

ACCT 101 – Fundamentals of Accounting

Chapter 2 – Analyzing and Recording Transactions

Overview

This chapter summarizes several of the steps in the accounting process that you should already be familiar with. There may be a few new accounts, but overall, this chapter will be substantially a review of things covered in the ACCT 100 class.

Steps in the Accounting Process

- **Analyze** each transaction and source documents
- **Record** transactions and events in a general journal
- **Post** information to the ledger accounts
- **Prepare** and analyze a trial balance

Reminder – Some important terms and concepts – Can you define?

- Accounts
- General Ledger
- Cash
- Accounts Receivable
- Note Receivable
- Prepaid accounts or prepaid expenses
- Supplies
- Equipment
- Building
- Land
- Liabilities
- Creditors
- Accounts Payable
- Note Payable
- Unearned Revenue
- Accrued liabilities
- Equity
- Stockholders Equity or Shareholders Equity
- Common Stock
- Dividend
- Revenues
- Expenses
- Chart of Accounts

Rules of Debits and Credits – IMPORTANT. REFRESH YOUR MEMORY.
STUDY! PRACTICE. See separate handout.

Debits and Credits and Double Entry Accounting

Assets = Liabilities + Equity

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The Basics:

- Debit means Left and Credit means Right
- Debit abbreviated Dr.
- Credit abbreviated Cr.
- Normal balance – side that receives the plus.

Equity Umbrella

Expanded:

$$\text{Assets} = \text{Liabilities} + \text{Common Stk} - \text{Dividends} + \text{Revenues} - \text{Expenses}$$

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Journalizing – A diary of economic events. Show debits and credits for each transaction.

Posting – transferring amounts from the journal to a ledger. Keeps a cumulative balance running in each account.

Analyzing Transactions - Using double entry accounting to record and process transactions. PRACTICE, PRACTICE, PRACTICE!!!

Trial Balance - a listing of all accounts and their balances at a point in time. Insures that debits equals credits. Usually the source for preparing financial statements.

Errors – Mistakes happen. Know common errors and how to fix.

Financial Statements

Another review of Financial Statements - PAY CLOSE ATTENTION TO PAGE 65 and PRACTICE THE PREPARATION OF FINANCIALS

Income Statement – Revenues and Expenses over a period of time. Ending result is net income or net loss.

Statement of Retained Earnings – Reports information about how R/E changed over the period. Net income is added in, (net losses are subtracted out), and dividends are subtracted in out deriving ending retained earnings.

Balance Sheet – Reports the financial position of a company at a specific point in time. Shows the assets, liability, and ending equity balances at a specific point in time.