accounting 201.
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Chapter 1.

1. income statement
2. statement of retained earnings.
3. balance sheet.

Income statement

heading
name of company
income statement
date

- start with revenues
- then expenses
- total expenses
- net income = revenues - total expenses ((if your revenues are greater than expenses, you have net income. if revenues are less than expenses, you have a net loss.))

Statement of retained earnings

heading
retained earnings (begining) "given"
* if not given direct 0.
+ net income (from statement from previous)
− dividens
retained earings (ending) "total from above".

Balance sheet

heading
assets = liabilities + equity
* should be balanced.

Chapter 2.

1. Journal entries
2. t-account
3. trial balance

Journal entries

- Debit → something increased in cash
- Credit → something decreased in cash
- on account → a/p.
- hires → no transaction
- billed customer → a/r.
- for service perfomed → service revenues

t-accounts

Debit	Credit		Debit	Credit		Debit	Credit
+	−		−	+		−	+
Balance		=		Balance	+		Balance
in	out		out	in		out	in

Step 1 → close revenues.
Step 2 → close expenses.
Step 3 → close income summary.
Step 4 → close drawing if you have a preparation.

Elli Dance Co
closing entries
For the year ending 2011

Date	Description	Debit	Credit
① Dec 31	service revenue	20000	
	income summary		20000
② Dec 31	income summary	9860	
	advertising exp.		3500
	salaries exp.		4000
	interest exp.		2360
Dec 31	income summery	10140	
	Elli capital/RE		10140
Dec 31	Elli capital/RE	800	
	Elli drawing		800

general ledgar

service revenue

Dr	Cr
closing 20000	20000 Balance
Ø	

Advertising Expense

Dr	Cr
Balance 3500	3500 Closing
Ø	

Income summary

Dr	Cr
② 9860	① 20000
closing 10140	10140 Balance
Ø	

note: do not close out retained earnings

1. prepaid expenses - amount used up. Debit Expenses. Credit prepaid

2. depreciation of property, plant and equipment assets. Debit dep. expenses Credit acc expenses

3. uneared revenue - amount earned. Debit unearned Credit revenue

4. unpaid accured revenue - done the work. Debit recievable Credit revenue.

5. accrued expenses - unpaid bill. Debit expense Credit payable.

Chapter 3.

- no cash
- all prepaid on type 1.
- expense always on debit
- prepaid always on credit

adjusting entries

type 1. Debit → expense — supplies E, prepaid rent A, prepaid insurance A,
credit → assets — depreciation E

type 2. Debit → expenses — a/p E, salaries payable E, interest payable L,
credit → liability — utilities payable L

type 3. Debit → liability — unearned L, service revenue R
credit → revenues

type 4. Debit → assets — a/r A.
credit → revenues

type 1.

Date	Description	Debit	Credit
31 march 2017.	insurance expense	$100	
	prepaid insurance		$100
31 march 2017.	rent expense	$300	
	prepaid rent		$300
31 march 2017	Depreciation expense	$200	
	accumulated dep		$200
31 march 2017.	supplies expense	$5000	
	supplies		$5000

Supplies expenses

Debit	Credit
$5000	
$5000	

Supplies

Debit	Credit
$8000	$5000
$3000	$5000

Insurance expenses

Debit	Credit
$100	
$100	

prepaid insurance

Debit	Credit
	$100
	$100

rent expenses

Debit	Credit
$300	
$300	

prepaid rent

Debit	Credit
	$300
	$300

Depreciation expenses

Debit	Credit
$200	
$200	

accumulated depreciation

Debit	Credit
	$200
	$200

type 2.

Date	Description	Debit	Credit
31 march 2018.	Salaries expense	$500	
	salaries payable		$500
31 march 2018.	utilities expense	$350	
	utilities payable		$350
31 march 2018.	interest expense	$200	
	interest payable		$200

1. Salaries accured at the amount $ 500 for a month.
2. utilities accured for $350 for a month.
3. interest accured for the load $ 300 per month

salaries expense

Debit	credit
$500	
$ 500	

salaries payable

Debit	credit
	$500
	$500

utilities expense

Debit	credit
$ 350	
$350	

utilities payable

Debit	credit
	$350
	$350

interest expense

Debit	credit
$200	
$200	

Interest payable

Debit	credit
	$200
	$200

type 3.

Date	Description	Debit	Credit
31 march 2018	unearned service	$1000	
	services revenue		$1000

1. service related to unearned service revenue were provided on account. $1000.

unearned service revenue

Debit	credit
$1000	
$1000	

service revenue

Debit	credit
	$1000
	$1000

type 4

Date	Description	Debit	Credit
31 march 2018	a/r	$3200	
	services revenue		$3200

1. Billed customer for services for services performed $3200.

a/r

Debit	credit
$3200	
$3200	

service revenue

Debit	credit
	$3200
	$3200

Chapter 4.

1. prepare the financial statements including the balance sheet
2. prepare the financial statement using the worksheet.
3. Explain the purpose of journalize, and post-closing entries.

need to know

current assets: cash, a/r, interest recievable, supplies, inventory and other prepaid expenses.

plant assets: refer to property that can be seen and touched and is used in the business to generate revenue. → depreciable assets and land used.

long term investments: notes recievable, investments in bonds or stock.

current liabilities: a/p, salaries payable, taxes payable, unearned revenues.

long term liabilities: notes payable, mortage payable, bonds payable.

The classified balance sheet:

asset section → subdivided into current and long term groups. sometimes a subgrouping for long term investments.

liabilities → subdivided into current and long term groups. equity is usually not subdivided.

closing entries

close these: revenue accounts, expense accounts, withdrawl account.

dont close: assets accounts, liability accounts, capital account

Current ratio formula

current ratio = total current assets / total current liabilities.

Summary of merchandise inventory transactions (perpetual system). Chapter 5.

1. purchase merchandise inventory
* paid cash
  merchandise inventory - debit
  cash - credit
* on account
  merchandise inventory - debit
  a/p - credit.

2. payment of freight in expenses
  merchandise inventory - debit
  cash - credit

3. purchase returns and allowans
  a/p - debit
  merchandise inventory - credit

4. payement for a/p (credit term) = amount of discount
  % / number of days - n/30
- if the company paid during the discount period
  a/p - debit
  cash - credit.
  merchandise inventory - credit.
  purchase discount ← don't wright this in the exam!
- if the company paid after the discount period
  a/p - debit
  cash - credit

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5. sales - two entries

Ⓐ cash - debit (cash or a/r - if it was on account).
  sales revenue - credit → Formula :- sales revenue = # of units sold x selling price per unit.

Ⓑ cost of goods sold - debit → Formula :- cost of goods solds = # of units sold x cost per unit sold
  merchandise inventory - cash

6. freight out expenses
  freight out expenses - debit
  cash - credit

7. sales returns and allowances - 2 entries
Ⓐ sales returns and allowances - debit
  a/r - credit

Ⓑ merchandise inventory - debit
cost of goods sold - credit

8. recieving from a/r

During discount period	after the discount period
cash - debit	cash - debit
sales discount - debit	a/r - credit
a/r - credit	

E5-20. FEB16 (changed) the customers returns 500 goods from feb10 transaction. the cost of these goods = 265

Date	Description	Debit	Credit
FEB 3	merchandise inventory	2700	
	a/p		2700
FEB 7	a/p	400	
	merchandising inventory		400
FEB 9	merchandising inventory	100~~0~~	
	cash		100
FEB 10	Ⓐ a/r	4350	
	sales revenue		4350
	Ⓑ cost of goods sold	2300	
	merchandising inventory		2300
FEB 12	a/p	2300	
	cash		2208
	merchandising inventory = 2300 x 4% = 92		92
FEB 16	Ⓐ sales returns and allowance	500	
	a/r		500
	Ⓑ merchandising inventory	265	
	cost of goods sold		265
FEB 23	cash	3773	
	sales discount 3850 x 2% = 77	77	
	a/r		3850

a/p

400	2700
	2300

a/r

4350	500
3850	

Chapter 6.

The cost of merchandise inventory.

- record 2 entries to sell the goods.

1st entry :-

account recievable(cash). → debit.
sales revenue. → credit.

2nd entry :-

cost of goods sold. → debit.
merchandise inventory. → cash.

10000 unit purchased in three times :-

1. 6000 = 2 \$ 2. 3000 = 2.5 \$ 3. 1000 = 3 \$

10000
→ 6000 x 2 = 12000
→ 3000 x 2.5 = 7500
→ 1000 x 3 = 3000

add all
12000 + 7500 + 3000 = 22500 \$

methods approaches to assigning cost to inventory :-

1. first in first out. → FIFO.
2. last in first out. → LIFO.
3. weighted average → WA. → cost per unit = $\frac{\text{total cost}}{\text{\# of units}}$.

cost of goods sold → income statement.
cost of inventory → balance sheet.

Perpetual fifo - cost of goods sold (lower) net income (higher).

- inventory sold → cost of the oldest is assigned.
- ending inventory closely ~~affects~~ current replacement cost.
  * when costs are constantly increasing, applying (fifo) will result in lower COGS and higher net income.

Perpetual lifo - cost of goods sold (high) net income (lower).

- inventory sold → cost of the newest is assigned.
- cogs closely reflects current replacement cost.
  * when costs are constantly increasing, applying (lifo) will result in higher COGS and lower net income.

Perpetual weighted-average

- after each purchase, average cost of the inventory on hand is computed.
- Sold inventory is costed using the average cost at the time of the sale.

* average cost before the sale and after the sale should be the same.

merchandise inventory → balance sheet → current assets.

* Rule: merchandise inventory should be evaluated at the end of the Period using (LCM).
  ↳ the lower of cost on market value.

cost	market value	adjustment	adjusting entry
Ⓐ $1000	$900	✓	COGS – Dr merchandise inv – Cr 100
Ⓑ $750	$800	×	
Ⓒ $2000	$2000	×	

merchandise inventory on the balance sheet for each case.

Ⓐ m.v $900

Ⓑ cost $750

Ⓒ cost/m.v $2000

conservatism (تحفظ) = take the lowest cost.

Chapter 8.

What is internal control?

- an organizational plan and the related measures designed to accomplish the following:-

1. safeguard assets
2. encourage employees to follow company policies.
3. promote operational efficiency.
4. ensure accurate, reliable accounting records.

Bank account as a control device

- signature card
- deposit ticket
- check
- bank statement
- electronic funds transfers
- bank reconcilation.

Bank reconciliation

- mathematical explanation of the difference between two numbers.
- there is often a difference between the bank statement balance and the general ledger cash balance.

• deposits in transits.
• outstanding checks.
• bank collections
• electronic funds transfers
• service charges.
• interest
• nonsufficient funds checks.

Reconciliation process part A.

* start with the bank balance at the end of the period.
\+ add deposits in transit. (DIT). → cash you have collected from customers, but which has not yet been deposited.
\- deduct outstanding checks. (O/s)
include all uncleared checks, even from previous periods.

Adjust for bank errors
= adjusted bank balance.

Reconciliation process part B. *Journalize

* Start with the book balance at the end of the period.
\+ add bank collections, interest revenue, and EFT reciepts.
(cash reciepts not already on the books).
\- deduct services charges, NSF checks, and EFT payements.
(cash payments not already on the books).

Adjust for bank errors
= adjust bank balance.

entries - book statement *Journal

- interest revenue earned
  cash - Dr
  interest revenue - cr

- nsf check
  acc/r - nsf - Dr
  cash - cr

- deposit in transit
  no entry

- service charge
  expenses - Dr
  cash - cr

- outstanding check
  no entry

- eft
  acc/r - Dr
  cash - Dr

Chapter 9. - recievables

A recievable is a right to recieve cash in the future from a current transaction.

- accounts recievable
- notes recievable
- other recievables

Also referred to as a trade recievable
- results from sales of goods or performance on services on account.
- Collection period normally = 30 to 60 days.

Also called a promissory note
- written promise that a customer will pay. principal and interest.
- collection period longer than a/r.

Other recievables:
- category includes dividends, taxes, and interest recievables.
- Can be current or long-term.

* Recording credit card and debit card sales
- recorded the same as cash sales.
- a fee is usually charged by the card company.
  * the net cash recieved is reduced by the fee.

2 methods are allowed :-
- net method.
- gross method.

Net method
- recorded the card company fee at the time of the sale.
- only the net amount of cash is recorded.

Gross method
- record the full sale on the sale date.
- record the credit-card fee as a seperate entry when the cash is deposited by the third party.

Ch10

What is depreciation?
- depreciation is the process of allocating an assets cost to expense over its useful life.

* Remember: → to record depreciation, we debit depreciation expenses and credit accumulated depreciation. (a contra-asset)

Depreciation methods

three common depreciation methods:
- straight-line
- units-of-production
- declining-balance.

smart touch learning
purchases a truck on
January 1, 2014.

Data item		Amount
cost of truck		$41,000
Est. Residual value		$ 1000
Est. useful life years	5 years	
Est. useful life units	100,000 miles.	

Straight-line method

$$\text{annual straight line depreciation} = \frac{\text{cost} - \text{residual value}}{\text{estimated useful life in years}}$$

$$= \frac{\$41{,}000 - \$1000}{5}$$

$$= \$8000$$