

## Express Video Transcript

### Recording Entries with Owners' Equity Change (OEC) Map and Glossary

#### Topics

This video expands on Steps 1 and 2 of the [Six-Step Process for Recording Entries](#).

- Using the Owners' Equity Change (OEC) Map in Step 1 to determine what happened and to connect the underlying events or circumstances to the primary elements: assets, liabilities, and owners' equity.
- Using Navigating Accounting's Glossary in Step 2 to determine the correct account to select from a chart of accounts.

#### Transcript

Welcome to Recording Entries Using the OEC [Owners' Equity Change] Map and Glossary. We begin with a question...Which of the six steps for recording entries will continue to be challenging throughout the course? ...

You're going to find the first two steps are relatively easy early on: The events you'll be recording are straightforward and there are very few accounts to choose from in the chart of accounts. By contrast, you'll probably struggle a bit early on with Steps 3 & 4. That is, with the account and entry signs, or their debit and credit analogues, which we'll introduce later in this module. But, with practice, you'll soon become very proficient at Steps 3-6. This will not be true for Steps 1 & 2. These steps become increasingly challenging as the underlying events become more complex and the chart of accounts increases.

In this video we're going to introduce two things you can do to meet these challenges: First, use the OEC Map in Step 1 to determine what happened, and, in particular, to connect the underlying events or circumstances to the primary elements: assets, liabilities, and owners' equity.

Second, use Navigating Accounting's Glossary in Step 2 to determine the correct account to select from the chart of accounts.

So let's get started.

In the Introduction Module, we used the OEC Map to derive and connect the primary financial statements.

This is a macro perspective in the sense that the financial statements reflect all economic activity that can be measured reliably.

By contrast, here we will take a micro perspective by using the OEC Map to record individual events that reflect specific economic activity.



The key to step 1 is to understand what happened in the business in terms of the primary balance sheet elements: assets, liabilities, and owners' equity.

As you learned in an earlier video, this amounts to answering questions related to each primary element.

Did the company get something with future benefits or give up something that would otherwise have provided future benefits?

Did the company take on a new obligation or reduce a prior obligation?

Did the company give something to shareholders, get something from them, or otherwise change the value of their claims.

Next, we're going to use the OEC Map to refine these questions and, in particular, to explain what is meant by otherwise change the value of their claims.

When we start studying income statements, we will use the entire OEC Map to determine what happened. But for now, we'll ignore income statements' primary elements.

Next, we'll use an example to explain how to use the OEC Map when recording entries.

We're going to demonstrate how to apply the OEC Map using a familiar entry; namely, the one we recorded when we developed the six-step process in an earlier video: Bischoff issues \$10 million of stock for cash.

There are two things you must do to determine what happened.

First, you need to understand the underlying economic activity. For our example, we already know from the earlier video that BGS issues stock and receives cash.

Second, you need to connect the economic activity to the primary elements.

We'll now demonstrate how answering four questions and applying the OEC Map will help you make these connections.

So, we start with question 1, should an asset be recognized? Well, yes. We got \$10 million of cash. So we're going to put +10 here.

*Question 2*, should an asset be derecognized, meaning did BGS use up part or all of the benefits associated with a previously recognized asset or was the value of an asset otherwise diminished? No. No derecognition.

*Next, question 3*, should a liability be recognized, meaning did BGS incur an obligation that can be measured reliably? No. So, there's no liability.

Question 4, should a liability be derecognized, meaning did BGS meet an obligation previously recognized as a liability or was a liability otherwise diminished? Again, the answer is no.

Well then, was there a change in net assets? The answer is yes. +10. But if there's a change in net assets there's a change in owners' equity because of the = sign.

Now we just work our way down the map. Was there a transaction with owners? Yes. That's exactly what happened. Was there a contribution from owners? Yes. 10.

Once you get down this far the map, you're ready to pick your accounts, which we'll do shortly.

The really neat thing about this 4-question OEC Map process is it works for all entries: That's every entry in this course and those you'll encounter in future courses and throughout your career.

So, we highly recommend you use the map this way when practicing entries, especially early in the course, when you're going to be tempted to take short-cuts because the entries are easy. If you discipline yourself to use the OEC Map and the 4 questions regularly when practicing entries early on, you'll soon see the map in your mind's eye, meaning you will internalize how to use it.

Next, we'll demonstrate how you can use the Glossary to identify accounts.

Often, it's relatively easy to select accounts either because you can clearly identify the ones you need or because you can readily use the process of elimination. That is, narrow the list of potential accounts by eliminating those you know are not appropriate.

For our example, we already know the accounts and there aren't other viable alternatives: The asset account is cash and cash equivalents and owner's equity account is Share capital.

But, what if you had just recorded a similar entry for another company and its chart of accounts had a synonym for share capital, namely, paid-in capital. In this scenario, you might not know whether share capital was a synonym for paid-in capital, and thus could be used in its place. Or whether you should use "Other permanent owners' equity," which is your next choice up here in the accounts.

Because the chart of accounts is so simple, this is an admittedly weak example understates the Glossary's benefits. However, there will be plenty of better examples you'll discover throughout the course.

So, let's look up Share Capital in the Glossary.

You can get to the Glossary from most Navigating Accounting web pages. We'll start at the home page, [NavigatingAccounting.com](http://NavigatingAccounting.com).

Next, we're going to scroll down the home page, or any other page, until we come to the Resources' menu and then within the Resources' menu, we find "Glossary". And when we click on "Glossary" we end up right here, the Glossary.

To locate share capital, the account name we want the definition of, we narrow our search by clicking "S" on the first page. When we locate Share capital, the Glossary says "See Paid-in capital" confirming share capital is indeed a synonym.

Clicking on “Paid-in Capital”, we come to its definition and we learn two things: First, the definition confirms we’ve got the correct account: Paid-in capital is the historical value of stock or other equity claims issued to owners in exchange for cash or other contributed resources. Well, that’s exactly what’s happening in our event. Second, we see there are other synonyms, namely, issued capital or capital stock.

If you find the term you are looking for is not in the Glossary, go to a web page, click on the + Feedback button and suggest the term you’d like us to add to the Glossary.

More generally, we’d appreciate any feedback that can help us improve Navigating Accounting.

To summarize, using the OEC Map and Glossary when practicing entries will help you tackle Steps 1 & 2 of the six-step process: First, determine what happened and second, determine what accounts were affected.

Hope you enjoyed this video.  
See you in the next one.