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كـلية الإدارة والاقتصاد
قســم المحــاسبة

المرحلة الثانية

محاسبة انكليزي 1

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Chapter (1)

المحاضرة الاولى

Basic Concepts in Accounting & Financial Accounting

مفاهيم اساسية في المحاسبة والمحاسبة المالية

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 financial reports or financial statements such as an income statement and a balance sheet.

Companies issue financial statements on a routine schedule. The statements are considered external because they are given to people outside of the company, with the primary recipients being owners/stockholders, as well as certain lenders. If a corporation's stock is publicly traded, however, its financial statements (and other financial reporting) tend to be widely circulated, and information will likely reach secondary recipients such as competitors, customers, employees, labor organizations, and investment analysts.

It's important to point out that the purpose of financial accounting is not to report the value of a company. Rather, its purpose is to provide enough information for others to assess the value of a company for themselves.

Because external financial statements are used by a variety of people in a variety of ways, financial accounting has common rules known as **accounting standards** and as **generally accepted accounting principles (GAAP)**. In the U.S., the Financial Accounting Standards Board (FASB) is the organization that develops the accounting standards and principles. Corporations whose stock is publicly traded must also comply with the reporting requirements of the Securities and Exchange Commission (SEC), an agency of the U.S. government. In the world now more than 130 countries are adopting or convergence with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

Concept of accounting

Accounting has been defined as: the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof.

Another definition of Accounting: is an information system of measuring (recording) classifying and summarizing the economic events of an entity and communicating it to decision makers.

Financial accounting is the field of accounting concerned with the summarizing, analysis and reporting of financial transactions pertaining to a business. This involves the preparation of financial statements available for public uses. Stockholders, suppliers, bankers, employees, government agencies, business owners, and other stakeholders are examples of people interested in receiving such information for decision making purposes.

Financial accounting is governed by both local and international accounting standards. Generally Accepted Accounting Principles (GAAP) is the standard framework of guidelines for financial accounting used in any given jurisdiction in US. It includes the standards, conventions and rules that accountants follow in recording and summarizing and in the preparation of financial statements. On the other hand, International Financial Reporting Standards **(IFRS)** is a set of accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board **(IASB).**With IFRS becoming more widespread on the international scene; consistency in financial reporting has become more prevalent between global organizations.

While financial accounting is used to prepare accounting information for people outside the organization or not involved in the day-to-day running of the company, managerial accounting provides accounting information to help managers make decisions to manage the business.

Functions of Financial Accounting

1- Identification: select of financial events (transactions).
2- Recording (record, classify and summarize).
3- Communication (prepare financial reports).
4- Analyze and interpret the information for users.

Objectives of Financial Accounting

1- Provide the useful information through financial reporting.
2- Analysis the information and forecasting for the information of next periods.

Importance of Financial Accounting

Accounting provides a basis for decisions through the process of recording, summarizing and presenting historical and prospective information.

The recording part of accounting, often known as book-keeping and financial accounting, is obviously crucial to ensure that those running a business have a formal record of business transactions in order for them to know basic information such as:

- How much they owe to suppliers, tax authorities, banks, employees and others?
- How much each customer owes the business?
- How much capital is invested by the owners in the business?

- How profitable is the business?

Historical accounting information is summarized to produce financial statements. Financial Statements provide an overview of financial activities of a business during a period as well as information relating to its financial position on a certain date (e.g. the amount of cash and inventory). Financial Statements help owners in assessing the performance and position of their business can guide their investment

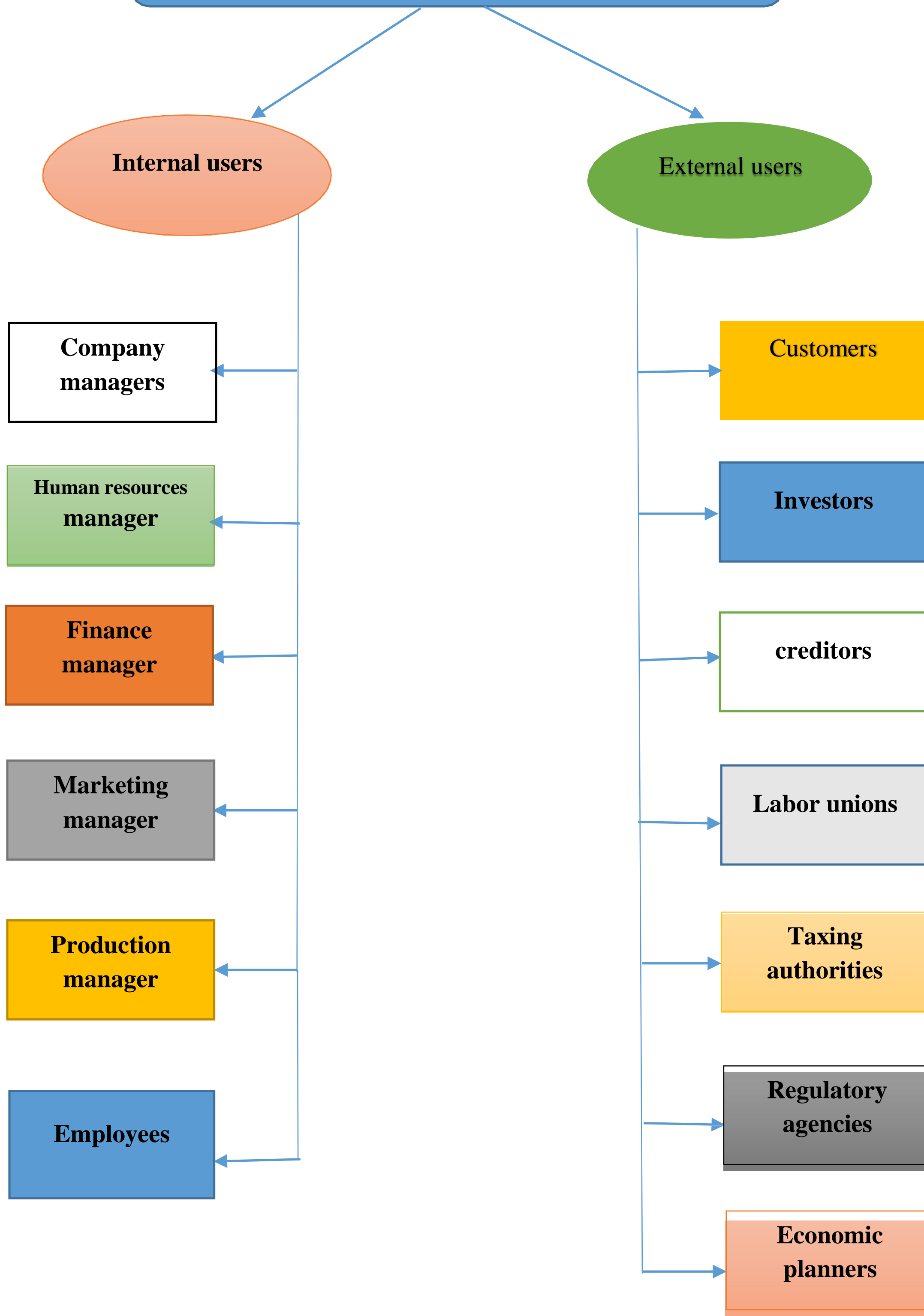

Figure (1)

Users of Accounting Information (Internal & external users)

Chapter (2)

المحاضرة الثانية

The Theoretical (Conceptual) Framework of Financial Accounting

الأطار النظري (المفاهيمي) للمحاسبه الماليه

Conceptual Framework of Accounting

One of the important issues for the accounting students is studying the conceptual framework of accounting, because it is considered as a constitution for people who work in accounting, financing and auditing fields. Furthermore, understanding conceptual framework is the first step and key point to understand financial statements. The conceptual framework defined as:

"Is the collection of concepts that guide the manner in which accounting is practiced?"

And this recognized set of standards is called generally accepted accounting principles (GAAP).

The conceptual framework of accounting consists of the following four components:

1. Objectives of Financial Reporting.
2. Qualitative characteristic of accounting information.
3. Elements of Financial Statements.
4. Operating guidelines (assumptions, principles and constraints).

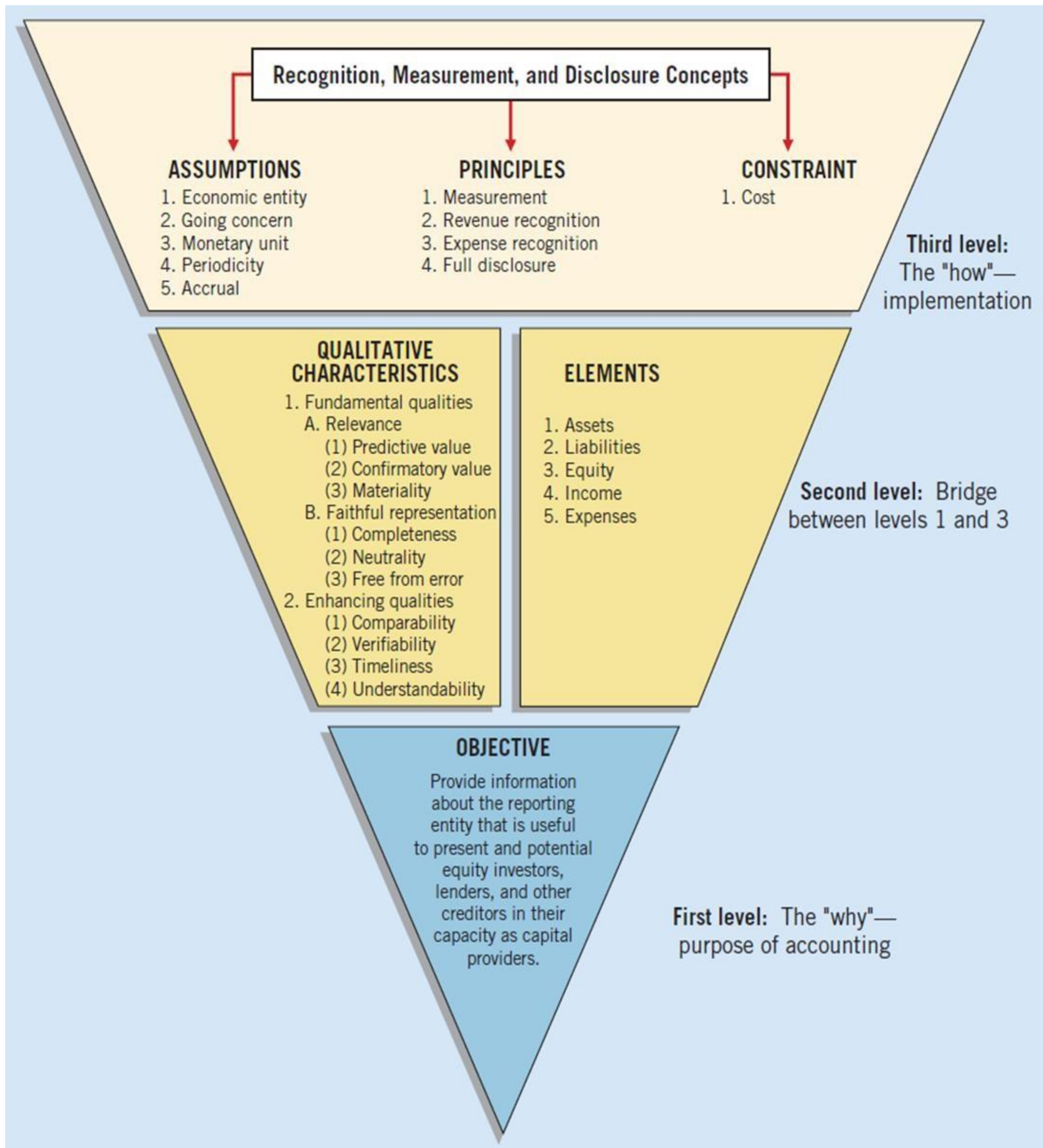

Figure (2) conceptual framework of accounting

1- Objectives of Financial Reporting

a- Is useful to those making investments and credit decisions.

b- Is helpful in assessing future cash flow.

c- Identifies the economic resources (assets), the claims to those resources (liabilities), and the changes in those resources and claims.

2- Qualitative Characteristics of Accounting Information

Accounting information must possess certain qualitative characteristic to be considered useful. The following qualitative Characteristics help ensure that accounting information is indeed useful. There are two types of qualitative characteristics of accounting information:

a) Fundamental qualitative characteristics

1. **Relevance**: refers to the capacity of accounting information to make difference in decisions. And relevance should include three sub-characteristics (Predictive value, Confirmatory value and materiality).

2. **Faithful Representation**: means that the numbers and descriptions match what really existed or happened. Faithful Representation includes (Completeness, Neutrality and Free from error).

b) Enhancing qualitative characteristic

1. **Comparability***:* refers to the ability to use accounting information to compare or contrast the financial activities of different businesses.
2. **Verifiability***:* occurs when independent measurers, using the same methods, obtain similar results.
3. **Timeliness***:* means having information available to decision-makers before it loses its capacity to influence decisions.

4. **Understandability:** refers to the ability of accounting information to be comprehensible to those who have a reasonable understanding of business and economic activities.

3- Elements of Financial Statements

An important part of the accounting conceptual framework is a set of definitions that describe the basic terms of the elements of financial statements such terms as assets, liabilities, equity, income, and expenses. Before giving definitions to the elements of financial statements, we need to list and learn what the financial statements are.

1) Income Statement or statement of profit and loss:

It is the financial statement that shows a company’s revenues and expenses over a specific period of time.

2) The statement of Financial Position (Balance sheet):

A financial statement that reports a company's assets, liabilities and equity at specific point in time. There are some terms that should be learned to understand balance sheet such as;

a- **Contributed Capital:** The resources that investors contribute to a business in exchange for ownership interest.

b- **Dividends:** Simply mean the profits are distributed to owners.

c- **Retained earnings:** Profits that are kept in the business.

3) The statement of Cash Flow:

A cash flow statement reports a business's cash inflows and outflows from its operating, investing and financing activities.

4) **The statement of Changes in Equity**:

This accounting report shows all the changes to the owners' equity that have occurred during the period. These changes comprise capital, retained earnings, and other contributed capital for the period.

And now we can learn the last classification of **Elements** of financial statements According to International Accounting Standards Board (IASB).

- **Elements of Financial Statements** -

1- **Assets:** A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

2- **Liability:** A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

3- **Equity:** The residual interest in the assets of the entity after deducting all its liabilities.

4- **Income:** Increases in economic benefits during the accounting period in the form of

a) Inflows or enhancements of assets or

b) Decreases of liabilities that result in increases in equity

c) Other than those relating to contributions from equity participants.

5- **Expenses**: Decreases in economic benefits during the accounting period in the form of

a) Outflows or depletions of assets or

b) incurrences of liabilities that result in decreases in equity,

c) Other than those relating to distributions to equity participants.

4- Operating guidelines (accounting assumptions, accounting principles, and accounting constraints).

1) **Accounting Assumptions:** The conceptual framework of accounting includes **Five** assumptions;

   a. **Economic Entity Assumption:** company keeps its activity separate from its owners and other business units.

   b. **Going Concern Assumption:** Accounting assumes that a company will have a long life.

   c. **Monetary Unit Assumption:** Accounting assumes that only transaction data that can be expressed in terms of money be included in accounting records.

   d. **Time Period (Periodicity) Assumption:** A company can divide its economic activities into time periods.

   e. **Accrual Basis Accounting:** transactions are recorded in the periods in which the events occur.

2) **Accounting Principles:** The conceptual framework of accounting includes four accounting principles which as the following;

a. **Measurement Principle:** The principle that assets should be recorded at;

1) **Historical Cost**: is generally thought to be a faithful representation of the amount paid for a given item.
2) **Fair value** is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

b. **Revenue Recognition:** dictates that revenue should be recognized in the accounting period in which it is earned.

c. **Expense Recognition:** Outflows or "using up" of assets or incurring of liabilities during a period as a result of delivering or producing goods and services.

d. **Full Disclosure:** The principle that circumstances and events that make a difference to financial statement users should be disclosed.

3) **Constraints:** include cost constraint and also called cost- benefits constraintwhich means;

Cost Constraint: Companies must weigh the costs of providing the information against the benefits that can be derived from using it.

Chapter (3)

المحاضرة الثالثة

Accounting for Purchases and Sales of goods

محاسبة مبيعات ومشتريات السلع

Purchases of goods

In accounting, the word **purchase** is used for goods purchased only, to be resold for profit. Other types of assets are also purchased such as office equipment, machine, computer, building and others with the purpose of using them in the business. Goods can be obtained by two ways on cash or on credit.

Companies purchase goods using cash or credit (on account). They normally record purchases when they receive the goods from the seller. Business documents provide written evidence of the transaction. Companies record cash purchases by an increase in purchase account and a decrease in cash. In other words if the purchase made on cash, the purchase account is debited and the cash account is credited.

Example: On January 7, 2014 Baghdad Company purchases 10 pieces of carpets on cash at the cost of ID 1000 each.

Required: Record the above transaction in the Baghdad's Co. records.

Solution:

Date	Account	Debit	Credit
2014, Jan.7	Purchases	10000	
	Cash		10000
	To record cash purchases		

If purchases are made on credit, the purchases account would be debited and accounts payable credited. A **purchase invoice** should support each credit purchase. This invoice indicates the total purchase price and other relevant information.

Example: On 7 January 2014 Baghdad co. bought on credit 50 pieces of carpet from Dijla Co. at the cost of ID 1000 each.

Required: Record the above transaction in the Baghdad's Co. records.

Solution:

7/ 1/2014 Purchases 50000

Accounts payable (Dijla Co.) 50000

To record credit purchases from supplier

Purchase Returns and Allowances*:*

A purchaser may be dissatisfied with the merchandise received because the goods are damaged or defective, of inferior quality, or do not meet the purchaser's specifications. In such cases, the purchaser may return the goods to the seller for credit if the sale was made on credit or for a cash refund if the purchase was for cash. This transaction is known as a **purchase return**. Alternatively, the purchaser may choose to keep the merchandise if the seller is willing to grant an allowance (deduction) from the purchase price. This transaction is known as a **purchase allowance**.

Example: Assume that on 8 January 2014, Baghdad Co. returned 2 out of 10 pieces of carpets purchased in cash on Jan.2,2014, and 5 pieces of carpets purchased on credit on 7/1/2014 to Dijla Co.

Solution:

8/1/2014

Cash 2000

Purchases returns and allowances 2000

To record purchases returns to Dijla co. on 2/1/2014

Accounts Payable 5000

Purchases returns and allowances 5000

(To record return of goods purchased from Dijla Company on 7/1/2014)

Purchase Discounts:

The credit terms of a purchase on account may permit the buyer to claim a cash discount for prompt payment. The buyer calls this cash discount a **purchase discount**. Purchase discount provide advantages to both parties: The purchaser saves money, and the seller shortens the operating cycle by more quickly converting the accounts receivable into cash. **Credit terms** specify the amount of the cash discount and time period in which it is offered. They also indicate the time period in which the purchaser is expected to pay the full invoice price.

Example: On 1 May 2014, Baghdad Company purchases goods from Ishtar Company on credit at the cost of ID 2000000, credit terms 2/15, n/30.

- On May 14 Baghdad Company pays ID 800000.
- On May 29 Baghdad paid the rest of amount.

Required: Record any necessary journal entries in the Baghdad's company records.

Solution:

1/5/2014 Purchases 2000000

Account payables/ Ishtar Co. 2000000

To record credit purchases

14/5/2014 The Baghdad Co. payments within discount's period.

$800000 \times 2\% =$ ID 16000 Purchases discount

Account	Debit	Credit
Accounts payable/ Ishtar Co.	800000	
Cash		784000
Purchases discount		16000

To record payment of accounts payable after deducting 2% discount

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29/5/2014

Accounts Payable/ Ishtar Co. 1200000

Cash 1200000

To record payment of the rest of goods purchased

Sales of goods

The revenue from the sales of goods is recorded in special accounts called ***Sales* revenue.** Similar to service business, sales of goods can be carried out either on cash or on credit.: The seller increases (debits) Cash (or Accounts Receivable, if a credit sale), and also increases (credits) Sales Revenue.

A **business document** should support every sales transaction, to provide written evidence of the sale. **Cash register tapes** provide evidence of cash sales.

Cash Sales: The salesperson would prepare a document called cash sales document. In the document, all information is included such as the date, the type and the number of units sold, unit price and total sales.

Example: On 5 January 2014, Baghdad Company sold 2 pieces of carpets at ID 1500 each for cash.

Required: Record the above transaction in the Baghdad's Co. records.

Solution:

5/1/2014		
Cash	3000	
Sales		3000
To record sales of carpet for cash		

credit sale is a sale, in which the seller agrees to accept the payment sometime in the future after the goods were delivered to a buyer. Usually, credit sales are more often practiced by wholesalers rather than retailers. A **sales invoice**, like the one shown in provides support for a cash sale. The original copy of the invoice goes to the customer, and the seller keeps a copy for use in recording the sale. The invoice shows the date of sale, customer name, total sales price, and other relevant information.

Example: Assume that on 9 January 2001, Baghdad Company sold 4 pieces of carpets to Ishtar Company on credit at the price of ID 1600 per piece.

Required: Record the above transaction in Baghdad's company records.

Solution:

9/1/2014

Account's receivable/Ishtar Co. 6400

Sales 6400

To record credit sales to Ishtar Co.

Sales Returns and Allowances: Goods sold on credit can be returned by the buyer, if it is found that the goods are unsatisfactorily, for example if the goods are spoilt, damaged or do not fulfill the agreed on specifications. For this purpose, another new account is opened called the **Sales Returns and Allowance** account. Note that the sales returns and allowances will normally have a debit balance.

Example: On 11 January 2014, the Ishtar Company found that one of the carpets delivered to it does not required color specification, and the carpets returned to the Baghdad Co.

Required: Record the above transaction in Baghdad's company records.

Solution:

11/1/2014

Sales Returns and Allowance 1600

Accounts receivable 1600

To record sales return by Ishtar Co.

Sales Discounts:

As mentioned in our discussion of purchase transactions, the seller may offer the customer a cash discount called by the seller a sales discount for the prompt payment of the balance due. Like a purchase discount, a sales discount is based on the invoice price less returns and allowances, if any. The seller increases (debits) the Sales Discounts account for discounts that are taken.

Example: Baghdad Company provides a 2% cash discount from the invoice price, to all its credit customers who settle their debts before the end of the credit period.

On 1 June 2014, Baghdad company sales goods for Ishtar Company on credit at the price of ID 2000000 with a credit term of 30 days

On June 24 the Baghdad Company receives the entire amount.

Required: Record any necessary journal entries in the Baghdad's company records.

Solution:

1/6/2014

Account	Debit	Credit
Accounts Receivable/ Ishtar Co.	2000000	
Sales		2000000
To record sales on credit		

24/6/2014

$2000000 \times 2\% =$ ID 40 000 Sales discount

Account	Debit	Credit
Cash	1960 000	
Sales discount	40 000	
Accounts receivable/Ishtar Co.		2000000
To record receipt of payment with a sales discount		

Summary of sales and purchases and other related Costs

1- Net Sales = Gross Sales ─ (Sales Returns and Allowance + Sales Discount)

2- Cost of Goods Sold = Beginning Inventories + net Purchases ─ Ending inventories

3- Net Purchases = Gross Purchases ─ (Purchases Returns and Allowances + purchases Discount) + Freight In + Import Duty

4- Gross profit = Net Sales ─ cost of Goods Sold.

Chapter (4)

المحاضرة الرابعة

Accounting for Commercial notes

محاسبة الاوراق التجارية

Accounting for Commercial notes

Accounts receivable are customers debts based on the sales of goods. A note receivable is a written agreement known as the promissory note. **Note Receivable** is an agreement made from one person or organization to another to make payment of certain amount at a certain date or when the payment is requested.

1) When individuals and companies lend or borrow money,

(2) When the amount of the transaction and the credit period exceeds normal limits, or (3) in settlement of accounts receivable.

In a promissory note, the party making the promise to pay is called the Maker. The party to whom payment is to be made is called the payee.

Types of Notes Receivable:

1- With interest.
2- Without interest.

The note receivable with interest require the party that prepares the note, or the party that signs the note, to pay the face value of the note together with related interest at the maturity date.

The notes receivable with no interest payment requires the relevant party to pay only the face value on date of maturity. In reality, the face value of a note without interest has interest already included in it.

Features of Notes Receivable:

There are several features in the promissory note receivable to explain these features we can see the following example of notes with interest:

Promissory Note

Amount: ID 500000 Date: 1 June 2016

For the amount that I have received, I promise to pay according to the instruction of Ahmed Hassan, an amount of Dinar Five Hundred Thousands on 1st September, 2016 together with interest at the rate of 8%.

Signed: Salah Laith

a- **Maker:** In the above example, the maker of the note is Salah Laith and the party needs the payment, called the holder, and is Ahmed Hassan.

b- **Maturity date:** In the above example the maturity date is clearly stated as 1st September, 2016. Sometimes, the maturity date is not stated in this manner, but instead with statement such as the number of days or months from the date of the notes. For example, in the above, it can also be stated that the payment needs to be made "three months from date".

c- **Period of the Note:** this means the number of days up to the date of maturity. The period of the note needs to be calculated accurately in order to determine the interest. For example the period of the note in the above example, from 1st June 2016 to 1st September 2016, is 91 days which is computed as follows.

June 29 (the first date is not taken into account)
July 31
August 31
91 days

d- **Face value:** The face value means the amount owed that is stated on the face of promissory note. The face value is also known as the principal. In the example above the face value or the principle is ID 500000.

e- **Interest:** The interest depends on three factors, namely the face amount (principal) that is the total amount loaned , specified maturity date or dates (Tenure), and the percentage of interest or (interest rate).

Interest on Notes calculated according to the following formula:

Face amount (principal) × annual rate × Fraction of the annual period

for the above example the interest is computed as follows:

500000 × 8% × 3/12 = ID 10000 we can also compute the interest as follows; 500000 × 8% × 91/365= ID 10000

Accounting for Notes Receivable

1- Interest- Bearing Notes:

This type of note receivable requires payment of a specified face amount at specific maturity date with interest.

Example (1): On May 1, 2016 Baghdad Company sold goods to Basra Company. Baghdad Co. agreed to accept a ID 700000, 6 month, 12% note in payment for the goods. Interest is payable at maturity.

Required:

Record the journal entries in Baghdad's company records.

Solution:

May 1, 2016

Note Receivable 700000

Sales revenue..700000

To record the sale of goods in exchange for note receivable

November 1, 2016

Cash (ID 700000 + ID 42000)… 742000

Interest revenue (ID 700000 × 12% × 6/12)… 42000

Note receivable 700000

To record the collection of the note receivable at maturity date.

Example (2):): On August 1, 2016 Baghdad company sold goods to Basra company . Baghdad Co. agreed to accept a ID 700000, 6 month, 12% note in payment for the goods. Interest is payable at maturity.

Required:

Record the journal entries in Baghdad's company records.

Solution:

August 1,2016

Note receivable... 700000

Sales revenue.. 700000

To record the sale of goods in exchange for a note receivable

December 31, 2016

Interest receivable 35000

Interest revenue (ID 700000 × 12% × 5/12)… 35000

To record interest receivable for 5 months of 2016

February 1, 2017

Cash (ID 700000 × 12% × 6/12)....................................742000

Interest revenue (700000 × 12% × 1/12) 7000

Interest receivable (accrued at December 31)........................35000

Note Receivable… 700000

To record collection of note receivable

Chapter (5)

المحاضرة الخامسة

Adjusting Entries

قيود التسوية

Adjusting Entries are entries made at the end of year in order to match all expense in current year against the revenues related to these expenses. The adjustment entries will ensure all expenses incurred and revenue generated, which are supposed to be recorded in this year, are not omitted. Without the adjustment entries, there is the likelihood that some of the expenses and revenues of the current period will be recorded in other periods.

Definition of Adjusting Entries

Adjusting Entries referred to the entries which are recorded at the end of period when the financial statements must be prepared, in order to ensure that the revenue recognition and matching principles are followed.

The adjusting entries do not need source of document because they deal with internal events and transactions, in addition they do not involve an exchange transaction with another entity, but it used to ensure that revenues to be recognized in the period which they are earned, and expenses to be recognized in the period in which they are incurred.

Types of adjusting entries

Adjusting entries are necessary for three situations:-

1- Prepayments sometimes referred to as deferrals.
2- Accruals.
3- Estimates.

In this chapter we will focus on the first and second types (Prepayments and Accruals)

1- **Prepayments:** Referred to transactions in which the cash flow precedes expenses or revenue recognition.

Prepayments include two types of accounts prepaid expenses and unearned revenue.

a. Prepaid Expenses: Are the costs of assets acquired in one period and expensed in a future period.

In asset account is debited (current Assets) to show the service or benefit that will be received in the future, the good examples of the prepaid expenses are prepayments in regard to insurance, supplies, rent.

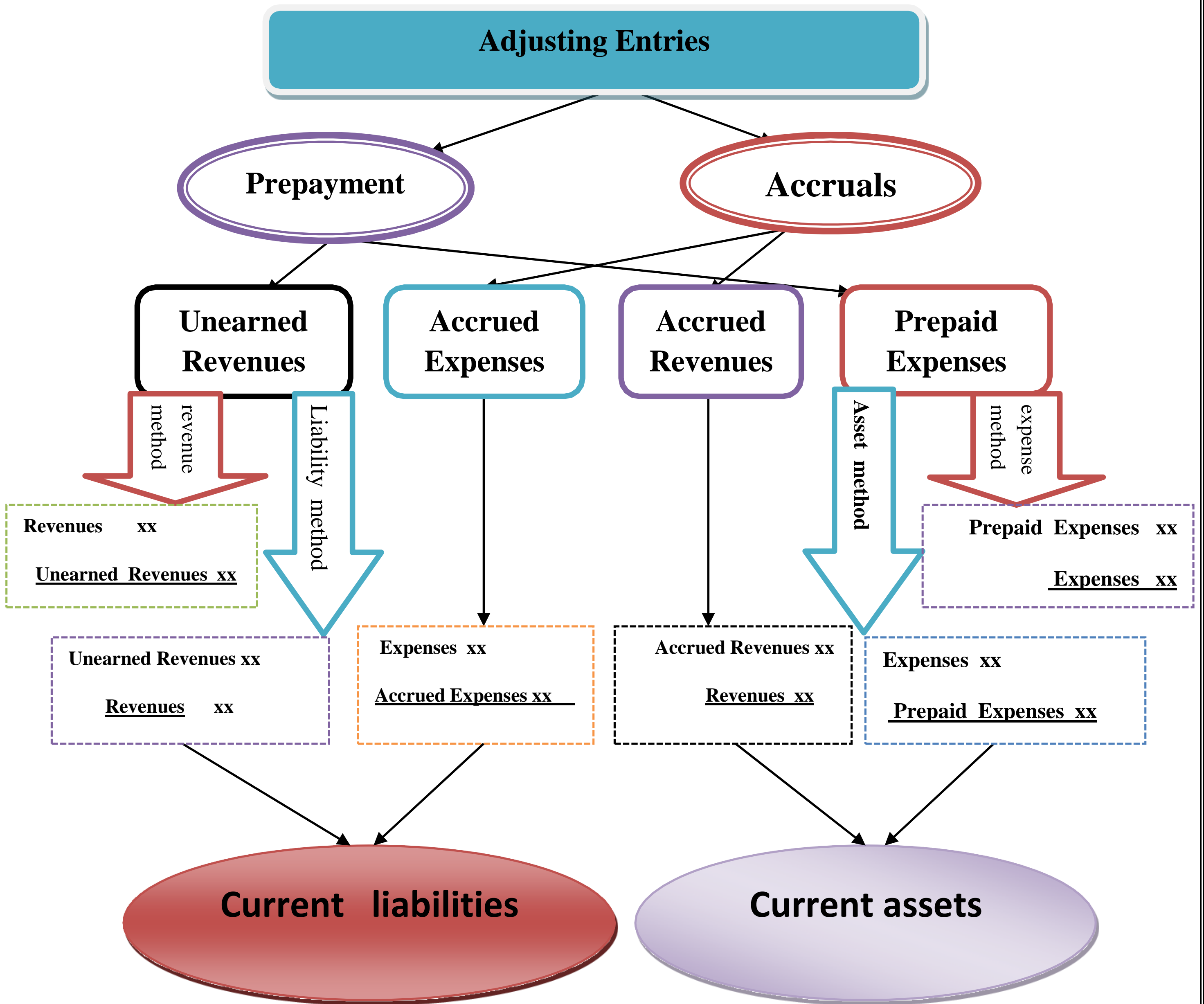

Figure (3) the flowchart of adjusting entries

Example:

On February 1, 2014 Baghdad Company paid ID 24000000 to its landlord representing one year's rent in advance. Assume that the company used:

1- Balance sheet method
2- Income statement method

Required:

1- Record any necessary journal and adjusting entries from 1-1-2014 to December 31, 2014.
2- Show the partial balance sheet on December 31, 2014.

Solution:

24000000 ÷ 12 months = ID 2000000 the rent per month.

One month's rent is paid in advance.

1-Balance sheet method

In 1-2- 2014 the accountant should record the following entry

Prepaid rent expenses	24000000	
Cash		24000000

31-12-2014

Rent expenses	22000000	
Prepaid rent expenses		22000000

2-Income statement method

1-2-2014

Rent expenses	24000000	
Cash		24000000

31- 12- 2014

Prepaid rent expenses	2000000	
Rent Expenses		2000000

Balance Sheet

Current Assets	
Prepaid rent expenses 2000000	

b.Unearned Revenue: It is created when a company receives cash from a customer in one period for goods or services that are to be provided in a future period.

Shortly **Unearned Revenue** means cash is received in advance: liability is recorded.

Example:

In 1-11-2014 Baghdad Company rented building to Ishtar company for ID 1500 000 per month, in next day Ishtar company paid Baghdad Co. ID 4500 000 in advance.

Required:

1- Record any necessary journal and adjusting entries for a financial period which ended at December 31, 2014.
2- Show the partial balance sheet at December 31, 2014.

1_Balance sheet method

2-11-2014

	Debit	Credit
Cash	4500000	
Unearned rent revenue		4500000

31-12-2014

	Debit	Credit
Unearned rent revenue	3000000	
Rent revenue		3000000

2-Income statement method

2-11-2014

	Debit	Credit
Cash	4500000	
Rent revenue		4500000

31-12-2014

	Debit	Credit
Rent Revenue	1500000	
Unearned rent revenue		1500000

Balance Sheet

	Current Liabilities
	Unearned rent revenue 1500000

2. Accruals: They **occur** when the cash flow comes after either expense or revenue recognition.

For example; a company often uses the services of another company in one financial year and it pays in a subsequent years or periods. The accruals include two types of accounts which are accrued revenue and accrued expenses.

a- Accrued revenue: revenue earned but not received in cash or recorded at the statement date. In other words accrued revenue means the revenue is earned in a period prior to the cash receipt.

Accrued revenue record a debit (increase) to an assets and a credit (increase) to a revenue account.

Example:

On December 31, 2014 Baghdad Company earned ID 1000000 for rent revenue but did not bill to clients.

Required:

1- Record any necessary adjusting entry for a financial period which ended at December 31, 2014.
2- Show the partial balance sheet on December 31,2014.

Solution:

31-12-2014

	Debit	Credit
Accrued rent revenue	1000000	
Rent revenue		1000000

Balance Sheet

Current Assets	
Accrued rent revenue 1000000	

b- Accrued Expenses: Expenses incurred but not yet paid or recorded at the statement date. In other words expenses have been incurred prior to cash payment.

Accrued expenses record a credit (increase) to a liability account and debit (increase) to an expenses account.

Example:

On December 31, 2014 Baghdad's company accountant found that the electricity bill per ID 600000 did not pay.

Required:

1- Record any necessary adjusting entry for a financial period which ended on December 31, 2014.
2- Show the partial balance sheet at December 31, 2014.

Solution:

31-12-2014

Electricity expenses	600000	
Accrued electricity expenses		600000

Balance Sheet

	Current Liabilities
	Accrued electricity expenses 600000

Summary of Prepayments and Accrual

Balance Sheet

Current Assets	Current Liabilities
Accrued revenues	Unearned Revenues
Prepaid Expenses	Accrued Expenses

Chapter (6)

المحاضرة السادسة

Bank Reconciliation

التسويات المصرفية

The Bank Reconciliation statement is a statement the company prepares to reconcile or explain the differences between the cash balance shown on the bank statement and the cash balance on the company s books. The bank reconciliation is prepared to demine the company s actual cash balance.

we can define bank reconciliation as following:

Reasons which make differences between the cash balance on books and bank statement:

1. **Timing:** Occur due to differences in the timing of recognition of certain transaction. Time lags occur frequently. For example, several days may elapse between the time a company mails a check to a payee and the date the bank pays the check.
2. **Errors:** by either party in recording transactions. However, either party could accidentally record a ID450 check as ID45 or ID540. In addition, the bank might mistakenly charge a check to a wrong account by keying in an incorrect account name or number.

Items that cause the difference between the two balances:

1. **Deposits in transit:** Deposits recorded by the depositor that have not been recorded, add these deposits to the balance per bank
2. **Outstanding checks.** Checks issued and recorded by a company but not yet paid by the bank. Deduct outstanding checks from the balance per the bank.

3- **Errors.** All errors made by the depositor are reconciling items in determining the adjusted cash balance per books. In contrast, all errors made by the bank are reconciling items in determining the adjusted cash balance per the bank. For example, if the company mistakenly recorded as ID 169 a paid

check correctly written for ID 196, it would deduct the error of ID 27 from the balance per books.

4- **Bank memoranda.** Trace bank memoranda to the depositor's records. List in the appropriate section of the reconciliation schedule any unrecorded memoranda. For example, the company would deduct from the balance per books ID 5 debit memorandum for bank service charges. Similarly, it would add to the balance per books ID 32 of interest earned.

Methods of bank reconciliation:

Generally, there are three methods are used to make book balance agree with bank statement;

1- **Adjustments to bank balance method:**
   - a- Add deposits in transit.
   - b- Deduct check outstanding.
   - c- Bank errors. These will either be increases or decreases depending on the nature of the error.

2- **Adjustments to book balance method:**
   - a- Add collections made by bank on the company's behalf and other increase in cash that the company is unaware of until the bank statement is received.
   - b- Deduct service and other charges made by the bank that the company unaware of until the bank statement is received.
   - c- Deduct NSF (non-sufficient fund) A check that is not paid by a bank because of insufficient funds in a customer's bank account.
   - d- Company errors. These will either be increases or decreases depending on the nature of the error.

3- **Adjustments the two balances to reach to one corrected balance method:**

Bank Balance

+ Deposits in transit

— Outstanding checks

± Errors

Corrected balance

Book Balance

+ Collection by bank

— service charges

— NSF checks

± Errors

Corrected balance

The two corrected balances must equal.

Example: At the beginning of June 2014, Baghdad company received a bank statement that showed the current account balance as on 31 May amounting to ID 3250. However, the general ledger showed a book balance of ID 2760. Baghdad Co. issued the following checks

Check no. 112 of ID 900

Check no. 116 of ID 1350

Check no. 122 of ID 750 to the suppliers, but the payment did not appear in the bank statement because they were not yet received by the bank. In addition, Baghdad Co. deposited ID 2500 at the end of the month, but this was also not appearing in the

bank statement. Besides that, the bank had debited Baghdad's Co. account with ID 10 being the service charge.

Required:

1- Prepare a bank reconciliation statement on May 31, 2014, by using Adjustments the two balances to reach to one corrected balance method.

2- Journalize the adjusting entries to be made by Baghdad Company.

Solution:

Baghdad Company

Bank Reconciliation Statement

May 31, 2014

	(ID)
Balance as per bank statement, May31, 2014	3250
Add: Deposit in transit	2500
	5750
Deduct: Outstanding checks	3000
Adjusted bank balance	2750
Balance as per book balance	2760
Deduct: bank service charge	10
Adjusted Book balance	2750

Journal entries:

bank service charge	10	
Bank		10

To record bank service charge.

Chapter (7)

المحاضرة السابعة

Financial Statements

القوائم المالية

Financial Statements

As we discussed in chapter (2) there are four types of financial statements which are comprehensive income statements, balance sheet, cash flow statements and statements of changes in owners' equity. These statements are prepared at the end of financial year or financial period. In addition, the main purpose of these statements is to provide useful information in order to make rational economic decisions by the users of financial statements. In this chapter we will discuss the first and second types: income statement and balance sheet

1- Income Statement

Is the report that measures the success of company operations for a given period of time?

Usefulness of income statement

a- Evaluate the past performance of the company.

b- Provide a basis for predicting future performance.

Format of income Statement

There are two types of income statement the first type called Single- Step income statements and the second type is a Multiple- Step income statements.

1- Single- Step Income Statements

In reporting revenues, gains, expenses, and losses, companies use a format known as the ***single-step income statement***. This form of income statement consists of just two groups of accounts: revenues and expenses, expenses are deducted from revenues to arrive at net income or loss. The following example shows the income statement for Baghdad Company by using single-step form.

Example (1):

Presented below is information related to Baghdad Company for the year 2014.

Net Sales	280000
Dividend revenue	10000
Rental revenue	5000
Cost of goods sold	180000
Selling expenses	20500
Administrative expenses	19000
Interest expense	15500
Income tax expense	15000

Instructions:

Compute the net income by using single-step income statement form.

Baghdad Company

Income Statement

For the year ended December 31, 2014

Revenues		
Net Sales	280000	
Dividend revenue	10000	
Rental revenue	5000	
Total revenues	295000	
Expenses		
Cost of goods sold		180000
Selling expenses		20500

Administrative expenses	19000
Interest expense	15500
Income tax expense	15000
Total expenses	250000
Net Income	45000

2- Multiple- Step Income statements

Some contend that including other important revenue and expense classifications makes the income statement more useful, such as a separation of operating and non-operating activities. For example often presented income from operations followed by sections entitled "other revenues and gains" and" other expenses and losses" which include different revenues and expenses such as gains or losses of long-term assets , interest revenue and expense ,consultants revenue. In addition, another important issue is a classification of expenses by functions, such as cost of goods sold, selling expenses, and administrative expenses, and this will help company to make comparison with costs of previous years and with other departments in the same year.

Example (2):

Presented below is information related to Baghdad Company for the year 2014.

Sales 300000, sales discount 15000, sales returns and allowances 5000, purchases 158000, purchase discount 2500,freight and transportation-in 4500, beginning inventory 25000, ending inventory 5000, sales salaries and commissions 12500, advertising expense 3000, Telephone and internet

expense 2500, freight and transportation – out 2500, office salaries 12000, utilities expense 5000, stationery and supplies expense 2000, dividends revenue 10000, rental revenue 5000, interest expense 15500, income tax expense 15000.

Instructions:

Compute the net income by using multiple- step income statement form.

Baghdad Company

Income statement

For the year ended December 31, 2014

Details			
Sales Revenue			
Sales		300000	
Less: Sales discount	15000		
Sales returns and allowances	5000	20000	
Net Sales Revenue			280000
Cost of Goods Sold			
Inventory 1-1		25000	
Purchases	158000		
Less: purchase discount	2500		
Net purchases	155500		
Freight and transportation-in	4500		
Total Purchases		160000	
Total goods available for sale		185000	
Less: inventory 31-12		5000	
Cost of goods sold			180000

Gross profit on sales			100000
Operating Expenses			
Selling expenses			
Sales salaries and commissions	12500		
Advertising expense	3000		
Telephone and internet expense	2500		
Freight and transportation-out	2500		
Total selling expenses		20500	
Administrative expenses			
Office salaries	12000		
Utilities expense	5000		
Stationery and supplies expense	2000		
Total administrative expenses		19000	
Operating expenses			39500
Income from Operations			60500
Other Revenues and Gains			
Dividends revenue		10000	
Rental revenue		5000	15000
Other Expenses and Losses			75500
Interest expense			15500
Income before income tax			60000
Income tax			15000
Net income for the year			45000

2-Balance Sheet:

It also referred to as the statement of financial position. It reports assets, liabilities, and owners' equity of a business enterprise at specific point on time.

Usefulness of Balance sheet

By providing information on assets, liabilities and owners equity, the balance sheet provides:

a. A basis for computing rates and evaluating the capital structure of the company.
b. Analysis information in the balance sheet is using to assess company's risk.
c. It will help to predict of the future cash flow.

Format of balance sheet

There are two forms that are used of presenting a classified balance sheet items.

First one called ***account form*** which it lists assets, by sections on the left side and liabilities and stock holders' equity, equity by sections on the right side.

The second form called ***report form***; it lists assets sections above liabilities, and stock holders' equity in same page.

The following form illustrates the balance sheet presentation by using report form:

Name of Company

Balance sheet

December 31,2014

Assets

Current assets

Cash

Available for-sale securities- at Fair value

Notes receivable

Accounts receivable

Less: Allowance for doubtful accounts

Inventories

Supplies on hand

Prepaid expenses

Accrued revenue

Total current assets

Noncurrent assets

Long –term investments

Investment in X company

Property, Plant, and Equipment

Land

Building

Machinery and equipment

Cars

Furniture

Less: Accumulated depreciation

Property, Plant and equipment, net

Intangible Assets

Goodwill

Total Noncurrent assets

Total assets

Liabilities and Owners equity

Current Liabilities

Notes payable

Accounts payable

Accrued expenses

Unearned revenue

Total current liabilities

Long-term Liabilities

Long-term loan

Total liabilities

Owners equity

Capital 1-1

Retained earnings

Total owners equity

Total liabilities and stock holders' equity

3-Statements of changes in owners' equity:

The statement of changes in owners' equity shows the changes in the equity position over period of time.

The statement of changes in owners' equity is prepared on the following form:

The name of company

Statement of changes in owners' equity

For the year ended 31 December 2015

Owners equity as at 1/1/2015	**Capital**	**Retained Earnings**	**Total**
	900	100	1000
Add: Net income for the year		150	
		250	
Less: dividends Declared		100	
Owners' equity as at 31/ 12/2015	900	150	1050

Example 3:

The following is a trial balance of salam Company on 31 December 2010.

Salam company

Trail balance

On 31/12/2010

Account name	**Debit balances**	**Credit balances**
Cash	100,000	
Accounts receivable	50,000	
Prepaid insurance	40,000	
accrued rent	20,000	
Inventory	120,000	
Building	170,000	
Note payable		30,000
Accrued advertising		40,000
Unearned services revenues		10,000
Loan long term		100,000
Capital(common stock)		200,000
Retained earnings		80,000
Divideds declared	60,000	

Sales others revenues Cost of goods sold Salary expenses Depreciation expenses	 160,000 25,000 15,000	250,000 50,000
Total	***760,000***	***760,000***

Required:

1. prepare the adjusting entries by using the following information:

a. the insurance expenses are 2years from 1/7/2010 to 1/7/2012.

b. the services revenues are 12months from 1/4/2010 to 1/4/2011.

c. the salam company didn't pay for $10000 of interest expenses on the loan in percentage 10% due on 31/12/2010.

2. prepare the adjusted trail balance.

3. prepare the financial statements (income statement, retained earnings statement and balancesheet).

Answer/

1. a / On 31/12/2010

insurance expenses $10000

<u>prepaid insurance expenses $10000</u>

1. b on 31/12/2010

Unearned services revenues $7500

<u>services revenues $7500</u>

1. c on 31/12/2010

interest expenses $10000

<u>accrued interest expenses $10000</u>

2. Salam company

Adjusted Trail balance

On 31/12/2010

Account name	Debit balances	Credit balances
Cash	100,000	
Accounts receivable	50,000	
Prepaid insurance	30,000	
accrued rent	20,000	
Inventory	120,000	
Building	170,000	
Note payable		30,000
Accrued advertising		40,000
Unearned services revenues		2,500
Loan long term		100,000
Capital(common stock)		200,000
Retained earnings		80,000
Divideds declared	60,000	
Sales		250,000

others revenues		50,000
Cost of goods sold	160,000	
Salary expenses	25,000	
Depreciation expenses	15,000	
insurance expenses	10,000	
services revenues		7,500
interest expenses	10,000	
accrued interest expenses		10,000
Total	***770,000***	***770,000***

Salam company

Income statement

For the year ended on 31/12/2010

Details	**part**	**Total**
Sales		250,000
-- Cost of goods sold		(160,000)
= gross income		90,000
-- operating expenses		
Salary expenses	25,000	
Depreciation expenses	15,000	

insurance expenses	10,000	(50,000)
= operating income		40,000
+		
services revenues	7,500	
others revenues	50,000	57,500
--		
interest expenses		(10,000)
income before tax =		87,500
-- tax		(0)
= income after tax		**87,500**

Salam company

retained earnings statement

For the year ended on 31/12/2010

Retained earnings at beginning	80,000
+ income after tax	87,500
-- Dividends declared	(60,000)
Retained earnings at ending	***107,500***

Salam company

balancesheet

on 31/12/2010

Assets	
Cash	100,000
Accounts receivable	50,000
Prepaid insurance	30,000
accrued rent	20,000
Inventory	120,000
Building	170,000
Total assets	***490,000***
Liabilities&owners equity	
Note payable	30,000
Accrued advertising	40,000
accrued interest expenses	10,000
Unearned services revenues	2,500
Loan long term	100,000
Capital(common stock)	200,000
Retained earnings	107,500
total Liabilities&owners equity	***490,000***