

Accounting for Managers

Prepared by Dr. Emad Zaher
Assistant Professor of Accounting

MGM341



Lecture 1 Financial Accounting A Comprehensive Overview



Learning outcomes

- LO 1** Identify the Basic Accounting Equation (Balance Sheet Equation)
- LO 2** Explain the Building blocks of Accounting Equation.
- LO 3** Describe the Revenues & Expenses Concepts.
- LO 4** State the different steps of Accounting cycle.
- LO 5** Analyzing the Financial transactions.
- LO 6** Identify the golden rules of the double entry system.

BASIC ACCOUNTING EQUATION



Accounting Equation (Balance sheet Equation)



Debit

Assets

100,000

=



liabilities

40,000

Credit

+



Owner's Equity (Capital)

60,000

Credit

Fixed Assets (Long- term)

Land (Debit)
Building (Debit)
Machines (Debit)
Equipment (Debit)
Furniture (Debit)
Trucks (Debit)

Current Assets (Short term)

Cash (Debit)
Accounts Receivable (Debit)
Notes Receivable (Debit)
Supplies (Debit)
Prepaid expense (Debit)

Short-term Liabilities

Account payable (Credit)
Notes payable (Credit)
Bank overdraft (Credit)
Expense payable (Credit)
Unearned Revenue (Credit)

Long-term Liabilities

Long term loans (Credit)
Bonds Payable (Credit)

By Dr.Emad Zaher

Owners capital (Credit)

Drawings (Debit)

revenues (Credit)

-

Expenses (Debit)



Net income



Revenues > Expenses = Profit (Credit)

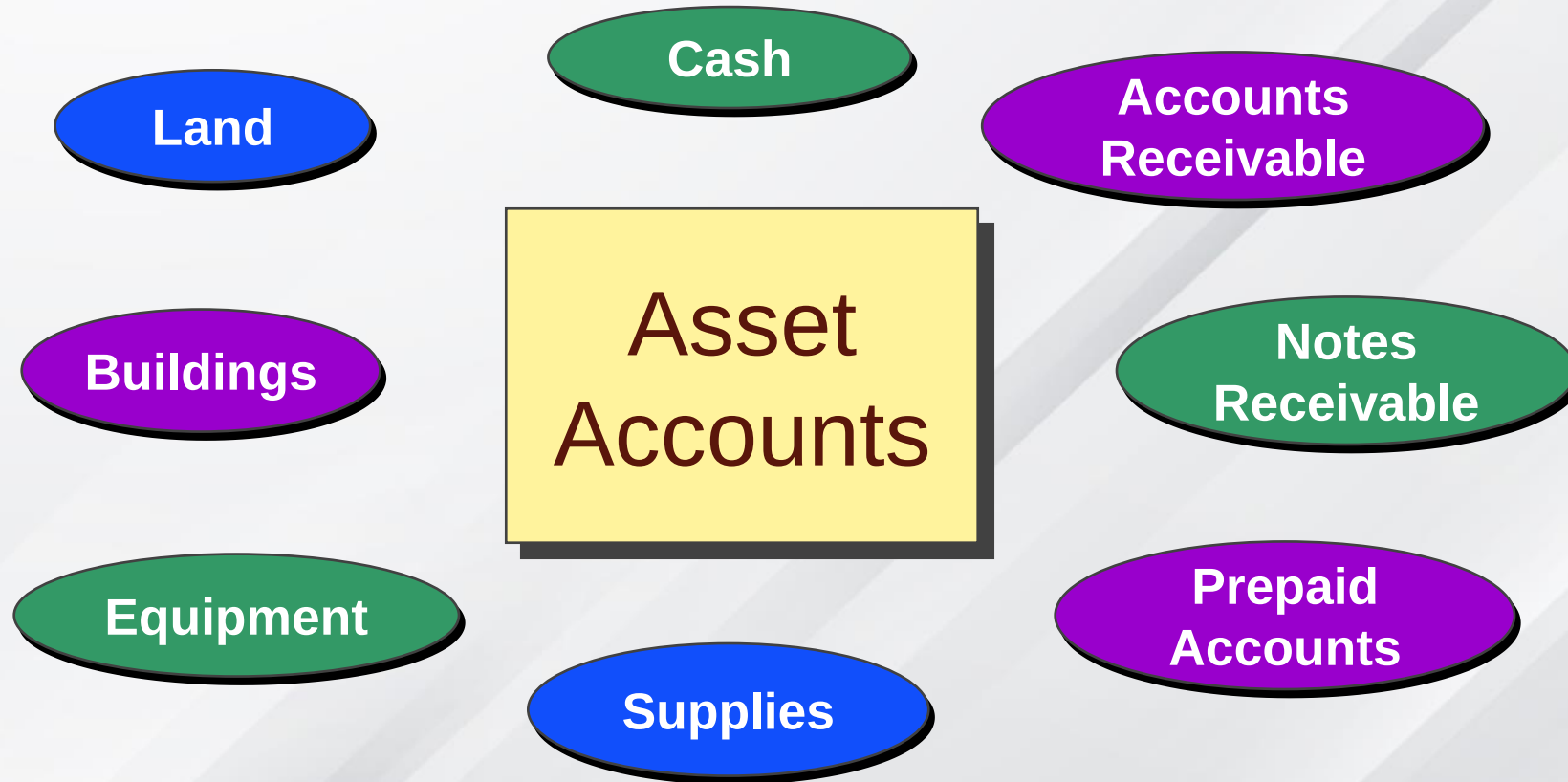
Revenues < Expenses = Loss (Debit)

ASSETS AS A BUILDING BLOCK

- **Assets** are resources owned by a business.
- They are things of value used in carrying out such activities as production and exchange.



ASSET ACCOUNTS

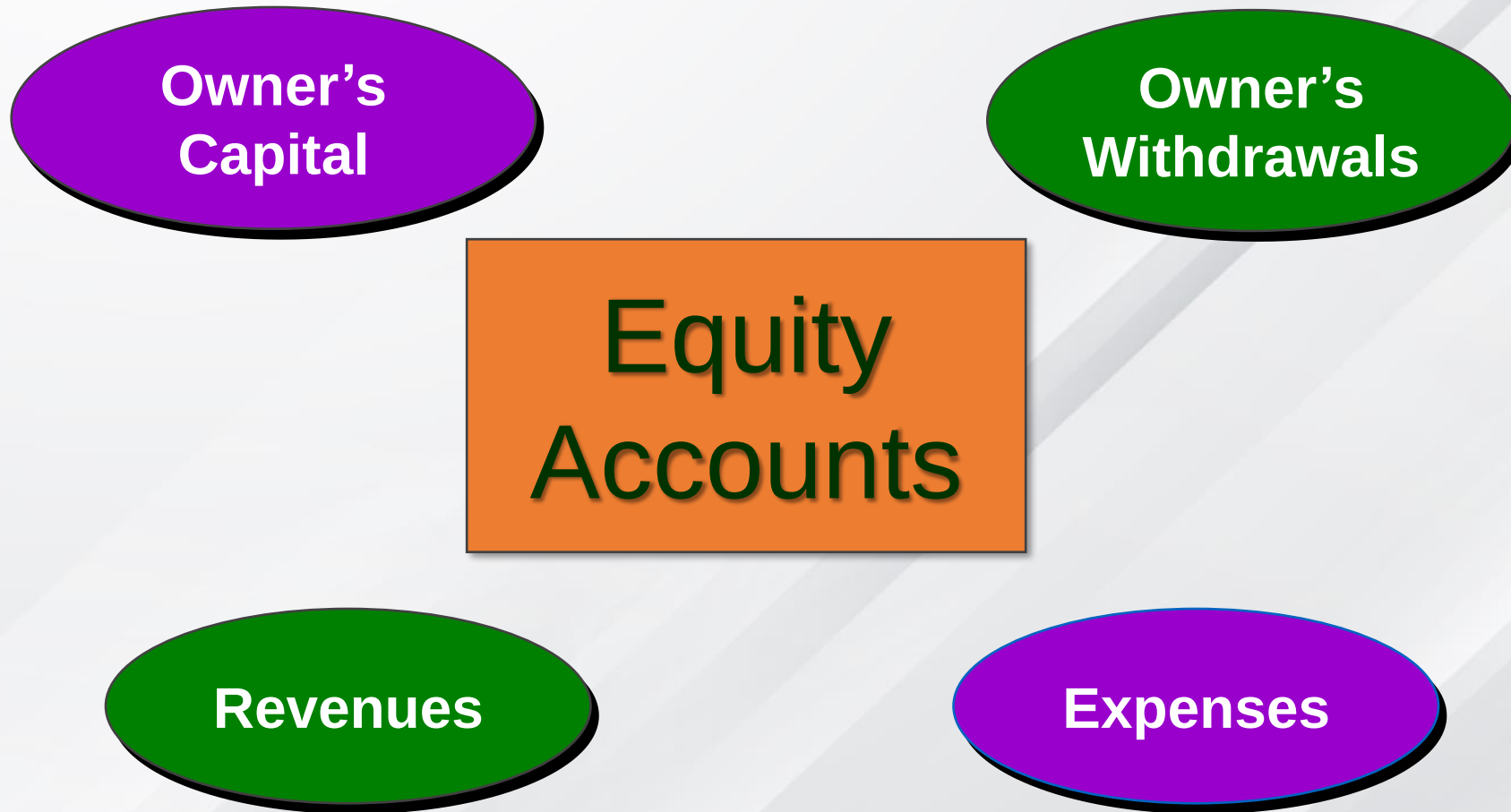


LIABILITIES AS A BUILDING BLOCK

- **Liabilities** are claims against assets.
- They are existing debts and obligations.



Equity Accounts



OWNER'S EQUITY AS A BUILDING BLOCK

- **Owner's Equity** is equal to total assets minus total liabilities.
- Owner's Equity represents the ownership claim on total assets.
- Subdivisions of Owner's Equity:
 1. Capital
 2. Drawings
 3. Revenues
 4. Expenses

INVESTMENTS BY OWNERS AS A BUILDING BLOCK

- **Investments** by owner are the assets put into the business by the owner.
- These investments in the business increase owner's equity.



DRAWINGS AS A BUILDING BLOCK

- **Drawings** are withdrawals of cash or other assets by the owner for personal use.
- Drawings decrease total owner's equity.



Revenues VS. Expenses

Revenues (Credit) :

Sales Revenue

Service Revenue

Fees Earned

Commission Revenue

Dividends Revenue

Expenses (Debit):

Salary expenses

Wages expenses

Rent expenses

Utility expense

Repair expense

Insurance expense

Interest expense

Depreciation expense

Advertising expense

Supplies expense

Double-Entry Accounting

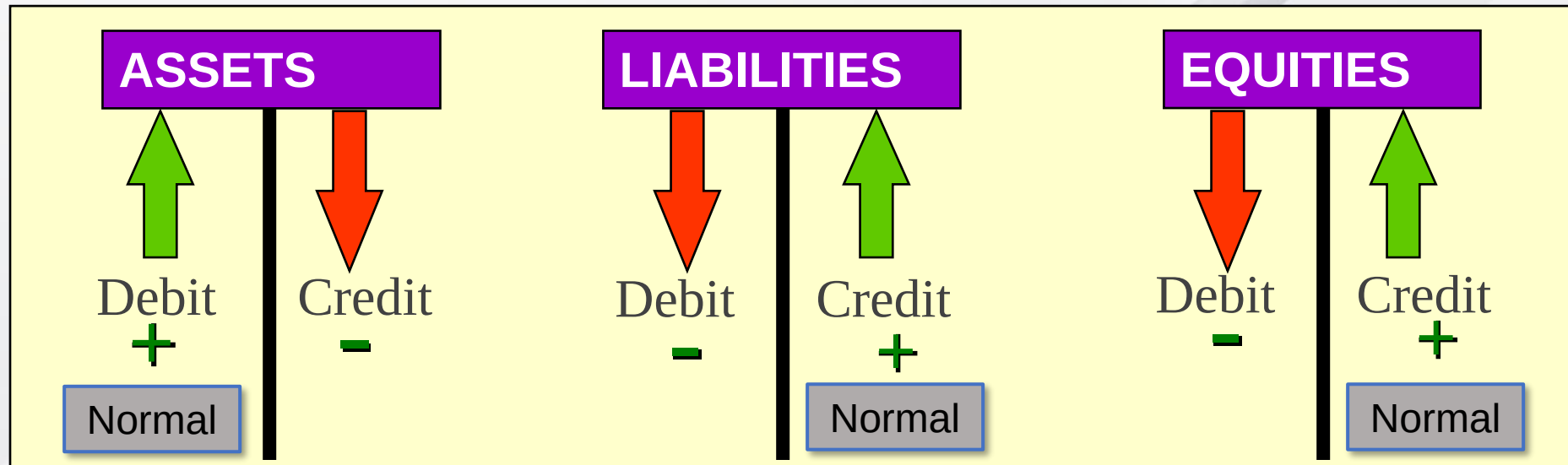
Assets

=

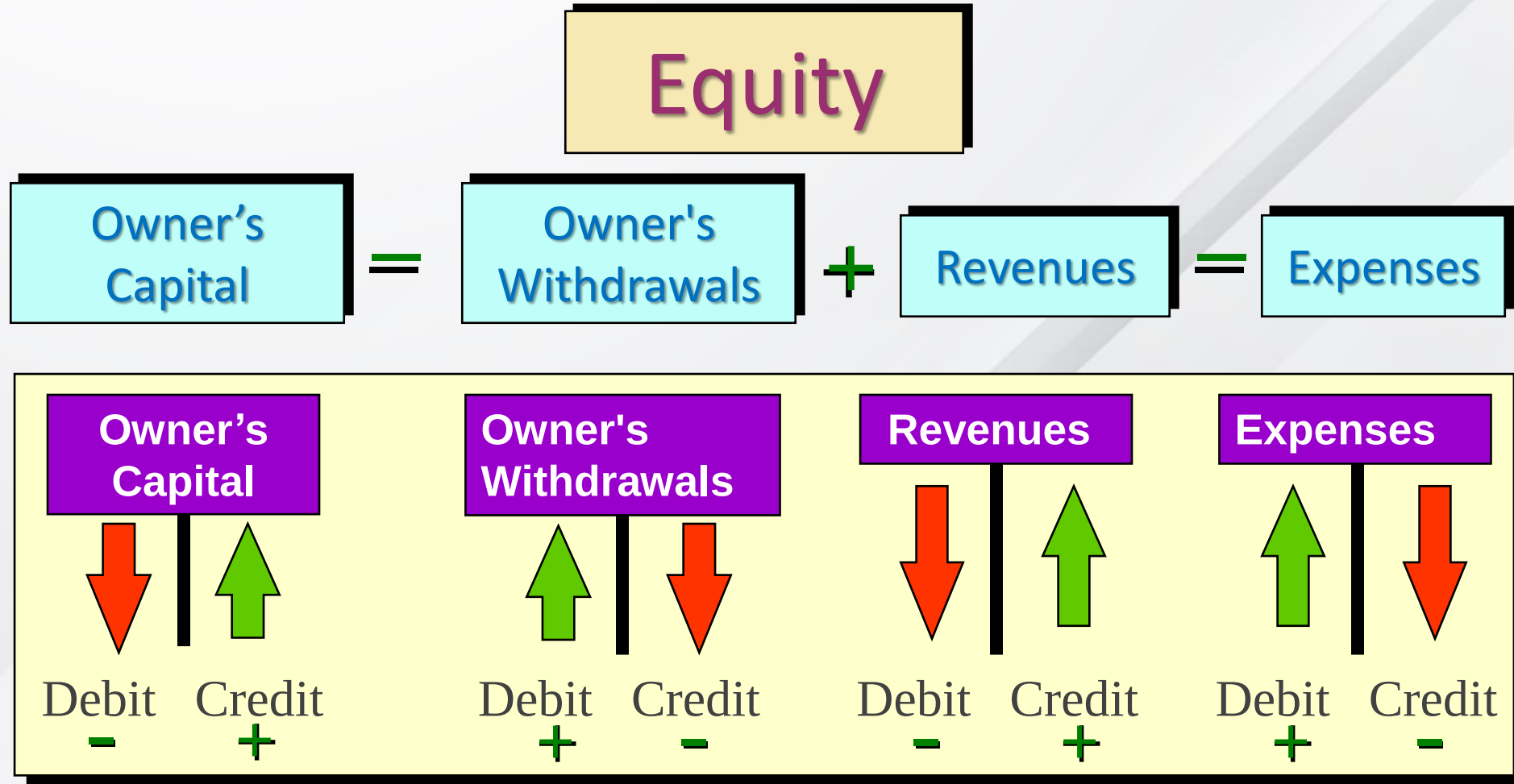
Liabilities

+

Equity



Double-Entry Accounting



Ex 1

Zaher Presented a selected information at December 31, 2023

→ Service revenue 36000	Cash 8000 - Equipment 10000 ←
→ Utilities expense 4000	← Account payable 2000
→ Notes payable 16500	← Rent expense 11000
→ Salaries and wages expense 7000	← Accounts receivable 9000

Required

- Determine the total assets at December 31,2023.
- Determine the net income reported for December 2023.
- Determine the owner's equity at December 31,2023.

Answer

Total assets = 8000 cash + 10000 equipment + 9000 accounts receivable = 27000 LE

Net income = revenue - expenses = 36000 – 22000 = 14000 LE

Liabilities = 16500 Notes payable + 2000 Account payable = 18500 LE

Total assets = Liabilities + Owner`s equity

27000 = 18500 + owner`s eqity

owner`s eqity = 27000 - 18500 = 8500 LE

The Accounting Cycle

Step1 :Identify and Analyze Transactions.

Step 2: Journal Entries by recording the Transactions.

Step 3: Post journals to ledgers (T-Account).

Step 4: Prepare an unadjusted trial balance.

Step 5: Journalize and post adjusting entries.

Step 6: Prepare an adjusted trial balance.

Step 7: Prepare financial statements.

Step 8: Journalize and post closing entries.

Accounting cycle

Analyze Transaction (Source Document)

Recording

General journal

posting

Ledger (T-Account)

summarize

Trial balance

Reporting

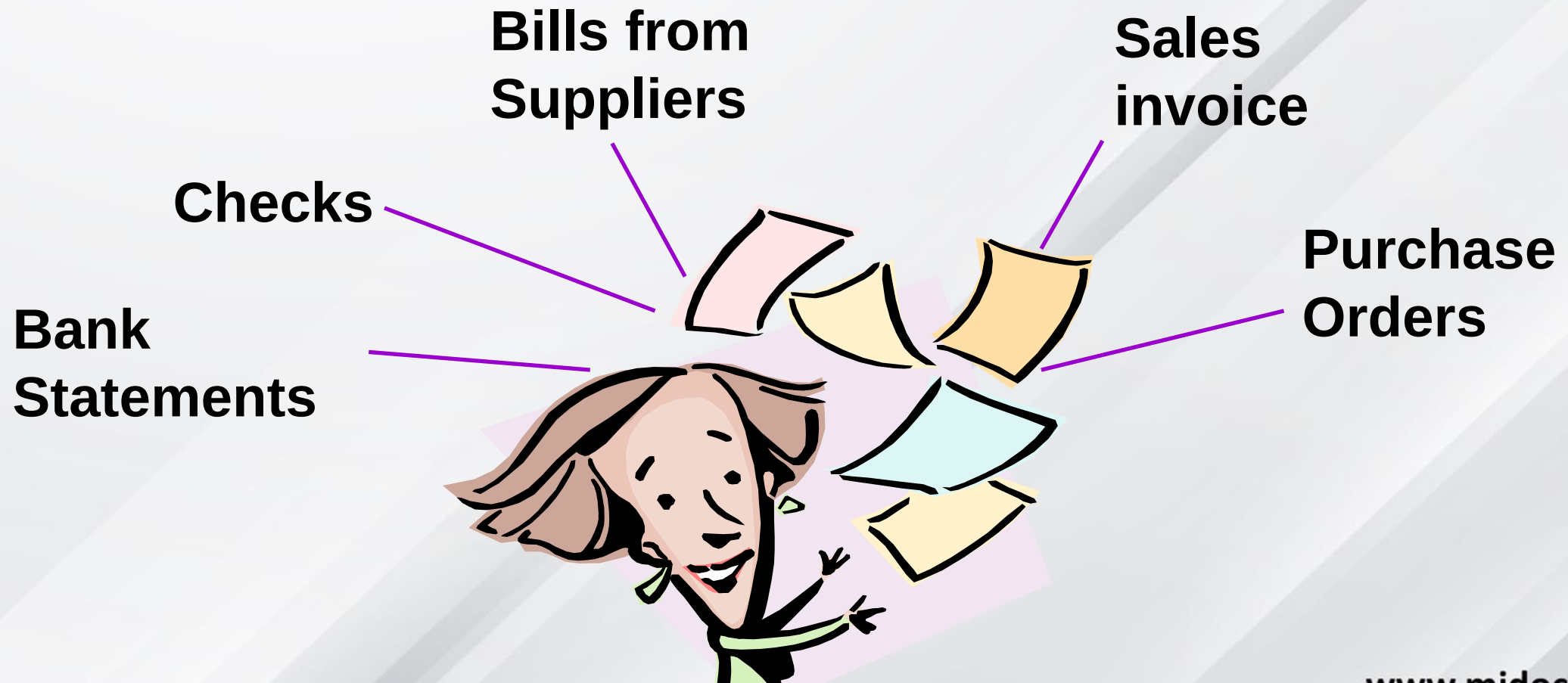
Closing Entries

Closing

Financial statements

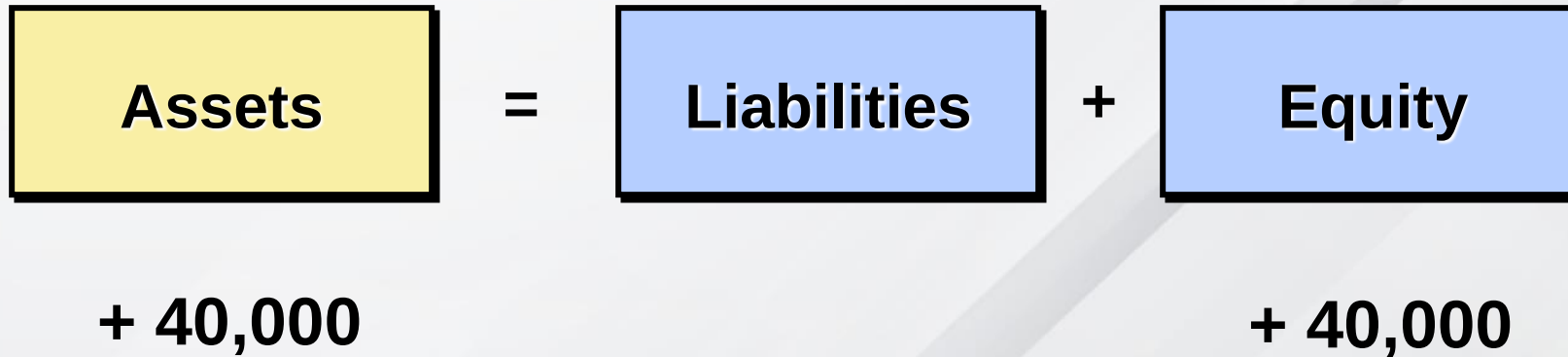
Adjusting Entries

Step1 :Identify and Analyze Transactions ((Source Documents))



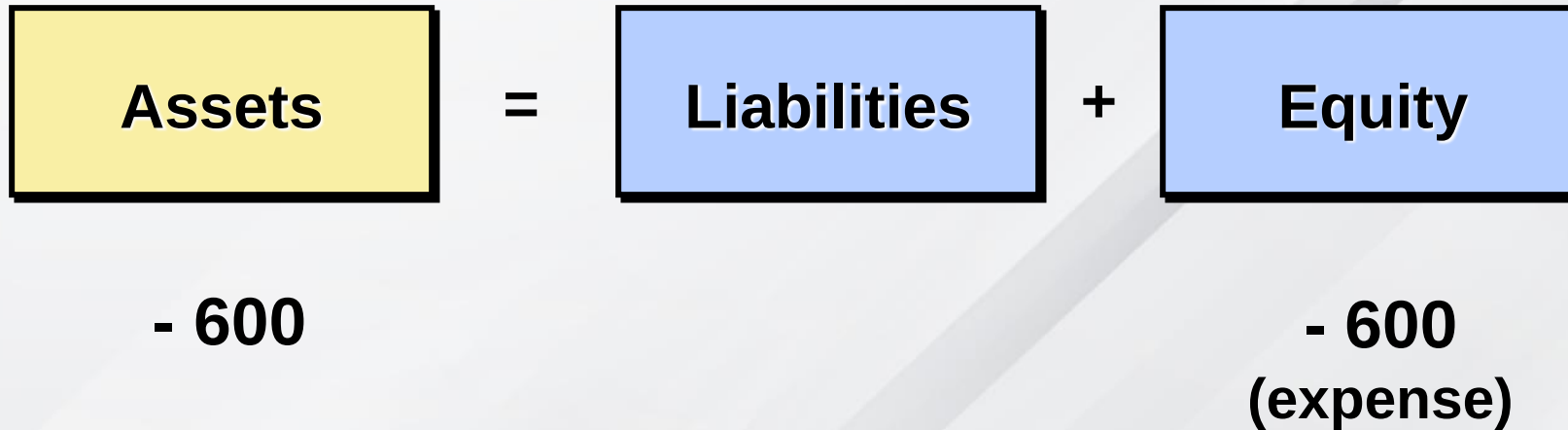
Double-Entry System Illustration

1. Owners **invest** \$40,000 **cash** to start a new business.



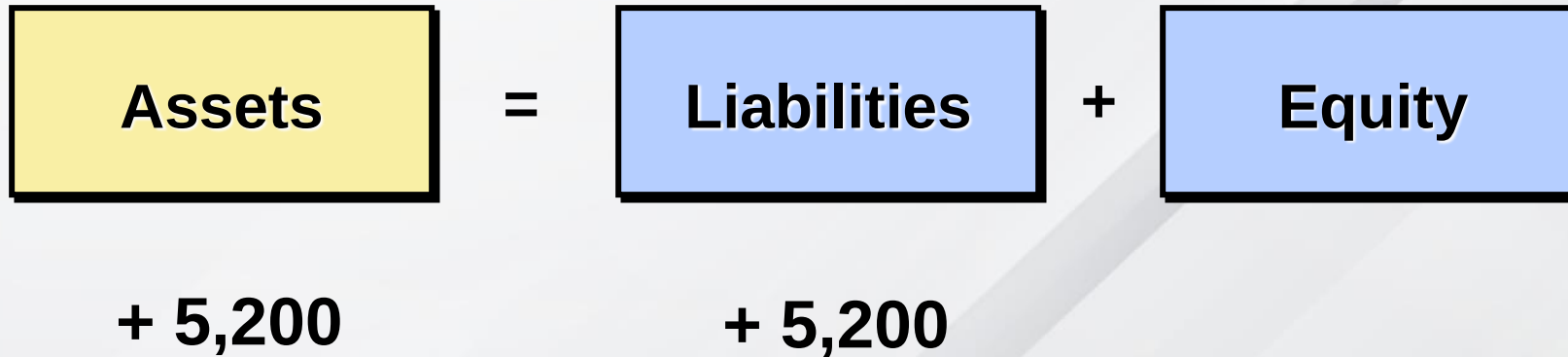
Double-Entry System Illustration

2. Disburse (**Paid**) \$600 cash for **wages**.

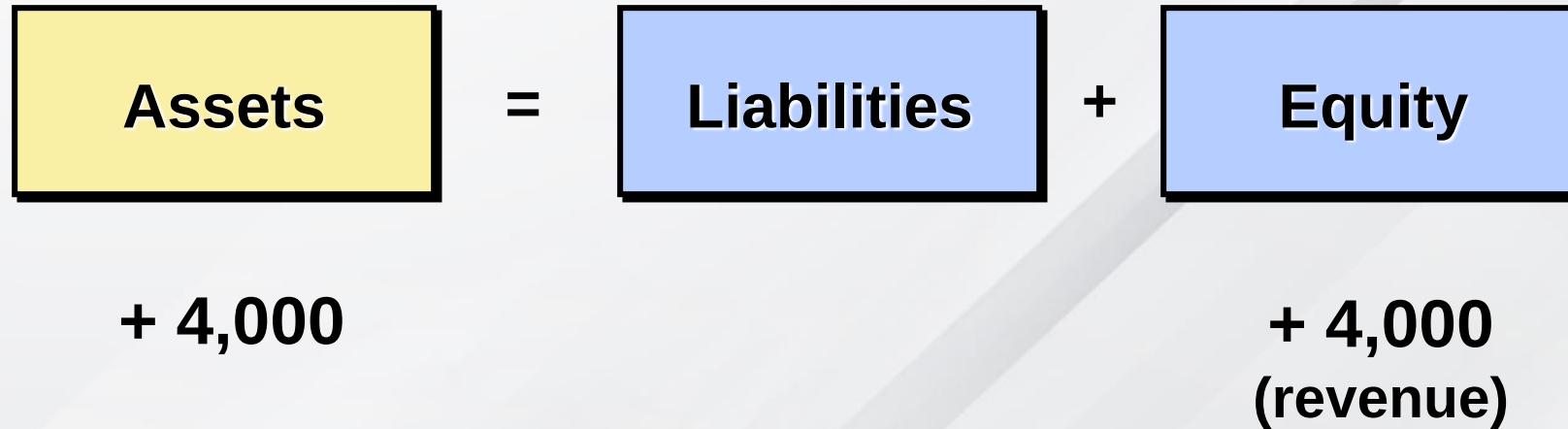


Double-Entry System Illustration

3. Purchase office **equipment** priced at \$5,200, giving a 10 percent promissory **note** in exchange.



4. Received \$4,000 **cash** for **services** performed.



5. **Pay** off a short-term **liability** of \$7,000.

$$\begin{array}{ccccc} \boxed{\text{Assets}} & = & \boxed{\text{Liabilities}} & + & \boxed{\text{Equity}} \\ - 7,000 & & - 7,000 & & \end{array}$$

6 . **Pay cash** of \$16,000 for a delivery **van**.

Assets

=

Liabilities

+

Equity

- 16,000

+ 16,000

Note that the accounting equation equality is maintained after recording each transaction.

Additional Examples

Step1 :Identify and Analyze Transactions.

Assets = **liabilities** + **Owner's Equity**

Analyze transaction

	Assets =	Liabilities	+ equity
investment by owner	Increase		Increase

Assets

=

liabilities

+

Owner's Equity

Analyze transactions

	Assets =	Liabilities	+ equity
Drawings by owners	Decrease		Decrease

Assets

=

liabilities

+

Owner's Equity

Analyze transactions

	Assets =	Liabilities	+ equity
Borrowed cash from a bank	Increase	Increase	

Assets

=

liabilities

+

Owner's Equity

Analyze transactions

	Assets =	Liabilities	+ equity
Payment of bank loan	Decrease	Decrease	

Assets

=

liabilities

+

Owners Equity

Analyze transactions

	Assets =	Liabilities	+ equity
Sold equipment for cash	Increase Decrease		

	Assets =	Liabilities	+ equity
Sold equipment on account	Increase Decrease		

Assets

=

liabilities

+

Owners Equity

Analyze transactions

	Assets =	Liabilities	+ equity
Performed services for cash	Increase		Increase

	Assets =	Liabilities	+ equity
Billed customers for services performed.	Increase		Increase

Ex 2

	Assets =	Liabilities	+ equity
1- Made cash investment to start business	Increase		Increase
2- Borrowed cash from a bank on a note payable	Increase	Increase	
3- Purchased supplies for cash	Increase Decrease		
4- Purchased equipment on account	Increase	Increase	
5- Payment of accounts payable	Decrease	Decrease	

	Assets =	Liabilities	+ equity
6- Received cash on accounts receivable	Increase Decrease		
7- Withdrew cash for owner's personal use	Decrease		Decrease
8- Performed services for cash .	Increase		Increase
9- Billed customers for services performed.	Increase		Increase
10- Paid salaries expense for cash	Decrease		Decrease
11- Incurred advertising expense on account .		Increase	Decrease

	Assets =	Liabilities	+ equity
1- Emad invested L.E 200,000 cash in the business	cash + 200000		Capital + 200000
2- Paid L.E 3,000 cash for rent on storage space	Cash - 3000		Expense -3000
3- Purchased equipment for L.E 15,000 from Al-shark company on account	+ 15000 Equipment	+ 15000 Account payable	
4- Performed services for Magic Company for L.E 2,500 cash .	cash + 2500		Revenue + 2500
5- Received a bill for L.E 1000 from Al-Akhbar for advertising expense.		Ex payable + 1000	Expense - 1000
6- Paid Al-shark company for the equipment purchased in transaction (3) above	cash - 15000	Account payable - 15000	

	Assets =	Liabilities	+ equity
7-Purchased supplies for L.E 500 cash	Supplies +500 Cash - 3000		
8- Paid monthly expenses: salaries L.E 5000 and utilities L.E 400	Cash - 5400		Expense - 5400
9- Performed services for customer for L.E 1200 on account	Acc. receivable + 1200		Revenue + 1200
10- Ahmed withdrew L.E 1000 cash for personal use.	Cash - 1000		drawings - 1000

Choose the correct answer for each of the following

1. Which of the following events cannot be quantified into monetary units and recorded as an accounting transaction?

A	The hiring of employees	B	The Payment of expenses
C	The sale of equipment	D	The purchase of a new computer

2-When the owner invest cash in the business, the effect will be ::

A	Liabilities increase and owner's equity increases.	B	Both assets and liabilities increase.
C	Both assets and owners' equity increase.	D	None of the above

3- Performed services on account will affect :

A	Income statement only	B	Balance sheet only
C	Income statement and balance sheet.	D	None of the above

Double Entry System : Golden Rules

Account	Group	Normal	Trend	Entry
Assets (Debit)				
Assets	A	Dr	+	Dr
			-	Cr
Liabilities (Credit)				
Liabilities	L	Cr	+	Cr
			-	Dr
Owner's Equity (Credit)				
Capital	O .E	Cr	+	Cr
			-	Dr
Expenses		Dr	+	Dr
			-	Cr
Revenue		Cr	+	Cr
			-	Dr
Withdrawals		Dr	+	Dr
			-	Cr

Ex 1

For the accounts listed below, Determine if the normal balance of the account is debit or credit:

1) assets **Debit**

2) liabilities **Credit**

3) owner's capital

4) revenues

5) expenses

6) equipment

7) buildings

8) cash

9) owner's drawing

10) accounts receivable

11) Accounts payable

12) service revenue

13) rent expense

14) notes payable

Ex 2

***Determine how the entry in each statement is recorded in the journal by using debit or credit to indicate the increase or decrease in the affected account:**

Credit 1. A decrease in Store Equipment.

Credit 3. A decrease in Accounts Receivable

5. An increase in Owner's Drawings.

7. An increase in Service Revenue

9. An increase in Prepaid Insurance.

Debit 2. An increase in Salaries and Wages Expense

4. A decrease in Office Supplies. **Credit**

6. A decrease in Accounts Payable.

8. An increase in Rent Expense

10. An increase in Owner's Capital



Thank You