

# CHAPTER 3

## Analyzing Business Transactions Using T Accounts

### STUDY GUIDE

#### Understanding the Chapter

##### Objectives

1. Set up T accounts for assets, liabilities, and owner's equity. 2. Analyze business transactions and enter them in the accounts. 3. Determine the balance of an account. 4. Set up T accounts for revenue and expenses. 5. Prepare a trial balance from T accounts. 6. Prepare an income statement, a statement of owner's equity, and a balance sheet. 7. Develop a chart of accounts. 8. Define the accounting terms new to this chapter.

##### Reading Assignment

Read Chapter 3 in the textbook. Complete the textbook Section Self Review as you finish reading each section of the chapter, and the Comprehensive Self Review at the end of the chapter. Refer to the Chapter 3 Glossary or to the Glossary at the end of the book to find definitions for terms that are not familiar to you.

##### Activities

- Thinking Critically** Answer the *Thinking Critically* questions for Johnson & Johnson, Computers in Accounting, and Managerial Implications.
- Internet Application** Complete the activity for Computers in Accounting.
- Discussion Questions** Answer each assigned discussion question in Chapter 3.
- Exercises** Complete each assigned exercise in Chapter 3. Use the forms provided in this SGWP. The objectives covered by an exercise are given after the exercise number. If you need help with an exercise, review the portion of the chapter related to the objective(s) covered.
- Problems A/B** Complete each assigned problem in Chapter 3. Use the forms provided in this SGWP. The objectives covered by a problem are given after the problem number. If you need help with a problem, review the portion of the chapter related to the objective(s) covered.
- Challenge Problem** Complete the challenge problem as assigned. Use the forms provided in this SGWP.
- Critical Thinking Problem** Complete the critical thinking problem as assigned. Use the forms provided in this SGWP.
- Business Connections** Complete the Business Connections activities as assigned to gain a deeper understanding of Chapter 3 concepts.

#### Practice Tests

Complete the Practice Tests, which cover the main points in your reading assignment. Compare your answers with those in the Practice Test Answer Key for Chapter 3 at the end of this chapter. If you have answered any questions incorrectly, review the related section of the text.

**Part A True-False** For each of the following statements, circle T in the answer column if the answer is true or F if the answer is false.

- |   |   |  |
|---|---|--|
| T | F | 1. The <b>Accounts Payable</b> account is decreased by a debit entry.  |
| T | F | 2. Increases in expense accounts are recorded by credit entries.   |
| T | F | 3. Accountants keep a separate record for each asset, liability, and owner's equity item.                              |
| T | F | 4. The T account allows increases and decreases to be separated and recorded on different sides.                       |
| T | F | 5. Increases in assets are recorded on the debit side of an account.   |
| T | F | 6. Decreases in assets are recorded on the left side of an account.  |
| T | F | 7. The owner's beginning investment is entered as a debit in the owner's capital account.                              |
| T | F | 8. Increases in liabilities are recorded on the debit side of an account.  |
| T | F | 9. A cash payment by a business is recorded as a debit entry in the <b>Cash</b> account.                               |
| T | F | 10. Decreases in liabilities are credited to the liability account.  |
| T | F | 11. An increase in the owner's investment is recorded by crediting the owner's capital account.                        |
| T | F | 12. Revenue accounts are increased by credits.   |
| T | F | 13. An entry on the left side of any account is called a debit.  |
| T | F | 14. A reduction in the equity of the owners is recorded by making a debit entry in the <b>Owner's Capital</b> account. |
| T | F | 15. The receipt of cash is recorded by a debit entry to the <b>Cash</b> account.                                       |

**Part B Matching** For each numbered item, choose the matching item from the box and write the identifying letter in the answer column.

- \_\_\_\_\_ 1. An operating cost that decreases owner's equity.
- \_\_\_\_\_ 2. The system of accounting that requires equality of the entries on each side of the equation.
- \_\_\_\_\_ 3. Accounts whose balances are carried forward to start a new period.
- \_\_\_\_\_ 4. An entry on the left side of an account.
- \_\_\_\_\_ 5. A system for arranging accounts in logical order.
- \_\_\_\_\_ 6. An entry on the right side of an account.
- \_\_\_\_\_ 7. Accounts whose balances are transferred to a summary account at the end of the accounting period.
- \_\_\_\_\_ 8. A subdivision of owner's equity that is used to record various types of income of a business.
- \_\_\_\_\_ 9. A separate written record that is kept for each asset, liability, and owner's equity item.

- |  |
|--|
| <p>a. Account</p> <p>b. Double-entry system</p> <p>c. Credit</p> <p>d. Permanent accounts</p> <p>e. Temporary accounts</p> <p>f. Expense</p> <p>g. Revenue</p> <p>h. Chart of accounts</p> <p>i. Debit</p> |
|--|

**Part C Completion** In the answer column, supply the missing word or words needed to complete each of the following statements.

- \_\_\_\_\_ 1. The \_\_\_\_\_ of an account is where increases in the account are recorded and where the balance is recorded.
- \_\_\_\_\_ 2. The \_\_\_\_\_ is a statement prepared to test the accuracy of the figures recorded in the accounts.
- \_\_\_\_\_ 3. A(n) \_\_\_\_\_ is an error where the decimal point is misplaced.
- \_\_\_\_\_ 4. A(n) \_\_\_\_\_ is an error where the digits of a number are switched.
- \_\_\_\_\_ 5. A(n) \_\_\_\_\_ is the total of several entries on either side of an account that is entered in small pencil.

### **Demonstration Problem**

Adiam Ghirmai is an investment broker who operates her own business, Ghirmai Investment Counseling.

#### **Instructions**

1. Analyze the transactions for the month of January 2007, and record each in the appropriate T accounts. Use plus and minus signs to show increases and decreases. Identify each entry in the T accounts by writing the number of the transaction next to the entry.
2. Determine the balance for each T account. Prepare a trial balance.

## Transactions

1. Adiam Ghirmai invested \$25,000 in cash to start the business.
2. Ghirmai Investment Counseling purchased office furniture for \$4,500 on account.
3. Paid \$1,500 for one month's rent.
4. Sold an investment portfolio to the Inez Family and received fees of \$25,000.
5. Purchased a computer for \$2,000, paying \$1,000 in cash and putting the balance on account for 60 days.
6. Paid \$4,200 for employee salaries.
7. Purchased office equipment for \$3,750 with credit terms of 60 days.
8. Sold an investment portfolio to the Reed Family and will receive commission fees of \$10,500 in 30 days.
9. Issued a check for \$1,875 for partial payment of the amount for office equipment.
10. Adiam Ghirmai withdrew \$2,500 in cash for personal use.
11. Issued a check for \$520 to pay the utility bill.

## SOLUTION

<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Cash</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(1) + 25,000</td> <td style="width: 50%;">(3) - 1,500</td> </tr> <tr> <td>(4) + 25,000</td> <td>(5) - 1,000</td> </tr> <tr> <td></td> <td>(6) - 4,200</td> </tr> <tr> <td></td> <td>(9) - 1,875</td> </tr> <tr> <td>50,000</td> <td>(10) - 2,500</td> </tr> <tr> <td></td> <td>(11) - 520</td> </tr> <tr> <td><b>Bal. 38,405</b></td> <td><b>11,595</b></td> </tr> </tbody> </table>	Cash		(1) + 25,000	(3) - 1,500	(4) + 25,000	(5) - 1,000		(6) - 4,200		(9) - 1,875	50,000	(10) - 2,500		(11) - 520	<b>Bal. 38,405</b>	<b>11,595</b>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Accounts Receivable</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(8) + 10,500</td> <td style="width: 50%;"></td> </tr> </tbody> </table> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Office Equipment</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(5) + 2,000</td> <td style="width: 50%;"></td> </tr> <tr> <td>(7) + 3,750</td> <td></td> </tr> <tr> <td><b>Bal. 5,750</b></td> <td></td> </tr> </tbody> </table>	Accounts Receivable		(8) + 10,500		Office Equipment		(5) + 2,000		(7) + 3,750		<b>Bal. 5,750</b>		<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Office Furniture</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(2) + 4,500</td> <td style="width: 50%;"></td> </tr> </tbody> </table> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Accounts Payable</th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">(9) - 1,875</td> <td style="width: 50%;">(2) + 4,500</td> </tr> <tr> <td></td> <td>(5) + 1,000</td> </tr> <tr> <td></td> <td>(7) + 3,750</td> </tr> <tr> <td></td> <td><b>Bal. 7,375</b></td> </tr> </tbody> </table>	Office Furniture		(2) + 4,500		Accounts Payable		(9) - 1,875	(2) + 4,500		(5) + 1,000		(7) + 3,750		<b>Bal. 7,375</b>
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**SOLUTION (continued)**

**Ghirmai Investment Counseling**

**Trial Balance**

**January 31, 2007**

ACCOUNT NAME	DEBIT				CREDIT				
<b>Cash</b>	<b>38</b>	<b>4</b>	<b>0</b>	<b>5</b>	<b>00</b>				
<b>Accounts Receivable</b>	<b>10</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>00</b>				
<b>Office Furniture</b>	<b>4</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>00</b>				
<b>Office Equipment</b>	<b>5</b>	<b>7</b>	<b>5</b>	<b>0</b>	<b>00</b>				
<b>Accounts Payable</b>						<b>7</b>	<b>3</b>	<b>7</b>	<b>5</b>
<b>Adiam Ghirmai, Capital</b>						<b>25</b>	<b>0</b>	<b>0</b>	<b>00</b>
<b>Adiam Ghirmai, Drawing</b>	<b>2</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>00</b>				
<b>Fees Income</b>						<b>35</b>	<b>5</b>	<b>0</b>	<b>00</b>
<b>Rent Expense</b>	<b>1</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>00</b>				
<b>Salaries Expense</b>	<b>4</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>00</b>				
<b>Utilities Expense</b>	<b>5</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>00</b>				
<b>Totals</b>	<b>67</b>	<b>8</b>	<b>7</b>	<b>5</b>	<b>00</b>	<b>67</b>	<b>8</b>	<b>7</b>	<b>5</b>

# WORKING PAPERS

Name \_\_\_\_\_

## EXERCISE 3.1



## EXERCISE 3.2



## EXERCISE 3.3

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_







**PROBLEM 3.1A or 3.1B**

1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
6.	_____	_____
7.	_____	_____
8.	_____	_____

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

**PROBLEM 3.2A or 3.2B**

1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
6.	_____	_____
7.	_____	_____
8.	_____	_____

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

**PROBLEM 3.3A or 3.3B**

1.	<hr/> <hr/>	<hr/> <hr/>
2.	<hr/> <hr/>	<hr/> <hr/>
3.	<hr/> <hr/>	<hr/> <hr/>
4.	<hr/> <hr/>	<hr/> <hr/>
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6.	<hr/> <hr/>	<hr/> <hr/>
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8.	<hr/> <hr/>	<hr/> <hr/>
9.	<hr/> <hr/>	<hr/> <hr/>
10.	<hr/> <hr/>	<hr/> <hr/>
11.	<hr/> <hr/>	<hr/> <hr/>
12.	<hr/> <hr/>	<hr/> <hr/>

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

Name \_\_\_\_\_

**PROBLEM 3.4A or 3.4B**

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





### CHAPTER 3 CHALLENGE PROBLEM










