07-07-2020

EEE Accounting

Accounting?

Accounting is a financial information System that provides us financial information of the companies.

What are the activities of accounting?

Basic activities of accounting:

1. To identify the economic activities/events of the organization
2. To record the economic activities in the accounting system
3. To communicate the accounting data with the users

How accounting communicates?

Accounting communicates through accounting reports/ Financial Statements

1. Income Statement: Main purpose of Income Statement is to assess the performance of the company. Profit/Loss
2. Owner’s Equity/Capital statement: OE=Capital of company
3. Balance Sheet: A statement of financial position of the company. Total Assets, total liability. To show the total assets and total liability of a company
4. Cash Flows Statement: It show the flows of cash in and cash out of a company.

(A set of F/S):

Who are users of accounting? Everybody of the society are the users of accounting data.

Human being, Business org, any other organization

Users of Accounting:

**Internal Users of accounting:** Insiders of a company ( Managers, Accountant, Engineer, Security guard, Cleaners, CEO, Managing Directors, HOD, Head of service, Head of Operation)

BEL=

**External Users of Accounting:** Outsiders of a company (Other companies, Govt, Creditors, Customers, Suppliers, Tourism Board, Teacher, Students).

GAAP (Generally Accepted Accounting Principles)

FASB= Financial Accounting Standard Board

SEC= Securities and Exchange Commission

US organizations

We have 4 accounting principles:

1. Historical cost principle/ Cost Principle:

All the assets should be recorded in the accounting system at their historical cost/ price

Historical cost: Past cost/ Purchase price of the asset

Cause: Historical cost is verifiable , reliable

1. Revenue recognition principle:

Revenue should be recorded and recognized when the revenue is earned/ the job is complete. No matter whether cash has been received or not.

1. Matching principle/ Expense recognition principle:

Expense should be recorded and recognized when the expense is happened. No matter whether cash has been paid or not.

1. Full disclosure principle: All the important information should be disclosed with the users of accounting data. No information should be hidden. Information should be disclosed in the Financial Statements.

Four Accounting Assumptions

Assumption= Predict/ Guess/ Assume

1. Economic entity assumption:

All the companies are artificial individual. The activities of a company should be kept separate from the activities of the owner of the company. Company’s activities should be kept separate from the activities of other companies.

Beximco Pharmaceuticals

Beximco Textile

1. Monetary Unit Assumption:

The events/ activities that can be expressed in the amount money should be recorded in the accounting system. Only the economic events are recorded in the accounting book. Economic events/ activities are called transactions.

1. Going Concern assumption:

The companies will continue for unlimited time. Or the business will continue into the forceable future.

1. Time-periodicity assumption:

The total life of the company should be divided into small parts.

To assess the performance of the company

Jahid’s Kitchen’s activities = -2,00,000

Jahid’s Activities = 3,00,000

 100,000

Equation:

A=C+7

A=19

C=19-7

F=ma

2-07-2020

The accounting equation

Basic Accounting Equation?

A=L+OE

A-L=OE

A-OE=L

In a company:

A: Assets= Assets are the resources owned by a company. Assets will provide the future economic benefits.

With the assets we can do two things:

1. We can use it
2. We can sell the assets

Mobile balance

Accounts receivable

Supplies

Prepaid Insurance/ Prepaid expense

Notes receivable

Liability: Liabilities are external claims against the assets.

Assets = Liability + OE

Cash 4,00,000 -60,000-50,000 = Capital 4,00,000

Machine 400,000 = A/payable 4,00,000+50,000+5000

Computer 60,000 =

Furniture 1,00,000 =

Raw material 5000

Accounts payable

Notes payable

Owner’s equity:

A=L+OE

OE=A-L

OE= Total assets – total liability

OE is also a liability for the company. OE is internal liability. OE is ownership claim against the assets.

There are four elements of OE:

1. Capital
2. Revenues
3. Expenses
4. Drawing

ABC Company

 OE

+Opening Capital = 1,00,000

+Revenue = 2,00,000

-Expense =-(50,000)

-Drawings = -(10,000)

Both sides of the equation are always same

A=L+OE

Purchased a computer equipment of 7000 On account/ On credit

Cash/ For cash

08-06-2020

L= Liability is to external

OE= Ownership Liability

A/R, N/R, Supplies

A=L+OE

|  |  |  |
| --- | --- | --- |
| Assets | = | Liability +Owner’s equity |
| SLDate | Cash | Account receivable | Supplies | Equipment | = | Note payable | AccountPayable | +Capital | +Revenue | -Drawing | - Expense |
| Jan-1 | 100,000 |  |  | 50,000 | = |  |  | 150,000 |  |  |  |
| Jan- 5 | (20000) |  |  | 200,000 | = |  | 180000 |  |  |  |  |
| Jan 10 | 80000 | 20000 |  |  |  |  |  |  | 100000 |  |  |
|  | (30000) |  |  | 30000 |  |  |  |  |  |  |  |

16-07-2020

The following transactions are extracted from the books of accounts of Farhan’s Tour & Travelling Company Limited for the month of June 2019:

June 01: The owner started the business with Tk. 5,00,000 cash and Tk.250, 000 Equipment.

June 02: Purchased office supplies of Tk. 7000 on account

June 03: Borrowed Tk. 200,000 from Dhaka Bank on a note payable

June 10: Performed services to Australian guests of Tk. 3,00,000. Received 2,00,000 now and billed to the clients for the remaining balance on account.

June 15: Paid Tk. 75,000 for June office rent and Tk. 10,000 for utility expenses

June 22: Purchased a brand new Office Equipment of Tk. 80,000 from Akhter Limited payable in 15 days

June 25: Cash collected Tk. 50,000 from the client billed previously on account

June 28: Paid Tk. 25,000 for travelling expense and Tk. 30,000 for accounts payable due

June 28: Services offered to the clients for cash Tk. 40,000

June 30: Withdrawals by owner Tk. 20,000

**Instruction:**  (a) Prepare a tabular summary of the transactions

 (b) Prepare an Income Statement for the month of June 2019

 (c) Prepare a Balance sheet at the end of month

1. Farhan’s Tour & Travelling Company Limited

Tabular Summary of the Transactions

|  |  |  |
| --- | --- | --- |
| Assets | = | Liability + Owner’s Equity |
| Date | Cash | AccountReceivable | Supplies | Equipment | = | NotePayable | AccountPayable | Capital | +Revenue | (-)Expense | (-)Drawing |
| J-01 | 500000 |  |  | 250000 | = |  |  | 750000 |  |  |  |
| 02 |  |  | 7000 |  | = |  | 7000 |  |  |  |  |
| 03 | 200000 |  |  |  | = | 200000 |  |  |  |  |  |
| 10 | 200000 | 100000 |  |  | = |  |  |  | 300000 |  |  |
| 15 | (75000) |  |  |  | = |  |  |  |  | (75000) |  |
| (10000) |  |  |  | = |  |  |  |  | (10000) |  |
| 22 |  |  |  | 80000 | = |  | 80000 |  |  |  |  |
| 25 | 50000 | (50000) |  |  | = |  |  |  |  |  |  |
| 28 | (25000) |  |  |  | = |  |  |  |  | (25000) |  |
| (30000) |  |  |  | = |  | (30000) |  |  |  |  |
| 28 | 40000 |  |  |  | = |  |  |  | 40000 |  |  |
| 30 | (20000) |  |  |  | = |  |  |  |  |  | (20000) |
|  | 830000 | 50000 | 7000 | 330000 | = | 200000 | 57000 | 750000 | 340000 | (110000) | (20000) |
|  |  12,17,000 | = | 12,17,000 |

1. Farhan’s Tour & Travelling Company Limited

Income Statement

For the month ended on June 30, 2019

|  |  |  |
| --- | --- | --- |
|  | Tk | Tk |
| Revenues: Service revenue Service revenueTotal revenues(-) Expenses: Rent expense Utility expense Travelling expense Net Income | 3,00,00040,00075,00010,00025,000 | 3,40,0001,10,0002,30,000 |

|  |  |
| --- | --- |
|  |  |
| Opening capital(+) Additional capital Net Income(-) Owner’s drawing Net lossEnding capital | 750,000-230000(20000)-9,60,000 |

Owner’s equity statement

On June 30, 2019

1. Farhan’s Tour & Travelling Company Limited

Balance Sheet

June 30, 2019

|  |  |  |
| --- | --- | --- |
|  | Tk | Tk |
| AssetsCashAccount ReceivableSuppliesEquipment **Total Assets**Liability and Owner’s equityNote payableAccount payableCapitalTotal Liability and Owner’s capital | 83000050000700033000020000057000960000 | **12,17,000****12,17,000** |

Balance Sheet: It is a financial statement that shows the financial health/ condition of the company. All the assets and liabilities are reported in the balance sheet.

17-07-2020

Recording Process

Basic activities:

To identify the economic events

To record the economic events in accounting system

To communicate the accounting data with the users

Recording?

Recording means to store/ preserve something for future use.

Why recording is needed?

It is needed to make it available in the future if needed

How recording is maintained?

Recording tools:

Primary recordings tool:

Journal: This is a primary recording tool where transactions are recorded immediately after happening. In journal transactions are recorded serially.

A journal entry has five spaces/ column:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Ref | Debit | Credit |
|  |  |  |  |  |

Permanent recording tool:

Ledger: This a permanent recording tool. This is mandatory. Here transactions are posted/ recorded permanently.

Ledger

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Particulars | Jp | Debit | Credit | Balance |
|  |  |  |  |  |  |

Debit/Credit procedure:

Account: This is simply a title or name of any accounting element where transactions are recorded. Account looks like a T

T

It has two sides, left side and right side. Left side of the account is called debit and right side of the account is called credit

Debit credit procedure:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Assets | Increase | Debit | Assets | Decrease | Credit |
| Expense | Expense |
| Drawing | Drawing |
| Revenue | Increase | Credit | Revenue | Decrease | Debit |
| Liability | Liability |
| Capital | Capital |

Following transactions took place in Adeel Limited in June 2019

June 01: The owner started the business with Tk. 5,00,000 cash

June 02: Purchased office supplies of Tk. 7000 on account

June 03: Borrowed Tk. 200,000 from Dhaka Bank on a note payable

June 04: Paid Tk. 5,000 for office rent for the month

June 10: Performed services to Australian guests of Tk. 3,00,000. Received 2,00,000 now and billed to the clients for the remaining balance on account.

June 15: Paid Tk. 75,000 for June salaryand Tk. 10,000 for utility expenses

June 22: Purchased a brand new Office Equipment of Tk. 80,000 from Akhter Limited payable in 15 days

June 24: Services completed on account Tk. 10,000

June 26: Owner withdrew Tk. 15,000 for personal use

June 30: Collected Tk. 20,000 from the clients billed previously.

**Required:** Journalize the transactions in company’s books of account

Adeel Limited

Journal

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars | Ref | Debit | Credit |
| June 01June 02June 03June 04June 10June 15June 22June 24June 26June 30 | Cash Dr Capital Cr(Invested cash by owner)Supplies Dr A/c Payable Cr(Purchase of supplies)Cash Dr Note payable Cr(Borrowed from bank)Rent expense Dr Cash Cr(Paid for office rent)Cash DrA/c Receivable Dr Service revenue Cr(Services performed)Salary expense DrUtility expense Dr Cash Cr(paid salary and utility)Equipment Dr A/c payable Cr(Purchased equipment)A/c receivable Dr Service revenue Cr(Services completed)Drawings Dr Cash Cr(Drawings by owner)Cash Dr A/c receivable Cr(Collected from clients) |  | 5,00,0007,0002,00,0005,0002,00,0001,00,00075,00010,00080,00010,00015,00020,00010,00,000 | 5,00,0007,0002,00,0005,0003,00,0001,00,00080,00010,00015,00020,000 |

Cash increase

A/c receivable decrease

*Journal entries are of two types:*

Single/ simple entry: When a journal entry has only 1 debit and 1 credit this is called single or simple entry.

Complex/ Compound entry: When a journal entry has more than 2 debit/credit, it is called a compound/ complex entry

24-07-2020

J.F. Trading company started in June 2019 by Ms. Jeny. Following transactions took place in June 2019:

June 01: Started business with Cash 75,000 and 2 laptops of 60,000.

June 05: Paid office rent 10,000

June 10: Purchased other equipment of 20,000; paid half now and half on account

June 20: Services performed 30,000; Received 20,000 cash and rest on account

June 22: Advertising expense occurred on account 5,000

June 25: Received 5,000 from accounts receivable dues

June 30: Paid 4,000 to accounts payable due

Required: Journal, Ledgers and Trial BalancJ.F. Trading companyJournal

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Title and Explanation | Ref | Debit | Credit |
| June 01051020222530 | Cash DrEquipment Dr Capital Cr(Started business with capital)Rent expense Dr Cash Cr(Payment for office rent)Equipment Dr Cash Cr A/c payable Cr(Paid additional equipment)Cash DrA/c receivable Dr Service revenue Cr(Revenues earned)Advertising expense Dr Advertising payable Cr(Advertising expense)Cash Dr A/c receivable Cr(Received from receivable)A/c payable Dr Cash Cr(Paid to A/c payable) |  | 75,00060,00010,00020,00020,00010,0005,0005,0004,000 | 1,35,00010,00010,00010,00030,0005,0005,0004,000 |

J.F. Trading company

Ledgers

Cash

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 010510202530 | CapitalRent expenseEquipmentService revenueA/c receivableA/c payable |  | 75,00020,0005,000 | 10,00010,0004,000 | 75,00065,00055,00075,00080,00076,000 |

Equipment

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 0110 | CapitalCash & A/c payable |  | 60,00020,000 |  | 60,00080,000 |

Capital

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 01 | Cash & Equipment |  |  | 1,35,000 | 1,35,000 |

Rent expense

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 05 | Cash |  | 10,000 |  | 10,000 |

A/c payable

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 1030 | Equipment |  | 4,000 | 10,000 | 10,0006,000 |

A/c receivable

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 2025 | Service revenues Cash |  | 10,000 | 5,000 | 10,0005,000 |

Service revenues

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 20 | Cash & A/c Receivable |  |  | 30,000 | 30,000 |

Advertising expense

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 22 | Advertising payable |  | 5,000 |  | 5,000 |

Advertising Payable

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Title | Jp | Debit | Credit | Balance |
| June 22 | Advertising expense |  |  | 5,000 | 5,000 |

Trial Balance: It is a list of all the accounts of a company with their balances. Trial balance is prepared at the end of accounting period

J.F. Trading Company

Trial Balance

June 30, 2019

|  |  |  |  |
| --- | --- | --- | --- |
| Serial | Title  | Debit | Credit |
| 123456789 | CashEquipmentCapitalRent ExpenseA/c payableA/c ReceivableService revenueAdvertising ExpenseAdvertising payable | 76,00080,00010,0005,0005,0001,76,000 | 1,35,0006,00030,0005,0001,76,000 |

Assets, Expense, Drawing= Debit

Revenues, Capital, Liability= Credit

কোন আইটেম লেজার করার সময় প্রথম যে কলামে লিখা হয়েছে ট্রায়াল ব্যালেন্স এ তাঁর ব্যালেন্স সেই কলামে লিখতে হবে।

25-07-2020

Chapter 03 (Text Book)

Adjusting the accounts

Adjusting Journal

Adjusting journal are the entries needed to solve problems in accounting. Problems are related to overstatement or understatement in any accounting items. **Basically adjusting are given to ensure that revenue recognition and matching principle have been followed.**

**#Adjusting journal entries are given each time financial statements are prepared.**

**Types of adjusting entries:**

Broadly adjusting entries are of two types:

1. Adjusting for prepayments
2. Unearned revenues
3. Prepaid Expense
4. Adjusting for accruals
5. Accrued expenses
6. Accrued revenues

Another item: Depreciation expense

Why adjusting needed: Adjusting entries are needed to solve problems with accounting records.

Adjusting entries are needed to ensure that revenue recognition and matching principles have been followed.

When adjusting entries are needed: Adjusting entries are given each time financial statements are prepared. Adjusting entries are needed at the end of accounting period.

Mona Company started its business on June 1, 2014. Its trial balance before adjustment on June 30, 2014 is as follows:

Mona Company, Trial Balance, June 30, 2014

|  |  |  |
| --- | --- | --- |
| Particulars | Debit | Credit (Tk.) |
| Cash | 25,000 |  |
| Supplies | **4,800** |  |
| Prepaid Insurance | 7,200 |  |
| Building | 185,000 |  |
| Unearned Revenue |  | 17,000 |
| Notes Payable |  | 60,000 |
| Capital |  | 113,000 |
| Drawing | 5,000 |  |
| Service Revenue |  | 70,000 |
| Rent Expense | 5,600 |  |
| Salaries Expense | 20,000 |  |
| Utility Expense | 7,400 |  |
| Total | 2,60,000 | 2,60,000 |

**Other information:**

(i) Prepaid insurance is a 2 year policy.

(ii) A physical count reveals Tk.2,800 of supplies on hand on June 30.

 (iii) Unearned revenue amounted to Tk.3,000 at June 30.

(iv) Accrued salaries are Tk.2,000.

(v)The interest rate on notes payable is 15% per year.

(iii) Depreciation on Building is Tk.1,500 per month.

**Instruction:** Prepare necessary adjusting journal entries

Interest expense is understated by 750 taka, so it should be increased by 750 taka

Interest payable is understated by 750 taka, so it should be increased by 750 taka

Salary expense is understated by 2000 taka, so it should be increased by 2000 taka

Salary payable is understated by 2000, so it should be increased by 2000 taka

Supplies is overstated by 2000 taka, so supplies should be decreased by 2000 taka

Supplies expense is understated by 2000 taka, so supplies expense should be increased by 2000 taka

Prepaid insurance is overstated by 300 taka: So Prepaid insurance should be decreased by 300 taka

Insurance expense is understated by 300 taka: So insurance expense should be increased by 300 taka

Mona Company

Adjusting journal entries

For the month ended on June 30, 2014

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| SL | Account title and Explanation | ref | Debit | Credit |
| 1.2. 3. 4. 5. 6. | Insurance expense Dr Prepaid Insurance Cr(To adjust insurance expense)Supplies expense Dr Supplies Cr(To adjust supplies expense)Unearned revenue Dr Service revenue Cr(To adjust unearned revenue)Salary expense Dr Salary payable Cr(To adjust salary expense)Interest expense Dr Interest payable Cr(To adjust interest expense)Depreciation expense Dr Accumulated depreciation- Building ------------------ Cr(To adjust depreciation expense) |  | 300200014,00020007501500 | 300200014,00020007501500 |

Assumption:

1. The amount of the trial balance are beginning balance of the month
2. Other information are always true.
3. Adjusting entries should start from other data

14-08-2020

Motiur Company started its business on June 1, 2019. Its trial balance before adjustment on June 30, 2019 is as follows:

Motiur Company, Trial Balance, June 30, 2019

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Debit** | **Credit (Tk.)** |
| Cash | 25,000 |  |
| Supplies | 4,800 |  |
| Prepaid Insurance | 7,200 |  |
| Building | 125,000 |  |
| Unearned Revenue |  | 20,000 |
| Capital |  | 113,000 |
| Drawing | 5,000 |  |
| Service Revenue |  | 67,000 |
| Rent Expense | 5,600 |  |
| Salaries Expense | 20,000 |  |
| Utility Expense | 7,400 |  |
| Total | 2,00,000 | 2,00,000 |

**Other information:**

1. One-third of the prepaid insurance is expired during the month.
2. 2,000 of supplies were used during June 2019.
3. Depreciation on Building is Tk.3,600 per year.
4. Unearned revenue of Tk. 5,000 remains unearned at June 30.
5. Salaries were paid fully but administrative expenses of 6,000 remains accrued on June 30.
6. Service provided to clients but not yet recorded Tk. 11,000

Instruction: **Journalize the necessary adjusting entries**

**Service revenue is understated by 11000; so it should be increased by 11000**

**Account receivable is understated by 11000; so it should be increased by 11000**

**Administrative expense is understated by 6000; so it should be increased by 6000**

**Accounts payable is understated by 6000; so it should be increased by 6000**

**Unearned revenue is overstated by 15000; so it should be decreased by 15000**

**Service revenue is understated by 15000; so it should be increased by 15000**

**Supplies is overstated by 2000; so it should be decreased by 2000**

**Supplies expense is understated by 2000, so it should be increased by 2000**

**Prepaid insurance is overstated by 2400; so it should be decreased**

**Insurance expense is understated by 2400; so it should be increased**

Motiur Company

Adjusting entries

For the month ended on 30th June 2019

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Sl | Account Title & Explanation | Ref | Debit | Credit |
| 123456 | Insurance expense Dr Prepaid insurance Cr(To adjust insurance expense)Supplies expense Dr Supplies Cr(To adjust supplies expense)Depreciation expense Dr Accumulated depreciation- Building---------------------- Cr(To adjust depreciation expense)Unearned revenue Dr Service revenue Cr(To adjust unearned revenue)Administrative expense Dr Accounts payable Cr(To adjust administrative expense)Account receivable Dr Service revenue Cr(To adjust service revenue) |  | 240020003001500060001100012000 | 240020003001500060001100012000 |

**CH-03: P3-2A**

**(Practice problem)**

**ACC 131 Financial and Managerial Accounting**

Managerial accounting

Branches of accounting:

There are three basic types of accounting.

1. Financial Accounting(FA)

FA is the branch of accounting which prepares accounting reports/ financial statements. FA focus in the past activities

1. Managerial Accounting(MA)

MA is the branch of accounting that is used by the managers for decision making purpose. MA focus on future

1. Cost Accounting (CA)

Cost accounting is used to control or monitor the costs of the organization. CA focus on the present