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

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

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

Financial Statements For Merchandisers
- Income statement
- Statement of retained earnings
- Statement of financial position
- Closing entries
Accounting Information System (AIS)

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

LO 1 Understand basic accounting terminology.
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

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

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

<table>
<thead>
<tr>
<th>Account Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit / Dr.</td>
</tr>
<tr>
<td>Credit / Cr.</td>
</tr>
</tbody>
</table>

LO 2 Explain double-entry rules.
Debits and Credits

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

<table>
<thead>
<tr>
<th>Account Name</th>
<th>Debit / Dr.</th>
<th>Credit / Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction #1</td>
<td>$10,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Transaction #3</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td>$15,000</td>
<td></td>
</tr>
</tbody>
</table>

**Transaction #2**

**Transaction #3**

LO 2 Explain double-entry rules.
If Credit entries are **greater than** Debit entries, the account will have a credit balance.

<table>
<thead>
<tr>
<th>Account Name</th>
<th>Debit / Dr.</th>
<th>Credit / Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction #1</td>
<td>$10,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Transaction #3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td></td>
<td>$1,000</td>
</tr>
</tbody>
</table>

*LO 2 Explain double-entry rules.*
LO 2  Explain double-entry rules.
Debits and Credits Summary

Statement of Financial Position

\[
\text{Asset} = \text{Liability} + \text{Equity}
\]

Income Statement

\[
\text{Revenue} - \text{Expense} =
\]

Debit

Credit

LO 2 Explain double-entry rules.
Relationship among the assets, liabilities and equity of a business:

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

**LO 2** Explain double-entry rules.