



ACCOUNTING

FOR NON ACCOUNTANTS

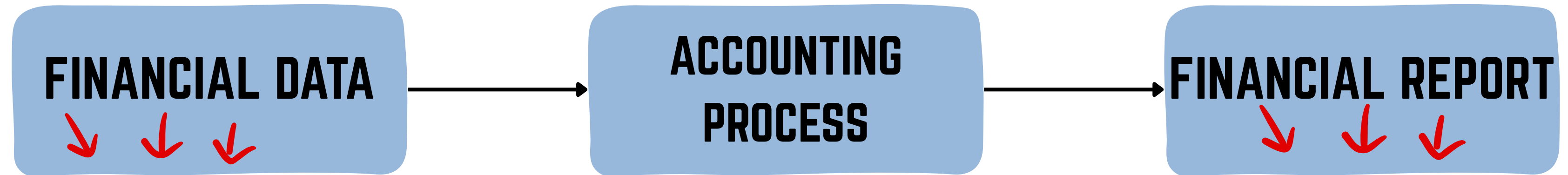
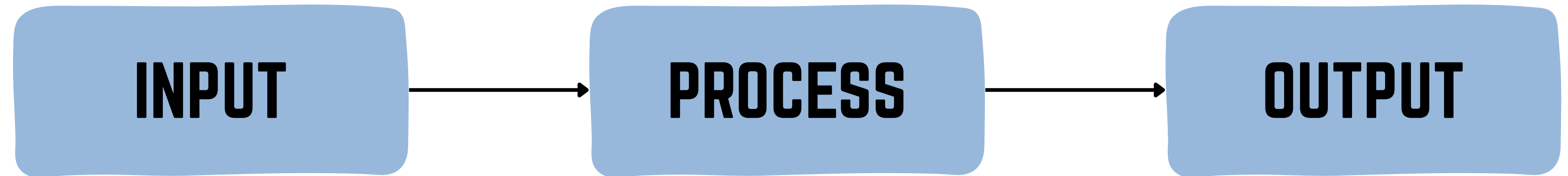
ACCOUNTING

“FINANCIAL INFORMATION SYSTEM”

Accounting is an information system that provides financial reports to users about economic activities of a business.



“FINANCIAL INFORMATION SYSTEM”

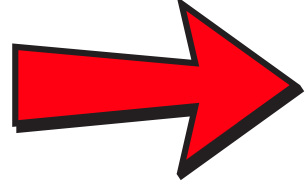
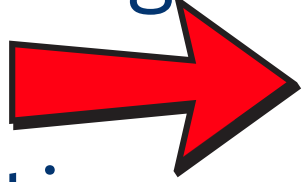


money

process to convert
financial data into financial information

financial information

DIFFERENT USERS OF FINANCIAL INFORMATION

1. Owners-Owns business  **PROVIDER OF CAPITAL**
2. Creditors-lends money/provide goods & services without paying for them immediately  **PROVIDER OF CAPITAL**
3. Management-Oversees operations
4. Government-Different government organisations-NBR, Bangladesh Securities and Exchange Commission (BSEC)
5. Everybody else-employees, communities, business associations



HOW DIFFERENT USERS USE FINANCIAL INFORMATION PROVIDED BY ACCOUNTING?

Owners:

- Know if their investments are doing good
- Know ROI (Return on Investment)-income you get because of your investment

Creditors

- Know if business can repay their loan
- Should they sell products to this business on credit?
- Is the business solvent? $\text{Asset} > \text{Debt}$

Management-Know if they are managing well

Government-Determine tax and if business has complied with rules

Everybody else-Others



TRANSACTION

➡ An economic event that affects business resources and debts.

➡ An event where a business receive something and loose something.

SOMETHING=MONEY, PROPERTY, SERVICE

➡ Exchange of value for a value.



EXAMPLES OF TRANSACTIONS

Transaction	Value Received	Value Parted With
Invested cash to start a service business	Cash	Ownership
Obtained a loan from a bank for business use	Cash	Obligation to pay
Purchased office equipment for cash	Office equipment	Cash
Purchased office supplies on credit	Office supplies	Obligation to pay

****On credit means items will be delivered but business will pay for it on a future date**



EXAMPLES OF TRANSACTIONS

Transaction	Value Received	Value Parted With
Completed service for customer and received cash	Cash	Service rendered
Paid the monthly rent	Right to occupy the office space	Cash
Completed service for customer on credit	Collectible	Service rendered
Purchased goods for resale on credit	Goods	Obligation to pay

**Collectible/Receivable means business provided something for credit and will receive cash in future



ACCOUNTS

- Tools we use to record transactions.
- An account is a record that summarizes all transactions related to a specific item over time.
- Example-Cash, Sales Revenue



Think of accounts like classes or objects in programming. Each account is a container for similar types of transactions



ACCOUNTS

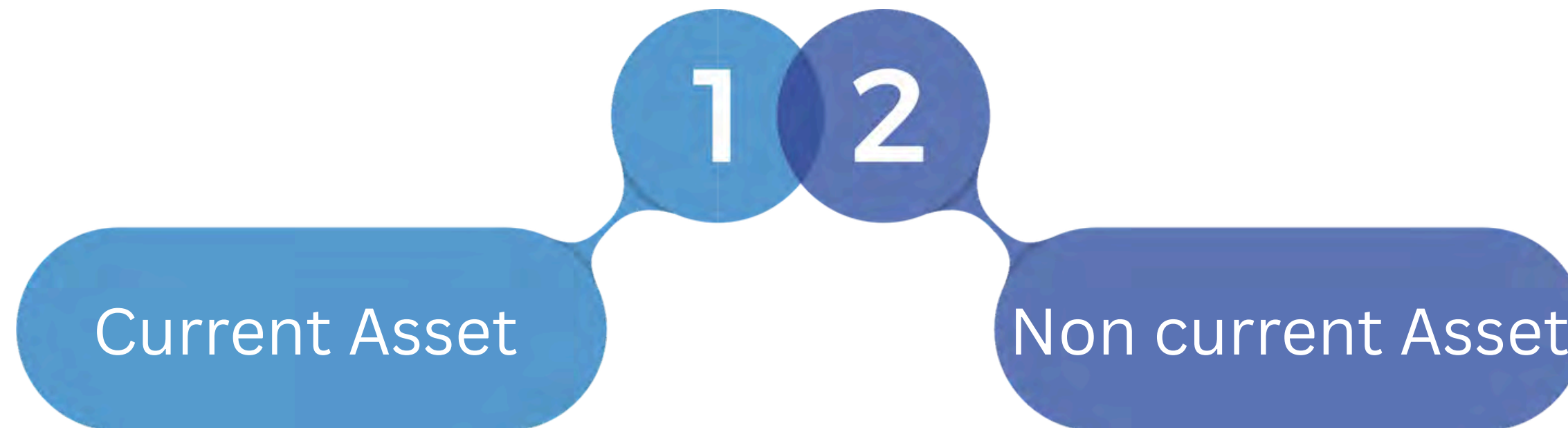
3 Principal Accounts



ASSETS

Resources owned and used by the business

- personal resources of owners not included
- used for business purpose only



CURRENT ASSETS

Assets to be received, used or sold within 1 Year

- **Cash**—coins, bills, cheques
- **Accounts Receivable**—collectibles from customers or clients
- **Inventories**—goods for sale, goods in production, materials used to produce goods for sale
- **Supplies**—office supplies, other materials used in operation
- **Prepayments**—items paid in advance to be consumed or used in the operations (prepaid rent, prepaid insurance)
- **Short term investments**—investments that can be encashed within one year



NON CURRENT ASSETS

Assets to be received, used or sold beyond 1 Year

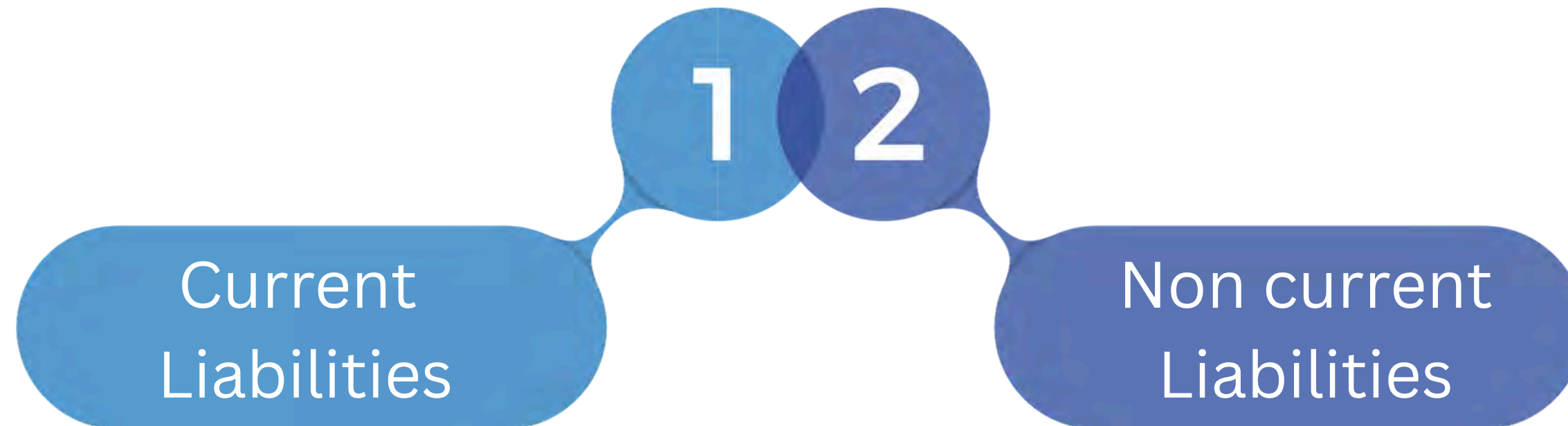
- **Land**—owned and used by the business (not owner's)
- **Building**—owned and used by the business (not rented)
- **Equipments**—office/factory/other equipments used in operation
- **Vehicles**—office vehicles used in operation
- **Furnitures**—tables, chairs, cabinets
- **Long term investments**—investments in other company's stocks or bonds that can be encashed beyond one year
- **Intangible Assets**—Copyright, Patents



LIABILITIES

Debt of the business to others

- amount owed by business
- bank, suppliers



CURRENT LIABILITIES

Liabilities to be paid or settled within 1 Year

- **Accounts Payable**—debts to suppliers when bought products or services **in credit**.
- **Notes Payable**—debt to suppliers with a promissory note (written, formal agreement)

—debt is documented
—offers protection to both lender and borrowers.

Promissory note	
For value received, the undersigned promises to pay to the order of BancZone, Inc.	
the sum of:	*****Ten-Thousand and no/100 Dollars***** (\$10,000.00)
Along with annual interest of 8% on the unpaid balance. This note shall mature and be payable, along with accrued interest, on June 30, 20X8.	
January 1, 20X8	Olivia Zavala
Issue Date	Maker signature



CURRENT LIABILITIES

- **Accrued Expense**—Expenses incurred but not yet paid
–Also called “Payable”

Example:

- Electricity bill, Water bill, Internet bill—received bill but payable next month
- Salaries Payable—employees rendered service but pay day is next month

- **Unearned Income**—income already collected but the product/service is not yet delivered to the customer.
 - Advanced collection
 - Also called **Unearned Revenue**

Anything can happen till the product reaches the customer so it's a liability.



NON CURRENT LIABILITIES

Liabilities to be paid or settled beyond 1 Year

- **Mortgage Payable**—debts usually to a bank with collateral (security for bank in case business fails to repay)
 - usually involve large cash
- **Bonds Payable**—
 - money a company has borrowed from the public (investors) through the issuance of bonds.
 - agreement that the corporation will pay whoever gets these bonds the **bond amount+interest**
- **Long term Notes Payable**—debts to supplier with promissory note payable beyond one year.



OWNER'S EQUITY

The interest/claim of the owner in the business

Distinctive name for equity for different forms of Organization :

- Sole Proprietorship-Owner's Equity
- Partnership-Partner's Equity
- Corporation-Stockholder's equity

• Sole Proprietorship

- Owned by one person
- Owner is called Proprietor

• Partnership:

- Owned by two or more persons
- Owners are called Partners

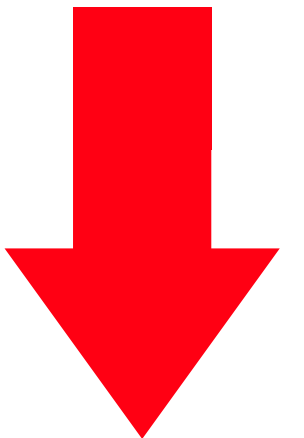
• Corporation:

- Business formed based on a law and becomes a legal entity separate from its owners
- Owners are called Stockholders



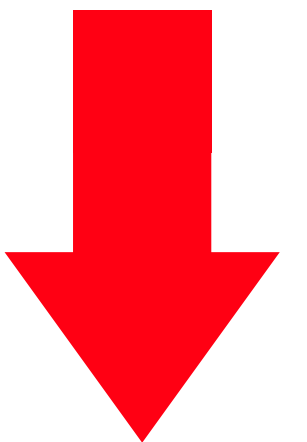
ACCOUNTS AFFECTING OWNER'S EQUITY

- **Owner's Capital**—The account used to record original and additional investments
 - use to summarize all transaction's affecting owner's equity at the end of the month
 - Increases owner's equity**
- **Owner's Withdrawal**—The account used to record owner's withdrawal of investment
 - can withdraw based on needs
 - decreases owner's equity**







ACCOUNTS AFFECTING OWNER'S EQUITY

- **Income**—The account used to record benefits flowing into business (cash/others)
 - **Increases owner's equity**
 - benefits flowing as—Assets (mostly)
 - Savings
 - Income in the form of—1. Cash (instant)
 - 2. Receivable (later)
- **Expense**—The account used to record benefits flowing out of business
 - **decreases owner's equity**
 - benefits flowing out as—Consumption/use of assets
 - Loss
 - Expense in the form of—1. Cash
 - 2. Payable (to be paid later)



ACCOUNTS AFFECTING OWNER'S EQUITY

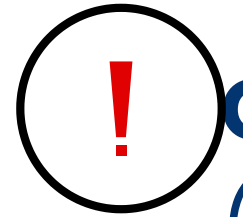
ACCOUNTS	OWNER'S EQUITY
OWNER'S CAPITAL	
OWNER'S WITHDRAWAL	
INCOME	
EXPENSE	

EXAMPLES OF INCOME ACCOUNT

1. **Service Revenue:** income from providing service
 - recorded after service is provided/completed
 - Used by service business
2. **Sales:** income from selling a product
 - recorded after good is delivered
 - used by merchandising/manufacturing business
3. **Interest Income:** income from deposits in bank
 - incidental income/not directly business related
4. **Rent income:** income from renting property to someone else (example-office space)
5. **Gain:** income from incidental activities (not main business activities). Example-selling used computer/furniture previously used in business



EXAMPLES OF EXPENSE ACCOUNT



Cost of Sales: Cost of Sales, also known as **Cost of Goods Sold** (COGS), refers to the direct costs of producing or purchasing the goods a business sells during a specific period.

Salaries Expense: Cost of employee wages for work performed during the accounting period.

Utilities Expense: Payments for essential services like electricity, water, gas, and internet used in business operations.

Supplies Expense: The cost of items like stationery or office materials consumed during daily business activities.

Repairs and Maintenance: Costs incurred to keep equipment and property in working condition, not to improve or upgrade them.

Rent Expense: Regular payments made for using property or space not owned by the business.



EXAMPLES OF EXPENSE ACCOUNT

Advertising Expense: Money spent to promote products or services and attract customers.

Fuel Expense: Costs for gasoline or other fuel used in vehicles or machinery for business purposes.

Travelling Expense: Expenditures related to business trips, including transport, accommodation, and meals.

Interest Expense: The cost of borrowing money, paid on loans or other forms of debt for business use

Taxes and Licenses: Costs paid to the government for business permits, registrations, and various local or national taxes.

Representation Expense: Costs related to entertaining clients or representing the company in business settings, such as meals or gifts.



EXAMPLES OF EXPENSE ACCOUNT

 **Depreciation Expense:** The gradual allocation of an asset's cost over its useful life to reflect wear and tear or usage.

Example:

- A company buys a laptop for \$1,000 and plans to use it for 5 years.
- It loses \$200 in value each year.
- That \$200 per year is the depreciation expense.

Miscellaneous Expense: Small, infrequent, or irregular costs that don't fit clearly into other expense categories.

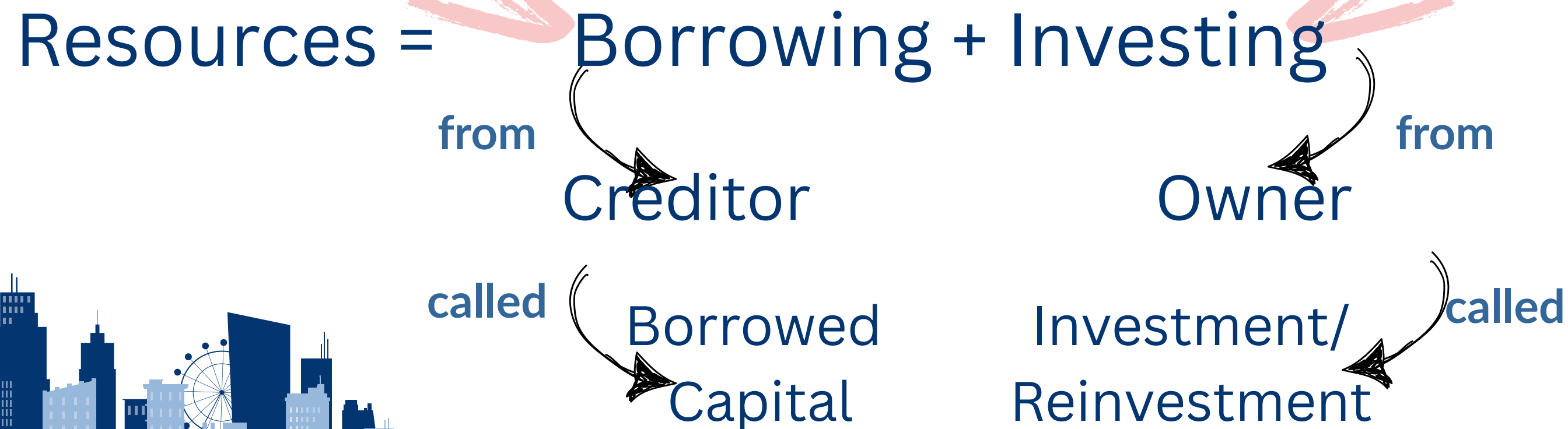


ACCOUNTING EQUATION

Asset=Liabilities + Owner's Equity

OR

**Asset=Liabilities + (Owner's Capital-Owner's
Withdrawal+Income-Expense)**



ACCOUNTING EQUATION

$$\text{Asset} = \text{Liabilities} + \text{Owner's Equity}$$

Understanding Assets and the Accounting Equation

- A business needs assets (resources) to start and operate.
- Assets are acquired in two main ways:
 - Borrowing from others → Liabilities
 - Owner investment or reinvested profits → Owner's Equity
- Borrowed funds used to get assets = Borrowed Capital
- Owner's investments or retained profits = Invested Capital
- These two sources make up the funding of assets.



ACCOUNTING CYCLE

Step by step procedure to identify, record, and summarize financial transactions.

- Covers one month period.
- Continue every month until business is closed.



STEP 1: ANALYZING TRANSACTION

A transaction involves at minimum 2 accounts

Steps in Analyzing transaction:

1. Determine the asset, liability or owner's equity accounts affected
2. Determine if the affected accounts increased or decreased and by how much.



EXAMPLES OF TRANSACTIONS AND HOW TO ANALYZE THEM.

Analyze the following transactions of “X” consulting Services using accounting equation

March 1

- Owner invested ₱100,000 cash to establish a business consultancy firm.
- Paid ₱3,500 for the business permit and BIR registration.
- Purchased a desktop computer for ₱25,000 on credit to be used in the business.
- Purchased bond paper, pens, pencils, or cash a purchased bea, papers, pens, pencils, memo and other supplies
- 4 Paid rent in advance for 3 months, ₱15,000.
- 6 Purchased tables, chairs and cabinets amounting to ₱20,000. He paid ₱5,000 and the balance payable in 3 equal monthly installments.



Examples of transactions and how to analyze them.

1. Owner invested ₱100,000 cash to establish a business consultancy firm.

Element	Effect
Assets	Increase by ₱100,000 (Cash)
Liabilities	No change (₱0)
Owner's Equity	Increase by ₱100,000 (Capital)

Asset =	Liabilities +	Owner's Equity
Cash ₱100,000		Capital ₱100,000

Examples of transactions and how to analyze them.

Paid ₱3,500 for the business permit and BIR registration.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Cash (3,500)				Taxes and Licenses (3,500)

Purchased a desktop computer for ₱25,000 on credit to be used in the business.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Office Equipment 25,000		Accounts Payable 25,000		

Examples of transactions and how to analyze them.

Purchased bond papers, pens, pencils, memo and other supplies for cash amounting to ₱3,200.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Office Supplies 3,200 Cash (3,200)				

Paid rent in advance for 3 months, ₱15,000

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Prepaid Rent 15,000 Cash (15,000)				

Examples of transactions and how to analyze them.

Purchased tables, chairs and cabinets amounting to ₱20,000. It paid ₱5,000 and the balance payable in 3 equal monthly installments.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Furniture and Fixtures 20,000 Cash (5,000)		Accounts Payable 15,000		

Rendered a business consulting service to an IT company for ₱10,000.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
Cash 10,000				Consulting Revenue 10,000

Task

Analyze the following transactions using the accounting equation:

Assets = Liabilities + Owner's Equity

1. The owner invested ₱80,000 cash to start a small online retail business.
2. The business purchased merchandise inventory worth ₱10,000 on credit.
3. The business paid ₱3,000 for utilities (electricity and water).
4. The business bought a printer for ₱8,000, paid ₱5,000 cash and will pay the rest next month.
5. The business received ₱12,000 cash for services rendered.

Solution for Class Task

Assets	Liabilities	Owner's Equity
Cash ₱80,000		Capital ₱80,000
Inventory ₱10,000	Accounts Payable ₱10,000	
Cash (₱3,000)		Expense (₱3,000)
Equipment ₱8,000 Cash (₱5,000)	Accounts Payable ₱3,000	
Cash ₱12,000		Revenue +₱12,000