## 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

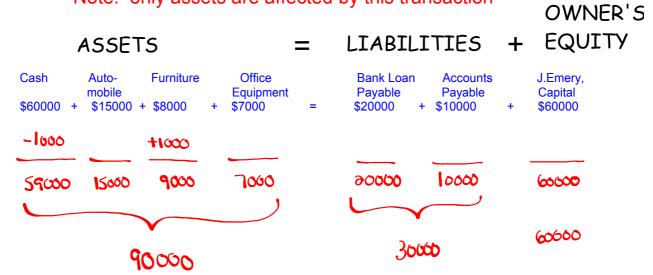
In Chapter 2 we will analyze changes in the accounting equation

## 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



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 \$59000 + \$15000 + \$9000 \$20000 \$7000 + \$10000 \$60000 4 1900 1 1200 *0*068 9000 1500 Samo 60000 11900 20000

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 <u>claim against the assets</u> 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

OWNER'S **ASSETS EQUITY** LIABILITIES Office Cash Auto-**Furniture** Bank Loan J.Emery, **Accounts** Payable Payable Capital mobile Equipment \$59000 + \$15000 + \$9000 \$8000 \$20000 \$11000 \$60000 5000 6000D 8000 9000 15000 6000 00000

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



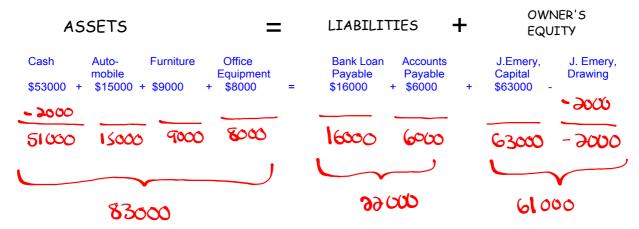
Transaction 6 - On October 16, 2010 Jane Emery decides to increase her investment in the business by taking \$3000 from her personal savings account and depositing it into the firms bank account.

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 he 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.

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

## Preparing a Summary Table

Trons <sup>1</sup>	ASSETS				= LIABILITIES +				OW	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.	\$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	CH THE	TO EQUA		+1 200	+1 200		+1 200	+1 200				
3	oasila		A 14 400 A 100	-200	-200		-200	-200				
4	-5 000	alonce si	•	10,1	-5 000		-5 000	-5 000				
5	-4 000				-4 000	-4 000		-4 000			% Enf 830	
6	+3 000	aimado	8,111.71	all offe	+3 000				+3 000	10.	+3 000	
7	-2 000	paraeti	gniwoll	od adi L	-2 000		e de la composition della comp			-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	

Equality check:  

$$A = L + 0E$$

$$83000 = 20000 + 610000$$

Topic 1 - Problems P 2-1 OWNER'S **EQUITY** LIABILITIES **ASSETS** Total or Change Total or Total or Cash Truck Bank Loar G. Truer, Tools Change Accts Changes G. Truer, in Liab. in OE in Assets Payable **Payable** Capital Drawing O.B. \$6000 \$25000 \$15000 \$4000 \$5000 \$11000 \$14000 \$14000 \$6000 Ttl

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Topic 1 Mini-Cases Page 32 - 33