

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

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

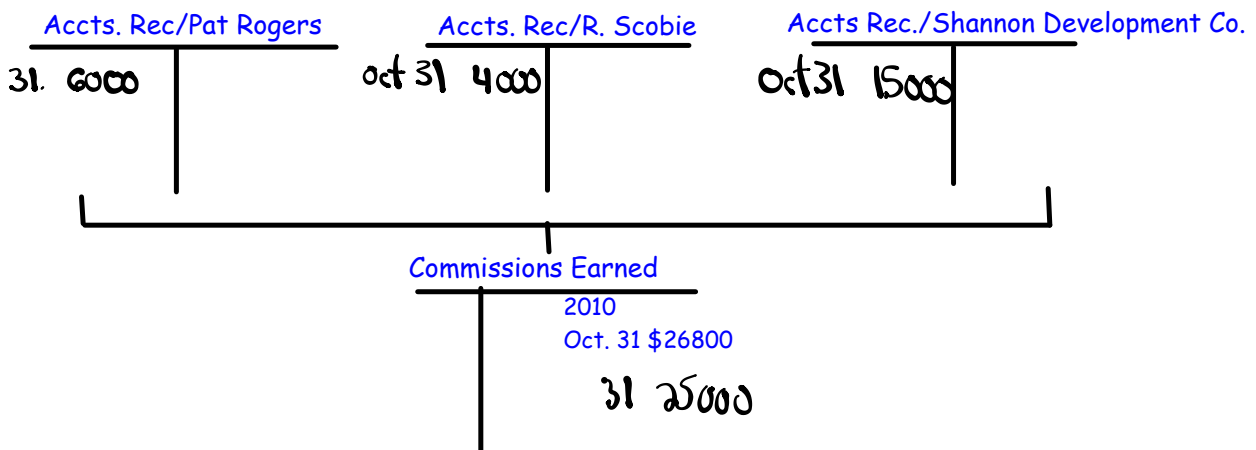
Oct. 31 J. Emery Real Estate Revenue earned commissions on credit by providing real estate services as follows: \$6000 for selling a building for Pat Rogers; \$4000 for selling a residence for R. Scobie; \$15000 for buying properties for Shannon Development Co/ All clients were given 30 days in which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

What happens?

Accounting Rule

Accounting Entry

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

(i)

--	--

--	--

(ii)

--	--

--	--

(iii)

--	--

--	--

(iv)

--	--

--	--

(v)

--	--

--	--

(vi)

--	--

--	--

(vii)

--	--

--	--

(viii)

--	--

--	--

(ix)

--	--

--	--

(x)

--	--

--	--

(xi)

--	--

--	--

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

P 3-9 Page 103

Cash		A/R G. Do Silva		A/R V.J. Plumbos	
Sept 1	10000	Sept 2	500	(6)	435
2	8000	5	2600	(13)	50
4	1350	8	60		
10	2125	12	1000		
11	3390	14	1500		
15	50	17	210		
24	3330	23	380		
30	1670	25	45		
30	6900	30	3600		
30	1000	30	1700		
	<u>26020</u>				

Office Supplies		Furniture		Equipment	
(1)	800	(1)	6000	(1)	2500
(25)	45			(2)	2400
	<u>845</u>		<u>6000</u>		<u>4900</u>

Automobile		Bank Loan		A/P C+C Computers	
(2)	10000	(2)	1000	(1)	7000
	<u>10000</u>				
			<u>6000</u>		<u>2400</u>

A/P Global Office Supp.		A/P Willard Motors Ltd.		E. Li, Capital	
(4)	1500	(1)	1500	(1)	10800
	<u>0</u>			(2)	8000
			<u>9500</u>		<u>18800</u>

E. Li, Drawings		Commissions		Rental Revenue	
(30)	1700	(4)	1350	(20)	1000
	<u>1700</u>	(6)	435		
		(10)	2125		
		(11)	3390		
		(19)	1550		
		(24)	3330		
		(30)	1670		
		(30)	6900		
			<u>20700</u>		

Rent Ex		Ad. Exp.		Heat Exp.	
(5)	2800	(8)	60	(17)	210
	<u>2800</u>		<u>60</u>		<u>210</u>

Salaries Ex		Utilities Ex.	
(20)	3600	(23)	380
	<u>3600</u>		<u>380</u>

Total Debits = Total Credits

58450 = 58450

Triple M Real Estate Co.
Income Statement
For the Month Ended September 30 2016

Revenues:

Commissions Earned	\$ 20 750	
Rental Revenue	<u>1 000</u>	
Total Revenue		\$ 21 750

Expenses:

Rent Expense	\$ 2800	
Advertising Expense	60	
Heat Expense	210	
Salaries Expense	3600	
Utilities Expense	<u>380</u>	
Total Expenses		<u>7 050</u>

Net Income

\$ 14 700

P 3-9f

Triple M Real Estate Co.
Income Statement
For the Month Ended September 30, 19--

Revenues:		
Commissions Earned	\$20 750	
Rental Revenue	1 000	
Total Revenues	<u> </u>	\$21 750
Expenses:		
Rent Expense	\$2 800	
Advertising Expense	60	
Heat Expense	210	
Salaries Expense	3 600	
Utilities Expense	380	
Total Expenses	<u> </u>	7 050
Net Income (Loss)		<u><u>\$14 700</u></u>

P 3-9g

Triple M Real Estate Co.
Balance Sheet
as at September 30, 19--

ASSETS		LIABILITIES	
Cash	\$26 020	Bank Loan Payable	\$6 000
Accounts Receivable:		Accounts Payable:	
G. Da Silva	\$ 385	C. & C. Computers	\$ 2 400
V. J. Plumbers Ltd.	1 550	Willard Motors Ltd.	9 500
Office Supplies on Hand	845	Total Liabilities	\$17 900
Furniture	6 000		
Office Equipment	4 900	OWNER'S EQUITY	
Automobile	10 000	E. Li, Capital	\$18 800
		Net Income	14 700
			33 500
		Less: D. E. Li, Drawing	1 700
		Total Owner's Equity	31 800
Total Assets	<u>\$49 700</u>	Total Liabilities and Owner's Equity	<u>\$49 700</u>

68

1st column

2nd column