

Accounting I




5TH CLASS ACCOUNTING METHOD




Accounts



- An account is a summary record of the changes in a particular asset, liability, or owners' equity item
- The double-entry accounting system records each transaction in at least two accounts
- A compound entry affects more than two accounts

 **Accounts**


- The elements of transactions are organized into **accounts** that group similar items together
- In a double-entry system, a **ledger** contains the records for a group of related accounts
- A **general ledger** is the collection of accounts that accumulate the amounts reported in the financial statements

 **Accounts**

Account

Debit	Credit
<p>Debit (abbreviated Dr.) denotes an entry to the left side of any account</p> <p style="text-align: right; font-size: 1.2em;">000,00 €</p> <p style="text-align: center; font-size: 2em; color: red;">↑</p> <p style="text-align: center; font-size: 1.5em; color: yellow;">Debit an Account</p>	<p>Credit (abbreviated Cr.) denotes an entry to the right side of any account</p> <p style="text-align: left; font-size: 1.2em;">000,00 €</p> <p style="text-align: center; font-size: 2em; color: red;">↑</p> <p style="text-align: center; font-size: 1.5em; color: yellow;">Credit na Account</p>

Some accountants use the word "charge" instead of debit



Accounts


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Account

Debit		Credit
000,00 €		000,00 €

Balance of an account: difference between the total of debits (D) and the total of credits (C).

Debtor Balance	D>C
Creditor Balance	D<C
Null Balance (settled)	D=C



Accounts


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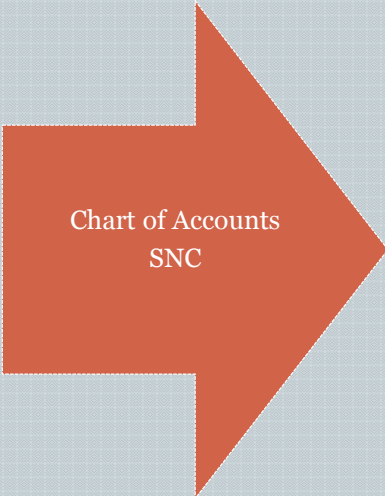
Account

Debit		Credit
1 920,00 €		3 220,00 €
700,00 €		675,55 €
1 020,00 €		
Debtor Balance 255,55 €		
3 895,55 €		3 895,55 €


To settle an account: is to calculate the balance of the account and write that difference where it is the gap in order to obtain the same value in both sides of the account.

Debits= Credits


 **Accounts**


 Chart of Accounts
SNC

- Class 1: Money and Equivalents
- Clase 2: Accounts Receivable and Payable
- Clase 3: Inventory
- Clase 4: Investments
- Clase 5: Owners Equity
- Clase 6: Expenses
- Clase 7: Revenues
- Clase 8: Results



 **Double Entry booking**


- Each transaction affects at least two accounts
- For each transaction debit(s) are equal to credit(s)
- The process of creating a new T-account in preparation for recording a transaction is called opening the account
- An account balance is the difference between the total left-side and right-side amounts, or vice versa, according to the type of account, at any particular time


 **Double Entry booking**




<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
€			€

 **Debit(s) = Credit(s)** 

 **Double entry booking**



- Asset accounts have left-side balances
 - Entries on the left side (debit) increase asset account balances
 - Entries on the right side (credit) decrease them
- Liabilities and owners' equity accounts have right-side balances
 - Entries on the right side (credit) increase their balances
 - Entries on the left side (debit) decrease them
- Revenue is written on the right side (credit) since they represent increases in net income
- Expenses are written on the left side (debit) since they represent decreases in net income


 **Double entry booking**

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Balance Sheet

Assets		Equity	Liabilities
D	C	D	C
+	-	-	+
		D	C
		-	+

Assets = Equity + Liabilities
Debits = Credits
Sum of Debit Account Balances = Sum of Credit Account Balances

 **Recording Process**

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- The **general journal** is a formal chronological listing of each transaction and how it affects the balances in the accounts
- **Transactions** are entered into the ledger
- Each record has
 - Date
 - Title of the account;
 - Description
 - Value




Journalizing Transactions

- **Journalizing** is the process of entering transactions into the general journal
- A **journal entry** is an analysis of all the effects of a single transaction on the various accounts, usually accompanied by an explanation
- A compound entry means that a single transaction affects more than two accounts



Journalizing Transactions


- Classification of journal entries
 - Simple
 - Complex.



Documents


- Sales order
- Purchase order
- Shipping list
- Invoice
- Receipt
- Debit Note
- Credit Note
- Cheque

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The Recording Process

- The sequence of five steps in recording and reporting transactions is as follows:



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graph LR; A[Transactions Documentation] --> B[Journal]; B --> C[Ledger]; C --> D[Trial Balance]; D --> E[Financial Statements]
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- **Source documents** are the original records of any transaction

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Preparing the Trial Balance

- A trial balance is a list of all the accounts with their balances
- The purpose of the trial balance is twofold:
 - Proving whether the total debits equal the total credits in the ledger
 - Summarizing the balances in the ledger accounts in preparation to construct the financial statements



Preparing the Trial Balance

- The trial balance is prepared with the accounts in the following order:
 - Asset accounts
 - Liability accounts
 - Stockholders' equity accounts
 - Revenue accounts
 - Expense accounts
- The trial balance is the springboard for preparing the balance sheet and the income statement

**Deriving Financial Statements
from the Trial Balance**

	Debits	Credits	
Cash	\$ 336,700		} Balance Sheet
Accounts receivable	160,300		
Merchandise Inventory	59,200		
Prepaid Rent	4,000		
Store equipment	14,000		
Accumulated depreciation, store equipment		\$ 100	} Income Statement
Note payable		100,000	
Accounts payable		16,200	
Paid-in capital		400,000	
Retained earnings		0	
Sales revenues		160,000	
Cost of goods sold	100,000		
Rent expense	2,000		
Depreciation expense	100		
Total	<u>\$ 676,300</u>	<u>\$ 676,300</u>	

Closing the Accounts

- Closing the accounts has two purposes:
 - It transfers the balances of the “temporary” stockholders’ equity accounts (revenues and expenses) to the “permanent” stockholders’ equity account (retained earnings)
 - It makes the revenues and expense accounts have a zero balance, which readies them for the next period’s transactions