

# **CHAPTER 3** Business Transactions and the Accounting Equation

## **Study Plan**

### **Check Your Understanding**

**Section 1** *Read Section 1 on pages 46–48 and complete the exercises on page 49.*

- ☐ Thinking Critically
- ☐ Computing in the Business World
- ☐ Problem 3-1 *Balancing the Accounting Equation*

**Section 2** *Read Section 2 on pages 50–55 and complete the exercises on page 56.*

- ☐ Thinking Critically
- ☐ Communicating Accounting
- ☐ Problem 3-2 *Determining the Effects of Transactions on the Accounting Equation*

**Section 3** *Read Section 3 on pages 57–59 and complete the exercises on page 60.*

- ☐ Thinking Critically
- ☐ Analyzing Accounting
- ☐ Problem 3-3 *Determining the Effects of Transactions on the Accounting Equation*

### **Summary**

*Review the Chapter 3 Summary on page 61 in your textbook.*

- ☐ Key Concepts

### **Review and Activities**

*Complete the following questions and exercises on pages 62–63.*

- ☐ Using Key Terms
- ☐ Understanding Accounting Concepts and Procedures
- ☐ Case Study
- ☐ Internet Connection
- ☐ Workplace Skills

### **Computerized Accounting**

*Read the Computerized Accounting information on page 64 in your textbook.*

- ☐ *Exploring Electronic Spreadsheets*

### **Problems**

*Complete the following end-of-chapter problems for Chapter 3.*

- ☐ Problem 3-4 *Classifying Accounts*
- ☐ Problem 3-5 *Completing the Accounting Equation*
- ☐ Problem 3-6 *Classifying Accounts Within the Accounting Equation*
- ☐ Problem 3-7 *Determining Increases and Decreases in Accounts*
- ☐ Problem 3-8 *Determining the Effects of Transactions on the Accounting Equation*
- ☐ Problem 3-9 *Determining the Effects of Business Transactions on the Accounting Equation*
- ☐ Problem 3-10 *Describing Business Transactions*

### **Challenge Problem**

- ☐ Problem 3-11 *Completing the Accounting Equation*

### **Chapter Reviews and Working Papers**

*Complete the following exercises for Chapter 3 in your Chapter Reviews and Working Papers.*

- ☐ Chapter Review
- ☐ Self-Test

# **CHAPTER 3 REVIEW**

## **Business Transactions and the Accounting Equation**

### **Part 1 Accounting Vocabulary (15 points)**

Total Points	39
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. account	E. asset	I. equity	M. owner's equity
B. accounting equation	F. business transaction	J. expenses	N. property
C. accounts payable	G. capital	K. liabilities	O. revenue
D. accounts receivable	H. creditor	L. on account	P. withdrawal

- B   0. The \_\_\_\_\_ is Assets = Liabilities + Owner's Equity.
1. A(n) \_\_\_\_\_ is an economic event that causes a change in assets, liabilities, or owner's equity.
2. The owner's claims to the total assets of the business are called \_\_\_\_\_.
3. A(n) \_\_\_\_\_ is any property or item of value owned by a business.
4. \_\_\_\_\_ are the creditor's claims to the assets of the business.
5. \_\_\_\_\_ is anything of value that is owned or controlled.
6. The increases or decreases in a specific item caused by business transactions are recorded in a(n) \_\_\_\_\_.
7. Buying \_\_\_\_\_ is the same as buying on credit.
8. \_\_\_\_\_ is income earned from the sale of goods and services.
9. The costs of goods and services used to operate a business are \_\_\_\_\_.
10. \_\_\_\_\_ is the total amount of money to be received in the future for goods and services sold on credit.
11. A person or business that sells property on credit, or any person or business to which money is owed, is called a(n) \_\_\_\_\_.
12. The total financial claims to the assets of a business are known as \_\_\_\_\_.
13. The amount of money owed to the creditors of a business is \_\_\_\_\_.
14. \_\_\_\_\_ refers to the dollar amount of the owner's equity in the business.
15. When the owner takes cash or other assets from the business for personal use, a \_\_\_\_\_ occurs.

### **Part 2 Property and Financial Claims (4 points)**

**Directions:** Read each of the following statements to determine whether the statement is true or false. Write your answer in the space provided.

- F   0. When you buy property on account, you acquire all of its property rights.
1. One of the purposes of accounting is to provide financial information about property and the rights of a business to that property.
2. A person who has control over but does not own an item of property has a legal right to that item.
3. Both businesses and individuals may own and control property.
4. The creditor's financial claim minus the owner's financial claim to an item of property always equals the total cost of the property.

### Part 3 Analyzing Business Transactions (10 points)

**Directions:** Listed below are the account names that are used by In-a-Minute Messenger Service for recording and reporting the financial information from business transactions.

- |                        |                       |                           |
|------------------------|-----------------------|---------------------------|
| 1. Cash in Bank        | 4. Delivery Equipment | 7. B. McCann, Capital     |
| 2. Accounts Receivable | 5. Office Equipment   | 8. B. McCann, Withdrawals |
| 3. Office Supplies     | 6. Accounts Payable   |                           |

Analyze each of the following transactions to determine the accounts affected. Then enter the numbers of the accounts affected by each transaction in the space at the left. Remember that at least two accounts will be affected by each transaction. The first transaction has been completed as an example.

#### Accounts Affected

- |                 |  |
|-----------------|--|
| <u>1,7</u>      | 0. The owner invested cash in the business.                            |
| <u>        </u> | 1. Paid for the monthly rent by check.                                 |
| <u>        </u> | 2. The owner transferred a new bicycle to the business for deliveries. |
| <u>        </u> | 3. Received cash for delivering messages.                              |
| <u>        </u> | 4. Purchased office equipment on account.                              |
| <u>        </u> | 5. Delivered messages for a client on account.                         |
| <u>        </u> | 6. Sold to a friend a bicycle helmet owned by the business on account. |
| <u>        </u> | 7. Issued a check to a creditor in partial payment of amount owed.     |
| <u>        </u> | 8. Purchased office supplies on account.                               |
| <u>        </u> | 9. Withdrew cash for personal use.                                     |
| <u>        </u> | 10. Wrote a check for the monthly telephone bill.                      |

### Part 4 Effects of Business Transactions on the Accounting Equation (10 points)

**Directions:** The business transactions completed by Carolyn Corley, Attorney at Law, appear below. Each business transaction will cause an increase (+), decrease (-), or no change (0) in the classification of accounts in the accounting equation. Analyze each transaction to determine how it affects the accounting equation (increase, decrease, no change). Then, in the space at the left, use +, -, or 0 to indicate the effect of each transaction on each part of the accounting equation.

#### Assets = Liabilities + Owner's Equity

- | +               | 0               | +               |   |
|-----------------|-----------------|-----------------|---|
| <u>        </u> | <u>        </u> | <u>        </u> | 0. The owner transferred a typewriter to the business.        |
| <u>        </u> | <u>        </u> | <u>        </u> | 1. Bought office furniture on account.                        |
| <u>        </u> | <u>        </u> | <u>        </u> | 2. The owner invested cash in the business.                   |
| <u>        </u> | <u>        </u> | <u>        </u> | 3. Paid the monthly utility bill by check.                    |
| <u>        </u> | <u>        </u> | <u>        </u> | 4. Purchased office supplies for cash.                        |
| <u>        </u> | <u>        </u> | <u>        </u> | 5. Prepared a lease for a client on account.                  |
| <u>        </u> | <u>        </u> | <u>        </u> | 6. Withdrew cash from the business for personal use.          |
| <u>        </u> | <u>        </u> | <u>        </u> | 7. Bought a computer for cash.                                |
| <u>        </u> | <u>        </u> | <u>        </u> | 8. Received cash for completing legal services.               |
| <u>        </u> | <u>        </u> | <u>        </u> | 9. Wrote a check to a creditor for an amount owed on account. |
| <u>        </u> | <u>        </u> | <u>        </u> | 10. Wrote a check for the monthly rent.                       |

## Working Papers *for Section Problems*

### Problem 3-1 Balancing the Accounting Equation

	Assets	=	Liabilities	+	Owner's Equity
1	\$ 17,000	=	\$ 7,000	+	
2		=	\$ 6,000	+	\$ 20,000
3	\$ 10,000	=		+	\$ 7,000
4		=	\$ 9,000	+	\$ 17,000
5	\$ 8,000	=	\$ 2,000	+	
6	\$ 20,000	=	\$ 7,000	+	
7		=	\$ 12,000	+	\$ 4,000
8	\$ 30,000	=		+	\$ 22,000
9	\$ 22,000	=	\$ 1,000	+	
10	\$ 25,000	=	\$ 5,000	+	
11		=	\$ 10,000	+	\$ 25,000
12	\$ 7,500	=		+	\$ 3,000

### Problem 3-2 Determining the Effects of Transactions on the Accounting Equation

	Assets						=	Liabilities	+	Owner's Equity	
Trans.	Cash in Bank	+	Accounts Receivable	+	Computer Equipment	+	Office Furniture	=	Accounts Payable	+	Jan Swift, Capital
1											
2											
3											
4											
5											
6											
Bal.											

### Problem 3-3 Determining the Effects of Transactions on the Accounting Equation

	Assets						=	Liabilities	+	Owner's Equity	
Trans.	Cash in Bank	+	Accounts Receivable	+	Computer Equipment	+	Office Furniture	=	Accounts Payable	+	Jan Swift, Capital
Bal.	24,000		700		4,000		5,000		3,000		30,700
1											
2											
3											
4											
5											
Bal.											

[illegible]

## Working Papers *for End-of-Chapter Problems*

### Problem 3-4 Classifying Accounts

- |          |          |           |
|----------|----------|-----------|
| 1. _____ | 5. _____ | 9. _____  |
| 2. _____ | 6. _____ | 10. _____ |
| 3. _____ | 7. _____ |           |
| 4. _____ | 8. _____ |           |

### Problem 3-5 Completing the Accounting Equation

Assets		=	Liabilities	+	Owner's Equity	
Cash in Bank	\$ 4,500		Accts. Pay.		Mike Murray, Capital	\$9,250
Accts. Rec.	1,350					
Office Equipment	5,000					

#### Analyze:

Assets \_\_\_\_\_ = Liabilities \_\_\_\_\_ + Owner's Equity \_\_\_\_\_

### Problem 3-6 Classifying Accounts Within the Accounting Equation

Account Title	Balance
(1) _____	_____
_____	_____
_____	_____
_____	_____
_____	_____
Total	_____
(2) _____	_____
_____	_____
(3) _____	_____

#### Analyze:

Assets \_\_\_\_\_ = Liabilities \_\_\_\_\_ + Owner's Equity \_\_\_\_\_

Name \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

**Problem 3-7** Determining Increases and Decreases in Accounts

Transaction	Accounts Affected	Classification	Amount of Increase (+) or Decrease (-)
1	<i>Cash in Bank</i> <i>Regina Delgado, Capital</i>	<i>Asset</i> <i>Owner's Equity</i>	+ \$ 25,000 + \$ 25,000
2			
3			
4			
5			
6			
7			
8			

**Analyze:** \_\_\_\_\_

\_\_\_\_\_

### Problem 3-8 Determining the Effects of Transactions on the Accounting Equation

	Assets				=	Liabilities	+	Owner's Equity
Transaction	Cash in Bank	Accounts Receivable	Office Equipment	Grooming Equipment	=	Accounts Payable	+	Abe Shultz, Capital
1	+\$10,000							+\$10,000
Balance					=		+	
2								
Balance					=		+	
3								
Balance					=		+	
4								
Balance					=		+	
5								
Balance					=		+	
6								
Balance					=		+	
7								
Balance					=		+	

Analyze: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### Problem 3-9 Determining the Effects of Business Transactions on the Accounting Equation

Transaction	Assets					=	Liabilities	+	Owner's Equity
	Cash in Bank	Accounts Receivable	Hiking Equipment	Rafting Equipment	Office Equipment	=	Accounts Payable	+	Juanita Ortega, Capital
1									
Balance						=		+	
2									
Balance						=		+	
3									
Balance						=		+	
4									
Balance						=		+	
5									
Balance						=		+	
6									
Balance						=		+	
7									
Balance						=		+	
8									
Balance						=		+	
9									
Balance						=		+	
10									
Balance						=		+	

Analyze: \_\_\_\_\_

\_\_\_\_\_

### Problem 3-10 Describing Business Transactions

1. *The owner invested \$30,000 in the business.* \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_

Analyze: \_\_\_\_\_

\_\_\_\_\_

### Problem 3-11 Completing the Accounting Equation

	Assets					=	Liabilities	+	Owner's Equity
	Cash in Bank	+	Accounts Receivable	+	Business Equipment	=	Accounts Payable	+	Richard Tang, Capital
1		+	\$ 2,000	+	\$ 1,000	=	\$ 500	+	\$ 7,500
2	\$ 3,000	+	\$ 9,000	+		=	\$ 2,000	+	\$ 16,000
3	\$ 8,000	+	\$ 1,000	+	\$ 10,000	=		+	\$ 15,000
4	\$ 4,000	+		+	\$ 4,000	=	\$ 1,000	+	\$ 17,000
5	\$ 9,000	+	\$ 7,000	+	\$ 6,000	=	\$ 5,000	+	
6	\$ 10,000	+	\$ 14,000	+		=	\$ 6,000	+	\$ 32,000
7	\$ 6,000	+	\$ 4,000	+	\$ 10,000	=		+	\$ 15,000
8		+	\$ 5,000	+	\$ 9,000	=	\$ 1,000	+	

Analyze: \_\_\_\_\_

\_\_\_\_\_

# **CHAPTER 3** Business Transactions and the Accounting Equation

## **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 accounting equation should remain in balance after each transaction.                                   |
| T | F | 2. A business transaction affects at least two accounts.  |
| T | F | 3. "Assets + Liabilities = Owner's Equity" is another way to express the accounting equation.                 |
| T | F | 4. The increases and decreases caused by business transactions are recorded in specific accounts.             |
| T | F | 5. The private enterprise system is based on the right to own property.                                       |
| T | F | 6. The owner's personal financial transactions are part of the business's records.                            |
| T | F | 7. The total financial claims to the assets of a business are referred to as equity.                          |
| T | F | 8. The owner's claims to the assets of a business are liabilities.  |
| T | F | 9. When a business transaction occurs, the financial position of the business changes.                        |
| T | F | 10. A creditor has a financial claim to the assets of a business.   |
| T | F | 11. An account is a record of only the increases in the balance of a specific item such as cash or equipment. |
| T | F | 12. The total financial claims do not have to equal the total cost of the property.                           |

**Part B Multiple Choice**

**Directions:** Only one of the choices given with each of the following statements is correct. Write the letter of the correct answer in the Answer column.

**Answer**

- \_\_\_\_\_ 1. If the creditor's financial claim to property totals \$1,000 and the owner's financial claim to property totals \$11,000, the property value is  
(A) \$10,000. (C) \$12,000.  
(B) \$11,000. (D) \$1,000.
- \_\_\_\_\_ 2. The account Accounts Receivable is an example of a(n)  
(A) asset. (C) owner's equity.  
(B) liability. (D) none of the above.
- \_\_\_\_\_ 3. All of the following account names are asset names, except  
(A) Office Furniture. (C) Cash in Bank.  
(B) Accounts Payable. (D) Equipment.
- \_\_\_\_\_ 4. If a business has assets of \$5,600 and liabilities of \$900, the owner's equity is  
(A) \$6,500. (C) \$4,700.  
(B) \$900. (D) \$5,600.
- \_\_\_\_\_ 5. A business transaction that involves a purchase on account is considered to be a(n)  
(A) cash transaction. (C) investment by the owner.  
(B) credit transaction. (D) expense transaction.
- \_\_\_\_\_ 6. If a business purchases a calculator on account, the accounts affected by this transaction are.  
(A) Cash in Bank and Accounts Payable.  
(B) Office Equipment and Accounts Receivable.  
(C) Office Equipment and Cash in Bank.  
(D) Office Equipment and Accounts Payable.
- \_\_\_\_\_ 7. Each of the following is a business expense, except payment for  
(A) advertising. (C) utility bills.  
(B) monthly rent. (D) equipment.
- \_\_\_\_\_ 8. The purchase of a desk on account will increase Office Furniture and will also increase  
(A) Cash in Bank. (C) Accounts Receivable.  
(B) Accounts Payable. (D) Jon McIvey, Capital.