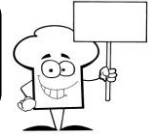


What is Accounting?

Accounting is an information System, that enables users to get financial information about economic entities.

ما هي المحاسبة هي نظام للمعلومات تسمح للمستخدمين بالحصول على معلومات مالية عن الوحدات الاقتصادية.

يحتوى التعريف السابق على ثلاثة مفاهيم أو مصطلحات يجب أن نتعرف عليها وهي
(النظام – المستخدمين – الوحدات الاقتصادية)

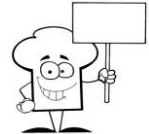


What is the economic entities?

The economic entities can be any organization or unit in society, It may be a Company, government, Non for profit organization.

الوحدات الاقتصادية يمكن أن تكون أي وحدة أو منظمة داخل المجتمع فمن الممكن أن تكون شركة أو جهة حكومية أو منظمة لا تهدف الي الربح.

بعد أن تعرفنا على مفهوم الوحدات الاقتصادية سوف يكون تركيزنا على الشركات ولذلك يجب أن نتعرف على الأشكال القانونية للشركات أيأ كان النشاط الذي تمارسه (تجاري / خدمي / صناعي)



What is the Legal forms of Companies?

There are three Legal forms of Companies, the following table illustrate the differences between them. يوجد ثلاثة أشكال قانونية للشركات موضحة في الجدول التالي.

Proprietorship منشأة فردية	Partnership شركة أشخاص	Corporation شركة مساهمة
<ul style="list-style-type: none">• Generally owned by one person.• Often small service-type businesses• Owner receives any profits, suffers any losses, and is personally liable for all debts. <ul style="list-style-type: none">▪ يمتلكها شخص واحد▪ غالباً ما تقدم أعمال خدمية▪ يحصل المالك على الأرباح ويتحمل أي خسائر ويعتبر مسئول شخصياً عن ديون الشركة	<ul style="list-style-type: none">• Owned by two or more persons.• Often retail and service-type businesses• Generally unlimited personal liability• Require Partnership agreement <ul style="list-style-type: none">▪ يمتلكها شخصان أو أكثر▪ تقدم أعمال تجارية أو خدمية▪ الشركاء مسئولين مسئولية شخصية غير محدودة عن ديون الشركة.▪ تحتاج الي وجود عقد بين الشركاء	<ul style="list-style-type: none">• Ownership divided into shares• Separate legal entity organized under state corporation law• Limited liability <ul style="list-style-type: none">▪ تنقسم ملكية الشركة الي عدد من الأسهم▪ تعتبر شخصية قانونية مستقلة بحكم القانون▪ مسئولية الشركاء محدودة عن ديون الشركة.

Remember That:

	Proprietorship	Partnership	Corporation
Ownership	One Person	Two or More	Too Many
Ownership Transfer	Not Allowed	Not Allowed	Allowed
Type of Business	Service	Retail or Service	All Types
Owners Liability	Personal Liable	Personal Liable	Limited Liable
Life	Limited Life	Limited Life	Unlimited Life

Who Uses Accounting Information?

There are two types of users

1. **Internal Users.** Uses : Managerial Accounting
2. **External Users.** Uses : Financial Accounting

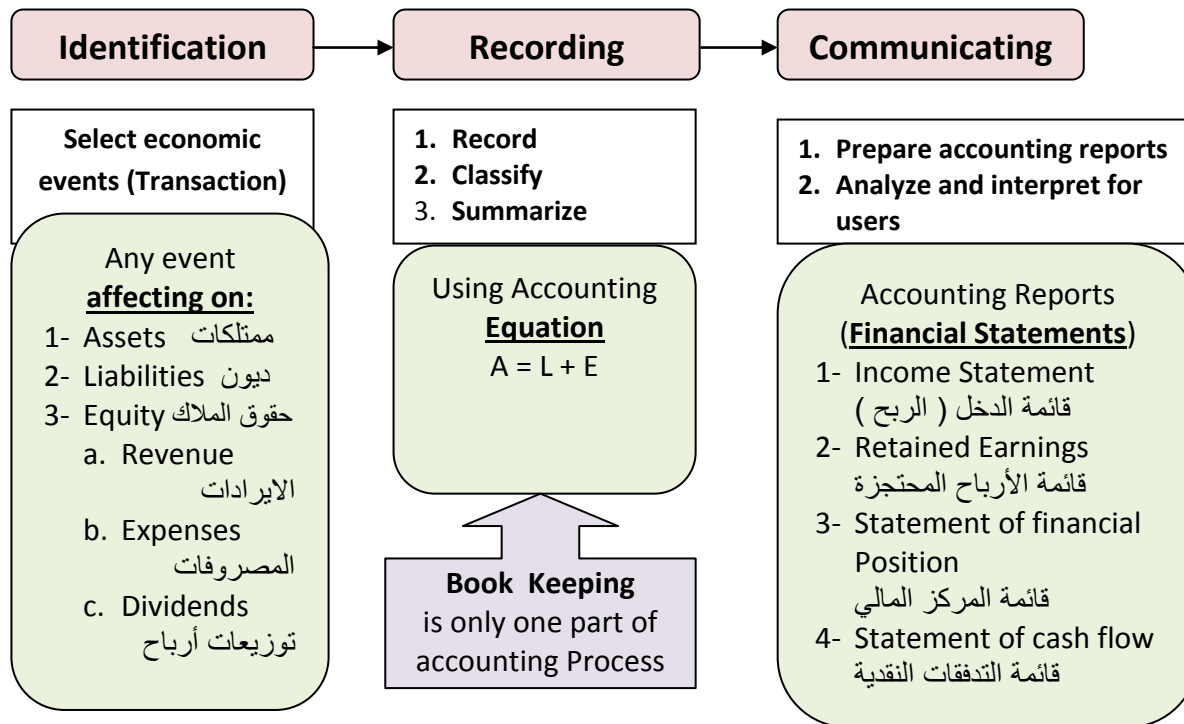
The following table show the users of Accounting information and the common questions asked by them.

User Type	Like	Common Questions Asked
Internal	Management	Should any product lines be eliminated?
	Marketing	What price for our product will maximize net income?
	Human Recourses	Can we afford to give our employees a pay raise?
	Finance	Is cash sufficient to pay dividends to shareholders?
External	Investors (Owners) المستثمرين (الملاك)	Did the company earn a satisfactory income?
	Creditors (Banks) الدائنين مثل البنوك	Will the company be able to pay its debts?
	Taxing Authorities سلطات الضرائب	Is the company complies with tax law?
	Customers العملاء	Whether the company will continue to honor product warranty?
	Labour Unions اتحادات العمال	Whether the company have the ability to pay increased wages?
	Regulatory agencies غرفة التجارة والصناعة	Whether the company operating within prescribed rules?

What is the Accounting Information System?

The accounting information system (Process) includes three Main Activities

Accounting Process:



1- Identification

The following are the Accounting Terminology used in identification activity:

Assets

- Resources a business owns. موارد تمتلكها الشركة
- Provide future services or benefits. تقدم منافع أو خدمات في المستقبل
- Such as (Land, Building, Equipment, Supplies, Accounts receivable Notes receivable)

Liabilities

- Claims against assets (debts and obligations). مطالبات على الأصول
- Creditors are the party to whom money is owed.
- Such as (Accounts Payable, Notes Payable)

Equity

- Is the Ownership claim on total assets.
- Referred to as residual equity.
- Consists of Share capital and retained earnings
- Retained earnings are determined by three items : Revenues, Expenses, Dividends.

Note:

Liabilities + Equity = Equities

Revenue

- Are the gross increase in equity resulting from business activities.
- The amount of services performed or goods sold to others regardless the collection.
- Revenues usually result in increase in assets (Cash or A/R)
- Revenues are called several names depending on the nature of business, for example
 - Sales revenue
 - Fees earned
 - Commission revenue
 - Interest revenue
 - Dividends revenue

Expenses

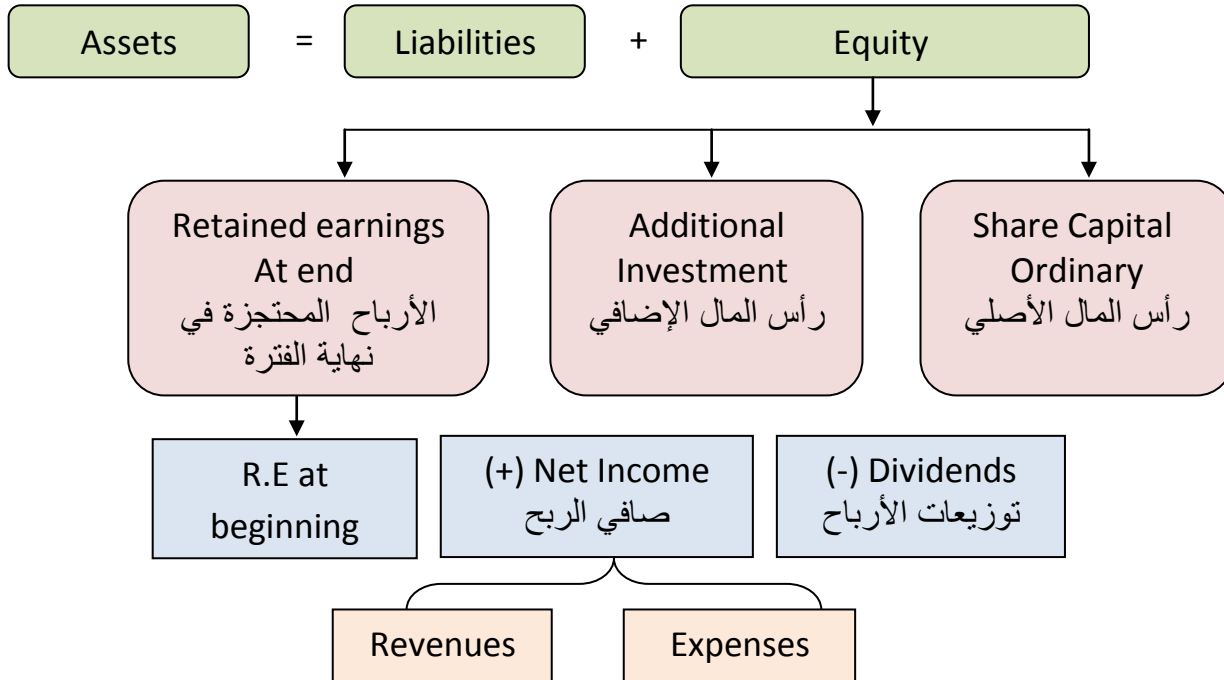
- Are the cost of assets consumed or services used in the process of earning revenue.
- The amount of services used or assets consumed regardless the Payment.
- Expenses usually result in Decrease in assets.
- Expenses are called several names depending on the nature of business, for example
 - Rent expenses
 - Salaries and wages expenses
 - Utilities expenses (electricity, gas, water)
 - Telephone expenses
 - Delivery expenses
 - Supplies expenses

Dividends

- Are the distribution of cash or other assets to shareholders.
- Dividends reduce retained earnings.
- Dividends are not an expense.

2- Recording

The accounting equation is used for all types of business to perform a recording process of an economic events.



Important Note:

The following table show the effect on equity from the increase in revenue, expenses and dividends.

Increase in Revenue	—————→	Increase in Equity
Increase in Expenses	—————→	Decrease in Equity
Increase in Dividends	—————→	Decrease in Equity

The following formula express the changes in equity during the period:

$$\text{Equity}_{\text{end.}} = \text{Equity}_{\text{Beg.}} + \text{Additional Investment} + \text{Net Income} - \text{Dividends}$$

$$\text{Equity}_{\text{end.}} = \text{Equity}_{\text{Beg.}} + \text{Additional Investment} + (\text{Rev.} - \text{Exp.}) - \text{Dividends}$$

3- Communicating

Communicating Process includes

- a-** Prepare accounting reports (Financial Statements)
- b-** Analyze and interpret for users

The Financial Statements are:

- 1- Income Statement
- 2- Retained Earnings Statement
- 3- Statement of Financial Position
- 4- Statement of Cash Flow

1- Income Statement:

SOFTBYTE INC. Income Statement For the Month Ended September 30, 2011		
Revenues:		
Services revenue	3,700	4,700
Fees Earned	500	
Admission Revenue	500	
Expenses:		
Salaries expenses	900	1,950
Rent expenses	600	
Advertising expenses	250	
Utilities expenses	150	
Supplies expenses	100	
Net Income		2,750

2- Retained earnings statement.

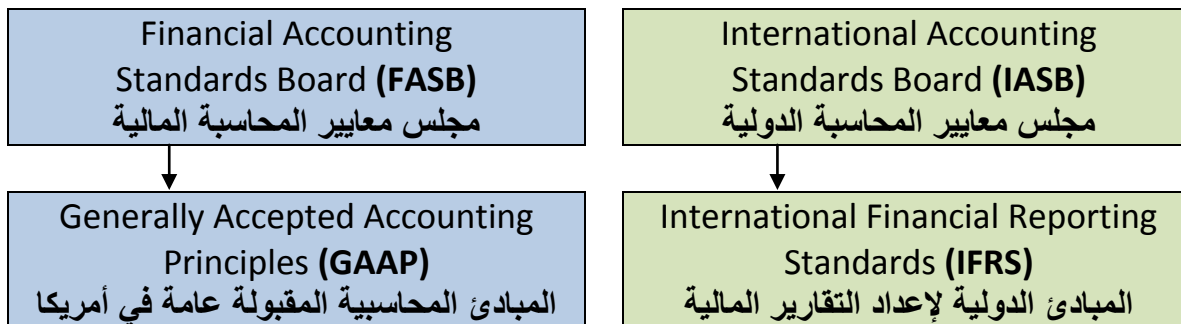
SOFTBYTE INC. Retained Earnings Statement For the Month Ended September 30, 2011	
Retained earnings, September 1	1,000
Add : Net Income	2,750
Less: Dividends	1,300
Retained earnings, September 30	2,450

3- Statement of Financial position.

SOFTBYTE INC. Statement of Financial Position September 30, 2011		
Assets		
Land	2,500	19,050
Building	1,500	
Equipment	3,000	
Furniture	1,000	
Supplies	1,600	
Notes Receivable	1,000	
Accounts Receivable	400	
Cash	8,050	
Total Assets		19,050
Equity and Liabilities		
Equity:		
Share capital - ordinary	15,000	17,450
Retained earnings, September 30	2,450	
Liabilities:		
Notes Payable	1,000	1,600
Accounts Payable	600	
Total Equity and Liabilities		19,050

The Building Blocks of Accounting: الجهات التي ساهمت في بناء علم المحاسبة

There are two main accounting organization in the world are:



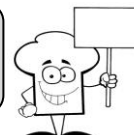
How IASB Contributes in build Accounting?

The main contributions of IASB in building accounting are the setting of:

(1) Accounting principles and (2) accounting assumptions.

تمثلت الاسهامات الرئيسية لمجلس معايير المحاسبة المالية لبناء علم المحاسبة في وضع كلاً من المبادئ المحاسبية والفروض المحاسبية.

هناك العديد من المبادئ المحاسبية (القوانين المحاسبية) التي وضعها مجلس معايير المحاسبة الدولية ، ولكننا سوف نتناول بالشرح أحد تلك المبادئ على سبيل المثال وهو مبدأ القياس (تحديد القيمة)



مبدأ القياس Measurement Principles

IFRS generally uses one of two measurement principles to determine the value of assets. تسمح المبادئ المحاسبية الدولية باستخدام مبدأ من مبدئين أساسيين للقياس وذلك لتحديد قيم الأصول وهما مبدأ التكلفة التاريخية Cost ومبدأ القيمة العادلة Fair Value

1. Historical Cost Principle

dictates that companies record assets at their cost when purchased and also over the time the asset is held.

يقضي هذا المبدأ بأن الشركات تسجل الأصول بالتكلفة عند شرائها وكذلك طوال فترة وجود الأصل لدى الشركة (**مثال** : اذا اشترت شركة قطعة أرض بمبلغ مليون دينار فإنها تقوم بتسجيل الأرض عند شرائها بمبلغ مليون دينار حتى اذا ارتفعت قيمة الأرض في السنوات التالية فإن الشركة تستمر بتسجيل قيمة الأرض بمبلغ مليون دينار)

2. Fair Value Principle

indicates that assets and liabilities should be reported at fair value

Condition:

- Only in situations where assets are actively traded, such as investment securities.

يقضي هذا المبدأ بأن الشركات تسجل الأصول بالتكلفة عند شرائها ,ولكن اذا تغيرت قيمة الأصل في المستقبل فإن الشركة تسجل الأصل بقيمته العادلة ويشترط لتطبيق هذا المبدأ أن تكون الأصول ذات تجارة نشطة بمعنى أن سعرها يتغير باستمرار في السوق مثل الاستثمارات في الأسهم.

Assumptions:

Assumptions provide a foundation for the accounting process, The two main assumptions are:
تعتبر الفروض المحاسبية هي أساس العملية المحاسبية ويوجد فرضان أساسيان للمحاسبة وهما:

1. Monetary Unit Assumption فرض وحدة النقد

Include in the accounting records only transaction data that can be expressed in terms of money.

يقضي هذا الفرض بأن العمليات التي تسجل في الدفاتر المحاسبية هي العمليات التي يمكن التعبير عنها في شكل وحدات نقدية (دينار – دولار)

2. Economic Entity Assumption فرض الوحدة الاقتصادية

Requires that activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

يقضي هذا الفرض بأن أنشطة الوحدة الاقتصادية (الشركة) يجب أن تكون منفصلة ومستقلة عن أنشطة مالك تلك الوحدة الاقتصادية وعن أنشطة غيرها من الوحدات الاقتصادية حتى لو كان يمتلكها نفس المالك.

Review Questions:

Ex. 241

Compute the missing amount in each category of the accounting equation.

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
(a)	\$279,000	\$?	\$143,000
(b)	\$223,000	\$ 79,000	\$?
(c)	\$?	\$173,000	\$325,000

Solution 241

- (a) $\$136,000$ ($\$279,000 - \$143,000 = \$136,000$).
(b) $\$144,000$ ($\$223,000 - \$79,000 = \$144,000$).
(c) $\$498,000$ ($\$173,000 + \$325,000 = \$498,000$).

Ex. 244

Lawrence Legal Eagles Company entered into the following transactions during March 2013.

1. Purchased office equipment for \$21,500 from Business Equipment, Inc. on account.
2. Paid \$4,000 cash for March rent on office furniture.
3. Received \$15,000 cash from customers for legal work billed in February.
4. Provided legal services to Amy Construction Company for \$3,000 cash.
5. Paid Northern States Power Co. \$11,000 cash for electric usage in March.
6. Lawrence invested an additional \$32,000 in the business.
7. Paid Business Equipment, Inc. for the office equipment purchased in (1) above.
8. Incurred advertising expense for March of \$1,200 on account.

Instructions

Indicate with the appropriate letter whether each of the transactions above results in:

- (a) an increase in assets and a decrease in assets.
- (b) an increase in assets and an increase in equity.
- (c) an increase in assets and an increase in liabilities.
- (d) a decrease in assets and a decrease in equity.
- (e) a decrease in assets and a decrease in liabilities.
- (f) an increase in liabilities and a decrease in equity.
- (g) an increase in equity and a decrease in liabilities.

Solution 244

- | | | | |
|----|-----|----|-----|
| 1. | (c) | 5. | (d) |
| 2. | (d) | 6. | (b) |
| 3. | (a) | 7. | (e) |
| 4. | (b) | 8. | (f) |

Ex. 245

Two items are omitted from each of the following summaries of statement of financial position and income statement data for two companies for the year 2014, Holly Enterprises and Craig Stevens.

	<u>Holly Enterprises</u>	<u>Craig Stevens</u>
Beginning of year:		
Total assets	€ 98,000	€129,000
Total liabilities	70,000	(c)
Total equity	(a)	80,000
End of year:		
Total assets	160,000	180,000
Total liabilities	120,000	50,000
Total equity	40,000	130,000
Changes during year in equity:		
Additional investment	(b)	25,000
Dividends	25,000	(d)
Total revenues	215,000	100,000
Total expenses	180,000	65,000

Instructions

Determine the missing amounts.

(a)

Total assets (beginning of year)	€98,000
Total liabilities (beginning of year)	<u>(70,000)</u>
Total equity (beginning of year)	<u>€28,000</u>

(b)

Equity end. = Equity Beg. + Additional Investment + (Rev. - Exp.) – Dividends

40,000 = 28,000 + Additional Investment + (215,000 – 180,000) – 25,000

40,000 = 38,000 + Additional Investment

Additional Investment = 40,000 – 38,000 = \$2,000

(c)

Total assets (beginning of year)	€129,000
Total equity (beginning of year)	<u>(80,000)</u>
Total liabilities (beginning of year)	<u>€ 49,000</u>

(d)

Equity end. = Equity Beg. + Additional Investment + (Rev. - Exp.) – Dividends

130,000 = 80,000 + 25,000 + (100,000 – 65,000) – Dividends

130,000 = 140,000 - Dividends

Dividends = 140,000 – 130,000 = \$10,000

Problem P1-2B,

Cindy Belton opened a law office, Cindy Belton, Attorney at Law, on July 1, 2011. On July 31, the statement of financial position showed

Cash	\$4,000	Accounts Payable	\$4,200
Accounts Receivable	\$1,500	Capital Shares	\$6,000
Supplies	\$500	Retained Earnings	\$800
Office Equipment	\$5,000		

During August the following transactions occurred.

1. Collected \$1,400 of accounts receivable due from clients.
2. Paid \$2,700 cash for accounts payable due.
3. Earned revenue of \$7,900 of which \$3,000 is collected in cash and balance is due in September.
4. Purchased additional office equipment for \$1,000 paying \$400 in cash and the balance, on account.
5. Paid salaries \$3,000, rent for August \$900, \$350 for advertising.
6. Declared and paid a \$450 cash dividends.
7. Received \$2,000 from standard Federal Bank, the money was borrowed on a 4-month not payable.
8. Incurred utility expenses for month on account \$210.

Instructions:

- (a) Prepare a tabular analysis of the transactions by completing the following matrix. Include margin explanations for any changes in Retained Earnings. Revenue is called Service Revenue.
- (b) Prepare an income statement, Retained earning statement, and statement of financial position.

Solution P1-2B

(a) The tabular analysis of the transaction.

	Cash	A/R	Supp.	Equip.	A/P	N/P	Share Capital	Retained Earnings	
	4,000	1,500	500	5,000	4,200		6,000	800	
1	+1,400	-1,400							
2	-2,400				-2,400				
3	+3,000	+ 4,900						+7,900	Service Rev.
4	- 400			+ 1,000	+ 600				
5	- 3,000							- 3,000	Salary Exp.
	- 900							- 900	Rent Exp.
	- 350							- 340	
6	- 450							- 450	Dividends
7	+ 2,000					+ 2,000			
8		+ 210						- 210	Utility Exp.
	2,600	5,000	500	6,000	2,310	2,000	6,000	3,790	
	\$14,100				\$14,100				

(b)

MANDY ARNOLD, ATTORNEY AT LAW
Income Statement
For the Month Ended August 31, 2014

Revenues		
Service revenue		\$7,900
Expenses		
Salaries and wages expense	\$3,000	
Rent expense	900	
Advertising expense	350	
Utilities expense	210	
Total expenses		<u>4,460</u>
Net income		<u>\$3,440</u>

MANDY ARNOLD, ATTORNEY AT LAW
Retained Earnings Statement
For the Month Ended August 31, 2014

Retained earnings, August 1	\$ 800
Add: Net income	<u>3,440</u>
	4,240
Less: Dividends	<u>450</u>
Retained earnings, August 31	<u>\$3,790</u>

MANDY ARNOLD, ATTORNEY AT LAW
Statement of Financial Position
August 31, 2014

Assets

Equipment.....	\$ 6,000
Supplies	500
Accounts receivable	5,000
Cash.....	<u>2,600</u>
Total assets.....	<u>\$14,100</u>

Equity and Liabilities

Equity

Share capital—ordinary	\$6,000	
Retained earnings	<u>3,790</u>	
Total equity		\$9,790

Liabilities

Notes payable	2,000	
Accounts payable	<u>2,310</u>	
Total liabilities		<u>4,310</u>

Total equity and liabilities.....		<u>\$14,100</u>
--	--	------------------------

Multiple Choices:

1. Accounting is
 - a. Consists of three basic activities.
 - b. Information System.
 - c. Provides information about economic entities.
 - d. All of the above

2. The partnership form of business organization
 - a. is a separate legal entity..
 - b. is a common form of organization for service-type businesses.
 - c. enjoys an unlimited life.
 - d. has limited liability.

3. A business organized as a separate legal entity under state law having ownership divided into shares is a
 - a. proprietorship.
 - b. partnership.
 - c. corporation.
 - d. sole proprietorship

4. A small neighborhood barber shop that is operated by its owner would likely be organized as a
 - a. joint venture.
 - b. partnership.
 - c. corporation.
 - d. proprietorship.

5. Which of the following is an external user of accounting information?
 - a. Labor unions.
 - b. Finance directors.
 - c. Company officers.
 - d. Managers.

6. Which of the following would not be considered an internal user of accounting data for GHI Company?
 - a. President of the company.
 - b. Production manager.
 - c. Merchandise inventory clerk.
 - d. President of the employees' labor union.

7. The common question asked by investors is
 - a. Will the company be able to pay its debts?
 - b. Whether the company will continue to honor product warranty?
 - c. Did the company earn a satisfactory income?
 - d. What price for our product will maximize net income?

8. The accounting process includes each of the following except
 - a. communication.
 - b. convergence.
 - c. identification.
 - d. recording.

9. Communication of economic events is the part of the accounting process that involves
 - a. identifying economic events.
 - b. quantifying transactions into dollars and cents.
 - c. preparing accounting reports.
 - d. recording and classifying information.

10. Bookkeeping primarily involves which of the following parts of the accounting process?
- a. Identification.
 - b. Communication.
 - c. Recording.
 - d. Analysis.

true or false

- 1. The three steps in the accounting process are identification, recording, and communication. ()
- 2. The two most common types of external users are investors and company officers. ()
- 3. Shareholders in a corporation enjoy limited legal liability as compared to partners in a partnership ()
- 4. The primary accounting standard-setting body outside the United States is the International Accounting Standards Board (IASB). ()
- 5. The cost principle dictates that companies record assets at their cost. In later periods, however, the fair value of the asset must be used if fair value is higher than its cost. ()