INTERMEDIATE ACCOUNTING (I / II)

1. Journal Entries

A **journal entry** records a business transaction using the **double-entry accounting system**, where every transaction affects at least two accounts.

Key Rules

- **Debits must equal credits**
- Assets & expenses increase with debits
- Liabilities, equity & revenue increase with credits

Format

Account Name Dr / Cr Amount

Example

Paid rent of ₹10,000 in cash:

Rent Expense Dr 10,000

Cash 10,000

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2. Adjusting Entries

Adjusting entries ensure that **revenues and expenses are recorded in the correct accounting period**.

Types of Adjusting Entries

1. Accrued revenues
2. Accrued expenses
3. Deferred revenues
4. Deferred expenses
5. Depreciation

Example – Accrued Expense

Salary earned but not yet paid ₹5,000:

Salary Expense Dr 5,000

Salary Payable 5,000

3. Accruals and Deferrals

Accruals

- Recognize revenue or expense **before cash is received or paid**

Examples:

- Accrued revenue
- Accrued expense

Deferrals

- Cash is received or paid **before revenue or expense is recognized**

Examples:

- Prepaid expenses
- Unearned revenue

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4. Revenue Recognition (Basic)

Revenue is recognized when:

- It is **earned**
- It is **realized or realizable**

Five-Step Model (Simplified)

1. Identify the contract
2. Identify performance obligations
3. Determine transaction price
4. Allocate price
5. Recognize revenue when obligation is satisfied

Example

Service provided worth ₹20,000 but cash not received:

Accounts Receivable Dr   20,000

  Service Revenue   20,000

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5. Leases (Basic)

A lease is a contract allowing use of an asset for a period in exchange for payments.

Basic Classification (Simplified)

- Operating Lease
- Finance Lease

Example (Operating Lease – Expense)

Monthly lease rent ₹8,000:

Lease Expense Dr 8,000

Cash 8,000

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6. Inventory

Inventory includes goods held for sale or production.

Inventory Cost Includes

- Purchase price
- Freight-in
- Handling costs

Inventory Valuation Methods

- FIFO
- LIFO
- Weighted Average

COGS Formula

Beginning Inventory

+ Purchases

- Ending Inventory

= Cost of Goods Sold

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7. Depreciation

Depreciation allocates the cost of a long-term asset over its useful life.

Common Methods

- Straight-line
- Declining balance

Straight-Line Formula

(Cost – Salvage Value) / Useful Life

Example

Asset cost ₹100,000, life 5 years:

Depreciation Expense Dr 20,000

Accumulated Depreciation 20,000

MANAGING LEDGERS

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1. Chart of Accounts

A **chart of accounts** is a list of all accounts used by a business.

Categories

- Assets
- Liabilities
- Equity
- Revenue
- Expenses

Each account has a unique code and name.

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2. T-Accounts

A **T-account** visually represents an account.

      Cash

Debit | Credit

Used to track increases and decreases.

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3. Posting

Posting is the process of transferring journal entries to ledger accounts.

Steps

1. Record transaction in journal
2. Post debits and credits to ledgers
3. Update account balances

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4. Trial Balance

A **trial balance** lists all ledger balances to check arithmetic accuracy.

Purpose

- Ensure debits = credits
- Detect posting errors

Format

Account Name | Debit | Credit

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5. Reconciliation

Reconciliation compares accounting records with external records.

Common Types

- Bank reconciliation
- Vendor reconciliation

Purpose

- Detect errors
- Identify missing transactions
- Prevent fraud

FINANCIAL STATEMENTS

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1. Income Statement (IS)

Shows profitability over a period.

Formula

Revenue

− Expenses

= Net Income

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2. Balance Sheet (BS)

Shows financial position at a point in time.

Accounting Equation

Assets = Liabilities + Equity

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3. Cash Flow Statement (CF)

Shows cash inflows and outflows.

Sections

- Operating activities
- Investing activities
- Financing activities

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4. Connections Between Statements

- Net income flows from IS → Equity (BS)
- Cash flow reconciles net income → cash balance
- Depreciation affects IS but not cash

COST BASICS (LITE)

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1. Cost of Goods Sold (COGS)

COGS represents direct costs of producing goods sold.

Includes:

- Direct materials
- Direct labor
- Manufacturing overhead

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2. Overhead

Overhead costs cannot be directly traced to a product.

Examples:

- Factory rent
- Utilities
- Indirect labor

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3. Contribution Margin

Shows how much revenue contributes to fixed costs and profit.

Formula

Contribution Margin = Sales – Variable Costs

Contribution Margin Ratio

Contribution Margin / Sales