

Chapter 3
USING ACCOUNTS

In Chapter 1 and 2 we looked at several business transactions

Ex. 1 When a customer paid cash to repay a debt to a business

Asset-Cash ↑
Asset-Accounts Receivable ↓

both on the left side of the accounting equation

Ex. 2 When a business paid cash for a debt - eliminating the claim of a creditor

Asset-Cash ↓ on the left side of the accounting equation
Liability-Accounts Payable ↓ on the right side of the accounting equation

In a normal business day a business may be involved in hundreds or even thousands of transactions involving cash.

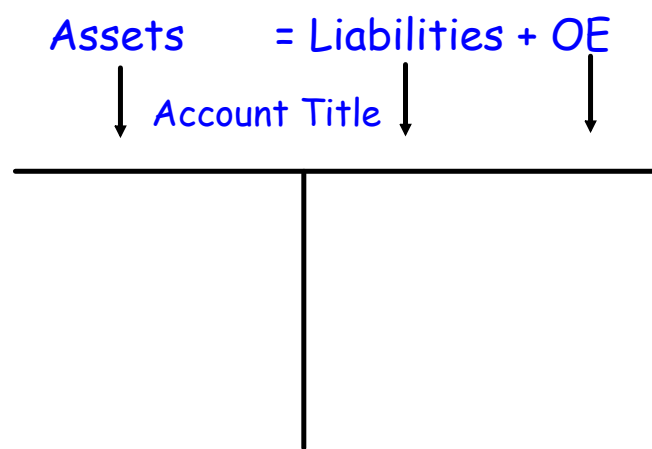
To find the balance of cash at the end of the day would you:

- 1.) record the increase and decreases in cash directly in one equation
- 2.) prepare hundreds or even thousands of separate accounting equations
- 3.) prepare a new balance sheet after each change in cash?

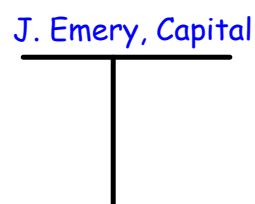
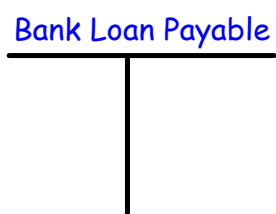
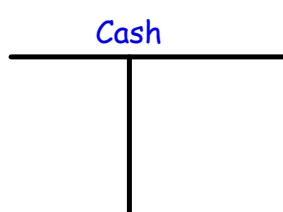
All of these methods are inefficient. A new device is needed to record changes to the items in the accounting equation.

Account - a device used for recording the effects of transactions under one title.

Topic 1 - Establishing Accounts

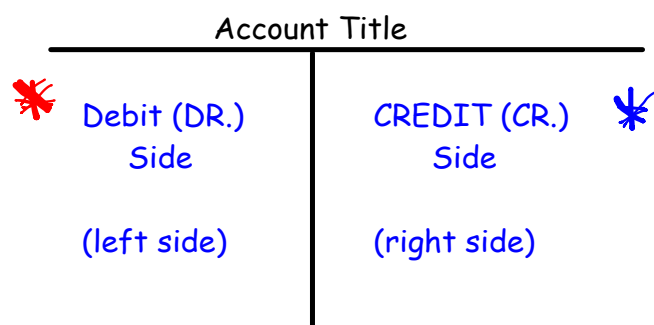


T Accounts



you would use a separate account for each asset and liability, and for each part of owner's equity.

In the language of accounting, the left side of every account is known as the **debit (DR.)** side and the right side is known as the **credit (CR.)** side



Opening Accounts

Do you see any relationship between the position of each element in the accounting equation and the position of the dollar amount the T-account? *Left* *Right*

Assets				=	Liabilities		+ Owner's Equity
Cash	Automobile	Furniture	Office Equipment	=	Bank Loan Payable	Accounts Payable	J. Emery, Capital
\$60 000	\$15 000	\$8 000	\$7 000	=	\$20 000	\$10 000	\$60 000
Cash	Automobile	Furniture	Office Equipment		Bank Loan Payable	Accounts Payable	J. Emery, Capital
60 000	15 000	8 000	7 000		20 000	10 000	60 000

Assets on Debit (left)

Liabilities & OE on Credit (Right)

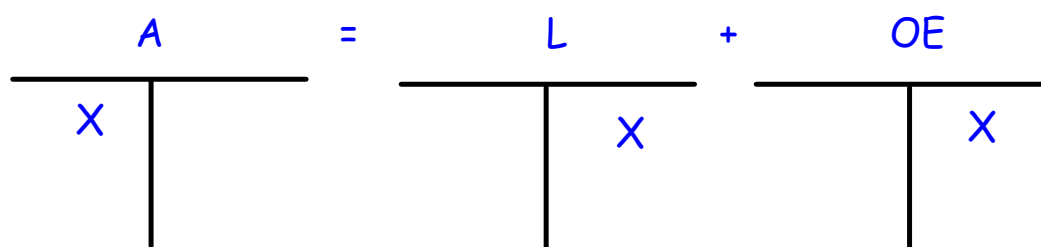
These entries are called opening balances

Assets are on the left side of the accounting equation

-all assets will show their beginning balances on the left side (Dr)

Where would you locate the opening balances for liabilities and owner's equity, subelement Capital? right side (Cr)

Positions of Opening Balances



Rule for Opening Balances

An account is opened by placing its beginning amount, called an opening balance, on the same side that the account appears in the accounting equation

Opening Accounts for a Business

J. Emery Real Estate
Balance Sheet
as at September 30, 19 —

ASSETS

Cash	\$60 000.00
Automobile	15 000.00
Furniture	8 000.00
Office Equipment	7 000.00

LIABILITIES

Bank Loan Payable	\$20 000.00
Accounts Payable:	
Bell Furniture Co. ...	\$3 000.00
Ryan Equipment Co. ...	2 000.00
Westtown Motors Ltd. ...	<u>5 000.00</u>
Total Liabilities	<u>10 000.00</u>
Total Liabilities	\$30 000.00

OWNER'S EQUITY

J. Emery, Capital	<u>60 000.00</u>
Total Liabilities and Owner's Equity	<u>\$90 000.00</u>

Cash	
19— Sept. 30	60 000

Bank Loan Payable	
19— Sept. 30	20 000

Automobile	
19— Sept. 30	15 000

Accts. Pay./Bell Furniture Co.	
19— Sept. 30	3 000

Short for Accounts Payable

notice a separate account is opened for each creditor

Furniture	
19— Sept. 30	8 000

Accts. Pay./Ryan Equipment Co.	
19— Sept. 30	2 000

Office Equipment	
19— Sept. 30	7 000

Accts. Pay./Westtown Motors Ltd.	
19— Sept. 30	5 000

When the business has customers, a separate account is opened for each one. The short form of Accounts Receivable is Accts. Rec.

Why is there no account called Owner's Equity ?

Dollar signs are not required - T Accounts are not formal reports

ASSETS \$90 000 = LIABILITIES \$30 000 + OWNER'S EQUITY \$60 000

Assets	Left	DR
Liabilities	Right	CR

OPENING LEDGER

- when accounts have been opened for all assets, liabilities and the owner's equity, the entire group of accounts forms the ledger.

LEDGER: a file or group of accounts

There are many different types and forms of ledgers but for now we will think of a ledger as "a group of T - accounts."

The equation in the ledger will always show that the total debits are equal to the total credits.

See Summary of Ledger Account Balances - Page 78

Bryan's Bakery

Cash 40000

Land 10000

Building 55000

Van 5000

Bank Loan 20000

Accounts Payable:

Walmart 10000

Sobeys 15000

B. Carter Capital 65000

Set up T-Accounts