

What is a transaction?

- Any event that has a financial impact on the business (involves \$\$\$)
- All transactions have 2 sides (get something, give something)
  - We must always record both sides

Accounts are separated into 3 main types:

- Assets
- Liabilities
- Equity

Assets include:

- Cash
- Accounts Receivable
- Notes Receivable
- Inventory
- Prepaid Expenses
- Land
- Buildings
- Equipment, Furniture, Fixtures
- Other assets

Liabilities include:

- Accounts Payable
- Notes Payable
- Accrued Liabilities
- Short-term loan
- Current portion of long-term debt
- Mortgage Payable
- Long-term Notes Payable

Equity includes:

- Common Stock
- Retained Earnings
- Dividends

Accounting:

- Double-entry system
  - o Meaning we record both sides of every transaction
- Every transaction affects a minimum of 2 accounts

The T-Account

- Record of increases and decreases in a specific asset, liability, equity, revenue or expense account
- Debit means "left", Credit means "right" – not subtract = debit and add = credit

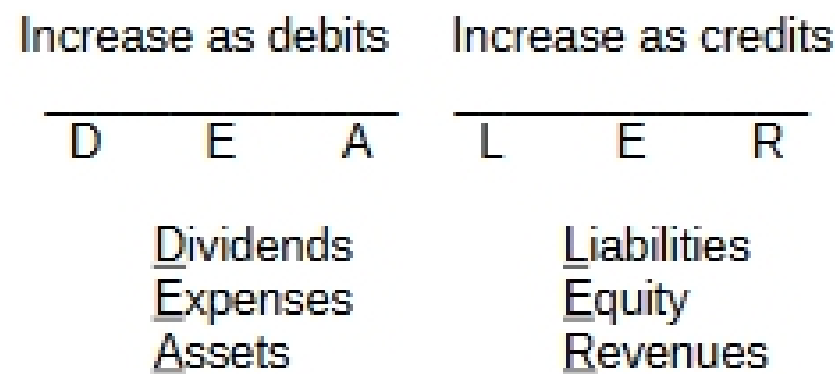
Account Name	
Debit / Dr.	Credit / Cr.

Accounts with a normal debit balance (assets, expenses, dividends) are increased with debits and decreased with credits.

Accounts with a normal credit balance (liabilities, equity, revenues) are increased with credits and decreased with debits.

Dr. Tietz debit-credit handout: <http://tiny.cc/debitcredit>

Easier way to remember: DEALER



ASSETS		=	LIABILITIES		+	STOCKHOLDERS' EQUITY					
Assets			Liabilities			Common Stock		Retained Earnings		Dividends	
Debit	Credit		Debit	Credit		Debit	Credit	Debit	Credit	Debit	Credit
+	-		-	+		-	+	-	+	+	-
								Revenues		Expenses	
								Debit	Credit	Debit	Credit
								-	+	+	-

General Journal – Listing of all transactions and their accounts.

- Chronological record of transactions

Steps to journalize the first transaction of Freddy's Auto Service

- Step 1** Business receives \$50,000 cash and issues stock
- Step 2** Both Cash and Common Stock increase
- Step 3** Journalize the transaction:

	A	B	C	D
1	<b>Date</b>	<b>Accounts and Explanations</b>	<b>Debit</b>	<b>Credit</b>
2	Apr 1	Cash	50,000	
3		Common Stock		50,000
4		<i>Issued common stock.</i>		

General Ledger – Transactions are copied ("posted") to the ledger from the journal entries into the specific accounts

	A	B	C	D
1	<b>Date</b>	<b>Accounts and Explanations</b>	<b>Debit</b>	<b>Credit</b>
2	Apr 1	Cash	50,000	
3		Common Stock		50,000
4		<i>Issued common stock.</i>		

Posting to the Accounts	<div style="display: inline-block; text-align: center;"> <b>Cash</b>                      50,000                 </div>	<div style="display: inline-block; text-align: center;"> <b>Common Stock</b>                      50,000                 </div>
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## The Flow of Accounting Data

Transaction Occurs

Transaction Analyzed

Transaction Entered in the Journal

Amounts Posted to the Ledger  
Accounts

### Trial Balance

- Lists all accounts with their balances
  - o Assets are listed first, then liabilities, equity, revenue, and expenses
- Used to show that debits equal credits
- Usually prepared at the end of the period
- Helps in preparation of the financial statements

### Trial Balance

Cash

Other Assets

Accounts Payable

Other Liabilities

Equity

Revenue

Expenses \_\_\_\_\_

Total