INTERACTIVE BALANCE SHEET LAB

Atlas Analytics - Answer Key

Ledger-derived journal entries, financial statements, retained-earnings bridge, and concept-check explanations.

Teaching Lab public beta | Hongye Chris Yang | Release 2026-08-21

Accounting authority: All statement values below are calculated from the ten journal entries. Revenue, COGS, Operating Expense, and Depreciation Expense remain temporary accounts until Net Income is calculated.

Journal-entry answer key

1. Founder invests cash

JE-01: Record founder investment

ACCOUNT	DEBIT	CREDIT
Cash	$60,000	-
Common Stock	-	$60,000

Cash is an asset, so a debit increases it. Common Stock is contributed equity, so a credit increases it. This is financing from an owner-not revenue earned from a customer.

2. Borrow from the bank

JE-02: Record bank borrowing

ACCOUNT	DEBIT	CREDIT
Cash	$30,000	-
Notes Payable	-	$30,000

Cash increases with a debit. Notes Payable increases with a credit because the company now owes the bank. Borrowing creates a liability, not revenue, because the cash must be repaid.

3. Buy equipment for cash

JE-03: Purchase equipment for cash

ACCOUNT	DEBIT	CREDIT
Equipment	$24,000	-
Cash	-	$24,000

Equipment increases with a debit while Cash decreases with a credit. One asset replaces another, so total assets and the accounting equation totals do not change.

4. Buy inventory on account

JE-04: Purchase inventory on account

ACCOUNT	DEBIT	CREDIT
Inventory	$12,000	-
Accounts Payable	-	$12,000

Inventory increases with a debit. Accounts Payable increases with a credit because the supplier has not yet been paid. No cash moves at purchase, and no expense is recognized until inventory is sold.

5. Sell inventory for cash

JE-05: Record cash sale and cost of inventory sold

ACCOUNT	DEBIT	CREDIT
Cash	$10,000	-
Sales Revenue	-	$10,000
Cost of Goods Sold	$6,000	-
Inventory	-	$6,000

A sale of inventory has two linked entries: record $10,000 of revenue and remove the $6,000 cost from Inventory into COGS. Gross profit is $4,000, which increases net income and therefore ending retained earnings.

6. Provide services on account

JE-06: Record services provided on account

ACCOUNT	DEBIT	CREDIT
Accounts Receivable	$8,000	-
Service Revenue	-	$8,000

Accounts Receivable increases because the customer owes the company. Service Revenue is recognized when the service is earned, even though cash has not yet been collected.

7. Collect from a customer

JE-07: Collect accounts receivable

ACCOUNT	DEBIT	CREDIT
Cash	$5,000	-
Accounts Receivable	-	$5,000

Cash increases and Accounts Receivable decreases. The company is collecting an existing asset; it does not recognize revenue again because the revenue was earned in Transaction 6.

8. Pay part of accounts payable

JE-08: Pay accounts payable

ACCOUNT	DEBIT	CREDIT
Accounts Payable	$7,000	-
Cash	-	$7,000

Accounts Payable decreases with a debit, and Cash decreases with a credit. Paying a previously recorded liability is not a new expense and does not change net income.

9. Pay operating expenses

JE-09: Record operating expense paid in cash

ACCOUNT	DEBIT	CREDIT
Operating Expense	$4,000	-
Cash	-	$4,000

Operating Expense increases with a debit and Cash decreases with a credit. The expense lowers net income; lower net income lowers ending retained earnings.

10. Record depreciation

JE-10: Record depreciation expense

ACCOUNT	DEBIT	CREDIT
Depreciation Expense	$1,000	-
Accumulated Depreciation	-	$1,000

Depreciation Expense increases with a debit. Accumulated Depreciation, a contra-asset with a credit balance, increases and reduces net equipment. No cash is paid when depreciation is recorded.

Income statement and retained earnings

Atlas Analytics - Income Statement

LINE	AMOUNT
Sales Revenue	$10,000
Service Revenue	$8,000
Total Revenue	$18,000
Cost of Goods Sold	-$6,000
Operating Expense	-$4,000
Depreciation Expense	-$1,000
Net Income	$7,000

Retained-Earnings Bridge

LINE	AMOUNT
Opening Retained Earnings	$0
Add: Net Income	$7,000
Less: Distributions	-$0
Ending Retained Earnings	$7,000

Ending balance sheet

Assets

ACCOUNT	AMOUNT
Cash	$70,000
Accounts Receivable	$3,000
Inventory	$6,000
Equipment	$24,000
Less: Accumulated Depreciation	-$1,000
Total Assets	$102,000

Liabilities and Equity

ACCOUNT	AMOUNT
Accounts Payable	$5,000
Notes Payable	$30,000
Total Liabilities	$35,000
Common Stock	$60,000
Retained Earnings (derived)	$7,000
Total Equity	$67,000
Total Liabilities and Equity	$102,000

> **Accounting equation:** $102,000 Assets = $35,000 Liabilities + $67,000 Equity. Difference: $0.

Concept-check answer key

1. Which transaction changes only the composition of assets?

Answer: Buying equipment for cash

Correct. Equipment increases while Cash decreases by the same amount.

2. Why is the bank loan not revenue?

Answer: The cash creates an obligation that must be repaid

Correct. Financing proceeds create a liability rather than earned income.

3. Why does collecting Accounts Receivable not create revenue?

Answer: The revenue was recognized when the service was performed

Correct. Collection changes A/R into Cash.

4. The company collects $10,000 for inventory that cost $6,000. What reaches retained earnings before other expenses?

Answer: $4,000 gross profit

Correct. Sales Revenue minus COGS equals $4,000.

5. Why can depreciation reduce net assets without reducing cash?

Answer: It allocates a previously capitalized equipment cost

Correct. The cash outflow occurred when equipment was purchased.