**ANALYZING BUSINESS TRANSACTIONS**

The key to analyzing business transactions is to carefully read the transaction looking for key words that will give you a hint as to how the transaction should be recorded into the accounting records. Here are some examples of “key words”:

|  |  |  |
| --- | --- | --- |
| **Key words to look for** | **How it affects the business** | **Accounting entry** |
| Receives a check | money will be deposited into the Cash account | Increase Cash account with a debit |
| For services provided or for work done | Revenue/Income is earned | Increase Revenue/Income account with a credit |
| Paid cash or wrote a check | Money is being taken out of the Cash account to buy something | Decrease Cash account with a credit |
| To pay a monthly bill | An Expense is incurred | Increase the Expense account with a debit |
| Purchased equipment or supplies | Equipment is an Asset account.  Supplies are often expensed out by debited Supplies Expense | Increase Asset Equipment with a debit; then look to see how the equipment was purchased. If it’s with cash, then corresponding entry is a credit to Cash. If it’s “on account”, then corresponding entry is a credit to Accounts Payable |
| Purchased “on account” | This will be a liability as money is owed for the purchase; cash is not being paid now; will pay later | Increase the Liability account entitled Accounts Payable with a credit |
| Paid a company for something purchased earlier “on account” | Related to above; now paying what was owed. | Decrease the Liability account entitled Accounts Payable with a debit. The corresponding credit will be to Cash account |
| Billed a customer, or provided services or goods “on account” | Goods or services were provided to a customer and he charged them; agrees to pay later | Increase Accounts Receivable account (an asset account) with a debit. Corresponding credit will be to Revenue |
| Customer pays their bill | Related to above; now receiving the money a customer owes | Increase Cash account with a debit. Corresponding credit will be to Accounts Receivable to reduce the amount customer owes |

For lesson tasks, use the spreadsheet template provided—it is already set up with account names and these account column names have debit and credit columns labeled. Formulas are also already entered to add up each column.

Remember that for every debit, there must also be a credit. Check to make sure your total debits equal your total credits.