# REVISION

## Chapter 1. Accounting in Business

- **Basic Accounting Equation: ASSETS = LIABILITIES + OWNER'S EQUITY➔ALOE**

- **Transaction analysis rules**
    - Every transaction affects at least two items.
    - Every transaction must result in a balanced equation.

| A | = | L | + | O.E |
|---|---|---|---|---|
| ↑↓ | | | No change | |
| No change | | ↓ | | ↑ |
| ↑ | | ↑ | | ↑ |
| ↓ | | ↓ | | ↓ |

**(Khác phía cùng chiều, cùng phía khác chiều)**

- **Principles and Assumptions of Accounting:**
    - ***Four principles:***
        - *Cost principle*: financial statements are based on actual costs incurred in business transactions. Cost is measured on a cash or equal-to-cash basis. This principle emphasizes reliability and verifiability, and information based on cost considered objective. Objectivity means information is supported by unbiased evidence: more than someone's opinion.
        - *Revenue recognition principle*: revenue is recognized (recorded) when earned. Proceeds need not be in cash. Revenue is measured by cash received plus the cash value of other items received.
        - *Matching principle*: a company must record expenses incurred to generate revenues it reported.
        - *Full disclosure principle*: requires reporting the details behind the financial statements that would impacts users' decisions.
    - ***Four assumptions:***
        - *Going-concern assumption:* accounting information reflects the assumption that the business will continue operating instead of being closed or sold.
        - *Monetary unit assumption:* transactions and events are expressed in monetary, or money, units. Generally this is the currency of the country in which it operates but today some companies express reports in more than one monetary unit.
        - *Time period assumption:* the life of the company can be divided into time periods, such as months and years, and that useful reports can be prepared for those periods.
        - *Business entity assumption:* a business is accounted for separate from other business entities and separate from its owner.
- **Four financial statements:** Income statement, Statement of owner equity, Balance sheet, Statement of Cash Flows

## Chapter 2. Analyzing and Recording transactions

- **T-account**

(1) ACCOUNT TITLE

| Left Side<br>called<br>(2) DEBIT | Right Side<br>called<br>(3) CREDIT |
|---|---|

- **Position of account balance:** balance sides for assets, liabilities, and equity accounts are assigned based on side of equation they are on.

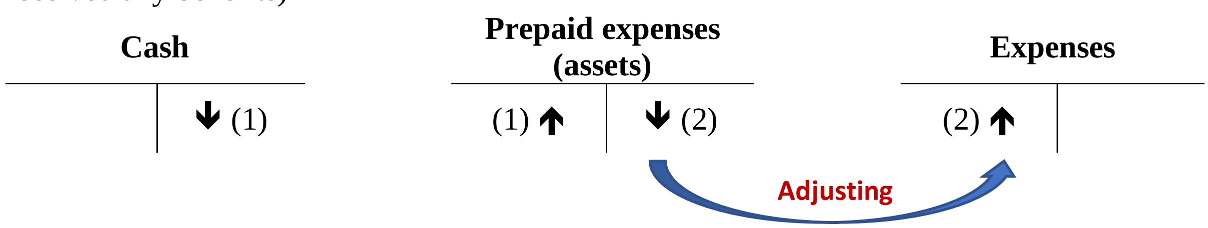
| ASSETS | = | LIABILITIES + EQUITY |
|---|---|---|
| are on the<br>left side of the equation therefore<br>they are assigned left balance<br>↓ | | are on the<br>right side of the equation therefore<br>they are assigned right balance<br>↓ |
| DEBIT BALANCE | | CREDIT BALANCE |
| Increase on Debit | | Increase on Credit |

- The *account balance* is the difference between the total debits and the total credits recorded in that account
- **Analyzing and recording process**
  - Analyzing each transaction and event from *source documents*.
  - Record relevant transactions and events in *a journal* (apply double-entry accounting).
  - Post journal information to *ledger accounts*.
  - Prepare and analyze *trial balance*.
- **Double-Entry Accounting**
  - Each transaction affect, and be recorded in, *at least two accounts*.
  - The *total debits must equal total credits* for each transaction.

## Chapter 3. Adjusting accounts

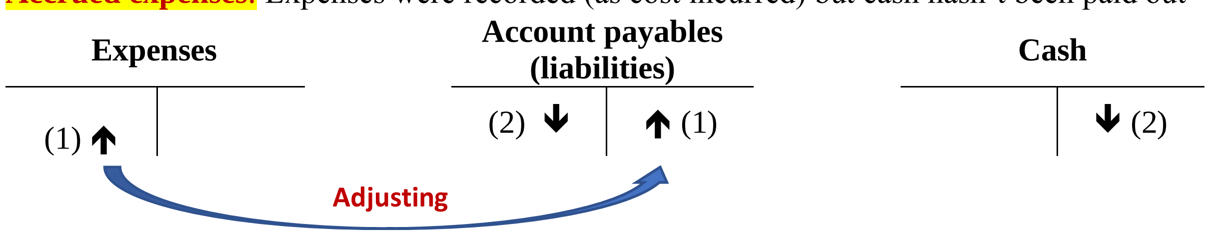
- **Recognizing revenues and expenses**
  - revenue recognition principle requires revenue be recorded when earned, not before and not after.
  - The matching principle aims to record expenses in the same period as the revenues earned as a result of these expenses.
- **Adjusting accounts**

1. **Prepaid expenses:** Cash was paid out but expenses have not been recorded (since we haven't received any benefits)




(1) Buying assets (e.g., insurance, supplies, plant assets)
(2) Used assets → received benefits → recording **Expenses**: a portion of **Prepaid expenses** become **Expenses.**
  - **Prepaid expenses** include *Prepaid insurance, Supplies, Accumulated Depreciation*
  - **Adjusting amount =** amount used/consumed/ depreciated

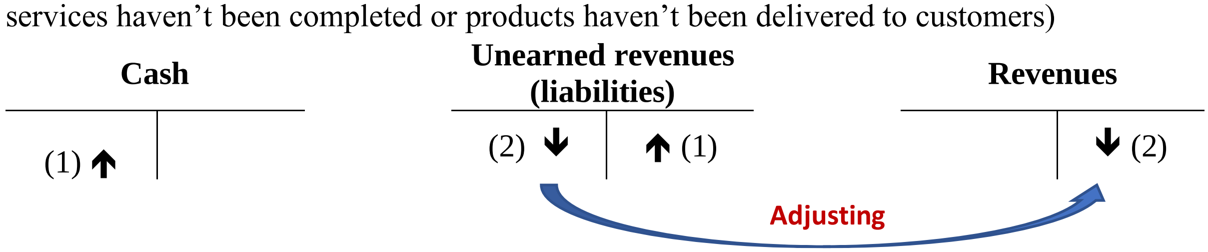
2. **Accrued expenses:** Expenses were recorded (as cost incurred) but cash hasn't been paid out




(1) Costs incurred but have not been paid → recording **Expenses** and **Account payables**
  - **Account payables** include *Salary payables, Interest payables*
  - **Adjusting amount** = unpaid amount

(2) Cash was paid out → a portion of **Account payables** is paid.

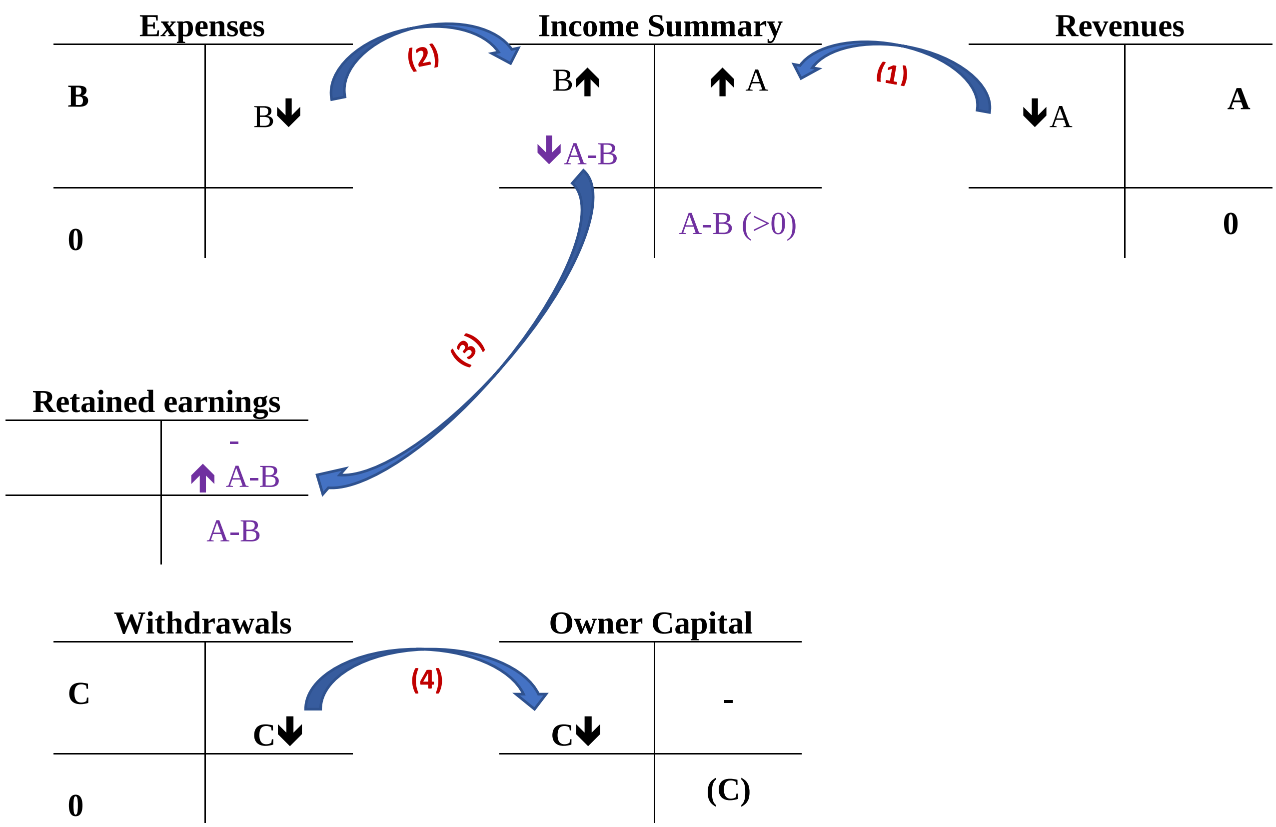
3. **Unearned revenues:** Cash was received but revenues have not been recorded yet (since services haven't been completed or products haven't been delivered to customers)




(1) Customers paid cash in advance.
(2) Services were completed or products were delivered to customers → recording **Revenues**: a portion of **Unearned revenues** become **Revenues.**
  - Adjusting amount = amount corresponding to completed services/ delivered products

## Chapter 4. Completing the accounting cycle

- **Temporary and Permanent Accounts**
    - Temporary (or nominal) accounts accumulate data related to one accounting period. (All income statement accounts, withdrawals accounts, and the Income Summary)
    - Permanent (or real) accounts report on activities related to one or more future accounting periods. They are all balance sheet accounts that are not closed.
- **Steps in closing process:**
    - Identify accounts for closing.
    - Record and post closing entries.
    - Prepare a post-closing trial balance
- **Recording closing entry**




(1) Closing Revenues accounts
(2) Closing Expenses accounts
(3) Closing Income Summary account
(4) Closing Withdrawals account

## Chapter 5. Accounting for merchandising operations

- **Merchandising Activities**
  - Merchandise consists of products, also called goods, that a company acquires to resell to customers.
  - Reporting income: Gross profit (*or* Net sales – Cost of Goods sold) – operating expenses = net income
  - Reporting Inventory: the cost incurred to buy the goods, ship them to the store, and make them ready for sale
  - Inventory systems: perpetual inventory system and periodic inventory system
- **Accounting for Merchandise Purchases**
  - *Entry:* Inventory XXX
    Cash/Account payable XXX
  - *Trade Discounts:* Deductions from list price (catalog price) to arrive at invoice price (actual selling price). Trade discounts *are not* entered into accounts.
  - *Purchase Discounts:* Accounts Payable (full invoice amount)
    Cash (amount paid = invoice – discount)
    Inventory (amount of discount)
  - *Purchase Returns and Allowances:* Accounts Payable/Cash XXX
    Inventory XXX
  - *Transportation Costs and Ownership Transfer:* FOB shipping point (increase cost of merchandise) & FOB destination
- **Accounting for Merchandise Sales**
  - Each sale of merchandise transaction involves two parts
    - Recognize revenue: Accounts Receivable/cash XXX
      Sales XXX
    - Recognize cost: Cost of Goods Sold XXX
      Inventory XXX
  - *Sales Discounts:* Cash (invoice amount less discount)
    Sales Discount (discount amount)
    Accounts Receivable (invoice amount)
  - *Sales Returns and Allowances:*
    - (1) Sales Returns and Allowances XXX
      Accounts Receivable XXX
    - (2) (for return only) Inventory XXX
      Cost of Goods Sold XXX
  - Net Sales = Sales – (Sales Discount + Sales Returns and Allowances).

## Chapter 6. Inventories

- **Costing inventories**
    - *Specific identification:* each item in inventory is identified with a specific purchase and invoice → assign actual cost of units sold to cost of goods sold.
    - *First-in, first-out (FIFO):* costs of the earliest units acquired → cost of goods sold; costs of most recent purchases → inventory.
        - ➔ lowest amount to cost of goods sold → highest gross profit and the highest net income.
    - *Last-in, first-out (LIFO):* costs of the most recent purchases → cost of goods sold; costs of the earliest purchases → inventory.
        - ➔ highest amount to cost of goods sold → lowest gross profit and the lowest net income
    - *Weighted average (also called average cost):*
        - weighted average cost per unit = cost of goods available/units available).
        - weighted average cost per unit*units sold = cost of goods sold.
    - ➔ between FIFO and LIFO
- **Lower of Cost or Market (LCM)**
    - Conservatism principle
    - Inventory be reported on the balance sheet at market value (replacement) when market is lower than cost and vice versa.
    - LCM is applied in three ways
        - to each individual item separately
        - to major categories of products
        - to the entire inventory.

## Chapter 7. Cash management

- **Cash:** currency, coins and amounts on deposit in bank accounts, checking accounts, and some savings accounts. Also includes items such as customer checks, cashier checks, certified checks, and money orders.
  → Cash equivalents: Short-term, highly liquid investments
- **Liquidity:** How easily an asset can be converted into cash to be used to pay for services or obligations (cash: high; inventory: low)
- **Bank reconciliation**
  - *Ending balance as per bank statement:* X
    + Deposits in transit (outstanding deposit) X
    – Outstanding Cheques (X)
    + / – Bank errors X
    = Adjusted cash balance: Bank Statement X
  - *Ending Balance as per Cash at Bank Ledger* X
    + Receipts reported on bank statement but not in ledger, direct credits X
    - Disbursements reported in bank statement (i.e. bank fees & charges, direct debit) (X)
    - Nonsufficient funds check (NSF) (X)
    + / – accounting record errors X
    + Interest earned on checking account X
    = Adjusted cash balance: Cash at Bank Ledger X
- **Cash flow statement**
  - Direct cash flow: operating activities; investing activities; financing activities.
  - Indirect cash flow
- **Reconciling cash-flow statement:** Converting accrual basic to cash basic
  - Cash receipts from customer = Sales – Increase in Acc. Receivable (*or* + Decrease in Acc. Receivable)
  - Cash payment for Inventories = COGS + Increase in Inventories ( *or* – Decrease in Inventories) + Decrease in A.P (*or*– Increase in A.P)
  - Cash paid to employees (or for interest, tax) = Salaries expenses (or interest expense, tax expense) + Decrease in Salaries payable (*or* - Increase in Salaries payable)
  - Cash paid for other operating expenses = Other operating expenses + Increase in Prepaid exp (*or* - Decrease in Prepaid exp) + Decrease in Accrued exp (*or* - Increase in accrued exp)

| | | |
|---|---|---|
| Asset ↑ | Cash↓ | More Cash payment, Less Cash receipt |
| Asset ↓ | Cash↑ | Less Cash payment, More Cash receipt |
| Liabilities↑ | Cash↑ | More Cash payment, Less Cash receipt |
| Liabilities↓ | Cash↓ | More Cash payment, Less Cash receipt |

## Chapter 7. Account receivables

| | DIRECT WRITE-OFF METHOD | ALLOWANCE METHOD |
|---|---|---|
| **Year-end** | No adjusting entry | **Bad Debt Expense XXX**<br>**Allowance for Uncollectible Accounts XXX**<br>*****XXX = a percentage of sales OR a percentage of outstanding accounts receivable (by total or aging accounts receivable) |
| **When an account is determined to be uncollectible** | **Bad Debts Expense XXX**<br>**Accounts Receivable/Customer XXX**<br>(The amount is the balance of the uncollectible account.) | **Allowance for Uncollectible Accounts XXX**<br>**Accounts Receivable/Customer XXX**<br>(The amount is the balance of the uncollectible account.) |
| **When an account previously written off is recovered** | 1. Reinstate account *by reversing write-off:*<br>**Accounts Receivable/Customer XXX**<br>**Bad Debts Expense XXX**<br>(XXX= account balance that was written off.)<br>2. Record collection on account normally:<br>**Cash XXX**<br>**Accounts Receivable/Customer XXX**<br>(XXX= amount collected.) | 1. Reinstate account *by reversing write-off:*<br>**Accounts Receivable/Customer XXX**<br>**Allowance for Uncollectible Accounts XXX**<br>(XXX= account balance that was written off.)<br>2. Record collection on account normally:<br>**Cash XXX**<br>**Accounts Receivable/Customer XXX**<br>(XXX= amount collected.) |
| **Advantages:** | • Does not require year-end estimating of uncollectibles. | • Matches expense against related revenues.<br>• Reports the net realizable accounts receivable on the balance sheet (a more accurate reporting of assets). |
| **Disadvantages:** | • Violates matching, therefore only allowed if qualified under materiality principle. | • Requires year-end estimating of uncollectibles. |

- **Notes Receivable—** *Promissory note* that is a written promise to pay a specified amount
  - **Interest= principal x annual rate of note x time of note is expressed in year**
  - Recognizing Notes Receivable: Debit Notes Receivable (principal)/ Credit Sales (principal)
  - Recording an honored note: Debit Cash (face and interest)/ Credit Note Receivable (face amount) & Interest Revenue (interest amount)
  - Recording a dishonored note: Debit Accounts Receivable (face and interest)/ Credit Note Receivable (face amount) & Interest Revenue (interest amount)
  - Recording End-of-Period Interest Adjustment: Debit Interest Receivable (accrued interest)/ Credit Interest Revenue (accrued interest)
  - ➔ Collection: Debit Cash (full amount received)/ Credit Interest Receivable (amount previously accrued) & Interest Revenue (amount earned since accrual date) & Notes Receivable (face amount of note)

## Chapter 7. Tangible fixed assets and intangible fixed assets

- *Formulas for depreciation methods*

### 1. STRAIGHT LINE

$$\frac{\textbf{FHC* - Estimated salvage}}{\textbf{Estimated useful life}} = \textbf{Annual Depreciation}$$

(*FHC =Full Historical Cost)

### 2. UNITS OF PRODUCTION

a) $$\frac{\textbf{FHC - Estimated salvage}}{\textbf{Predicted units of production}} = \textbf{Depreciation per Unit}$$

**b)** **DPU* x units produced in period** = **Depreciation for PERIOD**

(In last year, depreciate to estimated salvage value; never depreciate below this amount.)

(** DPU = Depreciation Per Unit)

### 3. DOUBLE-DECLINING BALANCE

**Book Value (beginning of year) x RATE* = Depreciation (for that year)**

**(***RATE → The rate used is *constant* and it is *twice* what the straight line rate would have been for this asset.)

(In the last year, depreciate to estimated salvage value; never depreciate below this amount.)

- *Partial Year Depreciation*: When an asset is purchased (or disposed of) at a time other than the beginning or end of an accounting period, depreciation is recorded for part of the year (i.e. the number of months/ 12).
- *Revising Depreciation* → estimated salvage and/or useful life can be revised -> Depreciation expense computations are revised by spreading the remaining cost to be depreciated over the revised useful life remaining.
- *Discarding plant assets* → (1) If fully depreciated, no loss; (2) If not fully depreciated, record loss equal to book value.