

Module 2

Accounting Principles

Accounting

Process of analyzing, classifying, recording, summarizing, and interpreting business transactions

One of the key aspects keeping “*running totals*” of “*things.*”

Balances and accounts

FIVE MAJOR ACCOUNTS

Land
Furniture
Building
Cash
Bank Balance
Debtor

Creditor
Salary outstanding
Bank Loan

Sales

Commission
Interest

Traveling
Electric
Telephone
Internet

ASSETS

Loan
LIABILITIES

CAPITAL
owner

INCOME
Profit

EXPENSES

To asset
halki kante
1 salary jagad
Chalki kanti

Accounts

Asset → Anything of value that a business owns
→ Cash

Revenue → Income that results from a business → Sales revenue, Fees earned

Expenses → bills and other costs a business must pay in order for it to operate and earn revenue

Wage expenses, Rent expenses, Insurance expenses, Maintenance expenses



Chart of Accounts

[ˈtʃɑːrt əv ə-ˈkaʊnts]

An index of all the financial accounts available for use in a company's general ledger.

Accounts

Liabilities → Debt that a business owes;
Claims on asset by outsiders

Capital → Stockholders' equity; Claims on
assets by owners



Chart of Accounts

[ˈtʃɑːrt əv ə-ˈkaʊnts]

An index of all
the financial accounts
available for use in a
company's general ledger.

THE MECHANICS OF THE ACCOUNTING PROCESS

1. The Journal

- Transactions recorded as they happen in chronological order
- When a transaction occurs, two or more accounts are affected
- Debit on the left side and credit on the right side

Date	Account		Debit	Credit

RULES OF DEBIT AND CREDIT

for *Cash* and Revenue and Expense accounts

Debit **CASH** when you receive it

Credit **CASH** when you pay it out

Debit **EXPENSES** when you incur them

Credit **REVENUE** when you earn it

Cash increases

Cash decreases

Expenses increase

Revenue increases

based on

(1) the type of account it is

(2) whether the account is increasing or decreasing.

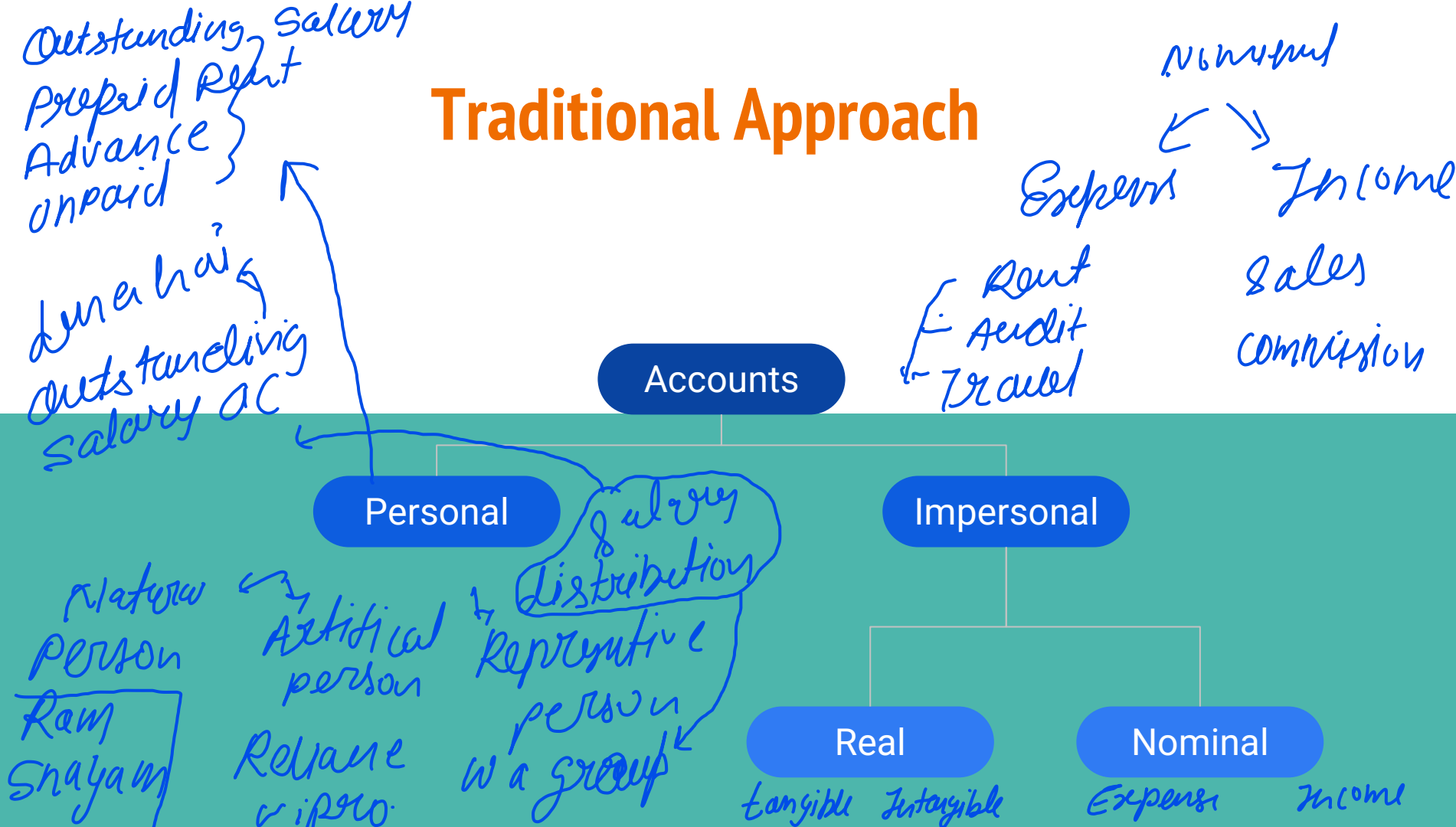
Asset and Expense → ↑es hoga to debit

Rules of debit and credit-1

↓ 2 C ↑es hoga to Credit

ACCOUNT	INCREASED BY	DECREASED BY
Assets	Debit	Credit
Expenses	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Revenue	Credit	Debit

Traditional Approach



Golden

Rules of debit and credit-2

furniture
car

land
Building



Goodwill
Trademark
patent
copyright

- ▶ 1. Personal accounts : Debit the receiver
Credit the giver (supplier)
- ▶ 2. Real accounts : Debit what comes in ✓
Credit what goes out ✓
- ▶ 3. Nominal accounts : Debit expenses and losses
Credit incomes and gains

Journalizing Transactions

Journal : The book which is used to enter the transaction

Financial events translated into the language of accounting using the process of **journalizing**.

Sample ↑ Expense ↓ Cash → Asset

On 6/1, a company paid rent of \$2,000 for the month of June

Rent Expense is an expense account that is increasing. Therefore, it is debited. The account with the debit amount is entered first

Cash is an asset account that is decreasing. Therefore, it is credited. The account with the credit amount is entered next.

Date	Account		Debit	Credit
6/1	Rent Expense		2,000	
	Cash			2,000

On 6/5, a customer paid \$800 cash for services the company provided

Cash
↓
Asset ↑
↓
debit

Income ↑
credit

Date	Account		Debit	Credit
6/5	Cash		800	
	Fees Earned			800

Date	Account		Debit	Credit
6/1	Rent Expense		2,000	
	Cash			2,000
6/5	Cash		800	
	Fees Earned			800
6/8	Wages Expense		500	
	Cash			500
6/10	Cash		600	
	Fees Earned			600

2. Ledger → to classify

- ★ Individual accounts list in order of account category.
- ★ ledgers separate information and by account and keep a running balance of each of these accounts

Cash					
Date	Item	Debit	Credit	Debit	Credit
6/1		12,000		12,000	
6/2	Yana py ultar likhte hai	2,000		14,000	
6/3			3,000	11,000	
		Copy amounts from journal (use either column)		BALANCE columns (use one of the two)	

3. Posting

4. Normal Balance

An account's running balance will accumulate in EITHER the Debit balance column

The column in which its running total is maintained

[illegible]

Date	Account		Debit	Credit
6/1	Cash	x	2,000	
	Fees Earned	x		2,000
6/2	Supplies Expense	x	300	
	Cash	x		300
6/3	Cash	x	500	
	Fees Earned	x		500
6/4	Supplies Expense	x	200	
	Cash	x		200
6/5	Cash	x	800	
	Fees Earned	x		800
6/6	Supplies Expense	x	400	
	Cash	x		400
6/7	Cash	x	600	
	Fees Earned	x		600

Fees Earned					
Date	Item	Debit	Credit	Debit	Credit
6/1			2,000		2,000
6/3			500		2,500
6/5			800		3,300
6/7			600		3,900
Supplies Expense					
Date	Item	Debit	Credit	Debit	Credit
6/2		300		300	
6/4		200		500	
6/6		400		900	

5. Trial Balance

A trial balance is a list of all a business's accounts and its current ledger balances

May be generated at any time to test whether total debits equals total credits

6. FINANCIAL STATEMENTS → to understand business

Income statement

Retained earnings statement

The balance sheet

The statement of cash flows

profitability

→ Financial ptⁿ < Asset
liab

Income Statement

A report that lists and summarizes revenue, expense, and net income information for a period of time.

Revenue - Expenses = Net income

How much profit is it making?

The income statement relies on the *matching principle*

(it only reports revenue and expenses in a specified window of time)

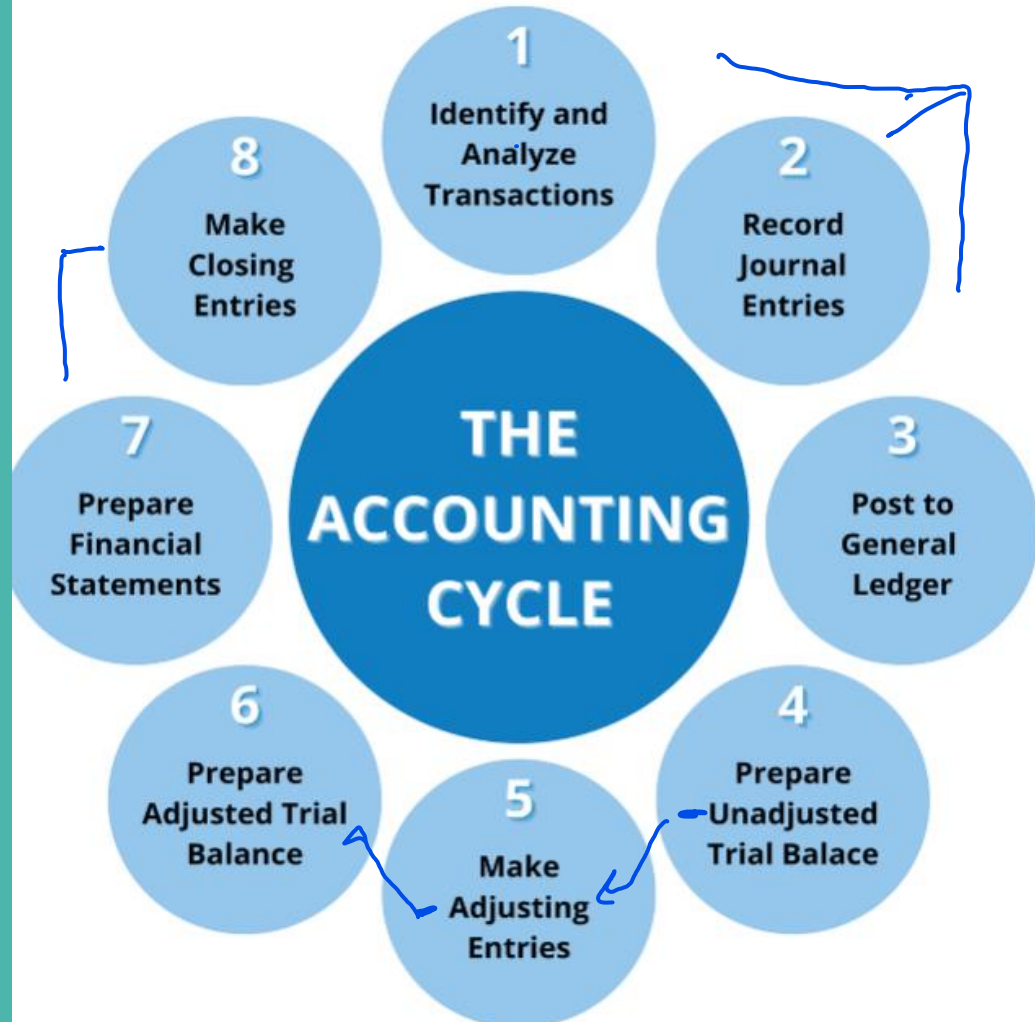
(expenses to be recognized in the same period as the applicable revenue)

SAMPLE INCOME STATEMENT

Jonick Company Income Statement For the Month Ended June 30, 2018

Fees Earned		\$30,000
Operating expenses:		
Salaries expense	\$2,500	
Wages expense	2,200	
Rent expense	2,000	
Insurance expense	1,900	
Supplies expense	1,800	
Advertising expense	1,700	
Maintenance expense	1,600	
Utilities expense	1,400	
Vehicle expense	1,100	
Miscellaneous expense	800	
Total operating expenses		<u>17,000</u>
Net income		<u>\$13,000</u>

The Accounting Cycle



Closing Entries

Made at the end of the accounting period after the financial statements but before the first transaction in the next month


to set the balances of income statement accounts back to zero

Retained Earnings: Profit at the end of the accounting period is transferred

Accounts Summary

Equity - shareholder fund

IMP



ACCOUNT TYPE	ACCOUNTS
Asset	Cash
	Accounts Receivable
	Land
	Truck
	Equipment
	Building
Liability	Furnishings
	Accounts Payable
Stockholders' Equity	Note Payable
	Common Stock
Contra Stockholders' Equity	Retained Earnings
	Cash Dividends
Revenue	Fees Earned
Expense	Wages Expense
	Rent Expense
	Utilities Expense
	Supplies Expense
	Insurance Expense
	Advertising Expense
	Maintenance Expense
	Miscellaneous Expense

THE ACCOUNTING EQUATION



BUYING A TRUCK

Date	Account		Debit	Credit
1/1	Truck		30,000	
	Cash			30,000

Date	Account		Debit	Credit
1/1	Truck		30,000	
	Cash			10,000
	Notes payable			20,000

The accounting equation

EXPANDED ACCOUNTING EQUATION

Assets = Liabilities + Stockholders' Equity

	/		\
Common Stock		Retained Earnings	
		/	\
		Revenue	Expenses

Retained Earnings Statement

Jonick Company
Retained Earnings Statement
For the Month Ended June 30, 2018

Retained earnings, June 1, 2018		\$30,000
Net income	\$13,000	
Less: Cash dividends	<u>3,000</u>	
Increase in retained earnings		<u>10,000</u>
Retained earnings, June 30, 2018		<u>\$40,000</u>