Transactions That Affect Revenue, Expenses, and Withdrawals

Section 1: Relationship of Revenue, Expenses, and Withdrawals to Owner’s Equity

- The revenue, expense, and owner’s withdrawals accounts provide information about how the business is doing.

A. Temporary and Permanent Accounts
- Revenue, expenses, and owner’s withdrawals are temporary accounts.
  1. Using Temporary Accounts
    - temporary accounts—accumulate amounts for only one accounting period
    - Temporary accounts start each new accounting period with zero balances.
  2. Using Permanent Accounts
    - Assets, liabilities, and owner’s capital are permanent accounts.
    - permanent accounts—continuous from one accounting period to the next
    - The dollar balances at the end of one accounting period become the dollar balances for the beginning of the next accounting period.

B. The Rules of Debit and Credit for Temporary Accounts
  1. Rules for Revenue Accounts
    - A revenue account is increased (+) on the credit side.
    - A revenue account is decreased (-) on the debit side.
    - The normal balance for a revenue account is the increase side, or the credit side. Revenue accounts normally have credit balances.
  2. Rules for Expense Accounts
    - An expense account is increased (+) on the debit side.
    - An expense account is decreased (-) on the credit side.
    - The normal balance for an expense account is the increase side, or the debit side. Expense accounts normally have debit balances.
  3. Rules for Withdrawals Accounts
    - The withdrawals account is classified as a temporary owner’s equity account.
    - The withdrawals account is increased (+) on the debit side.
    - The withdrawals account is decreased (-) on the credit side.
    - The normal balance for the withdrawals account is the increase side, or the debit side. The withdrawal account normally has a debit balance.
  4. Summary of the Rules of Debit and Credit for Temporary Accounts

Section 2: Applying the Rules of Debit and Credit to Revenue, Expense, and Withdrawals Transactions

A. Analyzing Transactions
   - Use the six-step method.
   - revenue recognition—Revenue is recorded on the date earned, even if cash has not been received.

B. Testing for the Equality of Debits and Credits
   - In double-entry accounting, total debits should equal total credits.
     1. Make a list of account names.
     2. Use two columns to list the debit or credit balance of each account.
     3. Add the amounts in each column.
CHAPTER 5 Concept Assessment

Transactions That Affect Revenue, Expenses, and Withdrawals

PART A Accounting Vocabulary (6 points)

Directions: Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

A. capital  D. revenue accounts  F. temporary accounts
B. expense accounts  E. revenue recognition  G. withdrawal
C. permanent accounts

G 0. An amount of money taken out of the business by the owner is a ______.
     1. ______ record business income only.
     2. ______ are used to record information for only one accounting period.
     3. The ______ account shows the amount of the owner’s investment, or equity, in a business.
     4. Accounts that are used to record information continuously from one accounting period to the next are called ______.
     5. ______ are used to record the costs and services used by a business.
     6. Recognizing and recording revenue on the date it is earned even if cash has not been received on that date is known as ______.

Part B Effects of a Transaction on an Account (24 points)

Directions: For each of the business transactions below, indicate whether the left or right side of the account is affected and whether the account balance is increased or decreased.

<table>
<thead>
<tr>
<th></th>
<th>Left</th>
<th>Right</th>
<th>Increase</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. A credit of $850 to Accounts Payable</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1. A debit of $400 to B. Barns, Withdrawals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. A debit of $200 to Advertising Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. A credit of $300 to Cash in Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. A credit of $450 to Fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. A debit of $650 to Rent Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. A credit to B. Barns, Capital of $1,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. A credit to Accounts Receivable of $925</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. A debit to Office Supplies of $40</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. A debit of $3,000 to B. Barns, Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. A debit of $150 to Accounts Payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. A debit to Accounts Receivable of $2,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. A debit to Cash in Bank of $750</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PART C  Analyzing Transactions Using T Accounts  (20 points)

Directions: Use T accounts to analyze each of the transactions below. Use the following account names.

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in Bank</td>
<td>$3,725</td>
<td>$3,725</td>
<td>$</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Supplies</td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>8,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G. Steiner, Capital</td>
<td>5,905</td>
<td></td>
<td></td>
</tr>
<tr>
<td>G. Steiner, Withdrawals</td>
<td>625</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees</td>
<td>6,550</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>725</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>230</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PART D  Testing for the Equality of Debits and Credits  (12 points)

Directions: The balance of each account is indicated directly after the account name. Indicate the normal balance side of each account by placing the dollar amount in the appropriate debit or credit column. Add each column. The total debit balance should equal the total credit balance.

0. Provided typing services and billed Tim Ochi $400 for the work.

1. Paid $45 cash for an advertisement in the newspaper.

2. Martha Russo withdrew $250 cash for personal use.

3. Provided word processing services for $975 cash.

4. Paid the telephone bill with a check for $90.

5. Received $400 on account from Tim Ochi.
CHAPTER 5

Quick Quiz

Transactions That Affect Revenue, Expenses, and Withdrawals

PART A  True or False

Directions: Read each of the following statements to determine whether the statement is true or false.

Answer

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>T</td>
<td>F</td>
<td>1. The normal balance side for a revenue account is the debit side.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>2. “Credit” means the increase side of an account.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>3. A credit to an expense account decreases the account balance.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>4. Withdrawals are increased on the debit side.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>5. Revenue is increased on the credit side.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>6. Expenses are decreased on the credit side.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>7. The basic accounting equation may be expressed as A = L + OE.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>8. The left side of a T account is always the debit side.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>9. You may have two debits and one credit as long as the amounts are equal.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>10. A debit to an expense account and a credit to a capital account will result in the basic accounting equation being out of balance.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>11. Capital is always increased by credits.</td>
</tr>
<tr>
<td>T</td>
<td>F</td>
<td>12. Debits decrease the withdrawals account.</td>
</tr>
</tbody>
</table>
Quick Quiz cont.

PART B  Identify the Normal Balance

Directions: For each T account below, indicate with an (N) the normal balance side. The first account has been completed as an example.

<table>
<thead>
<tr>
<th>Cash in Bank</th>
<th>Accounts Payable</th>
<th>Jones, Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit (N)</td>
<td>Debit</td>
<td>Debit</td>
</tr>
<tr>
<td>Credit</td>
<td>Credit</td>
<td>Credit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rent Expense</th>
<th>Fees Revenue</th>
<th>Jones, Withdrawals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Debit</td>
<td>Debit</td>
</tr>
<tr>
<td>Credit</td>
<td>Credit</td>
<td>Credit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PART C  Complete the T Account

Directions: Analyze the transactions below and enter them in the T accounts provided.

1. Ms. Adams invested $12,000 cash in the business.
2. Bought office equipment for cash, $1,000.
3. Bought a computer on account, $3,000.

<table>
<thead>
<tr>
<th>Cash in Bank</th>
<th>Office Equipment</th>
<th>Computer Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounts Payable</th>
<th>J. Adams, Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chapter Quiz

Transactions That Affect Revenue, Expenses, and Withdrawals

True or False

Directions: Read each of the following statements to determine whether each statement is true or false.

**Answer**

1. The owner's capital account is increased by debits.  
   T  F

2. Revenue represents the debit side of the owner's capital account.  
   T  F

3. Expenses decrease the balance in the capital account.  
   T  F

4. The rules of debit and credit for expenses are the same as those for withdrawals.  
   T  F

5. Temporary capital accounts are used by a business only once.  
   T  F

6. A withdrawal increases the assets of the business.  
   T  F

7. Revenue accounts have a normal credit balance.  
   T  F

8. The owner's capital account has a normal debit balance.  
   T  F

9. Expenses and withdrawals both have normal debit balances.  
   T  F

10. The owner's equity in the business is increased by revenue and decreased by expenses and withdrawals.  
    T  F
Transactions That Affect Revenue, Expenses and Withdrawals

PROBLEM 5–1  Analyzing Permanent and Temporary Capital Accounts

The large T account below represents the capital account for Maxine Andrews. The smaller T accounts are for the temporary accounts. Place the following account names on the appropriate T account.

Maxine Andrews, Capital  Ticket Sales
Maxine Andrews, Withdrawals  Travel Expense

For each T account:
(1) Indicate the increase (+) and decrease (−) sides.
(2) Indicate the normal balance side.
Demonstration Problems cont.

PROBLEM 5–2  Analyzing a Revenue Transaction

On July 25, Andrews Promoters received $4,500 in revenue from cash ticket sales.

1. Which accounts are affected?

   

2. What is the classification of each account?

   ________________ is a(n) ________________ account.
   ________________ is a(n) ________________ account.

3. Is each account increased or decreased?

   ________________ is ________________.
   ________________ is ________________.

4. Which account is debited, and for what amount?

   ________________ is debited for $ ________________.

5. Which account is credited, and for what amount?

   ________________ is credited for $ ________________.

6. What is the complete entry in T-account form?
Demonstration Problems cont.

**PROBLEM 5–3 Analyzing an Expense Transaction**

On July 30, Andrews Promoters issued a check for $300 to Ace Airways for travel expenses.

1. Which accounts are affected?

__________________________________________________________________________  

2. What is the classification of each account?

__________________________________________________________________________ is a(n) _______________ account.  

__________________________________________________________________________ is a(n) _______________ account.

3. Is each account increased or decreased?

__________________________________________________________________________ is _______________.  

__________________________________________________________________________ is _______________.

4. Which account is debited, and for what amount?

__________________________________________________________________________ is debited for $________________.  

5. Which account is credited, and for what amount?

__________________________________________________________________________ is credited for $________________.

6. What is the complete entry in T-account form?

__________________________________________________________________________  

__________________________________________________________________________