

Lecture Note-Taking Guide

Principles of Financial Accounting

I



Oral Roberts University
College of Business
Tulsa, Oklahoma

Name _____

Lecture Note-Taking Guide

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Correlates with the 10th edition of Wiley's *Accounting Principles*

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Many educators agree “lecture” is the least effective way to convey information to students. Yet the “lecture” class is one of many important components in the Principles of Accounting classes at Oral Roberts University.



The lecture class provides students opportunities to combine seeing, hearing, and writing in order to introduce the lessons presented in each chapter. The purpose of this note-taking guide is to allow students to write less while listening, seeing, and leaving the room with more. Hopefully, the guide will allow students to think more in class and, therefore, better understand the concepts and principles being presented.

Students should consider these suggestions intended to help them maximize their learning opportunities with the use of this note-taking guide:

1. Read and experience the first few pages of the textbook to determine your individual learning style. Follow the authors' suggestions of ways in which you could approach the course materials considering your learning style.
2. Glance through the chapter (and perhaps the first homework assignment) BEFORE attending lecture on Monday. Come to class prepared.
3. Attend class. Be on time.
4. Be attentive. Stay alert. Don't distract your neighbors or yourself by talking or listening to those around you. Stay focused on the lesson being presented in class.
5. Take the note-taking guide to each lecture session. Write in the blanks as the information becomes apparent in class. Listen to other explanations. Write other important information in the margins. Have questions? Write them in the margins as well; ask the questions in lecture, discussion, or lab as you desire. The objective of the note-taking guide is NOT to just fill in all the blanks, but to master the overall lesson.
6. Use the note-taking guide during the week as you solve homework assignments. Review the information in the guide before the discussion groups to anticipate some of the information which may be covered there. Use the guide to review for quizzes and exams as well.
7. Seek help when you do not understand a concept. Other students who are enrolled in the course or who have completed the course, lab assistants, and your professors are eager to help you master the material. Ask!



We sincerely hope you find this note-taking guide to be a useful tool and that you have a successful experience in accounting this semester!

Introduction to Accounting

Chapter 1

TERMS

Accounting is known as the _____ of business.

Business Entity Concept

_____ considered _____ and distinct from _____

Examples:

Business Transaction

_____, occurrence, or _____ that needs to be _____;
usually in _____ terms

Assets

W, K & K: _____ by a
business

@ ORU: _____

Users of Accounting Information

1. _____
2. _____
3. _____
4. _____



Equities

_____ or claims to _____ (assets)

therefore

Types of Equities

Liabilities: _____

or _____

The Accounting Equation

ASSETS = EQUITIES

ASSETS = _____

ASSETS = LIABILITIES + _____

Possible Ways to Keep the Equation in Balance

	ASSETS	=	LIABILITIES	+	OWNERS' EQUITY
1.	_____				_____
2.	_____				_____
3.	_____				_____
4.	_____				_____

Sample Problem

A student decided to offer his services as a tutor for fellow students who had difficulty with their classes.

With a \$100 deposit, he opened a separate bank account to use solely for tutoring enterprise.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Purchased \$20 of supplies for cash.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Tutored student who promised to pay on Friday, \$10.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Placed \$15 advertisement in student newspaper to be paid next week.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Received \$40 from students tutored.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Paid student newspaper for ad placed earlier.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Received payment from student who earlier had promised to pay.

ASSETS	=	LIABILITIES	+	OWNERS' EQUITY

Revenue (_____ owner's equity)

_____ coming into the business because of _____ ...

Expenses (_____ owner's equity)

_____ made in order to earn _____

The "Father of Accounting" -- Luca Pacioli 1445 - 1517

"...described a system to ensure that financial information was recorded efficiently and accurately." [Accounting Principles](#), Weygant, et.al., 10th ed, pg 5

"It is also notable for including the first published description of the method of bookkeeping that Venetian merchants used during the Italian Renaissance, known as the double-entry accounting system. Although Pacioli codified rather than invented this system, he is widely regarded as the "Father of Accounting". The system he published included most of the accounting cycle as we know it today. He described the use of journals and ledgers, and warned that a person



should not go to sleep at night until the debits equaled the credits. His ledger had accounts for assets (including receivables and inventories), liabilities, capital, income, and expenses — the account categories that are reported on an organization's balance sheet and income statement, respectively. He demonstrated year-end closing entries and proposed that a trial balance be used to prove a balanced ledger. Also, his treatise touches on a wide range of related topics from accounting ethics to cost accounting.”



http://en.wikipedia.org/wiki/Luca_Pacioli

“...described himself modestly as a ‘humble professor of sacred theology.’ In actuality, however, he was one of the brilliant ‘all- purpose’ men for whom the Renaissance is noted. A friend of Leonardo da Vinci (who illustrated one of Pacioli’s works,) the Franciscan monk was highly esteemed in his time as a writer, a teacher, and an expert in such diverse fields as mathematics, theology, architecture, sports and games, military strategy, and the world of commerce. Although most of [his] writings are on the subject of arithmetic and geometry, he is best remembered today for his book on ... accounting, published in 1494. Most of the accounting methods he described are considered to be as applicable today as they were in the 15th century, as are [his] many practical hints on ‘how to succeed in business.’”

“A Brief Biography of Fra Luca Pacioli”, Timothy Gillis,
<http://www.neca.com/qvctc/brian/qvhtmls/paci.htm>

and the reason any of these are included:

“Pacioli...published a revolutionary book in 1494, *Summa de Arithmetica, geometria, proportioni et Proportionalita...* Goethe said that this was ‘one of the finest discoveries of the human intellect.’ An economist and sociologist, Werner Sombart, said, ‘...bookkeeping is born with the same spirit as the system of Galileo and Newton.’

Pacioli’s work was dedicated to the glory of God. ...He wrote in the *Summa* that people should begin all their economic transactions ‘in the name of God.’ The methodology he developed changed the future of business forever and led to the development of spread sheets. His ingenious accounting equation of ‘Assets = Liabilities + Owner’s Equity’ is used worldwide today. **This humble servant of Jesus Christ has provided the world a vital tool for business — to the greater glory of God.**”

Kennedy, D. James, and Newcombe, Jerry. What If Jesus Had Never Been Born?
Thomas Nelson Publishers, Nashville, TN, 1994, pg 111.

Refining the Accounting Process

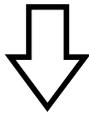
Chapter 2

Looking Back and Moving On

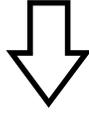
$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

replaced with

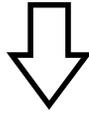
$$\text{Cash} + \text{A/R} + \text{Supplies} = \text{A/P} + \text{N/P} + \text{J.Doe, Capital}$$



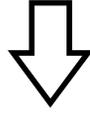
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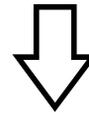
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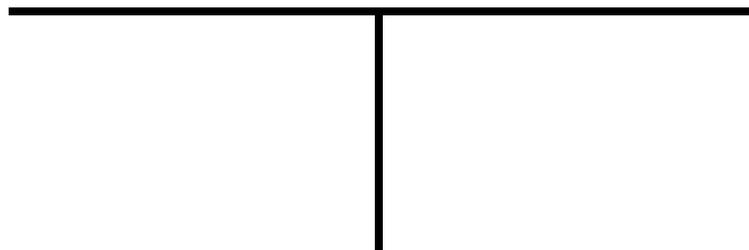
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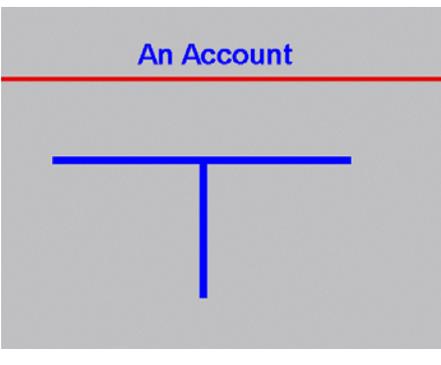
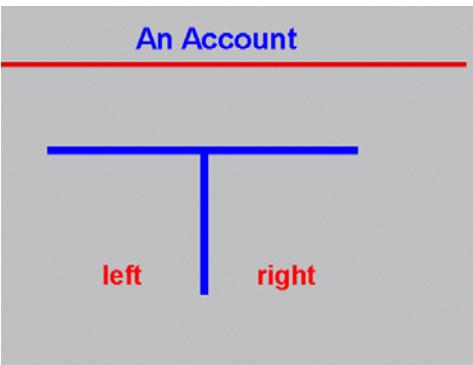
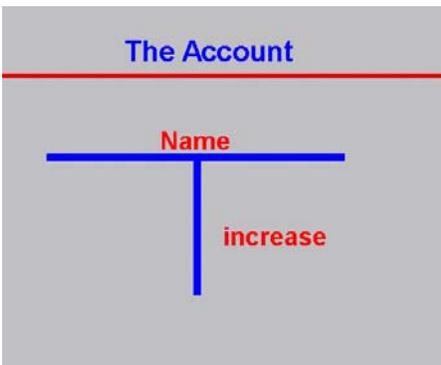
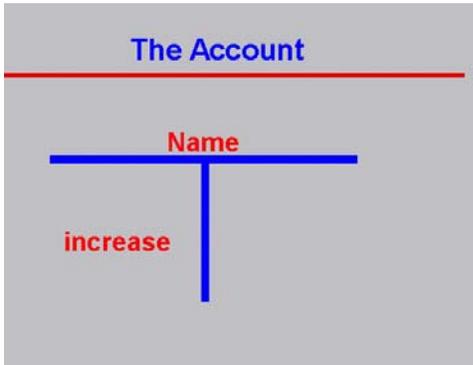
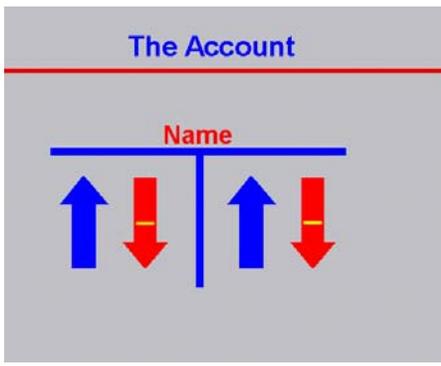
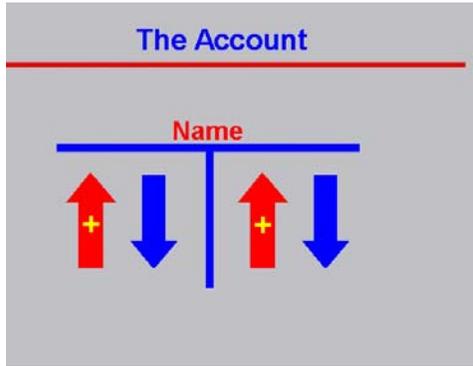
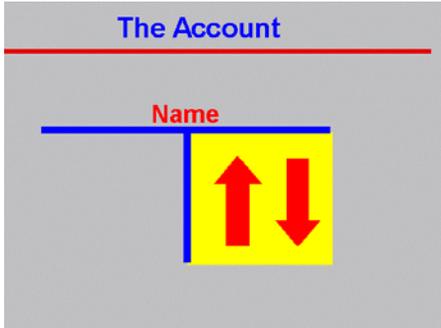
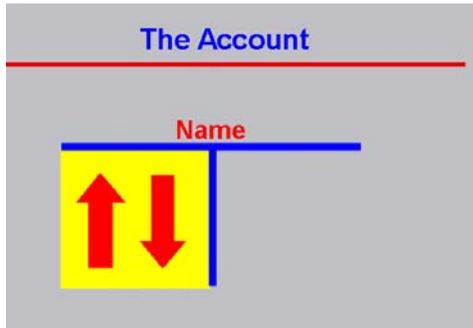
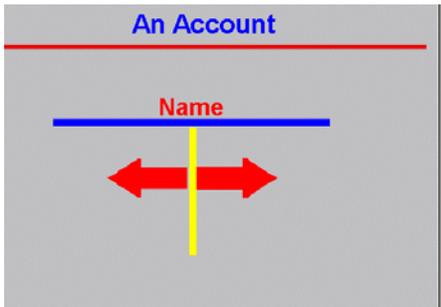
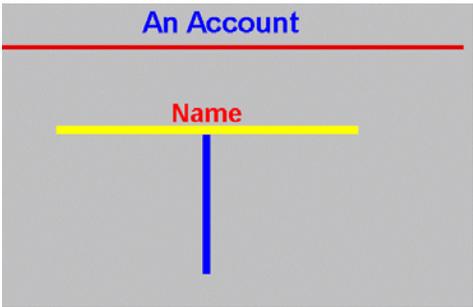
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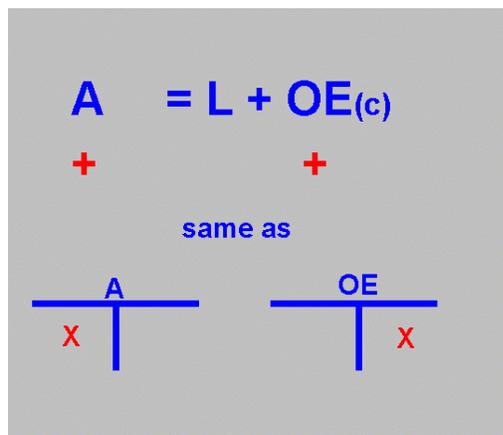
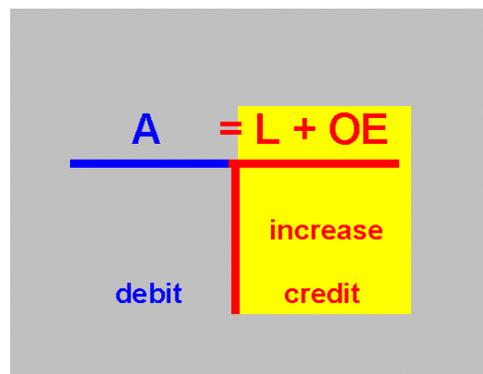
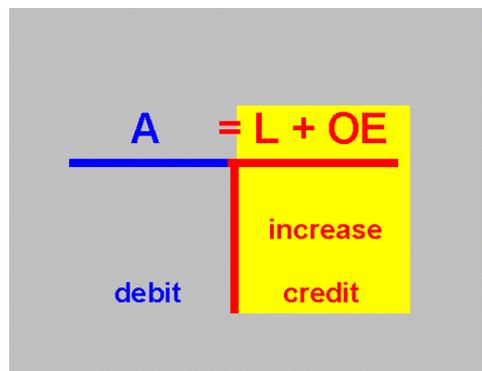
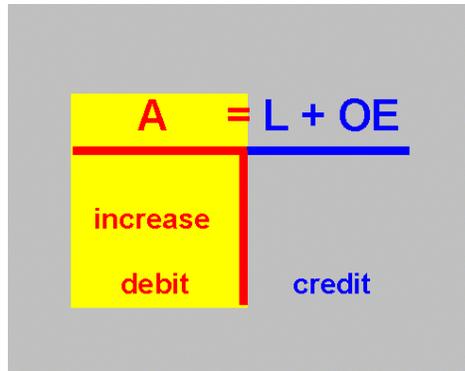
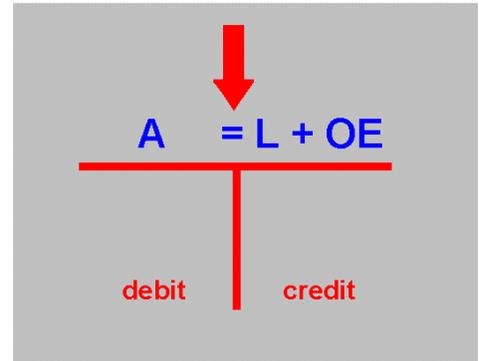
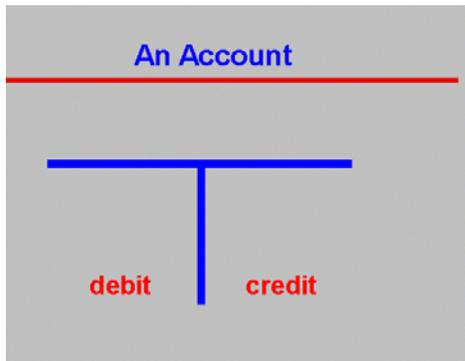
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(Watch, listen, and think more than you write!)







Normal Balances

- _____ side of the account
- _____ to find the balance

I. Those related to the accounting equation

Assets = _____

Liabilities = _____

Owner's Equity = _____

_____ = _____

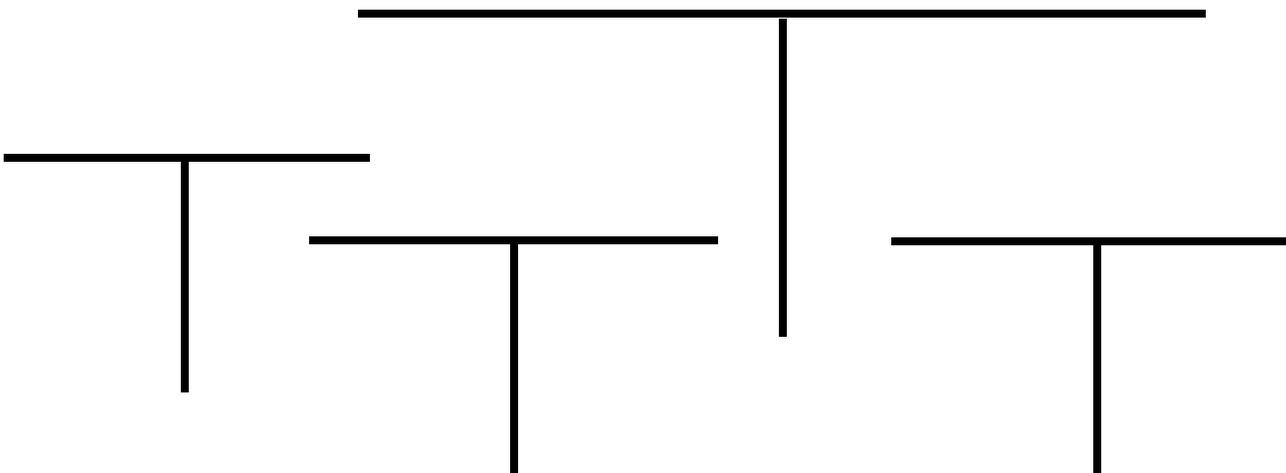
_____ = _____

increase = _____

decrease = _____



II. Those related to the capital account



Learn to Classify Accounts

_____ ways: _____

_____ ways: _____

_____ ways: _____

Business _____

Source _____

Journal: book of _____

Ledger: book of _____

Practice Exercise

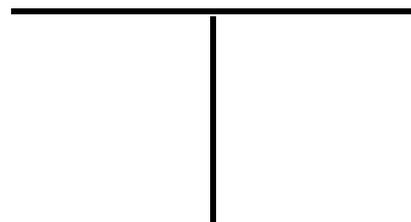
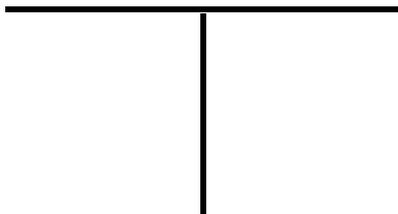
Selected transactions for the Ana Clare Company for the month of June are presented below. Journalize each transaction. Post the first transaction to T-accounts.

- June 2 Purchased equipment on account for \$900.
- 3 \$500 cash is paid to landlord for June rent.

General Journal

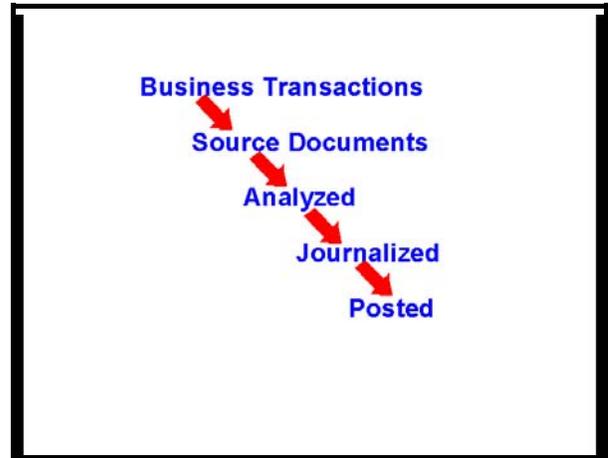
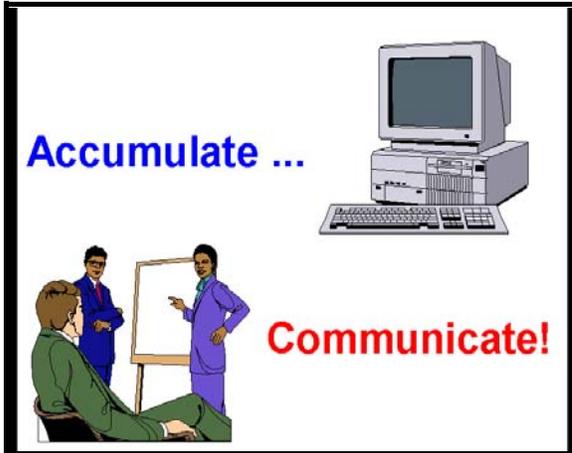
J1

Date	Account Titles and Explanation	Ref.	Debit	Credit



Completing the Process

Chapters 4 and 3

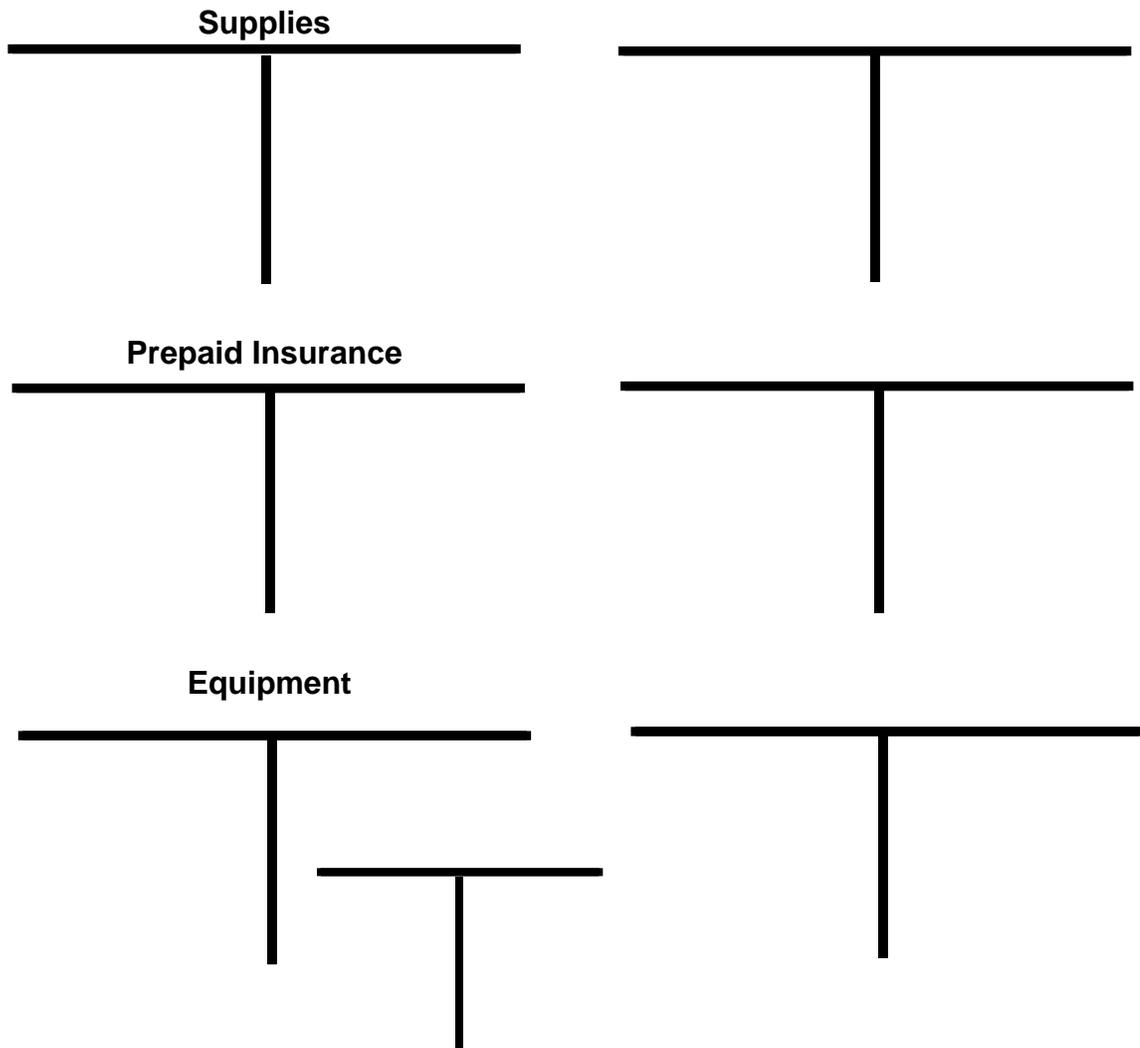


The Accounting Cycle

1. Business transactions create _____
2. The transactions are _____
3. Journalized and _____ to the ledger.
4. A _____ is prepared.
5. _____ needed to _____ the accounts are assembled.
6. A _____ is prepared.
7. The _____ are prepared.
8. _____ entries are _____ and posted.
9. _____ entries are journalized and _____.
10. A _____ trial balance is prepared.

Examples Considering Accounts in the Ledger

“Some things you must ‘get’ before you can use them.”



“Some things you ‘use’ before you pay for them.”

Consider this...

DECEMBER						
S	M	T	W	Th	F	S
				25	26	27
28	29	30	31			

Payday (with a red arrow pointing to the 26th)

Closing Entries

(to be covered in first discussion group)

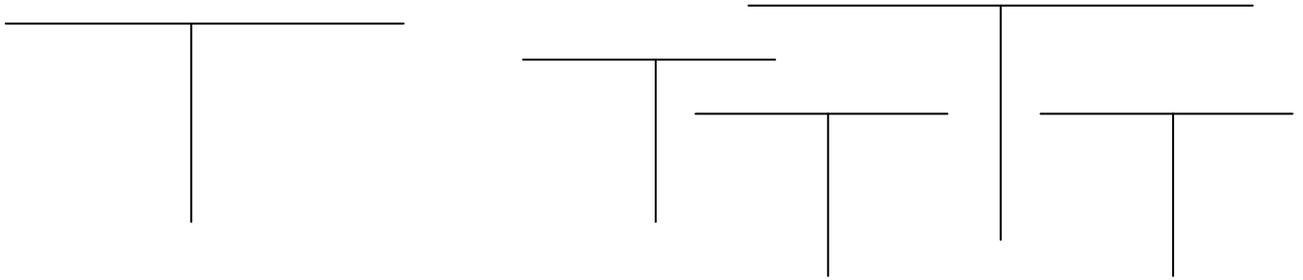
Why make closing entries?

1. _____, and
2. _____.

Procedures for Closing Entries

	Account Titles	Ref	Debit	Credit
1.	All _____ accounts with _____			
	balances with _____		debit	
	_____			credit
2.	_____		debit	
	All _____ accounts with _____			
	balances with their balance			credit

Illustrations



Procedures for Closing Entries (continued)

3. Transfer the balance of _____ to _____.

Illustrations

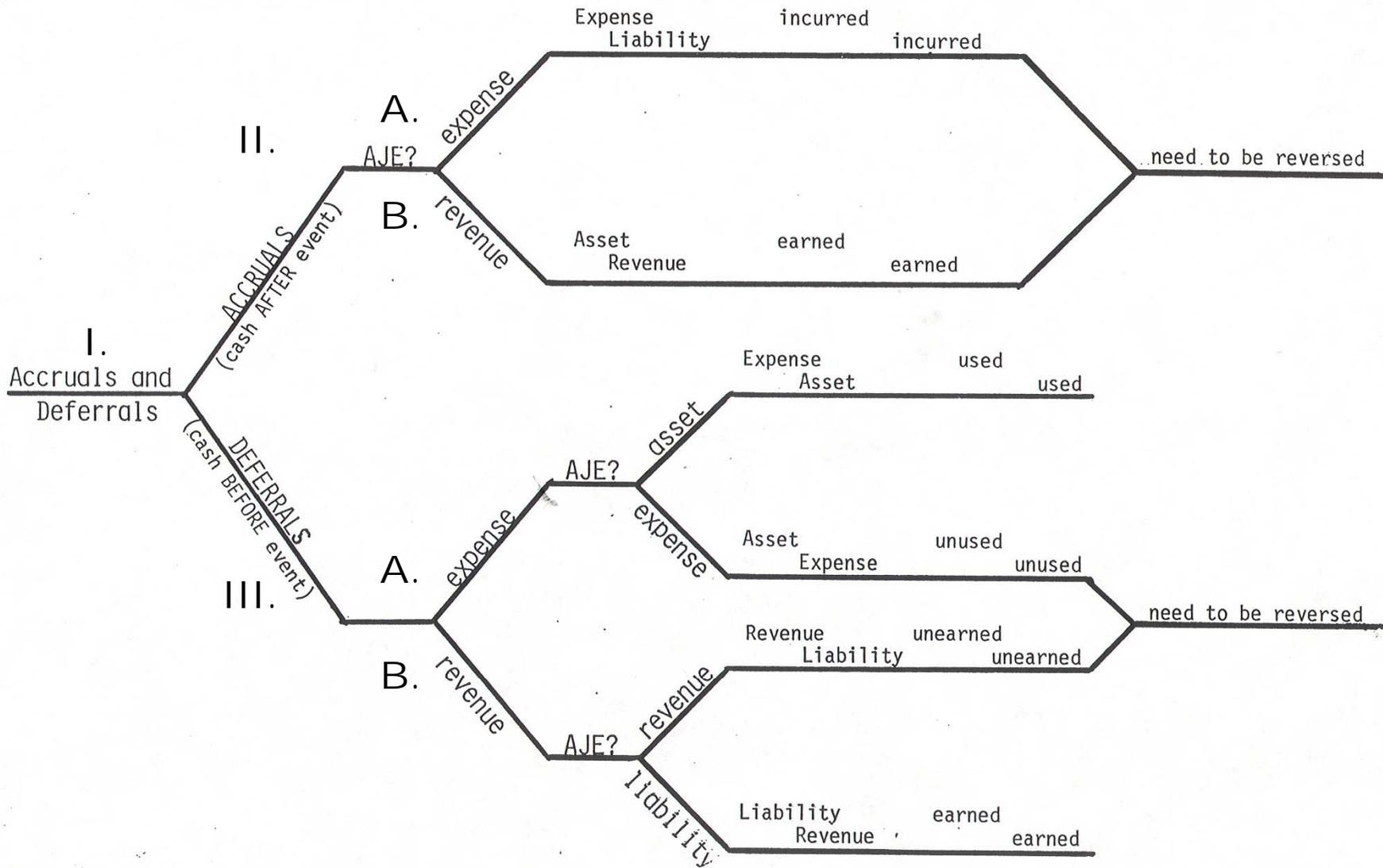
	Account Titles	Ref	Debit	Credit
NI			debit	
				credit
NL			debit	
				credit

4. Transfer the balance of _____ (dividends) to _____ (retained earnings).

Illustration

	Account Titles	Ref	Debit	Credit
			debit	
				credit

ADJUSTING AND REVERSING ENTRIES FOR ACCRUALS AND DEFERRALS





Adjusting the Accounts Chapters 3 and 4

"Cash" Basis vs. "Accrual" Basis:

	<u>Cash</u>	<u>Accrual</u>
Revenue	_____	_____
Expenses	_____	_____

Generally Accepted Accounting Principles (GAAP) require using the _____ basis.

Why make A adjusting Journal Entries? _____

Recall previous "promises." New Promise: *Every adjusting entry will have _____
Balance Sheet and one _____ effect.*



INCOME STATEMENT attempts to accomplish: _____

ESSENTIALS OF _____ CONCEPT

1. _____
2. _____
3. _____

I. Identifying accounts to be adjusted: Accruals and Deferrals

A. Perhaps the best way to distinguish deferrals and accruals is the timing of cash changing hands:



Deferrals have been recorded; accruals have not.

B. Definitions

An ACCRUAL is an expense _____

or a revenue _____.

Examples of accruals:

Expense: _____

Revenue: _____

A DEFERRAL is a _____
already paid or of a *revenue* _____.

Examples of deferrals:

Expense: _____

Revenue: _____

II. Accruals

A. Expenses

1. Example

Salaries increase as employees work each day, yet, for convenience, salaries are recorded when _____ . Since the cash is paid _____ the event, salaries are an example of _____ .

The adjusting entry necessary when payday and the end of the fiscal period are on different days would be:

2. Decision tree conclusion

If this is the entry required for this _____, other *accrued expense* items must follow a similar format:

B. Revenue

1. Example

Your CPA firm is auditing a client's records; the engagement begins in mid-November and lasts through the end of February. Each day as work is being performed, revenue is earned. Since the cash will not be collected until completion of the engagement (after the event), this is an example of _____ .

The adjusting entry necessary on the CPA's records at the end of the year when financial statements are about to be prepared would be:

2. Decision tree conclusion

If this is the entry required for this _____ item, other accrued revenue items would follow a similar format:

C. "Reversing Entries" are presented in the appendix to Chapter 4.

What?	<i>opposite of AJEs</i>	
Which?	<i>all accruals</i>	
When?	<i>first day of new year</i>	
Why?	<i>helps next year go better</i>	
What Else?	<i>will learn more later</i>	

All _____ need to be reversed.

Watch for new rule and apply it here, too.

III. DEFERRALS

A. (Prepaid) Expenses

1. Examples already encountered in chapters 1 and 2

2. Two methods of accounting for deferred (prepaid) expenses

a. _____
(emphasized in Chapter 3)

b. _____
(covered in Appendix)

3. In order to identify the method used for deferred EXPENSES, consider

- a. where the initial transaction was recorded
- b. where the balance of the account is before adjustment

Which method would we be using if...

<u>Prepayment</u>	<u>Asset</u>	<u>Expense</u>
for insurance	_____	_____
for supplies	_____	_____
for rent	_____	_____

III. A. 4. Consider example of Supplies and Supplies Expense...

	Supplies		Supplies Expense	
	*		*	
Bal.	100	*		*
Pur.	400	*		*
	*			*
	*			*

Ending Inventory = \$50

a. Using the _____ method the AJE for supplies is:

b. Decision tree conclusion

5. Re-consider example of Supplies and Supplies Expense...
(Appendix)

	Supplies		Supplies Expense	
	*		*	
	*		*	
Bal.	100	*		*
Pur.	400	*		*
	*			*
	*			*

Ending Inventory = \$50

a. Using the _____ method the AJE for supplies is:

b. Decision tree conclusion

Upon comparing the results, the *asset method* and the *expense method* accomplish

The KEY to administering the methods is _____.

_____ means...

... during an accounting period, and
... from one period to the next



What about reversing entries for deferred expenses under these methods?
 Are they necessary?

"Rule" becomes "old rule"--won't work. These are _____, not accruals.

6. Reversing entries

New rule: one rule--two ways to say it

a. When an ADJUSTING entry _____ (first entry in the account)
 _____, a reversing entry would be advantageous.

b. When the direction of a *deferral* ADJUSTING entry is _____
 to _____, it should NOT be reversed.

When the direction of a *deferral* ADJUSTING entry is _____
 to _____, it should be reversed.

For the SUPPLIES example...

Reversing entry for ASSET METHOD? _____

Reversing entry for EXPENSE METHOD? _____

????????????????????????????????

On your own time try this one and check your answers by referring to the solution available on the class web site.

Prepaid Insurance	Insurance Expense
Bal. 1,000	
*	*
*	*
*	*
*	*

\$600 of premiums have expired

Make the adjusting entry necessary:

Which method is being used? _____

Reversed? _____

Why or why not? _____

????????????????????

Prepaid Insurance	Insurance Expense
*	*
*	Bal. 1,000
*	*
*	*
*	*

\$600 of premiums have expired

Again, you make the adjusting entry:

Which method is being used? _____

Reversed? _____

Why or why not? _____

III. DEFERRALS

B. Revenue

1. Examples

Assume the attorneys Jones, Fraud, and Swindle, whose year ends December 31, received \$1,200 on September 1 for one year's service in advance.

When CASH was debited, what was credited?

2. Two methods of accounting for deferred REVENUE

a. _____

b. _____

3. In order to identify the method used for deferred REVENUE, consider

a. where the initial transaction was recorded

b. where the balance of the account is before adjustment

III. B. 4. Consider the example of the lawyers...

Unearned Fees	Fees Earned
*	*
*	* 9/1 1,200
*	*
*	*
*	*

a. Using the _____ method the adjusting entry is:

_____	_____
-------	-------

b. Decision tree conclusion

_____	_____
-------	-------

5. Re-consider the example of the lawyers...

Unearned Fees	Fees Earned
*	*
* 9/1 1,200	*
*	*
*	*
*	*

a. Using the _____ method the adjusting entry is:

_____	_____
-------	-------

b. Decision tree conclusion

_____	_____
-------	-------

Upon comparing results, the *liability method* and the *revenue method* accomplish

What about reversing entries for deferred revenue under these methods?
Are they necessary?

6. Reversing entries

for LIABILITY METHOD? _____

for REVENUE METHOD? _____

Try a couple on your own time ... and be sure to check you answers on the class web site.

Assume a prominent mid-western university collected \$4,000 in tuition on September 1. When cash was debited, the university credited...

????????????????????????????????

Unearned Tuition	Tuition Earned
*	*
* 4,000	*
*	*
*	*
*	*

Make the adjusting entry necessary at November 30:

Which method is being used? _____

Reversed? _____

Why or why not? _____

????????????????????????????????

Unearned Tuition	Tuition Earned
*	*
*	* 4,000
*	*
*	*
*	*

Make the adjusting entry necessary at November 30:

Which method is being used? _____

Reversed? _____

Why or why not? _____

IV. Plant Assets (a form of deferrals)

A. Desire to maintain "cost" of account

B. "Decline in Usefulness" = _____

C. "Nature" of Accumulated Depreciation is _____.

Represents TOTAL depreciation taken since asset acquired.

D. Result of "main" account and "contra" account worth naming:

) Equipment
 Accumulated Depreciation

= _____

Use the decision tree as a study tool this week!

Merchandising: Perpetual Procedures

Chapter 5 (pp. 208-231 and Appendix 5B)

Introduction

Major theme of Chapters 1 - 4 was _____ industries.

Major shift in focus to _____ concerns.

Two acceptable ways to account for merchandise:

1. _____
(inventory level not updated at the time of sale of item; must take physical count to determine amount on hand; less costly; historically used by most businesses)

2. _____
(accounting system continuously discloses the amount of inventory on hand; advances in technology have enabled many industries to use this method that would not have been able to in the past)



Major points for today and this week:

- | | |
|---------------------|------------------------------------|
| 1. new accounts | 4. new source documents |
| 2. new terms | 5. new emphasis on point of view |
| 3. new transactions | 6. new format for Income Statement |

I. New Accounts

New Account Title	Classification? (A,L,C,R,E)	Normal Balance?	Fin. Stmt.? (BS or IS)	Closed?
Inventory		debit		no
	revenue		I.S.	
Sales Returns and Allowances		debit		yes - 2
	contra rev	debit	I.S.	
Cost of Goods Sold	expense	debit	I.S.	yes - 2

Some Company
Income Statement
For the Year Ended 12/31/xxxx

Sales		\$xxx,xxx
Less: Sales Returns and Allowances	\$x,xxx	
Sales Discounts	xxx	x,xxx
		\$xxx,xxx
Cost of Goods Sold		xx,xxx
		\$ x,xxx

II. New Terms (vocabulary)



- A. FOB shipping point
- B. FOB destination

Who pays the freight costs when the terms are FOB shipping point? _____

The _____ pays the freight when the terms are FOB destination.

C. Terms of Sale:

“Two ten net thirty” would be written _____

Incentive to pay promptly. Considered to be a sound business practice. _____% discount if paid within _____ days; if not paid then, _____ would be due within _____ days.

Also: 1/10,n/60 2/10,n/eom n/eom

III. New Transactions

Buyer's Point of View

Purchased merchandise from Seller, Inc., FOB shipping point, 2/10,n/30, \$1,000.

Date	Account Titles	Ref.	Debit	Credit
Oct 4			1,000	
				1,000

What about the discount?

Paid Mack Trucking Company for freight charges, \$100.

Date	Account Titles	Ref.	Debit	Credit
Oct 4			100	
				100

Returned \$200 of defective goods receiving credit.

Date	Account Titles	Ref.	Debit	Credit
			200	
				200

Paid the balance due within the discount period.

Date	Account Titles	Ref.	Debit	Credit
Oct 14				
	Cash			

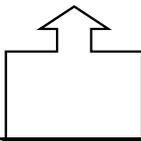
The balance in Merchandise Inventory would be \$ _____
and would represent the _____ of the asset.



Seller's Point of View

Sold merchandise (costing \$60) to Buyer Company, FOB shipping point, 1/10,n/30, \$100.

Date	Account Titles	Ref.	Debit	Credit
			100	
				100



What about the discount?

Issued a credit memo to Buyer for good returned, \$20 (\$12 cost).

Date	Account Titles	Ref.	Debit	Credit
			20	
				20
			12	
				12

Received the balance due within the discount period.

Date	Account Titles	Ref.	Debit	Credit

IV. New Source Documents (not all answered here; watch for answers this week)

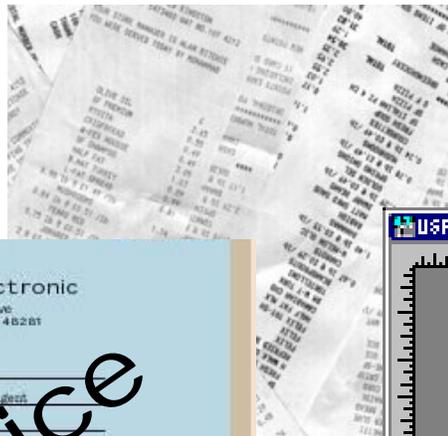
- A. for debiting Merchandise Inventory? _____
- B. for crediting Merchandise Inventory for return? _____
- C. for crediting Sales? _____
- D. for crediting Merchandise Inventory for sale? _____
- E. for crediting Accounting Receivable? _____

Highpoint Electronic
27 Circle Drive
Harding, Michigan 48261

SOLD TO

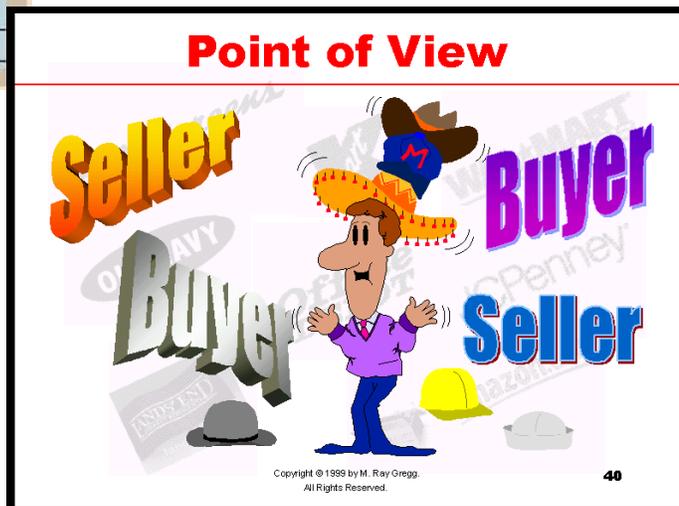
Firm Name: Chelsea Video
Attention of: James Hoover, Purchasing Agent
Address: 185 Main Street
Chelsea Illinois 60915
City State Zip

Date	Salesperson	Material	Units	Q/10, 5/20	Freight	FOB	Ex.P.S.
5/4/99							
Catalogue No.		Description	Quantity	Price	Amount		
X07270620		Prime Class Board 600kops	1	\$2,200	\$2,200		
A2547245		Production Model Chronite	5	300	1,500		
IMPORTANT: ALL RETURNS MUST BE MADE WITHIN 10 DAYS						TOTAL	\$3,800



Barcode Labeling Software

V. Point of View is EVERYTHING!



Merchandising: Periodic Procedures

(more of) Chapter 5

Overview

- I. Last Week: Perpetual (Chapter 5: pp. 208-231 and Appendix 5B)
- II. This Week: Periodic (Chapter 5: Appendix 5A, pp. 232 - 235)
 - A. Contrast periodic and perpetual
 - B. Financial Statement preparation and formulas

Contrast Periodic and Perpetual

Changes in Accounts

When merchandise is acquired the account debited is _____.

New Account Title	Classification? (A,L,C,R,E)	Normal Balance?	Fin. Stmt.? (BS or IS)	Closed?
Purchases		debit		yes - 2
		debit		yes -
Purchases Returns and Allow.		credit		yes -
Purchases Discount	contra exp	credit	I.S.	yes - 1

Buyer's Point of View

These are the entries which would have been made using perpetual procedures. You are to reflect the changes for **PERIODIC** inventory.

Purchased merchandise from Seller, Inc., FOB shipping point, 2/10,n/30, \$1,000.

Date	Account Titles	Ref.	Debit	Credit
Oct 4	Inventory		1,000	
	Accounts Payable -- Seller			1,000

Paid Mack Trucking Company for freight charges, \$100.

Date	Account Titles	Ref.	Debit	Credit
Oct 4	Inventory		100	
	Cash			100

Returned \$200 of defective goods receiving credit.

Date	Account Titles	Ref.	Debit	Credit
	Accounts Payable -- Seller		200	
	Inventory			200

Paid the balance due within the discount period.

Date	Account Titles	Ref.	Debit	Credit
Oct 14	Accounts Payable -- Seller		800	
	Inventory			16
	Cash			784

Seller's Point of View

Sold merchandise (costing \$60) to Buyer Company, FOB shipping point, 1/10,n/30, \$100.

Date	Account Titles	Ref.	Debit	Credit
	Accounts Receivable -- Buyer		100	
	Sales			100
	Cost of Goods Sold		60	
	Inventory			60

Issued a credit memo to Buyer for good returned, \$20 (\$12 cost).

Date	Account Titles	Ref.	Debit	Credit
	Sales Returns and Allowances		20	
	Accounts Receivable -- Buyer			20
	Inventory		12	
	Cost of Goods Sold			12

Also refer to periodic and perpetual comparison on page 235 in the textbook.

Summary of Periodic Procedures

1. _____ account is debited when goods are acquired.
2. _____ is credited to record the sales price when goods are sold, but _____ is made to reduce the inventory.

THEREFORE

3. Must COMPUTE _____ in order to find net income.



_____ minus COST OF GOODS SOLD equals GROSS PROFIT
(where "Sales" means "_____")

Cost of Goods Sold

Beginning Inventory
+ _____
= Goods Available for Sale
- Ending Inventory
= Cost of Goods Sold

(where "Purchases" means "_____" and "net purchases", according to the authors, means "cost of goods purchased")

Try to understand the cost of goods sold formula with this illustration about "OUR Company:



Practice Exercise

The following list of account balances was taken from the adjusted trial balance columns of a work sheet for Cellar Company at December 31 of the current year. Merchandise inventory on January 1 was \$22,000. Prepare an income statement through gross profit.

Accounts Payable	\$ 9,800
Depreciation Expense	45,000
Freight-in	4,000
Freight-out	3,000
Insurance Expense	4,500
Merchandise Inventory	30,000
Salaries Expense	30,000
Purchases	80,000
Purchase Discounts	6,000
Purchase Returns and Allowances	3,500
Sales	300,000
Sales Commissions Expense	15,000
Sales Discounts	3,000
Sales Returns and Allowances	1,500
D. Cellar, Capital	50,000
Property Taxes Expense	4,000
Utilities Expense	7,000

Cellar Company (Partial) Income Statement For the Year Ended December 31, 20xx

Sales		\$ _____
Less: Sales Returns and Allowances		\$ _____
Sales Discounts		_____
Net Sales		\$ _____
 Cost of Goods Sold:		
Merchandise Inventory, 1/1/xx		\$ _____
_____		\$ _____
Less: _____	\$ _____	
_____	_____	
Net Purchases		\$ _____
Add: _____		_____
_____		_____
Goods Available for Sale		\$ _____
Less: _____		_____
_____		_____
Gross Profit		\$ _____

Inventory Assumptions

Chapter 6

(Appendix 6A, Appendix 6B)

Inventory Systems

Perpetual Inventory

- Continuously discloses inventory on hand
- Increases in inventory debited to _____
(and posted to subsidiary ledger)
- Two entries to record sales transactions

REVENUE:

Accounts Receivable – Customer	retail	
Sales		retail

REDUCTION IN INVENTORY:

Cost of Goods Sold	cost	
Inventory		cost

- _____ still needed _____ to compare with and update inventory records

Periodic Inventory

- increases recorded in _____
- at time of sale, record revenue but _____ for reduction in inventory
- physical inventory (actual count) _____ at end of period to determine _____

Physical Inventory Procedures

- necessity for both periodic and perpetual
- goal: count _____; do not count any time _____
- have plan and follow it
 - establish proper _____ of transactions
 - business often _____ in order to count
 - best to count in _____



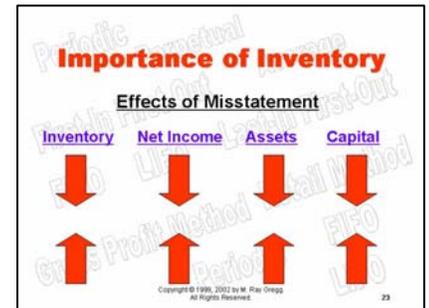
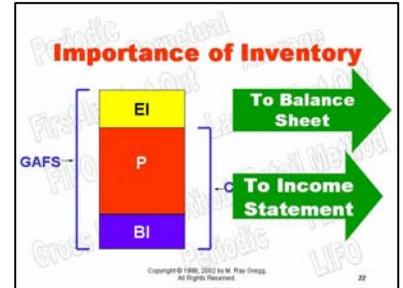
Physical Inventory Procedures (cont'd)



- shipping terms determine when title passes
 - FOB shipping point – title passes when goods are _____
 - FOB destination – title passes when goods _____

Importance of Inventory

- Most active element of a merchandising business
- Principle source of _____
- Largest _____
- Largest deduction from _____
- Ending inventory directly effects presentation on the _____
- UNDERSTATEMENT of ending inventory causes net income, assets, and capital to be _____
- OVERSTATEMENT of ending inventory causes net income, assets, and capital to be _____



Arbitrary Assumptions Concerning COST Flow

- In order expenditures were made or _____
- In reverse order expenditures were made or _____
- _____ of expenditures



Principles of Financial Accounting I

Lecture Extension: Inventory Demonstration
 FIFO, LIFO, and Average Costing Methods

In its first month of operations, AC Company made three purchases of merchandise in the following sequence: 300 units @ \$6, 400 units @ \$7, 300 units @ \$8. If there are 450 units on hand, compute the cost of the ending inventory and cost of goods sold under the (1) FIFO method, (2) LIFO method, and (3) average method. AC Company uses a periodic inventory system.

		<u>Units</u>	<u>Unit Cost</u>	
(1)	Purchase	300	\$6	
(2)	Purchase	400	\$7	
(3)	Purchase	300	\$8	

1. Find total costs of each unit. Determine total units and total costs. What name should be given for the totals?
2. From glancing at the unit costs, determine whether this is a period of rising prices or declining prices. Based on your conclusion, predict the impact of unit prices on EI, COGS, and NI under the various inventory costing techniques. Write in the actual answers as you determine them to see whether the predictions are true.

	<u>FIFO</u>	<u>Average</u>	<u>LIFO</u>
EI			
COGS			
Net Income			

3. Determine the cost of the ending inventory under the FIFO assumption. Find and prove COGS.

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

The same facts apply:

		<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
(1)	Purchase	300	\$3	\$1,800
(2)	Purchase	400	\$7	2,800
(3)	Purchase	<u>300</u>	\$8	<u>2,400</u>
	Total GAFS	1,000		\$7,000

4. Determine the cost of the ending inventory under the LIFO assumption. Find and prove COGS.

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

5. Determine the cost of the ending inventory under the average assumption. Find and prove COGS.

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

6. Compare your results with your predictions. Practice BE6-3, E6-5, and E6-6 for your benefit.

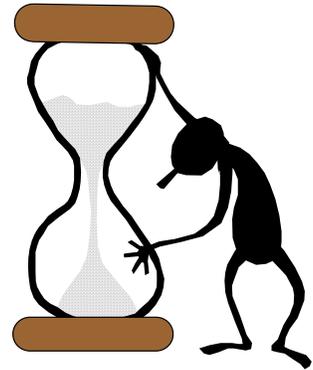
Accounting Systems – Special Journals and Subsidiary Ledgers

Chapter 7

Time Saving Devices

_____ Journals

_____ Ledgers



Problems of Having Only One JOURNAL

1. Only one person can work at a time
2. Book becomes _____



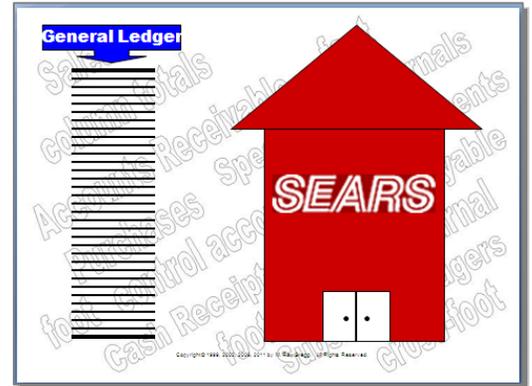
Solution:

- save a little time _____
- save a _____ of time posting

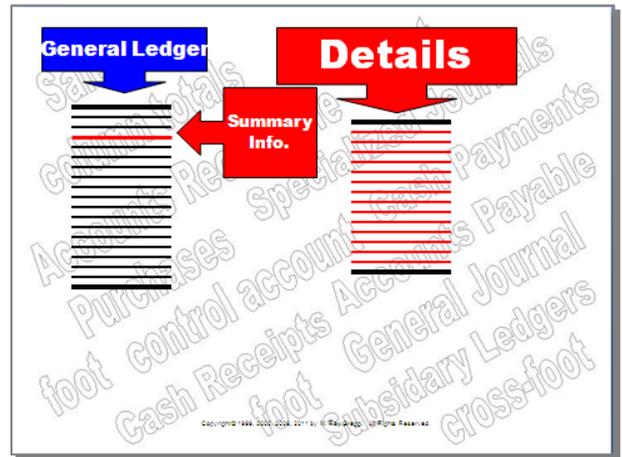
Problems of Having Only One LEDGER

1. Only one person can work at a time
2. Book becomes _____

Solution:



Account which replaces those removed from the General Ledger is called a _____ .



When all postings have been made, total of _____ ledger must equal account in the _____ ledger.

The two common subsidiary ledgers are Accounts _____ and Accounts _____ .

Characteristics of the Special Journals

<u>Journal</u>	<u>Characteristics</u>
Purchases (multi-column)	ANY purchase on account (Illustrated but not emphasized in the textbook; often used in real world)
Purchases (single column)	Purchase of _____ on account
_____	Sale of _____ on account
Cash _____	_____ collection of cash
Cash _____	_____ cash disbursement
General Journal	Anything that will not fit someplace else! (i.e., adjusting, closing, reversing, correcting entries; merchandise returns, etc.)

Think About Designing the Special Journals (very important!)

Name some of the columns one would expect to find in each of the special journals:

Purchases _____

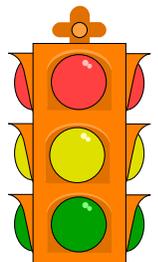
Sales _____

Cash Receipts _____

Cash Payments _____

Caution!

Please continue to _____ in “two column” or “General Journal” format. We will ALWAYS record our entries in “General Journal” format.



Suggestions:

1. On scratch paper (or at least in your head), decide what entry to make in “general journal” form ...
2. Select the appropriate special journal ...
THEN
3. Place the entries in the appropriate columns where the entry can be recorded most efficiently.

Sample Transactions

On May 14, purchased merchandise from Fabor and Son, 1/10,n/30, \$6,900.

Date	Account Titles	Ref.	Debit	Credit
May 14				

Journal? _____ See text page _____ .

PURCHASES JOURNAL					PI
Date	Account Credited	Terms	Ref.	Merchandise Inventory Dr. Accounts Payable Cr.	
2012					
May 6	Jasper Manufacturing Inc.	2/10, n/30	✓		11,000
10	Eaton and Howe Inc.	3/10, n/30	✓		7,200
14	Fabor and Son	1/10, n/30	✓		6,900
19	Jasper Manufacturing Inc.	2/10, n/30	✓		17,500
26	Fabor and Son	1/10, n/30	✓		8,700
29	Eaton and Howe Inc.	3/10, n/30	✓		12,600
					<u>63,900</u>
					(120)/(201)

Received credit memo from Fabor and Son for merchandise returned, \$???.

Date	Account Titles	Ref.	Debit	Credit

Journal? _____ Similar to text page _____ .

On May 23, paid Fabor and Son the amount due on the May 14 invoice.

Date	Account Titles	Ref.	Debit	Credit
23	Accounts Payable – Fabor and Son			
	Cash			

Journal? _____ See text page _____ .

CASH PAYMENTS JOURNAL							CPI
Date	Ck. No.	Account Debited	Ref.	Other Accounts Dr.	Accounts Payable Dr.	Inventory Cr.	Cash Cr.
2012							
May 1	101	Prepaid Insurance	130	1,200			1,200
3	102	Inventory	120	100			100
8	103	Inventory	120	4,400			4,400
10	104	Jasper Manuf. Inc.	✓		11,000	220	10,780
19	105	Eaton & Howe Inc.	✓		7,200	216	6,984
23	106	Fabor and Son	✓		6,900	69	6,831
28	107	Jasper Manuf. Inc.	✓		17,500	350	17,150
30	108	Owner's Drawings	306	<u>500</u>			<u>500</u>
				<u>6,200</u>	<u>42,600</u>	<u>855</u>	<u>47,945</u>
				(x)	(201)	(120)	(101)

On May 3, sold merchandise to Abbot Sisters, terms 2/10,n/30, \$10,600.

Date	Account Titles	Ref.	Debit	Credit
May 3	Accounts Receivable – Abbot Sisters		10,600	
				10,600
			6,360	
				6,360

Journal? _____ See text page _____ .

SALES JOURNAL					SI
Date	Account Debited	Invoice No.	Ref.	Accts. Receivable Dr. Sales Revenue Cr.	Cost of Goods Sold Dr. Inventory Cr.
2012					
May 3	Abbot Sisters	101		10,600	6,360
7	Babson Co.	102		11,350	7,370
14	Carson Bros.	103		7,800	5,070
19	Deli Co.	104		9,300	6,510
21	Abbot Sisters	105		15,400	10,780
24	Deli Co.	106		21,210	15,900
27	Babson Co.	107		14,570	10,200
				<u>90,230</u>	<u>62,190</u>

On May 10, received balance due from Abbot Sisters.

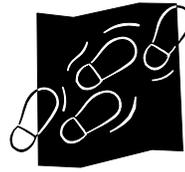
Date	Account Titles	Ref.	Debit	Credit
10	Cash			
	Accounts Receivable – Abbot Sisters			

Journal? _____ See text page _____ .

CASH RECEIPTS JOURNAL								CRI
Date	Account Credited	Ref.	Cash Dr.	Sales Discounts Dr.	Accounts Receivable Cr.	Sales Revenue Cr.	Other Accounts Cr.	Cost of Goods Sold Dr. Inventory Cr.
2012								
May 1	Owner's Capital	301	5,000				5,000	
7			1,900			1,900		1,240
10	Abbot Sisters	✓	10,388	212	10,600			
12			2,600			2,600		1,690
17	Babson Co.	✓	11,123	227	11,350			
22	Notes Payable	200	6,000				6,000	
23	Carson Bros.	✓	7,644	156	7,800			
28	Deli Co.	✓	<u>9,114</u>	<u>186</u>	<u>9,300</u>			
			<u>53,769</u>	<u>781</u>	<u>39,050</u>	<u>4,500</u>	<u>11,000</u>	<u>2,930</u>
			(101)	(414)	(112)	(401)	(x)	(505)/(120)

Posting from Multi-Column Journals

1. Foot.
2. Cross-foot (prove equality of debits and credits).
3. Post Column _____ (to General Ledger).



Two Exceptions: _____

4. Post individual entries from _____ column (to General Ledger).
5. Post individual entries from Accounts Receivable and Accounts Payable columns (to subsidiary ledgers).



Illustration

Cash Receipts Journal

Date	Account Credited	Ref	Cash Dr.	Sales Discounts Dr.	Accounts Receivable Cr.	Sales Cr.	Other Accounts Cr.	COGS Dr. Mdse Inv Cr.
5/1	Karns, Capital		5,000				5,000	
7	Cash Sales		1,900			1,900		1,240
10	Abbot Sisters		10,388	212	10,600			
12	Cash Sales		2,600			2,600		1,690
17	Babson Co.		11,123	227	11,350			
22	Notes Payable		6,000				6,000	
			37,011		21,950		11,000	2,930



Internal Controls and Cash

Chapter 8

Internal Controls

- Good division of duties (responsibilities)
- Good employees to perform the duties
- Good practices to follow in each department
- Good system of control over assets, liabilities, revenue, and expense



Historical Events

Ever heard of _____ ?

Ever heard of _____ ?

Undesirable Combinations

- Cash receipts and _____
- Cash receipts and _____
- Cash disbursements and _____
- Cash receipts and bank reconciliation



Illustrations

1. _____
2. _____
3. _____
4. _____
5. _____



Internal Control Procedures

- Double-entry bookkeeping system
- _____ ledgers / _____ accounts
- Cash _____
- Prenumbered sales tickets
- Keeping _____ in bank account
- _____ bank records and book records
- Use of a _____ fund



Comparison of Point-of-View

<u>Our Books</u>	<u>"Their" Books</u>
Accounts Receivable	_____
_____	_____
Interest Expense	_____
Cash in Bank	_____
_____	_____



Causes of Reconciling Items on Bank Reconciliations

Ending Balances will agree if no . . .

- _____
- _____



Format for Bank Reconciliation

<u>Bank's Records</u>	<u>Our Records</u>
EOM Bank Balance	EOM Book Balance
+ _____	+ _____ *
) _____) _____ *
= <u>=====</u>	= <u>=====</u>

* require a journal entry on OUR company's books

Format for Journal Entries

1. One entry for EACH change.
2. _____
3. One entry for ALL changes.

Bank Reconciliation Sample Problem

The cash in bank account for J. B. Lindsay Co. at May 31 of the current year indicated a balance of \$14,691.80 after both the cash receipts journal and the cash payments journal for May had been posted. The bank statement indicated a balance of \$19,913.90 on May 31. Comparison of the bank statement and the accompanying canceled checks and memos with the records revealed the following reconciling items:

- (a) Checks outstanding totaled \$7,070.10
- (b) A deposit of \$4,945.20, representing receipts of May 31, had been made too late to appear on the bank statement.
- (c) The bank had collected \$3,120 on an interest-bearing note left for collection. The face of the note was \$3,000.
- (d) The bank statement included a debit memo for printing costs for additional checks of \$40.
- (e) The cash receipts journal and a deposit slip correctly indicated cash sales of \$522. The bank credited the company's account for \$552.
- (f) A check for \$69 returned with the statement had been recorded erroneously in the cash payments journal as \$96. The check was for the payment for the purchase of office supplies on account.
- (g) A check drawn for \$24 had been erroneously charged by the bank as \$42.
- (h) Bank service charges for May amounted to \$21.80

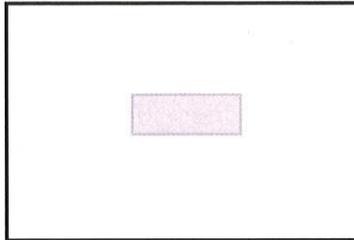
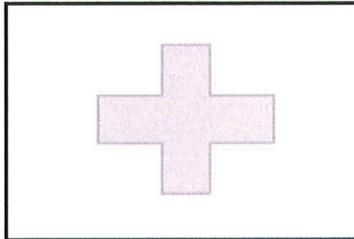
Instructions:

1. Prepare a bank reconciliation.
2. Record the necessary entries in general journal form.

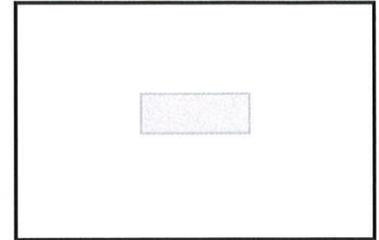
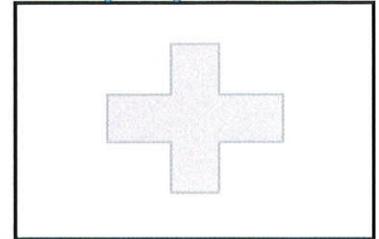
Link to video solution for this problem is available on the class web site.

Thinking, Planning, Analyzing, Deciding Area

Bank's Records



Company's Records



Balance according to bank			
Add:	_____		

Sub-total		_____	_____
Deduct:	_____		

Adjusted Balance		_____	_____

Balance according to depositor's records			
Add:	_____		

Sub-total		_____	_____
Deduct:	_____		

Adjusted Balance		_____	_____

Receivables: Notes and Interest

Chapter 9

Premise

When you extend credit to customers, you know some customers won't pay.

Solutions

- Notes _____ and Interest
- _____ Accounts

Why Notes Instead of Accounts Receivable?

- charge _____
- stronger _____ claim
- more _____ -- may be converted to _____
 - selling Accounts Receivable called _____
 - selling Notes Receivable called _____

Calculating Interest

Formula: _____

- rate is an _____ rate
- time expressed as a portion of a _____
 - government uses _____ days
 - many banks use _____ days
 - use _____ days for homework and classwork

Short-cut “6%, 60-day” Method

$\$844. \times 6\% \times 60 / 360 =$ _____

Simply move decimal place _____ to the left.

$\$844 \times 6\% \times 30 / 360 =$ _____

$\$844 \times 12\% \times 60 / 360 =$ _____

Determining the (Exact) Due Date of a Note

- Learn number of days in a month (may not use calendar)
 - _____ method
 - _____ method
- Counting days if term of note
 - stated in days
 - stated in months



A 60-day note dated August 17 will be due on _____ .

When stated in months:

RULE: _____

EXCEPTION: _____

A two-month note dated August 17 is due _____ .

A three-month note dated November 30 is due _____ .

A three-month note dated April 30 is due _____ .

Exercise 9-10
page 442

Stroup Supply Company has the following transactions related to notes receivable during the last two months of the year. Journalize the transactions.

Aug. 16 Sold merchandise to Max Weinberg on account, \$4,000.

Date	Account Title	Ref	Debit	Credit

Nov. 1 Loaned \$15,000 cash to Jorge Perez on a 1-year, 10% note.

Dec. 11 Sold goods to Armie Hammer, Inc., receiving a \$6,750, 90-day, 8% note.

16 Received a \$4,000, 6-month, 9% note in exchange for Max Weinberg's outstanding accounts receivable.

31 Accrued interest revenue on all notes receivable.

Show your calculations here.

Receivables: Bad Debts
(more of) Chapter 9

Premise

When you extend credit to _____, you know some _____ will not pay.

Solutions

- I. Notes Receivable and Interest Revenue
- II. Uncollectible Accounts

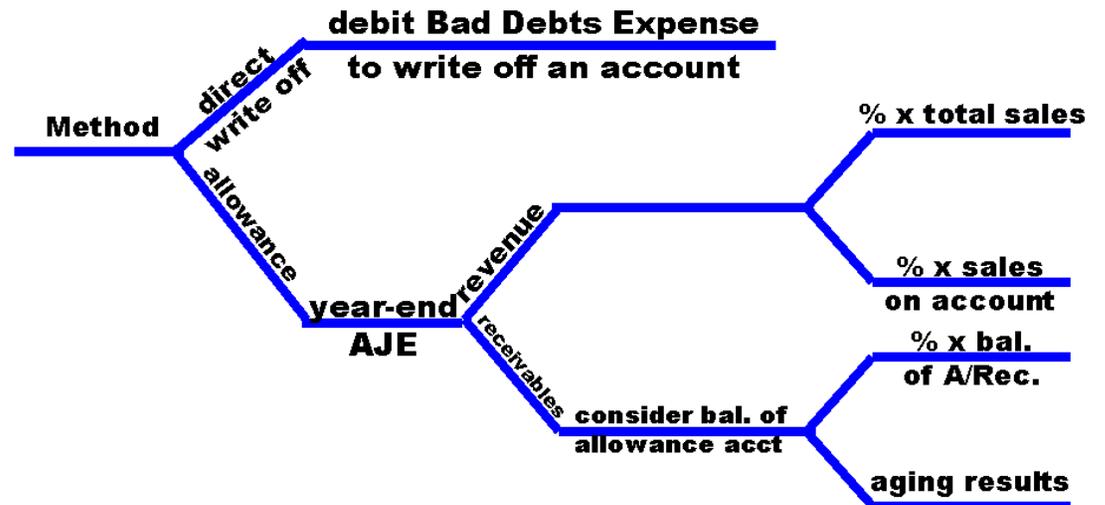
Sometimes Referred to As

- 1. Uncollectible Accounts
- 2. Doubtful Accounts
- 3. _____

Methods

- 1. _____ method
- 2. _____ method

Uncollectible Accounts

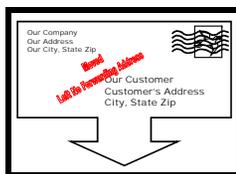


Comparison of Allowance and Direct Write-Off Methods

I. Allowance Method
 advance provision for _____ of accounts
 thought to be uncollectible

A. Advantages

1. provides better _____ of expenses with time period
2. reduces value of receivables to the amount of _____ expected to be collected



B. Provision for _____ at year end:

	est.	
		est.

What kind of an account is Allowance for Doubtful Accounts?

Why use a _____ account?

Do not know which _____

C. Estimate may be based on:

1. _____ (I.S. view)
2. _____ (B.S. view)

(refer to decision tree)

II. Direct Write-Off Method
 expense recognized when account determined to be worthless

A. Advantage: _____

B. _____

C. _____

Allowance Method (cont'd)

D. Write off an account:

	bal.	
		bal.

E. Reinstate if collected:

	col.	
		col.

record cash collection as usual

Direct Write-Off Method (cont'd)

D. Write off an account:

	bal.	
		bal.

E. Reinstate if collected:

	col.	
		col.

record cash collection as usual

Plant Assets

Chapter 10

Major topics:

1. _____
2. _____
3. _____



Acquiring

Cost: All expenditures to get item

and

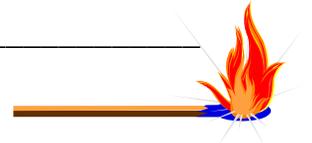
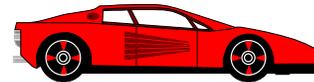
_____.



Using

Two possible definitions of depreciation:

1. decline in _____.
2. decline in _____; systematic _____ of expenses with time period.



Recording

Depreciation Expense	XXX
Accumulated Depreciation	XXX

Determining

1. _____
2. _____
3. _____
4. (Sum-of-the-Years Digits)

Simplified Formula

_____ x _____ = XXX

Straight Line (two alternatives)

1. $\frac{\text{_____}}{\text{Life}} = \text{Annual Depreciation (XXX)}$

2. $\frac{1}{\text{Life}} = \text{_____}$

THEN

$(\text{Cost} - \text{Salvage}) \times \text{_____} = \text{Annual Depreciation (XXX)}$

Units of Activity (defines life of asset differently)

$\frac{(\text{Cost} - \text{Salvage})}{\text{Life}} = \text{"Rate"}$

THEN

$\text{Actual Activity} \times \text{"Rate"} = \text{Annual Depreciation (XXX)}$

Declining Balance

$\frac{\text{Cost} - \text{Accumulated Depreciation}}{\text{_____}} = \text{Annual Depreciation (XXX)}$

* _____ % called "_____ " declining balance;
could also be 150% or 125%

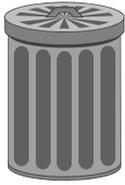
Comparison of Results

<u>Method</u>	<u>Amount</u>	x	<u>Rate</u>	=	<u>Depreciation</u>



Disposals of Assets

Possible ways to dispose of assets:



1. _____
2. _____
3. _____

Discarding Assets



Fully depreciated?

Yes _____ No _____

Discarded Asset Which Is Fully Depreciated:

	balance	
		cost

Discarded Asset Which Is NOT Fully Depreciated:

Accumulated Depreciation	balance	
Equipment		cost

Selling Assets



1. _____ = _____
2. for exactly book value = neither gain nor loss
3. _____ = _____

Sold for Exactly Book Value:

	received	
Accumulated Depreciation	balance	
Equipment		cost

Sold for GREATER THAN or LESS THAN Book Value:

Cash (or other assets)	received	
Accumulated Depreciation	balance	
	loss	gain
Equipment		cost

