Chapter 1:
1. Income statement
2. Statement of retained earnings

**Income statement**
- Heading
- Name of company
- Income statement date
- Start with revenues
- Then expenses
- Total expenses
- Net income = Revenues - Total expenses (If your revenues are greater than expenses, you have net income. If revenues are less than expenses, you have a net loss.)

**Statement of retained earnings**
- Heading
- Retained earnings (beginning) "given"
  * If not given, direct 0
- Net income (From statement from previous)
- Dividends
- Retained earnings (ending) "total from above"

**Balance sheet**
- Heading
- Assets = Liabilities + Equity
  * Should be balanced.

Chapter 2:
1. Journal entries
2. T-account
3. Trial balance

**Journal entries**
- Debit → Something increased in cash
- Credit → Something decreased in cash
- On account → a/p
- Hires → No transaction
- Billed customer → a/r
- For service performed → Service revenues

**T-accounts**

\[
\begin{array}{ccc}
\text{Debit} & \text{Credit} \\
\text{in} & \text{out} & \text{in} \\
\text{Balance} & \text{Balance} & \text{Balance}
\end{array}
\]
Step 1 → Close revenues.
Step 2 → Close expenses.
Step 3 → Close income summary.
Step 4 → Close drawing if you have a preparation.

Elli Dance Co
Closing entries
For the year ending 2011

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31</td>
<td>Service revenue</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>income summary</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Income summary - advertising exp.</td>
<td>9,860</td>
<td>3,500</td>
</tr>
<tr>
<td></td>
<td>Scaries exp.</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td></td>
<td>Interest exp.</td>
<td></td>
<td>2,360</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Income summary</td>
<td>10,140</td>
<td>10,140</td>
</tr>
<tr>
<td></td>
<td>Elli Capital/RE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec 31</td>
<td>Elli Capital/RE</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td></td>
<td>Elli Drawing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**General ledger**

- **Service Revenue**
  - Dr
  - Closing 20,000
  - Cr 20,000 Balance

- **Advertising Expense**
  - Dr
  - Balance 3,500
  - Cr 3,500 Closing

- **Income Summary**
  - Dr 9,860
  - Cr 20,000
  - Closing 10,140
  - 10,140 Balance

Note: Do not close out retained earnings.
1. Prepaid expenses - amount used up.  
   Debit Expenses  
   Credit Prepaid

2. Depreciation of property, plant and equipment assets.  
   Debit Dep. expenses  
   Credit Acc. expenses

3. Unearned revenue - amount earned.  
   Debit Unearned  
   Credit Revenue  
   (Unpaid)

4. Accrued revenue - done the work.  
   Debit Receivable  
   Credit Revenue

5. Accrued expenses - unpaid bill.  
   Debit Expense  
   Credit Payable
Chapter 3.
- no cash
- out prepaid on type 1
- expense always on debit
- prepaid always on credit

Adjusting entries

<table>
<thead>
<tr>
<th>Type 1</th>
<th>Debit</th>
<th>Credit</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Debit</td>
<td>asset</td>
<td>Supplies, prepaid rent, prepaid insurance,</td>
<td>$100</td>
<td>$100</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4/i.p. salaries payable, interest payable,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>utilities payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5/Geared, service revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a/fr.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type 2</th>
<th>Debit</th>
<th>Credit</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>expense</td>
<td>liability</td>
<td>a/p, salaries payable, interest payable, utilities payable</td>
<td>$300</td>
<td>$300</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type 3</th>
<th>Debit</th>
<th>Credit</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>liability</td>
<td>revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type 4</th>
<th>Debit</th>
<th>Credit</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>assets</td>
<td>revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 march 2017</td>
<td>insurance expense</td>
<td>$100</td>
<td>$100</td>
</tr>
<tr>
<td>31 march 2017</td>
<td>prepaid insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 march 2017</td>
<td>rent expense</td>
<td>$300</td>
<td>$300</td>
</tr>
<tr>
<td>31 march 2017</td>
<td>prepaid rent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 march 2017</td>
<td>depreciation expense</td>
<td>$200</td>
<td>$200</td>
</tr>
<tr>
<td>31 march 2017</td>
<td>accumulated depreciation</td>
<td>$5000</td>
<td>$5000</td>
</tr>
<tr>
<td>31 march 2017</td>
<td>supplies expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 march 2017</td>
<td>supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 march 2017</td>
<td>insurance expenses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Supplies expenses
- Debit $5000
- Credit $5000

Prepaid insurance
- Debit $100
- Credit $100

Rent expenses
- Debit $300
- Credit $300

Depreciation expenses
- Debit $200
- Credit $200

Accumulated depreciation
- Debit $200
- Credit $200
### Type 2

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March 2018</td>
<td>Salaries expense</td>
<td>$500</td>
<td>$500</td>
</tr>
<tr>
<td></td>
<td>Salaries Payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 March 2018</td>
<td>Utilities expense</td>
<td>$350</td>
<td>$350</td>
</tr>
<tr>
<td></td>
<td>Utilities Payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 March 2018</td>
<td>Interest expense</td>
<td>$200</td>
<td>$200</td>
</tr>
<tr>
<td></td>
<td>Interest Payable</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Salaries accrued at the amount $500 for a month.
2. Utilities accrued for $350 for a month.
3. Interest accrued for the load $300 per month.

<table>
<thead>
<tr>
<th>Salaries Payable</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500</td>
<td>$500</td>
<td></td>
</tr>
<tr>
<td>$350</td>
<td>$350</td>
<td></td>
</tr>
<tr>
<td>$200</td>
<td>$200</td>
<td></td>
</tr>
</tbody>
</table>

### Type 3

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March 2018</td>
<td>Unearned service revenue</td>
<td>$1000</td>
<td>$1000</td>
</tr>
</tbody>
</table>

1. Service related to unearned service revenue were provided on account. $1000.

<table>
<thead>
<tr>
<th>Unearned service revenue</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1000</td>
<td>$1000</td>
<td></td>
</tr>
</tbody>
</table>
Date
31 March 2018

Description | Debit | Credit
--- | --- | ---
A/R Services revenue | $3200 | $3200

1. Billed customer for services for services performed $3200

Debit | Credit
--- | ---
A/R Service revenue | $3200 | $3200

Chapter 4
1. Prepare the financial statements including the balance sheet
2. Prepare the financial statement using the worksheet.
3. Explain the purpose of journalize, and post-closing entries.

*Need to know*
Current assets: Cash, A/R, interest receivable, supplies, inventory and other prepaid expenses.
Plant assets: Refer to property that can be seen and touched and is used in the business to generate revenue. Depreciable assets and land used.
Long term investments: Notes receivable, investments in bonds or stock.
Current liabilities: A/P, Salaries payable, taxes payable, unearned revenues.
Long term liabilities: Notes payable, mortgage payable, bonds payable.

The classified balance sheet:
Asset section → subdivided into current and long-term groups.
Liabilities → subdivided into current and long-term groups. Equity is usually not subdivided.

Closing entries
Close these: Revenue accounts, expense accounts, withdrawal account.
Don’t close: Assets accounts, liability accounts, capital account.

Current ratio formula
Current ratio = total current assets / total current liabilities.
Summary of merchandise inventory transactions (perpetual system): Chapter 3

1. Purchase merchandise inventory
   - paid cash: merchandise inventory - debit, cash - credit
   - on account: merchandise inventory - debit, a/p - credit

2. Payment of freight in expenses
   merchandise inventory - debit, cash - credit

3. Purchase returns and allowances
   a/p - debit, merchandise inventory - credit

4. Payment for a/p (credit term) - amount of discount
   \[ \% \times \text{number of days} = \text{ni30} \]
   - if the company paid during the discount period
     a/p - debit, cash - credit
     merchandise inventory - credit
     \[
     \text{Purchase discount} \quad \text{Clint Wright this in the exam!}
     \]
   - if the company paid after the discount period
     a/p - debit, cash - credit

5. Sales - two entries
   A. Cash - debit (cash or a/r if it was on account)
      sales revenue - credit
      \[
      \text{sales revenue} = \frac{\text{# of units sold} \times \text{selling price per unit}}{}
      \]
   B. Cost of goods sold - debit, merchandise inventory - credit

6. Freight out expenses
   freight out expenses - debit, cash - credit

7. Sales returns and allowances - 2 entries
   A. Sales returns and allowances - debit, a/r - credit
8. receiving from a/r

During discount period
- Cash - debit
- Sales discount - debit
- a/r - credit

After the discount period
- Cash - debit
- a/r - credit

---

**Note:** February 16 (changed) the customer returns 500 goods from February 10 transaction. The cost of these goods = 425.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 3</td>
<td>Merchandise inventory a/p</td>
<td>2700</td>
<td>2700</td>
</tr>
<tr>
<td>Feb 7</td>
<td>A/R</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>Merchandising inventory</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td>Feb 9</td>
<td>Merchandising inventory</td>
<td>1000</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feb 10</td>
<td>A/R</td>
<td></td>
<td>4350</td>
</tr>
<tr>
<td></td>
<td>Sales revenue</td>
<td></td>
<td>4350</td>
</tr>
<tr>
<td></td>
<td>Cost of goods sold</td>
<td></td>
<td>2300</td>
</tr>
<tr>
<td></td>
<td>Merchandising inventory</td>
<td></td>
<td>2300</td>
</tr>
<tr>
<td>Feb 12</td>
<td>A/R</td>
<td>2300</td>
<td>2208</td>
</tr>
<tr>
<td></td>
<td>Cash Merchandising inventory</td>
<td></td>
<td>410</td>
</tr>
<tr>
<td></td>
<td>= 2300 x 4% = 92</td>
<td></td>
<td>2300</td>
</tr>
<tr>
<td>Feb 16</td>
<td>Sales return and allowance</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>A/R</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Merchandising inventory</td>
<td>265</td>
<td>265</td>
</tr>
<tr>
<td></td>
<td>Cost of goods sold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feb 23</td>
<td>Cash</td>
<td>4350</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>Sales discount</td>
<td>3850 x 2% = 77</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>A/R</td>
<td></td>
<td>3850</td>
</tr>
</tbody>
</table>
Chapter 6
The cost of merchandise inventory.
- Record 2 entries to sell the goods:

1st entry: -
account receivable (cash) → debit.
Sales revenue → credit.

2nd entry: -
cost of goods sold → debit.
Merchandise inventory → cash.

10,000 unit purchased in three times: -
1. 6,000 = 2 $  2. 3,000 = 2.5 $  3. 1,000 = 3 $

\[
\begin{align*}
10,000 & = 6,000 \times 2 = 12,000 \\
& = 3,000 \times 2.5 = 7,500 \\
& = 1,000 \times 3 = 3,000 \\
\end{align*}
\]
\[
\text{add all} = 12,000 + 7,500 + 3,000 = 22,500 \\
\]

Methods approaches to assigning cost to inventory: -
1. first in first out. → FIFO.
2. last in first out. → LIFO.
3. weighted average → WA. → cost per unit = \( \frac{\text{total cost}}{\text{# of units}} \).

Cost of goods sold → income statement.
Cost of inventory → balance sheet.

Perpetual FIFO - cost of goods sold (lower) net income (higher).
- inventory sold → cost of the oldest is assigned.
- ending inventory closely affects current replacement cost.
  * when costs are constantly increasing, applying (FIFO) will result in lower COGS and higher net income.

Perpetual LIFO - cost of goods sold (higher) net income (lower).
- inventory sold → cost of the newest is assigned.
- COGS closely reflects current replacement cost.
  * when costs are constantly increasing, applying (LIFO) will result in higher COGS and lower net income.
Perpetual weighted-average
- after each purchase, average cost of the inventory on hand is computed.
- Sold inventory is costed using the average cost at the time of the sale.
* average cost before the sale and after the sale should be the same.
merchandise inventory \rightarrow \text{balance sheet} \rightarrow \text{current assets}.

*Rule: merchandise inventory should be evaluated at the end of the period using (LCM).

\[ \text{Lower of cost or market} \]

<table>
<thead>
<tr>
<th>Cost</th>
<th>Market Value</th>
<th>Adjustment</th>
<th>Adjusting Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1000</td>
<td>$900</td>
<td>\checkmark</td>
<td>Dr. Cogs - Cr. Merchandise Inv $100</td>
</tr>
<tr>
<td>$750</td>
<td>$800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$2000</td>
<td>$2000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

merchandise inventory on the balance sheet for each case.

A) m.v. $900
B) cost $750
C) cost/m.v. $2000

Conservatism (\text{LIFO}) = \text{take the lowest cost.}
Chapter 8

What is internal control?
- An organizational plan and the related measures designed to accomplish
  the following:
  1. Safeguard assets
  2. Encourage employees to follow company policies.
  3. Promote operational efficiency.
  4. Ensure accurate, reliable accounting records.

Bank account as a control device
- Signature card
- Deposit ticket
- Check
- Bank statement
- Electronic funds transfers
- Bank reconciliation

Bank reconciliation
- Mathematical explanation of the difference between two numbers.
  - There is often a difference between the bank statement balance and the
    general ledger cash balance.
- Deposits in transit.
- Outstanding checks.
- Bank collections
- Electronic funds transfers
- Service charges
- Interest
- Nonsufficient funds checks.
Reconciliation process part A:
* Start with the bank balance at the end of the period.
  + add deposits in transit (DIT) → cash you have collected from customers, but
  - deduct outstanding checks (Ols) which has not yet been deposited.
  Include all uncleared checks, even from previous periods.

Adjust for bank errors
= adjusted bank balance.

Reconciliation process part B: Journalize
* Start with the book balance at the end of the period.
  + add bank collections, interest revenue, and EFT receipts.
    (Cash receipts not already on the books).
  - deduct services charges, NSF checks, and EFT payments.
    (Cash payments not already on the books).

Adjust for bank errors
= adjust bank balance.

Entries - book statement: Journal
- Interest revenue earned
  Cash - Dr
  Interest revenue - Cr

- NSF check
  Accr / nsf - Dr
  Cash - Cr

- deposit in transit
  No entry

- Service change
  Expenses - Dr
  Cash - Cr

- Outstanding check
  No entry
Chapter 9 - Receivables

A receivable is a right to receive cash in the future from a current transaction:
- Accounts receivable
- Notes receivable
- Other receivables

Also referred to as a trade receivable
- Results from sales of goods or performance of services on account
- Collection period normally = 30 to 60 days

Also called a promissory note
- Written promise that a customer will pay principal and interest
- Collection period longer than a/f

Other receivables:
- Category includes dividends, taxes, and interest receivables
- Can be current or long-term

* Recording credit card and debit card sales
  - Recorded the same as cash sales
  - A fee is usually charged by the card company
    * The net cash received is reduced by the fee

2 methods are allowed:
- Net method
- Gross method

Net method
- Recorded the card company fee at the time of the sale
- Only the net amount of cash is recorded

Gross method
- Record the full sale on the sale date
- Record the credit-card fee as a separate entry when the cash is deposited by the third party
What is depreciation?
- Depreciation is the process of allocating an asset's cost to expense over its useful life.

* Remember: To record depreciation, we debit depreciation expenses and credit accumulated depreciation (a contra-asset).

**Depreciation methods**
- Three common depreciation methods:
  - Straight-line
  - Units-of-production
  - Declining-balance

**Smart Touch Learning**
Purchases a truck on January 1, 2014.

<table>
<thead>
<tr>
<th>Data Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of truck</td>
<td>$41,000</td>
</tr>
<tr>
<td>EST. Residual value</td>
<td>$1,000</td>
</tr>
<tr>
<td>EST. Useful life years</td>
<td>5 years</td>
</tr>
<tr>
<td>EST. Useful life miles</td>
<td>100,000 miles</td>
</tr>
</tbody>
</table>

**Straight-line method**

Annual straight-line depreciation = \( \frac{\text{cost} - \text{residual value}}{\text{estimated useful life in years}} \)

\[\text{Annual straight-line depreciation} = \frac{41,000 - 1,000}{5} = \frac{40,000}{5} = 8,000\]