

Training Course Fundamentals of Accounting for Non-Professionals

Prepared by Dr. Mohamed Hussein

Lecture 3



Lecture Outlines

- **The History of Accounting.**
- **Definition and Importance of Accounting**
- **Users of accounting**
- **Types of Accounting: Financial and Managerial**
- **Principles and Assumptions of Accounting**



Lecture

01

Introduction to Accounting

Lecture Outlines

- Understanding the Basic Equation
- Understanding the Expanded Accounting Equation
- Adjusting the accounting errors



Lecture

02

Basic and Expanded Accounting Equations

Lecture Outlines

- Recording pross (journaling and posting ledgers, trial balance)
- How to Inspect Accounts and Verify the Accuracy of Financial Records



Lecture

03

Accounts and recording pross

LEC
03

Learning Objectives

- describe the accounting cycle used to record, classify and summarize transactions
- Define debits and credits and explain their use in recording business transactions.
- Identify the basic steps in the recording process.
- Explain what a journal is and how it helps in the recording process.
- Explain what a ledger is and how it helps in the recording process.
- Explain what posting is and how it helps in the recording process.
- Discuss the purpose of a trial balance and how to prepare one..

The Account

Lecture

The Account



- ◆ Record of increases and decreases in a specific asset, liability, owners' equity, revenue, or expense item.
- ◆ Debit = "Left"
- ◆ Credit = "Right"

An account can be illustrated in a T-account form.



Account Name	
Debit / Dr.	Credit / Cr.

DEBIT AND CREDIT PROCEDURES

Double-entry system

- ◆ Each transaction must affect two or more accounts to keep the basic accounting equation in balance.
- ◆ Recording done by debiting at least one account and crediting at least one other account.
- ◆ **DEBITS must equal CREDITS.**

Debits and Credits

Lecture

If the sum of Debit entries are **greater than** the sum of Credit entries, the account will have a debit balance.

	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	\$3,000	Transaction #2
Transaction #3	8,000		
Balance	\$15,000		

Debits and Credits

Lecture

If the sum of Credit entries are **greater than** the sum of Debit entries, the account will have a credit balance.

	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	\$3,000	Transaction #2
		8,000	Transaction #3
Balance		\$1,000	

Debits and Credits

Lecture

Assets	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter 3-23

Liabilities	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-24

- ◆ **Assets** - Debits should exceed credits.
- ◆ **Liabilities** – Credits should exceed debits.
- ◆ **Normal balance** is on the increase side.

Debits and Credits

Lecture

Owner's Equity	
Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Chapter 3-25

- ◆ Owner's investments and revenues increase owner's equity (credit).
- ◆ Owner's drawings and expenses decrease owner's equity (debit).

Owner's Capital	
Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Chapter 3-25

Owner's Drawing	
Debit / Dr.	Credit / Cr.
↑	↓
Normal Balance	

Chapter 3-23

Debits and Credits

Lecture

Revenue	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-26

Expense	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter 3-27

- ◆ The purpose of earning **revenues** is to benefit the owner(s).
- ◆ The effect of debits and credits on revenue accounts is the **same as** their effect on Owner's Capital.
- ◆ **Expenses** have the opposite effect: expenses decrease owner's equity.

Debits and Credits

Lecture

Normal
Balance
Debit

Assets	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter 3-23

Expense	
Debit / Dr.	Credit / Cr.
	
Normal Balance	

Chapter 3-27

Normal
Balance
Credit

Owner's Equity	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-25

Liabilities	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Revenue	
Debit / Dr.	Credit / Cr.
	
	Normal Balance

Chapter 3-26

Debits and Credits

Lecture

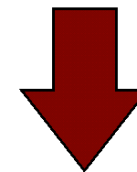
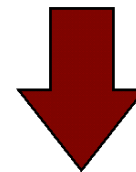
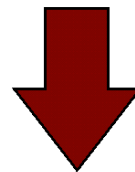
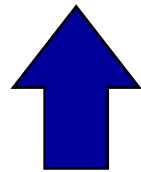
Balance Sheet

Asset = Liability + Equity

Income Statement

Revenue - Expense

Debit

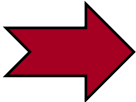


Credit



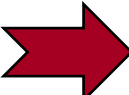
Question

Debits:

- a. increase both assets and liabilities.
- b. decrease both assets and liabilities.
-  c. increase assets and decrease liabilities.
- d. decrease assets and increase liabilities.

Question

Accounts that normally have debit balances are:

- a. assets, expenses, and revenues.
- b. assets, expenses, and equity.
- c. assets, liabilities, and owner's drawing.
-  d. assets, owner's drawing, and expenses.

Summary of Debit/Credit Rules

Lecture

Relationship among the assets, liabilities and owner's equity of a business:

**Basic
Equation**

Assets = Liabilities +

Owner's Equity

**Expanded
Equation**

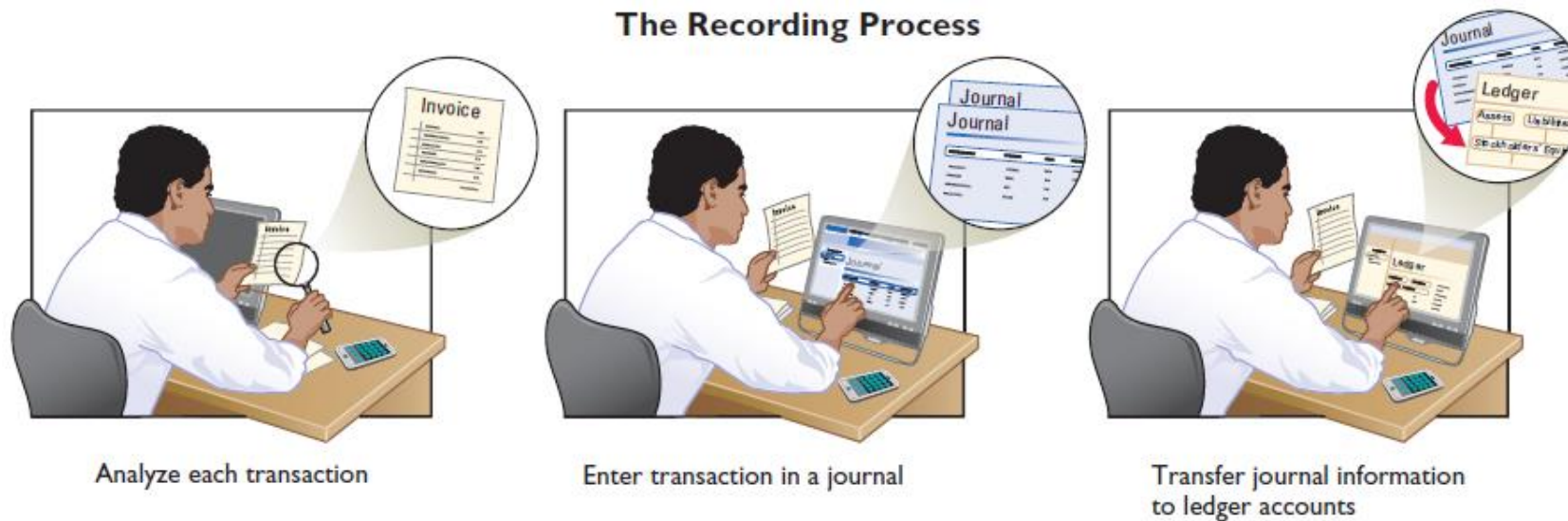
**Debit/Credit
Effects**

Assets		=	Liabilities		+	Owner's Capital		-	Owner's Drawing		+	Revenues		-	Expenses	
Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
+	-		-	+		-	+		+	-		-	+		+	-

The equation must be in balance after every transaction. Total **Debits** must equal total **Credits**.

Steps in the Recording Process

Lecture



Business documents, such as a sales slip, a check, or a bill, provide evidence of the transaction.

Steps in the Recording Process

Lecture

The Journal

- ◆ Book of original entry.
- ◆ Transactions recorded in chronological order.
- ◆ Contributions to the recording process:
 1. Discloses the **complete effects of a transaction**.
 2. Provides a **chronological record** of transactions.
 3. Helps to **prevent or locate errors** because the debit and credit amounts can be easily compared.

Steps in the Recording Process

Lecture

JOURNALIZING - Entering transaction data in the journal.

Illustration: On September 1, Ray Neal invested \$15,000 cash in the business, and Softbyte purchased computer equipment for \$7,000 cash.

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
Sept. 1	Cash		15,000	
	Owner's Capital			15,000
	Equipment		7,000	
	Cash			7,000

Steps in the Recording Process

Lecture

SIMPLE AND COMPOUND ENTRIES

Illustration: On July 1, Butler Company purchases a delivery truck costing \$14,000. It pays \$8,000 cash now and agrees to pay the remaining \$6,000 on account.

GENERAL JOURNAL				
Date	Account Title	Ref.	Debit	Credit
July 1	Equipment		14,000	
	Cash			8,000
	Accounts payable			6,000

Steps in the Recording Process

Lecture

Yasmin engaged in the following activities in establishing her salon, Hair It Is:

1. Opened a bank account in the name of Hair It Is and deposited \$20,000 of her own money in this account as her initial investment.
2. Purchased equipment on account (to be paid in 30 days) for a total cost of \$4,800.
3. Interviewed three persons for the position of hair stylist.

Prepare the entries to record the transactions.

Steps in the Recording Process

Lecture

Prepare the entries to record the transactions.

1. Opened a bank account and deposited \$20,000.

Cash	20,000	
Owner's Capital		20,000

2. Purchased equipment on account (to be paid in 30 days) for a total cost of \$4,800.

Equipment	4,800	
Accounts Payable		4,800

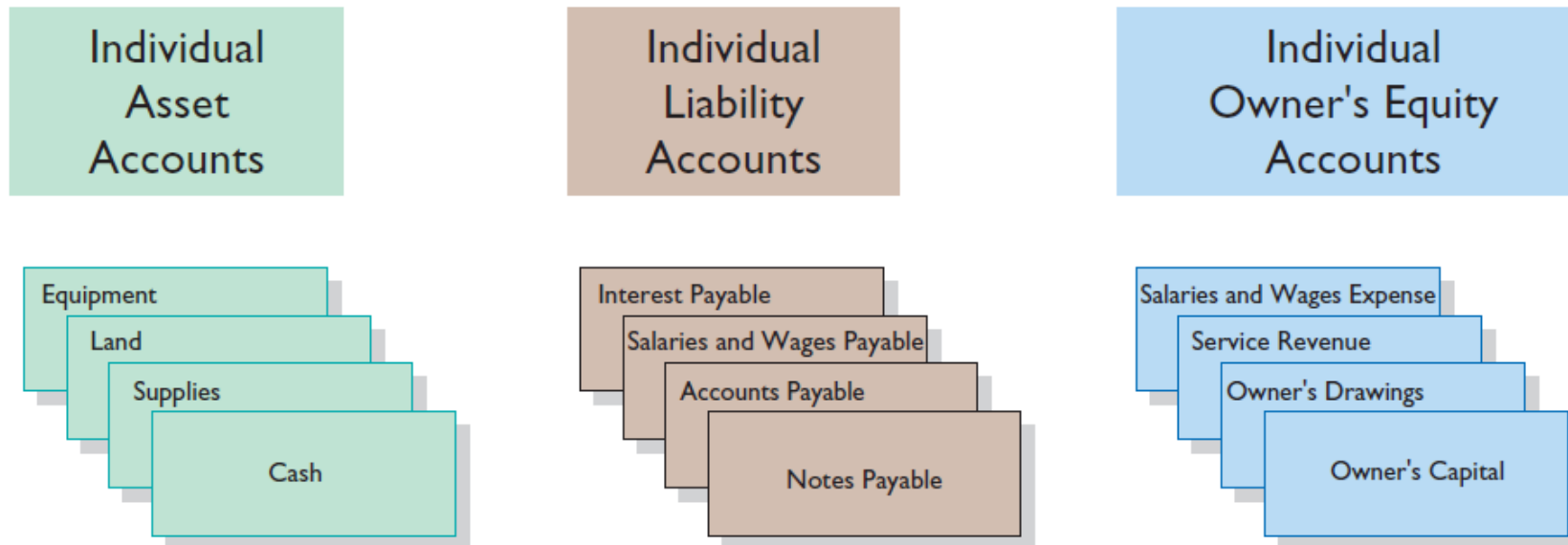
3. Interviewed three persons for the position of hair stylist.

Steps in the Recording Process

Lecture

The Ledger

- ◆ **General Ledger** contains all the asset, liability, and owner's equity accounts.



STANDARD FORM OF ACCOUNT

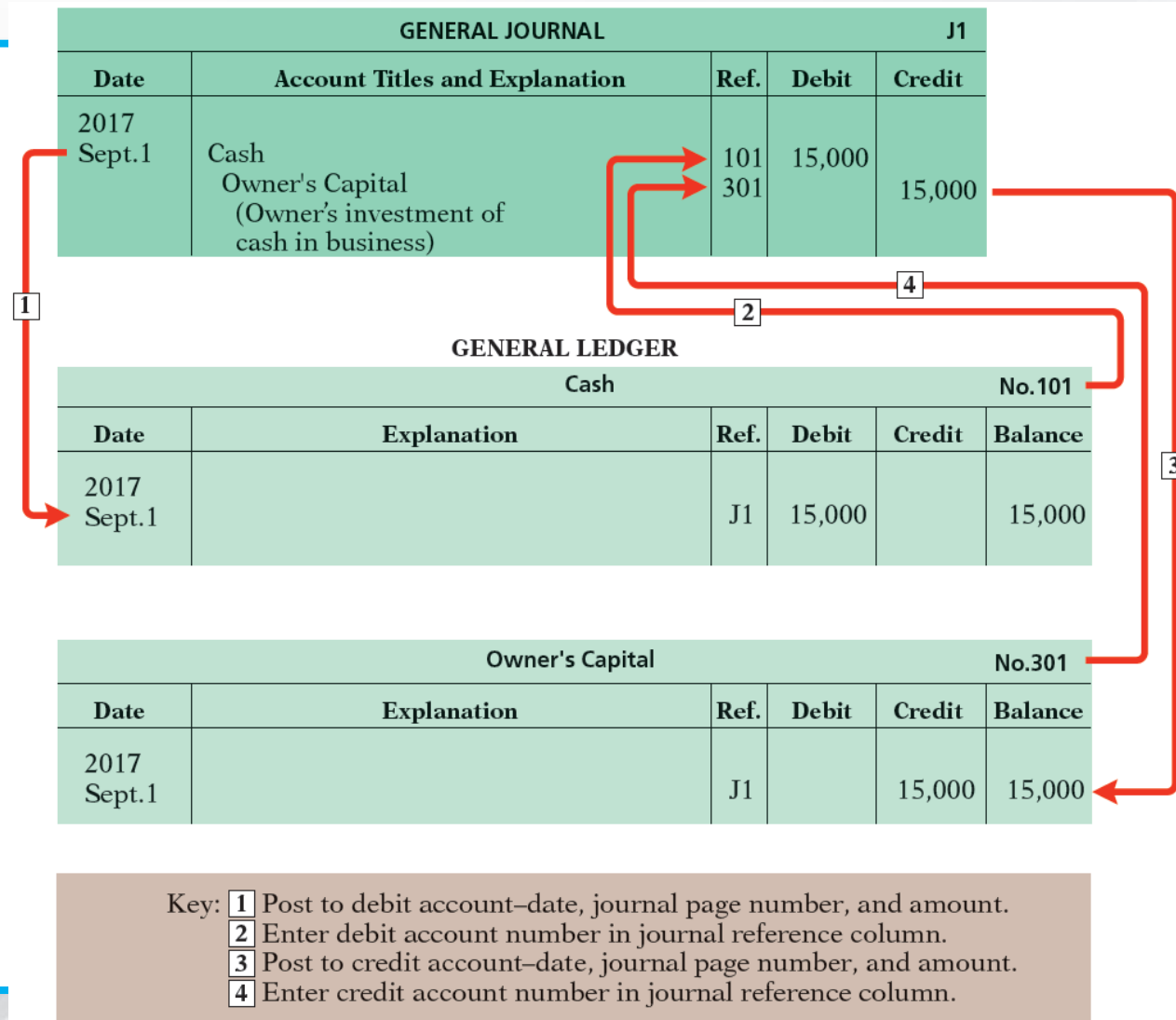
CASH					NO. 101
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 1			25,000		25,000
2				8,000	17,000
3			4,200		21,200
9			7,500		28,700
17				11,700	17,000
20				250	16,750
30				7,300	9,450

Ledger

Lecture

POSTING

Transferring
journal entries
to the ledger
accounts.



Question

Posting:

- a. normally occurs before journalizing.
- b. transfers ledger transaction data to the journal.
- c. is an optional step in the recording process.
- d. transfers journal entries to ledger accounts.

The Recording Process Illustrated

Lecture

Follow these steps:

1. Determine what type of account is involved.
2. Determine what items increased or decreased and by how much.
3. Translate the increases and decreases into debits and credits.

Transaction

On October 1, C. R. Byrd invests \$10,000 cash in an advertising company called Pioneer Advertising.

Basic Analysis

The asset Cash increases \$10,000; owner's equity (specifically, Owner's Capital) increases \$10,000.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	=			Owner's Capital
+10,000				+10,000

Debit-Credit Analysis

Debits increase assets: debit Cash \$10,000.
Credits increase owner's equity: credit Owner's Capital \$10,000.

Journal Entry

Oct. 1	Cash	101	10,000	
	Owner's Capital (Owner's investment of cash in business)	301		10,000

Posting

Cash		101	Owner's Capital		301
Oct. 1	10,000			Oct. 1	10,000

The Recording Process Illustrated

Lecture

Transaction

On October 1, Pioneer purchases office equipment costing \$5,000 by signing a 3-month, 12%, \$5,000 note payable.

Basic Analysis

The asset Equipment increases \$5,000; the liability Notes Payable increases \$5,000.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Equipment	=	Notes Payable		
+5,000		+5,000		

Debit–Credit Analysis

Debits increase assets: debit Equipment \$5,000.
Credits increase liabilities: credit Notes Payable \$5,000.

Journal Entry

Oct. 1	Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for office equipment)			

Posting

Equipment		157	Notes Payable		200
Oct. 1	5,000			Oct. 1	5,000

The Recording Process Illustrated

Lecture

Transaction

On October 2, Pioneer receives a \$1,200 cash advance from R. Knox, a client, for advertising services that are expected to be completed by December 31.

Basic Analysis

The asset Cash increases \$1,200; the liability Unearned Service Revenue increases \$1,200 because the service has not been performed yet. That is, when Pioneer receives an advance payment, it should record an unearned revenue (a liability) in order to recognize the obligation that exists. Note also that although most liabilities have the word “payable” in their title, unearned revenue is considered a liability because the liability is satisfied by providing a product or performing a service.

Equation Analysis

$$\begin{array}{rcl}
 \text{Assets} & = & \text{Liabilities} + \text{Owner's Equity} \\
 \hline
 \text{Cash} & = & \text{Unearned Service Revenue} \\
 +1,200 & & +1,200
 \end{array}$$

Debit–Credit Analysis

Debits increase assets: debit Cash \$1,200.
Credits increase liabilities: credit Unearned Service Revenue \$1,200.

Journal Entry

Oct. 2	Cash	101	1,200	
	Unearned Service Revenue	209		1,200
	(Received cash from R. Knox for future service)			

Posting

Cash		101	Unearned Service Revenue		209
Oct. 1	10,000			Oct. 2	1,200
2	1,200				

The Recording Process Illustrated

Lecture

Transaction

On October 3, Pioneer pays office rent for October in cash, \$900.

Basic Analysis

The expense account Rent Expense increases \$900 because the payment pertains only to the current month; the asset Cash decreases \$900.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	=			Rent Expense
-900				-900

Debit–Credit Analysis

Debits increase expenses: debit Rent Expense \$900.
Credits decrease assets: credit Cash \$900.

Journal Entry

Oct. 3	Rent Expense Cash (Paid October rent)	729 101	900	900
--------	---	------------	-----	-----

Posting

Cash				Rent Expense	
Oct. 1	10,000	Oct. 3	900	Oct. 3	900
2	1,200				

The Recording Process Illustrated

Lecture

Transaction

On October 4, Pioneer pays \$600 for a one-year insurance policy that will expire next year on September 30.

Basic Analysis

The asset Prepaid Insurance increases \$600 because the payment extends to more than the current month; the asset Cash decreases \$600. Payments of expenses that will benefit more than one accounting period are prepaid expenses or prepayments. When a company makes a payment, it debits an asset account in order to show the service or benefit that will be received in the future.

Equation Analysis

Assets		=	Liabilities	+	Owner's Equity
Cash	+ Prepaid Insurance				
-600	+600				

Debit–Credit Analysis

Debits increase assets: debit Prepaid Insurance \$600.
Credits decrease assets: credit Cash \$600.

Journal Entry

Oct. 4	Prepaid Insurance	130	600	
	Cash	101		600
	(Paid one-year policy; effective date October 1)			

Posting

Cash		101
Oct. 1	10,000	Oct. 3 900
2	1,200	4 600

Prepaid Insurance		130
Oct. 4	600	

The Recording Process Illustrated

Lecture

Transaction

On October 5, Pioneer purchases an estimated 3-month supply of advertising materials on account from Aero Supply for \$2,500.

Basic Analysis

The asset Supplies increases \$2,500; the liability Accounts Payable increases \$2,500.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Supplies	=	Accounts Payable		
+2,500		+2,500		

Debit–Credit Analysis

Debits increase assets: debit Supplies \$2,500.
Credits increase liabilities: credit Accounts Payable \$2,500.

Journal Entry

Oct. 5	Supplies	126	2,500	
	Accounts Payable	201		2,500
	(Purchased supplies on account from Aero Supply)			

Posting

	Supplies	126
Oct. 5	2,500	

	Accounts Payable	201
		Oct. 5
		2,500

The Recording Process Illustrated

Lecture

Event

On October 9, Pioneer hires four employees to begin work on October 15. Each employee is to receive a weekly salary of \$500 for a 5-day work week, payable every 2 weeks—first payment made on October 26.

Basic Analysis

A business transaction has not occurred. There is only an agreement between the employer and the employees to enter into a business transaction beginning on October 15. Thus, a debit–credit analysis is not needed because there is no accounting entry. (See transaction of October 26 for first entry.)

The Recording Process Illustrated

Lecture

Transaction

On October 20, C. R. Byrd withdraws \$500 cash for personal use.

Basic Analysis

The owner's equity account Owner's Drawings increases \$500; the asset Cash decreases \$500.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	=			Owner's Drawings
-500				-500

Debit–Credit Analysis

Debits increase drawings: debit Owner's Drawings \$500.
Credits decrease assets: credit Cash \$500.

Journal Entry

Oct. 20	Owner's Drawings	306	500	
	Cash	101		500
	(Withdrew cash for personal use)			

Posting

Cash				Owner's Drawings	
				306	
Oct. 1	10,000	Oct. 3	900	Oct. 20	500
2	1,200	4	600		
		20	500		

The Recording Process Illustrated

Lecture

Transaction

On October 26, Pioneer owes employee salaries of \$4,000 and pays them in cash. (See October 9 event.)

Basic Analysis

The expense account Salaries and Wages Expense increases \$4,000; the asset Cash decreases \$4,000.

Equation Analysis

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
Cash	=			Salaries and Wages Expense
-4,000				-4,000

Debit–Credit Analysis

Debits increase expenses: debit Salaries and Wages Expense \$4,000.
Credits decrease assets: credit Cash \$4,000.

Journal Entry

Oct. 26	Salaries and Wages Expense	726	4,000	
	Cash	101		4,000
	(Paid salaries to date)			

Posting

Cash		101	
Oct. 1	10,000	Oct. 3	900
2	1,200	4	600
		20	500
		26	4,000

Salaries and Wages Expense		726
Oct. 26	4,000	

The Recording Process Illustrated

Lecture

Transaction

On October 31, Pioneer receives \$10,000 in cash from Copa Company for advertising services performed in October.

Basic
Analysis

The asset Cash increases \$10,000; the revenue account Service Revenue increases \$10,000.

Equation
Analysis

$$\begin{array}{rcl}
 \text{Assets} & = & \text{Liabilities} + \text{Owner's Equity} \\
 \hline
 \text{Cash} & = & \text{Service Revenue} \\
 +10,000 & & +10,000
 \end{array}$$

Debit–Credit
Analysis

Debits increase assets: debit Cash \$10,000.
Credits increase revenues: credit Service Revenue \$10,000.

Journal
Entry

Oct. 31	Cash	101	10,000	
	Service Revenue	400		10,000
	(Received cash for services performed)			

Posting

	Cash		101
Oct. 1	10,000	Oct. 3	900
2	1,200	4	600
31	10,000	20	500
		26	4,000

	Service Revenue	400
	Oct. 31	10,000

The Recording Process Illustrated

Lecture

GENERAL JOURNAL

PAGE J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
2017				
Oct. 1	Cash	101	10,000	
	Owner's Capital	301		10,000
	(Owner's investment of cash in business)			
1	Equipment	157	5,000	
	Notes Payable	200		5,000
	(Issued 3-month, 12% note for office equipment)			
2	Cash	101	1,200	
	Unearned Service Revenue	209		1,200
	(Received cash from R. Knox for future service)			
3	Rent Expense	729	900	
	Cash	101		900
	(Paid October rent)			

The Recording Process Illustrated

Lecture

4	Prepaid Insurance Cash (Paid one-year policy; effective date October 1)	130 101	600	600
5	Supplies Accounts Payable (Purchased supplies on account from Aero Supply)	126 201	2,500	2,500
20	Owner's Drawings Cash (Withdrew cash for personal use)	306 101	500	500
26	Salaries and Wages Expense Cash (Paid salaries to date)	726 101	4,000	4,000
31	Cash Service Revenue (Received cash for services performed)	101 400	10,000	10,000

GENERAL LEDGER

Cash No. 101				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 1		J1	10,000	
2		J1	1,200	
3		J1		900
4		J1		600
20		J1		500
26		J1		4,000
31		J1	10,000	
				15,200

Supplies No. 126				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 5		J1	2,500	
				2,500

Prepaid Insurance No. 130				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 4		J1	600	
				600

Equipment No. 157				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 1		J1	5,000	
				5,000

Notes Payable No. 200				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 1		J1		5,000
				5,000

Accounts Payable No. 201				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 5		J1		2,500
				2,500

Unearned Service Revenue No. 209				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 2		J1		1,200
				1,200

Owner's Capital No. 301				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 1		J1		10,000
				10,000

Owner's Drawings No. 306				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 20		J1	500	
				500

Service Revenue No. 400				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 31		J1		10,000
				10,000

Salaries and Wages Expense No. 726				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 26		J1	4,000	
				4,000

Rent Expense No. 729				
Date	Explanation	Ref.	Debit	Credit
2017				
Oct. 3		J1	900	
				900

Ledger

Lecture

Kate Brown recorded the following transactions in a general journal during the month of March. Post these entries to the Cash account.

Mar. 4	Cash	2,280	
	Service Revenue		2,280
Mar. 15	Salaries and Wages Expense	400	
	Cash		400
Mar. 19	Utilities Expense	92	
	Cash		92

Prepare a trial balance.

Lecture



PIONEER ADVERTISING

Trial Balance
October 31, 2017

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 15,200	
Supplies	2,500	
Prepaid Insurance	600	
Equipment	5,000	
Notes Payable		\$ 5,000
Accounts Payable		2,500
Unearned Service Revenue		1,200
Owner's Capital		10,000
Owner's Drawings	500	
Service Revenue		10,000
Salaries and Wages Expense	4,000	
Rent Expense	900	
	<u>\$28,700</u>	<u>\$28,700</u>

Question

A trial balance will not balance if:

- a. a correct journal entry is posted twice.
- b. the purchase of supplies on account is debited to Supplies and credited to Cash.
- c. a \$100 cash drawing by the owner is debited to Owner's Drawing for \$1,000 and credited to Cash for \$100.
- d. a \$450 payment on account is debited to Accounts Payable for \$45 and credited to Cash for \$45.

Steps in the Recording Process

Lecture

The following accounts come from the ledger of SnowGo Company at December 31, 2017.

157	Equipment	\$88,000	301	Owner's Capital	\$20,000
306	Owner's Drawings	8,000	212	Salaries and Wages	
201	Accounts Payable	22,000		Payable	2,000
726	Salaries and Wages		200	Notes Payable	19,000
	Expense	42,000	732	Utilities Expense	3,000
112	Accounts Receivable	4,000	130	Prepaid Insurance	6,000
400	Service Revenue	95,000	101	Cash	7,000

Prepare a trial balance in good form.

SNOWGO COMPANY

Trial Balance
December 31, 2017

Debit

Credit

=====

=====



مجموعة جامعة
الجميع الذكية
للتعليم القابضة

MIDOCEAN
UNIVERSITY



Thank You

