



UNIVERSITY OF DHAKA

Institute of Business Administration (IBA)

Master of Business Administration (MBA)

A501: Financial Accounting

Last Updated: Sunday 11th May, 2025

Author Details

Name : Md Hasibul Islam
Student ID : 201-67-011
Program : Master of Business Administration (MBA)
Institute : Institute of Business Administration (IBA)
University : University of Dhaka
Email : hasiee8004@gmail.com
LinkedIn : [linkedin.com/in/hasib009](https://www.linkedin.com/in/hasib009)
GitHub : github.com/HasibRockie
Website : hasibrookie.github.io

Contents

Author Details	2
Definition and Characteristics: Accounting and Transaction - 10-04-25 Thursday . .	4
Standard Accounting Reports with Examples - 17-04-25 Thursday	8
Double Entry System and Debit-Credit Rules - 23-04-2025 Wednesday	11
Journal & Ledger - 28-04-2025 Monday	15
Journalize, Post to Ledger, and Prepare Trial Balance - 28-04-2025 Monday	17
Basics of Accrual Accounting - 05-05-2025 Sunday	21
Adjusting Accounts, and Balance Sheet Recognition - 08-05-2025 Sunday	25

Definition and Characteristics: Accounting and Transaction

10-04-25 Thursday

Accounting is the systematic process of identifying, recording, classifying, summarizing, and communicating financial information to aid economic decision-making. It serves as the language of business and provides a framework for understanding a firm's financial position and performance.

Key Characteristics of Accounting:

- **Systematic:** Follows a standard process and principles (GAAP or IFRS).
- **Historical and Predictive:** Reflects past events and supports future planning.
- **Quantitative:** Concerned primarily with monetary information.
- **Reliable and Verifiable:** Based on evidence (e.g., invoices, receipts).
- **Comparable and Consistent:** Enables year-on-year or firm-to-firm comparison.

Example: A company sells a product for \$1,000. The sale is recorded in the accounting books under revenue (income), and cash or receivable is increased by \$1,000.

Transaction: Any business event that has a financial impact on the entity and can be reliably measured.

Characteristics of a Transaction:

- **Financial Impact:** Affects assets, liabilities, equity, income, or expenses.
- **Dual Aspect:** Every transaction has a debit and a credit effect.
- **Measurable in Money:** Must be quantifiable in monetary terms.

Example: Paying salary of \$5,000 – decreases cash (asset) and increases expense.

Examples: Is it a Transaction?

- **Purchased machinery for cash** – *Yes, it affects assets (machinery and cash).*
- **Signed a contract to deliver goods next month (no advance received)** – *No, no financial impact yet.*
- **Paid salaries to employees** – *Yes, it reduces cash and increases expenses.*
- **Owner invests capital into the business** – *Yes, it increases assets and equity.*
- **Employee promoted, no monetary change** – *No, it is not measurable in monetary terms.*
- **Received utility bill (not yet paid)** – *Yes, it increases liabilities and expenses.*
- **Customer places an order (no payment yet)** – *No, it's a future event with no current financial effect.*
- **Sold goods on credit** – *Yes, it increases accounts receivable and revenue.*
- **Declared dividend (not paid yet)** – *Yes, it creates a liability.*
- **Paid electricity bill** – *Yes, it decreases cash and increases expense.*
- **Depreciation of machinery recorded** – *Yes, it increases expense and reduces asset value.*

- **Appointed new auditor** – *No, unless fees are paid or accrued.*

Types of Accounting Reports and Their Uses

- **Income Statement (Profit & Loss Statement):** Shows revenues and expenses over a period; indicates profitability.
Use: Assess operational performance.
- **Balance Sheet (Statement of Financial Position):** Displays assets, liabilities, and owner's equity at a specific point in time.
Use: Understand financial position and solvency.
- **Cash Flow Statement (Statement of Cashflows):** Reports cash inflows and outflows from operating, investing, and financing activities.
Use: Monitor liquidity and cash management.
- **Statement of changes in Equity (Remained earned statement):** Explains changes in equity from investments, withdrawals, and retained earnings.
Use: Analyze changes in owner's interest in the firm.

Characteristics of Good Accounting Reports:

- **Relevance:** Information must aid decision-making.
- **Faithful Representation:** Complete, neutral, and free from error.
- **Understandability:** Clear presentation for users.
- **Comparability:** Allows evaluation across periods and entities.
- **Timeliness:** Provided in time to be useful.

Users of Accounting Information

- **Internal Users:**
 - Managers – for planning and control.
 - Employees – job security and performance.
 - Owners – profit evaluation.
- **External Users:**
 - Investors – profitability and risk analysis.
 - Creditors – repayment ability.
 - Government – taxation and regulatory compliance.
 - Customers – supplier stability.
 - Regulatory Bodies – ensure legal conformity.

Examples of Elements in Accounting :

Category	Examples
Assets	Cash, Bank Balance, Accounts Receivable, Inventory, Prepaid Insurance, Office Supplies, Furniture, Equipment, Buildings, Land, Vehicles, Patents, Copyrights, Trademarks, Goodwill, Long-term Investments, Marketable Securities
Liabilities	Accounts Payable, Notes Payable, Accrued Expenses (e.g., Wages Payable, Interest Payable), Unearned Revenue, Loans Payable, Bonds Payable, Taxes Payable, Deferred Revenue, Lease Obligations, Credit Card Payable, Mortgage Payable
Owner's Equity	Capital, Retained Earnings, Drawings, Owner's Contributions, Common Stock, Preferred Stock, Additional Paid-in Capital, Treasury Stock, Accumulated Other Comprehensive Income
Income (Revenue)	Sales Revenue, Service Revenue, Interest Income, Rental Income, Commission Revenue, Dividend Income, Consulting Revenue, Royalties Earned, Investment Income, Subscription Revenue, Gain on Sale of Asset, Foreign Exchange Gain
Expenses	Salaries and Wages Expense, Rent Expense, Utilities Expense, Insurance Expense, Depreciation Expense, Amortization Expense, Interest Expense, Advertising Expense, Supplies Expense, Repairs and Maintenance Expense, Legal Fees, Audit Fees, Delivery Expense, Telephone Expense, Training Expense, Bad Debts Expense, Loss on Disposal of Asset

Sub-types of Owner's Equity:

Type	Definition	Example
Share Capital	Amount invested by shareholders in exchange for shares of ownership.	An investor purchases 1,000 shares of a company at \$10 each; \$10,000 is recorded as share capital.
Retained Earnings	Portion of net income retained in the business after dividends are paid.	A company earns \$50,000 profit and pays \$10,000 in dividends; \$40,000 is retained earnings.

Types of Revenue and Expenses:

- **Revenue:**
 - **Sales Revenue** – Income from selling goods (e.g., merchandise sales by a retailer).
 - **Service Revenue** – Income from providing services (e.g., consulting fees, legal services).
- **Operating Expenses:**
 - Rent Expense
 - Salaries and Wages
 - Utilities Expense
 - Insurance Expense
 - Advertising Expense

- Depreciation and Amortization
- Repairs and Maintenance
- Office Supplies
- **Non-Operating Income:**
 - Interest Income
 - Dividend Income
 - Gain on Sale of Assets
 - Rental Income (if not core business)
 - Foreign Exchange Gain

Types of Business Entities and Comparison:

Criteria	Proprietorship	Partnership	Company (Corporation)
Ownership	Single individual	2 - 20 partners	2 - unlimited Shareholders
Legal Identity	No separate legal entity	Not a separate legal entity (except LLP)	Separate legal entity
Liability	Unlimited liability	Unlimited (except LLP)	Limited to shareholding
Capital Source	Personal funds	Partner contributions	Share issuance, retained earnings
Regulation	Minimal legal formalities	Moderate regulation	Heavily regulated by company laws
Continuity	Ends on owner's death or withdrawal	Ends on partner exit (unless reconstituted)	Perpetual succession
Taxation	Taxed as personal income	Taxed as personal income of partners	Separate entity, corporate tax applies

Standard Accounting Reports with Examples

17-04-25 Thursday

Standard Accounting Reports with Examples:

- 1. Income Statement (Profit and Loss Statement):

Particulars	Amount (USD)
Sales Revenue	120,000
Less: Cost of Goods Sold (COGS)	70,000
Gross Profit¹	50,000
Less: Operating Expenses	25,000
Net Operating Income²	25,000
Add: Non-operating Income (Interest Income)	3,000
Less: Interest Expense	2,000
Profit Before Tax (PBT)³	26,000
Less: Income Tax Expense	6,000
Net Income⁴	20,000

- 2. Balance Sheet (as of a specific date):

Assets	Liabilities	Owner's Equity
Cash: 15,000 Accounts Receivable: 10,000 Inventory: 25,000 Equipment: 35,000	Accounts Payable: 20,000 Bank Loan: 30,000	Capital: 10,000 Retained Earnings: 15,000
Total: 85,000	Total: 50,000	Total: 35,000

- 3. Cash Flow Statement:

Cash Flows from Operating Activities	Amount (USD)
Cash received from customers	110,000
Cash paid for operating expenses	(80,000)
Net Cash from Operating Activities	30,000
Cash Flows from Investing Activities	
Purchase of equipment	(20,000)
Net Cash from Investing Activities	(20,000)
Cash Flows from Financing Activities	
Proceeds from bank loan	10,000
Owner capital contribution	5,000
Net Cash from Financing Activities	15,000
Net Increase in Cash	25,000

- 4. Statement of Owner's Equity:

¹Also known as: Gross Margin

²Also known as: Operating Profit, EBIT (Earnings Before Interest and Tax)

³Also known as: Earnings Before Tax (EBT)

⁴Also known as: Net Profit, Net Earnings, Bottom Line

Particulars	Amount (USD)
Beginning Capital	30,000
Add: Owner Contribution	5,000
Less: Owner Withdrawals	(10,000)
Add: Net Profit	20,000
Less: Divident	(10,000)
Ending Capital	35,000

Question

Sakiful Alam and Aziz Khan opened a web consulting business called **Money Laundering Services Pvt. Ltd.** and completed the following transactions in its first month of operations:

- **June 1:** Alam and Khan invested BDT 80,000 cash along with office equipment valued at BDT 26,000 in the company.
- **June 2:** The company prepaid BDT 9,000 cash for 12 months' rent for office space. (*Hint: Debit Prepaid Rent for BDT 9,000*)
- **June 3:** The company made credit purchases for BDT 8,000 in office equipment and BDT 3,600 in office supplies. Payment is due within 10 days.
- **June 6:** The company completed services for a client and immediately received BDT 4,000 cash.
- **June 9:** The company completed a BDT 6,000 project for a client, who must pay within 30 days.
- **June 13:** The company paid BDT 11,600 cash to settle the account payable created on June 3.
- **June 19:** The company paid BDT 2,400 cash for the premium on a 12-month insurance policy. (*Hint: It is prepayment*)
- **June 22:** The company received BDT 4,400 cash as partial payment for the work completed on June 9.
- **June 25:** The company completed work for another client for BDT 2,890 on credit.
- **June 28:** The company gave BDT 5,500 to Alam and Sakiful in cash as dividends.
- **June 29:** The company purchased BDT 600 of additional office supplies on credit.
- **June 30:** The company paid BDT 435 cash for this month's utility bill.

Balance Sheet of Money Laundering Services Pvt. Ltd.
As at June 30, 2025

Assets	Liabilities and Owner's Equity
Current Assets Cash BDT 66,465 Accounts Receivable BDT 4,490 Office Supplies BDT 4,200 Prepaid Rent BDT 9,000 Prepaid Insurance BDT 2,400	Current Liabilities Accounts Payable BDT 600
Non-current Assets Office Equipment BDT 60,000	Owner's Equity Owner Capital BDT 106,000 Retained Earnings BDT 39,955
Total Assets BDT 146,555	Total Liabilities and Equity BDT 146,555

Clarification Notes:

Cash (BDT 66,465):

- Initial investment: BDT 80,000
- Service revenue (June 6): BDT 4,000
- Partial payment from client (June 22): BDT 4,400
- Prepaid rent (June 2): BDT (9,000)
- Payment for June 3 purchases: BDT (11,600)
- Prepaid insurance (June 19): BDT (2,400)
- Dividends (June 28): BDT (5,500)
- Utilities expense (June 30): BDT (435)

Office Equipment (BDT 34,000):

- Initial contribution: BDT 26,000
- Purchased on credit (June 3): BDT 8,000

Office Supplies (BDT 4,200):

- Purchased (June 3): BDT 3,600
- Purchased (June 29): BDT 600

Prepaid Rent (BDT 9,000):

- Paid in advance for 12 months (June 2)

Prepaid Insurance (BDT 2,400):

- 12-month insurance premium paid (June 19)

Accounts Receivable (BDT 4,490):

- Service provided (June 9): BDT 6,000
- Service provided (June 25): BDT 2,890
- Partial collection (June 22): BDT (4,400)

Accounts Payable (BDT 600):

- Equipment purchased (June 3): BDT 8,000
- Supplies purchased (June 3): BDT 3,600
- Payment made (June 13): BDT (11,600)
- Supplies purchased (June 29): BDT 600

Owner Capital (BDT 106,000):

- Cash invested: BDT 80,000
- Equipment invested: BDT 26,000

Retained Earnings (BDT 6,955):

- Total Revenue: BDT 12,890
- Total Expenses & Dividends: BDT (5,935)
- Net Income: BDT 6,955

Double Entry System and Debit-Credit Rules

23-04-2025 Wednesday

Double Entry System:

- Every transaction affects at least two accounts.
- Based on the accounting equation: **Assets = Liabilities + Owner's Equity**.
- Ensures accounting records are balanced.
- Promotes accuracy and reduces fraud through self-checking mechanisms.

Key Characteristics:

- **Dual Aspect:** Every transaction has a dual effect — one debit and one credit.
- **Balance Maintenance:** Total debits always equal total credits.
- **Scientific Recording:** Systematic, chronological, and consistent.
- **Error Detection:** Helps locate posting and recording errors.

Debit-Credit Rules for Accounting Elements:

Account Type	Increase (Dr/Cr)	Decrease (Dr/Cr)
Assets	Debit	Credit
Liabilities	Credit	Debit
Owner's Equity	Credit	Debit
Revenue	Credit	Debit
Expenses	Debit	Credit
Dividends	Debit	Credit

Writing Conventions for Debit-Credit Sheets:

- **Left side (Debit):** Inflows, asset acquisition, expense recognition, or owner withdrawals.
- **Right side (Credit):** Outflows, liabilities incurred, revenue earned, or capital added.
- **Format:** Traditional T-account — left side for debit entries and right side for credit entries.
- **Chronological Entry:** Transactions are recorded in the order they occur.
- **Narration:** Brief explanation is provided under the entry for clarity.

Question

On January 1, 2025, Mr. Tanvir started a business named **Tanvir Traders**. The following transactions occurred during January:

- Jan 1: Invested BDT 100,000 cash and BDT 50,000 worth of furniture.
- Jan 3: Purchased goods for BDT 30,000 in cash.
- Jan 5: Sold goods for BDT 20,000 on credit.
- Jan 10: Paid salaries BDT 5,000.
- Jan 12: Received BDT 15,000 from customers.
- Jan 15: Paid BDT 3,000 for rent.
- Jan 20: Purchased goods on credit for BDT 10,000.
- Jan 25: Sold goods for BDT 12,000 in cash.
- Jan 28: Withdrew BDT 2,000 for personal use.

Journal Entries

Date	Particulars	Debit (BDT)	Credit (BDT)
Jan 1	Cash A/C Dr. Furniture A/C Dr. To Capital A/C	100,000 50,000	150,000
Jan 3	Purchase A/C Dr. To Cash A/C	30,000	30,000
Jan 5	Accounts Receivable A/C Dr. To Sales A/C	20,000	20,000
Jan 10	Salary Expense A/C Dr. To Cash A/C	5,000	5,000
Jan 12	Cash A/C Dr. To Accounts Receivable A/C	15,000	15,000
Jan 15	Rent Expense A/C Dr. To Cash A/C	3,000	3,000
Jan 20	Purchase A/C Dr. To Accounts Payable A/C	10,000	10,000
Jan 25	Cash A/C Dr. To Sales A/C	12,000	12,000
Jan 28	Drawings A/C Dr. To Cash A/C	2,000	2,000

Ledger Accounts for June Transactions**Cash Account**

Date	Particulars	Debit (BDT)	Credit (BDT)
June 1	Owner's Capital	80,000	
June 6	Service Revenue	4,000	
June 22	Accounts Receivable	4,400	
June 2	Prepaid Rent		9,000
June 13	Accounts Payable		11,600
June 19	Prepaid Insurance		2,400
June 28	Dividends		5,500
June 30	Utilities Expense		435
Total		88,400	28,935

Office Equipment Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 1	Owner's Capital	26,000	
June 3	Accounts Payable	8,000	
Total		34,000	

Office Supplies Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 3	Accounts Payable	3,600	
June 29	Accounts Payable	600	
Total		4,200	

Prepaid Rent Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 2	Cash	9,000	

Prepaid Insurance Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 19	Cash	2,400	

Accounts Receivable Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 9	Service Revenue	6,000	
June 25	Service Revenue	2,890	
June 22	Cash		4,400
Total		8,890	4,400

Accounts Payable Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 13	Cash	11,600	
June 3	Office Equipment		8,000
June 3	Office Supplies		3,600
June 29	Office Supplies		600
Total		11,600	12,200

Service Revenue Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 6	Cash		4,000
June 9	Accounts Receivable		6,000
June 25	Accounts Receivable		2,890
Total			12,890

Dividends Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 28	Cash	5,500	

Utilities Expense Account

Date	Particulars	Debit (BDT)	Credit (BDT)
June 30	Cash	435	

Journal & Ledger

28-04-2025 Monday

Effects on Shared Capital (SC) and Retained Earnings (RE):

- **Additional Investment:**
 - SC: Increases (Positive Impact)
 - RE: No direct impact
- **Net Income:**
 - RE: Increases (Positive Impact)
 - SC: No direct impact
- **Dividends Paid:**
 - RE: Decreases (Negative Impact)
 - SC: No direct impact

Relations between Net Income, Revenue, and Expenses:

- **Net Income (NI) Formula:**

$$\text{Net Income} = \text{Total Revenue} - \text{Total Expenses}$$

- **Revenue:** Increases Net Income (Positive Relationship)
- **Expenses:** Decreases Net Income (Negative Relationship)

Impact of Expenses on Retained Earnings:

- Higher expenses lower Net Income.
- Lower Net Income results in a lower addition to Retained Earnings.
- Thus, **Expenses indirectly reduce Retained Earnings.**

Summary Table

Event	Impact on SC	Impact on RE
Additional Investment	Increase (+)	No impact
Net Income	No impact	Increase (+)
Dividends	No impact	Decrease (–)
Revenue Earned	No direct impact	Increase (via Net Income)
Expenses Incurred	No direct impact	Decrease (via Net Income)

Question

Prepare the Journal Entries for the following transactions:

- Nov 4: John Smith, the major shareholder of real estate company, received 121,000 cash from an inheritance.
- Nov 5: Smith deposited 61,000 cash in a new business bank account titled Smith Real Estate Co. The business issued ordinary shares to Smith.
- Nov 6: The business paid 700 cash for letterhead stationery for the new office.
- Nov 7: The business purchased office equipment. The company paid cash of 13,500 and agreed to pay the account payable for the remainder, 7,500, within three months.
- Nov 10: Smith sold DLD shares, which he owned for several years, receiving 68,000 cash from his stockbroker.
- Nov 11: Smith deposited the 68,000 cash from sale of the DLD shares in his personal bank account.
- Nov 12: A representative of a large company telephoned Smith and told him of the company's intention to transfer 13,000 of business to Smith.
- Nov 18: Smith finished a real estate deal for a client and submitted his bill for services, 5,000. Smith expects to collect from the client within two weeks.
- Nov 21: The business paid half its account payable for the equipment purchased on November 7.
- Nov 25: The business paid office rent of 700.
- Nov 30: The business declared and paid a cash dividend of 2,000.

Answer

Journal Entries:

Date	Account Titles and Explanation	Debit	Credit
Nov 5	Cash Ordinary Share Capital	61,000	61,000
Nov 6	Office Supplies (Stationery) Cash	700	700
Nov 7	Office Equipment Cash Accounts Payable	21,000	13,500 7,500
Nov 18	Accounts Receivable Service Revenue	5,000	5,000
Nov 21	Accounts Payable Cash	3,750	3,750
Nov 25	Rent Expense Cash	700	700
Nov 30	Dividends Cash	2,000	2,000

Important Clarifications:

- **November 4 and November 10-11:** These involve John Smith's personal transactions, hence no journal entry is needed for the business.
- **November 12:** Only a telephone conversation happened; no journal entry recorded.

Journalize, Post to Ledger, and Prepare Trial Balance

28-04-2025 Monday

Problem:

S. Alam and Aziz Khan opened a web consulting business called **Money Laundering Services Pvt. Ltd.** and completed the following transactions:

- June 1: Invested cash BDT 80,000 and office equipment BDT 26,000, issuing common stock.
- June 2: Prepaid BDT 9,000 rent.
- June 3: Purchased office equipment (BDT 8,000) and office supplies (BDT 3,600) on credit.
- June 6: Completed services for BDT 4,000 cash.
- June 9: Completed services for BDT 6,000 on credit.
- June 13: Paid BDT 11,600 cash to settle accounts payable.
- June 19: Paid BDT 2,400 cash for prepaid insurance.
- June 22: Received BDT 4,400 as partial payment from client.
- June 25: Completed services for BDT 2,890 on credit.
- June 28: Paid BDT 5,500 cash as dividends.
- June 29: Purchased BDT 600 office supplies on credit.
- June 30: Paid BDT 435 cash for utilities.
- June 30: Hired employee, salary of BDT 1,500 due in August (accrued salary).

Journal Entries:

Date	Account Titles and Explanation	Debit	Credit
June 1	Cash Office Equipment Common Stock (Investment of cash and equipment for shares)	80,000 26,000	106,000
June 2	Prepaid Rent Cash (Payment for 12 months' rent)	9,000	9,000
June 3	Office Equipment Office Supplies Accounts Payable (Credit purchase of equipment and supplies)	8,000 3,600	11,600
June 6	Cash Service Revenue (Cash services completed)	4,000	4,000
June 9	Accounts Receivable Service Revenue (Services completed on account)	6,000	6,000
June 13	Accounts Payable Cash (Paid accounts payable)	11,600	11,600
June 19	Prepaid Insurance Cash (Payment for insurance policy)	2,400	2,400
June 22	Cash Accounts Receivable (Partial collection from client)	4,400	4,400
June 25	Accounts Receivable Service Revenue (Services completed on account)	2,890	2,890
June 28	Dividends Cash (Payment of dividends)	5,500	5,500
June 29	Office Supplies Accounts Payable (Purchase of additional office supplies)	600	600
June 30	Utilities Expense Cash (Paid for utilities)	435	435
June 30	Salaries Expense Salaries Payable (Accrued salary for June)	1,500	1,500

Ledger Accounts:

Cash

Debit	Credit
80,000	9,000 (Prepaid Rent)
4,000	11,600 (Payables)
4,400	2,400 (Prepaid Insurance)
	5,500 (Dividends)
	435 (Utilities)

Common Stock

Debit	Credit
	106,000 (Investment)

Office Equipment

Debit	Credit
26,000	
8,000	

Office Supplies

Debit	Credit
3,600	
600	

Prepaid Rent

9,000	
-------	--

Prepaid Insurance

2,400	
-------	--

Accounts Payable

Debit	Credit
11,600 (Paid)	11,600 (Purchase)
	600 (Supplies Purchase)

Service Revenue

Debit	Credit
	4,000
	6,000
	2,890

Accounts Receivable

Debit	Credit
6,000	4,400
2,890	

Dividends

5,500	
-------	--

Utilities Expense

435	
-----	--

Salaries Expense

1,500	
-------	--

Salaries Payable

	1,500
--	-------

Trial Balance as of June 30, 2025:

Account Title	Debit	Credit
Cash	66,465	
Accounts Receivable	4,490	
Office Supplies	4,200	
Prepaid Rent	9,000	
Prepaid Insurance	2,400	
Office Equipment	34,000	
Accounts Payable		600
Salaries Payable		1,500
Common Stock		106,000
Dividends	5,500	
Service Revenue		12,890
Utilities Expense	435	
Salaries Expense	1,500	
Total	128,990	128,990

Common Techniques for Finding Errors in Trial Balance:**1. Divisibility by 2 Technique:**

- If the difference between total debits and credits is divisible by 2, suspect that a debit has been mistakenly posted as credit or vice versa.
- **Example:** Difference = 540; $540 \div 2 = 270$; look for an entry of 270 posted to the wrong side.

2. Divisibility by 9 Technique (Transposition Errors):

- If the difference is divisible by 9, it may indicate a transposition error (e.g., writing 54 instead of 45).
- **Example:** Difference = 81; $81 \div 9 = 9$ (an integer); suspect swapped digits in entries.

Basics of Accrual Accounting

05-05-2025 Sunday

Accrual Accounting:

- Accrual accounting recognizes revenue when it is earned and expenses when they are incurred, regardless of when cash transactions occur.
- The main principle is to match revenues with related expenses in the period they occur, providing a more accurate picture of a company's financial position.
- **Example:** If a company completes a service in December but receives payment in January, the revenue will be recognized in December, not January.

Key Characteristics of Accrual Accounting:

- **Matching Principle:** Revenues and expenses are matched to the period in which they occur.
- **Revenue Recognition Principle:** Revenue is recognized when earned, not when cash is received.
- **Expense Recognition Principle (or Matching Principle):** Expenses are recorded when they are incurred, regardless of when cash is paid.
- Provides a more accurate financial picture for decision-making.

Different Accounting Standards:

- **International Accounting Standards (IAS):**
 - A set of accounting standards used globally to standardize accounting practices and financial reporting.
 - Provides the framework for reporting financial statements for companies operating across borders.
- **International Accounting Standards Board (IASB):**
 - An independent organization responsible for developing and promoting the adoption of IFRS (International Financial Reporting Standards).
- **Generally Accepted Accounting Principles (GAAP):**
 - A set of accounting principles, standards, and procedures used in the United States.
 - Includes standards for recognizing revenue, matching expenses, and measuring financial position.
- **International Financial Reporting Standards (IFRS):**
 - A set of global accounting standards developed by the IASB to ensure consistency and transparency in financial reporting across different countries.
 - Used by companies in over 100 countries worldwide.

Cash Basis vs Accrual Basis of Accounting:

- **Cash Basis Accounting:**

- Recognizes revenue when cash is received and expenses when cash is paid.
- Simple to use and typically used by smaller businesses or individuals.
- **Example:** If a company receives cash in January for services rendered in December, under cash basis accounting, the revenue is recognized in January.

- **Accrual Basis Accounting:**

- Recognizes revenue when earned (not necessarily when cash is received) and expenses when incurred (not necessarily when cash is paid).
- Provides a more accurate picture of financial health, as it accounts for receivables and payables.
- **Example:** If a company completes a service in December but receives payment in January, the revenue is recognized in December under accrual accounting.

- **Comparison:**

- **Cash Basis:** Simple, easier to implement, less comprehensive.
- **Accrual Basis:** More complex, but provides a better financial picture, required for larger businesses and public companies.

Key Differences between Cash and Accrual Basis:

Feature	Cash Basis	Accrual Basis
Revenue Recognition	When cash is received	When revenue is earned, regardless of cash receipt
Expense Recognition	When cash is paid	When expenses are incurred, regardless of cash payment
Complexity	Simple	More complex
Accuracy in Financial Reporting	Less accurate	More accurate
Used By	Small businesses, individuals	Larger businesses, corporations

Conclusion:

"While cash basis accounting is simpler and easier for small businesses, accrual accounting is the preferred method for larger entities and public companies due to its ability to provide a more comprehensive view of financial performance."

Cash vs Accrual Basis:

Below is a table demonstrating the difference between Cash Basis and Accrual Basis for various transactions. The first column lists the transactions, while the second and third columns indicate whether the event is recognized under Cash Basis or Accrual Basis.

Transaction	Cash Basis	Accrual Basis
Sold services worth 2000 USD on credit	No	Yes
Received cash for services rendered in previous month	Yes	Yes
Paid rent for the month	Yes	Yes
Purchased office supplies on credit	No	Yes
Received payment for previous month's credit sales	Yes	Yes
Paid salary to employees for the month	Yes	Yes
Completed a service but client will pay next month	No	Yes
Received advance payment for services not yet performed	Yes	Yes
Paid a supplier for goods purchased last month	Yes	Yes
Sold goods on credit for 5000 USD	No	Yes
Paid for utilities used in the month	Yes	Yes

Time Period Concept and Revenue Recognition Principle (IFRS 15):

- **Time Period Concept:** This accounting concept asserts that financial transactions should be recorded in the period in which they occur, not when cash is exchanged. This ensures that the financial statements reflect the true financial position during that time.
- **Revenue Recognition Principle (IFRS 15):** Revenue should be recognized when control of the goods or services is transferred to the customer. This principle ensures that revenue is reported in the correct period, matching expenses incurred to earn the revenue.

Five-Step Revenue Recognition Process (IFRS 15):

The five steps provide a framework for recognizing revenue, as outlined in IFRS 15:

1. **Identify the contract with a customer:** A contract must be enforceable and agreed upon by both parties.
2. **Identify the performance obligations in the contract:** These are the promises to transfer goods or services to the customer.
3. **Determine the transaction price:** This is the amount of consideration the company expects to receive for transferring goods or services.
4. **Allocate the transaction price to the performance obligations:** If the contract has multiple performance obligations, allocate the transaction price to each based on relative standalone selling prices.
5. **Recognize revenue when (or as) the performance obligation is satisfied:** Revenue is recognized when control of the good or service is transferred to the customer.

Example of Recognizing Revenue (IFRS 15):

Assume a company signs a contract to provide a service worth 10,000 USD over a period of 5 months. The customer agrees to pay the full amount up front, but the service is provided monthly.

- **Step 1: Identify the contract** — The agreement is a valid and enforceable contract between the company and the customer.

- **Step 2:** Identify the performance obligations — The service provided over 5 months is one performance obligation.
- **Step 3:** Determine the transaction price — The total transaction price is 10,000 USD.
- **Step 4:** Allocate the transaction price — The price is allocated evenly over the 5 months (2,000 USD per month).
- **Step 5:** Recognize revenue — The company recognizes 2,000 USD revenue each month as the service is provided.

Adjusting Accounts, and Balance Sheet Recognition

08-05-2025 Sunday

Additional Examples of Revenue Recognition:

- **Subscription Services:**
 - A magazine company receives an upfront payment of \$240 for a one-year subscription. The company must recognize revenue as it delivers each issue of the magazine.
 - **Cash Basis:** Revenue is recognized when cash is received (upfront payment of \$240).
 - **Accrual Basis:** Revenue is recognized monthly as the magazine is delivered (recognize \$20 per month).
- **Construction Contract:**
 - A construction company is hired to build a building for \$1,000,000, with payments made as milestones are achieved.
 - **Cash Basis:** Revenue is recognized when the milestone payment is received.
 - **Accrual Basis:** Revenue is recognized as the work progresses, even if payments are received in advance or after milestones are completed.
- **Retail Sales with Returns:**
 - A retail company sells goods for \$100,000 in December, but allows returns for 30 days.
 - **Cash Basis:** Revenue is recognized when the cash is received (December).
 - **Accrual Basis:** Revenue is recognized in December but with an allowance for returns (e.g., 5% of total sales as returns).
- **Real Estate Sale:**
 - A real estate company sells a property for \$500,000, and the buyer pays the full amount at the closing.
 - **Cash Basis:** Revenue is recognized when the cash is received.
 - **Accrual Basis:** Revenue is recognized at the closing date when control of the property is transferred, regardless of when the payment is received.

Adjusting the Accounts: Revenue & Expense Recognition

Adjusting entries are made at the end of an accounting period to ensure that revenue and expenses are recognized in the period in which they are incurred.

- **Revenue Adjustments:**
 - **Unearned Revenue (Advance Revenue):**
 - * A company receives \$10,000 in advance for services to be performed over the next 6 months.

- * **Journal Entry:**

Debit: Cash 10,000, Credit: Unearned Revenue 10,000

- * Each month, \$1,667 is recognized as revenue as the service is performed.

Debit: Unearned Revenue 1,667, Credit: Service Revenue 1,667

- **Accrued Revenue (Earned but not yet received):**

- * A company completes a project worth \$5,000 in December, but the client will pay in January.

- * **Journal Entry:**

Debit: Accounts Receivable 5,000, Credit: Service Revenue 5,000

- **Expense Adjustments:**

- **Prepaid Expenses (Paid in Advance):**

- * A company pays \$12,000 for 12 months of insurance coverage in advance.

- * **Journal Entry (initial):**

Debit: Prepaid Insurance 12,000, Credit: Cash 12,000

- * Each month, \$1,000 of insurance expense is recognized.

Debit: Insurance Expense 1,000, Credit: Prepaid Insurance 1,000

- **Accrued Expenses (Incurred but not yet paid):**

- * A company owes \$3,000 in wages for work done in December, to be paid in January.

- * **Journal Entry:**

Debit: Wages Expense 3,000, Credit: Accrued Wages Payable 3,000

Example of Complete Transactions and Balance Sheet Recognition:

Let's assume a company engages in several transactions that affect its balance sheet at the end of the period.

- **Transaction 1:** A company sells goods worth \$50,000 on credit.

- **Balance Sheet Effect:**

- * Increase in Accounts Receivable (Asset): \$50,000
- * Increase in Revenue (Equity via retained earnings): \$50,000

- **Transaction 2:** The company receives \$30,000 in cash from the client.

- **Balance Sheet Effect:**

- * Decrease in Accounts Receivable (Asset): \$30,000
- * Increase in Cash (Asset): \$30,000
- **Transaction 3:** The company pays \$5,000 for supplies purchased earlier on credit.
 - **Balance Sheet Effect:**
 - * Decrease in Accounts Payable (Liability): \$5,000
 - * Decrease in Cash (Asset): \$5,000
- **Transaction 4:** The company pays a utility bill of \$1,500 in cash.
 - **Balance Sheet Effect:**
 - * Decrease in Cash (Asset): \$1,500
 - * Increase in Utilities Expense (Equity through retained earnings): \$1,500

Conclusion:

"Accrual accounting provides a comprehensive and accurate picture of a company's financial health, ensuring revenues and expenses are recognized when they occur, not when cash changes hands."

Depreciation:

Depreciation is the allocation of the cost of a tangible asset over its useful life. The purpose is to match the cost of the asset with the revenue it generates over time, in accordance with the matching principle in accrual accounting.

- **Straight-Line Depreciation:**

- **Formula:**

$$\text{Depreciation Expense} = \frac{\text{Cost of Asset} - \text{Residual Value}}{\text{Useful Life}}$$

- Example: A machine costing \$10,000, with no residual value, and a useful life of 5 years, will have a yearly depreciation expense of:

$$\frac{10,000}{5} = 2,000 \text{ per year}$$

- **Double-Declining Balance Depreciation:**

- **Formula:**

$$\text{Depreciation Expense} = 2 \times \frac{1}{\text{Useful Life}} \times \text{Book Value at Beginning of Year}$$

- Example: A machine purchased for \$10,000 with a 5-year useful life. The first year depreciation is:

$$2 \times \frac{1}{5} \times 10,000 = 4,000$$

Comprehensive Depreciation Example:

Consider a piece of equipment purchased for \$150,000 with a useful life of 5 years and no residual value. Using the straight-line method, the depreciation expense for each year is:

$$\text{Depreciation Expense} = \frac{150,000 - 0}{5} = 30,000 \text{ per year}$$

Thus, the accumulated depreciation at the end of 2025 (after 1 year) is \$30,000, and the carrying amount of the equipment on the balance sheet is:

$$\text{Carrying Amount} = 150,000 - 30,000 = 120,000$$

Depreciation Journal Entries:

Depreciation is recorded periodically, typically at the end of each accounting year, to allocate the cost of an asset over its useful life.

Example:

Consider a company purchasing equipment for \$30,000, with an estimated useful life of 5 years and no residual value. The company uses the straight-line method for depreciation.

Journal Entries for Depreciation:

For the first 3 years, the journal entries for depreciation would be the same each year:

Date	Account Titles and Explanation	Debit	Credit
Year 1 (End of Year)	Depreciation Expense Accumulated Depreciation—Equipment (To record depreciation for the year)	6,000	6,000
Year 2 (End of Year)	Depreciation Expense Accumulated Depreciation—Equipment (To record depreciation for the year)	6,000	6,000
Year 3 (End of Year)	Depreciation Expense Accumulated Depreciation—Equipment (To record depreciation for the year)	6,000	6,000

Total Depreciation after 3 Years:

$$\text{Total Depreciation} = 6,000 \times 3 = 18,000$$

Thus, after 3 years, the accumulated depreciation for the equipment would be \$18,000, and the book value of the equipment will be:

$$\text{Book Value} = 30,000 - 18,000 = 12,000$$

Depreciation and Carrying Value for 3 Years:

The following table presents the equipment's depreciation over 3 years and shows the accumulated depreciation each year, along with the final carrying value at the end of each year.

Particulars	Year 1 (BDT)	Year 2 (BDT)	Year 3 (BDT)
Equipment (Acquisition Cost)	30,000	30,000	30,000
Accumulated Depreciation—Equipment	(6,000)	(12,000)	(18,000)
Book Value / Carrying Value	24,000	18,000	12,000

Explanation:

- In **Year 1**, the company records depreciation of BDT 6,000. The carrying value at the end of Year 1 is $30,000 - 6,000 = \text{BDT } 24,000$.
- In **Year 2**, an additional BDT 6,000 of depreciation is recorded, bringing the accumulated depreciation to BDT 12,000. The carrying value at the end of Year 2 is $30,000 - 12,000 = \text{BDT } 18,000$.
- In **Year 3**, another BDT 6,000 is depreciated, bringing the accumulated depreciation to BDT 18,000. The carrying value at the end of Year 3 is $30,000 - 18,000 = \text{BDT } 12,000$.

Exceptions to Depreciation:

There are certain assets that are ****not depreciated**** because they do not lose value over time, or their value is considered to be indefinite.

- **Land:**
 - Land is not depreciated because its useful life is considered indefinite. While land may appreciate in value over time, it doesn't wear out or get consumed in the same way as buildings or equipment.
 - **Example:** A company purchases land for \$100,000. This land will not be depreciated.
- **Intangible Assets with Indefinite Life:**
 - Intangible assets like trademarks or goodwill with indefinite useful lives are not depreciated. Instead, these assets are tested for impairment periodically.
- **Assets Under Construction:**
 - Depreciation is not charged on assets that are under construction until they are completed and put into use.

Assignment Question (08-05-2025):

Bashundhara City Shopping Complex Ltd. faced the following situations. Journalize the adjusting entry needed on December 31, 2025, for each situation. Consider each fact separately.

- **a.** The business has an interest expense of 9,000 that it must pay early in January 2026.
- **b.** Interest revenue of 4,800 has been earned but not yet received.
- **c.** On July 1, 2025, 13,200 rent in advance was collected; Cash was debited, and Unearned Rent Revenue was credited. The tenant was paying two years' rent.
- **d.** Salary expense is 1,800 per day—Monday through Friday—and the business pays employees each Friday. This year, December 31 falls on Wednesday.
- **e.** The unadjusted balance of the Supplies account is 3,300. The total cost of supplies on hand is 1,200.
- **f.** Equipment was purchased at the beginning of this year at a cost of 150,000. The equipment's useful life is five years. There is no residual value. Record depreciation for this year and then determine the equipment's carrying amount.

Adjusting Entries:

Date	Account Titles and Explanation	Debit	Credit
Dec 31	Interest Expense Interest Payable (To accrue interest expense for the year)	9,000	9,000
Dec 31	Interest Receivable Interest Revenue (To recognize earned interest revenue)	4,800	4,800
Dec 31	Unearned Rent Revenue Rent Revenue (To recognize 6 months' rent revenue)	3,300	3,300
Dec 31	Salary Expense Salaries Payable (To accrue salary expense for 3 days)	5,400	5,400
Dec 31	Supplies Expense Supplies (To adjust supplies to the actual amount on hand)	2,100	2,100
Dec 31	Depreciation Expense Accumulated Depreciation—Equipment (To record depreciation for the year)	30,000	30,000

Determination of Carrying Amount of the Equipment

Particulars	Amount
A) Acquisition Cost	150,000
B) Accumulated Depreciation on December 31, 2025	30,000
Carrying Amount or Book Value of Equipment (A-B)	120,000