

CHAPTER 5 Transactions That Affect Revenue, Expenses, and Withdrawals

Study Plan

Check Your Understanding

Section 1 *Read Section 1 on pages 96–102 and complete the following exercises on page 103.*

- Thinking Critically
- Communicating Accounting
- Problem 5-1 *Applying the Rules of Debit and Credit*

Section 2 *Read Section 2 on pages 104–108 and complete the following exercises on page 109.*

- Thinking Critically
- Analyzing Accounting
- Problem 5-2 *Identifying Accounts Affected by Transactions*

Summary

Review the Chapter 5 Summary on page 111 in your textbook.

- Key Concepts

Review and Activities

Complete the following questions and exercises on pages 112–113 in your textbook.

- Using Key Terms
- Understanding Accounting Concepts and Procedures
- Case Study
- Conducting an Audit with Alex
- Internet Connection
- Workplace Skills

Computerized Accounting

Read the Computerized Accounting information on page 114 in your textbook.

- Making the Transition from a Manual to a Computerized System*
- Setting Up General Ledger Accounts in Peachtree*

Problems

Complete the following end-of-chapter problems for Chapter 5 in your textbook.

- Problem 5-3 *Identifying Increases and Decreases in Accounts*
- Problem 5-4 *Using T Accounts to Analyze Transactions*
- Problem 5-5 *Analyzing Transactions into Debit and Credit Parts*
- Problem 5-6 *Analyzing Transactions into Debit and Credit Parts*
- Problem 5-7 *Analyzing Transactions*

Challenge Problem

- Problem 5-8 *Completing the Accounting Equation*

Chapter Reviews and Working Papers

Complete the following exercises for Chapter 5 in your Chapter Reviews and Working Papers.

- Chapter Review
- Self-Test

CHAPTER 5 REVIEW 5 Transactions That Affect Revenue, Expenses, and Withdrawals

Part 1 Accounting Vocabulary (6 points)

| | |
|-----------------|-----------|
| Total Points | 62 |
| Student's Score | |

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 | E. temporary capital accounts |
| B. expense accounts | E. revenue recognition principle | 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 the _____.

Part 2 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.*

| | Left | Right | Increase | Decrease |
|---|-------|---------|----------|----------|
| 0. A credit of \$850 to Accounts Payable | _____ | _____ ✓ | _____ ✓ | _____ |
| 1. A debit of \$400 to B. Barns, Withdrawals | _____ | _____ | _____ | _____ |
| 2. A debit of \$200 to Advertising Expense | _____ | _____ | _____ | _____ |
| 3. A credit of \$300 to Cash in Bank | _____ | _____ | _____ | _____ |
| 4. A credit of \$450 to Fees | _____ | _____ | _____ | _____ |
| 5. A debit of \$650 to Rent Expense | _____ | _____ | _____ | _____ |
| 6. A credit to B. Barns, Capital of \$1,500 | _____ | _____ | _____ | _____ |
| 7. A credit to Accounts Receivable of \$925 | _____ | _____ | _____ | _____ |
| 8. A debit to Office Supplies of \$40 | _____ | _____ | _____ | _____ |
| 9. A debit of \$3,000 to B. Barns, Capital | _____ | _____ | _____ | _____ |
| 10. A debit of \$150 to Accounts Payable | _____ | _____ | _____ | _____ |
| 11. A debit to Accounts Receivable of \$2,000 | _____ | _____ | _____ | _____ |
| 12. A debit to Cash in Bank of \$750 | _____ | _____ | _____ | _____ |

Part 3 Analyzing Transactions Using T Accounts (20 points)

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

| | | |
|------------------------------|---------------------------|---------------------|
| Cash in Bank | Martha Russo, Withdrawals | Advertising Expense |
| Accounts Receivable—Tim Ochi | Service Fees | Telephone Expense |

| | <i>Accounts Receivable—Tim Ochi</i> | <i>Service Fees</i> |
|---|-------------------------------------|---------------------|
| 0. Provided typing services and billed Tim Ochi \$400 for the work. | 400 | 400 |
| 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. | | |

Part 4 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.

| Account | Balance | Debits | Credits |
|-------------------------|---------|----------|---------|
| Cash in Bank | \$3,725 | \$ 3,725 | \$ |
| Accounts Receivable | 800 | _____ | _____ |
| Office Supplies | 200 | _____ | _____ |
| Office Equipment | 8,500 | _____ | _____ |
| Accounts Payable | 3,000 | _____ | _____ |
| G. Steiner, Capital | 5,905 | _____ | _____ |
| G. Steiner, Withdrawals | 625 | _____ | _____ |
| Fees | 6,550 | _____ | _____ |
| Advertising Expense | 650 | _____ | _____ |
| Rent Expense | 725 | _____ | _____ |
| Utilities Expense | 230 | _____ | _____ |
| Totals | | \$ | \$ |

Working Papers for Section Problems**Problem 5-1** Applying the Rules of Debit and Credit

| Account Title | Account Classification | Increase Side | Decrease Side | Normal Balance |
|----------------------|-------------------------------|----------------------|----------------------|-----------------------|
| <i>Cash in Bank</i> | <i>Asset</i> | <i>Debit</i> | <i>Credit</i> | <i>Debit</i> |
| | | | | |
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Problem 5-2 Identifying Accounts Affected by Transactions

1. _____
2. _____
3. _____
4. _____

Working Papers *for End-of-Chapter Problems*

Problem 5-3 Identifying Increases and Decreases in Accounts

1. a. _____

b. _____

2. a. _____

b. _____

3. a. _____

b. _____

Analyze: _____

Problem 5-4 Using T Accounts to Analyze Transactions

1. _____
|

|

2. _____
|

|

3. _____
|

|

4. _____
|

|

Analyze: _____

Name _____

Date _____

Class _____

Problem 5-5 Analyzing Transactions into Debit and Credit Parts

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| | | | | | |

Name _____

Date _____

Class _____

Problem 5-5 (concluded)

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Analyze: _____

Problem 5-6 Analyzing Transactions into Debit and Credit Parts
(1), (2), (3)

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Problem 5-6 (concluded)

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(4)

| Account Name | Debit Balances | Credit Balances |
|--------------|-------------------|--------------------|
| | \$ | \$ |
| | | |
| | | |
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| | | |
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| | | |
| | | |
| | | |
| | | |
| Totals | \$ | \$ |

Analyze: _____**Problem 5-7** Analyzing Transactions

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Problem 5-7 (continued)

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| | | | |
|--|--|--|--|

Problem 5-7 (concluded)

(4)

| Account Name | Debit Balances | Credit Balances |
|--------------|----------------|-----------------|
| | \$ | \$ |
| | | |
| | | |
| | | |
| | | |
| | | |
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| | | |
| Totals | \$ | \$ |

Analyze: _____

Problem 5-8 Completing the Accounting Equation

| | Assets | = | Liabilities | + | Owner's Equity | - | Withdrawals | + | Revenue | - | Expenses |
|----|---|---|-------------|---|----------------|---|-------------|---|----------|---|----------|
| 1. | \$64,400 | | \$ 8,200 | | \$56,300 | | \$ 500 | | \$10,000 | | \$ 9,600 |
| 2. | 22,150 | | 525 | | 18,800 | | 1,200 | | 12,100 | | _____ |
| 3. | 17,500 | | 75 | | 21,650 | | _____ | | 4,115 | | 3,250 |
| 4. | 49,450 | | _____ | | 47,840 | | 1,500 | | 20,300 | | 17,610 |
| 5. | 21,900 | | 1,150 | | 20,005 | | 950 | | _____ | | 16,570 |
| 6. | 72,640 | | 2,790 | | _____ | | 10,750 | | 67,908 | | 39,749 |
| 7. | _____ | | 1,988 | | 41,194 | | 6,196 | | 52,210 | | 42,597 |
| 8. | _____ | | 3,840 | | 61,774 | | _____ | | 40,163 | | 21,637 |
| | (Expenses plus withdrawals equal \$27,749.) | | | | | | | | | | |
| 9. | 64,070 | | _____ | | 49,102 | | 4,875 | | 53,166 | | _____ |
| | (Total owner's equity after adding revenue and subtracting expenses and withdrawals is \$50,643.) | | | | | | | | | | |

Analyze: _____

CHAPTER 5 Transactions That Affect Revenue, Expenses, and Withdrawals

Self-Test

Part A True or False

Directions: Circle the letter T in the Answer column if the statement is true; circle the letter F if the statement is false.

Answer

- | | | |
|---|---|--|
| T | F | 1. The normal balance side for a revenue account is the debit side. |
| T | F | 2. "Credit" means the increase side of an account. |
| T | F | 3. A credit to an expense account decreases the account balance. |
| T | F | 4. Withdrawals are increased on the debit side. |
| T | F | 5. Revenue is increased on the credit side. |
| T | F | 6. Expenses are decreased on the credit side. |
| T | F | 7. The basic accounting equation may be expressed as $A = L + OE$. |
| T | F | 8. The left side of a T account is always the debit side. |
| T | F | 9. You may have two debits and one credit as long as the amounts are equal. |
| T | F | 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. |
| T | F | 11. Capital is always increased by credits. |
| T | F | 12. Debits decrease the withdrawals account. |

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.

| | | | | | |
|--------------|--------|------------------|--------|--------------------|--------|
| Cash in Bank | | Accounts Payable | | Jones, Capital | |
| Debit | Credit | Debit | Credit | Debit | Credit |
| (N) | | | | | |
| Rent Expense | | Fees Revenue | | Jones, Withdrawals | |
| Debit | Credit | Debit | Credit | Debit | Credit |
| | | | | | |

Part C Complete the T Account

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

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

| | | | | | |
|------------------|--------|------------------|--------|--------------------|--------|
| Cash in Bank | | Office Equipment | | Computer Equipment | |
| Debit | Credit | Debit | Credit | Debit | Credit |
| | | | | | |
| Accounts Payable | | Adams, Capital | | | |
| Debit | Credit | Debit | Credit | | |
| | | | | | |

Computerized Accounting Using Spreadsheets

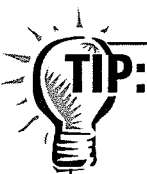
Problem 5-8 Completing the Accounting Equation

Completing the Spreadsheet

- Step 1** Read the instructions for Problem 5-8 in your textbook. This problem involves determining the missing amounts for the accounting equations given.
- Step 2** Open the Glencoe Accounting: Electronic Learning Center software.
- Step 3** From the Program Menu, click on the **Peachtree Accounting Software and Spreadsheet Applications** icon.
- Step 4** Log onto the Management System by typing your user name and password.
- Step 5** Under the Chapter Problems tab, select the template: PR05-8a.xls. The template should look like the one shown below.

| PROBLEM 5-8 COMPLETING THE ACCOUNTING EQUATION | | | | | | | | | | | |
|---|---|---|-------------|---|-------------------|---|-------------|---|----------|---|----------|
| (name) | | | | | | | | | | | |
| (date) | | | | | | | | | | | |
| | Assets | = | Liabilities | + | Owner's Equity | - | Withdrawals | + | Revenue | - | Expenses |
| 1 | \$64,400 | | \$8,200 | | \$56,300 | | \$500 | | \$10,000 | | \$9,600 |
| 2 | | | | | | | | | | | |
| 3 | | | | | | | | | | | |
| 4 | | | | | | | | | | | |
| 5 | | | | | | | | | | | |
| 6 | | | | | | | | | | | |
| 7 | | | | | | | | | | | |
| 8 | | | | | | | | | | | |
| 9 | | | | | | | | | | | |
| | Total Assets | | | | | | | | | | \$64,400 |
| | Total Liabilities + Owner's Equity - Withdrawals + Revenue - Expenses | | | | | | | | | | \$64,400 |

- Step 6** Key your name and today's date in the cells containing the *(name)* and *(date)* placeholders.
- Step 7** The first equation is completed for you. Notice that Assets (\$64,400) equal Liabilities (\$8,200) + Owner's Equity (\$56,300) - Withdrawals (\$500) + Revenue (\$10,000) - Expenses (\$9,600).
- Step 8** To complete the second equation, enter the amounts given in your textbook for Assets, Liabilities, Owner's Equity, Withdrawals, and Revenue in the appropriate cells. To calculate the amount for Expenses, add Liabilities (\$8,200) + Owner's Equity (\$56,300) - Withdrawals (\$500) + Revenue (\$10,000) to get a total of \$70,000. Subtract Assets (\$64,400) from this amount to get \$5,600, the missing amount for Expenses. Enter **8075** in cell L12.



TIP: Remember, do *not* enter a dollar sign or a comma when you enter the data—the spreadsheet template will automatically format the data when it is entered.

- Step 9** To check your work, look at cells L23 and L25. Total Assets should equal Total Liabilities + Owner's Equity – Withdrawals + Revenue – Expenses.
- Step 10** Complete the remaining equations in Problem 5-8 by entering the appropriate data from your text into the spreadsheet template and calculating the missing amounts.
- Check the totals at the bottom of the spreadsheet after the amounts have been entered to make sure they are in balance. If the totals do not balance, check your work to find the error.
- Step 11** Save the spreadsheet using the **Save** option from the **File** menu. You should accept the default location for the save as this is handled by the management system.
- Step 12** Print the completed spreadsheet.
- Step 13** Exit the spreadsheet program.
- Step 14** In the Close Options box, select the location where you would like to save your work.
- Step 15** Answer the Analyze question from your textbook for this problem.

What-If Analysis



TIP: Always save your work before performing What-If Analysis. It is not necessary to save your work after performing What-If Analysis unless your teacher instructs you to do so. If you are required to save your work after performing What-If Analysis, be sure to rename the spreadsheet to avoid saving over your original work.

If Liabilities are \$50,000, Owner's Equity is \$39,250, Withdrawals are \$1,176, Revenue is \$15,802, and Expenses are \$11,660, what are Assets?



TIP: Use row 11 of the spreadsheet template to answer this question. Enter the amounts for Liabilities, Owner's Equity, Withdrawals, Revenue, and Expenses. Note that the amount for Assets is automatically computed for you! This is because cell B11 contains a *formula* that automatically calculates the missing amount. Formulas are very useful in spreadsheets, saving time and improving accuracy.