وزارة التعليم العالي والبحث العلمي
جامعة الفرات الأوسط التقنية
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قسم تقنيات المحاسبة

محاضرات المحاسبة المتوسطة

Intermediate Accounting

لطلبة السنة الثانية

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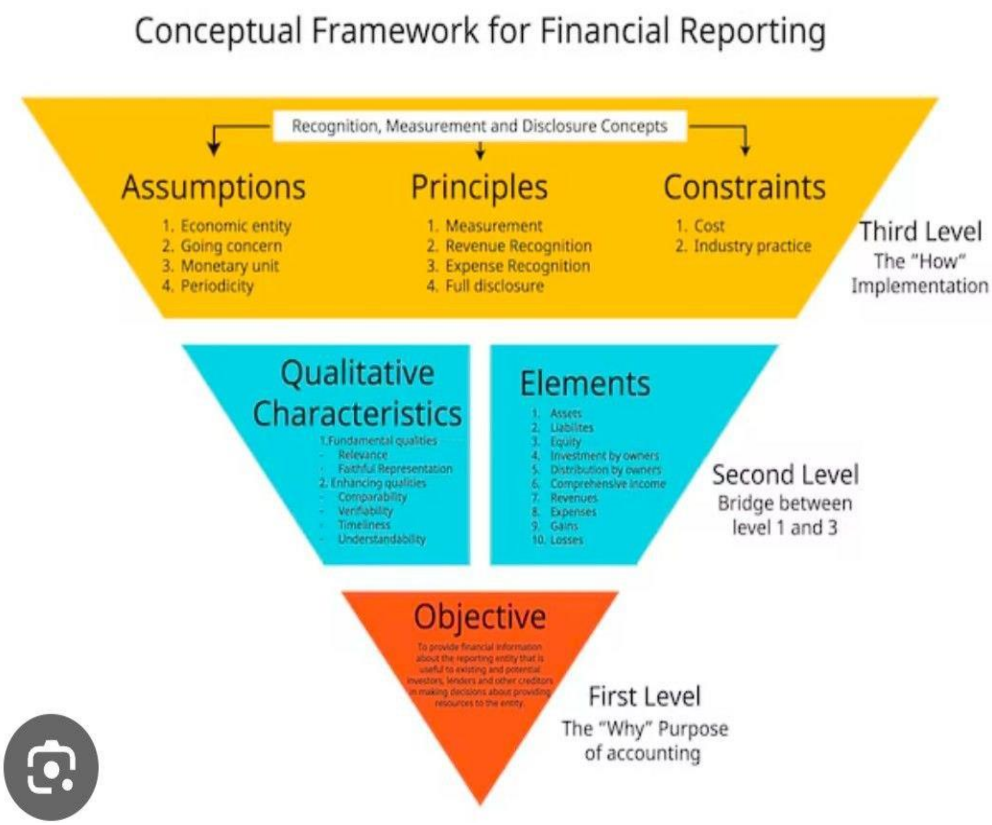
Intermediate Accounting

1- Some definitions of accounting

Accounting: is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.

Accounting: the system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results the essential characteristics of accounting are (1) the identification, measurement, and communication of financial information about (2) economic entities to (3) interested parties.



the objective of a conceptual framework is to facilitate the consistent and logical formulation of standards and provide a basis for the use of judgment in resolving accounting issues.

2-The Objective of Financial Reporting

What is the **objective (or purpose) of financial reporting**? The objective of general-purpose financial reporting is to **provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in** decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments, and providing or settling loans and other forms of credit. Information that is decision-useful to capital providers (investors) may also be helpful to other users of financial reporting who are not investors.

If information is to be useful, then some obvious questions arise: useful to whom and for what purposes? A number of different types of people are likely to be dealing with business entities:

1- *Managers 2- Investors 3-Other lenders 4-Employees.5-Suppliers.6- Customers 7-Governments 8-The public*.

3- Qualitative Characteristics of Useful Information

The conceptual framework identifies fundamental and enhancing qualitative characteristics of useful information.

The fundamental characteristics are: relevance and faithful representation.

The enhancing characteristics are: comparability, verifiability, timeliness, and understandability.

Fundamental Characteristics

Relevance means that information is “capable of making a difference in the decisions made by users” The definition is further refined to state that information is capable of influencing decisions if it has **predictive value**, **confirmatory value**, or both.

Faithful representation means that the financial information presented represents the true economic condition or state of the item being reported. This does not mean, however, that the representation must be 100 percent accurate.

Enhancing Characteristics

The conceptual framework describes four additional qualitative characteristics that should enhance the usefulness of information that is already determined to be relevant and faithfully represented. These characteristics **are comparability, verifiability, timeliness, and understandability.**

Comparability is the quality that allows readers to compare either result from one entity with another entity or results from the same entity from one year with another year.

The verifiability quality suggests that two or more independent and knowledgeable observers could come to the same conclusion about the reported amount of a particular financial-statement item.

Timeliness is one of the simplest but most important concepts in accounting. Generally, information needs to be current to be useful. Investors and other users need to know the economic condition of the business at the present moment, not at some previous period. However, past information can still be useful for tracking trends and may be especially useful for evaluating management stewardship.

Understandability is the one characteristic that the accounting profession has often been accused of disregarding. It is generally assumed that readers of financial statements should have a reasonable understanding of business issues and basic accounting terminology.

4- Elements of Financial Statements

The main elements of financial statements are as follows:

- ***Assets*****.** These are items of economic benefit that are expected to yield benefits in future periods. Examples are accounts receivable, inventory, and fixed assets.
- *Liabilities*. These are legally binding obligations payable to another entity or individual. Examples are accounts payable, taxes payable, and wages payable.
- *Equity*. This is the amount invested in a business by its owners, minus any dividend payouts, plus any accumulated retained earnings.

- *Revenue*. This is an increase in assets or decrease in liabilities caused by the provision of services or products to customers. It is a quantification of the gross activity generated by a business. Examples are product sales, service sales, and subscription fees.
- *Expenses*. This is the reduction in value of an asset as it is used to generate revenue. Examples are interest expense, compensation expense, and utilities expense. An expense that represents the decline in value of a fixed asset is depreciation expense.

5- Financial Statements for a Merchandising Company

Income Statement

The **income statement** is the report that measures the success of company operations for a given period of time. (It is also often called the statement of income or statement of earnings)

The business and investment community uses the income statement to determine profitability, investment value, and creditworthiness. It provides investors and creditors with information that helps them predict the **amounts**, **timing**, **and uncertainty of future cash flows**.

Usefulness of the Income Statement

The income statement helps users of financial statements predict future cash flows in a number of ways. For example, investors and creditors use the income statement information to:

1. ***Evaluate the past performance of the company.*** Examining revenues and expenses indicates how the company performed and allows comparison of its performance to its competitors

2. ***Provide a basis for predicting future performance.*** Information about past performance helps to determine important trends that, if continued, provide information about future performance.

3. ***Help assess the risk or uncertainty of achieving future cash flows.*** Information on the various components of income—revenues, expenses, gains, and losses—highlights the relationships among them. It also helps to assess the risk of not achieving a particular level of cash flows in the future.

In summary, information in the income statement—revenues, expenses, gains, and losses— helps users evaluate past performance. It also provides insights into the likelihood of achieving a particular level of cash flows in the future.

Limitations of the Income Statement

Because net income is an estimate and reflects a number of assumptions, income statement users need to be aware of certain limitations associated with its information. Some of these limitations include:

1. ***Companies omit items from the income statement that they cannot measure reliably***.

Current practice prohibits recognition of certain items from the determination of income even though the effects of these items can arguably affect the company's performance. For example, a company may not record unrealized gains and losses on certain investment securities in income when there is uncertainty that it will ever realize the changes in value.

2. ***Income numbers are affected by the accounting methods employed.*** One company may depreciate its plant assets on an accelerated basis; another chooses straight-line depreciation. Assuming all other factors are equal, the first company will report lower income. In effect, we are comparing apples to oranges.

3. ***Income measurement involves judgment.*** For example, one company in good faith may estimate the useful life of an asset to be 20 years, while another company uses a 15- year estimate for the same type of asset. Similarly, some companies may make optimistic estimates of future warranty costs and bad debt write-off s, which result in lower expenses and higher income.

Elements of the Income Statement

Net income results from revenue, expense, gain, and loss transactions. The income statements summarize these transactions. This method of income measurement, the **transaction approach**, focuses on the income-related activities that have occurred during the period.

The following lists more formal definitions of income-related items, referred to as the major elements of the income statement.

Elements of Financial Statements

Revenues. Inflows or other enhancements of assets of an entity or settlements of its liabilities during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Expenses. Outflows or other using-up of assets or incurrences of liabilities during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

Gains. Increases in equity (net assets) from peripheral or incidental transactions of an entity except those that result from revenues or investments by owners.

Losses. Decreases in equity (net assets) from peripheral or incidental transactions of an entity except those that result from expenses or distributions to owners

Uptown Cabinet Corp.
Income Statement
For the Year Ended December 31, 2020

Net sales			$400,000
Cost of goods sold			316,000
Gross profit on sales			84,000
Selling expenses			
Salaries and wages expense (sales)		$20,000	
Advertising expense		10,200	
Total selling expenses		30,200	
Administrative expenses			
Salaries and wages expense (general)	$19,000		
Depreciation expense—equipment	6,700		
Property tax expense	5,300		
Rent expense	4,300		
Bad debt expense	1,000		
Telephone and Internet expense	600		
Insurance expense	360		
Total administrative expenses		37,260	
Total selling and administrative expenses			67,460
Income from operations			16,540
Other revenues and gains			
Interest revenue			800
			17,340
Other expenses and losses			
Interest expense			1,700
Income before income taxes			15,640
Income tax			3,440
Net income			$ 12,200

Practice Problem

Presented below are income statement items from Braun Company for the year ended December 31, 2021. Sales revenue $2,700,000

Instructions

Using the information above, prepare a condensed multiple-step income statement. Assume a tax rate of 30%

Exe.1 Starr Co. had sales revenue of $540000 in 2021. Other items recorded during the year were: Cost of goods sold $330000, Salaries and wages expense 120000, Income tax expense 25000 Other operating expenses 10,000 Unrealized gain on value of patents 20,000

Prepare: **a single-step income statement for Starr for 2020. Starr has 100,000 shares of stock outstanding.**

Exe 2: The following list of accounts for Company Jan Ltd. is available at the end of 2020.

ACCOUNT	AMOUNT
Advertisement expenses	15500
Income tax	3500
Insurance expense	12000
Rent revenue	15000
Wages and salaries	33000
Sales revenue	135000
Rent revenue	50000
Sale returns	33000
Administrative expenses	25000

REQUIRED: Prepare the Income Statement for year 2020

Exe 3: The following list of accounts for Company Mar Ltd. is available at the end of 2022

ACCOUNT	AMOUNT
Sales returns and allowances	75000
Advertisement expenses	155000
Sales revenue	390000
Income tax	35000

Sales discount	20000
Insurance expense	140000
Interest expense	19000
Rent revenue	150000
Wages and salaries	330000
Depreciation expense	10000
Other Revenues and Gains	13500
Rent revenue	50000
Sale returns	30000

REQUIRED: Prepare the Income Statement for year 2020

1. A foreign currency transaction loss of $14.3 million. Where is it reported? ____.

Balance Sheet (statement of financial position)

The **balance sheet**, sometimes referred to as the **statement of financial position**, reports the assets, liabilities, and stockholders' equity of a business enterprise at a specific date. This financial statement provides information about the nature and amounts of investments in enterprise resources, obligations to creditors, and the owners' equity in net resources. It therefore helps in predicting the amounts, timing, and uncertainty of future cash flows.

Usefulness of the Balance Sheet

By reporting information on assets, liabilities, and stockholders' equity, the balance sheet provides a basis for computing rates of return and evaluating the capital structure of the enterprise. Analysts also use information in the balance sheet to assess a company's risk1 and future cash flows. In this regard, analysts use the balance sheet to assess a company's liquidity, solvency, and financial flexibility.

Liquidity describes "the amount of time that is expected to elapse until an asset is

realized or otherwise converted into cash or until a liability has to be paid." Creditors are interested in short-term liquidity ratios, such as the ratio of cash (or near cash) to short term liabilities

Solvency refers to the ability of a company to pay its debts as they mature. For example, when a company carries a high level of long-term debt relative to assets, it has lower solvency than a similar company with a low level of long-term debt.

Companies with higher debt are relatively riskier because they will need more of their assets to meet their fixed obligations (interest and principal payments).

Liquidity and solvency affect a company's **financial flexibility**, which measures the "ability of an enterprise to take effective actions to alter the amounts and timing of cash flows so it can respond to unexpected needs and opportunities."

Limitations of the Balance Sheet

Some of the major limitations of the balance sheet are:

1. Most assets and liabilities are reported at **historical cost**. As a result, the information unprovided in the balance sheet is often criticized for not reporting a more relevant fair value.

2. Companies use **judgments and estimates** to determine many of the items reported in the balance sheet.

3. The balance sheet necessarily **omits many items that are of financial value** but that a company cannot record objectively.

Elements of the Balance Sheet

1. Assets. Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.
2. Liabilities. Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.
3. Equity. Residual interest in the assets of an entity that remains after deducting its liabilities. In a business enterprise, the equity is the ownership interest.

Companies then further divide these items into several subclassifications. **Illustration below** indicates the general format of balance sheet presentation.

Assets	Liabilities and Owners' Equity
Current assets	Current liabilities
Long-term investments	Long-term debt
Property, plant, and equipment	Owners' (stockholders') equity
Intangible assets	
Other assets	

Current Assets

Current assets are cash and other assets a company expects to convert into cash, sell, or consume either in one year or in the operating cycle, whichever is longer. Current assets are presented in the balance sheet in order of liquidity. The five major items found in the current assets section, and their bases of valuation, are shown in Illustration 3.

Item	Basis of Valuation
Cash and cash equivalents	Fair value
Short-term investments	Generally, fair value
Receivables	Estimated amount collectible
Inventories	Lower-of-cost-or-net realizable value/market
Prepaid expenses	Cost

Noncurrent Assets

Noncurrent assets are those not meeting the definition of current assets. They include a variety of items, as we discuss in the following sections.

Intangible Assets

Intangible assets lack physical substance and are not financial instruments, They include patents, copyrights, franchises, goodwill, trademarks, trade names, and customer lists. A company writes off (amortizes) limited-life intangible assets over their useful lives. It periodically assesses indefinite-life intangibles (such as goodwill) for impairment. Intangibles can represent significant economic resources, yet financial analysts often ignore them, because valuation is difficult.

Uptown Cabinet Corp.
Balance Sheet
As of December 31, 2020

Assets			
Current assets			
Cash			$ 1,200
Notes receivable	$16,000		
Accounts receivable	41,000		
Interest receivable	800	$57,800	
Less: Allowance for doubtful accounts		3,000	54,800
Inventory			40,000
Prepaid insurance			540
Prepaid rent			500
Total current assets			97,040
Property, plant, and equipment			
Equipment		67,000	
Less: Accumulated depreciation—equipment		18,700	
Total property, plant, and equipment			48,300
Total assets			$145,340
Liabilities and Stockholders' Equity			
Current liabilities			
Notes payable		$20,000	
Accounts payable		13,500	
Property taxes payable		2,000	
Income taxes payable		3,440	
Total current liabilities			$ 38,940
Long-term liabilities			
Bonds payable, due June 30, 2028			30,000
Total liabilities			68,940
Stockholders' equity			
Common stock, $5.00 par value, issued and outstanding, 10,000 shares		50,000	
Retained earnings		26,400	
Total stockholders' equity			76,400
Total liabilities and stockholders' equity			$145,340

Practice Problem

Exe.1 Cassy Corporation's balance sheet at the end of 2019 included the following items.

Account	Amount	Account	Amount
Shares	50000	Cash	27000
furniture	7000	Bank	14000
Not receivable	12000	loan	75000
Equipment	109000	Shop	67000
Vehicle	30000	Land and buildings	30000
Inventory	115000	Capital	100000
Receivables	25000	Bonds payable	120000

REQUIRED: Draw up the balance sheet for cassy company.

Exe.2 Company G has a hardware business. The balance at the beginning of the financial year 2020 showed the position in the table below:

Account	**Amount**	**Account**	**Amount**
Shares	50000	Trad mark	60000
Not Payables	70000	capital	400000
cash	120000	Account payable	80000
land	20000	Good well	65000
Equipment	90000	Account payable	17000
Vehicle	70000		
Inventory	150000		
Receivables	25000		
Bank	17000		

REQUIRED: Prepare a balance sheet at December 31, 2020

MULTIPLE-CHOICE QUESTIONS

1- A balance sheet (statement of financial position) shows:

A. The assets used during the period.

B. The assets available for use in the next period.

C. The cash generated in the period.

D. The total assets generated in the period.

2- Which one of the following is **not** correct?

A. Assets - Liabilities = Owner's equity

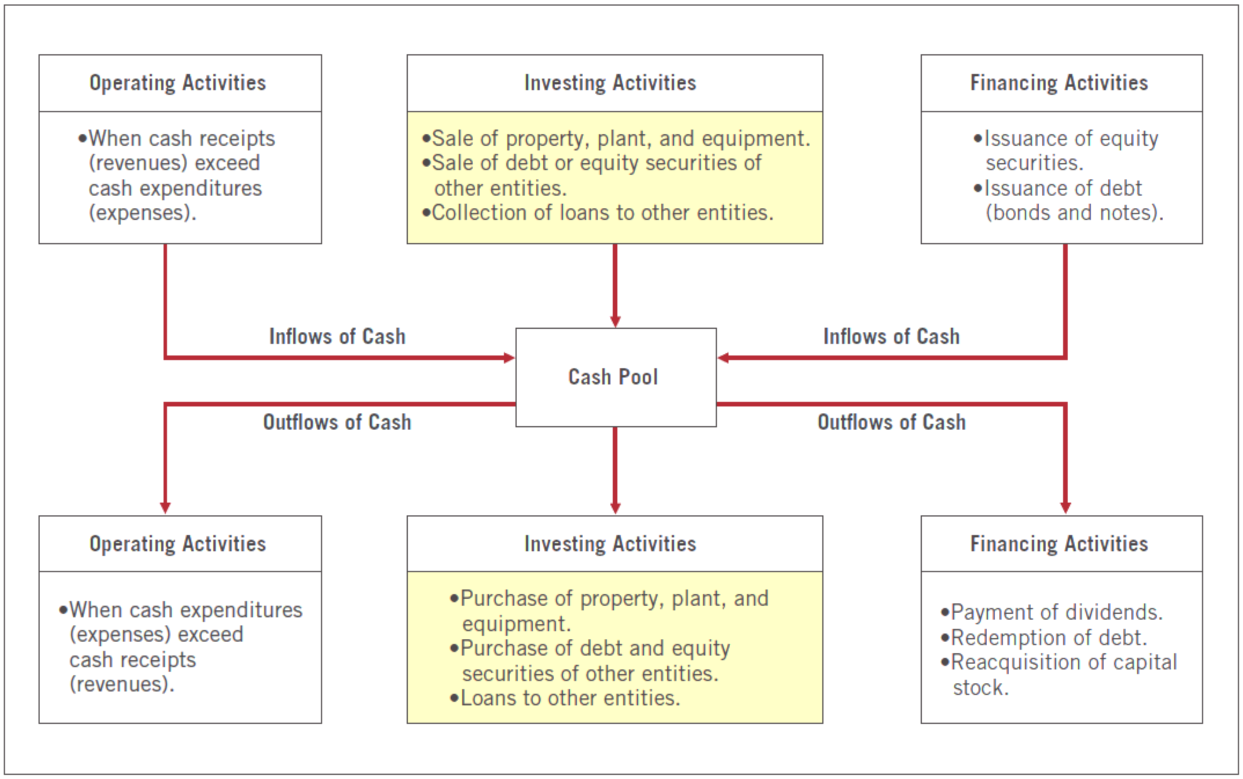
B. Assets + Expenses = Owner's equity brought forward + Income + Liabilities.

C. Assets + Expenses = Owner's equity carried forward + Income - Liabilities.

D. Assets - Liabilities = Owner's equity brought forward + Income – Expenses

Cash Flow Statement (CFS)

A cash flow statement tracks the inflow and outflow of cash, providing insights into a company's financial health and operational efficiency.



Operating Activities: the cash effects of transactions that create revenues and expenses. **(Income Statement Items)**

Cash inflows: • From sale of goods or services. • From interest received and dividends received.

Cash outflows: • To suppliers for inventory. • To employees for wages. • To government for taxes. • To lenders for interest. • To others for expenses

Investing Activities: cash transactions that involve : a. The purchase or disposal of investments and property, plant, and equipment. b. Lending money and collecting the loans. (Long-Term Assets)

Cash inflows: • From sale of property, plant, and equipment. • From sale of investments in debt or equity securities of other entities. • From collection of principal on loans to other entities.

Cash outflows: • To purchase property, plant, and equipment. • To purchase investments in debt or equity securities of other entities. • To make loans to other entities.

Financing Activities: a. Obtaining cash from issuing debt and repaying the amounts borrowed. b. Obtaining cash from stockholders, repurchasing shares, and paying dividends. (Long-Term Liabilities and Stockholders' Equity)

Cash inflows: • From sale of common stock. • From issuance of debt (bonds and notes).

Cash outflows: • To stockholders as dividends. • To redeem long-term debt or reacquire capital stock (treasury stock).

6- ADJUSTING ENTRIES

Adjusting entries: are done at the end of a period. All adjusting entries will affect either an expense account or a revenue account. Adjusting entries are divided into five categories: **Prepaid Expenses, Accrued Revenues, Accrued Expenses Unearned Revenue**

Prepaid Expenses – advance payment of expenses. For example: Prepaid rent and supplies. Cash is paid in advance so these items are assets until they are used up. Once they are used up, they are transferred from an asset to an expense. **For example**: At the beginning of the month, you had $100 in supplies, when you check your cabinet, you now have only $20 in supplies. You will need to adjust the asset called supplies and expense the supplies you have used.

Accrued Expenses – an expense that the business has incurred but not yet paid. The most common of these is payroll**. Assume** that the month ends on a Wednesday and you pay employees on Friday. This employee receives $20 per day. Because the month ends on a Wednesday you will need to expense 3 days of payroll to be paid on Friday.

Accrued Revenues – revenue that has been earned but not yet collected in cash. In many cases a company will perform half of a job during one period and the other half during the next period, but will not get paid until the job is complete. **Let's assume** that you have a job that, when completed, will pay $1000. At the end of the month, you have completed 80% of the job, this revenue must be recorded in the month earned. Account Receivable 800 Service Revenue 800 When the job is complete and the cash is received the following will take place.

Unearned Revenue – a liability created when a business collects cash from customers before actually doing the work. **Let's say** that Joe Smith paid you $500 to paint his house. At the end of the month, you have painted 40% of the house. You must record that you have earned this revenue in the month it was earned. When you received the payment, you recorded the following:

Practice Problem

Exe1: On February 1, 2014 Baghdad Company paid ID 24000000 to its landlord representing one year's rent in advance

Required: Record any necessary journal and adjusting entries from 1-1-2014 to December 31, 2014

Exe2: In 1-11-2014 Baghdad Company rented building to Ishtar company for ID 1500 000 per month, in next day Ishtar company paid Baghdad Co. ID 4500 000 in advance

Required: Record any necessary journal and adjusting entries for a financial period which ended at December 31, 2014.

Exe3: On December 31, 2014 Baghdad Company earned ID 1000000 for rent revenue but did not bill to clients.

Required: Record any necessary adjusting entry for a financial period which ended at December 31, 2014.

Exe4: On December 31, 2014 Baghdad's company accountant found that the electricity bill per ID 600000 did not pay.

Required: Record any necessary adjusting entry for a financial period which ended on December 31, 2014

Worksheet

What is an Accounting Worksheet?

An accounting worksheet is a tool used to help bookkeepers and accountants complete the accounting cycle and prepare year-end reports like unadjusted trial balances, adjusting journal entries, adjusted trial balances, and financial statements

Format

The accounting worksheet is essentially a spreadsheet that tracks each step of the accounting cycle. The spreadsheet typically has five sets of columns that start with the unadjusted trial balance accounts and end with the financial statements. In other words, an accounting worksheet is basically a spreadsheet that shows all of the major steps in the accounting cycle side by side.

Each step lists its debits and credits with totals calculated at the bottom. Just like the trial balances, the work sheet also has a heading that consists of the company name, title of the report, and time period the report documents.

Worksheet Columns

Trial Balance Columns -Adjustments Columns – Adjusted Trial Balance Columns – Income statement – Balance sheet

Uptown Cabinet Corp.
Ten-Column Worksheet
For the Year Ended December 31, 2020

	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	1,200				1,200				1,200	
Notes receivable	16,000				16,000				16,000	
Accounts receivable	41,000				41,000				41,000	
Allowance for doubtful accounts		2,000		(b) 1,000		3,000				3,000
Inventory	40,000				40,000				40,000	
Prepaid insurance	900			(c) 360	540				540	
Equipment	67,000				67,000				67,000	
Accumulated depreciation—equipment		12,000		(a) 6,700		18,700				18,700
Notes payable		20,000				20,000				20,000
Accounts payable		13,500				13,500				13,500
Bonds payable		30,000				30,000				30,000
Common stock		50,000				50,000				50,000
Retained earnings, Jan. 1, 2020		16,200				16,200				16,200
Dividends	2,000				2,000				2,000	
Sales revenue		400,000				400,000		400,000		
Cost of goods sold	316,000				316,000		316,000			
Salaries and wages expense (sales)	20,000				20,000		20,000			
Advertising expense	10,200				10,200		10,200			
Salaries and wages expense (general)	19,000				19,000		19,000			
Telephone and Internet expense	600				600		600			
Rent expense	4,800			(e) 500	4,300		4,300			
Property tax expense	3,300		(f) 2,000		5,300		5,300			
Interest expense	1,700				1,700		1,700			
Totals	543,700	543,700								
Depreciation expense			(a) 6,700		6,700		6,700			
Bad debt expense			(b) 1,000		1,000		1,000			
Insurance expense			(c) 360		360		360			
Interest receivable			(d) 800		800				800	
Interest revenue				(d) 800		800		800		
Prepaid rent			(e) 500		500				500	
Property taxes payable				(f) 2,000		2,000				2,000
Income tax expense			(g) 3,440		3,440		3,440			
Income taxes payable				(g) 3,440		3,440				3,440
Totals			14,800	14,800	557,640	557,640	388,600	400,800		
Net income							12,200			12,200
Totals							400,800	400,800	169,040	169,040

Cash and Bank Reconciliation Statement

Need for Reconciliation

It is generally experienced that when a comparison is made between the bank balance as shown in the firm's cash book, the two balances do not tally. Hence, we have to first ascertain the causes of difference thereof and then reflect them in a statement called Bank Reconciliation Statement to reconcile (tally) the two balances. In order to prepare a bank reconciliation statement, we need to have a bank balance as per the cash book and a bank statement as on a particular day along with details of both the books. If the two balances differ, the entries in both the books are compared and the items on account of which the difference has arisen are ascertained with the respective amounts involved so that the bank reconciliation statement may be prepared.

Reconciling Items

1. Deposits in Transit. End-of-month deposits of cash recorded on the depositor's books in one month are received and recorded by the bank in the following month.

2. Outstanding Checks. Checks written by the depositor are recorded when written but may not be recorded by (may not "clear") the bank until the next month.

3. Bank Charges. Charges recorded by the bank against the depositor's balance for such items as bank services, printing checks, **not-sufficient funds (NSF) checks**, and safe deposit box rentals. The depositor may not be aware of these charges until the receipt of the bank statement.

4. Bank Credits. Collections or deposits by the bank for the benefit of the depositor that may be unknown to the depositor until receipt of the bank statement. Examples are note collection

for the depositor and interest earned on interest-bearing checking accounts.

5. Bank or Depositor Errors. Errors on either the part of the bank or the part of the Depositor cause the bank balance to disagree with the depositor's book balance.

A **bank reconciliation** is a schedule explaining any differences between the banks and the company's records of cash. If the difference results only from transactions not yet recorded by the bank, the company's record of cash is considered correct. But, if some part of the difference arises from other items, either the bank or the company must adjust its records.

A company may prepare two forms of a bank reconciliation. One form reconciles from the bank statement balance to the book balance or vice versa. The other form reconciles both the bank balance and the book balance to a correct cash balance. Most companies use this latter form. **Illustration** shows a sample of that form and its common reconciling items.

Balance per bank statement (end of period)		$$$
Add: Deposits in transit	$$	
Undeposited receipts (cash on hand)	$$	
Bank errors that understate the bank statement balance	$$	$$
		$$$
Deduct: Outstanding checks	$$	
Bank errors that overstate the bank statement balance	$$	$$
Correct cash balance		$$$
Balance per depositor's books		$$$
Add: Bank credits and collections not yet recorded in the books	$$	
Book errors that understate the book balance	$$	$$
		$$$
Deduct: Bank charges not yet recorded in the books	$$	
Book errors that overstate the book balance	$$	$$
Correct cash balance		$$$

Example 1: Nugget Mining Company's books show a cash balance at the Denver National Bank on November 30, 2020, of $20,502. The bank statement covering the month of November shows an ending balance of $22,190. An examination of Nugget's accounting records and November bank statement identified the following reconciling items.

1. A deposit of $3,680 that Nugget mailed November 30 does not appear on the bank statement.

2. Checks written in November but not charged to the November bank statement are: Check #7327 $ 150, #7348 $4,820, #7349 $ 31

3. Nugget has not yet recorded the $600 of interest collected by the bank on November 20 for Sequoia Co. bonds held by the bank for Nugget.

4. Bank service charges of $18 are not yet recorded on Nugget's books.

5. The bank returned one of Nugget's customer's checks for $220 with the bank statement, marked "NSF." The bank treated this bad check as a disbursement.

6. Nugget discovered that it incorrectly recorded check #7322, written in November for $131 in payment of an account payable, as $311.

7. A check for Nugent Oil Co. in the amount of $175 that the bank incorrectly charged to Nugget accompanied the statement.

Instructions: 1-Nugget reconciled the bank and book balances to the correct cash balance of $21,044.
2-journal entries required to adjust and correct Nugget's books

Nugget Mining Company
Bank Reconciliation
Denver National Bank, November 30, 2020

Balance per bank statement (end of period)			$22,190
Add: Deposit in transit	(1)	$3,680	
Bank error—incorrect check charged to account by bank	(7)	175	3,855
			26,045
Deduct: Outstanding checks	(2)		5,001
Correct cash balance			$21,044
Balance per books			$20,502
Add: Interest collected by the bank	(3)	$ 600	
Error in recording check #7322	(6)	180	780
			21,282
Deduct: Bank service charges	(4)	18	
NSF check returned	(5)	220	238
Correct cash balance			$21,044

2-
Cash 600
Interest Revenue 600
(To record interest on Sequoia Co. bonds, collected by bank)

Cash 180
Accounts Payable 180
(To correct error in recording amount of check #7322)

Office Expense (bank charges) 18
Cash 18
(To record bank service charges for November)
Accounts Receivable 220
Cash 220
(To record customer's check returned NSF)
After posting the entries, Nugget's cash account will have a balance of $21,044. Nugget
should return the Nugent Oil Co. check to Denver National Bank, informing the bank of
the error.

Practice Problem

Exe1: **Poorten Company's bank statement for May 2010 shows the following data.**

The cash balance per books at May 31 is $13,319.
Your review of the data reveals the following.
1. The NSF check was from Copple Co., a customer $175.
2. The note collected by the bank was a $500, 3-month, 12% note. The bank charged a $10 collection fee. No interest has been accrued.
3. Outstanding checks at May 31 total $2,410.
4. Deposits in transit at May 31 total $1,752.
5. A Poorten Company check for $352, dated May 10, cleared the bank on May 25.The company recorded this check, which was a payment on account, for $325.

Instructions

(a) Prepare a bank reconciliation at May 31.

(b) Journalize the entries required by the reconciliation.

Fixed assets

Cash purchase , purchase on account , manufacturing , ةtypes, ways, to get them gifts .

The major characteristics of property, plant, and equipment are as follows.

1. ***They are acquired for use in operations and not for resale.***
2. ***They are long-term in nature and usually depreciated.***
3. ***They possess physical substance.***

Acquisition of Property, Plant, and Equipment

Most companies use historical cost as the basis for valuing property, plant, and equipment. **Historical cost measures the cash or cash equivalent price of obtaining the asset and bringing it to the location and condition necessary for its intended use.**

1. Historical cost involves actual, not hypothetical, transactions and so is the most reliable.

2. Companies should not anticipate gains and losses but should recognize gains and losses only when the asset is sold.

Cost of Land

All expenditures made to acquire land and ready it for use are considered part of the land cost. Thus, when **Wal-Mart Stores, Inc.** or **Home Depot** purchases land on which to build a new store, its land costs typically include:

(1) the purchase price;
(2) closing costs, such as title to the land, attorney's fees, and recording fees;
(3) costs incurred in getting the land in condition for its intended use, such as grading, filling, draining, and clearing;
(4) assumption of any liens, mortgages, or encumbrances on the property;
(5) any additional land improvements that have an indefinite life.

Cost of Buildings

The cost of buildings should include all expenditures related directly to their acquisition or construction. These costs include (1) materials, labor, and overhead costs incurred during construction, and (2) professional fees and building permits. Generally, companies contract others to construct their buildings. Companies consider all costs incurred, from excavation to completion, as part of the building costs.

But how should companies account for an old building that is on the site of a newly proposed building? Is the cost of removal of the old building a cost of the land or a cost of the new building? Recall that **if a company purchases land with an old building on it**, **then the cost of demolition less its salvage value is a cost of getting the land ready for its intended use and relates to the land rather than to the new building**. In other words, all costs of getting an asset ready for its intended use are costs of that asset.

Cost of Equipment

The term "equipment" in accounting includes delivery equipment, office equipment, machinery, furniture and fixtures, furnishings, factory equipment, and similar fixed assets. The cost of such assets includes the purchase price, freight and handling charges incurred, insurance on the equipment while in transit, cost of special foundations if required, assembling and installation costs, and costs of conducting trial runs. Costs thus include all expenditures incurred in acquiring the equipment and preparing it for use.

Cash purchase

Example 1: Hayes Manufacturing Company acquires real estate at a cash cost of $100,000. The property contains an old warehouse that is razed at a net cost of $6,000 ($7,500 in costs less $1,500 proceeds from salvaged materials). Additional expenditures are the attorney's fee, $1,000, and the real estate broker's commission, $8,000. The cost of the land is $115,000, computed as follows.
Example 2: Merten Company purchases factory machinery at a cash price of $50,000. Related expenditures are for sales taxes $3,000, insurance during

shipping $500, and installation and testing $1,000.The cost of the factory machinery is $54,500, computed as follows.

Example 3: Lenard Company purchases a delivery truck at a cash price of $22,000. Related expenditures consist of sales taxes $1,320, painting and lettering $500, motor vehicle license $80, and a three-year accident insurance policy $1,600. The cost of the delivery truck is $23,820, computed as follows**.**

Disposition of Property, Plant, and Equipment

Sale of Plant Assets

Accounting for Exchanges

If the company receives no cash in such an exchange, it defers recognition of a gain. If the company receives cash in such an exchange, it recognizes part of the gain immediately.

For example, Information Processing, Inc. trades its used machine for a new model at Jerrod Business Solutions Inc. The exchange has commercial substance. The used machine has a book value of $8,000 (original cost $12,000 less $4,000 accumulated depreciation) and a fair value of $6,000. The new model lists for $16,000. Jerrod gives Information Processing a trade-in allowance of $9,000 for the used machine. Information Processing computes the cost of the new asset as shown in **Illustration**

List price of new machine	$16,000
Less: Trade-in allowance for used machine	9,000
Cash payment due	7,000
Fair value of used machine	6,000
Cost of new machine	$13,000

Information Processing records this transaction as follows.

Equipment	13,000	
Accumulated Depreciation—Equipment	4,000	
Loss on Disposal of Equipment	2,000	
Equipment		12,000
Cash		7,000

We verify the loss on the disposal of the used machine as shown in Illustration

Fair value of used machine	$6,000
Less: Book value of used machine	8,000
Loss on disposal of used machine	$2,000

Now let's consider the situation in which a nonmonetary exchange has commercial substance and a gain is realized. In such a case, a company usually records the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset at the fair value of the asset given up and immediately recognizes a gain. The company should use the fair value of the asset received only if it is more clearly evident than the fair value of the asset given up. **To illustrate**, Interstate Transportation Company exchanged a number of used trucks plus cash for a semi-truck. The used trucks have a combined book value of $42,000 (cost $64,000 less $22,000 accumulated depreciation). Interstate's purchasing agent, experienced in the secondhand market, indicates that the used trucks have a fair value of $49,000. In addition to the trucks, Interstate must pay $11,000 cash for the semi-truck. Interstate computes the cost of the semi-truck as shown in Illustration

Depreciation

The term depreciation refers to the reduction in or loss of quality or value of a fixed asset through wear and tear, effusion of time, obsolescence through technology and market changes or from any other cause. Depreciation takes place in case of all fixed assets with certain possible exceptions e.g., land and antiques etc., although the process may be invisible or gradual.

CAUSES OF DEPRECIATION

The depreciation occurs because of the following:

1. Constant use: The constant use of assets results into their wear and tear, which in turn reduces their working capacity. Hence, a decrease in the value of assets may be seen due to reduced capacity. The value of assets like, machinery, furniture, etc., declines with the constant use of them.

Passage of Time: Many fixed assets lose their value with the passage of time. This holds true in case of intangible fixed assets such as patents, copyrights, lease hold properties etc. The term amortization is generally used to indicate the reduction in the value of such assets.

3. Depletion: Depletion also causes decline in the value of certain assets. This is true in case of wasting assets such as mines, oil wells and forest-stands. On account of continuous extraction of minerals or oils, these assets go on declining in their value and finally they get completely exhausted.

4. Obsolescence: There may not be any physical deterioration in the asset itself. Despite of this there may be reduction in the utility of an asset that results from the development of a better method, machine or process. For example, an old machine which is still in good working condition may have to be replaced by a new machine because of the latter being more economical as well as efficient. In fact, new inventions, developments in production processes, changes in demand for product or services, etc. make the asset out of date.

5. Accidents: An asset may get reduction in its value if it meets an accident.

FACTORS AFFECTING DEPRECIATION

1. Cost of the asset
2. Estimated life of the asset
3. Scrap Value of the Asset

METHODS OF CALCULATING DEPRECIATION

There are different concepts about the nature of depreciation. Moreover, the nature of all fixed assets cannot be the same. As a result, different methods are found to exist for charging depreciation. A broad classification of the methods may be summarized as follows:

- **1- Straight Line Method**
- **2- Double declining balance**
- **3- Units of production**
- **4- Sum of years digits**

This is also known as fixed installment method. Under this method the depreciation is charged on the uniform basis year after year. When the amount of depreciation charged yearly under this method is plotted on a graph paper, we shall get a straight line. Thus, the straight-line method assumes that depreciation is a function, of time rather than use in the sense that each accounting period received the same benefit from using the asset as every other period. The formula for calculating depreciation charge for each accounting period is:

Amount of annual Depreciation=
Original cost of the fixed assets - Residual value / Estimated Life in years

For example, if an asset cost $50,000 and it will have a residual value of $2000 at the end of its useful life of 10 years, the amount of annual depreciation will be?

Practice Problem

Exe1: Calculate the Rate of Depreciation under Straight Line Method (SLM) in each of the following : -

Machine No.	Cost of Machine	Expenses incurred at the time of purchase to be capitalized	Estimated Residual Value	expected Useful Life in years
1	90000	10000	20000	8
2	24000	7000	3100	6
3	105000	20000	12500	3
4	250000	30000	56000	5

Exe2: Consider a piece of equipment that costs $25,000 with an estimated useful life of 8 years and a $0 salvage value. The depreciation expense per year for this equipment would be?

Fair value of trucks exchanged	$49,000
Cash paid	11,000
Cost of semi-truck	$60,000

Interstate records the exchange transaction as follows.

Trucks (semi)	60,000	
Accumulated Depreciation—Trucks	22,000	
Trucks (used)		64,000
Gain on Disposal of Trucks		7,000
Cash		11,000

The gain is the difference between the fair value of the used trucks and their book value. We verify the computation as shown in **Illustration 10.14**.

Fair value of used trucks		$49,000
Cost of used trucks	$64,000	
Less: Accumulated depreciation	22,000	
Book value of used trucks		(42,000)
Gain on disposal of used trucks		$ 7,000

Sale of Plant Assets

Companies record depreciation for the period of time between the date of the last depreciation entry and the date of sale. To illustrate, assume that Barret Company recorded depreciation on a machine costing $18,000 for nine years at the rate of $1,200 per year. If it sells the machine in the middle of the tenth year for $7,000, Barret records depreciation to the date of sale as:

Depreciation Expense ($\$1{,}200 \times \frac{1}{2}$)	600	
Accumulated Depreciation—Machinery		600

The entry for the sale of the asset then is:

Cash	7,000	
Accumulated Depreciation—Machinery [($\$1{,}200 \times 9$) + $600]	11,400	
Machinery		18,000
Gain on Disposal of Machinery		400

The book value of the machinery at the time of the sale is $6,600 ($18,000 – $11,400). Because the machinery sold for $7,000, the amount of the gain on the sale is $400.