

RECORDING ENTRIES USING THE BALANCE SHEET EQUATION

LEARNING OBJECTIVES

After completing this module you will be able to:

- Record entries using the balance-sheet equation (BSE) approach.
- Trace effects of entries to balance-sheet line items.



Key take-aways:

- Figure 1 illustrates a six-step process for entries using the balance-sheet equation (BSE) approach:
 1. What happened in the business?
 2. What accounts were affected? Did the company receive something with a future benefit? (recognize an asset) Give up something with a future benefit? (de-recognize an asset) Did the company take on an obligation? (recognize a liability) Reduce an obligation? (de-recognize a liability) Did net assets (assets - liabilities) change? (recognize change in owners' equity)
 3. What are the signs of the related accounts? Does an increase in the account increase its primary element? (assets, liabilities, owners' equity) Then the account sign is positive. Otherwise, its negative.
 4. What are the signs of the entry for each account? Does the entry increase or decrease each account?
 5. Record entry in the balance-sheet equation matrix or a mini matrix.
 6. Check the quality of your entry.
- Recording entries is a skill: Practice is essential to learn the nuances for each entry. Go slow at first and don't skip steps. Speed comes with practice. Recording entries is foundational. Learning them is essential to becoming an effective preparer or user of accounting reports.

Key terms:

- **Balance-sheet-equation model**- Record-keeping approach using a matrix to aggregate the effects of accounting entries where columns are accounts organized by the balance sheet equation ($A=L+OE$) and rows are entries or balances. Also referred to as BSE model.

- **BSE-mini matrix**- Derived from the full balance-sheet-equation matrix by eliminating rows and columns that do not pertain to a specific entry.
- **Account sign**- Represents the account's impact on its primary balance-sheet class (+/-).
- **Entry sign**- Represents the entry's affect on the account, either increase or decrease (+/-).

Figure 1 Six-Step Process for Recording Entries Using BSE Approach

This figure illustrates the process for recording balance-sheet equation entries.

Step	Task	Description	
Recording Entries	1	Determine what happened	Describe business activity in terms of the primary balance sheet classes
	2	Identify the accounts	Search the chart of accounts, starting with the primary balance-sheet classes to identify the accounts affected
	3	Determine the accounts' signs	The account sign is positive (negative) if the account increases (decreases) its primary balance sheet class
	4	Determine the entry signs — how the entry affected the accounts	The entry sign for an account is positive (negative) if the entry increases (decreases) the account
	5	Record entry	Record the entry using a mini matrix: the entry's primary balance sheet classes, accounts, account signs, entry signs, and measures
	6	Check quality	<p>Does the entry reflect what happened?</p> <p>Does each number have two signs?</p> <p>Does each account sign (first sign from the left) reflect how the account affects its primary class?</p> <p>Does each entry sign (second sign from the left) reflect how the entry affects the account?</p> <p>Does the equation balance mathematically?</p>

E1—Issued share capital for cash

During 2013, BGS issued common stock to its owners in exchange for \$10 million cash.



E1 Issued share capital for cash

Assets	=	Owners' Eq.
+ C	=	+ SCap
+ + \$10	=	+ + \$10

BISCHOFF GLOBAL SPORTSWEAR CHART OF ACCOUNTS

ASSETS

Current

AR	Accounts receivable
C	Cash and cash equivalents
Inven	Inventories
OCA	Other current assets

Non-current

PPE	Property, plant, and equipment, net
ONCA	Other non-current assets

LIABILITIES

Current

AP	Accounts payable
OCL	Other current liabilities

Non-current

LTD	Long-term debt
ONCL	Other non-current liabilities

OWNERS' EQUITY

Permanent

SCap	Share capital
OPOE	Other permanent owners' equity