Dept. of EEE
Course Name: Financial and Managerial Accounting
Course Code: HUM223 Credit: 3.00

Introductory: Definition of book keeping and Accounting, objectives and advantages of book Keeping and accounting, Users of Accounting Information Branches of Accounting, Accounting concept and Convention. Definition of business transaction, Nature business transaction. Accounts. Principles of double entry system of bookkeeping. **Accounting Cycle** Journal, ledger, Trial balance Income Statement, Owners Equity Statement, **Cash Flow Statement**, Retained Earnings Statement and Balance Sheet, **Analysis of Financial Statements**. **Depreciation:** Definition, objectives of depreciation, Methods for proving depreciation.

Text Book: Principles of Accounting by, Weygandt, Kieso and Kimmel 9th edition

Cost Accounting:
Introduction, objectives and Advantages of cost accounting. Preparation of Cost sheet, store ledger, overhead allocation.
Marginal costing:
Break-even point, P/V ratio, Margin of safety, fixed cost variable cost. Standard Costing Definition of Variance, Calculation of Material, labourand overhead variance

Managerial Accounting:

Use of Accounting Information in Project Evaluation and Other Decision making, Capital budgeting.

Definition of Book–Keeping:

"Book–Keeping is the art of recording business dealings in a set of books" – J. R. Batliboi

" Book–Keeping is the science and art of correctly recording in books of account in all those business transactions that result in the transfer of money or money's worth" – R. N. Carter

So Book–Keeping is the act of recording a trader's business dealings in books of account in such a manner that any subsequent time their nature and effect may be clearly understood.

Definition of Accounting: 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 a financial character and interpreting the results thereof.

According to American Accounting association "Accounting refers to the process of identifying, measuring and communicating economic information to permit informed judgment and decisions by users of the information".

According to Prof. Johnson "Accounting may be defined as the collection, compilation and systematic recording of business transactions in terms of money, thee preparation of financial reports, the analysis and interpretation of these reports and the use of these reports for the information and guidance of management".

Finally we can say "Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making reasoned choices among alternative course of action".

Object of Accounting: The object of accounting can be described as follows:

01.To maintain a permanent and systematic record of business transaction.
02.To ascertain the amount of profit earned or loss sustained at periodical intervals.
03.To determine the amount which is owing to the trader (i.e. sundry debtors) and by whom.
04.To find out the amount which is owing to the traders (i.e. Sundry creditors) and to whom.
05. To ascertain the amount of capital or Deficiency of the trader in the business on any particular date.
06.To supply the trader with necessary information to formulate policies for the future courses of action.

Advantages of Accounting: The main advantages or benefit may be summarized as follows

01.It enables a trader to maintain a systematic record of all the transaction.
02.It enables the trader to ascertain clearly the result of his trading at any given period i.e. whether he is trading at a gain or loss.
03.It affords necessary information with the least possible trouble and thus it enables the trader to keep due control over his business affairs.
04. It helps the traders to ascertain the total amount owing to him and by whom.
05. It enables the trader to ascertain the total amount owing by him and to whom.
06.It helps the trader to ascertain the total assets and liabilities of his concern at any particular date.
07.It enables the trader to co-ordinate the organization most economically and sound basis.
08.It enables the trader to detect frauds and errors and prevent the same in due courses.

Nature of accounting information : The nature/features/characteristics of accounting information can be discuss as follows :

Relevance : The main features of accounting information is. it should be relevance with the present and future activity of the trader.
Timeliness : The accounting information should be send to user with in right time, i.e. timeliness is the another feature of the accounting information.
Reliability : Accounting information should must be reliable.

Consistency : Accounting information should be consistent between the accounting period, otherwise it will not helpful for decision making.
Cost benefit : In case of discloser of accounting information, the trader should consider the cost benefit of the organization.

Users of accounting information:

There are two types of users of accounting information, such as "Internal Users" and "External Users".

Internal users of accounting information are managers who plan, organize and run a business. These include Marketing Managers, Production supervisors, Finance Directors and Company officers.

There are several types of "External users of accounting information. They are as follows:

(i) Investor (owners) use accounting information to make decision to buy, hold or sell stock.
(ii) Creditors, such as suppliers and bankers use accounting information to evaluate the risks of granting credit or lending money.
(iii) Taxing Authorities, such as the internal revenue service, want to know whether the company complies with the tax laws.
(iv) Regulatory agencies, such as Security Exchange Commission want to know whether the company is operating within prescribed rules.
(v) Customers are interested in whether a company will continue to honor product warranties and support it product times.
(vi) Labor unions want to know whether the owners can pay increased wages and benefits.
(vi) Economic planners use accounting information to forecast economic activity.

Communication media of accounting information :

Generally accounting information disclose through the following media :

01. Oral communication.
02. Through phone, Telex, Fax etc mass media.
03. Discloser of accounting information through statements.
04. Through Newspaper.
05. Through periodicals.
06. Through charts, Diagrams, Pictogram.
07. Through confidential notes.

Branches of accounting : Following are the branches of accounting :

01. General Accounting : The general accounting includes book keeping and also report preparation including interpretation. General accounting can also be called financial accounting.
02. Auditing : It involves the verification of records and the reports prepared by the accountants of an enterprise, In order to check errors and frauds and to authenticate the financial statements.

03. Cost Accounting : Cost accounting emphasizes the determination of business costs, especially units costs of production and distribution.

04. Management Accounting : It is based upon the concept of accounting as a method of management or as a tool by which managerial effectiveness is enhanced.

05. Budgetary Accounting : It refers to a systematic forecasting of business operations in financial terms. It presents in an account form the transactions planned for the coming period and summarizes these transactions in accounting statements.

06. Tax Accounting : It refers to the determination of the correct liability for taxes, especially income taxes and social security taxes and preparation of necessary returns.
07. Industrial Accounting : It refers to the integration of financial accounting and cost accounting for managerial planning and control of an industry.

08. Government and Municipal Accounting : It specializes in the transactions of political units such as states and municipalities. It seeks to provide useful accounting information with regard to the business aspect of public administration.

09. Social Accounting : Social Accounting is to deal with measurement of social and national income and national wealth.

The need for accounting concepts and principles:

The development of accounting principles has been closely associated with the growth of business. The business today has become large in size and complex in nature. Unlike in the past when various need business accounts were largely needed by the proprietor, today accounting statements parties namely, proprietors, creditors, potential investor's and many others.

Proprietor's wants to read the well being of the business the present creditors want to know about the solvency of the business and the prospective investors are interested in the earning potential of the business.

In view of the utility of accounting statements to various interested parties. It is necessary to recognize the urgency of a scientific approach to the recording and reporting of business transactions. In the absence of scientific approach, accountants will be free to use their own language and what ever they will be writing will not necessarily be understand in the same sense by other persons concerned.

Thus the uniformity in understanding the accounting records is possible only when some standard language is used.

With a view to making the accounting language a standard language, certain accounting principles, concepts and conventions have been developed over a course of period.

Accounting concepts and conventions : There is a difference of opinion as to the meaning and significance of the terms "Concepts" and "Conventions". The term "Concept" is used to connote accounting postulates, i.e. necessary assumptions or conditions upon which accounting are based. Following is the list of accounting concepts agreed to by most of author's:

01.**Entity concept** : It requires that the activities of the entity be kept separate and distinct from the activities of its owner.

02.**Dual aspect concept** : Under this assumption every transactions should have double sided affairs one is debit and another is credit.

03.**Going concern Concept** : Under this assumption the business will continue for unlimited period, on the basis of this concept assets and liabilities are recorded at purchase cost.

04.**Accounting period concepts** : Under this assumption the organizations determined profit or loss at the end of each financial year.

05.**Money measurement concepts** : The organization record all those transactions that are measurable in terms of monetary value.

06.**Cost concept** : Cost principles states that assets should be recorded at their cost. Cost is the value something as acquired.
07. **Accrual/Matching concept**: All incomes and charges relating to the financial year to which the accounts relate shall be taken into accounts, without regard to the date of receipt or payment.

08.**Objective evidence concept** : This concept states that every transaction should have documentary evidence.

The term "Convention" is used to signify customs or traditions as a guide to the preparation of accounting statement. Following are the various accounting conventions:

01. **Disclosure** : Accountants are obliged to transmit all significant financial data preferabl-, - in the body of the financial reports but also explanatory foot notes.

02. **Materiality** : This convention states that the trader should record the transaction which is material/relevant with the business and which immaterial should be ignore.

03. **Consistency :** It required that once a company has decided on one of the methods, it will treat all subsequent events of same character in the same fashion.

04. **Conservatism or prudence**: Revenue and profits should not be anticipated but recognized only when they are realized in cash but liabilities and losses which have arisen or likely to arise in respect of the financial year must be taken into account.

What is generally accepted accounting principles (GAAP) :

The accounting profession has developed standards that are generally accepted and universally practiced. The common set of standards is called GAAP. These standards indicate how to report economic events. Two organizations are primarily responsibility for establishing GAAP.

The first is the Financial Accounting Standards Boards (FASB). This private organization establishes broad reporting standards of general applicability as well as specific accounting rules.

The second standard setting group is the security exchange commission (SEC) the SEC is government agency that required companies to file financial report following GAAP.

In general the FASB and SEC work hand in hand to assure that timely and useful accounting principals are developed.

Capital Expenditure: Capital expenditure consists of all expenditures which result in the acquisition of permanent assets, employed to run the business for the purpose of earning revenue, not only in one accounting period, but in several periods.

Such as cost of land and building plant and machinery, Tools and Fixtures etc.

Revenue Expenditure: Revenue expenditure consists of those expenditures, which result in the conduct and administration of the business. It also includes the cost of maintenance of earning capacity including the upkeep of the fixed assets in productive condition, e.g. office salaries, rent, taxes, insurance and commission etc.

Accounting cycle : The order or sequence in which accounting procedures are performed is known as accounting cycle. As soon as transactions takes place they are recorded in journalizing and concludes ~~ ith the post closing trial balance.

In brief the accounting cycle can be described as:
01.**Recording** : Recording the transactions in the journals or book of original entry.

02.**Classifying :** Transferring the entries from the journals to the ledger.

03.**Summarizing** : Preparing a trial balance from the debit and credit balances of ledger accounts.

04.**Preparing financial statements** : Preparing the trading account, profit and loss account and the balance sheet also taking into account all adjustments affecting the period concerned.

05. **Interpreting and analyzing those statements** :Giving requisite Information to the interested groups by calculating accounting ratio and by interpreting the performance of the organization.

Principles of double entry system of Book Keeping : The system of Book Keeping is originated fundamentally from the fact that in every transaction there must be two accounts to complete it one account gives the benefit and another account receives the same.

The account that receives the benefit is called "Debit" and the account gives the benefit is called "Credit".

Therefore "The system of book keeping which is employed to record two fold aspects i.e. both Dr. and Cr. of every transaction in money or money's worth in two different accounts of the same set of Book is called double entry system of book keeping.

Does double entry means double work: Some traders think the double entry system book keeping means double work. Such impression is absolutely wrong. As a matter of fact this system does not arise from the quantity of work to the done but arises fundamentally from the necessity of giving perfect reflection to each and every transaction which is variable involves two parties or accounts.

In each transaction every debit must have a corresponding credit and vice versa. In order to consider this double effect of transaction. There must be double entry in the books of account. Therefore the impression (Double Entry means Double Works) is wrong. It is called double entry as it gives a perfect reflection to the two-fold aspect of the business transaction.

Business Transaction : Transaction is the business dealings of a trader in regard to money or money's worth. A Businessman in the normal course of his business activities has to perform various types of dealings. Such as, purchasing, selling, receiving the price of the goods paying money for rent and advertisement etc. All these business dealings are called business transactions.

<u>Classification of Accounts</u> : An account is a summarized form of a group of transactions or a particular class of transactions. Such as Rahim A/C, Cash A/C, furniture Account. There are three types of accounts such as :
01. Personal Account. 02. Real Account. 03. Nominal Account.

01. **Personal Account**: The account which refers to the name of firm or person is called personal account e.g. Rahim account, Karim account, Sonali bank account, Rahman and Brothers account.

02. **Real Account**: The account which refers to the assets or property is called real account e.g. cash account, plant account, Machinery account, Accounts receivable account.

03. **Nominal Account**: The account which refers to the income and expenditure is called Nominal account e.g. Rent Account, Salary account, Interest account, Commission account etc.

<u>Accounting equation</u> : The relationship of assets liabilities and owner's equity can be expressed as an equation as follows :

A(Assets) = L (Liabilities) + P (Proprietorship or owners equity).

This relationship is referred as the basic accounting equation.

Under the equation of accounting there are four types of accounts. Such as 01. Income account. 02. Expenditure account. 03. Assets account and 04. Liabilities accounts.

<u>Rules for determination of Debit (Dr.) and Credit (Cr.)</u>

Under **traditional method** the rules are as follows :

01. Personal account :	Receiver of the benefit (Dr.) Giver of the benefit (Cr.)
02. Nominal account :	Expenditure/Loss (Dr.) Income/Profit/Revenue (Cr.)
03. Assets account:	What comes in the business (Dr.) What goes out from the business (Cr.)

Under **accounting equation method** the rules are as follows :

01.Assets Account	:	Increase ....Dr. Decrease ....Cr.
02.Liabilities	:	Decrease ....Dr. Increase ....Cr.
03. Income A/C.	:	Decrease ....Dr. Increase............Cr.
04. Expenditure	:	Increase ....Dr. Decrease ....Cr.

Preparation of Summary of Business Transaction using accounting equation:
Problem-1:
Merina Monolova opens her own law office on July *1, 2006. During* the first month of operations, the following transactions occurred:

1. Invested Tk. 10.000 in cash in the law practice.
2. Paid Tk. 800 for July rent on office space.
3. Purchased office equipment on account, Tk. 3,000
4. Rendered legal services to clients for cash. Tk. 1,500. (use Fees Earned)
5. Borrowed Tk. 700 cash fronm a bank on a note payable
6. Rendered legal services to client an account. Tk. 2,000
7. Paid monthly expenses: Salaries. Tk. 500; utilities, Tk. 300; and telephone, Tk.100.

Instructions
(a) Prepare a tabular summary of the transactions.
(b) Prepare the income statement, owner's equity statement, and balance sheet at July 31 for Marina Monolova, Attorney at Law.

Solution:

(a)	**Assets**			=	**Liabilities +**		**Owner's Equity**
Transactions	**Cash +**	**Account Receivable +**	**Equipment**	=	**Notes Payable +**	**Accounts Payable +**	Merina Monolova Capital
	Tk.	Tk,	Tk		Tk.	Tk.	Tk,
1.	+ 10,000						+ 10,000 (Investment)
2.	- 800						-800 (Rent Exp.)
bal	9,200			=			9,200
3.			3,000	=		3.000	-
bal.	9,200		3,*000*	=		3,000	9,200
4 Earned	+ 1,500						1,500 Fees
	10,700		+3,000	=		3.000	+ 10,700
5	+ 700				700		
bal.	11.400		+3,000	=	700	+3,000	+ 10,700
6. Earned)		+ 2,000					*2,000 (*Fees
bal.	11,400	+ 2,000	+3,000	=	700	+ 3.000	+ 12,700
7	-900						-500 Saiaries Exp. -300 Utilities Exp. -100 Tele. Exp
bal	10,500	2,000	3.000	=	700	3,000	11.800

.MERITA MONOLOVA
Income Statement
For the Month Ended July 31, 2006

	Tk.	**Tk.**
Revenues		
Fees earned		3,500
Expenses :		
Rent expense	800	
Salaries expense	500	
Utilities expense	300	
Telephone expense	100	

Total expenses --	1,700
Net income	1,800

MERINA MONOLOVA
Attorney at Law
Owner's Equity Statement
For the Month Ended July 31, 2006

	Tk.	Tk.
Merina Monolova, **Capital, July 1**		0
Add: Investments	10,000	
Net income	1.800	11,800
Merina Monolova, Capital, July 31		11,800

MERINA MONOLOVA
Attorney at Law
Balance Sheet
July 31, 2006

Assets	**Tk.**
Cash	10,500
Accounts receivable	2,000
Equipment	3,000
Total assets	15,500

Liabilities and Owner's Equity

Liabilities:	
Notes Payable	700
Accounts payable	3000
Total liabilities	3,700
Owner's Equity:	
Merina Monolova, Capital	11,800
Total liabilities and owner's equity	1 5,500

Problem-2

June Lake began the practice of dentistry and during a short period completed these transactions:

a. Invested Tk. 5,000 in cash and dental equipment having a Tk. 500 fair value in a dental practice.
b. Paid the rent on suitable office space for two months in advance, Tk. 1,000.
c. Purchased additional dental equipment for cash, Tk. 1.500.
d. Completed dental work for a patient and immediately collected Tk. 200 cash for thework.
e. Purchased additional dental equipment on credit, Tk. 800.
f. Completed Tk. 600 of dental work for a patient on credit.
g. Paid the dental assistant's wages**,** Tk. 300.
h. Collected Tk. 300 of the amount owed by the patient of transaction (f).
i. Paid for the equipment purchased in transaction (e).

Required :
Arrange the following asset, liability, and owner's equity titles in an equation form. Cash; Accounts Receivable; Prepaid Rent: Dental Equipment: Accounts Payable; and June Lake, Capital. Then show by additions and subtractions the effects of the transactions on the elements of the equation. Show new totals after each transaction.

Solution

Date	Cash +	Accounts Receivable +	Prepaid Rent +	Dental Equipment		Accounts Payable +	June lake Capital
	Tk.	Tk.	Tk.	Tk.	=	Tk.	Tk.
(a)	5,000			500	=		
5,500							
(b)	- 1,000		1,000				
	4,000		1,000	500	=		5,500
(C)	- 1,500			+1,500			
	2,500		1,000	2,000	=		5,500
(d)	+200						+200
	2,700		1,000	2,000	=		5,700
(e)				+800		+ 800	
	2,700		1,000	2,800	=	800	5,700
(f)		+ 600					+ 600
	2,700	600	1,000	2,800	=	800	6,300
(g)	- 300						- 300
	2,400	600	1,000	2,800	=	800	
6,000 (h)	+300	- 300					
	2,700	300	1,000	2,800	=	800	6,000
(i)	800					- 800	
	1,900	300	1,000	2,800	=	0	6,000

Problem-3
Ned Able completed the following transactions:

a. Sold a personal investment in IBM stock for Tk. 9,350 and deposited Tk. 9,000 of the proceeds in a bank account opened in the name of his new business, Able TV Service.
b. Purchased for cash the repair supplies, Tk. 1,050, tools, Tk. 825, and the used truck, Tk. 2,100, of a TV Repair Shop that was going out of business.
c. Paid the rent on the Shop Space for three months in advance Tk. 600.
d. Purchased additional tools for cash, Tk: 150.
e. Purchased additional repair supplies on credit, Tk. 250.
f. Gave the old company truck and Tk. 3,000 in cash for a new company truck,
g. Completed repair work for Walter Keller and collected Tk. 50 cash therefor,
h. Paid for the repair supplies purchased in transaction (e)
i. Completed repair work for Gary Nash on credit, Tk. 75.
j. Paid for Gas and Oil used in the truck, Tk. 25.
k. Gary Nash paid in full for the work of transaction (i).

l. Ned- Able, wrote a cheque on the bank account of the shop to pay' a personal expense, Tk. 60.

Required:

1.Arrange the following asset, liability, and owner's equity titles in Balance Sheet equation. Cash; Accounts Receivable: Prepaid Rent; Supplies; Tools; Truck; Accounts Payable; and Ned Able, Capital,

2. Show by additions and subtractions, the effects of the transactions on the elements of the equation, Show new totals after each transaction.

Solution:

	Cash +	Accounts Receivable +	Prepaid Rent +	Supplies +	Tools +	Truck	=	Accounts, Payable	+	Ned Able Capital
	Tk.	Tk.	Tk.	Tk.	Tk.	Tk.		Tk.		Tk.
a)	+9,000									+9,000
b)	-3,975			+1,050	+825	+2,100				
	5,025			1,050	825	2,100	=			9,000
c)	-600		+600							
	4,425		600	1,050	825	2,100	=			9,000
d)	-150				+150					
	4,275		600	1,050	975	2,100	=			9,000
e)				+250				+250		
	4,275		600	1,300	975	2,100	=	250		9,000
f)	-3,000					3,000				
	1,275		600	1,300	975	5100	=	250		9,000
g)	+50									+50
	1,325		600	1,300	975	5,100	=	250		9,050
h)	-250							-250		
	1,075		600	1,300	975	5,100	=	0		9,050
i)		+75								+ 75
	1,075	75	600	1,300	975	5,100	=			9,125
j)	-25									-25
	1,050	75	600	1,300	975	5,100	=			9,100
k)	+75	-75								
	1,125	0	600	1,300	975	5,100	=			9,100
1)	-60									-60
	1,065		600	1,300	975	5,100	=			9,040

Problem-4:

On October 1 of the current year, Mary Berg began the practice of law by investing Tk.
1,500 in cash and a law library having a Tk. 1,000 fair value; and during a short period, she completed the following additional transactions:

Oct. 1 Rented the furnished office of a lawyer who was retiring and paid three months, rent in advance, Tk. 900.
2 Purchased office supplies for cash, Tk. 65.
5 Purchased law books from West Publishing Company on credit. Tk. 150.
8 Completed legal work for a client and immediately collected Tk. 250 cash for the work done.
14 Completed legal work for Pine Realty on credit. Tk. 350.
15 Paid the salary of the office secretary, Tk. 350.
15 Paid Tk. 50 of the amount owed on the law books purchased on October 5.
20 Completed legal work for Guaranty Bank on credit, Tk. 400.
24 Received Tk. 200 from pine Realty in partial payment for the legal work completed on October 14.
31 Paid the monthly telephone bill Tk. 20.
31 Paid the office secretary's salary, Tk. 350.
31 Took an inventory of unused office supplies and determined that Tk. 15 of Supplies had been used and had become an expense. (Reduce the asset and owner's equity).
31 Recognized that one month's rent had expired and had become an expense.

Required:

1. Arrange the following asset, liability, and owner's equity titles in Balance Sheet equation. Cash: Accounts Receivable; Prepaid Rent; Office Supplies; Law Library; Accounts Payable: and Mary Berg, Capital.
2. Show by additions and subtractions the effects of each transaction on the items of the equation. Show new totals after each transaction.

(Try yourself)

The Recording Process

What is Journal:

Journal is a daily register, where the trader record all his business transactions by analyzing into debit (Dr.) and credit (Cr.), in order of date in such a manner that their transfer to the ledger is facilitated.

Functions of Journal:

The functions of the Journal are three-(i) To analyze each transaction into Dr. and Cr., So that its transfer to the ledger becomes easy. (ii) To record the transactions chronologically (iii) To give narration for each entry in order to facilitating future reference.

Advantages of Journal:

The following advantages are claimed for Journal:

(i) In the Journal each transactions are analyzed to Dr. and Cr. As a result its transfer to the ledger becomes easy.
(ii) The Journal maintains a concise and chronological record of transactions.
(iii) In the Journal it is possible to provide some sort of full explanations as to the cause and nature of each entry.
(iv) In case of doubt or dispute with regard to a transaction in future necessary reference may be made in the Journal.
(v) It helps to prevent or locate errors.

Specimen of Journal:

Each page of the journal is divided into 5 unequal columns, viz-(i) Date (ii) Particulars (iii) Reference/ Ledger Folio (iv) Debit amount (v) Credit amount.
As:

Date	Particulars	Ref.	Debit (Tk)	Credit (Tk.)
2007 Jan.-1	Cash A/C……………………..Dr. Mr. X's Capital A/C……Cr. (Being Mr. X invested Tk. 1,00,000 in the business)		1,00,000	 1,00,000

Various types of Journal Entry:

(i) **Simple Entry**: If a journal entry having single Dr. and Cr. is called simple Journal entry.
e.g. Cash A/C ……….Dr.
Service Revenue ……Cr.

(ii) **Compound/Complex/ combined Journal entry**: If a Journal entry having two or more Dr. and Cr. is called compound Journal entry. For example:

Equipment A/C…………Dr.
Cash A/C ……………..Cr.
Note payable…………..Cr.

(iii) **Opening Entry**: The entry through which the assets and liabilities of the last accounting period of a going concern are brought forward to the books of the new period is called opening Journal entry
For example:

Sundry asset A/C………..Dr.
Sundry liabilities A/C………Cr.
Capital A/C…………………Cr.

(iv) Closing entry : The entries through which the nominal accounts in the ledger are closed at the time of preparing final account at the close of an accounting period are called closing entry.

For example:

Income statement ……….. Dr.
Opening Inventory ………Cr.
Purchase Account…………Cr.
Wages Account……………Cr.

(v) Adjusting entry: If at the time of preparing final accounts, adjustments is necessary certain items of incomes and expenditures etc than the entries through which it is done are called Adjusting entry.

For example:
Depreciation A/C ……………..Dr.
Assets A/C …………………Cr.

(vi) Rectifying entry: If an error is detected in the accounts already written,, the entry through which it is rectified is called rectifying journal entry:

For example: Marchandise sold to karim wrongly debited to Rahim Tk 400, Correcting entry will be
Karim A/C ……………Dr.
Rahim A/C ……………..Cr.

(vii) Transfer entry: The entry through which an amount is transferred from one ledger to another is called Transfer entry.
(vii) Reversing entry: A reversing entry is made at the beginning of the next accounting period and is the exact opposite of the adjusting entry made in the previous period.
For example Salary payable ……………Dr.
Salary expenses A/C …………Cr.

What is Ledger:

Ledger is the Principal book of a trader. It contains a condensed and classified record of all the transaction of the business generally brought, transferred or posted from the books of the original entry.

Why ledger is called the principal book/ the king of all books?

In the ledger both personal and impersonal accounts are maintained in order to record the two fold aspect of the transactions permanently. Thus this is a principal book; the ledger contains the final record of the business transactions of a trader.

From the permanent and final record so maintained in the ledger the trader can acquire readily all necessary information for appraising past result and in formulating future policy.

For all these reasons ledger is called the king of all books.

What is the distinction between Journal and Ledger?

1) Journal is called the book of original entry.
   Where as Ledger is called the king of all books.

2) Journal is called the subsidiary book.
   On the other hand Ledger is called the principal book.

3) Transactions are recorded in Journal with full descriptions.
   But in Ledger transactions are recorded without descriptions.

4) In Journal transactions are not classified in their nature.
   But in Ledger transactions are recorded by classifying in their nature.

5) From Journal it is not possible to prepare Trail Balance
   But from Ledger a trader can easily prepare Trail Balance.

What is Trail Balance?

A Trail Balance is a classified list of balances both Dr. and Cr. at any specified date extracted from each account in the Ledger.

Objectives of Trail balance

1) To check the arithmetical accuracy of all the accounts of the ledger
2) To combine all the ledger account balance in one list.
3) To prove the double entry system of book-keeping.
4) To save time and money
5) To help in preparation of financial statement.

Rules for preparation of Trail Balance

Trail balance Debit (Dr.) items: (i) All assets (ii) All expenses and losses (iii) Advance/Prepaid expenses (iv) Outstanding/Income receivable

Trail Balance Credit (Cr.) items: (i) All liabilities (ii) All income and profit (iii) outstanding expenses (iv) Unearned/advance income

Preparation of Journal, Ledger and Trail Balance:

Problem-1

Bob Sample opened the Campus Laundromat on September 1, 2006. During the first month of operations the following transactions occurred.

Sept.-1 Invested $20,000 cash in the business.

2 Paid $1,000 cash for store rent for the month of September.

3 Purchased washers and dryers for $25,000, paying $10,000 in cash and signing a $15,000, 6-month, 12% note payable.

4 Paid $1,200 for one-year accident insurance policy.

10 Received bill from the *Daily News* for advertising the opening of the Laundromat $200.

20 Withdrew $700 cash for personal use.

30 Determined that cash receipts for laundry services for the month were $6,200.

Instructions

(a) Journalize the September transactions.

(b) Open ledger accounts and post the September transactions.

(c) Prepare a trial balance at September 30, 2006.

SOLUTION

a) **GENERAL JOURNAL**

Date	Account Titles and Explanation	Ref.	Debit	Credit
2002				
Sept. 1	Cash		20,000	
	Bob Sample, Capital			20,000
	(Owner's investment of cash in business)			
2	Rent Expense		1,000	
	Cash			1,000
	(Paid September rent)			
3	Laundry Equipment		25,000	
	Cash			10,000
	Notes Payable			15,000
	(Purchased laundry equipment for cash and 6-month, 12% note payable)		.	
4	Prepaid Insurance		1,200	
	Cash			1,200
	(Paid one-year insurance policy)			
10	Advertising Expense		200	
	Accounts Payable			200
	(Received bill from *Daily News* for advertising)			
20	Bob Sample, Drawing		700	
	Cash			700
	(Withdrew cash for personal use)			

30 Cash 6,200
Service Revenue 6,200
(Received cash for services provided)

(b) **GENERAL LEDGER**

Cash **Accounts Payable**

Date Explanation Ref Debit Credit Balance Date Explanation Ref. Debit Credit
Balance
2006 2006
Sept. 1 20,000 20,000 Sept. 10 200
200 2 1,000 19,000
3 10,000 9.000 **Bob Sample, Capital**
4 1,200 7,800
20 700 7,100 Date Explanation Ref. Debit Credit
Balance
30 6,200 13,300 2006
. Sept. 1 20,000
20,000

Prepaid Insurance **Bob Sample, Drawing**
Date Explanation Ref. Debit Credit Balance Date Explanation Ref Debit Credit
Balance
2006 2006
Sept. 4 1,200 1,200 Sept. 20 700
700

Laundry Equipment **Service Revenue**
Date Explanation Ref. Debit Credit Balance Date Explanation Ref. Debit Credit
Balance
2006 2006
Sept. 3 25,000 25,000 Sept.30 6,200
6,200

Notes Payable **Advertising Expense**
Date Explanation Ref. Debit Credit Balance . Date Explanation Ref. Debit Credit
Balance
2006 2006
Sept. 3 15,000 15,000 Sept. 10 200 200

Rent Expense
Date Explanation Ref. Debit Credit
Balance

2006
Sept. 2 1,000
1,000

c) **CAMPUSLAUNDROMAT**
Trial Balance September 30, 200

	Debit	Credit
Cash	$13,300	
Prepaid Insurance	1,200	
Laundry Equipment	25,000	
Notes Payable		$15,000
Accounts Payable		200
Bob Sample, Capital		20,000
Bob Sample, Drawing	700	

Service Revenue		6,200
Advertising Expense	200	
Rent Expense	1,000	
	$41,400	$41,400

Problem-2

Surepar Miniature Golf and Driving Range was opened on March 1 by Jane McMillan. The following selected events and transactions occurred during March:

Mar. 1 Invested $50,000 cash in the business.
3 Purchased Lee's Golf Land for $38,000 cash. The price consists of land $23,000, building $9,000, and equipment $6,000. (Make one compound entry.)
5 Advertised the opening of the driving range and miniature golf course, paving advertising expenses of $1,600.
6 Paid cash $1,480 for a one-year insurance policy.
10 Purchased golf clubs and other equipment for $2,600 from Palmer Company payable in 30 days.
18 Received $800 in cash for golf fees earned.
19 Sold 100 coupon books for $15 each. Each book contains 10 coupons that enable the holder to one round of miniature golf or to hit one bucket of golf balls.
25 Withdrew $500 cash for personal use.
30 Paid salaries of $600:
30 Paid Palmer Company in full.
31 Received $500 cash for fees earned.

Instructions

Journalize the March transactions.

Problem-3

Patricia Perez is a licensed architact. During the first month of the operation of her business. the following events and transactions occurred.

April 1 Invested $20,000 in cash.
1 Hired a secretary-receptionist at a salary of $300 per week payable monthly.
2 Paid office rent for the month $800.
3 Purchased architectural supplies on account from Halo Company $1500.
10 Completed blueprints on a carport and billed client $900 for services.
11 Received $500 cash advance from R. William for the design of a new home.
20 Received $l,500 cash for services completed and delivered to P. Donahue.
30 Paid secretary-receptionist for the month $1,500.
30 Paid to Halo Company on account.

Instructions

(a) Journalize the transactions.
(b) Post to the ledger accounts.
(c) Prepare a trial balance on April 30, 2006

Problem-4

Babla Brokerage Services was formed on May l, 2006. The following transactions took place during the first month. '

Transactions on May 1:

1. Jacob Babla invested $120,000 cash in the company as its sole owner.
2. Hired two employees to work in the warehouse. They will each he paid a salary of $2,000 per month.
3. Signed a 2-year rental agreement on a warehouse; paid $48,000 cash in advance for the first year. *(Hint:* The portion of the cost related to May 2006 is an expense for this month.)
4. Purchased furniture and equipment costing $70,000. A cash payment of $20,000 was made immediately; the remainder will be paid in 6 months.
5. Paid $3,000 cash for a one-year insurance policy on the furniture and equipment. *(Hint:* The portion of the cost related to May 2006 is an expense for this month.)

Transactions during the remainder of the month:

6. Purchased basic office supplies for $1,000 cash.
7. purchased more office supplies for $2,000 on account.
8. Total revenues earned were $30,000-$10,000 cash and $20,000 on account.
9. Paid $800 to suppliers on account.
10. Collected $5,000 from customers on account.
11. Received utility bills in the amount of $400, to be paid next month.
12. Paid the monthly salaries of the two employees, totaling $4,000.

Instructions

(a) Prepare journal entries to record each of the events listed.
(b) Post the journal entries to Ledger.
(c) Prepare a trial Balance as of May 31, 2006.

Adjusting the Accounts and Preparation of Financial Statement

THE BASICS OF ADJUSTING ENTRIES

In order for revenues to be recorded in the period in which they are earned, and for expenses to be recognized in the period in which they are incurred, adjusting entries are made at the end of the accounting period. In short, adjusting entries are needed to ensure that the revenue recognition and matching principles are followed.

Adjusting entries make it possible to report on the balance sheet the appropriate assets, liabilities, and owner's equity at the statement date and to report on the income statement the proper net income (or loss) for the period. However, the trial balance-the first pulling together of the transaction data-may not contain up-to-date and complete data. This is true for the following reasons.

1. Some events are not journalized daily because it is inexpedient to do so. Examples are the consumption of supplies and the earning of wages by employees.
2. Some costs are not journalized during the accounting period because they expire with the passage of time rather than through recurring daily transactions. Examples are equipment deterioration, and rent and insurance.
3. Some items may be unrecorded. An example is a utility service bill that will not be received until the next accounting period.

Adjusting entries are required every time financial statements are prepared**.** The starting point is an analysis of each account in the trial balance to determine whether it is complete and up-to-date. The analysis requires a thorough understanding of the company's operations and the interrelationship of accounts.

ACCRUAL- VS. CASH-BASIS ACCOUNTING

Under the **accrual basis**, transactions that change a company's financial statements are recorded in the periods in which the events occur. For example, using the accrual basis to determine net income means recognizing revenues when earned rather than when the cash is received. It also means recognizing expenses when incurred, rather than when paid. Information presented on an accrual basis reveals relationships likely to be important in predicting future results. Under accrual accounting, revenues are recognized when services are performed, so trends in revenues are thus more meaningful for decision-making.

An alternative to the accrual basis is the cash basis. Under **cash-basis accounting,** revenue is recorded when cash is received, and an expense is recorded when cash is paid. The cash basis often leads to misleading financial statements. It fails to record revenue that has been earned but for which the cash has not been received. Also, expenses are not matched with earned revenues. **Cash-basis accounting is not in accordance with generally accepted accounting principles (GAAP).**

TYPES OF ADJUSTING ENTRIES

Adjusting entries can be classified as either prepayments or accruals. Each of these classes has two subcategories as shown below.

Prepayments

1. Prepaid Expenses. Expenses paid in cash and recorded as assets before they are used or consumed.

2. **Unearned Revenues.** Cash received and recorded as liabilities before revenue is earned.

Accruals

1. Accrued Revenues. Revenues earned but not yet received in cash or recorded.

2. **Accrued Expenses.** Expenses incurred but not yet paid in cash or recorded.

Some examples regarding adjusting entries:

1. Ending stock valued at Tk. 20,000

Ending stock A/c........Dr.	20,000	
Purchase A/c.............Cr.		20,000

2. Advance expenses, Tk. 2,000

Advance exp. A/c.........Dr.	20,000	
Respective exp. A/c........Cr.		2,000

3. Unpaid Expenses Tk. 5,000

Respective exp. A/c.......Dr.	5,000	
Liabilities for outstanding exp. A/c......Cr.		5,000

4. Accrued Income Tk. 4,000

Accrued Income A/c..........Dr.	4,000	
Respective Income A/c.......Cr		4,000

5. Income received in advance Tk. 3,000

Respective income A/c..........Dr.	3.000	
Advance income A/c.......Cr.		3,000

6. Depreciation on Furniture Tk 2000

Depreciation A/C............Dr.	2000	
Accumulated Depreciation ..Cr.		2000

7. Bad debt Write off Tk. 1000

Reserve for bad debt ......Dr.	1000	
Accounts receivable ....Cr.		1000

<u>Preparation of Financial Statement/Final Account:</u>

For Sole Trader Ship Business
* * 1) Income Statement (Single Step Method and Multiple Step Method)
* * 2) Classified Balance Sheet

For Company Business:
** 1) Income Statement (Single Step Method and Multiple Step Method)
** 2) Retained earning Statement
** 3) Classified Balance Sheet

<u>Form of Single Step Income Statement:</u>

ABC Co. ltd
Income Statement
<u>For the year ended 31st Dec. 200</u>

Particulars	TK	TK.
A) Revenues:		
Net Sales (Sales Less returns and discounts)	xxx	
Gain on disposal of Assets	xxx	
Interest Income	xxx	
Dividend income	xxx	
Sundry income	<u>xxx</u>	
Total Revenues		xxxx
B) Cost of goods sold	xxx	
Selling expenses	xxx	
General and Administrative expenses	xxx	
Financial Expenses (Interest Expenses)	xxx	
Income Taxes	<u>xxx</u>	
Total expenses		<u>xxxx</u>
Net Income (A-B)		<u>xxxx</u>

ABC Co. Ltd.

Income Statement (**Multiple Step Method**)

For the year ended 31 ' Dec 200

Particulars	TK.	TK.	TK_	TK.
1) **Sales Revenues :**				
Gross Sales			xxxx	
Loss Sales return and allowance		xx		
Sales Discount		xx		
			xxx	
Net Sales				xxxx
2) **Cost of goods Sold**:				
Opening Inventory			xxx	
Add purchase		xxx		
(+) Carriage inward	xxx			
(+) Freight	xxx			
(+) Wages	xxx			
		xxx		
		xxx		
(-) Purchase return	xxx			
Purchase discount	xxx			
		xxx		
			xxx	
Merchandise available for sale			xxx	
Less closing inventory			xxx	
				xxx
3) Gross profit (1-2)				xxx
4) **Operating Expenses :**				
i) Selling Expenses:				
Bad debt		xxx		
Provision for bad debt (new)		xxx		
Sales Salaries	xxx			
(+)dues	xx			
		xxx		
Store supplies Expenss		xxx		
Advertising expenses		xxx		
Misc - Expenses		xxx		
			xxxx	
ii) Administrative expenses :				
Offices Salaries	xxx			
(+) dues	xxx			
		xxx		
Insurance		xxx		
Rent Expenses		xxx		
Dep: on office furniture		xxx		
Misc General Expenses		xxx		
			xxx	
Total Operating Expenses				xxx
5) Operating Income (3-4)				xxx
Add Non Operating Income				
Interest income			Xxx	
Gain on sale of Assets			xxx	
				xxx
				xxx
Less Non Operating expenses				
Interest expenses			xxx	

Loss on sale of asset	xxx	
		xxx
Net Income before Tax		xxx
(-) Tax (In case of Co. Business)		xxx
Net Income after Tax		xxx

Form of Retained Earning Statement:

ABC Co. Ltd.
Retained Earning Statement (Company Only)
For the year ended 31st Dec 200

Particulars	TK.	TK.
Opening Retained earning		xxx
Add Net income after Tax	xxx.	
Income Tax refund	xxx	
		xxx
		xxx
Less Dividend paid (Equity and preference)	xxx	
Transfer to any fund	xxx	
		xxx
Closing Retained earning		xxx

Form of Classified Balance Sheet:

ABC Co. Ltd.
Classified Balance Sheet
As at 31st Dec 200

Assets	Tk	Tk	TK.
A) **Current Assets**:			
Cash in hand and at bank		xxx	
Accounts receivable	xxx		
(-) Allowance for bad debits	xxx		
		xxx	
Notes receivable		xxx	
Inventories		xxx	
Supplies		xxx	
Prepaid insurance		xxx	
Interest Receivable		xxx	
Total Current Assets			xxxx
B) Fixed Assets :			
Land and Building	xxx		
(-) Accumulated Dep:	xxx		
		xxx	
Equipment		xxx	
Furniture		xxx	
Long Term investments		xxx	
Total Fixed Assets			xxxx
Total Assets (A+B)			xxxx
Liabilities and Owners Equity:			
Current Liabilities:			
Accounts Payable		xxx	
Notes Pavable		xxx	
Dividend payable		xxx	
Income Tax Payable		xxx	
Salaries and Wages Pavable		xxx	
Total Current liabilities			
xxxx			
Long term liabilities:			
Mortgage Payable		x xx	
Bond Payable		xxx	
TTL Long term liabilities			xxxx

Share Holders / Owners Equity:

Capital Stock	xxxx	
(+) Net income/ Retained earning closing	xxx	
(-) drawing	xxx	
		xxxx
Total Liabilities and Owners Equity		xxxx

Preparation of Financial statement:

Problem-1

The following Trial Balance was taken from the ledger of Antar's repair shop at the end of its annual accounting period:

Antar's Repair shop
Trial Balance, December 31, 2006

	Tk.	Tk.
Cash	775	
Prepaid insurance	440	
Repair supplies	1,425	
Repair equipment	7,215	
Accumulated depreciation, repair equipment		1,050
Accounts payable		260
Capital		5,535
Withdrawals	12,200	
Revenue from repairs	27,135	
Wages expense	9,860	
Rent expense	1,800	
Advertising expense	265	
Totals	**33,980**	**33,980**

Adjustments:

a. Expired insurance, Tk. 385.
b. An inventory of repair supplies showed Tk. 310 of unused supplies on hand.
c. Estimated depreciation of repair equipment, Tk. 725.
d. Wages earned by the one employee but unpaid on the trial balance date, Tk. 80.

Prepare an income statement and a classified balance sheet.

Solution

ANTAR'S REPAIR SHOF
Income Statement for Year Ended december 31, 2006

	Tk.	Tk.
Revenue:		
Revenue from repairs		27,135
Operating expenses :		
Wages expense (9,860+80)	9,940	
Rent expense	1,800	
Advertising expense	265	
Insurance expense	385	
Repair supplies expense	1,115	
Depreciation expense, repair equipment	725	
Total operating expenses		14,230
Net income		12,900

ANTAR'S REPAIR SHOP
Balance Sheet December 31, 2006

Assets	**Tk.**	**Tk.**
Current assets :		
Cash	775	
Prepaid insurance (440-385)	55	
Repair supplies (1,425-1115)	310	
Total current assets		1,140
Plant and equipment :		
Repair equipment	7,215	
Less : Accumulated depreciation (1,050+725)	1,775	
Total plant and equipment		5,440
Total assets		6,580

Liabilities	**Tk.**	**Tk.**	Tk.
Current Liabilities :			
Accounts payable		260	
Wages payable		80	
Total liabilities			340
Owner's Equity			
Antar's. Capital January 1, 2006		5,535	
Net income for year	I2,905		
Less : withdrawals	12,200		
Excess of income over withdrawals		705	
Antar's, capital, December 31, 2002			6,240
Total liabilities and owner's equity			6,580

Problem-2

The Global Graphics Company was organized on January 1, 2006, by Nancy Glover. At the end of the first 6 months of operations, the trial balance contained the following accounts :

	Debits Tk.		**Credits** Tk.
Cash	9,500	Notes Payable	17,000
Accounts Receivable	14,000	Accounts Payable	9,000
Equipment	45,000	Capital	25,000
Insurance Expense	1,800	Graphic Fees Earned	52,100
Salaries Expense	30,000	Consulting Fees Earned	5,000
Supplies Expense	2,700		
Advertising Expense	1,900		
Rent Expense	1,500		
Utilities Expense	1,700		
	1,08,100		**1,08,100**

Analysis reveals the following additional data :

1. The Tk. 2,700 balance in Supplies Expense represents supplies purchased in January. At June 30, there was Tk. 1,500 of supplies on hand.
2. The note payable was issued on February 1. It is a 12%, 6-month note.
3. The balance in Insurance Expense is the premium on a one-year policy, dated march 1, 2006.
4. Consulting fees are credited to revenue when received. At June 30, consulting fees of Tk. 1,000 are unearned.
5. Graphic fees earned but unbilled at June 30 total Tk. 2.000.
6. Depreciation is Tk. 2,000 per year.

Instructions :
Prepare an income statement and owner's equity statement for the 6 months ended June 30 and a balance sheet at June 30.

Solution:

GLOBAL GRAPHICS COMPANY
Income Statement
For the Six Months Ended June 30, 2006

	Tk.	Tk,
Revenues:		
Graphic fees earned (52,100+2,000)		54,100
Consulting fees earned (5,000-1,000)		4,000
Total revenues		58,100
Expenses:		
Salaries Expense	30,000	
Advertising expense	1,900	
Utilities Expense	1,700	
Rent expense	1,500	
Supplies Expense (2,700-1500)	1,200	
Depreciation expense (2,000/2)	1,000	
Interest expense	850	
Insurance expense (1,800-1,200)	600	
Total expenses		38,750
Net income		**18,350**

GLOBAL GRAPHICS COMPANY
Owner's Equity Statement
For the Six Months Ended June 30, 2006

	Tk.
Capital. January 1	0
Investment by owner	25,000
Add : Net Income	19,350
Capital, June 30	44,350

GLOBAL GRAPHICS COMPANY
Balance Sheet
June 30, 2006

Assets	**Tk.**	**Tk,**
Cash		9,500
Accounts receivable (14,000+2,000)		16,000
Supplies		1,500
Prepaid insurance		1,200

Equipment	45,000	
Less : Accumulated depreciation	1,000	
		44,000
Total assets		72,200

Liabilities and Owner Equity

Liabilities

Notes payable	17,000
Accounts payable	9,000
Interest payable	850
Unearned consulting fees	1,000
Total liabilities	27,850
Owner's equity:	
Capital	44,350
Total liabilities and owners equity	72,200

Problem-3

Darth Vader began operations as a private investigator on January 1, 2006. The trial balance columns of the work sheet for Darth Vader at March 31 are as follows.

DARTH VADER's
Work Sheet
For the Quarter Ended March 31, 2006

	Trial Balance	
Account Titles	**Dr.**	**Cr.**
Cash	11,400	
Accounts Receivable	5,620	
Supplies	1,050	
Prepaid Insurance	2,400	
Equipment	30,000	
Notes Payable		10,000
Accounts Payable		12,350
D. Vader, Capital		20,000
D. Vader, Drawing	600	
Service Revenue		13,620
Salaries Expense	2,200	
Travel Expense	1,300	
Rent Expense	1,200	
Miscellaneous Expense	200	
	55,970	55,970

Other data:

1. Supplies on hand total $750.
2. Depreciation is $500 per quarter.
3. Interest accrued on 6-month note payable, issued January 1, $300.
4. Insurancee expires at the rate of $150 per month. S. Services provided but unbilled at March 31 total $750.

Instruction:

Prepare an income statement and owner's equity statement for the quarter and a classified Balance Sheet. **(TRY YOURSELF)**

Problem-4

The trial balance columns of the work sheet for Phantom Roofing at March 31, 2006. are as follows.

PHANTOM ROOFING
Work Sheet
For the Month Ended March 31, 2006

Account Titles	Trial Balance Dr.	Trial Balance Cr.
Cash	2,500	
Accounts Receivable	1,600	
Roofing Supplies	1,100	
Equipment	6,000	
Accumulated Depreciation-Equipment		1,200
Accounts Payable		1,100
Unearned Revenue		300
Z. Phantom, Capital		7,000
Z. Phantom, Drawing	600	
Service Revenue		3,000
Salaries Expense	700	
Miscellaneous Expense	100	
	12,600	12,600

Other data:

1. A physical count reveals only $220 of roofing supplies on hand.
2. Depreciation for March is $200.
3. Unearned revenue amounted to $200 after adjustment on March 31.
4. Accrued salaries are $400.

Instructions

Prepare an income statement and owner's equity statement for the month of March and a classified balance sheet at March 31. Z. Phantom did not make any additional investments in the business in March. (**TRY YOURSELF)**

Problem-5

The following is the Trial Balance of Abdullah Ltd on 31. 12. 2006

Dr.	Tk.		Cr. Tk.
Calls in arrear in respect of 200 shares	400	Capital : 5,000 shares of Tk. 10 each Tk. 9 called up.	40,000
Purchases	38,000	Sales	75,310
Inventory (1-1-2006)	2,720	General Reserve	6,000
Sundry Expenses	2.820	Taxation Reserve	15,000
Wages and Salaries	4,320	Investment Income	620
Investment	49,500	Investment Fluctuation Fund	300
Plant	7,500	Accounts Payable	2,070
Rent Paid	4,120	Profit and Loss Account	6,050
Accounts Receivable	14,200		
Cash in hand	700		
Cash at Bank	20,070		

Preliminary Expenses	1,000	
	1,45,350	**1,45,350**

Adjustments:
(a) Ending Inventory Tk. 16.000 (Market price Tk.18,000);
(b) Investment Income accrued Tk. 150;
(c) Create a provision of 10% on Accounts Receivable for Bad and Doubtful Debts;
(d) Taxation Reserve is to be increased to Tk. 17,000:
(e) Wages outstanding Tk. 500.
(f) Write off Preliminary Expenses 50%:
(g) There is a contingent liability of Tk. 5.000 for bills accepted on behalf of another company:
(h) Proposed dividend 10%.
Required
1. Income statement (Multiple-step method)
2. Retained Earnings Statement
3. Balance Sheet.

Solution:

Abdullah Ltd.'s
Income Statement
***for the yeor ended 31st* Dec. 2006**

	Tk.	*TK.*	*Tk.*
Sales Revenue :			
Sales (net)			75,310
Less Cost of goods Sold:			
Opening stock		2,720	
Purchases		38,000	
Wages	4,320		
Add : Due	500		
		4,820	
Goods available for sale		45,540	
Less : Ending inventory		16,000	
Cost of goods sold			29,540
Gross Profit			45,770
Operating Expenses:			
Selling expenses : Allowance for bad debt..........		1,420	
General arid Administrative expenses:			
Rent paid		4,120	
Sundry expenses		2,820	
			8,360
Operating Income..........			37,410
Add : Non operating income:			
Income from Investment		620	
Add : Accrued		150	
			770
			38,180
Less Non operating Exp/loss:			

Income tax Provision	2,000	
Preliminary Exp. Write off	500	
		2,500
Income for the Period..		35,680

Abdullah Ltd.'s
Retained Earnings Statement
for the yew ended 31 st Dec 2006

Retained earnings balance 1-1-2006	6,050
add net income	35,680
	41,730
Less proposed dividend	3,960
Retained Earning Closing	37,770

Abdullah Ltd.'s
Balance Sheet
As at 31st Dec 2006

Assets	**Tk.**	**Tk.**	**Tk**
Current Assets			
Cash in hand		700	
Cash at Bank..		20,070	
Accounts Receivable	14,200		
Less : Allowances for bad Debts	1,420		
		12,780	
Ending stock...		16,000	
Income Receivable on Investment.........................		150	
Total Current assets			49,700
Long term Investment		49,500	
Less : Fluctuation fund...		300	
			49,200
Plant and Equipment:			
Plant			
7,500 **Intangible Asset**			
Preliminary Expenses........................		1,000	
Less : Written off...		500.	
			500
			1,06,900
Liabilities :			
Current liabilities :			
Accounts Payable		2,070	
Proposed dividend		3,960	
Wages Payable		500	
Taxation provislon...:.........................		17,000	
			23,530
Long term Loan			**nil**
Stockholder's Equity :			
common stock			
5,000 Shares of Tk. 10 each, Tk. 8 per Share Called up		40,000	
Less : Calls in- arrear		400	

	39,600	
Retained Earnings	37,770	
General Reserve	6,000	
		83,370
		1,06,900

Problem-6

The following trial balance Relates to Green View trading House as at December 31, 2006.

Accounts balances	Tk.	Tk.
Sales		1,80,000
Sales returns	5,000	
Purchases	95,000	
Carriage in	4,000	
Stock-1 January	10,000	
Wages	20,000	
Administration expenses	25,000	
Insurance	3,000	
Selling and distribution expenses	10,000	
Purchases returns		2,500
Drawings	10,000	
Capital		1.50, 000
Premises	1,20,000	
Equipment	20,000	
Accounts receivable	15,000	
Accounts payable		10,000
Cash	7,000	
Allowances for bed debt		1,500
Total	3,44, 000	3, 44,000

At the year end (31 December) the following information is available:.

1. Tk. 1,000 of the wages relate to the next accounting period.
2. Tk. 2,000 is owed for administration expenses relating to 2,000.
3. Equipment s to be depreciated by Tk. 4,000.
4. Closing stock is estimated to have Tk. 8,000.
5. Raise the allowance for bad debt to 2% of net credit sales.
6. The owner withdrew goods costing Tk. 5,000 for personal use but included in sales.

Required :

(i) Prepare the Multi-step income statement and the classified Balance sheet.

Solution

GREEN VIEW TRADING HOUSE
Multi-Step income statement
for the year ended December 31, 2006

Details	Tk.	Tk.	Tk.
Sales Revenue :			
Sales			1,80,000
Less : Sales returns		5,000	
Personal use		5,000	
			10,000
Net Sales			1, 70,000
Less : Cost of goods Sold :			

Opening inventory		10,000	
Purchases	95,000		
Less . Purchases returns	2,500		
	92,500		
Less : Personal use	5,000		
	87,500		
Add : Carriage inward	4,000		
Wage (20,000-1,000)	19,000		
		1,10,500	
Goods available for sales		1,20,500	
Less : Closing inventory		8,000	
Cost of goods sold			1,12,500
Gross Profit			57,500
Less : Operating expenses :			
Administrative expenses	25,000		
Add : Due -	2,000		
		27,000	
Insurance		3,000	
Selling and distribution expense		10,000	
Allowance for bad Debts	3,400		
Less : Old allowance for bad debts	1,500		
		1,900	
Depreciation on equipment		4,000	
			45,900
Net operating income			11,600

GREEN VIEW TRADING HOUSE
Balance Sheet
as at December 31, 2006

Details	**Tk.**	**Tk.**	**Tk.**
Assets			
Current Assets :			
Cash in hand		7,000	
Account Receivable		15,000	
Ending invenlory		8,000	
Advance wages		1,000	
Total current Assets			31,000
Plant and Equipments :			
Premises		1,20,000	
Equipment	20,000		
Less : Depreciation	4,000		
		16,000	
Total plant and Equipment :			1,36,000
			1,67,000
Current liabilities :			
Accounts Payable		10,000	
Administrative Exp. Due		2,000	
Provision for Bad Debt;		3,400	
Total Current liabilities			15,400
Owner's equity			
Capital		1,50,000	

Add : Net Profit	11,600		
	1,61,600		
Less : Drawings	10,000		
			1,51,600
			1,67,000

Problem-7

The Trial Balance of Brennan Fashion Center contained the following accounts at November 30, the end of the company's fiscal year

BRENNAN FASHION CENTER
Trial Balance
November 30, 2006

	Debit	Credit
Cash	$ 28,700	
Accounts Receivable	33,700	
Merchandise Inventory	45,000	
Store Supplies	5,500	
Store Equipment	85,000	
Accumulated Depreciation-Store Equipment		$ 18,000
Delivery Equipment	48,000	
Accumulated Depreciation-Delivery Equipment		6,000
Notes Payable		51,000
Accounts Payable		48,500
C. Brennan, Capital		1, 10,000
C. Brennan, Drawing	12,000	
Sales		7, 59,200
Sales Returns and Allowances	4,200	
Cost of Goods Sold	4, 97,400	
Salaries Expenses	1, 40,000	
Advertising Expense	26,400	
Utilities Expense	14,000	
Repair Expense	12,100	
Delivery Expense	16,700	
Rent Expense	24,000	
Totals	$992,700	$992,700

Adjustment data:

1. Store supplies on hand totaled $3,500.
2. Depreciation is $9,000 on the store equipment and $7,000 on the delivery equipment.
3. Interest of $11,000 is accrued on notes payable at November 30.
4. Merchandise inventory actually on hand is $44,400.

Other data:

1. Salaries expense is 70% selling and 30% administrative.
2. Rent expense and utilities expense are 80% selling and 20% administrative.
3. $30,000 of notes payable are due for payment next year.
4. Repair expense is 100% administrative.

Instructions

Prepare a multiple-step income statement and owner's equity statement for the year and a classified balance sheet as of November 30, 2006.

Problem-8

The trial balance of Graham Wholesale Company contained the following accounts at December 31, the end of the company's fiscal year.

GRAHAM WHOLESALE COMPANV
Trial Balance
December 31, 2006

	Debit	credit
Cash	$ 25,400	
Accounts Receivable	37,600	
Merchandise Inventory.	90,000	
Land	92,000	
Buildings	197,000	
Accumulated Depreciation-Buildings .		$ 54,000
Equipment	83,500	
Accumulated Depreciation-Equipment		42,400
Notes Payable		50,000
Accounts Payable		37,500
M. Graham, Capital		267,800
M. Graham, Drawing	10,000	
Sales		904,100
Sales Discounts	4,600	
Cost of Goods Sold	709,900	
Salaries Expense	69,800	
Utilities Expenses	19,400	
Repair Expense	5,900	
Gas and Oil Expense	7,200	
Insurance Expense	3,500	
Totals	$1,355,800	$1,355,800

Adjustment data: .

1. Depreciation is $10,000 on buildings and $9,000 on equipment. (Both are administrative expenses.)
2. Interest of $7,000 is due and unpaid on notes payable at December 31.
3. Merchandise inventory actually on hand is $89,200.

Other data:

1. Salaries are 80% selling and 20% administrative.
2. Utilities expense, repair expense, and insurance expense are 100% administrative.
3. $15,000 of the notes payable are payable next year.

. 4. Gas and oil expense is a selling expense.

Instructions

Prepare a multiple-step income statement and owner's equity statement for the year, and a classified balance sheet at December 31, 2006.