وزارة التعليم العالي والبحث العلمي

جامعة الفرات الأوسط التقنية

المعهد التقني كربلاء

قسم تقنيات المحاسبة

Educational Satchel

الحقيبة التعليميه

Accounting Reading

القراءات المحاسبية

Accounting Techniques Department

قسم تقنيات المحاسبة

First Class

الصف الاول

اعداد

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للعام الدراسي (2024-2025)

مفردات مادة القراءات المحاسبية	
Weeks	**Description**
Week 1	**Definition of basic English terms**
Week 2	**Learn basic terms in management**
Week 3	**Learn basic terms in accounting**
Week 4	**Readings of selective subjects in management**
Week 5	**Accounting definition , types of accounting**
Week 6	**Accounting as position , organizations and specialized institutions**
Week 7	**Readings of accounting concept**
Week 8	**Qualitative characteristics of accounting information**
Week 9	**Terms of accounting principles and hypothesis**
Week 10	**International organizations and associations in accounting**
Week 11	**Committees responsible of preparing accounting principles**
Week 12	**Readings in public accounting principles**
Week 13	**Manufacturing Costs in Financial Statements**
Week 14	**Readings in financial accounting principles**
Week 15	**Income statement**
Week 16	**Accounting entries (formal aspects)**
Week 17	**Accounting entries(examples)**
Week 18	**Trial balance**
Week 19	**Readings on cash flow terms**
Week 20	**Terms of expenditures**
Week 21	**Terms of revenues**
Week 22	**Reading in profit &loss topics**
Week 23	**The terms of assets**
Week 24	**Terms of capital and debits**
Week 25	**Reading in financial position statements**
Week 26	**Terms of inventory and depreciation**

Week 27	**Readings in inventory and depreciation**
Week 28	**Terms of cost accounting**
Week 29	**Reading in cost accounting**
Week 30	**Terms of auditing and internal control**

الاهداف التعليمية

سيكون الطالب بعد نهاية المحاضرات قادرا على ان:

الأهداف العامة للحقيبة التعليمية:

1. تعزيز معرفة المصطلحات المحاسبية الأساسية لدى الطلاب وتطوير قدرتهم على استخدامها في السياقات المهنية والأكاديمية.
2. تمكين الطلاب من تحليل النصوص المحاسبية والمفاهيم المالية بشكل نقدي ومعمق.
3. إعداد الطلاب لاستخدام المصطلحات المحاسبية بشكل صحيح عند التواصل الشفوي والكتابي في مجالات المحاسبة المختلفة.
4. تطوير قدرات الطلاب على البحث والتعلم الذاتي في مجال المحاسبة من خلال قراءة وتحليل النصوص المحاسبية المتخصصة.

الأهداف السلوكية للحقيبة التعليمية:

1. ترجمة ومعرفة المصطلحات المحاسبية الأساسية من اللغة الإنجليزية إلى العربية والعكس بدقة.
2. تحليل النصوص المحاسبية المعقدة واستخلاص المعلومات المالية الدقيقة منها.
3. تعبير عن المفاهيم المحاسبية شفوياً وكتابياً باستخدام مصطلحات متخصصة بطريقة احترافية.
4. يُظهر الطالب مهارات التفكير النقدي في معالجة النصوص والمقالات المحاسبية، ويكون قادراً على مناقشة الآراء المختلفة حول المفاهيم المالية.
5. يتقن الطالب استخدام المصادر الأكاديمية والمهنية للوصول إلى معلومات محاسبية متقدمة وموثوقة.

Definition of basic English terms Week 1

المصطلح باللغة الإنكليزية	المصطلح باللغة العربية
Definition	تعريف
Objectives	اهداف
Types	أنواع
Form	نموذج
Level	مستوى
Purpose	غرض
Terms	مصطلحات
Branches	فروع
Standards	معايير
Profession	مهنة
International	دولي
Elements	عناصر
Exercise	تمرين
Notice	ملاحظة
Method	طريقة
Calculating	حساب
Recording	تسجيل
General	عام
Main	رئيسي
Basic	أساسي
Application	تطبيق
Introduction	مقدمة
Solution	حل

Learn basic terms in management — Week 2

المصطلح باللغة الإنكليزية	المصطلح باللغة العربية
Administration	إدارة
Business	عمل
Services	خدمات
Company	شركة
Corporation	شركة، مؤسسة
Decision making	صنع القرار
Enterprise	مشروع
Management	إدارة
Managerial	إدارية
Manager	مدير
Organization	منظمة
Owners	ملاك
Shareholders	المساهمين
Customers	الزبائن
Suppliers	الموردين
Control	رقابة، تحكم
Import	يستورد
Export	يصدر
Depreciation	اندثار
Advertising	اعلان
Marketing	تسويق
Administration	إدارة
Promotion	ترويج
Cost	كلفة
Discount	خصم
Purchases Returns	مردودات المشتريات
Sales returns	مردودات المبيعات
Cash discount	الخصم النقدي
Interest	فائدة
Purchase Allowance	مسموحات المشتريات
sales Allowance	مسموحات المبيعات
financial position statements	قائمة المركز المالي
Payable	مستحقات
Income statement	كشف/قائمة الدخل
Balance sheet	الميزانية العمومية

Learn basic terms in accounting Week 3

المصطلح باللغة الإنكليزية	المصطلح باللغة العربية
Accounting	المحاسبة
Accounting Department	قسم المحاسبة
Accountant	محاسب
Accounts	حسابات
Financial Accounting	المحاسبة المالية
Accounts manager	مدير الحسابات
Entry	القيد
Accounting Entry	القيد المحاسبي
Debt	المدين
Credit	الدائن
Amount	المبلغ
General Journal	اليومية العامة
General ledger	الاستاذ العامة
Trial balance	ميزان المراجعة
Reference / Ref	رقم صفحة الأستاذ
Transaction	عملية مالية
Economic Events	احداث اقتصادية
Cash	النقد
Bank	المصرف
Assets	الأصول (الموجودات)
Liabilities	الخصوم (المطلوبات)
Owners' equity	حقوق الملكية
Capital	رأس المال
Accounting equation	المعادلة المحاسبية
Revenues	الإيرادات
Expenses	المصروفات
Loss	خسائر
Gains	مكاسب
Land	ارض / أراضي
Building	مباني
Furniture	اثاث
Machine	مكائن
Equipment	معدات
Accounts Receivable	المدينون
Notes Receivable	اوراق قبض
Investments	استثمارات
Merchandise	بضاعة
Inventory	مخزون
Accounts Payable	الدائنون
Notes payable	أوراق الدفع
Loans	قروض
Retained Earnings	الأرباح المحتجزة
Shares	اسهم

Bounds	سندات
Purchase	مشتريات
Sales	مبيعات
Wages	أجور
On Account	على الحساب

<u>Weekend questions</u>:

Q1/Translation the following terms into Arabic language:

Accounting equation, Income statement, Sales Allowance, Retained Earnings.

Q2/Give Similarities of the following words:

. Balance sheet, Shares, Inventory, Administration ،, Merchandise

Management : The act of organizing and conducting a business to accomplish objectives and goals

Business : An organization that operates with the intention of making a profit .

Marketing : The process of promoting, selling and distributing a product or service .

Product : Something produced or manufactured to be sold; a goods.

Service : Work done for pay that benefits another.

Supplier : An organization that provides supplies to a business **.**

Customer : A customer is an individual or business that purchases the goods or services produced by a business .

Definition of Manager and Functions of management

A manager is a person who is responsible for running part of or the whole of a business organization .

Functions of Management (managers)

The functions of management are :

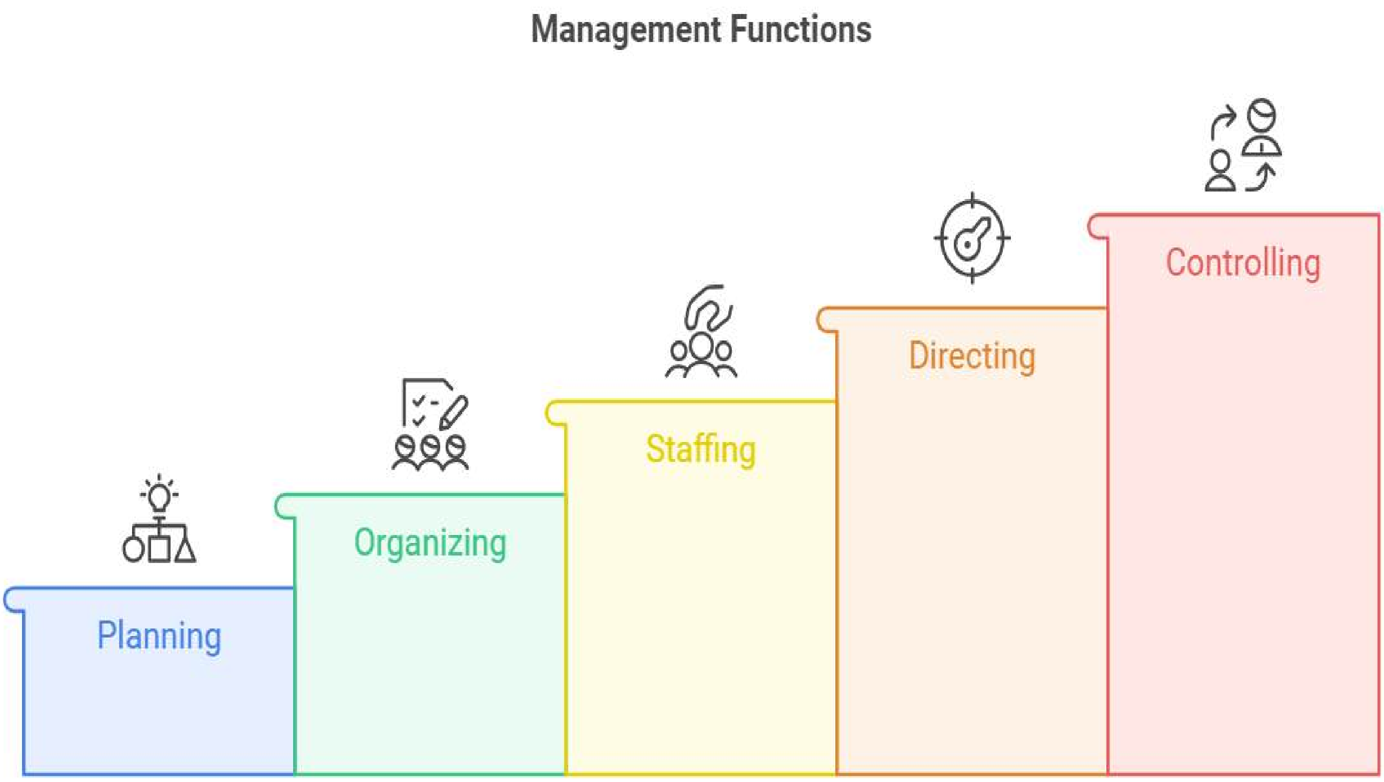
1- **Planning** is a systematic thinking about ways and means for accomplishment of pre-determined goals.

2. **Organizing** is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals.

3. **Staffing** is managing the organization structure through proper and effective selection, appraisal and development of personnel to fill the roles designed un the structure .

4**. Directing** is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals .

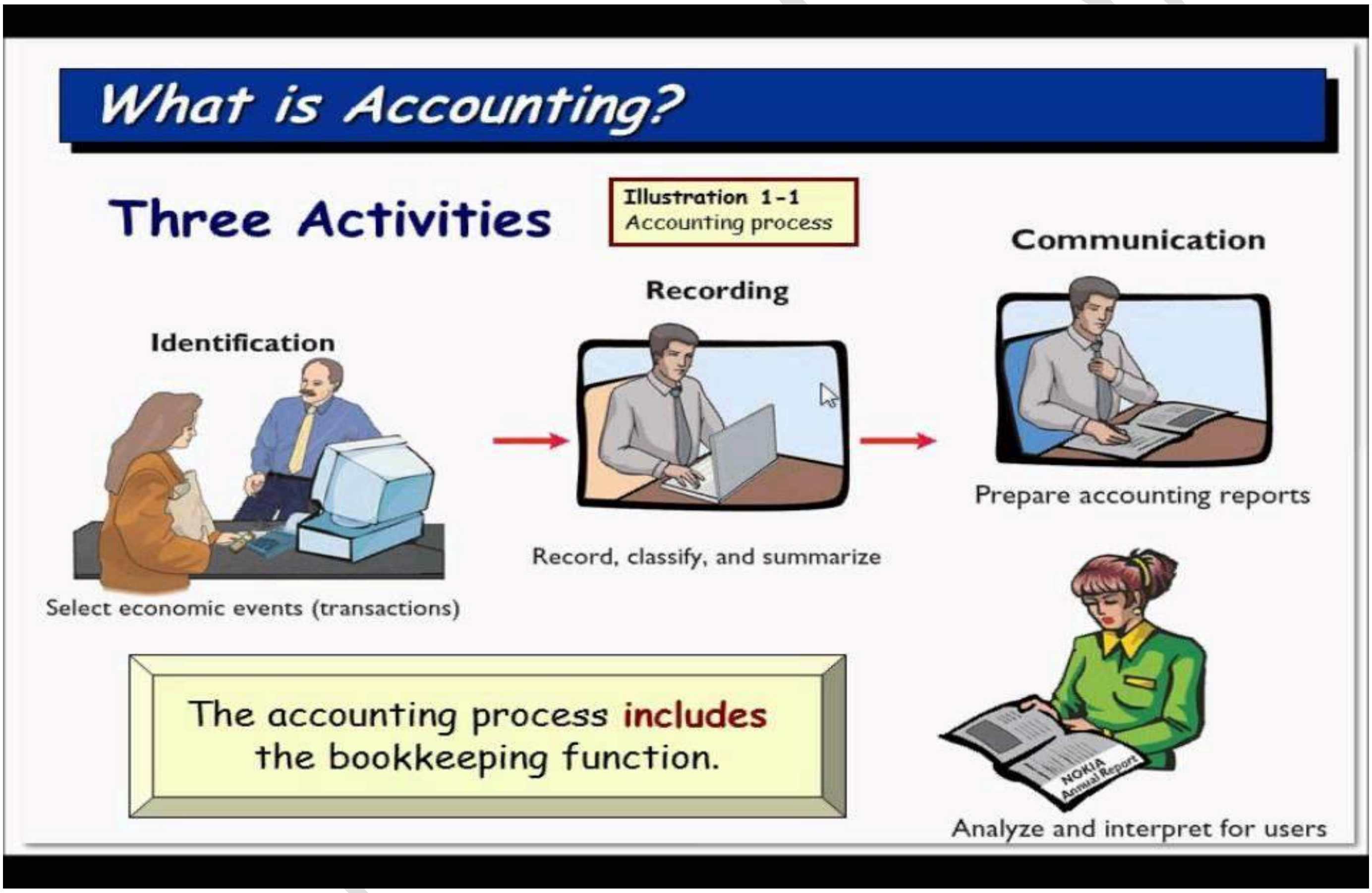
5. **Controlling** It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals.



What Is Accounting?

Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities.

Accounting consists of three basic activities—it **identifies**, **records**, and **communicates** the economic events of an organization to interested users.



How Accounting Works

Accounting is one of the key functions for almost any business. A bookkeeper or an accountant at a small firm or by sizable finance departments with dozens of employees at larger companies may handle it.

The essential characteristics of accounting are:

(1) The identification, measurement, and communication of financial information about (2) economic entities to (3) interested parties.

Types of Accounting

1- Financial Accounting

Financial accounting is the process that culminates in the preparation of financial reports on the enterprise for use by both internal and external parties.

2- Project Accounting

Project accounting is the accounting that is used by the company to track the progress of the different projects undergoing from the financial perspectives. It plays an important part in project management.

3- Managerial Accounting

is the process of identifying, measuring, analyzing, and communicating financial information needed by management to plan, control, and evaluate a company's operations.

4- Government Accounting

Government accounting mainly focuses on the financial administration of the Government's activities for promoting welfare to the maximum level in the form of the various services given by the Government.

5 - *Forensic Accounting*

Uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud.

6- Tax Accounting

Accounting of the matters related to the tax comes under tax accounting. It involves compliance with various tax-related statutes along with the tax planning with the aim of preparation of tax returns.

7- Cost Accounting

Cost accounting considers all of the costs related to producing a product. Analysts, managers, business owners and accountants use this information to determine what their products should cost.

Opportunities in Accounting

Accounting information affects many aspects of our lives. When we earn money, pay taxes, invest savings, budget earnings, and plan, we are influenced by accounting. Accounting has four broad areas of opportunities: financial, managerial, taxation, and accounting related. Exhibit 2.3 lists selected opportunities in each area.

<u>Weekend questions:</u>

1- What Is Accounting ؟

2- What is the types of Accounting? Explain one ؟

3- How Accounting work؟

4- What is Opportunities in Accounting

5- Who them Users of Accounting Information؟

Accounting as position , organizations and specialized insistutions   Week 6

What is the position of an accountant in an organization?

An Accountant takes care of all financial matters within a company, like keeping and interpreting financial records. They may oversee responsibilities like reconciling bank statements and calculating payroll to keep their company in strong financial standing.

Accounting Positions and Job Titles: Which Do You Need?

All companies have to deal with finances sooner or later, which means working with accounting and financial professionals.

Chief Financial Officer

The chief financial officer is the top-level employee in charge of all things finance. They work directly with the CEO and other C-levels and directors to guide the long-term goals, financial benchmarks, and decision-making necessary to bring a business into financial solvency or increase profits year over year.

Chief Accounting Officer

Some companies choose to use the CAO designation instead of the CFO designation to make long-term decisions. The CAO generally has similar duties to a CFO, though the focus may be different within different companies.

Chief Revenue Officer

The Chief Revenue Officer is another variation of the top-tier financial officer. In companies where there's a difference between CFO and CRO, the CRO is generally responsible for one thing and one thing only: pushing plans and changes that increase revenue.

Essentially, their job is to be ruthless in pursuit of profit and have their plans tempered by other C-levels whose interests lie in preventing the damage the unchecked CRO can do.

Director of Accounting/Finance

Directors of Accounting or Finance are often more in touch with specific policies and techniques than top-level strategic vision, a lot depends on the organization's size, as you might expect.

Senior Accountant

Senior Accountants are either the lower end of upper management or the top end of middle management. They are responsible for reviewing the work of the accountants and clerks employed by the company. They report to the controller/director/VP/CFO and act as a conduit for instructions from the higher-level roles. In some cases, they may be similar to standard Accountants and are only given the title of Senior Accountant out of seniority in the organization.

This position may also be known as Staff Accountant, though in particularly large companies, the two may be similar yet distinct positions.

Thus some professional accountancy bodies which were originally just domestic have become international qualifications. Two examples in the UK are:

The Chartered Institute of Management Accountants (CIMA) .

The Association of Chartered Certified Accountants (ACCA) .

These bodies insist on their members being properly qualified, not only by passing examinations but also by obtaining appropriate practical experience, updating their skills and knowledge on a regular basis, and maintaining certain professional standards based on an ethical code .

<u>Book –keeping</u>: **is an art of recording accounting transactions in a set of books**, while the accounting is the language of business for all activities and practices **is a set of standards and rules for measuring the financial performance of the company**. This measurement passes through the accounting cycle, which contains the process of keeping financial statements in the records used during and at the end of the accounting period.
<u>Accounting cycle</u>: is a series of steps (activities) performed in an accounting period that help the business to keep its records in ordinary form .

An accounting cycle can be divided into the following steps :

1-Analyzing transactions from source documents .

2- Recording transactions via journal entries .

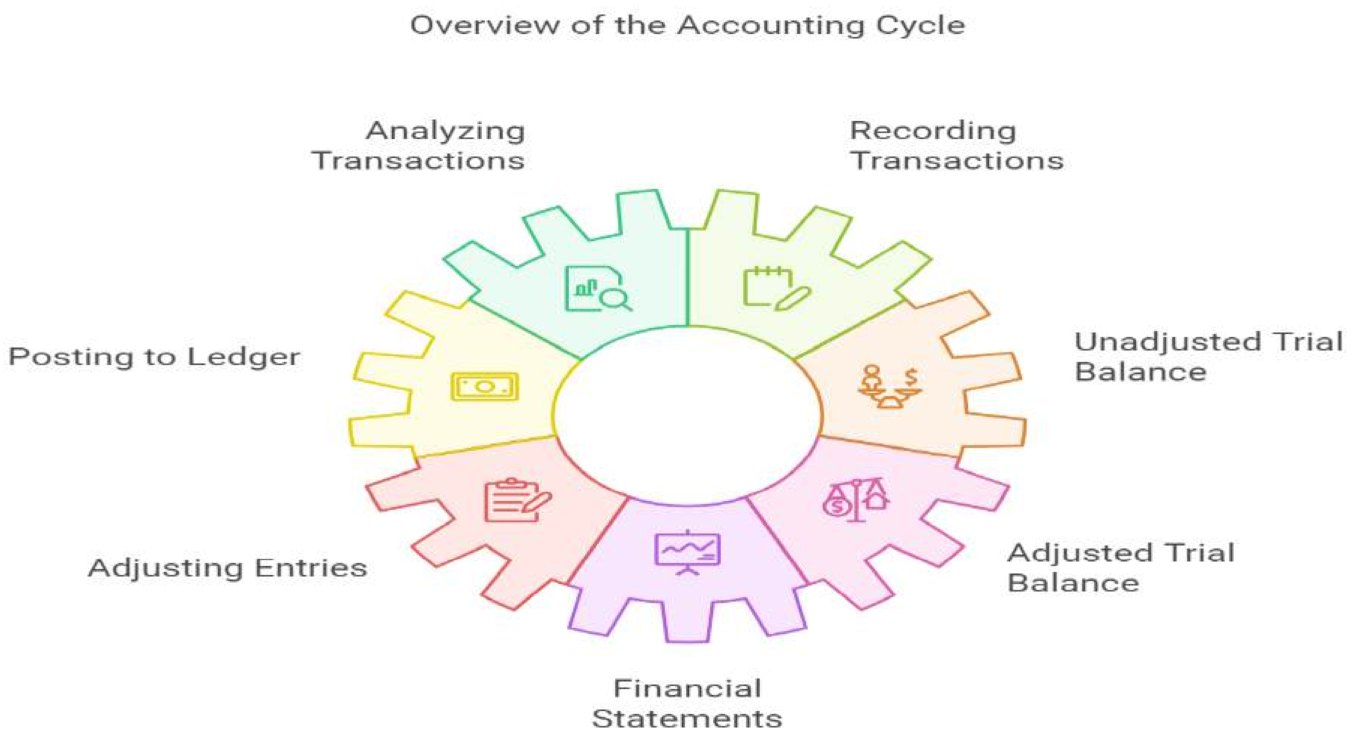
3- Posting journal entries to ledger accounts .

4- Preparing unadjusted trial balance .

5- Preparing adjusting entries at the end of period .

6- Preparing adjusted trial balance .

7- Preparing financial statements .



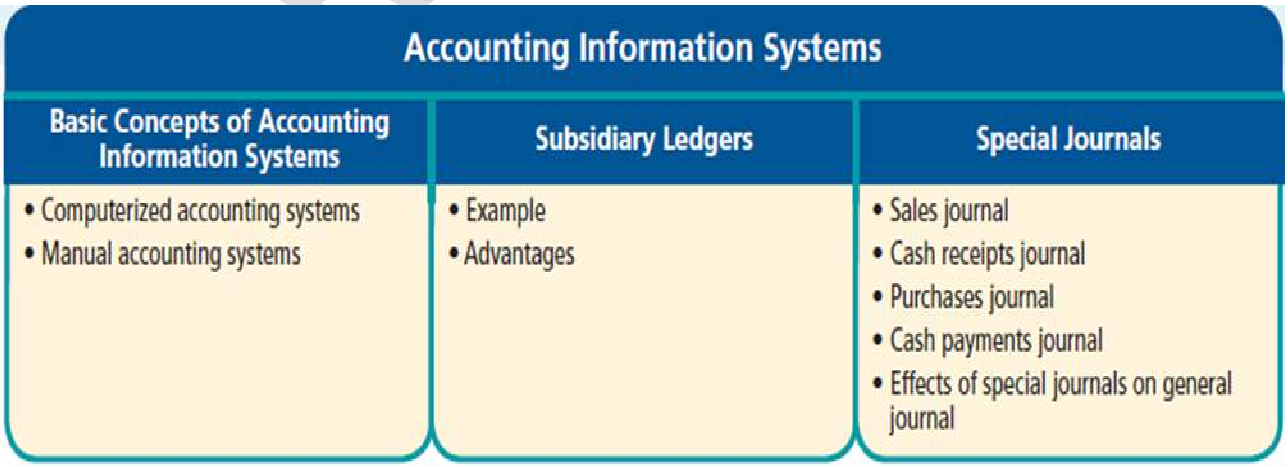
Readings of accounting concept week7

Accounting Information System

Basic Concepts of Accounting Information Systems

Accounting Information System

The accounting information system collects and processes transaction data and communicates financial information to decision makers. It also includes the documents that provide evidence of the transactions, and the records, trial balances, worksheets, and financial statements that result. An accounting system May be either manual or computerized.



Users of Accounting Information

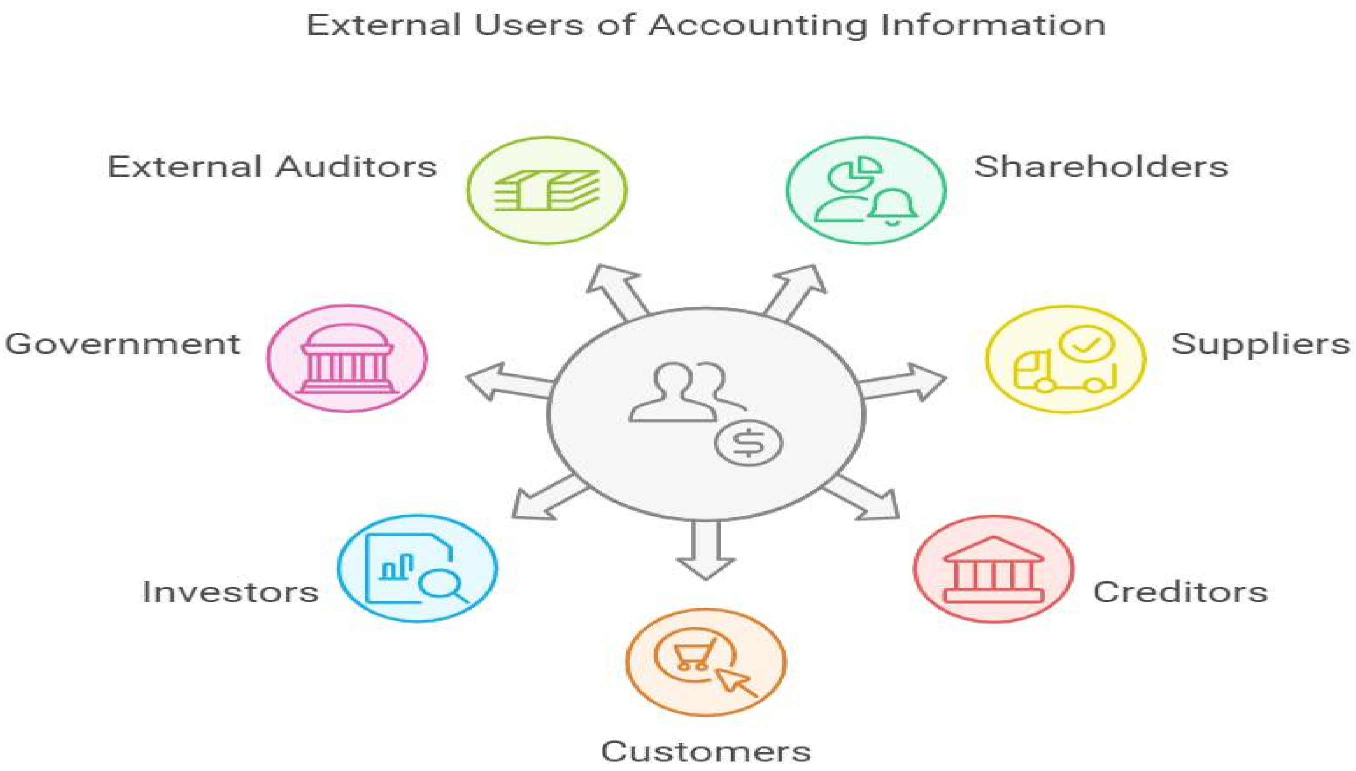
Accounting is often called the *language of business* because all organizations set up an accounting information system to communicate data to help people make better decisions. Exhibit 2.2 shows that the accounting information system serves many kinds of users (this is a partial listing) who can be divided into two groups: external users and internal users.

A- **External users of Accounting information:**

External users are **people outside the business entity (organization) who use accounting information**.

Examples of external users are:-

1- Shareholders
2- Suppliers.
3- Creditors, Bankers, and other Lending Institutions.
4- Customers.
5- Investors.
6- Government and tax authorities.
7- External auditors.

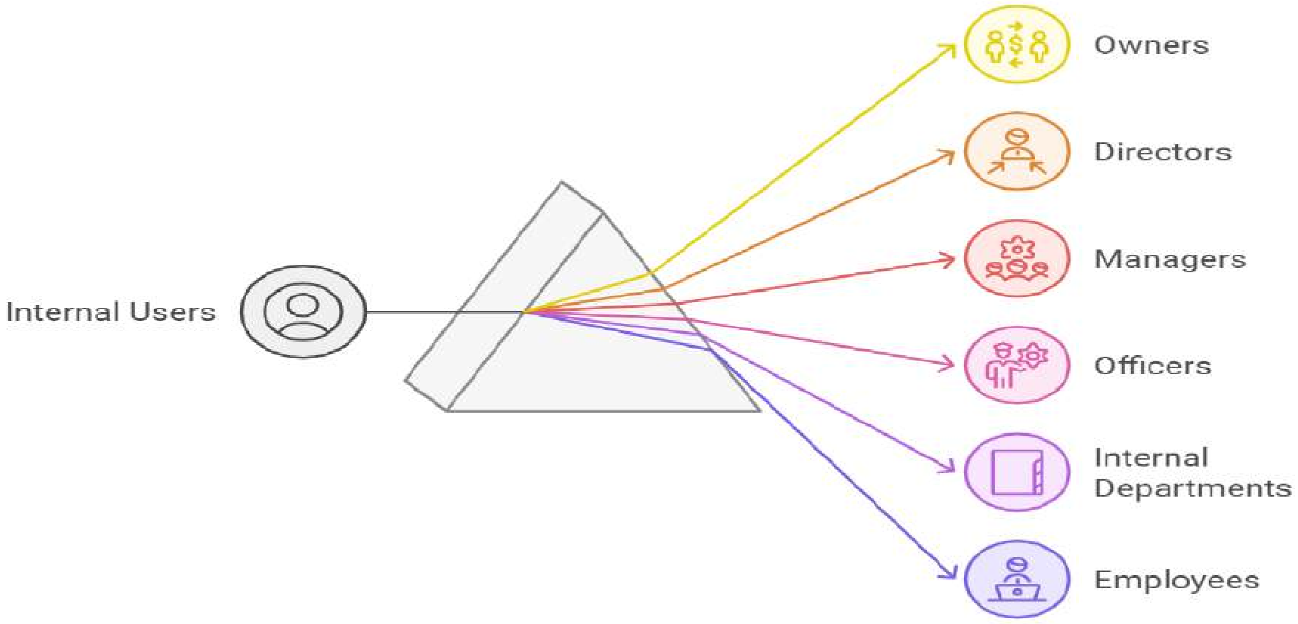


B- **Internal users of Accounting information**

Internal users are that individual who runs, manages and operates the daily activities of the inside area of an organization, and are owners, managers, directors, employees of the company.

So who are the internal users of account information;

1. Owners.
2. Directors.
3. Managers.
4. Officers.
5. Internal Departments.
6. Employees
7. Internal Auditor



<u>Weekend questions:</u>

1- What is Accounting Information System?

2- Who them Users of Accounting Information؟

3- What are the parts of an information system (IS)؟

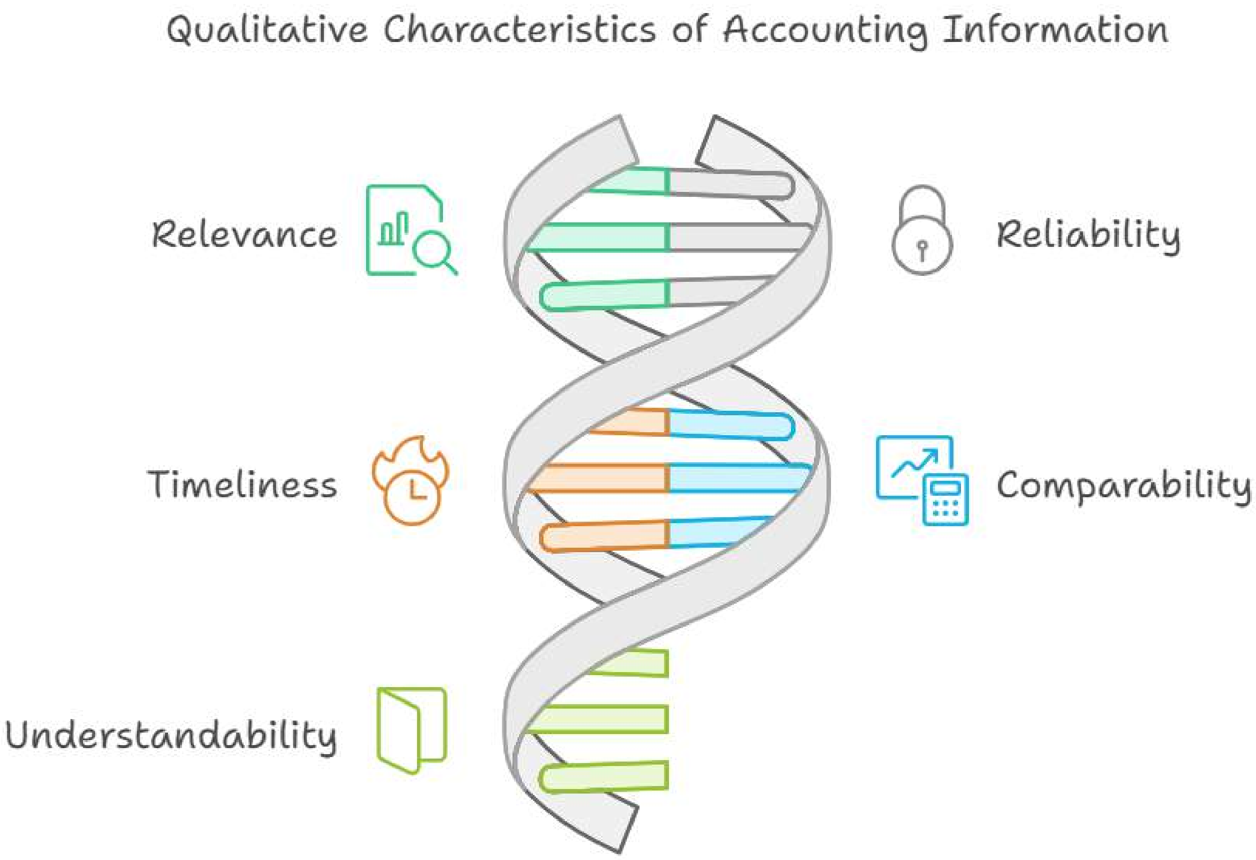
4- Who them external users؟

6- Who them internal users؟

Qualitative Characteristics of Accounting Information week 8

What are the Qualitative Characteristics of Accounting Information?

The demand for accounting information by investors, lenders, creditors, etc., creates fundamental qualitative characteristics that are desirable in accounting information. There are six qualitative characteristics of accounting information. Two of the six qualitative characteristics are fundamental (must have), while the remaining four qualitative characteristics are enhancing (nice to have).



The primary objective of financial reporting is to provide useful information for making business decisions.

Useful accounting information should possess **two fundamental qualitative characteristics**:

1. **Relevance**
   Relevance means that the information can influence the economic decisions made by users. For example, the information may help users to predict future events, such as future cash flows, and help determine alternative courses of action under consideration. Information is also relevant if it is able to help decision makers evaluate

past decisions. Thus, information that is relevant is said to have a predictive role and a confirmatory or feedback role.

2. **Reliability**
   Reliability means that the user is assured that the information presented represents faithfully, without bias, the transactions and events being reported. This is a major reason that accountants record assets at their original historical cost. For accountants to record current market values requires the use of estimates, appraisals or opinions, all of which are more unreliable.

Additionally, there are **enhancing qualities.**

- **Timeliness**
  For accounting information to be relevant, it must be timely, i.e. it must be available to the decision makers before it loses its capacity to appropriately inform decisions.
- **Comparability**
  Comparability results when different companies use the same accounting principles.
- **Materiality**
  It is important that users are not overwhelmed with so much detail that they cannot clearly understand the message. The concept of materiality relates to the extent to which information can be omitted, misstated or grouped with other information without misleading the statement users when they are making their economic decisions.
- **Verifiability**
  Information is verifiable if independent observers, using the same methods, obtain similar results.
- **Consistency**
  A company uses the same accounting principles and methods from year to year.
- **Understandability**
  When information is included in general purpose financial reports, there is an obvious need for the users of those reports to be able to comprehend their meaning.

Terms of accounting principles and hypothesis Week 9

The Third level : Measurement and recognition concepts (accounting assumptions , principles and constraints)

A- Accounting Assumptions: Assumption is an expression that can be accepted or rejected. Assumptions are made in order to understand or confirm the surrounding circumstances and events and build ideas or circumstances in their light to help achieve or reach goals. Accounting assumptions are:

1- Economic Entity Assumption: That is, the company is an independent unit from the owners and from other companies.

2- Going Concern Assumption: According to this assumption, the Company is considered continuing to carry out its activities for an indefinite period during which it can achieve its objectives

3- Monetary Unit Assumption: It means that cash is an appropriate basis for accounting measurement, appropriate, simple and understandable by everyone.

4- Periodicity Assumption: This assumption was made to divide the total life of the company into equal periodic hypothetical periods for the purposes of preparing the financial statements for each period and knowing the result of its activity and the financial position at its end.

<u>B- Accounting Principles:</u>

They are general rules and provisions for accounting decisions (taken by the accountant) that derive from each of the accounting objectives and concepts and help in setting technical assumptions for recording, accounting and reporting financial operations.

1- Measurement Principle: (formerly the principle of historical cost) The Financial Accounting Standards Board (FASB) in agreement with the International Accounting Standards Board (IASB) amended the principle of historical cost in the intellectual framework of financial accounting to the principle of measurement as one of the accounting principles in the accounting measurement of the elements of financial statements, and according to this principle, it was allowed For measurement methods other than historical cost, which is the principle of fair value, or rather, the fair value option next to historical cost.

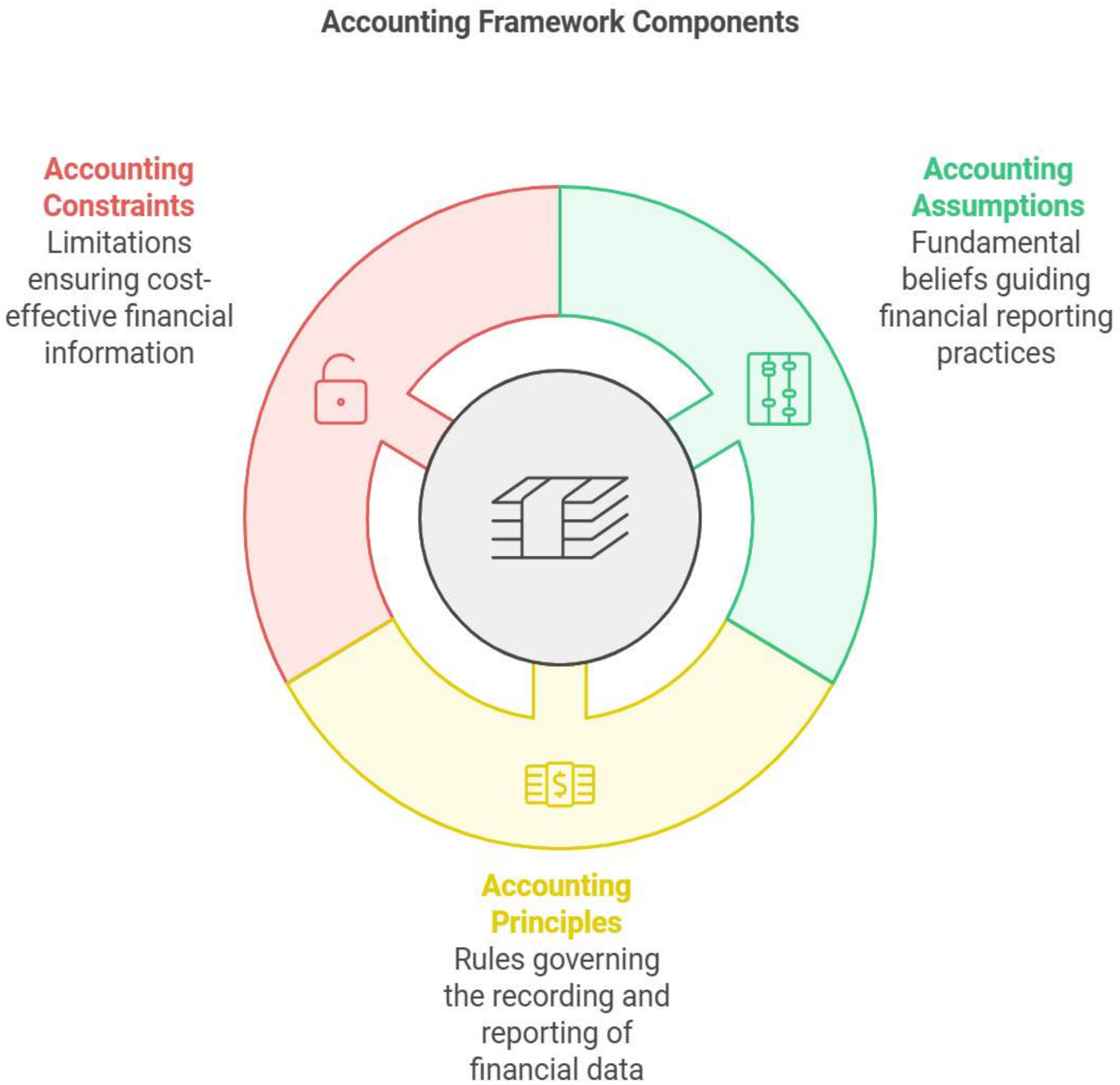
2- Revenue Recognition Principle: The revenue is obtained when it is realized and collected and is recognized by accounting in the records. The point of sale of the commodity or the provision of the service is the critical time point in the cycle of revenue realization, that is, the revenue is realized at this point.

3- Expense Recognition principle: (Previously matching expense principle) Expense is recognized and recognized when outflows occur from the unit or by using assets or a liability as a liability.

4- Full Disclosure Principle: This principle means providing information that is useful and sufficient to influence the judgments and decisions of the users of this information.

C- Accounting Constraints: They represent controls or restrictions under which the accountant works and cannot bypass them, and they are:

Cost Constraint: This constraints means that the cost of accounting information should not exceed the expected benefits of this information.



International organizations and associations in accounting Week 10

Many countries have their own professional accountancy qualification. In the USA, for example, they are known as Certified Public Accountants (CPA).

Some countries do not have their own professional accountancy qualification in which case trainee accountants take the qualification of another country.
This will also apply if students in a country believe that the accountancy qualification in another country is more prestigious than their own domestic qualification. Thus some professional accountancy bodies which were originally just domestic have become international qualifications. Two examples in the UK are:
The Chartered Institute of Management Accountants (CIMA) .
The Association of Chartered Certified Accountants (ACCA) .

These bodies insist on their members being properly qualified, not only by passing examinations but also by obtaining appropriate practical experience, updating their skills and knowledge on a regular basis, and maintaining certain professional standards based on an ethical code .

There are many specialized organizations and institutes that govern the accounting profession and are interested in setting internationally recognized accounting standards, Among these organizations and associations:

International Accounting Standards Committee (IASC)

لجنة معايير المحاسبة الدولية

International Federation of Accountants (IFAC)

الاتحاد الدولي للمحاسبين

American Accounting Association (AAA)

جمعيةٌ المحاسبة الأمريكٌية

Accounting Principles Board (APB)

مجلسِ مبادئ المحاسبة

Financial Accounting Standards Board (FASB)

مجلس معاييرٌ المحاسبة الماليةٌ

International Accounting Standards Board(IASB)

مجلس معايير المحاسبة الدولية

International Auditing and Assurance Standards Board(IAASB)

المجلس الدولي لمعايير التدقيق والتأكيد

World Congress of Accountants(WCA)

المؤتمر العالمي للمحاسبين

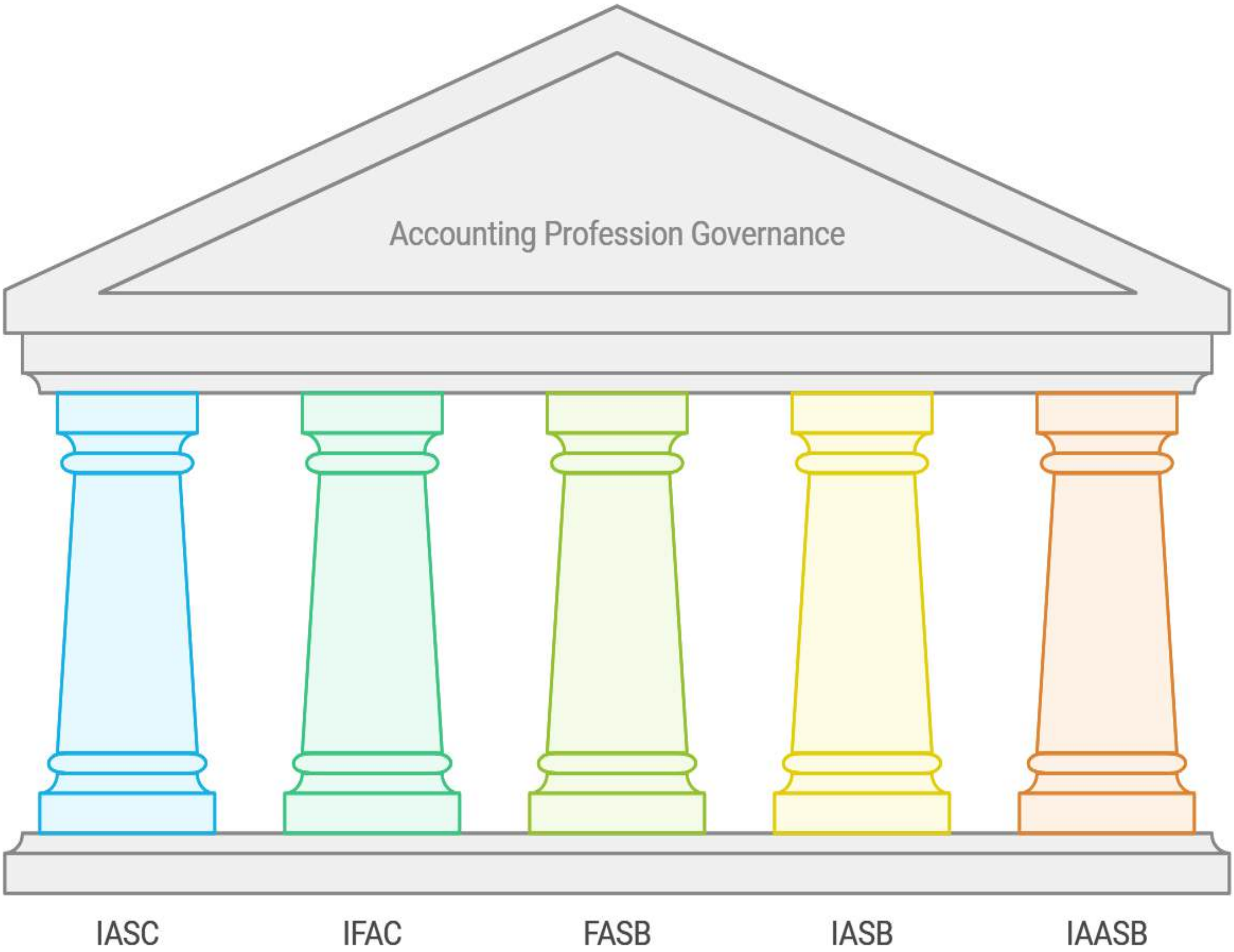
International standards for financial reporting (IFRS)

المعايير الدولية لإعداد التقارير المالية

<u>Global Accounting Alliance</u> (GAA)

التحالف المحاسبي العالمي

<u>International Accounting Education Standards Board</u> (IAESB) مجلس معايير التعليم المحاسبي الدولي



The Accounting Principles Board (APB) was a precursor to the Financial Accounting Standards Board, which establishes generally accepted accounting principles (GAAP). All U.S. public corporations are required to follow the GAAP standards in order to make financial reports consistent and transparent.

What Is the Accounting Principles Board?

The Accounting Principles Board (APB) was the authoritative body of the American Institute of Certified Public Accountants (AICPA) from 1959 until 1973. It was replaced in 1973 by the Financial Accounting Standards Board (FASB).12

What Is the Generally Accepted Accounting Principles**?**

GAAP stands for generally accepted accounting principles and is the standard adopted by the Securities and Exchange Commission (SEC) in the U.S.2 Except for foreign companies, all companies that are publicly traded must adhere to the GAAP system of accounting.6

The best way to think of GAAP is as a set of rules that companies follow when their accountants report their financial statements. These rules help investors analyze and find the information they need to make sound financial decisions.

What Was the International Accounting Standards Committee (IASC)?

The International Accounting Standards Committee was an organization founded in 1973 by professional accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom/Ireland, and the United States.1

Understanding the International Accounting Standards Committee (IASC)

The International Accounting Standards Committee's duties included developing standards for financial reporting and accounting, recording these standards, and communicating them through press releases and publications. It existed between 1973 and 1990, when its duties were assumed by the International Accounting Standards Board (IASB). The committee was preceded by the Accounting Standards Steering Committee (ASSC).2

Before regulatory boards were established, accounting scandals occurred with some regularity. Accounting scandals in the late 1960s and early 1970s prompted the formation of the Accounting Standards Committee to issue accounting standards. In 1990, the Accounting Standards Board took over its responsibilities, which was then replaced by the International Accounting Standards Board (IASB) in 2001. The International Accounting Standards Board issues accounting standards within the United Kingdom and collaborates with other countries' accounting standard- setters.3 In the U.S. there is the Financial Accounting Standards Board (FASB) based in onnecticut.

Related Terms

Accounting Principles Board (APB): What it Means, How it Works

The Accounting Principles Board, now defunct, was a precursor to the Financial Accounting Standards Board (FASB).

Understanding International Accounting Standards (IAS)

International Accounting Standards (IAS) were a set of rules for financial reporting that were replaced in 2001 by International Financial Reporting Standards (IFRS).

IFRS

IFRS stands for International Financial Reporting Standards. The International Accounting Standards Board (IASB) is the accounting standards body for the IFRS Foundation.3

International Financial Reporting Standards Foundation. "Our Structure."

The predecessor to the IFRS Foundation, the International Accounting Standards Committee, was formed in 1973. Initial members were accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, the U.K., and the United States.4 Today, IFRS has become the global standard for the preparation of public company financial statements and 144 out of 166 jurisdictions require IFRS standards.1

Fifteen of the G20 countries have adopted IFRS. China, India, and Indonesia have national accounting standards that are similar to IFRS, while Japan allows companies to follow the standards voluntarily. In the United States, foreign listed companies may use IFRS and are no longer required to reconcile their financial statements with GAAP.5

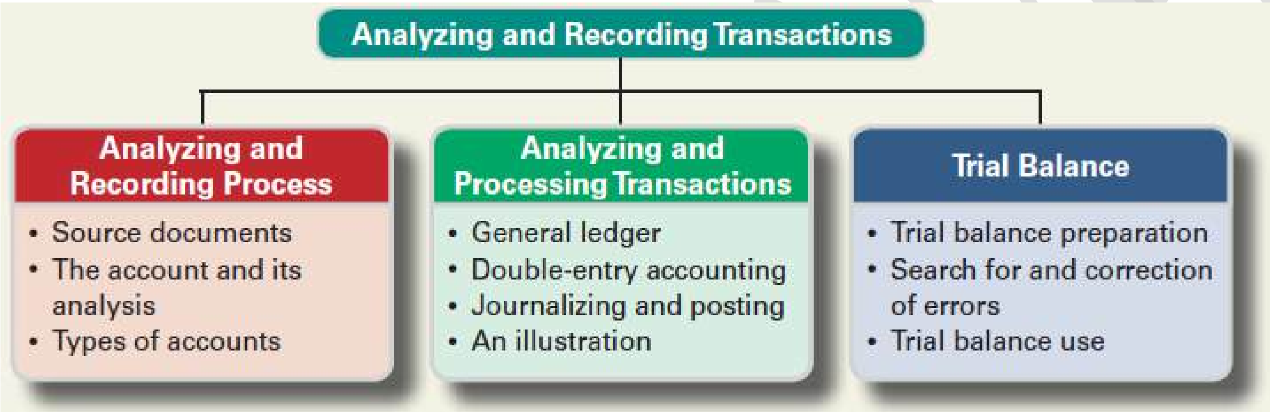
The IFRS Foundation works with more than a dozen consultative bodies, representing the many different stakeholder groups that are impacted by financial reporting.

The Purpose of Accounting Principles

The ultimate goal of any set of accounting principles is to ensure that a company's financial statements are complete, consistent, and comparable.

This makes it easier for investors to analyze and extract useful information from the company's financial statements, including trend data over a period of time. It also facilitates the comparison of financial information across different companies. Accounting principles also help mitigate accounting fraud by increasing transparency and allowing red flags to be identified.

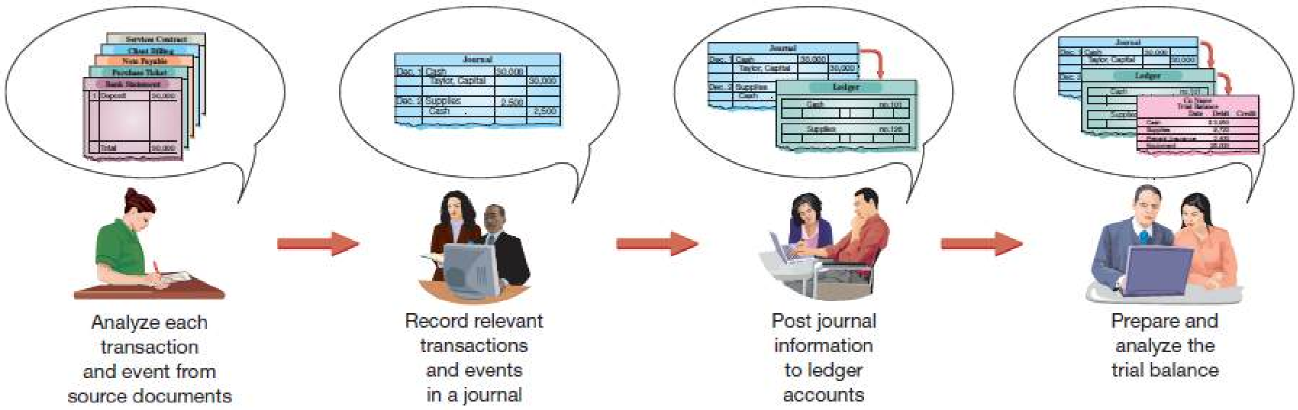
Analyzing and Recording Transactions



ANALYZING AND RECORDING PROCESS

The accounting process identifies business transactions and events, analyzes and records their effects, and summarizes and presents information in reports and financial statements. These reports and statements are used for making investing, lending, and other business decisions. The steps in the accounting process that focus on *analyzing and recording* transactions and events are shown in Exhibit 3.1.

Business transactions and events are the starting points. Relying on source documents, the transactions and events are analyzed using the accounting equation to understand how they affect company performance and financial position. These effects are recorded in accounting records, informally referred to as the *accounting books*, or simply the *books*. Additional steps such as posting and then preparing a trial balance help summarize and classify the effects of transactions and events. Ultimately, the accounting process provides information in useful reports or financial statements to decision makers.



Source Documents

Source documents identify and describe transactions and events entering the accounting process.

They are the sources of accounting information and can be in either hard copy or electronic form. Examples are sales tickets, checks, and purchase orders, bills from suppliers, employee earnings records, and bank statements. To illustrate, when an item is purchased on credit, the seller usually prepares at least two copies of a sales invoice. One copy is given to the buyer. Another copy, often sent electronically, results in an entry in the seller's information system to record the sale.

The Account and Its Analysis

An **account** is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item. Information from an account is analyzed, summarized, and presented in reports and financial statements. The **general ledger,** or simply **ledger,** is a record containing all accounts used by a company. The ledger is often in electronic form. While most companies' ledgers contain similar accounts, a company often uses one or more unique accounts because of its type of operations. As shown in Exhibit 3.2, accounts are classified into three general categories based on the accounting equation: asset, liability, or equity.

Asset Accounts Assets are resources owned or controlled by a company and that have expected future benefits. Most accounting systems include (at a minimum) separate accounts for the assets described here.

***A <u>*Cash* account</u>** reflects a company's cash balance. All increases and decreases in cash are recorded in the Cash account. It includes money and any medium of exchange that a bank accepts for deposit (coins, checks, money orders, and checking account balances).

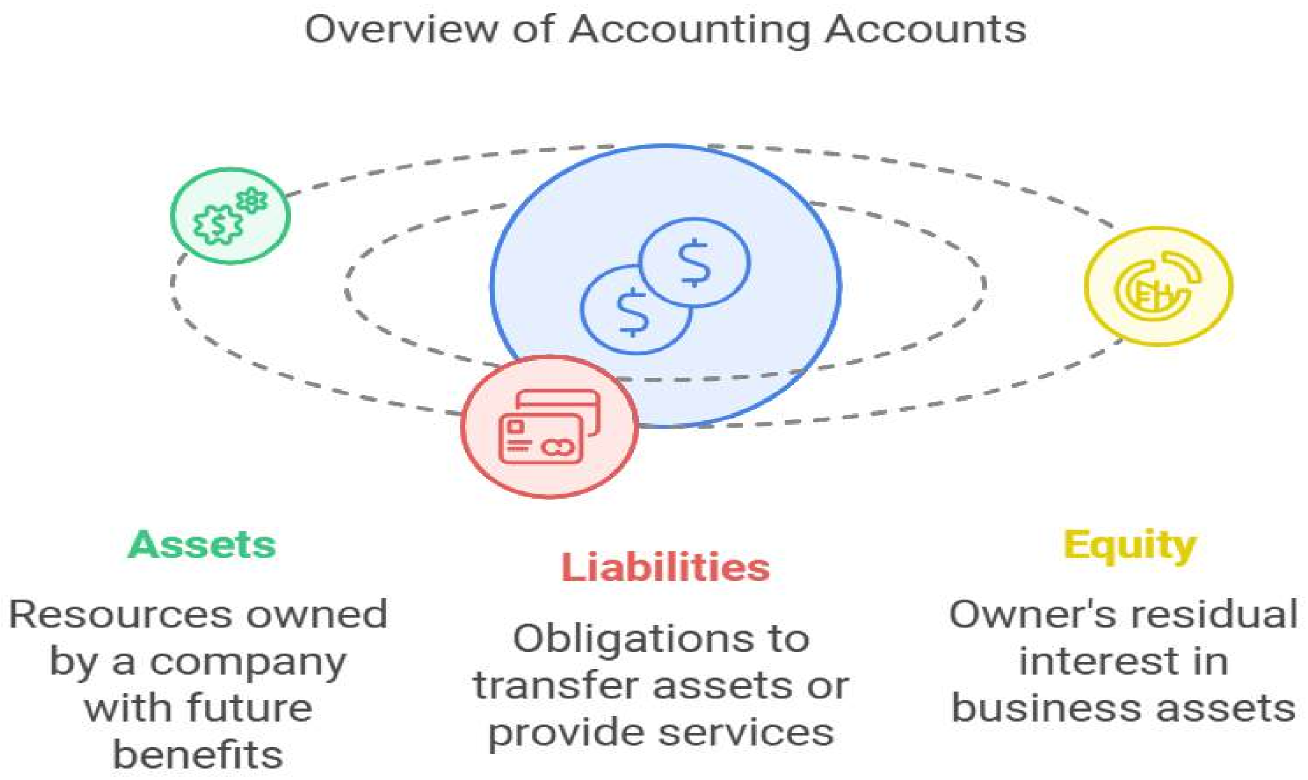
***<u>Accounts receivable</u>** are held by a seller and refer to promises of payment from customers to sellers. These transactions are often called *credit sales* or *sales on account* (or *on credit*). Accounts receivable are increased by credit sales and are decreased by customer payments. A company needs a separate record for each customer.

***A <u>*note receivable*</u>**, or promissory note, is a written promise of another entity to pay a definite sum of money on a specified future date to the holder of the note. A company holding a promissory note signed by another entity has an asset that is recorded in a Note (or Notes) Receivable account.

Liability Accounts Liabilities are claims (by creditors) against assets, which means they are obligations to transfer assets or provide products or services to others.

***Creditors** are individuals and organizations that have rights to receive payments from a company. If a company fails to pay its obligations, the law gives creditors a right to force the sale of that company's assets to obtain the money to meet creditors' claims. When assets are sold under these conditions, creditors are paid first, but only up to the amount of their claims. Any remaining money, the residual, goes to the owners of the company.

Equity Accounts The owner's claim on a company's assets is called *equity* or *owner's equity.* Equity is the owner's *residual interest* in the assets of a business after deducting liabilities. Four types of *accounts* impact equity: owner's capital, owner's withdrawals, revenues, and expenses. We show this visually in Exhibit 2.3 by expanding the accounting equation.



Ledger and Chart of Accounts

The collection of all accounts and their balances for an information system is called a *ledger* (or *general ledger*). If accounts are in files on a hard drive, the sum of those files is the ledger. If the accounts are pages in a file, that file is the ledger.

The **chart of accounts** is a list of all
ledger accounts and includes an identification number assigned to each account. A small business might use the following numbering system for its accounts:

101–199	Asset accounts
201–299	Liability accounts
301–399	Equity accounts
401–499	Revenue accounts
501–699	Expense accounts

Reading in financial position statements week 13

The balance sheet presents a snapshot of a company's financial position at a point in time. To improve users' understanding of a company's financial position

Assets	Liabilities and Owner's Equity
Current assets	Current liabilities
Long-term investments	Long-term liabilities
Property, plant, and equipment	Owner's (Stockholders') equity
Intangible assets	

, companies often use a classified balance sheet. A classified balance sheet groups together similar assets and similar liabilities, using a number of standard classifications and sections. This is useful because items within a group have similar economic characteristics.

These groupings help readers determine such things as (1) whether the company

has enough assets to pay its debts as they come due, and (2) the claims of short- and long-term creditors on the company's total assets. Many of these groupings can be seen in the balance sheet of Franklin Company shown in Illustration 4-18 below. In the sections that follow, we explain each of these groupings.

Current Assets

Current assets are assets that a company expects to convert to cash or use up within one year or its operating cycle, whichever is longer. In Illustration 4-18, Franklin Company had current assets of $22,100. For most businesses, the cutoff for classification as current assets is one year from the balance sheet date. For example, accounts receivable are current assets because the company will collect them and convert them to cash within one year. Supplies is a current asset because the company expects to use it up in operations within one year.

Except where noted, we will assume that companies use one year to determine

Whether an asset or liability is current or long-term.

Common types of current assets are (1) cash, (2) short-term investments (such As short-term U.S. government securities), (3) receivables (notes receivable, accounts Receivable, and interest receivable), (4) inventories, and (5) prepaid expenses (insurance and supplies). **On the balance sheet, companies usually list these items in the order in which they expect to convert them into cash.**

Illustration 4-19 presents the current assets of Southwest Airlines Co.

Southwest Airlines Co.
Balance Sheet (partial) (In millions)

Current assets	
Cash and cash equivalents	$1,390
Short-term investments	369
Accounts receivable	241
Inventories	181
Prepaid expenses and other current assets	420
Total current assets	$2,601

Example: Baxter Hoffman recently received the following information related to Hoffman Company's December 31, 2012, balance sheet.

Prepaid insurance $ 2,300 Inventory $3,400

Cash 800 Accumulated depreciation—

Equipment 10,700 equipment 2,700

Accounts receivable 1,100

Required: Prepare the asset section of Hoffman Company's balance sheet.

Solution

Assets

Current assets		
Cash	$ 800	
Accounts receivable	1,100	
Inventory	3,400	
Prepaid insurance	2,300	
Total current assets		$ 7,600
Equipment	10,700	
Less: Accumulated depreciation—equipment	2,700	8,000
Total assets		$15,600

WATSON ANSWERING SERVICE
August 31, 2012
Trial Balance

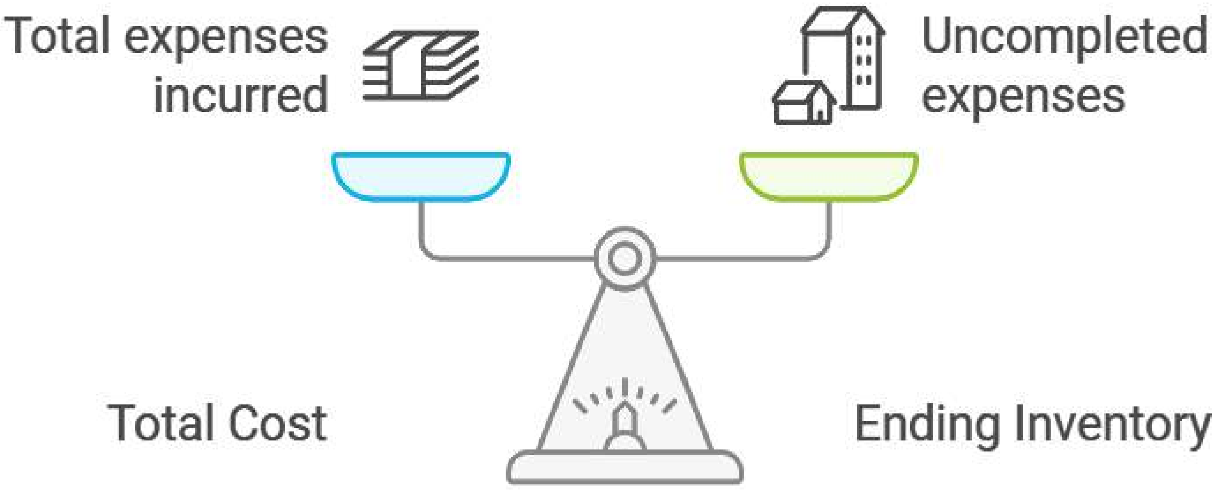
	Debit	Credit
Cash	$ 5,400	
Accounts Receivable	2,800	
Supplies	1,300	
Prepaid Insurance	2,400	
Equipment	60,000	
Notes Payable		$40,000
Accounts Payable		2,400
Owner's Capital		30,000
Owner's Drawings	1,000	
Service Revenue		4,900
Salaries and Wages Expense	3,200	
Utilities Expense	800	
Advertising Expense	400	
	$77,300	$77,300

Manufacturing Costs in Financial Statements week14

The financial statements of a manufacturer are very similar to those of a merchandiser. The principal differences between their financial statements occur in two places: the cost of goods sold section in the income statement and the current assets section in the balance sheet.

Manufactured Goods of Cost the Determining

Cost of Goods Manufactured = Total Cost of Work in Process - Ending Work in Process Inventory



Evaluating manufacturing cost efficiency.

Illustration below shows the formula for determining the cost of goods manufactured:

Schedule Manufactured Goods of Cost

The cost of goods manufactured schedule reports cost elements used in calculating cost of goods manufactured. The schedule presents detailed data for direct cost and for manufacturing overhead, and distinguishes between “Total manufacturing costs” and “Cost of goods manufactured” as the difference is the effect of the change in work in process during the period. Illustration below shows the format of this schedule:

Cost of Goods Manufactured Schedule For the year ended Dec. 31,....			
Particulars	Amount	Amount	Amount
Work in process inventory January 1:			***
Direct material:			
Raw material inventory January 1		***	
Raw material purchases	***		
Less: Purchases	(***)		
Returns Net purchases		***	
Raw materials available for use		***	
Less: Raw material inventory Dec. 31		(***)	
Direct material used		***	
Direct labor		***	
Prime Cost		***	

Manufacturing overhead:			
Indirect Materials	***		
Indirect labor	***		
Factory repairs	***		
Factory utilities	***		
Factory depreciation	***		
Factory insurance	***		
Total manufacturing overhead		***	
Total manufacturing cost			***
Total cost of work in process			***
Less: Work in process inventory Dec. 31			(***)
Cost of goods manufactured			***

Exercises 1:

The following information is available for Karbala Company:

		March1	March31
Raw material inventory		$12,000	$10,000
Work in process inventory		2,500	4,000
Materials purchased in March	$90,000		
Direct Labor in March	75,000		
Manufacturing overhead in March	220,000		

Instruction: Prepare the cost of goods manufactured schedule for the month of March.

Karbala Manufacturing Company Cost of Goods Manufactured Schedule For the month ended March 31			
Particulars		**Amount**	**Amount**
Work in process inventory January 1:			$ 2,500
Direct material:			
Raw material inventory January 1			
Raw material purchases	$ 12,000		
Raw materials available for use	90,000		
Less: Raw material inventory Dec. 31	102,000		
Direct material used	(10,000)	$ 92,000	
Direct labor		75,000	
Prime Cost		167,000	
Manufacturing overhead		220,000	
Total manufacturing cost			387,000
Total cost of work in process			389,500
Less: Work in process inventory Dec. 31			(4,000)
Cost of goods manufactured			$385,500

Ex. 2:

Salim Aluminum Company, a manufacturer of recyclable soda cans, had the following inventory balances at the beginning and end of 2009:

Inventory	January1, 2009	December31, 2009
Raw materials	60,000	70,000
Work in process	120,000	115,000
Finished goods	150,000	165,000

During 2009 the company purchased on credit 250,000 of raw material and spent 400,000 on direct labor. The company acquired 2% cash discount on the purchases of raw material. Manufacturing overhead costs were as follows:

Indirect materials 10,000, Indirect labor 25,000, Depreciation on plant and equipment 100,000, Utilities 35,000, Other 30,000.Sales revenue was 1,105,000 for the year. Selling and administrative expenses for the year amounted to 110,000. Dividends earned 12,000. Bank charged 7,000. The firm's income tax rate is 40 percent.

nstructions:

1- **Prepare a cost of goods manufactured schedule for the year ended December 31, 2009.**

Readings in financial accounting principles Week 15

Related Terms

GAAP: Understanding It and the 10 Key Principles

GAAP is a common set of generally accepted accounting principles, standards, and procedures. U.S. public companies must follow GAAP for their financial statements.

Accounting Principles Board (APB): What it Means, How it Works

The Accounting Principles Board, now defunct, was a precursor to the Financial Accounting Standards Board (FASB).

What Are International Financial Reporting Standards (IFRS)?

International Financial Reporting Standards (IFRS) are a set of accounting rules currently used by public companies in 166 jurisdictions.

What Does an Accountant Do? Duties, Rules, Skills, and History

An accountant is a certified financial professional who performs functions such as audits or financial statement analysis according to prescribed methods.

Handelsgesetzbuch (HGB): The Commercial Code of Germany

Handelsgesetzbuch is a law that governs the commercial code for German companies and includes regulations on the preparation of financial statements.

Understanding International Accounting Standards (IAS) nternational Accounting Standards (IAS) were a set of rules for financial reporting that were eplaced in 2001 by International Financial Reporting Standards (IFRS).

ncome Statement week16

In reporting revenues, gains, expenses, and losses, companies often use a format known as the single-step income statement. The single-step statement consists of just two groupings: revenues and expenses. Expenses are deducted from revenues to arrive at net income or loss, hence the expression "single-step." Illustration below presents the format of single-step income statement:

Particulars	Amount	Amount
Revenues:		
Net sales	***	
Dividend revenue	***	
Rent revenue	***	
Total revenues		***
Expenses:		
Cost of goods sold	***	
Selling expenses	***	
Administrative expenses	***	
Finance Charges	***	
Other expenses	***	
Income tax expense	***	
Total expenses		***
Net income		***

The following equations are highly useful for determination of Net Profit or Net Loss:

Profit Net= expenses other - gains and revenues other + expenses operating - Profit Gross and losses - Income tax

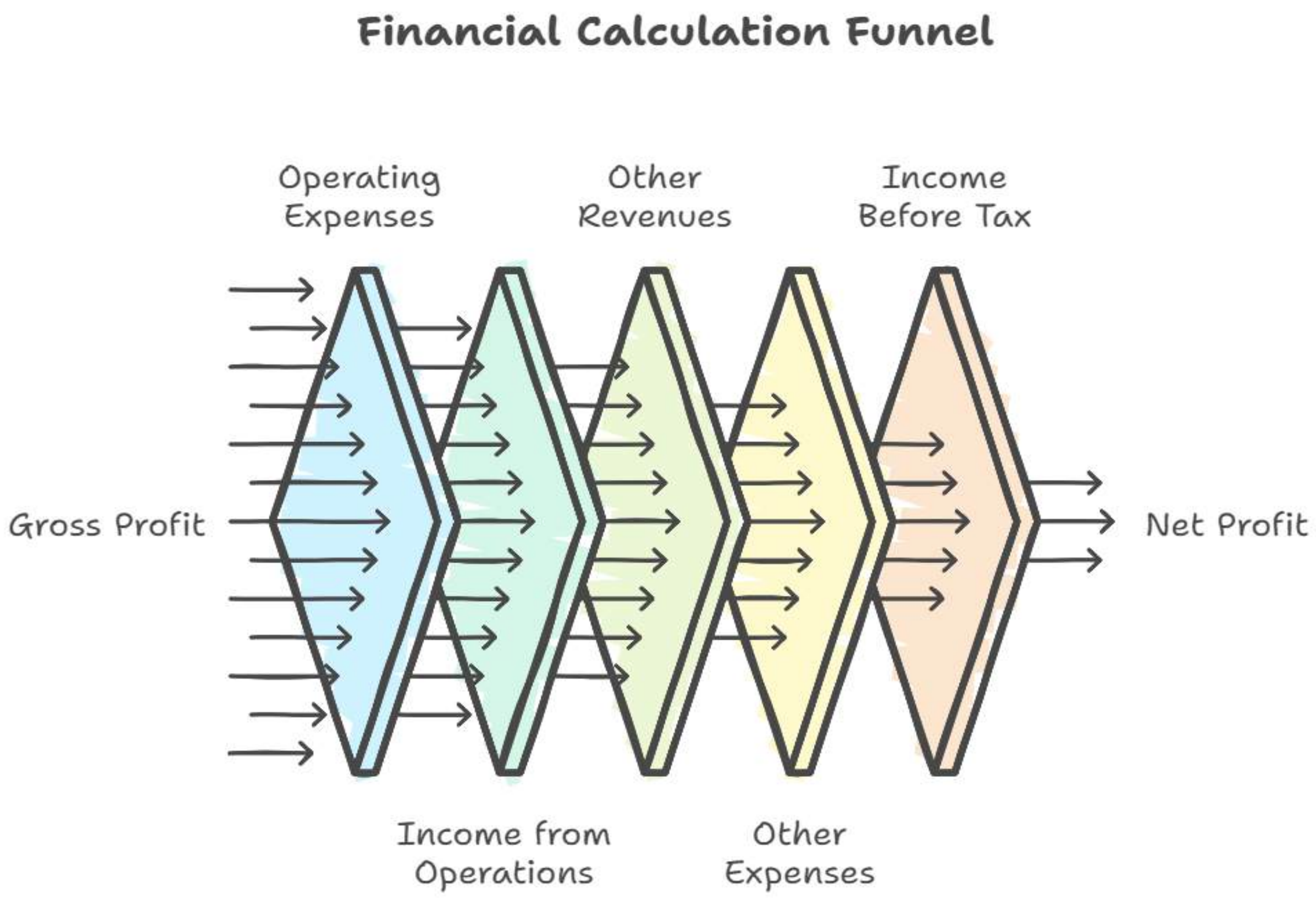
Net Profit = Income from operation + other revenues and gains - other expensesand losses - Income tax

Income from operation = Gross Profit - operating expenses

Operating expenses = Selling expenses + Administrative

expensesNet Profit = Income before income tax - income tax

Income before income tax = Income from operation + other revenues and gains - other expense



EX 1: The following balances have been taken from the trial balance for year ended 31.12.2006:

Sales 320,000, Purchases 220,000, Dividend revenue10000,Sales return 10000, Purchases

return 5000, sales Discount 5000 , Purchases Discount 3000, fright –in 3000, inventory at 1 **January 10000, , selling expenses 5000, Administrative expenses 5000, Rent revenue 5000**

, other expense 4000 , Income tax 10000 .

Note: stock at Dec. 31, 2006 was,5000 .

Re: Prepare the following for the year ending 31 Dec. 2006:. Single-Step Income Statement

Income Statement For the year ended Dec. 31, 2006		
Particulars	Amount	Amount
Revenues:		
Net sales	305000	
Dividend revenue (other revenue)	10000	
Rent revenue (other revenue)	5000	
Total revenues		320000
Expenses:		
Cost of goods sold	220000	
Selling expenses	5000	
Administrative expenses	5000	
Interest expense (other expense)	4000	
Income tax expense	10000	
Total expenses		244000
Net income		76000

Equations the solution :

Net Sales = Sales – (Sales return + Sales discount)

= 320000 – (10000 + 5000) = 320000 – 15000

Net sales = 305000

Net Sales = Cost of good sold + Gross Profit

Total revenues =Net Sales + other revenue (Dividend revenue , Rent revenue)

Total revenues =305000 + 10000+ 5000

= 320000

Net purchases = purchases – (purchases return + purchases discount

= 220000 - (5000 + 3000)

= 220000 – 8000

= 212000 Net purchases

Cost of purchases = Net purchases + Direct purchases expenses (fright - in)Cost of purchases = 212000 + 3000 = 215000

Cost of goods available for sale = Beginning Stock + Cost of purchasesCost of goods available for sale = 10000 + 215000 = 225000

Cost of goods sold = Cost of goods available for sale - Ending Stock
220000 = 225000 - 5000

Cost of good sold = Beginning Stock + Cost of purchases - Ending StockCost of good sold = 10000 + 215000 - 5000

= 225000 – 5000 = 220000

Gross Profit = Net Sales - Cost of good sold

Net income = Total revenues - Total expenses

= 320000 – 244000 = 76000 net income

Debits and Credits

A **T-account** represents a ledger account and is a tool used to understand the effects of one or more transactions. Its name comes from its shape like the letter **T**. The layout of a T-account, shown in Exhibit 3.5, is (1) the account title on top, (2) a left, or debit side, and (3) a right, or credit, side. The left side of an account is called the **debit** side, often abbreviated ***Dr***. The right side is called the **credit** side, abbreviated ***Cr***.2 To enter amounts on the left side of an account is

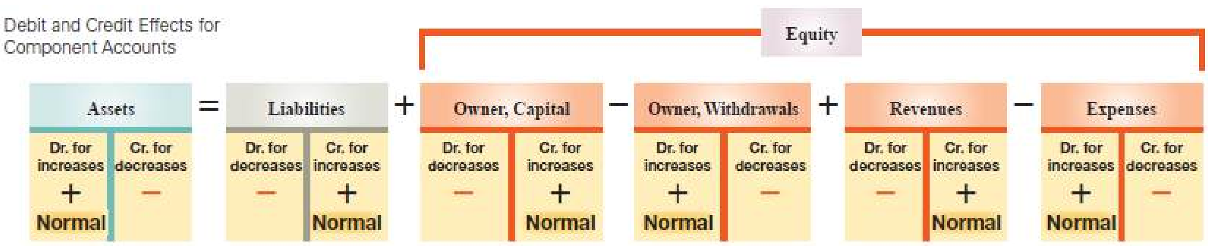
to *debit* the account. To enter amounts on the right side is to *credit* the account. Do not make the error of thinking that the terms *debit* and *credit* mean increase or decrease. Whether a debit or a credit is an increase or decrease depends on the account. For an account where a debit is an increase, the credit is a decrease; for an account where a debit is a decrease, the credit is an increase. The difference between total debits and total credits for an account, including any beginning balance, is the **account balance.** When the sum of debits exceeds the sum of credits, the account has a *debit balance*. It has a *credit balance* when the sum of credits exceeds the sum of debits. When the sum of debits equals the sum of credits, the account has a *zero balance*.

Double-Entry Accounting

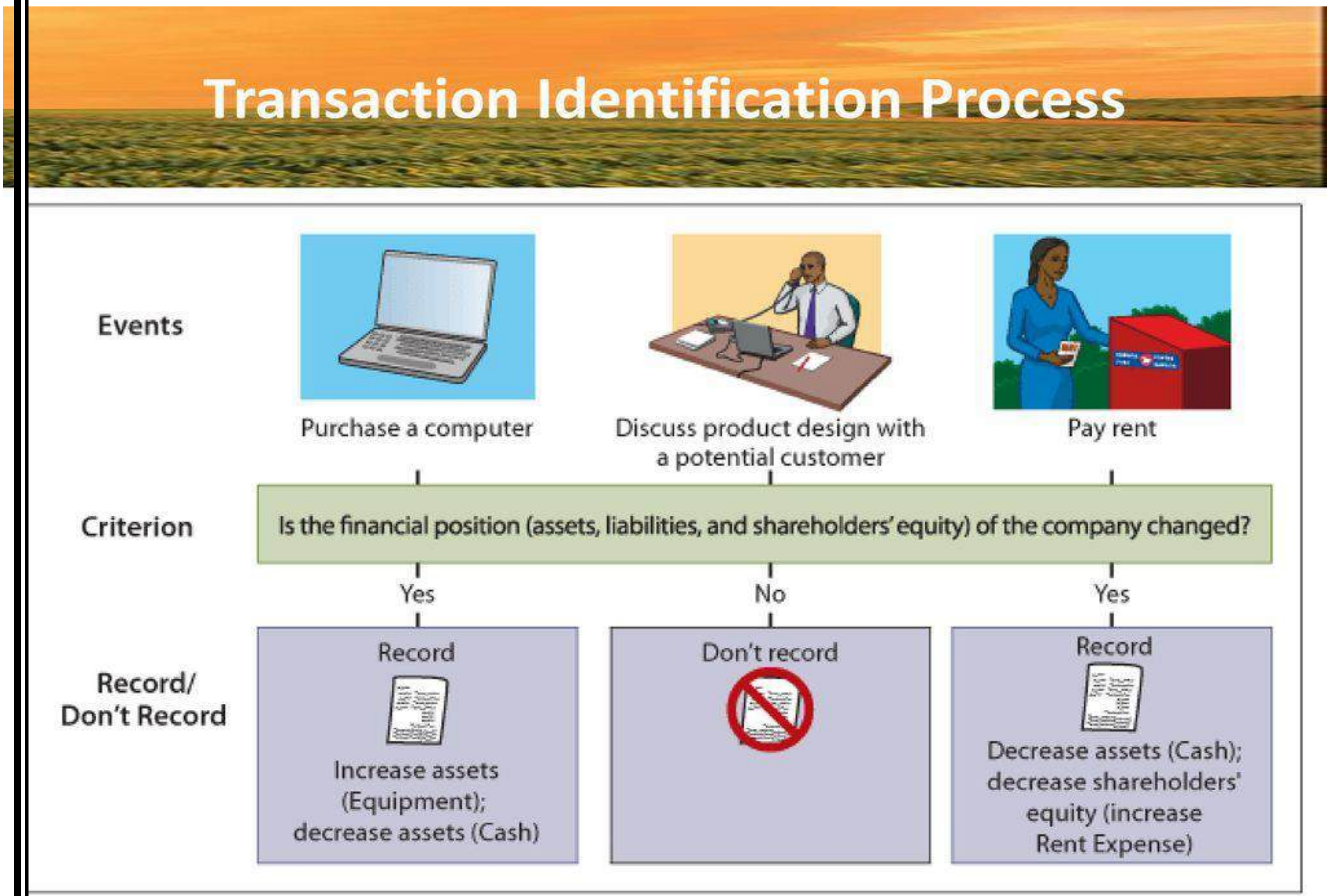
Double-entry accounting requires that for each transaction:

- ✓ At least two accounts are involved, with at least one debit and one credit.
- ✓ The total amount debited must equal the total amount credited.
- ✓ The accounting equation must not be violated.

Debit and Credit Effects for Component Accounts



Transaction-identification process



Summary: Quick Check

1. Identify examples of accounting source documents.

2. Explain the importance of source documents.

3. What is an account? What is a ledger?

4. What determines the number and types of accounts a company uses?

5. Does *debit* always mean increase and *credit* always mean decrease?

6. Describe a chart of accounts.

Accounting entries (examples) week18

Journalizing

Entering transactions data in the journal known as **journalizing**.

Components of journal entry

A complete entry consists of :

1-The **date** of transaction .

2- The **accounts and amounts** to be debited and credited .

3- **Brief explanation** of transaction .

Simple and compound journal entry

1-Simple journal entry

If an entry involves **only two accounts** , one debit and another credit , it is considered a simple entry

General journal

Date	Account title and Explanation	Ref.	Debit	Credit
2005 July 2	Cash Capital Capital invested for cash		1400000	 1400000

2- Compound journal entry

If an entry involves **three or more accounts** , in one journal entry , it is considered a compound entry .

General journal

Date	Account title and Explanation	Ref.	Debit	Credit
2005 July 14	Equipment Furniture Cash Purchasing equipment and furniture for cash		220000 80000	 300000

Exercise: Ali started his business by the following transactions:

1- On January 2, 2020, capital invested by Ali for cash IQD200000000.

2- On January 4, 2020, purchased land for cash IQD 50 000 000 .

3- On January 5, 2020, purchased furniture from Mohammed on account for IQD 800 000.

4- On January 7, 2020, Paid sundry expenses IQD 250 000.

5- On January 8, 2020, Purchased goods from Al- Mustafa company for IQD 3 000 000, paid cash IQD 1200 000, and the remind on account.

6- On January 9, 2020, received a loan from Al-Rushed bank for IQD 5 000 000.

7- On January 9, 2020, received cash as commission IQD 500 000 .

8- On January 12, 2020, sold goods to Sameer on account for IQD 950 000.

9- On January 16 , 2020 , sold goods for cash IQD 800 000,.

Required :

1-Use the accounting equation to show the effect of every transaction of previous transactions on the assets , liabilities and owner's equity.

2- Record the previous transactions in the journal.

General ledger

What is a general ledger?

The general ledger is one of the main accounting books that pertain to the accounting cycle. It also enables us to get some of the accounting information, as it is a book that is specific to one financial period only, and it is opened at the beginning of the fiscal year and closed at the end of it.

As it is dedicated to each account of the financial institution, as each of its accounts is opened at the beginning of the period, a page is allocated to it, and it is closed at the end of the financial period.

As the general ledger consists of a table with two parties, where the first party is the debtor and the second party is the creditor, and it is recorded day by day in the operations ledger, everything that is updated.

Types the ledger

There are two types from the ledger:

1-General ledger

As it is considered the main account for some of the subsidiary accounts, as it becomes clear to us that the balance of the general ledger account is the sum of the balances of those auxiliary accounts.

2-Assistant ledger

It is considered among the sub-accounts of the general ledger.

classification of ledger accounts

ledger Account : is an accounting record of increases and decreases in a specific asset , liability or owner's equity item .

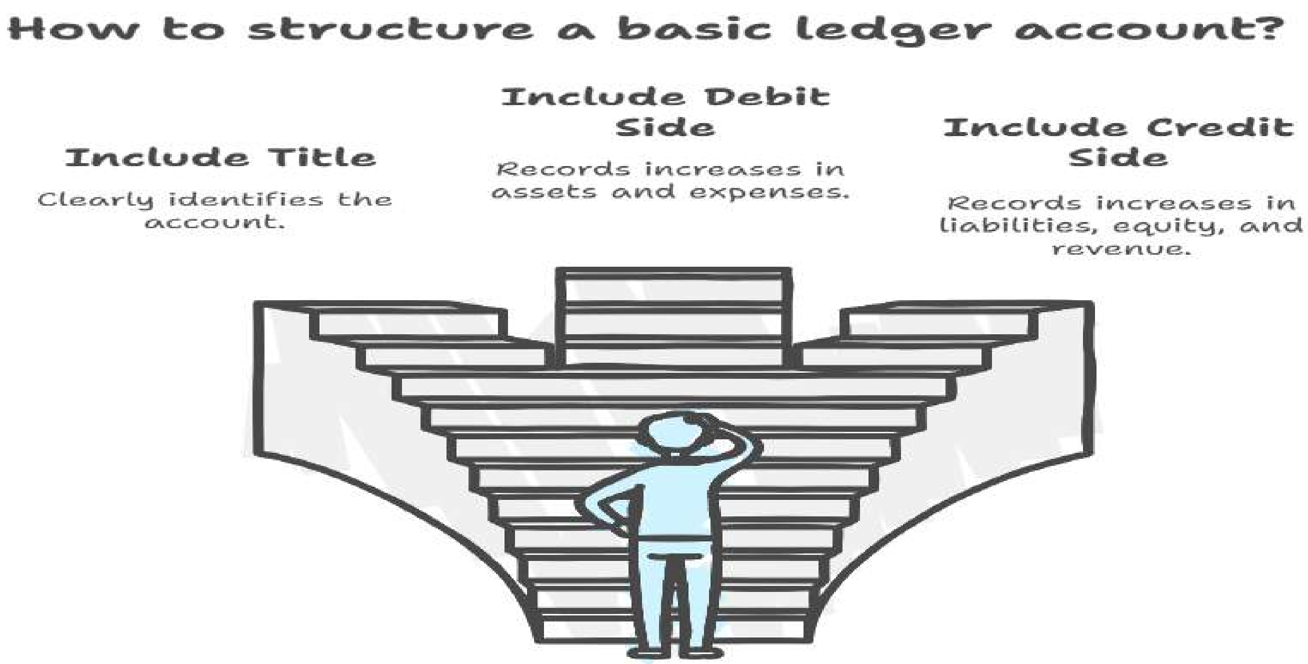
Basic form of an ledger account

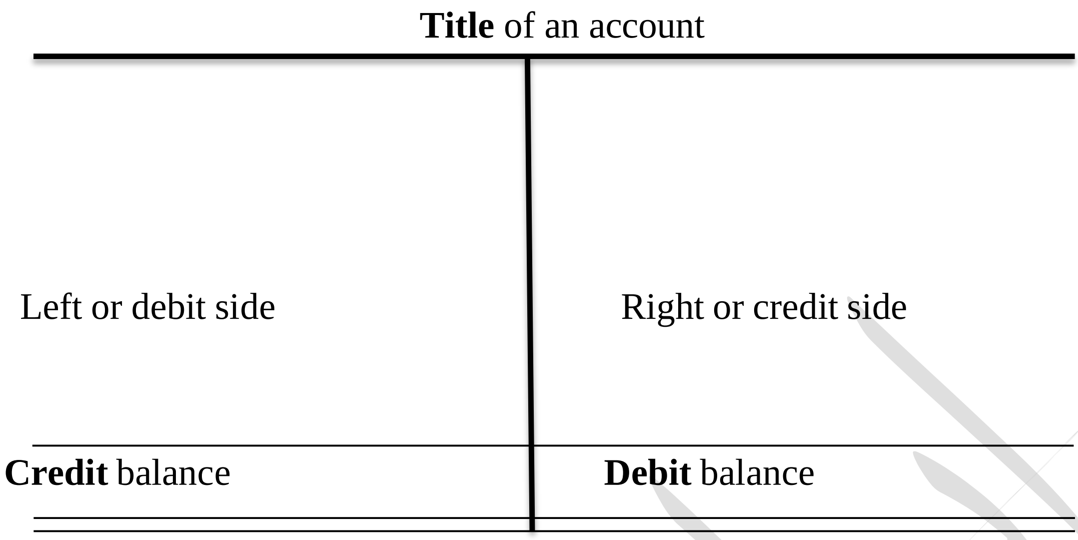
The simplest form of an **ledger** account consists of :

1-The **title** of an account.

2- The **left** or debit side.

3- The **right** or credit side.





Trial Balance week 19

What is a trial balance?

A trial balance is a statement that lists all the general ledger accounts and their respective balances at a specific point in time. It is used to ensure that the total debits equal the total credits in the accounting system.

What is the purpose of a trial balance?

The trial balance is like a big checklist for accountants. It helps them double-check their work by listing all the account balances in one place. This way, they can make sure that the total amount of money going in (debits) matches the total amount going out (credits). If there's a mistake in recording transactions, the trial balance can help spot it before it causes bigger problems in the books. So, it's like a safety net to catch errors and keep the accounting records accurate.

How does a trial balance work?

A trial balance generally looks at all transactions that are allocated under these five categories:

Balance Sheet categories

- Assets
- Liabilities
- Equity

Profit & Loss categories

- Revenue
- Expenses

Each transaction that has been allocated to an account under these categories will impact the total debits and credits for each account and is then summed to prepare the trial balance. If the sum of debits does not equal the sum of credits, the trial balance indicates an error has occurred.

Trial Balance Format

Follow this structure to understand the format of trial balance:

Name of Company

Trial Balance as on ………….. (date on which it is recorded)

Particulars	**L/F**	**Debit Balance (Rs)**	**Credit Balance (Rs)**
Capital A/C			*****
Cash A/C		*****	
Purchase A/C		*****	
Sales A/C			*****
Furniture A/C		*****	

Purchase Return A/C			*****
Salaries A/C		*****	
Total		*****	*****

You must remember that the total for both debit and credit columns has to be the same to ensure the accuracy of the trial balance.

Cash Flow Statement week20

Below is a breakdown of each section in a statement of cash flows. While each company will have its own unique line items, the general setup is usually the same.

Cash flow activities

International Accounting Standard 3 specifies the cash flows and adjustments to be included under each of the major activity categories.

Operating activities

Operating activities include the production, sales and delivery of the company's product as well as collecting payment from its customers. This could include purchasing raw materials, building inventory, advertising, and shipping the product.

Operating cash flows include:

- Receipts for the sale of loans, debt or equity instruments in a trading portfolio
- Interest received on loans
- Payments to suppliers for goods and services
- Payments to employees or on behalf of employees
- Interest payments (alternatively, this can be reported under financing activities in IAS 3)
- Purchases of merchandise

Items which are added back to (or subtracted from, as appropriate) net income (which is found on the Income Statement) to arrive at cash flows from operations generally include:

- Depreciation (loss of tangible asset value over time)
- Deferred tax
- Amortization (loss of intangible asset value over time)
- Any gains or losses associated with the sale of a non-current asset, because associated cash flows do not belong in the operating section (unrealized gains/losses are also added back from the income statement)
- Dividends received general reserves
-

Investing activities

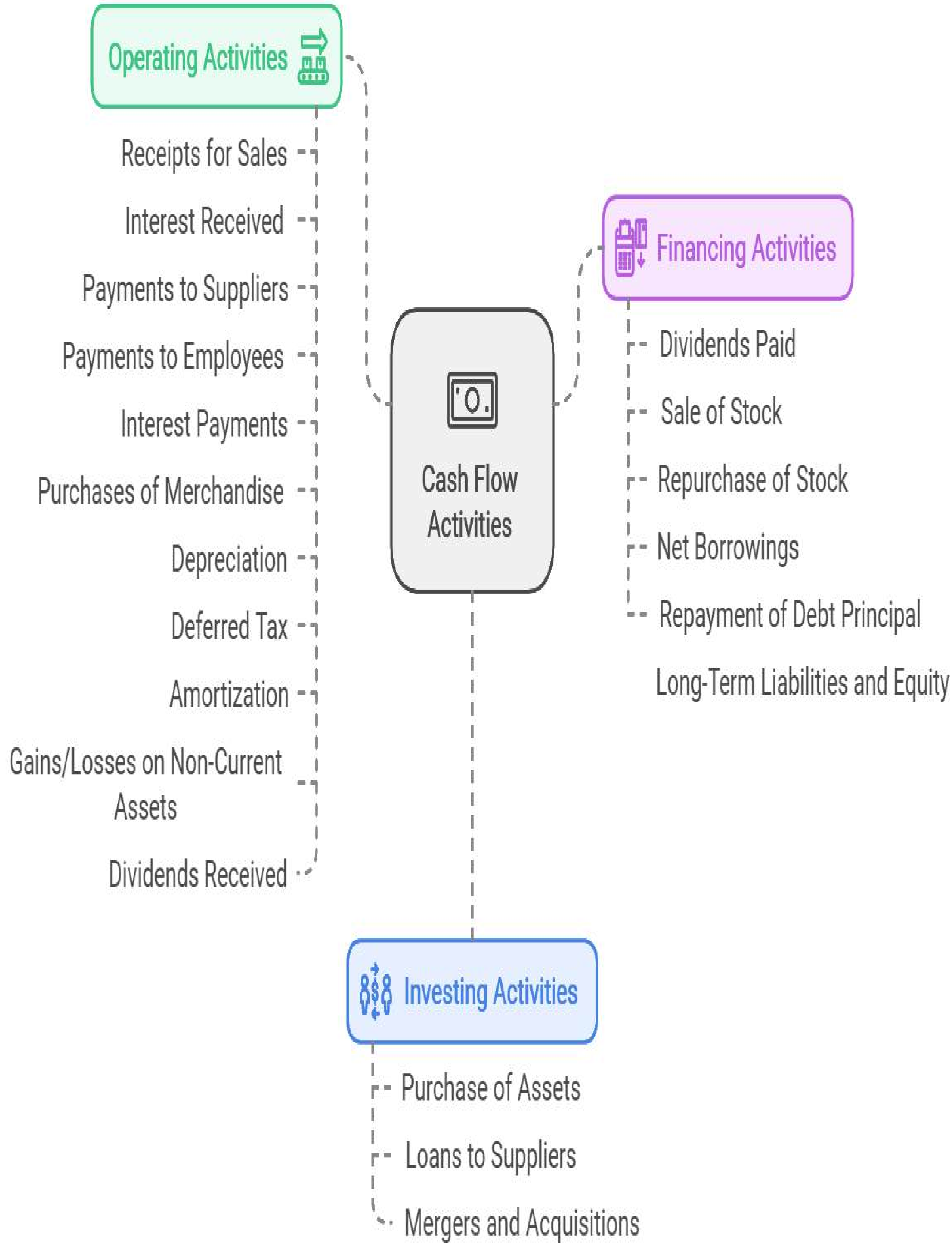
Examples of investing activities are:

- Purchase or sale of an asset
- Loans made to suppliers
- Payments related to mergers and acquisitions

Financing activities

Financing activities include inflows and outflows of cash between investors and the company, such as:

- Dividends paid
- Sale or repurchase of the company's stock
- Net borrowings
- Repayment of debt principal, including capital leases
- Other activities which impact the company's long-term liabilities and equity


Operating Activities
Receipts for Sales
Interest Received
Payments to Suppliers
Payments to Employees
Interest Payments
Purchases of Merchandise
Depreciation
Deferred Tax
Amortization
Gains/Losses on Non-Current Assets
Dividends Received
Cash Flow Activities
Financing Activities
Dividends Paid
Sale of Stock
Repurchase of Stock
Net Borrowings
Repayment of Debt Principal
Long-Term Liabilities and Equity
Investing Activities
Purchase of Assets
Loans to Suppliers
Mergers and Acquisitions

Cash Flow from Operating Activities

I. Net profit before taxation and extraordinary items*		XXXX
II. Adjustments related to Non-cash and Non-operating Items		
Add: Items to be added:		
Depreciation on Fixed Assets	XXXX	
Interest on Borrowings	XXXX	
Preliminary Expenses/Underwriting Commission/Discount on Issue of Debentures/Shares Written Off	XXXX	
Goodwill/Patents/Trade Marks/Copyright amortised	XXXX	
Loss on Sale of Machinery/Land and Building/Investments, etc.	XXXX	
Premium payable on redemption of Preference Shares/Debentures	XXXX	XXXX
Less: Items to be deducted:		
Interest Income/Other Income	XXXX	
Dividend Income	XXXX	
Discount on Redemption of Preference Shares/Debentures	XXXX	
Profit on Sale of Machinery/Land and Building/Investments, etc.	XXXX	(XXXX)
Operating Profit before Working Capital Changes		**XXXX**
III. Adjustments related to change in Current Assets and Current Liabilities		
Add: Decrease in Current Assets	XXXX	
Increase in Current Liabilities	XXXX	XXXX
Less: Increase in Current Assets	XXXX	
Decrease in Current Liabilities	XXXX	(XXXX)
Cash generated from Operations		**XXXX**
Less: Income taxes paid (Net of Refund)		(XXXX)
Cash before Extraordinary Items		**XXXX**
Less: Extraordinary Items		(XXXX)
Net Cash Inflow/Outflow from Operating Activities		**XXXX**

What Is an Expenditure?

An expenditure is a purchase of services or goods. Everyone experiences expenditures in their day-to-day activities, like buying groceries. However, in business and accounting, expenditures are a bit more complicated.

Expenditure Definition

An expenditure is simply a purchase of products, goods, or services. Anyone can incur one: Buying a coffee, making an Amazon purchase, and hiring a lawn care company are all examples of expenditures you might encounter in your day-to-day life.

However, in business, expenditures are more specific. Expenditures are purchases that benefit the company. For example, buying a new printer for the office can be an expenditure. Businesses also have to record these expenditures carefully to ensure their accounting records stay accurate. These purchases are recorded at the time of purchase, typically using an invoice or a sales receipt as proof.

Who Deals With Expenditures?

While many people in a company make expenditures, accountants are responsible for tracking and recording these purchases. Companies want to make sure they aren't spending more than they make, so accounting involves comparing daily expenditures against overall profits to prevent losses.

Types of Accounting Expenditures

In accounting, there are three main categories of expenditures: capital, revenue, and deferred revenue.

Capital

A capital expenditure (often referred to as CapEx) is a purchase the company will use for more than one year. CapExs are typically larger investments in assets to grow the business, such as purchasing new machinery to increase production or acquiring a competitor to take over more of the market.

Companies often use debt or equity financing to pay for capital expenditures. Because these purchases have a long-term benefit to the company, the actual cost to acquire the asset is spread out over the item's lifetime. For example, if a company pays $5,000 for a machine expected to be useful for five years, rather than listing that as a $5,000 purchase in the first year, it will be recorded as a $1,000 deduction each year for five years.

Revenue

A revenue expenditure is a purchase the company will use for less than one year — the flip side of a capital expenditure. These are short-term purchases for daily operations and are similar to a company's operating expenses.

A common type of revenue expenditures are raw production materials that a company repurchases every few weeks. For example, if a cake company needs to purchase eggs, milk, butter, and other non-shelf-stable ingredients for its daily production, those transactions are recorded as revenue expenditures.

Deferred Revenue

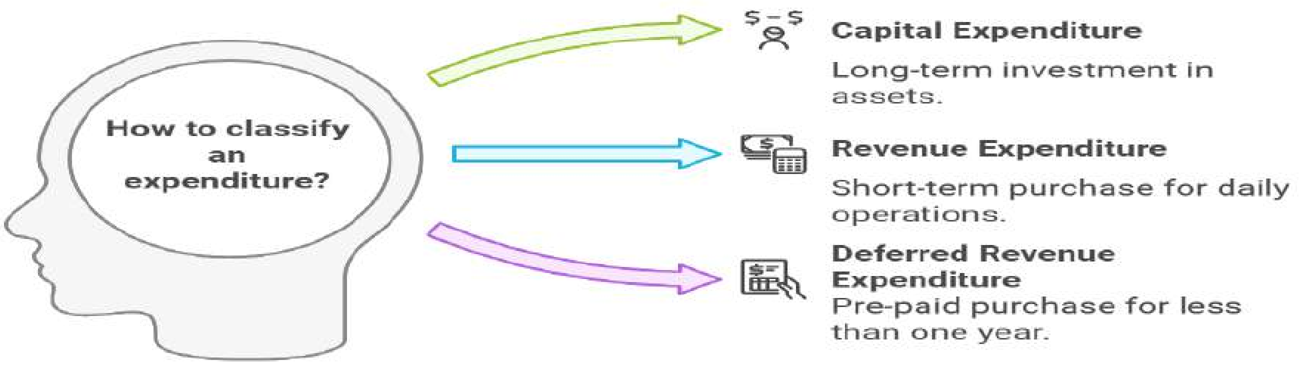
Deferred revenue expenditures are pre-paid purchases that the company uses for less than one year. For example, imagine if the cake company from the above example paid its egg supplier two months in advance so that the supplier would deliver fresh eggs every week. The eggs that have been paid for, but not yet delivered, count as a deferred revenue expenditure.

Expenditure vs. Expense

The difference between an expenditure and an expense is subtle but important in accounting. While an expenditure is the total cost of the purchase, an expense is how much that purchase offsets a company's revenue.

For example, let's say a company purchases a $5,000 piece of machinery and expects to use this machine for five years. The capital expenditure is $5,000, but the actual expense is only $1,000 every year for five years. So, the initial investment is recorded as an expenditure, but the machine is *expensed* over the course of five years.

The easiest way to think of this distinction is that an expenditure is just the money spent, while an expense is how the expenditure is paid for.



What Is Revenue?

Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold. It is the top line (or gross income) figure from which costs are subtracted to determine net income. Revenue is also known as sales on the income statement.

Understanding Revenue

Revenue is money brought into a company by its business activities. There are different ways to calculate revenue, depending on the accounting method employed. Accrual accounting will include sales made on credit as revenue for goods or services delivered to the customer. Under certain rules, revenue is recognized even if payment has not yet been received.

It is necessary to check the cash flow statement to assess how efficiently a company collects money owed. Cash accounting, on the other hand, will only count sales as revenue when payment is received. Cash paid to a company is known as a "receipt." It is possible to have receipts without revenue. For example, if the customer paid in advance for a service not yet rendered or undelivered goods, this activity leads to a receipt but not revenue.

Revenue is known as the top line because it appears first on a company's income statement. Net income, also known as the bottom line, is revenues minus expenses. There is a profit when revenues exceed expenses.

Types of Revenue

A company's revenue may be subdivided according to the divisions that generate it. For example, Toyota Motor Corporation may classify revenue across each type of vehicle. Alternatively, it can choose to group revenue by car type (i.e. compact vs. truck).

A company may also distinguish revenue between tangible and intangible product lines. For example, Apple products include iPad, Apple Watch, and Apple TV. Alternatively, Apple may be interested in separately analyzing its Apple Music, Apple TV+, or iCloud services.

Revenue can be divided into operating revenue—sales from a company's core business—and non-operating revenue which is derived from secondary sources. As these non-operating revenue sources are often unpredictable or nonrecurring, they can be referred to as one-time events or gains. For example, proceeds from the sale of an asset, a windfall from investments, or money awarded through litigation are non-operating revenue.

Formula and Calculation of Revenue

The formula and calculation of revenue will vary across companies, industries, and sectors. A service company will have a different formula than a retailer, while a company that does not accept returns may have different calculations than companies with return periods. Broadly speaking, the formula to calculate net revenue is:

Net Revenue = (Quantity Sold * Unit Price) - Discounts - Allowances - Returns

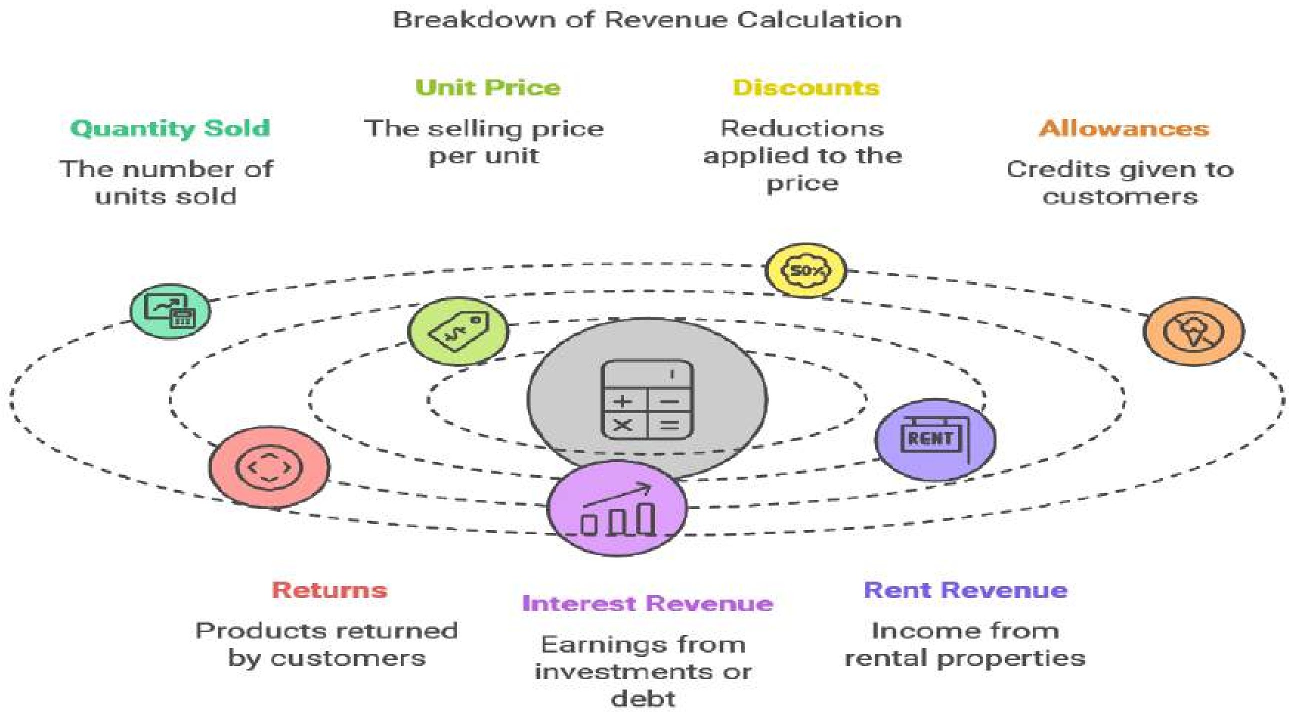
The main component of revenue is the quantity sold multiplied by the price. For a service company, this is the number of service hours multiplied by the billable service rate. For a retailer, this is the number of goods sold multiplied by the sales price.

The obvious constraint with this formula is a company that has a diversified product line. For example, Apple can sell a MacBook, iPhone, and iPad, each for a different price. Therefore, the net revenue formula should be calculated for each product or service, then added together to get a company's total revenue.

There are several components that reduce revenue reported on a company's financial statements in accordance to accounting guidelines. Discounts on the price offered, allowances awarded to customers, or product returns are subtracted from the total amount collected. Note that some components (i.e. discounts) should only be subtracted if the unit price used in the earlier part of the formula is at market (not discount) price.

Interest revenue: is the earnings that an entity receives from any investments it makes, or on debt it owns.

Rent Revenue: is the amount of rent that has been earned during a period of time.



The Profit and Loss Account

The profit and loss account is used to determine the net profit of the business. The starting point for the profit and loss account is the balance carried down from the trading account which is the gross profit of the business.

Profit and Loss Account Formula

The profit and loss account shows the net profit which is the determined by deducting the expenses of the business from the trading account gross profit and adding other income.

The net profit is calculated using the profit and loss account formula.

Net profit = Gross profit – Expenses + Other income (other revenues)

In the above formula expenses refers to all the costs of the business, which are not included in cost of goods sold in the trading account such as wages and salaries, rents, insurance, bank charges etc.

Other income refers to any income other (other revenues) than that included in sales revenue such as interest received.

Preparation of Profit and Loss Account

The profit and loss account is prepared by closing the trading account, expense accounts and other income accounts using a closing journal entry.

Profit and loss account closing journal entry

Account	Debit	Credit
Trading Account	55,000	
Expense accounts		48,000
Other income	5,000	
Profit and Loss Account		12,000
Total	60,000	60,000

Each account is closed and transferred to the profit and loss account in the general ledger.

The credit entry to the profit and loss account of 12,000 represents the net profit for the period.

Profit and Loss Account Example

After the closing journal entry has been posted the profit and loss account would take the format shown in the example below.

Profit and loss account after closing journal entry				
Profit and loss account				
Debit			Credit	
			Gross profit b/d	55,000
Expenses	48,000		Other income	5,000
Balance c/d	12,000			
Total	60,000		Total	60,000
			Balance b/d	12,000

Again for clarity, in this example each line item is posted to the general ledger profit and loss account leaving a credit balance brought down of 12,000 representing the net profit of the business.

In the example above the profit and loss account has a net credit balance of 12,000 which indicates sales and other income are greater than the cost of goods sold and expenses and the business has made a net profit. If the profit and loss account had a net debit balance brought down it would indicate that sales and other income were less than the cost of goods sold and expenses and the business had therefore made a net loss for the accounting period.

Profit and Loss Account in the Final Accounts

The profit and loss account starting with gross profit is not usually shown as a separate statement and is normally combined with the trading account and shown as a combined trading profit and loss account format shown later in this post.

For the sake of completeness, assuming the figures relate to the month ended 31 December, a separate profit and loss account starting with gross profit might appear as follows.

Profit and loss account for month ended December 31 2017	
Gross profit	55,000
Expenses	48,000
Other income	5,000
Net profit	12,000

Again the profit and loss account shows the net profit of 12,000 the business has made for the accounting period.

Using the net sales from the trading account the business can quickly calculate the net profit percentage as follows.

Net profit % = Net profit / Net sales

Net profit % = 12,000 / 100,000 = 12%

Trading Profit and Loss Account Format

The trading account and the profit and loss account can be combined into a single summary known as a trading profit and loss account.

An example trading profit and loss account format is shown below.

Trading profit and loss account format – month ended December 31 2019		
Net sales		100,000
Net purchases	46,000	
Beginning inventory	8,000	
Ending inventory	(9,000)	
Cost of goods sold		45,000
Gross profit		55,000
Expenses		48,000
Other income		5,000
Net profit		12,000

By using the trading profit and loss account the merchandising business can clearly see both the gross and net profit of the business and can quickly calculate the gross and net profit percentages based on net sales.

Gross Profit = Sales – COGS (Sales + Closing Stock) – (Stock in the beginning + Purchases + Direct Expenses)

Items included on the debit side are opening stock, purchases, and direct expenses and on the credit side are sales and closing stock. The resultant figure is either gross profit or gross loss.

Example: The following trial balance has been taken out from the books of Acer as on 31 Dec. 2019.

Particulars	Dr.	Cr.
Machine	100,000	
Beginning inventory	60,000	
Purchases	160,000	
Building	170,000	

Freight in expense	3,400	
Freight out expense	5,000	
Wages expense	32,000	
Accounts receivables	100,000	
Salaries expense	24,000	
Furniture	36,000	
Miscellaneous expense	12,000	
Discount on sales	1,900	
Advertising expense	5,000	
Bad debts	1,800	
Drawings	10,000	
notes receivable	50,000	
Insurance expense	4,400	
Bank balances	20,000	
Sales		480,000
Interest revenues		2,000
Accounts payable		40,000
Bank loan		100,000
Discount on purchases		2,000
Capital		171,500
	795,500	795,500

Ending inventory is valued at $ 90,000.

Required : Prepare the trading and profit and loss account of the business for the year ended 31.12.2019 .

Solution:

Acer company
Trading and Profit and Loss Account
For the year ended 31st, December 2009

Particulars	Amt	Amt	Particulars	Amt	Amt
Beginning inventory		60,000	Sales	480,000	
Purchases	160,000		Less discount	1,900	478,100
Less discount	(2,000)	158,000			
			Ending inventory		90,000
Freight in expense		3,400			
Wages expense		32,000			
Gross profit (transferred to P&L)		314,700			
		568,100			**568,000**
Freight out expense		5,000	Gross profit (transferred to P&L)		314,700
Salaries expense		24,000	Interest revenues		2,000
Miscellaneous expenses		12,000			
Advertising expense		5,000			
Bad debts		1,800			
Insurance expense		4,400			
Net profit (transferred to capital)		264,500			
		316,700			**316,700**

The terms of assets   week 24

Plant Assets, Natural Resources, and Intangible Assets

Plant Assets	Natural Resources	Intangible Assets	Statement Presentation and Analysis
• Determining the cost of plant assets • Depreciation • Expenditures during useful life • Plant asset disposals	• Depletion	• Accounting for intangibles • Research and development costs	• Presentation • Analysis

Plant assets are resources that have three characteristics:

1- they have a physical substance (a definite size and shape),
2- are used in the operations of a business,
3- are not intended for sale to customers.

They are also called property, plant, and equipment; plant and equipment; and fixed assets. These assets are expected to provide services to the company for a number of years. Except for land, plant assets decline in service potential over their useful lives.

Land

Companies often use **land** as a building site for a manufacturing plant or office site.

The cost of land includes:

(1) the cash purchase price.

(2) closing costs such as titleand attorney's fees,

(3) real estate brokers' commissions, and

(4) accrued property taxes and other liens assumed by the purchaser.

Example: if the cash price is $50,000 and the purchaser agrees to pay accrued taxes of $5,000, the cost of the land is $55,000.

Example 2 : 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 shown in Illustration 10-2.

Illustration 10-2
Computation of cost of land

Land	
Cash price of property	$100,000
Net removal cost of warehouse	6,000
Attorney's fee	1,000
Real estate broker's commission	8,000
Cost of land	$115,000

When Hayes records the acquisition, it debits Land for $115,000 and credits Cash for $115,000.

Buildings: are facilities used in operations, such as stores, offices, factories, warehouses, and airplane hangars.

Equipment : includes assets used in operations, such as store check-out counters, Office furniture, factory machinery, delivery trucks, and airplanes. The cost of equipment, such as Rent-A-Wreck vehicles, consists of the cash purchase price, sales taxes, freight charges, and insurance during transit paid by the purchaser. It also includes expenditures required in assembling, installing, and testing the unit.

Example3: 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 in Illustration 10-3.

Illustration 10-3
Computation of cost of factory machinery

Factory Machinery	
Cash price	$50,000
Sales taxes	3,000
Insurance during shipping	500
Installation and testing	1,000
Cost of factory machinery	$54,500

Exercise 1: Drummond Heating and Cooling Co. purchases a delivery truck for $15,000 cash, plus sales taxes of $900 and delivery costs of $500. The buyer also pays $200 for painting and lettering, $600 for an annual insurance policy, and $80 for a motor vehicle license.

Required : Explain how each of these costs would be accounted for.

Solution

The first four payments ($15,000, $900, $500, and $200) are expenditures necessary to make the truck ready for its intended use. Thus, the cost of the truck is $16,600. The payments for insurance and the license are operating costs and therefore are expensed.

Natural resources consist of standing timber and underground deposits of oil, gas,

and minerals. These long-lived productive assets have two distinguishing characteristics:

(1) They are physically extracted in operations (such as mining, cutting, or pumping). (2) They are replaceable only by an act of nature.

The acquisition cost of a natural resource is the price needed to acquire the resource **and** prepare it for its intended use. For an already-discovered resource, such as an existing coalmine, cost is the price paid for the property.

Depletion is allocation of the cost of natural resources to expense in a rational and systematic manner over the resource's useful life .

depletion is to natural resources as depreciation is to plant assets.) Companies generally use the units of- activity method (learned earlier in the chapter) to compute depletion. The reason is that depletion generally is a function of the units extracted during the year.

Under the units-of-activity method, companies divide the total cost of the natural resource minus salvage value by the number of units estimated to be in the resource. The result is a depletion cost per unit of product. They then multiply the depletion cost per unit by the number of units extracted and sold. The result is the annual depletion expense. Illustration 10-21 shows the formula to compute depletion expense.

$$\text{Total Cost minus Salvage Value} \div \text{Total Estimated Units} = \text{Depletion Cost per Unit}$$

$$\text{Depletion Cost per Unit} \times \text{Number of Units Extracted and Sold} = \text{Annual Depletion Expense}$$

Example 1: Lane Coal Company invests $5 million in a mine estimated to have 10 million tons of coal and no salvage value. In the first year, Lane extracts and sells 800,000 tons of coal. Using the formulas above, Lane computes the depletion expense as follows:

$5,000,000 ÷ 10,000,000 = $0.50 depletion cost per ton

$0.50 × 800,000 = $400,000 annual depletion expense

Lane records depletion expense for the first year of operation as follows.

Dec. 31

Depletion Expense 400,000

Accumulated Depletion 400,000

(To record depletion expense on coal deposits)

The company reports the account Depletion Expense as a part of the cost of Producing the product. Accumulated Depletion is a contra-asset account, similar to accumulated depreciation. It is deducted from the cost of the natural resource in the balance sheet, as Illustration 10-22 shows.

Lane Coal Company Balance Sheet (partial)		
Coal mine	$5,000,000	
Less: Accumulated depletion	400,000	$4,600,000

Intangible assets are rights, privileges, and competitive advantages that result from

The ownership of long-lived assets that do not possess physical substance. Evidence

Of intangibles may exist in the form of contracts or licenses. Intangibles may arise

from the following sources:

1. Government grants, such as patents, copyrights, licenses, trademarks, and trade names.

2. Acquisition of another business, in which the purchase price includes a payment for *goodwill*.

3. Private monopolistic arrangements arising from contractual agreements, such as franchises and leases.

Some widely known intangibles are Microsoft's patents, McDonald's franchises, Apple's trade name iPod, J.K. Rowling's' copyrights on the Harry Potter books, and the trademark Rent-A-Wreck in the Feature Story.

Terms of capital and debits week 25

What is Capital in Accounting?

Capital in accounting is a financial account that gauges the contributions made by a business owner in the form of either assets or money. It is also referred to as owner's equity and tracks how each partner economically benefits a particular business.

As a business flourishes with time, its capital account will also grow proportionally. In case a business dissolves, this capital account will show the amount that each business partner must receive after paying off debts and liabilities.

The capital account of an entrepreneur is categorized based on the type of business one invests in. This account can be created using either a spreadsheet or accounting software.

Types of Capital Accounts

Sole Proprietorship

As its name suggests, sole proprietors are referred to individuals who own a business entirely. The capital accounts of such businesses are reflected in the financial statement as 'Owner's name followed by Capital Account'.

Partnership/ LLC

9ol

V When there are many members and partners associated with a business body, it is referred to as a partnership firm. In this scenario, all the individuals use their capital and invest towards achieving the same business goals. The share of profit or loss of each partner is evaluated by either the operating contract/ agreement of LLC or by the basic articles of incorporation depending on the equity of partners.

Shareholders

Shareholders purchase shares of a business and get dividends depending on the total number of shares they have purchased. In a way, they share a certain percentage of the ownership. These shareholders track the profits they have earned in the capital account of the business balance sheet. In addition, they possess voting rights and the percentage of power it holds is also based on the number of shares they have.

What Is a Liability?

A liability is something a person or company owes, usually a sum of money. Liabilities are settled over time through the transfer of economic benefits including money, goods, or services.

Recorded on the right side of the balance sheet, liabilities include loans, accounts payable, mortgages, deferred revenues, bonds, warranties, and accrued expenses.

Liabilities can be contrasted with assets. Liabilities refer to things that you owe or have borrowed.

Types of Liabilities

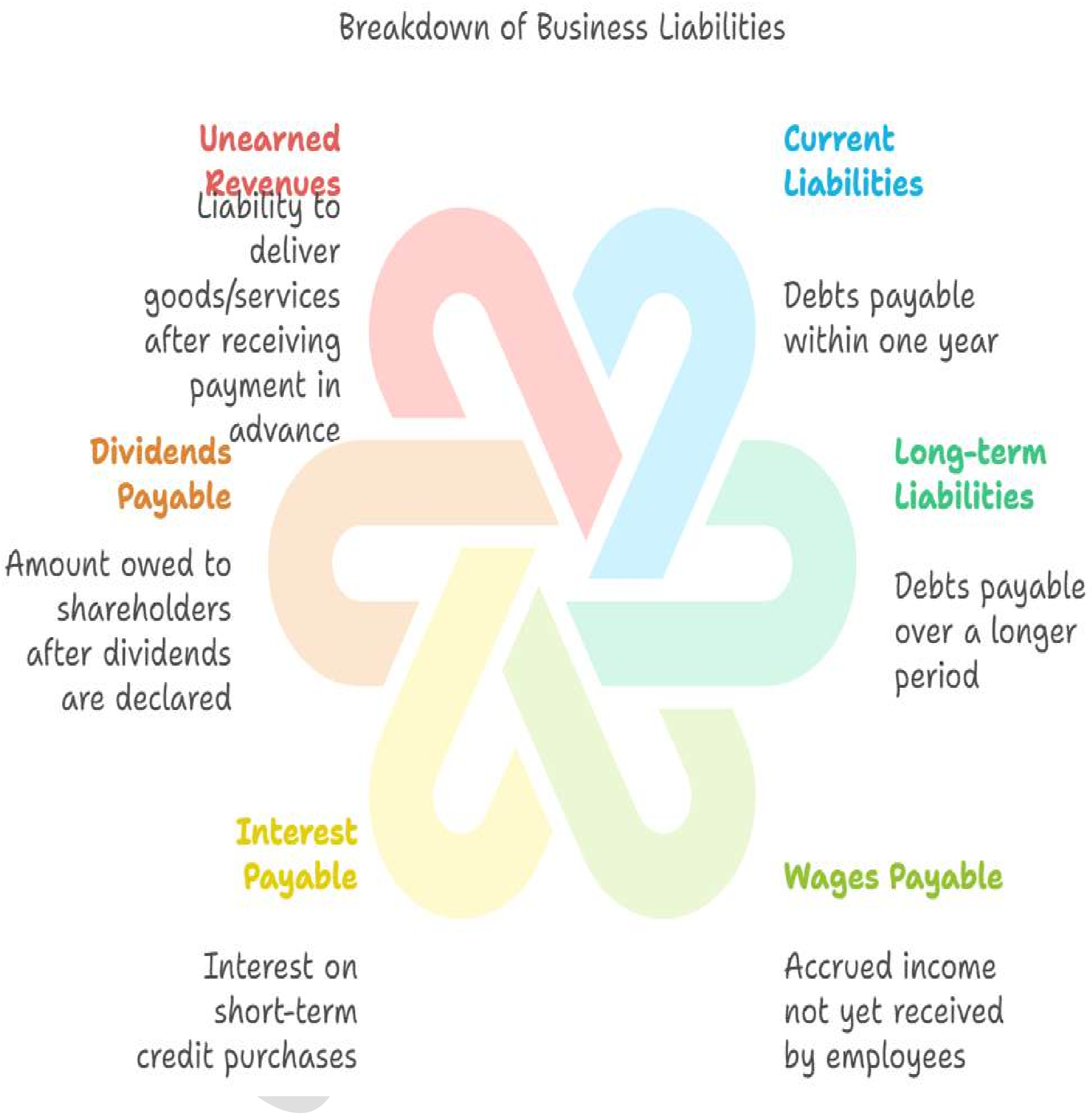
Businesses sort their liabilities into two categories: current and long-term. Current liabilities are debts payable within one year, while long-term liabilities are debts payable over a longer period. For example, if a business takes out a mortgage payable over a 15-year period, that is a long-term liability. However, the mortgage payments that are due during the current year are considered the current portion of long-term debt and are recorded in the short-term liabilities section of the balance sheet.

Current (Near-Term) Liabilities

Ideally, analysts want to see that a company can pay current liabilities, which are due within a year, with cash. Some examples of short-term liabilities include payroll expenses and accounts payable, which include money owed to vendors, monthly utilities, and similar expenses. Other examples include:

- **Wages Payable: The total amount of accrued income employees have earned but not yet received. Since most companies pay their employees every two weeks, this liability changes often.**
- **Interest Payable: Companies, just like individuals, often use credit to purchase goods and services to finance over short time periods. This represents the interest on those short-term credit purchases to be paid.**
- **Dividends Payable: For companies that have issued stock to investors and pay a dividend, this represents the amount owed to shareholders after the dividend was declared. This period is around two weeks, so this liability usually pops up four times per year, until the dividend is paid.**
- **Unearned Revenues: This is a company's liability to deliver goods and/or services at a future date after being paid in advance. This amount will be reduced in the future with an offsetting entry once the product or service is delivered.**
- **Liabilities of Discontinued Operations: This is a unique liability that most people glance over but should scrutinize more closely. Companies are required to account for the financial impact of an operation, division, or entity that is**

currently being held for sale or has been recently sold. This also includes the financial impact of a <u>product line</u> that is or has recently been shut down.



Terms of inventory and depreciation Week 26

What Is Inventory?

Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale. Inventory represents one of the most important assets of a business because the turnover of inventory represents one of the primary sources of revenue generation and subsequent earnings for the company's shareholders.

Classifying Inventory

• Finished goods: re products that have completed production and are ready for sale. Retailers typically refer to this inventory as "merchandise." Common examples of merchandise include electronics, clothes, and cars held by retailers.

• Work in process: is the partially finished goods waiting for completion and resale; work-in-progress inventory is otherwise known as inventory on the production floor. For example, a half-assembled airliner or a partially completed yacht would be work-in-process.

• Raw materials: are unprocessed materials used to produce a good. Examples of raw materials include aluminum and steel for the manufacture of cars, flour for bakeries production of bread, and crude oil held by refineries.

Determining Inventory Quantities

• Taking a physical inventory: Companies take a physical inventory at the end of the accounting period. Taking a physical inventory involves actually counting, weighing, or measuring each kind of inventory on hand.

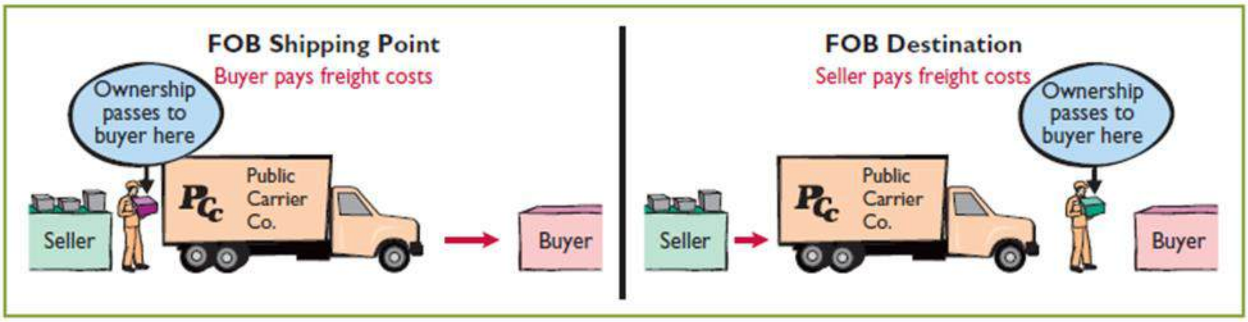
• Determining ownership of goods : One challenge in computing inventory quantities is determining what inventory a company owns. To determine ownership of goods, two questions must be answered:

Do all of the goods included in the count belong to the company?

Does the company own any goods that were not included in the count?

A- GOODS IN TRANSIT

A complication in determining ownership is goods in transit (on board a truck، train, ship, or plane) at the end of the period. The company may have purchased goods that have not yet been received, or it may have sold goods that have not yet been delivered. To arrive at an accurate count, the company must determine ownership of these goods.



1- When the terms are FOB (free on board) shipping point, ownership of the goods Passes to the buyer when the public carrier accepts the goods from the seller.

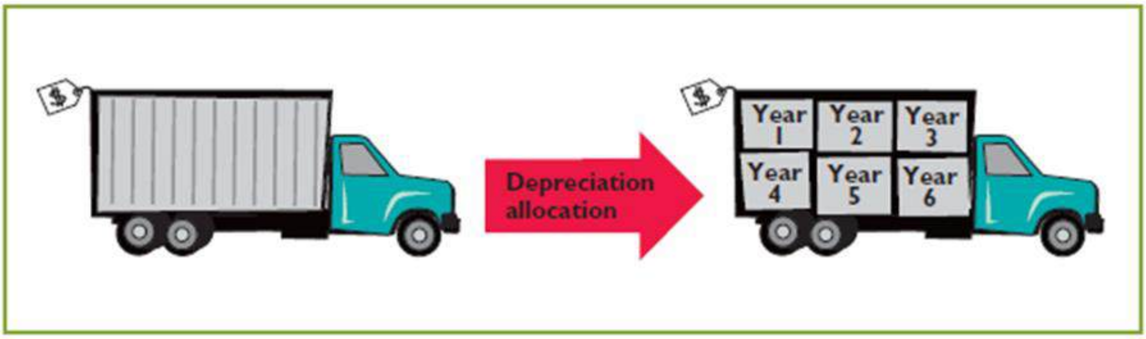
2- When the terms are FOB destination, ownership of the goods remains with the Seller until the goods reach the buyer.

CONSIGNED GOODS

In some lines of business, it is common to hold the goods of other parties and try to sell the goods for them for a fee, but without taking ownership of the goods. These are called **consigned goods**.

What Is Depreciation?

Depreciation is an accounting method of allocating the cost of a tangible or physical asset over its useful life or life expectancy. Depreciation represents how much of an asset's value has been used up. Depreciating assets helps companies earn revenue from an asset while expensing a portion of its cost each year the asset is in use. If not taken into account, it can greatly affect profits.



Depreciation : is the process of allocating to expense the cost of a plant asset over its useful (service) life in a rational and systematic manner. Cost allocation enables companies to properly match expenses with revenues in accordance with the expense recognition principle

Terms of inventory and depreciation Week 27

What Is Inventory?

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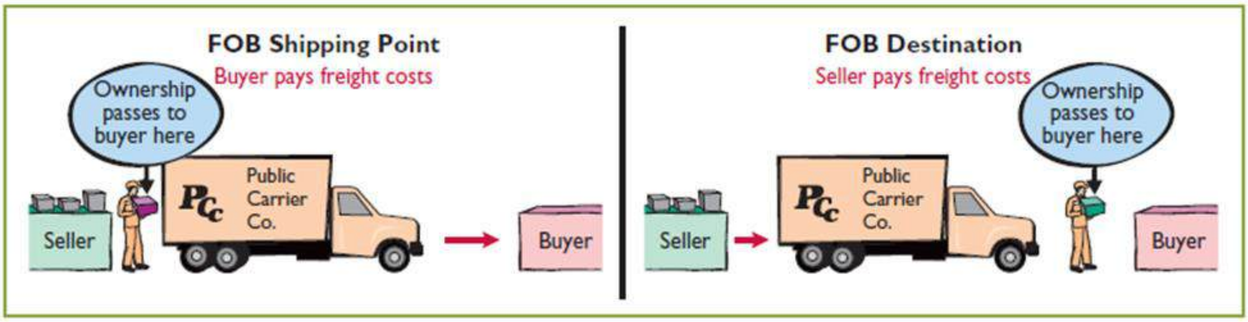

3- When the terms are FOB (free on board) shipping point, ownership of the goods Passes to the buyer when the public carrier accepts the goods from the seller.

4- When the terms are FOB destination, ownership of the goods remains with the Seller until the goods reach the buyer.

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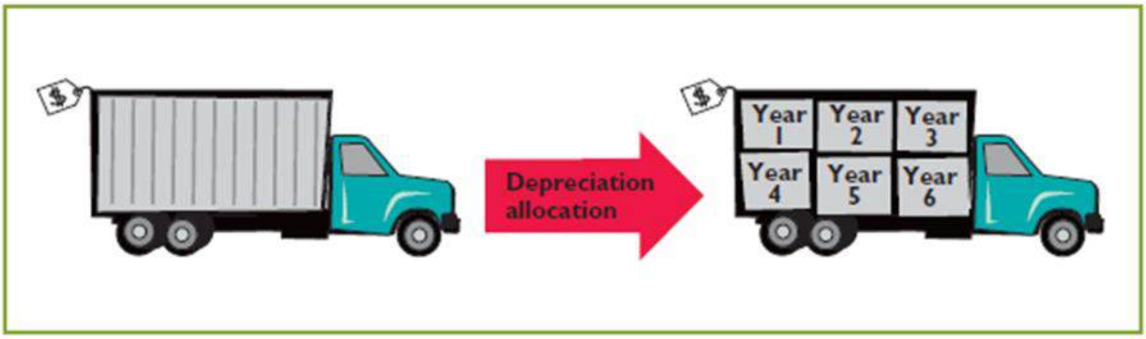
What Is Depreciation?

Depreciation is an accounting method of allocating the cost of a tangible or physical asset over its useful life or life expectancy. Depreciation represents how much of an asset's value has been used up. Depreciating assets helps companies earn revenue from an asset while expensing a portion of its cost each year the asset is in use. If not taken into account, it can greatly affect profits.



Depreciation : is the process of allocating to expense the cost of a plant asset over its useful (service) life in a rational and systematic manner. Cost allocation enables companies to properly match expenses with revenues in accordance with the expense recognition principle

Direct costs: Direct costs can be directly traced to the product, Material and labor costs are good examples .

Indirect costs: These can't be directly traced to the product; instead, these costs are allocated, based on some level of activity , for example, overhead costs are considered indirect costs .

Fixed costs :Fixed costs don't vary with the level of production for example, a lease on a building.

Variable costs: Unlike fixed costs, variable costs change with the level of production, for example, material used in production is a variable cost .

Actual Cost: Refers to the definite and specific amounts paid or incurred for direct labor, direct material, and such other charges that are directly related to production .

Standard Cost: The pre-determined costs at which goods or services are expected to be manufactured or delivered under normal conditions, where extraordinary occurrences do not form part of the considerations.

Manufacturing Costs :The entire cost of manufacturing a product as it comprises direct labor, direct materials, and factory overhead .

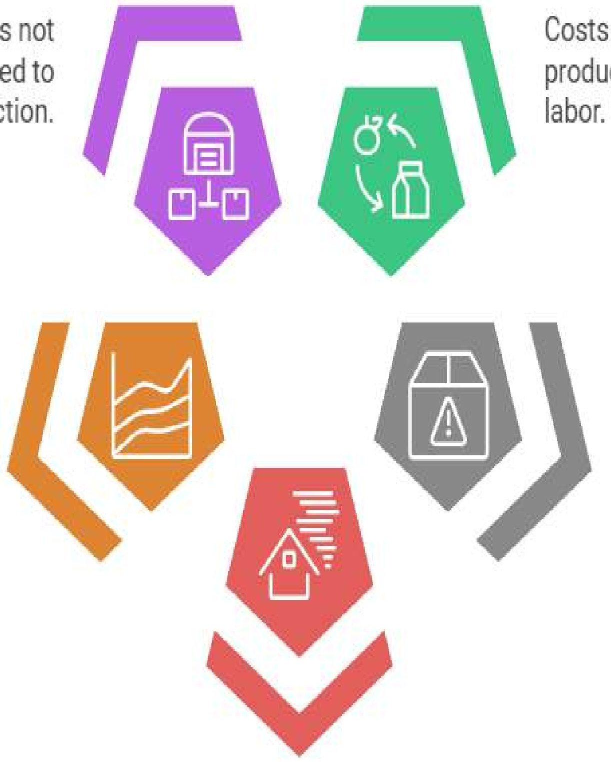
Overhead: These are the costs mainly used for administrative functions that cannot be directly attributed as part of a particular business activity but are technically incurred in relation to the factors that arise from such activities; hence they are deemed as necessary costs that are properly allocated by means of a pre-determined set of rates .

Direct Labor: The costs and the number of hours performed by an employee in relation to a specific product or service, or to a cost center, or for a specific job order .

Indirect Labor: Salaries of factory employees that are not charged to the finished product but are allocated or apportioned according to their respective service department or to the direct labor cost, which calls for their services. Inspectors, warehouse personnel, or maintenance are only some examples .

Raw Materials: These are the materials referred to as direct costs since they directly enter the process of production through its completion as finished goods

Cost Accounting



Overhead

Administrative costs not directly attributed to production.

Direct Costs

Costs directly traceable to products, like materials and labor.

Variable Costs

Costs that fluctuate with production levels.

Indirect Costs

Costs not directly traceable, allocated based on activity.

Fixed Costs

Costs that remain constant regardless of production levels.

Cost accounting involves the measuring, recording, and reporting of product costs.

From the data accumulated, companies determine both the total cost and the unit cost of each product. The accuracy of the product cost information produced by the cost accounting system is critical to the success of the company. Companies use this information to determine which products to produce, what price to charge, and the amounts to produce. Accurate product cost information is also vital for effective evaluation of employee performance.

A **cost accounting system** consists of accounts for the various manufacturing costs. These accounts are fully integrated into the general ledger of a company.

There are two basic types of cost accounting systems:

(1) a job order cost system and

(2) a process cost system. Although cost accounting systems differ widely from company to company, most involve one of these two traditional product costing systems.

RAW MATERIALS COSTS

When Wallace receives the raw materials it has purchased, it debits the costs of the materials to Raw Materials Inventory. The company would debit this account for the invoice cost of the raw materials and freight costs chargeable to the purchaser. It would credit the account for purchase discounts taken and purchase returns and allowances.

Example 1: Wallace Manufacturing purchases 2,000 handles (Stock No. AA2746) at $5 per unit ($10,000) and 800 modules at $40 per unit ($32,000) for a total cost of $42,000 ($10,000 1 $32,000).

Required: record journal entry purchase on January.

Jan. 4

Raw Materials Inventory 42,000

Accounts Payable 42,000

(Purchase of raw materials on account)

FACTORY LABOR COSTS

In a manufacturing company, the cost of factory labor consists of three costs:

(1)gross earnings of factory workers, (2) employer payroll taxes on these earnings, and (3) fringe benefits (such as sick pay, pensions, and vacation pay) incurred by the employer.

Example 2: Wallace Manufacturing incurs $32,000 of factory labor costs. Of that amount, $27,000 relates to wages payable and $5,000 relates to payroll taxes payable in January.

Required: record journal entry to factory labor for the month is:

Jan. 31

Factory Labor 32,000

Factory Wages Payable 27,000

Employer Payroll Taxes Payable 5,000

(To record factory labor costs)

MANUFACTURING OVERHEAD COSTS

A company has many types of overhead costs. It may recognize these costs **daily**, as in the case of machinery repairs and the use of indirect materials and indirect labor.

Example: which summarizes the totals from multiple transactions. Using assumed data, the summary entry for manufacturing overhead in Wallace Manufacturing Company is:

Jan. 31

Manufacturing Overhead 13,800

Utilities Payable 4,800

Prepaid Insurance 2,000

Accounts Payable (for repairs) 2,600

Accumulated Depreciation—Equipment 3,000

Property Taxes Payable 1,400

(To record overhead costs)

Exercise : During the current month, Ringling Company incurs the following manufacturing costs: (a) Raw material purchases of $4,200 on account.

(b) Incurs factory labor of $18,000. Of that amount, $15,000 relates to wages payable and $3,000 relates to payroll taxes payable.

(c) Factory utilities of $2,200 are payable, prepaid factory insurance of $1,800 has expired, and depreciation on the factory building is $3,500.

Required: Prepare journal entries for each type of manufacturing cost.

Solution

(a) Raw Materials Inventory	42,000	
Accounts Payable		4,200
(Purchases of raw materials on account)		
(b) Factory Labor	18,000	
Factory Wages Payable		15,000
Employer Payroll Taxes Payable		3,000
(To record factory labor costs)		
(c) Manufacturing Overhead	7,500	
Utilities Payable		2,200
Prepaid Insurance		1,800
Accumulated Depreciation		3,500
(To record overhead costs)		

Terms of auditing and internal control week 30

Fraud and Internal Control :

Fraud

A fraud is a dishonest act by an employee that results in personal benefit to the

Employee at a cost to the employer.

Internal Control

Internal control consists of all the related methods and measures adopted within an organization to safeguard its assets, enhance the reliability of its accounting records, increase efficiency of operations, and ensure compliance with laws and regulations.

Internal control systems have five primary components as listed below.

• A control environment. It is the responsibility of top management to make it clear that the organization values integrity and that unethical activity will not be tolerated. This component is often referred to as the “tone at the top

• **Risk assessment.** Companies must identify and analyze the various factors that create risk for the business and must determine how to manage these risks.

• **Control activities.** To reduce the occurrence of fraud, management must design

Policies and procedures to address the specific risks faced by the company.

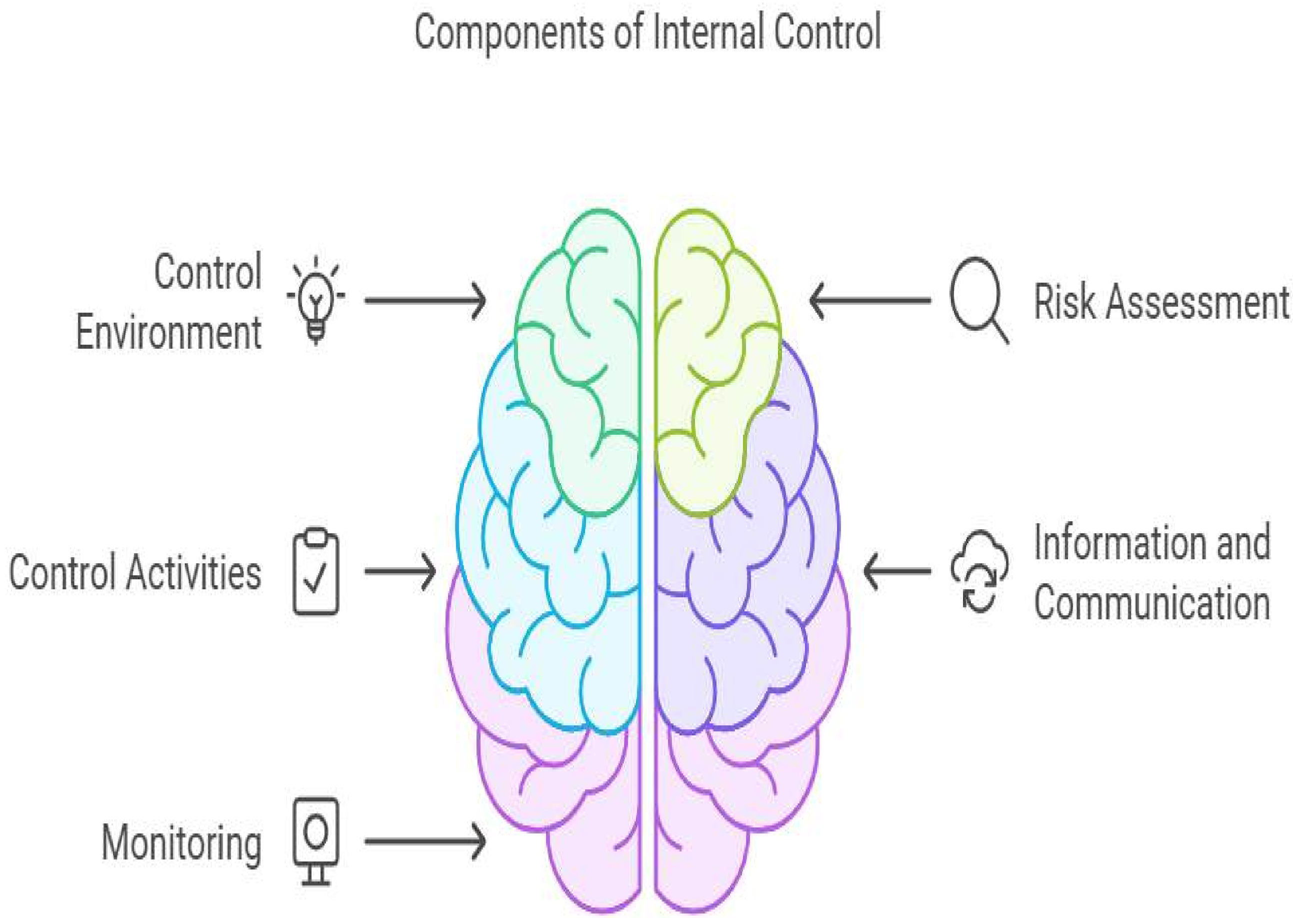
• **Information and communication.** The internal control system must capture and

Communicate all pertinent information both down and up the organization, as

Well as communicate information to appropriate external parties.

• **Monitoring.** Internal control systems must be monitored periodically for their

Adequacy. Significant deficiencies need to be reported to top management and/ or the board of directors.



<u>Principles of Internal Control Activities</u>

Each of the five components of an internal control system is important. Here, we

Will focus on one component, the control activities. The reason? These activities are

The backbone of the company's efforts to address the risks it faces, such as fraud.

The specific control activities used by a company will vary, depending on management's assessment of the risks faced. This assessment is heavily influenced by the size and nature of the company.

The six principles of control activities are as follows.

• Establishment of responsibility

• Segregation of duties

• Documentation procedures

• Physical controls

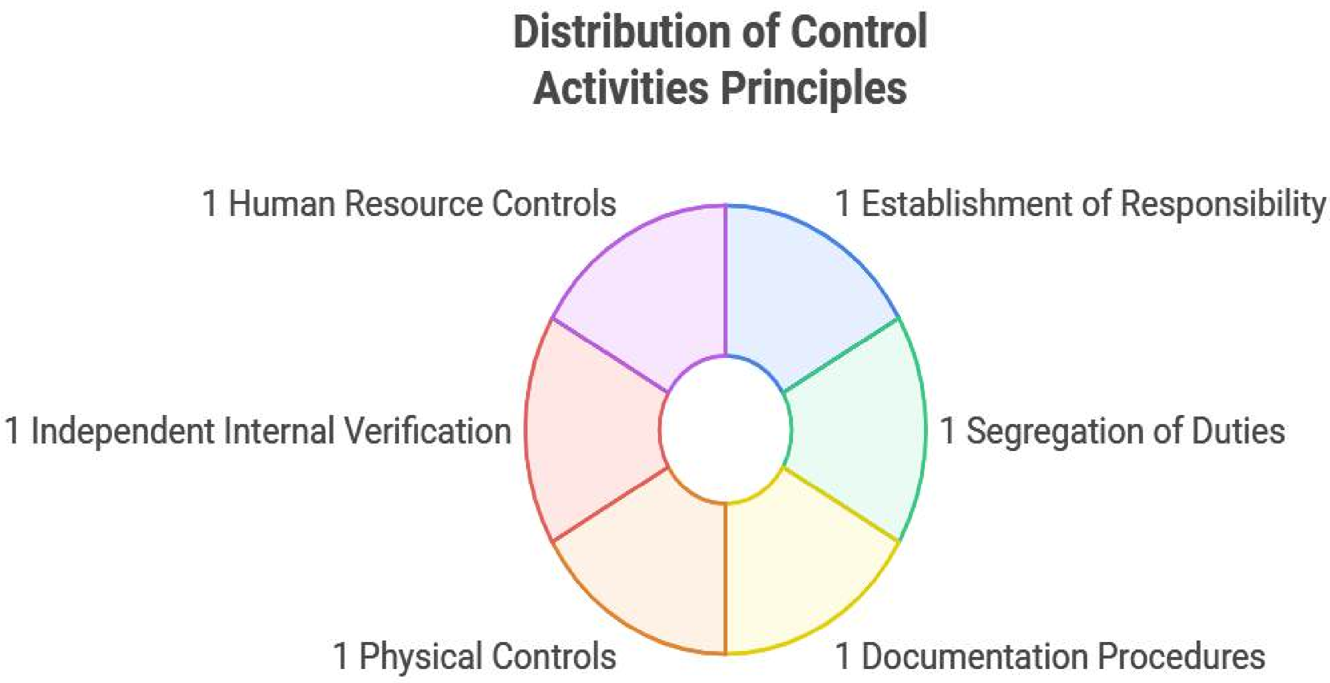
• Independent internal verification

• Human resource controls

We explain these principles in the following sections. You should recognize that

They apply to most companies and are relevant to both manual and computerized

Accounting systems.



Limitations of Internal Control

Companies generally design their systems of internal control to provide **reasonable**

Assurance of proper safeguarding of assets and reliability of the accounting records.

The concept of reasonable assurance rests on the premise that the costs of establishing control procedures should not exceed their expected benefit.

Cash Controls

Cash is the one asset that is readily convertible into any other type of asset. It also is easily concealed and transported, and is highly desired. Because of these characteristics, **cash is the asset most susceptible to fraudulent activities**. In addition, because of the large volume of cash transactions, numerous errors may occur in executing and recording them. To safeguard cash and to ensure the accuracy of the accounting records for cash, effective internal control over cash is critical.

Cash Receipts Controls

Illustration 14-4 shows how the internal control principles explained earlier apply to cash receipts transactions. As you might expect, companies vary considerably in how they apply these principles. To illustrate internal control over cash receipts, we will examine control activities for a retail store with both over-the-counter and mail receipts.