**Chapter 2: Transaction Analysis**

**Learning Objectives**

1. **Explain** what a transaction is
2. **Define** “account” and **list** and **differentiate** between different types of accounts
3. **Show** the impact of business transactions on the accounting equation
4. **Analyze** the impact of business transactions on accounts
5. **Record** (journalize and post) transactions in the books
6. **Construct and use** a trial balance

**Questions You Should Be Able To Answer**

|  |  |  |  |
| --- | --- | --- | --- |
| Learning Objective | Question(s) | Answer | For practice |
| 1. Explain what a transaction is | What is a business transaction? | A transaction is any event that has a financial impact on the business and can be measured reliably. | S2-3, S2-5 |
| 2. Define *“*account*,”* and list and differentiate between different types of accounts | What is an account?  Describe the following accounts:   1. Assets 2. Liabilities 3. Stockholders’ equity 4. Revenues 5. Expenses 6. Dividends | An account, the basic summary device of accounting, is the record of all the changes in a particular asset, liability, or stockholders’ equity during a period.   1. Economic resources that provide a future benefit for a business 2. Debts of the business, due in cash or goods/services 3. The owners’ claims to the assets of the corporation, including common stock and retained earnings 4. Increases in stockholders’ equity that result from delivering goods or services to customers 5. Decreases in stockholders’ equity that result from costs of operating a business 6. Distributions to shareholders, usually in cash, from profitable operations; dividends decrease retained earnings | S2-1, S 2-12 |
| 3. Show the impact of business transactions on the accounting equation |  |  | S2-4, S2-5,  S2-7 |
| 4. Analyze the impact of business transactions on accounts | What is the double-entry system of accounting?  What is a T-account?  What are the rules of debit and credit? | Every transaction affects at least two accounts  The letter, T; the name of the account is written on the top. Debit entries are on the left side with credit entries on the right side of the T-account.  Assets increase with a debit and decrease with a credit.  Liabilities and stockholders’ equity increase with a credit and decrease with a debit. (Note that the rules are the opposite on opposite sides of the accounting equation.)  Revenues increase with a credit and expenses increase with a debit.  Dividends increase with a debit. (Note that revenues increase retained earnings and expenses and dividends decrease retained earnings.) | S2-4  S2-2, S2-3,  S2-13 |
| 5. Record (journalize and post) transactions in the books | What is a journal?  What is the ledger?  What occurs during posting? | A chronological record of business transactions; the first place a transaction is recorded  A grouping of the T-accounts, along with their balances  Transactions are posted or copied from the journal to the ledger (always in that order). A balance is calculated for each account in the ledger. | S2-6, S2-7,  S2-8 |
| 6. Construct and usea trial balance | What is a trial balance?  What does a trial balance prove?  How can the trial balance be used?  How can accounting errors be detected? | A list of all accounts with their balances—assets first, then liabilities and stockholders’ equity (including revenue and expense accounts). Account balances are listed in either the debit column or the credit column, and the columns are totaled. They should be equal.  That equal debits and credits have been recorded  To facilitate preparation of financial statements (although they will be more accurate after adjusting entries are added in the next chapter)   1. Search for missing amounts 2. If the two columns of the trial balance are not equal, search for an entry of that amount 3. Divide the difference between the two columns by 9 to determine if there is a slide or transposition error | S2-9, S2-10, S2-11 |

**Chapter 2 Outline**

1. A Business Transaction
   1. Any event that has a financial impact on the business and can be measured reliably
   2. Giving something
   3. Receiving something in return
2. Account
   1. Record of all the changes in a particular asset, liability, or stockholders’ equity during a period
   2. Categories
3. Assets (Examples: Cash, Accounts Receivable, Inventory)
4. Liabilities (Examples: Accounts Payable, Notes Payable, Accrued Liabilities)
5. Stockholders’ (Owners’) Equity (Examples: Common Stock, Retained Earnings, Dividends, Revenues, Expenses)
6. Transaction Examples
   1. Impact on the accounting equation (the equation always stays in balance)
   2. Impact on the financial statements
7. Impact of Business Transactions on Accounts
   1. Double-entry accounting system
   2. T-account:

|  |  |
| --- | --- |
| ACCOUNT TITLE | |
| Debit | Credit |
|  |  |
|  |  |
|  |  |

* + 1. Debit – “left or left-hand side”
    2. Credit – “right or right-hand side”

1. Rules of debit and credit
2. Debit – Increases in assets, expenses, and dividends; decreases in liabilities, stockholders’ equity, and revenues
3. Credit – Increases in liabilities, stockholders’ equity, and revenues; decreases in assets, expenses, and dividends
4. Balance = amount remaining in an account
5. Revenues (Examples: Sales Revenue, Legal Fees Earned, Service Revenue)
6. Expenses (Examples: Cost of Goods Sold, Salaries Expense, Utilities Expense)
7. Record Transactions in the Books
   1. Journal – A chronological record of transactions
   2. Journalizing example:

|  |  |  |
| --- | --- | --- |
| Account and Explanation | Debit | Credit |
| Cash | 50,000 |  |
| Common Stock |  | 50,000 |
| *Issued common stock* |  |  |

* 1. Ledger – Grouping of all the T-accounts, with their balances
  2. Posting – Data must be copied from the journal to the ledger
  3. Posting example:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Account and Explanation | Debit | Credit |  |  |  |
| Cash | 50,000 |  |  |  |  |
| Common Stock |  | 50,000 |  |  |  |
| *Issued common stock* |  |  |  |  |  |
|  |  |  |  |  |  |
|  | Cash | |  | Common Stock | |
|  | 50,000 |  |  |  | 50,000 |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

* 1. Flow of accounting data

1. Construct and Use a Trial Balance
   1. Analyzing accounts
   2. Correcting accounting errors
   3. Chart of accounts
   4. Normal account balances:

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Type** | **Normal Balance** | **Increase** | **Decrease** |
| **Asset** | **Debit** | **Debit** | **Credit** |
| **Liability** | **Credit** | **Credit** | **Debit** |
| **Stockholders’ Equity** | **Credit** | **Credit** | **Debit** |
| **Revenue** | **Credit** | **Credit** | **Debit** |
| **Expense** | **Debit** | **Debit** | **Credit** |
| **Common Stock** | **Credit** | **Credit** | **Debit** |
| **Retained Earnings** | **Credit** | **Credit** | **Debit** |
| **Dividends** | **Debit** | **Debit** | **Credit** |

* 1. Account formats
  2. How to analyze transactions from T-accounts

**Chapter Activities**

1. **Chapter Opener**

Chapter 2 spotlights Whole Foods Market, Inc. and explains that the company is the world’s leading retailer of natural and organically grown groceries. Have the students review Whole Foods’ statement of operations at the company’s website ([www.wholefoodsmarket.com](http://www.wholefoodsmarket.com/).) and discuss what items might make up the company’s net sales. Additionally, discuss the items that could be included in the expense figures for the corporation. This could lead to a discussion about how a company determines its net income or net loss.

1. **Transactions Activity**

Use the game Monopoly as an example of a business that would engage in transactions for a particular period. Examples of transactions that a player of the game might encounter include:

1. Receive $1,500 in cash to be used as capital investment
2. Bank pays you a dividend of $50
3. Purchase Park Place for $35
4. Pay poor tax of $15
5. Purchase house for property on Park Place for $200
6. Pay rent on Baltic Avenue of $4
7. Receive for services $25
8. From sale of common stock, you get $45
9. Pay school tax of $150
10. Collect rent on Park Place of $175
11. Pay rent on Pennsylvania Railroad of $25
12. Pay Water Works $60
13. Mortgage Park Place for $175

Place the students into groups and use the chart of accounts below. Have the students put each of the transactions in journal entry form.

Cash

Dividend Revenue

Common Stock

House

Investment Revenue

Land

Mortgage Payable

Rent Expense

Rent Revenue

Tax Expense

Service Revenue

Utilities Expense

**Difficult Topics**

* Rules of debit and credit

**Chapter 2: Assignment Grid**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  |  |  |  | **(Will have an X if available)** | | |
| **Assignment** | | **Topic(s)** | **L.O.** | **Estimated Time (minutes)** | **Level of Difficulty** | **Excel Templates** | | **General Ledger Templates** |
| S2-1 | | Differentiate between different types of accounts | 2 | 5 | Easy |  | |  |
| S2-2 | | Analyze the impact of business transactions on accounts | 4 | 5 | Easy |  | |  |
| S2-3 | | Explain what a transaction is; analyze the impact of business transactions on accounts | 1,4 | 5-10 | Easy |  | |  |
| S2-4 | | Show the impact of business transactions on the accounting equation; Analyze the impact of business transactions on accounts | 3,4 | 5 | Easy |  | |  |
| S2-5 | | Explain what a transaction is; show the impact of business transactions on the accounting equation | 1,3 | 5-10 | Easy |  | |  |
| S2-6 | | Record (journalize) transactions | 5 | 10 | Medium |  | |  |
| S2-7 | | Show the impact of business transactions on the accounting equation; record (journalize and post) transactions in the books | 3,5 | 10-15 | Easy |  | |  |
| S2-8 | | Record (journalize and post) transactions in the books | 5 | 10-15 | Easy |  | |  |
| S2-9 | | Construct and use a trial balance | 6 | 10 | Medium | **X** | |  |
| S2-10 | | Use a trial balance | 6 | 10 | Easy | **X** | |  |
| S2-11 | | Use a trial balance | 6 | 10 | Medium |  | |  |
| **Assignment** | | **Topic(s)** | | **L.O.** | **Estimated Time (minutes)** | **Level of Difficulty** | | **Excel Templates** | **General Ledger Templates** |
| S2-12 | | Define accounting terms | | 2 | 10 | Medium | |  |  |
| S2-13 | | Analyze the impact of business transactions on accounts | | 4 | 5 | Medium | |  |  |
| E2-14A | | Explain what a transaction is; analyze the impact of transactions on accounts | | 1,4 | 10-15 | Easy | |  |  |
| E2-15A | | Analyze the impact of business transactions on accounts | | 4 | 10-15 | Easy | |  |  |
| E2-16A | | Show the impact of business transactions on the accounting equation | | 3 | 10-20 | Medium | |  |  |
| E2-17A | | Record (journalize) transactions in the books | | 5 | 10-15 | Medium | |  | **X** |
| E2-18A | | Analyze the impact of business transactions on accounts; record (post) transactions in the books; construct and use a trial balance | | 4,5,6 | 20-30 | Easy | |  |  |
| E2-19A | | Explain what a transaction is; analyze the impact of business transactions on the accounts; record (journalize) transactions | | 1,4,5 | 10-15 | Medium | |  |  |
| E2-20A | | Construct and use a trial balance | | 6 | 10-20 | Medium | | **X** |  |
| E2-21A | | Construct and use a trial balance | | 6 | 15-25 | Medium | | **X** |  |
| E2-22A | | Analyze the impact of business transactions on accounts | | 4 | 10-15 | Medium | |  |  |
| **Assignment** | | **Topic(s)** | | **L.O.** | **Estimated Time (minutes)** | **Level of Difficulty** | | **Excel Templates** | **General Ledger Templates** |
| E2-23A | | Construct and use a trial balance | | 6 | 10-20 | Medium | |  |  |
| E2-24B | | Explain what a transaction is; analyze the impact of transactions on accounts | | 1,4 | 10-15 | Medium | |  |  |
| E2-25B | | Analyze the impact of transactions on accounts | | 4 | 10-15 | Easy | |  |  |
| E2-26B | | Show the impact of business transactions on the accounting equation | | 3 | 10-20 | Medium | |  |  |
| E2-27B | | Record (journalize) transactions in the books | | 5 | 10-20 | Easy | |  |  |
| E2-28B | | Analyze the impact of business transactions on accounts; record (post) transactions in the books; construct and use a trial balance | | 4,5,6 | 20-30 | Medium | |  |  |
| E2-29B | | Explain what a transaction is; analyze the impact of business transactions on accounts; record (journalize) transactions in the books | | 1,4,5 | 10-15 | Medium | |  |  |
| E2-30B | | Construct and use a trial balance | | 6 | 10-20 | Medium | | **X** |  |
| E2-31B | | Construct and use a trial balance | | 6 | 15-25 | Medium | | **X** |  |
| E2-32B | | Analyze the impact of business transactions on accounts | | 4 | 10-15 | Medium | |  |  |
| E2-33B | | Construct and use a trial balance | | 6 | 10-20 | Medium | |  |  |

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| **Assignment** | **Topic(s)** | **L.O.** | **Estimated Time (minutes)** | **Level of Difficulty** | **Excel Templates** | **General Ledger Templates** |
| E2-34 | Explain what a transaction is; analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books; construct and use a trial balance | 1,4,  5,6 | 20-30 | Medium |  |  |
| Q2-35 to Q2-54 | Quiz Exercises | All | 30-50 | Medium |  |  |
| P2-55A | Construct and use a trial balance | 6 | 15-30 | Medium |  |  |
| P2-56A | Show the impact of business transactions on the accounting equation; analyze the impact of business transactions on accounts | 3,4 | 45-60 | Medium |  |  |
| P2-57A | Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books | 4,5 | 30-40 | Medium |  |  |
| P2-58A | Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books; construct and use a trial balance | 4,5,6 | 50-60 | Medium |  | **X** |
| P2-59A | Analyze the impact of business transactions on accounts; construct and use a trial balance | 4,6 | 40-50 | Medium |  |  |
| P2-60B | Construct and use a trial balance | 6 | 15-30 | Medium |  |  |

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| **Assignment** | **Topic(s)** | **L.O.** | **Estimated Time (minutes)** | **Level of Difficulty** | **Excel Templates** | **General Ledger Templates** |
| P2-61B | Show the impact of business transactions on the accounting equation; analyze the impact of business transactions on accounts | 3,4 | 45-60 | Medium |  |  |
| P2-62B | Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books | 4,5 | 30-40 | Medium |  |  |
| P2-63B | Analyze the impact of business transactions on accounts; record (journalize and post) transactions in the books; construct and use a trial balance | 4,5,6 | 50-60 | Medium |  |  |
| P2-64B | Analyze the impact of business transactions on accounts; construct and use a trial balance | 4,6 | 40-50 | Medium |  |  |
| E2-65 | Analyze the impact of business transactions on accounts | 4 | 20-40 | Medium |  |  |
| E2-66 | Analyze the impact of business transactions on accounts; construct and use a trial balance | 4,6 | 20-30 | Medium |  |  |
| E2-67 | Analyze the impact of business transactions on account | 4 | 10-15 | Medium |  |  |
| P2-68 | Analyze the impact of errors and compute correct amounts | 3,4,5 | 20 | Medium |  |  |

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| --- | --- | --- | --- | --- | --- | --- |
| **Assignment** | **Topic(s)** | **L.O.** | **Estimated Time (minutes)** | **Level of Difficulty** | **Excel Templates** | **General Ledger Templates** |
| Decision Case 1 | Analyze the impact of transactions on business accounts; construct and use a trial balance; measure net income or loss; decide whether to continue a business | 4,6 | 40-50 | Medium |  |  |
| Decision Case 2 | Analyze the impact of transactions on business accounts; correct erroneous financial statements; decide whether to expand a business | 4 | 20-30 | Medium |  |  |
| Ethical Issue 1 | Scruffy’s Bar | All | 20-30 | Medium |  |  |
| Ethical Issue 2 | Academic Honesty | All | 20 | Medium |  |  |
| Focus on Financials-  Amazon.com | Record transactions; compute net income | 3,4 | 20-30 | Medium |  |  |
| Focus on Analysis-Yum! Brands, Inc. | Analyze financial statements | 4 | 20-30 | Medium |  |  |
| Group Project 1 | Rock Concert | All | 45-60 | Difficult |  |  |
| Group Project 2 | Local Business | All | 45-60 | Difficult |  |  |

**Answer Key to Chapter 2 Quiz (Quiz on following pages)**

1. B

2. A

3. C

4. D

5. A

6. C

7. D

8. A

9. B

10. C

Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Section\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Chapter 2**

**10-Minute Quiz**

**Circle the letter of the best response.**

1. The journal is:

A. A listing of all open accounts and their balances.

B. A chronological record of transactions.

C. A listing of all accounts used to record the business transactions.

D. Not necessary to record transactions.

2. Which of the following accounts is decreased with a debit?

A. Accounts Payable

B. Equipment

C. Cash

D. Payroll Expense

3. Which of the following accounts is decreased with a credit?

A. Rent Revenue

B. Accounts Payable

C. Accounts Receivable

D. Service Revenue

4. The XYZ Company received $1,000 for a customer on account. The entry to record this transaction is:

A. Cash 1,000

Accounts Payable 1,000

B. Cash 1,000

Accounts Payable 1,000

C. Accounts Receivable 1,000

Cash 1,000

D. Cash 1,000

Accounts Receivable 1,000

5. The ledger is:

A. A grouping of all T-accounts, with their balances.

B. An event that has an economic impact on the business.

C. Always expected to have a debit balance.

D. None of the above

6. A trial balance:

A. Requires that every transaction affect at least two accounts.

B. Mandates that the dollar sum of the debits equal that of the credits for each transaction.

C. Lists all accounts with their balances.

D. None of the above

7. When a company sells merchandise, but the customer does not pay it immediately, it should:

A. Credit Accounts Payable.

B. Make no entry.

C. Credit Accounts Receivable.

D. Debit Accounts Receivable.

8. An expense:

A. Is the decrease in stockholders’ equity as a result of providing goods or services.

B. Is the decrease in liabilities as a result of providing goods or services.

C. Has the same normal balance as liabilities.

D. Is the increase in stockholders’ equity as a result of providing goods or services.

9. Each of the following is revenue except:

A. Sales Revenue

B. Dividends

C. Legal Fees Earned

D. Service Revenue

10. In analyzing a transaction using the accounting equation, which account is included in the Stockholders’ Equity section?

A. Accounts Payable

B. Accounts Receivable

C. Revenue

D. Cash