



# UIL Accounting Account Classifying

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Property



Owned



Assets

=

Rights  
(Equity)



Creditors'



Owner's

Assets

=

Creditors'  
Equity

+

Owner's  
Equity

Assets  
(owned)

=

Creditors'  
Equity  
(owed)  
+  
Owner's  
Equity

# Basic Accounting Equation

(your first formula!)

**Assets**

=

**Liabilities**

Things that are owned by a business



**+ Owner's  
Equity**



— IN A —  
PERFECT WORLD

Assets

=

Owner's  
Equity

In the real world, businesses rely on credit to grow...

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



T Accounts are helpful to assign account balances...

Assets

=

Liab. + Owner's Eq.

**Assets are on the LEFT of the BAE, so assets have a DEBIT balance (DR)**

**Liab. & O/E are on the RIGHT side of the BAE, so they have a CREDIT balance (CR)**



# Sample accounts

<b>Assets</b>	<b>= Liab. + Owner's Eq.</b>
<b>Cash in Bank</b> <b>Accts Receivable</b> <b>Supplies</b> <b>Equipment</b> <b>Delivery Van</b> <b>Building</b>	<b>Liabilities are owed</b> <b>(payable) to</b> <b>someone else</b> <b>Accts Payable (A/P)</b>  <b>O/E Account: Capital</b>

Initial  
transaction:

**Owner invests  
\$25,000  
personal \$ into  
a new business**

**the Biz has more  
Cash in Bank, A**

Balance Side =  
Increase side, B+  
**\$25,000**

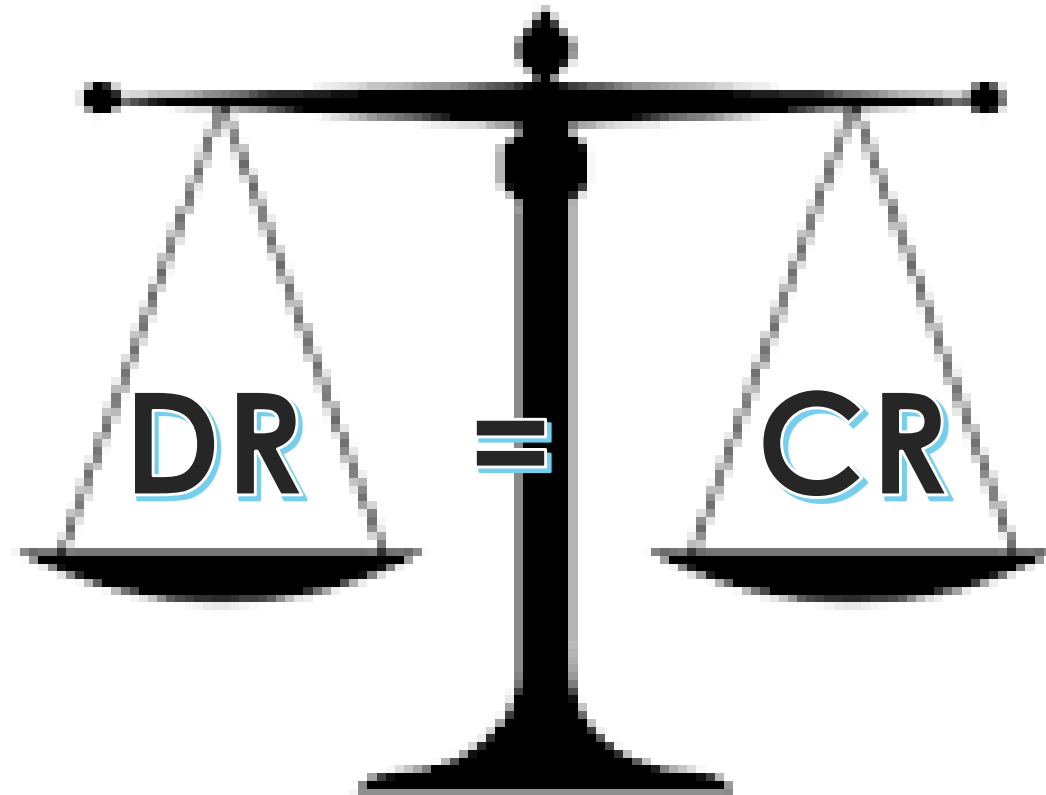
Decrease side —

Owner invests  
\$25,000  
personal \$ into  
a new business

the owner has all the rights so  
Capital, O/E is increased

D	C
Decrease side —	Balance Side = Increase side, B+ <b>\$25,000</b>

# Accounting 'Rock':



# Owner invests personal desk & furniture

$$DR = CR$$

Computer Furn. - A

, B+  
1,000

—

Capital. - OE

, —

B+

25,000  
1,000

**Biz buys new computer equipment by writing a check for \$5,000**

**DR = CR**

**Cash in Bank - A**

, B+	-
25,000	5,000
	Less \$

**Computer Eq. - A**

, B+	-
5,000	
	But more equip.

**Biz buys delivery equipment for \$38,000, with \$3,000 down payment and financing the balance due**

**Cash in Bank - A**

, B+	—
25,000	5,000
	3,000
	Less \$

**Delivery Eqp. - A**

, B+	—
38,000	
	more equip.

**Accts./Pay. - L**

,—	B+
	35,000
	More debt

**DR = CR**

The  
transactions  
so far have  
affected only  
Assets,  
Liabilities &  
Owner's Equity  
accounts

**ALOE accounts a/k/a**

**Balance Sheet**

**Real**

**Permanent**

**Their balances carry over  
from one year to the next**



**There are other  
income-  
related  
transactions  
that affect only  
the Owner's  
Equity Capital  
account**

**REN accounts a/k/a**

**Income Statement**

**Nominal**

**Temporary**

**Their balances zero out at  
the end of each year**

# Basic Income Equation

(REN: your second formula!)

**Revenue** (earned by a biz- Capital)

- **Expenses** (costs to earn the revenue)

= **Net Income** (value added to the O/E acct)

or **Net Loss** (if expenses > revenue)

# 4 Transactions Affect Capital

## Capital - Owner's Equity

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-	B+
Two transactions <b>Drawing</b> - takes OUT	owner-related <b>Investments</b> - puts IN
Two transactions <b>Expenses</b> - OUTgo	income-related <b>Revenue</b> - INcome

Owner draws out (withdraws) \$500  
from the biz for PERSONAL use

$$DR = CR$$

Cash in Bank - A

B+	-
25,000	5,000
	3,000
	500
	less \$

Capital - OE

-	B+
500	25,000
	1,000
less capital	

Advertising on local webpages is paid for with a check for \$300

$$DR = CR$$

Cash in Bank - A

B+	-
25,000	5,000
	3,000
	500
	<b>300</b>
	less \$

Capital - OE

-	B+
—	25,000
500	1,000
<b>300</b>	
less	
<b>capital</b>	

Provided services by designing a new customer's website and getting \$400

$$DR = CR$$

Cash in Bank - A

B+	-
25,000	5,000
	3,000
400	500
	300
more \$	

Capital - OE

-	B+
	25,000
500	1,000
300	400
	more capital

Provided services **on account** by  
designing a new website for \$800 (SOAR)

$$DR = CR$$

A/R (future \$) - A

B+	-
800	
more future \$	

Capital - OE

-	B+
	25,000
500	1,000
300	400
	800
	more capital

After just a few transactions,  
the capital account is confusing

Capital - OE	
—	B+
D 500	25,000 I
E 300	1,000 I
	400 R
	800 R



Of the 4 transactions that affect capital,  
three groups (**RED**) will have many  
transactions during the year

## Capital - Owner's Equity

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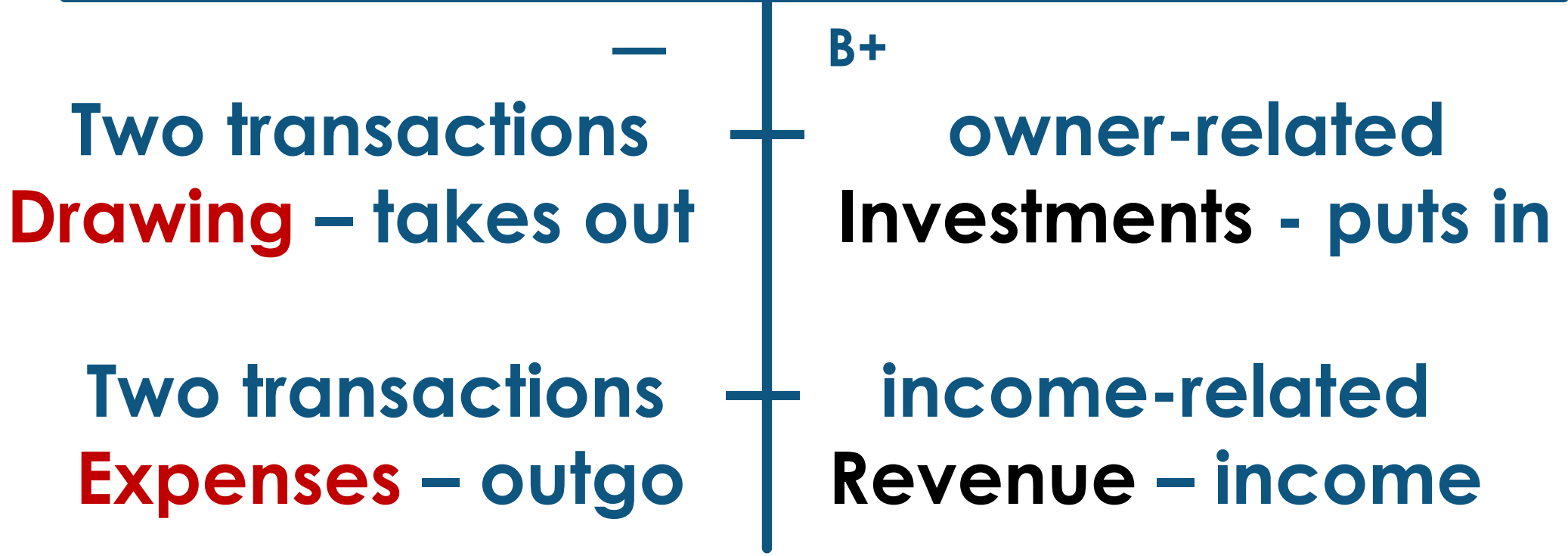
owner-related —  
**Drawing** – hopes to  
take out lots of \$  
income-related  
**Expenses** – many  
expenses to earn \$

B+ owner-related  
Investments - puts in  
(hopefully very few)  
income-related  
**Revenue** – lots of  
income to record

So we will give 3 of the 4 groups their own identity during the year (like kids going off to college)

### Capital - Owner's Equity

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# Revenue as CR balance Expense & Drawing as DRs

## Capital - Owner's Equity

Expenses - EOE      Drawing - D <sup>-</sup>OE

B+

-

B+

-

Expenses & Drawing  
will each have DR  
balances since Debits  
make capital go



B+

Investments will stay in Capital

Revenue - ROE

-

B+

Revenue will  
have CR balance  
since it makes  
capital go



# New acronyms to memorize!

**D  
E  
A  
D**

**C  
O  
R  
L**

# New acronyms to memorize

Debits

Expenses

Assets

Drawing

Credits

Owner's Eq.

Revenue

Liabilities

# SUCCESS!



To practice what you just learned, access the Early Super Problem Practice .pdf (presentation and handout)