

Accounting Equation

Assets = Liabilities + Owner's Equity

Liabilities = Assets – Owner's Equity

Owner's Equity = Assets – Liabilities

Accounting Concepts

- Business Entity Concept – must keep personal records separate from business records
- Matching Concept – must record expenses as they are incurred and revenues as they are earned (you're matching your revenues with your expenses)
 - Prepaid Insurance, Prepaid Advertising, and Supplies are expensed as they are used or consumed.
- Going Concern Concept – assume your business will be in existence in the future
- Historical Cost Concept – you must record the actual amount paid for items (like supplies and equipment)
- GAAP – Generally Accepted Accounting Principles – keeps accounting rules consistent between companies

Sole Proprietorship, Partnership, Corporation

- Three ways to organize a business: Sole Proprietorship, Partnership, Corporation.

Financial Statements

Income Statement: Revenues – Expenses = Net Income *(for a specific time period)*

Balance Sheet: Assets = Liabilities + Owner's Equity *(financial position on a particular date)*

Statement of OE: Beginning Capital Balance + Investments – Withdrawals + Revenues – Expenses

REMEMBER TO ALWAYS DOUBLE UNDERLINE TOTALS (Net Income on Income Statement ... Ending Capital on Statement of OE ... Total Assets and Total Liabilities & OE on Balance Sheet)

ALWAYS ALPHABETIZE EXPENSES ON INCOME STATEMENT.

ALWAYS LIST ASSETS IN ORDER OF LIQUIDITY (CASH, AR, SUPPLIES, EQUIP, LAND).

Know how to solve for Beginning OE or Ending OE when all you have are amounts for assets, liabilities, revenues, expenses.

Basic Ratios

Current Ratio: Current Assets/Current Liabilities

Working Capital : Current Assets – Current Liabilities

Quick Ratio: (Current Assets – Inventory)/Current Liabilities

Net Income Percentage (or Earnings Ratio or Profit Margin): Net Income / Revenues

General Ledger & Subsidiary Ledgers

- Ledger (or General Ledger): Records balances of each account; organized by account number
- Subsidiary Ledgers – separates AR and AP functions as well as cash collection/dispersal ... acts as an internal control to limit the chance of somebody embezzling money from the company
- Subsidiary Ledgers (AR Ledger and AP Ledger): used to keep track of WHO owes you money and WHO you owe money to; just breaks down AR and AP by individual customers and creditors.

General Journal & Special Journals

- Journal (also called General Journal): records transactions as they occur, in date order
- Special Journals (Revenue Journal, Cash Receipts Journal, Purchases Journal, Cash Payments Journal)

Permanent & Temporary Accounts

- Permanent Accounts – accounts where the information is carried over into the next fiscal period (these are the balance sheet accounts ... since your assets, liabilities and OE don't go away just because the calendar changes)
- Temporary Accounts – accounts where the information gets wiped out at the end of every year so you start the new year with a zero balance (these are income statement accounts)

Accounting Cycle

The accounting activities that a business goes through during one fiscal period to record all financial information.

KNOW THE CORRECT ORDER OF THE 8 STEPS IN THE ACCOUNTING EQUATION:

1. Analyze Source Documents
2. Journalize Business Transactions
3. Post Transactions to Ledger
4. Trial Balance, Adjustment Data & Worksheet
5. Prepare Financial Statements
6. Make Adjusting Entries in Journal/Ledger
7. Make Closing Entries in Journal/Ledger
8. Prepare Post-Closing Trial Balance

Cash Controls/Checking Records

- Types of Endorsements: Blank Endorsements, Restrictive Endorsements, Full Endorsements
- Review how to reconcile bank statements
- Proving Cash: Beginning Cash + Cash Inflows – Cash Outflows = Ending Cash (this must match the amount recorded in your checkbook register or check stub)

Dishonored Checks

- If a customer pays you and their check is returned NSF (not sufficient funds), you need to move the “cash” they paid you to accounts receivable:

Accounts Receivable – [Customer Name]	\$###	
Cash		\$###

- Then you will need to record the bank fee for the dishonored check:

Miscellaneous Expense*	\$###	
Cash		\$###

** Could also be called “Bank Charges”*

Adjusting Entries

These are basically for making adjustments for accruals and deferrals

- they are recorded in worksheet first
- then financial statements are prepared from the worksheet
- then you journalize and post the transactions

Accruals & Deferrals

- Accrued Expenses: Expenses that are incurred in one fiscal period but are actually paid later (like with a utility bill). If your fiscal period ends before you pay the bill, you must record this as a debit to Expenses and a credit to “_____ Payable” (like Utilities Payable ... these are liabilities).
- Accrued Revenues: Revenues that you earn but have not yet been paid for. This is just a fancy way of saying that you earned revenues on account. This is recorded as a debit to AR and a credit to Revenues.
- Deferred Expenses: Expenses that you pre-pay (like supplies or pre-paid insurance). You record first as an asset and then expense them as they are used.
- Deferred Revenues: Revenues that you are paid for BEFORE you earn them; record as a debit to Cash and a credit to Unearned Revenues (which is an liability) ... then when you earn the money record as a debit to Unearned Revenues and a credit to Revenues.

Closing Entries

Closing Entries are basically used to close out the temporary accounts (revenues, expenses, and drawing) and prepare for the start of the new fiscal year

- After the closing entries, you’ll have zero balances for all income statement accounts (revenues, expenses) ... all of the revenues and expenses get moved into the capital account.
- The drawing account also gets moved into capital, resulting in a zero balance for drawing.
- Post-Closing Trial Balance: Only shows the accounts with amounts left after closing entries ... which are the balance sheet accounts.

Accounts, Account Numbers, Normal Balances

	<u>Normal Balance</u>	<u>Increased with a</u>	<u>Permanent or Temporary?</u>
<u>1 ASSETS</u>			
Cash	Debit	Debit	Permanent
Accounts Receivable	Debit	Debit	Permanent
Supplies	Debit	Debit	Permanent
Prepaid _____	Debit	Debit	Permanent
Equipment	Debit	Debit	Permanent
Accumulated Depr., _____	Credit	Credit	Permanent
<u>2 LIABILITIES</u>			
Accounts Payable	Credit	Credit	Permanent
_____ Payable	Credit	Credit	Permanent
Unearned Revenues	Credit	Credit	Permanent
<u>3 OWNER'S EQUITY</u>			
_____, Capital	Credit	Credit	Permanent
_____, Drawing	Debit	Debit	Temporary
Income Summary	Income summary does not have a normal balance. It is a debit balance if the company made money for the fiscal period and a credit balance if the company lost money for the period. This is a temporary account.		
<u>4 REVENUES</u>			
Fees Earned	Credit	Credit	Temporary
Revenues	Credit	Credit	Temporary
Sales	Credit	Credit	Temporary
Services	Credit	Credit	Temporary
<u>5 EXPENSES</u>			
Depreciation Expense	Debit	Debit	Temporary
Insurance Expense	Debit	Debit	Temporary
Supplies Expense	Debit	Debit	Temporary
_____ Expense	Debit	Debit	Temporary

Payroll Accounting

- W-4: The form you fill out when you first get a job – tells the employer how much to withhold from each paycheck for taxes
- W-2: The form you receive at the end of the year detailing how much money you made and how much you paid in taxes.
- Form 1040EZ: The tax form that you file with the IRS by April 15 each year.
- Deductions: These can be required (taxes, social security, Medicare) or optional (life insurance, retirement)
- Earned Income: Wages (minimum wage, hourly rates, overtime), Salaries, Tips, Commissions
- Unearned Income: Dividends, Interest, Capital gains, Gambling winnings, Alimony, Social Security benefits, Pensions, Annuities
- Employee Benefits: paid holidays, sick leave, personal leave, educational reimbursement, perks, insurance, retirement plans, etc.

GROSS PAY: The total amount of earnings before any deductions

Regular = Hours Worked X Hourly Rate

Overtime = Hours Overtime X Hourly Rate X 1.5

Gross Pay = Regular + Overtime

NET PAY: The amount left after all of your deductions are taken out

First Calculate Gross Pay (like we just did)

Then Calculate Deductions (% of Gross)

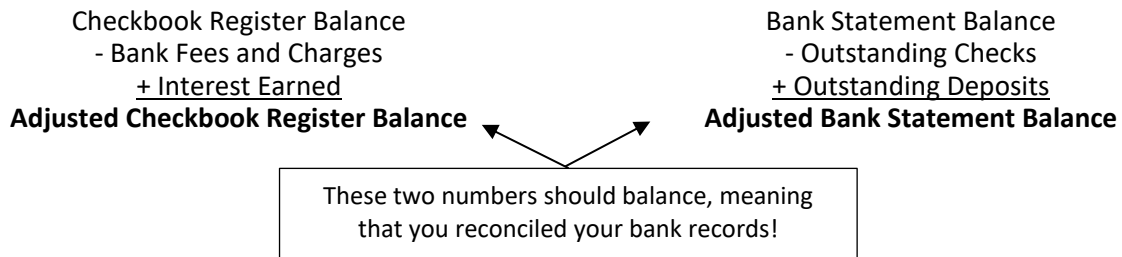
Lastly, Subtract Deductions from Gross Pay

Miscellaneous

- Balance Sheet: Shows Assets, Liabilities, and Owner's Equity ... how much the business is worth.
- Blank Endorsement: Just a signature (least secure ... anybody can cash it) / Restrictive Endorsement: "For Deposit Only" and a signature (can only be deposited) / Special Endorsement: "Pay to the Order of ____" and a signature (is now payable to a new person).
- Cash and Petty Cash are ASSETS ... but Cash Over/Short is an EXPENSE.
- Debits and credits in accounting basically just mean left and right.
- Decreases to Owner's Equity: Withdrawals (drawing) and Expenses.
- Double Entry Accounting/Bookkeeping System: affects two or more ledger accounts and is recorded by an equal dollar amount of debits and credits.
- Income Statement: Shows Revenues and Expenses ... the profitability of a business.
- Increases to Owner's Equity: Investments and Revenues.
- Journal consists of a chronological list of business transactions.
- Journalizing: The process of originally recording a business transaction in the accounting records.
- Ledger consists of accounts and account balances listed by account number.
- Posting: The process of transferring information from the journal to the individual general ledger accounts.
- Statement of Owner's Equity: Shows all the changes to owner's equity that occurred during the fiscal period.
- Temporary Accounts: Start each fiscal year with a zero balance.

Bank Reconciliation

This procedure lets you match up your checkbook register (what YOU think you have in your checking account) and the bank statement (what the BANK thinks you have).



Closing Transactions

Remember, the purpose of closing entries is to zero out the temporary accounts (fees earned, expenses and drawing), and move those amounts into the capital account.

It's A Wrap! ADJUSTED Trial Balance December 31, 2017												
Cash	4	0	0	00								
Accounts Receivable	3	0	0	00								
Supplies	4	4	0	00								
Prepaid Insurance	2	6	0	00								
Equipment	90	0	0	00								
Accumulated Depreciation					4	4	0	00				
Accounts Payable					6	8	0	00				
Wages Payable					1	6	0	00				
Unearned Fees					1	2	0	00				
Ty A. Bow, Capital					80	0	0	00				
Ty A. Bow, Drawing	10	0	0	00								
Fees Earned					56	0	0	00				
Depreciation Expense	8	0	0	00								
Insurance Expense	2	5	0	00								
Rent Expense	12	0	0	00								
Supplies Expense	2	0	0	00								
Utilities Expense	6	0	0	00								
Wages Expense	4	0	0	00								
Miscellaneous Expense	1	5	0	00								
TOTAL	150	0	0	00	150	0	0	00				

		Journal				Page 1
		Date	Description	Post. Ref.	Debit	Credit
A	Dec 31	Fees Earned			56 0 0 00	
		Income Summary				56 0 0 00
B	31	Income Summary			36 0 0 00	
		Depreciation Expense				8 0 0 00
		Insurance Expense				2 5 0 00
		Rent Expense				12 0 0 00
		Supplies Expense				2 0 0 00
		Utilities Expense				6 0 0 00
C	31	Income Summary			20 0 0 00	
		Ty A. Bow, Capital				20 0 0 00
	31	Ty A. Bow, Capital			10 0 0 00	
D		Ty a., Bow, Drawing				10 0 0 00

