# CPRG 307
# Accounting Notes for Assignments

## General Terminology

GAAP / IFRS

Accounting is governed by a set of guiding principles when releasing financial information. In Canada we, until recently, used Canadian GAAP (Generally Accepted Accounting Principles). The principles provide a framework on accounting expectations for each organization. Principles such as when reporting financial information the company is still a going concern (they will still be around next year) and the principle of consistency (for example, the valuation of inventory uses the same methodology from year to year).

Each country has their own form of GAAP and there are differences between each of them. This has led to organizations having to do twice as much work if they report the financial information in multiple countries. For some time efforts have been made to make a set of principles that can be used globally. Starting in 2011, public enterprises in Canada adopted IFRS (International Financial Reporting Standards) and as of 2015, Canadian GAAP is correlated to IFRS.[1] IFRS is an international standard that will make global financial reporting consistent.

[1] http://www.ifrs.org/Use-around-the-world/Documents/Jurisdiction-profiles/Canada-IFRS-Profile.pdf

## Accounting Terms

**Calendar Year**

This refers to a year starting January 1st and ending December 31st.

**Fiscal Year**

This refers to an organization's financial reporting year.  A number of organizations have their fiscal year the same as the calendar year but not everyone does.  This is organization, and sometimes industry, specific.  SAIT, for example, has a fiscal year that goes from July 1st to June 30th.

**Period**

This refers to a financial reporting period.  For most organizations a reporting period would be one month.

**Month End**

At the end of each period (for our purposes we will consider this to be one month), month end activities are performed and financial reports are generated. Month end reporting allows for checking of financial integrity to make sure there are no issues as well as helping an organization make decisions on corporate direction.  Month end activities include the generation of a Profit and Loss Statement (P & L), the clearing of revenue and expense accounts, the generation of a Owner's Equity Statement (if a sole proprietorship), and the generation of a Balance Sheet Statement.

## Account Types

The main account type categories are:

**Assets**

This would include cash, accounts receivable, property, and investments.  Assets are items that have value over an extended period of time. This value remains over multiple reporting periods. Account numbers traditionally are in the 1000's for this type of account.  Default transaction type is debit.

**Liabilities**

This would include payable accounts and mortgages.  Liabilities are what an organization owes to someone else.  It reports on an organization's debt.  Account numbers traditionally are in the 2000's for this type of account.  Default transaction type is credit.

**Owner's Equity (for a sole proprietorship)**

Owner's equity is actually a combination of accounts, each having their own role.

**Revenue** – These accounts report on revenue or income coming into the organization for the period.  Account numbers traditionally are in the 3000's for this type of account.  Default transaction type is credit.

**Expense** – These accounts report on expenses such as utilities that an organization incurs during the period.  Account numbers traditionally are in the 4000's for this type of account.  Default transaction type is debit.

**Owner's Equity** – This account is where the profit is reported at the end of each period based on the balances in the revenue and expense accounts.  Account numbers traditionally are in the 5000's for this type of account.  Default transaction type is credit.

Revenue and expense accounts are considered temporary accounts.  They are cleared out at the end of each reporting period (a month end activity).  The new period starts with a clean slate. Taking all of the revenues for the period and subtracting all of the expenses for the period leaves the profit (or loss) for that month.  This profit (or loss) is then added to the owner's equity account.  The revenue and expense accounts are zeroed out for the next period.

## Accounting Rules

For CPRG 307, we will be focussing on keeping two accounting rules correct, equal debits and credits and the accounting equation.

When creating a transaction for an accounting activity, for example paying Shaw for internet services, we use a double entry accounting method. What this means is that every transaction will have at least one debit and one credit (there can be more of each). This is to keep our first rule correct:

Every transaction will have the debits equal the credits.

The second part of every transaction is to keep the accounting equation true:

Assets (A) = Liabilities(L) + Owner's Equity(OE)

Owner's Equity can be broken down to:

OE = Revenue(R) – Expenses(E) + OE

In order to have a double entry accounting systems, the terms "debit" and "credit" need to be defined. Traditionally we have learned that a "debit" means subtraction and a "credit" means an addition. This is not really the whole story. Each account type is given a default transaction type (either debit or credit); it is the default that indicates whether a debit is an addition or subtraction. For example, assets have a default transaction type of debit. This would mean to increase an asset value it would be a debit and to decrease an asset value it would be a credit.

Back to the Shaw internet expense, the transaction for this activity would be the following if paying for the bill right away:

| | | |
|---|---|---|
| Dr: Internet Expense | 60.00 | |
| Cr: Cash | | 60.00 |

Pay Shaw for internet access.

This would mean that the expense account's value would increase and cash (asset account) would decrease. Debits equal credits. The accounting equation remains balanced: A = L + OE; assets are decreased and owner's equity (because of the expense) is decreased.

A number of organizations would deal with this transaction as a two step process. The first step would be to enter the bill into the system when it is received (but not pay it right away) and then, during month end, pay all their outstanding bills at the same time. Step one:

| | | |
|---|---|---|
| Dr: Internet Expense | 60.00 | |
| Cr: Internet Payable | | 60.00 |

Shaw internet bill received.

This would mean that the expense account's value would increase and the payable (liability) account would increase. Debits equal credits. The accounting equation remains balanced: A = L + OE; liabilities are increased and owner's equity (because of the expense) is decreased.

Step two:

| | | |
|---|---|---|
| Dr: Internet Payable | 60.00 | |
| Cr: Cash | | 60.00 |

Pay Shaw for internet access.

This would mean that the payable account's value would decrease and cash (asset account) would decrease. Debits equal credits. The accounting equation remains balanced: A = L + OE; assets are decreased and liabilities decrease.