

# Fundamentals of Accounting

## Objectives of Work Shop

- 1- Explain what an account is and how it helps in the recording process.*
- 2- Explain the meaning of source documents.*
- 3- Define debits, credits, and the meaning of double entry system.*
- 4- Identify the basic steps in the recording process.*
- 5- Explain what a journal is and how it helps in the recording process.*

## **STUDY OBJECTIVE 1**

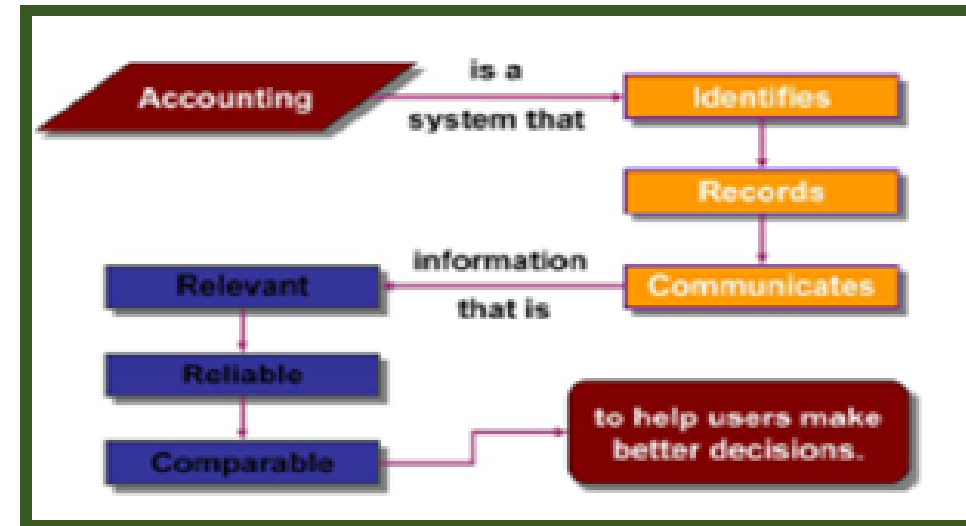
**Explain what an account is and how it helps in the recording process.**

# **Accounting**

**Is an information and measurement system that identifies, records, and communicates relevant, reliable, comparable information about organization's business activities.**

## Importance of Accounting:

Accounting is a system that identifies, records, and communicates information that is relevant, reliable and comparable to help users make better decisions.



## Accounting Activities:

As a starting point to the accounting process, a company **identifies the economic** events relevant to its business. It **records** those events in order to provide a history of its financial activities. Recording consists of keeping a systematic, chronological dairy of events. Finally **communicates** the collected information to interested users by means of accounting reports (financial statements).

**Steps of accounting cycle:** Series of steps, which are repeated every reporting period.

9. Prepare an after/post closing trial balance (Post Trial Balance)

8. Prepare & post closing entries (Close Entries)

7. Prepare financial statements \*

6. Prepare an adjusted trial Balance

5. Prepare adjusting journal entries & post to general ledger trial Balance

4. Prepare unadjusted trial Balance

3. Post journal totals to general ledger

2. Record transactions in journal

1. Identifying and analyzing transactions

**\* Financial Statements:**

- Income statement
- Capital statement
- Balance sheet

## STUDY OBJECTIVE 2

Explain the meaning of source Documents

**Source Documents** identify and describe transactions and events entering the accounting process. They are the sources of accounting information and can be in either hard copy or electronic form. Example Sales Invoice, Checks, Purchases Order and Bank Statement. To illustrate, when an item is purchased on credit, the seller usually prepare at least two copies of a sales invoice, one copy is given to the buyer. Another copy often sent electronically, results in an entry in the seller's information system to record the sale. Sellers use invoices for recording sales and for control; buyers use them for recording purchases and for monitoring purchasing activity. This record can be used as a source document for recording sales in the accounting records.

## Types of Source Documents

### Cash Transaction

Cash Receipt

Check

### Credit Transactions

Sales Invoice

Purchase Invoice

### Other

Memo

Statement of  
account

Order

Quote

### STUDY OBJECTIVE 3

Define debits, credits, and the meaning of double entry system.

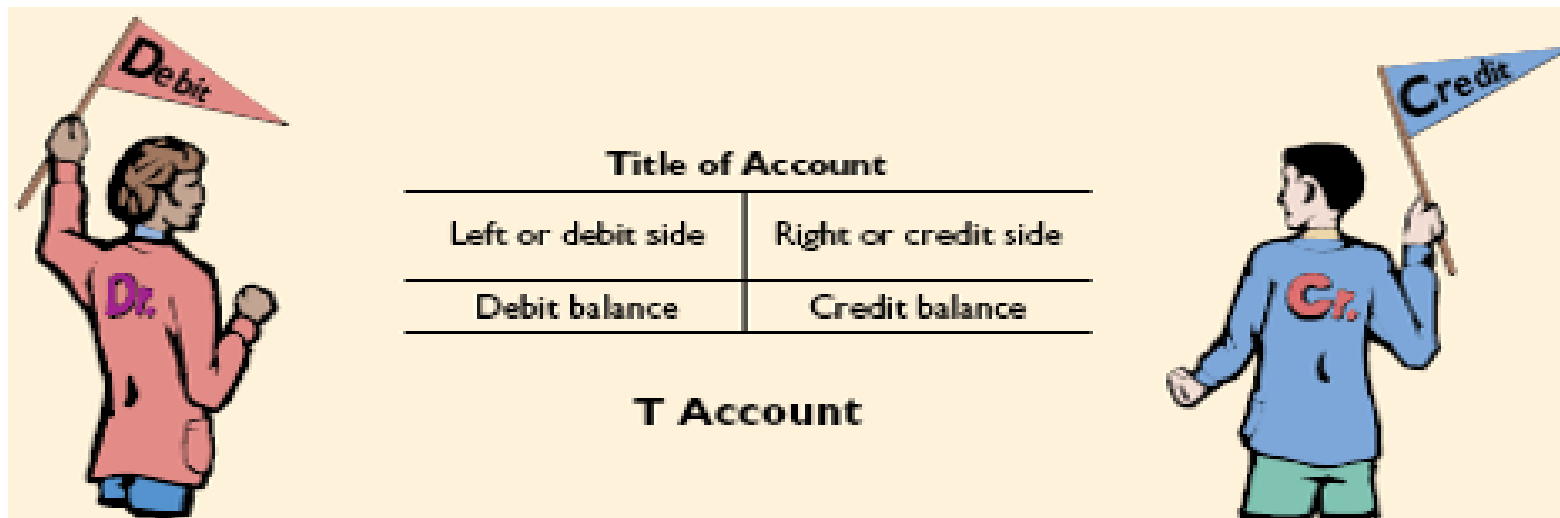
The terms debit and credit are directional signals: **Debit** indicates left, and **Credit** indicates right. They indicate which side of a T account a number will be recorded on. Entering an amount on the left side of an account is called **debiting** the account; making an entry on the right side is **crediting** the account.

### Double Entry System

The double entry system for determining the equality of the accounting equation is much more efficient than the plus/minus procedure used in chapter 2.

In the double entry system, the dual (two-side) effect of each transaction is recorded in appropriate accounts. This system provides a logical method for recording transactions. It also helps the accuracy of the recorded amounts. The sum of all the debits to the accounts must equal the sum of all the credits.

An **account** is an accounting record of increases and decreases in the specific assets, liabilities and owner's. The Company must be has separate accounts for Cash, Account Receivable, Supplies, Buildings, Account Payable, Capital, Services Revenues and Salaries Expenses. In its simplest form, an account consists of three parts: (1) a title, (2) a left or debit side, and (3) a right or credit side. Because the format of an account resembles the letter **T**. We will refer to it as a **T account** in chapter 4.





# Double Entry System

Debit

=

Credit

**Three Accounts  
Normal Balance  
are Debit:**

- 1-Assets
- 2- Expenses
- 3- Drawing

**Three Accounts  
Normal Balance  
are Credit:**

- 1-Capital
- 2- Liabilities
- 3- Revenues

DR

CR

+

-

DR

CR

+

-

# Double Entry System

Debit

Credit

## Six Accounts Normal Balance are Debit:

- 1-Assets
- 2- Expenses
- 3- Drawing
- 4- Purchases
- 5- Sales Returns
- 6- Sales Discount

## Six Accounts Normal Balance are Credit:

- 1-Capital
- 2- Liabilities
- 3- Revenues
- 4- Sales
- 5- Purchases Returns
- 6- Purchases Discount

DR

CR



DR

CR



**Assets = Liabilities + Owner's Equity**

**A) Current Assets:**

Cash- Short term investment-  
Account Receivable- Notes  
Receivable- Supplies-  
Inventory - Prepaid Expenses.

**B) Plant (Fixed) Assets:**

Land- Building- Premises-  
Machines- Trucks- Motor  
Van – Motor Vehicle-  
Equipment – Furniture.

**C) Intangible Assets:**

Patent- Goodwill- Copyright-  
Trademarks- Trade Names-  
Franchises- Licenses-  
Research and Development.

**A) Current Liabilities:**

Account Payable-  
Notes Payable-  
Accrued Expenses-  
Unearned Services  
Revenues – Bank over  
draft

**B) Long-term Liabilities:**

Bonds Payable-  
Mortgage Payable-  
Notes Payable (due  
over one year).

**Owner's Equity**

Owner's Capital

=

+

## **STUDY OBJECTIVE 4**

Identify the basic steps  
in the recording process

In practically every business, there are three steps in the recording process:

1. Analyze each transaction for its effects on the accounts.
2. Enter the transaction information in a journal.
3. Transfer the journal information to the appropriate accounts in the ledger.

### STUDY OBJECTIVE 5

Explain what a journal is and how it helps in the recording process.

**The Journal** is referred to as the book of original entry. For each transaction, the journal shows the debit and credit effects on specific accounts.

Companies may use various kinds of journals, but every company has the most basic form of a **general journal**.

### Journalizing

Entering transaction data in the journal. Companies make separate journal entries for each transaction. A complete entry consists of:

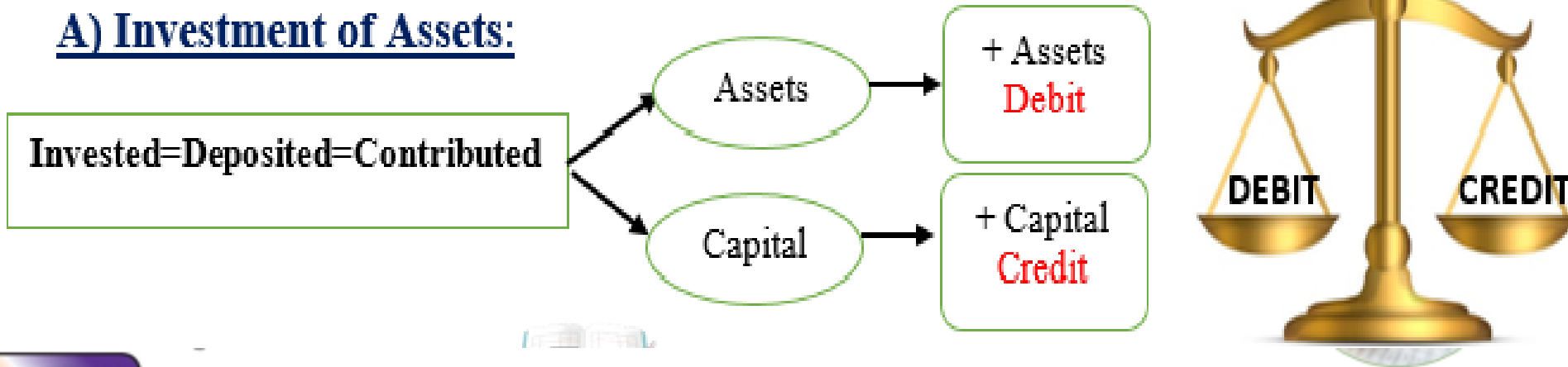
1. The date of the transaction.
2. The accounts and amount to be debited and credited.
3. A brief explanation of the transaction.

### GENERAL JOURNAL

Date	Account Title and Explanation	PR	Debit	Credit

## Recording in the General Journal:

### A) Investment of Assets:



### Illustration 3-1:

On Jan. 1 2016, Amina Company invested cash BD75,000 in the business. It recorded in the general journal:

### GENERAL JOURNAL

Date	Account Title and Explanation	PR	Debit	Credit
Jan,1	Cash		75,000	
	Capital			75,000
	<b>Owner's investment of cash in business</b>			



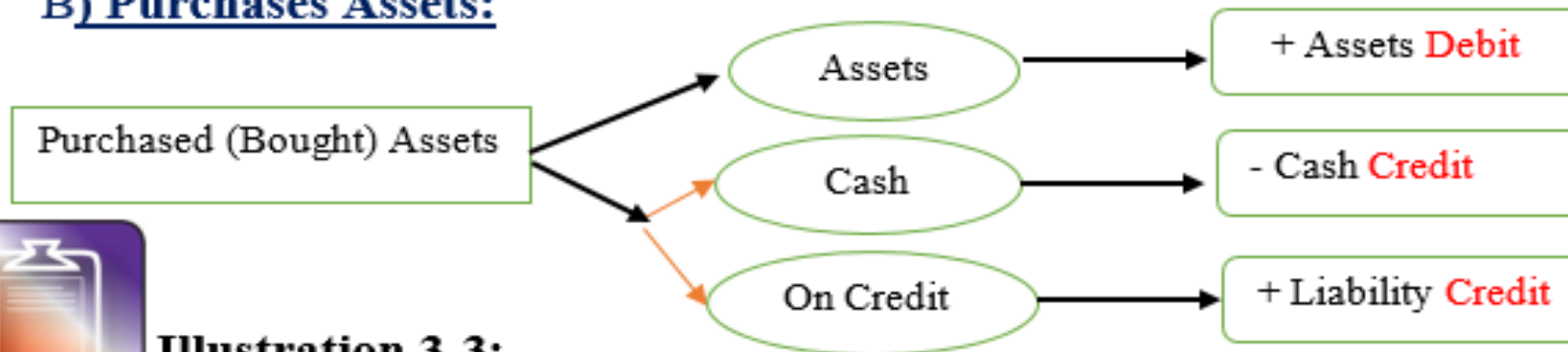
### Illustration 3-2:

On April.1 2016, Osama Company invested cash BD40,000 and supplies BD6,000 in the business. It recorded in the general journal:

#### GENERAL JOURNAL

Date	Account Title and Explanation	PR	Debit	Credit
April,1	Cash		40,000	
	Supplies		6,000	
	Capital			46,000
	Owner's investment of cash and supplies			

## B) Purchases Assets:



### Illustration 3-3:

On April.5 2016, Osama Company purchased equipment BD900 cash. It recorded in the general journal:



### GENERAL JOURNAL

Date	Account Title and Explanation	PR	Debit	Credit
April,5	Equipment		900	
	Cash			900
	<b>Purchased equipment for business cash.</b>			





### Illustration 3-4:



On April.9 2016, Osama Company purchased furniture BD2,600 on credit from Ahmed Est. It recorded in the general journal:

### GENERAL JOURNAL



Date	Account Title and Explanation	PR	Debit	Credit
April,9	Furniture		2,600	
	Account Payable - Ahmed			2,600
	<b>Purchased equipment for business on credit.</b>			





### Illustration 3-5:

On April.12 2016, Osama Company purchased machine for BD8,000 from Fahad Est. Paid cash BD3,000 and balance on account. It recorded in the general journal:

### GENERAL JOURNAL



Date	Account Title and Explanation	PR	Debit	Credit
April.12	Machine		8,000	
	Cash			3,000
	Account Payable - Fahad			5,000
	<b>Purchased machine BD3,000 cash and balance on credit.</b>			

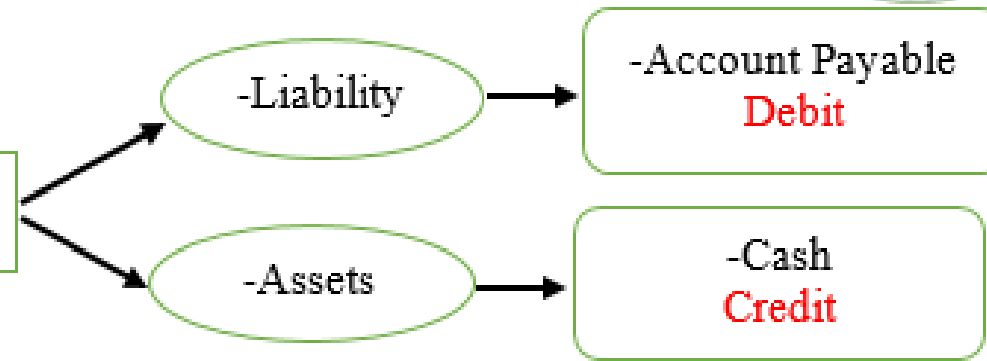


### C) Payment to Creditor:



**Paid=Issued Check to Creditor**

#### Illustration 3-6:



On April.15 2016, Osama Company paid cash BD1,800 to creditor Fahad Est. It recorded in the general journal:

### GENERAL JOURNAL



Date	Account Title and Explanation	PR	Debit	Credit
April,15	Account Payable - Fahad		1,800	
	Cash			1,800
	<b>Paid cash to creditor Fahad.</b>			

## Class Activity 1

The following transactions during May 2016 for Raina Company:

May 1: Invested cash BD21,500 in the business.

May 4: Purchased trucks BD14,900 for cash.

May 6: Purchased furniture BD2,600 on account from Asia Company.

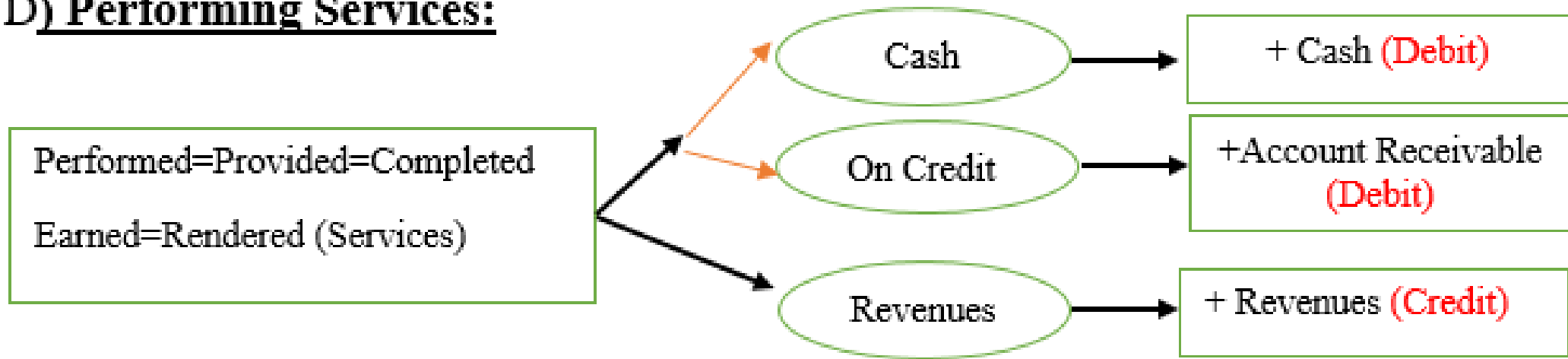
May 8: Paid half due to Asia Company.

**Required:**

Prepare journal entries for the previous transactions.



## D) Performing Services:



### Illustration 3-7:

On April.16 2016, Osama Company performed services to customer for BD12,250 cash. It recorded in the general journal:

### GENERAL JOURNAL

Date	Account Title and Explanation	PR	Debit	Credit
April,16	Cash		12,250	
	Services Revenues			12,250
	<b>Performing services to customer cash.</b>			



### **Illustration 3-8:**

On April.19 2016, Osama Company provided services to customer Basem for BD8,500 on account. It recorded in the general journal:

#### **GENERAL JOURNAL**

Date	Account Title and Explanation	PR	Debit	Credit
April,19	Account Receivable -Basem		8,500	
	Services Revenues			8,500
	<b>Performing services to customer on credit.</b>			



### **Illustration 3-9:**

On April.20 2016, Osama Company provided services to customer Amaar for BD6,800, received cash BD2,800 and balance on account. It recorded in the general journal:

#### **GENERAL JOURNAL**

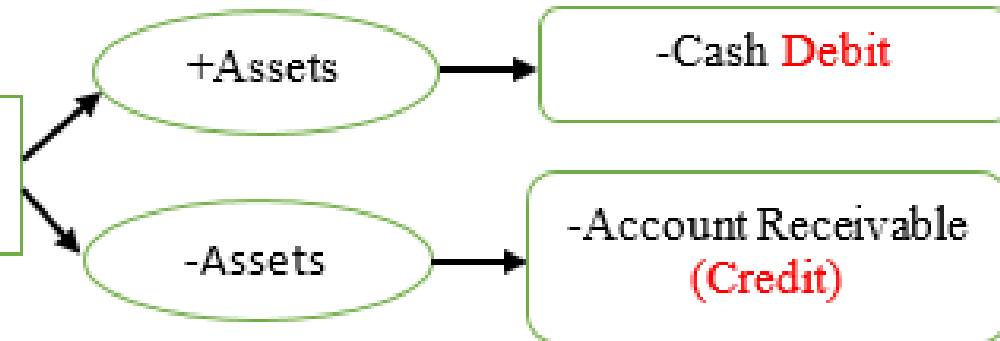
Date	Account Title and Explanation	PR	Debit	Credit
April,20	Cash		2,800	
	Account Receivable -Amaar		4,000	
	Services Revenues			6,800
	<b>Performing services to customer.</b>			

## E) Receiving from Debtors (Account Receivable):



Received Cash from Customer =  
Debtors=Account Receivable

### Illustration 3-10:

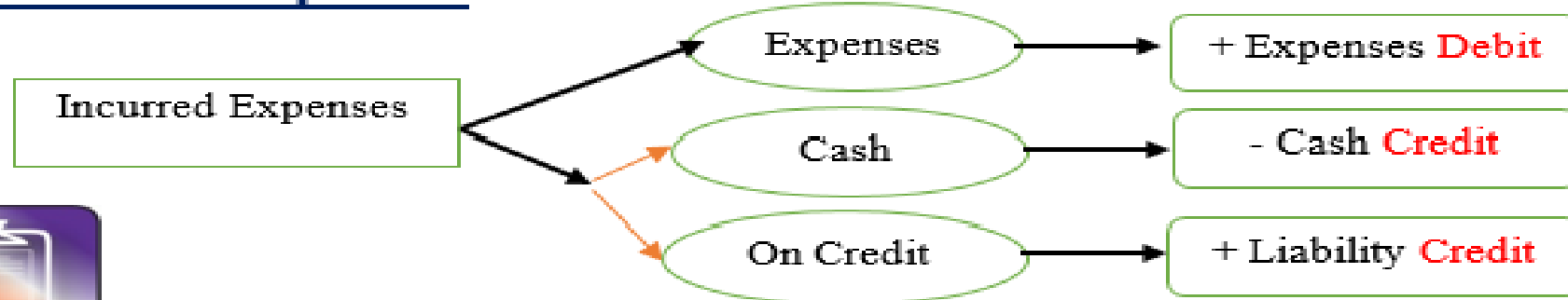


On April.23 2016, Osama Company received cash BD1,500 from customer Amaar. It recorded in the general journal:

### GENERAL JOURNAL

Date	Account Title and Explanation	PR	Debit	Credit
April,23	Cash		1,500	
	Account Receivable - Amaar			1,500
	Receiving cash from debtors.			

**E) Incurred Expenses:**



**Illustration 3-11:**

On April.24 2016, Osama Company paid cash BD1,200 for salaries expenses. It recorded in the general journal:

**GENERAL JOURNAL**

Date	Account Title and Explanation	PR	Debit	Credit
April,24	Salaries Expenses		1,200	
	Cash			1,200
	<b>Paid cash for salaries expenses.</b>			







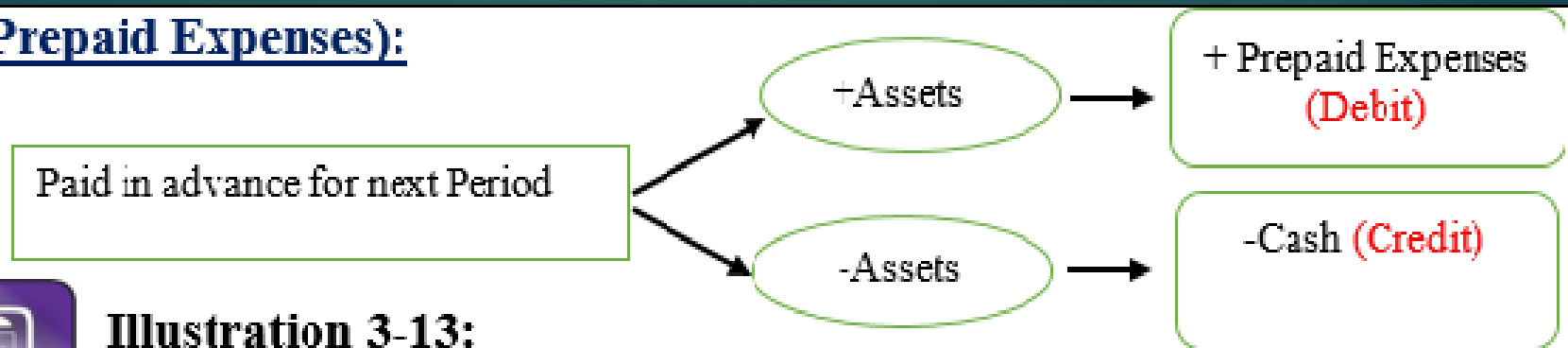
### Illustration 3-12:

On April.25 2016, Osama Company incurred advertising expenses BD730 on account. It recorded in the general journal:

#### GENERAL JOURNAL

Date	Account Title and Explanation	PR	Debit	Credit
April,25	Advertising Expenses		730	
	Account Payable			730
	Incurred advertising expenses on credit.			

**G) (Prepaid Expenses):**



**Illustration 3-13:**

On April.27 2016, Osama Company paid BD2,700 cash for a two years insurance policy on machines. It recorded in the general journal:

**GENERAL JOURNAL**

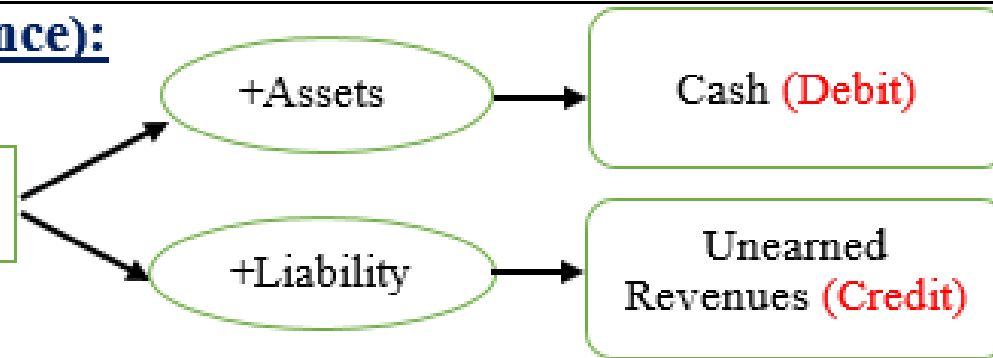
Date	Account Title and Explanation	PR	Debit	Credit
April,27	Prepaid Insurance		2,700	
	Cash			2,700
	<b>Paid cash in advance for insurance.</b>			

### H) (Receiving Revenues in Advance):



Receiving Revenues in Advance

#### Illustration 3-14:



On April.29 2016, Osama Company received BD5,200 cash advance for services for next three months. It recorded in the general journal:

### **GENERAL JOURNAL**

Date	Account Title and Explanation	PR	Debit	Credit
April,29	Cash		5,200	
	Unearned Services Revenues			5,200
	<b>Receive services revenues in advance.</b>			

## D) Drawings:

Withdrew for personal use

+Drawing

Drawings (Debit)

-Cash

Cash (Credit)



### Illustration 3-14:

On April.30 2016, Osama withdrew BD600 cash for personal use (private use).

It recorded in the general journal:

### GENERAL JOURNAL

Date	Account Title and Explanation	PR	Debit	Credit
April,30	Drawings		600	
	Cash			600
	Receive services revenues in advance.			

## Class Activity 2

The following transactions during July 2016 for Mona Company.

July 1 : Invested cash BD16,000 and supplies BD4,000 in the business.

July 3 : Purchased Supplies BD1,800 on credit.

July 5 : Performed services BD8,200 to customer Salman on account.

July 7 : Received 20% from customer Salman.

July 8 : Withdrew cash BD900 for personal use.

July 9 : Paid repair expenses BD400 for cash.

July 11: Paid rent BD1,500 for next 3 months.

July 15: Received BD3,600 in advance for services performing in Aug.

**Required:** Prepare journal entries for the previous transactions.



**Notes  
to You**

1. There are some of words that no effect in the basic accounting equation and no journal entry like **(Hired –Decided – Agreed – Ordered –Suggest)**.
2. There are some of words it has the same meaning like **(On account = On credit = Invoice = Bill )**  
It means (Paying or Receiving in future).
3. There are some of words it has the same meaning like **(Paid = Issued Check =Receipt)**  
It means (Paying or Receiving Cash).



### Activity 3

The following transactions during January 2015 for Abdulla Est.

- Jan 1: Invested cash BD24,000 in the business.
- Jan 3: Purchased trucks BD9,200 for cash.
- Jan 5: Bought supplies BD3,600 from Mega Est, paid cash BD1600 and balance on credit.
- Jan 6: Completed services to customer BD11,500 for cash.
- Jan 8: Provided services to customer Mona for BD6,100 on account.
- Jan 9: Paid 20% cash of balance due to creditor Mega Est.
- Jan10: Received full amount due to from customer Mona.
- Jan12: Paid for rent office BD900 cash.
- Jan15: Withdrew cash BD2,400 for personal use.
- Jan19: Hired a new employee by monthly salary BD820.
- Jan20: Supplies BD300 has been used during the previous period.

### Required:

Journalize the January transactions.



### Activity 4

Indicate whether a debit or credit will decrease the normal balance of the following accounts. (Using ✓ in the appropriate column.)

No.	Account title	Increase in	
		DR	CR
1	Supplies		
2	Lands		
3	Fees Earned		
4	Cash		
5	Building		
6	Services Revenues		
7	Prepaid Insurance		
8	Capital		
9	Motor Van		
10	Interest Payable		



### Activity 5

Identify whether a debit or credit yields the Indicated change for each of the following accounts.

No.	Accounts	Answer
1	To increase furniture	
2	To increase account payable	
3	To increase capital	
4	To increase Drawings	
5	To increase building	
6	To decrease machines	
7	To decrease loans	
8	To decrease cash	
9	To decrease notes receivable	
10	To Increase revenues	

### Activity 6:

Selected transactions for Essa Company in his first month of business are as follows.

- Jan. 1 Invested BD40,000 cash in the business.
- Jan. 3 Purchased furniture on credit for BD3,500.
- Jan. 5 Billed customers BD6,200 for services performed.
- Jan. 8 Paid cash BD1,500 to creditor purchased on Jan. 3.
- Jan. 10 Paid BD800 cash for repair expenses.
- Jan. 12 Received BD2,200 cash from customers billed on Jan. 5.
- Jan. 15 Withdrew BD1,600 cash for personal use by owner.

**Required:** For each transactions, indicate the following.

- (a) The basic type of account debited and credited (Assets, liability, Owner's Equity).
- (b) The specific account debited and credited (cash, Capital, Repair Expenses, Services Revenues, etc.).
- (c) Whether the specific account is increased or decreased.
- (d) The normal balance of the specific account.

Use the following format, in which the January 1 transaction is given as an example.

Date	Account Debited				Account Credited			
	Basic Type. (a)	Specific Account (b)	Effect (c)	Normal Balance (d)	Basic Type. (a)	Specific Account (b)	Effect (c)	Normal Balance (d)

### **Activity 7:**

Hamad was started his business on May 1 2016. The following selected events and transactions occurred during May.

May 1: Invested BD35,000 cash and BD5000 equipment in the business.

May 3: Bought building BD64,000 from Salman. Paid cash BD34,000 and balance on credit.

May 6: Ordered supplies BD2,000 from Ebrahim.

May 8: Completed services to customer BD4,800 for cash.

May 9: Incurred advertising expenses BD1,100 on account.

May 10: Paid the amount due to creditor Salman.

May 15: Paid salaries BD1,400 for cash.

May 18: Withdrew cash BD2,300 for private use.

### **Required:**

Journalize the May transactions.

### **Activity 8:**

The following transactions were completed during the month of April 2007 for ABC, Est.:

April 1: Amina invested cash BD31,000 in the business.

April 5: Bought Furniture BD1,050 for cash.

April 7: Performed service to Rana BD5,400 on account.

April 9: Paid BD940 for advertising expense.

April 11: Purchased supplies on account for BD650.

April 13: Received BD100 from Rana for the service performed  
On April 7.

April 16 Found that BD400 of supplies has been used.

**Required:** Prepare the Journal Entries.





**Thanks for the active  
participation in the workshop**

**▶ End of workshop**