## CHAPTER 2

# ANALYZING CHANGES IN THE ACCOUNTING EQUATION

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



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 OWNER'S **EQUITY** LIABILITIES + **ASSETS** Cash Auto-**Furniture** Office Bank Loan **Accounts** J.Emery, Capital Payable Payable Equipment mobile \$10000 \$60000 + \$15000 + \$8000 \$7000 \$20000 \$60000 - 1000 +1000 10000 2000 6000 7000 59000 1500 9000 9000

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 LIABILITIES + EQUITY **ASSETS** Cash Auto-**Furniture** Office Bank Loan **Accounts** J.Emery, mobile Equipment **Payable** Payable Capital + \$10000 \$59000 + \$15000 + \$9000 \$7000 \$20000 \$60000 +1900 4 1900 11200 6000 00006 *5*000 91300

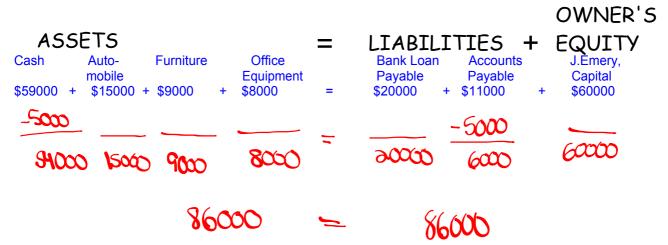
Transaction 3 - On October 4, 2010 J. Emery Real Estate returns one calculator costing \$200 from Ryan Equipment Co. because it arrived damaged

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



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.

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



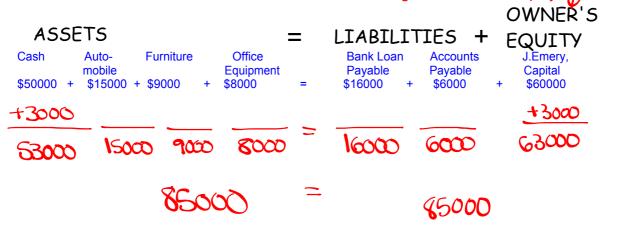
Transaction 5 - On October 15, 2010 J. Emery Real Estate writes a cheque for \$4000 to the Royal Bank of Canada in partial payment of the bank loan.

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

OWNER'S **ASSETS** + EQUITY LIABILITIES **Furniture** Office Bank Loan Cash Auto-**Accounts** J.Emery, Capital Payable Payable mobile Equipment \$54000 + \$20000 \$6000 \$60000 \$15000 + \$9000 \$8000 - 4000 -4000 60000 6000 16000 15000 9000 8000

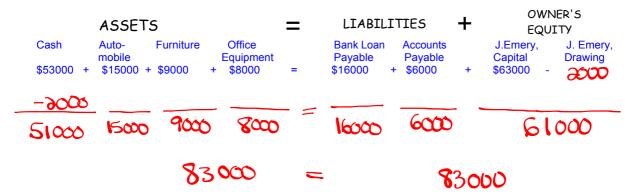
Transaction 6 - On October 16, 2010 Jane Emery decides to increase her investment in the business by taking \$3000 from her personal savings account and depositing it into the firms bank account.

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

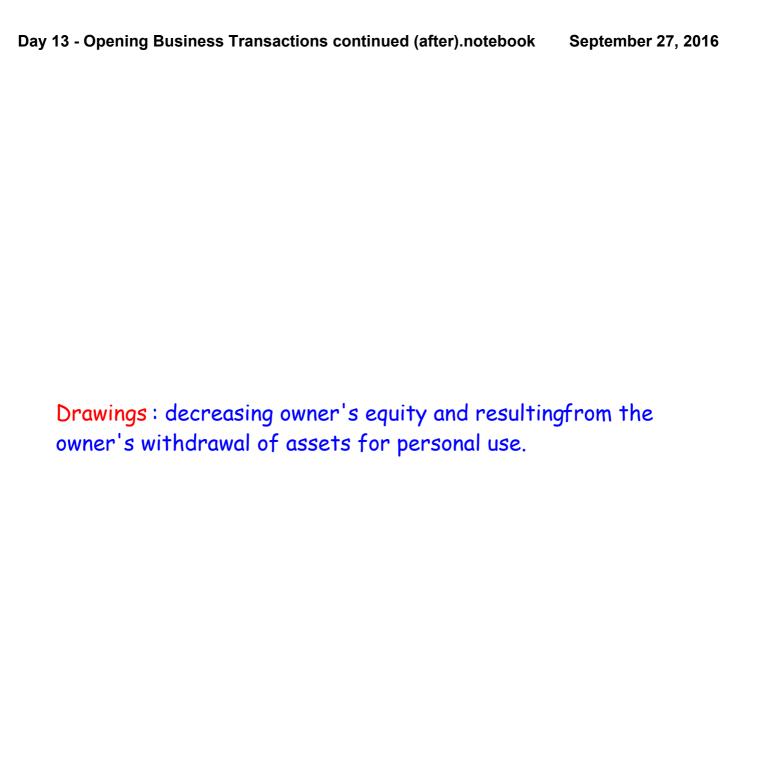


Transaction 7 - On October 30, 2010 Jane Emery withdraws \$2000 from her firms bank account and deposits it into her personal bank account.

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



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.



# Preparing a Summary Table

		ba .coite	ASSETS		hayela <mark>=</mark>	s, sys: Ll	ABILITIES	OWNER'S EQUITY			
Tions.	Cash	Auto- mobile	Furni- ture	Office Equip.	Total or Change in Assets	Bk. Loan Payable	Accts.	Total or Change in Lias.	J. Emery, Capital	J. Emery, Drawing	Total or Change in OE
(Cirig.	\$60 000	+\$15 000	+\$8 000	+\$7 000	+\$90 000	\$20 000	\$10 000	\$30 000	\$60 000	2015017/8	\$60 000
I	-1 000	ang bus	+1 000		Ø						
2	(01 753) (03 753)	TERNING		+1 200	+1 200		+1 200	+1 200			
3	o tails			-200	-200	1:	-200	-200			
4	-5 000	ažone i si		1:	-5 000		-5 000	-5 000			
5	-4 000				-4 000	-4 000		-4 000	h desen		88 f of \$30
6	+3 000	galago etc	8,101.5		+3 000				+3 000	10	+3 000
7	-2 000	DESIGN	gain V		-2 000		albytt A			-2 000	-2 000
Totals	\$51 000	+\$15 000	+\$9 000	+\$8 000	\$83 000	\$16 000	+\$6 000	\$22 000	\$63 000	+\$2 000	\$61 000

	Горіс Р 2-1	OWNER'S								
/	ASSE	TS		=	= LIA	BILITI	EQUITY			
	Cash	Truck	Tools	Total or Change in Assets	Bank Loar Payable	Accts Payable	Total or Change in Liab.	G. Truer, Capital	G. Truer, Drawing	Total or Changes in OE
О.В.	\$6000	\$15000	\$4000	\$25000	\$5000	\$6000	\$11000	\$14000		\$14000
1			3000	3000		3000	300			
2	COOP			-4000		-40co	-4000			
3			40	-400		- 400	-400			
4	Jam			7000				7000		7000
5	800)			४०००	8000		6000			
Ttl	17000	15600	6600	3600	13000	4600	17600	91000		21000

Equality Check!

$$A = L + 0E$$
 $38600 = 17600 + 21000$ 
 $38600 = 38600$ 

Topic 1 Problems Page 30 - 32

Topic 1 Mini-Cases Page 32 - 33

- Nov. 1 A licence was granted to Edna Greenwood for the organization and operation of Radio Station CHJK. Edna Greenwood invested \$80 000 cash.
- Nov. 3 Land was purchased for \$43 000 from Dwelling Development Company. A cash down payment of \$3 000 was made, and 90 days' credit extended.
- Nov. 4 A demand loan of \$30 000 was obtained from the Royal Bank of Canada.
- Nov. 5 A transmitter was purchased for \$55 000 from Radio Specialty, Ltd. A cash down payment of \$15 000 was made. The balance is to be paid in monthly instalments of \$500, beginning November 18.
- Nov. 6 An office and broadcasting facility was erected at a post of \$68 000, paid in cash.
- Nov. 8 A used compact disc player was purchased for \$450 cash from Ferris Music Centre.
- Nov. 11 A tape recorder was purchased for \$1250 from Ferris Music Centre.
- Nov. 14 A compact disc library was purchased for \$5750 from Ferris Music Centre. A cash payment of \$1750 was made, with the balance to be paid within 30 days.
- Nov. 16 Part of the compact disc library, originally costing \$250, was sold to the Civic Recreation Centre for the same price. The Civic Recreation Centre made payment in full by cheque.
- Nov. 18 \$500 cash was paid to Radio Specialty, Ltd., as the first instalment due that day.
- Nov. 30 New compact discs were purchased from Ferris Music Centre for \$1125, to be paid within 30 days.
  - a) Record the impact of each transaction on the accounting equation for this business enterprise by using the attached summary table with the following column headings: Transaction Date; Cash; Land; Building; Transmitter; Broadcasting Equipment; Compact Disc Library; Total Assets; Bank Loan Payable; Accounts Payable; Total Liabilities; Edna Greenwood, Capital.
  - b) After recording the final transaction, total all columns in the table. Then check if the accounting equation is balanced.
  - c) Prepare the opening balance sheet for Radio Station CHJK.

Key Check Figure: Total Liabilities is \$114 625

#### **SUMMARY TABLE**

				ASSETS			=	<u>.</u> [	IABILITIES	· -	OWNER'S EQUITY
Tran. Date	Cash	Land	Building	Trans- mitter	Broad. Equip.	CD Library	Change inTotal Assets	Bank Loan Pay.	Acc. Payable	Change inTotal Liabilities	E. Green- wood, Capital
Nov. 1	80 000						18000C				80 000
Nov. 3	-3 000	43 000				Ŧ	40000		40 000 -	140000	
Nov. 4	30 000					+	30000	30 000	+	30000	
Nov. 5	-15 000			55 000			40000		40 000	40000	
Nov. 6	-68 000		68 000				0				
Nov. 8	-450				450		0				
Nov. 11	-1250				1250		0				
Nov. 14	-1750					5750	+400		4 000 <del>1</del>	400D	
Nov. 16	250					-250	0				
Nov. 18	-500						-500		-500	5 <b>0</b> 0	
Nov. 30						1125	+1195	,	1125	1125	
Totals	20 300	43 000	68 000	55 000	1 700	6625	194 625	30 000	84 625	114 625	80 000

Equality Check: 
$$A = L + OE$$

$$194635 = 114635 + 80000$$

Nov. 1 - A licence was granted to Edna Greenwood for the organization and operation of Radio Station CHJK. Edna \_Greenwood invested \$80 000 cash.

Nov. 3 - Land was purchased for \$43 000 from Dwelling Development Company Assist down payment of \$3 000 was made, and 90 days' credit extended.

Nov. 4 - A demand loan of \$30 000 was obtained from the Royal Bank of Canada.

Nov. 5 - A transmitter was purchased for \$55 000 from kadio Specialty, Etd. A cash down payment of \$15,000 was practice. The balance is to be paid in monthly instalments of \$500, beginning November 18.

Nov. 6 - An office and broadcasting facility was erected at a post of \$68,000, paid in cash.

Nov. 8 - A used compact disc player was purchased for \$450 cash from Ferris Music Centre.

Nov. 11 – A tape recorder was purchased for \$1250 from Ferris Music Centre.

Ov. 14 - A compact disc library was purchased for \$5750 from Fenis Music Centre. A cash payment of \$1750 was made, with the balance to be paid within 30 days.

Nov. 16 – Part of the compact disc library, originally costing \$250, was sold to the Civic Recreation Centre for the same price. The Civic Recreation Centre made payment in full by cheque.

Nov. 18 - \$500 cash was paid to Radio Specialty, Ltd., as the first instalment due that day.

Nov. 30 – New compact discs were purchased from Fe<del>nis Music. Centre f</del>or \$1125, to be paid within 30 days.

1175

dio Station CHUK	
Balance Sheet	
at November 30.2016	
,	
LIABILITIES "	
20300.00 Bank Long 30	000,00
55000 Ferris Music Centr 5125	
1700 Dielling Ruckorst 6 4000 84	695,00
	625.00
OW JER'S FRUTTY	
	000.∞
	+++++
19 4625,00 Total Liabilities & B191	162500
Owners Equity	
	Balance Sheet  T November 30,0016  LIABILITIES  3000.00 Bank Lown  43000.00 Accounts Payable  68000.00 Radio Speach Ltd. 339500  55000.00 Ferris Music Certs 5125  1700.00 Duelling Rychard 64000 84  6625.00 Total Liabilities # 117

- Apr. 1 Martha Whiting invested \$65 000 cash into her business.
- Apr. 2 She purchased land for \$17 000 from Superior Lots, Ltd. A cash down payment of \$4 500 was made, and 60 days' credit extended.
- Apr. 3 She took out a loan of \$42 000 on demand from the Bank of Montreal.
- Apr. 5 A tractor was purchased for \$32 000 from McIntosh Farms, Ltd. She made a down payment of \$6 250 cash on the tractor. The balance is to be paid in monthly instalments of \$750, beginning April 22nd.
- Apr. 7 The business built an office building for \$78 450. A mortgage of \$45 000 was taken out on the building. The remainder was paid in cash.
- Apr. 9 Various pieces of equipment were purchased for \$3 500 cash from Home Hardware.
- Apr. 11 Martha took \$3 000 out from the business's chequing account for personal use.
- Apr. 15 Tools were purchased for \$4 200 from Kent Building Supplies. A cash payment of \$1 300 was made, with the balance to be paid within 30 days.
- Apr. 16 A piece of equipment that was purchased from Home Hardware had to be returned. It cost \$625 and Home Hardware accepted the return.
- Apr. 19 Martha invested another \$10 000 into her business.
- Apr. 22 A cheque of \$750 was paid to McIntosh Farms, Ltd. as the first installment due that day.
- Apr. 29 New tools were purchased from Kent Building Supplies for \$650, to be paid within 30 days.

Key Check Figure: Total Liabilities is \$128 050

### **SUMMARY TABLE**

OWNER'S

LIABILITIES + **EQUITY ASSETS**