

Kentucky Class Notes

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859.252.NOTE

ACC 301 Bratten
Fall 2010
Test 1

The **double-entry** accounting system has a two-sided effect. Whenever one account is affected, another one is too.

Debits are on the **left**, and credits are on the **right**.

- Page 6
 - Slide 1: When debits outweigh the credits, the account will have a debit balance. For example, if there was a transaction that debited the account \$10,000 and another one for \$8,000, the total debits would be \$18,000. If there is only \$3,000 in credits, the account has a \$15,000 balance.
 - Slide 2: When credits have a larger sum than debits, the account has a credit balance. If there's only \$10,000 in debits, and the credit side has two transactions of \$3,000 and \$8,000, the account would have a credit balance of \$1,000.
 - Slide 3: The basic accounting equation is: **ASSETS = LIABILITIES + OWNER'S EQUITY**.
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 - Slide 1: Assets have a normal **debit** balance, and liabilities as well as stockholders' equity have a normal **credit** balance.
 - Slide 2: Revenues have a **credit** normal balance, and expenses have a **debit** normal balance. Revenue and expenses are stockholders' equity accounts.
 - Slide 3: This slide is just explaining what happens to the total of each specific account if there were to be a credit or a debit from a journal entry.
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 - Slide 1: Debits and credits will both equal each other at the end of each transaction.

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- Slide 2: If a company raised \$200,000 in capital by issuing stock, assets increase by \$200,000, and so does stockholders' equity.
 - Slide 3: If new servers are purchased for \$37,000, and the company is making payments over a period of time, assets increase by \$37,000 and so do liabilities.
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 - Slide 1: If \$20,000 of merchandise is sold, it will cause assets to increase by \$20,000 as well as stockholders' equity (because it accounts for revenues).
 - Slide 2: If a company created a liability of \$10,000 it would cause a journal entry of increasing liabilities by \$10,000, and taking away \$10,000 of stockholders' equity (because it accounts for expenses).
 - Slide 3: If a company pays \$7,000 cash to sell CDs, assets both increase and decrease by \$7,000, leaving the balance the same as it was before the transaction.
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 - Slide 1: Nothing was said outside of the slide
 - Slide 2: Transactions are tracked with **journal entries**, and journal entries are used to keep up with current balances.

Journal entries are **posted** to accounts in the general ledger.

Trial Balances show current account balances, and debits always have to equal credits.

Adjusting journal entries are made for accounts to reflect amounts.

Financial statements are prepared using an adjusted TB.