

BASIC ACCOUNTING

Basic Accounting Made Easy

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- **Accounting** is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.
- **Accounting** is 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 a financial character, and interpreting the results thereof.
- **Business transactions** are economic activities of a business.
- **Money** serves as a medium of exchange and a measure of value. It is the common financial denominator.

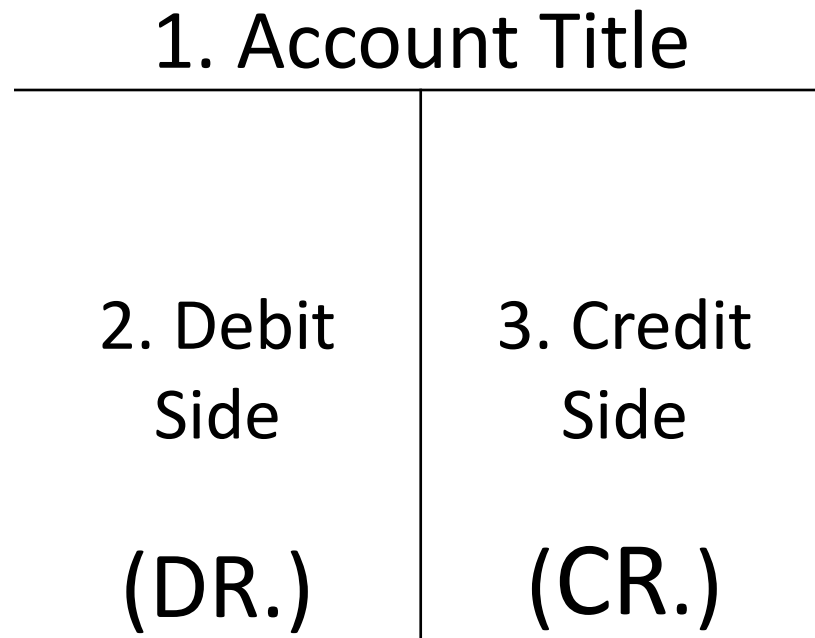
Generally Accepted Accounting Principles (GAAP)

1. **Objectivity principle** – records and statements are based on most reliable data available.
2. **Historical Cost** – acquired assets should be recorded at their actual or historical cost
3. **Revenue Recognition Principle** – revenue is to be recognized in the accounting period when goods are delivered or services are performed.
4. **Matching Principle** – expenses should be recognized in the accounting periods in which goods and services are used up to produce revenue and not when the entity pays for those goods and services.

Generally Accepted Accounting Principles (GAAP)

5. **Adequate disclosure** – all relevant information that would affect the user's understanding be disclosed in the financial statements.
6. **Consistency principle** – firms should use the same accounting method from period to period to achieve comparability over time within a single enterprise.
7. **Materiality** – Financial reporting is only concerned with information that is significant enough to affect evaluations and decisions.
8. **Timeliness** – Accounting information is communicated early enough to be used for the economic decisions that it might influence.

- **Account** is the basic summary device of accounting.
- **T-account** – simplest form of the account. It has three parts:



Basic Elements of Accounting

Financial Position

- **Assets** – physical things (tangible or intangible) or rights which have monetary value and are owned by the business entity.
- **Liabilities** – debts or obligations owed by the business
- **Owner's Equity or Capital** – claim held by the owner against the assets after the total liabilities are deducted.

Basic Elements of Accounting:

Results of Operations

- **Revenues** are the increases in the owner's equity as a result of the performance of services or sales by the business.
- **Expenses** are the decreases in the owner's equity caused by the revenue generating activities of the business.
- **Net Income** - amount by which total revenues exceeds total expenses.
- **Net Loss** - amount by which total expenses exceeds total revenues.

THE ACCOUNTING EQUATION

Assets must always equal liabilities and owner's equity.

$$\text{ASSETS} = \text{LIABILITIES} + \text{OWNER'S EQUITY}$$

DEBITS AND CREDITS

- **Double Entry System** – means that the dual effect of business transactions must be recorded. A debit side entry must have a corresponding credit side entry. Each transaction affects at least 2 accounts. The **total debits must always equal to total credits.**

RULES OF DEBITS AND CREDITS

Balance Sheet Accounts

Assets		Liabilities and Owner's Equity	
Debit Side	Credit Side	Debit Side	Credit Side
+	-	-	+
Increases	Decreases	Decreases	Increases

Income Statement Accounts

Debit for decreases in Equity		Credit for increases in Equity	
Expenses and Withdrawals		Revenues	
Debit Side	Credit Side	Debit Side	Credit Side
+	-	-	+
Increases	Decreases	Decreases	Increases

TYPICAL ACCOUNT TITLES USED

ASSETS ARE SUBDIVIDED INTO TWO MAJOR CLASSIFICATIONS: CURRENT AND NON-CURRENT

CURRENT ASSETS

- **Cash** – currency, checks, bank deposits etc.
- **Cash equivalents** – short term investments (3 months or less)
- **Notes Receivable** – Promissory Note
- **Accounts Receivable** – a promise to pay by customers
- **Inventory** – a.) Held for sale b.) In the process of production for such sale c.) To be consumed in the production of goods and services to be available for sale.
- **Prepaid Expenses** - expenses paid in advance (insurance or rent)

NON-CURRENT ASSET

- **Long-term Investments**
- **Equipment**
- **Buildings**
- **Land**
- **Intangibles** – patents, copyrights, licenses, franchises, trademarks and non-competition agreements

LIABILITIES: CURRENT AND LONG-TERM

CURRENT LIABILITIES

- **Notes payable**
- **Accounts payable**
- **Accrued Liabilities** – unpaid expenses. Example: Salaries payable, wages payable, interest payable, taxes payable
- **Unearned Revenues** – payments received before providing customers with goods or services.

LONG-TERM LIABILITIES

- **Mortgage Payable** – business entity has pledged certain assets as a security to the creditor
- **Bonds Payable** – **bond** is a contract between the issuer and the lender specifying the terms of repayments and interest to be charged.

OWNER'S EQUITY

- **Capital** – original and additional investments of the owner
- **Withdrawals or drawings** – withdrawals of cash or other assets

INCOME STATEMENT

REVENUES

- **Service Revenues**
- **Sales Revenues**

EXPENSES

- **Cost of Sales** – cost of goods sold
- **Salaries or wages expense**
- **Telecommunication, Electricity, Fuel and Water Expenses**
- **Rent Expense**
- **Supplies Expense** – expense of using supplies
- **Depreciation Expense** – portion of the cost of tangible asset allocated as expense
- **Uncollectible Accounts Expense** – amount of receivables estimated to be doubtful of collection.
- **Interest Expense** – expenses related to the use of borrowed funds

ACCOUNTING FOR BUSINESS TRANSACTIONS

- **Illustration:**

Marietta Sorio decided to establish a business called Marietta Sorio Ballroom Dance Studio. The dance studio will operate as a sole proprietorship. During November 2015, the first month of operations, various financial transactions took place.

Instruction: Create a tabular Analysis for the transactions.

[illegible]

Nov. 1 Sorio invested P110, 000 from her personal savings in the new business. She deposited the money at the Bank of Philippine Islands-Lucena Branch.

Nov. 5 Office equipment costing P78, 000 is acquired on cash basis.

Nov. 9 Office supplies in the amount of P4, 500 are acquired on account.

Nov. 11 The Marietta Sorio Dance Studio collected P21, 000 in cash for ballroom dance lessons.

Nov. 15 Sorio paid President Service Company P11, 000 for monthly utilities

Nov. 17 The ballroom dance studio has an arrangement with several dance clubs. Lessons will be given on various weeknights. Sorio billed these clubs P63, 000 for the month.

Nov. 19 Sorio made a partial payment of P2,000 for the Nov. 9 purchase of office supplies.

Nov. 20 A check in the amount of P30,000 is received from a dance club for their monthly lessons, billed on Nov. 17.

Nov. 21 Sorio withdrew P5,000 from the business for her personal use.

Nov. 27 The Brookstone Advertising Agency submitted a bill to Sorio for P4,000 worth of advertising for this month of operations. Sorio will pay this bill next month.

Nov. 28 Sorio paid her dance instructors' salaries worth P25,000 for the month of November.