

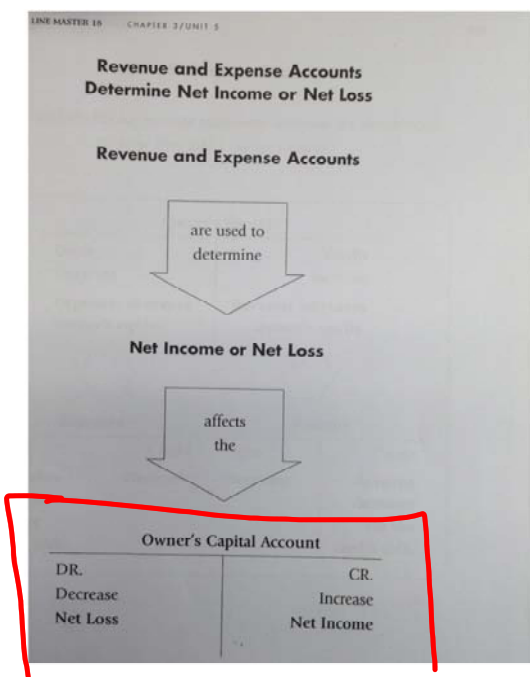
Unit 5 - Revenue and Expense Accounts

Revenue Accounts-proceeds arising from the sale of goods/services to customers. Revenue is generated in different ways in various types of businesses. See pg. 87 examples

Expense Accounts-costs incurred to generate the revenue. Separate expense accounts are set up for each major type of expense.

Major criteria used to decide whether a separate expense account is needed are:



1. Frequency of usage
2. Dollar value of expenditure



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Income Statement Accounts

Debits and credits for income statement accounts are determined by how they affect owner's equity.

Owner's Equity			
Debit Decrease		Credit Increase	
Expenses decrease owner's equity.		Revenue increases owner's equity.	
			
Expenses		Revenue	
Debit	Credit	Debit	Credit
Expenses <i>increase</i> on the debit side. +	Decrease -	Decrease -	Revenue <i>increases</i> on the credit side. +

Summary of Debit and Credit Theory

Balance Sheet Accounts

A		=	L		+	OE
Asset Accounts			Liability Accounts			Owner's Equity Accounts
Debit	Credit		Debit	Credit	Debit	Credit
Increase	Decrease		Decrease	Increase	Decrease	Increase
+	-		-	+	-	+

Income Statement Accounts

Owner's Equity Account			
Debit		Credit	
Decrease		Increase	
-		+	
↓		↓	
Expense Accounts		Revenue Accounts	
Debit	Credit	Debit	Credit
Increase	Decrease	Decrease	Increase
+	-	-	+

**The Owner's Drawings Account:
What Is It?**

C. Piccolo, Capital	
DR. Decrease (c) Withdrawals (d) Losses	CR. Increase (a) Owner's investment (b) Profits

C. Piccolo, Drawings	
DR. (e) Withdrawals (f) Salary (g) Personal payments	CR.

- The Drawings account is a record of all withdrawals of assets by the owner.

**Transaction Analysis:
Asking the Right Questions**

1. What accounts were affected?
2. Were the accounts A, L, OE, R, or E accounts?
3. Did the accounts increase or decrease?
4. Were the accounts debited or credited?

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Calculating the New Capital: Net Income and Drawings, Drawings Smaller than Net Income

Owner's Equity		
D. Cheng, Capital May 1		\$25 000
Add: Net Income for May	\$2 000	
Less: D. Cheng, Drawings	<u>500</u>	
Increase in Capital		<u>1 500</u>
D. Cheng, Capital May 31		\$ 26 500

Owner's Equity		
D. Cheng, Capital June 1		\$26 500
Add: Net Income for June	\$3 000	
Less: D. Cheng, Drawings	<u>600</u>	
Increase in Capital		<u>2 400</u>
D. Cheng, Capital June 30		\$ 28 900

- Net Income INCREASES Capital.
- Drawings DECREASE Capital.

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Calculating the New Capital: Net Loss and Drawings

Owner's Equity	
D. Cheng, Capital July 1	\$28 900
Less: Net Loss for July	\$1 500
Less: D. Cheng, Drawings	.400
Decrease in Capital	1 900
D. Cheng, Capital July 31	\$?

27000

Drawings Larger than Net Income

Owner's Equity	
D. Cheng, Capital August 1	\$27 000
Add: Net Income for August	\$300
Less: D. Cheng, Drawings	.700
Decrease in Capital	-400
D. Cheng, Capital August 31	\$?

26600

• Net Loss DECREASES Capital.

The General Ledger

Cash + -	Accounts Receivable + -	Supplies + -	} Asset
Land + -	Building + -	Equipment + -	
Accounts Payable - +	Bank Loan - +	Mortgage Payable - +	} Liabilities
Owner, Capital - +	Owner, Drawings + -		} Owner's Equity
Sales - +	Fees Earned - +		} Revenue
Rent Expense + -	Salaries Expense + -	Advertising Expense + -	} Income Statement
Delivery Expense + -	Hydro Expense + -	Miscellaneous Expense + -	

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