

Principles of Accounting

Lecture 3

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Subject code: MGM 227



The background features a collage of educational icons including a graduation cap, a target, a play button, an open book, a magnifying glass, and a group of people, overlaid on a blurred image of hands typing on a laptop.

Principles of Accounting

MGM 227

Chapter 2: Recording Business Transactions

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Learning objectives:

- 1) Explain accounts as they relate to the accounting equation and describe common accounts.
- 2) Define debits, credits, and normal account balances using double-entry accounting and T-accounts.
- 3) Record transactions in a journal and post journal entries to the ledger.
- 4) Prepare the trial balance and illustrate how to use the trial balance to prepare financial statements.
- 5) Use the debt ratio to evaluate business performance.



Explain accounts as they relate to the accounting equation and describe common accounts

What is an account?

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

- The accounting equation is made up of three parts or categories: assets, liabilities, and equity. Each category contains accounts.
- An **account** is the detailed record of all increases and decreases that have occurred in an individual asset, liability, or equity during a specified period.

Exhibit 2-1 | **Asset Accounts**

Account Name	Explanation
Cash	A business's money. Includes bank balances, bills, coins, and checks.
Accounts Receivable	A customer's promise to pay in the future for services or goods sold. Often described as "On Account."
Notes Receivable	A <i>written</i> promise that a customer will pay a fixed amount of money and <i>interest</i> by a certain date in the future. Usually more formal than an Accounts Receivable.
Prepaid Expense	A payment of an expense in advance. It is considered an asset because the prepayment provides a benefit in the future. Examples of prepaid expenses are <i>Prepaid Rent</i> , <i>Prepaid Insurance</i> , and <i>Office Supplies</i> .
Equipment, Furniture, and Fixtures	The cost of equipment, furniture, and fixtures (such as light fixtures and shelving). A business has a separate asset account for each type.
Building	The cost of an office building, a store, or a warehouse.
Land	The cost of land a business uses in operations.

Exhibit 2-2
Accounts

Liability

Account Name	Explanation
Accounts Payable	A promise made by the business to pay a debt in the future. Arises from a credit purchase.
Notes Payable	A <i>written</i> promise made by the business to pay a debt, usually involving <i>interest</i> , in the future.
Accrued Liability	An amount owed but not paid. A specific type of payable such as <i>Taxes Payable</i> , <i>Rent Payable</i> , and <i>Salaries Payable</i> .
Unearned Revenue	Occurs when a company receives cash from a customer but has not provided the product or service. The promise to provide services or deliver goods in the future.

Account Name	Explanation
Capital	Represents the net contributions of the owner in the business. Increases equity.
Owner Withdrawals	Distributions of cash or other assets to the owner. Decreases equity.
Revenues	Earnings that result from delivering goods or services to customers. Increases equity. Examples include <i>Service Revenue</i> and <i>Rent Revenue</i> .
Expenses	The cost of selling goods or services. Decreases equity. Examples include <i>Rent Expense</i> , <i>Wages Expense</i> , and <i>Utilities Expense</i> .

Balance Sheet Accounts		
Assets	Liabilities	Equity
101 Cash	201 Accounts Payable	301 Bright, Capital
111 Accounts Receivable	211 Salaries Payable	311 Bright, Withdrawals
121 Notes Receivable	221 Interest Payable	
141 Office Supplies	231 Unearned Revenue	
151 Furniture	241 Notes Payable	
171 Building		
191 Land		
	Income Statement Accounts (Part of Equity)	
	Revenues	Expenses
	401 Service Revenue	501 Rent Expense
	411 Interest Revenue	511 Salaries Expense
		521 Utilities Expense
		531 Advertising Expense

Chart of Accounts

A list of all of a company's accounts with their account numbers.



- Companies need a way to organize their accounts. They use a **chart of accounts** to do this.
- A chart of accounts lists all company accounts along with the account numbers.
- The chart of accounts for Smart Touch Learning appears in Exhibit 2-4. Account numbers are just shorthand versions of the account names.

Account numbers usually have two or more digits. Assets are often numbered beginning with 1, liabilities with 2, owner's equity with 3, revenues with 4, and expenses with 5. The second and third digits in an account number indicate where the account fits within the category. For example, if Smart Touch Learning is using three-digit account numbers, Cash may be account number 101, the first asset account. Accounts Receivable may be account number 111, the second asset. Accounts Payable may be number 201, the first liability. When numbers are used, all accounts are numbered by this system. However, each company chooses its own account numbering system.

Notice in Exhibit 2-4 the gap in account numbers between 121 and 141. Smart Touch Learning may need to add another asset account in the future. For example, the business may start selling some type of inventory and want to use account number 131 for Merchandise Inventory. So, the chart of accounts will change as the business evolves.

Ledger

In addition to a chart of accounts, companies need a way to show all of the increases and decreases in each account along with their balances. Companies use a **ledger** to fulfill this task.

A ledger is a collection of all the accounts, the changes in those accounts, and their balances.

A chart of accounts and a ledger are similar in that they both list the account names and account numbers of the business. A ledger, though, provides more detail. It

includes the increases and decreases of each account for a specific period and the balance of each account at a specific point in time.

Ledger

The record holding all the accounts of a business, the changes in those accounts, and their balances.

> Try It!

Consider the following accounts and identify each as an asset (A), liability (L), or equity (E).

1. Rent Expense

6. Accounts Payable

2. Brock, Capital

7. Unearned Revenue

3. Furniture

8. Notes Receivable

4. Service Revenue

9. Brock, Withdrawals

5. Prepaid Insurance

10. Insurance Expense

> Try It!

Consider the following accounts and identify each as an asset (A), liability (L), or equity (E).

1. Rent Expense

6. Accounts Payable

2. Brock, Capital

7. Unearned Revenue

3. Furniture

8. Notes Receivable

4. Service Revenue

9. Brock, Withdrawals

5. Prepaid Insurance

10. Insurance Expense

Try It!

1. E
2. E
3. A
4. E
5. A
6. L
7. L
8. A
9. E
10. E

2

Define debits, credits, and normal account balances using double-entry accounting and T-accounts

What is Double Entry accounting?

Every transaction must be recorded into at least two accounts. For example, when an owner contributes money in exchange for capital, the two accounts involved are Cash and Owner's Capital. Accounting uses this **double-entry system** to record the dual effects of each transaction. A transaction would be incomplete if only one side were recorded.

Consider a cash purchase of office supplies. What are the dual effects? A cash purchase of office supplies:

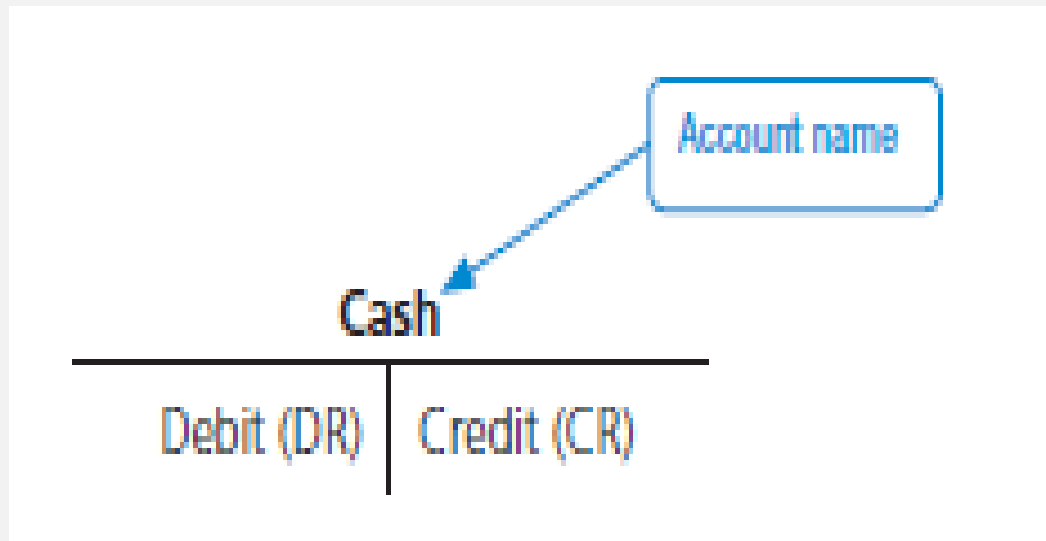
1. Increases the account Office Supplies (you received office supplies)
2. Decreases Cash (you gave cash).

Double-Entry System

A system of accounting in which every transaction affects at least two accounts.

The T-account

A shortened form of the ledger is called the **T-account** because it takes the form of the capital letter T. The vertical line divides the account into its left and right sides, with the account name at the top. For example, the Cash T-account appears as follows:



T-Account

A summary device that is shaped like a capital *T* with debits posted on the left side of the vertical line and credits on the right side of the vertical line.

Debit

The left side of a T-account.

Credit

The right side of a T-account.

The left side of the T-account is called the **debit** side, and the right side is called the **credit** side. To become comfortable using these terms, remember the following: Debits go on the left; credits go on the right. Debit is abbreviated as DR and Credit is abbreviated as CR.

Increases and Decreases in the Accounts

How we record increases and decreases to an account is determined by the account type (asset, liability, or equity). For any given account, increases are recorded on one side and decreases are recorded on the opposite side. The following T-accounts provide a summary:

Assets		}	=	{	Liabilities		+	Equity	
↑	↓				↓	↑		↓	↑
Debit	Credit				Debit	Credit		Debit	Credit

Example: Assume a business wants to record an increase of \$30,000 to the Cash account. The business would record a debit to Cash as follows:



Cash is an asset account and, remember, asset accounts are increased with debits.

Example: What if the business, instead, wanted to record a decrease of \$20,000 to the Cash account? The business would record a credit to Cash because Cash is an asset account and asset accounts are decreased with credits:



Expanding the Rules of Debit and credit

As we have noted, equity contains four account types: Owner's Capital, Owner's Withdrawals, Revenues, and Expenses. Owner's Capital and Revenues increase equity, whereas Owner's Withdrawals and Expenses decrease equity. We must now expand the accounting equation and the rules of debits and credits to include all elements of equity:

Equity																
Assets		-	Liabilities		+	Owner's Capital		-	Owner's Withdrawals		+	Revenues		-	Expenses	
↑	↓		↓	↑		↓	↑		↑	↓		↓	↑		↑	↓
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Notice in the expanded accounting equation that Owner's Withdrawals and Expenses record increases and decreases opposite of Owner's Capital and Revenues. This is because increases in Owner's Withdrawals and Expenses decrease equity.

The normal Balance of an account

All accounts have a normal balance. An account's **normal balance** appears on the side— either debit or credit— where we record an *increase* (↑) in the account's balance. For example, assets are increased with a debit, so the normal balance is a debit. Liabilities and equity are increased with a credit so the normal balance is a credit. Expenses and Owner's Withdrawal are equity accounts that have normal debit balances—unlike the other equity accounts. They have debit balances because they decrease equity. Owner's Capital and Revenues have a normal balance of credit. Let's look again at the accounting equation, this time with the normal balances marked:

Assets		=		Liabilities		+ Owner's Capital		- Owner's Withdrawals		+ Revenues		- Expenses	
↑	↓			↓	↑	↓	↑	↑	↓	↓	↑	↑	↓
Debit	Credit			Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Normal Balance					Normal Balance	Normal Balance	Normal Balance	Normal Balance		Normal Balance	Normal Balance		

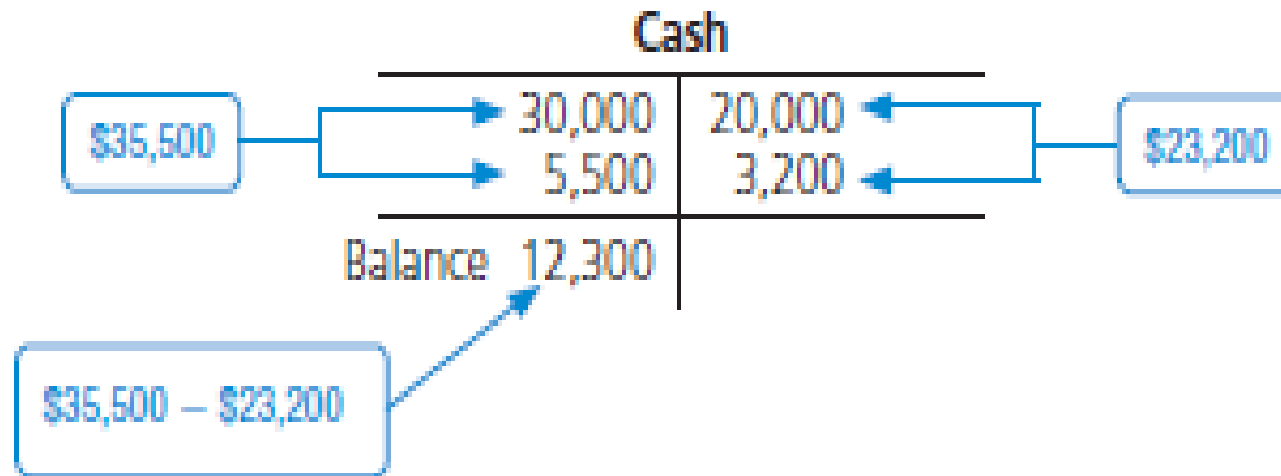
An account with a normal debit balance may occasionally have a credit balance. That indicates a negative amount in the account. For example, Cash will have a credit balance if the business overdraws its bank account. Also, the liability, Accounts Payable—a normal credit balance account—could have a debit balance if the company overpays its accounts payable. In other cases, a non-normal account balance indicates an error. For example, a credit balance in Office Supplies, Furniture, or Buildings is an error because negative amounts of these assets make no sense.

Exhibit 2-5 | Rules of Debit and Credit and Normal Balances for Each Account Type

Account Type	Increases	Decreases	Normal Balance
Assets	Debit	Credit	Debit
Expenses	Debit	Credit	Debit
Owner's Withdrawals	Debit	Credit	Debit
Liabilities	Credit	Debit	Credit
Revenues	Credit	Debit	Credit
Owner's Capital	Credit	Debit	Credit

Determining the Balance of a T-Account

T-accounts can be used to determine the amount remaining in an account or the *balance* of the account. To illustrate, let's look at the following Cash T-Account:



The balance of this Cash account is \$12,300. This is calculated by adding each side of the account separately (\$35,500 and \$23,200) and then subtracting the smaller number from the larger number (\$35,500 - \$23,200). The balance (\$12,300) is always reported on the side with the larger number.

> Try It!

For each account, identify if the change would be recorded as a debit (DR) or credit (CR).

11. Increase to Cash

16. Increase to Interest Revenue

12. Decrease to Accounts Payable

17. Increase to Rent Expense

13. Increase to Brock, Capital

18. Decrease to Office Supplies

14. Increase to Unearned Revenue

19. Increase to Prepaid Rent

15. Decrease to Accounts Receivable

20. Increase to Notes Payable

> Try It!

For each account, identify if the change would be recorded as a debit (DR) or credit (CR).

11. Increase to Cash	16. Increase to Interest Revenue
12. Decrease to Accounts Payable	17. Increase to Rent Expense
13. Increase to Brock, Capital	18. Decrease to Office Supplies
14. Increase to Unearned Revenue	19. Increase to Prepaid Rent
15. Decrease to Accounts Receivable	20. Increase to Notes Payable

- 11. DR
- 12. DR
- 13. CR
- 14. CR
- 15. CR
- 16. CR
- 17. DR
- 18. CR
- 19. DR
- 20. CR



Record transactions in a journal and post journal entries to the ledger

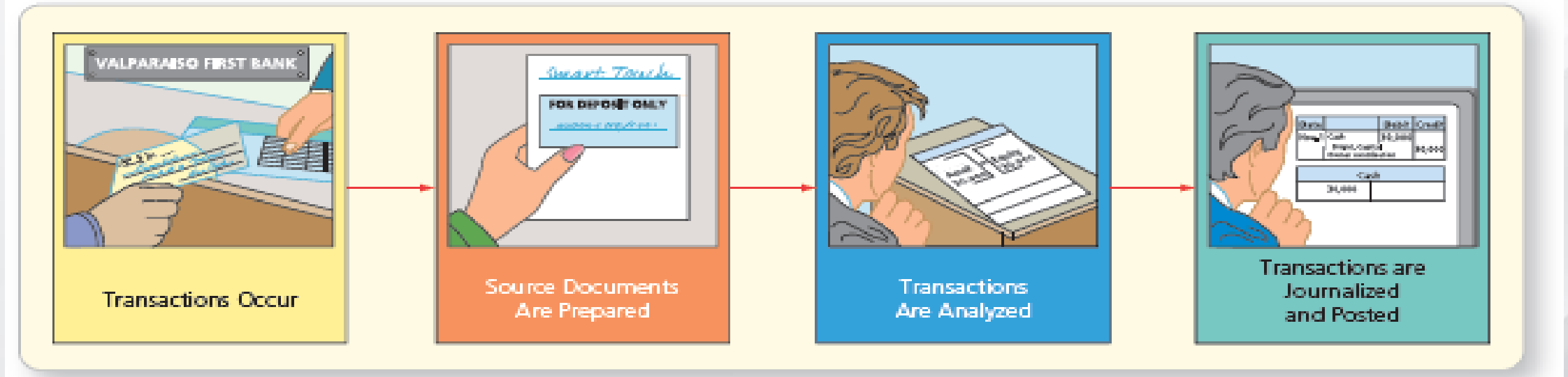
How Do you Record Transactions?

Source Document

Provides the evidence and data for accounting transactions.

Accountant use **source documents** to provide the evidence and data for recording transactions. For example, consider Sheena Bright's contribution of \$30,000 to the business. Exhibit 2-6 illustrates the transaction. In that exhibit, Smart Touch Learning received \$30,000 and deposited it in the bank. The business then gave capital to Sheena Bright. The check received and the bank deposit slip are the source documents that show the amount of cash received by the business and the capital contribution of the owner, Sheena Bright. Based on these documents, the business can determine how to record this transaction.

Exhibit 2-6 | Flow of Accounting Data



Other source documents that businesses use include the following:

- **Purchase invoices.**
 - **Bank checks.**
 - **Sales invoices.**
- Documents provided to clients when a business.

Journalizing and Posting Transactions

Journal
A record of transactions in date order.

Posting
Transferring data from the journal to the ledger.

After accountants review the source documents, they are then ready to record the transactions. Transactions are first recorded in a **journal**, which is the record of transactions in date order. Journalizing a transaction records the data only in the journal—but not in the ledger (the record holding all of the accounts of a business). The data must also be transferred to the ledger. The process of transferring data from the journal to the ledger is called **posting**. We post from the journal to the ledger. Debits in the journal are posted as debits in the ledger and credits as credits “no exceptions”.

Transaction 1—Owner Contribution

On November 1, the e-learning agency receives \$30,000 cash from the owner, Sheena Bright, and the business gave capital to her.

Equity																
Assets		-	Liabilities		+	Owner's Capital		-	Owner's Withdrawals		+	Revenues		-	Expenses	
↑ Debit	↓ Credit		↓ Debit	↑ Credit		↓ Debit	↑ Credit		↑ Debit	↓ Credit		↓ Debit	↑ Credit		↑ Debit	↓ Credit
Cash is an asset account that is increasing: Debit.						Bright, Capital is an equity account that is increasing: Credit.										

Record the transaction in the journal.

1. Date of the transaction.

2. Debit account name and dollar amount.

Date	Accounts and Explanation	Debit	Credit
Nov. 1	Cash	30,000	
	Bright, Capital		30,000
	Owner contribution.		

4. Brief explanation.

3. Credit account name and dollar amount. The credit account name is indented.

$$\begin{array}{c} \text{A} \uparrow \\ \hline \text{Cash} \uparrow \end{array} \left. \vphantom{\begin{array}{c} \text{A} \uparrow \\ \hline \text{Cash} \uparrow \end{array}} \right\} = \left\{ \begin{array}{c} \text{L} \\ \hline \end{array} + \begin{array}{c} \text{E} \uparrow \\ \hline \text{Bright,} \\ \text{Capital} \uparrow \end{array} \right.$$

Post the journal entry to the ledger.

Date	Accounts and Explanation	Debit	Credit
Nov. 1	Cash	30,000	
	Bright, Capital		30,000
	Owner contribution.		

Cash		Bright, Capital	
Nov. 1	30,000	30,000	Nov. 1

Determine if the accounting equation is in balance.

$$\begin{array}{r}
 \text{Assets} \\
 \hline
 \text{Cash} \\
 (1) \quad + 30,000
 \end{array}
 =
 \begin{array}{r}
 \text{Liabilities} \\
 \hline
 \text{Equity} \\
 \hline
 \text{Bright, Capital} \\
 + 30,000
 \end{array}$$

Transaction 2—Purchase of Land for Cash

On November 2, Smart Touch Learning paid \$20,000 cash for land.

Equity

Assets		-	Liabilities		+	Owner's Capital		-	Owner's Withdrawals		+	Revenues		-	Expenses	
↑	↓		↓	↑		↓	↑		↑	↓		↓	↑		↑	↓
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

Land is an asset that is increasing: Debit.

Cash is an asset that is decreasing: Credit.

Date	Accounts and Explanation	Debit	Credit
Nov. 2	Land	20,000	
	Cash		20,000
	<i>Paid cash for land.</i>		

$$\left. \begin{array}{c} \text{A} \uparrow \downarrow \\ \text{Land} \uparrow \\ \text{Cash} \downarrow \end{array} \right\} = \left\{ \begin{array}{c} \text{L} \\ + \\ \text{E} \end{array} \right.$$

Cash			Land	
Nov. 1	30,000	20,000	Nov. 2	20,000

Assets			Liabilities	+	Equity
Cash	+	Land		+	Bright, Capital
Bal.	\$30,000				\$30,000
(2)	-20,000	+20,000			
Bal.	\$10,000	+			\$30,000

Transaction 3—Purchase of Office supplies on credit

Smart Touch Learning buys \$500 of office supplies on account on November 3.

Date	Accounts and Explanation	Debit	Credit
Nov. 3	Office Supplies	500	
	Accounts Payable		500
	<i>Purchased office supplies on account.</i>		

$$\left. \begin{array}{c} \text{A}\uparrow \\ \text{Office Supplies}\uparrow \end{array} \right\} = \left\{ \begin{array}{c} \text{L}\uparrow \\ \text{Accounts Payable}\uparrow \end{array} + \begin{array}{c} \text{E} \end{array} \right.$$

Office Supplies	
Nov. 3	500

Accounts Payable	
500	Nov. 3

Transaction 4—Earning of service Revenue for cash On November 8, Smart Touch Learning collected cash of \$5,500 for service revenue that the business earned by providing e-learning

$$\left. \begin{array}{c} \text{A}\uparrow \\ \text{Cash}\uparrow \end{array} \right\} = \left\{ \begin{array}{c} \text{L} \end{array} + \begin{array}{c} \text{E}\uparrow \\ \text{Service Revenue}\uparrow \end{array} \right.$$

Date	Accounts and Explanation	Debit	Credit
Nov. 8	Cash	5,500	
	Service Revenue		5,500
	<i>Performed services and received cash.</i>		

Cash	
Nov. 1	30,000
Nov. 8	5,500
20,000	Nov. 2

Service Revenue	
5,500	Nov. 8

Transaction 5—Earning of service Revenue on account

On November 10, Smart Touch Learning performed services for clients, for which the clients will pay the company later. The business earned \$3,000 of service revenue on account.

$$\left. \begin{array}{c} \text{A} \uparrow \\ \hline \text{Accounts} \\ \text{Receivable} \uparrow \end{array} \right\} = \left\{ \begin{array}{c} \text{L} \\ \hline \end{array} + \begin{array}{c} \text{E} \uparrow \\ \hline \text{Service} \\ \text{Revenue} \uparrow \end{array} \right.$$

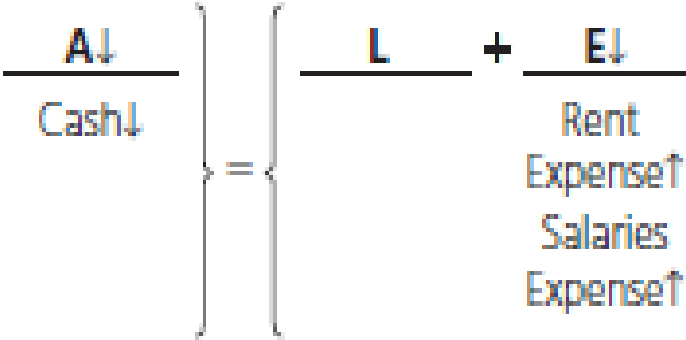
Date	Accounts and Explanation	Debit	Credit
Nov. 10	Accounts Receivable	3,000	
	Service Revenue		3,000
	<i>Performed services on account.</i>		

Accounts Receivable		Service Revenue	
Nov. 10	3,000	5,500	Nov. 8
		3,000	Nov. 10

Transaction 6—Payment of Expenses with cash

Smart Touch Learning paid the following cash expenses on November 15: Office rent, \$2,000 and employee salaries, \$1,200.

Date	Accounts and Explanation	Debit	Credit
Nov. 15	Rent Expense	2,000	
	Salaries Expense	1,200	
	Cash		3,200
	<i>Paid cash expenses.</i>		



Compound Journal Entry

A journal entry that is characterized by having multiple debits and/or multiple credits.

Cash			
Nov. 1	30,000	20,000	Nov. 2
Nov. 8	5,500	3,200	Nov. 15

Rent Expense	
Nov. 15	2,000

Salaries Expense	
Nov. 15	1,200

Notice that the journal entry has three accounts involved—two debits and one credit. This is a compound journal entry. A **compound journal entry** has more than two accounts, but total debits still must equal total credits.

Transaction 7—Payment on account (accounts Payable)

On November 21, Smart Touch Learning paid \$300 on the accounts payable created in Transaction 3.

Date	Accounts and Explanation	Debit	Credit
Nov. 21	Accounts Payable	300	
	Cash		300
	<i>Paid cash on account.</i>		

Cash				Accounts Payable			
Nov. 1	30,000	20,000	Nov. 2	Nov. 21	300	500	Nov. 3
Nov. 8	5,500	3,200	Nov. 15				
		300	Nov. 21				

Transaction 8—collection on account (accounts Receivable)

On November 22, Smart Touch Learning collected \$2,000 cash from a client in Transaction 5.

Date	Accounts and Explanation	Debit	Credit
Nov. 22	Cash	2,000	
	Accounts Receivable		2,000
	<i>Received cash on account.</i>		

Cash				Accounts Receivable			
Nov. 1	30,000	20,000	Nov. 2	Nov. 10	3,000	2,000	Nov. 22
Nov. 8	5,500	3,200	Nov. 15				
Nov. 22	2,000	300	Nov. 21				

Transaction 9—Owner Withdrawal of cash On November 25, Sheena Bright withdrew cash of \$5,000.

Date	Accounts and Explanation	Debit	Credit
Nov. 25	Bright, Withdrawals	5,000	
	Cash		5,000
	<i>Owner withdrawal.</i>		

Cash			Bright, Withdrawals		
Nov. 1	30,000	20,000	Nov. 2		
Nov. 8	5,500	3,200	Nov. 15		
Nov. 22	2,000	300	Nov. 21		
		5,000	Nov. 25	5,000	

Transaction 10—Prepaid Expenses On December 1, Smart Touch Learning prepays three months' office rent of \$3,000

Date	Accounts and Explanation	Debit	Credit
Dec. 1	Prepaid Rent	3,000	
	Cash		3,000
	<i>Paid rent in advance.</i>		

Cash			Prepaid Rent		
Nov. 1	30,000	20,000	Nov. 2		
Nov. 8	5,500	3,200	Nov. 15		
Nov. 22	2,000	300	Nov. 21		
		5,000	Nov. 25		
		3,000	Dec. 1	3,000	

Transaction 11—Payment of Expense with cash On December 1, Smart Touch Learning paid employee salaries of \$1,200.

Date	Accounts and Explanation	Debit	Credit
Dec. 1	Salaries Expense	1,200	
	Cash		1,200
	<i>Paid salaries.</i>		

Cash			Salaries Expense		
Nov. 1	30,000	20,000	Nov. 2	Nov. 15	1,200
Nov. 8	5,500	3,200	Nov. 15	Dec. 1	1,200
Nov. 22	2,000	300	Nov. 21		
		5,000	Nov. 25		
		3,000	Dec. 1		
		1,200	Dec. 1		

Transaction 12—Purchase of Building with notes Payable On December 1, Smart Touch Learning purchased a \$60,000 building in exchange for a notes payable.

Date	Accounts and Explanation	Debit	Credit
Dec. 1	Building	60,000	
	Notes Payable		60,000
	<i>Purchase of building with note.</i>		

Building		Notes Payable	
Dec. 1	60,000	60,000	Dec. 1

Transaction 13—Owner contribution On December 2, Smart Touch Learning received a contribution of furniture with a fair market value of \$18,000 from Sheena Bright

Date	Accounts and Explanation	Debit	Credit
Dec. 2	Furniture	18,000	
	Bright, Capital		18,000
	<i>Owner contribution of furniture.</i>		

Furniture		Bright, Capital	
Dec. 2	18,000	30,000	Nov. 1
		18,000	Dec. 2

Transaction 14—accrued Liability On December 15, Smart Touch Learning received a telephone bill for \$100 and will pay this expense next month.

Date	Accounts and Explanation	Debit	Credit
Dec. 15	Utilities Expense	100	
	Utilities Payable		100
	<i>Accrued utility liability.</i>		

Utilities Payable		Utilities Expense	
	100	Dec. 15	100

Transaction 15—Payment of Expense With cash

On December 15, Smart Touch Learning paid employee salaries of \$1,200.

Date	Accounts and Explanation	Debit	Credit
Dec. 15	Salaries Expense	1,200	
	Cash		1,200
	<i>Paid salaries.</i>		

Cash		Salaries Expense	
Nov. 1	30,000	20,000	Nov. 2
Nov. 8	5,500	3,200	Nov. 15
Nov. 22	2,000	300	Nov. 21
		5,000	Nov. 25
		3,000	Dec. 1
		1,200	Dec. 1
		1,200	Dec. 15

Transaction 16—unearned Revenue

On December 21, a law firm engages Smart Touch Learning to provide e-learning services and agrees to pay \$600 in advance.

Date	Accounts and Explanation	Debit	Credit
Dec. 21	Cash	600	
	Unearned Revenue		600
	<i>Collected cash for future services.</i>		

Cash		Unearned Revenue	
Nov. 1	30,000	20,000	Nov. 2
Nov. 8	5,500	3,200	Nov. 15
Nov. 22	2,000	300	Nov. 21
Dec. 21	600	5,000	Nov. 25
		3,000	Dec. 1
		1,200	Dec. 1
		1,200	Dec. 15

Transaction 17—Earning of Service Revenue for Cash

On December 28, Smart Touch Learning collected cash of \$8,000 for Service Revenue that the business earned by providing e-learning services for clients.

Date	Accounts and Explanation	Debit	Credit
Dec. 28	Cash	8,000	
	Service Revenue		8,000
	<i>Performed services and received cash.</i>		

Cash

Nov. 1	30,000	20,000	Nov. 2
Nov. 8	5,500	3,200	Nov. 15
Nov. 22	2,000	300	Nov. 21
Dec. 21	600	5,000	Nov. 25
Dec. 28	8,000	3,000	Dec. 1
		1,200	Dec. 1
		1,200	Dec. 15

Service Revenue

5,500	Nov. 8
3,000	Nov. 10
8,000	Dec. 28

1. Which of the following is not classified under asset accounts?
 - a. Cash
 - b. Account receivables
 - c. Notes receivable
 - d. Accrued liability

2. A written promise made by the business to pay a debt, usually involving interest in the future, is also called
 - a. accrued liability.
 - b. unearned revenue.
 - c. notes payable.
 - d. accounts payable.

3. Which of the following is not true about T-account?
 - a. It is also called a ledger.
 - b. The left side is called debt.
 - c. The right side is called credit.
 - d. Increases in amount are recorded on both sides.

4. Which of the following does not come under equity?
- Owner's withdrawal
 - Revenues
 - Owner's capital
 - Accounts receivable
5. Your business purchased office supplies of \$2,500 on account. The journal entry to record this transaction is as follows:

a.

Office Supplies	2,500	
Accounts Receivable		2,500

b.

Office Supplies	2,500	
Accounts Payable		2,500

c.

Accounts Payable	2,500	
Office Supplies		2,500

d.

Cash	2,500	
Accounts Payable		2,500

6. Sedlor Properties purchased office supplies on account for \$800. Which journal entry records the payment of those office supplies?

a.

Accounts Payable	800	
Accounts Receivable		800

b.

Accounts Payable	800	
Cash		800

c.

Cash	800	
Accounts Payable		800

d.

Office Supplies	800	
Cash		800

7. Posting a \$2,500 purchase of office supplies on account appears as follows:

a.	<table><tr><th colspan="2">Cash</th></tr><tr><td></td><td>2,500</td></tr></table>	Cash			2,500	<table><tr><th colspan="2">Office Supplies</th></tr><tr><td>2,500</td><td></td></tr></table>	Office Supplies		2,500	
Cash										
	2,500									
Office Supplies										
2,500										
b.	<table><tr><th colspan="2">Office Supplies</th></tr><tr><td></td><td>2,500</td></tr></table>	Office Supplies			2,500	<table><tr><th colspan="2">Accounts Payable</th></tr><tr><td>2,500</td><td></td></tr></table>	Accounts Payable		2,500	
Office Supplies										
	2,500									
Accounts Payable										
2,500										
c.	<table><tr><th colspan="2">Office Supplies</th></tr><tr><td>2,500</td><td></td></tr></table>	Office Supplies		2,500		<table><tr><th colspan="2">Accounts Receivable</th></tr><tr><td></td><td>2,500</td></tr></table>	Accounts Receivable			2,500
Office Supplies										
2,500										
Accounts Receivable										
	2,500									
d.	<table><tr><th colspan="2">Office Supplies</th></tr><tr><td>2,500</td><td></td></tr></table>	Office Supplies		2,500		<table><tr><th colspan="2">Accounts Payable</th></tr><tr><td></td><td>2,500</td></tr></table>	Accounts Payable			2,500
Office Supplies										
2,500										
Accounts Payable										
	2,500									

9. Which is following is not one of the source documents that accountants use to record data?
- a. Purchase invoices
 - b. Bank checks
 - c. Sales invoices
 - d. Bank guarantee

1. d 2. c 3. d 4. d 5. b 6. b 7. d 9. d



Thank You