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 Equipment Payable mobile \$20000 \$10000 \$60000 + \$15000 + \$8000 \$7000 \$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 **ASSETS** LIABILITIES + EQUITY 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 **60068** 91300

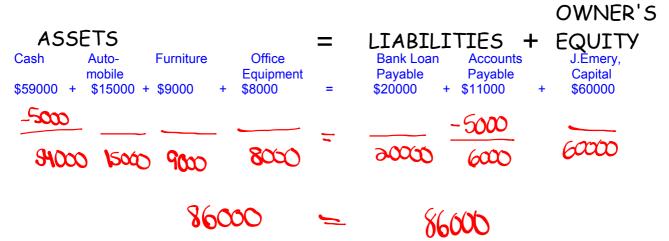
Transaction 3 - On October 4, 2010 J. Emery Real Estate returns one calculator costing \$200 from Ryan Equipment Co. because it arrived damaged

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



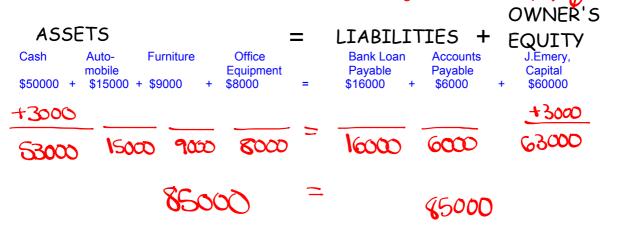
Transaction 5 - On October 15, 2010 J. Emery Real Estate writes a cheque for \$4000 to the Royal Bank of Canada in partial payment of the bank loan.

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

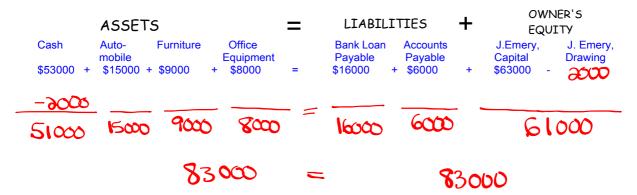
Transaction 6 - On October 16, 2010 Jane Emery decides to increase her investment in the business by taking \$3000 from her personal savings account and depositing it into the firms bank account.

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

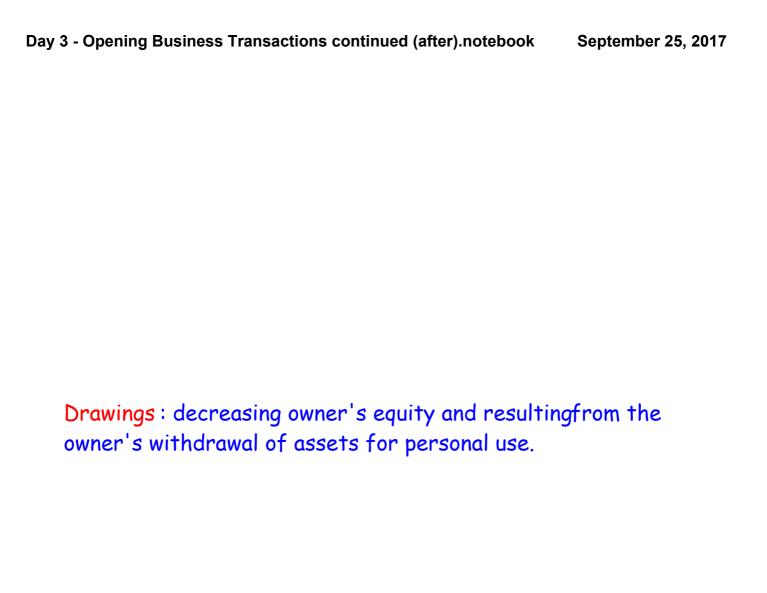


Transaction 7- On October 30, 2010 Jane Emery withdraws \$2000 from her firms bank account and deposits it into her personal bank account.

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

		a .colt	ASSETS		boxyle ,	g everLl	ABILITIES	OW	OWNER'S EQUITY			
Truns.3	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	018000	\$60 000	
ı	-1 000		+1 000		Ø							
2		TVBQ JU TE EL GE		+1 200	+1 200		+1 200	+1 200				
3	no talls			-200	-200)	-200	-200				
4	-5 000	alome : si			-5 000		-5 000	-5 000				
5	-4 000				-4 000	-4 000		-4 000			+ t of 830	
6	+3 000		8,103 5		+3 000				+3 000	10.	+3 000	
7	-2 000	ISBARISTS	gniw V	9 4	-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	

Topic 1 - Problems P 2-1

									OWN	IER'S	
,	ASSE	TS		=	= LIA	-	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	
O.B.	\$6000	\$15000	\$4000	\$25000	\$5000	\$6000	\$11000	\$14000		\$14000	
1			3000	+3000		13000	+3000				
2	4000			-4000		-4000	-4 ∞				
3			48	-400		-400	-400				
4	0001			47000				47000		+7000	
5	+8000			+8000	+8000		t 8000				
Ttl	17000	15000	6600	38 600	13000	4600	17600	91000		21000	
		•			•						

$$A = L + OE$$

$$38600 = 17600 + 21000$$

$$38600 = 38600$$

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Topic 1 Mini-Cases Page 32 - 33

				S	UMMARY '	TABLE				
Trans- actions	Assets			-		Liabilitie	+ Owner's Equity			
	Cash	Stage Props	Makeup Supplies	Total Assets	Bk. Loan Payable	Accts. Payable	Total Liabilities	A. Sousa, Capital	A. Sousa, Drawing	Total O. E.
(i)	4 000			4 000				4 000		4 000
(ii)	10 000			14 000	10 000		10 000			4 000
(iii)		4 400		18 400		4 400	14 400			4 000
(iv)	-900		900	18 400			14 400			4 000
(v)	100		-100	18 400			14 400			4 000
(vi)	-2 500	2 500		18 400			14 400			4 000
(vii)	-300			18 100			14 400		-300	3 700
(viii)	-1 000			17 100		-1 000	13 400			3 700
(ix)			200	17 300			13 400	200		3 900
Totals	9 400	6 900	1 000	17 300	10 000	3 400	13 400	4 200	300	3 900

					SUM	MARY T	ABLE						
Trans- action Date				Assets				=	Liabilities				
	Cash	Land	Building	Trans- mitter	Broadcast Equipment	Compact Disc Library	Total Assets	Bank Loan Payable	Accounts Payable	Total Liabilities	E. Greenwood Capital		
Nov. 1	80 000			N. W.			80 000		-	0	80 000		
3	-3 000	43 000					120 000		40 000	40 000			
4	30 000						150 000	30 000		70 000			
5	-15 000			55 000			190 000		40 000	110 000			
6	-68 000		68 000				190 000			110 000			
8	-450				450		190 000			110 000			
11	-1 250				1 250		190 000			110 000			
14	-1 750					5 750	194 000		4 000	114 000			
. 16	250					-250	194 000			114 000			
18	-500						193 500		-500	113 500			
30)				1 125		194 625		1 125	114 625			
Total	20 300	43 000	68 000	55 000	2 825	5 500	194 625	30 000	84 625	114 625	80 000		

SUMMARY TABLE

				ASSETS			=	<u> </u>	LIABILITIES	· -	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						+8000				80 000
Nov. 3	-3 000	43 000					+40000		40 000	+4000C	
Nov. 4	30 000						+30000	30 000	4	-30000	
Nov. 5	-15 000			55 000			440000		40 000	40000	
Nov. 6	-68 000		68 000				0				
Nov. 8	-450				450		0				
Nov. 11	-1250				1250		0				
Nov. 14	-1750					5750	4400		4 000	4 4000	
Nov. 16	250					-250	0				
Nov. 18	-500						-500		-500	-500	
Nov. 30						1125	+1175		1125	+ 1125	
Totals	20 300	43 000	68 000	55 000	1 700	6625	194 625	30 000	84 625	114 625	80 000

P 2-3c				
	Radio St	ation CHJK		
	Balan	ce Sheet		1
	as at Nove	mber 30, 19		
ASSETS		LIABILITIES		
Cash	\$20 300	Bank Loan Payable	\$ 30 000	
Land	43 000	Accounts Payable:		
Building	68 000	Dwelling Development \$40 000		
Transmitter	55 000	Ferris Music Centre 5 125		
Broadcast Equipment	2 825	Radio Specialty Ltd 39 500	84 625	
Compact Disk Library	5 500	Total Liabilities	\$114 625	
2		OWNER'S EQUITY		
		E. Greenwood, Capital	80 000	
Total Assets	\$194 625	Total Liabilities and Owner's Equity	\$194 625	
		and a man a man a squary man		

- 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

ASSETS = LIABILITIES + EQUITY

Trans Cash Land Bull Factor Equi							للمصهو				لمممل	(hange		
Trans	Cash	Land	B"//	Vactor	Equip	Tools	in T.A.	Bank Loan	A/P	Matzz	7.2.	Capital	Dravin	SO: