cash and John Jones, Capital*
2. What is the account classification? *Cash is an asset account and John Jones, Capital is a Capital account.*
3. How is the balance affected? *Cash is increased because the owner invested additional funds in the business and Capital is increased because the owner's equity is increased.*
4. How is each amount entered in the T account? *Cash is an asset account and it increases on the debit side. Capital is a capital account and it increases on the credit side.*

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Received cash from owner John Jones as an investment, $6,000.00	Cash	Asset	Increase	Debit
	J. Jones, Capital	Capital	Increase	Credit

Cash **110**

Debit: Increase	*Credit: Decrease*
6,000.00	
Balance Side	

John Jones, Capital **310**

Debit: Decrease	*Credit: Increase*
	6,000.00
	Balance Side

Several transactions are analyzed in the following illustrations. Read through each transaction analysis carefully. Observe which accounts are affected, what type of accounts are involved, how they are affected, and how the change is entered.

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Paid cash for supplies, $600.00	Supplies	Asset	Increase	Debit
	Cash	Asset	Decrease	Credit

Supplies **120**

Debit: Increase	*Credit: Decrease*
600.00	
Balance Side	

Cash **110**

Debit: Increase	*Credit: Decrease*
	600.00
Balance Side	

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Paid cash for insurance, $1,500.00	Prepaid Insurance	Asset	Increase	Debit
	Cash	Asset	Decrease	Credit

Prepaid Insurance **130**

Debit: Increase	*Credit: Decrease*
1,500.00	
Balance Side	

Cash **110**

Debit: Increase	*Credit: Decrease*
	1,500.00
Balance Side	

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Bought supplies on account, $50.00	Supplies	Asset	Increase	Debit
	Accounts Payable	Liability	Increase	Credit

Supplies **120**

Debit: Increase	*Credit: Decrease*
50.00	
Balance Side	

Accounts Payable **210**

Debit: Decrease	*Credit: Increase*
	50.00
	Balance Side

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Paid cash on account, $25.00	Accounts Payable	Liability	Decrease	Debit
	Cash	Asset	Decrease	Credit

Accounts Payable **210**

Debit: Decrease	*Credit: Increase*
25.00	
	Balance Side

Cash **110**

Debit: Increase	*Credit: Decrease*
	25.00
Balance Side	

Transactions Affecting Income Statement Items

Revenue and **expenses** are items that are included on the **income statement** for a business. An income statement is a financial statement that reports the revenue, expenses and net income or net loss of a business for a specific period of time. Unlike the **permanent accounts** that appear on the balance sheet during every accounting period (assets, liabilities and capital), revenue and expense accounts are accounts used to compute the net income for one specific accounting period only and are closed out at the end of each accounting cycle. That is why they are classified as **temporary accounts**. Revenue *increases* capital while expenses *decrease* capital.

Each transaction involving revenue increases the owner's equity. The transactions to record these changes could be recorded directly in the capital account. However, this would make it difficult to sort the types of changes to the capital account. For instance, were increases to capital caused by additional investments by the owner or by revenue from sales? Were decreases to the capital account caused by expenses incurred in the operation of the business or by the owner's withdrawal of funds from the business? To avoid this problem, accountants set up a revenue account for each source of income and expense accounts for each type of business expense. By establishing separate revenue and expense accounts, the capital account reflects only the owner's investment plus a summary of transfers to that account.

The owner's capital account is located on the right side of the accounting equation; therefore, it has a normal credit balance. Since revenue increases capital, it also has a normal credit balance. The revenue account increases on the credit side and decreases on the debit side.

Daily operating expenses of a business decrease the owner's capital by decreasing the amount of cash available to the business (remember the accounting equation). All of these expenses could be recorded in the capital account. However, correct accounting procedure requires that each business record its expenses in a separate account, making it easier to determine the balance of each individual operating expense.

An operating expense decreases the value of the owner's equity or capital account. Because it decreases capital, the drawing account will have a normal debit balance (since the capital account decreases on the debit side).

Drawing (the account that records the owner's withdrawal of funds for personal use) decreases the value of the owner's equity or capital account. Because it decreases capital, the drawing account will have a normal debit balance (since the capital account decreases on the debit side).

Any account that decreases a control account (in this case, the owner's capital account) on a financial statement is known as a **contra account**. The drawing account is a contra capital account because it reduces the value of the owner's capital account.

The following illustration shows the relationship between placement of owner's capital, owner's drawing, revenue and expenses on the right side of the accounting equation under the owner's equity section.

OWNER'S EQUITY

Owner's Drawing Account

Left Side (Debit)	Right Side (Credit)
Balance Side	
+ INCREASE SIDE	– DECREASE SIDE

Owner's Capital Account

Left Side (Debit)	Right Side (Credit)
	Balance Side
– DECREASE SIDE	+ INCREASE SIDE

Expense Accounts

Left Side (Debit)	Right Side (Credit)
Balance Side	
+ INCREASE SIDE	– DECREASE SIDE

Revenue Accounts

Left Side (Debit)	Right Side (Credit)
	Balance Side
– DECREASE SIDE	+ INCREASE SIDE

The following transactions affect the income statement items (revenue and expenses). Study them carefully and answer the same four questions as before. Observe which accounts are affected, what type of accounts are involved, how they are affected, and how the change is entered.

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Received cash from owner as an additional investment, $1,000.00	Cash	Asset	Increase	Debit
	J. Jones, Capital	Capital	Increase	Credit

Cash **110**

Debit: Increase	*Credit: Decrease*
1,000.00	
Balance Side	

John Jones, Capital **310**

Debit: Decrease	*Credit: Increase*
	1,000.00
	Balance Side

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Received cash for daily sales, $2,100.00	Cash	Asset	Increase	Debit
	Sales	Revenue	Increase	Credit

Cash	**110**
Debit: Increase	*Credit: Decrease*
2,100.00	
Balance Side	

Sales	**410**
Debit: Decrease	*Credit: Increase*
	2,100.00
	Balance Side

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Paid the rent for the month, $450.00	Rent Expense	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit

Rent Expense	**530**
Debit: Increase	*Credit: Decrease*
450.00	
Balance Side	

Cash	**110**
Debit: Increase	*Credit: Decrease*
	450.00
Balance Side	

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Owner withdrew $200.00 for personal use	J. Jones, Drawing	Capital (Contra)	Increase	Debit
	Cash	Asset	Decrease	Credit

John Jones, Drawing	**320**
Debit: Increase	*Credit: Decrease*
200.00	
Balance Side	

Cash	**110**
Debit: Increase	*Credit: Decrease*
	200.00
Balance Side	

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Paid $25.00 cash for postage (Miscellaneous Expense)	Misc. Expense	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit

Miscellaneous Expense **520**

Debit: Increase	*Credit: Decrease*
25.00	
Balance Side	

Cash **110**

Debit: Increase	*Credit: Decrease*
	25.00
Balance Side	

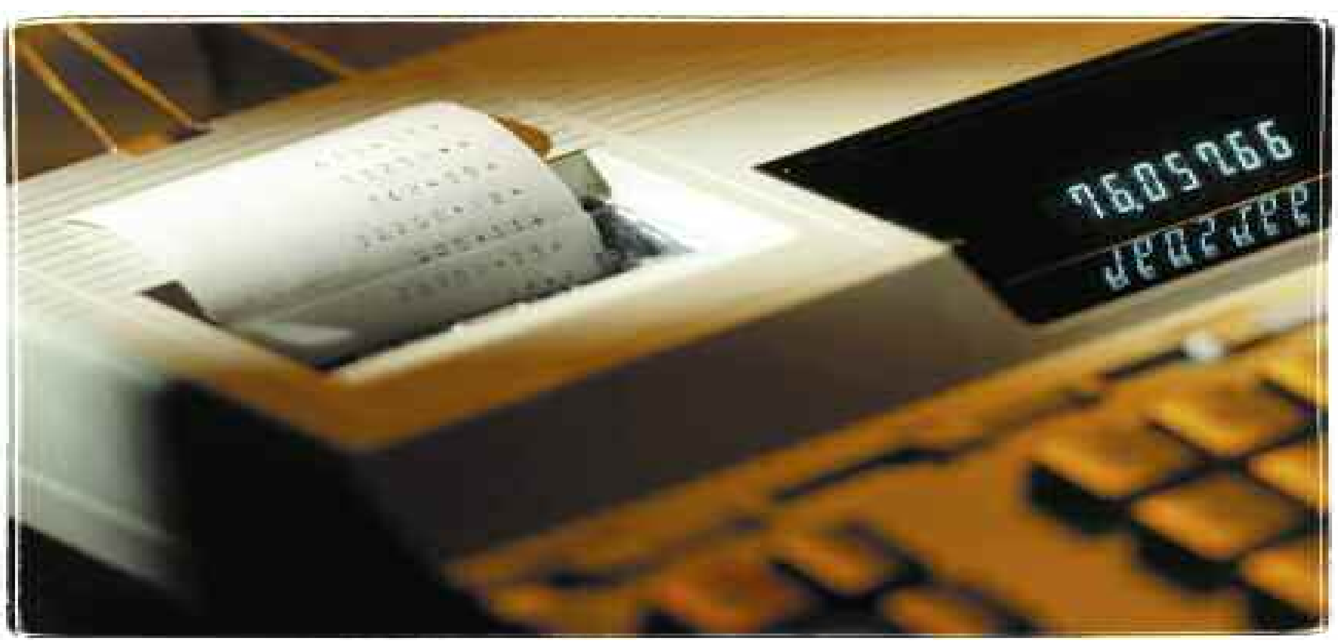
Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance	How Change is Entered
Paid the phone bill $295.00 (Utilities Expense)	Utilities Expense	Expense	Increase	Debit
	Cash	Asset	Decrease	Credit

Utilities Expense **550**

Debit: Increase	*Credit: Decrease*
295.00	
Balance Side	

Cash **110**

Debit: Increase	*Credit: Decrease*
	295.00
Balance Side	



Transaction Summary for John Jones Enterprises.

Transaction	Accounts Affected	Classification of Each Account	Changes in Account Balance		How Change is Entered	
			Increase	Decrease	Debit	Credit
Received cash from owner as an investment	Cash	Asset	✔		✔	
	J. Jones, Capital	Capital	✔			✔
Paid cash for supplies	Supplies	Asset	✔		✔	
	Cash	Asset		✔		✔
Paid cash for insurance	Prepaid Insurance	Asset	✔		✔	
	Cash	Asset		✔		✔
Bought supplies on account	Supplies	Asset	✔		✔	
	Accounts Payable	Liability	✔			✔
Paid cash on account	Accounts Payable	Liability		✔	✔	
	Cash	Asset		✔		✔
Received cash from owner as additional investment	Cash	Asset	✔		✔	
	J. Jones, Capital	Capital	✔			✔
Received cash from daily sales	Cash	Asset	✔		✔	
	Sales	Revenue	✔			✔
Paid cash for the monthly rent	Rent Expense	Expense	✔		✔	
	Cash	Asset		✔		✔
Owner withdrew cash for personal use	J. Jones, Drawing	Contra Capital	✔		✔	
	Cash	Asset		✔		✔
Paid cash for postage	Misc. Expense	Expense	✔		✔	
	Cash	Asset		✔		✔
Paid cash for the telephone bill	Utility Expense	Expense	✔		✔	
	Cash	Asset		✔		✔

POINT TO REMEMBER

Any account will increase on its balance side and decrease on the opposite side.

Complete this activity.

James Smith owns and operates a video rental store called **Movie Time**. Movie Time uses the accounts shown below.

a. Label the *debit* and *credit* side of each T account.

b. Indicate the *balance side* of each T account.

c. Indicate the *increase* side and *decrease* side of each T account.

1.1 **Cash**

a.

b.

c.

1.2 **Supplies**

a.

b.

c.

1.3 **Prepaid Insurance**

a.

b.

c.

1.4 **Accts. Pay./Fox Film Co.**

a.

b.

c.

1.5 **Accts. Pay./MGM Film Co.**

a.

b.

c.

1.6 **Accts. Pay./Mortgage Payable**

a.

b.

c.

1.7 **James Smith, Capital**

a.

b.

c.

1.8 **James Smith, Drawing**

a.

b.

c.

1.9

Video Sales & Rental	
a.	
b.	
c.	

1.10

Advertising Expense	
a.	
b.	
c.	

1.11

Miscellaneous Expense	
a.	
b.	
c.	

1.12

Utilities Expense	
a.	
b.	
c.	

Complete this activity.

Kathy Bates owns a business called **Kathy's Korner**. Kathy's Korner uses the following accounts:

Cash	Sales
Supplies	Advertising Expense
Prepaid Insurance	Miscellaneous Expense
Accounts Payable	Rent Expense
Kathy Bates, Capital	Utilities Expense
Kathy Bates, Drawing	

Transactions:

May	1	Received cash from owner as an investment, $6,500.00
	2	Paid cash for insurance, $450.00
	3	Paid cash for supplies, $75.00
	6	Bought supplies on account, $100.00
	7	Received cash from sales, $890.00
	8	Paid cash for the electric bill (Utilities Expense), $125.00
	9	Paid cash for advertising, $50.00
	10	Paid cash on account, $35.00
	11	Received cash from sales, $625.00
	12	Paid cash for Miscellaneous Expense, $6.75
	13	Paid cash to Kathy Bates for personal use, $150.00
	14	Paid cash for rent, $350.00

Instructions:

1.13 Analyze each transaction. The first one has been done for you as an example.
NOTE: Remember that the *account that is to be debited* is to be listed first.

Trans Date	Accounts Affected	Account Classification	Normal Account Balance		Changes in Account Balance		How Change is Entered	
			Debit	Credit	Increase	Decrease	Debit	Credit
5-1	*Cash*	*Asset*	✔		✔		✔	
	K. Bates, Capital	*Capital*		✔	✔			✔

1.14 Using the forms below, prepare a T account for each account for **Kathy's Korner**.

1.15 Analyze each transaction into its debit and credit parts. Write the debit and credit amounts in the proper T account to show how each transaction changes account balances. NOTE: Write the date of the transaction in parentheses before each amount entered in the T accounts. The first one has been done for you as an example.

Cash

(5-1) 6500.00	

Kathy Bates, Capital

	(5-1) 6500.00

Complete this activity.

George Hand owns a business called **Hand Securities** which uses the following accounts:

Cash	Sales
Supplies	Advertising Expense
Prepaid Insurance	Miscellaneous Expense
Visa Credit Card (liability)	Rent Expense
MasterCard Credit Card (liability)	Transfer Fee Expense
George Hand, Capital	Utilities Expense
George Hand, Drawing	

Transactions:

March 1 Received cash from owner as an investment, $2,000.00
2 Bought supplies on account using the Visa credit card, $500.00
3 Paid cash for rent, $500.00
4 Received cash from sale of securities, $650.00
5 Paid cash on account to Visa credit card, $250.00
6 Paid cash for transfer fees, $90.00
7 Received cash from sales of securities, $500.00
8 Paid cash for supplies, $400.00
9 Paid cash for insurance, $350.00
10 Bought supplies on account using the MasterCard credit card, $60.00
11 Paid cash for supplies, $600.00
12 Received cash from sale of securities, $950.00
13 Paid cash for the phone bill (Utilities Expense), $95.00
14 Paid cash for advertising, $230.00
15 Paid cash for miscellaneous expense, $25.00
16 Received cash from sale of securities, $900.00
17 Paid cash to the owner for personal use, $800.00
18 Received cash from sale of securities, $900.00

Instructions:

1.16 Analyze each transaction, using the chart on the following page.

1.17 Prepare a T account for each account for **Hand Securities**. Write the name of each account on the T account forms provided on page 18.

1.18 Analyze each transaction into its debit and credit parts. Write the debit and credit amounts in the proper T account to show how each transaction changes account balances. NOTE: Write the date of the transaction in parentheses before each amount entered in the T accounts.

1.16

Trans Date	Accounts Affected	Account Classification	Normal Account Balance		Changes in Account Balance		How Change is Entered	
			Debit	Credit	Increase	Decrease	Debit	Credit

1.17–1.18

Complete the following activity.

Kay Black opened a real estate business, **Black Real Estate**. During part of the month of June she completed the transactions below. (NOTE: the first two transactions involve more than two accounts. This type of entry is known as a **compound entry**.)

June 1 Invested $52,000.00 cash and office equipment with a market value of $8,000.00 in her real estate agency (*Hint:* you must calculate the amount to be credited to Kay Black, Capital.)

2 Purchased an office building for $105,000.00, paying $45,000.00 cash and signing a note payable for the balance of $60,000.00

3 Paid cash for advertising, $3,000.00

4 Bought office supplies on account, $60.00

5 Paid cash for office equipment, $720.00

6 Paid cash for office salaries, $600.00

7 Received cash for commissions, $8,500.00

8 Paid cash for advertising, $150.00

9 Paid cash on account, $60.00

10 Completed an appraisal on account (Accounts Receivable), $210.00

11 Paid cash for office salaries, $600.00

12 Received cash on account from charge customer, $210.00

13 Paid owner cash for personal use, $1,500.00

Instructions:

1.19 Open the following T accounts:

Assets:
Cash
Accounts Receivable
Office Supplies
Office Equipment
Office Building

Liabilities:
Accounts Payable
Notes Payable

Capital:
Kay Black, Capital
Kay Black, Drawing

Revenue:
Appraisal Fees
Commissions

Expenses:
Advertising Expense
Office Salaries Expense

1.20 Record the transactions by entering debits and credits directly in the T accounts on the next page. Record the transaction date in parentheses to identify each transaction.

1.19–1.20

Summary

1. Ask yourself the following questions when analyzing transactions:
   a. What accounts are affected?
   b. What is the classification of each account?
   c. How are the balances changed (increased or decreased)?
   d. How is each amount entered in the T account?

2. The accounting equation is used to determine placement of the accounts.
   a. Assets are on the left side of the equation.
   b. Liabilities are on the right side of the equation.
   c. Owner's equity (capital) is on the right side of the equation.

3. The classification of the account determines the normal balance side.
   a. Assets are recorded on the left side of the accounting equation; therefore, all assets will have a normal debit balance.
   b. Liabilities are recorded on the right side of the accounting equation; therefore, all liabilities will have a normal credit balance.
   c. Owner's equity is recorded on the right side of the account equation; therefore, the owner's equity (capital) will have a normal credit balance.

4. Changing the balances of the accounts is illustrated by the accounting equation.
   a. Assets have a normal debit balance. To increase any asset, the amount must be entered on the left side or debit side of the account. To decrease any asset, the amount must be entered on the right side or credit side of the account.
   b. Liabilities have a normal credit balance. To increase any liability, the amount must be entered on the right side or credit side. To decrease any liability, the amount must be entered on the left side or debit side.
   c. Capital has a normal credit balance. To increase any owner's equity (capital), the amount must be entered on the ride side or credit side. To decrease owner's equity, the amount must be entered on the left side or debit side.

5. The capital account must show only the investments the owner has made and the transfer of the net profit or loss from his business enterprise. Therefore, it is necessary to set up more accounts as a subdivision of the capital account. These accounts are owner's drawing (contra capital), revenue and expenses.
   a. As a contra capital account, Drawing represents a decrease in the owner's equity because of withdrawals made by the proprietor for his personal expenses. These expenses are not related to the business; therefore, they are not listed among the accounts of the business and cannot be used to determine income or loss. The owner's drawing account has a normal debit balance.
   b. Revenue accounts represent income to the business. This business income will increase the value of the owner's equity. The capital account has a normal credit balance; therefore, any revenue account will also have a normal credit balance.
   c. Expense accounts represent expenditures by the business. These business expenses will decrease the value of the owner's equity. The capital account has a normal credit balance; therefore, any expense will have a normal debit balance. The effect of this balance represents a decrease in capital.

6. Use the T account to analyze each transaction.
   a. The left side is always the debit side of a T account.
   b. The right side is always the credit side of a T account.

Review the material in this section in preparation for the Self Test. The Self Test will check your mastery of this particular section. The items missed on this Self Test will indicate specific areas where restudy is needed for mastery.

SELF TEST 1

Match the following accounting terms with their definitions (each answer, 3 points).

1.01 __________ balance sheet items

1.02 __________ income statement items

1.03 __________ Assets = Liabilities + Capital

1.04 __________ shows the financial position of a business on a specific date

1.05 __________ any entry made in the left-hand column

1.06 __________ an account that has a negative effect on a controlling account

1.07 __________ increase in owner's equity caused by sales

1.08 __________ any entry made in the right-hand column

1.09 __________ the cost of goods and services used in the operation of a business

1.010 __________ reports the revenue, expenses and net income or net loss of a business

a. expense
b. balance sheet
c. debit
d. revenue, expenses
e. assets, liabilities, capital
f. contra account
g. income statement
h. credit
i. accounting equation
j. revenue

Identify each of the following items with an *A, L, C, R* **or** *E* **to indicate whether they are an asset, liability, capital, revenue or expense account** (each answer, 2 points).

1.011 __________ accounts payable

1.012 __________ owner's equity

1.013 __________ a building

1.014 __________ store equipment

1.015 __________ mortgage payable

1.016 __________ supplies

1.017 __________ rent

1.018 __________ money owed to a creditor

1.019 __________ income from fees

1.020 __________ prepaid insurance

1.021 __________ John Jones, Drawing

1.022 __________ cash

1.023 __________ utilities

1.024 __________ sales

1.025 __________ office equipment

1.026 __________ accounts receivable

Write *Debit* **or** *Credit* **to indicate what kind of account balance these items have** (each answer, 2 points).

1.027 ________ asset account

1.028 ________ revenue account

1.029 ________ capital account

1.030 ________ expense account

1.031 ________ liability account

1.032 ________ drawing account

Identify the actions with either *Debit* **or** *Credit* (each answer, 2 points).

1.033 ________ increase a liability

1.034 ________ decrease in capital

1.035 ________ increase in assets

1.036 ________ decrease in assets

1.037 ________ increase in capital

1.038 ________ decrease in liabilities

1.039 ________ increase in revenue

1.040 ________ decrease in expenses

1.041 ________ increase in drawing

1.042 ________ decrease in revenue

75 / **94**

Score ________

Adult Check ________

Initial Date