CHAPTER 3 NOTES- RECORDING ACCOUNTING TRANSACTIONS

- **Describe the purpose of an accounting information system**

Accounting information system

- The system that identifies, records, summarises and communicates the various accounting transactions of a company

- **Accounting transaction-** Any economic event that affects a company's assets, liabilities or equity).
- **External transactions**- Transactions between a company and an external party (e.g. equipment purchase)
- **Internal transactions**- Transactions within a company (e.g. consumption of supplies)

- **Analyse the effect of accounting transactions on the accounting equation**

Accounting equation: Assets = Liabilities + Equity

Expanded Accounting Equation:

Assets + Expense + Dividends = Liabilities + Equity + Revenue

Dual nature of accounting

- In every accounting transaction, this equation must keep balanced.
- Therefore, in every accounting equation **at least 2 accounts must be affected.**

Examples:

a) *Tan Ltd. Purchases $15000 worth of equipment.*
In this situation, the cash would decrease and the equipment account would increase. Overall, there would be no net change in assets and the accounting equation would remain balanced.

Assets = Liabilities + Equity
+15000
-15000

b) *Tan Ltd.receives $4000 payment for a future gardening job (it has yet to complete)*
In this situation, the cash account would increase and the unearned revenue account (liability) would also increase (since the company now has an obligation to complete their job for the customer).
Since there is both an increase to an asset and liability account, the accounting equation remains balanced.

Assets = Liabilities + Equity
+4000 +4000

CHAPTER 6 NOTES-RECEIVABLES

- **Describe the recording and reporting of receivables**

Account receivable- An amount owed by a customer who has purchased the company's product or service.

RECORDING Accounts receivable:

- Receivables are recorded at the **time of the sale**.
- In the journal entry, both assets (receivables) and equity increase.

Date	Dr Accounts receivable	$$	
	Cr Sales revenue		$$
	(To record sale on account)		

- When receivables are **collected:**
  - The receivable will be eliminated
  - Cash will be increased.

Date	Dr Cash	$$	
	Cr Accounts receivable		$$
	(To record collection of receivable)		

- If a customer **returns a product** instead of paying for it/ paying off the receivable:
  - Accounts Receivable will be decreased
  - Sales Returns and Allowances will be increased.
- **Sales Returns and allowances**- A contra-revenue account-> its balance will be subtracted from sales when calculating a company's net sales.

Date	Dr Sales Returns and Allowances	$$	
	Cr Accounts receivable		$$
	(To record sales return)		