



光华管理学院
Guanghua School of Management

REVIEW FOR ACCOUNTING

Guanghua School of Management , Peking University

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GRADING POLICY

Class participation	10%
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Problem sets	40%
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Final exam	50%
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C O N T E N T

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Summary for chap. I



1. Why accounting information is useful for information users?

- 1) It's relevant to decision making, accounting links decision makers with economic activities.
- 2) Companies need accounting to “communicate” with each other;

2. A general idea of the advantages of modern accounting?

- 1) Accounts for revenue, expenses, and the company's resources and liabilities. ----> **Shows more details. (resources and liabilities)**



BASIC FUNCTIONS OF AN ACCOUNTING SYSTEM

In developing information about the activities of a business, every accounting system performs the following basic functions:

1. *Interpret and record* the effects of business transactions.
2. *Classify* the effects of similar transactions in a manner that permits determination of the various *totals* and *subtotals* useful to management and used in accounting reports.
3. *Summarize and communicate* the information contained in the system to decision makers.

——*Financial & Managerial Accounting:
Basis for Business Decision*

Summary for Chap.2

1. Three main financial statement
 - 1) Balance Sheet (Statement of Financial Position)
 - 2) Income Statement
 - 3) Statement of Cash Flows
2. Assets = Liabilities + Equity
3. Basic structure of Balance Sheet & Income Statement

VAGABOND TRAVEL AGENCY STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2015			
Assets		Liabilities & Owners' Equity	
Cash	\$ 22,500	Liabilities:	
Notes Receivable	10,000	Notes Payable	\$ 41,000
Accounts Receivable	60,500	Accounts Payable	36,000
Supplies	2,000	Salaries Payable	3,000
Office Equipment	15,000	Total Liabilities	\$ 80,000
Building	90,000	Owners' Equity:	
Land	100,000	Capital Stock	150,000
		Retained Earnings	70,000
Total	<u>\$ 300,000</u>	Total	<u>\$ 300,000</u>

Balance Sheet

VAGABOND HOTEL INCOME STATEMENT FOR THE PERIOD Jan 1- Dec 31, 2015		
Sales revenue	\$ 12,500	
Cost of goods sold	<u>5,000</u>	
Gross margin		7,500
Operating expenses		
Wage expense	1,200	
Rent expense	200	
Total operating expenses		<u>\$ 1,400</u>
Net Income		<u><u>\$ 6,100</u></u>

Income Statement

4. Basic asset, liability, and equity accounts



Assets:

Current Assets	Non-current Assets
1. Cash 2. Accounts Receivable 3. Inventory (Supplies)	PP&E (Property, Plants & Equipment)

Liabilities:

Current Liabilities	Non-current Liabilities
1. Accounts payable 2. Other payable	1. Notes payable (long-term debt)

Owners' (Shareowners' / Stockowners') Equity



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- 1) Capital Stock
- 2) Retained earnings ----> Increasing yearly

Retained earnings for period (t-1)

+ Net income for period t

- Dividends for period t

= Retained earnings for period t

Retained earnings are the portion of a company's profits that are not distributed as dividends to shareholders but instead are kept within the company for future use. Essentially, they are the cumulative earnings that a company has kept over time rather than paying out to shareholders.

Retained earnings can be used by a company for a variety of purposes, such as reinvesting in the business, paying off debt, or making acquisitions. By retaining earnings, a company can build up its financial strength and flexibility, which can help it weather downturns or take advantage of growth opportunities.

Retained earnings are reported on a company's balance sheet as a component of equity, alongside other items such as common stock and additional paid-in capital. They are also an important indicator of a company's financial health and can be used by investors to assess the company's long-term prospects.



5. Basic Revenues and Expenses

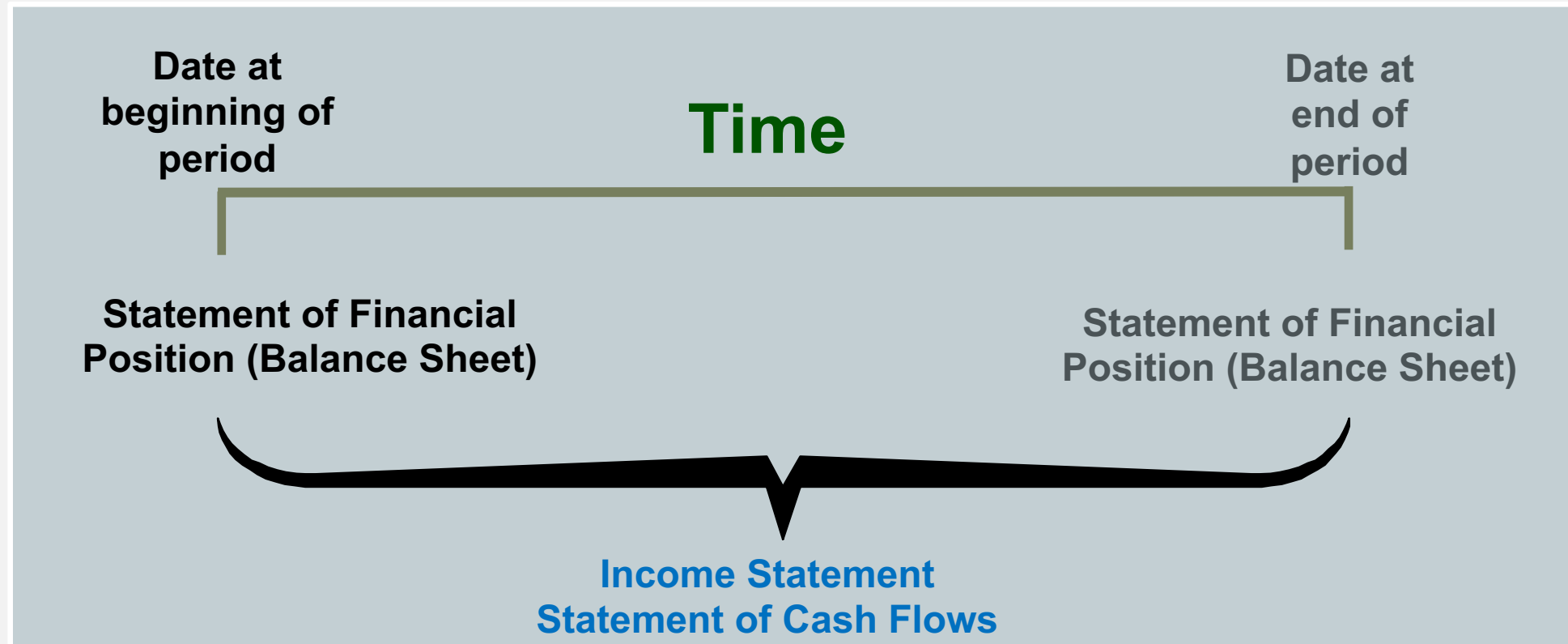
-Expenses

-Cost of goods sold

-Wage expense, rent expense

-Revenues

6. Relationship:





OVERNIGHT AUTO SERVICE STATEMENT OF CASH FLOWS FOR THE PERIOD JANUARY 20-31, 2015			
Cash flows from operating activities:			
Cash received from revenue transactions	\$	2,200	
Cash paid for expenses		<u>(1,400)</u>	
Net cash provided by operating activities	\$		800
Cash flows from investing activities:			
Purchase of land	\$	(52,000)	
Purchase of building		(6,000)	
Purchase of tools		(6,800)	
Sale of tools		<u>600</u>	
Net cash used by investing activities			(64,200)
Cash flows from financing activities:			
Sale of Capital Stock			80,000
Increase in cash for the period	\$		<u>16,600</u>
Cash balance, January 20, 2015			-
Cash balance, January 31, 2015	\$		<u>16,600</u>

OVERNIGHT AUTO SERVICE INCOME STATEMENT FOR THE PERIOD JANUARY 20 - 31, 2015			
Sales Revenues		\$	2,200
Operating Expenses:			
Wages	\$ 1,200		
Utilities	<u>200</u>	\$	<u>1,400</u>
Net Income		\$	<u>800</u>

OVERNIGHT AUTO SERVICE BALANCE SHEET JANUARY 31, 2015					
Assets			Liabilities		
Cash	\$	16,600	Notes payable	\$	30,000
Accounts receivable		1,200	Accounts payable		7,000
Tools & equipment		12,000	Owners' Equity		
Building		36,000	Capital stock		80,000
Land		<u>52,000</u>	Retained earnings		<u>800</u>
Total assets	\$	<u>117,800</u>	Total liabilities & equity	\$	<u>117,800</u>

Summary for Chap.3



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1. How to make journal entries:

1) **Debit** and **Credit** balance sheet accounts, dividends, and income statement accounts.

Debit: Increases of Assets ; Decreases of Liabilities & Equities

Credit: Decreases of Assets ; Increases of Liabilities & Equities

2) **Debits=Credits**

Note: Expenses are the negative part of Retained Earnings(Equity), so we debit it

2. How to post journal entries to ledgers (T accounts):

For every account, we make a ledger in the shape of “T”. **Debit on the left** and **Credit on the right**.



3. How to make a trial balance:

From all ledgers we calculate the exact amount of every account, then put the together in a trial balance.

Note that $\sum Debit = \sum Credit$.

4. Accrual basis of accounting:

1) Revenue recognition principle:

Revenue should be recognized at the time goods are sold and services are rendered.

2) Matching principle:

Expenses should be recorded in the period in which they are used to generate revenue.



5. Adjusting entries

1) Why do we need an adjusting entry?

- a. Accrual basis of accounting need to hold true for each accounting period
- b. We record revenues and expenses when there was an observable transaction, but some revenues and expenses are **accrued** and **unrecorded**.

2) four types of adjusting entries:

A. Transactions That Affect Multiple Periods

- a. Generated Revenue But Did Not Collect Cash
 - b. Collected Cash But Has Not Generated Revenue
 - c. Incurred Expense But Has Not Paid
 - d. Paid for Expenses in Advance
- } Revenue Recognition
- } Expense Recognition



a. Generated Revenue But Did Not Collect Cash

Accounts Receivable (Dr) & Revenue (Cr)

Note that there may exist a Time-crossing Circumstance, we need to compute the mean and calculate the specific number

b. Collected Cash But Has Not Generated Revenue

Cash (Dr) & Unearned Revenue [deferred revenue, advance from customers] (Cr)

c. Incurred Expense But Has Not Paid

xxx Expense (Dr) & xxx Payable (Cr)

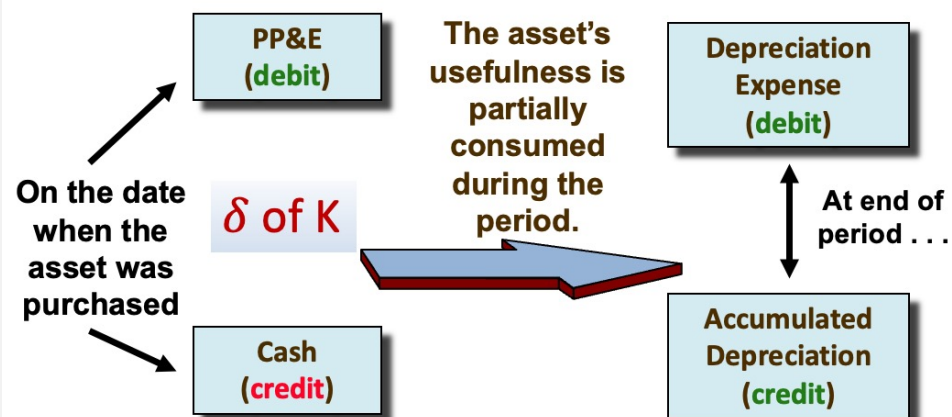
d. Paid for Expenses in Advance

Unexpired[prepaid] xxx(**Dr**) & Cash(**Cr**)

Only an estimate
A contra-asset

Note that there may exist Depreciation Expense & Accumulated Expense.

Depreciation is a gradual reduction in the recorded value of an asset over its useful life by charging it to expense.



Straight-line method: the object depreciates evenly.

For convenience, we assume that the residual revenue in the end is 0.

$$\text{Depreciation expense (per period)} = \frac{\text{Cost of the asset} - \text{Residual Value (\$0)}}{\text{Estimated useful life}}$$



A. Transactions That Affect Multiple Periods

.....(Shown in before Notes)

B. Four types of adjusting entries

- ① Accruing uncollected revenue
- ② Converting liabilities to revenue
- ③ Accruing unpaid expenses
- ④ Converting assets to expenses

Finally, accrue income taxes expense.



6. Preparing adjusted trial balance

- 1) Post adjusting entries to ledgers
- 2) Retained earnings is still zero at this step

7. Preparing financial statements

- 1) Income statement
- 2) Statement of retained earnings
- 3) Balance sheet

8. Closing the Temporary Accounts

- 1) Clear the balance of dividends and income statement accounts, so that in the next period, these accounts start from zero balance.
- 2) Update retained earnings by adding net income and subtracting dividends.



Four steps to make closing entry:

- 1) Close **Revenue** accounts to **Income Summary**.
- 2) Close **Expense** accounts to **Income Summary**.
- 3) Close **Income Summary** account to **Retained Earnings**.
- 4) Close **Dividends** to **Retained Earnings**.