

BACHELOR of ECONOMICS



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

AC201 Fundamental Accounting

Semester 1/2012

Course Materials

Topic:

Chapter 2 Investing and Financing
Decisions and the Statement of
Financial Position

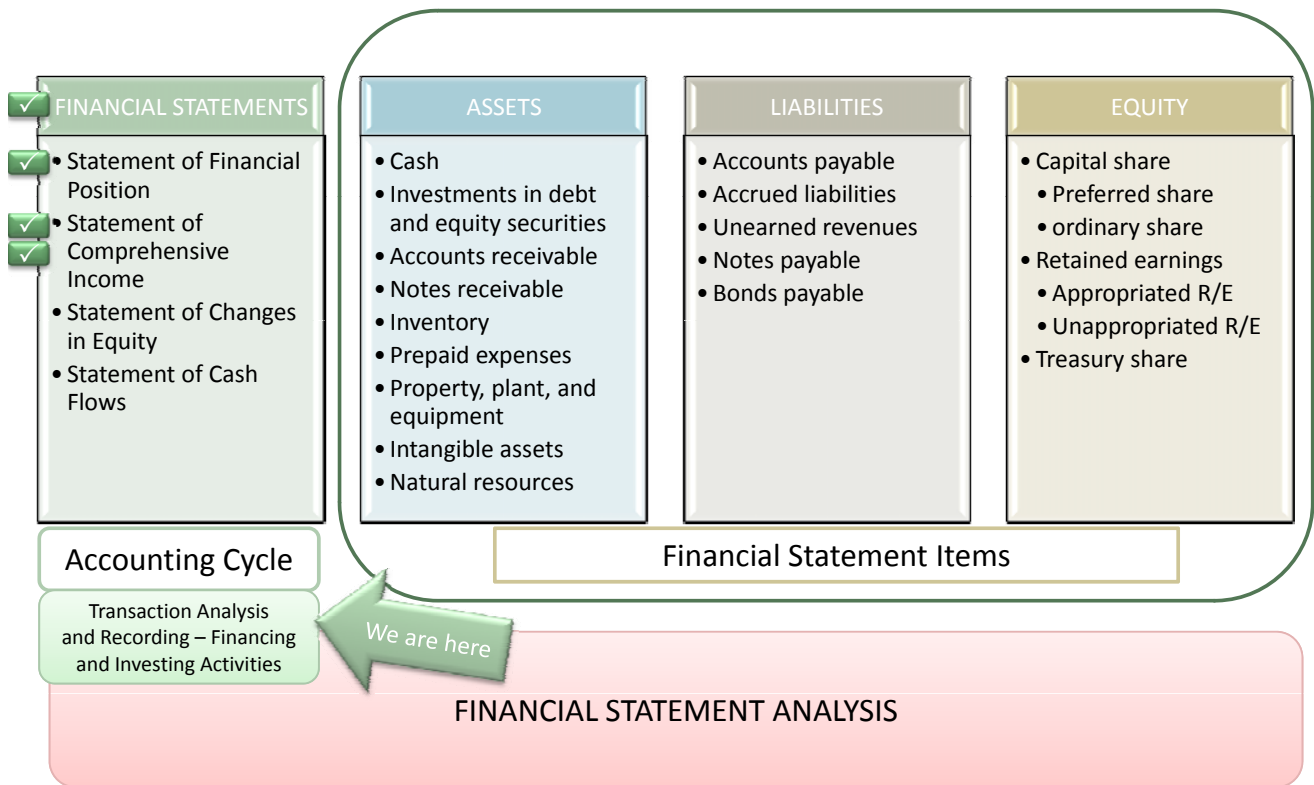
Session:

Session #3

Instructor:

Assistant Professor Dr. Orapan Yolrabil





AC201 Fundamental Accounting



**BACHELOR
of ECONOMICS**



**CHAPTER 2:
INVESTING AND
FINANCING DECISIONS AND
THE STATEMENT OF FINANCIAL POSITION**

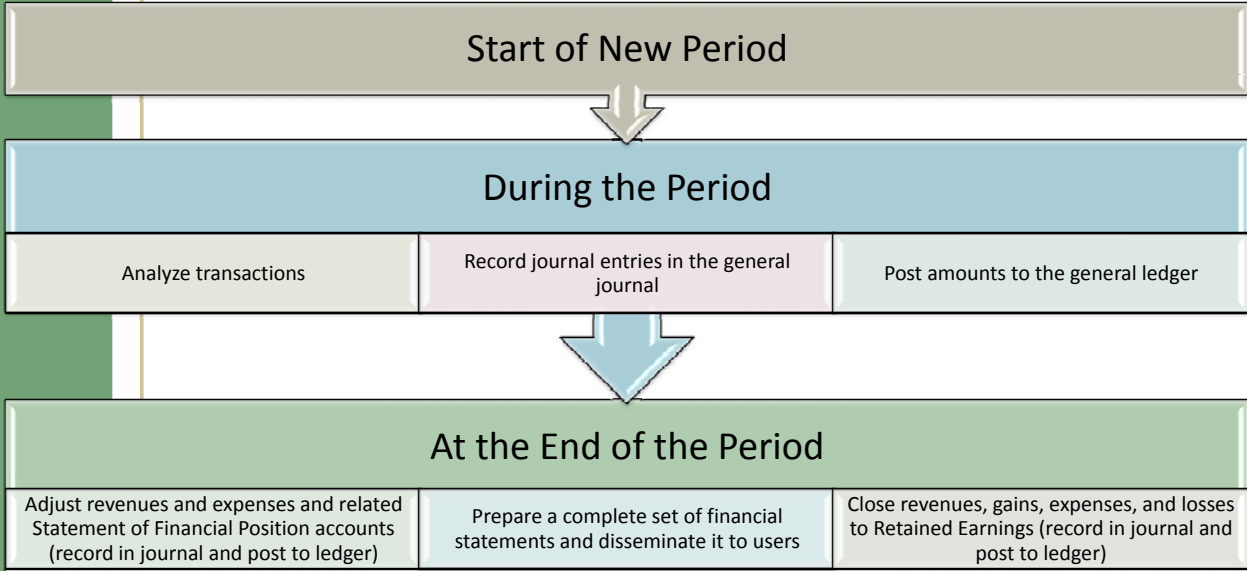
**Assistant Professor Dr. Orapan Yolrabil
Department of Accounting
Thammasat Business School
Thammasat University**



The Accounting Cycle

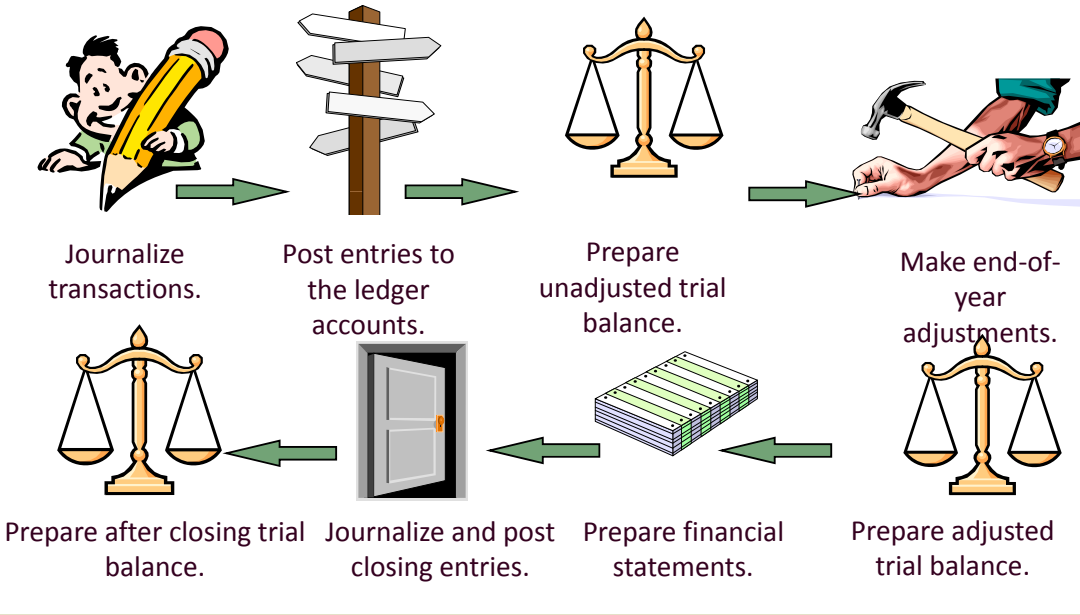
• **Accounting Cycle:**

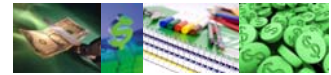
- The process used by entities to analyze and record transactions, adjust the records at the end of the period, prepare financial statements, and prepare the records for next accounting cycle.



The Accounting Cycle (Cont.)

• **Steps in the accounting cycle is depicted below:**



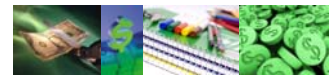


Accounting Procedures

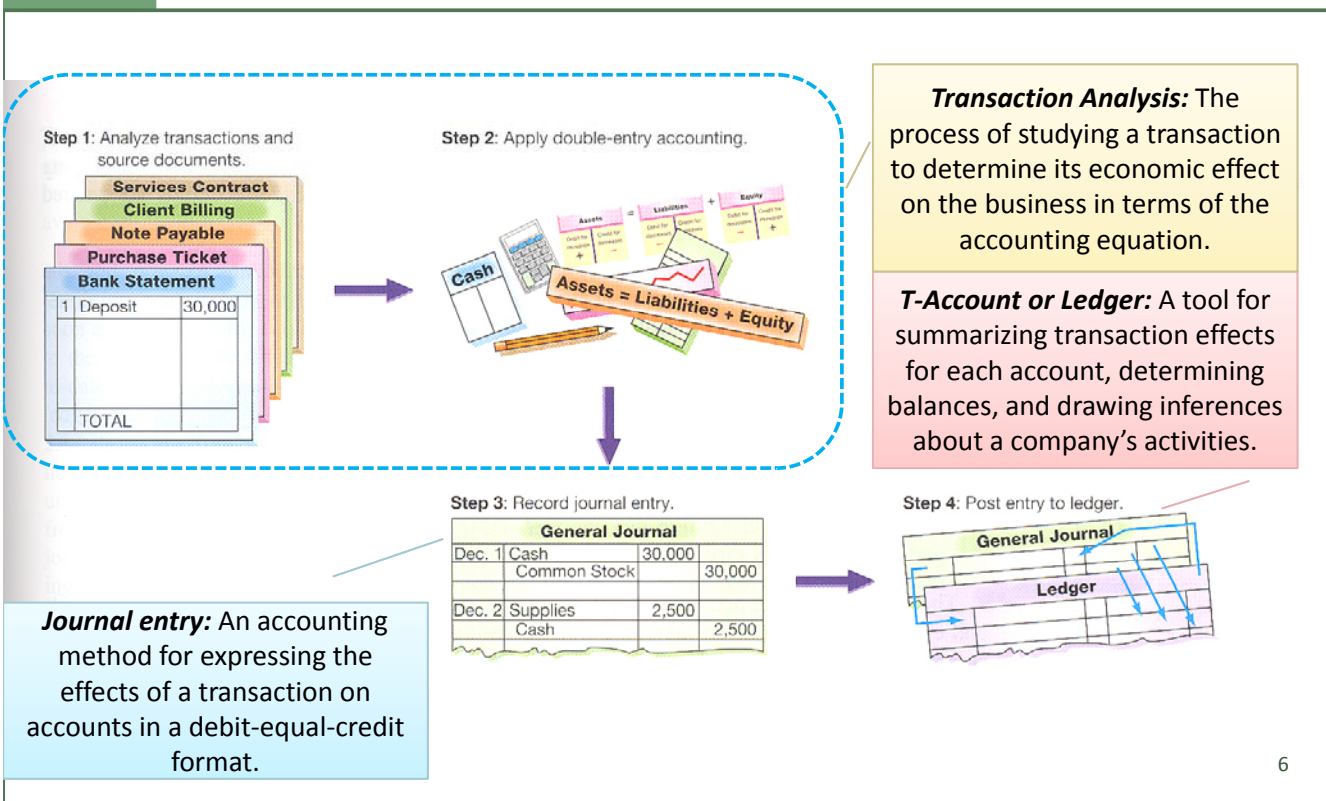
Summary of Steps in Accounting Cycle

1. Analyze transaction	Analyze transactions in preparation for journalizing.
2. Journalize	Record debits and credits in a journal.
3. Posting	Transfer debits and credits from journal entries to the ledger accounts.
4. Unadjusted trial balance	Summarize unadjusted ledger accounts and amounts.
5. Adjusting	Record adjustments to bring account balances up to date; journalize and post adjusting entries to the accounts.
6. Adjusted trial balance	Summarize adjusted ledger accounts and amounts.
7. Statement preparation	Use adjusted trial balance to prepare: income statement, statement of changes in owner's equity, balance sheet, and statement of cash flows.
8. Closing	Journalize and post entries to close temporary (revenue, expense and withdrawals) accounts and update the owner's capital account.
9. Post-closing trial balance	Tests clerical accuracy of adjusting and closing steps.

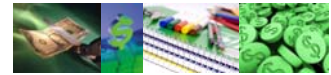
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Steps in Processing Transactions

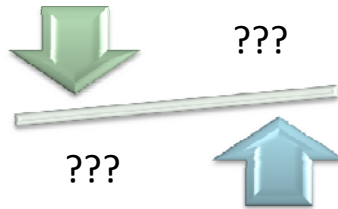


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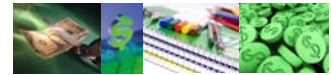
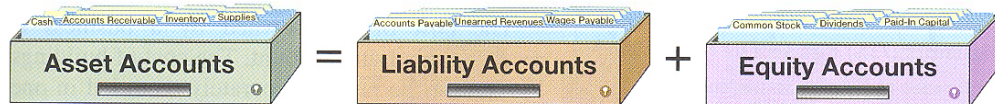


Transaction Analysis

- **Every transaction affects at least two accounts → duality of effects.**
 - Most transactions with external parties involve *an exchange* where the business entity both gives up something and receives something in return.



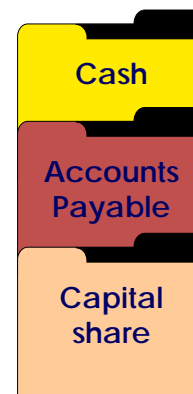
- **The accounting equation must remain in balance after each transaction.**

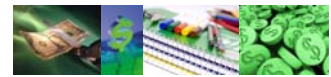


Accounts, Ledger, and Chart of Accounts

- **Accounts:**
 - An accounting record in which the results of transactions are accumulated; shows increases, decreases, and a balance.
- **Ledger:**
 - A book of accounts in which data from transactions recorded in journals are posted and thereby summarized.
- **Chart of Accounts:**
 - A list of the accounts in the ledger.

Debit = Left and Credit = Right



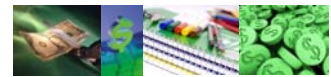


Elements of Financial Statements

Statement of Financial Position accounts

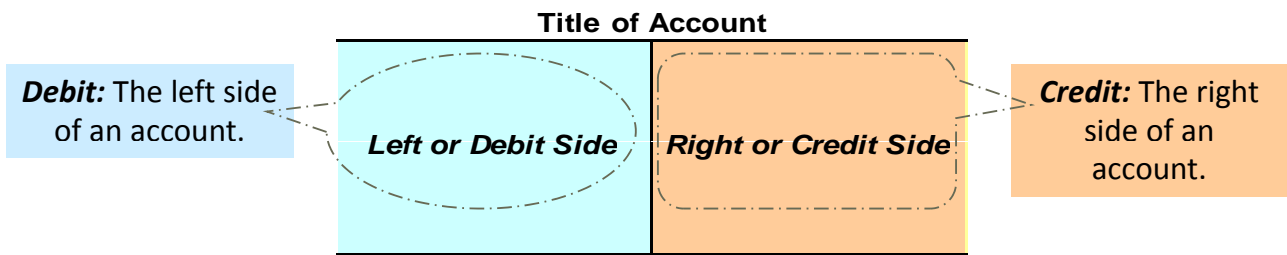
- **Assets:**
 - Probable future economic benefits owned by the entity from past transactions.
- **Liabilities:**
 - Debts or obligations from past transactions to be paid with assets or services.
- **Owners' Equity:**
 - Financing provided by owners and operations.
- **Revenues:**
 - Inflows of net assets from ongoing operations.
- **Expenses:**
 - Outflows of net assets from ongoing operations.
- **Gains:**
 - Inflows of net assets from peripheral transactions.
- **Losses:**
 - Outflows of net assets from peripheral transactions.

Statement of Comprehensive income accounts



The Use of Accounts

Increases are recorded on one side of the T-account, and **decreases** are recorded on the other side.

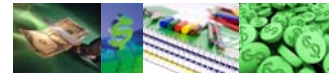


Cash (A)

<i>Beg. B/L</i>	20,000		
<i>Jan. 12</i>	35,000	<i>Jan. 18</i>	18,000
<i>Jan. 25</i>	62,000	<i>Jan. 31</i>	22,000
<i>End. B/L</i>	77,000		

T-account: A simplified depiction of an account in the form of letter T

Account Balance
= Difference between **Sum of Debits** and **Sum of Credits**



Journal Entry

Provide a reference date for each transaction.

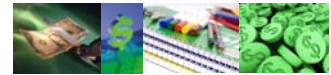
Debits are written first.

Journal Entry: A recording of a transaction where debits equal credits; usually includes a date and an explanation of the transaction.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit
Jan.	1	Dr. Cash	800,000	
	20X1	Cr. Share Capital		800,000
		<i>Owners invest cash in the business.</i>		

Credits are indented and written after debits.

Total debits must equal total credits.



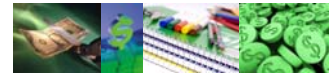
Posting Journal Entries to the Ledger Accounts

- **Posting** involves copying information from the journal to the ledger accounts.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit
Jan.	1	Dr. Cash	800,000	
	20X1	Cr. Share Capital		800,000
		<i>Owners invest cash in the business.</i>		

General Ledger	
Cash [A]	
Beg. B/L	0
1-Jan	800,000
End. B/L	800,000

General Ledger	
Share Capital [E]	
Beg. B/L	0
1-Jan	800,000
End. B/L	800,000



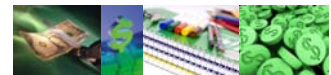
Debit & Credit Framework

Statement of Financial Position Accounts

Assets		Liabilities	
Asset Accounts		Liability Accounts	
<i>Debit for increases</i>	<i>Credit for decreases</i>	<i>Debit for decreases</i>	<i>Credit for increases</i>
(+)	(-)	(-)	(+)

Owner's Equity	
Owner's Equity Accounts	
<i>Debit for decreases</i>	<i>Credit for increases</i>
(-)	(+)

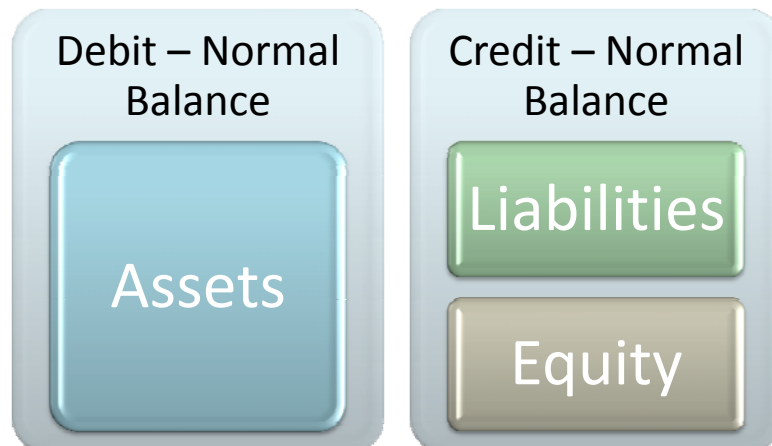
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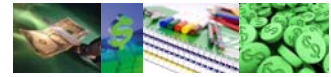
Normal Balances of Statement of Financial Position Accounts

Normal Balance:

- The sum of the increases recorded in an account is usually equal to or greater than the sum of the decreases recorded in the account.
- For this reason, the normal balances of all accounts are positive rather than negative.

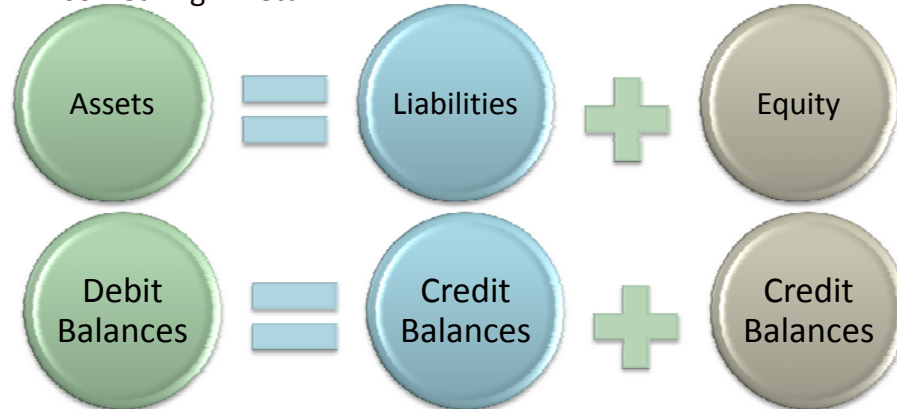


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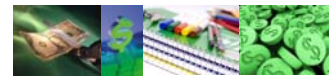


Double-entry Accounting

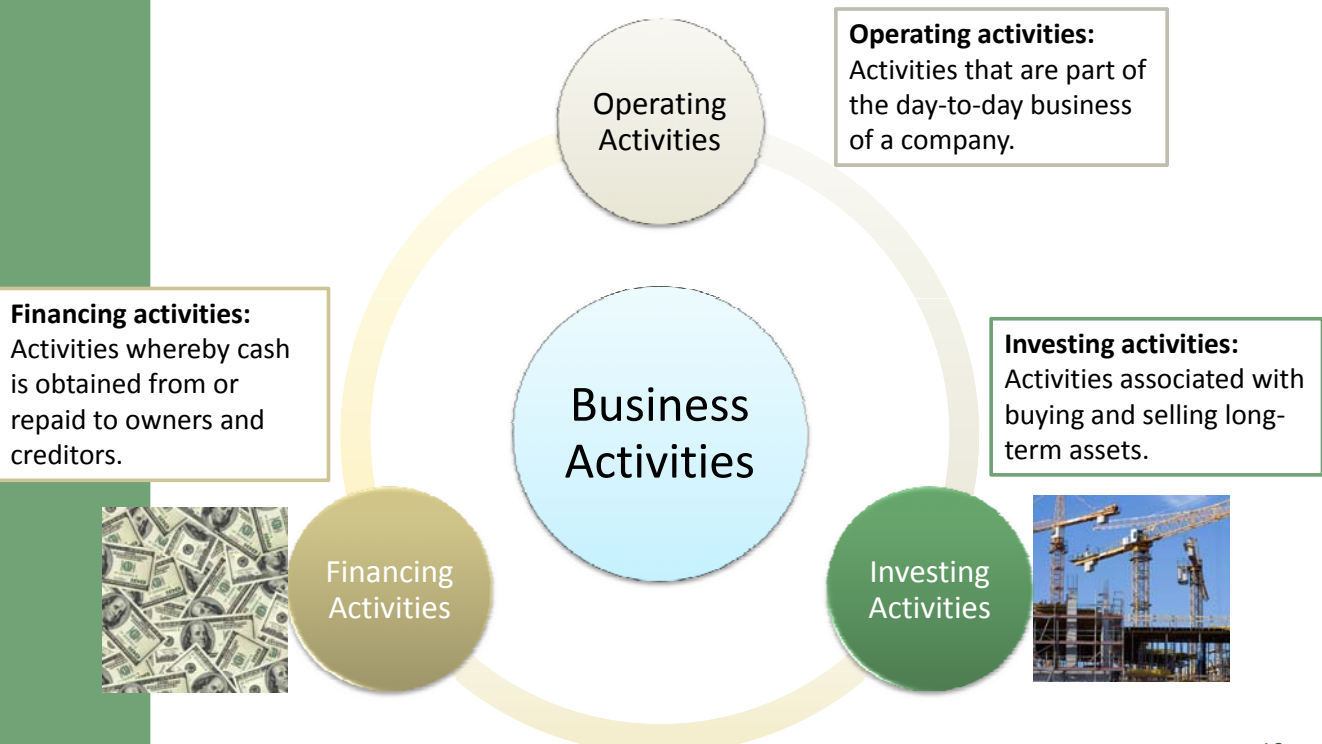
- **A system for recording transactions, based on recording increases and decreases in accounts so that debits always equal credits.**
 - Dual effects: The idea that every transaction has at least two effects on the basic accounting equation is known as the dual effects concept.
 - Most transactions with external parties involve an exchange by which the business entity both receives something and gives up something in return.



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Business Activities



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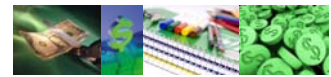


Illustration – Part 1

Part 1: Transaction Analysis and Journal Entries – Financing and Investing Activities

Information:

- On April 1, 20X9, three ambitious college students started Terrific Lawn Maintenance Corporation. A summary of transactions completed through April 30, 20X9, for Terrific Lawn Maintenance Corporation follows:
- Issued 500 shares of share (1,500 shares in total) to each of the three investors in exchange for 9,000 Baht cash.
- Acquired rakes and other hand tools (equipment) with a list price of 690 Baht for 600 Baht; paid the hardware store 200 Baht cash and signed a three-month note for the balance.
- Ordered three lawn mowers and two edgers from XYZ Lawn Supply, Inc. for 4,000 Baht.
- Purchased 4 rais of land for the future site of a storage garage; paid cash, 5,000 Baht.
- Received the mowers and edgers that had been ordered, signing a note to pay XYZ Lawn Supply in full in 30 days.
- Sold for 1,250 Baht one rai of land to the city for a park. Accepted a note from the city for payment by the end of the month.
- One of the owners borrowed 3,000 Baht from a local bank for personal use.

Required:

- Analyze each transaction. Prepare journal entries in chronological order. Enter the effects of the transactions in the appropriate T-accounts; identify each amount with its letter in the preceding list.

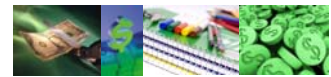


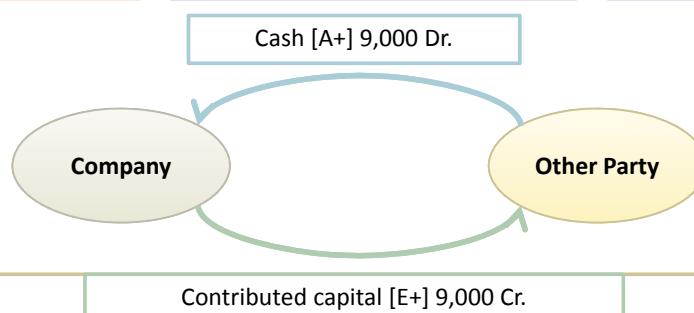
Illustration – Transaction Recording

Transaction a:

- Issued 500 shares of share (1,500 shares in total) to each of the three investors in exchange for 9,000 Baht cash.

Item	General Journal	Debit	Credit
a.	Dr. Cash (A+)	9,000	
	Cr. Contributed Capital (E+)		9,000
	<i>To record stock issuance</i>		

Cash (A+)	A	=	L	+	E
+9,000			Contributed Capital (E+)		+9,000



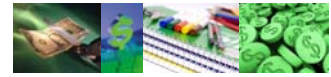


Illustration - Transaction Recording

Transaction b:

- Acquired rakes and other hand tools (equipment) with a list price of 690 Baht for 600 Baht; paid the hardware store 200 Baht cash and signed a three-month note for the balance.

Item	General Journal	Debit	Credit
b.	Dr. Equipment (A+)	600	
	Cr. Cash (A-)		200
	Notes Payable (L+)		400
<i>To record equipment purchased with partial payment</i>			

A		=	L		+	E	
Equipment (A+)	+600		Notes Payable (L+)	+400			
Cash (A-)	-200						

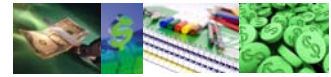
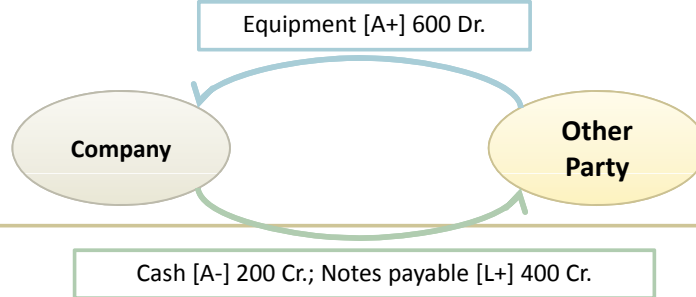


Illustration - Transaction Recording

Transaction c:

- Ordered three lawn mowers and two edgers from XYZ Lawn Supply, Inc. for 4,000 Baht.

Item	General Journal	Debit	Credit
c.	No entry		



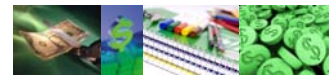


Illustration - Transaction Recording

Transaction d:

- Purchased 4 rais of land for the future site for a storage garage; paid cash, 5,000 Baht.

Item	General Journal	Debit	Credit
d.	Dr. Land (A+)	5,000	
	Cr. Cash (A-)		5,000
	<i>To record land purchased with cash</i>		

A		=	L		+	E	
Land (A+)	+5,000						
Cash (A-)	-5,000						

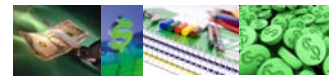
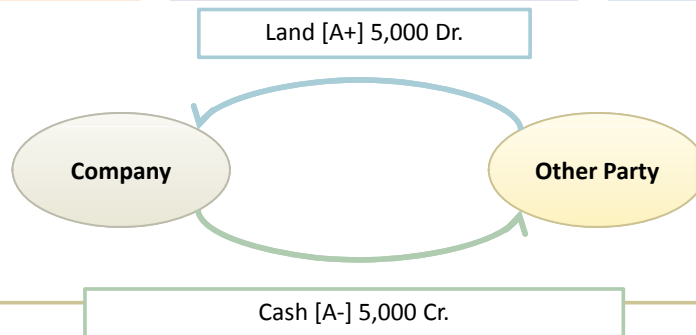


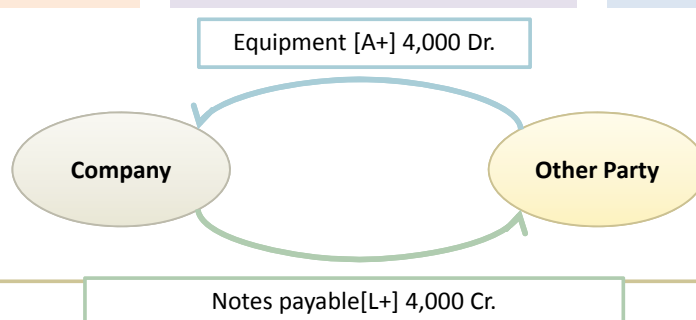
Illustration - Transaction Recording

Transaction e.

- Received the mowers and edgers that had been ordered, signing a note to pay XYZ Lawn Supply in full in 30 days.

Item	General Journal	Debit	Credit
e.	Dr. Equipment (A+)	4,000	
	Cr. Notes Payable (L+)		4,000
	<i>To record equipment purchased by signing a note</i>		

A		=	L		+	E	
Equipment (A+)	+4,000		Notes Payable (L+)	+4,000			



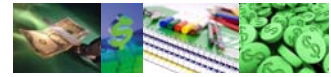


Illustration - Transaction Recording

Transaction f.

- Sold for 1,250 Baht one rai of land to the city for a park. Accepted a note from the city for payment by the end of the month.

Item	General Journal	Debit	Credit
f.	Dr. Notes receivable (A+)	1,250	
	Cr. Land (A-)		1,250
	<i>To record sale of land by accepting a note</i>		

A	=	L	+	E
Notes Receivable (A+) +1,250				
Land (A+) -1,250				

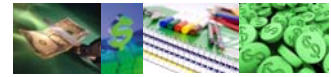
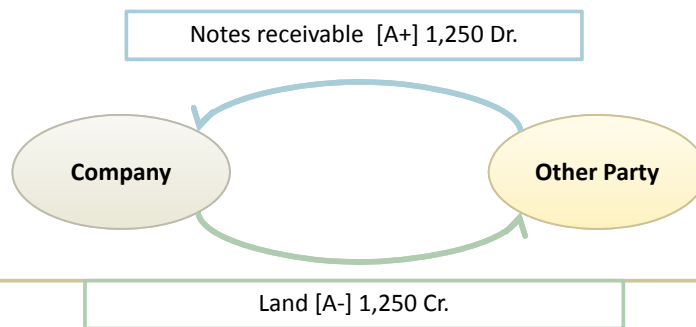
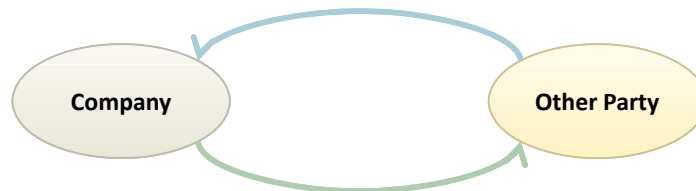


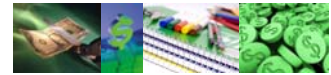
Illustration - Transaction Recording

Transaction g.

- One of the owners borrowed 3,000 Baht from a local bank for personal

Item	General Journal	Debit	Credit
g.	No entry		





Account Balances

Cash (A)	
4/1/X9 bal.	0
a.	9,000
b.	200
d.	5,000
4/30/X9 bal.	3,800

Notes Payable (L)	
4/1/X9 bal.	0
b.	400
e.	4,000
4/30/X9 bal.	4,400

Contributed Capital (E)	
4/1/X9 bal.	0
a.	9,000
4/30/X9 bal.	9,000

Notes Receivable (A)	
4/1/X9 bal.	0
f.	1,250
4/30/X9 bal.	1,250

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

A	=	L	+	E
13,400		4,400		9,000