

## Chapter 3

### Topic 3 - Recording Owner's Equity Changes in T-Accounts

What is Owner's Equity???

- the claim of the owner against the total assets as shown in the accounting equation and as reported by the balance sheet.

What type of business transactions would cause a change in Owner's Equity?

Can you name four?

1. Additional investment by the owner of the business (Capital)
2. Revenue
3. Expense
4. A withdrawal of assets for the owner's personal use (Drawings)

Does an account called Owner's Equity exist?

Owner's Equity (OE)

$$A = L + C + R - E - D$$

## 4 Separate Sections Under Owner's Equity

Capital (C)	+	The owner's investment (Credit)
Revenue (R)	+	The inflow of cash and accounts receivable resulting from sales (Credit)
Expenses (E)	-	The operating costs incurred in bringing revenue into the business (Debit)
Drawings (D)	-	The withdrawal of assets for the owner's personal use. (Debit)

## Applying Debit and Credit Rules to Record Changes to Owner's Equity

### Rules for Recording an Increase to Owner's Equity

- recorded in the account that causes the increase to OE in the accounting equation, on the side on which OE is placed in the accounting equation - the credit side.

### Rules for Recording a Decrease to Owner's Equity

- recorded in the account that decreases OE, and on the side opposite to the one on which OE appears in the accounting equation - the debit side.

### Debit or Credit

Capital (C)	+
Revenue (R)	+
Expenses (E)	-
Drawings (D)	-

Often the first transaction in a business is initial investment of the owner in his or her business. Jane Emery opened a business and invested \$60 000

<u>What happens?</u>	<u>Accounting Rule</u>	<u>Accounting Entry</u>
Cash increases by \$60 000	Increase an asset, debit the account	Debit: Cash \$60000
OE increases by \$60 000	Increase in OE credit the account	Credit: J. Emery, Capital \$60000

Oct. 16 Jane Emery decides to increase her investment in the business by taking \$3000 from her personal savings account and depositing the cash into the business's chequing account.

What happens?

Accounting Rule

Accounting Entry

Cash ↑

Increase an Asset

Debit Cash

Capital ↑

Increase OE

Credit Capital

CASH	
2010	2010
Sept 30 60000	Oct 1 1000
	5 5000
Oct 16 3000	15 4000

J. Emery, Capital	
2010	2010
Sept 30 60000	
Oct 16 3000	

Oct. 30 Jane Emery withdraws \$2000 from her business account and deposits it into her personal bank account.

What happens?

Cash ↓  
OE ↓

Accounting Rule

Decreasing an Asset  
Decreasing OE

Accounting Entry

Credit Cash  
Debit Drawing

CASH

2010	2010
Sept 30 60000	Oct 1 1000
Oct 16 3000	5 5000
	15 4000
	30 2000

J. Emery, Drawings

Oct 30. 2000
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## RECORDING REVENUE TRANSACTIONS

- revenue is an inflow of cash and accounts receivable that results from the sale of goods or service.

It causes a(n) increase in owner's equity in the accounting equation. To record this increase in a ledger, a revenue account must be credited.



Oct. 31 Jane Emery Real Estate has received \$26800 for buying and selling homes, land, and other forms of real estate for a variety of clients.

What happens?

Cash ↑  
OE ↑

Accounting Rule

Increase an Asset  
Increase OE

Accounting Entry

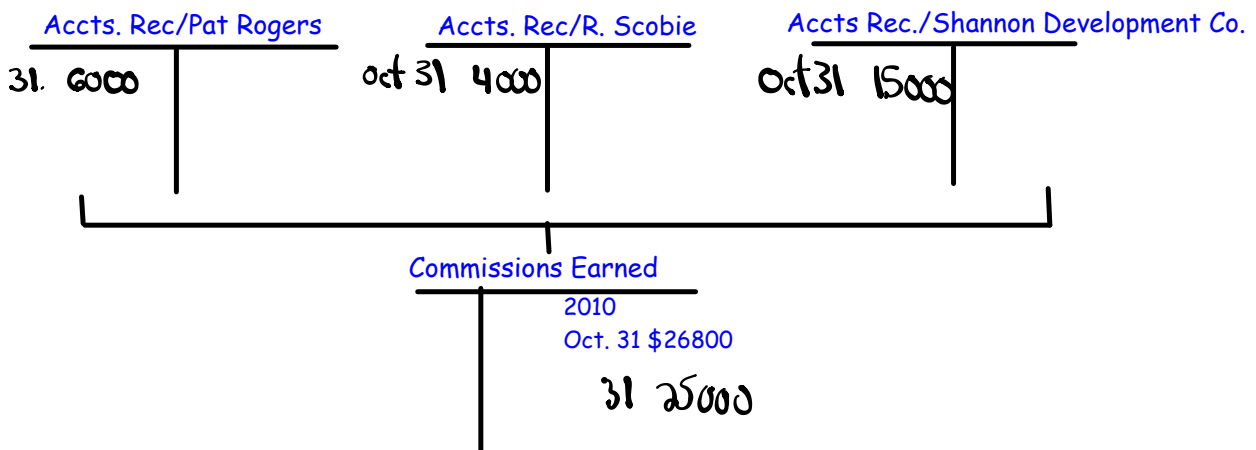
Debit Cash  
Credit Revenue

CASH		Commissions Earned	
2010		2010	
Sept 30	60000	Oct 1	1000
Oct 16	3000	5	5000
		15	4000
		30	2000
31	26800		
			Oct 31 26800

name of revenue account depends on the nature of the business's operation

Oct. 31 J. Emery Real Estate Revenue earned commissions on credit by providing real estate services as follows: \$6000 for selling a building for Pat Rogers; \$4000 for selling a residence for R. Scobie; \$15000 for buying properties for Shannon Development Co/ All clients were given 30 days in which to pay.

<u>What happens?</u>	<u>Accounting Rule</u>	<u>Accounting Entry</u>
A/R ↑	Increase an Asset	Debit A/R
OE ↑	Increase an OE	Credit Revenue



Oct. 31 J. Emery Real Estate pays \$6735 cash for the following expenses:  
 Rent \$1600; Salaries \$4500; Utilities \$595; Telephone \$40

What happens?

Accounting Rule

Accounting Entry

Cash ↓

Decrease an Asset

Credit Cash

OE ↓

Decrease OE

Debit Expenses

Rent		Salaries		Utilities		Telephone	
31	1600	Oct 31	4500	Oct 31	595	Oct 31	40

Cash			
2010	2010		
Sept 30	60000	Oct 1	1000
Oct 16	3000	5	5000
31	26800	15	4000
		30	2000
		31	6735

Oct. 31 J. Emery Real Estate receives a bill for \$2000 from The City Record, a local newspaper, for running of three advertisements at different times during October. The bill allows the business a period of 30 days in which to pay.

What happens?

Accounting Rule

Accounting Entry

A/P ↑

Increase a Liability

Credit A/P

OE ↓

Decrease OE

Debit Expenses

Adverstising Expense	
Oct 31 2000	

Accts. Pay./The City Record	
	Oct 31. 2000

Why is it important to record this transaction in October even though no cash will be paid out until November?

P3-7 Page 103 on TBook, Page 87 in Workbook. Record the transaction from P2-5 Page 44

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(ii)

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(iii)

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(iv)

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(v)

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(ix)

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(x)

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(xi)

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P 3-8 Page 103, refers to P 2-9 Page 54-55

P 3-9 Page 103

