1.1: Definition of accounting

Origin: The word 'Accounting' comes from the Latin word 'Calculi' which means to count. But academically, accounting is an information system that identifies, records, and communicates the economic events of an organization to interested users.

Definition: Accounting is the process of identifying, recording, and communicating economic events of an organization to interested users.

- The first part of the process, **identifying,** involves selecting those events that are considered evidence of economic activity relevant to a particular business organization.
- **Recording** is the keeping of a chronological diary of measured events in an orderly and systematic manner.
- **Communication** occurs through the preparation and distribution of accounting reports.

Authorized Definition:

- According to American Accounting Association (AAA), accounting has been defined as, *"The process of identifying, measuring, and communicating information to permit judgment and decision by the users."*
- According to American Institute of Certified Public Accountants (AICPA) is that *"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character and interpreting the results thereof."*
- According to FASB *"Accounting is the service activity of financial recording and reporting"*

Examples

- Calculation of income
- The activities of an accountant,

Conclusion: Accounting is the process of recording and informing economic events to make financial decisions.

1.2: The history of accounting

Introduction: The history of accounting or accountancy is thousands of years old and can be traced to ancient civilizations. But the history of accounting profession is very young. It is indeed that modern civilization is impossible without accounting. .

Origin of Accounting: Accounting records dating back more than 7,000 years have been found in Mesopotamia, and documents from ancient Mesopotamia show lists of expenditures, and goods received and traded. The Italian Luca Pacioli, recognized as *The Father of accounting and bookkeeping* was the first person to publish a work on double-entry bookkeeping, and introduced the field in Italy.

Modern accounting is based on the Luca Pacioli's book "Summa de Arithmetica, Geometric, Proportions et Proportionality" which means an Overview of arithmetic, geometry and proportions. It was publish in 1494 in Venice.The modern profession of the chartered accountant originated in Scotland in the nineteenth century.

History Chronology: Modern accounting is developed through the following five stages:

1. Accounting in the primitive age.
2. Accounting in the middle ages.
3. Accounting in the pre-industrial revolution age.
4. Accounting from industrial revolution to nineteenth century.
5. Accounting in the twentieth century and present time.

They are briefly discussed below:

(1) **Accounting in the primitive age:** The times before 476 year are known as primitive age of accounting. In this period accounting is limited upto counting. At that time the business activities were operated through barter system.

(2) **Accounting in the middle age:** The period from the year 476 to 1453 is known as the middle age of accounting. In this period business activities were expanded from one country to another country. At that time the business activities were operated through monetary system.

(3) **Accounting pre-industrial revolution age:** The period from the year 1454 to 1760 is known as the pre-industrial revolution of accounting. This is the golden period for accounting establishment. In this period some books on accounting written and published like Luca Pacioli's , Summa de Arithmetica, Geometric, Proportions et Proportionality, Cotrugli's Della etc.

(4) **Accounting from industrial revolution to nineteenth century:** The period from the year 1760 to the end of nineteenth century is known as post industrial period of accounting. In this period some branches of accounting like cost accounting is originated. In this period some accounting standards and institutions like the Institute of Accountants in Edinburgh is established. Also in this period, the three types of business concerns - proprietorship, partnership, and corporation were established.

(5) **Accounting in the twentieth century and present time:** After the year 1900 to date is known as modern accounting age. Within this period all types of branches of accounting like costing, management accounting, auditing, taxation, government accounting, socioeconomic accounting, human resource accounting etc are perfectly established. In recent years, electronic accountings like software, e-business, e-commerce, website etc are very popular to the users for easiness, cheapness, and fastness.

1.3: Father of accounting/Luca Pacioli

Father of Accounting: Fra Luca Bartolomeo de Pacioli (sometimes *Paccioli* or *Paciolo*; c. 1447–1517) was an Italian mathematician, Franciscan friar, collaborator with Leonardo da Vinci, and a seminal contributor to the field now known as accounting. He is referred to as "The Father of Accounting and Bookkeeping" and he was the first person to publish a work on the double-entry system of book-keeping.

The concept of accounting comes from his book. But it is considered the first book on -counting was Della Mercatura e del Mercante Perfetto written by Benedetto Cotrugli in 1458 and published in 1573.

Luca Pacioli was born in Sansepolcro, Italy in 1445. He was a Franciscan mock. But he was famous as an Italian Renaissance Mathematician.

Modern accounting is based on the book of Luca Paciolio named Summa de Arithmetica, Geometric, Proportions et Proportionality which means an Overview of arithmetic, geometry and proportions. It was publish in 1494 in Venice. This book contains 36 chapters on bookkeeping. Present accounting concept comes from the chapter De Computes et Scriptures which means of reckoning and writings. In his text he described a system to ensure that financial information was recorded efficiently and accurately.

1.4: Users of accounting information

There are many different users of accounting information and the users may be classified into two groups;

a. Internal users or Primary users -inside the organizations
b. External users or secondary users- outside the organizations

a. **Internal users (Primary users):** Internal users are the management of an organization who take part day to day decision of the organization. For example-

1. Sales manager
2. Purchase manager,

1. **Sales manager:** Accounting information is of great assistance to sales manager for planning, controlling and decision making process.
2. **Purchase manager:** Purchase manager uses the accounting information to find out the total purchase and forecast the next year demand.

b. **External users (Secondary users):** Anybody other than management is called external users. For example-

1. Creditors
2. Tax authorities
3. Investors
4. Customers
5. Regulatory authorities
6. Suppliers
7. Labor union

1. **Creditors:** Creditors are interested in accounting information, because it enables them to determine the credit worthiness of the business. Terms of credit are set by creditors according to the assessment of their customers' financial health. Creditors include suppliers as well as lenders of finance such as banks.
2. **Tax authorities:** For determining the credibility of the tax returns filed on behalf of the company.
3. **Investors:** They need the information, because they are concerned with the risk inherent in investing and the returns. Investors want to make sure they can earn a reasonable return on their investment before they commit any financial resources to the company.
4. **Customers:** Customers have interest in the accounting information for assessing the financial position of a business, especially, when they have a long term involvement with, as it enables to maintain a steady source of business.
5. **Regulatory authorities:** The accounting information is needed for them to ensure that it is in accordance with the rules and regulations and it protects the interests of the stake holders who rely on such information.
6. **Suppliers:** Suppliers uses of accounting information to evaluate risks of granting credit.
7. **Labor union:** Labor union want to know whether the owner can pay, give benefits, increased wages etc.

Others users of accounting information

- Competitors
- Auditors
- Researchers and academicians
- Representatives of others interest like brokers and underwriters
- Potential shareholders, etc.

Conclusion: In conclusion we can say, different users use accounting information to make better decision.

1.5: Importance of accounting in business

Without accounting information, it is impossible to run a business organization. The importance of accounting are shown below:

1. Permanent record
2. To find out profit and loss
3. To evaluating the performance of business
4. To manage and monitor cash flow
5. Helps business to be statutory compliant
6. Create budget and future projections
7. To satisfy the requirements of law

8. To make decision
9. Efficient use of resources

1. **Permanent Record:** Any business firm needs a permanent record of the transactions to use as future evidence. These records could be required for internal purpose, or for taxation purpose or for any other purpose. Accounting serves this function. Whenever the organization commits any resource of monetary value either within the firm or outside the firm, a record is made. This permanent record is held on for years and can be retrieved as and when needed.

2. **To find out profit and loss:** It is one of the main objectives of accoutering. Accounting helps us to find out profit and loss.

3. **To evaluating the performance of business:** The accounting records reflect the results of operations as well as statement of financial position. Users can compare previous period accounting data with current period as well as budgeted figures for variance analysis.

4. **To manage and monitor cash flow:** The working capital and cash requirement of an enterprise can be duly taken care by proper accounting system.

5. **Helps business to be statutory compliant:** Proper business accounting ensures timely recording our liabilities which needs to be paid within the prescribed time line. This includes provident fund, pension fund, VAT, sales tax, income tax. Timely payment of liabilities helps enterprises to be statutory compliant.

6. **Create budget and future projections:** Accounting data helps an enterprise to prepare budget and forecast for future period. Business trends are projected based on past data produced by accounting system.

7. **To satisfy the requirements of law**: Entities such as companies, societies, public trusts are compulsorily required to maintain accounts as per the law governing their operations such as Companies Act., Societies Act., and Public Trust Act etc. Maintenance of accounts is also compulsory under the Sales Tax Act and Income Tax Act.

8. **To make decision:** Accounting helps to make decision properly and accurately.

9. **Efficient use of resources:** Firms can also conduct useful internal analysis with the help of accounting data. Accounting records tell the firm what resources were committed to what activity and what time. These records also summarize the return that was obtained from these activities. Management can then analyze past behavior and draw lessons about how they could have performed better and used resources more efficiently.

1.6: Branches of accounting

There are three branches of Accounting

1. Financial Accounting:
2. Cost Accounting
3. Management Accounting

1. **Financial Accounting:** It is concerned with recording of business transactions in the books of accounts in such a way that operating result of a particular period and financial position on a particular date can be known.
2. **Cost Accounting:** Cost accounting is that branch of accounting which is related to calculate of total cost or per unit cost of goods or services. Its aim is to reduce cost of production and increase profitability. In other words, it is used in an organization for controlling the cost.
3. **Management Accounting:** Management accounting is that branch of accounting which is related to use accounting information for the determination of policies and other business decisions. It uses the accounting information for analyzing the efficiency of different department of an organization.

1.7: Difference between bookkeeping and accounting

	Basis for Comparison	Bookkeeping	Accounting
1.	Meaning	Bookkeeping is an activity of recording the financial transactions of the company in a systematic manner.	Accounting is an orderly recording and reporting of the financial affairs of an organization for a particular period.
2.	What is it?	It is the subset of accounting.	It is regarded as the language of business.
3.	Decision making	On the basis of bookkeeping records, decisions cannot be taken.	Decisions can be taken on the basis of accounting records.
4.	Preparation of financial statements	Not done in the bookkeeping process.	Part of accounting process.
5.	Tools	Journal and ledgers	Balance Sheet, Profit & Loss Account and Cash Flow Statement
6.	Method/sub-fields	Single entry system of bookkeeping and double entry system of bookkeeping	Financial Accounting, Cost Accounting, Management Accounting, Human Resource Accounting, Social Responsibility Accounting.
7.	Information types	It does not provide any ready information to take	It provides ready information to take managerial decisions.

		managerial decisions.	
8.	Standards	It follows only own organizational standard	It follows internationally recognized standards
9.	Control	It has no controlling power over management	It has controlling power over management
10.	Determination of financial position	Bookkeeping does not reflect the financial position of an organization.	Accounting clearly shows the financial position of the entity.

1.8: Transaction and its characteristics/features

Transaction: Transactions are the economic events of the enterprise recorded by accountants. Transactions may be identified as either external or internal transactions. Event that brings changes in the financial position of the business is the transaction.

Feature/Characteristics of transaction

Following are the features of Transactions:

- **Change in financial position:** To be a transaction, there is to be changes in the financial position.
- **Measurable in monetary unit:** The events in the transaction are to be measurable in monetary unit.
- **Dual aspect:** According to the dual aspect concept, every transaction should have double effect.
- **Complete and independent:** The event in the transactions should not the dependent on another. It is to be complete and independent.
- **Visible and invisible:** The transactions may be visible or invisible. For example, depreciation, this is not visible.

Every transaction is to be supported by entry evidence. Otherwise it cannot be treated as transactions.

1.9: Difference between event and transaction

There are some difference between event and transaction. They are-

Sl. No	Event	Transaction
1.	All events are not transactions.	All transactions are events.
2.	An event may or may not bring change in the financial position of a person, family, or organization.	A transaction must bring financial change.
3.	Financial changes caused by events may or may not be measurable in terms of money. For example, death of a skilled employee may bring heavy loss to a	The financial changes caused by transactions must be measurable in terms of money.

	business, but this loss is not measurable in terms of money.	
4.	Transfer of goods or services may or may not occur for an event.	As a consequence of transactions transfer of goods or service is a must. Of course in some cases there is exception. For example, burning of goods, fixed asset depreciation etc.
5.	It is not necessary that every event will be recorded in the books of accounts. It is needless to record any event in the books of accounts if it is not measurable in terms of money.	Every transaction must be recorded in the books of accounts; otherwise accurate results cannot be ascertained from the books of accounts.
6.	The scope of event is very wide.	The scope of transaction is limited.
7.	Transactions related to events are not always supported by evidence.	Business transactions must be supported by evidence

1.10: Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles (GAAP) are a common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP improves the clarity of the communication of financial information.

GAAP are the foundation and ''ground rules'' for financial reporting. These principles provide the general framework determining what information is an included financial statement and how this information is to be presented.

Generally Accepted Accounting Principles (GAAP) are the standard framework of guidelines for financial accounting used in any given jurisdiction; generally known as **accounting standards** or standard accounting practice. These include the standards, conventions, and rules that accountants follow in recording and summarizing and in the preparation of financial statements. In short, financial statements are prepared in accordance with GAAP.

Some famous definition;

(1) According to the International Accounting Standards Committee, 'GAAP are the standards that indicate how to report economic events.'

(2) According to the AICPA, 'GAAP are the constitution for accountants and the canons of their art.

1.11: The ethical issues of accounting

Ethics may be defined a set of moral principles that distinguish what is right from what is wrong. Business ethics is the code of behavior that a business follows in its everyday operation. Ethics is a fundamental business concept especially in accounting. Ethics is standard of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or unfair etc.

Accounting ethics refers to the standards of right and wrong conduct that apply to the accounting profession. Various accounting organizations maintain professional codes of conduct to assist accountants with upholding ethical behavior.

In career of accounting, accountant's action will affect other people and organizations. If manager, customer, investors, co-workers and creditors all consistently lied and behave unethical way, effective communication and economic activities would be impossible. Information would have no credibility. In this case ethical issues must be considered.

1.12: The accounting concepts

According concepts are as follows:

1. Business entity concept
2. The stable monetary unit concept
3. Dual aspect concept
4. Going concern concept
5. Cost concept
6. Accounting year concept
7. Matching concept
8. Realization concept

1. **Business entity concept:** An accounting entity is an organization or a section of an organization that stands apart from other originations or individuals as a separate economic unit. From an accounting perspective, sharp boundaries are drawn around each entity so that it can separate its affairs with those of other entities.
2. **The stable monetary unit concept:** This concept is the basis for ignoring the effect of inflation in the accounting records. Accountants assume that the dollar's purchasing power is relatively stable. This concept allows accountants to add and subtract dollar amounts as though each dollar had the same purchasing power.
3. **Dual aspect concept:** For every credit, a corresponding debit is made. The recording of a transaction is completed only with this dual aspect.
4. **Going concern concept:** This concept holds that the entity will remain in operation forever.

Under the going concern concept, accountants assumes that the business will remain in operation long enough to use existing assets for their intended purpose.

5. **Cost concept:** The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded as book value. No rise or fall in market price is taken into account. The concept applies only to fixed assets.
6. **Accounting year concept:** Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.
7. **Matching concept:** This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.
8. **Realization concept:** According to this concept, profit is recognized only when it is earned. An advance or fee paid is not considered as a profit until the goods or services have been delivered to the buyer.

1.13: Accounting conventions

There are four main conventions in practice in accounting: conservatism; consistency; full disclosure; and materiality.

1. **Conservatism:** Conservatism is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.
2. **Consistency**: Consistency prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.
3. **Materiality:** Materiality means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.
4. **Full disclosure:** Full disclosure entails the revelation of all information, both favorable and detrimental to a business enterprise, and which are of material value to creditors and debtors.

1.14: Four assumptions that underlie the financial accounting structure

The major underlying assumption or concepts are as follows:

1. Business entity concept
2. Going concern concept
3. Constant money value concept
4. Time period concept

1. **Business entity:** An accounting entity is an organization or a section of an organization that stands apart from other originations or individuals as a separate economic unit. From an accounting perspective, sharp boundaries are drawn around each entity so as not to confuse its affairs with those of other entities.

2. **The going concern concept:** This concept holds that the entity will remain in operation forever. Under the going concern concept, accountants assumes that the business will remain in operation long enough to use existing assets for their intended purpose.

3. **The stable monetary unit concept:** This concept is the basis for ignoring the effect of inflation in the accounting records. Accountants assume that the dollar's purchasing power is relatively stable. This concept allows accountants to add and subtract dollar amounts as though each dollar had the same purchasing power.

4. **Time period concept:** The time period concept ensures that accounting information is reported at regular interval. It interacts with the revenue principle and the matching principle to under the use of accruals. To measure income accurately, companies update the revenue and expense accounts immediately prior to the end of the period.

1.15: Monetary unit and economic entity assumption/accounting assumption

The Monetary Unit and Economic Entity Assumptions

The accounting profession has developed certain assumptions that serve as guidelines for the accounting process.

a. The **monetary unit assumption** requires that only transaction data that can be expressed in terms of money be included in the accounting records of the economic entity.

b. The **economic entity assumption** requires that the activities of the entity be kept separate and distinct from (1) the activities of its owner and (2) all other entities.

1.16: Accounting is the language of business

Accounting is the language of business because it helps people, both internal and external, to understand what is happening inside of business. Just as language is universal to people, so is accounting in business. Regardless of where in the world a business is located, financial information is interpreted in the same way.

Experts use accounting information to assess how a business is doing. Financial documents, such as balance sheets, expense reports and audits, allow accountants to follow money and transactions. They use the data found in accounting documents to determine whether a business is financially solvent or not.

Investors use the information to determine whether they want to invest in a business. Accounting documents allow them to measure performance using ratios, such as inventory turnover, liquidity and stock performance. Without the knowledge of basic accounting principles, it is impossible to make smart decisions about investing.

Even governments use accounting to understand what businesses are doing with their money. Each year, corporations are responsible for paying taxes. The Internal Revenue Service (IRS) uses accounting methods to determine the right amount of taxes they must pay. If the IRS desires to find out more about a business and whether or not its accounting documents are accurate, they conduct an audit.

Conclusion: Accounting fills the need for a common language of business. It records and processes financial information into an easily accessible format that can be understood by any person in the business world.

1.17: Basic accounting equation

Accounting Equation: Accounting transaction takes place within a framework called accounting equation. The accounting equation states that the economic resources of a specific entity are equal to the claims on those resources.

The accounting equitation is also called the Balance Sheet equation.

The **basic accounting equation** is:

Assets = Liabilities + Owner's Equity.

The accounting equation applies to all economic entities regardless of size, nature of business, or form of business organization.

Elements of Accounting Equation:

The key components/elements of the basic accounting equation are:

1. **Assets= Assets** are resources a business owns. The business uses its assets in carrying out such activities as production and sales. (Example: equipment, supplies, cash, accounts receivable)

2. **Liabilities = Liabilities** are claims against assets that is, existing debts and obligations. What the business owes outsiders (Example: bank loan, accounts payable, etc.)

3. **Owner's Equity** = the ownership claim on total assets is owner's equity. It is equal to total assets minus total liabilities. The assets of a business are claimed by either creditors or owners. what the owner owns (Example: investment and net profit)

1.17: Owner's equity and items affect owner's equity

Owner's equity: Owners Equity is the owner's interest or claim in an entity. The owner's equity in company is called the shareholders equity. Example: Capital, Net Revenue, Reserve Fund etc. Following are the example of some items which affects the owner's equity:

1. **Capital investment:** It is the initial and additional contribution by the owner to the business.
2. **Drawings:** It is the opposite of the capital investment. It is the money or anything that can measured in monetary terms withdrawn by the owners.
3. **Revenues:** The revenues are inflows or other enhancement of economic benefits or service potential in the form of increases in assets or reduction in liability other than those relating contributing by owner those results in an increase in equity during the reporting period.
4. **Expenses:** Expenses is the consumption or losses of economic benefits or service potential in the form of reduction in assets or increases in liability of the reporting entity other than those relating to distributions to equity participants, which results in a decrease in equity during the accounting period.

1.18: Financial statement and its types

Financial statement: Financial Statements represent a formal record of the financial activities of an entity. These are written reports that quantify the financial strength, performance and liquidity of a company.

Types of financial statement:

There are four types of financial statement

1. Income statement
2. Owner's equity statement
3. Balance sheet
4. Statement of cash flows

1. Income statement:

Income Statement is also known as the Profit and Loss Statement. An income statement presents the revenues and expenses and resulting net income (or net loss) of a company for a specific period of time. The income statement lists revenues first, followed by expenses. Finally the statement shows net income (or net loss). **Net income** results when revenues exceed expenses. A **net loss** occurs when expenses exceed revenues.

2. Owner's equity statement

An owner's equity statement summarizes the changes in owner's equity for a specific period of time.

3. Balance sheet

A balance sheet reports the assets, liabilities, and owner's equity of a business enterprise at a specific date.

4. Statement of cash flows

A Statement of cash flows summarizes information concerning the cash inflows (receipts) and outflows (payments) for a specified period of time.

The statement of cash flows provides information on the cash receipts and payments for a specific period of time. The statement of cash flows reports (1) the cash effects of a company's operations during a period, (2) its investing transactions, (3) its financing transactions, (4) the net increase or decrease in cash during the period, and (5) the cash amount at the end of the period.

1.19: Financial Accounting and Management Accounting

Financial Accounting

Financial Accounting is an accounting system which is concerned with the preparation of financial statement for the outside parties like creditors, shareholders, investors, suppliers, lenders, customers, etc.

Management Accounting

Management Accounting is the accounting for managers which helps the management of the organization to formulate policies and forecasting, planning and controlling the day to day business operations of the organization.

Difference between management accounting and financial accounting

Basis for Comparison	Financial Accounting	Management Accounting
1. Meaning	Financial Accounting is an accounting system that focuses on the preparation of financial statement of an organization to provide the financial information to the interested parties.	The accounting system which provides relevant information to the managers to make policies, plans and strategies for running the business effectively is known as Management Accounting.
2. Is it compulsory?	Yes	No
3. Objective	To provide financial information to outsiders.	To assist the management in planning and decision making process by providing detailed information on various matters.
4. Format	Specified	Not specified
5. Time Frame	Financial Statements are prepared at the end of the accounting period which is usually one year.	The reports are prepared as per the need and requirements of the organization.
6. User	Internal and external parties	Only internal management.
7. Reports	Summarized Reports about the financial position of the organization	Complete and Detailed reports regarding various information

Tabular/Transaction Analysis (Questions and Solutions)

Problem 1. (Ref: Accounting Principles, Kieso , Page: 23, Practice problem)

Joan Robinson opens her law office on July 1,2017 .During the first month of operations ,the following transaction occurred:

1. Joan invested $11,000 in cash in the law practice.
2. Paid $800 for July rent on office space.
3. Purchased office equipment on account $3000.
4. Provided legal services to clients for cash $1500.
5. Borrowed $700 cash from a bank on a note payable.
6. Performed legal services for client on account $2000.
7. Paid monthly expenses: salaries and wages $500, utilities $300, and advertising $100.
8. Joan withdraws $1000 cash for personal use.

Instructions:

(a) Prepare a tabular summary of the transactions.

(b) Prepare the income statement, owner's equity and balance sheet at July 31, 2017 for Joan Robinson Attorney.

Solution: a)

Joan Robinson Attorney
Summary of transaction (Accounting Equations)
For the month of July 31, 2017

Date	**Assets=**			**Liabilities + Owner's Equity**			**Remarks**
	Cash	Accounts Receivable	Office Equipment	Account Payable	Notes Payable	J.Robinson, Capital	
Bal.b/d	-	-	-	-	-	-	
1	+11000					+11000	Investment
2	(800)					-800	Rent Expense
3			+3000	+3000			
4	+1500					+1500	Service Revenue
5	+700				+700		
6		+2000				+2000	Service Revenue
7	(500) (300) (100)					(500) (300) (100)	Salary Expense Utility Expense Adv. Expense
8	(1000)					(1000)	Drawings
Total	10500	2000	3000	3000	700	11800	
Check	15500			15500			

Note: Remark column includes only transaction affecting the owner's equity.

Solution (b)

Joan Robinson Attorney
Income statement
For the month of July 31, 2017

Particulars	Details ($)	Total ($)
Revenues		
Service Revenue (1500+2000)		3,500
Less: Expenses		
Rent Expenses	800	
Salaries and wages Expenses	500	
Utilities Expenses	300	
Advertising Expenses	100	
Total Expenses		(1,700)
Net income		1,800

Joan Robinson Attorney
Owner's equity statement
For the month of July 31, 2017

	$	$
Beginning owner's capital		
Add: Investment	11,000	
Net Income	1,800	12,800
Less: Drawing		(10,00)
Ending owner's capital		11,800

Joan Robinson Attorney
Balance sheet
As at July 31, 2017

Assets	$	$
Cash	10,500	
Accounts Receivable	2,000	
Office Equipment	3,000	
Total Assets		15,500
Liabilities and Owner's Equity		
Liabilities:		
Notes Payable	700	
Account Payable	3,000	
Total Liabilities		3,700
Owner's Equity:		
Ending owner's equity		11,800
Total Liabilities and owner's equity		15,500

Problem 2. (Ref: Accounting Principles, Kieso , Page: 28,P1-1A)

On April 1, Julie Spengel established Spengel's Travel Agency .The following transaction was completed during the month.

April 1. Invested $15,000 cash to start the agency.
2. Paid $600 cash for April office rent.
3. Purchased office equipment for $3,000 cash.
4. Incurred $700 of advertising costs in the Chicago Tribune, on account.
5. Paid $900 cash for for office supplies.
6. Performed service worth $10,000:$3,000 cash is received from customer, and the balance of $7,000 is billed to customers on accounts.
7. Withdrew $600 cash for personal use.
8. Paid Chicago Tribune $500 of the account due in transaction (4).
9. Paid employees salaries $2,500.
10. Received $4,000 in cash from customers who have previously been billed in transaction (6).

Instruction:

(a) Prepare a tabular analysis of the transactions using the following column headings: Cash Accounts Receivable, Supplies, Equipment, Accounts Payable, Owner's Capital.

(b) From an analysis of the owner's equity columns, calculate the net income or net loss for April.

Solution: (a)

Spengel's Travel Agency
Summary of Transaction (Accounting equation)
For the month of April 30, 2017

Date	Assets=				Liabilities+ Owner's Equity		Remarks
	Cash	Accounts Receivable	Supplies	Equipment	Accounts Payable	J. Spengel Capital	
Bal. b/d	-	-	-	-	-	-	
1.	+15000					+15,000	Investment
2.	(600)					(600)	Rent expense
3.	(3000)			+3000			
4.					+700	(700)	Adv. expense
5.	(900)		+900				
6.	+3000	+7000				+10,000	Service Rev.
7.	(600)					(600)	Drawing
8.	(500)				(500)		
9.	(2500)					(2500)	Salary expense
10.	+4000	(4000)					
Bal. c/d	13900	3000	900	3000	200	20600	
	20800				20800		

Note: Remark column includes only transaction affecting the owner's equity.

Solution (b)

Spengel' Travel Agency
Income statement
For the month of April30, 2017

	Details ($)	Total ($)
Revenues		
Service Revenue		10,000
Less: Expenses		
Rent Expenses	600	
Advertising Expenses	700	
Salary Expenses	2,500	
Total Expenses		(3800)
Net income		6200

Problem 3. (Ref: Accounting Principles, Kieso , Page: 29, P1-2A)
Jodi Salem opened a law office, on July 1, 2017. On July 31, the balance sheet showed Cash $5,000, Accounts Receivable $1,500 , Supplies $500, Equipment $6,000, Accounts Payable $4,200 and Owner's Capital $8,800. During August the following transaction occurred.

1. Collected $1,200 of accounts receivable.
2. Paid $2,800 cash on accounts payable.
3. Earned revenue of $7,500 of which $3,000 is collected in cash and the balance is due in September.
4. Purchased additional office equipment for $2,000, paying $400 in cash and balance on account.
5. Paid salaries $2, 500 rent for August $900, and advertising expenses $400.
6. Withdrew $700 in cash for personal use.
7. Received $2,000 from Standard Federal Bank—money borrowing on a note payable.
8. Incurred utility expenses for month on account $270

Instructions:

(a) Prepare a tabular analysis of the August transaction beginning with July 31 balances. The column heading should be as follows: Cash + Accounts Receivable + Supplies + Equipment = Notes Payable + Accounts Payable + Owner's Equity .

(b) Prepare an income statement for August, an owner's equity statement for August, and a balance sheet at August 31.

Solution(a)

Judi Salem
Summary of Transactions (Accounting Equation)
For the month of August 31, 2017

Date	Assets =				Liabilities+ Owner's Equity			Remarks
	Cash	Accounts Receivable	Supplies	Equipment	Notes Payable	Accounts Payable	J.Salem Capital	
Bal. b/d	5000	1500	500	6000		4200	8,800	
1.	+1200	(1200)						
2.	(2800)					(2800)		
3.	+3000	+4500					+7,500	Service Rev
4.	(400)			2000		+1600		
5.	(2500) (900) (400)						(2,500) (900) (400)	Salary expense Rent expense Adv. expense
6.	(700)						(700)	
7.	2000				+2000			
8.						+270	(270)	Utility exp.
Bal. c/d	3500	4800	500	8000	2000		11530	
Check	16800				16800			

Note: Remark column includes only transaction affecting the owner's equity.

Solution (b

Judi Salem
Income Statement
For the month of August 31, 2017

Particular	Details ($)	Total ($)
Revenues		
Service Revenue	7,500	
Total revenue		7,500
Less: Expense		
Salaries expense	2,500	
Rent expense	900	
Adv. Expense	400	
Utility expense	270	
Total expense		(4,070)
Net income		3,430

Judi Salem
Owner's Equity Statement
For the month of August, 31 2017

Particular	$	$
Beginning owner`s capital		-
Add: Investment	8,800	
Net income	3,430	12,230
Less :Drawing		(700)
Ending owner`s capital		11,530

Judi Salem
Balance Sheet
August, 31 2017

Assets	Details ($)	Details ($)
Cash	3,500	
Accounts Receivable	4,800	
Supplies	500	
Equipment	8,000	
Total assets		16,800
Liabilities and owner's equity		
Liabilities:		
Notes Payable	2,000	
Accounts Payable	3,270	
Total liabilities		5,270
Owner's equity:		
Ending owner's equity		11,530
Total liabilities and owner's equity		16,800

Problem-4 (Ref: Accounting Principles, Kieso , Page: 29, P1-3A)

On June 1, Cindy Godfrey started Devine Designs Co., a company that provides craft opportunities, by investing $12,000 cash in the business. Following are the assets and liabilities of the company at June 30 and the revenue and expenses for the month of June.

Cash	$ 10,150	Service Revenue	$6,500
Accounts Receivable	2,800	Advertising Expenses	500
Supplies	2,000	Rent Expense	1,600

Equipment	10,000	Gasoline Expense	
Note Payable	9,000	Utilities Expense	
Accounts Payable	1,200		

Cindy made no additional investment in June but withdrew $1,300 in cash for personal use during the month.

Instructions:

i. Prepare an income statement and owner's equity statement for the month of June and a balance sheet at June 30, 2017.

ii. Prepare an income statement and owner's equity statement for June assuming the following data are not included above: (1) $900 of revenue was earned and billed but not collected at June 30, and (2) $150 of gasoline expense was incurred but not paid.

Solution: (i)

Devine Designs Co.
Income Statement
For the month ended June 30, 2017

Particular		Details $	Total $
Revenues			
Service revenue		6,500	
	Total revenue		6,500
Less: Expenses			
Adv. Expense		500	
Rent Expense		1,600	
Gasoline Expense		200	
Utility Expense		150	
	Total expenses		(2,450)
Net income			4,050

Devine Designs Co.
Owner's Equity Statement
For the month ended June 30, 2017

Particular	Details ($)	Total ($)
Beginning owner's capital		-
Add: Investment	12,000	
Net income	4,050	16,050
Less: Drawing		(1,300)
Ending capital		14,750

Devine Designs Co.
Balance Sheet
June 30, 2017

Assets	Details ($)	Total ($)
Cash	10,150	
Accounts Receivable	2,800	
Supplies	2,000	
Equipment	10,000	
Total assets		24,950
Liabilities and Owner's Equity		
Liabilities:		
Notes Payable	9,000	
Accounts Payable	1,200	
Total liabilities		10,200
Owner's equity		
Ending owner's capital		14,700
Total liabilities and owner's equity		24,950

Solution (ii)

Devine Designs Co.
Income Statement
For the month ended June 30, 2017

	Details ($)	Total ($)
Revenues		
Service revenue	6,500	
Add: Service revenue not recorded	900	
Total revenue		7,400
Less: Expenses		
Adv. Expense	500	
Rent Expense	1,600	
Gasoline Expense (200+150)	350	
Utility Expense	150	
Total expenses		(2,600)
Net income		4,800

Devine Designs Co.
Owner's Equity Statement
For the month ended June 30, 2017

	Details ($)	Total ($)
Beginning owner's capital		-
Add: Investment	12000	
Net income	4800	16800
Less: Drawing		(1300)
Ending owner's capital		15500

Problem 5. (Ref: Accounting Principles, Kieso, Page: 29,P14A)

Trixie Maye started her own consulting firm, Matrix consulting, on May 1, 2017. The following transaction occurred during the Month of May.

May 1. Maye invested $7000 cash in the business.
2. Paid $900 for office rent for the month.
3. Purchased $600 of supplies on account.
5. Paid $125 to advertise in the County News.
9. Received $4000 cash for service provided.
12. Withdrew 1000 cash for personal use.
15. Performed $5400 of service on account.
17. Paid $2500 for employee salaries.
20. Paid for the supplies purchased on account on May 3.
23. Received a cash payment of $4000 for service provided on account on May 15.
26. Borrowed $5000 from the bank on a note payable.
29 Purchased office equipment for $4200 on account.
30. Paid $278 for utilities.

Instructions:

(a) Show the effect of the previous transaction on the accounting equation using the accounting equation format.
(b) Prepare an income statement for the month of May.
(c) Prepare a balance sheet at May 31, 2017.

Solution: (a)

Trixie Maye
Tabular Analysis
For the month ended May 31, 2017

Date	Assets=				Liabilities+ Owner's Equity			Remar
	Cash	Accounts Receivable	Suppli es	Equip ment	Notes Payable	Accounts Payable	Trixie Maye Capital	
Bal. b/d	-	-	-	-	-	-	-	
May 1	+7000							
2	(900)						+700	Investme
3			+600				(900)	Rent ex
5	(125)					+600		
9	+4000						(125)	Adv. Exp
							+4000	Service Rev.

12	(1000)						(1000)	Drawing
15		+5400					+5400	Service Rev.
17	(2500)						(2500)	Salary exp.
20	(600)					(600)		
23	+4000	(4000)						
26	+5000				+5000			
29				+4200		+4200		
30	(2750						(275)	Utility exp.
Bal. c/d	14600	1400	600	4200	5000	4200	11600	
Check		20800				20800		

Solution: (b)

Trixie Maye
Income Statement
For the month ended May 31, 2017

		Details ($)	Total ($)
Revenues			
Service revenue(4000+5400)			
	Total revenue		9400
Expenses			
Rent expense		900	
Adv. Expense		125	
Salaries expense		2500	
Utility expense		275	
	Total expense		(3800)
Net income			5600

Trixie Maye
Balance Sheet
As at May 31, 2017

	$	$
Assets		
Cash	14,600	
Accounts Receivable	1,400	
Supplies	600	
Equipment	4,200	

Total assets		20,800
Liabilities and Owner's Equity		
Liabilities:		
Notes Payable	5,000	
Accounts Payable	4,200	
Total liabilities		9,200
Owner's equity		
Ending owner's capital (7000+5600-1000)		11,600
Total liabilities and owner's equity		20,800

Problem 6. (Ref: Accounting Principles, Kieso, Page: 30, P-5

Financial statement information about four different companies is as follows.

	Alpha Company	Beta Company	Psi Company	Omega Compa
January,1 2017				
Assets	$80,000	$90,000	(g)	$1,50,0
Liabilities	41,000	(d)	80,000	(
Owner's equity	(a)	40,000	49,000	90,0
December 31,2017				
Assets	(b)	1,12,000	1,70,000	(
Liabilities	60,000	72,000	(h)	1,00,0
Owner's equity	50,000	(e)	8,20,000	1,51,0
Owner's equity change in years				
Additional investment	(c)	8,000	10,000	15,0
Drawings	15,000	(f)	12,000	10,0
Total revenues	3,50,000	4,10,000	(i)	5,00,0
Total expenses	3,33,000	3,85,000	3,50,000	(

Instructions:

(a) Determine the missing amount.

(b) Prepare the owner's equity statement for Alpha Company.

(c) Write a memorandum explaining the sequence for preparing financial statement and the interrelationship of the owner's equity statement to the income and balance sheet.

Solution: a)

Alpha Company
Determination of the missing amount using accounting equation

(a) Beginning assets = Beginning liabilities + Beginni...

=> $ 80,000 = $ 41,000 ...

=> Beginning owner'...

(b) Ending assets = Ending liabilities + Ending owner's equity => Ending assets = $ 60,000 + $ 50,000 => Ending assets = $ 1,10,000 (Ans.).

(c) Ending owner's equity = Beginning owner's equity +Additional Investment + Total revenue –Total expense – Drawing =>$50,000 = $ 39,000 + Additional investment + $ 3,50,00 0– $3,33,000-$ 15,000 =>$ 50,000 = $41,000 + Additional investment => Additional investment = $ 9,000 (Ans.).

Bata Company
Determination of the missing amount using accounting equation

d) Beginning assets = Beginning liabilities + Beginning owner's equity
=>$ 90,000 = Beginning liabilities + 40,000
=> Beginning liabilities = $ 50,000 (Ans.)

e) Ending assets = Ending liabilities + Ending owner's equity
=> 1,12,000 = 72,000 + Ending owner's equity
Ending owner's equity = 40,000 (Ans.)

f) Ending owner's equity = Beginning owner's equity +Additional Investment + Total revenue –Total expense – Drawing
=>$ 40,000 = $ 40,000 + 8,000 + 4,10,000 -3,85,000 – Drawing
=> Drawing = $ 33,000 (Ans.)

Psi Company
Determination of the missing amount using accounting equation

g) Beginning assets = Beginning liabilities + Beginning owner's equity
=> Beginning assets = 80,000 + 49,000
=> Beginning assets = $1,29,000 (Ans.)

h) Ending assets = Ending liabilities + Ending owner's equity
=>$17000 = Ending liabilities + $ 82,000
=> Ending liabilities = $88,000 (Ans.)

i) Ending owner's equity = Beginning owner's equity +Additional Investment + Total revenue –Total expense – Drawing
=>$49,000 = $82,000 + $1,000 + Total revenues -$3,50,000-$12,000
=> Total revenues = $3,19,000 (Ans.)

Omega Company
Determination of the missing amount using accounting equation

j) Beginning assets = Beginning liabilities + Beginning owner's equity
=> 1,50,000 = Beginning liabilities + 90,000
=> Beginning liabilities = 60,000 (Ans)

k) Ending assets = Ending liabilities + Ending owner's equity

=> Ending assets = 100,000 + 1,51,000

=> Ending assets = 2,51,000 (Ans)

l) Ending owner's equity = Beginning owner's equity +Additional Investment + Total revenue –Total expense – Drawing

=> \$ 1,51,000 = 90,000 + 15,000 + 5,00,000 – Total expenses – 10,000

=> \$1,51,000 = 5,95,000 - Total expenses

=> Total expenses = \$4,44,000 (Ans).

Problem 7. (NU BBA-Professional)

Mr. Rahman opened a law office. Mr. Rahman Attorney at law on July 1, 2005, July 3 balance sheet showed Cash Tk. 8, 000, Accounts Receivable Tk.3,000, Supplies' Tk. 1, Office Equipment Tk. 10,000, Accounts Payable Tk. 8,400 and Mr. Rahman's Capital Tk. 600. During August the following transactions occurred.

i. Collected Tk. 2,800 of accounts receivable.
ii. Paid Tk.5, 400 cash on accounts payable.
iii. Earned revenues of Tk. 15,000 of which Tk.6,000 is collected in cash and balance is due in August.
iv. Purchase additional office equipment for Tk.2,000; paying Tk. 800 in cash and balance on account.
v. Paid salaries Tk. 6,000; rent Tk. 1,800 and advertising expenses Tk. 700.
vi. Withdrew Tk.1,100 in cash for personal use.
vii. Received Tk.4,000 from Standard bank-money borrowed on a notes payable.
viii. Incurred utility expenses for month on account Tk.500.

Solution:

Mr. Rahaman
Tabular Analysis
For the month of August, 2005

Date	Assets=				Liabilities +Owner's Equity			Re
	Cash	Accounts Receivable	Supplies	Office Equipment	Notes Payable	Account Payable	Capital	
Bal. b/d	8,000	3000	1,000	10,000		8,400	13,600	
i.	+2800	(2800)						
ii.	(5400)					(5,400)		
iii.	+6000	+9000					+15,000	Serv
iv.	(800)			+2,000		+1,200		
v.	(8500)						(6,000) (1,800) (700)	Sal Ren Adv
vi.	(1100)						(1,100)	Draw
vii.	+4000				+4,000			
viii.						+500	(500)	Utili
Total	5,000	9200	1,000	1,200	4,000	4,500	18,500	
Check	27,200				27,200			

Note: Remarks column includes only the transaction affecting the owner's equity