


## 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

Balances as at September 30, 2010

<b>ASSETS</b>	=	<b>LIABILITIES</b>	+	<b>OWNER'S EQUITY</b>
Cash      Auto- \$60000 + \$15000 + Furniture + Office + \$8000      + \$7000 Equipment	=	Bank Loan      Accounts Payable      Payable \$20000      + \$10000	+	J.Emery, Capital \$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-	Furniture	Office		Bank Loan	Accounts		J.Emery,
\$60000	mobile	+ \$8000	Equipment	=	Payable	Payable	+	Capital
	+ \$15000		+ \$7000		\$20000	+ \$10000		\$60000
-1000		+1000						
59000	15000	9000	7000		20000	10000		60000
								
90000					30000			60000

**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-	Furniture	Office		Bank Loan	Accounts	J.Emery,
\$59000	mobile	\$9000	Equipment	=	Payable	Payable	Capital
+	\$15000	+	\$7000		\$20000	+	\$60000
+					+	\$10000	+
<hr/>	<hr/>	<hr/>	<hr/>		<hr/>	<hr/>	<hr/>
59000	15000	9000	8200		20000	11000	60000

**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 + EQUITY							
Cash	+	Auto- mobile	+	Furniture	+	Office Equipment	=	Bank Loan Payable	+	Accounts Payable	+	OWNER'S J.Emery, Capital
\$59000		\$15000		\$9000		\$8200		\$20000		\$11200		\$60000
<hr style="width: 100%;"/>		<hr style="width: 100%;"/>		<hr style="width: 100%;"/>		<hr style="width: 100%;"/>		<hr style="width: 100%;"/>		<hr style="width: 100%;"/>		<hr style="width: 100%;"/>
59000		15000		9000		8000		20000		11000		60000

**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

ASSETS				=	LIABILITIES + OWNER'S EQUITY		
Cash	Auto-	Furniture	Office		Bank Loan	Accounts	J.Emery,
\$59000	mobile	\$9000	Equipment	=	Payable	Payable	Capital
+	\$15000	+	\$8000		\$20000	+	\$60000
+		+			+	\$11000	+
<u>-5000</u>	<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>	<u>- 5000</u>	<u>          </u>
54000	15000	9000	8000		20000	6000	60000

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-	Furniture	Office		Bank Loan	Accounts	OWNER'S
\$54000	mobile	\$9000	Equipment	=	Payable	Payable	Capital
+	\$15000	+	\$8000		\$20000	\$6000	\$60000
+		+			+	+	
<u>- 4000</u>	<u>          </u>	<u>          </u>	<u>          </u>		<u>- 4000</u>	<u>          </u>	<u>          </u>
50000	15000	9000	8000		16000	6000	60000



**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

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
<span style="color: red;">+ 3000</span>	<span style="color: red;">_____</span>	<span style="color: red;">_____</span>	<span style="color: red;">_____</span>		<span style="color: red;">_____</span>	<span style="color: red;">_____</span>		<span style="color: red;">+ 3000</span>
<span style="color: red;">53000</span>	<span style="color: red;">15000</span>	<span style="color: red;">9000</span>	<span style="color: red;">8000</span>		<span style="color: red;">16000</span>	<span style="color: red;">6000</span>		<span style="color: red;">63000</span>

**Transaction 7** - On October 30, 2010 Jane Emery withdraws \$2000 from the firm's 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-	Furniture	Office		Bank Loan	Accounts		J.Emery,	J. Emery,
\$53000	mobile	+ \$9000	Equipment	=	Payable	Payable	+	Capital	Drawing
	+ \$15000		+ \$8000		\$16000	+ \$6000		\$63000	-
<u>- 2000</u>									<u>- 2000</u>
51000	15000	9000	8000		16000	6000		63000	- 2000
⏟					⏟			⏟	
83000					22000			61000	

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** : a subelement 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		∅								
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		
<b>Totals</b>	<b>\$51 000</b>	<b>+\$15 000</b>	<b>+\$9 000</b>	<b>+\$8 000</b>	<b><u>\$83 000</u></b>	<b>\$16 000</b>	<b>+\$6 000</b>	<b><u>\$22 000</u></b>	<b>\$63 000</b>	<b>-\$2 000</b>	<b><u>\$61 000</u></b>		

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

Equality check:

$$A = L + OE$$

$$83000 = 22000 + 61000$$

Topic 1 - Problems

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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											
2											
3											
4											
5											
Ttl											

Topic 1 Problems Page 30 - 32

Topic 1 Mini-Cases Page 32 - 33