

# CHAPTER 3

## THE ACCOUNTING INFORMATION SYSTEM

Intermediate Accounting  
IFRS Edition

Presented By:

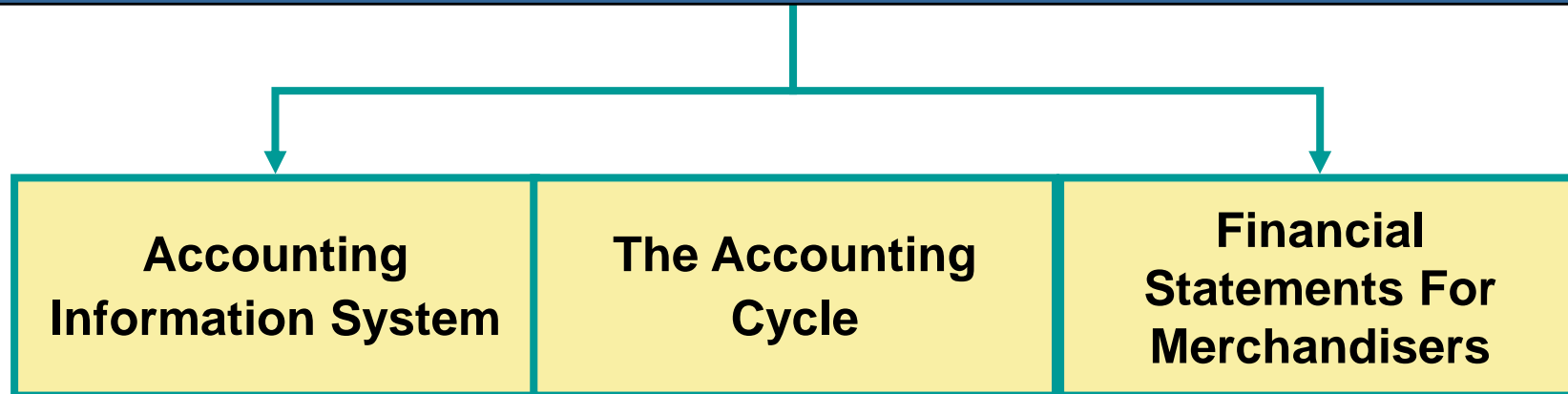
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# Learning Objectives

1. Understand basic accounting terminology.
2. Explain double-entry rules.
3. Identify steps in the accounting cycle.
4. Record transactions in journals, post to ledger accounts, and prepare a trial balance.
5. Explain the reasons for preparing adjusting entries.
6. Prepare financial statement from the adjusted trial balance.
7. Prepare closing entries.

# The Accounting Information System



- Basic terminology
- Debits and credits
- Accounting equation
- Financial statements and ownership structure

- Identifying and recording
- Journalizing
- Posting
- Trial balance
- Adjusting entries
- Adjusted trial balance
- Preparing financial statements
- Closing
- Post-closing trial balance
- Reversing entries
- Summary

- Income statement
- Statement of retained earnings
- Statement of financial position
- Closing entries

# Accounting Information System

## Accounting Information System (AIS)

- Collects and processes transaction data.
- Disseminates the information to interested parties.

# Accounting Information System

Helps management answer such questions as:

- How much and what kind of debt is outstanding?
- Were sales higher this period than last?
- What assets do we have?
- What were our cash inflows and outflows?
- Did we make a profit last period?
- Are any of our product lines or divisions operating at a loss?
- Can we safely increase our dividends to shareholders?
- Is our rate of return on net assets increasing?

# Basic Terminology

- Event
- Transaction
- Account
- Real Account
- Nominal Account
- 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		

# 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	Transaction #2
	\$3,000	Transaction #3
	8,000	
Balance	\$1,000	

# Debits and Credits Summary

Normal Balance  
**Debit**

Normal Balance  
**Credit**

Liabilities	
Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Assets	
Debit / Dr.	Credit / Cr.
↑	↓
Normal Balance	

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Equity	
Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

Chapter 3-25

Expense	
Debit / Dr.	Credit / Cr.
↑	↓
Normal Balance	

Chapter 3-27

Revenue	
Debit / Dr.	Credit / Cr.
↓	↑
	Normal Balance

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# Debits and Credits Summary

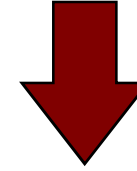
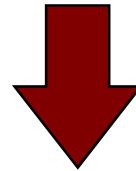
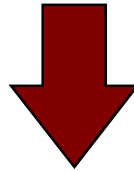
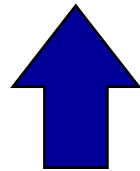
Statement of Financial Position

Income Statement

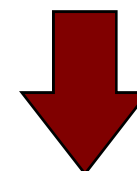
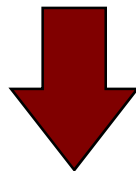
Asset = Liability + Equity

Revenue - Expense =

Debit



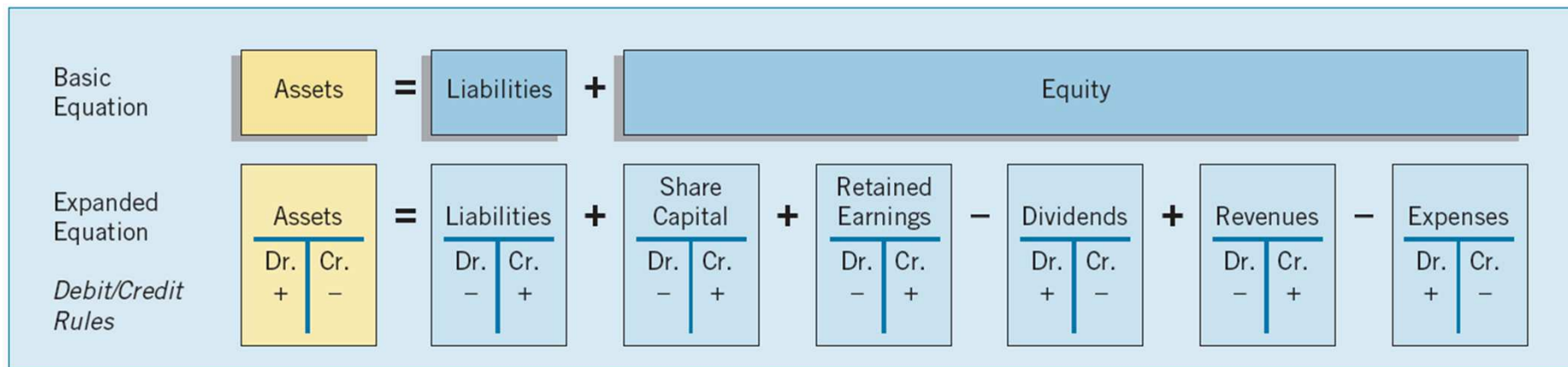
Credit



# The Accounting Equation

Relationship among the assets, liabilities and equity of a business:

Illustration 3-3



The equation must be in balance after every transaction.  
For every **Debit** there must be a **Credit**.