

BACHELOR of ECONOMICS



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

AC201 Fundamental Accounting

Semester 1/2017

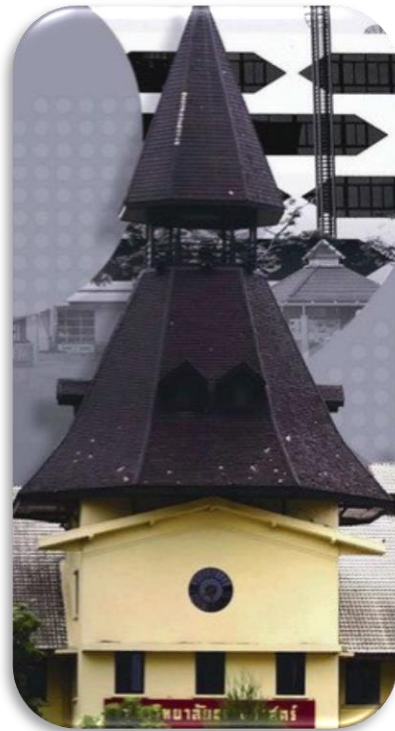
Course Package 03

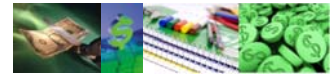
Topic:

Accounting Cycle

Instructor:

Assistant Professor
Dr. Orapan Yolrabil





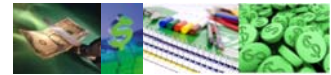
BACHELOR of ECONOMICS



AC201-BE-1-2017: ACCOUNTING CYCLE

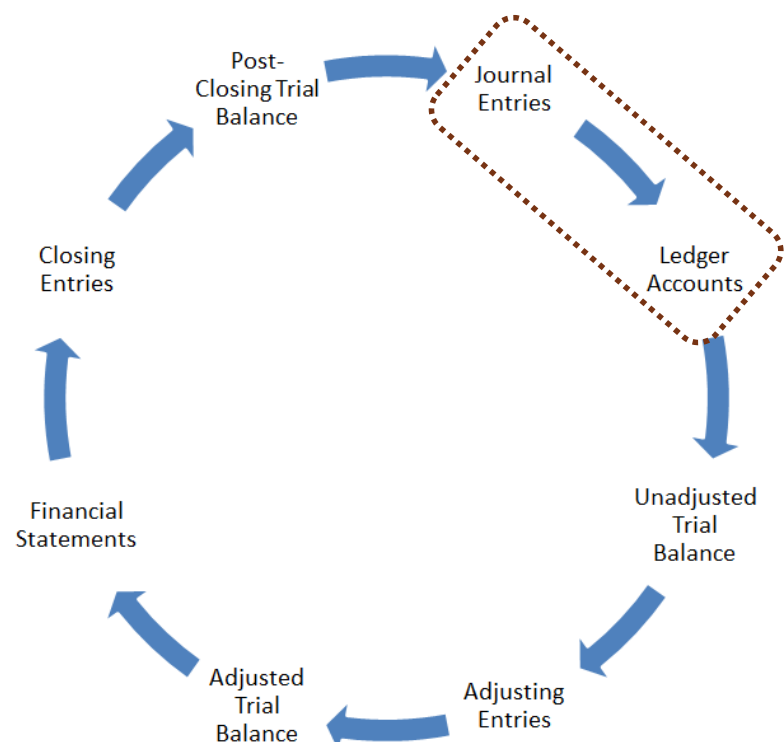
Assistant Professor Dr. Orapan Yolrabil
Department of Accounting
Thammasat Business School
Thammasat University

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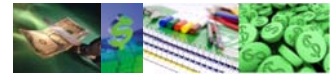


Accounting Cycle

Accounting cycle is a step-by-step process of recording, classification and summarization of economic transactions of a business. It generates useful financial information in the form of financial statements.



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Debit and Credit

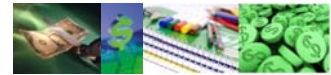
Accounting Equation and Debit and Credit Framework

A		=	L		+	E	
Assets			Liabilities			Equity	
Debit	Credit		Debit	Credit		Debit	Credit
+	-		-	+		-	+
Normal Balance				Normal Balance		Normal Balance	Normal Balance

Double-entry accounting system:

DEBIT = CREDIT

EXPENSE		REVENUE	
Debit	Credit	Debit	Credit
DIVIDEND			
Debit	Credit		



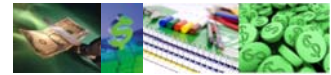
Types of accounts:

- [1XX] Asset
- [2XX] Liability
- [3XX] Equity
- [4XX] Revenue
- [5XX] Expense

E	
Equity	
Debit	Credit
-	+
Normal Balance	

EXPENSE		REVENUE	
EXP+, PL-, RE-, E-		REV+, PL+, RE+, E+	
Debit	Credit	Debit	Credit
+	-	-	+
Normal Balance			Normal Balance

DIVIDEND	
DIV+, __, RE-, E-	
Debit	Credit
+	-
Normal Balance	



General Journal

General Journal				
Date	Account Titles	Post Reference	Debit	Credit
Jan. 1, 20X1	Dr. Cash (A+)	101	15,000,000	
	Cr. Share capital (E+)	301		15,000,000
The company issued share capital to owners for cash.				

Date

Account Titles

Account No.

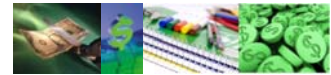
Entry must be balanced (Dr. = Cr.)

Debit must be recorded first.

Credit must be recorded after debit and must be right-indented.

The journal is where double entry bookkeeping entries are recorded by debiting one or more accounts and crediting another one or more accounts with the same total amount.

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Posting Process

After **journal** entries are made, the next step in the accounting cycle is to **post** the **journal** entries into the **ledger**.

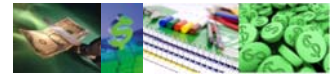
Posting refers to the process of transferring entries in the **journal** into the accounts in the **ledger**.

General Journal				
Date	Account Titles	Post Reference	Debit	Credit
Jan. 1, 20X1	Dr. Cash (A+)	101	15,000,000	
	Cr. Share capital (E+)	301		15,000,000
The company issued share capital to owners for cash.				

Asset Accounts				
Account No.	101	CASH		
		Beg. B/L	-	
		Jan. 1, 20X1	15,000,000	
		End. B/L		

Equity Accounts				
Account No.	301	SHARE CAPITAL		
		Beg. B/L	-	
		Jan. 1, 20X1	15,000,000	
		End. B/L		

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General Ledger

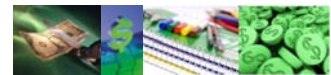
Asset Accounts

Account No.	101	CASH	
		Beg. B/L	-
		Jan. 1, 20X1	15,000,000
		End. B/L	

Equity Accounts

Account No.	301	SHARE CAPITAL	
		Beg. B/L	-
		Jan. 1, 20X1	15,000,000
		End. B/L	

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Account Balance Calculation

Asset Accounts

Account No.	101	CASH			
		Beg. B/L	-		
		Jan. 1, 20X1	15,000,000	Jan. 1, 20X1	500,000
		Jan. 1, 20X1	5,000,000	Jan. 1, 20X2	750,000
				Jan. 1, 20X3	2,000,000
				Jan. 1, 20X4	4,250,000
		End. B/L	12,500,000		

The ledger holds account information that is needed to prepare financial statements and includes accounts for assets, liabilities, equity, revenues, and expenses.

Account balance will be on the side that has a greater sum.
The account balance is the difference between the sum of debit and the sum or credit.

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Accounting Cycle		
Transactions Recording using Debit and Credit Framework		
Transaction	Date	Details
a.	Jan. 1, 20X1	Issued share capital for cash ₱1,500,000.
b.	Feb. 1, 20X1	Borrowed 5-year bank loan for ₱1,000,000. The interest rate is 6% a year and payable every Jan. 31.
c.	Apr. 1, 20X1	Acquired machine (Property, plant, and equipment) of ₱850,000 cash. The useful life is 5 years and the residual value is estimated to be ₱50,000.
d.	Apr. 1, 20X1	Acquired inventory of ₱250,000 on account.
e.	May 8, 20X1	Sold inventory for ₱850,000 on account.
f.	May 8, 20X1	Cost of goods sold associated with the sale in e. amounted to ₱175,000.
g.	Jun. 1, 20X1	Paid partially for accounts payable for ₱100,000.
h.	Jun. 2, 20X1	Collected partial accounts receivable for ₱250,000.
i.	Jul. 1, 20X1	Paid for one-year insurance coverage for ₱24,000.
j.	Aug. 30, 20X1	Paid for wages to employees for ₱50,000.
k.	Oct. 1, 20X1	Collected cash for ₱60,000 in advance for the services to be provided to customer for 6 months.
l.	Nov. 18, 20X1	Purchased office supplies for ₱30,000 cash.
m.	Dec. 31, 20X1	Declared and paid dividend in the amount of ₱20,000.
Adjustments at Period-end		
Transaction	Date	Details
n.	Dec. 31, 20X1	Recorded accrued interest on the 5-year bank loan (b).
o.	Dec. 31, 20X1	Recorded depreciation on the property, plant, and equipment (c).
p.	Dec. 31, 20X1	Recorded insurance expense incurred (i).
q.	Dec. 31, 20X1	Recorded services revenue earned (k).
r.	Dec. 31, 20X1	Recorded office supplies used (l). Note that the supplies on hand at year-end amounted to ₱10,000.
s.	Dec. 31, 20X1	Recorded incurred, but unpaid utilities for ₱5,000.
t.	Dec. 31, 20X1	Recorded earned, but uncollected rent for ₱12,000.
u.	Dec. 31, 20X1	Recorded incurred, but unpaid taxes at 20% tax rate.

Accounting Equation and Debit and Credit Framework

A	=	L	+	E
Assets		Liabilities		Equity
Debit		Debit		Debit
Credit		Credit		Credit

DEBIT = CREDIT

REVENUE

Debit	Credit

EXPENSE

Debit	Credit

DIVIDEND

Debit	Credit

General Leger

ASSETS		LIABILITIES		EQUITY	
INVENTORY		INTEREST PAYABLE		WAGES EXPENSE	
ACCOUNTS RECEIVABLE		UTILITIES PAYABLE		DIVIDEND	
PREPAID INSURANCE		INCOME TAX PAYABLE		INTEREST EXPENSE	

General Leger

ASSETS

LIABILITIES

EQUITY

OFFICE SUPPLIES

DEPRECIATION EXPENSE

ACCUMULATED DEPRECIATION

INSURANCE EXPENSE

RENT RECEIVABLE

SERVICE REVENUE

General Leger

ASSETS

LIABILITIES

EQUITY

OFFICE SUPPLIES EXPENSE

UTILITIES EXPENSE

RENT REVENUE

General Leger

ASSETS

LIABILITIES

EQUITY

INCOME TAX EXPENSE

RETAINED EARNINGS

INCOME SUMMARY

Company A
Trial Balances
For the Year Ended December 31, 20X1
(Baht)

Account Title	Unadjusted Trial Balance		Adjusted Trial Balance		Post-Closing Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash						
Accounts receivable						
Rent receivable						
Inventory						
Prepaid insurance						
Office supplies						
Machine						
Accumulated depreciation						
Accounts payable						
Interest payable						
Utilities payable						
Income tax payable						
Unearned service revenue						
Bank loan						
Share capital						
Retained earnings						
Dividend						
Sales revenue						
Service revenue						
Rent revenue						
Cost of goods sold						
Wages expense						
Depreciation expense						
Insurance expense						
Office supplies expense						
Utilities expense						
Interest expense						
Income tax expense						
Total						

ADJUSTING ENTRIES		
DURING THIS CURRENT PERIOD	AT THE END OF THIS PERIOD -->	DURING THE NEXT PERIOD
Revenue transaction		
1. Cash sales		
<i>Revenue is earned and Cash is received</i>		
2. Credit sales		
	ACCRUED REVENUE RECEIVABLE	
	<i>Revenue is earned</i>	<i>Cash is received</i>
3. Cash is received in advance		
	DEFERRED REVENUE UNEARNED REVENUE	
<i>Cash is received</i>	<i>Revenue is earned</i>	
Expense transaction		
1. Cash expense		
<i>Expense is incurred and Cash is paid</i>		
2. Expense incurred and not yet paid		
	ACCRUED EXPENSE PAYABLE	
	<i>Expense is incurred</i>	<i>Cash is paid</i>
3. Cash is paid in advance		
	DEFERRED EXPENSE PREPAID EXPENSE	
<i>Cash is paid</i>	<i>Expense is incurred</i>	

Supporting Calculations

Interest expense incurred during Feb. 1, 20X1 - Dec. 31, 20X1

	Interest expense	=	Principal	x	Interest rate per year	x	Time
		=		x		x	
		=					

Depreciation expense incurred during Apr. 1, 20X1 - Dec. 31, 20X1

	Depreciation expense per year	=	(Cost	-	Residual Value)	/	Useful life
		=		-		/	
		=			per year		
	Depreciation expense 9 months	=		x			
		=					
	Carrying amount (Book value)	=	Cost	-	Accumulated depreciation		
		=		-			
		=					

Insurance expense incurred during Jul. 1, 20X1 - Dec. 31, 20X1

	Insurance expense 6 months	=		x		
		=				

Service revenue earned during Oc. 1, 20X1 - Dec. 31, 20X1

	Service revenue 3 months	=		x		
		=				

Office supplies expense incurred during the year 20X1

	Office supplies expense	=	Beginning balance	+	Purchases	-	Ending balance
		=		+		-	
		=					

Income tax expense incurred during the year 20X1

	Income tax expense	=	(Revenues	-	Expenses (excluding tax)	x	Income tax rate
		=		-		x	
		=					

Profit or loss for the year 20X1

	Profit or loss	=	Revenues	-	Expenses (including tax)	
		=		-		
		=				

Retained earnings balance at year-end 20X1

	Ending retained earnings	=	Beginning retained earnings	+	Profit or loss	-	Dividend declared
		=		+		-	
		=					

Equity balance at year-end 20X1

	Equity	=	Share capital	+	Retained earnings	
		=		+		
		=				

Financial position at year-end 20X1

	Assets	=	Liabilities	+	Equity	
		=		+		

CLOSING ENTRIES

1. Temporary accounts are required to be closed at the period-end -- Revenue, Expense, Income Summary, Dividend

2. Permanent accounts are carried forward to the next period -- Asset, Liability, Equity

EXPENSES		REVENUES	
<i>DR.</i>	<i>CR.</i>	<i>DR.</i>	<i>CR.</i>
Normal balance	To close	To close	Normal balance
B/L			B/L

CLOSING ENTRIES -- Step 2:

INCOME SUMMARY

CLOSING ENTRIES -- Step 1:

<i>DR.</i>	<i>CR.</i>
Expense	Revenue
To close	Net income Profit for the period
	B/L

DIVIDENDS

CLOSING ENTRIES -- Step 3

RETAINED EARNINGS

Permanent A/C

<i>DR.</i>	<i>CR.</i>	<i>DR.</i>	<i>CR.</i>
Normal balance	To close	Dividend	Net income Profit for the period
B/L			End. B/L
			carryforward

