



## Accounting information system

### Debit & credit

The left side of any account is the debit side .the right is the credit

All assets & expenses increase in the debit side .decrease in the credit side

All liabilities & revenues increase in the credit side .decrease in the debit side

Stock holder equity common stock & retained earnings increase in the credit side

Dividends increase in the debit side

#### double entry :

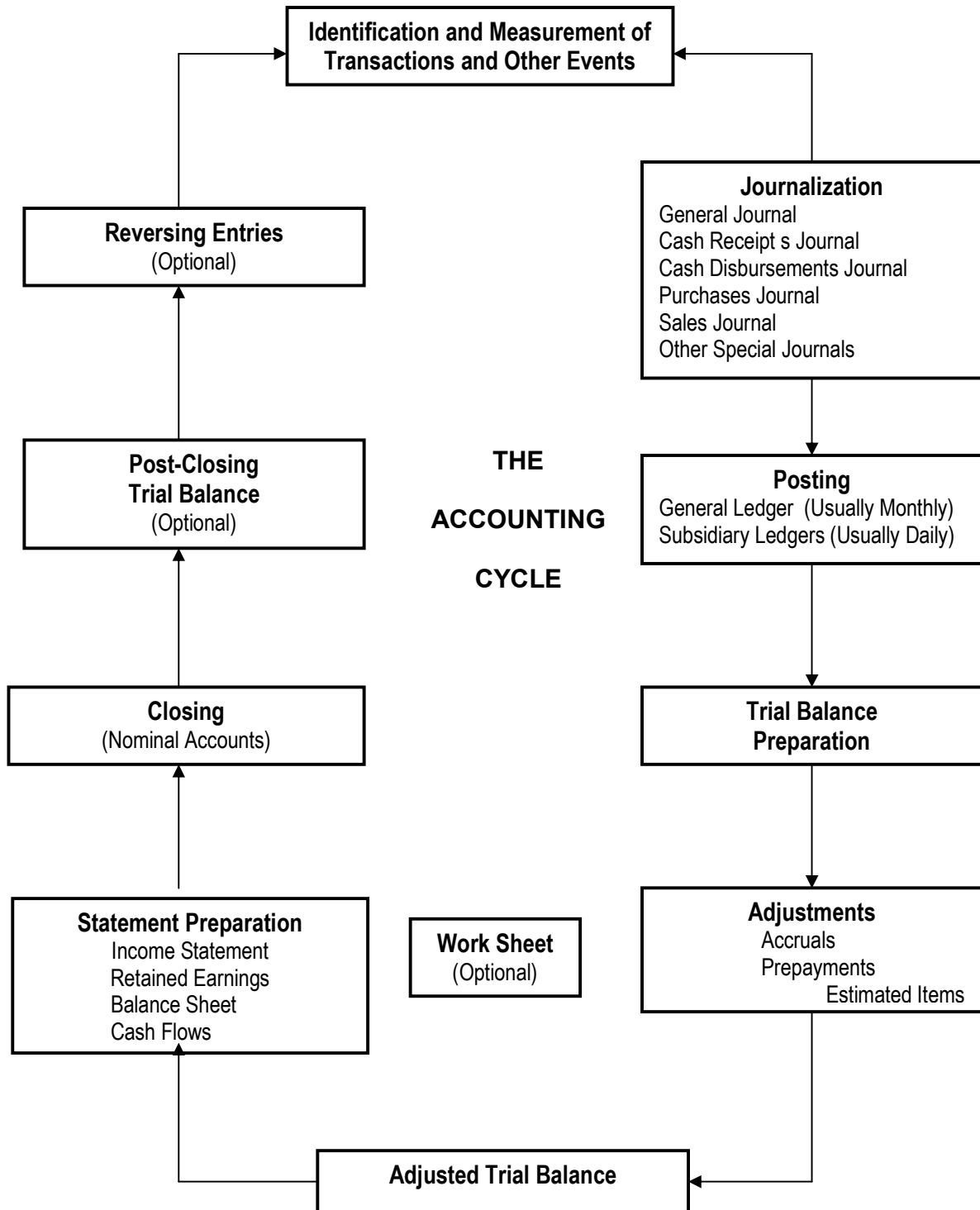
it is the equality of debit & credit . it provide logical method for recording transaction & offers ameans of proving the accuracy of the recoreded amount

#### basic equation

assets = liabilities + stockholders equity

### Accounting cycle steps

- 1- identify & measure transaction and event
- 2- journalization
- 3- posting
- 4- unajusted trial balance
- 5- adjustment
- 6- adjusted trial balance
- 7- statement preparation
- 8- closing







recording process by freeing the general ledger from the details of individual balances. Thus, a typical merchandising enterprise has subsidiary ledgers containing accounts with customers (**accounts receivable** or **customers' ledger**) and creditors (**accounts payable** or **creditors' ledger**).

the advantages of using subsidiary ledgers are that they:

1. Show transactions affecting one customer or one creditor in a single account, thus providing necessary up-to-date information on specific account balances.
2. Free the general ledger of excessive details relating to accounts receivable and accounts payable. As a result, a trial balance of the general ledger does not contain vast numbers of individual account balances.
3. Help locate errors in individual accounts by reducing the number of accounts combined in one ledger and by using control accounts.
4. Make possible a division of labor in posting by having one employee post to the general ledger and a different employee post to the subsidiary ledgers.

### ILLUSTRATION 1: Relationship between General and Subsidiary Ledgers

Accounts Receivable Subsidiary Ledger				
Aaron Co.				
DATE	REF.	DEBIT	CREDIT	BALANCE
2002				
Jan 10		6,000		6,000
19			4,000	2,000
Branden Inc.				
DATE	REF.	DEBIT	CREDIT	BALANCE
2002				
Jan 12		3,000		3,000
21			3,000	---
Caron Co.				
DATE	REF.	DEBIT	CREDIT	BALANCE
2002				
Jan 20		3,000		3,000
29			1,000	2,000

Accounts Receivable				
DATE	REF.	DEBIT	CREDIT	BALANCE
2002				
Jan 31		12,000		12,000
31			8,000	4,000

Illustration 1 is based on the following transactions:

Sales and Collection Transactions					
Credit		Collections on Account			
Sales					
Jan. 10	Aaron Co.	\$ 6,000	Jan. 19	Aaron Co.	\$ 4,000
12	Branden Inc.	3,000	21	Branden Co.	3,000
20	Caron Co.	<u>3,000</u>	29	Caron Co.	<u>1,000</u>
		\$12,000			\$ 8,000
		=====			=====



## **JOURNAL:**

the book of original entry where transactions and selected other events are initially recorded .

**GENERAL JOURNAL: It consists of four parts :**

- 1- The accounts and the amount to be debited
- 2- The accounts and the amount to be credited
- 3- Date
- 4- An explanation

## **Special journals**

special journals expedite the journalizing and posting process for frequently occurring transactions. The most common special journals are: sales journals, purchases journal, cash receipts journal, and cash payments journal.

## **Posting:**

It is the process of trasfering the essential facts and figuers from the book of original entry to the ledger accounts .

**The number in the posting reference coloumn serves two pourposes:**

- 1- Indicate the ledger account number of account involved.
- 2- To indicate that the posting has been completed for the particular item.

## **TRIAL BALANCE:**

**It is a list of accounts and their balances at a given time .**

The primary pourpose of a trial balance is to prove the mathimatical equality of debit and credit .

**A trial balance also uncovers errors in journalizing and posting in addition**

**it is useful in the preparation of finantial statement .**

## **ADJUSTING ENTRIES:**

**They are made at the end of the accounting period in short adjustment are needed to ensure that the revenue recognition and matching principals are followed .**



Adjusting entries are required every time financial statements are prepared .

### **TYPES OF ADJUSTING ENTIES:**

Adjusting entries can be classified as either prepayments or accruals .

Each of these classes has two sub-categories

<b>PREPAYMENTS</b>	<b>ACCRUALS</b>
1- Prepaid expenses. expenses paid in cash and recorded as assets before they are used or consumed .	3- Accrued 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

### **Adjusting entry for prepayments:**

Prepaid expenses expire either with the passage of time eg.(rent and insurance) or through use and consumption eg. (supplies)

Prepaid expense adjusting entry results in a debit to an expense account and credit to an asset account .

### **UNEARNED REVENUES:**

The adjusting entry for unearned revenues results in a debit (decrease ) to a liability account and a credit increase to revenue account .

### **ADJUSTEMENT OF ACCRUALS:**

An adjusting entry for accrued revenue results in a debit (increase)to an asset account and a credit (increase ) to a revenue account.

the adjusting entry for accrued expenses results a debit (increase) to an expense account and a credit (increase) to a liability account

### **CLOSING:**

It is the procedure generally followed to reduce the balance of nominal (temporary) accounts to Zero in order to prepare the accounts for the next period's transactions



### **REVERSING ENTRIES:**

It is made at the beginning of the next accounting period and is the exact opposite of the related adjusting entry made in the previous period

A work sheet is a columnar sheet of paper used to adjust the account balances and prepare the financial statements. Use of a work sheet helps the accountant prepare the financial statements on a more timely basis. It is not necessary to delay preparation of the financial statements until the adjusting and closing entries are journalized and posted.