

Business Transactions and the Accounting Equation

PROBLEM 3–1 Assessing Financial Claims

You bought a coat for \$60 cash. In equation form, what is the relationship between the property and your financial claims?

$$\begin{array}{rcl} \text{_____} & = & \text{_____} \\ \text{_____} & = & \text{_____} \\ \$ \text{_____} & = & \$ \text{_____} \end{array}$$

PROBLEM 3–2 Sharing Financial Claims with a Creditor

You want to buy a bicycle that costs \$200, but you have only \$45. E and T Sports Store agrees to sell you the bicycle on credit. You pay \$45 down and sign an agreement to pay the remaining \$155 in installment payments. How can you show this purchase using the equation PROPERTY = FINANCIAL CLAIMS?

$$\begin{array}{rcl} \text{_____} & = & \text{_____} \\ \text{_____} & = & \text{_____} \\ \$ \text{_____} & = & \$ \text{_____} + \$ \text{_____} \end{array}$$

PROBLEM 3–3 Applying the Accounting Equation

Same Day Cleaners just bought a new cash register for \$2,400. The business made a down payment of \$400 and borrowed the remaining \$2,000 from a local bank. How does the accounting equation apply in this example?

$$\begin{array}{rcl} \text{_____} & = & \text{_____} \\ \text{_____} & = & \text{_____} \\ \$ \text{_____} & = & \$ \text{_____} + \$ \text{_____} \end{array}$$

PROBLEM 3–4 Classifying Accounts

The account names used by Alexander Company are listed below. Indicate which accounts are assets, liabilities, and owner's equity.

Accounts Payable

Cash in Bank

Store Equipment

Accounts Receivable

Computer Equipment

M. Crabtree, Capital

Assets: _____

Liabilities: _____

Owner's Equity: _____

Demonstration Problems cont.

PROBLEM 3–5 Determining Effects of Transactions on the Accounting Equation

For each transaction:

- (1) Identify the accounts affected.
- (2) Classify the accounts affected.
- (3) Determine the amount of the increase or decrease for each account.
- (4) Show the new account balances in the accounting equation.

	Assets				=	Liab.	+ Owner's Equity	
	Cash	+ Accts.	Office	+ Del.	=	Accts.	+ Marion Butler,	
	in Bank	Rec.	Equip.	Equip.		Pay.	Capital	
Owner's Investment								
	1. Marion Butler deposited \$25,000 in the bank to open a checking account in the name of Butler Florist.							
					=		+	Line 1
	2. The owner invested a calculator worth \$200.							Line 2
Line 1 + 2					=		+	Line 3
Cash Transaction								
	3. Butler Florist issued a check for \$10,000 for delivery equipment.							Line 4
Line 3 + 4					=		+	Line 5
Credit Transactions								
	4. Butler Florist bought a copier on account for \$2,400.							Line 6
Line 5 + 6					=		+	Line 7
	5. Butler Florist issued a check for \$400 in partial payment of an amount owed to a creditor.							Line 8
Line 7 + 8					=		+	Line 9
	6. Butler Florist sold the calculator for \$200 on account.							Line 10
Line 9 + 10					=		+	Line 11
Revenue Transaction								
	7. Butler Florist received a check for wedding floral arrangement services, \$1,200.							Line 12
Line 11 + 12					=		+	Line 13
Expense Transaction								
	8. Butler Florist wrote a check for \$1,000 to pay the monthly rent.							Line 14
Line 13 + 14					=		+	Line 15
Withdrawal by Owner								
	9. The business issued a check for \$1,000 to Marion Butler for personal use.							Line 16
Line 15 + 16					=		+	Line 17

Name _____

Date _____

Class _____