

T Accounts, Debits and Credits, Trial Balance and Financial Statements

College Accounting

11th Edition

Teacher Version

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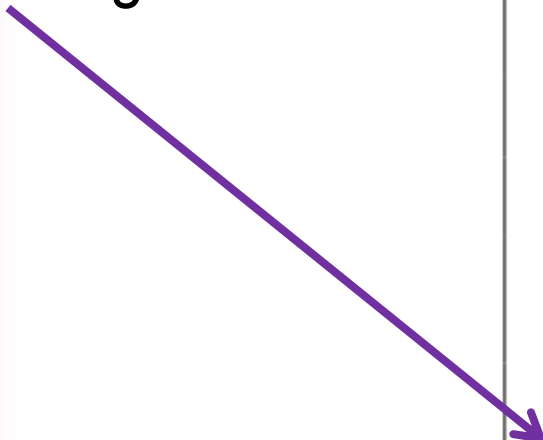
1 Determine balances of T accounts.

Step 2: $109,070 - 53,180 = 55,890$

Step 3: Placement

The T-Account Form

Normally, the footing on the increase (plus) side of an account will be larger than the footing



Cash T Account:			
Cash			
	+	—	
(a)	90,000	(b)	38,000
(f)	8,000	(d)	2,000
(q)	2,500	(g)	1,250
(r)	8,570	(i)	1,875
	109,070	(l)	1,500
		(m)	225
		(n)	620
		(o)	2,360
		(p)	1,850
		(s)	3,500
			53,180
	Bal.	55,890	

Asset T Accounts

- 2** Present the fundamental accounting equation using the T account form and label the plus and minus sides.

Cash	
+	—
Left	Right

The T account has a title (such as **Cash**).

Assets increase
on the left side.

Assets decrease
on the right side.

(continued)

Liability T Accounts

Accounts Payable		T account title
— Left	+ Right	
Liabilities decrease on the left side.		Liabilities increase on the right side.

(continued)

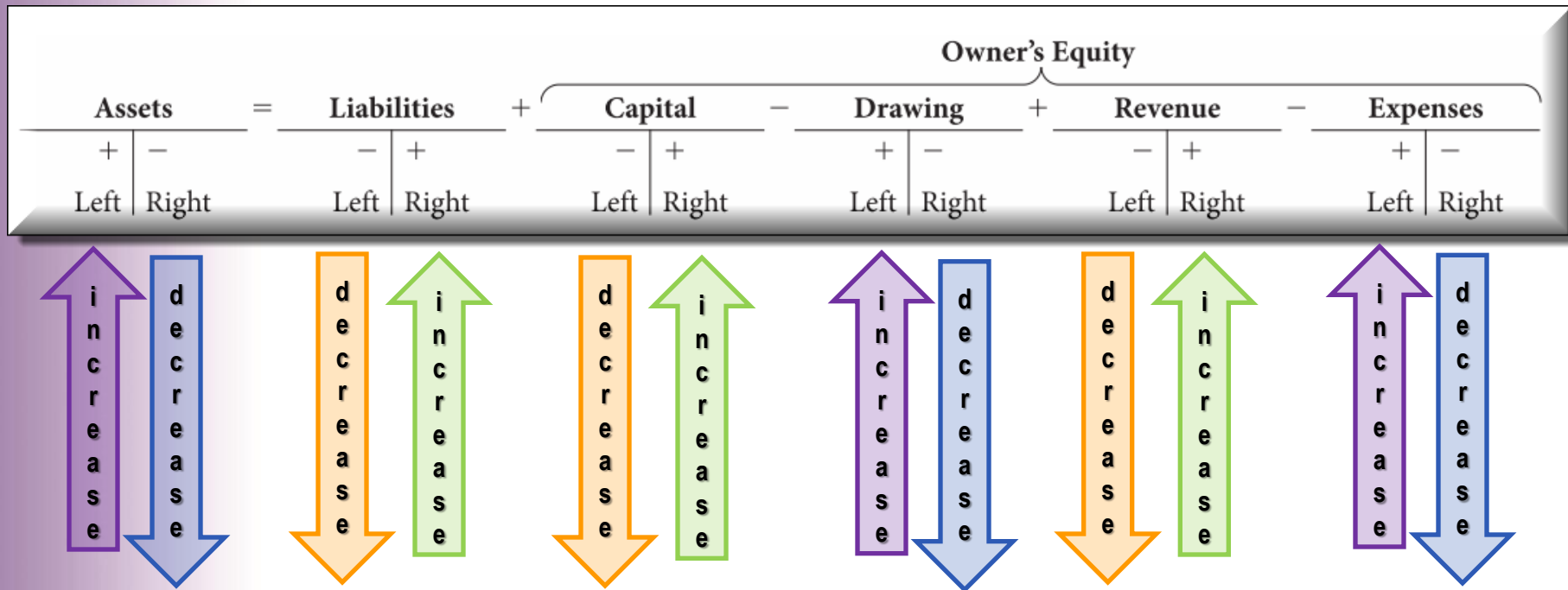
Owner's Equity T Accounts

Drawing and expenses cause a decrease in owner's equity

Owner's investments (capital) and revenues cause an increase in owner's equity

Owner's Equity			
<div> <div>—</div> <div>Left</div> <div>↓</div> <div>Drawing</div> </div>		<div> <div>+</div> <div>Right</div> <div>↓</div> <div>Capital</div> </div>	
+	—	—	+
Left	Right	Left	Right
Expenses		Revenue	
+	—	—	+
Left	Right	Left	Right

Expanded Fundamental Accounting Equation



What is a: ... Debit ... Credit

- What does debit mean?
 - Debit means “left”
 - Debit is abbreviated “DR”
- What does credit mean?
 - Credit means “right”
 - Credit is abbreviated “CR”

Debits Signify

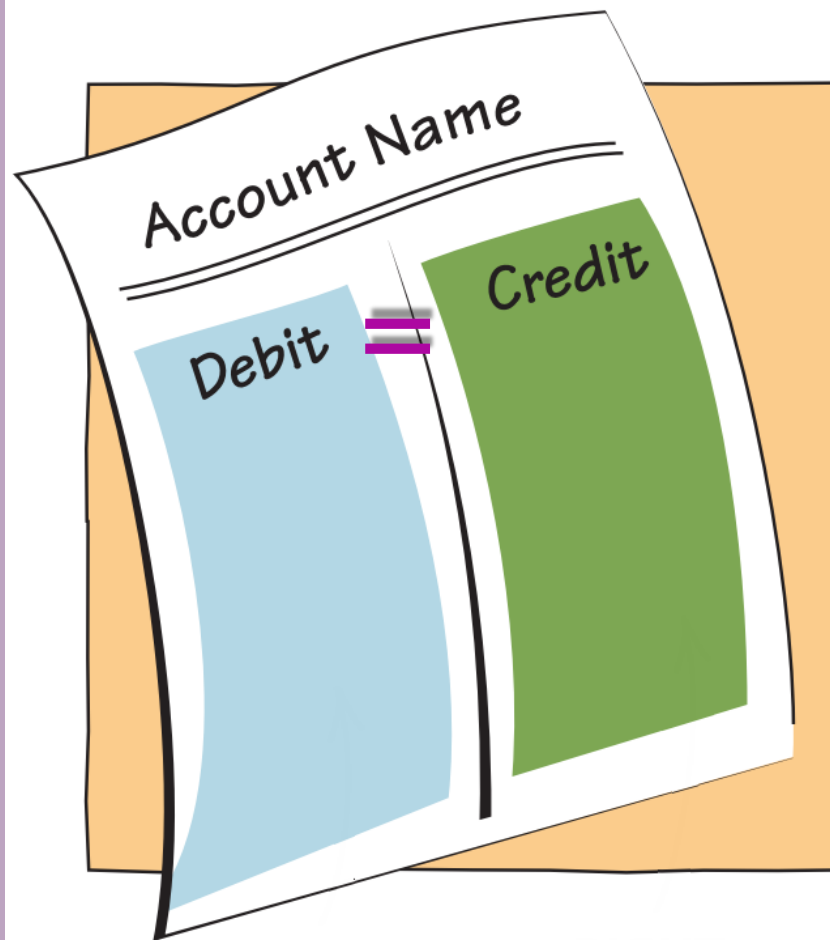
Increases in {
Assets
Drawing
Expenses

Decreases in {
Liabilities
Capital
Revenue

Credits Signify

Decreases in {
Assets
Drawing
Expenses

Increases in {
Liabilities
Capital
Revenue



The critical rule to remember is that the amount placed on the debit side of one or more accounts **MUST** equal the amount placed on the credit side of another account or accounts.

Recording Business Transactions in T Accounts

- 4** Record directly in T accounts a group of business transactions involving changes in asset, liability, owner's equity, revenue, and expense accounts for a service business.

Transaction (a): Conner deposited \$90,000 in a bank account in the name of the business.

Steps:

1. What accounts are involved?
2. What are the classifications of the accounts involved (asset, liability, capital, drawing, revenue, expense)?
3. Are the accounts increased or decreased?

Answer:

1. Cash and J. Conner, Capital
2. Cash is an asset account, and J. Conner, Capital is an owner's equity account
3. Cash is being deposited in the bank account, an increase to Cash
The owner has invested that cash in the business and has increased J. Conner, Capital

Recording Business Transactions in T Accounts

Transaction: Conner deposited \$90,000 in a bank account in the name of the business.

Steps:

4. Write the transaction as a debit to one account (or accounts) and a credit to another account (accounts)?
5. Is the equation in balance after the transaction has been recorded?

Answer:

4. Because Cash is an asset account and Cash is increased, Cash is debited
J. Conner, Capital is an owner's equity account and is increased, J. Conner, Capital is credited
5. At least *one* account is *debited* and *one* is *credited*. And, the total amount(s) debited equals the total amount(s) credited.

Transaction (a): Conner deposited \$90,000 in a bank account in the name of the business.

Transaction (a) in T Account Form

Assets		=	Liabilities		+	Owner's Equity				-			+			-		
						Capital	Drawing				Revenue	Expenses						
+	-		-	+		-	+		+	-	-	+		+	-		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit	Debit	Credit	
Cash						J. Conner, Capital												
+	-					-	+											
Debit	Credit					Debit	Credit											
(a) 90,000							(a) 90,000											

Transaction (b): Conner's Whitewater Adventures bought equipment, paying cash of \$38,000.

Assets		=	Liabilities		+	Owner's Equity				-			+			-		
						Capital	Drawing				Revenue	Expenses						
+	-		-	+		-	+		+	-	-	+		+	-		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit	Debit	Credit	
Cash																		
+	-																	
Debit	Credit																	
	(b) 38,000																	
Equipment																		
+	-																	
Debit	Credit																	
(b) 38,000																		

Transaction (c): Conner's Whitewater Adventures bought equipment, on account, for \$4,320.


Assets		=	Liabilities		+	Owner's Equity										
						Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Equipment			Accounts Payable													
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
(c) 4,320				(c) 4,320												

Transaction (d): Conner's Whitewater Adventures paid a creditor, Signal Products, \$2,000.

Assets		=	Liabilities		+	Owner's Equity										
						Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash			Accounts Payable													
+	-		-	+												
Debit	Credit		Debit	Credit												

Transaction (e): Conner invests her personal computer, fair market value \$5,200, in the business.

Assets		=	Liabilities		+	Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Equipment						J. Conner, Capital										
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
(e) 5,200							(e) 5,200									



Assets		=	Liabilities		+	Owner's Equity		+	Revenue		-	Expenses	
+	-		-	+		-	+		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash			Accounts Payable			J. Conner, Capital			Income from Tours			Wages Expense	
+	-		-	+		-	+		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
(a) 90,000	(b) 38,000		(d) 2,000	(c) 4,320			(a) 90,000						
	(d) 2,000			Bal. 2,320			(e) 5,200						
	40,000						Bal. 95,200						
Bal. 50,000						J. Conner, Drawing						Rent Expense	
Accounts Receivable						+	-					+	-
Debit	Credit					Debit	Credit					Debit	Credit
Prepaid Insurance												Supplies Expense	
+	-											+	-
Debit	Credit											Debit	Credit
Equipment												Advertising Expense	
+	-											+	-
Debit	Credit											Debit	Credit
(b) 38,000													
(c) 4,320													
(e) 5,200													
Bal. 47,520													
												Utilities Expense	
												+	-
												Debit	Credit

Summary - Transactions (a) - (e)

Let's pause to see if the debits are equal to the credits by listing the balances of the accounts.

Account Name	Accounts with Normal Balances on the Left or Debit Side:	Accounts with Normal Balances on the Right or Credit Side:
	Assets Drawing Expenses	Liabilities Capital Revenue
Cash	\$50,000	
Equipment	47,520	
Accounts Payable		\$ 2,320
J. Conner, Capital		95,200
	<u>\$97,520</u>	<u>\$97,520</u>



Equal

Transaction (f): Conner's Whitewater Adventures sold rafting tours for cash, \$8,000.

Assets		=	Liabilities		+	Owner's Equity										
						Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash												Income from Tours				
+	-											-	+			
Debit	Credit											Debit	Credit			
(f) 8,000													(f) 8,000			

Transaction (g): Conner's Whitewater Adventures paid rent for the month, \$1,250.

Assets		=	Liabilities		+	Owner's Equity										
						Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash															Rent Expense	
+	-														+	-
Debit	Credit														Debit	Credit
	(g) 1,250														(g) 1,250	

Transaction (h): Conner's Whitewater Adventures bought computer paper, ink cartridges, invoice pads, pens and pencils, folders, filing cabinets, and 10-key calculators on account, \$675.

Assets		=	Liabilities		+	Owner's Equity				-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		Capital	-	+			+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit		Debit	Credit
Supplies			Accounts Payable															
+	-		-	+		-	+		+	-		+	-		-	+	+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit		Debit	Credit
(h) 675				(h) 675														

Transaction (i): Conner's Whitewater Adventures bought a three-month liability insurance policy, \$1,875.

Assets		=	Liabilities		+	Owner's Equity				-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		Capital	-	+			+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit		Debit	Credit
Cash																		
+	-		-	+		-	+		+	-		+	-		-	+	+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit		Debit	Credit
	(i) 1,875																	
Prepaid Insurance																		
+	-		-	+		-	+		+	-		+	-		-	+	+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit		Debit	Credit
(i) 1,875																		

Transaction (j): Conner's Whitewater Adventures received a bill for newspaper advertisement from the Times, \$620.


[illegible]

Transaction (k): Conner's Whitewater Adventures signs a contract with Crystal River Lodge to provide rafting adventures for guests. Conner's Whitewater Adventures provides 27 one-day rafting tours and bills Crystal River Lodge for \$6,750.

[illegible]


Transaction (l): Conner's Whitewater Adventures pays on account to Signal Products, \$1,500.

Assets		=	Liabilities		+	Owner's Equity				-	Revenue		-	Expenses	
+	-		-	+		Capital	-	+	Drawing	+	-	+	-	+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit
Cash			Accounts Payable												
+	-		-	+											
Debit	Credit		Debit	Credit											
	(l) 1,500		(l) 1,500												




Transaction (m): Conner's Whitewater Adventures received and paid Solar Power, Inc. for the electric bill, \$225.

Assets		=	Liabilities		+	Owner's Equity				-	Revenue		-	Expenses	
+	-		-	+		Capital	-	+	Drawing	+	-	+	-	+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit
Cash														Utilities Expense	
+	-													+	-
Debit	Credit													Debit	Credit
	(m) 225													(m) 225	




Transaction (n): Conner's Whitewater Adventures paid on account to the Times, \$620.

Assets		=	Liabilities		+	Owner's Equity				-	Revenue		-	Expenses	
+	-		-	+		Capital	-	Drawing	+		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit		Debit	Credit
Cash			Accounts Payable												
+	-		-	+											
Debit	Credit		Debit	Credit											
	(n) 620		(n) 620												



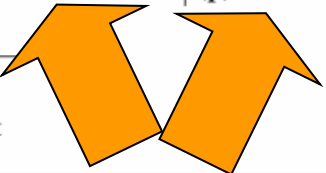
Transaction (o): Conner's Whitewater Adventures paid the wages of a part-time employee, \$2,360.

Assets		=	Liabilities		+	Owner's Equity				-	Revenue		-	Expenses	
+	-		-	+		Capital	-	Drawing	+		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit		Debit	Credit		Debit	Credit
Cash														Wages Expense	
+	-													+	-
Debit	Credit													Debit	Credit
	(o) 2,360													(o) 2,360	



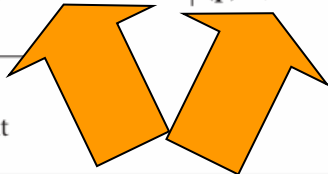
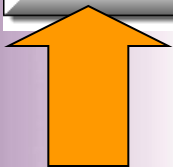
Transaction (p): Conner's Whitewater Adventures bought additional equipment from Signal Products, \$3,780, paying \$1,850 in cash and placing the balance on account.

Assets		=	Liabilities		+	Owner's Equity										
+	-		-	+		Capital		-	Drawing		+	Revenue		-	Expenses	
Debit	Credit		Debit	Credit		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash			Accounts Payable													
+	-		-	+												
Debit	Credit		Debit	Credit												
	(p) 1,850			(p) 1,930												
Equipment																
+	-															
Debit	Credit															
(p) 3,780																



compound entry

compound entry



Transaction (q): Conner's Whitewater Adventures received \$2,500 cash from Crystal River Lodge to apply against the amount billed in transaction (k).

Assets		=	Liabilities		+	Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash																
+	-															
Debit	Credit															
(q) 2,500																
Accounts Receivable																
+	-															
Debit	Credit															
	(q) 2,500															

Transaction (r): Conner's Whitewater Adventures sold tours for cash, \$8,570.

Assets		=	Liabilities		+	Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
Cash																
+	-															
Debit	Credit															
(r) 8,570																
												Income from Tours				
												-	+			
												Debit	Credit			
													(r) 8,570			

Transaction (s): J. Conner withdrew cash for her personal use, \$3,500.

Assets		=	Liabilities		+	Owner's Equity										
						Capital		-	Drawing		+	Revenue		-	Expenses	
+	-		-	+		-	+		+	-		-	+		+	-
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit
									J. Conner, Drawing							
+	-					+	-		+	-						
Debit	Credit					Debit	Credit		Debit	Credit						
	(s) 3,500					(s) 3,500										

Owner's Equity																		
Assets		=	Liabilities		+	Capital		-	Drawing		+	Revenue		-	Expenses			
+	-		-	+		-	+		+	-		-	+		+	-		
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		
Cash			Accounts Payable			J. Conner, Capital			J. Conner, Drawing			Income from Tours			Wages Expense			
+	-		-	+		-	+		+	-		-	+		+	-		
(a) 90,000	(b) 38,000		(d) 2,000	(c) 4,320			(a) 90,000		(s) 3,500			(f) 8,000	(o) 2,360					
(f) 8,000	(d) 2,000		(l) 1,500	(h) 675			(e) 5,200		Bal. 3,500			(k) 6,750	Bal. 2,360					
(q) 2,500	(g) 1,250		(n) 620	(j) 620			Bal. 95,200					(r) 8,570						
(r) 8,570	(i) 1,875		4,120	(p) 1,930								Bal. 23,320			Rent Expense			
109,070	(l) 1,500			7,545											+	-		
	(m) 225			Bal. 3,425											(g) 1,250			
	(n) 620														Bal. 1,250			
	(o) 2,360															Advertising Expense		
	(p) 1,850															+	-	
	(s) 3,500															(j) 620		
	53,180															Bal. 620		
Bal. 55,890																	Utilities Expense	
Accounts Receivable																+	-	
+	-															(m) 225		
(k) 6,750	(q) 2,500															Bal. 225		
Bal. 4,250																	Equipment	
																+	-	
																(b) 38,000		
																(c) 4,320		
																(e) 5,200		
																(p) 3,780		
																Bal. 51,300		

Summary of Transactions

Supplies	
+	-
(h) 675	
Bal. 675	

Prepaid Insurance	
+	-
(i) 1,875	
Bal. 1,875	

Equipment	
+	-
(b) 38,000	
(c) 4,320	
(e) 5,200	
(p) 3,780	
Bal. 51,300	

Advertising Expense	
+	-
(j) 620	
Bal. 620	

Utilities Expense	
+	-
(m) 225	
Bal. 225	

Summary of Transactions

Account Memory Tool

Normal Debit Balance

Normal Credit Balance

Assets

Liabilities

Drawings

Capital

Expenses

Revenues

A memory tool that helps some students to memorize debits and credits in T accounts is the equation $A + D + E = L + C + R$. All accounts on the left side of the equation have normal debit balances and all accounts on the right side have normal credit balances. You can make up a memorable sentence or use this one—**All Drippy Eels Love Cucumbers and Radishes**. Picture an eel dripping with water devouring cucumbers and radishes.

Prepare a Trial Balance

5 Prepare a trial balance.

- List the account balances in two columns.
 - Left column = Debits
 - Right column = Credits
- List the accounts in the same order as the chart of accounts.

- Assets
- Liabilities
- Owner's Equity
- Revenue
- Expenses

Account Titles	TRIAL BALANCE	
	Left, or Debit, Balances	Right, or Credit, Balances
Assets	Assets	
Liabilities		Liabilities
Capital		Capital
Drawing	Drawing	
Revenue		Revenue
Expenses	<u>Expenses</u>	<u> </u>
Totals	<u> </u>	<u> </u>

The normal balance of each account is on its plus side.

Figure 2: Trial Balance

**Conner's Whitewater Adventures
Trial Balance
June 30, 20—**

Column headings identify information in each column

Account Name	Debit	Credit
Cash	55,890	
Accounts Receivable	4,250	
Supplies	675	
Prepaid Insurance	1,875	
Equipment	51,300	
Accounts Payable		3,425
J. Conner, Capital		95,200
J. Conner, Drawing	3,500	
Income from Tours		23,320
Wages Expense	2,360	
Rent Expense	1,250	
Advertising Expense	620	
Utilities Expense	225	
	<u>121,945</u>	<u>121,945</u>

Accounts listed in order of the chart of accounts

Dollar signs not used on a trial balance

Single underline beneath figures to be added

Double underline beneath column totals

The Income Statement

- The **income statement** shows total revenue minus total expenses, which yields the net income or net loss.
- The income statement reports how the business has performed **over a period of time**, usually a month or a year.
- When total revenue exceeds total expenses over the period, the result is a **net income** or profit.
- When the total revenue is less than total expenses, the result is a **net loss**.

Figure 3

<div> <div>(a)</div> <div> Conner's Whitewater Adventures (1) Income Statement (2) For Month Ended June 30, 20— (3) </div> </div>		
Revenue:		
Income from Tours (c)		(b) \$23,320
Expenses:		
Wages Expense		(b) \$2,360
Rent Expense	(c) (d)	1,250
Advertising Expense		620
Utilities Expense		(e) 225
Total Expenses (c)		4,455 (e)
Net Income		<u>\$18,865 (f)</u>

Net Income / Loss is transferred to statement of owner's equity

(1) Name of company
(2) Title of statement
(3) Period of time (over a period of time)
(a) Three-line heading
(b) Dollar sign at head of column or to show subtotal or total

(c) Indent to indicate listing within a section
(d) Listed in order of chart of accounts
(e) Single underline beneath the final figure
(f) Double underline beneath grand total

The Statement of Owner's Equity

- The ***statement of owner's equity*** shows how—and why—the owner's equity or Capital account has changed over a stated period of time.
- This statement is prepared after the accountant has determined the net income or net loss on the income statement.

Figure 4

<div> <div>a</div> <div> Conner's Whitewater Adventures Statement of Owner's Equity For Month Ended June 30, 20— </div> <div> 1 2 3 </div> </div>	
J. Conner, Capital, June 1, 20—	b \$ 0
Investment during June	b \$ 95,200
Net Income for June	Carried over from income statement → 18,865
Subtotal	\$ 114,065
Less Withdrawals for June	e 3,500
Increase in Capital	110,565 e
J. Conner, Capital, June 30, 20—	Transfer ending capital to balance sheet → \$110,565 f
1 Name of company	c Indent
2 Title of statement	d Listed in order of chart of accounts
3 Period of time (over a period of time)	e Single underline beneath the final figure
a Three-line heading	f Double underline beneath grand total
b Dollar sign at head of column or to show subtotal or total	

The Balance Sheet

- The ***balance sheet*** shows the financial condition of a business's assets offset by claims against them ***as of a particular date***.
- The balance sheet summarizes the balances of the asset, liability, and owner's equity accounts on a given date (usually the end of a month or year). It is a "snapshot" of the financial condition of the business at that particular time.

Figure 5

a {		Conner's Whitewater Adventures	1
		Balance Sheet	2
		June 30, 20—	3
Assets			
Cash	d	b	\$ 55,890
Accounts Receivable			4,250
Supplies			675
Prepaid Insurance			1,875
Equipment		e	51,300
Total Assets		b	<u>\$113,990</u> f
Liabilities			
Accounts Payable		b	\$ 3,425
Owner's Equity			
J. Conner, Capital			110,565 e
Total Liabilities and Owner's Equity		b	<u>\$113,990</u> f

Carried from statement of owner's equity →

1 Name of company
2 Title of statement
3 Period of time (as of one particular date)
a Three-line heading
b Dollar sign at head of column or to show subtotal or total

c Indent
d Listed in order of chart of accounts
e Single underline beneath the final figure
f Double underline beneath grand total

Errors Exposed by the Trial Balance

If the debit and credit columns in the trial balance are not equal, then it is evident that there is an error. Possible mistakes include:

- Making errors in arithmetic.
- Recording only half an entry.
- Recording both halves of the entry on the same side.
- Recording one or more amounts incorrectly.

Procedure for Locating Errors

The best method of locating errors is to do everything in reverse, as follows:

- Look at the pattern of the balances to see if a normal balance was placed in the wrong column of the trial balance.
- Re-add the trial balance columns.
- Check the transferring of the figures from the accounts to the trial balance.
- Verify the footings and balances of the accounts.

Transpositions and Slides

- A **transposition** means that the digits have been transposed, or switched around when the numbers were copied from one place to another, e.g. writing 619 for 916 (the difference of 297 is evenly divisible by 9).
- A **slide** is an error in placing the decimal point; in other words, a slide in the decimal point, e.g., writing 2,700 for 27,000 (the difference of 24,300 is evenly divisible by 9).
 - An error may be a combination of a transposition and a slide, e.g., writing \$54 for \$450 (the difference of \$396 is evenly divisible by 9).