



Basic Accounting Terminology

- Event
- Transaction
- Account
- Control Account
- Ledger
- Subsidiary Ledger
- Journal
- Posting
- Trial Balance
- Adjusting Entries
- Financial Statements
- Closing Entries



Debits and Credits

- An **Account** shows the effect of transactions on a given asset, liability, equity, revenue, or expense account.
- **Double-entry** accounting system (two-sided effect).
- Recording done by debiting at least one account and crediting another.
- **DEBITS must equal CREDITS.**



Debits and Credits

Account



- An arrangement that shows the effect of transactions on an account.
- Debit = "Left"
- Credit = "Right"

An Account can be illustrated in a T-Account form.



Account Name	
Debit / Dr.	Credit / Cr.

Debits and Credits

If Debit entries are **greater than** Credit entries, the account will have a debit balance.

	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	\$3,000	Transaction #2
Transaction #3	8,000		
Balance	\$15,000		

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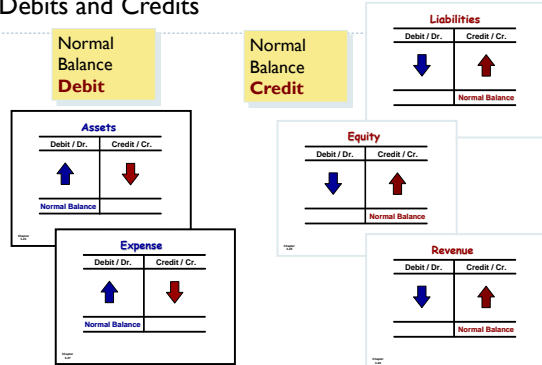
Debits and Credits

If Credit entries are **greater than** Debit entries, the account will have a credit balance.

	Account Name		
	Debit / Dr.	Credit / Cr.	
Transaction #1	\$10,000	\$3,000	Transaction #2
		8,000	Transaction #3
Balance		\$1,000	

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Debits and Credits



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Accounting Processes

1. Journalizing
2. Posting
3. Trial Balance
4. Adjusting Entries
5. Adjusted Trial Balance
6. Preparing Financial Statements

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13

1. Journalizing

General Journal – a chronological record of transactions.
Journal Entries are recorded in the General Journal.

General Journal				
Date	Account Title	Ref.	Debit	Credit
Jan. 3	Cash	100	100,000	
	Common stock	300		100,000
10	Building	130	150,000	
	Note payable	220		150,000

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14

2. Posting

Posting – the process of transferring amounts from the journal to the General Ledger accounts.

General Journal					GJ1
Date	Account Title	Ref.	Debit	Credit	
Jan. 3	Cash	100	100,000		
	Common stock			100,000	

General Ledger					Acct. No. 100
Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 3	Sale of stock	GJ1	100,000		100,000

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15

Classes of Adjusting Entries

Prepayments	Accruals
1. Prepaid Expenses. Expenses paid in cash and recorded as assets before they are used or consumed.	3. Accrued Revenues. Revenues earned but not yet received in cash or recorded.
2. Unearned Revenues. Revenues received in cash and recorded as liabilities before they are earned.	4. Accrued Expenses. Expenses incurred but not yet paid in cash or recorded.

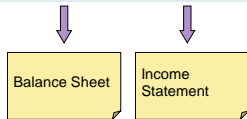
5. Adjusted Trial Balance

Shows the balance of all accounts, after adjusting entries, at the end of the accounting period.

Adjusted Trial Balance	Debit	Credit
Cash	\$ 140,000	
Accounts receivable	35,000	
Building	190,000	
Note payable		\$ 150,000
Common stock		100,000
Retained earnings		38,000
Dividends declared	10,000	
Sales		185,000
Interest income		17,000
Cost of goods sold	47,000	
Salary expense	25,000	
Depreciation expense	43,000	
	<u>\$ 490,000</u>	<u>\$ 490,000</u>

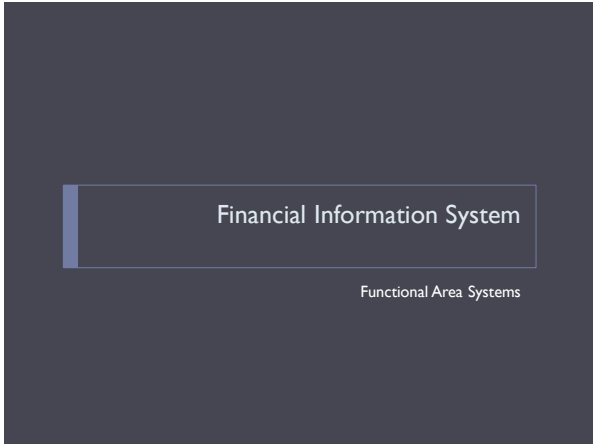
6. Preparing Financial Statements

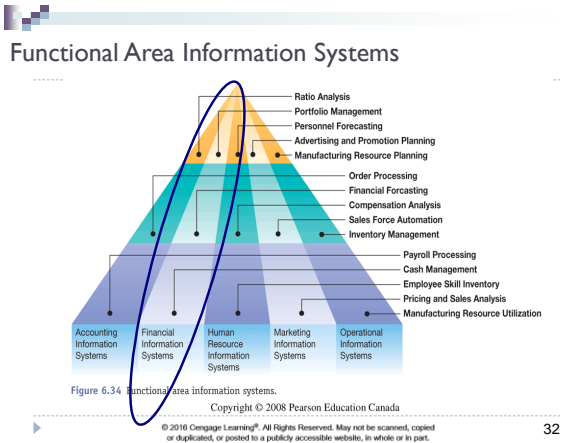
Financial Statements are prepared directly from the Adjusted Trial Balance.



The **Balance Sheet** is a report that shows what the company owns (Assets) and how it got the money for what it owns (Liabilities i.e. borrowing/ owing) plus Stockholders' Equity (i.e. Investments, Retained Earnings) at a single moment in time.

The **Income Statement** is a report that shows the company's revenues and expenses during a particular period in time.





Finance Information Systems

- ▶ **Finance:** Provide internal and external professional access to stock, investment and capital spending information.
 - ▶ Acquires and manages cash for a business
 - ▶ Acquire through shares or loans
 - ▶ Invest Cash wisely
 - ▶ Company must maintain liquidity
 - ▶ Need to analyze considerable financial information

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Tactical Systems in Finance

▶ Capital Budgeting Systems

- ▶ Provide help with planning acquisition (disposal) of major plant assets that will be used by the business during many years
- ▶ Provide outgoing and incoming cash for the life of the asset
 - ▶ Use assumptions
 - ▶ Consider the time value of money (net present value)
 - ▶ E.g. Can help decide whether to lease or buy a new printer

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37



Tactical Systems in Finance

▶ Investment Management Systems

- ▶ Oversee organization's investment in stocks, bonds, and other securities
- ▶ Online databases provide immediate updates for stock and bond prices
- ▶ Value screen inputs the current price of each stock and calculates the gain or loss the company's investment portfolio would generate if sold now

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38



Strategic Systems in Finance

▶ Characteristics

- ▶ Support very high-level managers
- ▶ Strategic systems relate to organizational goals
- ▶ Often, such systems use internal data (which may have originated in organizational AIS) and external data (eg. From online databases that contain economic, social, demographic, etc., info)

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39



Summary

- ▶ **GL Process**
 - ▶ (Six main steps)
- ▶ **Computerized Accounting Information systems**
- ▶ **Tactical Systems in Finance**
- ▶ **Strategic Systems in Finance**

