

# 教 案

课程名称 专业英语

教 材 简明会计英语教程

总 课 时 36

专 业 大数据与会计

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## Chapter 1 What is accounting?

Learning hours : 2

Teaching Objects:

- ◆ **The History and Development of Accounting**
- ◆ **The Nature of Accounting**
- ◆ **Users of Accounting Information**
- ◆ **Accounting Profession**
- ◆ **Generally Accepted Accounting Principles**

Keypoints of teaching: GAAP

思政元素 Ideological and political elements:

Ancient Chinese accounting wisdom: combined with traditional accounting methods such as the financial management system and the "four-pillar inventory" in Zhou Li, it shows the advanced nature of ancient Chinese economic management and enhances students' sense of identity with traditional Chinese culture.

Teaching flow chart:

### 1.1 The History and Development of Accounting

- ◆ Accounting records date back to the ancient civilizations of China, Babylonia, Greece and Egypt.
- ◆ Financial Accounting & Managerial Accounting
- ◆ Specialized fields of accounting
  - ◆ auditing, cost accounting, tax accounting, budgetary accounting, governmental and non-profit accounting, human resources accounting, environmental accounting, social accounting, international accounting.

### 1.2 The Nature of Accounting

(1) The language of business

- ◆ Accounting uses its own special words and symbols to communicate financial information that is intended to be useful for economic decision made by managers, shareholders, creditors and many other users.
- ◆ So accounting is an information system that identifies, measures and records business activities, processes the information of those activities into reports and financial statements, and communicates these findings to decision-makers.

(2) the relationship of accounting and bookkeeping

<b>Bookkeeping</b>	<b>Accounting</b>
<b>a process of accounting</b>	<b>analysis, interpretation, and use of information</b>
<b>the means of recording transactions and keeping record</b>	<b>be interested in finding trends and studying the effects of different alternatives</b>

a small, simple part of accounting (mechanical and repetitive)	including system design, cost analysis, auditing, tax preparation
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### 1.3 Users of Accounting Information

- ◆ Individual People
- ◆ Business Managers
- ◆ Investors and Creditors
- ◆ Government Regulation Agencies
- ◆ Taxing Authorities
- ◆ Non-profit Organization
- ◆ Other Users

### 1.4 Accounting Profession

Private Accountants

to work for a single business or unit;  
e.g.: controller, treasurer, chief financial officer

◆ Public Accountants

to serve the general public and collect professional fees for their work;  
e.g.: auditing, tax planning, management consulting

◆ public accounting firms are called CA firms, CPA firms, or CMA firms, depending on the accounting body;

CA: Chartered Accountant

CPA: Certified Public Accountant (or CGA)

CMA: Certified Managerial Accountant

### 1.5 Generally Accepted Accounting Principles

Accountants need standards in preparing financial statements. These standards are called generally accepted accounting principles(GAAP).

◆ Separate Entity Concept (Accounting Entity)

all forms of business concerns are conceived and treated as a separate entity, separate and distinct from its owner or owners, as well as from other concerns;

◆ Cost Principle (Historical Cost)

All goods and services purchased are recorded at acquisition cost and appear in financial statements at cost ;

◆ Objectivity Principle

to require that transaction amounts be objectively recorded ;

◆ Continuing Concern Concept (Going Concern)

to assume the business will continue in operation;

◆ Time-period Assumption (Accounting Period)

to result in a division of the life of a business into time periods of equal length, called accounting period

◆ Materiality Concept

may be applied to procedures used in recording transactions;  
to consider the relative importance of any event

- ◆ Monetary Assumption (Measuring Unit )  
the dollar has the same characteristic---stability over time;

## Chapter 2 How does the double-entry system work?

Learning hours : 2

Teaching Objects:

- ◆ **Types of Business Organizations**
- ◆ **The Accounting Equation**
- ◆ **The Effects of Business Transactions on the Accounting Equation**
- ◆ **The Account**

Keypoints of teaching:

**Analysis to different transactions and some commonly used accounts**

思政元素 Ideological and political elements:

**Historical warning case: Through the financial fraud incident of Enron and Shitong, it is emphasized that accounting fraud is destructive to the social economy, and students are guided to establish a career bottom line of "not making false accounts"**

Teaching flow chart:

### 2.1 Types of Business Organizations

- ◆ **Three basic forms of business organizations: the proprietorship, the partnership and the corporation.**

<b>A</b>	The proprietorship has a single owner, each of proprietorship is distinct from its proprietor.
<b>B</b>	The partnership joins two or more individuals together as co-owners, distinct from the personal affairs of partner.
<b>C</b>	The corporation is a business owned by shareholders

### 2.2 The Accounting Equation

#### (1) Assets, Liabilities and Owner' s Equity

Assets: the economic resources of a business that are expected to be benefit in the future.

e.g.: cash, office supplies, merchandise, furniture, land, buildings

Liabilities: “ outsider claims ” which are economic debt-payable to outsiders (called creditors).

e.g.: accounts payable, wage payable, notes payable

Owner' s Equity: “ insider claims ” which are held by the owners of the business.

e.g.: capital

#### (2) Accounting Equation

Assets = Liabilities + Owner' s Equity

▲ the most basic tool of accounting;

▲ shows the relationship among assets, liabilities and owner' s equity;

another way: Assets - Liabilities = Owner' s Equity

### 2.3 The Effects of Business Transactions on the Accounting Equation

(1) Transaction: any event that both affects the financial position of the business entity and may be reliably recorded.

Question: Which of the following five events is transaction?

(a) elections;

(b) economic booms and recessions;

(c) purchases and sales of merchandise inventory;

(d) payment of rents;

(e) collection of cash from customers.

◆ Answer:

(a) elections; (X)

(b) economic booms and recessions; (X)

(c) purchases and sales of merchandise inventory; ( ✓ )

(d) payment of rents; ( ✓ )

(e) collection of cash from customers; ( ✓ )

(2) Illustration

◆ **NB.: Transaction analysis is the essence of accounting**

✦ **Transaction 1** John Smith invests \$50,000 of his money to begin the business and he deposited it in a bank account.

### 2.4 The Account

◆ **2.4.1 The T Account**

✦ the basic storage unit for data in accounting;

✦ basic structure:

◆ a title that describes the assets, liabilities, or owner' s equity accounts;

◆ a left side, which is called the debit side;

◆ a right side, which is called the credit side.

◆ **2.4.2 Management's Use of Accounts**

The accumulation of information in account form is useful to management in running a business.

◆ **2.4.3 The Ledger**

Ledger:

In a manual accounting system, each account is kept on a separate page or card. These pages or cards are placed together in a book or file. This book or file, which contains all the company's accounts, is called a ledger.

Chart of Ledger:

The accountants often number the accounts in order to find an account in the ledger easily. A list of these numbers with the corresponding account names is called a chart of accounts.

- ◆ **2.4.4 Types of Commonly Used Accounts**

**Assets**

- ◆ **Cash:**

Is the title of the account used to record increase and decrease in cash. Included are coins, currency, checks, money orders, money deposited in a bank, cash on hand such as that in a cash register or a safe.

- ◆ **Notes Receivable:**

A promissory note is a written promise to pay a definite sum of money at a fixed future date. Amounts due from others in the form of promissory notes are recorded in this account.

- ◆ **Accounts Receivable:**

Companies often sell goods and services to customers on the basis of oral or implied promises to pay in the future. These sales are called Credit Sales or Sales on Account, and can be recorded in Accounts Receivable.

- ◆ **Land and Buildings:**

- ✦ **Increases and decreases in land and buildings owned by a business are recorded in accounts called land and buildings, respectively.**

- ✦ **N.B.: the building is subject to wear and tear, but the land is not.**

- ◆ **Equipment:**

- ✦ **Same as buildings.**

**Liabilities**

- ◆ **Notes payable:**

The exact opposite of Notes Receivable. It is used to record increases and decreases in promissory notes owned to creditors.

- ◆ **Accounts payable:**

The exact opposite of Accounts Receivable. It represents amounts owed to creditors on the basis of an oral or implied promise to pay.

**Owner' s Equity**

- ◆ **Capital:**

This account shows the owner' s claim to the assets of the business.

Capital = owner' s investment + net income - net loss - owner' s withdrawals

- ◆ **Revenues:**

The increase in owner' s equity from delivering goods or services to customers or clients is called revenue.

e.g.: Service Revenue, Sales Revenue, Interest Revenue, Rent Revenue.

- ◆ **Expenses:**

The cost of operating a business is called expense. It has the opposite effect of revenue, so it decreases owner' s equity.

e.g.: Salary Expense, Rent Expense, Advertising Expense, Utilities Expense



- ◆ Credit can be abbreviate Cr.;
- ◆ **3.2.1 Recording Transactions in Journals**
- ◆ Journal: In actual practice, accountants record transactions first in a book called the journal. A journal is a chronological record of the entity's transactions.
- ◆ The recording process:
- ◆ Identify the transactions from source documents;
- ◆ Specify each account affected by the transaction and classify it by type;
- ◆ Determine whether each account is increased or decreased by the transaction;
- ◆ Using the rules of debit and credit, determine whether to debit or credit the account;
- ◆ Enter the transaction in the journal, including a brief explanation for the journal entry.
- ◆ Transaction 1: John Smith, Lawyer - the \$50,000 cash investment in the business.

Date	Accounts and Explanation	Debit	Credit
Apr. 2	Cash	50,000	
	John Smith, Capital		50,000

◆ **Page of the Journal**

- ◆ The journal can be a loose-leaf notebook, a bound book, or a printout of a computer file.
- ◆ **3.2.2 Posting from the Journal to the Ledger**
- ◆ Posting means transferring the amounts from the journal to the appropriate accounts in the ledger;
- ◆ Debits in the journal are posted as debits in the ledger;
- ◆ Credits in the journal are posted as credits in the ledger

◆ **3.3 Illustrative Problem**

◆ **3.4 The Trial Balance**

- ◆ Definition of the trial balance
  - ◆ A trial balance is a list of all accounts with their balances.
  - ◆ Providing a check on accuracy by showing whether the total debits equal to the total credits.
  - ◆ May be taken at any time the postings are up to date.
- ◆ Preparing the trial balance

## Chapter4 What is a balance sheet?

Learning hours : 2

Teaching Objects:

- ◆ **Financial Statements**
- ◆ **A Balance Sheet**
- ◆ **An Income Statement**

Keypoints of teaching: Balance sheet and income statement

思政元素 Ideological and political elements:

Rigor and normative: emphasize the extreme requirements of the double-entry bookkeeping method for details, analogize the spirit of "great country craftsman", and advocate the work attitude of striving for excellence.

Teaching flow chart:

- ◆ **4.1 Financial Statements**

Natures of Financial Statements

A central feature of accounting.

The primary means of communicating important accounting information to users.

Attempting to show the business in financial terms.

Three major financial statements

The balance sheet;

The income statement;

The statement of owner's equity.

- ◆ **4.1.1 The Balance Sheet**

to show the financial position of a business on a certain date.

to be often called the statement of financial position.

to present a view of the business: a collection of resources or assets belonging to the company is equal to claims against those assets.

- ◆ **4.1.2 The Income Statement**

to show the amount of income earned by a business over a period of time;

to measure whether or not the business achieved its primary objective of earning an acceptable income

to hold the most important single piece of information about a business - its net income, which is revenues minus expenses. If expenses exceed revenues, the result is a net loss for the period.

- ◆ **4.1.3 The Statement of Owner's Equity (Or Retained Earnings)**

The statement of owner's equity presents a summary of the changes that occurred in the owner's equity of the entity during a specific period.

For the corporation, we use the statement of retained earnings instead of the statement of owner's equity.

- ◆ **4.1.4 The Statement of Changes In Financial Position**

The statement of changes in financial position is now widely used to show all changes in financial position that take place during an accounting periods, especially the investing and financing activities of a business.

- ◆ **4.1.5 Relationship of The Financial Statements**

- ◆ **4.2 A Balance Sheet**

- ◆ **4.2.1 Classification of Assets and Liabilities**

Liquidity is a measure of how quickly an item may be converted to cash.

Users of financial statements are interested in liquidity because business difficulties often arise owing to a shortage of cash.

Balance sheets list assets and liabilities in the order of their relative liquidity.

- ◆ **(1) Current Assets**

are expected to be converted to cash, sold or consumed during the next 12 months or within the business's normal operating cycle if longer than a year;

cash, accounts receivable, notes receivable due within a year or less, prepaid expenses, inventory

- ◆ **(2) Long-Term Assets**

are all assets other than current assets;

they are not held for sale, but rather they are used to operate the business;

capital assets: land, buildings, furniture and fixtures, equipment;

intangible assets :patents, trademarks, franchises, goodwill.

- ◆ **(3) Current Liabilities**

are debts that are due to be paid within one year or one of the entity's operating cycles if the cycle is longer than a year;

accounts payable, notes payable due within one year, salaries payable, unearned revenue, goods and services tax payable, interest payable owed on notes payable.

- ◆ **(4) Long-term Liabilities**

All liabilities that are not current are classified as long-term liabilities.

- ◆ **4.2.2 Formats of Balance Sheets**

- ◆ **4.2.3 Current Ratio and Debit Ratio**

a company prefers a high current ratio, which means the business has plenty of current assets to pay current liabilities;

a rule of thumb: A strong current ratio would be in the range of 2.00

a low debt ratio is safer than a high debt ratio;

a company with a high debt ratio may have trouble paying its liabilities, especially when sales are low and cash is scarce.

- ◆ **4.3.1 Format of Income Statement**

- ◆ **4.3.2 Gross margin percentage and Inventory turnover**

Gross margin percentage is one of the most carefully watched measures of profitability because it is fundamental to a merchandiser;

a small increase in the gross margin percentage usually indicates an increase in profitability.

Inventory turnover shows how many times inventory was sold during the year;

a high rate of turnover is preferred over a low rate of turnover;

an increase in turnover usually means higher profits.

## Chapter5 How to establish the account books?

Learning hours : 2

Teaching Objects:

- ◆ **Business Income**
- ◆ **Some Generally Accepted Accounting Principles**
- ◆ **Adjustments to the Accounts**
- ◆ **Adjusted Trial Balance**
- ◆ **Preparing the Financial Statements from the Adjusted Trial Balance**

Keypoints of teaching: Adjustment entry

思政元素 Ideological and political elements:

True and complete disclosure: Through cases such as financial fraud of Luckin Coffee, the authenticity of accounting statements as an "economic language" is emphasized, and students' sense of professional responsibility and social responsibility is cultivated.

Teaching flow chart:

### 5.1 Business Income

- ◆ net income is the net increase in owners' equity resulting from the profit-seeking operations of the company;
- ◆ net income equals the difference between revenues and expenses:
- ◆  $\text{Net Income} = \text{Revenues} - \text{Expenses}$
- ◆ Revenues are ‘inflows or other enhancements of assets of an entity or settlement of its liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or other activities that constitute the entity’s major or central operations’ .
  
- ◆ Expenses are ‘outflows or other using up of assets or incurrence of liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity’s ongoing major or central operations’.
  
- ◆ separate accounts for each revenue and expense are temporary, and are sometimes called nominal accounts. At the end of the period, their account balances are transferred to Income Summary.

### 5.2 Some Generally Accepted Accounting Principles

- ◆ **5.2.1 Accrual-Basis Accounting**
  
- ◆ Accrual Basis Accounting
- ◆ In accrual-basis accounting, an accountant recognizes the impact of a business event as it occurs. When the business performs a service, makes a sale or incurs an expense, the accountant enters the transaction into the books, whether or not cash has been received or

paid

- ◆ Cash Basis Accounting
- ◆ In cash-basis accounting, however, the accountant does not record a transaction until cash is received or paid. Cash receipts are treated as revenues and cash disbursements are handled as expenses.

#### ◆ 5.2.2 The Accounting Period

- ◆ businesses need periodic reports on their progress;
- ◆ accountants slice time into small segments and prepare financial statements for specific periods;
- ◆ the most basic accounting period is one year.

#### ◆ 5.2.3 Revenue Principle

- ◆ revenue should be recorded as it has been earned but not before
- ◆ to tell accountants: when to record revenue and the amount of revenue to record;

#### ◆ 5.2.4 Matching Principle

- ◆ to identify all expenses incurred during the accounting period;
- ◆ to measure the expenses;
- ◆ to ‘match’ them against the revenues earned during that same span of time;
- ◆ to ‘match’ expenses against revenues means to subtract the expenses from the revenues in order to compute net income or net loss.

#### ◆ 5.2.5 Time-Period Concept

- ◆ accounting information is reported at regular intervals;
- ◆ it interacts with the revenue principle and matching principle to underlie the use of accruals basis accounting.

### 5.3 Adjustments to the Accounts

- ◆ The end-of-period process of updating the accounts is called adjusting the accounts, making the adjusting entries, or adjusting the books.
- ◆ Adjusting entries can be divided into five categories:

- ◆ Prepaid expenses
- ◆ Depreciation
- ◆ Accrued expenses
- ◆ Accrued revenues
- ◆ Unearned revenues
- ◆ **Prepaid Expenses**

- ◆ Prepaid expenses is a category of miscellaneous assets that typically expire or are used up

in the near future;

- ◆ Prepaid rent, prepaid insurance, and supplies are examples of prepaid expenses;
- ◆ They are called prepaid expenses because they are expenses that are paid in advance;
- ◆ Examples: Suppose John Smith prepays three months' rent on April 1, 200X, after negotiating a lease for the office of his law practice. If the lease specifies monthly rental amounts of \$1,000 each, the entry to record the payment for three months is a debit to the asset account, Prepaid Rent, as follows:

◆ Apr. 1   Dr.   Prepaid Rent (\$1,000 x 3)           3,000  
                  Cr.   Cash   3,000  
                  Paid three months' rent in advance.

◆ Apr.30   Dr.   Rent Expense (\$3,000 x 1/3)    1,000  
                  Cr.   Prepaid Rent                           1,000  
                  To record rent expense.

◆ **Depreciation and Capital Assets**

- ◆ Capital assets are long-lived assets, such as land, buildings, furniture, machinery and equipment;
- ◆ Accountants systematically spread the cost of each capital asset, except land, over the years of its useful life. This process is called the recording of depreciation or amortization;

◆ **Examples:**

◆ Apr. 3   Dr.   Furniture                           16,500  
                  Cr.   Accounts Payable                   16,500  
                  Purchased office furniture on account.

◆ Apr.30   Dr.   Depreciation Expense                   275  
                  Cr.   Accumulated Depreciation--- Furniture   275  
                  To record depreciation expense on furniture

◆ **Accrued Expenses**

- ◆ accrued expense refers to an expense that the business has incurred but has not yet paid;
- ◆ **Examples:** Suppose John Smith pays his employee a monthly salary of \$1,900, half on the 15th and half on the last day of the month.

◆ Apr.15   Dr.   Salary Expense                   950  
                  Cr.   Cash                                   950  
                  To pay salary

◆ Apr.30   Dr.   Salary Expense                   950  
                  Cr.   Salary Payable                   950  
                  To accrue salary expense.

◆ **Accrued Revenues**

- ◆ A revenue that has been earned but not yet received in cash is called an accrued revenue;
- ◆ **Examples:**
- ◆ Assume John Smith is hired on April 15 by Guerrero Construction Co. Ltd. to perform legal services on an as-needed basis. Under this agreement, Guerrero will pay Smith \$500 monthly, with the first payment on May 15. During April, John Smith will earn half a

month' s fee, \$250.

- ◆ Apr.30 Dr. Accounts Receivable ( $\$500 \times 1/2$ ) 250  
                    Cr. ServiceRevenue 250  
                    To accrue service revenue

#### ◆ Unearned Revenues

- ◆ Some businesses collect cash from customers in advance of doing work for the customer. This creates a liability called unearned revenue, which is an obligation arising from receiving cash in advance of providing a product or service;

- ◆ **Examples:** Suppose Baldwin Computer Service Center engages Smith's services, agreeing to pay him \$450 monthly, beginning immediately. If Baldwin makes the first payment on April 20, Smith records this increase in the business's liabilities as follows:

- ◆ Apr.20 Dr. Cash 450  
                    Cr. Unearned Service Revenue 450  
                    Received revenue in advance.

- ◆ Apr.30 Dr. Unearned Service Revenue ( $\$450 \times 1/3$ ) 150  
                    Cr. Service Revenue 150  
                    To record service revenue that was collected in advance.

#### 5.4 Adjusted Trial Balance

- ◆ After the adjustments are journalized and posted, a useful step in preparing the financial statements is to list the accounts, along with their adjusted balances, on an adjusted trial balance. This document has the advantage of listing all the accounts and their adjusted balances in a single place;
- ◆ the trial balance before any adjusting entries is called the unadjusted trial balance;

## **Chapter6 The format of a balance sheet**

Learning hours : 2

Teaching Objects:

- ◆ **The Accounting Cycle**
- ◆ **Preparation of the Work Sheet**
- ◆ **Uses of the Work Sheet**
- ◆ **Closing the Accounts**

Keypoints of teaching: worksheet

Teaching flow chart:

### **6.1 The Accounting Cycle**

#### ◆ **Definition:**

- ▲ The accounting system encompasses the sequence of steps followed in the accounting process, from analyzing transactions to preparing financial statements and closing the accounts.

#### ◆ **Steps:**

- (1) The transactions are analyzed from the source documents.
- (2) The transactions are recorded in the journal.
- (3) The entries are posted to the ledger.
- (4) The accounts are adjusted at end of the period, usually with the aid of a work sheet.
- (5) Financial statements are prepared from the work sheets.
- (6) The accounts are closed to conclude the current accounting period and prepare for the beginning of the new accounting period.

### **6.2 Preparation of the Work Sheet**

#### ◆ 6.2.1 The Accountant's Work Sheet

- ◆ The work sheet is used frequently as a preliminary step in the preparation of financial statements;
- ◆ Using a work sheet lessens the possibility of ignoring an adjustment, aids in checking the arithmetical accuracy of the accounts, and facilitates the preparation of financial statements;
- ◆ The work sheet is not part of the ledger or the journal, nor is a financial statement.

#### ◆ 6.2.2 Steps in Preparing the Work Sheet

- ◆ (1) Write the account titles and their unadjusted ending balances in the Trial Balance columns of the work sheet and total the amounts.
- ◆ (2) Enter the adjustments in the Adjustments columns and total the amounts.
- ◆ (3) Compute each account's adjusted balance by combining the trial balance and adjustment figures. Enter the adjusted amounts in the Adjusted Trial Balance columns.
- ◆ (4) Extend the asset, liability, and owner's equity amounts from the Adjusted Trial Balance to the Balance Sheet columns. Extend the revenue and expense amounts to the Income Statement columns. Total the statement columns.

- ◆ (5) Compute net income or net loss as the difference between total revenues and total expenses on the income statement. Enter net income or net loss as a balancing amount on the income statement and the balance sheet, and compute the adjusted column totals. After completion, total debits equal total credits in the income statement columns and in the balance sheet columns.

### 6.3 Uses of the Work Sheet

- ◆ to prepare the financial statements;
- ◆ to record the adjusting entries;
- ◆ to record the closing entries, to prepare for the beginning of the next period.

### 6.4 Closing the Accounts

- ◆ Accountants use the term closing the accounts to refer to the step at the end of the period that prepares the accounts for recording the transactions of the next period.
  - ◆ Closing the accounts consists of journalizing and posting the closing entries;
  - ◆ Closing sets the balances of the revenue and expense accounts back to zero in order to measure the net income of the next period;
  - ◆ The closing process applies only to temporary accounts.
- ◆ Steps in closing accounts:
- ◆ (1) Debit each revenue account for the amount of its credit balance. Credit income summary for the sum of the revenues. This entry transfers the sum of the revenues to the credit side of the income summary.
  - ◆ (2) Credit each expense account for the amount of its debit balance. Debit income summary for the sum of the expenses. This entry transfers the sum of the expenses to the debit side of the income summary.
  - ◆ (3) Debit income summary for the amount of its credit balance (revenues minus expenses) and credit the capital account. If income summary has a debit balance, then credit income summary for this amount and debit capital. This entry transfers the net income or loss from income summary to the capital account.
  - ◆ (4) Credit the withdrawals account for the amount of its debit balance. Debit the capital account of the proprietor. Withdrawals are not expenses and do not affect net income or net loss. Therefore this account is not closed to the income summary. This entry transfers the withdrawal amount to the debit side of the capital account.

## Chapter7 What is a profit statement?

Learning hours : 2

Teaching Objects:

- ◆ **The Operation Cycle for a Merchandising Business**
- ◆ **Accounting Record of the Operating Cycle**
- ◆ **The Accounting Cycle for a Merchandising Business**

Keypoints of teaching: Entries for the transactions in merchandising business

Teaching flow chart:

### 7.1 The Operation Cycle for a Merchandising Business

### 7.2 Accounting Record of the Operating Cycle

#### ◆ 7.2.1 Purchase of Inventory

On Dec 7 and 10, 200 × , a Company purchased tape desks costing \$400 and \$700, respectively. The first purchase was for cash, and the second was on account. The entry:

Dec.7	Dr. Purchases	400	
	Cr. Cash		400
	To record cash purchase		

Dec.10	Dr. Purchase	700	
	Cr. Accounts Payable		700
	To record purchase on account		

#### ◆ 7.2.2 Purchase Discounts

Suppose National Co. purchase inventory of \$800 on account (credit terms of 2/15, n/30). National Co. records this purchase on account as follows:

Dec.10	Dr. Purchases	800	
	Cr. Accounts Payable		800
	Purchased inventory on account.		
(1)Dec 25	Dr. Accounts Payable		800
	Cr. Cash (\$800.00 x 0.98)		784
	Purchase Discounts (\$800.00 x .02)		16
	Paid on account within discount period.		

(2)Dec. 29	Dr. Accounts Payable	800	
	Cr. Cash		800
	Paid on account after discount period.		

#### ◆ 7.2.3 Purchase Returns and Allowances

(1) Suppose the \$100 merchandise purchased by National Co. was not the merchandise they ordered. Brown returns the merchandise to the seller and records the purchase return as follows:

Dec 3	Dr. Accounts Payable	100	
	Cr. Purchase Returns and Allowances		100
	Returned inventory to seller.		

(2) Now assume that one of the National Co. turntables is damaged in shipment to Smith Co. The damage is minor, and Brown decides to keep the turntable in exchange for a \$10

allowance from National Co.

Dec 4	Dr. Accounts Payable	10
	Cr. Purchase Returns and Allowances	10

Received a purchase allowance.

(3)How to get the net purchases?

Purchases (debit balance account)
-Purchase discounts (credit balance account)
-Purchase returns and allowances (credit balance account)

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= Net purchases (a debit subtotal, not a separate account)

### 7.2.4 Transportation Costs

Under FOB shipping point terms, title passes when the inventory leaves the seller's place of business, the shipping point. The buyer owns the goods while they are in transit, and therefore pays the transportation cost. Under FOB destination terms, title passes when the goods reach the destination, so the seller pays transportation cost.

(1) Suppose the buyer receives a shipping bill directly from the freight company. The buyer's entry to record payment of the freight charge is:

Dec.3	Dr. Freight In	190
	Cr. Cash	190

Paid a freight bill

(2)A \$5,000 purchase of goods, coupled with a related freight charge of \$400, would be recorded as follows:

Dec.12	Dr. Purchases	5,000
	Freight In	400
	Cr. Accounts Payable	5,400

Purchased inventory on account plus freight.

### ◆ 7.2.5 Sale of Inventory

(1)Cash Sale :A \$50.00 cash sale

Dec.9	Dr. Cash	50
	Cr. Sales Revenue	50

(2)Sale on Account :A \$5,000 sale on account .

Dec.11	Dr. Accounts Receivable	5,000
	Cr. Sales Revenue	5,000

### ◆ 7.2.6 Sales Discounts, Sales Returns and Allowances

(1) On Dec 7, National Co. sells stereo components for \$7,200 on credit terms of 2/10 n/30.

Dec.7	Dr. Accounts Receivable	7,200
-------	-------------------------	-------

	Cr. Sales Revenue	7,200
--	-------------------	-------

Sale on account.

(2) Assume the buyer returns goods that cost \$600.

Dec.12	Dr. Sales Returns and Allowances	600	
	Cr. Accounts Receivable	600	

Received returned goods.

### 7.2.6 Sales Discounts, Sales Returns and Allowances

(3) National Co. grants a \$100 sales allowance for damaged goods.

Dec.15	Dr. Sales Returns and Allowances	100	
	Cr. Accounts Receivable		100

Granted a sales allowance for damaged goods

(4)How to get the net sales?

<b>Sales revenue (credit balance account)</b>	
— <b>Sales discounts (debit balance account)</b>	
— <b>Sales returns and allowances (debit balance account)</b>	
<hr/>	
<b>= Net sales (a credit subtotal, not a separate account)</b>	

### ◆ 7.2.7 Cost of Goods Sold

◆ Cost of goods sold is computed as follows:

**Beginning inventory**

**+Net purchases**

**+Freight in**

---

**= Cost of goods available for sale**

**-Ending inventory**

---

**= Cost of goods sold**

### ◆ Perpetual Inventory System

Under the perpetual inventory method, records are kept of the cost of each item in inventory. As each item is sold, its cost is deducted from the inventory and debited to the cost sold account.

To illustrate this procedure assume that on Dec 4, 200×, National Co. makes a \$2000 cash purchase of goods for resale. On Dec 26, 200×, it sells \$500 of these goods to customers at a cash selling price of \$900.

Dec.4	Dr. Inventory	2 000
	Cr. Cash	2 000

To record the purchase of merchandise

Dec.26	Dr. Cash	900
--------	----------	-----

Cr. Sales	900
To record the cash sale of merchandise	

Dec.26	Dr. Cost of Goods Sold	500
	Cr. Inventory	500
To record the cost of merchandise sold.		

### 7.3 The Accounting Cycle for a Merchandising Business

#### ◆ 7.3.1 The Adjusting and Closing Process for a Merchandising Business

A merchandising business adjusts and closes the accounts as much as a service entity does. The inventory account affects the adjusting and closing entries of a merchandiser.

#### ◆ 7.3.2 Work Sheet of a Merchandising Business

- 1、 Account Title Columns;
- 2、 Trial Balance Columns;
- 3、 Adjustments Columns;
- 4、 Income Statement Columns;
- 5、 Balance Sheet Columns, the adjusted trial balance columns are omitted.

◆ Let us examine the entire work sheet, see textbook

#### ◆ 7.3.3 Financial Statements of a Merchandising Business

#### ◆ 7.3.4 Adjust and Close the Accounts of a Merchandising Business

(1) Adjusting Entries

a. Dr. Interest Receivable	400	
Cr. Interest Revenue		400
b. Dr. Supplies Expense	550	
Cr. Supplies		550
c. Dr. Insurance Expense	1 000	
Cr. Prepaid Insurance		1 000
d. Dr. Depreciation Expense	600	
Cr. Accumulated Depreciation		600
e. Dr. Unearned Sales Revenue	1 300	
Cr. Sales Revenue		1 300
f. Dr. Interest Expense	200	
Cr. Interest Payable		200

(2) Closing Entries

a. Dr. Inventory (ending)	42,000	
Sales Revenue		139,300
Interest Revenue		1,000
Purchase Discount		3,000
Purchase Returns and Allowances	1,200	
Cr. Income Summary		18,650
b. Dr. Income Summary	150,450	
Cr. Inventory (beginning )		40,500
Sales Discount		1,400
Sales Returns and Allowance		2,000
Purchase		89,300
Freight in		5,200
Rent expense		8,400
Depreciation expense		600
Insurance expense		1,000
Supplies expense		550
Interest expense		1,500
c. Dr. Income Summary (184 700-150 450)	36,050	
Cr. Smith, Capital		36,050
d. Dr. Smith, Capital	34,100	
Cr. Smith, Withdrawals		34,100

## **Chapter8 What is a cash flow statement?**

Learning hours : 2

Teaching Objects:

- ◆ **Ledgers**
- ◆ **Journals**
- ◆ **Special Journals**

Keypoints of teaching: Special Journals

Teaching flow chart:

### **8.1 Ledgers**

The basic summary device of accounting is the account.

Each account appears on its own page. For convenient access to the information in the accounts, the pages are grouped together in a single book called the ledger.

There are two types of ledgers: general ledger and subsidiary ledger.

The general ledger can tell us the general information of each account, but we can not learn the detailed information from it.

The subsidiary ledger is a book or file of accounts that provides supporting details on individual balances, the total of which appears in the general ledger.

The general ledger is also called control account. It controls the subsidiary ledger. Total of the ending balances of all subsidiary accounts equal the ending balance of the control account.

### **8.2 Journals**

The journal described so far is used to record all types of transactions. After recorded, they must be posted to debit and credit columns of various accounts.

The way to save writing and posting labor is to divide the transactions into groups of like nature and to record them respectively in special journals.

The four categories of transactions, the related special journal and the posting abbreviations follow.

### **8.3 Special Journals**

#### **◆ 8.3.1 Sales Journal**

Most merchandisers sell at least some of their inventory on account.

These credit sales are recorded in the sales journal, also called the credit sales journal.

Credit sales of assets other than inventory (for example, buildings) occur infrequently and are recorded in the general journal.

Example: see textbook

#### **◆ 8.3.2 Cash Receipts Journal**

Cash transactions are common in most businesses because cash receipts from customers are the lifeblood of business.

To streamline the recording of repetitive cash receipt transactions, accountants use the cash receipts journal.

Example: see textbook

#### **◆ 8.3.3 Purchase Journal**

A merchandising business purchases inventory and supplies frequently. Such purchases are usually made on account.

The purchases journal is designed to account for all purchases of inventory, supplies and other assets on account.

It can also be used to record expenses incurred on account.

Example: see textbook

#### ◆ 8.3.4 Cash Disbursements Journal

Businesses make most cash disbursements by cheque.

All payments by cheque are recorded in the cash disbursements journal. Other titles of this special journal are the cheque register and the cash payments journal.

Like the other special journals, it has multiple columns for recording cash payments that occur frequently.

Example: see textbook

## Chapter 9 What is a bank reconciliation statement?

Learning hours : 2

Teaching Objects:

- ◆ **The History and Development of Accounting**
- ◆ **The Nature of Accounting**
- ◆ **Users of Accounting Information**
- ◆ **Accounting Profession**
- ◆ **Generally Accepted Accounting Principles**

Keypoints of teaching: GAAP

Teaching flow chart:

### 9.1 The History and Development of Accounting

- ◆ Accounting records date back to the ancient civilizations of China, Babylonia, Greece and Egypt.
- ◆ Financial Accounting & Managerial Accounting
- ◆ Specialized fields of accounting
  - ◆ auditing, cost accounting, tax accounting, budgetary accounting, governmental and non-profit accounting, human resources accounting, environmental accounting, social accounting, international accounting.

### 9.2 The Nature of Accounting

(1) The language of business

- ◆ Accounting uses its own special words and symbols to communicate financial information that is intended to be useful for economic decision made by managers, shareholders, creditors and many other users.
- ◆ So accounting is an information system that identifies, measures and records business activities, processes the information of those activities into reports and financial statements, and communicates these findings to decision-makers.

(2) the relationship of accounting and bookkeeping

<b>Bookkeeping</b>	<b>Accounting</b>
<b>a process of accounting</b>	<b>analysis, interpretation, and use of information</b>
<b>the means of recording transactions and keeping record</b>	<b>be interested in finding trends and studying the effects of different alternatives</b>
<b>a small, simple part of accounting (mechanical and repetitive)</b>	<b>including system design, cost analysis, auditing, tax preparation</b>

### 9.3 Users of Accounting Information

- ◆ **Individual People**
- ◆ **Business Managers**
- ◆ **Investors and Creditors**

- ◆ **Government Regulation Agencies**
- ◆ **Taxing Authorities**
- ◆ **Non-profit Organization**
- ◆ **Other Users**

#### **9.4 Accounting Profession**

##### Private Accountants

to work for a single business or unit;  
e.g.: controller, treasurer, chief financial officer

- ◆ **Public Accountants**

to serve the general public and collect professional fees for their work;  
e.g.: auditing, tax planning, management consulting  
◆ public accounting firms are called CA firms, CPA firms, or CMA firms, depending on the accounting body;

CA: Chartered Accountant

CPA: Certified Public Accountant (or CGA)

CMA: Certified Managerial Accountant

#### **9.5 Generally Accepted Accounting Principles**

Accountants need standards in preparing financial statements. These standards are called generally accepted accounting principles(GAAP).

- ◆ **Separate Entity Concept (Accounting Entity)**

all forms of business concerns are conceived and treated as a separate entity, separate and distinct from its owner or owners, as well as from other concerns;

- ◆ **Cost Principle (Historical Cost)**

All goods and services purchased are recorded at acquisition cost and appear in financial statements at cost ;

- ◆ **Objectivity Principle**

to require that transaction amounts be objectively recorded ;

- ◆ **Continuing Concern Concept (Going Concern)**

to assume the business will continue in operation;

- ◆ **Time-period Assumption (Accounting Period)**

to result in a division of the life of a business into time periods of equal length, called accounting period

- ◆ **Materiality Concept**

may be applied to procedures used in recording transactions;  
to consider the relative importance of any event

- ◆ **Monetary Assumption (Measuring Unit )**

the dollar has the same characteristic---stability over time;

## Chapter 10 What is inventory accounting?

Learning hours : 2

Teaching Objects:

- ◆ **Types of Business Organizations**
- ◆ **The Accounting Equation**
- ◆ **The Effects of Business Transactions on the Accounting Equation**
- ◆ **The Account**

Keypoints of teaching:

**Analysis to different transactions and some commonly used accounts**

Teaching flow chart:

### 10.1 Types of Business Organizations

- ◆ **Three basic forms of business organizations: the proprietorship, the partnership and the corporation.**

A	The proprietorship has a single owner, each of proprietorship is distinct from its proprietor.
B	The partnership joins two or more individuals together as co-owners, distinct from the personal affairs of partner.
C	The corporation is a business owned by shareholders

### 10.2 The Accounting Equation

(1) Assets, Liabilities and Owner' s Equity

Assets: the economic resources of a business that are expected to be benefit in the future.

e.g.: cash, office supplies, merchandise, furniture, land, buildings

Liabilities: “ outsider claims ” which are economic debt-payable to outsiders (called creditors).

e.g.: accounts payable, wage payable, notes payable

Owner' s Equity: “ insider claims ” which are held by the owners of the business.

e.g.: capital

(2) Accounting Equation

Assets = Liabilities + Owner' s Equity

▲ the most basic tool of accounting;

▲ shows the relationship among assets, liabilities and owner' s equity;

another way: Assets - Liabilities = Owner' s Equity

### 10.3 The Effects of Business Transactions on the Accounting Equation

(1)Transaction: any event that both affects the financial position of the business entity and may be reliably recorded.

Question: Which of the following five events is transaction?

(a) elections;

- (b) economic booms and recessions;
- (c) purchases and sales of merchandise inventory;
- (d) payment of rents;
- (e) collection of cash from customers.

◆ **Answer:**

- (a) elections; (X)
- (b) economic booms and recessions; (X)
- (c) purchases and sales of merchandise inventory; (✓)
- (d) payment of rents; (✓)
- (e) collection of cash from customers; (✓)

(2) Illustration

- ◆ **NB.: Transaction analysis is the essence of accounting**
  - ✦ **Transaction 1** John Smith invests \$50,000 of his money to begin the business and he deposited it in a bank account.

## 10.4 The Account

- ◆ **2.4.1 The T Account**
  - ✦ the basic storage unit for data in accounting;
  - ✦ basic structure:
    - ◆ a title that describes the assets, liabilities, or owner's equity accounts;
    - ◆ a left side, which is called the debit side;
    - ◆ a right side, which is called the credit side.
- ◆ **2.4.2 Management's Use of Accounts**

The accumulation of information in account form is useful to management in running a business.

- ◆ **2.4.3 The Ledger**

Ledger:

In a manual accounting system, each account is kept on a separate page or card. These pages or cards are placed together in a book or file. This book or file, which contains all the company's accounts, is called a ledger.

Chart of Ledger:

The accountants often number the accounts in order to find an account in the ledger easily. A list of these numbers with the corresponding account names is called a chart of accounts.

- ◆ **2.4.4 Types of Commonly Used Accounts**

### Assets

◆ **Cash:**

Is the title of the account used to record increase and decrease in cash. Included are coins, currency, checks, money orders, money deposited in a bank, cash on hand such as that in a cash register or a safe.

◆ **Notes Receivable:**

A promissory note is a written promise to pay a definite sum of money at a fixed future date. Amounts due from others in the form of promissory notes are recorded in this account.

◆ **Accounts Receivable:**

Companies often sell goods and services to customers on the basis of oral or implied promises to pay in the future. These sales are called Credit Sales or Sales on Account, and can be recorded in Accounts Receivable.

◆ **Land and Buildings:**

✦ **Increases and decreases in land and buildings owned by a business are recorded in accounts called land and buildings, respectively.**

✦ **N.B.: the building is subject to wear and tear, but the land is not.**

◆ **Equipment:**

✦ **Same as buildings.**

**Liabilities**

◆ **Notes payable:**

The exact opposite of Notes Receivable. It is used to record increases and decreases in promissory notes owned to creditors.

◆ **Accounts payable:**

The exact opposite of Accounts Receivable. It represents amounts owed to creditors on the basis of an oral or implied promise to pay.

**Owner' s Equity**

◆ **Capital:**

This account shows the owner' s claim to the assets of the business.

Capital = owner' s investment + net income - net loss - owner' s withdrawals

◆ **Revenues:**

The increase in owner' s equity from delivering goods or services to customers or clients is called revenue.

e.g.: Service Revenue, Sales Revenue, Interest Revenue, Rent Revenue.

◆ **Expenses:**

The cost of operating a business is called expense. It has the opposite effect of revenue, so it decreases owner' s equity.

e.g.: Salary Expense, Rent Expense, Advertising Expense, Utilities Expense

## Chapter11 How to depreciate fixed assets?

Learning hours : 2

Teaching Objects:

- ◆ **Double-Entry Bookkeeping**
- ◆ **Recording Business Transaction**
- ◆ **Illustrative Problem**
- ◆ **The Trial Balance**

Keypoints of teaching: double entry bookkeeping and trial balance

Teaching flow chart:

### 11.1 Double-Entry Bookkeeping

- ◆ Definition of Double-Entry Bookkeeping
- ◆ The double-entry system is based on the principle of duality, which means that all events of economic importance have two aspects-effort and reward, sacrifice and benefit, source and use-that offset or balance each other. In the double-entry system each transaction must be recorded twice, in such a way that the total debits and total credits equal each other .
- ◆ Rules of Bookkeeping :
  - ◆ every transaction affects at least two accounts.
  - ◆ the total debits and total credits equal each other ;
  - ◆
- ◆ Transaction 1:
  - ◆ John Smith invested the \$50,000; he inherited in cash to begin his law practice. What accounts are affected? By what' s the amount? On what side (debit or credit)?
- ◆ Transaction 2:
  - ◆ \$40,000 cash to purchase land.
- ◆ Transaction 3:
  - ◆ \$500 purchase of office supplies on account.

### 11.2 Recording Business Transaction

- ◆ Step1:Analyze the effect of the transaction on assets, liabilities, and owners 'equity.
- ◆ Step2:Apply the correct double-entry rule.
- ◆ Step3:Make the entry.
- ◆
- ◆ Example: Jones Company borrows \$1000 from its bank on a promissory note.
- ◆ Dr. Cash 1,000
- ◆ Cr. Notes Payable 1,000
- ◆ NB: Debit can be abbreviate Dr.;
- ◆ Credit can be abbreviate Cr.;
- ◆ **11.2.1 Recording Transactions in Journals**
- ◆ Journal: In actual practice, accountants record transactions first in a book called the journal. A journal is a chronological record of the entity's transactions.
- ◆ The recording process:

- ◆ Identify the transactions from source documents;
- ◆ Specify each account affected by the transaction and classify it by type;
- ◆ Determine whether each account is increased or decreased by the transaction;
- ◆ Using the rules of debit and credit, determine whether to debit or credit the account;
- ◆ Enter the transaction in the journal, including a brief explanation for the journal entry.
- ◆ Transaction 1: John Smith, Lawyer - the \$50,000 cash investment in the business.

Date	Accounts and Explanation	Debit	Credit
Apr. 2	Cash	50,000	
	John Smith, Capital		50,000

#### ◆ Page of the Journal

- ◆ The journal can be a loose-leaf notebook, a bound book, or a printout of a computer file.

#### ◆ 11.2.2 Posting from the Journal to the Ledger

- ◆ Posting means transferring the amounts from the journal to the appropriate accounts in the ledger;
- ◆ Debits in the journal are posted as debits in the ledger;
- ◆ Credits in the journal are posted as credits in the ledger

#### ◆ 11.3 Illustrative Problem

#### ◆ 11.4 The Trial Balance

##### ◆ Definition of the trial balance

- ◆ A trial balance is a list of all accounts with their balances.
- ◆ Providing a check on accuracy by showing whether the total debits equal to the total credits.
- ◆ May be taken at any time the postings are up to date.
- ◆ Preparing the trial balance

## Chapter12 What is liability?

Learning hours : 2

Teaching Objects:

- ◆ **Financial Statements**
- ◆ **A Balance Sheet**
- ◆ **An Income Statement**

Keypoints of teaching: Balance sheet and income statement

Teaching flow chart:

- ◆ **12.1 Financial Statements**

Natures of Financial Statements

A central feature of accounting.

The primary means of communicating important accounting information to users.

Attempting to show the business in financial terms.

Three major financial statements

The balance sheet;

The income statement;

The statement of owner' s equity.

- ◆ **12.1.1 The Balance Sheet**

to show the financial position of a business on a certain date.

to be often called the statement of financial position.

to present a view of the business: a collection of resources or assets belonging to the company is equal to claims against those assets.

- ◆ **12.1.2 The Income Statement**

to show the amount of income earned by a business over a period of time;

to measure whether or not the business achieved its primary objective of earning an acceptable income

to hold the most important single piece of information about a business - its net income, which is revenues minus expenses. If expenses exceed revenues, the result is a net loss for the period.

- ◆ **12.1.3 The Statement of Owner' s Equity (Or Retained Earnings)**

The statement of owner's equity presents a summary of the changes that occurred in the owner's equity of the entity during a specific period.

For the corporation, we use the statement of retained earnings instead of the statement of owner' s equity.

- ◆ **12.1.4 The Statement of Changes In Financial Position**

The statement of changes in financial position is now widely used to show all changes in financial position that take place during an accounting periods , especially the investing and financing activities of a business.

- ◆ **12.1.5 Relationship of The Financial Statements**

- ◆ **12.2 A Balance Sheet**

- ◆ **12.2.1 Classification of Assets and Liabilities**

Liquidity is a measure of how quickly an item may be converted to cash.

Users of financial statements are interested in liquidity because business difficulties often arise owing to a shortage of cash.

Balance sheets list assets and liabilities in the order of their relative liquidity.

◆ **(1) Current Assets**

are expected to be converted to cash, sold or consumed during the next 12 months or within the business's normal operating cycle if longer than a year;

cash, accounts receivable, notes receivable due within a year or less, prepaid expenses, inventory

◆ **(2) Long-Term Assets**

are all assets other than current assets;

they are not held for sale, but rather they are used to operate the business;

capital assets: land, buildings, furniture and fixtures, equipment;

intangible assets :patents, trademarks, franchises, goodwill.

◆ **(3) Current Liabilities**

are debts that are due to be paid within one year or one of the entity's operating cycles if the cycle is longer than a year;

accounts payable, notes payable due within one year, salaries payable, unearned revenue, goods and services tax payable, interest payable owed on notes payable.

◆ **(4) Long-term Liabilities**

All liabilities that are not current are classified as long-term liabilities.

◆ **12.2.2 Formats of Balance Sheets**

◆ **12.2.3 Current Ratio and Debit Ratio**

a company prefers a high current ratio, which means the business has plenty of current assets to pay current liabilities;

a rule of thumb: A strong current ratio would be in the range of 2.00

a low debt ratio is safer than a high debt ratio;

a company with a high debt ratio may have trouble paying its liabilities, especially when sales are low and cash is scarce.

◆ **12.3.1 Format of Income Statement**

◆ **12.3.2 Gross margin percentage and Inventory turnover**

Gross margin percentage is one of the most carefully watched measures of profitability because it is fundamental to a merchandiser;

a small increase in the gross margin percentage usually indicates an increase in profitability.

Inventory turnover shows how many times inventory was sold during the year;

a high rate of turnover is preferred over a low rate of turnover;

an increase in turnover usually means higher profits.

## Chapter 13 What is shareholders' equity?

Learning hours : 2

Teaching Objects:

- ◆ **Business Income**
- ◆ **Some Generally Accepted Accounting Principles**
- ◆ **Adjustments to the Accounts**
- ◆ **Adjusted Trial Balance**
- ◆ **Preparing the Financial Statements from the Adjusted Trial Balance**

Keypoints of teaching: Adjustment entry

Teaching flow chart:

### 13.1 Business Income

- ◆ net income is the net increase in owners' equity resulting from the profit-seeking operations of the company;
- ◆ net income equals the difference between revenues and expenses:
- ◆  $\text{Net Income} = \text{Revenues} - \text{Expenses}$
- ◆ Revenues are 'inflows or other enhancements of assets of an entity or settlement of its liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's major or central operations' .
- ◆ Expenses are 'outflows or other using up of assets or incurrence of liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations'.
- ◆ separate accounts for each revenue and expense are temporary, and are sometimes called nominal accounts. At the end of the period, their account balances are transferred to Income Summary.

### 13.2 Some Generally Accepted Accounting Principles

- ◆ **13.2.1 Accrual-Basis Accounting**
- ◆ Accrual Basis Accounting
- ◆ In accrual-basis accounting, an accountant recognizes the impact of a business event as it occurs. When the business performs a service, makes a sale or incurs an expense, the accountant enters the transaction into the books, whether or not cash has been received or paid
- ◆ Cash Basis Accounting
- ◆ In cash-basis accounting, however, the accountant does not record a transaction until cash is received or paid. Cash receipts are treated as revenues and cash disbursements are handled as expenses.

◆ **13.2.2 The Accounting Period**

- ◆ businesses need periodic reports on their progress;
- ◆ accountants slice time into small segments and prepare financial statements for specific periods;
- ◆ the most basic accounting period is one year.

◆ **13.2.3 Revenue Principle**

- ◆ revenue should be recorded as it has been earned but not before
- ◆ to tell accountants: when to record revenue and the amount of revenue to record;

◆ **13.2.4 Matching Principle**

- ◆ to identify all expenses incurred during the accounting period;
- ◆ to measure the expenses;
- ◆ to ‘match’ them against the revenues earned during that same span of time;
- ◆ to ‘match’ expenses against revenues means to subtract the expenses from the revenues in order to compute net income or net loss.

◆ **13.2.5 Time-Period Concept**

- ◆ accounting information is reported at regular intervals;
- ◆ it interacts with the revenue principle and matching principle to underlie the use of accruals basis accounting.

**13.3 Adjustments to the Accounts**

- ◆ The end-of-period process of updating the accounts is called adjusting the accounts, making the adjusting entries, or adjusting the books.
- ◆ Adjusting entries can be divided into five categories:

- ◆ Prepaid expenses
- ◆ Depreciation
- ◆ Accrued expenses
- ◆ Accrued revenues
- ◆ Unearned revenues
- ◆ **Prepaid Expenses**

- ◆ Prepaid expenses is a category of miscellaneous assets that typically expire or are used up in the near future;
- ◆ Prepaid rent, prepaid insurance, and supplies are examples of prepaid expenses;
- ◆ They are called prepaid expenses because they are expenses that are paid in advance;
- ◆ Examples: Suppose John Smith prepays three months' rent on April 1, 200X, after negotiating a lease for the office of his law practice. If the lease specifies monthly rental amounts of \$1,000 each, the entry to record the payment for three months is a debit to the

asset account, Prepaid Rent, as follows:

◆ Apr. 1	Dr.	Prepaid Rent (\$1,000 x 3)	3,000
		Cr. Cash	3,000

Paid three months' rent in advance.

◆ Apr.30	Dr.	Rent Expense (\$3,000 x 1/3)	1,000
		Cr. Prepaid Rent	1,000

To record rent expense.

#### ◆ Depreciation and Capital Assets

◆ Capital assets are long-lived assets, such as land, buildings, furniture, machinery and equipment;

◆ Accountants systematically spread the cost of each capital asset, except land, over the years of its useful life. This process is called the recording of depreciation or amortization;

#### ◆ Examples:

◆ Apr. 3	Dr.	Furniture	16,500
		Cr. Accounts Payable	16,500

Purchased office furniture on account.

◆ Apr.30	Dr.	Depreciation Expense	275
		Cr. Accumulated Depreciation--- Furniture	275

To record depreciation expense on furniture

#### ◆ Accrued Expenses

◆ accrued expense refers to an expense that the business has incurred but has not yet paid;

◆ *Examples:* Suppose John Smith pays his employee a monthly salary of \$1,900, half on the 15th and half on the last day of the month.

◆ Apr.15	Dr.	Salary Expense	950
		Cr. Cash	950

To pay salary

◆ Apr.30	Dr.	Salary Expense	950
		Cr. Salary Payable	950

To accrue salary expense.

#### ◆ Accrued Revenues

◆ A revenue that has been earned but not yet received in cash is called an accrued revenue;

#### ◆ Examples:

◆ Assume John Smith is hired on April 15 by Guerrero Construction Co. Ltd. to perform legal services on an as-needed basis. Under this agreement, Guerrero will pay Smith \$500 monthly, with the first payment on May 15. During April, John Smith will earn half a month' s fee, \$250.

◆ Apr.30	Dr.	Accounts Receivable (\$500 x 1/2)	250
		Cr. ServiceRevenue	250

To accrue service revenue

#### ◆ Unearned Revenues

- ◆ Some businesses collect cash from customers in advance of doing work for the customer. This creates a liability called unearned revenue, which is an obligation arising from receiving cash in advance of providing a product or service;
- ◆ **Examples:** Suppose Baldwin Computer Service Center engages Smith's services, agreeing to pay him \$450 monthly, beginning immediately. If Baldwin makes the first payment on April 20, Smith records this increase in the business's liabilities as follows:
- ◆ Apr.20 Dr. Cash 450  
           Cr. Unearned Service Revenue 450  
           Received revenue in advance.
- ◆ Apr.30 Dr. Unearned Service Revenue ( $\$450 \times 1/3$ ) 150  
           Cr. Service Revenue 150  
           To record service revenue that was collected in advance.

### 13.4 Adjusted Trial Balance

- ◆ After the adjustments are journalized and posted, a useful step in preparing the financial statements is to list the accounts, along with their adjusted balances, on an adjusted trial balance. This document has the advantage of listing all the accounts and their adjusted balances in a single place;
- ◆ the trial balance before any adjusting entries is called the unadjusted trial balance;

## **Chapter 15 What tasks does an accountant do?**

Learning hours : 2

Teaching Objects:

- ◆ **The Accounting Cycle**
- ◆ **Preparation of the Work Sheet**
- ◆ **Uses of the Work Sheet**
- ◆ **Closing the Accounts**

Keypoints of teaching: worksheet

Teaching flow chart:

### **15.1 The Accounting Cycle**

#### ◆ **Definition:**

- ▲ The accounting system encompasses the sequence of steps followed in the accounting process, from analyzing transactions to preparing financial statements and closing the accounts.

#### ◆ **Steps:**

- (1) The transactions are analyzed from the source documents.
- (2) The transactions are recorded in the journal.
- (3) The entries are posted to the ledger.
- (4) The accounts are adjusted at end of the period, usually with the aid of a work sheet.
- (5) Financial statements are prepared from the work sheets.
- (6) The accounts are closed to conclude the current accounting period and prepare for the beginning of the new accounting period.

### **15.2 Preparation of the Work Sheet**

#### ◆ 6.2.1 The Accountant's Work Sheet

- ◆ The work sheet is used frequently as a preliminary step in the preparation of financial statements;
- ◆ Using a work sheet lessens the possibility of ignoring an adjustment, aids in checking the arithmetical accuracy of the accounts, and facilitates the preparation of financial statements;
- ◆ The work sheet is not part of the ledger or the journal, nor is a financial statement.

#### ◆ 6.2.2 Steps in Preparing the Work Sheet

- ◆ (1) Write the account titles and their unadjusted ending balances in the Trial Balance columns of the work sheet and total the amounts.
- ◆ (2) Enter the adjustments in the Adjustments columns and total the amounts.
- ◆ (3) Compute each account's adjusted balance by combining the trial balance and adjustment figures. Enter the adjusted amounts in the Adjusted Trial Balance columns.
- ◆ (4) Extend the asset, liability, and owner's equity amounts from the Adjusted Trial Balance to the Balance Sheet columns. Extend the revenue and expense amounts to the Income Statement columns. Total the statement columns.

- ◆ (5) Compute net income or net loss as the difference between total revenues and total expenses on the income statement. Enter net income or net loss as a balancing amount on the income statement and the balance sheet, and compute the adjusted column totals. After completion, total debits equal total credits in the income statement columns and in the balance sheet columns.

### 15.3 Uses of the Work Sheet

- ◆ to prepare the financial statements;
- ◆ to record the adjusting entries;
- ◆ to record the closing entries, to prepare for the beginning of the next period.

### 15.4 Closing the Accounts

- ◆ Accountants use the term closing the accounts to refer to the step at the end of the period that prepares the accounts for recording the transactions of the next period.
  - ◆ Closing the accounts consists of journalizing and posting the closing entries;
  - ◆ Closing sets the balances of the revenue and expense accounts back to zero in order to measure the net income of the next period;
  - ◆ The closing process applies only to temporary accounts.
- ◆ Steps in closing accounts:
- ◆ (1) Debit each revenue account for the amount of its credit balance. Credit income summary for the sum of the revenues. This entry transfers the sum of the revenues to the credit side of the income summary.
  - ◆ (2) Credit each expense account for the amount of its debit balance. Debit income summary for the sum of the expenses. This entry transfers the sum of the expenses to the debit side of the income summary.
  - ◆ (3) Debit income summary for the amount of its credit balance (revenues minus expenses) and credit the capital account. If income summary has a debit balance, then credit income summary for this amount and debit capital. This entry transfers the net income or loss from income summary to the capital account.
  - ◆ (4) Credit the withdrawals account for the amount of its debit balance. Debit the capital account of the proprietor. Withdrawals are not expenses and do not affect net income or net loss. Therefore this account is not closed to the income summary. This entry transfers the withdrawal amount to the debit side of the capital account.