


CHAPTER 2

ANALYZING CHANGES IN THE ACCOUNTING EQUATION

$$A = L + OE$$

Business Transaction - a financial event that affects assets, liabilities or owner's equity






simply means the event is expressed in terms of dollars or money

In Chapter 2 we will analyze changes in the accounting equation

TOPIC 1 - ANALYZING OPENING BUSINESS TRANSACTIONS

Balances as at September 30, 2010

ASSETS				=	LIABILITIES		+	OWNER'S EQUITY
Cash	Auto- mobile	Furniture	Office Equipment	=	Bank Loan Payable	Accounts Payable	+	J.Emery, Capital
\$60000	+ \$15000	+ \$8000	+ \$7000	=	\$20000	+ \$10000	+	\$60000
				=			+	
\$ 90000				=	\$ 30000		+	\$60000

Transaction 1 - On October 1, 2010 J. Emery Real Estate buys more furniture for \$1000 from Enns Furniture Ltd., and pays by cheque

Note: only assets are affected by this transaction

ASSETS				=	LIABILITIES		+	OWNER'S EQUITY
Cash	Auto- mobile	Furniture	Office Equipment	=	Bank Loan Payable	Accounts Payable	+	J.Emery, Capital
\$60000	+ \$15000	+ \$8000	+ \$7000	=	\$20000	+ \$10000	+	\$60000
<u>- 1000</u>	<u> </u>	<u>+ 1000</u>	<u> </u>	=	<u> </u>	<u> </u>	=	<u> </u>
59000	15000	9000	7000	=	20000	10000	=	60000
		90000		=		90000		

Transaction 2 - On October 3, 2010 J. Emery Real Estate buys more office equipment valued at \$1200 this time from Ryan Equipment Co. on 60 days credit. In other words, the creditor allows 60 days for payment

Note: on the left side assets are affected and on the right side liabilities **OWNER'S**

ASSETS				=	LIABILITIES + EQUITY		
Cash	Auto- mobile	Furniture	Office Equipment	=	Bank Loan Payable	Accounts Payable	J.Emery, Capital
\$59000	+ \$15000	+ \$9000	+ \$7000		\$20000	+ \$10000	+ \$60000
<u>59000</u>	<u>15000</u>	<u>9000</u>	<u>+ 1200</u> 8200	=	<u>20000</u>	<u>+ 1200</u> 11200	<u>60000</u>
	<u>91200</u>			=		<u>91200</u>	

Transaction 3 - On October 4, 2010 J. Emery Real Estate returns one calculator costing \$200 from Ryan Equipment Co. because it arrived damaged

Note: on the left side assets are affected and on the right side liabilities

ASSETS				=	LIABILITIES + OWNER'S EQUITY		
Cash	Auto-	Furniture	Office	=	Bank Loan	Accounts	J.Emery,
\$59000	mobile	\$9000	Equipment		Payable	Payable	Capital
+	\$15000	+	\$8200		\$20000	+	\$60000
+		+			+	\$11200	+
<hr/>	<hr/>	<hr/>	<hr/>	=	<hr/>	<hr/>	<hr/>
\$9000	15000	9000	8000		20000	11000	60000
		91000		=	91000		

Transaction 4 - On October 5, 2010 J. Emery Real Estate writes a cheque for \$5000 to Western Motors Ltd. in payment for the car Jane Emery purchased in September, when she established the business. Prior to this payment, Western Motors Ltd. held a claim against the assets of J. Emery Real Estate; the cheque therefore eliminates this claim.

Liability

Note: on the left side assets are affected and on the right side liabilities

ASSETS				=	LIABILITIES		+	OWNER'S EQUITY
Cash	Auto-mobile	Furniture	Office Equipment	=	Bank Loan Payable	Accounts Payable	+	J.Emery, Capital
\$59000	+ \$15000	+ \$9000	+ \$8000	=	\$20000	+ \$11000	+	\$60000
<u>-5000</u>	_____	_____	_____	=	_____	<u>-5000</u>		_____
94000	15000	9000	8000	=	20000	6000		60000
			86000	=		86000		

Transaction 5 - On October 15, 2010 J. Emery Real Estate writes a cheque for \$4000 to the Royal Bank of Canada in partial payment of the bank loan.

Note: on the left side assets are affected and on the right side liabilities

ASSETS				=	LIABILITIES + EQUITY		
Cash	Auto- mobile	Furniture	Office Equipment	=	Bank Loan Payable	Accounts Payable	J.Emery, Capital
\$54000	+ \$15000	+ \$9000	+ \$8000	=	\$20000	+ \$6000	+ \$60000
<u>-4000</u>				=	<u>-4000</u>		
50000	15000	9000	8000	=	16000	6000	60000
			82000	=			82000

Transaction 6 - On October 16, 2010 Jane Emery decides to increase her investment in the business by taking \$3000 from her personal savings account and depositing it into the firms bank account.

Note: on the left side assets are affected and on the right side owner's equity

investment ↓

ASSETS				=	LIABILITIES		+	OWNER'S EQUITY
Cash	Auto- mobile	Furniture	Office Equipment	=	Bank Loan Payable	Accounts Payable	+	J.Emery, Capital
\$50000	+ \$15000	+ \$9000	+ \$8000		\$16000	+ \$6000	+	\$60000
<u>+3000</u>								<u>+3000</u>
53000	15000	9000	8000	=	16000	6000		63000
		85000		=	85000			

Transaction 7 - On October 30, 2010 Jane Emery withdraws \$2000 from her firms bank account and deposits it into her personal bank account.

Note: on the left side assets are affected and on the right side owner's equity

ASSETS				=	LIABILITIES		+	OWNER'S EQUITY	
Cash	Auto- mobile	Furniture	Office Equipment	=	Bank Loan Payable	Accounts Payable	+	J.Emery, Capital	J. Emery, Drawing
\$53000	+ \$15000	+ \$9000	+ \$8000	=	\$16000	+ \$6000	+	\$63000	- 2000
53000 51000	15000	9000	8000	=	16000	6000	+	61000	
83000				=	83000				

When the owner withdraws from the business it is recorded under a new subheading J. Emery, Drawing. Since the original investment has not decreased, we need a new item that will show a decrease in owner's equity, namely, drawings.

Drawings: decreasing owner's equity and resulting from the owner's withdrawal of assets for personal use.

Preparing a Summary Table

SUMMARY TABLE												
Trans- actions	ASSETS					=	LIABILITIES			+	OWNER'S EQUITY	
	Cash	Auto- mobile	Furni- ture	Office Equip.	Total or Change in Assets	Bk. Loan Payable	Accts. Pay.	Total or Change in Lias.	J. Emery, Capital	J. Emery, Drawing	Total or Change in OE	
(Orig. bal)	\$60 000	+\$15 000	+\$8 000	+\$7 000	+\$90 000	\$20 000	\$10 000	\$30 000	\$60 000		\$60 000	
1	-1 000		+1 000		Ø							
2				+1 200	+1 200		+1 200	+1 200				
3				-200	-200		-200	-200				
4	-5 000				-5 000		-5 000	-5 000				
5	-4 000				-4 000	-4 000		-4 000				
6	+3 000				+3 000				+3 000		+3 000	
7	-2 000				-2 000					-2 000	-2 000	
Totals	\$51 000	+\$15 000	+\$9 000	+\$8 000	<u>\$83 000</u>	\$16 000	+\$6 000	<u>\$22 000</u>	\$63 000	+\$2 000	<u>\$61 000</u>	

Equality Check: A = L + OE
 \$83 000 = \$22 000 + \$61 000
 \$83 000 = \$83 000

Topic 1 - Problems
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Finish this for
Homework

OWNER'S
EQUITY

	ASSETS				=	LIABILITIES			+	OWNER'S EQUITY		
	Cash	Truck	Tools	Total or Change in Assets		Bank Loan Payable	Accts Payable	Total or Change in Liab.		G. Truer, Capital	G. Truer, Drawings	Total or Changes in OE
O.B.	\$6000	\$15000	\$4000	\$25000		\$5000	\$6000	\$11000		\$14000		\$14000
1			3000	3000			3000	3000				
2	-4000			-4000			-4000	-4000				
3			-400	-400			-400	-400				
4	7000			7000						7000		7000
5	8000			8000		8000		8000				
Ttl	17000	15000	6600	<u>38600</u>		13000	4600	<u>17600</u>		21000		<u>21000</u>

Equality Check:

$$A = L + OE$$

$$38600 = 17600 + 21000$$

$$38600 = 38600 \quad \checkmark$$

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