Financial and Cost Accounting

CB

CT-258

Lecture 10,11,12

Accounting Cycle

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Accounting Cycle

it is a sequence of accounting procedures used to record, classify and summarize accounting information. It starts from initial recording of actual business transaction and conclude with the preparation of formal financial statements.

Debit and Credit



An account had three elements

- 1. Title of account is the name of that particular account and an account Number that uniquely identifies the account.
- 2. A Left or Debit side
- 3. A right or credit side

Title of Account Account Number______

Left Right

Credit side

Overnight's transaction in the month of June 2020

- On June 01, 2020, Ahmed Ali Deposited Rs.800,000 in bank account of 'Overnight Repair Services'
- On June 03, 2020 Mr. Ahmed Ali bought the land from KDA for Rs520,000. This transaction had two immediate effects on the company's financial position
- On June 05, 2020 Ahmed Ali purchased the old garage building from CDGK for Rs.360,000. Overnight made a cash down payment of Rs.60,000 and issued a 90 day non-interest bearing Notes payable for the remaining Rs.300,000 owed.
- On June 17, 2020 Overnight purchased tools and equipment from Snap-on-tools Corp. for Rs.138,000, due within 60 days. After this purchase following would be overnight's financial position
- After taking delivery of the new tools and equipment, Overnight found that it has purchased more than it needed. Ace towing a neighboring business, offered to buy the excess of tools & equipment. On June 20, 2020 Overnight some of its new tools to Ace-towing worth Rs18,000, a price equal to Overnight's cost. Ace-towing made no down payment, but agreed to pay the amount due within 45 days.
- On June 25, 2020 received Rs.6000 from Ace-towing as partial settlement of its account receivable.
- on June 30, Overnight made a partial payment of Rs68,000 on its accounts payable to Snap-on-tools

The General Ledger



An accounting system includes a separate record each item that appears on the balance sheet. This is called a ledger account. For example a separate record is kept for the asset cash showing all increases and decreases in cash resulting from the many transaction in which cash is received or paid. A similar record is kept for other assets, all liabilities. and owner's equity.



- General Ledger is collection loose leaflets of a specific format
- Posting to the ledger. From the General Journal book of original entry, transactions are classified into ledger accounts, this process is known as posting.



- A ledger account is a means of accumulating in one place all the information about changes in a specific asset, liability or owner's equity.
- General Ledger is a collection of loose leaflet of a specific format.
- There are two formats of posting into the ledger
- 1. Self Balancing format or run balancing format

	Cas	h .	Account	No:	
Date	Explanation	Ref	Debit	Credit	Balance



There are two formats of posting into the ledger

2. T-Accounts

example General Ledger T Account

	Cash					
11/1	80,000	11/3	52,000			
11/25	600	11/5	6,000			
		11/30	6,800			
	80,600		64,800			
11/30 Balance	15,800					

Ledger account

Title of Account Account Number_ Credit Debit Credit Entry **Debit Entry** Footing Debit Balance Credit Balance

Debit and credit Rules



- Rule for assets is 'Increase in asset is always recorded by debit' and decrease in asset is recorded by credit'. Assets normally have debit balances.
- Rule for Liabilities and Owner's Equity
- 'increase in Liability is recorded by credit and decrease in liability is recorded by debit'
- 'increase in Owner's equity is recorded by credit and decrease in owner's equity is recorded by debit'

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Recording Transactions in the General Ledger



On June 01, 2020, Ahmed Ali Deposited Rs.800,000 in bank account of 'Overnight Repair Services' (Ahmed Ali opened a bank account in the name of the business on the same date)

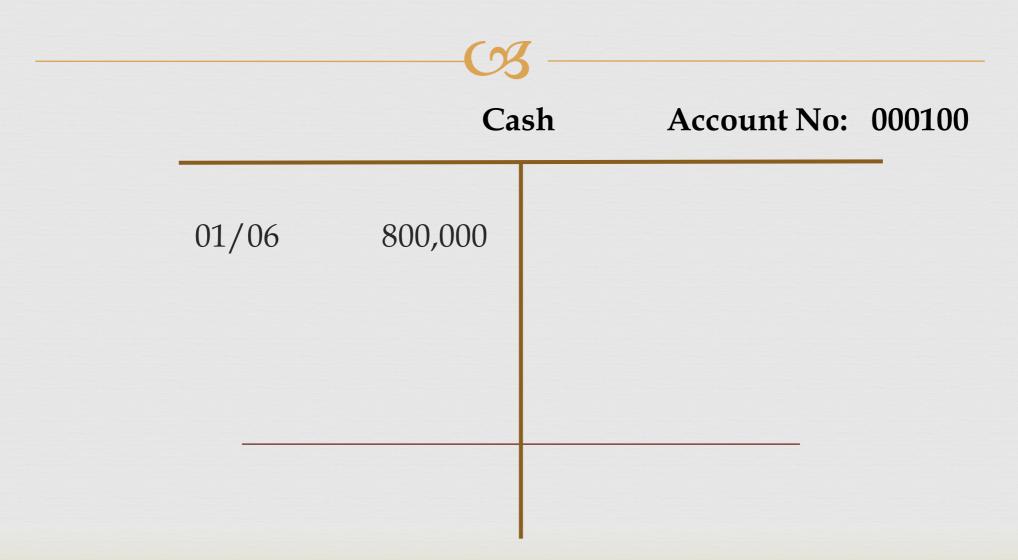
Analysis: Asset cash is increased by Rs.800,000

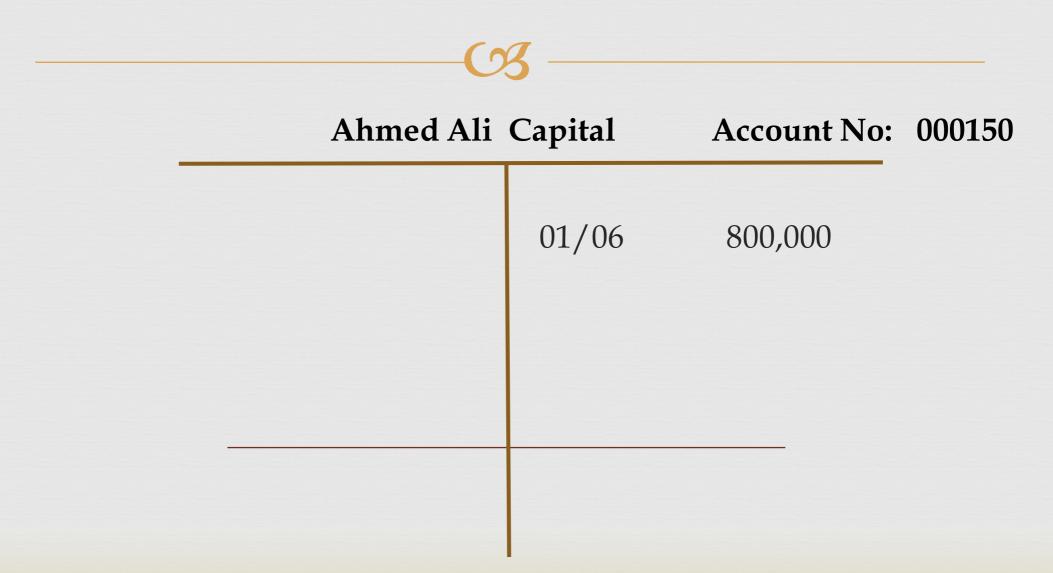
Owner's equity is increased by the same amount

Debit and Credit rule: Increases in assets are recorded by debits

therefore debit cash by Rs800,000

Increase in owner's equity is recorded by credit therefore credit Ahmed Ali Capital by Rs800,000





Recording Transactions in the General Ledger

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Purchase of an asset for cash: On June 03, 2020 Mr. Ahmed Ali bought the land from KDA for Rs520,000. This transaction had two immediate effects on the company's financial position

Analysis: Asset Land is increased by Rs.520,000

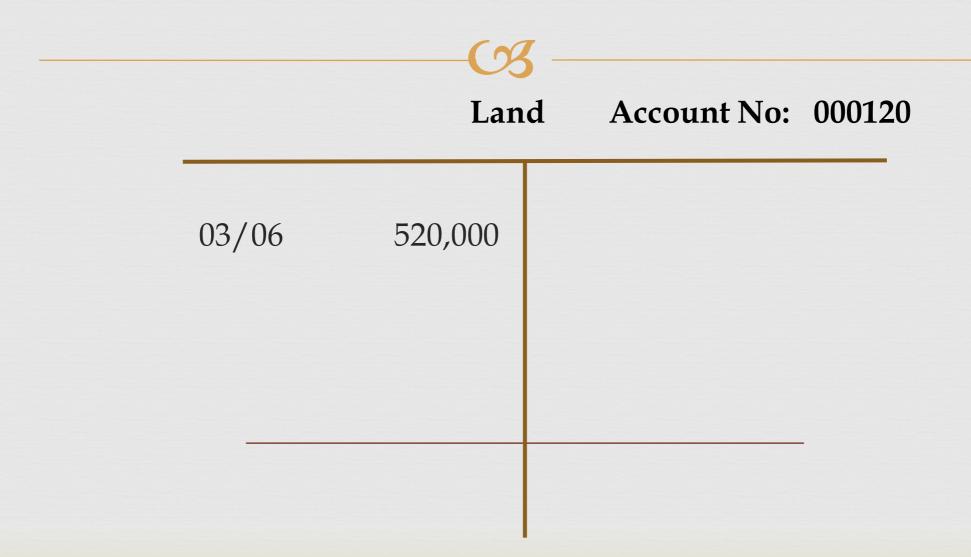
asset cash is reduced by the same amount

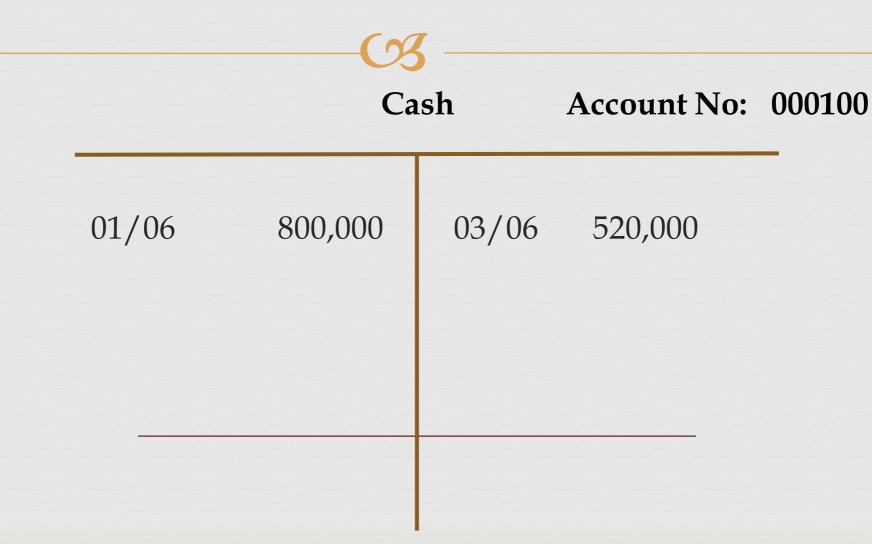
Debit and Credit rule: Increases in assets are recorded by debits

therefore debit Land by Rs520,000

decrease in asset is recorded by credit

therefore credit cash by Rs520,000





Recording Transactions in the General Ledger

03

Purchase of an asset and financing part of the cost garage building from CDGK for Rs. 360,000. Overnight made a cash down payment of Rs.60,000 and issued a 90 day non-interest bearing Notes payable for the remaining Rs.300,000 owed.

Analysis: A new asset building is acquired

Asset cash is decreased by Rs.60,000 Liability Notes Payable is incurred

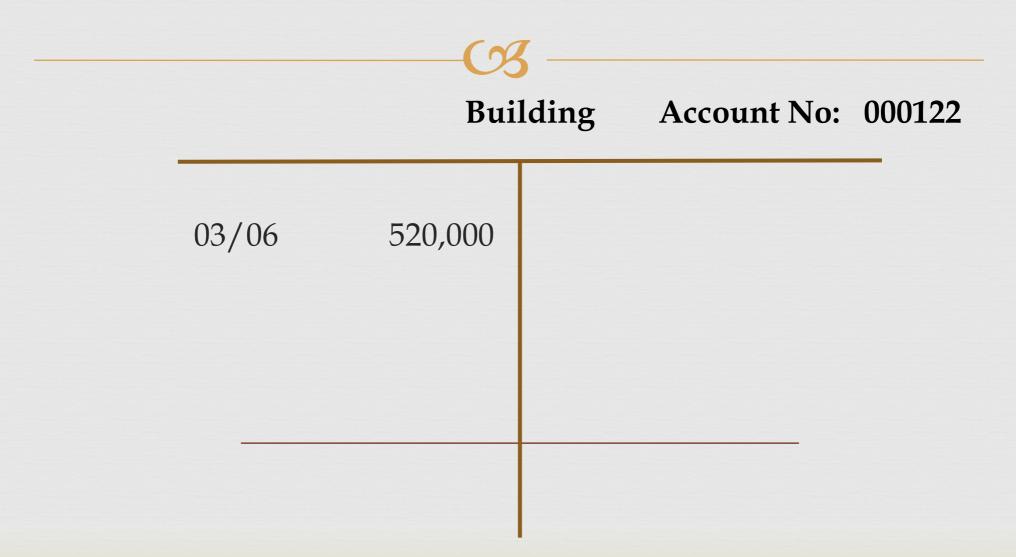
Debit and Credit rule: Increases in assets are recorded by debits

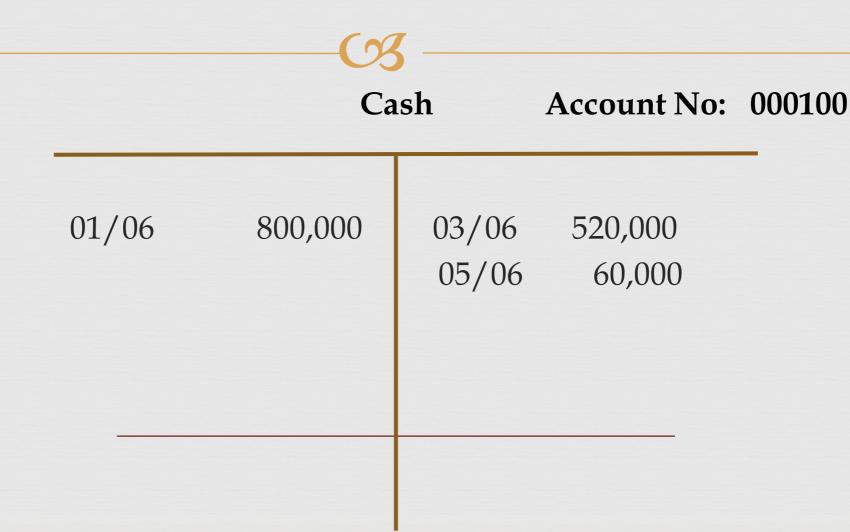
therefore debit building by Rs360,000 decrease in asset is recorded by credit

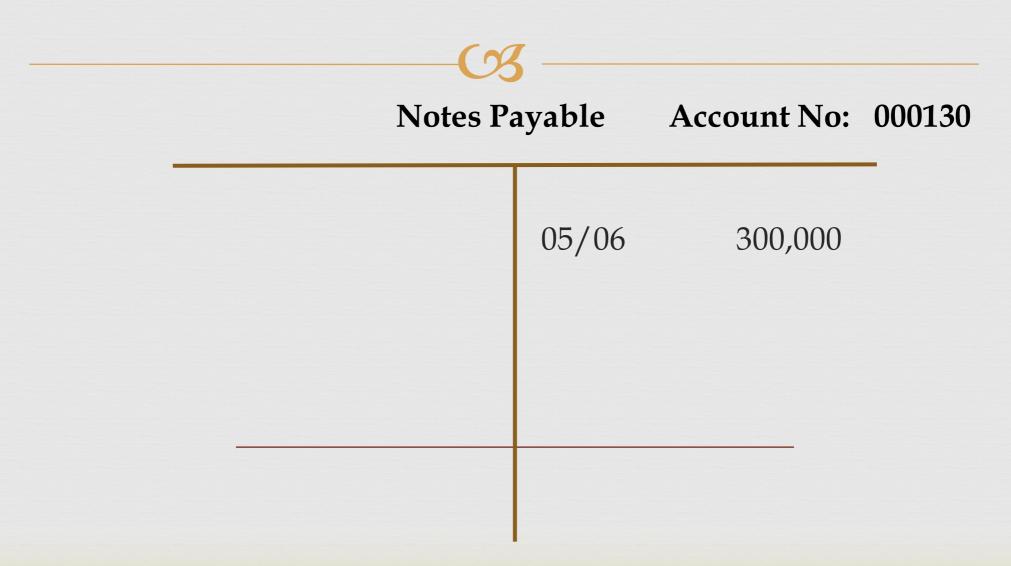
therefore credit Cash by Rs60,000

Increase in Liability is recorded by credit

therefore credit Notes payable by Rs300,000







Recording Transactions in the General Ledger



- Purchase of an asset on account On June 17, 2020 Overnight purchased tools and equipment from Snap-on-tools Corp. for Rs.138,000, due within 60 days.
- This transaction effected two accounts

Analysis:

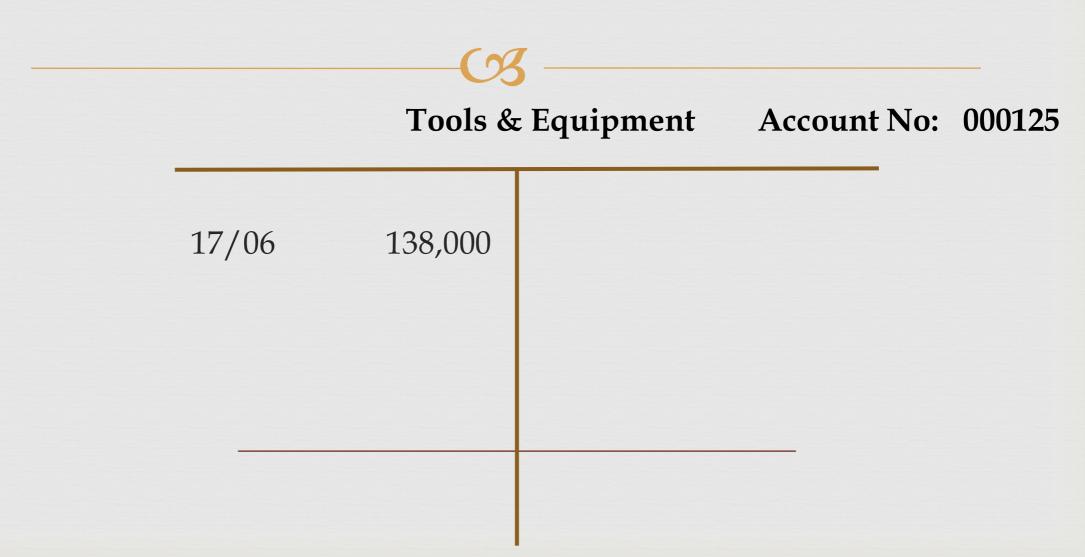
a new asset tools & equipment is acquired at a cost of Rs138,000 and a liability accounts payable amounting to Rs138,000 is incurred.

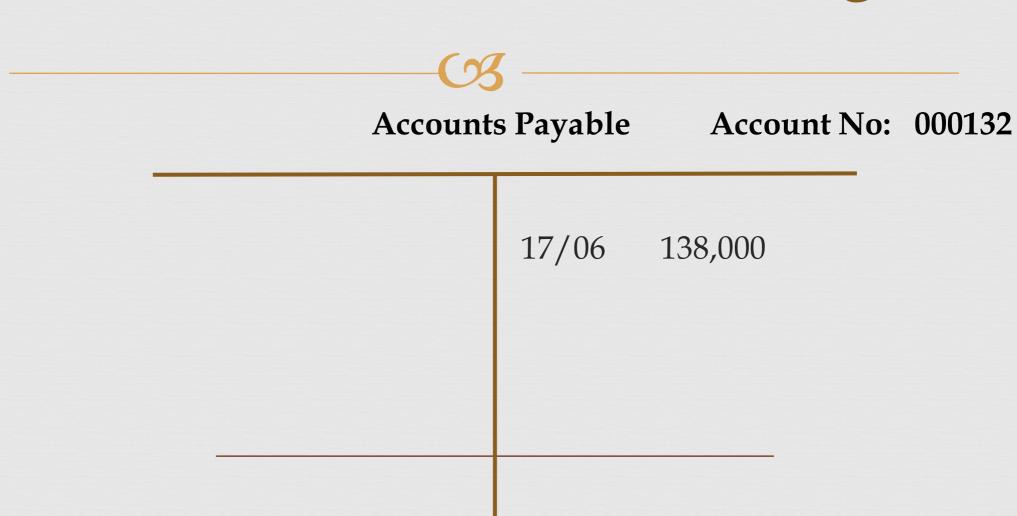
Debit and Credit rule: Increases in assets are recorded by debits

therefore debit tools & equipment by Rs138,000

Increase in liability is recorded by credit

therefore credit Accounts payable by Rs138,000





Recording Transactions in the General Ledger

Sale of an asset After taking delivery of the new tools and equipment, Overnight found that it has purchased more than it needed. Ace towing a neighboring business, offered to buy the excess of tools & equipment. On June 20, 2020 Overnight some of its new tools to Ace-towing worth Rs18,000, a price equal to Overnight's cost. Ace-towing made no down payment, but agreed to pay the amount due within 45 days.

One asset converted into another. In other words tools and equipment decreased and Account Receivable increased by Rs18,000.

Since the tools and equipment are sold at cost there is no gain or loss on this transaction. An asset Accounts Receivable is acquired for Rs.18,000 Analysis:

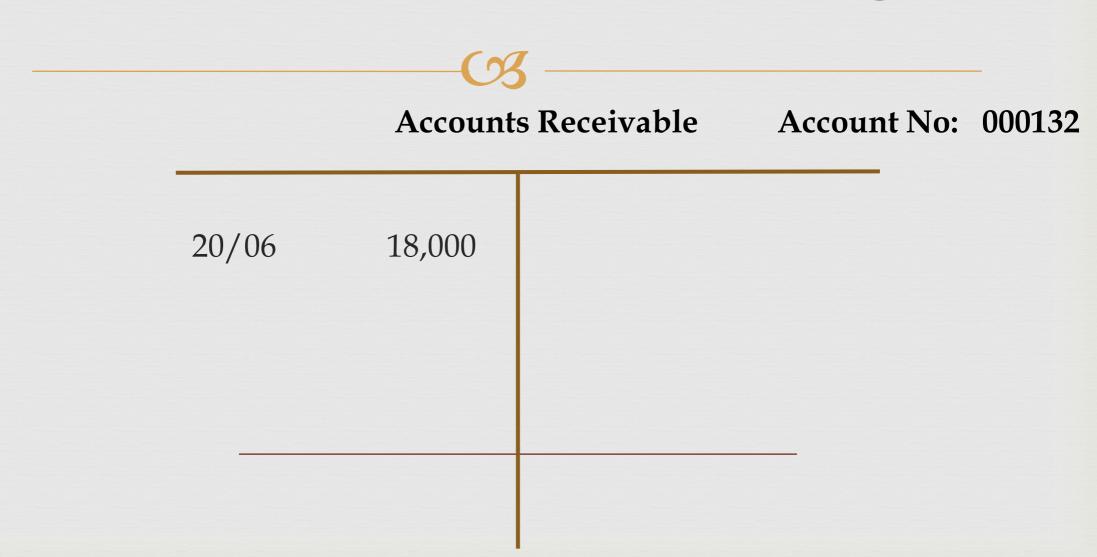
Asset tools & equipment is decreased by the same amount

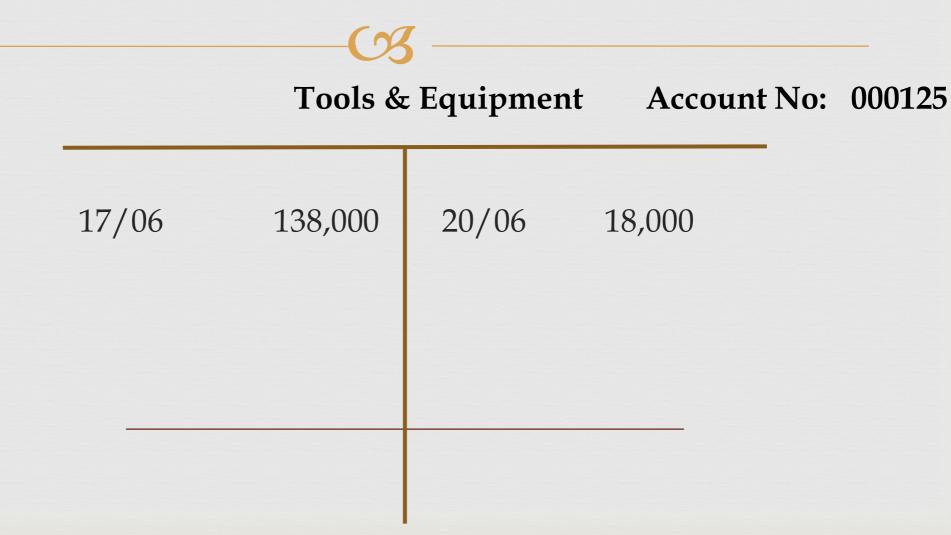
Debit and Credit rule: Increases in assets are recorded by debits

therefore debit Accounts Receivable by Rs18,000

decreases in assets are recorded by credit

therefore credit tools & equipment by Rs18,000





Recording Transactions in the General Ledger



- Collection of an account Receivable On June 25, 2020 received Rs.6000 from Acetowing as partial settlement of its account receivable.
- This transaction caused an increase in Overnight's cash but a decrease by the same amount in accounts. This transaction coverts one asset to another of equal value. There is no change in total assets.

Analysis: Asset cash is increased by Rs6,000

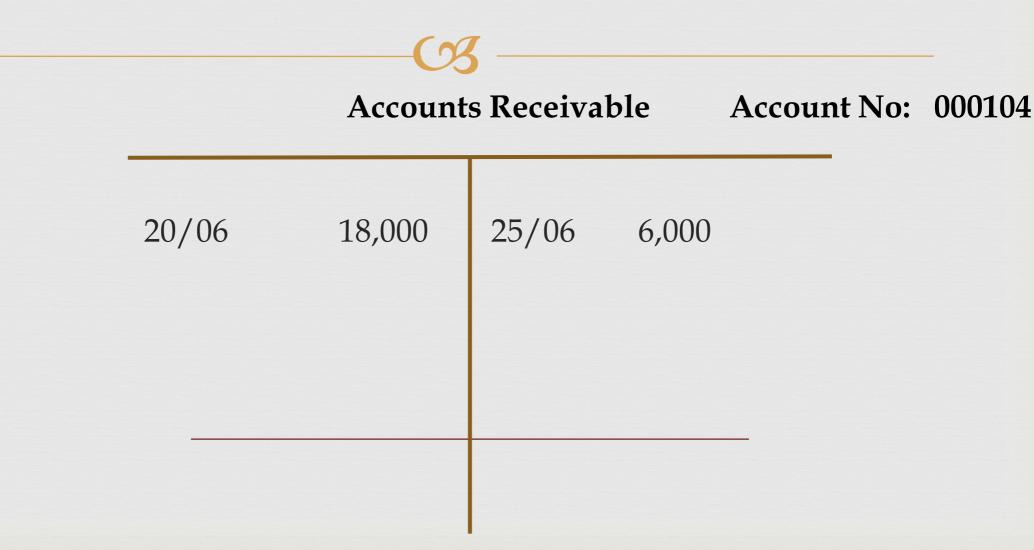
Account's Receivable is decreased by Rs.6,000

Debit and Credit rule: Increases in assets are recorded by debits

therefore debit cash by Rs6,000

decreases in asset are recorded by credit

therefore credit Accounts Receivable by Rs6,000





Cash

Account No: 000100

01/06	800,000	03/06	520,000
25/06	6,000	05/06	60,000
23/00	0,000	03/00	00,000

Recording Transactions in the General Ledger

03

Rs68,000 on its accounts payable to Snap-on-tools

Analysis: The Liability accounts payable is decreased by Rs68,000

Asset cash is decreased by Rs.68,000

Debit and Credit rule: decreases in Liability are recorded by debits

therefore debit accounts payable by Rs68,000

decrease in asset is recorded by credit

therefore credit cash by Rs68,000



Accounts Payable

Account No: 000132

30/06 68,000

17/06 138,000

	Ca	sh	Account No:	000100
01/06 25/06	800,000 6,000	03/06 05/06 30/06	520,000 60,000 68,000	
80	806,000		8,000	
Rs	.158,000			

Ledger account

Title of Account Account Number_ Credit Debit Credit Entry **Debit Entry** Footing Debit Balance Credit Balance

Finding ledger balances

-	M	
	5	

Cash

Account No: 000100

01/06 25/06	800,000 6,000	03/06 05/06 30/06	520,000 60,000 68,000
806,000 Rs.158,000		648	,000

General Ledger



Self Balancing Form or Running Balance Form

			Cash		Account No:	000100
Date		Explanation	Ref	Debit	Credit	Balance
2020						
June	1			800,000		800,000
	3				520,000	280,000
	5				60,000	220,000
	25			6,000		226,000
	30				68,000	158,000

Sequence and Numbering of Ledger Accounts

- Accounts are usually arranged in the ledger in financial statement order. Assets, then liabilities, owner's equity, revenue and expense accounts.
- The number of accounts needed by a business

depends on its size, nature of its operations and extent to which the management and other regulatory agencies want detailed classification of information. A unique account number is assigned to each account.

Chart of Accounts is a listing of account titles and account numbers being used by a particular business.

General Journal



- General Journal is the chronological(day-by-day) record of business transactions.
- General Journal is also called the book of original entry.
- The Journal shows all information about a transaction in one place and also provides an explanation of the transaction.
- The journal provides a chronological record of all the events in the life of the business.
- The use of journal helps to prevent errors.
 such as omitting the debit or the credit or entering debit or credit twice.

General Journal

03

™ Journalization

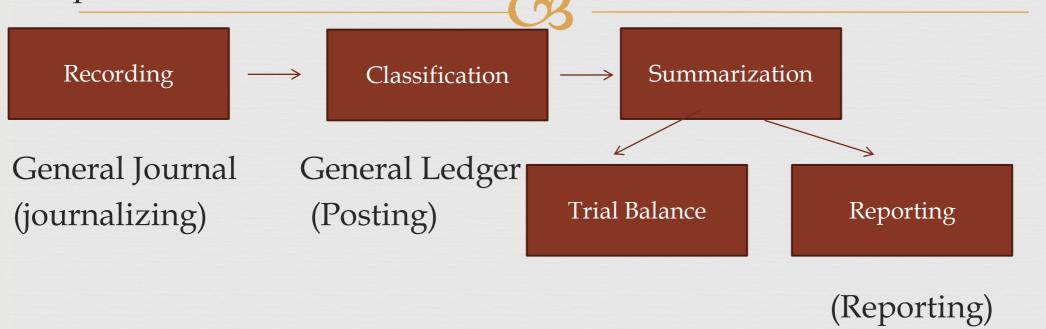
R Format

	General Journal	Pag	ge#:		
Date	Title of Accounts and explanation	L/P	Debit	Credit	

Overnight Auto Repair Services

General Journal Page#:		Page#: 1		
Date	Title of Accounts and explanation	L/P	Debit	Credit
2020				
Jun	1 Cash	100	800,000	
	Ahmed Ali, Capital	150		800,00
	Owner invested cash in the business			
	3 Land	120	520,000	
	Cash	100	520,555	520,00
	Purchased land for business site			
	5 Building	122	360,000	
	Cash	100		60,00
	Notes Payable	130		300,00
	Purchased building from CDGK, paid part cash, balance payable within 90 days			
	17 Tools and Equipment	125	138,000	
	Accounts Payable	132		138,00
	Purchased tools and equipment on credit from Snap-on			
	tools Corp. Due in 60 days			
	20 Accounts Receivable		18,000	
	Tools and Equipment			18,00
	Sold unused tools and equipment at cost to Ace Towing			
	Sales price due within 60 days			
	25 Cash		6,000	
	Accounts Receivable			6,00
	Collected part of account receivable from Ace Towing			
	30 Accounts Payable	132	68,000	
	Cash	100		68,00
	Made partial payment of the liability to Snap-on Tools			
	Corp.			

Financial accounting is concerned with recording, classifying and summarizing of financial transactions and preparing of financial statements of a particular business.



(Reporting)
Financial Statements

Trial Balance



- The trial balance provides the proof that the ledger is in balance. The agreement of the totals of debits and credits of trial balance gives assurance that
- 1. Equal debits and credits have been recorded for all transactions.
- 2. The debit and credit balance of each account has been correctly computed.
- 3. The addition of account balances in the trial balance has been correctly performed.

Trial Balance



The preparation of trial balance does not prove

- 1. The transactions have been correctly analyzed and recorded in the proper accounts.
- 2. If a transactions was not completely omitted from the ledger.

The trial balance proves only one aspect of ledger and that is the equality of debits and credits

Trial Balance

03

Overnight Auto Repair Services Trial Balance June 30, 2020

Cash	Rs158,000	
Accounts Receivable		
Land	520,000	
Building	360,000	
Tools and Equipment		
Notes Payable		300,000
Accounts Payable		70,000
Ahmed Ali, capital	•••••	Rs800,000
*		

.Rs1,170,000

Rs**1,170,000**

Effects of transactions on the balance sheet

Overnight Auto Repair Services Balance Sheet June 30, 2020

Assets		Liabilities & Owner's Equity	
Cash	Rs158,000	Liabilities:	
Accounts Receiva	ble12,000	Notes Payable	Rs300,000
Land	520,000	Accounts Payable	Rs70,000
Building	360,000	Total Liabilities	<u>Rs370,000</u>
Tools and Equipn	nent120,000	Owner's Equity	
		Ahmed Ali, capital	Rs800,000
Total Assets	Rs <u>1,170,000</u>	Total Liabilities & Owner's Equit	yRs <u>1,170,000</u>