Thammasat University
Faculty of Economics
Bachelor of Economics (International Program)

AC201
Fundamental Accounting

Semester 1/2012

Course Materials

Topic:

Chapter 3 Operating Decisions and the Statement of Comprehensive Income

Session:

Session #4

Instructor:

Assistant Professor Dr. Orapan Yolrabil

FINANCIAL STATEMENTS

- ✓ Statement of Financial Position
- ✓ Statement of Comprehensive Income
- ✓ Statement of Changes in Equity
- ✓ Statement of Cash Flows

ASSETS

- Cash
- Investments in debt and equity securities
- Accounts receivable
- Notes receivable
- Inventory
- Prepaid expenses
- Property, plant, and equipment
- Intangible assets
- Natural resources

LIABILITIES

- Accounts payable
- Accrued liabilities
- Unearned revenues
- Notes payable
- Bonds payable

EQUITY

- Capital share
  - Preferred share
  - ordinary share
- Retained earnings
  - Appropriated R/E
  - Unappropriated R/E
- Treasury share

Accounting Cycle

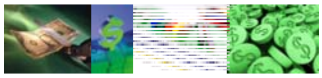
Financial Statement Items

Transaction Analysis and Recording – Operating Activities

We are here

FINANCIAL STATEMENT ANALYSIS

AC201 Fundamental Accounting



CHAPTER 3: OPERATING DECISIONS AND THE STATEMENT OF COMPREHENSIVE INCOME

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Business Activities

Operating activities: Activities that are part of the day-to-day business of a company.

Financing activities: Activities whereby cash is obtained from or repaid to owners and creditors.

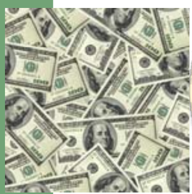
Investing activities: Activities associated with buying and selling long-term assets.

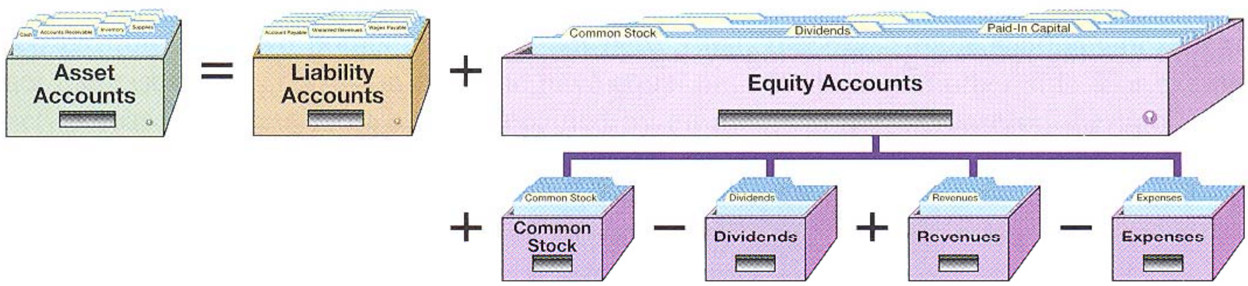
Business Activities

Operating Activities

Financing Activities

Investing Activities





shareholders' Equity (Cr. B/L)

- ✚Capital share (Cr. B/L)
- ✚Retained Earnings (Cr. B/L)
  - -Dividends (Dr. B/L)
  - ✚Net income
    - ✚Revenues and Gains (Cr. B/L)
    - -Expenses and Losses (Dr. B/L)

shareholders' Equity: The financing provided by the owners and the operations of the business.

Retained Earnings account balance represents the total net income of the corporation over the entire lifetime of the business, less all amounts which have been distributed to the shareholders as dividends.

Net income: The amount by which expenses exceed revenues

Dividends: Distributions of a corporation's earnings to shareholders

Changes in Equity

Shareholders' Equity

Share capital [SC+, E+]	Retained earnings [RE+, E+]		
+E	Net income [NI+, RE+, E+]		Dividends [DIV+, RE-,E-]
	Revenues [REV+, NI+, RE+, E+]	Expenses [EXP+, NI-, RE-, E-]	**-E**
	+E	**-E**	

Owner's Equity

Owner's Equity Accounts

Debit for decreases	*Credit for increases*
(-)	(+)

Capital Stock Account

Debit for decreases	*Credit for increases*
(-)	(+)

Retained Earnings Account

Debit for decreases	*Credit for increases*
(-)	(+)

Dividends Account

Debit for increases	*Credit for decreases*
(+)	(-)

Income Statement Accounts

Expense Accounts

Debit for increases	*Credit for decreases*
(+)	(-)

Revenue Accounts

Debit for decreases	*Credit for increases*
(-)	(+)

Illustration – Part 2

- ***Part 2: Transaction Analysis and Journal Entries – Operating Activities***
  - Information:
    - The company was established and supplies, property, and equipment were purchased.
    - Terrific Lawn is ready for business.
    - The Statement of Financial Position at April 30, 20X9, based on investing and financing activities is as follows:

AC201 Fundamental Accounting

Statement of Financial Position: A list of assets, liabilities, and owners' equity as of a specific date, usually at the close of the last day of a month or a year.

Terrific Lawn Corporation
Statement of Financial Position
At April 30, 20X9
In Baht

Assets		
Current Assets		
Cash	3,800	
Notes Receivable	1,250	
Total current assets		5,050
Noncurrent Assets		
Equipment	4,600	
Land	3,750	
Total noncurrent assets		8,350
Total assets		**13,400**
Liabilities		
Current Liabilities		
Notes Payable	4,400	
Total current liabilities		4,400
Noncurrent Liabilities		
-	0	
Total noncurrent liabilities		0
Total liabilities		**4,400**
Stockholders' Equity		
Contributed Capital	9,000	
Retained Earnings	0	
Total stockholders' equity		**9,000**
Total liabilities and stockholders' equity		**13,400**

Illustration – Information

- The additional following activities occurred during April 2009:
  - Purchased and used gasoline for mowers and edgers, paying 90 Baht in cash at a local gas station.
  - In early April, received from the city 1,600 Baht cash in advance for lawn maintenance service for April through July (400 Baht each month). The entire amount was recorded as Unearned Revenue (a liability account).
  - In early April, purchased 300 Baht for insurance covering six months, April through September. The entire payment was recorded as Prepaid Expense (an asset account).
  - Mowed lawns for residential customers who are billed every two weeks. A total of 5,200 Baht of service was billed in April.
  - Residential customers paid 3,500 Baht on their accounts.
  - Paid wages every two weeks. Total cash paid in April was 3,900 Baht.
  - Received a bill for 320 Baht from the local gas station for additional gasoline purchased on account and used in April.
  - Paid 700 Baht principal and 40 Baht interest on notes owed to XYZ Lawn Supply and the hardware store.
  - Paid 100 Baht on accounts payable
  - Collected 1,250 Baht principal and 12 Baht interest on the notes owed by the city to Terrific Lawn Maintenance Corporation.
- Required:
  - Analyze each transaction. Prepare journal entries in chronological order and indicate their effects on the accounting model.

Illustration – Transaction Recording

- **Transaction h.**
  - Purchased and used gasoline for mowers and edgers, paying 90 Baht in cash at a local gas station.

Item	General Journal	Debit	Credit
h.	Dr. Fuel Expense (Exp+, E-)	90	
	Cr. Cash (A-)		90
	To record gasoline purchased and used		

A		=	L	+	E	
Cash (A-)	-90				Retained Earnings (Fuel Expense) (EXP+, E-)	-90

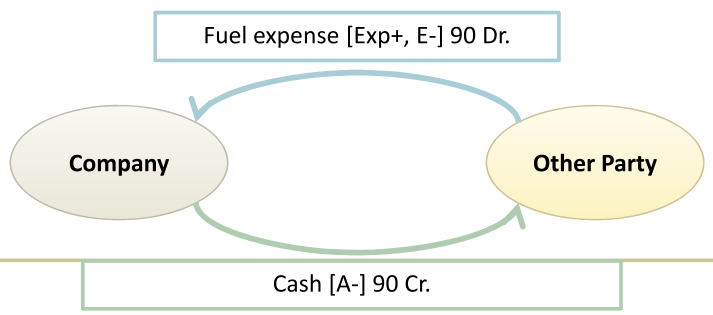
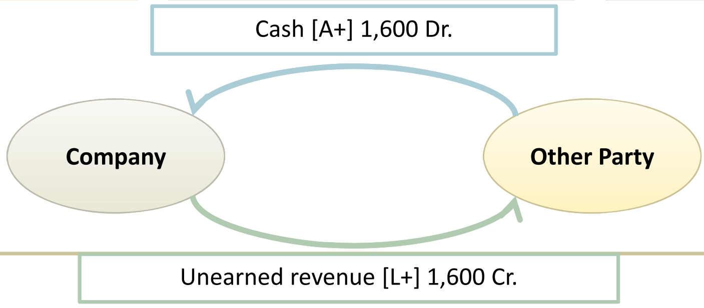


Illustration – Transaction Recording

- **Transaction i.**
  - In early April, received from the city 1,600 Baht cash in advance for lawn maintenance service for April through July (400 Baht each month). The entire amount was recorded as Unearned Revenue (a liability account).

Item	General Journal	Debit	Credit
i.	Dr. Cash (A+)	1,600	
	Cr. Unearned Revenue (L+)		1,600
	To record advance cash receipt for future service		

A		=	L		+	E
Cash (A+)	+1,600		Unearned Revenue (L+)	+1,600		



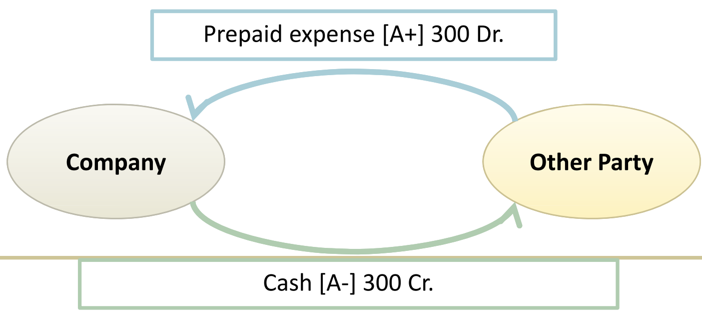
Unearned revenue: A liability representing a company's obligation to provide goods or services to customers in the future.

Illustration – Transaction Recording

- **Transaction j.**
  - In early April, purchased 300 Baht for insurance covering six months, April through September. The entire payment was recorded as Prepaid Expense (an asset account).

Item	General Journal	Debit	Credit
j.	Dr. Prepaid Expenses (A+)	300	
	Cr. Cash (A-)		300
	To record advanced cash payment for insurance coverage		

A		=	L	+	E
Prepaid Expenses (A+)	+300				
Cash (A-)	-300				



Prepaid expenses: A general account name used to describe payments made in advance of receiving future services; typically includes prepaid rent, prepaid insurance, and other specific types of prepayments.

Illustration – Transaction Recording

- **Transaction k.**
  - Mowed lawns for residential customers who are billed every two weeks. A total of 5,200 Baht of service was billed in April.

Item	General Journal	Debit	Credit
k.	Dr. Accounts Receivable (A+)	5,200	
	Cr. Mowing Revenue (Rev+, E+)		5,200
	To record mowing revenue earned		

A		=	L	+	E	
Cash (A+)	+5,200				Retained Earnings (Mowing Revenue) (REV+, E+)	+5,200

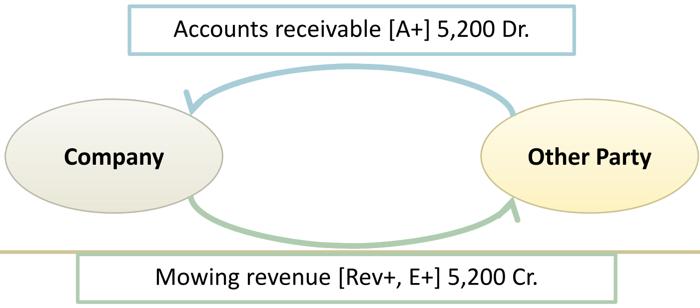
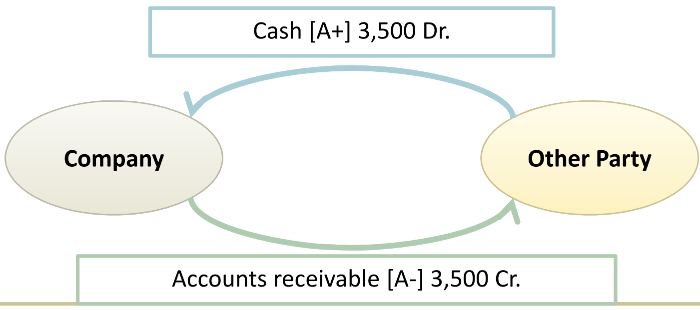


Illustration – Transaction Recording

- **Transaction l.**
  - Residential customers paid 3,500 Baht on their accounts.

Item	General Journal	Debit	Credit
l.	Dr. Cash (A+)	3,500	
	Cr. Accounts Receivable (A-)		3,500
	To record cash received from accounts receivable		

A		=	L	+	E
Cash (A+)	+3,500				
Accounts Receivable (A-)	-3,500				



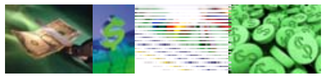
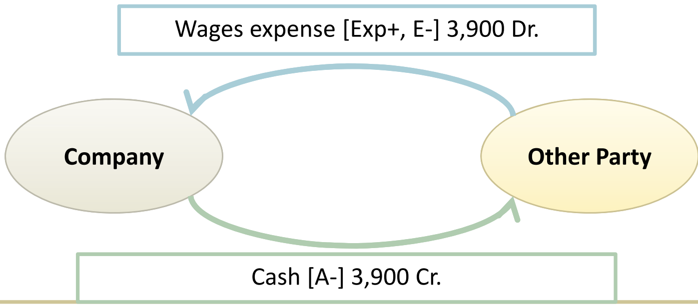


Illustration – Transaction Recording

- **Transaction m.**
  - Paid wages every two weeks. Total cash paid in April was 3,900 Baht.

Item	General Journal	Debit	Credit
m.	Dr. Wages Expense (Exp+, E-)	3,900	
	Cr. Cash (A-)		3,900
	To record wages paid		

A		=	L		+	E	
Cash (A-)	-3,900					Retained Earnings (Wages Expense) (EXP+, E-)	-3,900



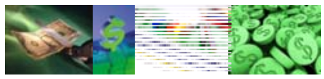


Illustration – Transaction Recording

- **Transaction n.**
  - Received a bill for 320 Baht from the local gas station for additional gasoline purchased on account and used in April.

Item	General Journal	Debit	Credit
n.	Dr. Fuel Expense (Exp+, E-)	320	
	Cr. Accounts Payable (L+)		320
	To record gasoline purchased on account		

A		=	L		+	E	
			Accounts Payable (L+)	+320		Retained Earnings (Fuel Expense) (EXP+, E-)	-320

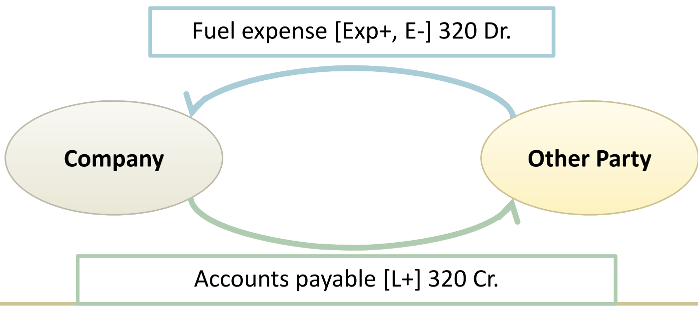


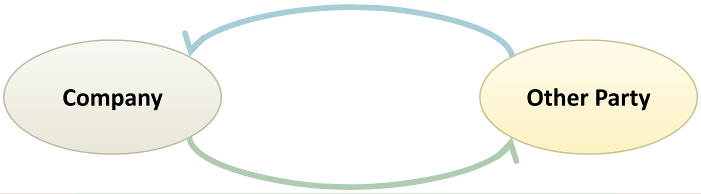
Illustration – Transaction Recording

- **Transaction o.**
  - Paid 700 Baht principal and 40 Baht interest on notes owed to XYZ Lawn Supply and the hardware store.

Item	General Journal	Debit	Credit
o.	Dr. Interest Expense (Exp+, E-)	40	
	Notes Payable (L-)	700	
	Cr. Cash (A-)		740
	To record payment of notes and interest		

A		=	L		+	E	
Cash (A-)	-740		Notes Payable (L-)	-700		Retained Earnings (Interest Expense) (EXP+, E-)	-40

Interest expense [Exp+, E-] 40 Dr.; Notes payable [L-] 700 Dr.



Cash [A-] 740 Cr.

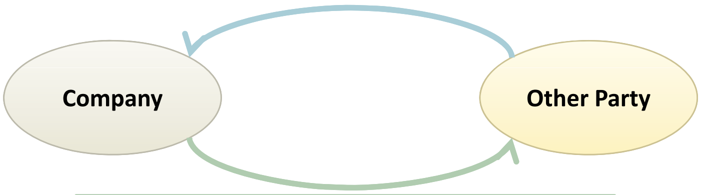
Illustration – Transaction Recording

- **Transaction p.**
  - Paid 100 Baht on accounts payable.

Item	General Journal	Debit	Credit
p.	Dr. Accounts Payable (L-)	100	
	Cr. Cash (A-)		100
	To record cash payment for accounts payable		

A		=	L		+	E
Cash (A-)	-100		Accounts Payable (L-)	-100		

Accounts payable [L-] 100 Dr.



Cash [A-] 100 Cr.

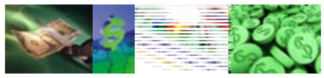


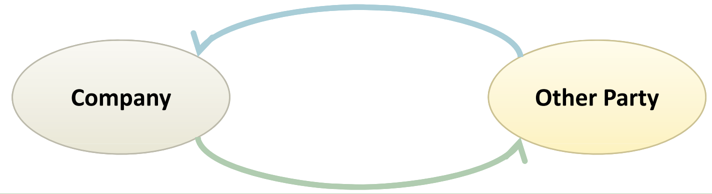
Illustration – Transaction Recording

- **Transaction q.**
  - Collected 1,250 Baht principal and 12 Baht interest on the notes owed by the city to Terrific Lawn Maintenance Corporation.

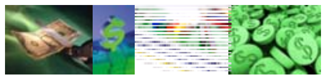
Item	General Journal	Debit	Credit
q.	Dr. Cash (A+)	1,262	
	Cr. Notes Receivable (A-)		1,250
	Interest Revenue (Rev+, E+)		12
	To record cash receipt for notes and interest		

A		=	L	+	E	
Cash (A+)	+1,262				Retained Earnings	+12
Notes Receivable (A-)	-1,250				(Interest Revenue) (REV+, E-)	

Cash [A+] 1,262 Dr.



Notes receivable [A-] 1,250 Cr.; Interest revenue [Rev+, E+] 12 Cr.



Account Balances

Cash (A)

4/1/X9 bal.	0		
a.	9,000	b.	200
i	1,600	d.	5,000
l.	3,500	h.	90
q.	1,262	j.	300
		m.	3,900
		o.	740
		p.	100
4/30/X9 bal.	5,032		

Accounts Payable (L)

		4/1/X9 bal.	0
p.	100	n.	320
		4/30/X9 bal.	220

Contributed Capital (E)

		4/1/X9 bal.	0
		a.	9,000
		4/30/X9 bal.	9,000

Accounts Receivable (A)

4/1/X9 bal.	0		
k.	5,200	l.	3,500
4/30/X9 bal.	1,700		

Unearned Revenue (L)

		4/1/X9 bal.	0
		i.	1,600
		4/30/X9 bal.	1,600

Retained Earnings (E)

		4/1/X9 bal.	0
		4/30/X9 bal.	0

Notes Receivable (A)

4/1/X9 bal.	0		
f.	1,250	q.	1,250
4/30/X9 bal.	0		

Notes Payable (L)

		4/1/X9 bal.	0
o.	700	b.	400
		e.	4,000
		4/30/X9 bal.	3,700

Mowing Revenue (Rev)

		4/1/X9 bal.	0
		k.	5,200
		4/30/X9 bal.	5,200

Prepaid Expense (A)

4/1/X9 bal.	0		
j.	300		
4/30/X9 bal.	300		

Interest Revenue (Rev)

		4/1/X9 bal.	0
		q.	12
		4/30/X9 bal.	12

Account Balances (Cont.)

Equipment (A)			
4/1/X9 bal.	0		
b.	600		
e.	4,000		
4/30/X9 bal.	4,600		

Land (A)			
4/1/X9 bal.	0		
d.	5,000	f.	1,250
4/30/X9 bal.	3,750		

Wages Expense (Exp)			
1/1/X9 bal.	0		
m.	3,900		
4/30/X9 bal.	3,900		

Fuel Expense (Exp)			
1/1/X9 bal.	0		
h.	90		
n.	320		
4/30/X9 bal.	410		

Interest Expense (Exp)			
1/1/X9 bal.	0		
o.	40		
4/30/X9 bal.	40		

A	=	L	+	E
15,382		5,520		9,862

AC201 Fundamental Accounting

Trial Balance

- **Trial Balance:**
  - A list of all accounts with their balances to provide a check on the equality of the debits and credits.
    - Errors may occur in posting debits and credits from the journal to the ledger. One way to detect such errors is by preparing a trial balance. Double-entry accounting requires that debits must always equal credits. The trial balance verifies this equality.
      - Unadjusted trial balance
      - Adjusted trial balance
      - Post-closing trial balance

Debit Balances = Credit Balances + Credit Balances

Trial Balance (Cont.)

- **The steps in preparing a trial balance are as follows:**

Step	
Step 1	List the name of the company, the title of the trial balance, and the date of the trial balance is prepared.
Step 2	List the accounts from the ledger and enter their debit or credit balance in the debit or credit column of the trial balance.
Step 3	Total the debit and credit columns of the trial balance.
Step 4	Verify that the total of the debit column equals the total of the credit column.

Unadjusted Trial Balance

Unadjusted Trial Balance: A summary listing of the titles and balances of accounts in the ledger prior to the posting of adjusting entries.

Terrific Lawn Maintenance Corporation
Unadjusted Trial Balance
At April 30, 20X9
In Baht

	Debit	Credit
Cash	5,032	
Accounts Receivable	1,700	
Prepaid Expense	300	
Land	3,750	
Equipment	4,600	
Accounts Payable		220
Notes Payable		3,700
Unearned Revenue		1,600
Contributed Capital		9,000
Retained Earnings		0
Mowing Revenue		5,200
Interest Revenue		12
Wages Expense	3,900	
Fuel Expense	410	
Interest Expense	40	
	19,732	**19,732**