

# ACCOUNTING

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## OBJECTIVES:

01

**Definition**

02

**Types of Accounting**

03

**Users**

04

**Forms of Business Organizations**

05

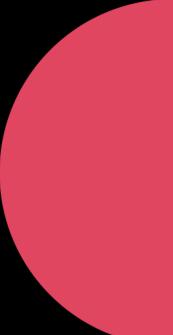
**Accounting Cycle**

06

**Characteristics of Financial Statements**

07

**Accounting Concepts and Principles**





# Accounting

- is the process of recording financial transactions pertaining to a business
- is the processing of information about economic entities, such as businesses and corporations

## 1.1 Definition

# Accounting

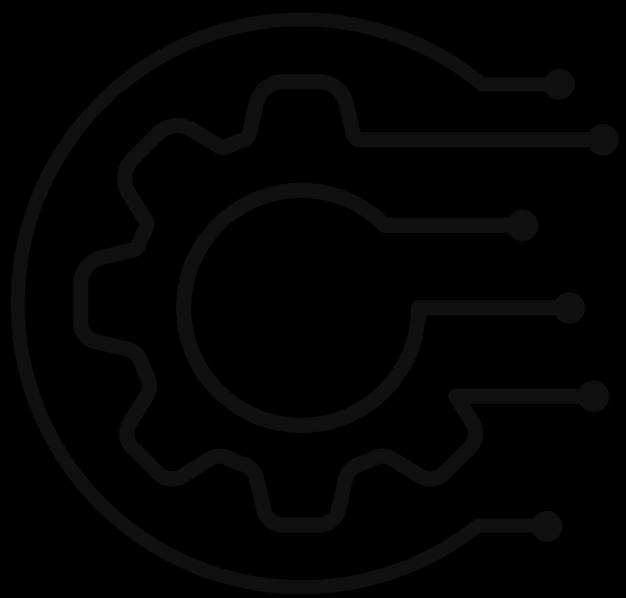


- it is the process of maintaining financial records and communicating it



## 1.1 Definition

# Accounting



## 1.1 Definition

# Accounting

Date	Account Name	Debit (\$)	Credit (\$)
2-Aug	Office Supplies	\$ 4,000.00	
	Cash		\$ 4,000.00
<b>Purchase of office supplies worth \$4,000</b>			
5-Aug	Purchase	\$ 7,000.00	
	Cash		\$ 2,000.00
	Accounts Payable		\$ 5,000.00
<b>Purchase of goods from Screens R Us worth \$7,000 paid for with \$2,000 in cash and \$5,000 in credit.</b>			
12-Aug	Cash	\$ 10,000.00	
	Accounts Receivable	\$ 5,000.00	
	Sales		\$ 15,000.00
<b>Sales of goods to Macro Computing worth \$15,000 paid for with \$10,000 in cash and \$5,000 on credit</b>			
20-Aug	Bank Loan Payable	\$ 3,000.00	
	Cash		\$ 3,000.00
<b>Payment for bank loan worth \$3,000.</b>			
25-Aug	Accounts Payable	\$ 1,000.00	
	Cash		\$ 1,000.00
<b>Payment of \$1,000 to Screens R Us for earlier purchase made on credit</b>			
28-Aug	Cash	\$ 5,000.00	
	Accounts Receivable		\$ 5,000.00
<b>Payment of \$5,000 received from Macro Computing for earlier sales made on credit</b>			
30-Aug	Payroll Expense	\$ 2,000.00	
	Payroll Tax	\$ 300.00	
	Cash		\$ 2,300.00
<b>Paid employees \$2,300 in wages</b>			

## 2.1 Types of Accounting

# Corporate Accounting

- involves the use, handling, and filing of a company's financial data often for the purpose of external reporting and tax compliance

## 2.1 Types of Accounting

# Public Accounting

- is to help ensure their financial statements, records, and filings are accurate

## 2.1 Types of Accounting

# Government Accounting

- work within the context of local, state, or federal government entities

## 2.1 Types of Accounting

# Forensic Accounting

- collects, recovers, and reconstructs financial data when it is difficult or impossible to obtain

### 3.1 Users

## Internal

- owners and managers involved in the day-to-day operations of the business and in long-term strategic planning

### 3.1 Users

## External

- Prospective and current board members or investors
  - Creditors and lenders

### 3.1 Users

## External

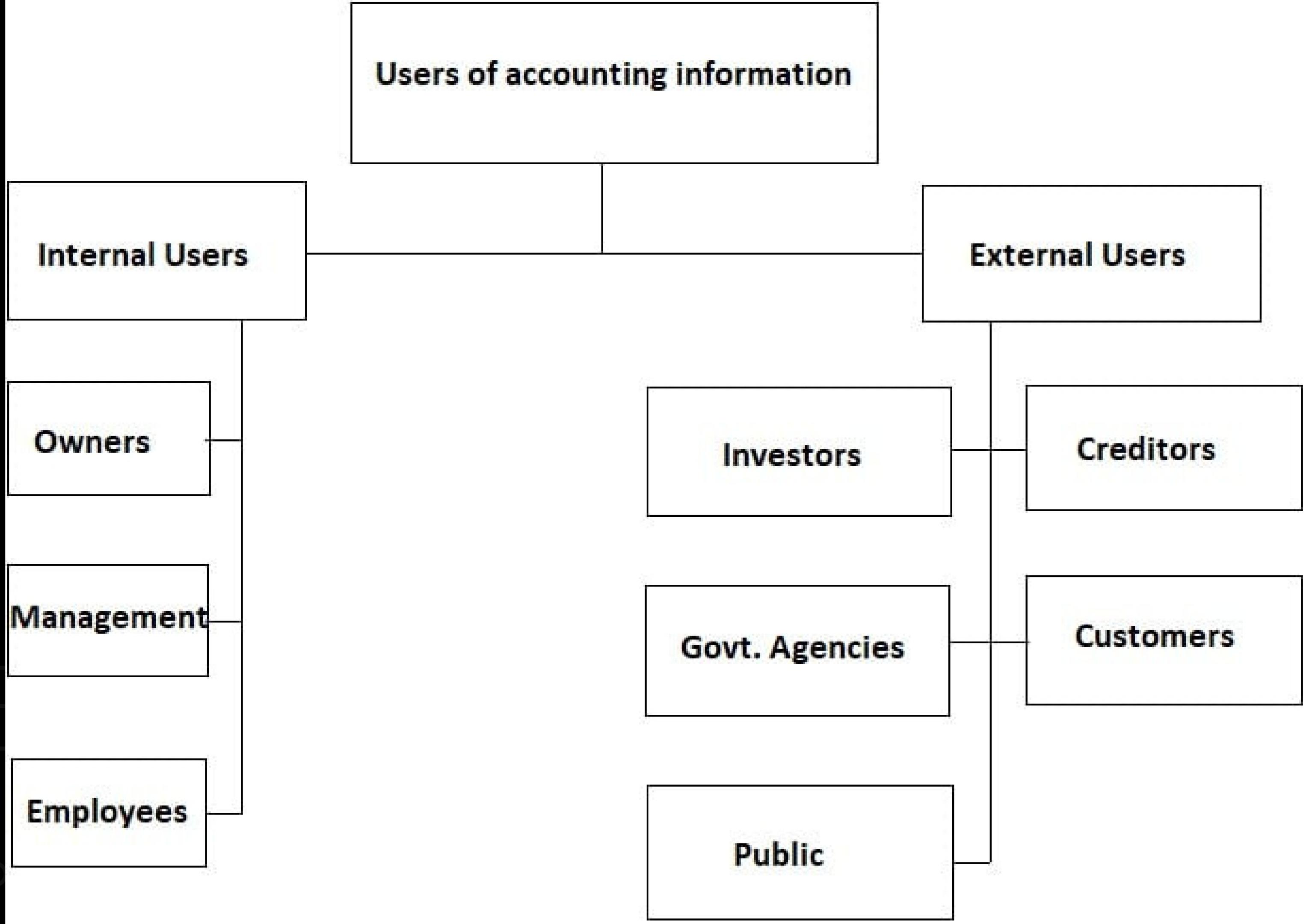
- Employees and their unions
- Customers
- General public

### 3.1 Users

# Government

- a separate type of external user that is also interested in a company's performance

### 3.1 Users



## 4.1 Forms of Business Organizations

# Sole Proprietorship

- Single Owner
- requires DTI and BIR registration

## 4.1 Forms of Business Organizations

# Partnership

- two or more persons
- contribute money, property or industry to a common fund with the purpose of dividing the profits and ownership among themselves

## 4.1 Forms of Business Organizations

# Corporation

- several people, called shareholders
- either be stock or non-stock and are controlled by the Board of Directors or Trustees. Registration of corporations is with the SEC.

# Identification

- determine what to write and how much
- identifying transactions

## 5.1 Accounting Cycle

# Recording

- creation of journal entries for each transaction

## 5.1 Accounting Cycle

Year & Month - At the top of each page and when the month changes  
Day – for each and every transaction

Name of the account debited

Not written in until entry is posted. It will contain the general ledger account # the entry is posted to.

Page #

Amount of the debit

PAGE

### GENERAL JOURNAL

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1 Year					1
2 Month Day	Debited Account Name		1 0 0 0 0 0		2
3	Credited Account Name			1 0 0 0 0 0	3
4	Explanation				4
5					5

Name of the account credited

Source document reference or an explanation

Amount of the credit

# Posting



- Once a transaction is recorded as a journal entry, it should post to an account in the general ledger



## 5.1 Accounting Cycle

# Posting

### GENERAL JOURNAL

Date	Account title and explanation	Debit	Credit
2015 Jan. 15	Cash  Sales  (Sold goods for cash)	25,000	25,000

### GENERAL LEDGER

#### Cash

1/15      25,000 ←

#### Sales

1/15      25,000 ←

## 5.1 Accounting Cycle

# Posting



## G/L Numbering Scheme

G/L Accounts, Cost Elements, Revenue Elements

1

### Type

- 1 – Asset
- 2 – Liability
- 3 – Fund Balance
- 4 – Revenue
- 5 – Expense
- 8 – Transfers

2

3

4

### Categories

Major/Minor/Sub

5

6

### Detailed Breakdown

### Example

Office Supplies 531100  
Copier Supplies 531104

## 5.1 Accounting Cycle

**Enter G/L Account Document: Company Code 1000**

Tree on   Company Code   Hold   Simulate   Park   Editing options

Basic Data   Details

Document Date	20.12.2017	Currency	EUR
Posting Date	20.12.2017		
Reference			
Doc.Header Text			
Cross-CC no.			
Company Code	1000	BestRun Germany Frankfurt	

Amount Information

Total Dr.	100,00	EUR
Total Cr.	100,00	EUR

OCB

2 Items ( No entry variant selected )

S...	G/L acct	Short Text	D/C	Amount in doc.curr.	Loc.curr.amount	T..	Tax jurisdicn code	V	Assignment	Value
<input checked="" type="checkbox"/>	110000	Checking ac...	Debit	100,00	100,00					20.12
<input checked="" type="checkbox"/>	110009	Checking ac...	Cred...	100,00	100,00					20.12
					0,00					

# Unadjusted Trial Balance

- At the end of the accounting period, a trial balance is calculated
  - tells the company its unadjusted balances in each account

## 5.1 Accounting Cycle

# Worksheet

- Analyzing a worksheet and identifying adjusting entries

# Adjusting Journal Entries

- Adjustments are recorded as journal entries where necessary
- a bookkeeper makes adjustments

# Financial Statements

- After the company makes all adjusting entries, it then generates its financial statements
  - income statement, balance sheet, and cash flow statement

# 5.1 Accounting Cycle

SAP Balance Sheet/Income Statement ▾ A

Standard\* ▾ Hide Filters [ ]

Company Code: \* Ledger: \* Statement Version: \* Statement Type: \* End Period: \* Comparison End Period: \*

AA (Company A) x OL (Leading Ledger) SIM3 Normal (Actual - Actual) 9 2023 9 2022

Currency: \*

EUR (Company Code ... ) Go Adapt Filters (7)

All Accounts Balance Sheet Profit & Loss Notes

Hierarchy Node Search Default [ ] [ ]

Description	G/L Account	Period Balance	Comparison Balance (...)	Absolute Difference	Relative Difference
Balance Sheet		0.00 EUR	0.00 EUR	0.00 EUR	0.0
Assets		81,830,152.05 EUR	0.00 EUR	81,830,152.05 EUR	0.0
Current assets		10,301,402.05 EUR	0.00 EUR	10,301,402.05 EUR	0.0
Long-term assets		71,528,750.00 EUR	0.00 EUR	71,528,750.00 EUR	0.0
Liabilities and Owners' Equity		-81,830,152.05 EUR	0.00 EUR	-81,830,152.05 EUR	0.0
Equity		-81,830,152.05 EUR	0.00 EUR	-81,830,152.05 EUR	0.0
Shareholders Equity		-81,500,000.00 EUR	0.00 EUR	-81,500,000.00 EUR	0.0



# Closing the Books

- at the end of the day on the specified closing date
- After closing, the accounting cycle starts over again from the beginning with a new reporting period

## 5.1 Accounting Cycle



## 6.1

# Characteristics of Financial Statements

**Example Corporation  
Balance Sheet  
December 31, 2022**

## ASSETS

### Current assets

Cash and cash equivalents	\$ 2,200
Short-term investments	10,000
Accounts receivable - net	39,500
Other receivables	1,000
Inventory	31,000
Supplies	3,800
Prepaid expenses	1,500
<b>Total current assets</b>	<b>89,000</b>

### Investments

Investments	36,000
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### Property, plant & equipment - net

Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accumulated depreciation	(56,000)
<b>Property, plant &amp; equipment - net</b>	<b>337,000</b>

### Intangible assets

Goodwill	105,000
Other intangible assets	200,000
<b>Total intangible assets</b>	<b>305,000</b>

### Other assets

Other assets	3,000
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### Total assets

<b>Total assets</b>	<b>\$ 770,000</b>
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## LIABILITIES

### Current liabilities

Short-term loans payable	\$ 5,000
Current portion of long-term debt	15,000
Accounts payable	20,900
Accrued compensation and benefits	8,500
Income taxes payable	6,100
Other accrued liabilities	4,000
Deferred revenues	1,500
<b>Total current liabilities</b>	<b>61,000</b>

### Long-term liabilities

Notes payable	20,000
Bonds payable	375,000
Deferred income taxes	25,000
<b>Total long-term liabilities</b>	<b>420,000</b>

### Total liabilities

<b>Total liabilities</b>	<b>481,000</b>
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### Commitments and contingencies (see notes)

## STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	(50,000)
<b>Total stockholders' equity</b>	<b>289,000</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>\$ 770,000</b>

**6.1**

## Characteristics of Financial Statements



### Example Corporation Balance Sheet December 31, 2022



## 6.1

# Characteristics of Financial Statements

## ASSETS

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Inventory	31,000
Supplies	3,800
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Investments	<u>36,000</u>
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Land improvements	6,500
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Property, plant & equipment - net	<u>337,000</u>
Intangible assets	
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Total intangible assets	<u>305,000</u>
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Commitments and contingencies (see notes)	
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## 6.1

# Characteristics of Financial Statements

**Example Corporation  
Income Statement  
Years ended December 31**

	(in thousands of dollars)		
	<b>2022</b>	<b>2021</b>	<b>2020</b>
Net sales	\$ 3,980	\$ 3,750	\$ 3,400
Cost of sales	<u>3,100</u>	<u>2,950</u>	<u>2,700</u>
Gross profit	880	800	700
Selling, general and administrative expenses	<u>640</u>	<u>590</u>	<u>510</u>
Operating income	240	210	190
Interest expense	20	15	15
Loss on sale of equipment	<u>5</u>	<u>-</u>	<u>4</u>
Income before income taxes	215	195	171
Income tax expense	<u>50</u>	<u>40</u>	<u>36</u>
Net income	<u>\$ 165</u>	<u>\$ 155</u>	<u>\$ 135</u>

See notes to the financial statements.



**Sample Corporation**  
**Statement of Cash Flows**  
**Year Ended December 31, 2022**

Cash flows from operating activities	\$ xxx
Cash flows from investing activities	xxx
Cash flows from financing activities	<u>xxx</u>
Net increase (decrease) in cash	xxx
Cash at the beginning of the year	<u>xxx</u>
Cash at the end of the year	\$ <u>xxx</u>

See notes to the financial statements.

## 7.1 Accounting Concepts and Principles

# Concepts in Accountancy

- are a number of conceptual issues that must be understood in order to develop a firm foundation of how accounting works

## 7.1 Concepts in Accountancy



# Accrual

- Revenue is recognized when earned, and expenses are recognized when assets are consumed



# Conservatism

- Revenue is only recognized when there is a reasonable certainty that it will be realized, whereas expenses are recognized sooner, when there is a reasonable possibility that they will be incurred

# Consistency

- Once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis

## 7.1 Concepts in Accountancy

# Economic Entity

- The transactions of a business are to be kept separate from those of its owners

# Going Concern

- Financial statements are prepared on the assumption that the business will remain in operation in future periods

## 7.1 Concepts in Accountancy

# Matching

- This is the concept that, when you record revenue, you should record all related expenses at the same time

# Materiality

- Transactions should be recorded when not doing so might alter the decisions made by a reader of a company's financial statements