

*Principles of*  
**FINANCIAL  
ACCOUNTING 3e**

*IFRS Edition*

Earl K. Stice  
James D. Stice  
W. Steve Albrecht  
Monte R. Swain  
Rong-Ruey Duh  
Audrey Wenhsin Hsu



# Setting the Stage



*With the number of transactions that occur on a daily basis, the accounting for McDonald's would be impossible if not for a systematic method for analyzing these transactions and collecting and recording transaction related information.*

*How are millions of transactions summarized and eventually reported as useful information in the primary financial statements?*

*This transformation process is called the accounting cycle.*

# **The Accounting Cycle: The Mechanics of Accounting**

**LO1**

**How Do Transactions Affect the Accounting Equation?**

**LO2**

**How Do We Record the Effects of Transactions?**

**LO3**

**Posting Journal Entries and Preparing a Trial Balance?**

**LO4**

**Where Do Computers Fit in All This?**

# The Accounting Cycle

LO1

- The procedure for analyzing, recording, summarizing, and reporting the transactions of a business.

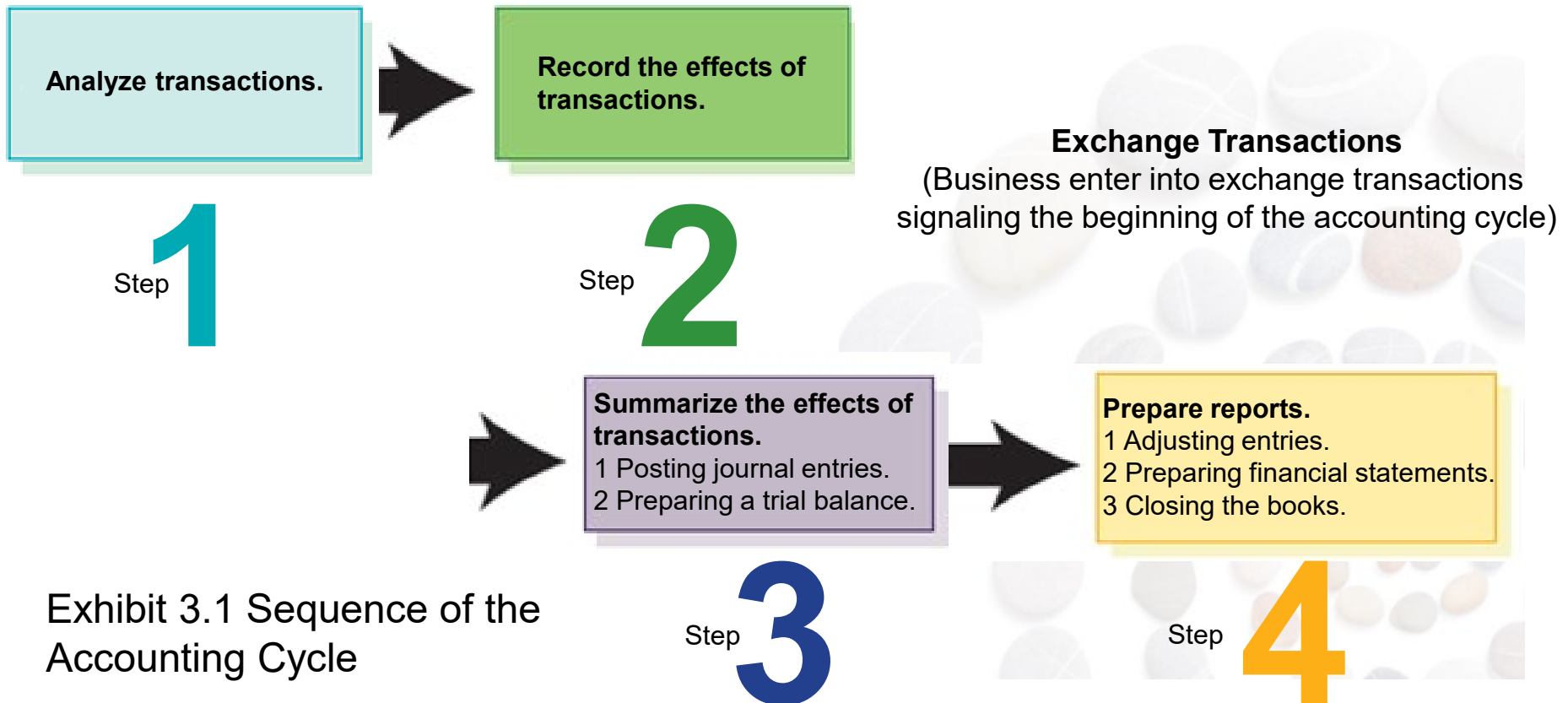


Exhibit 3.1 Sequence of the Accounting Cycle

# Which Events Are to Be Reflected in The Accounting Records?

LO1

## Determining the Amount of a Transaction

- Events that cannot be **reliably measured in monetary terms** will not be reflected in the financial statements.
- Information relating to the competitive environment, product development, and marketing and sales efforts is included in a company's **annual report to stockholders**, but not as part of the accounting information.

# Which Events Are to Be Reflected in The Accounting Records?

LO1



Competitive attempts to gain market share, like developing a Big Mac clones, could have a serious impact on a company's profitability, but **are not reported in the financial statements.**



# Which Events Are to Be Reflected in The Accounting Records?

LO1

## Determining If an Arm's-length Transaction Has Occurred

- Accounting is concerned primarily with reflecting the effects of transactions between two independent entities.
- e.g., **China Airlines** signing a contract with **Boeing** to purchase airplanes in the future.
  - It would not be reflected in the financial statements until the airplanes are manufactured and delivered and China Airline has agreed to pay for them.

# The Accounting Equation 會計恆等式

LO1

- The accounting equation:

Assets 資產	=	Liabilities 負債	+	Equity 權益
◆ Resources owned or controlled by the firm		◆ Creditors' claim against the firm's resources ◆ Requires repayment		◆ Owners' claim against the firm's resources ◆ Requires no repayment but represents ownership interest in the firm

- The equation must always remain in balance.



# The Accounting Equation 會計恆等式

LO1

## Business Activity (Transaction) #1:

Investment of €50,000 by owners.

**Assets**

=

**Liabilities**

+

**Equity**



Cash



Capital Stock

TRANSACTION #	ASSETS	=	LIABILITIES	+	EQUITY
Beginning Balance	€ 0	=	€ 0	+	€ 0

# The Accounting Equation 會計恆等式

LO1

## Business Activity (Transaction) #2:

Borrowed €25,000 from bank. A note is signed to the bank.

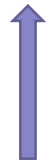
**Assets**

=

**Liabilities**

+

**Equity**



Cash



Notes Payable

TRANSACTION #	ASSETS	=	LIABILITIES	+	EQUITY
Beginning Balance	€ 0	=	€ 0	+	€ 0
1.	+50,000				+50,000
Subtotal	€50,000	=	€ 0	+	€50,000

# The Accounting Equation 會計恆等式

LO1

## Business Activity (Transaction) #3:

Purchased €14,000 worth of supplies on credit (will pay later).

**Assets**

=

**Liabilities**

+

**Equity**



Supplies



Accounts Payable

TRANSACTION #	ASSETS	=	LIABILITIES	+	EQUITY
Subtotal	€75,000	=	€25,000	+	€50,000

# The Accounting Equation 會計恆等式

LO1

## Business Activity (Transaction) #4:

Purchased equipment costing €15,000 for cash.

**Assets**

=

**Liabilities**

+

**Equity**



Equipment



Cash

TRANSACTION #	ASSETS	=	LIABILITIES	+	EQUITY
Subtotal	€75,000	=	€25,000	+	€50,000
3.	+14,000		+14,000		
Subtotal	€89,000	=	€39,000	+	€50,000

# Using Accounts to Categorize Transactions

LO1

## Account

- An accounting record in which the results of transactions are accumulated.
- Shows increases, decreases, and a balance.
- You can think of an individual account as a summary of every transaction affecting a certain item.
- Asset account: Cash, Suppliers, Office Equipment
- Liability account: Accounts Payable, Notes Payable
- Equity account: Capital Stock, Retained Earnings

# Using Accounts to Categorize Transactions

LO1

Business Activity (Transaction)	Effect in Terms of the Accounting Equation
1. Investment of €50,000 by owners.	Increase asset (Cash), increase equity (Capital Stock): $A \uparrow €50,000 = E \uparrow €50,000$
2. Borrowed €25,000 from bank. A note is signed to the bank.	Increase asset (Cash), increase liability (Notes Payable): $A \uparrow €25,000 = L \uparrow €25,000$
3. Purchased €14,000 worth of supplies on credit (will pay later).	Increase asset (Supplies), increase liability (Accounts Payable): $A \uparrow €14,000 = L \uparrow €14,000$
4. Purchased office equipment costing €15,000 for cash.	Decrease asset (Cash), increase asset (Office Equipment): $A \downarrow €15,000 = A \uparrow €15,000$

# Using Accounts to Categorize Transactions

LO1

	ASSETS			=	LIABILITIES		+	EQUITY
Transaction #	Cash	Supplies	Office Equipment		Accounts Payable	Notes Payable		Capital Stock
Beginning Balance	€ 0	€ 0	€ 0	=	€ 0	€ 0	+	€ 0
1	+50,000							+50,000
Subtotal	€50,000	€ 0	€ 0	=	€ 0	€ 0	+	€50,000
2	+25,000					+25,000		
Subtotal	€75,000	€ 0	€ 0	=	€ 0	€25,000	+	€50,000
3		+14,000			+14,000			
Subtotal	€75,000	€14,000	€ 0	=	€14,000	€25,000	+	€50,000
4	-15,000		+15,000					
Total	€60,000	€14,000	€15,000	=	€14,000	€25,000	+	€50,000
<div> <div> <div>€89,000</div> </div> <div> <div>€39,000</div> </div> <div> <div>€50,000</div> </div> </div>								



# Using Accounts to Categorize Transactions

LO1

## T-Account T字帳

- An abbreviated representation of an actual account.
- Used as a teaching and learning tool.
- **Debit 借方**: the left side of a T-account.
- **Credit 貸方**: the right side of a T-account.
- Debit means left, credit means right—nothing more, nothing less.

Cash	
Debit (Dr)	Credit (Cr)

# Using Accounts to Categorize Transactions

LO1

## T-Account

- By convention, for asset accounts, debits refer to increases and credits to decreases. **Asset accounts will usually have debit balances.**
- **Liability and equity accounts** are decreased by debits and increased by credits. As a result, they will **typically have credit balances.**

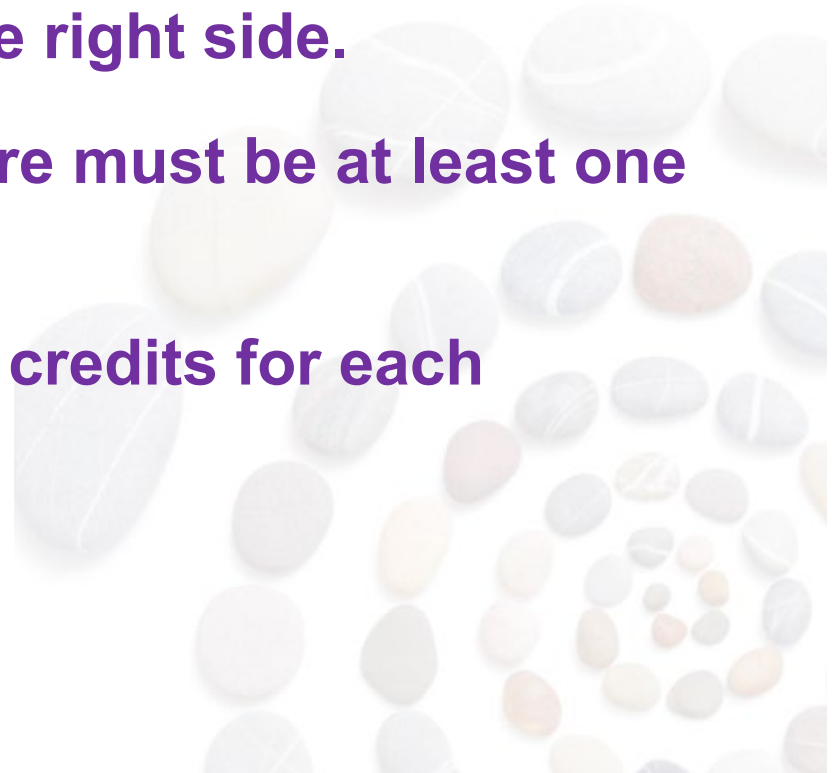
Assets		=	Liabilities		+	Equity	
DR (+)	CR (-)		DR (-)	CR (+)		DR (-)	CR (+)

# Using Accounts to Categorize Transactions

LO1

Three basic facts regarding double-entry accounting:

- **Debits are always entered on the left side of an account and credits on the right side.**
- **For every transaction, there must be at least one debit and one credit.**
- **Debits must always equal credits for each transaction.**



# Using Accounts to Categorize Transactions

LO1

To make sure you understand the relationship between debits and credits, the various accounts, and the accounting equation, we need to examine further the transactions.

Business Activity (Transaction)	Effect in Terms of the Accounting Equation
1. Investment of €50,000 by owners.	Increase asset (Cash), increase equity (Capital Stock): $A \uparrow €50,000 = E \uparrow €50,000$
2. Borrowed €25,000 from bank. A note is signed to the bank.	Increase asset (Cash), increase liability (Notes Payable): $A \uparrow €25,000 = L \uparrow €25,000$
3. Purchased €14,000 worth of supplies on credit (will pay later).	Increase asset (Supplies), increase liability (Accounts Payable): $A \uparrow €14,000 = L \uparrow €14,000$
4. Purchased office equipment costing €15,000 for cash.	Decrease asset (Cash), increase asset (Office Equipment): $A \downarrow €15,000 = A \uparrow €15,000$

# Using Accounts to Categorize Transactions

LO1

## Self-Checking of Accounting Information

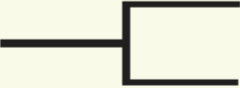

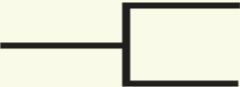

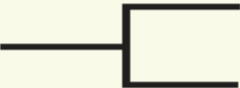

- If debits do not equal credits, an error has been made in analyzing and recording the entity's activities.

Business Activity (Transaction)	Effect in Terms of the Accounting Equation			
	Assets	=	Liabilities	+ Equity
1. Investment by owners	Cash DR (+)			Capital Stock CR(+)
2. Borrowed money from bank	Cash DR (+)		Notes Payable CR(+)	
3. Purchased supplies on credit	Supplies DR(+)		Accounts Payable CR(+)	
4. Purchased equipment for cash	Office Equipment DR (+)	Cash CR (-)		

# Using Accounts to Categorize Transactions

LO1

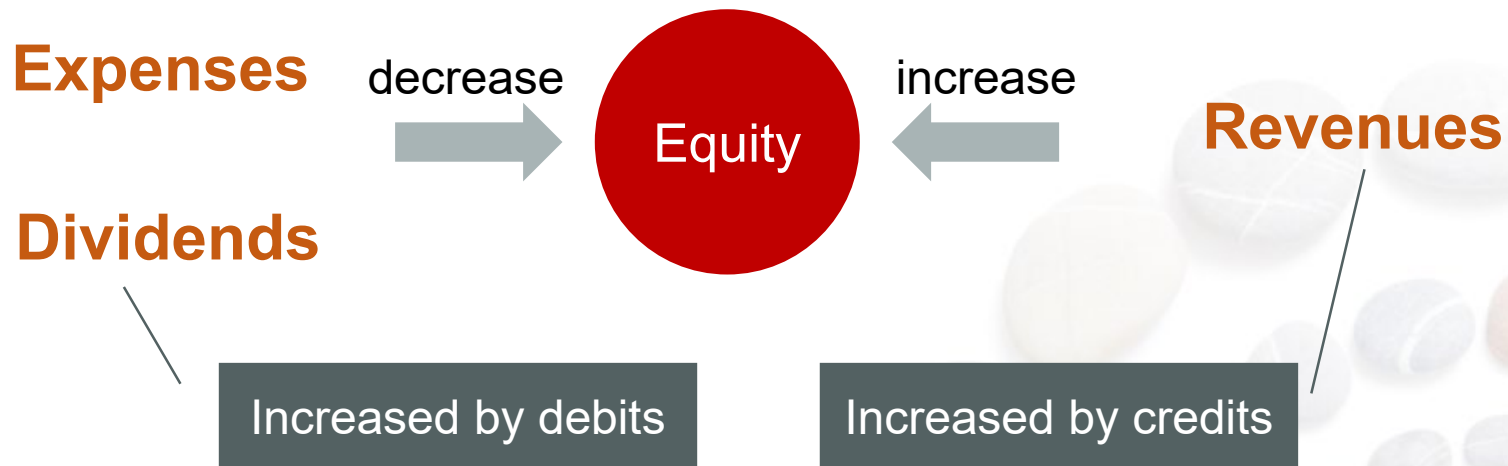
## Debit-Credit Rule 借貸法則

Account Type			Debit or Credit?		Ending Balance
Asset		(+) Increase	results in	Debit	 Debit
		(-) Decrease	results in	Credit	
Liability		(+) Increase	results in	Credit	 Credit
		(-) Decrease	results in	Debit	
Equity		(+) Increase	results in	Credit	 Credit
		(-) Decrease	results in	Debit	

# Expanding Accounting Equation for Revenue, Expense, Dividends

LO1

## Temporary Accounts that Affect Equity



- Temporary accounts.
- They are closed into the Retained Earnings account at the end of the accounting cycle.



# Expanding Accounting Equation for Revenue, Expense, Dividends

LO1

- Revenues provide resource inflows
  - They are increases in resources from the sale of goods or services.
- Expenses represent resource outflows
  - They are costs incurred in generating revenues.
- Note that revenues are not synonymous with cash or other assets
  - They are a way of describing where the assets came from

# Expanding Accounting Equation for Revenue, Expense, Dividends

LO1

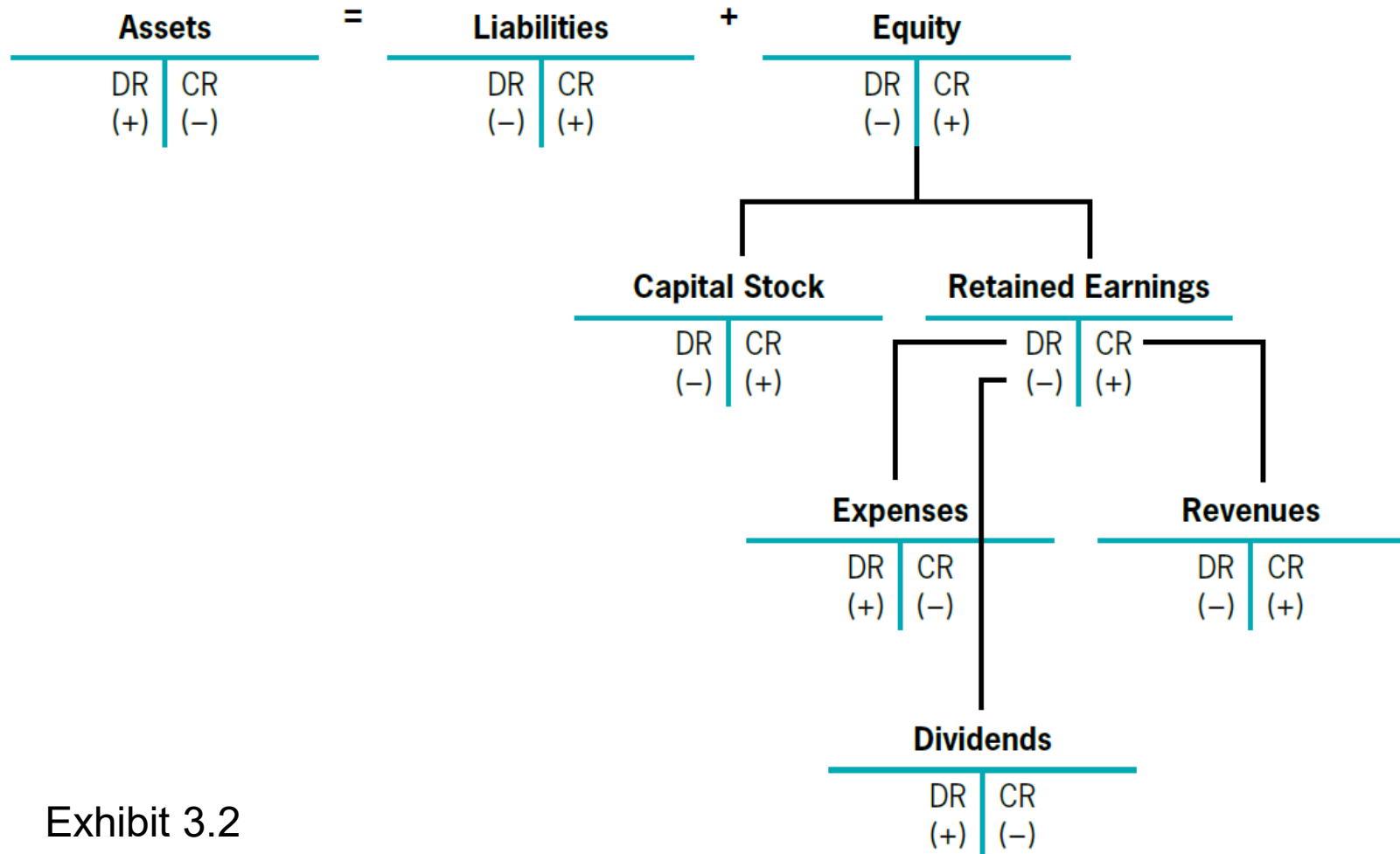


Exhibit 3.2

# Quiz Yourself

LO1

- **For each of the following three transactions, determine**
  - (a) the specific accounts involved;**
  - (b) whether the accounts increased or decreased;**
  - (c) whether the accounts are assets, liabilities, or equity accounts; and**
  - (d) whether the accounts are debited or credited.**

# Quiz Yourself

LO1

## Solution:

### 1 Borrowed money from a bank

- (a) The accounts involved are Cash and Loans Payable.
- (b) Both Cash and Loans Payable increased.
- (c) Cash is an asset, and Loans Payable is a liability.
- (d) Assets increase with a debit. Cash is an asset; therefore, Cash is debited.

Liabilities increase with a credit. Loans Payable is a liability; therefore, Loans Payable is credited.

## 2 Purchased a transportation equipment on credit

(a) The accounts involved are Transportation Equipment and Accounts Payable.

(b) Both Transportation Equipment and Accounts Payable increased.

(c) Transportation Equipment is an asset, and Accounts Payable is a liability.

(d) Assets increase with a debit. Transportation Equipment is an asset; therefore, Transportation Equipment is debited.

Liabilities increase with a credit. Accounts Payable is a liability; therefore, Accounts Payable is credited.

## 3 Purchased office equipment paying cash

- (a) The accounts involved are Office Equipment and Cash.
- (b) Office Equipment increased, and Cash decreased.
- (c) Both Office Equipment and Cash are assets.
- (d) Assets increase with a debit. Office Equipment is an asset; therefore, Office Equipment is debited.

Assets decrease with a credit. Cash is an asset; therefore, Cash is credited.

# Journals and Journal Entries

LO2

## Journal 日記簿

- Journal is an accounting record in which transactions are first entered.
- Provide a chronological record of all transactions of a business. [Journalizing]
- Journal entry:
  - A recording of a transactions where debits equals credits; usually includes a date and an explanation of the transaction.
  - General journal 普通日記簿



# Journals and Journal Entries

LO2

## Journal Entry 分錄

### General Journal Entry Format

<sup>1</sup> Date	<sup>2</sup> Debit Entry .....	XX	
	<sup>3</sup> Credit Entry .....		XX
	<sup>4</sup> <i>Explanation.</i>		

Dollar signs  
usually are  
omitted

# Journals and Journal Entries

LO2

## General Journal

JOURNAL					Page 1
Date	Description	Post. Ref.	Debit	Credit	
2022 July 1	Cash Capital Stock <i>Issued 200 shares of capital stock at €10 per share.</i>		2,000	2,000	
1	Cash Notes Payable <i>Borrowed €2,000 from First National Bank, signing a 12-month note at 12% interest.</i>		2,000	2,000	
5	Transportation Equipment Cash <i>Purchased a used truck.</i>		800	800	
5	Machinery Equipment Accounts Payable <i>Purchased a lawnmower on account.</i>		250	250	
5	Supplies Cash <i>Purchased supplies for cash.</i>		180	180	

Exhibit 3.3

# Journal Entry Example

LO2

- Suppose you decide to start your own landscaping business. This business will involve mowing lawns, pulling weeds, trimming shrubs, and so forth.
- These transactions fit into the following four general categories:
  - **Acquiring cash**
  - **Acquiring assets other than cash**
  - **Providing services**
  - **Collecting cash and paying obligations**

# Journal Entry Example

LO2

## Acquiring Cash

### Example 1: Acquiring Cash from Owners

Your parents offer to match any funds that you are going to put into your business. You have €1,000 in savings, and coupled with your parents' matching funds, you decide to issue **200 shares** of stock at **€10** per share on July 1, 2022.

Transaction  
effect

The asset-cash account increases by €2,000 and the equity-capital stock account increases by €2,000.

Journal  
entry

July 1	Cash	2,000	
	Capital Stock		2,000
<i>Issue 200 shares of capital stock at €10 per share.</i>			

# Journal Entry Example

LO2

## Example 1: Acquiring Cash from Owners

Transaction	ASSETS				= LIABILITIES				+ EQUITY	
	Cash	Supplies	Machinery Equipment	Transportation Equipment	Accounts Payable	Notes Payable			Capital Stock	
Beginning balance	€ 0	€ 0	€ 0	€ 0	= € 0	€ 0			+ € 0	
Invested money in the business	2,000	—	—	—	—	—			2,000	
Subtotal	€2,000	€ 0	€ 0	€ 0	= € 0	€ 0			+ €2,000	



# Journal Entry Example

LO2

## Example 2: Acquiring Cash by Borrowings

Suppose that on top of the money from yourself and your parents, you went to a bank on July 1, 2022 and convinced the loan officer to lend you some additional money **€ 2,000** at **12%** interest.

Transaction  
effect

The asset-cash account increases by €2,000 and the liability-notes payable account increases by €2,000.

Journal  
entry

July 1	Cash	2,000	
	Notes Payable		2,000
<i>Borrowed € 2,000 from First National Bank, signing a 12-month note at 12% interest.</i>			

# Journal Entry Example

LO2

## Example 2: Acquiring Cash by Borrowings

- A “**note**” is a contract specifying an amount that one party will repay to another, usually with interest along the way. This particular account could also be called “**Loan Payable**.”

Transaction	ASSETS					=	LIABILITIES		+	EQUITY
	Cash	Inventory	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable		Capital Stock
Beginning balance	€ 0	€ 0	€ 0	€ 0	€ 0	=	€ 0	€ 0	+	€ 0
Invested money in the business	2,000	—	—	—	—		—	—		2,000
Borrowed money from a bank	2,000	—	—	—	—		—	2,000		—
Subtotal	€4,000	€ 0	€ 0	€ 0	€ 0	=	€ 0	€2,000	+	€2,000



# Journal Entry Example

LO2

## Acquiring Assets Other than Cash

- Such assets include **supplies** (like fertilizer), and **equipment** (like a lawnmower and a truck for hauling).
- These assets may be purchased with cash or on credit. **Credit purchases** require payment after a period of time.

# Journal Entry Example

LO2

## Example 3: Acquiring Noncash Assets

The first thing you need is a lawnmower and some form of transportation. On July 5, 2022. You find an old 2010 pickup truck for sale for €800, and you buy it paying cash.

Transaction effect	The asset-transportation equipment account increases by €800 and the asset-cash account decreases by €800.		
Journal entry	July 5	Transportation Equipment	800
		Cash	800
		<i>Purchased a used truck.</i>	

# Journal Entry Example

LO2

## Example 3: Acquiring Noncash Assets

Transaction	ASSETS					=	LIABILITIES		+	EQUITY
	Cash	Inventory	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable		Capital Stock
Beginning balance	€ 0	€ 0	€ 0	€ 0	€ 0	=	€ 0	€ 0	+	€ 0
Invested money in the business	2,000	—	—	—	—		—	—		2,000
Borrowed money from a bank	2,000	—	—	—	—		—	2,000		—
Purchased a truck paying cash	-800	—	—	—	800		—	—		—
Subtotal	€3,200	€ 0	€ 0	€ 0	€800	=	€ 0	€2,000	+	€2,000

# Journal Entry Example

LO2

## Example 4: Acquiring Noncash Assets

Next, you drive to the local lawn-and-garden store and purchase a lawnmower and gas can for €250 on July 5, 2022. Instead of paying for the mower with cash, you open a charge account, which will allow you to pay for the mower in 30 days with no interest charge.

Transaction  
effect

The asset-machinery equipment account increases by €250 and the liability-accounts payable account increases by €250.

Journal  
entry

July 5	Machinery Equipment	250	
	Accounts Payable		250
	<i>Purchased a lawnmower and gas can on account.</i>		

# Journal Entry Example

LO2

## Example 4: Acquiring Noncash Assets

Transaction	ASSETS						=	LIABILITIES		+	EQUITY
	Cash	Inventory	Supplies	Machinery Equipment	Transportation Equipment			Accounts Payable	Notes Payable		Capital Stock
Beginning balance	€ 0	€ 0	€ 0	€ 0	€ 0		=	€ 0	€ 0	+	€ 0
Invested money in the business	2,000	—	—	—	—			—	—		2,000
Borrowed money from a bank	2,000	—	—	—	—			—	2,000		—
Purchased a truck paying cash	-800	—	—	—	800			—	—		—
Purchased a mower on account	—	—	—	250	—			250	—		—
Subtotal	€3,200	€ 0	€ 0	€250	€800		=	€250	€2,000	+	€2,000

# Journal Entry Example

LO2

## Example 5: Acquiring Noncash Assets

Back you go to the lawn-and-garden store on July 5, 2022 to purchase fertilizer, gloves, a rake, a shovel, and other assorted supplies. The total cost is **€180**, which you pay in cash.

Transaction  
effect

The asset-supplies account increases by €180 and the asset-cash account decreases by €180.

Journal  
entry

July 5	Supplies	180	
	Cash		180
	<i>Purchased supplies for cash.</i>		

# Journal Entry Example

LO2

## Example 5: Acquiring Noncash Assets

- An increase in one asset (supplies) results in a decrease in another asset (cash).

	ASSETS					=	LIABILITIES		+	EQUITY
Transaction	Cash	Inventory	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable		Capital Stock
Beginning balance	€ 0	€ 0	€ 0	€ 0	€ 0	=	€ 0	€ 0	+	€ 0
Invested money in the business	2,000	—	—	—	—		—	—		2,000
Borrowed money from a bank	2,000	—	—	—	—		—	2,000		—
Purchased a truck paying cash	-800	—	—	—	800		—	—		—
Purchased a mower on account	—	—	—	250	—		250	—		—
Purchased supplies for cash	-180	—	180	—	—		—	—		—
Subtotal	€3,020	€ 0	€180	€250	€800	=	€250	€2,000	+	€2,000

# Journal Entry Example

LO2

## Providing Services

- Sometimes services are rendered for cash; at other times they are rendered on credit, and a receivable is established for collection at a later date.
- Revenues indicate the source not only of cash but of other assets as well, all of which are received in exchange for the services provided.
- Similarly, expenses may be “charged” with a cash payment to be made at a later date.



# Journal Entry Example

LO2

## Example 6: Providing Services

On July 9, 2022, you perform a lawn care service for **€350**. A portion of your revenues is received immediately in cash (**€270**), while the balance becomes receivables.

### Transaction effect

The asset-cash account increases by €270, the asset-accounts receivable account increases by €80 and the revenue account increases by €350; in turn, equity increases by €350.

### Journal entry

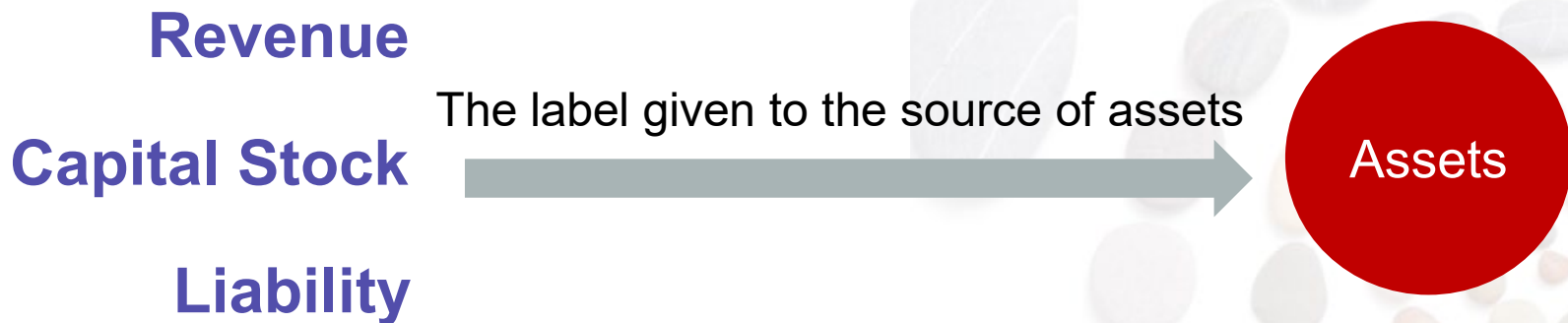
July 9	Cash	270	
	Accounts Receivable	80	
	Lawn Care Revenue		350
	<i>To record revenue for lawn care services.</i>		

# Journal Entry Example

LO2

## Example 6: Providing Services

- **Compound journal entry** 複合分錄: The type of entry which more than two accounts can be involved in recording a transaction of entry.
- “Revenue” is not an asset.



# Journal Entry Example

LO2

## Example 6: Providing Services

ASSETS						=	LIABILITIES		+	EQUITY					
Retained Earnings															
	Cash	Accounts Receivable	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable		Capital Stock	Lawn Care Revenue	Gasoline Expense*	Wages Expense*	Interest Expense*	Dividends*
Balance (from page 78)	€3,020	€ —	€180	€250	€800	=	€250	€2,000	+	€2,000	€ —	€—	€—	€—	€—
Revenue from lawn care	270	80	—	—	—		—	—		—	350	—	—	—	—

# Journal Entry Example

LO2

## Example 7: Incurring Expenses

Expenses include gas (€50) for the lawnmower and the truck on July 18, 2022 and the wages (€60) you agreed to pay your little brother for working for you on July 23, 2022.

Transaction effect	The gasoline expenses (wages expenses) account increases by €50 (€60); in turn, equity decreases by €50 (€60); and the asset-cash account decreases by €50 (€60).			
Journal entry	July 18	Gasoline Expenses	50	
		Cash		50
		<i>Paid cash for gas for the truck and the mower.</i>		
	July 23	Wages Expenses	60	
		Cash		60
		<i>Paid wages expense.</i>		

# Journal Entry Example

LO2

## Example 7: Incurring Expenses

- The label “expenses” is used to explain how assets have been used.
- “Expenses” is the label we give to the amount of assets consumed in doing business.

ASSETS = LIABILITIES + EQUITY															
Retained Earnings															
	Cash	Accounts Receivable	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable	+	Capital Stock	Lawn Care Revenue	Gasoline Expense*	Wages Expense*	Interest Expense*	Dividends*
Balance (from page 78)	€3,020	€ —	€180	€250	€800	=	€250	€2,000	+	€2,000	€ —	€—	€—	€—	€—
Revenue from lawn care	270	80	—	—	—		—	—		—	350	—	—	—	—
Paid for gasoline	−50	—	—	—	—		—	—		—	—	−50	—	—	—
Paid wages	−60	—	—	—	—		—	—		—	—	—	−60	—	—

# Journal Entry Example

LO2

## Collecting Cash and Paying Obligations

### Example 8: Collecting Accounts Receivable

The receivables €80 are collected on July 30, 2022.

Transaction  
effect

The asset-cash account increases by €80 and the asset-accounts receivable account decreases by €80.

Journal  
entry

July 30	Cash	80	
	Accounts Receivable		80
	<i>Collected €80 of receivables.</i>		

# Journal Entry Example

LO2

## Example 8: Collecting Accounts Receivable

- The collection of receivables merely involves exchanging one asset for another. No revenue is involved here.

	ASSETS					=	LIABILITIES		+	EQUITY					
											Retained Earnings				
	Cash	Accounts Receivable	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable	Capital Stock	Lawn Care Revenue	Gasoline Expense*	Wages Expense*	Interest Expense*	Dividends*	
Balance (from page 78)	€3,020	€ —	€180	€250	€800	=	€250	€2,000	+ €2,000	€ —	€—	€—	€—	€—	
Revenue from lawn care	270	80	—	—	—		—	—	—	350	—	—	—	—	
Paid for gasoline	-50	—	—	—	—		—	—	—	—	-50	—	—	—	
Paid wages	-60	—	—	—	—		—	—	—	—	—	-60	—	—	
Collected receivables	80	-80	—	—	—		—	—	—	—	—	—	—	—	

# Journal Entry Example

LO2

## Example 9: Paying Obligations

On July 31, 2022, you pay for the obligation with cash of purchasing lawnmower and gas on account **€250**.

Transaction  
effect

The asset-cash account decreases by €250 and the liability-accounts payable account decreases by €250.

Journal  
entry

July 31	Accounts Payable	250	
	Cash		250
	<i>Paid €250 for the lawnmower and gas can previously purchased.</i>		



# Journal Entry Example

LO2

## Example 9: Paying Obligations

ASSETS = LIABILITIES + EQUITY															
Retained Earnings															
	Cash	Accounts Receivable	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable	+	Capital Stock	Lawn Care Revenue	Gasoline Expense*	Wages Expense*	Interest Expense*	Dividends*
Balance (from page 78)	€3,020	€ —	€180	€250	€800	=	€250	€2,000	+	€2,000	€ —	€—	€—	€—	€—
Revenue from lawn care	270	80	—	—	—		—	—		—	350	—	—	—	—
Paid for gasoline	–50	—	—	—	—		—	—		—	—	–50	—	—	—
Paid wages	–60	—	—	—	—		—	—		—	—	—	–60	—	—
Collected receivables	80	–80	—	—	—		—	—		—	—	—	—	—	—
Paid accounts payable	–250	—	—	—	—		–250	—		—	—	—	—	—	—

# Journal Entry Example

LO2

## Example 10: Paying Obligations and Interest

In example 2, you borrowed €2,000 to be paid over 12 months. Suppose you are required to make monthly loan payments of €178 with a portion of each payment being attributed to interest and a portion to reducing the liability on July 31, 2022.

### Transaction effect

The asset-cash account decreases by €178, the liability-notes payable account decreases by €158 and the interest expense account increases by €20 which in turn decreases equity by €20.

### Journal entry

July 31	Notes Payable	158	
	Interest Expense	20	
	Cash		178
	<i>Paid first monthly payment on note with interest (€2,000 × 0.12 × 1/12).</i>		

# Journal Entry Example

LO2

## Example 10: Paying Obligations and Interest

ASSETS						=	LIABILITIES			+	EQUITY				
Retained Earnings															
	Cash	Accounts Receivable	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable		Capital Stock	Lawn Care Revenue	Gasoline Expense*	Wages Expense*	Interest Expense*	Dividends*
Balance (from page 78)	€3,020	€ —	€180	€250	€800	=	€250	€2,000	+	€2,000	€ —	€—	€—	€—	€—
Revenue from lawn care	270	80	—	—	—		—	—		—	350	—	—	—	—
Paid for gasoline	−50	—	—	—	—		—	—		—	—	−50	—	—	—
Paid wages	−60	—	—	—	—		—	—		—	—	—	−60	—	—
Collected receivables	80	−80	—	—	—		—	—		—	—	—	—	—	—
Paid accounts payable	−250	—	—	—	—		−250	—		—	—	—	—	—	—
Paid loan payment	−178	—	—	—	—		—	−158		—	—	—	—	−20	—

# Journal Entry Example

LO2

## Example 11: Payment of Dividends

Corporations that are profitable generally pay dividends to their stockholders. The following entry illustrates the payment of a cash dividend (€50) on July 31, 2022:

Transaction effect	The asset-cash account decreases by €50 and the dividends account increases by €50 which in turn decreases equity by €50.			
Journal entry	July 31	Dividends	50	
		Cash		50
	<i>Paid a €50 cash dividends.</i>			

# Journal Entry Example

LO2

## Example 11: Payment of Dividends

ASSETS						=	LIABILITIES			+	EQUITY					
		Accounts Receivable		Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable		Capital Stock	Lawn Care Revenue	Gasoline Expense*	Wages Expense*	Interest Expense*	Dividends*
Balance (from page 78)	€3,020	€	—	€180	€250	€800	=	€250	€2,000	+	€2,000	€	—	€—	€—	€—
Revenue from lawn care	270	80	—	—	—	—	—	—	—	—	—	350	—	—	—	—
Paid for gasoline	−50	—	—	—	—	—	—	—	—	—	—	—	−50	—	—	—
Paid wages	−60	—	—	—	—	—	—	—	—	—	—	—	—	−60	—	—
Collected receivables	80	−80	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Paid accounts payable	−250	—	—	—	—	—	−250	—	—	—	—	—	—	—	—	—
Paid loan payment	−178	—	—	—	—	—	—	−158	—	—	—	—	—	—	−20	—
Paid dividend	−50	—	—	—	—	—	—	—	—	—	—	—	—	—	—	−50

# Summary of Transactions

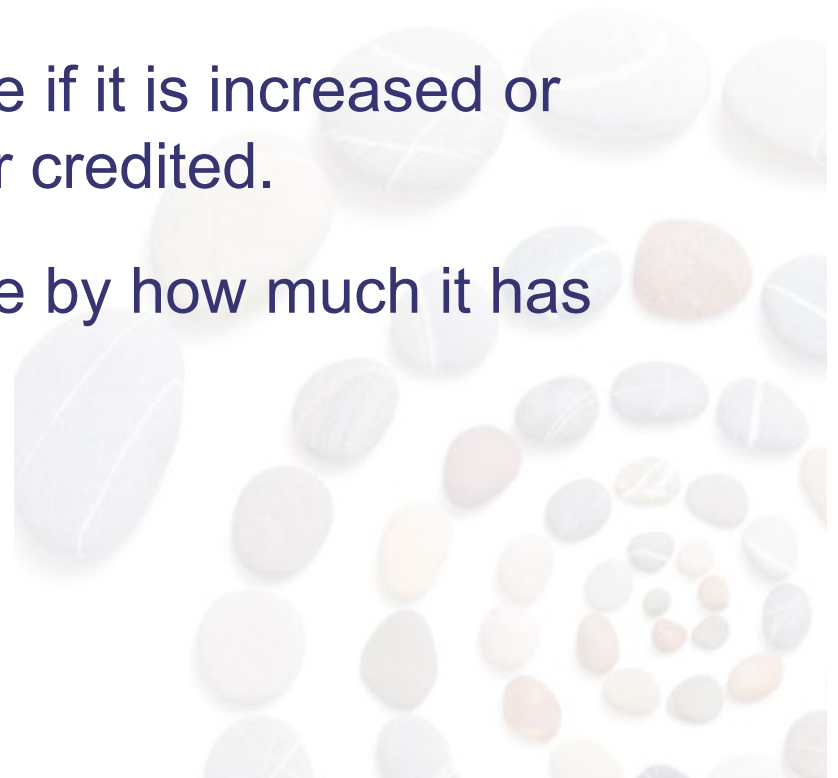
LO2

	ASSETS					=	LIABILITIES		+	EQUITY				
	Cash	Accounts Receivable	Supplies	Machinery Equipment	Transportation Equipment		Accounts Payable	Notes Payable	Capital Stock	Lawn Care Revenue	Gasoline Expense*	Wages Expense*	Interest Expense*	Dividends*
Balance (from page 78)	€3,020	€ —	€180	€250	€800	=	€250	€2,000	+ €2,000	€ —	€—	€—	€—	€—
Revenue from lawn care	270	80	—	—	—		—	—	—	350	—	—	—	—
Paid for gasoline	-50	—	—	—	—		—	—	—	—	-50	—	—	—
Paid wages	-60	—	—	—	—		—	—	—	—	—	-60	—	—
Collected receivables	80	-80	—	—	—		—	—	—	—	—	—	—	—
Paid accounts payable	-250	—	—	—	—		-250	—	—	—	—	—	—	—
Paid loan payment	-178	—	—	—	—		—	-158	—	—	—	—	-20	—
Paid dividend	-50	—	—	—	—		—	—	—	—	—	—	—	-50
Total	€2,782	€ 0	€180	€250	€800	=	€ 0	€1,842	+ €2,000	€350	-€50	-€60	-€20	-€50

Exhibit 3.4

## A Journal Entry Involves a Three-step Process:

- Identify which accounts are involved.
- For each account, determine if it is increased or decreased: are to debited or credited.
- For each account, determine by how much it has changed.



# Quiz Yourself

LO2

- **For each of the following transactions,**
  - (a) identify the accounts involved,**
  - (b) identify whether the accounts increased or decreased,**
  - (c) state by how much the accounts increased or decreased, and**
  - (d) provide the required journal entry to record the effects of the transaction.**



# Quiz Yourself

LO2

1. Purchased supplies costing €5,000 on account

(a) Supplies is an asset, Accounts Payable is a liability.

(b) Supplies increased (assets increase with debits), and Accounts Payable increased (liabilities increase with credits).

(c) Both accounts changed by €5,000.

(d) The required journal entry is


# Quiz Yourself

LO2

## 2. Paid wages of €200

- (a) Wages is an expense, Cash is an asset.
- (b) Wages Expense increased (expense decrease equity, and equity decreases with debits), and Cash decreased (assets decrease with credits).
- (c) Both accounts changed by €200.
- (d) The required journal entry is


# Quiz Yourself

LO2

3. Paid €3,600 for supplies purchased previously

(a) Cash is an asset, Accounts Payable is a liability.

(b) Cash decreased (assets decrease with credits), and Accounts Payable decreased (liabilities decrease with debits).

(c) Both accounts changed by €3,600.

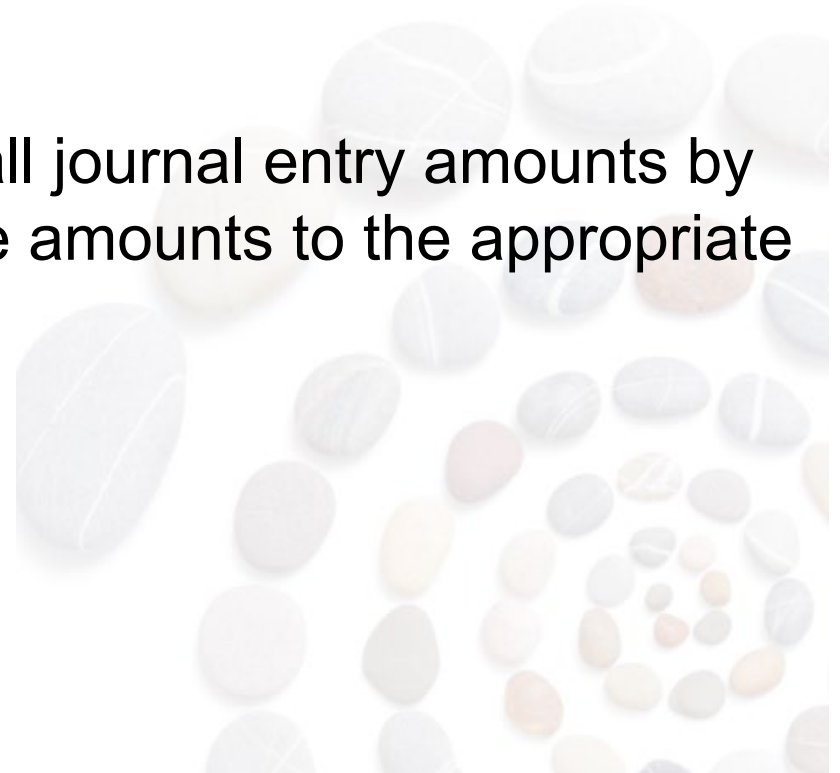
(d) The required journal entry is


# Posting Journal Entries

LO3

## Posting 過帳

- The process of transferring amounts from the journal to the ledger.
- It is no more than sorting all journal entry amounts by account and copying those amounts to the appropriate account.

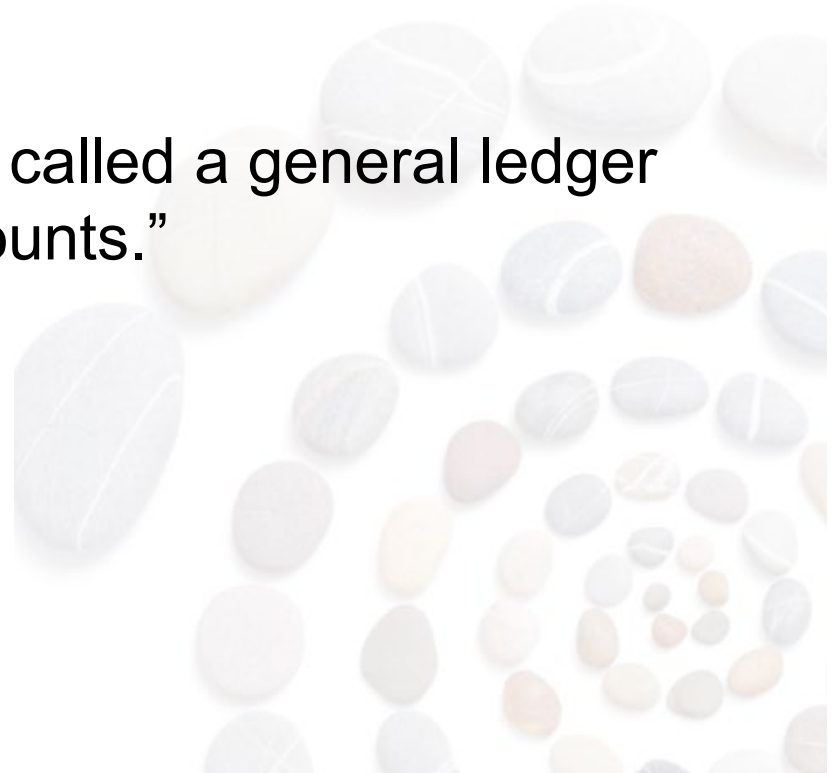


# Posting Journal Entries

LO3

## Ledger 分類帳

- All accounts are maintained in an accounting record called a “ledger.”
- A ledger (the main ledger is called a general ledger 總分類帳) is a “book of accounts.”



# Posting to the General Ledger

LO3

## JOURNAL

Page 1

Date	Description	Post. Ref.	Debits	Credits
2022 July 1	Cash Capital Stock <i>Issued 200 shares of capital stock at € 10 per share.</i>	101	2,000	2,000
1	Cash Notes Payable <i>Borrowed €2,000 from First National Bank, signing a 12-month note at 12% interest.</i>	101	2,000	2,000
5	Transportation Equipment Cash <i>Purchased a used truck.</i>	101	800	800
5	Machinery Equipment Accounts Payable <i>Purchased a lawnmower on account.</i>		250	250
5	Supplies Cash <i>Purchased supplies for cash.</i>	101	180	180

### ACCOUNT: Cash

### ACCOUNT NO. 101

Date	Description	Post. Ref.	Debits	Credits	Balance
2022 July 1	Balance				0
1	Issued 200 shares of capital stock at € 10 per share.	GJ1	2,000		2,000
1	Borrowed €2,000 from First National Bank, signing a 12-month note at 12% interest.	GJ1	2,000		4,000
5	Purchased a used truck.	GJ1		800	3,200
5	Purchased supplies.	GJ1		180	3,020

Exhibit 3.5

# Posting to the General Ledger

LO3

## Chart of Accounts

### Exhibit 3.6 Chart of Accounts for a Hypothetical Company

<b>Assets (100–199)</b>	<b>Equity (300–399)</b>
<i>Current Assets (100–150):</i>	301 Capital Stock
101 Cash	330 Retained Earnings
103 Notes Receivable	
105 Accounts Receivable	
108 Supplies	
<i>Non-current Assets (151–199):</i>	
151 Land	
152 Buildings	
154 Office Equipment	
<b>Liabilities (200–299)</b>	<b>Revenues (400–499)</b>
<i>Current Liabilities (200–219):</i>	400 Sales Revenue
201 Notes Payable	410 Service Revenue
202 Accounts Payable	
203 Salaries Payable	
204 Interest Payable	
206 Income Taxes Payable	
<i>Non-current Liabilities (220–239):</i>	
222 Mortgage Payable	
	<b>Expenses (500–599)</b>
	501 Sales Salaries and Commissions
	523 Rent Expense
	525 Travel Expense
	528 Advertising Expense
	551 Officers' Salaries
	553 Administrative Salaries
	570 Payroll Taxes
	571 Office Supplies Expense
	573 Utilities Expense
	578 Office Equipment Rent Expense
	579 Accounting and Legal Fees
	580 Interest Expense
	590 Income Tax Expense

# Determining Account Balances

LO3

- At the end of an accounting period, the accounts in the general ledger are reviewed to determine each account's balance.
  - The balance is normally on the side that increases the account.

Cash			
7/1	2,000	7/5	800
7/1	2,000	7/5	180
7/9	270	7/18	50
7/30	80	7/23	60
		7/31	250
		7/31	178
		7/31	50
Bal.	2,782		

€4,350

€1,568



# LO3

# Determining Account Balances

LO3

Cash			
7/1	2,000		
7/1	2,000	7/5	800
7/9	270	7/5	180
7/30	80	7/18	50
		7/23	60
		7/31	250
		7/31	178
		7/31	50
Bal.	2,782		

Accounts Receivable			
7/9	80	7/30	80
Bal.	0		

Notes Payable			
7/31	158	7/1	2,000
		Bal.	1,842

Lawn Care Revenue			
		7/9	350

Landscaping Business Trial Balance July 31, 2022		
	Debit	Credit
Cash .....	€2,782	
Accounts Receivable .....	0	
Supplies .....	180	
Machinery Equipment .....	250	
Transportation Equipment .....	800	
Accounts Payable .....		€0
Notes Payable .....		1,842
Capital Stock .....		2,000
Lawn Care Revenue .....		350
Gasoline Expense .....	50	
Wages Expense .....	60	
Interest Expense .....	20	
Dividends .....	50	
Totals .....	<u>€4,192</u>	<u>€4,192</u>

Exhibit 3.8

# Determining Account Balances

LO3

## Landscaping Business Statement of Comprehensive Income For the Month Ended July 31, 2022

Lawn care revenue . . . . .		€350
Gasoline expense . . . . .	€ 50	
Wages expense . . . . .	60	
Interest expense . . . . .	<u>20</u>	
Total expenses . . . . .		<u>130</u>
Net income . . . . .		€220
Other comprehensive income . . . . .		<u>0</u>
Comprehensive income . . . . .		<u><u>€220</u></u>

Exhibit 3.9

# Determining Account Balances

LO3

Landscaping Business Balance Sheet July 31, 2022			
Assets		Liabilities and Equity	
Cash . . . . .	€2,782	Notes payable . . . . .	€1,842
Supplies . . . . .	180	Capital stock . . . . .	2,000
Machinery equipment . . . . .	250	Retained earnings . . . . .	<u>170</u>
Transportation equipment . . . . .	800		
Total assets . . . . .	<u>€4,012</u>	Total liabilities and equity . . . .	<u>€4,012</u>

Exhibit 3.9

# Determining Account Balances

LO3

Landscaping Business Statement of Cash Flows For the Month Ended July 31, 2022		
Operating activities:		
Collections from customers . . . . .	€350	
Paid wages . . . . .	(60)	
Purchase of supplies . . . . .	(180)	
Paid gasoline expenses . . . . .	(50)	
Paid interest . . . . .	(20)	
Cash flows from operating activities . . . . .		€ 40
Investing activities:		
Purchase of transportation equipment . . . . .	€(800)	
Purchase of machinery equipment . . . . .	(250)	
Cash flows from investing activities . . . . .		(1,050)
Financing activities:		
Investment by owners . . . . .	€2,000	
Bank loan . . . . .	2,000	
Paid loan payment . . . . .	(158)	
Paid dividends . . . . .	(50)	
Cash flows from financing activities . . . . .		3,792
Net increase in cash . . . . .		€2,782
Beginning cash balance . . . . .		0
Ending cash balance . . . . .		<u>€2,782</u>

Exhibit 3.10

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Three Steps

- Step 1: **Analyze** these transactions and supporting documents.
- Step 2: The pertinent facts are obtained and the transactions are **recorded in a journal**.
- Step 3 (part 1): The transactions are **posted to the ledger accounts**. T-accounts are used to illustrate this process.
- Step 3 (part 2): After the account balances have been determined, **a trial balance** is usually prepared.

# Illustration of the First Three Steps in the Accounting Cycle

LO3

Suppose that Ashin and his friends established the Mayday Corporation in 2022. The following transactions occurred.

a	Initial capital contribution of €20,000, for which Ashin and friends received 1,000 shares of capital stock.
b	Borrowed €20,000 from a bank to buy some land, signing a long-term note with the bank.
c	Land was purchased for €25,000 cash.
d	During the year of 2022, Mayday Corporation provided services costing €3,200 and it was paid on credit.
e	The company paid €200 in advertising expenses and €100 in miscellaneous expenses.
f	The company collected the full amount of the accounts receivable in cash.

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Step 1: Analyze These Transactions and Supporting Documents.

- e.g., the purchases of land are verified by invoices showing the actual items purchased, dates, amounts, and so forth. There is a **€20,000** note payable to the bank. Other business documents indicate the provision of services and the expenses incurred.



# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Step 2: Recording the Transactions in a Journal.

- a. Initial capital contribution of €20,000, for which Ashin and friends received 1,000 shares of capital stock.

Business Transaction	Journal Entries	Debits	Credits
Issued stock	<input type="text"/>	<input type="text"/>	
	<input type="text"/>		<input type="text"/>
<i>Issued 1,000 shares of capital stock for €20,000.</i>			

- b. Borrowed €20,000 from a bank to buy some land, signing a long-term note with the bank.

Business Transaction	Journal Entries	Debits	Credits
Borrowed money	<input type="text"/>	<input type="text"/>	
	<input type="text"/>		<input type="text"/>
<i>Borrowed €20,000 from a bank.</i>			

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Step 2: Recording the Transactions in a Journal.

- c. Land was purchased for €25,000 cash.

Business Transaction	Journal Entries	Debits	Credits
Purchased land			
<i>Purchased land for cash.</i>			

- d. During the year of 2022, Mayday Corporation provided services costing €3,200 and it was paid on credit.

Business Transaction	Journal Entries	Debits	Credits
Provided services			
<i>Provided services for €3,200 on account.</i>			

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Step 2: Recording the Transactions in a Journal.

- e. The company paid €200 in advertising expenses and €100 in miscellaneous expenses.

Business Transaction	Journal Entries	Debits	Credits
Paid expenses			
<i>Paid advertising and miscellaneous expenses.</i>			

- f. The company collected the full amount of the accounts receivable in cash.

Business Transaction	Journal Entries	Debits	Credits
Collected cash			
<i>Collected accounts receivable.</i>			

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Step 3-1: Posting the Journal Entries to the Ledger.

### ■ Using T-accounts.

Cash	Accounts Receivable	Land
<div></div>	<div></div>	<div></div>
<div></div>	<div></div>	
<div></div>		

Capital Stock	Services Revenue
	<div></div>
	<div></div>

Notes Payable	Miscellaneous Expenses
	<div></div>
	<div></div>

Advertising Expenses
<div></div>

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Step 3-1: Posting the Journal Entries to the Ledger.

	ASSETS			=	LIABILITIES		+	EQUITY			
Transaction	Cash	Land	Accounts Receivable		Notes Payable		Capital Stock	Retained Earnings			
Beginning balance	€ 0	€ 0	€ 0	=	€ 0	+	€ 0	Services Revenue	Ad. Expenses*	Misc. Expenses*	
a	20,000	—	—		—		20,000	€ —	€ —	€ —	
b	20,000	—	—		20,000		—	—	—	—	
c	-25,000	25,000	—		—		—	—	—	—	
d	—	—	3,200		—		—	3,200	—	—	
e	-300	—	—		—		—	—	-200	-100	
f	3,200	—	-3,200		—		—	—	—	—	
Total	€17,900	€25,000	€ 0	=	€20,000	+	€20,000	€3,200	-€200	-€100	
*Recall that an increase in these accounts actually decreases equity, hence the – (minus sign).											

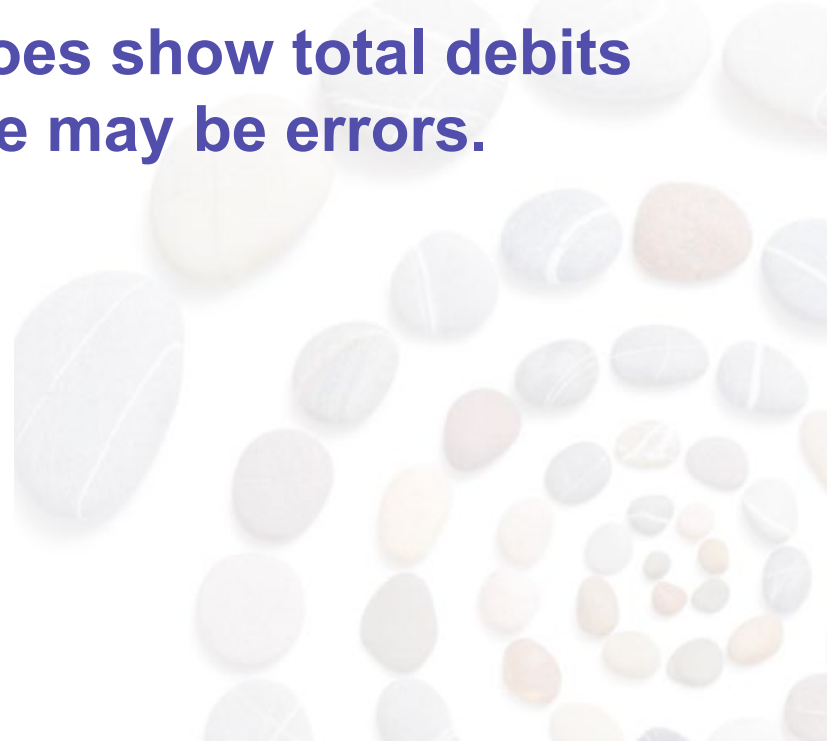
Exhibit 3.11

# Determining Account Balances

LO3

## Trial Balance 試算表

- Lists each account with its debit or credit balance.
- **Even if the trial balance does show total debits equal to total credits, there may be errors.**



# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Step 3-2: Preparing a Trial Balance.

Mayday Corporation Trial Balance December 31, 2022		
	Debit	Credit

Exhibit 3.12

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Preparing Financial Statements

### Mayday Corporation Statement of Comprehensive Income For the Year Ended December 31, 2022

Service revenue . . . . .		€ 3,200
Advertising expenses . . . . .	€200	
Miscellaneous expenses . . . . .	<u>100</u>	<u>300</u>
Net income . . . . .		€ 2,900
Other comprehensive income* . . . . .		<u>0</u>
Comprehensive income. . . . .		<u><u>€ 2,900</u></u>
EPS (€2,900 ÷ 1,000 shares) = €2.90		

\*This example assumes no other comprehensive income. Hence, net income equals comprehensive income.

### Exhibit 3.13



# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Preparing Financial Statements

- Notice that there is no retained earnings account in the trial balance but there is one on the balance sheet.
- Because all the accounts such as Revenue and Expenses are eventually accumulated into Retained Earnings.

Mayday Corporation Balance Sheet December 31, 2022			
Assets		Liabilities and Equity	
Cash .....	€17,900	Notes payable .....	€20,000
Land .....	25,000	Capital stock (1,000 shares) ...	20,000
Total assets .....	<u>€42,900</u>	Retained earnings .....	2,900**
		Total liabilities and equity ....	<u>€42,900</u>

\*\*Beginning retained earnings plus net income minus dividends.

Exhibit 3.13

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Preparing Financial Statements

Mayday Corporation Statement of Cash Flows For the Year Ended December 31, 2022		
Operating activities:		
Collections from customers .....	€ 3,200	
Paid expenses .....	<u>(300)</u>	€ 2,900
Investing activities:		
Purchased land .....		(25,000)
Financing activities:		
Issued stock .....	€20,000	
Borrowed from bank .....	<u>20,000</u>	<u>40,000</u>
Net increase in cash .....		€ 17,900
Beginning cash balance .....		0
Ending cash balance .....		<u><u>€ 17,900</u></u>

Exhibit 3.14

# Illustration of the First Three Steps in the Accounting Cycle

LO3

## Two Final Notes

- First, the preparation of financial statements also involves the **adjustment** of some ledger accounts. (CH4)
- Second, net income does not usually equal the ending retained earnings balance. Only in the first year of a company's operations would this be the case.

# Quiz Yourself

LO3

- **From the following four journal entries, prepare a trial balance. Assume that the beginning balance for all accounts is zero.**

1	Supplies	2,400	
	Accounts Payable		2,400
2	Cash	4,500	
	Services Revenue		4,500
3	Wages Expense	1,800	
	Cash		1,800
4	Accounts Payable	1,700	
	Cash		1,700

# Quiz Yourself

LO3

## Solution:

### Cash


### Supplies

--

### Services Revenue

--

### Accounts Payable


### Wages Expense

--

### Trial Balance

Debits	Credits

# How Have Computers Changed the Accounting Cycle?

LO4

- The time spent posting journal entries and summarizing accounts into a trial balance has been greatly reduced as a result of computers.
- Computers can't think—that is your job!
  - What accounts are involved?
  - Did those accounts increase or decrease?
  - By how much did each account change?

