Analyzing Business Transactions Using T Accounts

Section 1: Transactions That Affect Assets, Liabilities, and Owner’s Equity

Section Objectives

1. Set up T accounts for assets, liabilities, and owner’s equity.
2. Analyze business transactions and enter them in the accounts.
3. Determine the balance of an account.
Asset, Liability, and Owner’s Equity Accounts
The Accounting Equation

ASSETS
The property a business owns

= +

LIABILITIES
The debts of the business

OWNER’S EQUITY
The owner’s financial interest in the business
QUESTION:

What are accounts?

ANSWER:

Accounts are written records of the assets, liabilities, and owner’s equity of a business.
Advantages of Accounts

Accounts help to:

- analyze,
- record,
- classify,
- summarize,
- and report financial information.
QUESTION:

What is classification?

ANSWER:

Classification is a means of identifying each account as an asset, liability, or owner’s equity.
Classification of Accounts

- **Asset Accounts**
  Asset accounts show the property a business owns.

- **Liability Accounts**
  Liability accounts show the debts of the business.

- **Owner’s Equity Accounts**
  Owner’s equity accounts show the owner’s financial interest in the business.
QUESTION:

What is a T-account?

ANSWER:

A T account is a type of account, resembling a T, used to analyze the effects of a business transaction.
**T Accounts**

\[
\text{ASSETS} + \text{Record Increases} \quad \text{=} \quad \text{LIABILITIES} - \text{Record Decreases} \quad + \quad \text{OWNER’S EQUITY} + \text{Record Increases}
\]

- **ASSETS**
  - LEFT SIDE: + Record Increases
  - RIGHT SIDE: - Record Decreases

- **LIABILITIES**
  - LEFT SIDE: - Record Decreases
  - RIGHT SIDE: + Record Increases

- **OWNER’S EQUITY**
  - LEFT SIDE: - Record Decreases
  - RIGHT SIDE: + Record Increases
Objective 1

Set up T accounts for assets, liabilities, and owner’s equity.
Recording a Cash Investment
Cash Account

- Cash is an asset.
- Assets appear on the left side of the accounting equation.
- Cash increases appear on the left side of the Cash T account.
- Decreases are shown on the right side.

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<thead>
<tr>
<th>+ Record Increases</th>
<th>- Record Decreases</th>
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Capital Account

- Capital is an owner’s equity account.
- Owner’s equity appears on the right side of the accounting equation (**Assets = Liabilities + Owner’s Equity**).
- Increases appear on the right side of the T account.
- Decreases appear on the left side.

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<th>Jason Taylor, Capital</th>
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<td>- Record Decreases</td>
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