

# SUA-Overview of the Accounting System

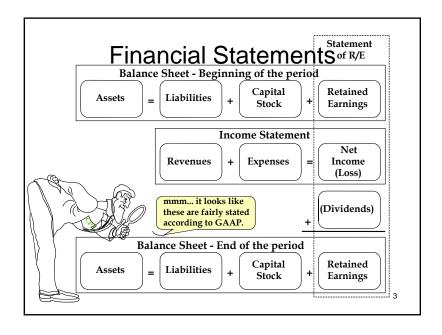


1

# SUA-Overview of the Accounting System

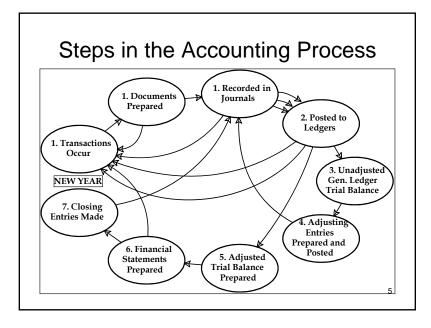
- Financial Statements
- Nature of Transactions
- Steps in the Accounting Process
- Post-Closing Trial Balance
- Relationships Among Financial Statements, Trial Balances, Ledgers, Journals, Documents, and Transactions
- Internal Controls

2



#### 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 Post the Identify the Record the Assign transactions, Determine exchanges transactions proper summarize which in the values to into the adjustments Accounts the correct time financial that must be are effected transactions period statements recorded

.



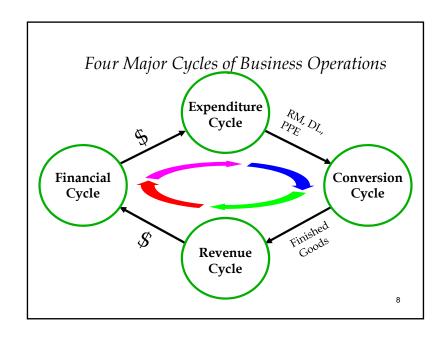
#### Steps in the Accounting Process

- 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)

6

#### Transactions Occur

While a Business Goes Through Four Major Cycles



#### 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.

9

#### **Documents Prepared**

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

#### Record in Journals

- \* 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

- \* Typical Journals:
  - Sales Journal,
  - Cash Receipts Journal,
  - Purchases Journal,
  - Cash disbursements journal,
  - Payroll journal,
  - General journal.

### 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
  - 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.

#### 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

Post to Ledgers

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

14

#### Post to Ledgers

- \* Subsidiary Ledgers
  - 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.

- Typical Subsidiary Ledgers:
  - Accounts receivable,
  - Accounts payable,
  - Delivery equipment,
  - Depreciation expense,
  - Accumulated depreciation,
  - Common stock,
  - Inventory

#### 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

16

15

#### Prepare and Post Adjusting Entries

- Prepared at the end of the period before the preparation of the financial statements
- \* Every adjusting entry effects both the balance sheet and the income statement
- \* Total debits = total credits for each adjusting entry
- \* Recorded in the general journal
- Each prepared separately
- \* Posted individually to the proper ledger account
- Most adjusting entries are not posted to subsidiary ledgers

17

## Six General Types of Adjusting Entries (AJEs)

- 1. Prepaid expense
  - Amount that has been paid in advance of the item received or the benefit derived
- 2. Accrued expense
  - An expense incurred during an accounting period for which payment is not due until a later accounting period.
- 3. Accrued revenue
  - Revenue earned but not yet collected. Recorded as an asset - Accts. Rec.

- 4. Unearned revenue
  - Represents money that you have received in advance of providing the goods or services to your customer.
    Recorded as a liability.
- 5. Estimated items
  - \* E.g., depreciation, amortization
- 6. Inventory adjustment
  - The difference between the ending inventory amount and the booked amount.

18

#### Worksheet

Account	<b>Unadjusted</b> Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
										$\vdash$
										-
										-
Income Summ	arv - Ne	t Incon	e (Loss)							
	,		, ,							

Prepare Financial Statements

- Income statement, retained earnings statement, balance sheet, and cash flow statement
- Descriptions and details must be stated according to GAAP
- Similar account balances are summarized in to summary accounts
- \* Accounts are grouped, current and non-current, operating and non-operating, etc.
- \* Footnotes and other required disclosures made

#### 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

21

#### 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)

23

#### 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.