

## Chapter II

# Measuring & Recording Business Transactions

### Topic:

- Debit
- Credit
- Chart of Accounting
- Assets:
  - o Current Assets
  - o Fixed Assets
  
- Liability
  - o Current Liabilities
  - o Long term Liabilities
  
- Owner's equity
  - o Capital
  - o Share holders
  
- Revenue
- Expense
- General Journal (GJ)
- General Ledger (GL)
  - o T-account
  - o List
  
- Trial Balance

## Measuring & Recording Business Transactions

As we studied in chapter one about the transactions which they run business for controlling the company system about the revenue and the expense.

As Revenue – Expense = Profit.

In this chapter we will learn more about the measuring and recording transactions as the following.

### **2.1: The account:**

A separate account is maintain for each item that appears on the balance sheet (assets, liabilities and owner's equity), and on the income statement (revenue and expense).

Example:

- Cash
- Account receivable
- Land

### **2.2: Debits and Credits: the double entry system**

#### **What is debit?**

- Debit (Dr): When an account is entered on the left side of the account, and the account is said to be debited.

#### **What is credit?**

- Credit (Cr): When an account is entered on the right side of the account, and the account is said to be credited.

However, an increase in a given item is credited or debited depends on the category of the item. It was illustrated in the list as the following:

Type	Debit	Credit
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Owner's equity	Decrease	Increase
Expense	Increase	Decrease
Revenue	Decrease	Increase

### 2.3: Chart of account:

Account Group	Two-Digit	Three-Digit
1- Assets	11-19	101-199
2- Liabilities	21-29	201-299
3- Capital	31-39	301-399
4- Income	41-49	401-499
5- Expense	51-59	510-599

- **Assets:**
  - **Current Assets**
    - Account Receivable
    - Note Receivable
  - and so on
  - **Fixed Assets**
    - Land
    - Building
    - Equipment
  - and so on
  
- **Liability**
  - **Current Liabilities**
    - Account Payable
    - Note Payable
  - and so on
  - **Long term Liabilities**
    - Mortgage Payable
    - Bound Payable
  - and so on
  
- **Owner's equity**
  - Capital
  - Share holders
  
- **Revenue**
- **Expense**



## General Journal (GJ)

Date	Account Description	Account Id	Debit	Credit

## General Ledger (GL)

- T-account

Cash

|

- List

Account Name:

Account ID:

Date	Item	PR	Debit	Credit	Account Balance	
					Debit	Credit

## Trial Balance

Account Description	Debit		Credit
<b>Total</b>	<b>xxx</b>	<b>=</b>	<b>xxx</b>

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## Problem for Chapter 2

- 2.1** The classify and summarize a single tem of an account group, we use a form called a(n) \_\_\_\_\_
- 2.2** The accounts make up a record called a(n) \_\_\_\_\_
- 2.3** The left side of the account is known as the \_\_\_\_\_, whereas the right side is the \_\_\_\_\_
- 2.4** Increase in all assets account are \_\_\_\_\_
- 2.5** Increase in all liability account are \_\_\_\_\_
- 2.6** Increase in all equity account are \_\_\_\_\_
- 2.7** Increase in all income account are \_\_\_\_\_
- 2.8** Increase in all expense account are \_\_\_\_\_
- 2.9** Expenses are debited because they decrease \_\_\_\_\_
- 2.10** The schedule showing the balance of each account at the end of the period is known as the \_\_\_\_\_
- 2.11** Indicate in the columns below the increases in each account by placing a check in the appropriate column.

	Debit	Credit
(a) Capital is increased		
(b) Cash is decreased		
(c) Account payable is increased		
(d) Rent expense is increased		
(e) Equipment is increased		
(f) Fees income is increased		
(g) Capital is decreased (through drawing)		

- 2.12** For each transaction in the table below, indicate the account to be debited and the account to be credited by placing the letter representing the account in the appropriate column.

Name of account	Transaction	Dr.	Cr.
(a) Account payable	1. Invested cash in the firm		
(b) Capital	2. Paid rent for month		
(c) Cash	3. Received cash fees for service		
(d) Drawing	4. Paid salary		
(e) Equipment	5. Bought equipment on account		
(f) Fees Income	6. Paid ½ balance on equipment		
(g) Notes Payable	7. Bought Supplies on account		
(h) Rent Expense	8. Borrowed money from bank, giving a note in exchange		
(i) Salaries Expense	9. Supplies inventory showed 1/3 used during the month		
(j) Supplies	10. Withdrew cash for personal use		
(k) Supplies Expense			

**2.13** Rearrange the following list of account as they would appear in the ledger and assign a numerical designation for each one based on a two-digit system.

Fees Income	Accounts Payable
Salaries Expense	Notes payable
Supplies Expense	Capital
Supplies	Equipment
Cash	Drawing
Accounts Receivable	

**2.14** Rearrange the alphabetical list of the accounts a trial balance.

Accounts Payable	\$ 6,000	General Expense	\$ 1,000
Accounts Receivable	14,000	Notes Payable	11,000
Sarah Hudson, Capital	32,000	Rent Expense	5,000
Cash	20,000	Salaries Expense	8,000
Sarah Hudson, Drawing	4,000	Supplies	6,000
Equipment	15,000	Supplies Expense	2,000
Fees Income	26,000		

**2.15** In the following trial balance for R. Romez Company, certain accounts have been recorded improperly; therefore it does not balance. Prepare a corrected trial balance.

**R. Romez Company  
Trial Balance  
December 31, 19X8**

	<b>Debit</b>	<b>Credit</b>
Cash	\$ 26,000	
Account Receivable	14,000	
Supplies		6,000
Equipment	12,000	
Account Payable	14,000	
R. Romez, Capital	30,000	
R. Romez, Drawing		4,000
Fees Income		38,000
Rent Expense	6,000	
Supplies Expense	2,000	
Salaries Expense		12,000
	<b><u>\$ 104,000</u></b>	<b><u>\$ 60,000</u></b>

**2.16** The trial balance of Greg Johnson presented below does not balance. In receiving the ledger, you discover the following:

1. The debits and credits in the Cash account total \$24,100 and \$21,400, respectively.
2. The \$400 received in settlement of an account was not posted to the Accounts Receivable account.
3. The balance of the Salaries Expense account should be \$200 less.
4. No balance should exist in the Notes Payable account.
5. Each account should have a normal balance.

Prepare a corrected trial balance.

**Greg Johnson, lawyer  
Trial Balance  
December 31, 19X8**

	<b>Debit</b>	<b>Credit</b>
Cash	\$ 3,000	
Account Receivable	11,800	
Supplies		800
Equipment	18,500	
Account Payable		1,500
Notes Payable		300
Greg Johnson, Capital		15,400
R. Romez , Drawing		500
Fees Income		29,000
Salaries Expense	8,200	
Rent Expense	3,000	
Supplies Expense		200
General Expense		800
	<b><u>\$ 44,500</u></b>	<b><u>\$ 48,500</u></b>

**2.17** The following transactions were engaged in during the month of March by Dr. Scott Braunstein:

- (1) Opened his practice by investing \$50,000 in the business
- (2) Bought office equipment for \$ 27,000 on account from Medical Products, Inc.
- (3) Paid \$2,000 for various medical supplies for the office
- (4) Received \$11,600 in fees earned during the first month of operations
- (5) Paid office rent for the month, 900
- (6) Paid medical assistant salary for the month, \$1,800
- (7) Paid Medical Products, Inc., \$3,000 on account
- (8) Withdrew \$1,500 for personal use

Record the entries in the accounts below for Dr. S. Braunstein, labeling each item. Then prepare a trial balance.

**Account** : Cash (11), Equipment (13), Fees Income (41), Accounts Payable (21), Rent Expense (51), Supplies (12), Capital (31), Salaries Expense (52), Drawing (32).

**2.18** For the transactions below, each entry in the T accounts furnished.

- (1) The Nu-Look Dry Cleaning Company opened a business bank account by depositing \$12,000 on November 1.
- (2) Purchased supplies for cash, \$220.

- (3) Purchased dry cleaning equipment from Hill Cleaning Equipment, Inc., \$3,500, Paying \$1,500 in cash with the balance on account.
- (4) Paid rent for the month, \$825.
- (5) Cash sales for the month totaled \$1,850.
- (6) Paid salaried of \$375.
- (7) Paid \$500 on account to Hill Cleaning Equipment, Inc.
- (8) The cost of supplies used was determined to be \$60.

**2.19** Prepare a trial balance as of November 30 for the Nu-Look Dry Cleaning Company, using the account balances in Pob.2.18.

**2.20** Mr. Dara opened the new company by investing \$30,000 on January 200x. And after that the company has the transaction as below.

- 1 Jan. The company opens the bank account by deposit \$15,000.
- 2 Jan. The company purchases the new computer on account \$500.
- 3 Jan. The company provides the service and collect the cash \$1,000.
- 4 Jan. The company paid to the computer shop in the amount of \$300.
- 5 Jan. The company provides the services, check \$1,500.
- 7 Jan. The company paid on full debt to the computer shop.
- 9 Jan. The company purchased the new vehicle costing \$5,000 by paying 50% in check.
- 10 Jan. The company purchased supplies on account \$400.
- 11 Jan. The company install the new system for controlling working hour paying in cash \$1,500.
- 12 Jan. The company provides the service collecting cash \$3,000.
- 13 Jan. The company paid for transportation in cash \$ 400.
- 14 Jan. The company paid full amount for the balance of purchasing the supplies.
- 16 Jan. Paid for biweekly wages in cash to the assistant \$ 300.
- 18 Jan. The owner withdrew for his personal use in the amount of \$500 in cash,
- 20 Jan. The company purchased 3 tables for staff paying in cash \$500.
- 23 Jan. The owner has meal with the client paying in cash \$ 150.
- 25 Jan. The company provides the service collecting cash \$5,000 and \$3,000 in check.

**Question**

- a)- Journal entry
- b)- Make the General Ledger
- c)- Make the Trail Balance

