



EIGHTH EDITION

# BASIC BOOKKEEPING

*An Office Simulation*

BROOKE C.W. BARKER

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**NELSON**

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# NELSON

## Basic Bookkeeping: An Office Simulation, Eighth Edition

by Brooke C.W. Barker

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**Cover Image:**  
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Printed and bound in the  
United States of America  
1 2 3 4 20 19 18 17

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**Library and Archives Canada  
Cataloguing in Publication Data**

Barker, Brooke C. W., author  
Basic bookkeeping : an office  
simulation / Brooke C.W. Barker. —  
Eighth edition.

Includes index.  
Issued in print and electronic  
formats.  
ISBN 978-0-17-672122-0  
(softcover).—ISBN 978-0-17-679875-8  
(PDF)

1. Bookkeeping—Textbooks.  
2. Bookkeeping—Problems,  
exercises, etc. 3. Textbooks. I. Title.

HF5636.B37 2018 657'.2  
C2017-906966-7  
C2017-906967-5

ISBN-13: 978-0-17-672122-0  
ISBN-10: 0-17-672122-3

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# PREFACE

Welcome to the eighth edition of *Basic Bookkeeping: An Office Simulation*. In writing this textbook, I have endeavoured to provide teachers and students with the tools necessary to learn and practise the concepts of basic bookkeeping for a small business in a simple, meaningful way. As an educator for more than 40 years, I understand the importance of giving our students a real-world context for learning. If students can relate to what they are studying, they will learn better. In today's working world, being book-smart is not enough. Our students must learn to think critically and they must be able to apply what they have learned to an ever-changing work environment. I want my students to have a greater understanding of the realities of bookkeeping as a function and as an occupation. I believe I have achieved this through the approach I use in *Basic Bookkeeping*, in part through the varied practice exercises in each chapter, and, most importantly, through the case study that presents the ongoing activities of KBC Decorating Company, a small retail store, for an entire financial year.

As a student, you will gain valuable knowledge and experience in keeping a set of books for a small business. You will learn not only the mechanics of recording daily transactions in a variety of journals but also how to analyze financial activities to ensure the accuracy and integrity of the books. You will learn by doing, just as you would in on-the-job training.

As a teacher, you know the importance of having up-to-date, relevant materials at hand to guide your students in the ways of today's typical bookkeeping practices. Simply assigning an endless series of unrelated exercises will not lead students to a working knowledge of concepts and practices. It merely teaches them to respond by rote learning. Giving your students a real-world situation like that of KBC Decorating Company goes a long way toward a true understanding of the concepts and principles you are teaching them.

The method of presentation that I have used in this textbook reflects my personal teaching style in the classroom. In other words, I wrote the material this way because I teach this way; and I teach this way because it is a style that works very well for me. I have trained thousands of bookkeeping students over the years, with great success. I am confident that you will enjoy working with *Basic Bookkeeping* as so many others have over the past 30 years.

## What's New in the Eighth Edition

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The eighth edition of *Basic Bookkeeping: An Office Simulation* contains updated payroll deductions tables and the latest sales tax rates (at time of printing). This edition also provides options in many of the practice exercises to calculate sales taxes using the method of calculation applicable in each student's home province (GST only, HST, or GST plus PST). The case study, KBC Decorating Company, located in Ontario, charges HST on all purchases and sales. Supplementary Exercises are available online in Microsoft Excel format for additional practice of basic bookkeeping concepts along with basic Excel formulas.

## Pedagogical Features

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The objective of each chapter of this text is to cover the basic bookkeeping techniques employed by small businesses in Canada. Explanations are purposely geared to students who have little or no previous bookkeeping knowledge, and the practice exercises and case study provide practical reinforcement of each concept discussed.

Each chapter contains the following pedagogical features:

### **CHAPTER OBJECTIVES**

Objectives are provided at the beginning of each chapter to identify the major areas and points covered in the chapter and to guide the learning process.

### **IMPORTANT TERMS USED IN THE CHAPTER**

A list of key terms used in each chapter appears at the beginning of the chapter, and each term appears in boldface within the chapter. A complete list of bookkeeping-related terms used throughout the text, including the key terms highlighted in each chapter, is found in the Glossary at the back of the book.

### **PRACTICE EXERCISES**

Each chapter includes practice exercises that provide students with ample opportunity to review how well they have learned the material in the chapter. The variety of exercises attempts to provide exposure to different types of businesses and thus different account names, different provincial sales tax rates and calculation methods, as well as different degrees of complexity. Hints are added to some exercises, wherever deemed beneficial, to simplify the calculation or recording of certain transactions and to guide the student on the best way to address that particular issue.

### **SUPPLEMENTARY EXERCISES**

Most chapters have additional exercises in Microsoft Excel format available for download from [nelson.com/student](http://nelson.com/student). The students will complete the exercises according to the instructions that appear at the top of each spreadsheet exercise.

### **THINK ABOUT IT!**

Each chapter contains a series of theory questions that teachers can use to generate class discussion on issues addressed in the chapter and to check that the students have a firm grasp of the concepts presented.

### **CASE STUDY: KBC DECORATING COMPANY**

At the end of Chapters 3 to 15 are the case study activities for KBC Decorating Company. This ongoing exercise incorporates each new concept into the company's monthly transactions, chapter by chapter, month by month, with the results being greater student understanding, greater student confidence, and a more practical real-world experience in keeping financial records.

## Supplements

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### INSTRUCTOR ANCILLARIES

The Nelson Education Teaching Advantage (NETA) program delivers research-based instructor resources that promote student engagement and higher-order thinking to enable the success of Canadian students and educators. Visit Nelson Education's Inspired Instruction website at [nelson.com/inspired/](http://nelson.com/inspired/) to find out more about NETA.

The following instructor resources have been created for *Basic Bookkeeping*. Access these ultimate tools for customizing lectures and presentations at [nelson.com/instructor](http://nelson.com/instructor).

- **Instructor's Solutions Manual:** Prepared by Brooke C.W. Barker, the solutions manual contains the solutions for all of the chapter exercises and the KBC Decorating Co. case study. Solutions have been independently checked to ensure their accuracy and reliability.
- **NETA Test Bank:** This resource was written by Jake Chazan of Seneca College. It includes over 100 multiple-choice questions written according to NETA guidelines for effective construction and development of higher-order questions. Also included are true/false and short-answer questions.



The NETA Test Bank is available in a new, cloud-based platform. Nelson Testing Powered by Cognero® is a secure online testing system that allows instructors to author, edit, and manage test bank content from anywhere Internet access is available. No special installations or downloads are needed, and the desktop-inspired interface, with its drop-down menus and familiar, intuitive tools, allows instructors to create and manage tests with ease. Multiple test versions can be created in an instant, and content can be imported or exported into other systems. Tests can be delivered from a learning management system, the classroom, or wherever an instructor chooses. Nelson Testing Powered by Cognero for *Basic Bookkeeping: An Office Simulation*, Eighth Edition, can be accessed through [nelson.com/instructor](http://nelson.com/instructor).

- **PowerPoint Presentation:** Microsoft® PowerPoint® lecture slides for every chapter have been prepared by Jake Chazan of Seneca College. There is an average of 35 slides per chapter, many featuring key figures and tables from *Basic Bookkeeping: An Office Simulation*, Eighth Edition. NETA principles of clear design and engaging content have been incorporated throughout.
- **Image Library:** This resource consists of digital copies of figures and short tables used in the book. Instructors may use these jpegs to create their own PowerPoint presentations.

### STUDENT ANCILLARIES

#### Working Papers (978-0-17-682784-7)

This supplement contains working materials for the practice exercises and for the KBC Decorating Co. (introduced in Chapter 3) case study. Special ledger accounts and trial balances have been included expressly for work on the case study.



### Companion Web Site

Nelson Education's **Companion Web Site** for *Basic Bookkeeping: An Office Simulation*, Eighth Edition ([nelson.com/student](http://nelson.com/student)), brings course concepts to life with interactive learning and exam preparation tools that integrate with the printed textbook, including:

- Flashcards
- PowerPoint presentations
- Supplementary exercises
- Alternative Case Study

## Acknowledgments

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I wish to thank all the reviewers of the previous edition of *Basic Bookkeeping: An Office Simulation* for their opinions and suggestions on how to change and improve the material. There were so many great ideas and suggestions; the difficult task was putting them all together. I would like to acknowledge those who assisted in reviewing this edition and earlier editions of this textbook: Dennis Adolph of Saskatoon Business College, Nicole Ayotte of Canadore College, Daniel Basquill of Eastern College, Dianne Berlenbach of Fleming College, Ruby (Rupinderbant) K. Brar of SAIT, Julia Bueckert of Saskatoon Business College, Sylvia Culshaw of Red Deer College, Denise Dodson of Nova Scotia Community College, Dana Goedbloed of Kwantlen Polytechnic University, Kim Hyatt of Robertson College, Diamond Meuse of Eastern College, Kerri Simich of Niagara College, Gorian Surlan of George Brown College, Vicki Sutherland of College of New Caledonia, Marcia Whittaker of Saskatoon Business College, and Colin Wilkie of George Brown College. Special thanks to Sharla Trudell of Fleming College, the technical checker for this edition. As well, I wish to thank my accounting students for their participation in “test driving” my new exercises. Last, but certainly not least, I express a special thanks to all the staff at Nelson for their assistance in producing this eighth edition.



## CHAPTER OBJECTIVES

After completing this chapter, you will be able to:

- define the three forms of business organization
- define the five categories of accounts: assets, liabilities, owner's equity, revenues, and expenses
- classify accounts according to the five categories
- identify the generally accepted accounting principles

## IMPORTANT TERMS USED IN THIS CHAPTER

Assets  
Balance Sheet  
Bookkeeping  
Corporation  
Expenses  
GAAP (Generally Accepted Accounting Principles)  
Income Statement  
Liabilities  
Owner's Equity  
Partnership  
Proprietorship  
Revenue

## CHAPTER

# 1

# AN INTRODUCTION TO BOOKKEEPING

The word **bookkeeping** typically refers to the recording and recordkeeping phase of the overall process called accounting. More simply put, bookkeeping is the process of keeping records of sales and purchases, money received and money paid out, as well as all costs incurred in running the business.

## BOOKKEEPING ON A PERSONAL LEVEL

On a basic level, bookkeeping is what you do when you keep track of your own financial activities in a personal chequing account. It is your record of the money you received and the money you spent.

Your chequebook is your record of all deposits made to the chequing account and all payments made from the account, whether by cheque, by debit card, or even by electronic payments such as PayPal. (See Figure 1.1.) But where did the money come from that was deposited to the account? To whom were the cheques issued? What did those cheques pay for? Where was the debit card used, and what was purchased? Some people are careful about recording each transaction

### Fun Fact

“Bookkeeping” and “bookkeeper” are the only English words that have three consecutive double letters.

**Figure 1.1** Chequebook Record

DATE 20—	CHEQUE NO.	CHEQUES ISSUED TO OR DESCRIPTION OF DEPOSIT	CHEQUE AMOUNT		DEPOSIT AMOUNT		BALANCE	
Apr. 1							930	00
Apr. 1	64	TO Hill Realty FOR Rent	650	00			280	00
4	debit	TO Food Basket FOR Groceries	50	00			230	00
6	65	TO Provincial Power FOR Hydro Bill	95	00			135	00
11	debit	TO Food Basket FOR Groceries	35	00			100	00
15		TO FOR Paycheque			872	50	972	50
16	debit	TO Gregg's Auto Service FOR Car Tune-Up	75	00			897	50
19	debit	TO L'il Corner Store FOR Groceries	25	00			872	50
23	66	TO Cell-Tel FOR Cell Phone Bill	45	00			827	50
25	debit	TO Topper's Tailors FOR New Clothes	155	00			672	50
26	debit	TO Food Basket FOR Groceries	60	00			612	50
30		TO FOR Paycheque			872	50	1,485	00
30	debit	TO Petro-Gas Bar FOR Gas & Oil	150	00			1,335	00
		TO FOR						

that affects their chequing account. Others are not. So, then, just how important is this information? Perhaps more important than you think. A record of cash flow (the movement of cash into and out of your account) helps you plan your spending over the coming days, weeks, and months. If, for example, you have only a small amount of money in your bank account, you likely would not be planning any major spending, such as buying a shiny new sports car or booking a tropical vacation.

Marvin Reese, for instance, has his eye on a new car, but he is not sure if he can afford to buy it. His bank account shows a balance of only \$1,335—not nearly enough for his dream car! From the chequebook record in Figure 1.1, we get some idea of Marvin’s spending habits. A simple chart helps us see at a glance where his money comes from and where it goes each month.

<b>Cash In (deposits)</b>		<b>Cash Out (cheques and debit card)</b>	
Paycheques	\$872.50	Rent	\$650.00
	872.50	Hydro & phone	140.00
		Food	170.00
		Automobile	225.00
		Other	155.00
	<u>\$1,745.00</u>		<u>\$1,340.00</u>

On the one side, we see his deposits, which are usually his paycheques. On the other, we see a list of what he spends his money on every month. Simple arithmetic shows us that Marvin would be able to save  $\$1,745 - \$1,340 = \$405$  each month. Keep in mind, however, that we have not yet considered other costs, such as annual insurance costs on his car and his apartment, or regular or unforeseen car repairs and maintenance. At this rate, Marvin could be saving for many years before he has enough money to buy a new car.

As an alternative to saving the money he needs, Marvin might be able to get a car loan from the bank. First, though, he will need to make a list of everything he owns, including his existing car, any investments (such as savings bonds and education funds), and all debts he currently owes, including any existing bank loans, student loans, and amounts owing on credit cards. The bank will want to know his present financial situation and will use this and other information to see if Marvin is eligible for a bank loan.

<b>Things He Owns</b>		<b>Debts He Owes</b>	
Cash	\$1,335.00	Credit Cards	\$1,450.00
Car	7,500.00	Topper’s Tailors	390.00
Furniture	2,000.00	Gregg’s Auto	270.00
Savings Bonds	2,500.00		
	<u>\$13,335.00</u>		<u>\$2,110.00</u>

This kind of detailed personal recordkeeping not only helps us make better day-to-day decisions about spending but also helps us set long-term goals for major purchases. By looking back over the financial activities of previous months and years, we get a picture of spending habits. This is helpful in establishing a budget so that money is spent wisely.

## BOOKKEEPING FOR BUSINESS

Lance Reed, on the other hand, is a college student with his own part-time business doing yard work for his neighbours—cutting grass in the summer and clearing snow in the winter. For his business, Lance keeps track of the same kind of information that Marvin does—that is, where his money comes from and how it is spent.

<b>Cash In (deposits)</b>		<b>Cash Out (cheques and debit card)</b>	
Earnings from yard work:			
J. Tunnicliffe	\$187.00	Gasoline/oil	\$155.00
L. Porth	85.00	Garbage bags	45.00
B. Szuuts	150.00	Miscellaneous	15.00
D. Essig	50.00		
	<u>\$472.00</u>		<u>\$215.00</u>

Also, Lance will prepare a list of what his business owns (called assets) and all the debts he owes (called liabilities).

<b>Things Owned (Assets)</b>		<b>Debts Owed (Liabilities)</b>	
Lawnmower	\$550.00	Loan from father	\$120.00
Other tools	140.00		
	<u>\$690.00</u>		<u>\$120.00</u>

Based on these figures, we can calculate Lance's net personal investment in his business:  $\$690 - \$120 = \$570$ . This value is sometimes called equity or net worth.

Suppose, then, that upon graduating from college, Lance decides to operate his business on a full-time basis. To get started properly, he prepares the two statements that we discussed earlier and takes this information to the bank in order to apply for a \$15,000 loan so he can buy a used truck and some additional equipment (more tools and another lawnmower).

The bank will ask that the information be prepared in a more formal fashion. The statement of assets, liabilities, and owner's equity is commonly called a

**Figure 1.2** Balance Sheet

<b>Lance Reed Balance Sheet June 30, 20—</b>										
<b>ASSETS</b>										
Equipment:										
Lawnmower							5	5	0	00
Tools							1	4	0	00
							6	9	0	00
<b>LIABILITIES</b>										
Loan (Father)							1	2	0	00
<b>EQUITY</b>										
Capital, L. Reed							5	7	0	00
							6	9	0	00

**Balance Sheet.** (See Figure 1.2.) The statement that shows his business earnings and operating costs is an **Income Statement**. (See Figure 1.3.)

Assuming the loan to Lance has been granted by his bank and he has purchased the additional items he needs, Figure 1.4 shows a new Balance Sheet for his business today. The loan for \$15,000 appears in the Liabilities section, and the truck and additional equipment appear in the Assets section.

You can see that the information recorded by an individual and the information recorded by a small business are very much the same. Company information, however, is generally kept more formally and is displayed formally for the benefit of others who must also interpret it. Examples of real-world financial statements can be found in Appendix A of this textbook.

**Figure 1.3** Income Statement

<b>Lance Reed Income Statement For three months ending June 30, 20—</b>										
<b>REVENUE</b>										
Yard Service							4	7	2	00
<b>OPERATING COSTS</b>										
Gas/Oil			1	5	5	00				
Garbage Bags				4	5	00				
Miscellaneous				1	5	00		2	1	5
								2	5	7
<b>NET INCOME</b>										

Figure 1.4 Balance Sheet

<b>Lance Reed Balance Sheet July 15, 20—</b>												
<b>ASSETS</b>												
Cash								1	0	0	0	00
Truck								11	0	0	0	00
Equipment:												
Lawnmower	2	5	5	0	00							
Tools	1	1	4	0	00			3	6	9	0	00
								15	6	9	0	00
<b>LIABILITIES</b>												
Loan (Father)			1	2	0	00						
Loan (Bank)	15	0	0	0	00			15	1	2	0	00
<b>EQUITY</b>												
Capital, L. Reed									5	7	0	00
								15	6	9	0	00

## THREE FORMS OF BUSINESS ORGANIZATION

Since our focus is on learning how to keep books for business, we will consider the different forms of business organization. Every business, regardless of size or type, falls into one of the three basic forms of organization: proprietorship, partnership, or corporation.

1. **Proprietorship** refers to a business owned by one person, such as a grocery store, a dress shop, or a TV repair shop. (Lance Reed's yard care business is a proprietorship because he is the sole owner.) In a proprietorship, the owner is the manager, the owner makes all the business decisions, and the owner is personally responsible for all the debts of the business, such as bank loans, mortgages, and accounts owing to suppliers.
2. **Partnership** refers to a business owned by two or more persons. These co-owners, or partners, combine their skills and financial resources (money) to form what they hope will be a successful business. The partners share the management and decision making, and are fully responsible for all the debts of the business. Any two or more people who have combined their skills and financial resources to operate a hardware store, a restaurant, or a computer repair shop, for example, have formed a partnership.
3. **Corporation** refers to a business that is a separate legal entity operating under a government charter. *Entity*, in this context, means that the business is separate from the owners (called *shareholders* or *stockholders*), almost



as if it too is a person. The ownership of a corporation is divided into shares or stocks. The most familiar examples of public corporations include large national and multinational companies, such as Coca-Cola, Microsoft, and Air Canada. The oldest corporation in Canada is the Hudson's Bay Company, which started business in 1670. (The topics of partnerships and corporations will be discussed in more detail in Chapter 11.)

Whether the business is large or small, or whether it is a proprietorship, a partnership, or a corporation, the basic principles of bookkeeping are the same: a clear, accurate record of all financial activities must be maintained and reported in a form that can be interpreted and verified by others.

## THE FIVE CATEGORIES OF ACCOUNTS

Next, we will look at some of the basic terminology commonly used in the bookkeeping and accounting fields. These terms apply whether we are talking about the financial activities of an individual, such as Marvin Reese; of a small business, such as Lance Reed's yard care company; or of a large corporation, such as The Bay or Canadian Tire.

**Assets** are things of value that are owned by the business and are expected to benefit the business into future years. Examples include cash, land, buildings, furniture, equipment, and inventories of merchandise and supplies. Amounts owing to the business from its customers (called *Accounts Receivable*) are also of value to the business, so they too are considered assets. Lance Reed's assets include the lawnmowers, the truck, and the tools he uses in his yard work. If any of his customers have not yet paid him for work already completed, these amounts are his accounts receivable and would be included among his assets.

**Liabilities** are debts owing to others. Examples include debts owing to suppliers (*Accounts Payable*) and debts owing to a bank or mortgage company (*Bank Loan Payable* and *Mortgage Payable*). If Lance had bought his tools from a local hardware store and had agreed to pay the amount over the next 60 days, this debt would be considered an account payable. His loan from the bank would be shown on his books as *Bank Loan Payable*.

Equity (sometimes called **Owner's Equity**) represents the value of assets remaining after all liabilities have been deducted. The owner's equity typically comes from two sources:

1. Investments made by the owner to start the business, such as the cash, furniture, equipment, etc. (Lance Reed invested a lawnmower and cash when he started his business.)
2. Profits (or losses) earned through the operation of the business. The goal of most businesses is to earn a profit. These profits, if kept within the business, increase the worth (or equity) of the business.

On the Balance Sheet for Lance Reed's business (Figure 1.4), the equity value can be seen as *Capital*, a common term referring to the owner's investment. Capital is determined by calculating the difference between the total assets and the total liabilities ( $\$15,690 - \$15,120 = \$570$ ).

**Revenue** refers to the earnings from the sale of goods and/or services to customers. In Lance Reed's case, some of his customers will pay immediately for

**Figure 1.5 Sources of Revenue**

Type of Business	Primary Revenues	Secondary Revenues
Retail Store	Sales of Merchandise	—Sales of Services —Cafeteria —Parking Lot —Interest on Charge Accounts
Doctor, Lawyer, Dentist Colleges, and Universities	Professional Fees Tuition Fees Grants	—Sale of Books and Supplies —Cafeteria —Parking Lot
Real-Estate Broker	Commissions Earned	—Interest —Real Estate Rental Fees

the work he does on their yards. Others might arrange to pay him at the end of the month. Regardless of when he receives the money for his work, Lance will record the revenue as having been earned because the work was completed. As Figure 1.5 shows, a business can have more than one source of revenue.

**Expenses** are the costs of operating a business, which typically include rent, salaries, utilities, telephone, supplies, and advertising, to name just a few. Lance's expenses are gas and oil for the lawnmowers and snow equipment, garbage bags, and the cost of getting his equipment to and from the work sites. Each of these expenses is necessary to his ability to provide service to his customers; therefore, they are considered operating expenses.

Figure 1.6 shows account names that are commonly used by a variety of businesses. An account name should indicate the purpose and, when necessary, the classification of the account. For example, *office supplies* can be both an asset and an expense. Therefore, when referring to the expense, the account name is Office Supplies Expense, and when referring to the asset, the account name is Office Supplies Prepaid. The word "Prepaid" means the supplies have already been paid for but have not yet been used up. (When naming accounts, however, experienced accountants will sometimes take shortcuts by dropping the word "Expense," thus referring to the account simply as Office Supplies.) Similarly, when interest is earned by the business, it is called Interest Revenue or Interest Earned, but when interest is paid by the business, it is called Interest Expense.

## ASSETS VERSUS EXPENSES

At first glance, the definitions for assets and expenses may seem quite similar. The basic difference between these two categories is the length of time for which the asset or expense is expected to be carried on the books. The general rule of

Figure 1.6 Sample Account Names

<b>SAMPLE ACCOUNT NAMES</b>				
<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Revenues</b>	<b>Expenses</b>
Bank (or Cash)	Accounts Payable	Capital	Sales	Purchases
Accounts Receivable	Suppliers Payable	Equity	Service Income	Freight Costs
Fees Receivable	Bank Loan Payable	Drawings	Service Revenue	Delivery Expense
Supplies Prepaid	Loans Payable	Withdrawals	Interest Earned	Advertising Expense
Office Supplies Prepaid	Mortgage Payable	Income Summary	Rent Earned	Maintenance Expense
Store Supplies Prepaid	Interest Payable	Current Earnings	Fees Earned	Business Tax Expense
Shop Supplies Prepaid	GST Payable		Medical Fees Earned	Property Tax Expense
Warehouse Supplies	GST-ITC		Dental Service Income	Licences Expense
Prepaid	HST Payable		Professional Fees	Amortization Expense
Inventory	HST-ITC		Tuition Revenue	Donations Expense
Insurance Prepaid	PST Payable		Legal Fees Earned	Office Supplies Expense
Land	Salaries Payable		Advertising Revenue	Store Supplies Expense
Buildings	Wages Payable		Passenger Revenue	Warehouse Supplies Expense
Office & Warehouse	Payroll Payable		Green Fees Earned	Interest Expense
Trucks	CPP Payable		Pro Shop Sales	Bank Charges Expense
Autos	EI Payable		Parking Fees Earned	Interest & Bank Charges
Vehicles	Pensions Payable			Postage Expense
Vans & Trucks	Income Tax Payable			Professional Fees Expense
Delivery Equipment	Union Dues Payable			Salaries/Wages Expense
Service Equipment				Telephone Expense
Rental Equipment				Travel Expense
Tools & Equipment				Utilities Expense
Office Equipment				
Computer Equipment				
Office Furniture				
Telephone Equipment				

thumb is that expenses contribute to the business only during *this* operating year, whereas assets contribute not only to this year but also to future operating years as well. Operating costs are usually recorded as expenses if they are of relatively insignificant amounts. But costs that are considered significant would instead be recorded in a prepaid account and then converted to expense as the cost is used up.

For example, on November 15, \$450 was spent on office supplies, such as paper, pens, pencils, paper clips, ink cartridges, etc. If these supplies are expected to be consumed (used up) before the end of the current operating year (December 31), the cost can immediately be recorded as an expense.

In another example, a one-year insurance policy on a building is purchased on July 1 at a cost of \$1,397. If the operating year ends on December 31, one-half the cost of the policy will contribute to operations in the current operating year