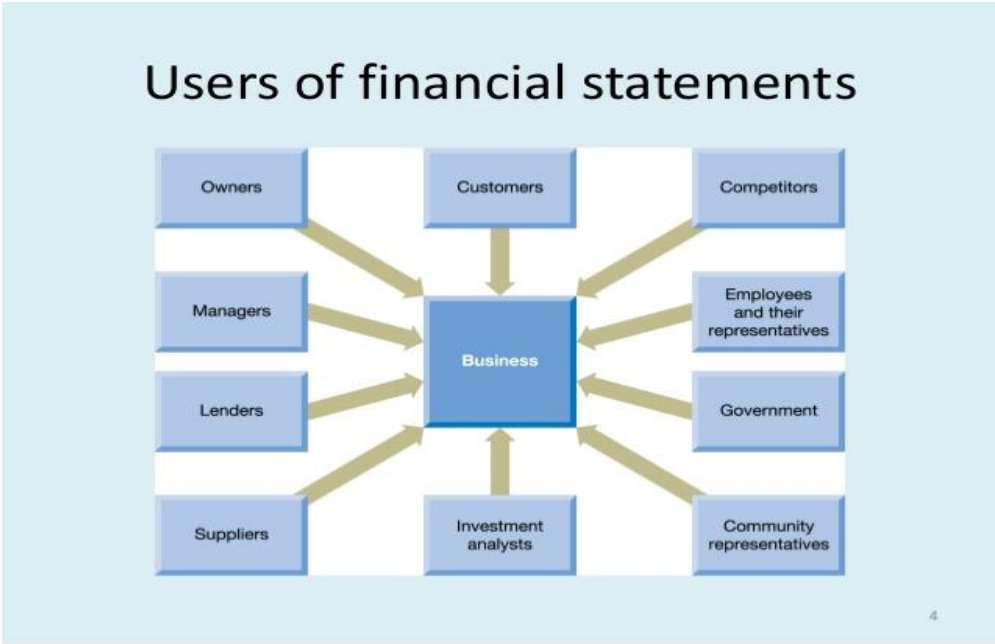


Drawings	Assets	eXpenses	Capital	Income	Liabilities
- Drawings			- Capital		
- Assets			- Income		
- Expenses			- Liabilities		
↑ Dt (Increases)			↑ Cr (Increases)		
↓ Cr (decreases)			↓ Dt (decreases)		

Financial Accounting

Financial accounting is a specialized branch of **accounting** that keeps track of a company's **financial** transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a **financial** report or **financial** statement such as an income statement or a balance sheet.



International Financial Reporting Standards (IFRS) are a set of **accounting** standards developed by the International **Accounting** Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements

Sole Trader

A **sole trader** is a person who sets up and owns their own **business**. They may decide to employ other people but they are the only owner. A **sole trader** has unlimited liability.' As a **sole trader**, your **business** is owned entirely by you, grown by you and ultimately succeeds or fails by you.

OE – Owners Equity

Owner's (Stockholders') Equity. Owner's Equity - along with liabilities - can be thought of as a source of the company's assets. Owner's equity is sometimes referred to as the book value of the company, because owner's equity is **equal** to the reported asset amounts minus the reported liability amounts.

Double – Entry principle

Double-entry accounting is based on the fact that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy the equation $\text{Assets} = \text{Liabilities} + \text{Equity}$, in which each **entry** is recorded to maintain the relationship.

DOUBLE ENTRY PRINCIPLES

Classification	DEBIT	CREDIT
Assets	increase in Assets	decrease in Assets
Liability	decrease in Liabilities	increase in Liabilities
Capital/ Owner's equity	decrease in Owner's Equity	increase in Owner's Equity
Revenue	decrease in Revenue	increase in Revenue
Expenses	increase in Expenses	decrease in Expenses

Debit – (Left hand side)

A **debit** is an **accounting** entry that either increases an asset or expense account, or decreases a liability or equity account. It is positioned to the left in an **accounting** entry.

Credit – (right hand side)

A **credit** is an **accounting** entry that either increases a liability or equity account, or decreases an asset or expense account.

T - Account

A **T account** is a graphic representation of a general ledger **account**. The name of the **account** is placed above the "T" (sometimes along with the **account** number). Debit entries are depicted to the left of the "T" and credits are shown to the right of the "T".

Assets		Expenses		Owner's Drawing	
Debits	Credits	Debits	Credits	Debits	Credits
Increase	Decrease	Increase	Decrease	Increase	Decrease
Normal		Normal		Normal	
Balance		Balance		Balance	
Liabilities		Revenues		Owner's Capital	
Debits	Credits	Debits	Credits	Debits	Credits
Decrease	Increase	Decrease	Increase	Decrease	Increase
	Normal		Normal		Normal
	Balance		Balance		Balance

Debtors

A **debtor** is a person or entity that owes money. In other words, the **debtor** has a debt or legal obligation to pay an amount to another person or entity. For example, if you borrow R10, 000 from a bank, you are the **debtor** and the bank is the creditor. (rencher)

Creditor

Keep track of money your company is owed with online **accounting** software. A term used in **accounting**, 'creditor' refers to the party that has delivered a product, service or loan, and is owed money by one or more debtors. A debtor is the opposite of a **creditor** – it refers to the person or entity who owes money. (susan)

Balancing off of accounts

However, when **accounts** consist of debit and credit entries, the following procedure should be used to **balance off** these **accounts**: Add up the amounts on each side of the **account** to find the totals. Enter the larger figure as the total for both the debit and credit sides.

Balancing off a statement of financial position ledger account

cash	
Capital 10000	Purchases 200
Sales 250	Rent 150
10250	B/ce c/d 9900
B/ce b/d 9900	10250

1. Total both sides of the T account and find the larger total. In the example the larger total is in debit side.

2. Put the larger in the total box on the debit and credit side.

3. Calculate the difference between the large side and the small side and set the figure in the small side naming it **Balance c/d (carried down)**

4. Carry the balance down diagonally and call it "balance b/f" (brought forward)

Assets

In **financial accounting**, an **asset** is an economic resource. Anything tangible or intangible that can be owned or controlled to produce value and that is held by a company to produce positive economic value is an **asset**. ... Current **assets** include inventory, while fixed **assets** include such items as buildings and equipment.

Current assets are a balance sheet account that represents the value of all assets that can reasonably expect to be converted into cash within one year. Current assets include cash and cash equivalents, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash.

Noncurrent assets are company long-term investments where the full value will not be realized within the accounting year. Examples of **noncurrent assets** include investments in other companies, intangible **assets** such as goodwill, brand recognition and intellectual property, and property, plant and equipment.

Current vs Non Current Assets

Balance Sheet	
Current Assets:	Within the financial year:
Cash	- Expected to produce revenue
Accounts receivable	- Can be used to meet short term / day to day obligations
Prepaid Insurance	- Generally can be liquidated (converted to cash within 1 yr)
Inventories	
Non Current Assets: (Fixed Assets)	
Office Furniture	- Tend to remain in the business for a longer period of time
Motor Vehicles	- Indirectly generate income
Buildings	- Can not be liquidated instantly for cash
Land	- Subject to depreciation
Total Assets = Current + Non Current Assets	

Liabilities

A **liability** is an obligation and it is reported on a company's balance sheet. A common example of a liability is accounts payable. Accounts payable arise when a company purchases goods or services on credit from a supplier. When the company pays the supplier, the company's accounts payable is reduced.

Other common examples of liabilities include loans payable, bonds payable, interest payable, wages payable, and income taxes payable.

What is a liability?

- *Something we owe because of something we did and we are going to have to pay.*



Income

Accounting income is an estimate of performance in the operations of a company. It is influenced by financing and investing decisions. **Accounting income** or loss generally recognizes realized gains and losses, and does not recognize unrealized gains and losses

Table 37- 2. **Examples of Taxable and Nontaxable Earned Income**

Taxable Earned Income	Nontaxable Earned Income
Wages and salaries.	Salary deferrals and reductions.
Union strike benefits.	Meals and lodging provided for the convenience of your employer.
Taxable long-term disability benefits received before minimum retirement age.	Excludable dependent care benefits and excludable adoption benefits.
Net earnings from self-employment.	Excludable educational assistance benefits.
Tips.	Excluded combat pay.
Gross income received as a statutory employee.	Military basic housing and subsistence allowances.

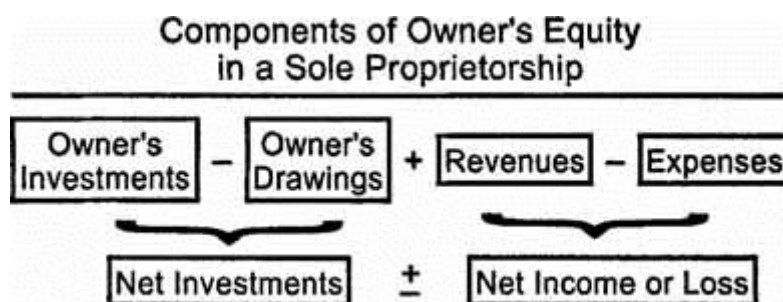
Expenses

An **expense in accounting** is the money spent or cost incurred in an entity's efforts to generate revenue. **Expenses** represent the cost of doing business where doing business is the sum total of the activities directed towards making a profit.

No.	Account Title	To Increase	Description/Explanation of Account
500	Salaries Expense	Debit	Expenses incurred for the work performed by salaried employees during the accounting period. These employees normally receive a fixed amount on a weekly, monthly, or annual basis.
510	Wages Expense	Debit	Expenses incurred for the work performed by non-salaried employees during the accounting period. These employees receive an hourly rate of pay.
540	Supplies Expense	Debit	Cost of supplies used up during the accounting period
560	Rent Expense	Debit	Cost of occupying rented facilities during the accounting period.
570	Utilities Expense	Debit	Costs for electricity, heat, water, and sewer that were used during the accounting period.
576	Telephone Expense	Debit	Cost of telephone used during the current accounting period.
610	Advertising Expense	Debit	Costs incurred by the company during the accounting period for ads, promotions, and other selling and expenses (other than salaries).
750	Depreciation Expense	Debit	Cost of long-term assets allocated to expense during the current accounting period.

Drawings

The **drawing** account is an **accounting** record used in a business organized as a sole proprietorship or a partnership, in which is recorded all distributions made to the owners of the business. They are, in effect, "**drawing**" funds from the business



Trial Balance

A **trial balance** is a list of all the general ledger **accounts** (both revenue and capital) contained in the ledger of a business. This list will contain the name of each nominal ledger **account** and the value of that nominal ledger **balance**. Each nominal ledger **account** will hold either a debit **balance** or a credit **balance**.

Paul's Guitar Shop, Inc. Post Closing Trial Balance December 31, 2015		
Account	Debit	Credit
Cash	\$ 32,800	
Accounts Receivable	300	
Prepaid Rent	1,000	
Inventory	39,800	
Leasehold Improvements	100,000	
Accumulated Depreciation		\$ 2,000
Accounts Payable		49,000
Accrued Expenses		450
Unearned Income		1,000
Long-term Liabilities		99,500
Common Stock		10,000
Retained Earnings		11,950
Totals	\$ 173,900	\$ (173,900)

Profit or loss accounts

The purpose of the **profit** and **loss account** is to: Show whether a business has made a **PROFIT** or **LOSS** over a financial year. Describe how the **profit** or **loss** arose – e.g. categorising costs between "cost of sales" and operating costs.

How do you calculate profit or loss?

To **calculate** the gain, take the price for which you sold the investment and subtract from it the price that you initially paid for it. Now that you have your gain, divide the gain by the original amount of the investment. Finally, multiply your answer by 100 to get the percentage change in your investment

Larry's Landscaping & Garden Supply
Profit & Loss
October 2011 through September 2012

	Oct '11 - Sep 12
Ordinary Income/Expense	
Income	
Landscaping Services	57,860.36
Markup Income	815.00
Retail Sales	383.03
Service	6,640.00
Total Income	65,698.39
Cost of Goods Sold	4,220.25
Total COGS	4,220.25
Gross Profit	61,478.14
Expense	
Payroll Expenses	37,820.65
Automobile	738.05
Bank Service Charges	73.50
Delivery Fee	15.00
Insurance	1,835.00
Interest Expense	470.91
Job Expenses	2,427.25
Mileage Reimbursement	0.00
Professional Fees	375.00
Rent	2,400.00
Repairs	45.00
Tools and Misc. Equipment	735.00
Uncategorized Expenses	0.00
Utilities	655.55
Total Expense	47,590.91
Net Ordinary Income	13,887.23
Other Income/Expense	
Other Income	
Misc Income	762.50
Interest Income	91.11
Total Other Income	853.61
Net Other Income	853.61
Net Income	14,740.84

Statement of profit or loss and other comprehensive income

The performance of a company is reported in the **statement of profit or loss and other comprehensive income**. IAS 1, Presentation of Financial **Statements**, defines **profit or loss** as 'the total of **income** less expenses, excluding the components of **other comprehensive income**'.

Format of Statement of profit or loss and other comprehensive income

XYZ Company

Statement of profit or loss and other comprehensive income for the year ended 31st March 2015

	2014-15	2013-14
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Other income	X	X
Distribution cost	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Finance cost	(X)	(X)
Profit before tax	X	X
Income tax	(X)	(X)
Profit after tax	X	X
Other comprehensive income		
Gains on property revaluation	X	X
Total comprehensive income for the year	X	X

Cash Transactions

A **cash transaction** is a **transaction** where payment is settled immediately. On the other hand, payment for a credit **transaction** is settled at a later date. Try not to think about **cash** and credit **transactions** in terms of how they were paid, but rather, when they were paid.

Source Document

A **source document** is the original record containing the details to substantiate a transaction entered in an accounting system. For example, a company's source document for the recording of merchandise purchased is the supplier's **invoice** supported by the company's purchase order and receiving ticket

Internal & External Source Document

There are two basic types of **documents** produced by an **accounting** system: external and **internal documents**. ... The records of these basic transactions (sales invoices, cash ledger vouchers, purchase invoices, bank statements, personnel records and loans) are found among the **documents** of any business.

Cash Slips

A **cash voucher** is a standard form used to document a petty **cash** payment. When someone wants to withdraw **cash** from the petty **cash** fund, that person fills out the **cash voucher** to indicate the reason for the withdrawal, and receives **cash** from the petty **cash** custodian in exchange.

Cash Register roll

Electronic device used to calculate financial transactions. Most **cash registers** consist of a keyboard that is used to input entries, a scanner of some sort, a **drawer** that is used to hold **cash**, and a printing device for receipts.

Duplicate Cash Invoice

Duplicate invoice refers to the two copies of the same **invoices**. It contains the same **invoice** details when you choose to **duplicate** the **invoice**.

Original cash invoice

An **invoice** is a commercial document that itemizes a transaction between a buyer and a seller. If goods or services were purchased on credit, the **invoice** usually specifies the terms of the deal, and provides information on the available methods of payment. An **invoice** is also known as a bill or sales **invoice**.

Duplicate receipt

The **duplicate receipt** is a very useful document that can produce a copy of the actual **receipt** issued for any specified purpose. The **receipt** has the same elements and is identical to the original **receipt**. This **duplicate receipt** may be obtained from the vendor or the seller at the time of the transaction.

Original receipt

An **original invoice/receipt** is the **original** document issued by the supplier or service provider to document a business transaction. Examples of **original receipts** include point-of sale **receipt**, supplier **invoice** or on-line order confirmation.

Original counterfoils

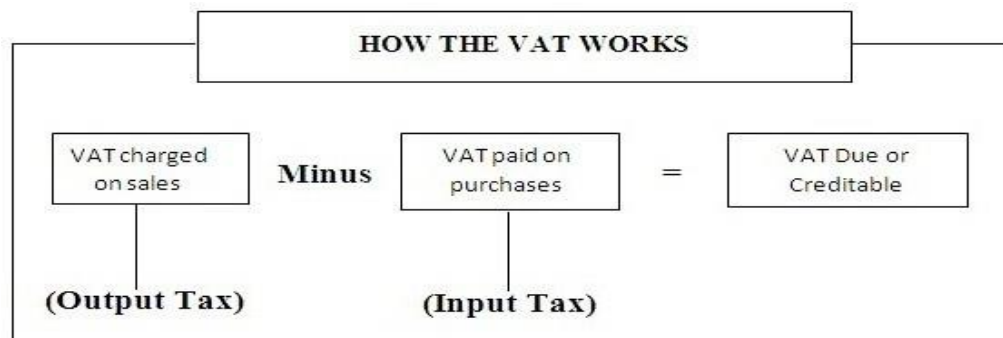
A **counterfoil** is the part of a cheque, ticket, or other document that you keep when you give the other part to someone else.

Petty cash voucher

A **petty cash voucher** is usually a small form that is used to document a disbursement (payment) from a **petty cash** fund. **Petty cash vouchers** are also referred to as **petty cash** receipts and can be purchased from office supply stores.

Valued added tax

VAT - value added tax - is a **tax** levied on sales of goods and services. ... You pay **VAT** on the items or services you buy from other business. You charge **VAT** on the items or services you sell to other businesses and customer s(if you are **VAT** registered).



Sales

In **accounting**, **sales** refers to the revenues earned when a company sells its goods, products, merchandise, etc. (If a company sells one of its noncurrent assets that was used in its business, the amount received is not recorded in its **Sales** account.)

Purchases

A temporary account used in the periodic inventory system to record the **purchases** of merchandise for resale. (**Purchases** of equipment or supplies are not recorded in the **purchases** account.) This account reports the gross amount of **purchases** of merchandise.

How do you find purchases in accounting?

Thus, the steps needed to derive the amount of inventory purchases are:

1. Obtain the total valuation of beginning inventory, ending inventory, and the cost of goods sold.
2. Subtract beginning inventory from ending inventory.
3. Add the cost of goods sold to the difference between the ending and beginning inventories.

Cash discount

A **cash discount** is a deduction allowed by the seller of goods or by the provider of services in order to motivate the customer to pay within a specified time. The seller or provider often refers to the **cash discount** as a sales **discount**. The buyer often refers to the same **discount** as a purchase **discount**.

Book of first Entry

Books of original **entry** refer to the **accounting** journals in which business transactions are initially recorded. The information in these **books** is then summarized and posted into a general ledger, from which financial statements are produced.

Cash journal

The **cash journal** is a sub ledger of Bank Accounting. It is used to manage a company's **cash** transactions. The system automatically calculates and displays the opening and closing balances, and the receipts and payments totals. You can run several **cash journals** for each company code.

Petty Cash Journal

The **petty cash journal** contains a summarization of the payments from a **petty cash fund**. The totals in the **journal** are then used as the basis for a **journal** entry into a company's general ledger. This **journal** entry lists **petty cash** expenditures by expense type.

PETTY CASH BOOK

Total Receipts	Cash Book Folio	Date	Particulars	Voucher No.	Total Payments	Postage & Stationery	Transport	Other Expenses
15 000		May 1	Cash					
		1	Postage stamps	45	1 000	1 000		
		2	Bus fares	46	1 200		1 200	
		2	Pens	47	0 300	0 300		
		3	Postage	48	1 100	1 100		
		4	Postage (parcel posted)	49	1 500	1 500		
		4	Taxi fares	50	0 900		0 900	
		5	Photo-copying paper	51	3 000	3 000		
		6	Tea & coffee	52	1 200			1 200
			Total		10 200	6 900	2 100	1 200
		6	Balance c/d		4 800			
15 000					15 000			
4 800		7	Balance b/d					
10 200		7	Cash					

Posting to the general ledger

After journal entries are made, the next step in the accounting cycle is to post the journal entries into the **ledger**. **Posting** refers to the process of transferring entries in the journal into the accounts in the **ledger**. **Posting** to the **ledger** is the classifying phase of accounting

Posting Journal Entries to the Ledger Accounts

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit
1998			
Jan 1	Cash	1,000,000	
	li, Capital		1,000,000

General Ledger			
Cash			
Date	Debit	Credit	Balance
1998			
Jan 1	1,000,000		1,000,000

Grouping of general ledger accounts

These are the six classic **account** types used by all **accounting** systems; Assets, Liabilities, Equity, Income, Cost of Sales, and Expenses. ... Within each **Account** Class you can **define** one or more **Account Groups**. Each **Account Group** is a set of related **GL accounts**.

Split Cheque

It involves the allocation of one customer's payment to another customer's account to make the books balance, often to hide a shortfall or theft. ... Another similar strategy is applied when remittances are received by means of **cheques**, where **cheques** are **split** up to record payments. This is known as **splitting cheques**.

Purchases Journal

A **purchases journal** is a specialized type of accounting log that keeps track of orders made by a business on credit or on account. Cash **purchases** for inventory are not tracked in the **purchases journal**. The amount of detail provided in a **purchases journal** is determined by the type of **purchase** and products received.

PURCHASES JOURNAL				
Date	Account Credited	Invoice No.	P.R	Amount (\$)
2016				
Jan. 02	S & Co.	105	50	900
Jan. 06	A & Co.	240	55	3,200
Jan. 08	Z Brothers	115	60	360
Jan. 15	S & Co.	305	50	800
Jan. 25	S & Co.	395	50	700
Jan. 31	Z Brothers	345	60	300
Jan. 31	Total			6,260

Purchases return journal

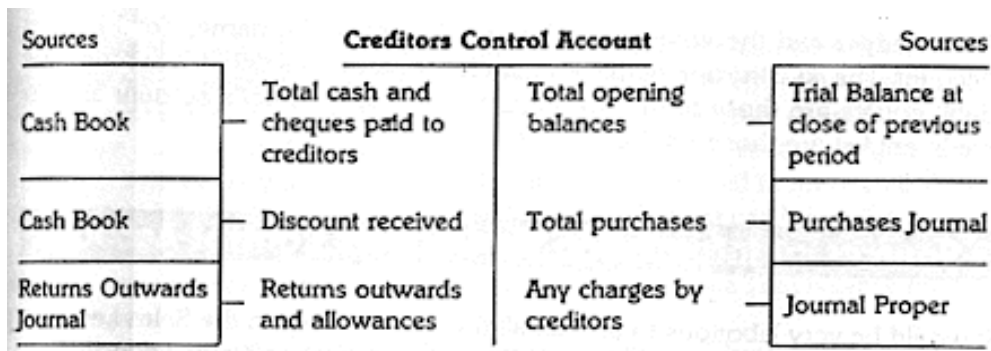
Purchases returns journal is a book in which goods **returned** to the supplier are recorded. This book is also known as **returns** outwards and **purchases returns** day book. Goods once **purchased** on credit may subsequently be **returned** to the seller for certain reasons

Creditor's ledger

The **Creditors Ledger** accumulates information from the purchases journal. The purpose of the **Creditors Ledger** is to provide knowledge about which suppliers the business owes money, and how much.

Creditors control account

The balance of the **creditor's control account** must equal the total of the **creditors** list, which represents the amounts owed by the individual **creditors** obtained from the individual balances in the various subsidiary ledger **accounts** for each **creditor**



Sales journal

A **sales journal** is a specialized accounting **journal** and it is also a prime entry book used in an accounting system to keep track of the **sales** of items that customers (debtors) have purchased on account by charging a receivable on the debit side of an accounts receivable account and crediting revenue on the credit side.

- The **Debtors Control** column must equal the total of all other columns (except **Cost of Sales**)

Sales Journal						
Date	Debtor	Invoice Number	Cost of Sales	Sales	GST	Debtors Control
Feb 1	M. Bennett	451	1400	2500	250	2750
Feb 4	A. Griffith	452	600	1000	100	1100
Feb 17	R. Jones	453	210	400	40	440
Feb 24	M. Bennett	454	120	200	20	220
Feb 27	R. Jones	455	200	400	40	440
Feb 28	Totals		2530	4500	450	4950

$$\begin{array}{c}
 \text{Debtors Control} = \text{Sales} + \text{GST} \\
 4950 = 4500 + 450
 \end{array}$$

Sales return journal

The seller records this **return** as a debit to a **Sales Returns** account and a credit to the Accounts Receivable account; the total amount of **sales returns** in this account is a deduction from the reported amount of gross **sales** in a period, which yields a net **sales** figure. ... The **Sales Returns** account is a contra account.

General Journal					
Date	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
25 Aug	Sales Returns [-R]	320			
	GST Clearing [L]	32			
	Debtors Control [A]		352		
	Debtor-Subsidiary Ledger [A]				352
	Stock Control	160			
	Cost of Sales		160		
	Return of 4 light fittings due to the wrong size (Credit Note 9)				

Narration:

- **Type** of unit (e.g. "lights")
- **No. units** lost (e.g. 4)
- **Reason** for return (e.g. "wrong size")
- **Credit Note #**

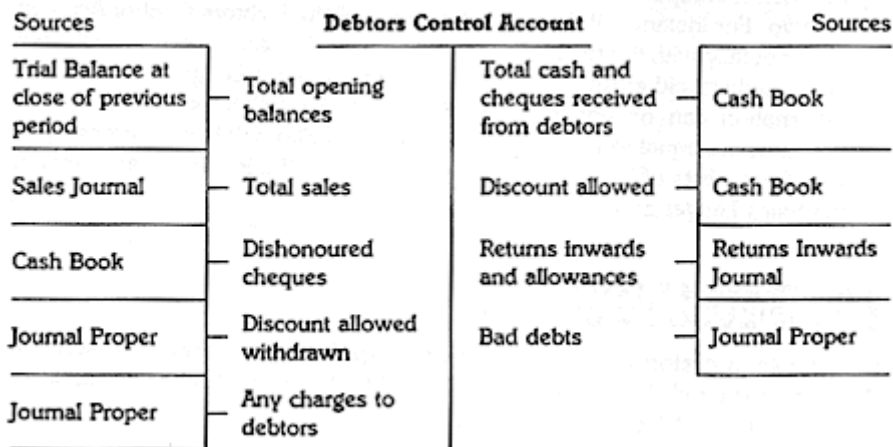
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Debtor's ledgers

The purpose of the **Debtors Ledger** is to provide information on which customers owe money to the business as a result of sales in credit, and of course, how much they owe. The customers who owe money to the business are called **DEBTORS**.

Debtors control account

The balance of the **debtor's control account** must equal the total of the **debtors'** list, which represents the amounts owed by the individual **debtors** obtained from the individual balances in the various subsidiary ledger **accounts** for each **debtor**. This subsidiary ledger is known as the **debtors'** ledger.



Credit purchase invoice

The **credit invoice**, also called a "**credit memo**," is a useful tool in small business, both to sellers and buyers. ... Returned Goods – If a customer returns goods for which they have been previously billed, a **credit memo** may be issued to correct the amount due from the customer.



Credit Memo

Bill To :
Global Media
150 Chestnut Street
Toronto, Ontario L4B 1Y3
Canada

Credit Memo # :	CM-000000001
Date :	08/11/2014

Line Item	Quantity	Unit Price	Amount
Media Kit	1.00	\$ 1,000.00	\$ 1,000.00
Total			\$ 1,000.00

Credit sales invoice

A **sales invoice** can be simply defined as the request of payment by the customer for goods sold or services provided the seller. An **invoice** generally lists the description and the quantity of the item sold or service provided. The document is also a record of the **sale** for both the seller and the buyer.

Sales Invoice				
Smith Bros Spencer Road Farringdon London EC1 Tel: 0206 752 3954 Fax: 0206 752 3955 Date: 3 March 2014 Account: AGI9473 Invoice no: 586587 Your order no: PO16485 Our ref: 47647678		To: Allfields 78 New Street Birmingham B1 6PD		
Product	Ref	Qty	Price	Cost
Plasterboard Sheet	P507812	25	4.57	114.25
			VAT @ 20%	22.85
			Total Cost	137.1
Payment due 30 days from date of invoice		Bank Details: 40-18-12 Sort Code 41563914 Account		
Settlement discount of 25% is applicable if paid within 14 days				

Credit note

A credit note is a letter sent by the supplier to the customer notifying the customer that he or she has been credited a certain amount due to an error in the original invoice or other reasons.

ORANGE ENTERPRISES INTERNATIONAL				
CREDIT NOTE		Date	Orange Enterprises International	
Jacobson, Fuller and Partners 3256 6th Avenue Western Springs Oakleigh Auburn Tax Number: 001-008744343		16 Jan 2009	4657 West Avenue Ridgeway Auburn 10508	
		Credit Note #	Reference	
		CN-0042	CNJFP	
		Sales Tax Number	87946 00	
Description	Quantity	Unit Price	Tax	Amount USD
Credit due to damaged goods	1.00	100.00	12.5%	100.00
				Subtotal
				100.00
				TOTAL Sales Tax 12.5%
				12.50
				TOTAL
				112.50
				(= Credit to Invoice(s))
				112.50
				REMAINING CREDIT
				0.00

General Journal

The **general journal** is part of the accounting record keeping system. When an event occurs that must be recorded, it is called a transaction, and may be recorded in a specialty **journal** or in the **general journal**.

7.2 FORMAT OF THE GENERAL JOURNAL

- Example #2:
 - On March 21st the business discovered that a **debtor (J. Smith)** was declared **bankrupt** and would not be able to repay the **\$500** owed to the firm
 - Memo 2** was written by the owner as evidence of this **bad debt** expense

General Journal					
Date	Details	General Ledger		Subsidiary Ledger	
		Debit	Credit	Debit	Credit
21 Mar	Bad debts [E]	500			
	Debtors control [A]		500		
	Debtor - J. Smith [A]				500
	<i>Debtor J. Smith declared bankrupt (Memo 2)</i>				

Perpetual Inventory Control System

Perpetual inventory is a method of accounting for **inventory** that records the sale or purchase of **inventory** immediately through the use of computerized point-of-sale **systems** and enterprise asset **management** software.

How do you calculate perpetual inventory?

Review the formula. The formula for **calculating inventory** using the **perpetual inventory** system is: Beginning **inventory** plus purchases during the period, minus the cost of goods sold. **Calculate** purchases. The number of purchases equals the number of units (1000) times the purchase price (\$50), or \$50,000.

Periodic inventory system

Periodic inventory is a **system** of **inventory** in which updates are made on a **periodic** basis. This differs from perpetual **inventory systems**, where updates are made as seen fit. In a **periodic inventory system** no effort is made to keep up-to-date records of either the **inventory** or the cost of goods sold.

Difference between Periodic and perpetual inventory system		
Topic	Periodic Inventory System	Perpetual inventory System
Periodic	It maintains periodic intervals.	It does not maintain periodic intervals.
Control	It is not a better control system over inventories.	It is a better control system over inventories.
Uses	It is widely used.	It is narrowly used.
Scope	It has good scope in small business.	It has good scope in large business
Cost of Goods Sold	It shows cost of goods sold at the end of the accounting period.	It shows cost of inventory on hand at any time.
Unit Value	It supports lower unite value.	It supports higher unit value.

FIFO

The first in, first out (**FIFO**) method of inventory valuation is a cost flow assumption that the first goods purchased are also the first goods sold. ... Under the **FIFO** method, the earliest goods purchased are the first ones removed from the inventory account.

FIFO – Example				
Date	Beg. Inv.	Purchases	End. Inv.	Cost of Goods Sold
	1,000@5.25			600@5.25
			400@5.25	
Jan. 3		300@5.30	300@5.30	
June 20		150@5.60	150@5.60	
Sept. 15		200@5.80	200@5.80	
Nov. 29		150@5.90	150@5.90	
Units			1,200	600
Costs			\$6,575	\$3,150
Cost of Goods Available for Sale			\$9,725	

LIFO

The last in, first out (**LIFO**) method is used to place an **accounting** value on inventory. The **LIFO** method operates under the assumption that the last item of inventory purchased is the first one sold. ... The trouble with the **LIFO** scenario is that it is rarely encountered in practice.

LIFO – Example				
Date	Beg. Inv.	Purchases	End. Inv.	Cost of Goods Sold
	1,000@5.25		1,000@5.25	
Jan. 3		300@5.30	200@5.30	100@5.30
June 20		150@5.60		150@5.60
Sept. 15		200@5.80		200@5.80
Nov. 29		150@5.90		150@5.90
Units			1,200	600
Costs			\$6,310	\$3,415
Cost of Goods Available for Sale			\$9,725	

DIFFERENCE

POINT OF DIFFERENCE	FIFO	LIFO
Stands for:	First in, first out	Last in, first out
Unsold inventory:	Unsold inventory is comprised of goods acquired most recently.	Unsold inventory is comprised of the earliest acquired goods.
Restrictions:	There are no GAAP or IFRS restrictions for using FIFO.	IFRS does not allow using LIFO for accounting.
Effect of Inflation:	If costs are increasing, the items acquired first were cheaper. This decreases the cost of goods sold (COGS) under FIFO and increases profit. The income tax is larger. Value of unsold inventory is also higher.	If costs are increasing, then recently acquired items are more expensive. This increases the cost of goods sold (COGS) under LIFO and decreases the net profit. The income tax is smaller. Value of unsold inventory is lower.
Effect of Deflation:	Converse to the inflation scenario, accounting profit (and therefore tax) is lower using FIFO in a deflationary period. Value of unsold inventory, is lower.	Using LIFO for a deflationary period results in both accounting profit and value of unsold inventory being higher.
Record keeping:	Since oldest items are sold first, the number of records to be maintained decreases.	Since newest items are sold first, the oldest items may remain in the inventory for many years. This increases the number of records to be maintained.
Fluctuations:	Only the newest items remain in the inventory and the cost is more recent. Hence, there is no unusual increase or decrease in cost of goods sold.	Goods from number of years ago may remain in the inventory. Selling them may result in reporting unusual increase or decrease in cost of goods.

Weighted Average

Weighted average is a *mean* calculated by giving values in a data set more influence according to some attribute of the data. It is an *average* in which each quantity to be averaged is assigned a *weight*, and these weightings determine the relative importance of each quantity on the *average*.

To **calculate** a **weighted average** with percentages, each category **value** must first be multiplied by its percentage. Then all of these new values must be added together. In this **example**, we must multiply the student's **average** on all tests (83) by the % that the tests are worth towards the final grade (40%).

- **Outstanding cheques:** These are cheques issued to suppliers during the statement period but which have not yet been presented to the bank for payment.
- **Outstanding deposits:** These are deposits made by the entity during the statement period but which have not yet been credited by the bank.
- **Direct deposits:** These are deposits made by customers directly into the bank account of the entity.
- **Bank charges:** These comprise of service fees, cost of cheque books, commissions, ledger fees, and so on. Because of the nature of these charges, the entity only becomes aware of them when the bank statement is received.
- **Interest charged on overdraft:** This is the cost of overdrawing the bank balance. Again, the entity only gets to know of this type of cost when the bank statement is received.
- **Dishonoured cheques:** These are cheques received from customers but which were not paid by their respective banks because they (the customers) do not have sufficient funds.
- **Mistakes and omissions made by both the entity and the bank**

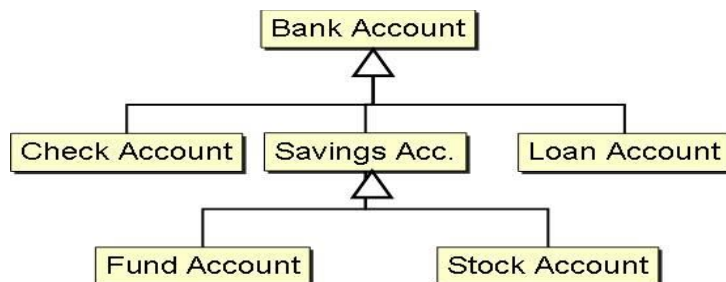
Bank Reconciliation statement

A **bank reconciliation statement** is a summary of **banking** and business activity that reconciles an entity's **bank** account with its financial records. The **statement** outlines the deposits, withdrawals, and other activity impacting a **bank** account for a specific period.

FAST COMPANY		
Bank Reconciliation Statement		
January 31, 2016		
Balance as per bank statement, January 31, 2015		\$ 10,000
Add: Deposit in transit		822
		<u> </u>
		\$ 10,822
Deduct: Outstanding checks		
Check No. 201	\$ 200	
Check No. 212	20	
Check No. 216	610	830
		<u> </u>
Adjusted cash balance		\$ 9,992
		<u> </u>
Balance as per depositor's record, January 31, 2015		8,525
Add: Note receivable collected by bank	1,588	
Interest earned during January	50	1,638
		<u> </u>
		\$ 10,163
Deduct: Collection charges	10	
NSF check	100	
Service charges	25	
Error on check no. 220	36	171
		<u> </u>
Adjusted cash balance		\$ 9,992
		<u> </u>

Bank account

A **bank account** is an arrangement with a bank which allows you to keep your money in the bank and to take some out when you need it.



Trial Balance

Trial balance definition. A listing of the accounts in the general ledger along with each account's **balance** in the appropriate debit or credit column. The total of the amounts in the debit column should equal the total of the amounts in the credit column.

Steps to Prepare the Trial Balance

- For each ledger account — Cash, Accounts Payable, etc. — total your credits and debits.
 - If the credit total is larger, subtract the debit total from the credit total to get your ledger account total which goes in the credit column of the trial balance
 - If the debit total is larger, subtract the credit total from the debit total to get your ledger account total which goes in the debit column of the trial balance
 - Put the ledger account total in the credit or debit column of your trial balance (as identified above).
- When you have debit or credit totals for each ledger account, add all of your credit totals to get a credit grand total.
- Add all of your debit totals to get a debit grand total. This is your trial balance.

Financial Position Section

It is one of the main **financial statements** and it reports an entity's assets, liabilities, and the difference in their totals. The amounts reported on the **statement of financial position** are the amounts as of the final moment of an **accounting** period.

ABC LLP		
Statement of Financial Position as at 31 December 2015		
Current assets		
Cash on hand	\$ 2 600	
Cash in bank	<u>80 000</u>	\$ 82 600
Non-current assets		
Office building		200 000
Office furniture	14 000	
Less Accumulated depreciation	<u>1 000</u>	<u>13 000</u>
Total assets		<u>295 600</u>
Current liabilities		
Accounts payable		4 000
Non-current liabilities		
Bank loan		<u>5 000</u>
Total liabilities		<u>9 000</u>
Net assets		<u>\$286 600</u>
Partners' equity		
Capital		
A	50 000	
B	200 000	
C	<u>30 000</u>	280 000
Current		
A	1 179	
B	4 714	
C	<u>707</u>	6 600
		<u>\$286 600</u>

Nominal Accounts Section

Nominal accounts in **accounting** are the temporary **accounts**, such as the income statement **accounts**. In other words, **nominal accounts** are the **accounts** that report revenues, expenses, gains, and losses. (The owner's drawing **account** is also a temporary **account**, even though it is not an income statement **account**.)

Dental Lab Demonstration Company				
Nominal Account Summary				
From 01/01/2015 To 31/07/2015				
AccountType	Nominal	Debit	Credit	Balance
ASSET				
Asset	accountsreceivable	71904.46	80339.57	-8435.11
Asset	cash	80031.97	783.98	79247.99
	SUB-TOTALASSET	151936.43	81123.55	70812.88
INCOME				
Income	chrome	0.00	1321.21	-1321.21
Income	crowns & bridge	0.00	14008.86	-14008.86
Income	orthodontic	0.00	297.00	-297.00
Income	other	0.00	313.54	-313.54
Income	prosthetics	307.60	55179.87	-54872.27
	SUB-TOTALINCOME	307.60	71120.48	-70812.88
	TRIAL BALANCE	152244.03	152244.03	0.00

Gross Profit

Gross profit is the **profit** a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services. **Gross profit** will appear on a company's income statement, and can be calculated with this formula: **Gross profit** = Revenue - Cost of Goods Sold.

Net Profit (Profit for the year)

Definition of **net profit**. The **profit** of a company after **operating** expenses and all other charges including taxes, interest and depreciation have been deducted from total revenue. Also called **net earnings** or **net income**.

Difference between Gross Profit and Net Profit

Gross Profit	Net Profit
1. Gross Profit is the difference between sales and cost of goods sold.	1. Net Profit is the difference between Gross Profit and all other income less all indirect expenses and losses.
2. It is ascertained from the Trading Account.	2. It is ascertained from the profit and Loss Account.
3. Gross profit is transferred to Profit and Loss Account.	3. Net Profit is transferred to Capital Account.
4. It does not include any income from other sources.	4. It may include income from other sources.
5. It does not depend on the amount of net profit.	5. It depends on the amount of Gross Profit.

Closing Transfers

Closing entries are journal entries made at the end of an accounting period which **transfer** the balances of temporary accounts to permanent accounts. **Closing** entries are based on the account balances in an adjusted trial balance.

Four Closing Entries

▶ 1. Close revenues

GENERAL JOURNAL				
Date	Accounts	Post Ref	Debit	Credit
	Service revenue		6,500	
	Income summary			6,500

▶ 2. Close expenses

GENERAL JOURNAL				
Date	Accounts	Post Ref	Debit	Credit
	Income summary		2,900	
	Salaries expense			1,000
	Supplies expense			500
	Depreciation exp.			1,000
	Utilities expense			400

▶ 3. Close Income summary

GENERAL JOURNAL				
Date	Accounts	Post Ref	Debit	Credit
	Income summary		3,600	
	Josie Smith, Capital			3,600

▶ 4. Close Withdrawals

GENERAL JOURNAL				
Date	Accounts	Post Ref	Debit	Credit
	Josie Smith, Capital		1,000	
	Josie Smith, W/D			1,000

Year End Process

The **process** of **year end** closing closes the profit and loss (P/L) accounts to retained earnings and generates the balance forward amounts. To maintain the integrity of financial reporting, the entries generated by **year end** closing are stored in special system-defined periods.

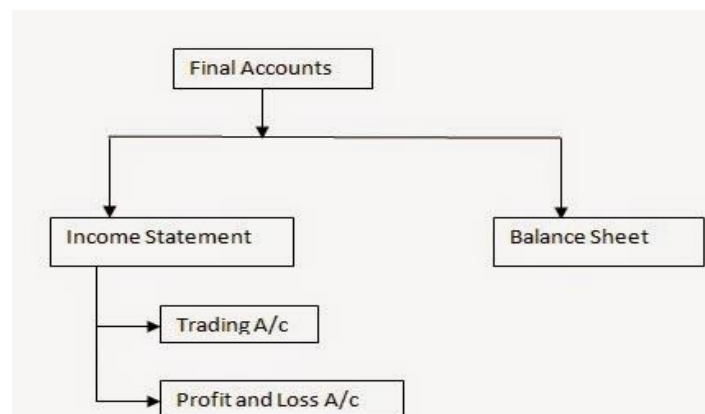
12-Steps For Year-End Procedures

Here are 12 steps you can follow.

1. Create New Fiscal Year
2. Verify GL Options Information
3. Verify GL Chart of Accounts Information
4. Print Trial Balance Report
5. Print Financial Statements
6. Print GL Transactions Listing
7. Print GL Posting Journals (Optional)
8. Backup Database
9. Run Create New Year
10. Verify Closing Entries
11. Lock Prior Fiscal Year (Optional)
12. Run Trial Balance Report

Final Accounts

Final accounts give an idea about the profitability and financial position of a business to its management, owners, and other interested parties. All business transactions are first recorded in a journal. They are then transferred to a ledger and balanced. These **final** tallies are prepared for a specific period.



Trading Accounts

Trading Account Meaning: In investment terminology, the term **Trading Account** refers to funds and/or securities deposited with a financial institution or broker for the purpose of speculation. A **Trading Account** is usually overseen by an investment dealer, fund manager or personal trader.

Format of Trading Account

Trading Account			
Dr.	(For the period ended)		Cr.
Particulars	Amount	Particulars	Amount
To Opening stock		By Sales	
To Purchases		Less: Sales returns	
Less: Purchases returns		By Closing stock	
To Wages			
To Customs and import duty			
To Carriage expenses			
To Royalty			
To Manufacturing expenses			
To Packing expenses			
Total		Total	
To gross profit transferred to profit and loss account		By gross loss transferred to profit and loss account	

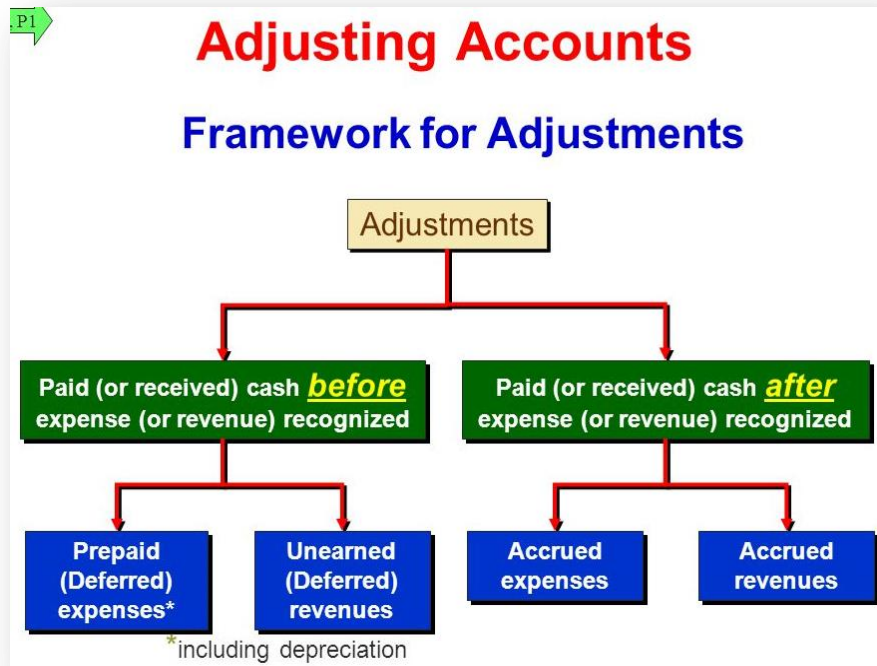
Profit or loss accounts

A **profit and loss statement (P&L)** is a financial **statement** that summarizes the revenues, costs and expenses incurred during a specific period of time, usually a fiscal quarter or year

Profit and Loss Account for B. Davies for the year ending 31/12/02		
	£	£
Sales		58,000
<i>less</i> Cost of Sales		
Opening stock	7,000	
<i>add</i> Purchases	11,000	
<i>less</i> closing stock	<u>2000</u>	
Cost of goods sold		16,000
Gross Profit		42,000
Less Other Expenses		
Salaries	20,000	
Advertising	4,000	
Rent	1,000	
Heating & Lighting	800	
Telephone	500	
Depreciation	<u>700</u>	
Total Expenses		27,000
Net Profit		15,000

Adjustments

An **accounting adjustment** is a business transaction that has not yet been included in the **accounting** records of a business as of a specific date. Most transactions are eventually recorded through the recordation of (for example) a supplier invoice, a customer billing, or the receipt of cash.



Accrued Expenses

An **accrued expense** is an accounting **expense** recognized in the books before it is paid for. It is a liability, and is usually current. These **expenses** are typically periodic and documented on a company's balance sheet due to the high probability that they will be collected.

EXAMPLE

♦ Accrued expenses

- Wages to be paid in July include \$1000 for employees who worked on 29 June.

General Journal

Date	Details	Debit (\$)	Credit (\$)
30 June	Wage expense	1000	
	Accrued wages		1000
	<i>Wages accrued</i>		

Prepaid expenses

Prepaid expenses are future **expenses** that have been **paid** in advance. You can think of **prepaid expenses** as costs that have been **paid** but have not yet been used up or have not yet expired. The amounts of **prepaid expenses** that have not yet expired are reported on a company's balance sheet as an asset.

Prepaid Expenses

Example

On September 1, 1998, Bob's Bait Shop prepaid its rent for the next twelve months. Rent is \$200 per month.

GENERAL JOURNAL

Page: _____ 1

Date	Description	PR	Debit	Credit
1-Sep	Prepaid Rent		2,400	
	Cash			2,400
	to record prepayment of twelve months of rent			

Accrued Income

Accrued income is earned in a fund or by a company for providing a service or selling a product that has yet to be received. Mutual funds or other pooled assets that accumulate **income** over a period of time but only pay out to shareholders once a year are by definition accruing their **income**.

At December 31st, Matrix, Inc. earned, but has not received, interest on its money market account of \$150. The adjustment is made to debit Interest Receivable and credit Interest Revenue.

Date	Description	Debit	Credit
Dec 31	Interest Receivable (+A)	150	
	Interest Revenue (+R, +SE)		150

Interest Receivable

12/31 150	
Bal. 150	

Interest Revenue

	12/31 150
Bal. 150	

Income Received In Advance

Revenues **received in advance** are reported as a current liability if they will be **earned** within one year. The accounting entry is a debit to the asset Cash for the amount **received** and a credit to the liability account such as Customer Advances or Unearned Revenues.

Income in advance				
This is income already received, but which has not yet been earned				
<u>Extract from Trial Balance as at 31 March</u>				
		Dr		Cr
	Rent income	(-2,000)		28,000
	Income in advance	(+2,000)		2,000
General Journal				
Date	Account Titles	Ref no	Debit	Credit
31/3	Rent Income		2,000	
	Income in advance (Rent)			2,000
	<i>Being entry to record Rent received in advance</i>			

Consumable Stores

Consumables are **goods** used by individuals and businesses that must be replaced regularly because they wear out or are used up. They can also be defined as the components of an end product that is used up or permanently altered in the process of manufacturing such as semiconductor wafers and basic chemicals.

CONSUMABLE STORES ON HAND					B10				
Jan	31	Consumable Stores	GJ	500	Jan	31	Balance	c/d	500
Feb	1	Balance	b/d	500	Feb	1	Consumable Stores	GJ	500

CONSUMABLE STORES					N6				
Jan	31	Bank	CPJ	17 000	Jan	31	Consumable Stores on Hand	GJ	500
		Creditors' Control	CJ	4 000			Factory Overhead Cost	GJ	20 500
				21 000					21 000
Feb	1	Consumable Stores on Hand	GJ	500					

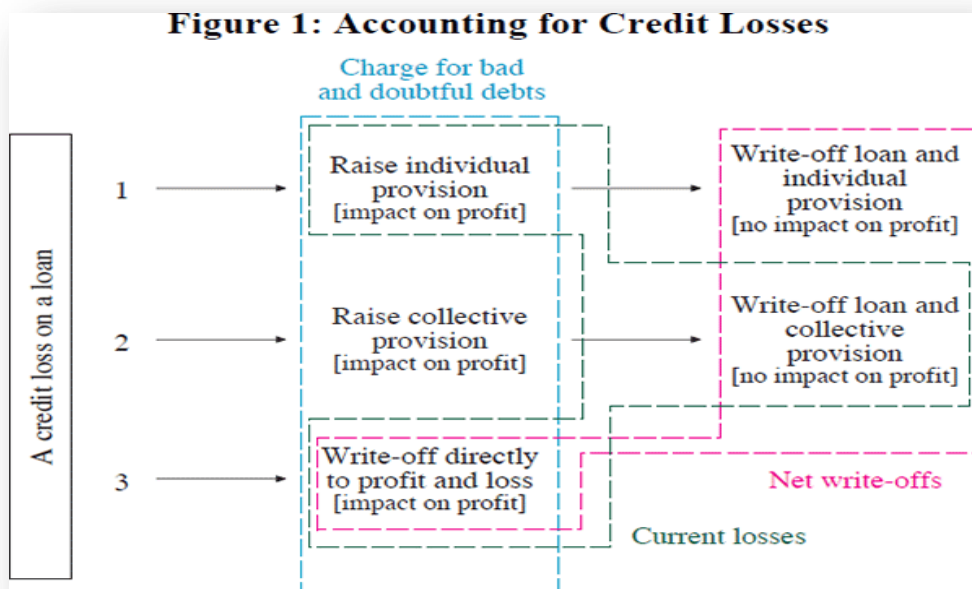
Depreciation

Depreciation is an **accounting** method of allocating the cost of a tangible asset over its useful life. Businesses **depreciate** long-term assets for both tax and **accounting** purposes.

Dr				Depreciation account				Cr			
Date	Particulars	Jf	Rs	Date	Particulars	Jf	Rs				
2006				2006							
Dec=31	To machinery A/C		750	Dec=31	By Profit and loss A/C		750				
2007				2007							
Dec=31	To machinery A/C		925	Dec=31	By Profit and loss A/C		925				
2008				2008							
Dec=31	To machinery A/C		833	Dec=31	By Profit and loss A/C		833				

Credit Losses

Allowance Method for Reporting **Credit Losses**. **Accounts** receivable are reported as a current asset on a company's balance sheet. ... Any increases to Allowance for Doubtful **Accounts** are also recorded in the income statement account Bad Debts Expense (or Uncollectible **Accounts** Expense).



Statement of profit or loss and other comprehensive income

Other Comprehensive Income (OCI)

At outset, it is worthwhile to note that **Total Comprehensive Income** is different from **Other Comprehensive Income** and can be better understood as follows:



What is OCI?

- Ind AS 1 defines it as "comprising of items of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other Ind ASs."

Why OCI?

- Providing cushion to the Profits.
- Reflecting notional gains and losses outside the profit(loss).
- A barometer for upcoming threats or windfalls to net income (as it contains profit/loss on change in fair value for certain items).

Statement of financial position

The **statement of financial position**, often called the balance sheet, is a **financial statement** that reports the assets, liabilities, and equity of a company on a given date. In other words, it lists the resources, obligations, and ownership details of a company on a specific day.

Group Statement of Financial Position

Assets			Liabilities and Shareholder Funds		
KES (Mn)	FY 2017	FY 2016	KES (Mn)	FY 2017	FY 2016
Property Plant and Equipment	9,828	7,004	Customer Deposits and Banking Liabilities	13,369	15,372
Biological Assets	9	-	Borrowings	17,416	13,024
Investment Property	27,311	16,514	Dividends Payable	83	7
Associates and JVs	13,520	13,048	Other Liabilities	8,044	6,392
Unquoted Assets	4,226	5,977	Total Liabilities	38,911	34,795
Quoted Assets	1,223	1,369			
Loans and Advances	12,633	12,954	Shareholder Funds	49,230	43,258
Bonds and Government Securities	3,021	3,991	Equity and Liabilities	88,142	78,054
Other Assets	10,731	6,999			
Cash and Cash Equivalents	5,639	10,197			
Total Assets	88,142	78,054			

Statement of changes in equity

Statement of Changes in Equity, often referred to as **Statement** of Retained Earnings in U.S. GAAP, details the **change** in owners' **equity** over an accounting period by presenting the movement in reserves comprising the shareholders' **equity**. ... Increase or decrease in share capital reserves.

Statement of Changes in Equity - Example

SIERRA CORPORATION
Statement of Changes in Equity
Month Ended October 31, 2015

	<u>Common Shares</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance, October 1	\$ 0	\$ 0	\$ 0
Issued common shares	10,000		10,000
Profit		10,242	10,242
Dividends		(500)	(500)
Balance, October 31	<u>\$10,000</u>	<u>\$ 9,742</u>	<u>\$19,742</u>