

ACCG101 NOTES

Week 1 – Overview and Revision

Accounting Cycle

- Is the entire process from a transaction analysis to preparing financial statements

Recording transactions

Double entry Accounting

$$A = L + E$$

- Every transaction has a dual effect on the accounting equation
- Accounting equation must always remain in balance

Debit and Credit Rules

Account	Increases recorded on	Normal balances
Assets	Debit side	Debit
Liabilities	Credit Side	Credit
Equity	Credit Side	Credit
Withdrawals	Debit side	Debit
Income	Credit side	Credit
Expenses	Debit Side	Debit

Recording transactions

Prepaid Expenses

- DB Prepaid Asset
 - CR Cash at bank

Unearned Revenue (liability)

- DB Cash at bank
 - CR Unearned revenue

Depreciation

- DB Depreciation expense
 - CR Accumulated depreciation

Adjusting Entries

- Are made at the end of the accounting period to ensure an entities assets, liabilities, income and expenses are recorded in the appropriate accounting period

- Since effects of transactions can occur over a number of accounting periods

Adjusting for Deferrals

Prepaid expenses (Paid but not yet incurred)

- DB Prepaid Expense
 - CR Prepaid Asset

Unearned Revenue (Received but not yet earned)

- DB Unearned Revenue
 - CR Revenue

Adjusting for Accruals (Incurred or earned but not yet paid or received)

Accrued Expenses (Expenses incurred but not yet paid)

- DB Expense Account
 - CR Accounts payable

Accrued Revenue (Revenue earned but not yet received)

- DB Accounts receivable
 - CR Revenue

Closing Entries

- Are journal entries made at the end of the accounting period to close the businesses income and expense accounts to determine profit and loss for the period
- Opposite of normal balances
- Results:
 - All income, expenses and drawings accounts have 0 balances
 - Capital account has either increased or decreased

Steps:

1. Close Revenue items
 - DB Revenue items
 - CR P&L Summary
2. Close expense items
 - DB P&L Summary
 - CR Expense items
3. Close the P&L Summary account to the capital account

IF PROFIT:

 - DB P&L Summary
 - Cr Capital

IF LOSS:

- DB Capital
 - P&L Summary
- 4. Close the drawings account to the capital account
 - DB Capital
 - Cr Drawings

Accounting for Bad debts

- Estimates doubtful debts at the end of the period

Two methods:

1. Allowance method
2. Direct write-off method

Allowance method

Recording bad debts (Estimation)

- DB Bad debts expense
 - CR Allowance for doubtful debts
 - Percentage of Net credit Sales
 - Ageing of accounts receivable (total est. Bad debts – existing allowance for doubtful debts)

Writing off bad debts (Recording actual bad debts)

- DB Allowance for doubtful debts
 - CR Accounts receivable Control

Recovery of a written off account

- DB Accounts receivable - xxx
 - CR bad debts expense
- DB Cash at bank
 - CR Accounts receivable –xxx