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COLLEGE ACCOUNTING

A Career Approach



Cathy J. Scott

College Accounting

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Cathy J. Scott

Navarro College



Australia • Brazil • Mexico • Singapore • United Kingdom • United States

**College Accounting: A Career Approach,
Thirteenth Edition****Cathy J. Scott**Vice President, General Manager,
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About the Author

Cathy J. Scott, Ph.D.

Cathy J. Scott is a Professor of Accounting and the Accounting Program Department Chair at Navarro College. She is a proud recipient of the American Accounting Association's Two Year Outstanding Educator of the Year Award, Navarro College's Teaching of Excellence Award, and the Texas Society of Certified Public Accountants Outstanding Educator Award. Professor Scott received her bachelor's degree from Nazareth College, an MBA from Amberton University, a post-graduate Accounting degree from Keller Graduate School of Management, and a Ph.D. from Capella University. Professor Scott made a career shift into academics after a 25-year accounting and consulting career within the automotive industry. Professor Scott is currently the Two Year Section Vice President and Council Representative for the American Accounting Association. She also serves as a board member for the Teachers of Accounting at Two Year Colleges, and is a member of the Texas

Society of Certified Public Accountants Educational Institutions committee. Professor Scott is also a member of the Academy of Management, Institute of Management Accountants, National Business Education Association, and Texas Community College Teachers Association. Professor Scott has a passion for improving accounting education and has spoken on numerous occasions about effectively using technology in the classroom, improving online education, and engaging students with active learning. Professor Scott is also the co-founder of the TeachingAndLearningToolbox.com, a teaching and learning website and blog that links technology to pedagogy as well as provides tips to successfully incorporate technology into courses. In her free time, Professor Scott enjoys spending time with her family on her farm in North Texas, in addition to raising and showing her Arabian horses.



Courtesy of Cathy Scott



Close the Gap

Between Homework and Exam Performance

with CengageNOWv2.

We've talked with hundreds of accounting instructors across the country and we are learning that online homework systems have created a new challenge in the accounting course.

We are hearing that students perform well on the homework but poorly on the exam, which leads instructors to believe that students are not truly learning the content, rather memorizing their way through the system.



CengageNOWv2 better prepares students for the exam by providing an online homework experience that is similar to what students will experience on the exam and in the real-world.

Read on to see how CengageNOWv2 helps close this gap.

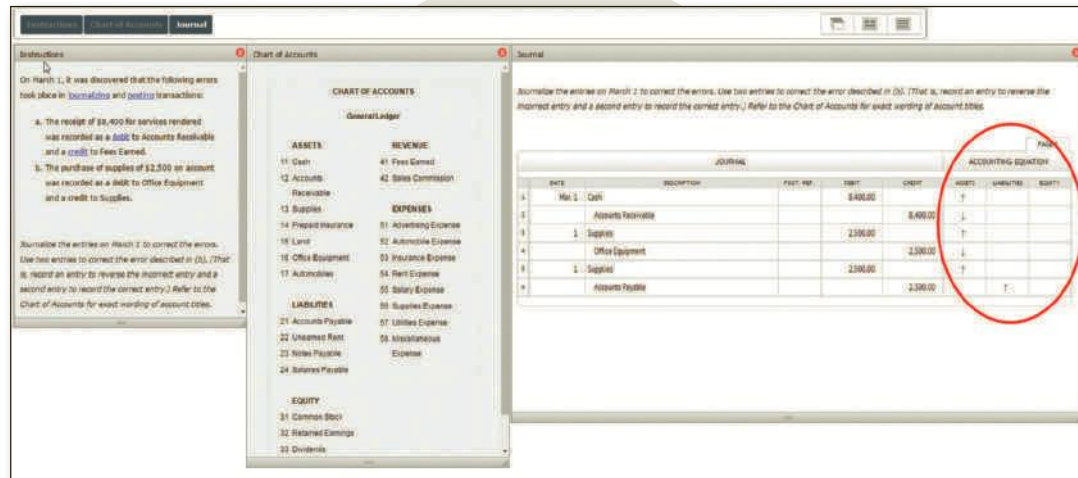
Closing the gap, one step at a time.



Multi-Panel View

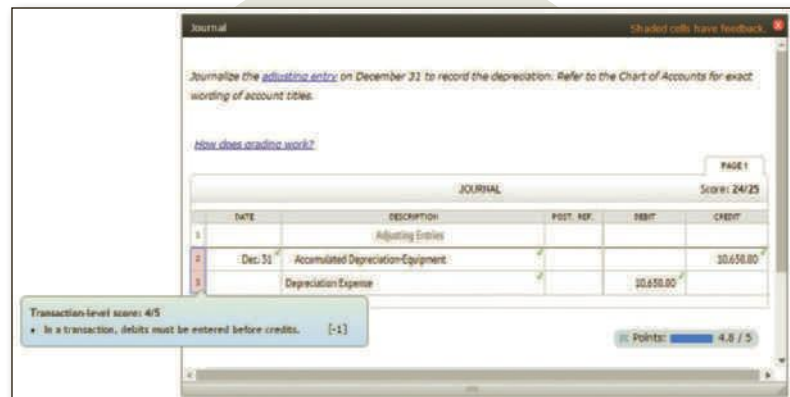
One of the biggest complaints students have about online homework is the scrolling, which prevents students from seeing the big picture and understanding the accounting system. This new Multi-Panel View in CengageNOWv2 enables students to see all the elements of a problem on one screen.

- Students make connections and see the tasks as connected components in the accounting process.
- Dramatically reduced scrolling eliminates student frustration.



Adaptive Feedback

Adaptive Feedback responds to students based upon their unique answers and alerts them to the type of error they have made without giving away the answer.



From Motivation to Mastery



MOTIVATION:

Engage students and better prepare them for class.

Adaptive Study Plan

The Adaptive Study Plan is an assignable/gradable study center that adapts to each student's unique needs and provides a remediation pathway to keep students progressing.

Prepaid Insurance

- The debit balance of \$2,400 in NetSolutions' prepaid insurance account represents the December 1 prepayment of insurance for 12 months.

Date	Account	Debit	Credit
Dec. 31	Insurance Expense	16,450	
	Prepaid Insurance		16,450

Insurance expired (\$2,400 ÷ 12).

Adjusting Entry for Prepaid Insurance

The balance in the prepaid insurance account, before adjustment at the end of the year, is \$21,700. Journalize the adjusting entry required under each of the following alternatives for determining the amount of the adjustment: (a) the amount of insurance expired during the year is \$16,450 (b) the amount of unexpired insurance applicable to future periods is \$5,250.

Date	Description	Post. Ref.	Debit	Credit
Dec. 31	Insurance Expense		16,450	
	Prepaid Insurance			16,450

Assets = Liabilities + Owner's Equity (Expense)

Account	Balance	Debit	Credit
Prepaid Insurance	21,700		
Insurance Expense		16,450	

APPLICATION:

Help students apply accounting concepts.

Video: Show Me How

Linked to end-of-chapter problems in CengageNOWv2, Show Me How problem demonstration videos provide a step-by-step model of a similar problem.

Practice Exercise

Record the following transactions in the grid provided below.

- Transaction (a): Company bought equipment for \$8,000 on account.
- Transaction (b): Company sold services on account for \$6,300.
- Transaction (c): Customer paid \$3,000 on account.
- Transaction (d): Company owner invested personal computer system in the business (the market value, \$3,400) (depreciation).

Account	Debit	Credit
Cash		
Equipment		
Accounts Payable		
Accounts Receivable		
Service Revenue		
Owner's Investment		

MASTERY:

Teach students to go beyond memorization to true understanding.

Comprehensive Review Problems for *College Accounting: A Career Approach*

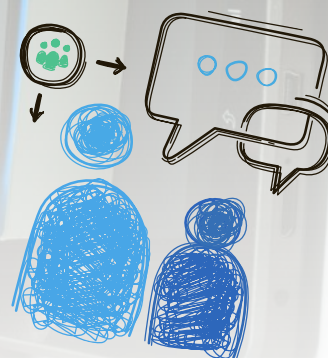
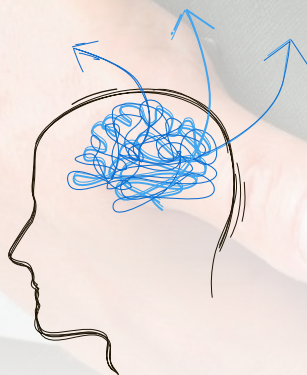
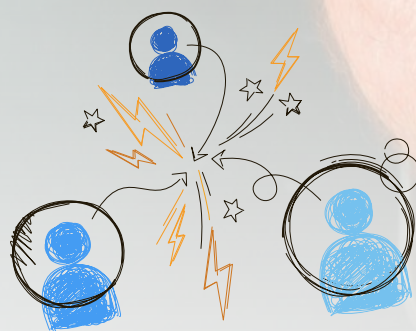
These problems allow students to master fundamental accounting concepts and objectives for each chapter.

Comprehensive Review Problems

Chapter 1: Introduction to Accounting

Problem 1: The following information pertains to the business of ABC Company for the month of January:

Date	Description	Debit	Credit
Jan. 1	Owner's Investment		10,000
Jan. 2	Equipment	5,000	
Jan. 3	Cash		2,000
Jan. 4	Accounts Payable		3,000
Jan. 5	Service Revenue		4,000
Jan. 6	Cash		1,000
Jan. 7	Accounts Payable		2,000
Jan. 8	Equipment	1,000	
Jan. 9	Cash		3,000
Jan. 10	Accounts Payable		1,000
Jan. 11	Service Revenue		2,000
Jan. 12	Cash		1,000
Jan. 13	Accounts Payable		2,000
Jan. 14	Equipment	1,000	
Jan. 15	Cash		3,000
Jan. 16	Accounts Payable		1,000
Jan. 17	Service Revenue		2,000
Jan. 18	Cash		1,000
Jan. 19	Accounts Payable		2,000
Jan. 20	Equipment	1,000	
Jan. 21	Cash		3,000
Jan. 22	Accounts Payable		1,000
Jan. 23	Service Revenue		2,000
Jan. 24	Cash		1,000
Jan. 25	Accounts Payable		2,000
Jan. 26	Equipment	1,000	
Jan. 27	Cash		3,000
Jan. 28	Accounts Payable		1,000
Jan. 29	Service Revenue		2,000
Jan. 30	Cash		1,000
Jan. 31	Accounts Payable		2,000
Jan. 32	Equipment	1,000	
Jan. 33	Cash		3,000
Jan. 34	Accounts Payable		1,000
Jan. 35	Service Revenue		2,000
Jan. 36	Cash		1,000
Jan. 37	Accounts Payable		2,000
Jan. 38	Equipment	1,000	
Jan. 39	Cash		3,000
Jan. 40	Accounts Payable		1,000
Jan. 41	Service Revenue		2,000
Jan. 42	Cash		1,000
Jan. 43	Accounts Payable		2,000
Jan. 44	Equipment	1,000	
Jan. 45	Cash		3,000
Jan. 46	Accounts Payable		1,000
Jan. 47	Service Revenue		2,000
Jan. 48	Cash		1,000
Jan. 49	Accounts Payable		2,000
Jan. 50	Equipment	1,000	
Jan. 51	Cash		3,000
Jan. 52	Accounts Payable		1,000
Jan. 53	Service Revenue		2,000
Jan. 54	Cash		1,000
Jan. 55	Accounts Payable		2,000
Jan. 56	Equipment	1,000	
Jan. 57	Cash		3,000
Jan. 58	Accounts Payable		1,000
Jan. 59	Service Revenue		2,000
Jan. 60	Cash		1,000
Jan. 61	Accounts Payable		2,000
Jan. 62	Equipment	1,000	
Jan. 63	Cash		3,000
Jan. 64	Accounts Payable		1,000
Jan. 65	Service Revenue		2,000
Jan. 66	Cash		1,000
Jan. 67	Accounts Payable		2,000
Jan. 68	Equipment	1,000	
Jan. 69	Cash		3,000
Jan. 70	Accounts Payable		1,000
Jan. 71	Service Revenue		2,000
Jan. 72	Cash		1,000
Jan. 73	Accounts Payable		2,000
Jan. 74	Equipment	1,000	
Jan. 75	Cash		3,000
Jan. 76	Accounts Payable		1,000
Jan. 77	Service Revenue		2,000
Jan. 78	Cash		1,000
Jan. 79	Accounts Payable		2,000
Jan. 80	Equipment	1,000	
Jan. 81	Cash		3,000
Jan. 82	Accounts Payable		1,000
Jan. 83	Service Revenue		2,000
Jan. 84	Cash		1,000
Jan. 85	Accounts Payable		2,000
Jan. 86	Equipment	1,000	
Jan. 87	Cash		3,000
Jan. 88	Accounts Payable		1,000
Jan. 89	Service Revenue		2,000
Jan. 90	Cash		1,000
Jan. 91	Accounts Payable		2,000
Jan. 92	Equipment	1,000	
Jan. 93	Cash		3,000
Jan. 94	Accounts Payable		1,000
Jan. 95	Service Revenue		2,000
Jan. 96	Cash		1,000
Jan. 97	Accounts Payable		2,000
Jan. 98	Equipment	1,000	
Jan. 99	Cash		3,000
Jan. 100	Accounts Payable		1,000
Jan. 101	Service Revenue		2,000
Jan. 102	Cash		1,000
Jan. 103	Accounts Payable		2,000
Jan. 104	Equipment	1,000	
Jan. 105	Cash		3,000
Jan. 106	Accounts Payable		1,000
Jan. 107	Service Revenue		2,000
Jan. 108	Cash		1,000
Jan. 109	Accounts Payable		2,000
Jan. 110	Equipment	1,000	
Jan. 111	Cash		3,000
Jan. 112	Accounts Payable		1,000
Jan. 113	Service Revenue		2,000
Jan. 114	Cash		1,000
Jan. 115	Accounts Payable		2,000
Jan. 116	Equipment	1,000	
Jan. 117	Cash		3,000
Jan. 118	Accounts Payable		1,000
Jan. 119	Service Revenue		2,000
Jan. 120	Cash		1,000
Jan. 121	Accounts Payable		2,000
Jan. 122	Equipment	1,000	
Jan. 123	Cash		3,000
Jan. 124	Accounts Payable		1,000
Jan. 125	Service Revenue		2,000
Jan. 126	Cash		1,000
Jan. 127	Accounts Payable		2,000
Jan. 128	Equipment	1,000	
Jan. 129	Cash		3,000
Jan. 130	Accounts Payable		1,000
Jan. 131	Service Revenue		2,000
Jan. 132	Cash		1,000
Jan. 133	Accounts Payable		2,000
Jan. 134	Equipment	1,000	
Jan. 135	Cash		3,000
Jan. 136	Accounts Payable		1,000
Jan. 137	Service Revenue		2,000
Jan. 138	Cash		1,000
Jan. 139	Accounts Payable		2,000
Jan. 140	Equipment	1,000	
Jan. 141	Cash		3,000
Jan. 142	Accounts Payable		1,000
Jan. 143	Service Revenue		2,000
Jan. 144	Cash		1,000
Jan. 145	Accounts Payable		2,000
Jan. 146	Equipment	1,000	
Jan. 147	Cash		3,000
Jan. 148	Accounts Payable		1,000
Jan. 149	Service Revenue		2,000
Jan. 150	Cash		1,000
Jan. 151	Accounts Payable		2,000
Jan. 152	Equipment	1,000	
Jan. 153	Cash		3,000
Jan. 154	Accounts Payable		1,000
Jan. 155	Service Revenue		2,000
Jan. 156	Cash		1,000
Jan. 157	Accounts Payable		2,000
Jan. 158	Equipment	1,000	
Jan. 159	Cash		3,000
Jan. 160	Accounts Payable		1,000
Jan. 161	Service Revenue		2,000
Jan. 162	Cash		1,000
Jan. 163	Accounts Payable		2,000
Jan. 164	Equipment	1,000	
Jan. 165	Cash		3,000
Jan. 166	Accounts Payable		1,000
Jan. 167	Service Revenue		2,000
Jan. 168	Cash		1,000
Jan. 169	Accounts Payable		2,000
Jan. 170	Equipment	1,000	
Jan. 171	Cash		3,000
Jan. 172	Accounts Payable		1,000
Jan. 173	Service Revenue		2,000
Jan. 174	Cash		1,000
Jan. 175	Accounts Payable		2,000
Jan. 176	Equipment	1,000	
Jan. 177	Cash		3,000
Jan. 178	Accounts Payable		1,000
Jan. 179	Service Revenue		2,000
Jan. 180	Cash		1,000
Jan. 181	Accounts Payable		2,000
Jan. 182	Equipment	1,000	
Jan. 183	Cash		3,000
Jan. 184	Accounts Payable		1,000
Jan. 185	Service Revenue		2,000
Jan. 186	Cash		1,000
Jan. 187	Accounts Payable		2,000
Jan. 188	Equipment	1,000	
Jan. 189	Cash		3,000
Jan. 190	Accounts Payable		1,000
Jan. 191	Service Revenue		2,000
Jan. 192	Cash		1,000
Jan. 193	Accounts Payable		2,000
Jan. 194	Equipment	1,000	
Jan. 195	Cash		3,000
Jan. 196	Accounts Payable		1,000
Jan. 197	Service Revenue		2,000
Jan. 198	Cash		1,000
Jan. 199	Accounts Payable		2,000
Jan. 200	Equipment	1,000	



And that's not all...

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Cengage Learning is committed to making its educational materials accessible to users of all abilities. We are steadily working to increase accessibility and create a full spectrum of usable tools, features and choices that are accessible for users of all abilities. All new Cengage Learning products and services are designed with accessibility in mind.

- With the latest release of CengageNOWv2:
 - Images and graphics have been converted to HTML tables so that they can be read by screen readers.
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- CengageNOWv2 solutions offer high contrast and well-structured HTML, which helps support screen reader interactivity.
- All videos are created with closed captioning and transcripts available for download.
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For more information on accessibility, please visit www.cengage.com/accessibility.

IPAD Tablet Compatibility

CengageNOWv2 is fully compatible with the IPAD and other tablet devices, with the exception of General Ledger (CLGL), which is flash based.

New to This Edition

- LEARN IT – Proven Pedagogy section
- Connecting the Classroom to the Real World
 - Accounting in Your Future
 - You Make the Call
 - Small Business Success
 - In the Real World
- Blueprint Problems
- Chapter Review and Self-Study
- Show Me How Videos (Author narrated)
 - Note these were in the last edition for the Practice Exercises. In this edition, these videos are noted with an icon for both the EOC Practice Exercises and related Exercises.
- This edition's revisions primarily focused on incorporating QuickBooks Online with the book. Additionally, this edition did revise some EOC problems, separated the display of FICA Social Security and Medicare taxes and revised the AAYS continuing problem. For the most part, this edition's updates were global across the text, rather than changed chapter-by-chapter.
- QuickBooks Online, a cloud-based accounting application.
 - Benefits Include:
 - Completely online. No CD drive required
 - QuickBooks Online Access Code included with each book
 - Works on both PCs and Macs
 - No data files to restore or back up
 - Instructor is the accountant. Providing the instructor online access to student work, including a date and time stamped audit trail

Introduction

- No new features

Chapter 1

- NEW! QuickBooks Online Tip margin notes provide useful tips related to accounting that can be applied with QuickBooks Online, a cloud-based accounting application.
- NEW! Accounting with QuickBooks Online
 - QuickBooks Online is a new feature for each chapter that is available as an Appendix on the Cengage Learning companion site at CengageBrain.com. This edition explains how to apply fundamentals of accounting processes using QuickBooks Online, a cloud-based accounting application. Complete with learning objectives, clear

step-by-step directions, and screen captures, this feature is a must for instructors who value the importance of teaching real-world technology skills in the classroom. This integrated approach of teaching the fundamentals of accounting with QuickBooks Online will help students understand how to utilize a real-world cloud-based accounting application, while developing marketable skills they can immediately apply in the workplace.

- NEW! QuickBooks Online Demonstration Videos on the Cengage Learning companion site at CengageBrain.com.
- A real-world, single company approach to learning QuickBooks Online. Students will apply accounting concepts in QuickBooks Online for Magnolia Spa.

Chapter 2

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- NEW! QuickBooks Online Demonstration Videos on the Cengage Learning companion site at CengageBrain.com.
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- NEW! *Try It with QuickBooks Online* Comprehensive Problem
 - *Try It with QuickBooks Online* provides students with a comprehensive problem they can complete using QuickBooks Online. The *Try It with QuickBooks* feature is available on the Cengage Learning companion site at CengageBrain.com.
- NEW! End of Chapter - Statement of Cash Flows Appendix

Appendix A – E

- No new features

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*Appendix E is available for download on the text website at CengageBrain.com

College Accounting

A Career Approach

13e

Introduction to Accounting

Learning Objectives

After you have completed this introduction to accounting, you will be able to do the following:

- 1 Define accounting.
 - 2 Explain the importance of accounting information.
 - 3 Describe the various career opportunities in accounting.
 - 4 Define ethics.
-

To: College Accounting Students

Subject: Welcome to the World of Accounting

College Accounting Students,

Welcome to the *World of Accounting*. This book holds one of the keys to your future—knowledge of accounting and business! Throughout the pages of this text, you'll be introduced to individuals, just like yourself, who dreamed about working in, operating, or even owning a business. You will read about many real world companies and learn about the important role accounting plays in each.

I understand this may be a new experience for many of you, and thus, this book is designed to help you navigate the material and ultimately succeed. As you go through this book, you will find numerous tools and activities to help you understand accounting and how accounting impacts business success. I look forward to being your guide into the world of accounting. So let's get started on this great adventure!

Dr. Cathy Scott



Accounting Language

Accountant (p. 4)

Accounting (p. 3)

Economic unit (p. 4)

Ethics (p. 9)

Financial Accounting

Standards Board

(FASB) (p. 4)

**Generally accepted
accounting principles**

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**International
Accounting Standards**

Board (IASB) (p. 5)

**International Financial
Reporting Standards**

(IFRS) (p. 5)

**Paraprofessional
accountants**

(p. 8)

Sarbanes-Oxley Act (p. 10)

**Securities and
Exchange**

Commission (SEC) (p. 4)

Transaction (p. 3)

Accounting is often called the *language of business* because when confronted with events of a business nature, all people in society—owners, managers, creditors, employees, attorneys, engineers, and so on—must use accounting terms and concepts to describe these events. Examples of accounting terms are *net*, *gross*, *yield*, *valuation*, *accrued*, *deferred*—the list goes on and on. So it is logical that anyone entering the business world should know enough of its *language* to communicate with others and to understand their communications.

As you acquire knowledge of accounting, you will gain an understanding of the way businesses operate and the reasoning involved in making business decisions. Even if you are not involved directly in accounting activities, you will certainly need to be sufficiently acquainted with the *language* in order to understand the meaning of accounting information and how it is compiled, how it can be used, and what its limitations are.

You may be surprised to find that you are already familiar with many accounting terms. Recalling your personal business activities and relating them to your study of accounting will be very helpful to you. For example, when you purchased this textbook, you exchanged cash or a promise to pay cash for the book. As you will see, this exchange is an accounting event. You are going to recognize many activities and terms as you begin your study of accounting.

I-1 WHAT IS ACCOUNTING?

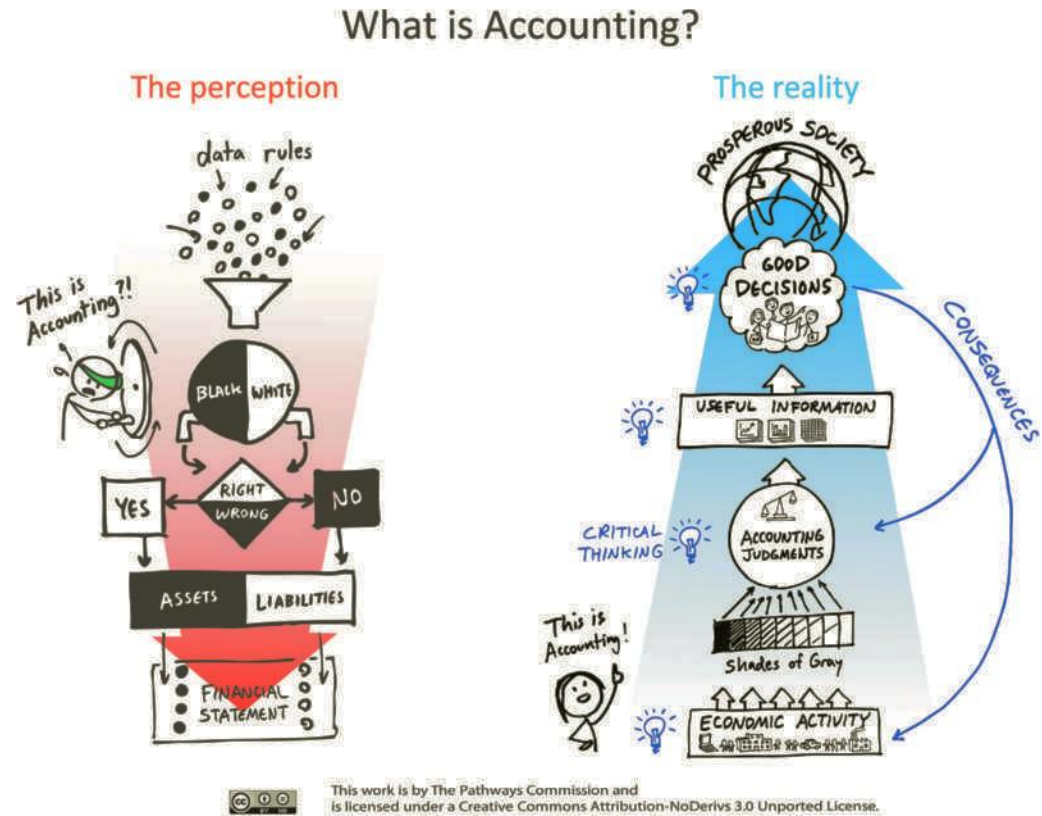
A traditional definition of **accounting** is the process of analyzing, classifying, recording, summarizing, and interpreting business transactions in financial or monetary terms. A business **transaction** is an event that has a direct effect on the operation of an economic unit, is expressed in terms of money, and is recorded. Examples of business transactions are buying or selling goods, renting a building, paying employees, and buying insurance. However, in reality, Accounting is so much more. Accounting involves a wide range of activities required to make good decisions that lead to a prosperous society. The Pathways Commission, comprised of various leaders in the field of accounting, created

1 Define accounting.

Learning
Objective

Figure 1

Pathways vision model



the *Pathways Vision Model* (Figure 1) in order to change the *perception* of accounting, which is often thought of as mundane and boring, into the *reality* of accounting today. The process of accounting starts with an economic activity. Accountants analyze these economic activities, using critical thinking skills and accounting judgments, in order to identify the information needed to make good decisions.

The primary purpose of accounting is to provide the financial information needed for the efficient operation of an economic unit. The term **economic unit** includes not only business enterprises but also not-for-profit entities such as government bodies, churches and synagogues, clubs, and public charities. Business enterprises or organizations may be called *firms* or *companies*.

Another important purpose of accounting is to provide useful information for decision making in the business enterprise. Similar to decisions you must make in your daily life, accounting helps businesses make decisions. For example, knowing whether there is enough cash to purchase new equipment or whether the business is making a profit requires knowledge of accounting.

All business entities require some type of accounting records. Basically, an **accountant** is a person who keeps the financial history of the transaction of an economic unit in written or computerized form.

I-1a Accounting Standards

Because it is important that everyone who receives accounting reports be able to interpret them, a set of rules or guidelines for the accounting process has been developed. These guidelines or rules are known as **generally accepted accounting principles (GAAP)** and are developed by the **Financial Accounting Standards Board (FASB)**.

The FASB was created by the **Securities and Exchange Commission (SEC)** in 1973. The SEC is the agency responsible for regulating public companies that are traded

on a U.S. stock exchange. The SEC relies on the FASB to create accounting standards. However, the ultimate responsibility for setting and enforcing accounting standards for public companies lies with the SEC.

With the globalization of the world economy, an international standard-setting board, the **International Accounting Standards Board (IASB)**, has been created to provide guidelines or rules on international accounting standards known as **International Financial Reporting Standards (IFRS)**. The IASB and FASB are currently working to combine GAAP and IFRS into one set of standards.

I-1b Bookkeeping and Accounting

While bookkeeping and accounting are closely related, there are differences between the two processes. Generally, bookkeeping involves the systematic recording of business transactions in financial terms. Accounting functions at a higher level. An accountant sets up the system that a bookkeeper uses to record business transactions. An accountant may supervise the work of the bookkeeper and prepare financial statements and tax reports. Although the bookkeeper's work is more routine, it is hard to draw a line where the bookkeeper's work ends and the accountant's begins.

I-2 IMPORTANCE OF ACCOUNTING INFORMATION

Anyone who aspires to a position of leadership in business or government needs knowledge of accounting. A study of accounting gives a person the necessary background and gives him or her an understanding of the scope, functions, and policies of an organization. A person may not be doing the accounting work, but he or she will be dealing with accounting forms, language, and reports.

2 Explain the importance of accounting information.

Learning
Objective

I-2a Users of Accounting Information

There are many users of accounting information, as outlined below.

OWNERS

Owners have invested their money or goods in a business organization. They want information regarding the company's earnings, its prospects for future earnings, and its ability to pay its debts.

MANAGERS

Managers and supervisors have to prepare financial reports, understand accounting data contained in reports and budgets, and express future plans in financial terms. People who have management jobs must know how accounting information is developed in order to evaluate performance in meeting goals.

CREDITORS

Creditors lend money or extend credit to the company for the purchase of goods and services. The company's creditors include suppliers, banks, and other lending institutions, such as loan companies. Creditors are interested in the firm's ability to pay its debts.

GOVERNMENT AGENCIES

Taxing authorities verify information submitted by companies concerning a variety of taxes, such as income taxes, sales taxes, and employment taxes. Public utilities,

such as electric and gas companies, must provide financial information to regulatory agencies.

I-2b Accounting and Technology

Before the invention of computers, all business transactions were recorded by hand. Now computers perform routine recordkeeping operations and prepare financial reports. Computers are used today in all types of businesses, both large and small. All accounting positions now require workers to use computers, have knowledge of word processing and spreadsheet software, and possess an understanding of accounting software, such as QuickBooks®.

Even though virtually all businesses now use computers to do their accounting, the nature of accounting is the same. The computer is a powerful tool of the accountant. However, as a tool, the computer is only as useful as the operator's ability and understanding of accounting. The operator must be skilled to key the correct information into the computer program; otherwise, as the saying goes, "garbage in, garbage out."

I-3 CAREER OPPORTUNITIES IN ACCOUNTING

Learning Objective

- 3 Describe the various career opportunities in accounting.

There are a number of career opportunities in accounting in every industry. To find job opportunities in accounting, browse Internet job sites or read the newspapers' classified advertisements. Although the jobs listed in these ads require varying amounts of education and experience, many of them are for positions as accounting and auditing clerks, general bookkeepers, and accountants. The Bureau of Labor Statistics *Occupational Outlook Handbook* estimates that employment for accountants, auditors, and paraprofessionals is expected to grow faster than average. The number of accounting-related jobs is expected to grow by 11 percent between 2014 and 2024. The requirements and duties of these positions are discussed next. Figure 2, on page 7, provides a listing of the average salaries for some of these positions.

I-3a Accounting Clerk/Technician

An accounting clerk/technician performs routine recording of financial information. The duties of accounting clerks vary with the size of the company. In small businesses, accounting clerks handle most of the recordkeeping functions. In large companies, clerks specialize in one part of the accounting system, such as payroll, accounts receivable, accounts payable, cash, inventory, or purchases. The minimum requirement for most accounting clerk positions is usually one term or semester of accounting courses. Having experience in a related job and working in an office environment is also recommended. In addition, knowledge of word processing and spreadsheet software is helpful. Accounting clerks/technicians should be detail-oriented and have good communication skills.

I-3b Auditing Clerk

Auditing clerks are an organization's financial recordkeepers. An auditing clerk's primary responsibility involves verifying transactions and records posted by other employees. Additional responsibilities include maintaining and updating individual or groups of accounting records, checking documents to ensure that they are mathematically correct, and correcting or noting errors for accountants or other workers to adjust. Most auditing clerks are required to have a high school degree at a minimum, while an associate degree in business or accounting is often preferred for some positions. Knowledge of word processing and spreadsheet software in addition to experience in a related job are also recommended.

TITLE	SALARY RANGE
ACCOUNTING CLERK	\$33,250–\$43,500
– Accounts receivable/Accounts payable clerk	\$36,250–\$49,250 ^a
	\$36,250–\$46,000 ^b
	\$33,000–\$43,000 ^c
– Inventory clerk	\$35,250–\$44,000 ^a
	\$33,000–\$43,250 ^b
– Payroll clerk	\$37,250–\$48,750 ^a
	\$35,500–\$48,250 ^b
	\$33,000–\$42,750 ^c
BOOKKEEPER/PARAPROFESSIONAL ACCOUNTANT	\$34,000–\$45,500
ACCOUNTANT	
– Chief financial officer	\$109,750–\$484,500
– Controller	\$83,250–\$217,250
– Financial analyst (entry level)	\$50,000–\$136,500 ^a
	\$48,250–\$118,000 ^b
	\$45,250–\$99,250 ^c
– Forensic accountant	\$74,750–\$116,750
– General accountant (entry level)	\$47,500–\$123,500 ^a
	\$44,750–\$102,250 ^b
	\$42,500–\$93,500 ^c
– Internal auditor (entry level)	\$55,000–\$151,250 ^a
	\$52,250–\$127,000 ^b

^aLarge companies^bMidsized companies^cSmall companies

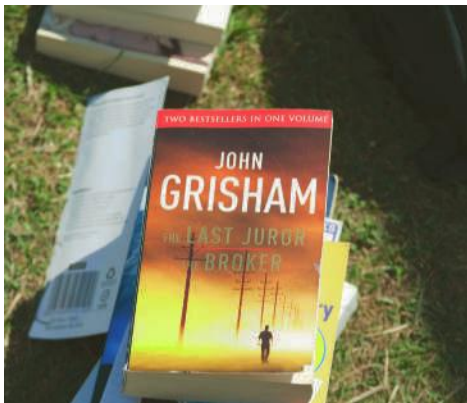
Source: Robert Half International, 2016 *Salary Guide—Accounting & Finance*, © 2016 Robert Half International.

Figure 2

Salary ranges for various accounting positions

I-3c General Bookkeeper

Many small- and medium-sized companies employ one person to oversee their bookkeeping operations. This person is called a general or full-charge bookkeeper. The general bookkeeper supervises the work of accounting clerks. Requirements for this job vary with the size of the company and the complexity of the accounting system. The minimum requirement for most general bookkeeper jobs is one or two years of accounting education as well as experience as an accounting clerk. Many companies



Nigel Ferguson/Alamy

In the Real World

Many famous people began their careers in accounting. For instance, author John Grisham received his undergraduate degree in accounting from Mississippi State University.

require a certificate in business or accounting and experience working with computers and accounting software.

I-3d Paraprofessional Accountant

To bridge a gap between the general bookkeeper and the professional accountant, many firms are hiring **paraprofessional accountants**. They manage the duties of the general bookkeeper as well as many of the duties of a professional accountant. Paraprofessional accountants work under the direct supervision of a professional accountant. Qualifications generally include a two-year degree in accounting, knowledge of accounting software, and prior experience.

I-3e Certifications Available

Several organizations offer certification for accounting and auditing clerks, bookkeepers, and paraprofessional accountants. The Certified Bookkeeper (CB) designation is awarded by the American Institute of Professional Bookkeepers (www.aipb.org) and certifies that an individual has the knowledge needed to carry out bookkeeping functions. For certification, candidates must have at least two years of bookkeeping experience, pass an examination, and adhere to a code of ethics. The Accreditation Council for Accountancy and Taxation (www.acatcredentials.org) offers an Accredited Business Accountant® (ABA) certification designed for individuals who work with small- to medium-sized businesses in the areas of financial accounting, tax, and ethics. For accreditation, candidates must pass a one-day, seven-hour exam.

I-3f Accountant

The term *accountant* describes a fairly broad range of jobs. The accountant may design and manage the entire accounting system for a business. The accountant may also prepare financial statements and tax returns and perform audits. Many accountants enter the field with a four-year college degree in accounting. However, it is not unusual for accountants to start at entry-level positions and work their way up to management positions. Although accountants are employed in every kind of economic unit, they are classified into one of four categories: public accounting, managerial or private accounting, government and not-for-profit accounting, and internal auditing. We'll briefly look at these categories.

PUBLIC ACCOUNTING

Most public accountants are certified public accountants (CPAs). To become a CPA, a person must have a bachelor's degree, complete 150 hours of college course work (in most states), pass a rigorous examination, and complete a work experience requirement. CPAs design accounting systems, prepare tax returns, provide financial advice about business operations, and audit financial statements. Many CPAs work for a public accounting firm such as Deloitte LLP or own their own small business. CPAs can also be employed by corporations in the private sector in finance positions such as chief financial officers (CFOs), controllers, and financial analysts.

A relatively new and upcoming career opportunity in public accounting is forensic accounting. Forensic accountants specialize in investigating business crimes such as fraud, embezzlement, and money laundering. Accountants in this area of specialty require knowledge of accounting, law, and finance and work closely with law enforcement personnel. Individuals wanting to specialize in forensic accounting can apply for a Certified Fraud Examiner (CFE) certificate (www.acfe.com). Requirements for CFE

certification include a minimum of a bachelor's degree and two years of professional experience in a field directly or indirectly related to the detection or deterrence of fraud.

If you are interested in learning more about becoming a CPA or other public accounting jobs, the American Institute of Certified Public Accountants (www.aicpa.org) has an excellent website called This Way to CPA (www.thiswaytocpa.com) that describes accounting degrees and job opportunities. This site includes study information, simulation games, scholarship and internship listings, profiles of successful CPAs, and career opportunities.

MANAGERIAL OR PRIVATE ACCOUNTING

Most people who are accountants are employed by private business organizations. These accountants (not necessarily CPAs) manage the accounting system, prepare budgets, determine costs of products, and provide financial information for managers and owners. Accountants have many opportunities to advance into top management positions. The Certified Management Accountant (CMA) has a solid understanding of financial planning and analysis, internal controls, decision making, and professional ethics. Requirements for CMA certification include having a bachelor's degree (in any area), passing the CMA exam, and having two years' experience in management accounting and/or financial management. You can find more information about the CMA exam at <http://imanet.org>.

GOVERNMENT AND NOT-FOR-PROFIT ACCOUNTING

Not-for-profit accounting is used for government agencies, hospitals, churches and synagogues, and schools. Accountants for these organizations prepare budgets and maintain records of revenues and expenses. Local, state, and federal government bodies employ vast numbers of people in accounting positions. For example, a top federal government employer in the area of accounting is the Internal Revenue Service (IRS).

INTERNAL AUDITING

Due to recent accounting regulations, the demand for internal auditors has increased. Internal auditors verify the effectiveness of an organization's accounting system and controls. They examine and ensure that the company's financial information is accurate and protected. Internal auditors also ensure that organizations are following government regulations and corporate policies. The Institute of Internal Auditors (<http://theiia.org>) sets international standards for internal auditors and offers a certification opportunity called the Certified Internal Auditor (CIA). Requirements for certification include having a bachelor's degree (in any area), having two years' experience in internal auditing, and passing the Certified Internal Auditor exam.

I-4 ETHICS

Ethics is a philosophy or code or system of morality—that is, how we conduct ourselves from day to day in a variety of situations requiring a decision, usually of a right or wrong nature. Ethics, as it relates to accounting, is the way accountants and other keepers of financial information conduct the business of accounting according to laws of the state and their own personal code or system of morality.

Many books, as well as classes, are available on the subject of ethics. All organizations provide a code of ethical conduct for their members. Your school may even have a Student Code of Conduct that discusses the ethical expectations and conduct of students.

4 Define ethics.

Learning
Objective

With mounting evidence of questionable business ethics reported in print and portrayed through visual media, understanding and learning about ethics is very important in the world of accounting.

Related to ethics, a recent change to the accounting profession is the **Sarbanes-Oxley Act**, commonly referred to as SOX. SOX was created as a response to various large-scale corporate accounting frauds, such as Enron and WorldCom. The Sarbanes-Oxley Act established a wide range of new rules related to the audit environment and internal controls.

Chapter Review

Study and Practice

Learning Objective

- 1 Define accounting.

Accounting is the process of analyzing, classifying, recording, summarizing, and interpreting business **transactions** in financial or monetary terms. It is also an information system and the language of business.

Learning Objective

- 2 Explain the importance of accounting information.

A study of accounting gives a person the necessary background to understand the scope, functions, and policies of an organization.

Learning Objective

- 3 Describe the various career opportunities in accounting.

Accounting and auditing clerks, bookkeepers, **paraprofessional accountants**, and **accountants** will find employment opportunities in several areas—in the public sector, the private sector, and not-for-profit organizations.

Learning Objective

- 4 Define ethics.

Ethics is a code of morality—that is, how we respond to a variety of situations on a daily basis that require a decision, usually of a right or wrong nature. Ethics, as it relates to accounting, is the way accountants and other keepers of financial information conduct themselves according to laws of the state and their own personal code or system of morality.

Glossary

Accountant A person who keeps the financial history of the transactions of an economic unit in written form. (p. 4)

Accounting The process of analyzing, classifying, recording, summarizing, and interpreting business transactions in financial or monetary terms. (p. 3)

Economic unit Includes both business enterprises and not-for-profit entities. (p. 4)

Ethics A philosophy or code or system of morality—that is, how we conduct ourselves from day to day in a variety of situations requiring a decision, usually of a right or wrong nature. (p. 9)

Financial Accounting Standards Board (FASB) The organization, created in 1973 by the SEC, that creates GAAP. (p. 4)

Generally accepted accounting principles (GAAP) The rules or guidelines used for carrying out the accounting process. (p. 4)

International Accounting Standards Board (IASB) The international organization that provides standards or rules for international financial reporting. (p. 5)

International Financial Reporting Standards (IFRS) The rules or guidelines that guide international financial reporting. (p. 5)

Paraprofessional accountants People who are qualified in accounting to assume the duties of a general bookkeeper as well as some of the duties of a professional accountant under that accountant's supervision. (p. 8)

Sarbanes-Oxley Act A U.S. federal law enacted as a response to a number of major corporate and accounting scandals that establishes a wide range of rules related to the audit environment and internal controls. (p. 10)

Securities and Exchange Commission (SEC) The agency responsible for regulating public companies traded on a U.S. stock exchange. (p. 4)

Transaction An event directly affecting an economic entity that can be expressed in terms of money and that must be recorded in the accounting records. (p. 3)

Activities

Why Does It Matter?

In this book, you hold one of the keys to your future—knowledge of accounting and business! Throughout the pages of this text, you'll be introduced to individuals just like yourself, who dreamed about working in, operating, and even owning a business. You will read about businesses, such as a small cupcake business that has grown to international fame, an exotic catering business that brings food to far-reaching destinations, and an indoor rock-climbing business that caters to all ages. In all of these companies, one important skill stands out—knowing and understanding accounting!

So where do you see accounting in your future? Why is studying accounting so important?

Asset, Liability, Owner's Equity, Revenue, and Expense Accounts

Learning Objectives

After you have completed this chapter, you will be able to do the following:

- 1 Define and identify asset, liability, and owner's equity accounts.
 - 2 Record, in column form, a group of business transactions involving changes in assets, liabilities, and owner's equity.
 - 3 Define and identify revenue and expense accounts.
 - 4 Record, in column form, a group of business transactions involving all five elements of the fundamental accounting equation.
-

To: Amy Roberts, CPA

Subject: Starting My New Business

Hi Amy,

Well, I've given it a lot of thought and have decided to take the "plunge"! I'm going to start my own business. I've been working for many years as a whitewater rafting guide and helping in the business office. I think I'm ready to go out on my own. I know a lot about rafting and operating tours, but I don't know much about accounting. Do you think you could help? Would you recommend I purchase accounting software?

Thanks,
Janie

To: Janie Conner

Subject: RE: Starting My New Business

Hi Janie,

Great! I'm so glad you've finally taken my advice and decided to open your own business. I will definitely help you learn accounting, and I would strongly recommend that you purchase a cloud-based accounting software package like QuickBooks Online! There's a lot to learn—so let's take it step by step. I've made a list of some items for you to concentrate on first.

1. Understand what accounting is—what it does, what its purpose is.
2. Know the fundamental accounting equation. (This is important!)
3. Know examples of accounts that are included in each asset, liability, or owner's equity category.

Once you've learned these items, email me, and we'll move on! Good luck.

Amy



Accounting Language

Account numbers	(p. 22)
Accounts	(p. 16)
Accounts Payable	(p. 18)
Accounts Receivable	(p. 27)
Assets	(p. 13)
Backups	(p. 48)
Business entity	(p. 13)
Capital	(p. 13)
Chart of accounts	(p. 22)
Cloud computing	(p. 48)
Computerized accounting system	(p. 47)
Creditor	(p. 14)
Double-entry accounting	(p. 17)
Equity	(p. 13)
Expenses	(p. 21)
Fair market value	(p. 19)
Fundamental accounting equation	(p. 14)
Liabilities	(p. 14)
Manual accounting system	(p. 47)
Owner's equity	(p. 13)
QuickBooks Online	(p. 47)
Revenues	(p. 21)
Separate entity concept	(p. 16)
Sole proprietorship	(p. 16)
Withdrawal	(p. 30)

As we stated in the Introduction, accounting is the process of analyzing, classifying, recording, summarizing, and interpreting business transactions. In this chapter, we will introduce the analyzing, classifying, and recording steps in the accounting process.

1-1 ASSETS, LIABILITIES, AND OWNER'S EQUITY

1-1a The Fundamental Accounting Equation

Assets are properties or things of value, such as cash, equipment, copyrights, buildings, and land, owned and controlled by an economic unit or a business entity. By the term **business entity**, we mean that the business is an economic unit in itself, and the assets or properties of the business are completely separate from the owner's personal assets. However, the owner has a claim on the assets of the business and generally has a responsibility for its debts. **The owner's right, claim, or financial interest in the business is expressed by the word equity.** Another term that can be used is **capital**. Whenever you see the term **owner's equity**, it means the owner's right to or investment in the business.

Assets	=	Owner's Equity
Properties or things of value owned by the business		Owner's <i>right</i> to or investment in the business

Suppose the total value of the assets is \$80,000, and the business entity does not owe any amount against the assets. Then,

Assets	=	Owner's Equity
\$80,000	=	\$80,000

Learning
Objective

- 1 Define and identify asset, liability, and owner's equity accounts

Or suppose the assets consist of a truck that costs \$35,000. The owner has invested \$12,000 for the truck, and the business entity has borrowed the remainder from the bank, which is a **creditor** (one to whom money is owed). This business transaction or event can be shown as follows:

Assets	=	Liabilities	+	Owner's Equity
<i>Items owned</i>		<i>Amounts owed to creditors</i>		<i>Owner's investment</i>
\$35,000	=	\$23,000	+	\$12,000

FYI

Even if the truck is not completely paid for (for example, a loan was taken out to pay for the truck), the truck is still considered an asset. The truck would be recorded at the total cost, and a liability would be recorded for the amount of the loan.

We have now introduced a new classification, **liabilities**, which represent debts. They are the amounts that the business entity owes its creditors. The debts may originate because the business bought goods or services on credit, borrowed money, or otherwise created an obligation to pay. The creditors' claims to the assets have priority over the claims of the owner.

An equation expressing the relationship of assets, liabilities, and owner's equity is called the **fundamental accounting equation**.

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

We'll deal with this equation constantly from now on. If we know two parts of this equation, we can determine the third. Let's look at some examples.

DETERMINE ASSETS

Fundamental Accounting Equation Example 1: Millie Adair has \$17,000 invested in her travel agency, and the agency owes creditors \$5,000; that is, the agency has liabilities of \$5,000. Then,

Assets	=	Liabilities	+	Owner's Equity
?	=	\$5,000	+	\$17,000

We can find the amount of the business's assets by adding the liabilities and the owner's equity.

$$\begin{array}{r} \$ 5,000 \text{ Liabilities} \\ + 17,000 \text{ Owner's Equity} \\ \hline \$22,000 \text{ Assets} \end{array}$$

The completed equation now reads as follows:

Assets	=	Liabilities	+	Owner's Equity
\$22,000	=	\$5,000	+	\$17,000

DETERMINE OWNER'S EQUITY

Fundamental Accounting Equation Example 2: Larry Roland owns a car repair shop. His business has assets of \$40,000, and it owes creditors \$16,000; that is, it has liabilities of \$16,000. Then,

Assets	=	Liabilities	+	Owner's Equity
\$40,000	=	\$16,000	+	?

We find the owner's equity by subtracting the liabilities from the assets.

\$40,000 Assets
 - 16,000 Liabilities
 \$24,000 Owner's Equity

The completed equation now reads as follows:

Assets	=	Liabilities	+	Owner's Equity
\$40,000	=	\$16,000	+	\$24,000

DETERMINE LIABILITIES

Fundamental Accounting Equation Example 3: Theo Viero's insurance agency has assets of \$86,000. His investment (his equity) amounts to \$46,000. Then,

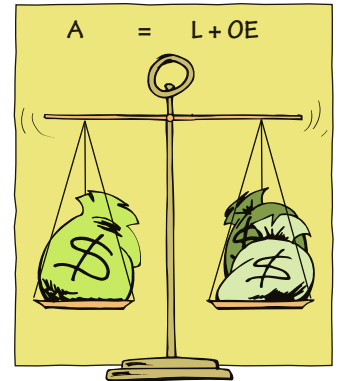
Assets	=	Liabilities	+	Owner's Equity
\$86,000	=	?	+	\$46,000

To find the firm's total liabilities, we subtract the equity from the assets.

\$86,000 Assets
 - 46,000 Owner's Equity
 \$40,000 Liabilities

The completed equation reads as follows:

Assets	=	Liabilities	+	Owner's Equity
\$86,000	=	\$40,000	+	\$46,000



Like a balancing scale, the equation stays in balance by making equal or offsetting increases and decreases to one side or both sides.

To: Amy Roberts, CPA

Subject: Assets, Liabilities, and Owner's Equity

Hi Amy,

Thanks for your help! I have purchased QuickBooks Online. Do you have any tips for getting started? I am also doing really well with learning the fundamental accounting equation and identifying accounts. I can now identify most accounts as an asset, liability, or owner's equity. How does this knowledge apply to the transactions of my business?

Thanks,

Janie

To: Janie Conner

Subject: RE: Asset, Liabilities, and Owner's Equity

Hi Janie,

I'm glad to hear you have purchased QuickBooks Online, and I'll provide you with some tips to get started. Once you have learned a few more of the accounting basics, you will be ready to apply these in QuickBooks Online. Now that you know the fundamental accounting equation and also examples of accounts included in each asset, liability, or owners' equity category, you are ready to begin analyzing transactions. You will use your knowledge of accounts and apply this to the company's day-to-day transactions by recording these transactions in column form. This can be challenging, but I'll provide you with four easy steps to remember that will help you along the way. Let's get started!

Amy

1-2 RECORDING BUSINESS TRANSACTIONS

Learning Objective

- 2 Record, in column form, a group of business transactions involving changes in assets, liabilities, and owner's equity.

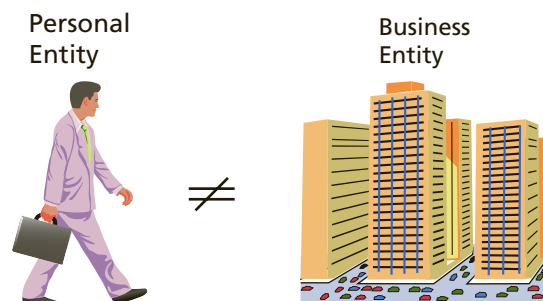
As explained in the Introduction, business transactions are events that have a direct effect on the operations of an economic unit or enterprise and are expressed in terms of money. Each business transaction must be recorded in the accounting records. As business transactions are recorded, the amounts listed under the headings Assets, Liabilities, and Owner's Equity change. However, **the total of one side of the fundamental accounting equation must equal the total of the other side.** The categories under these three main headings are called **accounts**.

Let's look at a group of business transactions. These transactions are typical of those seen in a service or professional business. In these transactions, let's assume that J. Conner establishes her own business and calls it Conner's Whitewater Adventures. Conner's Whitewater Adventures is a **sole proprietorship**, or a one-owner business.

TRANSACTION (a). Owner deposited \$90,000 in a bank account in the name of the business. Conner deposits \$90,000 cash in a separate bank account in the name of Conner's Whitewater Adventures. This separate bank account will help Conner keep her business investment separate from her personal funds. This is an example of the **separate entity concept**, which says a business is treated as a separate economic or accounting entity. (See Figure 1.) The business is independent, or stands by itself. It is separate from its owners, creditors, and customers.

The Cash account consists of bank deposits and money on hand. The business now has \$90,000 more in cash than before, and Conner's investment has increased by \$90,000.

Figure 1
Separate entity concept



The account denoted by the owner's name followed by the word *Capital* indicates the amount of the owner's investment, or equity, in the business. The effect of this transaction on the fundamental accounting equation is as follows:

Assets		=	Liabilities	+	Owner's Equity
<i>Items owned</i>			<i>Amounts owed to creditors</i>		<i>Owner's investment</i>
	Cash	=			J. Conner, Capital
(a)	+90,000	=			+90,000

Besides cash, an investment may be in the form of goods, such as equipment. Therefore, the word *Capital* used under Owner's Equity does not always mean that cash was invested.

Accounting, as we said before, is the process of analyzing, classifying, recording, summarizing, and interpreting business transactions in terms of money. Look at transaction (a) above and see if you understand that we have gone through certain steps, which are stated below in question form.

STEP 1. What accounts are involved? Cash and J. Conner, Capital are involved.

STEP 2. What are the classifications of the accounts involved? Cash is an asset account, and J. Conner, Capital is an owner's equity account.

STEP 3. Are the accounts increased or decreased? Cash is increased because Conner's Whitewater Adventures has more cash now than it had before. J. Conner, Capital is increased because Conner has a greater investment now than she had before.

STEP 4. Is the equation in balance after the transaction has been recorded? Yes.

We will stress this step-by-step process throughout the text. This example serves as an introduction to **double-entry accounting**. The "double" entry method is demonstrated by the fact that each transaction must be recorded in at least two accounts, keeping the accounting equation in balance.

For example, transaction (a) resulted in a plus \$90,000 and a plus \$90,000 *on each side of the equation*. **The left side of the equation must always equal the right side of the equation.**

TRANSACTION (b). Company bought equipment, paying cash, \$38,000. Conner's first task is to get her company ready for business. To do that, she needs the proper equipment. Accordingly, Conner buys equipment costing \$38,000 and pays cash. **Note at this point that Conner does not invest any new money. She simply exchanges part of the business's cash for equipment.** Because equipment is a new type of property for the firm, a new account, Equipment, is created. Equipment is included under Assets because it is something of value owned by the business. As a result of this transaction, the accounting equation changes.

Assets		=	Liabilities	+	Owner's Equity
<i>Items owned</i>			<i>Amounts owed to creditors</i>		<i>Owner's investment</i>
	Cash + Equipment	=			J. Conner, Capital
Initial Investment	90,000	=			90,000
(b)	-38,000 + 38,000				
New balances	52,000 + 38,000	=			90,000
	90,000				90,000

STEP 1. What accounts are involved? Cash and Equipment are involved.

STEP 2. What are the classifications of the accounts involved? Cash is an asset account, and Equipment is an asset account.

STEP 3. Are the accounts increased or decreased? Cash is decreased because Conner used cash to purchase the equipment. Equipment is increased because Conner's Whitewater Adventures has more equipment now than it had before.

STEP 4. Is the equation in balance after the transaction is recorded? Yes.

Remember that the recording of each transaction must yield an equation that is in balance. In this example, the transaction was recorded on *the same side*. Is that okay? Yes! For example, transaction (b) resulted in a minus \$38,000 and a plus \$38,000 on the *same side*, with nothing recorded on the other side. This results in an overall change of \$0 (\$38,000 – \$38,000) for each side. It does not matter whether you change one side or both sides. **The important point is that whenever a transaction is properly recorded, the accounting equation remains in balance.**

TRANSACTION (c). Company bought equipment on account from a supplier, \$4,320. Conner's Whitewater Adventures buys equipment costing \$4,320 on credit from Signal Products.

The Equipment account shows an increase because the business now owns \$4,320 more in equipment. The terms *on credit* or *on account* mean that Conner's Whitewater Adventures does not pay cash for the equipment but instead will owe Signal Products money to be paid in the future. This causes an increase in liabilities because the business now owes \$4,320. The liability account **Accounts Payable** is used for short-term obligations or charge accounts, usually due within 30 days. Because Conner's Whitewater Adventures owes money to Signal Products, Signal Products is called a creditor of Conner's Whitewater Adventures. A total of \$94,320 is now on each side of the equal sign.

	Assets		=	Liabilities	+	Owner's Equity
	<i>Items owned</i>			<i>Amounts owed to creditors</i>		<i>Owner's investment</i>
	Cash	+ Equipment	=	Accounts Payable	+	J. Conner, Capital
Previous balances	52,000	+ 38,000	=			90,000
(c)		+ 4,320		+ 4,320		
New balances	52,000	+ 42,320	=	4,320	+	90,000
	94,320			94,320		

STEP 1. What accounts are involved? Equipment and Accounts Payable are involved.

STEP 2. What are the classifications of the accounts involved? Equipment is an asset account, and Accounts Payable is a liability account.

STEP 3. Are the accounts increased or decreased? Equipment is increased because Conner's Whitewater Adventures has more equipment now than it had before. Accounts Payable is increased because Conner's owes more to creditors than it owed before.

STEP 4. Is the equation in balance after the transaction is recorded? Yes.

TRANSACTION (d). Company paid a creditor on account, \$2,000. Conner's Whitewater Adventures pays \$2,000 to Signal Products to be applied against the firm's liability of \$4,320.

	<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
	<i>Items owned</i>			<i>Amounts owed to creditors</i>		<i>Owner's investment</i>
	Cash	+ Equipment	=	Accounts Payable	+	J. Conner, Capital
Previous balances	52,000	+ 42,320	=	4,320	+	90,000
(d)	-2,000			-2,000		
New balances	50,000	+ 42,320	=	2,320	+	90,000
	92,320			92,320		

STEP 1. What accounts are involved? Cash and Accounts Payable are involved.

STEP 2. What are the classifications of the accounts involved? Cash is an asset account, and Accounts Payable is a liability account.

STEP 3. Are the accounts increased or decreased? Cash is decreased because Conner used cash to pay Signal Products. Accounts Payable is decreased because Conner's owes less now than it owed before.

STEP 4. Is the equation in balance after the transaction is recorded? Yes.

TRANSACTION (e). Owner invested equipment in the business. Conner invested her own computer equipment, having a **fair market value** of \$5,200, in Conner's Whitewater Adventures. **Fair market value is the present worth of an asset.** It is the amount that would be received if the asset were sold on the open market. Examples of additional investments by owners may be in the form of equipment, cash, tools, or real estate.

	<u>Assets</u>		=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
	<i>Items owned</i>			<i>Amounts owed to creditors</i>		<i>Owner's investment</i>
	Cash	+ Equipment	=	Accounts Payable	+	J. Conner, Capital
Previous balances	50,000	+ 42,320	=	2,320	+	90,000
(e)		+5,200				+5,200
New balances	50,000	+ 47,520	=	2,320	+	95,200
	97,520			97,520		

STEP 1. What accounts are involved? Equipment and J. Conner, Capital are involved.

STEP 2. What are the classifications of the accounts involved? Equipment is an asset account, and J. Conner, Capital is an owner's equity account.

STEP 3. Are the accounts increased or decreased? Equipment is increased because Conner’s Whitewater Adventures now has more equipment than it had before. J. Conner, Capital is increased because Conner has a greater investment now than she had before.

STEP 4. Is the equation in balance after the transaction is recorded? Yes.

1-2a Summary of Transactions

Let’s summarize the business transactions of Conner’s Whitewater Adventures in column form. To test your understanding of the recording procedure, describe the nature of the transactions that have taken place.

	Assets		=	Liabilities	+	Owner’s Equity
	<i>Items owned</i>			<i>Amounts owed to creditors</i>		<i>Owner’s investment</i>
	Cash	+ Equipment	=	Accounts Payable	+	J. Conner, Capital
Transaction (a)	+90,000					+90,000
Transaction (b)	−38,000	+38,000				
Balance	52,000	+ 38,000	=			90,000
Transaction (c)		+4,320		+4,320		
Balance	52,000	+ 42,320	=	4,320	+	90,000
Transaction (d)	−2,000			−2,000		
Balance	50,000	+ 42,320	=	2,320	+	90,000
Transaction (e)		+5,200				+5,200
Balance	50,000	+ 47,520	=	2,320	+	95,200
	97,520			97,520		

The following observations apply to all types of business transactions:

- 1. Every transaction is recorded as an increase and/or decrease in two or more accounts.
- 2. One side of the equation is always equal to the other side of the equation.

In this chapter, we are using a column arrangement as a practical device to show how transactions are recorded. This arrangement is useful for showing increases and decreases in various accounts as a result of the transactions. We also show new balances after each transaction is recorded.

ACCOUNTING IN YOUR FUTURE

ACCOUNTING SKILLS

You may wonder why taking an accounting class is important. One possible career for students who study accounting is as an entry-level accounting clerk for a company. As an accounting clerk, you would be the financial recordkeeper for the business. Your responsibilities would include maintaining accounting records, such as those you are learning about in this chapter. You might also be responsible for preparing financial statements, making bank deposits, and handling payroll.

Many businesses require that an accounting clerk have a high school diploma and some accounting course work. An associate degree in accounting is highly recommended. Minimum requirements are a knowledge of basic accounting terminology, concepts, and processes, and using a manual accounting system or an automated accounting system such as general ledger accounting software. Skills related to Microsoft® Word®, Excel®, and Outlook® also are helpful.* You need to be able to work with others in the accounting department and be attentive to detail and accuracy. Accounting clerks, sometimes called bookkeepers, can become certified bookkeepers by meeting the requirements of the American Institute of Professional Bookkeepers (www.aipb.org). The U.S. Department of Labor's Bureau of Labor Statistics (www.bls.gov) provides information about this field, including job locations and pay scales.

*Microsoft, Encarta, MSN, and Windows are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries.



1-3 REVENUE AND EXPENSE ACCOUNTS

Revenues are the amounts earned by a business. Examples of revenues are fees earned for performing services, income from selling merchandise, rent income from tenants for the use of property, and interest income for lending money. Revenues may be in the form of cash or credit card receipts. Revenues may also result from credit sales to charge customers, in which case cash will be received at a later time.

Expenses (or the costs of doing business) are the costs that relate to earning revenue. Examples of expenses are wages expense for labor performed, rent expense for the use of property, interest expense for the use of money, and advertising expense for the use of various media (for example, newspapers, radio, direct mail, and the Internet). Expenses may be paid in cash either when incurred or at a later time. Expenses to be paid at a later time involve Accounts Payable.

Revenues and expenses directly affect owner's equity. **If a business earns revenue, an increase in owner's equity occurs. When a business incurs expenses, owner's equity decreases.** For the present, think of it this way: If the company makes money, the owner's

- 3** Define and identify revenue and expense accounts.

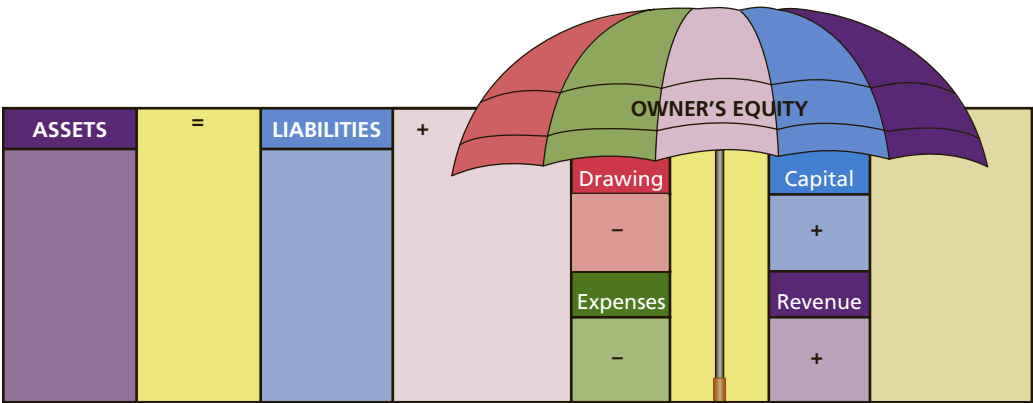
Learning
Objective

FYI

Incurred is another word for being responsible for or having taken place.

equity is increased. If the company has to pay out money for the costs of doing business, the owner’s equity is decreased. Revenues and expenses fall under the umbrella of owner’s equity: Revenue increases owner’s equity; expenses decrease owner’s equity.

Figure 2
The umbrella of owner’s equity



1-3a Chart of Accounts

The **chart of accounts** is the official list of accounts *tailor-made* for the business. All of the company’s transactions must be recorded using the official account titles. The numbers preceding the account titles are the **account numbers**.

We now present the chart of accounts for Conner’s Whitewater Adventures. Some of the accounts are new to you, but they will be explained as we move along. In the numbering of account titles, the 100s are used for assets, the 200s are used for liabilities, the 300s are used for owner’s equity accounts, the 400s are used for revenue accounts, and the 500s are used for expense accounts.

CHART OF ACCOUNTS

Assets (100–199)

- 111 Cash
- 113 Accounts Receivable
- 115 Supplies
- 117 Prepaid Insurance
- 124 Equipment

Liabilities (200–299)

- 221 Accounts Payable

Owner’s Equity (300–399)

- 311 J. Conner, Capital
- 312 J. Conner, Drawing

Revenue (400–499)

- 411 Income from Tours

Expenses (500–599)

- 511 Wages Expense
- 512 Rent Expense
- 514 Advertising Expense
- 515 Utilities Expense

While charts of accounts vary from business to business, the beginning numbers for assets, liabilities, owner’s equity, revenues, and expenses are standard for a service business. Some account numbers are much longer than three digits. In any case, use the exact account titles listed in the company’s chart of accounts.

For merchandising businesses selling goods (versus services), expenses will start with the 600s because accounts starting with the 500s are reserved for accounts related to the cost of the goods being sold.

Most accounting programs, such as QuickBooks Online, include a standard chart of accounts set up for many different types of businesses.



Rose Carson/Shutterstock.com

In the Real World

Every company must have a chart of accounts. For example, the mobile application and social media website Facebook has a chart of accounts similar to but much bigger than the example we're using. What might be some names of some accounts Facebook might have in its chart of accounts? Why is a listing of accounts so important?

1-4 RECORDING BUSINESS TRANSACTIONS

Let's examine more transactions of Conner's Whitewater Adventures for the first month of operations. Soon after the opening of Conner's Whitewater Adventures, the first customers arrive, beginning a flow of revenue for the business.

TRANSACTION (f). Company sold services for cash, \$8,000. Conner's Whitewater Adventures receives cash revenue of \$8,000 in return for providing whitewater rafting tours for customers over a two-week period. In other words, the company earns \$8,000 for services performed for cash customers. Revenue has the effect of increasing owner's equity, but because the company wants to know how much revenue is earned, we set up a special column for revenue. The revenue account for Conner's Whitewater Adventures is called Income from Tours. The accounting equation is affected as follows: (1) PB stands for previous balance, and (2) NB stands for new balance.

4 Record, in column form, a group of business transactions involving all five elements of the fundamental accounting equation.

Learning
Objective

Assets			=	Liabilities	+	Owner's Equity		
	Cash	+ Equipment	=	Accounts Payable	+	J. Conner, Capital	+	Revenue
PB	50,000	+ 47,520	=	2,320	+	95,200		
(f)	+8,000							+8,000 (Income from Tours)
NB	58,000	+ 47,520	=	2,320	+	95,200	+	8,000
	105,520			105,520				

Let's review the mental process for formulating the entry.

STEP 1. What accounts are involved? In this transaction, they are Cash and Income from Tours.

STEP 2. What are the classifications of the accounts involved? Cash is an asset account, and Income from Tours is a revenue account and part of owner's equity.

STEP 3. Are the accounts increased or decreased? Cash is increased because Conner’s Whitewater Adventures received cash. Income from Tours (revenue) is increased.

STEP 4. Is the equation in balance after the transaction has been recorded? Yes.

TRANSACTION (g). Company paid rent (an expense) for the month, \$1,250. Shortly after opening the business, Conner’s Whitewater Adventures pays the month’s rent of \$1,250. Rent is payment for the privilege of occupying property.

It seems logical that if revenue is added to owner’s equity, expenses (the opposite of revenue) must be subtracted from owner’s equity. To be consistent, a separate column is set up for expenses.

Because the time period represented by the rent payment is one month or less, we record the \$1,250 as an expense. If the payment covered a period longer than one month, we would record the amount under an asset called Prepaid Rent.

Assets		=	Liabilities	+	Owner’s Equity		
Cash	+ Equip.	=	Accounts Payable	+	J. Conner, Capital	+ Revenue	– Expenses
PB 58,000	+ 47,520	=	2,320	+	95,200	+ 8,000	
(g) –1,250							+1,250 (Rent Expense)
NB 56,750	+ 47,520	=	2,320	+	95,200	+ 8,000	– 1,250
104,270			104,270				

STEP 1. What accounts are involved? Cash and Rent Expense are involved.

STEP 2. What are the classifications of the accounts involved? Cash is an asset account, and Rent Expense is an owner’s equity account.

STEP 3. Are the accounts increased or decreased? Cash is decreased because after the payment, Conner’s Whitewater Adventures has less cash than before. Rent Expense is increased because now Conner’s Whitewater Adventures has more rent expense than before.

STEP 4. Is the equation in balance after the transaction is recorded? Yes. Notice that in this equation, it looks as though the account doesn’t balance—there is a negative entry on the left and a positive entry on the right. This is deceiving. The entry to Rent Expense is a positive entry in a negative column, thus creating an overall negative entry. It looks like this: – (+1,250) = –1,250.

TRANSACTION (h). Company bought supplies on credit, \$675. Conner’s Whitewater Adventures buys office supplies costing \$675 on credit from Fineman Company. Computer paper, ink cartridges, invoice pads, pens and pencils, folders, filing cabinets, and calculators are considered supplies to be used by Conner’s Whitewater Adventures for the business. Supplies are recorded as an asset until they are used. When supplies are used, they are taken from the asset account and placed in the expense account. We’ll talk more about this later. For the time being, because Conner hasn’t used the supplies yet, we will record them as an asset.

Assets				=	Liabilities	+	Owner's Equity						
					Accounts Payable	+	J. Conner, Capital	+	Revenue	-	Expenses		
PB	56,750	+	47,520	=	2,320	+	95,200	+	8,000	-	1,250		
(h)	<u> +675</u>				<u> +675</u>								
NB	56,750	+	47,520	+	675	=	2,995	+	95,200	+	8,000	-	1,250
	<u> </u>												

STEP 1. What accounts are involved? Supplies and Accounts Payable are involved.

STEP 2. What are the classifications of the accounts involved? Supplies is an asset account, and Accounts Payable is a liability account.

STEP 3. Are the accounts increased or decreased? Supplies is increased because Conner's Whitewater Adventures now has more supplies than before. Accounts Payable is increased because Conner's Whitewater Adventures now owes money for the purchase of supplies.

STEP 4. Is the equation in balance after the transaction has been recorded? Yes.

TRANSACTION (i). Company paid cash for insurance, \$1,875. Conner's Whitewater Adventures paid \$1,875 for a three-month liability insurance policy. At the time of payment, the company has not used up the insurance; thus, it is not yet an expense. As the insurance expires (is used), it will become an expense. **However, because it is paid in advance for a period longer than one month, it has value over that longer period and is, therefore, recorded as Prepaid Insurance, an asset.**

At the end of the year or accounting period, an adjustment will have to be made to take out the expired portion (that is, coverage for the months that have been used up) and record it as an expense. We discuss this adjustment in a later chapter.

Assets							=	Liabilities	+	Owner's Equity					
	Cash	+	Equip.	+	Supplies	+	Ppd. Ins.	=	Accounts Payable	+	J. Conner, Capital	+	Revenue	-	Expenses
PB	56,750	+	47,520	+	675			=	2,995	+	95,200	+	8,000	-	1,250
(i)	-1,875						+1,875								
NB	54,875	+	47,520	+	675	+	1,875	=	2,995	+	95,200	+	8,000	-	1,250
	104,945								104,945						

STEP 1. What accounts are involved? Cash and Prepaid Insurance are involved.

STEP 2. What are the classifications of the accounts involved? Cash and Prepaid Insurance are both asset accounts.

STEP 3. Are the accounts increased or decreased? Cash is decreased because Conner's Whitewater Adventures is paying money, and Prepaid Insurance is increased because Conner's Whitewater Adventures has more insurance than before.

STEP 4. Is the equation in balance after the transaction is recorded? Yes.

Remember that each time a transaction is recorded, the total amount on one side of the equation **remains equal** to the total amount on the other side. As proof of this equality, look at the following computation:

Cash	\$ 54,875	Accounts Payable	\$ 2,995
Equipment	47,520	J. Conner, Capital	95,200
Supplies	675	Revenue	8,000
Prepaid Insurance	1,875	Expenses	−1,250
	<u>\$104,945</u>		<u>\$104,945</u>

FYI

Think through these steps each time you are presented with a transaction. We'll work through several more examples for Conner's Whitewater Adventures. However, we won't continue to show the steps. If you need extra help, write the steps in the margin.

1-4a Steps in Analyzing Transactions

Now that we have recorded transactions in all five classifications of accounts, let's review the steps we followed.

- STEP 1.** Read the transaction to understand what is happening and how it affects the business. For example, the business has more revenue or has more expenses or has more cash or owes less to creditors. Identify the accounts involved. Look for Cash first. You will quickly recognize whether cash is coming in or going out.
- STEP 2.** Decide on the classifications of the accounts involved. For example, Equipment is something the business owns, and it's an asset. Accounts Payable is an amount the business owes, and it's a liability.
- STEP 3.** Decide whether the accounts are increased or decreased.
- STEP 4.** After recording the transaction, make sure the accounting equation is in balance.

SMALL BUSINESS SUCCESS

Tools to Success—The U.S. Small Business Administration

Throughout the pages of this text, you will occasionally find a feature labeled Small Business Success. This feature is designed to provide insight into accounting issues surrounding small businesses. Some of you may own a small business when you graduate. Maybe you are thinking of starting your own small bookkeeping firm. Many of you will work in small businesses such as a local or regional accounting firm. These features contain information that is useful to small and large businesses and will be helpful if you are thinking about owning your own business.

The U.S. Small Business Administration website (www.sba.gov) is a great place to find information about managing, accounting for, and running a small business. Take a moment to go to the website and review the tools that are available

to small businesses. Click on the Starting & Managing link, and you will find information that deals with starting a new business, managing a business, and financing a business.

You can also find audio and video podcasts on the website that provide information about business success. If you are interested in hearing about successful small businesses, you can find a series on small business features. The series discusses various small businesses that have used the tools provided by the Small Business Administration and have grown to be successful and profitable entities.

Keep an eye out for the Small Business Success feature! It will give you insight into how businesses use the accounting information you are learning in this course.

TRANSACTION (j). Company received a bill for an expense, \$620. Conner's Whitewater Adventures receives a bill from *The Times* for newspaper advertising, \$620. **Conner's Whitewater Adventures has received the bill for advertising, but it has not paid any cash.** Previously, we described an expense as cash paid or to be paid for the cost of doing business. An expense of \$620 has now been incurred (or has taken place), and it should be recorded as an increase in expenses (Advertising Expense). Also, because the company owes \$620 more than it did before and it intends to pay at a later time, this amount should be recorded as an increase in Accounts Payable. Notice that Cash is not used because the bill has not been paid.

Assets							=	Liabilities	+	Owner's Equity					
	Cash	+	Equip.	+	Supplies	+	Ppd. Ins.	=	Accounts Payable	+	J. Conner, Capital	+	Revenue	−	Expenses
PB	54,875	+	47,520	+	675	+	1,875	=	2,995	+	95,200	+	8,000	−	1,250
(j)									+620						+620 (Advertising Expense)
NB	54,875	+	47,520	+	675	+	1,875	=	3,615	+	95,200	+	8,000	−	1,870
	104,945								104,945						

TRANSACTION (k). Company sold services on account, \$6,750. Conner's Whitewater Adventures signs a contract with Crystal River Lodge to provide rafting adventures for guests. Conner's Whitewater Adventures provides 27 one-day rafting tours and bills Crystal River Lodge for \$6,750.

A company uses the **Accounts Receivable** account to record the amounts due from (legal claims against) charge customers. Because Conner's Whitewater Adventures' claim of \$6,750 against Crystal River Lodge is promised to be paid, it is recorded in Accounts Receivable. Revenue is earned or recognized when the service is performed, even though the \$6,750 has not been received in cash. We count the \$6,750 as an increase in revenue and an increase in Accounts Receivable. Keep in mind that Accounts Receivable is an asset, or something that is owned. Conner's Whitewater Adventures owns a claim of \$6,750 against Crystal River Lodge.

Assets							=	Liabilities	+	Owner's Equity								
	Cash	+	Equip.	+	Supplies	+	Ppd. Ins.	+	Accts. Rec.	=	Accounts Payable	+	J. Conner, Capital	+	Revenue	-	Expenses	
PB	54,875	+	47,520	+	675	+	1,875			=	3,615	+	95,200	+	8,000	-	1,870	
(k)									+6,750									+6,750
																		(Income from Tours)
NB	54,875	+	47,520	+	675	+	1,875	+	6,750	=	3,615	+	95,200	+	14,750	-	1,870	
	111,695										111,695							

When Crystal River Lodge pays the \$6,750 bill in cash, Conner's Whitewater Adventures records this transaction as an increase in Cash and a decrease in Accounts Receivable. At that time, Conner's Whitewater Adventures will *not* have to make an entry for the revenue because the **revenue was earned and recorded when the service was performed.**

TRANSACTION (l). Company paid creditor on account. Conner's Whitewater Adventures pays \$1,500 to Signal Products, its creditor (the party to whom it owes money), as partial payment on account for the liability recorded in transaction (c).

Assets					=	Liabilities	+	Owner's Equity		
Cash	Equip.	Supplies	Ppd. Ins.	Accts. Rec.	=	Accounts Payable	+	J. Conner, Capital	+	Revenue - Expenses
PB 54,875	+ 47,520	+ 675	+ 1,875	+ 6,750	=	3,615	+	95,200	+	14,750 - 1,870
(l) -1,500						-1,500				
NB 53,375	+ 47,520	+ 675	+ 1,875	+ 6,750	=	2,115	+	95,200	+	14,750 - 1,870
110,195						110,195				

TRANSACTION (m). Company paid an expense in cash, \$225. Conner's Whitewater Adventures receives a bill from Solar Power, Inc., for \$225. Because the bill was not previously recorded as a liability and is to be paid immediately, we record the amount directly as an expense.

Assets					=	Liabilities	+	Owner's Equity		
Cash	Equip.	Supplies	Ppd. Ins.	Accts. Rec.	=	Accounts Payable	+	J. Conner, Capital	+	Revenue - Expenses
PB 53,375	+ 47,520	+ 675	+ 1,875	+ 6,750	=	2,115	+	95,200	+	14,750 - 1,870
(m) -225										+225 (Utilities Expense)
NB 53,150	+ 47,520	+ 675	+ 1,875	+ 6,750	=	2,115	+	95,200	+	14,750 - 2,095
109,970						109,970				

TRANSACTION (n). Company paid creditor on account, \$620. Conner's Whitewater Adventures pays \$620 to *The Times* for advertising. Recall that this bill had previously been recorded as a liability in transaction (j).

Assets					=	Liabilities	+	Owner's Equity		
Cash	Equip.	Supplies	Ppd. Ins.	Accts. Rec.	=	Accounts Payable	+	J. Conner, Capital	+	Revenue - Expenses
PB 53,150	+ 47,520	+ 675	+ 1,875	+ 6,750	=	2,115	+	95,200	+	14,750 - 2,095
(n) -620						-620				
NB 52,530	+ 47,520	+ 675	+ 1,875	+ 6,750	=	1,495	+	95,200	+	14,750 - 2,095
109,350						109,350				

TRANSACTION (o). Company paid an expense in cash, \$2,360. Conner's Whitewater Adventures pays wages of a part-time employee, \$2,360.

Assets						=	Liabilities	+	Owner's Equity		
Cash	Equip.	Supplies	Ppd. Ins.	Accts. Rec.		=	Accounts Payable	+	J. Conner, Capital	+	Revenue - Expenses
PB 52,530	+ 47,520	+ 675	+ 1,875	+ 6,750	=		1,495	+	95,200	+	14,750 - 2,095
(o) -2,360											+2,360 (Wages Expense)
NB 50,170 + 47,520 + 675 + 1,875 + 6,750						=	1,495	+	95,200	+	14,750 - 4,455
106,990							106,990				

TRANSACTION (p). Company buys equipment on account for \$3,780, making a cash down payment of \$1,850 and charging \$1,930. Conner's Whitewater Adventures buys additional equipment from Signal Products for \$3,780, paying \$1,850 down with the remaining \$1,930 on account. Because buying an item *on account* is the same as buying it *on credit*, both terms are used to describe such transactions and involve Accounts Payable.

Assets						=	Liabilities	+	Owner's Equity		
Cash	Equip.	Supplies	Ppd. Ins.	Accts. Rec.		=	Accounts Payable	+	J. Conner, Capital	+	Revenue - Expenses
PB 50,170	+ 47,520	+ 675	+ 1,875	+ 6,750	=		1,495	+	95,200	+	14,750 - 4,455
(p) -1,850	+3,780						+1,930				
NB 48,320	+ 51,300	+ 675	+ 1,875	+ 6,750	=		3,425	+	95,200	+	14,750 - 4,455
108,920							108,920				

Again, because the equipment is expected to last for years, Conner's Whitewater Adventures lists this \$3,780 as an increase in the assets. Note that three accounts are involved in this transaction: Cash because cash was paid out, Equipment because the company has more equipment than it had before, and Accounts Payable because the company owes more now than it owed before.

TRANSACTION (q). Company receives cash on account from credit customer, \$2,500. Conner's Whitewater Adventures receives \$2,500 from Crystal River Lodge to apply against the amount billed in transaction (k). Because Crystal River Lodge now owes Conner's Whitewater Adventure less than it did before, Conner's Whitewater Adventures deducts the \$2,500 from Accounts Receivable. An exchange of assets has no effect on the totals of the equation.

Assets						=	Liabilities	+	Owner's Equity		
Cash	Equip.	Supplies	Ppd. Ins.	Accts. Rec.		=	Accounts Payable	+	J. Conner, Capital	+	Revenue - Expenses
PB 48,320	+ 51,300	+ 675	+ 1,875	+ 6,750	=		3,425	+	95,200	+	14,750 - 4,455
(q) +2,500				-2,500							
NB 50,820	+ 51,300	+ 675	+ 1,875	+ 4,250	=		3,425	+	95,200	+	14,750 - 4,455
108,920							108,920				

Conner’s Whitewater Adventures previously listed the amount as revenue [see transaction (k)], so it should *not* be recorded as revenue again.

TRANSACTION (r). Company sells services for cash, \$8,570. Conner’s Whitewater Adventures receives revenue from cash customers during the rest of the month, \$8,570.

Assets						=	Liabilities	+	Owner's Equity										
	Cash	+ Equip.	+ Supplies	+ Ppd. Ins.	+ Accts. Rec.	=	Accounts Payable	+	J. Conner, Capital	+ Revenue	− Expenses								
PB	50,820	+	51,300	+	675	+	1,875	+	4,250	=	3,425	+	95,200	+	14,750	−	4,455		
(r)	+8,570															+8,570			
																(Income from Tours)			
NB	59,390	+	51,300	+	675	+	1,875	+	4,250	=	3,425	+	95,200	+	23,320	−	4,455		
	117,490													117,490					

TRANSACTION (s). Owner makes a cash withdrawal, \$3,500. At the end of the month, Conner withdraws \$3,500 in cash from the business for her personal living costs. A **withdrawal (or drawing)** may be considered the opposite of an investment in cash by the owner and is treated as a decrease in owner’s equity. Withdrawals are different from expenses. Expenses are paid to someone else for the cost of goods or services used in the business. On the other hand, withdrawals are paid directly to the owner and do not involve the cost of goods or services used in the business. A withdrawal may consist of cash or other assets.

Because the owner takes cash out of the business, there is a decrease of \$3,500 in Cash. This withdrawal of cash also decreases owner’s equity and is denoted in the account labeled with the owner’s name followed by the word *Drawing*. We record \$3,500 under J. Conner, Drawing.

	Assets					=	Liabilities	+	Owner's Equity				
	Cash	+ Equip.	+ Supplies	+ Ppd. Ins.	+ Accts. Rec.	=	Accounts Payable	+	J. Conner, Capital	− J. Conner, Drawing	+ Revenue	− Expenses	
PB	59,390	+ 51,300	+ 675	+ 1,875	+ 4,250	=	3,425	+	95,200		+ 23,320	− 4,455	
(s)	−3,500									+3,500			
NB	55,890	+ 51,300	+ 675	+ 1,875	+ 4,250	=	3,425	+	95,200	− 3,500	+ 23,320	− 4,455	
	113,990						113,990						

1-4b Summary of Transactions (f) through (s)

Figure 3 summarizes business transactions (f) through (s) of Conner’s Whitewater Adventures, with the transactions identified by letter. To test your understanding of the recording procedure, describe the nature of the transactions.