

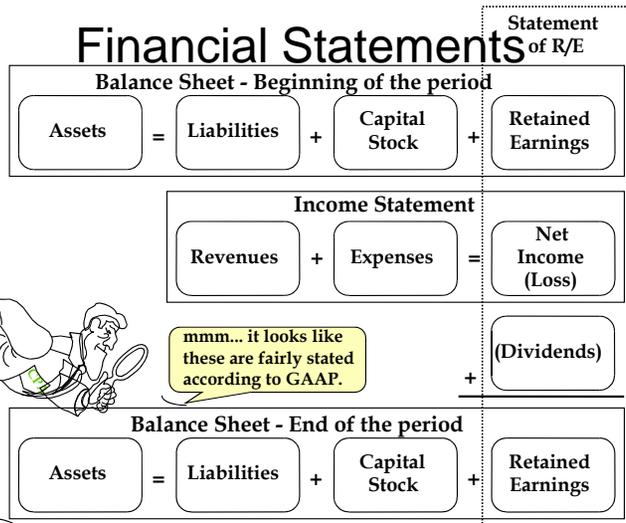
SUA-Overview of the Accounting System



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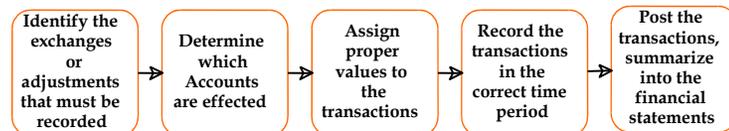
- Financial Statements
- Nature of Transactions
- Steps in the Accounting Process
- Post-Closing Trial Balance
- Relationships Among Financial Statements, Trial Balances, Ledgers, Journals, Documents, and Transactions
- Internal Controls

Financial Statements

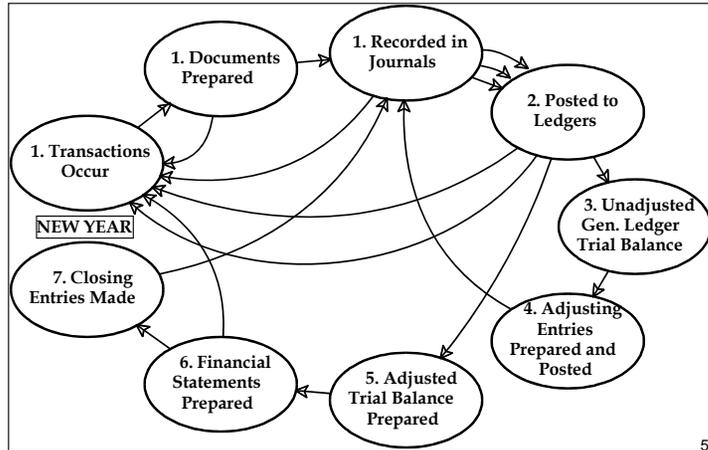


Nature of Transactions

- ❖ Exchanges between business firms, for example:
 - Sale to a customer,
 - Purchase of goods,
 - Payment or receipt of cash
- ❖ Adjustments to accounts, for example:
 - Recording of accrued salaries,
 - Depreciation expense,
 - Adjustments to prepaid accounts



Steps in the Accounting Process



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Steps in the Accounting Process

1. Transactions occur, Prepare documents, Record in journals
2. Post to ledgers
3. Prepare Trial Balance
4. Adjusting entries
5. Prepare adjusted Trial Balance
6. Financial Statements
7. Closing entries
8. Prepare post-closing Trial Balance (Optional)

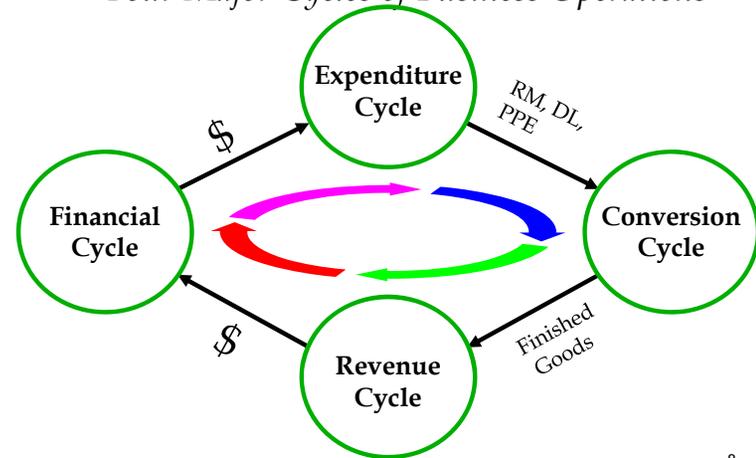
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Transactions Occur

While a Business Goes Through Four Major Cycles

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Four Major Cycles of Business Operations



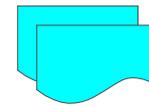
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Prepare documents

- Purchase order
- Bill of lading
 - A document evidencing the receipt of goods for shipment, issued by a person engaged in the business of transporting or forwarding goods.
- Sales invoice
- Checks
- Bank deposit request
- Sales return request
- Credit memo
 - Issued by a Seller to a Buyer, indicating the products, quantities and agreed prices for products or services that the Seller provided the Buyer with, but Buyer returned.

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Documents Prepared



	<i>Before the transaction</i>	<i>At the same time</i>	<i>After the transaction</i>
<i>Internally Prepared</i>	<i>Purchase order</i>	<i>Receiving Report</i>	<i>Sales Invoice</i>
<i>Externally Prepared</i>	<i>Customer purchase order</i>	<i>Shipping Document</i>	<i>Vendor's Invoice</i>

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Record in Journals

- | | |
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| <ul style="list-style-type: none"> ❖ Every transaction during an accounting period is recorded in a journal ❖ Debits and credits for each transaction must be equal ❖ Use of special journals reduces the recording costs and facilitates the search process ❖ The number and titles of special journals will depend on the accounting information needs and system design preferences of management | <ul style="list-style-type: none"> ❖ Typical Journals: <ul style="list-style-type: none"> - Sales Journal, - Cash Receipts Journal, - Purchases Journal, - Cash disbursements journal, - Payroll journal, - General journal. |
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Post to Ledgers

- ❖ General Ledger
 - The number and description of general ledger accounts depend on the needs of the management and all account titles for a company are included in the chart of accounts.
 - All transactions must be posted from the journals to the general ledger before financial statements are prepared.
 - When specialized journals are used, some similar transactions are grouped and only the total amount is posted to the general ledger.
 - It includes the accumulated total of all transactions, since the inception of the company.

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Post to Ledgers

- General Ledger contains ALL, in detail or summary format
- Sub ledgers (optional) to hold numerous account transactions for same type:
 - ♦ Accounts receivable, by customer
 - ♦ Accounts payable, by supplier
 - ♦ Employee earnings, by employee
 - ♦ Fixed Assets, by asset

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Post to Ledgers

- Sub ledgers are posted in summary to the General Ledger
- They MUST AGREE!

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Post to Ledgers

- | | |
|--|---|
| <ul style="list-style-type: none">❖ Subsidiary Ledgers<ul style="list-style-type: none">- Used to handle detailed information for a general ledger account.- Agrees in total to the corresponding general ledger account.- Same amounts are posted to both subsidiary and general ledgers. | <ul style="list-style-type: none">❖ Typical Subsidiary Ledgers:<ul style="list-style-type: none">- Accounts receivable,- Accounts payable,- Delivery equipment,- Depreciation expense,- Accumulated depreciation,- Common stock,- Inventory |
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Unadjusted General Ledger Trial Balance

- ❖ List of all general ledger accounts
- ❖ Prepared as an aid in preparing adjusting entries
- ❖ Before an unadjusted trial balance is prepared, all the transactions, other than adjusting entries, must be recorded in the journals and posted to the ledgers

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Closing Entries Made

- ❖ At the end of each accounting year, all nominal accounts are closed.
- ❖ We don't necessarily close the accounts every time we prepare the financial statements, only at the year end.
- ❖ Nominal accounts are:
 - Revenue accounts, closed to Income Summary
 - Expense accounts, closed to Income Summary
 - Income Summary Account, closed to R/E
 - Dividend Account, closed to R/E
 - Drawing accounts in partnerships and sole proprietorships, closed to the partner's Capital Account

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Closing Entries

- ❖ Complete the accounting process for the current period,
- ❖ Prepared after all the adjustments are recorded in the journals and posted to the ledger.
- ❖ All nominal accounts must be closed out, so that the company starts a new year with zero balance in those accounts.
- ❖ Each closing entry must be recorded in the general journal and individually posted to the appropriate general ledger account.

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Post Closing Trial Balance

1. Post in the General Journal
2. Then post in the General Ledger
3. Start new year with zero in these 3 accounts (not Retained Earnings)

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